

Deepening Financial Crisis

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Our view is that the elitists are currently buying time for the dollar, and stalling the rally in precious metals, by weakening other currencies until they are ready for the big stock takedown/correction. This process of supporting the dollar is becoming extremely expensive and difficult, so they had to take the Dow down 200 points on Thursday to start some stock contagion in Asia and Europe to flush some money into dollars and treasuries.

The FTSE, Nikkei and Hang Seng were all down big in the aftermath of Thursday's US market takedown. We believe that the Illuminati will probably try to punish all the stock shorts in mid October on options expiration day by having one final round of short-covering before taking the markets down for the big correction to start a dollar rally just as the precious metals seasonal rally goes into full swing. This yellow fever crash is just a repeat of last year's strategy, but it will not be as severe for purely political reasons. In this manner, they will flush everyone else out of their short positions so that only they can make any money when the boom gets lowered and there will be many put options that expire worthless in yet another round of total criminality reminiscent of what they just did to the gold and silver call options this month. They will make money on the big rise from short-covering, and then will reverse course to profit from the big takedown, all through the unregulated dark pools of liquidity so no one can see what is happening. This will be their last hurrah when it comes to suppressing precious metals, and gold and silver will come roaring back as any and all confidence is lost in the stock markets and the economy, and as the elitists are forced to start driving the markets back up again to avoid revolution. The dollar rally will quickly fizzle, and the elitists will start ratcheting the dollar back down again, this time toward the 71 area on the USDIX, and who knows where from there.

The Illuminists, who own the Federal Reserve, are terrified that the Fed will be audited by the passage of HR1207 and SB604. They are now contemplating naming their borrowers. Our guess is guidelines and provision will be established for disclosure, but only to the Treasury Department.

Currently monetary-policy-operations regarding loans to banks and interest rate decisions are hidden from the General Accounting Office by law. The Fed, of course, doesn't want you to see what they are up too. HR1207 would change that.

The opportunity to present a case for audit and investigation was created by the arrogance of the Fed when it refused to identify the recipients of trillions of dollars in emerging loans, and what was being accepted as collateral and what was its real value. In addition, the Fed loaned funds that didn't require congressional approval and many wanted to see the extent and details of such lending. In this particular case Bloomberg News, which got a court order to do so was told by the Fed that it was a state secret. The Fed simply defied the court order

and nothing has been done to force them to comply. We know \$700 billion was lent through the TARP program and \$500 billion in the currency swap program, but what about the rest of the loans? We have no idea where the money went or what if anything was pledged in return.

The bottom line is our government and the American people have a need to know who gets loans, what the collateral is, what secret deals the Fed have with other central banks, what secret accounts they have offshore, what are their swap agreements, how much money they have created secretly that Congress knows nothing about and what inside information is the Fed passing along to their friends in banking and Wall Street.

Treasury Secretary Geithner, under the FOIA release, made 80 contacts since taking his job, with Goldman Sacks, JP Morgan Chase, Citigroup and BlackRock. Some were by phone and some in person. Most calls were between Geithner and Goldman CEO Lloyd Blankenfeld. Can there be any doubt in your mind who controls our government?

These actions are what we must be privy too. These are the kind of things that has sent the Fed into tantrums. Why is the Fed so secretive and why must they rely on public ignorance? No wonder 75% of those polled want an audit and an investigation. What astounds us is that so many people have come to understand that what the Fed does should not be secret. As an extension of that, if the people are successful, it will be a great victory for the populace. If this leads to the disbanding of the Fed, and its work's taken over by our Treasury, we may be able to get our country back from the Illuminists. If we can bring about the end of the Fed, a monopoly, that has been looting and strangling our country and the seat of Illuminist power will be ended. Let's all work together on this and make it happen. Contact every Senator and Representative and in a few lines let him or her know that you want the fed audited.

Turning now to our government we find that its deficit now exceeds 40% of expenditures; or 40% or more is borrowed and not serviced by revenues. Historically this is the point at which hyperinflation begins. This situation is going to get progressively worse because there is not going to be a recovery and unemployment will worsen. The deficit is projected to increase by \$1 trillion a year for the next nine years minimum. Even if 3% growth could be mustered in five years the national debt could reach \$18 trillion, which is short-term debt, which would be 100% of GDP.

That means funds would have to come from more taxes, increased savings or the Fed monetizes the debt. That means a falling dollar and hyperinflation. The Fed thus far has been able to get away with major monetization due to the major deflationary undertow. This de-leveraging process will go on for many years to come. That brings up the question how much money and credit has the Fed created and who has been given that money? A good part of it has gone to banks that are not lending it out.

Government cannot continue to do what it is doing, nor can the Fed continue to print money endlessly. This is certainly a formula that cannot continue.

We do not really know how much government debt the Fed has bought, because they won't tell us. It is a state secret. Even if the Fed wanted to emulate what Paul Volker did in the early eighties they couldn't. That should have been done long ago in 2001 and 2002. That was when the point of return was past. Now there is no way back.

There is no hope of a deficit reduction and once the Fed has lost momentum bond yields in the real market are going to rise.

In May inflation began to rise again. It will be far more noticeable next year.

Wall Street and investors do not seem to understand that the budget and the budget deficit is too difficult to carry. If taxes are raised as they were in 1937, it will cut off any possible recovery and collect less taxes overall. Such a move could also boost non-filers up over 40%. We are about to find out you cannot print or borrow your way into prosperity.

The cuts have to come from the federal government. This is far better than raising taxes, especially when federal workers make almost twice as much as workers in the private sector. There are many solutions available, but our Congress is unwilling to use them for political reasons. The longer the solutions are avoided the worse the problem is going to be.

Banks, Wall Street and government choose to avoid the consequences of deep structural maladjustments that they were responsible for creating. They are trying to perpetuate a bubble rather than fix the problem. Is it any wonder the dollar continues to fall. Unprecedented stimulus, with more probably on the way, has not stabilized the economy. It hasn't even stopped rising unemployment. The velocity of unemployment has declined, but the numbers are still rising. Every move by Wall Street, government and banking is for short-term performance and it is not working.

What is needed is long-range planning, but, of course, that never entered their minds. Stocks may be up but the economy isn't. The debasement continues and the dollar is taking the flack, because inflation cannot be avoided. The Illuminists suppressed gold and silver for years hoping investors and the public wouldn't realize what was being done to the dollar. That doesn't work anymore, because the government is out of gold and if they are not out they are close to it. Granted the dollar isn't the only weak currency. For six years every world currency has fallen versus gold, but no one wants to talk about that. The dollar gets all the heat because gold is traded in dollars and it is the world's reserve currency as well. Switching from one currency to another isn't going to work. It is not the answer, only gold is.

The lending bubble has been broken. Next is the bear market rally stock bubble. Deflation is snapping at our heels, as credit is no longer easily available. Bank lending is off 14% yoy. The game of de-leveraging is over except for banks and they are basically all already in dollars. That leaves even less flexibility for lenders. That means the Fed's monetary policy has to be ever more expansive to be effective. In turn, this along with zero interest rates, these elements drive the dollar lower and gold higher.

In the latest sign of weakness in Louisville-area employment, about 10,000 people applied over three days for 90 jobs building washing machines at General Electric for about \$27,000 per year and hefty benefits.

The jobs dangle medical, eye care, prescription and dental benefit packages, as well as pension, disability, tuition assistance and more, said GE spokeswoman Kim Freeman. And despite the recession, no union workers have been laid off from Appliance Park since the company negotiated lower wages with workers in 2005.

"There are no jobs out there paying these kinds of wages that also offer these kind of benefits," said Jerry Carney, president of IUE-CWA Local 761 at Appliance Park.

Just four years ago, the same jobs paid \$19 per hour. But that was before Local 761 approved wage cuts for new workers aimed at preventing the closure of Appliance Park.

The average price of regular gasoline at U.S. filling stations slipped to \$2.48 a gallon as inventories of gasoline and distillate fuel increased.

Gasoline lost 4.5 cents in the two weeks ended Oct. 9, according to a survey of 5,000 filling stations nationwide by Trilby Lundberg, an independent gasoline analyst in Camarillo, California. Central banks flush with record reserves are increasingly snubbing dollars in favor of euros and yen, further pressuring the greenback after its biggest two-quarter rout in almost two decades.

Policy makers boosted foreign currency holdings by \$413 billion last quarter, the most since at least 2003, to \$7.3 trillion, according to data compiled by Bloomberg. Nations that report currency breakdowns put 63 percent of the new cash into euros and yen in April, May, and June, Barclays Capital data show. That's the highest percentage in any quarter with more than an \$80 billion increase.

World leaders are acting on threats to dump the dollar, while the Obama administration shows a willingness to tolerate a weaker currency in an effort to boost exports and the US economy, as long as it doesn't drive away creditors. The diversification signals the currency won't rebound anytime soon, after losing 10.3 percent on a trade-weighted basis the past six months, the biggest drop since 1991.

"Global central banks are getting more serious about diversification, whereas in the past they used to just talk about it," said Steven Englander, chief US currency strategist at Barclays. "It looks like they are really backing away from the dollar."

Large banks should be banned from trading derivatives including credit default swaps, said Joseph Stiglitz, the Nobel prize-winning economist.

The CDS positions held by the five largest banks posed "significant risk" to the financial system, Stiglitz said at a press conference in Brussels. Big banks should have extra restrictions placed on them, including a ban on derivative trading, because of the risk that they would need government money if they fail, he said in a speech today.

"We will have another armed robbery unless we prevent the banks, the banks that are too big to fail," Stiglitz said. "We should say that if you're too big to fail then you are too big to be. They need more restrictions, such as no derivative trading."

Derivative trading and excessive risk-taking are blamed for helping to spark the worst financial crisis since World War II. American International Group Inc., once the world's largest insurer, needed about \$180 billion of government money after its derivative trades faltered and pushed the company toward bankruptcy.

Financial markets should be subject to taxes that will discourage "dysfunctional" trading and help pay for the effects that the global crisis had on poorer nations, Stiglitz said last week.

U.S. and European regulators have pushed for tighter regulation of the \$592 trillion over-the-counter derivatives market, amid concerns that it could create systemic failures in the financial system. Lawmakers have called for global rules covering derivatives to prevent

financial institutions from exploiting jurisdictional differences in regulation.

Egyptian newspaper al-Mesryoon says former Israeli media tycoon has submitted another offer to purchase television network from Qatari emir through Egyptian mediator News agencies.

Former Israeli billionaire Haim Saban is holding negotiations for the purchase of 50% of the al-Jazeera television network from the Qatari government, Egyptian newspaper al-Mesryoon reported Wednesday. The negotiations are said to be conducted through an Egyptian mediator.

According to the report, the television network is experiencing financial trouble despite its immense popularity. This is the second time Saban is negotiating with the Qatari emir.

The media tycoon visited Qatar in 2003 together with former US President Bill Clinton, as part of a conference aimed at promoting peace in the Middle East. Saban backed out of the same negotiations in the past without offering any explanation. His new offer was submitted recently through an Egyptian businessman.

In addition to the Saban Group's media activity, and its stakes in Israeli communications company Bezeq, Saban used to be a musician and has a dual Israeli-American citizenship. He was born in Alexandria, Egypt in 1944, and immigrated to Israel in 1956.

HOW BADLY DID the U.S. housing market crash? Well, just look at how much federal aid it has taken to stabilize it, at least for now. The Federal Reserve has bought almost \$700 billion worth of mortgage-backed securities, with more to come. The Treasury Department is covering the losses of Fannie Mae and Freddie Mac. Congress has enacted tax credits to spur home buying, including an \$8,000 bonus to first-time buyers that expires Nov. 30 but may well be extended. The Federal Housing Administration has dramatically expanded its mortgage insurance portfolio. The Obama administration offers government-backed refinancing to middle-income homeowners who are up to 25 percent underwater in their current mortgages.

Yet housing remains burdened by a huge backlog of unsold homes, which will probably grow since more foreclosures are on the way. And so the Treasury Department is contemplating yet more help, this time in the form of backstopping state-issued mortgage-revenue bonds, which are federally subsidized in that investors collect the interest tax free. During the boom, the states' housing finance agencies used these bonds to fund about 100,000 low-interest mortgages per year for lower-income home buyers. But since the bust, private bond buyers have shunned them, notwithstanding their tax-free status. At \$4 billion this year, mortgage-revenue bond sales are running at a quarter of the pace they set in 2007, according to Thomson Reuters. The plan under discussion would have the government purchase about \$20 billion worth of new bonds before the end of the year while insuring \$15 billion in existing securities that states otherwise might be forced to redeem because they would not be tradable in the markets.

Administration officials are considering steps to limit the risk to taxpayers by, for example, charging a fee to back those bonds that Treasury does not buy outright. It is also true that, in the past, borrowers of bond-backed mortgages, well selected by the states, have defaulted relatively rarely. Of course, past borrowers didn't face anything like today's unemployment and foreclosure rates. Indeed, those conditions partly explain why private

investors have bowed out of the market. As compared to other more direct forms of housing aid, mortgage-revenue bonds also come with high associated costs, in the form of fees for lawyers, rating agencies and underwriters.

Compared to the overall size of the huge housing bailout, this latest policy idea is pretty small beer. It does illustrate, though, that Washington is still in crisis mode when it comes to thinking about a vast, strategic sector of the economy. That's perhaps understandable, but it can't go on indefinitely. The financial crisis was partly the result of years of government-encouraged over-investment in residential real estate. When will the federal government start working on an exit strategy and a new, more rational housing policy — one in which individual homeownership occupies a central, but less heavily subsidized, position? The answer, apparently, is not yet.

A \$2.1 billion drop in California tax collection is opening a hole in Governor Arnold Schwarzenegger's budget only three months after lawmakers in the most-populous state slashed spending for the second time in a year.

General fund revenue in the state accounting for 13 percent of the U.S. gross domestic product dropped to \$19.4 billion during the fiscal year's first three months, according to figures Democratic Controller John Chiang released Oct. 9. The total for the period ended Sept. 30 trailed by \$1.1 billion, or 5.3 percent, forecasts in the annual budget the Republican governor signed July 28.

"This reinforces that state's budget problems aren't over, and as the year goes on, we're likely to see growing budget deficit projections," said David Blair, an analyst with Pacific Investment Management Co. in Newport Beach, California, which invests \$20 billion in municipal bonds. "This clearly is going to continue to put pressure on the Legislature and the governor."

The latest report underscores how states including California, the largest municipal bond issuer in the U.S., are still dealing with fallout from the recession even as the economy begins its recovery. The state last week was forced to raise yields to attract buyers to a \$4.1 billion debt sale, after cutting the issue from \$4.5 billion.

California's decision helped push up borrowing costs in the municipal market by the most in almost four months even as states prepare new issues of taxable Build America Bonds, whose sales already total \$40.2 billion. The Treasury pays 35 percent of interest costs for the debt, part of the federal economic stimulus plan approved in February.

The US government doesn't have to reveal information about phone companies that may have spied illegally on Americans because those phone companies are an "arm of the government," the US Justice Department argued in a recent court case.

The Senate Judiciary Committee narrowly passed a bill Thursday to extend several controversial provisions of the USA Patriot Act, the counterterrorism law hastily drafted in the aftermath of 9/11.

The parts of the Patriot Act set to expire December 31 that the panel voted to extend until 2013 included roving wiretaps, which authorizes the FBI to target individuals using multiple phone numbers; the "lone wolf" provision, which targets individuals who are not connected to terrorist groups and has thus far never been used; and, perhaps the most controversial,

section 215 orders , otherwise known as the “library records” provision, which allows the FBI to access individuals’ personal records via National Security Letters (NSLs).

There may not be as much slack in the U.S. economy as many forecasters believe, which means medium-term inflation risks could be higher, a Federal Reserve official said on Sunday. St. Louis Federal Reserve President James Bullard said it was hard to accurately measure the gap between what the economy is producing and its full potential.

“I am concerned about a popular narrative in use today — the narrative being that the output gap must be large since the recession is so severe,” he said. “And so, any medium-term inflation threat is negligible, even in the face of extraordinarily accommodative monetary policy. I think this narrative overplays the output gap story.”

Fissures are developing among policy makers at the Federal Reserve as they debate how and when to start raising the benchmark interest rate from its current level just above zero.

One hint of the discord came Tuesday, in a speech by Thomas M. Hoenig, president of the Federal Reserve Bank of Kansas City.

Though he stopped short of calling for immediate rate increases, Mr. Hoenig made it clear that he was getting impatient. “My experience tells me that we will need to remove our very accommodative policy sooner rather than later,” he told an audience of business executives. “Even if we were to start immediately, much time would pass before incremental increases could be considered tight or even neutral policy.”

William C. Dudley, president of the New York Fed, presented a detailed case that seemed aimed at responding to those calling for a quick end to low rates. “Some observers are concerned that this expansion will ultimately prove to be inflationary,” he told an audience at the Corporate Law Center at Fordham University. “This concern is not well founded.”

Dudley, the ex-Goldie economist, and others from the money centers want to keep supply juice to the financial engineers and speculators. The heartland Fed presidents want to reign in the juice and the specs. [The NYC banks control the Fed, thus rates will remain low for at least a year.]

Many American economists say the greenback is falling because the global economy is recovering – so investors no longer need the dollar as a “safe haven”. That’s nonsense. The reality is that “safe haven” status has shifted away from the dollar and towards tangible assets that the US government can’t debauch by printing more of them. That’s why gold just hit a fresh all-time high of well over \$1,000 per ounce. That’s why commodity-backed currencies like the Australian dollar are now soaring – causing howls of protest from Aussie exporters...global investors are quitting the US currency because they’re worried it’s a sinking ship...

The dollar is also falling because that’s what the White House wants. “It’s important America continues to have a strong currency,” said US Treasury Secretary Timothy Geithner last week. “We’ve made clear our commitment to a strong dollar,” added Larry Summers.

These men insult our intelligence. The US government desperately wants a weaker dollar – so boosting exports while lowering the value of America’s massive foreign debt. The currency markets will keep betting against the greenback as they know the Federal Reserve will do nothing to stop a weaker dollar coming true. “Benign currency neglect” is the

cornerstone of Obama's recovery strategy.

The danger is, though, that "the rope slips" and steady decline turns into nosedive. If the dollar did tip into free fall, US inflation would soar and interest rates would skyrocket - whatever the Fed now says.

The world's largest economy would then face "stagflation" - the nightmare combination of recession and high inflation. This danger is very real, not least because the rest of the world is seriously concerned at America's wildly expansionary fiscal and monetary policy. That's the fundamental reason the dollar is falling...the dollar is tumbling due to America's ultra-low interest rates, monetary incontinence and fiscal irresponsibility.

This past week several oil producers lied about meetings to get rid of the US dollar as a method of paying for oil and its use in international trade. We do believe the story was true and was deliberately planted to expedite the demise of the dollar as the world's reserve currency.

As a result gold should hit \$2,500 to \$3,000 by the end of next year. Silver should revisit \$50.00 as well. This is the modern version of Chinese water torture. This is what fraud and monetization brings from creditors who see no light at the end of the tunnel. Many pundits believe this process will quickly manifest itself in a dollar collapse. We do not call 71.18 on the USDx a collapse. It is just a revisit to a long time support zone as 80 once was. It will take eight months to three years before the bottom totally falls out of the dollar. There is no question of a collapse. It definitely will come. Going on to 2018 is a ruse by Fisk. It was part of the planned leak to calm the public, when in fact the collapse will come in one-third the time or less. This is again why the foreign reserves of nations' have fallen from 64.5% to 62.8%. Who would want to hold dollars when the US and UK refuse to send owners their gold? This is unheard of. The German's are incensed and we are sure they are participating in the secret meeting to dump the dollar. As we said earlier the transition trade currency will be the SDR and beyond that a G-20 trade currency unit. If it has a gold backing it should be 15%. Most nations in the G-20 either have no gold or very little, which means they will have to buy gold in the open market. That needless to say will push gold prices higher.

All of the above with pressure, will drive the dollar lower along with the dollar carry trade whose beneficiaries are generally oil, other commodities and gold. Later perhaps silver as well. Borrowing money at ¼% is a no brainer and that is why markets are extra buoyant. There has been considerable central bank gold buying, especially by China, which is and has been backstopping the price. The physical market now belongs to them. This heavyweight buying should take gold to \$1,250 and then to \$1,650 in short order. Remember, we need \$2,500 approximately to reflect official inflation since 1980 and unofficial inflation would put gold at \$6,700. Those who believe being in another currency will be a safe haven are mistaken. All currencies will fall versus gold in varying degrees. Why put money in losers when gold and silver are the only safe games available? This will be the greatest bull market in history. The dollar will fall to somewhere between 40 and 55 on the USDx. When that occurs the final meeting will be held, meetings similar to the Smithsonian in the early 1970s and the Plaza Accords of 1985. All currencies will be revalued and devalued versus one another and debt between countries will be defaulted on by 2/3's. We believe the Federal Reserve note domestically will be devalued on a one for three bases - three old ones for one new one. This is why gold and silver are valuable. They will appreciate as all currencies fall in varying degrees. In all probability 3200 to 4200 of all US banks, out of 8400, will collapse and the FDIC is broke. It will take \$700 billion just to cover 1% of insured deposits. If you are

not in gold and silver related assets you are going to lose 60% to 95% of your wealth.

All we can say about our President receiving the Nobel Peace Prize is that he joins Henry Kissinger and Yassar Arafat, both Illuminists and both notorious pedophiles.

Phoenix sheriff, Joe Arpaio, who has been incarcerating more than 30,000 illegal aliens a year has been directed by our President and Janet Napolitano of Homeland Security, the ex-governor of Arizona, to only pick up criminal illegal aliens and not other illegal aliens. Do not enforce the law. This will apply to all policing agencies in the country. This is really just an extension of an existing program instituted by the previous administrations. Compliance has been purchased in law enforcement agencies via federal payoffs. Now the question is will Congress pursue the President for acting arbitrarily and unconstitutionally? Sheriff Arpaio has not intention of stopping. He won't wimp out.

The Trans Texas Corridor is dead says the Texas Department of Transportation. That means the North American Union is in more serious trouble.

On the FHA Barry Frank says it is fine to make money-losing loans using taxpayer money in order to sustain the housing bubble.

As of June 1, 2009, official US debt was \$52.8 trillion. This does not include \$3 trillion off balance sheet financing of unfunded pension plans for corporate and state governments, or unfunded liabilities, such as Medicare, Social Security and other mandated programs, which all told aggregate \$105 trillion.

As debt increases asset prices that were inflated by speculation continue to fall in value. Distress selling continues. Part of the result is that personal consumption has fallen to 69.3% of GDP. In 2010 that figure should drop below 69%.

Our government promises that federal spending will extricate us. Don't count on it.

Retail sales declined in September by the largest amount this year as car sales plummeted following the end of the government's popular Cash for Clunkers program. But outside of autos, sales were better than expected.

The Commerce Department said Wednesday that retail sales dropped 1.5 percent last month. That's smaller than the 2.1 percent fall economists had expected, but still the biggest setback since sales dropped 3.2 percent in December.

Car sales plunged 10.4 percent, but excluding autos, retail sales rose 0.5 percent. That's better than the 0.2 percent increase analysts expected.

Consumer demand, which accounts for 70 percent of total economic activity, is being watched closely by economists who worry that any recovery from the recession could stall due to the strong headwinds that households still face.

U.S. business inventories fell by a bigger-than-expected 1.5 percent in August, the largest fall since last December, according to a government report on Wednesday that showed businesses were still slashing stocks of unsold goods to cope with weak demand.

The Commerce Department said inventories fell to \$1.31 billion, the lowest since December 2005. Economists polled by Reuters had expected a 0.9 percent decline, after a 1.1 percent

fall in July that was initially reported as a 1 percent drop.

Compared to August last year, business inventories were down 13.3 percent, the department said.

Motor vehicles and parts inventories dropped 7.9 percent in August, the largest decline since October 2001, after falling 2.3 percent in July.

Business sales rose 1.0 percent in August after increasing 0.3 percent the previous month. Sales were down 15.1 percent from August last year.

The rise in sales left the inventory-to-sales-ratio, which measures how long it would take to clear shelves at the current sales pace, at 1.33 months' worth from 1.36 in July. It was the lowest ratio since September last year.

U.S. states suffer "unbelievable" revenue shortages. The U.S. economy may be creeping toward recovery after the worst slowdown since the Great Depression, but many states see no end in sight to their diving tax revenues. Tax revenues...trail even the most pessimistic expectations, despite the cash from the economic stimulus plan pouring into state coffers.

"It's crazy. It's really just unbelievable," said Scott Pattison, executive director of the National Association of State Budget Officers, and called the states' revenue situations "close to unprecedented."

How can economists forecast Q3 GDP of 3.2+% when state income tax receipts are down substantially? Of course the US bean-counters' magic pencils! GDP, like CPI, has become an arbitrary metric.

Revenue in the three months ended Sept. 30 was 5.3 percent less than assumed in the \$85 billion annual budget, state controller John Chiang reported yesterday. Income tax receipts led the gap, as unemployment reached 12.2 percent in August.

New York sales-tax collections for counties and the state dropped 8.3 percent in the third quarter, a troubling sign for governments already struggling with higher costs and declining revenue.

Texas, the second-largest state by population, said sales tax revenue tumbled 12.5 percent in September from a year earlier on weakness in the oil and gas, retail sales and construction industries.

Georgia tax collections dropped by about 16 percent in September over the same month last year, continuing a trend set in the first two months of the fiscal year, Gov. Sonny Perdue announced Thursday.

October surprise from bank earnings? Some experts worry results may be much more negative than investors expect. "Third-quarter earnings for most banks, particularly the regional lenders, will be extraordinarily negative," Bove said.

He estimates that about 60% of banks will report losses in the period as nonperforming assets continue to grow and charge-offs remain very high. Lenders will also have to increase reserves because they didn't bolster them enough during the second quarter, Bove added.

Loan growth will likely remain sluggish and net interest margins won't increase much, partly because funding costs have already dropped so much that they can't fall much further, the analyst explained.

"None of this bodes well for the third quarter," Bove said. "Once the market is faced with the reality of how bad the earnings are, it will be interesting to see whether investors will be able to hold on to these stocks at these price levels."

With respect to bank earnings this quarter, they are priced for no new skeletons in the closet, so NPA levels will remain a top focus. Anything that casts doubt on normalized earnings right around the corner could have a bad effect. You never know what spin will come out of the banks, press and analysts but rising NPA's may very well trump the increased goodwill and likely write-ups in securities certain banks will have to rely upon in order to make the number.

The bottom line is that Serious Delinquencies and prime Defaults have kicked back in gear ... this has caused the overall in-process foreclosure pipeline to continue swelling to record levels. Lastly, the 30-day late back to

Current bucket is dropping, as fewer delinquencies cure.

The Federal Reserve's program to revive the markets for U.S. securitized debt may be disrupted and credit to consumers choked off if planned accounting changes are implemented in 2010.

New rules by the Financial Accounting Standard Board, in the form of FAS 166 and 167, will force banks to put securitized debt back on balance sheets and retain continued exposure to the risks related to transferred financial assets, by eliminating the concept of a "qualifying special-purpose entity."

The amount of capital available for making new loans to consumers for credit cards and mortgages may be restricted as a result. [This will hit bank and corporate balance sheets and the stock market like a thunderbolt.]

Still, people inside and outside the bank say they were stunned when Richard D. Parsons, Citigroup's chairman, enlisted the services last spring of Richard F. Hohlt, a longtime Washington insider...

Critics say that as a top lobbyist for the savings and loan industry in the 1980s, Mr. Hohlt blocked regulation of these institutions and played a pivotal role helping to prolong dubious industry practices that cost taxpayers \$150 billion to clean up.

After that crisis passed, he faded from the public eye but continued advising clients, cementing his contacts in the news media and even surfacing as one among a handful of Washington insiders involved in the public outing of Valerie Wilson as a C.I.A. agent.

Five former regulators who encountered Mr. Hohlt during the savings and loan fiasco expressed dismay and surprise that he had been hired by the chairman of a bank that has received tens of billions of dollars of taxpayer assistance, and voiced concerns about what exactly he had been hired to do.

"It is singularly obscene that any recipient of taxpayer assistance through the TARP program

during the current financial crisis would hire one of the most infamous lobbyists in the world to represent them," says Mr. Black, who now is a professor of law at the University of Missouri at Kansas City.

The Atlanta Fed research that noted 45% of job losses in this downturn are in small businesses further discredits the absurd, fraudulent BLS Business Birth/Death Model. We've noted for a year that US solons are bailing out the few, the connected while the US middle and merchant class gets eviscerated. The US middle and merchant class differentiates the US from Europe.

President Obama announced in March that he would be sending 21,000 additional troops to Afghanistan. But in an unannounced move, the White House has also authorized — and the Pentagon is deploying — at least 13,000 troops beyond that number, according to defense officials.

The additional troops are primarily support forces, including engineers, medical personnel, intelligence experts and military police. Their deployment has received little mention by officials at the Pentagon and the White House, who have spoken more publicly about the combat troops who have been sent to Afghanistan. [This is what you get from a Nobel Peace Prize Winner.]

National chain store sales rose 1.9% in the first week of October versus the previous month, according to Redbook Research's latest indicator of U.S. national retail sales released Tuesday.

The rise in the index was compared to a targeted 1.5% gain. The Johnson Redbook Index also showed seasonally adjusted sales for the period were up 0.6% from a year ago, and compared to a targeted 0.3% increase. The year-to-year increase comes despite Wal-Mart Stores Inc. (WMT) being in the prior-year figures but not this year. Since stopping its monthly sales reports in the spring, year-to-year declines have been notable.

Falling temperatures triggered seasonal demand for apparel inventory and some retailers claim that the process has begun as sales picked up into the Columbus Day weekend, said Redbook. It added seasonal apparel and Halloween items were among the biggest sellers.

The International Council of Shopping Centers and Goldman Sachs Retail Chain Store Sales Index rose 0.6% in the week ended Saturday from its level a week before on a seasonally adjusted, comparable-store basis.

Colder-than-normal weather helped somewhat, particularly at department stores, which have long been ailing.

On a year-on-year basis, retailers saw sales rise 1% in the latest week even as traffic levels were lower.

Utah's struggling economy and the accompanying high unemployment rate is exacting a bitter financial toll on the lives of thousands of the state's residents.

The U.S. Bankruptcy Court for Utah has reported it received 10,706 bankruptcy petitions during the first nine months of 2009. That's a staggering 62 percent increase from the same nine month period a year ago. Utah isn't alone.

Bankruptcy filings nationally surged past the 1 million mark during the first nine months of 2009. It was the first time that seven-figure number has been hit in any nine-month period since the overhaul of the nation's bankruptcy laws in October 2005, according to the American Bankruptcy Institute, a nonprofit research organization that studies issues related to insolvencies.

Bankruptcy filings continue to climb [nationally] as consumers look to shelter themselves from the effects of rising unemployment rates and housing debt, said Samuel J. Gerdano, executive director of the American Bankruptcy Institute.

People who need to renew their Illinois driver's licenses have about a week left before the cost of doing so triples. The cost of renewing a standard Illinois driver's license jumps from \$10 to \$30 on Oct. 11.

Drivers have to renew their licenses every four years, and the \$10 fee has been the same since 1983.

But this year, lawmakers and Gov. Pat Quinn raised a number of taxes and fees in order to pay for a \$30 billion program to build roads, schools and bridges.

The driver's license fee increase is among them. Some qualifying drivers can renew online until Oct. 11 for the \$10 price tag. Because of the weekend and Columbus Day, the new \$30 cost will first be charged at driver's license facilities on Oct. 13, said secretary of state spokesman Henry Haupt.

Convicted Ponzi scheme operator Michael C. Regan, who was accused of stealing \$8.9 million from investors, was sentenced to seven years in prison yesterday in federal court in Brooklyn, N.Y.

Regan, a Massachusetts-based hedge fund manager, defrauded about 50 investors, beginning in 2000, prosecutors said in court papers. His River Stream Fund collapsed in April 2008. Regan, 66, the fund's sole manager, turned himself in in May 2008 and pleaded guilty to one count of fraud the following month. He began the fund in 1998 with money from friends and acquaintances, according to the prosecution.

US District Judge Carol Amon described Regan as "someone who took money from the vulnerable who were less likely to look beyond the facade," noting that a widow and a number of young adults and elderly were among his victims. She said statements from victims showed that "financial crimes impact victims as much as physical crimes."

While Regan agreed to pay restitution of the \$8.9 million, he filed for bankruptcy protection after turning himself in. Regan took \$2.5 million for his personal use, according to court papers.

The government said it is unlikely his victims will ever be compensated.

Regan could face additional criminal charges for failing to file tax returns for 10 years. He also faces a civil suit filed by the Securities and Exchange Commission. [This means Pat Kiley should get 40 years, if convicted.]

JPMorgan Chase & Co., the second-largest U.S. bank by assets, said profit in the third quarter soared almost sevenfold, beating analysts' estimates, as fixed-income revenue

surged.

Earnings climbed to \$3.59 billion, or 82 cents a share, from \$527 million, or 9 cents, in the same period a year earlier at the height of the financial crisis, the New York-based company said today in a statement. Twenty analysts surveyed by Bloomberg estimated earnings of 51 cents a share. Last year's quarter included \$640 million of losses tied to the takeover of Washington Mutual.

Chief Executive Officer Jamie Dimon, who repaid the firm's \$25 billion of government rescue funds in June, is capitalizing on his 2008 acquisitions of Bear Stearns Cos. and WaMu's banking business. Investment-banking revenue from fixed-income markets jumped to a record \$5 billion, compared with markdowns of \$3.6 billion a year earlier. [The rich get richer as our country wallows in depression.]

The IMF performed a 'general SDR allocation', which effectively is a global expansion of credit and is inflationary, ergo the surge in commodities and stocks the past several weeks.

The IMF: The Special Drawing Right (SDR) is an interest-bearing international reserve asset created by the IMF in 1969 to supplement other reserve assets of member countries... [create credit out of thin air]

An SDR allocation is a low cost way of adding to members' international reserves, allowing members to reduce their reliance on more expensive domestic or external debt for building reserves.

The IMF SDR scheme accounts for the \$110 (12.7%) surge in gold since August 28.

The NY Post's Paul Tharp argues that the move to replace the dollar as the reserve currency is accelerating. Over the last three months, banks put 63 percent of their new cash into euros and yen — not the greenbacks — a nearly complete reversal of the dollar's onetime dominance for reserves, according to Barclays Capital. The dollar's share of new cash in the central banks was down to 37 percent — compared with two-thirds a decade ago.

Currently, dollars account for about 62 percent of the currency reserve at central banks — the lowest on record, said the International Monetary Fund. Bernanke could go down in economic history as the man who killed the greenback on the operating table.

By the end of 2019, according to the administration's budget numbers, our federal debt will reach \$23.3 trillion—as compared to \$11.9 trillion today. To put it in perspective: U.S. federal debt was equal to 61.4% of GDP in 1999; it grew to 70.2% of GDP in 2008 (under the Bush administration); it will climb to an estimated 90.4% this year and touch the 100% mark in 2011, after which the projected federal debt will continue to equal or exceed our nation's entire annual economic output through 2019.

Valuable lessons can also be drawn from Japan's unsuccessful experiment with quantitative easing in the aftermath of its ruptured 1980s bubble economy. The Bank of Japan's desperate efforts to fight deflation through a zero-interest rate policy aimed at bailing out zombie companies, along with massive budget deficit spending, only contributed to a lost decade of stagnant growth. Japan's government debt- to-GDP ratio escalated to more than 170% now from 65% in 1990.

Some of Treasury Secretary Timothy Geithner's closest aides, none of whom faced Senate

confirmation, earned millions of dollars a year working for Goldman Sachs Group Inc., Citigroup Inc. and other Wall Street firms, according to financial disclosure forms. [It's pitchfork and torch time!]

As part of Geithner's kitchen cabinet, Sperling and Sachs wield influence behind the scenes at the Treasury Department, where they help oversee the \$700 billion banking rescue and craft executive pay rules and the revamp of financial regulations.

One year after US taxpayers bailed out much of Wall Street, compensation goes to a record while US unemployment soars and US real incomes continue on their death march. Revolution!!!

Kitchen worker received AIG 'retention bonus' AIG's "retention bonuses" went to hundreds of employees in the insurer's troubled financial products unit, including a kitchen assistant who received \$7,700 in March, a US government report will reveal on Wednesday.

News that support staff shared \$168m-plus (£105m-plus) worth of retention awards could undermine AIG's insistence the bonuses were needed to persuade key employees to stay on and unwind the derivatives trades that almost brought down the insurer last year.

One in five hedge fund managers misrepresents their fund or its performance to investors during formal due diligence investigations, research from New York University's Stern School of Business suggests. Managers most commonly misrepresented the amount of money they had entrusted to their funds, their performance and their regulatory and legal histories, according to the research.

The Investor's Business Daily & Tachometric Market Intelligence said their IBP/TIPP Economic Index slipped to 48.7 in October from 52.5 in September. The Index is now 0.6 points above the 12-month average of 48.1 and 4.3 points above its reading of 44.4 in December 2007. The 6-month outlook component was down 7.4% at 49.7.

Now that the dollar has closed below 76 a feeding frenzy will begin and it won't be long until before 74 is tested. When the music stops the central banks will get buried.

Washington is in an almost impossible position. The economy requires \$2 trillion in additional stimulus, but the mounting multi-trillion deficit is a major long-term threat. More stimulus will also put further downward pressure on the dollar. What is needed is deficit reduction, not expansion. The current package has done next to nothing and \$200 billion is being whispered around the beltway. That is laughable. As we mentioned before we see no rise in rates for at least a year. No matter what is done the dollar will continue to fall and gold and silver will rise in spite of government manipulation.

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