Global Insolvency: How will the US Service its Debt?

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The recent election in Massachusetts of Republican Scott Brown to the Senate was a seminal event. It ended the Democratic administration's ability to ram through legislation. It changed the game. The locomotive hit the bunter.

China saw the error of its ways in overstimulating its economy and halted bank lending. The Senate majority refusing to seat the new Senator Brown passed a tremendous increase in short-term government debt. Goldman Sachs and others thumbed their noses at the rest of America and distributed giant bonuses as the country wallowed in depression and 22.5% unemployment. Finally we have Paul Volcker proclaiming the end of too big to fail and stopping banks from trading their own accounts. These announcements are just another diversion. If firms could not trade their own accounts they might as well close their doors. Then came the President's "State of the Union" message, which was just more party line fantasy. If he'd been smart he would have waltzed down the middle and played populist. Imbued with their own power the Democrats have again destroyed themselves. Far more important than all this is something more salient and that is how is the US and other nations are going to service their debt and raise more funds in a depression?

The quest for money and solvency continues as Iceland, the Baltic States, assorted European states and now even Japan. Tagging along are the UK and US, both of which may have lower credit ratings by the end of the summer. There has to be credit creation to accommodate these sovereign needs. Any slowdown of credit for the system will strangle the system.

How can the US conceivably extricate itself from debt? That is $1 to $2 trillion deficits annually as far as the eye can see. It is already bogged down in an occupation in Iraq and a war in Afghanistan that stretches into Pakistan. That is all off budget, but it stretches already to more than $1 trillion. Then there is the phony, phantom war on terror the cost of which is unknown. That is the future. We are told we are in a recovery after two years of stimulus. We do see small signs of such in sectors, but unemployment stays high. If we could trust government statistics we'd have an idea of where we really are. Hoping that we'd believe 4th quarter GDP growth was 5.7% is ludicrous. The last figures for the 3rd quarter were adjusted downward twice from 3.6% to 2.2%. In Wall Street parlance that is called painting the tape. We have seen two of the largest stimulus packages in history and have really very little to show for it, in as much as the Treasury and the Fed have poured $12.7 trillion into the financial system, putting the public on the hook for $23.7 trillion. The Fed may have cut the creation of money and credit to the bone, but the US and world financial system runs on credit. Without that credit the system will collapse. This is why the addition of Paul Volcker to the immediate scene is not going to change things much, that is unless the elitists want to go into worldwide depression.

The current Democratic administration is now doomed to failure. The only way they were able to pass an increase of $1.9 trillion in the debt limit was to not seat the new Republican Senator from Massachusetts, Scott Brown.

We call that politics at its lowest level. Now we are saddled with a new limit of $14.294 trillion, or $25,000 of debt for every American. Like the Republicans, the Democrats just won't stop spending. Of course if they do stop the system will come to a halt. All we are left with is a deficit task force, which will work in secret, that has to be voted on by all members of both houses, and the reports findings won't be available until after the November election. This is another phony distraction to keep the public looking in the wrong direction. There will be no vote on the issue in 2011; it is a ruse.

The administration says it will cut non-defense discretionary spending by about 13%, but they just increased such spending by 17%. We might ask why didn't they just rescind the increase? The reason is there can be no deficit reductions. In fact, if there is not more stimuli added then the economy will dip back into depression. This is the same mistake FDR made in 1937, and as a result America had to create another war to save itself from collapse. FDR's methods are what are being used today and as in the 1930s, they won't work today. Both are Keynesian nightmares created to put ultimate power into the hands of the elitists so they can force the world to accept world government. The tactics being used now are the same as in the 1930s, a 2-stage depression to be followed by a WWIII. We are now seeing the 1934 type rebound, that could last a few years, if enough stimuli are supplied. Deficits do not produce a solid recovery; they create a transitory recovery. Business knows this and as a result they won't commit to expansion. They have no confidence in such plans, because they know once stimulus stops the economy will fall back again. They are also aware that stimulus is inflationary, just as monetization is. As far as the stock market is concerned we could be seeing a replay of 1936. Taxes had already risen by 5%, the deficit fell by more than 50% and the Fed cut back on M3 and raised reserve requirements, all of which was simply too much for the economy to handle. It receded and unemployment rose again. The Fed and the administration are well aware of this and that is why deficit cuts will not come and why more stimuli will be added. The economy is not back to any kind of "normality," if in fact such a thing exists. We keep on hearing employment is a lagging indicator, when that is untrue. The only thing true about the unemployment numbers is that they are bogus.

Just as they did 73 years ago the Fed is contemplating removing reserves from the system. They already know what that will result in, so why would they do such a thing? Could it be that they want a repeat of 1937?

The administration is cutting very little and has no easy way to raise taxes to increase revenues. In addition after losing three straight special elections they'll be in no mood to raise taxes with November nine months away. As we said earlier the whole Democratic Party is in serious trouble making them lame ducks. Any sort of tax increases will be cloaked in subterfuge. There is no hope of any budget changes for the better. The Democrats and many republicans are doomed and that is good.

What we have experienced over the past several years has been an orgy of securitization and leverage not previously experienced in modern times. That was accommodated by ridiculously low Fed interest rates. These conditions along with unregulated derivative creation led us to our present state of affairs along with mammoth consumption of mortgages by Fannie Mae, Freddie Mac, Ginnie Mae and the FHA. We were subjected to

unbridled monetary and fiscal abandon.

Such unbridled greed came close to bringing down the entire financial system, which American taxpayers have been allowed to pick up the bill for. After all this we see absolutely no regulation in sight and the SEC and the CFTC continue to protect the titans of Wall Street as government looks on in total disinterest. This, of course, omits the Executive Order borne criminality, which has turned our free markets into controlled and manipulated fascist markets. People say what can I do? You can start by throwing almost every incumbent out of office and buy pressing the Senate relentlessly to pass the bill that includes an audit and investigation of the Fed. If you do not do these things you will end up living on your knees enslaved, as will generations to follow. Too big to fail has to be stopped along with moral hazard. Limits have to be put on leverage. The world of derivatives has to be unraveled. If we do not have serious financial reform the markets will continue to self-destruct. How can we conceivably allow hedge funds to remain offshore and unregulated? The FDIC is a joke and perpetually under-funded. Today they have $93 billion in assets with more than 2,000 banks in serious trouble that would cost $1 trillion to bail out. Those funds include $45 billion paid in by banks for their next three year's dues. Even with taxpayer assistance the private sector cannot recover. It has been just 2-1/2 years since these problems began and Wall Street and banking are right back doing what they did before, wildly speculating. How can the taxpayer continue to fund such insanity? Remember, zero interest rates have nowhere to go but upward. Adding more to the soup 40 states are essentially broke. Do you really think the crisis is over with 22.5% unemployment? We do not think so. There is no easy exit short of a purge of the system, which is inevitable. Any kind of stringent financial reform will bring the system down. Aggressive bank lending would bring about more monetization and more inflation. The markets believe it is back to business as usual. The only events that can bring us back to reality is a purging of the system and the end of Wall Street and the banking control of our country. The revolving door between Washington and NYC has to be dismantled. The credit system is broken and has to be changed and fixed. The shift has begun. The reign of Goldman Sachs over our government is in the process of ending. The successor will be JP Morgan Chase, which has been and will be every bit as bad as Goldman as been. The control is going to change but not the looting of the American people. The changes won't come and the system will collapse, that is how the elitists retain control over our country. The final war for our freedom is underway.

Just as an example, if M3 is to remain at current levels and quantitative easing ends, where are the funds going to come from to recreate the credit structure? Who is going to supply the capital to fund a real estate revival? Foreigners are not increasing purchases of Treasury and Agencies. Who will fund that? By the looks of it the American saver will be tapped as government swallows up their retirement savings. What do they do in a few years when that wealth is gone? Will Americans use their savings to buy Treasuries; we don't think so. How can over-indebtedness be corrected and at the same time consumption increased? It can only be accomplished by prolonged economic distress as debt is repaid and savings increased. Then again if government has to gobble up those savings, what is left for business to fund and expand? For a long time in the future in order to stay solvent, government will have to crowd out business in the quest for interest and debt repayment and in the creation of more debt. Presently our government is insolvent and that means devaluation and default has to eventually occur. The stimulus you have seen in various forms for the past 2-1/2 years is a façade. It has not produced permanent growth, only an extension of the problem. Thus far we see no recovery – only bogus government statistics. There has been no job and income growth and prices are increasing. How can recovery take

hold as M3 is increased by only 3%, or 50% of the growth rate over the past 50 years? You have to say to yourself – does the Fed now want a deflationary depression? Only time will tell.

Last week was not a good one for the stock market as the Dow lost 4.1%; S&P lost 4.3%; the Russell 2000 fell 3.4% and the NASDAQ 100 lost 3.9%. Banks fell 0.8%; broker/dealers 2.8%; cyclicals fell 6.9%; transports 4.4%; consumers 2.1%; utilities 1.4%; high tech 4.5%; semis 4.6%; Internets 4.2% and biotechs 2.2%. Gold bullion fell $36.00 and the HUI fell 8.6%. The USDX gained 1.3% to 78.29.

Two-year T-bills fell 7 bps to 0.75%; the 10-year notes fell 7 bps to 3.60% and the 10-year German bunds fell 5 bps to 3.21%.

The Freddie Mac 30-year fixed rate mortgage rates fell 7 bps to 4.99%. The 15s fell 5 bps to 4.40%, as 1-year ARMs fell 7 bps to 4.32% and the 30-year jumbos fell 6 bps to 5.96%.

Fed credit increased $5.1 billion to a record 52-week high of $2.231 trillion. It is up $181.6 billion from a year ago. Fed foreign holdings of Treasury and Agency debt fell $5 billion again to $2.946 trillion. Custody holdings for foreign central banks rose $405 billion, or 15.9% yoy.

M2 narrow money supply declined $9.4 billion to $8.452 trillion; it is up 2% year-on-year.

Total money market fund assets fell $46 billion to $3.240 trillion. Year-on-year it has fallen $654 billion, or 16.8%.

Total commercial paper outstanding fell $10 billion to $1.092 trillion, having dropped $596 billion yoy, or 35.3%. Asset backed CP added $3.5 billion last week to $430 billion and yoy fell 42.6%.

As of December, 9.1% of borrowers had missed at least three payments, versus a year-on-year 6.5%. If the trend continues the FHA may run out of cash, forcing the federal government to use taxpayer money to cover the losses.

Our President's projected 11% deficit for each of the next two years is equal to the country's entire economic output. That condition will prevail over the next ten years. This erosion and the ongoing foreign wars will finally destroy America as the world's preeminent power. Quite frankly, we believe any forecast outside of two years in today's environment is useless. All we know is we do not see how conditions can improve.

Each day brings more revelations of efforts of the NY Fed and Goldman Sachs to hide the details of the criminal conspiracy of the AIG bailout. The Fed and Blackrock are becoming the administration's Halliburton and KBR. This is a real crisis on the scale of Watergate. Corruption at its finest.

It should be noted the Blackrock has bought over a 5% stake in over 1,800 US equities.

New York University Professor Nouriel Roubini, who anticipated the financial crisis, called the fourth quarter surge in U.S. economic growth "very dismal and poor" because it relied on temporary factors.

Roubini said more than half of the 5.7 percent expansion reported yesterday by the

government was related to a replenishing of inventories and that consumption depended on monetary and fiscal stimulus. As these forces ebb, growth will slow to just 1.5 percent in the second half of 2010, he said.

"The headline number will look large and big, but actually when you dissect it, it's very dismal and poor," Roubini told Bloomberg Television in an interview at the World Economic Forum's annual meeting in Davos, Switzerland. "I think we are in trouble."

Wall Street firms are loosening terms of their lending to mortgage-bond investors as markets heal, an RBS Securities Inc. executive said. Repurchase agreement, or repo, lending against the debt has expanded so much since freezing in late 2008 that some banks now offer as much as 10-to-1 leverage and terms as long as one year on certain securities backed by prime jumbo-home loans, said Scott Eichel, the Royal Bank of Scotland unit's global co-head of asset- and mortgage-backed securities. 'It's getting very competitive,' Eichel said we're at the point where I don't think we would feel comfortable if things go too much further.

Real estate borrowers are leading the rally in U.S. corporate bonds as investors add to bets property companies will weather an increase in commercial mortgage defaults. Bonds sold by real-estate investment trusts, shopping-mall owners and office landlords have gained 3.27% this month, exceeding 3.18% for all of the fourth quarter.

Sales of commercial mortgage-backed securities will likely remain below $15 billion in 2010 as borrowers struggle with declining property values, according to analysts. Debt sales backed by skyscraper, hotel and shopping mall loans may be as low as $10 billion this year, according to Alan Todd, a JP Morgan analyst.

Annuities: The official retirement vehicle of the Obama administration.

As slogans go, it's hardly "Keep Hope Alive,'' or even "Change We Can Believe In.''

But there were annuities, in a report from the administration's Middle Class Task Force that came out this week. They are among the tools the administration is promoting as it tries to give Americans a better shot at a more secure retirement.

At its simplest, an annuity is something you buy with a large pile of cash in exchange for a monthly check for the rest of your life.

If the biggest risk in retirement is running out of money, an annuity can help guarantee that you won't. In effect, it allows you to buy the pension that your employer probably stopped offering, and it can help pick up where Social Security leaves off.

President Obama did not discuss annuities in his State of the Union message on Wednesday night, but the mere mention of them by the task force was enough to send executives at the insurance companies that sell the products into paroxysms of glee.

The announcement from the White House did make it clear the administration was looking to promote "annuities and other forms of guaranteed lifetime income.''

That suggests the administration is open to other solutions, though there are not many others that are as simple as the basic fixed immediate annuity that delivers a regular check for life.

Still, all of this attention from the president is a stunning turn of events for a rather unloved product. Many consumers reflexively run in fear when salesmen turn up pitching high-cost and complex variable annuities, which evolved from their simpler siblings decades ago.

So what are these soon-to-be retirees so afraid of? And what makes the White House so sure it can change their minds?

Let’s start with the fears. Early on, the knock on annuities was that once you died, the money was gone.

The industry solved this by coming up with variations on the policy, allowing people to include a spouse in the annuity or guarantee that payouts to beneficiaries would last at least 10 or 20 years. This costs extra, of course.

Others worried about inflation, so now there are annuities whose payments rise a few percentage points each year or are pegged to the consumer price index. These cost extra, too.

Even if you get over all these mental hurdles, however, the hardest one may be the difficulty of seeing a big number suddenly turn small.

“It’s the wealth illusion, the sense that my 401(k) account balance is the largest wad of dollars I’ll ever see in my lifetime, and I feel pretty good about having that,’’ said J. Mark Iwry, senior adviser to the secretary and deputy assistant secretary for retirement and health policy for the Treasury Department. “Meanwhile, I feel pretty bad about the seemingly small amount of annuity income that large balance would purchase and about the prospect of handing it over to an entity that will keep it all if I’m hit by the proverbial bus after walking out of their office.’’

So how might the Obama administration solve this? It could get behind a Senate bill that would require retirement plan administrators to give account holders an annual estimate of what sort of annuity check their savings would buy.

Tax incentives could help, too. A House bill called for waiving 50 percent of the taxes on the first $10,000 in annuity payouts each year. “If this is behavior that the administration is trying to inspire, then it’s not that long of a leap to think that maybe they’ll start to promote some version of these bills,’’ said Craig Hemke, president of BuyaPension.com, which sells basic annuities.

Annuities won’t be right for everyone, and they’re not right for everything because it rarely makes sense to put all of your investment eggs in one basket.

The city of Lynn, Massachusetts spent $22 million this year on retirement costs. That’s more than the cash-strapped city allotted for any other department, including the police, fire, and public works departments.

Lynn has an unfunded pension liability of $257 million, the largest of any Massachusetts community north of Boston. And its annual pension contribution next year is due to increase by $1.5 million on July 1 to $23.5 million, according to the state’s Public Employee Retirement Administration Commission, which oversees 106 public pension systems.

U.S. construction spending fell more steeply than expected in December to its lowest level

since 2003, dragged down by a sharp drop in private residential and state and local government construction, a government report showed on Monday,

The Commerce Department said construction spending dropped 1.2 percent to $902.5 billion, falling for a second straight month. November's construction spending was revised down to show a 1.2 percent decline, instead of a 0.6 percent fall.

Economists surveyed by Reuters had forecast construction spending falling 0.5 percent in December.

For the whole of 2009, construction spending fell by a record 12.4 percent.

In December, spending on private home building dropped 2.8 percent, the largest decline since May, after falling 1.4 percent the prior month. Residential investment is showing signs of renewed weakness and made a modest contribution to gross domestic product in the fourth quarter compared to the previous three-month period.

Private nonresidential spending, which has been buffeted by high vacancy rates and tighter access to credit, rose 0.2 percent in December after falling 0.9 percent the prior month. Spending on state and local government construction projects fell 1.5 percent in December after falling by the same margin in November.

Hopes that America's factories will help drive the economic recovery drew support Monday from news that manufacturing activity grew for a sixth straight month in January, to its strongest point since 2004.

Other data, though, offered a reminder that the recovery lacks strength. Construction spending dropped sharply in December to its lowest level in more than six years. And gains in personal income and spending were too modest in December to signal that consumers can fuel a strong rebound.

Manufacturing activity has become a pocket of strength for the economy, though some of it flows from temporary factors such as customers needing to add to depleted stockpiles of goods.

The Institute for Supply Management said its manufacturing index read 58.4 in January, compared with 54.9 in December. Analysts polled by Thomson Reuters had expected a level of 55.5. A reading above 50 indicates growth.

New orders, a sign of future growth, jumped to 65.9 in January, the highest level since 2004, from 64.8 in December. Current production surged to 66.2 from 59.7, also to its peak since 2004. Order backlogs grew, and prices that companies paid rose.

"Consumers continue to save far more than in recent years and allocate their spending very carefully," Julia Coronado, an economist at BNP Paribas, wrote in a note to clients.

The Commerce Department said Monday that incomes rose by 0.4 percent, the sixth increase in a row. That's slightly better than analysts' expectations of 0.3 percent growth.

Income growth was spurred by a large, one-time social security payment, the department said. Wages and salaries rose by only 0.1 percent, or $9.1 billion, after increasing 0.4 percent, or $27 billion, in November.

Consumer spending, meanwhile, increased by 0.2 percent, less than analysts' forecasts of 0.3 percent. The department also revised November's figure to show a 0.7 percent increase in spending, higher than the initial estimate of 0.5 percent.

Consumer spending is closely watched because it accounts for about 70 percent of total economic activity. Spending has grown in the past six months but consumers remain cautious as they seek to rebuild savings battered by a steep decline in household wealth.

Americans saved 4.8 percent of their incomes in December, the department said, up from 4.5 percent the previous month. That's up sharply from the spring of 2008, when the savings rate fell below 1 percent.

Rising spending helped the economy grow at a rapid pace in last year's fourth quarter, the department said last week. Consumer spending increased by 2 percent in the October to December period, after a 2.8 percent increase in the third quarter.

That helped boost the nation's gross domestic product, the broadest measure of the economy's output, by 5.7 percent in the fourth quarter, the department said. It was the fastest growth in six years. The economy grew at a 2.2 percent rate in the third quarter after a record four straight quarters of decline.

Spending by U.S. consumers increased in December for a third consecutive month, signaling the biggest part of the economy will contribute more to growth in coming months.

The 0.2 percent increase in purchases was less than anticipated and followed a 0.7 percent gain in November that was larger than previously estimated, Commerce Department figures showed today in Washington. Incomes climbed 0.4 percent, exceeding expect at Wells Fargo & Co., unlike its three biggest competitors, is so convinced interest rates will rise that it sacrificed as much as $1 billion last year cutting back on fixed-income investments.

The nation's fourth-largest bank, whose biggest shareholder is Warren Buffett's Berkshire Hathaway Inc., reduced investments in mostly fixed-income securities by $34 billion in 2009's second half, company filings show. JPMorgan Chase & Co., Bank of America Corp. and Citigroup Inc. boosted their holdings by an average of $35.5 billion.

The housing recovery remains slow and painful, with other data showing the percentage of empty privately owned homes rose to 2.7 percent in the final three months of 2009 from 2.6 percent in the third quarter.

The National Association of Realtors's Pending Home Sales Index, based on contracts signed in December, rose 1.0 percent to 96.6 after falling sharply in November when a boost from the initial tax credit for first-time buyers ebbed.

Analysts polled by Reuters had forecast pending home sales, which lead existing home sales by one to two months, would rise 1 percent. Compared to December 2008, the index was up 10.9 percent.

The tax credit, which had been scheduled to end in November, was expanded and extended until June. Its expected expiry had pushed down sales of existing homes in December, when they dropped to their slowest sales pace in four months.

"We expect pending home sales to improve, suggesting a positive outlook for the existing

home sales market. We continue to believe that the U.S. housing market recovery remains intact," said Ian Pollick, economics strategist at TD Securities in Toronto.

U.S. stock indexes fell slightly, while Treasury debt prices and the dollar were little changed.

A raft of weak housing reports for December had fanned worries that the housing market, at the center of the worst economic downturn since the Great Depression, could take a step back and harm the broader economic recovery.

Further signs that the housing market is struggling came in the Commerce Department's data on Tuesday showing the rise in vacancies in the last quarter of 2009. The rate has risen for the last two quarters.

However, the Realtors group said the tax credit was skewing housing data and the market remained on a firm recovery path.

"There are easily understood swings in contract activity as buyers respond to a tax credit that was expiring and was then extended and expanded," Lawrence Yun, the group's chief economist. "These swings are masking the underlying trend, which is a broad improvement over year-ago levels."

Richard Russell says the bear market rally is in the process of breaking up and panic is on the way. He sees a full correction of the entire rise from the 2002 low of 7,286 to the bull market high of 14,164.53 set on October 9, 2007. The halfway level of retracement was 10,725. The total retracement was to 6,547.05 on March 9, 2009. He now sees the Dow falling to 7,286 and if that level does not hold, "I see it sinking to its 1980-82 area low of Dow 1,000." This he believes is a strong resistance area. This is where Richard Russell stands for better or worse. The current action is the worst he has ever seen.

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