

Market Review: The Future of Unemployment Benefits in the U.S.

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Last January we predicted that there would be another stimulus program this year. Congress has already passed legislation to continue unemployment benefits, which the Senate will approve as well. Those out of work cannot survive without such assistance, as our transnational conglomerates continue to send our jobs to foreign lands. The question is will the unemployed, as a result, receive benefits indefinitely, as these elitist corporations park their profits in tax havens tax-free?

There is nothing to stop these events because the public doesn't understand what is going on and Congress answers only to campaign contributions and the call of re-election. The biggest insult is to expect Americans to believe unemployment is 10% under U3, never bothering to mention U6, which is 17.3% and climbing. Of course there will be more stimulus and Fed monetization of Treasury debt. They know if it is not forthcoming the economic and financial system will collapse. Can you imagine what would happen to the mortgage securities market if the Fed stops buying that toxic waste, or if Fannie Mae, Freddie Mac, Ginny Mae and the FHA stop buying subprime and ALT-A type mortgages? The stock market has slowly moved higher as the insiders in the market, who know what is going on, perceive what is in store for 2010. As far as the Fed is concerned they have to continue doing what they have been doing. The purchase of Treasuries, Agencies and toxic waste has to continue as we long ago pointed out. There isn't enough dollars floating around the world to absorb this debt. That is why the Fed has to continue to create money out of thin air. They may have cut back on M3, but the money spigot hasn't been turned off and won't be eliminated. All this money freed up by Fed purchases of Agencies and toxic waste allows banks, Wall Street, insurance companies and corporate America to buy Treasuries to keep the scam going, as Mr. Ponzi said. Incidentally, when my mother grew up she lived across the street from Mr. Ponzi.

We forecast this two years ago while most economists were sleeping. This past year the Fed bought 80% of new government debt or \$1.2 trillion worth as foreigners bought only \$300 billion worth. To think this program will end is pure folly. There will be no one to buy the debt, which grows larger with each minute. Deficits will run more than \$1.5 trillion a year as far as the eye can see. Revenues continue to fall and spending to rise. Foreigners are dumping dollars not accumulating them. Worse yet many other nations have similar problems. They have to raise money as well. Who will accommodate them? We are talking \$10 trillion alone for the G20 countries, some of which are on the edge of bankruptcy. Then again where will the money come from to bail out the likes of California, New York, New Jersey, Florida, Nevada, Arizona, etc.? There just isn't enough money to go around. The Fed has to increase printing money and issuing credit; there is no other choice short of economic

collapse. The price to be paid for this Keynesian profligacy is hyperinflation and you can be sure it is already in the money pipeline.

Some, if not most of the experts, see downdrafts and discipline ahead, which is wishful thinking. The choice in today's bond market is which purchase will do you the least harm? Will money shift out of corporates into Munis and Treasuries? We do not think so. Would you buy bonds from a bankrupt in a depression in a growing inflationary atmosphere? Of course not. Leverage is in vogue again. Banks are fulfilling the needs of hedge-funds and they are engaged on their own as well. This while they have reduced lending by almost 20% to business and individuals. The banks, hedgies, Wall Street, insurance companies are back doing the same speculative things that they did to cause the current crisis, which is far from over. Why do you think the market, junk bonds and commodities have been as strong as they have been? Why do you think there is a dollar carry trade and why the dollar cannot get out of its own way? Anyone who believes this will end up in a voluntary deflationary spiral, a suicide pact, is mistaken. Central banks and money centers will be dragged kicking and screaming to the moment of justice. Just wait until the public finally understands what they have been up too.

If the dollar is doomed to depreciate what is the alternative? It can't be the euro with the problems in Greece, Spain, Ireland, Portugal and Italy. You could gravitate to the rising Canadian dollar, the Swiss franc, the Australian dollar or the Norwegian korona. You could gain 30% or more versus the US dollar over the next few years. As we pointed out in the gold section in a recent issue all major currencies have lost big over the past ten years versus gold. As you saw in the last issue central banks are buying gold and are no longer selling gold. Doesn't that somehow ring a bell? They have gone from selling 500 tons a year in Europe to being buyers. Is this not a major change? We say it is. All the gold is no longer coming to market. Even India bought 200 tons from the IMF, or at least they say they did. Anyone in gold and silver related assets over the past ten years, as our subscribers have been, know what it is like not to lose ground against currencies and to retain their purchasing power. Where else would you go if you have any knowledge of economics and history? Markets and bonds may have risen, but they are losers to the depreciation of currencies. Gold is up over 200% versus those currencies.

Central banks are forced to make the same mistakes that they made several years ago. That is lending to those who would leverage their bets. They themselves have also been in the same process for the past six months and they are lending more than 40 times their asset and deposit base. You can be assured they will create another credit crisis bigger than the most recent debacle. That will result in many years of very painful de-leveraging and a major economic and financial collapse. During such corrections the availability of finance and credit retracts, and when available becomes more costly. As we have seen over the past two years personal use of credit declines, default increase and so does personal savings. The longer government and the central bank interfere in the economy the worse the situation will be and the longer the recovery will be. In the meantime our government deficit increases as it fights a two-front war with no end in sight. Even with stimulus 2010 is going to be a very difficult year.

The BLS, the Labor Department, said the CPI rose 0.1% in December after rising 0.4% in November.

Industrial production rose 0.6% and capacity utilization was 72%.

The January Empire Manufacturing was 15.92.

The January preliminary University of Michigan Confidence Index was 72.8, a lot below the experts 74.0%.

FDIC Chairwomen, Sheila Bair says the Fed could have prevented the financial crisis in front of the Financial Crisis Inquiry Commission.

Capital One Financial Corp.'s US credit card charge-offs rose to 10.14% in December from 9.60% in December. Accounts at least 30-days delinquent, an indicator of future loan losses, fell to 5.78% from 5.87%. Auto loan charge-offs rose to 5.68% from 3.67% and the delinquency rate rose 10.3% from 9.57%.

International credit card charge-offs rose to 9.58% to 9.50%, as delinquencies fell for a second straight month to 6.55% from 6.60%.

Last week the Dow was almost unchanged, as the S&P declined 0.8%; the Russell 2000 fell 1.0% and the Nasdaq 100 fell 1.5%. Banks fell 0.7%; broker/dealers fell 1.6%; cyclicals fell 1.8%; transports fell 1.0%; consumers rose 0.3% and utilities gained 0.8%. The high techs fell 1.2%; semis fell 6.3%; Internets fell 6.3%, and biotechs rose 0.9%. Gold bullion fell \$7.00; the HUI fell 5.12% and as you saw above the USDX fell 0.4% to 77.15%.

The 2-year T-bills fell 11 bps to 0.77%. The 10's fell 16 bps to 3.68%, as the 10-year German bund fell 12 bps to 3.26%.

The Freddie Mac 30-year fixed rate mortgage fell 3 bps to 5.06%. The 15's fell 5 bps to 4.45% and one-year ARMs rose 8 bps to 4.31%. The 30-year fixed jumbos fell 6 bps to 6.02%.

Federal Reserve credit increased \$9.3 billion last week as Fed credit showed no change. Year-on-year it is up \$156.5 billion. Fed holdings of Treasury and Agency debt fell \$10.9 billion to \$2.951 trillion. Custody holdings for foreign central banks has expanded \$423 billion, or 16.7% yoy.

M2, narrow, money supply dropped \$46.5 billion to \$8.367 trillion; it was up 1.9% yoy.

Total money market fund assets fell \$21.7 billion to \$3.286 trillion; it has declined 16.2% yoy.

High-yield bond issuance is poised this year to surpass the record-breaking levels of 2009 according to CreditSights Inc. New issues may reach \$120 billion with the refinancing of maturities through 2014 alone and \$150 billion is 'easily achievable' in a small asset-allocation shift analyst Chris Taggart wrote.

Senate Banking Committee Chairman Christopher Dodd is considering scrapping the idea of creating a Consumer Financial Protection Agency an initiative at the heart of the White House's proposal to revamp financial-sector regulations. The Connecticut Democrat has discussed the possibility of abandoning the push for a new agency during negotiations with key Senate Republicans as a way to secure a bipartisan deal on the legislation, these people said.

The Federal Reserve's blowout 2009 profit is no reason to cheer. Rather, it is a reminder of the dangers inherent in the extraordinary policies the central bank has pursued during the credit crunch. Last year, the Fed earned \$52.1 billion, with most of that income coming from interest payments on bonds that it bought during the year. Anyone with access to printing presses could have racked up similar gains.

California bondholders got an early glimpse of what the state's budget-negotiation season may bring as a looming \$20 billion deficit led Standard & Poor's to cut its credit rating for the second time in less than year. S&P lowered its assessment on \$64 billion of the most-populous U.S. state's general obligation bonds one level to A-.

Manhattan apartment rents dropped 9.4% in the fourth quarter of 2009 from a year earlier as Wall Street jobs vanished in the recession. The median rent fell according to Prudential Douglas Elliman Real Estate and appraiser Miller Samuel Inc.

Hedge funds had their best annual performance in six years in 2009 as the global economy began recovering and investor confidence returned, according to EurekaHedge Pte. The EurekaHedge Hedge Fund Index, tracking more than 2,000 funds, rose 0.9% in December, bringing its 12-month return to 19% and total assets to \$1.48 trillion.

Hedge-fund managers that use computers to predict trends in futures prices posted the biggest losses in more than two decades in 2009. Managed-futures funds fell an average of 4.7% last year, according to an index of 50 top funds compiled by Barclay Hedge Ltd. The decline, which compared with a gain of 13.5% in 2008, was the first in 15 years and the largest since Barclay Hedge began tracking returns in 1987.

The FDIC closed three more banks over the weekend in what we call, "The FDIC Friday Financial Follies."

The latest rumor is the Four Seasons in Dallas is headed for foreclosure.

Government sold \$84 billion of new notes and bonds last week that supposedly were well received. We never know if the bidders are genuine or if they are stand-ins for the Fed.

After \$1.25 trillion in loans, China tells banks to focus on the real economy. China's financial regulator has warned the country's banks to tighten risk controls and to funnel credit towards the "real economy" only as the banking sector barrels into its second year of roaring loan growth.

The words of caution from the China Banking Regulatory Commission (CBRC) come amid rising concern that the banks' monumental \$800 billion splurge in new lending in 2009 may have slipped beyond the intended role of economic stimulus and could be on the brink of wreaking serious damage.

The comments came only a few days after China raised banks' reserve requirement ratios by half a percentage point — a move that markets worldwide took as the beginning of China's monetary-tightening cycle and the effective end of all-out stimulus. A senior figure at China's central bank later described the move as the use of a "neutral" policy tool.

However, analysts are flagging inflation, a bad-loan time bomb, speculative investment bubbles and huge industrial overcapacity as potential side-effects of the unprecedented lending. Recent signals from Beijing have hinted that the Government may be moving

towards such a view, despite its primary goal of maintaining GDP growth above 8 per cent.

Several leading international banks have received subpoenas from US regulators investigating one of the complex securities markets at the heart of the financial crisis, people familiar with the probe say.

The Securities and Exchange Commission sent subpoenas last month to banks including Goldman Sachs, Credit Suisse, Citigroup, Bank of America/Merrill Lynch, Deutsche Bank, UBS, Morgan Stanley and Barclays Capital, these people said. Requests for information were also made by the Financial Industry Regulatory Authority, which oversees broker-dealers. The regulators are seeking information about the sale and marketing of so-called synthetic collateralized debt obligations during the financial crisis.

For 2009, real weekly wages declined 1.6%, the biggest decline since 1990 (-2.5%). (Real average hourly earnings dropped 1.3% y/y and average weekly hours worked declined 0.3.) Core inflation increased 1.8%. But Owners' Equivalent Rent is about 40% of Core CPI and 24.433% of CPI.

Energy costs for the 12 months ending in December shot up 18.2 percent. That was the biggest jump since 1979. The energy surge was led by higher gasoline costs, which rose 53.5 percent after falling 43.1 percent in 2008.

The 1.6 percent drop in average weekly earnings for non-supervisory workers was the worst annual performance since a 2.5 percent decline in 1990. Weekly earnings have fallen in five of the past seven years, underscoring the pressures American households were facing even before the recession began.

For years we have moaned that CPI is distorted, on purpose, by hedonic adjustments and OER (Owners' Equivalent Rent). We noted that OER changes do NOT impact the vast majority of Americans because 67% own homes and do not rent. Also people in public housing, rent-controlled units and subsidized housing are not impacted.

Excluding OER, consumer prices increased 3.5% in 2009. However, due to Bennie's easy money, this inflation is accelerating. Non-OER inflation is up at a 4% annualized over the past six months and 4.5% over the past three months.

BTW, few economists or pundits have noticed that the BLS has increased the weighting of OER to 24.433% of CPI. It had been 23.158%. (Cuz it's now declining?)

And let's not ignore the fact that Americans' misery index in reality is far worse than the above official numbers indicate due to fraudulent US economic statistical methodology. US solons have relentlessly altered CPI, jobs and GDP statistical methodology to obfuscate declining US living standards.

John Williams notes, "On the inflation front, the CPI-U annual inflation rate jumped to 2.7% (3.4% for the CPI-W). Adjusted to pre-Clinton (1990) methodology, annual CPI growth rose to 6.1% in December, versus 5.1% in November, while the SGS-Alternate Consumer Inflation Measure, which reverses gimmicked changes to official CPI reporting methodologies back to 1980, rose to about 9.7% (9.68% for those using the extra digit) in December, versus 8.8% in November.

We would like all the stakeholders of Illinois to recognize how close the state is to

bankruptcy or insolvency,” says Laurence Msall, president of the Civic Federation, a fiscal watchdog in Chicago.

Legal experts say the protections of the federal bankruptcy code are available to cities and counties but not states.

While Illinois doesn't have the option of shutting its doors or shedding debts in a bankruptcy reorganization, it seems powerless to avert the practical equivalent. Despite a budget shortfall estimated to be as high as \$5.7 billion, state officials haven't shown the political will to either raise taxes or cut spending sufficiently to close the gap.

In addition to its day-to-day budget, Illinois faces rising pension expenses in coming years. Lawmakers have skimmed on required contributions to employee pension funds and even borrowed to make those smaller payments. Unfunded liabilities and pension debt are projected to reach \$95 billion by June 30.

The sharp rise in pension payments is the biggest factor pushing Illinois toward what a legislative task force last November called “a ‘tipping point’ beyond which it will be impossible to reverse the fiscal slide into bankruptcy.

While the Illinois Constitution protects vested pension benefits, that promise, like all the state's obligations, is only as good as its ability to pay...If the state is found to be insolvent under the classical cash-flow definition of insolvency, which is ‘the inability to pay debts as they come due,’ it is not only the pension rights of non-vested employees that will be in jeopardy. All the obligations of the state, whether vested or not, will be competing for funding with the other essential responsibilities of state government. Even vested pension rights are jeopardized when a government is insolvent.

The Obama administration will allow 100,000 to 200,000 Haitians living in the United States illegally to stay for 18 months because of Tuesday's earthquake but warned that Haitians who are newly caught trying to enter the country will be deported.

In granting eligible Haitian nationals temporary immigration status Friday, Homeland Security Secretary Janet Napolitano called the move a gesture of compassion and an attempt to ensure that the flow of remittances to their devastated homeland continues.

“Providing a temporary refuge for Haitian nationals who are currently in the United States and whose personal safety would be endangered by returning to Haiti is part of this administration's continuing effort to support Haiti's recovery,” Napolitano said.

J.P. Morgan Chase announced Friday an \$11.7 billion profit for 2009, along with paydays for its investment-banking employees that exceeded those of the flush times before the financial crisis, drawing a sharp response from lawmakers in Washington.

Kicking off earnings season for the nation's biggest banks, J.P. Morgan said it had earmarked \$9.3 billion in compensation expenses for the 24,700 employees in its investment bank. Although some traders and dealmakers will each earn millions of dollars, the compensation figure translates to an average payout per employee of \$379,000 — up 37 percent from 2008 and 21 percent from pre-crisis levels in 2007.

For the bank as a whole, J.P. Morgan set aside \$26.9 billion for compensation. That translates to \$121,000 per employee, up 20 percent from 2008 but just shy of the \$125,000

earned on average by bank employees in 2007.

Criticism from Washington was swift. “The taxpayers are the people fueling their profits,” said Rep. Peter Welch (D-Vt.), who introduced a bill this week to impose a 50 percent tax on large bonuses. “The bank had three choices. One, to add to their balance sheets. Two, to lend. And three, to put it in their pockets — and that’s what they chose to do.”

J.P. Morgan’s announcement highlighted the chasm between the broader economy, where Americans continue to grapple with double-digit unemployment rates, and Wall Street, which for the most part has regained its footing from the worst financial crisis in decades. This gap has raised the ire of the Obama administration and lawmakers, who contend that big banks have done little to help homeowners even as they were saved with taxpayer money and boosted by profits made in markets thawed by emergency federal lending programs.

Societe Generale SA’s Indian unit was ordered to stop selling or trading offshore derivatives by the nation’s capital markets regulator, which said the bank failed to provide fair and complete information about its trades.

The Securities & Exchange Board of India gave Societe Generale, France’s second-largest bank, 30 days to reply or file an objection to the order, according to a statement posted on its Web site yesterday.

The Paris-based company is the second overseas bank to be suspended from trading derivatives by the regulator in just over a month. Barclays Plc suspended sales of its exchange-traded notes linked to Indian stocks following a Dec. 9 order. Both banks gave incorrect details on the sale of so-called participatory notes, the regulator said.

“Societe Generale completely failed in obtaining correct and complete information from the counterparties it deals with,” the regulator’s statement said. “Societe Generale is required to show cause as to why appropriate proceedings including cancellation of its certificate of registration as a foreign institutional investor should not be initiated.”

The French bank said in a statement that it’s “cooperating fully” with the investigation and aims to provide all the information required within the 30-day period demanded by the regulator. Melody Jeannin, a spokeswoman in Paris, declined to comment beyond the statement.

Snyders Drug Stores, a fixture in Minnesota’s retail landscape since the 1940s, announced it will cease operations Jan. 21, closing eight stores in the East Metro area and leaving 150 workers without jobs.

The FBI illegally collected more than 2,000 U.S. telephone call records between 2002 and 2006 by invoking terrorism emergencies that did not exist or simply persuading phone companies to provide records, according to internal bureau memos and interviews. FBI officials issued approvals after the fact to justify their actions.

E-mails obtained by The Washington Post detail how counterterrorism officials inside FBI headquarters did not follow their own procedures that were put in place to protect civil liberties. The stream of urgent requests for phone records also overwhelmed the FBI communications analysis unit with work that ultimately was not connected to imminent threats.

A Justice Department inspector general's report due out this month is expected to conclude that the FBI frequently violated the law with its emergency requests, bureau officials confirmed.

The records seen by The Post do not reveal the identities of the people whose phone call records were gathered, but FBI officials said they thought that nearly all of the requests involved terrorism investigations.

Some fear the state is a hair's breath from (gasp!) bankruptcy.

We stated the TIC figures earlier on, an inflow of \$26.6 billion in November from a revised outflow of \$25.4 billion in October. The big difference supposedly big difference was purchases were households - some \$87.1 billion, which is ludicrous, impossible. We are sure the Fed was the real buyer.

China, the largest Treasury holder decreased holdings by \$789.6 billion in November, a reduction of \$9.3 billion. Japan increased its holdings to \$7.57.3, up \$11.4 billion. On a net basis foreign central banks sold \$0.3 billion, versus an inflow of \$18.2 billion. Foreign purchases of US equities also fell from \$10.3 billion to \$9.7 billion.

The NAHB/Wells Fargo housing market index for January fell to 15 from 16.

In a move that could accelerate foreclosures and a move that will backfire, HUD has suspended its "Anti-Flapping" rules for foreclosed housing.

"We would like all the stakeholders of Illinois to recognize how close the state is to bankruptcy or insolvency," Laurence Msall, president of the Civic Federation, a fiscal watchdog in Chicago told Crain's Chicago Business.

Bankruptcy is defined as an inability to pay debts out of current assets, and it's no secret that Illinois can't pay its bills. The latest count puts Illinois' unpaid bills at around \$5 billion - a contentious fact among the state's gubernatorial hopefuls.

The Top 10 Illinois Stories of 2009

The question is: what can Illinois do about its near-bankrupt status?

Answer: not much.

Federal bankruptcy protection doesn't apply to states, so there's no way for Illinois to hide from its creditors. And none of Illinois politicians are willing to make the tough choices needed to close the budget gap, like raising taxes or cutting spending, Crain's notes.

Many foresee a governmental collapse in which vendors will stop bidding on contracts, investors will stop buying bonds and employees will be paid with IOUs, similar to what California has done.

"I don't see any light at the end of the tunnel," Dan Strick, CEO of SouthStar Services, a Chicago Heights non-profit that helps people with developmental disabilities told Crain's. "It seems to be getting worse and worse, and the delays longer and longer."

Indeed, Illinois is not taking in cash, its liquid assets have dipped below \$1 million at times,

Comptroller Dan Hynes said, and the state is supposed to pay \$5.4 billion into its pension fund next year and \$10 billion the year after that. And that's just the beginning.

"The crisis will come when you see state institutions shutting down because they can't pay their employees," David Merriman, head of the economics department at the University of Illinois at Chicago told the publication.

No-one wants to see a budget crisis.

International demand for long-term U.S. stocks, bonds and financial assets rose in November as private investors purchased a record amount of government securities, a Treasury Department report showed.

Net buying of long-term equities, notes and bonds totaled \$126.8 billion for the month, compared with net buying of \$19.3 billion in October, the Treasury said in Washington. Including short-term securities such as stock swaps, foreigners purchased a net \$26.6 billion in November, compared with net selling of \$25.4 billion the previous month.

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