

Market Review: Weakening Dollar, Rising Urban Unemployment

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On Wednesday the Treasury's five-year auction yield was 2.69% with 21.15% allotted at the high and bid to cover was 1.92 to 1. The average of the past ten auctions has been 2.20%. Indirect, central bank participation was 35.7% versus an average of 36.8%. Overall that was weak demand. Do not forget the Treasury has to raise \$2 trillion by 9/30/09.

The result of these mediocre to poor auctions has to be more pressure on the dollar, as budget deficits continue to widen.

Mortgage applications fell for the first time in four weeks, driven by a drop in demand for refinancing loans. Both purchase and refi loans fell 6.3%.

This is an early appraisal of the Chinese visit to Washington. There is no question the Chinese have the Illuminists stymied. The big question is has China demanded the rest of our high technology expertise that Bill Clinton was unable to deliver to them? Or have they pledged government properties to the Chinese?

Unadjusted yoy labor Department jobless claims are up 35%.

Commercial paper outstanding fell by \$27.6 billion to \$1.066 trillion outstanding from \$1.093 trillion the prior week. In August it was \$2.2 trillion. Asset backed CP outstanding rose \$900 million to \$437.8 billion, after falling \$4.6 billion the prior week.

The Treasury's borrowing need have been exploding and the auctions are getting progressively weaker. This presents a serious problem for the dollar. Once 78 on the USDX is broken the index should freefall. We expect the government will staunchly defend 78, but will lose the battle probably in October or at least by the end of the year. As a result you will see more bonds being issued in foreign currencies such as the yen, yuan and euro bonds. Wal-Mart just issued \$1 billion in Samarai bonds in yen. Issuance of foreign currency denominated bonds by corporations and eventually by the US Treasury will signal that the day of the dollar as the world's reserve currency will be coming to an end. Lenders will want to get repaid in a currency they know will have future value. This kind of issuance puts more and more pressure on the dollar. Issuance of bonds in a foreign currency will be a clarion call that dollar hegemony is ending. The result will be other currencies will gain in strength versus the dollar, but the flip side is that they are all fiat currencies and all will fall versus gold.

As we view the sham hearings of the CFTC and position limits on oil in particular, we are reminded that the hearings are a political cover for higher prices. Constituents are complaining of higher gasoline prices and government is more than willing to respond. What

the insiders behind the scenes want to do is suppress oil prices not only to assuage the citizens, but also to keep gold from rising as oil rises. Today suppressing oil prices is truly an awesome task given the composition of sources of supply and demand. Exploration is at a low and that can only eventually bring higher prices.

The unemployment rate climbed in all of the U.S.'s biggest urban areas during June, and 18 places had joblessness of at least 15%.

"For the sixth consecutive month, all 372 metropolitan areas had over-the-year unemployment rate increases," the Labor Department said in its report Wednesday.

The numbers in the department's Metropolitan Area Employment and Unemployment report are not seasonally adjusted.

The report said 144 metro areas reported jobless rates of at least 10%, up from six areas a year prior.

El Centro, Calif., had the largest jobless rate from June 2008, at 27.5%. Yuma, Ariz., was second with 23.1%. The lowest rate was in Bismarck, N.D., at 3.8%.

So much for the ongoing secrecy of the nation's independent central banking system. A new Rasmussen Reports national telephone survey finds that 75% of Americans favor auditing the [Federal Reserve](#) and making the results available to the public.

Just nine percent (9%) of adults think that's a bad idea and oppose it. Fifteen percent (15%) aren't sure. Over half the members of the House now support a bill giving the Government Accounting Office, Congress' investigative agency, the authorization to audit the books of the Federal Reserve Board.

Support for the bill has grown now that the [Obama](#) administration is proposing to give the Fed greater economic regulatory powers. The Fed, which sets U.S. monetary policy, was created as an independent agency to keep it free of politically-motivated interference.

The United States has signed an agreement to forgive nearly \$30 million in Indonesian debt in return for the large Southeast Asian country agreeing to protect forests on Sumatra Island. The deal is the largest debt-for-nature swap the U.S. government has organized so far under the U.S. Tropical Forest Conservation Act and its first such deal with Indonesia - one of the fastest deforestation rates in the world. VOA reports:

A tree is felled in the forests of Indonesia. A country which loses an area the size of Switzerland each year to logging. Indonesia's massive deforestation rate makes it the world's third-largest emitter of carbon dioxide behind the United States and China. Deforestation also affects the country's wildlife. These forests are home to some of the world's most endangered species including endangered tigers, elephants, rhinos and orangutan. In a new deal, the U.S. has agreed to trade \$30 million in debt repayments for increased conservation of their habitat.

Coda Automotive said former US Treasury Secretary Henry Paulson will serve as an adviser to the start-up electric-car maker on partnerships in China.

Paulson has "deep, personal relationships in China and unique insights into the country and its people," the Santa Monica, Calif.-based company said in a statement.

Coda also said Paulson invested in the company earlier this year, without giving details.

Coda plans to deliver its first model, a sedan, next year. The company, which began operating in June, intends to make and distribute electric vehicles and battery systems for transportation use.

Paulson, 63, was Treasury secretary under President George W. Bush, and his department in December allowed GM Corp. and Chrysler LLC to receive an initial \$13.4 billion in funding from the Troubled Asset Relief Program.

General Electric Co., Harley-Davidson Inc. and manufacturers with finance businesses should be allowed to keep them under a revision of rules to govern banking, US Rep. Barney Frank (D-Mass.) said in an interview.

Companies that already have finance arms or industrial loan businesses known as ILCs can keep them without having to be subject to Federal Reserve oversight of their manufacturing operations, Frank said.

GE said it has been “very active” in opposing any rules that might force it to split off its GE Capital finance unit, which has \$557 billion in assets.

Economic crisis, and a crisis for economics – Following its failure to fix the current mess, economics has tumbled into a full-blown existential crisis. The fall has been something to behold. Not so long ago, the discipline seemed omnipotent: if you wanted to fix anything from environmental ruin to welfare policy, there was only one solution: call in an economist.

But late last year, Alan Greenspan, the former Federal Reserve chief and high priest of capitalism, was forced to admit in a Congressional hearing that he had “found a flaw” in the foundations of his economic understanding. Nice euphemism. And at the weekend, a panel of leading economists wrote to the Queen trying to explain why they got it wrong. If there were such a thing as a car-crash letter, this was surely it.

The world’s financial system lies in ruins, as do the fiscal balances of almost every major Western nation, after having to bail out their banks and splash billions of dollars of rescue money into the broader economy. Everyone is suffering, as unemployment climbs, house prices fall, and companies rack up losses or even face collapse. Yet the economists have still failed to find their form again.

At a time when the financial industry’s credibility is at an all-time low, you would think Wall Street’s finest would break their necks providing transparency.

Not so. Stock analysts continue to promote corporate earnings lies, insisting that net income isn’t really what investors need to know.

Instead, their earnings estimates ignore often huge expenditures that can’t help but affect a company’s health.

In mid-June, respondents were evenly divided when asked whether they thought Mr. Obama’s health plan was a good or bad idea. In the new poll, conducted July 24-27, 42% called it a bad idea while 36% said it was a good idea. Among those with private insurance,

the proportion calling the plan a bad idea rose to 47% from 37%.

Thomas V. Cash, a well-known fraud expert based in Miami, has stepped down from his job with consulting company Kroll Inc. amid the hubbub over his connection to accused Ponzi schemer R. Allen Stanford, sources told The Post.

A company spokesman confirmed that Cash left the company late last week, but declined to elaborate. Messages left at Cash's Fort Lauderdale, Fla., home weren't immediately returned.

A former high-ranking official with the Drug Enforcement Agency, Cash has been at the center of allegations that Kroll lost investors millions of dollars by serving conflicting masters.

Cash, based in Miami, gave investor clients the green light to invest with Stanford. However, he failed to disclose that the company, through Cash, had once been "hired and paid" to consult for Stanford, according to a lawsuit filed by Electri International, a foundation for electrical workers that lost \$6.3 million with Stanford.

"Defendant Kroll never disclosed Mr. Cash's connection with Mr. Stanford and the obvious conflict that his relationship presented," according to the suit, which was filed in Florida state court.

Electri said it paid \$15,000 to Kroll, which prides itself on being a private eye for businesses and investors, to conduct due diligence on Stanford and issue a report.

But among the red flags that Electri claims Kroll failed to mention was a \$20,000 penalty levied against Stanford by the Financial Industry Regulatory Authority, the brokerage industry's self-policing group.

Electri also claims that Kroll's report also failed to mention a 2006 lawsuit filed by a former Stanford employee "alleging that Stanford ran a Ponzi scheme." Several arbitration claims against Stanford and one of his companies were also missing from the report, according to the complaint.

A recent profile of Cash on Kroll's Web site, which has since been removed, refers to the 68-year-old as "an expert in a variety of investigative and intelligence services." It also lists among his credentials that he's chairman of the Fraud Prevention Committee for the Florida International Bankers Association.

Indeed, Cash is so well connected in Florida crime-fighting circles that a judge assigned to the Electri case had to recuse himself because he "has been a personal friend" of Cash's "for many years."

Stanford, who was knighted in Antigua and is referred to as Sir Allen, is awaiting trial behind bars in Texas.

Manufacturing activity in the Federal Reserve Bank of Kansas City's district was largely flat in July, according to data released by the bank on Thursday.

The bank's production index moved to 2 in July from 9 in June and from -3 in May, in

a month-over-month comparison. From a year ago, the July production index deteriorated to -50 from -44 in June.

The index covering production expectations six months from now fell to 10 in July after jumping to 13 in June from 1 in May.

Index readings below zero denote contraction and describe the breadth of the retreat.

The July employment index dropped, to -13 from -10 in June. In March, the employment index hit a historic low of -41. From a year ago, the index dropped to -57 from -54.

The prices paid index ticked up to -6 from -8, while the prices received index decreased to -17 in July from -14 in June. On a year-ago comparison, the prices paid index fell to -27 in July from -20 in June, and the prices received index worsened to -24 from -11.

The number of U.S. workers filing new claims for state jobless benefits rose last week, but they remain below peak levels reached in the spring.

Initial claims for jobless benefits rose by 25,000 to 584,000 on a seasonally adjusted basis in the week ended July 25, the Labor Department said in its weekly report Thursday. The four-week average of new claims, which aims to smooth volatility in the data, fell by 8,250 to 559,000, the lowest level since January 24.

The tally of continuing claims — those drawn by workers for more than one week — fell by 54,000 during the week ended July 18 to 6,197,000 the lowest level since April 11.

Desperate for cash, Arizona state lawmakers are considering selling the House and Senate buildings, then leasing them back over several years before assuming ownership again.

Dozens of other state buildings may also be sold off and leased back as the state grapples with a huge budget deficit.

The Federal Deposit Insurance Corp. plans to sell assets of failed banks in pieces, separating bad loans from performing assets to lure potential buyers seeking to take on risk and gain government help with losses.

“FDIC staff has referred to a good bank/bad bank model, described as the sale of the failing bank’s better assets wrapped with loss-share coverage to another bank and the sale of the bad assets” into a limited liability company, spokesman Andrew Gray said yesterday in an e-mail, adding the agency now plans to proceed with such sales.

Potential bidders may be interested in higher risks in the failed lender’s bad loans, while the agency auctions the remaining assets in combination with an agreement to share any losses with the buyer, he said.

The FDIC, which has shared losses since savings-and-loans collapsed in the 1990s, offered an agreement July 25 to State Bank and Trust Co. of Pinehurst, Ga., to take on the deposits of six units of Security Bank Corp., which failed. The FDIC also is sharing in any losses with the buyers of [BankUnited Financial Corp.](#) and [IndyMac Bancorp Inc.](#)

Gray said loss-sharing arrangements and structured transactions “are proven ways to maximize bidder interest and value.”

The FDIC postponed the loan-buying portion of the Public-Private Investment Program on June 3, as banks raised capital without having to sell bad assets. The FDIC instead said it would use a similar approach to auction loans from failed banks. [Another sweetheart deal for the banks]

Fenway Park food service workers who filed a class-action lawsuit against Aramark Sports have reached a settlement with the ballpark’s concessionaire, which they accused of pocketing their tips and service charges.

The \$1.5 million settlement, if approved by a federal judge, would provide a minimum of \$100 to short-term employees and tens of thousands of dollars to those who have worked for the company the longest.

“The case has been amicably resolved,” said Shannon Liss-Riordan, the plaintiffs’ lawyer, who will get a third but declined to comment further, citing an agreement with Aramark not to discuss the settlement.

Lawyers representing Aramark did not return calls.

The settlement, which received preliminary approval last month from the federal district court in Massachusetts, is part of a larger legal battle between food workers and their employers. Last month, food service workers at Boston’s two public convention centers agreed to settle a similar suit against Aramark for \$1.75 million.

In both cases, the workers claimed that Aramark charged customers an “administrative fee,” which they said amounted to tips that employees never received. Aramark has denied the charges.

Liss-Riordan has filed similar lawsuits against the Ritz Carlton and Four Seasons hotels, Top of the Hub, and local golf clubs, among other establishments she contends have violated the state’s tips law.

The Fenway lawsuit was brought in February 2008 by Michael Hayes, a bartender at the ballpark. Hayes and Brian Hickey, the other named plaintiff, will receive at least \$25,000 each. Neither of them could be reached.

The rest of the money will be divided among hundreds of employees who provided catering services at events at Fenway and thousands of employees who worked in concessions between Feb. 14, 2002, and June 25, 2009. The settlement sets aside a disproportionate share of the money for employees who worked at catering events since 2005.

The plaintiffs asserted that Aramark violated other laws, including failing to pay wages and overtime. But the court dismissed those claims.

The employees have until Sept. 8 to file a claim for compensation. [This represents corporate America today, stealing the tips of their employees. Does it get any worse?]

The U.S. economy shrank at a slower pace in the second quarter, a sign the worst

recession since the Great Depression is winding down.

Gross domestic product contracted at a less-than-projected 1 percent annual rate after shrinking 6.4 percent in the prior three months, the most in 27 years, Commerce Department figures showed today in Washington. Revisions showed the economic downturn last year was even deeper than previously estimated.

Profits at companies from Caterpillar Inc. to Dow Chemical Co. signal the slump is easing as government efforts to revive lending and President Barack Obama's stimulus gain traction. Consumer spending, which accounts for 70 percent of the economy, may take time to recover as job losses mount, eroding the growth analysts anticipate will start this quarter. [We don't for one second believe these figures.]

Rising delinquencies among consumer and corporate borrowers are the "next wave" of the financial crisis and may affect banks that have avoided losses so far, said [Deutsche Bank AG](#) Chief Executive Officer [Josef Ackermann](#).

"This crisis has consisted of a series of earthquakes, with changing epicenters," Ackermann said late yesterday at an event in Zurich. "Bad loans are the next wave. Banks that have fared relatively well so far will also be affected by this."

[Deutsche Bank](#), Germany's biggest lender, said this week it set aside 1 billion euros (\$1.4 billion) for risky loans in the second quarter. The seven-fold increase in provisions and below-forecast revenue from trading sent the Frankfurt-based bank's shares to the biggest decline in four months on July 28.

"We were struck by the 44 percent increase in problem loans in the quarter," Morgan Stanley analysts [Huw van Steenis](#) and [Hubert Lam](#) said in a note today, cutting their rating on Deutsche Bank shares to "equal-weight" from "overweight."

Chicago Purchasing Managers' Index increases to 43.4 in Jul vs. 39.9 in June.

New York City business activity contracted for the second straight month in July, a report released Friday said.

The National Association of Purchasing Management-New York's Current Business Conditions index moved to 48.3 in July from 44.8 in June and after 61.3 in May. An index reading above 50 indicates a faster pace of activity and less than 50 indicates a slower or contracting rate.

However, the Six-Month Outlook index remained above 50 for the fifth straight month, rising to 59.3 in July from 58.3 in June, a sign that supply executives are increasingly confident the economic recovery could begin this year, the report said.

The NAPM-NY reported that its purchasing volume index contracted for the nineteenth consecutive month, but stayed off the lows. It came in at 31.8 in July compared to 34.6 in June. The employment index though rose to a 13-month high of 37.5 in July from 28.2 in June.

The Prices Paid index fell to 25.0 in July from 30.8 in June.

As has been the case in recent months, the report noted that a shortage of working

capital remained the biggest concern among its members. Working capital shortages matched the highest level since the question was first asked in the November 2007 Report on Business.

For its special monthly question, the NAPM-NY asked about plans for worker compensation during the next six months. A huge 88% of respondents expect to hold compensation plans steady; 13% plan on lowering worked compensation and 0% expect to raise them.

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Just nine percent (9%) of adults think that's a bad idea and oppose it. Fifteen percent (15%) aren't sure. Over half the members of the House now support a bill giving the Government Accounting Office, Congress' investigative agency, the authorization to audit the books of the Federal Reserve Board.

Consumer spending in the second quarter fell 1.2% vs. an increase of 0.6% in the 1st quarter.

Second quarter employment cost index rose 0.4% and was 0.3% quarter-on-quarter.

The July Milwaukee Purchasing Manager's Index was 45, down from 50.

The committee representing [General Motors Corp.](#)'s unsecured creditors sued [JPMorgan Chase & Co.](#) and dozens of other lenders, claiming a \$1.4 billion loan they made to the automaker before it filed for bankruptcy was unsecured.

Lenders on the syndicated loan, which predated GM's Chapter 11 filing on June 1, didn't have a perfected lien on GM's assets and so shouldn't have had their claims paid ahead of other creditors, according to the complaint filed yesterday in U.S. Bankruptcy Court in New York.

The loan was paid off with funds from \$33 billion in financing that GM received from the U.S. and Canadian governments during its [reorganization](#). The creditors claim the security interest agreement on the loan was terminated in October 2008. JPMorgan said the suit seeks to take advantage of an action taken in error by one of GM's law firms.

"The collateral for the loan was in place when GM filed" for bankruptcy, JPMorgan spokeswoman [Kristin Lemkau](#) said. "The lawsuit is without merit and we are confident that it will be dismissed."

Standard & Poor's, [Moody's Investors Service](#) and Fitch Ratings sought dismissal of a lawsuit by two California investors, claiming they weren't responsible for the plaintiffs' investment decisions.

The investors spent \$40,000 on highly rated [Lehman Brothers Holdings Inc.](#) bonds that turned out to be worthless. The ratings services issue their opinions at the request of bond issuers and to provide information to the public, said [Floyd Abrams](#), an attorney speaking for the ratings services, at a hearing yesterday in federal court in Sacramento, California.

"Ratings go out to the world," Abrams told U.S. Magistrate Judge [Dale A. Drozd](#). "A rating is issued, and investors take what they need."

S&P, Fitch and Moody's face investor lawsuits and criticism by lawmakers for grading mortgage bonds too high and maintaining the ratings months after home-loan defaults surged in 2007. The California Public Employees' Retirement System, or Calpers, the largest U.S. public pension fund, sued July 9 in a case in state court in San Francisco over \$1 billion in losses it blamed on "wildly inaccurate" risk assessments.

Ronald Grassi, a retired California attorney, and Sally Grassi, a retired teacher, sued the New York-based companies in federal court in January for negligence, claiming they gave high ratings to the [Lehman](#) bonds to curry favor with the investment bank, which filed the biggest bankruptcy in U.S. history in September.

The Grassis said in court filings that they had sought safe investments and bought the bonds because they held A ratings from the companies.

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