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The Fed’s Policy of Near Zero Interest Rates

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One of the outcomes of Fed policy of near zero interest rates is that seniors cannot live on an income of 1-1/% and that pension funds, insurance companies and endowments cannot fulfill their commitments. As yields eventually rise, although the Fed has signaled that is at least a year away, and if Japan is any guideline, we could be 19 years away from solving the problem of fiduciaries. This is part of a so-called exit strategy, which may be far, far away. As we have cited in the past, the Fed is in a box and cannot get out. If they raise rates and curtail money and credit, deflation will take over and deflationary depression will begin. Europe hasn’t raised rates, except for big oil producer Norway, but they have cut back the issuance of money and credit over the last year from 12.8% to 5.7%. In this environment Europe is tempting fate.

If and or when interest rates rise the riskier assets will be under severe pressure as will borrowers such as hedge funds and brokerage firms and banks, which still average lending of 40 times assets and whose balance sheets look like a tornado hit them.

Instead of upsetting the economy it has been suggested that excess reserves be drained form the banking system so that business and the investors do not understand what is going on. A bit of slight of hand. Then perhaps the program of the Fed monetizing CDOs, Agencies and Treasuries be ended. Such a move would send the economy plummeting into oblivion. Borrowing by government would screech to a halt and again deflation would reign.

These programs are supposed to be over, or in the case of CDOs and MBS, they are supposed to end next March. This is why the Fed cannot face an audit. They have for some time been secretly buying or arranging to have been bought all of these debt obligations illegally. The CDO, MBS program cannot be stopped. Otherwise the big banks could never clear their balance sheets and the result would be bankruptcy. Thus, until those banks, brokerage houses and insurance companies are rid of their problem assets the program cannot end. If the program ends they all go under. The toxic assets being bought by the taxpayer via the Fed will have to be worked off over the next 30 years with grievous losses. The high sounding Supplementary Financing Program is a transference of debt from banks, Wall Street and insurance to the taxpayer. Even worse is the Fed’s ability to pay interest on the money banks have borrowed from them at a higher rate of course, allowing the taxpayer to give free money to the banks, which, of course, is insane.

Even if reserves were drained it would have to encompass at least a two-year period. They propose to remove trillions of dollars from the economy and even being left with trillions in the economy after the general withdrawal of funds. Unfortunately as this occurs more than 2,000 banks will have gone out of business. These are the small and medium-sized banks that are not too big to fail. This, of course, is part of a nationalization process to consolidate banking in order to bring about world banking under the IMF. The Fed may have taken an enormous amount of debt supply out of the market, but as that has occurred a new massive amount of debt has hit the market. These capital demands are going to put big upward pressure on real interest rates over the next two years. As you can see the Fed, the elitists have no way out.

In the midst of all this professionals worldwide are losing confidence concerning the strength of our so-called recovery. That is because these professionals believe an unwinding of stimulus, less money and credit and monetization will lead to less economic activity, that would lead to depression. They are correct. Making matters worse unemployment continues to deteriorate. It is our opinion quantitative easing will be with us for at least another two years.

The commercial mortgage crisis will demolish any illusion of recovery. The paid shills and liars will again be exposed for what they are.

The U.S. ambassador in Kabul sent two classified cables to Washington in the past week expressing deep concerns about sending more U.S. troops to Afghanistan until President Hamid Karzai's government demonstrates that it is willing to tackle the corruption and mismanagement that has fueled the Taliban's rise, senior U.S. officials said.

Karl W. Eikenberry's memos, sent as President Obama enters the final stages of his deliberations over a new Afghanistan strategy, illustrated both the difficulty of the decision and the deepening divisions within the administration's national security team. After a top-level meeting on the issue Wednesday afternoon — Obama's eighth since early last month — the White House issued a statement that appeared to reflect Eikenberry's concerns.

Manhattan apartment rents fell as much as 9 percent in October from a year earlier as unemployment cut demand and landlords lowered rates, according to Citi- Habitats Inc.

Average rents dropped for all apartment sizes and the vacancy rate rose 0.15 percentage point to 1.86 percent, the highest since November 2008, the New York-based property broker said today in a report.

"As soon as the economy shifted and people got laid off and got no bonuses, landlords had no choice but to reduce asking prices," Gary Malin, president of Citi-Habitats, said in an interview. "We expect rents to decrease in the next few months and vacancy rates to creep upward."

New York City's jobless rate reached 10.3 percent in September and the number of private-sector jobs lost in the previous year totaled 111,700, according to data on the New York State Department of Labor's Web site. Wall Street companies lost $42.6 billion last year and income tax receipts were down 24 percent through August, according to the state comptroller's office.

Concessions such as a month's free rent or landlords paying real estate brokers to find tenants have helped lure renters, Malin said. Citi-Habitats in on pace to break last year's record of brokering more than 10,500 apartment leases, he said.

Manhattan studio rents declined 9 percent from October 2008 to an average monthly rate of $1,901, Citi-Habitats said. One- bedroom apartments fell 7 percent to $2,563. The cost of renting a two-bedroom decreased 8 percent to $3,605 and rents fell 6 percent to $4,774 for three-bedrooms.

On the Upper West Side, the average rent for studios fell 13 percent to $1,786 while one-bedrooms dropped 10 percent to $2,398. The cost of a two-bedroom fell 4 percent to $3,485, according to Citi-Habitats.

Downtown rents in the SoHo and TriBeCa neighborhoods declined 14 percent to $2,067 for studios; 13 percent to $3,187 for one-bedrooms and 4.5 percent to $4,998 for two-bedrooms.

SoHo/TriBeCa had the lowest vacancy among Manhattan neighborhoods at 0.95 percent while the Upper East Side was highest at 2.41 percent, Citi-Habitats said. The rate was 2.06 percent in the Battery Park City/Financial District, 1.93 percent on the Upper West Side and 1.3 percent in Chelsea.

Lou Dobbs, the longtime CNN anchor whose anti-immigration views have made him a TV lightning rod, said yesterday that he is leaving the cable news channel effective immediately.

“Some leaders in the media, politics, and business have been urging me to go beyond my role here at CNN and engage in constructive problem-solving,’’ Dobbs said just after 7 p.m., suggesting that he would remain involved in the civic discourse, but perhaps not on television.

Last night’s program was to be his last on CNN, one of his employees said earlier in the evening. Dobbs’s contract was not set to expire until the 2011. He told viewers CNN had agreed to release him from his contract early.

Well known for his political positions, Dobbs is an outlier at CNN, which has sought to position itself as a middle ground in the fractious cable news arena. The CNN employees said they did not know whether he was moving to another network.

Dobbs’s views on immigration provoked a protest by Hispanic groups. Members of the groups complained that CNN was allowing him “to spread lies and misinformation about us.’’

Last month, the New Jersey State Police were called to Dobbs’s home to investigate a report of gunfire. He suggested that his family had been singled out because of his views on illegal immigration and border security.

The Fed balance sheet contracted $30.037B for the week ended Wednesday, on a $$29.789B decline in TAF…Isn’t it strange how the stock market and commodities have pronounced movement on a Thursday that is usually in concert with the Fed’s H.4.1 that is released thirty minutes after the NYSE close?

Seven Wall Street lobbyists trooped to Capitol Hill on Nov. 9, hoping to convince Representative Paul Kanjorski’s staff that his plan to dismantle large financial firms was a bad idea.

They walked out with a sobering conclusion, according to the accounts of two attendees who requested anonymity because the meeting was private. Not only was Kanjorski serious, he planned to offer the legislation as early as next week — and it just might pass. [No wonder JPM, C and banks have been under-performing the S&P since Oct. 14.]

The Federal Reserve will prohibit banks from charging overdraft fees on automated teller machines or debit cards, unless a customer has agreed to pay extra charges for exceeding account balances. [No wonder banks are now under-performing.]

Senate Majority Leader Harry Reid may seek to apply Medicare taxes to capital gains earned by wealthy Americans as part of health- overhaul legislation in order to scale back a proposed levy on high-end insurance plans, two congressional aides said.

Reid's proposal, being advanced by Massachusetts Senator John Kerry, would apply Medicare taxes to non-wage income earned from capital gains, dividends, interest, royalties, and partnerships for American couples earning more than $250,000, the aides said. He's also considering an alternative that would simply increase the 1.45 percent Medicare tax on salaries of couples who earn more than $250,000, one of the aides said.

Pelosi's 5.4% income surtax would hit capital gains and dividends**.** That surtax takes effect on January 1, 2011, or the day the Bush tax rates of 2001 and 2003 expire. Today's capital gains tax rate of 15% would bounce back to 20% because of the Bush repeal and then to 25.4% with the surtax. That's a 69% increase, overnight.

The BIS: Regular OTC Derivatives Market Statistics

12 November 2009

Key developments:

Notional amounts of all types of OTC contracts rebounded somewhat to stand at $605 trillio n at the end of June 2009, 10% above the level six months before,

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· Gross market values decreased by 21% to $25 trillion,

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· Gross credit exposures fell by 18% from an end-2008 peak of $4.5 trillion to $3.7 trillion,

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· Notional amounts of CDS contracts continued to decline, albeit at a slower pace than in the second half of 2008 and

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· CDS gross market values shrank by 42%, following an increase of 60% during the previous six-month period.

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The volume of outstanding interest rate derivatives contracts – the largest segment of the derivatives market…rose 13 percent to $437,198bn concentrated in maturities greater than five years…

It's clear to see the trigger for the next financial crisis. If CDS took the financial system to abyss and its notional value at its peak was estimated at about $38 trillion; what will occur if interest rates unexpectedly rise on $437 trillion of derivatives?

Tens of billions of dollars are likely to be lost on the automotive bailout," Barofsky said. In addition, some banks that received TARP money are failing, so the aid they received will be wiped out.

Mortgage applications to purchase homes in the U.S. plunged last week to the lowest level in almost nine years as Americans waited for the outcome of deliberations to extend a government tax credit.

Private mortgage insurance is required for any home loan with less than a 20% down payment, and the policies typically cover 12% to 35% of losses in the event of a default, according to HSH Associates, a financial publisher. Mortgage insurers have been forced to pay up as loan defaults escalate.

As mortgage insurers scale back coverage, Fannie and Freddie have had to reduce the amount of loans they purchase or guarantee with loan-to-value ratios that exceed 80%. At Fannie, those loans accounted for 10% of loan-purchase volume for the first nine months of the year, down from 22% last year. Fannie last month announced a plan to partially self-insure high loan-to-value loans.

The reduction in private insurance coverage has contributed to the rise in the volume of loans backed by the Federal Housing Administration, a government mortgage insurer that backs loans with as little as 3.5% down payments. It could be required to ask for a federal subsidy for the first time in its 75-year history if the housing market deteriorates further.

The US Treasury reports a $176.364N deficit for October FY 2010. Tax receipts are $135.328B vs. October FY2009's $164.847B, a 17.97% decline y/y. The US is still in recession if income is down almost 18% y/y for the latest month.

The latest Rasmussen Reports national telephone survey shows that 85% of voters consider the issue of the economy as very important, topping a list of 10 key electoral issues.

On the top three issues, Republicans are now trusted more than Democrats. That's one reason they lead in the Generic Congressional Ballot. However, when it comes to government ethics and corruption, most unaffiliated voters don't trust either major party.

Sixty-five percent (65%) of voters now rate national security and the War on Terror as very important. This comes as voter confidence in America's conduct of the War on Terror has fallen to its lowest level since the first week of January in 2007. Voters are also much less optimistic about the course of the war in Iraq.

Sixty percent (60%) of voters say last week's shootings at Fort Hood should be investigated by military authorities as a terrorist act.

http://www.rasmussenreports.com/public_content/politics/mood_of_america/importance_of_issues

Banks Hasten to Adopt New Loan Rules   Banks are moving quickly to restructure commercial mortgages under new U.S. guidelines that are more forgiving of battered property values and can help banks avoid bigger losses…The moves could help the banks absorb fewer losses on troubled real-estate loans and preserve capital…

Matthew Anderson, partner at research firm Foresight Analytics, estimates that about two-thirds of the $800 billion in commercial real-estate loans held by banks that will mature between now and 2014 are underwater, meaning the loan amount exceeds the value of the property. The flexibility extended by regulators will apply to $110 billion to $130 billion of these loans, he said.

The guidelines are controversial, with critics accusing the U.S. government of prolonging the financial crisis by not forcing borrowers and lenders to confront inevitable problems….

Critics agree that regulatory flexibility might help some banks avoid failure. But the troubled loans remaining on their books will discourage them from lending, reminiscent of Japan's "lost decade" in the 1990s. A better solution, critics said, would be similar to the approach regulators took during the commercial real-estate crash of the early 1990s. "Back then, regulators moved aggressively to force banks to take write-offs and sell off their troubled loans, and the market recovered faster," said Mark Edelstein, head of the real-estate group at law firm Morrison & Foerster LLP.

http://online.wsj.com/article/SB125789937631442503.html

The US dollar continued to decline on Thursday while gold reached a new record high after China's central bank acknowledged the case for a stronger renminbi, days ahead of the arrival in Beijing of US president Barack Obama for talks expected to highlight mounting international concern over Chinese currency policy…

The People's Bank of China on Wednesday said foreign exchange policy would take into account "capital flows and major currency movements", a pointed reference to the large speculative inflows of capital that China is receiving and US dollar weakness.

Some analysts have predicted that China would allow the renminbi to appreciate because China could face economic difficulties that would harm the renminbi. In other words, China expects pressure on its currency in coming months due to economic pressure, so they can negotiate some advantage from Obama by agreeing to something – currency strengthening – that is likely to reverse soon on fundamentals.

Now Goldman's Jan Hatzius is preaching the dubious economic data gospel.

Today's comment attempts to gauge whether the recent official estimates might have overstated the economy's true growth because of an inability to capture the unusually poor performance of small firms. Our tentative conclusion is that the economy might have grown between ½ and 2 percentage points more slowly than indicated by the Q3 "advance" estimate of 3.5% (annualized). However, even if this proves correct and eventually shows up in the revised data, the revision process could take several years.

Over the years, we have addressed the problems with ISM and other PMI survey data. Mr. Hatzius: The weakness of the NFIB stands in stark contrast to other indicators such as the purchasing managers indexes published by the Institute for Supply Management, which have moved back to around their long- term averages, and real GDP, which grew an estimated 3.5% (annualized) in the third quarter. Small firms appear to be underperforming their larger peers, most likely because of differential access to credit (see "The Small Business Slump, and Why It Matter," US Daily, October 9, 2009).

To illustrate how huge the gap between the NFIB and ISM has become, we regress the ISM on the NFIB using monthly data for the 1974-2006 period. (We only use data through 2006 to avoid biasing down the coefficients via an inclusion of the recent enormous gap.) The equation shows that the current level of the NFIB would have been expected to correspond to a manufacturing ISM index of 41.1, at a time when the actual ISM stands at 55.7…

We have argued that the weakness of the small business sector may mean that real GDP in the third quarter in fact grew more slowly than the 3.5% "advance" estimate. The reason is that the GDP data may not fully capture the performance of small firms, and specifically the formation and dissolution—i.e. the "birth" and "death"—of small firms

Credit Writedowns: The coming collapse of the municipal bond market

Why aren't more municipal bonds being downgraded by the ratings agencies Fitch, Moody's and S&P? If you look at sovereign debt in revenue-constrained countries like Greece, Portugal or Ireland, the ratings agencies are issuing warnings.

But, states and municipalities are suffering from the same revenue constraints. Tax revenues have plunged. Governments have shut down services to save cash. And they have cut staff. There are dozens of articles in the national press daily detailing the difficulties municipalities, cities and states are having

[Fred Sheehan]: Municipalities dealt with the separation between taxes and expenses by borrowing. In the mid-1990s, states and cities were retiring as much debt as they were incurring. During the 2000s, though, they borrowed about $150 billion per year in aggregate, peaking at $215 billion in 2007 by which time $2.7 trillion in debt was outstanding, more than two years' worth of tax receipts.

Barring some sort of miraculous boom in the economy and pension fund investment returns, state and local governments are headed for insolvency and default.

http://www.creditwritedowns.com/2009/11/the-coming-collapse-of-the-municipal-bond-market.html

Federal prosecutors took steps Thursday to seize four U.S. mosques and a Fifth Avenue skyscraper owned by a nonprofit Muslim organization long suspected of being secretly controlled by the Iranian government.

In what could prove to be one of the biggest counterterrorism seizures in U.S. history, prosecutors filed a civil complaint in federal court against the Alavi Foundation, seeking the forfeiture of more than $500 million in assets.

The assets include bank accounts; Islamic centers consisting of schools and mosques in New York City, Maryland, California and Houston; more than 100 acres in Virginia; and a 36-story glass office tower in New York.

Confiscating the properties would be a sharp blow against Iran, which has been accused by the U.S. government of bankrolling terrorism and trying to build a nuclear bomb.

A telephone call and e-mail to Iran's U.N. Mission seeking comment were not immediately answered.

John D. Winter, the Alavi Foundation's lawyer, said it intends to litigate the case and prevail. He said the foundation has been cooperating with the government's investigation for the better part of a year.

"Obviously the foundation is disappointed that the government has decided to bring this action," Winter told The Associated Press.

It is extremely rare for U.S. law enforcement authorities to seize a house of worship, a step fraught with questions about the First Amendment right to freedom of religion.

The Federal Deposit Insurance Corp. will collect $45 billion from the banking industry to cover the rising cost of bank failures, an unprecedented assessment that reflects the agency's projections that the current round of failures will not peak until next year.

The FDIC's board voted Thursday to require banks to pay at the end of this year the amount they would owe the FDIC over the next three years. The agency collects insurance premiums from all banks, which it uses to reimburse depositors in failed banks.

In the past two years, the FDIC has seized 145 banks, compared with only three in 2007. The casualties include four of the 10 largest failed banks in U.S. history. The agency projects that the cost of all failures resulting from the current crisis will reach $100 billion.

Marsh & McLennan Cos., the second- biggest insurance broker, will pay $400 million to settle a lawsuit by investors who said they lost money because the company failed to disclose illegal practices.

Investors led by state pension funds in New Jersey and Ohio sued the company after its share price dropped by about half in October 2004 as then-New York Attorney General Eliot Spitzer probed bid rigging in the industry. About half the sum to settle the case in U.S. District Court in New York will be covered by the firm's insurance and the rest will be paid with cash on hand, the company said today in a statement.

The settlement "holds Marsh accountable for its wrongdoing and requires Marsh to compensate investors," Ohio Attorney General Richard Cordray said in a separate statement.

Chief Executive Brian Duperreault is resolving cases that predate his tenure after taking the top post last year from Michael Cherkasky, who negotiated an $850 million settlement with Spitzer to secure Marsh & McLennan's survival. The broker agreed separately to a $35 million settlement in a case filed on behalf of employees tied to declines in their holdings through their retirement plans, the New York-based company said today.

Confidence among U.S. consumers unexpectedly dropped in November as the loss of jobs threatened to undermine the biggest part of the economy.

The Reuters/University of Michigan preliminary sentiment index decreased to a three-month low of 66 from 70.6 in October. A report from the Commerce Department showed the trade deficit widened in September by the most in a decade as rising demand for imported oil and automobiles swamped a fifth consecutive gain in exports.

Rising joblessness puts the economy at risk of slipping into a vicious circle of firings and declines in consumer spending that will limit the emerging recovery. The dollar's 12 percent decline since March and growing demand from Asia and Europe will probably spur exports further, giving factories a lift and making up for some of the weakness among households.

"Consumers face a lot of headwinds, and rising unemployment is the No. 1 worry," said David Sloan, a senior economist at 4Cast Inc. in New York, whose forecast for confidence was the lowest of economists surveyed. "The recovery, in its early stages, will be led by increases in manufacturing rather than by consumers. Markets in Asia are rebounding quite nicely."

The U.S. trade gap widened 18 percent to the highest level since January, the Commerce Department said. Imports rose 5.8 percent, the most since March 1993, as the cost of a barrel of crude climbed to the highest level since October 2008 and volumes also rose. Exports increased 2.9 percent, propelled by sales of aircraft and industrial machines.

U.S. import prices posted their seventh increase over the past eight months in October, led by higher fuel prices, the U.S. Labor Department reported Friday.

Despite the latest increase, import prices remain 5.7% below their October 2008 level, and the sluggish recovery suggests there are few inflation risks in the U.S. economy for now.

Import prices rose by 0.7% in October. That follows a revised 0.2% increase in September. The September increase in import prices was originally estimated to be 0.1%.

The Federal Reserve's latest weekly money supply report Thursday shows seasonally adjusted M1 rose by $27.9 billion to $1.696 trillion, while M2 fell $6.5 billion to $8.387 trillion.

The trade deficit for September widened by 18.2%.

Banks have to pay $45 billion to the FDIC by the end of December.

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