

Unfolding Financial Meltdown: Sorry, But Just the Facts

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Theme: [Global Economy](#)

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For another week in a historic period, the Dow declined 1.7% (down 16.3% y-t-d) and the S&P500 fell 1.9% (down 15.6%). The Transports were hammered for 5.2% (down 2.9%), while the Utilities added 0.4% (down 5.2%).

The Morgan Stanley Cyclical index dipped 0.8% (down 18.9%), while the Morgan Stanley Consumer index added 0.7% (down 11.6%). The Russell 2000 rallied 1.4% (down 11.9%) and the S&P400 Mid-Caps increased 0.1% (down 8.2%).

The NASDAQ100 slipped 0.3% (down 13.1%), and the Morgan Stanley High Tech index dropped 1.5%.

The semiconductors sank 2.5% (down 15.3%), The Street.com Internet Index fell 1.6% (down 11.4%), and the NASDAQ Telecommunications index declined 1.6% (down 12.1%). The Biotechs gained 2.6%, reducing y-t-d losses to 3.0%. The Broker/Dealers sank 6.6% (down 35.1%), and the Banks lost 4.9% (down 38.5%). With Bullion gaining almost \$31, the HUI gold index jumped 4.2% (up 11.0%).

One-month Treasury bill rates sank 41 bps this week to 1.37%, and 3-month yields dropped 31 bps to 1.57%. At the same time, two-year government yields gained 6 bps to 2.60%.

Five-year T-note yields were little changed at 3.28%, while 10-year yields declined 2 bps to 3.95%. Long-bond yields were unchanged at 4.53%. The 2yr/10yr spread declined 8 to 135 bps.

The implied yield on 3-month December '09 Eurodollars fell 10.5 bps to 3.905%. Benchmark Fannie MBS yields declined 12 bps to 5.83%. The spread between benchmark MBS and 10-year Treasuries declined 9 to 189. It was a wild day in the agency debt market, with 10-year Fannie and Freddie debt spreads narrowing an extraordinary 19 bps. For the week, the spread on Fannie's 5% 2017 note narrowed 13 bps to 67 bps, and the spread on Freddie's 5% 2017 note narrowed 12 bps to 68 bps. The 10-year dollar swap spread declined 7.25 to 68.5. Corporate bond spreads were mixed to wider. An index of investment grade bond spreads narrowed 6 to 149 bps, while an index of junk bond spreads widened 5 bps to 542 bps.

July 7 - Bloomberg (Sandra Hernandez): "Treasury Inflation Protected Securities aren't living up to their name for bond investors who say they can't trust the way the U.S. government calculates the rising cost of consumer goods. Morgan Stanley... and FTN Financial... are telling clients to pare holdings of TIPS..."

Investment grade issuance this week included Alcoa \$1.5bn, TIAA Global \$500 million, Heinz \$500 million, Tyco \$300 million, Magellan Midstream \$250 million, and Northern Natural Gas \$200 million.

No junk or convert issuers this week.

International dollar bond issuance included KFW \$3.0bn, ANZ National \$2.0bn, and SABMiller \$1.25bn.

German 10-year bund yields declined 5 bps to 4.44%. The German DAX equities index fell 1.9% (down 23.7% y-t-d). Japanese 10-year "JGB" yields fell 5 bps to 1.59%. The Nikkei 225 declined 1.5% (down 14.8% y-t-d and 27.8% y-o-y). Emerging markets were mostly under pressure. Brazil's benchmark dollar bond yields rose 7 bps to 5.90%. Brazil's Bovespa equities index gained 1.5% (down 5.9% y-t-d). The Mexican Bolsa fell 2.6% (down 6.5% y-t-d). Mexico's 10-year \$ yields surged 10.5 bps to 5.63%. Russia's RTS equities index was down 0.9% (down 5.4% y-t-d). India's Sensex equities index was little changed, with y-t-d losses of 33.6%. China's Shanghai Exchange index rallied 6.9%, lowering 2008 losses to 45.7%.

Freddie Mac 30-year fixed mortgage rates added 2 bps to 6.37% (down 36bps y-o-y). Fifteen-year fixed rates dipped one basis point to 5.91% (down 48bps y-o-y). One-year adjustable rates were unchanged at 5.17% (down 54bps y-o-y).

Bank Credit jumped \$27.7bn to \$9.373 TN (week of 7/2). Bank Credit has expanded \$160bn y-t-d, or 3.3% annualized. Bank Credit posted a 52-week rise of \$753bn, or 8.7%. For the week, Securities Credit jumped \$41.1bn. Loans & Leases fell \$13.3bn to \$6.847 TN (52-wk gain of \$533bn, or 8.4%). C&I loans dropped \$9.5bn, with one-year growth slowing to 17.7%. Real Estate loans fell \$9.6bn (up 0.5% y-t-d). Consumer loans dipped \$0.6bn, while Securities loans gained \$8.2bn. Other loans declined \$1.8bn.

M2 (narrow) "money" supply dropped \$23.6bn to \$7.675 TN (week of 6/30). Narrow "money" has expanded \$212bn y-t-d, or 5.7% annualized, with a y-o-y rise of \$409bn, or 5.6%. For the week, Currency added \$1.7bn, and Demand & Checkable Deposits increased \$16.5bn. Savings Deposits sank \$34.4bn, while Small Denominated Deposits gained \$1.7bn. Retail Money Funds fell \$9.3bn.

Total Money Market Fund assets (from Invest Co Inst) surged \$49.6bn to \$3.506 TN, with a y-t-d increase of \$393bn, or 24.3% annualized. Money Fund assets have posted a one-year increase of \$926bn (35.9%).

Asset-Backed Securities (ABS) issuance this week increased to \$2.5bn. Year-to-date total US ABS issuance of \$109bn (tallied by JPMorgan's Christopher Flanagan) is running at 26% of the comparable level from 2007. Home Equity ABS issuance of \$303 million compares with 2007's \$206bn. Year-to-date CDO issuance of \$14.3bn compares to the year ago \$236bn.

Total Commercial Paper fell \$20.7bn to \$1.759 TN, with a y-t-d decline of \$26.4bn. Asset-backed CP declined \$5.7bn last week to \$751bn, increasing 2008's fall to \$22bn. Over the past year, total CP has contracted \$420bn, or 19.3%, with ABCP down \$427bn, or 36.2%.

Fed Foreign Holdings of Treasury, Agency Debt last week (ended 7/9) increased \$4.4bn to a record \$2.350 TN. "Custody holdings" were up \$294bn y-t-d, or 26.5% annualized, and \$361bn year-over-year (18.2%). Federal Reserve Credit declined \$2.2bn to \$887.9bn. Fed

Credit has increased \$14.4bn y-t-d (3.1% annualized) and \$33.6bn y-o-y (3.9%).

International reserve assets (excluding gold) – as accumulated by Bloomberg’s Alex Tanzi – were up \$1.262 TN y-o-y, or 22.6%, to \$6.849 TN.

Global Credit Market Dislocation Watch:

July 12 – Reuters (Patrick Rucker): “Federal Reserve Chairman Ben Bernanke told Freddie Mac chief Richard Syron that his company and Fannie Mae could take advantage of the emergency discount window, according to two sources familiar with the conversation... Fed spokeswoman Michelle Smith said U.S. central bank officials were following the situation with struggling Fannie Mae and Freddie Mac closely but disputed that access to the discount window had been offered... On Friday night, a Fed spokeswoman confirmed that there had been a call between Bernanke and Syron on Thursday initiated by Syron. But she said there was no discussion during that call about Freddie Mac or Fannie Mae accessing the discount window. However, two sources familiar with the conversation between Syron and Bernanke later affirmed the conversation and what was said about potential discount window action. The two sources said Bernanke and Syron spoke by phone Thursday afternoon and in that call the central bank chief said he intended the discount window to be opened if necessary to Fannie Mae and Freddie Mac.”

July 8 – Bloomberg (Rebecca Christie): “Treasury Secretary Henry Paulson said Fannie Mae and Freddie Mac’s efforts to raise capital will let them inject more funds into mortgage markets and alleviate the housing crisis. ‘I am pleased that this spring’ both firms ‘committed to raise more capital,’ Paulson said... ‘Fresh capital will strengthen their balance sheets and allow them to provide additional mortgage capital.’”

July 9 – Dow Jones: “Mortgage financiers Freddie Mac and Fannie Mae are both ‘adequately capitalized’ at current levels, the head of the Office of Federal Housing Enterprise Oversight said... Ofheo Director James Lockhart... said Fannie’s \$15 billion capitalization is enough for the company ‘to ride out the storm’ in the housing market over coming months. He also said recent pledges by Freddie to seek \$5.5 billion in fresh investment would help sustain that company as well.”

July 9 – Bloomberg (Shannon D. Harrington and Dawn Kopecki): “Fannie Mae and Freddie Mac, ranked Aaa by the world’s largest credit-rating companies, are being treated by derivatives traders as if they are rated five levels lower. Credit-default swaps tied to \$1.45 trillion of debt sold by the two biggest U.S. mortgage finance companies are trading at levels that imply the bonds should be rated A2 by Moody’s... Traders are overlooking the government’s implied guarantee of the debt as credit losses grow and concern rises that the companies don’t have enough capital to weather the biggest housing slump since the Great Depression.”

July 10 – Bloomberg (Dawn Kopecki): “Borrowing at Fannie Mae, the U.S. government-sponsored mortgage company, has never been so expensive and it may not get better any time soon. Fannie Mae paid a record yield relative to Treasuries on the sale of \$3 billion in two-year notes yesterday amid concern the biggest provider of financing for U.S. home loans won’t have enough capital to weather the worst housing slump since the Great Depression. The company’s credit-default swaps show traders are treating the AAA rated debt as if it were five steps lower... Chances are increasing that the U.S. may need to bail out Fannie Mae and the smaller Freddie Mac, former St. Louis Federal Reserve President

William Poole said... 'Congress ought to recognize that these firms are insolvent, that it is allowing these firms to continue to exist as bastions of privilege, financed by the taxpayer,' Poole, 71, who left the Fed in March, said..."

July 11 - Dow Jones (Michael R. Crittenden): "The regulator for Fannie Mae and Freddie Mac on Thursday afternoon took the dramatic step of publicly addressing the firms' capital position in an effort to calm jittery Wall Street investors. James Lockhart, director of the Office of Federal Housing Enterprise Oversight, repeated an assurance he made earlier this week that the two mortgage-finance firms are 'adequately capitalized.' 'They have large liquidity portfolios, access to the debt market and over \$1.5 trillion in unpledged assets,' Lockhart said..."

July 11 - New York Times (Stephen Labaton and Steven R. Weisman): "Alarmed by the growing financial stress at the nation's two largest mortgage finance companies, senior Bush administration officials are considering a plan to have the government take over one or both of the companies and place them in a conservatorship if their problems worsen, people briefed about the plan said on Thursday."

July 11 - Bloomberg (Shannon D. Harrington): "The U.S. government should increase its \$2.25 billion credit line to Fannie Mae and Freddie Mac to as much as \$100 billion to bolster investor confidence that it won't allow them to fail, according to Barclays Capital. The government should expand the credit line to at least \$50 billion as a 'grand gesture' to ease investor concern, Ajay Rajadhyaksha, head of U.S. fixed income strategy at Barclays Capital in New York, said..."

July 11 - Financial Times (Nicole Bullock and Paul J Davies): "Global issuance of the complex debt securities at the heart of the credit bubble has collapsed in the wake of thousands of ratings downgrades this year... The volume of collateralised debt obligations, which pool together bonds, loans and other debt, sold in the first half of this year is equivalent to just 10% of the volume in the first half of 2007, according to... Dealogic and Total Securitization."

July 11 - Bloomberg (Shelley Smith and John Glover): "Company bond sales in Europe kept near the lowest levels of 2008 this week... Sales fell to 4.3 billion euros (\$6.8bn), down 66% from the weekly average... for the past year..."

July 7 - Dow Jones (Toru Fujioka): "Standard & Poor's... said problems in U.S. credit markets may affect students' ability to repay their loans as a particularly high number of students enroll in college this fall. 'Potential problems include a higher rate of student loan defaults nationwide, students with fair or even good credit records experiencing difficulty in getting private loans and less-endowed institutions seeing their budgets squeezed,' credit analyst Bobbi Gajwani said."

Global Inflation Turmoil Watch:

July 7 - The Wall Street Journal (Roger Bate): "Amid Zimbabwe's political violence is an economic lesson for anyone who doesn't keep an eye on inflation... With food aid only trickling back into the country and hundreds of thousands without enough cash to buy food, it was clear during a trip there last month that the crisis is deepening. Consumer prices have more than doubled every month this year, in some cases doubling every week. A conservative estimate provided by Robertson Economic Information Services, a Southern

African consultancy, says that prices are now three billion fold greater than seven years ago... The exchange rate is currently an astronomical 90 billion Zimbabwe dollars to one U.S. dollar... Buying anything is a 'bizarre experience,' said Lucy Chimtengwende from Bulawayo, who spent \$12 U.S. on lunch recently, with the bill in local currency being an astonishing 1.1 trillion Zimbabwe dollars. The menu had no prices on it, she told me by phone, prices are quoted to you and are constantly changing. And if you want to pay by check, good luck. Most proprietors don't accept them, and for those that do, the price is double, given the time it takes the vendor to receive payment."

July 8 - AFP: "Soaring food and fuel prices could spark widespread political unrest, Malaysia's Prime Minister Abdullah Ahmad Badawi said... Abdullah said the inflation crisis has erupted as a global recession looms, spelling trouble for the D8 group meeting in Malaysia. The countries represented at the forum were Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey. Abdullah also called on member nations to boost food production to avert conflict. 'The price of oil has skyrocketed to levels never anticipated... The price of food has increased beyond the normal abilities to pay by the poor, which form the majority of the world's people... There is also the danger of the food crisis creating political unrest in many societies.'"

July 7 - Associated Press: "Saudi Arabia: Sultan al-Mazeen recently stopped at a gas station to fill up his SUV, paying 45 cents a gallon — a price Americans could only dream of as they pay nearly 10 times that at the pump. But cheap gas and the record wealth pouring into Saudi Arabia's coffers from high oil prices are little relief for al-Mazeen. The 36-year-old Saudi technician and many other Saudis say they're only feeling poorer amid the oil boom because of inflation that has hit 30-year highs in the kingdom. 'I tell the Americans, don't feel envious because gas is cheaper here,' said al-Mazeen. 'We're worse off than before.'"

July 9 - Bloomberg (Janice Kew): "Higher fuel costs may make taxi fares unaffordable for poorer South Africans, threatening jobs, Business Report said, citing Carel van Aardt, a research professor at University of South Africa... About 60% of commuters in South Africa use minibus taxis and most users earn 700 rand (\$91) to 4,000 rand a month..."

July 9 - Bloomberg (Radoslav Tomek): "The Slovak government is ready to regulate prices after the eastern European nation switches to the euro to prevent 'speculative' increases that would accelerate inflation, Economy Minister Lubomir Jahnatek said. The government approved establishing a so-called Price Council which will monitor consumer prices throughout 2009. The council will have powers to ask the government to regulate prices of particular goods or services, should it discover any "anomalies" in their development, according to a document of the proposal discussed by the Cabinet today."

July 11 - Bloomberg (Khalid Qayum): "Pakistan's inflation accelerated to a 30-year high in June... Consumer prices in South Asia's second-largest economy jumped 21.53% from a year earlier..."

July 9 - Bloomberg (Abeer Allam and Abdel Latif Wahba): "Egyptian inflation accelerated to an average 11.7% in the fiscal year that ended June 30..."

July 7 - Bloomberg (Daryna Krasnolutska and Halia Pavliva): "Ukraine's inflation, the fastest in Europe... fell to 29.3% in June from 31.1% in May, which was the highest in Europe..."

July 9 - Bloomberg (Milda Seputyte): "Lithuanian inflation accelerated in June to the fastest

pace in more than 11 years... The inflation rate rose to 12.5%, the third-highest in the EU, from 12 percent in May..."

July 7 – Bloomberg (Ott Ummelas): "Estonian inflation accelerated in June, returning to the fastest pace in 10 years, as energy and accommodation costs jumped. The rate increased to 11.4%..."

July 9 – AFP: "Inflation in some emerging countries in Latin America and Africa 'is getting out of control,' International Monetary Fund head Dominique Strauss-Kahn said..."

Currency Watch:

July 9 – Bloomberg (David M. Levitt): "New York's Chrysler Building, once the world's tallest skyscraper, was acquired yesterday by the Abu Dhabi Investment Council, a Middle Eastern sovereign wealth fund, for an undisclosed price."

The dollar index declined 0.9% to 72.1. For the week on the upside, the South Korean won increased 3.8%, the Euro 1.3%, the Danish krone 1.3%, the South African rand 1.3%, the Swiss franc 1.1%, and the Australian dollar 1.0%. On the downside, the Taiwanese dollar and the Brazilian real both declined 0.1%.

Commodities Watch:

July 7 – Bloomberg (Chanyaporn Chanjaroen): "Aluminum rose to a record in London as a power shortage forced smelters in the north of China, the world's largest producer of the metal, to reduce output."

Gold rose 3.3% to \$964 and Silver 2.4% to \$18.82. August Crude added 40 cents to \$144.52. August Gasoline declined 0.6% (up 43% y-t-d), and August Natural Gas sank 12.9% (up 58% y-t-d). September Copper dropped 5.3%. September Wheat dropped 6.2% and August Corn sank 8.8%. The CRB index declined 2.3% (up 28.6% y-t-d). The Goldman Sachs Commodities Index (GSCI) fell 1.2% (up 44% y-t-d and 73% y-o-y).

China Watch:

July 7 – Wall Street Journal Asia (Lawrence J. Brainard): "It's becoming ever clearer that China's inflation problem is a monetary phenomenon after all, and not just a temporary spike in the prices of a couple food staples. But consensus on how to solve that monetary problem is still elusive. Beijing's adoption last week of administrative measures to combat speculative 'hot money' inflows shows policy makers still believe... that tightening regulation alone can do the trick. That may prove a costly mistake. Consider the scale of the problem facing policy makers. Headline consumer price inflation has clocked in at or above 7.1% every month this year. Supply shocks for foods like pork play a role, but the fundamental problem is too much money pouring into the economy, chasing too few assets. One indicator of this is that China has recently been accumulating foreign assets at the astonishing rate of \$75 billion a month."

July 8 – Bloomberg (Tian Ying): "China's car sales rose 17% in the first half as economic growth spurred demand in the world's fastest growing major vehicle market. Automakers sold a total of 3.61 million cars, sport-utility vehicles and multipurpose vehicles..."

July 11 – Bloomberg (Li Yanping and Nipa Piboontanasawat): "Foreign direct investment in

China rose 45.6% in the first half from a year earlier, swelling inflows of cash that may stoke inflation in the world's fastest-growing major economy. Spending by overseas companies increased to \$52.4 billion..."

Japan Watch:

July 10 - Bloomberg (Mayumi Otsuna): "Japan's wholesale inflation rate rose to a 27-year high in June as companies raised prices to counter record oil and commodity costs. Producer prices climbed 5.6% from a year earlier, after a revised 4.8% gain in May..."

July 11 - Bloomberg (Toru Fujioka): "Japanese consumers became the most pessimistic they've been in at least 26 years as higher gasoline prices and food costs eroded their spending power."

India Watch:

July 11 - Bloomberg (Kartik Goyal): "India's inflation accelerated to the fastest pace since 1995... Wholesale prices rose 11.89% in the week to June 28..."

July 11 - Bloomberg (Cherian Thomas and Kartik Goyal): "India's industrial production grew at the slowest pace in more than six years and Standard & Poor's said it may cut the nation's credit rating to junk if the economy deteriorates further... Bonds dropped after S&P said its BBB- ranking on India's long-term local currency debt may be lowered to 'speculative grade.' 'A rating downgrade would be a blow to India,' said Ramya Suryanarayanan, an economist at DBS Bank Ltd... 'Heading in that direction isn't good as investors are already panicking about inflation, growth and fiscal prospects.'"

Asia Bubble Watch:

July 9 - Bloomberg (Seyoon Kim): "South Korea's retail sales rose 10.2% in May as consumers paid more for gasoline and bought more cars and computers."

July 7 - Bloomberg (James Peng): "Taiwan's export growth unexpectedly accelerated in June on demand from China, Europe and Japan. Overseas shipments rose 21.3% from a year earlier after increasing 20.5% in May..."

July 9 - Bloomberg (Soraya Permatasari): "Malaysia's central bank said inflation probably exceeded 6% in June, higher than earlier estimated and bolstering expectations it will raise interest rates as early as this month."

July 8 - Bloomberg (Kyung Bok Cho): "Asian companies outside Japan will face a 'perfect storm' of rising commodities costs and slowing growth in export volumes, triggering earnings-estimate downgrades by analysts, Citigroup Inc. said. Materials and industrials stocks... have 'lofty' valuations and should be avoided..."

July 8 - Bloomberg (Naila Firdausi): "Indonesia's consumer confidence index dropped to a record low in June after the government increased fuel prices a month earlier and on concern that food costs will continue rising, a research body said."

July 8 - Bloomberg (Woro Widya Utami and Berni Moestafa): "Indonesia may have to spend as much as 300 trillion rupiah (\$33 billion) to cap fuel prices next year as oil surges, Finance Minister Sri Mulyani Indrawati said."

Latin America Watch:

July 9 - Bloomberg (Jens Erik Gould): "Mexican inflation accelerated to the fastest in almost four years last month on higher costs for food and housing... Consumer prices climbed 5.26% in June from a year earlier..."

July 8 - Bloomberg (Daniel Cancel and Matthew Walter): "Venezuelan annual consumer prices in June rose the most since 2003 as the easing of price caps on foods caused supermarket prices to surge. Consumer prices rose 32.2% in June from a year earlier..."

Unbalanced Global Economy Watch:

July 7 - Bloomberg (Alexandre Deslongchamps): "Confidence among Canadian consumers fell to a 13-year low in the June as households put off plans to make big-ticket purchases, a survey by the country's Conference Board showed."

July 9 - Wall Street Journal (Nirmala Menon): "Canadians are going to tighten their belts after the spending spree of the last couple of years... 'Households have been spending almost like drunken sailors over the past couple of years . . .' says the report by TD Bank Financial Group economists Craig Alexander and James Marple. 'The central question is whether consumers can keep tipping pints or whether a hangover is in store.'"

July 9 - Bloomberg (Brian Swint): "U.K. mortgage rates surged to the highest in eight years and consumer confidence dropped, adding to signs that the economic downturn is deepening. The rate on a home loan fixed for two years rose to 6.63% in June, the highest since February 2000."

July 8 - UK Times (Grainne Gilmore): "The number of new home loans granted during May plunged by 44% compared with last year..."

July 8 - Bloomberg (Brian Swint): "Sales of services and manufactured goods in the U.K. fell in the second quarter, posing 'serious risks' that the economy will tumble into a recession, the British Chambers of Commerce said... 'We are now facing serious risks of recession,' David Kern, economic adviser to the BCC, said... 'The outlook is grim, and we believe that the correction period is likely to be longer and nastier than anticipated.'"

July 8 - Bloomberg (Alan Purkiss): "U.K. Chancellor of the Exchequer Alistair Darling faces a 7.5 billion-pound (\$14.8 billion) budget shortfall next year because of the slowdown in the economy... That means the government will have to raise taxes, reduce spending or borrow more, the newspaper said."

July 9 - Bloomberg (Gabi Thesing): "Exports from Germany, Europe's largest economy, declined the most in almost four years in May, as a cooling global economy and a stronger euro curbed demand. Sales abroad... decreased 3.2% from April... That's the biggest drop since June 2004."

July 7 - Bloomberg (Maria Petrakis): "Greece's inflation rate remained at 4.9% in June, matching the previous month's 10-year high, as higher fuel prices and housing costs led price increases."

July 9 - Bloomberg (Mark Sweetman): "Russian inflation climbed 9% in the year through July 7, led by higher costs for diesel fuel and rice."

July 9 – Bloomberg (Paul Abelsky): “Russia surpassed Germany as Europe’s biggest auto market in the first half as sales rose 41% to 1.65 million cars, Pricewaterhouse Coopers LLP said. Spending on autos increased 64% to a record \$33.8 billion, buoyed by \$27 billion of imports...”

July 9 – Bloomberg (Victoria Batchelor): “Australian consumer confidence fell to a 16-year low and home-loan approvals dropped by the most in eight years...”

July 8 – Bloomberg (Tracy Withers): “New Zealand companies say sales and trading will decline in the third quarter, pushing profit expectations to a 25-year low, as economic growth slumps.”

July 11 – Bloomberg (Tracy Withers): “The average net wealth of New Zealand consumers posted the biggest fall in almost 10 years as house prices and stocks declined while rising interest rates increased debt.”

Bursting Bubble Economy Watch:

July 9 – Wall Street Journal (Jacqueline Palank): “Home builders, retailers and transportation companies were among the nearly 5,000 businesses that filed for bankruptcy last month, a number that has almost doubled in two years. In June, 4,992 businesses sought to reorganize or liquidate under bankruptcy protection... That is an increase of nearly 50% over last June’s 3,408 filings and almost twice as many as the 2,574 companies that filed for bankruptcy in June 2006.”

July 8 – Wall Street Journal (Sara Schaefer Munoz): “The future looked bright when several small banks decided to open in this city along the Gulf of Mexico. Property values in southwest Florida were surging, and older start-up banks had sold themselves for handsome profits after just a few years in business. Now, though, for-sale signs dot shopping centers, offices and vacant lots. Developers are desperately hawking vacant houses built on former farmland. In nearby coastal hamlets, some clusters of homes are half-built, with wires dangling from garage ceilings and pipes sticking out of the ground. While just about every bank in town is suffering as a result, Bradenton’s latest crop of start-up banks has been hammered.”

July 7 – Bloomberg (Courtney Schlisserman): “Confidence among U.S. small business owners fell to a 28-year low in June as inflation topped their list of concerns for the first time since Ronald Reagan’s first term as president.”

Central Banker Watch:

July 7 – Bloomberg (John Fraher and Shamim Adam): “Policy makers in emerging economies from Russia to Vietnam may have to start acting less like Ben S. Bernanke and more like Paul Volcker if they want to bring inflation under control. With currencies tied to the U.S. dollar, officials in many developing countries have had to keep their monetary policies linked to the Federal Reserve’s. Now, after chairman Bernanke led the Fed’s most aggressive easing in two decades, their central banks find themselves with interest rates too low for their economies and the worst bout of inflation in a generation. ‘There’s a lack of independent monetary policy; it’s been inappropriately stimulative,’ says Nariman Behravesh, chief economist with Global Insight... The answer, he says, may be to ‘tighten credit more aggressively,’ the way then-chairman Volcker did in the early 1980s. Such a

policy shift would mean pushing borrowing costs above the level of inflation and keeping them there even at the cost of a steep slowdown that might send commodity prices into a tailspin.”

Burst Mortgage Finance Bubble Watch:

July 10 - Bloomberg (Dan Levy): “U.S. foreclosure filings rose 53% in June from a year earlier and bank repossessions almost tripled as deteriorating property values and higher payments on adjustable mortgages forced more people to give up their homes. More than 252,000 properties, or one in every 501 U.S. households, were in some stage of foreclosure, RealtyTrac Inc... said... Nevada, California and Arizona had the highest foreclosure rates.”

July 7 - Dow Jones (Michael R. Crittenden): “New mortgage foreclosures at U.S. thrift institutions continued to climb during the first quarter... The Office of Thrift Supervision... found that new foreclosures climbed to 46,249 in March from 35,780 in January... The study, which covered 11.4 million first-lien mortgages worth about \$2.3 trillion, found that there were about 22,300 loss mitigation actions by the industry in March, up from roughly 12,500 new modifications and payment plans in January.”

Real Estate Bubble Watch:

July 7 - Bloomberg (Bob Ivry): “Home values fell in 23 of 25 U.S. metropolitan areas in April, according to Radar Logic Inc., as sales of a record number of foreclosed homes pushed prices down. The Sacramento, California, region saw the biggest drop, with prices falling 31.7% from April 2007. Sacramento was followed by the Las Vegas area (29.9%), San Diego (28.1%), Phoenix (25.5%) and Los Angeles (23.4%)... ‘Prices are going down so fast they can’t go down much longer,’ said Christopher Thornberg, president of Beacon Economics LLC... ‘We’ve never seen prices fall like this.’”

July 7 - Bloomberg (Daniel Taub): “Vacancies at U.S. neighborhood and community shopping centers rose in the second quarter to a 13-year high, while vacancies at larger, regional malls were at their highest level since 2002, research firm Reis Inc. said. The average vacancy rate at neighborhood and community malls rose to 8.2%, up from 7.3% a year earlier and the highest level since 1995...”

July 10 - Bloomberg (Sharon L. Lynch): “Manhattan apartment rents fell in the first half, led by declines of as much as 16% for three- bedroom units in new buildings with doormen, as Wall Street job cuts and rising fuel and food prices deterred renters from moving. The average rent of a studio apartment fell 2.1% to \$1,887 a month, according to a report today by... broker Citi Habitats.”

July 7 - Bloomberg (Hui-yong Yu): “Home sales in Seattle fell 29% in June, while the median home price dropped 1.4%, according to the Northwest Multiple Listing Service.”

GSE Watch:

July 11 - Bloomberg (Dawn Kopecki): “Fannie Mae and Freddie Mac...defended their finances and said they have enough capital to weather the housing slump and help bolster the home loan market. Fannie Mae ‘has access to ample sources of liquidity, including access to the debt markets,’ ...a spokesman for the Washington-based company said... In a separate release, ...Freddie Mac said it’s ‘adequately capitalized, highly liquid and an essential part of the nation’s housing system.’”

Fiscal Watch:

July 7 - Bloomberg (Toru Fujioka): "The U.S. federal government's budget deficit reached \$268 billion through the first nine months of fiscal year 2008... This was \$148 billion more than the \$120 billion deficit incurred at the same point in fiscal year 2007, the CBO said... Compared with the 2007 fiscal year, outlays so far have increased by 6%, while revenue has declined 1%."

Muni Watch:

July 9 - Bloomberg (Jeremy R. Cooke): "U.S. insurers' falling profitability poses a risk to the municipal market, as companies may liquidate a portion of about \$400 billion in bond holdings to raise cash, said Tom Doe, chief executive of Municipal Market Advisors. Profits at property and casualty companies...fell last year for the first time since 2001... 'You have to start wondering: Will there be a reduced need for the tax-exempt income?' Doe said... 'You have reduced liquidity in the municipal market. To absorb 10% of that would be dramatic pressure.'"

Speculator Watch:

July 9 - Bloomberg (Katherine Burton and Saijel Kishan): "Hedge funds turned in their worst first-half performance in almost two decades... Hedge funds declined by an average 0.7% in June, bringing the year-to-date loss to 0.75%, data compiled by Hedge Fund Research Inc. show. It's the worst start to a year since the... firm began tracking returns in 1990. The \$1.9 trillion industry has posted one losing year, in 2002, when funds fell 1.45%... Managers attracted a net \$16.5 billion during the first three months of the year, down from \$30.4 billion in the fourth quarter..."

July 9 - Bloomberg (Bei Hu): "Hedge funds that primarily invest in Asia outside Japan widened their losses this year to 14% this year, according to preliminary data from Chicago-based Hedge Fund Research Inc. The HFRI Emerging Markets Asia ex-Japan Index retreated 5.6% in June..."

California Watch:

July 9 - Bloomberg (Michael B. Marois): "Democrats who control California's Legislature proposed raising \$9.7 billion to fill the state's widest budget deficit in five years by making wealthy families pay higher income taxes and stripping businesses of tax breaks. The proposal calls for generating an extra \$5.6 billion a year by raising the income tax on families who earn more than \$321,000 a year to 10% from 9.3% and to 11% for those earning more than \$642,000... 'We can't solve this budget crisis with cuts alone,' Speaker of the Assembly Karen Bass... told reporters... 'We can't cut anymore. Is it a line in the sand? Yes.'"

Crude Liquidity Watch:

July 8 - Bloomberg (Alex Nicholson): "Russia's trade surplus increased in May from the previous month as the world's biggest energy exporter benefited from high oil prices, the central bank said. The surplus grew to \$18.5 billion in the month from \$15.5 billion in April..."

July 9 - Bloomberg (Alex Nicholson): "The Russian government's budget surplus amounted

to 7% of gross domestic product in the first half of the year... The surplus widened to 1.33 trillion rubles (\$57 billion) from 1.26 trillion rubles in May..."

July 9 - Bloomberg (Matthew Brown): "There will be an oversupply of Dubai property leading to a fall in prices if current planned projects are delivered on time, Fitch Ratings Ltd. said. There is a 'prospect of oversupply if current delivery plans are met, and the risk of being unable to stimulate demand in view of massive development projects in the pipeline,' wrote Bashar Al Nator, director in Fitch's Corporate team... The U.A.E. is the largest construction market in the Gulf Cooperation Council, which forecasts \$2 trillion worth of projects by the end of the first quarter..."

July 7 - Bloomberg (Fabienne Lissak and Maher Chmaytelli): "Algeria, buoyed by record oil prices, has allocated \$140 billion to develop transport infrastructure in a bid to make its economy more competitive, according to Industry and Investment Promotion Minister Hamid Temmar."

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