

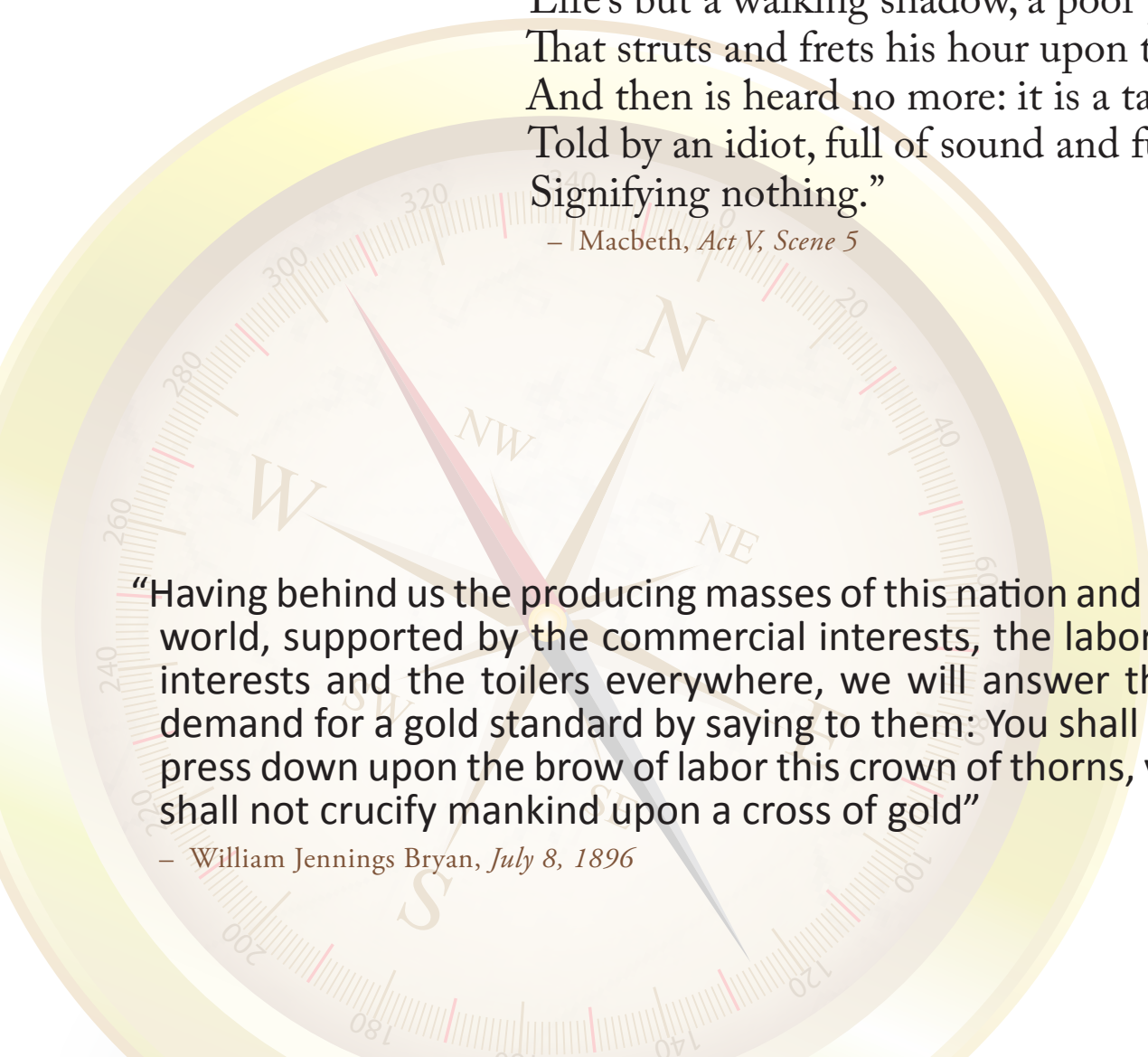
# THINGS THAT MAKE YOU GO *Hmmm...*

A walk around the fringes of finance



“Tomorrow, and tomorrow, and tomorrow  
Creeps in this petty pace from day to day,  
To the last syllable of recorded time;  
And all our yesterdays have lighted fools  
The way to dusty death. Out, out brief candle!  
Life’s but a walking shadow, a poor player  
That struts and frets his hour upon the stage  
And then is heard no more: it is a tale  
Told by an idiot, full of sound and fury,  
Signifying nothing.”

– Macbeth, *Act V, Scene 5*



“Having behind us the producing masses of this nation and the world, supported by the commercial interests, the laboring interests and the toilers everywhere, we will answer their demand for a gold standard by saying to them: You shall not press down upon the brow of labor this crown of thorns, you shall not crucify mankind upon a cross of gold”

– William Jennings Bryan, *July 8, 1896*

## THINGS THAT MAKE YOU GO *Hmmm...*



**W**hat exactly IS 'The Dollar'?

There are currently 47 countries or territories that use the 'dollar' as their currency, from the obvious names such as the United States, Australia and Canada to the more esoteric such as Suriname, Tuvalu and Guyana, but where did the word 'dollar' come from?

Well, naturally, there are many theories on this, but we'll stick to one of the most widely-accepted

for the purposes of today's discussion. As Vincent Vega said in *Pulp Fiction*:

"It breaks down like this..."

*(Wikipedia): On the 15th of January, 1520, Count Hieronymus Schlick of Bohemia began minting coins known as Joachimsthaler, named for Joachimstal, where the silver was mined... "Joachimsthaler" was later shortened in common usage to taler or thaler, Czech tolar and this shortened word eventually found its way into Danish and Norwegian as daler, Swedish as daler, Dutch as daalder, Ethiopian as talari, Italian as tallero, Flemish as daelder, and into English as dollar.*

*The coins minted at Joachimstal soon lent their name to other coins of similar size and weight from other places. One such example, the Dutch lion dollar, circulated throughout the Middle East and was imitated in several German and Italian cities. Carried by Dutch traders, this coin was also popular in the Dutch East Indies as well as in the Dutch New Netherland Colony (New York), and circulated throughout the Thirteen Colonies during the 17th and early 18th centuries. Some well-worn examples circulating in the Colonies were known as "dog dollars". By the mid-18th century, the lion dollar had been replaced by the Spanish "pieces of eight" which were distributed widely in the Spanish colonies in the New World and in the Philippines.*

*Pieces of eight (so-called because they were worth eight "reals") became known as Spanish dollars in the English-speaking world because of their similarity in size and weight to the earlier Thaler coins.*

So..... there we have it – the origins of the word 'dollar'. But what of the origins of the present-day US dollar, the currency we all know and love (albeit to varying degrees over the last few years)?

**W**ell, the dollar was approved by Congress on 8 August 1786. After the Constitution had been passed, Alexander Hamilton, the secretary of the treasury at the time, introduced the Coinage Act of 1792, which established the Dollar as the basic unit of account for the United States. As defined by the Coinage Act, a "dollar" was to be between 371 and 416 grains (27.0 g) of silver (depending on purity) and an "eagle" to be between 247 and 270 grains (17 g) of gold (again depending on purity). It set the value of an eagle at 10 dollars, and the dollar at 1/10th eagle. It called for 90% silver alloy coins in denominations of 1, 1/2, 1/4, 1/10, and 1/20; it called for 90% gold alloy coins in denominations of 1, 1/2, 1/4, and 1/10. The value of gold or silver contained in the dollar was then converted into relative value in the economy for the buying and selling of goods. This allowed the value of things to remain fairly constant over time, except for the influx and outflux of gold and silver in the nation's economy. Simple.

However, the flaw in the plan was, of course, the fluctuations in the prices of both gold and silver.

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Between the passage of the Coinage Act in 1792 and 1873, this system of 'bi-metallism' was in place with both gold and silver backing the dollar at a ratio of 15:1. Each and every dollar could be exchanged for EITHER 371.25 grains of silver or 24.75 grains of gold but as gold strengthened against silver in the early 1800s, gold coins were removed from circulation and melted down – leading to the first ever devaluation of the dollar when the ratio of silver to gold was reset to 16:1 in 1834.

For the next step along the way, let's allow Wikipedia to do the heavy lifting:

*(Wikipedia): In 1846 the Polk Administration created a United States Treasury system that moved public funds from private banks to Treasury branches in an effort to stabilize the economy. However, there remained no national currency. One of the first attempts of the nation to issue a national currency came in the early days of the Civil War when Congress approved the issue of \$150 million in national notes known as greenbacks. The government spent a significant amount of money on the war effort which, in turn, drew down its supply of coin.*

In 1856, the weights of silver coins were reduced which meant that the US was now, effectively, on a gold standard even though officially this was not the case.

*(Wikipedia): In response [to dwindling coin supply], the Legal Tender Act of 1862 was passed. This act mandated that paper money be issued and accepted in lieu of gold and silver coins. The bills were backed only by the national government's promise to redeem them and their value was dependent on public confidence in the government as well as the ability of the government to give out specie in exchange for the bills in the future. Many thought this promise backing the bills was about as good as the green ink printed on one side, hence the name "greenbacks."*

In 1863 the National Banking Act was passed in the Senate (though only just, with a 23-21 vote) and this created a single, national currency – establishing National banks which issued notes backed by the US Treasury for the first time – Bingo!

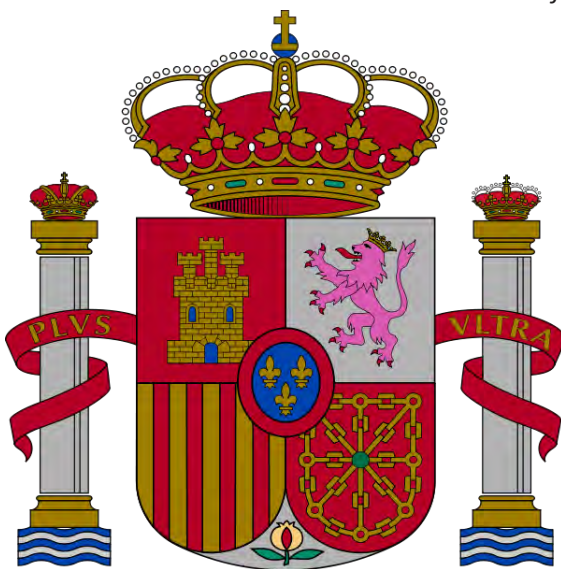
The end of bi-metallism and the official adoption of a gold standard for the US Dollar took place in 1900 with the passage of the Gold Standard Act which stipulated that:

*"...the dollar consisting of twenty-five and eight-tenths grains (1.67 g) of gold nine-tenths fine, as established by section thirty-five hundred and eleven of the Revised Statutes of the United States, shall be the standard unit of value, and all forms of money issued or coined by the United States shall be maintained at a parity of value with this standard..."*

I think we're all pretty much up to date with what happened subsequent to these events by now (Wilson's 1917 export ban, FDR's 1933 confiscation, Nixon's 1971 closing of the window), so let's move on to the origin of the dollar sign, shall we? This is where the tale takes a turn for the coincidental as the most widely-held theory involves our old friend, Spain.

**S**pain's coat of arms, which was imprinted on those Spanish dollars we spoke about earlier, embodies the 'Pillars of Hercules' which are wrapped in a small S-shaped ribbon which, when it was first added to the coat of arms by King Ferdinand of Aragon in 1492, bore the legend 'Non Plus Ultra' meaning 'no further beyond' and signifying the ends of the known world.

If only he'd waited a year or two.



**A**lmost immediately after the adoption of the new motto by King Ferdinand, Christopher Columbus threw an almighty spanner in the works by promptly wandering off and discovering a distinctly *unknown* world. This, one could reasonably assume, would cause problems to a country with a freshly-minted motto, but, in an early example of a 'game-changing' decision made to suit a particular situation, the Spanish simply lopped off the word 'non', leaving the motto as 'plus ultra' or 'further beyond'. Problem solved.

The use of the word 'dollar' can even be found in the works of William Shakespeare; in 'The Scottish Play', to be precise:

*"That now  
Sweno, the Norway's King, craves composition;  
Nor would we deign him burial of his men  
Till he disbursed at Saint Colme's Inch  
Ten thousand dollars to our general use."*

- Macbeth, Act I, Scene 2

Which brings us neatly back to the quote from later in that same play that holds pride of place on the front cover of this edition of Things That Make You Go Hmmm.....

The current iteration of the dollar really is little more than the poor player, strutting and fretting his hour upon the stage, soon, perhaps, to be heard no more (at least not in current form). The Euro? A poorer player still, and one whose time on the stage will be considerably less than an hour.

The debate surrounding the future of the world's reserve currency is most certainly full of both sound, and fury, but the chances are that, like all fiat currencies throughout history - and even more so like all previous versions of the dollar itself - this one will eventually come to signify nothing.

**T**hroughout its history, the United States has avoided hyperinflation by continually shifting between a fiat currency and a gold standard. As we have already discussed, from 1785 to 1861 the dollar was backed by gold after the disastrous experiment with 'Continental' ended in 1785 (in fact, it was very soon after this episode that Thomas Jefferson wrote his famous 'standing armies' letter to John Taylor):

*"I believe that banking institutions are more dangerous to our liberties than standing armies. Already they have raised up a money aristocracy that has set the government at defiance. This issuing power should be taken from the banks and restored to the people to whom it properly belongs. If the American people ever allow private banks to control the issue of currency, first by inflation, then by deflation, the banks and corporations that will grow up around them will deprive the people of all property until their children will wake up homeless on the continent their fathers conquered. I hope we shall crush in its birth the aristocracy of the moneyed corporations which already dare to challenge our Government to a trial of strength and bid defiance to the laws of our country"*

- Thomas Jefferson, Letter to John Taylor, May 28, 1816

The fiat Greenback lasted 17 years before a return to a gold standard in 1880 brought stability and virtually no inflation until the outbreak of WWI necessitated a fiat currency again in order to pay for the cost of the conflict.

1926 saw the reintroduction of a gold standard once more and this lasted until The Great Depres-

sion fostered a run on gold that forced the dollar back to its fiat ways and culminated in FDR's now infamous Executive Order 6102 and the confiscation of gold (right). This version of a fiat dollar reigned supreme – for 14 years, until the huge economic dislocations that became evident in the lead-up to (and in many ways resulted in) WWII.

In 1944 the Bretton Woods Accord was signed and this time, the gold standard thrived for 26 years (although during that time, the first Federal Reserve Notes with no promise to pay in 'lawful money' quietly appeared, the \$1 silver certificate disappeared for good and all coins save the Kennedy half-dollar saw their silver content wiped out - the Kennedy half-dollar being reduced to 40% on the orders of President Lyndon Johnson who went one step further in 1968 when he proclaimed that all Federal Reserve Silver Certificates were merely fiat legal tender and could not really be redeemed in silver).

Then came Tricky Dicky.



[CLICK TO ENLARGE](#)

**F**ive months after Nixon closed the gold convertibility window to (cough) “[protect the position of the American dollar as a pillar of monetary stability around the world](#)” (cough) from those (cough) ‘evil speculators’ (cough), a new and ingenious plan was hatched as the Smithsonian Agreement was passed, pegging the world’s fiat currencies to ..... ANOTHER fiat currency in the shape of – you guessed it – the dollar.

Problem solved.

A mere two years later though, in 1973, as it became clear that a fiat peg to a fiat currency was just not going to work in the longer term, the signing of the Basel Accord ushered in the current status quo.

So now we’re up to date, “what the hell is the point of this seemingly random trip through the history of the dollar?” I hear you asking.

Well, I’ll tell you.

**O**ver the past several years, an enormous amount of time, ink and bandwidth has been devoted to the ‘unthinkable’ idea that the United States could return to a Gold Standard. Various estimates of the necessary price of gold to effect such a change have been put forward and then discredited almost immediately by many naysayers. Many commentators have suggested this would be the ultimate end-game with two of the more erudite recent hypotheses being put forward by the great [Jim Grant](#) and my friends at QBAMCO, Paul Brodsky and Lee Quaintance (more from those last two fine gentlemen later but in the meantime, read a piece they wrote in December of last year, ‘[Toward Capitalus](#)’), while even World Bank President, Robert Zoellick suggested the establishment of a new monetary system which would, in effect, be a modified gold standard - a ‘Bretton Woods II’, if you like. Zoellick certainly did:

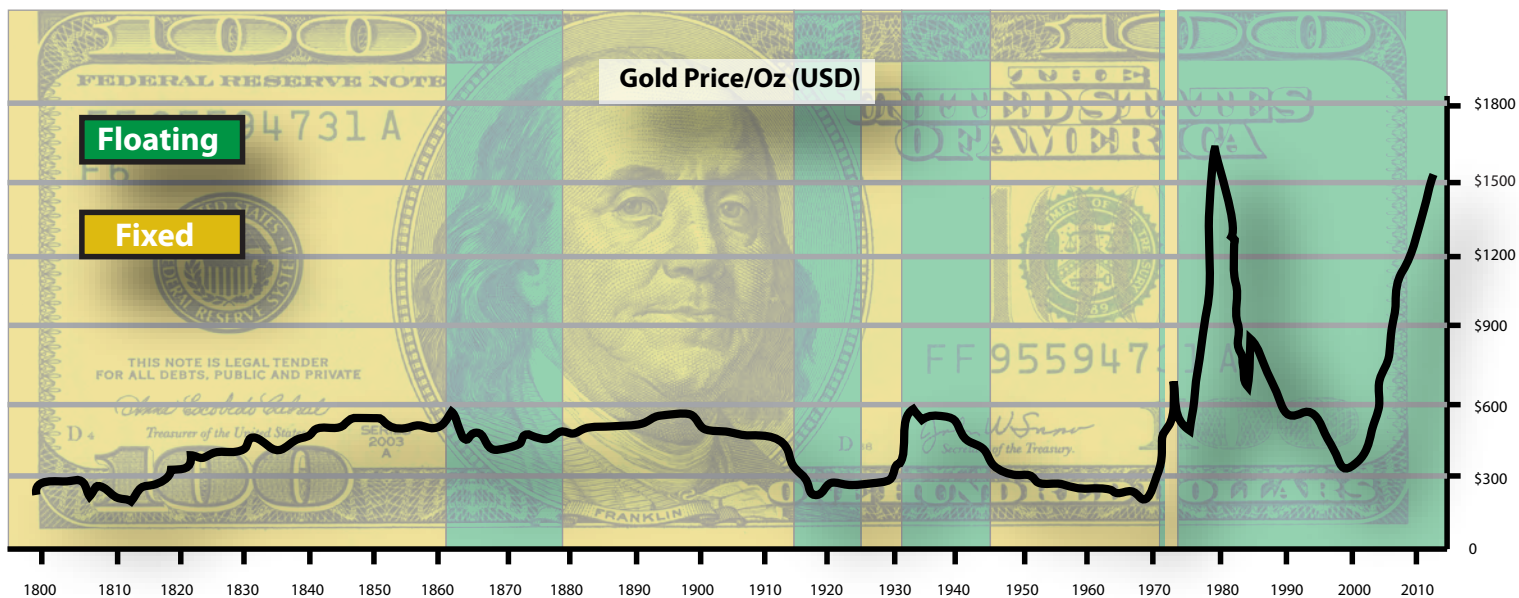
*(FT): Leading economies should consider readopting a modified global gold standard to guide currency movements, argues the president of the World Bank.*

## THINGS THAT MAKE YOU GO *Hmmm...*

Writing in the *Financial Times*, Robert Zoellick, the bank's president since 2007, says a successor is needed to what he calls the "Bretton Woods II" system of floating currencies that has held since the Bretton Woods fixed exchange rate regime broke down in 1971.

Mr Zoellick, a former US Treasury official, calls for a system that "is likely to need to involve the dollar, the euro, the yen, the pound and a renminbi that moves towards internationalisation and then an open capital account". He adds: "The system should also consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values."

Those comments came in November last year and were immediately shouted down as the crazy ramblings of a borderline loon by many in the establishment - but WHY is it that the whole idea of returning to some form of Gold Standard is seen as SUCH a radical move?



SOURCE: TTMVGH

As you can see from the chart of the history of the dollar (above), in the last 200 years, not only has the dollar actually been on a fixed standard of sorts (nearly always versus gold) for LONGER than it has floated or been purely fiat, but the changes between those systems have come, on average, roughly every 21 years with the last change being 38 years ago. When put in those terms, it's surely not quite so hard to imagine something similar happening again?

Certainly not in Switzerland:

*(Marketwatch):* The Swiss Parliament is expected later this year to discuss the creation of a gold franc — a parallel currency to the official Swiss franc — raising the possibility that the country, one of the last to abandon the gold standard, may soon take a big step toward returning to it.

The initiative is part of "Healthy Currency," a campaign sponsored by politicians from the right-wing Swiss People's Party (SVP) — the country's biggest — that is seeking to capitalize on popular fears about global financial turmoil and inflation to reverse the government's current policy on gold.

"I can imagine that this will spark some sort of debate about gold and there may be some pres-

*sure to accept the parallel currency,” said Dr. Gebhard Kirchgassner, an economics professor at St. Gallen University. “But it won’t have any real effect on the economy. It seems incredible to imagine that there are people out there willing to buy millions of these things.”*

*...“I want Swiss people to have the freedom to choose a completely different currency,” said Thomas Jacob, the man behind the gold franc concept. “Today’s monetary system is all backed by debt — all backed by nothing — and I want people to realize this.”*

Even the Wall Street Journal has weighed in on the idea this very week:

*(WSJ): Today, both of the world’s major currencies are subject to the budgetary transgressions of governments. Government appointees at the European Central Bank and the U.S. Federal Reserve are empowered with deciding how much money should be issued, rather than calibrating the money supply to match productive economic needs through the voluntary conversion of currency into gold.*

*It’s an untenable situation, fraught with political tensions leading to monetary accommodation. The absence of a gold anchor—the immutable firewall between fiscal indulgence and compromised currencies—dooms the integrity of both the dollar and the euro. Former Fed Chairman Alan Greenspan rightly observed earlier this year that they are both “faulty fiat currencies.”*

*... Today’s currency disorder is no kind of system. Abandoning its birthright, the IMF now permits its members to adopt whatever monetary arrangements they wish—except, perversely, pegging their currencies to gold.*

*Even if the exchange rate between the dollar and euro were officially fixed, it would merely facilitate an unwarranted expansion of euros the next time the Fed opted to engage in quantitative easing—unless both currencies were fixed to gold as well. Nobel Prize-winning economist Robert Mundell, who provided the intellectual groundwork for Europe’s common currency, sees that as a way forward. “Gold is nobody’s liability and it can’t be printed,” he commented last month. “So it has a strength and confidence that people trust.”*

The one thing that CAN be relied upon, is the fervour with which the Central Bankers of the world will fight the notion of gold being once again at the centre of the financial solar system with the various currencies all orbiting it.

**I** *magine* how the actions of both the Fed and the US government would have been altered these past few years had they been hostage to an anchored currency. Bailouts, stimuli, money-printing, mid-game rule changes - all of them would have been held up to the scrutiny of gold - and all of them would have been shown to be unworkable. The ECB’s situation would have been equally untenable and the string of drastic measures adopted in Europe to try and stop the bleeding (including last night’s mind-numbing change of stance on Portuguese collateral rules) would, too, have been shown up for what they are - an almost pathological refusal to accept hard reality in a fiat world.

Of course, had we BEEN on a Gold Standard then one *could* argue that the INFLEXIBILITY inherent in that system would have been disastrous - and many would. Indeed, many HAVE. But without fiat currency, would the sheer amount of debt in the system that was the root cause of the current turmoil even have been loaned into existence?

The arguments will go back and forth but there is one thing I am absolutely certain of; if the world HAD been on a gold standard in 2000 - 2008, and if the problems that the world’s monetary authori-

ties are still trying to ignore deal with HAD somehow arisen, the rules of the game WOULD have been changed and the Gold Standard WOULD have been abandoned in favour of fiat freedom. It would have been the simplest thing to do and politicians love them some simple.

But IF such a decision in one direction is actually a very simple one to make when the chips are down, one has to ask oneself the obvious question now that the chips are scattered everywhere and monetary discipline is clearly required instead of monetary freedom: Why is it such a laughable idea for the world to adopt a Gold Standard once again after 38 years in the fiat wilderness?

Is it laughable because there just isn't enough gold to back all the fiat currency in the world? Well, no - that is just a matter of the price at which gold would have to be valued in order to do so and the level of coverage decided upon. Is it the fact that such a system is unworkable? Well, no - as we've seen, it has been done many times, each of them providing great stability. Is it because the largest reported single stash of gold in the world has been loaned out and may not be accessible? Surely not. Maybe it's because having an anchor at the centre of the monetary world removes the ability of governments to spend their way into oblivion? Is it me or is it getting warmer in here?

Whatever happens from here, there are a few of things of which we can be quite certain:

- *To paraphrase Winston Churchill's quote about America: Governments will always do the right thing - after they've run out of every possible way to avoid doing so*
- *The can will be kicked down the road until we run out of road - and into a brick wall*
- *The ultimate judge of the success (or otherwise) of every political decision made since Lehman Brothers went to the wall is shiny, yellow and costs about \$1,500/oz*

So what exactly IS the dollar?

**Y**ou tell me.

Right - after that little lot, we are somewhat short of space so here's a quick rundown of who and what you'll find in today's Things That Make You Go Hmmm.....:

**The Who:** Ambrose Evans-Pritchard (welcome back!), Jeremy Warner, Brodsky & Quaintance, Bill Fleckenstein, Wayne Kaufman, Gretchen Morgenson, Michael Pettis, John Embry, Andrew Maguire and our old friend Gregor.

**The What:** Jobs, Italy, Gold, Silver, The Euro, The Debt Ceiling, The 14th Amendment, Mall Vacancies, Free Speech, Debt, The Ratings Agencies, The BIS Report, Central Banks, 2007 vs. Today, The Summer Doldrums, The Austrian Banking Sector and.....oh yes,

The Dollar.

**B**race yourselves.

### Housekeeping:

Today's Things That Make You Go Hmmm..... is a little longer than usual as I will be traveling next week. See you all back here soon.....

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## The Ginnie, Ginnie Banks

#	Bank	Assets (\$m)	Deposits (\$m)	Cost (\$m)
49	First Chicago Bank & Trust. Chicago, IL	959.3	887.5	284.3
50	Colorado Capital Bank, Castle Rock, CO	717.5	672.8	283.8
51	Signature Bank, Windsor, CO	66.7	64.5	22.3
<b>Total Cost to FDIC Deposit Insurance Fund</b>				<b>590.4</b>

I want to start this newsletter with a story that may be fairly illustrative of one of the problems within the Chinese economy that I worry about. There was an article in last Sunday's edition of the South China Morning Post about a real estate project in Guangdong. (WC Fields' was supposed to have once called Mae West "a plumber's idea of Cleopatra", and for some reason that story popped into my mind when I read the article.)

It says that a real estate developer is attempting to build a replica of a beautiful Austrian village in Guangdong province not too far from Shenzhen:

*It is a scenic jewel, a hamlet of hill-hugging chalets, elegant church spires and ancient inns all reflected in the deep still waters of an alpine lake. Hallstatt's beauty has earned it a listing as a Unesco World Heritage site but some villagers are less happy about a more recent distinction: plans to copy their hamlet in China.*

*After taking photos and collecting other data on the village while mingling with the tourists, a Chinese firm has started to rebuild much of Hallstatt in Guangdong province, just 60 kilometres away from the Hong Kong border, hoping to attract wealthy mainlanders, "homesick" expatriates in Hong Kong and tourists. The project had drawn a mixed response from residents in the original village.*

... it wouldn't have occurred to me that a metals trading background would have made anyone particularly good at real estate development

The article goes on to discuss the anger many of the residents of Hallstatt feel about having their town copied and replicated without permission.

That this sort of building project seems a tad over the top is not why I bring up the article. Those of us who live here are quite used to the many sometimes-bizarre projects aimed at attracting new wealth and signaling status. Of course if it makes the residents of Hallstatt feel any better, I am absolutely certain that the Guangdong replica will not be a perfect copy of Hallstatt. I have no doubt that there will be hundreds of architectural and cultural "improvements" that will ensure that no one confuses the shiny replica with its dowdy original. Excessive restraint typically isn't one of the sins afflicting real estate developers that cater to the local rich.

What interested me about the article was something else altogether. According to the article, the project is being developed by "Minmetals Land, the real estate development arm of China Minmetals, China's largest metals trader."

I'm sure MinMetals is no slouch when it comes to trading metals, but it wouldn't have occurred to me that a metals trading background would have made anyone particularly good at real estate development, and especially at developing such an undoubtedly classy project. This kind of thing, however, is actually not an anomaly in China. A surprisingly large number of SOEs and other large companies in China have real estate development subsidiaries.

\*\*\* MICHAEL PETTIS / [LINK](#)

**S**en. Chuck Grassley (R-Iowa) said on Thursday that the Constitution may trump the debt ceiling, allowing the administration a way out of the default impasse.

Negotiators are considering gutting the social safety net in exchange for a vote to lift the debt ceiling. Grassley, in a conference call with local reporters, said that there may be another way out.

"There's one thing that hasn't been talked about yet, and I haven't checked on the constitutionality

of it -- and I read the Constitution, but I don't remember reading this -- but in the 14th amendment, there's something that says something about the debt of the United States government shall be honored," Grassley said, according to a recording of the call. "The 14th Amendment includes a public debt clause that insists the obligations of the government 'shall not be questioned.'"

"So people are looking at the fact that maybe the debt ceiling bill that Congress presumably has to pass for the government to borrow more maybe is contrary to that constitutional provision, and that the administration may take out [loans] on their own -- just to borrow money -- and say that they can ignore the law," he said.

Grassley said that he was personally supportive of the debt ceiling, because it focuses attention on spending, but that if its existence was unconstitutional, there was nothing he or his colleagues could do. "I think it's a discipline that Congress uses effectively from time to time, maybe not to cut down on the amount of spending but to have a refresher course," he said. "It's a good discipline, so it bothers me if the Constitution provision would trump it, but that would be up to the courts to say. But who's going to argue against the Constitution? It's the basis of our government; it's the law of our land, and everybody has to abide by it."

"The Constitution trumps the law, obviously," he said.

Some House Republicans, meanwhile, are threatening to impeach the president if he goes the 14th Amendment route.

Tea Party Sen. Mike Lee (R-Utah) argued Thursday that the 14th Amendment does forbid default, but merely requires the Treasury Secretary to pay debt service obligations, not all debts.

"Treasury Secretary Timothy Geithner is mistaken," Lee said. "Instead of saying what Mr. Geithner has insisted that it says, what it actually says is that the secretary of the Treasury lacks the authority -- the executive branch lacks the authority -- to disregard outstanding financial obligations, such that a default would be unconstitutional ... That would mean that under Section 4 of the 14th Amendment, the Treasury Secretary has to make sure that the debts are paid first. He lacks the discretion, under Section 4, to withhold those funds and send them elsewhere because he has to honor the debt obligations of the United States."

\*\*\* HUFF POST / LINK



CLICK TO ENLARGE

SOURCE: CALCULATED RISK

The average vacancy rate for large U.S. shopping malls reached its highest level in 11 years in the second quarter, as department store closings took effect and retailers scaled back their floor space due to cautious shoppers, according to a report issued on Friday.

Preliminary figures by real estate research firm Reis show the vacancy rate at these regional malls rose to 9.3 percent, the highest level since 1990 and up from 9.1 percent in the first quarter.

The picture was even bleaker for U.S. strip malls where retailers gave up over half million more square feet than they rented. The vacancy rate at these local retail strips was 11 percent versus 10.9

percent in the first quarter, almost matching the 11.1 percent record set 20 years ago, Reis said.

Rents at both types of retail locations were flat.

“Even though we’ve been out of a recession for two years, there aren’t a lot of jobs out there, and people are still risk adverse,” said Ryan Severino, Reis senior economist. “That’s depressing demand for both retail goods and retail space.”

In addition to weak demand from consumers, landlords are grappling with competition from online sales, which reduces demand for physical stores.

“Halfway through 2011, it is difficult to feel optimistic about retail properties. Expect continued difficulties for the retail sector in the latter half of 2011,” Severino said.

☆☆☆ REUTERS / LINK

**B**efore we all join the chorus of abuse against the robber agencies, let us not lose sight of what is happening in the eurozone. The EU authorities are attempting to muzzle free opinion, first by threatening Fitch, Moody’s, and S&P with vague retribution, and then by drafting restrictive laws to prevent them from publishing unwelcome messages.

↔ “It’s quite strange that the market is almost dominated by only three players. It seems strange that there is not a single rating agency coming from Europe...” It is financial repression, pure and simple. The same will be done to the press in due course. Then to you, dear reader.

“We must break the oligopoly of the rating agencies,” says German finance minister, Wolfgang Schäuble. By “we”, of course, he means the EU apparatus of coercion.

The European Commission has already created a pan-EU oversight body with binding powers to breathe down the necks of these agencies. It will draft restrictive legislation by the end of the year. The Portuguese downgrade ensures that it will be even nastier. “Developments since the sovereign-debt crisis show we need to take a further look at reinforcing our rules,” said Commission chief Jose Manuel Barroso.

Mr Barroso came close to accusing the agencies of cartel activities and a malicious agenda.

“It’s quite strange that the market is almost dominated by only three players. It seems strange that there is not a single rating agency coming from Europe. It shows that there may be some bias in the markets when it comes to the evaluation of the specific issues of Europe.”

Leaving aside the not-small matter that Fitch is owned by the French group Fimalac (quoted on the Paris bourse), or that it is largely run by Britons who belong to the EU and contribute to Mr Barroso’s salary, this talk of anti-European bias cannot pass unchallenged.

Currency unions switch exchange risk into default risk. The rating on countries in currency unions ought to be lower therefore (*ceteris paribus*). States with their own sovereign currency and debt in their own currency can let the exchange rate take the strain when they get into trouble, as the US and the UK have done. Foreign investors lose money on the exchange rate. There may be all kinds of risks and dangers in the US and the UK, but default is not high on the list (discounting the US soap opera over the debt ceiling).

This not the case at all for EMU laggards. They cannot devalue or inflate away debt. The stress shows up in the bond markets instead. The more relevant comparison in this respect is between the Euro-

land's Club Med states and California. The Anglo-Saxon agencies do not rate many US states at AAA. California is A- and may lose that soon enough.

\*\*\* AMBROSE EVANS-PRITCHARD / LINK

**B**ank of Italy chief Mario Draghi delivered a robust defence of Italy's banking sector and public finances in the face of intense financial market pressure on Friday.



SOURCE: BLOOMBERG (VIA AR)

Draghi, who will succeed Jean-Claude Trichet as European Central Bank president in November, also saw an "undisputed" need for advanced countries to end the support provided by their fiscal and monetary policies in the last three years.

With the notable exception of Germany, he said growth remains feeble in advanced economies, which he said had been "too slow to help redress seriously weakened fiscal balances".

"Expansionary policies have exhausted their margins of manoeuvre," he added in a speech in Aix-en-Provence, stepping up his usually low public profile as he prepares to take the ECB's helm just as the euro zone's debt crisis is intensifying.

Fears that the debt crisis could spread as far as Italy drove the risk premium on Italian debt to its highest since the launch of the euro zone on Friday.

"When looking today at what is hampering growth in Europe, there are many reasons, but one reason, as I said, is the huge sovereign risk spreads that are now over our debt," he said.

"When you look at the real cost of credit that companies pay, it's not the policy rate of the European Central Bank, but it's the interest rate on government bonds because that presents the alternative investment."

"It's very important that price stability is not questioned at this point in time, because otherwise we'd see even higher risk premia," Draghi said, a day after the ECB raised its main interest rate to 1.5 per cent to counter inflationary pressures.

Turning to Italy, whose banking shares markets punished along with bonds on Friday, Draghi said Italian banks had enough capital and the budget could be balanced by 2014.

He issued a statement as the cost to insure Italian government debt against default rose and Italian bank shares fell on worries that the country's banking sector may need additional cash after EU stress tests and as political uncertainty weighed as well.

"I am sure, on the basis of our analysis, that Italy's banks will pass the European stress tests by a significant margin, confirming the adequacy of their capitalisation," Draghi said in the statement.

\*\*\* REUTERS / LINK

**C**entral banks have pulled 635 tonnes of gold from the Bank for International Settlements in the past year, the largest withdrawal in more than a decade.

The move, disclosed in the BIS's annual report, marks a sharp reversal from the previous year when central banks added to deposits of gold at the so-called "bank for central banks" rather than lending it directly to the private sector amid growing concerns over counterparty risk.

Central banks and other official institutions collectively hold about 30,000 tonnes of bullion in their reserves, and many seek to earn an income on their gold by lending it out, just as any other currency.

However, demand to borrow gold has fallen sharply in the past decade, driving interest rates on gold lending to record lows.

Hedging by gold miners, which is typically structured to involve borrowing gold, was traditionally the largest source of demand. But since miners have cut back their hedging programmes to almost zero, the gold lending market, which is mediated by large bullion-dealing banks, has dwindled.

Lending gold for six months earned a rate of 0.1 per cent on Thursday, according to benchmark market assessments published by the London Bullion Market Association.

... "My perception is there's less and less gold being put out by the central banks into the gold market,"

In response to e-mailed questions, the BIS confirmed that the fall in the value of gold deposits disclosed in its annual report represented "a shift in customer gold holdings away from the BIS".

"The Bank's gold deposit liabilities declined by around 635 tonnes between 31 March 2010 and 31 March 2011," it added. Comparison with previous annual reports showed the withdrawal was the largest in at least 10 years.

Traders said the move of gold holdings away from the BIS probably reflected a combination of factors.

Some central banks, unimpressed with the paltry interest rates on offer, may have taken the decision not to lend their gold at all.

"My perception is there's less and less gold being put out by the central banks into the gold market," said one banker.

However, some central banks may have rediscovered an appetite for lending gold to the private sector, which can earn higher rates depending on the credit rating of the counterparty and structure of the transaction.

"As commercial banks' balance sheets have started to look better, there may have been a switch back to lending to the private sector," said Philip Klapwijk, executive chairman of GFMS, a consultancy.

"Yield enhancement can be a powerful inducement to a central banker," an industry executive added.

\*\*\* FT (VIA GATA) / [LINK](#)

**I**n London last week some smart businessmen launched the country's first gold ATM. Stick in your credit card or some cash, and the machine will swap your plastic or paper money for a small bar of the real stuff.

That may well tell us that London remains, as it always has been, a place where monetary entrepreneurs flourish.

But it tells us something else as well. The role of money in the global economy is one of the big themes

of this decade. Gold is on the up. The euro is falling apart. And, perhaps most importantly of all, the dollar DXY +0.59% is in long-term decline.

The crisis in the euro zone may have distracted our attention from it for a while, but the relentless dethroning of U.S. currency the dollar as a global reserves currency is proceeding apace.

There were two further pieces of evidence in the last few days. Data released by the International Monetary Fund showed the percentage of dollars held by central banks in their reserves is still declining year on year. And a UBS survey of investment institutions with \$8 trillion under management showed a majority no longer think the dollar will be the reserve currency in 25 years time.

There cannot be much dispute that the dollar is losing its central role. And yet there is still very little agreement on what will replace it. Gold GC1Q -0.24% ? The Chinese renminbi USDCNY +0.00% ? The IMF's quasi-money, the special drawing right? Or something no one has thought of yet. No one really knows.

If there is one big call investors need to get right over the next few years, it is surely answering that question.

\*\*\* MARKETWATCH / LINK

**T**he political project of the euro is in deep trouble. It seems that Friedman's curse is beginning to materialize. Despite the European Union and International Monetary Fund's pledging three-quarters of a trillion of our euros to put out the debt-crisis wildfire, interest rates on troubled sovereign debts are even higher than before the announcement of the bailout funds. Not that this is a surprise to anyone.

Another loan to an already overindebted country is not a real solution to its problems — something private investors know very well. It's just a very expensive buying of time for those who happened to own the bonds and wonder what to do now. During this bought time, one can pretend that the problem will disappear thanks to sudden and miraculous economic growth. Ireland got bailed out. Portugal got bailed out. For Greece, one bailout was not enough.

...One troubling question keeps reappearing — What will happen to the patchwork safety net if the Italian or Spanish elephant falls into it?

Now, just a year later, Greece is asking again for the common European credit card in order to support a standard of living they became accustomed to thanks to the euro and with which it is very hard to part. Greece is a perfect example of the consequences of the implicit bailout guarantee from other EMU member states. A country on the edge of default with a debt-to-GDP ratio of over 150 percent — even after "radical" austerity measures — posted a public-finance deficit of 10.5 percent of GDP in 2010.

One troubling question keeps reappearing — What will happen to the patchwork safety net if the Italian or Spanish elephant falls into it? Will it hold? Or would Germany and the other countries holding it be better off letting go, so as to avoid being pulled over the cliff of default as well?

Today, we Slovaks are no longer just uninvolved bystanders, watching with interest as the euro drama unfolds. Since 2009, the euro's problems are our problems too, and now our chips are on the table. When you see press conferences announcing newer and bigger bailout packages, just divide the figures quoted by 100 to find out just how much European "solidarity" will cost us.

\*\*\* VON MISES / LINK

**P**erhaps it's crisis fatigue, but monetary policy in Europe seems to have descended into madness.

With much of the eurozone (inflation rate 2.7pc) flirting with insolvency, the economy visibly slowing and money growth barely positive at all, Jean-Claude Trichet and the rest of the European Central Bank governing council think the time is right for another hike in interest rates.

Meanwhile, in Britain (inflation rate 4.5pc and rising), the Bank of England is sticking rigidly to the idea that the spike in prices is temporary and that the current zero interest rate policy should therefore be maintained.

Should it not be the other way around? A visitor from Mars would make Sir Mervyn King and Jean-Claude Trichet swap jobs, and then we might see sense prevail in both economic jurisdictions.

... The tightrope French and German politicians have to walk today is getting the French and German masses not to worry about PIIG debt

With the ECB, it will be recalled, current events almost exactly mirror what happened three years ago when, with commodity prices spiking in the last hurrah of the boom, the ECB saw fit to implement its "strong vigilance" and increase interest rates. Personally, I don't buy the view that this ill-judged tightening precipitated the Lehman Brothers collapse, but it certainly didn't help. It was just the wrong moment to be raising interest rates. Within a few months, the ECB found itself desperately cutting them again.

Now history seems to be repeating itself. Substitute Greece, Ireland and Portugal for Lehman's, AIG and Merrill Lynch, and you have an almost perfect replay of events back then, only this time it's happening in the ECB's own back yard and it is whole countries, not just banks, which are threatening to go under.

A rate rise is very plainly the last thing that the struggling European periphery needs right now (can it really be the case that the governor of the Central Bank of Ireland, Patrick Honohan, would have voted for a rate rise, as implied by Mr Trichet's insistence that the decision was "unanimous"?). But unlike the Bank of England, the ECB takes its inflation mandate very seriously, and as Mr Trichet points out, he must make policy for all the eurozone's 330m souls, not just the troubled fringe.

In this regard, the ECB's decision is perfectly rational, for essentially what Mr Trichet is doing is making policy to suit the German core. For Germany, anti-inflationary vigilance is not just a question of its still haunting experience of hyperinflation. It's also instructed by the fact that Germany is a big-surplus economy with substantial household and corporate savings. To Germans, negative real interest rates of the type that exist in Britain are absolute anathema.

For highly-indebted countries such as the UK, however, it's the other way around. It's tough on the country's ever more depleted, yet still substantial, army of savers, but a little bit of inflation is for Britain an arguably quite good thing, for the effect is to erode the real value of the country's mountainous debt. At the same time, it also disincentivises saving, forcing those who still can to support growth by spending their surplus.

\*\*\* JEREMY WARNER / [LINK](#)

**T**he European Union can only wish it had more cynical gimmicks remaining to get out of its current quandary. There is nothing left to do except extend and pretend -- to rollover debt by extending Greek obligations now, (Portuguese and Irish debt later), and pretend the problem is solved.

## THINGS THAT MAKE YOU GO *Hmmm...*

Like the delusion of the CPI fix, all sentient beings will not acknowledge that the debt still exists and is in default. It will be suspended in a state of perpetual animation, where no one will be ungracious enough to notice it, so that new debt can be layered over it.

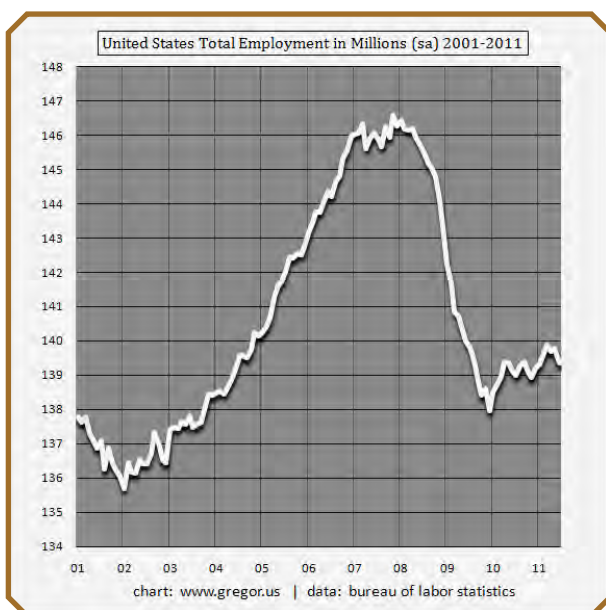
The only other option for the political dimension would be to pick winners and losers -- Greek borrowers or French and German lenders. The state of play is not at that point yet. (We would think European politicians actually do have one more option left, which would be to do nothing – to let the courts sort it out. This will occur, but not yet. Creditor banks would not allow that to happen and it seems that politicians are dancing to the tune of their largest banks presently. (Only once the debt is safely in the hands of non government-insured investors will politicians be able to pick winners. More on this below.)

Greece had and will have far more power in negotiations than politicians and media care to admit. Stripped of all edifices, this drama is ultimately a confrontation between the French, German and Greek people. Greek politicians will answer to the Greek people first because Greek banks are not on the hook. Like Russia and Argentina before it, Greece played international banks' game, it didn't work out, and it can now walk away unscathed because of its sovereign status. Despite the recent vote in the Greek parliament we do not expect Greek austerity to be practically implemented. French and German banks are ultimately the problem of French and German taxpayers. Greece will eventually default in some way, shape, or form and French and German politicians will then have to choose between satisfying the best interest of their banks or their electorate. (Sound familiar?)

We have no doubt they will try to roll the debt over again, and so on and so forth.

If and when the whole proposition becomes too frightening for even the dullest of Euro holders, we would think French and German banks would have to propose write downs and work outs. However, we do not think it will ever come to this. Why? Because banks on the hook for Greek debt now will spend the coming months off-loading their remaining Greek liabilities. (Look for "sophisticated" distressed-debt hedge funds and others to "take advantage" of regulated banks by reaching for yield in PIIG sovereign debt.) Private investors will ultimately take the hit. The tightrope French and German politicians have to walk today is getting the French and German masses not to worry about PIIG debt (because only the elites among them that invest directly in Greek and Iberian debt will ultimately take the hit), while not polluting the bid among those "savvy predators".

★ ★ ★ BRODSKY & QUAINANCE / EMAIL



[CLICK TO ENLARGE](#)

SOURCE: GREGOR

**T**otal employment in the United States fell in June by 445,000 people, from 139.779 to 139.334 million. With this loss the average so far in 2011, tracking at 139.59 million, is closer once again to falling below 2010's average, of 139.07 million. While you can easily see in the chart below an advance out of the late 2009 low in total employment, June's level in 2011 brings the US economy back—rather magnet-like—to the oft repeated 139 million mark of the past 18 months. The feeling in US society that the economy is neither recovering, nor making much progress, is not only understandable but warranted.

Today's employment report may finally administer enough of

a shock to force the US policy complex to face up to two facts: 1. This is not a post-war recession. 2. Energy, not financial capital, holds primacy for the economy's future.

The seeds of the current decline were visible in California's employment data in late November/December of last year, when total employment in that state fell to a new post-crisis low. I wrote about this warning in March, when the California EDD revised its data. Moreover, the unfolding data on Food Stamp user growth and the advance in oil prices was frankly yet another easy portal to the view that the US economy was ready to tip downward, once again. Indeed, the Energy Limit Model continues to work beautifully, showing that the US—already constrained by onerous debt levels in the private sector—is further damaged when energy costs rise in proportion to GDP. That damage has been pounding away at the economy for at least 9 months.

\*\*\* GREGOR / LINK

**T**he launch of this new gold and silver exchange has flown under the radar, but certainly has my attention. I firmly believe we are marking a pivotal point that will in very short order affect current precious metals price discovery dynamics. We now have an additional factor to be vended into the supply demand equation. This factor will ultimately destroy the remaining short positions in both gold and silver.

China is keen to diversify their cash holdings and is also encouraging citizens to make investments in gold and silver. The Pan Asia Gold Exchange is another step in this direction by opening up ease of access to physical gold and silver to their bank customers. This physical backed exchange is going to be a big game-changer.

Just look at the scale of this to get an idea of how massive this game-changer will be, The Agricultural Bank of China has over 320 million retail customers and 2.7 million corporate customers and has integrated its customer account information system with this platform.

... To give a further idea of scale, if just 1% of their customers bought a single 10 ounce contract, that would equate to 1,000 tons of physical gold being drawn down...

By creating the first ever rolling spot contract, Chinese bank customers will for the first time have ease of access to 10 ounce gold contracts in Renminbi directly from their bank accounts and with the click of a mouse. To give a further idea of scale, if just 1% of their customers bought a single 10 ounce contract, that would equate to 1,000 tons of

physical gold being drawn down....

"The impact on the price of silver will be even more pronounced. Silver is a much smaller market and already in tight supply. If just 1% of Agricultural Bank of China customers buy 500 ounces of silver, that would require 1.6 billion ounces of silver! I believe the leveraged and naked existing short side concentration in silver will be blind-sided by this. In my opinion it will create a massive short squeeze.

\*\*\* ANDREW MAGUIRE (VIA KWN) / LINK

**F**irst, I happen to agree with about 99% of what Andrew Maguire says most of the time and I certainly agree with this. It sort of encompasses two things. It's been well documented, the Chinese interest in gold and silver is immense. They have a natural tendency towards it. They are getting wealthier and now they are setting up an opportunity where the public can get easier access to it, so to me that just cements the demand side of the equation.

The other side that Andrew knows a lot about because of his vast experience is the paper short po-

*sitions that are carried by the bullion banks. The fact is these things (short positions) are extremely vulnerable and they can be taken out by physical demand.*

*When the pricing mechanism changes from the paper market to the physical market, which is what Andrew is suggesting, this is the inflection point where the price of gold is going to go berserk. Silver even more so because of the tightness in the silver market and the fact that the short position is even more extreme...*

*Basically the only way you are going to draw it (silver) out is by dramatically higher prices. I think there's a very distinct silver shortage, unlike gold where there is still some left in central bank vaults. In this recent takedown in gold that took place over the last several weeks, clearly they accessed some central bank gold to assist their paper takedown. But this is going to be harder and harder to do in silver because there just isn't that inventory lying around that can meet a sharp increase in demand....*

\*\*\* ERIC SPROTT (VIA KWN) / [LINK](#)

**S**trange as it may seem, there are still credit rating agencies that give cash-strapped Greece top marks. The experts at Germany's Euler Hermes Rating currently give the Mediterranean country their top AA rating, citing its "very strong business environment."

And there is little doubt that Euler Hermes can be trusted. It is the first rating agency that officially meets the tougher European regulations for the industry that were introduced at the end of 2010.

There is only one problem: Their good rating for Greece is not related to the creditworthiness of the state, but to that of Greek companies. When it comes to rating sovereign bonds, that is still done almost exclusively by the three major rating agencies -- Standard & Poor's, Moody's and Fitch -- who are collectively known as the Big Three.

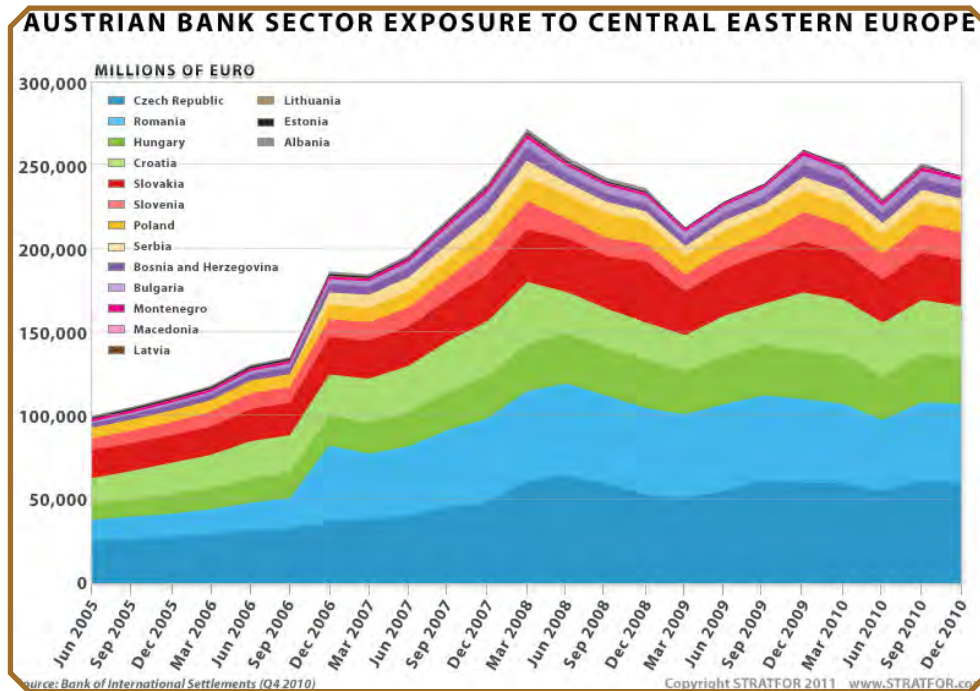
That is something that European politicians have long wanted to change, and there have been repeated calls to set up an independent European rating agency. Now the European Union is working on its proposal for what such an agency could look like.

The influence of the Big Three could clearly be seen in the heated reaction to Standard & Poor's announcement earlier this week that it might classify a planned restructuring of Greek debt as a default. Their decision seemed to cast doubt on the prospects for a complex plan to participate private creditors in a new bailout for Greece.

Portugal's future, too, appears less secure after Moody's downgraded its debt to junk status on Tuesday, warning that the country might need a second bailout before it could return to the capital markets. The move could mean that Portugal will have to pay a higher premium to attract buyers for its debt.

But why are European politicians and investors still so dependent on the opinions of three private companies based in New York and London? After all, the Big Three were the subject of massive criticism in the wake of the 2007-2008 financial crisis, because they had awarded top ratings to highly risky financial products in the run-up to the crunch. Since then, politicians have repeatedly called for measures to curb the agencies' power. Most recently, German Chancellor Angela Merkel commented on Tuesday, in relation to Standard & Poor's announcement: "Regarding the issue of rating agencies, I think it is important that we do not allow others to take away our own ability to make judgments."

\*\*\* DER SPIEGEL / [LINK](#)



[CLICK TO ENLARGE](#)

SOURCE: STRATFOR

to repay the value of the appreciated loan in their domestic currency and would be forced to default or restructure their loans, both of which could impact the banks that originated the loans.

This certainly would not bode well for Europe, especially Austria. The 2008 financial crisis started in Europe when the collapse of Lehman Brothers triggered a massive capital flight away from Central Europe, and a mortgage crisis in Hungary or Poland could potentially replicate these triggers, leading to contagion across the Continent. Austria, particularly susceptible to contagion emanating from Central Europe, could act as the gateway for the crisis into the eurozone. The Austrian financial sector would have to incur these losses, potentially forcing Vienna to bail out its banks, focusing the markets and investors on Austria itself.

\*\*\* STRATFOR / LINK



[CLICK TO ENLARGE](#)

SOURCE: DAN NORCINI

The star of today's show... full of sound and fury...

A number of times I have compared the current topping pattern to that of the 2007 pattern. The reason I suspect they are similar is for psychology during such times does not change. Longs don't want to surrender their money making machines. Shorts are eager to price in economic weakness and the argument about soft landing or recession grow louder.

The magical Point E may now be in for the current market. The similarities are striking of the move to point E in both 07 and 11. A similar move also occurred in the treasury market as highlighted here. That wild move higher shakes a lot of shorts out of their position, pulls in the last remaining dollars from the longs before finally ripping lower leaving few on the train.

During these Point E's the macro data is confusing as well. For example the NFP reports (and ADP) right before the great recession showed a positive reversal in job growth. I am sure the debate of soft patch or recession were just as loud then as now.



[CLICK TO ENLARGE](#)

SOURCE: TONY PALLOTTA



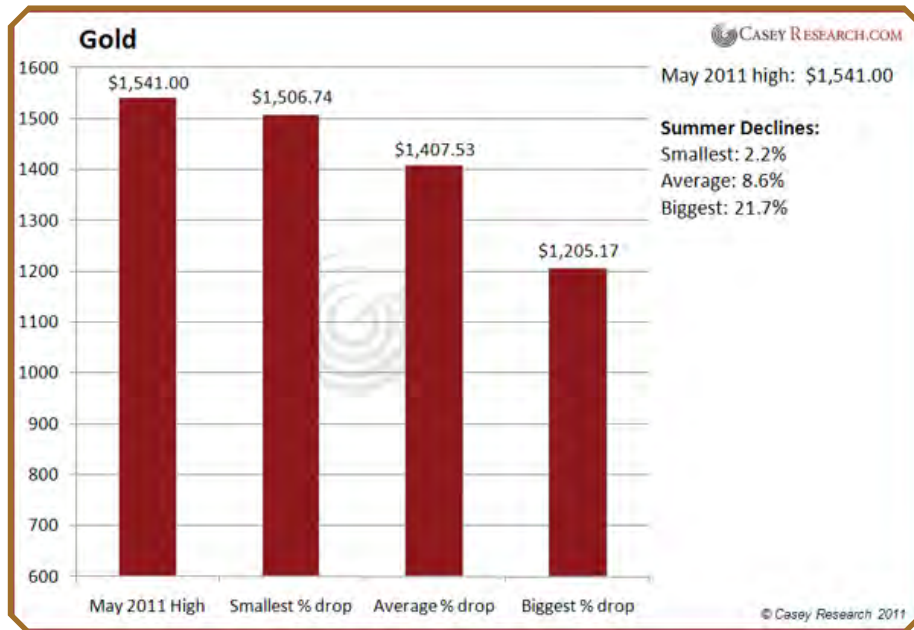
[CLICK TO ENLARGE](#)

SOURCE: TONY PALLOTTA

So if in fact Point E is in (the current chart is not updated with today's price but trust me it was lower) expect a pullback, one last sucking sound of doubt move higher and then hell breaking loose. Which by the way would be a lovely set up for the Bernanke Put round 3.

astly I suspect one additional thing keeping a bid in the market is the hope of a debt ceiling deal possibly as early as this coming weekend. How that is bullish is beyond me for it will result in the government agreeing to reduce up to \$4 trillion in fiscal stimulus from the economy and easily could put the US back into recession. Other than a bounce and removal of doubt as if there should be any on this matter there is nothing positive about a debt ceiling deal.

\*\*\* TONY PALLOTTA (VIA ZEROHEDGE) / [LINK](#)



CLICK TO ENLARGE

SOURCE: CASEY RESEARCH

The charts ... are based on a simple premise: Gold and silver tend to perform well through May and then pull back during the summer. This year, gold peaked on May 4 and silver on April 28 (based on London PM fix pricing).

How much do they pull back? I calculated the smallest, average, and biggest retreats from the May high to the summer low (June, July, or August) in each year of our current bull market (2001 through 2010). The charts below display the prices for gold and silver when those declines are applied to this year's May high.

Here's what the smallest, average, and biggest summer declines look like for gold since 2001, and what price that would represent today.

Gold's smallest decline in the current bull market has been 2.2%, which, subtracted from this year's May high, gives us a price of \$1,506.74. The average drop over the last ten years is 8.6%, which would give us \$1,407.53. The largest summer drop was 21.7%, which would take us to \$1,205.17.

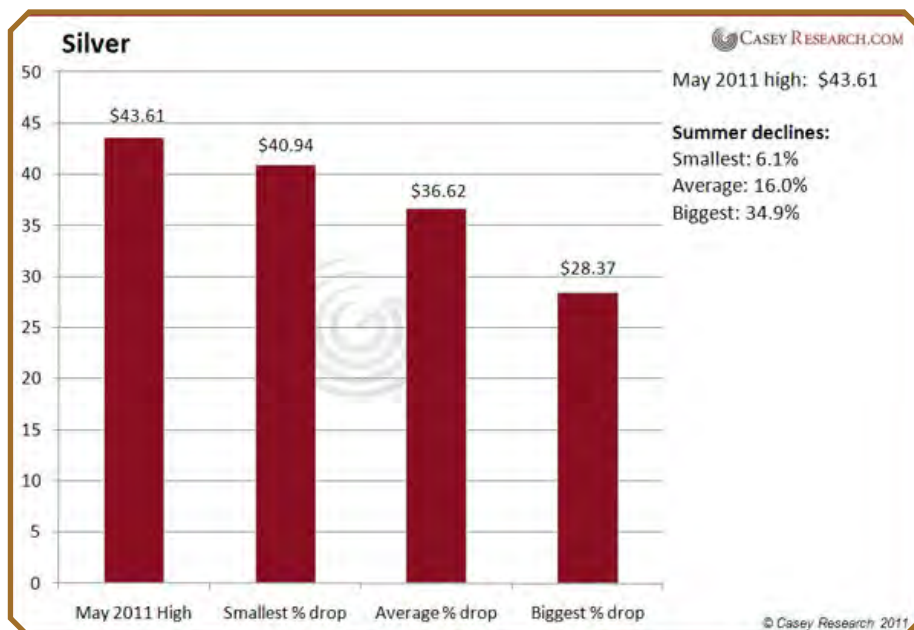
Gold's low so far this summer is \$1,498, a drop of 2.7% – barely more than the smallest summer decline in our current bull market.

We've come nowhere near the average decline and have two months of summer to go, so I would be inclined to be patient here.

In fact, the data tell us that a \$1,407 gold price would be completely normal. In my opinion, that would signal a great buying opportunity. Given all the monetary, fiscal, and economic issues that continue to plague most parts of the globe, I wouldn't hold my breath that we match the biggest summer decline.

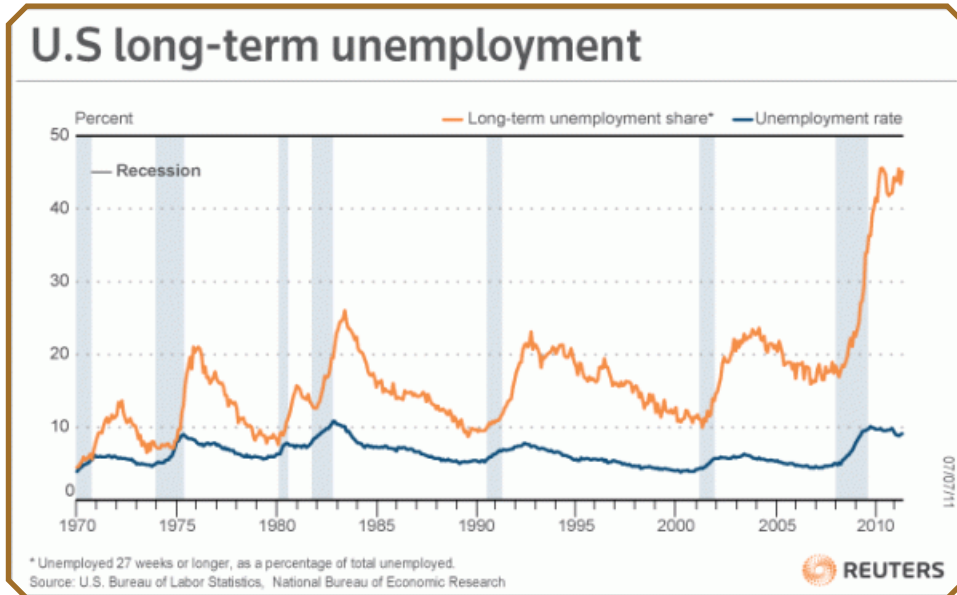
Here's what the data look like for silver (left):

\*\*\* JEFF CLARK / LINK



SOURCE: CASEY RESEARCH

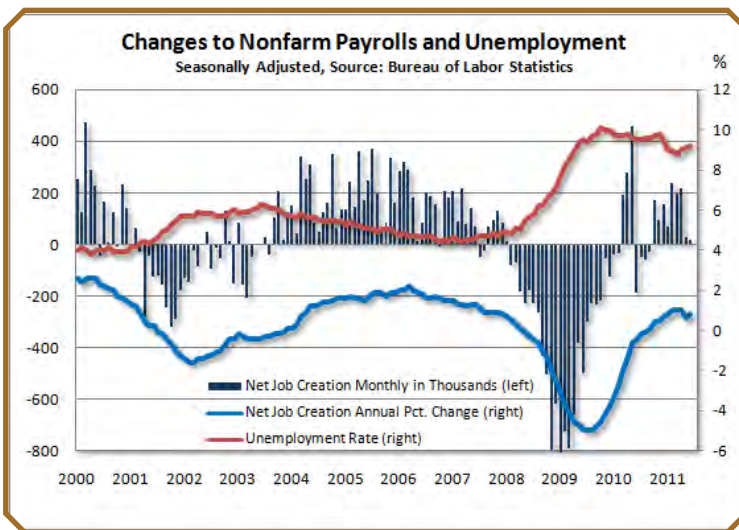
# CHARTS THAT MAKE YOU GO *Hmmm...*



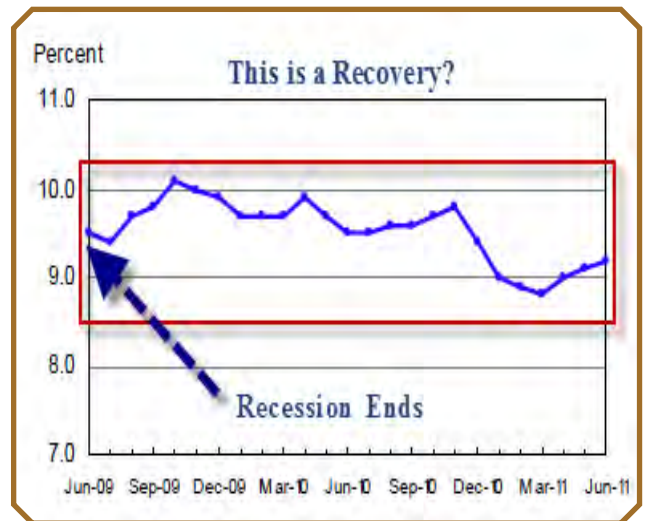
Jobs!  
...or lack of...

CLICK TO ENLARGE

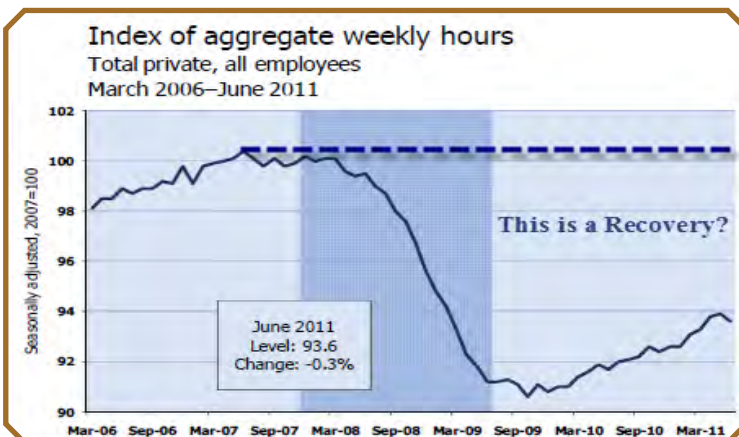
SOURCE: REUTERS/FT



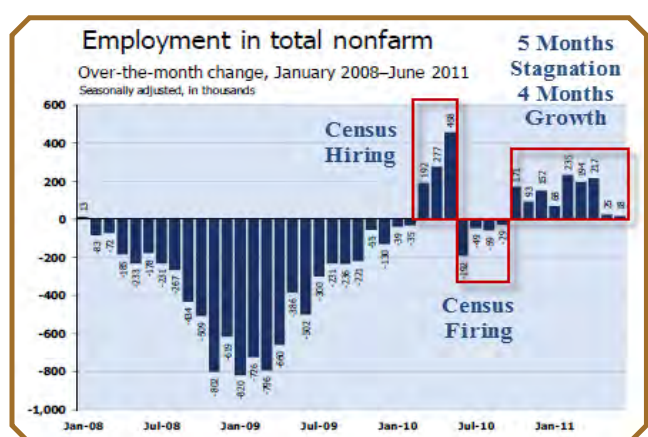
SOURCE: TIM IACONO



SOURCE: MISH



SOURCE: MISH



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SOURCE: MISH



[CLICK TO LISTEN](#)

**B**ill Fleckenstein talking to Eric King about the next leg down in real estate, the busted country that is Greece and the problems it poses to the European banking system, gold and silver, and much, much more.....



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**Q:** You sound angry.

**A:** I am. I really am. You've got an administration that made tremendous projections years ago at this point. If this was the private sector, in a group of managers with this track record would be fired, period. They would be shown the door. These people -- do you really think they can make a difference? A substantial difference in an economy that is so badly hit?

Government policy makers relative to trying to goose the economy, they are like a 4-year-old kid with a hammer. Everything looks like a nail. They do not know when to stop. They do not create wealth. That's just the fact. They are like traders who overtrade a book. It's the same thing. Then Ben Bernanke comes down and says we have no idea why this is so bad. If you have no idea, why do you continue to do these things and espouse these philosophies? They've continued to depress the American public and business people in America. You have the lowest rate of job creation. You have the lowest rate of business creation..."

Want more of Wayne Kaufman's rant? There's plenty...

**F**ounder & Chairman of Research Affiliates, Rob Arnott has been a stranger to these pages for a while, but he's back today and in this interview with Eric King he discusses his inflationary concerns, Potemkin Prosperity, the anaemic recovery, life in Weimar Germany and the end of QE2 as well as the folly of central planning...



[CLICK TO LISTEN](#)

*and finally...*

**T**he new Bugatti Veyron 'L'or Blanc' has a porcelain caviar tray.  
Finally!

Frankly, that is LONG overdue. I've lost count of the number of times I've had to eat my caviar out of a Tupperware container while I'm driving so it's about damn time that the Bugatti engineers finally did something PRACTICAL for the everyday Veyron driver.

That aside - and I wouldn't call myself a petrolhead - what a beautiful car.

Shame about the paint-job...



[CLICK TO VIEW SLIDESHOW](#)

*Hmmm...*

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