Derivatives Collapse and the China Gold and Silver Markets

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In 2009, China opened up various exchanges for investment in both gold and silver to the Chinese public, which previously was not allowed to invest in gold and silver. The opening of silver exchanges to the Chinese public is the most recent development and was accompanied by a ban on silver exports. The Chinese government is actively touting both gold and silver as an investment to the Chinese public, and with good reason. The yuan, like the dollar and virtually all other paper currencies, with the exception of the euro, are one hundred percent fiat currencies backed by absolutely nothing but government promises which aren't worth the powder to blow them to hell. Even the euro's gold backing is pathetic at best. Initially it was a respectable 15%, but the backing is probably now about half of that due to Washington Agreement gold sales and surreptitious gold leasing.

The Chinese government knows that if they do not allow the public to protect their new wealth with gold and silver, a decline in the yuan due to hyperinflation caused by massive government stimulus and an ongoing bailout and subsidization of mass failure in their banking and corporate sectors due to declining exports and trillions of dollars worth of spurious loans undergoing increasing rates of default, loans which often were given to Chinese communist party members, could very well lead to revolution. Chinese government officials are now attempting to protect themselves by dumping large portions of their dollar denominated reserves for gold and silver, as well as for commodities such as copper and oil, and they want the Chinese public to be able to do the same with gold and silver, for maximum possible protection – and, more importantly, for avoidance of revolution. We believe that the Chinese government has acted far too late, but it's better than doing nothing. We also applaud their attempt to protect the wealth of their people, even though it is self-serving.

On the other hand, our Shadow Government, which runs our official government, is doing precisely the opposite, discouraging the US public from owning gold and silver. This contrary position of our Shadow Government, which is run by the Puppet Masters who pull the marionette strings attached to Obama & Company, and to our totally bogus Congress, who collectively now sport the lowest approval ratings in American history, is due mainly to two factors. First, they lack the ancient wisdom of the Chinese acquired over several millennia. Chinese survival skills are far better than those of our illustrious Illuminists. And second, the Puppet Masters are actively seeking to destroy the US middle class to pave the way for a one world Orwellian police state of feudality. Remember, a strong and vibrant US is the main obstacle to world government. Our evil Shadow Government would do well to follow the Chinese example, but they won't. Apparently, the sound of a guillotine, or of a trap door opening, fascinates them.

Now, suddenly, we hear that China is considering walking away from responsibility on certain OTC derivative contracts held by foreign banks as counterparties, which contracts cover various commodities, in the event that those contracts result in losses to their sovereign wealth funds. You may recall from prior discussions in the IF that these unlisted OTC derivative contracts include massive short positions in both gold and silver, but especially in silver, and are used to back the listed COMEX short positions of the large commercials in both gold and silver. In other words, the CFTC is allowing COMEX commercials to justify their ludicrously concentrated short positions in both gold and silver by backing those positions with contracts about which the CFTC has no direct knowledge, over which they have no regulatory authority thanks to the Commodity Futures Modernization Act, and which the CFTC knows are backed by foreign governments outside the jurisdiction of the US who can renege on those contracts with impunity!!! How's that for reckless regulation of commodities by the CFTC?! And now everyone's worst fears are about to be realized as China announces its intention to renege!!!

The majority of the massive concentrated short position in COMEX silver, which short concentration vastly exceeds that of any other commodity on the COMEX in its degree and scope, was first held by the now defunct and eternally bailed AIG, which was little more than a CIA and Mossad bucket shop and money laundering operation. After a totally justified public protest spearheaded by Ted Butler and Eliot Spitzer, the AIG short position in silver was next transferred to Bear Stearns of subprime derivative fame, and then JP Morgan Chase acquired the Bear Stearns silver short legacy in the now famed and nefarious Bear Stearns takedown that was orchestrated by the Buck-Busting-Ben-Bernanke-led Fed and JP Morgan Chase in cahoots with our Hanky-Panky-Paulson-led Treasury Department, which at that time guaranteed loans made by the NY Fed to JP Morgan Chase – without recourse. We wonder if these miscreants did not also arrange for the surreptitious taxpayer guarantee of the imploding position in silver shorts inherited by JP Morgan Chase from Bear Stearns??? No wonder silver got blasted last year! Paying off on such a guarantee would have been very embarrassing to say the least, and you can bet the Chinese communist party members with their massive sovereign wealth fund holdings of OTC silver shorts were on the sidelines calling for a silver takedown after suffering a massive collective coronary as silver blew through $20 an ounce! It all makes perfect sense now.

These two developments, namely the Chinese government's promotion of gold and silver to its public as an investment, along with its intention to renege on its OTC derivative contracts covering certain commodities, are obviously interrelated. If you are going to ask your public to invest in gold and silver in a massive way in order to save both your and their bacon, while at the same time diversifying a goodly portion of your trillions worth of dollar-denominated paper assets into physical gold and silver, you might expect that this would put massive upward pressure on gold and silver prices. But if you also had massive holdings of short positions in OTC derivative contracts covering both gold and silver, would you not be shooting yourself in the foot?!!! So now we can understand why the Chinese have decided to renege. Otherwise, they are caught in a trap!

If the Chinese government pushes to bail out of dollar-denominated paper assets by plowing these assets into purchases of physical gold and silver, and then proceeds to ask their public to do the same, they will suffer massive losses on the OTC derivative contracts, totally defeating the whole purpose for diversifying into precious metals. This trap was intentionally set for them by the Illuminati in their never ending battle to suppress gold and silver prices. Your government, both shadow and official, lured the Chinese into writing OTC gold and silver short contracts ostensibly to hedge domestic precious metals production, but most likely to take advantage of planned gold and silver takedowns, and then used those contracts as a form of extortion against them to prevent them from diversifying out of the dollar and into gold and silver, among other assets. They probably told the Chinese that they were going to do a big takedown of gold and silver, and that they could greatly profit from these short positions and at the same time protect the value of their domestic precious metals production. Then Meredith Whitney pulled the plug on Citibank subprime assets, and the great bailouts and monetizations began, along with hyperinflation and a commodity boom powered by massive injections of money and credit by the Fed to the big legacy banks, the “anointed,” in order to save bank balance sheets.

Apparently the US government forgot to mention these upcoming events and salient facts to the Chinese and now the Chinese have understandably decided to renege. Basically, the Chinese are saying: Up your nose with a rubber hose!

So now the COMEX gold and silver commercial shorts, the owners of the COMEX exchange, and all the past CFTC officials who allowed this nefarious paper fraud in gold and silver to rise to new criminal heights based on bogus backing by unregulated derivative contracts written and guaranteed by an often contentious and even hostile foreign government, are all doing double shots in their knickers. If the very angry, and very duped, Chinese renege, the entire COMEX is going down, big-time baby!!! The whole system is about to blow if the Chinese renege on these contracts!!! We wonder what the Chinese want in return for not reneging! Whatever it is, we can guarantee you that the US government is not going to like it very much.

Without the Chinese OTC derivative backing, all COMEX gold and silver positions would be totally naked. That is because COMEX inventory reports for both gold and silver are a total fairytale fraud. Despite many hundreds of requests for physical delivery which were satisfied over the course of many months, the gold and silver inventories reported by COMEX have remained unchanged. The COMEX even had to enlist the help of the ECB and the Canadian mint to satisfy those requests for delivery, thereby demonstrating that what the COMEX reports as inventory is nothing but a phantasm. We recommend that any and all COMEX gold and silver positions be abandoned as being outright naked and fraudulent.

Take physical delivery of your gold and silver bullion from COMEX if they have any, or take your ETF share in lieu of physical delivery and convert it into bullion immediately, and take physical possession of it. Do not trust any bank, any mint or any ETF or pooled fund to hold your gold and silver. Otherwise you potentially face a total loss of principal

When the COMEX goes down in a blaze of glory, which is now inevitable, everyone who owns any ETF gold and silver shares, and especially those who have received these shares in settlement of their imploding COMEX contracts, are going to ask for physical delivery from the ETF’s because all confidence will be lost in the system. Then comes the implosion of the ETF Ponzi schemes as everyone finds out that not only did the COMEX have no gold or silver to back its contracts, but that all the gold and silver ETF’s were nothing more than gold and silver naked-shorting, leasing and price suppression schemes. We now predict that the requests for physical delivery from the ETF’s will far exceed what they planned for, and further that the whole nefarious scheme will be exposed as being a Madoff-like Ponzi scheme, because their touted gold and silver bullion holdings have all been sold off, leased or otherwise encumbered.

In fact, the gold and silver being promised as backing for the holders of ETF shares may be the same gold and silver that is used to back COMEX futures contracts. The ETF's may well be leasing their gold and silver to the COMEX, which may then be handing it out to settle COMEX physical demands for delivery. Well guess what – you can't both own the same gold and silver at the same time! Now the COMEX has dropped that pretext, after sucking the ETF's dry, and they now hand you ETF shares backed by what may well turn out to be non-existent gold and silver! The cartel couldn't screw the ETF shareholders any further, so now they are screwing the COMEX investors as well. We therefore recommend the abandonment of all pooled accounts held by ETF's, mints and any gold and silver dealers that are not on our recommended list, as being potential investment scams. If any dealer offers to hold your gold and silver for you in return for a paper promise instead of physically delivering it to you, just tell them thanks, but no thanks. Many dealers may be depending on paper gold and silver themselves to cover their gold and silver promises to their customers, so if this paper gold and silver evaporates, so will your dealer's promises. This whole group of cartel henchmen-con-artists from the Illuminist cabal could easily get caught in a failure to deliver known as a commercial signal failure. The gold and silver shorts will completely implode if this occurs, and the Chinese strategy to renege on its OTC gold and silver shorts could well be the catalyst that brings such a cataclysm to fruition. Then, when gold and silver skyrocket as the shorts implode, only those who took physical possession of gold and silver, or who own gold and silver producer shares, will profit, while those holding futures contracts, ETF shares, mint certificates and precious metal derivatives will watch their contracts and shares go up in smoke like a Mission Impossible tape. That is because the major exchanges, sponsors and counterparties will go bankrupt, and you will have nothing left to go after to satisfy your paper promises.

The magnitude of this paper gold and silver scam will even exceed that of the Madoff Ponzi scheme. The Stanford scam will look like chump change by comparison. You should own only physical gold and silver, which is in your possession. The only paper gold and silver you should own are the producer shares, period. All futures contracts, ETF shares and mint certificates are now potentially bottomless capital loss pits.

We note how the Chinese gold and silver OTC shorts have hardly been mentioned by the fane-stream media outlets. The fane-stream media outlets are only talking about the OTC oil longs that the Chinese placed to lock in, and place a ceiling over, the cost of the oil they import as oil skyrocketed last year, on which they are now losing their shirts in the aftermath of the cartel-orchestrated oil takedown. The Illuminati, much of whose power lies in their big oil ownership interests, hammered oil down from $147 dollars a barrel to $32 a barrel in order to suppress alternative, greener and more efficient sources of energy, as well as to kill off the smaller producers who don't enjoy the same economies of scale as the big oil companies. Even today, oil is still less than half of its previous high more than a year later, and this has the Chinese hopping mad.

The media has focused on the Chinese long side of OTC oil derivatives, and has suppressed the news about their short side of OTC gold and silver derivatives, because the Illuminati, who own all the fane-stream media outlets, know just how explosive this news could be for gold and silver, and for them and their cabal, a gold and silver rally is the biggest of all no-no's. The Illuminati allowed the news to leak on the oil derivatives, because they believe they can patch up the resulting problems for the much larger oil market, but the gold and silver markets are far too small and volatile for the cartel to be able to control the potential fallout, and as far as the US branch of the Illuminati is concerned, gold and silver must be suppressed at all costs because rallies in gold and silver expose the vulnerability of their seat of power, namely, the reserve status of the US dollar and the status of the US treasury bond as the ultimate safe-haven.

The implications of the Chinese abandonment of their responsibility under derivative contracts are nothing short of tremendous and the entire derivatives market could collapse. Once derivative players understand that any person or entity powerful enough to thumb their noses at the owner of the other end of a derivative contract can do so with impunity, the whole derivative market will go into a major uproar and will become completely unviable.

Everyone, including most of the major sovereign wealth funds, has figured out that they have been played for suckers by the big Illuminist legacy banks, who sell them these derivatives under false pretenses, and then via the Plunge Protection Team, financed with tens of billions of dollars worth of liquidity from the Fed's repo pool, manipulates the markets worldwide such that the Illuminist legacy banks end up on the profitable side of the derivative contracts. Those foreign nations who are in an economically, politically and militarily strong position are going to renege on any significant losses they suffer in the derivatives market because such losses are the result of fraud, deceit, illegal manipulation and Illuminist blundering. These foreign nations are as mad as hornets and could very well tell the Illuminati's anointed legacy banks to take their derivatives and stick them where the sun don't shine!!! We don't think the Illuminists counted on this happening so soon.

The US branch of the Illuminist cabal has been trying to keep Chinese losses on their OTC commodity derivatives under control with lots of price manipulation in gold, silver and oil in an attempt to make up for past fraud and blundering. In any case, the Chinese don't care if their derivative losses were the result of Illuminist fraud, or just plain blundering. They simply are not going to pay! No wonder Bernanke, Paulson and now Geithner have been running back and forth to China so often. And you can bet there are a host of other nations with the same issues who were sold a bill of goods. Wait until interest rates skyrocket and the carnage starts on the interest rate swaps and the parties on the losing end of these derivatives tell the big "anointed" legacy banks to stuff it, to the tune of tens of trillions of dollars. The evil Illuminati, our would-be masters of the universe, are about to get bagged, stuffed and mounted!

If the Chinese government and the Chinese public go on a gold and silver investment binge, and Americans sit idly by like bozos as dumb as a box of rocks and continue to ignore gold and silver, all we can tell you is that you had better start learning Mandarin and teaching it to your children as well. China will recover very quickly from this disaster if it avoids revolution, as will the other major gold holder, India, and you will be in depression for two decades, if you do not end up living in FEMA detention/reeducation/death camps first. If you want to survive the coming disaster, turn off the boob tube, put the beer down and run to your phone to order some gold and silver. This will turn up the heat on the Fed as rising gold and silver prices will show them for the frauds they are, and add impetus to the movement to audit the Fed and end its reign of terror forever.

And we might add the reminder that Fort Knox is freaking empty and your dollars are 100% fiat, so don't sit there watching NFL games. Get off the couch, order some gold and silver, and start making up for the loss of our national gold!!!

Always remember, he who has the gold makes the rules. Speaking of which, we thought that we would comment on two situations that illustrate this principle perfectly.

First case in point: You might note that although Germany wants out of the euro in the worst way, they have a really big problem. They entrusted their national gold to the US government. What a monumental mistake that was. And now its national gold is freaking gone, along with the rest of the US gold, which has all been stolen, sold, leased or otherwise encumbered. That means that Germans would be forced to leave the euro, which has at least some measure of gold backing, for the old German mark, which due to the theft of all of Germany's gold, would now be totally fiat except for the gold which Germany has on deposit with the ECB, some of which may have been sold as well, which is small compared to what they had on reserve with the US Treasury. So now we see what is holding the European Union together. Until Germany gets its gold back (fat chance), if they revert to their previous currency, the mark, it would be little better than the euro. This is why Germany asked for their gold back and were told to take a hike. Otherwise, the bogus European Union would be immediately dissolved, and the Illuminati will certainly not allow that. This is also a potential reason why the ECB, which takes its lead from Germany and France, has been reticent to increase money and credit in the same fashion as the US Fed. They are deathly afraid of hyperinflation for historical reasons, and now Germany has come to the realization that they are naked and that they lack any protection against the ravages of a profligate monetary policy whatsoever. Talk about international monetary extortion! We may end up in a replay of World War II if this continues. How is the German government going to explain this boner to the German public? Perhaps the German people will end up having their own version of the Nuremberg trials, where the current and past German politicians who allowed their gold to be stolen by the US government get to play the part of the Nazi prisoners on trial, complete with a walk to the gallows.

Second case in point: You might note that the Gulf Cooperation Council (GCC), which is comprised of the Persian Gulf states of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, in recent years attempted to break their pegs to the dollar and to start a new common central bank which would issue a new single currency that would be pegged to a basket of currencies, with a 2010 deadline. Then suddenly, their 2010 deadline got pushed back indefinitely in June of 2008, presumably because their economies had been destabilized by unexpected, very large increases in inflation. But they also had another problem, they had little gold physically in their home countries to back their existing currencies, much less a new single GCC currency. Then suddenly we get word that the GCC states have requested that all their physical gold bullion in the UK and in the US be returned to them for storage closer to home, probably in Dubai and its newly constructed gold vaults. They want the gold bullion under their futures contracts with the COMEX and London Metals Exchange (LME) to be physically delivered to them for storage in Dubai. Well, we have some rather bad news for them: Good luck, suckers!!! The GCC countries did the second most stupid thing in the world. They entrusted their gold holdings to the naked short ridden COMEX and LME. At least they can say that the Germans took the grand prize for stupidity, entrusting their gold to the US government and its gold suppressing machine. So now, if they break their dollar pegs, they will have totally fiat currencies, and if they have a single GCC currency, it will also be 100% fiat, just like the German mark would be. They would be wiped out by hyperinflation in a nanosecond. So they are now stuck in the dollar until it collapses, all because they trusted in paper gold. What idiots. Some of the richest people in the world apparently are getting the worst advice in the world. You would think they could afford to obtain better advice than that. Now they are consulting with the Germans, who are the same idiots that trusted their national gold to the US government. Talk about the blind leading the blind! Do they really think that the US is going to allow them to break their dollar pegs, and topple the reserve status of the dollar, the seat of US power, before the Illuminati are ready? Do you really think that the COMEX and LME would deliver the gold even if they had it, which they most certainly do not, when this could potentially empower the GCC to topple the dollar? Do you really think that the COMEX and LME are going to own up to a failure of delivery and send gold and silver to the moon, and the Illuminati into a collective coronary? Go ahead and just try to break the COMEX and LME and see what happens! Your undersea cables will be cut (again), the Dome of the Rock will be blown to pieces and a new Jewish Temple will be erected over its burning remnants courtesy of the US government which will pay for the whole thing, and if you really tick them off, they might just nuke Mecca and start the war they need to take us out of depression! Remember, the Illuminati are satanic trillionaires. They are a group of megalomaniacal, homicidal psychopaths who will stop at nothing to destroy anyone who gets in their way, and, we might add, they have most of the gold in the world to back up their threats!

And now a new gold vault has been opened in Hong Kong near the airport, designed after the Swiss model, and Hong Kong has asked its London gold depositories, probably the LME, to send its gold bullion holdings over to Hong Kong for storage there. You just can’t make this stuff up! Sounds like they don’t trust London with their gold as China sets up various gold investment vehicles for the Chinese public. The Chinese want physical gold, not paper promises from London, to back their citizens’ investments in gold. Again we say, good luck! But China will certainly get priority over Germany and the GCC countries when it comes to rationing what little gold is left due to their tremendous creditor clout and military and economic might.

Gold will continue to trickle out of New York, Chicago and London at a snails pace until the Illuminati are good and ready to blow the lid off gold. Remember, the Illuminati themselves, via their own personal Swiss and offshore accounts, own much of the world’s gold, so skyrocketing gold prices to them are a good thing, as long as they have had adequate opportunity to diversify out of dollar-denominated assets and to milk the power they possess by virtue of the reserve status of the dollar, the safe-haven status of the US treasury bond and the Fed’s ability to print money out of thin air. If any country attempts to force the issue before the Illuminati are ready, all hell is going to break loose. They will not go down quietly, you can rest assured about that. The financial community may soon find its own version of a Mad Max world. Stock markets around the world could well be the next major casualty. This will be the Illuminati’s way of saying: back off, or we’ll wipe you out.

We believe that based on all the foregoing pressures, the best the Illuminati can hope for is a controlled explosion in gold and silver where they take them up a notch at a time. But their worst nightmare could take place if everyone gangs up on them and exposes their nefarious schemes to the world at large, and stops conspiring with them to screw the investing public. On the other hand, remember that all these countries demanding that their paper gold be converted into bullion and physically delivered to them for safekeeping stand to lose big-time because they failed to do this much earlier. What consolation will it be to them if they expose the fraud and then watch all their paper holdings go up in flames? That will not put any gold bullion into their vaults. They cannot create physical gold out of thin air the way they create their fiat currencies, so the best they can do is to simply retaliate in kind. We see things getting very ugly very quickly, and only the wise who physically possess their precious metals, or who own precious metal producer shares, are going to benefit.

We also believe that if these foreign nations cannot get their hands on physical above-ground gold because they get stuffed by the US-UK gold cartel, the next best thing they could do would be to buy producer shares so they can control below-ground supplies, and then break the gold cartel and send gold and silver, and their newly acquired gold and silver shares, on a moon-shot. This is the best kind of retaliation because everyone wins, and it will send the players in the gold cartel snarling and spitting into hyperspace. This situation could well send producer shares past the Einstein-DeSitter radius at the outermost visible bounds of the universe and into a wormhole leading to another dimension altogether as everyone jumps on the bandwagon. We can't wait!!! Gold and silver shares will immediately separate from the rest of the pack, which will tank as the dollar and non-resource stocks are slaughtered. Treasury bonds will benefit briefly, and then go down in flames as the dollar descends to its final resting place in fiat money hell.

Here it is, early Tuesday morning, and spot gold has already crossed the 1,000 barrier like it did not even exist to over 1,007+ while silver has soared above 16.75 and narrowed the gold to silver ratio to just below 60 for the first time in many months. Looks like the Chinese announcement to renege on commodity derivative contracts is sending both gold and silver on a tear, especially silver. One, two and three month lease rates for both gold and silver are now all in negative territory, gold for the past week and silver for the past month. This is unprecedented, and it shows you just how desperate the cartel has become. The only way they can lease gold and silver now over the short term is to actually pay people to lease it from them and sell it into the market. Anyone who leases gold and silver right now has to be both a raving psychopath and a total glutton for punishment. Needless to say, all these developments are totally bullish.

On Friday federal regulators seized five more banks in four states, bringing the total for the year to 89. The five banks that the FDIC seized are:

* First Bank of Kansas City, with $16 million in assets and $15 million in deposits.

* Vantus Bank of Sioux City, Iowa, with $458 million in assets and $368 million in deposits.

* InBank, or Oak Forest, Ill. With $212 million in assets and $199 million in deposits.

* Platinum Community Bank of Rolling Meadows, Ill., with $346 million in assets and $305 million in deposits.

* First State Bank of Flagstaff, Ariz., with $105 million in assets and $95 million in deposits.

The FDIC found buyers for all or part of four of the banks but will have to pay out insured deposits from Platinum Community Bank. The takeovers are expected to cost the FDIC insurance fund about $400 million.

According to Washington sources, FDIC officials privately briefed people in the private equity business and other financial firms, this week, that the FDIC will run out of funds by Sept. 15, and will have to dip into the $500 billion credit line from the U.S. Treasury, meaning we're back to more concealed bailout activity funded by U.S. taxpayers.

President Barack Obama announced a streamlining of rules and procedures intended to make it easier for Americans, particularly those who haven't been setting aside money in private accounts, to save for retirement.

The changes would streamline the process for small businesses to automatically enroll employees in savings programs, to let employers put payments for unused vacation time into retirement savings and to provide an option for individuals to have federal tax refunds paid as a savings bond.

"Automatic enrollment has made a big difference in participation rates by making it simpler for workers to save," Obama said in his weekly radio and Internet address. "And that's why we're going to expand it to more people."

Obama announced the changes one day after the Labor Department announced that employers cut 216,000 workers from payrolls in August, sending the jobless rate to a 26-year high, at 9.7 percent. The August pace of job loss "slowed dramatically compared to just a few months ago," Obama said, which was another sign "that the economy is turning around."

The changes announced by the president won't require action by Congress, according to administration officials who briefed reporters on the plan. They are intended to complement initiatives to expand the number of Americans who are saving for retirement through private accounts that were contained in Obama's budget plan released in February, the officials said.

Top finance officials debated the next steps for the recovering global economy on Friday, with European countries pushing for a crackdown on bankers' bonuses while the United States stressed the need to boost bank reserves to prevent a repeat of the financial crisis.

Members of the Group of 20 major nations also discussed ways to unwind recent economic stimulus efforts, although all agreed that withdrawing the massive amounts of money injected into the ailing world economy any time soon could risk a double-dip recession.

Finance ministers and central-bank officials from rich and developing countries representing 80 percent of world economic output are convening in London through Saturday amid mounting signs of a modest economic rebound, with Japan, Germany, France and Australia all recording growth in the second quarter. Britain is widely expected to do so in the third quarter.

Senior Oklahoma Senator Jim Inhofe has slammed the current US administration under Obama and called for a reversal of the president's socialist government polices that have 'stripped America of whatever it has'.

Speaking amongst a gathering of GOP, the Republican Party, supporters on Wednesday, the anti-Obama vocal lawmaker said that unless the opposition minority reclaims authority in Washington's corridors of power within 16 months, the country would suffer from irredeemable consequences.

"I never dreamed I would see an administration try to disavow all the things that have made this country different from all others," the outspoken critic of Obama's 'over-centralized' government told in a town hall meeting at the Grove Community Center in Oklahoma.

“I have never seen so many things happening at one time so disheartening to America,” the fervent senator told the enthusiast crowd, adding, “Every institution that has made this country the greatest nation in the world is under attack.”

He flouted Obama’s advocacy of US healthcare system overhaul, the current sticking point between the Democrats and Republicans, which would hammer the $2.5 trillion industry in exchange for providing insurance for around 47 million Americans in the event of a Congressional approval.

He also blasted the White House bid to set Guantanamo Bay ‘terrorists’ free on American soil, saying, “I don’t know why President Obama is obsessed with turning terrorists loose in America.”

Inhofe referred to a presidential decree that would allow 60 to 80 inmates of the notorious Guantanamo detention facilities to go on trial in the US.

The angry legislator went on to slam the US government’s defense policies, and said, “Barack Obama is disarming America” — a reference to Obama’s decisions to diminish the country’s military expenditures and to scrap F-22 fighter jets along with other defense systems.

“Those of you who think like I do, hope this country can hang on another 16 months,” Inhofe concluded.

Obama has drawn relentless fire for his protectionist financial policies that, as opponents maintain, have only generated burgeoning debts and an expanded government in the States.

Only eight months since taking office, the US president’s approval rating has already slipped to around 50 percent due to his handling of the economy, defense and other reform polices.

Federal Reserve officials in their August meeting discussed extending the end-date for purchases of mortgage bonds to minimize any market disruptions, and expressed concern about the pace of a likely economic recovery. A number of policy makers judged that a ‘tapering of agency debt and MBS purchases could be helpful in the future as those programs approach completion. The central bank boosted its mortgage-backed securities and agency-debt programs in March and they are currently scheduled to end in December.

There is no question the stock market is far overpriced and is due for a massive pullback. The number of companies defaulting on debt is at record levels. Over 200 borrowers with debt of $450 billion have defaulted on debt. That beats the record set in 2001.

In late 2007 junk bond default rates were 0.79%. They currently are 8.58%. The record, which we predicted in 1990, was 12.54% in 1991. We expect that number to exceed 15% in 2010.

That leads us to $11 trillion in short-term government debt. The interest on that debt is $340 billion, or a 3.04% rate of interest. Our current president says in ten years $9 billion will be added bringing that debt to $20 trillion. In ten years that is more than $600 billion a year. No nation can survive such debt not to mention mandated payments such as pensions, Social Security, Medicare, Medicaid, etc. That takes the number to over $100 trillion. The debt service will be 30% or more of the budget if nothing is added to debt via shortfalls to mandated programs.

The flipside of maintaining high deficits is that if they are not continued the economy will fall into deep depression. This monetization and debt will eventually take down the bond market. Presently the Fed is keeping the bond market from going lower and keeping interest rates lower. They cannot do that indefinitely. Witness what has begun to happen in the gold and silver markets. The treasury and the Fed eventually lost control.

The undertow is deflationary; there is major worldwide overcapacity and low capacity utilization, high and rising unemployment worldwide, falling real incomes and more ongoing deleveraging going on constantly. What people miss is that deflation is being held at bay by massive money and credit creation. The minute that stops the bottom will fall out and deflation will take over. As a result of the program set in place by G-20 there has been and will continue to be inflation. It is a question of overkill because the central banks never knew when enough is too much. That is why we could easily face hyperinflation.

Massively increasing debt and monetization is a toxic cocktail that will present us with the worst of all worlds. It will push up interest rates and lead to hyperinflation. As rates rise private borrowers will be crowded out by government borrowing. We predict that long-term rates will be substantially higher by the end of 2010. Real rates at higher levels are a real threat to any kind of economic recovery. Worse yet, government shows no sign of cutting spending. They could fix that by ending our wars. Cuts have to be made. The deficit is out of control. If taxes are raised we'll fall deeper into depression. Thus, part of the solution is simple, stop the wars. Mainline accepted economists do not agree with this formula, because if they espoused this they would lose their jobs. Unless we see major lending by banks or another $2 trillion stimulus package we will fall right back into depression and hyperinflation.

For the last six years the underlying trend has been deflationary and it continues to be so. We are seeing large falls in capacity utilization of 50% in 2nd and 3rd world countries and a 72% rate in Germany and 65% in Japan and the USA. All have high debt levels, falling incomes and spending and no pricing power. German wholesale prices are off 7.8% and in the US 6.8%. Over this period of time the Fed and other central banks have been successful in holding off inflation. The first four years they accomplished this by increasing money supply by 14%. These past two years saw the greatest fiscal and monetary expansion. It shows you how much the price has increased and gives you an idea of how much more it will cost in the future, and how we will evolve into a hyperinflationary condition that will eventually be overwhelmed by deflation. The question really is can they withdraw stimulus to prevent inflation and the answer is no. The financial reality is the system will collapse without the injections of money and credit.

By the end of 2009 the government will have another $2 trillion in debt and the Fed admits to $2 trillion in monetization, with interest rates at zero. Twenty-one percent unemployment sure doesn't help either. Spending now at 69-1/2% of GDP, off from 72%, is not going to rise again for sometime to come. That was what drove the economy. We see that figure at 64.5% at best over the next couple of years. Incidentally that is the long-term average. Are we to borrow $2 to $3 trillion a year via monetization? We do not think so. Foreigners will be sellers as well. Fifteen million Americans owe more on their houses than that they are worth. Foreclosures are up 32% and bankruptcies 34%, as incomes fall.

As the US trade deficit decreases countries will have less dollars to buy US Treasuries and

Agencies.

All the Fed has done is create a debt pyramid that is crushing profits, tax revenue and employment. This will lengthen the depression and make it far more severe.

Few have talked about the increase in federal debt that will be caused by Cap & Trade and healthcare reform and the staggering taxation that will accompany them. The burden of our illegal alien population of 30 million will be put on free medical care, as well as on the road to citizenship.

The current stimulus package of almost $1 trillion has led to 21% unemployment using the official U6 without the birth/death ratio. As we projected in January a new $2 trillion package could well be launched next year. Our bill for interest is now as high annually as is our cost of defense and bogus foreign wars. Generations yet unborn will pay for our financial profligacy. Almost every government program for the past 11 years has been a disaster.

At the rate America is going we will, as we predicted long ago, become a second world country if we do not legislate tariffs on goods and services to level the playing field. If we do not enact such a law American workers will be making $2.00 an hour like the Chinese, Indians and Mexicans. Such an outcome would drop federal tax revenues by 2/3's from current levels, making debt default certain. As we said prior to the last election with the exception of a handful throw them all out of office. If we do not the only result that can be expected is revolution.

A recent report from the UN conference on Trade and Development (UNCTAD) says the system of currencies and capital rules, which bonds the world economy, is not working properly, and was largely responsible for the financial and economic crisis. They continued that the dollar, which acts as the world's reserve currency, should be replaced.

They call for a new Bretton-Woods type system of managed international exchange rates. The problem is they will produce another fiat currency without gold backing, and that too will go down in flames.

The Treasury sold $38 billion worth of 3-year debt with a bid to cover ratio of 3.02 to 1, which is very good. Foreign and institutional investors accounted for 54% of the sale.

Five more banks failed bringing the total to 89.

June consumer credit fell $15.5 billion and July fell $21.6 billion, or 10.4% or at an annual rate of $2.47 trillion. Loans for big-ticket items fell $15.5 billion in June and $15.4 billion, or an 11.7% drop.

There is general agreement that monetary stimulus cannot be pulled at this juncture. In Europe, the ECB President Mr. Trichet says he has a plan to exit the program of enhanced credit support, but now is not the time. President of the NY Fed, William Dudley, has stated clearly that it is too early to begin a monetary stimulus exit. He said the economy isn't growing very fast and that we do have a very high unemployment rate. The UK Chancellor of the Exchequer Alistair Darling, the equivalent of our Secretary of the Treasury, says nations should abandon such measures when recovery takes hold. A stronger euro coupled with more general systemic fragilities will keep ECB exit policy stalled.

There is no apparent plan for returning to anything resembling sound money or a more stable monetary backdrop. Mr. Dudley said, “Market expectations are very, very important.” And, orders are emanating from Wall Street – keep the market up at all costs – irrespective of how much inflation is created. Just keep the machine going, so we can keep screwing the public.

Mr. Dudley went on to heap on the garbage in stating, “One can certainly look to the activist Federal Reserve, and other central banks to manipulate the targeted “Fed Funds” rate as a fundamental government intrusion.” The Fed will continue to supply money and credit so lending, speculation leveraging, and investing in risky assets can continue unabated. The system is on the edge of collapse and all Wall Street and banking can think of is getting richer.

As a result of poor judgment the GSE’s Fannie Mae, Freddie Mac, the FHLB, the FHA, VA and Ginnie Mae have accumulated trillions is losses and further risk exposure for American taxpayers to pay for. For years all their entities have been a disaster and government has no plan for disengaging itself from the nation’s mortgage industry. In just the past two years the FHA’s number of insured loans has soared to 23% of market share, up from 2.7%. That increase should be up 30% on the year. Their exposure has gone from a cap of $362,000 mortgages to $729,750. In August the FHA and VA backed 40% of loans for all home sales. All the government is doing is playing musical chairs by moving loans from Fannie and Freddie to FHA, VA and Ginnie Mae. It is a shell game. Almost all mortgage debt is being underwritten by the taxpayer. While this transpires the Fed is monetizing $25 billion of Agency MBS (toxic waste) weekly. We do not see this as effective at all. All those bad loans will again be the responsibility of the taxpayer, as 60% of those loans fall out over the next three years, creating another major crisis. The Fed and Wall Street are fooling no one and not one problem has been solved. This is not the late 1980s. We live now in an overwhelming world of debt. this is far worse.

The Fed and the Treasury have no exit strategy for anything, it’s just shove it off into the future. The residential real estate market is and the commercial sector is becoming a systemic disaster. The people who caused these problems, bankers, Wall Street and government, continue on their merry way just making things worse. Intervention, manipulation, is the order of the day. Once intervention ends, which it must eventually, monetization will end and the economy will collapse. In the mortgage sphere government intends to spin off the large mortgage insurers into little ones. These would be new private companies that would issue mortgage securities again, carrying an explicit government guarantee. The real bad existing loans would be carried by Fannie, Freddie, etc., which is how this all started in the first place. Another disaster in the making, and taxpayers get to pay for it all. This current setup and the new proposed one can only end in bankruptcy. In addition, there is no chance the government will move to exit massive deficit spending and massive debt. The government, the fed, banking and Wall Street are in a box and they cannot get out. The only way they can now sell mortgages is by guaranteeing them, a guarantee that is worthless. As you can see, the free lunch isn’t really free at all. Creditworthiness isn’t an issue. US paper will be ultimately worthless. In the long run the market will want higher interest rates for buying this toxic waste and that is when the boom will be lowered. It is only a matter of time now before foreigners and other pull the plug. Perhaps that is what higher prices on gold and silver are telling us.

Last week the Dow fell 1.1%; S&P 1.2%; the Russell 2000 fell 1.4% and the Nasdaq 100.3%. cyclicals fell 1.3%, as transports gained 1.1%. Consumers fell 1.4%; utilities 1.8%; banks 4.8%; broker/dealers 2.4%; semis 0.5%; Internets fell 0.8%; biotechs 2.4% and high tech was unchanged. Gold bullion surged $39.00 and the HUI Index jumped 12.1%. The dollar fell 0.3% to 78.14.

The 2-year T-bill fell 8 bps to 0.84%, as the 10's fell 1 bps to 3.44%. the 10-year German bund fell 1 bps to 3.24%.

Freddie Mac's 30-year fixed rate mortgage was 5.08%, down 6 bps. The 15's fell 4 bps to 4.54% and one-year ARMs fell 7 bps to 4.62%.

Fed credit expanded $14.4 billion to $2.063 trillion, a record $2.829 trillion. Custody holdings for foreign central banks has been expanding at a 18.4% rate ytd, and was up $425 billion over the past year, or 17.7%.

M2 narrow money supply fell $28.1 billion to $8.282 trillion.

Total money market fund assets fell $20.2 billion to $3.559 trillion. The decline ytd is $272 billion, or 10.5% annualized.

Mortgage bankers are pushing Congress to expand the U.S. government's support of the market by guaranteeing private-industry home-loan securities and replacing finance companies Fannie Mae and Freddie Mac. The first step builds off the model for Ginnie Mae, the agency that guarantees payments on bonds backed by government-insured mortgages. The second part involves winding down government-seized mortgage buyers Fannie Mae and Freddie Mac and creating 'two or three' new privately funded, government-chartered companies to back individual loans. Putting the 'full faith and credit' of the U.S. Treasury behind a portion of the $1.8 trillion non-agency mortgage market would help boost a once-dominant form of home-loan financing that almost collapsed in 2007. The infrastructure of Fannie Mae and Freddie Mac should be used as a foundation for the new initiative, the association said… The Mortgage Bankers Association said it advocates a 'good bank/bad bank resolution' for the companies. Two or three mortgage credit-guarantor entities should be created to replace the companies. The entities would own and guarantee loans that they then package into bonds. A new agency similar to Ginnie Mae would then guarantee those securities, according to the association's plan.

U.S. city officials say they expect to face further financial strains because tax collections won't recover until after the economy emerges from the deepest recession since the Great Depression, a national survey found. Eighty-eight percent of city finance officers said they are less able to cover the cost of running their governments than a year ago, up from 64% a year earlier.

The recession is finally hitting city budgets, with overall city revenues inching down in fiscal 2009 for the first time since 2002. Overall NYC revenues declined by 0.4%, even as expenses rose 2.5%, and city officials expect steep drops in tax collections in the next two years.

Fund of hedge fund assets tumbled by $95 billion, or 14%, in the first six months of 2009, according to a survey by InvestHedge.

Cerberus, the investment group, is barring investors in two new hedge funds from withdrawing money for three years in an effort to avoid a repeat of the large outflows that followed its lossmaking purchases of Chrysler and GMAC.The move to introduce a three-year 'lock-up' is rare among hedge funds.

Mystery has surrounded the ship, officially carrying a cargo of timber worth £1.3 million from Finland to Algeria, since its crew first reported a boarding in Swedish waters on July 24 after a raid by 10 armed English-speaking men posing as anti-narcotics police officers.

It was eventually recovered off the coast of west Africa on August 17. Russia has since charged eight men from Estonia, Latvia and Russia with kidnapping and piracy.

Russian officials have said the alleged pirates demanded a $1.5 million ransom but speculation has grown that the freighter was carrying contraband cargo.

Israeli and Russian security sources have questioned The Kremlin's official explanation, instead arguing that the ship was carrying S-300 missiles, Russia's most advanced anti-aircraft weapon, while undergoing repairs in the Russian port of Kaliningrad, a notorious Baltic smuggling base.

According to reports, Mossad is said to have briefed the Russian government that the shipment had been sold by former military officers linked to the black market, and Russia then dispatched a naval rescue mission. Those who believe Mossad was involved point to a visit to Moscow by Shimon Peres, Israel's president, the day after the Arctic Sea was recovered.

Crew members of the Arctic Sea have since told Russian news reporters that they have been told not to disclose "state secrets" further fuelling the speculation.

On this Labor Day weekend, many Californians find themselves more in need of work than a holiday. A report released Sunday says two of five (40%) working-age Californians do not have a job, underscoring the challenges in one of the toughest job markets in decades. A new study has found that the last time employment levels among this group were this low was February 1977.

The study was done by the California Budget Project, a Sacramento-based nonprofit research group that advocates for lower- and middle-income families. The report said that California now has about the same number of jobs as it did nine years ago, when the state was home to 3.3 million fewer working-age people.

California Budget Project executive director Jean Ross recommended Congress adopt a second extension of unemployment insurance benefits. Those checks pay between $200 and $1,800 a month depending on a worker's previous earnings.

On Friday, the U.S. Labor Department reported that the nation's jobless rate had climbed to 9.7 percent, the highest since 1983.

The U.S. was displaced by Switzerland as the world's most-competitive economy after its financial markets were roiled by the worst crises since the Great Depression, the World Economic Forum said today.

The U.S. fell to second position for the first time since the Geneva-based organization began its current index in 2004 as it lost marks for the sophistication of its markets and rising budget deficits. Switzerland was credited for its stability and ability to innovate.

"A number of escalating weaknesses have taken their toll on the U.S. ranking this year," the study of 133 countries ny the Geneva-based organization said. "Switzerland's performance has remained relatively stable."

U6 (Comprehensive or Broad) Unemployment hit 16.8%, a record. The workweek at 33.1 hours is a record low. Aggregate hours worked declined 0.3%. There will be no job growth until hours worked and the workweek increases significantly. The Household Survey showed job losses of 392,000. 9.1million are working part time but want a full time job. One year ago the number was 5.9 million. Teen unemployment of 25.5% is a record.

The ridiculous Net Birth/Death Model fabricated 128,000 jobs. We noted that since January 2008, there is over a 4 million job discrepancy in small business jobs between ADP and BLS.

John Williams: Monthly Payroll Decline Was 300,000, Net of Renewed Seasonal Factor Games John sees total unemployment (U6 plus 'discouraged') at 21.1%.

As an aside, the Bureau of Labor Statistics also publishes a number from the Household survey that is comparable to the nonfarm survey (dubbed the population and payroll-adjusted Household number), and on this basis, employment sank — brace yourself — by over 1 million, which is unprecedented. We shall see if the nattering nabobs of positivity discuss that particularly statistic in their post-payroll assessments; we are not exactly holding our breath.

Lost decade for job growth Private sector has net loss in payrolls since 1999, a net loss of 223,000 jobs since August 1999, according to the latest figures from the Bureau of Labor Statistics. Meanwhile, the nation's population has grown by 33.5 million people. [And BLS has created millions of bogus jobs!]

TrimTabs employment analysis, which uses real-time daily income tax deposits from all U.S. taxpayers to compute employment growth, estimated that the U.S. economy shed 335,000 jobs in August. Over the past year, TrimTabs estimates that a staggering 5.9 million jobs have been lost, amounting to 4.5% of the workforce, up from 4.1% of the workforce at the beginning of summer.

We believe the BLS is underestimating current job losses due to their flawed survey met hodology over the past twelve months, the BLS has revised their job loss estimates up a whopping 648,000, or 12.5% to 5.83 million from a preliminary estimate of 5.18 million.

During an economic downturn, the BLS habitually underestimates job losses because their survey methodology is incapable of picking up rapid changes in economic growth. Real-time daily income tax deposits, however, react instantly to changes in employment levels, making this data a much better measure of real-time employment.

This past month, the BLS added 118,000 jobs to their non-seasonally adjusted survey data as supposedly more new businesses were created than closed. More puzzling still is that throughout this entire recession, with the exception of January 2009, the BLS has added jobs every month due to more businesses supposedly opening their doors versus closing their doors. We find this impossible to believe considering the current recession is the worst economic downturn since the Great Depression. http://www.trimtabs.com/site/index.php

Fla. Unemployment Borrowing May Top $1 Billion – Florida has become the 19th state to borrow money to keep unemployment benefits flowing after the trust fund ran dry. http://www.propublica.org/feature/fla -unemployment-trust-fund-to-borrow-billions-831

Nearly 90 percent of all new home loans are funded or guaranteed by taxpayers — has far-reaching consequences for prospective home buyers and taxpayers.

At the same time, taxpayers are on the hook for most of the loans that are still being made if they go bad. And they are also on the line for any losses in the massive portfolios of old loans at Fannie Mae and Freddie Mac, which own or back more than $5 trillion in mortgages.

There is growing evidence that many loans being guaranteed by the government have a significant risk of defaulting. Delinquencies are spiking. And the Federal Housing Administration, another source of government support for home loans, is quickly eating through its financial cushion as losses mount.

The outlay has already reached about $1 trillion over the past year and is rising. During that time, the government has pumped more money into the mortgage market than has been spent on Medicare or

Social Security or the defense budget, more even than Washington has paid to bail out banks and other struggling companies.

Meanwhile, there are concerns that banks' reluctance to confess in full to needed writedowns, estimated by the International Monetary Fund at about $2,700bn, means that balance sheets will start the next cycle still soiled. Why aren't the big banks being forced to take the write downs that regional and community banks are being forced to swallow? Yeah, we all know why.

Transcripts and taped conversations of actions that took place in 2007, included in the commission's case, reveal the secretive workings of high-frequency trading, a fast-growing Wall Street business that is suddenly drawing scrutiny in Washington. Critics say this high-speed form of computerized trading, which is used in a wide range of financial markets, enables its practitioners to profit at other investors' expense.

Traders in the Chicago office of Optiver openly talked among themselves of "whacking" and "bullying up" the price of oil. But when called to account by officials of the New York Mercantile Exchange, they described their actions as just "providing liquidity."

More prison sentences may renew financial credibility – How many financiers do you think ended up in jail after America's Savings and Loan scandals? The answer can be found in a fascinating old report from the United States Department of Justice.

According to some of its records, between 1990 and 1995 no fewer than 1,852 S&L officials were prosecuted, and 1,072 placed behind bars. Another 2,558 bankers were also jailed, often for offences, which were S&L-linked too. Yet, thus far, very few prison terms have been handed out. For sure, there have been a few high-profile dramas. Bernard Madoff is one, obvious, example.

David Walker sounds like a modern-day Paul Revere as he warns about the country's perilous future. "We suffer from a fiscal cancer," he tells a meeting of the National Taxpayers Union, the nation's oldest anti-tax lobby. "Our off balance sheet obligations associated with Social Security and Medicare put us in a $56 trillion financial hole—and that's before the recession was officially declared last year. America now owes more than Americans are worth—and the gap is growing!"

Mr. Walker identifies the disease as having a basic cause: “Washington is totally out of touch and out of control,” he sighs. “There is political courage there, but there is far more political careerism and people dodging real solutions.” He identifies entrenched incumbency as a real obstacle to change. “Members of Congress ensure they have gerrymandered seats where they pick the voters rather than the voters picking them and then they pass out money to special interests who then make sure they have so much money that no one can easily challenge them,” he laments. He believes gerrymandering should be curbed and term limits imposed if for no other reason than to inject some new blood into the system. On campaign finance, he supports a narrow constitutional amendment that would bar congressional candidates from accepting contributions from people who can’t vote for them: “If people can’t vote in a district not their own, should we allow them to spend unlimited money on behalf of someone across the country?”

In particular, the authors, economists Charles Rowley of George Mason University and Nathanael Smith of the Locke Institute, claim that the White House’s plans to pour hundreds of billions of dollars of cash into the economy will undermine it in the long run. They say that by employing deficit spending and increased state intervention President Obama will ultimately hamper the long-term growth potential of the US economy and may risk delaying full economic recovery by several years.

The study represents a challenge to the widely held view that Keynesian fiscal policies helped the US recover from the Depression, which started in the early 1930s. The authors say: “[Franklin D Roosevelt’s] interventionist policies and draconian tax increases delayed full economic recovery by several years by exacerbating a climate of pessimistic expectations that drove down private capital formation and household consumption to unprecedented lows.”

The trend of employment in the U.S. edged lower in August after holding steady for three months, according to a report released Tuesday.

The Conference Board said that its August employment trends index fell 0.1% to 88.1 from 88.2 in July, which was originally reported as 88.3. The August index was down 18.5% from a year ago.

“The flatness of the employment trends index in recent months suggests that we won’t see job growth until the end of the year,” said Gad Levanon, senior economist at the Conference Board.

There was a fall in job openings and temporary employment, the report said.

A forward-looking measure of hiring intentions dipped slightly in the United States even as it improved in many other countries, according to a quarterly survey by Manpower Inc.

The survey offers a hint that jobs in Europe and Asia may recover earlier than in the United States, but it also raises questions about whether such a recovery could be cut short without the support of U.S. consumers, Manpower said.

The global employment services company said its seasonally adjusted U.S. net employment outlook slipped to minus-3 for the fourth quarter, from minus-2 in the prior quarter. A year ago, the index stood at plus-9, according to the survey released on Tuesday.

The index, based on interviews with 28,000 U.S. employers, measures the difference between those who plan to add to their workforce and those who expect to cut staff.

Of 13 U.S. industry sectors, employers in only one — education and health services — were more positive about jobs prospects than they were in the third quarter. Other sectors — like construction, leisure and hospitality, and professional and business services — showed a deteriorating outlook.

U.S. taxpayers are unlikely to recover their $81 billion investment in General Motors Co. and Chrysler Group LLC and were “left in the dark” on specifics of a decision to aid automakers, a congressional panel said.

The Treasury Department should consider placing its GM and Chrysler ownership stakes into an independent trust to prevent “political pressure and government interference,” the Congressional Oversight Panel said in a report today.

“Even if no direct conflict exists, a trust could prevent the use or appearance of political influence in the government’s ownership,” the panel concluded.

The U.S. dollar reached its lowest point against the euro this year due to a myriad of forces including rising global stocks and commodities prices, low interest rates, and investors diversifying out of Treasury debt and into other assets including U.S. stocks with the Dow Jones industrial average approaching 9500 in late afternoon trading.

Stocks in Asia and Europe saw big gains, and gold topped $1,000 an ounce. Oil also gained 4.9%, or $3.31, to $71.33, on the New York Mercantile Exchange, due in part to Goldman Sachs affirming its year-long outlook. By midday trading one euro traded for $1.45, meanwhile the Dollar Index, which tracks the greenback against a basket of currencies, fell to its lowest level since September of 2008.

The global regulatory crackdown in the wake of the financial crisis is likely to cut long-term profitability at US and European investment banks by nearly a third, forcing them to cut bonuses and shed staff, says a study by JPMorgan.

The report, a copy of which has been seen by the FT, takes a deeply pessimistic view of the impact of regulatory changes that include tougher capital rules for trading and a push to trade derivatives on exchanges.

Never before have Wall Street stock analysts diverged more with economists at their own firms over the outlook for earnings in the Standard & Poor’s 500 Index.

Profits for companies in the S&P 500 will rise 25 percent next year, according to the average estimate of more than 1,500 equity analysts tracked by Bloomberg. That’s 10.9 times faster than the expansion in gross domestic product foreseen by 53 economists surveyed last month. The ratio of income to GDP growth is the highest on record and compares with an average of 6.1, based on data compiled by Bloomberg going back 60 years.

Based on the historical relationship of earnings and GDP compiled by Bloomberg since 1949, the U.S. economy would have to expand by 4.1 percent for profit among S&P 500 companies to match analysts prediction for a 25 percent gain in earnings

Hoosier Gov. Mitch Daniels in The WSJ: The Coming Reset in State Government My fellow governors and I are likely facing a permanent reduction in tax revenues. State government finances are a wreck. The drop in tax receipts is the worst in a half century. Fewer than 10 states ended the last fiscal year with significant reserves, and three-fourths have deficits exceeding 10% of their budgets. Only an emergency infusion of printed federal funny money is keeping most state boats afloat right now.

The progressive states that built their enormous public burdens by soaking the wealthy will hit them wall first and hardest.

California, which extracts more than half its income taxes from a fraction of 1% of its citizens, is extreme but hardly alone in its overreliance on a few, highly mobile taxpayers. Both individuals and businesses are fleeing soak-the-rich states already. Those who remain in high-tax states will be making few if any capital gains tax payments in the years to come. Even if the stock market comes roaring back to life, the best it could do is speed the deduction of recent losses.

A top senator is calling for fines of up to $3,800 on families who fail to get medical insurance after a health care overhaul goes into effect. There will be a Constitutional challenge if enacted.

The plan from Democratic Sen. Max Baucus of Montana would make health insurance mandatory, just like auto coverage. It would provide tax credits to help cover the cost for people making up to three times the federal poverty level. That's about $66,000 for a family of four, and $32,000 for an individual.

"It isn't as if the fundamentals are better in Europe," said Jessica Hoversen, a foreign exchange and fixed income futures analyst at MF Global. "There are other factors outside of economic growth taking hold in the market."

Japan's special drawing rights holdings hit a record $18.5 billion, from $3 billion in July. SDRs are the currency of the International Monetary Fund and other international institutions. It's a basket of currencies composed of the dollar, euro, sterling and yen in a fixed weighting determined by the IMF and World Bank every five years.

One of the reasons cited for the rise is an increased in commitment in overseas aid, but Hoversen noted that to a certain degree it speaks to the general demand for the dollar, and that scares the market. "It doesn't necessarily mean diversification away from the dollar, but there is a heightened sensitivity about the topic," Hoversen said.

Currency investors have been obsessed with the prospect of central banks diversifying out of the dollar. The fixation has been fueled by meetings under the G20/G8 framework, as well as candid comments from some of the largest reserve managers, namely Russia and China. The prospects of a massive diversification are low though, at least in the short-term, because most of the alternatives, including using SDRs as a global reverse currency are unrealistic.

The three-month London Interbank Offer Rate, commonly known as the Libor, which reached a record low of 30 basis points and that also contributed to the dollar's slide. "It makes the dollar the cheapest interest rate differential in the G10 on a Libor basis," Hoversen said.

The dollar's fall follows a United Nations report released Monday calling for a reduced role of the dollar as the world's primary reserve currency.

“This is not the first time the U.N. has called for this, but it’s the most recent,” Hoversen said. The report, which was produced by the U.N. conference on Trade and Development, stated that a viable solution to the exchange-rate problem would be a system of managed flexible exchange rates targeting a rate that is consistent with a sustainable current-account position.

“What the U.N. may be trying to do is eliminate global dependence on the dollar,” Hoversen said. “However, more details would be needed on the mechanism for adjustment to judge how it would affect the global currency markets.”

To be sure, the U.S. isn’t solely responsible for the global imbalance. While the U.S. current account deficit is being funded by developing countries, the demand from developed countries is improving their living standards. Meanwhile, developing countries have kept their currencies low in order to stimulate economic growth via their export market, and ultimately change will be required on both sides.

Hoversen also pointed out that curves of the overnight index swaps have Norway and Australia pricing interest rate hikes first. “They gain on the idea the global economy is going to recover,” Hoversen said. “Their central banks have also been more hawkish than other banks.” Commodity-based economies will be on the ground floor of supplying the increased demand. Moreover, Australia and New Zealand will be greater beneficiaries of the Chinese stimulus than other commodity currencies. G20 members also promised to keep fiscal and monetary stimulus running on full cylinders, suggesting an increased amount of risk, Hoversen said.

Articles by: Bob Chapman