How long can the Dollar Last as the World's Reserve Currency?

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The big question is how long can the dollar last as the world's reserve currency? Needless to say, that is not an easy question to answer. We recently called the top on the dollar at 89.50 on the USDX. The USDX is six currencies versus the dollar on a weighted basis. More than a year ago the dollar hit a low on the USDX at 71.18. A phenomenal rally ensued from that level expedited by de-leveraging and the closing out positions within the carry trade. A good example of the carry trade was when a bank in NYC borrowed yen. At ½% interest, sold the yen for dollars and bought dollar denominated securities.

All of that is now history as the dollar comes under increasing pressure. We believe the dollar could test 71.18 this year. We also believe the dollar could break down to 40 to 55 over the next few years. The collapse of the dollar is certain. The Treasury and the Fed have committed the American taxpayer to $13.8 trillion of debt and before the dollar goes where it is ultimately going that figure could reach $30 trillion.

In modern times such fiscal and monetary irresponsibility is unparalleled. This abdication of moral responsibility has already begun the process of dollar deterioration and rising interest rates. The result will soon be hyperinflation.

The collapse may be disastrous for all countries, but it is going to be equally disastrous for the corrupt who have brought us to this sad situation. Hopefully as painful as it will be it could create many new opportunities for some. One thing we see as certain is that the elitists will find themselves targets of civil and criminal charges and targets of contempt and derision. The new world order they so arrogantly and confidentially predicted with one world government will again have been a failure.

There is no question where China is headed in this currency war to dump the dollar. They continue to accumulate gold with the intention of having a gold backed currency – something America is, we believe, incapable of doing. Such an ongoing pressing event has to put continual downward pressure on the dollar. China is already by passing the dollar reserve system by settling in other currencies, using barter and through swap arrangements, major changes are in the process of taking place. We do not believe the yuan will be the reserve currency of the future. A better idea is to have a weighted basket of 10 major currencies as a world benchmark. China is heavily dependent on exports and as yet does not have domestic demand to relieve pressure when exports fall. They are also still a dictatorial, communist society in power by force. They also still have an enormous population and wages are still dreadful even though they have increased 10-fold over the past 15 years. Politically both China and the US face populations that are profoundly unhappy and if major changes are not made in both societies, both are ripe for revolution.

Wednesday's 10-year Treasury auction wasn't all it was cracked up to be. The yield was 3.99% with 46.8% allotted at the high bid. The bid/cover was 2.62 versus the average of the past ten auctions of 2.40. Indirect participation, of foreign central banks was 34.2% versus an average of the past ten auctions of 28.23%. The only reason the sale went well was that the note had to be lifted 13 bps to 3.99% in order to attract buyers. In addition the Fed had to buy $3.5 billion in longer term maturity bonds and prop up the auction. They cannot fool us. The system sinks into deeper trouble every day. All we can say is you had better own gold and silver. What the Fed did was buy 18.4% of the auction with money they created out of thin air – more monetization.

Goldman Sachs CEO, Lloyd Blankfein says he believes the current upturn in world markets was probably not a full recovery from crisis and said he expects a further long recession. There is no reason to think this is it – so many things have to be sorted out. Why, would this be the recovery?

Nouriel Roubini says those are yellow weeds, not green shoots. He has nine reasons for pessimism. Employment is still falling sharply, which is bad news for consumption and the size of bank losses. He said this is a crisis of solvency, not just liquidity, but true de-leveraging has not really started, because private debts of households, financial institutions, and corporations are not being reduced, but rather socialized. Lack of de-leveraging will limit the ability of banks to lend, households to spend and firms to invest.

In countries running current account deficits, consumers need to cut spending and save much more for many years. Consumers have been hit by a wealth shock, that is falling house prices, stock market, rising debt-service ratios, and falling incomes and employment.

The financial system has been severely damaged, so the credit crunch will not ease quickly.

Profitable, owing to high debts and default risk, low economic and revenue growth and persistent deflationary pressure on companies margins businesses, will continue to be constrained from willingness to produce, hire workers, and invest.

Rising government debt ratios will eventually lead to increases in real interest rates that may crowd out government spending and even lead to sovereign refinancing risk.

The monetization of fiscal deficits is not inflationary in the short run – slack production and labor markets imply massive deflationary forces. If banks do not find a clear exit strategy from policies that double or triple the monetary base, eventually either goods price inflation or another dangerous asset and credit bubble, or both, will ensue.

We'll interject here that we disagree with Mr. Roubini. That monetization causes inflation immediately, which later becomes hyperinflation. The central banks, the Fed in our case, have no clear exit strategy. What they have done and are doing has no fallback or battle orders for withdrawal.

Some emerging market economies with weaker economic fundamentals may not be able to avoid a severe financial crisis, despite massive IMF support.

Our comment is no one is going to escape. Decoupling is a myth and we've had that proven already.

At the beginning of the year the yield on the 10-year T-note was 2.35%. We figured it would go to 3.50%. Thus far it has gained to 4.00%. That is 1.65% in less than six months. The yield has risen 135 points since the Fed announced in March that it was going to buy Treasuries, some $300 billion worth for starters.

Rates are up due to $2.2 trillion in monetization, that they are already committed to, and that is just the beginning. Commodity prices in many instances have doubled, inflation expectations are high, equity prices are up 30% plus and gold and silver have remained strong so it is no wonder rates in the real market have moved substantially higher.

Massive new issuance will be high for sometime to come.

Retail gasoline prices have moved up more than 40 days in a row as gas rose $1.00 from its lows. That displaces $130 billion in discressionary spending.

The high rates have also caused a 60% fall in mortgage refinancing.

Subprime problems may generally be over but we have another year of ALT-A loans and three more years of Option-ARM, pick-and-pay loans to get through. In the first quarter due to rising unemployment 50% of foreclosures were concentrated in prime mortgages where the default rate is now 2.40%, more than double 1.10% yoy. Over the next few years this problem will worsen.

Home mortgage debt outstanding was 73% of GDP last year, the 3rd highest reading on record, after the 75% plus bubble years of 2006 and 2007. In order to return this debt to the average of the 1990s at 46%, Americans would have to cut margin debt to $6.6 trillion from $10.5 trillion. The solution to reduce such debt is to rebuild sayings and for banks to boost capital. We see little chance of either happening, hence the inevitable result.

As we know with the result of down payments, mortgage defaults proliferated. In a desperate attempt to buoy the housing market our government has brought back those same loans. This is monetizing an $8,000 tax credit. The FHA steers funds to cover closing costs directly – in some cases even offsetting the 3.5% minimum down payment FHA loans require. That is enough to cover most or all of the down payment and fees for homes up to the median price, now about $169,000. As you can see the government anxious to move foreclosed properties for the banks are breaking the rules and creating another subprime crisis. The NAHB says this will add 160,000 original sales. The FHA doesn’t care. Fifty percent will default. If they run out of money they’ll get another $500 billion from Congress, so that minorities can buy homes.

Special interests are still alive and well in Washington buying legislation or arranging for legislation to never see the light of day. Our president signed the “Helping Families Save their Homes Act,” but it was missing its centerpiece: a change in bankruptcy laws he once championed that would have given judges the power to lower the amount owed on a home loan – Mr. Obama forgot to mention that in the bill-signing ceremony. It had been stripped out as Senators heeled to their masters, the banks. The same banks that US taxpayers are bailing out. This shows you the stranglehold banks have on Congress. They simply own them. We’ll see as Ron Paul’s HR 1207 proceeds. He has 213 co-sponsors and 218 takes the legislation out of committee. The banks spent millions of dollars defeating part of the Homes Act bill. Money, which the taxpayers lent to them. That part of the legislation was removed because our president refused to lift a finger to keep it in the bill. As you probably know, bankers, Wall Street and other elitists financed the president’s campaign in great part.

The bottom line is the issue would have cut into profits on loans the banks should have never made in the first place. They Are the professionals, so they were 90% responsible.

The solution to this is to put an end to lobbying and campaign contributions. Have government fund elections. Everyone gets the same amount and campaigns on the issues.

Bank nationalizations are "absolutely necessary" to stop them damaging the financial system further with more losses, said Nassim Nicholas Taleb, author of the best-selling finance book "The Black Swan."

"You cannot trust the banks in taking risks," Taleb said in an interview with Bloomberg Television in Davos. "We have a very strange situation in which it's the worst of capitalism and socialism, a situation in which profits were privatized and losses were socialized. We taxpayers have the worst."

The global economy will slow close to a halt this year as more than $2 trillion of bad assets in the U.S. help sink economies from there to the U.K. and Japan, the International Monetary Fund said yesterday. Taleb echoed comments from New York University Professor Nouriel Roubini, who says the majority of U.S. banks are insolvent.

"You have to eventually nationalize U.S. banks, you have to take the problem by the horns," Roubini told Bloomberg Television in Davos today. "In my view actually most of the U.S. banking system is insolvent."

Roubini, a former economist in President Bill Clinton's White House, predicted the financial crisis as early as July 2006. Last February he forecast a "catastrophic" meltdown that central bankers would fail to prevent, leading to the bankruptcy of large banks with mortgage holdings.

Rare and unforeseen events are known as "black swans," after Taleb's book, "The Black Swan: The Impact of the Highly Improbable." It was published in May 2007, about three months before the credit crunch rocked global markets and led banks to announce more than $1 trillion of writedowns and credit losses.

"We should not trust these bankers; look at their track record," Taleb said. "They know we're going to bail them out. They hold us as hostages" and "the only way to stop the process is for the government to own those banks, tell them what to do."

Taleb today signaled he favors curbs on the trading of some financial instruments. House of Representatives Agriculture Committee Chairman Collin Peterson of Minnesota circulated an updated draft bill yesterday that would ban credit-default swap trading unless investors owned the underlying bonds. That might prohibit most trading in their $29 trillion market.

"I don't like credit default swaps," Taleb said. "We should probably stop trading derivatives, anything more complex than regular options" because "I am an options trader, and I don't understand options. How do you want a regulator to understand them?"

As the founder of New York-based Empirica LLC, a hedge-fund firm he ran for six years before closing it in 2004, Taleb built a strategy based on options trading to bullet-proof investors from market blowups while profiting from big rallies.

He now advises Universa Investments LP, a Santa Monica, California-based firm opened in 2007 by [Mark Spitznagel](), Taleb's former trading partner, using some of the same strategies they'd run since 1999.

The Fed's beige book survey released Wednesday shows that economic conditions remained weak and even deteriorated in many regions of the country, with commercial real estate and labor markets continuing to face challenges.

MetLife Inc. Chief Investment Officer Steven Kandarian said commercial mortgage defaults will rise in the next two to three years after the economic slump subsides.

"The worst is to come," Kandarian said in an interview today with Bloomberg Television in New York, where the biggest U.S. life insurer is baseand when the defaults actually occur."

After the Fed initially refused to comply with the committee's request for documents and e-mails in the matter, the committee took the extraordinary step of issuing a subpoena on Tuesday to obtain material from the Fed that concerned the deal…

The Financial Times has learned that Mr Bernanke, in an e-mail, described Mr Lewis's threat to invoke the "MAC" clause as a "bargaining chip", and a "foolish move", before concluding that "the regulators will not condone it".

The state Legislature is moving to make federal immigration issues a matter of state law, a change that could mean jail time for illegal immigrants.

Under a bill approved by a committee Tuesday, being in the country illegally – historically considered a federal matter – would become a state misdemeanor. A second offense would be a felony.

That would mean illegal immigrants found in Arizona could be arrested by local police, accused by local prosecutors and be put behind bars, rather than being turned over to U.S. officials for deportation.

On an 8-3 vote, the Senate Appropriations committee recommended Senate Bill 1162 be approved. The bill originated as a measure to renew funds for Maricopa County Sheriff's Office anti-illegal immigration efforts, but an amendment added Tuesday would create the new state trespassing law. The provisions of the bill fit into an overall strategy long sought by opponents of illegal immigration, who want state penalties for what are now federal crimes.

This, they say, will make it easier for local officials to fight illegal immigration and provide jail time for a crime they say too often goes unpunished.

Mortgage applications fell last week to the lowest level since February as a jump in borrowing costs discouraged refinancing and signaled that Federal Reserve Chairman Ben S. Bernanke's efforts to cap rates is stalling.

The Mortgage Bankers Association's index of applications to purchase a home or refinance dropped 7.2 percent to 611 in the week ended June 5, from 658.7 the prior week. The refinancing gauge fell 12 percent. The purchase index gained 1.1 percent.

The yield on the benchmark 10-year Treasury note rose to 3.90 percent last week as volatility in government bonds hit a six-month high, according to Merrill Lynch & Co.'s MOVE Index of options prices. Thirty-year fixed-rate mortgages jumped to 5.45 percent from as low as 4.85 percent in April, according to Bankrate.com in North Palm Beach, Florida. Costs for homebuyers are now higher than in December.

The mortgage bankers' refinancing gauge issued today fell to 2,605.7, the lowest level since November, from 2,953.6 the previous week, today's report showed. The purchase index rose to 270.7 last week from 267.7.

The share of applicants seeking to refinance loans fell to 59.4 percent of total applications last week from 62.4 percent.

The average rate on a 30-year fixed-rate loan surged to 5.57 percent, the highest since November, from 5.25 percent the prior week.

Casino-resort developer Fontainebleau Las Vegas LLC said Tuesday it has filed for Chapter 11 bankruptcy protection after failing to get certain lenders to provide about $800 million in construction funding to complete the company's $2.9 billion property on the Las Vegas Strip.

Fontainebleau Las Vegas had filed a $3 billion lawsuit in April against Bank of America, JPMorgan Chase Bank, Deutsche Bank Trust Company Americas and eight other lenders in an effort to access the prearranged financing to pay its 3,000 construction workers and finish the project, which is 70 percent complete and had eyed an October opening.

The complaint alleged that the lenders terminated their agreement to provide an $800 million revolver loan due to one or more unspecified "events of default" by Fontainebleau. But the developers said they didn't default on any part of their agreement. Bank of America spokeswoman Shirley Norton told The Associated Press in April that the bank was discussing "restructured financing" with the company.

The lawsuit was amended last month to charge that one of the lenders, Deutsche Bank, purposely interfered with contracts because the bank owns a rival resort also being built on the Strip, which is projected to open in 2010. The company is demanding additional damages from the bank.

"It is unfortunate that our lenders forced us to take this step. By reneging on the revolving credit facility, they effectively shut down the project and put thousands of people out of work," said Howard Karawan, chief restructuring officer of Fontainebleau Las Vegas. "Our goal now is to secure funding to complete this world-class project and restructure our existing debt."

Fontainebleau Las Vegas said its other lenders have agreed to let the company use cash during its bankruptcy case, and the company is in talks to obtain financing to restart construction at the 3,900-room resort. The Chapter 11 filing includes affiliates Fontainebleau Las Vegas Holdings LLC and Fontainebleau Las Vegas Capital Corp.

Oakland California has serious budget troubles. In a closed door city council session, Oakland Mulls Bankruptcy.

"We have asked the (bankruptcy) question because we wanted to know the impact," said

District 5 council member Ignacio De La Fuente. "In closed session, the question has been asked, and an answer was given." He would not elaborate. "It's a possibility," he acknowledged. "Things are that bad."

Foreclosure filings dipped 6 percent in the month but increased 18 percent from May 2008, marking the third highest month on record.

"There were almost one million foreclosure filings in a three-month period, and that's simply unprecedented," Rick Sharga, senior vice president at RealtyTrac in Irvine, California, said in an interview.

Temporary freezes on foreclosure activity ended in March. Failures of many seriously delinquent loans that were put on hold during those moratoria have been thrust back into the foreclosure cycle.

One in every 398 households with loans got a foreclosure filing in May. Filings, which include notices of default and auctions, were reported on 321,480 properties last month.

Stemming foreclosures is seen critical to bolstering home prices, consumer confidence and the recessionary U.S. economy.

Bank repossessions, known as real-estate owned or REOs, rose in May and should spike in coming months because the moratoria ended, RealtyTrac said.

Schools across the Valley are measuring the depth of Arizona's downturn in the cafeteria lunch line: A rising number of students has applied for free lunches, and more parents are failing to pay what they owe on the lunch bill.

The percentage of students who received free lunches at Arizona schools jumped by 11.3 percent from February 2008 to February 2009, the latest month with data verified by the federal government, a *USA Today* analysis reported. Arizona, which had 394,977 students receiving free lunches, was one of only five states to experience double-digit increases. Three more states are nearly at 10 percent.

Areas within some states, particularly in Michigan and other rust-belt states, have experienced double-digit increases in the past, but it's unusual to see such big jumps for entire states, said Erik Peterson, director of public awareness for the School Nutrition Association.

Retail Sales rose 0.5 percent, as forecast, after a 0.2 percent drop in April, the Commerce Department said in Washington. Sales also increased 0.5 percent excluding autos, led by gasoline as prices jumped last month. A separate report showed claims for jobless benefits fell last week.

Fewer Americans filed claims for unemployment benefits last week, indicating the deepest job cuts may be subsiding even as companies hold off on hiring.

Initial jobless claims fell by 24,000 to 601,000 in the week ended June 6, fewer than forecast and the lowest level since January, from a revised 625,000 the prior week, Labor Department figures showed today in Washington. The number of people collecting benefits rose for a 19th straight time to a record 6.82 million in the prior week.

U.S. foreclosure filings surpassed 300,000 for the third straight month in May and may hit a record 1.8 million by the first half of the year, RealtyTrac Inc. said.

A total of 321,480 properties received a default or auction notice or were repossessed last month, up 18 percent from a year earlier, the Irvine, California-based seller of default data said today in a statement. One in 398 U.S. households received a filing last month.

The Federal Reserve lost $5.25 billion in the first quarter on the securities it acquired with last year's bailouts of Bear Stearns and insurer American International Group Inc., according to a report issued Wednesday.

The loss on the holdings, which include mortgage-backed securities, reflected a decline in their value as the recession carried over into the first three months of this year. The cumulative loss of the Bear and AIG holdings come to $16.46 billion since they were taken over last year.

The Fed is hoping that if it holds onto the securities long enough, they will eventually rise in value once the economy returns to full health again, the housing market heals and the financial and credit crises are past.

The Fed's new report, which will be issued monthly, comes as lawmakers have demanded more information about the bailouts, and a slew of other programs intended spur lending and stabilize the banking system.

The monthly report provides some details beyond the Fed's weekly snapshot of loan and debt-buying programs on its balance sheet. Those details include collateral pledged by borrowers, ratings on collateral, and the number of borrowers for some programs.

However, the Fed did not budge on lawmakers requests that it identify borrowers for emergency as well as other loans. Fed Chairman Ben Bernanke has repeatedly argued that doing so would risk a run on a bank or other financial institution, undermining the purpose of the program.

As lender of last resort, the Fed's programs are intended to bolster the financial system, a key ingredient to lifting the country out of recession.

The monthly report showed that the Fed's commercial paper program reported net income of $2.14 billion in the first quarter. Commercial paper is the crucial short-term debt that companies use to pay everyday expenses. The Fed began buying commercial paper last year when that market virtually came to a halt after credit problems intensified last fall.

It also reported net earnings of $1.2 billion in the first quarter on other loan programs, including emergency borrowing to banks and investment firms. The Fed reported $4.57 billion in earnings under its regular transactions involving Treasury securities.

Investors in bonds that packaged $62 billion of debt for U.S. offices, hotels and shopping malls are bracing for more loan defaults through 2010 as Bank of America Merrill Lynch says landlords' monthly payments may jump 20 percent or more.

Principal is coming due on the so-called partial interest- only loans as an 18-month-old recession saps demand for commercial real estate. About $179 billion of such loans were written between 2005 and 2007 and bundled into bonds, according to data from Bank of

America Merrill Lynch.

With soaring vacancies and falling rents, some cash- strapped borrowers will fail to cover the higher costs, said Andy Day, a commercial mortgage-backed securities analyst at Morgan Stanley in New York. About 87 percent of mortgages sold as securities in 2007 allowed owners to put off paying principal for several years or until maturity, compared with 48 percent in 2004, Morgan Stanley data show.

"The worst is yet to come," MetLife Inc. Chief Investment Officer Steven Kandarian said yesterday in a Bloomberg Television interview. "Typically there's a lag between when the economy softens and when the defaults actually occur."

Investors have already seen prices on top-rated senior debt drop below 70 cents on the dollar from 95 cents a year ago, according to Aaron Bryson, a commercial mortgage-backed securities analyst at Barclays Capital in New York.

Congressman Ron Paul's Federal Reserve Transparency Act, HR 1207, has reached and surpassed the level of 218 cosponsors in the House of Representatives, which means it is now cosponsored by a majority of the members.

The 218th cosponsor was Dennis Kucinich (OH-10), and the bill has since received its 222nd cosponsor.

"The tremendous grass-roots and bipartisan support in Congress for HR 1207 is an indicator of how mainstream America is fed up with Fed secrecy," said Congressman Paul. "I look forward to this issue receiving greater public exposure."

Hearings on Federal Reserve transparency are expected within the next month, as part of the Financial Services Committee's series of hearings on regulatory reform.

A US Supreme Court justice refused to order bail for Conrad Black, former Hollinger Inc. chairman, during the high court's review of his conviction for mail fraud and obstruction of justice.

Black, 64, can refile his bail request with a federal trial judge in Chicago, Justice John Paul Stevens said in a one-sentence order released yesterday in Washington. The order is at least a temporary victory for the Obama administration, which argued against bail.

Black, convicted in 2007 for his role in the theft of $6.1 million from Hollinger, has been serving his 6 1/2-year prison sentence at a US prison in Coleman, Fla., since March 3, 2008. A codefendant in the case, John Boultbee, was released on bail earlier this month.

The Supreme Court in May agreed to hear arguments from Black, Boultbee, and Mark S. Kipnis, former Hollinger corporate counsel. Their appeal contends that they couldn't be convicted under the so-called honest services provision of the mail fraud law because the firm wasn't at risk of losing money.

A federal appeals court upheld the conviction.

We were the first to break this sorry in 2001 but the SEC wasn't interested. It is seldom that an Illuminists is jailed. But arrogance brought him this sentence.

Prices of goods imported into the U.S. rose in May for the third straight month, reflecting the increasing cost of oil that threatens to undermine the economy just as it struggles to pull out of the recession.

The 1.3 percent gain in the import-price index, the largest since July last year, was in line with forecasts and followed a revised 1.1 percent increase the prior month, the Labor Department said today in Washington. Prices excluding fuels climbed 0.2 percent, while being down by 5.8 percent on an annual basis — the biggest drop since records began in 1985.

Rising commodity costs may worsen the erosion of corporate profits because the deepest economic slump in half a century means businesses have little power to pass on expenses to customers.

American households lost $1.33 trillion of their wealth in the first three months of the year as the recession took a bite out of stock portfolios and dragged down home prices.

The Federal Reserve reported Thursday that household net worth fell to $50.38 trillion in the January-March quarter, the lowest level since the third quarter of 2004. The first-quarter figure marked a decline of 2.6 percent, or $1.33 trillion, from the final quarter of 2008.

Net worth represents total assets such as homes and checking accounts, minus liabilities like mortgages and credit card debt.

The damage to wealth in the first quarter came from the sinking stock market. The value of Americans' stock holdings dropped 5.8 percent from the final quarter of last year.

The stock market began to rally from 12-year lows in early March after Citigroup Inc. reported it was profitable in the first two months of the year. Since peaking in October 2007, it had been the worst bear market since the aftermath of the crash of 1929.

Another hit came from falling house prices. The value of household real-estate holdings fell 2.4 percent, according to the Fed report. Collectively, homeowners had only 41.4 percent equity in their homes in the first quarter. That was down from 42.9 percent in the fourth quarter and was the lowest on records dating to 1945.

The Case-Shiller national home price index, a closely watched barometer, last month estimated that house prices dropped 7.5 percent during the first quarter. Prices have fallen 32.2 percent since peaking in the second quarter of 2006.

The latest snapshot of Americans' balance sheets was contained in the Fed's quarterly report called the flow of funds.

Despite the drop, the speed at which net worth shrunk slowed at the start of the year. During the recession's deepest point in the October-December period, Americans' net worth fell a record 8.6 percent, according to revised figures. That was the largest drop on records dating to 1951.

With wealth declining and unemployment rising, there are questions about how consumers – the lifeblood of the economy – will behave in the coming months.

Hartford Financial Services Group Inc. said it would accept as much as $3.4 billion in government bailout funds, capping a seven-month push to extend the U.S. financial-company rescue program to money-losing insurers.

Hartford also will sell as much as $750 million in common stock, the company, based in the Connecticut city of the same name, said today in a statement. The funds may be used to repurchase outstanding debt, the firm said.

Outgoing Chief Executive Officer Ramani Ayer, 62, turned to the government in November after asset declines depleted capital and a sagging stock price deterred private investors. The insurer is welcoming an investment from Treasury's Troubled Asset Relief Program and the pay curbs that may come with it, even as banks led by JPMorgan Chase & Co. and Goldman Sachs Group Inc. raise capital to exit the government initiative.

Consumer sentiment has shown a slight improvement in June, as the Reuters/U. Michigan preliminary Index edged up to 69.0 in June from 68.7 in May. Dollar remains steady at intra-day highs against Euro and Pound.

U.S. import prices rose for a third-straight time last month, suggesting that rising oil prices and a lower U.S. dollar have dramatically reduced the risk of deflation.

Still, with sharply rising unemployment making it harder for workers to command higher wages and for businesses to make price increases stick, inflation is unlikely to spike higher as it did one year ago.

Import prices rose 1.3% last month from April, the Labor Department said Friday, the biggest monthly rise since July 2008. Economists in a Dow Jones Newswires survey had expected a 1.5% increase.

Still, import prices were down 17.6% compared to May 2008, the largest one-year drop since the index was first published in 1982. And while petroleum import prices rose 8.3% in May from April, they were down 51.4% on the year.

Excluding petroleum, import prices were up 0.2% from April, the first increase in 10 months.

The online social network is preparing to lay off as many as 500 of its 1,600 workers, the TechCrunch blog reported on Wednesday, as it cuts costs while trying to stay ahead of growing competition from rival Facebook.

We now hear commentary regarding the Fed raising interest rates. Some don't see that until next year. We don't see it happening at all. The Fed has to keep interest rates at current levels and continue to increase money and credit. If they do this interest rates will rise, bond will fall, as will the dollar as gold and silver rise. If they raise interest rates, stocks will fall, bonds will rise as will the dollar, but inflation will not decline because it's already in the systems, thus, gold and silver will rise. There will also continue to be more shocks to the market that will push gold and silver higher.

Commercial paper outstanding fell $14.8 billion in the week ended 6/10 versus a $3.6 billion fall the prior week, asset backed CP fell $32.5 billion versus an $8.3 billion. ABCP outstanding was $524.9 billion versus $557.4 billion. Unsecured financial CP issuance rose $15.9 billion versus a $3.3 billion fall.

Brazil is looking to buy $10 billion in IMF bonds joining China and Russia. China is buying $50 billion worth and Brazil and Russia $10 billion each. This is $70 billion of monetization.

John Williams: *Annual Retail Sales Plunge Worst of Post-World War II Era – May "Core" Monthly Retail Sales Gained 0.15% versus 0.46% Total – Corrected Merchandise Trade Data Added $20 Billion to 2008 Deficit* **http://www.shadowstats.com/**

Lower grain supplies could mean higher food prices; *U.S. corn and soybean reserves have been depleted by exports and by domestic demand for fuels such as ethanol and biodiesel. This year's crops aren't expected to replenish the grain bins.*

A Daring Trade Has Wall Street Seething, which underscores a huge problem in the investment and trading world – manipulating underlying vehicles to profit on derivatives.

The trade, by Amherst Holdings of Austin, Texas, was particularly galling to the big banks because it turned what they believed was a sure-fire profit into a loss. The burned banks include J.P. Morgan Chase & Co., Royal Bank of Scotland Group PLC and Bank of America Corp. Some banks have reached out to two industry trade groups about Amherst's actions, and the groups are reviewing the transaction, according to people familiar with their thinking. "It's all-out warfare" between the banks and Amherst, said a senior banker at one firm that lost money. At issue is a move by Amherst to boost the price of bonds to avoid paying out on credit-default swaps it had sold. Banks are questioning whether Amherst set them up by selling credit-default swaps and then rendering them worthless.

In 2007, a group of hedge funds led by Paulson & Co. suspected Bear Stearns of plotting to boost the value of subprime-mortgage securities. At the time, Bear (which was later bought by J.P. Morgan) denied planning to engage in such transactions.

So far the latest dust-up has been all words, in part, bankers say, because they are wary of attracting more regulatory scrutiny at a time when lawmakers are planning major reforms in the largely unregulated derivatives markets, long lucrative for banks.

On April 28 representatives of banks including J.P. Morgan, Goldman Sachs Group Inc. and UBS AG's UBS Securities held a conference call to discuss the trade but didn't come to any conclusion, according to people familiar with the matter. [Is this collusion?]

Since the mortgage securities were valued at just $3 million or so in the market, well below the $27 million they were redeemed for, traders believe Amherst entered into an uneconomic transaction to profit from its swap positions.

California nears financial "meltdown" as revs tumble California's government risks a financial "meltdown" within 50 days in light of its weakening May revenues unless Governor Arnold Schwarzenegger and lawmakers quickly plug a $24.3 billion budget gap, the state's controller said on Wednesday.

61% of Americans say the government should not regulate the company's executive pay and bonuses.

The seemingly contradictory actions by the brass at Wells Fargo & Co. regarding the federal bailout have put the San Francisco company under a microscope. Wells was notably absent this week from the list of the 10 major banking companies repaying Troubled Asset Relief Program funds. It is still raising more capital and has not announced when it plans to repay its $25 billion of aid.

Two words sum up the reason Wells is not in a hurry to repay the money: Wachovia Corp. Wells inherited much of the Charlotte company's option adjustable-rate mortgages and other problem assets after buying it in December. Now Wells is preoccupied with working through those issues as it absorbs Wachovia's operations.

Universa Investments LP, which has links to "Black Swan" author and New York University professor Nassim Nicholas Taleb, is starting a hedge fund to bet that efforts by governments and central banks to end the global recession will lead to hyperinflation, the Wall Street Journal reported, citing Taleb. The fund will invest in commodities and options on oil and gold stocks.

A hedge fund firm that reaped huge rewards betting against the market last year is about to open a fund premised on another wager: that the massive stimulus efforts of global governments will lead to hyperinflation.

The firm Universa Investments LP is known for its ties to investor Nassim Nicholas Taleb, author of the 2007 bestseller, "the Black Swan," which describes the impact of extreme events on the world and financial markets.

Funds run by Universa, which is managed and owned by Mr. Taleb's long-time collaborator Mark Spitznagel, last year gained more than 100% thanks to its bearish bets. Universa now runs about $6 billion, up from the $300 million it began with in January 2007. Earlier this year, Mr. Spitznagel closed several funds to new investors.

Unlike last year's sudden market implosion, inflation isn't an unimaginable event that few currently anticipate. In fact, many fear inflation right now amid government efforts to goose the economy. Universa's bet, however, is that inflation will reach levels few expect.

By opening the inflation fund, Universa is trying to capitalize on a wave of investor demand for its products, which when they're right can protect investors from extreme market moves.

The new strategy, designed by Mr. Spitznagel, aims to post big gains if inflation and interest rates take off as they did in the 1970s. Universa will invest in options tied to commodities such as corn, crude oil and copper, as well as options on stocks such as oil drillers and gold miners.

"We think these things are going to see massive volatility," Mr. Taleb said in an interview.

The fund will also bet against Treasury bonds, which tend to weaken in inflationary environments. Last week, Treasury yields shot to their highest level since November as prices fell on inflation concerns. Oil topped $66 a barrel. Gold is creeping nearing $1,000 an ounce.

The minimum investment in the firm's other funds has been $25 million, though it rarely accepted investments less than $100 million, a person familiar with the fund says. Similar standards will likely apply to the new fund, called the black Swan Protection Protocol-Inflation, according to the person.

Mr. Taleb doesn't have an ownership interest in the Santa Monica, Calif., firm, but he has significant investments in it and helps shape its strategies.

The term "black swan," which has become a market catchphrase in the last few years, alludes to the once-widespread belief in the West that all swans are white. The notion was proven false when European explorers discovered black swans in Australia. A black-swan event, according to Mr. Taleb, is something that is extreme and highly unexpected.

Mr. Taleb said any deflation would be matched by an aggressive move by governments to stimulate their economies, leading inevitably to an uncontrollable surge in prices.

The Treasury and Fed elitists were very concerned with the yields at the long end of the bond market. They dragged out Japanese Finance Minister Yasano who said his government was confident about the outlook for Treasuries.

A WSJ article said the Fed claims that they are unlikely to announce a major increase in Treasury purchases at the June meeting. That probably means they are going to in Fed-Speak. This past week the Fed increased holdings by $19 billion. Over the past five weeks and they have reported purchasing $144 billion of Treasuries, Agency and mortgage-backed securities. They also held marketable securities, held in custody for foreign officials and international accounts. They have increased in five weeks from $17.9 billion to $89 billion. We assume this is foreign trade surplus that the Fed is secretly using to buy Treasuries. Over the past five weeks the Fed has purchased $233 billion in securities – so much for winding down monetization of debt.

At the Council on Foreign Relations, White House National Economic Council Director Larry Summers said the US will act in markets as needed.

At the end of the first quarter, six out of every ten banks were less than prepared to withstand their potential loan losses then they had been at the end of 2008. Bad loans were up 22%. Twenty percent of banks lost money. Four large banks lost $5 billion.

Remember in the early 20s in just three years the Reichmark dropped 95% and in the 21 following months the Reichmark became worthless.

This past week the Dow rose 0.4%; S&P rose 0.7%; the Russell 200 fell 0.7% and Nasdaq fell 0.2%. Consumers rose 0.5%; transports rose 0.3%; banks rose 4.2%; broker/dealers added 0.2%; high tech was up 2.1%; semis rose 1.5%; Internets rose 0.1% and biotechs increased 0.7%. Gold billion fell $16.00 and the HUI fell 5%.

Two-year T-bills gained 1 bps to 1.18%; the 10's fell 4 bps to 3.79% and the 10-year German bund fell 9 bps to 3.63%.

Freddie Mac 30-year fixed rate mortgages surged 30 bps to 5.59%, which sent the Fed to the bond market where they knocked down the 10-year note from 4.00% to 3.79% in two days. The 15's rose 27 bps to 5.06% and the one-year ARMs rose 23 bps to 5.04%. Jumbos were up 11 bps to 6.675.

Fed credit fell $40.5 billion. Fed foreign holdings of Treasuries and Agency debt surged $17.9 billion to a new record $2.750 trillion. Custody holdings for foreign central banks are up 21.9% ytd and 19.5% yoy.

Bank credit jumped $29.6 billion. Securities credit rose $33.6 billion; loans and leases fell $4 billion; C&I loans fell $17.3 billion; real estate loans expanded $14.5 billion; consumer loans fell $6.5 billion and securities loans rose $7.2 billion. Other loans fell $2 billion.

M2 narrow money supply fell $7.5 billion.

Total money market fund assets fell $16.3 billion to $3.747 trillion, up 8.9% yoy.

The dollar index, the USDX, fell 0.6%.

For more details on this report consult: www.theinternationalforecaster.com

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