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For The Individual Capitalist.

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GLOBAL REPORT

AWAITING THE “STIMULUS” AS A SAVIOUR

Right across the western world, politicians have shot their respective bolts, proverbially speaking. In practice, this has amounted to a one-year plus orgy of exploding budget deficit spending in most countries. On top of that, there have been official interest rates set at or near zero, central bank money infusions in the TRILLIONS and bailouts of too many institutions to count. Having acted, all these politicians must now wait, probably for at least six months, before they can see if their “initiatives” have had any effect. These initiatives certainly have had one effect. They have led directly to huge “rallies” on most world stock markets. But now, over the past two weeks, these rallies have stalled.

Cold Shower Time:

Globally, deflation still rules. This can be seen from the fact that the global stock market crash destroyed \$US 26.4 TRILLION in market value around the world. The global “stimulus” does not come close to offsetting the wealth destruction done. To that immense loss of wealth can be added the near grotesque global losses on real estate and more recently, the unfolding bloodbath across the world’s commercial bond markets.

As recently as November 2007 the Dow reached almost 14200. As of June 23, it was just above 8300. And that is after a bear market rally which saw the Dow rise nearly 40 percent since mid March this year. The problem is that a 50 percent loss requires a 100 percent gain to “break even”.

Held Up By Government Borrowing:

At present, only the exploding government budget deficits everywhere are holding up world stock markets and the price mechanism in general. But government Treasuries are inexorably going broke in the process.

Measuring The Political Reaction To The Global Deflation:

Governments and central banks in the 27-nation European region have extended 3.7 TRILLION Euros (\$US 5.2 TRILLION) plus in official guarantees and funding. That is small scale in comparison to the US, which has guaranteed, lent or spent \$US 12.8 TRILLION. The Congressional Budget Office predicts that the federal budget deficit will reach a record \$US 1.85 TRILLION this year. The US may sell \$US 3.25 TRILLION of debt this fiscal year - almost four times the 2008 total of \$892 Billion.

In the US, Federal Reserve credit has jumped to \$US 2.055 TRILLION. Fed credit has expanded by US \$1.178 TRILLION over the past year - that’s 134 percent! US “federal” debt obligations ballooned an alarming \$US 2.177 TRILLION or 16.6 percent over the past year. This is totally insane.

In The US Economy - The DEFLATION Rolls On:

The US “*pump the economy back UP*” operation is failing. The Fed’s published numbers show this for all to see. US household wealth fell by \$US 1.3 TRILLION over the first quarter of this year, according to a Federal Reserve report released on June 11. Wealth dropped by a record \$US 4.9 TRILLION in the last quarter of 2008. That’s a fall in US net wealth of \$US 6.2 TRILLION in six months.

Despite the incredible government stimulus, the fall in US household sector assets has brought the one-year drop to a historic \$US 10.075 TRILLION. On a GDP basis, the entire US economy has most recently been estimated at \$US 13.8 TRILLION. Note that the above applies to US households, not to US businesses and financial institutions. The broader American situation is actually much worse.

Watching The Real US Economy:

To really observe where the US economy is going, one has to watch commercial paper. This is the real financial engine which funds intermediary economic goods - the goods in the process of being made but not yet completed as consumer goods. Where US commercial paper goes - there goes REAL production.

Catastrophic New US Numbers:

Total US commercial paper outstanding has again fallen - to reach \$US 1.202 TRILLION. Commercial paper has declined by \$US 479 Billion so far this year by a full 62 percent on an annualised basis and by \$US 549 Billion or 31 percent over the past full year. Please note here the accelerating contraction. Over all of 2008, commercial paper issuance fell 31 percent. Over less than half of 2009, it has fallen by 62 percent! This shows that the fall in US output has accelerated at more than twice the speed that it contracted last year. The US economy will NOT revive until US commercial paper revives.

US Bankers Either Can’t Or Don’t Want To Lend:

US bank credit lent into circulation as loans to borrowers’ accounts now stands at \$US 9.722 TRILLION. US bank credit is, in fact, up by only \$US 317 Billion over the past year. This shows that US banks have not managed to restart any US credit expansion, even with all the massive Fed infusions of “reserves”.

In fact, US bank credit is down by \$US 191 Billion so far this calendar year. That is a literal and real contraction of credit money in use of 4.4 percent annualised. And THAT is a situation which the powers that be in Washington and New York fear like the Black Death. If this contraction in US bank credit was to gain further downwards momentum as Americans deleverage and repay their loans, it would implode the credit money side of the US monetary system in a monetary deflation of epic size.

On The Edge Of An Involuntary US Credit Money Deflation:

This involuntary US credit money contraction is the situation which the powers that be in the US are trying to stave off with their massive “replacement” borrowing. But the US Treasury and all the other US “Agencies” can only keep this up for as long as they can expand their own balance sheets by piling their own debts outstanding ever higher. There is a future point at which they will break under their debts.

The US Deflation Is Hitting Main Street:

On June 17, the US Labor Department said that compared to the same period last year, the CPI fell 1.3 percent. This is the largest decline since April 1950! The pace of the price declines also accelerated. The US CPI dropped 0.7 percent year-on-year in April. US businesses, small and large, are throwing inventories on the retail and wholesale markets with increasing speed. In all deflations - Cash Is King - and cash in hand beats hollow unsold goods, even completed goods sold at zero profit to get cash.

The US STATE Level Is California Times Ten:

According to officials in California, the state runs totally out of money on June 28, just as this issue of *The Privateer* goes to press. Across the USA, one state after another is seeing its collapsing tax revenues force it into a "California like" situation. The states face a cumulative shortfall of \$US 230 Billion - ten times the tax shortfall that California faces - from this year through 2011. There is little sign that Washington is willing to create yet another crisis aid program to solve the states' problem.

The real financial problems of most of the 50 US states will come to the fore at the start of July. That is when they must have their annual budgets in place. This nationwide issue has been a sleeper for many months with most of the media coverage only at the state level. Nationally, California has received most of the coverage with the rest of the states hiding behind it. But this nationwide issue, the possible bankruptcy of several states, could explode over the weeks ahead.

More than one-quarter of American states now have unemployment rates of more than 10 percent. All but two states saw a further job market deterioration in May. Tennessee and Indiana joined the ranks of states, now 13, which have jobless rates above 10 percent. Eight states - including California, Florida and Georgia - reached their highest level of joblessness since records were begun in 1976 in May, the Labor Department reported on June 19 in Washington. The tax revenue bases under the states are collapsing.

US Economic Nation Breaker:

As all our longer term *Privateer* subscribers know, the Captain and crew are closely watching the world's transportation system - from ocean traffic to ports, rails, airfreight to trucking - to get a clear picture of the most savage global economic contraction since the start of the 1930s. The volume of all types of goods transported is a global proxy for actual economic goods produced. When the transportation of all economic goods contracts, so do economies. The view from the US is particularly bad.

The American Trucking Association Tonnage Index declined a seasonally adjusted 2.2 percent in April. This is better than the 4.5 percent contraction in March, which shows the US production contraction is at least slowing down though total output is still falling. The big fall was in US rail haulage where rail carload traffic in May 2009 fell 24.7 percent(!), the worst year-on-year decline in any US recession.

The US rail system has already parked hundreds of thousands of flatbeds and full cabin rail cars across the off-mainline rail tracks in the US rail network. Nobody sees them there. But the 24.7 percent over the year to May 2009 is eye watering. Another month like May and there will be mainline rail tracks in the US with next to no train traffic on them. If that happens, there will be bankrupt rail systems.

We Can't Make Things Here Anymore:

US companies trimmed stockpiles in the first quarter at a \$US 91.4 Billion annual rate, the biggest drop since records began in 1947, according to figures from the US Commerce Department. Chrysler shut all its plants on May 1. GM, the biggest US automaker, said on June 1 it is stopping work at 14 plants as it restructures under Chapter 11. US industrial production fell in May for the 16th time in the last 17 months. Output at factories, mines and utilities decreased 1.1 percent in May after falling a revised 0.7 percent in April, Federal Reserve data showed on June 16 in Washington. The amount of US industrial capacity in use dropped to a record low of 68.3 percent. This bluntly means that more than 30 percent of US capital plant is today standing idle! Historically, this is a real depression.

Also historically, there are in principle only two ways to rectify such an economic situation. The first is to simply walk away from the idle plants and sell the worn out equipment still on the shop floors to all the junk dealers for scrap prices and then write the financial losses off. At least that will enable the remaining plant and equipment to be run at a profit. The other way is REAL reinvestment.

The Present World Economy - A Mid-Year Update:

Nothing better exemplifies the present worldwide economic situation than the climbing trauma that the main export nations have been under since the world's capital markets seized up back in August 2007.

The Huge Global Trade Contraction:

Japanese exports, for example, fell a larger than expected 40.9 percent in May from a year earlier. China's exports to the United States fell only 12.1 percent in the first four months of this year compared with the same period last year. Over the same interval, American exports to China dropped 17.2 percent.

This blunt economic data shows that world trade has been cut nearly in half since August 2007 and that is hurting the main exporter nations very badly indeed. Having lost nearly half of their external markets, their internal markets have gained relatively in importance as the main means with which to support their economies - the scaly head of protectionism raises its head here - to support their own internal jobs.

Tumbling Towards Global TRADE WARS:

In the latest sign of friction over trade, on June 23, the US and the European Union (EU) raised the stakes in a growing dispute with China by lodging a joint case at the World Trade Organisation (WTO) over export quotas on raw materials. The US has already introduced controversial "Buy American" legislation. Now, China has responded with its own near carbon copy "Buy Chinese" provisions. Beijing has banned all its local, provincial and national government agencies from buying imported goods except in cases where no local substitute exists. It did so in words similar to the trade provisions in the US.

A Short Economic Take On Protectionism:

All attempts at protectionism are attempts to insulate local producers from wider competition and (it is claimed) to boost local employment. Protectionism is easily economically refuted. If an internal producer has the choice of buying its resources at an international price of 80 or an internal price of 100, it will, if free to do so, choose the lower price. Having bought, it stands with 20 left over with which to invest in other things. But if it is forced to buy internally at 100, it will not have that extra 20 and therefore it will not be making any other internal purchases. The internal economy must contract.

Global politicians were dumbfounded by this plain economic principle in the early 1930s after they had raised tariffs to "protect" internal jobs from the infernal waves of cheaper imports from other places. They then compounded their first economic mistake by hammering export subsidies in the form of borrowed funds and taxpayers' money in behind their own exports, trying to "undersell" the tariff barriers erected by other nations. That never lasted long. Other countries quickly slapped countervailing duties to match the export subsidies of their trading "partners". Global trade shuddered to a near halt.

As Usual - Nothing Has Been Learned:

Once this stage of "competitive subsidies/duties" had been reached in the early 1930s and trade had all but ground to a halt, the huge internal public works programs began. Sound familiar? Massive internal infrastructure programs began in all counties, paid for with newly borrowed money. Budget deficits exploded all over the world. Unemployment stubbornly refused to fall and became a permanent feature.

Taxes on high earners and the wealthy were raised massively to cover the enormous costs of all this. When companies failed or went broke under these additional burdens, other bureaucrats stood ready with government subsidies to keep them running - even if now bankrupt. Does THAT sound familiar?

Now, in the US and many other countries around the world, everybody is waiting for the stimulus.

A PRIVATEER - GLOBAL ALERT

Just as *The Privateer* goes to press, a new development has exploded on the world scene. On June 23, the European Central Bank (ECB) announced its first ever offer of UNLIMITED one-year funds!

The ECB has only done something like this once before, in a single ECB operation back in December 2007 when the world's international payments system seized up. Then, Europe decided that this time, their internal payments system would not be allowed to freeze up as it did back in the early 1930s.

This Starts The Global Credit Crisis - Mark II:

Across the Atlantic in the US, the FDIC was the first cab off the rank in response. The FDIC said it will be guaranteeing \$US 700 Billion of the debt of about 7,100 US banks and institutions in its transaction account program. Banks, including the biggest US lenders, can now tap UNLIMITED coverage by paying 10 cents per \$US 100 on customers' deposits. The FDIC has \$US 13 Billion left of its own funds.

A Global *Privateer* Financial Appreciation:

What the ECB did back in December 2007 was a reaction to financial events which made the world's international payments system seize up. The ECB hammered 348 Billion (\$US 485 Billion) straight into the European payments system so that all the other financial participants could make or receive payments. This was a "one-off"! But now, the ECB has done it, again - on a scale which vastly exceeds what it did back in December 2007. This is not a "one-off". This time, it is supplying unlimited funds for a year!

Measuring Possible Magnitudes:

The problem which the ECB sees rolling over the world horizon has to be of a near similar magnitude in size. Why otherwise open its doors again for unlimited funds? Further, why would the ECB keep its doors open for the issuance of these funds for a full year if the ECB did not expect this approaching world crisis to last for at least this length of time? Searching for answers to this, *The Privateer* can only use similar historical instances. The first of these has to be a gargantuan bankruptcy of a pillar of the western world's huge "money center" banks. The second of historical instance has to be a debt default by one of the western world's major governments! The third has to be a combined political and economic disaster. An example of this is when France refused to roll-over its loans to Austria's Credit Anstalt in the late 1920s and then demanded repayment of its past loans. That demand brought the Credit Anstalt down. The Credit Anstalt, in a desperate attempt to get the funds and to repay France, called in its own loans to German commercial banks, in the process causing a fast sequence of bank failures across Germany.

In the early 1930s, western banks recoiled in horror from each other. They all started to recall their own short-term loans from each other while refusing to make any new loans. The entire western world's international payments system broke down as the banks failed in their thousands all across the world. With this offer of unlimited funds, the ECB has acted to try to prevent a similar sequence, at least inside the Euro region. The European payment system will therefore survive - for at least another year.

But, if the crisis foreseen by the ECB is a debt default by a big government, then the global final outcome becomes extremely doubtful. It will be the present lenders to the default government which will take the full hit, their loans made to it all being worthless. Their finances and payments systems might not be able to handle that. If they can't, then the whole world could face a sequence of national debt defaults.

These are exceptional and dangerous times. Central bank interest rates are at or near zero worldwide and budget deficits are exploding as is government debt because of the deficits. In principle, only two outcomes lie ahead. The budgets can be brought back into near balance and national bankruptcies avoided - or - the budget deficits roll on until the governments default on their debts.

INSIDE THE UNITED STATES

A SECOND STIMULUS PACKAGE ISN'T NEEDED - YET

It did not take long in coming because the first stimulus is simply not working. President Obama is now in full perception management mode. He is trying to lower US economic perceptions as fast as he dares. In the process, he is also opening the political door for “stimulus package mark II” while saying that it isn’t needed - yet. Warren Buffet swung into action on the mainline US media, saying that the US may need a second economic stimulus package as unemployment continues to rise. This is backup for Obama.

“It looks like we’re going to need more medicine, not less”, Buffett has said on June 24 in a Bloomberg Television interview. *“We’re going to have more unemployment. The recovery really hasn’t got going.”*

The US economy has lost about 6.8 million jobs since the recession began in December 2007. The US unemployment rate jumped to 9.4 percent in May, the highest level in more than 25 years. President Obama predicted on June 24 the jobless figure will exceed 10 percent by year end. So much for stimulus.

Moving Deck Chairs On The USS Titanic:

On June 17, President Obama proposed the most sweeping overhaul of the way the US government oversees financial markets since the 1930s. There will even be a “new” bureaucracy!

The US Fed Has Become VERY Political:

The political “independence” of the Fed will be torn to shreds. Though it will gain a bigger role as the US systemic financial regulator, the Fed will have some of its emergency lending power curbed.

There Will Be No Lack Of Future Political Money:

The plan calls for the US Treasury Secretary to approve, in writing, any new emergency funding! Mr Obama's new plan would require the Fed (which now can independently use emergency powers to bail out failing banks) to obtain the US Treasury Department approval BEFORE it can extend credit to US banks and financial institutions in “*unusual and exigent circumstances*”. These moves make the Fed subject to the US Treasury. In fact, the plan makes the Fed into an agency which becomes subordinate to the US Treasury. If anybody in the world, Americans included, previously thought the Fed was a danger to life, liberty and estate, just wait until Congress, acting through the US Treasury as it does with its budgets and subsidies, gets its political hands on the Fed! That goes for the US Executive Branch as well.

In the US these days, any Presidential Executive Order has the instant force of law, once signed by the President. The only way to overturn one is by an act of Congress making it void. Barring that, the President could direct the Fed to create US Dollars and send them wherever Mr Obama wants them to go.

All that would now take is a direction or some other memo sent to the US Treasury to get the Fed to act!

Money - From A Medium Of Exchange To An Instrument Of Expropriation:

The entire US monetary system and its instrument, the US Federal Reserve Note, now stands at the end of the line as legitimate “money”. Fed Notes - US Dollars - are backed by legal tender laws which force Americans to accept them in exchange for their own private goods, property or work. Now, the private, individual American is at the mercy of anyone who can lay their hands on some Obama political money.

That changes the fundamental nature of money. Under these new “plans”, what was a general medium of exchange completes its transformation into a political instrument of economic expropriation.

INSIDE CHINA - AND - JAPAN

CHINA'S EXPORTS CAVE IN - AND - JAPAN'S ALREADY HAVE

Global trade is getting worse. The volumes of produced economic goods transported and sold to others in other countries around the world are declining faster than in the crash in world trade in the early 1930s.

For China, overseas shipments declined 26.4 percent in May from a year earlier, China's customs bureau said on June 11. For Japan, exports from the world's second largest economy plunged 40.9 percent from a year earlier, accelerating from a 39.1 percent fall in April, the Japanese government said on June 24.

The Cave-In Of Japanese Exports:

Japanese exports to the US fell 45.4 percent in May, marking the 21st straight monthly decline, the Japanese Finance Ministry said this week. Japan's exports to the European Union decreased 45.4 percent in May while Asia-bound shipments fell by 35.5 percent. Japan's exports to China alone declined 29.7 percent, marking the eighth consecutive monthly fall. Globally, Japanese imports fell by 42.4 percent.

SCO - BRIC - And Moscow Summits:

With this collapse in world trade as geo-economic and political background, the Shanghai Cooperation Council (SCO) met. At the summit, Russia's President Medvedev had this to say:

An “artificially maintained unipolar system” was today based on “one big centre of consumption, financed by a growing global deficit, and thus growing debts, one formerly strong reserve currency.” Mr Medvedev did not mention the US or the US Dollar, but he might as well have. He went on to again advocate Russia's multi reserve currency proposal. All this was, of course, met by deadly silence by the West's financial media. The SCO summit was followed the next day by the BRIC (Brazil, Russia, India and China) Summit. At this summit, all kinds of bi-lateral deals were signed, all excluding the US.

On June 17, the Presidents of Russia and China agreed to boost the use of their own national currencies, the Rouble and Yuan, in their own bilateral trade. “It is essential ...to move forward the work on the creation of favourable conditions for widening the sphere of settlement in Roubles and Yuan,” So said Russian President Medvedev and Chinese President Hu Jintao in their joint press statement.

The Travels Of Other Global Political Leaders:

After all that, China's President Hu flew off to Moscow for a two-day Heads of State Summit with Russia. There, some immense and long lasting energy deals were signed with the only remaining sticking point being the price China has to pay for these Russian energy supplies. Then President Hu flew back to China and announced the China-Russia Summit as a thunderous success. President Medvedev went on a four-nation tour of Africa, starting in Cairo, where he addressed the 22-nation Arab League. He received five standing ovations for his proposal for a MOSCOW hosted Middle East Peace Summit. This proposal was accepted by the full Arab League - and ISRAEL! *The Privateer* takes pains to report all this because the Western media coverage of these summits has been all but non existent. What these summits all show is that very large geo-political regions around the world are marching right past the US as if it does not matter anymore what the US does. The US did not even have observers at these summits.

In regard to the Russian proposed Middle East Peace Summit in Moscow, there was no mention of any US presence! Since the Russian proposal, there has been no word about it or possible US pressure to attend from the US State Department. This points squarely toward the US not having been invited.

What is taking place almost globally is a reverse form of Isolationism. It is the US being isolated.

INSIDE THE EUROPEAN UNION

THE ECB'S ONE YEAR EMERGENCY BAIL-OUT

The European Central Bank (ECB) has said it will lend its banks 442 Billion Euros (\$US 621 Billion) for 12 months, the most it has ever allotted in an auction. The ECB has filled all bids in its first offer of 12-month loans to Europe's banks at the current benchmark interest rate of 1 percent. The 1,121 banks which participated received the funds on June 25. Let this be clear. When a central bank offers UNLIMITED funds there is a massive international payments crisis just under the forward time horizon. Either that, or the crisis is already visible - to the ECB. The ECB has been lending banks as much money as they wanted for up to six months against eligible collateral since October last year.

In The Historic Background Of The Crisis:

The ECB move was done in the aftermath of the Irish government "guaranteeing" all deposits in Irish banks. Germany promptly followed that move and it spread like wildfire right across the western world's banking and financial systems. Back at that time when the global payments system seized up, everything and anything had to be done and was done by the powers that be to avoid depositors storming the banks and demanding their deposited money back in cash. Both Britain and the US had smaller scale bank runs but most people only acted to move their money into what they saw as being safer institutions.

Parallel to these "guarantees", the second thing that had to be done was to keep the payments system functioning so that businesses and individuals could make and receive normal payments. To ensure the "liquidity" to make such payments was there, the commercial banks being too scared to use their own, the ECB decided to push 348 Billion new Euros into the European payments system.

All this took place in December 2007. Now, the ECB has done it again! History shows that the world's capital markets seized up in August 2007 - with the crisis exploding into the open in December 2007.

Fast Forward To Today:

Ever since these events of late 2007, the world's monetary and financial powers have desperately tried to overcome an accelerating and global credit money deflation as businesses and individuals in all walks of life almost everywhere are trying to deleverage - to repay their outstanding loans. Repaying any amount of credit money borrowed from a lending bank has the effect of contracting the quantity of credit money in use. That is a literal monetary deflation.

Shortly after such a credit money contraction begins, some economic goods cannot find their clearing prices and are left unsold on the store shelves. Lacking new orders, this situation flows backwards to wholesalers and to manufacturers. Total output slows down and unemployment starts to climb, acting to slow sales even further. The recession is no longer on the horizon, it is here with bankruptcies abounding.

Where We All Are Now:

While the former credit expansion was in full flight, many commercial projects seemed possible. The problem is that they were only possible if the credit expansion not only continued but accelerated. Now the Western world has gone into reverse. Not only has the credit expansion now ended, the amount of credit money itself is contracting in volume. The massive government budget deficits we currently see are temporary measures. They will end - either when Treasuries are close to fiscal bankruptcy or when they will hit a brick wall when an already overextended Treasury defaults on its debts out of the blue.

Compared to 2007, the ECB has now acted to slam new "liquidity" into the Euro finance system BEFORE another global payments crisis erupts. This is truly a preemptive emergency action.

AUSTRALIAN REPORT

AUSSIES THROW THE PLASTIC FANTASTIC AWAY

The economic and financial evidence is piling up. More and more Australians have had enough of being in debt. Aussie credit card balances are falling for the first time since records began 14 years ago, the Reserve Bank of Australia (RBA) has reported. The RBA data also revealed that consumers spent \$A 17.376 Billion or 7.5 percent less on their credit cards in April than they did in March.

Stop Making Things - People Are Not Buying:

First, Australia saw the slowdown in new credit uptake. Then, beginning late last year (the Prime Minister's \$A 900 handout before the holiday season being the exception) we saw new credit issuance all but stop. Now comes the confirmation that Aussies paying back part of the outstanding credit balances.

The economic effects of these repayments are now starting to pile up. Victoria's manufacturing base has been in free fall for the past year, losing more than 40,000 jobs or about one in eight jobs in the sector. Manufacturing employment nationwide plunged below 1 million people for the first time in at least a generation. Another case of the truism that if you stand on credit, you will fall on debt.

Governments As The Replacement Borrower And Spender:

This would be seen as pathetic if it was intellectually transparent to more Aussies. Sadly, it is not. Even so, here we have - right out in the open for all to see - Australian governments at all levels borrowing and spending up a storm. They call it "new investment". The federal government in Canberra has now distributed more than \$A 12 Billion in cash to low and medium income households to stoke spending. In May, Treasurer Swan unveiled a \$A 22 Billion program of spending on roads, rails, ports, hospitals and schools. Economically, this is absurd. Federal, state and local governments are borrowing themselves towards fiscal insolvency at the exact same time as their tax bases are contracting under them.

As a consequence, their balance sheets are deteriorating as more debts are being piled on top of falling revenues. At the same time, more and more Aussies are working hard to improve their own balance sheets by deleveraging, repaying credit card debt and increasing personal monetary savings.

From Our Economic Lookout At The Masthead:

The Privateer and all Aussies can count on this. Once the governments begin to realise that they are borrowing themselves towards fiscal oblivion, they will slam on the spending brakes. Then they will increase taxes, rates, charges etc. All their debts will have to be serviced with interest payments.

And with their usual unimpeachable sense of timing, these cutbacks in government spending and higher government taxes and other costs, will hit the Aussie economy right around the time when it appears to be bottoming out, sending it into its second and deeper recession - sometime early in the next calendar year.

When Government "Invests" Your Money For You:

There is nothing more morally obnoxious than to be forced by a government to take economic steps that are sure to lose. Compulsory superannuation is a classic case in point. Having been forced to send money to the government so that the government can "invest" these huge sums, the results are now in. Here they are. Australian super funds lost almost 26.7 percent last year.

The Privateer crew has not (repeat NOT) seen one reported instance where any of the government's own people have been fired for this performance. Further, there are NO layoffs in the government sector.

THE GLOBAL MARKET REPORT

THE EASY PART IS OVER - NOW COMES THE HARD PART

Next week, the year passes its halfway point and the “summer doldrums” get underway in the northern hemisphere. On July 1, “Canada Day” celebrates that nation’s ascent to self-government and three days later, the US celebrates its Fourth of July. This year, the “doldrums” can’t come fast enough for the embattled overseers of fiscal and financial “rectitude” in both nations. That is especially true in the US, where Mr Obama, Mr Geithner and Mr Bernanke are facing mounting pressure because the economy over which they preside has failed to respond to ANY of the measures taken in an attempt to resuscitate it.

The FACTS - as presented in this and many recent past issues of *The Privateer* - are irrefutable. The global economy is NOT emerging from its financial crisis. Nor is the US economy - the global fiscal and financial epicentre - despite all the bailouts, stimulus packages, debt creation and market manipulations which have been thrown at it so far this year. The real economy has not benefited at all from having all this money thrown at it. Nor has the US financial system outside the huge money center banks in New York. On June 27, the FDIC announced the closure of another five “smaller” US banks, bringing the total thus far in 2009 to 45. In the first half of 2008 (January 1 to June 30), the FDIC shut down FOUR banks.

What the “stimulus” packages and the avalanche of new financial rules and regulations launched during Mr Obama’s tenure have managed to do - so far - is twofold. They have successfully prevented the oceans of “toxic sludge” (subprime and junk debt) from being valued on the open market, thereby allowing the big banks to pretend that this paper is still worth what was originally paid for it. And, since mid March, they have ignited a rally on US stock markets. This rally is, admittedly, much smaller than the surge on other major (notably Asian) stock markets. But it has, at least to this point, arrested and reversed the horrendous slide which culminated in March this year.

Back In The Black - For One Day:

2008 was one of the two or three worst years in the history of US and world stock markets. Over the year in the US, the three main stock market indices - the Dow, S&P 500 and the Nasdaq - fell by 33.8, 38.5 and 40.5 percent respectively. By March 9, 2009 the carnage had become extreme with all three indices down more than 50 percent from their highs of late 2007.

Here’s the record for the Dow - all data are closing levels on the index:

October 9, 2007 - 14164 - All Time High (ATH)

December 30, 2007 - 13264 - down 6.4 percent from the ATH

December 31, 2008 - 8776 - down 33.8 percent on the year and 38.0 percent from the ATH

March 9, 2009 - 6594 - 24.9 percent on the year to date and **53.5 percent** from the ATH

Such carnage on US stock markets had only been seen before in the aftermath of the 1929 crash. The Dow’s crash in October 1987 - including the record 22.6 percent fall on October 19 - totalled a mere 36 percent from top to bottom.

The free fall on US and world stock markets was stopped by the announcement that the US Treasury and the Fed would between them inject literally \$US TRILLIONS to take toxic assets off the books of the tottering money center banks and to attempt to buy up mortgage and consumer loans. US stock markets soared, and kept on going when the Fed announced its plan to begin to directly purchase US Treasury debt on March 19. By June 12, the Dow had erased all its 2009 losses, closing on that day at 8799 - 23 points or 0.26 percent above the level at which it began the year. The Dow was in the black for the year to date - for one day. The Dow fell 187 points on its next trading day and has not been above the 8600 level since. It has just registered two weeks of consecutive (if small) falls - for the first time since March.

The Danger Signals - For US Stock Markets:

First of all, according to *Bloomberg*, insider selling by CEOs, directors and senior officers of US companies has reached its highest level in two years - since June 2007. That's shortly before the global credit crunch hit and four months before the Dow peaked. As of the week ended on June 19, "insiders" had been net sellers for fourteen straight weeks. That means that the selling has been going on since March 10, the day after US markets bottomed. As succinctly put by one of the investment analysts interviewed by *Bloomberg* in compiling the report: "*If insiders are selling into the rally, that shows they don't expect their business to be able to support current stock-price levels.*"

The Privateer has seen many reports which can be clumped together under the generic heading - "*what if they're wrong this time?*" They very seldom are. Please note that the last time insider net selling reached present levels was in mid 2007 - just before the wheels came off the global financial system and very close to the peak of US stock markets.

On top of that, the weakness on US markets over the past two weeks has been led, as was the October 2007 - March 2009 slow speed crash, by the US banking sector. A large US bank index, the KBW Bank Index - fell 20 percent between its May 11 rebound peak and June 24. One of the main reasons for this is that the cost of protecting against default on a basket of 14 derivative dealing banks in the US is once again on the rise. Over the past two weeks, the index measuring this cost has risen from 135 to 178. That means that the cost of insuring against \$US 10 million "worth" of this paper from going belly up has increased from \$US 135,000 to \$US 178,000. The raw numbers aren't that impressive - until one realises that this increase in "insurance costs" amounts to almost one-third (31.9 percent).

On the technical side, both the Dow and the S&P 500 have only this month managed to break back above their 40-week (200 day) moving averages (MA) on the weekly bar chart. This led to great celebrations amongst US analysts - but both are now threatening to go back below these averages. The S&P 500 actually slipped below its 40-week MA early this week before recovering later on in the week.

Please note carefully that the rebound on US and world stock markets since March is the ONLY ray of light to so far penetrate the financial gloom. Without the HUGE global stock market bounce since March, all the talk of "green shoots" and looming economic recovery would never have gotten off the ground. Nor will this talk, hollow as it is, survive another relapse on the stock markets.

The Biggest Danger Signals Of All:

These signals, both of which took place over the week just ended, involve what are still the two most important central banks in the world, the European Central Bank (ECB) and the US Federal Reserve. As already reported in this issue (see "*A Privateer Global Alert*" on the last page of the *Global Report*) on June 23, the ECB announced the offer of unlimited one-year funds to its banking system for a year to "insure" against any freeze up in its payments system.

Two days later, on June 25, the US Fed announced that it was extending into 2010 (most of the next year - see above) the US Dollar or "currency" swap deals it first negotiated with most of the major world central banks (including the ECB, of course) back in late 2008. First entered into in September 2008, these "swap" deals were officially entered into as a means to "unblock the global credit squeeze".

The currency swap deals in 2008 were designed to hide the fact that the US held very little "foreign exchange reserves" with which to meet any concerted sell-off of US Dollars. Nor did the US want to directly acquire such reserves. After all, as the purveyor of the global RESERVE currency, the US was not supposed to need "foreign exchange reserves". The US Dollar IS the reserve. The continuation of these currency swaps now means that the US can acquire foreign currencies by "swapping" US Dollars with other central banks, thereby NOT having to go to the markets to acquire them.

The “Insiders” Are Hard At Work:

On the US stock markets, “insiders” have been selling ever since the rally began in March and are now increasing their sales as the markets have faltered over the past two weeks. Now, the global financial “insiders”, the ECB and the US Fed, are making preparations in advance for what they surely see as the NEXT phase of the global financial crisis. For all the talk of “exit strategies” from the present global round of unprecedented government deficit spending once the economy “gets back on its feet”, there has been absolutely no move to actually start to rein in the deficits. If anything, the opposite is the case.

The trade-weighted US Dollar index, the USDIX, is once again hovering around the vital 80.00 level, having traded below it intraday on June 26. From the inception of the USDIX in 1973 at the dawn of the global fiat currency era up until September 2007, the USDIX had never been below the 80 level for more than a few days at a time. It spent just over a year below 80.00 between September 2007 and October 2008. Another prolonged sojourn below 80.00 for the USDIX would tax the “patience” of global holders of US Dollar denominated “reserves” to and quite possibly past the breaking point.

The best thing that the global financial powers that be, especially those in the US, can hope for now is that the traditional “summer doldrums” lessen the pressure on global markets and the global financial system, at least between now and US Labor Day at the beginning of September. Judging by the actions being taken by the stock market and global financial system “insiders”, they are not at all confident that the present situation can last that long.

Recent Events:

Two weeks ago, the G-8 Finance Ministers were pointing to the performance of global stock markets as the one piece of concrete evidence that their bailout measures were “working”. Now, these same stock markets have let them down. In the US in particular but also across the world, stock markets have faltered over the past two weeks. The latest catalyst for their growing concern was a World Bank report this week which predicted a 2.9 percent contraction in the global economy over 2009. Their prior estimate, made before the global stock market rebound, was for a contraction of 1.7 percent. To ease any unease they might have caused, the World Bank went on to predict a 2.0 percent level of global economic GROWTH in 2010. So far, that doesn’t seem to have reassured anyone.

Gold:

For MUCH more on Gold - please see Gold This Week (GTW):
<http://www.the-privateer.com/subs/goldcomm/gold.html>

What’s Next?:

Next week, the US Treasury embarks on yet another record week of debt issuance. Ironically enough, this comes in the same week when the biggest state in the Union, California, hits the wall. On July 2, if it does not come to some kind of last minute miracle “deal” on its budget impasse, California will have to start issuing “IOUs” to its creditors for the first time since the 1930s. At least nineteen other states have yet to “approve” their 2009-10 budgets and, under their constitutions, none of them can run deficits.

The G-8 Foreign Ministers have met in Italy, with US Secretary of State Clinton unable to attend due to an elbow injury. They discussed absolutely nothing of import, at least not in public. On July 8-10, the round of G-8 meetings reaches its “peak” with the Heads of State Summit. In the lead up to the G-8 Summit, President Obama, fresh from his White House meeting with German Chancellor Merkel, is off to Russia for a Summit with Mr Medvedev and Mr Putin on July 6-8.