THINGS THAT MAKE YOU GO

Hmmm...

A walk around the fringes of finance

By Grant Williams

8 OCTOBER 2012

Things I Don't Understand

"How tides control the sea and what becomes of me
How little things can slip out of your hands
How often people change, no two remain the same
Why things don't always turn out as you plan

How infinite is space, and who decides your fate
Why everything will dissolve into sand
How to avoid defeat, when truth and fiction meet
Why nothing ever turns out how you planned

These are things that I don't understand
Yeah, these are things that I don't understand "

— Coldplay, Things I Don't Understand

"It's funny. All you have to do is say something nobody understands and they'll do practically anything you want them to."

— J.D. Salinger, Catcher In The Rye

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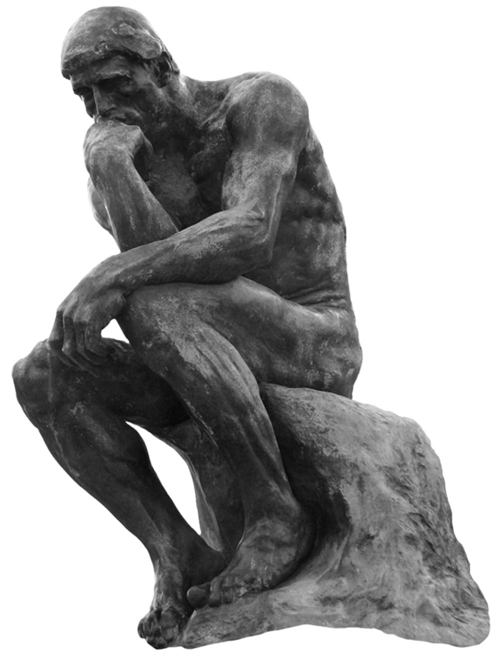


Things That Make You Go Hmmm...

The longer this all goes on, the weirder it gets.

If the technology existed that allowed us to reanimate financiers as well as statesmen and politicians of days gone by (today we are blessed with none of the former and an abundant surplus of the latter), it is hard to estimate just what they would make of the current state of the world. Actually, that's not strictly true. I think we can safely assume to know what their reaction would be, just perhaps not the extent of their abject horror at how far things have deteriorated.

This week, we shall take a look at a few of the more bizarre situations that seem to be looked upon as normal in today's world but that would have been unthinkable in times when the laws of politics and finance were like those of mathematics; simple and concise.

A perfect case in point are the talks that this week got under way between France's Credit Agricole and Alpha Bank of Greece. Up for discussion was the strong desire of the former to sell to the latter its Greek unit, Emporiki, for the princely sum of €1.

Ownership of a bank for €1? Should be straightforward, no?

No.

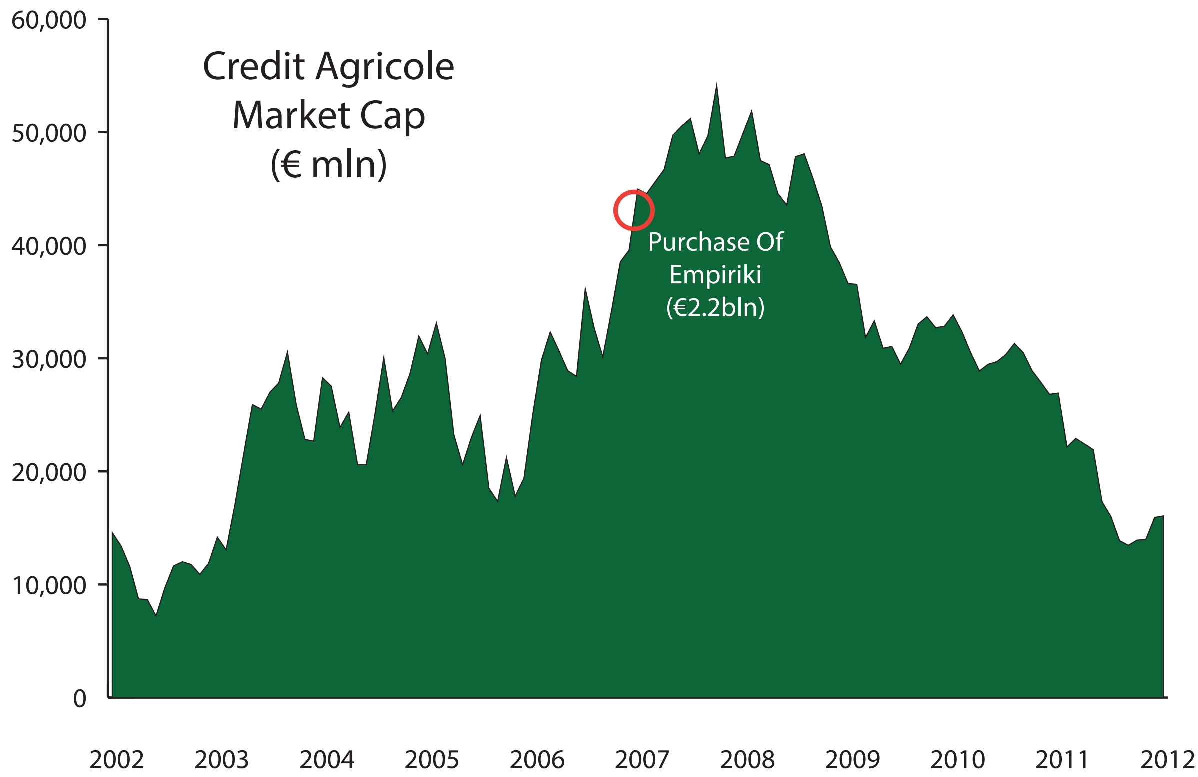
In 2006, long before the truth about Greece's dire finances was acceptable conversation at dinner parties across Europe, the geniuses charged with running Credit Agricole decided that owning a Greek bank would be an excellent way to take advantage of the burgeoning desire amongst Greeks to borrow money (cough). In their infinite wisdom, they set their sights on Emporiki Bank, an Athens-based lender that has 370 subsidiaries across Greece as well as branches in such financial nerve centres as Albania, Romania, and Bulgaria. Amazingly enough, Emporiki is reportedly one of the 500 largest banks in the world. Call me old-fashioned, but if a bank is one of the largest in the world and its operations are focused in Greece, Albania, Romania, and Bulgaria, I'm smelling some kind of rodent.

Credit Agricole, on the other hand, can boast that it ranks a lofty seventh on a list of the world's largest banks by market cap (as of December 2011) and precisely nowhere on the Global Finance list of the world's 50 safest banks as of July 31, 2012.

As far as I am aware, there is no current ranking of most foolhardy decisions made by banks, but I think it is safe to assume Credit Agricole's purchase of Emporiki in August 2006 would feature prominently on awards night should that particular list ever be drawn up.

Credit Agricole has the largest exposure of any European bank to what is euphemistically referred to as the 'troubled Greek financial sector', and a look at the history of its purchase of Emporiki is a stark lesson in how not to do... well, pretty much anything, frankly.

In August of 2006, Credit Agricole (at the time worth roughly €45 billion) decided to spend about 5% of that market cap on Emporiki Bank. Not all of Emporiki Bank. 67% of Emporiki Bank.



Source: Bloomberg

Currently, Credit Agricole's losses from this spectacularly bad investment stand at €6 billion (give or take a few million), and its market cap is a far less impressive (but perhaps far more reflective) €14.6 billion.

After having injected an additional €2.3 billion into Emporiki as far back as July or, to put it another way, about eight weeks ago, Credit Agricole sat down to negotiate a possible sale with the good folks of Greece's Alpha Bank, Eurobank Ergasias, and National Bank of Greece to see if they couldn't find a way that two of the parties at the table were able to come together at a mutually beneficial price and transfer ownership of Emporiki back into the loving arms of another Greek lender.

> *(WSJ): The French lender's once grand ambitions in southern Europe have been badly bruised by the sovereign-debt crisis. The acquisition of Emporiki Bank of Greece in 2006 saddled the bank with billions of euros in losses as bad loans rose and fears over an eventual Greek exit from the 17-nation currency bloc shattered consumer confidence. Billions more had to be written off as a result of Greece's €200 billion debt restructuring earlier this year.*

However, things had certainly been looking up for Emporiki and, in August, Credit Agricole wasted no time in painting a rosy picture of the bank's ruddy health prior to sitting down at the negotiating table:

> *(WSJ): Crédit Agricole said that Emporiki's ratio of core Tier 1 capital to risk-weighted assets stood at 15%, well above most of its peers and regulatory requirements.*

Which is good, right? But just when CA had a nicely baited hook in the water, Benoît Pétrarque of Kepler Capital Markets had to go and open his big mouth:

> *(WSJ): "But the buyer and the regulator won't ignore that Emporiki is likely to remain loss making for some time," says Kepler Capital Markets analyst Benoît Pétrarque.*
>
> *According to him, Emporiki's core Tier one ratio could end up at low as 4.2% by 2014, given the pace at which the bank is losing capital. "Therefore, another capital injection from Crédit Agricole into Emporiki before the closing of the transaction cannot be excluded," he added.*

Yes, Emporiki Bank had been a disaster for Credit Agricole, but the competitive tension that would undoubtedly ensue from the hotly contested three-way bidding war for the ~~millstone~~ Greek lender was bound to at least recoup some of the heavy losses suffered in the last 6 years, after all:

> *(WSJ): For each of the Greek banks, Emporiki would be a good acquisition, giving them added bulk that would bolster their credibility among depositors and investors.*

One can almost see the Credit Agricole negotiators rubbing their hands together with glee at the thought of what sort of inflated number they'd be able to get by playing each of the lenders (for whom this acquisition was so good) off against the others;

> *According to people familiar with the negotiations, the three bids are largely identical and foresee the acquisition of Emporiki for a price of €1.*

Ah...

Still, €1 is €1 and at least that would staunch the bleeding to Credit Agricole's balance sheet;

> *(WSJ): To cover expected losses on Emporiki's loan portfolio for the next three years, the Greek central bank is demanding that Crédit Agricole put another €600 million to €700 million into Emporiki before it will approve the sale, these people said.*

Errr...

(WSJ): According to people familiar with the talks, Crédit Agricole will also have to commit to keeping open its current credit line to Emporiki—now with an unused balance of about €1.9 billion, but likely to be reduced—for another three years in order to assure the bank has adequate liquidity and won't be a drain on the winning bidder. In exchange, the three Greek banks have each pledged to provide foreign assets, such as parts of their Southeast Europe loan portfolios, as a collateral guarantee for that liquidity.

"The Bank of Greece has said that Crédit Agricole will have to recap Emporiki by up to €3 billion," said a person familiar with the sales process. "The bids from the three banks are basically the same, CA will have to decide among them based on the quality of the collateral and the speed of execution they are offering."

After talking with all three potential bidders, CA announced that they were ready to enter into 'exclusive' negotiations with Alpha Bank and, amazingly, the terms of the 'winning' proposal were laid out in the *NY Times*:

(NYT): As part of its deal with Alpha Bank, Crédit Agricole said it would inject another €550 million into Emporiki, on top of the €2.3 billion it injected in July.

The Hellenic Financial Stability Fund, the Greek banking support agency, had made it a condition of any sale of Emporiki that the bank be recapitalized.

The French bank will also buy €150 million of convertible bonds to be issued by Alpha Bank.

And so it was that, in order to sell Emporiki for €1, France's third-largest lender had to first pump another €550 million into it and then agree to underwrite €150 million of convertible bonds.

But if you thought that is the only thing that I don't understand, you'd be very much mistaken.

For instance, there's this week's bizarre non-farm payrolls report.

On Friday morning, 48 hours after a lacklustre performance in a debate (at altitude) against the impressively coiffeured Mitt Romney, President Barack Obama stepped up to a dais at George Mason University in Washington, DC, and, to thunderous chants of "Four More Years!" took great delight in letting the assembled masses know that, according to his teleprompter, things were definitely on track after the release, moments earlier, of the September non-farm payrolls report.

"This morning, we found out that the unemployment rate has fallen to its lowest level since I took office."

Cue euphoric cheers...

"More Americans entered the workforce, more people are getting jobs."

Now, this all sounds great, but what's the truth behind the numbers? Well, as it turns out, true to form, the US governmental organization with the most superfluous middle initial of them all, the Bureau of Labor Statistics, had once again released a set of numbers that would ensure thousands of inches of column space would be devoted to picking them apart line by line.

To recap:

> *(BLS): The unemployment rate decreased to 7.8 percent in September, and total nonfarm payroll employment rose by 114,000, the U.S. Bureau of Labor Statistics reported today. Employment increased in health care and in transportation and warehousing but changed little in most other major industries.*

Somehow, the unemployment rate managed to plummet 0.3% to 7.8% (below the psychologically important 8% barrier, conveniently a month before an election that had gone from being in the bag to up for grabs within the space of a couple of hours on Wednesday evening.

Things were so out of whack that Jack Welch, former massager-in-chief of General Electric's numbers, felt compelled to take to the Twittersphere and cause, in the space of 97 characters, the kind of commotion usually reserved for the likes of Premier League footballers, Kanye West or Anthony Weiner:

> *"Unbelievable jobs numbers... these Chicago guys will do anything... can't debate so change numbers..."*

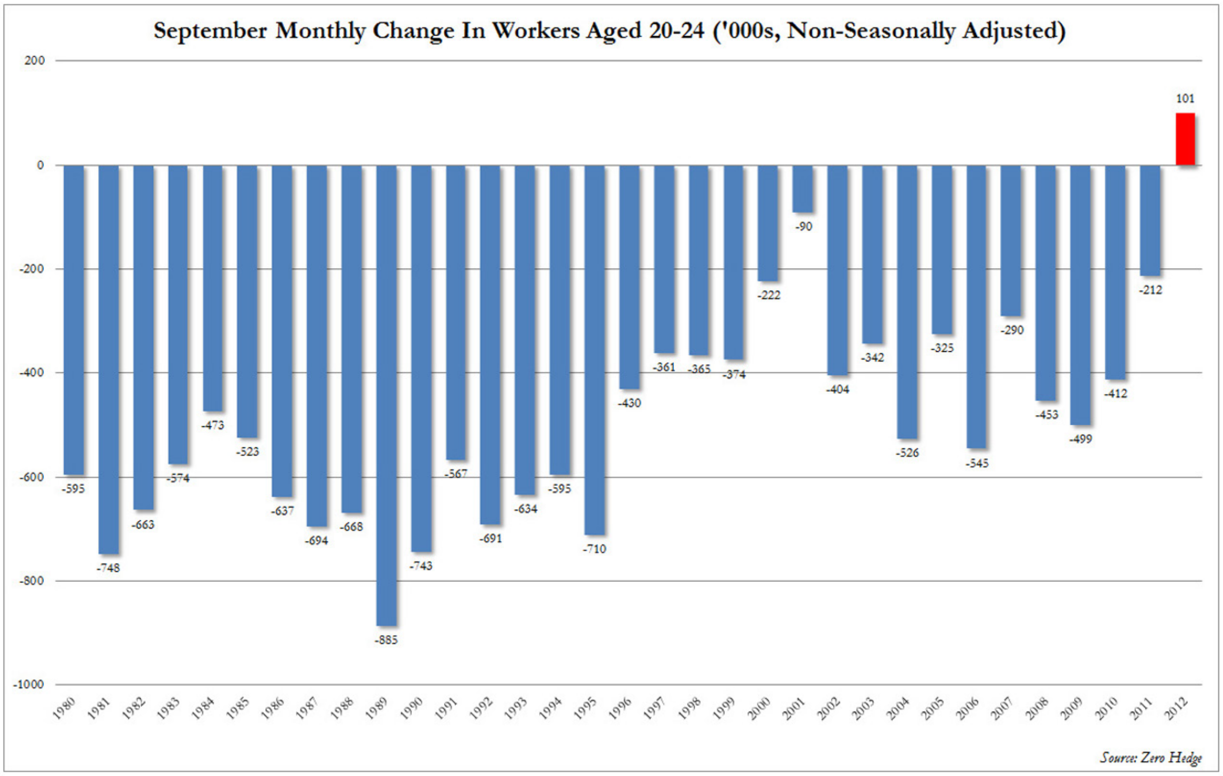
As always with these figures, a little digging tends to turn up the odd discrepancy, and September's was no exception. This month, it was the turn of part-time workers to take the load off the Birth/Death model as an astounding 582,000 people were added to the category labeled "Part time for economic reasons".

Category	Not seasonally adjusted			Seasonally adjusted					
	Sept. 2011	Aug. 2012	Sept. 2012	Sept. 2011	May 2012	June 2012	July 2012	Aug. 2012	Sept. 2012
Part time for economic reasons(3)	8,541	7,842	8,110	9,270	8,098	8,210	8,246	8,031	8,613
Slack work or business conditions	5,497	5,054	5,309	5,900	5,147	5,446	5,342	5,217	5,523
Could only find part-time work	2,766	2,405	2,589	2,844	2,649	2,514	2,576	2,507	2,572
Part time for noneconomic reasons(4)	18,647	17,217	18,970	18,329	19,393	18,829	18,866	18,996	18,736

Source: BLS, Mike Shedlock

A day later, the good folks at *Zerohedge* had identified yet another oddity amidst the numbers:

> *(Zerohedge): ...there is another number that is by far the most perplexing in today's NFP dataset: that showing the employment of workers in the 20-24 year age category (both seasonally adjusted and unadjusted). See if you can spot the outlier in the chart below.*



Source: Zerohedge

> *The chart above shows the sequential change in Non-Seasonally Adjusted jobs for the 20-24 year old cohort (aka those who normally are in student age) into the month of September going back to 1980, as represented by the Household Survey.*
>
> *We have shown just 22 years of data, but believe us: in this data set, the September NSA jobs change has been negative every single year since the beginning of data collection. Except for 2012 (and considering the surge in temp-jobs for economic reasons, one can be certain that if indeed correct, all these young people obtained primarily part-time jobs, if any).*

Elsewhere, The Great (Rick) Santelli, who, back in September, had the following to say:

> *"I wanna make a prediction for the unemployment rate on election day right now. Are you ready? 7.9%."*

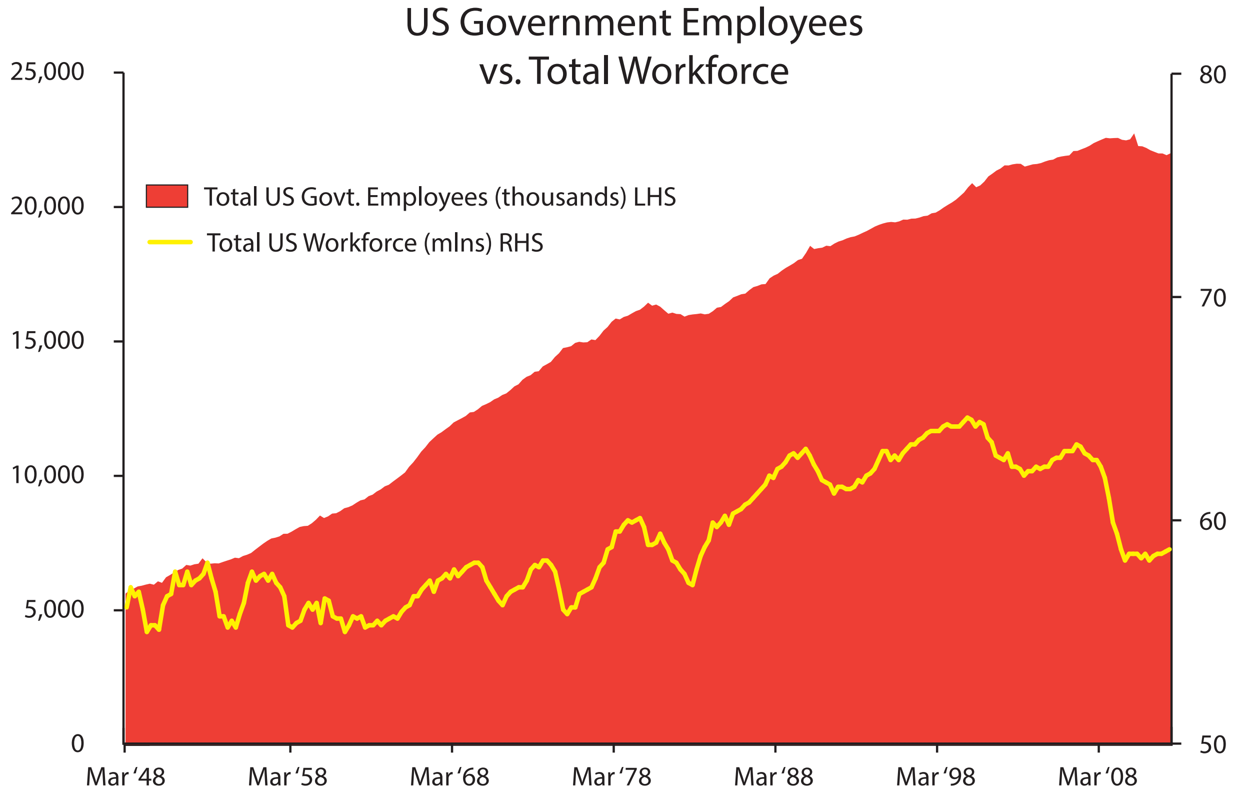
...was proven right (which must have been painful for Steve Liesman who had told him at the time that he was "being silly").

Mike Shedlock wasn't done digging, and 48 hours after the fact, he had spotted yet another noteworthy piece of the puzzle:

> *(Mish): Government hiring went up by 187,000 in September, something I failed to mention yesterday. Taking a closer look, seasonally-adjusted, the number of government workers went up by 681,000 since June (20.619 million in September vs. 19.938 million at the June low point). That's a lot of jobs (and jobs the economy can do without, in my opinion).*

Hard to get one's head around, really, but under 'Government' in the BLS Establishment Data report, it lists 21,808,000 employees, and if we take a look at that number versus the overall workforce, it demonstrates perfectly how the government has reached its current situation whereby it employs roughly one in three of the official working population of the United States: remorselessly.

Whilst the total working population is back to where it stood in 1983, the total number of government employees has continued its inexorable march higher almost without pause (though the number is 700,000 lower than its peak in June 2010).



Source: BLS

The jobs number is always open to partisan examination, and it's often difficult to find middle-ground commentary. Step forward Bill Fleckenstein who can always be relied upon to strike just the right balance between skepticism and practicality:

There appears to have been some sort of, shall we say, aberration in the data, as the household survey suggests that 873,000 jobs were added last month, an annualized rate of 10.5 million! (That survey is used to calculate the unemployment rate, while the number of jobs created that gets focused on every month is a function of the establishment survey. So if you're scratching your head at how headline job growth of 114,000 generated a sizable drop in the headline unemployment rate, now you know.) In addition to the squirrelly-ness of that giant number (the aforementioned 873,000), it seems an enormous amount (581,000) were part-time of some sort.

Joanie thought something smelled fishy, as everyone probably else does as well. When she talked to the BLS about it, all the contact there could say was that they had received a number of phone calls, and the data were "suspicious," but other than that they couldn't really comment on it. I will leave it to the tinfoil hat crowd to discover the "truth," but there is probably no one who doesn't think that the data are massaged. So whether this was pure statistical nonsense or someone had an agenda, I don't know, but I will say that I would be willing to bet a serious amount of money that there were not 873,000 jobs created in the month of September, and I would expect that number to be revised away prospectively.

Another puzzling thing that I can't help but spend my time trying to figure out lately is the issue of secession.

Whilst the whole 99%/1% thing was all the rage back in late 2011/early 2012 when the 'Occupiers' were frontpage news across the world and politicians everywhere were happy to foment a culture of 'Them vs. Us' (though it's always laughable to watch elected politicians who, the world over, are absolutely front and centre of the 1% when it comes to power and, by extension, money, decry the misdeeds of the '1%'), helping to stir up those kinds of passions was always going to be something that metastasized into a far broader problem.

Case in point: Catalonia (or, if you prefer, Catalunya).

Catalonia covers 32,114 sq. km, is home to 7.5 million people, and generates roughly a fifth of Spain's economic output. It comprises four provinces; Barcelona, Girona, Lleida, and Tarragona. Its capital city, Barcelona, is Spain's second-largest; it shares borders with France and Andorra to the north, and its eastern coastline cozies up to the Mediterranean Sea. Catalonia is the wealthiest region in Spain with a per-capita GDP roughly the same as that of the United Kingdom, has its own language (Catalan), the world's finest club soccer team, and as a body, its people have an independent streak a mile wide.

In short, Catalonia has just about everything it needs to become a very nice country all of its own—a fact hardly lost on Artur Mas i Gavarró, president of the Generalitat de Catalunya (head of the Catalan government), leader of the Catalan Liberalist Nationalist Party, and chairman of the CIU coalition that runs the region.

Mas is also an economist.

Mas has always been both strongly pro-Europe and strongly pro-Catalan Nationalism but something, it now seems, has to give.

Previously, Mas has advocated Catalan independence but gone to great pains to establish that full independence from Spain was not part of his agenda. Funny how things change.

The fun began back in August when Catalonia sidled up to the Spanish government and asked if it could spare a cool €5 billion. Of course, this being Spain and this being Catalonia, there were stringent conditions placed upon the bailout—just not by the side you'd expect:

> *(UK Daily Telegraph): "We will not accept political conditions for the aid," [a spokeswoman for Catalonia's economy head] added. Of Spain's 17 regions, Valencia and Murcia have also said they would need recourse to the fund.*
>
> *Catalonia, which is heavily indebted, insists its fiscal position would be better if it were able to create its own tax agency, which it hopes to esatblish in the future.*

The idea of an autonomous tax agency got Catalonians to thinking that maybe, just maybe, this could be the start of something wider:

> *(UK Daily Telegraph, Sep 25, 2012): Catalonia called snap elections on Tuesday in a drive for greater independence from Madrid as its leader demanded "self determination" for the region.*
>
> *Artur Mas, the president of Catalonia in northeastern Spain, defied calls from Spain's government for unity in the face of the deepening economic crisis and announced elections for November 25.*
>
> *The vote is widely seen as a de facto referendum on his demands for greater independence for the region after Prime Minister Mariano Rajoy last week rejected proposals for a new fiscal pact which would grant Catalonia greater taxing and spending powers.*
>
> *"The time has come to exercise the right to self-determination," Mr Mas told the regional parliament in Barcelona on Tuesday.*
>
> *"We do not have to justify who we are. We want the same instruments that other nations have to preserve our common identity," he said.*
>
> *"The parliament that emerges will have a historic responsibility."*
>
> *"If Catalonia were a state, we would be among the 50 biggest exporting countries in the world," he said.*

Yes, Artur, you might well be, but right now you need to borrow €5 billion just to pay the bills, and try as you might to blame that on having to foot a large part of the bill for Spain as a whole and its 25% unemployed in particular, this is probably a time when all good Spaniards ought to be pulling together and showing unity.

In fact, that probably goes for all good Europeans too, given the problems facing the region as a whole. Time to pull together, and what better event to rally around than the trouncing of the United States Ryder Cup team by 12 magnificent European golfers, each of whom contributed to their collective success and each of whom chose to celebrate in the most natural way possible; by wrapping themselves in the flag of their ~~team~~ home country.

(Below, left to right, Nicolas Colsaerts (~~Europe~~ Belgium), Ian Poulter (~~Europe~~ England), Rory McIlroy (~~Europe~~ Northern Ireland), Sergio Garcia (~~Europe~~ Spain), Luke Donald (~~Europe~~ England), Martin Kaymer (~~Europe~~ Germany), and Miguel Angel Jiminez (~~Europe~~ Spain).)

Source: Newswires

What don't I understand? I don't understand how people still expect Europe's disparate economies and divided citizenries to come together for the sake of the common good when times get tougher just to save a political construct that many of them wanted no part of in the first place.

Secession of one form or another is going to become a familiar story as we head into 2013. Whether it's a local issue confined to a single country or a wider one that has pan-European implications, I repeat what I have been saying all year. One day, somewhere in Europe a candidate for office is going to tell his electorate that if they vote for him, he will rip up the Maastricht Treaty and pull out of the Grand European Experiment—and he will win. When that happens, watch the floodgates open across the continent. Tsipras came close in Greece, Soini wasn't a million miles away in Finland, and Le Pen surpassed all expectations in France. It is only a matter of time.

As if by magic, right on cue this morning I read this fascinating story:

> *(UK Daily Telegraph): Two centuries after Napoleonic forces snuffed out the 1,000-year Venetian Republic, Venetians are once again aspiring to become an independent state.*
>
> *Inspired by the nationalist aspirations of Scotland and Catalonia, pro-independence campaigners will hold a mass rally in the heart of the lagoon city on Saturday, calling for an urgent referendum to be held on the issue.*
>
> *Indipendenza Veneta, a newly-founded pro-independence movement, says it expects several thousand people to turn up for the rally.*
>
> *They will be ferried across the Grand Canal in gondolas to deliver a "declaration of independence" to the headquarters of the Veneto regional government.*
>
> *It may sound fanciful, and it will be fiercely resisted by Rome, but activists want to carve out a new country in north-eastern Italy which would comprise Venice, the surrounding region of Veneto and parts of Lombardy, Trentino and Friuli-Venezia Giulia.*

The "Repubblica Veneta", as it would be known, would encompass about five million people.

Recent surveys show widespread support for independence among Venetians, who speak a distinct dialect and feel geographically and culturally distant from Rome.

A poll conducted by Corriere della Sera in September found that 80 per cent were in favour of independence.

A more recent poll by Il Gazzettino, a local newspaper, found a slightly lower but still overwhelming level of support – 70 per cent.

The political movement was formed in May and shortly afterwards presented a petition with 20,000 signatures to Luca Zaia, the governor of the Veneto region.

"We have gained a lot of momentum from what is happening in Scotland and Catalonia and things are moving fast," Lodovico Pizzati, the head of the movement, told The Daily Telegraph on Friday.

"And we are building on a very strong base – calls for independence for the Veneto region go back to the 1970s. It may sound crazy but I think Veneto will become independent before Scotland or Catalonia."

"Two centuries after Napoleonic forces snuffed out the 1,000-year Venetian Republic"

The 19-year European Union has its work cut out just to survive, folks.

The last 'Thing I Don't Understand' (for today, at least—though God knows there are thousands more we don't have time to go into) is the ~~Ponzi Scheme~~ circular finance of the ECB and Europe's central banks.

As always, it begins with Greece.

Back in mid-August, when the latest deadline loomed large over the Aegean Sea and Greece was struggling to pay back the €3 billion it owed the ECB, there were many (including myself) who said that Greece was done. Finished. Kaput. They would be forced to leave the euro and the end could finally begin.

What I and many others neglected to factor into our thinking (to which I hold my hand up and readily admit my foolishness) was the lengths—or rather depths—the ECB would go to to keep the plates spinning a little while longer.

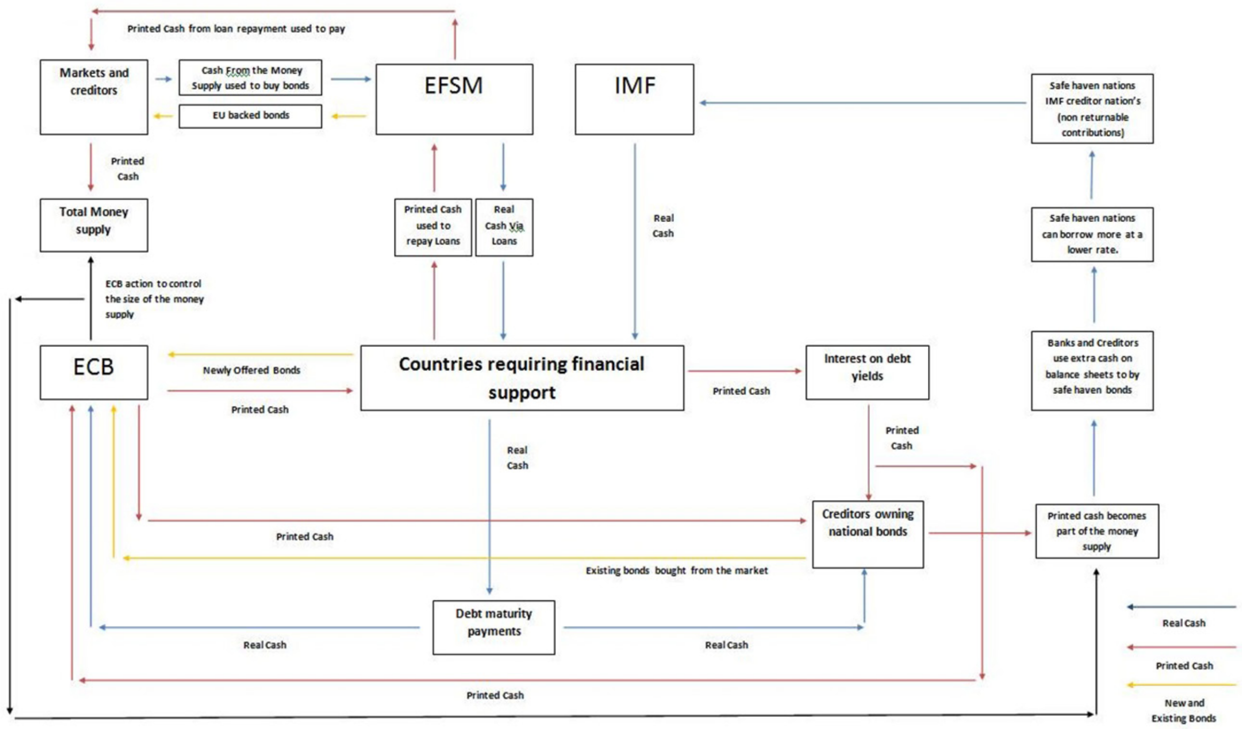
The scheme they concocted by which Greece would be able to pay them back was audacious in the extreme, and, were any of those reanimated financiers we began today's piece talking about around to see it, I think it's safe to say they would very quickly return to whence they came:

At the 11th hour, Greece managed to auction €4.063 billion of 13-week Treasury bills from which it would be able to pay back the ECB. How did they pull off this masterstroke? Simple. With the help of the ECB, of course:

> *(CNBC): This was the country's biggest auction in two years, but it was mainly Greece's domestic banks that bought the bills. The same domestic banks that receive Emergency Liquidity Assistance from the Bank of Greece. And that ELA is being funded by the European Central Bank through the Bank of Greece. The domestic banks are expected to use the short term bills as collateral to receive more ELA loans.*
>
> *Nick Beecroft, Chairman at Saxo Capital Markets UK is worried by this strategy and doesn't single out Greece and sees this happening in other peripheral countries...*
>
> *"The LTRO (Long Term Refinancing Operation, a cheap loan scheme from the ECB to give European banks more liquidity) accepts peripheral government bond as collateral, lends to the banks and the banks buy more of the peripheral debt. It is very circular, isn't it?"*
>
> *This suggests that Greece's domestic banks are effectively using ECB money to buy Greek bonds so they can continue to borrow from the ECB. Meanwhile the Greek government is selling bonds to its ECB-funded banks so it can repay the ECB for what it has previously borrowed.*
>
> *Mark Grant, Managing Director at Southwest Securities, was adamant that these bond auctions in the euro zone periphery were just cash flowing in circular motions to keep banks solvent.*
>
> *"It's a circle that the ECB has created, where they fund, for instance in Greece, the Greek banks and then the Greek banks turn around and buy the bills. Then they pledge the bills back to the ECB to get cash," he told CNBC's "Squawk on the Street".*
>
> *"So in a sense it's a kind of Ponzi scheme, to be honest with you, that's put forward by the European Central Bank."*

Yes. Yes, it is.

It looks a lot like this:



Source: The Slog (Click HERE to Enlarge)

On deck is the upcoming Spanish bailout, and then, as Yogi Berra so perfectly put it, it's déjà-vu all over again once November rolls around:

> *(UK Independent): Greece's Prime Minister warned yesterday that his country's coffers would run dry by November unless international lenders disbursed a vital €31.5bn loan instalment soon.*
>
> *Invoking a comparison with the Weimar Republic in Germany before the Second World War, Antonis Samaras also warned of "chaos" in Greece if his coalition government failed and democracy collapsed.*
>
> *"The government is giving a fight on all sides for the credibility and salvation of this country so the people's sacrifices don't go to waste," Mr Samaras told reporters.*
>
> *Athens and its debt inspectors are still trying to hash out new spending cuts to help speed up the release of the next round of bailout funds. Amid this uncertainty, Mr Samaras highlighted the consequences of a Greek exit from the euro, warning it would be "a total disaster" and could prove "very destabilising" for Europe.*
>
> *Once one member country left, the international markets would probably target the next "weakest link". This would prove "painful for everybody and could prove fatal for many", he said.*

Let's run down the list:

> *Greece out of money?* Check
>
> *Needs a sizeable loan from Europe?* Check
>
> *Warnings of 'chaos' if it doesn't receive said funds?* Check
>
> *Promises to continue to fight the good fight to get the situation under control?* Check
>
> *Likelihood that anything will change if Greece is given more money?* Zero

To be clear, it's not the fact that the ECB, EU, and IMF are pulling these stunts, nor is it the fact that Europe's banks are playing ball with the whole scheme, no. That is easy to figure out. What I don't understand is how *anybody* can think this will work as an actual solution to the underlying problem. Seriously.

All we can do is wait for the wheels to fall off in spectacular fashion.

I could go on, but I think that's enough of me for one week. If I *were* to continue with Things I Don't Understand, they would doubtlessly include TIPS, UK 'austerity', anybody placing a wager on Chavez's challenger in this weekend's Venezuelan elections, and France.

Perhaps next time.

Until then...

Housekeeping

I will be in Sydney next weekend to see my daughters and will then be speaking at Mines & Money Australia on Tuesday, October 16, so if any of you happen to be at the Sydney Convention and Exhibition Centre in Darling Harbour, please keep the heckling to a polite minimum, but do come and say hello.

Things That Make You Go Hmmm... may be back next week depending on my schedule, but we shall have to play it by ear, I'm afraid, folks.

The two main political parties in Greece are facing their own financial crisis. New Democracy and Pasok, the key members of the country's coalition government, are close to being overwhelmed by debts of more than 200 million euros, say rivals, as the big parties head for a slump in state funding because of falling public support.

In Greece's state-financed political system, parties that receive more votes get more funding. Relying on past good results, the big political parties have pledged future state funding as collateral for bank loans. But in the most recent poll their support collapsed, leaving them with big loans and facing much smaller incomes.

Banking sources familiar with the issue say that conservative New Democracy and socialist Pasok now owe a combined 232 million euros to Greek banks. Some of the loans are going unpaid, those sources say. The debts far exceed the combined 37 million euros the parties received in state funding last year — a figure set to decline.

The parties' debts raise questions about potential conflicts of interest because the government is in hock to a financial system that it also needs to reform. Athens is already struggling to implement spending cuts and reforms demanded by the European Union, International Monetary Fund (IMF) and European Central Bank (ECB) in return for the 130 billion euro bailout keeping Greece afloat. On Wednesday unions called a nationwide strike protesting against austerity.

Leandros Rakintzis, Greece's independent inspector-general of public administration, believes the financial crunch the two big parties face is proof that Greece's political funding system is flawed. "This is all about the exchange of favors," he said. "These parties cannot pay the debt so it's a vicious circle in which they come to depend on the banks. It creates an interdependence of politicians and banks."

The loan pressures will intensify early next year when state funding is recalculated to reflect declines in the parties' support. Funding is still based on the proportion of votes each party won in the June 2009 election. But in January funding will change to reflect votes cast in June 2012.

At that election Pasok saw its share of the vote plunge from 43 percent to 12 percent, while New Democracy's share fell from 33 percent to 29 percent. The big winner was leftist Syriza, which opposed the bailout terms. Its share of the vote shot up to 27 percent from 4.6 percent in 2009, and it now stands to receive significantly more funding.

Costas Tsimaras, the general manager of New Democracy, the biggest party in the Greek parliament, told Reuters the bulk of its bank loans were currently being paid on time, but "a small proportion of the loans may have become late, non-performing."

For the parties to keep on top of the loans, he said, they should be restructured.

"It will be very difficult for the parties to pay back the debt if there is no arrangement. Down the road, a political decision needs to be made to give parties the capacity to service their liabilities, some type of settlement on these loans."

*** REUTERS / LINK

Over most of history, most countries have wanted a strong currency—or at least a stable one. In the days of the gold standard and the Bretton Woods system, governments made great efforts to maintain exchange-rate pegs, even if the interest rates needed to do so prompted economic downturns. Only in exceptional economic circumstances, such as those of the 1930s and the 1970s, were those efforts deemed too painful and the pegs abandoned.

In the wake of the global financial crisis, though, strong and stable are out of fashion. Many countries seem content for their currencies to depreciate. It helps their exporters gain market share and loosens monetary conditions. Rather than taking pleasure from a rise in their currency as a sign of market confidence in their economic policies, countries now react with alarm. A strong currency can not only drive exporters bankrupt—a bourn from which the subsequent lowering of rates can offer no return—it can also, by forcing down import prices, create deflation at home. Falling incomes are bad news in a debt crisis.

Thus when traders piled into the Swiss franc in the early years of the financial crisis, seeing it as a sound alternative to the euro's travails and America's money-printing, the Swiss got worried. In the late 1970s a similar episode prompted the Swiss to adopt negative interest rates, charging a fee to those who wanted to open a bank account. This time, the Swiss National Bank has gone even further. It has pledged to cap the value of the currency at SFr1.20 to the euro by creating new francs as and when necessary. Shackling a currency this way is a different sort of endeavour from supporting one. Propping a currency up requires a central bank to use up finite foreign exchange reserves; keeping one down just requires the willingness to issue more of it.

When one country cuts off the scope for currency appreciation, traders inevitably look for a new target. Thus policies in one country create ripples that in turn affect other countries and their policies.

The Bank of Japan's latest programme of quantitative easing (QE) has, like most of the unconventional monetary policy being tried around the world, a number of different objectives. But one is to counteract an unwelcome new appetite for the yen among traders responding to policies which have made other currencies less appealing. Other things being equal, the increase in money supply that a bout of quantitative easing brings should make that currency worth less to other people, and thus lower the exchange rate.

Other things, though, are not always or even often equal, as the history of currencies and unconventional monetary policy over the past few years makes clear. In Japan's case, a drop in the value of the yen in response to the new round of QE would be against the run of play. Japan has conducted QE programmes at various times since 2001 and the yen is much stronger now than when it started.

Nor has QE's effect on other currencies been what traders might at first have expected. The first American round was in late 2008; at the time the dollar was rising sharply (see chart). The dollar is regarded as the "safe haven" currency; investors flock to it when they are worried about the outlook for the global economy. Fears were at their greatest in late 2008 and early 2009 after the collapse of Lehman Brothers, an investment bank, in September 2008. The dollar then fell again once the worst of the crisis had passed.

*** ECONOMIST / LINK

There is no doubt that the row over a group of tiny islands in the East China Sea has sealed the deterioration in relations between China and Japan. The diplomatic spat over the Diaoyu/Senkaku islands, which sparked violent protests, with Japanese flags and factories burned, stunned Tokyo, and caused Japanese companies to consider scrapping investment plans in China. Why open a new factory, they ask, just for it to be firebombed or defaced while an acquiescent administration turns a blind eye?

Until recently the "one-plus-one" investment policy (for every factory built in Japan, companies also had to build one overseas) benefited China. But now insiders say firms will look to support growth in Indonesia, the Philippines or newly open Burma.

For the International Monetary Fund, which has taken its annual meeting to the Japanese capital for the first time since 1964, the dispute is one of many linked to slowing growth and a rise in protectionism.

This week's meeting was scheduled for Cairo, until the Arab spring made the region look too unstable for a gathering of finance ministers and global institutions. But with Chinese frigates circling the disputed islands and pleas for calm going unheeded, Tokyo's political situation is closer to Cairo's than the IMF expected.

China's leaders are undoubtedly under pressure. Growth has slowed from more than 10% to less than 8% over the past two years, but its rising population means that growth of between 6% and 7% is needed just to keep pace. In March, Beijing cut its growth target for the whole of 2012 to 7.5%. As any student of politics knows, a foreign dispute distracts attention from failing economic policies.

But opting for a short-term boost in domestic popularity over a deterioration in long-term relations with foreign investors looks to be a huge mistake by the Beijing authorities. And the IMF understands that this local dispute has much wider ramifications: after all, Japan is the world's third-largest economy and China, its second-biggest, accounts for about a fifth of the world's total economic output. Any slowdown is going to hamper a global recovery.

The Americans have already put the brakes on expansion in China, in reaction to general corruption and to the growing threat from intellectual property theft. European companies have also backed off, preferring to send in high-value goods made at home.

Japan's economy is not in great shape either. This year, colossal spending on imported gas and oil will send the balance of payments into reverse for only the second time in three decades. The yen is at a historic high against the dollar, making Japanese products expensive abroad, and the political situation remains unstable, with the Democratic party government able to push through a VAT rise only on a promise of early elections.

And let's not forget the eurozone crisis. That continues to provide plenty of food for thought for IMF officials, given the failure to deal with Spain's financial black hole and growing public unrest among southern Europe's increasingly desperate citizens.

Yet it is the Japan/China dispute that is worrying them most.

*** UK GUARDIAN / LINK

While giant rallies in Caracas may be drawing the world's attention ahead of tomorrow's Venezuelan presidential election, the global significance of the vote can be found hundreds of miles to the east in the oil-soaked Orinoco Belt.

According to studies, Venezuela has overtaken Saudi Arabia to become number one in the world for proven oil reserves, largely thanks to the heavy crude found in this vast alluvial plain.

Whether this multi-trillion-dollar asset is controlled by Hugo Chávez or the opposition challenger, Henrique Capriles, will influence which countries and companies are given the priority to exploit them and how much drivers around the world pay at the pump. According to a report this year by BP, Venezuela has reserves of 296.5bn barrels, about 10% more than Saudi Arabia and 18% of the global total. At the country's current levels of production, this would last about 100 years.

If Chávez wins — as most polls suggest — he has promised to ramp up production and reduce his country's dependence on the US market by doubling crude exports to Asia. To further this goal, Venezuela plans to build a pipeline through Colombia to the Pacific, which would reduce costs and transport times to China and other Asian markets.

Capriles, who has mounted a strong challenge, says he would fire the oil minister, Rafael Ramírez, and rethink how crude is extracted and used. Until now Russian and Chinese companies have struck the biggest deals for future exploitation.

"We have to revise every deal. I think they are agreements that are not functioning," he said. During the campaign, he has also said he would halt subsidised oil shipments to Cuba, Belarus, Nicaragua and Syria. Critics say he is a stalking horse for US interests.

Both Chávez and Capriles are calling for more investment so that Venezuela can increase not only output but also the quality of oil through the use of upgrading technology. But the volatile mix of politics and oil has made it difficult to secure partners.

In recent years Venezuelan oil production has fallen due to poor maintenance, low investment and the loss of key workers. Plans to open new fields have been repeatedly delayed. The state-owned oil company PDVSA says the holdups are over. Last week its joint venture with Russia's Rosneft and Lukoil pumped its first barrel. Another operation, with a Vietnamese firm, has also reportedly begun. Projects with Chevron of the US, Spain's Repsol and others are due to start early next year.

But there are still many empty blocks. Officials said BP, Shell and several other multinationals appear to be waiting to see if the government will change today before committing to possible joint ventures in the two main areas for expansion, Carabobo and Junín.

"There is a danger that British firms might miss out. In this country, oil and politics are intertwined. Many companies are waiting for the election result," said Osmel Molina, deputy manager of the Carabobo region. "They hope for higher profits if the political situation changes. That's why there is so much support for the opposition. They don't necessarily want to oust Chávez, but they do want a weak government so they can control the biggest oil resources in the world."

Venezuela has an oil-dependent economy — PDVSA accounts for 95% of the country's export earnings. Domestically, the mix of populist politics, super-abundant oil and second-rate refining technology has left the country with a peculiar system in which the state sells crude for $100 (£61) a barrel, buys back petrol at $400, then sells it on to domestic drivers at such a discount that a full tank is cheaper than a cup of coffee. A gallon costs about 6p, leading to a lucrative cross-border petrol-smuggling business. Neither candidate has dared to commit to a raise.

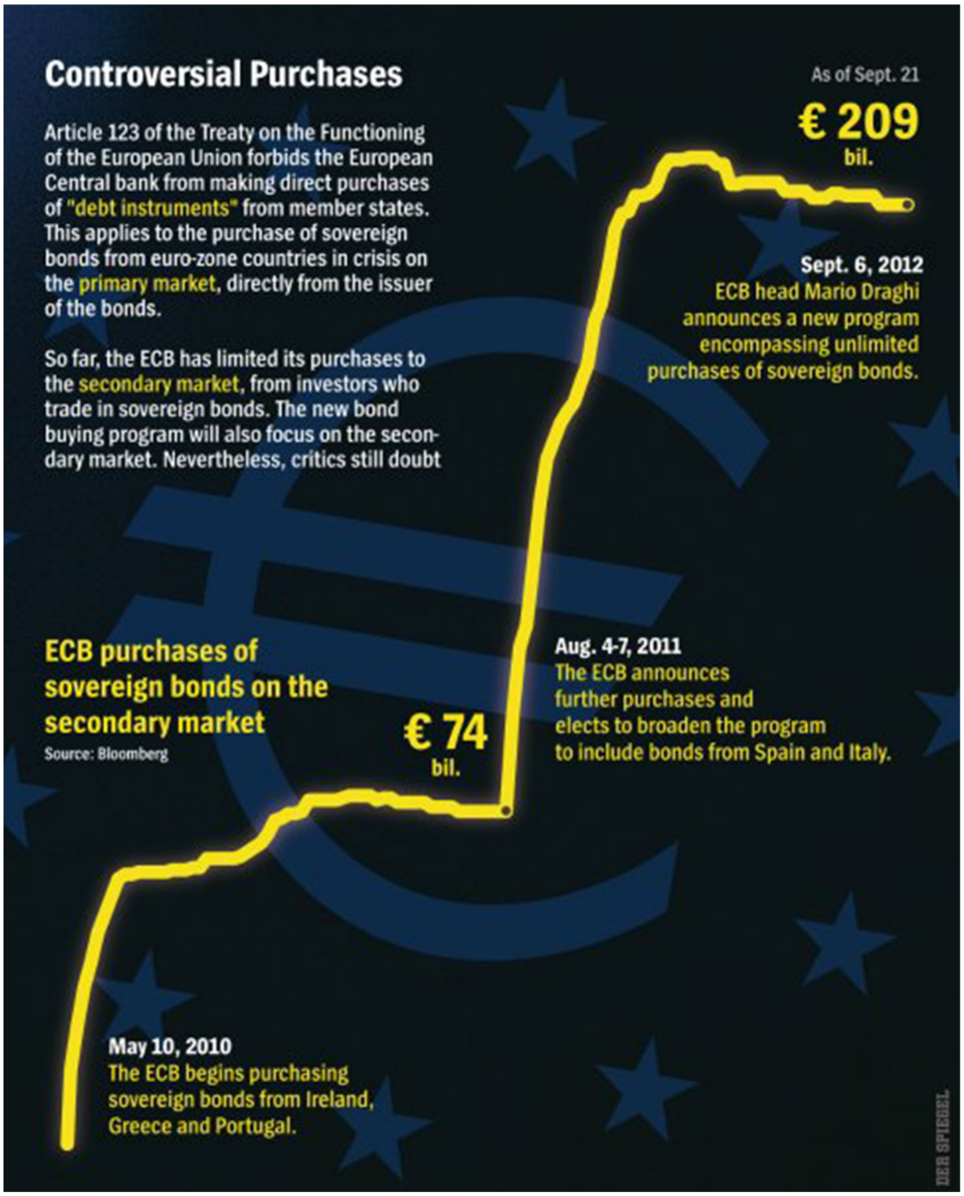
*** UK GUARDIAN / LINK

The markets have celebrated Mario Draghi's announcement that the European Central Bank will embark on unlimited purchases of sovereign bonds from crisis stricken countries. But are such purchases really legal? Draghi's own justification for the program leaves plenty of room for doubt.

European Central Bank President Mario Draghi is spending a lot of time on the road these days, not unlike a traveling salesman. The product he has on offer is credibility, but in Germany at least, it is proving difficult to find eager takers.

Last week, for example, Draghi gave a speech to several hundred business leaders at the Berlin Congress Center -- and the mood was reserved. German business owners still have fond memories of the old deutsche mark, and Germany's central bank, the Bundesbank, still has a good reputation. Draghi's recently announced plans to launch unlimited purchases of sovereign bonds from crisis-stricken euro-zone member states, on the other hand, are being met with disconcertment and concern.

"These new steps are not a departure from our mandate," Draghi told German industrial leaders. The ECB, in other words, isn't just focused on price stability, but is also engaged in "ensuring the proper transmission of monetary policy." Beyond that, though, concerns are unfounded. The moves made by the ECB, Draghi insisted, "do not aim to finance governments, and nor would they if they were activated."



Source: Der Spiegel

Draghi, of course, was not as concerned about those gathered in the room before him as he was about a man sitting 425 kilometers (266 miles) away in Frankfurt: Bundesbank President Jens Weidmann. Weidmann believes that, with its bond purchases, the ECB will help euro-zone governments gain access to funds at attractive rates by pushing down interest rates on those bonds. But that, in Weidmann's view, is fiscal policy rather than monetary policy and is thus outside the ECB mandate.

The duel between Draghi and Weidmann is not new, but it has become more pointed of late. And its importance would be difficult to overstate: It has to do with the future course of the ECB and, with it, one of the world's most important currencies. Does the ECB's bond-buying program fall into the category of monetary policy consistent with the bank's mandate of maintaining price stability? Or does it step over the line into fiscal policy by intervening in countries' efforts to obtain capital, which it is expressly forbidden from doing?

It's a difficult question to answer. There is, after all, no clearly defined boundary where monetary policy ends and fiscal policy begins.

The ECB is prohibited from directly purchasing bonds from governments, and yet purchases on the bond markets are among the instruments at its disposal. It is permitted to make such purchases, but only for reasons of monetary policy, such preventing deflation, for example.

Bond purchases are a treatment with side effects. Falling interest rates on sovereign bonds reduce the cost of government borrowing. The question is whether these side effects are the real motivation behind the ECB decisions, while the arguments surrounding monetary policy are merely a pretext. In that case, the purchases would be little more than government financing in disguise..

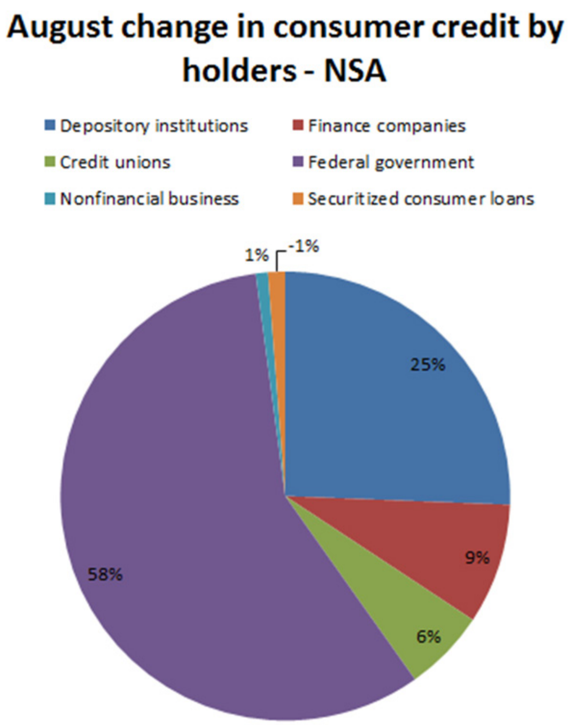
*** DER SPIEGEL / LINK

Lee Adler has a nice post on the latest employment data, pointing out that some of the seasonal adjustments in the government report are flawed. That's in part why there was so much confusion when the numbers came out yesterday (post).

It is therefore sensible to look at other government statistics without the seasonal adjustments. One such set of numbers is the latest report from the Fed on consumer credit which showed a spike in borrowing by US consumers.

> *Reuters: - U.S. consumer credit rose $18.12 billion, the biggest gain since May, following July's revised $2.45 billion decline. Revolving credit, which mostly measures credit-card use, climbed $4.2 billion. Nonrevolving credit, which includes student and auto loans, rose $13.92 billion.*

This increase looks strong, but let's take a look at who the credit providers are and how their holdings changed over time — without the seasonal adjustments that add noise to the data. The chart below shows that 25% of the increase in August is coming from banks and 6% from credit unions. That's mostly due to an increase in credit card debt (remember this data does not include mortgages). The 9% increase in holdings by finance companies is from auto loans. And then there is the elephant in the room — 58% of the increase in consumer credit came from the federal government. That is all student loans. For some reason the media is refusing to zero in on this.



Here is an example of how even the more sophisticated financial journalists seem to miss the point.

Reuters (same report as above): Credit has been expanding almost continuously since mid-2010 as the country recovered from the 2007-2009 recession. The decline in July was the first drop since August of last year

But if one plots the holders of consumer debt over time (again without the seasonal adjustments), a familiar picture emerges. Yes, consumer credit has been growing since the recession, but all of the growth came from the federal government and not from credit institutions. In fact without the rapid increase in government student loans, consumer credit would still be down from the end of the recession. That explains why consumer spending has been subdued in spite of growth in consumer credit.

*** SOBER LOOK / LINK

In late 2009, the UK crawled out of recession — defined as at least two successive quarters in which the economy is contracting.

Last October, though, we fell back into recession again. Official GDP numbers confirm that, since then, the British economy kept shrinking at least until June this year. So this country has endured not only the first "double-dip" recession since the 1970s, but also the longest on record.

An issue of very considerable economic and political significance is whether or not the UK has continued to contract between July and September, or whether the recession is now over. The answer is obviously hugely important in terms of the fate of thousands of British companies and millions of British livelihoods. What's also at stake, though, is the economic policy-making trajectory of the UK and, by extension, much of the Western world.

A double-dip recession, with the second leg lasting a year or more, may be too much for the increasingly fragile Coalition to withstand. If the recession has indeed continued into the third quarter, then the Chancellor will come under enormous pressure to alter course. The Government's commitment to "austerity" could falter, a development that would significantly undermine the resolve of governments elsewhere to borrow and spend less.

No wonder Downing Street is spreading the word, sotto voce, that "recovery is coming" — an outcome that would transform the political landscape in the Tories' favour. But is this upcoming recovery real? Or will the preliminary third quarter GDP numbers, when they're published by the Office of National Statistics on Oct 25, once again disappoint?

The latest unofficial commercial survey data, released last week, suggest that our July-September performance remained extremely downbeat. The All-Sector PMI index, a weighted average of separate surveys completed by business leaders in the manufacturing, construction and service sectors, fell from 52.2 in August to 51.1 in September, with any score above 50 indicating growth.

The average All-Sector PMI measure during the third quarter as a whole was 51.1 which, we are told, indicates that GDP expanded by 0.1-0.2pc during the third quarter. While this would still be a very weak outcome, it would at least allow George Osborne to proclaim that "Britain is now out of recession".

The UK Services PMI fell to 52.2 in September, down from 53.7 the month before. The Manufacturing PMI dropped to 48.4, having been at 49.6 in August.

The Construction Index improved slightly, from 49.0 to 49.5, while still signalling a sector contraction.

So the broad picture painted by the PMI numbers is that the modest growth of the UK's service sector is being mostly, but not quite entirely, offset by a still shrinking construction sector and a steeper decline in manufacturing output.

*** UK DAILY TELEGRAPH / LINK

How can it be that a company clever enough to satisfy Apple Inc.’s famously stringent requirements can’t figure out how to keep its workers from killing themselves and hurting one another?

Last week’s riot at a Foxconn Technology Group factory in northern China belies the myth that better pay and benefits are enough to mollify Chinese workers. Foxconn, which is Apple’s leading supplier, already pays above-market rates and has been raising wages.

A sea change is rippling through many Chinese factories. A workforce once dominated by women is now increasingly male. China's one-child policy chips away daily at its competitive advantage in manufacturing for export, first by choking the supply of labor of both sexes, then by restricting the flow of women into factory jobs. The result is a more restive male workforce, frustrated by crude management and a thick, low glass ceiling.

When I first started visiting Chinese clothing and electronics factories almost a decade ago, there were often more women than men on the assembly line. The tide of migrant labor pouring in from the countryside was so strong that Chinese factory managers could be picky. Like the industrial bosses of 18th-century England, they chose women for their docility, their dexterity and their attention to detail.

Today, many plants have no choice but to hire more men than women. China's gender ratio -- 107 boys born for every 100 girls in 1980 — has widened to 118 boys born for every 100 girls as of 2010.

Sex-selective abortion is creating kindergartens of boys and villages of bachelors. In some areas, according to Dudley Poston, a sociologist at Texas A&M University, 160 boys are born for every 100 girls. (The natural gender balance at birth is 105 boys for every 100 girls.)

Chinese parents, wealthier today than a decade ago and wiser about the risks of sending a teenage girl alone across the country to work, are less inclined to steer their children into factory jobs. I have met young Chinese women in countryside towns — where a decade ago most girls would have done at least one turn in a coastal factory — who say that "our generation doesn't work in factories."

Nor are their parents as impressed by a prospective husband for their daughter if he works in what many see as a dead-end factory job. Professor Poston estimates that 40 million Chinese men may never find a wife. Less-educated, lower-income men struggle the most.

I have interviewed young male Chinese factory workers who feel "shackled" to their work, trapped between their dream of a good marriage and their jobs, where nepotism, not diligence or talent, determines who becomes a foreman and who stays on the line.

As cloistered in their factory dormitories as they may seem from abroad, Chinese workers are wired to the wider world. China's manic economic growth and the opportunities it throws off to the wealthy and well-connected are not lost on them.

Many Chinese workers I have met describe "personal development" — starting a business, learning a trade — as a goal. Yet few, if any, factories try to help them achieve that. The truculence of the global supply chain is partly to blame, wooing workers with high wages ahead of product launches and expecting them to accept big pay cuts or long holidays when production schedules ease.

*** BLOOMBERG / LINK

Another week, another conference about the euro. This time it was in Singapore. Nevertheless, it was Germany that was uppermost in my mind, not least because several Singaporeans asked me why Germany doesn't leave the euro.

Last week I gave the political explanation. This week I am going to discuss the economic aspect.

From the formation of the euro in 1999 to now, German unit labour costs have hardly risen.

Since costs have continued rising briskly elsewhere, Germany has gained competitiveness enormously. The result is now a surplus of exports over imports of about 6pc of GDP. It is this surplus — and the associated income and jobs — that defenders of the status quo say would be threatened without the euro.

But there is a catch. Germany has supplied BMWs to southern Europe and they have given it IOUs in return. Will those IOUs ever be honoured? That is the problem with trying to grow through unbalanced trade. In the end, your trade partners need something to pay you with.

Not that the German economy has been a stonking success during the euro's existence. Its average growth rate has been only 1.4pc, below the UK's — and below Spain's and Ireland's. The explanation is clear. Whereas consumer spending has grown by about 30pc in America and the UK, in Germany it has grown by only 10pc. The reason is that over the last 13 years, German workers' average real incomes have fallen by 4pc. The very success in keeping costs down has also kept pay down.

To listen to some German businessmen singing the praises of the euro, you could be forgiven for thinking that life must have been hell beforehand. In fact, it was just the opposite. It was under the deutschemark that Germany achieved its "economic miracle". True, there was a persistent tendency for the deutschemark to rise. But Germany still tended to run a current account surplus, albeit smaller than today — less than 1pc of GDP, on average, between 1970 and 1998. Meanwhile, consumer spending grew by 2.5pc per annum.

It was the same Germans then as now. They were well trained, good at engineering — and good at keeping costs down. The difference is that the rising deutschemark prevented these admirable qualities from resulting in a massive trade surplus — and ensured that German workers got a good deal of the spoils.

What's more, the flipside of the rising currency for Germany was a tendency for those countries which are now peripheral euro members to undergo periodic bouts of currency weakness. They were the same then as now — rather bad at keeping costs down and not as successful as the Germans at manufacturing. But their weak currencies kept them in the game and ensured that they enjoyed decent growth of exports as well as consumption. The result was that they had something with which to pay for imports from Germany.

*** ROGER BOOTLE / LINK

Greece cannot have more time to repay its debt to the European Central Bank because it would be illegal and "illogical", board member Joerg Asmussen has said, as he shut the door on pleas for leniency from the bank.

Mr Asmussen said that the ECB could not lengthen the time period for loans to Greece or lower interest rates as "both concessions would be a form of debt forgiveness and therefore a direct financial support for the Greek state.

"That would not be allowed under the law governing the ECB," he said.

He also said that it would be wrong for Greece to say it needed more time but not more money.

"A temporary extension of fiscal targets automatically means that Greece needs more financial assistance from abroad." he told German newspaper Bild am Sonntag.

"It is logically quite wrong to say: we need more time, but not more money."

Mr Asmussen also said that statements by ECB members, including president Mario Draghi to do "everything to defend the euro" had helped to ease market tensions, but warned that the current calm was "deceptive", and called for all eurozone countries — including Germany and France — to reform.

Last week, Greek prime minister Antonis Samaras repeated his call for "accommodating policy" from the ECB regarding the payment of the country's debt and interest payments.

"If they could roll them over for instance that would be positive, that would make the funding gap much smaller," said Mr Samaras.

Greece's finance minister confirmed on Saturday that there were still disagreements over a fresh austerity package amounting to nearly €13.5bn (£10.9bn) over the next two years.

Following a meeting with "troika" officials from the ECB, International Monetary Fund and European Commission, Yannis Stournaras admitted that there were "deviations" in opinion.

Eurozone finance ministers will gather in Luxembourg on Monday for the inaugural meeting of the Board of Governors of the European Stability Mechanism (ESM), which will replace the European Financial Stability Facility as the eurozone's permanent bail-out fund.

German Chancellor Angela Merkel will also visit Greece for the first time since the eurozone debt crisis erupted next week, in a show of support for Athens after it said it would run out of money at the end of November without fresh international aid...

Alexis Tsipras, leader of the opposition Syriza party, accused the German Chancellor of "coming to Athens to save the corrupt, disgraced and servile political system.

"We will give her the welcome she deserves," he added.

*** UK DAILY TELEGRAPH / LINK

Charts That Make You Go Hmmm...

California's average gasoline price set a record Saturday of $4.614 for a gallon of regular, up 12.8 cents overnight — but anyone who filled up in the last few days probably isn't surprised.

Gasoline prices skyrocketed after the Exxon Mobil refinery in Torrance was knocked offline Monday by a power outage. Other lingering refinery and pipeline problems also contributed to the soaring costs at the pump.

Several service stations are charging more than $5 a gallon for regular gasoline. Some have stopped selling gas because they don't want to pay the high wholesale price, which reached a record Thursday but eased somewhat on Friday.

Saturday's record, as measured by AAA's daily fuel price survey, replaces the old record of $4.610 set in 2008. If it's any comfort, and it probably isn't, that's only a nominal record because when adjusted for inflation, the old record equals $4.93 in 2012 dollars.

Analysts say prices might begin leveling off next week as fuel traders digest the news that the Exxon refinery returned to service on Friday. But other refinery difficulties and maintenance could keep California's prices significantly above those in other parts of the nation.

Around the state, Los Angeles drivers were paying an average $4.661, Orange County's average was $4.650 and San Francisco was at $4.689.

*** LA TIMES (VIA ZEROHEDGE) / LINK

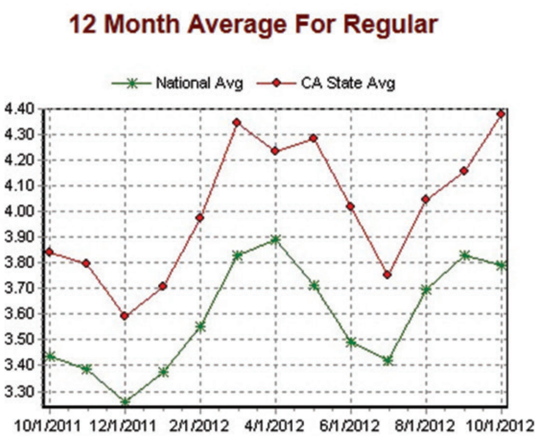
California Average Prices

	Regular	Mid	Premium	Diesel
Current Avg.	$4.614	$4.707	$4.804	$4.505
Yesterday Avg.	$4.486	$4.576	$4.672	$4.478
Week Ago Avg.	$4.145	$4.239	$4.336	$4.449
Month Ago Avg.	$4.169	$4.264	$4.361	$4.527
Year Ago Avg.	$3.809	$3.908	$4.006	$4.130

View California Metro Areas

Highest Recorded Average Price:

Regular Unl.	$4.614	10/6/2012
DSL.	$5.152	5/30/2008



Of all the people who have something to say about the BLS, none is more unintentionally ironic than former GE CEO Jack Welch.

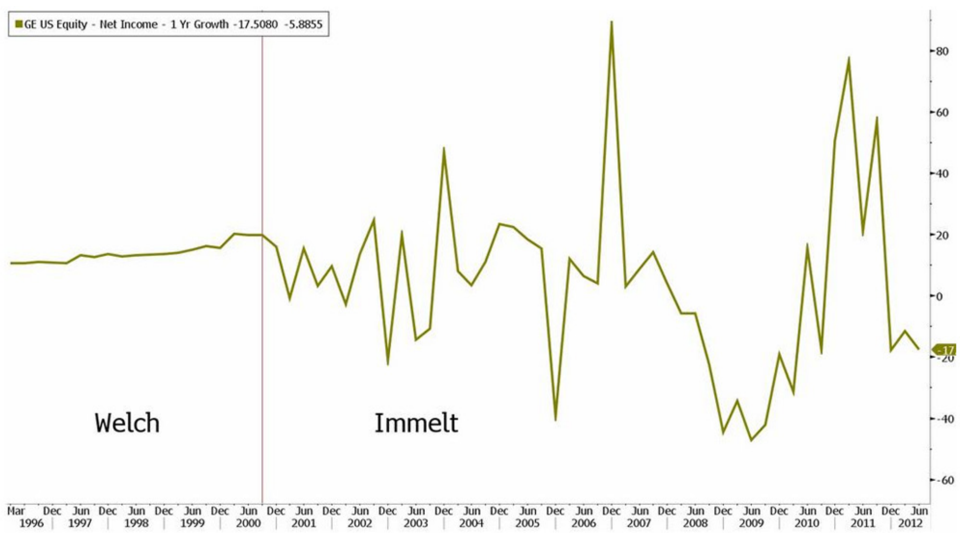
I have long stated that Jack Welch was one of the luckier, more wildly over-compensated CEOs around. He became CEO of General Electric in 1981, just before an 18-year bull market in big-cap stocks began. He left in 2001, just as the market implosion was getting rolling.

GE's revenues grew 385% under his watch, but the company's market cap grew 4,000%. How did that happen? GE increased earnings over the years, and with stunning regularity, managed a quarterly profit beat.

Indeed, it was too regular: After the 2000 crash, we learned of earnings manipulation and accounting shenanigans. The criticism was GE Capital acted as an opaque leveraged hedge fund that could always be counted on to help GE beat by a penny. (GE eventually had to settle accounting fraud charges with the SEC.)

So if anyone knows a thing or two about cooking the books, its GE's Jack Welch. Want even more proof? Have a look at this chart of Welch's earnings versus his successor, Jeff Immelt:

*** TOM BRAKKE (VIA THE BIG PICTURE) / LINK



Source: Tom Brakke

Losing a court battle to Apple and facing a new competitor in the iPhone 5 doesn't appear to have hurt sales of Samsung's Galaxy S III smartphone.

In fact, a study released Tuesday suggests that sales of Samsung's flagship phone were at their highest when rival Apple was grabbing the headlines.

Since the end of July, Galaxy S III sales have surged at three specific moments, according to Localytics, an app analytics company.

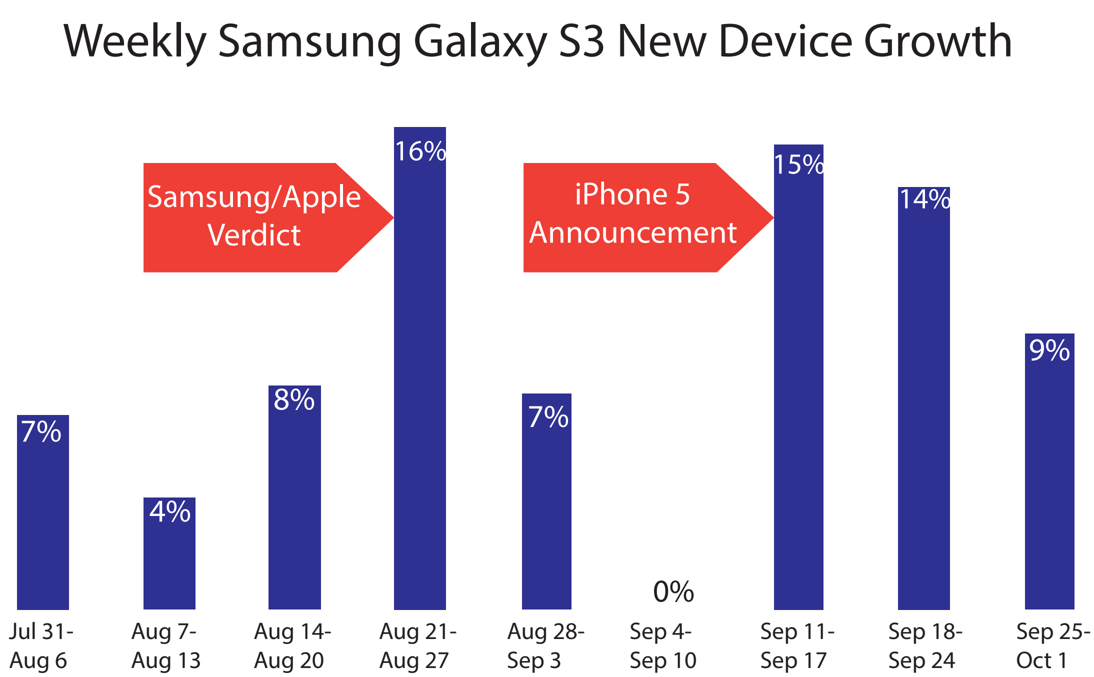
The first and highest jump in new Galaxy S III activity came from Aug. 21 to Aug. 27, the same week that Samsung suffered a $1-billion defeat to the Cupertino, Calif., company after a U.S. court found several of its devices infringed Apple products.

"The deluge of post-litigation press coverage both drove general attention to Samsung and suggested that Samsung devices were similar enough to iPhones to be an option for many consumers," said Localytics on a blog post.

The next high for the Galaxy S III came Sept. 11 to Sept. 17, and as you may recall, that's the same week Apple announced the iPhone 5...

But Localytics says Galaxy S III sales slowed the week prior to the iPhone 5's announcement Sept. 12, which the company interpreted as people waiting to hear about the new Apple device before deciding which phone to purchase.

*** LA TIMES / LINK



Source: Localytics

Keep this superb FT interactive graphic bookmarked over the next 6 weeks as it will prove invaluable in the run-up to the most important leadership change in China since the Long March.

Source: FT Research (Click to Enlarge)

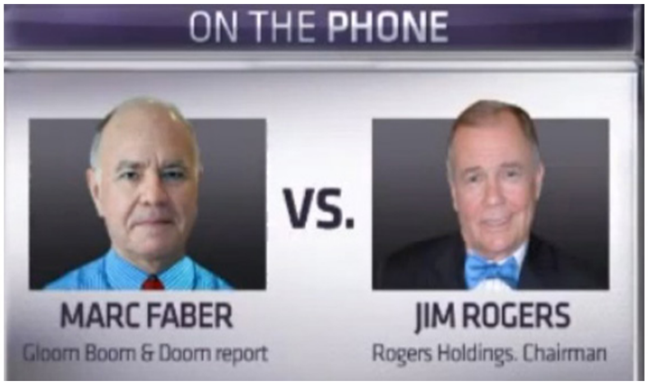
Words That Make You Go *Hmmm...*

Want to know where the 5 largest gold mines in the world are and who owns them? Look no further than this short video clip...

CLICK TO WATCH

Sprott strategist John Embry is a regular visitor to these pages (as well as being an *exceptionally* nice man), but it's been a while since he has graced *Things That Make You Go Hmmm...* Here he talks to Eric King about the solid action of gold in the face of data that would normally have a negative effect and explains the implications of that action as well as looking at the physical supply/demand equation, mining stocks, South African strikes, and the chances of a commercial signal failure...

CLICK TO LISTEN



Hard to believe that Marc Faber and Jim Rogers have never appeared together on CNBC, but this past week they did to debate China and the commodity supercycle... Rogers was calling in from Milan in response to Faber's comments. A fascinating conversation that also sheds some light on the discos that Faber visits in Bangkok.

CLICK TO WATCH

and Finally...

Hospitals resort to hiring doctors

PHYSICIAN SHORTAGE PROMPTING MOVE, ADMINISTRATORS SAY

Things must be bad...

Hmmm...

Grant Williams

Grant Williams is a portfolio and strategy advisor to Vulpes Investment Management in Singapore—a hedge fund running over $250 million of largely partners' capital across multiple strategies.

The high level of capital committed by the Vulpes partners ensures the strongest possible alignment between us and our investors.

In Q4 2012, we will be launching the Vulpes Agricultural Land Investment Company (VALIC), a globally diversified agricultural land vehicle that will provide truly diversified exposure to the agricultural sector through a global portfolio of physical farmland assets.

Grant has 26 years of experience in finance on the Asian, Australian, European, and US markets and has held senior positions at several international investment houses.

Grant has been writing *Things That Make You Go Hmmm...* since 2009.

For more information on Vulpes, please visit www.vulpesinvest.com

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California Investment Conference 2012 Presentation: "Simplicity": Part I : Part II

As a result of my role at Vulpes Investment Management, it falls upon me to disclose that, from time to time, the views I express and/or the commentary I write in the pages of *Things That Make You Go Hmmm...* may reflect the positioning of one or all of the Vulpes funds—though I will not be making any specific recommendations in this publication.

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