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Apart from these very high profile events, the number of failures of large, medium and small companies and financial institutions is rapidly and steadily growing. The speed should increase even more after summer 2009. Meanwhile, in the United States, United Kingdom and Spain in particular, a second wave of real estate foreclosures is gestating as well as a wave of state, county and town debt defaults during summer 2009. Financial media's "green shoots" are only hiding the "dead leaves" of the real economy... ([page 15](#))

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This first BRIC Summit (which it is not difficult to imagine how difficult it was to organize), is the first sign of dislocation of the current international system. The US probably did everything it could to prevent it from taking place; moreover they were refused the status of observers inside it, indicating clearly that what was to be discussed had nothing to do with diplomacy. The main topic was not a military and strategic issue, but a monetary and financial one: what to do with the hundreds of billions of US dollars (in the form of US Treasuries in particular) accumulated by these four countries in the past few years?... ([page 22](#))

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## 1- Perspective

### Global systemic crisis in summer 2009: The cumulative impact of three « rogue waves »

As anticipated by LEAP/E2020 as early as October 2008, on the eve of summer 2009, the question of the US and UK capacity to finance their unbridled public deficits has become the central question of international debates, thus paving the way for these two countries to default on their debt by the end of this summer.

At this stage of the global systemic crisis' process of development, contrary to the dominant political and media stance today, the LEAP/E2020 team does not foresee any economic upsurge after summer 2009 (nor in the following 12 months)<sup>1</sup>. On the contrary, because the origins of the crisis remain unaddressed, we estimate that the summer 2009 will be marked by the converging of three very destructive « rogue waves »<sup>2</sup>, illustrating the aggravation of the crisis and entailing major upheaval by September/October 2009. As always since this crisis started, each region of the world will be affected neither at the same moment, nor in the same way<sup>3</sup>. However, according to our researchers, all of them will be concerned by a significant deterioration in their situation by the end of summer 2009<sup>4</sup>.

This evolution is likely to catch large numbers of economic and financial players on the wrong foot who decided to believe in today's mainstream media operation of "euphorisation".

In this special « Summer 2009 » edition, our team describes in detail these three converging « rogue waves » and their impact, and gives a number of strategic recommendations (currencies, gold, real estate, bonds, stocks, currencies) to avoid being swept away in this deadly summer.

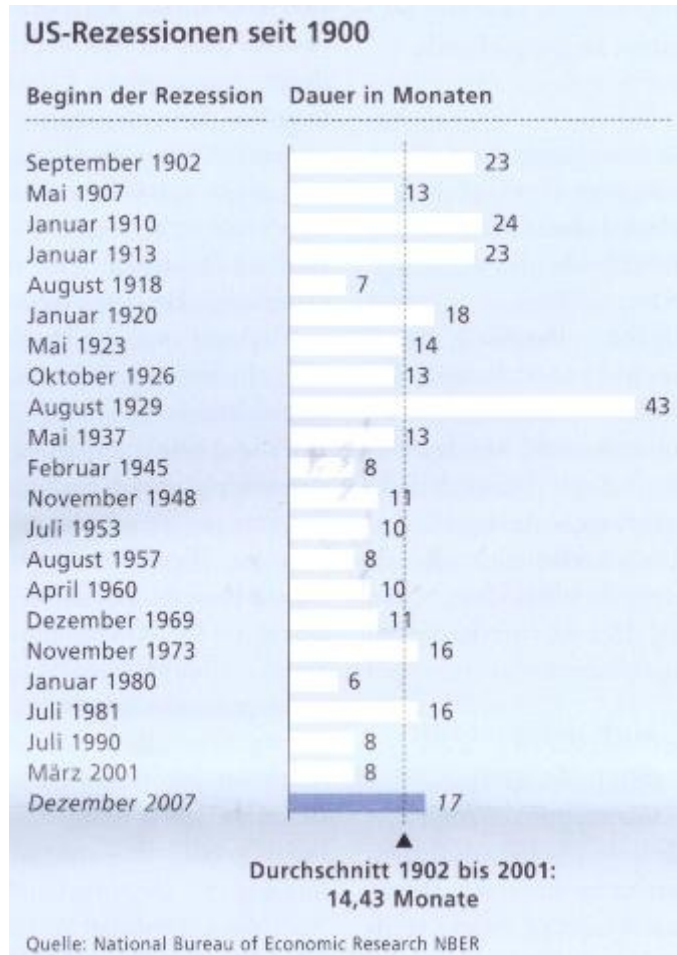
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<sup>1</sup> Not even the « jobless recovery » many experts are trying to make us believe in. In the United States, United Kingdom, Eurozone and Japan, it is a « recoveryless recovery » we must expect, i.e. a pure invention aimed at convincing US and UK insolvent consumers to start buying again and keeping US T-Bonds' and UK Gilts' country purchasers waiting as long as possible (until they decide that there is really no future selling their products to the lands of the US Dollar and British Pound).

<sup>2</sup> « [Rogue waves](#) » are very large and sudden ocean surface waves which used to be considered as rare, though we now know that they appear in almost every storm above a certain strength. « Rogue waves » can reach heights of 30 meters (98 ft) and exert tremendous pressure. For instance, a normal 3 meter-high wave exerts a pressure of 6 tons/m<sup>2</sup>. A 10 meter-high tempest wave exerts a pressure of 12 tons/m<sup>2</sup>. A 30 meter-high rogue wave can exert pressure of up to 100 tons/m<sup>2</sup>. No ship yet built is able to resist such pressures. One specific kind of rogue wave is called the "three sisters", i.e. a group of three rogue waves all the more dangerous in that, even if a ship had time to react properly to the first two waves, there is no way she could be in the right position to brave the third one. According to LEAP/E2020, it is a similar phenomenon that the world is about to encounter this summer; and no country (ship) is in a favourable position to face them, even if some countries are more at risk than others, as explained in this GEAB (N°36).

<sup>3</sup> LEAP/E2020 estimate that their anticipations of social and economic trends in the various regions of the world - published in GEAB N°28 (10/16/2008) – are still relevant.

<sup>4</sup> More precisely, in every region, media and stock markets will no longer be able to hide the deterioration.



**Duration (in months) of US recessions since 1900** (average duration: 14,43 months) - *Sources: US National Bureau of Economic Research / Trends der Zukunft*

LEAP/E2020 believes that, instead of « green shoots » (those which international media, experts and the politicians who listen to them<sup>5</sup> kept perceiving in every statistical chart<sup>6</sup> in the past two months), what will appear on the horizon is a group of three destructive waves of the social and economic fabric expected to converge in the course of summer 2009, illustrating the aggravation of the crisis and entailing major changes by the end of summer 2009... more specifically, debt default events in the US and UK, both countries at the centre of the global system in crisis. These waves appear as follows:

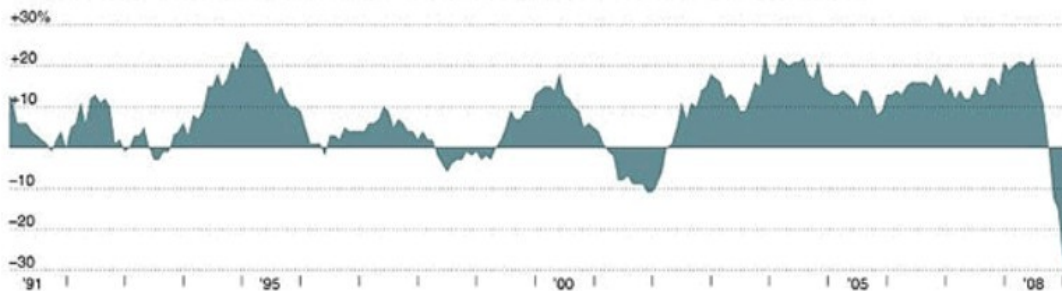
1. Wave of massive unemployment: Three different dates of impact according to the countries in America, Europe, Asia, the Middle East and Africa
2. Wave of serial corporate bankruptcies: companies, banks, housing, states, counties, towns
3. Wave of terminal crisis for the US Dollar, US T-Bond and GBP, and the return of inflation

<sup>5</sup> Our readers have not failed to notice that the same people, media and institutions, considered everything was for the best in the best of worlds 3 years ago, that there was no risk of a severe crisis 2 years ago, and that the crisis was under control a year ago. Their opinion is therefore highly reliable!

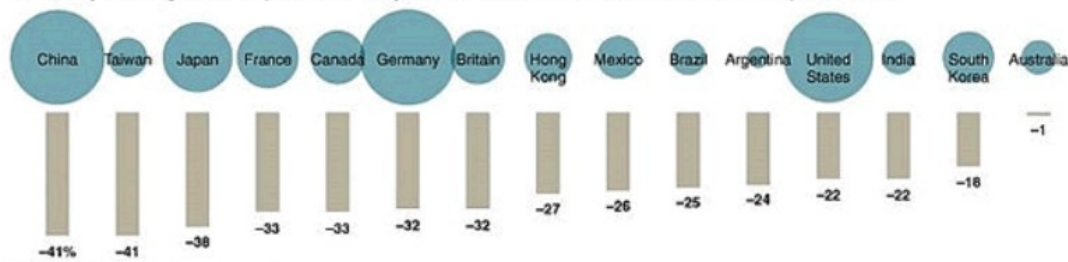
<sup>6</sup> As regards US economic statistics, it will be interesting to follow the consequences of the revision of the indexing formula by the [Bureau of Economic Analysis](#) due to take place on 07/31/2009. Usually, this type of revision results in further complexity of historical comparisons and favourable modification of important figures. For example, some previous revisions enabled the division of the average level of measured inflation by three. Source: [MWHodges](#), 04/2008.

## World Trade Shrinks

Year-over-year change in total exports from 15 major exporters. Data are through February 2009, in U.S. dollars.



Year-over-year change in total exports for February, in U.S. dollars. Size of circles reflect volume of exports in 2008.



Sources: National governments, via Haver Analytics

**World trade shrinks : *Chart 1: Year-over-year change in total exports from 15 major exporting countries (1991-02/2009) / Chart 2: Year-over-year change in exports from 15 major exporters between February 2008 and February 2009 (size of circles reflects volume of exports in 2008) - Source: John Mauldin***

In fact, these three waves do not appear in quick succession like the « sisters rogue waves ». They are even more dangerous because they are simultaneous, asynchronous and non-parallel. Hence their impact on the global system accentuates the risks because they hit at various angles, at different speeds and with varying strength. The only certain thing at this stage is that the international system has never been so weak and powerless to face such a situation. The IMF and global governance institutions' reforms announced by the London G20 are at a standstill<sup>7</sup>. The G8 becomes more like a moribund club whose utility is increasingly questioned<sup>8</sup>. US leadership is the shadow of what it used to be, mostly concerned by desperately trying to find purchasers for its T-Bonds<sup>9</sup>. The global monetary system is in a process of disintegration, with the Russians and Chinese in particular accelerating their positioning in the post-Dollar era. Companies foresee no improvement in the business climate and speed up the pace of layoffs. A growing number of states falter under the weight of their accumulated debt created to "rescue banks" and are about to be faced with a welter of failings by the end of this summer<sup>10</sup>. And, last but not least, the banks, once they have squeezed money out of naive savers thanks to the market upsurge

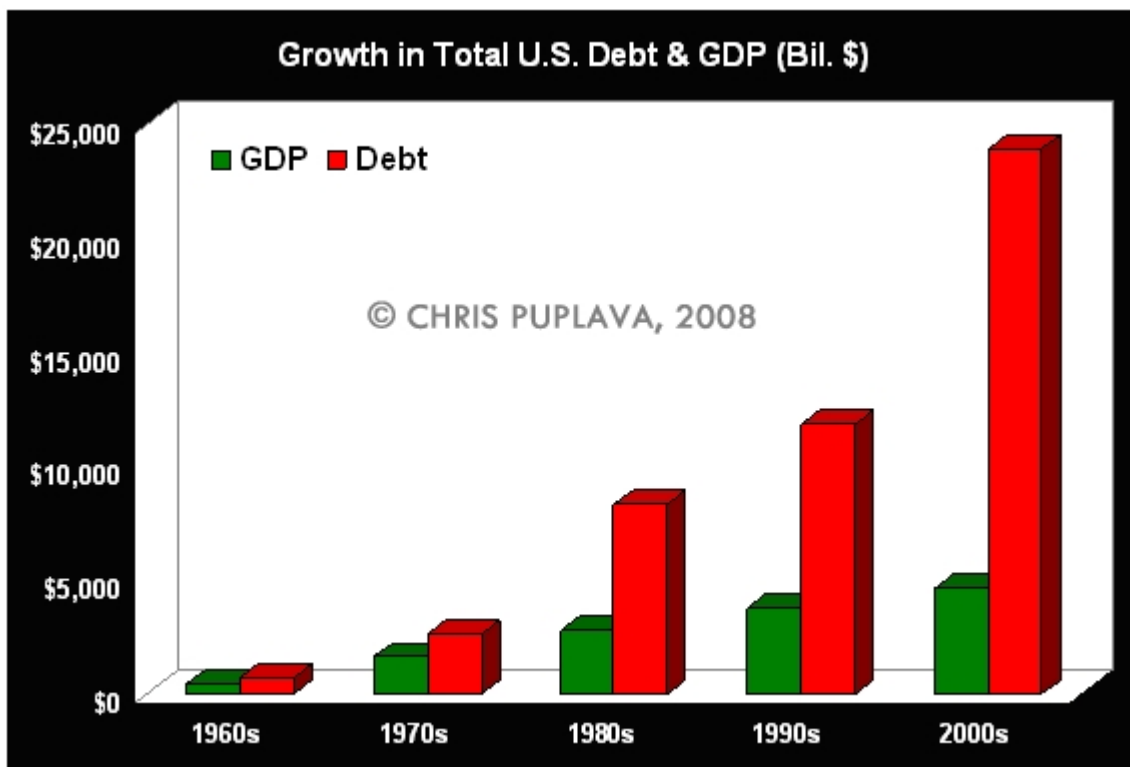
<sup>7</sup> Except at a regional level where each political entity is organized the way that it wants. For instance, the EU is taking advantage of the political fading away of the UK - mired in a financial, economic and political crisis - and taking supervisory control of the City of London (source: [Telegraph](#), 06/11/2009). It is likely that summer 2009 will be the end of 300 years of the City's supremacy at the centre of British power. On this subject, it is instructive to read George Monbiot's article in [The Guardian](#) dated 06/08/2009 and take the time to read John Lanchester's brilliant essay published in the [London Review of Books](#) dated 05/28/2009 entitled « It's finished ».

<sup>8</sup> Who cares any more about G8 final statements, such as that following the June 13th G8-Finance meeting (source: [Forbes](#), 06/13/2009), at a time when each player in fact plays by his own rules: Americans on one side, Canadians and Europeans on another, British and Japanese in the middle, while the Russians play a complete different game?

<sup>9</sup> US Treasury's Secretary of State, Timothy Geithner, recently suffered a very embarrassing experience whilst giving a speech in front of Beijing University students: his audience simply burst into laughter when he reassured that the Chinese government had made the right choice investing their holdings in US T-Bonds and Dollars (source: [Examiner/Reuters](#), 6/02/2009)! There is nothing worse than arousing irony or ridicule when you are an established power because that power is nothing without respect (on the part of both friends and enemies), especially when the one mocking is supposed to be "trapped" by the one mocked. According to LEAP/E2020, this laughter is worth a thousand explanations of the fact that China does not feel at all « trapped » by the US dollar and the Chinese authorities know exactly what tracks greenbacks and T-Bonds are following. This kind of situation was unthinkable only 12 months, maybe even 6 months ago, first because the Chinese were still naive, second because they thought it was in their interest to make everyone believe they were naive. Obviously, on the eve of summer 2009, this situation has vanished: no need to pretend anymore, as highlighted by this survey of 23 famous Chinese economists, published on the first day of Timothy Geithner's visit to Beijing, and revealing that most of them deem US assets « risky » (source: [Xinhuanet](#), 05/31/2009). This student burst of laughter will continue to echo for many months to come...

orchestrated in the past few weeks, will be have to admit that they are still insolvent by the end of summer 2009.

In the United States and United Kingdom in particular, the colossal public financial effort made in 2008 and at the beginning of 2009 for the sole benefit of large banks became so unpopular that it was impossible to consider injecting more public money into banks in spring 2009, despite the fact that they were still insolvent<sup>11</sup>. It then became necessary to invent a "fairy tale" to convince the average saver to inject his/her own money into the financial system. By means of the « green shoots » story, overpriced stock indices based on no real economic grounds and promises of « anticipated public funding repayment », the conditioning was achieved. Hence, while big investors from oil-producing and Asian countries<sup>12</sup> withdrew capital from these banks, large numbers of small individual investors returned, full of hope. Once these small investors discover that public funding repayment is only a drop in the ocean of public aid granted to these banks (to help them dispose of their toxic assets) and that, after three or four months at best (as analyzed in this GEAB N°36), these banks are again on the verge of collapse, they will realize, powerless, that their share is worth nothing once again.



Growth in GDP (green) and US debt (red) (Bn USD) - Sources: US Federal Reserve / US Bureau of Economic Analysis / Chris Puplava, 2008

<sup>10</sup> Not only in the US will shareholders be systematically prejudiced by the state under the pretext of higher common interest, as in the case of pension fund and bondholder losses related to the Chrysler and GM bankruptcies, or when the US government and Federal Reserve pressured Bank of America to hide the calamitous state of Merrill Lynch from its shareholders at the time of the latter's takeover. Sources: [OpenSalon](#), 06/10/2009 / [WallStreetJournal](#), 04/23/2009. In the UK, Europe and Asia, the same causes will produce the same effects: the « raison d'état » has always been the simplest excuse to justify large-scale plundering ... and severe crises are perfect times to call in the « raison d'état ».

<sup>11</sup> Germany has a similar problem due to next September's national election. After the election, the country's banking problems will be in the headlines, as several hundreds of billions of risky assets on the balance sheets of a number of banks, mainly regional ones, will need dealing with. It is far from the scope of US and UK banking problems, nevertheless Berlin will probably be faced with a number of potential bank failures. Source: [AFP/Google](#), 04/25/2009. In the United States, the banks bailed out by the federal state have simply lowered the amount of loans granted when they are supposed to do the contrary. Source: [CNNMoney](#), 06/15/2009

<sup>12</sup> Sources: [Financial Times](#), 06/01/2009; [YahooFinance](#), 06/04/2009; [StreetInsider](#), 05/15/2009; [Financial Times](#), 06/01/2009

Intoxicated by financiers, world political leaders will be surprised - once again – to see all the problems of last year reappear, all the more severe since they were not addressed but only buried under piles of public money. Once that money has been squandered by insolvent banks compelled to « rescue » even more insolvent rivals, or by ill-conceived economic stimulus plans, problems will re-emerge, further exacerbated. For hundreds of millions of citizens in America, Europe, Asia and Africa, the summer 2009 will be a dramatic transition towards lasting impoverishment due to the loss of their jobs, with no hope of finding new ones in the next two, three or four years, or due to the disappearance of their savings invested in stocks or capital-based pension funds, or in banking investments linked to stock markets or denominated in US dollars or British pounds, or investment in shares of companies pressured to desperately wait for an improvement not coming soon.

### ***The three « rogue waves » of summer 2009***

#### **The wave of massive unemployment: Three different dates of impact depending on the country: in America, Europe, Asia, the Middle East and Africa**

Summer 2009 will be remembered as a tipping point as regards the impact of unemployment on the course of events of the global systemic crisis. Indeed, it will be the time when, instead of a consequence of the crisis, unemployment worldwide will turn into a factor aggravating it. Of course, this process will unwind neither at the same pace everywhere, nor with similar consequences. However, everywhere without exception, it will become a top priority for both the general public and political and economic leaders.

According to LEAP/E2020, this general wave of massive unemployment will strike the main regions of the world at three different moments:

- . at the end of summer 2009 in the case of the United States, United Kingdom, Ireland and Spain
- . at the end of the fall 2009 in the case of China, South-East Asian countries, Latin America, new EU member states, Turkey, the Middle East, Africa
- . in winter 2009/2010 in the case of Eurozone core countries, Denmark, Sweden and Japan.

The moment when a county/country will be impacted depends on two essential factors:

- . the growth of unemployment itself; and
- . the quality of the social protection system in the concerned region/country.

As we already mentioned last autumn 2008, countries with efficient systems of unemployment benefits will be able to postpone the destabilizing impact of massive unemployment. Those which also have an extensive system of social protection will be able to lessen this impact in an even more significant way<sup>13</sup>.

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<sup>13</sup> In these countries, even when the payment of unemployment benefits has ended, unemployed people can count on free medical care and a whole range of social aid, directly or through their families. In the other countries, part from family support and/or charitable organizations, unemployed people no longer entitled to benefit are left adrift. In times of massive crisis, charitable organizations are overwhelmed, due in particular to declining resources because of the crisis itself, as it is already the case in the US and in the other developed countries. Source: [Washington Post](#), 06/10/2009

## United States, United Kingdom, Ireland and Spain: The shock of massive unemployment arrives at the end of summer 2009

One thing certain today is that a first wave of millions of unemployed people, no longer entitled to insurance benefits, will hit the United States between July and September 2009. They are all those people who were laid off during the fourth quarter of 2008, when the large layoff schemes started officially affecting<sup>14</sup> more than 500,000 people every month. The predictable failure of the Obama administration's economic stimulus plan in creating new jobs (the administration now claims 150,000 jobs have been created in three months) will create a social shock this summer of a scope unseen since the large-scale post-WWII demobilization: about 3 million unemployed people will "fall" out of the social security safety-net in three months. If we include their families, it adds up to more than 10 million people who are about to suddenly slide into severe poverty<sup>15</sup>. The 600,000 new jobs recently announced as a matter of urgency by President Barack Obama, if they ever come true<sup>16</sup>, would only help to marginally reduce the social and economic impact of this wave of drifting, unemployed people.

The situation is all the worse since, right after that, other waves, at least as big, are following at the end of 2009. Even the most optimistic people in the US have ceased to believe that job creation would start again before the end 2009. This means that more than 4 million of new unemployed people from the first semester of 2009 and their families will be expecting Christmas with no other perspective than the end of their unemployment insurance benefits, and no job in sight<sup>17</sup>. Socially and humanely speaking, it is a tragedy that will soon eclipse that of the Great Depression and justify the designation of "Very Great US Depression" LEAP/E2020 created early in 2007.



**United States: If you lost your job, how long could you afford to pay for your own health insurance? (I would not be able: 32% -- 1-6 months: 33% -- 7-12 months: 18% -- More than 1 year: 17%) - Source: USA Today, 06/2009**

<sup>14</sup> LEAP/E2020 would like to remind subscribers that about a further 60% should be added to these official unemployment figures, as shown in several previous GEABs. Today's real unemployment rate in the United States is actually approaching 20%. Interesting anecdote: the launch of the 2010 population census helps to create almost 1.4 million jobs in the public sector... for a period of a few months only. Sources: [Richard Daughy](#), 05/19/2009; [Chicago Tribune](#), 03/13/2009

<sup>15</sup> And joining the cohort of the "former poor", those tens of millions of Americans who fell victim to the past decade's 'jobless growth' and to whom the media no longer pay any attention, since they are now focused on the millions of middle-class citizens suddenly discovering the first signs of poverty. In this regard, it is useful to read the very interesting article by Barbara Ehrenreich published in the [New York Times](#) on 06/13/2009.

<sup>16</sup> Given the stimulus plan's results today, as well as our anticipations in GEAB N°35 on this subject, our team is more than doubtful.

<sup>17</sup> Within the market framework of « euphoria-building » processes, the specialized press recently made headlines of a US unemployment figure better than expected in May (345,000 instead of an anticipated 500,000) ... forgetting to tell that in the same statistics of the US Labor Department, there were also results of a second unemployment measurement (one based on a household survey, while the first come from a company survey) announcing 787,000 new unemployed people in May 2009. There is no doubt that the fact of presenting this information at the beginning of the article, or in the title, instead of the end, would have radically changed the impact of the news. At least Market Watch, quoted here, mentioned this second figure while most of their colleagues simply ignored it. Source: [MarketWatch](#), 06/05/2009

Economically speaking (and we shall come back to this subject in the analysis of other « rogue waves »), this development is extremely destructive for almost all economic sectors<sup>18</sup>, and for the financial sector in particular. The « green shoots » will literally be trodden underfoot by millions of unemployed<sup>19</sup>. Politically speaking, the country is entering a period of major instability. No doubt the way Barack Obama is striving to reform the US social system as a matter of urgency, is closely related to this gloomy outlook. But we think it is naive to imagine succeeding with such a challenge<sup>20</sup> and in such a context, all the more since the new US President has proved to be able to deliver good speeches but not to initiate the profound changes needed. In addition, he has appeared to be the prisoner of big lobbies, such as the banks, for instance. In any event, according to LEAP/E2020, he only has three months left to succeed. After that, he will lose all hope of retaining any control over the social and political sequence of events in his country.

In the United Kingdom<sup>21</sup>, as well as in Ireland and Spain, but in a far worse monetary and political context<sup>22</sup>, the first millions of unemployed generated by the crisis since mid-2008 will come to a complete or partial end of their unemployment benefits at the end of this summer, and see their ranks swell rapidly during autumn. Benefit schemes with durations and amounts substantially inferior to other European countries (from the Eurozone core group in particular) move the time and scope of the impact forward<sup>23</sup>. In Spain in particular, the very bad tourist season ahead (in a country where tourism is a major job creating sector) will turn summer 2009 into a dramatic moment of truth for the country. Meanwhile, the Irish and British will be much fewer to enjoy holidays this summer, without this situation creating any jobs in their respective countries. By September 2009 already, all these countries will be faced with a similar problem: how to cope with millions of unemployed with no job perspective in the mid-term and no efficient social systems to support them. If Ireland, because it is a smaller country, can hope to find an efficient support from European funds, the size of the UK, as well as the multiplicity of crises affecting it, leaves no other perspective than a general crisis<sup>24</sup>.

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<sup>18</sup> The unprecedented sequence of bankruptcies in the US (which will continue) is taking place in a context of massive layoffs in all sectors. Even the venerable U.S. Postal Service announced a wave of tens of thousands of redundancies this year: [MarketWatch](#), 06/15/2009

<sup>19</sup> In the housing sector, rising unemployment is now provoking a new wave of foreclosures. These foreclosures no longer affect too-poor-to-buy households (origin of the subprime crisis), but households which lost a job, have no prospect of being hired any time soon, and can therefore no longer repay their mortgage loans. In other words, the upsurge of the US real estate market is nowhere in sight, whatever « experts » may say. Source: [New York Times](#), 05/24/2009

<sup>20</sup> So far, all attempts to reform the US health system - the most expensive system in the world, primarily benefiting pharmaceutical companies and doctors – have been faced with insurmountable political obstacles, on the part of Congress namely, due to the enormous influence of the lobbies concerned.

<sup>21</sup> With unemployment forecast to reach over 3 million at the end of 2009, the employment problem promises to become more worrying than that of The City's banks (source: [Independent](#), 06/02/2009). On this subject, the [Telegraph](#) dated 06/14/2009 invited us to a very instructive visit of Edinburgh-in-the-crisis.

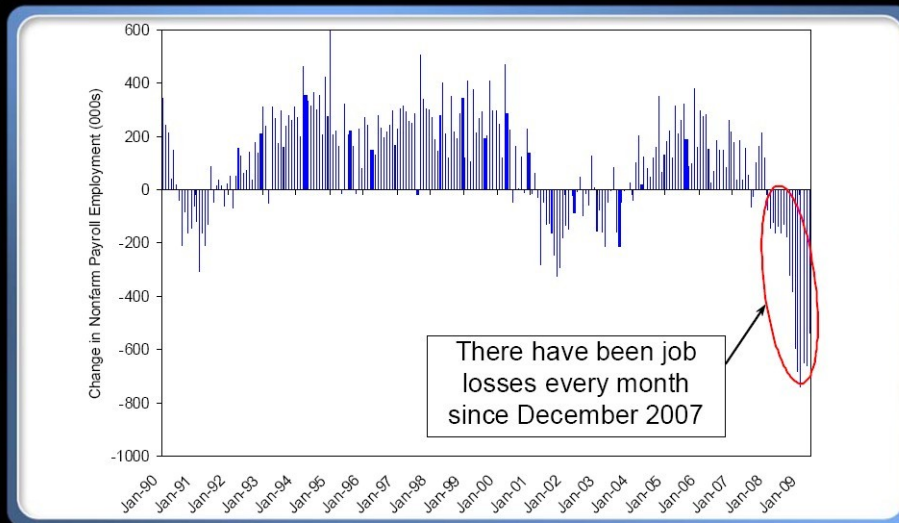
<sup>22</sup> Ireland and Spain do not have to fear a collapse of their currency or an emergency rescue by the IMF during summer 2009, contrary to the UK.

<sup>23</sup> [Unijuridis](#) provides a good summary of the variety of situations in terms of unemployment benefit schemes between 12 EU countries.

<sup>24</sup> Together with the United States, UK is probably the only other country that will be hit full blast by all the « rogue waves » of summer 2009; socio-economically and politically speaking, even islands can sink.

# There Have Been 5.7 Million Jobs Lost So Far in This Recession, More Than 3 Million in the Past Five Months

T2 Partners LLC



SOURCE: Bureau of Labor Statistics.

**Change in employment in the US (01/1990 – 04/2009) – Officially, there have been more than 5.7 million jobs lost since the beginning of this recession, more than 3 million in the past five months - Sources: US Bureau of Labor Statistics / T2 partners LLC, 06/2009**

## **China, Asian and Latin American countries, Russia, new EU member states, Turkey, the Middle-East, and Africa are hit by the socio-economic consequences of mass unemployment in the fall of 2009**

Chinese leaders are aware of the dangers for the country's social and political order of massive unemployment that would continue to rise after summer 2009. For this reason, their economic stimulus plan includes a large section dedicated to the development of their social security system<sup>25</sup> in the countryside namely (see GEAB N°35). They too began to see "green shoots" everywhere in an attempt to convince their new consumers to buy more and their companies to expand more; but they are also convincing themselves that they are able to avoid the collapse of the « socio-political dike » erected in the 1980s between a nascent market economy and the Chinese communist party's political monopoly. Pressured by some 50 to 100 million new unemployed with no resources by fall 2009, this « dike » could suddenly collapse. In any event, according to LEAP/E2020, the very principle of domestic consumption stimulation is called into question by an irresistible rising tide of unemployment: millions of new unemployed every month, global trade on a highway to hell, US, European and Japanese consumers – the real engines of growth in the past twenty years – themselves prey to unemployment or the fear of unemployment. After this summer, Beijing will be compelled to turn it into its top priority, and all the other problems (US Dollars and T-Bonds, global warming, global governance...) will be subsumed to it.

South-East Asia, whose social systems are equally embryonic, will experience a similar shock in the fall of 2009, in a context of declining exports. So far, Latin America has coped better with the crisis, but global conditions and massive commodity-exporting company closures to be exact, should catch up with the country in the fall of 2009. The level of regional integration is not yet sufficient to make up for a weakening global demand, and very low social protection systems will contribute to the rapid impoverishment of whole swathes of South-American middle-classes, in large cities in particular.

So far, Russia prefers to not pay wages rather than lay off massively. This method enables it to keep official unemployment figures under control longer. But the increase in sudden violent social conflicts and the need for direct intervention on the part of the highest level of Russia's political power, prove that this « solution » is not sustainable... unless oil prices soar up to 100 USD/Barrel by the end of summer 2009 (on the condition that the US dollar does not collapse in the meantime)<sup>26</sup> and the benefit is massively invested in wages paid by the state or relay-banks. In any event, disguised or not, unless some "oil miracle" occurs, unemployment will become Medvedev and Putin's central concern at the beginning of fall.

The new European Union member states are also about to experience the impact of massive unemployment in the fall of 2009. Their systems of social protection were reduced by a decade of forced « adaptation » to neo-liberal dogmas enthusiastically advocated by their leaders<sup>27</sup>. It will not be long before the gradual reduction of their export markets and the closure of outsourced industrial sites as a result of the crisis, in Eastern Europe namely, are no longer partly compensated by the relocation currently implemented by Western European companies<sup>28</sup>. In this case too, in summer 2009, as any hope of a short-term economic upturn disappears, the number of unemployed people will swell and the millions of unemployed accumulated during the past 12 months will be left adrift. EU accession had already resulted in a very heavy social cost for many categories of the population in the new member states. A second shock is appearing on the horizon for blue and white collar workers. The only "luck" for the populations of these countries, is that they have already experienced two other violent shocks in less than twenty years (end of communism and EU accession) and that they should be "hardened", but LEAP/E2020 is not sure their governments are...

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<sup>25</sup> The Chinese President has turned this subject into the leitmotiv of his speeches, an indicator of its priority level in Beijing. Source: [China Daily](#), 05/24/2009

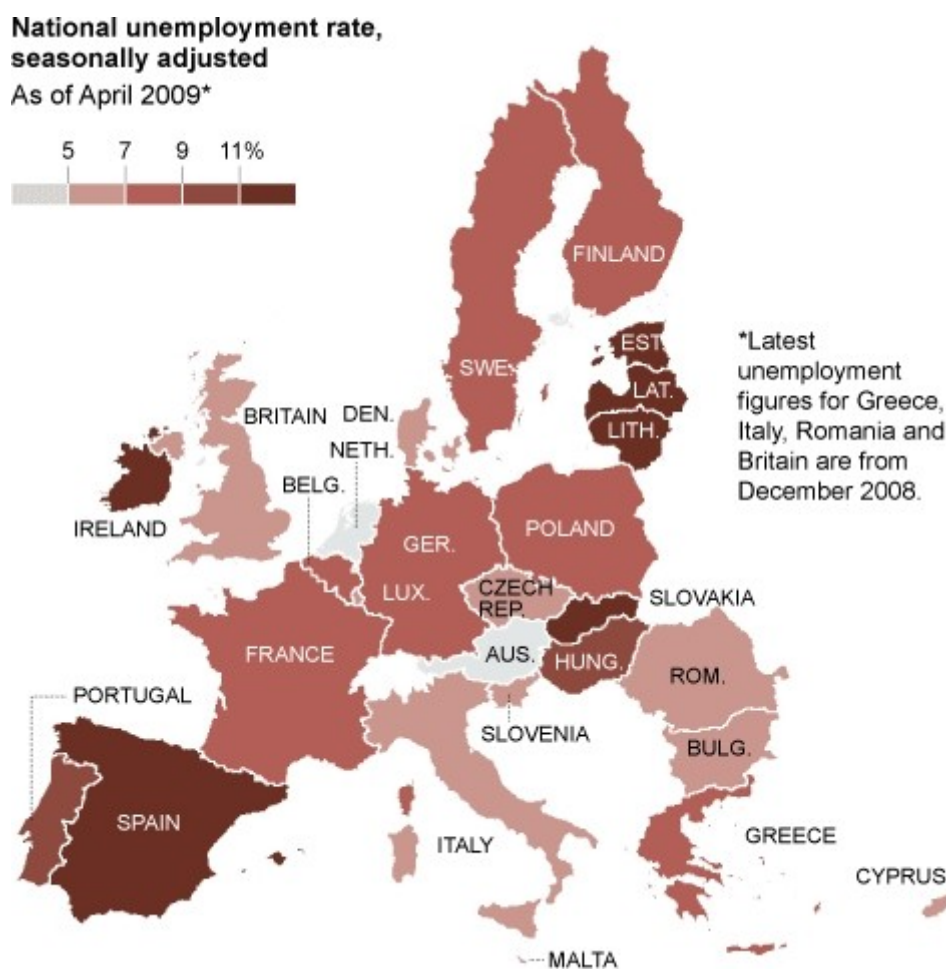
<sup>26</sup> Otherwise, the price of the barrel will not increase in real terms.

<sup>27</sup> They changed from overdeveloped systems at the time of communism to emaciated systems today.

<sup>28</sup> At the expense of plants previously settled in Asia or Latin America.

In the Middle-East (and the Arab world in general), unemployment will become an explosive issue after summer 2009<sup>29</sup>. Even rich Gulf countries will reach the limit of their « welfare » states once all dreams of over-sized economic development based on the forecasting of a world which disappeared in 2008 (of which Dubai is the best and most tragic example) are broken<sup>30</sup>. In Arab countries, 3.9 million jobs must be created every year to simply absorb young workers into the labour market. But, in 2009, jobs will be destroyed in large numbers, instead of created.

Africa, whether directly integrated to the European economic zone (like North Africa for instance) or indirectly (like black Africa, in particular by means of its migration flows towards Europe), will experience, in the fall of 2009, a sudden rise of unemployment (or a sudden decline in the number of migrants to Europe) as a result of persistent recession in Europe. Until now, the impact of the crisis on migration flows had remained marginal because the prospects were still attractive in the mid-term. North Africa in particular benefited, like Eastern Europe, of relocation movements due to its proximity to the European market. But, failing any economic upturn, the context is changing. As regards the exploitation of commodities, even diamonds are suffering from a sustainable decline in global demand. Apart from speculation and/or the transfer of US Dollars towards real assets – as Beijing is doing now, the length of the crisis is not favourable to this kind of economic activity. Unemployment and further poverty are therefore on the horizon after summer 2009 for Africa as well.



**Unemployment rates in the EU (04/2009)** (latest unemployment figures for Greece, Italy, Romania and Britain are from December 2008) - **Source: Eurostat, 06/2009**

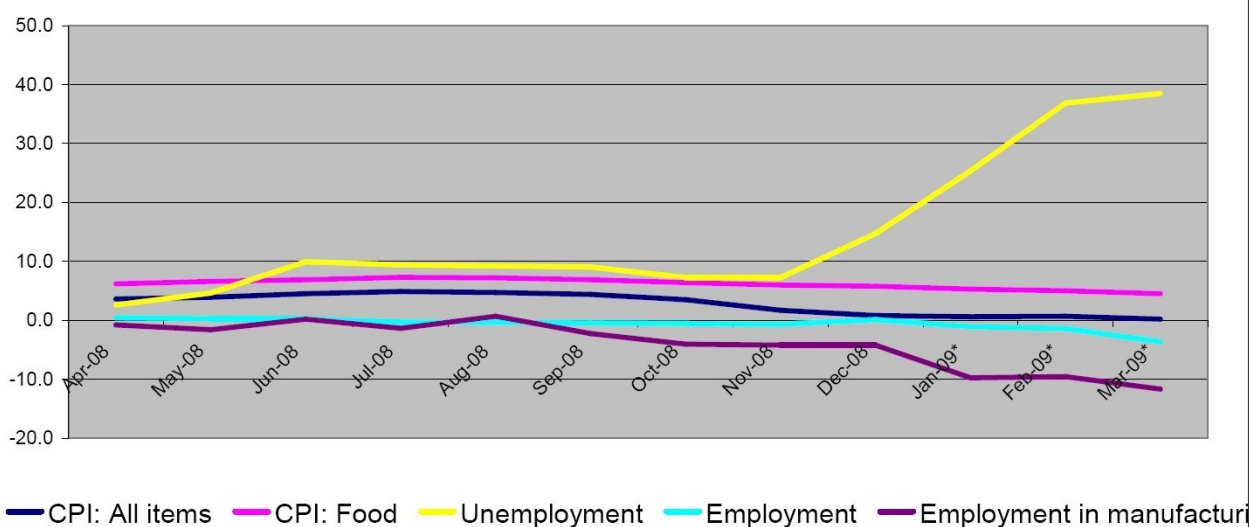
<sup>29</sup> Turkey follows the same trend. Source: [Les Echos](#), 06/15/2009

<sup>30</sup> Source: [Zawaya](#), 01/2009

## Eurozone core group, Denmark, Switzerland, Sweden, Canada and Japan have a brutal appointment with the consequences of massive unemployment in winter 2009/2010

Only a handful of countries are protected until the last quarter of 2009 from the most severe consequences of massive unemployment<sup>31</sup>. They are the states whose unemployment benefit schemes and social systems are the most advanced, i.e. the Eurozone core group (Germany, France, Netherlands...), Scandinavian countries, Switzerland, Canada<sup>32</sup> and Japan. Until now, the unemployment rise they recorded was substantially inferior to other developed countries, namely thanks to their schemes of partial unemployment insurance. But, in several of these countries, this process is reaching financial limits in terms of the volume concerned (duration and number of claimants)<sup>33</sup>. From summer 2009 onwards, as it will clearly appear that we are in a lasting crisis, the number of new unemployed people will start growing significantly<sup>34</sup>. Then, late 2009, the first millions of unemployed laid off at the end of 2008 will no longer be entitled to benefits, thus overloading other social schemes and entailing major budget imbalances on the balance sheets of social protection systems.

Developed countries: Percentage change over the same period of the previous year



**Change in unemployment (yellow), employment (turquoise), employment in manufacturing (purple), general consumer price index (blue) and food consumer price index (pink) in the most developed countries (April 2008 – April 2009) – Source: International Labour Organisation, 06/2009**

<sup>31</sup> Source: [France 24](#), 06/15/2009

<sup>32</sup> Regarding Canada, our anticipations have to be tempered by the fact that this country is on the verge of the unfolding US « black hole ». Any sudden aggravation in the situation of its big Southern neighbor can rapidly accentuate negative trends in Canada. For instance, the welter of corporate failures due to occur in the US after summer 2009 will have severe consequences on Canadian employment, particularly in the states depending heavily on US companies.

<sup>33</sup> Spain has been already obliged to increase the amount of financial resources first planned to address rising unemployment among 20 percent of the active population, and the Spanish government is planning a minimum wage scheme to prevent unemployed people no longer entitled to benefit from being left adrift. Similar changes will take place in every country in the months to come, entailing huge financial efforts. Source: [TV5 Monde](#), 06/15/2009

<sup>34</sup> Temporary employment enabled millions of people to be left out of unemployment numbers. Now that this sort of work too is being affected by the crisis, it contributes to nurture the flood of new unemployed. It can be useful to read this « dive » into the temp-work crisis reported by [Le Monde](#) on 05/30/2009. Source: [MSNBC](#), 06/07/2009

Moreover, in these countries, as in the rest of the European Union, North America or Asia, and in the other countries of the Northern hemisphere, between June 2009 and September 2009, tens of millions of young people, graduated or simply out of school age, will be arriving on the labour market<sup>35</sup>. And for the first time in modern history, in the entire world, this generation will be left with nearly no jobs available. These youngsters will be added on to the scores of unemployed people previously described in this chapter. Unless they have already worked, most of them will not be entitled to unemployment benefits and will join the ranks of insecure workers (internships, undeclared jobs...). Many of them will have to continue to be supported by their parents, reducing even further the latter's purchasing power. Even video game sales are now in decline<sup>36</sup>. When an entire generation, on a world scale, realizes that it has been ignored to the sole benefit of large banks and financial institutions, it is not certain that this generation will content itself with only video games to let off steam...

This wave of massive unemployment will indeed be one of the factors at play in the process of global geopolitical dislocation, which LEAP/E2020 anticipates will start unwinding in the fourth quarter of 2009<sup>37</sup>.

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<sup>35</sup> Sources: [China Daily](#), 06/11/2009; [Maroc Emploi](#), 06/01/2009; [Lien Social](#), 06/28/2009; [Guardian](#), 06/0/2009; [Washington Post](#), 05/17/2009; [University World News](#), 04/12/2009

<sup>36</sup> Source: [MarketWatch](#), 06/11/2009

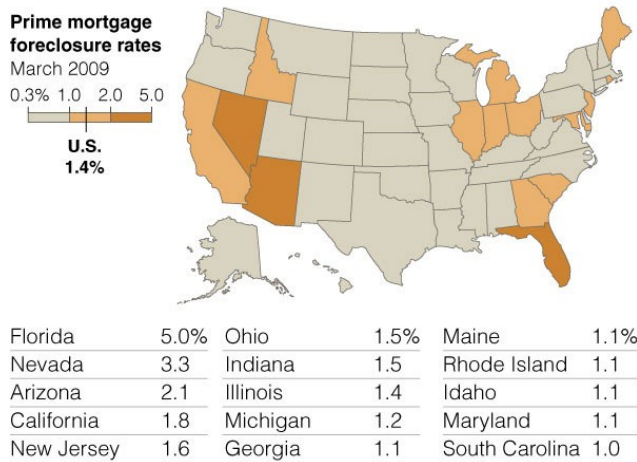
<sup>37</sup> See [GEAB N°32](#) (02/15/2009)

## The breaking wave of serial failures: companies, banks, housing, states, counties, towns

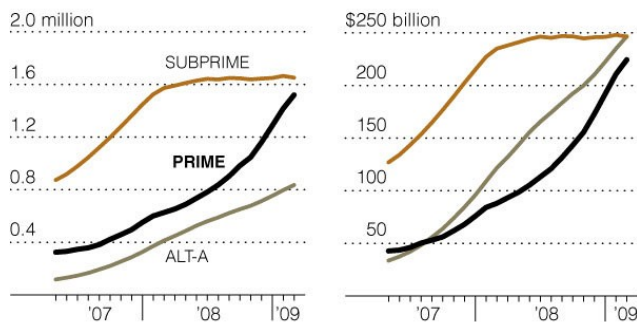
Mass injection of public money into banks and major car building industries in particular, did not prevent major bankruptcies occurring, such as General Motors in the US (5 of the 10 biggest bankruptcies in history took place during the past 12 months<sup>38</sup>), or Arcandor in Germany<sup>39</sup>, not to mention the various weekly failures of US financial institutions<sup>40</sup>. Apart from these very high profile events, the number of failures of large, medium and small companies and financial institutions is rapidly and steadily growing. The speed should increase even more after summer 2009. Meanwhile, in the United States, United Kingdom and Spain in particular, a second wave of real estate foreclosures is gestating as well as a wave of state, county and town debt defaults during summer 2009. Financial media's "green shoots" are only hiding the "dead leaves" of the real economy.

### Problems Grow for Prime Borrowers

Foreclosures for prime mortgages — those given to the most creditworthy borrowers — have surged recently, particularly in densely populated states.



### Loans past due at least 90 days, in foreclosure or real estate owned\*



\*Real estate owned loans are those that have deteriorated to the point that the bank has taken control of the house.

Source: First American CoreLogic

THE NEW YORK TIMES

**Growing problems for prime mortgage borrowers:** 1st graphic: Prime mortgage foreclosure rates (the most concerned states are the most densely populated) / 2nd graphic: Loans past due at least 90 days (in foreclosure) - **Sources: *FACL, New York Times, 06/2009***

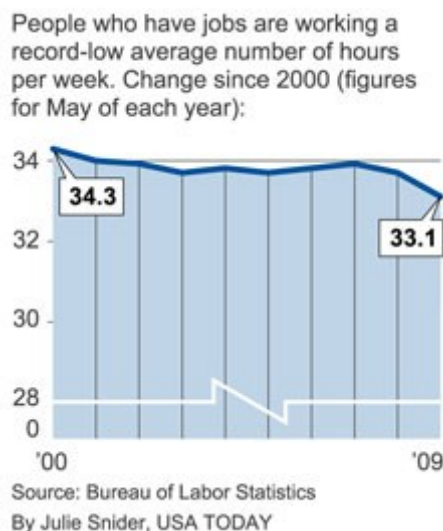
<sup>38</sup> Source: [CNNMoney](#), 06/01/2009

<sup>39</sup> German retail giant's bankruptcy, the most important in the history of the federal Republic, is not only a major problem for Germany. In India too, suppliers are adversely affected by Arcandor's bankruptcy. Source: [IndiaTimes](#), 06/15/2009

<sup>40</sup> The list is available from the website of [FDIC](#), the agency in charge of "disposing" them and whose reserves are now drying up.

For a large number of large, medium and small companies, summer 2009 is seen as the summer of the last chance. Either, as it is the case for many countries and counties, they crucially depend on tourism and, after several lean months, they desperately need a good season this summer to avoid going bankrupt in September, or they depend on a good recovery in autumn to eliminate the last nine months' losses (i.e., since the crisis accelerated in the third quarter of 2009)<sup>41</sup>. Unfortunately, according to LEAP/E2020, in both cases, recovery is nowhere on the horizon<sup>42</sup>:

- . tourists, if they come, are penniless
- . consumers, if they have a salary (that is to say a job), are too worried to buy<sup>43</sup>.



**Number of hours worked per week in the US (2000-2009) - Sources: US Bureau of Labor Statistics / USA Today, 06/2009**

At the core of this breaking wave, is the death of extravagant Western consumers, the US consumer in particular<sup>44</sup> (who either is unemployed, or works fewer hours, or sees his wages reduced)<sup>45</sup>.

One can always try to raise his spirit, pelting him with good news and hiding bad news from him<sup>46</sup>. One can always promise him price reductions and suggest that he runs into endless debt again. Nothing works... and nothing will, because this careless credit-doped consumer no longer exists: he simply has no money left or is too worried to do anything else other than save<sup>47</sup>.

<sup>41</sup> Sources: New York Times, 05/18/2009; JoongAng Daily, 05/20/2009

<sup>42</sup> When the Fed begins to talk « almost » like LEAP/E2020, for instance when they announced last May 20th that a real recovery in the US would take another 5 to 6 years, they should be listened to more carefully (as it is really surprising!) and we should understand that there will be no recovery at all for 5 or 6 years at least. Source: MarketWatch, 05/20/2009

<sup>43</sup> In the US, even people who have a job can feel the recession, as they work fewer hours than before. See graphic above.

<sup>44</sup> Sources: New York Times, 05/14/2009; Reuters, 05/15/2009; Washington Post, 05/17/2009; Federal Reserve Bank of San Francisco, 05/15/2009; CNBC, 06/05/2009; MarketWatch, 06/11/2009

<sup>45</sup> As early as the end of 2006, LEAP/E2020 has anticipated these trends, specifying that the Very Great US Depression would result in a halving of average living standards in the US. Source: CNBC, 06/05/2009

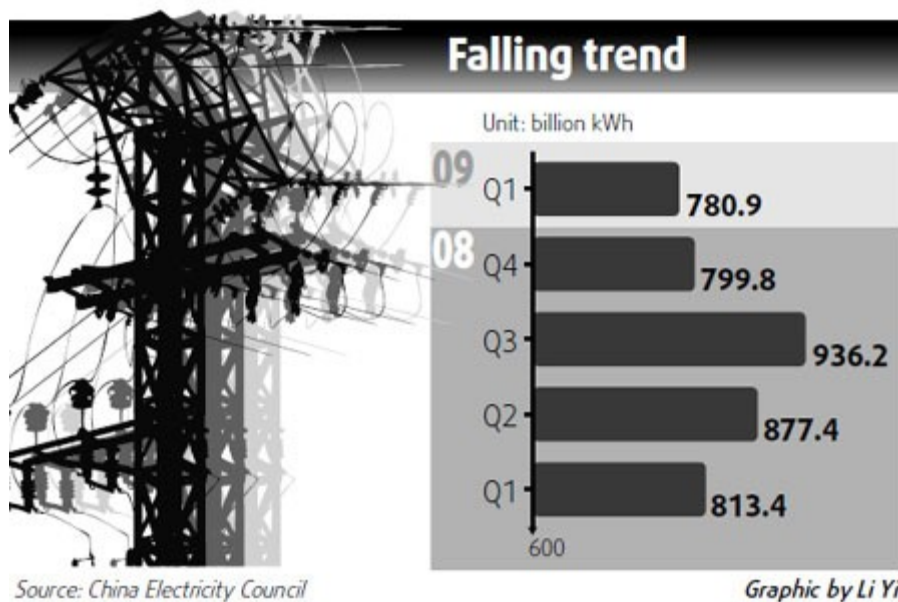
<sup>46</sup> This question is also being asked by MarketWatch (05/26/2009) who wonder if « consumer confidence » indices are not measuring « consumer hope » in fact now: the poor too can be hopeful that the future will be better... however this does not make them very confident consumers, having no money to spend. According to LEAP/E2020, this is a sustainable trend and the months to come will prove that consumer confidence indices are no longer reliable to anticipate people's economic behaviour.

<sup>47</sup> Rightly so. For instance, in the US, already 6,000 bankruptcies happen every day, heading for a figure of more than 1.5 million bankruptcies in 2009 (nearly 50 percent more than in 2008). An evolution taking place despite the significantly hardened filing conditions imposed in 2005. Source: USA Today, 06/03/2009

As banks themselves are insolvent, they can always claim the contrary<sup>48</sup>, they are in fact incapable of lending money the way they used to<sup>49</sup>. In this situation, penniless consumers remain penniless<sup>50</sup>. And those who have the chance to manage without banks are so worried about the future - as growing unemployment is threatening them too - that they prefer to save than consume (and, if they buy, they buy cheap).

In short, unconsciously, former unemployed, new unemployed and future unemployed are conspiring to kill the consumer they were possessed by in the past decades. No doubt that this situation provides a good scenario for an economic horror movie on a global scale<sup>51</sup>. But hiding reality from corporate leaders, employees and shareholders is not the proper way for political leaders, and economic and financial experts, to face their responsibilities. How many investors, CEOs and employees will find themselves destitute in a few months from now, when reality suddenly imposes itself whilst they expect opposite trends<sup>52</sup>?

All countries depending on exports, China in the lead despite its desperate attempt to create as a matter of urgency an « extravagant Chinese consumer », are about to experience the same disillusion<sup>53</sup>: their former customers no longer exist, the extravagant Western consumer is dead<sup>54</sup>. Indeed, behind the big declarations of political and financial leaders, reality is already gaining momentum, as shown by the graphic below on the evolution of Chinese power consumption (the most reliable indicator on real growth in this country).



**Evolution of Chinese power consumption (1<sup>st</sup> quarter 2008 – 1<sup>st</sup> quarter 2009)**  
**Sources: China Electric Council / China Daily News, 05/2009**

<sup>48</sup> This claim has no other aim than force the States' hand to inject massive amounts of public money.

<sup>49</sup> Fortunately in fact, otherwise we were heading to an even more violent crisis.

<sup>50</sup> In the United States, China, and India, retired people must plunder their pensions to survive. Source: [Guardian](#), 06/10/2009

<sup>51</sup> This year, global power consumption will fall for the first time since 1945. Source: [Financial Times](#), 05/21/2009

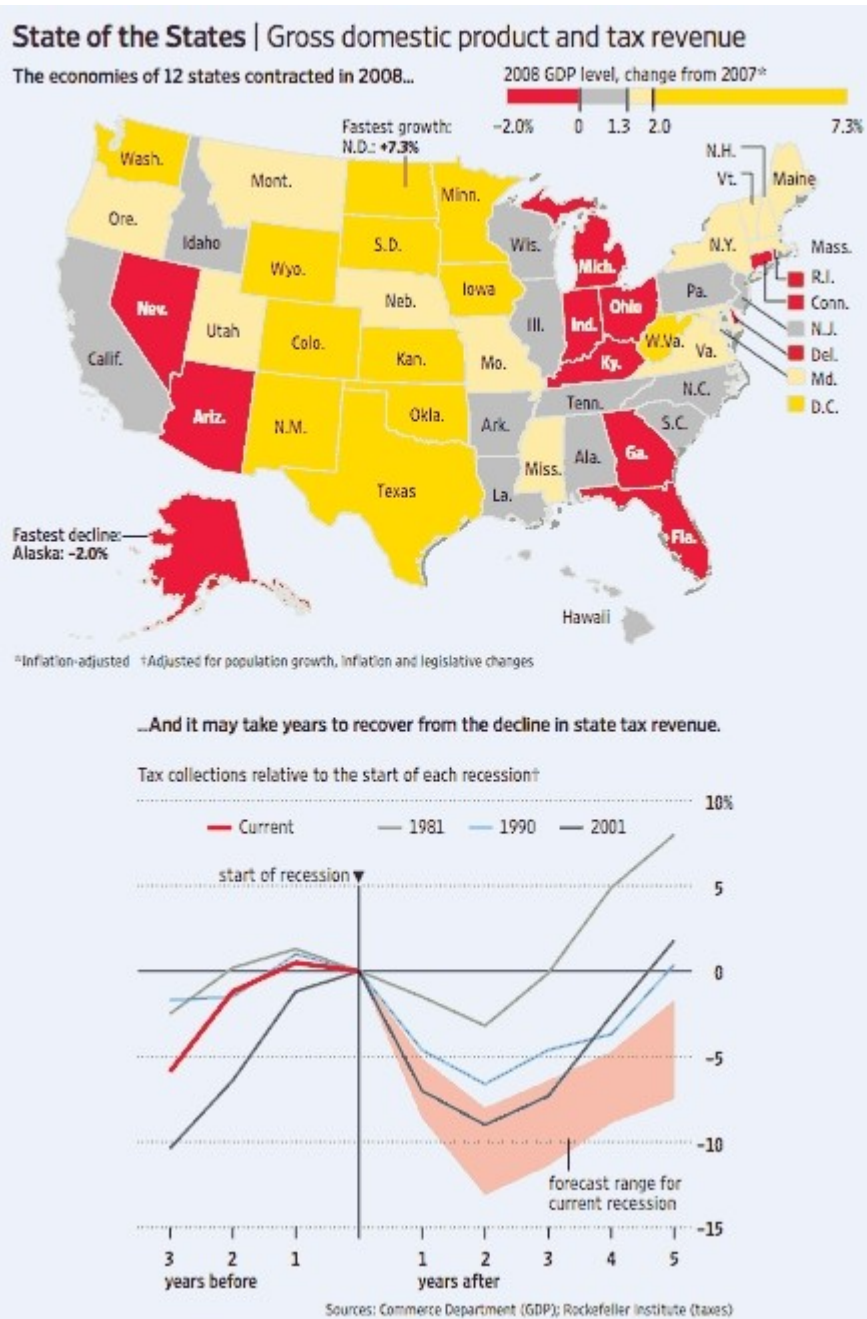
<sup>52</sup> Must read: [USAToday](#), 06/08/2009

<sup>53</sup> International trade has not restarted at all, far from it. Source: [MoneyWeek](#), 06/12/2009

<sup>54</sup> For instance Mexico is experiencing it painfully, as its emigrants to the US are returning due to lack of jobs, or can no longer make remittances, and as tourism revenues slump due to the Northern neighbour's impoverishment. As a result, Mexico's GDP will shrink 8.5 percent in 2009. Source: [Bloomberg](#), 05/29/2009

This is all the more serious since this breaking wave of bankruptcy filings in the private sector, and the scores of layoffs that go along with it fueling the unemployment described in the previous chapter, will aggravate the consequences of the wave of public defaults (states, counties, towns). For the United States and the United Kingdom, as anticipated by LEAP/E2020 in several previous editions of the GEAB, summer 2009 will be the time of debt default (as we shall see further). But, from Mexico to Turkey, going through South-East Asian countries and the Baltic states, public debt defaults are surfacing everywhere. The form taken by these debt defaults will vary, with three common aspects though: massive devaluations (organized or imposed), austerity budgets (drastic cuts in salaries of civil servants, social benefits - unemployment/pension/health -, public services reductions), significant tax increases. In these countries, these kinds of measures can kill any hope of economic recovery in the medium term (2/3 years) and increase the risks of socio-political explosion. Moreover, they will contribute to reduce the demand for goods and services worldwide, thus aggravating the ongoing economic depression in other countries.

It is not only the states which will experience this situation. In the federal (or semi-federal) states whose counties enjoy extended tax and budgetary powers, the same processes will develop (except devaluation). California, as are at least 40 of the 50 US states, is already in a similar situation. Catalonia, Spain's richest county, is now faced with a soaring deficit requiring the adoption of highly unpopular measures that it will make Madrid responsible for – just like a growing number of counties, states and towns in the US are blaming Washington for being indifferent and refusing to help them. Beyond the mere economic aspect, these situations will test the strength of internal solidarity ties in many countries, thus contributing to the initiation of geopolitical dislocation trends.



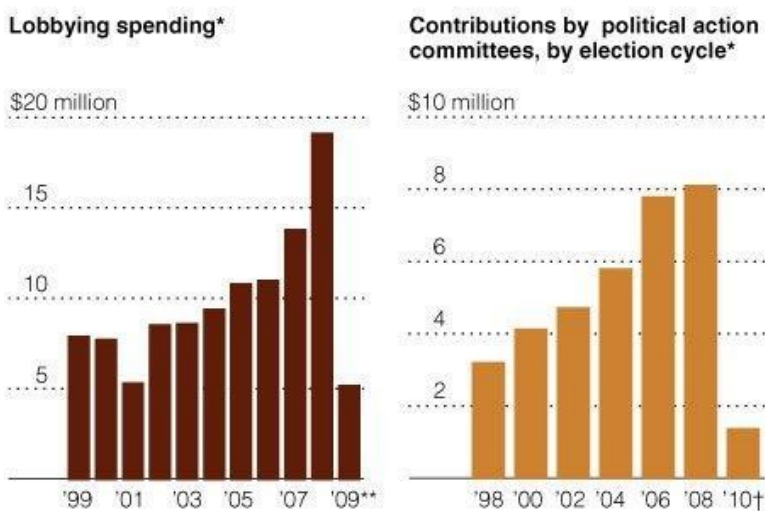
**The economies of a dozen US states were already in recession in 2008 (1st graphic) and tax revenue levels will take years to recover (2nd graphic / 2008/2009 in red, years to come in pink) - Sources: US Commerce Department / Rockefeller Institute, 05/2009**

Layoffs among public workers, closure of public services, reduction in the number of contracts for private companies,... the situation will contribute to further bankruptcies among companies depending on the public sector, and more unemployment. This process has already started and it will significantly intensify in the course of summer 2009, speeding up in September/October 2009 when the illusions of corporate and public sector leaders will have definitely vanished.

Not only will this breaking wave of failures have become a priority for political leaders by the end of 2009, but it will collide with the current strategy of the massive bailout of financial institutions solely, in two ways<sup>55</sup>. First, because competition is growing in accessing available public money (what goes to the banks does not go to municipalities<sup>56</sup>, as shown in the US case). Second, because access to credit is being significantly reduced as a result of the states' super-indebtedness generated by their massive bank bailouts<sup>57</sup> (financial markets are, and will increasingly be, plundered by the states' borrowing needs). Indeed, in 2009/2010, the states, and the US and UK in particular as always, need to borrow a lot more than the savings available worldwide, as already analysed in previous GEABs. In consequence, access to money will become more and more difficult for investors such as companies and municipalities (not to mention consumers<sup>58</sup>).

## Keeping a Big Lobbying Presence

Lobbying by the banking industry does not appear to have slowed down from 2008, even though 2009 is not a Congressional or presidential election year.



\*Figures are totals for the Credit Union National Association, National Association of Federal Credit Unions, Independent Community Bankers and American Bankers Association

\*\*First three months †For the 2010 election cycle, through April 2009

Sources: Open Secrets.org; CQ.com-Moneyline

THE NEW YORK TIMES

1st graphic: Banking lobbies' spending in the US (1999 - 03/2009) / 2<sup>nd</sup> graphic: Banking committee contributions to political parties by electoral cycle in the US (1998 - 04/2009) - Sources: Open Secrets / CQ-Moneyline / New York Times, 06/2009

<sup>55</sup> And no improvement will be effected by the US bank stress-test – whose worse scenarios are already less than reality (unemployment is already a lot higher than the worse perspectives imagined in these tests), or by the ECB's recent declarations of the fact that EUR 200 billion worth of toxic assets are still on European banks' balance sheets. Source: [Yahoo/Reuters](#), 06/5/2009

<sup>56</sup> Privately funded universities, including among the most prestigious US universities, must now lay teachers off, suppress student grants, cancel research or extension or renovation projects, ... The situation will significantly worsen at the start of the 2009/2010 academic year. Source: [Financial Times](#), 06/07/2009

<sup>57</sup> Obviously, banking lobbying is a lot more powerful than other sectors, and in particular voters'. The graphic below illustrates this situation in the US; however it is not very different in Europe or Japan.

<sup>58</sup> This is precisely what is happening to the US housing sector: increasing prices (despite the Fed's contrary action) resulting from concern over the federal state's borrowing capacity, deter potential purchasers.

To finish with, banking failures will be back in the headlines in the United States, United Kingdom, Europe and Japan at the end of summer 2009, because all these corporate, public and individual bankruptcies create as many « toxic assets » currently carried as credits on the banks' balance sheets<sup>59</sup>. But in three months from now, they will have turned into "financial bombs"<sup>60</sup>.

Last but not least, combined with the wave of massive unemployment, this breaking wave of failures will drastically aggravate protectionist trends by the end of summer 2009, knowing that these trends are already acknowledged in the United States, China, Australia, France...

Figure 2  
S&P 500: Price and Earnings Per Share, 1910-2009



NOTE: Earnings per shares denote net profits per share earned in the previous twelve months. Both series are expressed in \$U.S. and rebased with September 1929=100. The last data points are December 2008 for earnings per share and May 2009 for price.

SOURCE: Robert Shiller  
([http://www.econ.yale.edu/~shiller/data/ie\\_data.xls](http://www.econ.yale.edu/~shiller/data/ie_data.xls) retrieved on June 5, 2009). Stock price data are monthly averages of daily closing prices. Monthly earnings are interpolated from annual data before 1926 and from quarterly data after 1926.

**Compared evolution in price and earnings per share according to the S&P index (1910 – 2009)** (*earnings per shares have been severely slumping since 2008, a lot faster than the decline in price*) - **Sources: Robert Schiller / BNArchives, 06/2009**

<sup>59</sup> Sources: [Wall Street Journal](#), 05/19/2009; [Washington Post](#), 05/2/2009; [Financial Times](#), 05/28/2009; [Wall Street Journal](#), 06/05/2009; [GlobalEconomicAnalysis](#), 06/14/2009; [Yahoo/Reuters](#), 06/08/2009; [Yahoo/Reuters](#), 06/08/2009; [MarketWatch](#), 09/06/2009; [USAToday](#), 06/12/2009; [USAToday](#), 06/15/2009; [TimesOnline](#), 14/06/2009

<sup>60</sup> LEAP/E2020 wishes to emphasize again the fact that « toxic assets » are all the more toxic and numerous due to the fact that they come from the country located at the core of the economic and financial system currently imploding: mortgage loans or corporate loans in the US or UK are more risky than the same type of loans in Eastern Europe, China or Latin America, for the reason that they are not deemed so at the beginning. While, in emerging countries, financial institutions are usually a lot more suspicious and these loans have not been used to finance « bubble » investments/activities to the same extent.

## The wave of the terminal crisis of US Treasuries, Dollars and Pounds, and the return of inflation

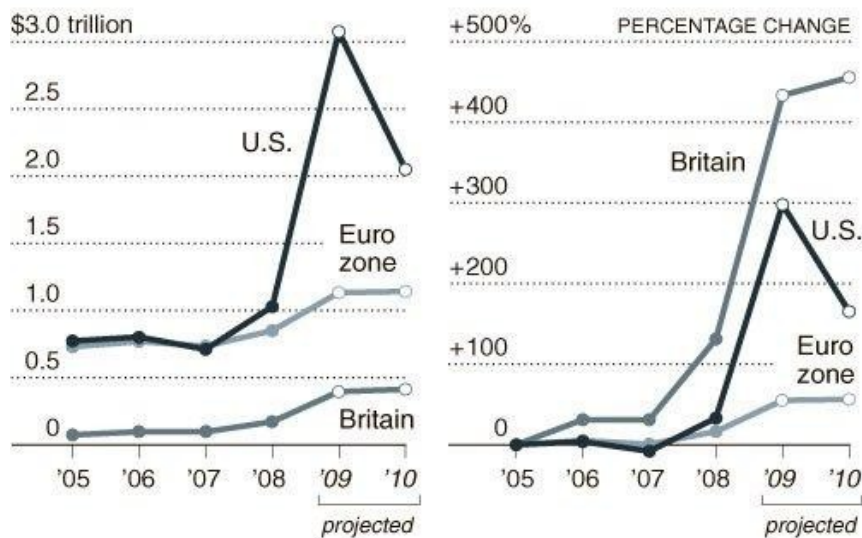
The first BRIC Summit in Yekaterineburg on what to do with US Dollars and Treasuries reserves<sup>61</sup>, China's shrinking US T-Bond reserves<sup>62</sup>, Shanghai Cooperation Organization's<sup>63</sup> call for the creation of a new international reserve currency<sup>64</sup>, the Fed's incapacity to prevent US-Bond prices from falling<sup>65</sup> and resulting interest rates from rising, the growing concern surrounding all Treasury sales worldwide (issued by risky countries in particular, such as the United States and United Kingdom), the increasingly volatile variations in currency rates in a context of the steady loss in value of the US dollar, the European fear that the Euro jumps to levels incompatible with their exports, the general crisis in the UK affecting politics, finance, economy, currency,... these trends are many black clouds on the horizon of summer 2009. Moreover, according to LEAP/E2020, they represent the third wave (third component of those « three sisters » so dangerous for ships) entailing, at the end of this summer, two major events: the US debt default and the UK's call for help to the IMF; and, at the end of the year, the beginning of the phase of global geopolitical dislocation.

### Digging Deeper

Governments around the world are projected to take on much more debt than usual in 2009 and 2010. Britain is issuing more than four times as much debt in 2009 as it did in 2005.

#### GOVERNMENT DEBT ISSUED ANNUALLY

At current exchange rates



Source: Citigroup

**Government debt issues annually by the US, Eurozone and UK (2005-2010 projections) – In 2009, the UK will issue four times as much debt as in 2005 - 2009/2010 projections are based on official figures tending to underestimate the scope and duration of the crisis, as well as the decline in tax revenues (note by LEAP/E2020) - Source: CitiGroup, 06/2005**

<sup>61</sup> Source: [China Daily](#), 06/16/2009

<sup>62</sup> Source : [China Daily](#), 06/16/2009

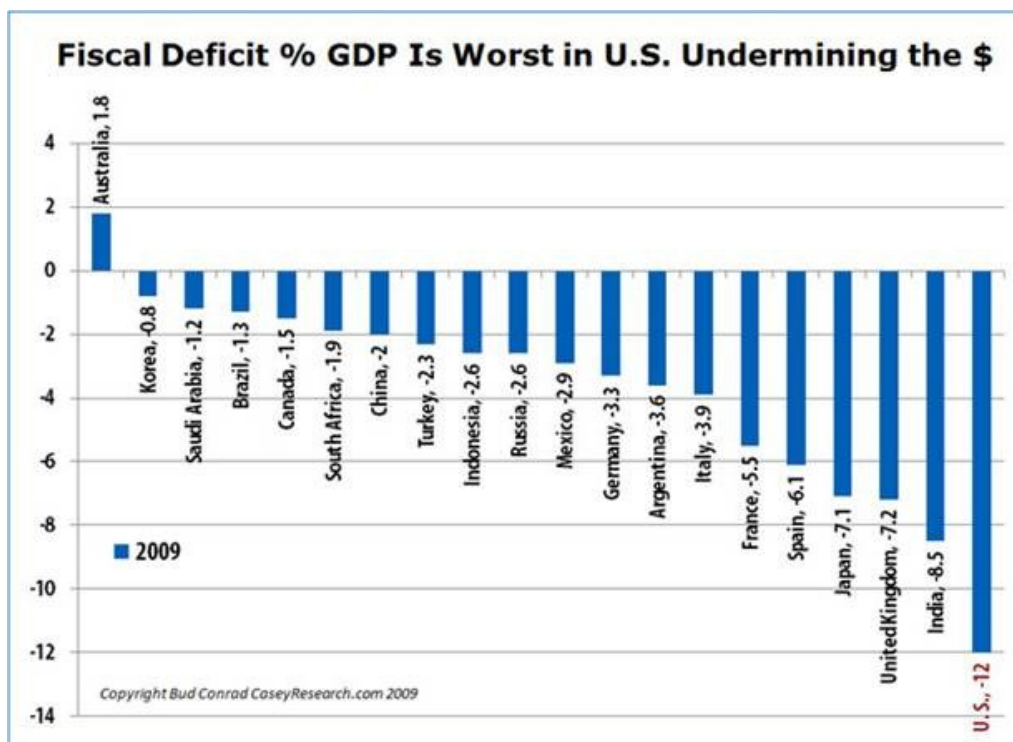
<sup>63</sup> A now adult institution. Source: [Asia Times](#), 06/13/2009

<sup>64</sup> Source: [RiaNovosty](#), 06/16/2009

<sup>65</sup> Holders of US Treasuries, long-term ones in particular, have lost between 20 and 30 percent in one year. Source: [Seeking Alpha](#), 06/18/2009

Indeed, this first BRIC Summit (which it is not difficult to imagine how difficult it was to organize), is the first sign of dislocation of the current international system. The US probably did everything it could to prevent it from taking place; moreover they were refused the status of observers inside it, indicating clearly that what was to be discussed had nothing to do with diplomacy. The main topic was not a military and strategic issue, but a monetary and financial one: what to do with the hundreds of billions of US dollars (in the form of US Treasuries in particular) accumulated by these four countries in the past few years?

Chinese and Russians have already noticed that their dollars are not always welcome in the United States, Europe or Australia when they try to use them for investing in "strategic" assets<sup>66</sup>. With the Brazilians and Indians, they have therefore entered into a large number of swap agreements in their own currencies (a trend that will gain momentum after this summit) and they are trying to buy everything they can with their Dollars as long as some countries are still ready to sell their riches for this currency. But all of them are aware that they have far too many Dollars to be able to spend them usefully now that the US economy is contracting and that the Fed has undertaken to print hundreds of billions of new Dollars. Now suspicion surrounds this currency and all related assets. For this reason, they have decided to buy each other's treasury bonds, thus reducing their dependence on US T-Bonds<sup>67</sup>. At this stage, the aim is not yet to sell US T-Bonds, but it has dealt a severe blow to future T-Bond sales.



Fiscal deficit as % of GDP (2009) - Source: Casey Research, 06/2009

LEAP/E2020 believes that this Yekaterineburg Summit is probably the BRIC's last attempt at a reconciliation before divorce<sup>68</sup>. If their requests concerning a rapid and profound reorganization of voting rights within the IMF and other international organizations are not accepted and implemented soon by the US, the Japanese and the Europeans, then the next BRIC Summit will be a summit of rupture, setting up independent strategies, or even some opposite to those of the USA/Japan/EU trio.

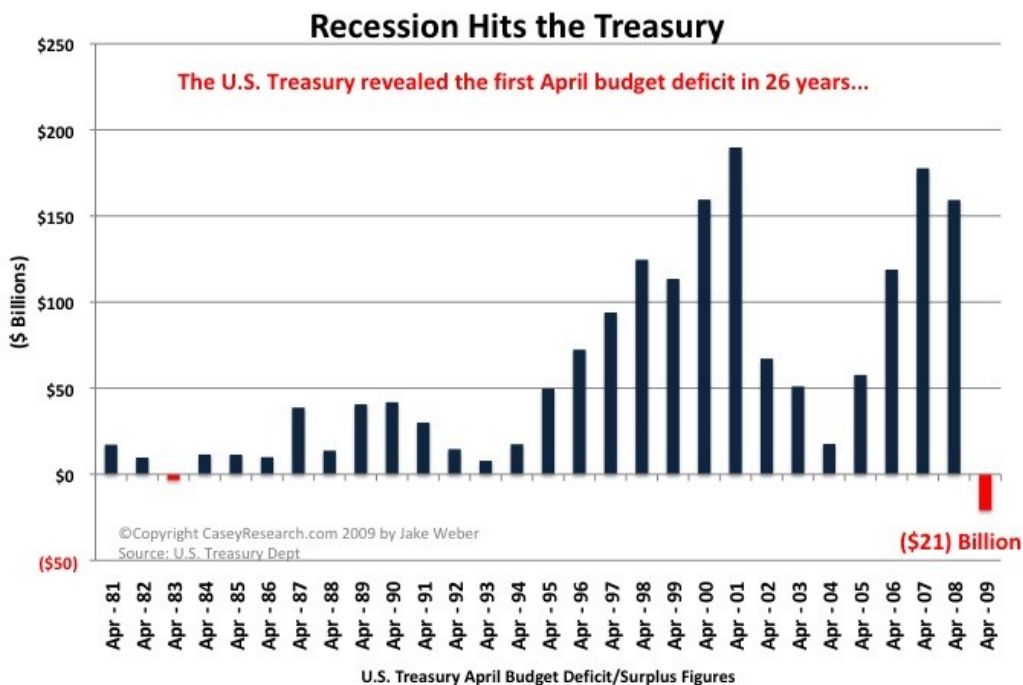
<sup>66</sup> Source: Reuters, 06/19/2009

<sup>67</sup> Source: Bloomberg, 06/16/2009

<sup>68</sup> Chinese requests are more and more pressing concerning a US guarantee on their USD-denominated assets. If they are not given a positive answer (which seems impossible), confrontation is inevitable. Source: China Daily, 06/15/2009

With US T-Bond issuance now exceeding 100 billion a month (as opposed to 10 billion at most formerly), the pace of rupture is naturally imposing itself. As anticipated by LEAP/E2020 in previous GEABs, it is at the end of summer 2009 that the unbridled borrowing needs of the US and UK (further increased by other countries' needs<sup>69</sup>) and growing suspicion on the part of potential buyers, will combine and reach their moment of truth: borrowing needs will jump from USD 1,600 billion in 2008 to USD 2,600 billion in 2009<sup>70</sup>. This moment of truth can only take one form: the buyers' refusal to keep purchasing US T-Bonds and British Gilts. In this sense, the decision by the BRIC nations to buy each others' treasury bonds is a first sign that a « strike of US T-Bond purchasers » is swelling<sup>71</sup>.

In this context, the first scenario is that the Fed and the Bank of England start purchasing massive amounts of bonds issued by their own governments (then their currencies plummet as money creation soars, while Euro, Yuan, Real... prices jump). In fact, the Dollar and related currencies collapse with the Pound Sterling against all the other international currencies. The devaluation many US leaders dream of (to absorb US public deficits and boost exports) thus happens. Moreover they claim to be the victims of those bad Chinese, Russians, etc... thus facilitating the adoption of protectionist measures in an attempt to boost US industry and jobs. Of course, in the course of this process, the purchasing power of US citizens will suddenly be halved, but it is not certain that anyone really cares about that in New York and Washington<sup>72</sup>.



**Budget deficits/surpluses in April in the US (1981-2009)** - April 2009 is the first April budget deficit in 26 years (April is classically the month of the largest surpluses) - **Sources: US Treasury Department, Casey Research, 06/2009**

<sup>69</sup> France also, though far less than the US and UK, will contribute to this excess in public borrowings in 2009 and subsequent years. Source: [Le Monde](#), 05/18/2009

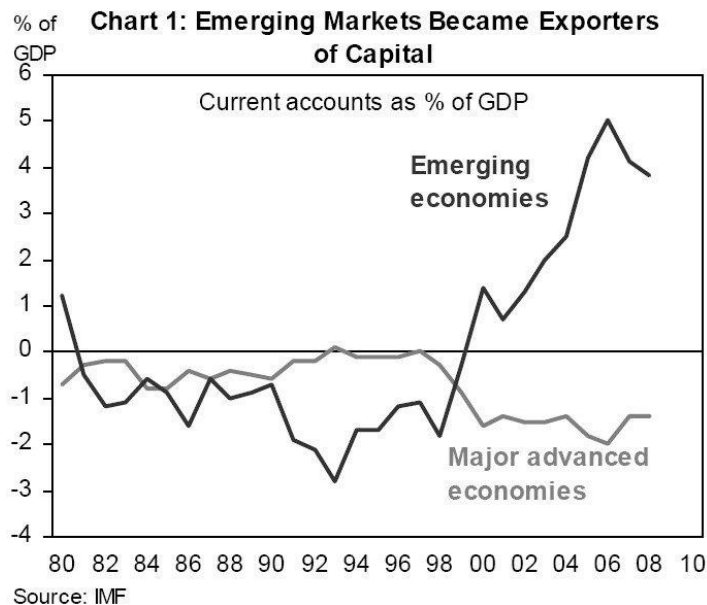
<sup>70</sup> Source: [Financial Times](#), 05/18/2009

<sup>71</sup> Source: [Bloomberg](#), 06/15/2009

<sup>72</sup> Significantly, an increasing number of Americans worry about their country's internal prospects, and books like « Getting out: your guide to leaving America » meet growing success. Source: [Amazon](#).

In the second scenario, Barack Obama, Timothy Geithner and Ben Bernanke must make a public statement on television that the US Dollar has lost 30 to 50 percent of its value against other currencies as a measure to address the fact that the US government can no longer repay US T-Bond holders<sup>73</sup> (remember that US Treasuries holders, like the Chinese, have undertaken to sell their medium- and long-term bonds and replace them with three-month notes). This scenario corresponds to the « new Dollar » option already described by LEAP/E2020 in a number of previous issues of the GEAB.

The BRIC countries have very different characters and interests. But what brings them together is extremely powerful: it is the project to increase their role in the system of global governance which they feel has more chance to happen if they operate together. They have now understood that Western countries, the US in particular, vitally need their money. This understanding can only feed a strategic approach where short term losses correspond to long-term gains.



**Emerging markets became exporters of capital – Current accounts as % of GDP - Source: IMF, 05/2009**

In this sense, for the European Union – supposedly more open to a changing world, it is a major failure to have not been able to take into proper account the concerns of these four regional powers in its own strategies. And for the United States, United Kingdom and Japan, it is a major failure to have not been able to prevent the emergence of a new geopolitical pillar –another indicator of their rapidly vanishing influence on the global system<sup>74</sup>.

Our team believes that one of the main geopolitical consequences of this evolution is to increase the autonomy of a number of regional players who are regaining a breathing space that had disappeared after the « Cold War ». The instability of the most unstable regions of the world will therefore increase in the coming months, as each month gives further evidence of the fading away of US might. No doubt that this situation will have an upward influence on energy prices.

As a matter of fact, in a context of US and UK debt default and dollar collapse, USD- and GBP-denominated commodity prices will certainly rise, even if, compared to other currencies, they could stagnate or even slump as the recession worsens. This market will therefore be difficult to anticipate precisely, a situation not helping already faltering companies.

<sup>73</sup> Today they are touring the world begging people to purchase their Treasuries. Source: [Europac](#), 06/05/2009

<sup>74</sup> Source: [Telegraph](#), 06/02/2009

In the United States and United Kingdom, as currencies plummet and money printing accelerates<sup>75</sup> compared to a contracting economy, the situation can only result in soaring inflation (or even hyperinflation momentarily)<sup>76</sup>. Fortunately, due to the fact that their exports are non-strategic (contrary to commodities or energy), this inflation will not be exported to any great extent and, on the contrary, it can be largely compensated by the deflationary effect, in other countries, of other currencies' increased value.

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<sup>75</sup> An interesting analysis on money supply: [AgoraVox](#), 01/27/2009

<sup>76</sup> Investors buy gold as fears of inflation rise. Source: [Telegraph](#), 12/06/2009

### 3- Focus

## Strategic recommendations to successfully navigate one deadly summer 2009

### Currencies / Gold

The « rogue waves » of summer 2009 will cause severe turbulence and lead to state debt defaults, including the US and UK. The currency market will therefore find itself on a very bumpy ride. At this stage, LEAP/E2020 cannot anticipate precise rates because the changes will be so sudden and jerky than only general trends can be foreseen.

The US dollar and British pound will experience new falls. The Dollar Index will move towards 0.65 and the EUR-GBP exchange rate will fall below 1 GBP = 1 EUR. The EUR/USD exchange rate will be affected by two contradictory trends in the short term: a bearish trend for the US dollar on the one hand, but one that the Europeans will strive to curb in order to prevent the Euro from becoming so expensive that it condemns any chance of export recovery on the other hand. According to our team, we are therefore nonlinearly heading in the direction of a EUR/USD exchange rate of between 1.50 and 1.60, that is to say before any US debt default. Once the latter appears inevitable, whatever the ECB will try, the exchange rate will be moving towards 1 Euro = 2 US Dollars.

The Real and the Yuan are two of the currencies which LEAP/E2020 estimates will gain value in the mid- and long-term.

Currencies of « mining » countries, such as Australia or Canada, will be weakened by the absence of a recovery after this summer, but they will also benefit from the diversification out of the US dollar (purchases of mines, commodities...). All in all, they should therefore remain quite stable.

The Yen will be faced to the double problem of its appreciation against the US dollar in a context of a US debt default, but its dependence on the US will exert a pressure in the opposite direction. A decisive factor will be linked to Japan's behavior when the general flight out of US T-Bonds and USD-denominated assets begins. If the country "sticks" to the US until the end (as it seems likely to do if we consider its current status of US T-Bond buyer of last resort), its currency will be dragged down with the US rout (because their huge reserves in Dollars will lose 50 to 90 percent of their value in just a few days).

Gold will remain a safe haven in the months to come. We therefore maintain our advice to keep 30 percent of assets in gold (physical gold, not paper), and we also recommend to keep the equivalent of 6 months of expenses in gold to be able to cope with currency turmoil, including a national one. All the countries likely of be faced with a debt default will experience some sort of intense monetary disorder at home.

### Real estate

Markets have not yet reached their lowest level. So you should ignore all recommendations telling you to start buying again (unless it is absolutely necessary) issued by the specialized media and professionals.

In the United States, LEAP/E2020 estimates that prices will fall another 20 percent in average during summer 2010, and that a new wave of foreclosures in large urban centres will increase the number of states severely affected by the housing crisis.

In the United Kingdom, a similar trend is expected.

These two markets, as well as those of countries whose currencies are about to lose significant value, will become, by the end of 2009, interesting markets for foreigners, under the condition that the region and neighbourhood are carefully chosen. Avoid any real estate « teleshopping », for instance, in the case of Detroit today, foreign investors think good bargains consist of the purchase of groups of houses for USD 10,000 each. These properties are located in neighbourhoods which keep deteriorating and have no possible profitability: it is not because something becomes cheap that it is necessarily a good deal!

As regards the US market, two things must be kept in mind: avoid investing in condominiums (due to the risk of personal bankruptcies among the other co-owners) and beware of the quality of construction (at the end of the housing bubble in particular, even high standard buildings were poor quality).

On the London market, keep in mind that the past two years' average prices bear no correlation whatsoever to future prices. The collapse of The City as we know it means that demand will never (in the foreseeable future) be as high as when it was fueled by the financial bubble of overpaid traders and other hedge-funders. London prices should, therefore, be positioned alongside similar European cities in order to avoid any nasty surprises when reselling in a few years from now.

In Spain, besides the problem of recent building quality (as in the US), it is still difficult to foresee to which level prices can fall. Indeed it is a possibility that this crisis simply breaks the tourism model upon which Spain based the development of its seaside-resorts. Suspicion is therefore required when investing, even at very low prices, in Spanish housing, unless it is a case of love at first sight.

Finally, here is our LEAP/E2020 special summer recommendation: the city of Riga, in Latvia, is a beautiful city (rightly called « the Pearl of the Baltic ») and it is becoming affordable due to the country's crisis (anticipated by our team two years ago). A pleasant holiday visit there can provide the opportunity for a good real estate investment and a contribution to this small country's economy.

### **Corporate shares/bonds**

Beware of those companies who want to give you a present! Banks (US ones in particular) offering a « good price » for their shares or companies proposing attractive rates for their loans (like EDF in France for instance), in both cases be very cautious!

Banks are preparing for further very big losses by the end of 2009 and they are trying to transfer their shares' inevitable fall to small individual investors. Regarding companies, for example EDF in France offering a 5-year loan at the precise moment when anticipated inflation ranges between 1 and 2 percent (when pure deflation is not foreseen), their intention is certainly not to make you rich. They know exactly that inflation is, in fact, coming back (staple product prices will rise; only unnecessary products will be cheaper) and that, within 5 years, seen at today's pace of money creation, Europe could reach double-digit inflation rates. In the United States and United Kingdom, double-digit rates will be reached in 2010.

If you like to live dangerously and want to return on stock markets, beware of three types of companies (besides financial companies of course):

1. Those which do not have sound balance sheets
2. Those too new or operating in too uncertain markets (the crisis will hit those hard, by lack of money to support them and of extravagant consumers)
3. Those which are, in fact, branches of US or UK groups, because their head offices will be compelled, even more than before, to plunder all the available cash if they want to survive the crisis affecting their respective national markets. These companies are more likely than others to suddenly file for bankruptcy and, in any event, they are incapable of investing into the future.

### **Government Treasuries:**

In this issue of the GEAB, this subject has already been extensively discussed. Must be avoided: treasuries issued by countries which do not have sound public finances and/or a well established capacity to raise taxes without provoking riots (or without any significant revenue improvement, because the tax-payer is too poor). Every other consideration is merely good copywriting aimed at making everyone believe that nothing ever changes and that what has been will be. But we are in a crisis, and within this crisis, we are at a particular moment of sudden radical changes. Remember that last June, very few people thought the Wall Street giants could collapse... three months later, the collapse has happened!

Today, the crisis is pressuring states, in particular those at the core of the collapsing system, i.e. the United States and United Kingdom. Their treasuries (US T-Bonds and UK Gilts) are nothing but debt-IOUs backed by their economies and currencies. Therefore, they are worth what these economies and currencies are worth, i.e. less and less as months go by. The large holders of these assets are now publicly preparing their flight out them (as illustrated by this first Yekaterineburg BRIC Summit or by China's shrinking US T-Bond reserves last April). The main question for the other holders is not « if » but « when and how » the great sell-off of US T-Bonds (and British Gilts) will take place. We wish to remind subscribers that, according to LEAP/E2020, it will take place at the end of summer 2009 at the latest. In any event, we think it is now dangerous to buy them.

## 4- The GlobalEurometre <sup>77</sup>

### June 2009 GlobalEurometre - RESULTS

<b>GlobalEurometre 06-2009</b>	<b>Yes</b>	<b>No</b>	<b>No opinion</b>
1. Do you think that a permanent political and economic secretariat of the Eurozone should be established?	90%	9%	1%
2. Do you think that Euroland Summits should be established each quarter, prior to the EU Summits?	91%	4%	5%
3. Do you feel that your country's government is reflecting your people's expectations regarding European construction?	4%	96%	0%
4. Do you think that anti-democratic forces are on the rise in the European Union?	71%	18%	11%
5. In the coming months, would you change your Euros for one of these currencies: US Dollar, Japanese Yen or British Pound?	4%	95%	1%
6. In the coming months, would you change your Euros for gold?	31%	50%	19%
7. Do you think that the European Central Bank should keep on reducing its main interest rate?	6%	55%	39%
8. Do you think that inflation is back in your country?	32%	54%	14%
9. Are you afraid of losing your job in the coming months due the global crisis?	16%	75%	9%
10. Are you afraid of losing money in the coming months due to the global crisis?	50%	48%	2%
11. Do you think that the US Dollar will collapse against all major world currencies in the coming months?	91%	4%	5%
12. Do you think that the global crisis will be over in 2012?	14%	76%	10%
13. Do you think that the USA will be able to borrow the money it needs to finance its deficits in 2009?	8%	81%	11%
14. Do you think that the UK will be able to avoid calling the IMF for help in the coming months?	13%	84%	3%
15. Are you afraid of social and political unrest in your country?	50%	34%	16%

<sup>77</sup> Each month, GEAB surveys a panel of 200 European pollsters

## June 2009 GlobalEurometre - ANALYSIS

**EU governance: Very large majority still in favour of a permanent Eurozone secretariat and the holding of a Euroland summit prior to each EU summit / There is still a major gap between people's expectations and leaders' actions concerning European construction / A large majority consider anti-democratic forces are on the rise in the EU / A smaller majority estimate that the ECB should stop lowering its main interest rate / A majority think inflation is not back in their country / Fewer people worry about losing their job because of the crisis / A smaller majority worry about losing money because of the global systemic crisis / Slight decrease in the majority who worry about the risks of social and political unrest in their country**

The number of respondents in favour of the creation of a permanent Eurozone secretariat has stabilized at a very high level (above 90 percent). Regarding the holding of a Euroland summit every quarter, prior to each EU summit, the very high rate of favourable opinion also remains stable (91 percent).

Citizen dissatisfaction with governments' response to people's expectations on European construction is still extremely high (96%). Higher abstention of voters and the progress made by extremist parties in the last European elections is further evidence of this tendency (the June 2009 European election results show that « government » parties represent less than 25 percent of European voters).

A smaller majority (55 percent versus 76 percent in May) consider that the ECB should stop its policy of main interest rate reduction (but it is the number of people with « no opinion » which rose, as the number of respondents in favour of interest rate reductions remains stable at 6 percent).

A majority of Europeans (54 percent) consider that inflation is not back in their country. However 32 percent believe the contrary (despite constant media reports about deflation and falling prices). It will be interesting to follow the evolution of this indicator in September 2009.

Fear of losing one's job because of the global crisis has fallen to 16 percent (versus 21 percent in May) but remains above the April rate (13 percent). Fear of losing money because of the crisis is also in decline, getting close to a balance with the opposite opinion (50 percent versus 48 percent). This 48 percent negative opinion is the highest percentage rate on this subject since April 2008 (73 percent at that time). The months to come will tell us if this indicator results from a general feeling (right or wrong) that most of the crisis is behind us or if it is due to people's feeling that their assets are safer.

In any event, the Europeans are still a majority (50 percent) to fear the emergence of social and political unrest in their country, even if this percentage is 8 points less than in May.

**EU/Rest of the world relations: A near-unanimity of respondents would keep their Euros against USD, Yens and British Pounds / A majority would not exchange their Euros for gold / Steady rise in the very large number of people expecting the US Dollar to collapse in the coming months / Increase in the majority who estimate that the crisis will not be over by 2012 / A very large majority estimate that the US will not be able to borrow the money they need to finance their deficits / Significant increase in the majority who consider that the United Kingdom will be unable to avoid calling the IMF for help by the end of summer 2009**

95 percent of the Europeans vote for keeping their Euro against the US Dollar, Japanese Yen and British Pound as they would refuse to change their Euros for any of these currencies. It is very meaningful that non-Eurozone Europeans (including British) share the same opinion with Europeans from the Eurozone. Trust in the Euro is also illustrated by the fact that a majority (a smaller one of course – 50 percent) of the respondents prefer to keep their Euros rather than convert them into gold (with 31 percent claiming to be ready to do so). With 91 percent of respondents expecting a collapse of the US Dollar in the coming months (versus 87 percent last month), it appears clearly that the Europeans have more and more doubts about the sustainability of the US currency.

A larger majority of the respondents estimate that the crisis will not be over by 2012 (76 percent versus 73 percent last month and 75 percent in April). It is worth noticing that this tendency is in contradiction to the dominant media and political stance.

The Europeans are still very pessimistic about US outlook; a large majority (81 percent) estimate that the United States will not be able to borrow the amounts of money needed to finance its deficits in 2009. This opinion is consistent with their idea about the US Dollar's trend.

Regarding the United Kingdom, 84 percent of the respondents (versus 67 percent last month) consider that Her Gracious Majesty's government will have to call the IMF for help in the coming months. Seen from the continent, it seems we are far from a British economic upturn.