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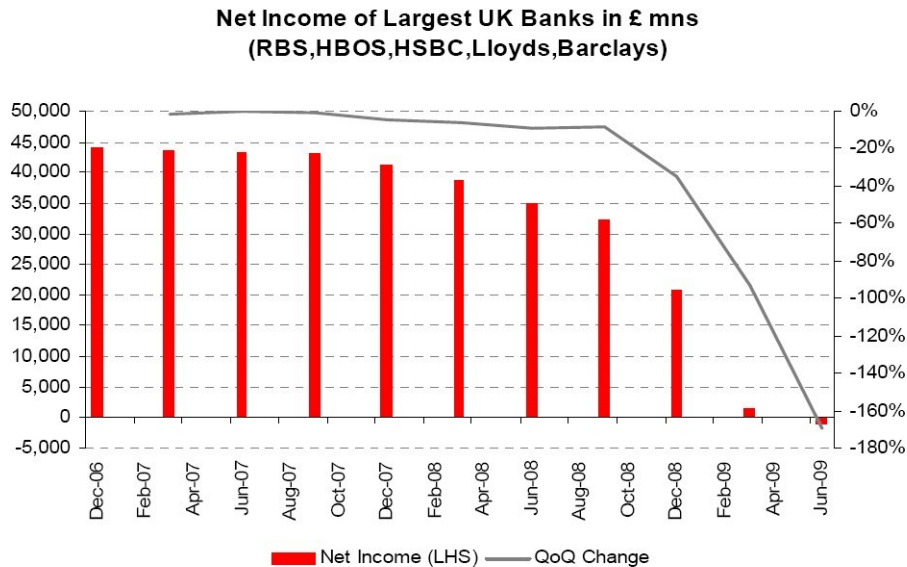
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1- Perspective

Global systemic crisis: In pursuit of the impossible recovery

Before this summer, LEAP/E2020's team announced that there would be no recovery in sight in September 2009, and not until summer 2010 in any event. Well indeed, contrary to the claims of the media, and financial and political circles, we confirm our anticipation.



For sure, there may be a "cover-up" of the fact that new geopolitical balances and relations are urgently required; many will go "under-cover", such as the supervising authorities, denying any wrong doing; there will be new trends to "discover" especially for the bankers who still think that the world of tomorrow will look like the world of yesterday; but there is no way the current system can "recover" because it is essentially dead: neither consumers¹, nor companies, nor the "import-export" flows which nurtured global growth in the past decades², nor the fictitious value of global assets (USD 20,000-billion to 30,000-billion of these assets have vanished forever³), nor States' resources today crushed by debt, can be a driving force. But if there is no driving force, there is no recovery!

¹ Even video game sales, the absolute « crisis-proof » product according to financial media, are falling (source : [Yahoo](#), 09/11/2009). Regarding the car-industry, we have a few more days to wait – i.e. when government rebates come to a close – after which we see car sales collapsing in the US , Germany... As to the rest of economic activity, figures are all negative anyway.

² As rightly observed by the newspaper USA Today, the whole world cannot « bounce » on exports. Nevertheless, this is what everybody is supposed to be doing these days. Source: [USAToday](#), 09/03/2009

³ Even banks pretend that they still exist... which they do at least on the basis of their balance sheets.

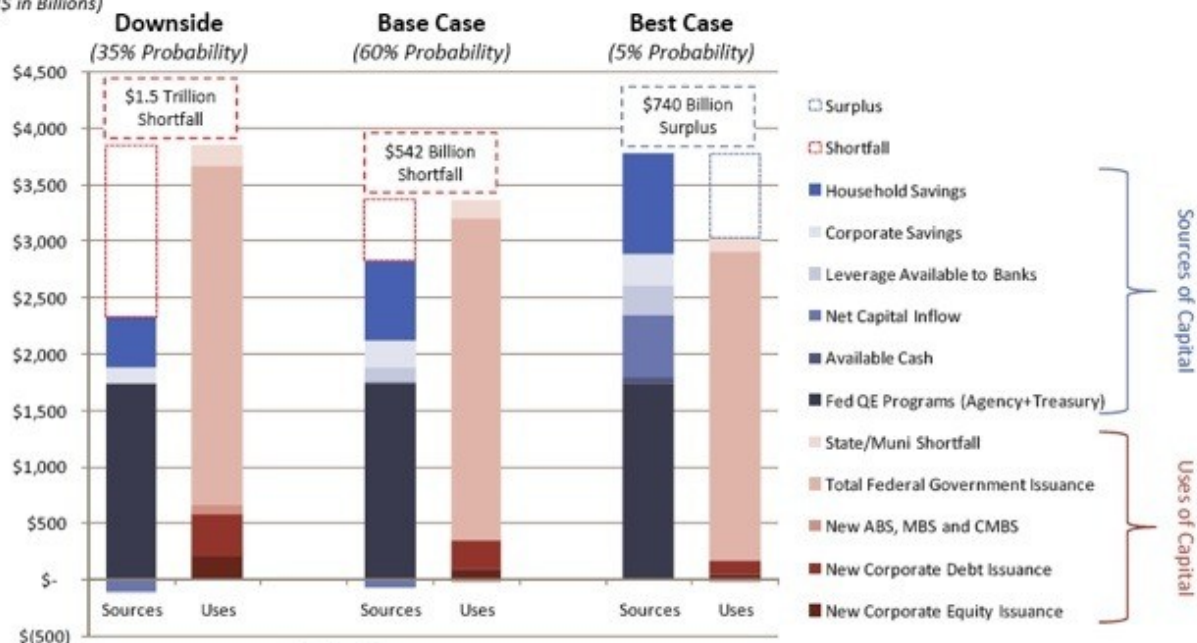
Now, as summer 2009 comes to a close, and as the three rogue waves start impacting the global economy hard (unemployment⁴, bankruptcies⁵ and monetary shocks⁶), the time to mend the system, or to prepare for a soft transition towards a new global system, is over⁷. The first signs of a major decoupling⁸ are beginning to appear: the rest of the world is rapidly moving away from the Dollar zone. As shown by the chart below, there is a 95 percent chance that 1,000 billion new USDs will be printed in a very near future... not very attractive for the Dollar zone.

Potential Shortage of Capital to Fund Treasuries

- The potential for a capital shortfall appears to be a very real danger
- How do the Treasury and the Fed expect to fund the trillions of new debt issuance to come in the following years?

Sources and Uses of US Capital

(\$ in Billions)



Source: United States Treasury; Congressional Budget Office; Hayman estimates.

Three scenarios for the funding of the US deficit (USD in billions) - Source: US Treasury, CBO, Hayman
 Scenario 1: USD 1,500 billion deficit (35 percent probability) - Scenario 2: USD 542 billion deficit (60 percent probability) - Scenario 3: USD 740 billion surplus (5 percent probability)

⁴ In the United States, the real rate of unemployment growth remains between 600,000 and 1 million new jobless every month, if we include those who decide to stop searching for a job (source: [CNBC/New York Times](#), 09/07/2009). To get an idea of the socially explosive wave currently hitting the US economy, in California, since September 1st, 143,000 new jobless are no longer entitled to insurance benefits (including their families, that makes an extra 1 million people in distress... just for this month) – source : [MyBudget360](#), 09/02/2009. In Europe, Asia, ... everywhere, unemployment rates are almost the highest in modern history (at 5.7 percent, Japan already reached its historic high in July – source : [Japan Times](#), 09/08/2009) ... despite all sorts of manipulation to reduce the figures.

⁵ As an anecdote, there have been more bankruptcies in the US between GEAB N°36 (June 16, 2009) and GEAB N°37 (September 16, 2009) than during the whole of 2008, including two of the most important bankruptcies of the year. But, of course, the media cannot make their headlines on both swine fever and bankruptcies. The same goes for the rate of US corporate bankruptcies which has reached a 12.2 percent all-time high (source: [Yahoo](#), 09/09/2009). In Spain, the number of bankruptcies in the first semester of 2009 is three times the number in 2008 (source: [Spanish News](#), 08/06/2009). In France, employers expect 70,000 corporate bankruptcies by the end of this year (source: [Capital](#), 09/02/2009).

⁶ The accelerating pace of the weakening of the US Dollar is creating new monetary stress worldwide and the upcoming request, by the Obama administration, to increase the authorized US federal debt ceiling by USD 1,500-billion is not likely to slow down the selling of the US currency. Indeed the USD 12,000-billion debt ceiling is about to be reached. Sources: [Wall Street Journal](#), 09/12/09; [Bloomberg](#), 09/08/2009; [Wall Street Journal](#), 09/12/09

⁷ As we said, such a « window of opportunity » existed between spring and summer 2009. This window is now closed.

⁸ See [GEAB N°22](#), 02/2008

Asia and Europe are also confronted with a drastic unemployment surge that statistical manipulation⁹ cannot hide beyond this summer: jobless no longer entitled to unemployment benefits¹⁰, youngsters placed in waiting internships¹¹ or jobless recruited for short-term public construction projects¹², lay-offs postponed by short-time working¹³, plants artificially maintained in activity thanks to public funds¹⁴,... from Beijing to Paris, in Washington, Berlin, London or Tokyo, every trick is being used to hide the situation as long as possible... until the recovery arrives. Unfortunately, the recovery will not arrive in time. It's Blücher instead of Grouchy¹⁵. Instead of a recovery in September, the world is suffering the impact of this summer's three rogue waves:

- . massive unemployment, for people soon to be excluded from further benefits in particular, and its disastrous consequences for nations' political and social stability, are beginning to appear
- . the number of bankruptcies (companies, municipalities,...) and deficits of all sorts, are exploding
- . and, of course, the impact of all this on the US Dollar, Treasuries (and the UK, suffering collateral damage)¹⁶.

The first wave already reached the shore at the end of summer 2009. The second one is coming up. And the third is beginning to appear on the horizon.

In any event, if the Eurozone and Asia are in a better situation to face up to the impact of these waves (as already analyzed in GEAB N°28 of last October), their situation is not so good that they can expect a recovery yet. It is however on the US, the Dollar and US Treasuries on the one hand, and on the UK and the Pound on the other, that the consequences of the three waves will be harder. Mid-summer night dreams also have an end!

But for those who still have enough money to travel, the holidays can go on as hotels, airline companies, holiday resorts... are giving discounts at prices never seen before. Another sign that the recovery is here!

⁹ In the end, all these indicators depend on the US Dollar as measure of value. But if Dollar volatility were to be transferred to a compass, we would see the needle swing between North, South, East and West every month. No wonder then that political, economic and financial leaders are so « disoriented »!

¹⁰ Washington did not lack boldness in July 2009, when they removed more than 450,000 from the unemployment numbers, suddenly considered "off the job market". They were probably traders' parents whose kid won a Wall Street bonus and who do not have to worry about their future any more...

¹¹ Paris multiplied this type of initiative and is now trying to increase it, as they are facing the arrival of 650,000 youngsters on the job market in September 2009. But, as Canadian and US statistics show, summer jobs, key in the funding of young people's higher education in these two countries, evaporated in 2009. Source: [La Presse Affaires](#), 09/05/2009

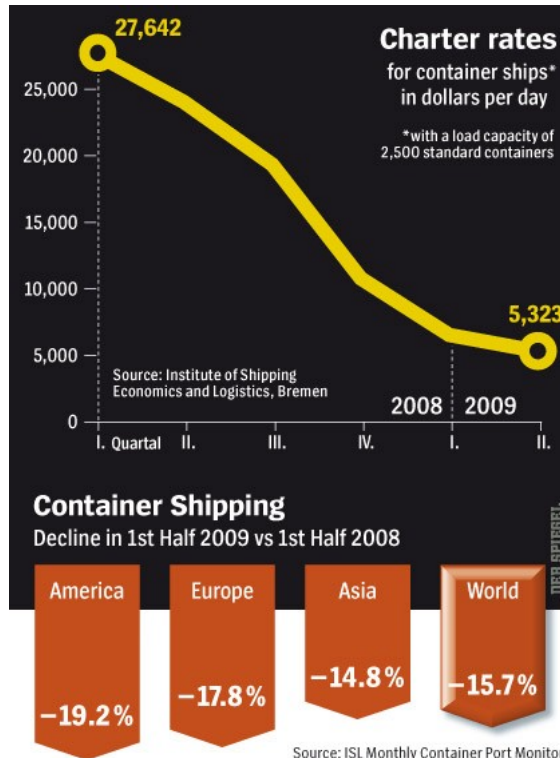
¹² This temporary solution is used everywhere but it cannot really function more than a year.

¹³ Germany will soon (at the end of September, once the federal election has taken place) give us a perfect example of massive layoffs postponed thanks to this kind of measure.

¹⁴ Today's Chinese GDP is nothing more than the result of Beijing's stimulus plan. In terms of industrial output, it is only thanks to this plan that factories are still in activity. But when it comes to finding buyers, things get more complicated. Indeed, consumers are becoming a scarce in these troubled times. Source: [Foreign Policy](#), 07/23/2009

¹⁵ Napoleon too, during the [battle of Waterloo](#), firmly believed that luck was still on his side and that reinforcements (Grouchy) would materialize at the decisive moment of the battle. Alas, the long awaited troops, whose dust showed their rapid progress, happened to be the enemy's reinforcements (Blücher). We know what happened next... and we cannot bet that the G20 leaders are strategists as experienced as Napoleon was.

¹⁶ The crisis has sometimes a very « British humour » and proves that we are far from having seen all its consequences. Indeed, London is now expecting to have to pay a heavy bill in order to rescue its little network of tax havens. The Cayman Islands, for instance, can no longer pay their civil servants. No doubt British taxpayers will be very happy with this perspective! Otherwise, these islands could also resort to a simple idea: create taxes. Source: [Guardian](#), 09/13/2009



Charter rates for container ships (in USD/day) – Showing the decline between the two first quarters of 2008 and 2009 - Source: Spiegel / ISL Port Monitor

States trapped in never-ending financial support of a moribund global economy

The slowdown in the speed of collapse of the global economy¹⁷, at the origin of all the « good news »¹⁸, is only due to the world's enormous public financial effort of the last twelve months¹⁹. But the « time saved » using taxpayers' money around the world should have been dedicated to redesigning the international monetary system at the heart of the current systemic crisis²⁰. Yet, besides a few cosmetic considerations²¹ and huge gifts to US and European banks, nothing serious has been undertaken,²² and, when it comes to the future, the « every man for himself » rule prevails²³.

The last G20 summit of finance ministers provided evidence of the fact that, without this support, the economic collapse would soon resume. For this reason, they agreed to the prolongation of their support policies of all kinds (subsidies, stimulus plans, central bank interventions, Treasury purchases, money-printing...) whilst trying to bring the media to give headlines on their debate about a « coordination of crisis exit strategies ». Instead of talking about the dull present, let's talk about a bright hypothetical future²⁴. This is a classical method when a power is at a dead-end.

¹⁷ Here is a very illustrative analogy of the crisis today that imposed itself on our researchers: a rubber ball on a staircase. It seems to rebound on every step (then giving the impression that the fall has stopped) but it falls even lower to the next step, « resuming » its fall.

¹⁸ For example, the fact of talking in percentage points is part of this summer's « euphoria » operation. Indeed, many banks, whose stock price was close to zero could claim « rebounds » of +200 percent, +300 percent or +500 percent. Taking a look at [Natixis](#), [Citi](#) or [Royal Bank of Scotland](#) stock prices helps to understand the trap: regaining 500 percent when the stock fell down to 1, that makes 5... which would leave you holding a loss of 40 if you bought 2 years ago (or if you borrowed money on this security). Never forget that an increase of a percentage is always less than a similar decrease (the greater the fall, the truer it is)... a reality that the financial world is keen on making you forget! But the evaporation of your investments and savings probably helps you to remember. By the way, that is one of the obstacles on the way to the « recovery in sight » song sung by our leaders: for business to return to previous levels (« recovery »), people must forget the crisis and its consequences. This could happen with the « small crises » of the past decades, but not with this crisis, one which is literally « unforgettable » for the growing numbers of its victims: the intensity, duration and scope of the event and of its consequences, do not allow one to simply « turn the page ».

¹⁹ This is illustrated by France's recent announcement that the state wishes to continue to support the banking system until the end of 2010. Source: [Reuters](#), 09/13/2009

²⁰ See [LEAP's](#) open letter to the G20 published last April in the Financial Times on the eve of London's G20 summit.

²¹ The great « traders' bonus hunt » is morally praiseworthy. However it should not make us forget that traders are nothing but the « privateers » of the banks hiring them and of the financial centres hosting the latter. These employers and their hosts give them their « letters of marque » (or should we say « of bonus »?) authorizing them to buccaneer the seas of global finance. Limiting their bonuses to their total salary would compel banks to hire them as master mariners instead of filibusters. It belongs to the States to come to a decision, knowing that of course Wall Street and the City have most to lose, being at the centre of this system. As an anecdote, not only did the US not ratify the 1856 Paris Treaty which outlawed privateering, but they even reactivated the system after 9/11 with the « [September 11 Marque and Reprisal Actes of 2001](#) ».

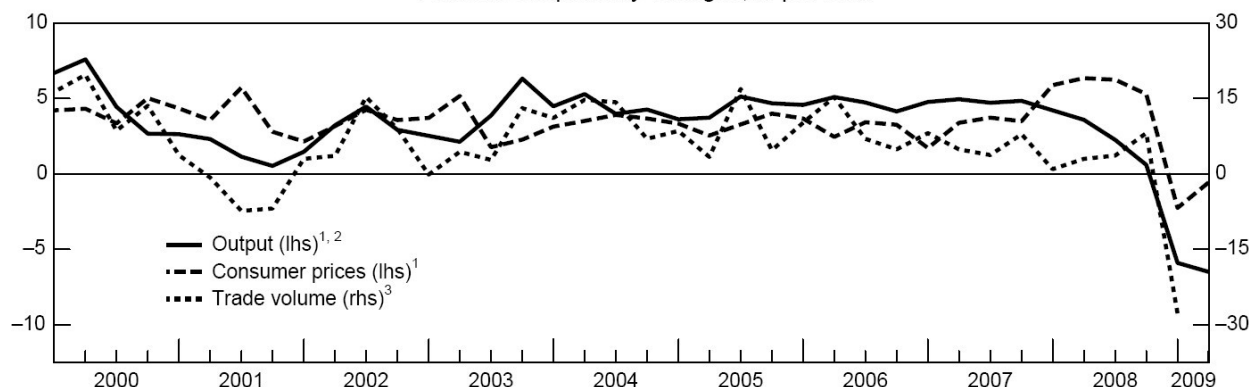
²² The Bank of International Settlements, which is at the centre of the central banks' system, does not say anything else in its 79th annual report, published in July 2009. Two short excerpts sum up its current thinking: « Institutions that are too big to fail – those that create intolerable systemic risk by themselves because many others are exposed to them – pose a significant challenge in this context. And the mergers and acquisitions that have formed a part of the crisis response in the past two years may have increased the number of such institutions; although this is understandable as a transitional phenomenon, officials realise that it creates an unsustainable structure. » And, « Two enormous risks to long-term recovery lurk amid the massive short-term efforts. First, policy actions taken so far may be insufficient to restore the health of the banking system. Second, a lack of well articulated exit strategies for the monetary, fiscal and financial repair programmes threatens to hinder rather than support necessary macroeconomic adjustments. ». Source: [BIS](#), 07/2009

²³ Source: [Times](#), 09/02/2009

²⁴ Meanwhile also, why not blow the whistle on some health disaster and fill the media front-pages with risks of a swine flu pandemic. On this subject, though we have no medical expertise to bring in the debate, we could not help noticing that the Southern hemisphere did not experience any significant pandemic during their summer currently. It should therefore be surprising that the virus bursts in the Northern hemisphere. But it is a fact that the space occupied in the media and political debate on this subject reduces a lot of the space available to inform on the current extent of the global systemic crisis. Nothing better than one crisis to chase another... at least in the media!

Global output, trade and consumer prices

Annualised quarterly changes, in per cent



¹ Weighted average using 2005 GDP and PPP weights of: the euro area, Japan and the United States; Australia, Canada, Denmark, New Zealand, Norway, Sweden, Switzerland and the United Kingdom; China, Chinese Taipei, Hong Kong SAR, India, Indonesia, Korea, Malaysia, the Philippines, Singapore and Thailand; Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela; the Czech Republic, Hungary and Poland; Russia, Saudi Arabia, South Africa and Turkey. ² First quarter of 2009 partly estimated using forecasts from JPMorgan Chase. ³ Sum of world exports and imports of goods in US dollars divided by unit values.

Sources: IMF; Bloomberg; Datastream; JPMorgan Chase; national data.

Global output, trade and consumer prices (2000 – 2009) – Source: BRI, 2009

According to LEAP/E2020, the chart above states facts that cannot be ignored: the global economic, financial and monetary system is drifting at an increasing rate, its weakness is reaching unequalled lows in modern history, and the slightest shock (financial, geopolitical or even natural) can now break it apart²⁵. The States' breathtaking plunge into bottomless public debt²⁶ (governments feel that, without the support of public money, world economies would soon resume their collapse) is creating a literally explosive situation, signalling massive tax increases in Japan, Europe, the US...²⁷. If there is any recovery in sight, it is that of tax. As a matter of fact, confronted with historic unemployment rates and a free-falling economy, Japanese voters decided to vote their decades-old leaders out of office: they have probably inaugurated the great political upheaval of the next phase of the crisis²⁸. This summer, the Obama administration was also surprised to discover the importance of popular anger which focused on his health system reform programme (though a much needed one)²⁹.

²⁵ In the next GEAB, the October issue N°38, we shall update our country- and big region-based anticipations, including, of course, an assessment of the situation regarding US and UK defaults.

²⁶ With a record-high debt issuance in Europe (EUR 1,100-billion in 2009, and more than EUR 250-billion for the UK alone), and with USD 9,000-billion federal deficit over the next ten years, there is no doubt of the fact that the situation is uncontrollable. Source: [Yahoo/Reuters](#), 09/04/2009; [CBS](#), 08/25/2009

²⁷ Tax pressure is indeed gaining momentum: carbon-tax, recently invented by French President Nicolas Sarkozy (source: [Le Monde](#), 09/10/2009), rumours about a VAT tax in the US (source: [Reuters](#), 09/08/2009), tax increases on oil in Great Britain (source: [Sunday Express](#), 09/13/2009), and all sorts of fines invented and heavily enforced by local authorities and states.

²⁸ In the US, Europe and China too. Sources: [Reuters](#), 09/08/2009; [Financial Times](#), 09/06/2009; [BBC](#), 07/26/2009.

²⁹ The extent of this anger, which recently expressed itself in relation to the healthcare reform protest in Washington (source: [New York Times](#), 09/12/2009), reaches far beyond the healthcare system and Republican appropriation attempt: it embodies a public rejection of Washington altogether and its collusion with Wall Street. Health is just a pretext (certainly not the best one to choose), just like the 2005 project of a European constitution focused the European citizens' general frustration regarding the way the European Union is governed.

Inconsistent statistics reflect a chaotic world economy

As anticipated in the previous editions of the GEAB, no one can now construct a true picture of today's global economic situation as macroeconomic figures are more and more contradictory or simply absurd³⁰. Measurement data and instruments have been so manipulated³¹ and limited to a volatile US Dollar as sole benchmark³², that no government, international organisation or bank³³ can now tell in which direction the global system is heading. The media reflect this chaos and contribute to their readers'/auditors'/viewers' bewilderment: depending on the day, or even the hour, that they give contradictory news on finance, economy or currency. Policy makers, entrepreneurs, employees,... economists or analysts... are reduced to Pascal's wager³⁴ to assess what will happen in future months.

As to the numerous statistics repeated ad nauseam by the financial media showing that the recovery is near (if not « here » as the bankers would say³⁵), let's remember that these same statistics (provided by the Fed, ECB, IMF, OECD, and others) were presented in the best possible light in summer 2008. We know what followed. Their ability to forecast the future has been fully tested during these last two years³⁶: those people who have lost their jobs and their savings have, sadly, been able to appraise that. As we have been advising for months, one must, from now on, ignore these useless statistics in order to concentrate on the true indices (and not the macro-economic and manufactured ones of a world which has already disappeared).

³⁰ For example, US and French unemployment rate reductions at the beginning of this summer, or the growth in Chinese output. Sources: [New York Times](#), 08/10/2009; [Expansion](#), 07/27/2009; [Wall Street Journal](#), 05/25/2009

³¹ It is worth reading Marion Selz's paper entitled « Statistics, a public service twisted » introducing a recently published book written anonymously by a group of French statisticians with the evocative title « [The great fiddle: How the government manipulates statistics](#) ». Obviously, in these times of global crisis, the information revealed in this book applies to almost all governments. Source: [La vie des idées](#), 09/02/2009

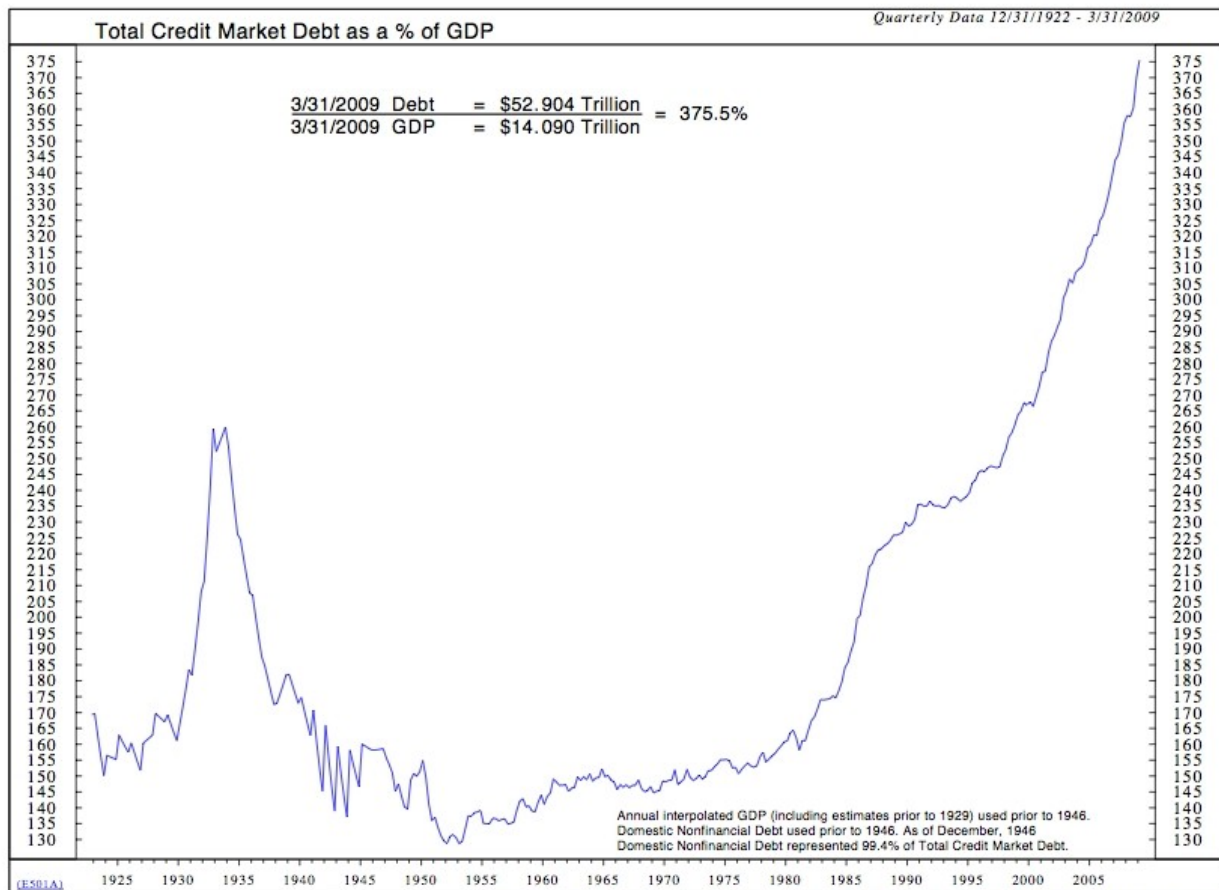
³² When, in February 2008 in [GEAB N°22](#), we anticipated that the world was heading to a « Dollar carry-trade », not many people believed us. However this is now exactly what is happening on currency markets. Source: [Le Monde](#), 09/12/2009

³³ Banks which, in April 2009, were eager to get the right to return to the « [fair value](#) » system (I estimate my asset is worth 100) (source: [Bloomberg](#), 04/02/2009) instead of valuing their assets at "market value" (on the market, your asset is worth 10). Thus they persist in keeping assets in their balance sheets which they cannot realistically value; precisely because they suspect these assets to be worth 10 or 20 percent of their 'fair value'. The countryside and cities of the US, UK, Spain, Latvia, Japan, China, and other countries are full of houses, flats and buildings that no one buys because their prices are artificially maintained high above the market price so that banks' balance sheets do not show that they are in fact insolvent because almost all their assets are "rotten". Bankers too are trying to save time, in the hope of a return to yesterday's world. Are they old children nostalgic of their golden age or big offenders endangering society? The future will soon tell us as the next phase of global geopolitical dislocation will develop.

³⁴ Referring to [Blaise Pascal's](#) argument to convince miscreants to believe in God: wager as though God exists because if it is so, paradise is the reward, and otherwise, it simply doesn't matter; while the contrary wager might take you to hell. The problem when it comes to the « recovery », is that if companies make the wrong wager, they end up bankrupt... governments too by the way. The question of the existence of the recovery is therefore a more complex challenge than the existence of God or, more exactly, the consequences of a wrong wager are to be felt on this earth now and not in the afterlife!

³⁵ The comments of certain financiers that the crisis is over when they didn't even see it coming is already a part of the intellectual folklore of our troubled period. But, in getting to the point of daring to say that "the recession doesn't seem so bad" when one is the Deutsche Bank chief European economist and that German unemployment is on the verge of a new, historic surge upwards, is nonsense or provocation, purely and simply. Redundancy would, perhaps, help him to understand the reality of the crisis. In any case, when one looks at Deutsche Bank forecasts for May 2008 and one sees that, for them, at that period already, "the financial crisis was over", and when Lehman Brothers sets off an historic catastrophe four months later, one asks oneself to what good purpose the salary of these analysts that they employ could be put. Sources: [Yahoo/Reuters](#), 09/10/2009; [Financial Express](#), 05/19/2008

³⁶ A certain number of experts and management at the core of these organisations know very well that the trends are quite different from those which are announced, but they keep quiet, lacking intellectual courage. An excellent article by Ryan Grim, published by the [Huffington Post](#), the 07/09/09 on the way the US Federal Reserve "has bought" US economists (employment, contracts, careers, published works, etc) offers a very relevant view of the problem of independent research in socio-economic or political subjects. The same criticism could be made of the European Union as regards the EU and its development, the European Commission playing the same role as the Fed as regards US economic research.



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Evolution of the US Debt/GDP ratio (1922 – 2009) - Source : Ned Davis Research, 2009

We are heading straight to the phase of geopolitical dislocation expected to begin in the fourth quarter of 2009³⁷. In this issue of the GEAB, our team analyses the trends at work (real estate market, strategic issues...) within the current chaos resulting from a flood of unchecked public expenditure and a persistently uncontrolled financial system in a context of growingly inconsistent statistics. Paradoxically, dislocation has become, according to our researchers, the only way to economic recovery (a recovery that will take place around a global architecture and interaction between economic, social and financial spheres profoundly different from anything we knew in past decades. Our team believes that the first features of the "post-crisis world" should begin to appear by summer 2010 and, in the coming months, they will dedicate themselves to their identification.

³⁷ See [GEAB N°32](#), 02/2009.

The US consumer at the heart of the impossible global recovery

At the core of this reality one finds, naturally, the poor American consumer³⁸, and already the term "poor" is used in the literal sense because American household incomes have seen their sharpest fall since the inauguration of this index in 1947³⁹. The American consumer no longer has the means to buy everything that the rest of the world has become accustomed to produce for him. Whatever the "moral" of the confidence indices, it is already focused on a sole objective: to try and avoid foundering in poverty, by whatever means, like millions of Americans are already experiencing⁴⁰.

If articles on the « new frugality »⁴¹ are on the increase in the US, it is not to describe a new attitude to consumerism⁴². It is, in effect, to try and dress up, in politically correct terms, a sad reality : Americans are becoming poor at an ever increasing speed. [Spiegel](#) magazine provides a striking commentary on the development of the shopping areas in the centre of Manhattan. When, only two years ago, LEAP/E2020 headlined the fact that the crisis would lead to a 50% reduction in the American standard of living, on average, many found this such a forecast surrealist. Today, barely 24 months later, tens of millions of Americans have been plunged into poverty⁴³: job losses, foreclosures, loss of retirement benefits and savings, loss of social services and charity, and that will only get worse compared to the development of the American socio-economic fabric.

³⁸ Whose current insolvency was announced by our team at the end of 2006.

³⁹ Source: [USAToday](#), 09/12/2009

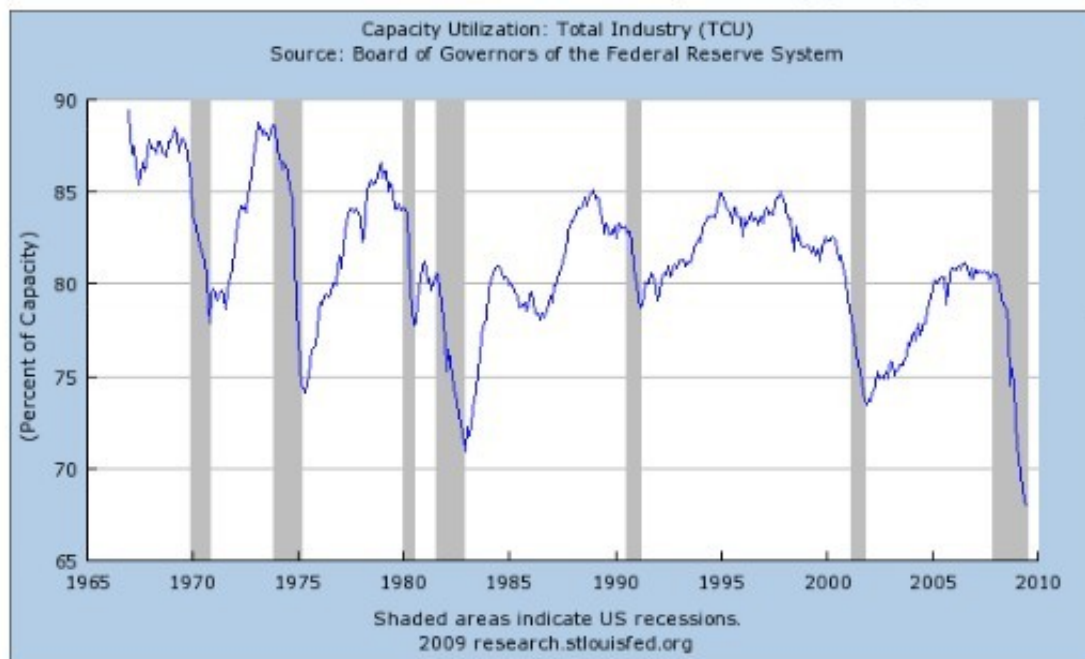
⁴⁰ The "social security net", even though limited, is already in the course of breaking under the double effect of tax receipts in free fall and the constant increase of those claiming benefits. There is even a shortage of funds to pay unemployment benefits. Sources : [Stateline](#), 07/09/2009; [New York Times](#), 07/23/2009

⁴¹ The rapid increase in the number of American families qualifying for federal government food stamps shouldn't hide another important development : families in work entitled to this benefit have increased from 25% to 40% in just one year, illustrating the phenomenon of the increasing poverty of workers and not only an increase in unemployment. Source: [Financial Times](#), 09/04/2009

⁴²As well, in cutting off street lighting or water in numerous suburbs, the cities have also adopted a new frugality which strongly resembles increasing poverty. Sources: [USAToday](#), 08/26/2009; [WSWS](#), 09/04/2009.

⁴³ The second American monthly statistic, the household survey, shows that almost one million Americans lose their jobs every month, can't find full time work, or stop seeking work. Statistics that the media prefer to forget. The true unemployment rate (using the same calculation basis as that of the 1990's) is already nearly 18%. We are reaching a rate of 20% faster than we expected. Also on this subject, let us note an interesting peculiarity in the employment numbers held back by the American media, that of businesses. It counts each job held by the same person. Now all the world knows that the crisis has caused, in the US in particular, an increase in individuals' precarious circumstances which required people to have two or even three jobs to enable them to balance their monthly budgets. But that hasn't unsettled the Bureau of Labour Statistics, nor the media, who use these numbers: little does it matter that more and more "workers" are counted two or three times in the monthly employment numbers. It is stated elsewhere, in the middle of the technical footnote describing this statistic: "In the "Households" survey, individuals are not double-counted, they are only counted once, even if they have several jobs. In the "Businesses" survey, employees having more than one job, and thus appearing on several payrolls are counted for each job held". One can better understand why the "Businesses" survey is favoured by Wall Street and the US government. With such a statistic, if 50% of Americans needed to have a second job to balance their monthly budget, whilst 50% of the population is without work, the government would still be able to show 100% employment! This number certainly makes Wall Street climb, but translates into nothing other than a chase into the economic collapse of the country. Source: [Bureau of Labor Statistics, Employment Situation Technical Note](#).

A number perfectly summarises the state of the US consumer and of his banking environment: - USD 26 billion of consumer credit in July 2009⁴⁴. Never seen in the modern history of the country, five times less than Wall Street's lowest estimate, and that despite the federal government "cash for clunkers" programme. Cautious households no longer wish to consume because they prefer to save, fearing the future accompanied by employment problems⁴⁵, health, housing⁴⁶, their children's education⁴⁷, etc ... Others, coming from a poorer background, have painfully discovered that they no longer lived on credit as they did in the past (with their televisions, cars, kitchens, all on finance)⁴⁸ because the US banks are trying to postpone the amount of this summer's bad news, since at the end of the third quarter (and, of course, the fourth), they will have to announce their losses on credit cards, car and household appliance finance, etc., and of course, business failures. The conclusion reached by Wegelin, one of the oldest Swiss investment banks, founded in 1741, in its investment report of 08/24/09: "At the moment there is only one key word possible : goodbye America!"⁴⁹.



Evolution of US industrial production capacity development (in %) (1965 – 2009) - Source : Federal Reserve

⁴⁴ Source: [Bloomberg](#), 09/09/2009

⁴⁵ Source: [Gallup](#), 00/03/2009

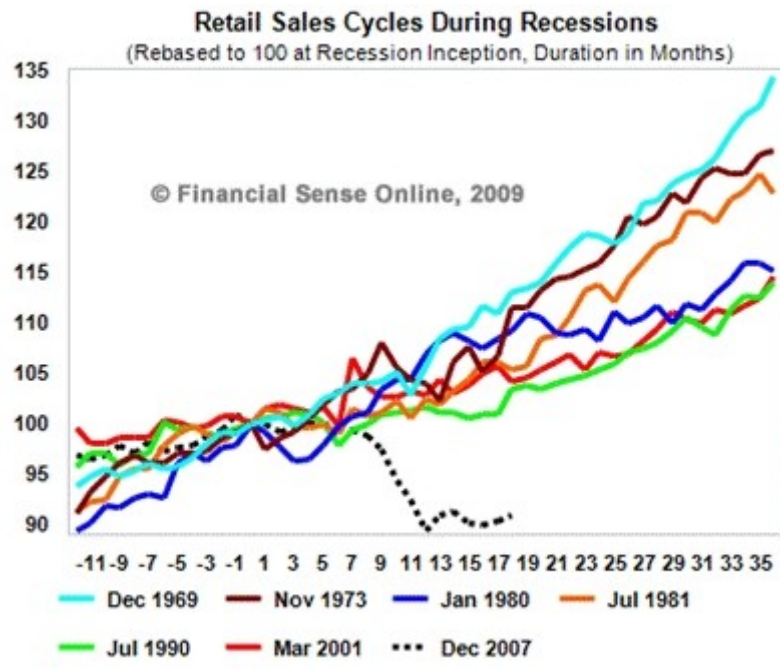
⁴⁶ Foreclosures continue to increase despite federal government efforts. Caused by job losses, they already massively affect households considered to be financially sound. Even well-off families are affected from now on. Sources: [CNBC](#), 09/04/2009; [Bloomberg](#), 09/09/2009

⁴⁷ Without jobs, more and more young people live with their parents (sources: [Huffington Post](#), 09/02/2009; [New York Times](#), 09/04/2009) whilst the universities whose finances are melting away in front of one's very eyes under the impact of the crisis (just like Harvard, Yale, or Cornell) increase their admission charges following California State University (32% increase). Sources: [Reuters](#), 09/11/09; [Bloomberg](#), 07/23/2009; [Uwire](#), 09/02/2009 .

⁴⁸ Presented very contentiously, the article entitled « Living in Beverly Hills » by Jim Quinn in [The Burning Platform](#) is very informative on this subject.

⁴⁹ Source: [Wegelin](#), 08/24/2009 . Notre équipe Our team cannot help but note that if even the Swiss banks begin to adopt the "LEAP" style, consistent with calling a spade a spade, it is because the crisis is also the bearer of positive developments.

Of course, all this doesn't create a favourable investment climate for business. Production capacity is under-used everywhere in historic proportions. Stocks are only renewed at a drip-feed rate (eliminating any hope of a recovery based on their replacement). Consumers have become realistic economically: no money, no purchase⁵⁰. Their salaries fall when they haven't simply been lost through job losses, the banks don't lend any more because they know that they themselves are still insolvent (despite the "golden" powder thrown in the eyes of public opinion these last months)⁵¹. The state itself, on its own, cannot substitute itself for the frenetic consumerism of the past. In the US, a return to the previous state would require about USD 2,500 billion pumped into the economy each year. Barak Obama's stimulus package, less than USD 400 billion a year over two years is far from the amount needed if he has to replace the non-spending of households and businesses. The problem is that this is exactly the present situation of the US economy.



US retail sales during recent recessions (Rebased to 100 at recession inception, duration in months) - **Source:** *Financial Sense, 2009*

⁵⁰ That should please economic theorists who fantasise so much over the rationality of those active in the economy. What a shame that the majority of them saw nothing coming. But be assured, they already know everything regarding the aftermath of this crisis. And those in mainstream media know that it is already over. The only problem is that a rational economist waits to see the proof of this good news...and what if this proof is slow to appear? In effect, who is still speaking of "green shoots"?

⁵¹ On the subject of banks, our team strongly recommends reading the excellent article by Matt Taibbi, "Inside the great American bubble machine" which appeared in [Rollingstones](#) on 07/02/2009. It sets out the history of Goldman Sachs and throws essential light on its financial practices and central role in the current financial crisis. In the way of deceased India companies, or the knights templars, it is likely that in five to a maximum of ten years from now, American political power, in the face of a socio-economic collapse and under public pressure, will be obliged to tear apart this institution which interferes in all levels of government activity.

Summer 2009 - Japan and Taiwan: Two illustrations of Asia's rapid shift outside the post-1945 geopolitical order

In summer 2009 obviously no major geopolitical crisis, such as the Russian-Georgian conflict last summer or the Israel-Hezbollah conflict in summer 2006, took place. However it would be incorrect to conclude that nothing strategically important happened this summer. On the contrary, according to LEAP/E2020, two major events took place in Asia in June and September 2009 which will greatly influence the world in the medium- and long- term and likely to affect as early as this autumn, the global imbalances in the military as well as financial and economic fields. In any event, they are clear signs that the global geopolitical dislocation has begun.

The world of the systemic crisis is a world of unstable imbalances, of chaotic compositions. Thus, the events of summer 2009 illustrate Asia's rapid shift out of WWII's geopolitical legacy. These events are:

- Japan's « true orange revolution »
- Taiwan's « peaceful satellisation » by China.

1. Japan's « true orange revolution »

In the beginning of the current decade, a series of so-called « orange » revolutions took place on the model of the [Ukrainian confrontation](#) between pro-Russian power and pro-Western opponents in 2004. As a result of these events, similar movements were inspired by this « label » in Belarus and Georgia. Japan, without confrontation and without any claim to such a label, has just achieved a similar process: to halt 60 years of domination by the same political party. The fact that this party has been pro-Western and a faithful ally of Washington since the Second World War does not change the fact that, without alternation, a democracy is a political fiction and that the Japanese have just put an end to this fiction ... as any good revolution does.

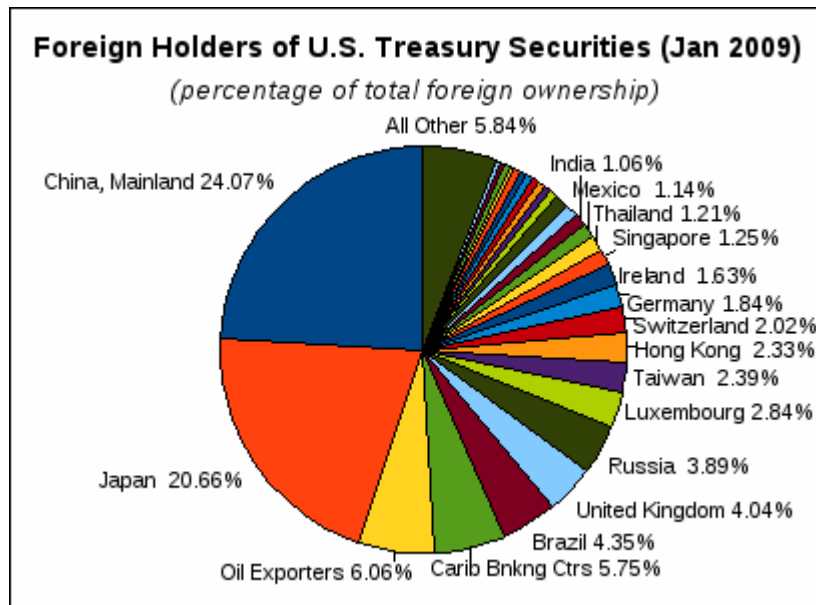
If Japan were not one of the greatest economic powers, the second largest owner of Dollars and US T-Bonds and, more generally, one of « trimaran USA's » two side-floats (the other float being the United Kingdom)⁵², this "orange revolution" would just be a domestic political problem. But of course this is not the case. It is, on the contrary, a major geopolitical event inaugurating a historical turn in both Japan's strategic orientation and US influence in Asia, as well as – and this is a key feature in times of global economic and financial crisis – in the capacity of the US to finance their ballooning deficits and obviate a collapse of the Dollar.

Indeed the [DPJ](#) (Democratic Party of Japan), which now dominates completely both legislative chambers as well as the executive power of the country, has set three clear objectives severing the previous 6 decades' strategic options⁵³ :

- . rapprochement with China and the rest of Asia
- . end of the weak-yen policy
- . end of the automatic purchase of US Treasuries.

⁵² Change of power in Tokyo is giving rise to many analyses in the US, concerned about the possible consequences of these new orientations. Source: [National Public Radio](#), 08/30/2009

⁵³ We decided not to dwell on the military implications of Japan's power switch, such as Japan's decision to put an end to the country's participation in the US army refueling programme in Iraq and Afghanistan. Source: [Japan Times](#), 09/11/2009



Foreign holders of US Treasury Securities as a percentage (01/2009) - Source: US Federal Reserve

Far from being mere ideological objectives, these priorities result from strong domestic requirements that played a key role in the DPJ's electoral victory. Japanese people were fed up with a party that favoured the interests of the country's big exporting companies and of the American strategic ally, to the detriment of their own interests. Put another way, maybe more revealing of the current crisis's strategic impact: the social and political consequences of the current crisis helped a large majority of Japanese realize that the (converging) interests of their large exporting companies and of the « big American brother » were no longer theirs.

The PDJ's overwhelming victory is a demand for a radical redefinition of the very foundations of Japan's policy in the past decades: the Japanese want their money and work to benefit themselves and their children rather than shareholders of Sony, Toshiba and Toyota, or the US consumers and government⁵⁴. They have also understood that the country's new key economic partner is China (soon to become the country's main trade partner, ahead of the US⁵⁵); and that relations with their region – Asia – are now a priority.

According to LEAP/E2020, Japan's new political power is compelled to implement these three changes, whatever Washington may think. They will try to do it diplomatically, but in any event they have no other option if they want to avoid suffering a devastating electoral backlash. "Crisis oblige", Yukio Hatoyama has not much time to do so. The new prime minister knows very well that he must produce results for the Japanese public by the end of 2009, i.e. let the Yen rise and stop investing in the surplus of US Treasuries.

As previously underlined by LEAP/E2020, the United States had two monetary and financial allies left: the United Kingdom and Japan⁵⁶. Without any brutal reconsideration (which is not in the Japanese ways of doing things), summer 2009 marks the demise of one of those two faithful allies. In the coming months, we will see if it is the fidelity, the alliance, or both at the same time, which vanished as a result of the August 2009 vote. In any event, the US Dollar has already begun to show the way⁵⁷.

⁵⁴ Source: [Bloomberg](#), 07/13/2009

⁵⁵ Source: [Xinhuanet](#), 08/19/2009

⁵⁶ For example, in July 2009 (last available figure), only these two countries has increased their share of the US debt, while the other large holders (Russia, China, Gulf states...) had been selling. Source: [BBC](#), 08/18/2009

⁵⁷ For information: [AliBaba](#), 09/03/2009

2. Taiwan's « peaceful satellisation » by China

More than a year has passed since LEAP/E2020 indicated that one of the prices the US would have to pay in exchange for continuing Chinese support of the Dollar, would probably be the end of its protection of Taiwan, enabling China to take over the island.

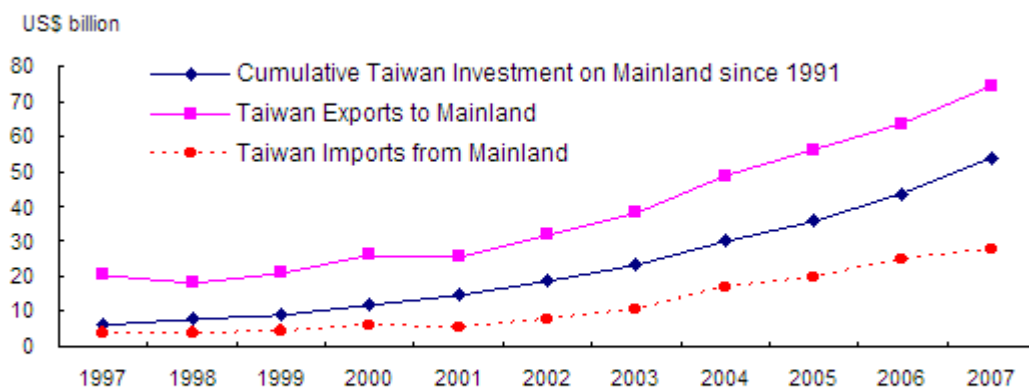
In summer 2009, a process that can be called Taiwan's « peaceful satellisation » - following the term "satellite" referring to communist countries under the influence but out of the USSR - clearly took a new turn.

No conflict here either. Has Eastern Asia become an adept of soft revolutions? Or is it that the power of attraction of the Middle Kingdom is becoming irresistible since the US economic collapse has started?

The fact remains that Beijing has become, in just a few months time, the country's first partner in terms of foreign trade and investment, while the People's Republic embarked on a big charm offensive in the field of humanitarian aid⁵⁸.

Chinese leaders have even made it clear that they voluntarily supported Taiwanese industry to help it avoid collapse due to falling exports. For instance, they asked many mainland companies to switch from foreign to Taiwanese suppliers ... for a total of more than 10 billion Euros⁵⁹; they also offered bank loans to the island's companies.

Taiwan's Business Ties with the Mainland



Source: Taiwan's Ministry of Economic Affairs;
Taiwan's Investment Commission

**Evolution of economic ties between Taiwan and mainland China (in USD billion) (1997 – 2007) -
Source: Taiwan's Ministry of Economic Affairs**

⁵⁸ Source: [People's Daily](#), 08/23/2009

⁵⁹ Sources: [Reuters](#), 07/02/2009; [ChinaDaily](#), 05/21/2009; [Suzhou](#), 03/03/2009

With Taiwan's political power increasingly conciliatory towards Beijing⁶⁰, the evolution is fast and impressive.

Whilst Taiwanese leaders declare that these changes do not alter their refusal to their country being (re)integrated with China, the truth is that their economy is heavily dependent on mainland China, the first destination of their exports, the main source of their trade surpluses, and now the most "authorized" investor on the island⁶¹.

According to LEAP/E2020, an informal handover of Taiwan to China by the US seems to be underway. At the current pace of America's weakening process and of China's rising power, LEAP/E2020 estimates that by 2015 Taiwan will have found a special provincial status of the Hong-Kong kind or equivalent⁶²: without war or US military intervention.

⁶⁰ There is no question of a referendum on the island's independence.

⁶¹ Sources: [DBW](#), 06/17/2009 ; [Chinese Ministry of Commerce](#), 07/01/2009 ; [Taiwan's Ministry of Economic Affairs](#), 08/20/2009

⁶² Even Taiwan's trade relations with their Asean neighbours (once the exclusive domain of Washington) now depend on Beijing's goodwill. Source: [Taiwan's Ministry of Economic Affairs](#), 07/06/2009

3- Focus

Residential and Commercial: The property crises continues but in different ways

Whereas the crisis of residential real estate is still raging (including the United States), it is now up time for the commercial real estate to fall into disarray. No surprise ahead for the readers of the GEAB, but the trends differ according to regions. In some cases, it is about time to follow the market developments to decide when to re-enter; in others, leave the market as quickly as possible. The major trends seem to be already established for the period running till summer 2010.

Everywhere, without exception, the price of real estate (residential and commercial) is now falling. And, in LEAP/E2020's opinion, this trend will not stop anywhere before summer 2010. At that point, it is highly likely that very different trends will develop.

As regards residential real estate, the US market will continue to fall, as well as in the United Kingdom, Ireland and Spain, and in the micro-markets marked by the real estate bubbles of the past decade (Dubai⁶³, Baltic states, Marrakesh, Costa Rica, ...) ⁶⁴, to which will be added the Chinese market (still in an artificial bubble phase thanks to the stimulus package initiated by Beijing). As long as there is no come-back in growth paired with a recovery in employment, these markets will be very depressed. And the more time goes by, the more the banks will have to face what is unavoidable: to severely write down the value of their estate. In these markets, this assures that the risk of continuing falling prices remains very high.

Elsewhere, in those markets where the property speculation craze of the last few years did not take place, we will witness a stabilization of prices in mid 2010 after a new downturn which could see prices fall a further 10% to 20% below current prices.

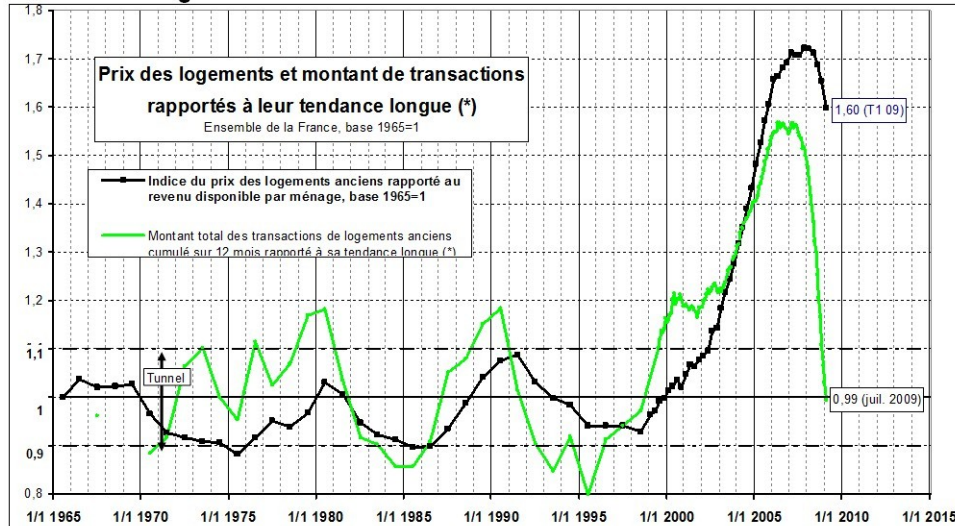
Landlords henceforth know that they have to adapt to the new residential real estate market, a buyers' market (and no longer a sellers' market as it was in previous years)⁶⁵. In this regard, if one needs to sell, it is better to do it now than a year hence, since prices will then have fallen further.

⁶³ The population of Dubai is falling rapidly and some analysts expect a 17% decrease in the population in 2009. Besides the empty office buildings, one can expect a ghost town as regards housing. Source : [Kippreport / EFG-Hermes](#), 29/03/2009

⁶⁴ In these small countries where there is a high concentration of recently constructed property, the "post-bubble" market is easy to decipher because one can see empty residential buildings and offices everywhere, half-finished construction sites, ... and displayed prices barely changed despite absent buyers. It is the "asset on the balance sheet of a bank" effect: the finance institution prefers to keep the accounting fiction of a full-price asset rather than to rake in the income of a sale agreed at 30% or 50% of that price, which would shrink the asset in the same proportion. In bigger countries, these same "rotten" assets are generally widely scattered and the visualisation of the extent of the problem is hence more difficult. In both cases however, in our team's view, not later than after summer 2010, the banks will have to face the reality of the "post-crisis world" and start to get rid of their real estate portfolios at the then market price.

⁶⁵ And it has become a tenants' market as it is already the case in Manhattan, a neighbourhood however famous for the scarcity of its flats. In France, like everywhere else, the banks record a continuous increase in the number of failures linked to home loans. Sources : [Bloomberg](#), 25/08/2009 ; [Agefi](#), 01/09/2009

2.1. Prix des logements et montant des transactions



Source : CGEDD d'après INSEE, bases de données notariales, indices Notaires-INSEE désaisonnalisés et DGFIP (MEDOC).
 (*) La tendance longue à laquelle on rapporte l'indice du prix des logements est le revenu disponible par ménage, parallèlement auquel il a crû de 1965 à 2001, cf. [2], [4]. La tendance longue à laquelle on rapporte le montant de transactions de logements anciens (somme du montant de toutes les transactions) est l'indice des prix à la consommation majoré de 4,9% par an, parallèlement auquel il a crû de 1970 à 2000, cf. [13].

Evolution of the number of residential property repossessions in the United States (2006-2009) - Sources: CGEDD / INSEE

Except for emergency cases, when an immediate purchase of a house is necessary, it is therefore wise to stay away from any investment in real estate with a view to a quick resale till summer 2010 in most of the European, Asian and Latin American countries. On the other hand, it will soon be time to follow market developments starting end of 2009, in order to get ready for possible purchases after summer 2010⁶⁶. In any case, there is no need to be worried "missing" price lows because these will be stuck at a low level for quite a long time, since no quick and strong economic recovery is to be envisaged at this stage.

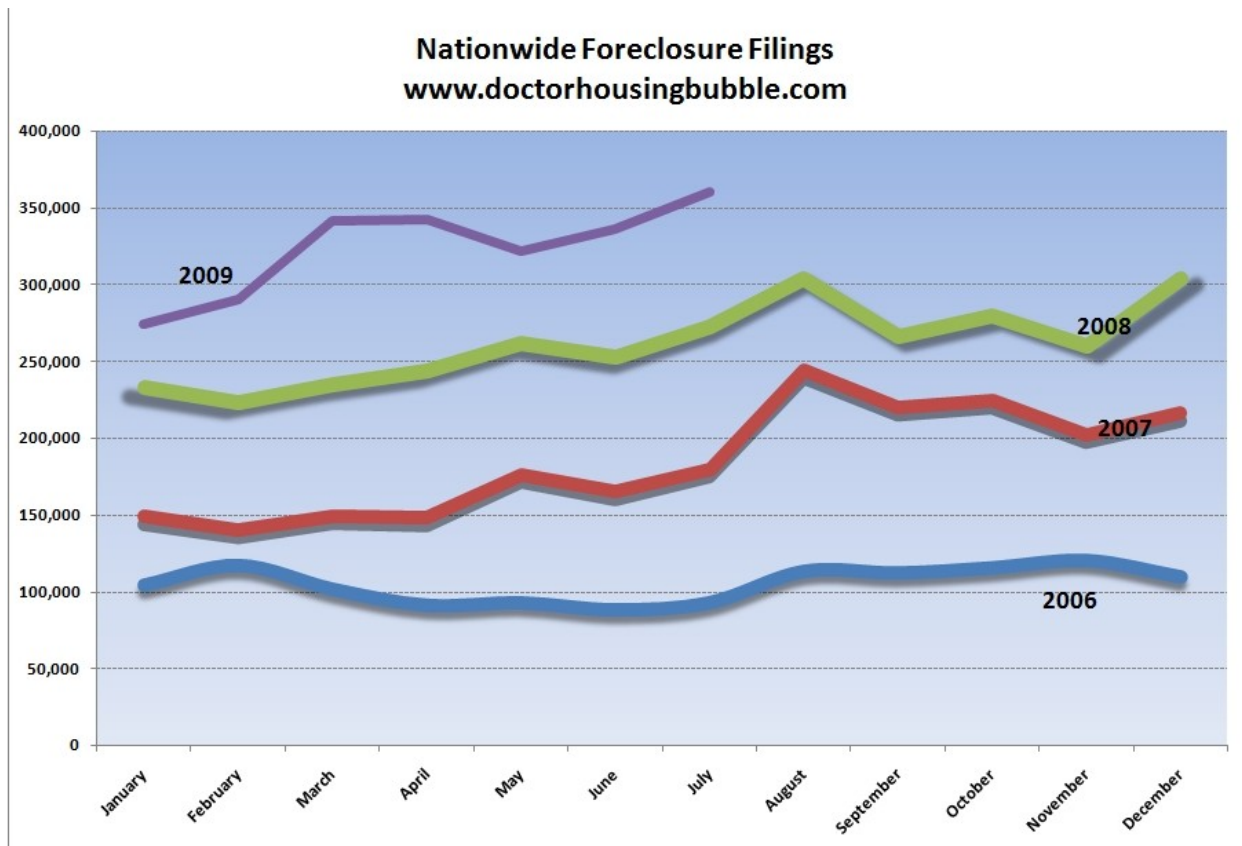
As for the "post-bubble" markets, try and sell now since the downturn will go on for at least two years, with prices falling a further 20% to 50% compared to current prices (the micro-markets whose property crisis only began in 2008 will be the hardest-hit). In the United States, with the unemployment growth and falling income in the background, residential property repossessions will continue to increase in number, affecting new social categories⁶⁷ (notably middle and upper classes⁶⁸). As regards price, the residential property market has therefore only one way to go: downwards⁶⁹.

⁶⁶ On this subject, for our readers interested in the French real estate, allow us to cite the growing controversy surrounding the French statistics on this issue. Two years ago, we pointed out French opacity in this field compared to other western countries. The crisis visibly allows this case to become public and this is a good thing. Source : [Les Echos](#), 11/09/2009

⁶⁷ Even the American government has to acknowledge that millions of new property repossessions are to be expected. It shows how tragic the situation has become. Source : [CNBC](#), 09/09/2009

⁶⁸ Even the richest enclaves are now badly hit as illustrated by this panorama in pictures published by [Forbes](#) on 25/06/2009.

⁶⁹ The article by Diana Olick published by [CNBC](#) on 25/08/2009 presents a very informative analysis concerning what is hidden behind the US "good" real estate summer figures. It has also to be kept in mind that every summer the real estate indices are rising... and then go separate ways depending on the time of year.



Evolution of the amount of foreclosures in the US (2006-2009) - Source: DoctorHousingBubble

We strongly repeat our recommendation about condominiums: keep on avoiding them since the economic ravages of the crisis (job losses, income slumps) turn them into a trap because of the collective service charges. Fewer and fewer joint owners can cope with increasing service charges!

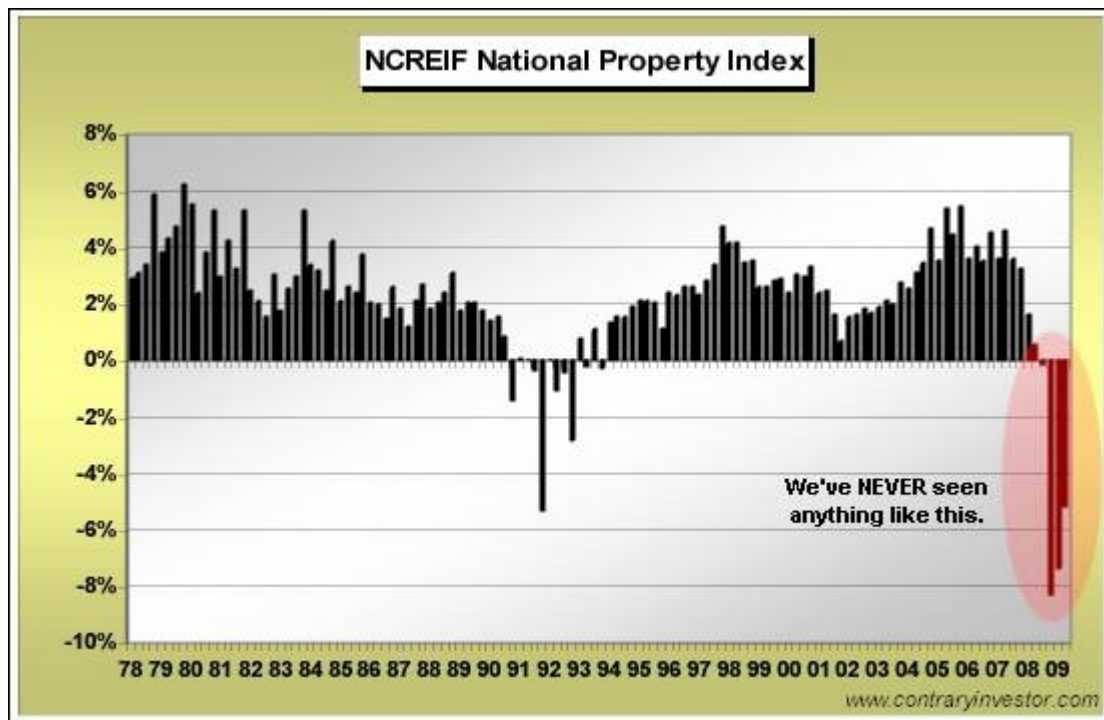
A peculiarity of the current economic situation, probably long-lasting, requires serious thought before any transfer of assets from parents to children. The increasing precariousness of the work situation of those aged twenty to forty demands that one thinks twice, in the children's own interest, before proceeding, for instance, to transfer a house. Parents, usually retired, are generally exposed to a much smaller risk of foreclosure than younger generations, in the current context of economic crisis characterised by redundancies and bankruptcies in increasing numbers. The crisis is not done yet with letting us discover surprising consequences.

As for commercial real estate, the situation is much simpler. Generally speaking, prices are dropping rapidly in all countries. The supply of offices, commercial centres, shops, hotels, ... is disproportionate compared to current demand, in view of the latter's bearish trend for years to come, in particular. In the United States, there is an ongoing real crash in the commercial real estate market which is of a size never seen until now (see graph below). This contributes directly to the falling income of local authorities⁷⁰ and obviously to increase the real liability of American banks (which one day will need to be balanced⁷¹). Even Manhattan is hard-hit by this great slump in price and turnover⁷².

⁷⁰ Source : [SFGate](#), 24/08/2009

⁷¹ The head of the FDIC (the federal body which currently saves at least three banks a week in the United States) stated during a conference in Tokyo that commercial real estate cause more banks to fail in 2009 and 2010 than residential real estate. Source : [MarketWatch](#), 02/09/2009

⁷² Source : [New York Times](#), 09/09/2009



Evolution of the National Property Index (US commercial property index) (1978 - 2009) - Sources: NCREIF / Financial Sense

In Europe also, commercial property has become a big cost for banks and property agents. In this field, commercial property prices worldwide are beginning to follow the same trend as residential properties two years ago: the one in which price falls begin to speed up. As regards this market, a word of advice (except in case of emergency): wait for at least a year, maybe two⁷³.

⁷³ Maybe even five years in the UK, as suggested by the [Telegraph](#) on 08/31/2009.

Recommendations

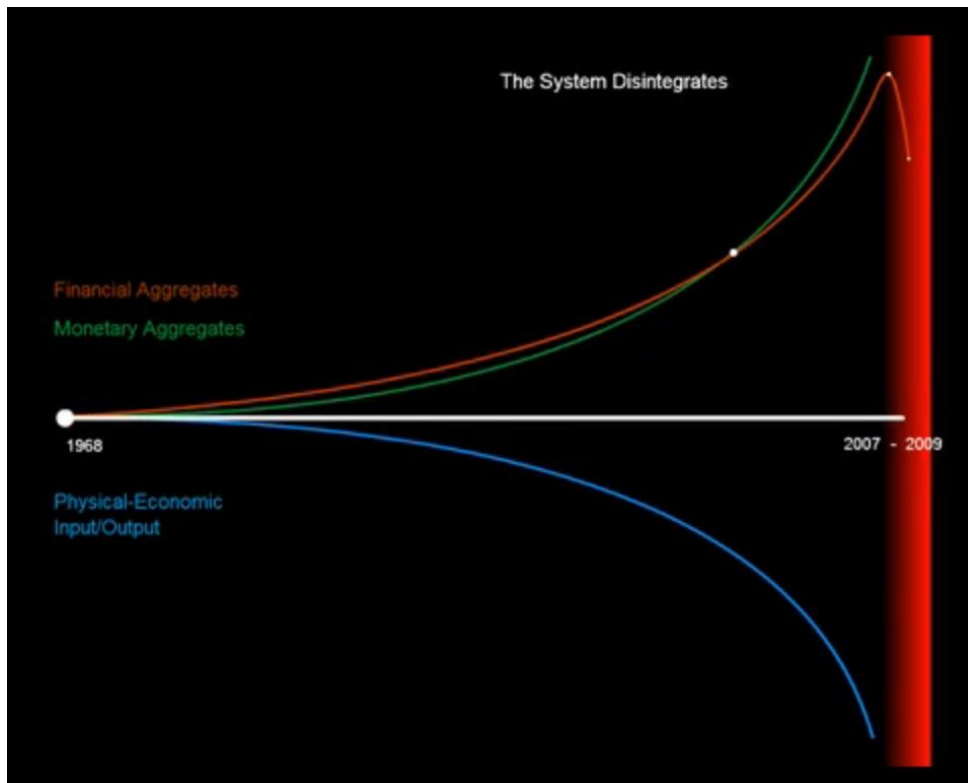
. Currencies / Gold

If US and Great Britain's defaulting on their debt has not yet occurred (as mentioned earlier, we will take stock of the situation in GEAB N°38), the trends described in GEAB N°36 regarding currencies and gold are confirmed. The Euro-Dollar exchange rate is close to 1.50, gold is over \$1,000 per ounce and the overall currency market is chaotic with a Dollar which has become, on a permanent basis, the new "carry-trade". With Japan's new power, a strong Yen is now part of the equation (at least against the US Dollar). The beginning of business hostilities between the USA and China forecast interesting developments for both the US currency and Treasuries: to confront one's main creditor is always a bad idea, even if it is politically unavoidable for Barack Obama (he relies a lot on unions, in particular regarding the difficulties he is facing in his reform of the healthcare system) as we had anticipated in GEAB at the beginning of 2009. To summarize, we maintain our earlier advice on currencies and gold.

We would like to add two comments regarding the Dollar:

. our team forecasts that we are entering an area in which maintaining "Dollar-pegs" (official or non-official ones) is going to become more and more uncertain, for governments, companies and concerned population. Due to the US Dollar decline against main currencies, the nations whose currencies are structurally linked to the USD will be compelled to embark on peg-defense policies likely to be very costly and probably ineffective given that the Dollar decline is now due to an irreversible phenomenon: a growing awareness that the US will not succeed in slowing down its ballooning public deficit, and that no recovery can help them to rebalance their public expenditure. These currencies are therefore condemned to follow the overall appreciation of other currencies against the USD.

. as we analyzed a year ago, in reply to many economists' anticipations of a Euro-Dollar exchange rate between 1,10 and 1,25 for the coming years, we confirm that we expect no sustainable move (less than a year) of the EUR/USD rate under 1,45. The US currency is in the process of a historical « dropout », not one of temporary fluctuation.



A forty year divergence in the US economy (red: financial aggregates, green: monetary aggregates, blue: input/output) - **Source : FOFOA**

. Inflation or deflation

The great question of the coming months! Will we eventually be able to decide between the principles of a crisis of deflation and one of inflation. The trends for our team are now clear: inflation will rise again beginning this autumn. Not only real inflation, but also inflation in the official figures, for the simple reason that that we are exiting the reference months of high energy prices in 2008. From October/November onward, energy will again contribute to inflation, while, since the end of 2008, it contributed to falling indices.

Moreover, the upcoming period will confirm two opposite trends, but not for the same type of goods: there will be price deflation for unnecessary goods and assets, price inflation for all staple goods and equipment.

Of course, a general risk of very high inflation in Dollar zone countries remains the rule.

. Shares/Bonds

We hope for those who returned on the stock market, that they followed the advice we gave in GEAB N °36. Now those who are not attracted by speculation and the related risk of losing everything in a few days, did well not to join in. On the one hand, because at any time, rates can take an opposite negative trend, since no real recovery is to be expected; on the other hand, because financial institutions (at the heart of present stock market upsurge) will have to announce very bad news before the end of 2009. Ask yourselves why governments are maintaining their bailout plans for banks if they are in such good "shape" as they claim? For the rest, companies generally had to announce a steep decline in profits, even though they had seriously cut down on costs during the 1st semester. Therefore, few good surprises are to be expected until the end of this semester.

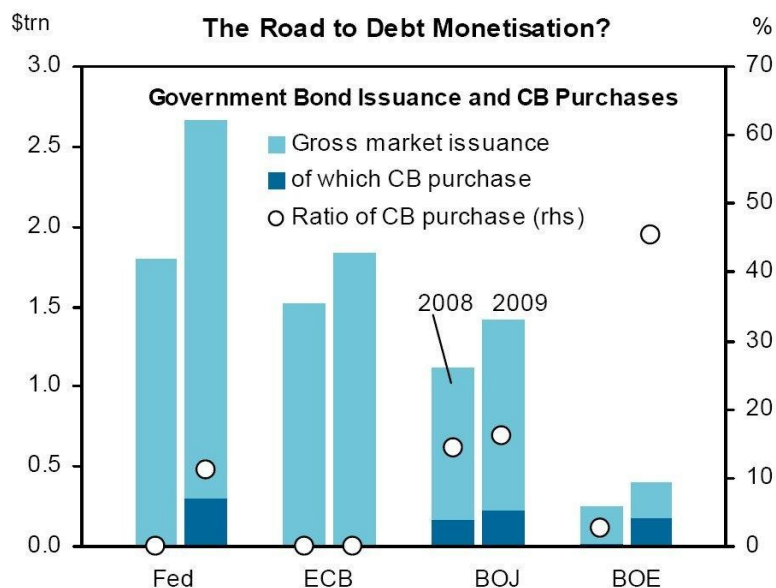
Do not forget that a 99% decline out of a 100 leaves you with 1. Even followed by a rise of 100%, you will only be left with 2! So keep looking other than at stock markets, and study the chart below which shows that the « stock rally » of these past months led to a growing decline in the volume of transactions...!



Compared trends in value and volume of the DowJones index (February-July 2009) - Source: Gartman Letter

. Treasury bonds

The size of the US public deficit is perfectly illustrated by the chart at the beginning of this GEAB N°37. In the coming weeks we are going to see the impact of this quickly growing deficit in a context of no recovery. The trends are exactly the same as when GEAB N°36 was published: the chart below shows how debt monetization is speeding up in the USA and is already well-established in the UK (close to 50% of Gilts issued in 2009 were bought by the Bank of England).



Source: National Sources, GS Global ECS Research

Government Bond issuance and CB Purchase (2008-2009) (light blue: issuance; dark blue: CB purchase / USD 1,000 billion USD - the circle shows the ratio of CB purchase) - Source: GS Global ECS Research

September 2009 GlobalEurometre - RESULTS

GlobalEurometre 09-2009	Yes	No	No opinion
1. Do you think that a permanent political and economic secretariat of the Eurozone should be established?	97%	2%	1%
2. Do you think that Euroland Summits should be established each quarter, prior to the EU Summits?	98%	1%	1%
3. Do you feel that your country's government is reflecting your people's expectations regarding European construction?	1%	97%	2%
4. Do you think that anti-democratic forces are on the rise in the European Union?	75%	20%	5%
5. In the coming months, would you change your Euros for one of these currencies: US Dollar, Japanese Yen or British Pound?	0%	98%	2%
6. In the coming months, would you change your Euros for gold?	29%	64%	7%
7. Do you think that the European Central Bank should keep on reducing its main interest rate?	14%	71%	15%
8. Do you think that inflation is back in your country?	37%	49%	14%
9. Are you afraid of losing your job in the coming months due the global crisis?	23%	71%	6%
10. Are you afraid of losing money in the coming months due to the global crisis?	52%	28%	20%
11. Do you think that the US Dollar will collapse against all major world currencies in the coming months?	81%	7%	12%
12. Do you think that the global crisis will be over in 2012?	6%	80%	14%
13. Do you think that the USA will be able to borrow the money it needs to finance its deficits in 2009?	13%	79%	8%
14. Do you think that the UK will be able to avoid calling the IMF for help in the coming months?	5%	78%	17%
15. Are you afraid of social and political unrest in your country?	64%	28%	8%

⁷⁴ Each month, GEAB surveys a panel of 200 European pollsters

EU Governance: A near-unanimity is in favour of a permanent Eurozone secretariat and the holding of a Euroland summit prior to each EU summit / The gap between people's expectations and leaders' actions concerning European construction remains at a peak / An increasing majority consider that anti-democratic forces are on the rise in the EU / The majority estimating that the ECB should stop lowering its main interest rate strongly bounces back / A smaller majority think inflation has not yet returned in their country / More people worry about losing their job because of the crisis / More people worry about losing money because of the global systemic crisis / Increase 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 is on the verge of unanimity (97 percent). A substantial majority (98 percent) favour the holding of a Euroland summit every quarter prior to each EU summit.

Citizens' dissatisfaction with governments' response to people's expectations on European construction continues to move much higher (97 percent). Obviously, the unanimous support of these governments to Barroso's re-election at the head of the European Commission is not considered a wise choice.

This summer strengthened European citizens' opposition to the ECB's main interest rate reduction policy. 71 percent (versus 55 percent in June) consider that the ECB should put an end to this policy.

Less than one respondent in two (49 percent versus 54 percent in June) now estimate that inflation has not returned to his country; while 37 percent (instead of 32 percent in June) think the contrary (knowing that the dominant stance on this subject is about deflation and falling prices). The evolution of this indicator converges with the trends described by LEAP/E2020 is this issue of the GEAB.

Fear of losing one's job because of the global systemic crisis rises again (to 23 percent versus 16 percent in June). Fear of losing money because of the crisis indirectly is on the rise: the number of respondents claiming to be worried slightly rises (52 percent versus 50 percent in June) while the number of respondents not concerned (28 percent) collapses in favour of those who are not sure (who rise from 2 percent in June to 20 percent in September). It seems that this summer has awakened new fears on this subject.

An increasing majority of Europeans (64 percent versus 50 percent in June) fear social and political disorder in their country (here again, floating votes are key in this development, falling from 16 percent to 8 percent).

EU/Rest of the world relations: A unanimity of respondents would rather hold Euro than USD, Yen and the British Pound / A larger majority would not exchange their Euros for gold / Decrease in the large majority expecting the US Dollar to collapse in the coming months / Increase in the majority who believe that the crisis will not be over by 2012 / The very large majority estimating that the US will not be able to borrow the money it needs to continue to finance its deficits remains stable / A stable majority considers that the United Kingdom will be unable to avoid calling in the IMF for help in the coming months

98 percent of Europeans favour the Euro against the US Dollar, Japanese Yen and British Pound and reject the idea of exchanging their Euros for any of these three currencies (no contrary opinion and 2 percent of "no opinion" responses). Trust in the Euro finds another illustration in the fact a larger majority of respondents would prefer to keep their Euros rather than exchange them for gold (64 percent versus 50 percent in June).

Logically, with 81% of respondents (10% less than in June) still expecting a collapse of the U.S. Dollar in the months ahead, we see the persistence of European citizens' doubts about the sustainability of the value of the U.S. currency.

The majority of respondents estimating that the crisis will not be over by 2012 (80 percent versus 76 percent in June) has increased, contrary to main political and media perspective.

The Europeans continue to be very negative about the U.S. outlook since a very strong majority of them (79% against 81% in June) consider that the U.S. will not be able to borrow the money it needs to finance its deficits in 2009.

Regarding the United Kingdom, there is still a large majority of respondents (78 percent versus 84 percent in June) who estimate Her Gracious Majesty's government will have to call in the IMF for help in the coming months.