

[BBC Global 30](#) - calculated by FTSE on 30 Asia, EU, US leader co. (10 per region)
Last Updated here: Tuesday, 05 February, 2008, 10:02 GMT, when value = 5792.98



2008\02\12

Survey of Professional Forecasters (Federal reserve Bank of Philadelphia and NBER)
The next release date (2008- I) is February 12, 2008 at 10:00 a.m.; last: [Nov. 13, 2007](#)

...

2008\02\08

In the RGE Monitor today:

ECB on Hold

Unsurprisingly, the ECB left the refi rate unchanged at 4%. But [the statement](#) following yesterday's rate decision sent a clear signal that the ECB's stance is changing. Trichet chose to emphasize that "*as the reappraisal of risk in financial markets continues, there remains unusually high uncertainty about its overall impact on the real economy.*" Moreover, "*risks to this medium-term outlook for price developments are confirmed to lie on the upside*", rather than "[fully confirmed](#)" as in the previous statement. With many recent macro indicators suggesting a significant growth slowdown in the Eurozone is there a rate cut in the ECB's pipeline in the next months? Read: "[ECB Rates Unchanged But Risks to Euro-region Growth Increasing](#)"

Global Corporate Defaults on the Rise?

Although global default rates of highly indebted companies are at an all-time low, key indicators like credit default swaps, high-yield bond

spreads and leveraged loan prices are all spelling trouble ahead. The iTraxx Crossover Index, for mainly high-yield companies in Europe, went well above the record of last August's crisis. And the CDX index is pricing in massive corporate default rates as well. Edward Altman predicts 4.64% of the \$1.1 trillion in junk bonds outstanding will default this year, up from 0.51% at the end of 2006, and much higher default rates – possibly above 10% - in the case of a serious US recession . See [“Corporate Default Rates Set To Rise Sharply in 2008”](#)

2008\02\07

Tonight news: ECB sticks as expected at a 4% rate. An overwhelming “euro-société du spectacle” majority asks them to imitate Bernanke, ASAP, There is even an urban legend built up by ignorant and/or cheaply sold out economic journalists of the left, center and right (they just ignore or pass over everything is daily written by any reliable economic source: what are they paid for? now I tell you). This is the metropolitan legend or phantasy that *société du spectacle fonctionnaires très bien payés* keep telling us (in Italy I have herd it dozens of times in any media, by bank officers as well): **ECB bureaucrats are high up on a skyscraper in Frankfurt, so far away as 2B hopelessly insensitive to people's wants and - first of all - Sarko-Bruni's quiet and relaxing honeymoon needs.**

Of course I can't agree, otherwise I'd quickly get paid a fortune to tell lies much better than they do, as a learned economist and not a stupid journalist.

5% would be better, an unanticipated and counterintuitive message to markets: “Fuck off you all, we are not at your service here, we have another mission”.

Such a busy day 2day. A post-Tuesday comment (complicated US Tuesday : primaries and stock exchanges). As a comrade, I am fully sympathetic with Paul K, when he keeps saying: please stop quarreling, we-you navigate on the same boat!!! But as a 60-years-old apprentice analyst and less known economist, I would add today: **the bigger novelty about how deep & far the world recession\depression will go, came from super-Tuesday *tete-a-tete* between the two Presidents *in pectore*, or at least McCain competitors.** If the unravelling mechanism, in the US *Politico*, is really this one: a participated creation of a new leadership, I think this might change game rules in the source and core region, with wide impacts on the recession\depression, its social processes and consequences.

I read early this morning a rge-monitor.com mail. A MUST, as everything coming from this Pandora's box: a unique economic blogs, news and scientific papers aggregator, plus a “*parterre de rois*” of inhouse blogs incl. Otaviano Canuto, Caudio Haddad and Marcio Holland amongst *brasileiros*; **huBlogs** (the hubs everyone is reading and commenting upon in his blogs, shaping a 6-steps www) like Nouriel Roubini and Brad Setser. **RGE Monitor informs: decoupling hypothesis losing ground, emergent markets al-**

ready no more a refuge = **financial markets are anticipating a fully global recession, no safe heaven.**

Yesterday's mood in Avenida Paulista was mixed feelings:

"Brazil: Inspecting the Couplings" <http://www.rgemonitor.com/latam-monitor>

Walter Molano | Feb 6, 2008

"Coupled, decoupled or recoupled are the buzzwords bantered about Sao Paulo. Investors, economists and bankers are trying to gauge what are Brazil's vulnerabilities to the ongoing situation in the U.S."

2 days before, Otaviano Canuto from Washington was adding a third party in the US-Brazil love-hate affair. From Av. Paulista, it's true, you can walk to Japanese SP, but now the lead moved mainland in Asia. As Otaviano puts it (same rge web address as Molano):

*"As I alluded to in previous entries (last August and October) on Latin American economies in the current context of **global deceleration or recession**, whatever happens to China's growth will matter much for the region (and the world). Provided that the Chinese growth only slowdowns, its influence on prices and demand for commodities may provide a (partial) bulwark against the **global turmoil** for some Latin American commodity-dependent economies. At the same time, depending on China's reaction to the **global trade adjustment** in course, Latin economies that compete directly with China's manufactures might face a double whammy, coming from both the shrinkage of the US import bill and China's competition. The impact of current global events will not spread homogeneously throughout Latin America and the country-specific "China effects" will be among the differentiating factors."*

Pay attention to Otaviano's hints! During the previous recession-and-turmoil he got it right, and the elder brother of this blog of mine did exactly the same job: diffusing his views.

I have only a lexical observation that I'll put on rge as a comment as well: why, Otaviano, do you stick to so much prudence in your wording? (see my bold characters in his text)

Talking China, today's FT Lex (<http://www.ft.com/lex>) points to private land development.

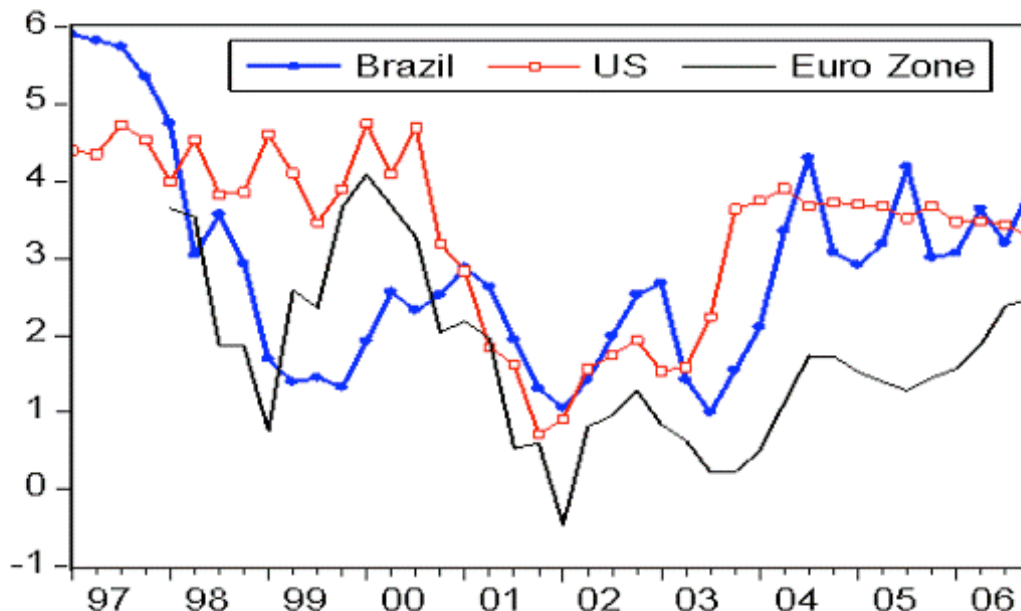
Chinese property developers

Chinese property developers are caught between a rock and a hard place. Access to capital is drying up rapidly. Domestic banks, under government orders, are refusing to lend, while global debt markets have balked at several bond issues. Meanwhile a slew of government restrictions, designed to cool the over-heating real estate market, make it harder to mint money at the other end. Developers (..) boast an aggregate overseas market capitalisation of roughly \$100bn (...).

Private land ownership was only introduced in 1988 and it was another decade before citizens could buy homes (...). Real estate prices have risen rapidly over the past four years, with residential property prices gaining 30-60 per cent nationwide in 2007. That encouraged developers to gear up and ac-

accumulate more land, but it also spooked Beijing into taking aggressive steps to cool the market.

Real GDP Growth in Brazil, Euro Zone and United States. % quarterly annualized and Exponential Smoothing 1997-2006



Source: IMF and Central Bank of Brazil.

One week ago Marcio Holland as well was questioning the *verde-amarelo* new year's FAQ 1 "Will Brazil decouple from the US slowdown?" showing the graph above. Answering, with a sense of impotence you should have lived hyper-inflated-and-indebted Brazil daily life to catch it all: *"Summing up. US recession will contaminate Euro Zone through the channels of the real and financial sides of the economy. Because Brazil depends quite a lot on these two regions and on the others which are also close to them and to us, definitely Brazil is not insulated. Moreover, the world slowdown takes place in an especial moment for the [Brazilian] economy so that we can feel very frustrated for doing everything right and at the time of collecting good fruits things get bad."*

<http://ftalphaville.ft.com/blog/2008/02/07/10775/the-monolines-losing-battle-to-keep-a-tainted-badge/>

The monolines' losing battle to keep a tainted badge

The frantic efforts to prop up the bond insurers may not succeed in staving off future downgrades for the companies.

The Wall Street Journal reports that the latest plans to salvage the monolines are recognising that they may have to settle for less than the triple-A badge which was previously held as crucial to the bond insurers' business model.

The latest plans would involve putting the companies into "run off" - where insurers cease writing new business, but continue to service their existing portfolio. The banks would then try to find a way to unwind the "toxic" portion of the monolines' portfolios, namely the CDS on CDOs. The capital raised through the fabled unwinding of those CDS would then be used to help prevent further downgrades. (...)

The debate over whether monolines can maintain their triple-A rating is starting to look rather academic. The AAA badge was meant to reflect the cast-iron nature of the monoline guarantee which is now tainted, capital-raising and unwinding schemes regardless. UBS analyst David Havens may argue that the problematic portion of the business amounts to only 5 per cent of the monolines' assets - but when that slice is enough to collapse the company, its absolute size seems irrelevant.

2008\02\06

Wall street was bound to repeat yesterday's Bearish mood: but a 2nd fall would have been a rolling snowball. Just by chance, Bernanke went to the Senate announcing a further 0.50 rate fall soon.

The "*Fed put*" became today much more than just a hypothesis. It's a media show going on and on: a telenovela. Main character: Bernanke Mouse playing the witchcraft in one of the best *morceau* of unforgettable Disney's *Fantasia*. Was it on Stravinskij notes? Now the music has changed: it's suicidal Tchaikovski, this time.

2008\02\05

Business week, commented by prof. Taplin's blog, points to a further dimensions: banks have in charge over-valued junk bonds that used to feed private equity during the boom: http://www.businessweek.com/magazine/content/08_06/b4070030761134.htm

<http://jtaplin.wordpress.com/2008/02/05/junk-bonds-imploding/>

BUYOUTS IN FLAMES

Bonds of recent private equity deals are trading at depressed levels

DEAL	BUYER	SIZE	BOND PRICE* (Cents on the Dollar)
Tribune Co.	Sam Zell	\$12.7 billion	64¢
Dollar General	Kohlberg Kravis Roberts	\$7 billion	80¢
Realogy	Apollo	\$8.75 billion	57¢
Toys 'R' Us	KKR, Bain Capital, & Vornado Realty Trust	\$6 billion	68¢
Claire's Stores	Apollo	\$2.8 billion	54¢
Linens 'n Things	Apollo	\$1.3 billion	43¢
LifeCare Holdings	Carlyle Group	\$555 million	64¢

Data: MarketAxess, Thomson Financial, companies *Lowest-priced bond

Just when we thought things couldn't get much worse in the Sub Prime crisis, word comes from Business Week that most of the junk bonds that have been used to finance recent private equity deals are trading at a frighteningly deep discount. My friend Vince Farrell (from CNBC) says the big banks still have over \$200 Billion of this junk on their balance sheets (i.e. they were not able to unload it on a wary market). Clearly the private equity business is going to come to a halt until this stuff is either absorbed by the market place or written off. Certainly no Private Equity fund is going to come to Yahoo's rescue.

For the last ten years, Private Equity buyouts have served to reduce supply of public stock, thereby raising equity prices through classic supply-demand economics. That may no longer be the case, and whether the sovereign wealth funds of China and the Petro States can make up for this loss is an open question. (..)

The day after, Wall St. reacts to IMS report, sharing Paul's views with a -3%
http://www.businessweek.com/investor/content/feb2008/pi2008025_837275.htm?chan=top+news_top+news+index_top+story

Stocks: The Street's Fears Deepen

A dismal report on the services sector sparked big losses in major indexes Tuesday. Investors may be in for more pain in the days ahead - by David Bogoslaw

<http://www.ft.com/cms/s/0/4672cd3a-d3fb-11dc-a8c6-0000779fd2ac.html>

Stocks suffer worst one-day fall in a year

By Chris Giles in London, James Politi in Washington and Michael Mackenzie in New York

Published: February 5 2008 15:09 | Last updated: February 6 2008 01:24

Stocks suffered their worst one-day fall in nearly a year on Tuesday as new figures suggested the US might already be in a recession and other leading economies rebuffed US calls for a global economic stimulus package.

The S&P 500 dropped 3.2 per cent, marking its worst day since February 27, and bringing its losses so far this year to nearly 9 per cent – its worst start ever. The Eurofirst 300 index fell 3.15 per cent, while the FTSE 100 index lost 2.63 per cent.

2008\02\04

Paul Krugman, distinguished economist and not a bearish type (see today's <http://www.nakedcapitalism.com/>), reads the ISM (Institute for Supply Management) non-manufacturing employment report and argues: **“If this report is at all right, we’re in serious recession territory.”**

<http://krugman.blogs.nytimes.com/2008/02/05/how-bad-is-that-ism-report/>

China under the 10% growth floor that everyone took for granted until today (last week in Davos, India finance minister was confident that his country might join the $\geq 10\%$ league!):

WB cuts China's 2008 GDP growth to 9.6%

The World Bank cut its forecast for China's 2008 GDP growth to 9.6 percent in a report released on Monday, 1.2 percentage points lower than an earlier estimate of 10.8 percent.

In the newly-released China Quarterly Update, the World Bank said China's growth prospects remain robust but there are macro-policy challenges, including those from inflation.

China's economic growth has begun to inch down from its record high in 2007, but the country is in a strong macroeconomic position to stimulate demand by easing fiscal policy and credit controls, even if the global slowdown will be more pronounced, the bank said.

(Xinhua News Agency February 4, 2008)

<http://news.bbc.co.uk/2/hi/americas/7226985.stm>



Bush presents \$3 trillion budget

Mr Bush's budget forecasts a deficit of over \$400bn for two years
US President George W Bush has said his \$3.1 (£1.6) trillion budget for 2009 will boost national security while stimulating economic growth.

The plan includes the \$145bn economic stimulus plan agreed with congressional leaders, as well as \$70bn to continue funding wars in Iraq and Afghanistan.

Against a worsening economic backdrop, it forecasts a deficit of over \$400bn. "Our budget protects America and encourages economic growth. Congress needs to pass it," Mr Bush said.

Democratic Senate Majority Leader Harry Reid criticised the proposal, saying: "This budget is fiscally irresponsible and highly deceptive, hiding the costs of war in Iraq while increasing the sky-rocketing debt."

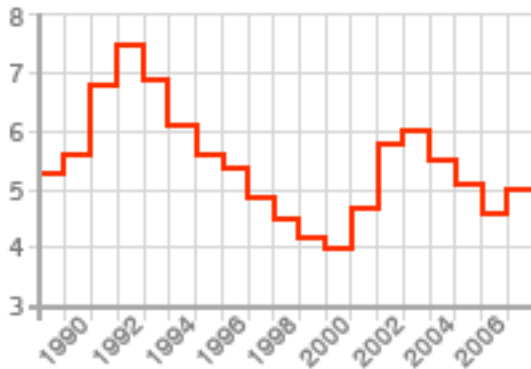
The BBC's Jamie Coomarasamy in Washington says domestic spending will be the focus of what are expected to be fierce election-year political battles over the budget.

(...) The budget covers the 2009 fiscal year, which starts on 1 October 2008. It proposes a 6% increase on projected spending of \$2.9 trillion in the current budget year.

The unusual decisionism shown by Bernanke and the Fed, the scale and timing of their decisions create a vast debate. A good example, for its intellectual clarity is:

UNEMPLOYMENT

% Unemployed, Annual rate



SOURCE: US Department of Labor

2008\02\01

US Labor Dept.: non-farm employment has declined in January (-17,000 jobs versus +80,000 expected), for the first time since August 2003; unemployment rate stable (4.9 versus 5.0% at end of year) because of the “discouragement” effect decreasing the labour force. The output recession has started hitting employment in all the sectors.

BBC reports: "We should expect to see more bad news on the labour market, at least through the middle of the year, before the heavy doses of monetary and fiscal stimulus begin to kick in," said Nigel Gault, an economist at Global Insight.

Read this realtime reaction, and compare with 1st-recomm. readings list CHESNAIS 2008

http://www.atimes.com/atimes/Global_Economy/JB01Dj01.html

Bernanke hits the joy button

By Julian Delasantellis

EXCERPTS

“(...) If the Fed continues to cut at a rate of 125 points a month, all possible help will be exhausted before spring; a little slower rate of easings does essentially the same by mid-summer.

(...) Greenspan was also still raising rates well into 2000, as the economy was starting to deflate from the popping of the dot-com stock bubble. (...) Greenspan's last cut of 2003 stoked the housing bubble, which Bernanke's final hike of 2006 definitively killed off.

So, if Bernanke drives rates to 1% or lower, will it be seen by the beginning of the next decade as the chief contributing factor to the development of another ultimately destructive boom-bust cycle in the economy? (...) in this month Harper's, Eric Janszen suggests that loans to the renewable energy equipment and infrastructure sector might be the next financial crises that will be the inevitable result of a free market *uber alles* **government ethic that regulates personal pet ownership more stringently than it does its financial markets. [NdR, my bold evidence]**

Greenspan dealt with the time lag problem of monetary policy with the slow and steady approach; most of his rate moves were no greater than 25 basis points at a time. In that

way, even if the Fed was doing what later would come to be seen as damage by cutting or raising one too many times, at least the damage might be contained.”

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january 2008 back to july 2007 in:
080131-0707deprecessionBLOG.pdf**

february 2008 deprecession BLOG