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INSIDE

acuteobservations

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"The longer the economic malaise continues, the harder it is to convince citizens to trust and follow their elected representatives. Self-insurance becomes more prevalent; society polarizes, as do political parties; the blame game intensifies; and some countries experience a resurgence of nationalist sentiments (vis-a-vis other countries, and within communities and minorities).

This type of potential popular rejection is already quite visible in Greece, for example; and it has economic, financial, political and social dimensions. Economic activity implodes. Individuals disengage from the formal financial system. They lose faith in the integrity of the political system. And social unrest spreads. The longer all this persists, the harder it is for government leaders to design a reform program, let alone implement it in a sustainable fashion...

The longer central banks are left carrying the bulk of the policy burden, the more likely that the intended benefits of their actions will be countered – first partially and then fully – by collateral damage and unintended consequences. And with time, these could go from being qualifiers to baseline strategies, to becoming major influences.

Have no doubt, the costs and risks are real and mounting. They range from distortions to the normal functioning of markets to the implosion of some sectors that provide financial services to segments of society (e.g., through money market accounts, life insurance and pension provision). For some countries, public sector moral hazard is also becoming an issue, as is the risk of inflation down the road. No one knows where the limits to balance sheet expansion lie. But, already, many are rightly wondering about damaging consequences for household and financial sector behavior of central banks' sustaining such a large artificial wedge between market valuations (high) and underlying fundamentals (depressed).

What about politicians and other government entities?

Many of these concerns would be alleviated if other policymakers, and their political bosses, were to step up to their responsibilities. Without their active and enlightened involvement, there is virtually no chance of resolving quickly the fundamental problems undermining too many western economies: too little growth; too high a joblessness rate, especially among the young and the long-term unemployed; too much debt in the wrong places; too much income and wealth inequality; and too great a political polarization...

What we are ultimately talking about is an "unusually uncertain" distribution of potential baseline outcomes, as well as unusually shaped tails. This inevitably undermines the robustness of lots of conventional wisdom, as well as a range of historical contracts and entitlements. It also challenges the agility of institutions in both the public and private sectors.

Behavioralists would tell you that, in the face of such an unsettling situation, economic agents face a high risk of paralysis; alternatively, they could slip into "active inertia" (i.e., actions are taken but they boil down to simply doing more of the ineffective same).

What is needed in today's world is different. Drawing from the work of Don Sull, it is about the right mix of absorption and agility; that is to say, a mix that enables economic agents both

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Welling on Wall St. LLC

Kathryn M. Welling
Editor, Publisher & CEO
Kate@WellingonWallSt.com
Office: (973)763-6320
Cell: (973)650-2722

Peter R. Arnold
Marketing Partner
Pete@WellingonWallst.com
Office: (646)998-6496
Cell: (917)723-2266

Donald R. Boyle
Chief Financial Officer
Don@WellingonWallSt.com
Office: (973)763-6320
Cell: (201)394-1548

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Welling on Wall St. LLC
PO Box 1238
Maplewood, NJ 07040

Office:(973)763-6320
Fax: (973)763-3833

to respond to opportunities and to be able to afford their unintended mistakes. And it will only work for societies and regions as a whole if there is much greater recognition of the need for shared responsibilities and cooperative outcomes.
It is tempting to turn one's back on this difficult challenge. Yet doing so would encumber our children's generation with sputtering growth engines, structural unemployment, overwhelming indebtedness, extreme inequalities and dysfunctional politics. In turn, they would find it very hard to maintain their living standards, let alone improve on them.
This should not be so. And through education and action-oriented advocacy, it need not be so."
Mohamed A. El-Erian
The Bagehot Lecture
The Economist's Buttonwood Gathering -
October 24, 2012
http://www.pimco.com/EN/Insights/Pages/The-Economists-Buttonwood-Gathering-The-Bagehot-Lecture.aspx

"Have the exchanges finally found religion or maybe they have they finally realized there business model is dead? According to the Financial News the CEO of NYSE thinks that the equity market is too complicated:
"Duncan Niederauer, chief executive of exchange operator NYSE Euronext, has called for a wholesale review of U.S. market structure, after reaching the conclusion that equity markets have become too complex to fulfill their basic function. Niederauer said markets are not fulfilling their basic function of providing funds for initial public offerings and allocating capital to the strongest companies."
Maybe Mr. Niederauer finally finished reading his copy of "Broken Markets" and realized that the for-profit exchanges have gone too far.
Pop quiz.: Who do you think said the following line: Duncan Niederauer or Themis Trading?
"We can't go 60 or 90 days without a major fiasco, which shows that the market has become too complex, even for institutions."
If you guessed Duncan Niederauer, then you are correct. He also added this Themis Trading-sounding line:
"We don't get change unless it is the in wake of a crisis, and although there has been enough ammunition, some participants still think the current market structure is OK."
Duncan, we couldn't agree with you more. And we are willing to help you out. Just have Larry give us a call and maybe we can arrange a meeting with some of our like-minded friends with you.
Yesterday [Tuesday], there was also a report on Fox Business News that said Bob Greifeld and Duncan Niederauer pleaded with SEC chairman Mary Schapiro to take on market structure. Charlie Gasparino reported that Niederauer and Greifeld both approached Mary Schapiro earlier in the year to ask why we have this "insanely fragmented market and how this insanely fragmented market could lead to another flash crash." According to Gasparino, Mary Schapiro said she needed more political support in Congress to go after market structure.
The market structure issue is much too important for the major players to be playing politics. Sounds like the exchanges are ready to deal, so let's all sit down and get some changes made now...before it's too late."
Joe Saluzzi
Themis Thoughts
Oct. 24, 2012
www.themistrading.com

"Equities are rebounding this morning, mostly a bounce from recent weakness. Although the headlines suggest the recent drop is earnings related, for the most part, earnings have been roughly in line. What have disappointed are comments about the economy and forward guidance. Overall, it appears that earnings growth is stalling; much of earnings growth has come from margin expansion and it appears margins have widened about as much as possible. Instead, earnings growth will now tend to track nominal GDP, which is growing around 4%.
However, as we noted yesterday, it appears the equity and commodity markets are starting to take a Romney presidency seriously. And with that, the markets are starting to discount a significant change at the Federal Reserve. For the past 12 years, the combination of Greenspan and Bernanke has run a very accommodative monetary policy. We believe Greenspan misdiagnosed the 2000 market crash; he assumed he was dealing with a situation similar to 1929. Instead, he was dealing with a severe bear market that, fortunately, occurred due to overvalued technology shares. The biggest economic problem with a stock market bubble is malinvestment. However, since technology tends to

go obsolete quickly, the malinvestment would have taken care of itself in short order. Instead, Greenspan created a second asset bubble in real estate, and malinvestment in this sector tends to take a long time to address. That's one of the reasons why the economy has been persistently weak.
Bill O'Grady & Kaisa Stucke
Confluence Daily Commentary
Oct. 24, 2012
www.confluenceinvestment.com

"As we are currently in a negative real interest rate environment with bonds offering record low yields, 'it is important to recognize that bondholders are subject to additional interest rate risk when rates are low - in other words, at times like today,' according to Welton Investment Company. Interest rate risk is highest when investors earn low starting yields.
Welton notes that during the period of 1954-1963, rate increases were fairly moderate at less than 2% from peak-to-trough. However, 'it produced one of the deepest (-15.3%) and longest (8+ years) drawdowns for bondholders.' The main reason for the deep drawdown is that the starting yield was less than 3%. It's all about where you start. Today, we have even lower yields.
Equities, on the other hand, have underperformed for the past 12 years, yet corporate earnings have grown at 5% CAGR.
According to Clearbridge Advisors, stocks have been underperformers because they were overvalued in 2000 with a P/E ratio of 29x. At the time, bonds had a P/E ratio of 16x and REITS were valued at 9x. "By 2012, bonds had the highest P/E ratio of 60x earnings, followed by REITS at 19x, and lastly stocksnear 14x earnings." Even central banks prefer stocks at these values. The Swiss National Bank had '9 percent of foreign currency investments in stocks last year,' while "sixty percent of reserve managers consider that equities are more attractive than a year before.'
Essentially, the Fed continues to take real interest rates into negative territory leaving very little upside to bonds, but an opportunity in the stock market.
At some point, the direction of interest rates will turn and bondholders may be faced with a worse situation than the period from 1954-1963. As Herbert Stein once said, If something cannot go on forever, it will stop.'"
Pamela Rosenau
It's Where You Start
HighTower Group
Oct. 24, 2012
http://advisorperspectives.com/commentaries/hightower_102412.php

"There are plenty of plausible explanations for yesterday's slide in equity prices and 'risk-on' currencies, but one you are unlikely to have read in financial media relates to recent events in Dublin and Berlin. As we warned last Friday, the purported EU banking union agreement was anything but a done deal–and sure enough, this plan has already begun to unravel, creating a dangerously complicated new dynamic between the German, Irish and Spanish governments, the markets and the ECB...
Spain now has good reason to delay its bailout application in the hope that Ireland will extract some genuine concessions on bank financing. Ireland, on the other hand, knows its chances of special treatment will be improved if it waits until after the Spanish bailout is finalised.
Both Ireland and Spain therefore have strong incentives to wait for the other country to move first. The ECB, by contrast, wants Spain to apply as soon as possible, knowing that a bailout will be much more expensive if market sentiment turns negative again. Germany, for its part, is determined to not set a generous precedent by making early concessions to Ireland, but is equally eager to protect the Irish government from political or market attacks. In short, Europe is now engaged in a multi- player game of "chicken" with dangerously unpredictable outcomes. Welcome back to the euro crisis."
Anatole Kaletsky
Welcome Back To The Euro Crisis
Oct. 24, 2012
www.gavekal.com

"In my last week at Merrill Lynch back in the spring of 2009, I published Rosies Rules to Remember (an economist's dozen), a macro version of Bob Farrell's Ten Market Rules to Remember:
1. In order for an economic forecast to be relevant, it must be combined with a market call.
2. Never be a slave to the data - they are no substitute for astute observation of the big picture.
3. The consensus rarely gets it right and

almost always errs on the side of optimism - except at the bottom.

4. Fall in love with your partner, not your forecast.
5. No two cycles are ever the same.
6. Never hide behind your model.
7. Always seek out corroborating evidence.
8. Have respect for what the markets are telling you.
9. Be constantly aware with your forecast horizon - many clients live in the short run.
10. Of all the market forecasters. Mr. Bond gets it right most often.
11. Highlight the risks to your forecasts.
12. Get the U.S. consumer right and everything else will take care of itself.
13. Expansions are more fun than recessions (straight from Bob Farrell)."

David Rosenberg
Breakfast With Dave
October 24, 2012
www.gluskinsheff.com

"How much do we really know about what is going on in the financial system? I ask, in the light of work done by Manmohan Singh, a senior economist at the International Monetary Fund, on what he calls the 'other' deleveraging – that is, the deleveraging of the financial system that stems from the shortening of collateral chains.

While the sting has been taken out of bank balance sheet shrinkage as a result of central bank injections of liquidity over the past 12 months, Mr Singh argued at the annual meeting of the European Capital Markets Institute last week that markets continue to impose strong contractionary pressure via this different avenue and that the reuse rate or velocity of collateral in the system has declined substantially since the collapse of Lehman Brothers.

This matters because the numbers involved are big. At Lehman at the end of November 2007 the fair value of securities received as collateral that were permitted to be sold or repledged was $798bn, which was significantly larger than the doomed investment bank's total balance sheet of $691bn. These important numbers are tucked away in the notes to the voluminous accounts of the big financial institutions, which means they attract less attention than they deserve...

Interestingly, Mr Singh thinks a rebound in the pledged collateral market would be a better way to stimulate economies than quantitative easing because, unlike central bank asset purchasing programmes, it would not involve the central banks in a quasi-fiscal role, with all the related exit problems. I am not so sure.

Some of this business, such as securities lending, is relatively simple and should not pose systemic threats. Yet many hedge fund strategies are another matter. And I wonder how much of the banks' collateral business is directed at regulatory and jurisdictional arbitrage. In the U.S., the Securities and Exchange Commission restricts prime brokers' use of rehypothecated collateral from their clients. English law, by contrast, imposes no such constraint.

Certainly a portion of the business is related to window dressing. Currently banks are offering pension funds and other institutional investors liquidity trades whereby, for example, pension funds are invited to make secured loans of gilt-edged stock to the banks in exchange for illiquid collateral over three years. The pension fund earns a return of up to 1.5 per cent per annum for this accommodation. How far bank supervisors are aware of the extent of the resulting prettification of bank balance sheets is an interesting question.

The more fundamental point is that these collateral chains were shown to be systemically toxic in the Lehman collapse. They can become an awesome engine of contagion. Clearly collateral is a necessary part of the operations of the financial system. Yet it is hard to be sure what the optimal level of collateral should be. Many would certainly argue that the financial system would be a great deal safer if it were significantly lower than today's level.

The IMF has nonetheless shone an important light on an opaque part of the system. It is undoubtedly right that monetary policy needs to take into account what is going on in this huge marketplace. Many central bankers claim, naturally enough, that they are on top of the issue and closely monitoring levels of collateral. Maybe so. Yet in opaque professional markets of this kind things can change fast. Given the systemic issues involved, the watchdogs undeniably need to be on the qui vive."

John Plender
Collateral reuse risks contagion
Oct. 23, 2012
http://www.ft.com/cms/s/0/6663e42c-1c20-11e2-a14a-00144feabdc0.html#ixzz2AGe4ordT

"To say that there are economic outcomes that will occur in 2013 and beyond with a probability that cannot be estimated in October 2012 is something of an understatement. If uncertainty is not substantially reduced by early 2013, there is little doubt that an uncertainty-induced global recession will occur. Whoever is elected president must understand this and induce Congress to follow a path towards lower tax rates paid for by a simpler, less uncertain tax code. Beyond that, the United States must move to steady expenditure reduction and a stable, predictable path towards a smaller debt-to-GDP ratio. The Fed, for its part, needs to commit to low and stable inflation and abandon its flirtation with higher inflation aimed at helping to improve labor markets. Let lowered policy uncertainty and a simplified tax system that boosts growth help labor.

The most effective economic stimulant in 2013 would be a reduction in the high level of economic policy uncertainty that has built up since the 2008 financial crisis. Less social engineering with the tax system, less complex regulation for the financial system, less government management of health care and monetary policy aimed at price stability would automatically lift the U.S. economy back towards 3-4 percent growth by 2014."

John H. Makin
Financial Crises and Economic Policy Uncertainty
Forthcoming Economic Outlook
10/23/12
www.aei.org

"The Problem with Austerity

The chief economist for the International Monetary Fund, Olivier Blanchard, and his associate Daniel Leigh gave us an eye-opening three-page paper, buried in a 250-page World Economic Outlook release last week (http://www.imf.org/external/pubs/ft/weo/2012/02/pdf/text.pdf). They studied an economic concept called the fiscal multiplier, which is usually defined as the change in real GDP that is produced by a shift in fiscal policy equal to 1% of GDP. In simple terms, if the fiscal multiplier is assumed to be 1.0 then a change in government spending by 1% (either an increase or decrease) would produce a corresponding change of 1% of GDP.

Most institutional economists prior to this paper assumed the fiscal multiplier to be about 0.5. Again in simple terms, this would mean that government spending cuts equal to 1% of GDP would reduce actual GDP in the coming year by about 0.5%. The fall in GDP would of course reduce tax revenues, which means that you would have less than a 1% actual cut in the deficit. If the tax rate is 30% in this example, the deficit will be reduced by only 0.85%. That may be an acceptable outcome when an economy is growing nicely or the deficit and total debt are too high and the bond market is forcing the government to cut back.

While Blanchard and Leigh agree that in the past the fiscal multiplier was generally about 0.5%, they suggest that in the recent fiscal crisis the fiscal multiplier has been much higher. Their study suggests that it has been at least 0.9% and perhaps as much as 1.7%. This certainly seems to be the case in Greece and Spain, as their austerity measures appear to be working in reverse...

In another article, Professor Carlos Vegh of the University of Maryland said lots of evidence suggested that multipliers would differ greatly from country to country; and "the whole exercise of trying to forecast growth for many different countries using essentially a single multiplier, whatever the value may be, is, in and of itself, an exercise in futility". (FT)

You can pretty much pick a fiscal multiplier that works for your desired outcomes and find an academic study that will support it. And that is the point. Economists want to create models. It is in their DNA (perhaps defectively, I admit). And sometimes they have to make assumptions in order to make the models look like something that might be useful. The problem is that politicians, in particular, don't look at the underlying assumptions but use the parts of the studies that most closely reflect their particular biases. The IMF report above uses data from many countries that are, indeed – as our quotes at the top suggest – unlike each other. Comparing Greece to Germany and then using that data to suggest policies for Spain and Ireland is a dubious practice. There are just not enough data points for such conclusions to be statistically valid – but that won't stop the politi cians from using the IMF study if it supports the policy outcome they prefer. The IMF, for what might be very good reasons explained way down in the footnotes, excluded countries such as New Zealand and the Baltics that had better outcomes from austerity policies. Their inclusion would alter the study....

There are no easy choices. If we do nothing about the deficit, we will quickly find ourselves close to the black hole of too much debt. Yet, trying to do too much too quickly will bring the economy perilously close to recession, which will mean increased government expenses and decreased revenues, making it hard to balance the budget. Forget Greece and Spain; ask the United Kingdom how well their austerity efforts are doing. This is a country making a serious and credible attempt to reduce their deficits, and sadly, they have fallen back into recession. No matter what economists with their models and politicians with their agendas will try to tell you, there is no "easy button." While there may be a correct path to reducing the deficit and keeping us out of recession, that path is not going to be clear from the models. What we will hopefully do is get the direction correct and ease slowly into confronting the deficit-reduction facts. My thought is that if there are going to be tax increases and spending cuts, they should be phased in quarter by quarter. It might be better to simply hold the line on spending on all but essential items, cutting spending where possible to allow for spending growth in areas like health care. The bond market will behave as long as Congress defines a very clear and credible path to a manageable deficit.

Both Republicans and Democrats will have to compromise. This election is primarily about the direction of the compromise. It is my sincere hope that both parties do not waste this crisis. There will be no better time to engage in comprehensive tax reform than the first six months of next year. True tax reform could actually be a significant stimulus to the economy and partially offset the drag of reducing the deficit. Tax reform in combination with a serious energy policy that encourages more rapid expansion of domestic production, plus control of health-care expenditures, will let us reduce the "fiscal multiplier" – especially important, given that monetary policy is severely constrained with interest rates at the zero bound. Finding the right policy mix will be difficult. There has to be deficit reduction each and every year, to be credible, but not so much as to push the economy into recession. Frankly, we will be lucky to find that right mix, given the nature of the political process. Whatever happens, each party will blame the other when there are problems and take credit when there are successes. That is the nature of the political beast.

From an investment standpoint, the fact that earnings are coming out much weaker so for this earnings season does not bode well for the future. Apart from ephemeral enthusiasm from time to time, volatility will be the rule of the day – even more so than in the past few years. The risk of a "tail event" will increase, given the very real possibilities of exogenous shocks from Europe and Japan. This is not a time to be casual or to think that recent past performance in the equity markets is indicative of future results. This is a theme that we will be returning to often over the next few months."

John Mauldin
The Perils of the Fiscal Cliff
Thoughts from the Frontline
Oct. 23, 2012
www.frontlinethoughts.com

"U.S. Equities have finally entered into a respectable corrective mode. The Liquidity induced Complacency Coma has been dispelled. Generic Vulnerability is due into yearend to set up the Q1 Recovery."

Woody Dorsey
Market Semiotics
Oct. 23, 2012
www.marketsemiotics.com

The grim reaper of fiscal austerity has been banished, it seems. Market relief is palpable. But is it any different from the relief felt by a chronic alcoholic reaching for the booze once again, convincing himself he'll give it up tomorrow? The fundamental issue of balance sheet unsustainability has not been addressed. The need to delever remains. Albert and I have always felt that inflation would ultimately prove to be the path of least political resistance, and these events have confirmed that assessment. Deflationary deleveraging is politically non-viable, leaving inflationary deleveraging as the only remaining option, as far as I can see. Economists the world over seem very confident that such inflation can be generated in a controlled and non-disruptive fashion. There is a first time for everything, I suppose. But I'm very skeptical. I wrote a few weeks ago that I feared a Great Disorder and that I remain bullish on safe havens. But what exactly are suitable safe havens for such a circumstance?

...besides gold, another candidate for safe haven status in the event government bonds become unreliable in that department are equity securities in high quality and robust businesses. I therefore remain very bullish of these too."

Dylan Grice

Popular Delusions - SGCIB Cross Asset Research
Oct. 23, 2012
dylan.grice@sgcib.com

"Media headlines are obsessed with the forthcoming U.S. fiscal cliff – but investors should be more worried about the earnings cliff that the equity market is slipping over. By now it should be evident to all but the most head-buried ostrich that corporate revenues and earnings are declining. The list of companies that has missed, warned or downgraded forward outlooks grows by the day: Google, Microsoft, IBM, GE, Caterpillar, McDonalds, Nestle, AMD, Chipotle Grill, Siemens, Texas Instruments. These are not exactly minnows, to put it mildly.
This is how business, cycle expansions end and recessions begin. Governments and central banks can rig interest rates and economic statistics, but they cannot conjure higher corporate earnings when the economic cycle has tamed down. Bemanke and Draghi are misleading portfolio managers into mal-investments at exactly the wrong point of the economic cycle. If you enjoyed being coerced into buying overpriced houses at the top of the housing bubble (egged on by easy credit, government agencies, Federal Reserve money printing and Wall Street securitization) – you should get a real kick out of going over the earnings cliff loaded to the gills with equities, stamped with Bemanke's seal of approval."
Michael Belkin
The Belkin Report
Oct. 22, 2012
Belkin@attglobal.net

"Our Intermediate Term model for U.S. Stocks has become unstable. It went Negative a fortnight ago, edged back Positive last week, and now appears to be on the cusp of going Negative again. While we cannot predict where the model will go from here, we can revisit recent developments with an eye to deciding what actions may or may not be appropriate in the face of this unstable dynamic. To review: Stocks topped in the spring and fell 10% down to their low for the year on June 4th. This was the precise day of a major Cycle Day and from that point, Stocks advanced a robust 16% until September 14th, where the S&P 400 and the S&P 600 hit new all-time highs and then turned down. Various equity-only advance/decline lines made new recovery highs and then turned down on that same day. However, certain sectors of the Stock market continued higher into the September 21st Autumnal Equinox. These pages had suggested that Stocks and/or Precious Metals and or Forex should top proximate to the Equinox, and conveniently the NASDAQ Composite and the NASDAQ 100 made 12-year highs exactly on that day and then turned down. The XAU, HUI, GDX and other Precious Metal metrics made recovery highs and topped exactly on the Equinox. However, some critical measures of the Stock market, such as the DJIA, continued higher until October 5th, when they made a new 5-year recovery high before backing off. This series of sequential highs in different sectors, followed by reversals to the downside, is typical of how major tops form. Also, we are now 43 months past the March, 2009 start of the current Bull campaign. This is several months longer than the average life expectancy of such advances. However, since the same protracted series of highs in different sectors also can occur during a benign correction, we need some confirmation that a major top is in before getting too defensive. The models usually serve as official 'confirmation,' but currently the Positive and Negative indictors are so nearly balanced that the net model reading has become unstable. This is an annoying condition but one which always resolves itself. Until it does, there are several developments we can follow. For example... the S&P 500 has not convincingly broken is uptrend line off the June 4th low. And neither has it presented a 5-wave decline. Both conditions are Bullish. The NASDAQ-100, on the other hand, has declined in a 5-wave form from its 12-year, equinoctial high, which is Bearish. Both of these major averages are at short-term channel support, and ideally market action over the next several days will tell us which pattern is more robust. ...the 1425-1430 level on the S&P 500 is critical. We hit 1425.53 on October 12th and 1429.85 last Friday. Much lower could prove very bad."
Paul Macrae Montgomery
Universal Economics
Oct. 22, 2012
paul@universal-economics.com

"This morning's Bureau of Labor Statistics

release on September employment details at the state level showed some real improvement for the first time in months. Eleven states and DC reported statistically significant changes to their employment levels, with nine increases and three declines. In August, the significant moves were split 7/7. In September, seventeen states reported significant m/m declines in their unemployment rates, and none reported increases, a nice reversal of August's seven increases and two declines. In total, September payrolls were up in 35 states and DC, and down in 15, and unemployment rates fell in 41 states and DC, rose in 6, and were unchanged in 3. The state series is not comparable to its national cousin because of technical differences, but total employment summed up at the state level was +141, and August's level was revised up by about 10 thousand to 108K."
Philippa Dunne
Comments on September State Employment
Oct. 19, 2012
www.theliscioreport.com

"Signs of over-exuberance are creeping into the corporate credit markets. Moody's Investors Service reports that the covenant quality of U.S. high yield bonds reached historical lows in September.3 'Bonds rated single-B, which rank the "weakest" in covenant quality, comprised almost three times the historical percentage [in September]," according to the ratings agency. B-rated bonds with the weakest covenants comprised 28.6% of new issuance compared with an historical average of 9.4% according to Moody's. But that is not the worst of it. In the past month, four issuers sold $2.1 billion bonds bearing the infamous PIK-toggle feature (who comes up with these names?): Bonds that can pay interest in either cash or additional bonds at the option of the issuer. The companies in question were all owned by private equity firms: Jo-Ann Stores, Petco Animal Supplies, Inc., Emergency Medical Services and Pharmaceutical Product Development. All of these bonds were rated Caa1/CCC+ and are subordinated to bonds issued by the operating companies of these issuers. The companies are all doing reasonably well, and they will have to be because they now have $2.1 billion more debt to service and repay in a weak economy, and their private equity owners have far less at stake if they fail. For too many reasons to recite here, I wouldn't touch any of these bonds with a ten foot pole. In the past, rising issuance of these types of low-quality bonds has been a warning that a market rally is coming to an end. With defaults picking up and the economy weakening, investors need to be on their toes. Today's new issues will be the troubled credits of tomorrow."
Michael Lewitt
The Credit Strategist
Oct. 17, 2012
www.thecreditstrategist.com

"...the origins of tankers docking at the Texas port of Corpus Christi once read like a roll call of top oil-exporting nations.
The list has now shortened. And, for the first time since the 1940s, the port is handling outbound crude shipments as millions of barrels flow from the nearby Eagle Ford shale region...
Corpus Christi is at the centre of a historic shift under way in global crude oil trading. As production has rebounded in North America, import and export patterns are changing. The International Energy Agency forecasts a decline in intercontinental crude trading until 2017, reversing years of steady growth.
'The global oil map will be redrawn over the next five years,' says Maria van der Hoeven, executive director of the IEA, the western countries' oil watchdog.
By 2017, 32.9m barrels a day of crude will trade between different regions of the world, 1.6m b/d less than last year, the agency estimates. The drop is likely to have ramifications for national balances of payments and the energy industry.
The new trading map will also change the price relationships of crude oil streams, forcing the world's energy traders, including Swiss-based Vitol, Glencore, Trafigura, Gunvor, Mercuria and the trading arms ofBP, Royal Dutch Shell and Total, to rethink how they do business. It could also hit demand for vessels from supertanker companies, including Bermuda-basedFrontline and U.S.-based OSG.
The changes in the global map centre on North America, where refiners will cut imports by a hefty 2.6m b/d, equivalent to the current production of Kuwait, as output increases in Canada and U.S. states such as Texas and North Dakota..."
Gregory Meyer and Javier Blas
Oil trade in throes of historic shift
October 17, 2012
http://www.ft.com/intl/cms/s/0/cb917324-

17ce-11e2-8cbe-
00144feabdc0.html#axzz2AFXoKVPy

"Rebekah Brooks, the former chief executive of News International, Rupert Murdoch's UK newspapers business, received a pay-off totaling more than £7m following her resignation from the newspaper publisher last year.
The pay-off consisted of cash and pension payments as well as an allowance for legal fees and the use of a chauffeur-driven car, according to two people with knowledge of her compensation.
It also included clawback clauses, described by one of the two people as 'substantial'. These entitle NI to recover some of the payment from Ms. Brooks in certain circumstances, according to a third person familiar with the details of her exit package.
Ms. Brooks, who is awaiting trial next year on multiple charges in relation to the phone hacking scandal, had been with NI since 1989. A spokesperson for NI declined to comment.
Andy Coulson, the former editor of the now defunct News of the World, who is also awaiting trial on charges related to phone hacking, is appealing against a high court ruling that NI does not need to pay his legal fees. The publisher stopped paying his legal fees in August 2011."
Robert Budden and Salamander Davoudi
Rebekah Brooks Received £7m pay-off
Oct. 15, 2012
http://www.ft.com/intl/cms/s/0/01f50bd8-0bef-11e2-8e06-00144feabdc0.html#axzz2AFXoKVPy