

# The Oil Drum: Canada

DISCUSSIONS ABOUT ENERGY AND OUR FUTURE



## The Round-Up: August 24th 2007

Posted by [Stoneleigh](#) on August 23, 2007 - 12:09am in [The Oil Drum: Canada](#)

Topic: [Miscellaneous](#)

Tags: [alberta](#), [arctic](#), [credit crunch](#), [debt](#), [derivatives](#), [foreclosure](#), [hebron](#), [montebello](#), [sovereignty](#), [spp](#) [[list all tags](#)]

With arctic sovereignty increasingly in dispute due to potential oil and gas discoveries in a warmer world, the various interested parties seem almost desperate to stake their claim (and some are apparently more desperate than others). Meanwhile sovereignty debates continue further south at the Montebello SPP summit.

Danny Williams (one scary poker player), finally succeeds in securing a deal on the Hebron field after calling the oil companies' bluff. They said they had plenty of other opportunities if Newfoundland wouldn't play ball, but in a peak oil world Williams said they'd come back to the table, and they did.

As for the developing credit crunch, risk appears less and less contained over time, as international concern grows over the highly-rated 'assets' derived from the American mortgage market. Even money market funds are beginning to experience a flight to quality.

### [Russian arctic images 'from Titanic'](#)

Russia faces embarrassment over its flag planting expedition to the North Pole after claims that state broadcasters borrowed scenes from the movie *Titanic* to "beef-up" footage. Television company Rossiya sent images of mini submarines descending to the ocean floor around the world in its report about the mission.



But a 13-year-old boy from Finland spotted the scenes in the national daily newspaper *Ilt-Sanomat*, and realised that they resembled images on his *Titanic* DVD.

He told the newspaper: "I checked it with my DVD and there it was right there in the beginning of the movie: exactly the same image of the submersibles approaching the ship."

*Titanic*, made by James Cameron and starring Leonardo DiCaprio and Kate Winslet, opens with pictures of divers inspecting the 1912 shipwreck. The news programme is accused of merging real footage with the movie shots under the caption "northern Arctic Ocean", according to the *Guardian*.

It reported that Rossiya had refused to comment on the footage but said its *Vesti* news programme had originally been filmed using scale models in a studio.

## [Carving Up the Melting North](#)

"The climate change dimension of the Arctic is terrifying," he added. "Oil and gas is obviously a factor in contributing to climate change, and now, the change in climate is allowing for possibly more exploration of oil and gas. The irony is not lost here. The last thing we need to do is exploit more of it. Control over that seabed for Canada should be to keep those deposits where they are."

In the recent past, the Arctic pack ice made regular marine shipping through the long-sought Northwest Passage linking the Atlantic and Pacific Oceans impossible for most of the year. But global warming is now melting much of that ice, meaning that the waterways could become navigable for commercial freighters, and the region's extensive deposits are more accessible.

## [Denmark eyes North Pole riches](#)

Cutting through ice as thick as five metres (16.5ft), 45 scientists are on a mission to explore what is really beneath the frozen sea.

The aim is to gather data showing whether there is a basis for a possible future Danish claim to parts of the Arctic. If evidence is found to prove that the North Pole is geologically linked to Greenland - part of Denmark for more than 600 years - then the kingdom could stake a claim to the pole itself.

According to the latest estimates from the US Geological Survey, the North Pole region holds about a quarter of the world's oil reserves. As global warming continues to melt polar ice, access to the oil reserves should get easier.

The prospect of "black gold" in Greenland has led a growing number of Greenlanders to call for independence from Denmark. A Danish government commission is set to publish recommendations on the future status of Greenland next month.

## [US and Canada split on Arctic seaway](#)

The US and Canada failed to agree on Tuesday on an Arctic sea route that could save thousands of miles in transport distances between Asia and the US east coast.

George W. Bush, US president, said that Washington regarded the Northwest Passage through Canada's Arctic islands, which may become more accessible to shipping as polar sea ice melts, as an "international passageway". Canada argues that the route falls within its internal territorial waters.

But after meetings at the North American leaders' summit in Montebello, Quebec, Mr Bush and Stephen Harper, Canadian prime minister, said they would manage their differences over the issue. Mr Bush added that the US was not questioning Canada's sovereignty over its Arctic islands.

Competition between Canada, Denmark, Russia, Norway and the US over the Arctic has intensified in recent weeks after a Russian mission deposited a titanium flag on the Arctic seabed, in a largely symbolic claim.

### [Harper, Bush agree to disagree on Arctic as summit ends](#)

Harper used the news conference to mock critics of the Security and Prosperity Partnership (SPP), which is aimed at increasing co-operation on issues such as trade and security. He scoffed at claims that the leaders are holding secret talks on issues such as bulk water exports and a NAFTA superhighway.

"A couple of my opposition leaders have speculated on massive water diversions and superhighways to the continent - maybe interplanetary, I'm not sure, as well," he said.

### [Is water on the table at Montebello?](#)

The meetings came to light due to a document leaked to the grassroots group, the Council of Canadians. The document was prepared for the North American Future 2025 Project by the influential Washington-based Center for Strategic and International Studies.

The document highlights the coming scarcity of U.S. and Mexican water, and notes that Canada is well endowed with 20 per cent of the world's water.

The document goes on to advocate "a more proactive approach to exploring different creative solutions beyond the current trans-boundary water arrangements."

"One such option could be regional agreements between Canada, the United States and Mexico on issues such as water consumption, water transfers, artificial diversions of fresh water ..." notes the document, available on the Council of Canadians website.

The author of the document, Armand Peschard-Sverdrup, said in an interview yesterday that the Harper government has distanced itself from the project, apparently feeling that the subject of water was too volatile politically. But the project is co-sponsored by the Conference Board of Canada, which produces economic reports for business and government.

So whether the Canadian government is actually involved, business leaders in all three countries appear to be talking about the possibility of diverting Canadian water. This may be significant, given the central role of business in the SPP process.

The normal process of policy-making – involving consultation with a wide number of groups – has been set aside with the SPP. Instead, policy is being developed by business representatives, who make their recommendations directly to political leaders.

### [Fake summit protesters provoked violence: Union](#)

Organizers of a peaceful protest at this week's Montebello summit want answers from the Prime Minister about three demonstrators whom they say were police agents.

Dave Coles, president of the Communications, Energy and Paperworkers union, says the three were trying to provoke violence....

....Activists say they believe the three were planted in the crowd to provoke a confrontation to give police justification for moving on the peaceful protesters.

Update:

#### [Quebec police defend officers' actions at summit](#)

Authorities initially denied claims from protesters that officers had infiltrated their ranks but later acknowledged the three men were police officers.

They admitted the officers were undercover after footage of a confrontation between the men and Montebello demonstrators surfaced on the popular video sharing website YouTube....

....The SQ did not answer questions on whether the RCMP was involved in the summit incident or whether the Quebec police received political orders to infiltrate the protesters. But the police force did say it will conduct its own internal investigation of the incident.

#### [Feds thumb nose at opposition's Kyoto bill](#)

Prime Minister Stephen Harper said in June after the Kyoto legislation was passed that the government was not required to take any action that entailed expenditure because only the government can put forward money bills. Whether it can escape the explicit requirement to provide "a description of the measures to be taken to ensure that Canada meets its obligations under ... the Kyoto Protocol," will likely be the subject of vigorous debate.

Liberal MP David McGuinty predicts the fight will wind up in court, and said parliamentarians will want to hold hearings on the issue this fall.

"They have no intention of being bound or honouring the obligations of Kyoto," McGuinty said. "They've been perfectly clear on this even before arriving in government."

#### [Activists eye lawsuit to force Ottawa into Kyoto compliance](#)

Canada's biggest environmental groups are contemplating legal action against the

Harper government because they believe it has violated a new law designed to ensure it complies with Canada's international climate change obligations.

The reaction comes after Environment Minister John Baird released a report Tuesday which reiterated the government's position that it could not honour Canada's commitments under the Kyoto Protocol without provoking a major recession at home or shipping massive amounts of money overseas with no guarantees of positive results.

"We don't have access to cops with batons and pepper spray to enforce the way the government does but we do have access to the courts as long as it's still a democracy," said veteran environmentalist John Bennett, a spokesperson for ClimateforChange.ca. "It's just not acceptable in a democracy that the government can ignore laws, whether they like the law or not."

Bennett said representatives from several groups were looking at asking the courts to either declare the government in violation of the Kyoto Protocol Implementation Act, adopted in June, or order it to comply with a requirement that it meet Canada's Kyoto target of lowering greenhouse gas emissions by an average of six per cent below 1990 levels between 2008 and 2012. Representatives from the David Suzuki Foundation, the Sierra Club of Canada also said they were considering legal action.

### [Ignoring Kyoto law could bring down Conservatives, opposition warns](#)

Federal opposition parties say a Conservative decision to ignore a law requiring them to find ways to meet Kyoto targets is a provocation that could spell the end of the minority government.

"It is an explicit and important example of how the government is not respecting the wishes of the majority of elected parliamentarians," NDP Leader Jack Layton said. "They can't expect our party to take that kind of disrespect lying down."

The Kyoto Protocol Implementation Act, introduced as a private-member's bill by Liberal MP Pablo Rodriguez, gave the government until today to prepare a climate plan with measures to ensure that Canada meets its obligation under the Kyoto treaty. Those obligations include a 6-per-cent cut in greenhouse-gas emissions from 1990 levels by 2012.

On Tuesday, while Ottawa's attention was focused on the North American leaders summit, a 30-page document was posted on the Environment Canada website called A Climate Change Plan for the Purposes of the Kyoto Protocol Implementation Act 2007.

It lists the environmental actions taken by the Conservative government over the past year and includes an annex to show expected emissions reductions. By 2012, the cuts will amount to 108 megatonnes of greenhouse gases, while the Kyoto Protocol demands cuts in the range of 250 to 300 megatonnes.

"Our government has certainly respect for the law and we are meeting all of our filing requirements under that legislation," said Mike Van Soelen, a spokesman for Environment Minister John Baird. But Mr. Rodriguez's bill was a poorly written piece of legislation, Mr. Van Soelen said.

Mr. Layton is angry at the decision to ignore the law, and he is frustrated that the

Conservatives have signalled they will prorogue Parliament this fall to return with a Throne Speech. That would kill the Conservatives' own Clean Air Act, which has been modified by the opposition to require the government to meet Kyoto targets. But it could also prompt an election.

### [N.L. strikes Hebron deal](#)

The province of Newfoundland and Labrador will pay \$110-million to get a 4.9-per-cent stake in the Hebron offshore project, Premier Danny Williams said in announcing a deal with oil companies to proceed with the \$5-billion development....

....Under the agreement signed with the consortium led by Chevron Corp., the province will pay \$110-million in cash for its equity stake, and contribute 4.9-per-cent of the estimated \$5-billion in construction costs.

Mr. Williams acknowledged there was some risk involved in taking a direct stake in the project, but said the province would benefit from payout of profits, as well as super royalty scheme that will remain in effect so long as the price of oil remains above \$50 (U.S.) per barrel.

### [N.L. premier announces deal on Hebron oil project](#)

Hebron, located 340 kilometres southeast of St. John's, is estimated to have 700 million barrels of reserves.

Williams, with an election set for Oct. 9, has been criticized for insisting upon an ownership stake for the province. But in his home province, the premier has received support in his battle with international oil companies and in his feud with Prime Minister Stephen Harper over equalization.

Negotiations in the Hebron deal were at a standstill since April 2006 when the companies broke off talks following frustration with Williams' demands.

### [Danny Williams - One Scary Poker Player \(older article\)](#)

Simply put, he refused to allow Exxon Mobile and its partners to stroll in, extract the province's offshore oil, sell it at world record prices and walk away with hundreds of millions in additional tax breaks as icing on their corporate cakes. According to Exxon and some writers at the Globe and Mail, the offer was a sweet one the province should have taken because it would have provided short term jobs helping the company ramp up for the big rape scene to take place offshore. Nice try Exxon, you too Globe but no thank-you....

....Have you ever tried playing poker with someone who couldn't care less if they lost everything? Well get ready folks, you're about to.

### [Masters of our domain: province lowers royalty for Hebron pre-payout phase](#)

Under the memorandum of understanding announced today by Premier Danny Williams, the provincial government will amend the province's royalty regime to apply a flat 1% royalty levy instead of the progressively increasing royalty regime applied to other projects that raised royalties to as much as 7.5% before the project recovered development costs.

The Hebron partners dropped requests for tax concessions that originated in the first round of negotiations. Asked by reporters about the tax concession demand, the Premier stated the demand had been dropped but did not indicate why.

The value of that concession, suggested by the Premier to be worth \$500 million, might well be accommodated by the decreased initial royalties.

### [Energy trusts seen needing successful hedging programs to sustain distributions](#)

Weak natural gas prices have analysts warning that energy trusts are going to need every tool in their financial toolbox to maintain cash distributions next year.

Canada's energy trusts will need to spend 129 per cent of 2007 cash flow to keep production flat and maintain their all-important distributions in 2008, according to a report Wednesday by Calgary-based investment dealer Peters & Co. Obviously, that's not a sustainable proposition. Trusts that aren't earning their distributions must either borrow to fund their payouts to unitholders or, more typically, they cut distributions.

### [County residents to vote on nuclear power plant](#)

Woodlands county council voted Tuesday to hold a plebiscite on a proposal to build Alberta's first nuclear power plant just north of Whitecourt.

County Coun. Leanne Caron said she expects the vote will be held within a month and voters will say "yes" to nuclear power.

Energy Alberta Corp. has already bought land just north of Whitecourt, within Woodland County's borders.

### [Land rights sales cool in Alberta](#)

Alberta's take from selling exploration rights is down more than 60 per cent so far this

year as low natural gas prices, the soaring cost of oil sands development, and weak equity markets have cooled energy companies' enthusiasm.

The province's receipts from its twice-monthly land sales stand at \$969-million, a severe drop from the \$2.55-billion take last year at this time.

In 2006, Alberta enjoyed a euphoria over the energy industry, raking in a record \$3.43-billion from the sale of exploration rights for oil, natural gas and oil sands, smashing the previous high of \$2.26-billion set in 2005.

### [Biofuels: More Harm Than Good?](#)

As biofuels produce 75 per cent less carbon dioxide this is seemingly a viable and environmentally sound alternative. However, researchers at the University of Leeds and the World Land Trust have voiced concern that growing biofuel crops to make eco-friendly car fuel could actually be more harmful to the environment than the conventional fuels they are replacing.

The group is concerned that large areas of land in the developing world are being cleared to grow crops such as sugar cane and palm oil to service the energy consumption needs of our gas guzzling culture. These crops are being converted to biofuels which ostensibly produce less carbon dioxide than conventional transport fuels. What the scientists have found is that up to nine times as much carbon dioxide will be emitted by biofuels compared to conventional petrol and diesel because biofuel crops are typically grown on land which is burnt and reclaimed from tropical forests.

One of the reasons land is being cleared to make way for these new crops is due to our current land usage being primarily dedicated to the farming of livestock and the growth of crops to feed that livestock, leaving little remaining for alternative energy crops. Unless the whole Western world suddenly develops a severe case of vegetarianism we will not be able to satisfy biofuel demand without clearing more land.

### [SEC Official: Mulling New Oil Reserve Booking Guidelines](#)

The Securities and Exchange Commission is considering changing the rules for how oil and gas companies book their reserves, a top SEC official said in a speech last week.

Reserves are oil companies' most important assets, and a modernization of the rules could mean billions of barrels of oil and trillions of cubic feet of natural gas may be able to make it onto balance sheets, potentially triggering a revaluation of the sector.

### [Desperate Measures for US Fed](#)

The US financial system is teetering. Its USDollar currency is losing global support, with some outright revolts in crucial territories. The chief private sector export from the US

financial sector has been fraud-ridden asset-backed bonds and their toxic credit derivatives. What should anyone expect? For years an institutional dishonesty within all things financial in the United States has been engrained, spreading, and become integrated with high levels of the USGovt. The Wall Street hucksters exported fraud. The backlash might be more severe than the soft soap gurus anticipate.

ARM Resets (\$ billions)	
Jan '07	\$22
February	\$25
March	\$35
April	\$37
May	\$36
June	\$42
July	\$43
August	\$52
September	\$58
October	\$55
November	\$52
December	\$58
<b>Jan 2008</b>	<b>\$80</b>
<b>February</b>	<b>\$88</b>
<b>March</b>	<b>\$110</b>
<b>April</b>	<b>\$92</b>
<b>May</b>	<b>\$76</b>
<b>June</b>	<b>\$75</b>
July	\$50
August	\$35
September	\$26
October	\$20
November	\$15
December	\$17

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Look for an international boycott. The shock waves in the US financial markets are preliminary symptoms of bigger events soon to come. Stability identified is nothing but quiet between tremors. My expectation is for an eventual global boycott of US\$-based bonds, gradually gathering like a storm, widening eventually to include even the US Treasurys. The USTBond complex continues to act like a safe haven, but it is the broad fire next to the frying pan. In time, the only buyers of US TBonds will be the corrupted compromised and desperate central bankers, who must sustain the system.

**The biggest red herring story in the banking system these days is not so much official US Federal Reserve action, as the cratering of money market funds supposedly safe as rain and apple pie.** The French AXA infection is one of several stories to litter the landscape in that regard. The funds bought subprime mortgage bonds for the added juice of higher yield, only to find the juice has laden with hydro-chloric acid. Or was it more deadly sulfuric acid? Imagine a poison being peddled at the store front for banks, where the public walks up to their windows.

**The bank run process is at the doorstep.**

### [“SEC Should Investigate Mr. Mozilla of Countrywide Financial”](#)

There is a tremendous amount of new activity in the regulatory sector regarding projects to build data collection capability focused on issues like the mortgage market, collateralized debt obligations or CDOs, and counterparty risk. Why? Mostly because regulators cannot figure out where the beginning and the end of the mess in the collapsed mortgage industry is let alone sift through the massive amounts of data coming into regulators about the fraud being massaged by institutional media manipulators in an attempt to quell the tide that has whipped across the planet.

While Reuters, the Wall Street Journal, CNBC and Yahoo are spinning stories about the possibility of Warren Buffet's Berkshire Hathaway buying bits and pieces of CFC, a storm of controversy surrounding Countrywide and its Board of Directors is in the making.

Understanding who's got the ball in terms of concentrations of risk arising from the mortgage securitization sector has become a near obsession within certain US regulatory agencies -- and not a moment too soon. The market for mortgages around the globe secured by United States Real Estate has completely collapsed. Now the regulators are sifting through the worst American disaster since 911 and Hurricane Katrina combined.

The regulators and the entire Congress are at risk of being sued by the general population in America, but most particularly by a class of homeowners/debtors for having failed and allowed the massive fraud which has been unfolded by very powerful grassroots investigators.

One small group is looking to amass an army of lawyers to file a **\$50 trillion dollar lawsuit** naming the Department of Justice, thousands of negligent FBI agents, the Securities & Exchange Commission and their three thousand lawyers for the trillion dollar fraud, but not a single lawyer in the country can stand up for this without being blacklisted.

"The darkest shadows currently hanging over the US mortgage industry are about liquidity, or the lack thereof, as a result of the corrupt accounting practices at such places as Fannie Mae, Freddie Mac, Washington Mutual, and Countrywide Financial" according to one investigator who says that "all four of these once stalwart pillars of phony money politics are being severely scrutinized newly after many years of government settlements by both Fannie and Freddie, new massive fraud allegations in the trillion dollar debacle have resurfaced."

### [Is WaMu the Next Countrywide?](#)

Countrywide Financial (CFC) isn't the only big bank threatened by the deepening real estate crisis.

An analysis of the largest 20 banks and thrifts by TheStreet.com Ratings shows that four institutions are under-reserved for possible credit losses, a red flag as the economy slows and mortgage defaults rise.

Perhaps more troubling, the numbers show that one of those institutions -- Washington Mutual (WM) -- could join Countrywide in facing serious liquidity problems as worries about the housing and mortgage markets multiply. Meanwhile, another big lender, National City (NCC), could see its earnings and dividend come under pressure as a result of its low reserve levels.

### [The Chinese-American Currency Wars of 2007-2010](#)

This is the end, my capitalist friend.

The end of the long-standing United States policy of nonintervention in the currency markets.

America has declared war on the Chinese yuan. Depending on whether you go with the House or Senate figures, the yuan is undervalued by anywhere from 15% to more than 40%. That's a pretty big spread. You'd think they would shore up that minor detail first before proceeding...

Instead, full of rhetoric, bolstered by the cries of the AFL-CIO, Congress put forth two

Senate bills this summer, paving a new path to combat "currency manipulators." Read: China, make your yuan appreciate faster. The Senate Finance Committee gave its gung-ho approval of 20-1 on July 27. On Aug. 2, the Banking Committee seconded that with a hearty 17-4 in favor of a similar measure.

In a nutshell, Congress wants a stricter definition of currency manipulation. Then, it wants to be able to "punish" the manipulator with anti-dumping tariffs until it changes its tune. That's the goal of the Fair Currency Act of 2007.

But this currency war is another war we're unlikely to win.

You see, the earliest we could win this one is 2010. That's how long it will take to get all the ducks in a row: the International Monetary Fund, the World Trade Organization, and the rest of the world. By that time, we'll have a new president. And a lot of manufacturing jobs will already have vanished. And in fact, if we do absolutely nothing and the yuan appreciates just 5% a year, we'll already be up to 25% appreciation by 2010. So why all the bluster?

Maybe we should give Bush & Co. some credit. Here's one conflict they're willing to "talk out."

### [Mortgage industry job cuts surpass 40,000](#)

At the North Carolina offices of mortgage lender HomeBanc Corp., Archie Clark is the only employee left. But in a few days, he'll be gone, too. "It's pretty much a ghost town over there," Clark said. "Somebody went in and took the furniture from the lobby. I don't know who did that. I put some of the other stuff in the back and locked it up."

When Clark finishes helping movers from the company's Atlanta headquarters collect computers and other property, he'll join the more than 25,000 workers nationwide who have lost jobs in the financial services industry since the beginning of the month — with more than half coming since last Friday. With few exceptions, the cuts are the direct result of woes in the nation's housing market.

More layoffs are announced daily. On Wednesday, Lehman Brothers Holdings Inc. closed its "subprime" mortgage business, laying off 1,200 workers at 23 offices; Scottsdale, Ariz.-based 1st National Bank Holding Co. closed its wholesale mortgage unit and cut 541 jobs, and Accredited Home Lenders Holding Co. added 1,600 positions to the heap.

The night before, banking giant HSBC said it would close a main financing office and cut 600 jobs.

Since the start of the year, more than 40,000 workers have lost their jobs at mortgage lending institutions, according to recent company layoff announcements and data complied by global outplacement firm Challenger, Gray & Christmas Inc.

Meanwhile, construction companies have announced nearly 20,000 job cuts this year, while the National Association of Realtors expects membership rolls to decline this year for the first time in a decade. It's an employment collapse that threatens to rival the massive layoffs in the airline industry that followed the Sept. 11, 2001, terrorist attacks, when some 100,000 employees lost their jobs.

## NY Foreclosure Frenzy

The nation's housing foreclosure crisis has walloped Manhattan with a vengeance this summer - as the number of filings leaped 184 percent in one month alone, according to new statistics released yesterday.

Staten Island also suffered from the frightening flood of foreclosures between June and July, recording a 102 percent jump, reports industry expert RealtyTrac.

"It may have taken a little bit longer, but the subprime [mortgage foreclosure] wave has finally hit New York," one industry source said.

## Assurances on Buybacks May Cost a Lender

Expanding rapidly as the nation's largest home mortgage company, Countrywide Home Loans quietly promised investors who bought its loans that it would repurchase some if homeowners got into financial difficulties. But now that Countrywide itself is struggling, it may not be able to do so, making it even harder for troubled borrowers to reduce their interest rates or make other changes to their loans to avoid foreclosure.

The possibility that Countrywide may have to buy back mortgages that it sold comes on the heels of its announcement last week that the tightening credit markets had forced it to draw on its \$11.5 billion line of credit from a consortium of banks, a move that sent the market plummeting.

The repurchase obligations are discussed in Countrywide's prospectuses and pooling and servicing agreements that cover about \$122 billion worth of mortgages packaged and sold to investors from early 2004 to April 1 of this year.

The agreements said that Countrywide Home Loans, a unit of Countrywide Financial, would buy back mortgages in the pools if their terms were changed to help borrowers remain current. Such changes are known as loan modifications. In general, it is difficult for homeowners to get loans modified if they are in a securitization pool.

It is unclear how many modified loans are involved. But it would cost \$1.2 billion for the company to repurchase 1 percent of the loans in the pools at issue. Repurchasing 5 percent would cost \$6.1 billion. When such buybacks are made, the original amount of the loan is paid into the pool and divided among the investors.

*But Tanta thinks the New York Times has it all wrong*

## Not All Modifications are Created Equal

I want everyone to know that I did not go out of my way to pick on Gretchen Morgenson or the NYT today. I got asked by several different people, one of whom is the blog boss ("Shiloh"), to comment on this article. This involved my wading through long prospectuses at dark-thirty this morning. Sure, Gretchen

coulda done that too, but this is business reporting on mortgages, circa mid-2007.

EVERYTHING!! IS NEFARIOUS!!! AND A CRISIS!!! BUY NEWSPAPERZ!!!

## UK: Record numbers face debt meltdown

The scale of Britain's personal debt mountain has come into sharp focus with new research showing a record number of households are facing serious debt repayment problems, and that Britons owe more money than the entire economy can generate in a year. They coincided with a warning from mortgage lender Nationwide that house prices are set to fall sharply back into line with wage inflation next year, as the credit crunch pushes up interest rates for families around the UK.

With America already facing a severe potential consumer downturn, the research from a variety of sources is the latest reminder that Britain's overstretched households remain one of the most vulnerable parts of the economy. Research from accountants Grant Thornton shows that the total stock of consumer debt owed by British families is larger than Britain's gross domestic product (GDP). Bank of England figures show that Britain's consumer debt stands at 1,345bn - higher than the size of Britain's annual output of 1,330bn, according to the Office for National Statistics.

## Four little piggies went to market

Money banks aren't fooling anybody

The decision by four money center banks to tap the Federal Reserve for \$2 billion to pry open the lending spigots of the U.S. financial system was seen in some quarters Wednesday as a turning point in the four-week old credit crisis.

It was. But unfortunately the point turned from denial to full-fledged fear.

Here's a news flash. The M&A market as we've known it over the past three years is dead as of this summer. With \$300 billion in outstanding deals still hanging in the balance, there is going to be almost no appetite among corporations to do a deal right now. That means shrinking M&A profits at the investment banks to go with trading losses and mortgage business losses, which will lead to investment banking layoffs, smaller bonuses, and the decline in the important financial sector of the markets.

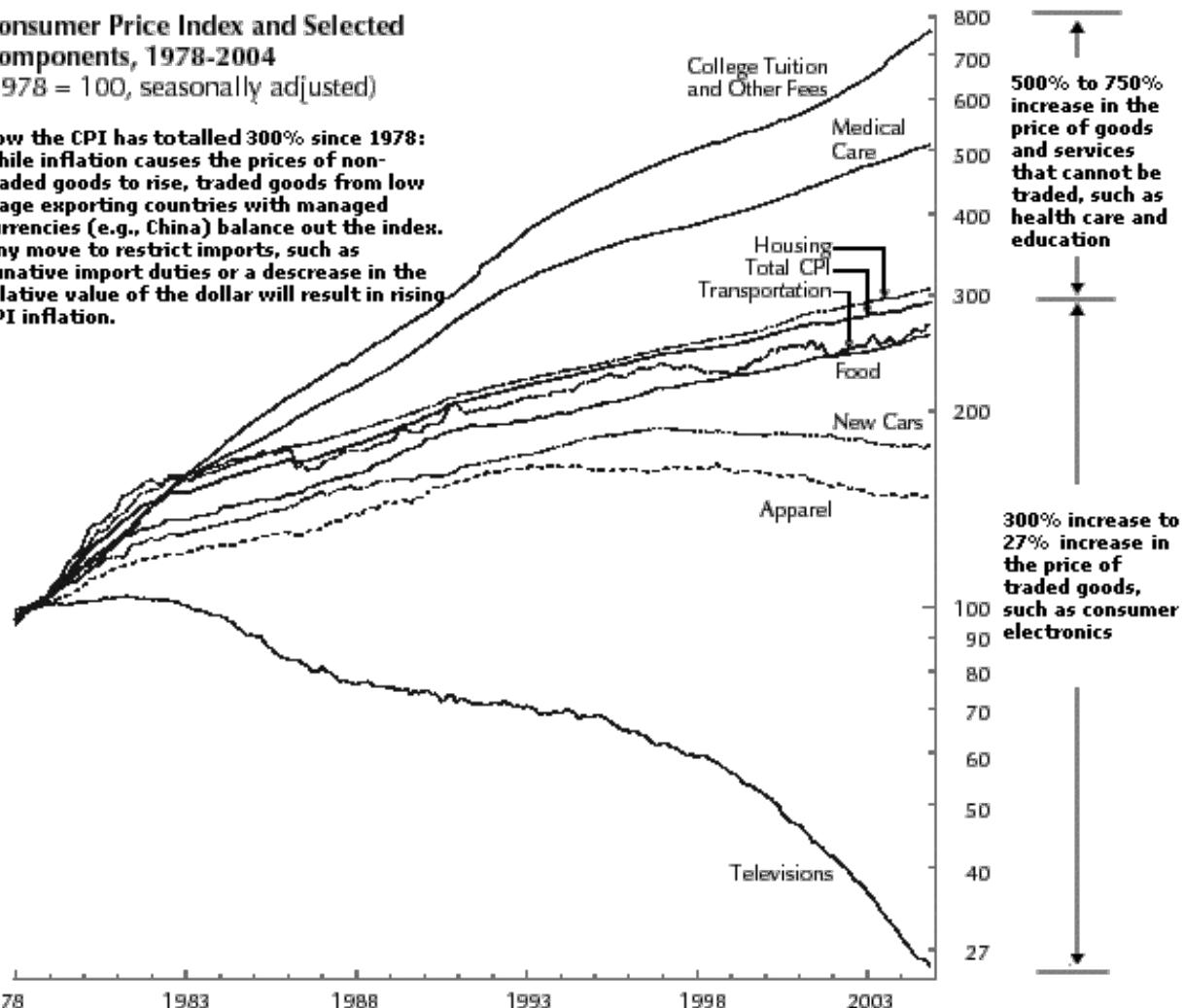
The continued denial in equities is the major danger, because if there is an awakening one day and a collapse, that will really speed us toward recession. So Bernanke and the Fed are thinking on their feet here, even if they are scared to death about how this might play out. The trick is to keep the markets as calm as possible as this thing unwinds, whatever it takes. Because it's going to be a while before it unwinds.

And as every investor knows, the next level down from fear is panic.

## Real inflation is in goods that cannot be traded

### **Consumer Price Index and Selected Components, 1978-2004** (1978 = 100, seasonally adjusted)

**How the CPI has totalled 300% since 1978:**  
while inflation causes the prices of non-traded goods to rise, traded goods from low wage exporting countries with managed currencies (e.g., China) balance out the index.  
Any move to restrict imports, such as punitive import duties or a decrease in the relative value of the dollar will result in rising CPI inflation.



## HSBC denies blame for forcing Barclays into the red over loan

Barclays faced fresh embarrassment yesterday over its £314 million emergency loan from the Bank of England, when HSBC, its rival, furiously denied that an error by its bankers had forced Barclays into the red.

Meanwhile, it emerged that Britain's biggest high street banks have more than \$120 billion (£60 billion) worth of exposure to the troubled asset-backed commercial paper market.

The banks have suffered a torrid few days, in which HBOS bailed out a \$35 billion in-house fund, Barclays became the first bank to call on the Bank of England's lending facility since the credit crunch and Northern Rock faced speculation that it was about to issue a second profits warning.

Sources at Barclays had blamed its overnight borrowing from the Bank of England on HSBC, saying that the bigger bank had failed to provide a loan, as promised. Barclays would be eligible for compensation from HSBC, the sources said.

Both banks yesterday refused to comment on the spat, but a source at HSBC said: "Any suggestion that there was any kind of failure is absolute nonsense."

### Bank of China Holds \$9.7 Billion of Subprime Assets

Bank of China Ltd., the nation's second-largest bank, said it holds almost \$9.7 billion of securities backed by U.S. subprime loans, the most of any Asian company.

The Beijing-based bank set aside 1.15 billion yuan (\$152 million) against possible losses on asset-backed securities and collateralized debt obligations backed by loans to borrowers with poor credit histories, it said in a statement today. The bank today announced first-half net income of 29.5 billion yuan.

Losses related to subprime loans may damp enthusiasm for Bank of China on a day when it reported a better-than-expected 51 percent increase in profit. The perceived risk of owning the company's bonds increased.

### ECB funding fails to relieve euro interbank market

The European Central Bank's first ever emergency injection of three-month funds was swamped with demand from banks on Thursday, but brought little relief to an interbank lending market beset by credit worries.

Euro zone banks snapped up the 40 billion euros (\$54.2 billion) in funding after bidding for more than three times the amount on offer, as the ECB tried to reduce borrowing costs in one of the markets hardest hit by the global credit squeeze.

But indicative prices for three-month lending were barely changed after the tender, quoted at a bid/ask spread of 4.65/4.70 percent, according to Reuters data, versus 4.65/4.71 percent before the announcement.

"The people who require the money still can't get the money. The money is lying in the wrong place and wrong bank accounts. The people who have it aren't lending it out," said a money market trader at a large bank.

The ECB is the ultimate source of money for euro zone banks, and its three-month tenders are normally aimed at getting funds to smaller banks which do not take part in its weekly auctions. Small banks have found it hard to borrow money for longer than a week because recent bailouts at two German banks, IKB and Sachsen LB, have scared away lenders afraid of getting caught in another bank's hidden exposure to U.S. subprime mortgages.

### Top Swiss banker attacks US lending standards as 'unbelievable'

Switzerland's top banker has warned of massive losses from the unfolding credit crisis, describing the collapse in US lending standards as "unbelievable". Jean-Pierre Roth, president of the Swiss National Bank, said market turmoil was far from over as tremors from the sub-prime debacle continued to rock the world.

"We're certainly not at the end of the story. There are question marks surrounding the development of the American economy," he said. "Something unbelievable happened. People who had neither income nor capital got credit with very attractive conditions. Now reality is striking back," he said.

In Germany, the state bank SachsenLB admitted that it had received a 17.3bn bail-out after its investment arm Ormond Quai racked up huge losses on US sub-prime debt. It had previously denied holding direct exposure to sub-prime.

### Bank CEO warns of German crisis

The chief executive of one of Germany's largest state-backed banks warned that foreigners were increasingly loath to extend credit to financial institutions in Europe's largest economy, which could spark a crisis.

"We sense reluctance on the part of foreign partners to extend credit to German banks," WestLB CEO Alexander Stuhlmann told journalists on the sidelines of a bank event, according to wire service reports. "If we have a banking crisis in Germany with other countries cutting us off, then other banks will also face difficulties."

His comments come days after a German lender, SachsenLB, said it required a credit line of 17.3 billion euros (\$23.2 billion) because of the investments it had made in securities affected by the U.S. subprime mortgage crisis. IKB Deutsche Industriebank required a similar bailout.

### Wells Fargo Gorges on Mark-to-Make-Believe Gains

There's the kind of earnings investors can take to the bank. And then there's the kind the bank can show to investors. Word to Wells Fargo & Co. investors: Beware the second kind.

Last quarter Wells Fargo reported record net income of \$2.28 billion, up 9 percent from a year earlier. Read the footnotes to its latest quarterly report, though, and you will see a new term in accounting lingo called "Level 3" gains. Without these, the financial-services company's earnings would have declined.

So what are Level 3 gains? Pretty much whatever companies want them to be. You can thank the Financial Accounting Standards Board for this. The board last September approved a new, three-level hierarchy for measuring "fair values" of assets and liabilities, under a pronouncement called FASB Statement No. 157, which Wells Fargo adopted in January.

## [Is shoddy home construction exacerbating the housing crisis?](#)

She wasn't an investor. She didn't have a subprime mortgage. But when Jordan Fogal's house became uninhabitable, the 62-year-old grandmother says foreclosure became her best alternative.

Fogal's troubles began when she and her 72-year-old husband, Bob, moved to a new housing development near Houston in 2002. That first night in the new house, the dining room ceiling collapsed. Bob had pulled the plug in the Jacuzzi tub upstairs, and 100 gallons of water came crashing through the ceiling downstairs because the plumbing drains were not connected.

"That was a preview of coming attractions," Fogal says. Later, the roof and windows leaked, the yard flooded, the shower walls started bowing out, the floor in the kitchen started sinking, and mold began to grow all over the house. The smell was terrible, she recalls, and eventually Fogal's doctor ordered her to leave the house because of the dangerous mold levels. A construction company hired by the Fogals estimated that it would take \$150,000 to repair everything. "I could afford my mortgage payment, but I couldn't afford \$150,000 in repairs," says Fogal, who had a 30-year fixed-rate mortgage at the time. The home — appraised at \$408,000 the day the couple bought it — ended up selling for \$234,000 at a foreclosure auction.

"All of this time, I was begging the builder to fix these problems," Fogal recalls. But, she says, they only showed up to about 25% of the appointments she made. "That's absolute nonsense," says Tom Thibodeau, president of Tremont Homes and then-president of the Fogal home's builder, Tremont Custom Construction. "We tried everything we could to fix this house, and she refused it. She only wanted us to buy the house back."

## [US mortgage crisis spreads to luxury home builders](#)

America's top builder of luxury homes has revealed that cancellations are at an all-time high as a crisis gripping the property market widens to the country's most affluent homebuyers.

Toll Holdings' news came as hundreds more jobs were cut by several mortgage lenders, including HSBC, which is closing a lending office with 600 staff in Indiana.

Although the property slump originated in the much less affluent sub-prime sector, Pennsylvania-based Toll Holdings made it clear that its speciality of gated estates, golf communities and waterside developments was suffering.

## [Next victim of mortgage mess: Auto sales](#)

Already-battered U.S. auto sales could be the next victim of the problems with mortgages, declining home and stock prices as potential car buyers delay purchases due to uncertainty.

Industrywide U.S. auto sales in August could be off 10 percent from a year ago, according to an early read from sales tracker Edmunds.com. That follows July sales that were **19 percent below year-earlier levels**. Jesse Toprak, executive director of industry analysis for Edmunds.com, said that the downturn in home values and credit issues that were seen in the July numbers could be an even bigger factor this month. "I think the issue is becoming more pronounced," he said.

Sales weren't just weak at domestic automakers, such as General Motors, Ford Motor and Chrysler Group. Year-over-year sales fell in July at Toyota Motor and Honda Motor as well. Many forecasters are cutting full-year auto sales targets in the face of these weak summer sales. And some experts say the turmoil in housing could throw even more dirt in the gears.

### [Coventree Inc. Fails to Sell \\$399 Million in Maturing Notes](#)

Coventree Inc., Canada's biggest non-bank issuer of asset-backed commercial paper, said it couldn't sell any of the \$399 million in debt that matured yesterday.

Since the correction began in the non-prime mortgage loan market, about \$5.5 billion in notes issued by Coventree- sponsored bodies have matured, the company said in a press release yesterday. Of those, the company has sold about \$613 million to investors who chose to renew or roll over maturing notes. The company said it believes it has sufficient capital for current operational needs.

Coventree said in the statement that it will suspend any additional investments and will not pursue the creation of a U.S. conduit or retail bank. Coventree's shares fell 54 cents, or 15.4 percent, to \$2.96 in Toronto Stock Exchange composite trading yesterday before the statement was issued last night.

### [Russian Banks 'borrowed too heavily'](#)

Russian bank borrowing on international markets has risen rapidly to total \$110bn (55bn, 81bn) as of April 1 this year more than double the level of the previous year.

Overall foreign borrowing by the Russian banking system stands at 15 per cent of total assets, far lower than debt levels in other emerging markets. But several of Russia's top consumer lenders have raised more than 60 per cent of financing on international capital markets, while lending to their customers in roubles. They risk currency mismatches as the dollar strengthens. Mr Melikyan's remarks were made as Russia's financial system faces the first test of its resilience to external shocks, with foreign investors fleeing its money markets to seek safer havens in US Treasuries.

Russia's economy was reckoned a safe place to invest because of high oil revenues that have helped fill central bank reserves to record levels. But the lifting of capital controls last year and increasing international borrowing by Russian companies have left it vulnerable to the global market turmoil. The central bank was forced to pump a record Rbs169.7bn (\$6.6bn, 3.3bn, 4.8bn) into the banking system on Thursday as banks faced

monthly tax payments and an exodus by foreign investors. "The situation is getting worse and worse," said Alexei Yu, trader at the Moscow brokerage Aton. "There is still a long queue to get out of this market."

Russia's central bank on Thursday reported the country's hard currency reserves fell by \$5.5bn this week to \$414.7bn the steepest fall this year after the central bank was forced to sell as much as \$4bn this week to halt a sell-off of the rouble. "If this continues for another three to four months, we will be in a full-blown crisis," Mr Yu said. Most traders and analysts reckon the liquidity crunch will last until at least the month's end while monthly tax payments continue.

### [Money-market funds latest to feel fallout of credit crunch](#)

The market turmoil of the past month spawned by growing credit-market problems is spilling over into money-market funds, an investment long seen as a safe and secure place to park cash. Concerns about fallout from now-failing mortgages and the grinding sounds emanating from the normally well-oiled credit markets have led some investors to throw the proverbial baby out with the bath water. Investors clamoring for safety have been leaving the normally secure confines of money-market funds in favor of even more conservative investments.

### [Further shocks likely as crisis far from over](#)

Stock and bond markets regained a modicum of stability yesterday, but ongoing gyrations in the commercial-paper market indicate the U.S. subprime crisis is far from over and the risk of further financial-market contagion remains high.

Short-term U.S. government paper remains the haven of choice for rattled investors as they wait to see whether the Federal Reserve's discount rate manoeuvring and liquidity injections will be enough to prevent a seizure of the financial system or damage to the underlying U.S. economy....

....On the pessimistic side, Stephen King, group chief economist at HSBC in London, wrote in a note: "Should the panic exhibited over the last few days turn into revulsion, the markets may never be the same again. The implied liquidity drain might leave the financial system, and the broader economy, more vulnerable than we currently believe."

The world economy "is now at risk from financial market seizure," he added.

### [UK: A summer of rain threatens to bring the great autumn floods](#)

Britain is facing a flooding timebomb this autumn and winter, with huge amounts of underground water stored up by incessant summer rain ready to burst out as floods the next time heavy rains return.

The Environment Agency is giving warning of "an enhanced flood risk" for England and Wales, although where and when any flooding strikes will depend on the weather patterns. Forecasters are predicting a wet autumn across much of Britain.

### [Asia faces the nuclear power cost conundrum](#)

A drive by some Southeast Asian countries to join the global revival in nuclear power may be running into new obstacles as costs expand and neighbors grow anxious over their safety in a region exposed to earthquakes.

Thailand, Indonesia and Vietnam - all of which have said they hope to develop atomic power by around 2020 - will have the chance this week to allay concerns arising after a July 16 quake in Japan caused a small water leak at the world's biggest nuclear plant, forcing its indefinite closure.

### [New nuclear power said too costly and risky](#)

Building more nuclear power plants is too slow, costly and risky to help the fight against climate change and energy security, a UK environmental think-tank the New Economics Foundation said on Wednesday.

Some countries, including Britain, are considering building a new generation of nuclear power stations to cut carbon emissions from power generation and reduce dependency on imported fossil fuels. But, according to a report published by the foundation on Wednesday, the costs involved in building new reactors is up to three times higher than supporters of such plants say.

"Nuclear power has been promoted as a solution to climate change and an answer to energy security. It is neither," the report concludes. "As a response to global warming it is too slow, too expensive and too limited."

### [UK: No new nuclear plants likely before 2020](#)

No nuclear power plants are likely to be built in Britain before 2020, if they are built at all, which will be too late to fill the country's looming power generation gap, according to a report published on Monday.

The government wants the private sector to build new nuclear power plants to replace the country's ageing reactors and plug a generation shortfall left by the closure of coal-fired power plants under European environment laws.

### [Renewable energy can save East Asia two trillion US dollars in fuel costs](#)

Shifting to renewable energy could save countries in East Asia as much as two trillion US dollars in fuel costs over the next 23 years, or more than 80 billion dollars annually, environmental group Greenpeace said Thursday.

A shift could also reduce carbon dioxide emissions by 22 percent in the same period, it said in a report released to coincide with a meeting of Association of Southeast Asian Nations (ASEAN) energy ministers here.

Globally, investing in renewable energy -- geothermal, hydro, wind and solar power as well as biomass and biofuels -- would save countries 180 billion dollars a year and slash carbon dioxide emissions in half by 2030, Greenpeace said.

### [Africa: Marburg is a Global Threat, Says WHO](#)

The deadly Marburg virus disease, which was reported in Uganda some weeks ago, is one of the biggest threats to global health security, the World Health Organisation has declared.

"Emerging viral diseases such as ebola, marburg hemorrhagic fever and nipah virus pose threats to global public health security and also require containment at their source due to their acute nature and resulting illness and mortality," said a summarised version of the 2007 World Health report due to be released in Geneva tomorrow.



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