



The Round-Up: September 18th 2007

Posted by [Stoneleigh](#) on September 17, 2007 - 9:17am in [The Oil Drum: Canada](#)

Topic: [Miscellaneous](#)

This is a guest Round-Up by [ilargi](#).

Northern Rock is one of the operations that "secured" their long-term loan commitments with short-term debt. Works like a charm when the markets go up, but... We've all seen pictures of the bank runs. But the crowds, or even this one bank, are not the story.

Northern Rock lost some 60% of its share value, and at least two other big UK lenders hurt as well. Alliance & Leicester (A&L) is down 36% since Sep. 12, Bradford & Bingley (B&B) 21.9%. Ratings for 7 more EU banks were downgraded, among them powerful Deutsche Bank.

The Bank of England is under siege for acting too late with their deposits guarantee, and so is the government.. Northern Rock will soon be sold, either to a group of good-old UK banks, or to foreign banks. We'd like a Chinese buyer, just for the fun of it.

The new British prime minister, Gordon Brown, was the Chancellor of the Exchequer when this mess was brewing, and that will haunt him. Perhaps the best indicator for the severity of the situation in England is that US Treasury Secretary Paulson flew to London on a Monday morning red-eye. There are even questions about the solidity of the *entire* UK banking and lending system. Something makes us doubt that this is over.

Next, Greenspan. The semi-mummified sorcerer is on a high-profile book tour, which provides ample press-ops for his oracle-y texts. He even had a say on the UK markets, for some reason:

[Pain on way for UK homeowners: Greenspan](#)

Greenspan predicted that Britain would be more exposed than the United States to the financial turmoil gripping global credit markets. "Britain is more exposed than we are - in the sense that you have a good deal more adjustable-rate mortgages," he said.

But he said that Britain was well placed to deal with any economic shocks because of government labour market reforms put in place in the 1980s. [ed: remember Thatcher?]

People tend to focus on his "[Iraq was about oil](#)" comment, but there was more. One, he stated that the [Euro might replace the US dollar as the world reserve currency](#), and two, even stranger from an economics point of view, he said the following:

[Greenspan says U.S. not headed for recession: report](#)

Greenspan, in an interview in the Dutch newspaper NRC Handelsblad on Monday, warned inflation will rise to about 5 percent in Europe and the United States.

"The normal inflation level is closer to 5 percent than the current 2 percent," Greenspan said, adding that **the 5 percent level fitted an economy with a "paper" standard where the currency is not linked to gold.**



Excuse us? How does a 5% inflation rate equal a gold standard? Isn't gold supposed to prevent inflation?

We emailed the quote to some of the real experts. [Calculated Risk](#) said: "Wow. That is a dumb thing to say!". [Mike 'Mish' Shedlock](#)'s reaction: "That is one of the dumbest things he has ever said." We rest our case.

Today will be big, with what some call the most important Fed meeting in a decade. The expectation is a rate cut of .25-.50%, but no-one is sure what the sorcerer's apprentices will come up with. Alan Oz himself is looking on from a safe distance, fiddling idly and signing books, while Rome burns.

[Angry savers force Northern Rock to be sold](#)



Northern Rock, the crisis-hit bank under siege from thousands of its customers, was preparing itself last night for a sell-off, The Sunday Telegraph can reveal.

One plan being worked on by City bankers was to divide the company's £100 billion mortgage portfolio between the other major banks, in what would amount to a private-sector rescue of the lender.

Worried customers besiege Northern Rock's Kingston branch In scenes not experienced for decades, police were needed to keep the peace at branches across the country as increasingly angry and desperate investors rushed to withdraw their funds.

However, despite many queuing from before dawn, scores were sent away empty-handed when cashiers ran out of time to serve them.

[Police help to disperse Northern Rock queues](#)

Long lines formed at 72 branches across the country even before counters opened this morning.

Police were called to deal with "boisterous customers" after a Glasgow City Centre branch closed at midday.

[Fears grow for British economy as panic over Northern Rock spreads](#)

Thousands of anxious customers queued outside branches of Northern Rock to withdraw their savings this weekend, ignoring calls for calm from Darling, after he helped broker an unprecedented emergency loan from the Bank of England to rescue the bank.

City economists warned that a decade-long borrowing binge had left the UK economy dangerously exposed to the fallout from the credit crunch. 'I think the UK is extremely vulnerable to this,' said Danny Gabay, director of consultants Fathom. 'The UK has a double vulnerability. We are vulnerable because of our hugely over extended consumer sector, and because of our large financial services sector. This is a financial market event; but the longer it goes on, the greater the risk that it becomes a real economy event - and I think we are at a tipping point.'

[Crisis deepens for Northern Rock](#)

Long lines of customers formed at branches of Northern Rock, the embattled British bank, early Monday, and its shares plunged again, heightening pressure for a sale of the business or its assets.

The British mortgage lender, which was rescued Friday by emergency financing from the Bank of England, said there was no need for investors or customers to panic and that it remained solvent. Nevertheless, customers appeared set to continue pulling out savings, and by midday Monday its shares had more than halved in value since Thursday's close.

[Northern Rock Stock Tumbles Further Amid Run on Bank](#)

Hundreds of clients ignored assurances from Chief Executive Officer Adam Applegarth and U.K. Chancellor of the Exchequer Alistair Darling that their deposits are secure after the biggest rescue by the central bank in 30 years. Savers have removed about 2 billion pounds, or about 8 percent of the total, since Sept. 14, according to estimates by analysts at JPMorgan Chase & Co.

``What we're seeing with Northern Rock is a crisis of confidence," said Neil Wesley, a London-based investor who helps manage about 165 billion pounds at Morley Fund Management Ltd. ``It will not continue to exist in its current form."

[A rush to cash out of Northern Rock](#)

"I don't think the bank will collapse - but we just don't have the nerves," he said, surrounded by a group of depositors who had traveled with him to the central London branch from a southern one after being told that the wait there would be at least six hours. "I took some financial advice over the weekend, and I'm taking the money out to get peace of mind. We're relying on this money for our pension."

Panicky customers have withdrawn an estimated £2 billion, or \$4 billion, since the bank acknowledged Friday that it no longer could raise funds because of the credit crunch that has squeezed global markets following a meltdown in the market for subprime loans in the United States.

Unlike other banks that have been bailed out because of direct exposure to subprime mortgages, Northern Rock was the first to directly fall victim to the global credit squeeze, because it relied heavily on raising funds in the capital markets.

[Mortgage Worries Extend to U.K. Lender](#)

Amid a broader liquidity squeeze in global financial markets, Northern Rock's reliance on wholesale markets for 75% of its funding made it particularly vulnerable as banks became more cautious about lending to each other over the past several weeks.

[Northern Rock Share Trading Suspended](#)

"The images of customers queuing up in the high street has done irreparable damage to the franchise," said Nic Clarke, an analyst for Charles Stanley & Co. in London.

"There is value in Northern Rock for a predator with a strong balance sheet but they would have to move quickly to save whatever is left of Northern Rock's reputation," he added.

"Extensive news coverage of people queuing up to withdraw their savings from Northern Rock could well fuel the fears that other financial institutions will be affected and increase general concern about the economic outlook," added Howard Archer, chief U.K. economist with Global Insight.

[More banks may need bail-outs as Northern Rock crisis affects Alliance & Leicester](#)

Shareholders in Britain's biggest banks lost £8bn yesterday as rumours swept the stock market that other high-street lenders could be forced to follow Northern Rock's call for a Bank of England bail-out.

[Euro ean Stock Futures Drop; Deutsche Bank May Fall](#)

European stock-index futures fell after Citigroup Inc. downgraded nine banks in the region on concern earnings in the industry will be hurt by the ongoing credit debacle.

Deutsche Bank AG, Bradford & Bingley Plc and Alliance & Leicester Plc may lead the decline. Northern Rock Plc, the U.K. mortgage lender bailed out by the Bank of England last week, may drop after customers lined up at branches across the country to withdraw their savings.

"The uncertainty surrounding financial stocks in the current liquidity crisis will continue to weigh on European markets," said Erhan Aslan, a trader at Concord Effekten

AG in Frankfurt. "I expect nervous trading until the Federal Reserve will decide on interest rates tomorrow."

[Banking contagion costs Alliance & Leicester £1.2bn](#)

Alliance & Leicester saw £1.2 billion cut from its market value yesterday as investors abandoned the mortgage sector amid fears of contagion from Northern Rock.

Shares in A&L, Britain's fifth-largest mortgage lender, plunged 31 per cent to 600p yesterday. The bank's shares have lost 36 per cent since last Thursday, when the market panic over Northern Rock's emergency loan from the Bank of England began. The Leicester-based bank's stock plummeted by 15 per cent in the last half-hour of trading on the London Stock Exchange, sparking speculation that A&L was preparing to tell the market that, like Northern Rock, it had tapped the Bank for credit.

[Ripples Upon Ripples](#)

With each ripple, the unfolding financial crisis touches a larger and larger segment of the credit universe.

At first, the problem areas included only the riskiest kinds of obligations. Essentially, these were shaky loans to dodgy debtors, often backed by dubious collateral. Many of the borrowers involved seemingly had little intention of repaying what they owed.

Now, though, the unraveling process is beginning to upend companies, sectors, and markets where borrowers are not only willing to honor their debts, but generally have the wherewithal to do so as well. **The point is, as I've mentioned previously, that any system built on credit is, at its core, utterly dependent on confidence.** But once that starts to slip in any sort of noticeable way, then the situation can easily turn into a runaway train that is almost impossible to stop before it derails into a fiery crash.

[Damsel in distress needs a white knight, but how high will the price of rescue be?](#)

Although the bank is solvent and depositors will get their money back, that does not mean that potential buyers would necessarily value it as a going concern. Although open for business, Northern Rock will soon look like an institution in run-off. Thanks to the Bank of England credit line, it will carry on meeting its obligations as they fall due, but will struggle to do any new business.

On the plus side, it has a solid loan book. Its borrowers' recent record on arrears and defaults has been better than most of its rivals. However, its policy of lending unsecured up to 25 per cent of the property value could lead to problems in future.

[How dodgy US loans five years ago brought about crisis in the UK banking sector](#)

Darling said Britain was well placed to handle the lending crunch that arose from a collapse in the US subprime mortgage market.

"Many banks and other financial institutions all over the world are experiencing problems.

"Here in Britain, we meet these challenges against a background of a strong economy, one that has grown for over 60 consecutive quarters."

Reports yesterday said more than £2 billion had been withdrawn from Northern Rock since Friday.

It also became apparent that Northern Rock was almost sold to rival bank Lloyds TSB. However, the deal fell through because of the difficulty of borrowing money in the current financial climate.

[Northern Rock goes into freefall](#)

Mortgage banks and property companies led the way as the market slumped again, with Northern Rock facing another run on its shares as well as on its savers' cash. In the same way many of its account holders ignored chief executive Adam Applegarth's exhortations for calm, shareholders also took little notice of talk of a takeover for the bank. By lunchtime its shares had slumped almost 40%.

[Brown bids to halt panic with pledge on savings](#)

Gordon Brown last night gambled his political credibility and £22 billion of public money in an effort to halt the spreading bank panic.

In an extraordinary intervention, the Treasury announced the government and the Bank of England would guarantee all deposits with the stricken Northern Rock bank. Only today, after the bank's branches reopen, will the government know if its dramatic move has paid off.

Expert opinion was last night divided, with no-one clear if the financial rollercoaster was about to slow - or speed up.

Should customers ignore ministers' reassurances and keep pulling money out, the Prime Minister will be severely damaged. The unprecedented and high-risk attempt to stop customers withdrawing cash from Northern Rock came amid fears that the panic could be spreading to other banks.

[UK seeks to stem Northern Rock exodus with guarantee](#)

The British government tried to stem the tide of cash pouring out of Northern Rock on Monday, promising depositors they wouldn't lose a penny as the bank's share price plunged further and thousands queued to withdraw their savings.

But fears that Northern Rock is not alone in needing funding saw shares in fellow UK bank Alliance & Leicester tumble more than 30 percent in frenetic trading, forcing it to deny it has also asked the central bank for help and continued to fund itself.

UK finance minister Alistair Darling said if necessary the government and Bank of England would guarantee all existing Northern Rock deposits during the current instability.

[King, BOE Face 'Crisis of Confidence' After Rescue](#)

Bank of England Governor Mervyn King has spent the past month trying to stay above the fray as the U.S. subprime-mortgage collapse roiled credit markets. Now he's getting dragged in, whether he likes it or not.

Two days after King, 59, told lawmakers on Sept. 12 that central banks should avoid giving the impression they will help lenders that made bad decisions, the Bank of England provided emergency funds to Northern Rock Plc in the biggest bailout of a British bank in three decades.

[Bank Of England's Lack Of Intervention Drawing Criticism As Lender Seeks Protection](#)

Great Britain is the first country to have a bank run from the current market turbulence, with Northern Rock customers lined up around the block, phone lines jammed and its Internet site under constant use. The lack of intervention by Central Bank Governor Mervyn King drew fire from British politicians.

[Shattered Confidence](#)

Northern Rock, Countrywide, Sentinel, and other have gotten themselves into a big mess by using short term borrowing to make long term loan commitments....

....For the first time in six years, it is now possible to earn interest on your savings of 7%. The Stroud and Swindon building society has launched a one-year investment bond offering 7.05%. And the Standard Life bank is also offering a similar deal at 7%, although for just six months.

It's pretty hard to make any money when you have to pay 7% to attract deposits while

making long term mortgage commitments at lesser rates. In fact, coupled with declining property values it is a recipe for a major disaster.

[U.K. Housing Market Buckles Under Weight of Credit Crunch](#)

The end of the U.K. housing boom has been a long time coming, but it has finally arrived. The 3% August drop in the average house price, as reported by property Web site Rightmove, certifies the beginning of the new era.

The end comes when prices are too high by any measure. The average house price, adjusted for inflation, hit the peak level of 1989, using an index compiled by Halifax Bank, in mid-2002. That was probably too high to be sustained, but the market had its own momentum. The inflation-adjusted average house price has climbed almost 60% since then, including a 9% gain in the past year.

The Bank of England tried to prick the bubble with rhetoric and higher interest rates. But its tactics proved much less potent than the credit crunch.

[EU adopts flexible stance on bank crises](#)

The ministers and bankers agreed to adopt common principles for managing cross-border financial crises but left unanswered the question of how, if at all, the governments and taxpayers of different EU member-states should share the cost of rescuing a bank active in many countries.

EU officials are devoting great attention to the issue because of the risk that the continuing liquidity squeeze in world financial markets may cause a crisis at a cross-border financial institution similar to the one that struck Northern Rock, the UK bank and mortgage lender, last week. According to a committee of EU finance ministry and central bank officials, there are 46 cross-border banking groups in the EU, and 21 of those have significant operations outside their home country.

[Ailing lender's checks bounce](#)

Homeowners often make monthly payments for property taxes, insurance and other fees to their mortgage companies to be set aside in escrow funds until the money is due.

It's unclear why American Home Mortgage, which filed for Chapter 11 bankruptcy protection Aug. 6, did not have the money to cover the checks or what it intends to do about it.

Escrow accounts are protected by state law from creditors during bankruptcy proceedings, said Raquel Guillory, a spokeswoman for the Maryland attorney general's office.

It's possible, though not likely, that American Home Mortgage's escrow funds were frozen by accident as part of the bankruptcy proceedings, said Mike Morin, a staff attorney at Civil Justice Inc. in Baltimore.

[The Time to Panic is When Those in Charge Say "Don't Panic"](#)

Although it's been widely covered elsewhere, there's one thing worth noting about the crisis unfolding at British lender Northern Rock: it could happen here -- or anywhere else for that matter.

By definition, most banks, savings & loans, and other such operators are houses of cards that depend almost entirely on the confidence of those who entrust them with their money.

That is because virtually all of these institutions lend out far more than they have on deposit, and thus are only one step removed from crisis and insolvency if too many people decide they want their money back all at once.

["A House of Cards"](#)

Northern Rock is just the latest victim as the global credit crunch widens its reach, and it is indeed widening. The Baltimore Sun reports: "Checks sent out by the troubled American Home Mortgage Investment Corp. to pay the property taxes of more than 70 homeowners in the Baltimore metropolitan area have bounced", which puts those properties at risk if the homeowners cannot manage to pay the taxes themselves. It goes on to quote one observer who "suspects that some lenders short on cash have dipped into escrow funds [held to pay taxes] to cover operating expenses." Clearly, the housing collapse is beginning to deepen.

The most vulnerable are the first to fail. Northern Rock like countless other banks before it - and no doubt many other banks not yet in Northern Rock's dire position - caught the fatal disease that has relentlessly sunk banks throughout the ages. These are the banks that 'lend long and borrow short', and nearly all of them do. In other words, banks that have loans with long maturities funded by short-term deposits are learning how fickle people can be with their money.

This lethal mismatch of assets and liabilities that arises by borrowing short and lending long appears to be a good strategy on the face of it. Taking advantage of lower interest rates on funding with shorter maturities generates extra margin for lenders during the good times. But alas, the good times always end don't they? And as sure as night follows day, the bust inevitably follows the boom.

[Stopping a crisis becoming a catastrophe](#)

The television images of thousands queuing to empty their bank accounts the length and

breadth of Britain were too much for Gordon Brown's government. Signs that the contagion was spreading to other leading banks risked a crisis turning into a catastrophe. Only a blanket guarantee would do.

Such was the judgment that led to **the extraordinary announcement last night that the Treasury is ready, in effect, to stand behind depositors not just in Northern Rock but in every other British bank.** Government ministers – notably Alistair Darling, the chancellor of the exchequer – presented the guarantee as a prudent safeguard against the risk of systemic breakdown. In truth, the panic that had brought down Northern Rock was fast spreading through the corridors of power in Whitehall.

[Banks' dark off-balance-sheet world](#)

In any case, with the spotlight now trained on the structured-credit arena, institutional investors have become choosier about what paper they're willing to own, thus creating the illiquid environment that the short-term money-market funds and the banks currently find themselves in.

For the banks, this comes at an inconvenient time because they're trying to figure out how to deal with the \$300 billion-plus of leveraged buyouts they've committed to finance. Conduits tend to roll at the same time. And last week was one of those occasions when a considerable amount -- more than \$100 billion -- of asset-backed commercial paper needed to be rolled, meaning that the debt required refinancing.

[So what is it worth?](#)

The tale highlights a much bigger battle about valuation that has already brought down other funds and still rages behind the scenes in numerous offices at banks, hedge funds and accountancy firms on Wall Street and in the City of London. One of the biggest problems spooking the markets is the sheer uncertainty about just how large the losses on many financial instruments might be - and which institutions will be hit.

This uncertainty has in turn created a crisis in trust among banks worried about the creditworthiness of their peers and therefore wary of lending to each other - which increases concerns about the possibility of a bank failure. While central banks can inject liquidity, that will only cure part of the problem: what is really needed is for banks to trust one another - and that requires transparency.

[World's banks hit for \\$30 billion in credit crunch](#)

The world's investment banks are to reveal a \$30 billion (£14.9 billion) hit from bad debts as they unveil results that give the first real insight into the impact of the debt crisis.

City analysts predict the banks will have to write down as much as 10% of the \$300 billion of leveraged loans currently agreed but not yet syndicated when they report third-quarter results to the market.

Banks are also expected to announce further hefty provisions to cover their exposure to commercial paper, including the so-called conduits and SIVs, a type of highly leveraged investment fund. In some cases profits for the third quarter could have been almost wiped out by a combination of exposure to bad debts and complicated commercial paper.

Kian Abouhossein, banking analyst at JP Morgan, said: "The hits will essentially mean that some investment banks will have made almost no money over the last quarter. Profits will be close to zero."

[Cold turkey for financial addiction](#)

The addiction started with the junk-bond craze and the smart takeover merchants of the 1980s. Those junkies were on relatively soft drugs and they were fringe people - most of the serious investors and financial institutions saw them as market outlaws or barely legal cowboys. They were what I then called "adventurers, marauders and buccaneers". Some crossed the line and were convicted on serious criminal charges....

....Soft drugs gave way to hard. Addiction spread. The drugs diversified; so did the addicts. Into the 1990s and dramatically more so into the 21st century, many of those in the top-drawer financial world became addicted. Many became more, more became most, and most in the past few years became all: the biggest and most respectable financial institutions, financiers, creative investors and even regulators joined in with a sense of benevolent enthusiasm that defied any remaining scaremongers.

When everyone in the house is crazy, only the sane seem like fools. So it was when the financial addiction spread everywhere. Then everyone who was not taking his daily dose of heroin or cocaine became the fringe-dweller, the oddball, the brake on progress, the party-pooper at the greatest no-cash-down, how-to-spend-it shindig that our planet has ever known. Debt piled on debt everywhere: in households, corporations, public finances and international deficits, in magnitudes that had never been even glimpsed in the most creative imaginations before.

[Japanese Housewives Sweat in Secret as Markets Reel](#)

Tens of thousands of married Japanese women ventured into online currency trading in the last year and a half, playing the markets between household chores or after tucking the children into bed. While the overwhelmingly male world of traders and investors here mocked them as kimono-clad "Mrs. Watanabes," these women collectively emerged as a powerful force, using Japan's vast wealth to sway prices and confound economists.

Many bought and sold stakes worth into the millions of dollars through margin trading, a potentially lucrative but risky form of trading that uses borrowed money.

Until the credit crisis, which began with troubles in the American mortgage market, the value of foreign currencies traded online by private Japanese citizens, including women, averaged \$9.1 billion a day — almost a fifth of all foreign exchange trading worldwide during trading hours in Tokyo, said Kazuhiro Shirakura, an analyst at the Yano Research Institute in Tokyo.

[Japanese Stocks Fall on Credit Crisis Concern](#)

Japanese stocks dropped after withdrawals from U.K. bank Northern Rock Plc reignited fears that a credit crisis will slow the global economy. Mizuho Financial Group Inc. led declines.

“Most investors had not imagined the subprime problem would affect European financial companies this much and Northern Rock's news hurt market sentiment,” said Yoshinori Nagano, who helps oversee about \$70 billion at Daiwa Asset Management Co. in Tokyo. “Japanese lenders were sold off because global investors are trimming their holdings in financial stocks worldwide.”

[Flaherty pleased with bank's role](#)

Flaherty said in his speech that solid job growth, government budget surpluses and falling debt burden have helped ease the economic stresses of the credit crunch.

The Bank of Canada and other central banks around the world have pumped billions of dollars into the financial system in recent weeks to help ease the credit turmoil.

[Foreign investors flocked to Canada in July](#)

Canadians continued to invest less cash in foreign securities in July, while non-residents changed tack and bought more Canadian securities, according to Statistics Canada data released on Monday....

...While Canadian investors may be more inclined to keep their money at home, Mr. Kavcic said August data may show that foreign investors fled to the safety of U.S. Treasury Bills to avoid losses related to the global credit crunch.

[Banks left on hook in credit market freeze](#)

What began as a freeze-up in a small corner of the commercial paper market has now spread across the sector, prompting some insiders to warn of potential massive repercussions for the big banks.

The problems started early last month when fallout from the subprime mortgage crisis hit the market for non-bank sponsored asset backed commercial paper (ABCP), causing it to stop functioning. Since then holders of the notes -- worth a total of about \$35-billion -- have been unable to get their money back.

In recent days the contagion has seeped into the broader commercial paper market, traditionally a major source of short-term debt for companies looking to finance day-to-day operations.

Despite the fact that spreads at or near record levels especially for bank-sponsored ABCP, volumes have plummeted, prompting concerns that this time the banks may be left holding the bag.

"There's a huge shift going on where the financial institutions are putting this stuff back onto their own [balance] sheets," a senior financial industry official familiar with the matter said yesterday.

"The question is, how does the banking system handle that? It's taken 20 years [for the market in ABCP to develop], and now in a very short time they've got to take it back and how are they going to have the capital to do that?"

The total ABCP market in Canada is estimated at \$120-billion, but taking into account the other kinds of short-term debt that are being hurt -- such as basic commercial paper -- banks could end up being forced to hold a lot more, the official said.

"This is a way bigger problem than people realize," he added.

[Canada Dollar Dominance Shows Break With U.S. Dollar](#)

The U.S. and Canadian dollars, which traded in tandem 94 percent of the time since 2000, decoupled in May and now have diverged for the longest stretch this decade, according to data compiled by Bloomberg.

While the worst housing slump in 16 years threatens to slow U.S. growth, record oil prices and rising costs for copper and zinc are boosting Canada's exports and allowing the government to balance its budget. Energy accounted for 19 percent of Canada's exports this year, compared with 12 percent in 2002, government data shows.

[We'll weather subprime storm: Flaherty](#)

Responding to the lack of transparency concerning the exposure of Canadian financial institutions to the so-called asset-backed securities market, Jim Flaherty, the Minister of Finance, said yesterday the situation is not worse than expected.

"We've known of the size of that early on," he said.

Earlier this month, Caisse de depot et placement du Quebec spearheaded an initiative coined "the Montreal proposal," which is intended to help institutions buy time to restructure the estimated \$35-billion exposure to asset-backed commercial paper

(ABCP) that is not sponsored by banks.

[Rich getting richer: everyone else in a rut](#)

Over the past three decades in the United States, as Peter Nicholson, president of the Council of Canadian Academies, points out, "the very rich have gotten a lot richer, but most everyone else has been stuck in a rut" despite strong productivity and employment growth.

In Canada, he says, things have been different, but less different than we might think. "In many important respects, Canada is following the American path but, as usual, a few steps behind."

[Longer mortgage terms fuelling cost, industry warns](#)

Real estate author Don Campbell says the latest statistics from the Canadian Real Estate Association are further proof that the newest trend in lending -- long-term amortizations that have increased to 35 and 40 years from 25 years -- is fuelling price increases.

"I would say one-third of the percentage point price increase is due to [longer amortizations]," Mr. Campbell said.

"Real estate is driven by monthly payments and you can afford more and pay less monthly when your amortization is moved from 25 years to 40 years."

[Spectre of the Great Depression haunts America's top banker](#)

Ben Bernanke, the Federal Reserve chairman, is like a man who, after spending a lifetime playing with train sets, finally gets to drive the real thing - only to find it hurtling towards the edge of a cliff...

...'One of Bernanke's main claims to academic fame is his study of the Great Depression, and how the failure to respond to the collapse of financial institutions turned a market crash into a bad economic problem,' says Andrew Scott, of London Business School. 'From that point of view, he's a fantastic person to have in charge.'

In Bernanke's analysis, the Fed was to blame for the Depression, for failing to realise the enormousness of the situation facing it. He won't want today's Fed to make that mistake - and is almost certain to heed Wall Street's squeals this week by cutting rates, perhaps by as much as half a percentage point. But, with many of the respected blue chip financial institutions lumbered with billions of dollars of toxic mortgage debts, bundled up in illiquid and fearsomely complex packages, the fallout from the credit crunch will be felt for many months, whatever Bernanke's response.

Hank Paulson, the US Treasury Secretary, has warned that the current turmoil will take longer to resolve than the market pain that followed the Russian debt default in the late 1990s, or the Latin American credit crisis in the 1980s.

[Prepare to sell as dollar rot sets in](#)

"Perhaps never before or since have so many people taken the measure of economic prospects and found them so favorable as in the two days following the Thursday [24th October 1929] disaster," wrote J.K.Galbraith in *The Great Crash*.

But then, "on Monday the real disaster began."

The disaster of 1929 began to rumble in September, but the storm really hit in October. Markets continued down, then up...in horror, then hope...then in horror again...for six months. The market stayed dead for 5 years.

If the day of reckoning for our Western markets is now approaching today, the end-game looks like being the collapse of our developed-world currencies. With the US Dollar leading the way, the Euro, the Yen and the Pound will all follow in their turn.

'Words of Wisdom' from Maestro Greenspan (who is granting numerous interviews to publicize the release of his memoir:

[A cryptic look back, and a shot for Bush](#)

Is he the greatest central banker who ever lived, a financial maestro who conducted the U.S. economy through the two longest expansions in its history? Or is he the "bubble king" who let the stock market, then the housing market, get out of control, rising on the very "irrational exuberance" he once decried?

Controversy still follows Alan Greenspan a year and a half after he stepped down as chairman of the Board of Governors of the Federal Reserve of the United States, a position he held for an unprecedented 18 years.

Now he is stepping into the controversy himself. In *The Age of Turbulence: Adventures in a New World*, the much-anticipated memoir being published Monday, he discusses his record and his beliefs in detail – 531 pages of detail, to be exact.

[Greenspan: Euro Gains As Reserve Choice](#)

According to an advance copy of an interview to be published in Thursday's edition of the German magazine *Stern*, Greenspan said that the dollar is still slightly ahead in its use as a reserve currency, but added that "it doesn't have all that much of an advantage" anymore.

[Greenspan alert on US house prices](#)

In an interview ahead of the release on Monday of his widely-anticipated memoirs, the former chairman of the Federal Reserve said the decline in house prices "is going to be larger than most people expect".

[Pain on way for UK homeowners: Greenspan](#)

Former US Federal Reserve chairman Alan Greenspan is warning British home owners to brace themselves for higher interest rates and a major correction in house prices.

[Greenspan says U.S. not headed for recession: report](#)

Former Federal Reserve Chairman Alan Greenspan said on Monday the United States appears set to weather the bursting of a housing bubble without falling into recession....

....The normal inflation level is closer to 5 percent than the current 2 percent," Greenspan said, adding that the 5 percent level fitted an economy with a "paper" standard where the currency is not linked to gold.

[How Canada Went from 21st to 2nd in World's Oil Reserves](#)

It's well-known that the United States consumes more oil per capita than any other country in the world, absorbing two-thirds of global oil production. This heavy dependence has often, and aptly, been described as an addiction; even U.S. President George W. Bush trotted out the metaphor in his 2006 State of the Union address ("America is addicted to oil").

Most of us regard addictions (to anything) as inherently unhealthy and admission of the problem as the first step toward getting clean. In this case, however, U.S. policy has simply been to seek increased oil imports from more reliable sources closer to home, in effect, to replace distant and unstable dealers with one from the neighborhood -- specifically, Canada, already the kingpin dealer of oil to the United States.

In 2005 Canada exported almost 1.5 million barrels per day to the United States, about 7 percent of U.S. daily consumption. Canada exports 66 percent of its domestic crude oil production, and since 1995 the United States has received 99 percent of these exports. At first glance, it would seem that Canada wouldn't be able to boost oil production to fill the gap; production of conventional light and heavy oil in Canada was predicted to peak in 2006 and then rapidly decline. But that's where Canada's "unconventional" tar sands come in.

[List of Mackenzie optimists grows](#)

One of Canada's largest logistics companies catering to northern development projects added its name to a growing list of optimists who believe the \$16-billion Mackenzie Gas Project will proceed.

"As others have said here this week, we believe it's not a question of 'if ' but rather 'when,' " said Bob German, CFO of Horizon North Logistics Inc., a publicly traded Calgary firm.

"We talk to a number of people and hear different things, and I think Arctic sovereignty is on the agenda big time," Mr. German said yesterday in an interview outside the Peters & Co. North American Oil & Gas Conference in Toronto.

"This [project] therefore plays into the notion of being in the national interest. It's important to be the country that builds the infrastructure to the North."

He also said Horizon hopes project backers Imperial Oil Ltd., Royal Dutch Shell PLC, Conoco Phillips, Exxon Mobil Corp. and the Aboriginal Pipeline Group (APG) will ultimately redefine their roles and turn construction and operation of the pipeline over to a true pipeline company, such as TransCanada Corp., which has financially backed the APG, an aboriginal group that owns one-third of the pipeline.

[Shifting oil sands](#)

Fort McMurray has become the sort of boomtown not seen in North America since the Texan oil rush of the last century. The town's population has almost doubled in the past few years; most houses have multiple occupancy, with basements and spare rooms often rented out.

According to one government estimate, more than 10,000 mine workers in the area are of no fixed abode, camping out by the river in the summer, sleeping in their trucks in car-parks. To relieve some of the pressures on the town, the oil companies use massive military-style camps where workers are corralled into portable buildings.

["The 11th Hour" and Generation Z](#)

The film is beautifully written and intimate, starting off with home movies from Bennett's childhood in the early 1960s. "I was raised on stories," he says, acknowledging the security of his world in rural Michigan steeped in the old-fashioned values of God and country, hard work and family. But as he grew, he came to realize that the story of progress he was raised on was a fast train to nowhere.

"I was born facing forward and looking upward," he says, "but the slope ahead was the

result of short-sightedness and imbalance." We see a chart, the graph of population growth, with Tim's birthdate marked at the inflection point in 1958, where the curve begins to shoot rapidly upward.

"I was born halfway up the population explosion, in the foothills of mass extinction and on the slope of rising CO₂ levels." Being close to the same age as Tim Bennett, I can relate to his sense of his place in the dynamic of our times.

As the film goes on, covering the basics of the Four Horsemen of the Apocalypse - Peak Oil, Population Growth, Global Warming and Mass Extinction - it asks why we don't wake up to reality and begins to move into an analysis of the cultural trap we are in. We are captives of a false story of limitless growth, trapped in an economy that must grow or die.

Cut off from nature, our culture has become a narcissistic hall of mirrors populated by infantile personalities. We are being driven mad like caged beasts in a zoo and can see no exit.

[Hopes Dim for Measures to Conserve Energy](#)

The prospect of a comprehensive energy package's emerging from Congress this fall is rapidly receding, held up by technical hurdles and policy disputes between the House and the Senate and within the parties.

This summer, both houses passed major bills meant to promote energy efficiency and wean industry from fossil fuels. The bills have gaping differences that are supposed to be resolved in a conference committee.

Democratic leaders in both chambers have signaled that conference committee members are unlikely to be named until late October, at the earliest. Others suggested that leaders may try to resolve the differences in the bills without convening a conference, which would create other problems, including the threat of a Republican filibuster in the Senate.

[In Colorado, Drilling Some Holes in the Republican Base](#)

White House Push For Oil, Gas Turning A Red State Purple

The Bush administration's aggressive drive to promote oil and gas drilling on the western slope of the Rocky Mountains has sparked growing anger here among traditional Republican constituents who say that the stepped-up push for energy development is sullyng some of the country's most majestic landscape.

The emerging backlash from ranchers and sportsmen, which is occurring despite an economic boom driven by drilling, is threatening GOP primacy in at least one corner of what has been a solidly Republican West. Long the most reliably conservative expanse of a state that has gone red in six of the past seven presidential contests, Colorado's western third shows evidence of the "purpling" that has made Colorado look increasingly

like a swing state.

[Greenland: the emerging nation](#)

Not everyone is convinced that it will work that way. Rosing, famous for the discovery of the world's earliest known traces of life at Isua knows as much as anyone about what lies beneath the surface of Greenland. "We're not the new Saudi [Arabia]," he jokes. "We have no palm trees."

He points out that the vast oil reserves in the Middle East were easy to get to which is why they were exploited ahead of Canada's tar sands or similar deposits in Venezuela. He says if anything Greenland is the "new Norway".

But even that could have unforeseen consequences. "As soon as we find oil that will end independence," he predicts. "Everyone thinks that oil will buy us independence but how would we absorb all of this wealth?"

"As everyone gets more desperate for that commodity you don't want to be a very small, very independent country, very far from anywhere else. Independence based on oil is probably not a good idea."

[Unlocking Arctic mysteries](#)

Shedding fresh light on Canada's great northern frontier -- its contours, resources, wildlife and people -- is high on the agenda as the ArcticNet 2007 expedition embarks on a 15-month mission aboard the coast guard's Amundsen, the country's premier floating science laboratory.

Fueled and funded by International Polar Year, dozens of scientists have begun their journey up the rugged coasts of Quebec and Labrador, into Hudson Bay and up to Foxe Basin and Baffin Island, before heading west, bound for the Beaufort Sea next month, in quest of a better understanding of this mystical, foreboding, treacherous -- and now perhaps endangered -- world.

Researchers aboard the 98-metre Amundsen, refitted as a science vessel in 2004 at a cost of \$27 million, are seeking clues to the implications of global warming on land, water and sky. Everything from the tiniest algae particles to the thickness of the ice to the health and welfare of northern communities already battered and bruised by decades of upheaval will come under their microscopes or be stored in their -80 C freezers.

[Climate change already affecting Northerners' daily life - Traditional travel routes disappearing as ice thins, melts earlier](#)

While climate change is expected to have a profound impact on the whole planet, it is the people of the North who can expect to see the most radical impacts in the years ahead.

The product of industrialization and pollution in which northerners played but a minuscule part and over which they have no control, climate change is just the latest southern invasion of their way of life. They've been here before.

[Warming 'opens Northwest Passage'](#)

The most direct shipping route from Europe to Asia is fully clear of ice for the first time since records began, the European Space Agency (Esa) says. Historically, the Northwest Passage linking the Atlantic and Pacific Oceans has been ice-bound through the year.

But the agency says ice cover has been steadily shrinking, and this summer's reduction has made the route navigable.

[To turn squirrels into tree killers, just subtract water](#)

But for many of these sugar maples, the severe lack of rain is the least of their problems. The bigger threat: a growing gang of thirsty squirrels who call Allan Gardens home.

"This place is like a desert for wildlife - especially those who can't or don't leave the park," says geographer Andrew Millward, who has been conducting research in the park over the summer with his graduate students from Ryerson University. In August, he noticed that the park's squirrel population, lacking access to water, had started tapping the trees, stripping the bark to get at the sugary sap that flows underneath....

....Their cravings mean that many of the park's medium-sized trees, some close to 40 years old, could be dead by next spring. A few branches have been completely stripped bare, making them vulnerable to disease and insects. "It's similar to a person walking around with open wounds," Dr. Millward explains, looking up at the branches of one particularly wounded tree growing east of the park's conservatory.

[Sacred Sea](#)

Lake Baikal, the deepest, oldest, and largest supply of fresh water in the world, holds powerful sway over the hearts and minds of Russians.

Lake Baikal, in the middle of Siberia, is no ordinary lake. One hundred eighty six miles long, one mile deep, and 25 million years old, Baikal is the oldest, deepest lake and holds more fresh water than any other lake in the world.

In the most basic sense it's this huge blue crescent in the middle of what's otherwise this very deep green boreal forest surrounding it that has been there and been growing for 25 million years, which is an extraordinary amount of time for a lake. Most lakes exist in a timeline of 10,000 years, maybe 100,000 years. There are a few that might be a million. This is an incredible outlier when it comes to the lifecycle of lakes.

[Parched city is forced to drink sewage while Mugabe 'plays a political game'](#)

At the bottom of a deep pit, a woman ladled grey liquid into plastic drums.

It did not smell too bad and her family had not become sick, even after drinking it for the past two months. "Some people say it is sewage, but they may be making it up," she said as she heaved a 25 litre (5½ gallon) drum up the slope and into a wheelbarrow.

In any case she, like many of the poorest people in Zimbabwe's second city of Bulawayo did not have a choice: no water has flowed through the pipes in some neighbourhoods since July.

A water expert who accompanied The Times to one of several boreholes in the impoverished Cowdray Park area of the city said that the liquid at the bottom of the pit was indeed sewage that had seeped through the soil from a nearby treatment plant.

As the level of ground water sinks, the thousands who come to find water are forced to dig their impromptu wells ever deeper. All around were puddles and holes.

Critics of President Mugabe say that he is using water as a tool of political repression.

[The Muck Is Coming](#)

Something is out of whack in China's lakes and rivers. Algae blooms are making fresh water undrinkable.

Zhang Zhengxiang jabs his finger angrily over the water, which shimmers a bright, fluorescent green. That's the color of the toxic algae that now clogs large swaths of the high-altitude, freshwater Lake Dianchi for most of the year. The water may be pretty from a distance, but it's a sign that the lake is profoundly sick.

Before the early 1980s, says Zhang, this was a swimming area, and shrimp from the lake were a prized delicacy at high-end restaurants in Shanghai, Beijing and elsewhere. Now the lake's shrimp are inedible, and the toxins in the algae make swimming a decidedly unpleasant experience. Zhang yanks up his trouser leg to show the rash left on his ankles from a recent wade into the once pristine waters. "If you go in, your skin will turn red immediately," says a disgusted Zhang.

China's breakneck economic development has resulted in the world's fastest-growing toxic-algae problem. On the coasts, monster blooms of algaethe "red tides" have already made many areas a misery of muck, devastating fisheries and tourism. However, toxic blooms on China's freshwater lakes and reservoirs are even more worrisome, since they can have an impact on critical tap-water supplies.

This summer the worst-ever such blooms were a media focus in China, as one lake and reservoir after another fell victim to poisonous goop. In May a blue-green algae bloom on Lake Tai caused mass panic when it contaminated the water supply of 2 million residents of the city of Wuxi, in Jiangsu province. Huge blooms were also reported on Lake Chao, further inland. And in late July, 100,000 residents in the northeast city of Changchun went waterless when a toxic bloom appeared on a key reservoir.

[A big straw](#)

It was about five years ago when people started to notice the fissure.

A crack in the earth big enough to see from space stretches for a half-mile along the Rio Grande, marking the place where Santa Fe city wells pump water to the surface from the aquifer below.

As water is sucked away, the ground subsides, leaving a widening crevasse that has forever changed the landscape at this spot west of the city. Although it rebounds when wells are rested, as more water is pumped out and piped uphill to Santa Fe, the fissure grows.

[The End Of The World?](#)

We are all looking at the end of the world as we know it. Our attention is focused on the holes in the ozone layer, planet warming, peak oil, the spread of DU weapons, the collapse of the house of credit cards, and the prospect of the planetary financial elite quickly establishing fascist control of the planet. Below this threshold of conscious awareness our biological survival systems are rapidly eroding. At this point some twenty percent of the planet's soils erode each twenty-five year period. Each year at least two hundred thousand acres of irrigated crop-lands go out of production because of salinization or water-logging and experts say that sixty to eighty percent of all irrigated acreage is due to follow the eight to ten million acres that have historically gone into ruination from irrigation. The total drylands of the planet are 7.9 billion acres of which 61% are desertified, that is, driven by human abuse toward uselessness. Globally, 23% of all arable crop lands have been lost since 1945 through human use and experts say that all arable land on the planet will be ruined in 200 years.

[Modified crops a must if India to feed itself: official](#)

Large-scale cultivation of transgenic crops is a necessity if India is to feed a growing population and use more of its farmland for industry and homes, a senior government official said on Monday....

....Producing more food from less land would require widespread use of GM crops, which can provide higher yields, he said.

[Bangladesh: Life on the edge](#)

The risks and the rewards of life on the delta's fissiparous edges have been of this order

for centuries. But with global warming the odds are steadily worsening. More than 600,000 people live on these margins, and their lives are getting more precarious every year. With changing climate, the flooding grows ever more extreme and unpredictable, the rivers even wilder. At the same time a general rise in the ocean's level threatens the viability of the entire watery way of life: fresh water goes brackish, threatening drinking water and water for the crops and livestock. The line between survival and destruction grows ever finer.

[Can You Spare a Dime? Why We Could...But Won't](#)

In order for us to have a life anything like the one we're living right now in 20 years, we would have to do the following:

1. Rebuild the grid, and replace existing plants with new one, a project estimated at several trillion dollars.
2. Devote 2% of our GDP annually to the remediation of climate change - minimum. This does not include the costs of responding to disasters because we've let things go too far.
3. Reinsulate and retrofit 90 million dwellings for minimal heating and cooling needs, at an estimated cost of 20-50K per home.
4. Reorder and build a local agriculture infrastructure and build transport and delivery mechanisms for food.
5. Engage in public transport building and the adaptation of our whole economy to more local societies. Bring millions of families that can no longer afford to fly to one another together.

Shall I go on? Because this is merely the beginning. The projects are so enormous, and the combined effects of so many of our foolishnesses coming home to roost so vast that while we **could** do any one or two of these things, we probably won't even do that.

[500 year nuke curse](#)

Exclusive Nuke Test Victims: The Proof

Shock new study of more than 1,000 veterans proves soldiers who were forced to watch British A-bomb tests in the 1950s and 1960s will pass on crippling health problems to families for **20 generations**.

A major scientific study into the families of soldiers used as guinea pigs in Britain's first nuclear tests shows they will suffer acute health problems for TWENTY generations.

Relatives of up to 22,000 servicemen who witnessed tests in the 1950s have been cursed with massive genetic damage which will be passed on for at least 500 years.

The shocking new study shows how children and grandchildren suffer limb deformities, tumours, heart, eye and hearing problems, epilepsy, autism, brain deformities, twisted spines, missing organs, extra fingers and toes and a range of rare conditions.

[Iraq tells US security company to leave after civilian deaths](#)

The Iraqi government has ordered the American private security contractor Blackwater, which provides protection for US officials in the country, to shut down its operations after its guards were accused of killing 10 civilians and injuring 13 others in Baghdad.

Employees of the company are alleged to have opened fire indiscriminately after a bomb exploded on Sunday in the Mansour district of the city, packed with people shopping for Ramadan.

The Iraqi government's decision, personally endorsed by the Prime Minister Nouri al-Maliki, is the strongest measure taken yet against private security contractors, who have been repeatedly accused of carrying out unprovoked shootings of Iraqi civilians.

[Iran cuts foreign dollar assets to 30 percent](#)

Iran has massively cut down its dependence on the dollar in the face of US pressure over its nuclear programme and now 70 percent of its foreign assets are saved in other currencies or in gold, an official said on Monday.

[Bush setting America up for war with Iran](#)

Senior American intelligence and defence officials believe that President George W Bush and his inner circle are taking steps to place America on the path to war with Iran, The Sunday Telegraph has learnt.

Pentagon planners have developed a list of up to 2,000 bombing targets in Iran, amid growing fears among serving officers that diplomatic efforts to slow Iran's nuclear weapons programme are doomed to fail.

Pentagon and CIA officers say they believe that the White House has begun a carefully calibrated programme of escalation that could lead to a military showdown with Iran.

Now it has emerged that Condoleezza Rice, the secretary of state, who has been pushing for a diplomatic solution, is prepared to settle her differences with Vice-President Dick Cheney and sanction military action.

In a chilling scenario of how war might come, a senior intelligence officer warned that public denunciation of Iranian meddling in Iraq - arming and training militants - would lead to cross border raids on Iranian training camps and bomb factories.

[World should brace for possible war over Iran: France](#)

The world should brace for a possible war over the Iranian nuclear crisis but seeking a solution through talks should take priority, French Foreign Minister Bernard Kouchner said on Sunday.

"We have to prepare for the worst, and the worst is war," he said in an interview broadcast on French television and radio.

"We must negotiate right to the end," with Iran, he said, but underlined that if Tehran possessed an atomic weapon, it would represent "a real danger for the whole world."

Calling the nuclear standoff "the greatest crisis" of present times, the minister said: "We will not accept that the bomb is manufactured," and hinted that military plans were on the way.

[Iran scorns French warning of war](#)

Iranian official media responded with contempt.

"The occupants of the Elysee (the French presidential palace) have become the executors of the will of the White House and have adopted a tone that is... even more inflammatory and more illogical than that of Washington," IRNA news agency said.



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