"Patient Capital.... Positioned for Profit"

A PEEK AT THE WEEK THAT WAS - May 25, 2013

WHAT DO CYPRUS AND CANADA HAVE IN COMMON?

At first blush, not very much...at least that's what we thought. We don't know of any Cypriots in the NHL or any Canadians in the Cypriot national soccer side. Maybe some Canucks have some loonies stashed on its sunny shores but really, what else could they have in common?

Enter the bankers and policitians and it becomes more clear. Doesn't it always as soon as those characters enter the room?

We all know what happened in Cyprus a couple months back when the poor depositors of a couple of naughty banks got a pretty severe haircut as part of the IMF bail out / bail in deal.

Of course, that was a one time, completely isolated event, limited to a small island in the Mediterreanan, known for harboring ridiculously rich Russians and their allegedly ripped off rubles...right? Yes, of course, the bankers and politicians told us so.

OK...then why did the Canadians feel it necessary to include the so-called "bail in" provisions in their most recent Budget. Could it be that they adopted the (officially non-existent) template that the Dutch Finance Minister, Jeroen Dijsselbloem, in a moment of unusual candor, claimed could be the way to go in the future.

The rather simply titled (a nice change from the US) ECONOMIC ACTION PLAN 2013 was tabled in the House of Commons by Minister of Finance James Flaherty on March 21st. This official 2013 Canadian budget contains a pretty unambiguous provision that Canada will resort to the **bail-in model** for systemically important banks in the event of potential bank failures in the future.

Wait a minute! If oh so boring, oh so solid, oh so wealthy, O Canada is worried about bank failures, what does that say about Italy, France, Portugal, Spain or dare we say, the good 'ol US of A? As usual, we have a hunch on why they might be a tad nervous...but more on that next week.

Let's dive into the Canuck creation a bit deeper, eh!,

At page 144...

*The Government also recognizes the need to manage the risks associated with **systemically important banks**—those banks whose distress or failure could cause a disruption to the financial system and, in turn, negative impacts on the economy. This requires strong prudential oversight and a robust set of options for resolving these institutions **without the use of taxpayer funds**, in the unlikely event that one becomes non-viable.* [Emphasis added]

Hmmmm...can't use taxpayer funds. We've already shorn those sheep. What else can we get our grubby hands on?

Look no further than the next page for a darn clear answer. At page 145:

*The Government proposes to implement a **bail-in regime for systemically important banks**. This regime will be designed to ensure that, in the unlikely event that a systemically important bank depletes its capital, the bank can be recapitalized and returned to viability through **the very rapid conversion of certain bank liabilities into regulatory capital**. This will reduce risks for taxpayers. The Government will consult stakeholders on how best to implement a bail-in regime in Canada. Implementation timelines will allow for a smooth transition for affected institutions, investors and other market participants…* [Emphasis added]

If you have way too much time on your hands, you can read the whole budget here. Assuming, however, that you do have a life worth living and much better things to do with your time, let us break it down for you:

customer deposits = bank liabilities = convenient target = depositor haircut!

This is how it typically plays out. First you hear some rumblings about a certain bank(s) having issues, then you get a central banker declaring that everything is OK, next thing the bank is closed for a brief "holiday" and voila, upon reopening, your account has had a nasty haircut. You didn't need all that money anyway, did you?

Oh....and if you still have some more money stashed away that you think might now be a good idea to move to another country. Fuggedaboutit. Didn't we mention that while the banks were taking a holiday, the bankocrats also decided to impose capital controls...for your own good, of course!

Now we are not supposing for a moment that Canada's banks are at risk. Probably far from it. But one can make the argument that if oh so safe O Canada is doing it, shouldn't everyone?

At least you now know what Canada and Cyprus have in common. And it's not cute. Eh!

HOW DO YOU KNOW IF A CENTRAL BANKER IS LYING?

With apologies to our oh so nice Canadian readers, please allow us one more quick observation on central bankers in the light of these "bail-in" developments.

O Canada's top banker..and soon to be the UK's numero uno numbers guy, Mark Carney, had this to say on April 18 under a CBC news banner which read...

Bank 'bail-in' plan shouldn't worry Canadians, Carney says:

> ***"Canadian institutions have substantial unsecured debt obligations in the wholesale market and as well as other classes of capital, and they have substantial capital as well, so once you stack all of that up, regardless of whether one would look to reach into it…it's hard to fathom why it would be necessary..."*** to touch deposits.

Hard indeed, but not impossible. And after all, his lips were moving when he said it.

Reminds us of the response that the Acting CEO from Laiki Bank (a.k.a. the Bank of Cyprus) received from the **Central Bank of Cyprus** way back on Feb. 12 when he raised some concerns after the Financial Times published an article titled " Radical Rescue Proposed For Cyprus"...

> ***...the Central Bank of Cyprus wishes to stress that any action aimed at reducing, depriving or restricting the property rights of depositors, contradicts the provisions of the Constitution of the Republic of Cyprus and of Article 1 of the First Protocol of the European Convention on Human Rights, provisions which protect the right to own property and which are crucial to the functioning of a free market economy***

Sure...human rights, property rights, central bank promises...all good until they need your money.

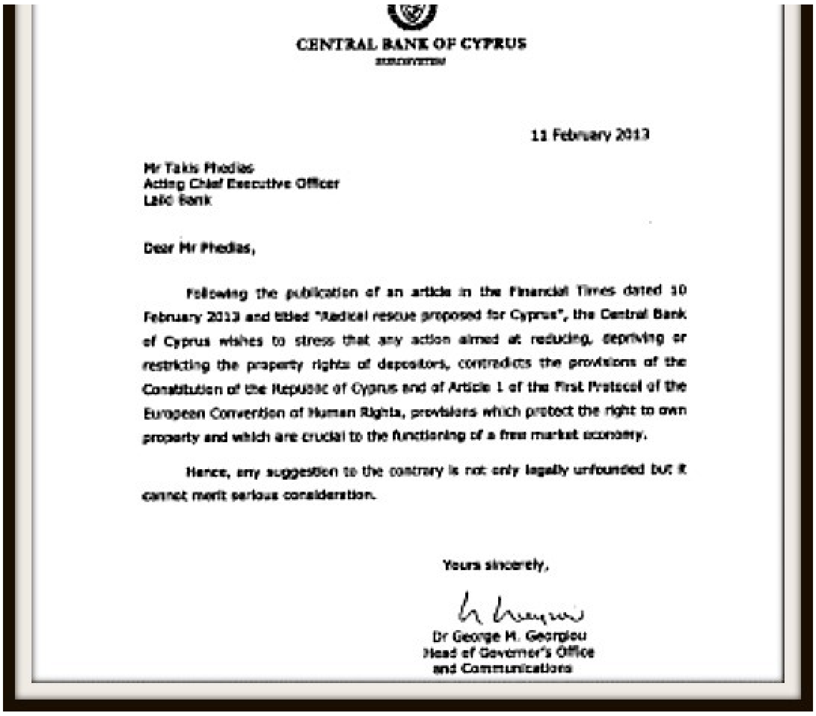
Less than two months later...depositors at Laiki Bank with accounts larger than 100,000 euros faced a potential haircut of 60%. Honey I shrank the deposits!!!

As Mark Twain so apty said...**"A banker is a fellow who lends you his umbrella when the sun is shining, but wants it back the minute it begins to rain"** and as we all know....it rains a lot in Canada.

To repeat, we are not asserting that Canada is at risk, but a lot of other places are.

So our bet..."bail-in" becomes the de rigueur wet weather ensemble for G-20 central bankers.

So...how do you know when a central banker is lying? His lips are moving, of course, but as in the case of Cyprus, below, his fingers are too.


CENTRAL BANK OF CYPRUS
EUROSYSTEM

11 February 2013

Mr Takis Phedias
Acting Chief Executive Officer
Laiki Bank

Dear Mr Phedias,

Following the publication of an article in the Financial Times dated 10 February 2013 and titled "Radical rescue proposed for Cyprus", the Central Bank of Cyprus wishes to stress that any action aimed at reducing, depriving or restricting the property rights of depositors, contradicts the provisions of the Constitution of the Republic of Cyprus and of Article 1 of the First Protocol of the European Convention of Human Rights, provisions which protect the right to own property and which are crucial to the functioning of a free market economy.

Hence, any suggestion to the contrary is not only legally unfounded but it cannot merit serious consideration.

Yours sincerely,

Dr George M. Georgiou
Head of Governor's Office
and Communications

OOH LA LA...MADEMOISELLE BOND!

Meanwhile across the Atlantic, naughty traders and speculators are taking a closer peek at Mademoiselle Bond's chic French outfit and have noticed some threads in the lining that are coming undone. Mon Dieu…they have even started to pull on said threads. From Yahoo Finance… http://finance.yahoo.com/news/france-free-fall-fund-managers-083804413.html

And from Reuters UK...

According to data group Markit, the volume of French bonds out on loan has risen 17 percent from an October low to more than $54 billion last week. This can indicate short-selling - borrowing a security to sell it with the aim of buying it back at a lower price - although the bonds can also be borrowed by institutions wanting to hold sovereign debt as collateral. While still some way short of spring 2012 levels, the trades are being closely watched as hedge funds are sometimes seen as harbingers of bigger market moves.

You can read the whole article here.

Let's face it. France is a basket case but in Euroland, it seems like they are almost all basket cases. Les Francais, of course, are special because they are led by a populist idiot who has a tendency to flow flaming torches at the basket weavers.

Case in point, some 8,000 French folk coughed up taxes in excess of 100% of their income last year because of a one time "special" levy on those tres mauvais millionaires (defined as having assets exceeding 1,300,000 euros...about US$1,670,000). Talk about a haircut.

Hollande, in his wisdom, had tried for a tax rate based on 75% of income, but the courts ruled the rate was "too" confiscatory and settled on a marginal tax rate of just 66.66%. *Merci monsieur...may I have some more?*

Mais oui. Being shortchanged by the courts, Hollande decided to bang businesses for some more bucks. Consequently, many French citizens and businesses have decided to relocate to places like the U.K. This is shades of the last socialist genius to govern the Gauls, Monsieur Mitterrand. Even the average Frenchman is beginning to see Hollande for the misguided knucklehead he clearly is.

From National Review Online… http://www.nationalreview.com/david-calling/347495/french-sour-hollande

We suspect that if the Eurozone disintegrates, it will not be because of Greece or Spain or Portugal or Italy or poor little Cyprus. It will be France. Pourquoi? Because you usually get the leaders you deserve.

GOT GAS?

Finally, some sanity in the Great Republic. Well...the great republic of Texas anyway.

From AP...and trust us...this was not a very well publicized story even though it has far more significance than Lois Lerner's future career prospects...

> WASHINGTON (AP) — The Energy Department on Friday conditionally approved a Texas company's proposal to export liquefied natural gas, only the second such project allowed to move forward amid a production boom that has led to glut of domestic natural gas.
>
> The action would allow Freeport LNG Expansion L.P. to export up to 1.4 billion cubic feet of liquefied natural gas per day from its terminal near Freeport, Texas, south of Houston. The DOE said granting such a permit for shipments to countries that do not have free trade agreements with the U.S. was in the public interest.

Click here for the full story.

This is only the second approval on an export LNG terminal in recent years, despite the 80 odd applications currently seeking same. The other is Cheniere Energy Partner's facility at Sabine Pass, Louisiana.

When the US can produce and sell natural gas for around $4 per MCF (thousand cubic feet) and the Japanese and others are willing to pay four times that amount and more, that's a handy margin. And it would go a long way to helping us out of our current debt hole. Even the politicians are starting to figure this one out.

Look for more of these applications to be quietly granted in the future. And also look for Barackus Caesar and his crooning cronies to take the glory when those export dollars come rolling in. All hail mighty caesar!

CHART OF THE WEEK

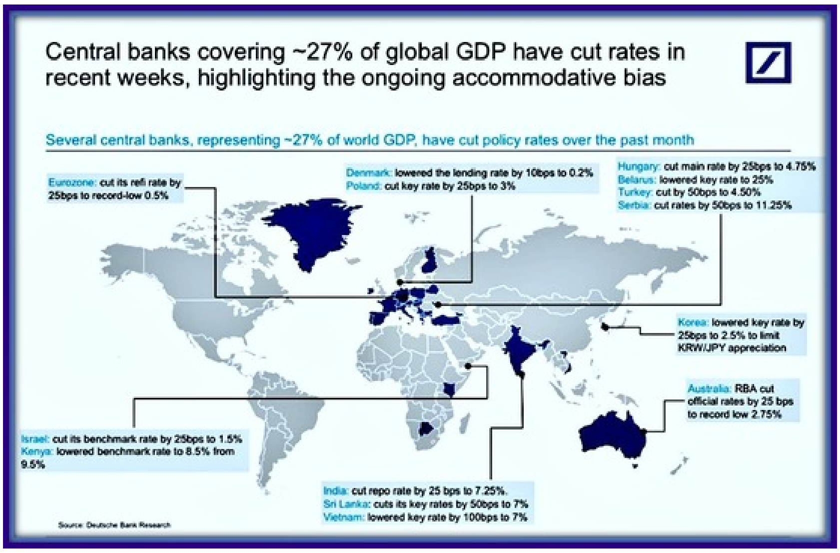
Next week we will take another look at gold and make a bold prediction. We'll also continue our investigation of the new "bail-in" trend. But in the meantime, keeping our global focus for this week, we are presented with this interesting perspective from our friends (we think) at Deutsche Bank.

We have to wonder how and why markets in the US continue to do so well, when much of the rest of the world is finding a desperate need to reduce interest rates.

Did Inventive Ben just go ugly early with his aggressive interest rate cutting, causing the rest of the world to catch up? Or are places like Oz and especially South Korea worried about the effect of Abenomics? Or is it another salvo in an as yet undeclared currency conflict ("war" is such a politically incorrect word these days")?

As we are want to say all too frequently...a currency conflict is the only war in which the ultimate objective is to kill yourself. Doesn't seem to make much sense really, but then, we are dealing with bankers and politicians.

Ultimately it doesn't matter...falling rates are deflationary and do not necessarily foretell a rosy future. Central banks will print until they can't. This is complicated stuff but it is made sardonically simple by these two very funny Aussies here. You simply owe it to youself to watch this...even if you happen to live north of the equator. It's even worth the stupid 10 second advert they make you sit through beforehand.



Til next week...

"Ignorance is the curse of God. Knowledge is the wing wherewith we fly to Heaven."
William Shakespeare

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