

IN THE NEWS

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NOVEMBER 21, 2010

The Economy

China and Russia have stepped up criticism of the Fed's decision to print an additional \$600 billion [1]. Meanwhile, the U.S. trade deficit with China for August was \$27.8 billion [2]. By one estimate, China will surpass the U.S. as the biggest economy during 2012, less than two years away [3]. What's more, the G-20 countries failed to endorse a policy against currency manipulation and President Obama criticized China's policy of devaluing the Yuan (China's currency) [4].

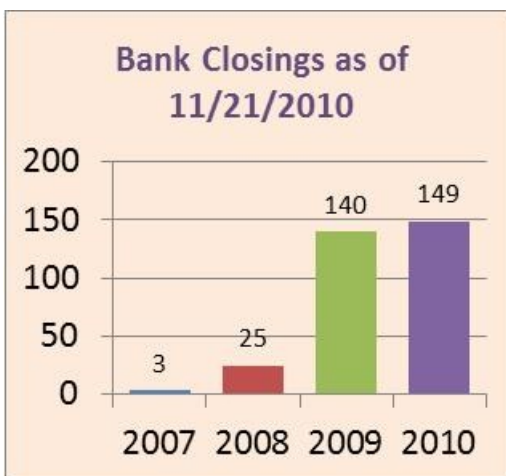
Unemployment remains problematic with 435,000 first time claims for the week ending November 6 [5]. For the week ending November 13, there were 439,000 initial claims [6]. During the past three years, unemployed Americans received \$319 billion in benefits [7]. In addition to employment problems, home prices fell 4.3% in the 3rd quarter representing the 17th quarterly decline in a row [8].

Regulators continued to close financial institutions. On November 12, the following three were shuttered: 144) Tifton Banking Company in Georgia; 145) Darby Bank & Trust in Georgia; and 146) Copper Star Bank in Arizona [9]. Then on November 19, three more were shuttered: 147) Gulf State Community Bank in Florida; 148) Allegiance Bank of North America in Pennsylvania; and, 149) First Banking Center in Wisconsin [10]. At the current rate, 2010 will likely fall short of 1992, when 181 banks were closed [11].

In other news, Chrysler reported an \$84 million third quarter loss but is making progress toward profitability [12]. Meanwhile, gold set a new record high, passing \$1,400 per troy ounce [13].

1. Zengerle, Patricia, and Mukherjee, Kritivas, Reuters, *Obama returns fire after China slams Fed's move*, November 8, 2010.
2. Lazzaro, Joseph, Daily Finance, *U.S. Trade Deficit Shrinks as Exports Hit Two-Year High*, November 10, 2010.
3. Warner, Jeremy, Telegraph (UK), *China may be bigger economy than*

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Special points of interest:

- FDIC investigating about 50 former bank officials
- For 18-minutes last April, U.S. Internet traffic was routed through China
- Federal Reserve Bank of Cleveland hacker charged
- 149th financial institution shuttered

Security

On November 4th, the President signed an executive order that creates a new information category, *Controlled Unclassified Information*, to be implemented within 180 days [1].

For 18-minutes last April U.S. Internet traffic was routed through China [2].

This traffic included not only commercial but Government information. Some are suggesting the Chinese Government deliberately hijacked 15% of the Internet traffic [3]. Expectedly, state-controlled China telecom denied it hijacked the Internet traffic and

after a half-year, the cause is still unknown [4]. In particular, note the event surfaced 6-months after the fact.

A Malaysian man was charged with hacking into the Federal Reserve Bank of Cleveland computer and

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Security

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for possessing over 400,000 stolen credit/debit card numbers [5]. Meanwhile, malware is being cataloged at a rate of 60,000 new pieces per day [6]. By one estimate, over 100 foreign intelligence organizations have attempted to break into U.S. networks [7].

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November 4, 2010.

2. Bartz, Diane, Reuters, *China telecom briefly hijacked US Web traffic-panel*, November 16, 2010.
3. Crittenden, Michael, Wall Street Journal, *Chinese Firm 'Hijacked' U.S. Data in April*, November 17, 2010.
4. Young, Doug, Reuters, *China Telecom denies hijacking U.S. Web traffic*, November 17, 2010.
5. Cloherty, Jack, ABC News, *U.S. Secret Service Sting Nabs Man who Hacked into Federal Reserve Computers*, November 19, 2010.
6. Bradley, Tony, PC World, *McAfee Reports Malware at All-Time High*, November 17, 2010.
7. Stewart, Phil, Reuters, *U.S. sees "huge" cyber threat in the future*, November 16, 2010.

*A disordered currency is
one of the greatest political
evils—Daniel Webster*

The Economy

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US within two years, November 10, 2010.

4. Forsythe, Michael, and Goldman, Julianna, Bloomberg, *Obama Sharpens Yuan Criticism After G-20 Nations Let China Off the Hook*, November 12, 2010.
5. Palmer, Doug, Reuters, *Jobless Claims Fall, Trade Gap Narrows*, November 10, 2010.
6. Rappeport, Alan, Financial Times, *US new jobless claims rise to 439,000*,

November 18, 2010.

7. Luhby, Tami, CNN Money, *Jobless benefits cost so far: \$319 billion*, November 17, 2010.
8. Golds, Steve, Wall Street Journal, *Home Values Down For 17th Straight Quarter: Report*, November 10, 2010.
9. Daly, Corbett B., Reuters, *Two Georgia banks closed to push total to 146*, November 12, 2010.
10. Sparshott, Jeffrey, Wall Street Journal, *Three Banks Fail; Year's Total at 149*, November 19, 2010.
11. Jaffee, Matthew, ABC, *Failed U.S. Bank Total Pass Century Mark as FDIC Looks to Boost Reserves*, October 23, 2009.
12. Bunkley, Nick, New York Times, *Chrysler Reports a Loss but Says It Is Making Progress*, November 8, 2010.
13. Assis, Claudia, Market Watch, *Gold rises to record high, breezes past \$1,400*, November 8, 2010.

Contested Islands

Japan and China are still ratcheting up the tension over disputed islands claimed by both countries. For example, China is still embargoing rare earth element shipments to Japan [1]. Moreover, there are concerns that weakness shown on the part of Japan will invite future actions [2]. In response, Japan plans to send 100 troops to Yonaguni island; one of the islands also claimed by China [3]. Russian President Medvedev will meet with Japan's Prime Minister and the disputed islands will be one of the topics discussed [4]. The bottom line is that for the first time in 1,000 years, Japan faces the prospect of Chinese dominance [5]. China continues to expand its military capabilities thereby placing Japan in a weaker bargaining position. For exam-

ple, in an unexpected surprise, China displayed 25 different unmanned aircraft at the Zhuhai air show [5]. This illustrates China's ability to expand its military capability without detection. If we continue to underestimate China, we will continue to be surprised. For example, The U.S. continues to seek a nuclear weapons reduction treaty with Russia without any commitments from China [7]. Meanwhile, it appears that North Korea is working on another nuclear reactor, likely for producing weapons grade Plutonium [8].

1. Bradsher, Keith, New York Times, *China Still Bans Rare Earth to Japan*, November 10, 2010.

2. Brinsley, John, Bloomberg, *Japan Weakness Invites Challenges by China, Russia as U.S. Backing Invoked*, November 9,

3. AFP, *Japan to send troops to island: report*, November 12, 2010.

4. AFP, *Russian, Japanese leaders to meet amid islands row*, November 12, 2010.

5. BBC, *Must Japan be eclipsed by China?*, November 12, 2010.

6. Page, Jeremy, Wall Street Journal, *China's New Drones Raise Eyebrows .Article Video Slideshow Comments*, November 18, 2010.

7. Cloud, David S., Los Angeles Times, *Gates warns of 'significant consequences' if Senate fails to ratify New START treaty*, November 21, 2010.

8. McDonald, Mark, New York Times, *N. Korea Seen Working on New Reactor*, November 19, 2010.

The best way to destroy the capitalist system is to debauch the currency—

Vladimir Lenin



World News

According to Secretary of Defense Robert Gates, current sanctions are having an impact on Iran [1]. However, Israeli Prime Minister Netanyahu argues sanctions are not sufficient and there needs to be a credible military option [2]. What's more, Iran's President Ahmadinejad has again reaffirmed his country's nuclear program is non-negotiable [3]. Moreover, the Iranian President said sanctions do not scare his country's people [4].

During his stop in India, President Obama called for a permanent UN Security Council seat for India [5]. In response, Pakistan criticized the position [6].

For some time, we have focused on the unfair trade practices associated with China. However, China is only following the policy we allowed with Japan. Case in point, while we allowed them to decimate much of our industry, Japan imposed 777.7 percent tariff on imported rice [7]. Yes you read that correctly, a 777.7% tariff on one of the few commodities the U.S. has in abundance. So for decades, Japan protected its domestic businesses using tariffs

and other one sided trade tools; while the U.S. allowed good paying jobs to disappear. Meanwhile, Japan's economy grew at a 3.9% growth rate for the third quarter [8].

In the previous newsletter, we indicated that China now has the fastest supercomputer in the world. This has been confirmed and the Chinese machine named Tianhe-1 achieved 2,570 trillion calculations per second besting the second place American machine's 1,750 trillion calculations [9]. Elsewhere GE is planning to invest over \$2 billion in China adding over 1,000 new jobs there [10].

People continue to do their part for the ecology of the planet. For example, many people are using reusable shopping bags for their groceries. Unfortunately, some of these bags were made in China and have a high lead content [11].

1. CNN, Gates: Sanctions are impacting Iran. November 8, 2010.
2. Karon, Tony, Time, Israel Presses for a Tougher U.S. Lin on Iran, November 9, 2010.
3. Hafezi, Parisa, and Mosta-

favi, Ramin, Reuters, Iran nuclear right is non-negotiable: Ahmadinejad, November 10, 2010.

4. Nowak, David, AP, Ahmadinejad: Embargoes won't scare Iran, November 18, 2010.
5. Deshpande, Rajeev, Economic Times, Obama backs India for UN seat, November 9, 2010.
6. AP/Washington Post, Pakistan criticizes US support for Indian UN seat, November 10, 2010.
7. Tabuchi, Hiroko, New York Times, Japan's Farmers Oppose Pacific Free-Trade Talks, November 11, 2010.
8. Smith, Grant, Bloomberg, Crude Oil Rises for First Time in Three Days After Japan's Economy Expands, November 15, 2010.
9. AFP, Chinese supercomputer named world's fastest, November 14, 2010.
10. AP, GE to invest more than \$2B into China efforts, November 8, 2010.
11. AP, Probe is sought of lead in reusable grocery bags, November 14, 2010.

*Domestic policy can only
defeat us; foreign policy
can kill us—John F.
Kennedy*

Financial Fraud

The FDIC has about 50 on-going investigations looking into former bank officials [1]. Unfortunately, the reasons for the collapse consisted of a series of problems including algorithm driven computer transactions. While purging a few bad actors may look good, the core problems that culminated in the current economic collapse have yet to be adequately addressed.

It seems that FEMA will enhance its efforts to root out fraudulent disaster assistance claims [2]. In other news, 17 people were charged for \$42 million in fraudulent claims against to two Holocaust reparations funds [3].

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2. Goodwin, Jacob, Govern-

ment Security News, FEMA aims to crack down on fraudulent individuals and households seeking disaster assistance, November 5, 2010.

3. Baum, Geraldine, Los Angeles Times, Holocaust reparations stolen, federal prosecutors say, November 9, 2010.