

IN THE NEWS

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The Economy

The price of gold increased following a decision by China decided to allow its financial institutions to trade bullion internationally [1]. In a further sign of a slow recovery, first time unemployment claims for the week ending July 31 increased 19,000 to 479,000 [2]. The new job claims were expected to be 24,000 lower [3]. What's more, for the week ending August 7, the first time claims increased further to a near 6-month high of 484,000 [4]. Meanwhile, the Labor Department announced the nation lost 131,000 jobs in July and it revised the number of jobs lost in June from 125,000 to 221,000 [5]. This at a time when a record 40.8 million Americans in May were using food stamps [6].

Meanwhile, the home mortgage industry remains stuck in negative territory. For example, Freddie Mac reported a second quarter loss of \$4.71 billion and will request another \$1.8 billion in government aid [7]. Similarly, Fannie Mae reported a quarterly loss of \$3.13 billion and requested \$1.5 billion more aid [8]. Furthermore, in July there were over 92 thousand bank repossessions for troubled home mortgages becoming the second highest month on record [9]. In another sign of tough economic times, the Labor department reported the second quarter U.S. productivity rate fell 0.9%, the first decline since 2008 [10].

Reaching a year and a half high, China's July trade surplus surged to \$28.7 billion [11]. Of the Chinese trade surplus, \$19.4 billion was the U.S. contribution [12]. Even the U.S. Chamber of Commerce is complaining about the one-sided trade policies of China [13]. To examine the consequence in job losses, we can use the job savings numbers from the \$26 billion state aid law passed on 10 August. In it, \$10 billion was allocated to save 160,000 teacher's jobs [14]. Using this metric, last month alone, the U.S. exported 310,000 jobs to China. Without the jobs and the industry supporting them, recovery will be a very long time away. What is interesting to note is the Commerce Department reported a \$49.9 billion trade deficit for June, \$28 billion of which went to China [15]. However, last month China reported its trade surplus with the U.S. was only \$17.6 billion [16]. This indicates China is not reporting actual trade surpluses thereby marginalizing the true scope of the problem. Perhaps a good indicator of the importance of one-sided trade can be seen with Japan. After decades of draining U.S. jobs, the value of the Japanese currency (Yen) has reached a 15 year high and the Japanese government plans to take action to bring its value down [17].

The U.S. economic news for June was not encouraging. For example, both income and spending were stagnating indicating the high unemployment rate is impacting a recovery.

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Special points of interest:

- In 2010 Social Security will pay out more than it takes in
- 40.8 million on food stamps

Security

Microsoft released an emergency security patch to fix a remote execution vulnerability [1]. Overall, for August Microsoft released a record 15 patches including a number for correcting remote code execution [2]. Elsewhere, there is a new exploit (a

fake movie player) targeting Google's Android mobile operating system that can make calls to premium (expensive) numbers [3]. With the introduction of the Stuxnet worm, hackers now appear to be targeting power plants [4]. What's particularly troubling about

the Stuxnet worm created in June 2009, it was only discovered in July, 2010 [5]. Operating sophisticated malware undetected for over a year highlights one challenge facing IT security. Development of malicious software (malware) contin-

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Security

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ues to expand at a fast pace. For example, during the first 6 months of this year, over 10 million new pieces of malware were cataloged [6].

1. AFP, *Microsoft patches "critical" crack in Windows*, August 2, 2010.

2. Leffall, Jabulani, GCN, *Microsoft releases record 15 security patches for August*, August 11, 2010.
3. Kirk, Jeremy, PC World, *New Android Malware Texts Premium-rate Numbers*, August 11, 2010.
4. Baldor, Lolita, AP, *New threat: Hackers look to take*

over power plants, August 3, 2010.

5. McMillian, Robert, PC World, *Stuxnet Industrial Worm Was Written Over a Year Ago*, August 4, 2010.
6. Prasad, Sakthi, Reuters, *McAfee says malware threat at a new high*, August 10, 2010.

The Economy

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ery [18]. Furthermore, for the first time, more Social Security money (\$41 billion) will be paid than is received [19].

Regulators continued shuttering financial institutions. On August 6, the following was closed: 109) Ravenswood Bank in Illinois [20]. Then on August 13, the Palos Bank and Trust Company in Illinois became the 110th shuttered [21].

1. Hunter, Michael, Financial Times, *Gold continues to rise as China opens markets*, August 2, 2010.
2. Rugaber, Christopher, AP, *New claims for jobless benefits rise to 479K*, August 5, 2010.
3. Mutikani, Lucia, Reuters, *Surprise rise in jobless claims casts pall on economy*, August 5, 2010.
4. Rugaber, Christopher S., AP, *Jobs picture dims as unemployment claims rise*, August 12, 2010.
5. Rich, Motoko, NY Times, *Private Growth Is Tepid as U.S. Economy Sheds Jobs Overall*, August 6, 2010.
6. Bloomberg, *Food stamp use hit record 40.8m in May*, August 5, 2010.

7. Becker, Nathan, Wall Street Journal, *Freddie Mac Swings To Loss, Seeks More Aid*, August 9, 2010.
8. Zibel, Alan, AP, *Freddie Mac requests \$1.8B in aid after 2Q loss*, August 9, 2010.
9. Adler, Lynn, Reuters, *Bank repossession drive up U.S. July foreclosures*, August 12, 2010.
10. Somerville, Glenn, ABC News, *Productivity Falls, Fed Mulls Stimulus*, August 10, 2010.
11. Bradsher, Keith, New York Times, *China's Trade Surplus Climbs to \$28.7 Billion*, August 9, 2010.
12. McDonald, Joe, AP, *China's July exports up but import growth weakens*, August 10, 2010.
13. Talton, Jon, Seattle Times, *U.S. Chamber report blasts Chinese trade policies*, July 30, 2010.
14. Viser, Matt, Boston Globe, *Obama signs \$26b state aid bill after House OK*, August 11, 2010.
15. Willis, Bob, Bloomberg, *U.S. Trade Deficit Unexpectedly Widens to \$49.9*

Billion in June, August 11, 2010.

16. AP, *China says exports up 35 percent in June*, July 10, 2010.
17. BBC News, *Japan 'monitoring yen progress'*, August 12, 2010.
18. Homan, Timothy R., Bloomberg, *Consumer Spending and Incomes in U.S. Unexpectedly Stagnate*, August 3, 2010.
19. Bazinet, Kenneth, NY Post, *Social Security to pay out more than it takes in for first time ever*, August 4, 2010.
20. Letzing, John, Market Watch, *Chicago bank is 109th to fail in U.S. this year*, August 6, 2010.
21. Marcy, Gordon, AP, *Regulators close Illinois bank*, August 13, 2010.

*He who defends everything
defends nothing—Frederick
The Great*

Energy News

The latest estimate is the BP oil spill dumped 4.9 million barrels of oil into the Gulf of Mexico [1]. On the positive side, NOAA is claiming most of the oil is gone with 70% dissolving naturally [2].

The oil spill highlighted the international makeup of oil drilling near the U.S. shores. What's more, its unclear how some companies decide liability. For example, the Japanese Mitsui company refused to pay BP for its portion of the oil spill damages until the cause of the accident is known [3]. So far the cost of the BP

oil spill has reached \$6.1 billion [4]. In a different BP incident, the company will pay a record \$50 million fine for the 2005 Texas City explosion that killed 15 workers and injured 170 people [5].

One report is confirming that a Japanese super tanker carrying 2 million barrels of oil was attacked by terrorists as it sailed off the coast of Oman [6].

1. Lesova, Polya, Market Watch, *Gulf spill unleashed 4.9 million barrels of oil*, August 3, 2010.

2. Borenstein, Seth, AP, *Looking for the oil? NOAA says it's mostly gone*, August

4, 2010.

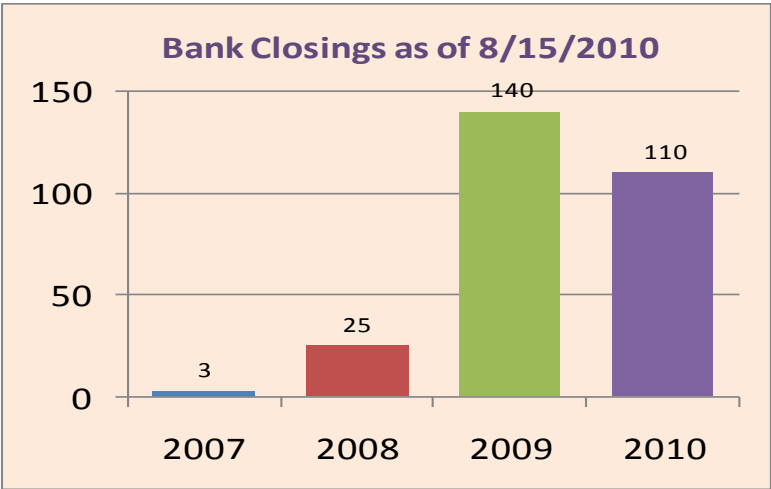
3. AFP, Mitsui: *won't pay BP until spill cause 'revealed'*, August 4, 2010.

4. Pfeifer, Sylvia, Financial Times, *BP spill costs rise to \$6bn*, August 9, 2010.

5. Greenhouse, Steven, New York Times, *BP to Pay Record Fine of \$50 Million for Texas Accident*, August 12, 2010.

6. UPI, *Report: Japan tanker damaged by terrorists*, August 6, 2010.

We will not have any more
crashes in our time—John
Maynard Keynes (1927)



World News

India's economic growth is expected to be 8.5% this fiscal year [1]. Elsewhere, India is rejecting an accusation that new drug resistant bacteria are originating from that country [2].

Ford completed its sale of the Volvo auto company to China's Geely [3]. In other news, once again China is rejecting U.S. concerns over its economic and energy deals with Iran [4]. What's more, China is hosting a cyberspace security two-day meeting in Beijing expected to attract 300 people world-wide [5]. Meanwhile, China accused the U.S. of a double-standard following disclosure the U.S. is negotiating with Vietnam for construction of up to 13 nuclear power plants [6]. What's more, Vietnam and the U.S. participated in naval exercises [7].

Iran has showed four of its estimated eleven domestic made 120-ton class submarines [8]. What's more, Iran's first nuclear power plant is scheduled to get nuclear fuel loaded on August 21 [9]. In

other news, Russia is exporting gasoline to Iran in opposition to U.S. demands [10].

For July China's sales rate for new cars slowed to only 13.6%; at the same time, India's sales rate increased a record 30% from the previous year [11]. Meanwhile, Chrysler reported a quarterly loss of \$183 million [12].

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2. Singh, Harmeet Shah, CNN, *India rejects superbug links*, August 13, 2010.
3. Carty, Sharon Silke, USA Today, *Ford completes sale of Volvo to China's Geely*, August 2, 2010.
4. Schearf, Daniel, Voice of America, *China Rejects US Concerns about Deals with Iran*, August 5, 2010.
5. AFP, *China hosts meeting on cyberspace security*, August 4, 2010.
6. Kate, Daniel Ten and Gaouette, Nicole, Bloomberg, U.S., *Vietnam*
7. Kate, Daniel Ten, Bloomberg, U.S. *Warship to Dock in Vietnam as China Sea Territorial Dispute Lingers*, August 10, 2010.
8. Pomeroy, Robin, Reuters, *Iran launches four home-made submarines*, August 8, 2010.
9. BBC News, *Iran nuclear plant start date set*, August 13, 2010.
10. Pachymuthu, Luke, and Soldatkin, Vladimir, Reuters, *Russia's LUKOIL resumes gasoline supply to Iran -trade*, August 11, 2010.
11. Krishnan, Janaki, et. al., Reuters, *China July auto sales slow; India at record high*, August 9, 2010.
12. Priddle, Alisa, The Detroit News, *Chrysler posts \$183M operating profit for second quarter*, August 9, 2010.

Draw Rebuke From China on Talks to Share Nuclear Technology, August 6, 2010.

*I am concerned for the
security of our great
Nation; not so much
because of any threat from
without, but because of the
insidious forces working
from within—Douglas
MacArthur*

Financial Fraud

In the white collar criminal world, Ponzi schemes continue. For example, in Florida, a man was charged in a \$40 million Ponzi scheme that included a \$12 million bank fraud [1]. In the U.S. Virgin Islands, the SEC accused a financier with operating a \$105 million Ponzi scheme [2]. In Minnesota, Federal authorities charged a man with operating a \$80 million Ponzi scheme [3]. In Califor-

nia, an investment adviser was charged with operating a \$6 million Ponzi scheme that targeted elderly residents [4].

1. AP, *Alleged Ponzi schemer charged in bank fraud*, August 5, 2010.
2. Harris, Andrew, Bloomberg, *Virgin Islands Financier Accused of Running \$105 Million Ponzi Scheme*, August 4, 2010.
3. KTTC/AP, *Feds charge*

Lakeville man in \$80M Ponzi scheme, August 6, 2010.

4. AP, *Feds say SoCal elderly bilked in \$6M Ponzi scheme*, August 6, 2010.