

Cales Investments, Inc.

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Gaddafi contributes to Euro Rescue

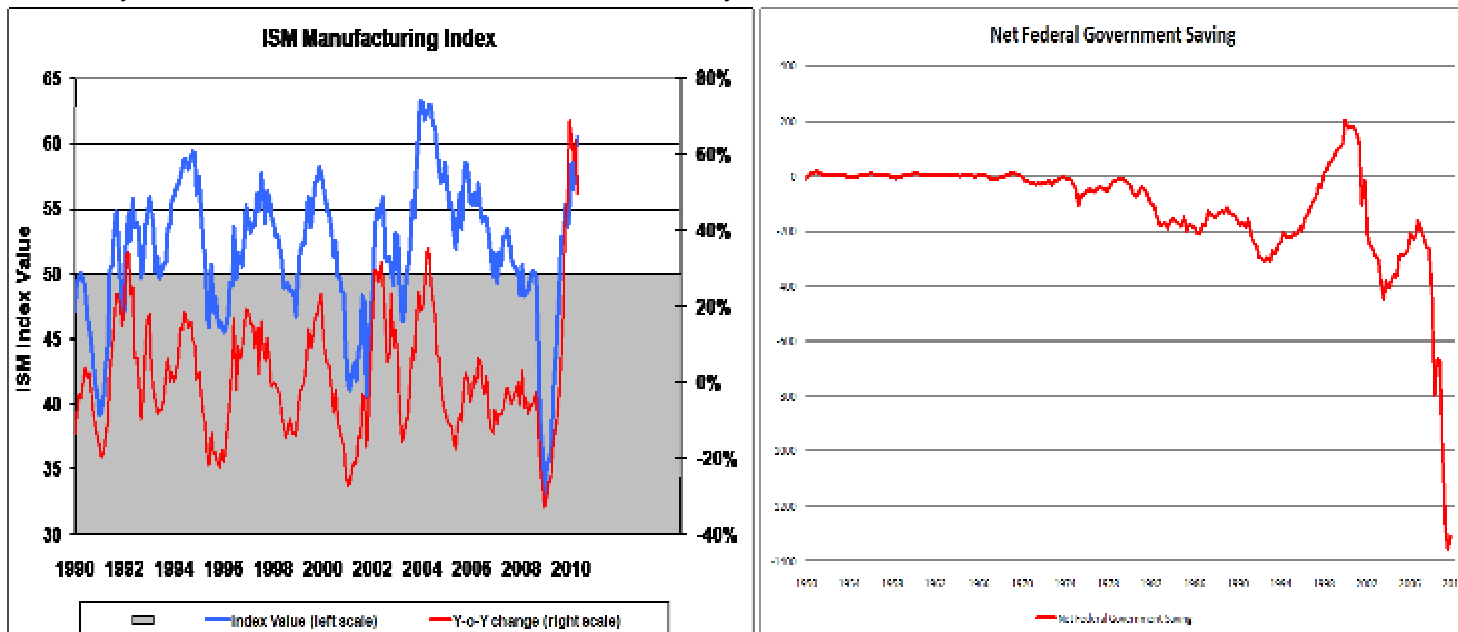
The “Shock and Awe” package was announced Monday night, before Asian markets opened. 750 billion Euro financing were provided by the EU and the IMF and the promise (or “threat” if you are short) of purchases of endangered securities such as Greek government bonds. The shock treatment scared the Dickens out of every short-seller on Monday morning, but by the time Thursday afternoon rolled around, they were already back at their favorite pass-time – beating up on the Mediterranean countries. The Euro had started the week at \$1.30 but ended on Friday afternoon at \$1.2360. Gold reached all time highs even in dollar terms after having reached all time highs in many other currencies weeks and months before. By now it may have even dawned on Mr. Trichet (no guarantee though) that the world will not always conform to theory. There will always some politician or –god forbid – some civilian, that messes up your most elegant model. Europe fiddled while Athens was burning until it was almost too late. Now the cost of rescuing the idea of a single currency has gone up dramatically – not only for the Europeans but for all of us. Take a look at what the costs may be for US citizens. The Peterson Institute for International Economics has estimated the ultimate impact on the different countries, including the US:

**Table 1 Who pays what for the European bailout?
(billions of dollars at \$1.28/euro)**

Eurozone members	Share of €440bn (in billions of dollars)	EU-27	Share of €60 billion (in billions of dollars)	EU members through the IMF	Share of IMF €250 billion (in billions of dollars)	Total EU-27 commitment (in billions of dollars)	Total existing general government debt 2009 (in billions of dollars)	Increase in eurozone government debts	Top 25 IMF non-EU 27 contributions of €250 billion (in billions of dollars)	
Belgium	19.6	Belgium	3.1	Belgium	6.8	29.4	431.7	7%	United States	54.7
Germany	152.8	Germany	15.0	Germany	19.1	187.0	3,081.2	6%	Japan	19.6
Ireland	9.0	Ireland	1.0	Ireland	1.2	11.2	209.3	5%	China	11.9
Greece	15.9	Greece	1.7	Greece	1.2	18.7	304.0	6%	Saudi Arabia	10.3
Spain	67.0	Spain	7.2	Spain	4.5	78.7	1,345.5	6%	Canada	9.4
France	114.8	France	12.8	France	15.8	143.4	2,460.1	6%	Russian Federation	8.7
Italy	100.8	Italy	10.2	Italy	10.4	121.5	1,946.7	6%	India	6.1
Cyprus	1.1	Cyprus	0.1	Cyprus	0.2	1.4	21.7	7%	Switzerland	5.1
Luxembourg	1.4	Luxembourg	0.2	Luxembourg	0.4	2.0	48.3	4%	Australia	4.8
Malta	0.5	Malta	0.0	Malta	0.2	0.7	7.3	10%	Mexico	4.6
Netherlands	32.2	Netherlands	3.9	Netherlands	7.6	43.6	729.9	6%	Brazil	4.5
Austria	15.7	Austria	1.7	Austria	2.8	20.1	354.4	6%	Korea	4.3
Portugal	14.1	Portugal	1.1	Portugal	1.3	16.5	209.8	8%	Venezuela	3.9
Slovenia	2.7	Slovenia	0.3	Slovenia	0.4	3.3	44.7	7%	Argentina	3.1
Slovakia	5.6	Slovakia	0.5	Slovak Republic	0.5	6.6	81.1	8%	Indonesia	3.1
Finland	10.1	Finland	1.2	Finland	1.9	13.2	218.8	6%	South Africa	2.8
Total eurozone	563.2		59.9		74.1	697.3	11,492.7	6%	Nigeria	2.6
		Bulgaria	0.3	Bulgaria	564.4				Norway	2.5
		Czech Republic	0.9	Czech Republic	2.1				Iran, Islamic Republic of	2.2
		Denmark	1.7	Denmark	4.1				Malaysia	2.2
		Estonia	0.1	Estonia	0.2				Kuwait	2.0
		Latvia	0.1	Latvia	0.3				Ukraine	2.0
		Lithuania	0.2	Lithuania	0.4				Algeria	1.9
		Hungary	0.6	Hungary	2.1				Iraq	1.8
		Poland	2.0	Poland	4.0				Turkey	1.8
		Romania	0.9	Romania	2.4				Libya	1.7
		Sweden	1.8	Sweden	5.3				Thailand	1.6
		United Kingdom	8.4	United Kingdom	24.2				Pakistan	1.5
			76.8		743.6				Egypt	1.4
Total non-EU 27					216.4				Israel	1.4
Total commitments					960.00				New Zealand	1.3
Addendum:									Philippines	1.3
				Contribution from IMF members with less than \$1,000/GDP per capita 2009		9.2			Singapore	1.3
				Contribution from IMF members with less than \$5,000/GDP per capita 2009		56.3			Chile	1.2
				Contribution from IMF members poorer in GDP/per capita terms in 2009		127.0			Colombia	1.2

Look at the column to the right. Even Colombia, through its IMF contribution, is paying \$1.2 Billion for the rescue of the Euro while Muammar al-Gaddafi will have to contribute \$1.7 Billion to rescue some infidels. The irony of it all is just mind-blowing. The once mighty dollar, having fallen on hard times and given up for dead, came roaring back, while the Euro, until recently the favorite investment currency of choice for petro-dollars, is now suffering from capital flight like a “3rd world country”. What a shame and what a valuable lesson this is for all of us.

European countries are now trying to figure out how to disentangle themselves from the [web of debt](#) that their governments weaved and that their banks got caught in. They need expanding economies to grow out of this crisis, but their debt keeps growth constrained. The European Union statistics agency Eurostat said that European GDP expanded by 0.2% compared to the final three months of 2009. Compared to the first quarter of last year, GDP was up 0.5%. This modest expansion confirms that the economic recovery in Europe has failed to gain any real momentum even before the painful fiscal consolidation faced by many economies has begun. Europe will labor under its debt burden for many years and economic growth will most likely stagnate in the non-competitive parts of the continent. Europe has a hard road ahead with no good options available. High debt levels must be reduced which lead to slowing economic growth, falling tax receipts and even higher budget deficits. Ireland is the prime example. Even after two years of austerity measures, that economy continues to shrink and the budget deficit continues to rise. The debt trap has snapped shut for the Irish. The US economy on the other hand is thriving thank you very much. The ISM-Index for the manufacturing sector rose to 60.4, the highest level since July 2004. This bodes well for the overall economy.



An expanding economy provides for rising tax receipts and the first positive effects on federal and local tax budgets are becoming visible. The Wall Street Journal brought an article on May 3 headlined "[Hopes Rise as Deficit Forecasts Fall](#)". The first paragraph says: "Several major banks have scaled back their forecasts for this year's U.S. federal budget deficit as the improved economic outlook leads to higher tax receipts, and as many banks and companies that received taxpayer bailouts repay their debts early." Then later it continues "The U.S. raised a record \$1.6 trillion in debt last year to cover its hefty budget deficit, caused in part by the sharp economic downturn after the housing bubble burst. For this year, the government is forecasting a deficit of close to \$1.4 trillion. But some banks now expect a smaller shortfall: Jefferies & Co., for example, expects a \$1.2 trillion deficit. Nomura is forecasting a \$1.28 trillion shortfall and Deutsche Bank \$1.3 trillion." The 3rd quarter federal deficit reached a peak (hopefully) of \$1.35 trillion. The last chart above shows you the trajectory so far. It is ugly but hopefully this latest quarter marks the turn. The Wall Street Journal article details, that federal deficit estimates are being reduced by several major banks for the coming quarters. The result would be that the size of coming government debt auctions will also be reduced, which in turn will reduce the pressure on interest rates and alleviate concerns that demand for US government debt may flag some day. It also means that the US becomes even more investible for non-US investors. An expanding economy and a declining federal deficit lowers the probability of extraordinary corporate tax burdens and promises a rising currency on top of it. This development has not received a lot of press but in my mind constitutes a major bullish event for capital markets in this country. Keep your investment dollars away from Europe and stay at home. Your money will be treated better here.

Hermann Vohs