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## **The Credit Crisis is Not Over – It has Barely Begun**

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### **Summary**

- The current economic cycle is unique in the past 50 years in the way that commodity prices have detached themselves from trends in US monetary base growth and in US home prices. The three possible explanations revolve around either a commodities bubble, or Fed policy that is much looser than it looks from examination of the monetary base, or de-coupling of emerging markets growth from growth in the western economies. I believe that it is the first of these explanations that is correct.
- Different money and credit indicators for the US are pointing in very different directions and in the markets there are as many points of view as there are indicators. The weight of evidence, though, suggests that the monetary base, which is barely growing and shrinking in real terms, is giving the best reading of the stance of Fed monetary policy. This was also true the previous time that different money and credit indicators were giving very different signals, in the early 1990s. Broader money aggregates are distorted by rapid growth of money market funds, which do not have the characteristics of true money, and they are potentially also distorted by the consequences of financial instability.
- Sharply rising prices, mainly for certain commodities, are also a manifestation of financial instability and not loose monetary policy per se. This financial instability is a product of government and Fed policies, however. The policies of bailing out the mortgage securities markets and the investment banks have arrested what would otherwise have been a process of credit contraction and extended the mis-pricing of risk that was a consequence of the credit bubble. Both the renewed strength of stock markets and the sharp rise in certain commodity prices are a direct function of this.
- The Fed and government support for the credit bubble has also prevented the US savings rate from rising. As long as the net savings rate remains close to zero then the US trend economic growth rate cannot be much more than zero either. Therein lies the problem for the authorities. By supporting the credit bubble and preventing the necessary financial and economic adjustment the US authorities are condemning US real incomes to stagnation. The strength of commodity prices and the deterioration of the US terms of trade can also be seen in this light.
- Bulls tend to believe that the credit crisis is over and the currency carry trade has been unwound with no painful consequences. Neither is true. Not only has the carry trade not unwound, many indications suggest it is bigger than ever. The only unwinding has been in short-term yen futures positions outside Japan. In countries such as Hungary, Latvia, Korea and Turkey foreign currency borrowing has continued to rise. Korea, in particular, now looks vulnerable. The carry trade is another indication that the credit bubble is still with us.

## **Moral Hazard and Financial Instability**

According to conventional wisdom, as far as the credit crisis is concerned it is 'all over bar the shouting'. In this vein, for instance, a few weeks ago an FT piece on Larry Fink headlined him as the man who "called the turn in the credit crisis", seemingly taking it for granted that we have indeed seen the 'turn'.

The problem with the idea that the credit crisis is over is the problem of what comes next. As I and others have pointed out ad nauseam, the infamous global imbalances have not corrected; the US net savings rate (both personal and national) remains at close to zero. Given this, realistically there is no possibility of an extended period of benign non-inflationary economic growth, much as Wall Street bulls would like to believe this. As far as I can see, there remain only three possible scenarios:

- 1) A renewed bubble; the massive intervention by the authorities and the moral hazard created has kick-started a new credit and asset bubble.
- 2) Accelerating inflation; Fed and ECB liquidity injections are creating a major inflation which will, in effect, inflate away much of the outstanding debt burden. Asset prices will increase, but only to the extent of reflecting inflation.
- 3) The credit crisis will return with a vengeance; what we have experienced in the past few weeks will be revealed to have been no more than a 'time-out', brought about by the aggressiveness of the interventions by governments and central banks.

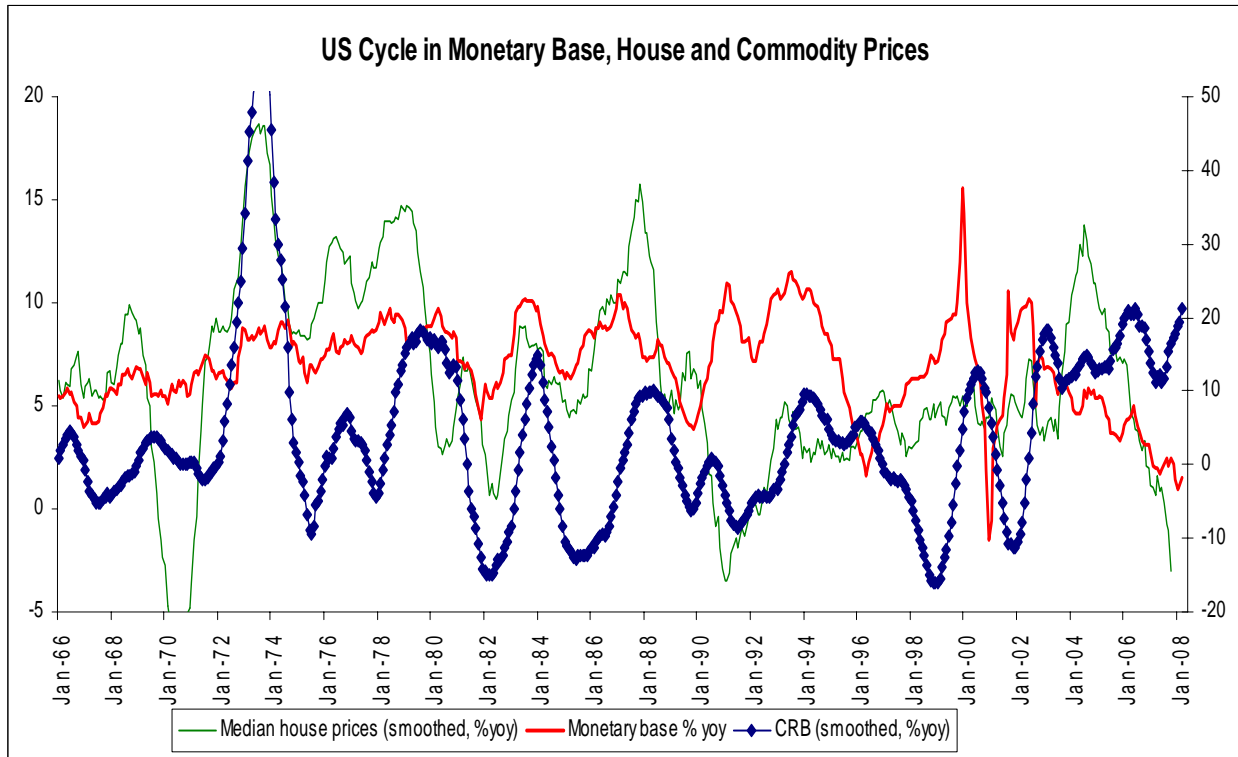
Clients who have been reading my notes know that I think 3) is correct – I have already put my 'neck on the line' there. Many long-time bears, and others, are in the 2) camp. One or two long-standing bears, who have always believed that the end would come in a deflationary credit collapse, seem to me to be entertaining the possibility of 1) – a renewed bubble – at least for a period of time. I read one commentator arguing that the Fed had "changed the rules of the game" with all of its changes in operating procedures, with the implicit conclusion that we could now be facing a new bubble as a result.

Personally, I do not agree with the thinking that the Fed has "changed the rules of the game", and even if it has I do not think that a new credit bubble is possible for any substantial length of time. There are no 'rules' other than that the government and the Fed will do absolutely everything possible – whether legal or not - to prevent a financial market and economic collapse. To read some commentary one could think that moral hazard has just been invented. In reality moral hazard has been a continuous feature of the financial market dynamic for very many years now; I myself had a great deal of discussion of it in my book "Why the Markets Went Crazy", written in 2002, and I was certainly not the first person to analyze the consequences of central bank and government financial policies in those terms. It is inevitable that, when governments and central banks implement policies in the way that they have with regard to the financial markets, each successive crisis will be bigger than the last and demand even more intervention. The question is simply when we get to the point at which intervention will not work.

I think that we are at that point now, although the past two months in the markets might suggest otherwise. I believe this is a point of tremendous financial instability and what is difficult to understand – in truth probably impossible – is the way that the credit bubble and its forestalled

unraveling is interacting with the moral hazard created by central bank and government policies to distort market prices and many financial variables. I make an attempt to explain this in this 'monthly'.

## A Unique Economic and Financial Cycle



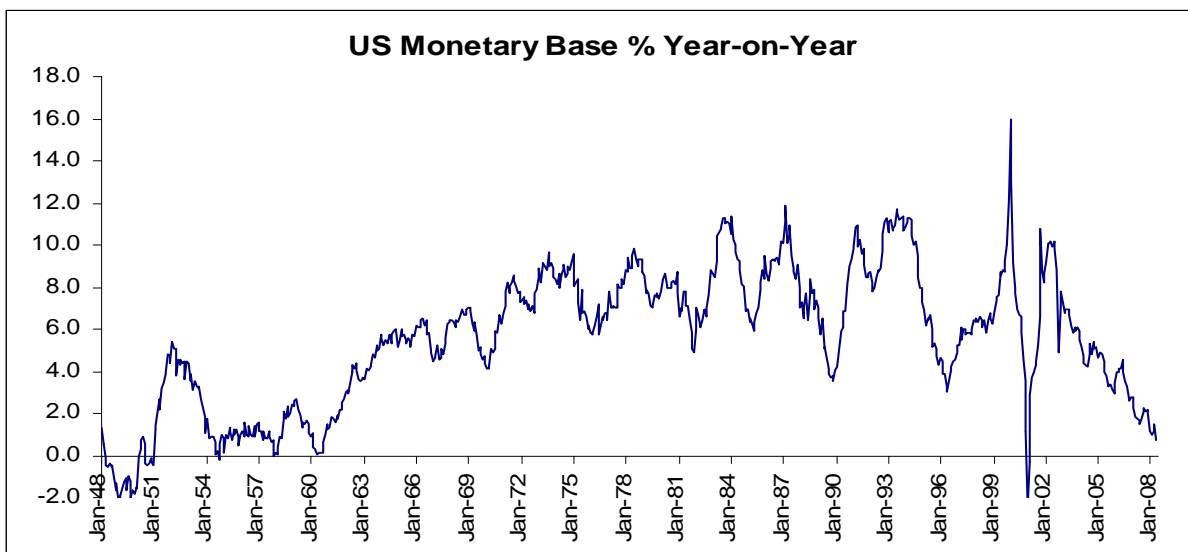
There is no doubt that we are in a cycle that is unique, at least in the past 50 years. As shown in the chart above, the divergence in the behaviour of commodity prices from indicators of the US economic cycle is unprecedented. The chart shows the year-on-year change in monetary base growth (red line), the smoothed year-on-year change in new home prices (green line) and the smoothed year-on-year change in the CRB commodity price index (blue line, right hand axis). Currently we are in a phase of declining monetary base growth and steeply declining house prices. On the chart two similar large down cycles are evident – at the end of the 1970s and beginning of the 1980s, and at the end of the 1980s – with smaller downturns at the end of the 1960s and in the mid-1980s. In each of these previous downturns commodity prices ultimately declined, with the fall in the year on year change of commodity prices generally lagging somewhat the monetary and housing downturn. In the current cycle commodity prices have accelerated even though the monetary and housing downturn has now been ongoing for some long time.

There are three different possible explanations for this divergence from past behaviour, all of which have their proponents amongst economists and in the markets:

- 1) Commodities are in a bubble, which is being driven at least in part by a huge increase in flows of money into commodity indexes. On this view, at some stage the bubble will burst and the commodity cycle will 'come into line' with the monetary and housing cycle.
- 2) Commodities fairly reflect inflationary policies that have been implemented by central banks to deal with the credit crisis. The monetary base is a distorted indicator of US monetary trends, which are better reflected by the rapid growth of M3 (no longer released by the Fed but estimated from available data by a number of private economists). On this view, logically, the housing market should soon stabilize and begin to recover as it would not make sense for there to be an extended decline in house prices in a very inflationary environment.
- 3) Looking at the cycle from a US perspective is an outdated way of looking at things. The real drivers of the commodity cycle now are the emerging markets, particularly China and India.

These three possible explanations for the divergence between commodity prices and the US cycle necessarily parallel the three possible scenarios for the credit crisis I began with. For each one of these views can be found smart and experienced analysts who believe in it, and it is impossible, inevitably, to prove conclusively which one is correct. However, I firmly believe that the weight of evidence still strongly suggests that explanation 1) – the commodity bubble view – is correct. Although I said that of the three possible scenarios for the credit crisis I believe that number 3) – the credit crisis is a long way from being over – is correct, it is also true that scenario 1) – a renewed bubble – has been true in the very short-term (i.e. the past few weeks) and the commodity price acceleration has been part of this.

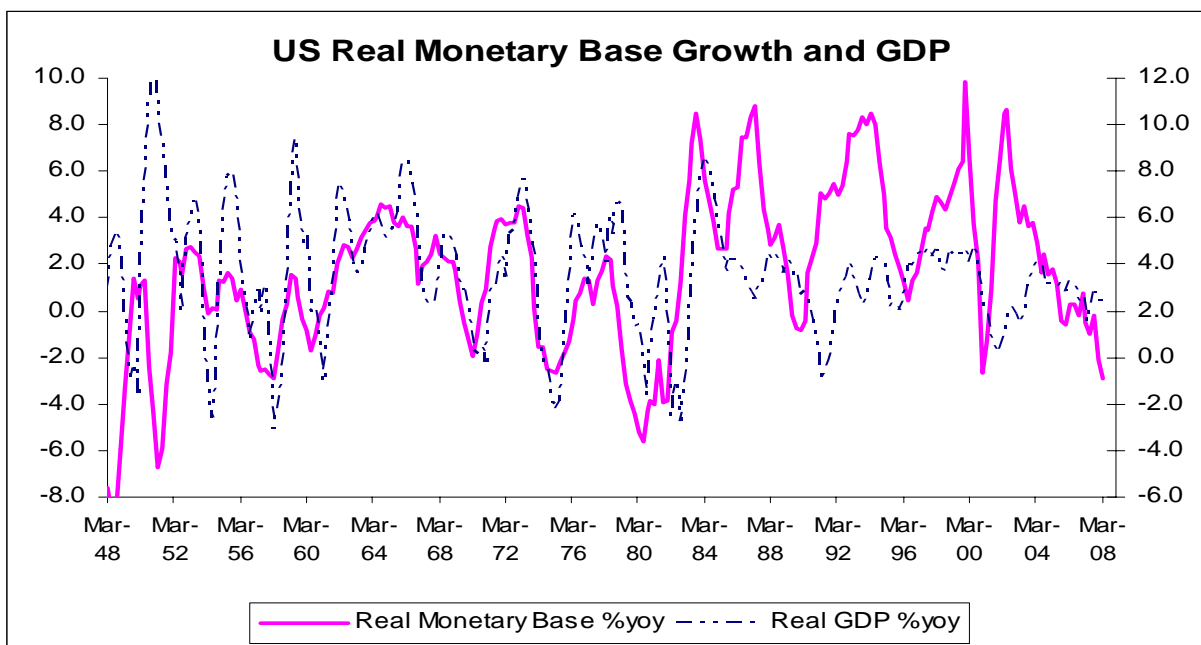
### **In Current Circumstances, the Monetary Base is the Most Reliable Monetary Indicator**



*(The big spikes in the series in the early part of the decade are related to the Fed's actions with regard to Y2K and to a lesser extent 9/11 and I ignore them here).*

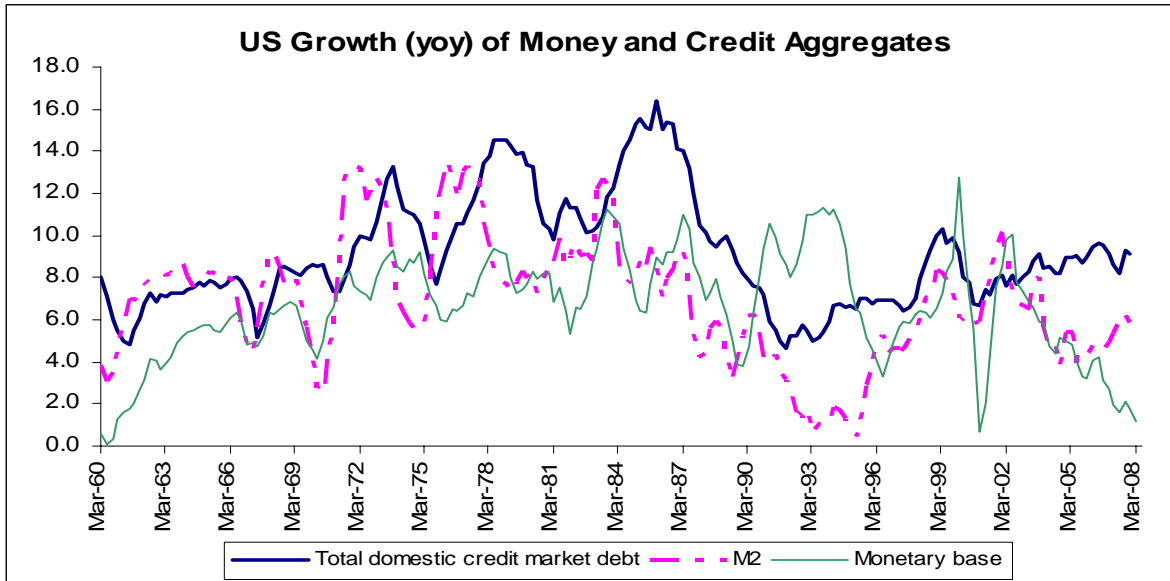
The monetary base comprises cash currency in circulation and the deposits of the commercial banks at the central bank, in this case the Fed. It is the crucial element of the Fed's liabilities. As such it is a very narrow aggregate and tends to be dismissed as inconsequential by most analysts. However, it is the monetary variable that the Fed can control directly and it is impossible to imagine a sustained major inflation occurring without this being associated with rapid growth in the monetary base. The ongoing decline in (adjusted) monetary base growth, shown in the chart above, should therefore at a very minimum give pause to those who believe that the Fed is currently engaged in a reckless inflationary monetary policy.

I am not meaning to suggest that the monetary base is always the single best monetary indicator to look at. I am a great believer in looking at all the monetary indicators – the various monetary aggregates, the slope of the yield curve, measures of real short-term interest rates etc. – and where they give contradictory indications making a judgement based on an understanding of the overall financial and economic background. Nevertheless, the real monetary base has a good track record as a leading indicator for the economy, as shown in the chart below comparing the year-on-year growth rate of the inflation-adjusted monetary base with real GDP (also year-on-year growth rate).



The chart shows that the real monetary base has tended to lead the cycle in real GDP most of the time but that since the early 1990s the growth rate of real GDP has tended on average to be less for any given rate of real monetary base growth than in the past.

Bearing that in mind, the current rate of real monetary base growth (which is negative, left scale) points to an imminent sharp drop in real GDP (right scale). This is not the message from some of the other monetary aggregates and the credit aggregates. The chart over the page is a chart I have shown often, comparing the growth rates of the monetary base, M2 money supply and total domestic credit market debt.



It is interesting to look at other times when these three aggregates – one credit and two money – pointed in very different directions. The most glaring of these was at the very beginning of the 1990s when the divergence was in the other direction; monetary base growth rose quite strongly while M2 and credit remained weak. The previous chart on real monetary base growth and GDP shows that the monetary base was the better leading indicator as the economy did begin to recover in 1991 – albeit not particularly strongly – and M2 and credit market debt did not turn up until the economic recovery was well under way.

The main reason, though, for believing that we should discount the rapid growth of M2 and the broader monetary aggregates is the impact of the credit crisis and the flight from risk. The components of the broader monetary aggregates that are growing particularly rapidly are money market funds (retail money funds in the case of M2 and institutional money funds, which are exploding in size, in the case of now-discontinued M3). Money market funds have characteristics which make their inclusion in measures of money rather dubious.

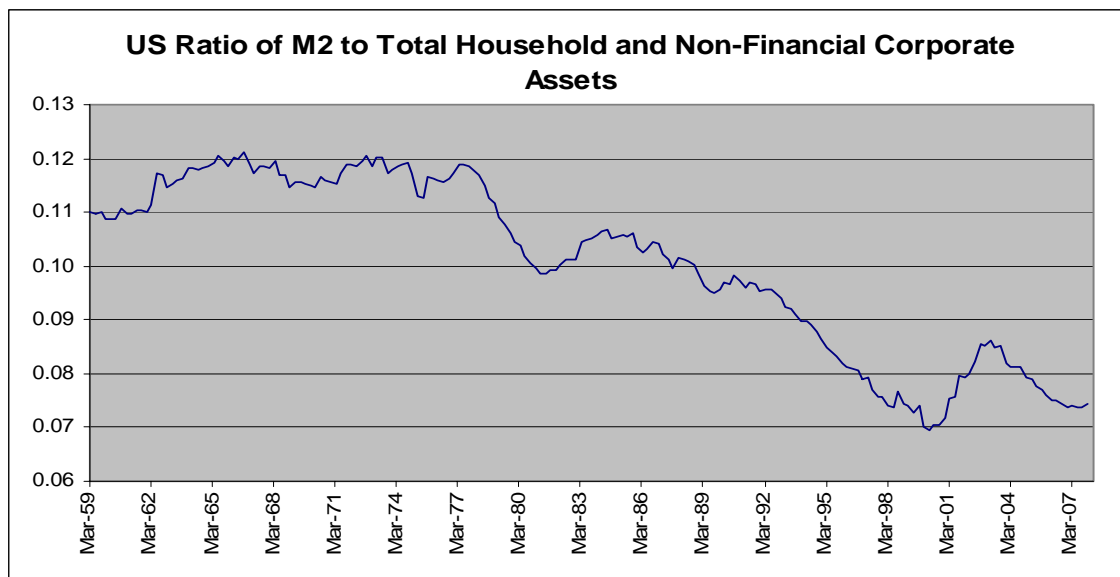
An example I gave in the September 2007 ‘monthly’ (‘Seven Myths About the Credit Crisis’) is relevant, although in some ways contradictory:

*As an example, imagine the following sequence of transactions, of a type that could have occurred during the recent credit bubble; I held a bank deposit but decided that I would do better to transfer the money to a money market fund. The money market fund buys commercial paper issued by a conduit that in turn invests in mortgage-backed securities. From my perspective, little changes as a result of my transaction. I consider that I still have money – before it was a bank deposit and now it is a money market fund.*

*However, from an objective perspective – and forgetting about the statistical definitions of money used by central banks – I do not now hold money; I indirectly hold a claim on a mortgage borrower. The money market fund could lose value (as the result of a default by the mortgage borrower) and therefore, from a purist perspective, does not constitute money. My original bank*

*deposit has transferred to the mortgage borrower and from him, possibly, on to a property developer. To this extent, my transaction contributes to lowering the price of risk and also expanding the supply of 'liquidity'.*

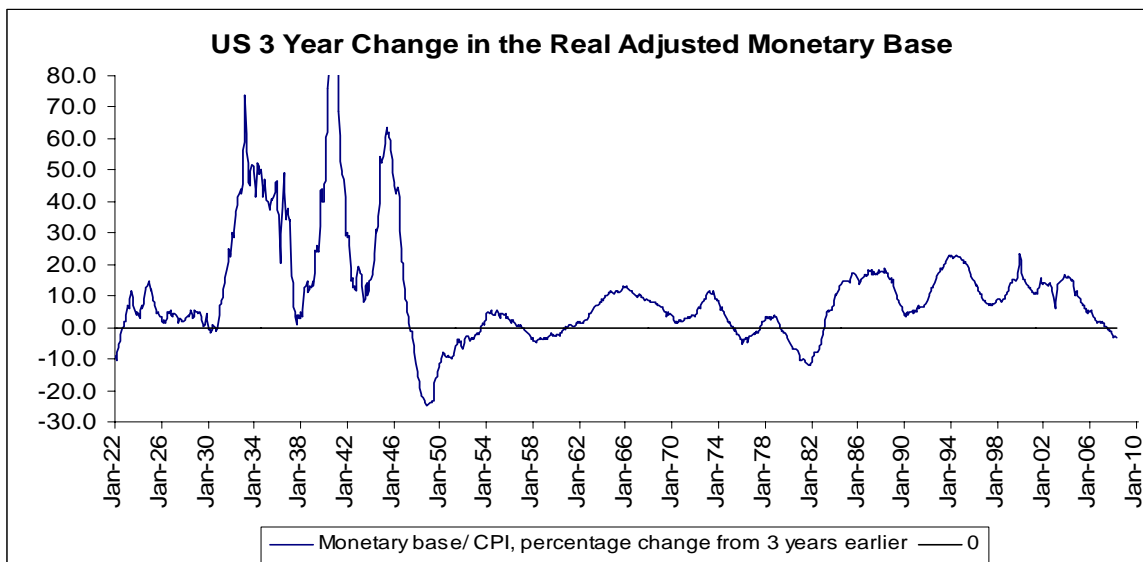
In the September 'monthly' I used this example to illustrate one of the ways in which the mispricing of risk during the credit bubble manifested in an increase in 'liquidity'. It is relevant here because of the point that money market funds are not really 'money', from a purist perspective. They can grow in size without the active involvement of the banking sector in expanding its own balance sheet, whereas money is generally understood to grow only as the result of active balance sheet decisions by banks (and most importantly the central bank). It is contradictory because in September an implicit conclusion of that discussion would have been that money funds should shrink in size as the credit crisis deepens, whereas in fact they have grown rapidly. Perhaps this just means that the credit crisis has not really deepened and that rather the true credit crisis has not really begun?



The key point here, however, is not to get bogged down in technical arguments about money market funds - whether they are risky or not, whether they are money or not - but simply to emphasize again a point I have made before; that as a proportion of total private sector assets, the long bull market in financial assets has left money holdings at a low level (chart above). In a crisis money could grow significantly as a proportion of financial assets without this indicating inflation, but merely being a function of a flight from risk. In the 1990s the opposite was happening and, as discussed above, the monetary base proved a better indicator.

The chart over the page goes back to the 1920s, showing the three year change in the real adjusted monetary base. The three year change in the real adjusted monetary base has fallen clearly negative for only the seventh time in the past 90 years. Whatever one believes about the validity of the monetary base as an accurate indicator of Fed policy and monetary conditions, it is simply not credible – in my view – to believe, as some do, that the Fed is inflating as never before at a time when we are seeing this trend in the monetary base. The monetary base may not

be an extremely accurate indicator, but it simply cannot be so far out as to be indicating monetary contraction even though policy is hugely inflationary – as some believe.



### If the Fed is not Inflating, why is there Inflation?

In past notes I have used various contrived analogies, which are really mental exercises that I have thought through as I try to gain some understanding of this credit bubble. They are usually a bit silly but I share them because I think they can provide some insights. So here goes another, which is broadly equivalent to others that I have used in the past:

Imagine a fairly primitive community living on an isolated island. The inhabitants are very individualistic and work for themselves producing food and basic items and services. The currency is a fairly rare seashell, which comes ashore only in small numbers over time. Some lending takes place; lenders of shells require to be repaid with interest and will want to be sure that borrowers will be able to repay. That means ascertaining that the shells lent are ultimately used to finance an expansion in production potential (e.g. paying for food while clearing a forest for more crop planting), providing the means to repay. But there is a growing scarcity of shells; shells have stopped coming ashore and some that were in circulation have broken. Some shells have been hoarded. The tribal chief, who has absolute authority and commands absolute respect, decrees that to facilitate more lending in future he will guarantee the repayment of all debts; he will do that by taking from every one of his subjects equally to repay in full, with interest, the debt of any debtor who defaults, albeit that a defaulter will not be allowed to borrow again.

What will happen after the chief's decree? In the first instance there will be more willing lenders, at lower interest rates, because now all debts are guaranteed. There is no need for lenders to verify the creditworthiness of borrowers because they will be repaid anyway. In my view, over time this will lead the economy to become more consumption and less investment oriented. Inevitably, more borrowing will inevitably be to finance consumption, which could not have occurred easily before because consumption does not create the means to repay debt in the future. Although risk premiums in interest rates will disappear, the real interest rate for the

economy must therefore rise. Related to this, living standards will be lower over time than they would have been without the decree because there will be less saving and therefore (by definition) less expansion of future production capacity. For some, real living standards are likely to drop straight away. The ability to expand output is limited, and will continue to be limited by the lack of investment. Therefore the expansion of consumption that some can enjoy because of access to credit that was previously unavailable must be at the expense of the real consumption of others. This manifests through higher prices and the 'taxes' that are levied to cover defaults by debtors.

Prices will rise initially. There is no expansion of the 'money supply' – this would require more shells washing ashore. Instead, the initial rise in prices occurs via an increase in the velocity of circulation of shells or, to put it another way, a reduced demand to hold shells because of the possibility of lending risk-free. As mentioned above, this is part of the reduction of living standards for some. But once defaults begin, prices should fall again with deflation then becoming the risk, as the supply of available borrowers begins to dry up. Given that there is no expansion of the 'money supply', a continuous rise in prices is not possible.

To my mind, this example makes clear two insights; first, the guaranteeing of private debts by government must be detrimental to real incomes over time; second, one of the ways that this may manifest initially is through higher prices.

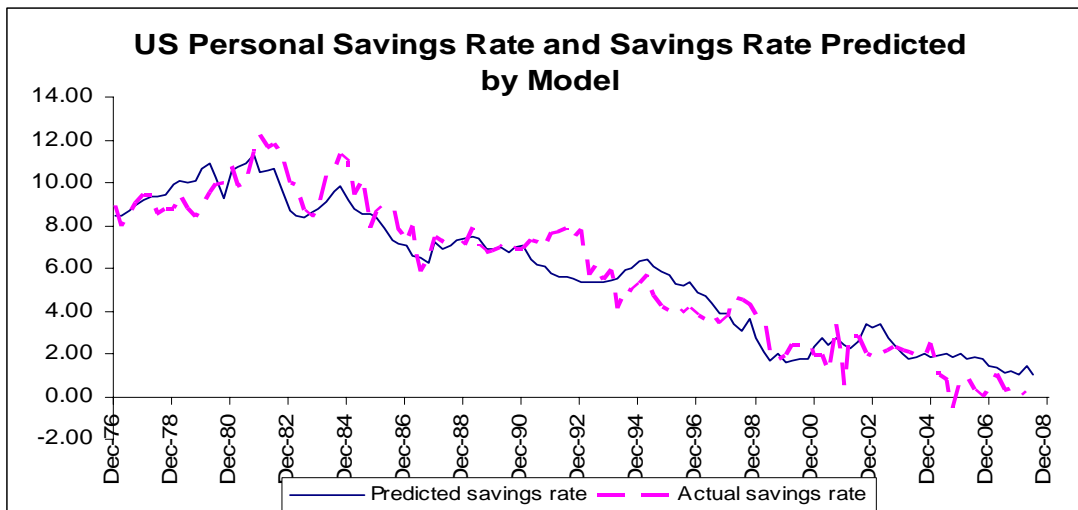
The situation of the US differs from this example. Apart from the fact that the government and the Fed have not guaranteed all borrowing and balance sheets – guarantees have been only partial and indirect – the Fed and government measures have not been at the start of the process; they have been implemented in response to an existing crisis. The mis-pricing of risk was the essence of the credit bubble, albeit that the bubble had its origins in earlier government and Fed policy (not only in the US but also the massive interventions in the yen by the Bank of Japan/ Japanese Ministry of Finance). The recent huge interventions – in the mortgage markets by the GSEs and in the money markets by the Fed and the bailout of Bear Stearns – have been in response to the markets' attempts to unravel the mis-pricing of risk i.e. correctly to re-price risk.

Inflation was one of the results of the original mis-pricing of risk (as I have discussed in my 'Ponzi scheme' analysis), albeit with ultimate origins in the high rates of money growth that preceded the terminal phase of the credit bubble (see some of the earlier charts above). What the government and the Fed have been doing in attempting to prevent the re-pricing of risk (and with it the downward revaluation of assets) is extending this 'inflationary' process.

As made clear in my earlier Ponzi scheme work, and also in the above example, the mis-pricing of risk and government intervention that prevents the correct pricing of risk must ultimately be wealth (and real income) destroying. The US government and the Fed have, so far successfully and to my amazement in that respect, been able to arrest the process of the credit bubble's unraveling. Thus they have maintained 'illusory wealth' (based on fundamental overvaluation of assets) to the ultimate detriment of 'true wealth' (based on accumulated savings). In so doing, they have necessarily created a financial and economic situation that is fundamentally unstable. I believe that soaring commodity prices – oil in particular – are more than anything a manifestation of that instability, and that is the only way in which they can be understood. To put

it simply, the US has not been saving and real incomes will now tend to decline whatever the Fed and US government do. If the Fed and the government will not let asset prices fall then that real income decline will occur in other ways, one of them apparently being soaring oil prices.

More market participants – including one or two clients of pi Economics – are coming to believe that, in addition to the interventions we know about, the Fed and/or government must be intervening covertly and directly in the equity market. This belief comes about mainly from the observation that the stock market has declined so little, comparatively, given the scale of the economic and financial crisis and the collapse of profits (including financials), and also the way that the market has acted on an intraday and day-to-day basis, where sharp declines always seem quickly to meet unexpected buying. Personally, I am agnostic on this issue. My only comment here is to say that it actually probably does not matter, from an analytical point of view, whether the government is directly intervening in the stock market or not. It is very clear that the stock market is only where it is because of the government's and Fed's overall interventions, and therefore the stock market's behaviour is part of the same phenomenon of the arresting of the unraveling of the credit bubble. To me, this now makes one thing obvious. The oil price will not go down on a sustained basis until after the stock market has crashed, albeit that it may fall very quickly after the stock market crashes. As long as the stock market fails to fall the oil price will keep rising. Therefore, although speculators may be the direct vehicles of oil's ascent the ultimate cause is the policies of the US government, the Fed and also the authorities in other western countries.



As I have noted before, the same thinking can be derived from consideration of models of the savings rate that relate the savings rate to asset values and interest rates, as in the above model that explains the personal net savings rate well based on house values and the stock market, both relative to GDP, and short-term interest rates. As long as the Fed and the government are successful in preventing the credit bubble unraveling then the savings rate must be prevented from rising. Lower interest rates help bring this about but if house prices are falling then stock markets cannot be falling as well – or else the savings rate would be rising (according to this model). Therefore, as long as the Fed and the government are ‘successful’, then the stock market

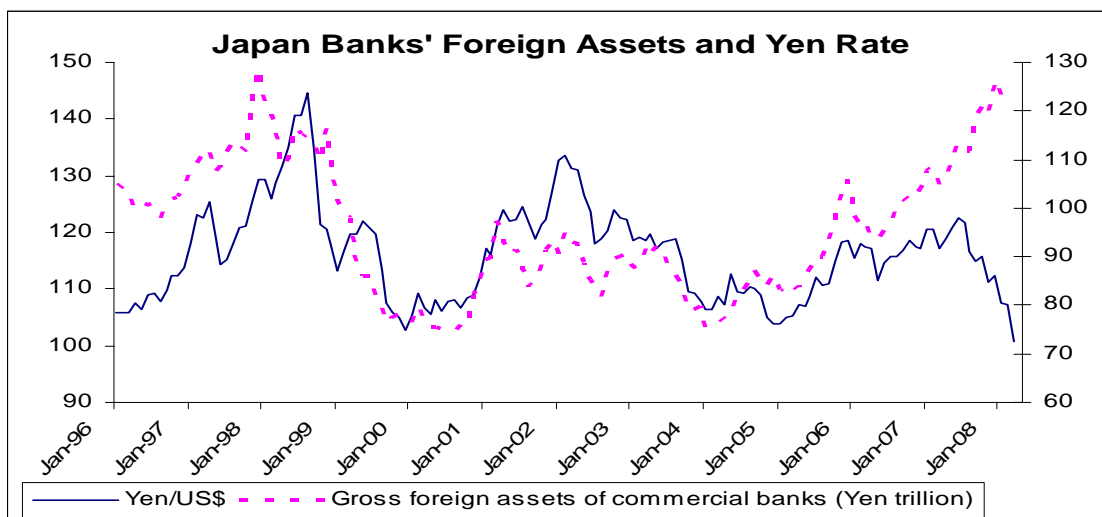
must be stable or rising. Once the stock market falls heavily then the savings rate will rise and they must have failed.

We can take this argument a stage further. As long as the Fed and the government are 'successful' at keeping the net savings rate at zero or negative then there can be no long-term real growth. If part of the way that real incomes are prevented from growing occurs through rising commodity prices, then these will presumably keep rising for as long as the authorities are able to keep the credit bubble from imploding.

The conclusion from all this is that the rise in commodity prices is not a monetary inflation but a manifestation of financial instability, which has now become part of the process of real income deterioration for the US. This cannot be halted until some time after the US savings rate has risen significantly, and this process will take the form of a very painful adjustment. Because the Fed is not actually inflating in a monetary way, the rise in commodity prices could reverse very quickly once the credit bubble properly implodes. Then a tip over into deflation is likely, at least until the Fed begins an aggressive monetary inflation.

### **The Carry Trade Bubble has Still not Burst – Further Proof that the Credit Bubble has not**

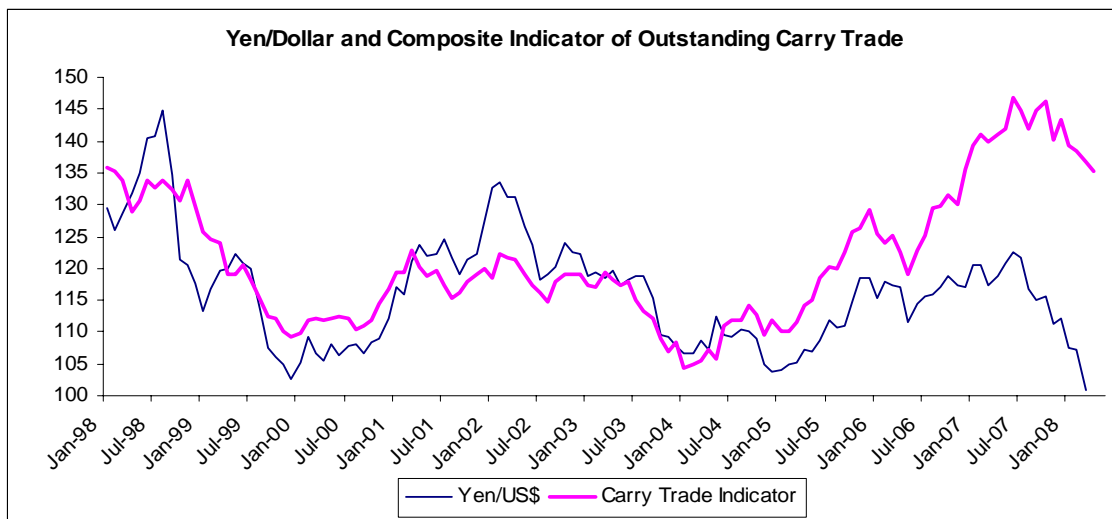
The behaviour of all the markets since mid-March, when Bear Stearns was bailed out and the Fed introduced the Primary Dealer Credit Facility, provides very strong circumstantial support for what I have written above, insofar as it is clear that the markets have primarily been driven by the Fed actions. A key piece of evidence here is the yen, which has been weakening ever since the Fed's March moves. If the Fed's actions were really inflationary then the yen should have strengthened – that is what economic theory would say. What the Fed did do is give new life to the credit bubble, and therefore the global currency carry trade, which is an integral part of the credit bubble.



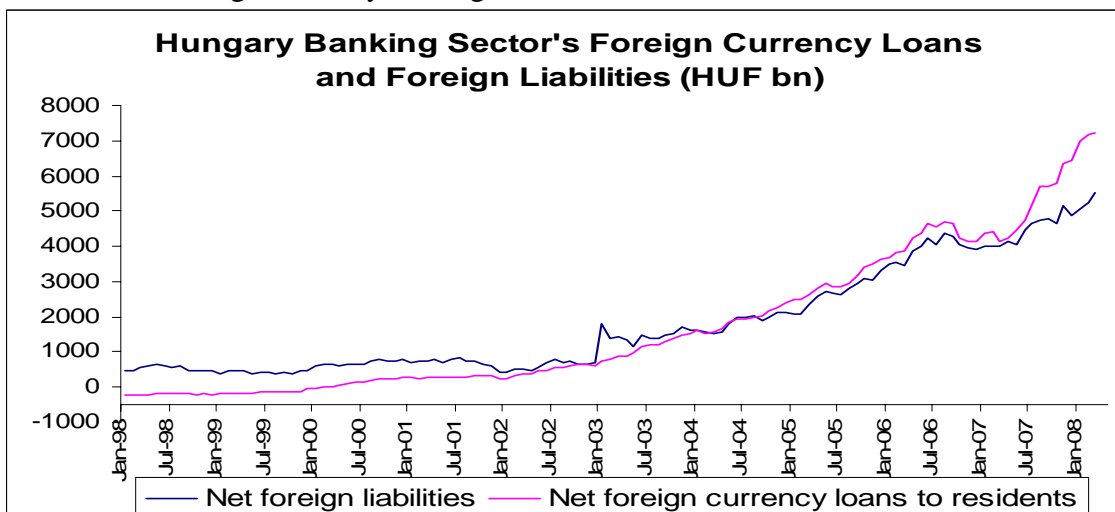
One of the mysteries of the credit crisis has been the failure of the currency carry trade to unravel. We can now know that the reason that the carry trade has not been unwound is that the credit bubble has not unwound. Many market participants believe – because the yen has risen

from below Yen 120 to stronger than Yen 100 before Bear Stearns – that the carry trade has unwound significantly. One or two analysts have backed up that idea by reference to speculative positions in yen futures. However, banking and balance of payments data suggest otherwise, as shown in the chart on the previous page, for Japanese banks’ foreign assets.

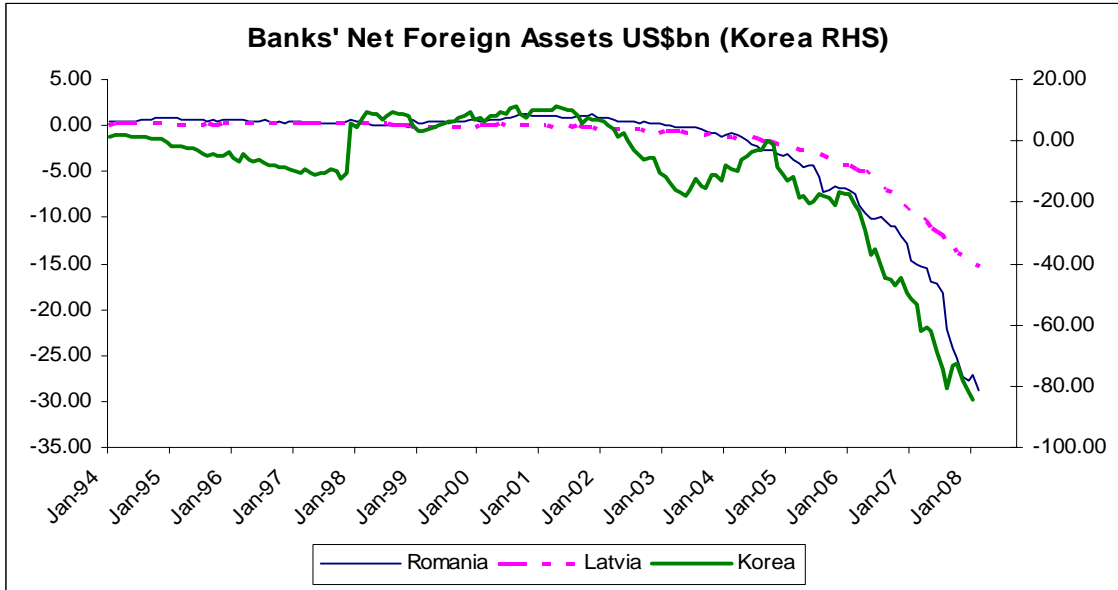
What has happened is that short-term speculators (not including Japanese speculators) have indeed gone from being very short the yen to being long, but longer-term yen financing has, if anything, tended to increase further. Speculative positions are picked up in my carry trade indicator, below, which also includes Japanese banks’ foreign assets and a measure of short-term net foreign lending derived from the balance of payments. The reason that the carry trade indicator has fallen back a little since the beginning of the credit crisis is entirely because of the speculative futures positions, but even so the indicator remains at a very high level, implying very little reversal of the overall carry trade so far.



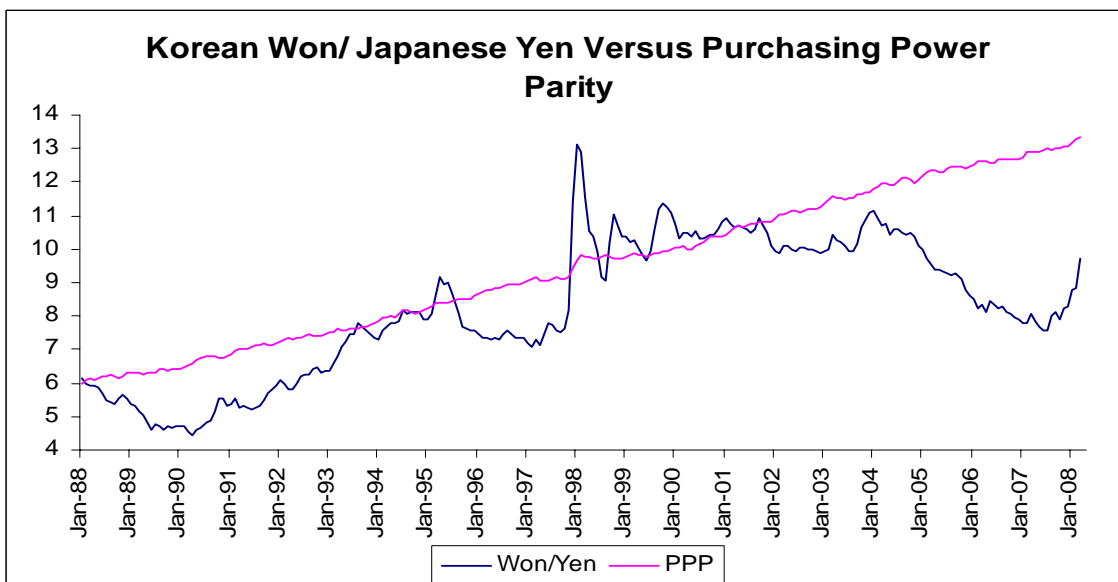
I had originally believed that the global currency carry trade was beginning to reverse as the credit crisis began in earnest last August, but what looked like the beginnings of a reversal in some of the charts now looks like only a blip. The chart below shows that in Hungary, for instance, banks’ foreign currency lending has accelerated further.



In Korea also, where we did have a ‘blip’ after August, banks’ net foreign liabilities have also accelerated. Government officials have recently been warning about the jump in foreign borrowing, reported at a record US\$381 billion, with short-term borrowings outstanding put at US\$159 billion. Not all of this is yen, of course – much of it is dollars – but a significant proportion is yen.



The Korean situation is one of the situations that look dangerous – as does Latvia – because the Korean won is now a weak currency; recently the Korean central bank was forced to intervene to defend the currency. The weakness of the won relative to the yen has meant that those who have borrowed yen since early 2006 are already offside. But as the chart below shows, there is still a long way to go before the won falls back to its purchasing power parity level against the yen, at least on pi Economics estimates.



## Conclusion

My conclusion, to put it briefly, is that most of what is currently believed by market participants and the financial media about the financial markets and what they are telling us is wrong.

Conventional wisdom is that the credit crisis is largely over and the carry trade has mostly unwound, without too much pain being caused. The reality is that the currency carry trade has not unwound – it may even be bigger overall than it was before last August – and the true credit crisis has not really happened. We only need to look at the chart on page 6 to see this. There has been very little actual credit contraction so far, whereas in a true credit crunch there would have been a sharp credit contraction by now. In retrospect, this is the reason that the financial markets have held up so well, and not (as the ‘perma-bulls’ would have it) that we have such a dynamic US and world economy that it can withstand everything that is thrown at it.

The reason that we have not had a true credit contraction yet is that governments and central banks have done everything in their power (and also things that, strictly, were not within their power) to arrest the process of credit contraction. In doing this, they have stimulated what is starting to look like a renewed ‘mini-bubble’, complete with stock markets rising again and carry trades being put back on. This has had unintended consequences, most prominent of which is the exponential rise in certain commodity prices. The problem is that whatever the Fed and government do to underpin US financial markets they cannot escape from the fact that the net savings rate is zero and will simply become increasingly negative to the extent that they do not let asset prices correct.

More sensible economists have argued for some long time that with the net savings rate at close to zero the long-term outlook for US economic growth is poor. The ‘long-term’ is now with us, unfortunately. Policies aimed at propping up asset prices, potentially promoting new ‘mini-bubbles’, do not solve this problem. In fact they make it worse, because they prevent the savings rate from rising. The rise in oil prices, which is undermining US real incomes, should be seen in this context I believe.

Ironically, given the Fed’s policies of underpinning markets, monetary policy is not loose. Policy is potentially deflationary. It is the maintenance of the credit bubble that has driven commodity prices, not loose monetary policy per se. It is possible that this could change if the current incipient financial market bubble gathers momentum and keeps driving up market interest rates to the point where the current level of the Fed’s target rate becomes too low, and therefore inflationary. However, it remains very difficult to envisage this outcome, in the short-term, for two reasons; first, rising market interest rates will put renewed downward pressure on house prices, which have yet shown no signs of recovery, therefore creating renewed credit problems; second, a genuinely inflationary Fed policy would inevitably weaken the dollar against the yen (which remains very undervalued), creating problems for the carry trade and thereby other credit problems. This second was the argument that I was making last year. To the casual observer, it may have looked a wrong argument but the reality is that it has not yet been tested as Fed policy has at no stage become genuinely inflationary.

A high inflation ‘solution’ to America’s debt problems remains the most logical and easy-to-imagine outcome in the long-term. However, we are not there yet; there are several stages to go through before it becomes wise to bet on this outcome.

	<b>Now (May 29, 08)</b>	<b>12 mths out</b>	<b>change</b>
<b>S&amp;P 500</b>	1398	710	-49%
<b>10yr Treasury</b>	4.1%	3.0%	-110bp
<b>\$/Euro</b>	1.55	1.40	-10%
<b>Yen/\$</b>	106	70	51%
<b>\$/Pd</b>	1.98	1.80	-9%
<b>Gold</b>	878	600	-32%

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