

THE INTERNATIONAL FORECASTER
JANUARY 2006 (#1) Vol. 10 No. 1-1

P. O. Box 510518-0518, Punta Gorda, FL 33951

An international financial, economic, political and social commentary.

Published and Edited by: Bob Chapman

US MARKETS

There is no question that the National Security Agency is Big Brother. We know because we've been there and done that. NSA was created in 1952. We became involved in 1955. Since that time the agency has developed ever more sophisticated technology that mines vast amounts of data. For some time pressure on the agency to bypass civil liberties and skirt formal legal channels of criminal investigation has made their life difficult. NSA was only created to spy on foreign adversaries. It was never supposed to be used to spy on Americans. Frank church realized in 1975 that NSA had that capability when he said, "if a dictator ever took over, the NSA could enable it to impose total tyranny, and there would be no way to fight back."

NSA was used against communism. It locked the communist bloc in an electronic cocoon. They knew everything the communists did and had great success in breaking almost all communist codes.

Over the last four years, upon orders from the President. NSA has been a classic fishing expedition, which is precisely the type of abuse the Foreign Intelligence Surveillance Act (FISA) court was supposed to stop.

In 2002, the Pentagon launched Total Information Awareness, under John Poindexter, a retired Rear Admiral who served as National Security Adviser under Ronald Reagan and helped devise the plan to sell arms to Iran and illegally divert the proceeds to rebels in Nicaragua. Poindexter was convicted and then pardoned. TIA was shut down because it permitted intelligence analysts and law enforcement officials to mount a vast dragnet through electronic transaction data, ranging from credit card information to medical records inside the US, to hunt for terrorists. After it was exposed in the press the Pentagon shut it down.

The Bush administration in 2004 then did an end run by data mining 128 federal departments and agencies.

Our President has brought us to the abyss of totalitarian government, and if he is allowed to cross it there is no return.

We wonder what ever happened to April Glaspie? Fifteen years have passed since she gave Saddam Hussein the go head to attack Kuwait. At that time she was US Ambassador to Iraq. She has not spoken a public word since then and she retired in 2002 from the American Foreign Service. Not only did she tell Hussein he could invade, she also supervised covert support by the US to Saddam from 1980-1988, during his war with Iran. Glaspie was George H. W. Bush's messenger, which allowed Saddam to move forward in the Gulf War. After we said he could go ahead and told him we wouldn't intervene on the side of Kuwait, we did just that entrapping him. Here we are 15 years later and after extensive research, the war and excuse for war was created to protect Israel and for other reasons.

Russia has formerly proposed to Iran that it move its uranium enrichment facilities to Russian territory, raising pressure on Iran to accept the Western-backed plan for making sure its nuclear program is restrained and controlled.

As we mentioned in previous letters that if the matter were brought before the UN Security Council for sanctions, both China and Russia would veto the measure. Earlier this month Iran dismissed the Russian proposal as unacceptable. Germany,

France and Britain backed the Russian offer.

A subscriber from Michigan writes that heating bills are running from \$200 to \$400, but average in the high \$300s. Real estate taxes are very high and many either work second jobs or lots of overtime. If costs continue to rise, second jobs are lost or overtime ceases; many will lose their homes. Some upscale neighborhoods are getting \$700 to \$1,000 monthly water bills. Some of the areas may have been transformed to upscale, sending all the bills higher, but their jobs weren't elevated to upscale. The auto industry is deliberately being destroyed and Michigan, and parts of Illinois, Indiana, Ohio, New York, Quebec and Ontario, are doomed to become ghost towns. We would imagine throughout the Northern states, as heating bills climb, they are being delivered with a free trial packet of Prozac. High-energy prices are not going to go away, and neither is the deliberate destruction of our economy.

Americans have to understand that our nation's leadership has not always been right and hasn't always been honorable in its pursuit of what they say is defending liberty and freedom.

We believe we must be perpetually prepared to defend our country and wage war when it is an absolute necessity. We long ago drew the line as to what constitutes justifiable war.

We accept no excuse for the Iraq War. No excuse washes. Everything we have been told to justify the war has been a lie.

Due to the usage of depleted uranium not only have our soldiers been exposed to horrible deaths, but so have civilians who will be exposed for years to come. What has been done in the Balkans, Gulf Wars, and Afghanistan and now in Iraq is a war crime. Crimes created by using depleted uranium. Crimes committed without conscience or morals.

Experts have found in Iraq, apart from US government interests, non-depleted uranium, plutonium and U-236, that are both made in nuclear reactors and are not naturally occurring in nature. It is obvious George and the neocons and the Pentagon did not care if deadly U-236 and plutonium P1-239 is left in the depleted uranium. It could be removed, but that would entail more work and cutting into someone's profit margin. Again this has been done against the environment and people living in the Balkans, Afghanistan and Iraq. This is a crime against humanity. Our leaders, George and the neocons, and other elitists don't care one bit about other people or either their own soldiers or contractors. It is all about money. They do not care who dies or what is left behind. It should be noted that elitist Bill Clinton was the one who used dirty DU in the Balkans, so they all don't care. It's not a partisan political matter; it is elitists against the world. What we see is criminal negligence and treason.

The media stands guilty of gross criminal negligence for not reporting what we are reporting here. It is not just what the elitists have done in foreign nations. We have reports on at least 12 facilities in the US that are leaking deadly nuclear waste into our rivers, aquifers and air and pose a serious health risk. By not talking about this criminal problem is not going to make it go away.

The only remedy for these problems is regime change in Washington. There is no chance of converting 95% of our representatives and senators, so they all have to be voted out of office. Vote for candidates, with minor exception, who are not in the Republican or Democratic parties. These people are totally controlled one way or another. They are criminals, perverts and thugs. You cannot continue to be apathetic just because DU or any of the other issues that are moving us into slavery has not as yet touched you and yours. You cannot continue to be pathetic Americans. If you do not act and save our nation you are going to die with it. Then you'll lose everything.

In regard to the latest NSA-Gate episode of spying on Americans, and why it's a reason for impeachment, remember that

the Bush administration requested, and Congress rejected, war-making authority in the US in negotiations over the joint resolution passed days after the terrorist attack of 9/11. The former Senate Majority Leader Tom Daschle (D-SD) disclosed this in a recent Washington Post article. Congress refused explicitly to grant such authority. Now the Justice Department has acknowledged, in a letter to Congress, that our President's October 2001 eavesdropping order did not comply with "the procedures of law" that has regulated domestic espionage since 1978. There is one other statutory authority for wiretapping, which covers conventional criminal cases. That is described, along with FISA, the Foreign Intelligence Surveillance Act, as "the exclusive means by which electronic surveillance may be conducted." The argument that espionage is a fundamental incident to the use of military force holds no water when Congress has again and again forbidden it. The resolution authorized the President to use all necessary force against other nations, organizations or persons who planned, authorized, committed or aided the 9/11 attacks. It said nothing about spying on Americans. In fact George and the neocons attempted to add the words, "in the United States" and after "appropriate force." As Daschle wrote, "This last minute change would have given the President broad authority to exercise expansive powers not just overseas, where we all understood he wanted authority to act, but right here in the United States, potentially against American citizens." It was refused. Congress also rejected draft language from the White House that would have authorized the use of force to "deter and preempt any future attacks of terrorism or aggression against the US," not only against those responsible for the 9/11 attacks. Of course, the neocons have gone and done that anyway with regime change in Iraq. We and others have tried to reach Republican legislators involved in the negotiations, but they refuse to discuss the issue. What our President has done is impeachable, now let's see if Congress has got the guts to get rid of this creature.

As we mentioned before, for nine years the minimum wage has remained at \$5.15 an hour. We are happy to say Democrats are preparing ballot initiatives in states to boost turnout of Democratic leaning voters in 2006. Minimum-wage initiatives are on the ballot in Ohio, Michigan, Arizona, Colorado, Nevada, Arkansas and Montana next fall. A higher minimum wage may be inflationary, but so is the Fed's wanton, reckless, profligate printing of money and issuance of credit. It is a fairness issue. It is a moral issue. People deserve to be paid decent and reasonable wages for their work. This will be a pivotal issue and one Republicans will be very uncomfortable opposing. Seventeen states, plus DC, now have a minimum wage higher than the federal minimum of \$5.15 an hour. As an example, Massachusetts has one of \$6.75 an hour. When voted on in the last election it was supported by 71% in Florida and 68% in Nevada. This is a defining issue, which will help Democrats in the next election.

Republicans are losing solidarity and cohesion in New Hampshire. The reason is the National Party and the White House has become the new socialist-fascists.

Congressmen Jeb Bradley and Charlie Bass voted for extending stem cell research and opposed arctic drilling and Bradley notably declined to endorse Bush's Social Security plan.

Senator John Sununu opposed Bush's plan for a constitutional amendment banning gay marriage, joined a filibuster to insert civil liberties protections in the USA Patriot Act, and voted against his party leadership on several major spending bills. Senator Judd Gregg voted against the transportation bill and the massive energy bill that grew out of VP Cheney's energy task force.

The Representatives and Senators say they are acting in the tradition of the state's libertarian brand of conservatism, even if the GOP moves in a different direction.

Considering this background and the numerous scandals the next Democratic presidential contender stands an excellent chance of repeating John Kerry's win over George W. Bush in the last election. That said Republican office holders are distancing themselves, as we predicted they would, from scandals, lies, war for profit, impeachable offenses, and a generally badly damaged national party. Recent proof of that is the stripping of Alaskan drilling from the Defense Bill. Then there is the DeLay money-laundering scandal and the Abramoff capers that involve some 60 Congressmen. The whole of 2006 will have ongoing scandals that will be 80% Republican. Older residents and conservative republicans are totally turned off by what has gone on in what is a new socialist/fascist party that they do not want any part of. All over American Republicans are saying what happened to our party, how did it get hijacked. Considering the foregoing there could be a Democrat landslide in the next election. The center-right is being forced to move center-left. After the last six years of Republican government, people have become more independent-minded and libertarian. The Republican National Party and George and the neocons as we said a few months ago, are the kiss of death for Republicans seeking election or reelection.

In 1990 if you bought an apartment in Tokyo for \$400,000, it would be worth about \$175,000 today. Property prices had grown very fast and very steeply and had descended in the same manner. If the Japanese government had allowed the financial system to be purged, beginning in 1992, they would not have the situation they have today. What the elitists demanded was that the Japanese print money, issue credit and lower interest rates. What has happened as a result is they still haven't recovered. It hasn't worked. This is the same course our financial system in the US has now embarked upon.

Japanese banks accumulated \$1.5 trillion in unpayable debt and have spent 13 years writing it off. There is some \$250 billion still left. Japan has suffered one of the biggest property market collapses in modern history. Japanese real estate was worth \$18 trillion in 1991; today it is worth \$7 trillion. US real estate is worth \$17 trillion and could easily suffer the same fate. During that period the Japanese were saving more than 20% of their income. Today, Americans have no savings, lower purchasing power and extraordinary debt. As in Japan, residential real estate prices could drop 64% in the US. We are not saying they will, but it is possible. In the 30 hot US markets we see losses of 40%. It could be a loss of 64%, especially with the exotic loans and the possibility of higher interest rates.

People like Ben Bernanke will make the same mistake the Japanese did and we did in the 1930s, because it is either face the music and purge the system, or hyper-inflate. Ben, like the others, will inflate. One thing is for sure both asset bubbles have been mostly forgotten and so most people will be unable to learn from previous mistakes. What else can be expected from a society where now only 9% of Americans read? As in previous years people don't believe there is a bubble. This is the way it's supposed to be. Human nature is a block to being able to learn from the mistakes of history. The borrower in the late 1920s was in denial, the Japanese were in denial and now Americans are in denial. Humans like myths. They make them feel comfortable. Many buyers were and will be again wiped out. The concept that prices won't fall is idiotic. History teaches us that. We see the same haste to buy psychology today in America that we saw in Japan in the 1980s. The classic definition of a bubble.

Japan had American business to help bail out part of the problem. This time there will be no one there to bail out the US. If we do not bite the bullet now it will take twenty or more years to work off the US real estate excesses. The Fed believes gradually tightening interest rates will do the trick. What they fail to understand is the increases are undone by an almost 10% increase in money supply and a 14% increase in credit. There is no discipline in this. This is no solution. The Feds will continue to play this game until they have a collapse. That is why you should be putting your assets in gold and silver related assets and exiting the stock market, real estate and bonds.

Social Security, Medicare and Medicaid accounted for \$1 trillion of 2004's budget of \$2.2 trillion, an increase of 5% from 2003.

The effort to deny citizenship to babies born to illegal immigrants on US soil ran aground this month in Congress, but it is sure to resurface - kindling bitter debate even if it fails to become law. GOP House Leaders did not let the proposal come to a vote. They know if they do it will be another major defeat for them and George and the neocons.

The trick is known to just about every small-time crook in the cellular age. If you do not want the police to know where you are just take the battery out of your cell phone when you are not using it. Had that been taught to the CIA's covert operatives, George and the neocons might have avoided much of the crisis in Europe over the practice the CIA calls "rendition."

In the case of Abu Omar in Milan, CIA operatives made it easy for Italian police to track them. Changing hotels made it even easier for the police to identify them. The police just asked the hotels which Americans stayed there. One was dumb enough to make sure in checking into hotels to hand over her frequent flyer number to get credit for her hotel stay. This is what morons the CIA hires today. It doesn't make you feel very safe does it? The citizens of South Dakota have gathered enough signatures to place a State Constitutional Amendment on the ballot. The Amendment will strip South Dakota Judges of "judicial immunity," the inability of a private citizen to sue a judge. To eliminate frivolous lawsuits, suits must meet certain criteria and be approved by a Grand Jury before filing.

The government is trying to cut benefits for the spiraling cost of post-traumatic stress disorder as emotionally scarred veterans return from Iraq and Afghanistan. This debate will find its way into Congress and we expect a real fight as Republicans try to cut benefits for these men and women who put their lives on the line.

The Conference Board Consumer Confidence Index rose to 103.6 from 98.3 in November. The present situation index was 121.1 versus 113.2 and the expectations index rose to 91.6 from 88.4.

Last week mortgage applications fell to more than a 3 1/2 year low as the MBA Index fell 6.8% on the lowest volume since May 24, 2002. Refi applications fell 11.2% on the lowest volume since April 12, 2002. The 30-year fixed rate mortgage averaged 6.21%, down from 6.22%. The 15-year fixed mortgages averaged 5.76%, unchanged and the one-year ARM fell to 5.36% from 5.41%.

Retail sales rose 3.9% last week year-on-year on last minute buying. Sales rose 2.8% the previous year.

On December 27, 2005, last Tuesday, the two-year Treasury yields drew even with 10-year yields for the first time in almost five years, producing a so-called flat yield curve. What is next is an inverted yield curve, which we predicted, which is when the two-year yield is higher than the 10-year yield. That spells

recession.

We are looking at a one-year backlog in real estate inventory nationwide. The writing is on the wall.

Israel has a wiretap on every telephone in America and has used their technology for years, along with the ability to monitor and record any call. AMDOCS, sub-contracts billing and directory services for telephone companies worldwide, including 90% of US companies. Converse Inforsys has a backdoor into the telephone services as well.

AMDOCS was implicated in the leaking of police phone data that resulted in the collapse of an investigation into a massive drug and credit card fraud operation with Israel connections. This bugging is not only commercial, but it reaches into the highest levels of our government. Even Bill Clinton warned Monica Lewinsky that a foreign government was tapping their phone calls. Unfortunately being an Israel agent she knew that already.

It now makes sense Israel is blackmailing many people within the US government. We find it of interest that after the Lewinsky warning Clinton called off the FBI's hunt for an Israeli mega-spy.

We see real problems ahead between the US and Israel that will start to expend in 2006 and explode in 2007.

Saddam Hussein's neocon orchestrated kangaroo court is well underway. The controlled judiciary will make sure the US and other western powers are not brought to cause. This is nothing more or less than a show-trial contrived to divert attention from the destruction of Iraq and the massive war crimes committed against the Iraqi people. The court is totally illegal and illegitimate. The overwhelming evidence against George W. Bush and Tony Blair of crimes against humanity will never come to light in this court proceeding.

The trial in essence is a trial against all Arab leaders calculated to demonize, intimidate and humiliate Arabs and Muslims. A smokescreen for injustice. European jurists say allegations against Saddam are unsubstantiated and there is no evidence that he is personally responsible for the alleged crimes. Many believe the case should be dismissed. They say in Europe it would not even go on trial. In fact, some allegations have been refuted by the UN and credible western officials. All charges come from US and UK based human rights organizations, NGO's and their media. Even if he had committed crimes, the crimes were committed with the full complicity and support of western leaders, and western media. If he is guilty, so are Bush and Blair. The war, invasion and occupation of Iraq was an illegal act of aggression that contravenes the UN Charter and international laws. Bush and Blair should be on trial. Any truth seeker knows they both lied about all aspects of the reason for war. Based on that alone the both should be tried for aggressive war and crimes against humanity. This is the supreme international crime. The wrong people are in the dock in Baghdad. There is no question that the Nuremberg principle should be used to indict Bush and Blair. What they have perpetrated is an ongoing criminal conspiracy, a violation of the Nuremberg Charter, the Nuremberg Judgment and Principles. Their aggressive war policies are legally akin to those perpetrated by the Nazi regime. The litany goes on. The presence of US, other foreign troops and mercenaries in Iraq is in contravention of international law. The occupation has to come to a quick end and George Bush and Tony Blair have to be tried for crimes against humanity.

Previously owned home sales fell 1.7% to 6.97 million from October's 7.09 million pace. The number of homes for sale increased to the highest level since April 1986. The median price rose 13.2% y-o-y to \$215,000.

Last week initial jobless claims rose 3,000 to 322,000. The

4-week moving average rose to 325,000 from 324,750.

The December Chicago Purchaser's Index fell to 61.5 from 61.7.

Gibraltar Packaging will shut its Indiana plant and fire 100 workers.

The WSJ tells us that if the plan to compel companies to account for their pension plans on their balance sheets proceeds, GM may have most or all of its shareholder equity wiped out or to just \$24 billion. A second similar rule change, accounting for retiree-benefit plans in much the same way would send GM's equity even lower. One analyst says the disconnect between stated net pension asset and actual under-fundings is \$264 billion just for the S&P 500.

We have been writing concerning this pension bomb issue for the last eight years. We see all pension funds' marked-to-market at minus \$720 billion. If the Dow retunes to just 7268 that figure will increase some 40% or \$290 billion to \$1.1 trillion. You can then throw in governmental pensions of all kinds and you can add more than another \$1.1 trillion. This is going to happen and it is not going to go away. Eighty-five percent of corporate America has lied about its pension funding as has federal, state, county and city entities. The federal government, even paying off only one-third of their obligations, would have further enormous deficits. That would be a cause for even more inflation as they printed more money to suppress chaos.

The number of unsold homes in November increased 1.2% to 2.9 million, a 19-year high.

The Marine Corps is paying \$100,000 for each revamped military jeep when you can buy it commercially for \$7,500, another corporate-government rip off.

The Congress may not act on the President's request for more borrowing authority until early March, which forces government to use unusual measures, such as shifting money among government pension funds to finance operations. This is the fourth request during the Bush administration tenure.

This segment is from Friday, December 30, 2005 for the past week.

The two-year Treasury yield rose 3 BP to 4.40%. The 5's rose 3.5 BP to 4.35% and the 10's rose 2 BP to 4.39%. As we predicted the inverted yield curve is finally upon us. If it stays that way for a while you can expect a recession soon.

Junk bond rated companies borrowed a record \$295 billion in the loan market in 2005, yet the issuance of high-yield bonds dipped 26% this year compared to last year.

Freddie Mac posted the 30-year fixed mortgage at 6.22%, down 4 BP. The 15's were down 3 BP to 5.76% and one-year arms fell 7 BP to 5.15%. The application index fell 4.5%, yet purchase applications jumped 14.6% y-o-y, with dollar volume up 18.7%. Refi apps fell 11.2%. The average new purchase mortgage slipped to \$236,300, while the average ARM increased to \$354,600. The percentage of ARMS was unchanged at 32.5%.

The colossal M3 again surged, up \$35.7 billion to a record \$1.0184 trillion. This is incredible and Wall Street acts like it doesn't know or understand what is happening. Over the past 31 weeks it is up \$558 billion or 9.7%. Year-on-year it is up 7.6% with M3 less money funds up 8.5%.

Adding insult to injury, bank credit jumped \$26.8 billion last week to a record \$7.494 trillion. Money supply and bank credit combined rose \$62.5 billion in just one week as the Fed prepares for another rate rise in January and the arrival of Helicopter Ben on February 1, 2006. Securities credit rose \$2.6 billion to a y-t-d gain of \$131.3 billion or 7%. Loans and leases are up 12.9% y-o-y and commercial and industrial loans were up 15.3% annualized. Real

estate loans are up 14.4% during the 51 weeks of 2005 to \$2.899 trillion.

Total commercial paper fell \$5 billion to \$1.649 trillion. Total CP expanded \$235 billion in 2005, or 16.6%. CP was up \$145 billion in 2004. Non-financial CP added \$1.5 billion to \$140.9 billion, up 8.8% in 2005.

In 2005, ABS issuance was \$956 billion, up 30% from 2004. For the last two years ABS issuance has overtaken traditional corporate bonds. The Financial Times says ABS in 2005 broke the \$1 trillion mark.

Fed foreign holdings of Treasuries and Agencies increased \$4.8 billion to \$1.519 trillion for the week ended 12/28/05. Custody holdings (holdings by the Fed for foreign central banks) were up \$183.3 billion for the year, or 13.7%.

Last week the dollar was up 0.5%, increasing its 2005 gain to 13%, the largest gain since 1997. Up against the dollar on the year were Brazil's real 13.7%, the Uruguay peso 9.8%, the Chilean peso 8.5%, the Egyptian pound 7%, the Philippine peso 5.9%, the Mexican peso 4.8%, the Canadian dollar 3.4%, the Colombian peso 3% and the Chinese renminbi 2.6%. On the downside, the Zimbabwean dollar fell 93%, the Swedish krona 16%, the Hungarian forint 15.0%, the Swiss franc 13.2%, the Danish krone 12.9%, the Japanese yen 12.8%, the Estonian kroon 12.5% and the euro 12.6%.

2005 merger and acquisition activity rose to \$1 trillion from \$824 billion in 2004.

1,012 US public companies in 2005 executed \$456 billion in stock buybacks breaking 2004's record of 728 companies \$312 billion. Cash takeovers were \$277 billion, another record.

Holiday spending rose 8.7% as sales jumped in the final three days before Christmas.

Saudi Arabia has a stock market mania such as the US had in 2000. Five years ago there were 50,000 speculators, today there are 2 million in a country of 26 million people. The market was up 82% in 2004 and by more than 100% in 2005.

In November, existing California homes appreciated 16.2% and sales decreased 11.2% y-o-y. Unsold inventory was 3.9 months versus 2.8 months y-o-y. Median prices rose 16.2% and 24% over 2 years. Median condo prices rose 14.9% y-o-y, 20% over 2 years.

Florida's November sales rose 1% y-o-y as statewide median sales prices rose 31% to \$250,500 from 191,300 in 2004. In November 2000, the statewide median sales price was \$117,900, up 112% in five years.

The Dow ended the year down 0.6%, with the S&P 500 up 3.0%, a dreadful performance in a sea of Fed created liquidity.

Non-financial debt grew at the strongest rate since the mid-1980s. Total mortgage debt growth was near \$1.4 trillion in 2005, up from \$1.2 trillion 2004. During the 1990s, TMD rose only \$271 billion. Bank real estate loans rose \$358 billion in 2005 versus an annual average of \$214 billion during the first five years of the decade. Collateralized Mortgage Obligations (CMO) issuance was up 23% from 2004 at \$1.011 trillion.

In 2005 personal income rose 5.2% and spending rose 5.8%. Monthly trade deficits were \$70 billion, while annual current account deficits will soon surpass \$800 billion. In the rest of the world holdings of US credit market instruments increased to about \$800 billion in 2005, after averaging \$450 billion during the first five years of the decade. World finance floats in a sea of dollars.

The US stock market in 2005 may have been comatose in spite of the manipulation of the market by the Fed and "The Working Group on Financial Markets," but the rest of the world speculated with their sea of US dollars.

The glut caused the FTSE to rise 16.7%, DAX 27.1%, CAC

40 to 23.4%, Switzerland 33.2% as the Swiss franc fell, Spain 18.2%, Italy 13.3%, Netherlands 25.5%, Portugal 17.2%, Ireland 18.8%, Sweden 29.4%, as their currency fell, Norway 35.5%, Finland 31.1%, Denmark 37.3%, Belgium 21.0%, Luxemburg 26.7%, Iceland 64.7%, Russia 83.3%, Austria 50.8%, Hungary 41.0%, Poland 33.7%, Czech Republic 42.7%, Romania 50.9%, Ukraine 35.8%, Slovakia 26.4%, Estonia 48.0%, Latvia 63.5%, Lithuania 41.0%, Bulgaria 32.0%, Croatia 27.2% and Greece 31.5%.

Watch out below because today's US 2-year Treasury versus the US 10-year Treasury "inversion" is symptomatic of the "global liquidity glut." The flags are up for full-blown recession and massive inflation. Race as fast as you can to gold and silver-related assets.

We have received complaints of AOL opening accounts without permission and being spied upon, as your personal information is weaseled out of you. Your bank account gets debited for this privilege. Then AOL openly admits they spy on user's emails and then sends them to our government. Thus, you pay to be spied upon. The litany of complaints and lawsuits against the company are so extensive we won't comment except to say they cover hundreds of thousands of subscribers. AOL, like its founders, the CIA is arrogant and truly believes they are above the law. AOL should be charged with criminal fraud on every individual charge of invasion of privacy. Doing business with AOL is like having someone walk up to you on the street and offering you \$34.95 for your credit card number. If you have an account with AOL terminate it immediately.

We remember not too long ago that now Iraqi Deputy PM Ahmed Chalabi was having his house ransacked by US forces in Baghdad. Then just several months later he again showed up in a secret meeting at the Council on Foreign relations. He is no longer an Iranian spy, we guess now he is a triple agent. For all this duplicity he has been appointed and anointed Iraqi's oil minister. This has occurred after oil minister, Ibrahim Bahr Ulooni was put on mandatory leave for opposing a sharp increase in gasoline prices, a move to further enrich the elitists, which has outraged motorists and sparked attacks on gas stations and fuel conveyors. Overall violence is again escalating. As a result of the price increase insurgents have shut down the most productive oil refinery in Baiji, north of Baghdad, which is costing \$20 million a day in lost revenue. If that wasn't bad enough foul weather has halted oil exports from Umm, Qasr, Iraq's only major seaport.

Chalabi is a convicted felon so it is easy for us to understand why he fits in so well with the elitist Bush neocons. He was the front man in the WMD scam, which was a lie. Thus, again US influence prevails. As we all know oil was one of the main reasons for invasion and occupation and it's important the elitists control it.

The inverted yield curve will make adjustable rate mortgages less attractive because rates are tied to the 2-year Treasury yield. A fixed rate 30-year 6.25% mortgage payment is \$1,232.43. A 5.75% ARM payment is \$1,167.50. The fixed is a better deal. ARMS include interest only, which allows the borrower to make bigger loans. The ARM is very important for first time buyers. If the inversion stays in place for a long time it will negatively affect the housing market.

Our Justice Department, instead of investigating Bush and the neocons' illegal NSA-GATE spying, is investigating who pulled the chain on the caper. They are not interested in whether a crime was committed by our President. They only want to know who set them up. Justice is not interested in national security, only in payback. As Democrats vow to hold hearings on illegal NSA

programs, Republicans want a probe into the leak, not the real felony. A probe should be launched to determine if George W. Bush broke the law.

The inverted yield curve has been the single most reliable predictor of recessions. It has preceded the latest five of our recessions, which means that the curve can accurately forecast the turning points of the business cycle.

The Fed funds rate is at 4.25% and it will probably be 4.5% in January. If the 10-year Treasury yield does not move higher, you could well see the beginning of a full yield curve inversion. We predicted that this would happen six months ago. We had seen the same thing developing in September 1988. Recession began to raise its head in 1989. If the inversion now persists than sometime late in 2006 the world will recognize that a recession has arrived. We are also looking at the 10-year, 30-year relationship. If the 10 yields higher than the 30 for a reasonable period of time you can also expect a recession 18 months in the future. Presently the 30 is 4.54% and the 10 is 4.35%.

If the inversion holds the average correction is 43%. Based on a close of 10,717 on 12/30/05, that means the Dow could break 7268 and end up at 6109. We believe the inversion should be in place for three month to be effective. Now we have had a heads up and next is to wait for confirmation. We believe that fundamental confirmation has been in since late in November of 2004, and had it not been for the intervention of the Fed and the "Working Group on Financial Markets" the markets and recession would have occurred sooner. By pushing up the time line they have greatly increased the probability for extensive financial and monetary damage. If the inversion persists it will be a double whammy to us. The damage has been many years in the making during the 18 years of Sir Alan Greenspan's tenure. Now it will be dumped on Ben Bernanke who will massively inflate, which not only won't work, but also will bring a triple whammy into play with wild hyperinflation. You had better get prepared because the possibility of recession is now 4 to 5 it will happen.

Today's excesses are far worse than the 1920s, so a 60% or more Dow correction is very possible. That could mean a Dow of 4287, which would wipe out the majority of pension plans in corporate America. Pension managers had better start switching to bonds now to avoid that tragedy. In fact, they never should have diversified out of bonds in the first place. These are pensions, not speculative vehicles.

Children are being given "Patriotism tests" that are completely unrelated to their studies. The paper gauges whether or not the student shows fealty to the power of the state and whether the student believes in the right to overthrow a corrupt government.

The questions were: Agree or Disagree:

It is never right to kill another person?

Political leaders usually act in the best interest of their countries?

If a political leader has done something wrong, it is all right to get rid of him or her by whatever means necessary?

"Power corrupts, and absolute power corrupts absolutely?"

In certain situations it may be justified for a political leader to bend or break the law for the good of the country?

People should never compromise their ideals or beliefs?

"My country right or wrong" is not just a slogan; it is every citizen's patriotic duty?

No cause, political or otherwise is worth dying for?

"Cowards die many times before their deaths; the valiant taste of death but once?"

"The evil that men do lives after them; the good is often buried with their bones?"

Why the questionnaire? It is a method of gauging the level of

obedience to the state amongst American teenagers. We are all for patriotism when it means love of country. Unfortunately however, the new brand of so-called patriotism translates as worship of government, and that definition is something that the founding fathers never intended. This is where our government is headed toward, total control.

The administration will have to do financial back flips as they shuffle money around among government pension funds to finance operations as it looks like it will be March until Congress acts to increase borrowing authority. The statutory limit of \$8.18 trillion will be reached in mid-February. Congress has increased the limit by a total of \$2.4 trillion since Bush took office, voting to raise the ceiling in June 2002, May 2003 and November 2004. This debt crossed the \$1 trillion mark in 1981.

The Israeli Chief of Staff ruled out the prospect of a pre-emptive strike against Iran's nuclear installations in the near future. They said it wouldn't be necessary. We wonder if it has anything to do with the delivery to Iran of new Russian missiles?

On Bloomberg, elitist Gary Hart said that real American casualties in Iraq were 25,000. The host changed the subject immediately.

On the following day, ex-CIA operative Larry Johnson called for a hearing on government wiretapping.

Both Houses of Congress have passed the Defense Appropriations Bill for 2006. Bill Frist, at the last minute, inserted language that gives vast protections to drug companies and the US government itself. The result is the Secretary of Health and Human Services can declare a medical emergency on any pretext, for any reason. By labeling an outbreak of disease epidemic or pandemic or even saying there is a pending bio-terror attack, the Secretary can take any countermeasure. That could be the use of a drug or vaccine that would be protected from legal liability. If people are injured by the medications or killed no one can sue, there can be no recourse for the American public. It is obvious what these people are planning. They are planning an epidemic that will be accompanied by martial law. These nutcases in our Congress have a companion bill, SB 1873, which has passed out of committee onto the floor of the Senate and awaits debate and vote. It would establish, among other things, mandated drugs and vaccines that you would have to take for actual or potential outbreaks, epidemics, pandemics or bio-terror threats. Do you get it? This is how they intend to further enrich the drug companies and at the same time control the populace. This bill has to be stopped. Act on it now. Deluge Congress now.

Ninety-nine percent of Americans are clueless to what is going on in their country. Their media hasn't told them that the Department of Defense cannot seem to find \$2.6 trillion. That is about 25% of annualized GDP. We'd like to know why the Congress we elected to represent us refuses to investigate this very serious matter? Our only conclusion for lack of action is that they no longer represent our interests and that they are part of a corrupt government.

9/11 was created and executed to increase the federal government's control far beyond any existing law to prepare for a coup against the Constitution and our freedom. Under new government powers we can be arrested at will and be incarcerated indefinitely without charges or judicial review. You can also be picked up or kidnapped, brought to a foreign country to a secret prison and tortured. Under the Patriot Act you can be spied upon as our government creates fishing expeditions. The long-range policy is to destroy our Constitution in totality. For years we have had the illegal Echelon project spying on us and now we find for the past few years NSA has been spying on us under orders of

George and the neocons.

This process began in 1975-77 when George H. W. Bush headed the CIA. That is when it became evident that the CIA overstepped its legal bounds by spying against Americans, committing assassinations domestically and other illegal activities. The Church Committee in 1976 uncovered Cointelpro, the FBI domestic spying program on civil rights leaders, anti-war groups and even right-wing groups. J. Edgar Hoover never pursued the Mafia because they had proof he was a homosexual and pedophile. Between 1960-1974, the FBI conducted 500,000 investigations of so-called subversives without a single conviction. They kept files on innocent Americans for many years, us included. We knew what they were doing and often uncovered planted informants. One of the funniest incidents was their infiltration into a gun club we formed that was just an innocent group of people who would shoot together. We had government agents attempt to sell us illegal weapons and also to plant those weapons in our homes. We were too smart for them and thwarted them at every turn. They have been dogging us for forty years for speaking and writing the truth.

FISA, the Foreign Intelligence Surveillance Act, allows limited warrantless searches and surveillance to counterintelligence and not for regular criminal investigations. In spite of the law the FBI never stopped its domestic spying. Unfortunately the FBI has been at times an embarrassment and in later years has been used by the elitists at Ruby Ridge and WACO. They deliberately botched up the Oklahoma City investigation, thus there is no question the elitists have them doing their dirty work.

The CIA has been exposed time and again as an agency controlled by the elitists. They created al Qaeda and Osama bin Laden, who still works for the CIA.

The question is where does it end? It ends with total loss of freedom. You are seeing the institutionalization of a Big Brother corporatist, fascist government that tolerates no dissent and does away with our Constitutional government.

We are now witnessing a vast expansion of secret mercenary armies by Secretary of Defense Donald Rumsfeld via his creation of a Super Intelligence Support activity that will bring together the CIA and military covert action, information warfare intelligence, and cover and deception. This Proactive, Preemptive Operations Groups (P20G) will carry out secret missions designed to stimulate reactions among terrorist groups, provoking them into committing violent acts, which would then expose them to counterattacks by US Forces. You might call this cover and deception and secret military operations to provoke murderous terrorist attacks on innocent people. This is the deliberate attempt to ferment murder to advance the elitists' geopolitical ambitions. Once they have sparked terrorists into action by nefarious means, perhaps murdering a family member or other such provoking incidents, such actions would be used to bring any group into the open. This is not what normal sane governments do. We are appalled and disgusted, but not at all surprised.

The Fed has estimated that in the absence of foreign buying, the difference between the 2-year Treasury and the 10-year yields would be about 0.75% greater. Sir Alan tells us many factors can affect the slope of the yield curve, and these factors do not all have the same implications for future growth output. That could be so, but history tells us it isn't. Even if for some reason Sir Alan is correct, a severe and prolonged inversion can cause a lot of pain, particularly for banks and hedge funds that make long-term investments with money borrowed at short-term rates, the so-called carry trade. Big banks, such as Citigroup and JP Morgan Chase have already cited the flattening yield curve as a factor affecting profits, as the interest rate that they must pay to attract deposits

rises closer to the return they can expect on their investments. You cannot borrow at 4.25% and lend at 4% and make money. That means these two key elitist banks will have to start raising interest rates by 1/2% or more, either that or lose money on each transaction.

When adjusted for inflation, median salaries for male workers in their early 20s dropped from more than \$31,000 to less than \$22,000 in the last 35 years, according to the US Census. For those in their late 20s, salaries dropped from \$40,000 to less than \$32,000.

Between 1975-2002, the median income, after adjusting for inflation, for male full-time, year-round workers 15 year's old and over decreased by 8% while income for females increased by 23%. The median income for male full-time, year-round workers 20-21 years old dropped 25% and between 1975-2002, inflation adjusted from \$28,925 to \$21,829. Let's hear it again for offshoring and outsourcing.

A subsidiary of Marriott Hotel groups, "lost" tapes containing the personal data of 206,000 associates, timeshare owners and timeshare customers. That is names, addresses and Social Security numbers of the company's clients that was on backup computer tapes in Orlando, Florida; this shows you how safe your personal information is today.

Connecticut Power & Light was given approval for a 22.4% rate hike. There, of course, is very little if no inflation.

The "Coalition of the Willing" is no longer willing. Bulgaria and Ukraine have pulled their troops out of Iraq and Poland is reducing its contingent by 40% while switching to a non-combat role.

The 900 remaining Polish troops will train Iraqis. Bulgaria will remove 380 and Ukraine 876 troops. Withdrawals are a political setback for the Bush administration, because troops from other countries help lend legitimacy to the forced occupation of Iraq. South Korea is expected to remove 1,000 of its 3,200 troops in the first half of 2006 as well. There are still 26 countries serving in Iraq, but its just window dressing.

After peaking at a 963,000, the annualized rate in June of US condo sales are off by 11%; they hit 857,000 in November. Speculators are starting to withdraw from the market and that has driven price gains down to 10% from 18% in June. Inventories have doubled in a year and one half. In June 2004, inventories were at a 3.1-month supply and in November 2005, they were 5.9 months. That supply was 5.4 months in October, which is a very large jump. As you can see, condos are on the verge of heading south. In the Dallas -Fort Worth area foreclosures rose 4% in 2005. The only year that was worse was 1989 and we've only just begun. The percentage of foreclosures for those who owned more than one property rose to 16.2% from 14.4% in 2004. Foreclosures linked to home equity defaults leaped 52% to 5.6% of the total, from 3.7% in 2004. What do you think of that truth seekers?

The United States government reportedly began coordinating with NATO its plans for a possible military attack against Iran.

The German newspaper *Der Tagesspiegel* collected various reports from the German media indicating that the North Atlantic Treaty Organization are examining the prospects of such a strike.

According to the report, CIA Director Porter Goss, in his last visit to Turkey on December 12, requested Prime Minister Recep Tayyip Erdogan to provide military bases to the United States in 2006 from where they would be able to launch an assault.

The German news agency DDP also noted that countries

neighboring Iran, such as Saudi Arabia, Jordan, Oman, and Pakistan were also updated regarding the supposed plan. American sources sent to those countries apparently mentioned an aerial attack as a possibility, but did not provide a time frame for the operation.

Although *Der Spiegel* could not say that these plans were concrete, they did note that according to a January 2005 New Yorker report American forces had entered Iran in 2005 in order to mark possible targets for an aerial assault.

.....

We thought this note from a fellow subscriber would interest you.

"Dear Mr. Chapman, I have a customer who buys foreclosures. I do the research. The Trustee Sale Notices are triple of what they were a year ago and the default amounts are quite large compared to last year. I am seeing nicer homes, located in desirable areas with large loans on them going to sale. They don't sell because most people that go to auctions in this area have less than \$100K cash to bid with so these go back to the lender. Even if big money was available to bid - the amount of the loan is too close to value, and there is no market to sell them. Sales are down, way down. Approximately 1/5 of listings are in escrow compared to a steady 1/3 in escrow for the last two years. The owners of a lot in front of me are building a spec home. They are mortgage brokers - and think they know what they are doing! I mentioned the deficit, the debt, the bubble, the outsourcing, GM, Ford, Airlines going bankrupt, the pensions being compromised etc....and they still think they know what they are doing. Even the guy I do foreclosures for has been slow coming around - and he is a "market analysis." I almost fell out of my chair today listening to Fox News interviewing some experts talk about the trillions of dollars medical care is costing, only going to get worst as we age - with no way to pay for this - they also discussed the reality of social security - no funds to pay for the ageing population. We have new homes in this area that are not selling - and then we have older homes with sellers asking the same price as the new homes! Nothing is selling except a small amount of the substandard housing, some lots priced under \$35K, and a few luxury homes. A house worth \$70K four years ago is now listed for \$299K. Folks say it is because of winter...little do they know. I am located in Lake County, California. What has kept this market going is the money from the bay area, which we know is drying up fast."

.....

Iraq is to be left in ruins, as the administration will request no new funds from Congress for rebuilding. There has been \$18.4 billion allocated, but 50% has been used to stop the insurgency - build up the criminal justice system, try Saddam Hussein and for further graft and payoffs. Brig. Gen. William McCoy, the Army Corps of Engineers commander overseeing the work now informs us that the US never intended to completely rebuild Iraq. Again lies, incompetence and no planning. Twenty-two percent of the funds have been spent on security, 7.8% went for bulletproof vests for firefighters and a center of the city of Kirkuk for treating victims of torture. Hundreds of millions of dollars have been spent on all electrical systems, which is still below pre-war levels. Oil production is about 2 million barrels a day, far below the 2.6 M/B/D before the March 2003 invasion. Hundreds of millions were used to fund elections, a justice system, and 10 medium and maximum-security prisons. \$128 million was used to exhume and examine more than five mass gravesites. When polled, forty percent of Iraqis said what reconstruction, we haven't seen it? Show us where it is? Physically Iraq is in a state of disaster and it looks like it is going to stay that way.

Free trade and globalization have left millions unemployed

or in jobs where they take home 40% to 60% less wages than previously. Now unable to file bankruptcy due to new laws passed by a Congress controlled by banks and corporate interests have to pay off debt rather than feed their children. They have to pay for debt indoctrination classes, even if they are disabled or without income. That is so they have a plan to pay back debt with no income. If they are working they are allowed a small amount of money for a hand-to-mouth lifestyle. For the poor the double minimum credit card payment is disastrous and in most instances unachievable. Putting frosting on the debt cake rates for second mortgages and adjustable rate mortgages are starting to climb. If you are one day late on credit card payments your interest rate can jump to 29% plus late penalty fees for each incident.

At the same time inflation runs at over 10% forcing those not deeply in debt to live hand to mouth. In this process, in order to keep you safe from terrorists, government now has access to all your financial, medical and employment records. You are a prisoner of the state under the Patriot Acts as you scramble to find money to pay your mortgage and feed your family. Those who do not own homes and have to rent now find landlords can now evict more quickly and easily. These are the same conditions that existed in Europe in the 1800s and early 1900s, forcing so many of our kin to come to America where such conditions didn't exist.

Americans have no respect left for their federal government and our court system, and rightly so. Law is what they say it is, and there are two sets of laws. One for us and one for them. Our system has gone berserk. In order to change it back, start with Congress. Do not allow them to return to office, but a special few. Maybe then they'll get the message, vote Independent.

We find that in 2004, a top Justice Department official objected to aspects of the National Security Agency's domestic spying program and refused to sign on to its continued use amid concerns about its legality and oversight. That was James B. Comey, who was acting Attorney General in John Ashcroft's absence due to medical problems. We now find Ashcroft refused to consent as well as he recuperated in hospital. Ashcroft then was made an offer by the administration he couldn't refuse and changed his tune. There will be Congressional hearings, but little will come of them unless Democrats are willing to go all the way on the issue. We'll see, but we are not optimistic.

Corporate-government fascism is alive and well. Micrel, a small semiconductor maker, signed a secret deal with the IRS that allowed the company and its top executives to evade at least \$51 million in additional taxes, which they owed. The IRS also cooperated with the company in keeping its shareholders uninformed on some basic terms of its stock-option plan, which enriched four top executives by as much as \$20 million. This is a particularly striking example of how outside influence is corrupting the integrity of the tax system. If a senior auditor, Remy Welling, hadn't exposed the fraud we would never have known about it. She could go to jail for exposing this corruption. She said, "Someone has to tell the public about what is going on inside the IRS." For this she'll be fired after 22 years of service. She took her complaint to the FBI and the SEC. A former top IRS official, James Casimir, who represented Micrel as a partner at PricewaterhouseCoopers, arranged the deal on the stock-option matter. The plan had been run for several years illegally. The pitch was because Micrel was prepared to disclose voluntarily an "unintentional mistake" and in turn because they came forward they would avoid penalties and exposure, but would pay additional taxes.

The IRS agreed to the deal, without knowing the

company's identity. As Ms. Welling says, "An auditor cannot sign off on an agreement closing an audit before the audit, that is just not legal, not proper." She complained all the way up the chain of command to Mr. Eversen, the IRS commissioner. She contended that Mr. Casimir was wielding undue influence over the agency's decision making.

An assistant to Mr. Eversen never informed him of the complaint, a similar complaint to the Treasury Department's IG was also closed with no action. She also complained to the Staff of Senator Charles Grassley (R-IO), still no response. She then went to the FBI. Casimir is another ex-government employee who is using his connections to make money and cheat taxpayers out of corporate taxes due. The revolving door never closes. We have said for years it should be shut permanently. How many thousands of other cases like this one were there? Corporate-government corruption marches on.

Starting in 2006 and accelerating into 2007, as much as \$2.5 trillion worth of hybrid mortgages are coming to an end. This will leave thousands or perhaps millions of speculators with negative equity. This comes as households are devoting a record 13.75% of their after tax income to servicing debt, including mortgage debt. In a city such as Sarasota, Florida, in July the inventory of listings was a 10.4-week supply. By December, listings were 170% higher. For the Sarasota-Bradenton-Venice areas mortgage risk of servicing to income was 24%. The national average is 16%, but below 30% for the top 20 hot spots.

In the first half of 2005, the ARM share of the market was 55% and for 2004 it was 50%. In sub-prime mortgages, 80% of those loans were ARMS, versus that 55% in the broader market. In 2006 and 2007, two-thirds of sub-prime loans will be reset at higher interest rates. We covered the rest of this problem in the last issue. These were additional statistics.

Sixty-five of the nation's biggest real estate markets are severely overpriced and subject to correction. The most overpriced markets are: Naples, FL; Merced, Ca, Salinas, Ca; Port St. Lucie, FL; Stockton, Ca; and Madera, Ca, the list of overvalued cities is long and these are just the top group.

A majority of members of the Federal Open Market Committee believed that the Fed would only have to engineer a few more rate hikes to keep inflation in place. The 13 increases have brought the Fed funds rate to 4.25%. We notice they were silent about the increase in money supply and credit that is historically unprecedented on a short-term basis.

The ISM Manufacturing Index fell sharply to 54.2% from 58.1% in November.

After much arm-twisting, Polish President Lech Kaczynski has agreed to keep Polish troops in Iraq for another year. That will cost Polish citizens at least \$40 million. Seventy-five percent of Poles oppose their country's involvement in Iraq. Another worthless politician.

SUBSCRIPTION and RENEWAL INFORMATION: 1-YEAR \$129.95 U.S. Funds.

Make check payable to Robert Chapman (NOT International Forecaster), and mail to P.O. Box 510518, Punta Gorda, FL 33951-0518. Please include name, address, telephone number and e-mail address. We accept Visa and MasterCard charges. Provide us with your card number and expiration date. We will charge your card US\$129.95 for a one-year subscription. Note: We publish twice a month by surface mail or 3-4 times a month by E-mail. international_forecaster@yahoo.com

Foreigners please use foreign U.S. dollar denominated checks or Money Orders.