

ABSTRACTIONS

DEBT SATURATION & DEFAULT

If you could total the world's balance sheets you would find that it would approximate \$200 Trillion. In putting together this total you would discover that 75% of all financial assets are debt assets worth \$150 Trillion. To most of us, debt is the epitome of a liability. To banks, however, it is not. It is considered an asset and recorded as such a banks ledger. Your liability is their asset.

The historical debt payment over a long period of time is 6% per annum. The Federal Reserve's dividend payment to its holders of capital was originally established in 1913 at precisely this 6% and is still accrued accordingly. Remember also, in a fractional reserve, fiat based banking system money can only be loaned into existence.

Today we have approximately \$9 Trillion (6% of \$150T) in annual debt payments that must be absorbed annually by increased productivity of the working classes.

Consider that the US Economy at approximately \$15 Trillion is 25% of the global economy. Therefore the global economy approximates \$60 Trillion (\$62T officially, but we will use round numbers so we don't lose anyone in the arithmetic).

The working class therefore has to increase productivity by \$9T divided by \$60T or 15% annually to absorb the current global usury charges.

In the last few years of explosive debt growth we have passed the point of the global economy being able to grow and improve productivity at a fast enough rate, not to be literally consumed by this existing debt burden.

Unfortunately, it gets worse.

One of the problems in using GDP as a measure of growth is that it includes government spending. In the case of the US, it is approaching 25% of the output of the country. Within that, approximately \$3.7 Trillion is \$490B in interest payments or 13% of US expenditures. This actually means that there is an additional 3% that must be added to the 15% or nearly 18%.

This is called Debt Saturation.

DIMINSHING MARGINAL PRODUCTIVITY.

A very unpopular chart to deficit spending hawks is the chart below showing the change in GDP as a ratio to the change in debt.

The easiest way to understand this chart is to consider how much the economy will grow for every dollar of increased debt.

GORD'S "BACK OF THE ENVELOPE" MACRO Debt Saturation Arithmetic

Global Assets	\$200T
75% Debt	\$150T

Historical Interest Rate	6%
Annual Usury	\$9.0T

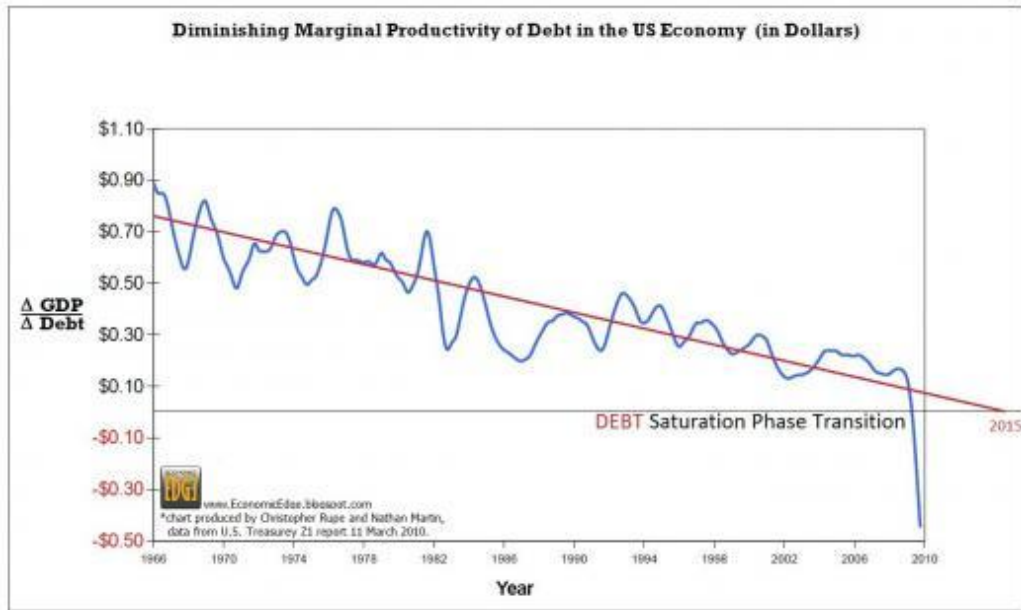
US Economy => 25% of Global	\$15T
Global	\$60T

REQUIRED GROWTH (\$9 / \$60)	15%
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ADDITIONAL	GDP DEBT ADJUSTMENT	
		GDP
US Government Expenditure	\$3.7T	~25%
Interest Paid on Debt	4.9B	~13%
		~3%

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As you can see, the effect of increased debt has been steadily losing its ability to increase economic growth and since the financial crisis has decidedly turned negative.



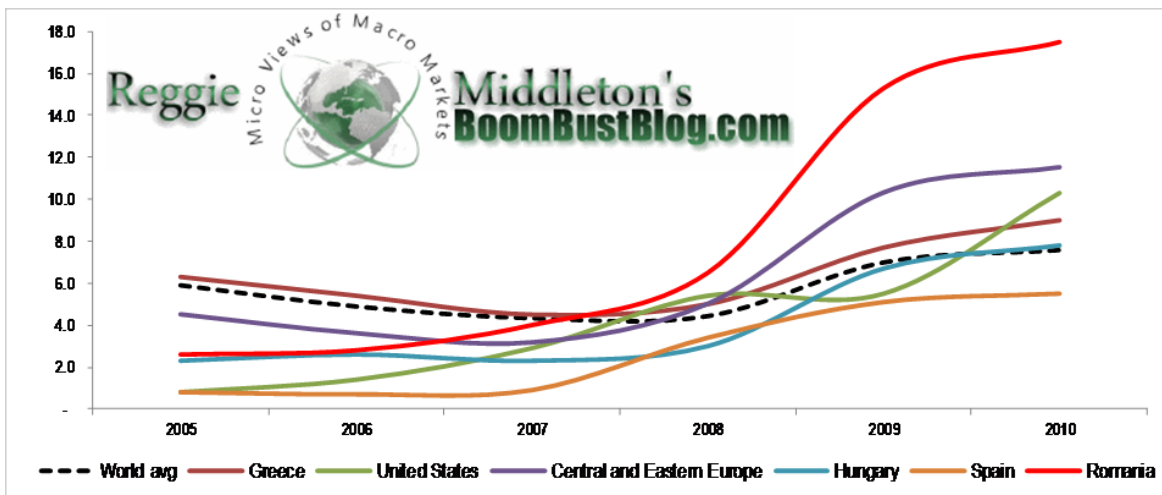
Increased debt is now counterproductive to the growth of the economy because the economy simply does not have sufficient productive investments to absorb it. We may have plenty of investments but they are mal-investments. They are investments that simply cannot pay the debt financing utilized.

The Korean Times [recently illustrated](#) that despite a booming Asian environment, technology firms are now struggling to cover interest payments. One in three firms on the Kosdaq failed to earn sufficient money to cover interest payments in 2010. The interest coverage ratio, otherwise dubbed times interest earned (TIE), refers to the measure of a firm's ability to honor its debt payments. 280 out of 876 Kosdaq-listed outfits, or 32 percent, could not reach the benchmark reading of one in the interest coverage ratio.

TELLTALES OF DEBT SATURATION:

1- Non Performing Loans

The mal-investment is just too large to contain and is showing up in ever-increasing levels of non-performing loans. This is despite rolling over loans at false asset values.



Non-performing bank assets are increasing globally! The above chart from Reggie Middleton's BoomBustBlog graphically depicts this indisputable trend. What is this signaling three years after the financial crisis?

NON PERFORMING ASSET GROWTH	2005	2010	CHANGE
GREECE	6.3%	9.0%	+2.7%
HUNGARY	2.3%	7.8%	+5.5%
SPAIN	0.8%	7.6%	+6.6%
ROMANIA	2.6%	17.5%	+14.9%
CENTRAL & EASTERN EUROPE	4.5%	11.5%	+7.0%
USA	0.8%	10.3%	+9.5%
WORLD AVERAGE	5.9%	7.6%	+1.7%

The rise in the above US non-performing assets is alarming. It reflects a 9.5% change since 2005. Everything is not at all well in the US banking sector.

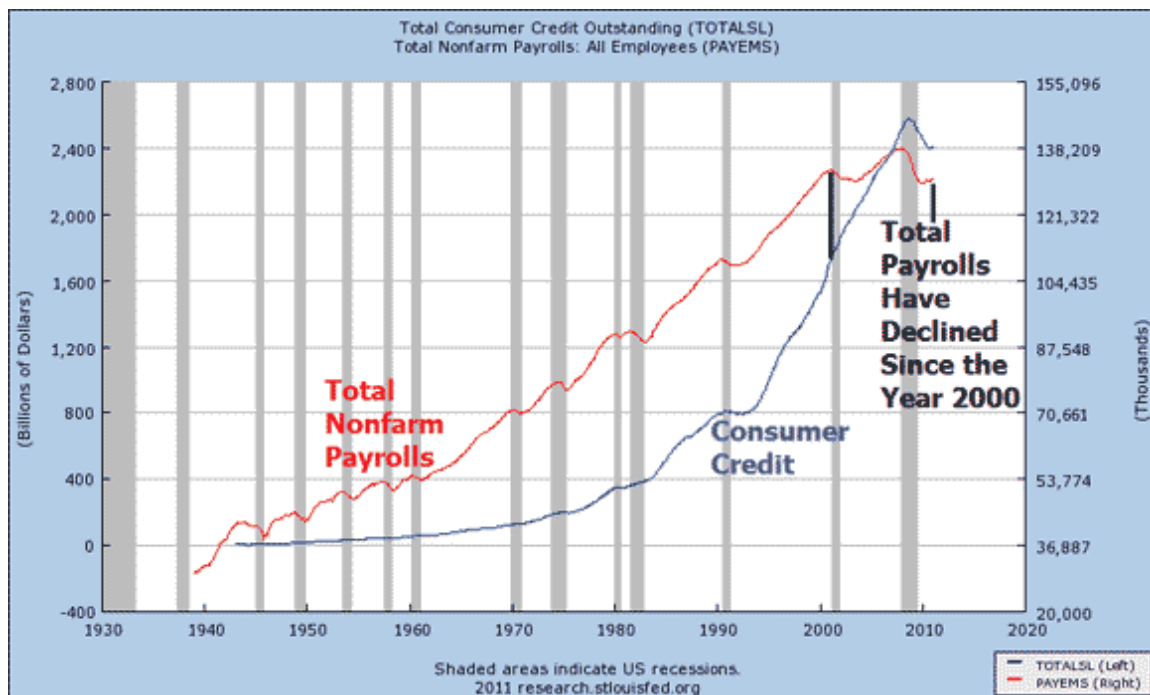
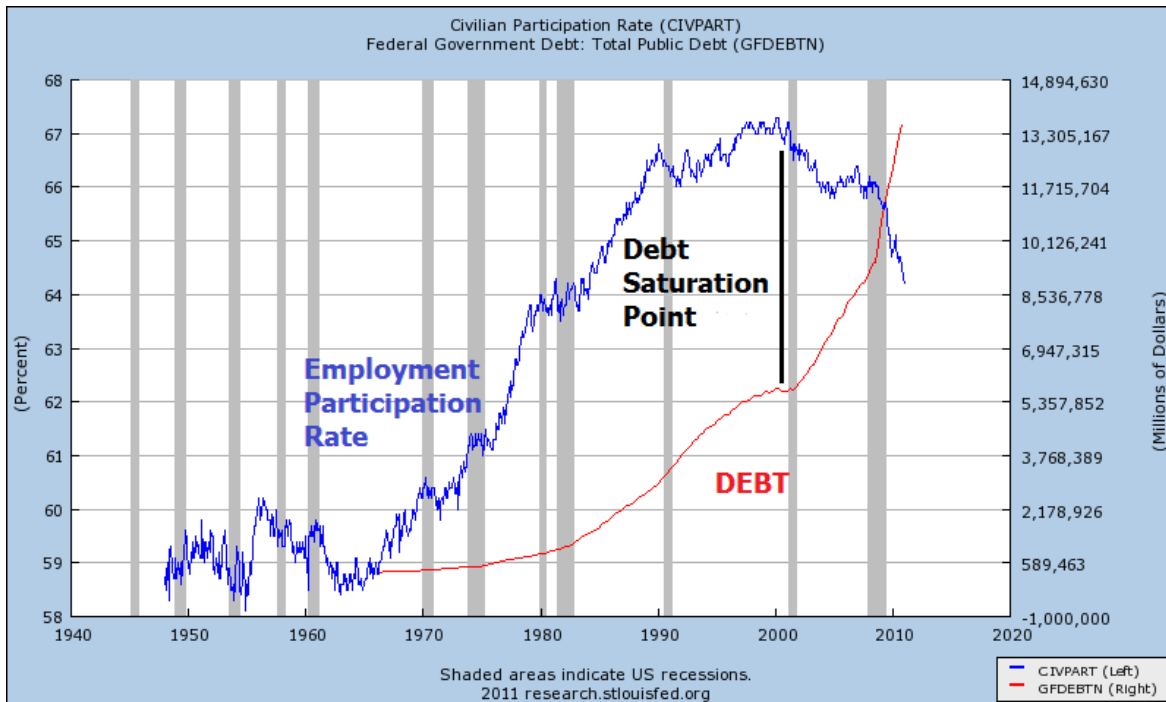
Equally concerning is what is happening in Central and Eastern Europe where the change is 7%. I personally consider Central and Eastern Europe to be the unaddressed 'sub-prime' problem of Europe. I suspect it will eventually replace the PIIGS in financial media news coverage.

2- Chronic Unemployment

The money lenders look at unemployment in a different fashion than the average person and would have us easily confused by its adjustments, birth-death models and other deceiving statistics. To them it is not about how many of our fellow citizens are unemployed, but rather simply how many net new jobs are being created to pay for the annual usury assessment fee of the \$9 Trillion we previously discussed. Herein lies their problem.

The internet has had a profound impact on the increase in productivity. Schumpeter's creative destruction is an engine running at full throttle. Vast swaths of jobs are being made obsolete through the adoption of new technology. The 'clerical' industry has almost disappeared in the span of 15 years through operational innovations such as supply chains. This has been tremendous for corporate profits allowing them to maintain highly leveraged balance sheets. The problem is that it has been solely at the expense of real job growth. No matter what a corporation does to make money, it eventually comes down to a consumer having the money to pay for the goods or services it produces.

We have reached the saturation point where we have insufficient real income growth to maintain the leveraged balance sheets of corporations. Government social nets are becoming burdened with making up the difference in either transfer payments (i.e. 45 Million on food stamps in the US) or subsidies (North Africa paying 28% of country budgets toward food subsidies for the unemployed population to survive). There are examples everywhere if you care to look. I have written extensively on this in my series on [Innovation](#) and in articles such as "[Fearing the Gearing](#)".



3- Money Velocity Doesn't Increase with Money Printing

Debt Saturation occurs when aggregate income no longer supports debt burdens. When governments print money, eventually Money Velocity increases as people incorporate inflation expectations into their buying behavior. When we examine the Federal Reserve's Money Velocity statistics we see that something is very different this time.

Despite increases in MZM, M1 and M2 money velocity maintains its downward slope with little suggestion of wanting to reverse trend.

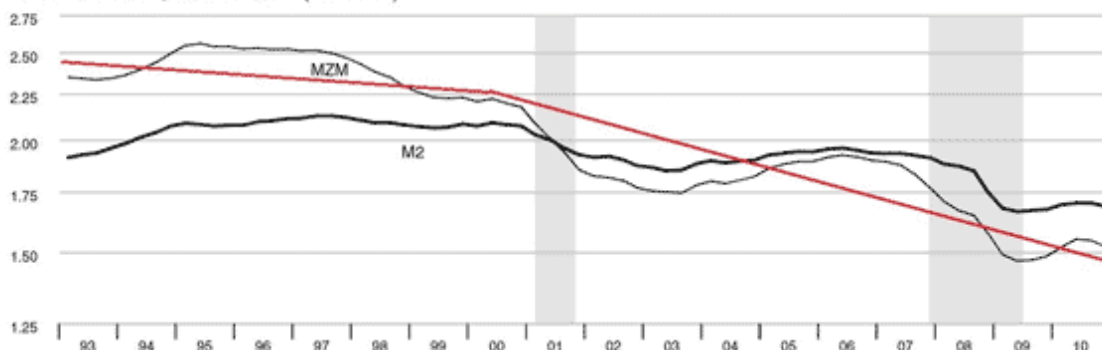
We presently have inflation in what people NEED along with shrinking real disposable incomes. Since people must pay for their NEEDS with short term money (cash, check or credit card), there is little ability for them to adjust to inflation when they are living from paycheck to paycheck. If their disposable incomes were higher they would stockpile and turn their money over faster. Additionally, money as a multiplier would flow through our society. Instead, today the money does not move through multiple hands but is returned almost immediately to the banks as debt payment, since most intermediaries are also burdened with debt.

Monetary Trends

updated through
01/31/11

Velocity

Nominal GDP/MZM, Nominal GDP/M2 (Ratio Scale)



WHAT YOU MUST BE AWARE OF

First, You must understand the impact of mal-investments and the brake that debt is now applying to the Global Economy.

World Real GDP, adjusted for inflation on a year-over-year basis has plummeted. According to the World Bank this growth indicator has gone negative with the world's real GDP actually shrinking Y-o-Y.

The global growth engine has not only stalled but has clearly hit an unexpected brick wall.

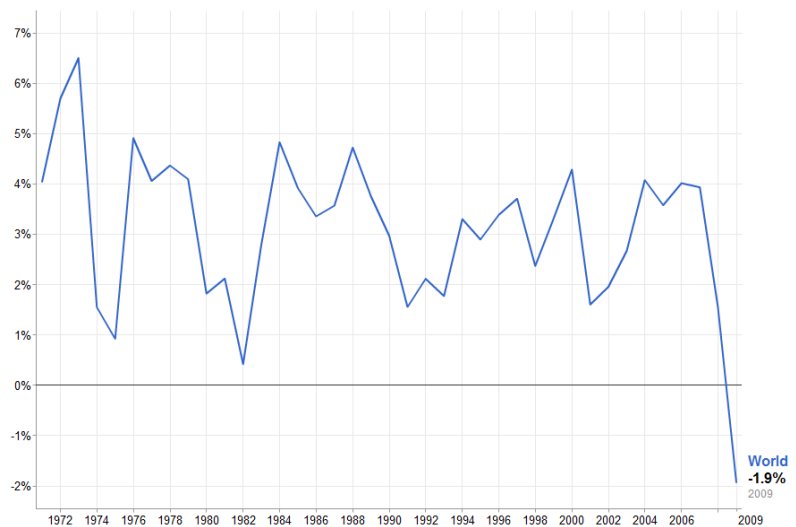
Secondly, You must understand the significance of the stalled and possibly fatally ill "Shadow Banking" Credit Engine.

Similar to moving about on an airplane or train it is hard to determine the speed you are traveling, because you have a limited

frame of reference. In a casual conversation with your fellow travelers it is easily forgotten or unnoticed that you are moving at a rapid speed. This is the situation we find ourselves in as the Shadow Banking System fails to rebound and the debt it once created is not being replaced. The liabilities of the Shadow

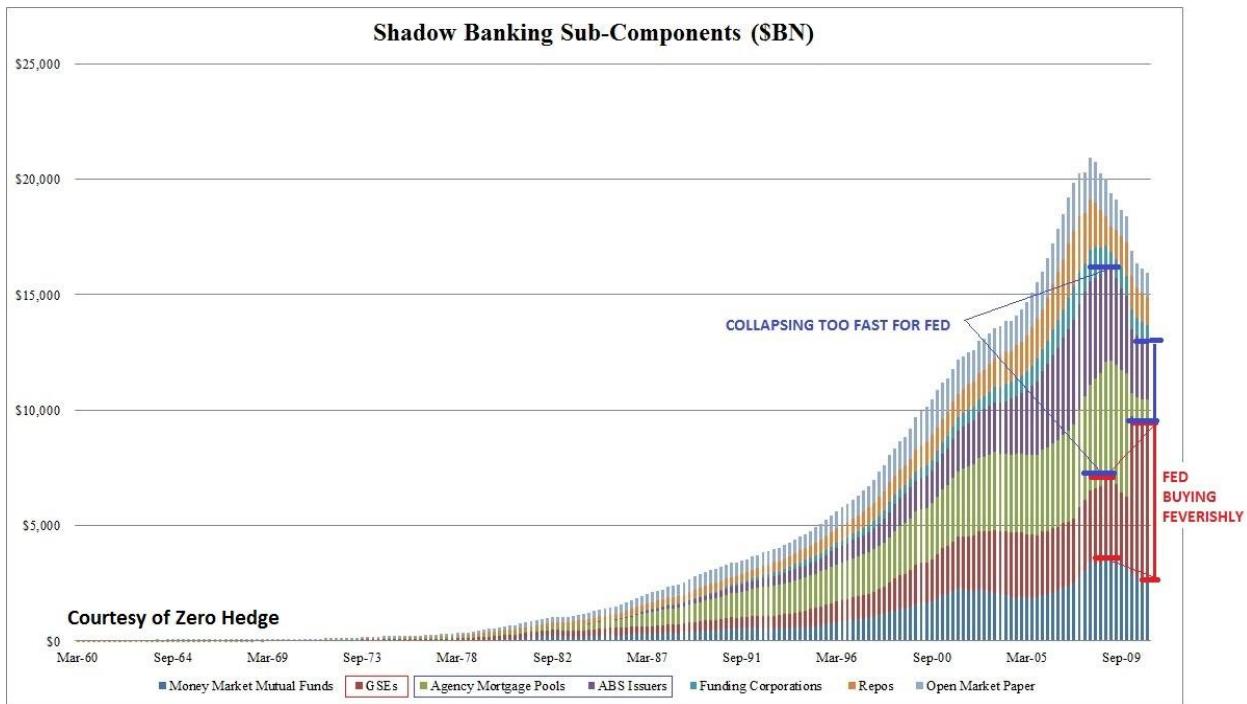
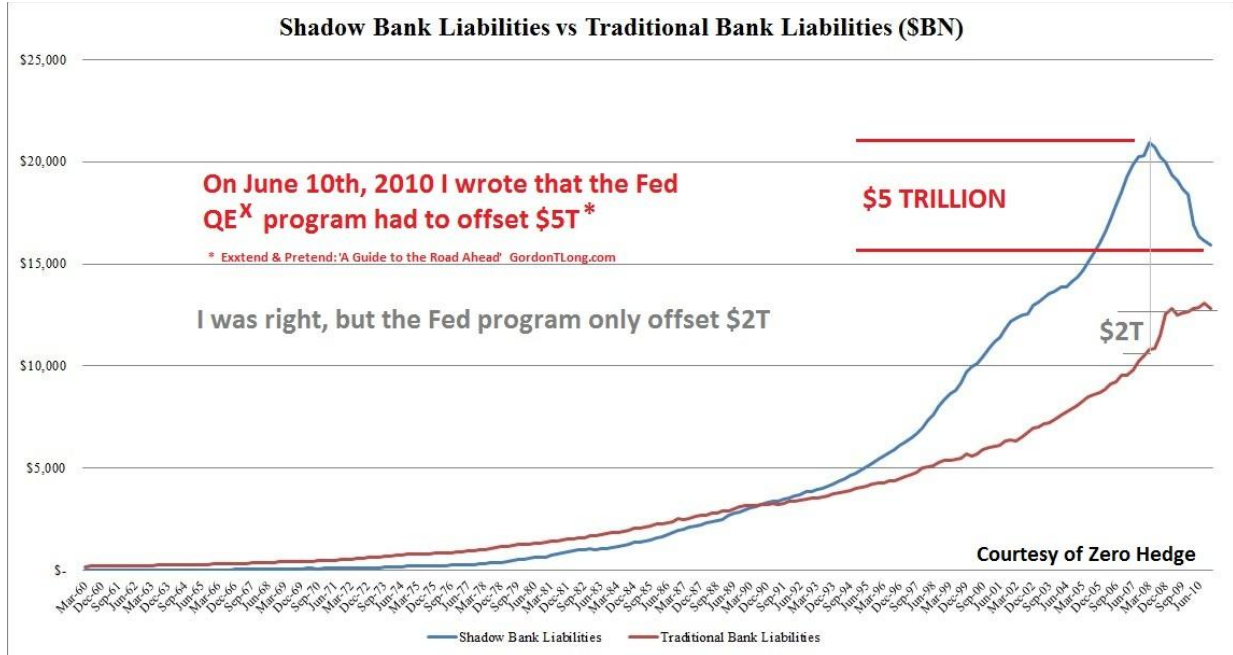
GDP growth rate

Percentage change of real GDP compared to previous year. Real GDP is adjusted for inflation.



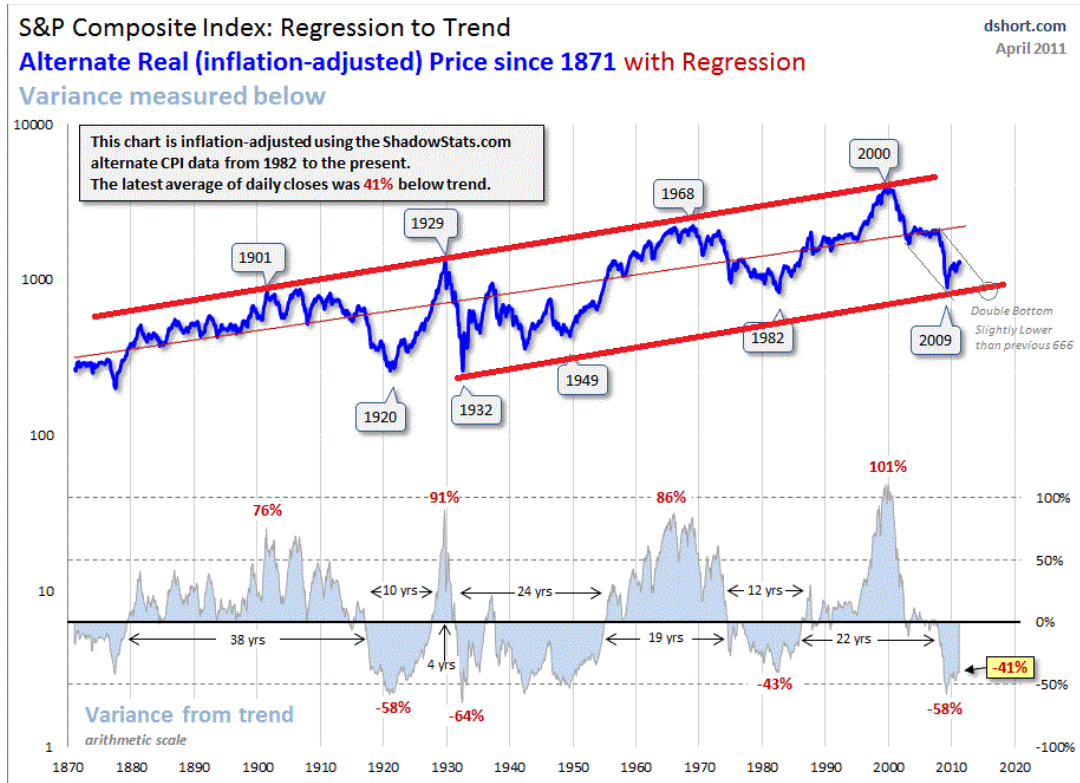
Data source: World Bank, World Development Indicators - Last updated Apr 20, 2011

Banking System are shrinking. These leveraged liabilities are now shrinking the global money supply despite every effort of central banks to combat it. The Central Banks are losing the battle. Like glacial tectonic shifts they are undermining the abilities of financial institutions to continue to carry and roll-over non performing debt.



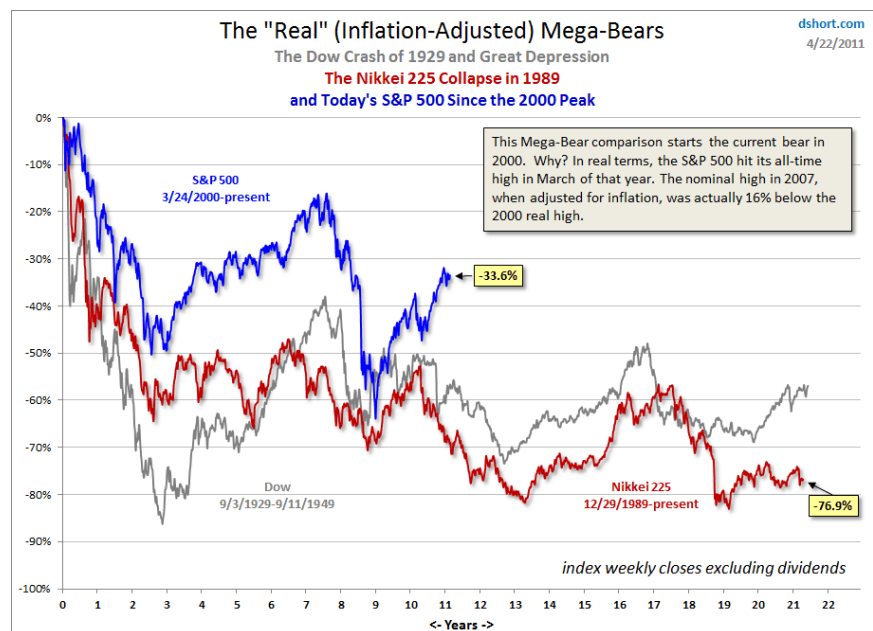
Finally, You Must be Aware of: "Money Illusion"

The overlay below of the Nominal and Real (ShadowStats inflation-adjusted) Dow illustrates the concept of [Money Illusion](#), the tendency of people to think of currency in nominal, rather than real, terms. Below the Dow series is the Consumer Price Index (CPI) from 1913 and with estimates for the earlier years.



The above chart reflects what is actually going on in the financial markets. The secular bear market that began in 2000 is still underway. Since the 2009 lows we are experiencing a Cyclical Bull Market counter rally that is to be fully expected as part of a Secular Bear Market.

The chart to the right is adjusted for inflation based on published CPI numbers. If ShadowStats inflation numbers are used, as is the case in the above chart, then the chart to the right would more clearly resemble longer term secular bear markets already experienced.

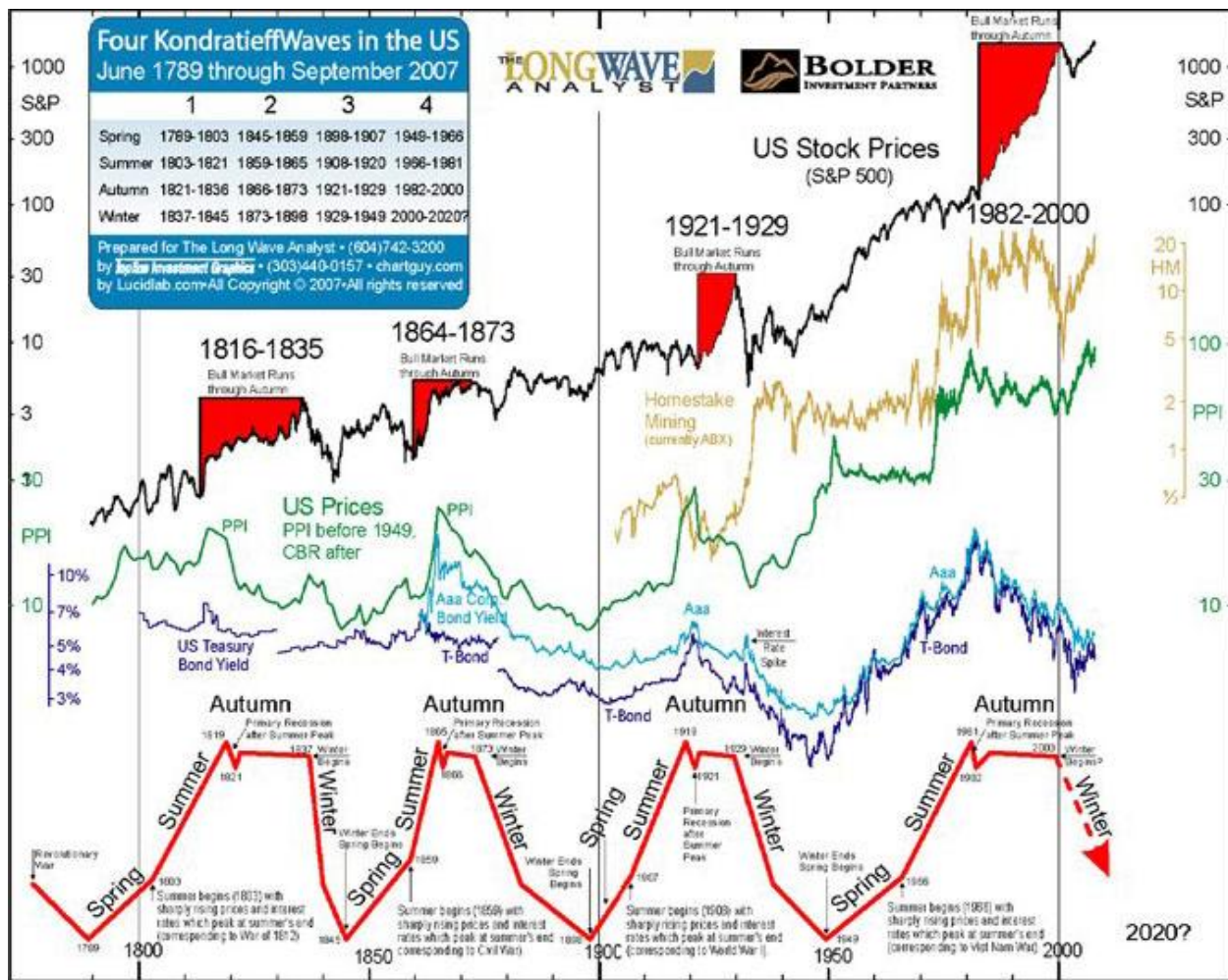


CONCLUSION

There is nothing magic in any of this and it has all been well documented, unfortunately by the Russians when they studied the capitalist system to identify its fundamental weaknesses. The Kondratieff long wave shows that the capitalist system suffers the build up and purging of debt on a generational basis on the frequency approaching 55 year cycles. We have extended this natural cycle by means of un-natural acts which I have written about in my extensive "Extend & Pretend" series of articles. Even in the days of old the king resorted to "jubilee" to cleanse the system. Of course we are much too sophisticated for such a simple solution today.

We have papered over the realities of "Too Big to Fail" by not allowing the proven tenets of capitalism to work. We have Anti-trust laws under the Sherman act to address 'too big', Control Fraud Laws to address questionable ethical behavior for the sake of profit (like mortgage fraud, liars loans etc) and Bankruptcy laws to liquidate failed enterprises to force debt holders to take haircuts and swap debt for equity. Instead we allow the prevalent game of Regulatory Arbitrage to run without restriction or detection. Existing laws are not being exercised in an attempt to protect what amounts to the emergence of a crony capitalist system. Benito Mussolini had a somewhat different world for the merging of corporate and government interests that I will leave for readers to recollect who have a historical penchant. It is not a word easily digested in the polite 'cocktail chatter' of today's genteel upper middle class.

Welcome to Kondratieff's Long Wave Cycle



SOCIAL UNREST

Our abstraction process identifies Social Unrest as a key driver in 2011. The pressures behind Social Unrest are the Tipping Points of:

- Food Price Pressures,
- Chronic Unemployment,
- Rising Inflation Pressures and Interest Rates,
- A public awareness of a Pension-Entitlement Crisis
- Credit Contraction II

These are just a few of the Tipping Points that are creating the underpinnings for the beginnings of Social Unrest in many countries and regions around the world. We refer to it as the beginnings of the "Age of Rage".

AGE OF RAGE

With this updated release we envision the "Age of Rage" unfolding in the following manner with accelerating and broadening size of widespread social unrest. The major Tipping Points identified in determining the Social Unrest Driver will be the key controlling elements.

	ARAB SPRING	EUROPEAN SUMMER	AMERICAN AUTUMN	WORLD WINTER
TIPPING POINTS				
Food Price Pressures	X	X	X	X
Chronic Unemployment	X	X	X	X
Rising Inflation Pressures and Interest Rates		X	X	X
Public Awareness of Pension-Entitlement Crisis			X	X
Credit Contraction II				X

	ARAB SPRING	EUROPEAN SUMMER
TIPPING POINTS		
Food Price Pressures	EGYPT: Food Subsidies 26% of Government Budget	EU: 10% rise in food prices with Europe Strengthening.
Chronic Unemployment	ARAB COUNTRIES: 50% of Youth Unemployed	SPAIN: 45% of Spanish Youth Unemployed
Rising Inflation Pressures and Interest Rates		EU: Warnings of Rising Interest rates and consumer price increases.
Public Awareness of Pension-Entitlement Crisis		GREECE, PORTUGAL, IRELAND: Austerity threatening social safety net expectations.
Credit Contraction II		



LONDON

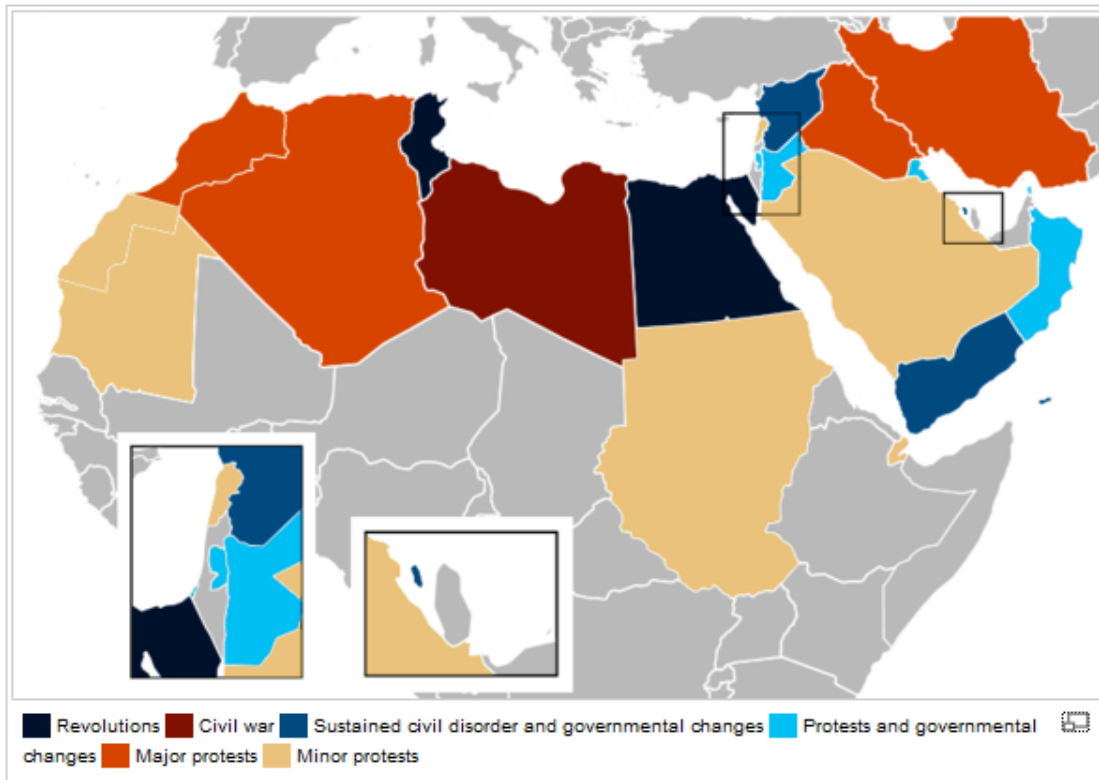


SPAIN












GREECE

ARAB SPRING



Summary of protests by country

Country	Date started	Type(s) of protests	Outcome	Death toll	Result
Tunisia	18 December 2010	Mohamed Bouazizi's self-immolation, Nationwide protest, occupation of public places	<ul style="list-style-type: none"> Ousting of President Ben Ali^[41] and Prime Minister Ghannouchi Dissolution of the political police^[42] Dissolution of the RCD, the former ruling party of Tunisia and liquidation of its assets^[43] Release of political prisoners Elections to a Constitutional Assembly on 24 July 2011^[44] 	223 ^{[45][46]}	Revolution
Algeria	28 December 2010	Self-immolations, major protests, riots, road blocks	<ul style="list-style-type: none"> Lifting of the 19-year-old state of emergency^{[47][48]} 	8 ^[49]	Major protests
Lebanon	12 January 2011	Protests, clashes between riot police and pro-Saad Hariri supporters		0 ^[50]	Protests
Jordan	14 January 2011	Major protests and demonstrations, self-immolation.	<ul style="list-style-type: none"> King Abdullah II dismisses Prime Minister Rifai and his cabinet.^[51] 	1 ^[52]	Protests and governmental changes
Mauritania	17 January 2011	Self-immolation, protests ^[53]		1 ^[54]	Protests
Sudan	17 January 2011	Minor protests	<ul style="list-style-type: none"> President Bashir announces he will not seek another term in 2015.^[55] 	1 ^[56]	Protests
Oman	17 January 2011	Major protests	<ul style="list-style-type: none"> Economic concessions by Sultan Qaboos;^{[57][58][59][60]} Dismissal of ministers;^{[61][62]} Granting of lawmaking powers to Oman's elected legislature^[63] 	2–6 ^{[64][65][66]}	Protests and governmental changes
Yemen	18 January 2011	Nationwide protest, riots ^[67]	<ul style="list-style-type: none"> Resignation of MPs from the ruling party;^[68] Agreement by President Saleh to step down by 23 May in exchange for immunity^{[69][70]} 	584-604 (by 26 May) ^{[69][70]}	Sustained civil disorder and governmental changes
Saudi Arabia	21 January 2011	Self-immolation, minor demonstrations, frequent medium-scale (100–1000 people) protests in Eastern Province ^{[71][72][73]}	<ul style="list-style-type: none"> Economic concessions by King Abdullah;^{[74][75]} Men-only municipal elections to be held 22 September 2011^{[76][77]} 	2 ^[citation needed]	Protests

 Egypt	25 January 2011	Self-immolations, nationwide protests, occupation of public spaces, attacks and burning of official buildings and police stations, storming prisons	<ul style="list-style-type: none"> Ouster of President Mubarak and Prime Minister Ahmed Shafik;^[78] Assumption of power by the Armed Forces;^[79] Suspension of the Constitution, dissolution of the Parliament;^[80] Disbanding of State Security Investigations Service;^[81] Dissolution of the NDP former ruling party of Egypt and transfer of its assets to the state^[82] 	846 ^[83]	Revolution
 Syria	15 March 2011	Self-immolation, nationwide protests, attacks on official buildings	<ul style="list-style-type: none"> Release of political prisoners;^{[84][85]} End of Emergency Law; Dismissal of a Provincial Governors;^{[86][87]} Military action directed against Deraa and other areas;^[88] Resignations from Parliament;^[89] Resignation of the Government^[90] Small defections within Syrian army and clashes among soldiers;^[91] 	1,007-1,243 ^[92]	Sustained civil disorder and governmental changes
 Djibouti	28 January 2011	Minor protests, occupation of main public spaces	<ul style="list-style-type: none"> Arrest of opposition leaders Expulsion of international observers^[93] 	2 ^[94]	Protests
 Morocco	30 January 2011	Self-immolation, ^[95] protests, ^[96] attacks on properties ^[97]	<ul style="list-style-type: none"> Political concessions by King Mohammed VI;^[98] Referendum on constitutional reforms; Respect to civil rights and an end to corruption^{[99][99]} 	0 ^{[100][101]}	Major protests
 Iraq	10 February 2011	Self-immolation, major protests, riots, attacks on official buildings ^[102]	<ul style="list-style-type: none"> Prime Minister Maliki announces that he will not run for a 3rd term;^[103] Resignation of provincial governors and local authorities^[104] 	29+ ^[105]	Major protests
 Bahrain	14 February 2011	Major demonstrations, occupation of public spaces	<ul style="list-style-type: none"> Economic concessions by King Hamad;^[106] Release of political prisoners;^[107] Dismissal of ministers;^[108] GCC intervention at the request of the Government of Bahrain 	36 ^[109]	Sustained civil disorder and governmental changes
 Iran	14 February 2011	Major Protests		18 ^{[110][111][112]}	Major protests
 Libya	15 February 2011	Nationwide protests, armed revolt, defections, occupation of cities, civil war	<ul style="list-style-type: none"> Opposition forces seize control of numerous Libyan cities^{[113][114][115]} Formation of the National Transitional Council^{[116][117]} UN-mandated NATO, Jordanian, Qatari, Swedish, and Emirati military intervention^[118] 	10,000+ ^[119]	Ongoing civil war
 Kuwait	18 February 2011	Protests, clashes between riot police and 'bidoons (bedouins)'	<ul style="list-style-type: none"> Resignation of Cabinet^[120] 	0 ^[121]	Protests and governmental changes
Western Sahara	20 February 2011	Minor protests ^{[122][123][124]}		1 ^[125]	Protests
				Total death toll: 12,760-13,021+ (International estimate, ongoing)	

Source:

EUROPEAN SUMMER

The European Summer began with the May 22nd, 2011 Spanish Elections. Though rallies and protests have been ongoing throughout Europe with anti bailout campaigns unseating governments in Finland, Portugal and Ireland something more deeply occurred in Spain. It was more reminiscent of Tunisia.

Spain and the Spanish youth in particular seem to realize more than any other western nation that the dog and pony show of replacing the "left" party with the "right" endlessly is little more than a hypnotic charade. They have taken the "Arab Spring" a step further by rejecting the periodic plebiscites that the West clings to as its claim to democracy, instead starting to demand *real change* – to economic structures, to political representation and even to the way we treat each other.



[Spanish police move against demonstrators](#)

First attempt to dismantle protest camps that have sprung up in cities

"If they take us from the square tomorrow, the only thing that they will get is that they will make us stronger and we will come back stronger," says 22-year-old Juan Martín.

"We want a new society. This one doesn't work anymore."

AMERICAN AUTUMN

The US Food Stamp program with over 45 Million dependents has likely dampened some of the anger that has been seen in North Africa, Middle East and throughout Asia as a reaction to increased food prices. This and the fact that food is a smaller percentage of the US disposable income.

We have seen however, how quickly Americans reacted with rage when gas prices recently rose. The US is tinderbox about to explode.

A relative of mine recently took a motor home vacation in the US. In asking him about what he saw, his immediate observation was that everywhere he went he witnessed Americans being a people who are disgruntled. Whether restaurants, shopping, amusement areas, gas stations it was all the same sense of anger and resentment.

The following pressures are leaving Americans on the edge of the 'Age of Rage'.

- Reduced standards of living,
- Shrinking disposable income,
- Limited employment opportunities,
- Increasing costs of living and
- Lack of faith in their government

The growth in the Tea Party movement and the government union protests in Wisconsin over collective bargaining are only the first of an expanding public push back against the governments' inability to address growing frustrations.

WORLD WINTER OF DISCONTENT

Demonstrations in [Latin America](#), [India](#), [China](#) and [throughout Asia](#) have already occurred over food price increases and overall pressures on disposable incomes. The governments are presently doing everything in their power to stem the social unrest before it manifests itself into riots and possible removal of seated governments.



Teachers and other public employees [across Wisconsin](#) took to the streets—and to the state Capitol—to protest Gov. Scott Walker's proposal to restrict collective bargaining and force them to pay more for their pensions.

Protest Camps



Green tents are current protest camps. Purple tents are planned protest camps.

GEO-POLITICAL TENSIONS

Our abstraction process identifies Geo-Political Tensions as a key driver in 2011. The pressures behind Geo-Political Tensions emerge from the Tipping Points:

- Emerging Geo-Political Events - such as presently witnessed throughout North Africa and the Middle East,
- Terrorist threats and militant factions such el Qaeda and Hamas
- North and South Korea,
- Iran's Nuclear Ambitions & Middle East Threat,
- Libyan 'Civil War'
- Afghanistan & Pakistan Conflict with Taliban
- Ongoing Unrest in Iraq
- Venezuela & Iran's Defense Agreement

Geo-Political Tensions appear to be broadening and touching all regions to various degrees.

PROTAGONIST INVOLVEMENT	CHINA	IRAN	NATO	US
TIPPING POINTS				
Emerging Geo-Political Events - such as presently witnessed throughout North Africa and the Middle East			Politically	Politically
Terrorist threats and militant factions such el Qaeda and Hamas		Politically	Politically	Politically
North and South Korea	Politically			Politically
Iran's Nuclear Ambitions & Middle East Threat		Politically		Politically
Libyan 'Civil War'			Militarily	Militarily
Afghanistan & Pakistan Conflict with Taliban			Militarily	Militarily
Ongoing Unrest in Iraq			Militarily	Militarily
Venezuela & Iran's Defense Agreement				

INTERNATIONAL MILITARY CONFLICTS

LIBYA

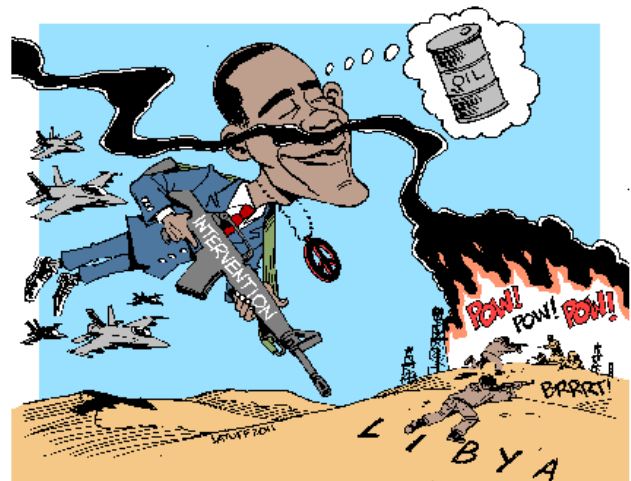
Though we are told Libya is about a civil war stemming from the social unrest across North African and Middle East, it actually much more than this.

Behind the headlines is the simple truth that Muammar Gaddafi recently starting wanting Libyan oil purchases to be denominated in Gold and paid for in Gold. This position had the potential of destabilizing the US Dollar Reserve status with extremely serious global financial ramifications. Like Saddam Hussein who had previously wanted Iraq oil paid for in Euro's, it likewise meant Gaddafi's quick removal was required.

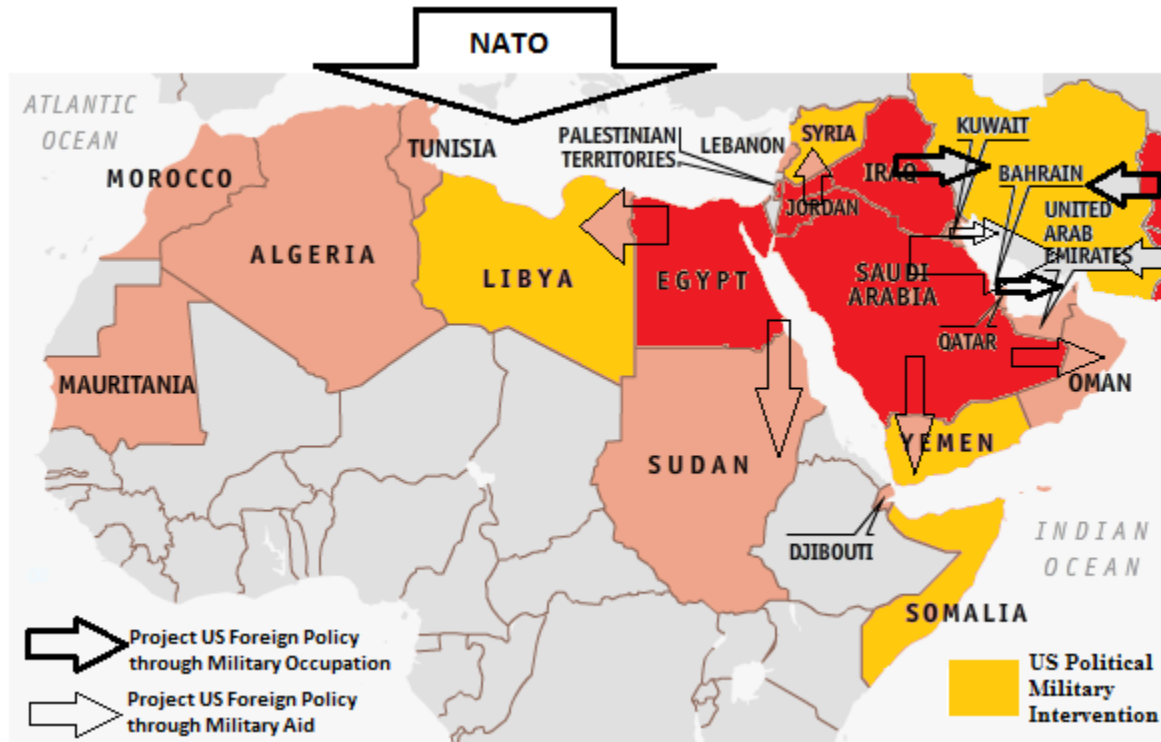
Libya has already accumulated 144 Townes of Gold or approximately \$6B, which is extremely large for a country of such size. Libyan gold holdings ranked Libya as within the top 20 gold holders in the world.

Additionally, Muammar Gaddafi was leading discussions for the proposal of a gold based common African currency called the Dinar. A Currency to rival the US dollar and the Euro. He was calling on all Muslim nations to join the adoption of this alternative gold backed currency.

Though the civil war in Libya continues as this update is published, the question must be asked - Why was Libya the target of military intervention and not the many other nations with similar internal problems. It was the military intervention and support for Libyan rebels that



has turned Libya into a full scale civil war. It has sent a message to other oil producers that a shift from oil denominated in US dollars and transacted in US dollars will not be tolerated. The full force of subversive forces, economic sanctions and military operations will quickly be brought to bear.



AFGHANISTAN / PAKISTAN

El Qaeda leader Osama bin Laden may be dead but the military operations in Afghanistan against the Taliban are far from over. It would appear that relations with Pakistan are unraveling and the conflict could easily escalate and broaden with minor provocation.

The Taliban [recently said](#) that it had no intention of attacking Pakistan's nuclear weapons sites, since it expected to take over the country soon and wanted all of the systems around those weapons in good [working](#) order.

One suspects that this was the real purpose of Mrs. Clinton's and Admiral Mullen's recent urgent visit; to express "deep concern" about the status of Pakistan's nuclear arsenal and to get specific answers to specific questions as to how that arsenal is being protected and will be defended. It is being protected and defended, to a large degree, by Pakistan's military. US intelligence believes that roughly a third of the officer corps of Pakistan's military are sympathetic to radical Islamist elements. That's the kind of math that makes people like Hillary Clinton and Admiral Mullen look as troubled as they looked at their press conferences.

The Washington Post reported that Pakistan's leading military commanders were increasingly concerned that their chain of command had been infiltrated by radical Islamist sympathizers. ["We are under attack, and the attackers are getting highly confidential information about their targets,"](#) one Pakistani intelligence official was quoted as saying.

IRAQ - Permanent US Military Occupation

The US Military bases in Iraq are permanent. Though troop size is being reduced it is highly unlikely US troops will fully leave and a conflict with Iran will immediately change this current public expectation. Iraq's long time enemy is its bordering neighbor Iran. The underlying problems between Shiite and Sunni factions have only become more pronounced, not better.



ATLANTIC CARRIERS

Ship	Home Port	Deployment Date	Status
CVN 65 Enterprise	Norfolk, Va.	5/17/11	Under way in the 5th Fleet AOR conducting maritime security operations and theater security cooperation efforts
CVN 69 Dwight D. Eisenhower	Norfolk, Va.	10/18/10	Nondeployable - Undergoing a Planned Incremental Availability (PIA) maintenance period
CVN 71 Theodore Roosevelt	Norfolk, Va.	9/29/09	Nondeployable - Undergoing a three-year refueling complex overhaul in Newport News, Va., until late 2012
CVN 75 Harry S. Truman	Norfolk, Va.	3/25/11	Nondeployable - Undergoing a Docking Planned Incremental Availability (DPIA) maintenance period
CVN 77 G.H.W. Bush	Norfolk, Va.	5/17/11	Under way in the Atlantic Ocean on a deployment to the 5th and 6th fleet AORs

PACIFIC CARRIERS

CVN 68 Nimitz	San Diego, Calif.	12/16/10	Nondeployable - Undergoing a DPIA maintenance period
CVN 70 Carl Vinson	San Diego, Calif.	5/17/11	Under way in the Philippine Sea after conducting a port visit to Manila, Philippines
CVN 72 Abraham Lincoln	Everett, Wash.	5/4/11	Undergoing a minor overhaul in its home port after a six-month deployment in the 5th and 7th fleet AORs
CVN 73 George Washington	Yokosuka, Japan	5/10/11	Undergoing maintenance at its home port
CVN 74 John C. Stennis	Kitsap-Bremerton, Wash.	5/17/11	Under way preparing to participate in composite training unit exercises off the coast of Southern California
CVN 76 Ronald Reagan	San Diego, Calif.	5/17/11	Under way in the 5th Fleet AOR conducting missions as part of Operations Enduring Freedom and New Dawn

BIG-DECK AMPHIBIOUS WARFARE SHIPS

LHA 5 Peleliu	San Diego, Calif.	5/17/11	Under way conducting operations in the Pacific Ocean
LHD 1 Wasp	Norfolk, Va.	5/4/11	Returned to its home port after conducting operations in the Atlantic Ocean
LHD 2 Essex	Sasebo, Japan	5/13/11	Nondeployable - Undergoing a maintenance availability in its home port
LHD 3 Kearsarge	Norfolk, Va.	5/16/11	Returned to its home port May 16 after completing its deployment to the 5th and 6th fleet AORs
LHD 4 Boxer	San Diego, Calif.	5/17/11	Under way in the 5th Fleet AOR conducting counterpiracy and maritime security operations
LHD 5 Bataan	Norfolk, Va.	5/17/11	Under way in the 6th Fleet AOR conducting maritime security operations and theater security cooperation efforts
LHD 6 Bonhomme Richard	San Diego, Calif.	4/20/11	At its home port after completing a four-month maintenance and upgrade period
LHD 7 Iwo Jima	Norfolk, Va.	5/11/11	Returned to its home port after participating in Port Everglades 2011 Fleet Week
LHD 8 Makin Island	San Diego, Calif.	5/11/11	Returned to its home port after conducting operations in the Pacific Ocean

Refueling Complex Overhaul (RCOH-32 months) Planned Incremental Availability (PIA-6 months) Docking Planned Incremental Availability (DPIA-11 months) Docking Selected Restricted Availability (DSRA-6 months)

*Plotted locations represent approximations. Based on available open source information.

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Two Aircraft Battle Groups were once again sent back into the Persian Gulf in May. An additional Carrier was added.

NORTH & SOUTH KOREA - On-Going Conflict

North Korea is known to have the [world's largest artillery force](#). South Korea's capital city is only 35 miles from the border. Although the range of Kim Jong-il's arsenal is fodder for debate, it's certain the rogue dictator could hit Seoul with many shells in a matter of hours. He did take a few potshots [last January](#).

This threat is a key reason North Korea can [bully its neighbor and stand up to US intervention](#).



EMERGING MILITARY CONFLICTS

IRAN & VENEZUELA DEFENSE AGREEMENT

A story that is getting absolutely no coverage in US papers, but is concerning me, is what is going on in Venezuela and how it relates to the 30 spies that were recently arrested by the Iranian intelligence services for spying on behalf of the US. Arrests which will certainly lead to executions, and the complete collapse of any diplomatic ties between the US and Iran.

What is at the root of this and additionally what I believe the urgent meetings with Israel in late May were about is the potential for a repeat of the Cuban missile crisis. It has subsequently been punctuated by significant movement in US Aircraft carrier groups (see chart above).

[US-Iran Escalation: Iran Arrests 30 US Spies As It Builds Venezuelan Missile Base; America Sends A Third Aircraft Carrier To Persian Gulf](#) **Zero Hedge**

Iran, signed an agreement on October 19, 2010 on strategic cooperation with Venezuela.

Venezuela has allowed Iran to commence construction of a missile base on Venezuelan soil. The base has recently been visited by a group of leading engineers from the construction company Khatam al-Anbia which the Iranian Revolutionary Guard-owns. It is supposedly designed "to help develop an infrastructure to protect against air attack. Also planned is the construction of a command and control station, residential areas, watchtowers, and bunkers, in which warheads, missile fuel and other items can be stored. In cooperation with its Venezuelan partners, Iran also intends to build missile silos at a depth of about 61 ft." The project appears to be funded by Iran:

"Information gathered by German newspapers suggests that on their visit to Venezuela, members of the Iranian delegation carried cash in their luggage for the project's initial funding. Western security circles suspect that this involved tens of millions of dollars siphoned off from Iran's burgeoning oil profits."

But most importantly is the discovery that while presumably defensive, Venezuela has told Iran, that it will be granted use of the base when completed: "According to the agreement between the two countries, **Venezuela pledged to Iran that it will be able to strike its enemies from the joint missile base.** Iran is attempting to boost its strategic threat to the U.S., similar to the Soviet strategy in Cuba during the 1960s." And while skeptics may say that the base located about 2,400 miles from DC has no chance in striking the US capitol, the reality is that the Iranian long-range ballistic missiles [Shahab 5 and 6](#), are rumored to be a three-stage system, which has a range of anywhere between 3,000 and 10,000 miles.

So with missile base supplies most likely to come by sea (Venezuela is a few hundred miles away from Cuba), is a recreation of the 1961 Cuban missile crisis the next big political diversion?

And a move that is sure to tip the scales to an outright confrontation even more, is the just announced by [Al Arabiya](#) arrest of 30 suspected US spies: a move which will certainly lead to executions, and the complete collapse of any diplomatic ties between the two countries. The announcement of the arrests came two days after US President Barack Obama made a speech on the Middle East, reiterating Washington's view that Tehran sponsors terrorism and is developing nuclear weapons, charges that Iran vehemently denies.

Iran has arrested 30 people it said were spying for the United States. "Due to the massive intelligence and counter-intelligence work by Iranian agents, a complex espionage and sabotage network linked to America's spy organization was uncovered and dismantled," an intelligence ministry statement read out Saturday on the television said. "Elite agents of the intelligence ministry in their confrontation with the CIA (Central Intelligence Agency) elements were able to arrest 30 America-linked spies through numerous intelligence and counter-intelligence operations," it added.

According to Iran's semi-official Fars news agency, the suspects had passed information to US officials at embassies and consulates in third countries, including Malaysia, Turkey and the United Arab Emirates. It said Iran had identified 42 US intelligence officers in such countries, saying: "They engage in collection of information regarding Iran's nuclear, aerospace defense and bio-technology fields," among other areas.




Spying in Iran usually carries the death penalty, often implemented without a full trial.



REGIONALIZATION

Our abstraction process identifies Regionalization as a key driver in 2011. The pressures behind Regionalization emerge from the following Tipping Points:

- China Bubble
- US Reserve Currency
- US Fiscal, trade and Account Imbalance
- Slowing Global Growth & Shrinking real Revenue Growth
- Global Output Gap
- Sovereign Debt-PIIGS
- EU Banking Crisis
- Central & Eastern Europe
- Japan Debt Deflation
- Geo-Political Events (Middle East and North Africa)

REGIONALIZATION	ORGANIZATION
NORTH AMERICA	NAFTA - North American Free Trade Agreement
	 US - MEXICO - CANADA
EUROPE	EU - European Union
	 27 EUROPEAN MEMBER STATES
CENTRAL & EASTERN ASIA	Shanghai Cooperative
	 <small>■ Member States ■ Observer States ■ Dialogue Partners</small> The Shanghai Cooperation Organization or SCO is an intergovernmental mutual-security organization which was founded in 2001 in Shanghai by the leaders of China , Kazakhstan , Kyrgyzstan , Russia , Tajikistan , and Uzbekistan

AFRICA

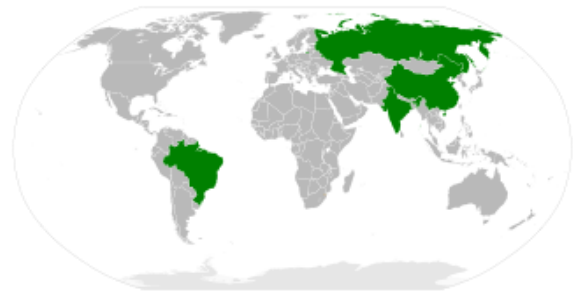
AFRICA



The **African Union** (abbreviated **AU** in [English](#), and **UA** in its other official languages) is a union consisting of 53 [African states](#). The only all-African state not in the AU is [Morocco](#).

CRESCENT

BRICS



BRAZIL - RUSSIA - INDIA - CHINA - SOUTH AFRICA

ASSOCIATION OF
SOUTHEAST ASIAN
NATIONS

ASEAN



The **Association of Southeast Asian Nations**, commonly abbreviated **ASEAN** is a geo-political and economic organization of ten countries located in Southeast Asia, which was formed on 8 August 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since then, membership has expanded to include Brunei, Burma (Myanmar), Cambodia, Laos, and Vietnam.

**ASSOCIATION OF
SOUTHEAST ASIAN
NATIONS PLUS 3**

ASEAN PLUS 3



ASEAN PLUS CHINA, JAPAN & SOUTH KOREA

SOUTH ASIA

SAFTA



A free trade area of 1.6 billion people in Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka

LATIN AMERICA

LAFTA



The **Latin American Free Trade Association** (LAFTA)
[Argentina](#), [Brazil](#), [Chile](#), [Mexico](#), [Paraguay](#), [Peru](#), and [Uruguay](#).

All of these organizations are new structures that are creating policies and laws to govern international relations. They are movements towards more centralized governing mechanisms and collectivism.

RESOURCE SHORTAGES

Our abstraction process identifies Resource Shortages as a key driver in 2011. The pressures behind Regionalization Resource Shortages emerge from the following Tipping Points:

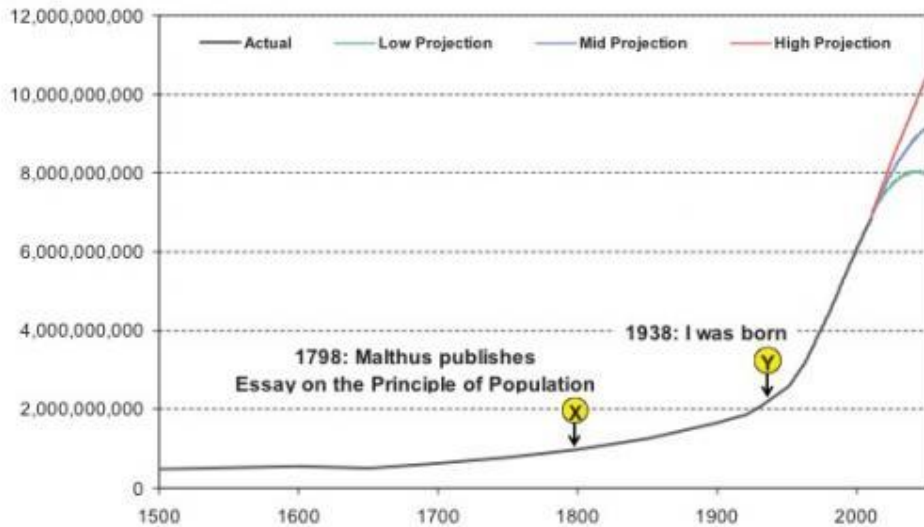
- Food Shortages
- Oil Pressures
- Inflation & Price Pressures

Rising Inflation Pressures coupled with an explosion in global Commodity prices is an indication of a demand/supply imbalance. The world's population is growing rapidly along with elevated standards of living in the Emerging Markets. These are putting extremely serious longer term strains on global resources.

CHARTS		SUMMARY OF CHARTS
Exhibit 1	World Population	We are experiencing both a huge geometric growth in population but additionally a growth in standards of living with resulting increases in consumption. This has accelerated since the collapse of the Communist System.
Exhibit 2	The Great Paradyne Shift	This is resulting in a paradyne shift on the demands of the world's resources.
Exhibit 5	Global Oil Production	Global Production has peaked and been flat for most of the decade
Exhibit 6	Growing Gap of Regular Conventional Oil	New oil discoveries have plummeted.
Exhibit 7	Oil in 1974	Since the US came off the Gold Standard the increases in oil movements have been extreme on an absolute and standard deviation basis.
Exhibit 8	Recoverable Copper Ore Yield	Key Industrial Metals such as Copper have been steadily experiencing declining yield grades for the last 15 years.
Exhibit 9	Iron Ore Prices	Basic building materials such as Iron Ore have gone parabolic since China entered the World Trade Organization (WTO).
Exhibit 10	Crop Yields	Productivity increases in Crop Yields is now declining and there is little farmable land available for expansion.
Exhibit 11	Fertilizer Used	Explosive use of Fertilizers to increase yield appears to have reached a plateau.
Exhibit 12	Real Grain Prices	Wheat, Rice, Corn, Soybeans have resumed their upward trajectories.
Exhibit 13	China's Percentage of Global Commodities Consumption	China consistently ranges from just under 30% to just over 45% of all commodity consumption categories.
Exhibit 14	The Mother of All Paradyne	It is not a select group of commodities. It is across the board.

Exhibit 1

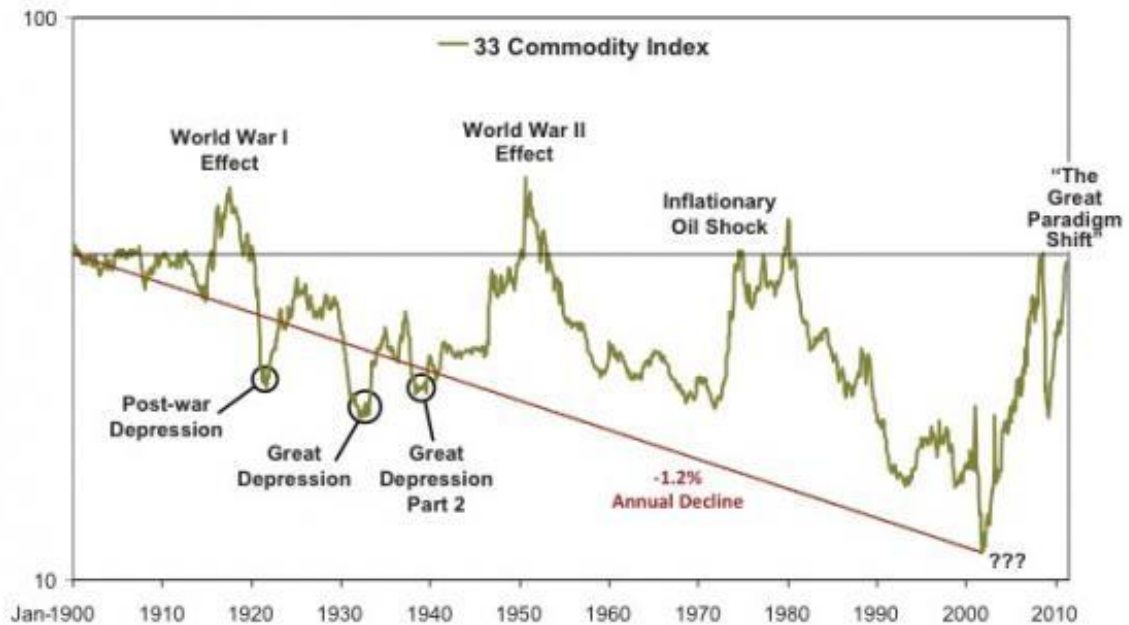
World Population: 1500-2050



Source: U.S. Census Bureau, United Nations Actual data as of 12/31/10

Exhibit 2

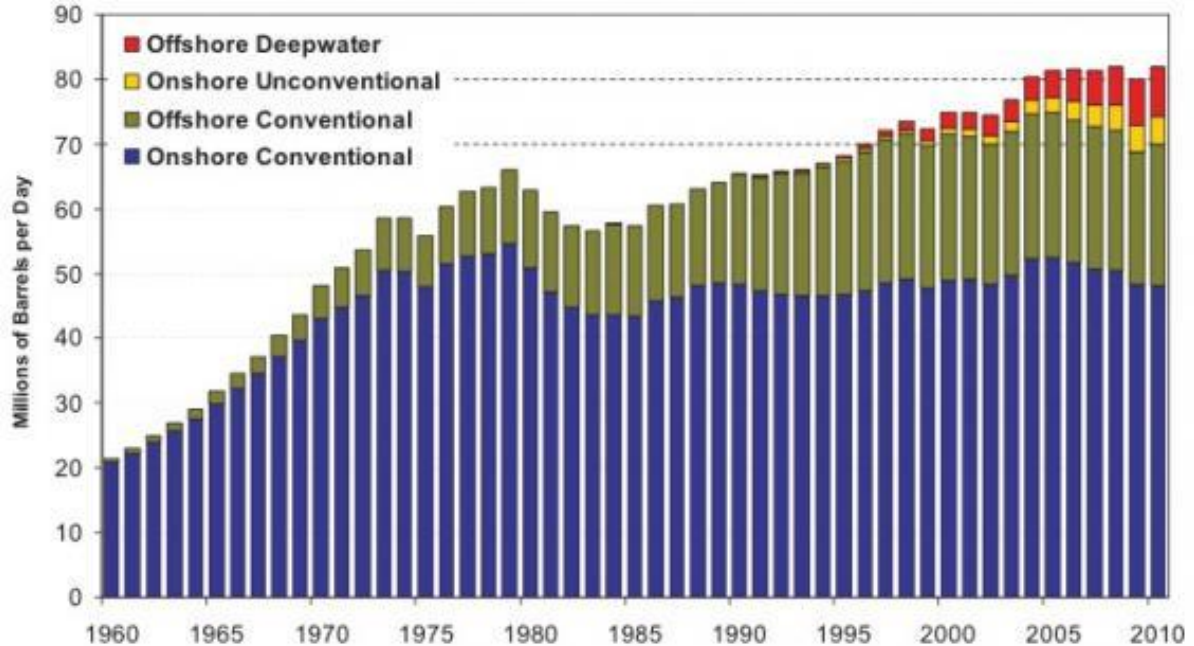
GMO Commodity Index: The Great Paradigm Shift



Note: The GMO commodity index is an index comprised of the following 33 commodities, equally weighted at initiation: aluminum, coal, coconut oil, coffee, copper, corn, cotton, diammonium phosphate, flaxseed, gold, iron ore, jute, lard, lead, natural gas, nickel, oil, palladium, palm oil, pepper, platinum, plywood, rubber, silver, sorghum, soybeans, sugar, tin, tobacco, uranium, wheat, wool, zinc.

Exhibit 5

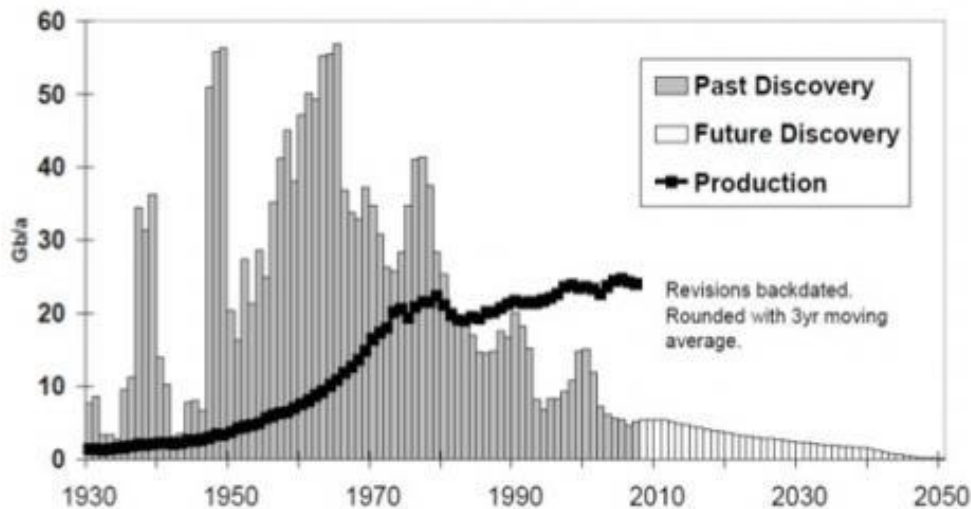
Global Oil Production – Onshore and Offshore, Conventional and Unconventional



Source: Eneravfiles, Enerav Information Administration, BP Statistical Review of World Enerav, Wood Mackenzie As of 12/31.

Exhibit 6

The Growing Gap – Regular Conventional Oil

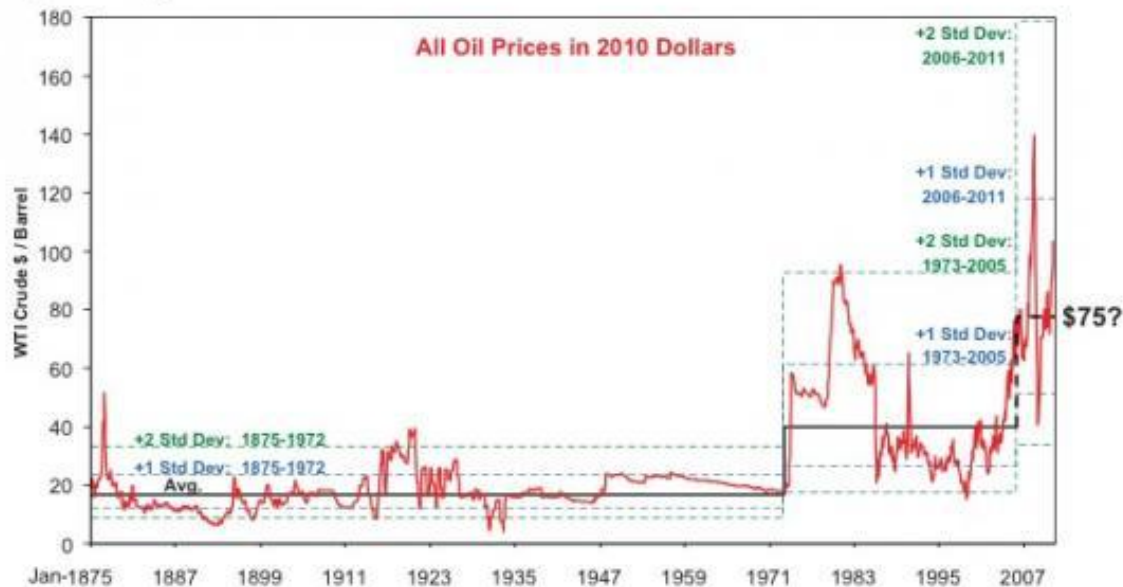


Note: "Regular Conventional Oil" excludes heavy oil (tar sands, oil shale, etc.), deepwater oil, polar oil, NGLs and refinery gain.

Source: Association for the Study of Peak Oil and Gas

Exhibit 7

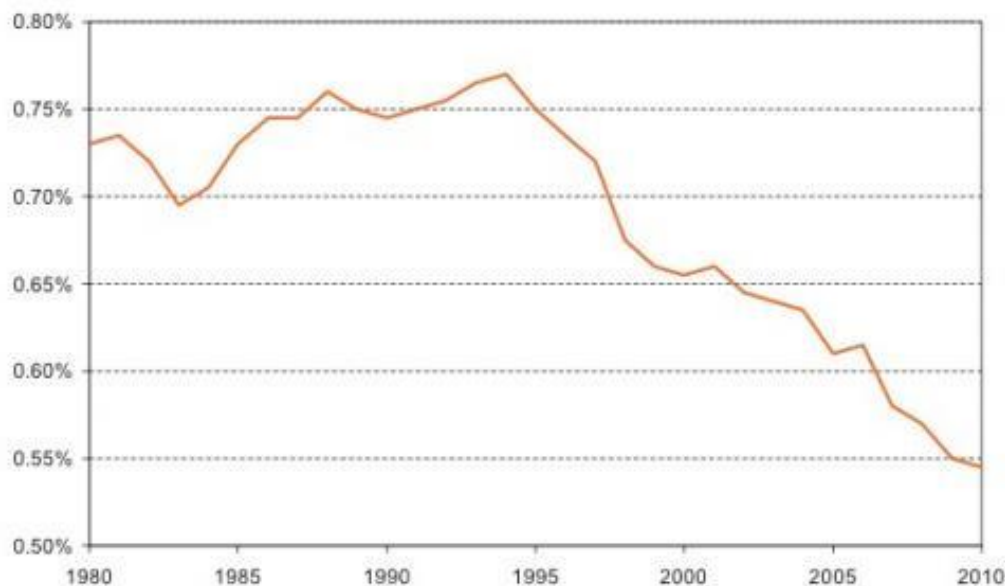
At Last, a Paradigm Shift: Oil in 1974



Source: Global Financial Data, GMO As of 3/31/11

Exhibit 8

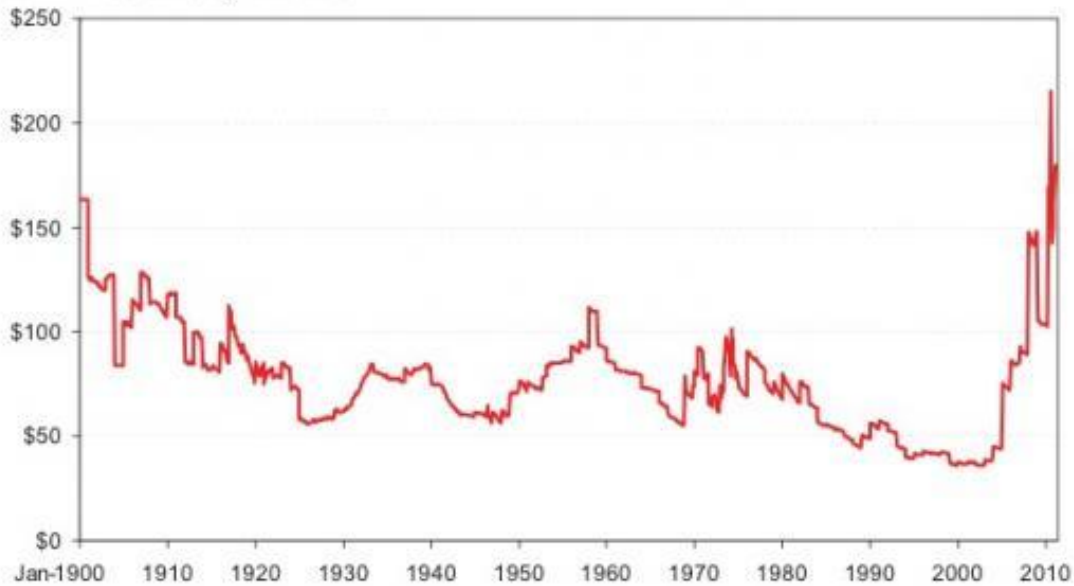
Recoverable Copper Ore Yield Grade



Source: Barclays Capital As of 12/31/10

Exhibit 9

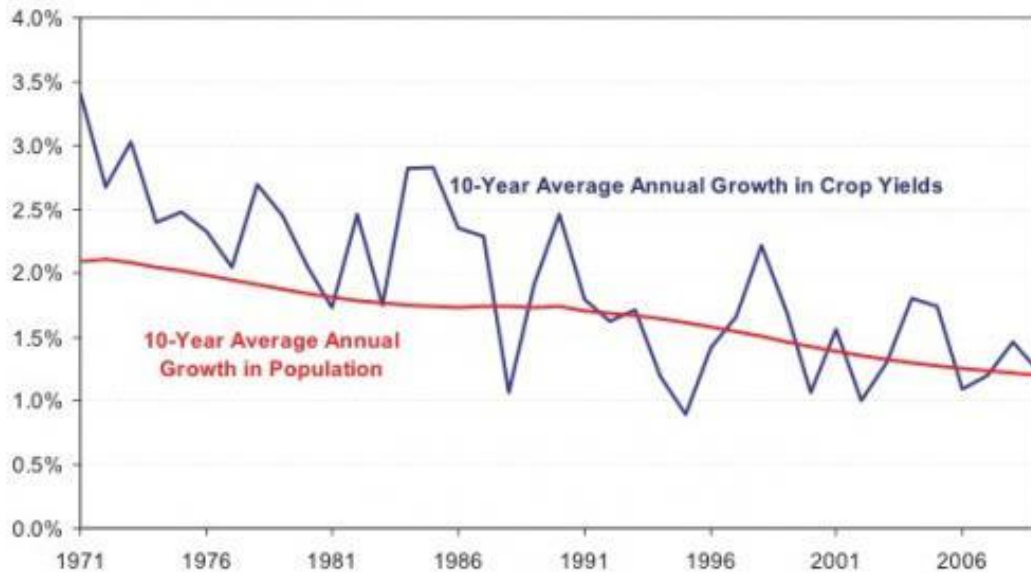
Iron Ore Prices (2011 \$/dry metric ton)



Source: Global Financial Data As of 12/31/10

Exhibit 10

10-Year Average Annual Growth in Crop Yields



Source: Food and Agriculture Organization of the United Nations As of 12/31/09

Exhibit 11

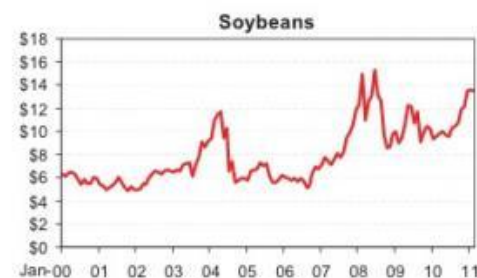
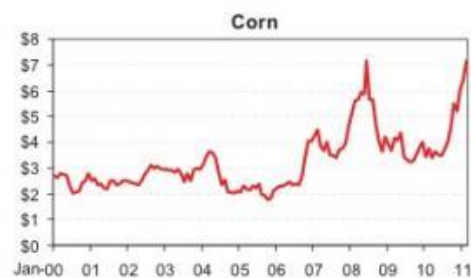
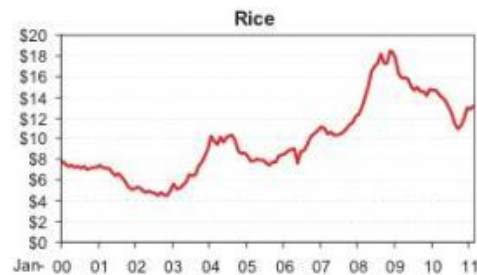
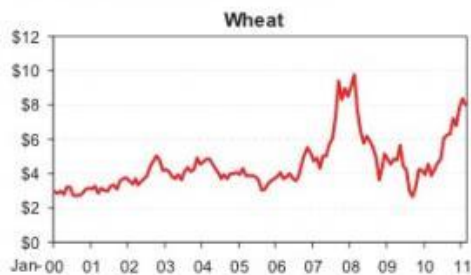
Tons of Fertilizer Used Annually (per sq km of cropland)



Source: Food and Agriculture Organization of the United Nations As of 12/31/08

Exhibit 12

Real Grain Prices (2011 \$/bushel)



Source: Global Financial Data As of 2/28/11

Exhibit 4
The Mother of All Paradigm Shifts

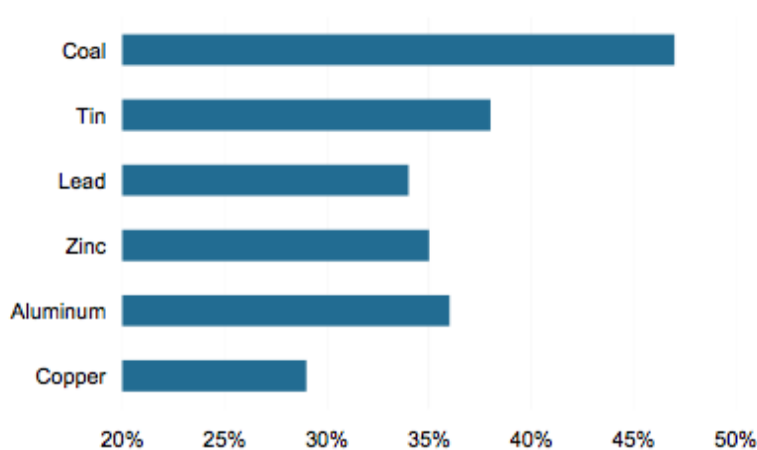
	z-score*	Probability**
Iron Ore	4.9	1 in 2,200,000
Coal	4.1	1 in 48,000
Copper	3.9	1 in 17,000
Corn	3.8	1 in 14,000
Silver	3.7	1 in 9,300
Sorghum	3.5	1 in 4,300
Palladium	3.4	1 in 3,000
Rubber	3.3	1 in 2,100
Flaxseed	3.3	1 in 2,100
Palm Oil	3.2	1 in 1,500
Soybeans	3.1	1 in 1,000
Coconut Oil	3.0	1 in 740
Nickel	2.7	1 in 290
Gold	2.6	1 in 210
Oil	2.5	1 in 160
Sugar	2.5	1 in 160
Platinum	2.4	1 in 120
Lead	2.4	1 in 120
Wheat	2.4	1 in 120
Coffee	2.3	1 in 85
Diammonium Phosphate	2.1	1 in 56
Jute	2.1	1 in 56
Cotton	2.0	1 in 44
Uranium	1.9	1 in 35
Tin	1.9	1 in 35
Zinc	1.9	1 in 35
Potash	1.9	1 in 35
Wool	1.7	1 in 22
Aluminum	1.4	1 in 12
Lard	0.9	1 in 5
Pepper	0.5	1 in 3
Natural Gas	0.2	1 in 2
Plywood	-0.1	1 in 2
Beef	-0.1	1 in 2
Cocoa	-0.1	1 in 2
Tobacco	-3.3	1 in 2000

* z-score: difference between current price and long-term trend, expressed in standard deviations

** Probability: implied probability under assumption of normal distribution of valuations

Source: GMO As of 2/28/11

Exhibit 13
China Percentage of Total Global Commodities Consumption, 2008 - 2009



Source: CEIC, Factiva, Morgan Stanley Research

China consumes 53% of the world's cement... and 48% of the world's iron ore... and 47% of the world's coal... and the majority of just about every major commodity.

EMERGING MARKETS

Our abstraction process identifies Emerging Markets (EM) as a key driver in 2011. The full force and momentum of globalization has taken hold despite the temporary disruption of the 2008 financial crisis.

The pressures behind Emerging Markets build from the following Tipping Points which are centered on the US losing its global trade dominance.

- US Fiscal, Trade and Account Balances Oil Pressures
- US Dollar fears
- US Reserve Currency
- Output Gap



Though Emerging Markets have rebounded from the 2008 Financial Crisis strongly they are showing signs of 'overheating'. Growth is expected by the IMF to be approximately 6% for Emerging Markets overall in 2011 with developing countries being closer to 2%.

The 'Stop, Go' of the Financial Crisis left the Emerging Markets scrambling to fill Inventory builds after being refrained from expanding due to the credit contraction of the Financial Crisis. This has resulted in the first of two major problems facing them.

OUTPUT GAP

According to HSBC output gap – the difference between actual output and maximum capacity – has disappeared in most east Asian economies, including China, and in Brazil. Workers are winning pay increases and employers are passing on the costs.

In China, where officials have supported wage increases to help rebalance the economy, pay has risen by 20-40 per cent in some companies.

In India, hotel managers' salaries are forecast to rise 50 per cent this year.

In Brazil, construction workers this month secured rises of almost 10 per cent. This year, the country's indexing formula has set the minimum wage increase at 6 per cent. Next year it could be 14 per cent. "The biggest danger facing Brazil is a return of indexation," says Abram Szajman, head of Fecomércio, a retailers' and wholesalers' association. "That's one evil we don't want again, or we will have salaries going up every year, then every six months, then every three, then every month – and we've seen that all before."

Taiwanese electronics assemblers last year saw increased pay of 30 per cent after strikes at its Chinese plants. The results here and is being seen throughout the EM is that they recently revealed that operating expenses rose 80 per cent in 2011's first quarter. Operating margins halved to 1.1 per cent.

Higher costs are now squeezing industry's margins. Add to the fact that the commodities increased by 72% from the 2009 lows according to the CRB and are 14% above the average since 2006 you have cost push pressures.

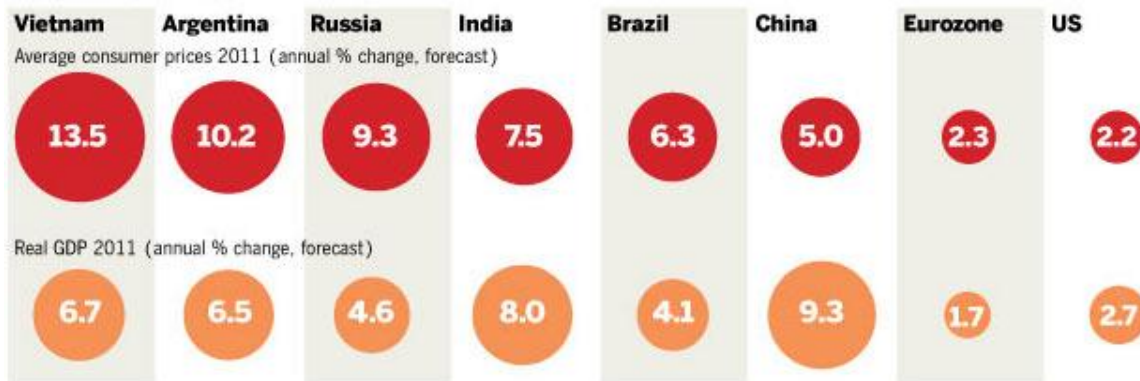
INFLATION

The second major problem is inflation. The Emerging Countries are experiencing 6.9% overall inflation according to the IMF. This compares to 2.2% in the developed countries. We all know that inflation is higher than government reporting and this also appears to be the case in the IMF numbers. A recent 'boots on the ground' check in Argentina showed inflation to be 25% making a mockery of the official figure of 10%.

The Asian Development Bank is reporting food price pressures of over 10% in Asia and this was before the recent early spring increases of 30%.

IMF suggests inflation in Russia is presently 9.6%, India 8.7%, Brazil 6.5% and China 5.3%. Their forecasts for 2011 annual percentage change are shown below for selected countries.

A tiger to tame



Sources: IMF; Consensus Economics, May 2011

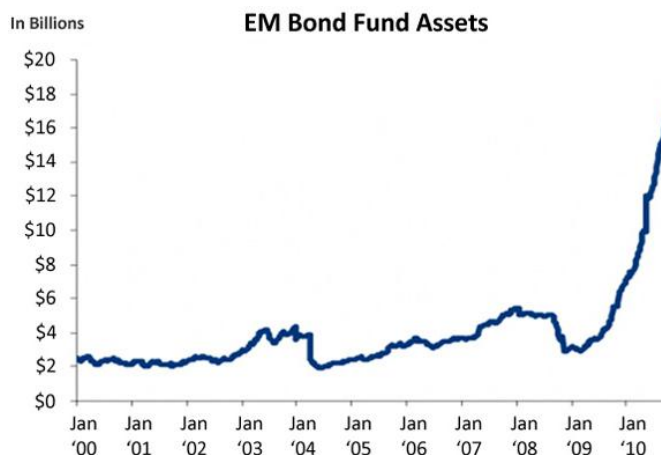
The IMF forecasts inflation of 5.3% for 2012.

Many view inflation in the EMs as a structural problem due to:

- Their ongoing Sterilization process to keep their currencies low to gain competitive export advantage.
- Labor shortages of more and more skilled workers that are required.
- Hot Money flows into the EM's
- The overall Supply - Demand of commodities so central to an export lead manufacturing strategy.

HOT MONEY

The dramatic growth in Emerging Markets and the free flow of capital may now be placing emerging markets in a precarious position. Recent Credit Default Swaps (CDS) are signaling caution is advised.



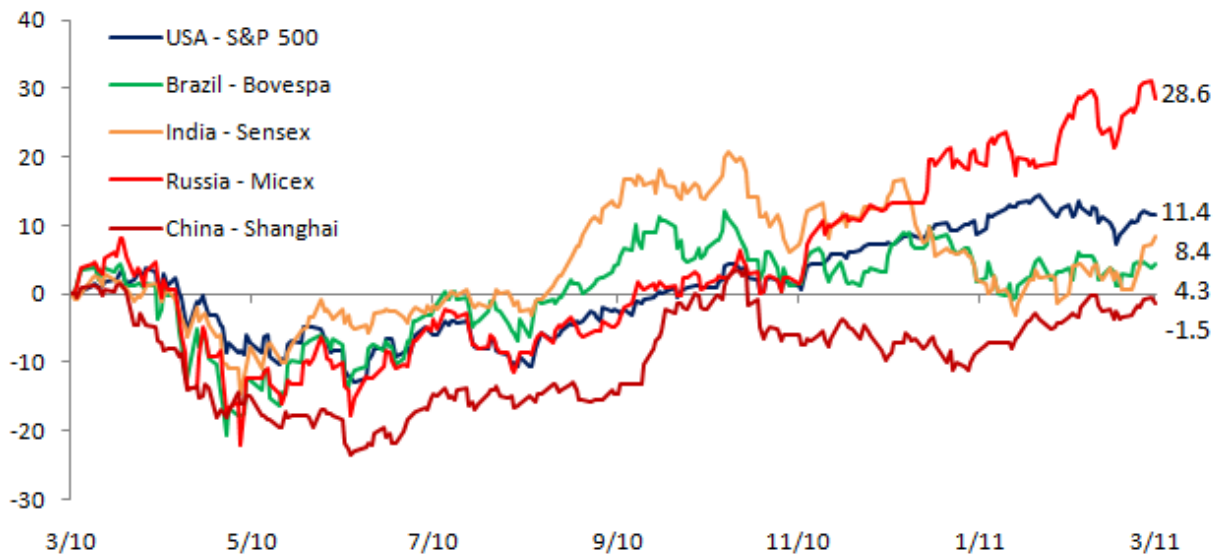
Source: Bank of America

Default Risk Up YTD

Country	12/31	Current	YTD % Chg
Greece	1010.0	1416.9	40.29
Egypt	242.5	338.2	39.46
Portugal	501.0	669.7	33.67
Saudi Arabia	75.4	100.4	33.12
Israel	115.0	145.7	26.70
Thailand	98.5	119.7	21.55
Bahrain	185.9	225.0	21.04
USA	41.5	49.5	19.28
Lebanon	305.0	360.0	18.03
Turkey	140.8	166.0	17.86
Japan	72.0	84.8	17.81
Peru	113.2	127.7	12.76
Qatar	88.3	98.4	11.39
Malaysia	72.5	79.3	9.48
Ireland	608.7	660.5	8.52
China	67.6	73.0	8.02
Philippines	126.2	134.8	6.80
Venezuela	1067.7	1131.4	5.97
Indonesia	129.0	135.5	5.01
South Korea	93.9	98.3	4.73
Abu Dhabi	93.8	97.3	3.69
Croatia	256.3	263.3	2.74
Vietnam	307.3	314.7	2.41
New Zealand	60.8	62.0	2.06
Australia	50.0	51.0	2.00

Data as of: 05-25-11

Performance (%) of US vs BRICs: Last 12 Months (USD Returns)



The ascension of China to the WTO in 2001 was perhaps the most profound development in economics in recent decades as it caused a massive boost to the global labor supply whilst constraining wages growth in the developed economies.

In short, the economic ascension of China, as the peak of all that was considered benign in globalization, flattened the global Phillips Curve to such an extent that the output-inflation trade-off for the developed economies had skewed to such an extent that much higher output could be tolerated without

generating inflation.

The major consequence of China's policy response to the global crisis is that it is now engineering an outward shift in the global demand curve. Is there any reason to believe that the outward shift China engineers in the demand curve will be any less profound than the supply curve shift it engineered a decade ago?

China is about the export inflation to the rest of the world in a process that will resemble the fall of three dominos, one of which is already fallen, according to Societe Generale.

In a massive report titled "The China Domino has Fallen!" Soc Gen analysts outline the three dominos of the Chinese inflation export scheme, and their current progress.

DOMESTIC INFLATION: China switch to a consumer driven economy means more domestic demand. Supply remains constant, so prices rise.

This is already happening.

CHINA EXPORT INFLATION: "This dynamic seems as inevitable as gravity itself." Chinese demand for oil and steel has pushed prices up in those markets. Now it is effecting commodities like cotton and food products. That's being passed on to developed markets like the U.S., and it will really hit home in 2012.

This is in the process of happening.

CHINA DEMAND SHOCK: The country's long-term economic rebalancing results in an permanent increase in demand. Supply is sticky, and it will take time for it to catch up, thus limiting the world's ability to cope with this rise in demand.

This is starting to happen.

The second domino. China CPI leads US core goods CPI



Source: Global Insight, SG Cross Asset Research/Economics

