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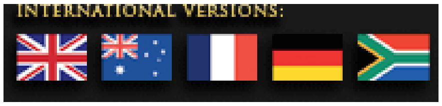

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US Deficit to Reach 100 Percent of GDP?

By Chuck Butler

06/03/10 St. Louis, Missouri – The Japanese have a new Prime Minister (Kan), and the currency markets don't like it! The once so-called "safe haven" of yen (JPY), is getting sand kicked in its face, and rightly so, as the new PM has previously stated his goal of a weaker yen.

The euro (EUR) has moved up slightly overnight, nothing to write home about. However, the Aussie dollar (AUD) is the star performer overnight, alongside its kissin' cousin across the Tasman, New Zealand dollars (kiwi)… The April trade balance printed better than expected, registering a surplus of A$134 million… After getting socked in the gut earlier in the week, because the Reserve Bank of Australia (RBA) had left rates unchanged, the Aussie dollar has come back with purpose!

Joining the Aussie dollar is kiwi (NZD)… I've told you for some time now that the Reserve Bank of New Zealand (RBNZ) will hike rates at their next meeting in June, and guess what? June is here! The RBNZ meets next week, and finally the markets are seeing what I've seen for a couple of months now, that the RBNZ will indeed hike rates, and that, my friends, has kiwi rising this morning!

The price of oil is rising again, but gold isn't… Hmmm…

So… That means the Canadian dollar/loonie (CAD) is reacting somewhat positively… But the loonie is back above 96-cents and looking strong today.

Yesterday, I was sitting here thinking about things, mostly deficit things, and had these thoughts (which for once, I wrote down!):

So… Here I am on a Wonderful Wednesday, and I just finished my "day job" which means it's now time for me to begin reading, researching, and thinking about what to write about in Thursday's *Pfennig*!

On this day, we had some monstrous black clouds move in from the west… And I couldn't help thinking that one day those same monstrous black clouds are going to move in and take over the US economy. There's nothing new here, folks… It's just another rant on deficit spending… If you don't care to participate, skip ahead to the Big Finish…

This time I'm going to quote some facts from the IMF… Not that I've made stuff up before, it's just that my economics professor for continuing education, is in love with the IMF, so, this is really to appease her!

You know, that the US deficit spending has been going on for about a decade now, and that it has taken huge strides to increase the total deficit in the past two years. I've gone through all that with you before, right? OK… Here's the first blurb from the IMF…

"IMF's analysis of the US economy, that 'under the Obama administration's current fiscal plans, the national debt in the US (on a gross basis) will climb to above 100% of GDP by 2015 – a far steeper increase than almost any other country.'

"But level of debt isn't the only problem. Then there's the fact that the US has a far shorter maturity of government debt than most other countries, meaning that even if it weren't borrowing any extra cash it would have to issue a large chunk of new stuff each year as things are."

You know… *The UK Telegraph* does a much better job of reporting on the US deficit than do US news organizations (except the *Pfennig*!)… Most of this stuff was from an article they printed. In addition though… Here's the killer… "A country's gross financing needs" represents how much debt it has to issue in the coming years to keep itself "functioning"… And here's where the cheese begins to bind, folks…

The US's gross financing needs today is 32.2% of GDP, which is far greater than most countries, including Greece! The only major country to "beat" the US on the road to ruins is Japan!

And to end this little discussion on the US deficit and forecast, the yield in a 2-year US Treasury is 0.80%… That's not even 1% folks… By the time the broker takes his pound of flesh from the yield as his commission, the holder of this magnificent piece of junk gets about 0.25%… WOW! Where do I sign up for that? NOT! Think about this for a minute… Most of the US debt is financed through these shorter maturities, and they are paying less than 1%… How long will foreign investors continue to line up at the door for 1% yields?

A 2-year Australian Government Bond has a yield of about 3.75% (after the broker takes his pound of flesh). Now, I know that Australia's bond market isn't as large or as liquid as the Treasury market… But, if you get in before the rest of the crowd hits the exit door on Treasuries, then the later buyers will be doing nothing but making your bond more valuable!

Now… That wasn't a solicitation to buy Australian Government Bonds; it was just an illustration of what might happen…

Well… Today's data cupboard is chock-full-o-data prints… First we'll get the ADP Employment report for May… Then the stupid "productivity" data for the first quarter. Factory Orders for April will print later this morning, along with the ISM non-manufacturing (service industry) Index. It's also a Thunderin' Thursday so that means the Weekly Initial Jobless Claims will print too!

Tomorrow is the Big Kahuna for data, with it being a Jobs Jamboree Friday… Right now, it looks like the BIG CHUNK of census workers were hired or rehired (from last week's note about the census workers blowing the whistle) to the tune of over 500,000… I see where the BLS is going to split up the government workers from the private sector to make it easier for us… The private sector is forecast to have created 178,000 jobs in May… Which would be pretty darn good, eh? Of course we don't get a forecast of how many "ghost jobs' the BLS will add!

Speaking of private and public hiring… There's a huge discrepancy going on these days folks… Government workers (public) are making a large chunk of payroll, that's more than what's getting shelled out in the private sector… According to a 2009 CATO Institute study the average federal civilian salary with benefits totals $119,982 compared to $59,909 for the average private sector worker.

I thought that those people worked for us? Is that not right? It sure doesn't look that way to me! And… Think about that for a minute… The deficit just keeps getting added on to, eh?

Then there was this… According to *The Wall Street Journal*… The UK's Financial Services Authority said it has fined J.P. Morgan Chase £33.3 million ($48.8 million) for failing to separate client money from the firm's money, in the largest fine in the market regulator's history. Uh-Oh! That's a big no-no, from my days running a brokerage company…

To recap… Aussie dollars, kiwis, and loonies are the top performers overnight, with the Aussie dollar getting bid up on thoughts that the sell off was overdone, kiwi getting bid up on thoughts the RBNZ will hike rates next week, and loonies getting bid up on oil prices rising again, and a delayed reaction to the rate hike this week by the Bank of Canada.

Chuck Butler
for *The Daily Reckoning*

Chuck Butler

Chuck Butler is President of EverBank® World Markets and the author of the popular Daily Pfennig newsletter, which is reposted here at The Daily Reckoning. With a career in investment services and currencies extending over 35 years, Mr. Butler oversees all aspects of customer service and the trading desk for EverBank World Markets. A respected analyst of the currency market, Mr. Butler has frequently made appearances or been quoted by the national media. These include the Wall Street Journal, US News and World Report, MarketWatch, USAToday, CNNfn, Bloomberg TV, CNBC, and the Chicago Tribune. Mr. Butler was previously the Chief International Bond Trader and Director of Risk Management for Mark Twain Bank, and has held significant positions in the investment industry since 1973.

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By Peter Cooper | Dubai, UAE - | 06/02/10
Those who decided to ‘Sell in May and go away’ have been well rewarded in the worst May for the Dow since 1940. The Dow Jones Index fell by 7.9 per cent in May and the more broadly based S&P 500 by 9.9 per cent, its worst May performance since 1962. Is this a red light…Read more…

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By The Mogambo Guru | Tampa, Florida - | 06/02/10
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