The Oil Drum: Canada
DISCUSSIONS ABOUT ENERGY AND OUR FUTURE

The Round-Up: July 26th 2007

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As oil threatens to go through the roof over concerns that OPEC may not open the spigots, exploiting Canadian reserves is becoming far more expensive. The threat of labour disruption in the oil sands will only add to the problem.

An OPEC equivalent controlling future LNG trade is seen as a threat to US security, even as natural gas prices decline and the drilling sector consolidates in Canada.

Burnaby BC comes to terms with a long clean up after an oil spill, as the aftermath of a Japanese earthquake rattles the nuclear industry, and Ontario's nuclear troubles continue.

Risk aversion goes international as credit markets tighten around the world. Faced with threatened deals, banks are holding on to loans rather than hawking them to investors. The US sends another more senior figure to China to convince them to buy mortgage-backed securities. As bridge loans become pier loans in the developing credit crunch, Wall Street 'heads for the diaper aisle'.

Oil firms find reserves elusive

> For investors looking for the cheapest reserve replacement costs, don't turn to Canada. Not only is the country's oil and gas basin particularly well-developed, making new reserves hard to find, but also Alberta's oil sands boom has driven up service costs above and beyond the increase seen globally. Canada's senior producers' reserve replacement costs went up 40 per cent from 2005 to 2006, while the country's energy trusts and juniors saw costs increase year over year by 62 per cent and 37 per cent, respectively, according to the report.
>
> "The unrelenting rise in reserve replacement costs, coupled with cost pressures elsewhere, has significantly eroded the profitability of crude oil and natural gas developments, especially in high-cost regions such as Western Canada," Mr. Ollenberger said.

Alberta building unions threaten oilsands strike

> Five Alberta construction unions have voted in favor of their first strike in a quarter of a century as they seek higher wages and improved working conditions at a slate of multibillion-dollar oilsands projects.

Electricians, boilermakers, plumbers and pipefitters, millwrights, and refrigeration mechanics have approved a strike and 72-hour notice could be served as soon as Wednesday, though a quick walk-off is not yet certain, an analyst said.

"This doesn't mean that a strike is going to happen but we're in a position where it could," said Mark Friesen, an analyst at FirstEnergy Capital. "It's a risk that can't be ignored."

If the workers were to strike, it would be the first wide-scale stoppage in the Alberta oil industry in a generation, according to a union official.

No rush to supply more oil

Hints from OPEC that it is ready to supply more crude oil if needed should not be interpreted as signalling an immediate opening of the spigots, or suggest any material improvement in the tight global supply-demand balance any time soon, warns BMO Capital Markets.

"The cartel is unlikely to jump the gun on production increases before it has to, as premature increases in the past have resulted in sharp price declines," writes BMO commodity strategist Bart Melek.

Adjusted for falling dollar, oil earning less for OPEC

The falling US dollar is lowering the Organisation of the Petroleum Exporting Countries' purchasing power by up to a third, making the powerful oil cartel more reluctant to increase production and cut prices.

Although oil is trading near last August's record price of $78.65 a barrel, OPEC calculations show that when adjusted for currency fluctuations and inflation, oil prices have fallen in the past year.

The adjusted price averaged only $43.60 a barrel in June this year, compared with $44.30 abarrel in the same month last year, according to the latest OPEC monthly report.

Growing trade between OPEC members, especially those in the Middle East and north Africa, and the European Union, is aggravating the problem because the value of the pound and the euro has risen against the dollar.

Is $100 Oil Coming? $200 Anyone?

"There are questions about whether the oil industry can keep up with demand," U.S. Energy Secretary Samuel Bodman said last week, commenting on the Petroleum Council report.

Oil prices could triple in three months to more than $200 a barrel, given the right circumstances, according to Matthew Simmons, chairman of Simmons & Co., a Houston investment bank.

Polar bears block Arctic oil drilling

Shell has been forced to halt plans to start drilling in the Arctic by a court challenge from indigenous Alaskans and green groups who claim that polar bears and whales would be put at serious risk.

The ban by the US court of appeal pending a hearing on the issue came as Shell and its new partner Gazprom came under renewed attack for its activities off Sakhalin Island in Russia with a panel of experts from the World Conservation Union urging the operators to do more to protect the western grey whales that feed in the area.

Shell was given permission by the US Minerals Management Service in February to undertake exploratory drilling in the Beaufort Sea but the North Slope Borough, an alliance of conservation and local ethnic groups, argue the go-ahead was given without an appropriate review of the damage that could be done.

"Polar bears are already threatened by global warming," said Brendan Cummings, from the Center for Biological Diversity, one of the petitioners. "Opening up some of their important habitat in the United States to oil drilling and development would push them ever further down the path to extinction."

A Roadmap To North American Oil Self-Sufficiency

The roadmap for development of Alberta's oil sands has caught the attention of the U.S. Department of Energy's Naval Petroleum and Oil Shale Reserves program. That roadmap may influence the U.S. Energy Policy and its approach to unconventional oil development of the massive U.S. shale resources.

"We have been watching the development of the Alberta oil sands since the early 1980's and the one thing that we have learned is not to give up," says Tony Dammer who has is in charge of the U.S. Department of Energy's Naval Petroleum and Oil Shale Reserves Program.

Canada signs energy pact

Canada has signed an energy innovation agreement with the United States and Mexico with an aim to fuel joint developments on the energy front that seek cleaner and more efficient ways to use energy.

Canada's Natural Resources Minister Gary Lunn said today that the agreement will help set part of the agenda for a summit in Montebello, Que., next month between the leaders of the three countries....

....The ministers said they will commit to further align energy-efficiency standards on consumer products, adding they recently harmonized energy performance standards for refrigerators, air conditioners and large electric motors.

Natural gas glut foreseen

North American natural gas inventories are building toward last year's glut level but at an even faster rate, dimming hopes Canadian producers, drillers and oilfield service companies, hit hard by soft prices, will see a significant rebound by fall or winter.

Weak natural gas demand and robust supply helped fill U.S.-based stockpiles to about 3.45 billion cubic feet by the end of October last year -- a modern-day storage record.

The result was a major meltdown in natural gas prices last September, and in Canada it meant the continuation of a pullpack in spending among producers.

The continent is charging down the same path during this year's injection season -- the period between March and October when inventories at U.S. and Canadian storage facilities typically climb, said Martin King, commodities analyst at FirstEnergy Capital Corp. in Calgary.

Price of Natural Gas this Fall Will be Less than Expected

In June the futures market was indicating that the spot price for natural gas in September and October would be in the neighborhood of $8 per thousand cubic feet.

While September and October futures prices for natural gas have since come down to below $7, if Kevin Petak, director of energy modeling and forecasting at Energy and Environmental Analysis Inc. in Arlington, VA, is correct, they have farther to fall....

....While Petak painted a positive picture for natural gas this fall, he cautioned that over the longer term the U.S. natural gas industry faces a supply crunch.

He told EnergyTechStocks.com that the root problem is the continuing growth in natural gas use by electric generating facilities coupled with years of only modest supply growth in North America. He added that while there has been “noticeable” supply growth recently, it still isn’t enough to meet steadily rising demand from power generators.

New OPEC for Natural Gas Will be Major Threat to U.S.

As has been reported, a global LNG cartel likely would be dominated by Russia and Iran, two nations with big gas reserves that are no friends of the U.S. and who are inclined to use their energy resources as a political weapon. Indeed, observers say that with their potential to use oil as a political weapon increasingly in question, Russia and Iran are increasingly likely to try and create an OPEC for natural gas. According to Petak, another cartel heavyweight will be Nigeria, whose political unrest regularly causes crude prices to spike.

In a nutshell, “Economically, we must have LNG. Politically, we can’t afford to have it,” Petak told EnergyTechStocks.com. “Just as we were cut off by OPEC back in the 1970s, we could get cut off from LNG by this new cartel at any time and for any reason.”

Oil and gas drillers get a lift

Shares of Noble Corp. and other oil and gas drillers rose after news broke of the Transocean and GlobalSantaFe deal, raising speculation that the merger will spur more takeovers in the industry....

....Companies are seeking bigger fleets to capture rising rig rents from oil companies including Exxon Mobil Corp. and Royal Dutch Shell PLC, analysts said. Oil companies are paying more than $500,000 a day to rent drillships and floating rigs that can reach petroleum reserves five miles beneath the ocean floor.

Investors handed a no-lose proposal

How hungry are investors for profits? Yesterday's merger between Transocean Inc. and GlobalSantaFe Corp., two offshore oil and gas drilling companies, shows that investors are ravenous.

The deal does not give shareholders on either side a premium for their shares. Instead, it monetizes part of the two companies' back orders of drilling contracts to 2015 -- worth a combined US$33-billion--and has handed both shareholder groups nearly half of that value in the form of a special dividend.

That's right: Shareholders are getting a total of US$15-billion of the merged company's future cash flow for the next eight years, the money coming from a bridge loan from Goldman Sachs Group Inc. and Lehman Brothers Inc.

Talk about a no-lose deal. If oil and gas prices plummet, and drilling activity dries up, investors will already have been compensated with the cash that would have been earned if the drilling activity had remained active.

In an environment where mergers and acquisitions are booming, this one stands apart for its ability to leave investors speechless. In fact, judging from the trading activity following the announcement of the deal, investors are ecstatic about the terms. Transocean, GlobalSantaFe and a number of other offshore drilling stocks hit record highs yesterday.

[Burnaby oil spill will have long-term toxic impact: experts]

> Environmental experts and politicians predicted long-term contamination of the land and sea around Burnaby, B.C., as cleanup continued Wednesday after thousands of litres of oil sprayed across a neighbourhood....
>
> ....Witnesses said a stream of black crude shot 30 metres into the air like a geyser for 25 minutes before the pipeline was shut down. It is still not known how much oil was spilled, but initial estimates indicate tens of thousands of litres of the black liquid rained down on the suburban neighbourhood.

[Some Burnaby residents may lose homes to spill]

> Some residents of an oil-splattered Burnaby, B.C. neighbourhood face the loss of their homes after an excavator ruptured a major crude oil pipeline.
>
> Mayor Derek Corrigan said Wednesday if oil from the ruptured pipeline seeped into the siding and foundations of 11 damaged homes in the Vancouver suburb, "those houses may not be salvageable....
>
> ....Crews spent the day shoveling and soaking up oil using sand and peatmoss to lift the stain of the black crude. Asphalt on the Barnet Highway is simply being torn up rather than cleaned to remove the tar-like oil.
>
> Kinder Morgan Canada, which owns the pipeline, estimates 234,000 litres of oil (about 1,400 barrels) escaped as the ruptured line spewed for 30 minutes.

[Oil dividends]

> Oil production at the Hibernia oilfield is declining, but the project is still paying dividends for the federal government.
>
> It’s also expected to start paying higher royalties to the provincial government in 2009 or 2010, according to the Canada Hibernia Holding Corp. (CHHC). That’s when the Hibernia development costs are paid off and the 30 per cent royalty rate kicks in.
>
> Other forecasts have pegged payout at 2011, depending on world crude oil prices.
>
> “The royalty that we pay to the Newfoundland government will actually go to 30 per cent probably in 2009,” said Murray Todd, president and CEO of the CHHC.

Renewable energy could 'rape' nature

> Ramping up the use of renewable energy would lead to the "rape of nature", meaning nuclear power should be developed instead. So argues noted conservation biologist and climate change researcher Jesse Ausubel in an opinion piece based on his and others' research.
>
> Ausubel says the key renewable energy sources, including sun, wind, and biomass, would all require vast amounts of land if developed up to large scale production – unlike nuclear power. That land would be far better left alone, he says.
>
> Renewables are "boutique fuels" says Ausubel, of Rockefeller University in New York, US. "They look attractive when they are quite small. But if we start producing renewable energy on a large scale, the fallout is going to be horrible."
>
> Instead, Ausubel argues for renewed development of nuclear. "If we want to minimise the rape of nature, the best energy solution is increased efficiency, natural gas with carbon capture, and nuclear power."

Japan quake sends tremors across nuclear industry

> A Japanese earthquake that forced the closure of the world's biggest nuclear plant has highlighted the energy source's dangers, just when support had been growing.
>
> Worries about security of energy supply and the urgency of fighting climate change had helped to overcome years of opposition to nuclear power after the 1986 Chernobyl disaster.

Quake cleanup delays reactor core checks

> Tokyo Electric Power Co. may not be able to begin reactor core checks of its quake-hit nuclear power plant in Niigata Prefecture until September because it needs to clean up contamination inside one of the seven reactors and remedy other safety woes, company officials said Monday.
>
> In addition to repairing the damage, the utility must also solve a host of problems that emerged after the magnitude-6.8 quake hit the Kashiwazaki-Kariwa nuclear plant July 16, including an inadequate fire-extinguishing system and uncertainty over the plant's ability to withstand earthquakes like the one that struck along the fault the complex apparently sits on.

Japan says nuclear closure could affect CO_2 target

The Nikkei newspaper reported last week that the government could order the company to keep the plant closed for more than a year while safety checks are carried out.

Japan's nuclear industry -- which supplies about one-third of the country's electricity needs and is central to its efforts to battle global warming -- has been tarnished by cover-ups of accidents and fudged safety records.

Amari said his ministry would seek help from other ministries to promote carbon-emissions reduction from households and various corporations so that the target could be achieved.

[Pickering woes fuel debate]

It has not been a good summer for that distinctively Canadian invention, the CANDU nuclear reactor.

At the Pickering nuclear plant, two CANDU reactors that had recently been refurbished – at a cost of more than $2 billion – have been down for maintenance all summer. And last week a third Pickering reactor was taken offline for repairs.

With two others permanently mothballed because the cost of refurbishing them was considered prohibitive, that means just three of the eight CANDU reactors at Pickering are now churning out megawatts for Ontario's power-hungry households and industries.

This sorry performance comes at a time when the operator of the Pickering plant – government-owned Ontario Power Generation – is pondering whether to invest billions in the refurbishing of four more Pickering reactors to extend their life spans. And it also occurs when the provincial government is trying to decide what technology to buy for the next generation of nuclear plants to replace the existing ones.

[Economist predicts dramatic electricity price hikes]

The price of electricity in Ontario will soar 60 to 70 per cent when the province replaces its pollution-spewing coal plants with cleaner, more expensive sources of energy, an economist has predicted.

Benjamin Tal, a senior economist at CIBC World Markets Inc., said in a recent report that electricity consumers should be bracing to pay about 8 cents a kilowatt hour by 2015. They have been paying an average of 4.9 cents a kilowatt hour since Jan. 1.

For the average consumer who uses 1,000 kilowatts a month, the cost of the commodity alone would jump to $80 from $49 a month.

Premier Dalton McGuinty has pledged to close the coal plants by 2014 to help the province slash its greenhouse-gas emissions to 6 per cent below 1990 levels. The province's four remaining coal plants account for about one-fifth of its electricity generating capacity.

Toyota plug-in hybrid on the road in Japan

A Toyota plug-in hybrid car design will begin testing on public roads in Japan, the company said Wednesday.

Toyota said its Plug-in HV, like previous Toyota hybrid cars, uses a gas-powered internal combustion engine and an electric motor. But it can operate longer in electric mode on short trips because of increased battery capacity, the company said, with a cruising range on the electric motor alone of about 13 kilometres, about four times as far as the Prius.

Toyota said it will conduct road tests on eight plug-in hybrids in Japan with plans for similar tests in the United States and Europe.

Thanks to Plug-in Electric Cars, Coal’s Future Bright

Petak told EnergyTechStocks.com the overall reason why coal’s future is bright is energy security. He predicted that it is going to become increasingly obvious to people that there simply is no alternative to coal for countries like the United States and China.

Petak further said that without coal-generated electricity, the U.S. won’t be able to meet the power demands for what he expects will be a rapidly growing number of vehicles on U.S. highways that run on electricity supplied through an ordinary electrical outlet.

“Thanks to plug-in electric cars, coal has a future,” Petak told EnergyTechStocks.com.

Power outage puts dot-com heavy San Francisco in the dark

Sporadic power failures Tuesday afternoon darkened a broad swath of downtown San Francisco, an area dotted with internet companies whose servers rely on a steady supply of electricity.

About 51,000 homes and businesses in San Francisco and south of the city lacked electricity at the height of the failure, which started at about 2 p.m. and lasted a few hours, said Pacific Gas & Electric spokeswoman Darlene Chiu.

The utility rerouted customers to backup circuits as crews worked to identify the failure's cause, Chiu said. It was eventually traced to several power surges the system experienced as PG&E tried to keep electricity flowing through a substation where transmission line breakers had failed, she said.

"Every single time we tried to restore service, multiple times, then it impacts the system and the outages occur," Chiu said.

Hunter rejects manipulation allegations

> The U.S. Commodity Futures Trading Commission has charged hedge fund Amaranth Advisors LLC and former head trader Brian Hunter with attempted manipulation of natural gas futures.
>
> A lawyer for Mr. Hunter said he didn't manipulate natural gas trades and will fight the charges.
>
> The regulator also alleges that Amaranth tried to cover up its conduct by making false statements to the New York Mercantile Exchange.
>
> Amaranth lost more than $6-billion (U.S.), largely on bad natural gas trades, last fall and has said it will close.

Amaranth hedge fund, former trader charged with market manipulation

> Hunter is starting a new hedge fund based in Calgary called Solengo Capital Advisors. His lawyers wrote in a court complaint that government action will "irreversibly damage both [Hunter's] personal reputation and the viability of Solengo, such that Solengo will cease to exist."
>
> The government's complaint alleges that Amaranth, in February and April of 2006, tried to lower natural gas prices on the New York Mercantile Exchange to benefit trading positions it held on the InterContinental Exchange Inc., an electronic futures exchange.
>
> The complaint quotes colourful instant-message exchanges between Hunter, Amaranth employees and traders at other companies.
>
> In one instant message in February 2006, Hunter wrote "shhhh" to a natural gas trader at another firm about Amaranth's plans to sell thousands of natural gas contracts.

Financial watchdog says U.S. at risk from non-ally bondholders

> America's leading public finance watchdog has sounded a warning that the US economy is vulnerable to hostile financial actions by nations that are not its "allies."
>
> David Walker, the US comptroller general, indicated that the huge holdings of American government debt by countries such as China, Saudi Arabia, and Libya could leave a powerful financial weapon in the hands of countries that may be hostile to US corporate and diplomatic interests.
>
> Mr Walker told The Times that foreign investors have more control over the US economy than Americans, leaving the country in a state that was "financially imprudent."

China shying from shaky US mortgage market

> While China is eager to invest a portion of its US$1.33 trillion foreign-exchange reserve overseas, it is unlikely to take a chance on buying additional US mortgage-backed securities (MBS) as they are now considered too risky, Chinese economists said.
>
> During a recent trip to Beijing, US Department of Housing and Urban Development (HUD) Secretary Alphonso Jackson tried to sell China on the idea of buying more MBS. Investing in MBS offers better returns for China than US Treasury bonds, and at the same level of risk, Jackson claimed.

Paulson to visit China, talk to Hu

> Treasury Secretary Henry Paulson will visit China's largest lake next week on a trip that will highlight global environmental challenges.
>
> Paulson will also hold talks in Beijing with President Hu Jintao that will focus on the Strategic Economic Dialogue, high-level discussions launched last year in an effort to deal with economic tensions between the U.S. and China.
> "This trip is part of an ongoing process to strengthen our strategic economic relationship - to address long-term issues such as working with China to rebalance its growth and increase the flexibility of its currency and also to address short-term issues as they arise," Paulson said Tuesday in announcing the trip.

Two weeks ago, the US government sent Alphonso Jackson (HUD Secretary) to Beijing to convince the Chinese to buy Ginnie Mae's US mortgage securities, backed 100% by the US. Jackson was very confident China would bite. But on Monday, we learned there was no deal. Evidently, not even a 100% US guarantee can boost China's trust in the US dollar anymore.

Yesterday, it turned out Treasury Secretary Paulson will travel to China next week. The official version is he will visit a lake (?!), but how believable is that? And why, in the first place, is a country known for its faith in free markets sending heavy government delegations halfway across the globe to bail out its banking and investing interests?

If the White House is really as desperate as this makes them look, what will happen if not even China will buy them out of the mortgage crisis? Who else is there?

Subprime mess spreads to junk bonds, LBOs

> Soaring defaults in the subprime mortgage market are spreading into the U.S. credit markets, producing a "sudden liquidity crisis" in the high-yield bond sector, according to widely followed bond manager Bill Gross.
>
> A lack of confidence has shut down the markets for lending and backed up new junk-bond offerings -- a major source of funding for leveraged buyouts and may become a factor ultimately impacting the U.S. economy, said Gross, manager of the world's largest

bond fund at Pacific Investment Management Co., or PIMCO.

Enough is Enough

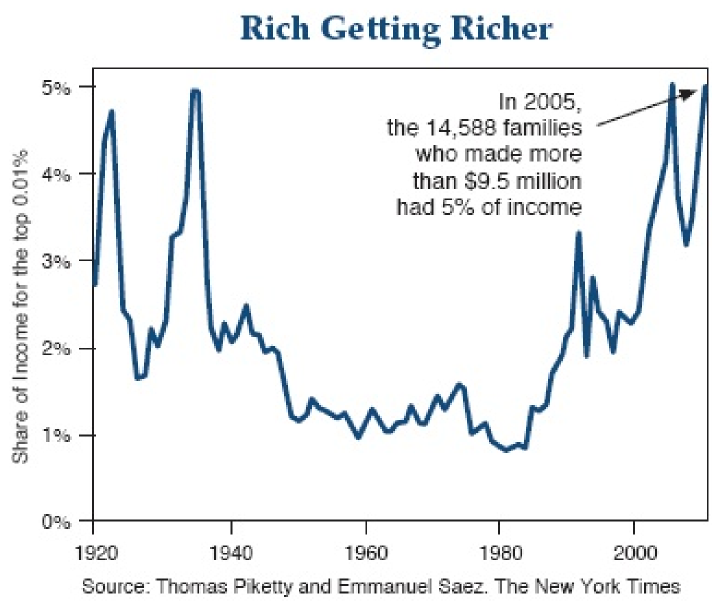


Chart 1

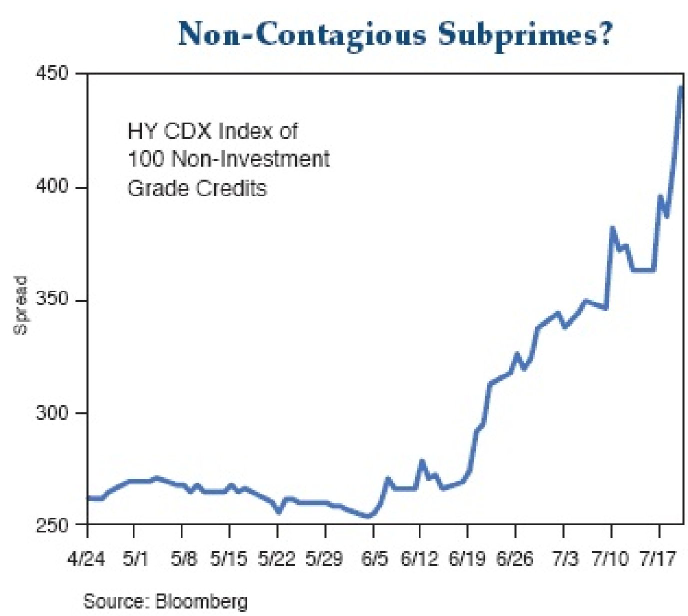


Chart 2

As Tim Bond of Barclays Capital put it so well a few weeks ago, "it is the excess leverage of the lenders not the borrowers which is the source of systemic problems." Low policy rates in many countries and narrow credit spreads have encouraged levered structures bought in the hundreds of millions by lenders, in an effort to maximize returns with what they thought were relatively riskless loans. Those were the ABS CDOs, CLOs, and levered CDO structures that the rating services assigned investment grade ratings to, which then were sold with enticing LIBOR + 100, 200, 300 or more types of yields. The bloom came off the rose and the worm started to turn, however, when institutional investors – many of them foreign – began to see the ratings downgrades in ABS subprime space. Could the same thing happen to levered structures with pure corporate credit backing?

> To be blunt, they seem to be thinking that if Moody's and Standard & Poor's have done such a lousy job of rating subprime structures, how can the market have confidence that they're not repeating the same structural, formulaic, mistake with CLOs and CDOs? That growing lack of confidence – more so than the defaults of two Bear Stearns hedge funds and the threat of more to come – has frozen future lending and backed up the market for high yield new issues such that it resembles a constipated owl: absolutely nothing is moving.

KKR, Homeowners Face Funding Drain as CDO Sales Slow

> The Wall Street money-machine known as collateralized debt obligations is grinding to a halt, imperiling $8.6 billion in annual underwriting fees and reducing credit for everyone from buyout king Henry Kravis to homeowners.
>
> Sales of the securities -- used to pool bonds, loans and their derivatives into new debt -- dwindled to $9.1 billion in the U.S. this month from $42 billion in all of June, analysts at New York-based JPMorgan Chase & Co. said in a report yesterday.

The Great Credit Contraction of 2007

> Much of this is derived from the mess in Housing: As many of the ARM/liar loans in the Sub-prime and Alt-A mortgage group increase their default rates, the residential mortgage backed securities (RMBS) that were packaged into CDOs have begun to unravel (See WTF is going on in the ABX Markets?). All told, the many variations of these were a prime source of cheap financing. This was what has been driving private equity buying frenzy and many share buybacks. That financing source is rapidly fading.
>
> How much is the credit drying up? According Merrill's Richard Bernstein:
>
>> Bloomberg Radio reported this morning that the monthly issuance of Collateralized Debt Obligations (CDOs), or packages of debt instruments bundled together to form a "portfolio" of debt, dropped from $42 billion to $3 billion in the latest month. That 93% drop represents a significant tightening of liquidity that is starting to ripple throughout the credit markets. The fixed-income markets appear to be starting to understand that the days of free-flowing liquidity are likely to be behind us. Most credit spreads are widening."

KKR plays hard ball and Wall St. winces

> Kohlberg Kravis Roberts & Co., the legendary leveraged buyout firm known for its tough deal tactics, is living up to its image, to the growing frustration of Wall Street.
>
> KKR, with four major buyout deals in the debt pipeline, is refusing to budge on lending terms agreed to with investment banks, even as debt investors show a weakening appetite.
>
> That tough stance amid shaky debt markets means banks will have to shoulder all the risk and perhaps take significant losses on the massive loans.
>
> With other private equity shops willing to renegotiate with banks, KKR's position is starting to fuel ill-will with Wall Street, sources close to the firm say.

KKR and TPG facing TXU investor battle

> KKR and TPG Capital, two of the largest US private equity groups, are facing a battle to secure shareholder approval for their $45bn buy-out of TXU after one of the Texas-based energy group's largest investors said it opposed the deal.
>
> Franklin Resources, a mutual fund company based near San Francisco, disclosed a 5 per cent stake in TXU in a regulatory filing and said the planned take-over at $69.25 per share was "significantly below TXU's current actual value".
>
> The move by Franklin comes ahead of a shareholder vote on the TXU deal scheduled for September 7.
>
> It adds a layer of uncertainty to the transaction – one of the largest private equity deals – on top of the need for TXU to secure $37bn in financing.
>
> TXU shares fell 0.9 per cent to $66.68 as investors bet that a collapse of the deal was more likely than an increased offer by TPG and KKR.

Debt problems may signal end of buy-out boom

> Financing for the Chrysler and Alliance Boots buy-outs – two of the biggest private equity deals in the global markets – ran into serious difficulties on Wednesday, intensifying fears about the possibility of a credit crunch.
>
> Banks failed in their attempts to sell loans financing the deals to investors – even after offering higher interest rates. That means the banks will have to hold the loans on their balance sheets, limiting their ability to underwrite new leveraged buy-outs.

Chrysler news rattles equity markets

> Global stock markets were rattled by fears that leveraged buy-out deals could dry up in the face of increasing investor aversion to risk.
>
> Equities were unsettled after banks dealing with Kohlberg Kravis Roberts' buy-out of Alliance Boots failed to sell £5bn of senior loans to fund the deal. Chrysler said it was suspending its $12bn auto loan deal and sweetening pricing terms on a further $6bn of loans.

[Chrysler Sale to Be Completed After Banks Take Loans]

> Chrysler's sale to Cerberus Capital Management LP will be completed after banks agreed to keep $10 billion of loans that investors refused to buy.
>
> The DaimlerChrysler AG unit scrapped the sale of loans after banks led by JPMorgan Chase & Co. failed to find demand, said investors who were briefed on the decision. In addition to the banks, Cerberus and DaimlerChrysler agreed to assume $2 billion of loans.
>
> Cerberus, which didn't have trouble finding lenders for its $7.4 billion purchase of a stake in General Motors Corp.'s finance unit last year, couldn't find buyers for the Chrysler loans even after twice raising interest rates. Auburn Hills, Michigan-based Chrysler joins almost 40 companies that reworked or abandoned deals in the past three weeks. Today, banks scrapped a sale of 5 billion pounds ($10 billion) of loans for Kohlberg Kravis Roberts & Co.'s buyout of Alliance Boots Plc.

[Wall Street Heads For the Diaper Aisle]

> CR has been drawing our attention to what happens when "bridge loans" become "pier loans." There's another kind of what is supposed to be temporary financing on the Street known as "warehouse" lending. Mortgage bankers use warehouse lines of credit to fund loans as they are originated, carrying them in the warehouse until they can be sold to a whole-loan investor or securitized. What happens if the bottom falls out of the whole-loan or security market and nothing moves out of the warehouse? Long walk. Short pier.
>
> CDO issuers also use warehouse funding to buy tranches of ABS and other securities to create the CDOs with. There are many different kinds of warehousing agreements, but I will note that one kind is known as a "gestational" facility. A better term might be "day care" facility, since the idea, like the bridge loan, is that somebody's going to show up at 5:30 and take the grubby little ankle-biters off your hands.

[Japan's banks in $8.3bn subprime exposure]

> Japan's large banks could have an aggregate exposure of Y1,000bn ($8.3bn) to the stricken US subprime mortgage market, highlighting the extent to which the problems

of low-quality mortgages in the US are affecting investors globally.

Japanese investors join risk exodus

Investors in Japan are joining the worldwide flight from riskier assets to safe-haven government bonds, prompted by turmoil in foreign credit markets.

On Wednesday the price of Japanese government bond futures rose to a seven-week high, the Nikkei share index fell to a six-week low, and prices of credit default swaps – which insure investors against the risk of corporate bond defaults – climbed to their highest this year.

Akihiko Yokoyama, sovereign fixed-income strategist at JP Morgan, said there was a "significant flight to quality" in bond markets, driven by US markets. The yield on US Treasury bonds fell to a seven-week low during Asian trading as investors crowded into risk-free assets.

Subprime Mess Fueled by Crack Cocaine Accounting

If you had to list the culprits for the subprime-mortgage mess, the Financial Accounting Standards Board would be a good place to start. Under its rules, lenders that sell blocks of loans to certain types of off-balance-sheet trusts are allowed to take the loans off their books and record immediate profits. Often, the gains are permitted even if the lenders still bear risks of losses on the loans, and even if they still hold influence over the trusts' activities.

That's not how it was supposed to work. In principle, under the Byzantine standard known as FASB Statement No. 140, lenders are supposed to surrender control of the loans before recognizing gains, and the lenders' interests in the trusts are supposed to be passive. In practice, however, the rules are so full of exceptions that the broad principles have little meaning.

Medical Disability Beats Subprime Lending As Cause for Mortgage Foreclosure

While news that nearly 20% of subprime borrowers are behind on their mortgage payments, the real threat to working class security is disability due to illness or injury.

A Project HOPE study, which examined reasons for personal bankruptcy, revealed that nearly 50% of respondents filed bankruptcy because of bills related to a major medical event. A full 21% of filers reported losing at least two weeks of work-related income due to illness or injury.

Blackstone Begins Basis Bailout

Basis Capital Fund Management has hired Blackstone Group to help it recover from getting battered investing in subprime mortgage.

Basis Capital last week reported its flagship fell 9% while its other hedge fund fell 14%, making Australia-based Basis Capital the latest international victim of the U.S. subprime mortgage meltdown along with Caliber Global Investment and Queen’s Walk Investment—both of which are based in the United Kingdom.

Blackstone Group will advise Basis Capital “to prevent adverse pricing and selling,” Basis Capital said in a statement. The Sydney-headquartered hedge fund company had $1 billion under management in May.

Blackstone Group, the publicly-traded private equity behemoth, is also a restructuring adviser. In June, Bear Stearns hired Blackstone Group to help bail it out of its hedge fund imbroglio after the Wall Street titan was decimated in the subprime mortgage meltdown.

Bear hedge fund losses to hit index next month

Big losses disclosed last week by hedge funds run by Bear Stearns are now working their way through industry indexes, but in different ways and at different speeds.

Bear told clients on July 17 that two hedge funds it runs are almost worthless. The High-Grade Structured Credit Strategies Enhanced Leveraged Fund is worth nothing, while the larger, less leveraged High-Grade Structured Credit Strategies Fund is down 91% so far this year through June, the bank explained.

That update didn't come in time for the Credit Suisse/Tremont Hedge Fund Index, which tracks more than 400 hedge funds.

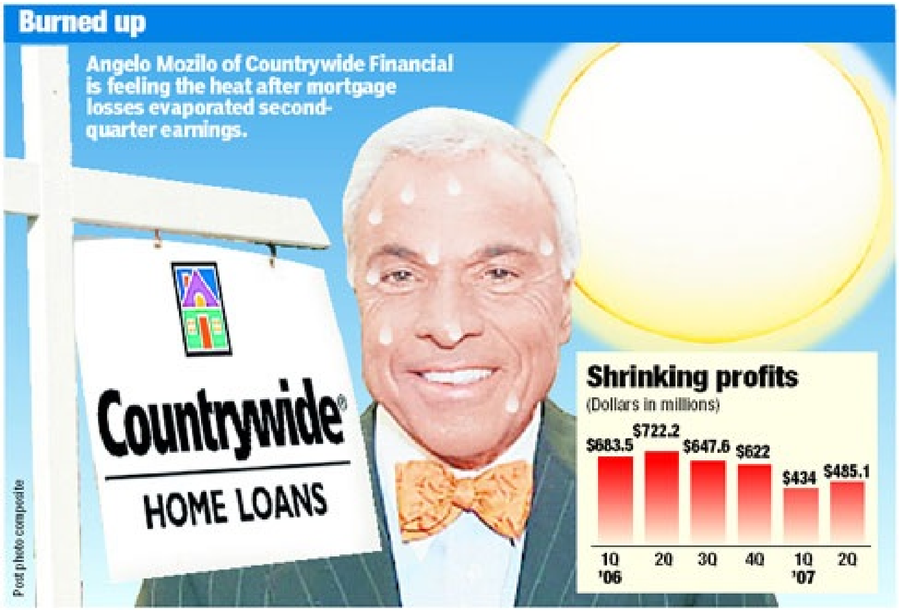
Italy to rescue bank from derivatives blowup

Board members of the Italian bank Italease were in emergency session last night amid reports that the central bank may step in following huge losses on the derivatives markets.

Italease shares fell 10.5 percent on the Milan bourse after the financial daily Il Sole reported that the Bank of Italy intended to install its own interim management after conducting a review of Italease's disastrous bets on leveraged credit futures. The company, which was worth E2 billion (£1.34 billion) in April, has since lost three-quarters of its value.

The bank has sent out margin calls to 2,200 clients in an attempt to claw back E610 million paid to counterparties to stave off disaster after losses suddenly began to spiral out of control.

[Countrywide collapses as chief cashes in]



> Mozilo began cashing out his huge pot of options when cracks in the housing bubble first appeared in December among slow-paying homebuyers, a dangerous red flag. These weak, subprime loans eventually would undermine a $1 trillion pool of risky and sometimes fraudulently engineered mortgages and derivatives. Countrywide hasn't been accused of any wrongdoing, and Mozilo's insider stock sales were disclosed in regulatory filings.
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> Filings showed that he typically netted about $4 million a week on his options sales since December. In the two weeks ahead of yesterday's earnings news, Mozilo had cashed in 442,000 options for a profit of $11.09 million, including a $1.7 million gain on 70,000 options he redeemed on the eve of the earnings release.

[Goldman Sachs guru warns of war-debt failure]

> Recently Robert Hormats, vice chairman of Goldman Sachs (International), appeared before the U.S. House Budget Committee to "discuss an issue of great economic, financial and national security importance to our country -- the growing dependence of the United States on foreign capital." Currently we import $1 trillion new debt annually, with no repayment plans. That's a historic break from over two centuries of American policy.
>
> Hormats was in Washington with warnings from his brilliant new book, "The Price of Liberty: Paying for America's Wars." He traces the history of American wartime financing from the Revolution through the War of 1812, the Civil War, the two World Wars and the Cold War to the present.
> Conclusion: "One central, constant theme emerges: sound national finances have proved to be indispensable to the country's military strength" and long-term national security.

Africa - investing's final frontier?

> It might not be the first place that jumps to mind but one Wall Street strategist says Africa, an often overlooked continent packed with potential and pitfalls, could prove to be the “final frontier” of the world's emerging markets.
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> According to Merrill Lynch chief investment strategist Richard Bernstein, Africa presents investors with both “tremendous potential” and “tremendous risk.” In the next decade, he believes it should above all provide them with opportunity.
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> “Traditionally Africa has not been a place where more risk-oriented emerging market investors would invest, but that is changing,” Mr. Bernstein said in a report. “Investors in search of higher returns have increased their risk tolerances and have begun to search for greater returns from so-called frontier markets.”

Using dogs to adapt to global warming

> The snow now comes later in the fall. The trails are more treacherous and the hunters often risk their lives when they drive over flimsier ice floes.
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> As the country's northernmost communities face the impact of global warming, a researcher is suggesting that the Quebec Inuit should try switching back from snowmobiles to dogsleds.
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> Sled-pulling dogs are more adept at spotting where the ice is more dangerous, said Martin Tremblay, a geographer and environmental researcher based in Kuujjuaq, near Ungava Bay, 1,500 kilometres north of Montreal. "Dogs will sense more thinner, more unstable ice," he said. "If the sled falls through, the dogs will pull the sled out of water."
>
> The idea is part of a report on the impact of warmer weather on Quebec's Inuit that a team of researchers will present to northern communities this fall.

Heatwave Claims 500 Lives In Hungary, 16 In Greece

> Hungary said Tuesday as many as 500 people may have died last week in a heatwave which was continuing to stifle much of southern and eastern Europe and spark deadly brush fires. Searing temperatures across the region have claimed scores of lives, including in southern Italy where a wildfire Tuesday burned two people alive in their car and suffocated another pair on a beach nearby.

Floods ‘yet to peak’ as more rain is forecast

> Up to 350,000 people were warned last night they face being without fresh water for up

to two weeks after the worst floods in recent UK history showed no sign of abating.

Severn Trent Water said it had set up 400 bowsers, or mini water tankers, in locations in Cheltenham, Gloucester and Tewkesbury and was handing out a million bottles of water to residents.

Emergency supplies were being put in place as the Environment Agency said water levels across central and western England were not expected to peak for another 24 to 36 hours. Experts warned the worst was yet to come in some areas. At their height, some rivers will be more than 20ft higher than normal.

The areas hit hardest were Worcestershire, Warwickshire, Herefordshire, Gloucestershire, Lincolnshire, Oxfordshire and Berkshire.

The biggest peacetime rescue operation since the Second World War, which involved thousands of people being evacuated as their homes filled with water, was being run from Scotland by the RAF Rescue and Co-ordination Centre at Kinloss in Moray.

The unprecedented rainfall on Friday - the equivalent of a month's rain in an hour - left many thousands of people without clean water or electricity.

[China grapples with epic flooding]

Heavy rains have inundated central China, causing the worst flooding in half a century. More than 100 million people have been affected, and some of them have witnessed rainfall of mind-boggling ferocity, according to the International Federation of Red Cross and Red Crescent Societies.

Nearly as mind-boggling have been the size and scope of the evacuation.

Using the resources of a Communist Party system that still reaches into every crack and crevice of society, China has moved more than a million people from the paths of the floodwaters.

[Water tables falling and rivers running dry]

As the world's demand for water has tripled over the last half-century and as the demand for hydroelectric power has grown even faster, dams and diversions of river water have drained many rivers dry. As water tables fall, the springs that feed rivers go dry, reducing river flows.

Scores of countries are overpumping aquifers as they struggle to satisfy their growing water needs, including each of the big three grain producers—China, India, and the United States. More than half the world's people live in countries where water tables are falling.

There are two types of aquifers: replenishable and nonreplenishable (or fossil) aquifers. Most of the aquifers in India and the shallow aquifer under the North China Plain are replenishable. When these are depleted, the maximum rate of pumping is automatically reduced to the rate of recharge.

For fossil aquifers, such as the vast U.S. Ogallala aquifer, the deep aquifer under the North China Plain, or the Saudi aquifer, depletion brings pumping to an end. Farmers who lose their irrigation water have the option of returning to lower-yield dryland farming if rainfall permits. In more arid regions, however, such as in the southwestern United States or the Middle East, the loss of irrigation water means the end of agriculture.

[China cancels environmental report]

From a public relations standpoint, it didn't look good. In the space of less than a month, China had quashed two potentially embarrassing environmental reports that would have said what most people already know: This is a country facing a costly and increasingly deadly environmental crisis.

First, in early July, reports surfaced that China had successfully lobbied the World Bank to retract portions of an environmental assessment that calculated how many people were likely to die prematurely as a result of air pollution.

Then, late last week, the government announced that it was canceling plans to publish a "green GDP" report that would have calculated the cost of pollution to China's rapidly growing economy, as measured by its gross domestic product.

The decisions, on their face, appeared to suggest reluctance at the top of China's government to acknowledge the seriousness of environmental degradation that has caused the worst air pollution in the world, and water pollution that has left millions of people without local sources of potable water.

[Green consumerism will not save the biosphere]

There is an inherent conflict between the aspirational lifestyle journalism which makes readers feel better about themselves and sells country kitchens and the central demand of environmentalism: that we should consume less. "None of these changes represents a sacrifice", Sheherazade tells us. "Being more conscientious isn't about giving up things." But it is: if, like her, you own more than one home when others have none.

Uncomfortable as this is for both the media and its advertisers, giving things up is an essential component of going green. A section on ethical shopping in Goldsmith's book advises us to buy organic, buy seasonal, buy local, buy sustainable, buy recycled. But it says nothing about buying less.

[Peak Oil and Dentistry - the Final Taboo]

I remember Sir Bernard Ingham, Margaret Thatcher's ghastly press secretary, saying something like "I have one word for those environmentalists who would drag us back to the 18th century. Dentistry". Modern dentistry is very oil dependent, and painless dental work is something we have come to take for granted. In the surgery of the dentist I went to in Ireland he had, as a conversation piece, a dentist's chair from the 1920s and some old implements. I think it was to impress upon the visitor how lucky they were to be in his comfy padded seat with all his amazing implements.

Ben Brangwyn, co-founder of the Transition Network doesn't have great teeth, and is fascinated by peak oil, and so therefore has many opportunities to lie with his mouth open pondering the oil dependency of dentistry. Having scoured the internet and found that indeed, dentistry is the final peak oil taboo, with pretty much nothing in print out there, he decided to do some investigating.

DNA discrimination at work

It might sound far fetched but in some parts of the world people have been refused jobs on the basis of genetic tests which have shown they could develop certain diseases in the future.

In 2004 a woman in Germany was refused a teaching job on the basis of a medical examination that found she had a family history of the degenerative Huntington’s Disease. She successfully contested the decision in the Administrative Court.

In the US a railway company was found to have secretly tested employees for carpal tunnel syndrome. The tests were ruled unlawful and unnecessary by the US Federal Court under the Disability Act.

In Hong Kong three men were awarded damages in the District Court after being refused employment with the government because of a family history of schizophrenia.

The victims in these cases may have never developed these diseases, yet the likelihood they might made employers fear they’d one day become liabilities.