

THE FIRST SIGNS OF DEBT LIQUIDATION ARE HERE

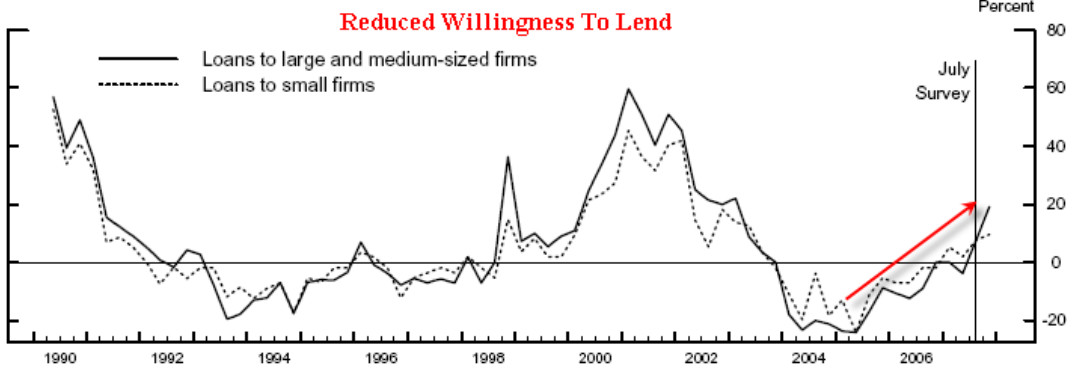
WEB BUZZ 2007.11.13

Over the past four or five years, we have spent quite a bit of time trying to explain why we believe the final result of Federal Reserve action along with Wall Street debt innovations would lead to deflation. The concern has been, and continues to be, that runaway inflation is the probable outcome. Certainly the strong movement upward of oil and other commodities might lead one to that conclusion; on the other hand, we believe much of this movement, though not all, has to do with a speculative play on hard assets due to prior Fed loose monetary policy coming out of the 2001 recession.

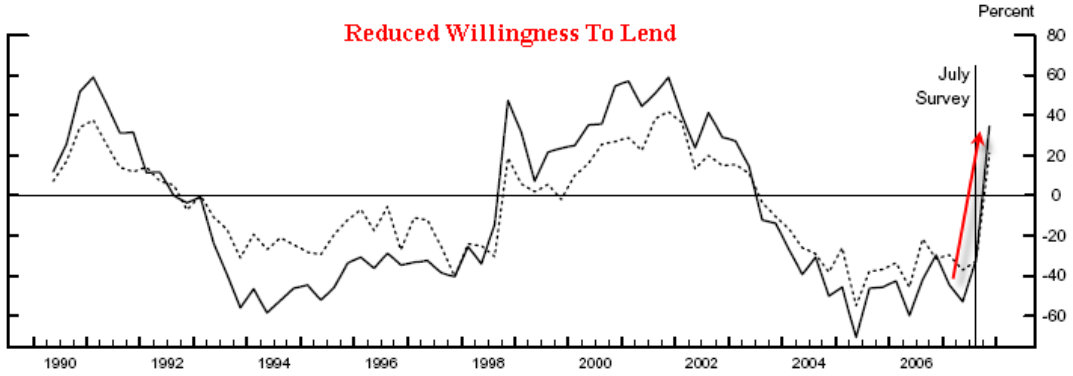
Our major point has always been that the Fed can lead you to water, but can't make you drink. Not only that, but the keeper of the water will, in periods of stress, put up a fence to keep you out. Then as things deteriorate further, you won't want the darn stuff anyway. When this comes to pass—and it will—*debt liquidation becomes the order of the day and deflation sets in*. Inflation just cannot happen unless money is given directly to market participants freely without going through a gatekeeper who might have something to lose if he loans his money.

All of this comes into focus when you analyze the following charts. Such action on the part of lenders and borrowers stops inflation dead in its tracks.

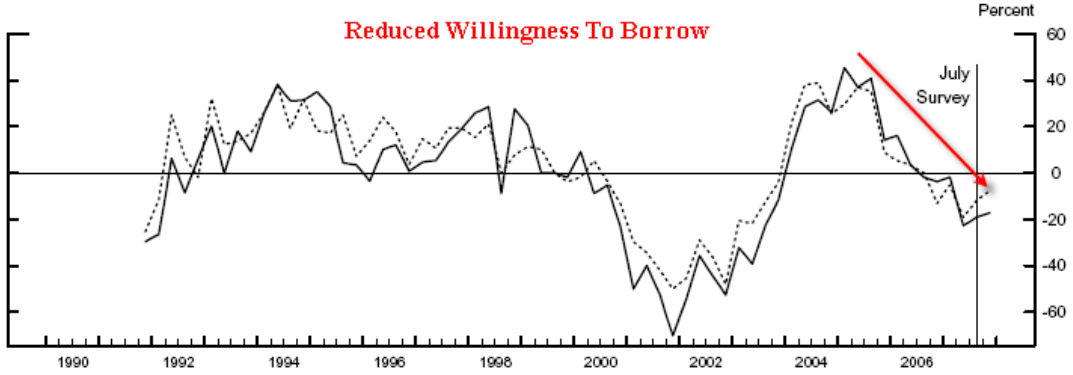
Net Percentage of Domestic Respondents Tightening Standards for C&I Loans



Net Percentage of Domestic Respondents Increasing Spreads of Loan Rates over Banks' Costs of Funds



Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans



Taken from Mish's Global Economic Trend Analysis