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New jobless claims unexpectedly rise.

The number of newly laid off [workers filing claims](#) for unemployment benefits unexpectedly rose last week as the recovery of the nation's battered labor market proceeds in fits and starts.

The Labor Department said Thursday that the number of new jobless claims rose to 480,000 last week, up 7,000 from the previous week. That was a worse performance than the decline to 465,000 that economists had expected.

Another \$290 billion added to the debt ceiling will only last six weeks.

The House on Wednesday passed legislation giving the federal government the ability to borrow a [whopping \\$290 billion](#) to finance its operations for just six additional weeks. The 218-214 vote sends the must-pass bill to the Senate, which is expected to approve it as its last act before adjourning for the year. The alternative would be a market-rattling, first-ever default on U.S. obligations. The measure is needed as a result of the *out-of-control* budget deficit, which registered \$1.4 trillion for the budget year that ended in September. The current debt ceiling is \$12.1 trillion and is set to be reached by Dec. 31. *The debt ceiling may have already been reached, but no one is saying. Can't we just say, "No mas?"*

A Debtor's Dilemma.

Should I stay or should I go? That is the [question](#) more Americans are asking as the housing market continues to drag. In good times, it would have been unthinkable to stop paying the mortgage. Today, it is an option that many are considering.

Good-bye Santa Rally?



-- [Job losses](#) have been unusually steep in this latest recession with some 7.3 million jobs lost since December 2007, according to NABE. There is little evidence suggesting that employees will start hiring on a mass scale anytime soon.

The severity and the speed of the downturn have made businesses exceedingly cautious about the recovery. This is contributing to a substantial disconnect between

their more cautious forecasts, and more confident recovery talk from government officials as well as many in the investment community. *The market may not be in a Christmas spirit.*

Treasury bonds may rally for a while.



-- [Treasuries](#) headed for a weekly gain, trimming this year's loss... on concern the global economic recovery will slow.

Benchmark 10-year yields were little changed today, near the lowest level in a week, after Federal Reserve officials said on Dec. 16 that the U.S. economy isn't improving enough for them to raise interest rates from a record low. The U.S. is still in a recession and home prices may resume declines, Harvard University

economics professor [Martin Feldstein](#) said.

Gold bounces at its trendline.



-- [Gold gained](#) in London, paring a third weekly decline, as a halt in the dollar's rally prompted investors to buy bullion after the metal's biggest drop in almost two weeks.

Gold has dropped 9.8 percent since climbing to a record \$1,226.40 an ounce on Dec. 3. A break of the trendline (1100.00) could mean a further decline in the near-term. Caution is warranted.

The Japanese market isn't out of the woods yet.



-- Japanese **stocks** fell, led by banks and electronics manufacturers after international regulators said banks must boost their capital by 2012 and U.S. initial jobless claims unexpectedly climbed. The Nikkei 225 Stock Average slid 0.2 percent to 10,142.05 at the close in Tokyo after falling as much as 1.3 percent. The Nikkei 225 rose 0.3 percent this week. Investors are uncertain about the economy remains and people are withdrawing money from risk assets.

The Shanghai index slumps.



-- **Chinese stocks** fell for a fourth day, the longest losing streak since August, on concern the government will step up measures to curb property speculation and new share sales will divert funds from existing equities.

The **Shanghai Composite Index** fell 65.19, or 2.1 percent, to 3,113.89 at the close, the lowest since Nov. 27. It dropped 4.1 percent this week, a second weekly loss.

The dollar makes a strong advance.



The dollar was poised for the biggest weekly gain versus the euro since January after breaching \$1.43 for the first time in three months, forcing traders to abandoned bearish bets on the greenback.

Deterioration in the labor market is "abating," and household spending is increasing, the Fed said in its statement on Dec. 16. Policy makers held the target rate for overnight lending between banks at zero to 0.25 percent.

"There's a growing consensus that the dollar will do well as we go into the New Year," said **Ronald Leven**, a New York-based currency strategist at Morgan Stanley. "We're seeing ongoing interest to build up long-dollar positions." A long is a bet a currency will advance.

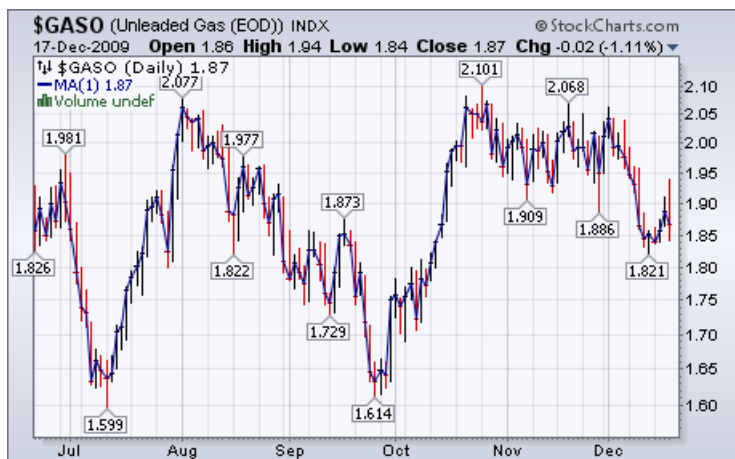
A word on Strategic Defaults.



-- **Morgan Stanley**, the securities firm that spent more than \$8 billion on commercial property in 2007, plans to relinquish five San Francisco office buildings to its lender two years after purchasing them from Blackstone Group LP near the top of the market. The bank has been negotiating an “orderly transfer” of the towers since earlier this year, **Alyson Barnes**, a Morgan Stanley spokeswoman said. “This isn’t a

default or foreclosure situation,” Barnes said. “We are goin

Gasoline prices almost \$1.00 higher than a year ago.



The Energy Information Agency weekly report suggests, “Dropping three and one half cents to \$2.60 per gallon, the U.S. average price for regular gasoline was \$0.94 higher than the price a year ago. Prices declined in all regions of the country. The price on the East Coast decreased almost three cents to \$2.62 per gallon. The largest decrease in price occurred in the Midwest where the average fell to \$2.52 per gallon, a drop of a nickel.”

NatGas prices are spiking again.



The Energy Information Agency’s **Natural Gas Weekly Update** reports, “With cold temperatures gripping much of the country for the first half of December, the heating season is well underway with large storage withdrawals and higher prices during peak demand periods. Following an increase of \$0.30 per MMBtu during the report week, the price at the Henry Hub is trading near its highest level of 2009. The average Henry Hub price on Wednesday, December 16, was \$5.57 per MMBtu, the

highest price at this market location since January 13, 2009.”

A European house of cards ready to collapse?

As one so vividly remembers, probably the key catalyst that set off the chain of events last fall following the collapse of Lehman were the closed loop (and much delayed) downgrades of AIG, which in a span of hours went from AAA to much lower, thus springing various collateral requirements which the company could not satisfy, and in turn forcing even more downgrades, until ultimately it became clear that the firm (like most others on Wall Street) is merely a lot of hot air and unjustified valuations. Ironically, the rating agencies, and more specifically Moody's, could once again be the catalyst for the much anticipated collapse of the European house of cards, which as all now know, has [Greece](#) as its weakest link.

On December 18, 1930...

Market wrap: Stock liquidation broadens, with bad breaks throughout the list. "Brave attempt" at early rally wiped out by fresh flood of liquidation in late morning. Bond market generally weak; US govts. firm and highest grade corp. issues steadier. Commodities mixed; Farm Board hard pressed to maintain wheat support. **No news seen** to account for the decline, which was "generally attributed to the desire of additional holders to get out of the market entirely at least for the time being."

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Regards,

Anthony M. Cherniawski, Manager

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