STOCK WORLD WEEKLY
THE EXECUTIVE'S SUMMARY | OF THE GLOBAL MARKETS

Dow Jones	12,004	(+0.4%)
S&P 500	1,272	(+0.1%)
NASDAQ	2,616	(-1.1%)
NYSE	8,000	(-0.2%)
Russell 2000	782	(+0.3%)
Oil	93.03	(-6.0%)
Gold	1,540	(+0.5%)

THIS WEEK'S NEWSLETTER:

MONDAY MARKET MANIA - FUKUSHIMA AND DOLLAR STILL MELTING DOWN
Juncker lashes out at Dollar, calls US debt levels "disastrous"

TESTY TUESDAY - DOW 12,000 OR DOW 11,500?
Phil shares 12 trade ideas with the public

WEDNESDAY'S WORRY: GREECE NOT FIXED!
Eurozone finance ministers fail to come to agreement, Dollar soars

THURSDAY THUMP - YUCKY EURO AND THE OIL SLICK
Income portfolio performing better than expected

FRIDAY FANTASTIC FUTURES FUELED FINISH!
Greenspan speaks, we use resulting move to set ourselves up for some nice gains

THE WEEK AHEAD

After a thrilling roller-coaster ride of ups and downs, the stock market ended the week about where it began it. The Dollar was stronger; opening at 74.9 on Monday and trading at 75.4 at Friday's close. The price of oil dropped from $98.93 on Monday all the way to $93.03 on Friday (down almost 10% since we said it was a great short above $103). We had started this week out bearish on stocks, bearish on oil, and bullish on the Dollar. As we wrote last week:

"It's hard to keep the dollar down at this point. UK Manufacturing fell the most in 30 months in April, dropping 1.5% in a single month... Saudi Arabia says they will bump up supply by 1.5M barrels a day to 10 million barrels per day, another reason we will be selling into any BS oil rally, and loving our long-term short positions. If people sour on oil and other commodities, then they are forced to sell those shiny bits of metal and barrels of black goo in exchange for US DOLLARS. That then creates a DEMAND for US DOLLARS, which makes the Dollar's value go up." (SWW, June 11, 2011)

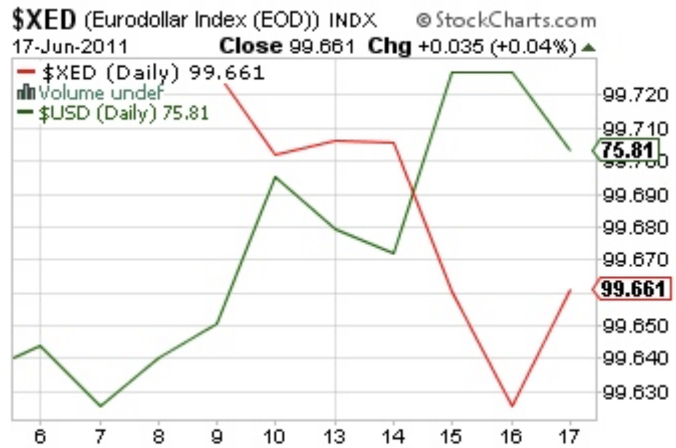
On Monday, June 13, Phil suggested making *"a realistic short bet on oil... The USO June $40/39 bear put spread is $0.66 and 100% in the money with USO at $38.86. If USO fails to go up $0.14 by the week's end, this spread will make 50%. Selling the SCO (ProShares UltraShort Crude Oil) July $38 puts for $0.55, makes this combination a net $0.11 spread. SCO will get put to you if it falls to $38, where it hasn't been since the beginning of May when oil was over $110."* This was a great trade - USO ended the week at $36.63. The bear put spread was up from $0.66 to $1.00 at expiration, and SCO ended the week at $51.08, with the sold puts being offered for buy back at $0.30. That's a profit of $0.34 on the bear put spread and $0.25 on the put - a $0.59 profit for a net outlay of $0.11 (a 436% profit)!

The Greek debt crisis dominated the news this week. On Monday, Standard & Poor's downgraded Greece, cutting its long-term sovereign credit rating by three notches to CCC, four steps away from default. Following the downgrade, Greece became S&P's lowest-rated country in the world. The cost of insuring Greek debt is now almost twice the price of insuring Pakistani bonds. S&P also announced that it might downgrade the ratings of four Greek banks. (Greece falls to S&P's lowest rated, default warned)

It appears to be in Greece's interest to simply default. As Phil remarked, *"What is the point of NOT defaulting if S&P is going to rate you that low anyway? It's like if the US ratings agencies zapped your credit score and declared you bankrupt... Would there be any reason at all to pay off your debts?"*

The Greek population seems to agree. The people are unhappy about the prospect of selling off the country's assets to satisfy the demands of the banking interests. Tim Shufelt writes, "Ultimately, the fate of Greece hinges on one crucial question: Should those holding Greek debt be made to share the pain? "Dissension on whether the private sector should participate in the bloodletting has pitted the core of the European Union against the periphery, the region's most powerful bankers against those bankrolling the bailouts, and the people of Greece against their own government." (Bondholders need to step up in Greece: Dodge)

Fears that Greece is not alone in its predicament are working against the Euro. Michael Hudson writes, *"The asset stripping that Europe's bankers are demanding of Greece looks like a dress rehearsal to prevent the 'I won't pay' movement from spreading to 'Indignant Citizens' movements against financial austerity in Spain, Portugal and Italy. Bankers are trying to block governments from writing down debts, stretching out loans and reducing interest rates."* (Rolling Back the Progressive Era) David Dodge, a former top central banker in Canada, has also advocated *"a solution involving bondholders taking a hit, a position that Europe's captains of finance have strenuously resisted."* (Dodge)



Assisting the Euro in its race to the bottom, Moody's Investor Service placed three top banks in France, BNP Paribas, Societe Generale and Credit Agricole (CASA), on downgrade review on Wednesday. *"Today's actions reflect Moody's concerns about these banks' exposures to the Greek economy, either through direct holdings of government bonds or credit extended to the Greek private sector directly or through subsidiaries operating in Greece."* (Moody's puts French banks on review for downgrade over Greece)

Euroland's woes helped breathe life into the Dollar. (Euro vs. Dollar chart above) Strength in the Dollar coincided with a sharp drop in the stock market. Later in the week, the Dollar pulled back and the markets staged a mild recovery. We were finally stopped out our long Dollar play on Thursday at about break-even. (SWW, May 29, 2011)

According to Neil Mackinnon, economist at VTB Capital in London, the probability of a "eurozone Lehman moment is increasing... The markets have moved from simply pricing in a high probability of a Greek debt default to looking at a scenario of it becoming disorderly and of contagion spreading to other economies like Portugal, like Ireland, and maybe Spain, Italy and Belgium." (Dodge)

Speaking of Ireland, the International Swap and Derivatives Association (ISDA) ruled that Allied Irish Banks (AIB) was "effectively in default on its debts." On June 9, AIB launched an offer to buy €2.6bn of its own bonds at prices as low as 10 cents on the euro. "The ISDA ruled that the offer should be considered a "credit event", industry language for default." While the ruling does not mean that AIB is facing bankruptcy, since it only affects the financial derivatives market, banks that sold insurance to AIB's subordinated bondholders now have to pay on an estimated $507 million worth of insured bonds. (Allied Irish Banks 'default' triggers cash payouts)

Late Friday, the continuing Greek saga took another turn with the appointment of a new finance minister in Athens, and an agreement by German Chancellor Merkel and French President Sarkozy on a second bailout package. The leaders agreed that private investors would take part in restructuring deals, however this would be on a voluntary basis only. (Germany, France strike deal on Greek bailout) Merkel backed down from her previous insistence that private holders of Greek debt be forced to participate in a second bailout effort by extending the maturities on their bonds. A prevailing opinion among the German public is that private investors should not be given a free pass while taxpayers are on the hook for billions of Euros to bail out Athens. This move is likely to be politically unpopular for Merkel. However, the consequences of Greek defaulting, and the potential for fiscal contagion spreading throughout the Eurozone, may be even worse.

Friday's agreement between Germany and France on the Greek bailout provides some hope that intense social, financial and political pressures will subside. Considering recent history, we're skeptical and awaiting the next chapter in the "Greece is sinking / Greece is saved" book.

Phil had recently discussed a trade idea based on shorting Priceline (PCLN) following news that the International Air Transport Association (IATA) slashed its profit outlook for airlines in half for 2011, blaming multiple factors including unrest in the Middle East and oil price volatility. See the inset box below.

Inside Member's Chat

On June 6, Phil devised a short position in PCLN: *"PCLN is ignoring the bad news and we love that! These tools are willing to pay you $10.50 to sell them 5 June $510 calls ($5,250) and you can cover by buying 3 Oct $550 calls at $25.40 ($7,620) for net $2,370 on the spread."*

PCLN June $510 calls expired worthless on Friday, and the October $550 calls were at $10.50 at the close of trading, for a net gain of 33% - a profit of $780 from the $2,370 spent on the original spread.

Monday Market Mania - Fukushima and Dollar Still Melting Down

The indexes were mixed on Monday, with the Dow and the S&P closing slightly up, and the Nasdaq closing slightly down. The price of oil was sharply down, closing at $96.99. The Dollar fell from 75.2 to 74.8, a 0.5% move that didn't correspond to a market rally, as it is apt to do. Both the Dollar and oil dropping at the same time is unusual.

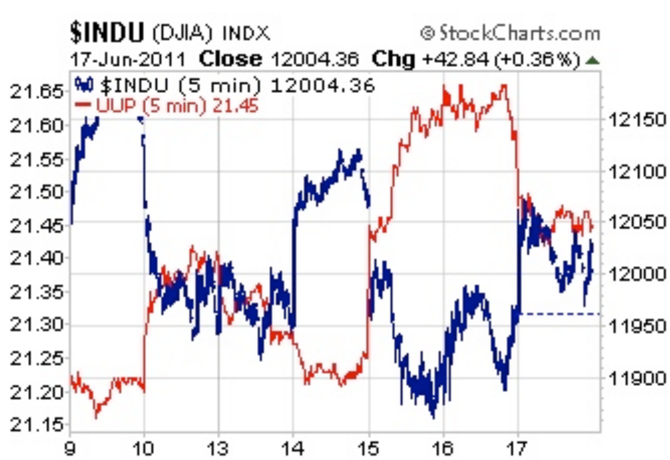
On Saturday June 11, Luxembourg Prime Minister and President of the Eurogroup, Jean-Claude Juncker, said in a radio interview that he believes Greece needs a "soft, voluntary restructuring" of its debt. Talking up the Euro, and reminding people that for all the Euro's problems, the Dollar and the U.S. have some big problems too, Juncker lashed out at the U.S. calling its debt level "disastrous." That managed to knock the Dollar down from Friday's 75.30 level back to 75 in early EU trading.

Phil wrote in Member's Chat *"The only way to weaken the Dollar is to strengthen the Euro and keep the Yen strong."* While it may seem the Dollar should be stronger in view of the problems in Euroland, the Dollar seems to hit a brick wall when it approaches 76. Perhaps it will take more than a Greek tragedy to propel it through that wall.

> *"The weak Dollar was the only reason we had the pretense of a global recovery. It made it look like there was a demand for commodities (there was not), it made it look like there was a demand for American goods (there was not) and it made it look like we were paying our debts, which we were - but with ever discounted Dollars that were being created by the Federal reserve at a rate of over $50Bn per month."* - Phil

The inverse correlation between the Dollar and the Dow continues, imperfectly. As we have been saying, its all about the dollar. (Dow vs Dollar chart below.)

The VIX (Volatility Index) had been rather low considering the turmoil afflicting the Eurozone. Anticipating the VIX going up in the wake of increasing social and financial concerns, early Monday afternoon, Phil posted a bullish trade idea based on the VIX: the July $24/25 bull call spread. On Thursday, the VIX July $24/25 bull call spread was up 150%. (See the chart below.)



Testy Tuesday - Dow 12,000 or Dow 11,500?

The markets rallied on Tuesday as the Dollar fell to the week's low of 74.3 midday. A better-than-expected retail and food services report showed sales up by 8.0% Yr/Yr, although Tuesday's Producer Price Index showed prices up 7.0% Yr/Yr. The core index (which excludes food and energy costs) showed an increase of only 2.1% Yr/Yr.

> *"We flipped bullish Monday as we had a minor selloff. We caught it right and were not greedy. Next, we'll see what kind of bounce they can put together but, if it's not a REALLY big one, we're going to lose interest and get back to mainly cash, teeing up for a possible collapse in July."* - Phil

Phil wrote, *"We shed most of our bearish bets on Monday's dip and flipped fairly bullish, but we haven't done much bottom fishing yet as our main plan is to use a fake market rally to cash out the longs we have left and flip short into the [July 4] holiday weekend."* Because the Dow has been holding up much better than other indexes, Phil put together a number of hedged trades based on the Dow. *"We have that lovely 12,000 line to use as a stop so lets construct a short hedge that pays big bucks below 12,000... We can make a downside bet on the Dow that simply stops out over the 12,000 line with the DIA July $119/116 bear put spread (you buy the $119 puts and sell the $116 puts) at $0.95. That spread, by itself, pays $3 (up 215%) if the Dow is below 11,600 on July 15. We can enhance the returns by picking a Dow component we REALLY want to own and SELLING puts to offset the cost of the spread."*

Phil then provided 12 trade ideas based on selling puts - i.e., these are bullish trades. They are positioned to gain in a rally and hedged by the DIA July $119/116 bear put spread. (See inset box to the right.)

Tuesday Morning bullish trade ideas - potential positions hedged by the DIA bear put spread. <u>These are based on SELLING puts, and remain actionable trades:</u>

AA July $15 puts at $0.63 - collect $630 (assuming 10 sold), net margin $2,500. (May vary by broker.) Now at $0.76.

BAC 2013 $7.50 puts at $0.60 - collect $600, net margin $750. Now at $0.69.

CSCO Jan $14 puts at $0.92 - collect $920, net margin $1,900. Now at $0.97.

DIS July $37 puts at $0.55 - collect $550, net margin $6,200. Now at $0.59.

GE 2013 $15 puts at $1.40 - collect $1,400, net margin $1,400. Now at $1.42.

HD Aug $32 puts at $0.82 - collect $820, net margin $5,150. Now at $0.63.

HPQ Jan $31 puts at $1.60 - collect $1,600, net margin $3,100. Now at $1.66.

INTC Jan 2013 $20 puts at $2.71 - collect $2,710, net margin $2,700. Now at $2.90.

MMM July $87.50 puts at $0.71 - collect $710, net margin $14,150. Now at $0.70.

MSFT 2013 $22.50 puts at $2.75 - collect $2,750, net margin $3,100. Now at 2.67.

VZ 2013 $35 puts at $5.10 - collect $5,100, net margin $6,318. Now at $5.15.

WMT Jan $50 puts at $2.05 - collect $2,050, net margin $7,750. Now at $2.00.

Wednesday's Worry: Greece NOT Fixed!

A bad day for U.S. economic data and the EU translated into a bad day for stocks. "For the first time since November, monthly business conditions in the New York manufacturing region contracted in what is an ominous, though nevertheless still isolated, indication for the national economy. The Empire State index fell nearly 20 points in the June reading to minus 7.79 in what the report describes as a "steep" decline. New orders fell nearly 21 points to minus 3.61, again a negative reading indicating month-to-month contraction compared to May. Shipments are even worse, down nearly 35 points to minus 8.02." (Empire State Mfg Survey) The Housing Market Index, which measures the confidence of home builders, dropped by 18.8%, to 13 (on a scale of 1 to 100) from the May's reading of 16.

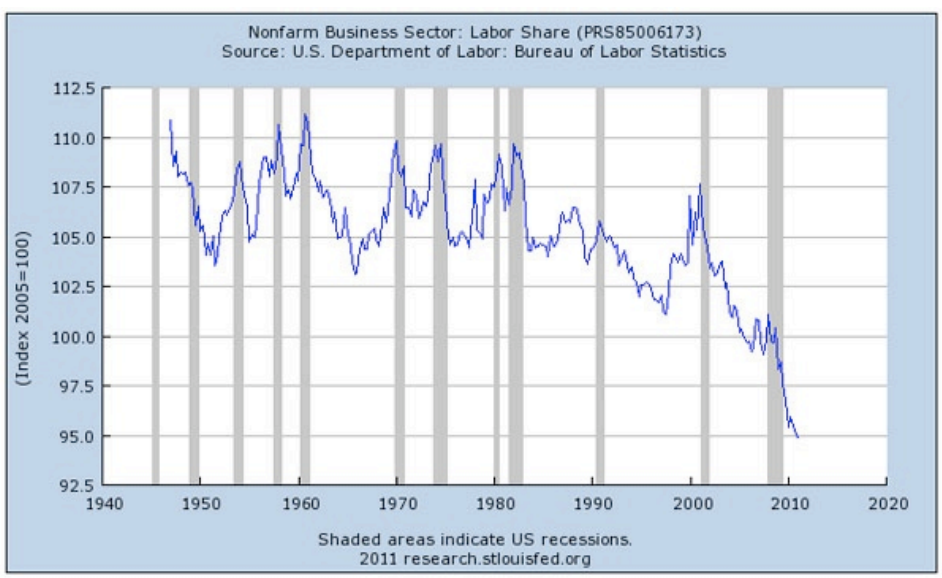
> *"Just when you think the U.S. Congress is the most inept political organization on the planet, the EU Finance Ministers take things to a whole new level of crazy by calling an emergency meeting and then failing to accomplish the goal of that emergency meeting. Even worse, they indicated that they are unable to resolve their differences, and they kicked the problem to the June 23 'Leaders' summit. How can they be so stupid – don't they know how much damage can be done in two weeks?"* - Phil

6/15/11	Dow	S&P	NAS	NYSE	RUT
TODAY	11,897	1,265	2,631	7,968	779
PREVIOUS	12,076	1,288	2,679	8,133	794
% CHANGE	-1.5%	-1.8%	-1.8%	-2.0%	-1.9%

Wednesday's Consumer Price Index showed price inflation increasing at an annual rate of 3.4%, up from April's reading of 3.1%. The May CPI Report showed a 2% headline number and a whopping 0.3% in the core – even Bernanke could not deny that is bad. *"Real earnings completely failed to keep up at 0.1%. In fact, real earnings are DOWN 1.6% for the year. Over the last decade, the share of U.S. national income taken home by workers has plummeted to a record low* (Phil) (See chart to right).

Eurozone finance ministers ended their emergency meeting on Tuesday with no resolution about a second bailout for Greece. Their failure to agree hurt the Euro, and conversely rallied the Dollar, which was briefly looking good in comparison. The Dollar rallied from 74.5 in the early morning all the way to 75.6 by midmorning, a 1.5% jump in just a few hours.

Standard & Poor's slapping Greece with the world's lowest credit rating didn't help matters in the EU. Now, the focus on averting a default will shift to German Chancellor Merkel and French President Sarkozy. (Euro-Area Accord on New Greek Aid May Be Delayed to July)



Thursday Thump - Yucky Euro and the Oil Slick

Thursday was a mixed day for the markets, with the Dow, the S&P and the Russell 2000 all up for the day. The Nasdaq and the NYSE were down. The Dollar finished the day little changed, hugging the 75.6 line. Initial Jobless Claims came in at 414,000, down from last week's 430,000 which was a slight improvement, but the Philly Fed General Business Conditions Index for June was down to -7.7, a steep drop from last month's reading of 3.9.

Phil sent out a Member's Alert in the morning, discussing several adjustments to the "Income Portfolio," designed to be a conservative, low-touch way for people who need a relatively safe place to invest their money while producing more than the 6% returns generated by the typical retirement fund. The portfolio was started on April 9, 2011 with the primary goals of A) don't Lose Money, and B) generate a relatively steady monthly income of $4,000 against a $500,000 portfolio (roughly 10% a year).

How has that portfolio done so far? Phil followed up with a special, Member's Only article on Saturday, *"Well, this is embarrassing... Despite the fact that we have allocated less than 40% of our cash, we have accidentally made WAY too much money already and this is NOT the lesson we are trying to teach!"*

"What happened is, this past couple of weeks, we had a really nice dip in the markets and our disaster hedges kicked in - as they are supposed to - but our other positions were already well-hedged and positioned well enough that they haven't really lost anything, so we ended up far ahead of the curve."

Phil described how he is managing the positions in that virtual portfolio by rolling and scaling in. *"So we've cashed $21,054 in our first two months and our major positions are taking up just $150,000 worth of our cash. The rest is just the margin that is being used for our short puts. Since we REALLY want to own those stocks long-term, it's really just a question of waiting to see which, if any, of those puts get assigned to us over the next 6 months. If none of them are assigned to us – that's another $22,000 cash in our pockets on the short puts alone and we're done for the year!"*

Another trade idea that came to fruition was one from three weeks ago based on shorting LinkedIn. *Gotta love overpriced IPO's!* (See how that worked out below.)

Inside Member's Chat:

At 1:05 pm, May 27, Phil posted "LNKD Aug $90/85 bear put spread at $3.40, combined with selling a June $95 call for $1.85 is net $1.55 on the $5 spread that's $3 in the money. You can hopefully sell another $1.55 call in July for a free ride."

On June 17 Phil wrote, *"LNKD is now trading at $68.27 and the June $95 calls are expiring worthless today while the Aug $90/85 bear put spread is now $4.45 for a 187% gain in 15 days. It's well on track to the full 222% potential gain but, at this point, I'd take the money and run..."*

Friday Fantastic Futures Fueled Finish!

Friday was another mixed day for the markets, with the Dow, the S&P and the NYSE up, the Nasdaq down, and the Russell 2000 unchanged. Moody's placed Italy's Aa2 bond rating under review, but the big news of the day was the joint announcement by German Chancellor Merkel and French President Sarkozy of a new plan for Greece that would encourage, but not require, private investors to give Greece more time to repay its debts. This helped to boost the Euro. The Dollar dropped from 75.7 early in the day to 75.0 by late afternoon.

> *"The markets were priced for an actual EU collapse and anything less than that would spark a relief rally."* - Phil

Alan Greenspan gave an interview with Charlie Rose on Thursday in which he claimed a default by Greece was "almost certain," and that it could drive the U.S. economy into a recession. *"The problem you have is that it's extremely unlikely the political system will work"* in a way that solves Greece's crisis. *"The chances of Greece not defaulting are very small."* (Greenspan Tells Charlie Rose Default by Greece 'Almost Certain')

The interview was published in Bloomberg Businessweek at 8:25pm EST Thursday evening. Phil commented on this in an early morning Alert: *"Greenspannnnnnn!!! Son of a bitch, we were recovering and then that jackass opened his mouth!*

"Keep in mind that Greenspan works for Pimpco [PIMCO], which is buying up EU bonds at record highs ahead of Greece, which is right now in a cabinet meeting trying to work out a deal to get a bailout and end this mess. This is just blatant market manipulation that cost the Dow futures 100 points.

"On the whole, it's another chance to go long on the futures. The new oil contracts (/CL) fell $1 to $94.60 and they are a buy here with a stop at $94.45. Gasoline (/RB) is $2.93 and playable over that line, Silver (/SI) is worth a toss at $35.25 with a tight stop. It seems that if Greece falls apart, silver and gold go up, and if Greece does not fall apart, and the Dollar goes down, silver goes up. Russell (/TF) futures are 777 and a buy over that line and Dow futures (/YM) are 11,880 and a buy over 11,875.

"Watch the Dollar (/DX) - if it goes over 76.20 (now 76.18) we are screwed, but I think this is an overreaction and a great trading opportunity."

Phil followed up in his main article on Friday morning: *"What? Are you just waking up? We're done with our day already!.. So, at 8 am EST, how is all that working out? Well, oil is actually down to $94. In chat we stopped out at $94.45 ($0.15 loss) and reentered at $93 so a net $0.85 gain at $10 per penny per contract ($850). Gasoline is $2.94, which is a very nice move in gasoline (/RB) which pays $420 per penny per contract! Silver (/SI) pays $50 per penny (futures are CRAZY) and Silver is already $35.45 so that's $1,000 per contract and the Russell (/TF) is at 787 paying $100 per point, so $1,000 per contract there. The Dow (/YM) pays just $5 per point per contract but it jumped up to 12,000 and that's 120 points for $600 per contract. As I said, we're done with our day but good morning to you!*

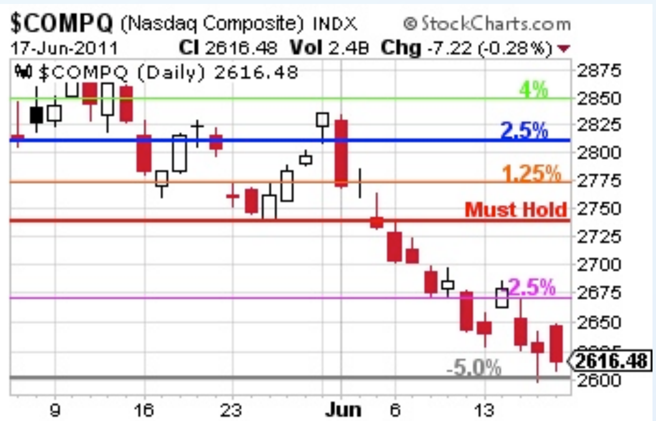
"And I'm not kidding when I say we're done – we'll be getting out of our long positions. (Stock and option longs, that is. We already killed the futures since they hit major resistance.) We'll be shorting into this nonsense in today's chat as this is exactly what we expected to happen this week

(albeit more last minute than we thought). We'll be setting up for some serious disappointment either next week or, possibly, after the July 4 weekend. The markets may keep rallying through the end of the month and then we'll have to pay the piper in July. Our plan is to be pretty much all cash in short-term portfolios, and well-hedged in long-term portfolios, and loaded up with disaster hedges by July 4. But we'll pick up a couple of small disaster hedges today – pretty much the same ones we picked up last week when we were expecting this week's dip."

By making use of our levels, keeping an eye on the Dollar, the Euro, and Greece ("fixed" time and time again), and staying cashy and nimble, we were able to take advantage of some of the wild swings in the market this week.

Friday's Levels

6/17/11	Dow	S&P	NAS	NYSE	Russell
FRIDAY	12004	1272	2616	8000	782
5% UP	12810	1365	2877	8694	856
2.5% UP	12505	1333	2809	8487	835
MUST HOLD	12200	1300	2740	8280	815
2.5% DOWN	11895	1268	2672	8073	795
5.0% DOWN	11590	1235	2603	7866	774



The Week Ahead

In spite of all the turmoil in the Eurozone this week, no matter how bad the situation in Greece seemed to be, or how badly the Euro was battered, none of this was enough to catapult the Dollar above its current upper resistance level of 76. Unless or until patterns change (when the Dollar pops, stocks drop), if the Dollar cannot move above this level, we don't expect to see stocks to fall significantly.

The stock market is largely at the mercy of the money flows between the Fed, the Treasury, Primary Dealers, foreign central banks, the banking system, and the markets. Lee Adler of the Wall Street Examiner closely follows these money flows and reports on the trends he sees and how he expects them to affect the markets. Looking ahead, Lee writes, *"Short term indicators have mostly turned up and while there's no real sign of strength, the odds of an extended selloff are reduced for the time being. My best guess continues to be that the market will churn sideways without materially breaking support for the next week or two as the 13 week cycle enters a weak up phase supported by POMO [permanent open market operations] and light Treasury supply until the end of the month.*

"Next week's calendar is light, with another paydown on Thursday and plenty of POMO, so if ever stocks had an excuse to rally, this would be it. The Federal Government would probably be happy to see stocks rally at the expense of a selloff in Treasuries since the government is not selling notes and bonds this week. Likewise, their cohorts the Primary Dealers have a little problem with a massive Treasury short position. Those guys desperately need a Treasury market selloff, but Europe isn't cooperating. That situation spinning out of control has put Treasury yields on a downward track again after a false trend break this week. Crazy but true. So here we go

again, the Primary Dealers are gonna need another bailout if this keeps up.

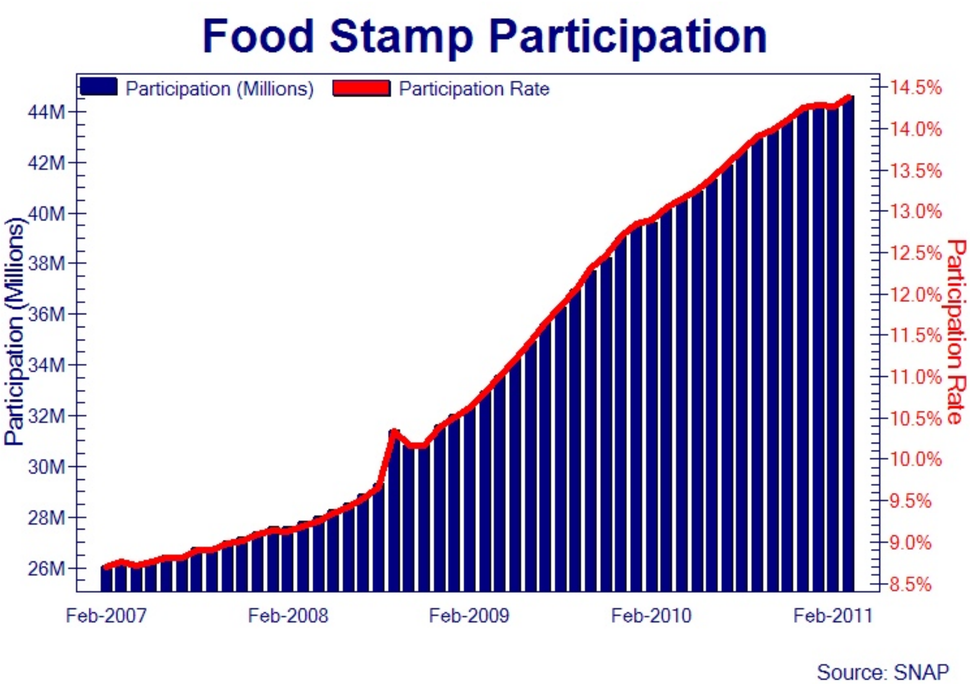
At the same time, the dollar's 18 month cycle has turned up. That's perverse given the problems with the debt ceiling and the Federal debt, but currency values are all relative to one another. In a race to the bottom some currencies will pull ahead at times. Right now the dollar is just a little less sick than its competitors and it could stay that way for a few weeks or a few months, but eventually this too shall pass and it will head lower.

Month to date data from the daily Treasury statement now confirms the evidence of an economic stall, with tax receipts currently about level with last year in June, after months of year to year gains. At the same time, outlays are falling behind last year reducing economic stimulus. This could lead to a vicious cycle where tax receipts fall faster than outlays, causing the Treasury's borrowing needs to balloon. At the very least, they will be greater than forecast based on the Treasury's overly rosy economic assumptions as recently as the beginning of May. [See also: Federal Tax Receipts Show Economy Grinding To A Halt]

The final POMO schedule calls for $62 billion to be added from June 13 to July 11 to end the program. Next week's schedule calls *for $17-21.5 billion. That's down from an average of $22 billion a week over the past month. No net new Treasury supply will settle next week, and a $9 billion paydown of T-bills will settle Thursday, adding to the impact of POMO.*

Since only a small TIPS issue will be sold in addition to the regular weekly bills, the government would be quite content to see bonds sell off a little so that stocks can get a little POMO love. It wouldn't do anything in the futures markets overnight to see that that happens, would it?

Why, yes... yes it would. The fact that the government's Primary Dealer partners in crime are positioned totally the wrong way in the Treasury market and are getting killed in their positions is another factor. They need a selloff in the Treasury market. The only question is whether events in Europe might spin out of control enough to supersede that. The panic over European sovereign debt is running counter to the needs and expectations of the PDs and causing panic IN to Treasuries. This is part of the tension we see in the market in recent days.



> *"We expect the market to be propped up into the end of June but maybe fall off a cliff after that. We want to be cautious over the weekend. If we survive Monday, we will be back to bullish."* - Phil

Tyler Durden of Zero Hedge reported *"Just in time for the end of QE2, when the US needs every possible foreign buyer of US debt to step up to the plate, we get confirmation that yet another major foreign central bank has decided to not only not add to its US debt holdings, but to actively sell US Treasuries."* Arkady Dvorkovich, chief economic aide to the Russian President said on Saturday *"The share of our portfolio in U.S. instruments has gone down and probably will go down further."* (After Dumping 30% Of Its Treasury Holdings In Half A Year, Russia Warns It Will Continue Selling US Debt)

Furthermore, according to Zero Hedge, U.S. households sold Treasuries to the Fed at an annualized rate of $1.1Tn and China is contemplating dumping two-thirds of its $3Tn in USD reserves. With the scheduled end of QE2, the Federal Reserve will no longer be actively buying Treasuries in an emergency measure to pump liquidity into the financial system. The critical question remains, "who is going to buy U.S. Treasuries?" With private households and foreign investors being potential candidates, we would hope to see signs that they are getting ready to step up to the plate and buy large quantities of Treasuries. Instead, we see the opposite happening.

Meanwhile, on the political

front, Republicans have been pushing for spending cuts and austerity measures. Notwithstanding stiff opposition from Democrats, on Friday, the House passed a $126Bn Agricultural Appropriations bill. Democrats objected to the deep cuts to both a nutrition program for low-income women and children, and additional cuts to food safety programs.

Labor's share of US national income is lower than at any point in the last 60 years. There are now 44 million people in the US participating in the Supplemental Nutrition Assistance Program (SNAP) aka "food stamp" program, up from 27 million in October 2007. That's an increase of nearly 63% in less than four years. Factor in high unemployment rates and inflation in food, energy and medical services, and we can only wonder what good can come from slashing spending even further. If the objective is to grow the economy so that tax receipts increase, thereby making it possible to repay debt, then the wisdom of slashing programs that put money directly into the economy (low-income people spend what they get in aid) seems misguided at best.

We have a conservative trade idea from Pharmboy this week. He writes, *"In these uncertain times, we need to go back to the basics for generating income by playing the biggest and the best pharma companies out there. Merck was one of the first picks we had in the debut of Stock World Weekly, and that buy/write trade is doing very well. The next is Bristol Myers Squibb (BMY). BMY has a robust pipeline one can read about here, and I like playing BMY conservatively by buying 100 shares (currently at $27.52) and selling a January 2013 $25 call and $27.50 put for $7.70 or better. That is a $19.80 basis if called away (if BMY is trading above $25 in January 2013), or $23.65 if BNY is put to you, which is about 14% off the current price. And don't forget about the 4.8% dividend yield."*

As Michael Hudson observed, *"The economy is still suffering from the Obama administration's failure to alleviate the debt overhead. He should be making banks write down junk mortgages to reflect actual market values and the capacity to pay. Foreclosures are still throwing homes onto the market, pushing real estate further into negative equity territory while wealth concentrates at the top of the economic pyramid. No wonder Republicans are able to shed crocodile tears for debtors and attack President Obama for representing Wall Street (as if this is not equally true of the Republicans). He is simply continuing the Bush Administration's policies."* (How a $13 Trillion Cover Story was Written)

BAMBI V. GODZILLA

Next Week's Economic Calendar

Monday 20	Tuesday 21	Wednesday 22	Thursday 23	Friday 24
11:00 AM: 4-Week Bill Announcement	7:45 AM: ICSC-Goldman Store Sales	7:00 AM: MBA Purchase Applications	8:30 AM: Jobless Claims	8:30 AM: Durable Goods Orders
11:30 AM: 3-Month Bill Auction	8:55 AM: Redbook	10:00 AM: FHFA House Price Index	8:30 AM: Chicago Fed National Activity Index	8:30 AM: GDP
11:30 AM: 6-Month Bill Auction	10:00 AM: Existing Home Sales	10:30 AM: EIA Petroleum Status Report	9:45 AM: Bloomberg Consumer Comfort Index	8:30 AM: Corporate Profits
	11:30 AM: 4-Week Bill Auction	12:30 PM: FOMC Meeting Announcement	10:00 AM: New Home Sales	
		2:15 PM: Chairman Press Conference	10:30 AM: EIA Natural Gas Report	
			11:00 AM: 3-Month, 6-Month, 52-Week, 2-Year, 5-Year, 7-Year	
			1:00 PM: 30-Year TIPS Auction	
	FOMC Meeting Begins		4:30 PM: Fed Balance Sheet and Money Supply	
POMO DAY ($4Bn - $5Bn) X2	**POMO DAY ($4Bn - $5Bn)**	**NO POMO TODAY**	**POMO DAY ($1Bn - $1.5Bn)**	**POMO DAY ($4Bn - $5Bn)**