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GOLD RATES

Advanced

Global boom builds for epic bust

By Peter boone and Simon Johnson
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There are three main lessons to be learned from the past year. First, we have built a dangerous financial system in Europe and the United States, and 2009 made it more dangerous.

You can bet the bank, and, when the gamble fails, you can still keep your job and most of your wealth.

Not only have the remaining major financial institutions asserted and proved that they are too big to fail, but they have also demonstrated that no one in the executive or legislative branches is currently willing to take on their economic and political power.

The take-away for the survivors at big banks is clear: We do well in the upturn and even better after financial crises, so why fear a new cycle of excessive risk-taking?

Second, emerging markets were star performers during this crisis.

Most global growth forecasts made at the end of 2008 exaggerated the slowdown in middle-income countries. To be sure, issues remain in places such as China, Brazil, India and Russia, but their economic policies and financial structures proved surprisingly resilient and their growth prospects now look good.

Third, the crisis has exposed serious cracks within the euro zone, but also between the euro zone and the UK on one side and Eastern Europe on the other.

Core European nations will spend a good part of the next decade bailing out the troubled periphery to avoid a collapse. For many years this will press the European Central Bank to keep policies looser than the Germanic center would prefer.

Bigger crises

Over the past 30 years, successive crises have become more dangerous and harder to sort out.

This time not only did we need to bring the fed funds rate near to zero for "an extended period" but we also required a massive global fiscal expansion that has put many nations on debt paths that, unless rectified soon, will lead to their economic collapse.

For now, it looks like the course for 2010 is economic recovery and the beginning of a major finance-led boom, centered on the emerging world. But look a little farther down the road and you see trouble.

The heart of the matter is, of course, the US and European banking systems. As emerging markets pick up speed, demand for investment goods and commodities increases – countries producing energy, raw materials, all kinds of industrial inputs, machinery, equipment will do well.

On the plus side, there will be investment opportunities in those same emerging markets, be it commodities in Africa, infrastructure in India, or domestic champions in China. Good times will bring surplus savings in many emerging markets. But rather than intermediating their own savings internally through fragmented financial systems, we'll see a large flow of capital out of those countries, as the state entities and private entrepreneurs making money choose to hold their funds somewhere safe – that is, in major international banks that are implicitly backed by US and European taxpayers.

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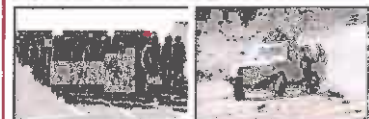


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These banks will in turn facilitate the flow of capital back into emerging markets -- because they have the best perceived investment opportunities -- as some combination of loans, private equity, financing provided to multinational firms expanding into these markets, and many other portfolio inflows.

We saw something similar, although on a smaller scale, in the 1970s with the so-called recycling of petrodollars. In that case, it was current-account surpluses from oil exporters that were parked in US and European banks and then lent to Latin America and some East European countries with current account deficits.

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Al Ain	05:41	07:01	12:33	15:41	18:02	19:32
Ras Al Khaimah	05:39	06:59	12:31	15:39	18:00	19:30
Fujairah	05:37	06:57	12:29	15:37	17:58	19:28
Sharjah	05:43	07:03	12:35	15:43	18:04	19:34
Ajman	05:43	07:03	12:35	15:43	18:04	19:34
Um Al Quwain	05:43	07:03	12:35	15:43	18:04	19:34

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