DAILY SURVIVAL GUIDE

BBG Tip of the Day: CETF <go>

CETF is a quick look up for commodity related ETF's.

Quote of the Day:

"When people begin anticipating inflation, it doesn't do you any good anymore, because any benefit of inflation comes from the fact that you do better than you thought you were going to do."
– Paul Volcker

MRA Daily: *Guilt Free Gamma* - Available via email and on our MRAD page on Bloomberg.

Flow Recap: http://www.macroriskadvisors.com/layout/pdf/20110826_FR.pdf

Dean Curnutt
212-287-2640
dcurnutt@macroriskadvisors.com

Mike Buckjune
212-287-2640
mbuckjune@macroriskadvisors.com

Jarret Christie
212-287-2640
jchristie@macroriskadvisors.com

Danny Kirsch
212-287-2640
dkirsch@macroriskadvisors.com

Ed Lalanne
212-287-2640
elalanne@macroriskadvisors.com

George Lam
212-287-2640
glam@macroriskadvisors.com

Jon McLaughlin
212-287-2640
jmclaughlin@macroriskadvisors.com

Phillip Rapoport
212-287-2640
prapoport@macroriskadvisors.com

Frank Trentacoste, CFA
212-287-2640
ftrentacoste@macroriskadvisors.com

Daily Risk Metrics

Below we summarize the performance of popular risk assets relative to the SPX and the VIX. We provide the changes in popular risk assets and how each has performed relative to the SPX and the VIX. We use a 20-day beta to the SPX and VIX to determine whether the asset has under or outperformed in the context of this beta. We view the band of "expected" performance as +/- one standard deviation.

Market Moves and Implied Volatility Moves
(Relative Performance Calculated Using 20 day Beta)

	Price	1d % chg	Out / Underperforming Relative to SPX
SPX	1159.27	-1.56%	
Crude	85.3	0.16%	Outperforming SPX
Gold	1774.45	0.87%	Expected
Euro	1.4379	-0.24%	Expected
US 10yr Fut	130	0.31%	Expected

Implied Volatility	1m I-Vol	1d chg (pts)	Out / Underperforming Relative to VIX
VIX (S&P 500)	39.76	3.86	
OVX (Crude)	51.42	3.53	Expected
GVZ (Gold)	34.42	1.13	Expected
EVZ (Euro)	15.09	0.15	Expected
US 10yr Fut 1m ATM	17.56	4.29	Outperforming VIX

THE FED	**Bernanke: A Chance to Talk About Fiscal Policy** Source: WSJ By Jon Hilsenrath By now it should be clear, as The Wall Street Journal and other news organizations have been reporting, that Federal Reserve Chairman Ben Bernanke isn't likely to break much new monetary-policy ground in his Jackson Hole speech Friday. He has already talked about the monetary policy options for boosting a sluggish economy — including, but not limited to, additional securities purchases known as quantitative easing. His constraints to further action are also well-known, including the fact that inflation is higher today than it was last August when he used his Jackson Hole speech to preview a second round of quantitative easing. More easing is an option on the table, but Fed officials aren't in a hurry to do it. They want to see how growth and inflation unfold in the weeks and months ahead. But is it time for Mr. Bernanke to use his bully pulpit to talk about fiscal policy? Just days before the Fed's Aug. 9 decision to open the door to additional monetary easing, Congress and the White House completed a fraught negotiation to reduce the budget deficit over the next 10 years in exchange for raising the government's self-imposed debt limit. For several months, Mr. Bernanke warned lawmakers that a raucous debate over the federal debt limit, with threats of government default, could be disruptive to markets and the economy. He got that forecast right. The market crackup of August, a new headwind to economic growth, was very closely connected to the nail-biting debt limit discussions and the S&P credit rating downgrade that followed. Fiscal policy is clearly on Mr. Bernanke's mind. With the whole world listening to him in Jackson Hole, it could be an opportunity for the Fed chairman to turn attention back to Congress and the White House to sort out a very messy fiscal picture. Mr. Bernanke has been a proponent of using government tax and spending policies to provide short-term stimulus to the economy, tied together with a credible plan to bring down the deficit in the long run. He's also spoken out about adjusting both tax and spending policies to support long-run growth and investment. Nobody seems to have listened. In 2009, the Obama administration charged ahead with stimulus but stayed mostly silent on deficit reduction. This year, Republicans have pushed for deficit reduction, but are hostile to fiscal stimulus. Mr. Bernanke has been visibly uncomfortable with fiscal policy all along. This was especially true of the messy debt limit talks which ran into early August. Mohamed El-Erian, chief executive officer of Pimco, the big bond market fund, observed in the Financial Times Thursday that the Jackson Hole speech could be an ideal platform for Mr. Bernanke to argue that monetary policy can't work by itself, and "explain why a sustainable solution must go well beyond Fed financial engineering and, specifically, incorporate co-ordinated structural reforms on the part of agencies responsible for housing, the labour market, public finances, infrastructure and directed credit." The theme of the conference, for what it is worth, is "Achieving Maximum Long-Run Economic Growth." His speech, nominally, is about "near and long-term" prospects for the U.S. economy. Fiscal policy is part of that long-run discussion. This isn't to say there aren't important economic and monetary policy questions for Mr. Bernanke to answer. He will certainly try to address the economy's surprising sluggishness,

	update the outlook for growth and inflation, explain the Fed's recent monetary policy decisions and discuss options. But the voice of a frustrated Fed chairman warning that the nation's fiscal policy which isn't making his job any easier could send an important message to the politicians. Link: http://blogs.wsj.com/economics/2011/08/25/bernanke-a-chance-to-talk-about-fiscal-policy/
EUROZONE	**Greece Forced to Tap Emergency Fund** Source: The Telegraph *Greece has been forced to activate an obscure emergency fund for its banks because they are running short of collateral that is acceptable to the European Central Bank (ECB).* In a move described as the "last stand for Greek banks", the embattled country's central bank activated Emergency Liquidity Assistance (ELA) for the first time on Wednesday night. Raoul Ruparel of Open Europe told The Telegraph: "The activation of the so-called ELA looks to be the last stand for Greek banks and suggests they are running alarmingly short of quality collateral usually used to obtain funding." He added: "This kicks off another huge round of nearly worthless assets being shifted from the books of private banks onto books backed by taxpayers. Combined with the purchases of Spanish and Italian bonds, the already questionable balance sheet of the euro system is looking increasingly risky." Although it was done discreetly, news that Athens had opened the fund filtered out and was one of the factors that rattled markets across Europe. At one point Germany's Dax was down 4pc before it recovered. In London, bank stocks - which have been punished by traders nervous about the European debt crisis - fell again. In a bid to curb the falls regulators in Italy, France, Spain and Belgium extended their short-selling bans. Although it was designed to support European banks, experts in London reacted angrily to the move, claiming that regulators were wrongly targeting hedge funds. Andrew Baker, chief executive of the Alternative Investment Management Association, the hedge fund lobby group, said: "Short-selling was not the reason bank share prices were under pressure and banning it has not relieved that pressure." Richard Payne, a finance academic at the Cass Business School in London, said the restrictions could do more harm than good by increasing volatility and bumping up trading costs. He argued that the moves were an attempt to deflect attention away from the failures of European politicians to come up with convincing solutions to the financial crisis. Traders argued that the worsening crisis in Greece was the real driver of market concerns. There are particular concerns that the political will to solve the crisis is waning, particularly in Germany. Athens' activation of the ELA will raise concerns that Greece will simply shift debt to Brussels. The ELA was designed under European rules to allow national central banks to provide liquidity for their own lenders when they run out of collateral of a quality that can be used to trade with the ECB. It is an obscure tool that is supposed to be temporary and one of the last resorts for indebted banks. So far it has only be used in Ireland.

	By accepting a lower level of collateral the debt in the ELA is, in theory, supposed to be the responsibility of Greece. However, since the Greek state is surviving on eurozone bailouts and Greek banks are reliant on ECB funding, in practice the loans are backed by the eurozone. The terms of lending and other details are not disclosed publicly. Mr Ruparel said: "Though the ELA is meant to be a temporary emergency solution, we know from Ireland, where the programme has been running for almost a year, that once banks get hooked on ELA they rarely get off it." Link: http://www.telegraph.co.uk/finance/financialcrisis/8723588/Greece-forced-to-tap-emergency-fund.html
TERRORISM	**Bomb Blast Hits U.N. Building in Nigerian Capital** Source: Reuters ABUJA (Reuters) - A bomb blast ripped through the United Nations offices in the Nigerian capital of Abuja on Friday as a car rammed into the building, and witnesses said they had seen a number of dead bodies being carried from the site. "We have had 10 dead and there could be more," said a medical official who declined to give his name. One security source in Abuja said he suspected an attack either by Boko Haram, a Nigerian radical Islamist sect, or the North African arm of al Qaeda. Boko Haram's attacks are growing in intensity and spreading further afield. The U.N. building was blacked from top to bottom and the remains of a car had fallen into the basement. Soldiers, firefighters and rescue workers swarmed over the area. "A car rammed into the building and exploded. This is very likely the work of Boko Haram and, or, AQIM (al Qaeda in the Islamic Maghreb) and is a serious escalation in the security situation in Nigeria," the security source said. "This is the worst thing that could have happened." Ocilaje Michael, a member of the U.N. staff working at the Abuja building, said he had seen a number of dead bodies after the explosion. "We just saw the blast coming from the building. All the people in the basement were all killed. Their bodies are littered all over the place. I saw about five dead bodies," Michael said. A Reuters witness confirmed dead bodies being carried into an ambulance. Boko Haram, whose name translates from the local northern Hausa language as "Western education is sinful," has been behind almost daily bombings and shootings, mostly targeting police in the northeast of Africa's most populous nation. ATTACK ON POLICE STATION On Thursday Boko Haram bombed a police station and raided banks in a northeastern Nigerian town, leaving 12 people dead including policemen and a soldier. In Geneva, U.N. spokeswoman Alessandra Vellucci said an official at the U.N. information center in Lagos, Nigeria's biggest city, had confirmed that a bomb was to blame for Friday's explosion. She had no further information and it was not clear who was responsible for the attack. "We have deployed our policemen and anti-bomb squad. We can't establish how many casualties (there are)," a police spokesman in Abuja said.

	Al Qaeda in the Islamic Maghreb operates in neighboring Niger and has kidnapped foreign workers there. However, it was also suspected of kidnapping a Briton and an Italian in Nigeria earlier this year. In December 2007, a car bombing at the U.N. building in Algiers killed at least 41 people, among them 17 U.N. staff. In 2003, 15 staff and seven others were killed by a bomb attack at the U.N. building in Baghdad. Link: http://www.reuters.com/article/2011/08/26/us-nigeria-un-idUSTRE77P21B20110826
HURRICANE	**New York Hurricane Could Be Multibillion-Dollar Catastrophe** Source: NYT Time to think about the unthinkable. What if a major hurricane were to pass close to New York City, as several forecasting models now suggest that Hurricane Irene might? Apart from the inevitable loss of life in the most densely populated part of the country, history suggests that the economic damage could run into the tens of billions of dollars, depending on the severity of the storm and how close it came to the city. Unlikely but theoretically plausible scenarios could have the damage entering the realm of the costliest natural disasters of all time, and perhaps being large enough to have a materially negative effect on the United States' gross domestic product. Tropical cyclones in and around New York City and the Northeastern United States are fairly rare but not unprecedented. Using a relatively conservative set of criteria, I identify 20 storms since 1900 that have made landfall north of the Mason-Dixon Line with tropical storm force winds (at least 39 miles per hour) or higher, 12 of which made a direct hit on either Long Island or New Jersey. The table below provides several key pieces of data for each storm. First, how close the eye of the storm was to New York City (specifically, midtown Manhattan) at its closest approach. Second, what the storm's maximum sustained wind speed was at that time. And third, how much economic damage it was estimated to have caused.

Tropical Cyclones Making Landfall in Northeastern United States

Year	Storm	Wind speed at closest approach to NYC (mph)	Distance from NYC at closest approach (miles)	Normalized economic damage	Landfall locations
1903	Vagabond	65	60	$ 13,040,000,000	Southern NJ
1904	Two	80	65	$ 1,023,000,000	SC, MA
1908	Two	45	85	$ 1,000,000	Eastern Long Island
1934	Six	65	60	$ 300,000,000	Central Long Island
1936	Thirteen	90	105	$ 648,000,000	MA (Nantucket)
1938	New England	120	40	$ 45,301,000,000	Central Long Island
1944	Great Atlantic	85	60	$ 15,292,000,000	Eastern Long Island
1954	Carol	100	70	$ 18,662,000,000	Eastern Long Island
1954	Edna	95	135	$ 3,499,000,000	MA, ME
1960	Donna	105	65	$ 34,261,000,000	FL, NC, Eastern Long Isl.
1961	Esther	125	150	$ 300,000,000	MA, ME
1972	Agnes	65	5	$ 20,289,000,000	FL, Near NYC
1972	Carrie	65	185	$ 45,000,000	ME
1976	Belle	75	35	$ 563,000,000	Western Long Island
1985	Gloria	95	30	$ 2,735,000,000	NC, Western Long Island
1991	Bob	105	100	$ 3,521,000,000	RI
1999	Floyd	60	30	$ 7,767,000,000	NC, Western Long Island
2004	Hermine	40	140	$ 1,000,000	MA
2006	Beryl	50	145	$ 1,000,000	MA (Nantucket)
2008	Hanna	60	35	$ 168,000,000	NC, Central Long Island

Some further detail is in order. Storm tracks and wind speeds are estimated from the excellent website Stormpulse.com. The only case where my estimates differ meaningfully from Stormpulse are for the 1938 New England hurricane, for which the last recorded estimate of wind speed, when the hurricane was about 100 miles south of Long Island, was 100 miles per hour, but which forensic evidence suggests was producing winds closer to 120 miles per hour when it actually made landfall. (More on that 1938 storm in a moment.)

Most of the economic estimates are taken from a 2008 paper by Roger A. Pielke, et. al., which adjusts nominal estimates of storm damage not only for inflation, but also for the growth in wealth, population and property values, allowing for the comparisons to be more apples-to-apples. Some of the storms, particularly those that occurred prior to the 1930s or after the paper was written, were not included in Mr. Pielke's dataset; in these cases, I've attempted to reproduce his methodology. Three of the storms are described in news accounts as having produced "minimal" economic losses; I assign these a nominal cost of $1,000,000. Mr. Pielke's estimates are in 2005 dollars; I adjust each of them upward to 2011 figures using standard estimates of inflation.

The criteria for inclusion in the table are as follows:

1) The storm made landfall in the United States north of the Mason-Dixon line.

2) The storm produced at least tropical storm strength winds when it did make landfall.

3) The storm made landfall as a tropical (rather than extratropical) cyclone.

The first qualification is the fuzziest. There have been several storms which initially made landfall in the Carolinas or in other parts of the South, and which retained enough power to be classified as tropical storms while passing through the Northeast, but which never again reached the open ocean. Such storms are not included in the study as their behavior is fairly different from storms that come in directly from the coast. They may be considerably less well organized, acting more like a very severe thunderstorm but less like a hurricane.

However, storms which hit the South, re-emerge over the open ocean and reorganize themselves and then make a second and distinct landfall in the Northeast are included in the study, a pattern which has occurred on at least six occasions. Some cases are debatable: I do not classify a storm as having made a second landfall if it passed over a small body of water like Delaware Bay, but I do include it if it passed through the Atlantic Ocean proper, even briefly, as Hurricane Floyd did in 1999.

There are several storms that should pique your curiosity. First was the 1938 New England Hurricane, which is often cited as a reasonable worst-case scenario for what might happen to New York. That storm approached within about 40 miles of Central Park while producing windspeeds of 120 miles per hour, making it a Category 3 hurricane. The direct and indirect economic loss, according to Mr. Pielke's estimates, was the equivalent of about $45 billion in today's dollars, or roughly half as much as the impact caused by Hurricane Katrina.

Another dangerous precedent is the 1972 storm Agnes, which came closer than any other to producing a direct hit on Manhattan, with the storm's eye approaching just a handful of miles from the city. That storm followed an unusual trajectory, initially hitting the Florida panhandle through the Gulf of Mexico and traveling almost as far north as Atlanta, but then re-organizaing after passing through the Carolinas, and hitting New York at about a 45 degree angle from the southeast.

Agnes is not an especially good comparison for Irene, which never came close to the Gulf of Mexico. But what's scary is that it produced the equivalent of $21 billion in economic losses despite having wind speeds of only about 65 miles per hour — tropical storm strength rather than hurricane strength — when passing through New York City and the Hudson Valley. Some of those losses were incurred in the South rather than in New York, but it's nevertheless a warning sign that proximity to the city matters.

The so-called Vagabond Hurricane of 1903, by some definitions the only modern hurricane ever to have made its initial landfall in New Jersey, produced about $13 billion in losses, despite the storm's eye never having come within more than about 60 miles of Manhattan.

But other storms have been much more benign than might be expected. In particular, Gloria in 1985, despite having made landfall relatively far west on Long Island and having hurricane-strength winds at the time, resulted in only about $3 billion in economic damage. Belle in 1976, although just teetring on the brink of hurricane strength when it made landfall, caused just one fatality and under $1 billion in economic penance.

Factors such as the diameter of the storm, the speed with which it passes though the region (faster is better), and whether it strikes at high or low tide can have a profund effect on damage to life and property. These will not be well accounted for by maximum wind speed. Unfortunately, those factors will not necessarily work in favor of New York in the case of Irene, a stubbornly

	large and slow-moving storm which, according to some projections, may be more likely to hit at high tide, producing a large storm surge. Nevertheless, we have enough data to produce some ballpark estimates — sort of an over-under line — on how much economic damage a storm might produce based on its distance from New York City and the strength of its winds. The results of this exercise are not heartening. The procedure I've used to estimate economic damage — this is going to get a tiny bit technical — is to regress the logarithm of economic damage on three independent variables. The first two variables are the storm's wind speed, and the distance of the storm from New York City, at its closest approach to Manhattan. The third variable is how many fatalities the storm caused in the Southern United States (these were significant in the cases of Hurricane Donna in 1960, Hurricane Agnes in 1972, and Hurricane Floyd in 1999), which is used as a proxy to segregate out damages caused in the South from those in the Northeast in the case of storms that made multiple distinct landfalls. The figures I'm going to show you, therefore, reflect estimates of the economic damage to the Northeastern United States from various types of hurricanes, including but not limited to the New York City metro region.

Estimated Economic Damage of a Tropical Cyclone Hitting NYC

Storm Type	MPH	Direct hit to Manhattan	50 miles from NYC	100 miles from NYC
Tropical Storm	40	$ 133,000,000	$ 35,000,000	$ 8,000,000
	45	$ 213,000,000	$ 55,000,000	$ 12,000,000
	50	$ 339,000,000	$ 88,000,000	$ 20,000,000
	55	$ 542,000,000	$ 141,000,000	$ 32,000,000
	60	$ 866,000,000	$ 226,000,000	$ 51,000,000
	65	$ 1,384,000,000	$ 361,000,000	$ 81,000,000
	70	$ 2,210,000,000	$ 576,000,000	$ 129,000,000
Category 1 Hurricane	75	$ 3,530,000,000	$ 920,000,000	$ 206,000,000
	80	$ 5,639,000,000	$ 1,469,000,000	$ 330,000,000
	85	$ 9,007,000,000	$ 2,347,000,000	$ 527,000,000
	90	$ 14,388,000,000	$ 3,749,000,000	$ 841,000,000
	95	$ 22,983,000,000	$ 5,989,000,000	$ 1,344,000,000
Category 2 Hurricane	100	$ 36,712,000,000	$ 9,566,000,000	$ 2,147,000,000
	105	$ 58,643,000,000	$ 15,281,000,000	$ 3,429,000,000
	110	$ 93,674,000,000	$ 24,409,000,000	$ 5,478,000,000
Category 3 Hurricane	115	$ 149,632,000,000	$ 38,990,000,000	$ 8,750,000,000
	120	$ 239,017,000,000	$ 62,282,000,000	$ 13,976,000,000
	125	$ 381,797,000,000	$ 99,487,000,000	$ 22,325,000,000
	130	$ 609,868,000,000	$ 158,916,000,000	$ 35,662,000,000
Values beyond this point are extremely speculative as no hurricanes of this strength have been recorded in the Northeastern United States.				
Category 4 Hurricane	135	$ 974,181,000,000	$ 253,847,000,000	$ 56,965,000,000
	140	$ 1,556,121,000,000	$ 405,486,000,000	$ 90,994,000,000
	145	$ 2,485,692,000,000	$ 647,709,000,000	$ 145,350,000,000
	150	$ 3,970,554,000,000	$ 1,034,626,000,000	$ 232,177,000,000
	155	$ 6,342,418,000,000	$ 1,652,674,000,000	$ 370,871,000,000
Category 5 Hurricane	160	$ 10,131,147,000,000	$ 2,639,921,000,000	$ 592,416,000,000
	165	$ 16,183,125,000,000	$ 4,216,914,000,000	$ 946,304,000,000

The numbers do not paint a pretty picture. According the model, a hurricane with windspeeds of about 100 miles per hour — making it a "weak" Category 2 storm — might cause on the order of $35 billion in damage if it were to pass directly over Manhattan. Such a storm would probably flood New York's subway system as well as acres upon acres of prime real estate in neighborhoods like the East Village, the Financial District, Tribeca, Coney Island, Red Hook, DUMBO, as well as parts of Staten Island and most of the Rockaways.

Although far from the most likely scenario, this may represent a reasonable-worst-case estimate of what could happen if Irene took exactly the wrong turn at exactly the wrong time. National Weather Service models, as of this writing, estimate that there is a 5 to 10 percent chance that Manhattan could experience hurricane-strength winds. Local readers should stop what they're doing and check to see whether they're in one of New York City's hurricane evacuation zones.

	A $35 billion loss is equivalent to roughly half of New York City's annual budget, so the city would require significant assistance from state and federal authorites. It's also equivalent to about 1 percent of the United States' quarterly gross domestic product, so such a storm could tangibly increase the chance of a recession. The good news is that such a storm would have to make something of a bankshot, as Agnes did in 1972, in order to pass directly over New York City. It's intrinsically fairly hard for a storm to make landfall upon New York City itself rather than somewhere else along the Atlantic. A considerably more likely scenario is that a hurricane-strength storm would come ashore on central Long Island. That would still be extremely bad: a weak Category 2 storm with an eye that passed about 50 miles from Manhattan would result in about $10 billion in damage, according to the model. Although highly unlikely to be experienced in the case of Irene, it is theoretically possible that an even stronger storm might hit the city at some point in the future. A Category 3 hurricane, one with windspeeds of 111 miles per hour or higher, could plausibly produce an economic impact in excess of $100 billion if its eye were to pass directly over Manhattan, according to the model. A stronger Category 3 storm, passing immediately over Manhattan, could rival or exceed the roughly $235 billion in economic damage estimated to have been caused by the Japanese earthquake and tsunami. What happens beyond that gets into highly speculative territory: in recorded history, no storm has made landfall in the Northeastern United States while stronger than a Category 3. Meteroligists debate whether a Category 4 storm hitting New York is literally physically impossible, so unlikely as to be practically impossible, or a plausible occurrence but one that will happen less than once in a generation. One of the nastier potential consequences of global warming is that tropical cyclones could retain more momentum as they travel through the Eastern Seaboard, broadening the range of potential worst-case scenarios. If such a storm were to occur, it would be exceptionally devastating to New York City, and its economic effects would plausibly run into the trillions of dollars, tantamount to the estimates that some scholars have provided of a Tohoku-strength earthquake striking directly under Tokyo, Japan (something which almost certainly is physically possible). Keep in mind that New York's annual gross domestic product is estimated to be about $1.4 trillion — about one-tenth of the United States' G.D.P. — so if much of the city were to become dysfunctional for months or more, the damage to the global and domestic economies would be almost incalculable. The property value of New York City real estate, meanwhile, is estimated to be about $800 billion, and property damage represents only a portion of the overall economic loss that might be incurred from a catastrophic hurricane. These scenarios are exceptionally unlikely to be visited in the case of Irene, an extraordinarily dangerous but not apocalyptic storm. But New York may be put to the test. Stay safe. Link: http://fivethirtyeight.blogs.nytimes.com/2011/08/26/new-york-hurricane-could-be-multibillion-dollar-catastrophe/?hp
MENA	**U.S. May Buy Looted Libyan Missiles Sold in Mali's Black Market** Source: Bloomberg News The fall of Libyan dictator Muammar Qaddafi has kicked off a race to recover key types of weapons taken from his stockpiles, such as shoulder-fired anti-aircraft missiles, by getting U.S. operatives to buy them before terrorists do.

There is evidence that a small number of Soviet-made SA-7 anti-aircraft missiles from Qaddafi's arsenal have reached the black market in Mali, where al-Qaeda in the Islamic Maghreb is active, according to two U.S. government officials not authorized to speak on the record.

The disintegration of Qaddafi's four-decade dictatorship has created a business opportunity for looters trafficking in the war-stricken country's missiles, which would enable terrorists to attack military or civilian aircraft. With a buyback program, operatives on the ground seek out the sellers and offer high prices to recover the weapons.

"A buyback program is now critically important," said Matt Schroeder, director of the Arms Sales Monitoring Project at the Federation of American Scientists, in a telephone interview. "In Iraq, hundreds of missiles were recovered like this and in Afghanistan in the 1990s."

There is no evidence of looting of Libya's chemical weapons, which have been under 24-hour watch via aerial reconnaissance, electronic surveillance and agents on the ground, according to U.S. officials.

Wrong Hands

The potential proliferation of Libyan small arms, portable weapons and old artillery shells that can be made into roadside bombs is a threat the U.S. considers serious and has taken urgent steps to combat, according to a State Department official who was not authorized to discuss the threats.

"We're very concerned about those weapons turning up in neighboring countries," Frederic Wehrey, a senior policy analyst at the RAND Corp. in Santa Monica, California, who has been studying the Libyan uprising, said in a telephone interview. "They're the ideal terrorist weapon -- portable, easy to use and capable of inflicting large numbers of casualties."

Army General Carter Ham, head of the U.S. military's Africa Command, told the Senate Armed Services Committee on April 6 that Libya once had as many as 20,000 surface-to-air missiles. "Many of those, we know, are now not accounted for, and that's going to be a concern for some period of time," he said.

Missile Prices

The Soviet SA-7 and SA-7b, an updated model, are the main shoulder-fired missile in Qaddafi's arsenal. The units are about five feet long and sell on the black market for several thousand dollars, although the price fell as low as $500 when Saddam Hussein's weapons were looted and flooded the market after the 2003 U.S. invasion of Iraq, according to a 2004 report from the Federation of American Scientists.

"This is a dangerous problem, clearly," Lynn Pascoe, United Nations under-secretary-general for political affairs, told reporters yesterday in New York. "When you have this many weapons around, one priority is to start seeing how you re- gather some of these weapons."

"At this point, it's a bit early to say exactly how it's going to be done," Pascoe said.

It isn't known whether the Libyan missiles have been maintained and remain functional, Schroeder said. In Iraq and in Afghanistan, which has both U.S.- and Soviet-made shoulder-fired missiles, many had dead batteries and other problems that rendered them inoperable.

	Destroying Weapons The U.S. State Department is giving $3 million to two international non-profit organizations operating in Libya to secure and destroy weapons and munitions. The groups have been working since early May in coordination with Libya's National Transitional Council. The Obama administration said in May that it was committing $1.5 million to collect and destroy Libya's missiles and other light weapons, according to a July 6 report by the Congressional Research Service. NATO aircraft have kept Qaddafi's vast military and industrial complex there under constant surveillance since the rebellion began in February, and asked rebel leaders to look for signs of mustard gas or other chemical or biological weapons. The surveillance includes Libya's two main chemical weapons depots, which are at Sebha and Rabta, according to the two U.S. government officials. No WMD Evidence "All sensitive elements of Libya's nuclear program, including everything that Libya received from the A.Q. Khan network, were removed in early 2004," U.S. State Department spokeswoman Victoria Nuland told reporters in Washington. "The last of the highly enriched uranium, the bomb-making fuel, was removed from Libya in 2009." Libya does have a supply of yellow cake, a uranium concentrate powder used to make bombs, and it's safeguarded at the Tajoura nuclear research facility, Nuland said. Mustafa Abdel Jalil, chairman of the Libyan National Transitional Council, said yesterday in Benghazi that no chemical or biological weapons have been found since rebel forces entered the capital, Tripoli, this week. Libya agreed in 2003 to destroy its chemical weapons, which at the time included an estimated 25 tons of mustard gas and some 3,300 bombs and artillery shells equipped to deliver. Link: http://www.bloomberg.com/news/2011-08-25/u-s-may-snap-up-qaddafi-s-missiles-in-mali-black-market-to-soak-up-supply.html
CHINA	**Exclusive: China Plans Fresh Move on Bank Liquidity** Source: Reuters BEIJING (Reuters) - China has ordered banks to include their margin deposits in required reserves at the central bank to mop up excessive liquidity, banking sources said on Friday, the latest move in Beijing's campaign to rein in worrisome inflation. Commercial banks will have to include margin deposits paid by their clients to secure the issuance of banker's acceptance, letters of guarantee and letters of credit in their required reserves. Such deposits amounted to 4.4 trillion yuan ($688.6 billion) at the end of July, according to central bank data. It was not immediately clear by how much additional money banks would have to set aside as reserves, but the actual amount would vary from bank to bank. "We estimate that the step could lock up about 800 billion yuan in bank liquidity," said one

	banking analyst, who declined to be identified. Some banks have received the order notice from the People's Bank of China, which requires them to pay deposits to the central bank in batches, the sources said. One of the sources said they had seen the central bank notice. The Big Four banks -- Industrial and Commercial Bank of China (1398.HK: Quote, Profile, Research, Stock Buzz), Bank of China (3988.HK: Quote, Profile, Research, Stock Buzz), China Construction Bank (0939.HK: Quote, Profile, Research, Stock Buzz), Agricultural Bank of China (1288.HK: Quote, Profile, Research, Stock Buzz) -- and the national postal bank will start paying reserves to the central bank from September 5, according to sources. The central bank was not immediately available for comment. China's central bank has raised bank reserve requirement ratios (RRR) nine times since late 2010, taking the ratio to a record 21.5 percent for the country's biggest banks. On top of that, the central bank has raised interest rates five times since last October. Most analysts believe the room for further policy tightening is limited. Chinese leaders still view inflation as the top enemy, repeatedly stressing that controlling price pressures remained the top priority, even as economic growth is slowing. China's annual inflation in China hit a three-year high of 6.5 percent in July. ($1 = 6.390 Chinese Yuan) Link: http://www.reuters.com/article/2011/08/26/us-china-economy-rrr-idUSTRE77P29P20110826