

IN THE NEWS

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Security

Acknowledging the Lockheed Martin hacker attack used compromised SecurID one-time authentication tokens; the security firm, RSA, is offering to replace the devices [1]. In another high profile breach, the International Monetary Fund (IMF) suffered a cyber-attack [2]. The indications are the IMF attacks were state sponsored [3]. To illustrate the seriousness of the attack, the FBI is helping with the ongoing investigation [4]. Hackers also breached the U.S. Senate's web site [5]. In a recent survey, retailers are suffering greater loss due to organized crime and the sophisticated tools used by the criminals [6]. Globally, it appears that China has sustained a cyber-war against the U.S. and there is wining [7].

In another high profile bank breach, 360,000 Citi bank card holder's data was breached [8]. The compromised customers account for approximately 1% of Citi's card holders [9]. Citi stands to lose \$ millions in notification, card replacement, and lost customers [10]. It seems the Citi hackers were detected by a routine check in May after they first broke in and then ran programs that tried different account numbers [11]. Certain to upset many Citi customers, alerting the hacker victims was delayed by up to three weeks [12]. In response, the FDIC is calling on banks to improve security, especially on-line authentication [13]. Yet it seems that financial institutions will be using these devices instead of Public Key Infrastructures [14]. So instead of taking this opportunity to actually fix the security, once again a lower price alternative will be selected. We can only conclude the losses due to cybercrime have yet to reach the point where reactive policy dictates adequate security. This does not bode well for our financial industry. What's more, another regulatory agency, the SEC, is considering issuing more guidance on cybersecurity breaches [15].

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Energy

In Japan, the estimate for radiation leaked during the first week of the Fukushima was revised up and is now twice the original reported value [1]. A question here is why it took months to revise this estimate. Moreover, TEPCO is planning to release another 3,000 tons of radioactive water into the ocean [2]. This after revelations that three of the Fukushima reactors suffered complete meltdowns [3]. What's more, two whales culled in Japan showed traces of radioactive cesium that likely originated from the Fukushima nuclear plant

[4]. Meanwhile, Japan may shutter all nuclear generation plants by next April [5]. However, the cost of shutting down the Japanese nuclear reactors may be too great with additional fuel costs estimated at \$37.5 billion per year [6]. Therefore, given Japan's export driven trade policy, this goal will likely be cancelled or postponed by financial realities. Especially since the IMF is concerned over Japan's huge debt and recommended the island nation triple its sales tax as a debt reduction measure [7]. In the meantime, on the

third month following the earthquake, thousands of Japanese protesters marched against nuclear power [8]. What's more, in a clear example of a monopoly, the Japanese government is actively trying to prevent Tepco from bankruptcy [9]. Elsewhere in Japan, a Government sponsored investment fund is proposing Sony and Toshiba merge their liquid crystal display businesses [10]. This is another example showing the role of Japan's government in treating industry as a single conglomerate. Meanwhile, Iran is plan-

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Special points of interest:

- China Won't Help Investigate Counterfeit Parts In U.S. Weapons
- April U.S. Trade Deficit With China Increased 20%
- Citi Raises Hacked Count To 360,000
- Radioactive Whales Off Japan
- 47th Bank Closed

Energy

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ning to use more advanced centrifuges that will triple the nuclear manufacturing capability [11].

China's energy consumption rose 11.2% last year placing it as the world's largest energy consumer accounting for 20.3% of the world's consumption [12]. Closer to home, Exxon discovered a massive new oil and gas in the Gulf of Mexico [13].

In Dallas, one company has perfected a way to make ethanol from natural gas [14]. This could be cheaper and more energy efficient than the current approach of distilling.

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Security

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*Better keep yourself clean
and bright. You are the
window through which you
must see the world—George
Bernard Shaw*

Economy

In sobering news, the percentage of unemployed over 6-months exceeds that of the Great Depression [1]. What's more, the April trade deficit with China increased 20% to \$21.6 billion [2]. However, the April trade deficit with Japan fell to \$3.6 billion [3].

The worry over a flash crash, where prices fall for no obvious reason, remains high. Case in point, on June 7, the futures price for natural gas fell 8.1% then rebounded after a few seconds [4]. Although the cause is not known, algorithmic trading is suspected [5]. As we have repeatedly pointed out, the fixes to date do not address the underlying problem, algo trades. Perhaps after a few more flash crashes, the slow learning process can commence.

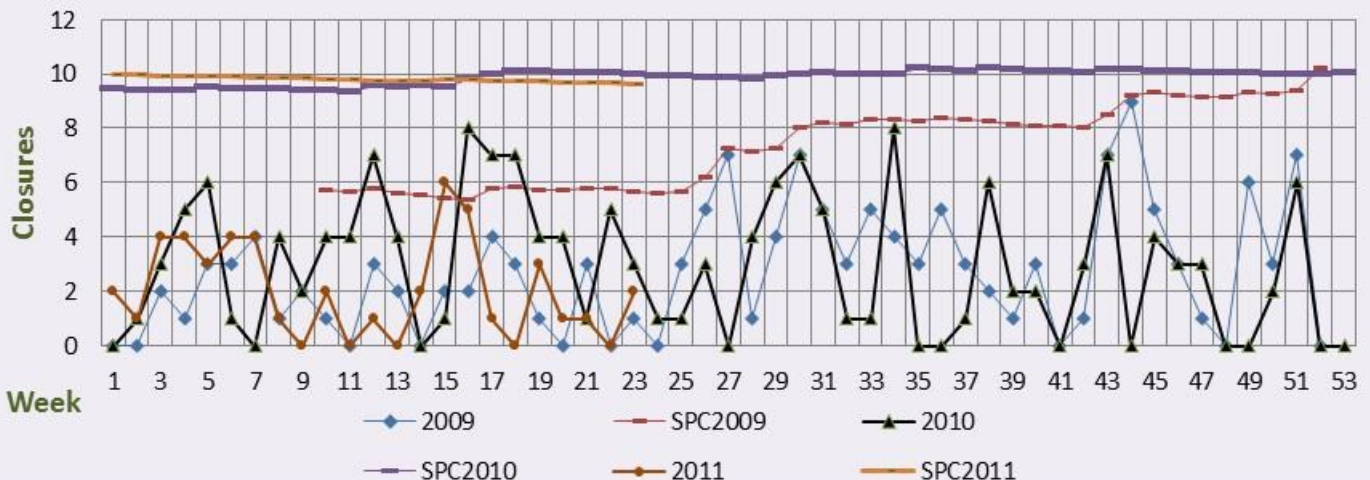
The number of first time unemployment rates remained above 400,000. For the week ending June 4, the number was 430,000; however, for the week ending Jun 11, the number fell to 414,000 [6].

On June 10, regulators didn't close any financial instruction. However, on June 17, two were shuttered: 46) McIntosh State Bank in Georgia; and 47) First Commercial Bank of Tampa Bay in Florida [7].

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There are no extraordinary
men...just extraordinary
circumstances that
ordinary men are forced to
deal with-Admiral
William Frederick Halsey
Jr. (Bull)

Failed Banks Vs SPC Threshold 6/19/2011



China is threatening to take legal action to block the European Union from implementing an airline emissions trading scheme [1]. Moreover, China is creating a rare earths monopoly for the Northern part of that country [2]. This should help preserve the one-sided trade with the communist giant. Still, Japanese companies continue to set up factories in China following the earthquake. For instance, Hoya Corp will set up its first non-domestic optics glass furnace in China [3]. China continues to assert its claim to oil rich waters in the South China Sea. For example, Vietnam is claiming a premeditated incident where a Chinese fishing boat rammed the survey cables of an oil exploration ship operated by Vietnam Oil & Gas Group [4]. In a different incident, the Philippines accused China of firing on one of its fishing ships in the contested Spratly islands located in the South China Sea [5]. For its response, Vietnam announced it will conduct live fire Naval exercises off of its central coast [6]. Then, China sent its largest patrol ship into the contested area [7]. At the same time, China is assuring its neighbors that a aircraft carrier it is building is no threat against them [8].

In other news, China is refusing to help the U.S. investigate counterfeit parts finding their way into our military weapon systems [9]. Meanwhile, China is downplaying the risk of lead poisoning of children near heavy metal polluting industries [10]. There are indications that millions of Chinese children may be suffering from lead poisoning [11].

In the U.S., we have allowed

many industries to shutter. Examples include steel, ship building, electronic, textiles, and the like. However, other countries actively help their industries. Case in point, the Japanese cabinet proposed a bill that would help pay the liabilities for the troubled Tepco company owner of the stricken Fukushima nuclear power plant [12].

For a long time, there were suspicions that some Pakistan officials were supporting terrorists groups. It seems evidence was provided by provided to the head of Pakistan's Central Intelligence Agency of such collusion [13]. Furthermore, in what appears to be another intelligence leak, news articles are circulating that five informants were arrested in Pakistan [14]. This in effect places the informants at risk. One report suggests Iranian submarines will be operating in the Red Sea [15].

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*The only thing necessary
for the triumph of evil is
for good men to do nothing*
~Edmund Burke
