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Today's Notes:

1. **Energy**
2. **Foreclosures: Record Levels**

1. ENERGY

A shape with lion body and the head of a man,
A gaze blank and pitiless as the sun,
Is moving its slow thighs, while all about it
Reel shadows of the indignant desert birds.
The darkness drops again; but now I know
That twenty centuries of stony sleep
Were vexed to nightmare by a rocking cradle,
And what rough beast, its hour come round at last,
Slouches towards Bethlehem to be born?

I read in the FT this AM that GE will build a $100 million battery plant in New York State to provide energy that is clean and green in the transportation space. These are not batteries for automobiles but for locomotives and for storage applications. GE says that the sodium-based high energy density batteries will be widely used in mining, utility and telecommunications industries as well as in transportation and as soon as next year.

David Paterson, the state's governor said,

"We are making New York the global capital of the new clean energy economy,"

GE will also invest $70 million in lithium battery research applications. I must applaud these moves for they portend a significant change in energy modalities in the future. One hopes for the better. Sodium and lithium intends to combine the best of both technologies (sodium and lithium) to attack the transportation space. GE's CEO Jeffrey Immelt has called transportation the "Holy Grail." To some extent, therefore, it seems that GE will make a 21st century bet on energy and specifically battery technology. Before we become too enthralled with the GE plans please remember that 33% of all profits that GE made in 2008 came from GE Credit Corp. Last year the financing arm of GE made $8.6 billion in profits. So in effect a large piece of GE is really a bank.

Being a bank has been immensely profitable and yet terribly dangerous in the past two years. The US economy has run on an accumulation of debt from every corner of the marketplace since 1990. Washington solved that problem by violating the principal of moral hazard. No bank is too small to fail in this setting. Even Goldman Sachs became a bank as did American Express. It was a great taxpayer giveaway.

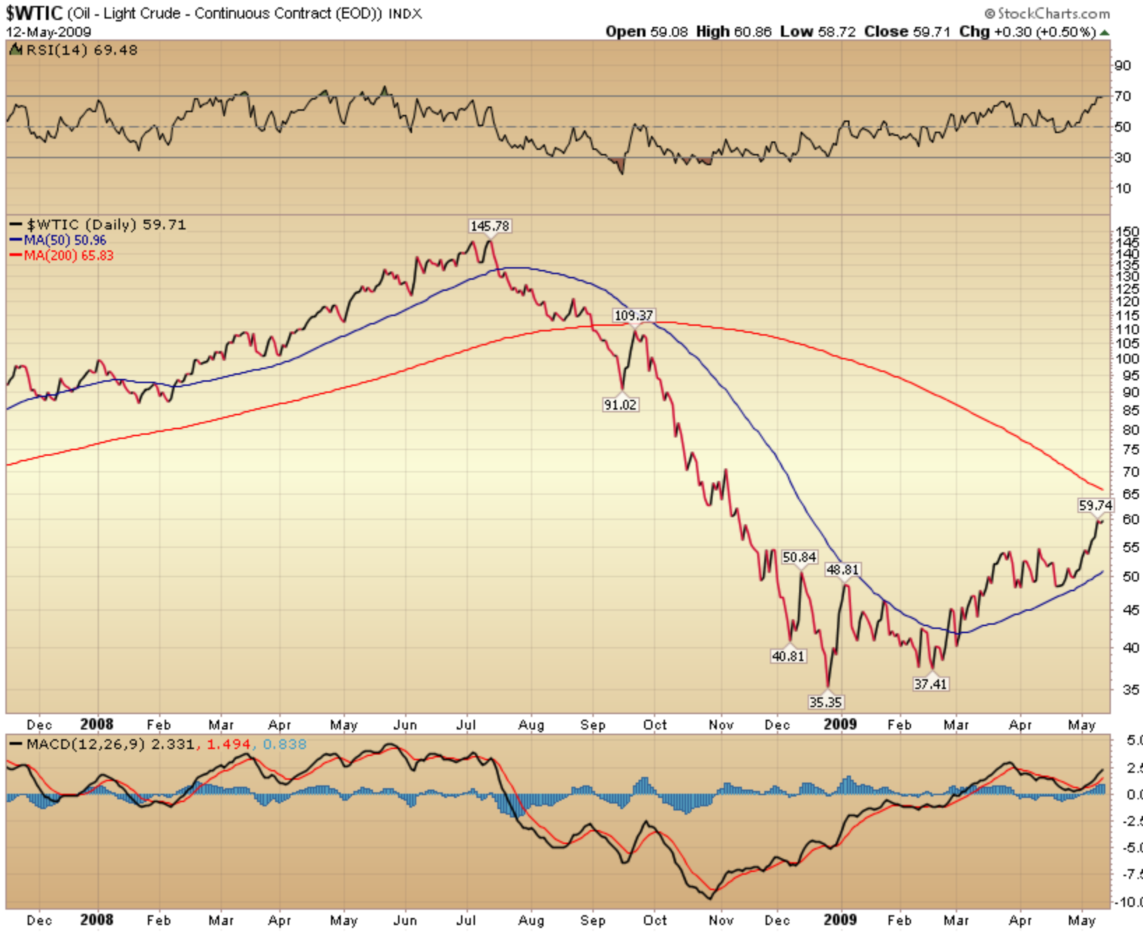
But all that is just history and we have yet to pay for these follies. GECC is not yet out of the woods. It has $2.9 billion in commercial mortgage backed securities (CMBS) in its investment portfolio and $50 billion worth of commercial real-estate loan book in a "senior secured position." The unknown at this writing is how much GECC must write down the value of its CMBS portfolio along with all the other loans in its $637 billion worth of assets. We await those numbers with trepidation.

But this Morning Note is about the GE move into "clean" energy. One must wonder why GE did not adopt this technology 10 or even 20 years ago. Instead the company, like General Motors in many ways, (except of course GM's product and cost structure was totally unsustainable) milked the debt binge that Washington backed and mom and pop acquiesced and then embraced.

Fossil fuels have rebounded however. They will not disappear no matter how vehemently and eloquently President Obama insists. This AM natural gas has finally moved north. One wondered how long and deep the commodity would slide. It now seems the **Natty** has decided to move up as you can see and it has smashed through its 200 day moving average.

Oil itself seems now to want to move north with its cleaner cousin. OPEC notes that the oil market is stabilizing. OPEC expects oil to be $75 by year end or during the first quarter of 2010. OPEC seems to have done a good job of holding the line on the 4.2 million barrels of daily production cuts. Oil will almost surely smash through its 200 day MA resistance. These are impressive **non-green** indicators that growth at least in the rest of the world is rejuvenating and that supplies of perishable commodities are limited.

So now the monolithic US economy is ever-so-slowly beginning to react to the stark realization that we have another 20 or 30 years of dependence on foreign oil. Like the Sphinx in Yeats' Second Coming the US economy must react to the resurgence of energy prices even at time when energy prices are to be multiplied by a carbon cap and trade program from Washington. How powerful can our recovery be under these incredulous circumstances?



This AM relatively poor US consumer spending numbers tumbled in. This is disappointing given all the “Green Shoots” we have seen recently. Perhaps these green shoots will turn out to be simply rye grass and will wilt under the summer sun. **Nevertheless the real issue is energy.** The Obama Administration is beginning to realize that cap and trade is a loser that will make energy prices soar 20% to 40% in the US. They are already promising to defray half cap and trade costs to industry. While we laud GE for its moves on battery production and technology development we also must scold GE management for waiting so long and depending upon the cheap debt era to sustain the company.

Of course General Motors and the auto industries used the same crutch. It was a great debt party for failing industries while it lasted but unfortunately it became an addiction and at least in the case of General Motors it replaced the need for the global competitive development of auto technology.

build automobiles that the public would buy and that at the same time would have combined battery and mileage technology with consumer comfort. But the time for that has long passed.   Thirty years ago we were all talking about these issues but that crisis was not yet upon us.

Now that oil and natural gas are headed higher the problems for the OECD economies, as will as the BRIC economies will mount. Energy is the centerpiece of every economy that strives to increase the quality of life for its citizens – make no mistake about that. When I drive into New York City I will often remark to Kate that the thousand cars lined up at the Holland and Lincoln Tunnels burn carbon-based fuels. None of them run on electricity or even battery power.

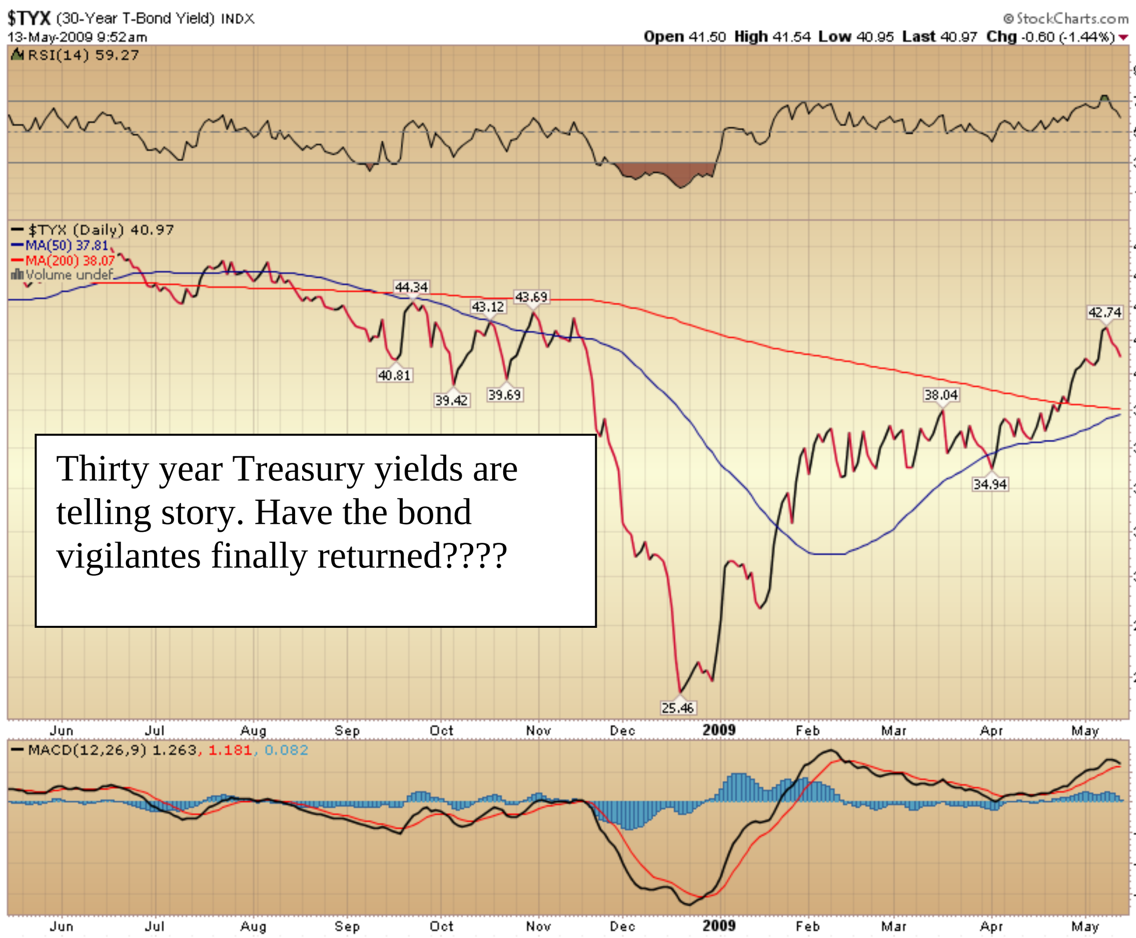
How many years will it be before GE's new battery technology has ANY impact on the energy burned by the cars waiting today at the entrance to the Holland Tunnel? How many years will we remain dependent upon oil from Iran, Venezuela and Mexico? How many dollars will be shipped overseas in this regard? It is our government and industrial base that has failed miserably to address the now apparent and vexing energy problems of our society. Yet today GM is run from Washington, and GE executives are policy makers on the Washington scene. Perhaps we are finally slowly moving but it is with blank gaze.   The question is will we now be able to move quickly enough to avert the real pain that could beset us?

2. FORECLOSURES

The bad news this AM is not only the poorer then expected retail sales. The 0.4 % decrease in retail sales followed a revised 1.3 % drop in March that was larger than previously estimated, the Commerce Department said today in Washington. Excluding auto dealers, sales fell 0.5 %.

It is that foreclosures are up 32%. Realty-Trac suggests this AM on Bloomberg that the worst is yet to come in terms of foreclosures. Option Arm and IO mortgages still must reset through 2010 and 2011. This economy cannot recover with any strength if foreclosures continue to dog the housing industry putting price pressure son homeowners and increased toxic asset pressure on the banks. Of course we are still in a negative feedback loop. As housing prices decline more homeowners default and / or foreclose. As this happens the banks are hit. You know the routine. On the whole today's retail sales and foreclosure news is wilting the "Green Shoots" of this spring.

And now with Treasury yields moving higher we have the first rumblings of the need for raising interest rates by the Fed. This sounds problematic to me. With foreclosures at an all time high how can we possibly consider raising interest rates? This situation is beginning to resemble Japan in the 1990s – a great deal.



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