Central Banking in Crisis: Some Twenty Countries on the Verge of Insolvency

Market Volatility as the Debt Implosion Continues

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Cycles were created for the accumulation of wealth. A boom occurs and you get wealthy from investments on the way up and even wealthier on the way down, because the elitists are controlling the supply of money and credit and interest rates. That is the real underlying mission of the Fed, which is owned by banking and Wall Street. All the power to control markets and create inflation and deflation lies with the Federal Reserve. Politicians do not create monetary policy, the Fed does. The politicians do as they are told. They know from time to time there will be economic pain, but the payoffs are so good they learn to live with it.

This time the damage is so bad that the Fed has been forced to monetize trillions of dollars of debt. The disease this time has spread to Europe with the ECB, using, quantitative easing by simply creating money out of thin air. That is something they said they would never do. The only real liquidity in Europe is emanating from the ECB and the Fed. We believe that eventually countries will fail, as Iceland has. You know all the possible victims. There are presently 20 of them including the US and UK . Three-card Monte games do not last forever. If liquidity is that scarce then where is the money coming from? The only place it could be coming from is the Fed. Not only is a $2 trillion bailout in process, but also as banks and thrift institutions fail stress tests some will be bailed out by being absorbed by other supposedly solvent institutions. When that option is gone then governments must bail them out. When the monetization hits the entire system collapses. After 50 or more years in this business we believe the system is definitely going to fold.

All the central banks involved are broke or virtually broke. If they are not broke why is their condition a big secret? The Bundesbank told Spain last week that we do not want stress test results made public. The reason obviously was because of the sad condition German banks are in and their penchant again to keep everything secret. These are the same people who want a one-world currency in the form of an SDR, which is worthless, because it has no backing. It is just another fiat currency. They all are in such bad shape they cannot even sterilize their interventions. The new trillions we see in the system in Europe and the US cannot be sterilized.

In England we see the Bank of England financing and monetizing the UK budget deficit. The alternative is financial collapse. The UK is in such terrible shape that they refused to partake in the almost $1 trillion bailout of the euro zone PIIGS. Recently the Fed bought $1.25 trillion in toxic waste and $800 billion in Treasury paper for over $2 trillion dollars. Adding to the incompetence and desperation, the ECB is buying the toxic debt of euro zone that are on the verge of bankruptcy. All entities are extending their debt buying programs with money they do not have and for people that can never pay the debt back. The central banks do not care as they save the financial institutions. The citizens are an afterthought. Not one of them wants to give up their power base. They don't want to declare insolvency – they want the public to pay their debts. Weimar wasn't much different, except it wasn't caused by German greed, but by the vengeance of its enemies to bring about a war worse than the war to end all wars. This time it is propelled by greed and a quest for world government.

The result of all this is that some 20 major countries are on the edge of insolvency, not to mention scores of other countries. We see one funding crisis after another. Even major countries can't sell their bonds even with higher than normal yields. Interest rates are close to zero. We suppose they could go into minus territory, where they would pay you to borrow money. Don't laugh, it has happened more than once. It was also not uncommon to see negative lease rates, as countries engaged in the suppression of gold prices. Governments do anything they want. This same state of mind exists in increases in money and credit. Presently almost all governments are in trouble. If they haven't made a dog's breakfast out of their own economies they have bought bonds from those who have and stand to take stiff losses. Look at the euro zone's almost $1 trillion bailout of the PIIGS. Do you really think those bonds will ever be paid off – we don't. It is this concept of interconnectivity that as the players are finding out it is a disaster. How can solvent European countries even contemplate a $2 trillion bailout for nations that really do not care if the debt is ever paid off? That is how today's world turns.

We fall back on a very important underlying concept and that is if you do not understand what is really going on behind the scenes you can never get the right answers and conclusions. People talk about cycles and super cycles as if they occurred out of nowhere. They all happen by design. As an example, the economy has improved, but that is because of $800 billion in stimulus and Fed spending. The growth that evolved was tepid at best. Now that the economy is trailing off, the stimulus having expended itself, and the question is what comes next? The only way to stave off recession/depression is to have another stimulus plan. That, of course, doesn't affect the root causes – it just gains time.

In this debt parade we find it interesting that but for one source, we see no mention in the media of America 's contribution, via the IMF, of some $60 billion. The frauds and criminality continue unabated. Nowhere do they tell you that among the biggest speculators were the banks that you are being forced to bailout.

Over this past year we have seen a stampede into corporate and Treasury bonds, at miniscule yields, due to the perception that bonds are safer. These investors are in for a big surprise as banks and other professionals start to factor in the risks involved, which throw off such poor returns. As the world economy runs out of stimulus and liquidity that has been chocked off by central banks, the realization will be that the prospects of countries and corporations have been severely diminished. GDP is falling and could in many countries, led by the US , should be negative for the last two quarters of the year and beyond. There is no safety in bonds, particularly municipals. Bonds are in a bubble, as many will soon discover. If income falls the ability to service bonds gets more difficult, both by government and corporations. While these myriad problems exist our Congress grovels before the political masters of Wall Street, banking, insurance, big Parma and transnational conglomerates. Pricing of risk is now impossible, which means risk rises exponentially. Eventually this reality will make credit harder to access as we move into the future.

What is important more than anything else are jobs and those who create them cannot easily borrow money. At the same time free trade, globalization, offshoring and outsourcing kill our jobs and fill the coffers of transnational conglomerates that keep their profits tax-free offshore. You cannot do that. While this transpires yourCongress stuffs their pockets with cash from elitists who own them.

The troubles we see in Europe are but a reflection of what is going on worldwide. This leads us to the conclusion that Americans and others are being systematically betrayed by their legislators. – A problem that can be remedied in November by removing almost all of them.

The European rescue attempt will not work nor will phony, temporary stimulus, or increased issuance of money and credit. Do not forget as well that a great deal of that European debt is being held by US institutions. Expending volatility is on the way, as the debt implosion continues. Is it any wonder, as we predicted, gold and the shares are hitting new highs.

Stock and bond markets have no way to go but down. If you are not out of both, with the exception of gold and silver shares, you had better be. The big money, the professionals, are in a state of panic and that money has to go somewhere. Yes, you guessed it, and that is very bullish for gold and silver related assets. As an added incentive the dollar is in the process of completing a head and shoulders, which means the rally is over and the dollar is headed down. Even though the dollar decoupled from gold over a year ago, as we predicted, and probably only affects gold by some 20%, it is still gold bullish and not neutral or negative. Adding further fuel to the fire we predicted four years ago not only real estate would collapse and that foreclosures would wipe out trillions in real estate values, but that millions would walk away from their underwater homes. Homes where mortgages were greater than the home value. The first wave began two years ago, but we now see affected those with good to excellent credit who are defaulting because one or even two breadwinners have lost their jobs. Now we have those underwater that won't sit with a wasting asset. Besides they realize this could now go on for years, perhaps two more years to the bottom of the market and many more before any semblance of normality is seen. They have now become about 13% of all defaults, up from 4% three years ago. Mortgage holders also see this as payback for the banks that caused the debacle and screwed the homeowner in the first place. Banks aided and abetted all kinds of fraud and no one has ever been charged, never mind sent to jail. The Fed and government also bailed out the banks and not the public and that has further incensed homeowners and others. It pays to be a crook. The banks are losing about $100 billion a year and that is funneled into the economy via other channels – another stimulus plan, that is because many no longer pay a mortgage or rent. In the next two years homes in negative equinity will rise from 25% to 50% to 60%. Lots of lenders are going under and that is the way it should be. It, of course, will be devastating for the economy.

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