

Evolving Financial Crisis. Solvency of the Euro Zone

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The hand of the US elitists shows more each day in the decisions being made in Europe. Mario Draghi, ex-Goldman Sachs, Trilateralist and Bilderberg, is putting everything in place just the way the US elitists want. We are about to see full scale quantitative easing.

One trillion in loans times fractional lending of 3 to 9 to whatever will give Europe the funds it needs indefinitely. Europe is going to be a rerun of what we have seen in the UK and US. In behalf of German voters who are 65% against such funding, Chancellor Merkel has refused to allow issuance of Eurobonds or an expansion of the EFSF. Draghi at the head of the ECB is now putting pressure on Mrs. Merkel to drop back to a more defensive position.

The intrigue is at its height. If Frau Merkel gives into Draghi she and her party will not score well in the next election and may even lose political control. That could cause Germany to consider leaving the euro, which would destroy the euro zone. There are major dangers here and all the players are well aware of it. Agreement will take time and if it is not reached everything could short circuit, other than the fact that the Fed has put the funds in place. The other objective of getting Germany to whole-heartedly accept the bailout and stimulation is another matter. Confusion reigns even among the participants. The US, UK, France and their front men, Draghi, Monti and Papademos are all moving forward. The price will be very high from an inflationary standpoint, but to the elitists that isn't even a consideration. They could care less. That is why you want to have your assets invested in gold and silver related assets. We could be headed toward another Weimer episode.

What we are seeing worldwide is another expansive use of money and credit creating better known by the euphemism, quantitative easing. In June, the Fed will announce its latest version that has been secretly underway for the past few months. The Fed is the instrument of liquidity, because it is appointed. By using the Fed everyone's covered politically. That lets the political types slide into the election not having to be worrying about finances and the economy. It will all be designated the Fed's fault. This will do the Fed lots of damage. If Ron Paul is elected president these actions could lead to the Fed's demise. Long-term unemployment is still about the same and the housing situation is worsening, not improving. U-3 unemployment figures at 8.5% are almost meaningless. It is U-6 that counts less of course the birth/death ratio and that is 15.2%, or real unemployment of 21.5%.

This past week the euro hit its lowest level versus the dollar in 15 months. Investors certainly see the short-term positives of more than a trillion dollar injection to the banks and sovereigns of Europe, but they are looking beyond that. They see major long-term damage to the euro caused by this massive injection of new liquidity. Unless there is a breakdown in Greece, or another European sovereign, the euro should make it in 2013. That may be so, but banks that just borrowed \$850 billion from the ECB have re-deposited \$587 billion of those funds back with the ECB. That means only \$263 billion was used in other ways, or

about 15%. Normally banks would lend overnight to other banks, lending banks do not trust other banks, hence, the massive deposits at the ECB. The lending is for three years or less at 1%, but this program may go on indefinitely as perhaps the programs in the UK and US will as well.

In addition to this really open ended financing many countries are rushing to sell bonds, as \$90 to \$100 billion has to be refinanced in Europe. That is \$203 billion in just the first quarter.

The European bond market is looking at Greece, which wants Greek bondholders to take a 60% to 75% haircut. Sixty percent of those bonds are held by banks and about 40% by hedge funds that will take large losses. In the case of new bond sales they should not sell to private investors. If they sell to sovereigns the debt burden will be smaller and hence the total bill.

In Italy citizens want the corruption by the politicians ended. Austerity for everyone except them. Some are making \$26,000 a month, as the average Italian makes \$2,600 monthly.

In France the bankers, bureaucrats and politicians are all worried about France being downgraded, not one level, but 2 levels and that is understandable. What should really be frightening them are the two elections for the presidency in April and May. If Front National and Marine Le Pen, were to take the presidency Europe's Illuminists would be staggered. Miss La Pen has stated if she is elected they'll be no more euro zone or EU for them. They obviously do not take her possible presidential bid seriously. The bond market is already treating France as if they already had been downgraded, or that Le Pen had already defeated President Sarkozy.

The pros still are debating the solvency of the euro zone and the fact that at least \$6 trillion is needed for the system to survive.

The elitists, very mindful of the challenges they face, scrambled via the Federal Reserve to lay the groundwork for another temporary rescue of European banks, as the Germans produced the cash flow and credit for the temporary rescue of the six recalcitrant sovereigns. The swap, an illegal loan, by the Fed could keep the banks afloat for years, using fractional banking. The EFSF funding is another matter. \$600 billion is one-tenth of what is needed just to keep these countries solvent. European banks have now assumed the same mode of US and British banks - broke but still operating, thanks to never ending loans from the Fed. Every time any of these banks spend money, or lend reserves, it becomes an inflationary event. The financial world of post 1944 is over. Now it is inflate or die. The success of this period was built upon stunning government debt, which is now in the process of reaching saturation over the next five years. As a result stock and bond markets have held there own and then some, and even with government manipulation gold and silver prices have more than doubled. When finally let loose in a free market both gold and silver prices will explode.

Today we see the magnification of unpayable, massive government debt, zero interest rates for banks, not the public or corporate borrowers, and bank monetization, which governments as a matter of normal course lie about. What we have just seen in the banking rescue in Europe is a forestalling of a current crisis, which will lead to greater crisis down the road in the future. Our experience over the past 53 years has been that the policy makers

always had leeway to make changes, but they now are down to crunch time. This is the last straw. If flooding the world with money and credit doesn't work this time, and it won't and they know that, then it is war for a cover. That is why you are seeing, what you are seeing in the Persian Gulf - a distraction and a prelude to war.

Financial crisis has always been a probable outcome and it has been since the early 1960s. We saw illegal market manipulation, particularly in gold in 1952, 1967-69 and again in 1977 to 1985. President Reagan's Executive Order creating the "President's Working Group on Financial Markets," which ended free markets and ushered in a new era of total financial market manipulation. Everything the participants do is in secret and in fact unless you researched the subject you would never know it existed. It is only occasionally mentioned in the financial media, because it is forbidden to do so. If you breach that prohibition you never appear on the mainline media again. During the 1970s and 80s we did thousands of TV appearances, but no more. We are banned, because we tell the truth. This is how the elitists get away with this secrecy. The major players are the Fed, the NYC Fed - the Fed's financial arm, and the Treasury via the Exchange Stabilization Fund. This is how all markets are manipulated 24/7 and 99.8% of the American public is unaware of it. What you have seen since the early 1960s was a guaranteed high probability outcome further driven by the end of gold backing of the dollar on August 15, 1971, a day that will live in financial infamy. Thus, in essence crisis has been with us for more than 50 years and this portion of that crisis could become a very dynamic closer as massive monetization and inflation is let loose. We are at the stage now that risk is growing exponentially, as central banks and governments aggressively intervene into markets causing major distortions. These actions set the stage for heretofore-unexpected events, now called "black swan" events.

The recent moves into the European markets by the Fed, as we predicted in 1992, will only delay the inevitable. The euro will fail. We just do not know as yet when. The euro has been in disintegration for years. Could its demise happen this year? Yes, it could. We don't know when, but it is finally on the way. The outcome will be very damaging for Europe and the world financial system. That is why you do not want to own currencies, except for day-to-day business. The gold cabal deliberately distorted the currency relationship to gold and silver this past year, but all they did was hold the beach ball under the water. It will resurface with a giant pop this year. Market intervention is only temporary, as you all are about to discover. That means your only alternative is gold and silver coins, shares and bullion. If you do not act now, especially at these low prices, you will be making a mistake. Economic and financial dislocation is at hand. The timing is left to fate. The crisis of debt can only be held at bay for so long and then the markets reassert themselves.

European bankers, politicians and bureaucrats believe the ECB has bought time, substantial time. They may have, but it will be interesting to see whether Greece defaults and leaves the euro over the next three months. A move such as a euro exit could bring major changes in the euro zone.

The problems that have emerged via virtually unlimited money and creation have caused in some quarters a crisis of confidence and instead of buying time a new floor is being erected to form an even more destabilizing crisis, as debt catches up with debt and derivative exposures become part of the complex problems. The problem of expectations brought by a serial Ponzi scheme is not ever going to go away. It leads to hyperinflation and collapse. The risk of failure is always paramount, especially considering the historical perspective, which has almost always ended in failure. The presence of derivatives today has complicated matters even further, when most of the sellers are running naked with no collateralization

backing their sales.

The European meltdown, along with the UK and US meltdowns are in process. Just be patient they will play themselves out. It could be 2012 or 2017. Who knows, other than those pulling the strings? They also know how much capital flight will leave Europe. As a result the dollar has found undeserved and unexpected strength, which should bode well for a year of 1-1/2% to 2% GDP growth. The problems are not going to go away, but spenders will be oblivious to what is going on. What is a lifesaver for Europe is a booster for the US and UK. This phenomenon should aid at the least horizontal strength to both US and UK stock markets.

The European problem is going to spread from the original six that includes Italy and Spain to Austria and then to France. That \$1 trillion swap was the temporary fix, but what do you do for an encore? Use fractional banking of course. The elitists are going for broke on Europe only to be followed by the UK and US. Thus far both countries have been the beneficiaries of Europe's woes.

It looks like our guess of a June QE 3 announcement should be right on, although we believe it has already begun. The twist is still in action and remains there until 30-year fixed rate mortgages reach 3.5%.

All these markets are in bubbles and will continue to be so until one bursts and all the others follow. Due to unrelated circumstances the US markets have shown the most resilience in this a national election year. Such an ongoing situation could draw a larger amount of funds from Europe and on the USDX an 86-dollar. Neither would be beneficial. 2012 will probably not be the terrible year for the US economy, but from 2013 onward could be. The key presently is confidence in Europe being able to control the economies and finances of its members.

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