

Fiscal Debt and Monetization are taking the Financial System Down: The Biggest Losses will be in the Bond Market

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The Congressional Budget Office thinks the country faces serious budget problems, as well as serious economic problems, because it estimates that the deficit for 2011 will be \$1.066 trillion. In addition it sees fiscal 2010, which ends on September 30th, at \$1.34 trillion, or 9% of GDP. Last year was 9.9%.

The lesson in Ponzi finance has not been lost on foreign investors who continue to buy less dollar denominated investments. That in spite of what the Federal Reserve is buying through its fronts overseas, which includes foreign central banks. The purchase of Treasuries and Agencies are so vital that you hear few references to deflation or inflation in the major media. All there is is the canard that there is no inflation. You would think these boobs in government would rig inflation at 1-1/2% to make it believable, but that obviously is beyond their mental capabilities, when real inflation is over 7%. The only conclusion we can come to is that government wants to obscure the fact that investing for a 10-year T-note at 2.50% is a 4.50% loser with inflation at 7%. These low rates of return, a zero interest rate policy and the creation of \$2.5 trillion still has not been able to bring lasting recovery to the economy. That is because the present solutions have never worked and there is no intention of making them work. The idea is to destroy the US and world economy to force its inhabitants to accept world government.

What is obvious for whatever reason, is that quantitative easing, or throwing money at the problem, doesn't work. We have just witnessed the greatest monetary expansion ever and no one seems to notice it didn't work. In fact the Fed is creating another bubble in relation to interest rates and the bond market. This could be much worse than 2005 and 2006. In spite of this probable outcome, banking, Wall Street and corporate America are clamoring for more stimuli as consumption again fades. Again there is no historical basis to believe that today's corporate fascist Keynesianism will work, in fact history tells us just the opposite. The extreme fiscal and monetary measures that have been chosen simply do not work. If QE or fiscal spending does not create inflation, then deflationary depression will become predominate and the entire financial system will collapse taking the world economy with it.

This cycle of inflation to deflation has been going on since the 1960s and each time finance and the economy were resurrected a new cycle began with greater damage. Today we have finally reached the end of the line.

Those who look at today's bond bubble forget the bond rally of the early 1990s and the

subsequent bust in 1994 when the 30-year bond hit 8-3/16%. Incidentally that was one of our first forecasts, which helped the IF get off the ground. Later in the 90s we called the Asian contagion, Russian failure of their currency engineered by criminals from Harvard and the failure of LTCM, which was bailed out by Wall Street. Their greatest mistake was being short gold. When all was said and done it cost \$7 billion. Wall Street lies so much who knows how much was recovered.

Some wonder why leadership doesn't seem to care. They do care, they deliberately created this monster. Those not in on the planning and execution possibly go along for the ride. If they do, they do not their jobs but in most instances if they do not they never work at their professions again. Some even meet an untimely end. What the pundits don't understand is that it was planned this way. Stabilization and recovery are not part of the plan. Only extension of the economy until the right spot is reached to pull the plug on the entire system. The key to that is the bond market, which is ten times larger than the stock market. That is where the smart money resides and that is where eventually the biggest losses will be taken. Yes, fiscal debt and monetization are going to take the system down and anyone with any foresight can see that.

Our mortgage market led by the GSEs, Fannie Mae, Freddie Mac, Ginnie Mae and FHA, for the past three years have been insuring and writing loans, most of which are subprime. That is now triggering a 50% failure rate, again. This has been done to keep real estate from totally collapsing. Today we have zero interest rates and 4.42%, 30-year fixed rate mortgages. This is another national socialist program that we predicted seven years ago when we wrote that Fannie and Freddie were broke. You know what has happened since. You can now see, as those in Italy and Germany in the 1930s saw, there are no longer any limits to government intrusion. The result has been the deflation in prices and to offset that the deliberate creation of inflation. Within all of this the Fed is still bailing out those connected within the elitist system and those who own the Fed and are designated too big to fail. That is what the enormous fiscal and monetary stimulus is all about. It's about lowering the economy in stages until it's ready for total destruction. There are no policies for relief or recovery. This depression will last for many years as government tightens its grip on the people and extinguishes their freedom. The stitches are being pulled from the fabric one by one.

The economy is being allowed to move sideways via monetization. As we move forward in time more and more confidence will be lost as inflation increases, wages and unemployment remain stagnant, free trade and globalization continue to flourish and the structural underpinnings of our economic and financial system collapse. As each day passes the situation worsens, although its planned demise is imperceptible to most. The global economy is in a financial bubble and there is no escape. The bubble is being ignored and that is sure to bring great heartache to all the world's inhabitants. If you have wealth the only way you can protect it is via gold and silver assets. There is no other choice.

All this is covered in words that are new and different. We call them euphemisms. Lying is socially and politically acceptable. Price stability is merely price fixing and TARP the Troubled Asset Relief Program, is simply the bailout of the financial structure by the taxpayer. Socialism for the rich in the cloak of fascism. Then, of course, we have quantitative easing, is the creation of money and credit out of thin air. That is followed by lower interest rates, which gives banks the incentive to lend under the fractional banking system. It's all manipulation, but under the Federal Reserve Act it is all legal. This is what

so-called monetary policy is all about. Unfortunately that game will soon be over. We are about to follow that shining example Japan into monetary oblivion. After 20 years of depression the land of the rising sun is about to descend deeper into depression and the world is about to follow. Their venture into chaos has been delayed by the ability to easily access export markets and a huge domestic pool of savings, which was tapped to keep their system going. Those advantages are ending and the rest of the world will follow, but not in 20 years. That is because the world's debt has been borrowed from foreign sources that must be repaid albeit in cheap dollars or currency. A massive erosion of fiat value. The profligate spending of governments is being paid for by bondholders and by the fall in the purchasing power of the currency, as expressed via inflation.

At this juncture the Fed has no options excepting a deflationary depression. They have zero interest rates and continue to monetize as a fiscal policies create \$1.5 trillion annual deficits. If they don't continue stimulus and zero rates the economy and financial structure will collapse. It really is as simple as that. The Fed's, Mr. Bernanke, is an expert on depressions. He knows there is no way out. We also find it of interest that the current phase of the crisis was deliberately caused by the Greek crisis, which had been common knowledge for years.

As we plow forward we see the trade deficit for June at a record deficit of \$7.9 billion, which is in part a reflection of the phony dollar rally of earlier in the year, when the dollar ran from 74 on the USDX to 89, which made US goods and services 12% to 16% more expensive than euro zone exports.

At the same time real unemployment is 21-1/2% with about ten million working an average of 34.2 hours per week. The sting is strong as borrowers reduce credit card debt by 8% and the use of credit cards has fallen by 23.2%.

In just four months the yield on the 10-year t-note fell from 3.99% to 2.42%. Needless to say, the bonds are trading near a high. This is by design and a reflection of QE. As this unfolded daily, the PPT buys SPUs, which keeps the stock market from tanking. This is how the Fed rigs the stock market that is by injecting reserves into the system. They are assisted by propriety trading desks and hedge funds, which the PPT uses. It is not surprising that Goldman thinks the Fed will buy at least another \$1 trillion in securities - bonds. We envision \$2.5 trillion over the course of the coming year. The Fed is also in the process of reselling more than \$1.8 trillion in CDOs and MBS back to the banks. The Fed refuses to tell us what they paid the banks for the toxic waste, because it is a state secret. We believe it was \$0.80 on the dollar and we bet the buyback by the banks will be \$0.20 on the dollar. The taxpayer makes up the difference, which is about \$1.1 trillion. The remaining \$700 billion plus will be used by the Fed to buy Treasuries and Agencies. It will have cleaned up its balance sheet, and the banks' books to some extent at the same time. The injection of funds will be assisted by bank lending and Treasury and Agency purchases of \$1 trillion plus. At this writing these tactics have resulted in mortgage rates of 4.42% on 30-year fixed-rate mortgages, which will probably fall lower. These mortgages will add to the load of guarantees, already at 97%, of Fannie Mae, Freddie Mac, Ginnie Mae and the FHA. This is how you tie the ends together. These circumstances will continue on indefinitely, because the minute the Fed ceases to monetize the system will collapse.

As of yet low mortgage rates are not producing new residential real estate buying. Most of the buying is by speculators. New and used home sales have fallen off a cliff and will continue to do so without special incentives.

At the same time the administration has no intention of cutting deficit spending as revenues continue to fall. There will be annual \$1 trillion budget deficits as far as the eye can see. Any leader who steps in tries to stop this band of criminals will quickly be liquidated. Do not forget they control the dark side of the CIA. All the administration is concerned about is lengthening the maturity of Treasury debt, so that they can continue their fiscal profligacy. Of course, the Fed will assist them in this endeavor.

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