

Grim Economic Prospects for 2012: How the Federal Reserve Overshadows the European Banking System

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What does one write about between Christmas and New Years? Things are usually pretty quiet, especially in Europe. As a result we'll give you a little about this and a little about that.

Public institutions worldwide are fighting ratings downgrades foremost of which is France, the US and, of course, sovereigns and banks worldwide. Miracles of miracles finally the rating agencies are doing their jobs. The caper they pulled in collusion with Wall Street in rating mortgage securities should have put them all in jail for life. We'll call these efforts makeup time for their previous sins, which they never were prosecuted for. The complaint is their methodology is unreliable. We can assure you they know exactly what they are doing. The French want them to cease and desist. That is not going to work, because the French government and banks have very serious solvency problems. Central bankers and sovereigns always believe they are above the law. Eventually they all pay the price of greed and corruption.

Early in December the BIS informed the UK's policy of quantitative easing, the creation of money and credit, was not working. The US central bank, the Federal Reserve, has been doing the same thing for 12 years, so we ask why has not the BIS cited them as well? Horrors of horrors just two weeks ago the ECB, European Central Bank, decreed that they were going to implement QE as well. We ask, why no BIS comment regarding the Fed and the ECB? Might it tend to bring both systems down? All of these central banks and sovereigns playing this game know that it won't work, but they play the game anyway buying time to hope to create an opening to bring about a change in direction, which never comes. That is why we have well planned wars to distract the people from the real economic and financial problems and, of course, to relieve population problems. If you doubt us we refer you to many of the writings and statements regarding population control via Foreign Affairs, the literary organ of the CFR, the Council on Foreign Relations, or the Trilateral Commission, along with their statements as well. We might add Obamacare, which will be implemented in one year, and the "death panels", which will become part of your life and death. Wait until you are told that your beloved mother and father's illnesses will cost too much to treat and they will be allowed to die. We are not meandering and you cannot make such stuff up. These are the thoughts and actions of our leadership, which control your lives from behind the scenes.

The euro zone may have publicly made it clear it is their show and that they need no assistance from, of all places, the Bank of England nor the Federal Reserve, yet they mimic

them, now having implemented their own QE, accompanied by \$1 trillion in swap assistance from the Fed. We see the words and ideas, but the reality is that behind the scenes the Fed is pulling the strings. You judge them by what they do not by what they say. In view of their newfound responsibilities we still find the rating agencies far behind the curve, due to pressure from banking and the political structure. Keeping that in mind investors have to rely on their own research and not that of an intimidated rating system. Besides rating changes are discounted months in advance by other professionals.

All of the events you have seen in the UK, US and Europe were predicted by us. The revelations of the past year were yesterday's news. All three entities have committed themselves to the furtherance of hanging paper whenever and wherever they can. We saw the euro crisis before it happened, so it was of no surprise to readers. The specialty media and the financial sector completely missed the boat. All three entities have proven themselves incapable of any plan or initiative of solving their problems. They just keep the game going knowing the result and refuse to purge the system, because it will rob them of their power base. This is why heretofore the PTB have not allowed any attacks verbally on their central banks, with the exception of the US. Over the next three years that will change and the Fed's monetary work will be passed back to the US Treasury. If Ron Paul is elected it will probably happen in 2013. An end to "The President's Working Group on Financial Markets" will precede it. That will end official market manipulation and kill the control that has been exercised by the owners of the Federal Reserve for the past 100 years. The termination of both entities will be important beyond belief.

The ECB last week began the process of making loans worth \$640 billion to 523 banks. For collateral they'll accept anything including what is known as toxic waste, virtually worthless bonds containing mortgages and the bonds of near bankrupt nations. In essence the ECB is doing what the Fed has been doing and calling it something else. As you can see almost all bankers and politicians are deceivers. This is a long-term financing operation, LTRO, which directly funds, whereas the Fed funds via market intervention. The ECB expects borrowers to bolster their balance sheets and to buy Europe's version of toxic waste, sovereign debt, out of the market. We do not expect the latter to perform as perceived, even though with little risk a bank can buy Spanish and Italian bonds and net 4%. At the end of February more loans will be offered to repeat the process. What you are seeing is the leveraging of the purchase of foreign toxic waste with each succeeding auction. This is an end run on quantitative easing. It could easily hand banks a net 30% return for doing virtually nothing, at the same time bail the banks out, these very same banks that caused all these problems in the first place. It is called double your money in three years. A gift from euro zone taxpayers. This also shows you how easy it was to end run German taxpayers that wanted all of this stopped. This is an extremely important point. It shows you how little the bureaucrats in the EU and euro zone think of the constituents in any of the member countries.

The real hook in all of this is that it is being sold as a sovereign bailout of six countries in serious financial trouble. That it is, but what it really is, is a bank bailout similar to many other programs of the last three years. These 3-year loans can be terminated in one or two years, but who would want to do that? It is a license to steal; borrowing at 1% and investing in sovereign debt at 4% to 5%. The ECB will have a hard time weaning banks off such a prohibited concoction.

Over three years a bank can make 70% to 90% with the ECB, which is the euro zone

taxpayer, taking almost all the risk. This deal from the ECB to the banks is far more blatant than the previous antics of the Fed. This arrangement, of course, leaves enormous leeway for officers of these banks to accumulate massive bonuses. These officers are raking in rigged profits, so why should they not ingratiate themselves at the public's expense? We figure with the next tranche of funds comes up at the end of February the demand will be giant. It could double to a net \$2 trillion and then if that wasn't enough the banks will leverage the proceeds 9 to 1 to perhaps 35 to 1. How is that for a liquidity boost? Incidentally, the ECB and banks can do this indefinitely. That means a reversal of the recession in Europe and perhaps in other regions as well. For now the liquidity problem in Europe has been solved. The flip side is major inflation. From a banks viewpoint a small price to pay, as they rake in the profits and at the same time solve liquidity problems for the six problem nations.

A solution made in heaven that was prearranged with all the bankers. As we said, \$9 trillion or more can be created and unless withdrawn from the system over three years we could see serious inflation. The ECB and the bankers are not going to tell you all this, and 90% of economists will miss these important points. Following this thrust of money we have seen Greek elections thrown ahead into April to give the bankers more time to make a deal to prevent Greek default, although the bankers know whatever deal they make it may be rejected by a new government. While this transpires the European economy will recover and Greece may stick with any deal that has been made. Greece's not leaving the euro would take off some major stress on the euro. We won't know what will transpire with Greece until late in April. This creation of money and credit over the next three years, unless money is drained from the system, could in and itself destroy the euro. These funds are far in excess of what the Fed and the Bank of England have created.

What is the answer to this course set by Europe reminds us we have to protect our wealth. It won't take long for gold and silver to react to this giant monetization. In fact, recognition should begin and be manifest in the market beginning in the New Year. Manipulation, or not, their prices are going higher, especially from these low levels. At current levels investors should be loading up on gold and silver coins, bullion and shares, especially shares, which have been beaten down very hard.

We mention over and over again that the Federal Reserve has been in part bailing out Europe. This is the second time they have done this in concert with other central banks. Last time it was \$500 billion in swaps and this time we are told that the swap figure is \$1 trillion. We suppose we will find out in time. The Fed, which can lend directly, goes through the ECB, because they will guarantee the return of the funds, not only to the Fed, but also to other supposedly active lenders such as the Bank of Japan, the Bank of Canada, the Bank of England and the Swiss National Bank. The lenders are charging .50% to lend the funds. The Fed and other central banks are trying to obscure what they are doing after the revelations pertaining to massive lending by the Fed previously as exposed by the GAO under Dodd-Frank.

The currency swap is not technically a loan and does not show up on the Fed's books as a loan. By the ECB borrowing dollars from the Fed it keeps the ECB from having to print more euros. This way the ECB lends dollars it has borrowed to its member banks. These banks are under severe pressure by their governments to purchase new and outstanding government debt. There is no doubt this will happen, but in what amounts we cannot say.

Thus, we see \$638 billion the ECB has in hand plus perhaps \$1 trillion from the Fed and its

helpers, which is being served up to 523 banks. We then have to remember that this is a fractional banking system, which historically lending at 9 to 1 is prudent. If used that would be some \$15 trillion, certainly enough for Europe to survive on. As you can see, the funds available could be endless.

Also, as you can see all is not the way it seems to be. 99.9% of Americans do not know what is going on and we'd be surprised if 35% of Europeans understand. In the US there has been a media blackout and in Europe very light coverage. The banks simply do not want anyone to know what they are up too. As we display these numbers it should be kept in mind that all these countries are loaded with unpayable debt, so what they are doing is going further into debt to pay off existing debt. This approach is generally recognized as a Ponzi scheme - we might also add all the derivative exposure these banks and government have.

The privately owned Central Bank of the US, the Federal Reserve, has absolutely no authority to bailout Europe, which they have been doing for three years and no one says a thing about it. Less than a month ago, Fed Chairman Bernanke said he has no authority to bailout Europe and he had no intention of doing so.

This is why the Fed needs to be terminated and its functions returned to the US Treasury. The Fed and other central banks running the world and they shouldn't be. Mr. Bernanke has promised more transparency and two weeks later we get more subterfuge. There is no question Ron Paul and we have been right for over 50 years. Elect Ron Paul and get rid of the Fed.

This past week the ECB balance sheet soared to \$3.55 trillion via new lending. The increase in bank lending by the ECB rose \$278 billion to \$1.143 trillion. That was at a 1% interest rate.

For those of you who thought Europe was improving, Spanish residential mortgages fell for an 18-month in October.

Home loans fell 43.6% year-on-year. Spain has 700,000 unsold homes sitting empty. Bad loans are at a 17-year high of 7.42%. Spain's recovery, as that of the US, will be long and arduous.

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