

The Demise of State Sovereignty: Pressures on the Euro Amidst Rising Debt Levels

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We announced our belief a few weeks ago that the Fed loan to the ECB could with fractional banking be \$10 trillion. This past week we found that Credit Suisse shares our ideas as well. We believe that what this move by the Fed and the ECB is telling us that this is probably it. We also ask again how can the banks in the LTRP repay the funds in a timely manner? No plan has been presented before or since, there is no plan. Again, just throw money at the problem. The only player really capable of saving Europe is Germany and they would destroy themselves in the process. Everyone should have seen this coming but no one did except a handful of insiders. The resultant use of funds since the ECB distribution is hardly even mentioned in the media. It is a big dark secret.

Will Germany want to rescue France or will France want to be rescued? We say it depends in part who the next president of France is in May. Based on current polls the socialists lead, but it is a very tight race. If Sarkozy loses in the primaries it will then depend on whether the conservatives throw their vote to Marine Le Pen and FN, something the conservatives have never done before. One thing is for sure if either the Socialist or the FN win the euro is history and perhaps the EU as well. We watched this years ago when the conservatives threw almost all their votes to the Socialists. This time it could be different.

As in Germany more than 50% of French voters want an end to the euro, but the major media does not bring this to anyone's attention. The French are no longer anxious about their leadership position. They want France the way it once was; not jumbled up with a group of other countries. We saw this when we lived there 60 years ago. The French had a great drive on to make sure words like hotdog and weekend did not seep into the French language. We can vividly remember our daughter in Middle School in Lausanne, and Miss Galgosh storming the corridors yelling, *parle français*. You have to live in a culture to understand it.

If Le Pen eliminates Sarkozy, France will have set a new course no matter if it's Hollande and Le Pen, part of which is the people versus the status quo. Germans and the French want change and that is rational considering their citizens no longer want the euro and all the responsibilities that go with it. This is the eternal game that is being played out within these countries. Even though the Federal Reserve came to the temporary rescue they have really lost their key front man in Sarkozy. The Fed, the US Treasury, the CIA and the Mossad are going to have to go to Plan B and we do not think they have an effective Plan B. The French are not dumb. They know exactly what has been going on. French banks and the French government have gone the limit in the attempts to save the euro and its constituent parts, the sovereign nations.

After French elections and later German elections we believe you will find that there will be cooperation on phasing out the euro among many things. The LTRO will allow for that transition phase. Greece has become a cat and mouse game and if the elitists and their appointed president think they are going to win they are mistaken. They lost 2-1/2 years ago. Once a new government is in place they'll just reverse it all, default and go their own way, which they should have done 2-1/2 years ago, unfortunately Pasak sold them out. Greek creditors want a voluntary debt exchange, but they will take what they can get. In the end the creditors will sue and get nothing. Since when could you get blood from a stone: then there is the money owed via CDS, which is in the billions. Do you really believe credit default underwriters have any cash behind their promises to pay? It is all a scam. The backup funds do not exist. It should be noted no progress.

While Greece is headed to the dustbin the European one-worlders are fighting for an ESM, European Exchange Mechanism, which they plan to pass on January 30th in Mexico City. This would put the ESM online in July with a treasure chest of \$650 billion, which may be increased. Where all the funds will come from remains to be seen and wait until the voters in each country discover they have been sold out again, and that their sovereignty is gone and with it their freedom and liberty. The banks do not have any transparency on the issue, so the public is essentially in the dark. That is the way the elitists like to work, secretly behind the scenes because you do not have a need to know.

Due to the LTRO at the ECB many investors are buying European bank debt again.

The downgrades of many sovereigns and banks recently cost the EFSF, its AAA rating. It fell from AAA to AA+. This is the pathway toward the implementation of the ESM, which has to be approved by all 27 EU members' not just 17-euro zone members, as it was an amendment to the Lisbon Treaty. As of last week Germany refused to increase the size of the EFSF.

At the same time the ECB's balance sheet has grown to \$3.5 trillion dollars, which is larger than that of the Federal Reserve. This is a record and puts pressure on the euro, low interest rates and very high liquidity. The pledged collateral is in part financial garbage, and that means the euro will find it hard to stage a strong permanent rally.

Finland says the proposed new treaty is unnecessary and harmful. Their foreign minister says that Finland should not sign the treaty. The majority of the parliament has the same view.

During Sarkozy's presidency almost \$800 billion was added to the national debt.

If we have a Greek default and more defaults to follow, will Germany leave the euro? It would give them the perfect opportunity to do so.

The world is waiting with bated breath for the US and its allies to attack Iran. We said this is a game and that the US is not logistically prepared for an Iran invasion. That we said will come in a year or more. Beating the war drums is not the same as war. The propaganda has been spewing forth for a month in order to relieve pressure on European financial problems simple misdirection and misinformation.

We believe part of this game is the result of Iran selling oil in other currencies over the past two years. The basis for the dollar's strength is the petro dollar and if that grip is broken the

US dollar will be in serious trouble. Being a corporatist state allows the US to unilaterally do as it pleases. Financial sanctions on Iran will not work because they have powerful partners working with them, such as Russia, China, Japan and India. As far as others are concerned those who were beaten into submission by the State Department, we wonder where they will get their oil after the embargo is lifted? Actions bring consequences. A consequence of which can be pointed out in a recent agreement between China and Japan to deal in their own currencies, rather than in US dollars in trade settlement. The dethroning of the US petro-dollar is in process.

The elitists in NYC and London are finding out Iran is no pushover as was Iraq and Libya. The US is never your friend and it is all about money and power. As a result the Japanese are buying Chinese bonds, which makes the agreement more significant. Over time the US dollar will lose its preeminent position and then finally the US will implement trade tariffs to finally stop the massive exodus of jobs and companies from the US. An important result as well will be the strengthening of the yen and yuan versus the dollar. If the euro fades from the scene it will make the yen and yuan more important. Without a euro the US dollar will be under intense pressure. For some time the euro has acted as blocker and cover for the dollar and that luxury is coming to an end. You just saw US backstage action in the form of grading house downgrades to make the euro the negative highlight. Those raters are all in the pocket of the City of London Wall Street and the Fed. That to us explains the timing and tells us they want the euro and Greek problems to go on as long as possible. These elitists could care less about the future credibility of S&P, Moody's and Fitch. All they care about is immediate results. These same agencies gave AAA ratings to mortgage securities that were Triple B. The court said they made a mistake - a \$4 trillion mistake? You have to be kidding us. The game is rigged and has been for a long, long time.

It is Monday and as we write the big financial meeting is being held in Europe. The proposals as we understand them are already set in stone. Greece will issue a new 30-year bond, initially paying 3.10%, which would rise over time to 4.75%. they call this an orderly default, as implemented in Argentina 10-years ago.

In addition a fiscal, ESM, pact will be implemented taking over each state's budget and spending. That pact would eliminate state sovereignty. There would still be fines or controls for those states that broke the rules.

The World Bank disclosed last week that it was lowering world GDP growth rates from 3.6% to 2.5%. High-income nations fell from 2.7% to 1.4%, which for the US would be 1-1/2% to 2%, which we changed our figures to three weeks ago. The Bank sees Mexico at 3.5%, more than double the rate of the US. They see European growth at 3.3%, which we see at 2% at best.

If you can believe this, the European downgrades, now that they have been accomplished, has generally set support levels for stock and bond markets, this in spite of a probably 20% plus lower S&P earnings for 2012. In three-months the Dow and S&P are up about 20%, which can only be maintained at best.

The unbelievable prosperity since WWII is over, as use of credit is curtailed and the US and world returns to reality. The average debt increase is \$2.5 billion per year or \$50 billion a year. That sustainability cannot be maintained indefinitely.

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