The Fed's Liquidity Trap: The American and world economies are in a deliberate state of slow collapse

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Almost two years ago the US Treasury was selling large amounts of short-term Treasury bills to fund bailouts and stimulus. That caused a major increase in debt. Most of that paper was 2-year bills and it is coming due for rollover shortly. While that transpires, October will report the annual fiscal deficit of 9/30/10 of about $1.5 trillion, a figure thought impossible just 1-1/2 to 2 years ago.

This time around the Treasury will have to depend on the Fed and US banks and institutions to fund this mountain of paper. China has reduced its holdings of Treasury debt by about 6%, or by about $6 billion over ten months, or by about 10% or almost $100 billion over the past year or so. We know these figures are estimates because the Chinese government has the same trouble the US government has, it cannot discern truth from fiction.

Now that the effect of the first quantitative easing is behind us the economy is facing a hangover even with zero interest rates and a 2.42% ten-year T-note. It was just months ago that those rates were close to 4%. The sale of Treasuries for the past six months was easy with a strong US dollar caused by a manufactured crisis in Greece and in the euro. As we look back we can see almost the whole picture. We saw major NYC banks going very long the dollar and short the euro beginning in late October of last year. At the time we couldn't figure out what they were up too, but it became apparent this past March. The contrived attack on Greece and the euro was to allow the Treasury to fund its debt and to make the banks, which own the Fed, a fortune. 100 to 1 leverage is a lock when you have inside information and are creating the crisis. Except for Greece, Euro Zone members numbers welcomed the 17% fall in the euro vs. the dollar, because their exports were cheaper and more price competitive. What is there not to like about that? As a result the bond vigilantes went into hiding, because they were afraid to go head to head with the Treasury and the Fed. This wasn't the old days when these entities did not rig the markets. This was today, when they rig every market 24/7, under the Executive Order that created "The President's Working Group on Financial Markets." This is a page out of the national Socialist handbook of Germany in the 1930s. Government and markets by regulation known as corporatist fascism aided by collectivist Keynesian economics. The result has been 17 months of net financial inflows, part of which was aided by the Fed in their secret offshore operations. It is no wonder they do not want to be audited and investigated. Now we are back to square one again. We announced two months ago that QE2 was on the way, but as usual few were listening. Monetization is the name of the game.

Quantitative easing will put the American public at ease, at least temporarily. They do not realize it but the American and world economies are in a deliberate state of slow collapse. Yes, the Fed has created a terrible mess. They have been totally unprofessional and reckless. The result has been, even after five quarters, averaging 3-1/4% growth, sales of new and used homes are dismal with no hope in sight for improvement, unemployment just under its highs, record debt, slight wage increases, lost purchasing power due to inflation and few prospects for improvement. Inventory is all in place, so that can no longer be a plus.

What the Fed has been approaching since June is a “liquidity trap.” That is when loans are offered to business and they refuse to borrow. They stop using credit because they question the future of the economy, their government and the specter of new taxes in the future. Money and credit is available, but few want to assume the risks to borrow.

Between stimulus and federal government hiring there has been nothing sustainable about the economy. It’s on federal life support with assistance from the Fed.

This market is the exact opposite of the gold and silver markets, which are in an 11-year bull market. The metals separated from the dollar 15 months ago and they have already won the battle of the world’s only real currency. Gold has gained 15% a year for those last 7 years. This is a secular bull market and cannot be denied. Further, gold has appreciated annually against every currency.

One of the things we find extremely interesting is that many well-meaning, bright professionals do not really understand what this is all about. They do not know the ulterior motives of those in power behind the scenes. They do not know who really pulls the strings politically, in government, at the Fed, and even on Wall Street and in banking and insurance. They do not understand the hidden agendas of enrichment and power. They do not know the real goals of legislation for Cap & Trade and Carbon Taxes when it has been proven, without a doubt, that global warming is a fraud. If they knew of the Council on Foreign Relations, the Trilateral Commission, or the Bilderberg Group, and these men and women express their ideas and nothing more at their meetings and in their committees, but that is not the way it works. These people and groups set policy for government and the shape the future of our country and the world. We have been reading their publications for more than 50 years, so we feel qualified to express our opinion. Just look at one of their recent failures, the North American Union. This was an attempt to merge Canada, the US and Mexico into one country. It’s a matter of record, their records, that the planning for this project began in the early 1990s in conjunction with the sister organization, the Royal Institute of London. They laid all the plans out to set up the NAU to eventually merge it into a world government. They admit this, but the brightest on Wall Street, in banking, etc., don’t get it.

They don’t understand, or want to understand the control these people have and how they shape the world’s future. What difference does it make if they really do not understand the problem. Who really pulls the strings and how the game works. Is Obama better than Bush, or Bloomberg, etc.? No, because they all take their order from different factions of the same group of people. We understand what these people are up too and that is how we are able to back into what they are trying to accomplish. That is why we are right so often. We understand who they are and what their game is. We know why intelligent people and newsletter writers are wrong so often. They do not understand who is really in charge and who pulls the strings and what their final goals are.

As an example, we witnessed an annual meeting put on by these people at Jackson Hole, Wyo. It is a showcase to present a path, which is to be followed for the next two years. They didn’t tell you that. They presented it as a showcase of ideas. The meeting was far from that. All the players had their marching orders. The results were preordained. We wrote about what would happen and why before it ever happened, just as we forecast two month ago that those behind the scenes had decided that quantitative easing was the only option they had for the future to keep the financial and economic system from collapsing even though that process is only temporary. All we can say is we will never understand how bright people miss the obvious. There is no logic here, only agenda.

The 3-card Monte game continues. The Fed desires to free up its balance sheet in order to have money and credit available; the Fed will sell mortgage backed securities they paid banks $0.70 to $0.80 on the dollar for, back to them for $0.20 on the dollar. This allows the banks to carry this paper on their good books at market value and allows the taxpayer to pay the difference, and the Fed cleans up their books. They do not have to do this, but they are going to do so. The losses will be about $1.2 trillion. That is why, among other things, the Fed does not want to be audited. That is why they paid billions to Congress to kill the legislation. That is why the incumbents have to be removed in November. Incidentally, the banks won't mark their newly acquired paper to market. They will mark it to model, and gain even more profits, which, of course, are just an illusion. This gives the Fed a year of QE, while the sheep sleep.

The bond market is a bubble and it could last another two years or more, so do not short it. Those seeking safety and stability are being deceived by an investment that every day loses purchasing power to gold and silver. In fact, the investors are so misled that market sentiment is 73% bullish on bonds. They will fall as interest rates rise, but no one knows when. The bond market has continued to attract funds. Recently almost $8 billion flowed in one week into bonds, as equity funds lost almost $3 billion. This means the dollar carry trade will flourish and the stock market will remain under pressure. Why not, earnings will be weaker next year among the higher rated companies and even with QE, GDP growth probably will be even to 1% better. At the same time inflation will rage. The worst of all investment worlds, except for those in gold and silver related assets. Just as an example, during the period from 1929 to 1936, gold doubled and gold and silver shares rose over 500% in a deflationary period. Between 1978 and 1981, during an inflationary recession the average gold and silver share appreciated 40 times the price of gold bullion. We ask you, who would want to be in bonds while we witness the greatest gold and silver bull market in history? This certainly is a once in a lifetime opportunity that has been proven for the past 11 years.

What we are seeing in bonds we saw in late 2008, as the first QE began. Ten-year note yields fell to close to 2% and a short covering market rally began at Dow 8,500 causing massive short covering. The reality of the following time frame was that GDP only grew an average of 3 to 3-1/4%, or 1% in inventory is extracted. The result has been little sustainability. Now here comes QE2, but this time the growth will be less with inflation higher and higher gold and silver prices. The credit contraction continues, feeding deflation and a liquidity trap, which will be held at bay by a $2.5 trillion injection annually. We still presently have core inflation above 2% and real inflation over 7%. We show official inflation at 9.5%, versus 7.4% in 2008, while real unemployment is 21-1/2%. The economy cannot extricate itself from that dilemma. On top of this we'll have a further falling dollar. All we can say is this is terrible and it is going to get worse.

As far as the Fed is concerned what does it do in a liquidity trap. That is when interest rates are very low and both people won't buy homes for fear of lower prices and businesses won't borrow for fear of falling growth and higher unemployment. It is simple the Fed just creates more money and credit out of thin air. But, for rising government employment and war spending the economy would be like a wet noodle.

What is equally tragic about all this is that 1/3rd of experts, economists, analysts and newsletter writers have not been correct. How do they get so incompetent?

How do lending institutions sell off a 3-1/2 year inventory of homes when four months is normal? Yes, we know official figures are far less than that, but they are usually wrong. Look at their horrible track records. The high-end market in homes is virtually non-existent. No sales for the past two months. Only 1,000 units priced over $500,000 were sold. Even in new homes 80% that were sold were priced under $300,000. If it were not for the activities of Fannie Mae, Freddie Mac, Ginnie Mae and FHA making a great many subprime loans, there would be very little buying activity at all.

There you have it, and it is quite a mess. Unfortunately it is going to get worse.

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