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The Fed's "Operation Twist". Europe and America. Grim Economic Prospects

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Seven months after the official announcement on 9/21/11 of "Operation Twist" not much progress has been made at the long end of the market to reduce yields. The yield on the 10-year T-note has gone from 1.88% to 2.3% and the 30-year bond went from 3.03% to 3.41%. The episode has been marred by hedge fund and sovereign selling, which has left the short end a little higher, but the long end much higher. The question now is how much did this cost the Fed for such disappointing results?

Or in fact was this really their objective? We may never know, because the Fed hides what they do not want anyone to know. These results might not seem important but US Treasury instruments are the foundation of the global monetary system. If yields continue to increase, like they are, it forces the Fed into QE 3, which we believe is inevitable. Other nations are not cooperating, as we saw in January and February that US banks bought more government paper than they had in all of 2011. If this continues the banks will be forced to lend. That could cause a minor recovery and more inflation. That is not something the banks want to do. They want the safety of low yielding Treasuries that is why they still sit on $2 trillion in Treasuries. As of yet stock markets may be trending higher based on recovery, but we are yet to see a follow through. Recent statistics tell us generally speaking the public is out of the stock market. We believe because they do not see recovery either and many are listening to alternative radio and getting news from the Internet, which tells them of the massive markets manipulation that the US government and the Fed are engaged in. You cannot win unless you understand what they are up too.

The embargo sanctions against Iran we have spoken about unspokenly on the air and in this publication. We figured out long before almost all others that these moves had to be some of the stupidest in history. The elitists have this time shot themselves in both feet. SWIFT is very important, because it settles almost every instruction in US dollars. Denying the system to other currencies is foolish. The players in dollars can create something similar to swift code or have some other front for them. End running oil shipments are even easier. As a feeble answer the US will sell oil from its oil reserves to try to reduce prices. This action is nothing but smoke and mirrors.

It is no secret that municipalities all over America are in serious trouble. Their pension plans and those of companies are vastly underfunded and little is being done to solve the problem. In 1983, 62% of Americans had pension plans. Today that figure is 17%, but this is still a large group of future participants, who for the most part are not going to get what they paid for and some, will end up with nothing. The reason for municipal failures for the most part is that pension and health care plans were never properly funded, investment results were terrible and incompetence was the order of the day. Corporate managers did not do much better. We call this the pension bomb and it has finally arrived, late but lethal.

The terrible part about all this is that the pension plan you are counting on might not be there for you when you need it. You may also not be able to take it from the pension writer leaving you with absolutely no control. Being generally ignorant to most of these facts Americans have little put away personally for retirement. They are short close to $7 trillion.

For the next 20 years 10,000 baby boomers will retire every day, which presents a crisis of spectacular magnitude. Some will get partial checks from Social Security and pensions or perhaps nothing at all. Now you know why you have to invest into gold and silver coins, bullion and shares. They are your only protection. In addition if the Dow falls back to 6550, as it recently did, we could be looking at 50% losses in pension fund stock investments. Already the total amount of unfunded pension and health care obligations for just state and local governments in the US is $4.4 trillion. We hope you have gotten the message?

Unfortunately Spain is experiencing an accelerating fall in property prices that has been expected for some time. Spaniards expected higher prices, which turned out to be wishful thinking. The economy is saddled with depression. Unemployment is 23% and youth joblessness is close to 50%. Austerity reigns and all the seeds of revolution have been planted. In response at demonstrations the police have been brutal. If you want a violent revolution, that is the way to start it. As depression grows, so does discontent.

The banks mostly owned by outsiders are basket cases waiting for a bailout, which, of course, will be paid for by the people. We are talking about the fastest fall on record. Those prices fell 11.2% in the 4th quarter yoy, and versus 7.4% in the 3rd quarter. This kind of fall is similar to what occurred in the US after the 2008 credit crisis. Banks that have been holding defaulted loans in construction and real estate worth $520 billion are far more than bankrupt. That is a monstrous debt and it will have to be dealt with along with sovereign debt of $1.5 trillion. That is not a pretty picture.

Spain’s public debt to GDP is now predicted to be 4.8%. They are not supposed to exceed 3% of GDP. Private sector debt, mainly the banks, have debt of more than 200% of GDP. Taking a lesson from Greece if the new administration cuts too much the depression will deepen, as will tax revenues as well as unemployment costs will accelerate. Bond rates have climbed even higher than those of Italy making the situation even wore. Like Greece, Portugal, Italy and Ireland be believe in time that Spain will have to default.

Spain’s PM Rojay in his recently stated position is saying we want more time to solve the problems. His challenge to the ECB and the euro zone members is do not push to hard and too far, or you will see a real banking crisis. We will just default like the rest of the weak members. It is obvious that newer politicians on the scene are not socialists in the European sense. They tend to be middle of the road and socialists on only certain issues. The lure of world government is not alluring to them, at least not presently. Europeans do not want the euro and perhaps not the EU as well. They were created to keep Germany from conquering the world. Connective alliances really have not worked even though they are still in place. Their failure gives Rojay an opportunity for challenge to the system. He seems, as well, to be giving assistance to Germany to allow it to exit the euro zone as well and perhaps the EU. We see little chance Germans will subsidize $3 trillion

Not much is said about Switzerland, probably because they are outside the euro zone and the EU and they use the Swiss franc as a currency. The Swiss are major exporters and are dependent upon those exports. In the final quarter of 2011 exports fell 6.8% due to its strong currency. As a result the economy is headed for recession and deflation simultaneously. As long as the euro crisis continues you will see a flight to the Swiss franc by owners of euros. The SNB has been maintaining the franc at 1.20 to the euro and it remains to be seen if that can be continued. The Swiss and the Germans have to come to terms with their stronger economies and that is not going to change. All indications are that the Swiss are going to be soon touching on recession and Germany won't be far behind, unless banks start lending to business.

Unemployment is increasing and retail sales are falling. Even exports within the euro zone fell 4.2%, as investments fell. As we have said before unless banks lend there can be no overall recovery. Falling employment and retail is taking Switzerland toward deflation. This is not good, because the Swiss could be the catalyst to take Europe and the world into deflation and perhaps even into depression.

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