Towards an Inflationary Depression in America

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There is no question that those who control our government from behind the scenes are bound and determined to take over the $6 trillion in private pension plans. Whether they'll be successful remains to be seen. The Department of Labor wants to force all IRA's and 401k's into the arms of a corporate fascist government, that knows better what is good for you, than you do. You would exchange your hard earned investments for a guaranteed, government annuity that is not worth the paper it is written on.

We have been writing about this for more than a year, but as usual few are listening. People say the government won't and can't do that. Government can do anything it wants.

Small amounts would go into R-bonds, government retirement bonds and larger amounts would be managed by the anointed few. They would be JPMorgan Chase, Goldman Sachs, Citigroup, etc. This would give them total control of the stock and bond markets. These investments would act as collateral for the government against which they'd issue R-bonds. Shades of the 1930's German monopoly control of markets. That is what this is about as well as the control and subjugation of worldwide investments. A total hold on the control of all investments.

When this will happen and if it will happen, we do not know but this is what government bureaucrats are up too if they can get away with it. Very often Argentina is a testing ground for new fascist ideas. That is what their bankruptcy and default was in part about in the late 1990s and early 2000s. It was a trial run on default. For the past two years they have been in the process of discussing how to capture private pensions. We cannot accurately predict the future, but we do know the powers that be want your assets and to ignore that fact is stupidity. We have advised our subscribers to seriously consider removing their retirement from the clutches of the government. Do not forget you will have to pay taxes on your contributions and gains sooner or later. You have three months left this year to phase out, whether in part or in total. The choice is yours; we are out in total.

The illegal alien who says he is president of the US will be at a UN Summit in the coming week to push for global taxation, so that Americans can get closer to the poverty line. The catchwords are innovative financing mechanisms to achieve millennium development goals. Revenue is already being collected by some nations as a tax on airline tickets. Another proposed tax would be laid upon all international currency transactions. The collection goal is trillions of dollars a year in the form of the redistribution of wealth to bureaucrats and the poor. This is an extension of the Global Poverty Act sponsored by the president when he was in the Senate. The bill was defeated.

The latest monstrosity coming out of the Senate is the Livable Communities Act (SB1619), which is being fast tracked. All of these one-world cretins should be thrown out of office. It would move people into urban areas, so they can be better controlled. This is another beauty from Christopher Dodd, who is leaving the Senate. He has been more corrupt than his father was. He would force federal sustainable development zoning and control of local communities and of course create a whole new bureaucracy. The hook is the federal government will provide grants to force people into the zoo that passes for city living today – another nightmare for Americans.

For those who think federal borrowings have slowed down their second quarter borrowings rose at a 24.4% rate, up from 20.5% in the first quarter. Mortgages fell 2.3% from 4.3%, as household debt fell 2.3%, mostly due to the write off of bad debt. Corporate debt grew 3.8% from 5.8%. Local and state debt fell 1.3% from a plus 5.7%. Financial sector borrowings fell $1.07 trillion, or at a minus 7.1%. Bank assets fell and bank credit contracted at a 5.6% pace, and YOY fell 1.3%. Very importantly business loans fell 6.7% QTQ, and were off 14.4% YOY, in the purchase of government debt, mostly treasuries.

The above presents a picture of a systemic debt spiral, which if not addressed quickly will lead to deflationary depression. Lending is weak and that has become a problem now that stimulus and quantitative easy have ended. All the money available is being thrown at federal and state government debt. This in part is caused by the securitization of debt, which has continued to fall in value overall. National income is up but it has fallen for the most part into the pockets of transnational conglomerates that continue to fire workers to improve the bottom line and capture that 5.3% increase in profits. Last month real unemployment rose to 21-5/8%. As a result household net worth is at 2006 levels.

Ten-years ago US financial assets were $6.1 trillion and in the second quarter they were $16.255 trillion. Foreigners increased Treasury holdings by $709 billion in the second quarter and Agency purchases grew $147 billion. Overall foreign holdings of US financial assets grew $1.436 trillion YOY, or by 9.7%. Treasury holdings grew 12.1% YOY to $4.014 trillion and corporate bond holdings rose $375 billion YOY to $2.278 trillion.

Federal spending grew 5% YOY and were up 30% from three years ago. During the past nine quarters federal tax receipts have fallen from 19% of GDP to 16.3%. Total government spending during the quarter jumped to 40% of GDP.

The Ponzi scheme continues as markets accumulated $2 trillion in federal debt growth. In eight quarters it is up $3.610 trillion, or 54% to $10.308 trillion. In two years it jumped 46% to 71% of GDP, The madness continues.

Almost three months ago we predicted the Fed would continue to expand money and credit using quantitative easing and that the administration would try to get the House and Senate to approve various spending proposals for about $650 billion. The Fed said they might do this when necessary, but what they didn’t tell you is that they will have to buy Treasuries to the tune of about $2 trillion over the next six months. Such purchases will buoy the bond and stock markets, cause higher inflation and push commodity and gold and silver prices higher. This kind of move will make keeping zero interest rates considerably easier. There will probably be purchases of $1.8 to $2 trillion in Treasuries Agencies and MBS toxic waste. This is approximately what was done during QE1. We believe it will take more this time. Mortgage rates could fall to under 4% leading to more refinancing. Virtually everyone could refinance. We can see that the Fed has started the process of selling MBS and CDOs, by looking at their balance sheet. Only some $50 billion of $1.3 trillion dollars in bonds. They bought this paper at we would guess $0.80 on the dollar to assist bank solvency and now they are selling it back to the same banks at $0.20 on the dollar and the taxpayer gets to pay the difference. Any aggressive, or strong moves, or announcements, will come after the election for obvious reasons. That time lag from June to November is proving very costly for the economy in terms of GDP growth and additional unemployment. That means employment cannot improve until the first quarter of 2011. This also means the 10-year Treasury will fall to close to 2%. As a result of these moves the Fed could end up not purchasing $2 trillion in securities, but $2.5 trillion. We think in part their actions will be determined by how much stimulus money the administration can get from Congress. They are shooting for $650 billion. Foreign investors are not going to like this scenario at all, especially with a falling dollar, whose plunge can only be abated by economic, financial and currency problems in Europe. There is no question currencies wars have begun, as well as trade wars, which have been a long time in coming. Tariffs will stop free trade, globalization, offshoring and outsourcing. The affect will take a year or so to assert itself, but it will help employment as manufacturers and service industries return to the US, for lack of reason to remain in slave labor countries. The numbers we will see due to the Fed intervention will be staggering and they'll get more coverage this time around as more professionals understand what Wall Street and banking are up too.

The Fed continues to accumulate Treasuries in numbers far greater than what the Treasury needs. We have sited this previously. Bigger numbers will start showing up in the first half of 2011. Purchases will exceed statutory limits and that means a repetition of excess Treasury creation in order to accommodate the economy's need for liquidity and in addition the Fed might have to buy up almost the whole treasury float. If that happens the two-year T-note might not just drop to 2%, but to 1% to 1-1/2%. That means mortgages would fall to 3% to 3-3/8%. If this happens, then it probably would rule out QE3 and could set up a monetary collapse within two years accompanied by hyperinflation. Remember, inflation is different than hyperinflation. Hyperinflation is when dollar-holders, which in this case are all of us, lose faith in the currency as a medium of exchange. People will try to get out of the dollar, sometimes into other currencies, or into gold and silver, or into anything, but dollars. It is a classic flight to quality. This is the result of the Fed supporting asset prices and helping government maintain demand, which is supposed to assist recovery, but in fact does not. Even with these massive injections there will be little or no recovery. That will be followed by a decent into deflationary depression. If we have to guess it will take 2 to 3 years. These policies are the same old Keynesian fascist nostrums used in the 1930s, which never took us out of depression, a war did, and which worked at great price over the past 60 years. Like in the 1930s they won't work. The Fed has been forced to undermine Treasuries in order to gain time and it won't work, confidence has already been lost. Why do you think money is pouring into gold and silver, as they hit new highs? This is how Rube Goldberg would fix a monetary system with spit and bailing wire. When hyperinflation comes it will be like a thunderbolt from out of the blue. All of a sudden no one will be into gold and silver related assets and commodities. This is classic, as classic as the purge of maleinvestment that will follow. The Fed will most likely end up with all the Treasuries and be neutralized in efforts to assist the Treasury's "Working Group on Financial Markets," which in turn will cause a stock market collapse. There will be no one left to hold up the market. The public will be long gone into gold, silver and commodities. The Treasury bubble will have been broken. The legacy, money center banks, those to big to fail, will rush to buy Treasuries as well. Don't forget they own the Fed and it is in their best interest to stop the run on Treasuries. Then you will see a reversal as these banks see the futility of saving the government and they will dump all their Treasuries. The result will be monetization and hyperinflation. You as subscribers know that in hyperinflation prices do not rise, they collapse.

We are in an inflationary depression and have been since February 2009. Bogus government statistics in GDP, CPI, and PPI and in employment are masking the ugly truth. It's the 1930s all over again except this time it will be much worse. No recovery can sustain because all the Fed, Treasury and the administration are doing is throwing money at the problem and that is not the solution. We just saw a five quarter bounce borne by $2.5 trillion and now the Fed and the administration are planning two more such rescues for the next two years, which will cost a minimum of $5 trillion. They should end up in hyperinflation and a realignment of currencies, devaluation, revaluation and multilateral debt default. In the '30s the economy jumped 8% not 3-1/4%, with the same kind of stimulus and the market rose 50%. This time it rose from 6550 on the Dow to 11,700. A repetition of 1932-33. Along the way many individual investors have left the market after realizing the Fed and the government had it rigged for Wall Street. Front running, insider trading and naked shorting are tolerated on a massive scale. Everyone seems to forget that between 1930 and 1936 gold and silver shares, during a deflationary depression, appreciated 500%.

We were the front-runner in calling the residential real estate debacle and we now forecast a further 10% to 20% fall over the next two years into the next presidential election. Even with the stunning losses nothing has really changed in Washington and Wall Street. Little regulation, by the SEC and the CFTC. Two agencies that are merely extensions of a crime syndicate. Don't forget we spent 28 years on Wall Street and owned our own firm. We forecast all you are seeing in 2000 and finally the mainstream is starting to catch up. As a result of this chaos since August 15, 1971 America and the dollar are headed back to a gold standard. This is one way these criminals can attempt to cover up what they have done. We wonder what the creators of this debacle are going to do once interest rates rise to 5% again, and the bond market collapses? This will be allowed to take place in order to smother inflation. The Fed will have no other choice. Then there is the question of major corporations having two sets of books, which feign solvency and add about 40% to earnings and assets. Will the BIS, FASB and the government allows this indefinitely? We can promise you they'll allow this as long as possible, just like they'll fight raising interest rates until real inflation reaches 14% again. As we will see the economy will not be able to tolerate such interest rates and will collapse into deflationary depression. Such rates will bring massive defaults and the longer higher rates are avoided the higher rates will go. We could see the 10-year T-notes trading at 7-3/4%. We ask what will happen to the stock market under those circumstances? It will collapse of course. Quite frankly, we see the situation already out of control and now it is only a matter of time until the situation worsens and debacle follows.

The number of mortgage applications in the U.S. declined last week for a fourth straight time, led by a drop in refinancing even as mortgage rates declined to the lowest on record.

The Mortgage Bankers Association's index fell 0.8 percent in the week ended Sept. 24 to the lowest level in almost two months, the Washington-based group said today. Refinancing also dropped to a seven-week low, while purchases increased for the first time in three weeks.

Falling home values are making it harder for Americans to refinance even as borrowing costs drop. At the same time, with the unemployment rate near a 26-year high and stricter lending standards, housing demand will be slow to improve.

"With lack of job growth, with lack of credit growth you're simply not going to get housing and the economy growing well," Michael Gregory, a senior economist at BMO Capital Markets in Toronto, said before the report.

Reports last week showed sales of existing homes in August were the second-lowest in more than a decade and those of new homes were the second-lowest in records going back to 1963. Home prices rose 3.2 percent in July from a year earlier, the smallest gain since March, according to a report from S&P/Case- Shiller released yesterday.

The mortgage banker's group's refinancing gauge fell 1.6 percent. The purchase measure increased 2.4 percent.

Record Low

The average rate on a 30-year fixed mortgage fell to 4.38 percent, the lowest in records going back to 1990. At that pace, monthly payments for each $100,000 of a loan would be about $499.58, or $34 less than a year ago when the rate was 4.94 percent.

The average rate on a 15-year fixed loan fell to 3.77 percent from 3.88 percent, also the lowest on record, and the rate on a one-year adjustable increased to 7.04 percent from 6.96 percent.

The share of applicants seeking to refinance a loan fell to 80.7 percent from 81.3 percent.

Sales plummeted after the deadline for signing contracts and becoming eligible for a government homebuyer tax credit worth as much as $8,000 expired on April 30.

The Obama administration said Aug. 30 it planned to announce a proposal for an emergency loan program to help the unemployed avoid default. The plan would also include a government mortgage refinancing effort to lower monthly mortgage payments for Americans facing foreclosure.

Orders at KB Home, a California builder focused on first- time buyers, fell 39 percent after the deadline for signing a contract to qualify for the federal tax credit expired. Unemployment and rising foreclosures make it difficult to forecast future sales, Jeffrey Mezger, the company's chief executive officer, said Sept. 24.

"The housing market continues to face significant headwinds from high unemployment and foreclosures, which are impeding a broader recovery, and recent net order trends in the homebuilding industry have injected additional caution into our near-term outlook," Mezger said in a statement.

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