

## Towards Another Stock Market Meltdown?

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Global Research, May 26, 2010

[The International Forecaster](#) 26 May 2010

Region: [USA](#)

Theme: [Global Economy](#)

This past week the Dow fell 4%, S&P 4.2%, the Russell 2000 fell 6.4% and the Nasdaq 100 fell 4.4%. Banks fell 5.4%; broker/dealers 4%; cyclicals fell 5.6%; transports 5.5%; consumers 3.4%; utilities 4.3%; high tech fell 3.7%; semis 1.3%; Internets fell 4.2% and biotechs 4.2%. Gold bullion fell \$56.00, the HUI gold index fell 11.4% and the USDX, dollar index, fell 0.8% to 85.38.

Two-year Treasury bills fell 2 bps to 0.73%; the 10-year notes fell 22 bps to 3.24% and the 10-year German bund fell 20 bps to a record low of 2.66%.

Freddie Mac fixed-rate 30-year mortgages fell 7 bps to 4.93%. The 15's fell 6 bps to 4.30%, one-year ARMs fell 5 bps to 4.02% and 30-year jumbos fell 4 bps to 5.59%.

Federal Reserve credit surged \$28.9 billion to a record \$2.339 trillion. It has been up ytd 14% and 8% yoy. Fed foreign holdings of Treasury, Agency debt fell \$7.1 billion to \$3.057 trillion. Custody holdings rose \$101 billion ytd or 8.9%, a yoy rise of 12.8%.

M2, narrow, money supply rose \$25.3 billion to \$8,530 trillion. M2, has declined \$17.2 billion ytd.

Total money market fund assets fell \$33.6 billion to \$2.844 trillion. In the first 20 weeks of the year they have fallen \$449 billion as investors plowed back into the market. That decline was 24.6%.

Total commercial paper fell \$27 billion to \$1.076 trillion. CP has declined \$94 billion, or 20.9% ytd and \$208 billion yoy, or 16.2%.

Europe is rescuing its economy in the same way that the Federal Reserve has attempted to same America's financial system and economy. They have used an unprecedented aid and stimulus package to offset massive fiscal deficits. In the US a deflationary depression was avoided at least temporarily and that is what is now being attempted in Europe with the guidance of the Federal Reserve.

This kind of program was implemented during the 1930s when we are told that unemployment was 25%. During the late 1930s the program failed to pull America out of depression. Unemployment in 1939 was 17.4% and in 1940 it was 16.2%, hardly the results hoped for and anticipated. The result was WWII. We are headed in the same direction today, as the Middle East and Asia smolder ready at any time to burst into flames.

In the US liquidity was unleashed on a massive scale and that is what will happen in Europe. It is the only way they can keep the system functioning.

We Are now closing in on the next planned world war as a result. When and where we can only guess, but it surely is on the way, the same way it was in the late 1930s. War is a distraction and it succeeds in culling the population. It is also a cover-up for massive financial and economic problems that have resulted from the financial elite looting the system.

The system is not being fixed and deliberately so. The elitists do not want it fixed. They want a collapse. This is the only way they can force people to accept world government.

The groundwork was laid after WWII, as it was right after WWI. The 1960s brought inflation and on August 15,1971 the gold standard was abandoned. That is all that was needed to get the game underway. That inflation lasted some 50 years and is in the process of coming to an end. Many say they do know where it will end, but if they studied history they'd know exactly where it would end. It will end with the deliberate collapse of the financial and economic system and war, the way it always has. This time the conductor is the Federal Reserve, which is currently on the way to being a financial and monetary monopoly with the assistance of our well paid off representatives and senators. The massive reflation you have witnessed over the past almost three years is a steppingstone toward a final solution and world government. As a result we see collapses in some areas and booms in other areas. In the end all markets will fall, some more than others. Debt overwhelms the system worldwide, which is a form of perpetual entrapment.

No currency will be able to withstand the onslaught. In the final analysis only gold and silver will be left standing. Currently, as soon as the most recent credit expansion runs its course, and that should be by yearend, another reflationary wave will be upon us, that is unless those who are controlling this debacle, decide that this is when we slip into an irretrievable deflationary depression.

What is really interesting to us is that we read thousands of reports a week and almost everyone of them follows the same lines, believing the line dished out by governments, Wall Street and banking and other financial entities and the mass media. The control of the media is bad enough, yet these never mind independent journalists refusing to go to the core of the real problem and expose who is causing all these problems. What it does is cause fine researchers to be consistently wrong because they do not understand the real underlying historical problem. Unfortunately, most of them will pass away, never understanding what the problem was all about.

We understand the reflation that took place between 2001 and now. The big question is will it continue? Appearance say yes, but Europe even with an initial \$1 trillion aid program will probably see low inflation, perhaps the UK being the exception. The US could stay the same, but we do not think so. Without stimulus by either Congress or the Fed the US would collapse economically. You can expect something but we do not know what as yet. Everyone looks for a middle ground, but we seldom see that. We see a world, and particularly in Europe and the US, where people are unhappy with the system, where wealth is in decline and signs of recovery are not to be found, as more and more jobs are shipped to the second and third worlds. Leadership is dreadful, composed of Illuminists and those controlled by them. We live in a politically unstable world that gets nastier each and every day. No one wants austerity or realistic solutions. Throwing money at these problems accomplishes nothing. We see no signs of commentary in regard to the end of free trade, globalization, offshoring and outsourcing, which continues to drain jobs from the US and UK. Fiscal restraint simply doesn't exist. Most of the jobs created are by the federal government.

Taxes are continuing to rise. Officially we are told deficits will be \$10 trillion over the next ten years. America is being set up for a financial collapse. Today's debts are unplayable, never mind those of the next ten years. America and Europe will hit the wall – there is no avoiding it. They are in denial as severe problems approach. There are no easy solutions left. America and Europe have never seen anything like this before, even in the 1930s. This leaves those with wealth left in a quandary. Yields on bonds are terrible and the rest of conventional investments are risky at best. The dollar may have rallied from 74 to 86 on the USDx, but it and all other currencies have fallen versus gold, a trend in place for 11 years, that shows no signs of ending. The stock market is losing its footing and real estate is still descending. At the same time our purchased congress is about to give the privately owned Federal Reserve a financial monopoly, when it should be terminated. If that happens the looting by elitists will continue apace. We certainly are not optimistic regarding the future and that is why we continue to recommend gold and silver related assets.

Americans do not understand the significance of what is happening in Europe. Greece may have accepted the EU aid plan, but the people haven't and an election is looming, which probably means a different government. In Spain a lender fails and other banks are merged with the help of the Bank of Spain. Spain misses its budget projection and the same happens in Greece. Global markets are in part responsible for what is happening in US markets. As long as the euro falls and these problems persist there can be no real recovery in the US or Europe. Being interconnected is having disastrous consequences. A US recovery unfortunately is in the hands of European politicians, who all take their marching orders from the illuminati. What is happening in Greece and will happen in 17 other countries will also happen in the UK and the US. The US market is falling already off 1,400 Dow points just as we said it would be and we see it much lower. Due to the closeness of policy what is happening in Europe will affect the entire world. The dominoes are in fact falling. European and British foreign debts are now being studied with the same focus as subprime bonds and the results are going to be the same, a massive credit crisis. The PIIG nations represent about 4% of world GDP, but they could take the entire system down. Germany has put a key piece into the support program and the Fed has contributed a massive swap arrangement giving Europe unlimited access to unlimited dollars. The euro will allow a sideways movement in GDP growth, but will also bring higher inflation as unemployment grows. This, of course, is why we need a war. No matter what, Asian goods are going to become more expensive worldwide. Defaults are a sign of a coming calamity just as they were in the 1930s. In addition, Germans are very unhappy bailing out Southern Europe and they do not like being forced into participating in austerity that to them is unnecessary, at least for Germany.

This is another holding action to gain time until the elitists can get another war going. This is another bank bailout by taxpayers and the German people don't want to participate.

There is still no question in our minds that Greece was a setup to lead to a deflationary collapse later and the Greek people refused to listen. As a result it is now apparent that Greece is even worse off than the elitists imagined. We do not see European bailouts going any further. The result is the US and UK will follow. Financial Europe is history. You should all keep in mind that this is child's play. Wait until England and the US go down, perhaps before the end of the year.

As this transpires the NY Fed President, William Dudley, tells us households are still de-leveraging.

He tells us the banking system is under significant stress. There is small and medium-sized banks that have significant exposure to commercial real estate loans.

He sees significant headwinds ahead. We call that an understatement.

As banks sought bids for \$10 billion in toxic waste the Fed is attempting to sell the same kind of garbage. Anything they do not dump they will have monetized and that is inflationary.

Total US debt just hit \$12,987,823,000,000, \$13 billion from lucky \$13 trillion. As next week the US Treasury is auctioning off another gross \$140+ billion in Bonds, we will pass this totally irrelevant resistance level on May 25, when Timmy issues another \$42 billion of 2 Year

Notes

<[http://www.treasurydirect.gov/instit/annceresult/press/preanre/2010/A\\_20100520\\_1.pdf](http://www.treasurydirect.gov/instit/annceresult/press/preanre/2010/A_20100520_1.pdf)> . The next important support level of \$14 trillion will be surpassed around the time the Democrats get destroyed in the mid-term elections, while the statutory debt limit of \$14.3 trillion will likely have to be raised in January 2011 by a new republican majority, an action which will promptly reduce popular republican support following their landslide election victory, thus starting the pointless D->R->D->R etc cycle all over again. Also, at approximately that time headlines that US debt is now 100% of GDP will bring the US bond vigilantes out of hibernation and will send US interest rates soaring, assisted by Ben Bernanke's most recent announcement that the Fed will is once again "forced" to purchase another \$1.5 trillion in treasuries and mortgages.

Stepping away from the Ouija board, we also notice that so far in April, the Treasury has rolled another unsustainable amount of Treasuries: \$397 billion, of which \$359 billion is in Bills.

Lyndon LaRouche issued the following statement today in response to the vote in the U.S. Senate to end debate on the so-called Financial Reform Bill:

"The issue is if somebody tries to push this bill through without Glass-Steagall and the Cantwell-Lincoln amendment to close the Dodd loophole on derivatives, then the U.S. citizenry won't accept any decision from this Congress as legitimate. The citizenry will not recognize the Congress or its authority. They will view it as a corrupt institution which must be purged. We are in a mass strike mode. If congress rigs the process to ram through the President's demands, the citizenry will revolt against Congress and the President. And they will do so based on the authority of the Constitution of the United States of America. The people of the U.S. won't stand for this. The authority of the Constitution is in my hands and I am exerting it. I am confident the people of the United States will support me in this. Those who disagree don't understand the people of the United States and their temperament."

Senator Scott Brown yesterday drew scorn from former admirers who had hailed the Massachusetts Republican as a new voice for the conservative cause but now say he has abandoned them by joining Democrats to advance President Obama's plan to overhaul the financial system.

As quickly as they had latched onto his campaign four months ago, they repudiated him yesterday through a flurry of blog posts, editorials, and Facebook messages.

“His career as a senator of the people lasted slightly longer than the shelf life of milk,” said Shelby Blakely, executive director of New Patriot Journal, the media arm of the Tea Party Patriots, which includes various Tea Party groups around the country. “The general mood of the Tea Party is, ‘We put you in, and we’ll take you out in 2012.’ This is not something we will forget.”

But Brown also won praise from Democrats and some political observers for taking what they view as a shrewd step toward securing reelection in a state that typically has preferred its statewide Republican officeholders to be moderate. They said it also showcased his effort to make good on his vow to be independent and not always hew to the party line.

Federal prosecutors won’t bring charges against former [American International Group Inc.](#) executive [Joseph Cassano](#) related to the insurer’s collapse, according to a person familiar with the investigation.

The Justice Department found after a two-year investigation that there was insufficient evidence to charge Cassano, who was the former chief executive officer of AIG’s Financial Products division, the person said.

The Justice Department and civil investigators from the Securities and Exchange Commission were examining comments made in 2007 by Cassano and other AIG executives. They were probing whether executives misrepresented the value of AIG’s portfolio of “super senior” credit-default swaps, which insured bond losses tied to the U.S. housing market. [So what else is new.]

Nervous lawmakers anticipating an unstoppable flood of corporate and union money into the fall political campaigns have found one way to fight back: by loosening the rules for the major political parties, allowing them to exert more influence of their own.

Little-noticed language in campaign finance bills would help parties and their candidates get around restrictions on working together on political campaigns — essentially allowing parties to tap into their deep well of funds to more directly help their favored candidates.

Another provision would require broadcasters to offer political parties the same low advertising rates they give to candidates.

The measures are part of a package of changes introduced in Congress after the Supreme Court’s rejection in January of longstanding restraints on direct corporate and union spending.

The US Chamber of Commerce has said it is preparing to spend \$50 million on midterm elections, an early sign of a corporate media blitz to come.

Powerful unions are also planning massive spending on the fall campaigns. Officials from the American Federation of State, County and Municipal Employees have told The Hill newspaper that the union plans to top \$50 million in spending, while the Service Employees International Union reportedly plans to spend \$44 million.

Six investment banks including UBS AG, Citigroup Inc. and [Deutsche Bank AG](#) agreed to report European dark trades executed on their internal systems as the industry comes under closer regulatory scrutiny.

Starting today, the banks, which also include [Morgan Stanley](#), JPMorgan Cazenove Ltd. and [Credit Suisse AG](#), will report European equity trades matched in their internal crossing engines to Markit Ltd. At the end of the trading day, Markit will collate, check and validate the data and publish the aggregated trading volume the next afternoon, said the Association for Financial Markets in Europe, which represents the banks.

Dark pools, which allow investors to buy and sell securities away from regulated exchanges so they don't have to disclose positions, are at the center of a regulatory storm as U.S., European and U.K. securities watchdogs scrutinize market structure, responding to the worst financial crisis since the Great Depression.

Regulators disagree on how much trading banks carry out in dark pools. The U.K.'s [Financial Services Authority](#) says dark pools account for 1.25 percent of trades, whereas the Federation of European Securities Exchanges, which represents exchanges, estimates the figure is closer to 40 percent. The lack of reliable information on volumes and pricing of securities in dark pools has posed a problem for regulators trying to keep pace with market innovation.

of OTC trading," said [John Serocold](#), managing director of AFME. The move provides "verified data where previously there has been only speculation and by giving a clear indication of the actual levels of trading in crossing engines."

A measure of the U.S. money supply, created but abandoned by the Federal Reserve, has turned negative in the past year and signals disinflation or outright deflation, according to economists who track the figure.

The CHART OF THE DAY shows M3 has shrunk 5.4 percent in the past year, an indication the economy may face deflationary pressure as fewer dollars chase the same amount of goods, according to economists [Paul Ashworth](#) and [Paul Dales](#) at Capital Economics Ltd. in Toronto. They began compiling a measure of M3 after the Fed discontinued it in 2006.

"Sharp falls in the money supply tend to go hand in hand with very, very low rates of inflation if not deflation," Dales said. The decline in M3 "suggests there is perhaps greater downward pressures on inflation than M2 suggests."

The core inflation rate rose last month by 0.9 percent from April 2009, the smallest increase since January 1966, after a 1.1 percent year-over-year advance the prior month.

The Fed reports two measures of the money supply each week. M1 includes currency held by consumers and companies for spending, money in checking accounts and travelers checks. M2 adds savings and private holdings in money-market mutual funds. M3 encompassed M2 along with large time deposits, repurchase agreements, Eurodollar accounts and institutional money-market mutual funds.

M1 and M2 have risen as the Fed [boosted bank reserves](#) by creating new money to purchase up to \$1.43 trillion in housing debt.

M3 has fallen along with bank lending, as banks chose not to use the increase in reserves as leverage for new loans. Many types of account balances have declined, including those tracked by M3. One such component, institutional money fund balances, fell to \$1.94 trillion in April from \$2.52 trillion a year ago.



The Fed stopped measuring M3 in 2006, saying it “does not appear to convey any additional information about economic activity that is not already embodied in M2 and has not played a role in the monetary-policy process for years.” The Fed said the costs of collecting the measure outweighed the benefits.

Republican [Charles Djou](#) was elected to fill a vacant House seat in the overwhelmingly Democratic Hawaii district where [President Obama](#) was born and raised, handing [the GOP](#) a symbolic victory in its bid to retake control of Congress.

It is no secret that the last few weeks saw massive liquidations along all asset classes. The result was a huge outflow across almost all products: Loans, HY Bonds, Municipals, Commodities... all a typical reaction to broad based liquidations. However, note we said “almost” - one class that actually posted a \$6.2 billion inflow was equities. Yet not is all as it seems: peeking underneath the hood indicates that the bulk of this inflow, or \$10.3 billion, had to do with inflow into ETFs... or rather, just one ETF - the SPY, accounting for \$10.1 billion. Did someone prop up the entire equity market last week by massively pushing capital into the most liquid equity proxy available?

The plot thickens: as Bank of America points out: “The number of SPY’s shares outstanding rose by 5.3% on Thursday and Friday of last week (May 6-7th), at the time when S&P 500 was trading lower on both days.” BofA asks: “The question then becomes if this large intake into SPY was a part of the rogue trade that took place on Thursday, May 6th, or was it part of bona-fide rush by investors to buy equities at their lows...This suggests to us that the inflow into SPY, and by extent the overall equity category, was at least partially attributable to that trade dislocation. Potentially, some form of market-making activity closing on divergences between shares, ETFs, and derivative instruments may have been responsible for positive net interest in SPY.” That, or is this the biggest faux pas ever conducted by the “invisible hand” which openly flooded the market with \$10 billion in the form of ultra liquid SPY, at a time when massive derisking was taking all single names lower. A much more relevant question according to Zero Hedge, is whether there is any sense trading single names anymore - all the action is now in the form of index equity proxies now that liquidity in single names is virtually non-existent: this means trading only SPY and ES. Was last week’s freak occurrence a huge ETF rebalancing, an implosion in one or more market neutral funds, which were forced to cover billions in SPY shorts as single names were being sold off en masse, or was this merely a direct intervention into equities by the Federal Reserve? We are confident that the SEC will immediately rush to answer all these questions and will have a definitive conclusion within a week.

Existing home sales surprised analysts with a month-on-month increase to 5.77 million units on expectations of 5.60 million, an increase on last month’s 5.35 million sold. This brings April’s sales to 22.8% above prior year.

Monthly sales rose 7.6%, edging over last month’s 6.8% and blowing away consensus of a 4.7% increase.

Next month’s release will be heavily anticipated, as a US tax benefit for home buyers will expire this June.

The tax benefit, which consists of \$8,000 for qualified home buyers. As it usually takes 2 months to close the sale, home sales signed by April 30 were the last to qualify. Analysts are concerned weak economic conditions in the states may prevent organic demand growth

from propping up the housing market following the expiration of the tax benefit. Existing home sales have been up 16% YoY and new home sales spiked in March after setting a record low in February. The program has been in effect for 2 years.

Existing Home Sales, released by the National Association of Realtors, provides an estimate of housing market conditions. As the housing market drives jobs in the construction industry and house prices strongly impact US consumer spending, this release generates some volatility for the USD. Generally speaking, a high reading is positive for the Dollar, while a low reading is negative.

Loans guaranteed by the Federal Housing Administration, the U.S.-owned mortgage insurer, may be involved in more home-purchase transactions than borrowing financed by Fannie Mae and Freddie Mac.

FHA lending last quarter may have topped the combined volume of government-supported Fannie Mae and Freddie Mac in a home-lending market that's still a "government-financed market," David Stevens, the agency's head, said today at a conference in New York, citing research by consultant Potomac Partners.

"This is a market purely on life support, sustained by the federal government," he said at the Mortgage Bankers Association conference. "Having FHA do this much volume is a sign of a very sick system."

The FHA, which backs loans with down payments as low as 3.5 percent, insured \$52.5 billion of home-purchase mortgages in the first quarter, compared with \$46 billion of purchases of the debt by Fannie Mae and Freddie Mac, according to data compiled by Washington-based Potomac Partners.

The FHA and Fannie Mae and Freddie Mac, which regulators seized in 2008, have been financing more than 90 percent of U.S. home lending after a retreat by banks and the collapse of the market for mortgage bonds without government-backed guarantees.

Defaults on apartment-building mortgages held by U.S. banks climbed to a record 4.6 percent in the first quarter, almost twice the year-earlier level, as more borrowers failed to repay debt approved near the market peak, said Real Capital Analytics Inc. in a report.

Defaults on so-called multifamily mortgages rose from 4.4 percent in the fourth quarter and from 2.4 percent during the same period in 2009, the New York-based real estate research firm said today. Commercial-mortgage defaults also rose in the first quarter for loans against office, retail, hotel and industrial properties, Real Capital said.

"Apartment defaults are leading other commercial real estate," Sam Chandan, global chief economist at Real Capital, said in an interview. "Banks tended to make more aggressively underwritten apartment loans earlier during this last cycle. Credit and pricing reached their peaks for office properties and other commercial assets later."

The global recession cut demand for U.S. apartments, office space, retail shops, hotels and warehouses during the past two years as jobs disappeared and consumers cut spending. Defaults on apartment-building mortgages surpassed the previous record, set in 1993, for the past three consecutive quarters.



The U.S. savings-and-loan crisis drove apartment-building defaults to 3.4 percent in 1993. Defaults on other types of commercial property debt peaked at 4.6 percent in 1992, according to Real Capital.

The proportion of defaults on office, retail, hotel and industrial properties rose to 4.2 percent in the first quarter of this year, the company said.

U.S. apartments may lead a rebound in commercial real estate as vacancies peak in 2010 and the economy adds jobs, property research firm Reis Inc. said May 19. Reis estimates apartment vacancies will peak at 8.2 percent in 2010, the highest level since the firm began tracking the number in 1980. The number should start to decline in 2011, Reis said.

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