

What Happens When Central Banks No Longer Trust Each Other?

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Theme: [Global Economy](#)

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Normally I don't try to answer the question to a title until the end of a writing and after providing some evidence for the conclusion, I will today. The answer to today's title is easy, flat out, when central banks loose trust in each other you can pretty much expect chaos because of the loss of confidence! Before laying the case out for you, please remember we have been living in a system where "confidence" is not just everything, it's the ONLY thing!

Recently we have seen several "coordination" fractures amongst the central banks themselves. It really started in late 2012 when Germany decided to ask the Banque du France, Bank of England and the Federal Reserve for some of their custodial gold back. This of course has been followed by the Dutch repatriating 120 tons in November and the Belgians and Austrians pondering the same actions. Why? Why are foreign central banks repatriating their gold held in London and New York? The answer is really simple, "trust", or lack of it. You see, they can do math as well as we can. They know how much gold is produced globally from the mines and they also know how much gold is being taken off the market by China et al. After doing the most very basic of math, they know the "excess" gold is coming from "somewhere" and as I have been saying for several years now, that "somewhere" has to be the only place it exists in such large quantities ...Western vaults!

The Germans who are a very meticulous society announced 85 tons of gold received (repatriated). In their announcement, they made clear that "all serial numbers matched", however, they did not specify last year at this time regarding those measly 5 tons received. They took a lot of heat (including from yours truly) for melting down the bars. This time around, they assure us the serial numbers all matched and all bars were assayed, weighed and inspected. Why? Why such a detailed statement and why bother assaying if the serial numbers matched? I could write an entire article on this but suffice it to say, they wanted to make sure the "conspiratorial crowd" had no fodder. But, why include that all bars were inspected and assayed? Do they not trust the U.S. Fed? Do they really believe the Fed would go through the trouble of putting correct earmarks and serial numbers on golden covered tungsten? Do they really not trust the Fed or are they just trying to take any sticking points away ...and in the process "implying" they don't trust the Fed? Enough said.

Another area where "trust" looks to be breaking down is in the various central bank policies. Switzerland just broke ranks last Thursday and we received news after the close on Friday that Denmark has followed "negative(r)" interest rates. What Switzerland just did was what is best for Switzerland, NOT what is supposedly best for the central bank cabal. In essence, they pushed rates further negative and said we will not be buying any more euros. In other words, they announced they will no longer underwrite QE for Europe. Denmark followed and is basically saying the same thing.

We also heard from Japan (who's economy is definitely in shrinking mode), they will not be employing any further QE than is already in place. Is this in step with a united central bank front? Maybe it is because the U.S. Fed wants you to believe they will be tightening later in the year. Is the plan to have Europe announce further QE monetizing later this week and take the baton from Japan? I suspect this is the plan but it has the same flaw discovered in the U.S. and then Japan, they will be taking too much "collateral" (there's that word again!) out of the system which will actually tighten credit rather than loosen it. The next question of course is "who is next" with further QE? This answer is either the U.S. or, more likely ALL central banks still within the ranks!

I do want to mention Russia and more importantly China. These two have hooked up and in the case of Russia, dollars will no longer be used. China will have a difficult time avoiding all dollar transactions but they will surely be using less. As far as their central banks are concerned, they will skip to their own beat and not the one of the IMF nor the BIS. They will do what is best for them, not what is best for the Western central banks. Both Russia and China are courting and trying to pick off weak Western allies one by one. Russia is using energy while China is using other trade. The important thing to understand is their central banks are not part of the united front and in fact they (Russia in particular) are trying to divide and conquer the front.

I decided to write this piece because a "united front" is what has kept the coalition together for the last 6 years. The coalition has now been broken by the Swiss (and Danes). "Trust" and thus confidence are the only things that have held the game together for this long. The little guy knows "something" is wrong but for most part cannot put his finger on exactly what it is. If the man in the street begins to see infighting and quarrelling between central banks, he will have a further glimpse as to what is wrong. More importantly, if the populace sees clearly that trust between central banks is broken, then why should he "trust" also?

Taking this "trust" process just one step further, what will happen in another 2008 scenario? By this I am asking what will happen when financial institutions distrust one another and credit freezes up again? The last time around, the central banks stepped in and declared "you can trust US, so you can trust your counterparty". I submit to you, another 2008 event is a mathematical certainty with just one caveat ...if the central banks do not trust each other and are in an "every man for himself" mode, systemic confidence itself will fail this time around!

Please understand the "whole" of the above is about the creators of currency. Trust and confidence are necessary for their programs to work. Gold on the other hand does not have these issues because gold is no one's liability and not created by man. Gold (and silver) require real work, real capital and real labor to "make", once "made", trust is never an issue! In fact, with what is surely coming, it is this very topic of "trust" which will separate gold (and silver) from all other monies!

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Bill Holter writes and is partnered with Jim Sinclair at the newly formed Holter/Sinclair collaboration. Prior, he wrote for Miles Franklin from 2012-15. Bill worked as a retail stockbroker for 23 years, including 12 as a branch manager at A.G. Edwards. He left Wall Street in late 2006 to avoid potential liabilities related to management of paper assets. In retirement he and his family moved to Costa Rica where he lived until 2011 when he moved back to the United States. Bill was a well-known contributor to the Gold Anti-Trust Action Committee (GATA) commentaries from 2007-present.

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