Economic Collapse and the Dollar Crisis

by Bob Chapman via sal - International Forecaster *Saturday, Sep 24 2011, 9:28am*
international / imperialism / other press

> It is no secret that the Fed, Bank of England, Bank of Japan and the Swiss national Banks are going to provide dollars to European banks that are the victims of American lenders who have pulled their funds out of Europe for fear of losing their investments. They are phasing out an orderly fashion. The commitments of these central banks are doing three things putting their citizens at more financial risk; driving inflation higher; aiding in the increase in gold prices and following a path they already know is doomed to failure. The players did not want a replay of the Lehman Affair of just three years ago, or the ongoing immediate consequences.

Oz cattle dog and Gibson as Max

Everyone wanted to look like they were in motion, that they were doing something about the problem. The underlying problem is that banks in Europe cannot issue much more debt or they will look like bigger fools than they already are. Due to the banks poor choices in the past these banks are on the edge of failure and were Greece to default they'd get closer to the edge. If all insolvent nations were to default these banks would all go under. Thus, we see another bank bailout engineered by the Fed and other central banks. As this new crisis unfolds the European and world economies are slowing down, which will compound problems.

Under the best of circumstances the European banks and sovereigns will lose half of their investments in Greek bonds and loans. We stated two years ago the 100% default is the only answer for Greece and the other five problem countries. The losses would then be $4 to $6 trillion. Not only are many European banks already insolvent, but also the future portends a bank wipeout. The banks did everything wrong expecting as always a taxpayer bailout. In addition in this process these banks assumed leverage of about 30% in an attempt to raise profits. If these banks do not go under they will be nationalized and again the public will be allowed to assume again the banker's losses. This crisis already in motion is going to be worse than the one experienced three years ago and its mutating into an ongoing crisis, because no one is willing to purge the system. In the wings we see the ECB, which already has made an illegal foray into the bond market to purchase Italian and

Spanish bonds. The big question there is who is going to pay for their purchases? We will find that out on September 29th when the German Bundestag votes on German participation. If they say no the European financial world will go upside down. If they vote yes we could see anarchy in Germany. As we have cited often European countries are a collection of different tribes that do not like to be forced into anything. At this juncture we are told by our sources that the funding bill will be passed. If not passed, we could see military action between Greece, Israel and Turkey, as a deliberate diversion to force European countries to fund Greece and other bailouts. When in doubt have another war.

The US Treasury Secretary Mr. Geithner managed to make a fool of himself in Poland, but did find support among other elitists regarding the regulation and full implementation of banking federalization. This supposedly is needed to mitigate the crisis and prevent future confusion, when in fact it is a move to remove the sovereignty of member states. The Fed, that endless source of swaps, money and credit, would supply recapitalization. Trillions of dollars can easily be conjured up for just about anything and especially to further a European Federal Reserve. The upshot of this move would be to give the ECB or another authority the ability to create money and credit at will, which is totally apposed by the Germans. In total they do not want anyone telling them what to do especially after the mess in part created by the ECB. This is a war the internationalists cannot win, but they will try anyway.

These attempts at centralization and federalization are not what the Germans want. They want something similar to the Bundesbank and they want direct control via representation. What has transpired is another bailout for Europe via the Fed, BoJ, BoE and the SNB. That certainly spells much more inflation as a consequence of this policy, which is something Germany is dead set against. The newest swap facility is for 45 days, so that the ECB would convince US and other money market funds and other large investors to repurchase the banks', notes and bills of EU banks and government, of course with the aid and pressure of the Fed and the US Treasury. There were strong reasons for American lenders to pull out of euro zone short-term paper markets. It is called risk-reward. Higher yields are desperately needed by money managers, but not at the risk of losing capital. Just look at the correction in the US commercial paper market, nine-weeks of rising yields and plunging participation.

In fact, such policies are really a QE 3 in motion although concentrated on Europe. The absence of such backdoor financing had to make players realize that funds were needed quickly, because without them there would have been another European banking crisis that would have spread into the UK and US markets. The European economies are slowing down and in the absence of such a move the downside would have accelerated into a large recession or depression. The only way the Fed can operate such a swap would be with freshly minted money, because if they buy dollars in the Forex market they would drive the dollar higher and the euro lower and they do not want that to happen. The Fed is well aware that some European banks and sovereigns are insolvent, as is the US system and by using such policies they keep the whole structure functioning and buying valuable time. Default is on the way and all the players know that. They want to be sure it is an orderly default. The same is true of currencies. They want a big meeting where all currencies are revalued and devalued simultaneously and where multilateral defaults go smoothly. From a liquidity viewpoint European banks have bought 45 days to November 5th. We do not think that is enough time and that the swaps, QE 3, will be extended through the end of the year.

While this goes on the twist will take place in the US that is holding short-term rates static and deliberately lowering long-term rates by manipulating the markets. We are afraid that will cause upward pressure on short-term rates. The resultant lower rates are to encourage economic activity, investment, and revival in the real estate market. On the short end it is not going to happen. Rates will rise and bank leverage will be neutralized. All those months of riskless profits will end at least temporarily. Lower mortgage rates are fine, but suppressing long-term yields is a mistake. These moves are inflationary and we now see that an official CPI of plus 3.8%. Real inflation is 11.4%. They are the highest in two years and we predicted more than a year ago real inflation will match that of three years ago of 14%. We find it astounding that people are dumb enough to buy a 10-year note yielding 1.83% in an 11.4% inflationary environment and deliberately lose 9.4%. In 10-years almost all your purchasing power is gone. It is a small wonder that people are resorting to gold and silver coins, bullion and shares.

The bond market continues to reach ridiculous levels as the twist gets underway. During that process the dollar has rallied and the US 10-year note has begun trading at 1.83% yield. It is obvious that the Fed wants the 10 somewhere near 1%. That would put the 30-year fixed rate mortgage at 3% and perhaps lower. This move should boost official inflation from 3.8% to 5.5%, along with other factors to 5.5%. Unofficially that would put real inflation at 14%.

The higher bond levels have the Chinese all excited and they want to liquidate US Treasuries, but not dollars. That presents quite a problem for the Fed because worse yet they want to use those dollars to gobble up American assets, and securities. This demand has come at a most unfortunate juncture.

There is definitely fear among bankers and central bankers who have no choice but to throw monetary caution to the wind. Leading the pack believe it or not is the Swiss National Bank, that great recent devaluer of currency. Have they ever opened a can of worms? We wonder whether the Japanese will get the go ahead from the Fed, as a reward for supplying dollars to Europe, to further devalue its yen? We will just have to wait and see. Will 45 days be enough for Europe? Of course not, and neither will 90 days suffice. The slide of the European banking system won't happen overnight. It will still take a year or two. The elitists will do everything possible to extend the process. You also have to take note regarding how fast the swap line was set up. Intervention is the name of the game, and everyone in the UK, US and Europe are in on it. All the professionals have to know this is not going to work, but no one is saying anything. A conspiracy of silence. No one wants to say it but fascist Keynesianism is a failure. This is the foundation for future economic life for the New World Order and it is falling apart at the seams. You might say it is the end product of centuries of fraud, deceit and the looting of each successive civilization. The personification of what has been and is the evil within society. The monstrosity the Illuminists have created is in the process of collapsing and rightly so.

Irrespective of how dollars are created they still make up about 60% of world Forex reserves and oil producers are forced to accept the dollar for oil in exchange for protection from the US and Britain. The dollars only challenge in a sea of fiat currencies is gold, which we believe has become again the world's only real currency. What we see in Europe reminds us that the euro is a failed experiment. Trillions more dollars have been and will be created to keep the current system functioning and each time more dollars are created it strengthens the case for gold. Under current circumstances the dollar is not going to crash, although it will eventually. It still is the only viable paper world reserve currency, even though foreign central bank holdings have fallen from 72% to 60% in recent years. The closest competitor, the euro, can't come close to challenging the dollar, only gold can.

In Europe September 29th is a big day. On that day the Bundestag will decide whether to approve another Greek bailout. Our sources say they will approve it, although anything could happen. If this crisis passes over the next three months there will be a rush to pass legislation to allow the ECB to issue bonds. Once accomplished that would give the ECB the money and credit creating powers of the Fed and that would allow the ECB to stretch the problem out over a number of years. These moves might solve the current liquidity crisis, but they won't solve the solvency crisis. It is difficulty to tell how long this sort of bailout will go on and how difficult the problems will be. One thing is for sure inflation will rage and many nations will not want to subsidize others indefinitely. This will be especially true in smaller nations. The goal by the ruling EU in Brussels will be to totally control the entire 27 nations involved. Can this be accomplished? We do not know, but we do know it will be very difficult to accomplish.

While Mrs. Merkel, German Chancellor, sees nothing suggesting a recession in Germany, the government is maneuvering behind the backs of its citizens to give unlimited power to the EFSF, the European Financial Stability Facility, which is not a legitimate entity, to support the hopelessly bankrupt euro system at the expense of German taxpayers and the common good. This facility will strip Germany and all other participants of their sovereignty in its process of handling one facet of euro zone finance. The $500 billion in Swaps and the eventual bond issuance will guarantee much higher inflation. Europe's present problems are going to make the 2008 Lehman episode look like a walk in the park. The pooling of the debt burden and a further easing of monetary policy threatens to weaken the institutional framework of the EU.

German finance minister Wolfgang Schäuble, who resides in the back pocket of the bankers has proposed a doubling of funds to be made available to the bankrupt sovereigns of just over $1 trillion. On September 29th the banker's idea is to have the Bundestag the EFSF carte blanche to carry out measures to save the euro, the insolvent countries and banks. If that were passed, all control passes to the EFSF and the ECB. We believe that most Germans and selective others are finally realizing that Brussels is the enemy.

The passage of legislation by Germany, which in part has already been passed by the Bundesrat (Senate) would leave Germany with no more say on the use or increase in funding just to save the euro, Greece and the other five countries, which is an impossible task at a cost of $4 to $6 trillion. What the Bundestag does on 9/29/11 will dictate the future of Germany as an industrial and social nation far into the futures. Will it be enslavement to the EFSF or freedom to run its own affairs? This amounts to a coup d'état. Coming on the heels of abject failure to solve the economic problems of the insolvent six countries.

What is happening in Europe, and particularly in Germany, is beyond belief - a plan to prop up the hopelessly bankrupt financial states through deregulation of the financial sector. If legislation allow all this to happen you could have revolution in Germany and other countries. It is a frightful situation.

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