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The World Is On The Edge Of A Deflationary Black Hole

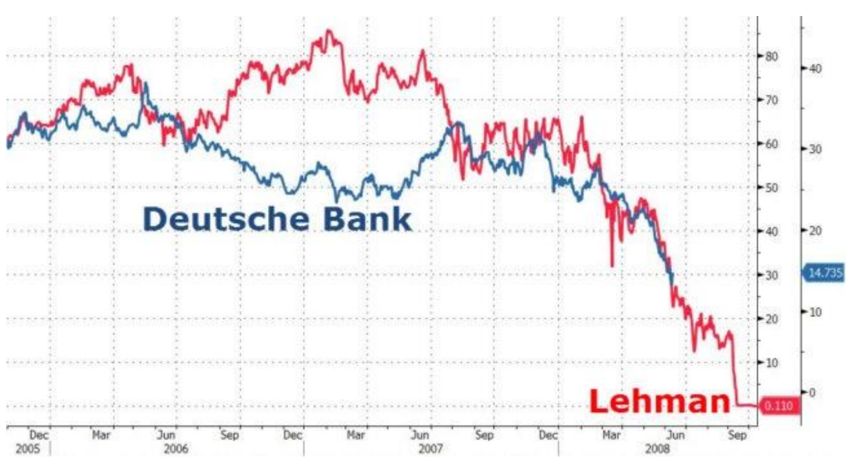
Egon von Greyerz

The world economy is now at its most dangerous point in history. In virtually every major country or region, there are problems of a magnitude which individually could trigger a collapse of the financial system. Because of the interconnectivity of the system, when the first domino starts falling, there is zero possibility to stop all the other unstable dominoes from crashing one after the other in quick succession.

The world is now staring down a deflationary black hole that is on the verge of sucking into it all global debt of $250 trillion plus unfunded liabilities and derivatives of another $2 quadrillion or so. That would be the end of the financial system as we know it. Governments and central bankers around the world are of course totally aware of this and are standing with their fingers ready to push the button for the biggest money printing bonanza that the world has ever experienced.

Deutsche Bank Worse Than Lehman

Look at Europe – Deutsche Bank, which is one of the biggest in the world, is valued at less than 1% of its asset value and it has derivatives which are standing at 20x German GDP. The share price is telling us that DB is bust. And so are Greek banks, Italian as well as Spanish, Portuguese and French banks and many more. Deutsche has now become front page news and its survival is not in jeopardy. It has total assets of EUR 1.9 trillion but a deposit base of only EUR 450 billion. This means that DB is totally dependent on short term loans to finance its massive balance sheet. That is extremely dangerous and the reason for Lehman's demise. The pressure on DB is likely to increase in coming weeks.



ECB money printing of €80 billion a month or €1 trillion per year is having no effect. Central banks are now pushing on a string. The bail out of Italy's fourth largest bank Monte dei Paschi is failing. Germany is totally against the ECB stepping in and the Italian government doesn't want to bail in the depositors.

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Financial Intervention - The Monkey And The Fish

Jeffrey Lewis

"Kindly let me help you or you'll drown, said the monkey to the fish as he placed him safely up the tree." – Unknown

The financial system (mistaken for the economy) is so bloated with risk that any number of events could trigger an explosion that would reach much further than anyone could imagine – causing irreparable damage.

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The Next Recession Looms Large

Peter Schiff

Currently economists and market watchers roughly fall into two camps: Those who believe that the Federal Reserve must begin raising interest rates now so that it will have enough rate cutting firepower to fight the next recession, and those who believe that raising rates now will simply precipitate an immediate recession and force the Fed into battle without the tools it has traditionally used to stimulate growth. Both camps are delusional, but for different reasons.

Most mainstream analysts believe that the current economy can survive with more normalized rates and that the Fed's timidity is unwarranted. These people just haven't been paying attention. The "recovery" of the past eight years hasn't been just "helped along" by deeply negative real interest rates, it is a singular creation of those policies. Since June 2009, when the current recovery began, traditional economic metrics, such as GDP growth, productivity, business investment, labor force participation, and wage growth, have all been significantly below trend. The only strong positives have been gains in the stock, bond and real estate markets. We have had an "asset price" recovery rather than a bona fide economic recovery. This presents unique risks.

Asset price gains have been made possible in recent years because ultra-low rates have driven down the cost of borrowing, encouraged speculation, and pushed people into riskier assets. Donald Trump was right in the presidential debate when he noted that the whole economy is "a big fat ugly bubble." Any rate hike could hit those markets hard across the financial spectrum and can tip the economy into contraction. Look what happened this January when the market had a chance to digest the first rate increase in 10 years. The 25 basis point increase in December 2015 led to one of the worst January's in the history of the stock market. Since then, the Fed has held off from further tightening and the markets have treaded water. There is every reason to believe that the sell-off could resume if the Fed presses ahead.

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Financial Intervention - The Monkey And The Fish

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Because of the size and the massive dependence on the institutions (who have evolved like a cancer from big finance), the resulting carnage will reach out much further than the primary institutions.

The reason these monsters are too big to fail is because without them everything stops –food distribution, the flow of credit, and the systems that support that.

Most mid to large size communities are days away from complete breakdown in the case of serious financial market interruption or panic.

Deflation is the natural tendency or force that the monetary powers have been fighting for over 100 years. Everywhere you look, there is evidence that the underlying economy "wants to", "needs to", "must" desperately correct. The high priests of finance will do EVERYTHING in their power to prevent nature from running it's course.

Appearances can be altered. Hidden below the derivatives, propaganda and the rigged numbers lie trillions of unfunded liabilities coming due in now.

Deflation and inflation in the context of modern monetary madness are intertwined in the fabric forced legal tender fiat.

How could the response to the next crisis be any different than the last few?

Allowing the expansion of free and easy money to go on for so long makes the system too fragile to withstand or recover from the inevitable shock that occurs when the plug is pulled.

Maybe they will come up with another euphemism for money printing?

Artificial intervention is killing the patient.

The system remains on life support while the institutions and their bureaucracy insist on helping, despite it all. Yet, signs of stress are everywhere. The patient needs to be let go.

The true irony in all of this is that when the patient is on the floor bleeding, there is nothing wrong with intervention. If the monkey were to find the fish in the tree and gently place it back in the water, that would be fine.

But the monetary powers that be are attempting the keep the fish alive while in the tree at all costs - no matter the spread of suffering for the most vulnerable.

Investors who know better see the proverbial writing on the wall, accepting that what underlies this (monetary) medicine is a failed precept.

Fiat money – currency without backing – allows for a massive expansion of credit money that fuels finance, spilling over and further distorting politics and the culture that goes along with it.

No one wants to be the one who pulls the plug. But in death, there is rebirth; the natural order will come about anyway.

Article by:
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September 14, 2016
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That would be a political disaster. Non-performing loans in Italy are 20% of assets and growing. It confirms my view that no debts, bank or sovereign will ever be repaid.

Bank Of Japan's Policies Have Failed For Over 20 Years

The news from around the world is just getting worse by the day. Japan's Yen 80 trillion ($0.8T) printing programme is having no effect. Kuroda (Governor of BoJ) is totally lost. He is currently buying all the bonds that the Bank of Japan is issuing. The BoJ is a top 10 shareholder in 90% of Japanese stocks. So not only is the BoJ holding Japanese bonds that they can never repay but they are desperately trying to support the Japanese stock market. Just as the bonds will become worthless, they are likely to lose at least 90% on their stock holdings. The balance sheet of the BoJ is now approaching Yen 0.5 quadrillion ($5T) which makes them the biggest money printer in the world. But it won't stop there. Kuroda's latest folly is to hold the 10-year bond interest rate at 0% for an undetermined period. As investors start dumping Japanese bonds, the BoJ will need to print unlimited amounts of Yen and increase debt exponentially to keep rates at zero. This is a policy which is guaranteed to fail.

Emerging Market Debt Is Unsustainable

The debt explosion in emerging markets has created a disastrous situation for many countries. Corporate debt in these markets has grown massively in the last ten years and is now standing at $25 trillion. Without continued growth of exports and higher commodity prices, these countries will go into a deflationary spiral. According to the Bank for International Settlement the debt to GDP ratio in China is 3x greater than what the BIS calls a dangerous level. The growth of Chinese debt from $2T to $32T in this century has probably created the credit bubble of all bubbles. A lot of this money has gone to big infrastructure projects that have zero value and yield no return. Bad debts in China are estimated at $2T but are probably considerably higher.

US Federal And Corporate Debt Continue To Surge

In the US, corporate debt has grown from $2 trillion to $6 trillion in the last 10 years. A lot of this debt has been used for share buybacks and have thus not created any economic value except for a few shareholders and executives. And US Federal debt will have doubled from $10T to $20T during Obama's presidency. This is an absolutely remarkable and unacceptable increase and a clear sign of a country on the road to bankruptcy. No country that runs substantial budget deficits every year for 55 years has any chance of survival. The only reason the US economy hasn't collapsed yet is that the dollar is still the reserve currency of the world. But the dollar doesn't deserve to be a reserve currency. Against the Swiss Franc for example, the dollar is down 77% since 1971. And against gold, history's only surviving currency, the dollar is down 97% since 1971. It is only a matter of time before the dollar starts its final journey to its intrinsic value of zero and so will many other currencies.

Coming Money Printing Will Greatly Exceed Weimar And Zimbabwe Debacles

Thus we are standing on the edge of a black hole that very easily could cause a deflationary implosion of all financial assets and all debt. No government is talking about this and no central banker dares to mention the seriousness of the present situation. The smallest final snowflake that can push the world over the edge and start the deflationary avalanche. It is really surprising that central banks dare to hold back on the biggest printing programme ever for so long. Because they only need to be a few seconds late and they will not be able to stop the collapse.

Let's assume that central bank will intervene in time and print first tens of trillions and eventually hundreds or even quadrillions of dollars, euros, yen etc. We will then see a hyperinflationary period which will be bigger than both the Weimar Republic or Zimbabwe for the simple reason that the figures involved now are so much greater.

But we know of course that we cannot create wealth by printing worthless pieces of paper or creating zeros in a computer.

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"Price inflation" Is Not The Biggest Problem

Steve Saville

All else remaining equal, an increase in the supply of money will lead to a decrease in the purchasing-power (price) of money. Furthermore, this is the only effect of monetary inflation that the average economist or central banker cares about. Increases in the money supply are therefore generally considered to be harmless or even beneficial as long as the purchasing-power of money is perceived to be fairly stable*. However, reduced purchasing-power for money is not the most important adverse effect of monetary inflation.

If an increase in the supply of money led to a proportional shift in prices throughout the economy, then its consequences would be both easy to see and not particularly troublesome. Unfortunately, that's not the way it happens. What actually happens is that monetary inflation causes changes in relative prices, with the spending of the first recipients of the newly-created money determining the prices that rise the first and the most.

Changes in relative prices generate signals that direct investment. The further these signals are from reality, that is, the more these signals are distorted by the creation of new money, the more investing errors there will be and the less productive the economy will become.

Also, although adding to the money supply cannot possibly increase the economy-wide level of savings, monetary inflation temporarily creates the impression that there are more savings than is actually the case. This reduces interest rates, which prompts investments in ventures that are predicated on unrealistic forecasts of future consumer spending. Again, the eventual result will be a less productive economy.

During any given year it usually won't be possible to separate-out the pernicious effects of monetary inflation and the distortion of interest rates that goes hand-in-hand with it from all the other forces affecting the economy.

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Our current "expansion," which began in June of 2009 is 88 months old, and is already the fourth longest since the end of the Second World War (post-war expansions have averaged 61 months) (based on data from National Bureau of Economic Research and Bureau of Labor Statistics). But although it is one of the longest it has also been the weakest.

Despite fresh optimism nearly every year, we have not had a single year of 3 percent GDP growth since 2007. More ominously, the already weak expansion is beginning to slow rapidly. GDP growth has been decelerating, averaging just 1% in the past three quarters. (Bureau of Economic Analysis) And while hopes were high for a significant rebound in Q3, as has been the pattern all year, rosy estimates have recently been sharply reduced.

Typically rate-tightening cycles start in the early stages of a recovery when the economy is still gathering momentum. As I have argued before, a rate tightening campaign that begins in the decelerating tail end of an old and feeble recovery is bound to unleash problems.

So I agree with those who believe that rate hikes now will bring on recession, but I disagree that we should keep rates where they are. They believe we need to keep the stimulus pedal to the metal...and when that's not enough, to cut a hole in the metal and push harder. I believe that despite the short-term pain that will surely follow, we need to raise rates now to break the addiction before it gets worse.

The "keep rates at zero camp" argues that global economic developments have made traditional GDP growth nearly impossible to achieve. These believers in "the new normal" fear that the Fed is mistakenly waiting for growth that will never come. Larry Summers, the leader of this group, recently argued in the Washington Post that the Fed will never be able to raise rates enough in the short-term (without plunging the economy into recession) to gather enough

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A Problem So Massive Even Central Banks Cannot Contain It

Graham Summers

The financial world has missed the biggest story of 2016. That story is the fact that the CURRENCY markets have stopped paying attention to Central Bank policy and are now deciding things for themselves.

For those who are unfamiliar with the significance of the currency markets, a brief recap is in order. The currency markets are the largest, most liquid, and most “alert” markets on the planet.

Globally, the stock market is roughly $69 trillion in size and trades about $191 billion in volume per day.

The bond market (including corporate) is a little over $199 trillion and trades about $700 billion in volume per day,

The currency markets are unmeasured in size as every currency trade is ultimately a pairs trade (meaning to buy one currency you have to sell another). However, we do know that the **currency markets trade $5.3 trillion in volume per day.**

Put another way, the currency markets trade over 26 times more volume than the global stock market every single day. As such they are the most liquid, sensitive markets in the world.

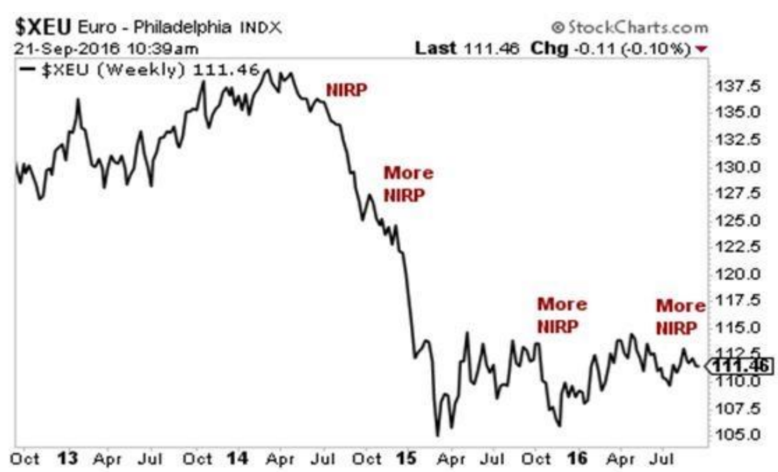
I want to also stress that at this size, the currency market is much larger than Central Banks. If the currency market begins to revolt against a particular Central Bank, there isn’t a thing said Central Bank can do about it.

With this in mind, the currency markets are the first markets to pick up on major changes in the financial system.

The first indication that Central Bank monetary policy was no longer dictating currency market moves occurred with the Euro in 2015.

The European Central Bank, or ECB, was the first major Central Bank to implement Negative Interest Rate Policy or NIRP. The ECB cut rates to NIRP in June 2014 and again in September 2014.

Those first two NIRP cuts were the last time the Euro really reacted. The ECB has since cut rates further into NIRP on December 2015 and again on March 2016. Both of those cuts failed to produce a significant reaction from the Euro.



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So sadly, the world will not be saved by this money printing which will only create more debt. It is of course impossible to solve a problem by the same means that caused it in the first place.

Hyperinflation Will Be Followed By Deflationary Implosion

After the hyperinflation, which will have solved nothing but just created a bigger problem, we will still see a deflationary collapse. This will be absolutely necessary to get rid of all the debt and the bubble assets. It will be like a forest fire that will get rid of all the dead wood and create the foundation for new strong growth not lumbered by debt. This is the only way that the world can progress and grow, totally free from debt, decadence and the all the false values that the current era has created.

It will not be easy to protect yourself against the coming upheaval. It is likely to involve social unrest, wars, famine, disease and massive suffering for most people.

Gold Acts As Protection Against Inflation And Deflation

During this period of transition, money will be needed as a method of payment or for barter. Throughout periods of crisis, whether inflationary or deflationary, gold has always functioned as money. During the hyperinflationary period, gold will reflect the destruction of paper money and appreciate substantially both in inflationary terms as well as in real terms.

What most people don't realize is that gold also normally does very well during deflationary periods. If we get the deflationary implosion that I have discussed above, there will be no financial system for a while and gold will be one of the few methods of payments. This is why gold will also be excellent protection in a deflationary period although the nominal value will be much lower than in a hyperinflationary period.

Thus with the current unprecedented risk in the financial system and the world economy, physical gold, and some silver, will be the best insurance and protection that anyone can hold.

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September 29, 2016
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What Is/Isn't A Risk To The Global Economy

Steve Saville

Quantitative Easing (QE) is a risk.

Negative Interest Rate Policy (NIRP) is a big risk. Governments using the threat of terrorism as an excuse to dramatically increase their own powers and reduce individual freedom is a huge risk. X hundred trillion dollars of notional derivative value is meaningless.

The hundreds of trillions of dollars of notional derivative value and the associated counterparty risk is a potential life-threatening problem for some of the major banks, but if you believe that derivatives are like a sword of Damocles hanging over the global economy then you've swallowed the propaganda hook, line and sinker.

The claim during 2008-2009 that the major banks had to be bailed out to prevent a broad-based economic collapse was a lie and it will be a lie when it re-emerges during the next financial crisis.

The global economy could easily handle JP Morgan, Goldman Sachs, Bank of America, Citigroup and Deutsche Bank all going out of business.

The shareholders of these companies would suffer 100% losses on their investments, the bondholders of these companies would suffer substantial 'haircuts', most employees in the investment-banking and proprietary-trading parts of these companies would lose their jobs, but it's unlikely that depositors would be adversely affected as the basic banking businesses would simply come under new management.

Furthermore, while there would be short-term disruption, Apple would continue to sell loads of iPhones, Exxon-Mobil would continue to sell loads of oil, Toyota would continue to sell loads of cars, and both Walmart and Amazon would continue to sell loads of everything.

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ammunition to effectively fight the next recession. In his view, to raise rates now would be to risk everything and get nothing.

Summers knows that central bankers now do not have the caliber of bazookas that their predecessors once carried (Bernanke was able to slash interest rates over 400 basis points in a few months). So he advocates continued stimulus until newer means can be developed to head off the next recession before it develops. (He promises to reveal those new ideas soon...really).

Given all the economic realities that central banking has attempted to suspend in recent years (such as the antiquated belief that lenders should be paid to lend rather than being charged for the privilege), it's no great stretch for them to consider the next big leap and call for an age of permanent expansion.

To do this they must short-circuit the business cycle, which up until now has regulated prior monetary mismanagement. Rather than being some naturally occurring process, the business cycle actually results from artificially low interest rates.

Mistakes are made during the booms, when rates are held artificially low, and are then corrected during the bust, once those rates are allowed to normalize. Ironically, the busts are actually the benign part of the process, and should not be resisted, but embraced.

But to mitigate the short-term pain associated with actually correcting those mistakes, central banks typically opt to paper them over for as long as possible. The problem is that this time the papering over process has gone on for so long, and involved a record amount of paper, that correcting the mistakes now will necessitate a recession so severe that it is unthinkable. The only apparent "solution" is to make sure one never arrives.

To do so Fed must replace the "ups and downs" of the economy with the "ups and ups." This futile process will likely involve the Fed intervening directly in the equity markets (by actually buying shares), or in the real estate market (by buying properties or making loans) or into the consumer economy by directly distributing money to citizens. But since contractions are necessary and healthy, especially when markets have gotten ahead of themselves, attempting to short-circuit them does more harm than good.

Yet despite how crazy such a policy sounds, Yellen just suggested that she thinks it's not only a good idea, but that the Fed is already giving it serious study. Given the damage our crazy monetary policy has already inflicted in the past, one can only imagine what kind of devastation awaits.

Just this week the International Monetary Fund issued a report about the dangers of global debt growth, which has reached $152 Trillion, or roughly twice the size of global GDP. They noted that the growth of private debt has recently led the upswing. With negative rates actually paying some companies to borrow, should this be a surprise? And while it's nice that the IMF raised a red flag, it's pathetic that their only proposed solution is to call for governments to increase public debt through fiscal stimulus (based on what should now be the debunked theory that deficit spending creates growth).

Even more pathetic is Alan Greenspan attempt on CNBC this week to blame the current low growth economy on Congress, and its failure to reign in entitlements. Greenspan is correct in his determination that "the new normal" results from the plunge in productivity gains that is a function of drops in savings and capital investment.

But he can't absolve the Fed. Had they not monetized the ever growing Federal deficits, or kept interest rates artificially low for so long, market forces would have forced cuts in entitlement spending years ago. These actions, originated with Greenspan himself, enabled Congress to repeatedly kick the can down the road.

According to Greenspan, to spare the public the pain of higher interest rates the Fed has no choice but to hold its nose and accommodate any level of debt Congress chooses to accumulate.

But the ability to pursue unpopular policy is precisely they are supposed to be politically independent. What good is an independent central bank that simply helps incumbents win reelection?

Given that the Fed has already unsuccessfully exhausted so much firepower, it is unfortunate that it never seriously questions whether their policies are actually harmful.

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This was the first indication that the currency markets were beginning to revolt. However, it was the Bank of Japan's move to NIRP in January 2016, which confirmed this.

The Bank of Japan implemented NIRP for the first time on January 28, 2016. Unlike the ECB, which got a significant devaluation from the Euro with its first NIRP cut, the Bank of Japan got NOTHING from the Yen as a result of its first foray into NIRP.

Indeed, the Yen actually began to rally as soon as the BoJ went to NIRP. And it hasn't stopped since!

The Yen has appreciated nearly 20% since the BoJ went to NIRP. This is a HECK of a move by a major world currency. And it sends a clear signal that the currency markets are no longer reacting to Central Bank policy.

Indeed, look at the British Pound, which is now dropping like a stone.

Central Banks are losing control of the markets. The next round of the Financial Crisis is about to begin.

During the first round banks went bust. **During this round entire countries will be going bust.**

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What Is/Isn't A Risk To The Global Economy

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Life would go on and in less than 12 months most people would not notice that some of history's banking behemoths had departed the scene.

The real economic threat posed by derivatives is that when there is a blow-up the central banks and governments will swing into action in an effort to keep the major banks afloat.

Rather than doing nothing other than ensuring that there is a smooth transfer of ownership for the basic banking (deposit-taking/loan-making) parts of the businesses, we will likely get a lot more of the policies that transfer wealth from the rest of the economy to the banks.

That is, we will get a lot more price-distorting QE and programs similar to TARP.

The justification will be that saving the banks is key to saving the economy, but in reality the biggest threat to the economy will come from the policies put in place to save the banks.

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September 16, 2016
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The Next Recession Looms Large

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Modern economists simply can't imagine that throwing ever more debt on the back of a weak economy actually prevents it from recovering.

I think it's high time the Fed finally moves rates well into positive territory. The next recession has been on its way for years, and it will arrive no matter what the Fed does, if it's not already here. Sometimes reality hurts, but fantasy can be more damaging in the long run.

The real choice is not between recession now or recession later. It's between a massive recession now, or an even more devastating one later. Either way, there is no Fed policy that will be able to fight it. But that is not because the Fed is out of bullets, but because it never had any real bullets to fire in the first place. All it had was morphine to numb the pain as the wound festered. Now is the time to bite the bullet, endure the pain, and allow the wound to actually heal. This will also allow us to finally bury the idea of a new normal, enjoy a real recovery with all of its traditional benefits, and actually make America great again.

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October 7, 2016
http://www.europac.com/

The Outstanding Public Debt

National Debt:
19,759,126,048,953.42
The estimated population of the United States is **323,991,414**
US citizen's share of this debt is
$60,986.57
The National Debt has continued to increase an average of
$2.49 billion per day
Business, Government, Financial and Unfunded Liabilities Debt exceeds
$100 Trillion

"Price inflation" Is Not The Biggest Problem

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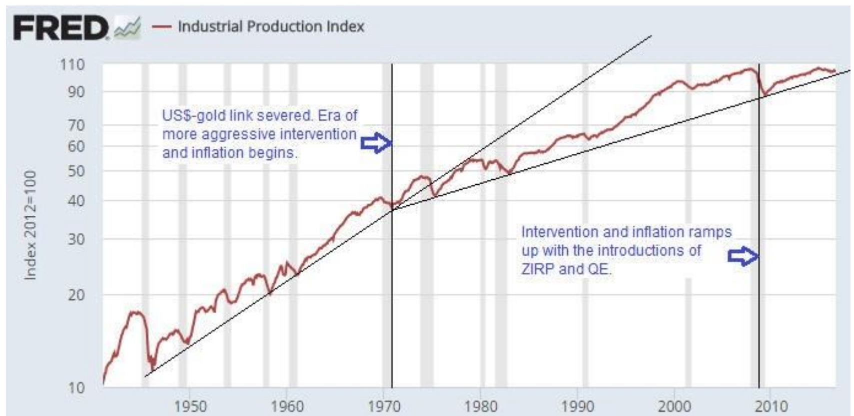
There will simply be too many things going on in the world that could be influencing the data. However, by taking a wide-angle (that is, long term) view it will often be possible to see the effects on the economy of shifts in monetary inflation.

As an example of how long-term shifts in monetary inflation/intervention can be linked to long-term shifts in economic progress I present the following chart of the US Industrial Production Index. The chart shows that the industrial-production growth trend flattened at around the time that the 'golden shackles' were removed, that is, at around the time that the Fed was essentially empowered to do a lot more. This is not a fluke. The chart also shows that the ramping-up of the Fed's monetary interventions in 2008-2009 has been followed by the weakest post-recession recovery in at least 70 years. Again, this is not a fluke.



In economics, to have a chance of correctly interpreting cause and effect in the data you first have to know the right theory. That's why Keynesian economists will not link the US industrial production slowdown with the Fed's increasingly aggressive monetary interventions. From their perspective, the only negative effect that monetary inflation can possibly have is to make the cost of living rise at a faster pace than they believe it should be rising.

**Stable, here, means rising at around 2% per year. Note that it is not possible to come up with a single number that represents the economy-wide purchasing power of money, but this doesn't stop the government (and some private organisations and individuals) from doing exactly that.*

Article by:
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http://www.speculative-investor.com/new/index.html