European Central Bank Chief Mario Draghi's Giant Giveaway; More Handouts for Wall Street

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Last week, European Central Bank chief Mario Draghi announced a much bigger and wider-ranging stimulus package than anyone had expected. Unfortunately, the ECB's bond buying program will have no impact on employment, business investment, inflation, lending or growth. It will, however, create a temporary incentive for corporations to buy back more of their own shares while providing more cheap cash for banks to roll over their prodigious pile of debt which otherwise would have dragged them into default. All in all, Draghi's turbo-charged QE should do largely what it was designed to do, shift more cash into overpriced financial assets while perpetuating the illusion that the EU banking system is still solvent.

The size and scale of Draghi's massive giveaway is impressive by any standard. He increased his purchases of financial assets by a hefty €20 billion per month (from €60 billion to €80 billion), pushed interest rates lower into negative territory (by 10 basis points), improved financing for the banks, and announced his intention to buy investment grade corporate bonds. The announcement that the ECB planned to enter the bond market was warmly received on Wall Street where giddy traders bought up everything that wasn't nailed to the ground. The Dow logged another triple-digit day while the S&P and Nasdaq followed close behind.

In theory, the ECB's buying of corporate bonds will lower funding costs for corporations which will then trickle down to working people through increased investment, more hiring, and eventually higher wages. That's the theory at least. But after seven years of similar QE-iterations, we can safely say the theory does not jibe with reality. What actually happens is that the money stays largely in the financial system where it ignites more reckless speculation that leads to even bigger asset-price bubbles. There's an excellent article on Yahoo Finance which shows the effect that QE has had on stock prices. The article is aptly titled "The Fed caused 93% of the entire stock market's move since 2008". http://finance.yahoo.com/news/the-fed-caused-93–of-the-entire-stock-market-s-move-since-2008–analysis-194426366.html# According to economist Brian Barnier, principal at ValueBridge Advisors, current stock prices do not reflect fundamentals nor are they the result of market forces. Equities are high because, in his words, "the Federal Reserve took to flooding the financial market with dollars by buying up bonds." Now that the Fed has turned off the liquidity spigot, stocks are circling the plughole.

Can Draghi's latest monetary infusion reverse the trend?

Temporarily, perhaps, but long term, no way. Keep in mind, earnings have been steadily declining for more than two quarters, which is why Draghi and his fellows have swung into action. The CBs are attempting to extend the business cycle in order to shore up flagging earnings and keep stocks airborne for a little while longer.

But we're getting ahead of ourselves. Ostensibly, Draghi's plan to buy corporate bonds is an attempt to reduce financing costs for European companies.

Why? Aren't financing costs low already?

Yes they are, extremely low. But, once again, we have to refer to the theory, and the theory states that if financing costs are reduced, then corporations will expand their operations, hire more workers, and invest in the future. That, in turn, will stimulate more growth and strengthen the recovery.

The problem is, the theory is flawed. Corporations don't expand their operations or hire more workers when demand is weak. And demand IS weak mainly because central banks have worked with their government counterparts to keep it weak by slashing deficits and intensifying austerity.

Draghi knows this just like he knows that consumption in the Eurozone is shrinking not expanding. And the reason its shrinking is because Draghi and his ilk want unemployment to remain high in order to keep inflation low. As long as inflation stays low, Draghi can continue to provide cheap money to his crooked friends on Wall Street, which is the real objective.

What this tells us is that Draghi's QE is not really "stimulus" at all, but a form of upward distribution concealed behind public relations sloganeering.

But why is Draghi targeting corporate bonds?

Well, it's another way to give the big corporations more money through stock buybacks. Here's how it works: The ECB announces it will purchase investment grade bonds which is a signal to Wall Street to increase its issuance of bonds in Europe, so they can take the proceeds, stick them in their pocket via stock buybacks, and trundle off to their vacation villas on the Amalfi Coast. Do you think I'm kidding? Check out this clip from the Wall Street Journal:

> "The ECB's largess in lowering the overall cost of borrowing in Europe has led to a rush of euro-denominated bond issuance by U.S. companies. Last year, they accounted for nearly a quarter of issuance and so far this year for a third, Société Générale SCGLY 4.33 % notes. Some of the ECB's efforts may just contribute to more debt building up on U.S. investment-grade balance sheets." (Never Mind the Euro: Here's the New Test of ECB Success, Wall Street Journal)

Wait a minute, so Draghi's corporate bond buying program is actually another handout for Wall Street?

> You bet it is. Take a look:
>
> "Conditions for financing are extremely attractive, given the European Central Bank's ultra-loose monetary policy. While credit spreads are wider than pre-crisis, yields are at historically low levels. Investors are willing to buy long-dated bonds like never before.
>
> But it is U.S. companies that are taking advantage of this appetite: as of May

> 22, the U.S. was the single-largest source of bond sales this year, accounting for 28% of investment-grade issuance, versus 17% in the whole of 2014, according to Société Générale." (Europe's Economies Must Match Capital Market Progress, Wall Street Journal)

Can you believe it, Wall Street "was the single-largest source of bond sales this year" in the EU??

What the heck?? Did we mention that Draghi used to work for Goldman Sachs?? Of course, that couldn't possibly effect his decision to set up a program that primary benefits the speculator cutthroats on Wall Street, could it?

Right. Here's more from another article in the WSJ:

> "The ECB buying corporate bonds is "very significant," said Marilyn Watson, a senior bond strategist at BlackRock Inc… "Everyone is trying to assess the impact on financials and nonfinancial corporates."…Strategists at Citigroup Inc…estimate there is about €500 billion in corporate debt that the ECB could buy…
>
> Buying high-grade debt will push down yields on these bonds and that should encourage investors to shift into riskier bonds. That means the benefits of the program should trickle down to the junk-bond market, according to strategists at Citigroup Inc." (European Corporate Bonds Are Clear Winners After ECB Move, Wall Street Journal)

Yipee! Another half trillion in free money for Wall Street! And look; the buying frenzy could even trickle down to junk bonds which have been flashing red for months signaling the end of the credit cycle. That should help to extend the 7-year rally for few months longer postponing financial Armageddon to sometime by mid summer. Who said Draghi wasn't a great guy?

Of course there could be a few glitches in Draghi's plan, mainly that ECB bond purchases could reduce market liquidity which would make it harder for bondholders to sell without sending prices off a cliff. But why worry about trivialities like that when there's money to be made.

Damn the torpedoes, full speed ahead! Isn't that the way Wall Street sees things?

You know it is. Thanks to Draghi's QE, US corporations will issue more debt (bonds) in the EU. They'll take the money they borrowed from gullible Mom and Pop investors in Europe and use it to repurchase shares in their own companies which will boost executive compensation packages and keep voracious shareholders happy. The money will not be used to invest in the future growth of their companies (since consumer demand is weak) or to create the future revenue streams needed to pay back their debts, but to enrich wealthy CEOs who see stock manipulation as a perfectly reasonable way to boost profits.

Got that?

Now take a look at this eye-popper from Bloomberg:

> "Standard & Poor's 500 Index constituents are poised to repurchase as much

> as $165 billion of stock this quarter, approaching a record reached in 2007. The buying contrasts with rampant selling by clients of mutual and exchange-traded funds, who after pulling $40 billion since January are on pace for one of the biggest quarterly withdrawals ever….
>
> Should the current pace of withdrawals from mutual funds and ETFs last through the rest of March, outflows would hit $60 billion. That implies a gap with corporate buybacks of $225 billion, the widest in data going back to 1998." (There's Only One Buyer Keeping S&P 500's Bull Market Alive, Bloomberg)

$165 billion of stock this quarter, translates into $660 billion per year. That's a boatload of money and enough to drive the market higher unless retail investors call it a day and bail out.

Well, guess what? It looks like retail investors are calling it "quits" and cashing in. Here's the scoop:

> "Demand for U.S. shares among companies and individuals is diverging at a rate that may be without precedent….While past deviations haven't spelled doom for equities, the impact has rarely been as stark as in the last two months, when American shares lurched to the worst start to a year on record as companies stepped away from the market while reporting earnings. Those results raise another question about the sustainability of repurchases, as profits declined for a third straight quarter, the longest streak in six years." (Bloomberg)

So even though US corporations are allegedly flush with cash, "other trading clients have been net sellers, with hedge funds leading the pack, dumping $3.5 billion."

> "Corporate buybacks are the sole demand for corporate equities in this market," David Kostin, the chief U.S. equity strategist at Goldman Sachs Group Inc., said in a Feb. 23 Bloomberg Television interview." (Bloomberg)

"The sole demand"? You mean the only one buying stocks is the companies buying their own lousy shares?

Indeed, and here's something else that's worth considering: "In a market where everyone else is selling, the ebb and flow of corporate actions have amplified volatility. The S&P 500 slumped 11 percent in the first six weeks of the year before staging a rebound that has since trimmed the drop to about 1 percent."

So, there you have it. The reason stocks have been bouncing around like crazy is because investors are bailing out while corporations are loading up. Those competing forces have triggered unprecedented volatility that will probably intensify as uncertainty grows.

Obviously, CEOs believe they can force the market higher by issuing more debt and buying more shares, (Otherwise, they wouldn't have spent another $165 billion this quarter) but retail investors are not as sanguine.

Why?

Two reasons:
1–Because the Fed is indicating that it wants to hike rates.
2–Because "profits are poised for a fourth quarter of declines."

Profits and rates. Rates and profits. That's what drives the markets, not China, not emerging markets, not oil, not demand, not employment, not anything. Money and the price of money, that's it.

Bottom line:

> "During the last two decades, there have been two times when earnings contractions lasted longer than now. Both led companies to slash buybacks, with the peak-to-trough drop reaching an average 62 percent." (Bloomberg)

So it doesn't matter how determined these greedy CEOs are to manipulate their stock prices higher. When profits fall, stocks follow. End of story.

One last thing: Negative rates (the likes of which Draghi increased on Thursday) are a real headache for the banks who end up having to pay a small fee on excess reserves. (that they can't pass on to their customers) What most people don't know, however, is that Draghi's new targeted lending program, known as TLTRO II, is going to provide another €700 billion of four-year funding to back up their loans to companies and consumers. According to the Wall Street Journal:

> "At most this will cost banks nothing. But if they have grown lending by 2.5% by the end of January 2018, the interest rate they pay could drop to the ECB's deposit rate at the time the funding was taken. That was cut to minus 0.4% on Thursday…
>
> This funding is a cheap option to replace banks' maturing bonds with more than €500 billion due for repayment in the next two years, according to Standard & Poor's, as well to refinance existing ECB money. The lower costs would add a net €3 billion, or up to 2.5%, to annual earnings, according to Deutsche Bank…" (How the ECB Woke Up to Banks' Profits Nightmare, Wall Street Journal)

The ECB is going to roll over a half a trillion in debt for nothing???

What a complete fucking outrage! This excerpt really explains how badly we are all getting reamed by these thoroughly-odious and despicable Central Banks. Why is the ECB providing a safety net for insolvent banks that are unable to roll over their own stinking debtpile? These malignant institutions should be dragged into the backyard and euthanized now so we can be done with them once and for all. Instead, Draghi plans to provide billions more in free money so they can continue to bilk the public with their toxic assets, their heinous bunko operations and their endless Ponzi swindles.

Where's the justice?

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