Financial Market Manipulation Is The New Trend: Can It Continue?

Financial Imperialists Attack Russia

By Dr. Paul Craig Roberts
Global Research, December 19, 2014
PaulCraigRoberts.org

Theme: Global Economy

A dangerous new trend is the successful manipulation of the financial markets by the Federal Reserve, other central banks, private banks, and the US Treasury. The Federal Reserve reduced real interest rates on US government debt obligations first to zero and then pushed real interest rates into negative territory. Today the government charges you for the privilege of purchasing its bonds.

People pay to park their money in Treasury debt obligations, because they do not trust the banks and they know that the government can print the money to pay off the bonds. Today Treasury bond investors pay a fee in order to guarantee that they will receive the nominal face value (minus the fee) of their investment in government debt instruments.

The fee is paid in a premium, which raises the cost of the debt instrument above its face value and is paid again in accepting a negative rate of return, as the interest rate is less than the inflation rate.

Think about this for a minute. Allegedly the US is experiencing economic recovery. Normally with rising economic activity interest rates rise as consumers and investors bid for credit. But not in this "recovery."

Normally an economic recovery produces rising consumer spending, rising profits, and more investment. But what we experience is flat and declining consumer spending as jobs are offshored and retail stores close. Profits result from labor cost savings from employee layoffs.

The stock market is high because corporations are the biggest purchases of stock. Buying back their own stock supports or raises the share price, enabling executives and boards to sell their shares or cash in their options at a profitable price. The cash that Quantitative Easing has given to the mega-banks leaves ample room for speculating in stocks, thus pushing up the price despite the absence of fundamentals that would support a rising stock market.

In other words, in America today there are no free financial markets. The markets are rigged by the Federal Reserve's Quantitative Easing, by gold price manipulation, by the Treasury's Plunge Protection Team and Exchange Stabilization Fund, and by the big private banks.

Allegedly, QE is over, but it is not. The Fed intends to roll over the interest and principle from its bloated $4.5 trillion bond portfolio into purchases of more bonds, and the banks intend to fill in the gaps by using the $2.6 trillion in their cash on deposit with the Fed to purchase bonds. QE has morphed, not ended. The money the Fed paid the banks for bonds will now be used by the banks to support the bond price by purchasing bonds.

Normally when massive amounts of debt and money are created the currency collapses, but the dollar has been strengthening. The dollar gains strength from the
rigging of the gold price in the futures market. The Federal Reserve's agents, the bullion banks, print paper futures contracts representing many tonnes of gold and dump them them into the market during periods of light or nonexistent trading. This drives down the gold price despite rising demand for the physical metal. This manipulation is done in order to counteract the effect of the expansion of money and debt on the dollar's exchange value. A declining dollar price of gold makes the dollar look strong.

The dollar also gains the appearance of strength from debt monetization by the Bank of Japan and the European Central Bank. The Bank of Japan's Quantitative Easing program is even larger than the Fed's. Even Switzerland is rigging the price of the Swiss franc. Since all currencies are inflating, the dollar does not decline in exchange value.

As Japan is Washington's vassal, it is conceivable that some of the money being printed by the Bank of Japan will be used to purchase US Treasuries, thus taking the place along with purchases by the large US banks of the Fed's QE.

The large private US and UK banks are also manipulating markets hand over fist. Remember the scandal over the banks fixing the LIBOR rate (the London Interbank Borrowing Rate) and the opening gold price on the London exchange. Now the banks have been caught rigging currency markets with algorithms developed to manipulate foreign exchange markets.

When the banks get caught in felonies, they avoid prosecution by paying a fine. You try doing that.

The government even manipulates economic statistics in order to paint a rosy economic picture that sustains economic confidence. GDP growth is exaggerated by understating inflation. High unemployment is swept under the table by not counting discouraged workers as unemployed. We are told we are enjoying economic recovery and have an improving housing market. Yet the facts are that almost half of 25 year old Americans have been forced to return to live with their parents, and 30% of 30 year olds are back with their parents. Since 2006 the home ownership rate of 30 year old Americans has collapsed.
.
The repeal of the Glass-Steagall Act during the Clinton regime allowed the big banks to gamble with their depositors' money. The Dodd-Frank Act tried to stop some of this by requiring the banks-turned-gambling-casinos to carry on their gambling in subsidiaries with no access to deposits in the depository institution. If the banks gamble with depositors money, the banks' losses are covered by FDIC, and in the case of bank failure, bail-in provisions could give the banks access to depositors' funds. With the banks still protected by being "too big to fail," whether Dodd-Frank would succeed in protecting depositors when a subsidiary's failure pulls down the entire bank is unclear.

The sharp practices in which banks engage today are risky. Why gamble with their own money if they can gamble with depositors' money. The banks led by Citigroup have lobbied hard to overturn the provision in Dodd-Frank that puts depositors' money out of their reach as backup for certain types of troubled financial instruments, with apparently only Senator Elizabeth Warren and a few others opposing them. Senator Warren is outgunned as Citigroup controls the US Treasury and the Federal Reserve.

The falling oil price has brought concern that oil derivatives are in jeopardy. Citigroup has a provision in the omnibus appropriations bill that shifts the liability for Citigroup's credit default swaps to depositors and taxpayers. It was only six years ago that Citigroup was bailed out to the tune of a half trillion dollars. Already Citigroup is back for more while nothing whatsoever is done to bail the American people out of their hardships caused by Citigroup and the other financial gangsters.

What we are experiencing is not a repeat of the past. The ability or, rather, the audacity of the US government itself to manipulate the major financial markets is new. Can this new trend continue? The government is supposed to be the enforcer of laws against market manipulation but is itself manipulating the markets.

Governments and economists take their hats off to free markets. Yet, the markets are rigged, not free. How long can stocks stay up in a lackluster or declining economy? How long can bonds pay negative real interest rates when debt and money are rising. How long can bullion prices be manipulated down when the world's demand for gold exceeds the annual production?

For as long as governments and banks can rig the markets.

The manipulations are dangerous. Manipulations blow a bigger bubble economy, and manipulations are now being used by Washington as an act of war by driving down the exchange value of the Russian ruble.

If every time the stock market tries to correct and adjust to the real economic situation, the plunge protection team or some government "stabilization" entity stops the correction by purchasing S&P futures, unrealistic values are perpetuated.

The price of gold is not determined in the physical market but in the futures market where contracts are settled in cash. If every time the demand for gold pushes up the price, the Federal Reserve or its bullion bank agents dump massive amounts of uncovered futures contracts in the futures market and drive down the price of gold, the result is to subsidize the gold purchases of Russia, China, and India. The artificially low gold price also artificially inflates the value of the US dollar.

The Federal Reserve's manipulation of the bond market has driven bond prices so high that purchasers receive a zero or negative return on their investment. At the present time fear of the safety of bank deposits makes people willing to pay a fee in order to have the protection of the government's ability to print money in order to redeem its bonds. A number of events could end the tolerance of zero or negative real interest rates. The Federal Reserve's policy has the bond market positioned for collapse.

The US government, perhaps surprised at the ease at which all financial markets can be rigged, is now rigging, or permitting large hedge funds and perhaps George Soros, to drive down the exchange value of the Russian ruble by massive short-selling in the currency market. On December 15 the ruble was driven down 19%.

Just as there is no economic reason for the price of gold to decline in the futures market when the demand for physical gold is rising, there is no economic reason for the ruble to suddenly loose much of its exchange value. Unlike the US, which has a massive trade deficit, Russia has a trade surplus. Unlike the US economy, the Russian economy has not been offshored. Russia has just completed large energy and trade deals with China, Turkey, and India.

If economic forces were determining outcomes, it would be the dollar that is losing exchange value, not the ruble.

The illegal economic sanctions that Washington has decreed on Russia appear to be doing more harm to Europe and US energy companies than to Russia. The impact on Russia of the American attack on the ruble is unclear, as the suppression of the ruble's value is artificial.

There is a difference between economic factors causing foreign investors to withdraw their capital from a country, thereby causing the currency to lose value, and manipulation of a currency's value by heavy short-selling in the currency market. The latter can cause the former also to occur. But the outcome for Russia can be positive.

No country dependent on foreign capital is sovereign. A country dependent on foreign capital, especially from enemies seeking to subvert the economy, is subject to destabilizing currency and economic swings. Russia should self-finance. If Russia needs foreign capital, Russia should turn to its ally China. China has a stake in Russia's strength as part of China's protection from US aggression, whether economic or military.

The American attack on the ruble is also teaching sovereign governments that are not US vassals the extreme cost of allowing their currencies to trade in currency markets dominated by the US. China should think twice before it allows full convertibility of its currency. Of course, the Chinese have a lot of dollar assets with which to defend their currency from attack, and the sale of the assets and use of the dollar proceeds to support the yuan could knock down the dollar's exchange value and US bond prices and cause US interest rates and inflation to rise. Still, considering the gangster nature of financial markets in which the US is the heavy player, a country that permits free trading of its currency sets itself up for trouble.

The greatest harm that is being done to the Russian economy is not due to sanctions and the US attack on the ruble. The greatest harm is being done by Russia's neoliberal economists.

Neoliberal economics is not merely incorrect. It is an ideology that fosters US economic imperialism. By following neoliberal prescriptions, Russian economists are helping Washington's attack on the Russian economy.

Apparently, Putin has been sold, along with his internal enemies, the Atlanticist integrationists, on "free trade globalism." Globalism destroys the sovereignty of every country except the world reserve currency country that controls the system.

As Michael Hudson has shown, neoliberal economics is "junk economics." But it is also a tool of American financial imperialism, and this makes neoliberal Russian economists tools of American imperialism.

The remaining sovereign countries, which excludes all of Europe, are slowly learning that

Western economic institutions are deceptive and that placing trust in them is a threat to national sovereignty.

Washington intends to subvert Russia and to turn Russia into a vassal state like Germany, France, Japan, Canada, Australia, the UK and Ukraine. If Russia is to survive, Putin must protect Russia from Western economic institutions and Western trained economists.

It is too risky for the US to take on Russia militarily. Instead, Washington is using its unique symbiotic relationship with Western financial institutions to attack an incautious Russia that foolishly opened herself to Western financial predation.

Note: The winter issue of Gerald Celente's Trends Journal identifies financial market manipulation as a Top Trend for 2015.

The original source of this article is PaulCraigRoberts.org

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Dr. Paul Craig Roberts

About the author:

Paul Craig Roberts, former Assistant Secretary of the US Treasury and Associate Editor of the Wall Street Journal, has held numerous university appointments. He is a frequent contributor to Global Research. Dr. Roberts can be reached at http://paulcraigroberts.org