

Grim Economic Prospects for 2012: Social Upheaval, Bank Defaults and Financial Chaos

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The game goes on, as German leadership tells us the euro is stable, even as it hits yearly lows. We are told the problem is a crisis in several member states. That may be true, but they all are inseparable. The reassurance from politicians and bankers to calm the market place is beginning to fall on deaf ears. No matter what the cause of the debt crisis it exists and leadership as yet cannot find a solution. Even short-term solutions, such as the use of the EFSF are not going to work. All they will do is gain time. In that process, what happens if France's credit rating is cut one or two levels? How can France then continue to participate?

The present French government has buried the government in losing investments, which we believe in June will force the electorate to choose the Front National to solve national problems. The public, as in most other countries are sick and tired of lies and incompetence from politicians, bankers and bureaucrats possessed with the creation of world government. At this point confidence in the euro is hanging by a thread and Europe's leadership doesn't know how to solve the problem. We have seen such crises of confidence often over the past 15 years. It is not unique, but the size of the euro zone is compelling, because the crisis touches so many people. Currency is the vehicle to bring about a solution, but if confidence is lost the currency cannot perform part of its role as monetization continues unabated, confidence continues to fall and inflation as a result flourishes.

It is not that EU leadership doesn't want a solution; it is that there isn't a solution, other than to purge the system. In that environment the politicians, bankers and bureaucrats have their power to control the people taken away from them and the citizens take back their countries and their liberty and freedom. The euro has been an unnatural experiment implanted as a nexus for world government. We predicted this in 1992 and nothing has changed. We expected failure and we now have that failure. After years of leveraged profits for the insiders the public is left with unpayable debt.

The debt bomb began with Greece, Ireland and Portugal. It has been followed by Belgium and now Italy and Spain. We see new commitments for bailouts, but will the funds materialize. We are talking more than \$1 trillion and that will entail more bank reorganization that is bailouts. That is governments and the public, bailing out the banks again. The debt loads are enormous for sovereigns as well as bankers. European politicians and economists realize six sovereigns are in serious trouble for at least \$6 trillion. \$4 trillion will be need for Italy and Spain alone, that is just to keep them going sideways. To our way of thinking Greece is a black hole and after elections we believe it will finally default to be followed by Portugal, Ireland and Belgium. We can understand why the sovereigns are so concerned with the group of 6 and the stability of the euro. This is why, without fanfare and very discreetly the Bundesbank, loaned the ECB \$644 billion. That is a very large sum of

money even for Germany. This transfer loan has been listed under Target 2. We understand why the funds were needed, but will the German public be happy with the program? Remember, 65% were and are against such further programs.

This past week, finally, the ECB's Long-Term Refinancing Operation (LTRO) became reality. The virtually free money began to flow. Three-year loans of credit flow to keep the euro zone from collapsing. \$654 billion will be distributed to 523 banks at a 1% rate of interest. The banks will leverage these funds anywhere from 6 times to 40 times actual face value. These loans are similar to the US FED TARP some three years ago; an offer banks couldn't refuse. We expect that along the way in funding the 6 weak economies, much more money will be needed – probably at least 3 to 4 times as much. It also means banks will have to rely on the ECB for three or more years for survival.

There will be increased risk of bank defaults, banks will be reluctant to lend to each other and that means interest rates will move higher. The excuse for the massive amount of funds is that banks will need these funds to lend to individuals and companies. We believe part of these funds will become available to be lent to sovereigns in trouble. Not to be overlooked, the ECB will allow weaker collateral to be used in obtaining loans, such as toxic waste, MBS and CDO's, the bonds that contain mortgages. The ECB has also increased 14-day loans from \$5.1 billion to \$33 billion and 98-day loans to \$30 billion as well. All pretence of financial conservatism has been thrown to the four-winds. We can assure part of the unspoken deal is that banks will borrow at 1% and buy toxic sovereign debt at much higher rates of return. Again we have another Ponzi scheme just like we saw in the US previously. Nothing will be done to correct the fall in GDP and unemployment on a longer-term basis. It is more important to bankers to save the banking system and governments. The public is just an afterthought.

In the first quarter \$30 billion in bank bonds are maturing. Without these loans from the ECB there would be little lending by these banks constrained by debt service. For 2012 banks will have to refund 35% of their debt, or \$800 billion, 75% of which is unsecured.

As an example French banks BNP Paribas SA, Societe General SA, Credit Agricole SA and Group BPCE, which are France's biggest banks will have to raise \$48 billion in the first quarter, something that now they should not have a problem with. They may use derivative structural products a Class A collateral such as prime real estate. Will these new funds available enable these three banks to make for three years and the answer is probably. Still though, overhanging the euro zones is the debt issued by the six problem countries of \$681 billion.

Overall euro zone debt that will have to be rolled just in the first quarter will be about \$400 billion. The first quarter is the most difficult ever for fundraising. US banks and pension funds are withholding some \$80 billion in US dollar funding. That could change with the new ECB loan structure.

Banks raising funds in the market will have to pay more and they'll have to cover or collateralize all of that debt. As an example French bank external debt is 104% of GDP, of which 60% is short-term. Will they be able to raise those funds? We will just have to wait and see.

In reference to the antics of PM Cameron of the UK, we find them interesting. His complaint

about the taxing of trades in the “City of London” may not be the only reason for the disagreement. It could be that England wants to be cut loose from Europe or that Europe wants to be cut loose from the Anglo-American combine. No matter what the reason the UK is moving farther away from Europe. In 2014 Scotland is supposed to join the euro. With all the turmoil that may not happen, do they really want to put themselves in the same spot as the British taxpayer has been in having funded all the banks losses since 2008? We don’t believe so. Don’t forget England was the first to have problems and little if any aid came from Europe, the US or even China. This historic fact and with inflationary depression moving forward in the US, UK and England, it could end up every man for himself.

Social and political trends are taking their toll on all three regions. The leadership in the US via both parties is trying to destroy the US Constitution, as being irrelevant. Congressman Ron Paul is the only presidential participant defending Constitutional principles, as the remainder in both parties seeks world government. The experiment, which we have seen played out in Europe over the past 20 years, has been an abject failure. There is no question this is a crucial period in US history, as well as that of the UK and Europe.

There is no question upheaval is on the way, particularly in the US. If Ron Paul becomes president much can be rolled back and changed peacefully. Another four years of an Illuminist president could spell violent revolution in the US. The utter temerity of recent legislation, which allows the president to name anyone a terrorist, goes far beyond the pale. It is the throwing of the gauntlet.

2012 is going to be quite a year with falling economies in the UK, Europe, the US, China, Japan and the remainder of Asia. Latin America, and Mexico by comparison should fare fairly well overall. England is in a death spiral. Europe is next, the US is not far behind and China and Japan will soon join the disjointed group. We are about to witness the end of the period that developed since the end of WWII. That is economically, financially, socially and politically. The transition into the future is going to be borne out of chaos. If you have any doubt just look at the recent legislation passed in the US allowing the president to pick up and incarcerate, torture or murder dissidents. Americans will be labeled terrorists for any reason government decides.

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