Price Rigging and Financial Corruption. A Global House Of Cards

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As most Americans, if not the financial media, are aware, Quantitative Easing (a euphemism for printing money) has failed to bring back the US economy.

So why has Japan adopted the policy? Since the heavy duty money printing began in 2013, the Japanese yen has fallen 35% against the US dollar, a big cost for a country dependent on energy imports. Moreover, the Japanese economy has shown no growth in response to the QE stimulus to justify the rising price of imports.

Despite the economy's lack of response to the stimulus, last month the Bank of Japan announced a 60% increase in quantitative easing–from 50 to 80 trillion yen annually.

Albert Edwards, a strategist at Societe Generale, predicts that the Japanese printing press will drive the yen down from 115 yen to the dollar to 145.

This is a prediction, but why risk the reality? What does Japan have to gain from currency depreciation? What is the thinking behind the policy?

An easy explanation is that Japan is being ordered to destroy its currency in order to protect the over-printed US dollar. As a vassal state, Japan suffers under US political and financial hegemony and is powerless to resist Washington's pressure.

The official explanation is that, like the Federal Reserve, the Bank of Japan professes to believe in the Phillips Curve, which associates economic growth with inflation. The supply-side economic policy implemented by the Reagan administration disproved the Phillips Curve belief that economic growth was inconsistent with a declining or a stable rate of inflation. However, establishment economists refuse to take note and continue with the dogmas with which they are comfortable.

In the US QE caused inflation in stock and bond prices as most of the liquidity provided went into financial markets instead of into consumers' pockets. There is more consumer price inflation than the official inflation measures report, as the measures are designed to under-report inflation, thereby saving money on COLA adjustments, but the main effect of QE has been unrealistic stock and bond prices.

The Bank of Japan's hopes are that raw material and energy import prices will rise as the exchange value of yen falls, and that these higher costs will be passed along in consumer prices, pushing up inflation and stimulating economic growth. Japan is betting its economy on a discredited theory.

The interesting question is why financial strategists expect the yen to collapse under QE, but did not expect the dollar to collapse under QE. Japan is the world's third largest economy, and until about a decade ago was going gangbusters despite the yen rising in value. Why should QE affect the yen differently from the dollar?

Perhaps the answer lies in the very powerful alliance between the US government and the banking/financial sector and on the obligation that Washington imposes on its vassal states to support the dollar as world reserve currency. Japan lacks the capability to neutralize normal economic forces. Washington's ability to rig markets has allowed Washington to keep its economic house of cards standing.

The Federal Reserve's announcement that QE is terminated has improved the outlook for the US dollar. However, as Nomi Prins makes clear, QE has not ended, merely morphed.

The Fed's bond purchases have left the big banks with $2.6 trillion in excess cash reserves on deposit with the Fed. The banks will now use this money to buy bonds in place of the Fed's purchases. When this money runs out, the Fed will find a reason to restart QE. Moreover, the Fed has announced that it intends to reinvest the interest and returning principle from its $4.5 trillion in holdings of mortgage backed instruments and Treasuries to continue purchasing bonds. Possibly also, interest rate swaps can be manipulated to keep rates down. So, despite the announced end of QE, purchases will continue to support high bond prices, and the high bond prices will continue to encourage purchases of stocks, thus perpetuating the house of cards.

As Dave Kranzler and I (and no doubt others) have pointed out, a stable or rising dollar exchange value is the necessary foundation to the house of cards. Until three years ago, the dollar was losing ground rapidly with respect to gold. Since that time massive sales of uncovered shorts in the gold futures market have been used to drive down the gold price.

That gold and silver bullion prices are rigged is obvious. Demand is high, and supply is constrained; yet prices are falling. The US mint cannot keep up with the demand for silver eagles and has suspended sales. The Canadian mint is rationing the supply of silver maple leafs. Asian demand for gold, especially from China, is at record levels.

The third quarter, 2014, was the 15th consecutive quarter of net purchases of gold by central banks. Dave Kranzler reports that in the past eight months, 101 tonnes have been drained from GLD, an indication that there is a gold shortage for delivery to physical purchasers. The declining futures price, which is established in a paper market where contracts are settled in cash, not in gold, is inconsistent with rising demand and constrained supply and is a clear indication of price rigging by authorities.

The extent of financial corruption involving collusion between the mega-banks and the financial authorities is unfathomable. The Western financial system is a house of cards resting on corruption.

The house of cards has stood longer than I thought possible. Can it stand forever or are there so many rotted joints that some simultaneous collection of failures overwhelms the manipulation and brings on a massive crash? Time will tell.

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