

The Global Systemic Crisis: Quantitative Easing and The Fed's Tapering will Trigger a "Boomerang Effect"

By [Global Europe Anticipation Bulletin \(GEAB\)](#)

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The avalanche of liquidity from the Fed's quantitative easing in 2013, allowed the world before's tenets to wake up: indebtedness, bubbles, globalization, financialization... But all it took was a slight slowing down in the astronomical amounts injected by the US central bank every month for the rampant crisis, buried under these piles of liquidity, to reassert itself. As anticipated, the method of "resolving" the crisis by accentuating the excesses that caused it is ineffective, causing a crisis squared instead. All the same one can find an actual benefit: time is gained which everyone uses to their best advantage.

Throughout 2014, we will once again witness the global systemic crisis' "normal" deployment, a phase of major transition between two global organization systems, a historic crisis that goes well beyond an economic-financial crisis, which we begin to see clearly. That's why alongside the serious dangers to the stock exchanges, banks, real estate and, more generally, the economy, the agenda also includes the expansion of people's anger and the rejection of current political systems, the worsening of geopolitical tensions and blocs withdrawing back in on themselves.

The timing belt of this renewal of the crisis is primarily driven by tapering (the reduction of the Fed's QE programme) which, as we know, has immediately led to the tremors in emerging currencies. Beyond the negative impact that that has on the global economy, our team anticipates that these shocks will cause a boomerang effect on the US and finally unleash the chain of events of the Dollar's massive devaluation, destabilizing everything that remains of the old system of which it's the cornerstone.

Layout of the full article:

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2. THE END OF THE TENETS OF THE PAST
3. BREAK THE BANK?
4. PEOPLES' ANGER

This public announcement contains an excerpt of section 1.

TAPER'S MISCALCULATION

A number of realities hide behind the Fed's decision to progressively reduce its quantitative

easing programme (1).

At the first is obviously it's ineffectiveness as regards the real economy and especially the growing risks that it's running in creating various bubbles and addictions and distorting any ability to understand reality. The second, without doubt, is the clinging to the desire to "show" that the situation is improving and that the Fed can pull out without risk. The third is less exemplary: aware of the emerging countries' addiction to Fed liquidity created in 2013, its announcement couldn't fail to trip them up. They now make headlines in the financial press, whilst the US situation has moved into the background. In fact, who remembers that Puerto Rico is in the process of exploding (2) (as anticipated in the GEAB n°77)? Or that Chicago can't pay its debts (3), or that food stamps, the cornerstone of US Social Security, continue to be cut back (4) whilst an increasing number of households depend on them? Or finally that child poverty has reached levels which are difficult to imagine for a so-called developed country (5)?



2017 expiry Puerto Rican bond prices. Source : ZeroHedge.

However – with apologies for this easy re-run of a well-known advert – there is a second KissCool effect. To see it, we must distance ourselves and get back to basics at the risk of simplifying a global situation which currently no one really understands.

The Fed's quantitative easing has resulted in a glut of liquidity in financial markets which have gone on to invest this money where true productive dynamics provide investment and fruitful opportunities: in the emerging countries. Obviously, this flood of easy money has artificially supported growth in these countries, which should have been lower in this time of crisis. Even worse, in 2013, it caused a revival of the world before's tenets, a world in which money is only used to borrow more money, with a programme of re-financialization, more indebtedness, more Dollar addiction, the planet's re-entanglement and further unbridled globalization without taking people's interests into account (for example, providing a lifeline to the tedious negotiations over the trans-Pacific TPP and transatlantic TTIP free trade treaties), etc.

This soaking-up of Dollars by the only countries having sufficient growth to be able to use them explains, to a great extent, the lack of any Dollar devaluation or inflation in the US notwithstanding the Fed's policy: the devaluation which should have gone hand-in-hand with such money creation has been absorbed by the rest of the planet's economic dynamism.

But something has made the Fed no longer able to continue. Probably the fact that to have such an impact on the US economy, the quantity of money creation would have to constantly increase, which an increasingly number of people even in Federal Reserve circles were balking at doing. Staying at the same \$85 billion a month level already corresponded in fact to a slowdown. In this case, better retreating and trying to escape from the trap.

Since the beginning of January the Fed has reduced its purchases by \$10 billion a month, and by a further \$10 billion a month from the beginning of February, to monthly purchases of \$30 billion in mortgages and \$35 billion in Treasury bonds currently. However, this decline in support means that a quarter of the indirect "aid" to emerging countries has

gone... Therefore, it's logical that there is a fall in economic activity in these countries and, consequently, their currencies (6).



Turkish Lira per US Dollar (USD/TRY), November 2012 - February 2014. Source: Yahoo Finance.

This is where the boomerang effect begins. First, Western investments in emerging economies are worth less since the currency is devalued; therefore, a portion of investors' assets have well and truly disappeared, causing severe stress in financial markets. But, more importantly, to halt the decline of their currency, emerging countries' central banks are selling their dollar reserves to buy back their own currency on the markets (7), resulting in a surplus of dollars and an increase in demand for the local currency, causing it to rise automatically (8). For example, in such a period Turkey, India, Brazil and Indonesia among others, have each offloaded in the order of tens of billions of Dollars per month (9).

This means that Dollar buyers, the emerging countries, have become sellers. In other words, the only countries able to absorb excess Dollars are now refusing them. Let's recapitulate: the Fed and the Treasury continue to flood the world with \$65 billion a month, but no one wants them... Where can they dump them now? In a few oil producing countries which still sell in Dollars, but especially in the US of course. And what can this country's lifeless economy do with them? Not a lot... certainly less than the emerging countries did (10).

[...]

Notes :

1 Source: [Reuters](#) (29/01/2014).

2 Sources: [Reuters](#) (07/02/2014), [CNBC](#) (07/02/2014).

3 Source: « Chicago is on the road to Detroit », [Chicago Tribune](#) (05/02/2014).

4 Measure adopted discretely together with the posted success of agricultural subsidy reforms. Source : [New York Times](#), 05/02/2014.

5 Source: [Washington Informer](#), 08/02/2014.

6 Our team considers that for once emerging countries' exchange rates are not related to moves in the Dollar, but economic reality.

7 A currency which they had to sell en masse, especially in 2013, to deal with the Dollar's de facto devaluation which caused other currencies to rise and risked slowing down exports.

8 The Dollar itself isn't falling immediately because the slight devaluation which should have taken place is, first, diluted by the amount of dollars in circulation and, second, offset by the fact that the Dollar is usually considered as a safe-haven currency against currencies which are reeling.

9 Sources: CentralBanking.com (« Central Bank of Turkey sells \$2.5bn in one day », 23/01/2014), Vox (« Brazil's central bank has intervened heavily, spending more than \$50 billion and promising to double that by the end of the year », 25/09/2013), etc.

10 Somewhat indiscriminately, we must admit.

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