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The Next Stage of the European Debt Crisis; Towards Global Financial Collapse?

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Those who believe the European crisis is over are mistaken. The dislocation will continue as their economies slow and political, social and economic events converge into further crisis. The most glaring problem is the banks only taking a 50% loss on Greek bonds. The loss should have been 75% or even 80%. There is absolutely no way Greece can overcome that burden in a slowing European economy and an enraged population. They are still striking and demonstrating and they will continue even under a new government.

Some of the best economists in the world have been saying for almost as long as we have been saying that the weaker and smaller countries have to leave the euro at least temporarily. In our eyes that really means permanently. If Italy falls out it will take France with it and the euro edifice will fall. Very quickly it will be found that Greece cannot and will not recover. It is one thing to set recovery in motion in good times, but it is another to attempt to do so under austerity. These politicians in Europe have been self-serving. They are quickly going to find what they have done is not going to work. Greece should have never been saved, as we said from the beginning. They will need more and more money just to exist and you cannot have perpetual funding. Then you have the overriding social factor. It is simply impossible and once Greece goes, the other 5 will have to cut loose as well. Again, it will be called temporary, but their exists will be permanent. It simply cannot be any other way. Political hot air is not going to change anything. We have no details and bankers who refuse to face the music, and what is attempted to be achieved is impossible.

The concept of a tighter union with a new constitution won't work either. We can go back to 1991 when these issues came forth and we stated the Europeans are doing this backwards. You need a strong constitution first, only nations involved that can meet the criteria of public debt of 3% GDP. Smaller nations cannot be allowed to falsify their balance sheets and above all you cannot use one interest rate for all. Just about everything that has been done has been done incorrectly. Unfortunately, the US and world economy hang in the balance as well. This euro, European and UK problem is not going to go away. By February it will again be front page news. There is an 80% chance that Greece will leave the euro in the next six months.

If Ireland and Portugal do not receive equal treatment, followed by Belgium, Spain and Italy, then they will all be forced to leave the euro. If you think for one minute that these nations can stand more than a year or two of austerity you are mistaken. The whole approach is wrong. They should all be allowed to leave the euro. The only reason Greece has been temporarily saved is to keep Greece in the euro. These one-worlders cannot bear to see their dream of world government fail. It has already failed. Do you really think Germans are going to give up their sovereignty? Wait for the next German election. You are going to see a house cleaning in the Bundestag that will be staggering. The German people are outraged at what these politicians have done to them. If anything the move in the EU's strongest economy will be away from further consolidation, not toward it.

The magic number to keep the euro from collapsing over the next two years is $6 trillion that solvent European countries do not have, and using derivatives in place of cash is a prescription for disaster. Debt may be addressed, but the core economic and financial problems that were responsible for these problems are still not being addressed. That is a glaring lack of economic progress. Where is the capital needed for growth? Countries in the EU are going to have to increase money and credit and suffer the incumbent inflation; that is if they can even raise those funds and rollover old debt. Either that or China will lend $3 to $500 billion and we don't think they are willing to do that. If China prints the money to lend, the value of the yuan will fall, the Chinese will take more market share and there will be more inflation. Their goods sold to Europe, the US and elsewhere will rise in cost as well. The Chinese will have to use cash euros or sell euro bonds. Such moves could be really upsetting to China. If aid comes it will be in much smaller amounts.

This past week the swaps association said the failure on 50% of Greek debt does not constitute failure, because it was voluntary, so the NYC legacy banks do not have to pay up on their derivative bet. That could all change, because Fitch says it does constitute default. We will now have to await the decisions of S&P and Moody's.
What Europe has done is pull a page from US bailouts, which reduce debt starting in a few years, which would extend over 10 or 20 years. It reminds us of the two sets of books banks are currently keeping. They intend to write off bad debt over 50 years, like it really didn't exist. This plan allows further current increases in debt over the short term. That is no solution at all. Again, it only throws the debt and service into a future that could include deflationary depression. Recovery is not a given.

Fitch has really opened a large can of worms in calling a 50% debt default a payable derivative event. We are talking about hundreds of billions of CD's, credit default swaps OTC derivatives, which just happens to be an unregulated market. Our view is Fitch is correct and the ISDA, the derivatives information agency is wrong. What isn't made an issue of is that banks have been asked to raise $150 billion they are offside on this issue. We projected this number long ago. The official number is $3.7 billion, which is laughable. About a month ago the players admitted to $75 billion, so we are making progress toward truth and reality. We wonder what the French bankers are saying, who bought the insurance? If NYC banks do not pay off the ECB will have to create the $150 billion and lend it to the banks in France, so they can survive. Could this be a renege? We think so, and that would ultimately allow citizens of the EU to pay the debt. These bankers are crafty buggers they are.

We also question why banks are writing off 50% of their debt and the sovereigns are not. Isn't this strange? Why are they not writing off 50%? Could it be that if they did they would be insolvent? Could it be to deceive their taxpaying citizens and pop the question several years from now? Could this be they are just trying to extend the timeline into the future? Time has a way of revealing everything. Incidentally, none of that Greek debt will probably ever be paid off. It should also be noted that of the $140 billion lent by the IMF, US taxpayers are on the hook for about 30%, or $42 billion. We are sure that will make Americans very happy.
The difference between $516 billion allocated by EU members, half of which comes from Germany, and $1.4 trillion will come from the sale of bonds by the EFSF, the European

Financial Stabilization Fund. The question is who is going to buy this tranche of some $900 billion in bonds? Nations will receive greater taxes from a phantom recovery and buy the bonds. How can this be when those economies barely have even GDP growth? All this in the midst of austerity. We do not get it. We must be missing something. Does Italy really believe that raising the retirement age from 65 to 67 is going to bring any real immediate relief? As you can see the case is terminal.

The whole plan is absurd, stupid and unworkable. These problems are going to last for years as Europe, the UK and US wallow in negative growth and eventually in deflationary depression.
Greece will collapse; it is only a question of when. The ECB will continue to create money and credit, just as the US and UK are doing.
It won't take long for investors to figure out they have been bamboozled again. They will flee stock markets probably just after the Fed's latest QE 3 is announced. Some will buy US Treasuries and lose about 10% of their purchasing power annually. Some will flee to commodities and many will use the flight to quality to purchase gold and silver coins, bullion and shares. Modes of investments are going to change dramatically, so you had best participate, or you may end up losing most of your wealth.

What you are witnessing is financial chicanery at its best. Wait until the citizens of Europe discover they are going to have to pay all these bills, just so they can be enslaved in a one-world government. They are not going to be happy.

We always tend to be ahead of the curve and the crowd. This time the time frame for discovery may be very short, because once investors understand what we have written here they will want to get out. Gold, silver and commodities will rise for different reasons, along with the flight to quality. Incidentally, this time the gold and silver mining shares will soar.

Reflecting back on our comments the second Greek bailout does not solve the EMU's fundamental problem, which is the 30% competitiveness gap between the northern and southern countries and Germany's giant-EMU trade surplus at the expense of the south. Unless a way can be found to rectify that there cannot be a recovery. The south has been forced into austerity, which limits their chances of being competitive. As we pointed out over and over again the end product will be a deflationary spiral and eventually deflationary depression. What the IMF and EU members are imposing on the six countries is very destructive.

A fiscal union would perhaps work, but that means the end of individual country sovereignty, which would eventually lead to authoritarianism, which would not like to see. The entire union is unnatural and should be ended. It has been a failure and just leave it at that.

All this program is going to do is buy time. It is not a long-term solution. Current debt holders are going to be incensed, as they will be forced in before sovereigns, but will banks really take a 50% haircut? We don't really know. Is this really a fig leaf, a wholly inadequate alternative to the ECB, which cannot provide endless liquidity?

This rescue effort is really too dependent on high-risk deals, such as what caused this crisis. Four times leverage is outrageous. In the end the European public could get caught holding the bag.
At the same time we are seeing monetary contraction in Portugal, which mirrors that of

Greece as it spiraled out of control. Bank deposits are off 21% over the past six months and that could well be a precursor of a weak economy and monetary trouble.

Another question that arises is due to the treatment accorded to NYC legacy, money center banks. Will those using credit default swaps continue to do so. There is a default and because it was voluntary the derivative writers do not have to pay off. Give us a break. It looks like contract law no longer exists.
In very late breaking news we find something we warned about is happening. The German High Court, the Bundesgerichtshof, has issued an express order that the nine-member committee dealing with dispersing the rescue funds is not allowed to do so. The plug has been pulled on the EU and German politicians on money releases. If the Germans and the EU are lucky they'll have a constitutional decision by Christmas. We predicted this would happen.

Uncertainty revolves around the deal reached with Greek bondholders to face a 50% haircut on the face value of their bonds. This has not been negotiated as yet.

At the same time France needs to raise $11.2 billion to keep its AAA rating. Sarkozy says 2012 GDP growth will be about 1%, about the same as Germany, but no one mentions it would be -2% with inflation.

Switzerland's State Secretariat for International Financial Matters said the Swiss were interested in investing in a special investment vehicle proposed by the euro zone bailout fund, but we see a real fight brewing. The Swiss People's Party, which was against franc devaluation and the sale of Swiss gold, will be after this move by the Swiss government. They do not want closer ties to the EU.

This past summer we warned that European banks would have to increase their reserve position to 9%, because both the BIS and IMF said it was absolutely necessary. You might call the EU's laxity of not forcing Greece to implement its austerity agreement as part of a socialist mindset. There was no way to move Greece into line. For not living up to their commitment they could have cut Greece off, because then they would default and leave the euro. Thus, they continued to fund Greece. The truth is they have to do so irrespective of what Greece does or doesn't do.

The heart of the problem was banking incompetence followed by sovereign stupidity. Banks and solvent sovereigns never should have made the loans in the first place. All the greedy bankers, politicians and bureaucrats could think of was the euro zone and the euro being the template for one-world government. The interconnectivity of banks within nations with banks of other nations is the lynchpin that will eventually take all of them down. It's caused by central control such as that embodied in the European Central Bank. The bottom line is if a state like Greece, partially defaults, then the banks within Greece default as well because these banks are holding large amounts of federal bonds and loans. Thus, the edifice collapses. This relationship exists all over Europe and as we are seeing six countries are in trouble and if the European economy continues to slip into recession or depression other countries will join the six. In addition in many countries supervision is all but non-existent. A perfect example of such a relationship was with France, Belgium, and the Dexia bank, which they created. As a result the taxpayers of Belgium and France have acquired all the bad assets of Dexia.

Adding to such problems is that usually half of the debt of any country is held by foreign banks and sovereigns, which means failure becomes contagion. France's holding of 8.5% of GDP of debt from these six countries will eventually cause France to lose its AAA rating. If that is the case we venture to ask how can France be party to a commitment to bail out Greece or anyone else? They simply cannot and they are the number 2 player. You would think French citizens would elect someone who was not involved in such stupidities, such as Marine LePen of the National Party. The banks and business interests, such as the Rothschilds, couldn't have that – could they? If France financially fails we could see 1789 all over again. This sovereign debt is widely held by other nations including the US, UK and Japan. European banks have controlled European society for a long, long time and they are the catalyst for the new world order.

We hear over and over again there will be recovery, we will grow our way out of it. That won't be possible for Europe, the UK and the US. The number of young people who do the largest part of consumer spending in their 20s and 30s today have a hard time making ends meet, never mind spending. On top of that many are unemployed and may be for some time to come. If you have noticed unemployment has risen or stayed the same in the regions we have spoken of. Accumulation has only occurred among the upper-middle class and the wealthy. This also means borrowing has fallen and the ability to access loans and capital are limited, because so many prime age borrowers do not qualify.

One of the reasons Germany does as well as it does is because they have an abundancy of inexpensive capital available for loans and credit, which allows expansion, creates jobs and brings profits. The cost of labor is low or in the form of growing productivity and people pay their bills.

One interest rate fits all became a disaster. The weak participants borrowed at 4% instead of 8% and the result was an orgy of spending that ended up in today's insolvencies. We said 12 years ago this would destroy the euro zone and it has. These low rates also allowed a massive influx of imports into the six problem countries, which caused major balance of trade deficits. This also brought about borrowing in foreign currencies, which turned into a nightmare, particularly in Eastern Europe.

European banking and politics are very closely intertwined. In other words the banks overtly run these countries. The same is true in the UK, but in the US it has been subtler due to ignorance of how the banking system works and that has been deliberate. In Europe the stress test used 5% as a guideline, instead of the normal 10%. This shows you the power and control banking has over EU government making the margin for error extremely thin. Considering the exposure cash reserves were increased to 9%. This means capital has to be raised and that is not easy in today's recessionary environment. Two-thirds of European banks are currently under 9%. The worst exposed are RBS, Deutsche Bank, Unicredit, Bank Paribas, Barclays and Societ General. Hundreds of billions of euros are needed and the question is where will they come from? In addition how many banks are shuffling assets between trading, deposit, and banking sectors, such as Dexia had been doing until they had to be taken over by the French and Belgium governments? The banks need $270 billion that is readily available. If funds are not available then that means governments will have to supply the capital from out of thin air, which is very inflationary.

The EFSF, the European Financial Stability Facility, which was set up to aid Greece, Ireland and Portugal, now aids banks and European governments, such as the Fed does. An EFSF if allowed to dispense $1.4 trillion based on a $900 billion derivative structure would take months to move into action. Then there is the question will the German High court allow leveraging. We do not think so. The Court had already told the Bundestage you cannot do that, but they did it anyway.

As we can say is stay tuned for the next episode in this saga. It could end up taking down the entire world's financial system.

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