The Stock Market Will Fall: The World is Drowning in Debt, much of which is Unpayable

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It could then be that this is the top of the stock market, which is fundamentally very overpriced. The latest rallies are the result of statements by French President Sarkozy and German chancellor Mrs. Merkel that a financial solution is at hand for Europe. This announcement named the end of the month as the date for release of this information.

Thus far there has been no further comment. This was the justification for a very strong rally. In the wings there are large short and put positions, which tell us that there is a body of speculators that believe the fundaments are not in place, nor was the recent rally justified. In relation to Europe we see two possibilities; countries bailing out their own financial sectors and the use of leverage to extend bailout funds into trillions of dollars to assist the six insolvent nations. Some nations currently prohibit the use of leverage. Needless to say, rules do not impede adventurous politicians in the control of elitist interests such as the banking community. We will have to wait for this new formula, but in the meantime its results have already been discounted, or military action increases in the Middle East, perhaps in connection with Iran?

Debt problems are endemic worldwide. We all know of the problems in the US, UK and Europe, but they extend all over the world. We are in a major financial crisis, which is as bad and will be as damaging as the credit crisis of three years ago. In fact we never exited that crisis. Debt is the problem and creating more debt does not solve the problem. We have written often about debt and currency problems and as yet nothing is being done to solve these problems. It is as if these powers wanted a collapse. How long can the US dollar continue to take this thrashing? Unfortunately it is not only the dollar. Over the past 1-1/2 years nine major currencies have fallen on average more than 20% vs. gold and silver.

Thus many countries and their financial institutions are going to be in serious trouble. The dollar and the euro are both overvalued and even after a 15% devaluation the Swiss franc is undervalued. It is not only going to be currencies, but everything financial that is going to be affected. That includes bonds, stocks, savings accounts, CD's; cash value life and annuity policies. The only things that will benefit will be gold and silver related assets. For all intents and purposes in the US, the FDIC has no funds and has to have them allocated in the form of debt by the government. More debt means more inflation and higher precious metal prices. The global financial community has to be terrified because their whole world is coming unraveled around them.

It is quite evident that Greece can never repay its debt no matter how much bailout funds they receive and we stated as much two years ago. The other five sovereigns in trouble are almost as bad off. We do not know as yet what the magic elixir Sarkozy and Merkel are talking about, but it is evident Germany cannot engage in leveraging the 50% of funds that they are committed for the EFSF. Otherwise it would be a change in the constitution and a referendum, which doesn't have a ghost of a chance of passing.

As we have said before it has come down to every man for himself. All they can do is ring fence their own countries making sure that their financial institutions survive. All of this takes money. Money that has to be created and this is inflationary. Even if our projection of $4 to $6 trillion was met massive inflation would ensue and worse yet control that would leave sovereign hands and pass to the EFSF and the ECB. Issuing EU bonds is not the answer either although we do not think they'd be approved.

There is no question factors dictate a lower US stock market. Those are not just fundaments, but they also include the fallout from Occupy Wall Street and the Occupy the Fed movements. These three factors alone whose effectiveness are spreading worldwide could put great pressure on US and other markets. Over last weekend Rome exploded into demonstrations and violence by the public. This while in Paris the G-20's recommending increasing the size of the EFSF. The question is where does the money come from? American money market funds and others are in the process of pulling out some $350 billion from banks and sovereign debt in Europe due to the shifting situation in Europe and the euro zone governments to keep banks in dollar cash.

Again, that shows how connectivity has reversed itself and has become a major problem. Unless bailed out, several banks in trouble can bring down the whole system. One thing lower stock markets would do is bring a cry from the US, UK and European public for more liquidity. If not chaos could be just around the corner. The talk by central banks and governments and Wall Street and the City of London heard just a few weeks ago has turned into cries of desperation. The leverage needed in Europe can only come from the Fed and the Fed shall supply it – leaving possible cost to the American taxpayer. As long as Europe's problems continue the dollar will receive cover and strength versus other currencies, some of which have fallen 15% over the past couple of months. All currencies will continue to fall versus gold and silver. Another factor to consider is what if real interest rates rise, what happens then? Higher debt servicing costs and lower stock markets.

The world economy is slowing down again in spite of massive injection of money and credit. At the same time the world is drowning in debt, much of which is unpayable. Governments enmeshed in the same problem have only one recourse and that is to print more money. The changes long-term consumers do not notice is that their savings and pensions are being stolen by government to balance their losses. This ongoing process of inflation will eventually lead to hyperinflation. Just as economies and the middle class were destroyed in Weimar, Germany between 1921 and 1923 and more recently in Zimbabwe, the same will happen in the US, UK and Europe if they keep doing what they are doing.

As the Fed engages in operation twist foreign central banks have sold about $76 billion in US Treasuries over the past couple of months, the most in over four years. Over that period bond mutual funds have increased holdings by 45% and the Fed has added $650 billion to its balance sheet. This can in part be explained by foreign central banks selling dollars since June to shore up their currencies that had weakened by 4% to 15%, the result of a stronger dollar caused in general by a weakening euro. Many believe that the slack will be picked by banks, pension funds and insurance companies that have been withdrawing from European debt markets due to the uncertainty of the euro and the financial problems yet unsolved in

Europe.

November 3rd is the due date for a EU solution to Europe's financial crisis. Thus far no workable solutions have been offered, so we will have to wait 16 days for their decision. In the meantime there is a European Summit on October 23rd and perhaps some solution can be found.

Foreigners are holding $4.48 trillion of Treasuries, a reflection of foreign accumulation at a compound annual rate of 17% since 2001.

The USDX rose 6.3% in September, the most in three years, but it has been receding during October due to the euros changes due to future perceptions.

The world economic community still believes U3, a 9.1% in September unemployment was reflective of the US economy, while real unemployment continues to hover at 22.6%. As we predicted the economy slowed in the first half of the year as stimulus 2 waned, and the final six months will be no better. If QE 3 and stimulus are not added next year the economy will be gruesome. Economic growth for 2011 should be 1.3%. Without QE 3 and stimulus it would have been minus 1% to 2%. The $447 billion jobs bill was rejected, so what happens next? Probably a scramble by the House for further stimulus funds early next year after a Christmas that proves to be lackluster. Those plus sales figures mean little unless you add in 13% inflation from the real economy. We've heard lots about a perceived improved employment of 1.9 million jobs lost from the rejected jobs bill. How could that be as jobs stream out of the country? The House and Senate just passed further legislation in a trade deal with South Korea, 3.2% unemployment, and in Colombia and Panama. That will cost the US millions more lost jobs. This is what happens when you have a bought and paid for Congress.

At the end of 2010 the Fed held 17% of Treasury debt, up from 11% at the end of 2010. We can understand why the Fed would buy Treasuries, but other buyers face guaranteed losses in purchasing power. That is about an 11% loss. Is safety really worth such losses, and perceived safety at that? In spite of the slowing economy customer's deposits at banks have reached a record $1.61 trillion. Irrespective of the wisdom involved part of those funds are going into Treasuries.

Looking at Europe we see no viable legal solutions. Banks will be ring fenced, nationalized, as they near, or they go into default. That means governments assume the bad debt so their citizens can pay for the losses caused by the banks. This means Greece will default sooner or latter and the other five insolvent nations will demand more bond purchases and lower interest rates. If that is not forthcoming then they will fail as well. Whether these countries and their banks fail more and more money and credit will be created. We just saw the Bank of England and the ECB do this last week. These central banks are following the Fed formula to a T, which means there will be more inflation in the future. This is the result of a US dollar cash shortage at key French banks and the demise of the French-Belgium bank Dexia, which has now been split into a good bank and a bad bank. Now that Mr. Trichet is gone we believe there is an excellent possibility that the ECB will cut interest rates, as troubles abound and the European economy slows. In the meantime monetization is the order of the day and inflation flourishes. Once Greece fails this monetary expansion will be long forgotten, as much more fuel is added to the fire to offset Greek bad debt and the specter of five other major sovereign failures.

Money and credit has to be available from solvent governments to keep their domestic banks functioning, that is why ring fencing has already begun. The leadership in Europe knows what we know regarding what is on the way. They have even taken the precaution in France and Germany of printing French francs and Deutschemarks. Giant debt monetization is on the way and can't be avoided along with an ECB interest rate cut, now that Trichet is on his way out.

The result of these policies is a major effort to keep gold and silver contained in their present ranges by central banks, particularly the US Treasury. All of the hedge funds know this, because many of them are acting for the Treasury. The intent is to characterize gold as a non-performer and an unworthy investment vehicle. Debasement is on the way and gold and silver have to be shown in the worst possible light. It will be temporary but painful, but it is part of the game. Once the investors worldwide see what is going on you can expect gold and silver to break out to new highs. Versus gold and silver currencies will again fall as they have for the past 11-1/2 years. Currencies will not be a place to be.

Again, once this current phase of government manipulation of gold and silver prices is over, you can expect a very sharp upward movement. Thus those of you who want to join in for the ride should do so soon at these manipulated lower prices. Operation twist is only going to work in the sense that the Fed will buy sellers paper in order to assist sellers and lower rates if possible on 30-year mortgages. If we had a government run properly we would not have something as anti-market and fascistic as the "President's Working Group on Financial Markets." The end of this Executive Order is most pertinent. Once gone we can again have free markets.

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