US Treasury Bonds are Junk Bonds? Is America Defaulting on Its Sovereign Debt? Can You Trust the Wall Street Credit Rating Agencies?

Rating Agency Upgrades US Sovereign Credit Rating: Another Propaganda Attempt to Mislead the Public

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Global Research, June 12, 2013
Future Fast Forward

Region: USA
Theme: Global Economy

Recently, I wrote an article explaining why US Treasury Bonds are junk bonds and why rating agencies cannot be trusted at all, because they have been up to their eyeballs in fraudulent activities.

I wrote that what I am stating may seem outlandish but it reflected reality – that the US as well as its ally in crime, the United Kingdom (UK) are bankrupt. Very few economists dare assert such a conclusion because it would be a death sentence for their careers.

So, who can you trust anymore?

But, does it require so much courage to expose the ugly truth when there are so much evidence to support what I have stated in my articles which can be gathered even from the mainstream media?
It was taboo to suggest before the Global Financial Tsunami that America was a bankrupt state and does not deserve an AAA rating. Yet, it took a rating agency from China in early 2011 to break the taboo,

China's Dagong credit rating agency says the U.S has already defaulted. As AFP reports:

> "'In our opinion, the United States has already been defaulting… Washington had already defaulted on its loans by allowing the dollar to weaken against other currencies – eroding the wealth of creditors including China, Mr Guan said."

This follows on the heels of German credit rating agency Feri's downgrade of U.S. bonds a full notch – from AAA to AA – saying:

> "The U.S. government has fought the effects of the financial market crisis primarily by an increase in government debt. We do not see that there is sufficient attention being paid to other measures," said Dr. Tobias Schmidt, CEO of Feri Rating & Research AG. "Our rating system shows a deterioration in economic health, so the downgrading of the credit ratings of U.S. is warranted."
>
> I would suggest that Dagong and Feri were rather generous in their rating for

> obvious reasons (China being one of the largest creditor cannot afford to trigger an immediate collapse of US bonds). If a country has defaulted, its credit standing cannot be rated as AAA. It is a junk debtor, no two ways about it!

If Joe Six-Packs defaults on a loan, no banks, credit-card companies etc. would extend further credit facilities. Period!

In November, 2011, the Guardian reported as follows:

> Dagong, which has maintained a pessimistic outlook on US fiscal policy, has been leading the charge to downgrade US debt over the last 12 months, lowering the US rating from AA to A+ a year ago.
>
> In August it downgraded US debt again, to A. Days later, Standard & Poor's followed in its wake, becoming the first western agency to downgrade US debt after the threat of a default was narrowly avoided following weeks of political squabbling in Washington over whether President Obama should be allowed to raise the US debt ceiling.

So, why are the so-called economists so reluctant to tell the simple truth? Why are these economists not writing articles to expose the ugly truth and save Joe Six-Packs from having their hard-earned money from being wiped out by inflation and confiscations etc.?

The reason is simple. They have sold their souls.

And this cowardice is unforgivable because the taboo has already been broken – two agencies have exposed the reality. So, is my article stating that US Treasury Bonds are junk bonds really that outlandish?? Even the S&P down- graded the US albeit not to junk status!

The above downgradings were made even before the massive QEs by Bernanke. The financial status has not changed for the better since the down- grades, in fact it has gotten worse and have caused panics and dissension within the ranks of the financial elites.

Bloomberg reported that,

> Federal Reserve Bank of Dallas President Richard Fisher, one of the most vocal critics of quantitative easing by the central bank, called for a reduction in the $85 billion in monthly asset purchases while saying he sees an end to a three-decade bull market in bonds.

In an interview with Forbes, Alan Greenspan, former FED Governor said,

> We have at this particular stage a fiat money which is essentially money printed by a government and it's usually a central bank which is authorized to do so. Some mechanism has got to be in place that restricts the amount of money which is produced, either a gold standard or a currency board, because unless you do that all of history suggest that inflation will take hold with very deleterious effects on economic activity… There are numbers of us, myself included, who strongly believe that we did very well in the 1870 to 1914 period with an international gold standard."

Given the fact that US cannot mathematically repay its debts at all in the next fifty years, how can any reasonable man and or economist not conclude that the US Treasury Bonds are indeed junk bonds?

If anyone still believes in the fancy economic fairytale dished out by presstitudes, financial harlots etc. they deserve to be wiped out.

The situation gets more absurd as only a few days ago, the S&P rating agency upgraded US from negative to stable because:

> Under our criteria, the credit strengths of the U.S. include its resilient economy, its monetary credibility, and the U.S. dollar's status as the world's key reserve currency. Similarly, in our view, the U.S.'s credit weaknesses, compared with higher rated sovereigns, include its fiscal performance, its debt burden, and the effectiveness of its fiscal policymaking. We are affirming our 'AA+/A-1+' sovereign credit ratings on the U.S. We are revising the rating outlook to stable to indicate our current view that the likelihood of a near-term downgrade of the rating is less than one in three.

By what measure is S&P saying that the US economy is resilient?

By what measure is S&P saying that there is monetary credibility when even Alan Greenspan is calling for a scale back of QE?

How can there be any credibility when the US is paying for its imports with digitally printed money, which in turn is recycled back into US treasury bonds and other US$ assets and repays the outstanding debts with more digitally printed money? In crude terms, its pays for imports with US$ toilet paper money and repays its debts with more US$ toilet paper money. It still remains as the world largest debtor!

On the other hand, China being the largest creditor to the US has been downgraded by Moody's. Reuters reported that,

Moody's Investors Service affirmed China's government's bond rating of Aa3 but cut the outlook to stable from positive, the second pessimistic revision by a foreign ratings agency this month.

Yet, these US rating agencies have been involved up to their eye-balls in fraudulent activities which was one of the major factors that contributed to the Global Financial Tsunami.
So, why are people still relying on such rating agencies for their investment decisions especially when they have been charged for fraudulent activities as in the case of S&P?
In February, 2013, the Economist reported,

> A complaint filed in a Los Angeles federal court charged S&P with intentionally making "limited, adjusted and delayed updates" to its rating criteria and analytical models during a key period stretching from 2004 and 2007. This footdragging, the complaint alleges, led to overly favourable ratings for structured debt securities, which in turn produced massive losses for those investors who bought the highest-rated securities, and in particular for the Western Federal Corporate Credit Union (WesCorp), which ultimately failed.

Huffington Post elaborated,

> According to the lawsuit, S&P recognized that home prices were sinking and that borrowers were having trouble repaying loans. Yet these facts weren't reflected in the safe ratings S&P gave to complex real-estate investments known as mortgage-backed securities and collateralized debt obligations, the lawsuit alleges.

But, if proof is further needed that such US rating agencies are criminal enterprises, look no further than the illuminating article by Marshall Auerback, "Ban the Credit Rating Agencies". He wrote,
Ban the credit ratings agencies!

Firms like Standard & Poor, charged with fraud by the DOJ, are criminally incompetent and serve no public purpose

Is Eric Holder's "See No Evil, Hear No Evil" Department of Justice finally getting serious about investigating fraud on Wall Street? At first glance, it would seem so, given the news that the Department of Justice has filed civil fraud charges against the nation's largest credit-ratings agency, Standard & Poor's, accusing the firm of inflating the ratings of mortgage investments and setting them up for a crash when the financial crisis struck.

On the one hand, there is no question that without the credit rating agencies the Wall Street guys would not have been able to pull off this colossal heist against the American people, and the ratings agencies cannot be excused. In fact, Standard & Poor's employees openly joked about the company's willingness to rate deals "structured by cows" and sang and danced to a mock song inspired by"Burning Down the House" before the 2008 global financial collapse, according to the DOJ lawsuit.

On the other, the ratings agencies are simply the gift wrappers. DOJ has yet to go after the banksters who created these packages in the first place and who seem to be in the clear as a result of a series of unconscionably low settlements recently reached with the Justice Department.

I suppose we ought to be grateful for these baby steps in the right direction. The ratings agencies themselves have admitted to US government inquiries recently that they took money in return for ratings that were not based on any fundamental assessments other than the cash they were being paid. They have lied about the risk of default in many corporate cases and then marked down debt when the game was up further destabilizing the financial system. Hence, to say that their behavior was at the heart of the great crisis is absolutely correct.

Of course, that inevitably begets the obvious question: what took you so long and why leave it at S&P? As early as September 2004, the FBI warned that there was an "epidemic" of mortgage fraud and predicted that it would cause a financial crisis if it were not stopped. It was not contained. Everyone agrees that the mortgage fraud epidemic expanded massively after the FBI warning and still not one Wall Street figure of any note has gone to jail.

Under Treasury Secretary Geithner, and the Keystone Cops of the Department of Justice, led by Eric Holder and Lanny Breuer, we established a doctrine of "too big to jail" for the very institutions which perpetrated massive frauds on millions of Americans.

Those who called for regulations that would take even that most minimal of steps necessary to re-establish the rule of law and restore our nation's democracy and financial stability were essentially ignored. Geithner's express rationale was that the financial system's extreme fragility made vigorous investigations of the elite frauds too dangerous, in effect giving the banksters a get-out-of-jail-free card and in effect enshrining crony capitalism and imperiling our economy, our democracy, and our national integrity.

So what's changed? Well, obviously one has to ask if the departure from Treasury of Mr. Geithner, along with the ignominious resignation of the odious Lanny Breuer at the DOJ heralds a new approach, or are there are other motives in mind?

There is a school of thought which suggests that this lawsuit is an attempt by the US government to intimidate the ratings agencies against any further US debt downgrades. If so, it's a pretty stupid shakedown. The truth is that sovereign governments like the US empower these agencies simply by listening to them, in the same way they listen to the IMF, and put the interests of these undemocratic and crooked agencies ahead of their own national interests.

In our economy, the Federal Reserve sets interest rates, not the bond markets, although the latter may impact on the prices and yields of longer-term investment assets.

But in general, the Bank of Japan showed in the period from the mid-1990s onward that they can keep interest rates very low (zero) and issue as much government debt as they wanted even in the face of consistent credit rating agency downgrades, by organizations of dubious ethics.

So when a government stands up to the agencies, the impact is likely to be minimal.

Here's another idea: they can just outlaw them. This may seem draconian, but consider that the FDIC puts criminally run banks out of business all of the time. It's hard to see why the ratings agencies, as their enablers, should be treated any differently. The reality is that the so-called Big Three – S&P, Fitch and Moody's — were all criminally incompetent. They prostituted themselves in a pay-to-play scheme in which they would give to garbage securities any rating sellers desired, so long as the assessed fees were sufficiently high.

At a very minimum one would have thought we could introduce reforms that would align incentives, with buyers of rated securities paying for assessment of risk. The ratings agencies like S&P never actually looked at any of the mortgages that collateralized the securities they rated (it was all too pedestrian for them). As we now know from internal emails, they neither checked the loan tapes (the data provided by borrowers), nor the expertise in rating mortgages (all of their experience was in rating corporate and government debt), nor took the time to assess credit risk …

Sadly, Congress and the Obama administration, in their deliberations to "reform" our financial system via Dodd-Frank, did nothing then to reform the ratings agencies. They worried that somehow, by introducing widespread reforms to the ratings agencies, they would reduce business for the monopolies. Hence, the bill contains no significant changes required of ratings agencies, which are encouraged to continue pimping their ratings.

Perhaps this lawsuit signals a chance. In any case, it is time to wean the private financial markets off these agencies by eliminating their role as gatekeepers to the thousands of financial products on which they provide in their Papal-like declarations. It's time to leave it to individual institutions themselves to do their own credit analysis. We should go further and simply make them illegal, and mandate that all financial institutions with access to the Fed's lending as well as any financial institution with Treasury guarantees on liabilities (such as FDIC insurance) would be prohibited from selling or buying any derivatives. All assets would be carried on bank books through maturity — with full exposure to interest rate, currency and default risk. That provides the correct incentives to protected lending institutions as opposed to relying on some flimsy rationale provided by a highly conflicted rating agency.

If our pension funds, and financial fiduciaries truly think they need an objective third-party agency to rate Wall Street paper, then at a minimum Congress and the President should be required to purchase ratings services from arms-length professionals, with the top three monopolists specifically excluded because they have demonstrated their inability to provide unbiased ratings.

Furthermore, make ratings agencies liable for improper ratings, imposing a fiduciary responsibility to actually evaluate any instruments that are rated.

Better yet, prohibit banks and other government-protected institutions from buying this crap in the first place or prosecute them to the full extent of the law for using them to rip off millions of American consumers. If we're going to go after the gift wrappers, we might as well go after the original source of the fraud in the first place as well. In that regard, one can hope that yesterday's lawsuit signals a fresh approach by the Holder Department of Justice, but don't hold your breath waiting for it.

There you have it!

The truth, the whole truth and nothing but the truth!

Still having doubts that US Treasury Bonds are junk bonds? If so, you are beyond redemption for you insist on burying your head in the sand.
