

The International Forecaster Two Years Of Failure In Directing The Economy

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Summary: Dollar mini rally to end soon, look forward to low interest rates and mega monetization, we dont buy into the claimed recovery, Fed and Wall street cover up their problems, 124 banks failed this year to date, tax break for bailed out Citigroup, Banks manipulating their own books, an economic situation created by design

As we look back and this year comes to an end we find two plus years of failure. Even government admits to 1-1/2 years of negative growth - a sorry record after having poured trillions of dollars into the economy. The recent 3rd quarter results supposedly broke that record. If it did it was the result of government stimulus and Fed monetization. If you look back further you will find a stock market that rallied 54% just to reflect the highs of 1999. House prices have decline to 1990s levels as well. Both markets, which were bubbles, next year will fall again. Americans opened their markets to products of Communist China's slave labor and China became the world's biggest exporter. Via free trade, globalization, offshoring and outsourcing, transnational conglomerates have stolen America's destiny and handed it to China. This is what corporatist fascism is all about.

The dollar will soon end its mini-rally and the USDX will test 71.18 in the first quarter as the euro tests \$1.62. Interest rates will stay at zero for at least two years, and mega monetization will continue. As you have just seen the Treasury wants TARP funds for Treasury debt and the administration wants the TARP funds to further stimulate the economy. Either way it is very inflationary.

We are told the credit crisis is over and that recovery is underway. We do not believe that. It is projected that as many as 300 more companies will default on debt in 2011. A default rate of 12 to 14 percent. That is up from 1% in 2007 and a long-term average of 4.5%. These are not just small firms, but companies with more than \$100 million in assets as well. That doesn't sound like recovery to us. What is very significant is that the 300-figure is based on recovery. Only 116 companies defaulted between 2004 and 2007. One of the groups hit hard will be commercial real estate. The figures are already bad, but companies and lenders have been buying time by using two sets of books, marking to model and refinancing. All that doesn't change the big picture and that is with a recovery the situation will be bad, without recovery it will be dreadful.

Corporate America has lots of problems, but the federal government has many more. It has to finance more than \$1 trillion a year in borrowings. Interest rates are the lowest ever, but rates will begin to climb next year; 5% real interest rates would add some \$600 billion to the debt service. That is more than the combined costs of Iraq and Afghanistan, energy, education and Homeland Security.

The Fed has been backstopping short-term interest rates and holding down long-term rates. They say they will end their \$300 billion program to buy up Treasury bonds and will stop buying mortgage securities by the end of next March.

The administration believes it will have to borrow \$3.5 trillion over the next three years, plus rolling over short-term debt, or another \$1.6 trillion. That is a total of \$5.1 trillion. Knowing politicians you can increase that number by at least 50%. The wages of sin have caught up with the government as it attempts to replace short-term bills with 5, 7, 10 and 30-year paper. We do not believe the debt is payable and the consequences are not going to be pretty. All the velocity of monetary circulation is not going to change the final outcome.

At the same time the Fed and Wall Street are trying to cover-up, as they did 2-1/2 years ago what became a credit crisis. Last time they ramped up the stock market and they are attempting to do the same thing again. It is a masking of two underlying problems. They are doing what they did before, pushing up the value of shares, of companies that are on the edge of serious problems. In this process they have virtually nationalized banks and given them the funds to re-leverage in the market and take it again to today's heights. The market has again become divorced from economic reality. They are again about to find out printing money and taxing is not going to solve the problem. On the way to the printing press and along the path of monetization the government has forgotten that they are in serious financial conditions and in the coming year will not be able to fund their deficit. The revenues are not to be had and foreigners are more and more reluctant to shoulder America's debt. That means another credit crisis and further monetization of debt. Very simply, the US government is bankrupt. They can either default or lay the burden on future generations. The immediate answer is for government to cut spending on such trivialities, such as Medicaid, Medicare and Social Security. Allow the citizens to live in penury and poverty. These are the people who helped build America into what it is and they are to be cast aside as the Fed rescues its owners, the bankers, who deliberately caused the problem in the first place.

The deficit for fiscal 2010 should be close to \$2 trillion, up from \$1.4 trillion in 2009. The projection for the next ten years is at least \$10 trillion. That means an increase of 150% to be serviced by 60% increase in tax revenue in a world where current receipts are off 30%. Even in better times recently tax revenues only increased by 12% during the biggest real estate and stock booms ever. We are about to find out that the muddle through theory does not work. Just for good measure we will add that unfunded liabilities increased by \$9 trillion last year alone. That is ten years of deficits in just one year. Who in their right mind is going to fund and support such profligacy?

Just to give you an idea of how much debt has been created, the average G-20 budget deficits are 10.2% of GDP, when 3% is normal. Greece, which is on the edge of bankruptcy, will be 12.5% in 2010. Yet, the US is already at 13.5%. Close behind are the UK and Japan at 11.6% and 10.3%. The erosion of confidence and trust will soon manifest itself as lenders stop lending to these nations. This has already happened to the US with the Fed monetizing more than half of Treasury issuance. This is proof the dollar will crash and be devalued, as debt goes into default. Foreign nations are understandably concerned, as the dollar now only makes up 37% of new foreign reserve holdings. That is about a 50% reduction in holdings. As we reported before it is no wonder oil producers have held secret meetings to dump the petro dollar. Wall Street, Washington and central banks worldwide refuse to heed the lessons of the centuries and so have been damned to oblivion.

In more slight of hand the BLS has let us know that their birth/death model has overestimated the unemployment by some 824,000. These errors will be included in their statistics in February, and may be revised. The private sector number is 855,000. Some would like to call the error incompetence, we call it strategic planning by government to mislead the American people. For months the number of employed had been expanding via these phantom figures when they should have been contracting. We cannot access their data so the incorrect figure could be even higher.

What government has been doing is guessing for the past six years how many jobs had been created or lost by small businesses. In reality it was a totally unsound method of creating jobs that didn't exist.

This miscounting by other methods also distorts the CPI, PPI retail sales, durable goods and, of course, GDP. That means you cannot believe a thing the government says. We have contended this for more than ten years. As an example, how can employment in small businesses be growing when more than 43,000 went under last year? Even if the figures come in late there obviously is never any adjustment. The difference in this case is jobs lost were not 7.2 million, but 8 million. In the second quarter some 16,000 businesses failed, up from about 14,000 quarter-to-quarter, the highest in 16 years. In addition the BLS only looks at unemployment insurance tax records once a year – how convenient. The birth/death model is nothing more than a ruse to present unemployment in a better light. This has been done for the past six years not just over the past two years. Our research shows a bogus set of additions yoy of about 1.7 million.

The fund-less FDIC reports US banks may be making money gambling with leverage using TARP funds, but bank loans fell by \$210.4 billion, or 2.8% in the third quarter, the biggest drop since the FDIC started keeping records in 1984. Those same banks booked profits of \$2.8 billion reversing a \$4.3 billion third quarter loss. Loans to businesses fell 6.5% and those to real estate 8.1%.

Small business cannot borrow and they created 64% of new jobs in the past 15 years says the SBA. We see that figure at 75%.

Non-current loans rose 10% to 5% of all loans to \$366.6 billion, the highest rate on record. In the 3rd quarter banks charged off \$51 billion in bad loans, the 11th straight quarterly increase, up more than 80% yoy. 66-2/3% of banks set aside \$62.5 billion in loss reserves, 22% higher yoy.

124 banks have failed thus far this year, up from 25 in 2008 and we could see more than 2,000 fail in 2010 and 2011.

It looks like the stock market is finally ready to rollover. It is in a well-defined head and shoulders pattern that began in September. This is what happens when trillions are given to the financial sector and a pittance to the public. This is a control planner's formula for disaster. The present dollar rally could end at 78 or 80 and then the test of 71.18. Our government rigged this rally using the currency swaps they created out of thin air in March.

If banks do not increase lending by 20% in 2010, a second credit crisis will beset markets. Stocks are way over valued having baked in a strong recovery with the help of TARP funds. This market reminds us of the alcoholic who has to have a drink upon rising and says he is not an alcoholic. All Wall Street knows is profits and they could care less about unemployment. The debasement of our currency means nothing. Speculation wages again with no thought of lower financial profits in the first quarter and a distinct chance of a second credit crisis. Ignored is the government's manipulative presence in the market, or market fundamentals. Today's speculation reflects the lack of trust, confidence and lack of fiscal and monetary discipline. The theme is we had better make it while we can, because there may be no tomorrow. As a result the probability of a steep market correction is strong. What we are involved in economically and financially is not a common correction, it is a correction in a bear market and few, even professionals, see this. This happened in the early 1930s and by the end of 1940 we still had not exited depression. We had to arrange a war to extricate ourselves.

Just look around you and you will see contraction as well as higher inflation. New home purchases fell to a 12-year low in November, off 22%, as government expanded the assistance program to include higher-income trade up buyers. Auto sales are fading again as well. Why? Because the markets for big-ticket items are saturated. We still have to face de-leveraging by domestic financial institutions, which few talk about. March values at Dow 6,600 were fair for that time frame. 10,500 is madness even after allowing for a bottom bounce to 8,500. We can assure you 6,600 will be tested again. We see the Dow sweeping into the 6,300 to 6,600 area for a first real test. We cannot tell at this juncture whether it will hold or not.

Few, except for Ron Paul and his fellow sound money adherents, are asking where the trillions of dollars of Fed and government money has been spent, or who got it, and what was the collateral on the loans and how was it priced? The recipients for the most part were the same culprits who caused all the problems in the first place.

In case you have not realized it the US government has to replace \$2.5 trillion in debt in 2010, or 35% of their outstanding marketable obligations.

The Chicago Climate Exchange is 10% owned by Goldman's Hank Paulson and former Treasury Secretary, 10% by Generation Investment Management, owned by Al Gore and 10% by Goldman Sachs. The exchange has been operating for several years.

If the US cannot craft a plan in 2010 to get its ballooning debt under control, it will face panic in financial markets. That is why you must be out of US dollar denominated assets. That is all forms of US government, state government debt (municipals), cash value life insurance policies, and annuities and out of the stock market except for gold and silver shares.

The national debt has more than doubled since 2001 due to wild government spending and gross incompetence of those in government. There were political tax cuts and a trillion dollar war to assist in the carnage. This has put national debt at 53% of GDP, up from 41% just a year ago. Some believe that figure could be as high as 85% in 2018 and 200% by 2038.

The government now admits to inflation of 2.4%. We see 7.7%.

The MBA mortgage purchase Application Index fell 0.1% in the week of December 11 for a total market index of 0.3%. This compares to 4% and 8.5%, respectively in the prior week. The refi index was 0.9% versus 11.1% in the prior week. The 30-year fixed rate mortgage rose 3 bps to 4.92% and the 15s were flat at 4.33%.

We are getting change you can believe in. The IRS granted another sweetheart deal to Citigroup – a \$38 billion tax break. As George Orwell said in Animal Farm, "Some became more equal than others." This is nothing more than a gift from taxpayers to bail out a bankrupt bank.

Making the President win a Peace Prize for widening a war was an insult to all Americans and citizens of the world.

Now we are again insulted by the elitist-owned media as Time Magazine crowned Ben Bernanke as person of the year, after he deliberately destroyed the American economy. This is akin to naming cheetah Woods as husband and father of the year.

Bernanke has created the biggest Ponzi scheme in history, so he is to be rewarded. This is a world gone mad.

Nomi Prins, former managing director of Goldman Sachs and head of International Analytics Group at Bear Stearns in London, is saying what we have been saying "The giant banks are manipulating their books to make themselves look profitable." Prins says, this might be worse than the fraud, which occurred at Enron.

David Rosenberg says: "The government has to roll \$2.5 trillion of debt in 2010, or 35% of its outstanding obligations." That means no interest rate hikes, officially anyway. For 2010 he has Japan's debt to GDP at 227%, Italy 120%, the US and UK at 94%, Germany and France at 83% and Canada at 79%. This also means all currencies will continue to fall versus gold.

The Fed has unnerved liquidity bulls by stating that they would accelerate the termination of credit facilities and remove most of the facilities by February 1, just as we reported earlier. We said they wanted to remove \$1.5 trillion from the system, privately as we reported. They will monetize \$1.425 trillion of Agencies by 3/31/10. Supposedly no more asset-backed commercial paper, Money Market Fund liquidity facility; the commercial paper facility; the primary dealer credit facility and the term securities lending facilities. It will close swap arrangements by February 1, 2010. That means no further major dollar support and explains why the dollar is manipulated upward prior to the end of support. The term auction facility will be scaled back. By June 30, 2010 the term asset-backed securities loan facility for toxic waste will end. Later in 2010 everything will become unglued again and the second credit crisis should begin.

PIMCO's Total Return fund went to cash holdings of plus 7 from minus 7, as Treasury holdings fell to 51% from 63%. They cut holdings of mortgage securities to 12%, the lowest since PIMCO started in 2000, from 16%.

The Treasury says the Fed was responsible for Citigroup's botched attempt to raise funds to pay back its (TARP) federal bailout. Wall Street banks, despite planning to pay sky-high bonuses this year, have yet to turn things around.

Congress voted a \$290 billion increase in the debt ceiling, which will last only six weeks.

A \$2 trillion increase in the debt ceiling will last 15 months. Next comes the unlimited ceiling. Pretensions will eventually be cast aside. The country is bankrupt.

Then the Senate finance committee voted to reappoint the Chief counterfeiter Ben Bernanke. Wonders never cease. What they should have hired was the monkey from the organ grinder; he couldn't have done any worse. Shame on the committee.

What has occurred in the US could not have happened by ineptness or chance. It has been done by design. There is no such thing as coincidence.

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