

FINANCIAL SYSTEM IS ROTTEN

written by Egon von Greyerz | October 25, 2019



Something is rotten in the state of Denmark the world (from Shakespeare's Hamlet).

In a world that cannot survive without incessant deficit spending, money printing and negative interest rates, there is clearly something very rotten. It is not only rotten but it stinks! Yes it stinks of lies, deceit and moral decadence.

So why doesn't anyone stand up to tell the world where we are heading. Well, for the simple reason that no politician can tell the truth. Because if they did, they wouldn't be elected. The principal purpose of any politician is to buy votes and to get votes you can never speak the truth.

Also, there are so many vested interests with unlimited rewards. The moneymen who control the financial system have all to gain from creating false markets, false money and false interest rates.

THE TRUTH NEVER PERISHES

The Roman philosopher and statesman Seneca said: "Veritas Nunquam Perit" (The Truth Never Perishes). That might very well be true but it can be suppressed for a very long time as we are seeing now all around the world.

Let us first consider the biggest lie which is money. **For 5,000 years, the only real money has been gold (and at times silver). Whenever the financial system has deviated from that simple principle, by creating false money, it has ended in disaster for the world,** whether that has been done with silver coins filled with zinc or copper or by just printing paper money.

TOTAL CATASTROPHE OF THE CURRENCY SYSTEM NEXT

And that is where we are heading now. A catastrophic course of events was triggered when Nixon closed the gold window on August 15th, 1971. Since then global debt has exploded and all currencies have imploded. Debt, derivatives and unfunded liabilities have gone from manageable amounts in 1971 to over \$2 quadrillion today. And every single currency has lost 97-99% in real terms.

As I mentioned last week, the world, the politicians and the UN are all focusing on the wrong problem. The destruction of the world economy will have consequences of a magnitude that is exponentially greater than climate cycles. We are now at the point when we will not be able to change the course

of either of the two. Climate is determined by very long cycles that humans have virtually zero influence on. With regards the financial system, there was a time when it could have been saved. But that time is long gone. Now we just have to let it take its course which will be totally catastrophic for the world.

So why is no one seeing what is happening and why is no one standing up to say that the Emperor is totally naked?

The truth is very uncomfortable and painful but it does never perish.

It is an incontrovertible fact that virtually all the fiat money that is created by governments, central banks and commercial banks is totally worthless and therefore false.

If a government prints money out of thin air to cover deficit spending, that money has ZERO value since all the work required to create it was to press a button on a computer.

We also know that the money has zero value because no bank or central bank is prepared to pay interest on deposits. Instead because money is worthless these bankers want to be paid to hold the money. It is really quite logical. Why should you pay interest on money which has zero value.

MONEY THAT COSTS NOTHING TO MAKE HAS ZERO VALUE

And when a bank receives a \$1,000 deposit and then lends out that same money ten times or more, that money is also worthless since it has cost \$0 to issue the loans.

It is the same with a credit card company, or car financing, they all issue fake money created by the touch of a button.

It is this vicious cycle of money printing that has inflated asset bubbles to an extreme today. We all know what happens when a bubble gets too big. IT POPS! And when it pops, all the air that was inside the bubble just disappears.

For the ones who don't understand what this means practically, let me explain. Let us start with the asset bubbles. When the global stock, property and other bubble asset markets pop, all these assets will lose at least 95% of their value in real terms. The best way to measure real terms is obviously gold since that is the only money which has survived and maintained its purchasing power for thousands of years.

And if we look at the debt bubble, global debt is at least \$270 trillion. But when the debt bubble pops so will other liabilities like the \$1.5 quadrillion of derivatives. So when the debt bubble pops, virtually all that fiat money becomes totally worthless. No one can repay it and no one is willing to buy it.

I know that the above two paragraphs are a very simplified explanation of what will happen over coming years. But hopefully it makes it easy to

understand.

These events will obviously not happen in one go. It will most probably start with stock markets first crashing which will put pressure on credit markets. More QE will follow but that will only have a short term effect. More crashes, more money printing, inflation, hyperinflation, credit defaults and bank defaults. It will all unravel relatively quickly until there will be a deflationary implosion of most assets. I outlined it briefly in my article last week called "Global Warning".

We had the first clear signals from several major central banks that something was rotten in the world financial system already in August when the Fed, ECB and BOJ all declared that they would do what it takes to support the system. I wrote about this important event in my article from August 29th.

QE IS BACK BUT WE MUSTN'T CALL IT THAT

AFTER US THE FLOOD



Then in September the Fed started overnight Repos of \$75 billion increasing to \$100 billion. They also undertook 14 day Repos of \$ 30 billion increasing to \$60 billion. Following on from that the Fed has now announced that they will start QE of \$60 billion per month. But we mustn't call it QE according to the Fed. So let us just call it money printing because that is what it is.

The President of the Minneapolis Fed said: ***"This is not about changing the stance of monetary policy. This is about making sure markets are functioning. This is kind of just a plumbing issue."***

He is of course right, it is a plumbing issue. But the problem is that **the financial system is leaking like a sieve** with no chance of plugging all the holes.

Between the end of 2017 and 2019 the Fed reduced its balance sheet by \$700 billion from \$4.5 trillion to \$3.8 trillion. **As always, the Fed hasn't got a clue. They didn't understand that there was no chance to take away the punch bowl from a system that couldn't survive without a constant feed of more**

printed money. The problem is that the system won't survive with more money printing either. Because you can never solve a debt problem with more debt. So either way they are doomed.

So the Fed is now joining the ECB which will now start to print € 20 billion a month indefinitely. The BOJ has of course never stopped printing. They own 50% of all Japanese bonds and are supporting the stock market aggressively. The BOJ balance sheet has gone up 8X since 1999 and is now Yen 560 trillion (\$5 trillion).

Yes, the system is rotten and is now starting to smell. The actions by the Fed in particular in the last few weeks smell of panic. Is there a problem with JP Morgan, or Bank of America, or maybe the Fed is supporting the bankrupt Deutsche Bank? We will probably soon find out where the biggest pressures are.

On top of the bank problems, corporate debt is getting riskier by the day. The financing of companies like We Work and Merlin are clear signs of how dangerous this market has become.

The central banks are already fire fighting and so far very few people are aware of the fires. But it is only a matter of time before these pressures in the financial system will spread like wildfires.

OUTLOOK

Investment markets will soon reflect the risks in the financial system. Stock markets are likely to fall heavily this autumn and the precarious month of October isn't over yet. But potentially the fall might not happen until early next year. But the risk is there today.

The dollar is extremely weak. In spite of paying the highest interest of any major currency, the dollar is now weakening and is probably starting the final leg to ZERO.

Finally, the precious metals have merely just started to reflect the risks in the financial system. The small correction that we have just seen is finishing. But no use worrying about these small movements in the metals. Physical gold and silver will soon start their journey to multiples of today's prices. But more importantly, they will be life savers as the financial system crumbles.