REPO CRISIS MARCH UPDATE

The Mother of All Crises Nobody Will Discuss

March 8, 2020

By Martin Armstrong

ArmstrongEconomics

researching the past to predict the future

Armstrong Economics
360 Central Avenue, Suite 800
St Petersburg, Florida 33701
+1 - 727 - 485 - 0111

DISCLAIMER

The information contained in this report is NOT intended for speculation on any financial market referred to within this report. AE Global Solutions, Inc. makes no such warrantee regarding its opinions or forecasts in reference to the markets or economies discussed in this report. Anyone seeking consultation on economic future trends in a personal nature must do so under written contract.

This is neither a solicitation nor an offer to Buy or Sell any cash or derivative (such as futures, options, swaps, etc.) financial instrument on any of the described underlying markets. No representation is being made that any financial result will or is likely to achieve profits or losses similar to those discussed. The past performance of any trading system or methodology discussed here is not necessarily indicative of future results.

Futures, Options, and Currencies trading all have large potential rewards, but also large potential risk. You must be aware of the risks and be willing to accept them in order to invest in these complex markets. Don't trade with money you can't afford to lose and NEVER trade anything blindly. You must strive to understand the markets and to act upon your conviction when well researched.

Indeed, events can materialize rapidly and thus past performance of any trading system or methodology is not necessarily indicative of future results particularly when you understand we are going through an economic evolution process and that includes the rise and fall of various governments globally on an economic basis.

CFTC Rule 4.41 – Any simulated or hypothetical performance results have certain inherent limitations. While prices may appear within a given trading range, there is no guarantee that there will be enough liquidity (volume) to ensure that such trades could be actually executed. Hypothetical results thus can differ greatly from actual performance records, and do not represent actual trading since such trades have not actually been executed, these results may have under– or over– compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight and back testing. Such representations in theory could be altered by Acts of God or Sovereign Debt Defaults.

It should not be assumed that the methods, techniques, or indicators presented in this publication will be profitable or that they will not result in losses since this cannot be a full representation of all considerations and the evolution of economic and market development. Past results of any individual or trading strategy published are not indicative of future returns since all things cannot be considered for discussion purposes. In addition, the indicators, strategies, columns, articles and discussions (collectively, the "Information") are provided for informational and educational purposes only and should not be construed as investment advice or a solicitation for money to manage since money management is not conducted. Therefore, by no means is this publication to be construed as a solicitation of any order to buy or sell. Accordingly, you should not rely solely on the Information in making any investment. Rather, you should use the Information only as a starting point for doing additional independent research in order to allow you to form your own opinion regarding investments. You should always check with your licensed financial advisor and tax advisor to determine the suitability of any such investment.

Contents

Table of Contents

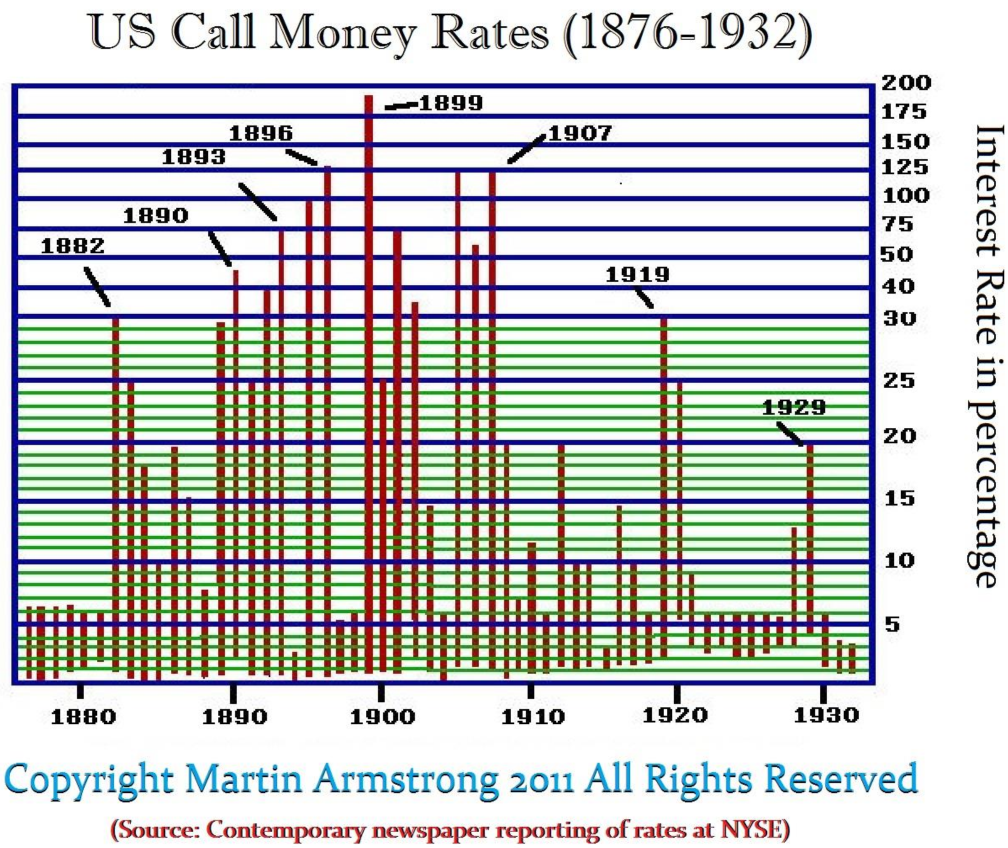
Free Market v Keynesian Economics

People are just not prepared to even consider, no less contemplate, that perhaps the economic structure upon which we once believed the entire world economy was constructed is crumbling before our eyes. Those in power are beside themselves and they will avoid answering any questions whatsoever when it comes to the Repo Crisis. Smart money is starting to wonder if the central banks have actually lost all control of the economy.

I have explained that even Paul Volcker saw the handwriting on the wall yet did not really abide by his own words. He said in his Rediscovery of the Business Cycle that "the 'New Economics' had become orthodoxy. Its basic tenet, repeated in similar words in speech after speech, in article after article, was described by one of its leaders as 'the conviction that business cycles were not inevitable, that government policy could and should keep the economy close to a path of steady real growth at a constant target rate of unemployment."

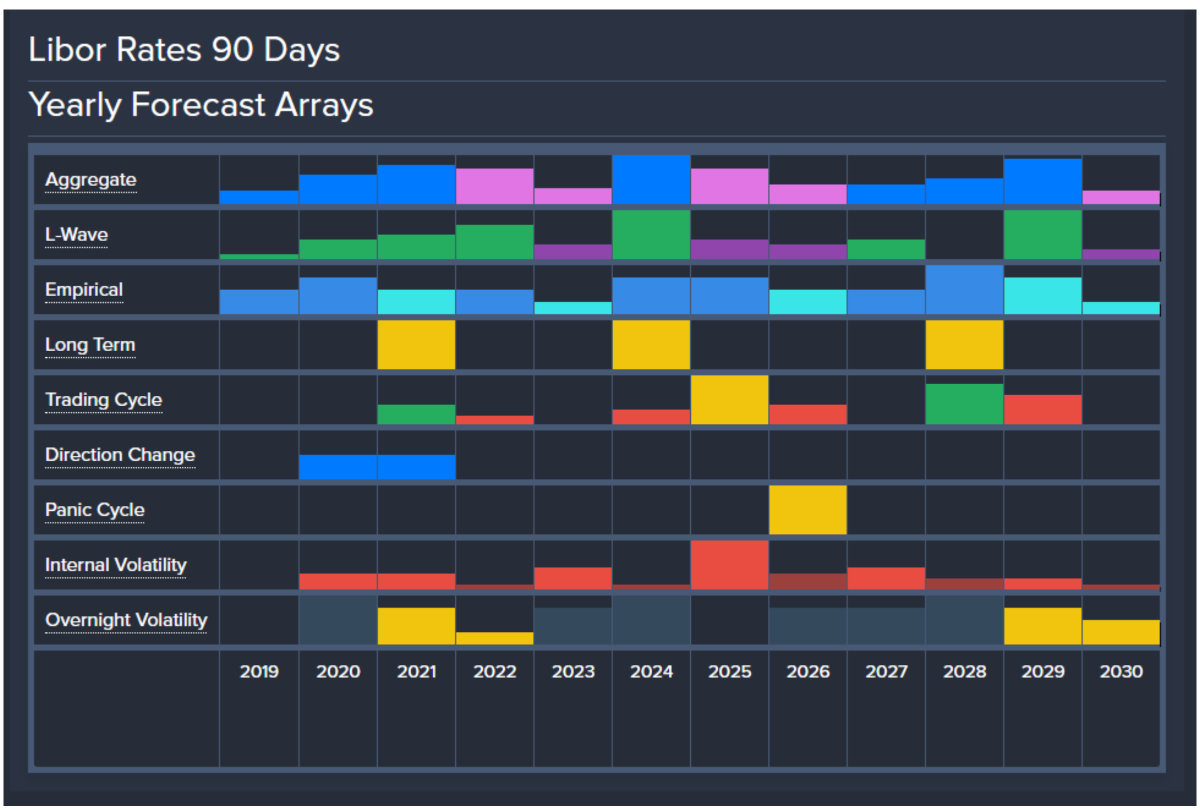

Paul Adolph Volcker Jr.
(1927–2019)

Volcker also admitted that there was a "deficiency in our basic knowledge of how the economy worked, or in the adequacy of the tools of policy." He continued: "it was not until the events of 1974 and 1975, when a recession sprung on an unsuspecting world with an intensity unmatched in the post–World War II period, that the lessons of the 'New Economics' were seriously challenged."

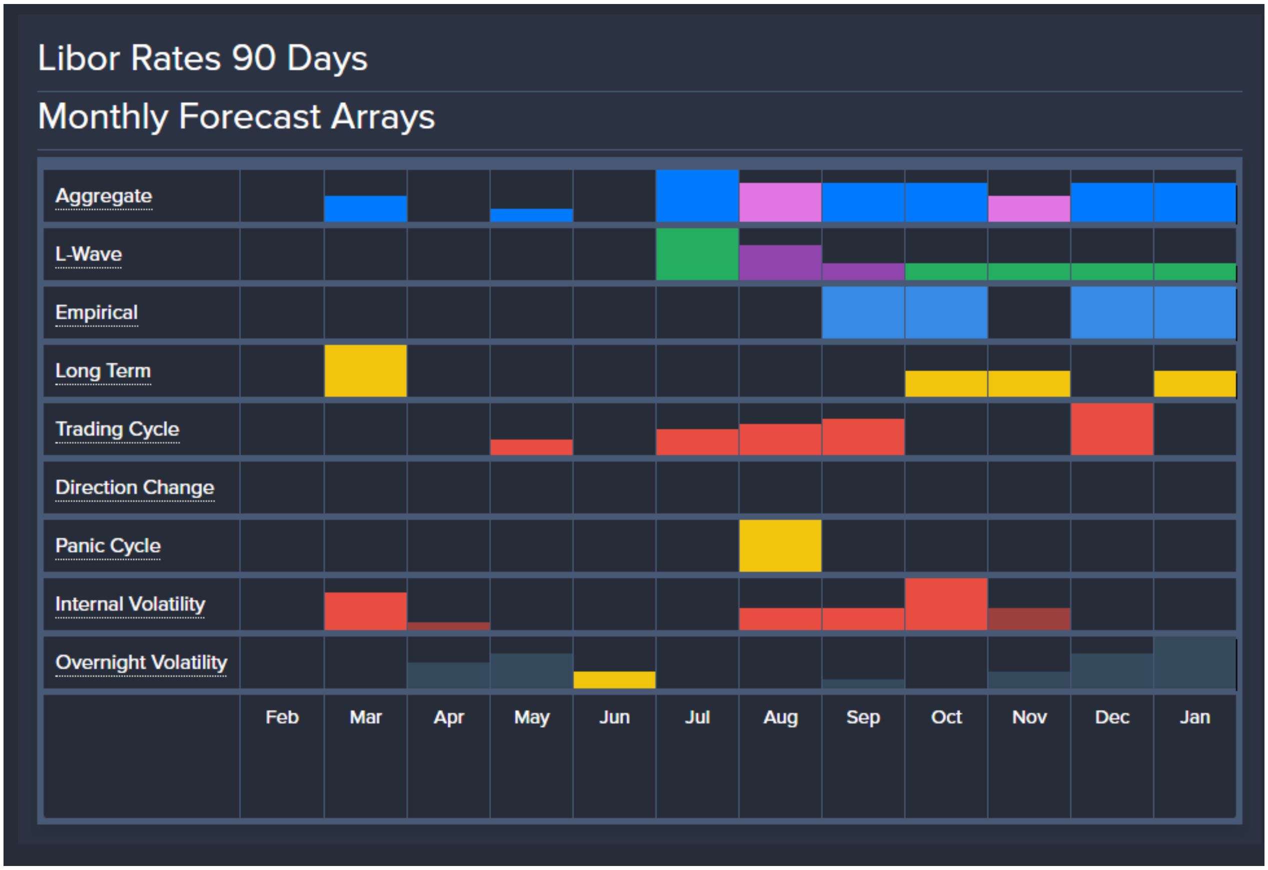


There is something extremely serious taking place that frankly makes me want to just run to an island and wait for the crash burn to conclude. I do not feel there is anything I can do to help because the answer involves such a surrender of political power, I seriously doubt that anyone would listen in time to save the day.

We have such a profound clash with the free markets unfolding that this will not end very pretty. Here is a chart of call money rates from the New York Stock Exchange which reflects the sort–term rates in the economy. When a crisis appears, rates rise because people are then concerned about credit risk. What we are witnessing is a clash between Keynesian Economics and reality. The Fed is trying to lower rates to prevent the crisis, but they cannot fight the free markets which are concerned about credit risk. Hence, the REPO CRISIS is simply expanding and the demand for cash will only rise. The normal tendency is for rates to rise when creditworthiness is the issue. The Fed is trying to fight that trend because it will devastate the ECB and BOJ with their negative interest rates.



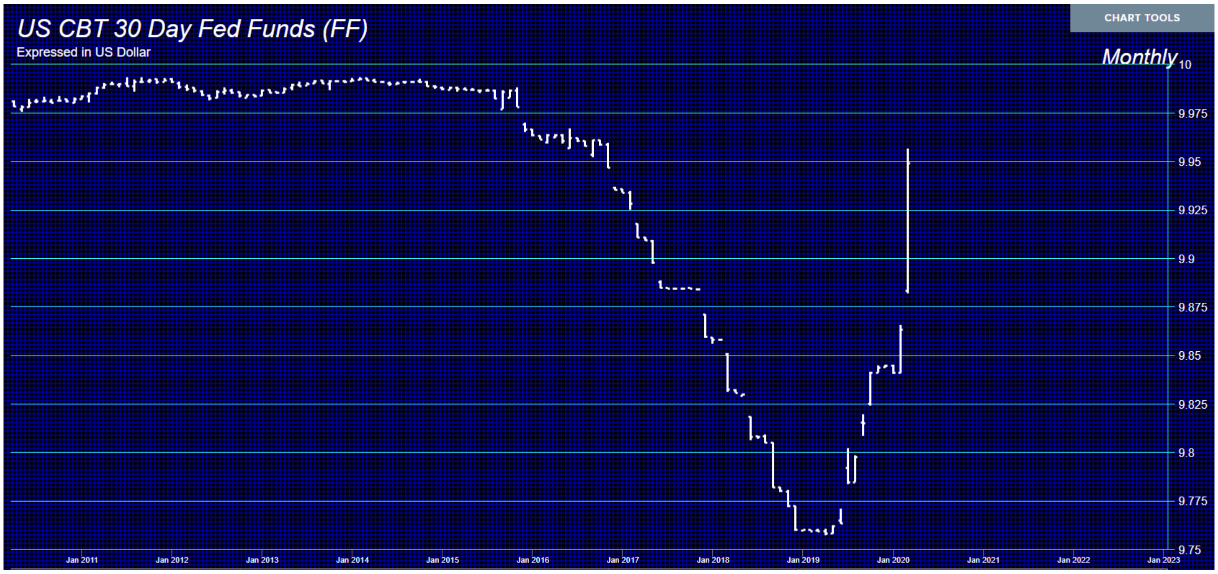
Even when we look at the 90-day Libor rates, we can see that the free market has pushed rates back to 1% in 2019 continuing into 2020. Our timing array on the Yearly Level continues to show a critical turning point in 2021. We see back-to-back Directional Changes in 2020 and 2021.

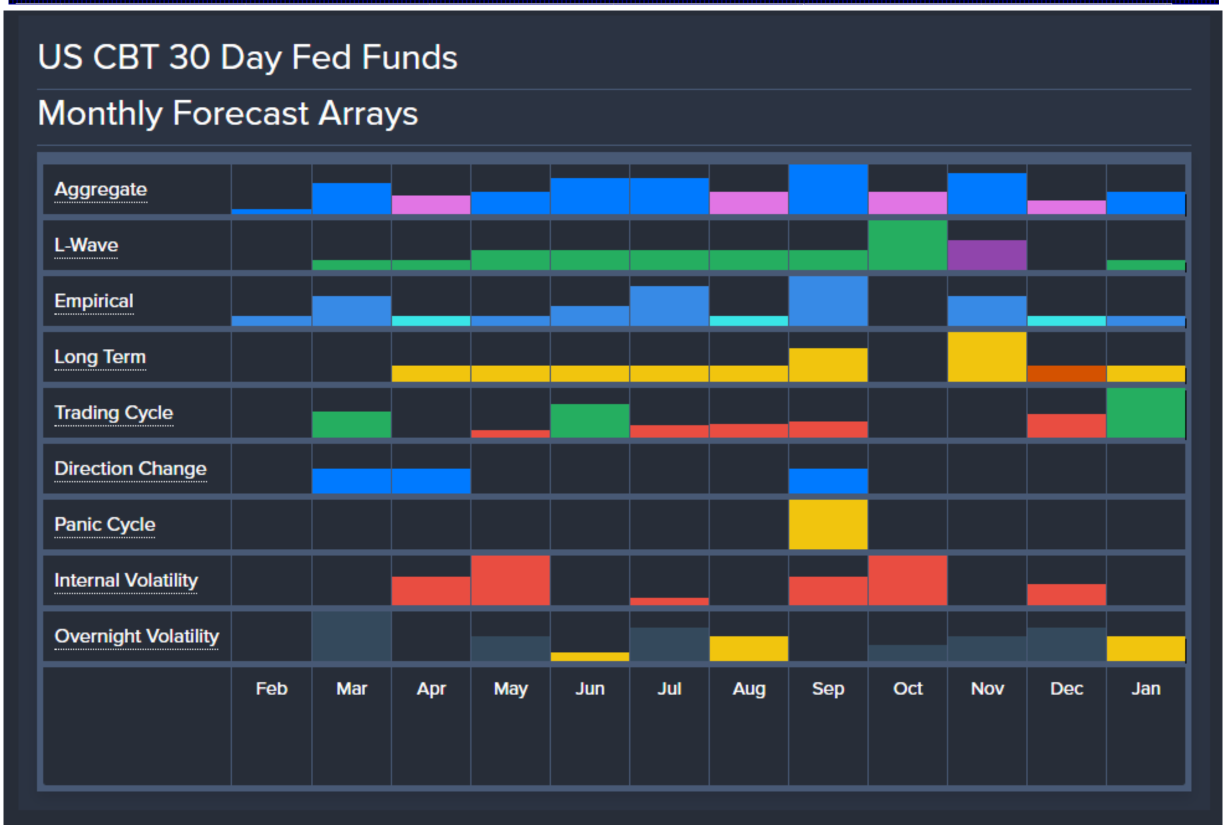


Even when we look at LIBOR, we showed turning points in March, again in May, and then an important one come July. We also see rising volatility in April and May. When we look at everything unfolding from a panic due in March in many markets to at least high volatility in others, there is something seriously wrong behind the curtain.

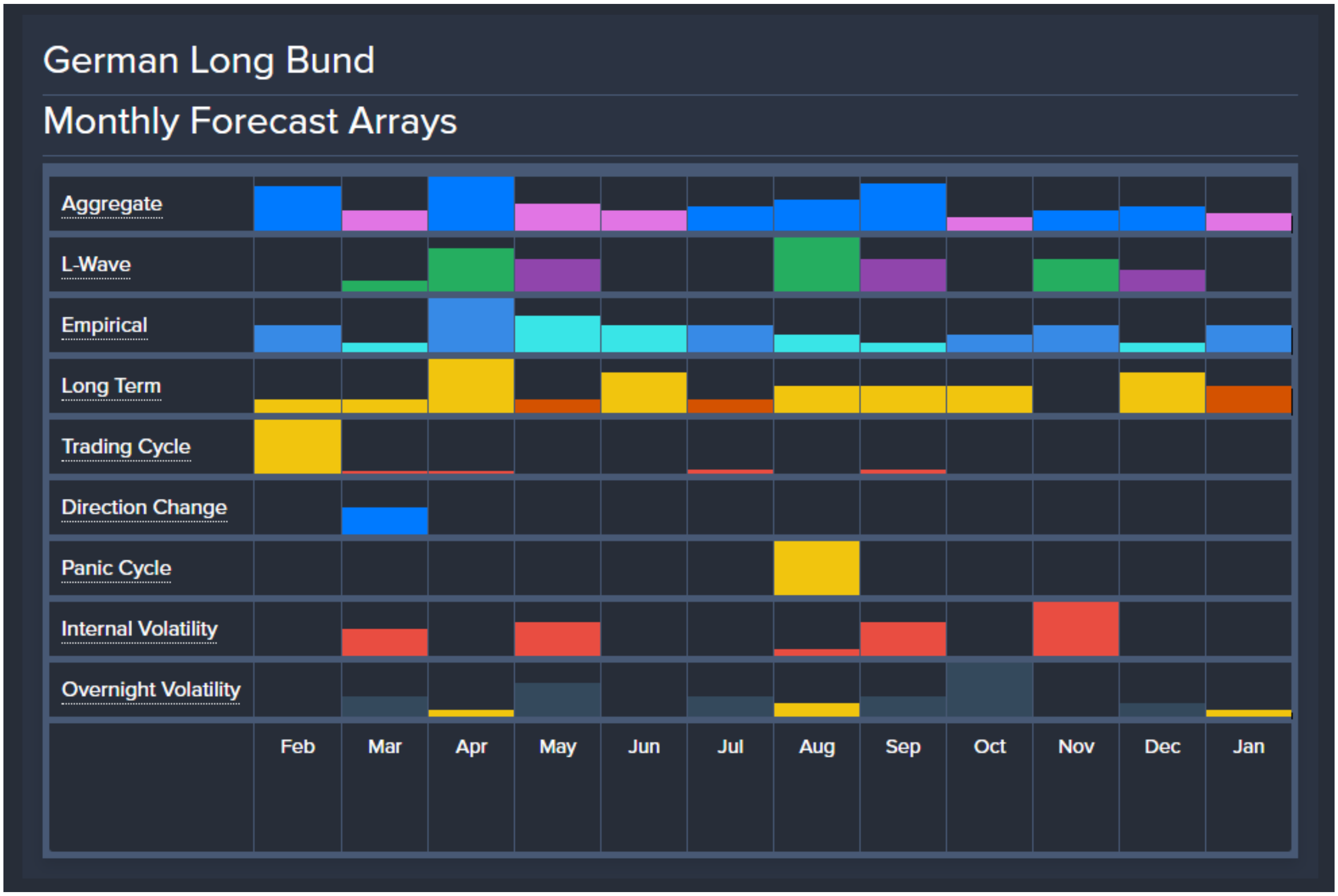
Capital is starting to get very concerned about creditworthiness as we move into April/May. Obviously, the coronavirus has been touted as some major disease even though this flu season has hit over 1 billion people worldwide compared to less than 110,000 for the coronavirus.

Nevertheless, this panic over the coronavirus is indeed creating a global contraction in economic activity and this beings to question whether this is deliberately being blown out of proportion to distract everyone from the serious collapse unfolding in Keynesian Economics. The crisis we see is that the free markets are pushing rates higher as is normal when creditworthiness becomes and issue. The problem here is that Keynesian Economics cannot overcome this trend and it is pitting the central banks against the economy which they are incapable of managing. The smart money is starting to realize that the central banks have no power to prevent the next crisis. This failure will only lead to more confusion and shock.





While we see in the US Fed Funds, the similar targets of March and July appears with rising volatility in April May. We are showing a Panic Cycle come September. Obviously, the free market is responding to creditworthiness which is why the Federal Reserve has been forces to intervene into the Repo Market and has been unable to exit. The Fed has become the market-maker in Repo for any attempt to exit will only lead to a sharp rise in interest rates.



Here we can see that February was a turning point and March was a Directional Change with rising volatility. The next key target will be April. We also see volatility rising again in May.

When we look further ahead, we can see September is an important turning point this year and there will be high volatility in October with a Panic Cycle hitting in August. We must be concerned that we are heading into a real financial crisis as we enter 2021.

What appears to be shaping up is this April/May period followed by the period of September/October.

When we look at the Federal Reserve Discount Rate, the target week was March 2nd which came in as expected. When we look further ahead at the year, here too we see rising pressure (volatility) in April/May and May will be the important turning point this year. We have weekly targets of March 23, April 20th, and May 11th.

Conclusion

The Repo Crisis remains the precursor to the coming world **Monetary Crisis Cycle**. And what we are facing is the Mother of All Financial Crises from which there is no escape because people are simply not prepared to comprehend that the central banks cannot prevent a crisis and are themselves trapped. This is going to require a political resolution whereby Europe will have to surrender this idea that they cannot consolidate debts and they cannot allow money to flow from one country to another to help in a banking crisis. That undermines the confidence to deal with any European banks outside of the Eurozone.

Obviously, what remains at stake is the very power of central banks to control the short–term rates and they lack any control over the fiscal budgets where money is created by debt which are money that simply pays interest. We are witnessing government and central banks in the clash of titans where government under Keynesian Economics and its very existence is now critical as we head into the profound turning point of 2032.