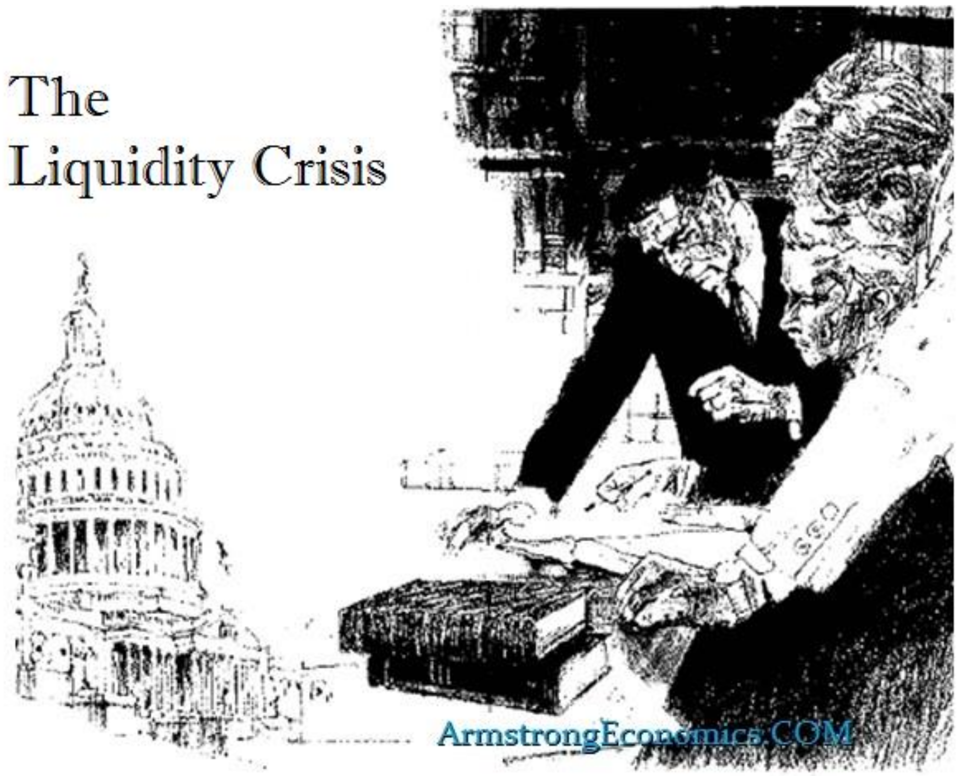
The Liquidity Crisis



The Collapse of Confidence

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November 2022

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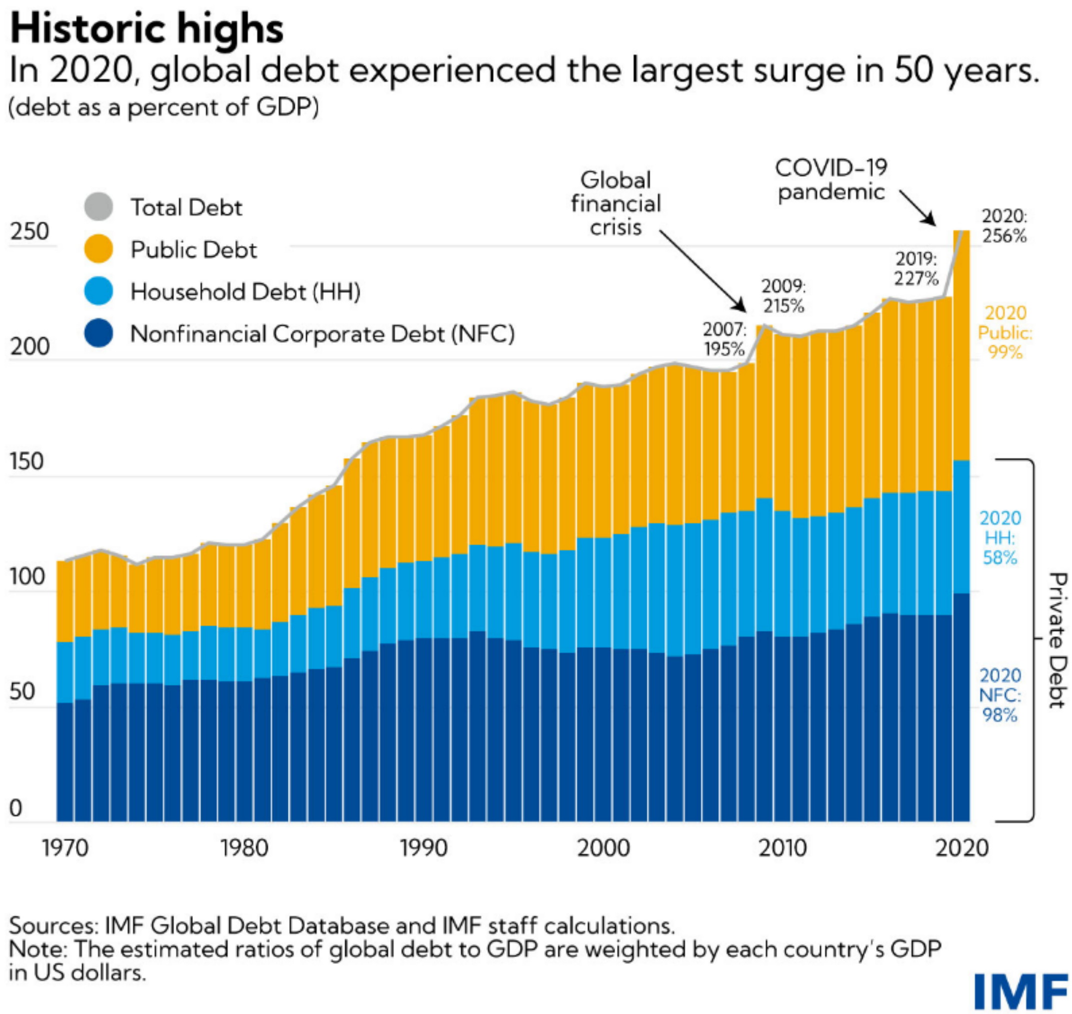
Introduction

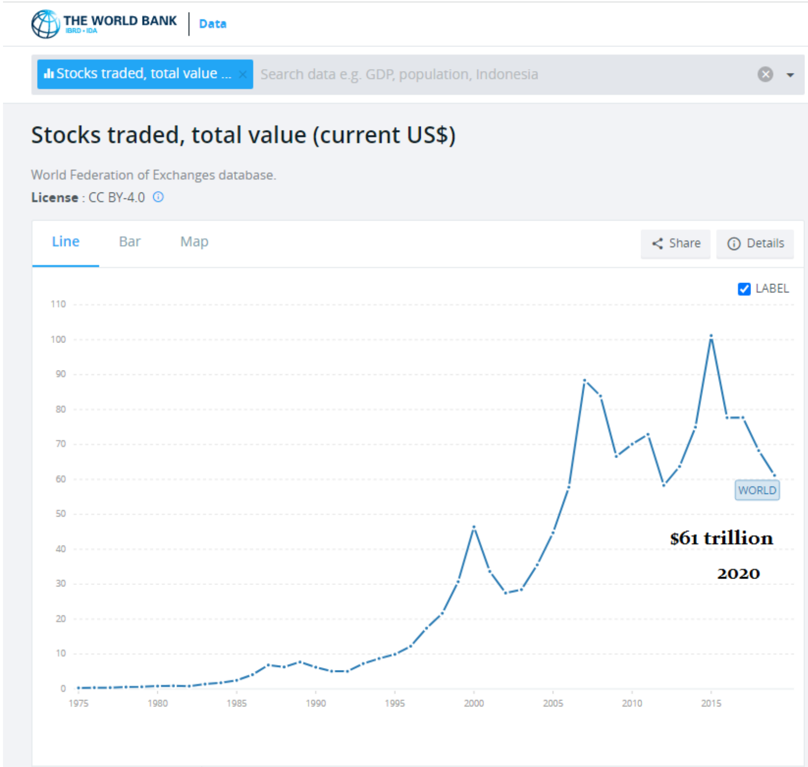
We have a serious liquidly crisis emerging that is caused by a two-fold problem that (1) the debt is expanding beyond the ability of primary dealers to handle and institutional clients are willing to buy, and (2) this proxy war by the West to conquer and destroy the Russia is expanding debt exponentially and that is having a blow-back in the decline in confidence. War is always seen as highly inflationary. Coming on the back of COVID shortages, the sharp increase in inflation combined with the increase in debt has many realizing a default is the end goal on the horizon for this is really a Climate Change War against Russia.

The US Treasury market stands at $24 trillion and traders are caught in the crosshairs of a political agenda that has no fiscal management whatsoever. Traders are having trouble actually trading. Our models tracing liquidity are returning to the days of the Lehman Crisis levels of 2009, undermining the debt market that's the key underpinning of the global financial markets. As I have warned many times, the debt-to-equity ratio is approaching 10:1.



Even taking the IMF data on global debt, it has reached $226 trillion, with federal sovereign debt coming in at about $60 trillion.

The financial market is NOT expanding at a compatible rate of government debt. The Western governments are spending with the full knowledge that they have ZERO intention of paying off any debt realizing that the objective here is indeed as their fearless leader tells them – You Will Own Nothing & Be Happy. That is a slogan to make it sound that their default is really going to be for your benefit.



We project the current value of world equities at about $90 trillion at the start of 2022 and the top two markets, NYSE and Nasdaq, represent about 45%. This shift in capital from sovereign debt to private assets is undermining the debt markets exposing the fact that the world financial system is much more fragile that most assume. This is what I have been warning about. You cannot continue to borrow endlessly with no intention to repay. This fiscal mismanagement has reached the saturation level. One more major shock has the potential that would bring the house of cards crashing down faster than the government anticipates.

That's why for the first time in more than two decades, Janet Yellen is looking to use the Treasury in a desperate attempt to buy in long-term debt that people do not want given the risk of war, and flooding the market with short-term paper. That is precisely what brought down the Russian economy in 1998 and unleashed the Long-Term Capital Management Crisis. Yellen cannot stabilize the situation by buying time for policymakers to find more permanent solutions – there are none. Her scheme will end the same as Russia in 1998 all for this Climate Change War in their mind.

The 1998 Liquidity Crisis

The Russian Financial Crisis of 1998 was set in motion once again by the endless greed of the NY bankers in search of that guaranteed trade with no risk. They had their foot in the door and convinced them that they should be funding their debt short-term precisely as Janet Yellin is currently moving to do with the United States Treasury.

Russia was issuing short-term debt known as GKOs at high interest rates of generally 30%+ and the bankers convinced themselves that the IMF and World Bank would continue to lend to Russia, regardless of the rate of interest, because they would never allow Russia to default since they had more nuclear weapons than the United States. If Russia defaulted, the theory was that the nukes could end up on the black market. Hence – BUY, BUY, BUY Russian GKOs – was all I heard from the NY Bankers. They were desperate to believe their guaranteed trade. Long-Term Capital Management got even more greedy. They sought to leverage the whole scheme even higher.

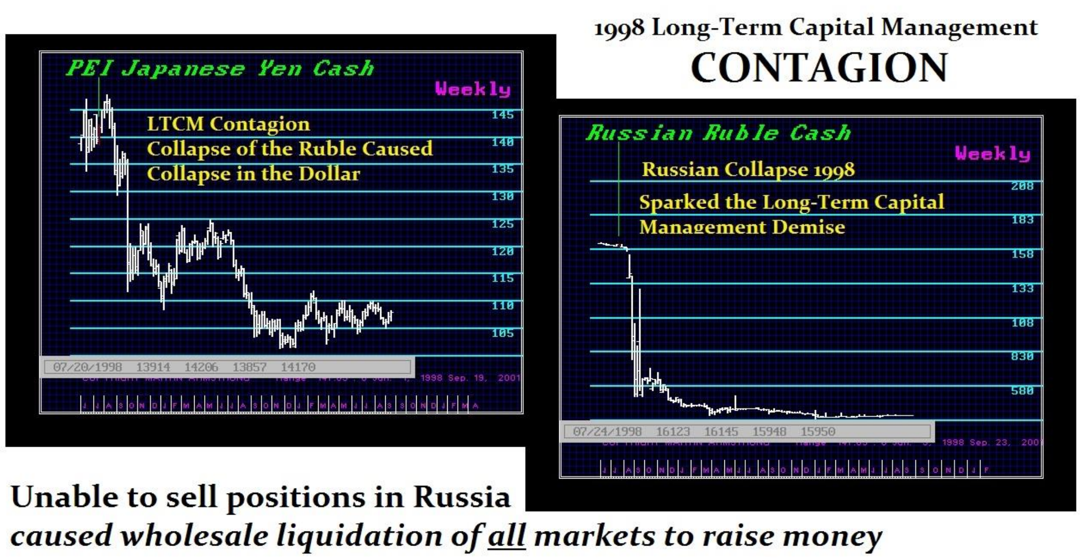
The Russia Financial Crisis of 1998 was the combination of the collapse in share prices and then the collapse in the GKOs. This also impacted the Russian domestic economy bankrupting many firms and banks as the ruble collapsed the week of August 17th, 1998. Even Bill Browder admitted he lost 90% of his Hermitage Capital Management fund. There was no risk management by the NY bankers. This was, after all, a guaranteed trade.

On May 29th, 1998, Yeltsin appointed Boris Fyodorov (1958–2008) as Head of the State Tax Service. He vowed to go after the tax cheating oligarchs and foreign fund managers like Browder for using schemes to avoid paying taxes altogether – hence Browder's criminal conviction in Russia for tax fraud. Magnitsky was the accountant devising the tax avoiding scheme by hiring fake disabled employees to get a 50% tax deduction.

Yeltsin tried to prop up the currency and stem the flight of capital that was impacting all emerging markets. Real money was moving to the euro, which was being promoted as the dollar-killer in 1998. In June 1998, Kiriyenko hiked GKO interest rates to 150% and the bankers loved it. IMF and World Bank were talking about a bailout loan of $22.6 billion, which was finally approved on July 13th, 1998. By August 1st, 1998, some $12.5 billion in debt was outstanding to Russian workers.

The *Observer* of London opened its report on the crisis that was brewing on May 31st, 1998 reporting:

> *"Dealers in Russian government bonds work in a frentic zone between greed and fear. The risks of dealing the bonds, known as GKOs, are high and the pickings rich. The big players – many working out of London, New York and Frankfurt – are sharp customers. But they hardly deserve the divine status offered by Alexander Livshits, President Boris Yeltsin's chief economic adviser, as he tried to account for the emergency on Russia's financial markets last week.*
>
> *"It's not the Asian Crisis, it's not foreigners and it's not a plot," he said. "If you look, you can always find someone who stands to gain. But to accuse those playing the market of setting up an underground organization – "Destroy the GKO" – is like blaming God for making it rain."*



Indeed, the bankers did not undermine the GKO market. They became the market with their eternal greed seeking the guaranteed trade with zero risk. When the Russian market broke, they could not sell their Russian assets because they were all on the same trade. They needed cash desperately to cover their losses. This was the 1998 Liquidity Crisis whereby their losses in Russia led to a global contagion whereby they sold everything they had in other markets to raise cash to cover their Russian losses.

WORLD

Russian financial crisis shows signs of worsening

By VLADIMIR ISACHENKOV
Associated Press Writer

MOSCOW (AP) — The Central Bank halted dollar sales for the second straight day today in an effort to save its dwindling hard currency reserves.

The Central Bank has kept the official exchange rate unchanged at 7.86 rubles a dollar, or 12.7 cents per ruble, since Tuesday. It said it was forced to stop selling dollars because it needed to save its hard currency reserves for key imports and other urgent needs, rather than spending them to prop up the weak ruble.

The interbank currency market has remained paralyzed as Russian commercial banks fear doing business with each other, trying to get rid of their increasingly worthless ruble assets.

The Moscow interbank currency exchange opened today with the ruble quoted at 8.2 to 9.5 against the dollar, and the demand for dollars at nearly $300 million. There were virtually no offers to sell dollars and the trading was suspended "for some time."

Analysts say that currency controls, which would amount to taking the ruble off the open market, are now almost inevitable. But officials have denied such plans, and said the suspension of trading is temporary, as it has been the last couple of days.

The market should determine the ruble's real value, acting deputy Finance Minister Oleg Vyugin reiterated today, adding that could now be around 9.5 rubles a dollar.

However, Alexander Shokhin, the head of the pro-government Our Home Is Russia parliament faction close to acting Prime Minister Viktor Chernomyrdin, said the government may consider suspending the ruble's convertibility and instituting price controls to cope with the crisis.

Shokhin, the main candidate for the post of the Central Bank chairman to replace current chief Sergei Dubinin, also said some major commercial banks may be nationalized.

"Now we can't rely on liberal monetary approaches," he said at a news conference.

The financial crisis has so far had little effect on ordinary Russians, who don't own stocks or bonds or mutual funds. The anxiety some are beginning to feel comes largely from fear of inflation, which may rise in the wake of the government's decision to devalue the ruble.

"Prices on most things haven't risen much yet, but we are buying more just in case," said 51-year-old Galina Filatova, who runs a small candy shop. "Before, I might have bought one package of sugar, but now I'm buying three at a time."

The Central Bank said today that its hard currency reserves as of last Friday stood at $13.4 billion, down $1.7 billion in the week since Aug. 14. Overall since July, the Central Bank has pumped $8.8 billion into the Russian economy.

In street trading, the ruble fell below 10 rubles a dollar but it was difficult to buy any significant amount of hard currency.

Russian stocks continued their steep dive in thin trading. By early afternoon, the Russian Trading System index had dropped to 69.29 points, down 9.15 percent from its close Wednesday at 76.26 points.

Communists and other hardliners who dominate the Russian parliament urged the government today to pump more cash into the economy and provide social guarantees to state workers. Critics warned that the increase in money supply could again trigger the hyperinflation that plagued Russia at the start of its market reforms.

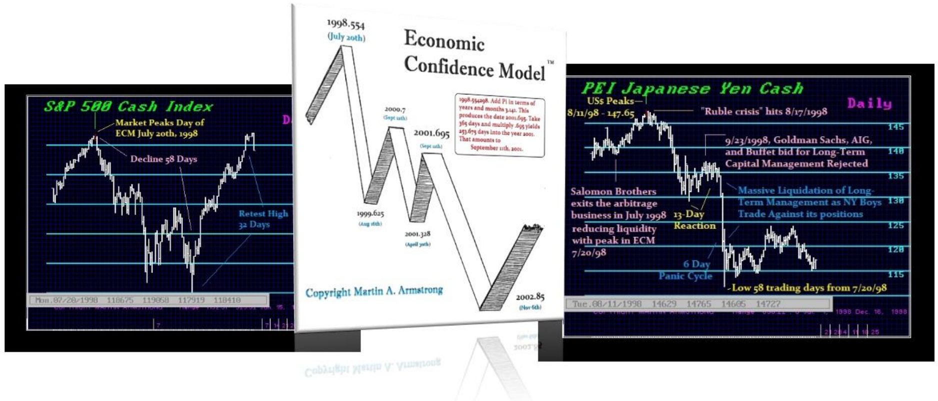
Chernomyrdin said his urgent talks Wednesday night with International Monetary Fund head Michel Camdessus did not address new IMF credits to Russia, news reports said. Camdessus reportedly assured Chernomyrdin that the IMF would support Russia.

Media reports said the Russian government was desperately trying to persuade the IMF and other Western lending organizations to deliver the whole $22.6 billion bailout package intended for this and next year as soon as possible.

Associated Press - August 27th, 1998

What distinguished that 1998 Liquidity Crisis was that the "Club" of NY bankers and hedge fund boys were all on the same trade as they always did. But because they believed the IMF and World Bank would be there without question, they were in up to the eyeballs. The capital flows began to sift in 1994 as SE Asia peaked. The bear market that unfolded went largely unnoticed until the Asian Currency Crisis of 1997 when the "club" attacked the currency pegs. The capital had already begun to move back to the European and US markets in anticipation of the coming Euro. They did not realize everything was connected.

1998.554 (July 20th) Precise Day of High in SP500



The 99.9% of fund managers lost their shirts on that capital shift because they were too busy bribing politicians and people in the IMF to secure that perfect guaranteed trade in Russia that they did not look at the markets technically. They completely misjudged the world economy thinking like Marx and Keynes that they could control it. The shift in capital and attacking the SE Asian currencies led to the idea that all emerging markets were risky.

With the Euro coming, the herd of little investors shifted their capital away from the funds heavily trading emerging markets. They were not "traders" but people who were engaged in reading the headlines that the euro would kill the dollar and the British pound. The bankers blamed me for their own stupidity and losses in Russia pointing to the London Financial Times Article of June 1998 warning Russia was about to collapse. The greed blinded them for they could not even see the average little guy and corporate risk managers reacted to the headlines and were moving the capital flows. That screwed the NY bankers big time on Russia for they just wanted to believe they could earn 150% with no risk for the IMF would be there.

Barry Riley

The rubble of the rouble

Europe should be worrying over Russia's troubles

Russia and its problems may seem remote to most of us – why, it is not even playing in the soccer World Cup – but its worsening crisis could be more important for the rest of Europe than we think. It depends, though, on whom you believe.

"No, Russia is not Europe's Thailand," declares Brian Mullaney, at HSBC Securities. Russian contagion will definitely not prove as virulent as the Asian phenomenon. But Martin Armstrong, at Princeton Economics, warns that an imminent Russian economic collapse is a bigger threat to the rest of Europe than the Asian slump. "The real crisis *is* in Russia," he insists.

Or is it? François Langlade-Demoyen, at Credit Suisse First Boston, even manages to find an optimistic angle. He says Russian turmoil and the associated capital flight "may well prove to be positive for European equity markets".

Certainly, the main continental European stock markets have flourished in recent months, even taking over the bull market's baton from Wall Street. With the first half of 1998 almost completed, the Europe ex-UK index is up 30 per cent, compared with 16 per cent for the US. The Pacific Basin index has fallen a further 12 per cent during the six months.

Indonesia ranks as the weakest stock market in dollar terms this year, but Russia's index decline of 59 per cent is scarcely better. Russia has escaped an Asian-style banking collapse, but it shares problems of rampant corruption and dependence on a shaky currency peg to the dollar. The latter has exposed Russia to the ill effects of a collapse in the oil price (which might better be viewed as a rise in the dollar), and the country's oil barons are said to want a big devaluation to restore profitability.

Devaluation is ruled out officially, though, because it would frighten the foreigners who provide almost a third of the government's $60bn of short-term finance. Although overall indebtedness is not high, its average term is very short and the government has to roll over an average of 8bn roubles each week (well over $1bn), which is why it hoisted interest rates temporarily – to an annualised 150 per cent, at one stage – last month.

A devaluation, incidentally, would also ruin the financial institutions which live dangerously off the speculative spread between dollar rates of 6 per cent and rouble rates roughly 10 times as high. But the rouble seems doomed, anyway.

Right now, Russian consumer price inflation is only about 7.5 per cent, but there is a recent history of hyperinflation and the rouble might go into free fall if confidence collapses. Although the International Monetary Fund agreed to release another $670m in short-term support on Thursday, a mooted $15bn package remains stalled; the IMF does not want to finance another round of capital flight, which has been running at $20bn a year – although flowing more probably into dollar cash and bonds than European stocks.

Such a shaky financial set-up can perhaps be held together in favourable times, when global investors have made money on some good bets and are willing to punt their winnings in other high-risk areas. Easy come, easy go; but stock market investors have faced the problem that while Russian corporate assets are often dirt cheap on fundamental criteria, it may be years before they lose their third world characteristics – the stock market fell 39 per cent in May alone.

Is Europe threatened? The trade impact of a Russian meltdown would be serious for some east European countries for which Russia, on average, accounts for a tenth of exports. western Europe's involvement is fairly negligible, however, except for Germany where Russia represents about 5.5 per cent of overall trade. Germany also is the most heavily involved financially, with some $30bn lent to Russia; indeed Moody's, the rating agency, downgraded Commerzbank this week because of rising European risks.

These economic and financial hazards look containable. Regardless, Germany's DAX index has been hitting all-time highs this week. The political risks are more worrying, though: it could turn out that we are only a Boris Yeltsin heartbeat away from the collapse of the economic reform process.

The Americans are busy with trouble spots elsewhere. Having diplomatically lost at soccer to Iran, they are now wooing China and addressing the problems in Asia, which is so much more important to them than Russia. Within the past week or so, it has appeared that safe haven flows into the dollar have strengthened, helping to send Wall Street sharply higher despite the imminence of a poor second-quarter corporate reporting season.

Europe's bull market is intact, but it has very much depended on flows from the US, with American investors convinced that sluggish Europe might somehow embrace US-style restructuring. If more Americans come to perceive, like Martin Armstrong, that western Europe is threatened on its doorstep by a kind of Indonesia bristling with nuclear weapons, they might take their money home, or perhaps send it back to a restabilised Asia.

Those suitcases stuffed with Russian mafia dollars are unlikely to provide an adequate substitute, bulging though they are reliably said to be.

> We could be only a Boris Yeltsin heartbeat away from the collapse of the economic reform process

London Financial Times - June 27th, 1998

What they failed to understand was that the world economy is a financial sea of capital. When there is a high tide and capital is flowing in, they expect it will never end. The tide changes and you then move to low tide and the capital retreats outward. This was the first part of the liquidity crisis that would look at Russia as they did SE Asia emerging markets. The NY boys always think that they can just bribe their way into the guaranteed trade.

They failed to understand that when it is high tide on one side of the globe, it is low tide on the other. All the bribes in the world will not change the international capital flows. That is a lesson they still refused to learn even 25 years later. The tide will always change and capital will begin retreating on a global level and that is when the liquidity crisis emerges.

Today, the capital is shifting both away from long-term and government debt in general. We have the worst possible crop of world leaders who have no understanding of even how the world economy functions any more than the NY bankers who try to bribe their way to endless riches.

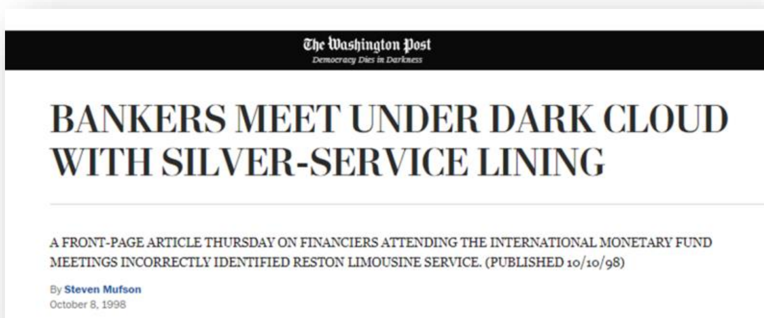
Ironically, with George Soros and boys attacking the currency pegs in SE Asia, that also undermines all investments in the region and thus even pension funds were forced to sell assets. Therefore, the "Club" had also shorted the Asian currencies in 1997 and made a fortune on that manipulation all joining in together. Prime Minister Mahathir Mohamad of Malaysia, lashed out at George Soros saying that:

> *"For them wealth must come from impoverishing others, from taking what others have in order to enrich themselves. Their weapon is their wealth against the poverty of others."*

However, as smart as these people think they are, they did not understand that attacking SE Asia, they would set off a contagion in emerging markets that then undermined their own guaranteed trade back in Russia. They simply have always looked at each trade on its own and have always lacked any comprehensive models on a global scale.

Due to all the hedge funds and bankers who pursue their guaranteed trades, undermining the markets, and are not traders nor fund managers, failed to even consider risk management in Russia. They were just greedy raw manipulators who think their bribes will protect them. They were all on the same trade of Russian debt for they were the GKO market and there was **NO BID** to sell to when they panicked. They began selling every position elsewhere including the Japanese yen in Asia. It was a **LIQUIDITY CRISIS** on a grand global scale because of the way these people trade like packs of wolves in search of their financial utopia.

The "Club" needed to raise money to cover their losses and if Russian bonds were unsalable, all they could do was sell everything else. Thus, a LIQUIDITY crisis defies fundamentals because they are selling **ONLY** because they need the money elsewhere not based on local issues.


The Washington Post
Democracy Dies in Darkness

BANKERS MEET UNDER DARK CLOUD WITH SILVER-SERVICE LINING

A FRONT-PAGE ARTICLE THURSDAY ON FINANCIERS ATTENDING THE INTERNATIONAL MONETARY FUND MEETINGS INCORRECTLY IDENTIFIED RESTON LIMOUSINE SERVICE. (PUBLISHED 10/10/98)

By Steven Mufson
October 8, 1998

Edmond Safra (1932–1999) of Republic National Bank put on a fancy dinner for the IMF in October 1998 I believe in hopes of convincing them and all the politicians to bailout all the "Club" covering their losses. I was invited and it was all about trying to convince me that they had the IMF in their pocket and that would rescue the day. The pitch was Russia had all these nukes so no way could the IMF allow Russia to just collapse.


Edmond Safra
(August 6, 1932 - December 3, 1999)

This created a serious yet difficult situation for the Russian government. What was going on was that Russia had been running a huge budget deficit to pay for public services. They had borrowed $40 billion by issuing three-month ruble

Treasury bills – GKOs. This is what the "Club" had bought with visions of endless money backed by the IMF.

Bribing the IMF to prevent a default was the scheme. They were all on this same trade expecting free money. As Julius Caesar (100–44BC) once said, people believe what they want to believe. The "Club" indeed wanted to believe in their guaranteed trade at a 150% annual return without end.

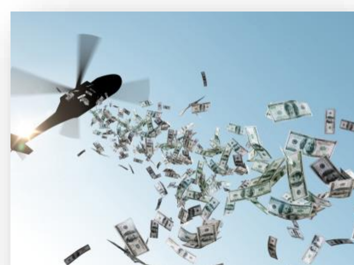
The "Club" kept trying to get me to join because we were the largest institutional adviser in the world with the equivalent of 50% of the entire US National Debt under contract back in 1996. But my business was to help clients. Theirs was to trade against their own clients. Hence, I refused to join and warned them that my computer projected this was going to collapse.

They did not want to hear that. They were CONVINCED paying bribes would create that **GUARANTEED TRADE**.

The 2022/23 Liquidity Crisis

The liquidity crisis this time is far more **COMPLICATED** and much more serious. This one is erupting in our own backyard and it is a monetary system killer – not just leveraged trades in banks. This time we do not have the traditional speculative boom of the "Club" blowing up some market or using helicopters to deliver their bribes everywhere. Oh, this is the perfect storm, but carried out by our fearless and braindead world leaders in the face of it, they may appear to be producing inflation, but there is much more to it than just that.

The "Club" is not free and clear. They have been ramping up the derivatives to increase their yields. There has been a new approach of the "new way" to make money. They have been investing their capital post-1998 Russian Financial Crisis and the collapse of Long-Term Capital Management in 1998, using derivatives in a clever way – or so they thought.



The "new way" to make money was to receive equity returns but using equity swaps. They hedge off the investment keeping the slice of the yield, and then use real cash investing that into private equity and commercial real estate. That led to the liquidity crisis of 2007-2009.

Liability-Driven Investment

The Liability–Driven Investment (LDI) has been a popular product sold by asset managers such as BlackRock, Legal & General and Schroders to pension funds. Like the Mortgage–Backed CDOs, this time it's not so different. Again, they are constructed using derivatives to "match" assets and liabilities so there is "no risk" of a shortfall in money to pay pensioners on an ongoing basis.

Following the collapse of the Mortgage–Backed nightmare in 2007–2009, they turned to LDIs and by the end of 2011, the market reached £400 billion pounds in the UK. As the market appeared stable, which it will typically do for 8.6 years (2020), the trend starts to change. The market had quadrupled reaching £1.6 trillion pounds by 2021, as reported by the Investment Association.

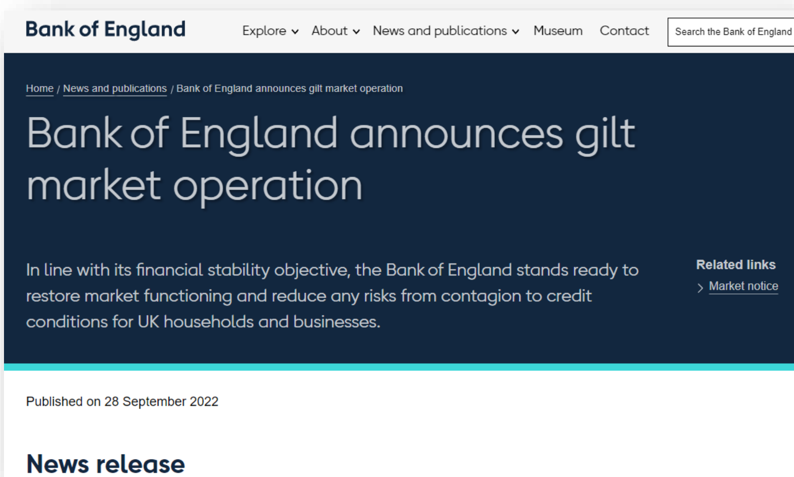
As with any derivative position, you must post collateral and service that collateral requirement in the face of normal market fluctuations. Pension funds had to post margin cash but this time the market went against the client as interest rates rose.

As inflation has soared, central banks are held responsible by politicians to fight inflation with the only tool they have – interest rates. As central banks were compelled to raise interest rates and have been choreographing that move to warn those like pension funds that they must take heed of the trend. But nobody listened.

The Pension funds have had plenty of time to understand the trend and to adjust their investment strategies appropriately and to filter that information into their collateral requirements. They only know how to trade the "new way" and are ignorant of the risk for even the 2007-2009 crisis is 13 years ago and often they fire the traders involved denying the expertise to ever accumulate.

They clearly did not comprehend the real trend and were looking only at the tree and ignoring the forest. The war in Ukraine is inflationary on top of the COVID induced shortages that the politicians and the press will never acknowledge.

UK bond yields skyrocketed in just a few trading sessions, triggering emergency collateral calls for pension funds to cover their LDI-related derivatives in a matter of hours. It seems that the traders they have today lack the experience of the '90s or even just 13 years ago and are used to orderly markets with negative interest rates since 2014 – a 5,000 year low.



A panic was unleashed not much different from 1998 where this time the pension funds had to struggle to find the cash in a matter of hours. This forced them to start dumping gilts, which in fact came back and put even more pressure on upward rates forcing bond prices even lower. Like 1998 and the Russian Financial Crisis, since the "Club" were all on the same trade and they became the market, there was nobody to sell to when they needed to dump their positions. Here too, the Pension funds held government debt and they were the market. They failed to understand that sometimes the crisis is on the government side of the asset sheet.

This is what forced the Bank of England to pledged to buy gilts worth £65 billion pounds first to provide someone to buy when there was **NO BID**, and in hopes of reducing the supply of the long gilts to firm up the market. The BoE had bought in less than £5 billion by October 21st, 2022 showing they were trying to clearly underpin the market. But central banks cannot control the fiscal side of the balance sheet.

Nonetheless, this by no means implies that interest rates will now decline. The BoE has stuck its finger in the dike, but it has not reversed the trend. The entire monetary system is under stress and the Ukrainian war will kill the Western economy. It reminds me of King Croesus who asked the Oracle of Delphi if he attacked the Persians would he win. She said a great empire will fall. It was his – not Persia. We are focused on beating Russia and not our own vulnerability.

The BoE even extended its emergency bond-buying program to include index-linked gilts. The Fed did a similar action when it began directly buying the Mortgaged Backed Securities. Nevertheless, the pressure continued to build on the pension funds as margin calls continue to rise and the BoE cannot continue this policy without forcing the government to abandon issuing long term debt.

We find that this crisis, like that of 1998, is witnessing the contagion effect whereby other assets like property and corporate bonds are being sold to raise cash for margin calls. The worse this becomes, the greater the liquidity crisis into 2023.

Pointing the Finger

NEW YORK POST

Liz Truss resigns as British prime minister

By Jesse O'Neill October 20, 2022 | 8:48am | Updated

UK Prime Minister Liz Truss has resigned after a little over a month in office, becoming the country's shortest-serving leader ever.

UK Prime Minister Liz Truss has resigned after a little over a month in office, becoming the country's shortest-serving leader ever.

This is a developing story. Refresh page for updates.

Reuters

The pundits naturally pointed the finger at Liz Truss. These people would be blaming Noah for the flood for if he had not built his arch, it would not have rained. As Maggie Thatcher once said, if she walked across the Thames River in London, they would report it was only because she could not swim. So, here we have the blame pointing at Truss.

Rishi Sunak, the new PM, has already promised "integrity, professionalism and accountability" in contrast to the chaos of Boris Johnson. Sunak resigned under Johnson and he objected to Truss' policies. He is a multimillionaire and a former hedge fund boss. So, he at least understands more about the markets than a career politician. He was Treasury chief under Johnson and his resignation in July in protest of the doomed leadership of Boris Johnson, was a major turning point leading to Johnson's eventual resignation 48 hours later. Whether he brings any real expertise to this crisis remains to be seen.

Had the BoE not intervened on September 28th, 2022, yes, the LDIs would have lost all the value, but it would have most likely also caused Blackrock and other market-makers into a crisis as well. The BoE explained in a letter the first week of October 2022 that its £65bn bond-buying program would be unwound "*once risks to market functioning are judged […] to have subsided*".

Therefore, because of these derivatives to enhance yield are leveraged, without the emergency intervention by the BoE the pensions using LDIs would have a negative net asset value and would unleash shortfalls in the collateral posted to banking counterparties and the entire system would have collapsed.

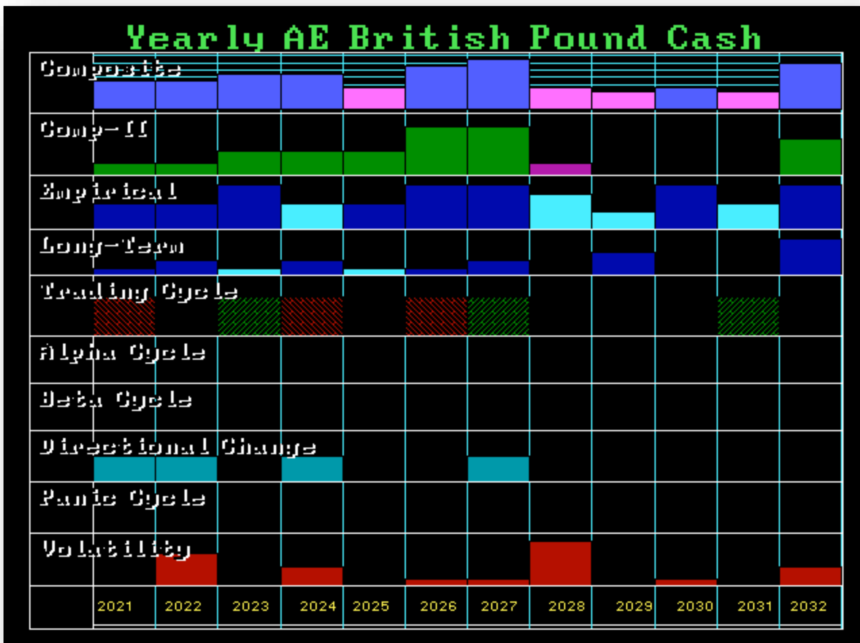
Sir Jon Cunliffe, of the Bank of England commented:

> *"While it might not be reasonable to expect market participants to insure against all extreme market outcomes, it is important that lessons are learned and appropriate levels of resilience ensured."*

While many market pundits and the press are pointing the finger at Liz Truss and her economic policy, there was a liquidity crisis brewing well before that or even the BoE announcement. It remains a question if Rishi Sunak who was head of Treasury understood the trend or became just a career politician. UK bond prices were indeed collapsing and yields soaring after the government's so-called "mini" Budget on September 23rd, 2022 pledging extensive tax cuts for businesses and high-income earners.

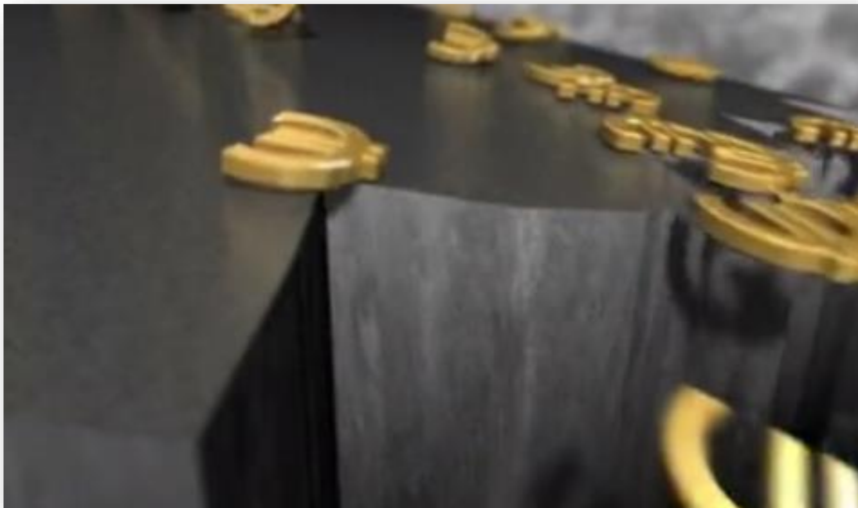
However, as we can see, the British pound fell that week by about 4%, while long-term gilt yields rose by 30 basis points during the day. Nevertheless, the British pound began its waterfall decline from the May 2021 high. It merely fell to the technical support level and nothing revealed anything other than the trend was clearly set in motion prior to Truss.

This is typical that they will look only at the day and blame that immediate news. They never look at the trend in motion or even why Truss was adopting a very clear and desperate attempt to reverse the economic decline in Britain. By blaming Truss, that merely ensures that the long-term trend will remain in motion. Raising taxes and regulation will **NEVER** stop the economic decline underway in Great Britain.



Since Rishi Sunak criticized Truss' economic plan, it is unlikely that we will see any policies that will reverse the decline and fall of Britain. The final capitulation of Great Britain will most likely unfold in 2036. The high volatility came in on target in 2022 and the Empirical Model warns also of 2023. It is unlikely that Sunak will look at the long-term trend. Hence, the liquidity crisis will not be resolved with tricks and schemes for the immediate action.

Fiscal Mismanagement

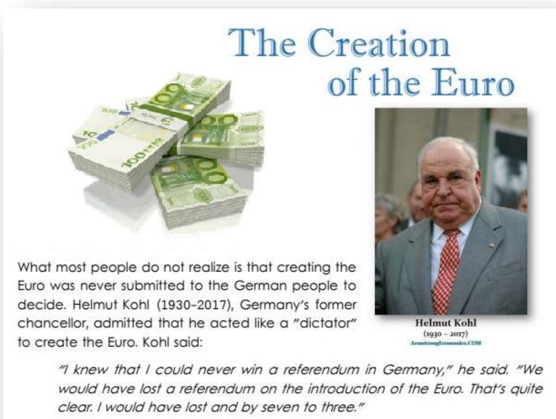


We are told the standard line that inflation is tied to is the relentless creation of money. Somehow, we blame the paper money and then point the finger at the central bank. This is like blaming the gun for shooting someone rather than the person who pulled the trigger – politicians.

Many who seek positions of leadership no longer even know how to run for office without always relying on some Marxist theory that they will rob someone else and hand it to you if you vote for them. Nobody runs for office without promising some change. There is no incentive to properly manage the economy as long as the country is under the thumb of Marxism. Unless we break that link, there is never going to be hope of achieving a stable economic environment to pursue your own dreams and to protect your family.

We are all now plagued by fiscal mismanagement created by Marxism. Our politicians no longer even know how to run for office without bribing the people for their votes with free gifts. It might as well be vote for me and you will get a free toaster.

The fiscal mismanagement of governments is squeezing the very life blood out of our currencies, particularly in the euro. They think they can retain the EU by force and threats when they never designed it properly from the very beginning. They refused to consolidate the debts because German Chancellor Helmet Kohl just refused that idea and put German into the euro without ever allowing the people to vote. He admitted that he even acted as a dictator because he would have lost 7:3.



The West needs Russia to be evil so people do not look at Brussels or Washington. It was Aristophanes (446–386BC) who commented: *"Under every stone lurks a politician."* Ukraine wants bailouts of its state pensions for government employees that was broke even before the war. All they do is keep asking for tens of billions every month.

However, liquidity conditions have been declining in the face of endless deficits, and now pouring money hand over fist into Ukraine, the most corrupt government in the world, with endless talk about World War III and how Russia is losing so now is the time to kill it when it is down. In the face of this endless rhetoric, we are supposed to shun all real investment and keep buying government debt as they squander money on war with no profit and lining the pockets of politicians everywhere while inflation soars thanks to shortages and sanctions.

The liquidity crisis has been accelerating as the Federal Reserve has been raising rates in defense against inflation. Because emerging markets sold debt in dollars to save interest, now US pension funds have lost big also on emerging market investments on top of being told to exit Russia.

Nonetheless, as I have been warning, this inflation is based upon shortages – not speculation. Raising interest rates will not reverse the trend. Liquidity has been declining since the start of the year. The sanctions on Russia have sent a red flag warning that the West's arrogance disregards international law concerning Russian individuals. They can easily apply that to any other country now. Hence the reaction from Saudi Arabia joining the BRICS after President Joe Biden actually threatened them as if he alone possesses power, further divides the world economy. It is rapidly becoming SWIFT v China's CIPS.

There is simply no intention of EVER paying off the national debts no less even returning to a balanced budget for a single year. Yet we pretend the system can be sustained indefinitely promising to rob one group for the benefit of another and always starting endless wars to keep the people distracted and divided to prevent any uprising.

Fiscal mismanagement is basically the norm and those in governments have no desire to change the system when they only look to today and never to the full real long-term consequences of their actions. Who cares about that? The reply I hear for years is they may not be in office by then. It will be someone else's problem.

They are pushing their agenda without considering the long-term implications. Even in creating the euro, when I warned the debts had to be consolidated, all they said was that they first had to create the euro, and then worry about the debt later, which has never happened.

The Liquidity Crisis Goes Global

The liquidity Crisis has been confusing to many and some are even pitching Janet Yellen's scheme to buy back Treasuries as a second central bank that only further distorts what is really taking place. The Fed under QE was creating cash, the Yellen plan is a swap. The problem simply is that there is a major crisis unfolding in the debt markets that they will no doubt blame me for when sovereign debt goes into default. They will claim I have been warning our institutional clients about this outcome and caused it. So, as always, shoot the messenger rather than deal with the real issue.

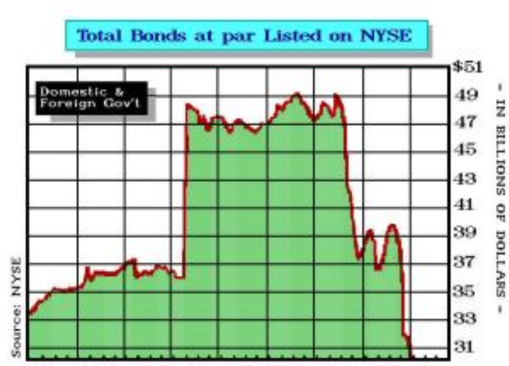
As the fiscal mismanagement continues and the stupid COVID restrictions that locked everything down and wiped out the supply chain set in motion the shortages, then shutting down fossil fuel production with no alternative in place, followed by starting this proxy war with Russia and removing them from SWIFT, was only topped by imposing sanctions on Russia and its private citizens abandoning international law. Everything upon which civilization was founded has been overturned. It is no wonder that international capital is starting to wake up and smell the roses for this is a funeral of our world monetary system. In the process, serious capital realizes that the worst investment is government debt – i.e., the liquidity crisis goes global.

Our world leaders are trapped and they know that. They have abandoned all rational fiscal management for they know the end game is simply to default. You can buy plenty of bonds on eBay for when there is a new government, they never pay the debts of the previous.

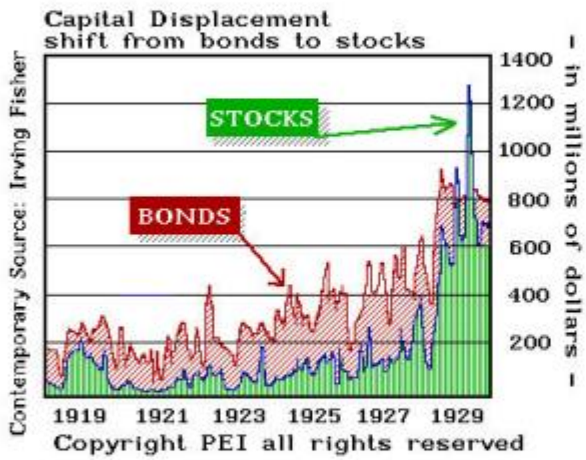
The US did that as well, creating the US dollar and not paying the debts of the Continental Congress. So, you can buy all their notes for framing these days. You can buy the bonds of many countries and frame them up as well. We use to have a hallway in our Princeton office with about 30 such bonds all framed up to show people what happens at the end of the day to all sovereign debt.

The difference between public and private debt is straightforward. If General Motors fails, the assets are sold off and you still get some portion of the original investment back. When a government fails, there is nothing you will ever get back. It is as simple as that.

The Sovereign Debt Crisis was set in motion a long time ago, but our model had warned that 2015.75 was the peak in government confidence. The decline and fall of debt began with the ECM turning point 2020.05, which even marked the beginning of COVID. It will be like a domino – one pushes over the next and a contagion unfolds with the USA being the last. The second largest debt is Japan and that is one market that should not be overlooked.



This Sovereign Debt Crisis has been brewing since 1955. These things typically unfold from the peripheral economies moving backward into the core economy. This is usually the pattern because capital within the core economy was attracted outward. During the Great Depression, the 1931 Sovereign Debt Crisis was so bad because the banks sold the



debt in small denominations to the general public. Foreign debt was listed on the New York Stock Exchange and collapsed.

We are always looking at capital shifting between sectors both internationally as well as domestically in each country. The rise in the Dow compared to world indices is suggesting a similar shift is starting in capital flows that took place in 1927. We can see that toward the tail–end of the bull market in 1929, ONLY then did new issue investment in stocks exceed debt. The smart money begins to smell a rat. This causes capital to shift into all tangible investments and that includes both gold and equities

By claiming Yellen is converting the Treasury into a second central bank only demonstrates they do not understand either the Fed or the Treasury. The Fed can create money because it has that power. The Treasury does NOT have that power and issues the debt – not cash. Therefore, Yellen's proposal is by no means a central bank. She is manipulating the yield–curve which is far more dangerous long–term.

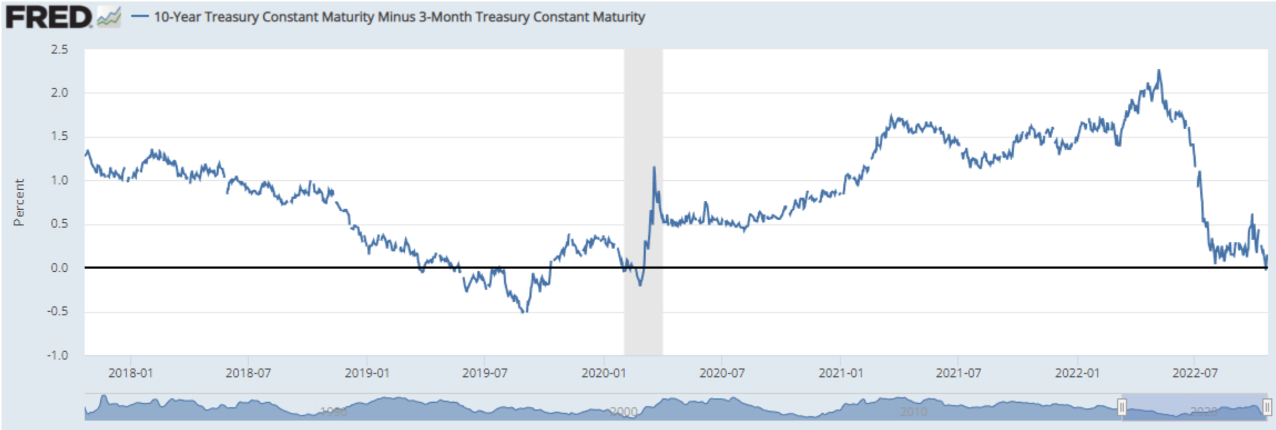
The proposal of Janet Yellen will be the final straw that breaks the camel's back – or in this case the world monetary system. Like the negative interest rate idea, they only look at the immediate issue. Nobody ever considers how do you then end that manipulation. It is like entering a trade with no idea where to put a stop loss or what is your objective on the upside.

Yellen is assuming this is a short-term problem where there is too much long-term debt that institutions have leveraged and will be compelled to sell should interest rates rise further. Her answer is to replace the long-term debt with short-term. Yet, what if that assumption is wrong and the confidence in governments overall is declining because of even the prospect of an endless war with Russia? The debts will explode thanks to war and serious capital will move short-term – not long-term. The interest expenditures will rise sharply when funded short-term.

That was precisely what took place during the Russian 1998 Financial Crisis. They were funding their debt, on the advice of bankers, short-term GKOs. Interest rates soared reaching 150% and Russia defaulted with the collapse in the ruble. This is what Yellen will do to the United States assuming this is just a short-term fix. What makes stability is the long-term funding – not month to month.

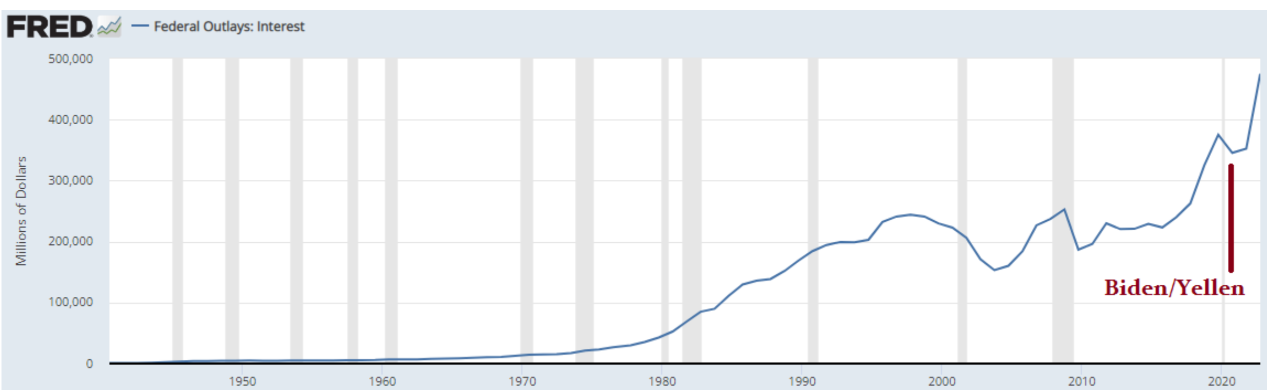
The liquidity crisis is emerging from the decline in the demand on the long end BECAUSE smart money sees that we are headed into war with the prospects of a major default as the end-game. Every world leader is pushing for war. Never in history since WWII has this ever-taken place. They are pushing for war for this is their way out of the debt crisis.

The Treasury cannot create money – that is the Fed which has the power to create elastic money. Yellen is NOT trying to turn the Treasury into competition against the Fed and those putting out that nonsense obviously do not understand the dangers of shift to short-term debt funding. Volatility will rise exponentially. Despite what people bullshit about the Fed, it is independent. We are witnessing a repeat of the 1951 crisis where the Fed refused to keep supporting the US debt market when the government wanted to then enter the Korean War.

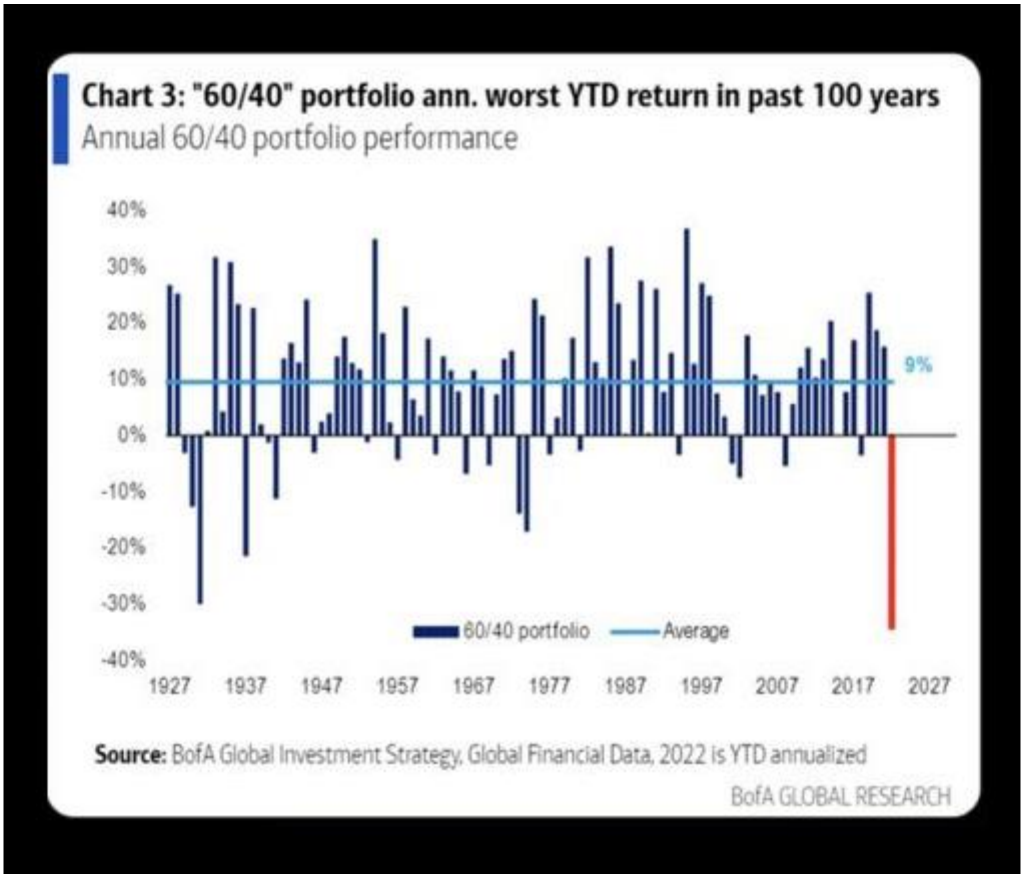


We can see what Yellen is concerned about. The yield curve is approaching inversion warning of a recession in addition to a debt crisis. Yellen's scheme is just another quick fix, but one that is a total disaster if we are looking at war and further inflation.

By purchasing in the long-term and swapping it with the short-term, this was the very same scheme as QE where the Fed bought the long-term in an effort to reduce mortgage rates and stimulate the economy. The crisis here is the collapse in overall confidence in the government resulting in the collapse of liquidity. Yellen will now trap the US government into an escalating interest expenditure crisis only further validifying the forecast of Socrates.



The interest expenditures have already exploded since Biden and Yellen have taken charge. This latest scheme she is pushing will send interest expenditure through the roof for inflation will rise sharply forcing the Fed to keep pushing up rates that will then blow out the fiscal spending. What she is also not looking at is that even interest on credit cards is based on the short-term rates – not long-term. Yellen will set in motion further STAGFLATION as consumer and small business funding will accelerate all to help the bond traders.

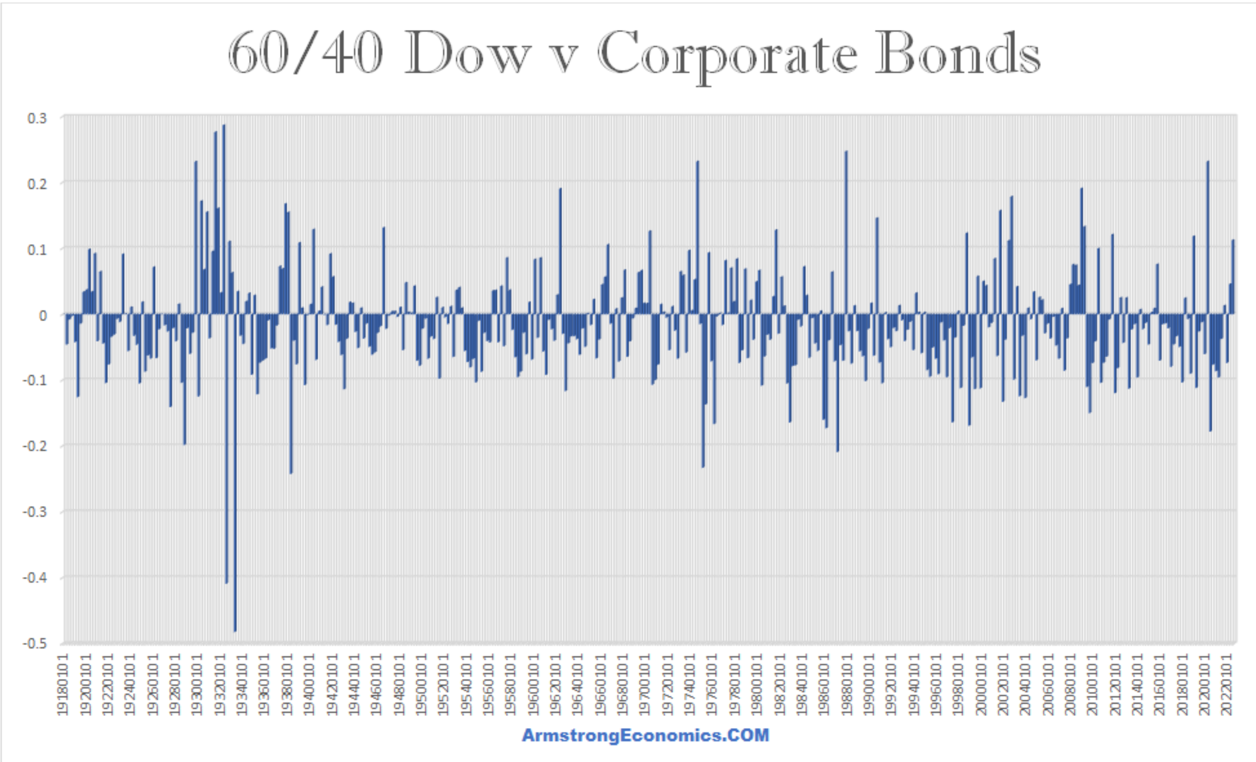


Nobody in government will even listen anymore. They do not want to hear that they are the problem. This is why we must crash and burn. The game is over. Even the old rule of 60% investment in bonds v 40% equity is bankrupting pension funds and this is not getting any better. Bank of America Investment Strategy has shown the disastrous performance of the 60/40 portfolio which has now even exceeded the losses of the Great Depression.

This illustration demonstrates the debt crisis better than anything else. The Great Depression saw the collapse in foreign bonds that contributed to wiping out 9,000 US banks. This is clearly warning that this Sovereign Debt Crisis is just getting started.

The 60/40 strategy involves constructing portfolios which are allocated 60% to equities and 40% to bonds. The simplest implementation of the strategy would involve buying the S&P 500 and U.S. Treasurys. You could also build a globally diversified 60/40 portfolio by including international stocks and bonds as well. That has been the worst performing strategy thus far. The net results must be reflected back into dollars if you are an American investor, meaning you will also have a currency risk that has been overlaid onto the entire portfolio.

The main purported advantage of a 60/40 portfolio asserts that the bond allocation moderates the risk of the portfolio. That is, it allows investors to sleep at night as many say. However, when we are dealing with a sovereign debt crisis, all bets are off on government debt providing any stability.



Here is the 60/40 Portfolio since 1918 but using the Dow Jones Industrials (60%) and the Dow Jones Corporate Bond Index (40%). We can see that we have a better result with corporate bonds more recently. The traditional flight to quality that is to government debt this time, may lead to a significant trap.

Moreover, Janet Yellen is by no means considering what would happen if the Treasury buys in a substantial portion of long-term debt and swaps it for short-term and she tried to reverse as short-term rates rise and there is still no bid on the long end.

Paul Volker at the helm of the Fed back in 1981, lifted the usury laws that had capped interest rates for consumers in his fight against inflation, not only doubled the national debt thanks to 14% interest rates short-term, but consumers still more than 40 years later are often paying 25% interest on credit card debt. The long-term implications of Yellen's proposal will ruin the consumer to help the bond traders.

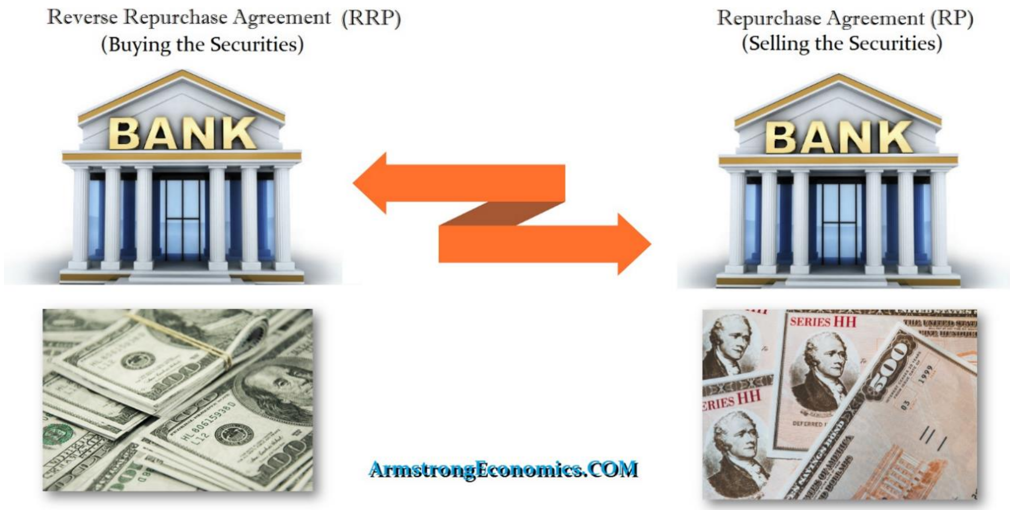
Yellen Worries Over Loss of 'Adequate Liquidity' in Treasuries

Christopher Anstey
October 12, 2022 · 1 min read

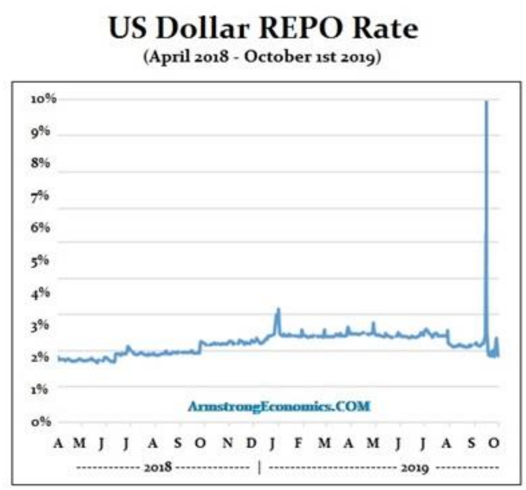
(Bloomberg) -- Treasury Secretary Janet Yellen cited concerns about the potential for a breakdown in trading of US Treasuries, as her department leads an effort to shore up that crucial market.

Our models clearly showed that mapping the deviations in yields from a theoretical fair value model that the market pundits arbitrarily expect, liquidity is still at the high-end from the peak in the Pandemic Levels of March 2020. That was when there was a flight to cash and that was the trend which then prompted the Fed to start buying securities to stabilize the market. Yellen has already expressed concern here recently that the balance-sheet capacity of broker-dealers to engage in Treasury market making has not expanded in line with the increase in the overall supply of Treasuries.

What she has overlooked is also the reduction in dealing lines in the REPO market which was the first crack in the system back in September 2019. The dealers refused to make markets for the European banks fearing that a failure would not be covered by the EU. That forced the Federal Reserve to step in to stabilize the international financial REPO market.



The REPO Market is where banks will post AAA securities and borrow against them for the night. Normally, the big banks like J.P. Morgan provide over $300 billion in liquidity daily which allows banks, hedge funds, and institutions to raise cash for the night. When the banks withdrew from lending into the REPO Market, the Fed was compelled to inject cash and thereby lending into the REPO market to prevent the short-term interest rate from rising as it did to 10% on September 17th, 2019 (2019.712).



A Reverse Repo (RRP) injects the purchase of securities with the agreement to sell them at a higher price at a specific future date. The party selling the security to raise cash in the market agrees to repurchase the securities (repo) from the lender at a future point in time which is known as a Repurchase Agreement (RP). Repos are classified as a money-market instrument, and they are usually used to raise short-term capital.

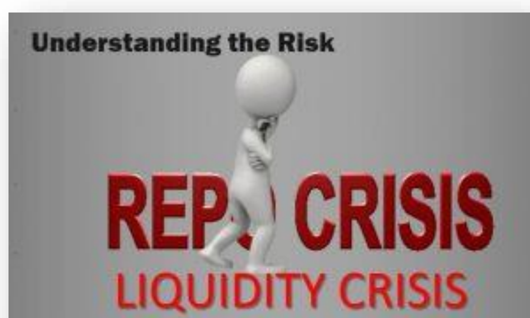
This is not a market that is open to the public. However, it is the basic market where everything else is factored on top of this rate. If the Fed did not intervene, then short-term rates would rise and instead of the consumer paying even 25% on a credit card, it would have jumped as much as 10%. Therefore, the REPO Crisis of 2019 was the first crack in confidence whereby banks declined to make markets fearing the counterparty risk.

The Quantitative Easing (QE) by the Fed is different from the proposal of Yellen. The Fed created money to buy in the debt whereas Yellen is just swamping maturities. In both cases, they are trying to lower long-term rates and provide more liquidity to the long end. The Fed was desperate to save the banks and began buying even the mortgage-backed securities when the crisis hit in 2007. Initially, by purchasing the 30-year bonds, the Fed was trying to lower the long-term rates and here, Yellen is trying to buy-in the long debt due to the lack of buyers.

The Fed only can set the short-term rates – not the long-term, which is always subject to the free market conditions. The Fed has no direct power over the long-end of the curve and neither does the Treasury.

Here we have Yellen saying that she will buy the long-end and swap it permanently for the short-term. This is a highly dangerous assumption just as the ECN moved to negative rates in 2014 and became trapped wiping out its pension funds. Yellen is seriously wrong assuming that this is merely once more just a temporary aberration in the financial market.

The 2007-2009 Financial Crisis they now call the ***Great Recession***, took place because the credit rating agencies were bribed to rate Mortgage-Backed Securities as AAA thereby qualifying them to be placed in the REPO MARKET. When the loans could not be repurchased, suddenly this is what brought down Lehman Brothers and Bear Sterns in the blink-of-an-eye. This is why the first sign of panic had taken place in the REPO MARKET for that is where it all began in February 2007.

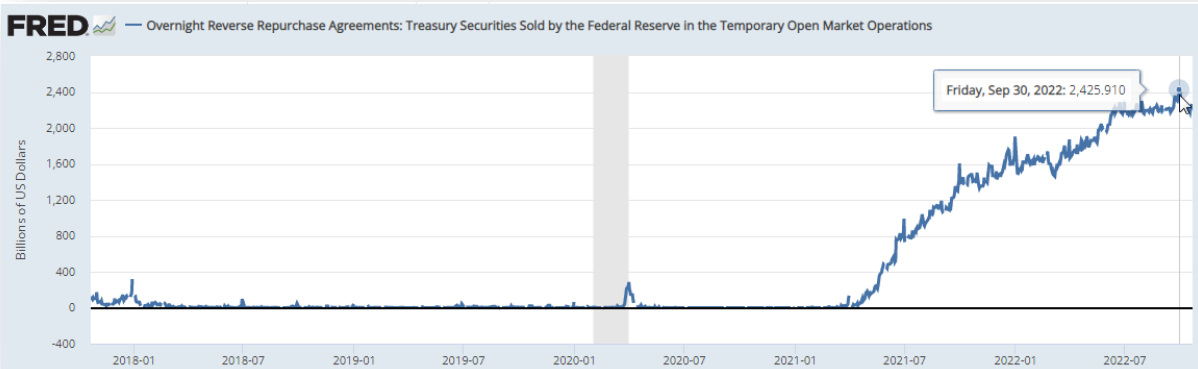


What caused the overnight lending market to unexpectedly seize up in September 2019 was simply the collapse in confidence in the European markets and banking system. There's good reason to believe JPMorgan Chase (JPMC) to have pulled out of the REPO market, forcing the Fed to step in directly.

JPMorgan Chase is the largest bank in the U. S., and had about $1.6 trillion in deposits at that time. It was one of the big banks that provided much of the loans in the overnight money markets. However, with Merkel declaring Germany would not bailout Deutsche Bank, then no American bank could take on counterparty risk from Europe.

The crisis in liquidity erupted simply when American bankers declined to lend to any European bank overnight. Because of the European Banking Crisis, banks just did not trust banks. The Fed has had to step in to be the neutral lender **NOT** because of a crisis in the USA, but because of the collapse in confidence in Europe's banking system as a whole.

Currently, there's been yet another record-high uptake in the amount of cash investors have been stashing in a major Federal Reserve facility. The Fed parks excess cash reserves from banks in the Overnight Reverse Repurchase Facility. A Reverse Repo, or RRP, helps the central bank conduct monetary policy by selling securities to counterparties to be bought back for a higher price later on thereby providing a short-term loan facility.



The RRP facility was hit with $2.425 trillion on September 30th, 2022, higher than the previous record of $2.359 trillion set on September 22nd, 2022. This suggests that indeed we are witnessing Investors are sticking with cash (dollar) in order to ride out the current economic uncertainty roller-coaster.

Clearly, there is a wind in the air of a sovereign debt crisis with this endless dumping of billions of dollars into the Ukrainian economy all to wage war against Russia. We will not see any return to normal anytime soon. Even looking at the US Treasury debt levels, it has climbed by about $7 trillion since the start of Biden's Administration. The liquidity crisis that Yellen is talking about is that the balance sheets of the primary dealers is unable to handle the vast amount of new debt pouring into the economy.

We have the independence of the Fed clashing with the fiscal side and never will the two agree. The politicians act as if inflation is all the Fed's problem and the only tool the Fed has is interest rates. The real problem here is that the debt of governments is expanding so rapidly, the dealers simply lack the balance sheets to absorb that debt waiting for buyers to come and take the bonds off their hands.

After a year of steep losses in the bond market, caused by rising inflation and Fed interest-rate increases, this has led many of major participants in the debt market, banks and life insurers, to back away from the debt market.

Office of the Comptroller of the Currency

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OCC Bulletin 2020-52 | May 15, 2020

Supplementary Leverage Ratio: Interim Final Rule

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Summary

The Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) today approved an interim final rule that permits depository institutions subject to the supplementary leverage ratio (SLR) to elect to temporarily exclude U.S. Treasury securities and deposits at Federal Reserve Banks from the SLR denominator. The interim final rule strengthens the ability of electing depository institutions to continue taking deposits, lending, and conducting other financial intermediation activities during this period of stress caused by the coronavirus, also known as COVID-19. The interim final rule is in effect through March 31, 2021.

To

Chief Executive Officers of All National Banks and Federal Savings Associations; Department and Division Heads; All Examining Personnel; and Other Interested Parties

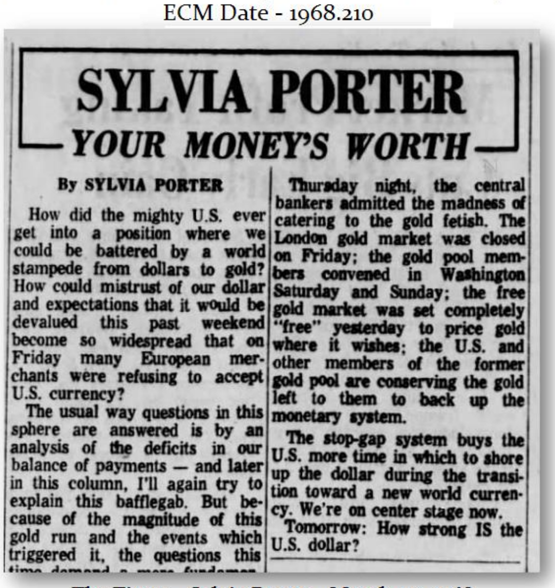
The Supplementary Leverage Ratio (SLR) generally applies to financial institutions with more than $250 billion in total consolidated assets. It requires them to hold a minimum ratio of 3%, measured against their total leverage exposure, with more stringent requirements for the largest and most systemic financial institutions.

SLR was introduced by the Basel Committee in 2010 and it was finalized in January 2014. Basel III reforms were aimed at banks and how they hold their exposure to derivatives. This is also impacting liquidity when derivatives are being used to leverage the yield.

While it is true that the U.S. banking organizations have long been subject to a leverage capital requirement based on the ratio of a banking organization's Tier 1 capital to its average total consolidated on-balance sheet assets. This is the U.S. leverage ratio. SLR is different insofar as it takes into account both on-balance sheet and certain off-balance sheet assets and exposures.

Big financial institutions haven't been as willing to serve as market-makers, burdened by the so-called supplementary leverage ratio, or SLR, which requires that banks set aside capital against such activity. In addition, the Federal Reserve has begun cutting some of its holdings of Treasuries, a process known as quantitative tightening that many fears will make liquidity issues even worse. During the Pandemic, the Comptroller of the Currency relaxed the SLR allowing the exclusion of US debt from the reserve requirement.

Two-Tier Gold Begins March 18th, 1968
ECM Date - 1968.210



SYLVIA PORTER
YOUR MONEY'S WORTH

By SYLVIA PORTER

How did the mighty U.S. ever get into a position where we could be battered by a world stampede from dollars to gold? How could mistrust of our dollar and expectations that it would be devalued this past weekend become so widespread that on Friday many European merchants were refusing to accept U.S. currency?

The usual way questions in this sphere are answered is by an analysis of the deficits in our balance of payments — and later in this column, I'll again try to explain this bafflegab. But because of the magnitude of this gold run and the events which triggered it, the questions this time demand a more fundamen-

Thursday night, the central bankers admitted the madness of catering to the gold fetish. The London gold market was closed on Friday; the gold pool members convened in Washington Saturday and Sunday; the free gold market was set completely "free" yesterday to price gold where it wishes; the U.S. and other members of the former gold pool are conserving the gold left to them to back up the monetary system.

The stop-gap system buys the U.S. more time in which to shore up the dollar during the transition toward a new world currency. We're on center stage now.

Tomorrow: How strong IS the U.S. dollar?

The Times - Sylvia Porter - March, 19, 1968

The curious factor here is the timing. The United States departed from the gold standard on March 18th, 1968 by eliminating the mandate that U.S. currency deposits be backed by the U.S. gold reserve at the rate of 25 cents per dollar. It also eliminated the requirement for backing notes with gold. That was the first crack in the Bretton Woods Fix-Rate Monetary System.

Nixon closes the Gold Window
August 15th, 1971 Beginning
the Floating Exchange Rate System

This was followed by the complete collapse on August 15th, 1971 (1971.621). That is when President Nixon closed the gold window. Curiously, this was 3.41 years from the first crack.

Interestingly, 3.14 years from that first crack in the world monetary system brings us to 2022.852 – which also brings us to November 7th, 2022. Not only do we have the midterm elections on November 8th, 2022, but that same week is also 8.6 months from the start of the Ukraine war on February 24th, 2022.

Even looking at the timing for the Federal Reserve, the week of the 7th of November also shows up. At the very least, this suggests that the Fed will be in conference over the financial crisis that is unfolding. They had a meeting scheduled ideally for November 1st and 2nd. Therefore, the timing between the two cracks that brought down Bretton Woods appears to be pointing to November as well.

The Fed has been offloading its Treasuries from its balance sheet at a pace of $60 billion a month. As the largest buyer of government debt, its decision to step back means that dealers are going to be expected to absorb the additional supply that's returning to the market. That's a job that will become increasingly difficult the longer the Fed's balance sheet shrinkage goes. The amount of debt coming to the market under the Biden Administration will continue to escalate dramatically. There is zero intention of fiscal management whatsoever. The political goals take precedent. There is absolutely no possible way that we will see this liquidity crisis lessen.

Moreover, Biden is committing US ground troops to Ukraine, increasing the probability of war directly with Russia which will be joined by China and North Korea. For the first time in almost 80 years, the US has moved and deployed to Europe the elite 101st Airborne Division "Screaming Eagles", consisting of 4,700 soldiers. They were sent to Romania on the border with Ukraine. The Biden Administration is intent upon conquering Russia, destroying its ability to produce energy for the climate change agenda, while instructing Zelensky not to negotiate with Putin under any terms. The Ukrainian people are simply the collateral dame this time to win what history will call the Climate Change War.

In April 1942, the Department of the Treasury "requested" that the Federal Reserve formally committed to maintaining a low interest-rate peg of 3.8% on short-term Treasury bills. The Fed also implicitly capped the rate on long-term Treasury bonds at 2.5% by establishing would was in reality the first QE operation. The goal of the peg was to stabilize the securities market and allow the federal government to engage in cheaper debt in order to finance World War II, which the United States had entered in December 1941.

To maintain the peg, the Fed was compelled to surrender control of the size of its portfolio as well as the money stock. In order to maintain the low interest rate to fund the war, the Fed began buying large amounts of government securities thereby creating cash and increasing the money supply. Since the Fed was committed to a specific interest rate. Under the agreement, the Fed had to keep buying securities even if the members of the Federal Open Market Committee (FOMC) might have preferred a different monetary policy and in the face of a lack of private bids.

Marriner Eccles (1890–1977) was the Fed chairman at the time. He favored financing the war with tax increases coupled with wage and price controls. However, his fiscal austerity was opposed by other board members of the FOMC who took the position that winning the war was the most important goal, and that providing the government with cheap financing was the most effective way for the Fed to support that goal.

Following the war, most politicians were concerned that a recession would unfold with the decline in war spending that might lead to another Great Depression. However, the result was inflation rather than deflation mainly because all the European capital migrated to the United States and policymakers did not understand capital flows. Inflation became a much greater concern. During 1946, inflation was rising and continued into 1947 and Consumer Price Index (CPI) inflation was 17.6%. After 1947, inflation subsided initially dropping back to 9.5% by 1948.

The Fed's primary concern turned from funding the war to dealing with the post-war inflation. President Truman and Secretary of the Treasury John Snyder wanted to maintain the low interest-rate peg in order to protect the value of war bonds. This was led to the war between the White House and Treasury against the Federal Reserve. With the Korean War then emerging, the Federal Reserve broke publicly with the Treasury and White House and declined to support the government debt all over again. Consequently, Yellen's push to buy in long-term debt and swap it to short-term new issues, is in light of the Fed reducing its balance sheet and conflict in policy once again.

When could this happen?

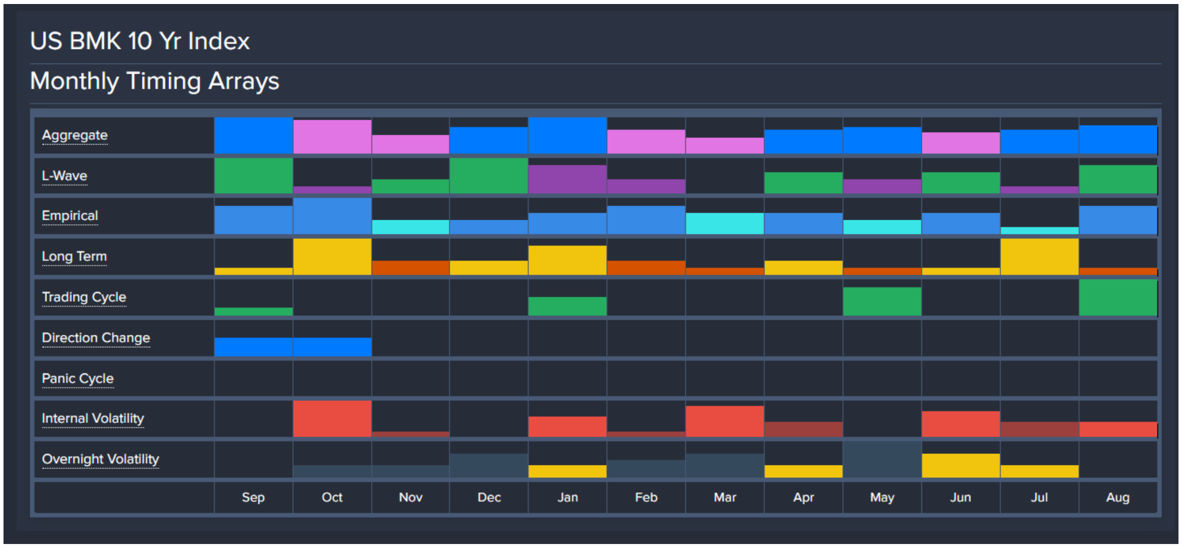
The prospect of Yellen pulling off this new strategy will most likely increase dramatically after November 2022. It appears perhaps as early as January but no later than April/May 2023. The Treasury could be compelled to launch this as the Biden Administration seems intent upon engaging in a direct war with Russia. The systems are already in place to conduct such operations. Therefore, it could launch it even by the first week of November without a hitch. It is merely a question of market dynamics.

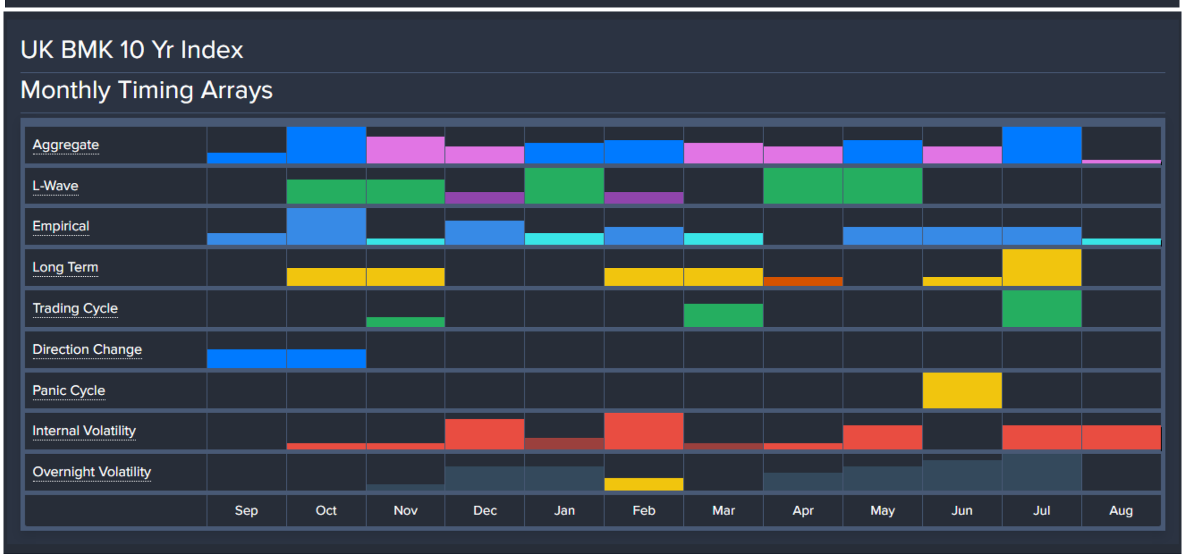
The only other means to stabilize the lack a liquidity would require the Federal Reserve to adjust the terms of its standing repo facility. They would need to allow banks to park their Treasuries overnight in exchange for cash thereby increasing the attractiveness to hold US Treasurys. The Securities and Exchange Commission is proposing moving more Treasuries trading activity to existing clearinghouses which would expand the market liquidity the hope.

Market participants are also expressing hope for other changes. They want the Fed exempting Treasuries from the supplementary leverage ratio altogether. This, they argue, would give banks far greater incentives to hold government debt. They believe that the banks under the minimum threshold should be exempted and thus increase the potential holding base.

Hence, capital is retreating out of confusion creating a period of declining confidence. Between the push for climate change shutting down fossil fuels before viable alternatives are available unleashing declining economic growth in the face of rising inflation (STAGFLATION), mixed with the push for war with Russia, the prospects of buyers of government debt are not as stupid as the politicians assume. This is not a scenario that justifies buying government debt.

It's a Matter of Timing





When we look at the arrays and compare the US to the UK, we can see that the crisis in the UK was a target for a turning point whereas in the United States, the spike in volatility has been met with Yellen's proposal for the Treasury to manipulate the yield curve. We can see that the targets in time remain January followed by April/May in 2023 insofar as the United States is concerned. Note that in the UK, there is another spike in volatility during February with a turning point at that point in time as well. It certainly appears that we have a differential move between Europe and the United States and that implies unfortunately the risk of war in addition to the rising discord inside the EU.