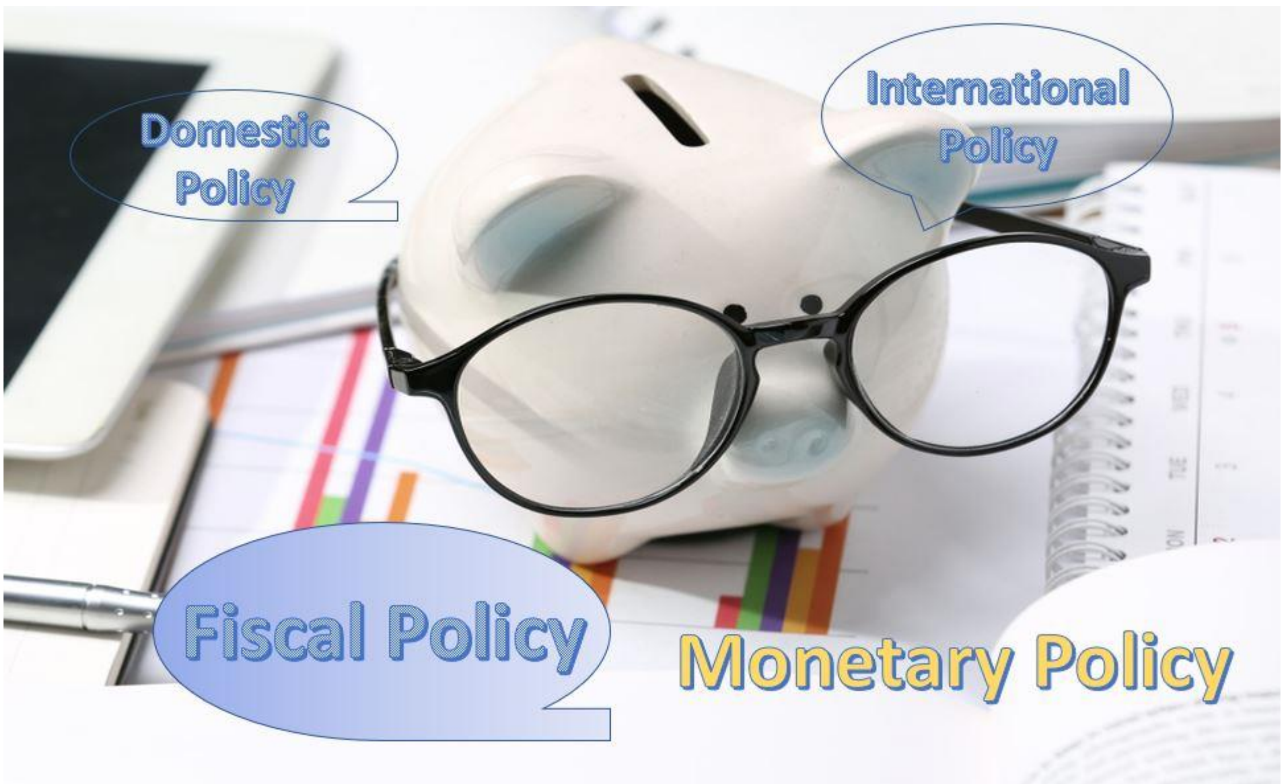
Interest Rates What Now



The Sovereign Debt Defaults

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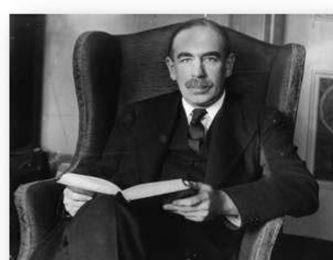
Introduction

The armchair economists and pundits love to criticize Federal Reserve Chairman Jerome Powell, slamming him it seems for either not raising rates fast enough to stop the inflation, or for raising rates and creating a recession. At the center of all this criticism is the simple fact that it is constructed on the assumption that the Fed even has the power to manipulate the economy through thick and thin. Those are the theories of John Maynard Keynes (1882–1946) who in the end, admitted that his own theory was wrong.

> **"I find myself more and more relying for a solution of our problems on the invisible hand which I tried to eject from economic thinking twenty years ago,"**



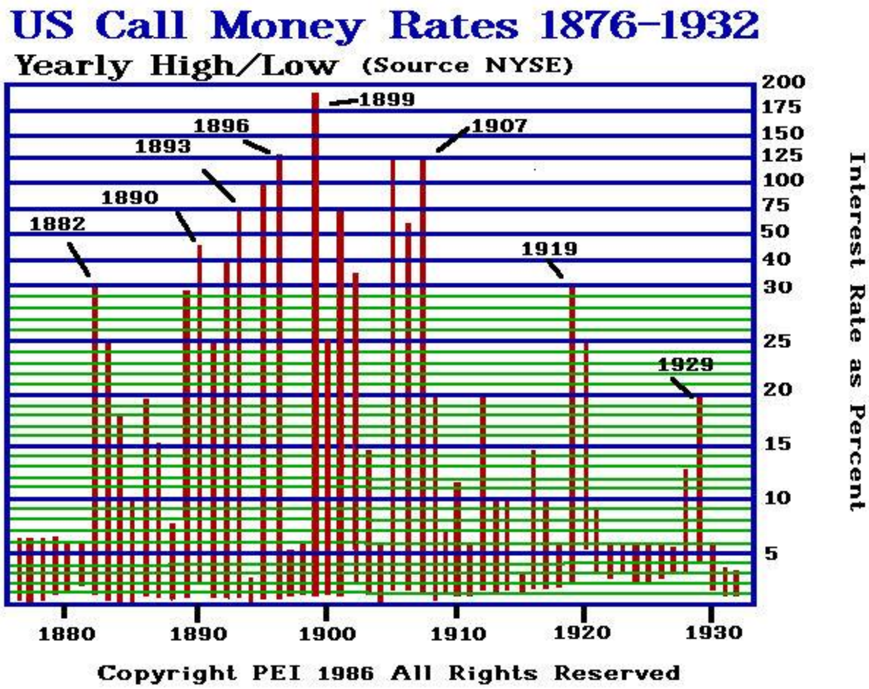
John Maynard Keynes (1883-1946)

Yet before Keynes died, in 1946 he told Henry Clay, a professor of social economics and adviser to Bank of England, that he had hoped Adam Smith's Invisible Hand would help Britain (Source: after the War, **The World Bank, the IMF and the End**).

Many criticize Powell and insist that he is putting on the brakes in this U.S. economy harder than any Fed chief in more than 40 years all to kill raging inflation. When you are at 0.25%, then a move to 1% is a 400% increase. The problem has been that the central banks lowered rates way too far and, in the process, they wiped-out traditional investment in bonds and forced many into stocks, real estate, and investment funds simply to get yield.

The obsession with interest rates being the key to the economy has **NEVER** been correct to begin with. The assumption developed post-Great Depression and was only looking at speculation, assuming that people were borrowing and thus leveraging the stock market higher and raising interest rates would reduce that leverage. They never considered the borrowing needs of small business nor the old claim to save for retirement and live off the interest.

Relying on this same theory, they lowered interest rates to negative because the lower interest rates did not "simulate" borrowing and they decided to PUNISH people for actually saving money. They would be charged the rate of negative interest rates just for having cash.

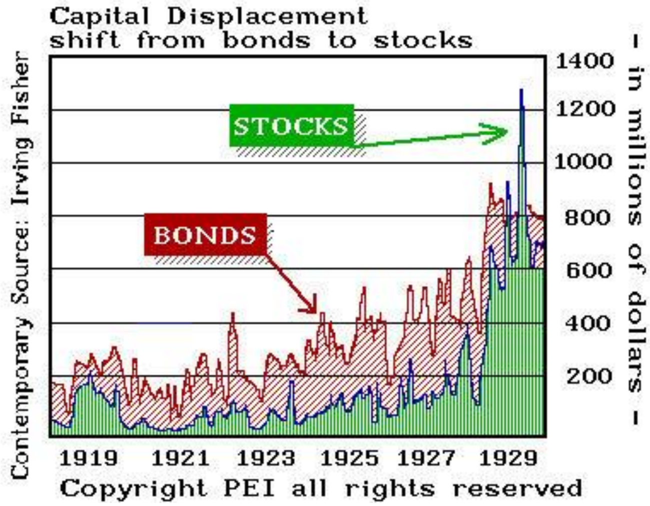


As I have said many times before, the stock market **NEVER** peaked with the same level of interest rates twice in history. What these people have never understood is that people will borrow and pay 20% if they think that they will double their money. It has always been the sheer differential between expectation and the rates of interest. People were not borrowing in the EU and expanding **BECAUSE** they did not believe in the future of the EU. Those in power only look at this from their own self-interest.

Secret Meetings of the Central Bankers Germany - USA - Britain - France

On July 1, 1927, Montagu Norman of Britain was accompanied by Hjalmar Schacht, head of the German Reichsbank. They were joined by Charles Rist, governor of the Banque de France. All three went into conference with Benjamin Strong to discuss the weak reserve position of the Bank of England and the capital flight from Europe to America. It was hoped that lowering US interest rates would deflect the capital inflows from Europe.

What we must understand is there comes a time when people see government as the threat rather than the private sector. We can see after the four main central banks created the first G4 meeting in 1927 convincing the Federal Reserve to lower interest rates in hope of deflecting the capital flows back to Europe, that is when even more capital fled from Europe which resulted in the 1931 Sovereign Debt Crisis, but it also resulted in the shift in capital investment from public to private.



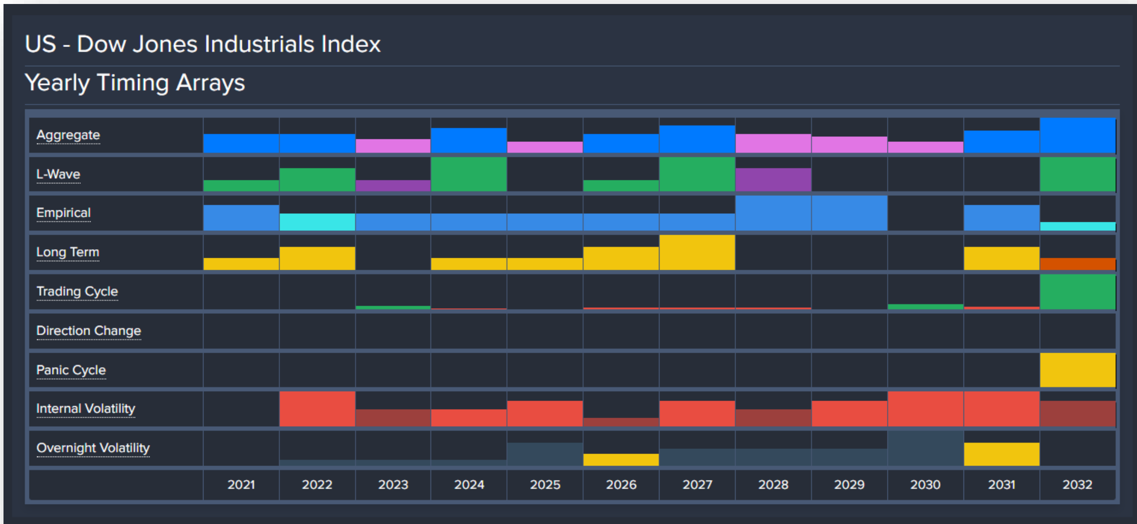
We can see here that after that G4 meeting between the central banks of USA, Germany, France, and Britain on July 1st, 1927, the capital abandoned the bond market and fled to equities. This is why the Dow Jones Industrial Index exploded from 166 at the close of June 1927 to 386 in September 1929. This is the pattern we are looking for where the amount of money in bonds at the end of 1921, the total market cap of the US share market was $53.3 trillion compared to a $31 trillion national debt federally. The total state level debt is $12 trillion, and municipal debt stands at $2.2 trillion, bringing it to just under $35 trillion. We have at last seen the total value of US equities to surpass the sovereign debt level.

The Federal Reserve has only Keynesian Economics as its tool. It cannot control what Congress does. It had no ability to deal with the COVID lockdowns that create the shortages and undermined the entire global supply chain. Then we have Biden blaming Putin for the inflation he and the Democrats have created.

Congress traditionally blames the Federal Reserve for inflation. They can spend whatever they want and then argue the Fed's role is to neutralize their spending. This has left the Federal Reserve in an impossible position for it is totally incapable of stopping inflation created by shortages.

We are facing a sovereign debt crisis, not simply because of hard-money theories of paper money v gold. It really does not matter what the money is, the fiscal irresponsibility results in the same outcomes regardless of the monetary system. The Sovereign Debt Crisis of 1931 or 1940 when debts are owed in gold anyhow.

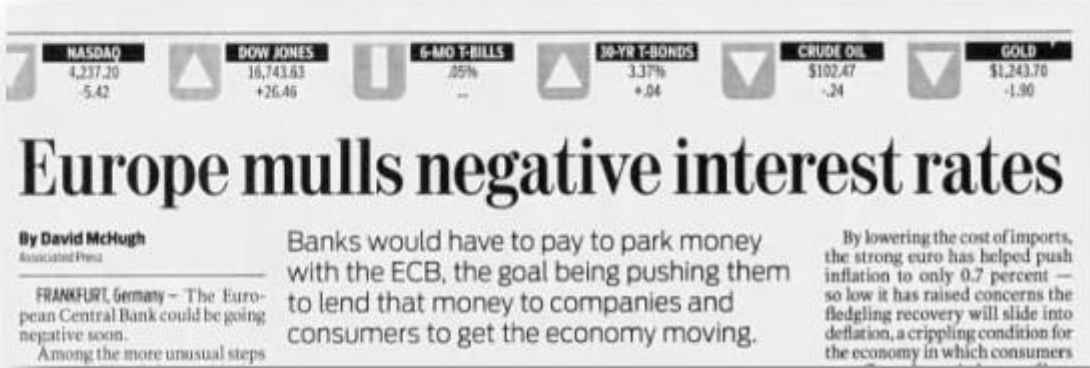
It's a Question of Time



Indeed, it's just a question of time. When we look at the Forecast Array for the Federal Reserve Discount Rate out for 12 years, the computer is already now showing a Panic Cycle in 2032. The major turning points along the way are 2022, 2024, and 2027. The low bars tend to be reactions such as 2023, 2025, and 2030. The high volatility was due here in 2022 and it will rise sharply from 2028 into 2030.

The general view has been that the Federal Reserve, was set to approve another large interest rate increase on November 1st to 2nd FOMC meeting. There has been a shift in the debate over how much higher the Fed can safely push borrowing costs up followed by the question of when and how the Fed will be able to slow the pace of future increases.

The expectation has been that the Federal Reserve would most likely provide a signal at its November policy meeting as officials weigh what some see as growing risks to economic growth against a lack of obvious progress in lowering inflation from its pandemic-related surge.



NASDAQ	DOW JONES	6-MO T-BILLS	30-YR T-BONDS	CRUDE OIL	GOLD
4,237.20	16,743.63	.05%	3.37%	$102.47	$1,243.70
-5.42	+26.46	--	+.04	-.24	-1.90

Europe mulls negative interest rates

By David McHugh
Associated Press

FRANKFURT, Germany – The European Central Bank could be going negative soon.
Among the more unusual steps

Banks would have to pay to park money with the ECB, the goal being pushing them to lend that money to companies and consumers to get the economy moving.

By lowering the cost of imports, the strong euro has helped push inflation to only 0.7 percent — so low it has raised concerns the fledgling recovery will slide into deflation, a crippling condition for the economy in which consumers

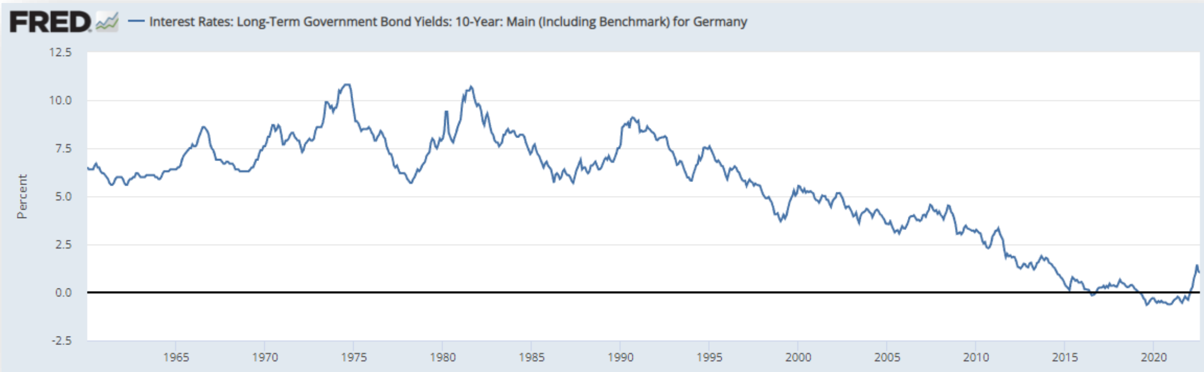
Associated Press - June 3rd, 2014

Meanwhile, the Federal Reserve has become the central bank of the world by default. The European Central Bank (ECB) lowered interest rates to negative on June 5th, 2014 and was never in a position to raise them upward until 2022. In the process, the ECB wiped out all the pension funds, who by law, had to have generally at least 70% government bonds. They also sent a signal to retired folks to stop saving money for a rainy day.

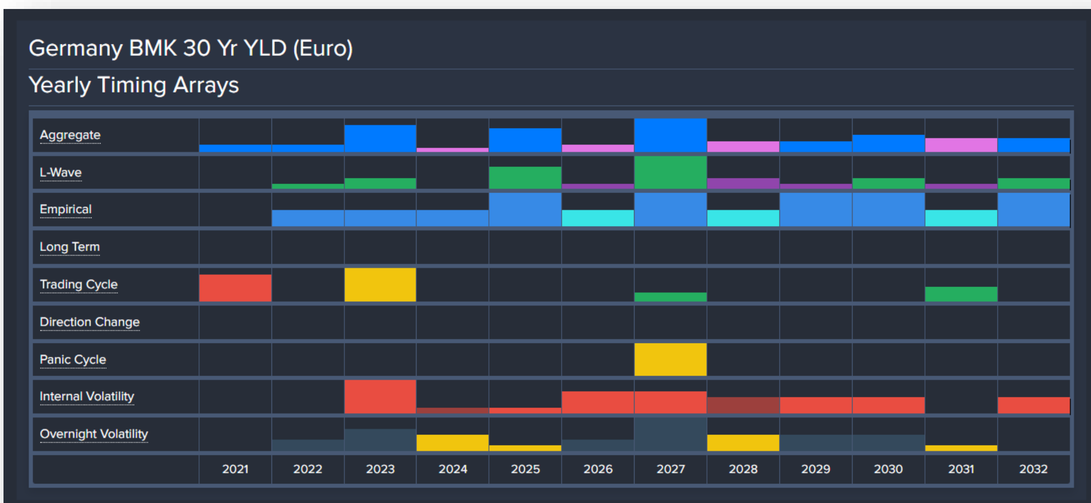
Ideally, the Fed may halt raising the interest rate after the November 1–2 meeting. However, the array targets October but the FMOC meeting was the next day. While the Fed has been looking at the inflation rate to justify raising the rate, it appears that this may be the last hike for now. With the prospect of war coming in 2023, the worst period will be the March–April–May next year. That is where we have a Directional Change in March with high volatility. We can see the debt crisis globally begin to materialize by that time with some sovereign defaults outside of the USA.

In the current auction, the Fed did not buy any 2-year notes showing that the demand is strong on the short end. There was enough demand from other sources thanks to this liquidity crisis where uncertainty prevails the in the future. The long end is in trouble, which is why Yellen is talking about the Fed buying back 30 years and replacing them with short-term.

As clouds continue to gather over Europe's economy, the European Central Bank has followed the Keynesian Model for central bankers have nothing else. They will raise interest rates to reduce inflation, but that comes from the Great Depression when the "demand" was all private. Today, governments are the biggest debtors and raising rates **NEVER** effects politicians. They will never spend less because of higher rates. They will just create bigger deficits and raise more taxes. But the debt keeps growing from government and the economic growth declines. Inflation caused by shortages and then war, is never going to be something any central bank can prevent.

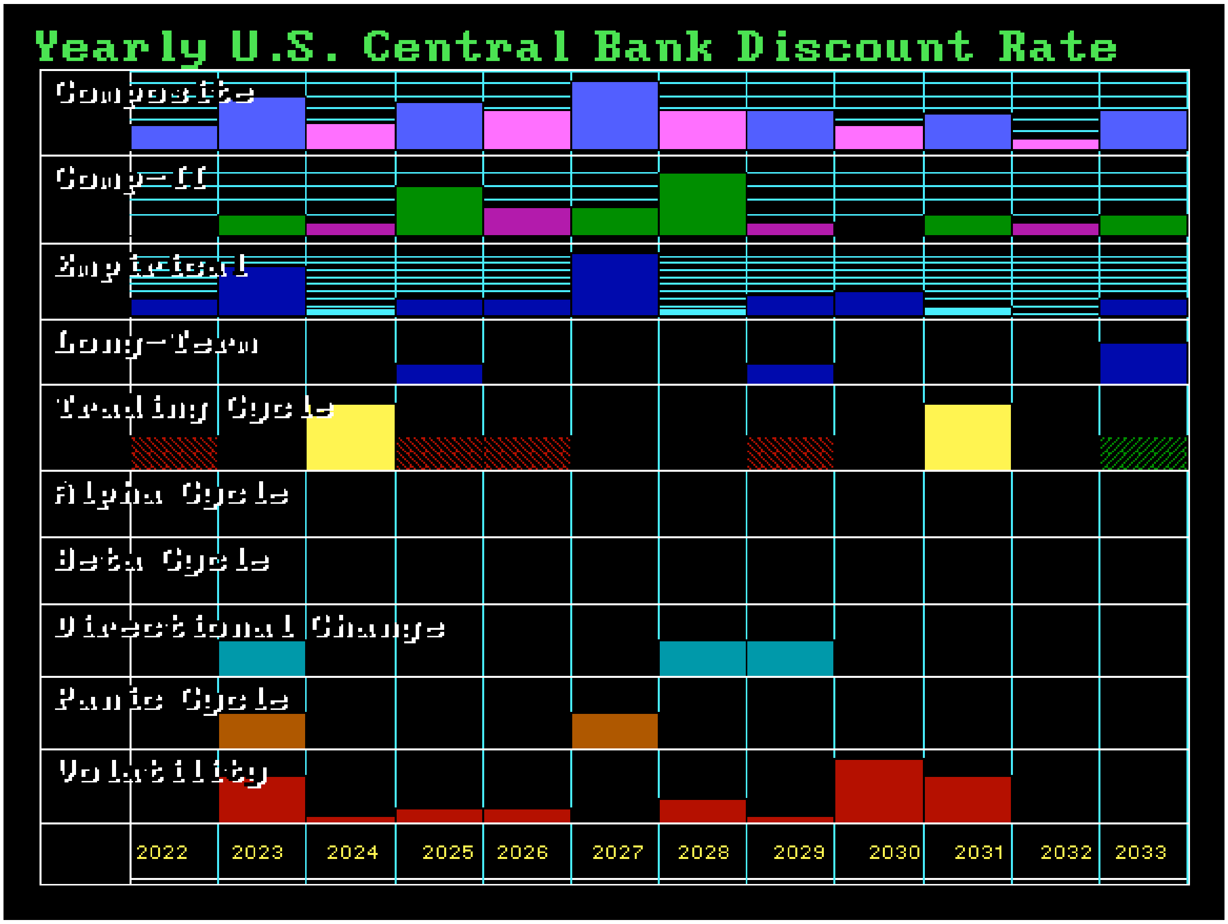


In Germany, the actual high in interest rates on the 10-year took place in September 1974 at 10.8% whereas the 1981 high was only 10.6%. Germany did not follow the path of Paul Volcker who took rates up to 14% in 1981 and set in motion the dollar rally into 1985 and the solution became the Plaza Accord and the formation of the G% (now G20).



The German 10-year rates has already placed itself in a position whereby we will elect at least 3 Yearly Bullish Reversals at the closing of 2022. We can see higher volatility into 2023, but when we look off into the post-2024 era, it still appears to be a strong probability of wild prices and a Panic Cycle in 2027 hinting that this may erupt as a full-blown World War III as Russia, China, Belarus, North Korea, and Iran, just for starters, all join together against the West.

Conclusion



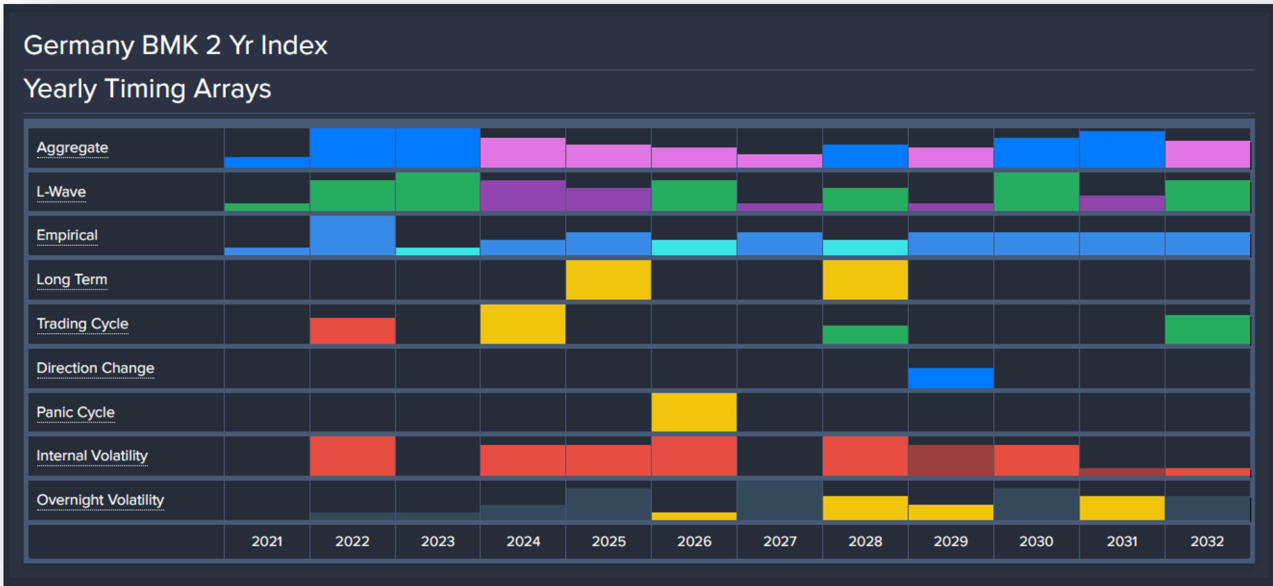
The Crisis we face in interest rates stems from the collapse in Keynesian Economics whereby the central banks have totally lost control over the economies. Raising interest rates cannot stop inflation that is set in motion by shortages. As we can see from the Forecasting Array, next year, 2023, is a Panic Cycle in central bank benchmark rates.

It appears that 2023 will not just see the rise in civil unrest and international war, but with April/May being 31.4 years from the fall of the Soviet Union, either Putin must get more aggressive or he will be replaced by real hardliners who realize that this is really a war to defeat and conquer Russia by the United States and NATO. Indeed, exceeding 5% on the Prime rate for the close of 2023 will warn of a possible rally 7.25% to 8% in 2023. Event the 2-year rate has the potential to rise to 7.5% on government bonds.

Conclusion

Clearly, looking at the 2-year rate we can easily see that there has been a technical breakout pointing to a change in long-term trend. When we look at the timing array on the 2-year, here too we see 2023 as a key turning point, The Directional Change was on target for 2021. There are no Panic Cycles showing up here in the 2-year.

Conclusion



When we look at the German 2-year, here too we see a turning point in 2023. However, note the Panic Cycle in 2026. It certainly implies that the midterm elections will most likely pan out as our computer has forecast and that there will NOT be a major Red Wave. The downside of that means that the Democrats will now become emboldened in their Woke policies and that includes pushing for war against Russia.

The confidence level may hit the Biden Administration first and then it appears that the prospects of war in Ukraine engulfing Europe takes of a whole new meaning as panic cycles begin to appears post-2024.