Where Weakness Lies

6-14-14

The ratio of central bank balance sheets to GDP is about 25% in the US, UK and Eurozone, and more than 50% in Japan. The US Treasury has sold some of the securities it purchased as part of the TARP bailout, and the Federal Reserve had discussed a plan to liquidate much of its $4.3 trillion balance sheet over a three year period. This week Yellen now discounted that plan saying they expect to hold those securities for many more years.

Unlike the other three nations the European Central Bank built up its balance sheet by using stored away existing cash rather than opting for the printing press like the US, UK and Japan. It's now tried everything but the press to goose the Eurozone economy and Draghi has said he will do anything if that fails. Interesting to note that the Eurozone STOXX 600 has risen 43% since he made the "do anything" announcement 2 years ago while the actual economies of those nations have continued to stagnate if not sink.

While the ECB continues its policies of dishing out liquidity to the upper echelon while inflicting austerity on the bottom rung the outlier nation of Europe has depended on easing loan requirements to augment Bank of England purchases, and has now been warned by the IMF of a housing bust possibility.

Japan has pursued a totally ridiculous policy of inducing monetary inflation while at the same time jacking up the national sales tax by 60%. It then pats itself on the back for boosting the economy in the first quarter (sales tax increase instituted on April 1) and after that last-chance-to-buy boom the economy is weakening. No doubt their expected revenue increase due to the sales tax increase will not be achieved much like in France where a predicted increase of 30 billion euros came in at 16 billion.

Then we have the US. It is gradually reducing it's securities purchases now standing at $45 billion a month. Sure enough, when the foot backs off the pedal, the economy starts slumping. Thus the promises to keep interest rates low and hold on to securities. They bought the things to pump currency into the economy; selling it siphons that off, but continuing to hold them threatens an increase in long term interest rates. It's this ultimate negative no matter what is done within the confines of monetary gimmickry that is the fatal flaw of the entire policy. All that is left is a return to the actions that caused the last economic catastrophe; ease up on credit requirements, encourage buying and debt at any cost, and then, I guess, let god sort out the results. The best factoid I saw this week that dispels the "it's the fault of the harsh winter" nonsense is the increase in nonstore weatherproof retail sales the first 5 months of this year. It was 5.9% as opposed to 11.4% over the same period in 2013. And now, if trying to prop up a rotten block of financials isn't enough, we have a rotten block of "democracy" supported stooge regimes and movements wreaking havoc on valuable commodities the "free world" put them in power to protect for their masters. No wonder some have found chaos theory very much applicable to our social institutions.

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