During the Next Crisis, Entire Countries Will Go Bust

By Pheonix Capital, 16 June 2016

For seven years, the world has operated under a complete delusion that Central Banks somehow fixed the 2008 Crisis.

All of the arguments claiming this defied common sense. A 5th grader would tell you that you cannot solve a debt problem by issuing more debt. Similarly, anyone with a functioning brain could tell you that a bunch of academics with no real-world experience, none of whom have ever started a business or created a single job can't "save" the economy.

However, there is an AWFUL lot of money at stake in believing these lies. So the media and the banks and the politicians were happy to promote them. Indeed, one could very easily argue that nearly all of the wealth and power held by those at the top of the economy stem from this fiction.

So it's little surprise that no one would admit the facts: that the Fed and other Central Banks not only don't have a clue how to fix the problem, but that they actually have almost no incentive to do so.

So here are the facts:

1) The REAL problem for the financial system is the bond bubble. In 2008 when the crisis hit it was \$80 trillion. It has since grown to over \$100 trillion.

2) The derivatives market that uses this bond bubble as collateral is over \$555 trillion in size.

3) Many of the large multinational corporations, sovereign governments, and even municipalities have used derivatives to fake earnings and hide debt. NO ONE knows to what degree this has been the case, but given that 20% of corporate CFOs have admitted to faking earnings in the past, it's likely a significant amount.

4) Corporations today are more leveraged than they were in 2007. As Stanley Druckenmiller has noted, in 2007 corporate bonds were \$3.5 trillion… today they are \$7 trillion: an amount equal tot nearly 50% of US GDP.

5) The Central Banks are now all leveraged at levels greater than or equal to Lehman Brothers was when it imploded. The Fed is leveraged at 78 to 1. The ECB is leveraged at over 26 to 1. Lehman Brothers was leveraged at 30 to 1.

6) The Central Banks have no idea how to exit their strategies. Fed minutes released from 2009**show Janet Yellen was worried about how to exit when the Fed's balance sheet was $1.3 trillion**. Today it's over $4.5 trillion.

Today, Central Bankers are now actively punishing depositors and bond holders with negative interest rates. Globally, over $10 trillion in debt currently have negative yields in **<u>nominal terms</u>**, meaning the bond literally has a negative yield when it trades. In the simplest of terms this means that investors are PAYING to own these bonds.

Bonds are not unique in this regard. Switzerland, Denmark and other countries are now charging deposits at their banks. In France and Italy, you are not allowed to make cash transactions above €1,000. So if get fed up with the banks and want to pull your money out, you cannot.

We are heading for a crisis that will be exponentially worse than 2008. The global Central Banks have literally bet the financial system that their theories will work. They haven't. All they've done is set the stage for an even worse crisis in which entire countries will go bankrupt.