

CANCER & DESPERATION OF QE2

by Jim Willie CB

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Jim Willie CB, editor of the "HAT TRICK LETTER"



Use the above link to subscribe to the paid research reports, which include coverage of critically important factors at work during the ongoing panicky attempt to sustain an unsustainable system burdened by numerous imbalances aggravated by global village forces. An historically unprecedented mess has been created by compromised central bankers and inept economic advisors, whose interference has irreversibly altered and damaged the world financial system, urgently pushed after the removed anchor of money to gold. Analysis features Gold, Crude Oil, USDollar, Treasury bonds, and inter-market dynamics with the US Economy and US Federal Reserve monetary policy.

History is being made. The American public has never been so nervous, perhaps fearful of something dreadful and imminent. The global monetary system is crumbling. The typical stimulus has failed to jumpstart the USEconomy. The 20 months of near 0% short-term official interest rate has failed to revive the moribund US housing market. The phony FASB accounting rules has failed to accomplish anything except a stay of execution for the big US banks, which do not lend much. In fact, the US banks are largely dead entities showing enough life for to receive USGovt largesse aid. Witness the failure of the US financial sector. Witness the climax chapter of failure for the Fascist Business Model. The US banker brain trust, which possesses only a modicum of economic wisdom, analytic prowess, or foresight, finds itself in a desperate corner. **Their talk of an Exit Strategy in the last several months was summarily dismissed as nonsense, propaganda, and wishful thinking by the Jackass here on a consistent irrefutable basis.** The US Federal Reserve is ready to embark on the second round of Quantitative Easing. The monetization of US\$-based bonds of many types will be done on a second initiative, on cue. Here is the irony, the stupidity, the insanity, the recklessness, the tragedy. What failed, they will do again, maybe even bigger! At risk is global confidence and trust, hardly a zero cost item.

The urgency of the QE2 Launch will be made quite clear by the Hologram Leaders occupying positions of power, after they digest the latest housing data. The July existing housing sales fell by 27.2% in a single month. The July new home sales fell by 12.4% in concert. Few analysts operating with USGovt service badges anticipated that the empty-headed home buyer credit of \$8000 would rob forward sales and leave an autumn vacuum in home demand. It did. Check out the silver price, which touched \$19 today on Wednesday. And at \$1240, the gold price is poised to make new highs any day. My near-term targets are \$23.5 for silver and \$1300 for gold. Energy prices are soft but precious metals prices are strong. Think heterogeneity!

The QE2 is pure cancer within the monetary body. Foreign creditors are walking away, making distance from the USTreasurys, and especially the USAgency Mortgage Bonds. The USFed and USDept Treasury are therefore being isolated. Their USTreasury auctions are often

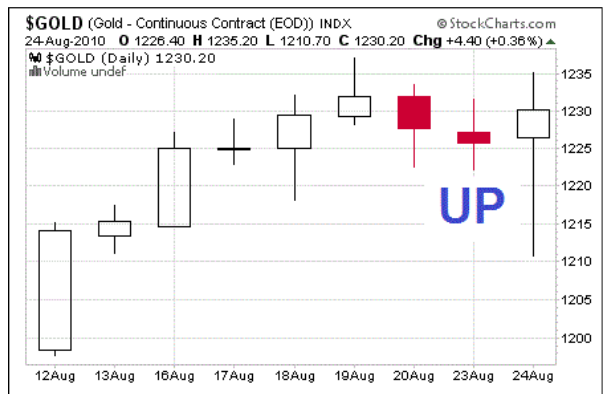
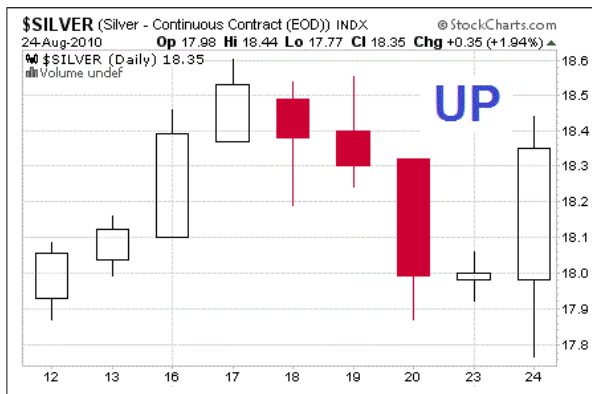
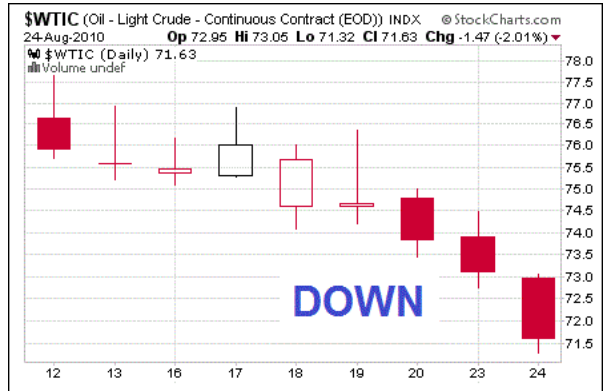
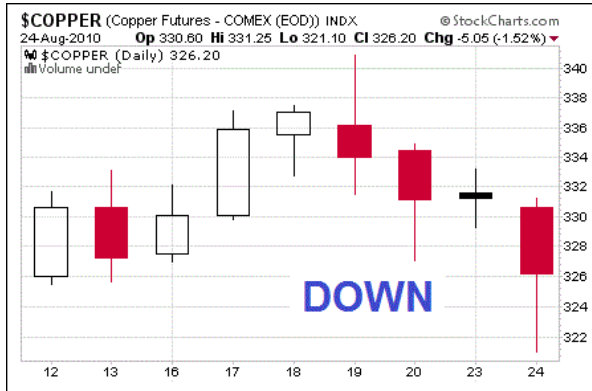
disguised failures, but with the benefit of a falling US stock market, the bond demand has risen. The cancer of QE2 cannot be emphasized enough. **My forecast a few months ago was for NO Exit Strategy implemented.** The USFed balance sheet will NOT be reduced. Interest rates will NOT be permitted higher. My forecast was for an embarrassing About-Face in policy, and a hasty desperate announcement and implementation of a powerful new round of Quantitative Easing. We are seeing it unfold, exactly as forecasted. In fact, **my call is for ZIRP and QE, the cancerous twins of Zero Interest Rate Policy and its Printing Pre\$\$ twin, to become permanent residents of the White House and USFed, an incredible pox, blemish, and badge of shame to the nation. The twins scream rot and ruin.**

These shills and carnival barker policy makers need a fresh new education. The two most important indicators in my book are continued home foreclosures and renewed rising jobless claims. The rest of the forecasting challenge is remarkably easy. The nitwit barkers prefer to focus on inflation expecorations, encouraged by the wondrous USTBond rally. What nitwits, unable to read simple signals! What charlatans, pretenders to the thrones! What heretics, ignorant of economic principles! See the August special report that criticizes, exposes, and castrates the clueless cast of American economists. **The latest revelation was the \$120k payment to Frederic Mishkin** for writing about the "Financial Stability In Iceland" in March 2006 whose title was changed to "Financial Instability In Iceland" after Iceland collapsed. Mishkin did no research, almost admitted as much in an ugly exposure to these clowns operating in economist suits. See the Zero Hedge video ([CLICK HERE](#)). My contention is that Mishkin has no economic skills, and does not understand what money is, just like many on the Federal Reserve Board, whose misguided brain stems extend to most regional governors. Mishkin appears in this instance to be a bonafide whore. One exception might be Hoenig, who has warned of the perils of new monetary expansion. He recently said, *"I wish free money was really free, and that there was a painless way to move from severe recession and high leverage to robust and sustainable economic growth, but there is no shortcut."* Hoenig of the Kansas City Fed has emerged as an ideological rival to Bernanke. Hoenig might soon need to be ousted for lack of patriotism and obedience to the fascist throng.

Let me make a paradoxical point: THE UNITED STATES WILL BEGIN A RECOVERY WHEN THE TOO BIG TO FAIL BANKS ARE PLOWED UNDER. They are blocking remedy and restructure. They are resisting liquidation of badly impaired assets. They do not lend money, as their credit engines are broken, since they are dead entities that occupy space in the US financial sector. They cast large long shadows. Their removal from the scene of the crime would surely light a fuse of credit derivative accidents, the likes of which the world has never seen. Let's try THAT experiment!! Why the leading economists cannot see that credit is down since the big banks are dead is beyond me. One might regard the conclusion is too ugly to contemplate. The entire US financial chapter since 1996, when Greenspan proclaimed irrational exuberance had taken hold of the land, has been ugly, perverse, and ruinous. The nation had its chance to right the US Ship of Financial State in 1987, and instead chose to produce, nurture, encourage, justify, and bless as good a sequence of asset bubbles, while the industrial base was dispatched to Asia. The USEconomy thus replaced legitimate income with grandiose debt sources, followed by national insolvency.

GOLD & SILVER DIVERGE FROM COMMODITIES

The impact from the cancer and desperation of QE2, the next undermine of the USDollar (and other major currencies), can be seen in the price of Gold. Better yet, watch the price of silver, whose price movement has actually been leading gold upward. **This week, for the first time in perhaps a decade, silver defied the industrial metals and economically dependent energy sector.** Silver is money. Both copper and crude oil fell in price, but silver rose strongly. By the day's end, gold was pulled up by silver. **And this happened on a week that features options expiration, which usually sees a strong naked short pounce by JPMorgan,** of course to make America strong and liberty exportable. Witness the beginning of outright visible lost control by the syndicate.



Watch the Gold/Oil ratio, which is poised to rise noticeably. Gold is the commodity king, since money. The galloping recession will take down the crude oil price, as demand falls. The natural gas price fell 3% just today on Wednesday. Hedging against the USDollar risk aside, the energy prices have been weak. By contrast, the gold price has risen from direct demand in response to monetary system risk and lost confidence in that monetary system. The global revolt against the USDollar continues quietly. The government bonds are gradually being considered trash backed by yet more bad paper dispensed by government approved printing houses. My analysis has long pointed to the advantages of silver over gold. Gold fights the political wars, but silver rides in on a shiny white glowing horse to win most gains. The supply factors favor silver. The demand factors favor silver. The shortage is acute for silver.

Again, basic economic thought process not within the mental caverns of US economists. The desperate action to launch QE2 will be quite evident in the coming weeks. It will even become

a national priority. The bankers and politicians will rush to destroy whatever credibility remains in the USDollar, or any fiat paper currency. **The challenge to banking leaders will be to conceal their desperation and panic.** They have had no options or alternatives for almost two years, now painfully evident. The impact of the launch will be extremely damaging to the prestige of the USFed in general and Chairman Bernanke in particular. He has not understood much of any events, surely has proffered a string of errant views and obtuse forecasts. Witness the discredit of the central bank franchise system. Fiat paper money is dissolving before our eyes. Notice the assaults on sovereign debt in Europe, a trend which will hit the US shores, all in time. Economists do not expect it, since the American bankers possess the Printing Pre\$\$\$. They will be blindsided by Gold, which pulls the carpet from under the US\$-based foundation inside its very structure. **The Gold bull market will outlast the USTreasury Bond bubble run.** The key word to be heard in the next few months will be CONFIDENCE, as in the absence of it when viewing the US financial helm.

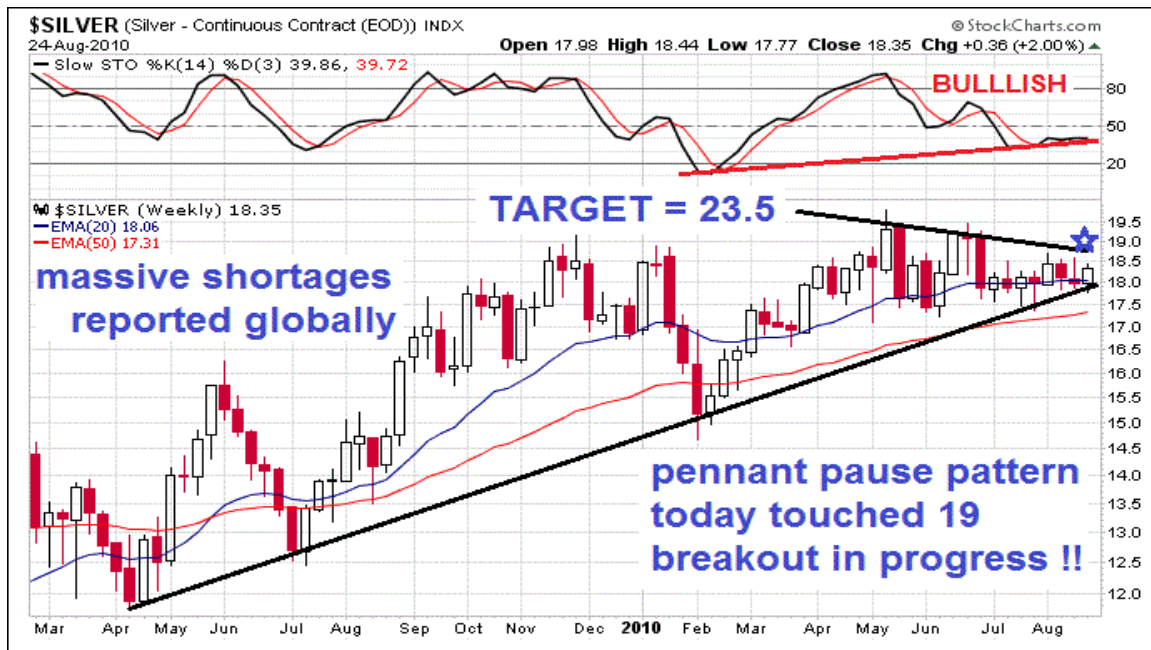
The Powerz in charge will choose inflation over any combination of reform, restructure, and replacement of the helm. A recovery could have possibly been in our grasp, maybe in the future after much pain from adjustment. Unfortunately for the bankers in unchallenged power, the respect, prestige, and faith in the US Federal Reserve will fade like a sea mist after the QE launch. Its christening will be done in deep shame with a bottle of acid. The level of respect is approaching rock bottom, the lowest in decades. Even Alan Greenspan expects slippage and sputters as the housing market resumes its powerful decline. The next recession for the USEconomy could very easily result in a USTreasury default. Scenarios for precisely such a default are mapped out in the August Hat Trick Letter.

IMMINENT GOLD & SILVER PRICE MOVES



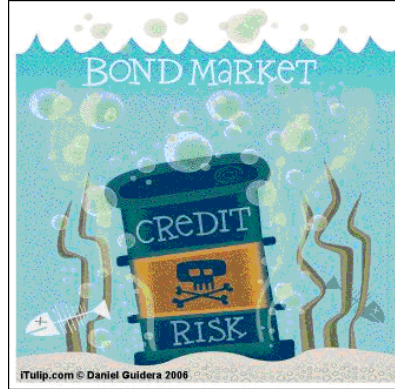
Gold & Silver are entering the most favorable season of the year, autumn. Big gains should be expected. Signals are omnipresent for substantial price gains. Shortages exist and are profound.

Demand is on the strong rise on a global basis. Lost confidence and faith in the fiat paper system is slowly vanishing. It would be nice to see the investment community add to positions and put on new positions before the breakout, not afterwards, and be more successful. **The return of the USEconomic recession and the simultaneous QE2 Launch will mark a major turning point for gold & silver.** Fear is on the rise. The precious metals offer an alternative to conventional nutball strategies, a successful one. Check out the track record for gold, the best asset in the 1990 decade. That fact is not mentioned or cited much by the financial press networks. Their sponsors object.



MANY SIDES OF MONETARY CANCER

Cancer is a strong word. It conjures up images of internal broken functions, nasty growths, blockage of organs, twisted lives, pain, and death. Yes, that sounds right for describing the USDollar and its flagship the USTreasury Bond, with the accompanying destroyer in Fannie Mae. The word cancer fits perfectly. It has brought a removal of US industry. It has brought a wave of bond fraud centered upon mortgages. It has brought endless war, paid by foreigners. It has brought insolvency to US households. It has brought insolvency to the US banks. It has brought a tumor of REO homes seized by foreclosures and put the US bank balance sheets. It has brought a bloated wrecked USFed balance sheet. It has brought chronic \$1.5 trillion USGovt deficits. It has brought a mass of Food Stamp recipients. It has brought Wall Street control of the USGovt finance ministries. It has brought a Black of Hole of tainted money. It has brought diverse toxic bonds. It has brought blockage of any independent audit of the USFed assets or activity. Yes, that qualifies as the many sides of cancer.



Consider the next new cancerous faces of the Quantitative Easing. Their new policies and features will be so ugly as to reshape the entire American landscape. They will do to the US financial and economic pastures what the Gulf of Mexico oil volcano did to the Southern Shores. These concepts are covered in the August issue of the Hat Trick Letter in greater detail. They are bizarre complicated concepts. They strike dead the heart of US capitalism, and offer a unique brand of fascism and collectivism as a result, with an overtone of desperation. They paint a path toward systemic failure. At the end of that bitter road and death march is the US Treasury Default event, forecasted by the Jackass in September 2008. It earned ridicule, but soon will earn respect, like several other important past forecasts. The path was clear almost two years ago that the US banking system died that month. The obituary cited Lehman Brothers, Fannie Mae, and American Intl Group as pall bearers. The banking system death is undeniable to the enlightened. It will soon be clear enough to the masses after the next leg down in housing.

1) **Stiglitz urges another USGovt stimulus program.** The last one was hollow. The next should be lackluster and meager, but maybe more on the mark. True reform and broad liquidations are pre-requisites, as they will not be done for preparing the economic topsoil. Bankers will block it. Expect USGovt "beans & rice" handouts rather than conditions for job creation. They should really try capital expenditure immediate writeoffs and job creation tax credits instead, with a slew of obtrusive federal regulations swept aside. Too much capitalist wisdom with such ideas. More ineffective wasteful federal programs and misdirected altering of parameters on the control panel will only aggravate the effect of the QE2 Launch, a typical preface.

2) **Former Treasury Secy Rubin argues against a large scale stimulus plan, and instead for deficit reduction.** This economic Rasputin presided over the removal, lease, and sales of the national gold treasury. He led the deregulation movement that opened the door to profound bond fraud. He sat on the Citigroup board when it expanded recklessly into many domains, resulting in the wreckage of the corporation. That qualified him to serve as mentor and chief puppeteer to Geithner and Summers, who run the US Dept Treasury and White House Council of Economic Advisors. Clearly, Rubin has a different agenda. A constant state of sluggishness might work best for Rubin. He advocates deficit reduction as his main priority, and proclaims a goal of restoring confidence. The nation is way past deficit reduction concepts, but should focus rather on collapse avoidance. Confidence can be restored, and better economic performance enabled, only if the current Elite banks are plowed under, much of their impaired

assets are liquidated, Goldman Sachs is removed from control of the USDollar altogether, and stern prosecution of colossal criminal bond fraud occurs. That would produce confidence.

3) QE2 will be more cancerous than QE1, as full dependence upon monetary inflation will come. The official interest rate cannot be reduced. QE2 will produce three major effects, all ruinous. All debt is subject to coverage by new money, all to be eligible. Next comes hyper-inflation, as confidence in all things paper evaporates and a great tipping point is breached. The arrival of QE2 will produce three major effects. A) The reliance upon new money growth to monetize rapidly growing debt in the US financial system will undermine all things US\$-related. The continued artificial support of the USTreasury Bonds will transfer risk to the USDollar. B) Whatever respect and prestige in the USFed will vanish quickly. The bravado of helicopter drops will seem hollow, amateurish, and invite mockery in the open among respected brain trust. C) The smartest people in the room will begin to declare that the current global monetary system is irreparably broken, and that past and future response, even if amplified, will be doomed to fail. We are on the doorstep of hyper-inflation.

4) The FDIC will soon launch what could grow into a vast securitization initiative. It is better described as the QE2 from the rear guard, not well noticed. Since broke, the FDIC has resorted to selling packaged credit assets from failed banks in order to raise cash, new securities with USGovt guarantees. Apparently, viable banks are harder to find for buying much of any assets. The FDIC two years ago served as an investment banker harlot for Wall Street acquisitions. Then it became a matchmaker, finally a liquidator, now a bond issuer. All the while the Deposit Insurance Fund runs more negative each month. Be sure that the Printing Pre\$\$ of monetization is behind the scheme, no longer well disguised, since the FDIC is so closely aligned with the other engineers of bond management within the USGovt (see Fannie Mae). The FDIC bond securities are more monetization.

5) Mortgage relief might be the destination for the next mammoth monetary expansion. The StLouis Fed was permitted to leak the story. James Bullard of the St Louis Fed wrote a brief white paper entitled "Seven Faces of The Peril" in he urged the USFed should immediately restart the purchase of USTreasurys if the deflation scenario takes deeper root, as in QE2. He correctly concludes the high risk of a Japanese-style deflationary outcome in the United States. Next came the speculation by both Morgan Stanley and Merrill Lynch in their concurrent release of analyst reports. They surmised that Fannie Mae and the Federal Housing Admin might be preparing an imminent launch of broad sweeping initiative. The proposed plan would feature an instant automatic refinance program for troubled mortgage loans. It would take millions of borrowers to current market rates overnight. It would stop short of reducing the loan balances of under-water mortgages, those suffering negative equity. In the process, \$46 billion of consumer savings per year would be created, from basic reduction of monthly payments.

6) The loan modification pathways will possibly be expanded, maybe meaningfully. Operations have expanded whereby fraudulent home loans have been warehoused in Fannie Mae, under the USGovt roof and aegis for two years. Even the bankers might give pressure to revamp home loans in a skein of modification plans, in reaction to widespread non-payment from strategic default. A major challenge must be dealt with. They must avoid the close

examination of massive mortgage bond fraud for at least \$2 trillion on home loans. Such scrutiny might uncover a multi-\$trillion Fannie Mae clearinghouse of fraud that links several major fraud schemes. Recall that on Christmas Eve 2009, the Treasury Department waived a \$400 billion limit on financial assistance to the failed fat duo Fannie & Freddie, pledging an unlimited credit line. The sewage treatment plant will surely devise more clever projects to handle the toxic waste, since very large liquidity plumbing is promised.

7) **QE2 will feature Fannie Mae rental homes, a new vibrant toxic business.** Except a major blemish will build further, as defiant non-payment of mortgages will flourish, from strategic voluntary defaults. Look for Fannie Mae to gather in hundreds of thousands, even millions of broken mortgages. They will attempt to build a business subsidiary of the most queer type. An ulterior motive is to bail out big banks but not reveal doing so. A desperation is sinking in with USGovt proposals, perhaps in direct response to open fear of civil disobedience. Consider that 250 thousand Bank of America mortgage holders are paying nothing on self-driven strike actions. **My forecast made in 2004 and 2005 was for the advent of a bizarre perverse Fannie Home Rental program.** Now we see people forfeit title to their homes, lose their equity, but remain in the same home as renters making small monthly payments. The housing market would prevent the dumping of properties on an already bloated housing market. The Fannie Mae investors could have earned a dividend from rent payments, except that FNM stock issues were de-listed. Homeowners are increasingly not making monthly payments, daring the bank to foreclose on the property, challenging them to produce the property title. In many cases, the banks cannot produce the title, because the MERS database is a nightmare of spun spaghetti. The courts have ruled MERS has no legal standing in any foreclosure displacement of occupants. Rumors swirl with gathering strength and persistence. **The USGovt might soon take over all failing home mortgages, and have their titles signed over to the USGovt.** Then people would lease the properties to the people who occupy them according to pay scales, in collectivist fashion consistent with the presidential ideology.

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Jim Willie CB is a statistical analyst in marketing research and retail forecasting. He holds a PhD in Statistics. His career has stretched over 25 years. He aspires to thrive in the financial editor world, unencumbered by the limitations of economic credentials. Visit his free website to find articles from topflight authors at www.GoldenJackass.com. For personal questions about subscriptions, contact him at JimWillieCB@aol.com