LAUNDERING MONEY

THROUGH THE BIG BANKS:

Bernanke's Quid Pro Quo

by

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Fed Chairman Ben Bernanke is a man who knows how Washington works and uses that knowledge to great effect. His appearances on Capital Hill are always worth watching. He sits politely with his hands folded in front of him playing the bashful professor while one preening congressman after another makes a fool out of themselves. In contrast, Bernanke looks like a modest and thoughtful academic faithfully upholding the public's trust. But things aren't always as they seem. The Fed chief is sticking it to the American people big-time and no one seems to have any idea of what's really going on. Former hedge fund manager Andy Kessler sums it up in a recent Wall Street Journal article, "The Bernanke Market". Here's a clip:

"By buying U.S. Treasuries and mortgages to increase the monetary base by $1 trillion, Fed Chairman Ben Bernanke didn't put money directly into the stock market but he didn't have to. With nowhere else to go, except maybe commodities, inflows into the stock market have been on a tear. Stock and bond funds saw net inflows of close to $150 billion since January. The dollars he cranked out didn't go into the hard economy, but instead into tradable assets. In other words, Ben Bernanke has been the market."

What does it mean?

It means the revered professor Bernanke figured out a way to circumvent Congress and dump more than a trillion dollars into the stock market by laundering the money through the big banks and other failing financial institutions. As Kessler suggests, Bernanke knew the liquidity would pop up in the equities market, thus, building the equity position of the banks so they wouldn't have to grovel to Congress for another TARP-like bailout. Bernanke's actions demonstrate his contempt for the democratic process. The Fed sees itself as a government-unto-itself.

Over at Zero Hedge, Tyler Durden did the math and figured that the recent 45% surge in the S&P 500 had nothing to do with the fictional economic "recovery", but was just more of the Fed's hanky-panky. Durden noticed that the money that's been sluicing into stocks hasn't (correspondingly) depleted the money markets. That's the clue that led him to the truth about Bernanke's 6 month stock rally.

Zero Hedge: "Most interesting is the correlation between Money Market totals and the listed stock value since the March lows: a $2.7 trillion move in equities was accompanied by a less than $400 billion reduction in Money Market accounts!

Where, may we ask, did the balance of $2.3 trillion in purchasing power come from? Why the Federal Reserve of course, which directly and indirectly subsidized U.S. banks (and foreign ones through liquidity swaps) for roughly that amount. Apparently these banks promptly went on a buying spree to raise the all important equity market, so that the U.S. consumer who net equity was almost negative on March 31, could have some semblance of confidence back and would go ahead and max out his credit card. Alas, as one can see in the money multiplier and velocity of money metrics, U.S. consumers couldn't care less about leveraging themselves any more."

So, the magical "Green Shoots" stock market rally was fueled by a mere $400 billion from the money markets. The rest ($2.3 trillion) was main-lined into the market via Bernanke's quantitative easing (QE) program, of which Krugman and others speak so highly.

Wouldn't you like to know if Bernanke sat down with G-Sax and JPM executives and mapped out the details of this swindle before the printing presses ever started rolling?

So, how long can this kind of fakery go on before our creditors grow weary of dealing with chiselers and stop buying US Treasuries altogether? Here's a blurp from Friday's Wall Street Journal on that very topic:

"Shaky auctions of Treasury notes this week reignited concerns about whether the government can attract buyers from China and elsewhere to soak up trillions in new debt.

A fuse was lit this week when traders noted China's apparent absence from direct participation in two Treasury bond auctions. While China may have bought Treasurys just before the auctions, market participants read the country's actions as a worrying sign that China and other foreign investors may be ratcheting back purchases at a time when the U.S. is seeking to fund a $1.8 trillion budget deficit.

This week alone, the U.S. deluged the bond market with more than $200 billion in record-size sales. The U.S. has had little trouble finding buyers in recent months. But that demand is fading, and the Treasury market has become volatile."

Uncle Sam is goosing the bond market just like he is the stock market. Take a look at Treasury's latest bit of chicanery which was stuffed in the back pages of the Wall Street Journal back in June:

"The sudden increase in demand by foreign buyers for Treasurys, hailed as proof that the world's central banks are still willing to help absorb the avalanche of supply, mightn't be all that it seems.

When the government sells bonds, traders typically look at a group of buyers called indirect bidders, which includes foreign central banks, to divine overseas demand for U.S. debt. That demand has been rising recently, giving comfort to investors that foreign buyers will continue to finance the U.S.'s budget deficit.

But in a little-noticed switch on June 1, the Treasury changed the way it accounts for indirect bids, putting more buyers under that umbrella and boosting the portion of recent Treasury sales that the market perceived were being bought by foreigners." (Is foreign Demand as Solid as it Looks, Min Zeng)

Nice touch, eh? So, someone doesn't want you and me to know when foreign demand drops off a cliff, so they just bend-and-twist the definitions so they meet the Fed's requirements. How's that for transparency? Apparently, Bernanke et al. don't believe the Chinese have translators who can make sense of all this subterfuge. That may be a miscalculation, however, given recent rumblings from the Orient.

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