

Views expressed in GETAnalysis reports and commentaries are strictly for information only. All images and content contained herein are subject to copyright; All rights reserved.

Central Banks Face A Greater Monster – Of Their Making

WRITTEN BY: ASHOK DHILLON



Ashok Dhillon has 40 years of front-line business experience in Canada and International markets.

Mr. Dhillon's experience includes start-ups, venture capital, seed funding, and heading companies in construction and international power development. His extensive experience gives him in-depth knowledge and intuitive insights into macro and micro, national and international, geo-political and economic realities and trends. He has been invited to speak on international business at various forums, including as an expert witness for the Standing Senate Committee, Government of Canada, on "The Rise of Russia, China and India".



There is a growing monster of a financial crisis building. The biggest and most powerful Central Banks in the World created it, in the form of ever increasing liquidity, to drive 'the perpetually growing consumption and economic expansion model' that they thought was possible with their ever expanding and constant interventions in natural cycles, and free market forces in global economies.

As economies and world trade grew, and global wealth increased over the last three decades, the Central Banks with the blessings of their delighted governments, unleashed hereto unimagined torrents of liquidity and flooded the economies with ever easier to acquire debt, to create a borrow, spend and speculate prosperity.

Convinced that they had the wherewithal to subjugate natural business and economic cycles, and that they could control market forces, Central Banks unleashed the most sustained and the most incredulous interventionist policy into all aspects of global economic systems, that could possibly be imagined.

Their particular area of special attention were the asset markets, which were capable of rapid escalation in prices to create what the Central Banks called "the wealth effect", which they hoped would then trickle down to the real economy. With that irrational policy as their fixed mantra, they went ahead and boosted and bloated the asset markets irrationally.

To say that they threw tanker-loads of money at every hint of economic weakness or financial market dip would be a severe understatement in light of the Trillions upon Trillions that the Central Banks printed and drowned the economic world in.

Global consumers went on an unprecedented shopping spree, industries expanded capacity the world over to accommodate the ever increasing demand, and governments spent lavishly and ran massive deficits, and an

Central Banks Face A Greater Monster – Of Their Making

WRITTEN BY: ASHOK DHILLON

era of unending growth and prosperity seemed to have arrived for all time, with the increasingly powerful and benevolent Central Banks opening the taps ever wider.



China, which did everything that everyone else was doing, only so much bigger and better (*in terms of spending their way to growth*), were dubbed the undisputed World champ in the economic growth rate heavy weight division, and in fact were lauded as the 'modern economic miracle' of the last few centuries.

In getting there, China racked up a number of World Records; in the capacity to manufacture steel and cement, or most anything else for that matter; in their capacity to build infrastructure (*including excessively redundant infrastructure*); in their capacity to build entirely redundant, entirely new cities, that sit entirely empty even today, years after their construction and completion, and to top it all off, China did all this by racking up more debt, in the last few years, than most major economies had accumulated in decades, if ever; a truly remarkable record.

There was so much liquidity sloshing around the world, thanks to seemingly endless Central Banks largess, that even despotic rulers of minor economies and corrupt governments of mid-sized economies, socked away stolen Billions in Swiss and obscure off-shore accounts, where in the past they had been able to steal only in the millions at a time.

Hedge fund and private equity managers made so much money, annually, from their fees and bonuses from investing in ever appreciating assets, from their gargantuan and bloated funds that they became legends of modern times.

Even the ordinary 'Joe', in the West, became 'a millionaire', as his house

Central Banks Face A Greater Monster – Of Their Making

WRITTEN BY: ASHOK DHILLON

price escalated to unprecedented heights, giving him an ever growing ATM account in his home equity, to withdraw and spend more on cars, enormous flat screen TVs, boats, RVs, vacations and expansion and upgrading renovations.



This little 3 bedroom, 1 bathroom bungalow in Vancouver is priced at \$1.5 million. The listing suggests buyers just tear it down and build a new home.

Every major fraud and corruption scandal the world over was now in 'the Billions', and scandals and net-worth in the millions was not even worth mentioning, as they were embarrassingly small and insignificant.

In this growing utopian economic world, even the poor, the hereto unaccounted and inconsequential overwhelming majority, numbering in the many Billions, began to hope that perhaps their time had finally come, and that perhaps, they could also aspire to some semblance of a minimally decent life. Alas, for them it was not to be so as the enormous new wealth being generated went mostly to the already haves. As to the purported hundreds of millions of poor being lifted out of poverty, the threshold of what was considered 'poor' was set at such a ridiculous low, as to be laughable, if it was not so tragic (*in India the poverty line is set at approximately \$0.50 cents consumption per day (for rural areas), and approximately \$0.70 cents consumption per day (for urban areas), less than one dollar a day!* Any consumption over that and one is not considered 'poor'!

Of course during these otherwise extraordinarily prosperous times, when capital and credit were not a problem, especially in the West, greed took hold and no amount of money seemed to be enough. The banks did their fair bit to push money out, even to those who really could not afford the debt that was being pushed at them. That led to the inevitable excesses and the first real warning appeared as to the dangers of these insane policies, in the form of

Central Banks Face A Greater Monster – Of Their Making

WRITTEN BY: ASHOK DHILLON

the 2008 sub-prime credit crash, in the land of excesses, the United States, that almost took the entire global financial system down. In 2008, the monster in the form of sub-prime credit in the U.S. unleashed its fury and severely mauled the global financial system.



The solution embraced by the Federal Reserve and its fellow Central Banks, and therefore their governments, was to double down on the creation of money and this time truly flood the global financial system with practically little to no cost liquidity, to the absolute delight of the World's banks, investment banks, corporate financial engineers, hedge fund managers, traders and speculators, and governments, who by now owed not only the most but were climbing rapidly to record debt to GDP ratios. Ultralow interest rates, set by Central Banks, helped highly indebted governments the most, next came the speculators, traders, and corporate financial engineers and raiders, as it does even today. For years ultralow interest rates savaged the savers and the pensioners, but those didn't quite count.

Talk about *not* learning from their mistakes. The Central Banks in fact embraced their financial system shattering mistake, and adopted it to be the only method for what ails the global economic system, and in fact went on to create a much bigger monster, which they are facing today.

The last (2008) financial crisis was due to money being aggressively pushed by banks and other lending institutions to borrowers who had little to no capacity to pay it back, in the form of mortgages and loans. Those sub-prime (*less than sterling*) mortgages and loans, then being bundled, rated by compliant 'Rating Agencies', and marketed as "securities" by less than ethical investment bankers and brokers, were pushed further on as "investment" to unsuspecting clients. These sub-prime loans were then re-bundled and pushed further on - all around the World.

Central Banks Face A Greater Monster – Of Their Making

February 11, 2016

Page 5

WRITTEN BY: ASHOK DHILLON

These investments then ‘blew up’ when the borrowers couldn’t pay their mortgages and loans, and almost brought the global financial house of cards down. The Central Banks saved the day by throwing so much more money at the system that the problem got buried in the new and greater torrents of cheap money.

But, that flood of new and greater money, pushed now by Central Banks, at weak and structurally flawed *economies*, is to us no different than banks in the past pushing money at weak and economically challenged borrowers. Weak and contracting economies are now buried by mountains of unproductive debt that have, for the most part, been mal-invested in asset markets that rose to new record setting highs (*wealth effect*) but failed to “trickle down” to the real economies, and are now “correcting”, wiping out Trillions of dollars of value in days what took years and tens and tens of Trillions to build up.

Weak and contracting economies are no more capable of paying back the accumulated debts than the pre-2008 sub-prime borrowers were.

To us this time the Central Banks have created a bigger monster than in the past. This time as we have said before, its not just banks pushing too much money to sub-prime borrowers, this time it’s the *World’s largest Central Banks that have pushed too much money to sub-prime economies that misused it, and cannot possibly return it!*



The Seven-Headed Dragon



The problems that are now resurfacing are in a larger and deeper context, as the Central Banks have now created their own monster of a sub-prime credit problem, which is in the process of blowing up.

The markets are now starting to realize this, and the daily escalating economic bad news is hammering the facts home even to the most thick-headed ‘*everything is fine and this is just an overreaction*’ shill and punter.

This time the Central Bank created monster, being unleashed now, will maul the global financial markets and the global economies far worse than in 2008. And this time, in their rescue attempts, the Central Banks are firing blanks.