The FED Is <u>Insolvent</u> (Bankrupt) And The Deep State & Global Financial Masters <u>Will Do Anything</u> To <u>Hide The Truth</u>

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<u>Preamble</u>

This article is written for you….fellow Malaysians!

The title of my article is a mouthful. Bear with me. It is the truth, the whole truth and nothing but the truth.

I am writing not to persuade anyone to agree with my analysis, but I am writing **<u>for the record</u>**, as I did **<u>before</u>** the so-called **1997/1998 Asian Crisis** (a misnomer, as the real crisis was the total collapse of the Hedge Fund LTCM led and managed by Noble Laureates), the **2008 Great Recession** (another misnomer, when the global financial system almost collapsed) and the current global crisis which I had warned **<u>as far back</u>** in 2021!

It is the **<u>Greatest Depression in History</u>** and will **<u>last</u>** and **<u>stretch</u>** over a **<u>minimum</u> of five years** (research and verify how long was the previous Great Depression - the longest and deepest downturn in the history of the United States and the modern industrial economy, it lasted more than a decade, beginning in 1929 and ending during World War II in 1941).

This article summarises what I had said before and explains further as to why we cannot ignore this financial mess and that we better pray and hope that our Governments will be able to save and protect our beloved country.

So many are clueless and numbed psychologically and emotionally by the trauma and hopelessness of the Covid19 Biological Warfare unleashed by the US Deep State and are not in any mental state to consider any further crisis. It is all B.S., conspiracy theories and mumbo jumbo.

I wrote about this mental state in two bestsellers, namely "Future Fast-Forward" and "The Shadow Money-Lenders" and yet, pundits continue to ignore and or deny the reality. **<u>Hence, and once again, the urgent need for a reminder and more analysis.</u>**

Read the headlines below from various MSM and renowned analysts (**<u>after</u>** the crisis has exploded) and ask, *"**Were Matthias' previous warnings all B.S.?"***

<u>Bloomberg</u> - *One Bank Folds, Another Wobbles and Wall Street Asks If It's a Crisis*

<u>BusinessNews</u> - *Financial markets go down the rabbit hole*

Yahoo Finance - *Why Silicon Valley Bank's crisis is rattling America's biggest banks?*

CNBC - *Silicon Valley Bank fails to find buyer as run on bank outpaced sale process*

New York Post - *Why the US dollar has become an at-risk currency*

Market watch - *20 banks that are sitting on huge potential securities losses — as was SVB*

Zero Hedge - *Treasury Yields Plunge Most 'Since Lehman', Gold Soars Amid Dovish-Dive In Fed Expectations*

Wall Street On Parade (WSOP) - *Bank Stocks Plummet as Bank Runs in the U.S. Gain Momentum at Federally-Insured, Non-Traditional Banks*

The Bear Traps Report - *S&L Crisis 2.0? Uncle Sam's Short-Term 5% UST Is Sucking Capital Out Of Banks*

Mish Talks - *Banks Suffer another Big Decline Despite the Fed's Bailout Magic*

DNYUZ - *A Bank Run Jolts Markets as Investors Weigh the Jobs Report*

I trust I have got your attention. We will now cut to the chase.

Financial Concepts 101

There is no way for Malaysians to understand or appreciate this article, if certain basic financial concepts are alien and or incomprehensible. Therefore, and for the purpose of this article I will endeavour to focus on two main issues:

(i) Bonds (specifically Treasury Bonds)

A bond is **a debt security, similar to an IOU**. Borrowers issue bonds to raise money from investors willing to lend them money for a certain amount of time. When you buy a bond, you are lending to the issuer, which may be a government, municipality, or corporation. **Treasury bonds** are backed by the federal government and are considered one of the safest types of investments. The flip side of these bonds is their low interest rates. There are several types of Treasury bonds (bills, notes, bonds) that differ based upon the length of time till maturity.

Bonds often lose market value (price of bonds decreases, even to junk status) **when interest rates rise**. As interest rates climb, so do the coupon rates of new bonds hitting the market. That makes the purchase of new bonds more attractive and **diminishes the resale value of older bonds** stuck at a lower interest rate, a phenomenon called **interest rate risk**. Buyers and investors will unload bonds when its value / price of the bond decreases following a sharp increase in interest rates – i.e. price is inverse to interest rates. Bond prices share an inverse relationship with interest rates - that means **when interest rates rise, bond prices fall**. A fundamental principle of bond investing is that market interest rates and bond prices generally move **in opposite directions**. **When market interest rates rise, prices of fixed-rate bonds fall**.

Remember and understand this concept.

(ii) Interest Rates (specifically, LIBOR – London Interbank Offered Rate and SOFR – Secured Overnight Financing Rate)

LIBOR, which stands for *London Interbank Offered Rate*, serves as a globally accepted key benchmark interest rate that indicates borrowing costs between banks. LIBOR must be replaced with SOFR. SOFR has been referred to as the "Risk Free Rate" which in reality is nonsensical. Derivatives trades were previously governed by LIBOR but, in the future, SOFR will govern derivatives trades.

I quote from **Investopedia**:

The Secured Overnight Financing Rate (SOFR) is a benchmark interest rate for dollar-denominated derivatives and loans that is replacing the London Interbank Offered Rate (LIBOR). Interest rate swaps on more than $80 trillion in notional debt switched to the SOFR in October 2020. The Secured Overnight Financing Rate (SOFR) is a benchmark interest rate for dollar-denominated derivatives and loans that is replacing the London Interbank Offered Rate (LIBOR). SOFR is based on transactions in the Treasury repurchase market and is seen as preferable to LIBOR since it is based on data from observable transactions rather than on estimated borrowing rates. While SOFR is becoming the benchmark rate for dollar-denominated derivatives and loans, other countries have sought their own alternative rates, such as SONIA and EONIA.

The **Federal Bank of New York** explains:

The Secured Overnight Financing Rate (SOFR) is *a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities*.

The **Bank for International Settlements**, which serves as the bank for central banks, said in March 2019 that a one-size-fits-all alternative may be neither feasible nor desirable. Although SOFR solves the rigging problem, it doesn't help participants gauge how stressed global funding markets are. That means SOFR is likely to coexist with something else.

Why FED Is Insolvent & The Great Depression

When the USA, after the WWII became the dominant power in the world, the elites in charge, created an almost infallible system for hegemonic control of global finance via the establishment of the US$ as the world's Reserve Currency and the sacrosanct status of the US Treasury Bonds as the most valuable asset / security. Transactions (in all its varied forms) secured by US Treasury Bonds are considered safest and secured returns on such investments! No one dare casts doubt on the sanctity and integrity of the US government and the debts issued by the US Government. Period!

That status was then (since WWII), but the current circumstances have changed dramatically. The US, even as a hegemon, is the world's largest debtor - owing in the $Trillions, and no longer command such heights of domination especially in financial matters.

The world is awash with US toilet paper money. The debts of the USA are in the $trillions. The derivative casino is notionally valued in the Quadrillion ($1,000 Trillion is one $Quadrillion). The office of the US Comptroller of Currency provides a list of US Banks exposed to the derivative scam. Warren Buffet refers to derivatives as "Financial Weapons of Mass Destruction."

Ellen Brown, a good friend and colleague who was invited to Malaysia by me, wrote:

1) ***"As of the third quarter of 2022, according to the "Quarterly Report on Bank Trading and Derivatives Activities" of the Office of the Comptroller of the Currency (the federal bank regulator), a total of 1,211 insured U.S. national and state commercial banks and savings associations held derivatives, but 88.6% of these were concentrated in only four large banks: J.P. Morgan Chase ($54.3 trillion), Goldman Sachs ($51 trillion), Citibank ($46 trillion), Bank of America ($21.6 trillion), followed by Wells Fargo ($12.2 trillion)."***
2) *"Unlike in 2008-09, when the big derivative concerns were mortgage-backed securities and credit default swaps,* ***today the largest and riskiest category is interest rate products."***
3) *"That is why insolvent SIFIs … systemically important financial institution (SIFI) … is a bank, insurance, or other financial institution (FI) that U.S. federal regulators determine would pose a serious risk to the economy if it were to collapse. A SIFI is viewed as "too big to fail" and imposed with extra regulatory burdens to prevent it from going under) ….. they had to be bailed out in the Global Financial Crisis (GFC) of 2007-09, first with $700 billion of taxpayer money and then by the Federal Reserve with "quantitative easing." Derivatives were at the heart of that crisis. Lehman Brothers was one of the derivative entities with bets across the system. So was insurance company AIG, which managed to survive due to a whopping $182 billion bailout from the U.S. Treasury; but Lehman was considered too weakly collateralized to salvage. It went down, and the Great Recession followed."*

4) ***"The shadow banking system also includes unregulated activities by regulated institutions. It includes the repo market, which evolved as a sort of pawn shop for large institutional investors with more than $250,000 to deposit.*** *The repo market is a safe place for these lenders, including pension funds and the U.S. Treasury, to park their money and earn a bit of interest. But its safety is insured not by the FDIC but by sound collateral posted by the borrowers, preferably in the form of federal securities."*
5) *As explained by Prof. Gary Gorton:*

   "This banking system (the "shadow" or "parallel" banking system) – repo based ***on securitization – is a genuine banking system, as large as the traditional, regulated banking system. It is of critical importance to the economy because it is the funding basis for the traditional banking system. Without it, traditional banks will not lend and credit, which is essential for job creation, will not be created."***

6) *"While it is true that banks create the money they lend simply by writing loans into the accounts of their borrowers, they still need liquidity to clear withdrawals; and for that they largely rely on the repo market, which has a daily turnover just in the U.S. of over $1 trillion."*
7) ***"British financial commentator Alasdair MacLeod observes that the derivatives market was built on cheap repo credit. But interest rates have shot up and credit is no longer cheap, even for financial institutions."***
8) ***"According to a December 2022 report by the BIS, $80 trillion in foreign exchange derivatives that are off-balance-sheet (documented only in the footnotes of bank reports) are about to reset (roll over at higher interest rates). Financial commentator George Gammon discusses the threat this poses in a podcast he calls, "BIS Warns of 2023 Black Swan – A Derivatives Time Bomb."***

I want all of you to read at least twice, the above paragraphs (1) to (8) from Ellen Brown so that you can follow all subsequent paragraphs beyond derivatives, specifically in paragraphs (4), (6) and (7) in relation to "Repo Credit" above.

Recall that I had stated earlier that treasury bonds are considered **by the experts** as the best security money can buy - a Tier 1 asset in accordance with the Bank of International Settlement (BIS) determination. **Lately, gold has been elevated to a Tier 1 Asset and no longer considered by financial arseholes as a "Barbaric Relic".** Why do you think the BRICS and SCO countries are backing their currencies with gold and energy commodities i.e. oil and gas?

Connecting the Dots

The FED "print money" (digitally or otherwise) to the US government by having treasury bonds as "security". In the Repo Market, banks borrow from the FED, short term loans (to maintain liquidity e.g. to comply with reserve requirements) secured by US treasuries. **The value of the treasuries is based on the value "marked to market"** and must be sufficient to support the amount of the loan extended.

Recall that I had stated earlier that the **value or price of a bond is "high" because of the low interest rates** (a reflection of the integrity and credit worthiness of the issuer / giver of the bond. **So, if the bond fetches high interest rates as is the current interest rate regime, i.e. the bond is high risk, obviously the value of the bond plummets!**

Bond and Interest Rates 101!

Thus when you apply the above information and knowledge, the inevitable conclusion must be that those bonds which were tendered as security and "marked to market" to the FED whether by the US government or banks, and interest rates were as low as 0.1 per cent, the price of the bonds were high.

The scenario now is different. Now the FED is staring at new bonds with interest rates over 4 per cent or more. The value / price of the previous treasuries / bonds have plummeted and cannot support the value of the loans extended to the government or to the bankers as before!

The sanctity of the Treasuries has been smashed, and treasuries would not be accepted and or treated as a Tier 1 asset, even designated as such by BIS etc. This is a nightmare scenario!

And assuming an investor is holding a load of treasuries which were marked to market and triple-Star rated, and carried the old rate of 0.1 per cent, but now bonds are being issued with rates at 4 per cent, who do you think will buy the old bonds / treasuries with a coupon rate at 0.1 per cent?

They are all useless, because you can only earn 0.1 per cent over a period until maturity. Their values have plummeted when other newer bonds / treasuries offer a higher return because of a higher rate of interest. FED etc. can't sell because there are no buyers for these old bonds, whose values have diminished.

More importantly, and this is another scam by rating agencies like Moody's. Many governments and corporations are holding treasuries or other triple-rated bonds and as such, these financial institutions (Banks, Hedge Funds, Pension Funds, Corporation etc.) are all rated "investment grade" with triple-A ratings because inter-alia, these old bonds were held as assets.

Wolfe Richter wrote and I quote:

"Let me just divert your attention for a moment from the collapse of SVB Financial and what it might and might not mean for the financial system or the start-up bubble or whatever, to another ***troubling aspect of SVB Financial that shows that no one has learned anything since the Financial Crisis, least of all the credit rating agencies.*** *So you know what is coming: The solid investment-grade rating on a company – SVB Financial – that then collapsed with its investment-grade rating, taking investors down with it.*

"On Wednesday March 8, Moody's still had an A3 rating on SVB Financial, owner of the now defunct Silicon Valley Bank, as it was already collapsing for all to see. In the evening of that day, after SVB disclosed a $1.8 billion loss on the sale of bonds, a planned capital raise, and a slew of liquidity measures, Moody's downgraded it by just one itty-bitty notch, to Baa1, still three notches into investment grade.

"Then on March 10, after Silicon Valley Bank was shut down and put into receivership, Moody's downgraded SVB by 13 notches in one fell-swoop, all the way across junk territory, to its lowest rating, to C, which is Moody's rating for default. *And it said that it will withdraw the rating. That's how worthless these credit ratings are if you rely on them for your bond holdings.*

"Similar with S&P Global Ratings: On March 9, a day behind Moody's, it downgraded SVB Financial by one notch to BBB-, which is still investment grade. *Then on* ***March 10, after SVB Financial collapsed and was taken over by the FDIC, S&P slashed its rating by 10 notches all the way through junk territory to D, for default, its lowest rating.*** *Holders of its bonds and preferred stock (like bonds, a liability on the bank's balance sheet) got the rug pulled out from under them."*

If these bonds etc. are now treated as junk, what do you think would be the grading of the old bonds or treasuries held by the FED, the Central Banks all over the world and global banks etc.?

And if banks took treasuries as security for loans extended to governments and corporations that were once treated as "Triple A and Investment Grade" but now junks, what would be the status of these banks?

Unsecured or inadequately secured is one conclusion, but what will scare the shit out of them is that they cannot liquidate these securities as easily as before. Period!

And the music stops with the FED, BOE, ECB, BOJ etc.

If this is not a systemic fiasco, no matter how the Fed, US Treasury and other central Banks spin it, and investors accept the fake narrative, then these investors deserve to be whacked!

Final Parting Words

FED and other central banks are going to introduce CBDC (Central Bank Digital Currency) as an alternative in the near future, but they can only do so, if the old financial regime is scuttled. However, there is still a catch!

The **US $ is a Federal Reserve Note** and the value is stated on the face of the note - $1, $50, $100 etc. but the purchasing power of these notes have plummeted over the years. Google and discover how much the purchasing power has fallen.

The truth is - The value of the US dollar has lost **more than 96%** of its purchasing power since the creation of the Federal Reserve in 1913. Consumer prices have gone up more than 24 times since 1913, meaning that a $1 bill from 1913 would have less than 4 cents in purchasing power today!

So, how will the Central Banks resolve the quandary as examined in the foregoing paragraphs?