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Gobbled Up by the Giant Derivatives Monster

by The Mogambo Guru

"Well, I say that these foreigners will turn up to loan us money as long as we have weapons, technology, land and useful assets to sell them, but the time will soon come when they will be peddling them to us. In the meantime, how big is the derivatives monster that is going to destroy the world's economic system?"

Clive Maund at clivemaund.com says, "Payback time for Wall St and Washington will be when foreign investors fail to turn up at the bond auctions to finance the bailout plan, whose $800+ billion will have to be created out of thin air. So the bonds will have to be monetized, which will mean an immediate spike in inflation, which will cause the rate of corporate bankruptcies to soar as failing companies take down others in a chain reaction because the losses will be highly leveraged by credit default swaps etc. This is the underlying reason why banks won't lend to each other - they can't calculate the counterparty risk. All of this will set off a massive derivatives meltdown that will bring the whole system crashing down."

Well, I say that these foreigners will turn up to loan us money as long as we have weapons, technology, land and useful assets to sell them, but the time will soon come when they will be peddling them to us. In the meantime, how big is the derivatives monster that is going to destroy the world's economic system?

Well, the estimate from (as I recall) the International Monetary Fund is that the global total of derivative contracts outstanding is $1.125 quadrillion, whereas global GDP is about $50 trillion, although both numbers are so big that I couldn't make any sense of them even if I was sober, and being sloshed, I revert to more primitive responses, like screaming in fear and holing up behind the massive blast-proof door of the Mogambo Bunker Of Raging Panic (MBORP).

Only here, safe amongst gold, silver, guns, frozen pizzas and stacks of adult literature of the "Hot, Nasty Ladies" variety can I finally relax enough to calculate that to make this $1.125 quadrillion yield even a lowly 1%, it would take $11.25 trillion just to pay the interest! Hahaha! We're freaking doomed! A quarter of global GDP is needed just to pay a 1% yield!

I am laughing hard at this one example of the stupidity of the American school system that anybody in this country could possibly believe such a thing could work! In fact, I was going to use the line "It Ain't Gonna Work", but I see that that title had just been used by Tim Wood at FinancialSense.com, who uses it to say "manipulation will ultimately not work" and that it will "make matters worse in the end. Yet, the Fed, the Treasury and the politicians continue to think that they can 'fix' the problem by throwing more money at it. They do not understand that they can't 'fix' this economic crisis. They also do not understand that it is their trying to 'fix' things in the past that has created the current situation."

He says that Nikolai D. Kondratieff, the tragic Russian economist of the early 20th century, has foreseen all of this before, and thus, "What we are dealing with is the wrath of Kondratieff Winter, which is about the purging of excess credit. Along with that comes deflation, and along with that global stock markets enter into extended declines. Real estate declines, economic growth slows, commodities decline, bankruptcies accelerate as the excess credit is purged from the system, the banking system is shaken, the free market is blamed and we move toward national fascist political tendencies."

Ominously, he sums up with "We are now seeing each and every one of these symptoms of K-wave winter."

One of the symptoms he did not mention was the intellectual corruption that spews from the Fed, such as the recent decision of the Fed to pay banks interest on their deposits at the Fed! Hahaha! And where in the hell will the Fed get the money to pay all of this interest money? They will create it, too! There is more money everywhere! Hahaha!

It's all for nothing, anyway, as Jesús Huerta de Soto starts off his new essay "Financial Crisis and Recession", posted at lewrockwell.com, with "The severe financial crisis and resulting worldwide economic recession we have been forecasting for years are finally unleashing their fury. In fact, the reckless policy of artificial credit expansion that central banks (led by the American Federal Reserve) have permitted and orchestrated over the last fifteen years could not have ended in any other way."

And Mr. de Soto ought to know, as he is as professor of economics at Rey Juan Carlos University in Madrid, is Spain's leading Austrian economist, and the author of the famous authoritative tome Money, Bank Credit and Economic Cycles.

In short, we're freaking doomed!