ECB's Draghi Pumps The Final Bubble

by Claudio Celani

Sept. 12—The European Central Bank (ECB) announced desperate measures to pump the global financial bubble on Sept. 4: a discount rate of 0.05%; an interbank lending rate of -0.2%; quantitative easing ("QE") in the form of ECB purchases of private asset-backed securities (ABS), starting in the fourth quarter; QE in the form of ECB purchase of covered bonds (usually issued by banks), starting in the fourth quarter; another LTRO (long-term refinancing operations) wave of ECB ultra-cheap lending to banks, to start in two weeks. This last is euphemistically labelled "funding for lending," and is supposed to increase credit to the productive sector. In fact, it is copied from the British model with the same name, which has not worked. After its implementation, bank credit to the economy in the U.K. was lower than before.

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ECB President Mario Draghi

The intention behind the ECB move was candidly described in a 104-page study issued by Deutsche Bank strategist Jim Reid on Sept. 11. The financial system is a single, giant bubble, and the bubble must be pumped, otherwise the system collapses. "*We think this bubble needs to be maintained to ensure the solvency of the current financial system,*" Reid wrote.

"Over the last couple of decades the global economy has rolled from bubble to bubble with excesses never fully being allowed to unravel. Instead aggressive policy responses have encouraged them to roll into new bubbles. This has arguably kept the modern financial system as we know it a going concern," the report says. The bubble has now migrated into the bond market, and it has become "a necessary condition for maintaining the debt laden financial system."

There is nowhere left for this bubble to go, given that it is now in the hands of governments and central banks, the Deutsche Bank strategist wrote, and thus, "we think this bubble needs to be maintained to ensure the solvency of the current financial system."

Accordingly, stock and bond markets surged after the announcement of the ECB liquidity expansion. According to some sources, it is not only private banks and hedge funds which are speculating, but central banks themselves, which are directly buying futures and other derivative products in order to prop up the markets.

Banks are particularly eager for the ABS program. On Sept. 12, Jean-Claude Juncker, president-elect of the EU Commission, stated that a priority of the Commission will be to revive the ABS market. The program has been drafted for the ECB by BlackRock, itself a major owner of ABS papers, and will allow banks to package their toxic loans into securities, which the ECB will buy. ECB President Mario Draghi has announced a first purchase of about EU800 billion.

However, the ECB has already earmarked at least part of that debt to be paid by taxpayers. On Aug. 28, ECB Executive Board member Benoit Coeuré said that for an ABS-purchasing program to reach its full potential, governments must guarantee at least some of the debt.

"Europe is facing a very fundamental choice if it wants to move to an ABS market that is as deep and liquid as the U.S. market," Coeure said in an interview with *Risk* magazine, distributed by the ECB. "To reach this goal, the securitization market will require a significantly different amount of public sponsoring than is currently the case."

In other words, the ECB is pumping the final bubble, partly by printing money, partly with government (taxpayers') money, in a futile and desperate move which will not prevent the bubble from bursting. Meanwhile, the recession in the EU is becoming a depression, unemployment in some countries has reached a real figure of 25%, and in several cases, democratic institutions have been irreversibly compromised. The threat of war is increasing.

Get the mad driver out of the driver's seat before it is too late!