

# Interim Market Update



Central Plains Advisors, Inc. • 200 W. Douglas Ave., Ste. 100 Wichita, KS 67202 • Economic Consulting & Investment Management

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## 2008 REVISITED

**What is taking place in the world financial markets is just a continuation of a worldwide spending spree that has put our economic system at severe risk. It is a “pretend and extend” operation, which will only make things worse later on down the road.**

**Please read the attached reprint of a portion of Mish’s Global Economic Trend Analysis, which is an excellent summary of the world’s central banks’ operations to save Europe from financial collapse. It represents yet another Band-Aid on the road to our economic malaise.**

**Please note one *very* important aspect of this rescue: “The ECB also jumped into the bond market Sunday night, saying it is ready to buy eurozone bonds to shore up liquidity in ‘dysfunctional’ markets.” Our Federal Reserve will do exactly the same thing for U.S. government bonds if it comes to that here at home. We do not expect that to happen; however, it is nice to know that we who own government bonds have an ace in the hole. The United States government bond market will be protected at all cost.**

**Mish’s Global Economic Trend Analysis, May 9, 2010  
[www.globaleconomicanalysis.blogspot.com](http://www.globaleconomicanalysis.blogspot.com)**

**Shock and Awe Part II; Show of Force Rises to \$962 billion; Fed Joins the Battle; Short Squeeze Coming, Then What?**

The ECB, IMF, and now the Fed have come out with bazookas blazing in all hands. The amount of ammunition the fools are willing to throw at "Defending the Euro" is now up to \$962 billion.



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Please consider [EU Crafts \\$962 Billion Show of Force to Halt Euro Crisis](http://www.bloomberg.com/apps/news?pid=20601100&sid=apDIWA06ybu8)  
(<http://www.bloomberg.com/apps/news?pid=20601100&sid=apDIWA06ybu8>).

European policy makers unveiled an unprecedented loan package worth almost \$1 trillion and a program of bond purchases as they spearheaded a global drive to stop a sovereign-debt crisis that threatened to shatter confidence in the euro.

Jolted into action by last week's slide in the currency and soaring bond yields in Portugal and Spain, the 16 euro nations agreed to offer financial assistance worth as much as 750 billion euros (\$962 billion) to countries under attack from speculators. The European Central Bank will counter "severe tensions" in "certain" markets by purchasing government and private debt.

"The message has gotten through: the euro zone will defend its money," French Finance Minister Christine Lagarde told reporters in Brussels early today after the 14-hour meeting.

"This is Shock and Awe, Part II and in 3-D," Marco Annunziata, chief economist at UniCredit Group in London, said in an e-mailed note. "This truly is overwhelming force, and should be more than sufficient to stabilize markets in the near term, prevent panic and contain the risk of contagion."

## **World Needs Dollars To Defend The Euro**

Inquiring minds note [Fed to reopen dollar swap program](http://www.marketwatch.com/story/fed-to-reopen-dollar-swap-program-ecb-says-2010-05-09) (<http://www.marketwatch.com/story/fed-to-reopen-dollar-swap-program-ecb-says-2010-05-09>).

The Federal Reserve is going to reopen a program set up during the financial crisis, to make sure foreign banks have the dollars they need, the European Central Bank announced late Sunday. The Fed will ship dollars overseas through the Bank of Canada, the Bank of England, the ECB and the Swiss National Bank. The Bank of Japan will be considering similar measures soon, the ECB said. The facilities are designed to help improve liquidity conditions in U.S. dollar funding markets and to prevent the spread of strains to other markets and other financial centers, the ECB said in a statement on its web site. The ECB said the first repurchase operations for dollars against ECB-eligible collateral would be carried out on Tuesday.

Gee, fancy that. The world needs more dollars to defend the Euro.



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## Credit Lines Will Expand Fed's Balance Sheet

Inquiring minds note Federal Reserve opens credit line to Europe  
([http://news.yahoo.com/s/ap/20100510/ap\\_on\\_bi\\_ge/us\\_europe\\_financial\\_crisis\\_fed](http://news.yahoo.com/s/ap/20100510/ap_on_bi_ge/us_europe_financial_crisis_fed)).

The Federal Reserve late Sunday opened a program to ship U.S. dollars to Europe in a move to head off a broader financial crisis on the continent.

Other central banks, including the Bank of Canada, the Bank of England, the European Central Bank, the Swiss National Bank and the Bank of Japan also are involved in the dollar swap effort.

The move comes after the European Union and International Monetary Fund pledged a nearly \$1 trillion defense package for the embattled euro, hoping to calm jittery markets and halt attacks on the eurozone's weakest members. The ECB also jumped into the bond market Sunday night, saying it is ready to buy eurozone bonds to shore up liquidity in "dysfunctional" markets.

The Fed's action reopens a program put in place during the 2008 global financial crisis under which dollars are shipped overseas through the foreign central banks. In turn, these central banks can lend the dollars out to banks in their home countries that are in need of dollar funding to prevent the European crisis from spreading further.

The program reopened on Sunday will expand the Fed's balance sheet, economists say. However, the program poses little credit risk to the Fed because the arrangements are with other central banks, they added.

## Hallelujah, All Praise the "Riskless" Transaction

Economists claim and the Fed appears to believe there is no risk because the arrangements are with other central banks. Hey, why not lend an unlimited amount if it's risk free?

That may be coming down the road.



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