

A return to QE and the 4Rs

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We are on the cusp of a major crisis in the shadow Banking system the linkages are as follows.

➤ **First - Regulation**

Without a lot of ill-judged and over the top regulation aimed at the Banks after the GFC the Shadow Banks would not exist at least not in the size and scale of today. Prohibition did not stop alcohol consumption it merely drove it underground

➤ **Second - Repos**

Repo rates are soaring both in the USA & UK signalling severe stress and liquidity shortages in the Money Markets as Shadow Banks who rely on the Repo market to finance their operations face increasing problems with their collateral.

➤ **Third - Redemption**

This is triggering Redemptions in Hedge Funds associated with Invoice Factoring. Car finance and CMBS (commercial mortgage-backed securities). Last week UBS shut two O'Connor funds due to the above bringing back memories of the two Bear Stearns funds that were liquidated ahead of the GFC

➤ **Fourth – Recession**

Last week Challenger Gray a private jobs report stated that 153k jobs had been lost in October alone - the highest number since 2002. So far this year Challenger Gray estimate the losses at 1.1million. If jobs are being lost at this rate a recession is inevitable.

This explains why the Fed is ending QT as QT makes the problem worse by draining liquidity from the system. Meanwhile, Bailey at the BOE just continues draining liquidity with QT whilst simultaneously adding liquidity via the Repo market. He then claims to be given the run around by some Shadow Bankers - more evidence (as if any was needed) that he has not got a clue what he is doing.

If this continues the Fed (& others) will be forced to inject liquidity with a return to QE to avoid a systemic collapse. Interest rates will fall (a lot), Government Bonds will rise & Gold and Silver will experience a further stratospheric increase in value

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Important Information

The views expressed in this document represents the views of the author at the time of preparation and should not be interpreted as investment advice

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