Nomi Prins: Central Bank Collusion

Erik: Joining me next on the program is author Nomi Prins. The new book, just out, is *Collu$ion: How Central Bankers Rigged the World*, the story of quantitative easing – not just the Federal Reserve, but central banks around the world.

Nomi, thanks so much for joining us on the program. Why don't we go back to 2009? It's spring of 2009, everybody's panicking, it seems like the sky is falling. And the Fed announces QE1. And, at the time, what everybody in the industry was saying is, oh boy, money printing. This is going to lead to runaway inflation. That's going to be the risk.

And, of course, what's happened has been anything but runaway inflation. I think, at the same time, a lot of people didn't understand. We thought the bill of goods that was sold to the public, frankly, was that they were going to be creating new money supply to benefit the general economy, to help Joe Mainstreet to get back on his feet. And it seems like the money that's been created has helped asset markets but it hasn't done a lot for Main Street.

So what did they actually do? And why was it not inflationary the way so many people feared.

Nomi: Well, actually, what they did was inflationary for asset markets. And that's the irony of it. And that's actually how we know that simply electronically conjuring money or printing money wasn't the way to sustain strategic on-the-ground growth.

And so the fact that we've had over 21 trillion dollars throughout the world – and up to $4.5 trillion on the side of the US, with the Federal Reserve manufacturing money, and not becoming inflationary from an economic standpoint – simply shows up how much it was really inflationary from a financial asset perspective.

It did lift debt markets, it did lift stock markets, it did lift housing markets back. It just didn't trickle down into the main economy. So the fears that inflation would somehow be stoked were not really realized because that's not where the money went.

Had the money really gone into the real economy, we probably would have had inflation. And that would have probably capped the level of financial asset inflation. But it just didn't go there. Nor was it funneled in a way such that it would go there.

So our biggest time that it didn't really work to do what the narrative was that it would relate to growth is that we didn't have inflation. But we had asset inflation.

Erik: Now the other criticism that was levied at the time – a lot of people, myself included, looked at the situation and said, okay, the central bank is basically printing money to buy their own bonds. This is emerging-market, end-of-the-world stuff. It's an act of desperation.

And I predicted – very, very incorrectly – I thought the market is going to see through it. They're going to see that this money printing doesn't solve any real problem that led to 2008. It doesn't do anything about the corruption that existed in the falsification of bond ratings on CDOs. It doesn't fix that. It doesn't fix too-much-private-debt-in-the-system. It doesn't fix any of those things.

It seemed to me like it was just an act of desperation that the market would see through and it wouldn't help anything. And, of course (to my astonishment and a lot of people's astonishment), it's been straight up in, I think, the second-longest-running bull market in all-time history.

So, why is it that the central banks were able to get away with something that – and tell me if you if you think I'm wrong to say it was an act of desperation that didn't really address any of the causal problems that led to the 2008 crisis – that remains my view today.

What I'm kind of baffled by is how have they gotten away with it? And how have they managed to prop up markets for so long without any ill consequence? You know, we always thought someday the piper has to be paid. Well, when is the piper going to be paid? And what form is that going to come in?

Nomi: I completely agree with you. It was an act of desperation. And it was an act of coordinated desperation across the world. The reality was credit markets were dead, banks weren't trusting each other. The assets – not just on their books but the loans they had extended to other investors to buy those assets – were all basically falling apart.

And the Fed came in and said, you know, we'll just fund this. Here's a cheque. Call it electronic, call it printing, but here's some money to paper over that. And, by the way, here's swap lines for everyone else in the world to make sure they have enough dollars so that they or their countries that have too much exposure to these assets and this particular credit problem, they'll be helped as well.

So it was absolutely an act of desperation. It was a lot of desperation. These were large sums that were taken out in QE1, and in the wake of the early part of the post-financial crisis year.

But the reason the markets went up and didn't see through that is not because they believed this wasn't an act of desperation (I think), but because there was just free money being handed out. It's sort of like if you're a drug addict, and you know at some point you'll be clearheaded if you just get off the drugs and get your act together and move forwards, that's one way to do it.

Or if someone is supplying you with lots of drugs then it just works and everything else, well then you'll take them.

And this is what happened. The Fed was that sort of supplier of last resort and a lender of last resort of capital for the market. And by, basically, blowing through interest rates, keeping them at 0% in the US and then globally as well, the cost of capital was so low, the ability of any actual government bond to return anything of any substance was also rendered low as a result.

And so the only place to go was every other asset market. For example, the stock market. And that's where the money went.

So the desperation continued for 10 years, in a way. Because now that we're looking at so many trillions of dollars still on the books of all these central banks they're not taking it away. That sort of security blanket for the entire financial system is still on offer. I mean, it's still there for any kind of a crash potentially to be cushioned.

Or, if it's not enough, then any new crash will actually blow through that cushion. That's what we're dealing with right now. It's just been going on for so long and it's so vast that it's given markets this liftoff.

And if we start to get problems, like credit risk that has been inflated since all the QE began would start to come to a head – defaults, delinquencies, emerging markets seeing their capital fly back out because there is just a little bit of a worry that this can't go on forever – all of that starts to culminate into a major potential credit squeeze which, ultimately, can be the other leg of this crisis.

And we go into decade two.

Erik: Let's talk about the scope of this globally. Why don't we start with the United States and the Federal Reserve. How much total QE has occurred between – it depends I guess on whose system you go by whether we had three rounds or four rounds of QE. All this money that was conjured out of thin air went to buy what assets?

How much, what percentage of it was Treasuries? And how much of it was mortgage-backed securities? And how much of it was anything else? And what is the status of that today? And, particularly, how much is still on the balance sheet?

Certainly we know how to value Treasuries. But what about mortgage-backed securities and other things whose value might be a little bit dubious as opposed to what it's marked to? How much of that is still on the Fed's balance sheet?

Nomi: At the height of the QEs, the Fed had a balance sheet of about $4.5 trillion. And that was in a combination of Treasuries and mortgage-backed securities. And the mortgage-backed securities were something like $1.5, $1.6 trillion. And the rest was Treasuries.

Today, after they said they were going to taper (reduce the size of their quantitative easing portfolio) at the beginning of this year, it has tapered by a whopping 0.2%.

So it's now at $4.3 trillion instead of $4.5 trillion as the total amount of QE assets on the books. $1.75 trillion of that is mortgage-backed securities. To put that in perspective, it's about 26% of the entire mortgage-backed securities market.

So, not only is that a fairly big chunk, but that also allows the remaining mortgage-backed securities to be overvalued by virtue of the fact that this demand (or the Fed) has been there for all of these years and continues to roll over its positions instead of buying more mortgage-backed securities when they come off – although, for the most part, they're longer-dated than the Treasury securities that the Fed has on its books.

The rest of the securities are US Treasuries. And they're kind of clustered around the 3- to 5-year maturity level. Although recently – and we've seen this – there's been a bit of a yield curve flattening that looked a little bit alpha curve – so there's a little bit of movement, just from the Fed's perspective, very quietly. I'm looking at their balance sheet sort of moving around to the 5–10- and 10-year area. But that remaining bulk is in US Treasuries.

Erik: Now, with respect to the massive $1.6 trillion of mortgage-backed securities, do we have public data on whether or not those are performing completely? And is the valuation just sort of what the Fed marked it to when they bought it?

Is there any objective analysis of whether what they're carrying – these mortgage-backed securities on these books – are? And what they're really worth?

Let's say, hypothetically, we had a sale tomorrow and auctioned them to the best bidder. I have a feeling that the best bidder is probably not going to overpay beyond what the Fed is marking them to.

Do we know deterministically what this stuff is really worth? Or is it just kind of take the Fed's word for it?

Nomi: Well, this is the Catch-22 about the whole thing. We know what the Fed paid for that amount of mortgage-backed securities at the time, in the initial part of QE that they purchased them. But, of course, things have been rolling on and off as they've been buying more and things have been maturing along the way.

So there's been a little bit of adjustment there. It's the kind of thing where they don't show the prices. They just show the absolute value of the amount of notional mortgage-backed securities they purchase and what they value it at on their books.

Every week they have a Federal Reserve Report H.4.1 (https://www.federalreserve.gov/releases/h41) that basically shows all the assets on their books. And one of the classifications on that book is mortgage-backed securities. And it sort of breaks that down in a very minor way. It just basically says how much they've gone up or down since the last week and over the past year.

So that doesn't really give you a clue as to what they're priced at an individual basis. But the problem is, even if we did know that (which they don't report), the fact that they're buying them at the levels they're buying them at kind of creates this artificial bid for the entire mortgage-backed securities market.

So even if they overvalue 26% of the market by 10%, that overvalues – let's say, on average, everything else by 2.5%. You know what I mean?

So it's very hard to get a real sense of what the value of the market is, based on the fact that the Fed likely overpaid and really isn't breaking down all the individual prices and what interest payments are being made and what default rates are and so forth into those mortgage-backed securities.

And, again, even if you back-analyze them by looking at other mortgage-backed securities they don't hold, they're getting a higher bid by virtue of the fact that the Fed is holding the ones they're holding.

So, no, we don't have an absolutely clear sense of how well they're doing or how they're performing. We just know that their bid is keeping the rest of the market higher than it would otherwise be.

Erik: Now, a lot of people – including professionals in finance, I think – focus so much on this just shocking large number of $4.5 trillion of balance sheet expansion that the Federal Reserve has been through. And, as you say, now it's shrinking all the way down to $4.3 trillion.

It sounds like just such an unconscionably large number. People lose sight of the fact. That's like a quarter of the total amount of money supply that was created globally through all of these QE programs.

So let's go around the world to the other central banks because, not only did they create more cumulatively than the Fed did, but they also bought more than just their own treasuries and mortgage-backed securities.

Let's go next to the ECB, the European Central Bank. What did their QE program look like? How was it different from the Fed's? And what assets did they buy at the peak? And what do they still have on their books today?

Nomi: Their peak is still growing. At the moment they have somewhere between $5.3 and $5.5 trillion or so worth of assets on their book. And they're kind of divided between different government bonds throughout the Eurozone (countries that comprise the jurisdiction the ECB is supposed to be concerned with). And then, corporate bonds that they are also purchasing.

So the mix is such that it was changing. It was sort of like 20% corporate bonds and the rest government bonds. But now there's been more corporate purchases, so that the percentage is going more towards corporate bonds. So they're taking on more credit exposure on the books.

And the way the European Central Bank actually decides how to purchase these securities is rather random. They tend to purchase securities that are in the major countries, or the more core countries in the Eurozone. So Germany, Netherlands, Luxembourg, France, and so forth – relative to the weaker economies like Italy or Greece or Spain.

Although that's not entirely true. Well, it's true of Greece and Germany. But they basically choose corporates based on a lot of things that don't necessarily reflect fundamental analysis of companies. There's relationships in there that get brought up in terms of what securities they buy and so forth.

They do print a weekly update, as well, of what they've purchased in terms of the exact corporate bonds and what they've let run off, which is none of them.

Erik: And do we know for sure what assets the ECB has? Obviously, we don't know every position. But are they transparent enough to indicate what percentage is in corporates? And what percentage is in treasuries? And what percentage may be somewhere else?

I know some people have questioned whether or not the ECB has engaged in buying ETFs or equity securities. Do we know that for sure?

Nomi: We know sort of what they're buying. Like, what new is coming in. And so you can sort of do the math and figure – their reports aren't exactly fully clear and transparent. You can sort of back-quantify how much they are holding of governments versus, say, corporates just by virtue of the fact that they publish the new purchases that they've made in corporates and they publish their total size.

So, in that respect, we can continue to see the, sort of, now 25 or 26 corporate percentage of their balance sheet, which is going to expand as they continue to buy corporates relative to governments.

So, you can kind of see it. But you really kind of have to dig around to get the entire picture. It's not like they have this – and they could, but they don't – have a chart that says, okay, this is how many governments we bought, this is how many corporates we bought, these are the maturities, these are the countries, these are the sectors.

You have to really kind of do the legwork yourself. But it is sort of there.

Erik: Let's hit the Bank of Japan next. What does their program look like? How big is it? And what does it contain?

Nomi: The Bank of Japan actually does have more invested in ETFs. You mentioned before whether the ECB did. ECB has more in corporates. Although the National Bank of Switzerland, which is outside the ECB, is not in equities.

The Bank of Japan is a combination, really, of Japanese government bonds (JGBs) and ETFs.

And one of the things they do also is, on a bimonthly basis, they actually show how much they're going to put into various ETFs before they do it. But that number isn't constant. So it sort of changes based on where the Bank of Japan decides to invest at that particular moment.

So there's no real plan. It's just sort of like they have the ability to expand their balance sheet – their goal is about 6 trillion yen a year on ETFs. But it's not necessarily in, like, 30 billion Euro monthly quantities like the ECB. It's a little bit more random.

But they have the largest balance sheet right now, at over $5.5 trillion worth of quantitative easing. And what happened with Japan is around 2013 they kind of crossed.

The Fed was still increasing its balance sheet. And the ECB sort of was increasing its balance sheet, sort of more quickly because they had a credit crisis in 2012 and 2011.

And then the Bank of Japan came in and just blew them both away in terms of the accelerated speed of their quantitative easing from 2013 up. And that coincided with the government of Shinzō Abe coming in and wanting to have a perfect economy and fiscal stimulus and all these other elements that would be benefited by an extremely loose quantitative easing policy by the Bank of Japan.

And so they've really won the 2013-to-now speed race in terms of quantitative easing manufacturing.

Erik: Well, if I put the Fed, ECB, and BOJ together, I come up with around $15.5 or $16 trillion of total QE programs that you've described.

Where is the rest of it? Which other central banks are also engaging in QE? And how does it compare in terms of both size and type of assets that they've acquired?

Nomi: Those start to drop off. You have the Bank of England that has about $800 billion worth of quantitative easing. You have the Swiss National Bank, which is somewhere around there. You have the Netherlands.

You start to get, like, $200 to $300 billion here or there, which starts to add up ultimately to about $20 trillion where you just have, really, the other major countries' central banks kicking in after the Bank of England at $800 billion – just sort of a few hundred billion here and there.

Erik: Now I think there's a really important point here. In the United States, when they announced the tapering of QE, that was the point where a lot of people predicted: Okay, you wanted to know when the piper has to be paid. This is going to be it. Because now, suddenly, they're shutting off the free lunch faucet. But, when you think about it, at the time that the US was tapering, the other central banks were just ramping up their activity.

So, on a net basis, am I correct to say that there really hasn't been any tapering of quantitative easing yet if you consider it on a global scale, all the central banks cumulatively?

Nomi: That's correct. It's one straight line up.

And if we sort of divide up who's tapering (i.e. the Fed) what happened is when the Fed not so much tapered, but when they stopped expanding their quantitative easing program, you had a more accelerated line through that level of both the European Central Bank and the Bank of Japan.

So the net net, if you added everything up, you had a continuing expansion of quantitative easing across the major central banks.

And then, recently, as the Fed said (and we discussed it before), it's going to taper and it's basically sold a whopping $200 billion off of their $4.5 trillion balance sheet. They've been able to, effectively, be overcompensated by the additional amount of quantitative easing coming from the Bank of Japan and the European Central Bank.

So net net, it's still there. Which is why this entire program – even though it began with the Fed and then was kind of exported through the rest of the major central banks – is not something that can be looked at as just the necessity of any domestic central bank or regional central bank to handle their own country or their own region.

This is something that was collusive from the beginning and has been on a continued basis. And so what that allows, in terms of a continuing distortion in the markets, is that the Federal Reserve can say, okay, we're going to taper because this policy has worked. And then (a) not really taper and (b) have any shortfall in tapering be taken up by other major central banks.

So, as you mentioned, at net, not only has there been no change, there has been an increase in quantitative easing through this tapering period.

What does occur is every time a taper is suggested by either a central bank or central bank leader or the press in that country or whatever, there tends to be now more volatility coming into the markets – because the expectation is that maybe this time they will actually do it.

I continue to be surprised by the fact that this is a belief that's held by anyone because, looking at the numbers, there's been no evidence that any tapering has actually occurred at all anywhere in total.

But, when it is suggested, markets do tend to wobble. When it is suggested – for example, the European Central Bank will take off instead of the tablecloth from the dishes of the corporate bonds that they're buying and they're going to crash down on it, they just come in and expand the dates of their quantitative easing.

Like you, I thought that when tapering was going to start happening there would be problems. But, because it's global, there has been no tapering. So those problems haven't happened.

I also thought that when the European Central Bank, who had come in and taken over for the Fed going slower on quantitative easing, came and expanded their program, and had said that a summer ago they were going to stop, that at that point – at that stopping point – there would be a definite issue. And there would be more wobbles in the markets.

But then they didn't stop. They just expanded it.

So this also relates to the credibility of these central banks, where, even if they promote the idea that what they've been doing has somehow worked relative to what their goalposts are – whether that's growth or inflation or whatever it may be – the reality is they don't really change their policy collectively.

Erik: So let's just take stock of where that leaves us. Because, it seems to me, 10 years into this, if the goal – and they'll never admit that it's the goal – but if the goal had just been to prop up asset markets, you've got to give them credit for the fact that that has worked. For the last 10 years, we have seen just terrific inflation or growth of both stock and bond markets. And it is just staggering, the amount of money that's gone into this.

Now, as you say, if you consider that the global markets really are controlled by very sophisticated investment banks that have the ability to invest globally, the easy money spigot has not yet been turned off.

All that's happened is, perhaps even for appearances' sake, the Fed says, hey, politically, we can't get away with this much longer. Mario (Draghi), Shinzō (Abe), turn on the spigot on your end – we're going to shut ours off for appearances' sake.

And, of course, you can easily move that money across international borders. It still contributes to US stock indices and so forth. At some point, though, those of us who don't believe in a free lunch are convinced that the piper has to be paid.

So how does that come about? Do we have to wait until eventually that on a net basis they really are tapering globally? And what happens at that point?

Nomi: I think that the idea of tapering globally is far off, for a lot of reasons. The language of all of these central bank leaders (with, sort of, the exception of the Fed – but, really, if you dig into it also Jerome Powell) is that growth is actually slowing all of a sudden. So the ones that were talking about tapering, or the ones that were at least covered in the press as potentially talking about tapering, have really sort of dialed back.

So Kuroda, at the Bank of Japan, has basically said, well, yeah, but, you know, inflation is not really high. So I'm just going to keep doing this. And Mario Draghi has said, well, you know, growth is not really high. And Mark Carney, who runs the Bank of England, was anticipated widely by literally every analyst in the UK and around the world to be basing rates two weeks ago and didn't because he said that growth had slowed down.

And so they've changed their goalposts from, say, being full employment to slow growth. Inflation is not really their benchmark.

In the Fed's case, a lot of internal senior people at the Fed are saying, well, even if we do get inflation at 2% – because that's about where it's hovering in the US relative to other countries – well maybe 2% isn't the right benchmark. So they keep on coming up with excuses to continue to push QE. So I don't think that's going away any time soon.

But I think the problem – and one of the reasons they are continuing to push it – comes from credit.

Which is a problem in literally every crash.

There's even – with the level of cheapness of debt, whether it's public debt, or whether it's corporate debt throughout the world right now – and the leverage that's been taken out since the financial crisis – because money has been so cheap for so long – there has to be point at which the true – not simply just growth of a company or growth of a corporate environment or growth of the economy – completely mismatches the asset inflation of the financial part of the world – that there will be moment where you know that one company or that one sector – and it's starting with retail – and it happened with energy – and then oil prices will pop back up for different geopolitical reasons and so forth –

But enough sectors, enough consumers, enough countries start to be unable to pay even the cheap level of debt that they have.

And if that happens simultaneously (which is how credit bubbles burst), it's not usually one company or one sector. It's a simultaneous squeeze across lots of different areas, or that relate to different areas.

That's when you start to have market downturns. And that's when you start to have spreads blow out. And that's when you start to have money taken out of the stock market in order to chase those spreads back in. And so forth. And that's when you start to have more problems.

But I just think that, right now, even though, instead of rising volatility and emerging market outflows and so forth are all pointing to that eventuality, the fact that you have this enormous amount of unlimited quantitative easing potential – and, when I say unlimited I mean there is no limit by any of the central bankers on themselves – it really does keep everything in check. Which only means this kind of snowball continues to get bigger and bigger as it's pushed up to the top of some hill that we can't really see the top of (but it's there) before it comes back down again.

And all those credit bubbles pop first and then it sort of oozes into the rest of the asset classes.

Erik: Now, for the first eight years or so, all that could happen is asset markets went up. And that was both bonds and stocks. But Treasury yields bottomed, almost two years ago now. And it seems like maybe we're seeing the beginning of a backing up of interest rates.

We've had a number of expert guests on the program who've said, hey, there's really an important line in the sand around 3.05 on the US 10-year. We're past that now. Or 3.25 on the 30-year.

There hasn't been a close above the 100-month moving average on a monthly basis on the 30-year since the early '80s. And it would take a 3.25 print in order to break that record. We're at 3.20 now – 5 basis points away.

So we're getting really close to some very, very strong bearish signals in the bond market. Are these indications that this quantitative experiment has finally reached a point where it can't sustain itself and it's all about to blow up? Or is this just par for the course?

Nomi: We are in extremely uncharted territory. So levels, relative to money supply creation, are really in completely uncharted waters. So they're saying, you know, 3.23, 3.25 means something.

It would have, had we not had $20 trillion (or so) amount of supply that was in leverage into much more than that, sort of keeping the world up. I think – and this is why looking at the Fed's balance sheet is interesting. And I just started doing this because of all of that conversation about the yield curve flattening and, sort of, rates going up in the long end (of the yield curve) and so forth.

That said, we also had some auctions last week that were very well subscribed, which sort of pushed rates back down because of that psychology of those levels. And I'm also seeing that the Fed is moving some of its purchases around to the longer end.

That happened in Japan. What Japan did was it started out with quantitative easing in terms of just moving the rates down and buying bonds in the lower part of the yield curve. And then it started doing quantitative easing with a twist. And what that simply meant was also buying securities in the longer end of the curve. So, effectively, flattening out the yield curve but from the far side downwards.

And I think if the rates going up in the longer end – which do, yes, indicate people's lack of confidence in real growth in terms of bonds' purchasing power in the future – start to manifest.

I personally think if it gets to be too bad that, given the environment we're in right now, the Fed is going to come in and increase the buying on that part of the yield curve and bring those rates down.

But that is not conventional opinion. I just think it's something in the arsenal of what the Fed could do if it seemed like having rates too high too quickly would create these credit problems that I was just talking about before.

So I don't have that crystal ball.

But this is the one thing we're not sure – it's like, I wasn't sure that tapering was going to – I knew that tapering wasn't going to happen globally. But I sort of believed when certain central banks said that they would at least stop purchasing that they would. And of course they didn't.

And so there is now a precedent for central banks to just expand the nature of their quantitative easing. And so the Fed does have that at its disposal, which would take yields down at the higher end of the curve.

Erik: If you had asked 100 financial professionals back in the spring of 2009 a hypothetical question, which is, if central bankers put their minds to it, do you think they could prop asset markets straight up for 10 years straight, in a straight line, and have nothing go wrong, and without the whole thing blowing up in their face? I think 90% of them, at least, would have said no, that's impossible.

So far, that has worked. They've gotten away with this. Does it mean that there really is not going to be a price to be paid at some point? Is it actually possible for central banks to create prosperity this way? I don't know if it's prosperity for Main Street. But certainly for Wall Street it has been.

Or does there have to be a point where it all blows up? And, if so, how do you think it goes down? What's the mechanism? What are the consequences? And who pays the price?

Nomi: This is why my subtitle is "How Central Bankers Rigged the World." Because that is what's gone on for the last 10 years. It's been a *bona fide* rigging of the financial markets by just dumping cash into them. Like converting all these central banks, that were primarily regulators of monetary policy in their supposed day jobs, into portfolio managers and hedge fund operators.

And that's really changed the dynamics of the system and of financial markets. I was like those other 90%. I didn't think this could continue for as long as it did. Again, I think when the European Central Bank expanded beyond their initial thoughts of quantitative easing, my guess as to how long this would continue increased dramatically.

Because it just shows that – there will be a moment in 2019 where there is going to be a shifting of a couple of the deck chairs in the central bank community, possibly in Europe, we might get a hawkish person coming in from Germany to take over Mario Draghi's job and so forth.

But I think, ultimately, the sort of coordinated effort of these central banks can keep the markets up for a number of years longer. But with more fractures coming into play, as the ones that we all envisioned would happen, which is that you can't continue to allow the leverage to increase – forget the height of stock markets – but the leverage in the debt markets to increase indefinitely. Because, at some point, even cheap debt has to be repaid.

And so what we're seeing right now, I think, is the beginning of that sort of reckoning coming in. With, for example, money flowing out of the emerging markets and emerging market ETFs as quickly as it has in the last few months.

Because those are the markets that have, on a government basis, had more risk attached to them to begin with – and yet were able to attract massively oversubscribed bond issuances in the process of having to keep money available to them from a global basis, linking it to dollar-based debt (and so forth) from a corporate basis. And that just expanded the leverage in the world.

And I think that will crack first.. I mean, the thing that is the weakest. And its leverage is not real. And when leverage is borrowed – and at some point there has to be a repayment of borrowed money even if what it's borrowed upon is going to continue to borrow more.

And so I think that's the fracture. That's what happens – you just have massive credit problems across corporates, across emerging market governments, across consumers in these countries – because they haven't been propped up in a wage versus cost basis the way the markets have been propped up and banks have been propped up from the additional deluge of capital basis.

And then, I think all of that starts happening around the same time. And that's when you start seeing that –

There's studies where almost half the households for example in the United States basically can't make an extra month of payments on just their general expenses if they have to. Those are problems on the consumer side.

You see retail companies closing. Those are problems on the consumer side. You see corporates starting to have delinquent payments. That's a problem on the corporate side.

And then you see emerging market governments start to have problems repaying or not being able to expand as quickly as their borrowing agenda. That starts to be a problem on that level.

I think all of this will happen around the same time. When it does happen, it will be large and it will be credit-based.

Erik: And do you think that there necessarily has to be a big bad event at that point? Or do central bankers respond and say, okay, we've got to print some more money? Of course, it may not be technically money printing, but they are conjuring money supply out of thin air without any natural wealth creation behind it.

If that seems to be what worked before, I would think they would just go back to their old tricks and do it again and probably get away with it for a while longer. Is there something at some point that prevents them from being able to use more QE to continue the party, so to speak?

Nomi: Functionally, no. There is nothing to prevent them to expand their balance sheet. Literally nothing. There is no limitation, there is no legislation, there is no internal body that is going to make them stop at a certain level. The actual answer is: There is no limitation.

Then one wonders why they haven't done more. I think they've done everything they can do. Which is why, yes, when those things start to happen, the European Central Bank will open themselves to more corporates. So will Bank of Japan.

The Fed will have a little bit more of a political problem, perhaps, with selling that. But I think that's why they're positioning themselves out the yield curve. I think these things will happen. But, still, you have that point where – like the Titanic, it's sinking. But some life rafts, the rich people are jumping on, they're getting there, and they're getting away. But then how many? And at some point there's just not enough left to get everyone out.

And I think at some point we might get to a level where the manufacture of quantitative easing – which has and I think will continue to increase globally – isn't enough to make up for the fractures that are happening throughout the credit world. That's when things start to implode.

Like I said before, I don't think that's tomorrow. I just think we're seeing the signs. I just think that central bankers are very clear that when there is any reason they can attach themselves to, to allow them to continue quantitative easing, they will do that.

The rates are a little bit of an issue – when rates start to go up – because there is the expectation in the market that growth is slower, that people are selling off longer-term bonds, or whatever it might be. And, again, I think they have an arsenal to deal with some of that.

And, then again, we have to look at this as a speculative world. And so people who are watching what the central banks are doing from an investment standpoint – and that's not a wrong thing to do – I mean, you might as well – are watching what they're doing and they're sort of hopping on board.

And, if so, the European Central Bank decides to buy Siemens or something in Germany as a company, well, then so will other people. It's pretty well-announced. And so you can ride the various trades of these central banks as well. And that has the cosmetic ability to lift up certain assets, even if they are failing at their core fundamental value level.

Erik: Someday, when you get to secular inflation – if you start to get to a runaway inflation problem – although it's true that the criticism that QE was going to supposedly lead to inflation didn't happen, it's also true that they were in a very, very deeply deflationary economic backdrop at the time that they started doing the QE.

It seems to me that if you're already fighting runaway inflation and you try to do more QE at that point, maybe that's the point where it exacerbates the inflation. And, at that point, the central bankers' hands are tied and they can't go any farther. And that's when it all comes crashing down.

Grade my term paper on that. Would you agree with that analysis? And, if so, how far away do you think we are from serious runaway inflation becoming a factor? Because, certainly, there hasn't been much sign of it yet.

Nomi: Again, it depends how we define inflation. There has been inflation as discussed in asset prices. There has been inflation in university costs, health care costs. There has been inflation in certain basic, let's say, needs less than things like retail or areas that are actually deflating. And that sort of thing. There's been inflation recently in oil prices, but not enough to really make the difference. And there's been cheap car loans so that people are still buying cars.

So everything is kind of keeping itself in check. And inflation in general throughout the developed world where these main economic central banks operate is still really, really low.

And even in the US it's kind of approaching the 1.9 or so percent on any given month. If you look back at the last 10 years, you know, yeah, it's been at 2.3, it's been at 1.5, it's been at 2.2, it's been at 1.0. You know, it's still bobbling around very low levels. And it's even lower in Japan and in Europe and now moving that way in the UK and some of the major economies.

So, yes, though, if you have that change, or if inflation was computed in such a way that it actually reflected people's cost of living inflation and the financial markets inflation, then you probably would see stronger inflation.

But the way it's computed we're still at very low levels. And, again, every time we get near the 2% magical level in any one of these areas, central bankers come in and discuss whether or not that level means anything and whether or not they should increase it such that they can continue quantitative easing.

So I agree with your thesis. What's just weird about this particular environment is that we're dealing with this unlimited – not just in terms of the amount of quantitative easing, but in the nature and quality of it – to continue to morph.

And I think, as it can morph around the yield curve or morph around the credit curve, it can sort of keep up with some stuff. But ultimately, yeah, if prices were to go up too high because there is too much money in the markets chasing real goods then, yeah, perhaps we would see that things would shift.

But this money isn't really necessarily chasing real goods. It's chasing financial assets. And that's very different.

Erik: Nomi, due to time limitations, we've only had the opportunity to explore a few of the topics that you cover in your new book *Collusion*. Please tell our listeners what they can expect to find and what the book is about when they read it.

Nomi: Well, it is about collusion amongst the central bankers and how quantitative easing has really changed the nature not just of the financial markets, but also geopolitical relationships, trade relationships.

Because, amongst the major central banks and the ones that were outside of that realm – for example, the People's Bank of China or the central bank of Brazil or Mexico, which I cover – those central banks have different issues in terms of the money they created, where it went.

People's Bank of China, for example, that money went into real infrastructure development and real trade agreements with countries in the region, for China to basically say, look, we're going to lend you money, to Sri Lanka or Thailand etc. to build in coordination, which strengthened their geopolitical ties.

And so there are ramifications of central bank policy that go beyond just changing markets and actually changing the nature of economies, of diplomacy, of trade alliances, superpower hierarchies, and of voting patterns. Throughout a lot of these countries as well.

So the themes that I cover in the book throughout the world are evolved from simply monetary and rate and currency developments into just, really, how the world has been restructured because of the new powerful nature of central banks moving from just monetary policy – and even just from quantitative easing – into being able to work with governments to really change the nature of the world.

Erik: And, again, the name of the book is *Collusion* by Nomi Prins, available on Amazon. Nomi, in addition to the book, you also have an excellent website and you're also very active on Twitter. Please give our listeners the URL for your website as well as your Twitter handle.

Nomi: It's my name: www.nomiprins.com and the same thing on Twitter @nomiprins.

Erik: Well, Nomi, I can't thank you enough for a fantastic interview. Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com.