DK Analytics, Post #6: $4.5trn in assets, $58bn in equity; the contortionist, political Fed

Posted on August 12th, 2015

http://www.federalreserve.gov/releases/h41/current/h41.pdf

5. Consolidated Statement of Condition of All Federal Reserve Banks (continued)
Millions of dollars

Assets, liabilities, and capital	Eliminations from consolidation	Wednesday Aug 5, 2015	Change since Wednesday Jul 29, 2015	Change since Wednesday Aug 6, 2014
Liabilities				
Federal Reserve notes, net of F.R. Bank holdings		1,330,071	+ 2,362	+ 85,604
Reverse repurchase agreements[13]		249,050	+ 6,539	+ 19,657
Deposits	(0)	2,841,901	- 8,027	- 30,524
Term deposits held by depository institutions		0	0	0
Other deposits held by depository institutions		2,624,012	- 8,818	- 165,394
U.S. Treasury, General Account		198,755	- 4,623	+ 129,431
Foreign official		5,244	+ 1	- 1,321
Other[14]	(0)	13,890	+ 5,414	+ 6,760
Deferred availability cash items	(0)	320	+ 40	- 531
Other liabilities and accrued dividends[15]		6,821	+ 70	+ 157
Total liabilities	(0)	4,428,163	+ 984	+ 74,363
Capital accounts				
Capital paid in		29,083	- 67	+ 928
Surplus		29,083	- 67	+ 928
Other capital accounts		0	0	0
Total capital		58,165	- 135	+ 1,854

Note: Components may not sum to totals because of rounding.

It really is incredible, isn't it, the Federal Reserve cabal's balance sheet? 1.3% equity capital or debt is 77x equity.

Upshot: huge Fed exposure to just a small increase in a rise in bond yields/a fall in bond prices. Same bonds' durations are very long given (artificially) lofty valuations. This makes them even more susceptible to a valuation implosion when interest rates head north. Worth of mention: 10-year bond yields over the past 400 plus years have *averaged* roughly 4%, according to James Dale Davidson. Today's 10-year Treasury yields 2.2%.

Needless to say, the Fed and its fractional reserve member banks would quickly be bankrupt (have negative equity), i.e., if "mark-to-market" accounting were in force, should the huge global bond market ($199trn debt outstanding globally) focus on ever rising sovereign solvency and monetary inflation risks -- thanks to central bank policies -- and begin to sell government bonds in earnest. Does this speak volumes about the Fed's, and other leading central banks, such as the ECB, the BOE, and the BOJ, commitment to keeping interest rates at the long end of the curve as low as possible or what? We must not forget central banks' true mandate: to protect the health of their member banks' balance sheets! Did I just spell "QE revisited?" (I would be remiss if I didn't state that heavily indebted economies can't afford higher interest rates; in the US alone, a one percentage point increase in the cost of funding the federal debt is $180bn!)

Moreover, we know that aggregate OECD government deficits, prior to even stouter global economic weakness, are still much too large (http://www.oecd-ilibrary.org/economics/government-deficit_gov-dfct-table-en), meaning that leading central banks can hardly afford to start selling government bonds in a market that still has huge global financing/refinancing needs prior to even greater funding requirements "around the recessionary corner."

Meanwhile, note that the Fed has on its books/is financing $1.7trn worth of US mortgages!!! This is clearly a quasi-nationalization of American mortgages.

As regards the Fed, that same asset exposure is also a potentially great precursor to financially steering the Obama administration's (HUD's) planned massive national homeowner relocations (takings of property). Given how many other erstwhile unthinkable events have occurred both financially and politically, can you really fault me for daring to call this out as a distinct possibility?

Let me offer some additional insight into why mulling over such a potential development isn't "conspiracy theory stuff." Given that that the US Supreme Court condoned a huge violation of Takings Clause protections (5th Amendment of US Constitution) 10 years ago in its Kelo vs. New London decision (in favor of eminent domain) and given that the same court has just recently issued its disparate impact decision (housing discrimination no longer has to be proven, only implied or implicit!), "the skids appear to be greased" for a potentially major makeover of where America lives, property rights, and liberty. Related links that you may find of interest in this "if it looks like a duck, walks like a duck, and talks like a duck, then perhaps it is a duck" development:

www.nationalreview.com/corner/420896/massive-government-overreach-obamas-affh-rule-out-stanley-kurtz

http://nypost.com/2015/07/18/obama-has-been-collecting-personal-data-for-a-secret-race-database

http://www.nationalreview.com/article/420339/supreme-courts-disparate-impact-decision-disaster-john-fund

http://dkanalytics.com/pdfreports/wp-content/uploads/2015/07/A-decade-later-June-2015a.pdf

What an anti-liberty, anti-property rights, financial repression, rampant misallocation-based, crony cocktail the electorate is being offered again and again. Wall Street & K Street are richer than ever, and Main Street is being sold down the river under the guise of "utopian progressivism." Sound familiar? "Back in the …"

Investors, take your portfolio allocation cues! Caveat Emptor.

Greetings,
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Greetings,
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