This Could Be the World's Largest, Most Toxic Banking System…

By Graham Summers - October 24, 2012

As noted earlier in yesterday's article, the entire European banking and corporate system is over-burdened with debt.

Germany sports a *real* Debt to GDP of over 200% (this from the former head of the Bundesbank), and the rest of Europe is in even worse shape.

Indeed, Jagadeesh Gokhale of the Cato Institute puts the situation as the following, "***The average EU country would need to have more than four times (434 percent) its current annual gross domestic product (GDP) in the bank today, earning interest at the government's borrowing rate, in order to fund current policies indefinitely."***

Suffice to say, no EU country has that kind of money lying around.

Moreover, the argument that the ECB or Federal Reserve could stop this from happening is misguided. True, the Central Banks have managed to prop up the markets for several years now.

So what makes this time different?

Simple: the Crisis coming from Europe will be far, far larger in scope than anything the Fed or Central Banks have dealt with before.

Let me walk through each of these one at a time. We have several facts that we need to remember. They are:

1) The European Banking system is over $46 trillion in size (nearly 3X total EU GDP).

2) The European Central Bank's (ECB) balance sheet is now nearly $4 trillion in size (larger than Germany's economy and roughly 1/3 the size of the ENTIRE EU's GDP). Aside from the inflationary and systemic risks this poses (the ECB is now leveraged at over 36 to 1).

3) Over a quarter of the ECB's balance sheet is PIIGS debt which the ECB will dump any and all losses from onto national Central Banks (read: Germany)

So we're talking about a banking system that is nearly four times that of the US ($46 trillion vs. $12 trillion) with at least twice the amount of leverage (26 to 1 for the EU vs. 13 to 1 for the US), and a Central Bank that has stuffed its balance sheet with loads of garbage debts, giving it a leverage level of 36 to 1.

And all of this is occurring in a region of 17 different countries none of which have a great history of getting along… at a time when old political tensions are rapidly heating up.

To be clear, the Fed, indeed, Global Central Banks in general, have never had to deal with a problem the size of the coming EU's Banking Crisis. There are already signs that bank runs are in progress in the PIIGS (Spain has lost 18% of deposits this year alone) and now spreading to France.

Thus, the World's Central Banks cannot possibly hope to contain the coming disaster. They literally have one of two choices:

1) Monetize everything (hyperinflation)

2) Allow the defaults and collapse to happen (mega-deflation)

If they opt for #1, Germany *will* leave the Euro. End of story. They've already experienced Weimar and will not tolerate aggressive monetization.

So even the initial impact of a massive coordinated effort to monetize debt would be rendered moot as the Euro currency would enter a free-fall, forcing the US dollar sharply higher which in turn would trigger a 2008 type event at the minimum.

In simple terms, this time around, *when* Europe goes down (and it will at some point in the no so distant future) it's going to be bigger than anything we've seen in our lifetimes. And this time around, the world Central Banks are already leveraged to the hilt having spent virtually all of their dry powder propping up the markets for the last four years.

I've said this before many times, but it cannot be overemphasized… everything I've been writing about for nearly a year *will still happen*. The fact that I was early and we were stopped out of our Euro Crisis trades because the ECB promised "unlimited" bond buying right before the Fed announced QE 3 doesn't change the ultimate outcome: **the EU breaking up and a global financial meltdown.**

On that note, if you are not preparing for a bloodbath in the markets, now is the time to do so. The reality is that the Central Banks are fast losing their grip on the markets. They'll never admit this publicly, but I can assure you that Bernanke and pals are scared stiff by what's happening in the banking system right now.

If you're looking for someone who can help you navigate and even profit from this mess, I'm your man. **My clients *made* money in 2008.** And we've been playing the Euro Crisis to perfection, with our portfolio returning 34% between July 31 2011 and July 31 2012 (compared to a 2% return for the S&P 500).

Indeed, during that entire time we saw **73 winning trades and only one single loser.** We're now positioning ourselves for the next round of the Crisis with several targeted investments that will explode higher as the EU crumbles.