

Collapsing Global Economy, Imploding Financial System: China Has Only One Option

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The title is of course a little misleading because China has many options, none of which except one in my opinion will actually work. Options to what exactly you ask? Options to a collapsing global economy and an imploding financial system which will surely affect China as much as anywhere else, but with one caveat. I take these events as a given, others do not but betting against an outright panic and global bankruptcy is betting against pure mathematics itself.

Let's back up a little bit and look at where China is currently. They are the second largest economy in the world (maybe the largest, we can't really know because the numbers here, there, and everywhere are made up). China is by far THE largest manufacturer in the world and also an enormous exporter. China is also in a three horse race as to who owns the most U.S. Treasuries with Japan and unbelievably the Federal Reserve itself. They have an oversized shadow banking system which has already been shown as fraudulent in several cases regarding copper, zinc and lead as "collateral" (or not).

[The Chinese also have a stock market bubble boiling that makes the tulip craze look tame.](#)

Because of sheer size of the country, they are opening something like four million brokerage accounts per month. In recent days they have had several stocks hit new highs only to drop 50-60% or more in just one day. In fact, they had one company stock hit a new high and then go to ZERO the following day because it was discovered their books were cooked to a crisp.

We also know China is a huge importer of gold AND the largest producer of gold in the world. NONE of their production ever leaves their borders. There have been estimates of gold tonnage held by many. Alisdair Mcleod believes they may have 25,000 tons or more, I personally believe it is possible if you include legacy or "elders" gold. Others believe the number is closer to the 5,000 ton range. My belief is that 10,000 tons is a justifiable number and very easily proven, if this is true, much of it had come from the U.S. and other Western sources and thus depleting the reserves.

I assume the number is 10,000 tons or more, this is a safe number in my mind. I think it is also a safe bet to say the U.S. has sold a minimum of one half of "our" gold which would leave about 4,000 tons. If this is the case, there is already a new world order where China has as much gold as numbers 2, 3 and 4. Looking backwards in time, after the Bretton Woods agreement, the U.S. had every incentive to keep the "price" of gold down at \$35. This is so and evidenced by the old saying "it's as good as gold". The saying originally came about as a description of the dollar. As it turns out, the dollar was NOT as good as gold, in fact it was not as good as anything, even a cup of coffee. The dollar was overprinted and abused (inflated) by politicians (the Fed) in order to hide anything and everything "bad".

This worked until we hit the wall, let's call this wall "debt saturation". Now, the process is reversing and will end in a massive deflation versus real money while fiat currencies follow their issuers into insolvency.

Getting back to China, whenever they do make an announcement of how much gold they have, the yuan will appreciate greatly versus all fiat currencies. Many will pooh pooh this thought because "China will never do that, they will kill their own manufacturing base". Let me answer this before moving forward. The Chinese are very smart people, they can see the West is hitting the debt wall. They also know that as the wall is hit and markets begin to implode, their "customers" are going to have an even harder time buying Chinese produced goods. In fact, they already know this. They already know this is happening and can see it in their trade figures ...which is why they recently formed the AIIB and are working feverishly to open the "old silk road" trade route! They are simply lining up new customers from one end of the silk road to the other!

I have hypothesized many times in the past, China has built out their infrastructure and even "ghost cities" using credit. Once the credit markets begin to default, they will be left with "stuff", in place and will last for the next 50 to 100 years. Roads, bridges, buildings, airports, ports, etc., you name it they have already built it. And yes, their stock market will crash, their real estate market is already softening, in reverse and declining. I am not saying it will be all rosy, to the contrary, there will be bankruptcies galore in China... with a caveat. The "government" of China will go through this liquidation phase with the most gold in the world.

Moving forward, since China will be hurt badly as investments default, I believe they will price their gold higher initially. I believe marking their gold higher in terms of yuan will be their only option. They will be forced to in order to "recapitalize" themselves (and their banking system) and begin to fill in the black holes created by defaulted U.S. Treasuries and other "assets" held. You see, not only is the old saying "he who owns the gold makes the rules" true, it is also true that he who owns the gold has the ability to PRICE IT.

This has been true for so many years as the U.S. (the West) has wanted low gold prices as a show or display that their fiat currencies were "good". Now, as the curtain goes down on the West, China will want a very high gold price in yuan for when the curtain rises again. A gold price maybe even higher than it should be will give the PBOC more power initially AND will allow them some room to inflate and grow. Please notice I am only talking about China in this paragraph. As for the dollar and other Western currencies, they will be revalued downward versus the yuan which gives gold priced in dollars a double whammy of re pricing.

Let's tie this all together and look at the old silk road and the trade route China is focusing on. It goes from Asia, through the Middle East and into Europe. Could this be why various European nations are repatriating their gold? Not only because they have lost trust in their custodian but they also know China will put an emphasis on gold holdings in the future? What do many Asians hold as money? Yes, Gold. Indians? Gold. Arabs? Again gold. The point I am trying to make is the "old silk road" might as well be called the "yellow brick road" and one paved with gold from beginning to end! It seems to me, the only ones who don't understand this or even disagree are Westerners and in particular, Americans. Our standard of living is about to be pulled right out from under us while violently proclaiming "it can never happen". I would say, it should have already happened but has not because we

still had a few kilos left to supply the paving crew of the “Wizard of OZ paving company”.

The above was finished midday on Saturday, since then two new pieces of news have come out. First, China announced it is setting up [“the world’s largest gold fund”](#) . They will earmark \$16 billion to purchase physical gold. If you do the math, this is around 500 tons or about 20% of global production. By calling it “the world’s largest gold fund”, maybe China is saying they do not believe “GLD” is real? Just an observation.

In the latest piece of news, <http://rt.com/business/261289-brics-new-development-bank/> RT ran an editorial piece pointing out that China already lends more to Africa and Latin America than the World Bank and IMF combined. Is this posturing “for” the Chinese before the IMF readjusts the SDR? Seemingly disconnected pieces to the puzzle, don’t bet on it!

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Bill Holter writes and is partnered with Jim Sinclair at the newly formed Holter/Sinclair collaboration. Prior, he wrote for Miles Franklin from 2012-15. Bill worked as a retail stockbroker for 23 years, including 12 as a branch manager at A.G. Edwards. He left Wall Street in late 2006 to avoid potential liabilities related to management of paper assets. In retirement he and his family moved to Costa Rica where he lived until 2011 when he moved back to the United States. Bill was a well-known contributor to the Gold Anti-Trust Action Committee (GATA) commentaries from 2007-present.

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