

Financial Meltdown? The Central Role of Credit, the “Global Margin Call”, Impasse in Monetary Policy

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Theme: [Global Economy](#)

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Those who have been reading my work for any length of time know I have been adamant we would someday face a “global margin call”. I believe this call was issued last week! No matter how you look at the world, whether financially, geopolitically, macro, micro or whatever ...what underlies everything in our world today is “credit”.

Credit is used to build, wage war, to produce and deliver, to consume or to trade, EVERYTHING runs on credit. As a side note, in order for credit to be extended, the borrower must have some sort of “collateral”. This collateral can be physical, financial, or simply “faith”, meaning a good credit rating or at least trust by the lender.

We’ve now arrived at a point very similar to where we were in the fall of 2008 with several very grave exceptions. The world is facing a global margin call again, only this time there are no sovereign entities left with a clean balance sheet that can be levered up further.

There are also no tools left available to the various central banks to administer monetary policy. They have already printed, monetized debt and lowered rates to zero. Richard Fisher has even admitted they have no ammunition left! As a side note, rates were cut to zero to make the higher debt balances serviceable but now even zero percent rates are not enough. From a macro standpoint, real economic activity is not generating enough cash flow (profits and tax revenues) to support this current debt. Lastly, there is no more “collateral” left to borrow against. Whether it be stocks, bonds, real estate, commodities or even “faith”, we are at the end of the road in the collateral department.

We have recently found out (not that we did not already know) through admission that many statistics have been wrong, and wrong for many years. What was reported and paraded as fantastic employment news on Friday turned out to really be a stinker as the truth turned out to be a whopping 11,000 job gain

<http://davidstockmanscontracorn.com/newsflash-from-the-december-jobs-report-the-us-economy-is-dead-in-the-water/> !

What would have been considered heresy just 10 years ago is now “normal”, the [Swiss National Bank has become a huge global hedge fund along with the PBOC and Bank of Japan](#). Does anyone doubt the Fed is not deeply in U.S. equity markets also (by the way, US monetary aggregates have gone into SHARP decline since the Dec. 6th report)? What kind of monetary policy is this? Sovereign “money” (currency) is foundationed on stock markets? Please keep in mind that global trade is crashing with the Baltic Dry Index making all time lows this past week and reports of tankers (non oil) all over the world being docked and empty. As for oil, there is such a global glut there are now fears of lack of storage space. All of this points toward a collapsing real global (depression) economy ...which must service the

most financial debt in the history of history!

This past week, markets all around the globe convulsed greatly with almost nothing left unscathed. There was a different excuse each day for the drops. We first heard about the Saudi/Iran disconnect of diplomatic ties, then, everything was down because of the yuan devaluation and their market hitting the 7% circuit breakers. I even heard someone say that everyone has such great profits they wanted out ...but not until the 2016 tax year which is why they waited until the first week.

I do not believe any of it and would instead say we are simply receiving a global margin call. This had to come sooner or later as the world sits upon the greatest credit build in all of history. We are simply at the end of a "credit cycle" ...unfortunately the largest credit cycle EVER! Everyone "knew" this day would come yet no one paid attention to it in their daily lives as "life just went on" as if nothing was wrong! I am sure we will hear reason after reason in the future ...the real reason being too much debt with not enough collateral left nor enough economic activity to support it. Simple!

Now, the margin call comes. Now comes the great unwind! "Collateral" of all sorts will be questioned. The questions will be of the "strength, liquidity, ownership and even whether the collateral even exists". Everything will be questioned and nothing taken for granted or even at face value. The issue of "trust" and even "who" can you trust will come forward. Institutions who have traded with each other for decades will suddenly be looking at each other with different eyes. Questions like "will I get paid" or "will I receive what I paid for" will be an everyday exercise.

There will surely be "blame" but what will it be? Several years into the future it will be understood for what it really is, too much debt, leverage and financially modified products such as derivatives. In the immediate, the blame might go on anything or anyone. We could see a banking collapse in China, Europe or start somewhere insignificant like "Pottersville".

<http://www.zerohedge.com/news/2016-01-08/35-trillion-neutron-bomb-keeps-kyle-bass-night>

It could be some sort of military action.

Maybe in the Middle East, eastern Europe, China South Sea. It could involve any number of characters from the US, China, Russia or Saudis, Israelis, Iran, Syria, Iraq? Who knows? It could begin with oil. It could begin with gold. It could begin with "truth" coming out in the form of a "truth bomb" and finger pointing. We might see a global trade war or outright currency war.

Do the Chinese, Russians and Saudis have enough Treasury securities to dump and cause an interest rate spike? Are the Saudis still U.S. allies or do they view us now as pro Iran and they switch alliances? Will, and which treaties will be honored when push comes to shove? If I had to guess, whatever happens will certainly not be "petro dollar" friendly!

All of these questions and many more will be asked. The most important of course being whether or not "you" can meet the margin call or whether you do business with a cross partner who cannot meet the call. When I write "you" I mean to say everyone, every entity, and every sovereign government. This is how we will get the long awaited reset, the markets will close and accounts will be settled and liquidated if necessary, only upon the reopenings will you understand what you really have. The great global unwind is here and

now with the most dreaded of all phrases about to be announced

“MARGIN CALL GENTLEMEN”!

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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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