Global Systemic Economic Crisis: Financial Warfare and the World of Politics

Global Systemic Economic Crisis: The economic-political world versus financial banking interests

By Global Europe Anticipation Bulletin (GEAB)
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Update

After the deadline for this GEAB number last Saturday evening, our team has closely watched the unusual coincidence of all the market indicators' collapsing: European, American and Asian stock exchanges, raw materials… and even and especially gold. Unfortunately we don't have time to expand on this event but, anyway, we interpret it in line with everything we have written in this number. But where this number describes things still rather calmly, as still to come, we wonder whether these premises are not those of the collapse which we anticipated for the March to June 2013 period. Western austerity (American sequestration + the treatment of European austerity) which Chinese growth has ended up feeling with these poor numbers announced today has caused price collapse in raw materials and stock exchanges which involves a fall in banking assets, obliging the banks to close out their positions urgently to gain liquidity.

There is a clearance sale of paper gold which is leading the dance. The phenomenon is all the more remarkable as, if it were a normal speculative process, falls in one market would benefit another. We are probably at the beginning of a panic in which all speculative positions are sold off. If a 2008 style collapse is really taking place, the question is: where will the trillions which were caught up in-extremis in the financial system in 2009 come from?

Depending on the method of political anticipation, dating the cracks is carried out by identifying the high-risk periods during which the slightest spark lights the powder-keg.

The current period is a typical example where an impressive number of explosive factors are combining: new financial bubbles inflated by massive injections of public money, worldwide geopolitical instability, currency wars, the beginning of the political war against "financial terrorism", political crisis in Europe, massive unemployment and a damaged real economy, not counting of course public debt which is at its highest.

It's such a concurrence of factors that it raises the miracle that this situation carries on. We analyzed the reasons in the GEAB n°71, in particular the shared interest in keeping the United States on artificial respiration and the central banks' disproportionate generosity. This last aspect has moved up a level with the Bank of Japan's policy which this time, far from reducing the level of risk, on the contrary has amplified it as we explain below, and is an example of the headlong flight which serves as current policy for certain countries lacking solutions and which the GEAB readers know well: Japan, the United Kingdom and the United States.

Our team thus estimates that a new step in the system’s instability has been taken. Moreover, several discordant notes have just pierced the deafening silence jealously imposed by the financial world on the true situation, like the sudden “surprise” damage to all the supposed macro-economic indicators meant to reflect the “recovery”: United States (1), Canadian (2) and Australian employment (3), confidence numbers (4), computer (5) and mobile ‘phone sales (6), Chinese exports (7), BRICS countries’ car sales (8), etc.

US total retail gasoline sales. Source : EIA

The Cypriot crisis is also a good refresher course. The turmoil generated by this tiny island, even though outside the dollar zone’s world financial core, gives a foretaste of what will happen when a central knot of the system is let go. Because whilst Europe is laboriously bandaging its wounds gradually, on the contrary the “US zone” is increasingly miring itself in the processes responsible for the crisis, as if choosing a higher diving board above a swimming pool without water would make the shock less painful.

In this issue, we present the first two of the six points in the full analysis :

THE CRISIS SQUARED OR THE HEADLONG « POLITICAL » FLIGHT

“Building a new crisis on the existing one” seems to be the objective of politicians in Japan, the United Kingdom and the United States. Like these financial products which exploded in mid-air in 2008, “CDO squared” (9) are complex structures on complex structures (CDOs on CDOs) aiming to dilute the risk but actually exacerbating it, the headlong flight lead in these countries builds a kind of “crisis squared”, a new crisis on the 2008 crisis. They claim to be putting out the fire by watering it, without realizing that it’s not water but petrol which they are using.

So, from the Bank of Japan which reveals its Japanese debt repurchase plan (10) making Ben Bernanke and his QE3 green with envy. If it were not that Japan has had a painful past on this issue, we would say that the atomic weapon has been armed and that the risks of a slip are immense, with consequences at the same level as the fire power. In fact, until now the enormous Japanese debt was supportable because of very low Treasury bond interest rates, about 0.5%. Investors, mainly national institutions, accepted these poor returns because inflation was negative, about -0.5%, thus giving a real return of around 1%. But tensions are already appearing, such as the largest Japanese and global pension funds threatening to exit Japanese bonds (11).

5 year Japanese Governement Bonds. Source : ZeroHedge / Bloomberg

However with a 2% inflation target and a central bank determined to carry it out by doubling the currency in circulation (12) (!), Treasury bond interest rates will have to rise to around 3% to give investors a real return of 1%. On a debt exceeding 200% of GDP, this rate is insupportable since debt servicing already accounts for 40% of government receipts at current rates (13). The market is well aware of it as the four temporary trading halts in the Japanese Treasury bond market in four days due to its volatility show (14). It's a clear warning the letting loose of uncontrolled risk. Japan is thus in an impasse: continuing this massive liquidity injection to create inflation and head either into a debt default because of insupportable interest rates (with dramatic consequences on businesses and pension funds), or into an uncontrollable spiral where the BoJ is the only player in the treasury bond market when everyone else in selling; or to stop the plan in progress and let the economy wither away. Without counting that, patriotism or not, the temptation must be strong for Japanese businesses to invest abroad to protect themselves from the yen's freefall which is now flirting with an exchange rate of around 100 yen to the dollar.

BUBBLES ON ALL FLOORS

But, to a smaller extent, the same strategy is being tested by the United States since the beginning of the crisis. This forced illusion of a real economy in good health feeds bubbles almost everywhere. Whether it be the student loan bubble, automobile loans, the treasury bond bubble of course, or a new subprime type bubble created at Obama's request who is now inciting the banks to lend to the least safe households (15) in order to re-launch real estate, all these areas of the economy only hold up thanks to the Fed and are disconnected from reality as we saw in the GEAB n°73. But, by paraphrasing a line from a film (16), it's not the bubble which is significant, it's the landing.

US production and consumption – In red, US production of « globally marketable output » (manufactured goods in general with few services). In light blue, US private consumption; in dark blue government consumption. In 2011 $ trillions. Source : Tullet Prebon

However this problem will not make do with staying within US borders. In fact it has also contributed to nourish an "emerging nation bubble" (17) (see the chart below) which has missed its goal and is beginning to deflate (18), preventing any hope that the worldwide economy would be actually pulled along by the emerging countries in 2013. Canada itself is really ailing with an enormous real estate bubble (see GEAB n°69), disappointing employment statistics, etc.

Chinese and Brazilian real estate – Real estate prices : above chart : Shanghai, below chart : Sao Paulo Source : Global Property Guide

But actually the dollar is the ultimate bubble. All the United States' supremacy rests on dollar domination, and the whole objective of their foreign policy is to preserve this domination at all costs. However, they don't have this option anymore. The dollar role is fading away on all sides, with sudden swap agreements or ex-dollar foreign trade (19) ; abrupt loss of confidence, in the United States included, where the Fed's inflationary policy has led several States to authorize gold as a currency or at least to consider it (20) ; China's progressive dumping of US treasury bonds (21) (would be this only be because it's amazing trade surpluses have disappeared), etc. The Bitcoin (22) bubble again illustrates this distrust in the dollar as we anticipated in the GEAB n°71: "The experiment with alternative currencies […] is on the agenda in 2013. […] Two different rationales push towards these experiments. [The first is] the loss of confidence in the official currency".

A dollar zone suffering the death of a thousand cuts and a Fed which, on the contrary, is printing increasing amounts of currency leading to a dollar oversupply whose consequence will be the bursting of the bubble dollar. In comparison, the other economies don't depend on their currency's international status and, on the contrary, this can only take on increasing importance if it's internationalized.

In order to prolong the dollar's supremacy, in addition to the increasingly less effective usual means using oil and their military power, the United States seeks to create free exchange zones left and right. This free exchange zone topic is truly on the 2013 agenda as we wrote in the GEAB n°71. However, we anticipated that the majority would fail or remain empty shells allowing the disguise of a new protectionism: this is exactly what is happening with the negotiations between Europe and the United States which is crystallizing grassroots discontent (23) and won't succeed quite simply because Europeans don't want American goods (and vice-versa).

Only rare negotiations for free exchange zones can still hope to come good like those between Europe and India because they are two areas warranted to get closer to play a greater international role, but here still the pill is hard to swallow because the Indians are imposing constraints which are increasingly difficult to accept (24). The objective of the world's major regions is, for the moment, to reinforce themselves and not open up. Not being able to go against this basic trend of regional rationales, the consequence of these free trade treaties numerous is to accentuate the currency war, the most convenient means of continuing a form of protectionism when tariff barriers are prohibited. In short, dollar safety won't come from free trade treaties.

Notes

1 Read: *Quit Blaming employment Europe for Bad Jobs News in the U.S.*, Bloomberg (09/04/2013)

2 Source : CBC News, 05/04/2013

3 Source : The Telegraph, 11/04/2013

4 See, amongst others, Dallas News, 09/04/2013

5 Source : Le Monde, 12/04/2013

6 Source : L'Expansion, 13/02/2013

7 Source : The Wall Street Journal, 10/04/2013

8 Source : Le Monde, 11/04/2013

9 For a simple explanation of the principle of CDOs and CDOs squared, see the video on Information Processing (17/10/2008). Also see Wikipédia.

10 Source : The Guardian, 08/04/2013

11 Source : Bloomberg, 03/02/2013

12 Source : The Guardian, 04/04/2013

13 Source : Wikipédia

14 Source : ZeroHedge, 10/04/2013

15 Source : Washington Post, 02/04/2013

16 La Haine by Mathieu Kassovitz.

17 For example, see The bubble bubble

18 Source : Caixin (03/04/2013), excellent article worth reading.

19 The latest are swap agreements between China and Australia and China and Brazil. Sources : The Australian (30/03/2013) and BBC News (27/03/2013).

20 Source : Bloomberg, 08/04/2013

21 Source : ZeroHedge, 11/04/2013

22 For example, see Le Monde (09/04/2013) and Le Monde (12/04/2013)

23 Source : Der Spiegel, 26/02/2013

24 Source : DNA, 13/04/2013

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