# More Market Instability? The Highly Leveraged Nature of our Financial System is Teetering

By Bill Holter
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*This week shapes up as one which could go down in the history books! Markets last week were tumultuous from weak equities, illiquid credit markets, FOREX markets in disarray and commodities hitting the skids …yet the Federal Reserve is intent on hiking rates? Have they taken this position because the markets are strong? Or because the economy …anywhere on the planet is overheating?*

Before looking at "this week", I have seen it said by many, "the Fed must raise rates to have any credibility left". This is true to an extent but there is one core reason and one of their own making. You see, the fake data and outright lies have been coming out of Washington in such regularity and magnitude the Fed has been painted into a corner. They either raise rates "because things are so good" or they don't …as a sign things aren't so good. It has been for this reason I have had an eye out looking for some manufactured (false flag) event that takes the Fed off the hook. Time is getting short prior to Wednesday's meeting and announcement …but there still is time.

It is quite interesting how China has devalued their yuan this past week prior to the Fed meeting.

They also announced they will monitor the Yuan's value versus global currencies rather than just versus the dollar, in essence "de pegging" against the dollar. The weak yuan has been blamed for much of the past weeks volatility and weaknesses in financial markets. A rate hike by the Fed will only double down on the weakness. Also of interest in China are the numerous "disappearances". For weeks there have been important individuals in the financial industry who have just disappeared. The latest fear was China's equivalent of Warren Buffett had been disappeared.

http://www.wsj.com/articles/fosun-listed-units-halted-amid-questions-about-founders-whereabouts-1449798047

It turns out he is being held and assisting "investigations". In the words of Warren Buffett himself, we only find out who was swimming naked when the tide goes out!

On the geopolitical front, the burner turned up this past week and has become much more complicated. First, the IMF basically said Ukraine does not need to pay Russia for the $3 billion equivalent they borrowed two years ago. The IMF will only enforce "dollar debt" …so no more rule of law if not using dollars? Russia then announced they will begin their own oil market for trade and will be an alternative to West Texas and North Sea Brent …NOT in dollars. Please understand this type of action has in the past resulted in the deposing and ultimate death of both Saddam Hussein and Qaddafi.

In Syria, it has now become a literal rainbow of colors in their sky with the latest planes being British. There is risk of a mishap with so many different nations in the sky at one time. Russia and NATO member Turkey also continue Russian Missile Destroyer "Fires Warning Shots" To Avoid Collision With Turkish Vessel to posture while Mr. Putin ordered their forces to "destroy any targets that threaten Russian military in Syria"

http://tass.ru/en/defense/843243 . Needless to say, the stakes are being raised and often.

We also have seen much higher stress in the credit markets as liquidity is evaporating. Junk bonds have been decimated as Zero Hedge reports The Coincidences Are Just Too Eerie: This Is The Last Time CCC Yields Were Here And Rising was the Fridaybefore Lehman blew up in 2008. Traders are now in fear of ANY liquidations as there is simply no depth on the bid side of the credit market. A perfect sign in fact was a second hedge fund announcing a halt to redemptions. Telling someone "they can't get out" will only prod others who still can …to get out while they can! As a side note, Glencore CDS now puts the odds of a default over 5 years at better than a coin flip! Lastly, we are now half way through December and COMEX is still shy about two and a half tons of gold standing for delivery.

I apologize for the "dryness" and the amount of links in the above as I really do not like to write this way. It was necessary to point out many of the "possibilities" leading up to the Fed's meeting on Wednesday. I was corrected by a reader for the use of "black swan" in a previous article because this term should be used for "unseen" or surprise events. No matter where you look there are reasons to be very "bearish on the world". Whether it be equities, credit, derivatives, or nearly anywhere geographically, the risk versus reward is highly skewed toward digging a hole and covering yourself with a rock! …And these are the known risks!

I am not sure what the Fed will do on Wednesday. I am however sure if they do raise rates the volatility will increase and financial markets will probably not like it one bit. One must wonder what they will do should the equity markets drop a quick five or ten percent? Do they immediately reverse and lower rates? How credible is that? Liquidity is such that no matter what the Fed does, the highly levered nature of our financial system is teetering on "reverse" where it will eat itself up. This while a vast multiple of known detonators stand ready to unleash the financial dogs of hell.

We have created the most leveraged financial system in all of history. Liquidity is drying up and the question of "if" has been replaced with "when". The odds of markets "closing" have risen dramatically. Stress, both geopolitically and financially can no longer be hidden in plain sight. Should the Fed raise rates, I believe markets far and wide will convulse into an unscheduled "holiday". Yet we listen to the cheers for a rate hike? Even George Orwell would be shocked!

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## About the author:

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.