

Oversold Markets, Rising Equities, the Derivatives Implosion, The Fed Loses Credibility

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Last week was a true dichotomy of fantasy and reality. We witnessed a massive short squeeze and the best week for U.S. equities in over a year. While the markets were oversold and due a bounce, the “bounce” came with a backdrop of very dire news! Day after day brought forth new and consistently worse news.

In no particular order of importance;

- Deutsche Bank reported a \$6.5 billion loss (10% of their net equity),
- UBS joined the derivatives implosion party and required a capital raise,
- Glencore ‘fessed up to \$100 billion in debt versus the previous \$19 billion (with three or four other major commodity firms in the same boat),
- the Bank of England required their banks to disclose how much of this debt they were exposed to, China’s yuan surpassed the yen in the settlement of global trade,
- China also went live with their alternative settlement of trade in yuan (non dollars), Saudi Arabia and Norway disclosed they are now in deficit and thus no longer “buyers” of dollars (are they now sellers?) ...
- and the U.S. was effectively kicked out of the Middle East!

I might add that several recent economic reports even though fudged, massaged and outright falsehoods were unable to hide the reality of global AND U.S. recession and decline in the real economic sectors.

To top all of this off, the U.S. Fed has now attracted naysayers including our (their) own bought and paid for media. They have effectively lost credibility. Since the last Fed meeting, the world has collectively come to the conclusion they have no options left and credible monetary policy is not a possibility.

In fact, Mr. Trichet of Europe’s central bank has admitted that global central banks

<http://finance.yahoo.com/news/central-bank-cavalry-no-longer-191849195.html> can no longer save the day or even buy time. On the other side of the financial coin,

John Boehner resigned a couple of weeks back and his proposed replacement Congressman Kevin McCarthy withdrew <http://www.usatoday.com/story/news/politics/2015/10/08/house-speaker-john-boehner-surprised-kevin-mccarthys-withdrawal-race/73586678/> his name from consideration. Please understand what this really means, the U.S. House of Representatives has now been

hijacked by a minority which controls the majority. Normally this might be a good thing as a divided Congress cannot spend money (it does not have). Currently I believe this is a very bad event because it proves the further loss of credibility in U.S. leadership is valid.

If you look at what happened last week from a distance and with neutral eyes, it may have been the worst week for the U.S. in any living person's lifetime. We were effectively kicked out of the Middle East (by Russia) in less than 10 days! This, while China warned Washington not to interfere in the South China Sea. It is clear the U.S. no longer carries a big stick and has no more "bluffs" left as Mr. Putin and China clearly have called it! This has horrific ramifications for the dollar as it has been hanging on for years out of pure "confidence" which has now been broken easily by a patient China/Russia.

Do not think to yourself the timing was any coincidence, China announcing their alternative to SWIFT settlement was simply offering an alternative clearing system AFTER Russia raised the stakes and exposed U.S. weakness. Every step forward for China is a step backwards toward obscurity for the U.S.. They fully understand we are broke. They know we have depleted our gold reserves and leveraged our finances beyond anything in history. The banks, the brokers, the derivatives, state and federal governments ...are all over leveraged and reversal will wipe out any remaining equity VERY FAST!

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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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