The Greek Default: "It's Already in the Market"? What Will the World Look like the Day Markets Try to Reopen?

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You have heard the phrase many times "it's already in the market", meaning if "something" or some sort of event happens it is already factored in to prices. I was overseas last week, travelled much of the week and stayed in a hotel that had only two English speaking channels …one of which was CNBC. I cannot tell you how many talking heads were paraded forth whom all parroted the same pabulum, "a Greek default is already factored in the market". Really? REALLY?

For CNBC or any media outlet to downplay a Greek default is plain evil deceit at its core. We have looked at this many times and from many angles, Greece owes close to 350 billion euros and when the amount of written derivatives are included we are probably talking well over 3 trillion euros! Yes, the talking heads keep saying "much of the Greek debt is now off of the banks balance sheets and is now owned by the ECB itself". Does this make it any better? Or could it make the situation even worse because now a central bank has its balance sheet in peril and exposed?

The other side of the coin is the derivatives situation. Please remember when a "default" occurs, the "notional value" becomes the true at risk amount. This was the problem caused by Lehman Brothers in 2008, derivatives which had been supported by margin alone (and very thin at that) saw margin calls explode and the demands of 100% notional payments began. This is why no one, ever, can be allowed to fail. Because then the triggers are pulled and notional settlements begin …with a minor problem. Derivatives simply cannot perform because they total more than the value of everything else added together on the planet. The "money" simply does not exist for everyone to be paid.

The purpose for writing this piece is not to discuss Greece, whether they pull an "Iceland" and leave the central banks holding the bag …or talk about the odds of their banks opening Monday morning …or to speculate as to "when" they default ("if" is already in the rearview window). A Greek exit from the Eurozone or a change in allegiance from NATO to Russia are both very real possibilities …but NONE OF THIS is "in the market". Greece is but one of an absolute litany of potential events being ignored!

The list of potential events being ignored by the markets is very long. They include the geopolitics of Ukraine, Syria, Iraq, Yemen, the South Sea islands Iran, and we might as well throw Israel into this mix. Russia and China just announced trade to be done exclusively in yuan and rubles, is this factored in to the valuation of the dollar? The U.S. has moved missiles into Poland and elsewhere to ring fence Russia, Russia has responded by repositioning "EMP" weaponry. China's economy is slowing while their margin debt and speculation in stock markets are at an all time high after doubling in value over 6 months. As for the U.S., bogus number after bogus number is being reported while the economy declines in recession…and the world moves further and further from the dollar. It's all "business as usual" as long as markets can be controlled…

The biggest "factor" being ignored is the fact credit markets around the world have already seriously crackedhttp://www.zerohedge.com/news/2015-06-21/credit-market-warning. Interest rates are rising and bond prices falling. Please, never forget this, **"credit" is THE FOUNDATON** to the "value" of everything we know and believe to have value. "Credit" (debt) is THE foundation to every current currency on the planet. If the underlying debt is beginning to lose value, what will this mean for currencies? What will it mean for the "discount process" to be used to value stocks? Or real estate? Not to mention the fact current cash flows will have the capacity to carry LESS debt …which has been used to hold up current values? To finish this thought process out, the big picture is quite simple. Debt has continually expanded faster and faster than the underlying global GDP. Current GDP is simply not sufficient in size any longer to carry the global debt burden…

I am going to tell you, NOTHING "bad" is factored into today's markets… even slightly. All markets, all assets, everything has been "priced to perfection", FORCEFULLY "PRICED". Do you understand what I am saying here? "Prices", all prices are being "made". They are being made to paint a picture of a perfect world. This picture is a must to portray "all is well and no worries". Almost none of the potentials I wrote of above (and there are many more) have even seen the light of day in the Western mainstream press …because if they did then they might affect values and partly be "priced in".

Let me finish by talking about "black swans". A black swan by definition is a surprise event taking participants unaware. How can anything we already know about …and is supposedly priced in to the market be a black swan? Maybe because so few believe a systemic failure can happen? Maybe we should categorize the entire financial system or even our way of life as a "black swan" because almost no one believes "it" (the ride) can ever end? Americans in general know something is wrong but they just can't put their finger on it. A recent poll taken by Gallup shows confidence in almost everything has dropped

http://www.usnews.com/news/blogs/ken-walshs-washington/2015/06/17/americans-have--lost-confidence-in-everything to previously unseen lows.

As I have mentioned many times before, the last piece of glue holding the system together is confidence. The confidence of a central bank in another central bank, the confidence of institutions in other institutions and of course the confidence of the general public. While on this topic of confidence, why do you believe four European central banks have requested their gold back? Or closer to home, why does Texas want to retrieve their gold from Yankee bankers? Confidence is a peculiar thing, it takes a long time to build and may be retained by "reputation" for quite some time …but when it breaks it goes away like lightning!

None of the potential black swans have seemed to even move the dial because the puppeteers have used derivatives to collar, support and suppress various prices and thus "hide" any bad reaction.

I have to believe the ultimate black swan is exactly this, the loss of control of everything including perception. After all, the most ingrained of thoughts are these; the government can never go broke, the government will never allow it or let it happen. Maybe THE black swan is the most obvious of all, the government is in fact broke and Mother Nature does still exist. We have gone so far down the rabbit hole where absolutely nothing is actually "in the market", I believe the biggest shock of all will be what the world looks like the day markets try to reopen?

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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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