

What Options at the Federal Reserve: A Global Financial Crisis is Looming?

By [Bill Holter](#)

Theme: [Global Economy](#)

Global Research, December 18, 2014

It is being said today's FOMC announcement is "the most important of Yellen's tenure", I could not disagree more. In the past I have written pieces regarding the potential announcements by the FOMC and come to the conclusion "what can they possibly say?". This is more true now, Janet Yellen et al cannot "say" anything of substance because they cannot "do" anything of substance. The Fed backed themselves into a corner of their own making several years ago, I believe it is only a matter of time before the markets "test" them.

What options does the Fed have? Can they raise interest rates at all? Can they tighten credit at all? Can they really go the other way and institute truly negative interest rates? The answers are all NO, they are "frozen" of their own making and have only one option (really two in tandem). The Fed can only remain in place with interest rates nonexistent and must continually create (fund) debt and grow money supply while a Treasury arm, the PPT must guide, massage and dampen volatility of markets ...ALL markets. The only thing currently being discussed is "when" will the Fed tighten? I would ask, when will QE 4 be instituted? The answer of course is when the markets seriously begin to implode again which may not even be more than a calendar month or two away.

I am sure a part of their statement will include oil and energy prices. This is a market they cannot heal with monetary policy. The volatility has already occurred and the dead bodies already exist though we don't yet know who they are. The dilemma the Fed has is they have no tools left other than outright support once markets begin to collapse. Their QE policies have already been seen as ineffective at supporting the real economy other than stabilizing decline. My question is this, when QE 4 becomes a necessity, will the markets "buy it" or will the phrase "three strikes and your out" come into play? What once worked to turn the real economy from contraction to recovery to an actual growth phase now has no power. The Fed only has an accelerator so to speak, the brake pedal is off limits. I have written many times on "velocity" and why it continues to decline. This is the sticking point, the money they create is being hoarded by the banks and not reaching Main St..

With regards to velocity, it is worth pointing out what is happening in Russia to illustrate a fallacy of main stream thought. As Jim Sinclair has tried to explain to anyone willing to listen, what comes our way in "dollar land" is a hyperinflation as a result of confidence breaking ... a monetary event so to speak but one which results from human emotion. Western economists have incorrectly brainwashed the public into believing a hyperinflation can only be caused by "over printing". This is ONLY one way, another way is when the currency itself loses confidence or credibility. Or, in the case of the ruble, loses its perceived "funding" (via energy revenues). Russia is in the midst of an early hyperinflation

if the ruble continues to decline. Watch as their economy “takes off” ...briefly. The Russian people see what is happening and are now in a rush to “exchange” (spend) their devaluing currency for “stuff”. <http://www.dailymail.co.uk/wires/ap/article-2877124/-Russian-ruble-way-down.html> THIS is another cause of hyperinflation, a currency going up in flames because of panicky velocity.

Tying this back to the U.S. and the Fed’s “FRN’s”, velocity is now at record lows ...as are interest rates. Neither can turn higher or the game is over. We live in the most leveraged financial and fiscal system in all of history. Interest rates cannot go up as they have in Russia. Velocity on the other hand MUST turn higher but CANNOT, let me explain. For any hope of the real economy moving higher, velocity must bottom and turn higher. The problem is, once velocity turns higher, it cannot (I should say “won’t”) stop because this will mean the mindset or thought process has changed.

Look at it this way, the U.S. (the West) is facing the greatest potential margin call of all time. The entire system is a margin call waiting to happen. Less than 50% of the population supports a majority of the population. Some people in the U.S. live paycheck to paycheck and have no savings whatsoever. Real estate is completely levered, banks and brokers levered with all sorts of derivatives. State and local government finances are in disarray while the federal government is in debt beyond 100% of GDP ...with admitted debt, 10 times over with future obligations. The Fed, for their part has become the biggest hedge fund in the world and have quintupled their balance sheet over 5 years ...like I said, we await the biggest margin call of all time. Never forget this, the dollar has value ONLY because the debt underlying has “value”, a margin call will erase this in a panicked heartbeat!

When this margin call does come (and it may already be happening as judged by the oil market), “velocity” will turn violently and overnight. The turn in velocity will be a symptom/cause of our currency devaluing. The rush out of dollars and into “stuff” as the Russians are now experiencing will in my opinion be far greater and much more rapid. “Confidence” and “velocity” are inverse of each other. We are currently at the height of confidence and the depths of velocity. Confidence is truly the only piece of chewing gum holding the game together.

In the case of Russia, they have big brother China to stand by their side. China has set up currency hubs all over the world, we will soon see why. They also signed two major trade deals with Russia, the capital from these deals can and will be used to steady Russia. Who will steady the U.S.? Our markets have turned schizophrenic, up and down huge amounts on a daily basis. Who will step up to support the U.S.? In fact, if you look at the “direction” of the rest of the world, they seem to be trying to distance themselves from us. By the time this is over, the world will be operating under a New World Order, just not the one American elites have envisioned. In fact, I can see a world where power has shifted along with trading partners and alliances with the U.S. sitting in a self inflicted and isolated corner with a tin cup in hand ...and a dunce cap on top!

Bill Holter, Miles Franklin associate writer.

The original source of this article is Global Research
Copyright © [Bill Holter](#), Global Research, 2014

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Bill Holter](#)

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.

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca