



Global Planned Financial Tsunami Has Just Begun

Description

USA: Since the creation of the US Federal Reserve over a century ago, every major financial market collapse has been deliberately triggered for political motives by the central bank. The situation is no different today, as clearly the US Fed is acting with its interest rate weapon to crash what is the greatest speculative financial bubble in human history, a bubble it created. Global crash events always begin on the periphery, such as with the 1931 Austrian Creditanstalt or the Lehman Bros. failure in September 2008. The June 15 decision by the Fed to impose the largest single rate hike in almost 30 years as financial markets are already in a meltdown, now guarantees a global depression and worse.

The extent of the “cheap credit” bubble that the Fed, the ECB and Bank of Japan have engineered with buying up of bonds and maintaining unprecedented near-zero or even negative interest rates for now 14 years, is beyond imagination. Financial media cover it over with daily nonsense reporting, while the world economy is being readied, not for so-called “stagflation” or recession. What is coming now in the coming months, barring a dramatic policy reversal, **is the worst economic depression in history to date. Thank you, globalization and Davos.**

Globalization

The political pressures behind globalization and the creation of the World Trade Organization out of the Bretton Woods GATT trade rules with the 1994 Marrakesh Agreement, ensured that the advanced industrial manufacturing of the West, most especially the USA, could flee offshore, “outsource” to create production in extreme low wage countries. No country offered more benefit in the late 1990s than China. China joined WHO in 2001 and from then on the capital flows into China manufacture from the West have been staggering. So too has been the buildup of China dollar debt. Now that global world financial structure based on record debt is all beginning to come apart.

When Washington deliberately allowed the September 2008 Lehman Bros financial collapse, the Chinese leadership responded with panic and commissioned unprecedented credit to local governments to build infrastructure. Some of it was partly useful, such as a network of high-speed railways. Some of it was plainly wasteful, such as construction of empty “ghost cities.” For the rest of the world, the unprecedented China demand for construction steel, coal, oil, copper and such was welcome, as fears of a global depression receded. But the actions by the US Fed and ECB after 2008,

and of their respective governments, did nothing to address the systemic financial abuse of the world's major private banks on Wall Street and Europe , as well as Hong Kong.

The August 1971 Nixon decision to decouple the US dollar, the world reserve currency, from gold, opened the floodgates to global money flows. Ever more permissive laws favoring uncontrolled financial speculation in the US and abroad were imposed at every turn, from Clinton's repeal of Glass-Steagall at the behest of Wall Street in November 1999. That allowed creation of mega-banks so large that the government declared them "too big to fail." That was a hoax, but the population believed it and bailed them out with hundreds of billions in taxpayer money.

Since the crisis of 2008 the Fed and other major global central banks have created unprecedented credit, so-called "helicopter money," to bailout the major financial institutions. The health of the real economy was not a goal. In the case of the Fed, Bank of Japan, ECB and Bank of England, a combined \$25 trillion was injected into the banking system via "quantitative easing" purchase of bonds, as well as dodgy assets like mortgage-backed securities over the past 14 years.

Quantitative madness

Here is where it began to go really bad. The largest Wall Street banks such as JP MorganChase, Wells Fargo, Citigroup or in London HSBC or Barclays, lent billions to their major corporate clients. The borrowers in turn used the liquidity, not to invest in new manufacturing or mining technology, but rather to inflate the value of their company stocks, so-called stock buy-backs, termed "maximizing shareholder value."

BlackRock, Fidelity, banks and other investors loved the free ride. From the onset of Fed easing in 2008 to July 2020, some \$5 trillions had been invested in such stock buybacks, creating the greatest stock market rally in history. Everything became financialized in the process. Corporations paid out \$3.8 trillion in dividends in the period from 2010 to 2019. Companies like Tesla which had never earned a profit, became more valuable than Ford and GM combined. Cryptocurrencies such as Bitcoin reached market cap valuation over \$1 trillion by late 2021. With Fed money flowing freely, banks and investment funds invested in high-risk, high profit areas like junk bonds or emerging market debt in places like Turkey, Indonesia or, yes, China.

The post-2008 era of Quantitative Easing and zero Fed interest rates led to absurd US Government debt expansion. Since January 2020 the Fed, Bank of England, European Central Bank and Bank of Japan have injected a combined \$9 trillion in near zero rate credit into the world banking system. Since a Fed policy change in September 2019, it enabled Washington to increase public debt by a staggering \$10 trillion in less than 3 years. Then the Fed again covertly bailed out Wall Street by buying \$120 billion per month of US Treasury bonds and Mortgage-Backed Securities creating a huge bond bubble.

A reckless Biden Administration began doling out trillions in so-called stimulus money to combat needless lockdowns of the economy. US Federal debt went from a manageable 35% of GDP in 1980 to more than 129% of GDP today. Only the Fed Quantitative Easing, buying of trillions of US government and mortgage debt and the near zero rates made that possible. Now the Fed has begun to unwind that and withdraw liquidity from the economy with QT or tightening, plus rate hikes. This is deliberate. It is not about a stumbling Fed mis-judging inflation.

Energy drives the collapse

Sadly, the Fed and other central bankers lie. Raising interest rates is not to cure inflation. It is to force a global reset in control over the world's assets, it's wealth, whether real estate, farmland, commodity production, industry, even water. The Fed knows very well that Inflation is only beginning to rip across the global economy. What is unique is that now Green Energy mandates across the industrial world are driving this inflation crisis for the first time, something deliberately ignored by Washington or Brussels or Berlin.

The global shortages of fertilizers, soaring prices of natural gas, and grain supply losses from global draught or exploding costs of fertilizers and fuel or the war in Ukraine, guarantee that, at latest this September-October harvest time, we will undergo a global additional food and energy price explosion. Those shortages all are a result of deliberate policies.

Moreover, far worse inflation is certain, due to the pathological insistence of the world's leading industrial economies led by the Biden Administration's anti-hydrocarbon agenda. That agenda is typified by the astonishing nonsense of the US Energy Secretary stating, "buy E-autos instead" as the answer to exploding gasoline prices.

Similarly, the European Union has decided to phase out Russian oil and gas with no viable substitute as its leading economy, Germany, moves to shut its last nuclear reactor and close more coal plants. Germany and other EU economies as a result will see power blackouts this winter and natural gas prices will continue to soar. In the second week of June in Germany gas prices rose another 60% alone. Both the Green-controlled German government and the Green Agenda "Fit for 55" by the EU Commission continue to push unreliable and costly wind and solar at the expense of far cheaper and reliable hydrocarbons, insuring an unprecedented energy-led inflation.

Fed has pulled the plug

With the 0.75% Fed rate hike, largest in almost 30 years, and promise of more to come, the US central bank has now guaranteed a collapse of not merely the US debt bubble, but also much of the post-2008 global debt of \$303 trillion. **Rising interest rates after almost 15 years mean collapsing bond values. Bonds, not stocks, are the heart of the global financial system.**

US mortgage rates have now doubled in just 5 months to above 6%, and home sales were already plunging before the latest rate hike. US corporations took on record debt owing to the years of ultra-low rates. Some 70% of that debt is rated just above "junk" status. That corporate non-financial debt totaled \$9 trillion in 2006. Today it exceeds \$18 trillion. Now a large number of those marginal companies will not be able to rollover the old debt with new, and bankruptcies will follow in coming months. The cosmetics giant Revlon just declared bankruptcy.

The highly-speculative, unregulated Crypto market, led by Bitcoin, is collapsing as investors realize there is no bailout there. Last November the Crypto world had a \$3 trillion valuation. Today it is less than half, and with more collapse underway. Even before the latest Fed rate hike the stock value of the US megabanks had lost some \$300 billion. Now with stock market further panic selling guaranteed as a global economic collapse grows, those banks are pre-programmed for a new severe bank crisis over the coming months.

As US economist Doug Noland recently noted, “Today, there’s a massive “periphery” loaded with “subprime” junk bonds, leveraged loans, buy-now-pay-later, auto, credit card, housing, and solar securitizations, franchise loans, private Credit, crypto Credit, DeFi, and on and on. A massive infrastructure has evolved over this long cycle to spur consumption for tens of millions, while financing thousands of uneconomic enterprises. The “periphery” has become systemic like never before. And things have started to Break.”

The Federal Government will now find its interest cost of carrying a record \$30 trillion in Federal debt far more costly. Unlike the 1930s Great Depression when Federal debt was near nothing, today the Government, especially since the Biden budget measures, is at the limits. The US is becoming a Third World economy. If the Fed no longer buys trillions of US debt, who will? China? Japan? Not likely.

Deleveraging the bubble

With the Fed now imposing a Quantitative Tightening, withdrawing tens of billions in bonds and other assets monthly, as well as raising key interest rates, financial markets have begun a deleveraging. It will likely be jerky, as key players like BlackRock and Fidelity seek to control the meltdown for their purposes. But the direction is clear.

By late last year investors had borrowed almost \$1 trillion in margin debt to buy stocks. That was in a rising market. Now the opposite holds, and margin borrowers are forced to give more collateral or sell their stocks to avoid default. That feeds the coming meltdown. With collapse of both stocks and bonds in coming months, go the private retirement savings of tens of millions of Americans in programs like 401-k. Credit card auto loans and other consumer debt in the USA has ballooned in the past decade to a record \$4.3 trillion at end of 2021. Now interest rates on that debt, especially credit card, will jump from an already high 16%. Defaults on those credit loans will skyrocket.

Outside the US what we will see now, as the Swiss National Bank, Bank of England and even ECB are forced to follow the Fed raising rates, is the global snowballing of defaults, bankruptcies, amid a soaring inflation which the central bank interest rates have no power to control. About 27% of global nonfinancial corporate debt is held by Chinese companies, estimated at \$23 trillion. Another \$32 trillion corporate debt is held by US and EU companies. Now China is in the midst of its worst economic crisis since 30 years and little sign of recovery. With the USA, China’s largest customer, going into an economic depression, China’s crisis can only worsen. That will not be good for the world economy.

Italy, with a national debt of \$3.2 trillion, has a debt-to-GDP of 150%. Only ECB negative interest rates have kept that from exploding in a new banking crisis. Now that explosion is pre-programmed despite soothing words from Lagarde of the ECB. Japan, with a 260% debt level is the worst of all industrial nations, and is in a trap of zero rates with more than \$7.5 trillion public debt. The yen is now falling seriously, and destabilizing all of Asia.

The heart of the world financial system, contrary to popular belief, is not stock markets. It is bond markets—government, corporate and agency bonds. This bond market has been losing value as inflation has soared and interest rates have risen since 2021 in the USA and EU. Globally this comprises some \$250 trillion in asset value a sum that, with every fed interest rise, loses more value. The last time we had such a major reverse in bond values was forty years ago in the Paul Volcker era with 20% interest rates to “squeeze out inflation.”

As bond prices fall, the value of bank capital falls. The most exposed to such a loss of value are major French banks along with Deutsche Bank in the EU, along with the largest Japanese banks. US banks like JP MorganChase are believed to be only slightly less exposed to a major bond crash. Much of their risk is hidden in off-balance sheet derivatives and such. However, unlike in 2008, today central banks can't rerun another decade of zero interest rates and QE. This time, as insiders like ex-Bank of England head Mark Carney noted three years ago, the crisis will be used to force the world to accept a new Central Bank Digital Currency, a world where all money will be centrally issued and controlled. This is also what Davos WEF people mean by their Great Reset. It will not be good. A Global Planned Financial Tsunami Has Just Begun.

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Date Created

06/26/2022