Chinese Bubble Economy & the Coming Global Fiscal Crisis

Posted June 5th, 2016

By www.chuckcoppes.com

"Credit expansion can bring about a temporary boom. But such a fictitious prosperity must end in a general depression of trade, a slump."

- **Ludwig von Mises, University of Vienna**

"The credit expansion boom is built on the sands of banknotes and deposits. It must collapse."

- **- Ludwig von Mises, (1881 – 1973)**

"When she [China]awakes she will shake the world"

- Napoleon (1769 – 1821)

"I think there's no doubt that the Federal Reserve is immoral. It's unconstitutional. And it's a disaster. We don't need it."

- **Dr. Ron Paul, American Statesman**

Greetings to All,

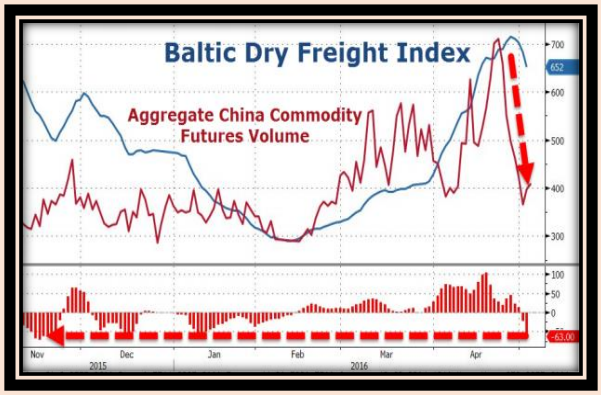
Last month I addressed the fiscal problems in **Japan** and the likely implosion of their bond market. In this edition it is equally important to address the complex fiscal mismanagement in **China.** Like Japan, the oligarchs in Beijing have turned to the central bank planners at the **People's Bank of China** (**PBOC**) to micro-manage the world's **2nd largest** economy. Established in **1948**, the **PBOC** is a communist/capitalist hybrid that retains the largest currency reserves in the world. As we shall see, the **Chinese bubble economy** is the result of rapid industrialization since **1978,** and the concomitant credit expansion boom in more recent years that will have dire implications for the entire world.

Napoleon said that China would shake the world when the population and civilization of China had an opportunity to influence global geopolitics and macroeconomics – ***and he was right***. China is a modern marvel, but she has become a victim of her own industrial success and market forces that have driven their **debt to GDP** to **300%** (like Japan) to postpone a **financial day of reckoning**. This is the theme of this newsletter (and my book) that will address the structural distortions in China that are directly related to the failure of collectivism/socialism and **a coming worldwide fiscal crisis**.

The *China-USA* Shanghai Currency Accord

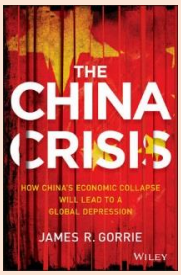
While it is generally known that China maintains an artificially low **currency peg** to the US dollar since **1997**, this has provided stability and a competitive edge in world trade. The PBOC maintains their foreign policy exchanges through the State Administration of Foreign Exchange, or **SAFE**, for payments and settlements. China has been struggling with their need to transition from an export-based economic model to a more consumer driven economy. This need has become more apparent since **2008** and the global recession, and the Chicoms have responded with a massive credit expansion to maintain **state-owned enterprises** (SOE). In addition, this credit expansion has fueled market speculation as witnessed last year when the **Shanghai Composite** dropped **38%** from June to August, losing **9%** alone on August 23, 2015. Chinese authorities responded with harsh market intervention and threats of imprisonment and death to "speculators" who were blamed for the turmoil.

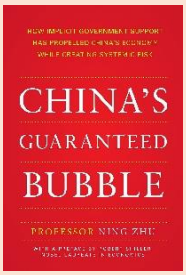
In December the **Fed** allowed a *tiny* rate hike and the markets got spooked with US Dow Index losing **10%** from January to February 10th, 2016. During this period China tried to devalue their currency to help exports and this further led to market volatility. As noted by **Jim Rickards** the G-20 Meeting in Shanghai on February 26th provided the opportunity for the US and China to avoid a currency war and maintain the Chinese yuan peg to the dollar. This agreement, or **accord**, was not made public, but it means that the Fed must pursue a *weak dollar policy* to help both economies. Is this possible? It is highly suspicious since the **Fed** keeps hinting about rate hikes, and this causes *a stronger dollar*, not a weaker dollar. After **88** months of ZIRP the **Fed** has lost all credibility because it can't raise rates to support the false Wall Street **narrative** that we are in an economic recovery! The cruel reality can be seen in **these two charts** with Chinese exports collapsing along with retail sales in the US:

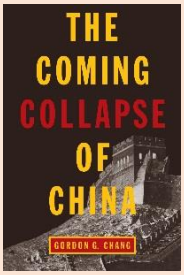


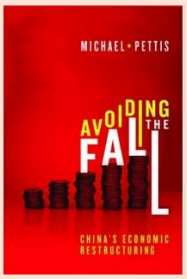
Does this look like an economic recovery to you? In his State of the Union Address, **President Obama** *arrogantly* accused those claiming the US economy is in decline as ***"peddling fiction."*** We will address this "fiction" a little later. Meanwhile, **last month** three of China's largest shipyards went bankrupt and are in liquidation. Sinopacific Shipbuilding Group is restructuring their debt and has laid off **38%** of their workforce. The **Baltic Dry Freight Index** is actually at a *30-year low* and this is the clearest indication that we are in a global recession, *and things are getting much worse.*

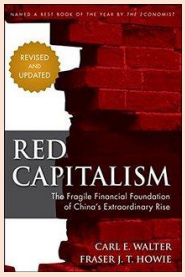
In my book, I cover the remarkable growth and industrial revolution since **Deng Xiaoping** opened their markets to capitalism in **1978**. Since then, China has become responsible for **15%** of world trade and consumes **50%** of the world's copper, steel, concrete, and so on. This same period uniquely corresponds with a *35-year* credit supercycle and the peak earning years of the **babyboomers** in the **US**. This is a very bad omen as I have covered in past newsletters. The **Fed** (under **Alan Greenspan** 1987-2006) *was directly responsible* for the boom years of the 1990s (which the Clintons take credit for!), and the boom/bust finally came in **2007** (**The Big Short Movie**). We have been in a "phony recovery" since **2008** (as **Peter Schiff** irreverently reminds in the media), and now the jig is up. The central banksters are trapped – and they know it. Chinese exports to the US have fallen a *whopping* **17%** in one year according to the US Commerce Dept. and some pundits are stating that "the world's slowing and contraction might be due mostly to the US" and our fictional recovery. There is a large body of work to support that the **Chinese Bubble Economy** is about to finally burst, and this can be related to crony communism (central planning and malinvestment in SOEs), over capacity and credit expansion (money printing) since **2008** to soften the blow from the **Fed-inspired calamity** created by **Alan Greenspan**. In the **US**, we have papered over our crisis and *doubled* our national debt:

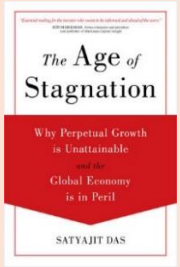












For almost **35 years** the Chinese economy has seen the *largest annual **GDP** growth*, but this has been exaggerated in recent years. **Fraser Howie**, co-author of the acclaimed *Red Capitalism*, notes that the chief of a large European insurance company who recently met with the PBOC "were joking and laughing in derision when they talked about official reports showing **6%** annual GDP growth." The Chinese economy is just as phony as the US and EU economy. As **Ludwig von Mises** stated several years ago, "Credit expansion can bring about *a temporary boom*. But such a *fictitious prosperity* must end in a *general depression of trade, a slump*." The good doctor is correct, and no less of an authority on managing sovereign debt on a global scale is **Bill Gross** (the Bond King), and he is now warning about a financial reckoning day coming – where have I heard that term? To support what he is saying, I have included this **visual chart below** that you need to study and I will **comment below:**

Bill Gross Warns: The System is at Risk and warns a *"Day of Reckoning Is Coming"*

By Tyler Durden, Created 05/26/2016.wwwzerohedge.com

"It's really hard to change your psychological makeup and to be a hedge manager that is comfortable with being short," **Bill Gross** said in an interview with **Bloomberg's** Erik Schatzker. **"I'm working on it, because I'm an investor that ultimately does believe in the system, but believes that the system itself is at risk**."……**The underlying thesis behind Gross' bearish take is simple: stimulus from central banks worldwide has artificially pushed up values of stocks and credit, which has made Gross cautious on such assets, he said……"Japan's a pretty good picture for the rest of the world…that that's the route central banks will pursue**…….READ MORE.

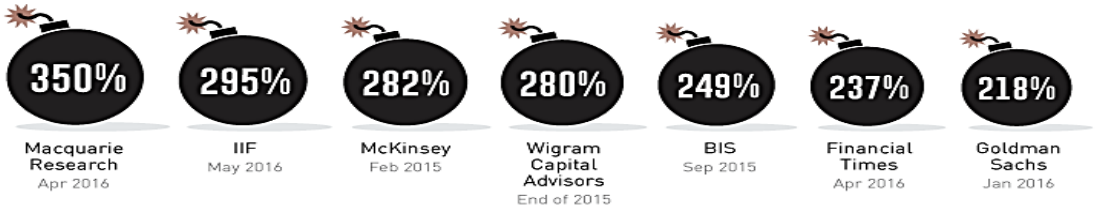
Chart of the Week

CHINA'S DEBT BOMB

No one knows if it's a hand grenade or a nuclear explosion

China's debt is escalating fast. However, because official numbers are dodgy, estimates of its scale and potential impact on the financial system vary.

Payload Estimates (Total Debt-to-GDP)



Explosive Materials

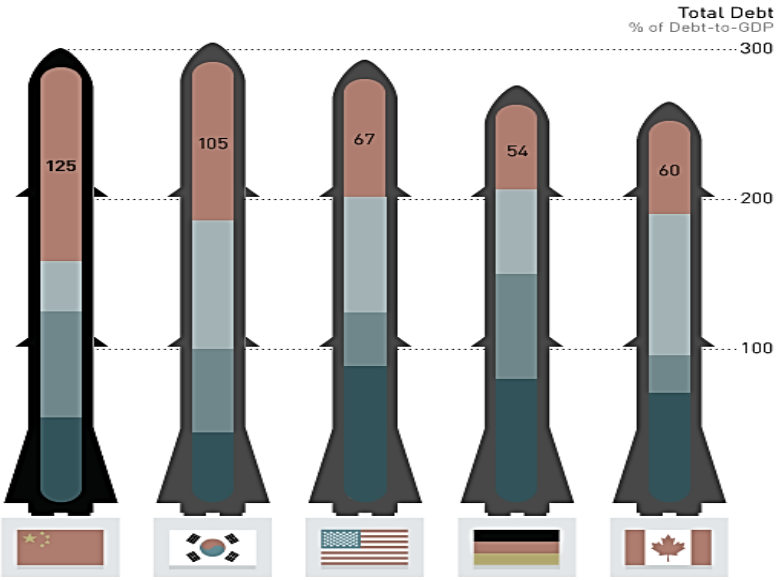
It's clear that the **corporate sector** is fuelling debt growth


Corporate
Non-Financial


Households


Financial Institutions


Government

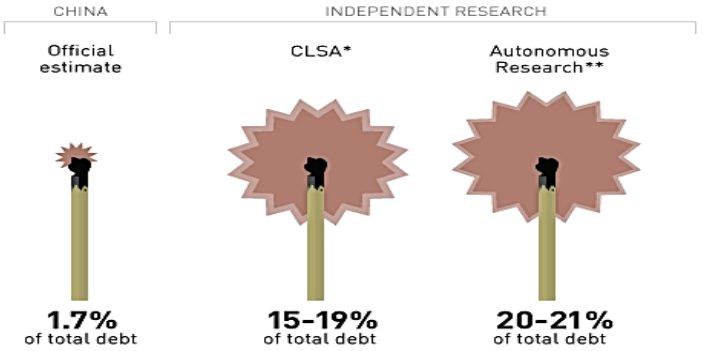


Source: McKinsey Global Institute Analysis

Defusing the Bomb

If there is a spark that could light the fuse, it's **non-performing loans**

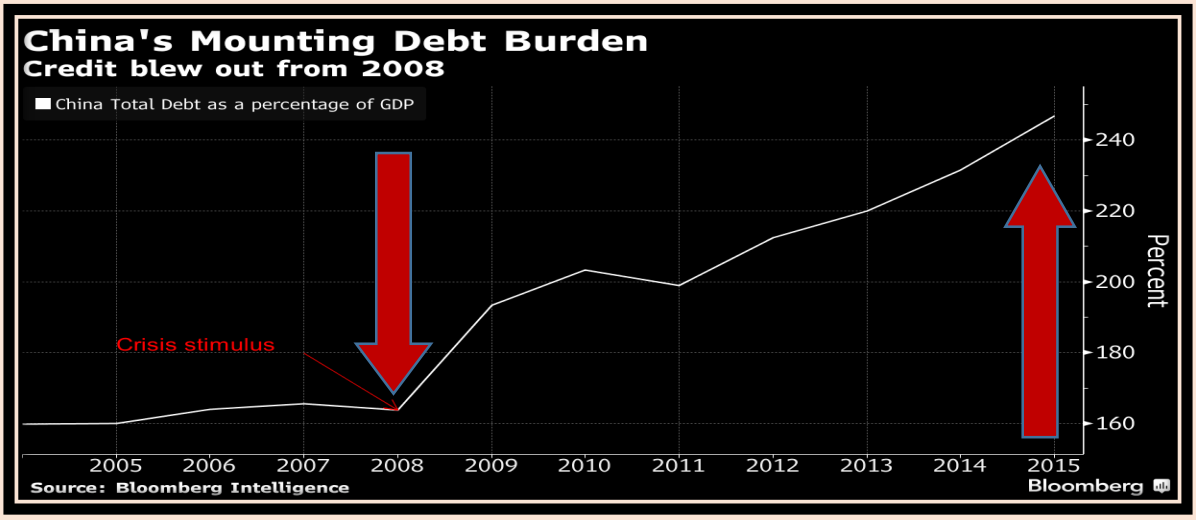
A non-performing loan is a sum of borrowed money upon which the debtor has not made scheduled payments. An NPL is typically either in default or close to being in default.



* CLSA is a Hong Kong brokerage firm
** Autonomous Research is an independent financial research provider

visualcapitalist.com

Is this a descriptive chart or what? Let's examine what **Bill Gross** said that when it comes to the central bankster's policy of "credit expansion" (unsustainable debt)**. Bill Gross** said that ***"Japan's a pretty good picture for the rest of the world…and the route central banks will pursue."*** I had to put that line in ***bold italics print*** for you to appreciate. For those of you have may not have read my last newsletter on the *fiscal insanity* of the **Bank of Japan** (5/6/16), you need to CLICK HERE and read up on this asap**. Gross** is essentially saying that central banks are acting as reckless as Japan, and these **debt bombs** in China, Japan, US, Germany, Canada, etc. are building up destructive payloads. Estimates for China's total debt to GDP range from 218% to 350%, and Orient Capital Research in Hong Kong suggests *400%!* There is considerable evidence that the US has merely papered over the **Financial Crisis of 2008**, and **this chart below** reveals the same for China's mounting debts:



This is the same pattern all over the world, and the real spark that is **lighting the fuse** in China is their enormous non-performing loans. The estimates for these bad loans range from **2-20%** of their total debt burden. It is estimated that 115% of their debt to GDP is comprised of debt/loans owed by state-owned enterprises (SOE). In other words, Communist party-run operations by fellow cronies in the Politburo that has created wholesale malinvestment and corruption. One good example is their **railway corporations** that have run up $866 billion in debt (4.1 trillion yuan) in just the *first quarter* of this year! **SocGen** predicts that China's banking sector losses could reach over $1 trillion ($8 trillion yuan), which is equivalent to more than ***60%*** of their capital**! Moody's** is downgrading most of their SOEs due to "contingent liability risk" and the sheer size of these structural distortions. Is the Politburo finally taking notice in Beijing? Perhaps as seen in **the following report** from China:

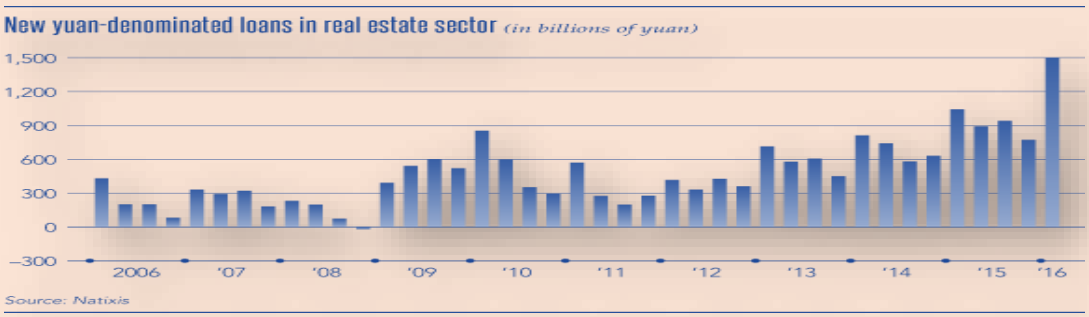
Canary in The Politburo - *Even The China People's Daily Warns* About *Too Much Debt!*

davidstockmanscontracorner.com / by Bloomberg Business • May 10, 2016

China's leading Communist Party mouthpiece acknowledged the risks of a build-up of debt that is worrying the world and said the nation needed to face up to its nonperforming loans. High leverage is the "original sin" that leads to risks in the foreign-exchange market, stocks, bonds, real estate and bank credit, the ***People's Daily*** said in a full-page interview with an unnamed **"authoritative person"** starting on page one and filling the second page on Monday. China should

put deleveraging ahead of short-term growth and drop the "fantasy" of stimulating the economy through **monetary easing**, the person was cited as saying. **The nation needs to be proactive in dealing with rising bad loans, rather than delaying or hiding them, the report said**. "Overall, the report suggests to us that future policy easing may be more cautious and that the government may try to hasten the pace of reform," said **Zhao Yang**, chief China economist at Nomura Holdings Inc. in Hong Kong. Similar commentaries have had a "large impact" in the past……..**READ MORE**

You know thing are getting serious when concerns over debt and fiscal mismanagement appears on the front page of the ***People's Daily*** newspaper. In a recent ARTICLE, **David Stockman** relates how China's economy is "past the point of no return" and facing a severe contraction. In another ITEM, **Richard Duncan** warns that China's bubble economy has slammed into a wall. "It does seem at long last that China's economic growth model is really **slamming into a brick wall**... the global economy is simply not large enough and it's certainly not growing quick enough now to continue absorbing more Chinese exports. At the same time, on the investment side, China has such **excess capacity** across every industry that product prices are plunging...and so the companies are not profitable." **Duncan** goes on to note that their excess capacity and non-performing loans are "…eroding the capital of their banking system to continue to invest more." A good example of this trend is the extreme over-investment and loans in the **commercial real estate sector** as seen here:



According to recent statistics, current properties under construction will *double* the supply of commercial space to 115 million square feet this year, and this will boost the nationwide vacancy rate from 13.8% in 2015 to 21%. ***And this does not even account for entire vacant ghost cities!***

This over-capacity and contraction can also be seen in **Hong Kong** where real estate prices are falling and the local economy has only grown at **2.4%** in **2015** (a **50%** drop). **Kyle Bass** says that Hong Kong is in worse shape today than the 1997 Asian Financial Crisis when hot money fled the region.

And this brings us to another phenomenon that is getting very little press in the West. Wealthy Chinese, party members and panicked "investors" on the mainland are cashing out of the yuan and sending billions out of the country! It is now estimated that ***$140-$190 billion per month*** in flight capital is finding its way into foreign real estate, industries, land and other assets to protect wealth.

"China is Buying Canada" – Notes from a Gigantic Real Estate Bubble

libertyblitzkrieg.com / Michael Krieger / May 11, 2016

Many of you will be intimately familiar with the massive real estate bubble still in the process of inflating in certain parts of Canada, **particularly Vancouver**. The insanity of it all recently received a great deal of public attention when the following **home was listed for $2.4 million earlier this year (it has since sold). If you've been following this story, you'll also be aware that the primary driver behind the bubble is foreign investment, particularly Chinese.** Of course, this isn't a phenomenon unique to Canada, and as I noted in last year's post, **Welcome to Arcadia – The California Suburb Where Wealthy Chinese Criminals are Building Mansions to Stash Cash**: **The city, population 57,600, projects that about 150 older homes—53 percent more than normal—will be torn down this year and replaced with mansions.** The deals happen fast and are rarely listed publicly. Often, the first indication that a megahouse is coming next door is when the lawn turns brown. That means the neighbor has stopped watering and green construction netting is about to go up….**READ MORE**

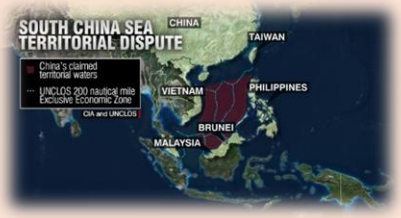
We are seeing reports like the one above, but it is scarcely mentioned ***why*** this is happening. What is motivating Chinese nationals to offshore cash (yuan) in such record amounts? What do they see coming that should concern us also? The risk of contagion, defaults and **social unrest** is becoming so great that smart money (hot money) is getting out and considerable amounts are bidding up real estate on the US West Coast and Canada. In Vancouver, BC an estate ranked in **the top 16 mansions** just got snapped up by a Chinese "student" for a cool **$31 million** in cash settlement. You can see the stunning photos at THIS LINK. Up and down the California coast properties are being bid up with prices starting near **$1 million**, and a triple-wide mobile home just sold for **$5.3 million** in Malibu. To really appreciate the growth of million dollar homes, look at THESE time lapse photos of Seattle, San Francisco (up 37% in 4 years), LA and Honolulu! This is not a real market. This is a panic. A new bubble created by the **Chinese bubble economy** that is about to burst. While relations between US realtors and the Chinese people are doing quite well, **geopolitical relations** are getting strained with the **Chicoms** and the **Neocons** at the Pentagon as noted in the following report.

China Warns US: *"Don't Disturb" Hong Kong Social Order*; Threatens "Bad Reaction"

Submitted by Tyler Durden on 05/13/2016 20:00 -0400

Over the past few months, tensions have been high between the U.S. and China. Events such as China denying USS John C. Stennis and its escort ships access to a Hong Kong port showed just how strained relations have become between the two countries, **and with China's recent comments saying that U.S. activity near the Fiery Cross Reef "threatened China's sovereignty and security**

interests", ***one would assume that things couldn't get much worse***. **Alas, that assumption would be wrong. As Reuters reports, China is now accusing the U.S. of trying to "disturb" social order in Hong Kong, something that Foreign Ministry spokesman Lu Kang said will "cause Chinese people to go on alert and have a bad reaction."……..READ MORE.**



Here is another topic with **nasty geopolitical and macroeconomic implications** that is barely getting any mention in the western **MSM**. The Network Evening News network (the Fourth Estate) is dutiful to report on the weather, shark bites, consumer warnings, celebrity lawsuits, LGBT rights and the political dog and pony show; *but nary a tidbit on **real serious news items** from around the globe* (this is why the Internet is the final frontier for a free press). As economics in the Middle Kingdom are deteriorating, so are political relations with US imperialism. The US has protected its hegemony since WWII, but a new **Sino-Russian** pact is threatening the old order. Despite their structural problems in China they still pose an existential challenge for the old order, and they are not afraid to send warnings. In May, the Chinese sent J-10 fighter jets and three warships to confront US ships in the **South China Sea**. In addition, their **Russian ally** just finalize a strategic agreement with the ASEAN countries regarding maritime navigation and militarization of this disputed region. China has launched **Jin-class nuclear subs** this year with nuclear strike capability that is on par with the US and Russia. According to the New America Foundation in Washington, DC the Russian and Chinese militaries are targeting US satellites in a "Space Pearl Harbor" to cripple US forces in the event of hostilities. Threats of cyberwarfare are becoming are real possibility including a dreaded **EMP attack upon the continental US**, as alerted by **USCYBERCOM** founded in **2009**. On a final note, we should remember that when nations get into serious domestic trouble they often take their nations to war to distract and consolidate power. **And the US is actually *in worse shape than China* when it comes to creating structural distortions, bubbles, malinvestment and fiscal mismanagement!** This point was brought out recently by Canadian blogger **Jeff Nielson** in the following piece:

The Biggest Bubbles: China vs. the U.S.

By Jeff Nielson, wwwsprottmoney.com, May 16, 2016

There is perhaps no other area where the tunnel-vision, hypocrisy, and corruption of the U.S. media is more visible than with respect to its nearly incessant China-bashing. Previous commentaries have exposed such vacuous drivel again and again and again. While the subject matter of the Corporate media's China-bashing varies month to month, regularly interspersed in this propaganda are numerous variations of "China's economy is in a bubble." Once again this week, this is a theme in the U.S. mainstream media . Once again, we see hypocrisy of epic proportions….. **While the Corporate media talks about Chinese "investors" having pumped absurd amounts of capital into its markets, the real culprits could be Western bankers.** Yes, the U.S. bubbles are larger, and much more insane/precarious than China's bubbles. But the real point here is that what we are calling "China's bubbles" could simply be even more **Western-based bubble-blowing**…….**READ MORE.**

My buddy Dave Kranzler also weighed in on this recently. "Turning to China, the media reporting on China's economic and financial condition is nothing less than stunningly fraudulent. ***The "Economist"*** has predicted economic doom in China fifty-seven times in the last couple of years. In perusing the business news reports, one would get the impression that China's debt problems dwarf that of the United States. ***But nothing could be further from the facts***. China's sovereign-issued debt is $5.4 trillion – or about 50% of its GDP. The U.S. Government debt outstanding is $19 trillion – or 107% of GDP. Government plus private sector debt in China is roughly 260% of GDP (Govt + corporate). Note that in China the citizenry does not have debt but they do have a 50% savings rate. At last glance, total private sector plus Government debt in the U.S. is 340% of GDP. These debt numbers that do not include the underfunded pension problem in the U.S., which adds about another 10% to the total debt outstanding." More at THIS LINK. He goes on to point out that the Chinese government and citizens have **lots of gold and silver**, and this is simply not the case in the **US** (I will address this in my conclusion). To put things in proper perspective, I invite you to listen to ***Trends Forecaster*** **Gerald Celente** and his recent take on how bad things are in the US:

Gerald Celente: US Market Collapse & Bond Bubble

The entire globe is facing fiscal challenges, and the US is the undisputed (***exceptional***) leader when it comes to fiscal incompetence. And when it comes to ***fiscal incompetence personified*** it does not get any more extreme than **Obama's** Democratic home state of **Illinois** – **the worst in the US**:

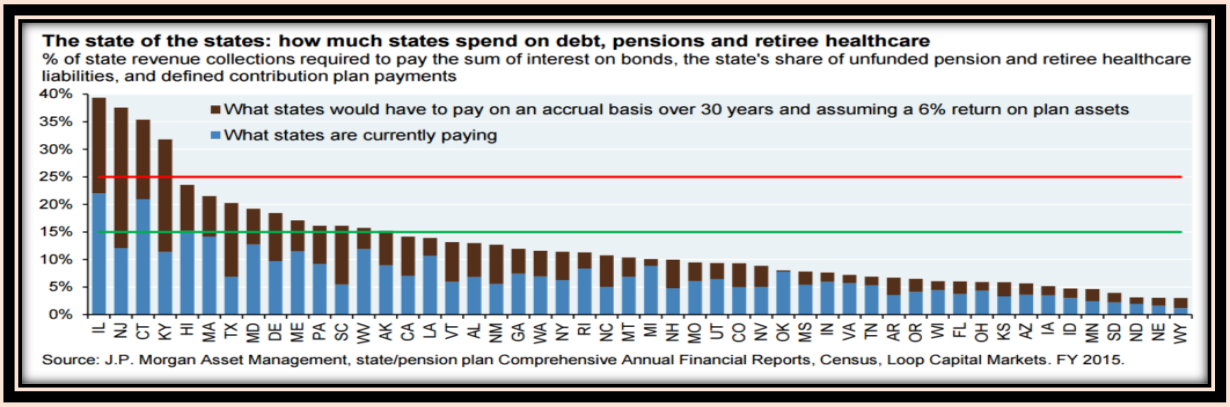
Incompetence Personified: *Illinois Still Can't Pass a Fiscal Budget for 2016!*

Submitted by Tyler Durden on 05/13/2016

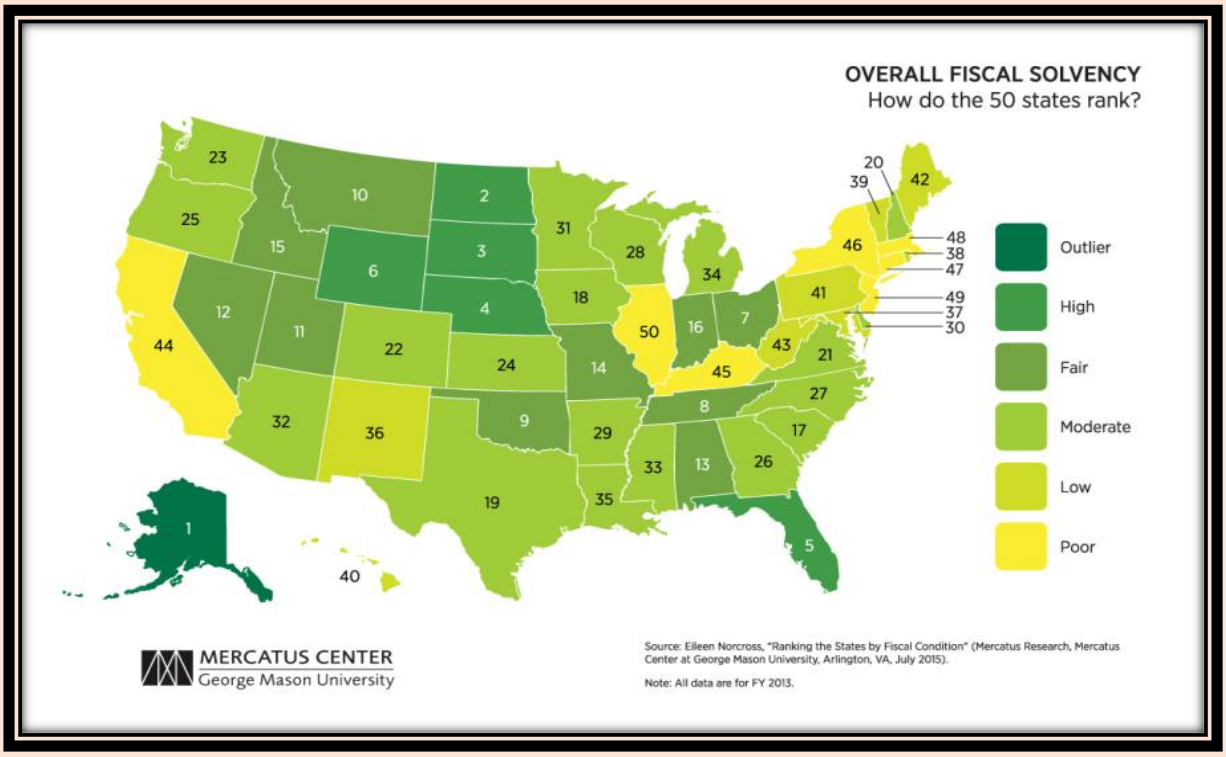
The bills Illinois has accumulated	
Bonds	$40,898,936,000
Other liabilities	$25,266,627,000
Minus: Debt related to capital assets	-$14,410,680,000
Unfunded pension benefits	$116,760,741,000
Unfunded retiree health care benefits	$44,274,501,000
Bills	$212,790,125,000

As Illinois struggles to get its fiscal house in order (good luck with that), it has devolved into funding key programs with one-off stopgap measures rather than approving an overall comprehensive budget. The state remains the only remaining state without a 2016 plan. Legislators are haggling over a budget that under its current proposal would increase tax revenues by $5.4 billion by **raising personal income tax rates from 3.75% to as much as 4.85%, cut spending by $2.5 billion, and borrow $5 billion in order to pay an expected $10 billion deficit by the time the fiscal year ends July 1. All of this is just another example of the state of complete disarray that municipalities, cities, and states are in all across the U.S. Between pension funds going insolvent, states missing budget projections by a billion dollars, and in Illinois' case, flat out inability to even know where to begin to solve the massive amount of accumulated debt, the pressure is building on Congress to start talking up bailout programs - because right now, helicopter money is literally the only thing that can save everyone from defaulting all at once.**

As seen in the chart above, the prairie state is **$212 billion in the red** and the leftist politicians in Springfield could care less, and this is pretty much the attitude around the nation. As mentioned above, state pensions and budgets are missing their fiscal budget projections by billions of dollars. **Illinois Gov. (R) Bruce Rauner** said he would veto any budget passed by the Democratic-controlled House, but the impasse continues. Why is this happening in **Illinois** you ask? Lay the blame on **Democrat House Speaker** Michael J. Madigan and **House Majority Leader** Barbara Flynn Currie for almost everything wrong in the Land of Lincoln. **Comrades Madigan and Currie** have successfully proven how to ***destroy*** a modern. and formerly affluent, state like **Illinois as seen here:**



What do we see in this chart? That Illinois is stuck with more contingent liabilities than any other state in the union. **Why?** Bad pension investment returns (that I will cover in a moment), and the fact that **comrades Madigan and Currie** have been in office for **33** and **37** years respectively (longer than **Fidel Castro**). A recent article called them dictators and this is what happens when people think that government is the *solution*, and not the *problem* (Reagan)!! **This following chart** ranks the fiscal solvency in the US, and you can see that **Illinois ranks 50th**, with **Alaska** coming in at **#1**.

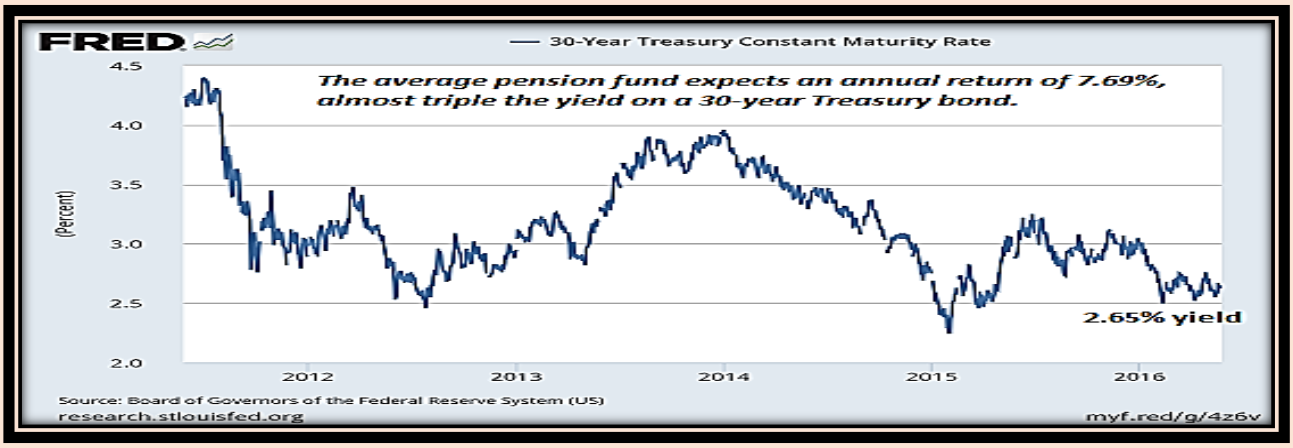


So where does your state rank in this chart? According to **The Pew Research Center**, state pensions are ***$1 trillion*** in the red and several states have less than half of their obligations funded, like Illinois, Kentucky and Connecticut. The New Jersey legislature is pursuing a constitutional amendment to *guarantee* their political pensions along with state workers. According to *Morningstar*, the cities with the largest percent deficit against revenue are (in this order), Chicago, New York, Boston, Philadelphia, Columbus, San Francisco, Los Angeles, San Jose, San Diego, Denver and so on. In California, the CEO of **CalPERS**, Frederico Buenrostro, was drug into federal court this week and given four years in The Big House for scamming $200,000 in bribe money with their pension funds. **State and private pensions** are suffering from corruption, cronyism and *unrealistic promises*:

Central States Chief warns of Insolvency or *Steeper Cuts to Teamsters Pensions*

Published: May 9, 2016 1:26 p.m. ET

The head of a pension fund serving **Teamsters** members on Monday warned it may need to enact steeper benefit cuts or go bankrupt in light of a decision by the Treasury Department to reject proposed reductions. Thomas Nyhan, the executive director of the Central States pension fund, told reporters on a conference call that he wasn't sure that Central States could make the numbers work after Special Master Kenneth Feinberg refused a request to slash benefits by 22% on average for **270,000 Teamsters members**. Among the reasons that Feinberg cited in his rejection letter was ***the 7.5%-per-year investment return projections made by Central States, which he said were too optimistic.***



As you can see in this chart, public and private pension funds have all assumed that their funds would appreciate with a healthy ***7.7% annual return each year***. This might be a normal **10-Yr Treasury**, but these are not normal times! The **central banksters** are trapped at the zero bound due to sovereign/fiscal debt pyramids, and Mike Kreiger BLASTS the Fed for pension woes because of their ZIRP policy. **Central States** pension fund is currently paying out ***$3.46*** for every ***$1*** coming in, and this represents a $2 billion/year deficit – ***something has to give!*** In the following clip, **Max Keiser** spells out the dangers and how retirees will need to spend ***$288k*** **just for Medicare B and D**:

Max Keiser Video: US Pension Funds Are Going Bankrupt

The **twin threats to pension funds** are low investment yields and people living too long; and this is why THIS article says that "all pension funds are doomed" not only here, but around the world.

This is a very serious problem going forward due to aging demographics, deflationary pressures and debt. **Social Security** will go bust in less than **15 years** according to the Trustees and we can see this stress in other nations. A RECENT report in the **UK** suggests that people should work until they are **70** to "be rewarded with a more generous state pension." This is encouraged in the **US,** but since **2008** record numbers of babyboomers are enrolling in **Social Security** (*10,000 per day*). I have covered this topic before, and what is emerging is a humanitarian crisis like the world has never seen before. Too many promises have been made to too many people and the world is drowning in public and private debt. Just like governments, **individuals** are living beyond their means **as seen here**:

Balance Due: *Credit-Card Debt Nears $1 Trillion as Banks Push Plastic!*

In the US, **60 million new credit cards** are issued each year and it is estimated that households hold an average of **$16,000** in credit card debt. This is compounded by another study that reveals our national savings rate is a dismal **2.6%** compared to China at **44%**. Japan had a **49%** saving rate in **2015** and it has now dramatically dropped to **13%**. Europe still has a saving rate this high, and America's decline can be traced back to **1980** when rates started declining and babyboomers produced the credit expansion of the past **35** years – a credit supercycle that is ending in fiscal insolvency and collapse. For a glimpse of what this might look like we only need to turn to events down in **Venezuela:**

Socialist Nightmare: *Crisis in Caracas!*

Here is a story that is getting virtually NO media coverage in the West! In **1970**, **Venezuela** was ranked among the top **20** richest nations in the world, and today it is a *failed socialist state* after **20** years of hardcore Marxism, redistribution of the wealth and fiscal mismanagement on steroids!

What has gone wrong in this oil-rich country? It is a case study of collectivist ideology and central planning. It is, in the words of **F.A. Hayek's book** ***The Fatal Conceit: The Errors of Socialism*** that statist politicians/banksters cannot calculate price and value and *all fiat currencies fail!* By way of contrast, **Chile** was an impoverished nation until the **1980s** when they adopted economic reforms including deregulation, privatization of state-controlled pensions, banks, farms, industries, utilities and so on (see link). **Chile's** per capita GDP rose **350%** (23% in Ven.), **11%** live in poverty (80% in Ven.), **Chile** is ranked **7th for economic freedom** (140th for Ven.) and is also ranked a "high-income economy" by the World Bank. Why the striking difference? Why so much prosperity and happiness in **Chile** and poverty and suffering in **Venezuela?** These are ***VERY*** inconvenient questions for the current media/political cycle in the **USA**, and it *emphatically* ***DOES NOT*** fit the narrative that socialism is **good** and capitalism is **bad.** While I agree that criminal, corrupt crony capitalism is ***bad*** (as opposed to genuine privatized free-market capitalism), the notion that socialism/collectivism is a just, fair, noble, righteous and economically viable alternative is not only ***crazy***, it is something that ambitious demagogues love to exploit…***and then drive the poor into even more poverty!***

"I am for doing good to ***the poor****, but I differ in opinion about the means. I think the best way of doing good to* ***the poor*** *is not making them easy in poverty, but leading or driving them out of it."*
– Benjamin Franklin, Founding Father (1706 – 1790)

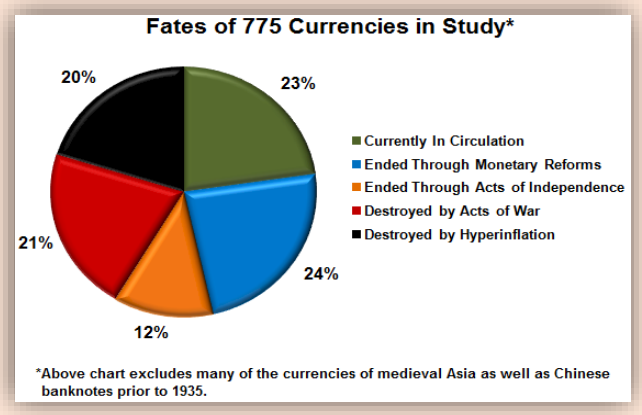
If you have studied the **Founding Fathers** like I have for almost **40 years**, you have to love their eternal wisdom, and how blessed we were as a nation to have what some call the "greatest brain trust in history" to establish our nation in **1789**. Unfortunately, we have totally lost our way as a nation, and our new hip multi-cultural society prefers an old **Marxist/Soviet-style** of central planning run by **apparatchiks** (a colloquial term for full-time **Communists**). There is no ideological difference between communism/socialism when it comes to economics and how to help the poor. **Ben Franklin** said you help the poor by driving them *out of* dependency, like they have done in **Chile**. People like Obama, Hillary Clinton, **Bernie and Jane Sanders** think that the best way to help the poor (and get their votes, of course), is to drive them *into* government dependency (for perpetual votes, of course).

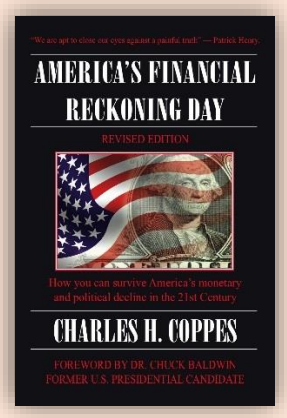
In 1998, a military lieutenant **Huge Chavez** channeled the anger of the indigenous proletariat and led a campaign to **nationalize** everything from pensions, healthcare, education, housing, farms, banking, cement, gold mining, steel, telecommunications, utilities and most importantly their oil exporting profits (through **OPEC**) and they imposed windfall profit taxes on the private sector – the very *opposite* of **Chile**. This is the same language that **Bernie Sanders** is using today and **Clinton's** economic advisors (like Joe Stiglitz) are promoting class warfare and the politics of greed and envy. This kind of collectivist mentality is what drives economic/fiscal policy in **China, Japan, Canada, Europe** and the state legislatures like **Illinois, New York, California** and other bankrupt states. For example, according to THIS report, **Burlington College** in Vermont was bankrupted when **Jane Sanders** served as president (2004-2011), and ran it into the ground through excessive debts. "This is what happens when you put socialists in charge, just look at **Venezuela**" said E.T. Williams.

So what can we learn so far? We see the conceit (and deceit) of central planning failing everywhere and the only prescription is for more of the same! For the **32** million people in **Venezuela** it has gone too far and there is no way that the **apparatchiks** can save the system. Inflation is over 700%, flour has risen 900% and a dozen eggs are $150 on the black market. The government is rationing four lbs. of rice or pasta and meat is scarce. Looting and food riots are becoming common as shown in THESE SCENES. **This reporter warns**, "One can only hope that these shocking scenes remain relegated to the streets of offshore **socialist paradises**, although Americans should always prepare for the worst in case they eventually manage to make their way into our country." Hungry masses are killing dogs, cats, pigeons and livestock for food. A man was recently caught for mugging and beaten and BURNED alive. According to the **UN**, this socialist paradise is the murder capital of the world with a murder *every 20 minutes* (28,000/yr.) due to poverty, organized crime and militarization of law enforcement. A **Gallup Poll** found that 80% of the people do not go out at night and crime is up 500% since the Communists took over. Here is a live **20-minute video** report from **Jeff Berwick**:

Live from Venezuela: Murder Capital of the World!

This was a dangerous interview for both parties and yet we hear nothing in the media. In the last two weeks the **MSM** has been captivated with people killed on an airplane, refugee ships, tornadoes, floods, an occasional shooting and even the death of…*a gorilla!* But ***56,000 people*** murdered in the past two years (more than ten years of Viet Nam) is not newsworthy. Shame, shame, shame on the leftist media. Just four years ago **guns** were banned in Venezuela. Does **gun control** stop crime? You tell me. People are also dying in their hospitals and the whole nation is suffering from electrical outages. This is what socialism looks like. This is a warning for all of us. **What can you do?** You can **CLICK HERE** for a list of things on this prepper site noting the situation in Venezuela.





The central bank of Venezuela (BCV) has imposed currency exchange controls and the bolivar is expected to inflate by *1,200%* next year. Above is a **pie chart** from a study of **775** fiat currencies in history – ***MOST*** *have collapsed and failed!* There are currently **178** world currencies and all the rest have failed, with **hyperinflation** being the worst outcome (24%). America is also facing a financial reckoning day as I cover in my book, and this is courtesy of our **Federal Reserve**. At a recent **CATO Institute** event, **Dr. Ron Paul** was asked about the Fed. "Even after all these years of studying and reading and trying to figure out the system, I have come to a very fair and balanced position on the Federal Reserve**. I think there's no doubt that the Federal Reserve is immoral. It's unconstitutional. And it's a disaster. We don't need it**." Ha, tell me how you *really* feel doctor!

There is no doubt that the **central banksters** in the Eccles Building in the District of Criminals are running a (constitutionally) illegal, corrupt and criminal operation. **Socialism** and the growth of the Welfare State could not happen without a central bank! Put simply, governments can only borrow, tax or **print money**, and they **always** favor the later because it is little understood (inflation tax) and politically safer. It is a perversion of **free markets** says **Paul-Martin Foss** at the **Mises Institute**:

> *"Anyone who claims to stand for free markets, free trade, and limited government but who attempts to* ***defend the existence or importance of the Federal Reserve or central banking is a liar****. Either you support free markets and freedom of pricing or you support central bank price-fixing and* ***creeping socialism. There is no third way or middle road — socialism and the free market are mutually incompatible.*** *A little bit of socialism in the form of price-fixing is like a little bit of gangrene,* ***if left unchecked it will eventually infect and kill the whole."***

Ludwig von Mises will best be remembered for his historical observation that there is no way to avoid a "crack up boom" following **a credit expansion** through a central banking. In a recent **FOX TV** interview (5/16/16), former Fed Chair **Alan Greenspan** was expressing sincere concern about "entitlements" that are growing at **9%** per year. As I noted earlier (p.3) *this man*, more than *any* other bankster, is responsible for the coming boom/bust! And yes, why do we even defend the existence or importance of the Fed?? **David Stockman** lays into Greenspan and the Fed – ***delightful!***

David Stockman: The Fed Party is Over – 6 Minutes

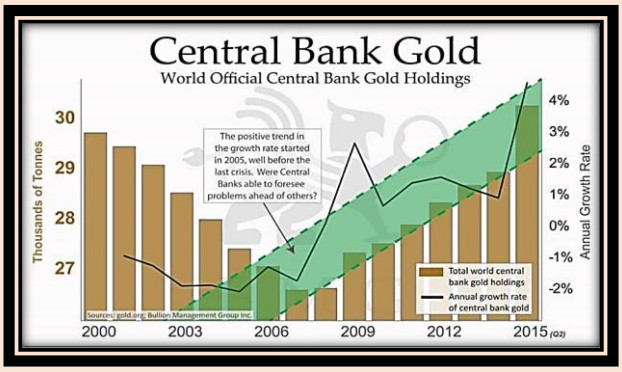
The fiat/fiscal party is over and the evidence of this can be seen in how *gingerly* the Fed talks about raising interest rates back to that normal *5-7%* that retirees, savers and pensioners need to survive. In THIS stinging rebuke, **Charles Hugh Smith** mocks the **FOMC**: "We study the tea leaves of the Fed's announcements, and hold our breath lest the worst happen--*gasp*--the Fed might push interest rates up a quarter of a percent!" Why can't the Fed return to even *5%* you ask? Here is a graphic reason from **Daniel R. Amerman**, **CFA** from an excellent (and short) **video clip** you should see:

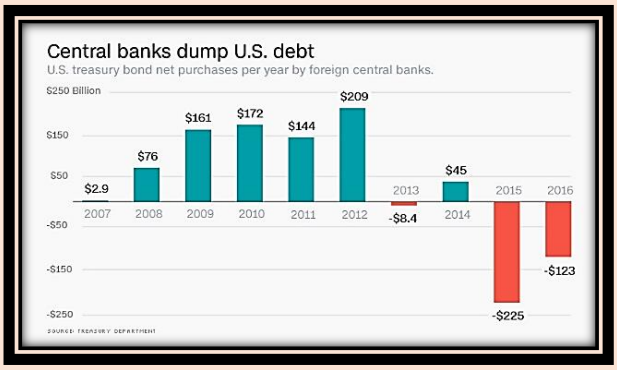
Amerman explains that to allow a normal rate would add a staggering ***$75 trillion*** to our national debt in **20** years! Get the picture? This is the situation around the world. The Fed says we are in an **economic recovery** and this will allow normal rates soon (as in June). Currency expert **Axel Merk** predicts, "If reality doesn't catch up with the storyline, i.e. if U.S. rates don't 'normalize,' or if the rest of the world doesn't lower rates much further, we believe odds are high that the U.S. dollar may well have seen its peak." **Deutsche Bank** further predicts "the market is not ready for a June hike." And sure enough, the Friday June 3rd **jobs report** was a pathetic 38,000 jobs and *way* under expectations. The **US Dollar Index** did plummet and metals shot of significantly on the reality that the Fed cannot raise rates again. The "economic storyline" has been that the US is in the midst of a robust economic recovery, and now we see that the Fed, **Obama** and his propaganda team are ***"peddling fiction"*** about this jobless recovery since **2008** (and his legacy as a brilliant economist and statesman……not).

In this risky environment what are smart investors doing? They are continuing to buy **gold and silver** despite the cruel/criminal price manipulations and fraud committed by the banksters. As noted in my last newsletter, the news broke that indeed **gold and silver markets** have been manipulated by **Deutsche Bank** in Germany (along with others) for at least ten years, etc. despite vigorous denials by these same banksters. The obvious question is why do they do this? In a recent ARTICLE entitled **The Deutsche Bank Gold Manipulation Scandal** the writer concludes with this insight:

*"**Two obvious questions present themselves**: what could be the purposes of these alleged manipulations and what would the present suggested gold and silver prices be had these implied sources of false information not been present? **I would suggest the purposes could be directly related to government control over the economy and their and major banking establishments desires to have that economy appear to be functioning efficiently. Since gold and silver have historically been regarded as negative indicators of economic and social stability, rising when conditions worsen and vice versa, it would seem governments and major banks indeed had a vested self-interest in minimizing any price increases**. Also, governments would presumably like to dampen public concerns over massive growth in money creation, national debts, operating deficits and so forth – all of which have escalated sharply in recent years."*

Do you get what he is saying here in the kindest possible words? Our criminal government and banksters are trying to deliberately falsify market reality and risk to support the "storyline" and this means that rising gold and silver markets are like…***kryptonite!*** I think this is a perfect analogy. The following is more empirical proof that these people are ***peddling fiction***, and they don't want you to know that they are buying gold as a serious hedge. And they don't trust **US Treasuries** at all.





The **evil banksters** don't want investors to even consider any **gold and silver** in their portfolios, and they keep the price *suppressed* for this very reason, and all the while they are loading up! According to the **World Gold Council** central banks added **1,290 tons** of gold in the first quarter of **2016**, which is the highest ever for any quarter! They say the trend is your friend, and this means watch what the banksters are *doing*, and not *what they say*. It is no secret that **China** is buying most of the gold in the world in addition to being the world's largest producer of gold. There has been much speculation on *how much* they have, and even more speculation on *why* they are hoarding gold. This is not that hard to understand. **China** is hedging against future losses with **US** currency/bond holdings and they even encourage their citizens to buy **gold**. This may help a "soft landing" and it is also important to have a certain percentage of **gold** to GDP for inclusion into the **IMF** Special Drawing Rights (**SDR**) that I will cover in my next newsletter. Smart money is moving into gold including **George Soros** who acquired **1.7%** of Barrick Gold making this his largest US holding. Hedge Fund guru **Paul Singer** is recommending gold as a classic hedge. "Investors have increasingly started processing the fact that the world's central bankers are completely focused on debasing their currencies."

In monetary circles there is something called **Gresham's Law**, and this actually goes back to **Nicolaus Copernicus** in the 14th Century. It basically states that bad (fiat) money drives out good money (gold and silver) into the people's hands. In contrast, **Thiers' Law** states that good money (gold and silver) eventually takes bad (fiat) money out of circulation as the latter becomes abandoned. And this is what we are seeing today. **Gresham's Law** is at work as central banksters pump out more worthless fiat paper currency, and they are also hoarding gold along with wise investors. As **Voltaire** said, all fiat currency returns to its intrinsic value *of zero*. At that point the currency is abandoned as seen earlier in the failure of fiat currencies. Now we learn that demand is stripping supply in **London**, and furthermore, **China** is buying the gold vaults in **London!** Here are the links and I will explain.

"The Death of the Gold Market" – *A Run On London Gold Vaults Is Imminent!*

zerohedge.com / by Tyler Durden / 05/08/2016 10:07

When it comes to tracking the nuances at the all important margin of the gold market, few are as observant as ADMISI's Paul Mylchreest, whose December 2014 analysis showed the stunning role gold holds in the new normal as a funding "currency" for BOJ interventions in the form of a long Nikkei/short gold (and vice versa) pair trade, indicating that central banks directly intervene in gold pricing (by selling, of course) when seeking to push paper asset prices higher. In his latest report he follows up with an even more disturbing analysis on the state of the gold market. Specifically, he looks at what historically has been the hub of gold trading, **the London bullion market, and finds that** it **"is running into a problem and is facing the biggest challenge since it collapsed from an insufficient supply of physical gold in March 1968.**" For those pressed for time, the executive summary is as follows: **using data from the LBMA and Bank of England on gold stored in London vaults and net UK gold export data from HM Revenue & Customs, Mylchreest calculates that the "float" of physical gold in London (excluding gold owned by ETFs and central banks) has recently declined dramatically**…….**READ MORE**


Markets | Fri Jan 8, 2016 11:14am EST
Related: STOCKS, REGULATORY NEWS, MARKETS, FINANCIALS
ICBC Standard Bank buys Deutsche's London bullion vault
Markets | Mon May 16, 2016 6:25am EDT
Related: FINANCIALS
ICBC buys Barclays' US$80bn London gold vault

China's Largest Bank Is Quietly Cornering the Market *for London Physical Gold*

zerohedge.com / by Tyler Durden on 05/16/2016 12:58

We have followed the ownership changes of London's massive vaults with keen interest ever since our December 2014 article when we reported that Deutsche Bank's gold vault was for sale in "Massive 1,500 Ton Gold Vault For Sale In The Heart Of London, One Previous Owner, Asking £4,500,000 O.B.O." The fate of that particular vault was revealed earlier this year when Reuters reported that none other than **China's largest bank, ICBC Standard Bank, was buying the lease**

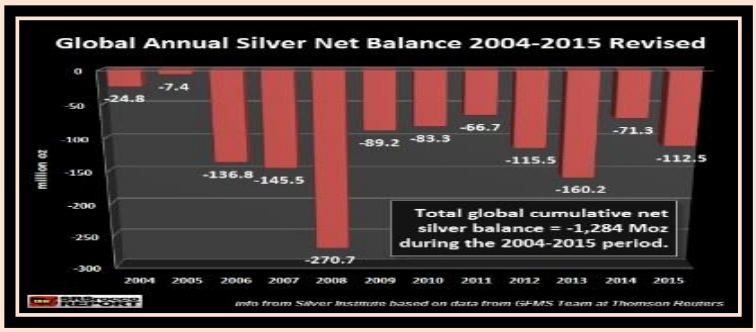
on Deutsche Bank's London gold and silver vault, "enlarging its footprint in the city's bullion market" The Chinese and South African lender is aiming to fill the gap left by Western banks, which are retreating from commodities to cut costs and reduce regulatory burden. **"They (ICBC Standard Bank) have taken on the lease for the vault," the first source said.** Deutsche Bank's vault became operational in June 2014 and has a capacity of 1,500 tonnes… **READ MORE**

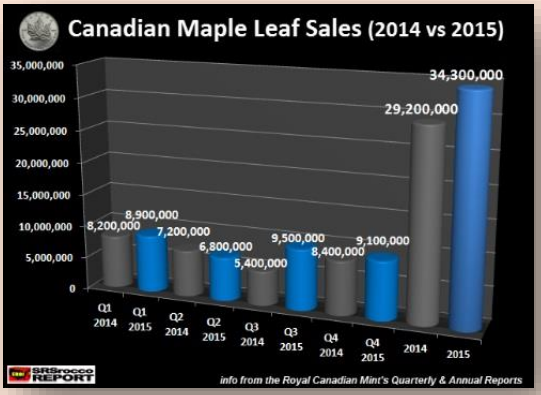
Here is more evidence that gold deliveries are getting strained in London and NY. The last time this happened was the artificial price suppression by the London Gold Pool (1961-1968) in an effort to maintain gold at **$35/oz**. according to the Bretton Woods Agreement in **1944**. At the same time, you have China's largest bank buying gold vaults from both **Deutsche Bank** and **Barclays**! As noted in THIS article, the Chinese acquired **JP Morgan's NY** headquarters that has the largest gold vault outside of **Fort Knox** in **2013**. This unique vault *connects underground* with the **NY Fed** right across the street, and many speculate that this is to facilitate gold transfers to **China** (www.gata.org). All very interesting as **China's bubble economy** threatens while the Chicoms also secure their **gold**.

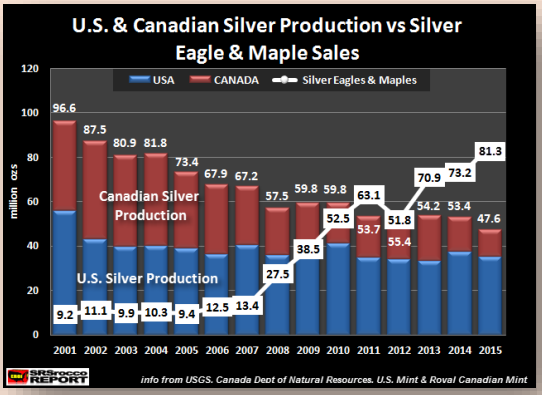
Hedge Funds Buy Silver *as Silver Bullion Deficit Surges*

goldcore.com / By Mark O'Byrne / May 16, 2016

We are not only seeing record demand for gold, but for silver also. As seen in this headline and chart, hedge funds have taken a record net-long position and **silver** has surged **26%** in **2016**. This article mentions that the **silver bullion deficit** continues based on annual data, and this dynamic has been building for some time as you can see in this **chart below**. As regular readers know, this cannot be sustained forever as market pressure, supply/demand and **Gresham's Law** all come to bear.

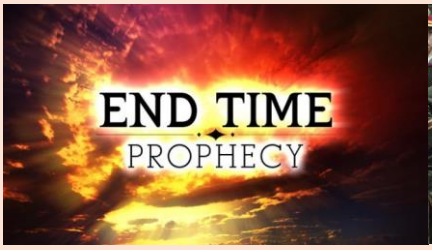


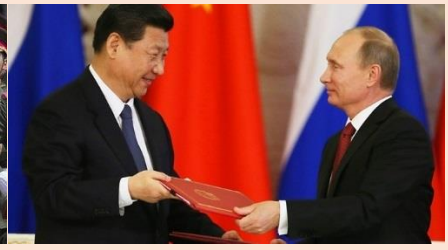




<u>The above charts reveal the investor demand for silver in Canada as well as the US</u>. Year over year, demand has been increasing in Canada and especially in the past two years (**left**). Looking back to **2001** (**right**), investor demand for silver was ***only 10%*** of annual silver production. It became ***50%*** starting in **2008**, and now investor demand has exceeded ***all silver mining*** in <u>both the US and Canada</u>! Do you see the trend here? Last year's silver deficit was **130** million ounces and the largest on record. According to silver technician **Herbert Moolman**, the set up for an explosive price in silver is unprecedented based on the fractal analysis of the **US Dollar Index** and **silver** going back to the **1970s**. He concludes that there is less resistance for silver with the index now peaking. "If the current pattern on the **US Dollar Index** plays out as expected, and silver has a similar rally to that of the 70s, then silver could go to **$184**. Given that the expectation is for silver to outperform the 70s rally, it is likely to *exceed* the **$184 level**." You can see his research at <u>THIS LINK</u>. **Pretty amazing stuff**.

<u>Summary & Conclusion</u>. The **global monetary system** is in quite a mess, and this is being felt right down to the state, county, city level and into our flat earnings, pension and **retirement prospects**. In a recent broadcast <u>Jim Puplava</u> outlined the *Four Horsemen of the Retirement Apocalypse* as follows; people are living **25** years longer than in **1934**; personal medical expenses are reaching $250k; the Fed is purposely keeping rates near zero and little growth can be found. As I mentioned, deflationary pressure, public/private debt and the **demographics** of an aging population here in the **US** and around the world is a serious concern. <u>THIS</u> shocking report reveals just how unprepared most Americans are, and by any measure the **US** is in worse shape than China, Japan or Europe. A notable exception is **Venezuela** that is suffering from collectivism/socialism under the current leadership of **Nicholas Maduro**, a former bus driver and union thug with more work experience than **Bernie Sanders**. The structural economic problems in **China** are formidable as we have seen, but they are likely to survive their challenges with the **Sino-Russian** alliance, gold reserves and close relations with the **EU**. This cannot be said of the **US,** and geopolitical tensions are likely to get worse as **Beijing** confronts the old order as I noted, and this overall scenario fits into **Bible prophecy** as I also outline in my book.



The Bible predicts the rise of a **Revived Roman Empire** in the last days, and the rise of a world leader (in the **EU**) known as the **Antichrist** (Dan. 2:39-43,9:24-27; Rev. 13). The **US** is not featured as playing a significant role in global politics within this prophetic matrix, and this leads many to believe that something devastating has happened to **America**. It is not hard to imagine that we have collapsed under the weight of our own **fiscal mismanagement**, or something worse (EMP). The **EU** is China's second largest trading partner (after Asia), but near the end of this **EU leader's reign** he is challenged by political/military power from **Asia**. He "hears rumors from the **East**…that disturb him, and he will go forth with great wrath to destroy and annihilate many" (Dan. 11:44). This is a reference to "the kings of the **East**" with an army of 200,000,000 that leads up to the **Battle of Armageddon** (Rev. 9:16, 16:12-16). It is at this critical climax of world history that **Jesus Christ** returns with power and glory to establish his **1,000-year** earthly reign – and why we pray "Thy kingdom come, Thy will be done on earth as it is in heaven" (Mt. 6:10). The stage is being set for these final events.

It is truly inspiring that people want to **Make America Great Again**, but is this really possible if we are a corrupt and sharply divided nation as our culture wars demonstrate? America was founded as a great nation with a deep **Judeo-Christian** foundation, but we are not that nation. "Righteousness exalts a nation, but sin is a disgrace to any people" (Pro. 14:34). **William Wilberforce** once said:

*"**It is a truth attested by the history of all ages and countries**, and established on the authority of the ablest writers, both ancient and modern . . . that the **religion and morality** of a country...are inseparably connected with its preservation and welfare; that their flourishing or declining state is the sure indication of its tending to prosperity or decay. **It has even been expressly laid down, that a people grossly corrupt are incapable of liberty**.*

The Bible says that this world is "passing away" and it is only those who have faith in **Jesus** that will enter **His kingdom** (1 Jn. 2:17). Have you trusted in **Him?** Would you like to *know* that you have eternal life when you die? I would invite you to click **THIS LINK** from my site to learn more. This is your ultimate contingency plan! If I can assist with **precious metals** let me know below. If you have precious metals, you need to stay the course and stay informed. These monthly newsletters contain news stories and current events I follow on a regular basis. If you are a **new subscriber** I welcome you and remind everyone that I am sending ***two books*** for the price of **one** ($26.90), if you go my author site. Thanks for your notes and encouragement as always!

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