

(Global Europe Anticipation Bulletin, April 19, 2011)



Autumn 2011 – Budget/T-Bonds/Dollar, the three US crises which will cause the Very Serious Breakdown of the global economic, financial and monetary system

The 15 September 2010, GEAB N° 47 issue was headed « *Spring 2011: Welcome to the United States of Austerity / Towards the very serious breakdown of the world economic and financial system* ». Yet at the end of summer 2010, most experts believed first, that the debate on the US budget deficit would remain a mere subject of theoretical discussion within the Beltway (1) and secondly, that it was unthinkable to imagine the United States engaging in a policy of austerity because it was sufficient for the Fed to continue to print dollars. Yet, as everyone has been able to see for several weeks, Spring 2011 really did bring austerity to the United States (2), a first since the Second World War and the setting up of a global system based on the ability of the US engine to always generate more wealth (real from 1950 to 1970, increasingly virtual thereafter).

At this stage, LEAP/E2020 can confirm that the next stage of the crisis will really be the "Very Serious Breakdown of the world economic, financial and monetary system" and that this historic failure will occur in autumn 2011 (3). The monetary, financial, economic and geopolitical consequences of this "Very Serious Breakdown" will be of historic proportions and will show the crisis of autumn 2008 for what it really was: a simple detonator.

The crisis in Japan (4), the Chinese decisions and the debt crisis in Europe will certainly play a role in this historic breakdown. On the other hand we consider that the issue of government debt of countries on Euroland's periphery is no longer the dominant European risk factor here, but it is the United Kingdom which will find itself in the position of the "sick man of Europe" (5). The Eurozone has in fact established and keeps improving all the monitoring systems needed to address these problems (6). Management of the Greek, Portuguese and Irish problems will therefore take place in an organized fashion. That private investors must take a haircut (as anticipated by LEAP/E2020 before summer 2010) (7) does not belong to the category of systemic risks, displeasing the Financial Times, the Wall Street Journal and Wall Street and City experts, trying every three months to rerun the "coup" of the early 2010 Eurozone crisis (8).

In contrast, the United Kingdom has completely missed its attempt at "preventive budgetary amputation surgery" (9). In fact, under pressure from the street and particularly more than 400,000 British who roamed the streets of London on 03/26/2011 (10), David Cameron is forced to lower his target for reducing health care costs (a key point of his reforms) (11). At the same time, the Libyan military adventure has also forced him to rethink his goals for Defense Ministry budget cuts. We already mentioned in the last GEAB issue that the British government's financing needs continue to rise, reflecting the ineffectiveness of the measures announced whose implementation is proving very disappointing in reality (12). The only result of the Cameron / Clegg (13) duo policy is currently the relapse of the British economy into recession (14) and the obvious risk of the ruling coalition imploding after the next referendum on electoral reform.

In this issue, our team describes the three key factors that mark out this Very Serious Breakdown of autumn 2011 and its consequences. Meanwhile, our researchers have begun to anticipate the progression of the Franco-Anglo-American military operation in Libya which we believe is a powerful accelerator of global geopolitical dislocation and that it usefully illuminates some of the current tectonic changes in the relationships between major world powers. In addition to our GEAB \$ index, we expand on our recommendations for dealing with the dangerous quarters to come.

Basically, the process that is unfolding before our eyes, of which the US entry into an era of austerity (15) is a simple budgetary expression, is a continuation of the balancing of the 30 trillion of ghost assets which had invaded the global economic and financial system in late 2007 (16). While about half of them had disappeared in 2009, they have been partially resurrected since then due to the volition of the major global central banks, and the US Federal Reserve in particular and its "QE 1 and 2". Our team considers, therefore, that 20 trillion of these ghost assets will go up in smoke beginning autumn 2011, and very brutally, under the combined impact of the three US mega-crises in accelerated gestation:

- the budgetary crisis, or how the United States plunges willingly or by force into this unprecedented austerity and takes whole swathes of the global economy and finance with it
 - the crisis in US Treasury bonds, or how the US Federal Reserve reaches the "end of the road" which began in 1913 and must face up to its bankruptcy whatever accounting sleight of hand is chosen

- the US Dollar crisis, or how the jolts in the US currency that will characterize the ending of QE2 in the second quarter of 2011 will be the beginnings of a massive devaluation (around 30% in a few weeks).

The three US crises: Budget, T-Bonds and Dollar

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Central banks, the global banking system, pension funds, multinationals, commodities, the US population, Dollar zone economies and/or dependent on trade with the United States (17) ... everyone structurally dependent on the US economy (of which the government, the Fed and the federal budget have become central components), assets denominated in dollars or commercial dollar transactions, will suffer the head on shock of 20 trillion in ghost assets purely and simply disappearing from their balance sheets, from their investments, and causing a major decline in their real incomes.

The three US crises: Budget, T-Bonds and Dollar

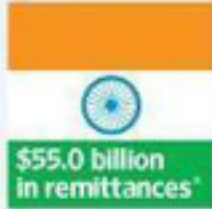
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Shrinking Pot

Many of the biggest remittance-receiving countries, including the Philippines, have been hurt by the weakening of the dollar against the local currency in the past two years.

INDIA



At the end of 2008, those remittances would have been worth: **2.67 trillion rupees** But now, they are worth: **2.48 trillion**



CHINA



347.97 billion yuan **335.29 billion**



MEXICO



310.19 billion pesos **275.21 billion**



PHILIPPINES



1.01 trillion pesos **0.93 trillion**



BANGLADESH



764.79 billion taka **786.99 billion**



NIGERIA



1.36 trillion naira **1.53 trillion**



*All remittance figures are 2010 estimates.

Sources: World Bank (remittances); Thomson Reuters via WSJ Market Data Group

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