The Global Debt Bells Are Tolling

The chimes are growing louder. But still not loud enough for most people to hear.

The first peal we can hear is what's not being said by the architects of this mess.

Central banks — the Reserve Bank of Australia included — talk about increasing interest rates.

But they're reluctant to do anything.

'We will raise rates, we really will…' they intimate.

Savers are teased and borrowers reprieved.

Why the reluctance? What aren't central bankers telling us?

The sheer volume of debt in the system — in all its various guises — is so great that even a modest rate rise would lead to a wave c

And that's bad news for a US economy that's become utterly dependent on more and more debt to continue functioning.

To admit as much would be to admit failure.

As Ambrose Evans-Pritchard wrote in *The Telegraph* on 20 September 2017 (emphasis is mine): '*The US Federal Reserve and fello*

Ambrose's definition of a white lie is obviously different to mine.

Personally, I think the word 'fraud' best sums up the actions of the central bankers and is also an apt deion of the central bankers th

They are frauds. Cloaked in respectability and armed with their PhDs, they have perpetrated the greatest Ponzi scheme in history.

The base of the debt pyramid now needs to expand at a multiple of $5 to achieve $1 of growth. If the global debt pyramid — someho

Anyone with a basic understanding of maths (and a modest dose of common sense) would have realised this insatiable debt machin

Obviously the central bankers, with their lofty cerebral musings and theoretical models, failed to comprehend the basics.

These economic pretenders — through their slavish adherence to growth at all costs — have put us in a position from which there a

Given that they lacked the nous to understand the magnitude of the problem they were creating, why should we have any faith in the

The second peal came from Standard %26 Poor's recent downgrade of China's sovereign debt via Bloomberg on 21 September (em

> 'S%26P Cuts China's Credit Rating, Citing Risk from Debt Growth…
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> '*S%26P Global Ratings cut China's sovereign credit rating for the first time since 1999, citing the risks from soaring debt, and re*
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> '*The sovereign rating was cut by one step, to A+ from AA-, the company said in a statement late Thursday. The analysts also lo*
>
> '*"China's prolonged period of strong credit growth has increased its economic and financial risks," S%26P said. "***Although this**

For every action there is an equal and opposite reaction.

Global Financial Crisis 2017: Three Crisis Scenarios, and How They Could Impact on Australia

Markets and Money editor Vern Gowdie reveals the three crisis scenarios that could play out as the next credit crisis hits Aussie sho

China's extraordinary economic performance is not that different to Japan's miracle economy of the 1980s. It was all an illusion. One built on a mountain of debt.

The only difference is that China has taken debt accumulation to a whole new level.

Recently I was listening to an interview with Kyle Bass of Hayman Capital. Bass made two fortunes — one on shorting subprime mortgage loans and the other on shorting Greek debt.

He said that China has US$40 trillion of assets with US$2 trillion of equity…the other US$38 trillion is debt.

China is leveraged 20:1. What could possibly go wrong?

Imagine purchasing a $2 million property with $100,000 cash and $1.9 million of debt?

You only need a 5% contraction in value and your equity ($100,000 cash) is gone…vaporised.

China is a disaster waiting to happen. The fact that almost everyone believes that China is different — due to its size and the fact that it keeps defying the naysayers — is why this collapse is going to be so devastating. Very few people are expecting it.

The third peal came from the Bank for International Settlements (BIS) — the central bank of central banks.

The BIS have identified a 'rounding error' (said with tongue firmly planted in cheek) in the level of emerging market debt.

According to *The Telegraph* on 17 September 2017 (emphasis is mine):

> '*The world's top financial watchdog* ***has uncovered $14 trillion of global dollar debt hidden in derivatives and swap contra***
>
> '***The scale of this lending greatly increases the risk of a future funding crisis*** *if inflation ever forces the US Federal Reserv*
>
> '***A forensic study by the Bank for International Settlements says enormous liabilities have accrued through FX swaps, c***
>
> '*"…the corresponding debt is not shown on the balance sheet and thus remains obscured," they wrote in the BIS's quarterly repo*
>
> '***The hidden lending*** *comes on top of $10.7 trillion of recorded offshore dollar debt outside US jurisdiction. It pushes the combin*

Therein lies the problem with the obsession to find new and inventive ways to create debt…no one knows just how much toxin is in the system.

Official figures put global debt in the US$230 trillion range. This equates to over 300% of global GDP. On a global basis, debt on this scale puts us in unchartered territory.

What about unofficial figures? We have absolutely no idea how all this is interconnected. As silly as it might sound, a default in outer Mongolia could have repercussions on Wall Street. Who knows?

And what's even scarier is that the people that *should* know don't know.

The fourth peal is being sounded for the world's most indebted household sector…Australia.

The RBA — after it aided and abetted the record indebtedness of Aussie households — is warning about increasing interest rates. Admittedly, this is just talk.

Philip Lowe, the RBA governor, tells us to 'prepare for higher interest rates'.

But they can't raise rates because they did too good a job selling debt. The RBA kept rates at an accommodative level.

According to *The Weekend Australian*:

> '*This week global ratings agency Moody's said late mortgage payments had hit a five-year high. It was another sign of rising mo*

Without even touching the interest rate dial, households — which have bitten off more than they can chew — are feeling the pinch.

When the RBA was enticing people to borrow more, they didn't factor in a scenario of stagnating wages and rising energy costs. Their sole focus was on keeping the economic growth machine well oiled with vast quantities of the debt lubricant.

The RBA is yet another central bank that couldn't lift its eyes above the next set of quarterly GDP numbers.

The cracks in this artificial economic growth model are starting to appear…be it in China, emerging markets, Australia, Europe or US.

The bells are tolling.

This is going to end very, very badly.

If you're worried about how this disaster is going to unfold and are looking to protect your capital, go here.

Regards,

Vern Gowdie,
Editor, *The Gowdie Letter*

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Vern GowdieEditor at Markets %26 Money

Vern Gowdie has been involved in financial planning in Australia since 1986. In 1999, Personal Investor magazine ranked Vern as o

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