

"Even God Himself Could Not Sink This Ship" - Titanic Crewman

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"Even God Himself could not sink this ship."

– Titanic crewman... The ship sank four days

"It is our will that this state shall endure for a thousand years."

– Adolf Hitler... 10 years before the Reich was des

"Long-Term Capital Management"

– Hedge fund ed by Nobel Prize winner, bet against things that "couldn't happen in a billion years"... Four
later, the fund b

"I have returned from Germany with peace for our time."

– Neville Chamberlain... 11 months before the start of World

"Argentina Plans to Offer 100-Year Bond" (priced to yield only 7.9% until 2117)

– Bloomberg, June 19,

DUBLIN – Ring the bell. Open up the gates. Unleash the hounds of Hell.

Here's Janet Yellen's latest contribution to the Famous Last Words club:

Would I say there will never, ever be another financial crisis? You know probably that would be going too far but I do
we're much safer and I hope that it will not be in our lifetimes and I don't believe it will be.

This must be what the gods have been waiting for... What bread doth Ms. Yellen eat? What ale doth she drink? What is
thinking?

The weather has been so nice, Ms. Yellen is building a house without a roof!

Stacking Blocks of Wood

We don't know any more than the Fed chief about when the next crisis will come. But we're not fool enough to tempt Fa
not vain enough to think we could do anything to stop it.

Financial crises come around from time to time. Generally, they come when you least expect them... that is, when they
the most damage.

Our guess is that a crisis will begin before the end of this year. Why?

First, because falling oil prices and bond yields signal a slowing economy. A recession is already overdue.

Second, debt levels are higher than ever. There is said to be more than \$250 trillion worth of debt worldwide. And running debt is like stacking blocks of wood. The higher you stack them, the more likely they are to fall over.

Ms. Yellen says the banks are better-regulated and less likely to fail in a crisis. But the latest stress test shows bank vulnerability to credit card debt has actually increased.

Besides, bank debt is only a part of the picture. The U.S. government is bumping up against a debt ceiling, for example.

What will happen when the feds run out of money... with the ceiling still in place? Will Congress raise it in an orderly way?

Or will it be another circus of tweets and recriminations... like Russiagate or Obamacare... leading investors to quietly take their money off the table and for the exits?

A Giant Debt Depot

Consumers are running into a debt ceiling of their own. They've got \$14 trillion of household debt.

Without real job and income growth, they can only maintain standards of living by borrowing more. But they already owe more than they did on the eve of the 2008 financial crisis; their knees are beginning to buckle.

Used auto prices are falling, putting the whole structure of \$1.2 trillion worth of auto debt in danger.

Student loans – another \$1.2 trillion of debt – are increasingly uncollectable.

And states and local governments have \$5 trillion worth of unfunded pension liabilities.

Corporate debt is at record levels, too, near \$8.5 trillion.

In the next crisis, many marginal borrowers will have trouble paying back their loans. Write-offs, defaults, and bankruptcies will blow up.

And don't forget that the whole world economy is interconnected.

That whiff of smoke you smell could be coming from China. That country has become a giant Debt Depot.

And somewhere... in the corner of some abandoned warehouse, a small pile of debt-soaked rags smolders.

When the flames break out... sparks will fly across the Pacific in a matter of seconds. Minutes later, the entire world's financial system will be aflame.

—

Imperial Decline

But the flash point in the coming crisis could also be U.S. asset markets.

There, price discovery by honest and diligent investors has given way to price manipulation by conniving Fed (and other bank) employees.

Now, with little connection between price and value, just a little bit of selling is likely to set off a "sell cascade" as these "algorithmic trading systems" hit automatic stop-loss orders and begin selling trillions' worth of ETFs, robo-trader pools, algo-driven hedge funds.

and quant-managed accounts.

There will be no calm walk to the exits... but a catastrophic surge, with millions of investors crushed on the carpet.

What will be the trigger? Again, we don't know any more than Ms. Yellen. But she might want to turn on the TV news. She is likely to be appalled. Every day brings new reasons to for cover.

She might want to look out the window, too.

For all we know, it will never, ever rain again. But we keep an umbrella next to the door, just in case.

Regards,

A handwritten signature in black ink, appearing to read "Bill Bonner", with a stylized flourish at the end.

Bill