Economic Reality Now Catching Up To Market Fantasy

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In the mind of a schizophrenic person, internal elements of fantasy (negative and positive) are made manifest in the psyche and projected out onto the real world. Often, the daydream images of the mind are not merely images to them. Rather, what they imagine subconsciously becomes reality. Their faculties of observation become so limited, either due to a reaction to trauma or merely an inherent inability to cope, that they cannot decipher between fact and fiction. A person could go on like this for quite some time if all his needs are provided for by someone else. But the moment that support ends (and it will), the realities of necessity, not to mention supply and demand, take hold. One cannot live in a schizophrenic world indefinitely.

The current global mishmash of interdependent and socialized economies are, at bottom, schizophrenic. Our markets are not based in any fundamental reality. There is very little tangible foundation left to stand on, and this has been the case for several years. Yet some people might argue that since the derivatives crash of 2008, most of the world has continued to walk on air and there is little for us to worry about.

The power of fantasy is that it is self-perpetuating. Fantasies are fueled most commonly by misplaced hopes and unhealthy or unrealistic desires, and such things are darkly and grotesquely energizing. Fantasies can indeed keep economies around the world functionally alive even when they are clinically dead. But again, there is always an end.

Equities and commodities markets in particular have levitated despite economic fact, making their eventual fall ever more spectacular. That fall has now begun halfway through 2015.

Let's look at the cold hard truths of our current situation.

New signals of market crisis are generating every two to four weeks as we grind on into the third quarter. This is in stark contrast to the relatively predictable and "stable" market behavior of the past three years. I realize that we are experiencing a "slow boil" and that many people may not even be taking note of the exponential increase in negative economic signs, but really, think about it – at the beginning of 2014, what was the general financial sentiment compared to today?

Europe has just experienced the worst "near miss" yet with the Greek crisis, a crisis that is still not over and will likely end in chaos as the last-minute deal with the European Central Bank is derailed by International Monetary Fund intervention.

Keep in mind that Europe is overwhelmed with debt as peripheral countries border collapse and core nations like France float in a recessionary ether they refuse to openly acknowledge.

Asia is the biggest story right now, with Chinese markets in veritable free fall despite all attempts by the communist government to quell stock selling and shorting, to the point of threatening arrest and imprisonment for some net short sellers.

China's Shanghai Stock Exchange has experienced a 30% drop in market value in a month's time. The mainstream argument meant to marginalize this fact is that less than 2% of China's equities are owned by foreign investors; therefore, a crash there will not affect us here. This is, of course, pure idiocy.

China is the largest importer/exporter in the world; and it's set to become the world's largest economy within the next two years, surpassing the United States. China's economy is a production economy, and the nation is a primary supplier for all consumer goods everywhere. Thus, China is a litmus test for the fiscal health of the rest of the world. When Chinese companies are struggling, when exporters are seeing steady overall declines and when manufacturing begins to crawl, this is not only a reflection of China's economic instability, but also a reflection of the collapsing demand in every other nation that buys from China.

Collapsing demand means collapsing sales and collapsing market value. For a global economic system so dependent on ever growing consumption, this is a death knell.

In the U.S., markets have experienced a delayed reaction of sorts, due in great part to the Federal Reserve's constant injections of fiat fantasy fuel since the credit crisis began. This kind of artificial support for markets has become an expected and essential part of market psychology, resulting in utter dependency on easy money siphoned into big banks that then use it to bolster equities through massive stock buybacks (among other methods). Now, however, quantitative easing has been tapered and zero interest-rate policy is nearing the chopping block. The stock buyback scam is nearing an end.

Already, U.S. stocks are beginning to feel the pain as reality slowly nibbles away once dependable gains. There is a good reason for this – Wages are in constant decline; manufacturing is in steady decline; retail sales are in decline, and government and personal debts continue to rise. We are not immune to the financial chaos of other nations exactly because we have been railroaded into a highly interdependent global economic system. In fact, much international fiscal uncertainty is tied directly to the fall of the American consumer as a reliable cash cow and economic engine.

So where is this all headed?

Commodities tell part of the story, with oil sliding steadily, signaling what we in the alternative economic community have been saying for years: Fiat stimulus propped up markets (including energy markets) that should have been allowed to deflate long ago, and now we are suffering the consequences. Crude oil prices fell 19 percent in July alone as energy companies the world over scramble to adapt. Gold and silver have taken considerable hits to their paper value while physical purchases continue to skyrocket, meaning the street price of metals may soon decouple from illegitimate and manipulated market prices.

Smaller and some medium-sized economies will continue to "surprise" markets with volatile debt issues, like Puerto Rico (nearing possible default) and Venezuela (nearing certain doom). These are more canaries in the coal mine to watch carefully.

It is also important to keep in mind that prices on necessities including food and housing remain high despite deflation in other areas (like wages). This suggests we are in the midst of a stagflationary fiscal environment.

Centralization is the key to every single economic development we've seen since the 2008 crash. Venezuela, in particular, is a marker for where we are all headed: total price controls, food confiscation from farms, rationing and even computer-chipped ration cards in order to thwart any attempts by citizens to stockpile essentials. Do not assume that such draconian measures are limited to third world socialist hellholes. Or, at the very least, do not assume that a country like the U.S. is not on the verge of becoming a third world hellhole.

As for Europe, French president Francois Hollande has openly called for a centralized "eurozone government" in order to deal with the ongoing economic crisis there (something I have been warning about for several years). Supranational government is the endgame for sovereign humanity, and the EU is on the fast track.

In China, the march continues toward the inclusion of the yuan in the IMF's SDR currency basket, the greatest economic centralization scheme of all time. The recent suggestion by an IMF panel to "delay" inclusion until 2016 only reinforces the likelihood that the Yuan will be entered into the basket. If the IMF had no intention to bring China into the fold, they would have suggested a 5 year delay just as they did back in 2010. For those who think China's recent market crisis will somehow thwart their inclusion into the SDR, think again. The IMF has already announced that the market route in China will have no bearing on the SDR conference, which is set to end in November.

In the U.S., the markets wait for the Federal Reserve's rate hikes. The rate hike issue is an underestimated one by some analysts, who seem to think that initial hikes will be "minor" and will result in little to no reverberations. Interest rates affect more than just overnight bank lending; they are the primary pillar supporting current market psychology. There is NO other financial element giving positive influence to investor psychology. There is no good economic news out there to warrant the bull market of the past few years. There is no open form of QE (and future QE seems unlikely as renewed stimulus would only be an admission that the first three attempts at QE failed miserably, derailing any point to new easing). There is no recovery. And when any even minor or engineered "good news" is presented in the mainstream, markets have reacted NEGATIVELY for fear that this will hasten higher interest rates.

Beyond psychology and false hopes, even minor increases in interest rates will essentially kill most large scale bank lending. We know through the limited audit of the TARP bailouts that trillions in fiat was created simply to feed international banks and corporations through ZIRP and that this kind of free money lending has been a mainstay ever since. ZIRP is the primary driver of stock buybacks and the equities bull market. But this will only continue as long as the Fed loans remain free (or almost free). Trillions in loans can equal billions in interest even with a minor rate rise, meaning, with the end of ZIRP and free money, banks and corporations will stop borrowing, stock buybacks will dissolve, and equities will lose the artificial support they have so far enjoyed.

Even mainstream financial news outlets are beginning to question why the Fed would push at all for rate hikes and pretend that the American fiscal system is in recovery, when ALL other information would lead the rational person to the contrary conclusion. I would point out that in order to understand central planners and globalist motives, you need to look at what they chase.

The Fed's job is to destroy the U.S. economy and the dollar, not save them, which is why the Fed continues to deny economic turmoil and charges headlong into a rate hike scenario even though no one in the mainstream asked them to. The Chinese central bank's job is to make all arrangements for Yuan inclusion in the SDR, despite the fact that China is supposedly in conflict with Western banks. The ECB and Europe are obsessed with centralized government even if they have to break several eggs to get it. And the IMF and Bank of International Settlements are set up to be the economic heroes of the day, warning us all (too late, of course) of the potential downfall of central bank stimulus policies and government debt obligations.

In a murky world of market fantasy, our first guideposts are the fundamentals themselves. Supply and demand can be misrepresented for a time through manipulated statistics, but the tangible effects of decline cannot be. Our secondary guideposts are the paths that internationalists and central banks bulldoze through the fiscal forest. To anyone with any sense, the endgame is clear: Total centralization is the goal, and economic fear is the tool they hope to use to get there. I have written on numerous solutions to this threat in past articles; but the first and most important action is for each of us to acknowledge, wholeheartedly, that the system we know is ending. It is over. What replaces that system will either be up to us or up to them. Only by admitting that there is an end to the fantasy, a painful end, will we then be able to help determine our future reality.

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