Deluded Currency Cultists Believe The Dollar Is Invincible

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by Larry Diffey , March 14, 2014

Swimming-in-Money

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At the onset of the derivatives collapse in 2007/2008 it would have been easy to assume that most of America was receiving a valuable education in normalcy bias.

In 2006, the amount of ego on display surrounding mortgage investment was so disturbingly grotesque anyone with any true understanding of the situation felt like projectile vomiting. To watch the smug righteousness of *MSNBC* and *FOX* economic pundits as they predicted the infinite rise of American property markets despite all evidence to the contrary was truly mind blowing. When the whole system imploded, it was difficult to know whether one should laugh, or cry.

The saddest aspect of the credit crisis of 2008 was not the massive chain reaction of bankruptcies or the threat of institutional insolvency. Rather, it was the delusional assumptions of the public that the grand mortgage casino was going to go on forever. There is nothing worse than witnessing the victim of a Ponzi scheme defend the lie which has ultimately destroyed him. As much as I am for people waking up to the nature of the crisis, there comes a point when those who are going to figure it out will figure it out, and the rest are essentially hopeless.

The cultism surrounding the U.S. economy and the U.S. dollar is truly mind boggling, and by "cultism" I mean a blind faith in the fiat currency mechanism that goes beyond all logic, reason and evidence.

In recent weeks it has become more visible as global financiers play both sides of the Ukrainian conflict, luring Americans into a frenzy of false patriotism and an anti-Russo-sports-team-mentality. My personal distaste for Vladimir Putin revolves around my understanding that he is just as much a puppet of the International Monetary Fund and international banks as Barack Obama, but many Americans hate him simply because the mainstream media has designated him the next villain in the fantasy tale of U.S. foreign policy.

Open threats from Russia that they will dump U.S. treasury bond holdings and the dollar's world reserve status if NATO interferes in the Ukraine have been met with wildly naive chest beating from dollar cultists. I am beginning to see the talking points everywhere.

"Let them dump the dollar, Russia's holdings are minimal!" Or, "Let them throw out Treasuries, they'll just be shooting themselves in the foot!" are the battle cries heard across the web. I wish I could convey how insane this viewpoint is, especially in light of the fact that many alternative economic analysts, including myself, have been predicting just such a scenario for years.

Despite the childish boastings of the dollar devout, there is an extraordinarily good possibility that the life of the greenback will be snuffed out in the near term. Here are the facts…

1) Russia will not be alone in its decouple from the dollar system. China, our largest foreign creditor, and India (a supposed ally) have clearly sided with Russia on the Ukranian issue. China has stated that it will back Russia's play in the event that sanctions are brought to bear by NATO, or if a shooting conflict erupts.

2) China has already been slowly dumping the dollar as a world reserve currency using bilateral trade agreements with numerous countries, including Russia, India, Australia, Brazil, Germany, Japan, etc. These agreements allow FOREX currency swaps and export/import purchases to be made with China without the use of the dollar. China has been preparing itself for a divorce from U.S. economic dependence for at least a decade. The idea that they would actually follow through over political tensions should NOT surprise anyone if they have been paying attention.

3) A total drop of the dollar or U.S. treasury bonds by Russia and China would send shock waves through global markets. Russia is a major energy supplier for most of Europe. China is the largest export/import nation in the world. If they refuse to accept dollars as a trade mechanism, numerous countries will fall in line to abandon the greenback as well. The fact that so many Americans refuse to acknowledge this reality is a recipe for disaster.

The only advantage the U.S. has traditionally offered in terms of international trade has been the American consumer, whose unchecked debt spending partly fueled the rise of the industrialized East, not to mention the biggest credit bubble in history. The role of America as a consumer market is collapsing today, however. The mainstream media and the Federal Reserve can blame the steady decline in retail sales on the "weather" all they want, but negative indicators in global manufacturing often take many months to register in the statistics, meaning, this destabilization began long before the days turned cold.

4) China has been shifting away from export dependency since at least 2008, calling for a larger consumer based market at home. This process of enriching the Chinese consumer has almost been completed. The lie that China "needs the U.S." in order to survive economically needs to be thrown out like the utter propaganda it is.

5) China (and most of the world) has ended new dollar purchases for their FOREX reserves, and has no plans to make new purchases in the future.

6) China executed the second largest dump of U.S. Treasury bonds in history in the past month.

7) Russia, China, and numerous other countries, including U.S. "allies", have been calling for the end of the dollar's world reserve status and the institution of a new global basket currency using the IMF's Special Drawing Rights (SDR). Even Putin has suggested that the IMF take over administration of the global economy and issue the SDR as a world currency system. This flies in the face of those who argue that the IMF is somehow "American run". The truth is, the IMF is run by global banks and no more answers to the U.S. government than the Federal Reserve answers to the U.S. government.

8) The Federal Reserve has been creating trillions of dollars in fiat just to prop up U.S. markets since 2008, and we are still seeing a considerable decline in global manufacturing, retail, personal home sales, and a general malaise in consumer demand. Without a full audit, there is no way to know exactly how much currency has been generated or how much is floating around in foreign markets. Any loss of world reserve status would send that flood of dollars back into the U.S., most likely ending in a hyperinflationary environment.

9) Another rather dubious argument I see often is the claim that the Federal Reserve and the U.S. Treasury could simply "negate" a Treasury dump by refusing to acknowledge creditor liabilities. Or, that they could simply print what they need to snap up the bonds, much like the German government tried to do during the Weimar collapse. Unfortunately, this plan did not work out so well for the Germans, nor has it worked for any other nation in history, so I'm not sure why people think the U.S. could pull it off. However, this is the kind of cultism we are surrounded by. These folks think the U.S. economy and the dollar are untouchable.

Yes, the Fed and the Treasury could hypothetically erase existing liabilities, but what dollar cultists do not seem to grasp is that the dollar's value is not built on Treasury purchases. The dollar's value is built on faith and reputation. If a nation refuses to pay out on its debts, this is called default. A default by the U.S. would immediately damage the reputation of bonds and dollars as a good investment. Global markets will refuse to purchase or hold any mechanism that they think will not earn them a profit. How many investors today are anxious to jump into Greek treasury bonds, for instance?

Finally, it is unwise to operate on the assumption that foreign creditors will accept dollars as payment on U.S. Treasury bonds if they believe the Federal Reserve is monetizing the debt. When Weimar imploded under the weight of currency devaluation, many foreign governments refused to accept the German mark as payment. Instead, they demanded payment in raw commodities, like coal, lumber and ore. Expect that China and other debt holders will demand payment in U.S. goods, infrastructure, or perhaps even land.

10) Most treasury holdings in foreign coffers are not long term bonds. Rather, they are short term bonds which mature in weeks or months, instead of years. Dollar proponents constantly cite the continued accumulation of treasury bonds by other governments as a sign that the dollar is still desirable as ever. Unfortunately, they have failed to look at the nature of these bond purchases. When China rolls over millions in short term bonds and replaces them with other short term bonds, this does not suggest they have much faith in America's long term ability to service its debt. It would also make sense that if China had plans to remove itself from the dollar system, they would move into short term bonds which can be liquidated quickly.

11) China is on the fast track to becoming the largest holder of physical gold in the world. Russia has also greatly expanded its gold purchases. Whatever losses they might suffer from a dump of their Treasury bond investments; it will be more than made up in the incredible explosion in precious metals prices that would follow.

12) The most common argument against the dollar losing world reserve status has been that such a shift would be "impossible" because no other currency in the world has the adequate liquidity needed to replace the dollar in global trade. These people have apparently not been paying attention to the Chinese yuan. China has been quietly issuing trillions in yuan denominated bonds, securities and currency around the world. Current estimates calculate around $24 trillion created by the PBOC and the banks under its control.

Mainstream talking heads are calling this a "debt bubble." However, this debt creation makes perfect sense if China's plan is to create enough liquidity in its currency in order to offer a viable alternative to the U.S. dollar. Linking the yuan to the IMF's basket currency would complete the picture, forming a perfect dollar replacement while dollar cheerleading-economists stand dumbstruck.

13) China's retreat away from dollar denominated investments has left a hole in the U.S. bond market. Recently, that negative space was filled by an unexpected source; namely Belgium. A country whose GDP represents less than 1% of total global GDP buying more U.S. bonds than China? The whole concept sounds bizarre. Where is the capital coming from?

Think about it this way – Belgium is the political center of the European Union and a haven for international financiers. There are more corporate cronies, lobbyists, bureaucrats, and foreign dignitaries in Belgium than in all of Washington D.C. But more importantly, Belgium struck a deal with the IMF in 2012 to begin pumping SDR denominated funds into "low income economies". I would suggest that this funding flows both ways, and that now, the IMF is feeding capital into Belgium in order to buy U.S. Treasury Bonds. That is to say, the IMF is going to start using smaller member countries with limited savings as proxies to purchase U.S. debt using IMF money.

The ultimate danger of the IMF (run by internationalists, not the U.S. government) pre-positioning itself as the primary buyer of U.S. debt is that when the U.S. finally defaults (and it will), the IMF is likely to become the "guardian angel" of the U.S. economy, offering aid in exchange for total administrative control of our financial system, and the institution of the SDR as a world reserve replacement for the dollar.

14) The serious prospect of regional conflict or world war over tensions between the Ukraine and Russia, Japan and China, the U.S. and Syria, the U.S. and Iran, the U.S. and North Korea, etc., could make the effort of exposing the plan to shift economic power into a one world system centralized under the IMF almost meaningless. How many people will truly care about the financial power grab by banking elites if it drifts under the surface of catastrophic engineered wars? They'll be too busy hating and fighting artificially created boogeymen to pay attention to the real globalist culprits.

I have been pointing out for quite a long time that globalists need a "cover event"; a disaster, an economic war or a shooting war, in order to provide a smokescreen for the collapse of the dollar. Alternative analysts have been consistently correct in predicting the trend towards the dump of the dollar. Years ago, we were laughed at for suggesting China would shift towards a consumer based economy and away from U.S. dependence. Today, it is mainstream news. We were laughed at for suggesting that nations like Russia and China would drop the dollar as a reserve currency. Today, they are already in the process of doing it. And, we were laughed at for suggesting that Russia or China would use their debt holdings as leverage against the U.S. in the event of a geopolitical conflict. Today, they are openly making threats.

I have to say, I've grown tired of the dollar cultists. How many times can a group of people be wrong and still argue with those who have been consistently right? The answer is that zealots never actually escape their own delusions, even when their delusions lead them and those around them to ruin. I suspect that in the face of complete dollar collapse, they will still be rationalizing the chaos and pontificating on our "lack of understanding" while the theater burns down around them.

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