Pressure (Countdown) Toward Breakdown

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The Paradigm Shift continues to displace the power centers and introduce new ones. Those bright souls who ignore the shift will be well prepared for systems that soon do not stand. The Americans are the last to know, oblivious to the global shift in progress. They continue to seek a return to normalcy, when old conditions are as gone as a baby's innocence during teen years. **The crux of the matter is that the United States is no longer in control of its fate. Meetings with creditor nation leaders result in new orders given, and new policy directives enacted.** Comparisons are made to China, but they too are a distraction. China can embark on its own path, can stimulate with huge sums of money, since they have actual savings. The US has massive debts, as insolvency has infiltrated to destroy systems pertaining to banking, home mortgages, federal operations, and industry. The nation is as hollowed out as its leaders are compromised. The major theme of this decade is USGovt leaders working hidden agendas for personal and family gain within a syndicate in full view to see.

For those looking to dismiss the rumors of a widely orchestrated plan to shut down the US banking system, for whatever stated or actual reasons, perhaps attention should be directed at the US Dept of Homeland Security (HSA) and the Federal Emergency Mgmt Agency (FEMA). Not only are they spanning the nation in making tentative preparations for a series of bank holidays, but they are working to enlist the police forces at the state and city level under the federal law enforcement system, in addition to the national hospital system. Anecdotal stories stream in from around the country, impossible to ignore. Who knows what legal grounds or unfolding events precede such a development? Watch a turf battle perhaps between HSA and the FBI. To be sure, tremendous stress is at work within USGovt agencies, ministries, and elsewhere. My focus is primarily on the financial impacts, never to be swayed by official stories and pronouncements. Mine is not a concern for over-arching networks of power in control, but for breakdowns of the individual systems. Let the billionaires fight among themselves, as our role is to protect our own wealth and to avoid congames.

SHOCKS, STRESSES, BREAKDOWNS, PLANS

Back to reality on US soil. Many reports have come to the effect that at the end of August, a financial breakdown is due, and a shutdown of US banks is planned. We await the trigger events with mystery and intrigue as overtones. Some on Wall Street, arrogant to the end, believe that widespread awareness prevents the actual unfolding of events. They are suffering from a terminal disease though, as they believe they are in control. They are not. **The USGovt creditors are in control. The August Hat Trick Letter reports have identified five major factors pointing to a severely stressful period of time at the end of August and into September.** The FDIC is scheduled to release its Second Quarter Report that could reveal up to 1000 banks expected to croak, surely enough to exhaust their rescue fund by between 20-fold and 100-fold. Tin cups are heading to the USCongress committees. The USGovt federal limit must be extended again, and Treasury Secy Geithner has requested a $12.1 trillion limit. That limit must be extended sometime again soon, like before next spring 2010. Maybe September 15th and March 15th could be declared Debt Limit Extension dates officially, and make them national holidays. The nation could celebrate debt. Details are in the report, but surely not a blow by blow outline, since a crystal ball is not an office feature.

To be sure, many tripwires are laid out from the systemic complexity and lost control, not to mention haphazard design and frenzied defense. A massive juggling act is taking place, as US bank and political leaders are juggling more balls, and heavier balls with each passing month. **The risk of accidents is rising exponentially from incredible backroom movement of massive funds to avert disasters on a weekly basis.** WHEN IT COME THE ACCIDENTS, PLANNED EVENTS, OR UNEXPECTED RESPONSES TO MINOR DISTURBANCES WITHIN THE SYSTEM, TREMENDOUS COLLATERAL DAMAGE WILL ARRIVE, BUT THE PRECIOUS METALS WILL STAND TALL AND ENDURE EFFECTIVELY, EVEN THRIVE. See gold, silver, and platinum, at least. The broken parts and 'bad apples' are likely to be eliminated in a flash. We will see. People will be hurt, and life savings will take hits. Even communication lines will be interrupted. Power structures will dissolve. We are approaching historically unprecedented times. The signs are omnipresent, often ignored.

My best sources of information report that some unexpected deep shocks are coming from USGovt creditor nations. They are simply fed up, frustrated, and astonished at the manner of lost control, spiraling debts, and blatant monetization amidst lies in denial of that same monetization. **The USTreasury auctions now have domestic hidden elements, and global hidden monetization elements.** The USFed is purchasing through Permanent Open Market Operations the bonds grabbed by the primary dealers. Some of the auctions are actually underbid, and fortunately for the statistics, the bid/cover ratio includes obligated dealer bids. The USFed liberally uses its USDollar Swap Facility to enable strong bids by foreign central banks, except that they are highly likely coming from USFed accounts on foreign soil, or else from money lent by the USFed itself. Warning after warning have come not to monetize, not to debauch the USDollar currency, not to permit skyrocketing deficits. Yet they continue, and worse, little if any reform or actual stimulus has occurred. Mainly what we witness is more channeled funds to the big banks, more coverage of credit derivative fires, and more announcements of bond support. See the $1.25 trillion support for Fannie Mae bonds, aka USAgency Mortgage Bonds. The Green Shoots have now been dismissed as a marketing ploy. The Stress Tests have now been dismissed as a marketing ploy. The Stimulus Plan has now been dismissed as a marketing ploy. The only USEconomic recovery will be a statistical recovery. A Jobless Recovery is a recovery for stocks and a redemption for the bankers. Main Street continues to be discarded.

The next shock is most likely to come from USGovt creditors, the holders of vast sums of USTreasury Bonds. They are ready to begin a salvage operation, whether coordinated or not (who knows?), that results in massive sales well over $100 billion in magnitude, maybe several hundred billion$ worth. They have stated to the USGovt their concerns about lost valuation, lost integrity, and continued threat of debasement. They are frustrated that not only are USGovt deficits enormous and unprecedented in size, but further expansive programs like Health Care are in planning stages. **The creditors regard the US political and banking leaders as living in a world divorced from reality, and thus require shock treatment.** USTreasury Bonds have become a liquidation currency. Actions in the Persian Gulf and European region indicate that USTBonds are being used in liquidation and distressed sales on a truly massive scale. The failed Dubai construction projects are involved in the former, the Chinese expansion (some say carpetbaggers) are involved in the latter. Details appear in the August HTLetter reports. My forecast made in September 2008, almost one full year ago, of a USTreasury Bond default has been almost uniformly mocked, denigrated, and dismissed as an impossibility. Get back to me in a few months! In fact, the widespread restructuring of USTreasurys by the creditors is a massive global project underway. The shift from long-term to short-term USTreasurys by the Chinese is but one piece. The conversion by several parties to hard assets is another. Eventually, the USGovt will work toward a formal writedown in the debt and a conversion to property, industrial plant, energy and mineral rights, farmlands, and more. That will constitute the default, but it will be denied.

As a last footnote, never overlook the continued urgent Chinese initiative to 'spend' their USTBonds quickly, for useful tangible purposes, before any damaging sequence of events occurs. Simon Black (aka the International Man) wrote, *"I have been spending a lot of time this week talking to my sources in China, one of whom is inside one of the country's sovereign wealth funds (SWF). He also indicated that the SWF analysts were working around the clock trying to put deals together.* ***For China it is a race against the clock for how fast they can convert their $2 trillion in USDollar holdings into strategic assets, namely oil and gold.*** *At today's deflated prices, putting together a really good billion dollar deal is a difficult thing to do.* ***Putting together 2000 of them is impossible. Doing it before the dollar collapses?*** *Not a Chinaman's chance. And they know it."*

USDOLLAR, USTBOND, AND GOLD

The USDollar is clearly the weakest link stress point. In fact, the battle for gold has morphed into a bilateral quiet war between the United States and China. The US has debts and a powerful military, with retained control of the US$ Printing Press, not to mention significant institutions of financial controls and levers. The Chinese have a staggering savings account, in the form of a few key sovereign wealth funds, with ongoing trade surplus accumulation, and a shiny new industrial sector. The USGovt pours out new USTreasury Bonds to cover its debts. **The Chinese exact severe but hidden terms for continued credit support.** For instance, just two tidbits. The Chinese in a recent White House visit ordered that Ben Bernanke not be renewed as USFed Chairman. He insulted the Chinese in a Beijing trip a few years back, and has lied through his teeth on monetization of debt securities. The Chinese also ordered that the bruhaha with Union Bank of Switzerland end, since Beijing requires continued Swiss services in managing its gold & silver bullion. My sources of information are not Reuters and USGovt news releases. Lost sovereignty is a process, not an event! More details in the August HTLetter reports.

Whatever the machinations in the new World Financial War, watch the performance of the USDollar, the USTreasurys, and Gold. They are each signaling significant changes in the near-term, as in the next several weeks or few months. In my basic view, the breakdown in the US$, the rise in the 10-year TNote yield, and the breakout over $1000 in gold will all occur when China decides to make them happen. It is on their timetable, not ours.

The US$ DX index experienced a critical bearish moving average crossover in July, mentioned in past public articles. **The attempt to rebound off 77 lows has been met with very strong 79 resistance, like a brick wall.** The goofy story that the USEconomy will lead the European Economy out of the recession is patent nonsense. Today's news reported that the EU contracted by the same 0.1% in its Gross Domestic Product, the economic growth. Thus the Euro rally has lifted its exchange rate back to 143 again, and the USDollar has lost its vaporous momentum. This chart is worth reviewing almost on a weekly basis. The next stop will be 77, serving as a speed bump, with thin support to offer. Then later, when the threat to the USGovt debt structure is obvious to all, the US$ DX index will find the bottom at 72, which will be scraped for a time. Eventually though, the monetary crisis will blossom and hit the front page of newspapers, rather than recovery in fragmentary notices, and the DX index will find a low by next year around 60-65. Talk will surface of a shot in the arm, a boon to exporters, except that the US industrial sector is thoroughly hollowed out. Can anyone remember the benefits promised from Low Cost Solutions from shipping US industry to China from years 2002 to 2005? What moronic mythology propaganda! We are witnessing the fruits of that grand corporate initiative now.

The USTreasury Bond is buidling pressure of its own. Shown is the 'TNX' that indicates the 10-year USTreasury Note yield. It is caught in a rising trend. The cylicals point upward, and the moving averages are rising. The 4.0% level is a the line in the sand, it seems. Any USEconomic recovery, even a tepid one, even a phony one, will likely be accompanied by a surprising rise in price inflation. **The Exit Strategy for the US Federal Reserve is best described as a man trying to emerge from a StraitJacket; they have none.** Drain the liquidity and force an economic collapse from credit constriction, hardly a workable plan. The alternative is more of the same, incredible volumes of continued debt issuance, and eventual spillover. The Deflation Knuckleheads have been quiet in recent weeks. They failed to notice that the rising US stock market, seen in the Dow Jones Industrial Index and S&P500 Index, is actually evidence of price inflation. It is not evidence of recovery of any sort. The next USEconomic shock is the rising cost structure from a declining USDollar, whose billboard warnings are totally overlooked by economists.

Prepare for a gold rally and breakout. Patience is key, to be amply rewarded. A major gold reversal since last autumn is still in progress. Remember: the longer the wait before breakout, the bigger the breakout, and the fewer the beneficiaries riding the train. With so many rebuffs at the $1000 mark, few expect that level to be overcome. It will be surpassed when China gives the word: GO. Notice the rising moving averages, the positive cyclical, and the rising near-term trendline. Pressure has continued to build for a few months, almost enough to bore the observer and reader. So be it! **It adds up to a breakout that will be more powerful than anticipated by so-called experts. Perhaps one of several trigger events will push gold over the $1000 mark.** Perhaps a perception of US banks being dead again. Perhaps a massive USTreasury dump event on the global stage. Perhaps a surprising military event in the Middle East. Perhaps simple summer vacations and lack of desk defense. Maybe some political return to prudence. It almost does not matter, since time might be the ultimate determinant.

STRESS POINTS TOO NUMEROUS

Jobs continue to be lost, with exaggerations and deceptions rampant. Seasonal adjustments and continued Birth-Death Model hokum continue to be relied upon. The end of the General Motors plant shutdown, and the magnificent but costly 'Clunker' rebate program do not a recovery make. **Almost half a million people fell off the state unemployment insurance system in July, which was hailed as evidence of a recovery.** The home prices continue to fall, but less quickly. The home loan delinquencies and foreclosures continue unabated, up 7% from June to July alone. The USGovt has become the pathetic new Subprime Lender of last resort, statistical details provided in HTLetter reports. The ugly story in the housing market is the hidden overhang of bank-owned (REO) properties, which bankers withhold from the market. **So the home inventory figures are much worse than reported.** The people and investment community desperately want a recovery to occur. Their lack of economic savvy permits them to be betrayed and misinformed consistently. They do not realize that debt cream cannot heal debt wounds from deep knife cuts at the hands of job loss and home equity loss. **They do not realize that redemption of worthless mortgage bonds held by the big banks does not constitute a reform of the banks, who still hold deeply impaired bonds on their balance sheets, or rather off their balance sheets.** They do not realize that ballooning USGovt deficits have failed to rebuild or revive American industry, which still lies in China. Nationalization is not Reconstruction. No, they come from the herd known as Homo Ovinus, the sheeple species. Thanks to John Mauldin's column for this artful work.

Homo Ovinus

Source: Worth1000.com

Plummeting tax revenues come when President Obama and USCongress pile up major deficits, from stimulus plans, from bank rescues, and expansion of health care. The numbers are worse than fiction. **Tax receipts are on pace to drop 18% this year, the biggest single-year decline since the Great Depression.** An Associated Press analysis provides details on the recession's impact and federal insolvency. Social Security tax receipts could drop for only the second time since 1940, and Medicare taxes are on pace to drop for only the third time ever. Thus pressures build for more hidden monetization, and more retaliation by creditor nations.

The service sector, which makes up nearly 90% of the USEconomy, unexpectedly shrank at a faster pace in July than in the previous month. So economic activity continued to decline last month despite the propaganda promulgated by prattle specialists. **The Institute for Supply Management (ISM) reported Wednesday that its non-manufacturing index declined to 46.4 last month from 47 in June.** It was the first decrease since March. Readings below 50 indicate contraction, while readings above 50 represent expansion. Their report monitored business activity, employment, order backlogs and new orders, including those for export. They all declined slightly more in July than the previous month.

DeutscheBank forecasts 48% of all US mortgage loans to be underwater by 2011. Ouch! Borrowers of loan products with already high underwater rates will only grow worse. By 2011, DBank predicts 89% of Option ARM borrowers will be underwater, up from 77% in 2009. **That is correct, 77% of current Option ARM mortgages are stuck with negative equity, upside down.** That is a recovery??? No! It is the source of further home price declines, to any analyst that features a brain stem. They expect the rate of underwater subprime borrowers to increase from 50% to 69%, and underwater Alt-A borrowers to increase from 49% to 66%. Then there is the commercial mortgage wrecking ball soon to hit the financial bank structures. The $3.5 trillion commercial real estate market is eroding. Defaults are doubling on loans for apartment buildings, office buildings, housing complexes, strip malls, hotels, hospitals. A staggering amount of loans must be rolled over this year into refinancing, or else go bust with liquidation to follow. Prices in commercial real estate have fallen about 39% from the peak in mid 2007, according to the MIT Center for Real Estate, with no signs of improvement or abatement.

FDIC Chairman Sheila Bair believes up to 500 more banks could fail, according to conversations between US senators and Bair from recent meetings. That story received little if any coverage. The real number is 1000 banks, from Bair's own conversations. Little banks are dropping like flies, and we are due for a big bank to fail very soon. No need to guess, since accidents will be random among the crippled edifices. The biggest bailed out banks merely invest in USTreasurys, capturing easy profits from the steep yield curve. Lastly, prepare for a big surprise. AIG will soon be forced to reveal it is bankrupt again, encountering another painful failure, despite all its falsified reports of revival. It is dead, even after $180 billion in aid. **AIG has been busy conducting a shell game to move assets from recently audited subsidiaries to the next subsidiary to be audited**, in order to hide its neverending bust played out. It is a veritable Black Hole under the USGovt roof. For each and every sector of the ailing defunct landscape, one can safely said THAT AINT RECOVERY, FOLKS!! Stimulus, rescue, bailouts, nationalizations, and more USDollar ruination lie directly ahead. Gold will thrive in the coming months, as panic sets in.

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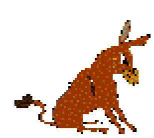

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