Middle East Peace Update Report

A news analysis site dedicated to providing you with up to date intelligence and analysis from the perspective of Bible prophecy. We help you to connect the dots between our headlines of today and the Bible. Visit our blog...

Provided By: KOINONIA INSTITUTE

http://www.khouse.org

MASSIVE SELLOFF OF U.S. DEBT

While the United States stock market soared to all-time highs, things were happening in the financial market: Chinese Treasury holdings took the biggest plunge in two years, after China offloaded some $48 billion in paper, bringing its total to $1268.9 billion, down from $1316.7 billion, and back to a level last seen in March 2013.

This is the second largest sell-off of U.S. securities by China in history and brought the dollar's share of China's huge cache of currency reserves a record low.

But more recent data showing outright sales of U.S. securities by China suggests a less cavalier attitude would be in order. It isn't the end of the world, just a portent of what can happen when the biggest buyer of America's biggest export — its IOUs denominated in dollars — stops buying.

While the financial world did not collapse, it did bring up a couple of points: First, while China was dumping U.S. debt, Belgium (read that the European Union) was buying it. Did the EU see a good deal when dollars came on the market or was the decision made to prop up the dollar to prevent a panic? If a deal was made, it would be interesting to know what the quid pro quo was to seal the deal.

It was a good thing that the EU did buy the debt because if it hadn't, the Federal Reserve would have had to buy the dollars, printing up more fiat currency, Zimbabwe-style.

Beijing has made no secret of its desire to diversify from American assets — mainly U.S. Treasuries — and for the establishment of another reserve currency. While given the European sovereign debt crisis makes the U.S. dollar the "best home for assets in a bad neighborhood," its luster is diminishing and Beijing is looking to diversify its risks by selling off dollars and buying other currencies.

The reason China is getting nervous is simple.

Currently, there's an $800 billion gap between the $1.1 trillion the Treasury is borrowing to cover the budget gap and the roughly $300 billion overseas investors are buying. Banks, corporations and households have been doing little to fill that gap, preferring higher-yielding securities, so that gap has to be filled by printing more paper money, called debt monetization, or in politician-speak “quantitative easing.”

According to economist Kimberly Amadeo, “Having pushed interest rates to zero, launched QE1 and QE2 (QE being quantitative easing), there’s no reason to believe that the Fed is going to allow free-market forces to destroy the fragile recovery it has worked so hard to coax forth now. And make no mistake, at $800 billion, allowing the markets to resolve the shortfall in demand would send rates to levels that would absolutely quash this recovery…if not send the economy in a real depression.”

But her real concern is a bigger one. “The Fed’s ‘need’ to take on an even more active role, as foreigners further slow the purchases of our paper, is to put the pedal to the metal on the currency debasement race now being run in the developed world — a race which is speeding us all toward the end of the present currency regime.” That means the 40-year-old party of unrestrained U.S. spending since the Bretton Woods Agreement may be coming to an end.

The U.S. has benefitted because other countries needed dollars as reserves and for transactions, but other nations are beginning to balk at buying increasingly worthless dollars.

Last Thursday, Brazilian President Dilma Rousseff criticized not just the United States but also Europe and Japan for creating a “tsunami” of cheap money. (The Bank of Japan has stepped up its purchases of Japanese government bonds, ostensibly to fight the persistent deflation in that nation’s economy, a move urged by politicians there.)

As far as the United States is concerned, the printing presses will keep humming. Fiscal reforms such as the Simpson-Bowles are ignored. At the same time, fiscal policy is heading for a cliff of excessive, haphazard belt-tightening beginning in 2013, including the end of the Bush-era tax cuts. That will throttle growth — and make the deficit worse. QE3, QE4, QE5, etc. will follow.

It won’t be the end of the world, but it just could be the end of the dollar’s preeminence and a substantial change in life for the United States.

Further Reading

- What Is Quantitative Easing?
  — About.com
- Summarizing the New Simpson-Bowles Plan
  — Fix the Debt
- Bretton Woods System
  — Wikipedia