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America is Insolvent. Why Would China's Rating Agency Rate US Sovereign Debt AA When it is No Better Than Junk?

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For all intent and purposes, the United States is insolvent.

This is not my personal assessment but that of world renowned "experts" and economists, and financial institutions. Just google "US Debts" and you can find thousands of analysts stating that there is no way that the US can ever pay off its debts. The US cannot even liquidate the accumulated interest on the outstanding debts. The debts are in the trillions!

The Casey Daily Dispatch observed:

The simple reality the Fed is waking up to is that the structural underpinnings of the economy are damaged beyond any quick or easy fix. That's because until the debt is wrung out of the system, either through default or raging inflation – there's no chance of it actually being paid in anything remotely resembling current dollars – the equivalent of an economic Black Death is going to plague the land.

The American rating agencies, Moody's, Standard & Poor's, and Fitch Ratings still give the thumbs up for the United States – a whopping AAA rating. These same agencies gave AAA ratings to the CDOs and other financial products peddled by the Too Big to Fail Global Banks when they were in fact junk. It took the financial tsunami to expose their fraudulent practices.

So I don't give too much credence to the ratings by these crooked institutions.

The National Inflation Association (NIA) believes that the real credit rating of the US should be junk. But you don't have to believe them either.

So how do we know for sure that the US should be rated as junk?

Simple! Apply common sense to the facts before you.

Since the United States defaulted on its debts in 1971, when President Nixon refused global and sovereign creditors the right of redemption in gold for US dollars, it has been living on borrowed time. The United States conned the world into accepting its toilet paper currency and for those who dared to question the integrity of its fiat currency, the mighty US military was deployed to ensure compliance.

The global banking elites then employed subservient economists the world over to tout the merits of the floating exchange rate as the mechanism to determine a currency's value. Countries were compelled by threats of war or coups to peg their currency to the dollar. The dollar became the "anchor" in place of gold. Trade had to be denominated in US dollar which gave the United States an undue advantage.

This "pegging" gave an illusion of strength of the US dollar and creditworthiness of the United States. While others have to produce and earn an income in a "local currency" and then exchange it for US dollars to import and or purchase goods (as over 80% of global trade is denominated in dollars), the "paper tiger United States" need only to print money to pay for goods and services when its income was insufficient to pay and sustain its standard of living.

For over 37 years, the United States got away with this con!

For over 37 years, people the world over sold their produce to the United States in exchange for a paper with a number printed on it, a number denoting its value i.e. a 100 dollar note etc. People just accepted the number printed on the paper as reflective of the "real value" of the currency. In reality it has no value. It costs a few cents to print the toilet paper currency.

Through slick propaganda, people were led to believe that the value is as printed on the paper. No one dare to question the absurdity of this proposition.

But now, we have reached the stage of total collapse of the global fiat currency system. Every country in the developed world is implementing the policy of "quantitative easing" (the central bankers' jargon for creating money out of thin air) in a desperate effort to pay off mounting debts and compounding interest in the trillions. To a lesser extent, developing countries are also following the Washington consensus. The global financial system is flooded with toilet paper currencies.

What will be the endgame?

Let's pause and think for a moment. Let's apply common sense.

The US dollar $, the Euro €, the pound £, the Yen ¥ etc. are all fiat currencies – they have no intrinsic value. Their value is a number arbitrarily printed on the paper and sanctioned by central bankers as "legal tender".

In essence, they are all junk – toilet paper currencies. So how do they "float" against each other under the global floating exchange rate system?

This is where the fun starts.

How does one compare a junk from another? How does one determine the exchange value of one junk from another? A junk is a junk!

Forget about the market forces determining the values of the various junk currencies. ***It is determined by central bankers and no one else.***

Whether a US dollar is equivalent to Ringgit 3.40 or Euro 1.18 or Yen 90 is arbitrarily decided by the respective central banks. And there is nothing you and I can do about it. If it serves the interest of a country to have its currency devalued, the central bank of that country will allow its currency to devalue and vice-versa.

Sometimes, the central bankers get their accomplices, the hedge funds to jointly manipulate the forex market through derivatives trading. And as long as the central bankers and their accomplices maintain the fluctuations in any one period of time in accordance with the parameters previously agreed by the central bankers, nothing much will happen. It is when central bankers cannot agree on the parameters that problems will emerge, often resulting in trade wars and even “hot” wars.

Don’t believe me?

I will give two examples:

The Plaza Accord

In 1985, at the request of the United States – France, Germany, Japan, and the United Kingdom agreed to deliberately weaken the dollar’s exchange rate. At the material time, the United States was having huge trade deficits, especially with Japan. The agreement, known as the Plaza Accord, was to help the United States reduce its huge trade deficit to assist its economy to climb out of the 1980’s long recession. The intervention was so successful, that the dollar depreciated beyond its target level. By the end of 1987, the dollar had fallen by 54% against both the D-mark and the yen from its peak in February 1985. This sharp drop caused another panic – that of an uncontrolled dollar plunge.

To address and reverse the excessive depreciation of the dollar, the same group of countries agreed in 1987 to strengthen the dollar. This latter effort was known as the Louvre Accord. Another blatant market manipulation! Since when were any markets really free?

Why did England and France agree to participate in this blatant market manipulation? They owed US a big thank you for winning the Second World War. It was time for the US to collect past dues. In the case of Germany and Japan, being defeated nations and under occupation, they had no choice but to kow tow to big brother USA.

The Asian Financial Crisis

All you need to do is to recall what happened during the Asian financial crisis. The tiger economies were undermined and attacked and their currencies went into a free fall. Malaysia’s economic development was severely threatened. But the then prime minister, Tun Dr. Mahathir Mohamad had the foresight and courage to take on the global financial elites and imposed capital and currency controls. The prime minister unilaterally fixed the exchange rate for the ringgit at RM3.80 to a dollar. Forex speculators took a major hit and never recovered from this surprise counter attack.

While this unprecedented intervention was executed to save the national economy and the livelihood of 23 million Malaysians, the global financial elites through the shadow banking system intervened to manipulate the market to reap obscene profits and to plunder.

We will now address the trillion dollar question.

How does China or the United States decide that one US dollar is equivalent to 6.7 Yuan or whatever rate?

Before addressing the question, it is important for us to understand how in a relatively short period of time, China was able to accumulate such a huge amount of dollar reserves and became the No. 1 creditor of the United States.

In their grand scheme for financial hegemony, the US financial elites proposed to the Chinese financial elites that in exchange for massive FDI and outsourcing of industries by the US, China must supply cheap goods to the American market and maintain an agreed exchange rate. This scheme was the lynchpin to an unprecedented expansion of credit in the global financial system, because such a rapid expansion of credit would be extremely inflationary. When China can supply the entire spectrum of goods at less than ten percent of the prevailing price, the financial elites knew that they could flood the global casino with dollars without having to worry about inflation.

And as they say, the rest is history.

This arrangement served the US and China well for two decades, in fact too well resulting in China having the largest dollar reserves in the world as well as becoming the largest creditor to the US.

Coming back to the trillion dollar question, as stated earlier the exchange rate is determined by the respective central banks. Of late, the Obama administration has been putting pressure on China to revalue its currency. In response to the pressure and to avoid a trade war, China allowed its currency to appreciate slightly. In fact, this happened just before the G-20 Summit in Toronto.

While the above arrangement (specifically the agreed exchange rate) has served its original purpose, it can no longer be sustained. This is because the current yuan/dollar peg is distorting the forex market and will exacerbate even further the present global financial crisis.

As a result of the global financial tsunami, the US is in default once again. But this time round, Obama cannot do what Nixon did in 1971.

The Daily Reckoning assessed the situation correctly when its subscribers were told:

Wait a minute. We’re still Number One, right?

Yes…in the sense that we can, in theory, kick any butt in the world. That is, if the Chinese let us. They’ve got so much of our money and so many of our bonds, if they decided to dump them, we’d be in one helluva fix. Because we don’t pay enough in taxes to fund our social programs and the Pentagon at the same time. We can’t afford it. So the nice Chinese lend us money.

But don’t worry. They’ve promised not to dump our bonds. And we’re sure they’ll honor that promise for as long as they want to.

As far as we know, no empire that had to borrow money from its rivals has ever lasted very long. Britain got itself in that position in WWI. It could no longer afford the carrying costs of the empire – including the huge cost of the war itself. So, it borrowed from the US. The Germans borrowed from US lenders too. But America’s lenders to Britain had more money in New York and more power in Washington. So, the US entered the war on Britain’s side rather than on Germany’s side.

Then, in WWII, when an American general was put in charge of D-Day, it was clear that Britain had ceded the lead dog position to the US. It was a friendly handover, achieved by force of economics rather than by force of arms. The US did not have to defeat Britain militarily. Instead, she merely had to finance her.

A few years later, during the Suez crisis, Britain learned what it was like to be a subordinate power. She discovered that she could no longer throw her weight around without US consent.

But that is on the military front. At home, Britons discovered that they were poor…and getting relatively poorer. Under the weight of growing social welfare programs and a shrinking empire, Britain's economy sagged. Its old allies – France and the US – boomed in the post-war years. So did its old enemies – Japan and Germany. Soon, not only were its friends richer and more powerful…so were its adversaries.

So, we now have a ridiculous situation where the United States owes global creditors trillions of dollars (specifically China), is insolvent, yet, the exchange rate does not reflect the underlying weakness of the United States.

We also have the situation where China has been selling goods and services to the United States and is being paid in toilet paper currency that has no value other than the artificial and arbitrary value printed on the paper. China, in turn lends these toilet papers back to the United States so that it can purchase more goods and services from China. The United States has no money to repay China, so it creates money out of thin air, via the electronic printing press and use that to pay China.

Seriously, how long can this charade last?

Back in 1985, we had the Plaza Accord to bail out the paper tiger USA. The answer then was to devalue the US dollar. But Japan suffered two decades of stagnation.

Why have the same countries – UK, France, Germany and Japan not adopted a similar strategy at this juncture, thereby boosting US exports?

Simple!

1. The US has outsourced so much of their previous exports to China and other countries that it does not have enough meaningful products to export anymore to make a substantial difference in the trade deficit.

2. For the past decade, the main exports of the US were, and continue to be "Financial Products" – the junks wrapped up as CDOs and rated AAA and sold to gullible investors (i.e. gamblers) all over the world. The US was the centre of the global derivatives casino, managed by the Shadow Banking Cartel.

3. There has been such a massive ***US dollar credit expansion*** in the last decade as well as ***toilet paper dollars*** in the global financial system that any attempt to devalue the dollar would result in an uncontrolled free fall, and the complete destruction of the economy of the US.

4. And China by maintaining its current exchange rate with the dollar (and within a narrow

band of fluctuation) has ***artificially maintained the current value of the US dollar to avoid the status of being downgraded to junk.***

5. Thus in the short term, China is complicit, together with other major central banks, in hoodwinking the ordinary folks that the global fiat money system is still in a healthy state. But, by downgrading the US one notch, China and the global elites hope that the con can be maintained for some time so that China as well as other countries can get out of their massive US dollar assets. But the situation is so volatile that no one, absolutely no one can say for sure when a child would cry out the proverbial exposé, ***hey, the emperor has no clothes!***

6. It is also obvious to the global financial elites that if there is a massive flight from dollar assets to euro assets, there would also be an uncontrolled plunge of the US dollar. The European global banks are also up to their eyeballs holding junk dollar assets and would thereby suffer huge losses over and above their exposure in euro loans to the "PIIGS" countries (Portugal, Ireland, Italy, Greece and Spain). Unlike the time of the Plaza Accord, right now, no one wants dollar devaluation. When the slide starts, no one would be able to stop the plunge. Central bankers are sitting on a knife's edge. Ouch!

7. So, the "Greek crisis" was engineered to prevent such a flight from dollar assets to euro assets. Greece is "Mary Poppins" in the overall financial scheme of things. Its GDP is not even 3% of the Euro zone. In contrast, California is bankrupt and is more pivotal to the US economy. It is the 7th largest economy in the world. Yet, the bankruptcy of California did not impact on the US economy as it should. This is because the global mass media ensured that the bankruptcy would not be highlighted. The hype instead was that the euro would be heading for a crash. The result? The flight to euros was halted in its tracks.

8. Someone threw the spanner in the works. The culprit in the eyes of the global financial elites was the indomitable Iran. China and Russia were playing geopolitical games in their trade relations with Iran in the hope that President Ahmadinejad would not spoil the party before they were ready to dump their massive dollar assets. The US and Israel played the hard ball role while China and Russia initially played the softy role so typical of the police methods when attempting to extract concessions and or confessions. But China's and Russia's true intentions were revealed, when exasperated with the resilience and defiance of Iran, they opted to impose severe sanctions on Iran. The quartet did not bother to maintain the farce. The nuclear weapons issue was merely a smoke screen to mislead the world of the impending financial implosion.

The downgrade by China must be seen for what it is – a stark warning that the end is near. The curtain has to come down on the charade.

Another signal that the end is near was when the Bank of International Settlement (BIS) swapped Gold as security for a dollar facility extended to a sovereign (most likely Portugal) via commercial entities. Gold, once considered a "barbaric relic" is now back in fashion in currency swaps. Who would have thought this was possible just a few months ago? In a sense, we have turned a full circle. In 1971, Nixon decoupled gold from the US dollar. Today, the BIS have taken the first few steps in bringing gold back to its rightful place.

No matter how hard the central bankers and China try to prevent the sovereign debt bubble blow-out, they will not succeed.

Sooner or later, China has to make the decision of the 21st century – to dump the dollar and allow global economies to suffer severe pain in the short term, five to ten years, or commit mass suicide together with the US, UK, France, Germany, Russia and Japan.

China at this moment in time is the only country that can survive the coming financial devastation with the least pain as it will be relatively easy to transform its economy from being export-driven to that of a domestic-based economy – tapping the limitless potential of its 1.5 billion citizens. China can do in one short year, maybe at the most two, what would take a generation for the other developed economies to do.

A marginal increase in the purchasing power of its citizens will take up whatever downturn in the export markets.

The fact that the Yuan is propping up the dollar means that it is the Yuan and not the dollar that is the undisputed ***global reserve currency.*** If China revalues drastically upwards the Yuan, every fiat currency would head for an uncontrolled free fall.

Let us not be naive and kid ourselves. It is pure pantomime for the US to demand from China to revalue the Yuan and for China to resist a revaluation. This so-called currency tug-of-war is a smoke screen to lend credence that the dollar is not junk but AA, albeit down one notch from AAA.

The fact that so many western-trained economists have not addressed and or exposed this issue can mean only two things – either they are truly ignorant or they are part of this grand charade, blowing smoke into our eyes.

Be patient. Invest in Gold. Prepare for Act II of the financial Armageddon!