

Financial Markets Crashed, Including the Dollar. What Happened?

By [Bill Holter](#)

Global Research, December 07, 2015

Region: [USA](#)

Theme: [Global Economy](#)

So what exactly happened last Thursday? The markets (including the dollar) crashed ...and this was not supposed to happen?

It's actually quite easy to understand if you see what they did was "only a test" ... Do you understand what I mean when I say a "test"?

I will explain shortly but first, the Fed came out with piggybacked governors talking about a rate hike. Hilarious on the face of it if you just look at the U.S. economic implosion going on.

But let's assume this is reality, the Fed really wants to hike rates (they do not "want to", they HAVE to). For the sake of saving face and retaining any credibility they absolutely MUST raise interest rates after seven years ...how do they do this?

Please [read this piece by E.D. Skyrme](#), just a .25% rate raise in rates will require the equivalent of up to \$800 billion of collateral necessitated to being pulled. Did you get that? \$800 billion??? A huge number and enough to tank the whole system ...unless someone is willing to replace it.

For starters you must understand if the Fed does tighten and collateral is withdrawn from the system, because everything is now so levered ..."collateral" from somewhere else must be added. That "somewhere" was supposed to be Europe. Mario Draghi tried to push the EU governing council into further QE, in essence the German hawks refused and instead want to let some air out of the current bubbles. [Europe was supposed to carry the baton of QE, they instead dropped it.](#)

Mario Draghi tried to fix it on Friday with his "whatever it takes" statement. I see a problem with this and it has to do with collateral, or the lack of. You see, Europe is experiencing the same limits the Fed ran into during its last round of QE, not enough unencumbered collateral left to purchase. Another way to say this would be ..."there is just not enough debt outstanding". I know it sounds crazy because the underlying financial and economic problems have arisen BECAUSE there is too much debt ...but, there is not enough to accommodate the needs for more QE.

What happened on Thursday was a "test of wills" between the Fed and the Bundesbank, the Fed clearly lost even though Friday was a giant reversal from Thursday. I say this because Mario Draghi can say whatever he likes, his mouth will not create the collateral necessary to substitute for any tightening by the Fed. He can say what he pleases but the governing council of the EU (run by hawkish Germans) will not reach for the QE baton. Mr. Draghi can

now only jawbone and try to mold appearances.

So where does this leave the Fed and their quarter point rate increase? I would say they have already seen the future and ... IT WAS THURSDAY! If they decide to hike rates and the EU does not pick up the collateral slack, I believe we will not see the markets stay open for more than a week or so. I say this because in essence the Fed will be issuing a margin call into a system already lacking for liquidity. As I've said before, they originally treated a "solvency" problem with more liquidity and it has now morphed into a far bigger solvency problem. Only this time as liquidity is also lacking, they do not have the tools (collateral) to create the needed additional liquidity.

The Fed has truly painted themselves into a corner of their own making. I am shocked they have been so vocal and vehement they were going to raise rates. Did they not have a deal already in place with the ECB or were they double crossed? On the one hand if they do not hike rates, their credibility is toast. On the other hand if they do raise rates they will smoke the financial markets faster than you can call your broker with a sell order. I can only think the Fed somehow believed they had a deal with the ECB? Even the BIS has warned the Fed about raising rates, is the Fed just not listening to the rest of the world? [Whether they see it or not, they have created a currency crisis with the dollar being the central character.](#)

The way I see this, the U.S. now has very big problems on the credibility front. You can add to the above monetary fix we are in with a multitude of other U.S. "pictures" just not adding up. U.S. "policy" is now being found out geopolitically thanks to Mr. Putin dropping a few "truth bombs". The domestic economy is already in recession and Christmas (the politically correct term is now "holiday") sales will be a disaster.

"Truth" is beginning to slip out from behind several different curtains. I hate to say it but a giant false flag will have to come out very soon in order to keep cover and divert attention from the truth. I do not see any other options left, the reality MUST remain hidden or attention diverted, ...or the unravelling comes.

Standing watch,

Bill Holter, Holter-Sinclair collaboration, Comments welcome bholter@hotmail.com

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Bill Holter writes and is partnered with Jim Sinclair at the newly formed Holter/Sinclair collaboration. Prior, he wrote for Miles Franklin from 2012-15. Bill worked

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