When there is a crashing of tectonic plates, the resounding blast can be heard from here to eternity

by
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May 28, 2008

Those of us who were not present when the Roman Empire "shamble-ated" are graced with the experience what it must be like when any proud and haughty tower of human design collapses from its unseeable heights and shatters its way towards the oblivion that seals its fate. We have been bearing witness to just such a resounding, shattering collapse as the tectonic plate of emerging global capitalism crashes into the mighty towers of the more than 300 year history of fragmented nation states. Lest you miss the spectacle, let me simply point out that the crash of crashes, the collapse of collapses, and the shattering of an economic system that held proud sway for centuries can be summed up in three concepts - reserve currency, subprime experimentation and housing bubble. For the first, reserve currency, was the dramatic drop in the value of the dollar and its reliability as a reserve currency. For the second, subprime experimentation, was the collapse of the real value of subprime bonds involving billions of dollars. For third, the housing bubble, was a catastrophic collapse of real value of housing following on the encouragement of mortgages made available to buyers who were not credit worthy.

With respect to the shredding of the value of the dollar, I simply cite the following headlines for your delectation and your evaluation:

August 8, 2007
The Daily Telegraph
Will Turner Drop the Bomb on the US Dollar

The Chinese government has begun a concerted campaign of economic threats against the United States hinting that it may liquidate its vast holding of US Treasuries if Washington imposes trade sanctions to force a Yuan weak valuation....

Thanks to the trade surplus, China has accumulated a large sum of US dollars and the world's largest foreign exchange reserve is mostly in US dollars. Such a big sum, a considerable portion of which is in the US Treasury bonds, contributes a great deal to maintaining the position of the US dollar as an international currency.

Note the date of this news August 8, 2007, in the light of the present date of this email.

August 8, 2007
Telegraph.co.uk
China Threatens 'Nuclear Option' of Dollar Sales
Ambrose Evans-Pritchard

The Chinese government has begun a concerted campaign of economic threats against the United States hinting that it may liquidate its vast holding of US Treasuries if Washington imposes trade sanctions to force a UN revaluation.

Two officials at leading communist body parties have given interviews in recent days warning - for the first time- that Beijing may use its 1.33 trillion dollars of foreign reserve as a political weapon to counter pressure from the United States congress....

Described as China's 'nuclear option' in the state media, such action could trigger a dollar crash at a time when the US currency is already breaking down to historic support levels.

It would also cause a spike in US bond yields, hammering the US housing market and perhaps tipping the economy into recession. It is estimated that China holds over 900 billion dollars in a mix of US bonds.

Xia Bin, finance chief at the Development Research Center (which has cabinet rank) kicked off what now appears to be government policy with a comment last week that Beijing foreign reserves should be used as a 'bargaining chip' in talks with the United States.

"Of course China doesn't want any undesirable phenomenon in the global financial order," he added.

He Fan, an official of the Chinese Academy of Social Science, went even further today, letting it be known that Beijing had the power to set off a dollar collapse if it chose to do so.

China has accumulated a huge sum of US dollars. Such a big sum of which a considerable portion is in US Treasury bonds, contributes a great deal to maintaining the position of the dollar as a reserve currency. Russia, Switzerland and several other countries have reduced their dollar holdings [as well].

China is unlikely to follow suit as long as the yuan's exchange rate is stable against the dollar. The Chinese central bank will be forced to sell dollars once the yuan appreciated dramatically which might lead to a mass depreciation of the dollar, he told China Daily.

Simon Derrick, a currency strategist at the Bank of New York Mellon, said the comments were a message to the US Senate as Capitol Hill prepares legislation for the Autumn session.

"The words are alarming and unambiguous. This carries a clear political threat and could have very serious consequences at a time when the credit markets are already afraid of contagion from the subprime troubles," he said.

[Remember this was pointed out almost a year ago before the major, major shatterings occurred.]

The yuan has appreciated 9 pc against the dollar over the past two years under a crawling peg but it has failed to halt the rise of China's trade surplus which reached 26.9 billion in June.

August 9, 2007
National Business Review
Chinese Officials Say They Can Cause $US Crash

The Chinese gov. has threatened to liquidate its vast holdings of US dollars if Washington follows through on a threat to force Beijing to reevaluate its own currency.... Such a move by China would threaten a crash of the US dollar at a time when it has already lost ground world wide.

It also could trigger a spike in the US bond yields which could then seriously affect the housing market- already beset by credit woes -and put the economy into recession. It is believed that China holds some 900 billion dollars in mix of US bonds....

He Fan, an official of the Chinese academy of social sciences took the threat further Wednesday when he said, "China has accumulated a large sum of US dollars. Such a big sum of which a considerable portion is in US Treasury bonds, contributes a great deal to maintaining the position of the dollar as a reserve currency. Russia, Switzerland and several other countries have reduced their dollar holdings," he said in an interview with the China Daily.

August 9, 2007
The Trumpet
China holds US debt Knife to U.S. Dollar Throat

A long article follows which basically repeats what I have already quoted

August 9, 2007
washingtonpost.com
Another Shot in Currency Fight: Chinese Threaten Divestment

In a Wednesday opinion piece in the state-run China Daily, a Chinese government researcher made what sounded like a warning to US policy makers not to get too tough in insisting that the yuan should appreciate.

[article continues]

Is it too much to conclude that the headlong crash that followed 8/8/07 was the outcome of attempting to pull the rug from under the dollar? Is it going too far to state the obvious fact that since 1984, post-Mao China has been the equivalent to a nonvoting member in the new Commonwealth. One need only refresh one's memory on how the United States destroyed the pound sterling as a reserve currency in 1976 to see what has been happening as one of the most clear expressions of *lex talionis*.

Since from beginning of 20th century to beginning of WWII, the pound sterling was the worlds reserve currency. Following on WWII until 1971, the U.S. dollar was twinned with sterling as a world reserve currency. In 1976, Great Britain under pressure from the United States relinquished sterling as a reserve currency.

From 1976 until the emergence of the euro in the 1990s, the U.S. dollar has been the only global reserve currency. Then from the 1990's with the emergence of the euro there has been a steady erosion of the U.S. dollar monopoly as the euro and sterling began their steady rise in value against the dollar, from approximately $.85 for sterling to $1.98 (as of today), and the euro from approximately $.80 to about $1.56.

Along with the potential in the Chinese yuan and the Japanese yen, there is potential for multiple reserve currencies as the global age of capitalism evolves. Since this is so, then it necessarily follows that those states that utilize either the euro or sterling would seek to break the dollar monopoly, the end of any one reserve currency and go for a global investment of the surpluses of the various nations, at present most evident in the sovereign wealth funds. There is a moving away from the reserve currencies of sovereign nation states and imperial spread.

More to come...

As always,
Ellis

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