

The Dollar - King Rat Of Failing Currencies

Goldmoney

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Peak credit is coinciding with trade protection.

The impact on government debt funding will be immense.

The demise of unbacked fiat currencies.

Escaping the fiat collapse.

The explanation for the sudden halt in global economic growth is found in the coincidence of peak credit combining with trade protectionism. The history of economic downturns points to a rerun of the 1929-32 period, but with fiat currencies substituted for a gold standard. Government finances are in far worse shape today, and markets have yet to appreciate the consequences of just a moderate contraction in global trade. Between new issues and liquidation by foreigners, domestic buyers will need to absorb \$2 trillion of US Treasuries in the coming year, so QE is bound to return with a vengeance, the last hurrah for fiat currencies. However, China and Russia have the means to escape this fate, assuming they have the gumption to do so.

Introduction

It may be too early to say the world is entering a significant economic downturn, but even ardent bulls must admit to it as an increasing possibility. Financial analysts, both bovine and ursine, face a complex matrix of factors when judging the future effect of any downturn on currencies, and of the prospects for the dollar in particular.

Some will take the view that a global downturn will continue to drive foreign currencies to be sold for dollars, because dollars are perceived to be less risky and required to repay debt. Some will point to the tension in the euro from the extra twist an economic downturn gives to the debt crisis forced on Italy and the other three PIGS compared with the relative stability of the Hanseatic nations. Some analysts will expect China to get her comeuppance when her debt-fuelled economy implodes into crisis.

As a recession progresses, it is conventional to think of the dollar as a safe-haven. For a brief time, relative to other currencies this might be true. But what then?

Those that succeed in their analysis beyond the short-term will do so by discarding all bias. They could then observe that in the event an economic downturn gathers pace a split could emerge in relative outcomes between East and West. The effect of a downturn on the Asian bloc, led by China, Russia and now joined by India, is likely to differ from the effect on America and Europe. It is the new versus the old,

Asian mercantile states that provide minimal welfare, differing from the more mature welfare-heavy nations.