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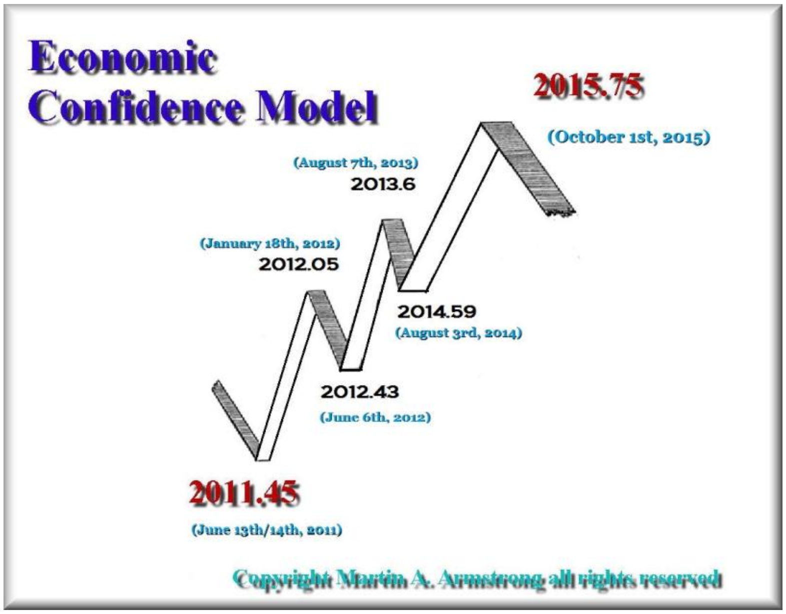
The Sovereign Debt Crisis – When?

The real question that we face for all the markets is **WHEN** will the **Sovereign Debt Crisis** go into meltdown? We are in the 13th year from the Major Directional Change of 1999 that marked the birth of the Euro, low in gold and crude oil, and the bubble in shares that peaked in many countries in 2000.

Just as the United States has been obsessed with the Great Depression as government always is ready to stimulate and many see this as pending hyperinflation with the end of the world, Germany suffers from the opposite delusion. There, the fear is inflation and thus when the US tries to inflate its way out of every crisis, Germany seeks to impose austerity and create economic stagnation and decline.

Chancellor Angela Merkel managed to win in Europe when 25 out of 27 EU states agreed to a German-inspired pact for stricter budget discipline as the member states stand among the ashes of austerity with the walls crumbing around them. The two members who refused to go along with Germany were Britain and the Czech Republic. What will now dominate Europe is a quasi-automatic sanctioning mechanism that will be imposed upon any member state that now breaches the European Union budget deficit limits. The idea is to enshrine a balanced budget system that cannot possibly work.

The European Central Bank has long argued for such measures to be imposed within the euro zone. While this is seen as a first step towards a fiscal union by many, that actual type of unification is not realistic given the economic stress that lies ahead. It is also seen as a major step in restoring "confidence" in the whole euro zone from a perspective of debt holders. The bankers will be cheering and their analysts will pump out endearing platitudes of long-term success. But, this again sacrifices the liberty and living standards of the people to support the holders of government debt. This austerity program has been quite insane for the problem of cutting public spending and raising taxes to service mountains of debt will ensure high unemployment and nothing but rising social unrest. This is a lethal



combination, but it also tends to support the view that the real crisis may not hit until the next peak in the **Economic Confidence Model** due in 2015.75 going into 2017.

Merkel told a news conference the agreements on the fiscal pact and a permanent rescue fund for the euro zone were a "***small but fine step on the path to restoring confidence.***" This illustrates that the primary concern is maintaining confidence among bond holders – not actually addressing the whole structural problem of the Euro or the post-WWII Marxist philosophy of borrowing perpetually for "socialism" when the bulk of the national debts are accumulative interest expenditures. The whole idea of government's caring for the poor is all bullshit. It is now about complying with the bankers who sell their debt. Governments are trapped. They see borrowing year after year as the only system they know. Thus, we should expect that the ***Sovereign Debt Crisis*** simply erupts on a stage of fiscal mismanagement.

These political leaders agreed that a 500-billion-euro ***European Stability Mechanism*** will enter into force in July, a year earlier than planned. But this merely demonstrates that the debt crisis will not be addressed and they are hoping to merely restore the confidence of bond holders so it will be business as usual – borrow perpetually with no intent of paying off anything while hammering citizens for more taxes. Pressure has been applied from the United States, China, and the IMF (***inter alia)*** to increase the size of the ***European Stability Mechanism***, but Merkel has refused to consider the issue before March.

Nevertheless, this austerity policy of severely restricting deficit spending is purely a German viewpoint, which is opposite that of the United States. The problems created by austerity are generally social unrest and the threat of war. The danger of monetization is the depreciation of cash savings. Restoring market confidence is merely a short-term affect for the markets are showing that people are still afraid to invest as cash remains at record highs and corporate profits in the US are also at record highs.

Therefore, the burning question remains, do we see a collapse right now or do we have to wait until the ECM turns again 2015.75? So far, the timing appears to be on schedule for 2015.75 as the next financial big crisis. The USA is not ready to collapse. That appears to be the last leg to fall. What we are more likely to see first is the crisis start to brew in Japan. The nuclear disaster has led to a rising undercurrent of dissatisfaction with government. The food supply has been tainted and radiation has been detected in Tokyo. This is contributing to the final stages necessary for the final low in Japan on the horizon. 26 years from the 1989 high also brings us to 2015. No matter which way we look at this, the next peak in the ECM looks like 2007 was just a practice run.

The World Share Market Outlook for 2012

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