HYPERINFLATION IS COMING

THE DOLLAR ENDGAME: PART 5

"ENTER THE DRAGON"

u/Peruvian_Bull

Hyperinflation is Coming- The Dollar Endgame: PART 5.0- "Enter the Dragon" (FIRST HALF OF FINALE)

� Due Diligence

I am getting increasingly worried about the amount of warning signals that are flashing red for hyperinflation- I believe the process has already begun, as I will lay out in this paper. The first stages of hyperinflation begin slowly, and as this is an exponential process, most people will not grasp the true extent of it until it is too late. I know I'm going to gloss over a lot of stuff going over this, sorry about this but I need to fit it all into four posts without giving everyone a 400 page treatise on macro-economics to read. Counter-DDs and opinions welcome. This is going to be a lot longer than a normal DD, but I promise the pay-off is worth it, knowing the history is key to understanding where we are today.

SERIES (Parts 1-4) TL/DR: We are at the end of a MASSIVE debt supercycle. This 80-100 year pattern *always* ends in one of two scenarios- default/restructuring (deflation a la Great Depression) or inflation (hyperinflation in severe cases (a la Weimar Republic). The United States has been abusing it's privilege as the World Reserve Currency holder to enforce its political and economic hegemony onto the Third World, specifically by creating massive artificial demand for treasuries/US Dollars, allowing the US to borrow extraordinary amounts of money at extremely low rates for decades, creating a Sword of Damocles that hangs over the global financial system.

The massive debt loads have been transferred worldwide, and sovereigns are starting to call our bluff. Governments papered over the 2008 financial crisis with debt, but never fixed the underlying issues, ensuring that the crisis would return, but with greater ferocity next time. Systemic risk (from derivatives) within the US financial system has built up to the point that collapse is all but inevitable, and the Federal Reserve has demonstrated it will do whatever it takes to defend legacy finance (banks, broker/dealers, etc) and government solvency, even at the expense of everything else (The US Dollar).

I'll break this down into four parts. ALL of this is interconnected, so please read these in order:

Updated Complete Table of Contents:

- **Part 4.0: The Weimar Republic**
- **Part 4.1: Nightmare of Hyperinflation**
- **Part 4.2: Financial Gravity & The Fed's Dilemma**
- **Part 4.3: Economic Warfare & The End of Bretton Woods**
- Part 5.0: A Story of Fire & Ice: The Finale

"Enter the Dragon"

The Inflation Dragon

PART 5.0 “The Monster & the Simulacrum”

“In the 1985 work “Simulacra and Simulation” French philosopher Jean Baudrillard recalls the Borges fable about the cartographers of a great Empire who drew a map of its territories so detailed it was as vast as the Empire itself.

According to Baudrillard as the actual Empire collapses the inhabitants begin to live their lives within the abstraction believing the map to be real (his work inspired the classic film "The Matrix" and the book is prominently displayed in one scene).

The map is accepted as truth and people ignorantly live within a mechanism of their own design and the reality of the Empire is forgotten. This fable is a fitting allegory for our modern financial markets. Our fiscal well being is now prisoner to financial and monetary engineering of our own design. Central banking strategy does not hide this fact with the goal of creating the optional illusion of economic prosperity through artificially higher asset prices to stimulate the real economy.

While it may be natural to conclude that the real economy is slave to the shadow banking system this is not a correct interpretation of the Baudrillard philosophy-

The higher concept is that our economy IS the shadow banking system… the Empire is gone and we are living ignorantly within the abstraction. The Fed must support the shadow banking oligarchy because without it, the abstraction would fail.” (Artemis Capital)

The Inflation Serpent

To most citizens living in the West, the concept of a collapsing fiat currency seems alien, unfathomable even. They regard it as an unfortunate event reserved only for those wretched souls unlucky enough to reside in third world countries or under brutal dictatorships.

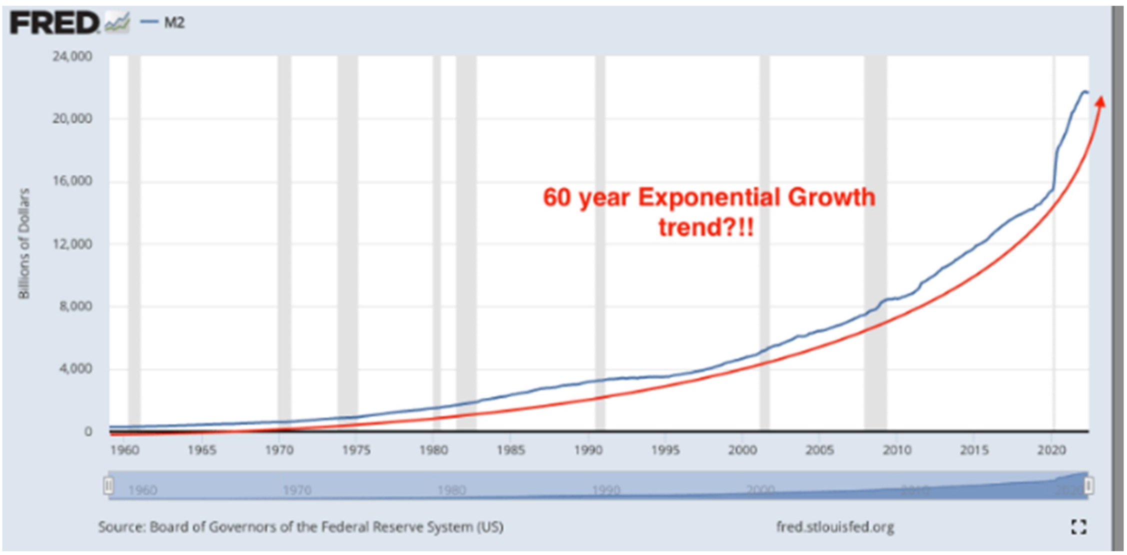
Monetary mismanagement was seen to be a symptom only of the most corrupt countries like Venezuela- those where the elites gained control of the Treasury and printing press and used this lever to steal unimaginable wealth while impoverishing their constituents.

However, the annals of history spin a different tale- in fact, an eventual collapse of fiat currency is the norm, not the exception.

In a study of 775 fiat currencies created over the last 500 years, researchers found that approximately 599 have failed, leaving only 176 remaining in circulation. Approximately 20% of the 775 fiat currencies examined failed due to hyperinflation, 21% were destroyed in war, and 24% percent were reformed through centralized monetary policy. The remainder were either phased out, converted into another currency, or are still around today.

The average lifespan for a pure fiat currency is only 27 years- significantly shorter than a human life. Double-digit inflation, once deemed an “impossible” event for the United States, is now within a stone’s throw. Powell, desperate to maintain credibility, has embarked on the most aggressive hiking schedule the Fed has ever undertaken. The cracks are starting to widen in the system.

One has to look no further than a simple graph of the M2 Money Supply, a measure that most economists agree best estimates the total money supply of the United States, to see a worrying trend:



M2 Money Supply

The trend is exponential. Through recessions, wars, presidential elections, cultural shifts, and even the Internet age- M2 keeps increasing non-linearly, with a positive second derivative- money supply growth is accelerating.

This hyperbolic growth is indicative of a key underlying feature of the fiat money system: **virtually all money is credit.** Under a fractional reserve banking system, most money that circulates is loaned into existence, and doesn't exist as real cash- in fact, around 97% of all “money” counted within the banking system is debt, in one form or another. (See Dollar Endgame Part 3)

Debt virtually always has a yield- that yield is called interest, and that interest demands payment. Thus, any fiat money banking system MUST grow money supply at a compounding interest rate, forever, in order to remain stable.

Debt defaulting is thus quite literally the destruction of money- which is why the deflation is widespread, and also why M2 Money Supply shrank by 30% during the Great Depression.

Imagine that $0 exists in a town. You go to a local bank, and post your house as collateral and ask to withdraw $100 as a loan, at 5% interest. The bank agrees, and deposits $100 into your account. They mark $100 as an asset (Loan Receivable) on their balance sheet, with the 5% earmarked as expected interest income.

You go out and spend this money. It circulates in the town, at bars, restaurants, and hotels- the people are overjoyed to have a medium of exchange rather than using barter.

At the end of your loan term, the bank comes and asks for the $100 back, plus $5 of interest. But there is an issue- there's only $100 in total in the entire town's money supply!

Even if you worked every job, and sold every product produced in the town (i.e. you created the entirety of the GDP), you still would only be able to scrounge up $100.

The remaining $5 would never be repaid. The bank would put your loan into forbearance, and try to seize your house in bankruptcy court- but it wouldn't matter. No matter what they do, the marginal $5 interest cannot be paid because it DOES NOT EXIST.

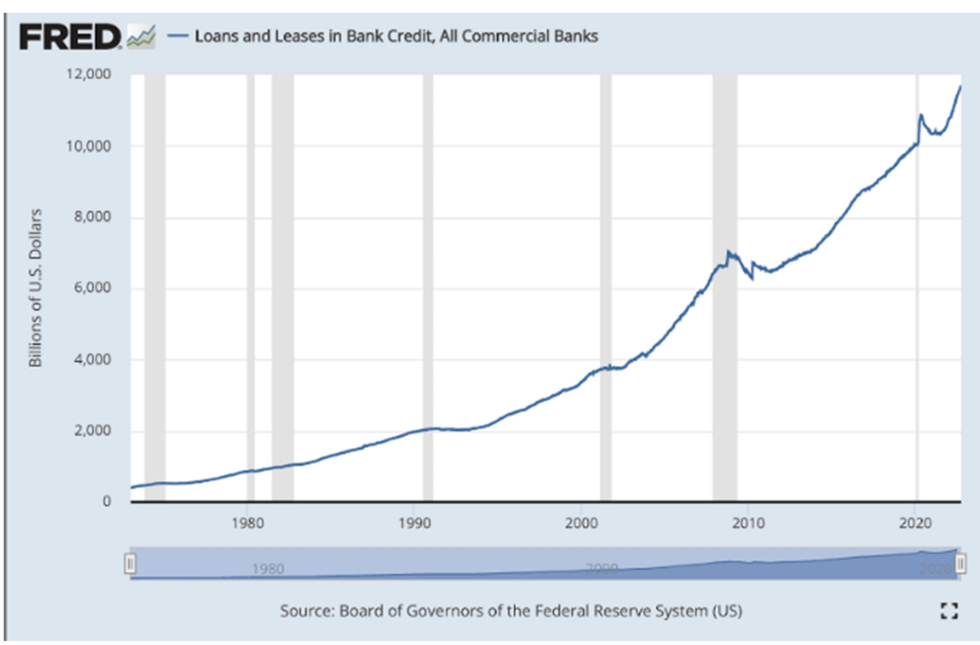
Thus, in order to prevent this paradox, the bank must go out and loan money to another person- their money will circulate in the economy, boosting money supply, and giving you the marginal $5 you need to pay your loan back.

But again, they will run into the same situation in a year's time when the new loan comes due. They must again loan more money into the system than currently exists, to ensure that there is enough circulating supply to pay off existing loans.

Interest in Fractional Reserve Fiat Systems

This process repeats ad infinitum, perpetually compounding loan creation and thus money supply, in order to prevent systemic defaults. The system is BUILT for constant inflation.

In the last 50 years, only about 12 quarters have seen reductions in commercial bank credit. That's less than 5% of the time. The other 95% has seen increases, per data from the [St. Louis Fed.](#)



Commercial Bank Credit

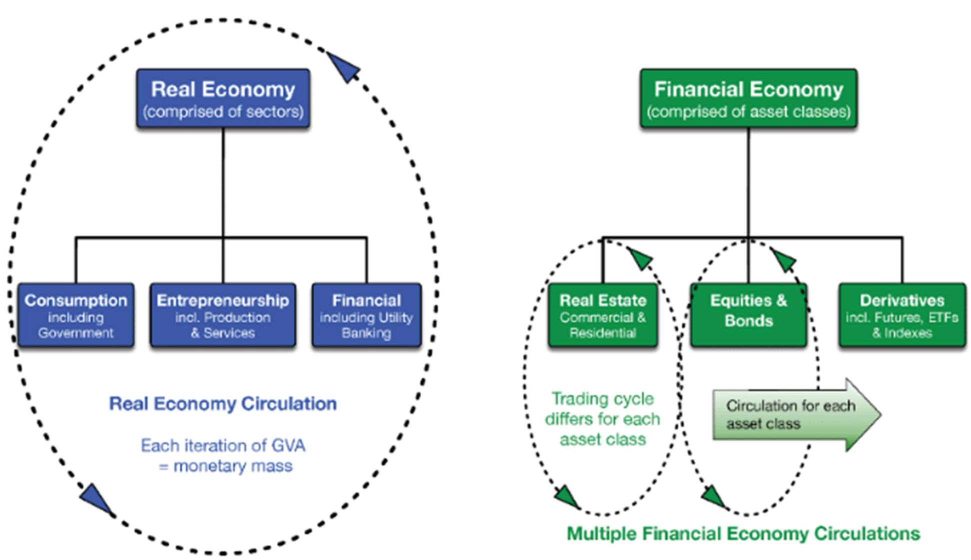
Even without accounting for debt crises, wars, and government defaults, money supply must therefore grow exponentially forever- solely in order to keep the wheels on the bus.

The question is where that money supply goes- and herein lies the key to hyperinflation.

In the aftermath of 2008, the Fed and Treasury worked together to purchase billions of dollars of troubled assets, mortgage backed securities, and Treasury bonds- all in a bid to halt the vicious deleveraging cycle that had frozen credit markets and already sunk two large investment banks.
These programs were the most widespread and ambitious ever- and resulted in trillions of dollars of new money flowing into the financial system. Libertarian candidates and gold bugs such as Peter Schiff, who had rightly forecasted the Great Financial Crisis, now began to call for hyperinflation.
The trillions of printed money, he claimed, would create massive inflation that the government would not be able to tame. U.S. debt would be downgraded and sold, and with the Fed coming to the rescue with trillions more of QE, extreme money supply increases would ensue. An exponential growth curve in inflation was right around the corner.

Gold prices rallied hard, moving from $855 at the start of 2008 to a record high of $1,970 by the end of 2011. The end of the world was upon us, many decried. Occupy Wall Street came out in force.
However, to his great surprise, nothing happened. Inflation remained incredibly tame, and gold retreated from its euphoric highs. Armageddon was averted, or so it seemed.

The issue that was not understood well at the time was that there existed two economies- the financial and the real. The Fed had pumped trillions into the financial economy, and with a global macroeconomic downturn plus foreign central banks buying Treasuries via dollar recycling, all this new money wasn't entering the real economy.



Financial vs Real Economy

Instead, it was trapped, circulating in the hands of money market funds, equities traders, bond investors and hedge funds. The S&P 500, which had hit a record low in March of 2009, began a steady rally that would prove to be the strongest and most pronounced bull market in history.
The Fed in the end did achieve extreme inflation- but only in assets.

Without the Treasury incurring significant fiscal deficits this money did not flow out into the markets for goods and services but instead almost exclusively into equity and bond markets.

QE Stimulus of financial assets

The great inflationary catastrophe touted by the libertarians and the gold bugs alike never came to pass- their doomsday predictions appeared frenetic, neurotic.

Instead of re-evaluating their arguments under this new framework, the neo-Keynesians, who held the key positions of power with Treasury, the Federal Reserve, and most American Universities (including my own) dismissed their ideas as economic drivel.

The Fed had succeeded in averting disaster- or so they claimed. Bernanke, in all his infinite wisdom, had unleashed the "Wealth Effect"- a crucial behavioral economic theory suggesting that people spend more as the value of their assets rise.

An even more extreme school of thought emerged- the Modern Monetary Theorists- **who claimed that Central Banks had essentially discovered a 'perpetual motion machine'- a tool for unlimited economic growth as a result of zero bound interest rates and infinite QE.**

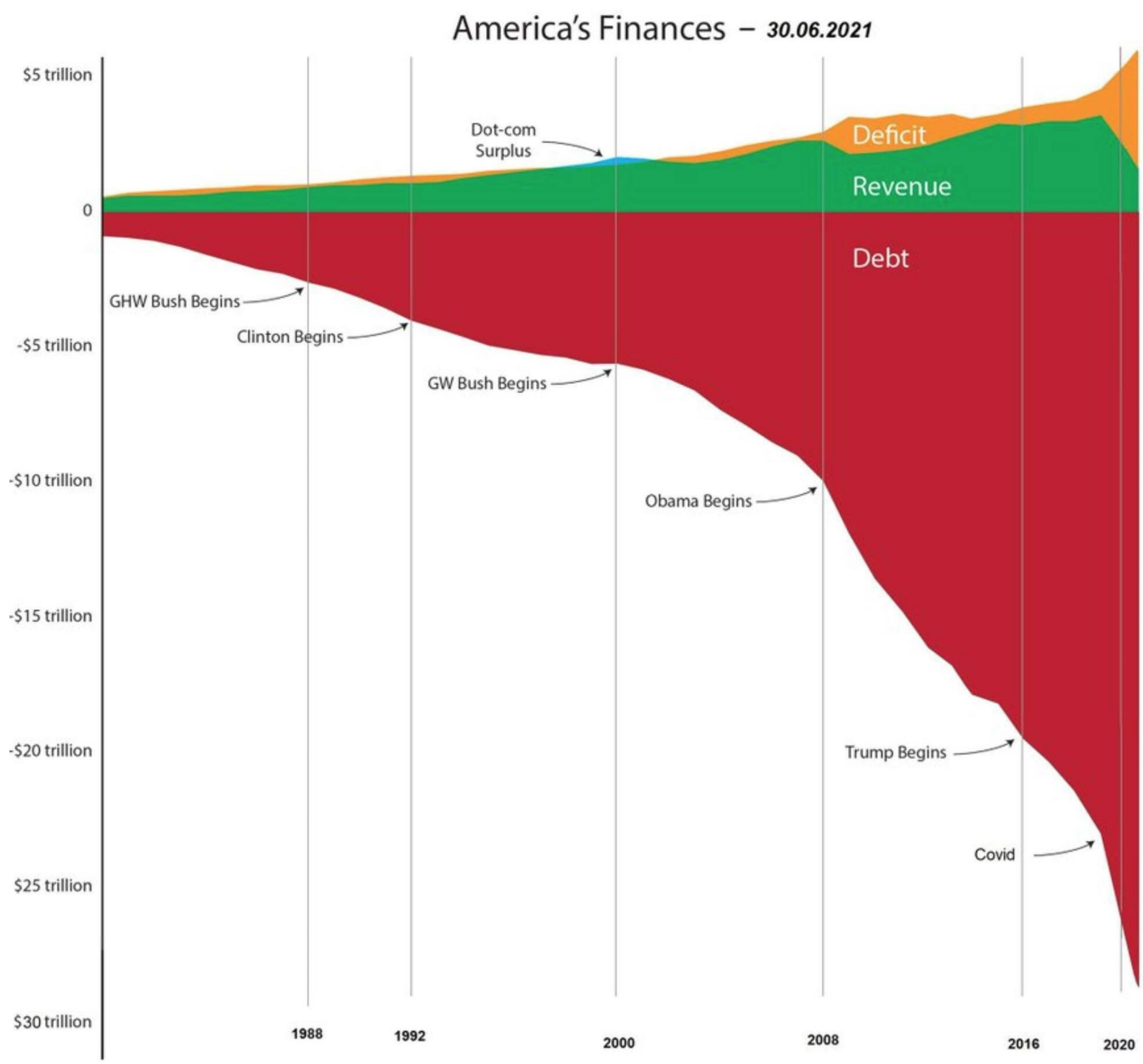
The government could borrow money indefinitely, and traditional metrics like Debt/GDP no longer mattered. Since each respective government could print money in their own currency- they could never default.

The bill would never be paid.

Or so they thought.

The American Reckoning

This theory helped justify massive US government borrowing and spending- from Afghanistan, to the War on Drugs, to Entitlement Programs, the Treasury indulged in fiscal largesse never before seen in our nation's history.



America's Finances

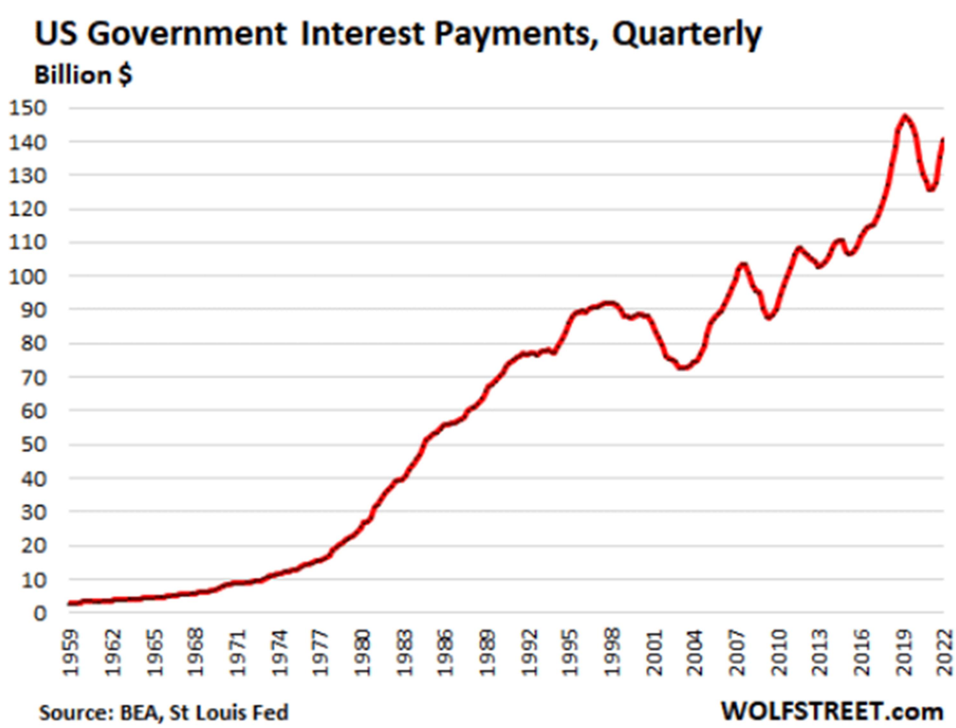
The debt continued to accumulate and compound. With rates pegged at the zero bound, the Treasury could justify rolling the debt continually as the interest costs were minimal.

Politicians now pushed for more and more deficit spending- if it's free to bailout the banks, or start a war- why not build more bridges? What about social programs? New Army bases? Tax cuts for corporations? Subsidies for businesses?

There was no longer any "accepted" economic argument against this- and thus government spending grew and grew, and the deficits continued to expand year after year.

The Treasury would roll the debt by issuing new bonds to pay off maturing ones- a strategy reminiscent of Ponzi schemes.

This debt binge is accelerating- as spending increases, (and tax revenues are constant) the deficit grows, and this deficit is paid by more borrowing. This incurs more interest, and thus more spending to pay that interest, in a deadly feedback loop- what is called a debt spiral.

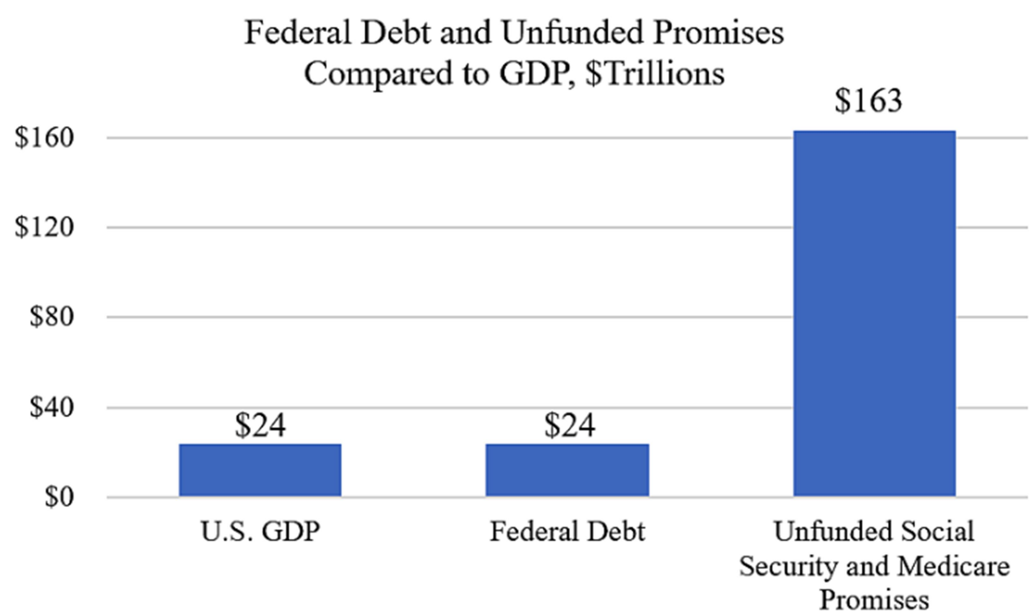


Gross Govt Interest Payments

The shadow threat here that is rarely discussed is Unfunded Liabilities- these are payments the Federal government has promised to make, but has not yet set aside the money for. This includes Social Security, Medicaid, Medicare, Veteran's benefits, and other funding that is non-discretionary, or in other words, basically non-optional.

Cato Institute [estimates that these obligations sum up to $163 Trillion](). Other estimates from the [Mercatus Center put the figure at between $87T as the lower bound and $222T]() on the high end.
YES. That is TRILLION with a T.

A Dragon lurks in these shadows.



Unfunded Liabilities

What makes it worse is that these figures are from 2012- the problem is significantly worse now. The fact of the matter is, no one knows the exact figure- just that it is so large it defies comprehension.
These payments are what is called non-discretionary, or mandatory spending- each Federal agency is obligated to spend the money. They don't have a choice.

Approximately 70% of all Federal Spending is mandatory.

And the amount of mandatory spending is increasing each year as the Boomers, the second largest generation in US history, retire. Approximately 10,000 of them retire each day- increasing the deficits by hundreds of billions a year.

Furthermore, the only way to cut these programs (via a bill introduced in the House and passed in the Senate) is basically political suicide. AARP and other senior groups are some of the most powerful and wealthy lobbying groups in the US.

If politicians don't have the stomach to legalize marijuana- [an issue that Pew research finds an overwhelming majority of Americans supporting]- then why would they nuke their own careers via cutting funding to seniors right as inflation spikes?

Thus, although these obligations are not *technically debt,* they act as debt instruments in all other respects. The bill must be paid.

In the [Fiscal Report for 2022 released by the White House], they estimated that in 2021 and 2022 the Federal deficits would be $3.669T and $1.837T respectively. This amounts to 16.7% and 7.8% of GDP (pg 42).

Table S–1. Budget Totals

(In billions of dollars and as a percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Totals 2022-2026	Totals 2022-2031
Budget totals in billions of dollars:														
Receipts	3,421	3,581	4,174	4,641	4,828	5,038	5,332	5,632	5,888	6,119	6,370	6,643	24,013	54,665
Outlays	6,550	7,249	6,011	6,013	6,187	6,508	6,746	6,935	7,312	7,425	7,847	8,211	31,465	69,196
Deficit [1]	3,129	3,669	1,837	1,372	1,359	1,470	1,414	1,303	1,424	1,307	1,477	1,568	7,452	14,531
Debt held by the public	21,017	24,167	26,265	27,683	29,062	30,539	31,958	33,266	34,691	35,996	37,481	39,059		
Debt held by the public net of financial assets	18,024	21,684	23,520	24,892	26,250	27,720	29,134	30,437	31,860	33,167	34,643	36,216		
Gross domestic product (GDP)	21,000	22,030	23,500	24,563	25,537	26,516	27,533	28,590	29,697	30,867	32,094	33,391		
Budget totals as a percent of GDP:														
Receipts	16.3%	16.3%	17.8%	18.9%	18.9%	19.0%	19.4%	19.7%	19.8%	19.8%	19.8%	19.9%	18.8%	19.3%
Outlays	31.2%	32.9%	25.6%	24.5%	24.2%	24.5%	24.5%	24.3%	24.6%	24.1%	24.4%	24.6%	24.7%	24.5%
Deficit	14.9%	16.7%	7.8%	5.6%	5.3%	5.5%	5.1%	4.6%	4.8%	4.2%	4.6%	4.7%	5.9%	5.2%
Debt held by the public	100.1%	109.7%	111.8%	112.7%	113.8%	115.2%	116.1%	116.4%	116.8%	116.6%	116.8%	117.0%		
Debt held by the public net of financial assets	85.8%	98.4%	100.1%	101.3%	102.8%	104.5%	105.8%	106.5%	107.3%	107.5%	107.9%	108.5%		
Memorandum, real net interest:														
Real net interest in billions of dollars	134	–53	–139	–189	–186	–136	–86	–36	9	50	108	164	–737	–442
Real net interest as a percent of GDP	0.6%	–0.2%	–0.6%	–0.8%	–0.7%	–0.5%	–0.3%	–0.1%	*	0.2%	0.3%	0.5%	–0.6%	–0.2%

*0.05 percent of GDP or less.

[1] The estimated deficit for 2021 is based on partial year actual data and generally incorporates actuals through March.

BUDGET OF THE U.S. GOVERNMENT FOR FISCAL YEAR 2022

US Federal Budget

Astonishingly, they project substantially decreasing deficits for the next decade. Meanwhile the U.S. is slowly grinding towards a severe recession (and then likely depression) as the Fed begins their tightening experiment into 132% Federal Debt to GDP.

Deficits have basically never gone down in a recession, only up- unemployment insurance, food stamp programs, government initiatives; all drive the Treasury to pump out more money into the economy in order to stimulate demand and dampen any deflation.

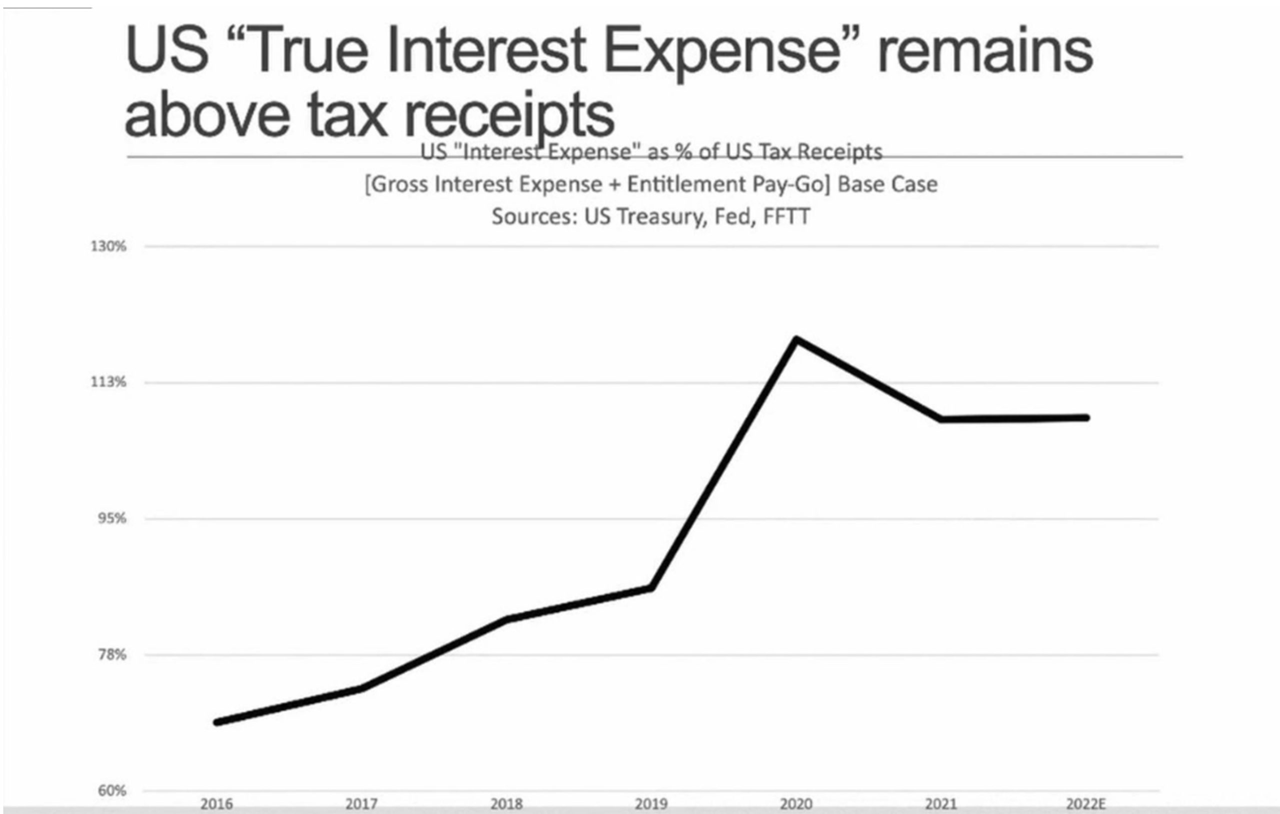
To add insult to injury, tax receipts collapse during recession- so the income side of the equation is negatively impacted as well. The budget will blow out.

The U.S. 1 yr Treasury Bond is already trading at 4.7%- if we have to refinance our current debt loads at that rate (which we WILL since they have to roll the debt over), the Treasury will be paying $1.46 Trillion in INTEREST ALONE YEARLY on the debt.
That is equivalent to 40% of all Federal Tax receipts in 2021!

In my post Dollar Endgame 4.2, I have tried to make the case that the United States is headed towards an "event horizon"- **a point of no return, where the financial gravity of the supermassive debt is so crushing that nothing they do, short of Infinite QE, will allow us to escape.**

The terrifying truth is that we are not headed towards this event horizon.

We're already past it.



True Interest Expense ABOVE Tax Receipts

As brilliant macro analyst Luke Gromen pointed out in several interviews late last year, if you combine Gross Interest Expense and Entitlements, on a base case, we are already at 110% of tax receipts.
True Interest Expense is now more than total Federal Income. The Federal Government is already bankrupt- the market just doesn't know it yet.

Luke: Sure. So we were talking off the air, I think the single most important macro chart that we have and that we're talking about and that I'm told virtually no one else is talking about, and I think it also feeds into this being much more structurally inflationary than most people think, is or many people think is the fact that if you look at the US what we call the US's true interest expense which we define as Treasury spending plus entitlement pay goes right the pay as you go portion of entitlements cause those are just the effective interest to support the entitlement obligations and you add those two numbers together. What you find is that those two numbers are still 111% of US tax receipts as of the third quarter per the Treasury Borrowing Advisory Committee. And that's with tax receipts at all time highs inflated by slash aided by an epic everything bubble.

And so this, I think, is an element of the structural inflation that virtually nobody is talking about and I think it's something virtually everybody should be talking about, which is, everybody for 40 years has been conditioned that once we see these types of inflation, the Fed steps in to fight the inflation. And the problem is, is that there have been no instances in the last 40 years, where the Fed has begun a tightening cycle, where the US couldn't even afford to pay its interest out of tax receipts. And that's the case now, if we look at true interest expense, again, which is the Treasury spending plus entitlement pay goes, and so it leads to this conclusion that if the Fed tries to tighten, what you're likely going to see, before very long is a decline in tax receipts. If the Fed puts us in a recession, and we're obviously seeing significant slowing already. You're gonna be looking at tax receipts that are already below true interest expense, and probably would start falling further, while the true interest expense would probably rise because of the interest rate going up.

Luke Gromen Interview Transcript (Oct 2021, Macrovoices)

The black hole of debt, financed by the Federal Reserve, has now trapped the largest spending institution in the world- the United States Treasury.

The unholy capture of the Money Printer and the Spender is catastrophic - the final key ingredient for monetary collapse.

This is How Money Dies.

The Underwater State

(I had to split this post into two part due to reddit's limits, see the second half of the post HERE)

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*If you would like to learn more, check out my recommended reading list here. This is a dummy google account, so feel free to share with friends- none of my personal information is attached. You can also check out a Google docs version of my Endgame Series here.

I cleared this message with the mods;
IF YOU WOULD LIKE to support me, you can do so my checking out the e-book version of the Dollar Endgame on my twitter profile: https://twitter.com/peruvian_bull/status/1597279560839868417
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HERE: https://www.reddit.com/r/Superstonk/comments/o4vzau/hyperinflation_is_coming_the_dollar_endgame_part/
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Thank you ALL, and POWER TO THE PLAYERS. GME FOREVER
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You can follow my Twitter at Peruvian Bull. This is my only account, and I will not ask for financial or personal information. All others are scammers/impersonators.

Hyperinflation is Coming- The Dollar Endgame: PART 5.1- "Enter the Dragon" (SECOND HALF OF FINALE)

(Hey everyone, this is the SECOND half of the Finale, you can find the first half here)

The Dollar Endgame

True monetary collapses are hard to grasp for many in the West who have not experienced extreme inflation. The ever increasing money printing seems strange, alien even. Why must money supply grow exponentially? Why did the Reichsbank continue printing even as hyperinflation took hold in Germany? What is not understood well are the hidden feedback loops that dwell under the surface of the economy. The Dragon of Inflation, once awoken, is near impossible to tame.

It all begins with a country walking itself into a situation of severe fiscal mismanagement- this could be the Roman Empire of the early 300s, or the German Empire in 1916, or America in the 1980s- 2020s.

The State, fighting a war, promoting a welfare state, or combating an economic downturn, loads itself with debt burdens too heavy for it to bear.

This might even create temporary illusions of wealth and prosperity. The immediate results are not felt. **But the trap is laid.**

Over the next few years and even decades, the debt continues to grow. The government programs and spending set up during an emergency are almost impossible to shut down. Politicians are distracted with the issues of the day, and concerns about a borrowing binge take the backseat.
The debt loads begin to reach a critical mass, almost always just as a political upheaval unfolds. Murphy's Law comes into effect.

Next comes a crisis.

This could be Visigoth tribesmen attacking the border posts in the North, making incursions into Roman lands. Or it could be the Assassination of Archduke Franz Ferdinand in Sarajevo, kicking off a chain of events causing the onset of World War 1.

Or it could be a global pandemic, shutting down 30% of GDP overnight.

Politicians respond as they always had- mass government mobilization, both in the real and financial sense, to address the issue. Promising that their solutions will remedy the problem, a push begins for massive government spending to “solve” economic woes.

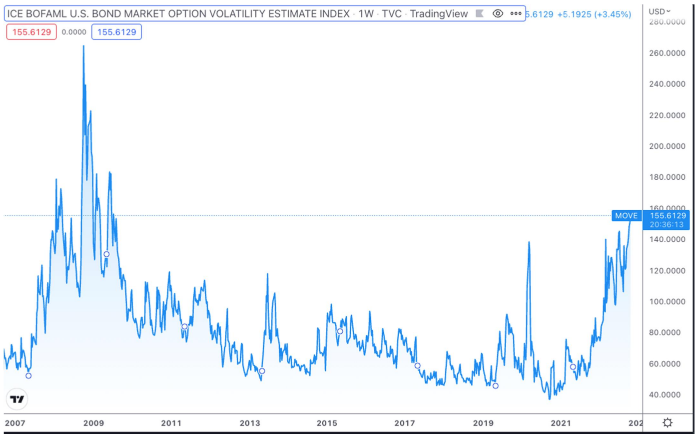
They go to fundraise debt to finance the Treasury. But this time is different.

Very few, if any, investors bid. Now they are faced with a difficult question- how to make up for the deficit between the Treasury’s income and its massive projected expenditure. Who’s going to buy the bonds?

With few or no legitimate buyers for their debt, they turn to their only other option- the printing press. Whatever the manner, new money is created and enters the supply.

This time is different. Due to the flood of new liquidity entering the system, widespread inflation occurs. Confounded, the politicians blame everyone and everything BUT the printing as the cause. Bonds begin to sell off, which causes interest rates to rise. With rates suppressed so low for so long, trillions of dollars of leverage has built up in the system. No one wants to hold fixed income instruments yielding 1% when inflation is soaring above 8%. It's a guaranteed losing trade. As more and more investors run for the exits in the bond markets, liquidity dries up and volatility spikes.

The MOVE index, a measure of bond market volatility, begins climbing to levels not seen since the 2008 Financial Crisis.



MOVE Index

Sovereign bond market liquidity begins to evaporate. Weak links in the system, overleveraged several times on government debt, such as the UK's pension funds, begin to implode.

The banks and Treasury itself will not survive true deflation- in the US, Yellen is already getting so antsy that she just asked major banks if Treasury should buy back their bonds to "ensure liquidity"!

As yields rise, government borrowing costs spike and their ability to roll their debt becomes extremely impaired. Overleveraged speculators in housing, equity and bond markets begin to liquidate positions and a full blown deleveraging event emerges.

True deflation in a macro environment as indebted as ours would mean rates soaring well above 15-20%, and a collapse in money market funds, equities, bonds, and worst of all, a certain Treasury default as federal tax receipts decline and deficits rise.

A run on the banks would ensue. Without the Fed printing, the major banks, (which have a 0% capital reserve requirement since 3/15/20), would quickly be drained. Insolvency is not the issue here- liquidity is; and without cash reserves a freezing of the interbank credit and repo markets would quickly ensue.

For those who don't think this is possible, Tim Geitner, NY Fed President during the 2008 Crisis, stated that in the aftermath of Lehman Brothers' bankruptcy, we were "We were a few days away from the ATMs not working" (start video at 46:07).

As inflation rips higher, the $24T Treasury market, and the $15.5T Corporate bond markets selloff hard. Soon they enter freefall as forced liquidations wipe leverage out of the system. Similar to 2008, credit markets begin to freeze up. Thousands of "zombie corporations", firms held together only with razor thin margins and huge amounts of near zero yielding debt, begin to default. One study by a Deutsche analyst puts the figure at 25% of companies in the S&P 500.

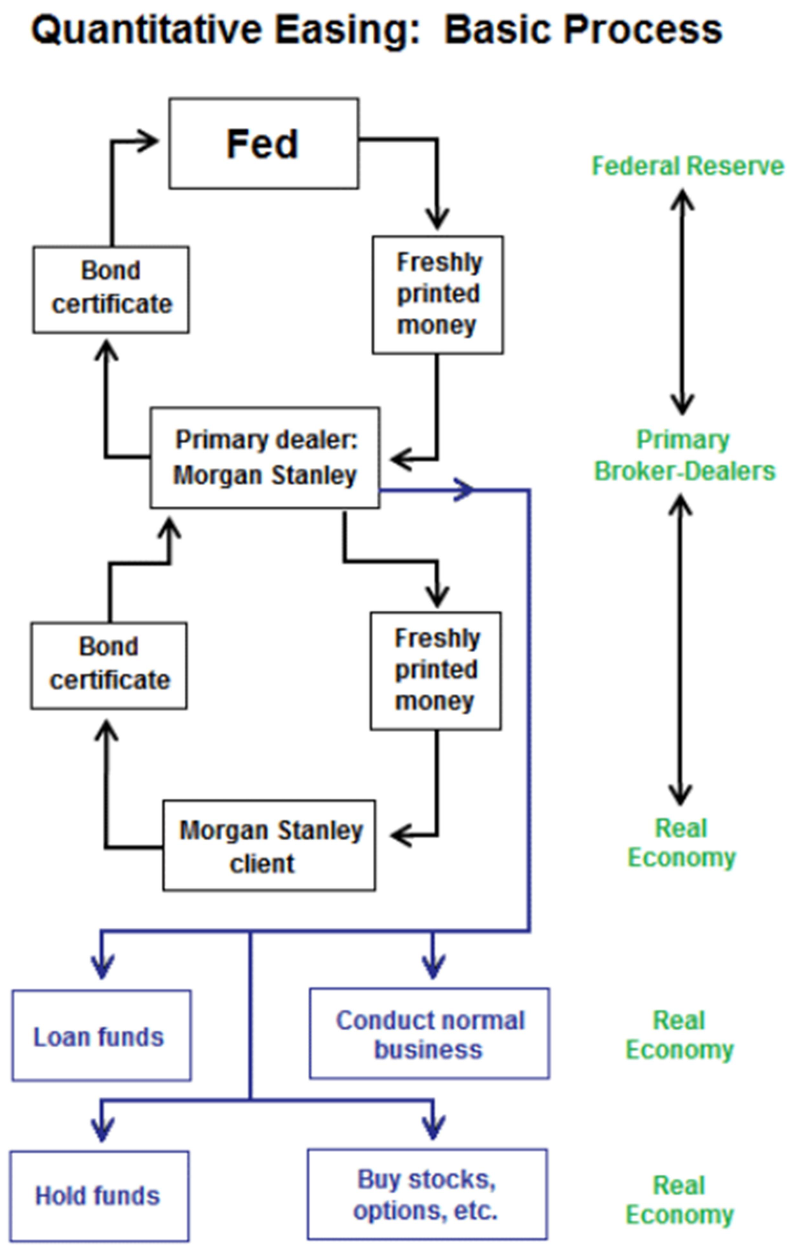
The Central Banks respond to the crisis as they always have- coming to the rescue with the money printer, like the Bank of England did when they restarted QE, or how the Bank of Japan began "emergency bond buying operations".

But this time is massive. They have to print more than ever before as the ENTIRE DEBT BASED FINANCIAL SYSTEM UNWINDS. QE Infinity begins. Trillions of Treasuries, MBS, Corporate bonds, and Bond ETFs are bought up. The only manner in which to prevent the bubble from imploding is by overwhelming the system with freshly printed cash. Everything is no-limit bid. The tsunami of new money floods into the system and a face ripping rally begins in every major asset class. This is the beginning of the melt-up phase.

The Federal Reserve, within a few months, goes from owning 30% of the Treasury market, to 70% or more. The Bank of Japan is already at 70% ownership of certain JGB issuances, and some bonds haven't traded for a record number of days in an active market!

The Central Banks EAT the bond market. The "Lender of Last Resort" becomes "The Lender of Only Resort".

Another step towards hyperinflation. The Dragon crawls out of his lair.



QE Process

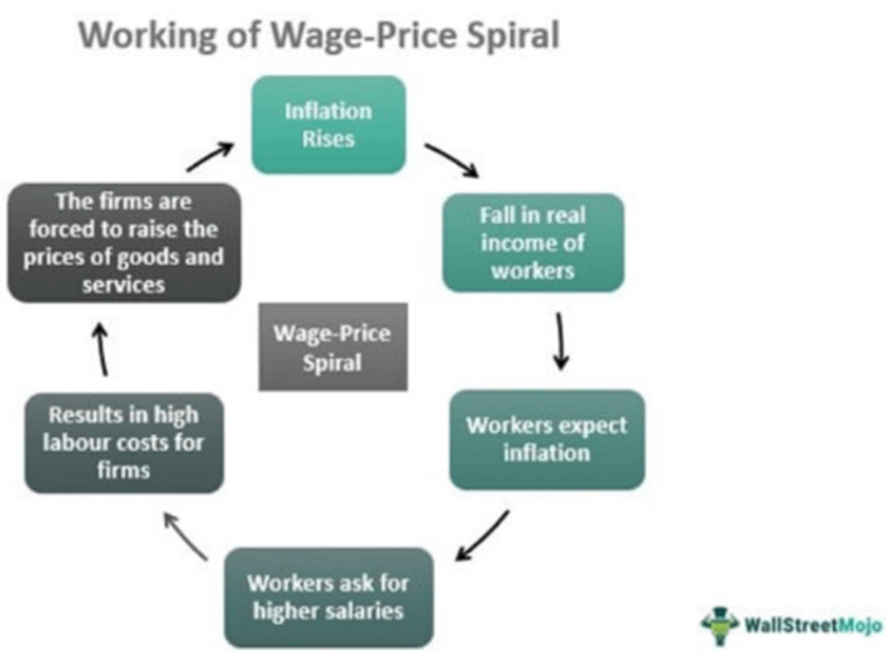
Now the majority or even entirety of the new bond issuances from the Treasury are bought with printed money. Money supply must increase in tandem with federal deficits, fueling further inflation as more new money floods into the system.

The Fed's liquidity hose is now directly plugged into the veins of the real economy. The heroin of free money now flows in ever increasing amounts towards Main Street.

The same face-ripping rise seen in equities in 2020 and 2021 is now mirrored in the markets for goods and services.

Prices for Food, gas, housing, computers, cars, healthcare, travel, and more explode higher. This sets off several feedback loops- the first of which is the wage-price spiral. As the prices of everything rise, real disposable income falls.

Massive strikes and turnover ensues. Workers refuse to labor for wages that are not keeping up with their expenses. After much consternation, firms are forced to raise wages or see large scale work stoppages.



Wage-Price Spiral

These higher wages now mean the firm has higher costs, and thus must charge higher prices for goods. This repeats ad infinitum.

The next feedback loop is monetary velocity- the number of times one dollar is spent to buy goods and services per unit of time. If the velocity of money is increasing, then more transactions are occurring between individuals in an economy.

The faster the dollar turns over, the more items it can bid for- and thus the more prices rise. Money velocity increasing is a key feature of a currency beginning to inflate away. In nations experiencing hyperinflation like Venezuela, where money velocity was purported to be over 7,000 annually- or more than 20 times a DAY.

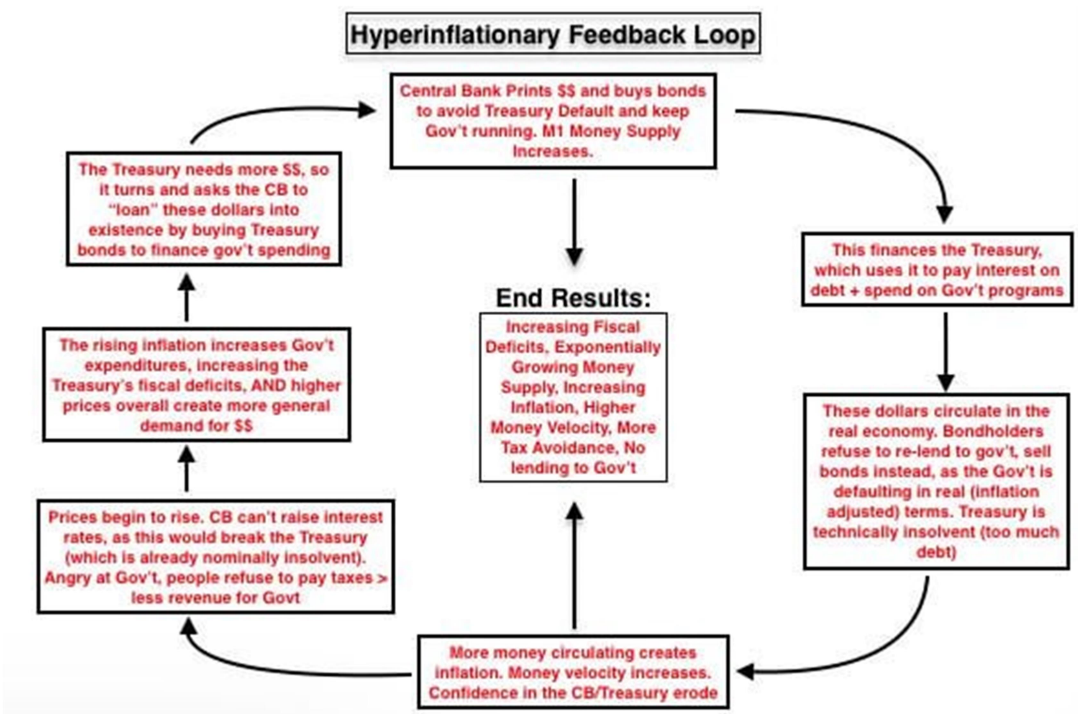
As prices rise steadily, people begin to increase their inflation expectations, which leads to them going out and preemptively buying before the goods become even more expensive. This leads to hoarding and shortages as select items get bought out quickly, and whatever is left is marked up even more. ANOTHER feedback loop.

Inflation now soars to 25%. Treasury deficits increase further as the government is forced to spend more to hire and retain workers, and government subsidies are demanded by every corner of the populace as a way to alleviate the price pressures.

The government budget increases. Any hope of worker's pensions or banks buying the new debt is dashed as the interest rates remain well below the rate of inflation, and real wages continue to fall. They thus must borrow more as the entire system unwinds.

The Hyperinflationary Feedback loop kicks in, with exponentially increasing borrowing from the Treasury matched by new money supply as the Printer whirrs away.

The Dragon begins his fiery assault.



Hyperinflationary Feedback Loop

As the dollar devalues, other central banks continue printing furiously. This phenomenon of being trapped in a debt spiral is not unique to the United States- virtually every major economy is drowning under excessive credit loads, as the average G7 debt load is 135% of GDP.

As the central banks print at different speeds, massive dislocations begin to occur in currency markets. Nations who print faster and with greater debt monetization fall faster than others, but all fiats fall together in unison in real terms.

Global trade becomes extremely difficult. Trade invoices, which usually can take several weeks or even months to settle as the item is shipped across the world, go haywire as currencies move 20% or more against each other in short timeframes. Hedging becomes extremely difficult, as vol premiums rise and illiquidity is widespread.

Amidst the chaos, a group of nations comes together to decide to use a new monetary media- this could be the Special Drawing Right (SDR), a neutral global reserve currency created by the IMF.
It could be a new commodity based money, similar to the old US Dollar pegged to Gold.
Or it could be a peer-to-peer decentralized cryptocurrency with a hard supply limit and secure payment channels.

Whatever the case- it doesn't really matter. The dollar will begin to lose dominance as the World Reserve Currency as the new one arises.

As the old system begins to die, ironically the dollar soars higher on foreign exchange- as there is a $20T global short position on the USD, in the form of leveraged loans, sovereign debt, corporate bonds, and interbank repo agreements.

All this dollar debt creates dollar DEMAND, and if the US is not printing fast enough or importing enough to push dollars out to satisfy demand, banks and institutions will rush to the Forex market to dump their local currency in exchange for dollars.

This drives DXY up even higher, and then forces more firms to dump local currency to cover dollar debt as the debt becomes more expensive, in a vicious feedback loop. This is called the Dollar Milkshake Theory, posited by Brent Johnson of Santiago Capital.

The global Eurodollar Market IS leverage- and as all leverage works, it must be fed with new dollars or risk bankrupting those who owe the debt. The fundamental issue is that this time, it is not banks, hedge funds, or even insurance giants- this is entire countries like Argentina, Vietnam, and Indonesia.

The Fed, knowingly or not, is basically in charge of the global financial system. They may shout, "We raise rates in the US to fight inflation, global consequences be damned!!" - But that's a hell of a lot more difficult to follow when large G7 countries are in the early stages of a full blown currency crisis.

The most serious implication is that the Fed is responsible for supplying dollars to everyone. When they raise rates, they trigger a margin call on the entire world. They need to bail them out by supplying them with fresh dollars to stabilize their currencies.

In other words, the Fed has to run the loosest and most accommodative monetary policy worldwide- they must keep rates as low as possible, and print as much as possible, in order to keep the global financial system running. If they don't do that, sovereigns begin to blow up, like Japan did last week and like England did on Wednesday.

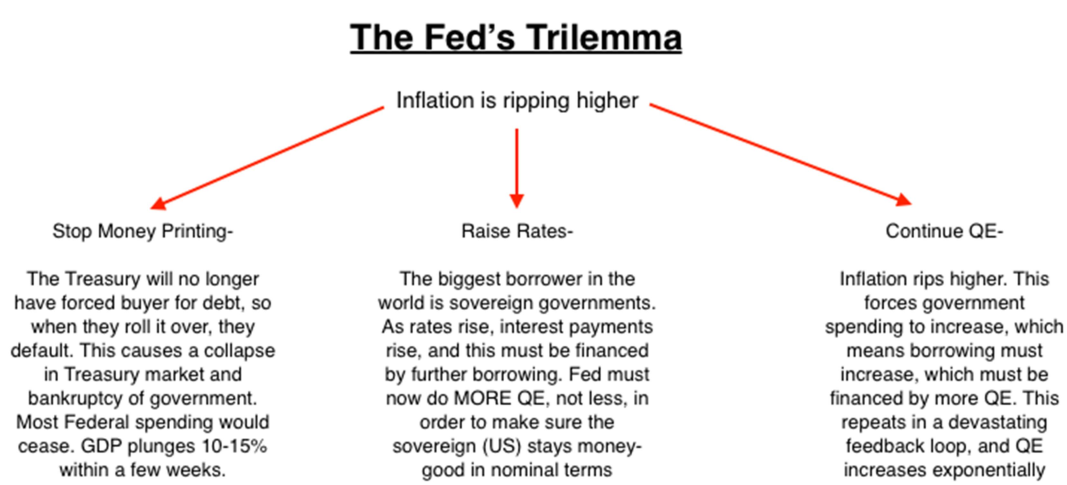
And if the world's financial system implodes, they must bail out not only the United States, but virtually every global central bank. This is the Sword of Damocles. The money needed for this would be well in the dozens of trillions.

The Dollar Milkshake

If the Fed does not print to satisfy the demand needed for this Eurodollar market, the Dollar Milkshake will suck almost all global liquidity and capital into the United States, which is a net importer and has largely lost it's manufacturing base- meanwhile dozens of developing countries and manufacturing firms will go bankrupt and be liquidated, causing a collapse in global supply chains not seen since the Second World War.

This would force inflation to rip above 50% as supply of goods collapses.

Worse yet, what will the Fed do? ALL their choices now make the situation worse.



The Fed's Triple Dilemma

Many pundits will retort- “Even if we have to print the entire unfunded liability of the US, $160T, that’s 8 times current M2 Money Supply. So we’d see 700% inflation over two years and then it would be over!”

This is a grave misunderstanding of the problem; as the Fed expands money supply and finances Treasury spending, inflation rips higher, forcing the AMOUNT THE TREASURY BORROWS, AND THUS THE AMOUNT THE FED PRINTS in the next fiscal quarter to INCREASE. Thus a 100% increase in money supply can cause a 150% increase in inflation, and on again, and again, ad infinitum.

M2 Money Supply increased 41% since March 5th, 2020 and we saw an 18% realized increase in inflation (not CPI, which is manipulated) and a 58% increase in SPY (at the top). This was with the majority of printed money really going into the financial markets, and only stimulus checks and transfer payments flowing into the real economy.

Now Federal Deficits are increasing, and in the next easing cycle, the Fed will be buying the majority of Treasury bonds.

The next $10T they print, therefore, could cause additional inflation requiring another $15T of printing. This could cause another $25T in money printing; this cycle continues forever, like Weimar Germany discovered.

The $200T or so they need to print can easily multiply into the quadrillions by the time we get there. The Inflation Dragon consumes all in his path.

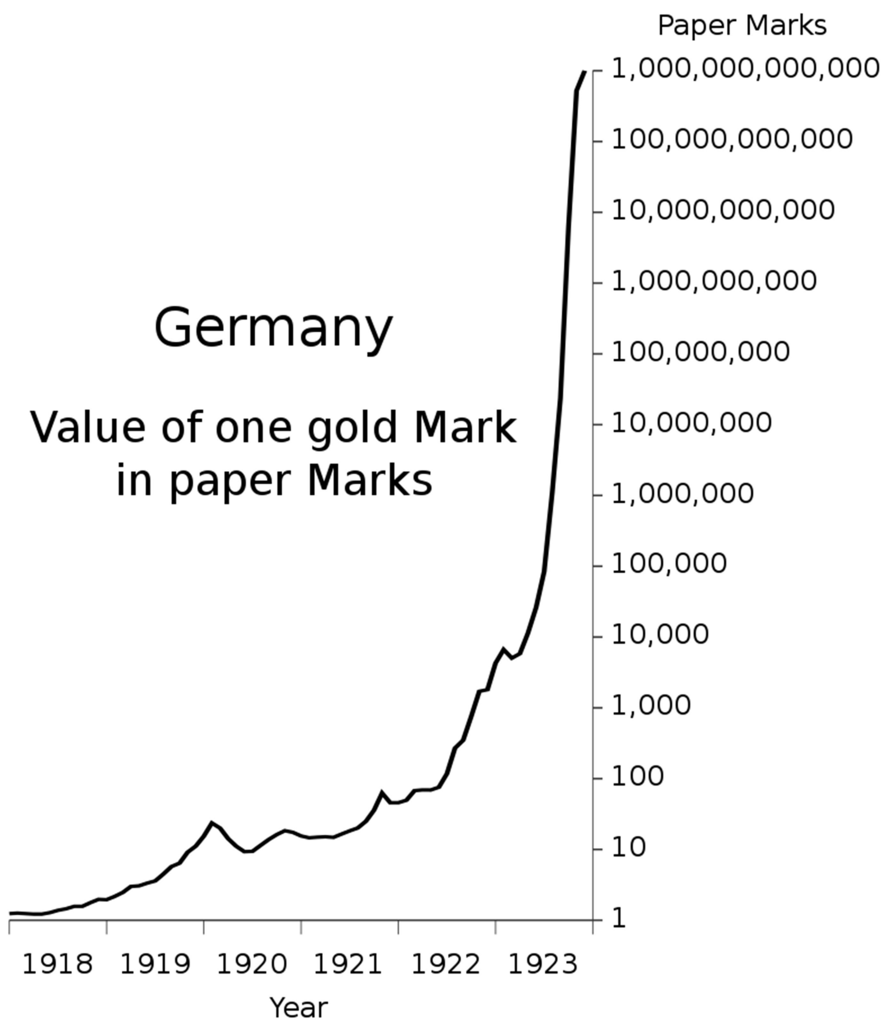
Federal Net Outlays are currently around 30% of GDP. Of course, the government has tax receipts that it could use to pay for services, but as prices roar higher, the real value of government tax revenue falls. At the end of the Weimar hyperinflation, tax receipts represented less than 1% of all government spending.

This means that without Treasury spending, literally a third of all economic output would cease.

The holders of dollar debt begin dumping them en masse for assets with real world utility and value- even simple things such as food and gas.

People will be forced to ask themselves- what matters more; the amount of Apple shares they hold or their ability to buy food next month? **The option will be clear- and as they sell, massive flows of money will move out of the financial economy and into the real.**

This begins the final cascade of money into the marketplace which causes the prices of everything to soar higher. The demand for money grows even larger as prices spike, which causes more Treasury spending, which must be financed by new borrowing, which is printed by the Fed. The final doom loop begins, and money supply explodes exponentially.



German Hyperinflation

Monetary velocity rips higher and eventually pushes inflation into the thousands of percent. Goods begin being re-priced by the day, and then by the hour, as the value of the currency becomes meaningless.

A new money, most likely a cryptocurrency such as Bitcoin, gains widespread adoption- becoming the preferred method and eventually the default payment mechanism. The State continues attempting to force the citizens to use their currency- but by now all trust in the money has broken down. The only thing that works is force, but even the police, military and legal system by now have completely lost confidence.
The Simulacrum breaks down as the masses begin to realize that the entire financial system, and the very currency that underpins it is a lie- an illusion, propped up via complex derivatives, unsustainable debt loads, and easy money financed by the Central Banks.

Similar to Weimar Germany, confidence in the currency finally collapses as the public awakens to a long forgotten truth-

There is no supply cap on fiat currency.

Conclusion:

QE Infinity

When asked in 1982 what was the one word that could be used to define the Dollar, Fed Chairman Paul Volcker responded with one word-

“Confidence.”

All fiat money systems, unmoored from the tethers of hard money, are now adrift in a sea of illusion, of make-believe. The only fundamental props to support it are the trust and network effects of the participants. These are powerful forces, no doubt- and have made it so no fiat currency dies without severe pain inflicted on the masses, most of which are uneducated about the true nature of economics and money.

But the Ships of State have wandered into a maelstrom from which there is no return. Currently, total worldwide debt stands at a gargantuan $300 Trillion, equivalent to 356% of global GDP.

This means that even at low interest rates, interest expense will be higher than GDP- we can never grow our way out of this trap, as many economists hope.

Fiat systems demand ever increasing debt, and ever increasing money printing, until the illusion breaks and the flood of liquidity is finally released into the real economy. Financial and Real economies merge in one final crescendo that dooms the currency to die, as all fiats must.
Day by day, hour by hour, the interest accrues.
The Debt grows larger.
And the Dollar Endgame Approaches.

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