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The U.S. and the U.K. Will Both Default on Their Debt by the End of Summer

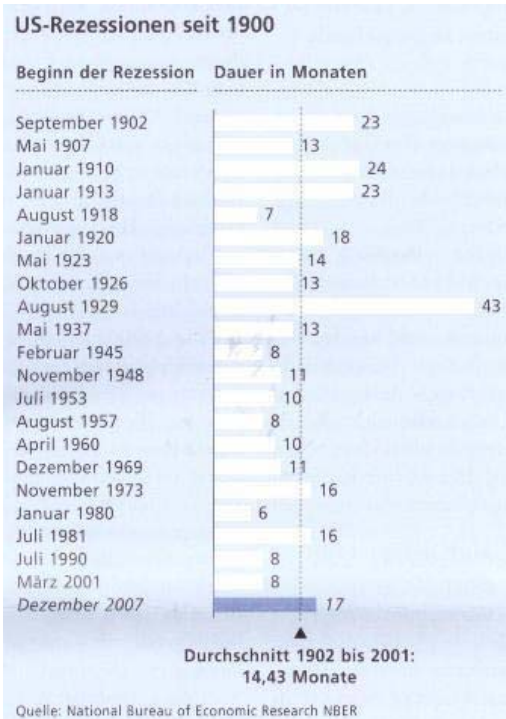
LEAP/E2020

As anticipated by LEAP/E2020 as early as October 2008, on the eve of summer 2009, the question of the US and UK capacity to finance their unbridled public deficits has become the central question of international debates, thus paving the way for these two countries to default on their debt by the end of this summer.

- (1) At this stage of the global systemic crisis' process of development, contrary to the dominant political and media stance today, the LEAP/E2020 team does not foresee any economic upsurge after summer 2009 (nor in the following 12 months)
- (2) On the contrary, because the origins of the crisis remain unaddressed, we estimate that the summer 2009 will be marked by the converging of three very destructive **rogue waves**.
- (3) illustrating the aggravation of the crisis and entailing major upheaval by September/October 2009. As always since this crisis started, each region of the world will be affected neither at the same moment, nor in the same way
- (4) However, according to our researchers, all of them will be concerned by a significant deterioration in their situation by the end of summer 2009



This evolution is likely to catch large numbers of economic and financial players on the wrong foot who decided to believe in today's mainstream media operation of "euphorisation"€.



In this special **Summer 2009** edition, our team describes in detail these three converging **rogue waves** and their impact, and gives a number of strategic recommendations (currencies, gold, real estate, bonds, stocks, currencies) to avoid being swept away in this deadly summer.

LEAP/E2020 believes that,

- (5) instead of **green shoots** (those which international media, experts and the politicians who listen to them kept perceiving in every statistical chart in the past two months),
- (6) what will appear on the horizon is a group of three destructive waves of the social and economic fabric expected to converge in the course of summer 2009, illustrating the aggravation of the crisis and entailing major changes by the end of summer 2009"€ more specifically, debt default events in the US and UK, both countries at the centre of the global system in crisis. These waves appear as follows:
 1. Wave of massive unemployment: Three different dates of impact according to the countries in America, Europe, Asia, the Middle East and Africa
 2. Wave of serial corporate bankruptcies: companies, banks, housing, states, counties, towns
 3. Wave of terminal crisis for the US Dollar, US T-Bond and GBP, and the return of inflation

In fact, these three waves do not appear in quick succession like the **sisters rogue waves**. They are even more dangerous because they are simultaneous, asynchronous and non-parallel. Hence their impact on the global system accentuates the risks because they



hit at various angles, at different speeds and with varying strength. The only certain thing at this stage is that the international system has never been so weak and powerless to face such a situation. The IMF and global governance institutions' reforms announced by the London G20 are at a standstill

(7) The G8 becomes more like a moribund club whose utility is increasingly questioned

(8) US leadership is the shadow of what it used to be, mostly concerned by desperately trying to find purchasers for its T-Bonds

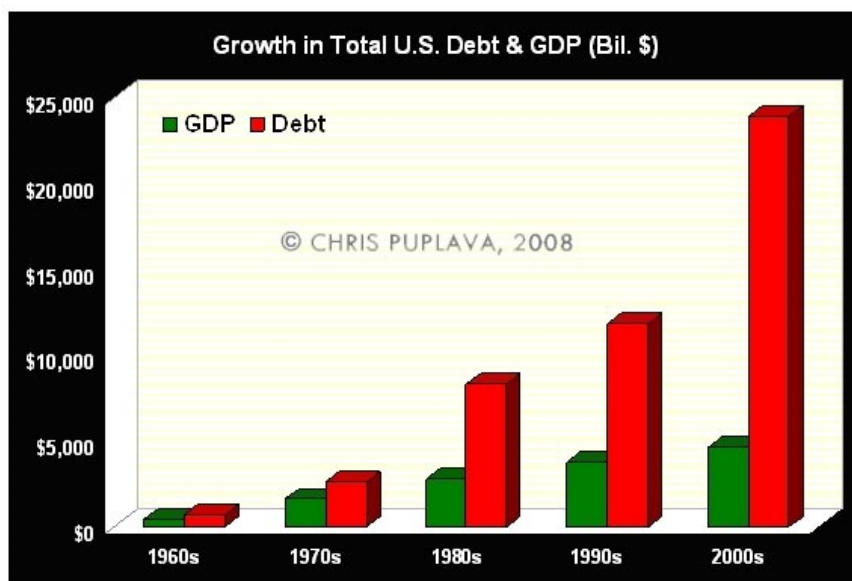
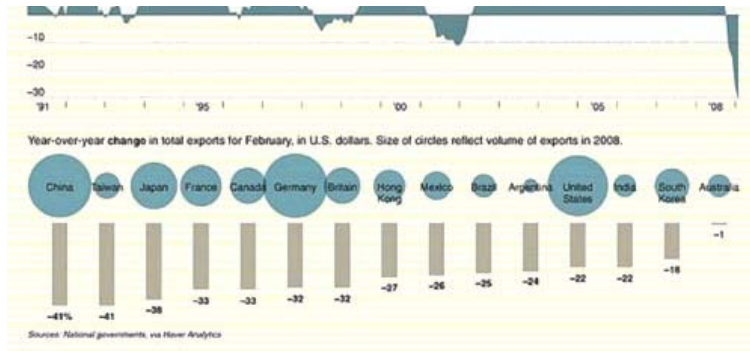
(9) The global monetary system is in a process of disintegration, with the Russians and Chinese in particular accelerating their positioning in the post-Dollar era. Companies foresee no improvement in the business climate and speed up the pace of layoffs. A growing number of states falter under the weight of their accumulated debt created to "rescue banks" and are about to be faced with a welter of failings by the end of this summer

(10) And, last but not least, the banks, once they have squeezed money out of naive savers thanks to the market upsurge orchestrated in the past few weeks, will be have to admit that they are still insolvent by the end of summer 2009.

In the United States and United Kingdom in particular, the colossal public financial effort made in 2008 and at the beginning of 2009 for the sole benefit of large banks became so unpopular that it was impossible to consider injecting more public money into banks in spring 2009, despite the fact that they were still insolvent

(11) It then became necessary to invent a "fairy tale" to convince the average saver to inject his/her own money into the financial system. By means of the "green shoots" story, overpriced stock indices based on no real economic grounds and promises of "anticipated public funding repayment", the conditioning was achieved. Hence, while big investors from oil-producing and Asian countries

(12) withdrew capital from these banks, large numbers of small individual investors returned, full of hope. Once these small investors discover that public funding repayment is only a drop in the ocean of public aid granted to these banks (to help them dispose of their toxic assets) and that, after three or four months at best (as analyzed in this GEAB N°36), these banks are again on the verge of collapse, they will realize, powerless, that their share is worth nothing once again.



Intoxicated by financiers, world political leaders will be surprised - once again - to see all the problems of last year reappear, all the more severe since they were not addressed but only buried under piles of public money. Once that money has been squandered by insolvent banks compelled to *rescue* even more insolvent rivals, or by ill-conceived economic stimulus plans, problems will re-emerge, further exacerbated. For hundreds of millions of citizens in America, Europe, Asia and Africa, the summer 2009 will be a dramatic transition towards lasting impoverishment due to the loss of their jobs, with no hope of finding new ones in the next two, three or four years, or due to the disappearance of their savings invested in stocks or capital-based pension funds, or in banking investments linked to stock markets or denominated in US dollars or British pounds, or investment in shares of

companies pressured to desperately wait for an improvement not coming soon.

Notes:

(1) Not even the "jobless recovery" many experts are trying to make us believe in. In the United States, United Kingdom, Eurozone and Japan, it is a "recoveryless recovery" we must expect, i.e. a pure invention aimed at convincing US and UK insolvent consumers to start buying again and keeping US T-Bonds' and UK Gilts' country purchasers waiting as long as possible (until they decide that there is really no future selling their products to the lands of the US Dollar and British Pound.

(2) **Rogue waves** are very large and sudden ocean surface waves which used to be considered as rare, though we now know that they appear in almost every storm above a certain strength. "Rogue waves" can reach heights of 30 meters (98 ft) and exert tremendous pressure. For instance, a normal 3 meter-high wave exerts a pressure of 6 tons/m². A 10 meter-high tempest wave exerts a pressure of 12 tons/m². A 30 meter-high rogue wave can exert pressure of up to 100 tons/m². No ship yet built is able to resist such pressures. One specific kind of rogue wave is called the "three sisters", i.e. a group of three rogue waves all the more dangerous in that, even if a ship had time to react properly to the first two waves, there is no way she

could be in the right position to brave the third one. According to LEAP/E2020, it is a similar phenomenon that the world is about to encounter this summer; and no country (ship) is in a favourable position to face them, even if some countries are more at risk than others, as explained in this GEAB (NÂ°36).

(3) LEAP/E2020 estimate that their anticipations of social and economic trends in the various regions of the world - published in GEAB NÂ°28 (10/16/2008) - are still relevant.

(4) More precisely, in every region, media and stock markets will no longer be able to hide the deterioration.

(5) Our readers have not failed to notice that the same people, media and institutions, considered everything was for the best in the best of worlds 3 years ago, that there was no risk of a severe crisis 2 years ago, and that the crisis was under control a year ago. Their opinion is therefore highly reliable!

(6) As regards US economic statistics, it will be interesting to follow the consequences of the revision of the indexing formula by the [Bureau of Economic Analysis](#) due to take place on 07/31/2009. Usually, this type of revision results in further complexity of historical comparisons and favourable modification of important figures. For example, some previous revisions enabled the division of the average level of measured inflation by three. Source: [MWHodges](#), 04/2008.

(7) Except at a regional level where each political entity is organized the way that it wants. For instance, the EU is taking advantage of the political fading away of the UK - mired in a financial, economic and political crisis - and taking supervisory control of the City of London (source: [Telegraph](#), 06/11/2009). It is likely that summer 2009 will be the end of 300 years of the City's supremacy at the centre of British power. On this subject, it is instructive to read George Monbiot's article in [The Guardian](#) dated 06/08/2009 and take the time to read John Lanchester's brilliant essay published in the [London Review of Books](#) dated 05/28/2009 entitled *It's finished*.

(8) Who cares any more about G8 final statements, such as that following the June 13th G8-Finance meeting (source: [Forbes](#), 06/13/2009), at a time when each player in fact plays by his own rules: Americans on one side, Canadians and Europeans on another, British and Japanese in the middle, while the Russians play a complete different game?

(9) US Treasury's Secretary of State, Timothy Geithner, recently suffered a very embarrassing experience whilst giving a speech in front of Beijing University students: his audience simply burst into laughter when he reassured that the Chinese government had made the right choice investing their holdings in US T-Bonds and Dollars (source: [Examiner/Reuters](#), 6/02/2009)! There is nothing worse than arousing irony or ridicule when you are an established power because that power is nothing without respect (on the part of both friends and enemies), especially when the one mocking is supposed to be "trapped" by the one mocked. According to LEAP/E2020, this laughter is worth a thousand explanations of the fact that China does not feel at all **trapped** by the US dollar and the Chinese authorities know exactly what tracks greenbacks and T-Bonds are following. This kind of situation was unthinkable only 12 months, maybe even 6 months ago, first because the Chinese were still naive, second because they thought it was in their interest to make everyone believe they were naive. Obviously, on the eve of summer 2009, this situation has vanished: no need to pretend anymore, as highlighted by this survey of 23 famous Chinese economists, published on the first day of Timothy Geithner's visit to Beijing, and revealing that most of them deem US assets **risky** (source: [Xinhuanet](#), 05/31/2009). This student burst of laughter will continue to echo for many months to come...

(10) Not only in the US will shareholders be systematically prejudiced by the state under the pretext of higher common interest, as in the case of pension fund and bondholder losses related to the Chrysler and GM bankruptcies, or when the US government and Federal Reserve pressured Bank of America to hide the calamitous state of Merrill Lynch from its shareholders at the time of the latter's takeover. Sources: [OpenSalon](#), 06/10/2009 / [WallStreetJournal](#), 04/23/2009. In the UK, Europe and Asia, the same causes will produce the same effects: the **raison d'etat** has always been the simplest excuse to justify large-scale plundering ... and severe crises are perfect times to call in the **raison d'etat**.

(11) Germany has a similar problem due to next September's national election. After the election, the country's banking problems will be in the headlines, as several hundreds of billions of risky assets on the balance sheets of a number of banks, mainly regional ones, will need dealing with. It is far from the scope of US and UK banking problems, nevertheless Berlin will probably be faced with a number of potential bank failures. Source: [AFP/Google](#), 04/25/2009. In the United States, the banks bailed out by the federal state have simply lowered the amount of loans granted when they are supposed to do the contrary. Source: [CNNMoney](#), 06/15/2009

(12) Sources: [Financial Times](#), 06/01/2009; [YahooFinance](#), 06/04/2009; [StreetInsider+Holdings/4656921.html](#), 05/15/2009; [Financial Times](#), 06/01/2009

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