



MACRO ANALYTICS & TECHNICAL ANALYSIS

MATASII

STRATEGIC INVESTMENT INSIGHTS

GLOBAL CONFLICT

FULL REPORT

THESIS 2020 – GLOBAL CONFLICT

1/15/2020

GLOBAL CONFLICT

Emerging Era of Geo-Political, Military & Social Conflict

EXECUTIVE BRIEF	3
1- ANNUAL THESIS 2020.....	7
WHERE "GLOBAL CONFLICT" FITS	7
OUR ABSTRACTION PROCESS.....	7
SPRING BOARDING FROM LAST YEARS "DE-DOLLARIZATION" THESIS	8
ROADMAP AHEAD.....	9
2- A GLOBAL STABILITY TEST	12
KEY MESSAGES	12
CYCLE OF CHANGE	12
A FLAWED FORMULA	15
THREE STAGES SINCE 2000.....	18
AN OVERDUE GLOBAL STABILITY TEST	31
APPENDIX VIDEO	33
3- EMERGING ERA OF POLITICAL & SOCIAL CONFLICT	34
KEY MESSAGES	34
ADVANCING UNTESTED MACRO-PRUDENTIAL POLICIES	36
END OF THE DEBT SUPER CYCLE	38
WE SEE THREE BIG EVENTS OR FORCES AHEAD	39
IT'S GOING TO BE A "SCARY SITUATION" OVER THE NEXT DECADE	40
ADVANCED FINANCIAL REPRESSION	41
DEFLATIONARY VERSUS INFLATIONARY PRESSURES	42
APPENDIX: VIDEO	44
4-NEW WEAPONS OF CONFLICT	45
KEY MESSAGES	45
TRUISMS.....	45
WHAT LEADS TO CONFLICTS?	47
INTERNAL VERSUS EXTERNAL	49
WHAT HISTORY TELLS US	49
WHAT WE THINK WE KNOW.....	51
WHAT FORMS HAS / WILL CONFLICT TAKE?	52
<i>Hot Wars.....</i>	<i>52</i>
<i>Hard Military</i>	<i>53</i>
<i>Soft Economic.....</i>	<i>53</i>
A GLOBAL TINDER BOX.....	57
<i>Present Global Situational Analysis</i>	<i>58</i>
<i>Global Geo-Political & Military Tensions</i>	<i>59</i>
<i>VIDEO: Global Trends</i>	<i>67</i>
APPENDIX: VIDEO	69
5-ADVANCED FINANCIAL & CURRENCY WARS	70
KEY MESSAGES	70
END OF THE DEBT SUPPER CYCLE	70
COLLATERAL CONTAGION	80
ROADMAP TO FIAT CURRENCY FAILURE	83
VALUE VERSUS PRICE.....	84
APPENDIX: VIDEO	85
6- RESULTING INVESTMENT TRENDS FOR THE 20's	86
KEY MESSAGES	86
RADICAL POLICY EXTREMES	86
CHANGING RULES: LAWS, REGULATIONS & TAXATION	86
PREPARING FOR DISRUPTIONS & SHORTAGES	87
MAINTAINING 'REAL' CAPITAL	88
APPENDIX: VIDEO	96
7- CONCLUSION	97
KEY MESSAGES	97
PRIOR THESIS PAPERS POINT THE WAY.....	97
RETURN OF CAPITAL	98

EXECUTIVE BRIEF

SITUATIONAL ANALYSIS

- Global conflicts arise when rising powers challenge established powers, and one side miscalculates its strength / ability to win any conflict. This over-confidence can work both ways--the rising power can overestimate its strength and so can the established power.
- Any quasi-military conflict is fundamentally a financial conflict: who can borrow more as the global economy unravels.
- What exactly are the benefits of winning a conflict? The object may not be victory so much as crippling a global competitor with high costs and low growth.
- Today's geopolitical arrangement is multi-polar, with China's rise creating potential conflicts with Europe, the US, Japan and India, and even Russia, despite the lovey-dovey talk and energy pipelines. Beneath the surface, Russia is as concerned about China's ambitions as all the other powers.
- The ability to borrow immense sums of money to pay for armed forces and R&D is a core asset. Nations that lack a global currency and the ability to borrow trillions of dollars will be at an extreme disadvantage. Thus the USSR collapsed when it could no longer maintain high military spending once oil revenues plummeted. The USSR did not have the ability to sell trillions of dollars of bonds denominated in rubles.
- The traditional prizes of winning a war are simply not that valuable: conquered territory, for example, requires immense resources to occupy and control. The resources gained may not even pay for these costs.
- Imposing trade route restrictions requires a global blue-water Navy which is increasingly vulnerable to low-cost missiles, drones, etc. Again, the costs of maintaining a global blue-water Navy are crushingly high. Are the gains enough to pay these extraordinary costs?
- Historically, wars arise when the population of unmarried young men peaks. Demographically, that surplus labor is put to work fighting a war. This dynamic is most visible now in Africa. The demographics in China and its competitors are not conducive to conventional war (the population of young unmarried men is needed in the civilian workforce) and so nations will choose low-intensity conflict such as cyber warfare, economic/financial warfare, etc.

A GLOBAL STABILITY TEST

- It is an undeniable fact that the global economy is experiencing a secular slowing of the REAL economic growth RATE.
- Poor policy decisions have moved the developed economies off sound money and unto Fiat Currencies.
- As a consequence Global Imbalances have been left to grow unchecked risking global financial markets to an inevitable stability test which is to be expected within a cycle of change.
- What can only be termed Monetary Malpractice has resulted in the mispricing of risk and lack of price discovery. This in turn has contributed along with other poor policies and regulations with the effective impairment of capitalism.
- We no longer operate in a true Capitalist System but rather what is better termed an artificial Creditism System.
- We are now faced with a fragile global economic system and levels of Inequality which historically has lead to social unrest and major changes in the status quo.

EMERGING ERA OF POLITICAL & SOCIAL CONFLICT

- The end of what many call the "Debt Supper Cycle" or Kondratieff's Long Wave is now near at hand which will have major global ramifications.
- Policies enacted over the last decade since the Financial Crisis have basically been ones of "Kicking-the-Can-Down-the-Road" and papering problems over. These unresolved problems manifest themselves into Economic problems on a larger regional basis and then inevitably lead to Political problems on a global basis as Slowing Economic Growth and Inequality caused the breakdown of the Social Contract between the governing and the governed -- which we are now seeing across the globe in the form of "Populist" movements.
- Unresolved Problems" lead to a Bad Cocktail Mix. They inevitably lead to Conflicts in various forms - Financially - Economically and Politically
- We can expect: Currency Wars, Trade Wars, Capital Wars, Cyber Disruption Wars, Military Wars etc.

- To keep the global economy from imploding policy planners have resorted over the last decade to Economic policies that only a decade ago would have been considered heresy! Like Quantitative Easing (QE).
- We see three big events or forces ahead:
 - The point where there's an economic downturn and central banks can't cut interest rates further and their asset purchases cease being effective,
 - When rising inequality sparks "extreme" conflicts between the rich and poor,
 - The battle for global dominion between the rising power of China and the incumbent world power, the US.

NEW WEAPONS OF CONFLICT

- In this section we explore the drivers of increasing global chaos and a permanent state of intensifying conflict in both domestic (internal) and global (external) affairs.
- Geopolitics has moved from a slow-moving, relatively predictable chess match to rapidly evolving 3-D chess in which the rules keep changing in unpredictable ways.
- A declining standard of living in the developed world, declining growth for the developed world and geopolitical jockeying for control of resources make for a highly combustible mix awaiting a spark: welcome to the era of intensifying chaos and the rapid advance of new weapons of conflict as ruling elites attempt to stamp out dissent and global powers pursue supremacy by whatever means are available.
- **Domestic conflict is erupting and intensifying across the globe:** political polarization and populism, driven by soaring wealth/income inequality and the decay of the social contract and the erosion of standards of living, and social disunity and disorder as cooperation has failed to fix what's broken.



- **Geopolitical conflicts are now expanding across a vast spectrum** from endless wars in contested regions to cyber-meddling in other nation's domestic affairs, cyber-warfare via theft of intellectual property and targeting essential digital infrastructure, economic sanctions and currency-based warfare, along with a wide array of disruptive military technologies, including "first strike"-enabling hypersonic weaponry, anti-missile technologies and space-based weaponry.
- The relative stability of the Cold War has given way to a multi-polar world in which nations are competing with a host of other nations, including erstwhile allies and economic/trade rivals.

Geopolitics has moved from a slow-moving, relatively predictable chess match to rapidly evolving 3-D chess in which the rules keep changing in unpredictable ways.

With so many sparks flying, the combustible mix is looking increasingly unstable, chaotic and risky.



ADVANCED FINANCIAL & CURRENCY WARS

- The Debt Super-Cycle which was kicked off in 1980 with International Balance of Trade Settlements using credit versus gold is coming to an end.
- The Kondratieff Long Wave Cycle is in the “winter” part of its cycle and has been delayed from ravaging the economy and financial markets by untested massive monetary policies of Financial Repression.
- Debt usury fees which have been growing at a faster rate than the economy for an extended period of time are now consuming much needed investment capital.
- Lending is based on Collateral which through Rehypothecation and Collateral Swaps is now highly suspect and exposed to third party failure and collateral contagion.
- The 2008 Financial Crisis which stemmed from the short term funding market seizing up due ABCP being used to borrow short and lend long has been replaced by Repo funding with inherent problems associated with Failing Excess Bank Reserves and banks unwillingness to lend overnight / short term to other banks.
- Policies of Unsound Money and Global Imbalanced are now placing strains on Fiat Currencies which are well advanced on the roadway to failure which has historically always occurred with Fiat Currencies.

RESULTING INVESTMENT TRENDS FOR THE 20's

- The Era of Global Conflict will result in radical policy extremes in an attempt to maintain the status quo.
- Politicians and Policy Planners will resort to changing established rules.
- Expect changes in the laws, regulations and taxation.
- Disruptions will cause increasing shortages and attempts at hoarding. This will add further to inflationary pressures.
- The challenge to Investors will be to maintain the real value of their capital holdings.
- Investments in various forms of Defense, Value versus Growth, Hard Assets, Precious Metals and Commodities will have their “day in the sun”.

- Currency erosion will drive perceived inflation higher with some Fiat Currencies seeing early signs of Hyper-Inflation in the 20's
- Investors will need to pay particular attention to short versus intermediate versus long term timing of investments. The coming Fiat Currency collapse will go through various stages which will require many longer term investment themes and strategies to shift as they develop.

CONCLUSIONS

- The 20's will be about managing Risk to protect capital. This will contrast with the last two decades that have been primarily about growing capital.
- Our Thesis papers over the last decade have pointed the way. The fact that problems have not been addressed has only lead to heightened investment risk.
- Capitalism has been morphed into Creditism which is only sustainable if lenders can afford to lend and borrowers can afford to borrow, Creditism comes to an abrupt end when insufficient wealth is being created to increase collateralized lending leverage at a sufficient rate to match the rate of growth of the debt/credit burden.
- In an Era of Conflict Economic Growth is stymied while lending becomes riskier and hence more costly!

1- ANNUAL THESIS 2020

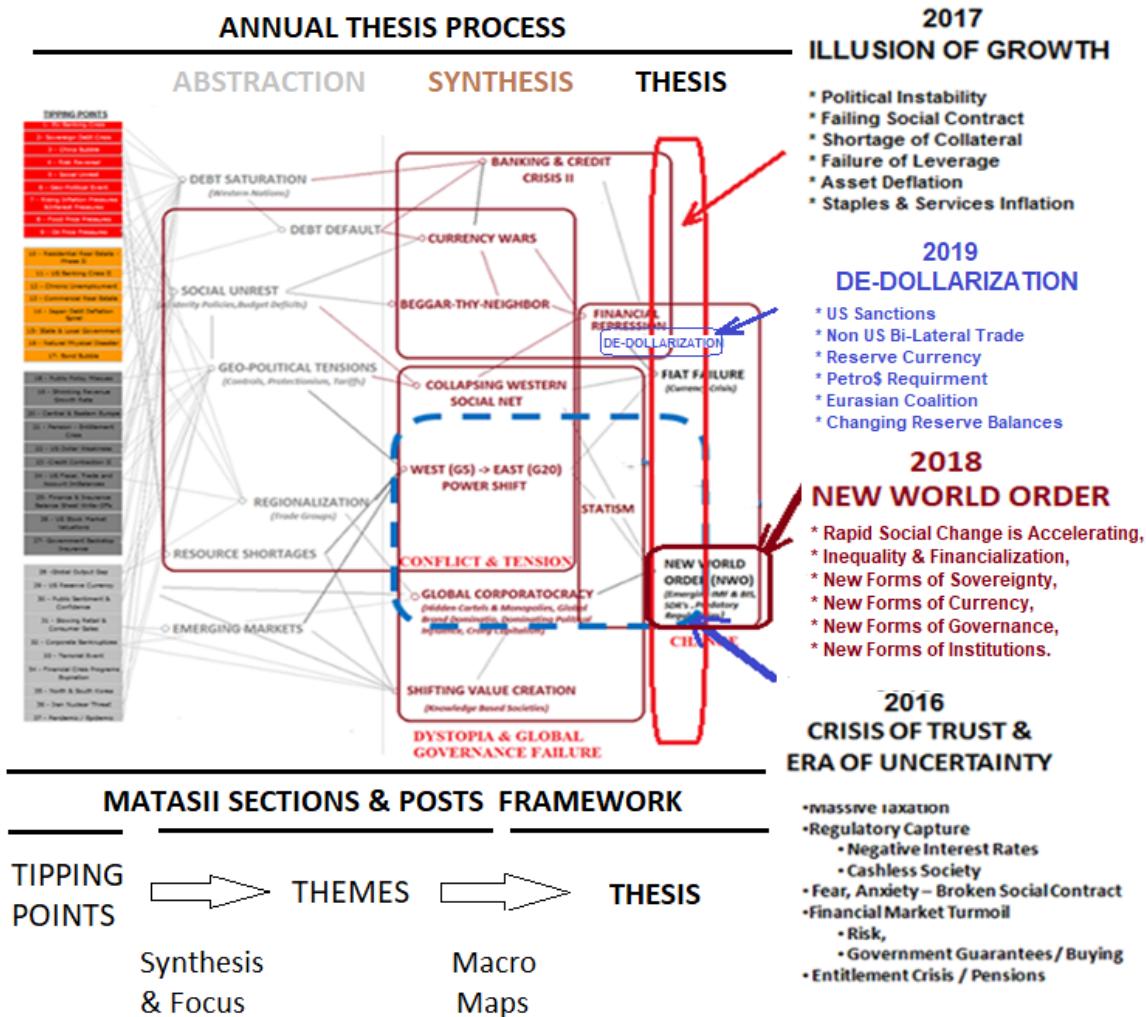
WHERE "GLOBAL CONFLICT" FITS

Previous Annual Thesis Reports ALL available online at MATASII.com:

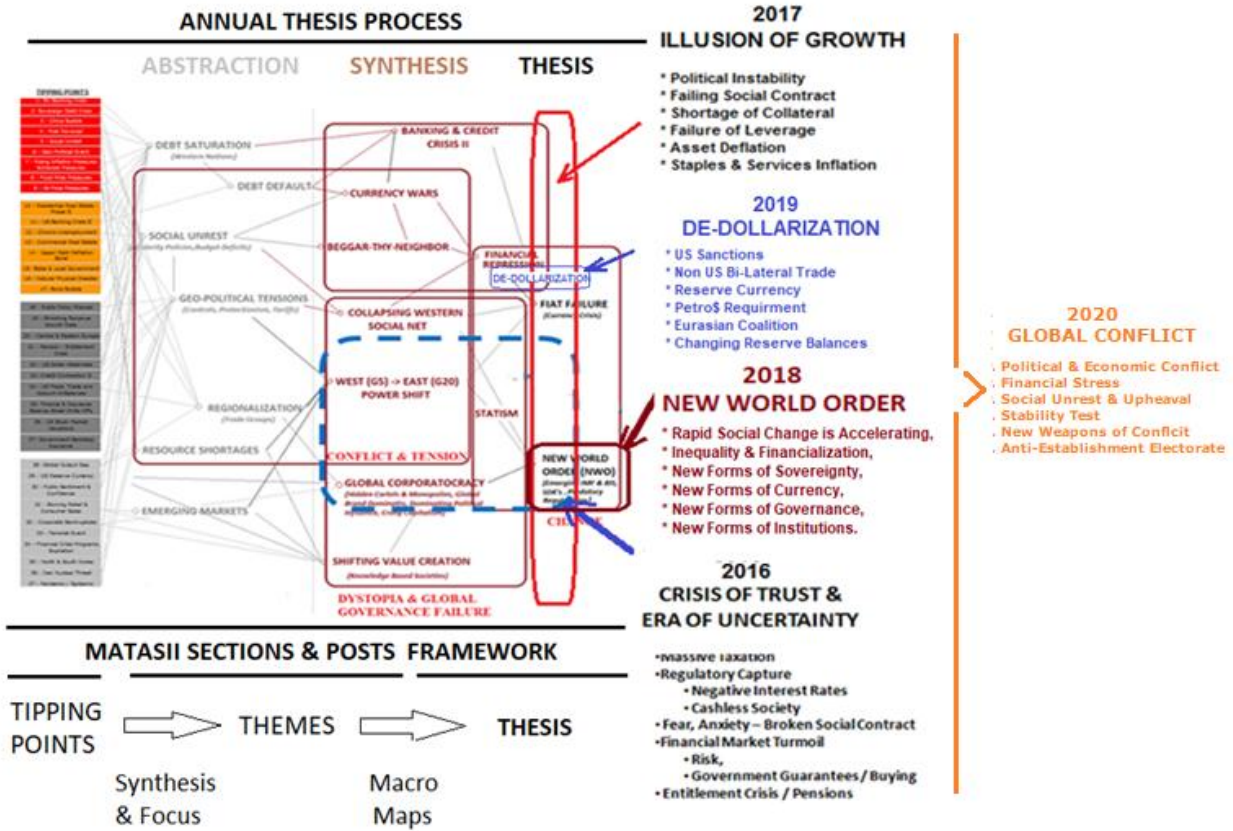
- 2010 - Extend & Pretend
- 2011 - Currency Wars - 'Beggars-thy-Neighbor'
- 2012 - Financial Repression
- 2013 - Statism
- 2014 - Globalization Trap
- 2015 - Fiduciary Failure
- 2016 - Crisis of Trust
- 2017 - Illusion of Growth
- 2018 - New World Order
- 2019 - De-Dollarization
- 2020 - Global Conflict

OUR ABSTRACTION PROCESS

Prior Years



This Year



SPRING BOARDING FROM LAST YEARS "DE-DOLLARIZATION" THESIS

Last year we outlined the shift in movement towards De-Dollarization driven by the US Weaponizing the US Dollar in the form of Economic & Financial Sanctions as well as the ongoing weakness in US Trade and the resulting reduced requirements for US\$ FX Reserves.

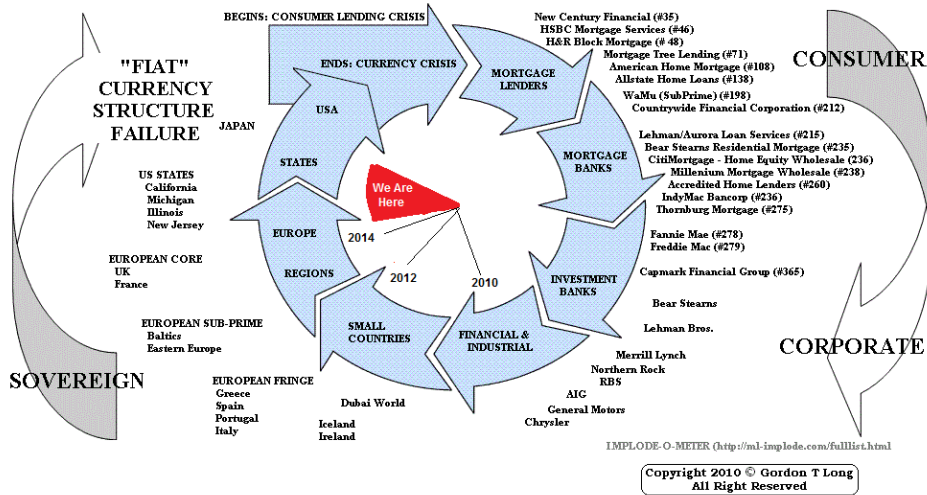


All of these changes are catalysts for why this year's Thesis is about "Global Conflict"

It is also indicative that a Global "Fiat" Currency Collapse and Restructuring looms ahead.

OUR INITIAL TIMING PROJECTIONS – A FIAT CURRENCY STRUCTURAL FAILURE

The roadmap we laid out in 2008 is tracking to a "Fiat Currency Structure Failure" by late 2019 – early 2020.

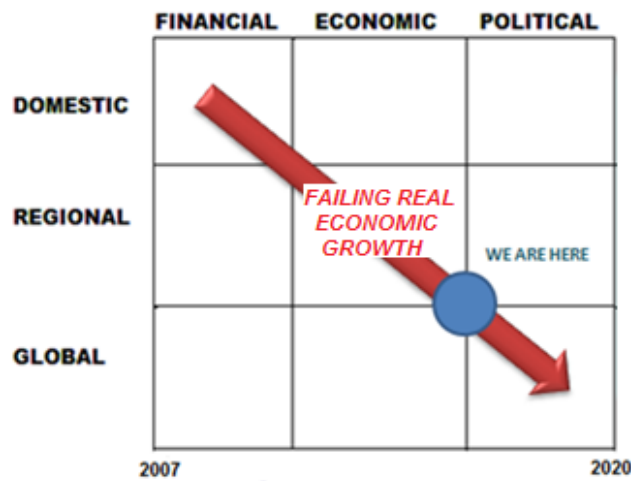


Look for the next Crisis to be:

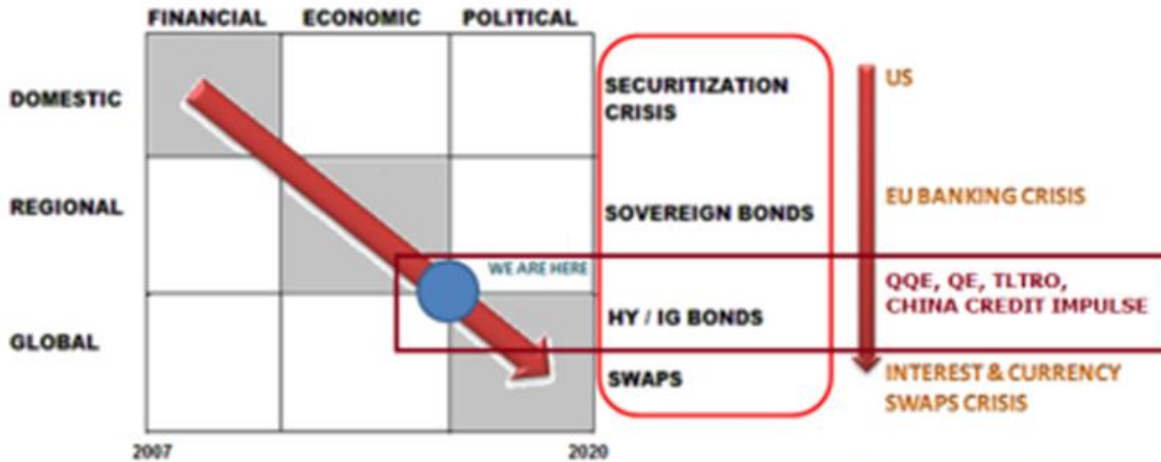
- 1-Global,
- 2 Politically Initiated and
- 3- Implode from the Unregulated \$700T SWAPS / \$72T Shadow Banking Complexity

ROADMAP AHEAD

FAILING REAL ECONOMIC GROWTH



POST FINANCIAL CRISIS ROADMAP



MAJOR TECTONIC FORCES "IN PLAY"

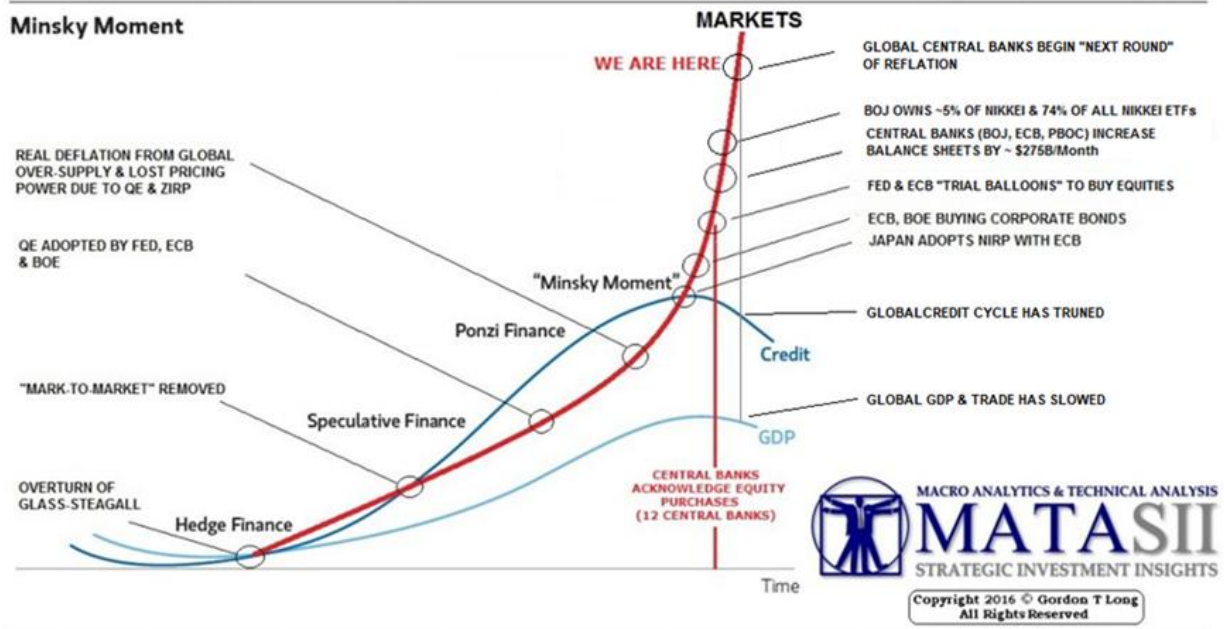
We have been arguing for a few years now that we have two Global Tectonic Forces at play:

- 1- The End of the Debt Super-Cycle due excess unsupportable debt and financial leverage.

THE END OF THE DEBT SUPER CYCLE
 COMPLETING A LONG TERM MEGAPHONE TOPPING PROCESS



- 2- The Central Bankers attempting To Delay, Mitigate or Stop This from Occurring though Financial Repression and other forms of increasingly coordinated Global Monetary Policy. Leading to a Minsky Melt-Up in Financial Markets from the debasement of money.



VIDEO 1 – TWO TECTONIC FORCES

<https://youtu.be/5HveeOcOmqq>

VIDEO 2 – WHAT TO WATCH FOR IN EARLY 2017

https://youtu.be/16KiodF_iMw

2- A GLOBAL STABILITY TEST

KEY MESSAGES

- It is an undeniable fact that the global economy is experiencing a secular slowing of the REAL economic growth RATE.
- Poor policy decisions have moved the developed economies off sound money and unto Fiat Currencies.
- As a consequence Global Imbalances have been left to grow unchecked risking global financial markets to an inevitable stability test which is to be expected within a cycle of change.
- What can only be termed Monetary Malpractice has resulted in the mispricing of risk and lack of price discovery. This in turn has contributed along with other poor policies and regulations with the effective impairment of capitalism.
- We no longer operate in a true Capitalist System but rather what is better termed an artificial Creditism System.
- We are now faced with a fragile global economic system and levels of Inequality which historically has lead to social unrest and major changes in the status quo.

CYCLE OF CHANGE

Since our 111 page 2017 Thesis paper on the **Illusion of Growth** it has been very clear to us that the slowing rate of real global economic growth is a central problem that is not fully understood as regards Monetary, Fiscal and Public policies of governments around the world.

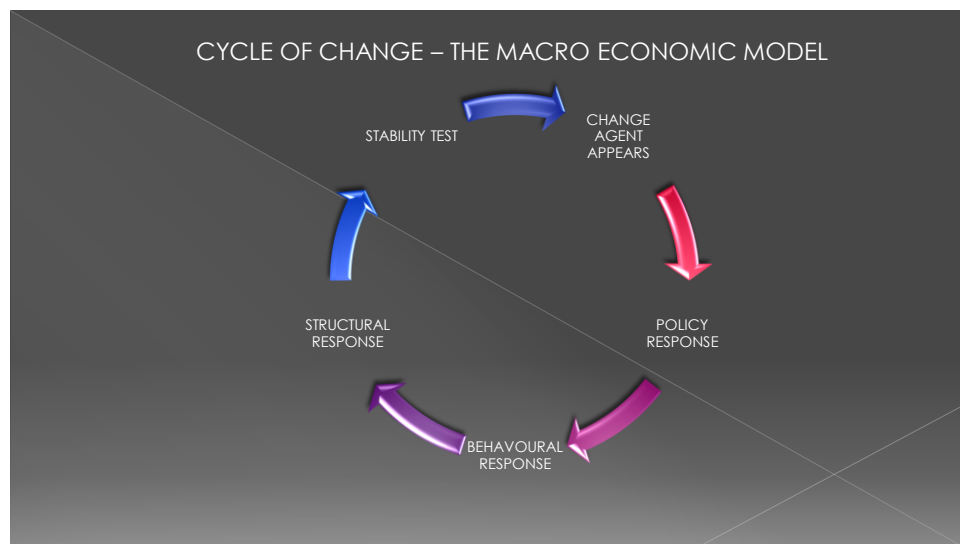
As a result policies have incorrectly addressed the symptoms not the cause in a fashion that we have used cheap credit in various forms of monetary malpractice to address the perceived economic problems resulting from this.

When something acts as a Macroeconomic Change Agent it leads to Various Economic Policy Responses - Fiscal, Monetary and Public.

This in turns leads to adoption and adjustments by consumers, corporations, lenders and societal norms and expectations.

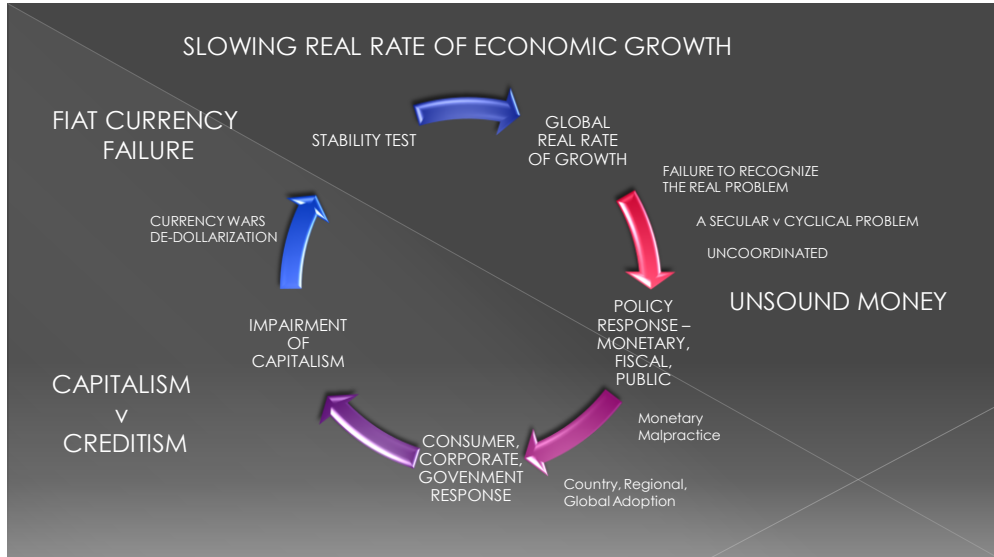
The Behavioral response if sustained, will inevitably lead over time to Structural Responses in our global Economies. At some point these Structural Responses are tested to see if they foster a stable and self correcting environment or are they fundamentally unbalanced and then lead to instability and even possibly worse outcomes.

This Cycle is normal and to be expected, if viewed in the right context.



Let's put some context to the Cycle of Change which we believe we are in presently.

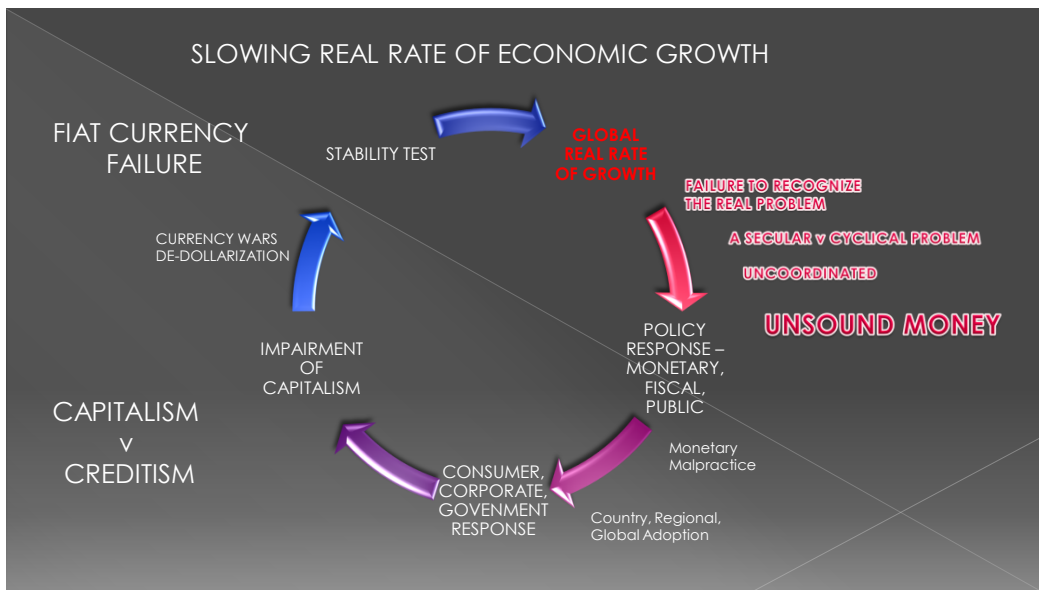
The reality of the slowing Real Rate of Global Economic Growth has lead the Global Economy into an era of "Unsound Money" which in turn has lead to Impairment of the mechanics of working Capitalism. We have long held this will potentially lead to the inevitable failure of Fiat Currencies. This doesn't mean the world will collapse but as we lay out in our 2018 Thesis Paper - "A New World Order" a highly likely in the future as a consequence.



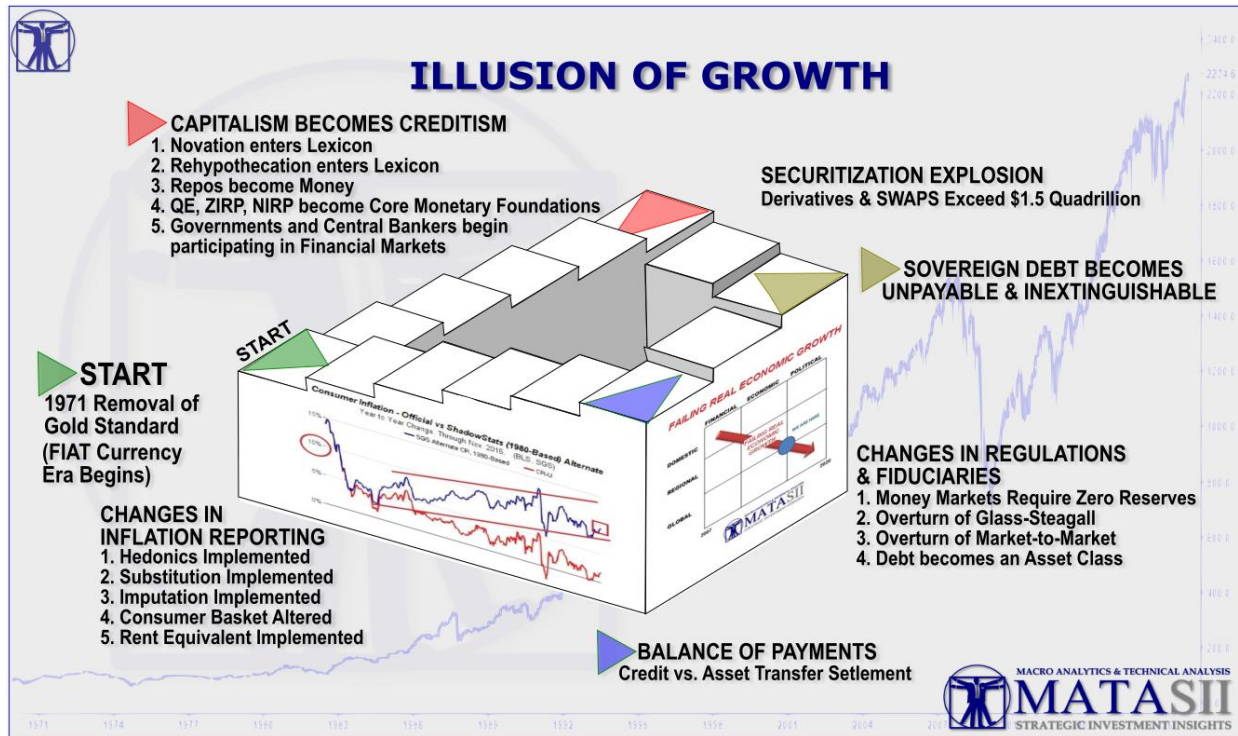
I would like to trace this Cycle of Expected Change through its four quadrants starting with the upper right quadrant to illustrate how much of what we see occurring fits as a logical consequence of the ongoing slowing global real rate of economic growth and expected change that is occurring as a result.

As a society we have failed to recognize this as a massive destabilizing force; that it is secular and not Cyclical; it is uncoordinated regarding any sort effective global response.

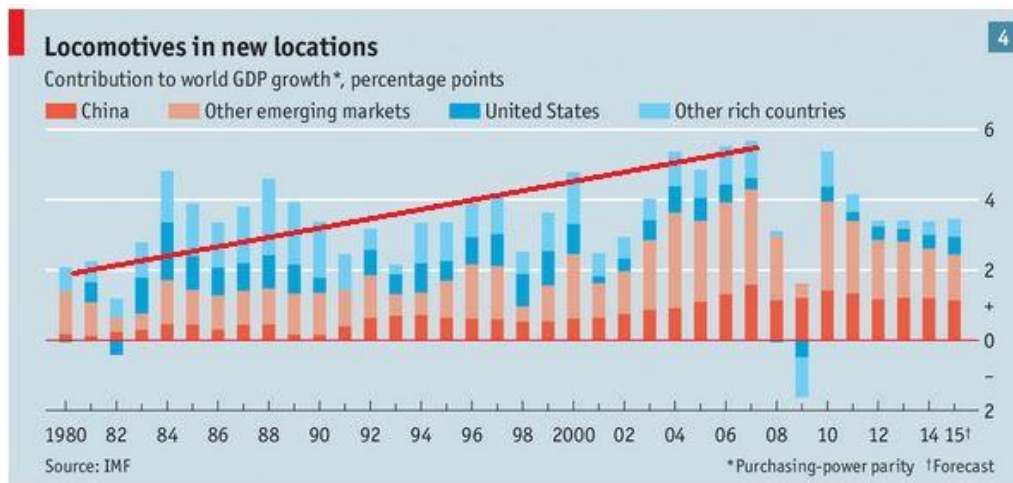
All of this over time has lead to the larger economic killer and that is Unsound Money.



In our 111 page, 2017 Thesis paper "The Illusion of Growth - When Leverage Fails" we laid out the undeniable fact of slowing REAL global economic growth RATES. The first and second derivatives of this trend are having profound impacts.



Superficially, Global Economic Growth has been rising since 1980 (we will come back to that critically important inflection date in a moment) with a major "spurt" after China entered the WTO.



1980 TILL FINANCIAL CRISIS



CHINA'S ENTRY INTO WTO

But as we laid out in the 2017 Thesis paper the whole formula for Real GDP is hopelessly flawed in today's society - from the Inflation Deflators being used, to Growth in Government's contribution through massive Debt increases, to Consumption through Government transfer payments and entitlements.

For the sake of time, I will leave you to read the Thesis paper on the MATASII site.

A FLAWED FORMULA GDP = C + G + (E-I)

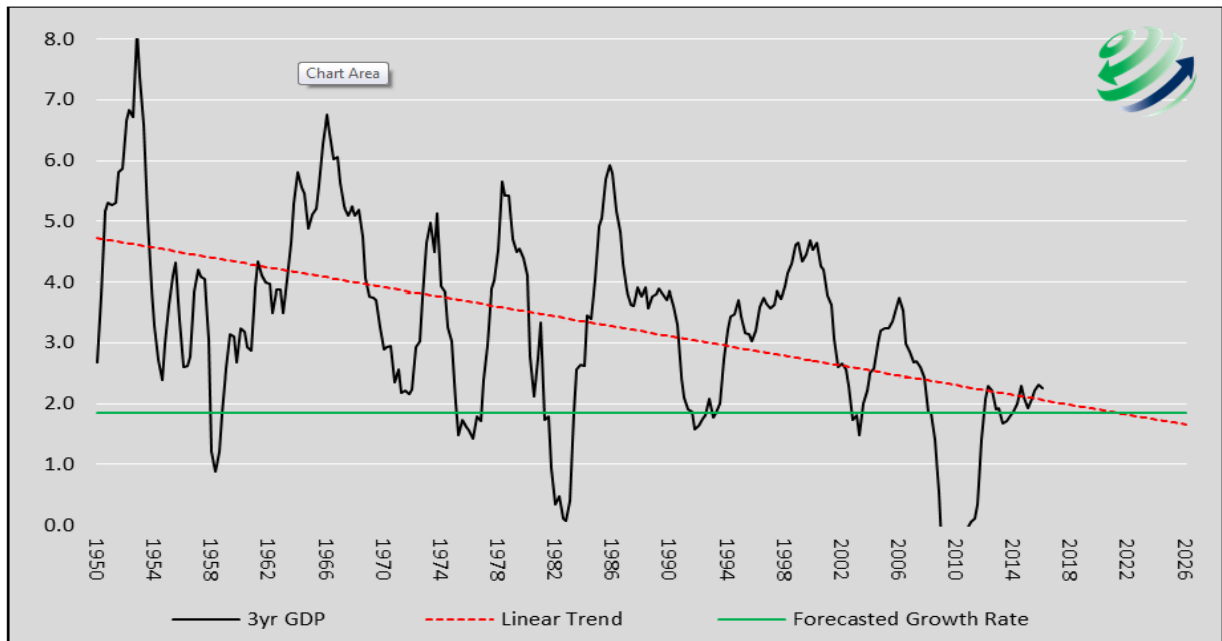
- FLAWED DEFLATOR DUE TO INFLATION DISTORTIONS
 - Hedonics,
 - Substitution,
 - Imputation
 - Basket [Goods v Services]
- FLAWED TREATMENT OF GOVERNMENT ("G") DUE TO MASSIVE DEBT LEVELS
- FLAWED TREATMENT OF CONSUMPTION ("C") DUE TO MASSIVE TRANSFER PAYMENTS & ENTITLEMENTS
- FLAWED TREATMENT OF GLOBAL TRADE("E-I") VALUES DUE TO A DISTORTED US\$ STILL BEING USED AS THE GLOBAL RESERVE CURRENCY

The reality is without factoring in all the flaws in the formula, since the 2008 Financial Crisis, even the official GDP numbers are falling at unprecedented levels - the result of public policy initiated being unable to fix the problem.



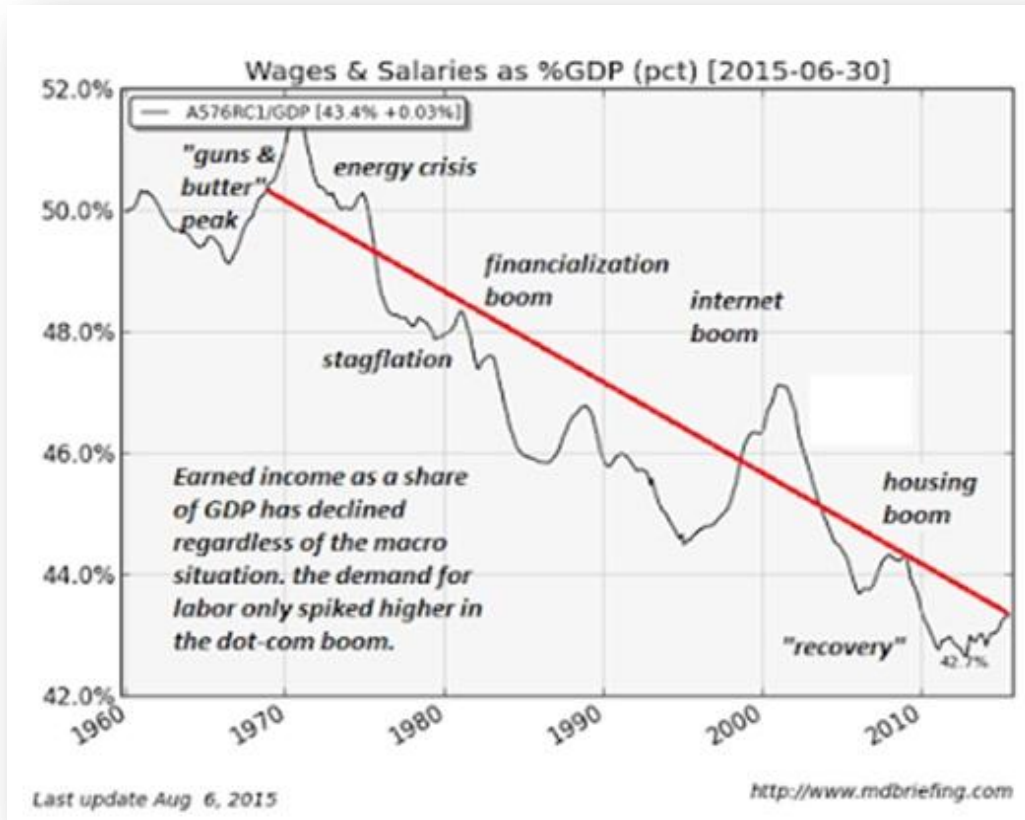
The Three-Year Annualized Real GDP leading up to the 2008 Financial Crisis makes this quite clear. It has only deteriorated further despite what is now approaching \$30T of artificial money and stimulus injections.

Three-year Annualized Real GDP



Data Courtesy: St. Louis Federal Reserve (FRED)

Wages and Salaries as a %GDP steadily also weakened into the 2008 Financial Crisis.



All of this leading to unprecedented massive inequality - something not seen in modern times.

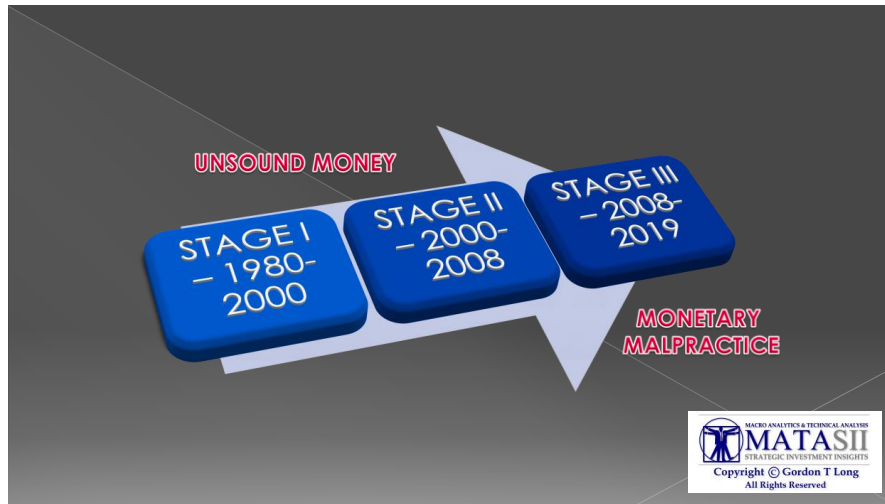


THREE STAGES SINCE 2000

What you may have noticed so far is three cusps in this part of our Cycle of Change.

- 1980 cusp
- to the 2000 Dotcom Bubble Implosion cusp,
- to the 2008 Financial Crisis cusp to today.

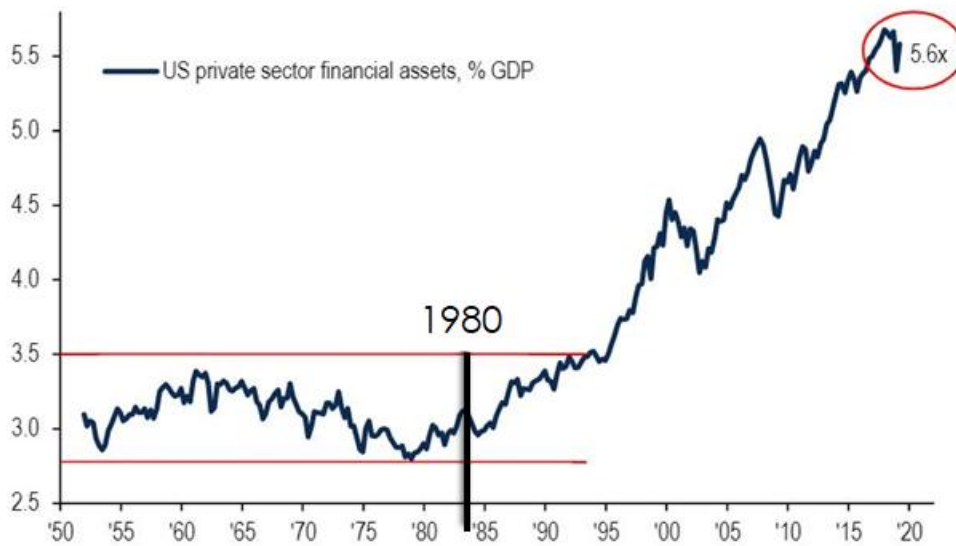
Each era brought with it unprecedented Monetary, Fiscal and Public Policy responses.



The following slide shows how dramatic the lift-off in Financial Asset growth as a percentage of GDP has been since 1980.

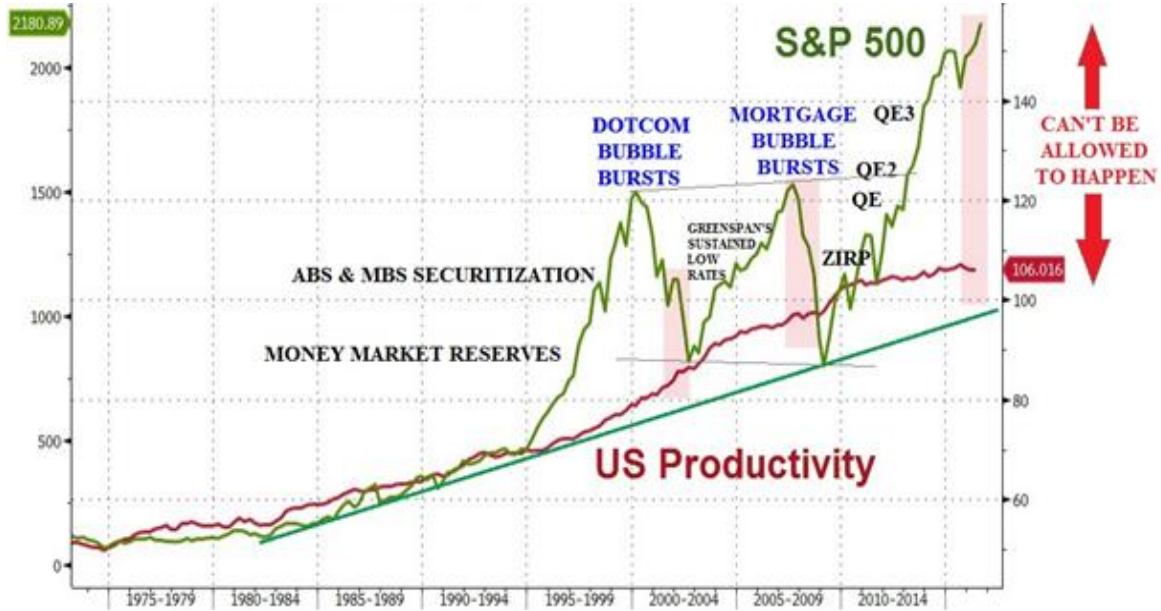
Something significant occurred here besides Volcker taking the Fed Funds Rate to historic levels to halt inflation and stagflation?

US financial assets now 5.6 times GDP

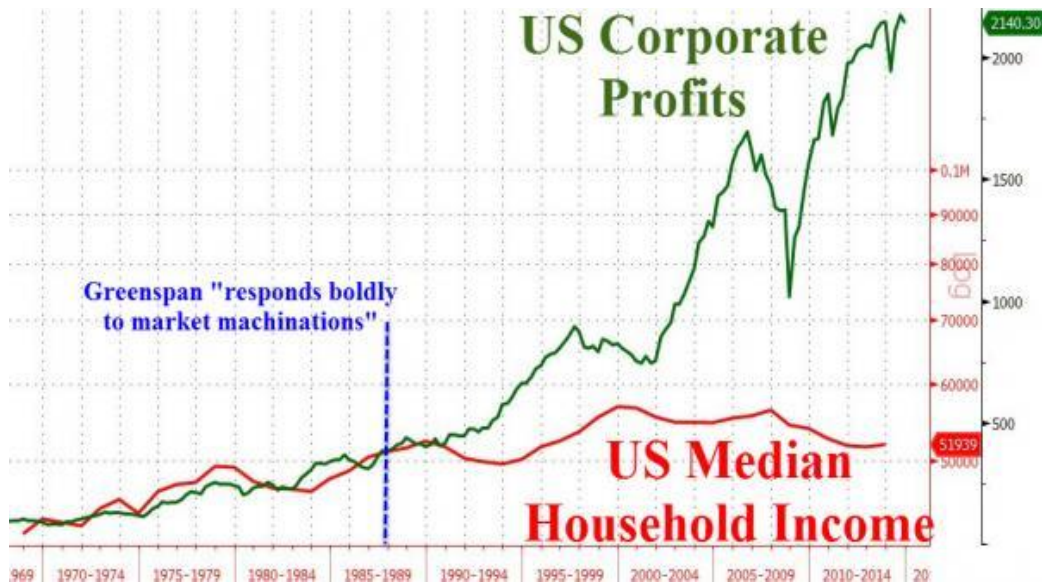


Source: BofA Merrill Lynch Global Investment Strategy, Federal Reserve

We can see for awhile after the 1980 cusp that US Productivity initially grew with the growth in Financial Assets - before separating. We can see here the 2000 and 2008 cusps which allowed further stimulus attempts at productivity growth.



However, US Median Household Income separated quickly in the early 90's as Corporate profits were maintained by returning less to workers in terms of total wages and benefits.

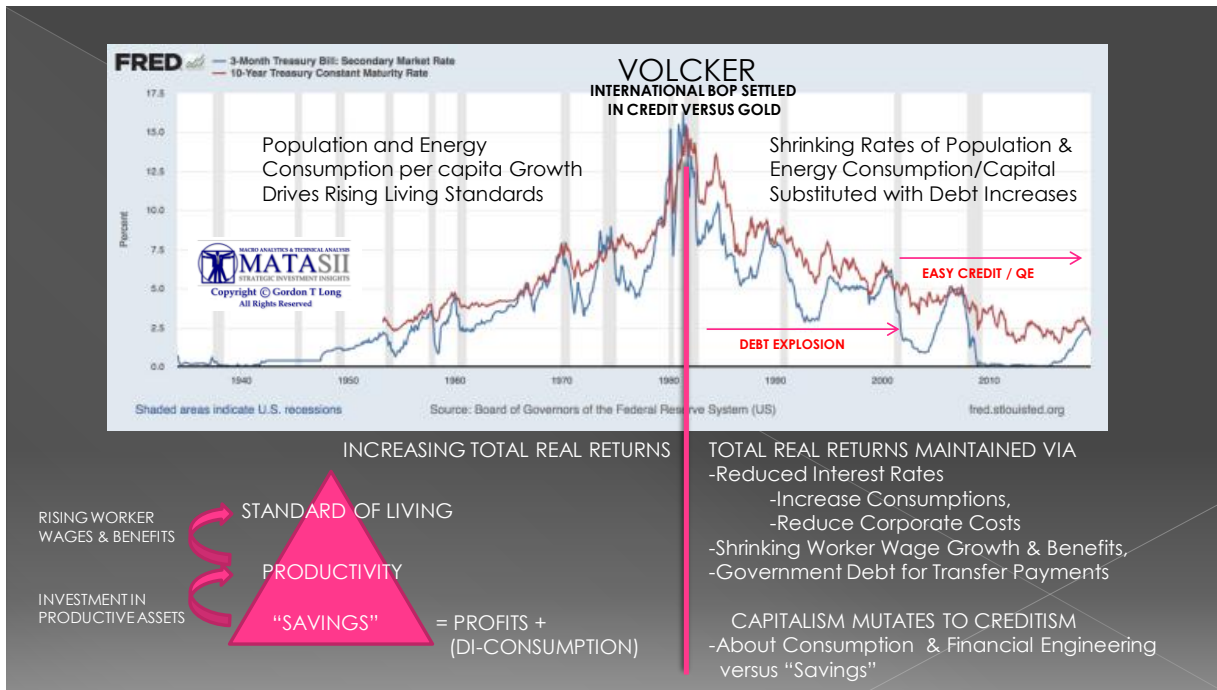


The slide below is a little busy but it best illustrates the bigger picture at play during this period of the Cycle of Change.

Up to the 1980 CUSP population and Energy Consumption per capita was helping drive rising living standards. As a consequence rates were rising along with an increasing money supply.

Corporations and investors were seeing increasing total real investment returns.

Savings in the form of corporate profits and public savings were strong and were being invested into productive assets.



As a result and as we saw, productivity was increasing.

Rising worker wages and benefits resulted in rising standards of living across the income distribution.

However, in the late 60's, due to debt from President Johnson's Great Society and the Vietnam War, the US was forced by August 1972 under President Richard Nixon to remove itself from the Gold Standard.

In the 70's, mounting foreign debt levels due to export powers like Japan emerging; the International Balance of Payments System had to be changed from being settled in Gold to being settled via Credit. This was a profound change to the entire Global Economic System that the public didn't appreciate. We saw in an earlier slide the dramatic growth in Financial Assets as a percentage of GDP after 1980.

After 1980 interest rates were steadily lowered as the real rate of growth slowed and Total Returns were maintained effectively through lower interest rates.

Reduced Interest Rates increased consumption and reduced corporate costs.

Worker Wage growth and benefits were steadily reduced by corporations.

Government's increased debt and with it transfer payments to the public to maintain consumption.

Employment and jobs got tighter and shifted towards the non Productive Financialization of the economy.



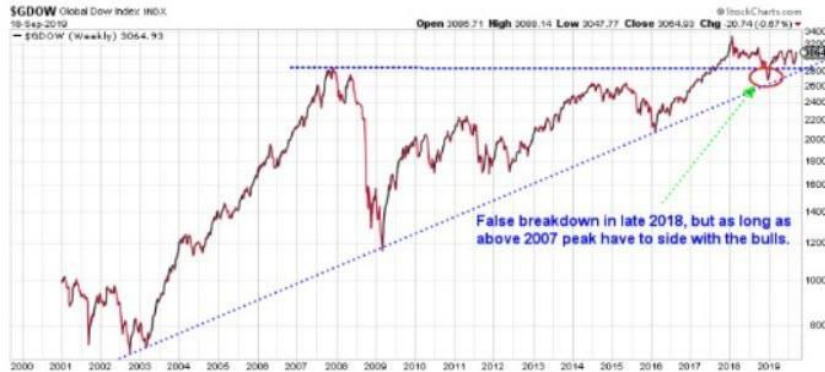
Since 2008 the Global DOW 150 has in reality barely been able to maintain its' 2008 levels.



Sean Emory • 1st
 Founder & CIO at Avory & Co.
 6h

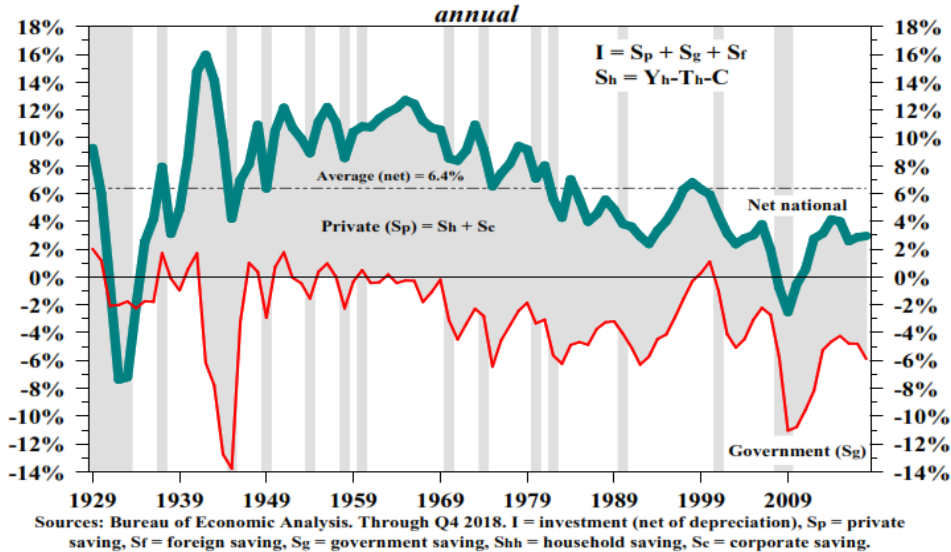
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Crazy to think that if you invested in the Dow Global 150, which is the largest 150 companies in the world (50% US), you are NOW just above the 2008 highs.

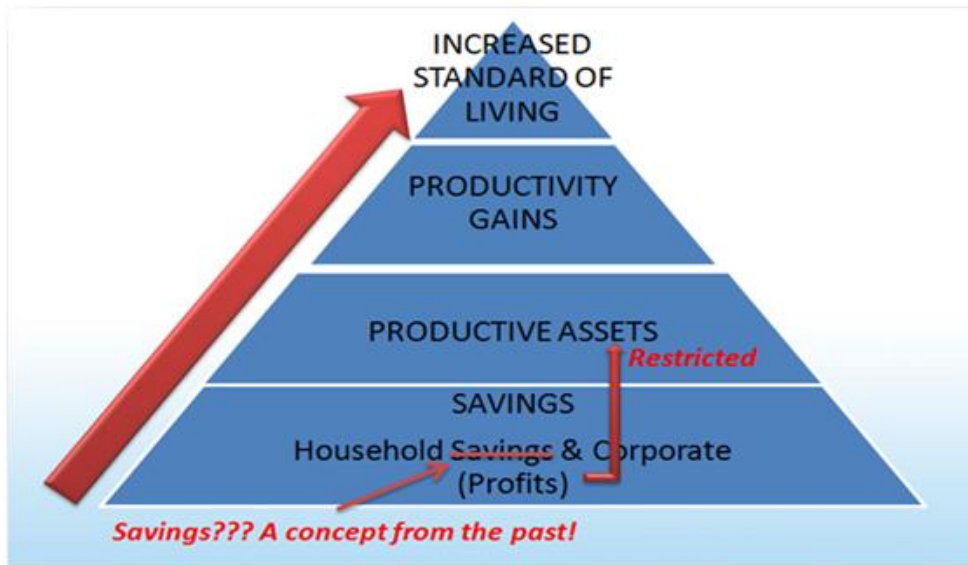


Savings has been replaced by debt, both for the public and corporations, all in an increasingly more difficult attempt to maintain profits by corporations and standards of living by the public.

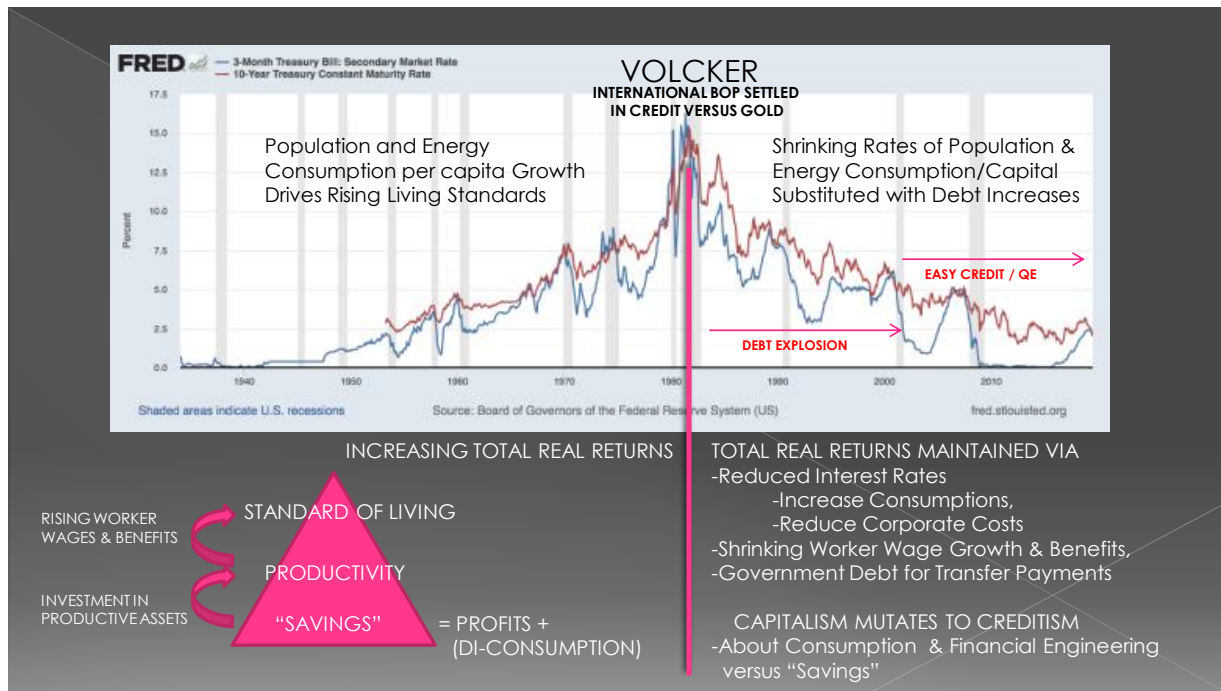
Net Saving by Sector as a % of Gross National Income



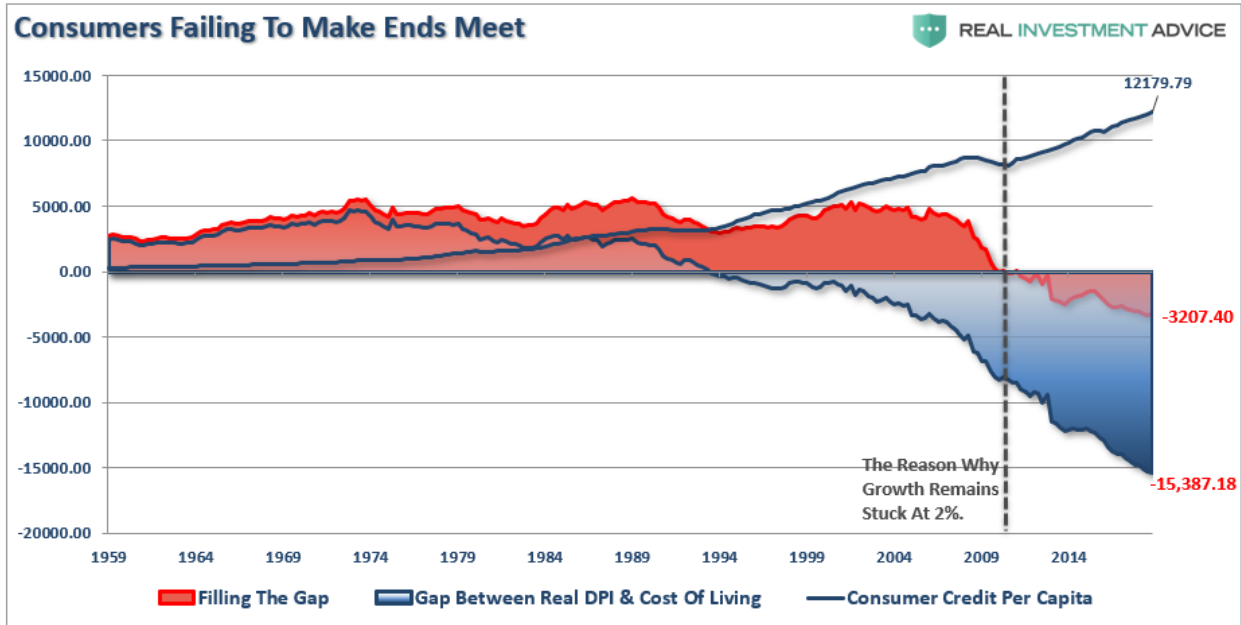
With Savings shrinking there is less money for investment in Productive Assets. Even more problematic with behavior shifts was the investments in non-productive assets or financial engineering.



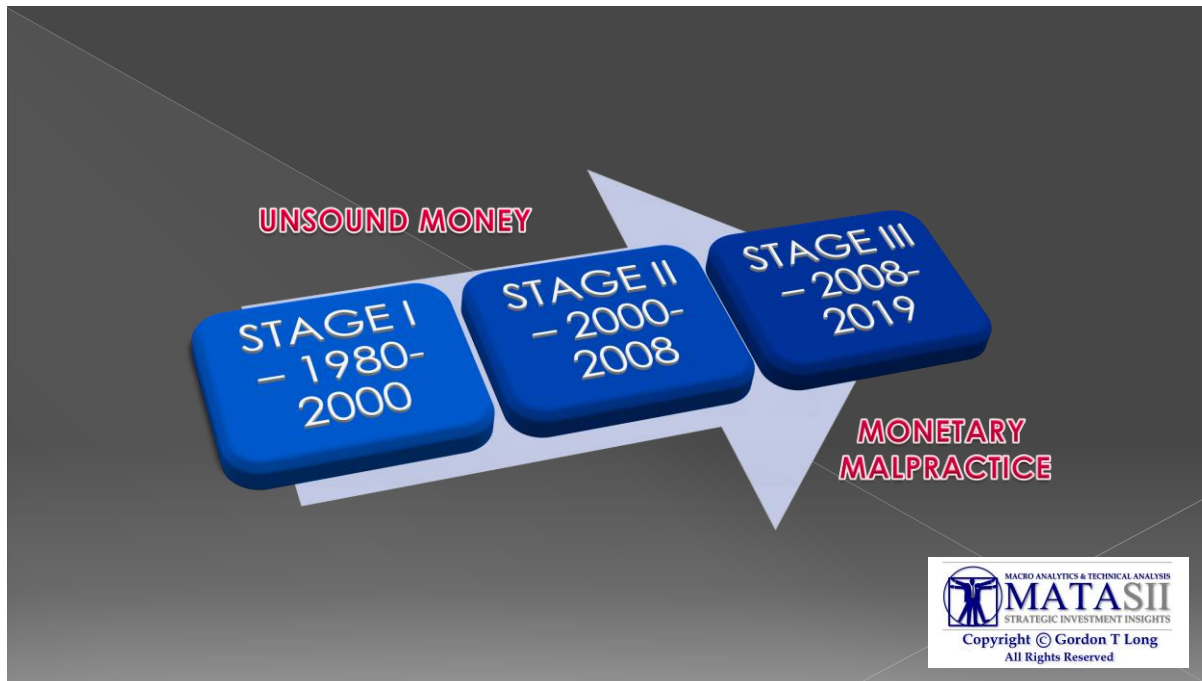
Shown via the red arrows on the right - from 1980 until 2000 we had debt explosion fostered the illusion of growth. From 2000 on we had easy credit doing the job. Both fostered through relentlessly falling interest rates.



Behind the scenes we grew a gap between Real Disposable Income and the cost of living. This gap has increasingly been filled by consumer credit per capita.

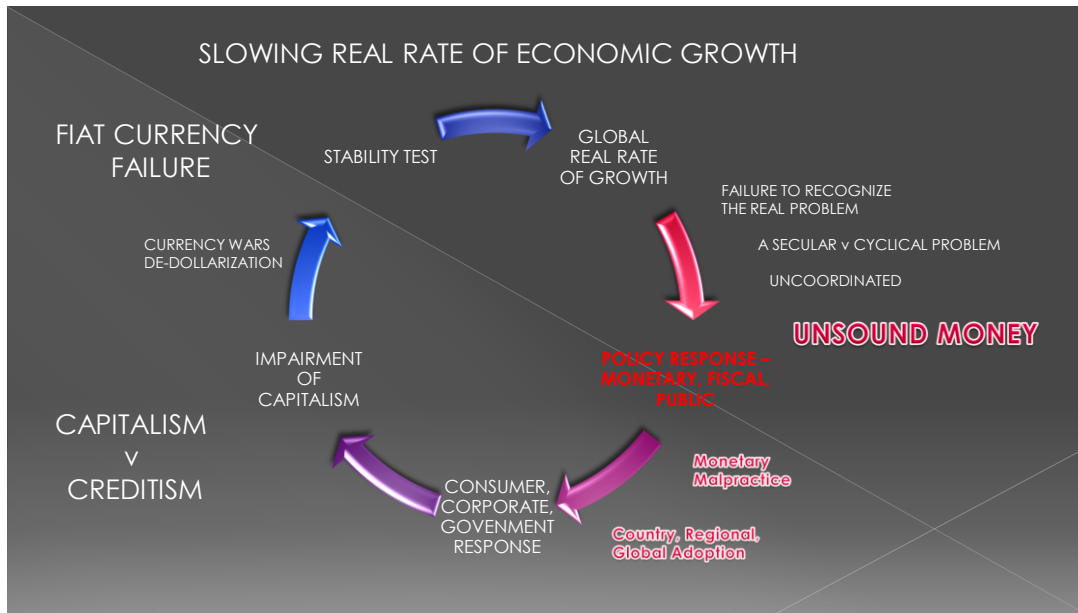


All three stages had different "personalities" but the same low interest rate, debt growth, unproductive investment of financial assets marked them all.



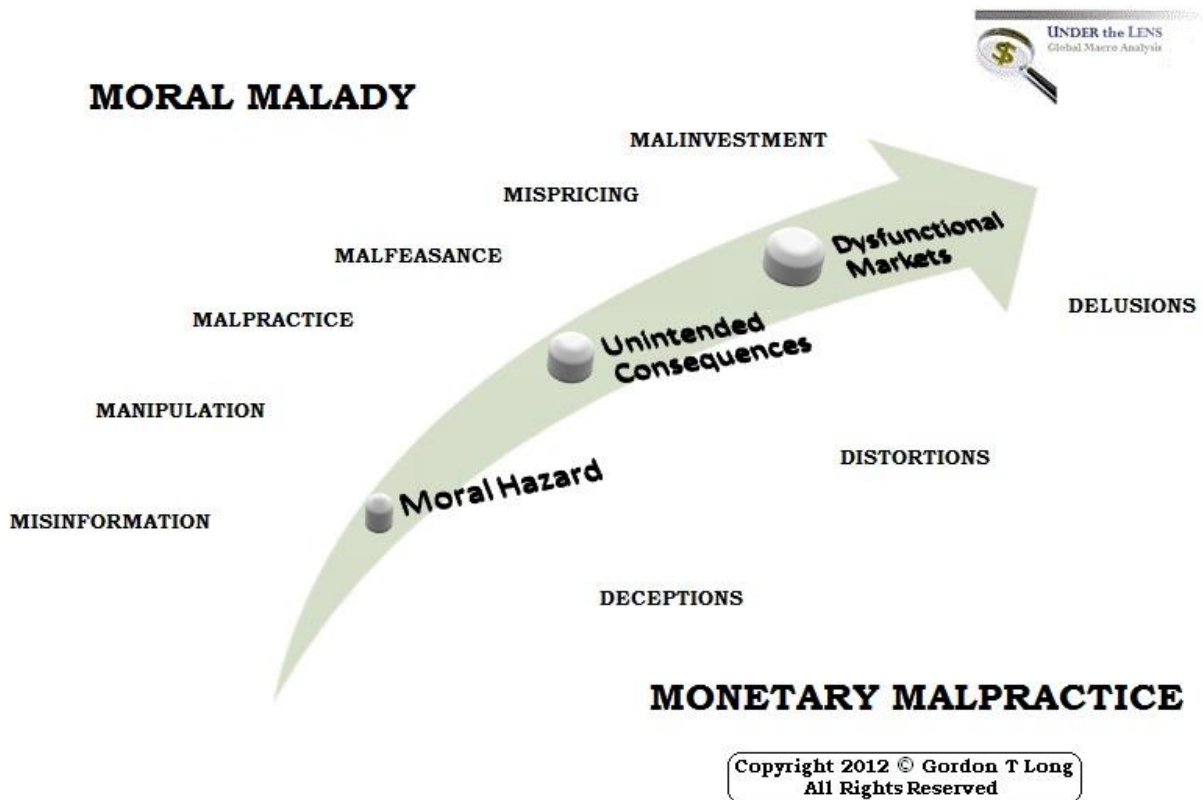
Returning to our Cycle of Change we see that throughout this era we had failed policy responses around the world with various forms of responses - whether QE in the US, QQE in Japan, TLTRO in the EU etc.

Consumer, Corporations and Governments all responded differently in uncoordinated fashions because of effectively addressing symptoms versus the underlying problem.



What we saw in aggregate was what we have often referred to as Monetary Malpractice.

A path we laid out after the 2008 Financial Crisis that we felt strongly would lead to Mal-investment, Dysfunctional Markets and Delusion investments. We are there!



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The malinvestment and leverage currently built into global financial assets is unprecedented and not yet fully tested under stress. Every-time there is the potential of a real stability test, new untested Monetary Policy initiatives are launched along with Fiscal and Policy changes.

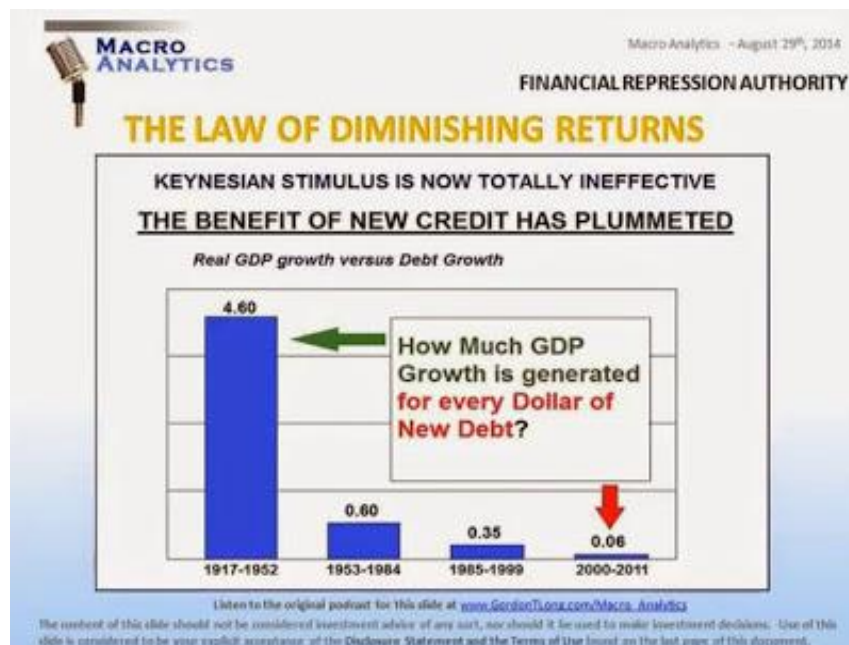
You can always count on the government to change the rules, regulations and laws when problems arise. In 1980 it was Global Balances being settled by Credit, in 2008 it was "Mark-to Market" Accounting - just to name a few!

US financial assets now 5.6 times GDP



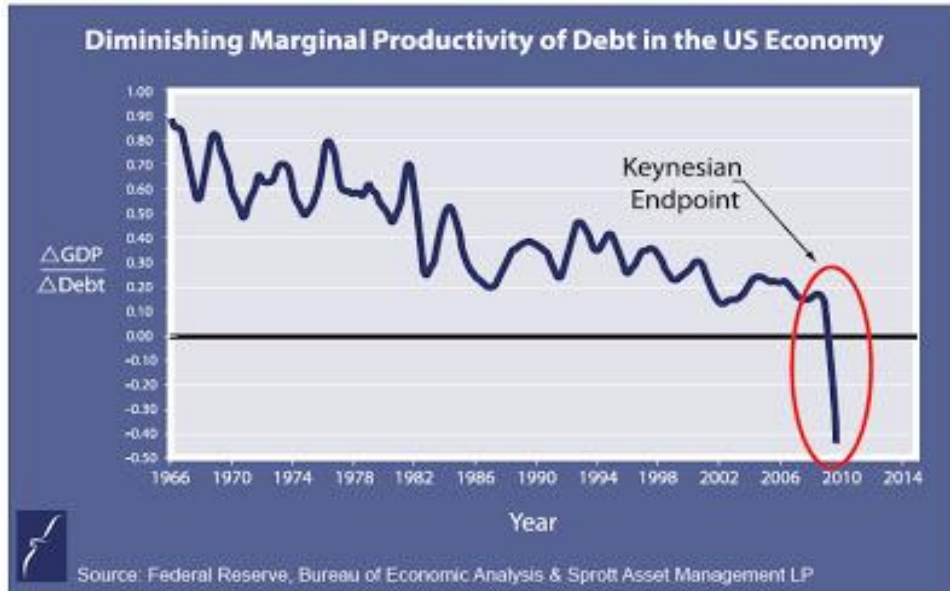
Source: BofA Merrill Lynch Global Investment Strategy, Federal Reserve

What is currently happening is that debt growth or stimulus spending is no longer delivering economic growth



It has plummeted and been negative for some time.

Chart B



This is a global problem and is making Monetary Policy ineffective.

Latest Evidence of Diminishing Returns: GDP Generating Capacity of Global Debt: All Major Economies

		(2007, 2008 avg.) Ratio of GDP to Debt	(2017, 2018 avg.) Ratio of GDP to Debt	% change
		A	B	C
1.	Euro Area	0.45	0.38	-16.9%
2.	United Kingdom	0.43	0.36	-17.0%
3.	Japan	0.32	0.27	-16.7%
4.	United States	0.44	0.40	-7.8%
5.	China	0.71	0.36*	-49.0%*
6.	All reporting countries (aggregate)	0.48	0.42*	-17.4%*

Source: Bank of International Settlements. * China adjusted based upon "A forensic examination of China's national accounts," Brookings Institute on March 7, 2019, by Wei Chen, Xilu Chen, Chang-Tai Hsieh (University of Chicago), and Zheng (Michael) Song (Chinese University of Hong Kong). "China's economy is about 12 per cent smaller than official figures indicate and its real growth has been overstated by about 2 percentage points annually in recent years".

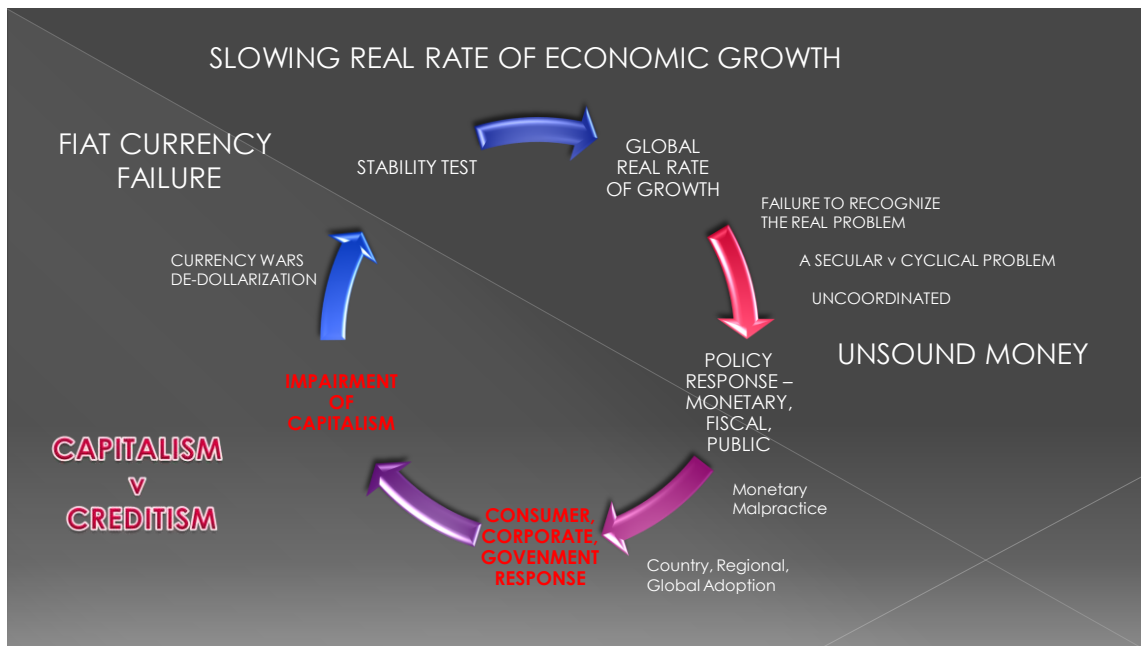
Velocity of Money steadily worsens as proof of this.

Velocity and GDP Generating Capacity of Debt 1916 - 1936 versus 1998 - 2018

		Velocity	% change	Dollar of GDP per Dollar of Debt	% change
		A	B	C	D
1	1916	1.70		0.56	
2	1936	1.44	-15.3%	0.47	-16.1%
3	1998	2.16		0.37	
4	2018	1.45	-32.7%	0.28	-24.3%

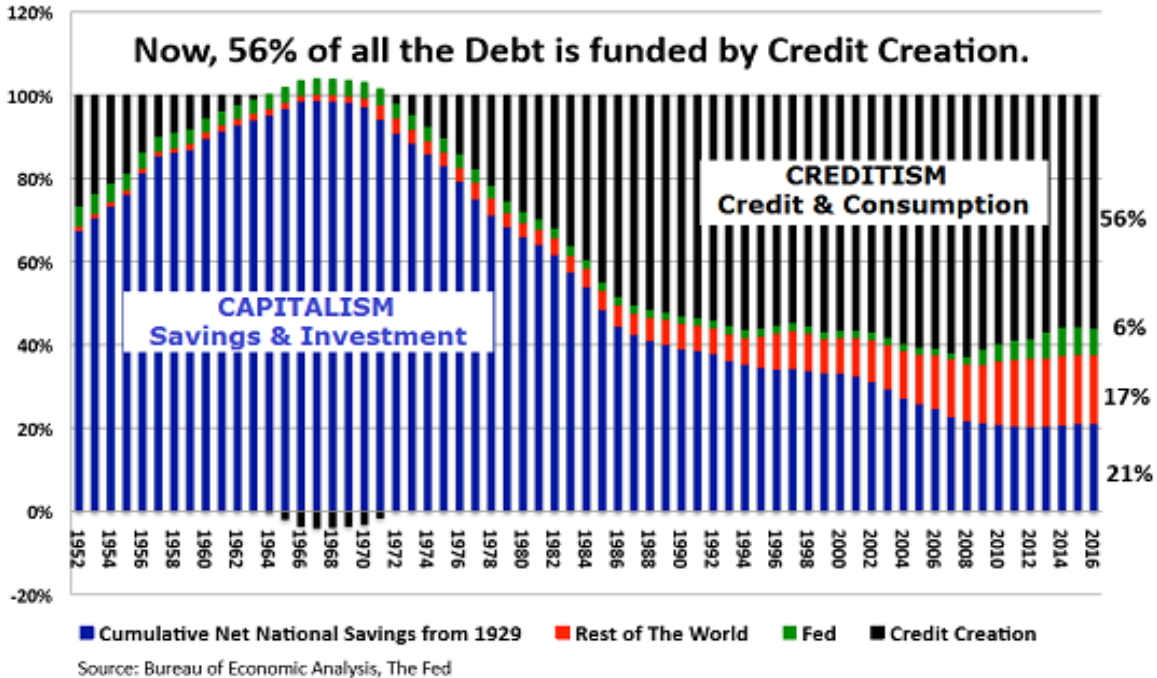
Source: Federal Reserve, Bureau of Economic Analysis.

This has led us to the third quadrant where we have now actually unwittingly impaired Capitalism. We no longer are operating in a capitalism system but a hybrid that can best be described as Creditism.



In a Capitalist System, Savings and Investment are the primary drivers. In a Creditism System, Credit and Consumption are the drivers. The former is self sustainable. The later is unsustainable without a complete redesign of the global Economic System currently operating. The later has yet to be tested!

Where Does The Money Come From To Fund The Debt? Source of Funding, % Breakdown from 1952

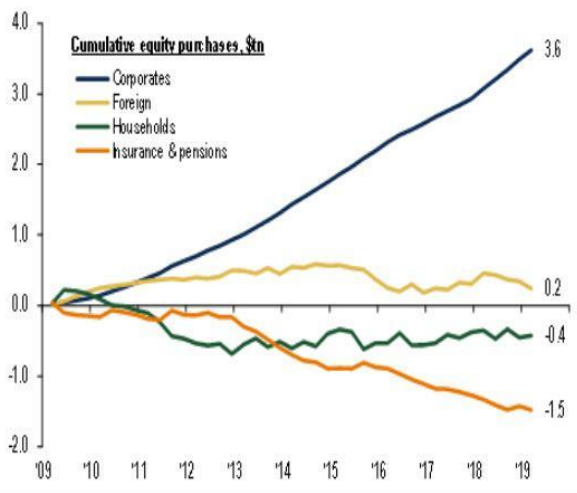


We are currently sustaining Creditism System through debt financed Corporate Buybacks which are elevating financial assets.

DEBT FOR EQUITY SWAP - BUYBACKS

- Even Cheaper Money
- Shareholder Return Incentive Mantra
- Debt for Equity Swap (Cheapest Way to "Add Value")
- Shrinking Growth Rates & Elevated Risks
- Inflation Protection (*Elements of a Minsky Melt-Up*)

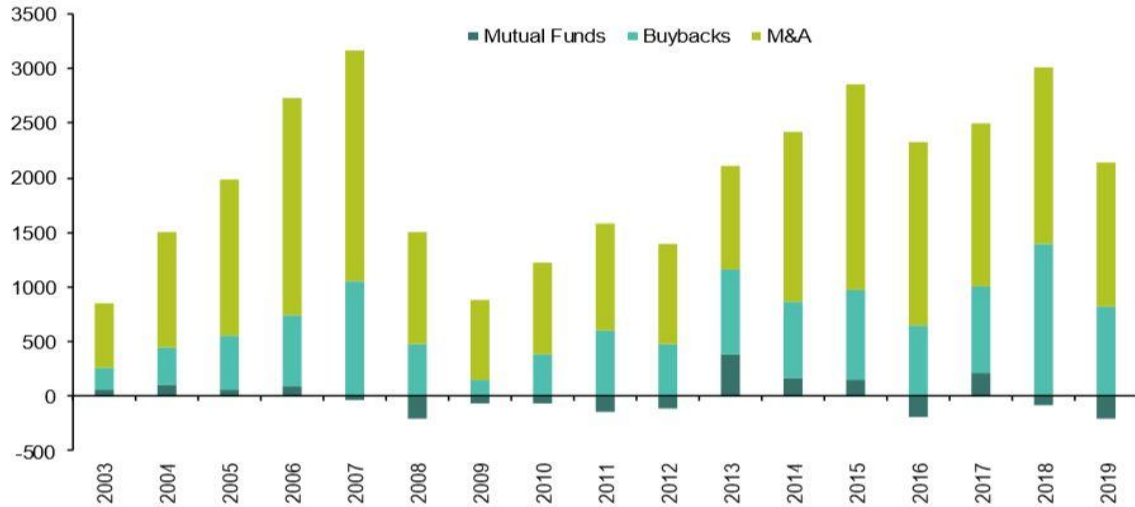
Chart 3: Who is buying equities...Corporates



Source: BofA Merrill Lynch Global Investment Strategy, Bloomberg, Fed Reserve Bank

Buybacks and M&A via corporations versus investment by the public.

EXHIBIT 9: **Corporates buy more equities than traditional investors: Annual buying of global equities by source (USD bn)**



Source: US Federal Reserve, Datastream, Bernstein analysis

.. and all sorts of financial market "gamesmanship" referred to collectively as Financial Engineering.

WHAT IS KEEPING THE MARKET FROM CRASHING?

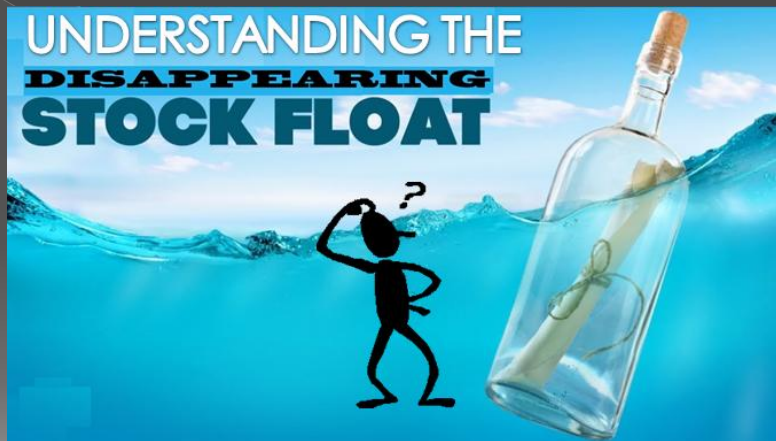
2010: [EXTEND & PRETEND: Manufacturing a Minsky Melt-Up!](#)

2018: [The stealth reason why the stock market keeps on rising – MATASII.com](#)

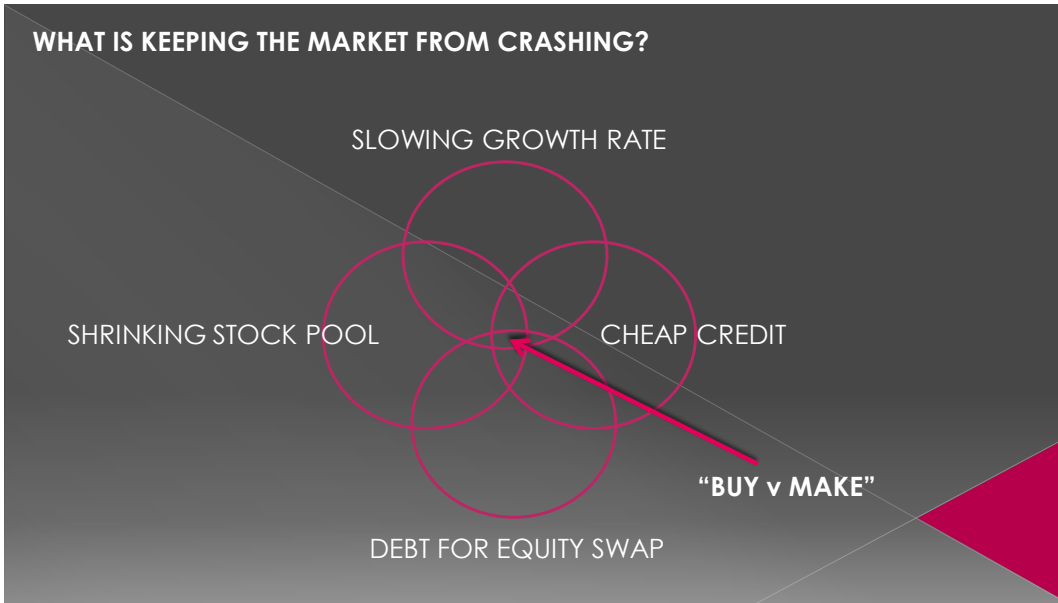
VIDEOS:

LONGWave-04-11-18-April-The Disappearing Float Pool

LONGWave-09-17-18-September-The Shrinking Stock Universe



.. and as we pointed out in the latest LONGWave is leading to less risk taking and more about "capturing" and "Preying" on others versus generic and innovative corporate growth strategies.

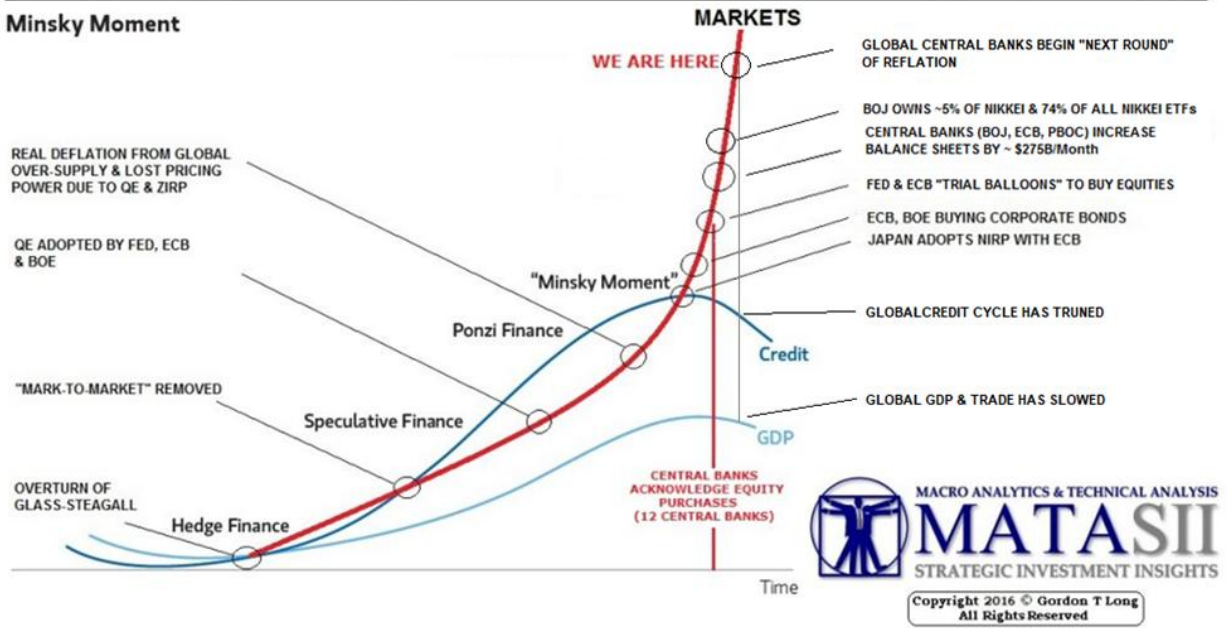


This will go on for awhile....

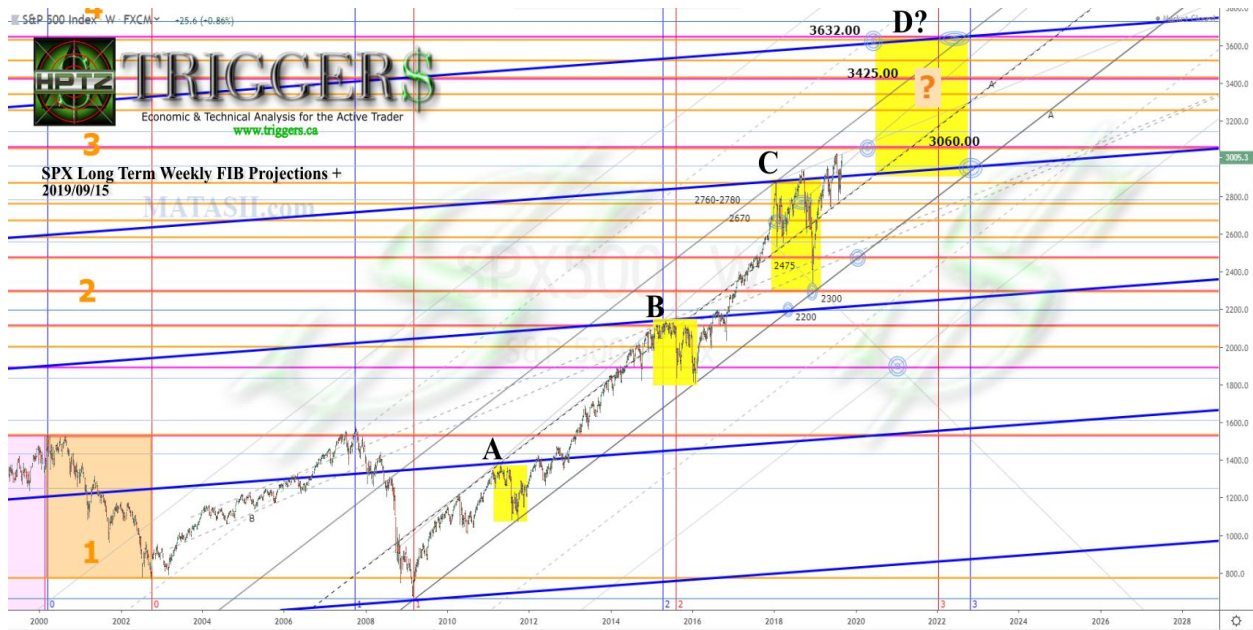


The Minsky Met-up is still underway.

Minsky Moment

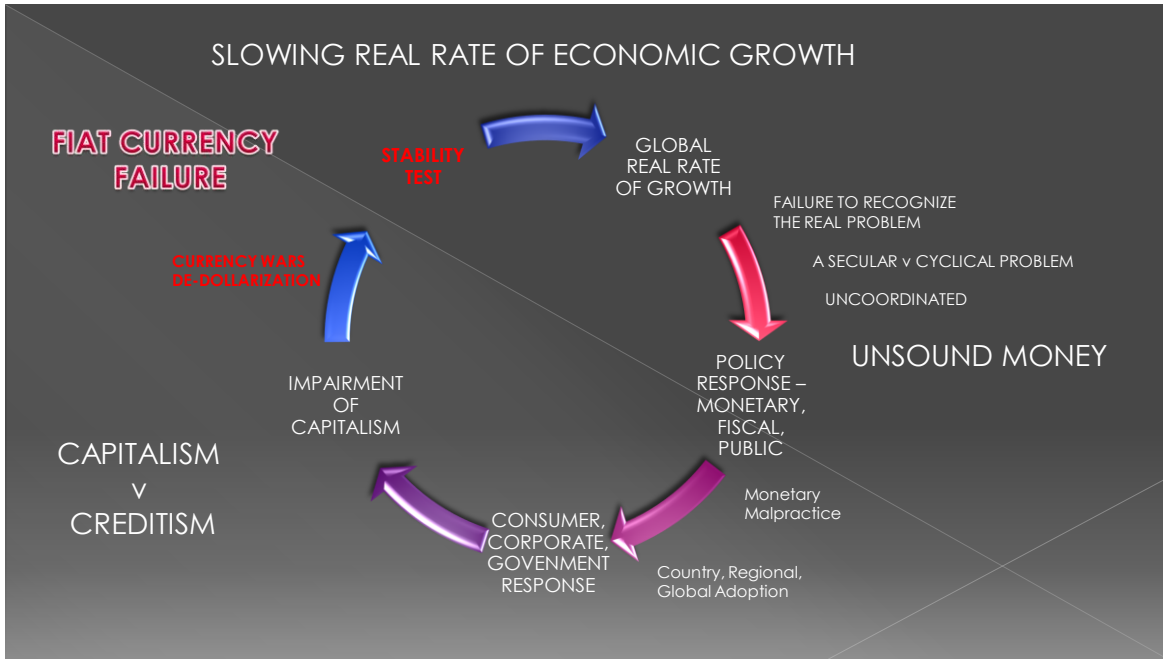


We see 3600-3700 and possibly higher before the system actually experiences a stress test that cannot be held at bay by Monetary, Fiscal and Public policy reactions.

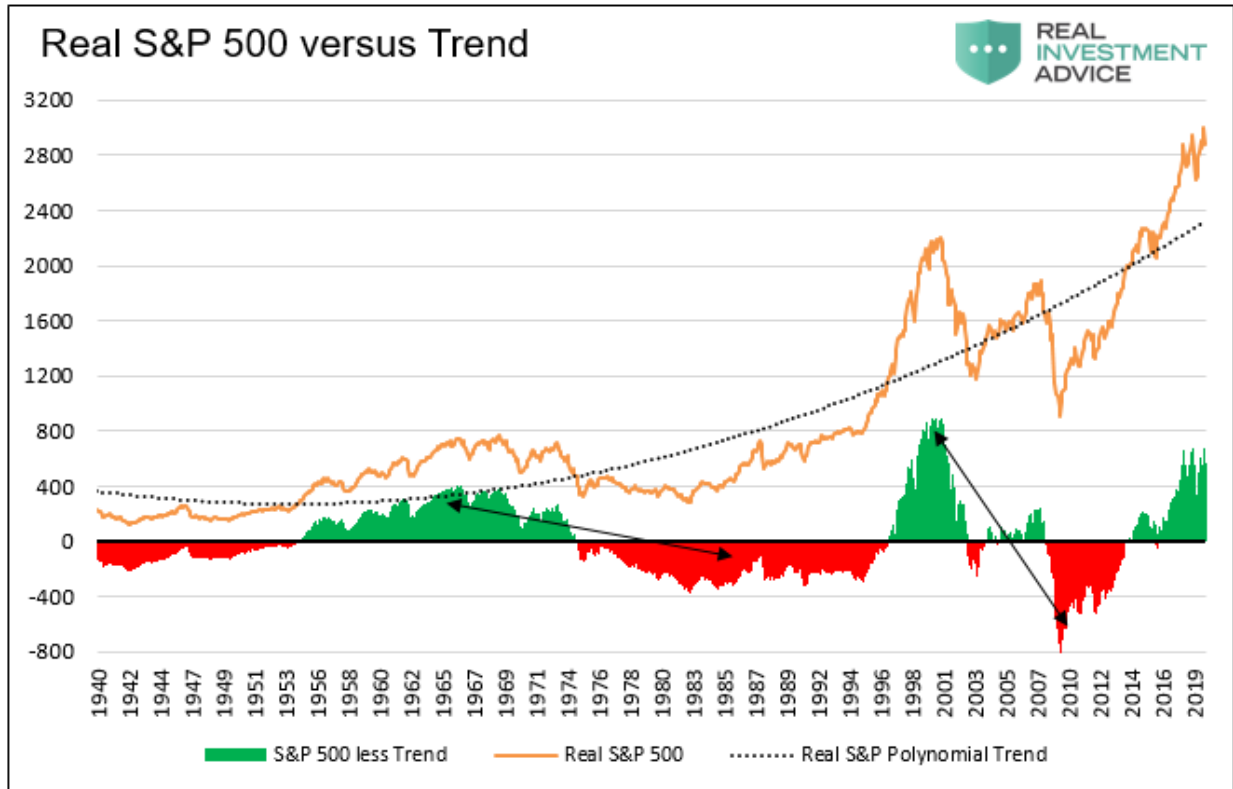


AN OVERDUE GLOBAL STABILITY TEST

The likely test will be most likely show itself as a Fiat Currency Crisis. We are already seeing many of the building blocks for such a test through "De-Dollarization (our 2019 Thesis Paper), Currency Wars and Financial Repression (Earlier Thesis papers)



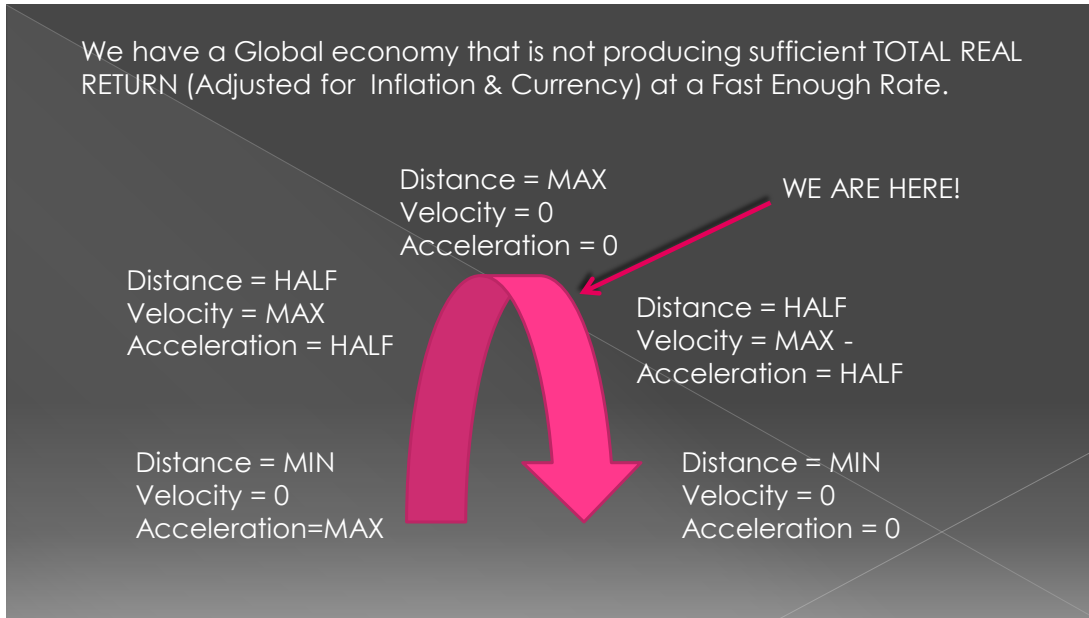
The next corrective consolidation is likely to appear violent but is likely to nothing more than a move towards a trend line that is going parabolic!



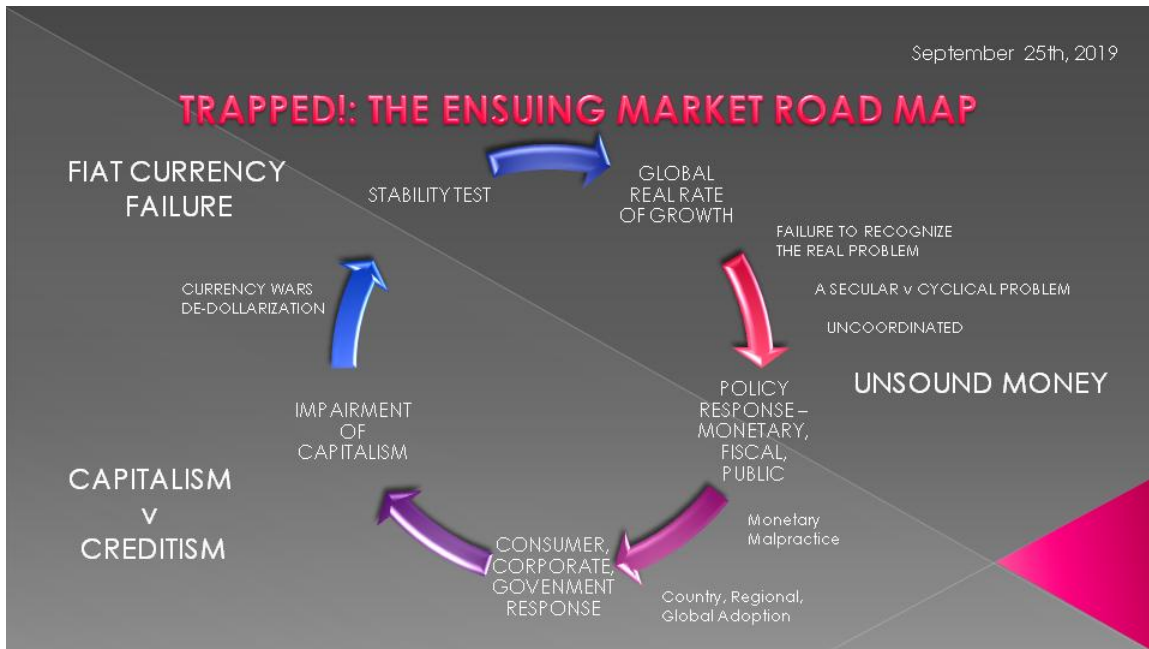
If all this seems like conjecture I suggest you revisit your first year calculus course on the first and second degree derivatives. Things can appear fine until they suddenly reverse. The rates of change warn you well in advance!

We have been getting these changing derivative rates steadily for years now!!

You have been warned!



APPENDIX VIDEO



URL: <https://youtu.be/r5L-SmYh3H0>

3- EMERGING ERA OF POLITICAL & SOCIAL CONFLICT

"If you think you are too small to make an impact, try spending the night in a room with a mosquito."

~African Proverb

KEY MESSAGES

- The end of what many call the "Debt Super Cycle" or Kondratieff's Long Wave is now near at hand which will have major global ramifications.
- Policies enacted over the last decade since the Financial Crisis have basically been ones of "Kicking-the-Can-Down-the-Road" and papering problems over. These unresolved problems manifest themselves into Economic problems on a larger regional basis and then inevitably lead to Political problems on a global basis as Slowing Economic Growth and Inequality caused the breakdown of the Social Contract between the governing and the governed -- which we are now seeing across the globe in the form of "Populist" movements.
- Unresolved Problems" lead to a Bad Cocktail Mix. They inevitably lead to Conflicts in various forms - Financially - Economically and Politically
- We can expect: Currency Wars, Trade Wars, Capital Wars, Cyber Disruption Wars, Military Wars etc.
- To keep the global economy from imploding policy planners have resorted over the last decade to Economic policies that only a decade ago would have been considered heresy! Like Quantitative Easing (QE).
- We see three big events or forces ahead:
 - The point where there's an economic downturn and central banks can't cut interest rates further and their asset purchases cease being effective,
 - When rising inequality sparks "extreme" conflicts between the rich and poor,
 - The battle for global dominion between the rising power of China and the incumbent world power, the US.

DEBT SUPER CYCLE

We are approaching the end of what many call the "Debt Super Cycle" or Kondratieff's Long Wave which will have major global ramifications.

In this chapter we are going to set the platform, at a rather high level, for two important Themes which we will explore in Section IV and V.

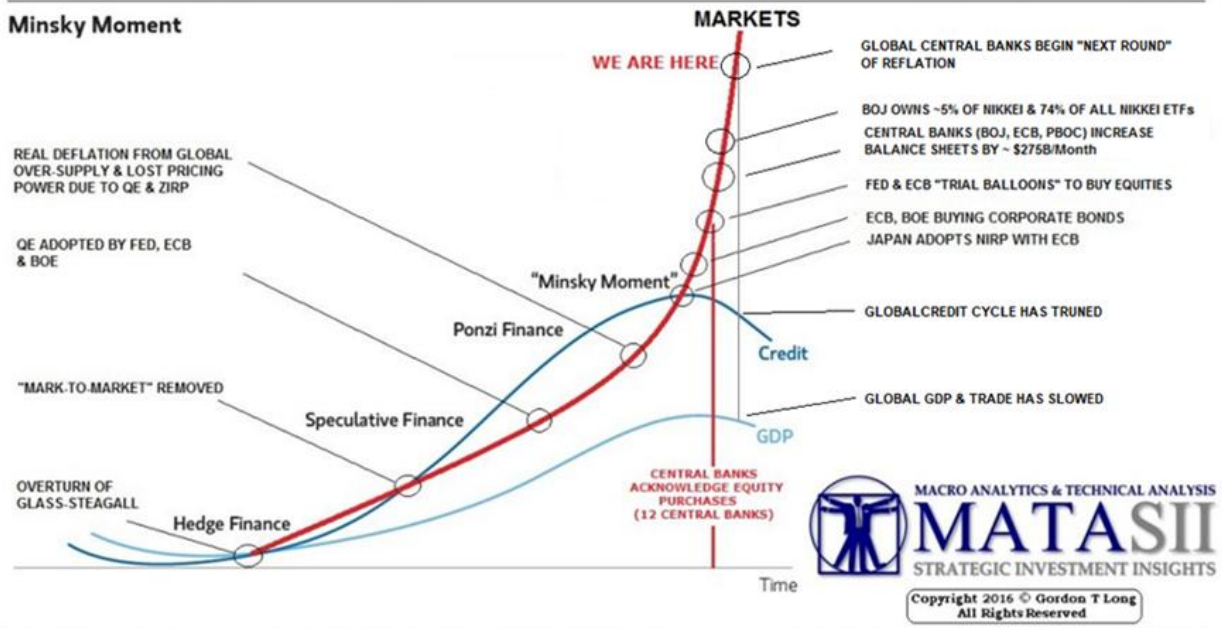
Presently markets are higher and steadily rising because of easy and expanding Global Credit and Money Supply Policy responses.

Historic levels of:

- Stock Buybacks,
- Shrinking Stock Pools and
- Forced Risk Levels

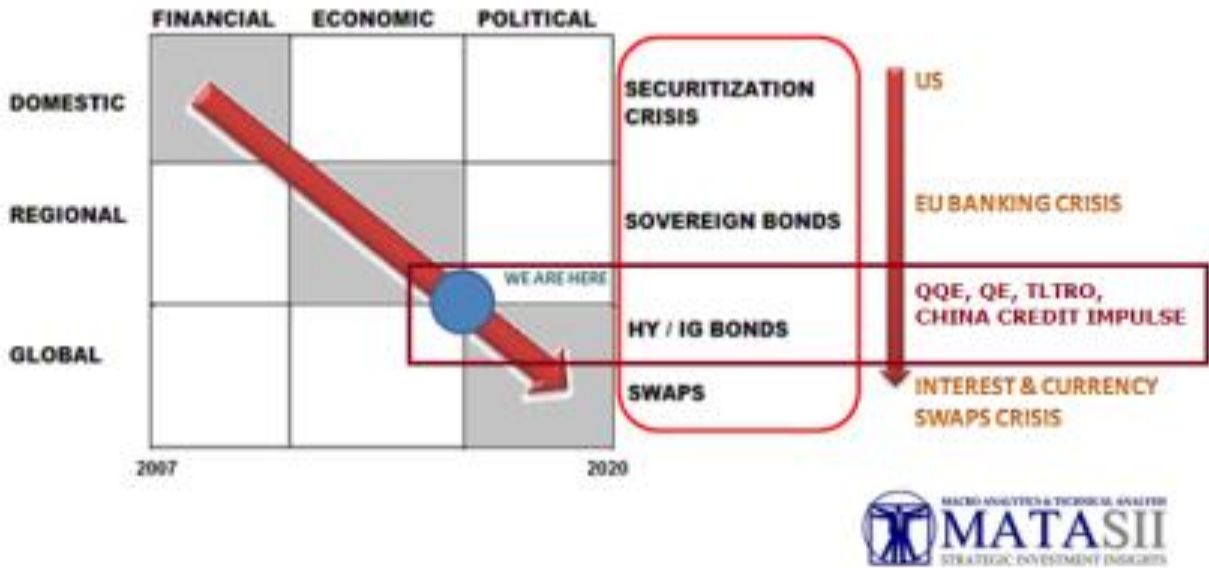
... are all evident in the pursuit of Yield based on the mispricing of risk and lack of price discovery do to central bank actions in controlling the yield curve and flooding the financial markets with liquidity.

We are experiencing a Crackup Boom that will take Equity markets higher before the inevitable "Stability Test Arrives".



I have shown the slide below many times since it was first drawn just after the 2008 Financial Crisis. The Financial Crisis was exactly that - A Financial Crisis, primarily US Mortgage Market Centric which had Global spillover ramifications.

POST FINANCIAL CRISIS ROADMAP



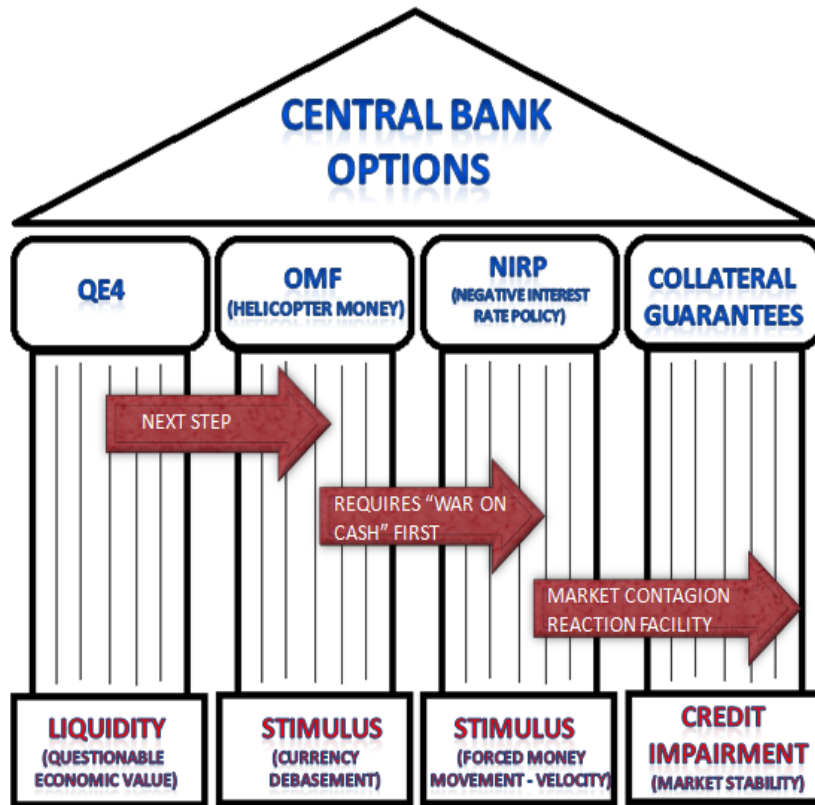
Because the policies enacted were basically ones of "Kicking-the-Can-Down-the Road" and papering problems over it suggested these unresolved problems would highly likely manifest themselves into Economic problems on a larger regional basis (which they did with the EU Crisis in 2012 amongst others) and would inevitably lead to Political problems on a global basis as Slowing Economic Growth and Inequality caused the breakdown of the Social Contract between the governing and the governed -- which we are now seeing across the globe in the form of "Populist" movements.

ADVANCING UNTESTED MACRO-PRUDENTIAL POLICIES

To keep the global economy from imploding policy planners have resorted to Economic policies that only a decade ago would have been considered heresy! Like Quantitative Easing (QE).

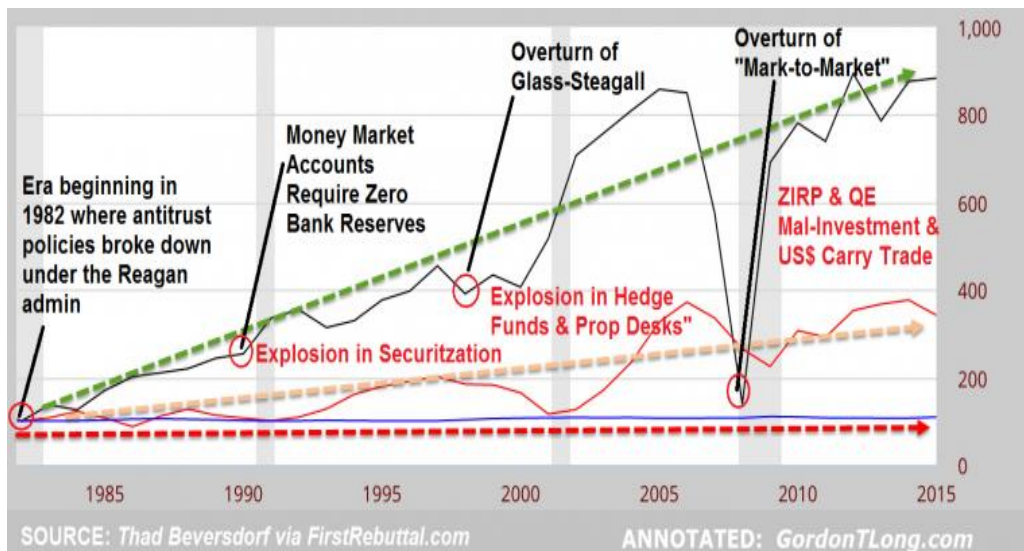
But the future suggests we haven't seen anything yet. We are likely to see

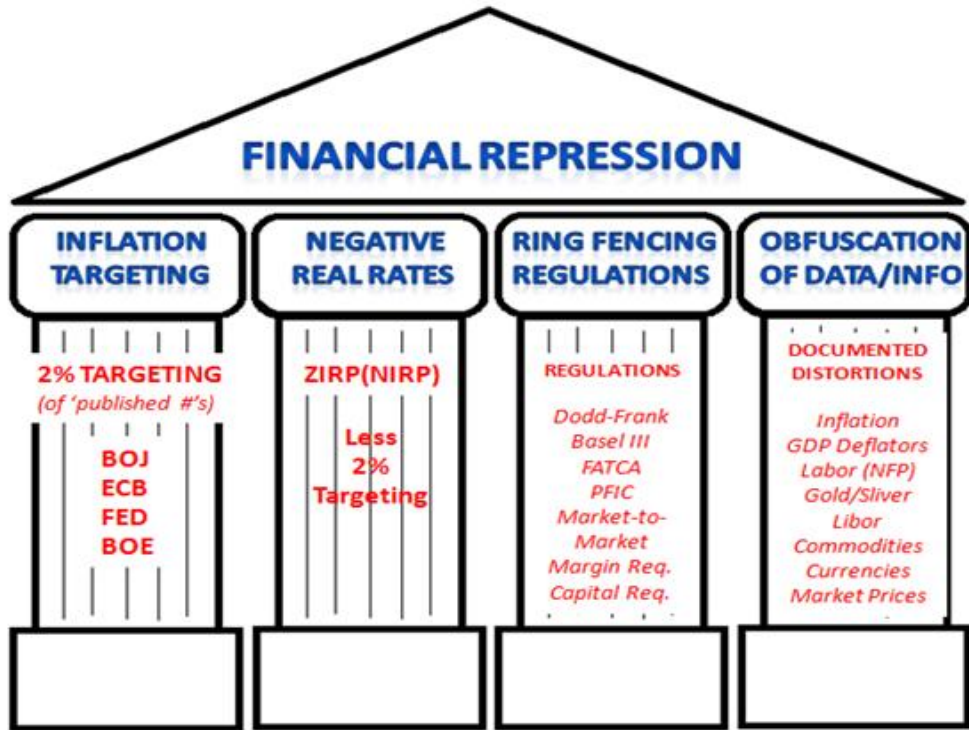
- 1- QE for the People,
- 2- NIRP & MMT,
- 3- Collateral Guarantees
- 4- Broad Nationalization of Financial Institutions such as the collapsing Pension System.



GordonTLong.com

Additionally, when the powers to be get into trouble they resort to cheating or what is seen as changing the rules, regulations and laws if so needed. That is what few investors plan for and often are unexpected. ie. Mark-to Market



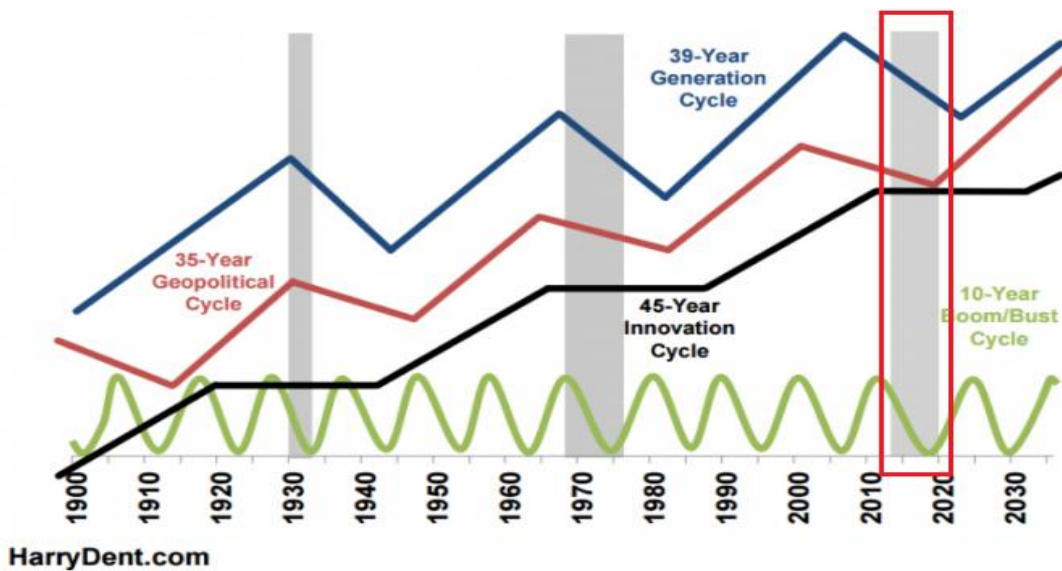


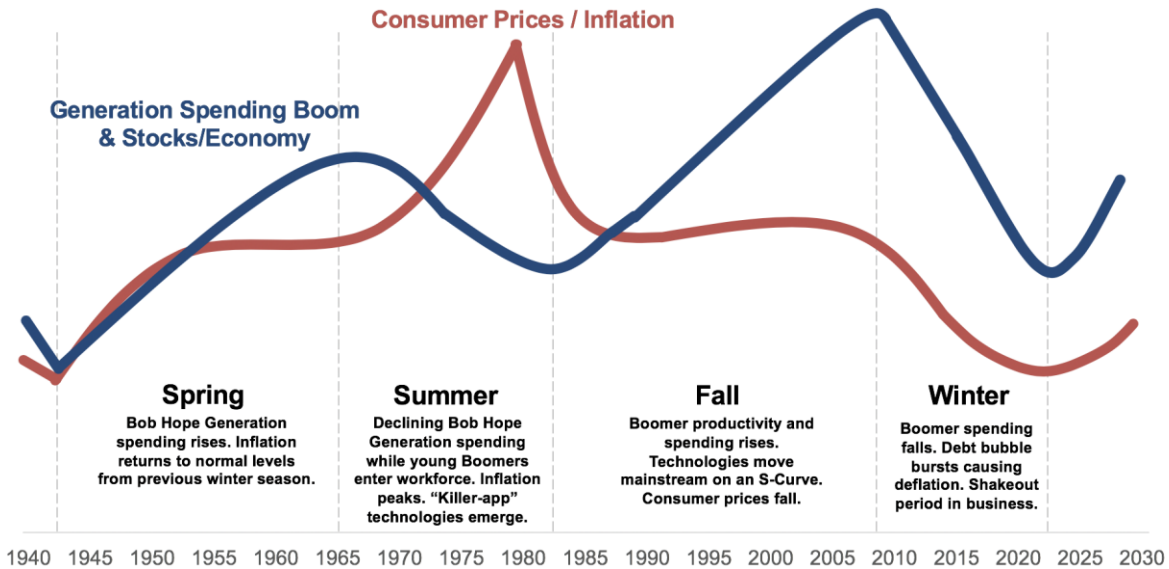
END OF THE DEBT SUPER CYCLE

The powers to be are going to be forced because too many long cycles are all converging with the end of the Debt Super Cycle.

Hierarchy of Macroeconomic Cycles

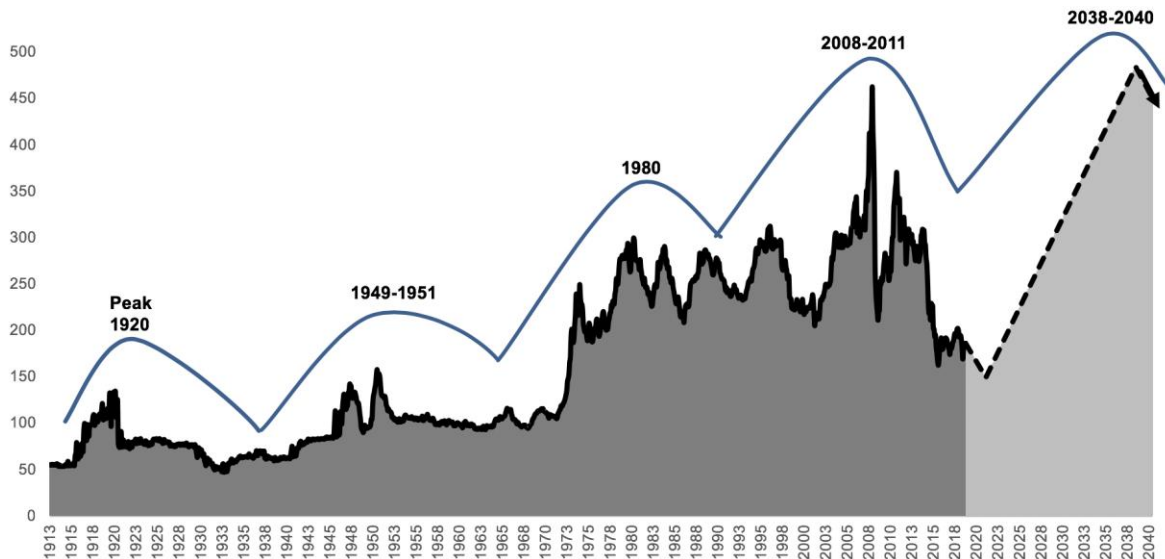
Developed Countries





But the world will not come to an end! Cycles are exactly that. They continue to go up and down with generational beliefs, expectations and demographics creating the cycles.

On the other side of major Crisis like the Great Depression are often explosive positive developments because "forced" adjustments to the system are found and implemented. There are losers and winners but the system keeps going on and evolving.



Now this is where things start to get interesting.

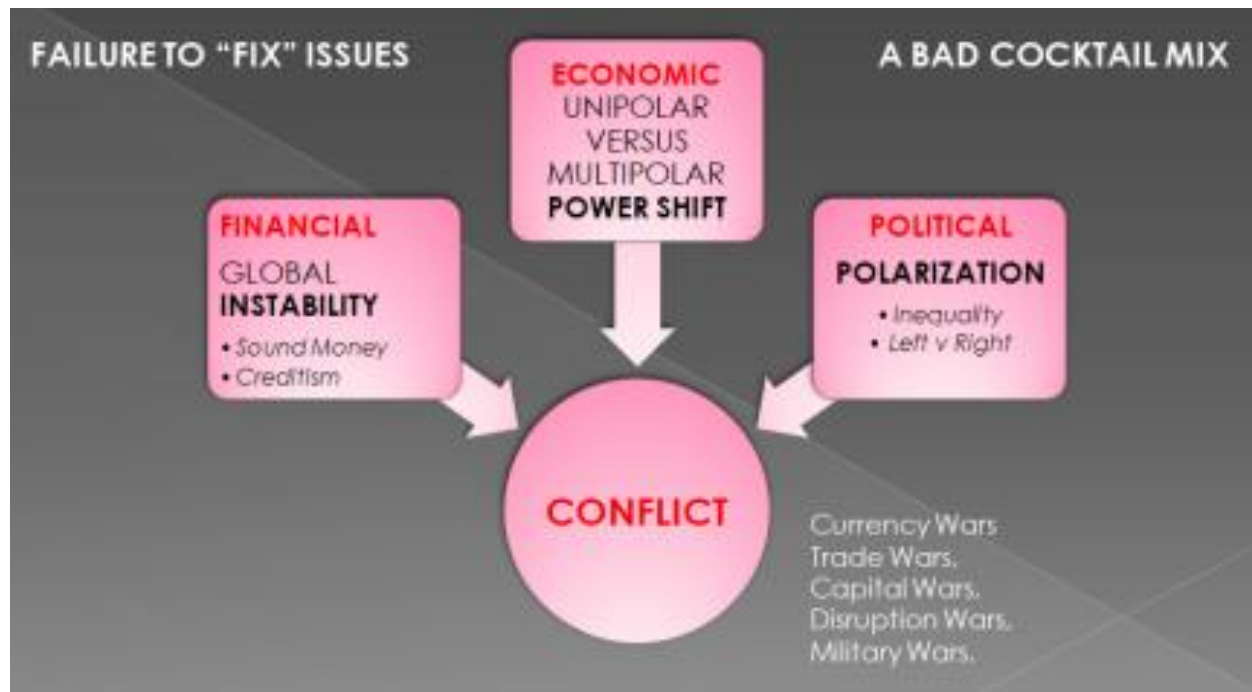
WE SEE THREE BIG EVENTS OR FORCES AHEAD

- i. The point where there's an economic downturn and central banks can't cut interest rates further and their **asset purchases cease being effective**,
- ii. When rising **inequality sparks "extreme" conflicts** between the rich and poor,
- iii. The **battle for global dominion** between the rising power of China and the incumbent world power, the US.

I mentioned earlier "Unresolved Problems". They lead to a Bad Cocktail Mix. They inevitably lead to Conflicts in various forms - Financially - Economically and Politically.

We can expect:

- Currency Wars,
- Trade Wars,
- Capital Wars,
- Cyber Disruption Wars,
- Military Wars etc.



IT'S GOING TO BE A "SCARY SITUATION" OVER THE NEXT DECADE

The technology and increasing use of artificial intelligence and increased productivity will substantially increase:

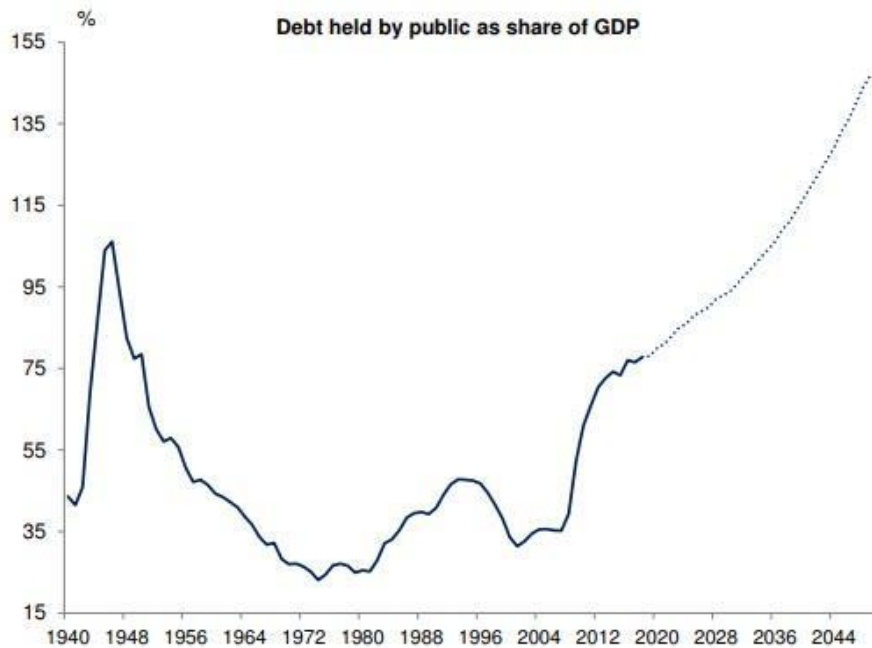
- The wealth gap,
- The job gap,
- The Ideological conflicts within countries.

We are classically in the late stages of the long-term debt cycle when central banks' power to ease in order to reverse an economic downturn is coming to an end because:

- Monetary Policy (i.e. the ability to lower interest rates) doesn't work effectively because interest rates get so low that lowering them enough to stimulate growth doesn't work well,
- Monetary Policy (i.e. printing money and buying financial assets) doesn't work well because that doesn't produce adequate credit in the real economy (as distinct from credit growth to leverage up investment assets), so there is "pushing on a string." That creates the need for...
- Monetary Policy (large budget deficits and monetizing of them) which is problematic especially in this highly politicized and undisciplined environment.

Central bank policies will push short-term and long-term real and nominal interest rates very low and print money to buy financial assets because they will need to set short-term interest rates as low as possible due to the large debt and other obligations (e.g. pensions and healthcare obligations) that are coming due and because of weakness in the economy and low inflation.

Figure 5: Debt projected to soar from already high levels



Source : CBO, Deutsche Bank

Their hope will be that doing so will drive the expected returns of cash below the expected returns of bonds, but **that won't work well** because:

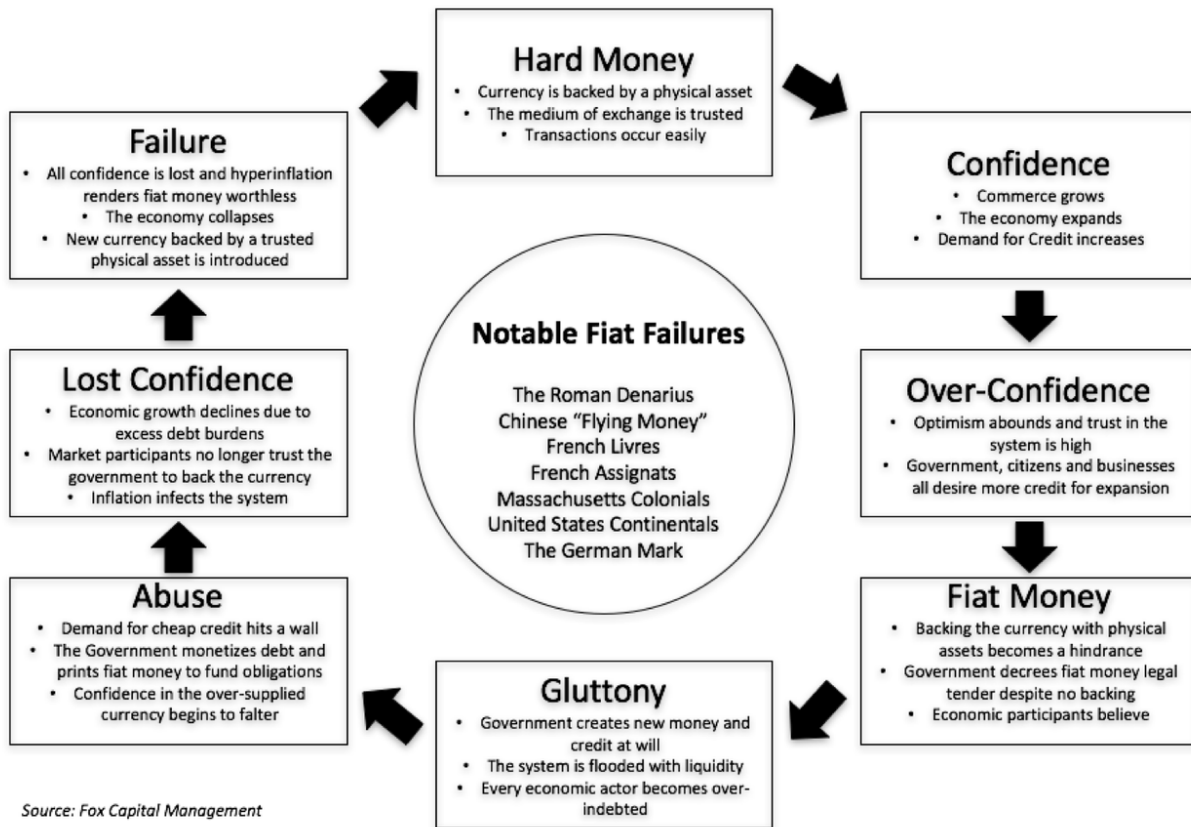
- 1) These rates are too close to their floors,
- 2) There is a weakening in growth and inflation expectations which is also lowering the expected returns of equities,
- 3) Real rates need to go very low because of the large debt and other obligations coming due, and
- 4) The purchases of financial assets by central banks stays in the hands of investors rather than trickles down to most of the economy (which worsens the wealth gap and the populist political responses)

ADVANCED FINANCIAL REPRESSION

This has happened at a time when **investors have become increasingly leveraged long due to the low interest rates and their increased liquidity.**

As a result we see the market driving down short-term rates while **central banks are also turning more toward long-term interest rate and yield curve controls, just as they did from the late 1930s through most of the 1940s.**

The Fiat Currency Cycle



HERE

We are likely positioned as indicated above in an inevitable Fiat Currency Collapse.

DEFLATIONARY VERSUS INFLATIONARY PRESSURES

The distortion of today's excessive Asset Prices will require a systemic reset to fix. Either by:

- i. A DEFLATIONARY event that destroys the MALINVESTMENT,
- ... or by
- ii. An INFLATIONARY event that destroys the CURRENCY.

The operative word "Event" needs to be considered as:

AN EVENT or PERIOD or PRESSURES

OR BOTH CONCURRENTLY!!!

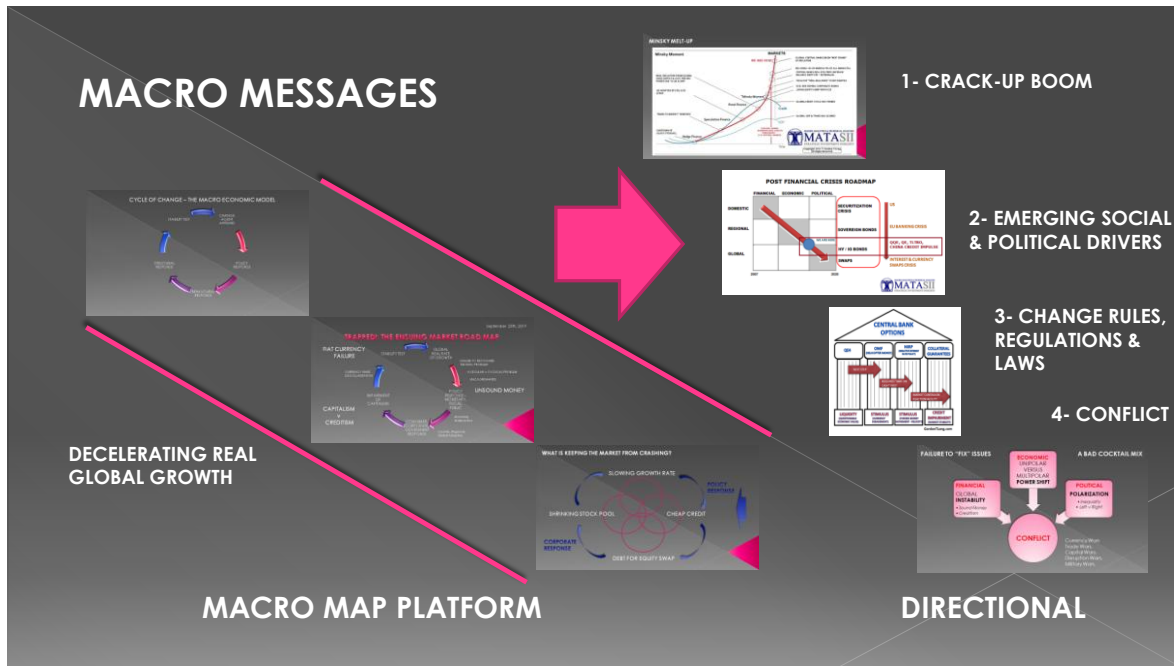
- DEVELOPED ECONOMIES TODAY ARE PRIMARILY SERVICE ECONOMIES
- DEVELOPING ECONOMIES ARE PRIMARILY GOODS OR INDUSTRIAL PRODUCING ECONOMIES

DEFLATIONARY pressures destroying:

- Prices of GOODS and LEVERAGE
- Thereby collapsing financial ASSET VALUES

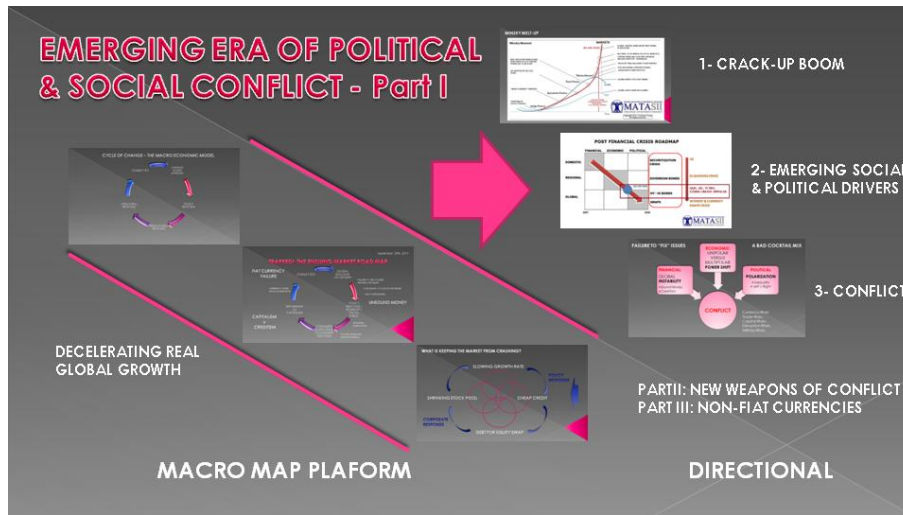
INFLATIONARY pressures on SERVICES destroying CURRENCIES

We have 4 Directional expectations as represented here.



Clearly the forms of Conflict are going to be important for Investors. We will explore them in the next session.

APPENDIX: VIDEO



URL: <https://youtu.be/R7sBy5Rq70c>

4-NEW WEAPONS OF CONFLICT

KEY MESSAGES

1- WE ARE GOING TO SEE:

AN EXPLOSION IN FORMS OF CONFLICT
 Financial, Economic, Political & Social
 NEW WEAPONS OF CONFLICT

2- WHY IS THIS ACCELERATING?

SLOWING ECONOMIC GROWTH
 Highlights Falsehood & Fraud of the "Entitlement State"
 Breakdown of the "Social Contract"

3- ERA OF ENDLESS CONFLICTS - CREATING SENSE OF CHAOS

Distrust of Media, Politicians, Institutions,
 Growth in Anti-Establishment,
 Growth of Populist Movements & Sense of An "Ungovernable" Democracy

INSTABILITY



FRAGILITY



In section 5 we will talk about – INVESTMENT THESIS
 (The "Preservation of Capital")

In this session we are going to explore what we expect to be an explosion in the forms of conflict.

These forms will come from Financial, Economic, Political and Social drivers. As a consequence we are going to see new weapons employed as a result, and in response to, these conflicts & drivers.

The fundamental question to understand and be answer is why is this occurring? The short answer is, as we have laid out in prior videos, is we have a slowing real rate of global economic growth.

Countries are fighting for a slowing real growth rate while debt growth consumes more and more of a meager economic growth. This is coupled with malinvestment by investing in non-productive assets.

This as a consequence highlights the falsehood or fraud perpetrated by the "Entitlement State".

The result is a breakdown of the Social Contract between the electorate and the elected.

We see an era of endless conflicts creating a public sense of ongoing Chaos and Instability, resulting in financial and economic fragility.

We are seeing this manifest itself in the growing and broad based distrust of the media, fake news, politicians, Institutions etc.

We are seeing a growth in Anti-Establishment support, growth in populist movements and an increasing sense that Democracy is somehow "ungovernable" as polarization of views has increasingly become stumbling blocks towards achieving a 'workable' consensus.

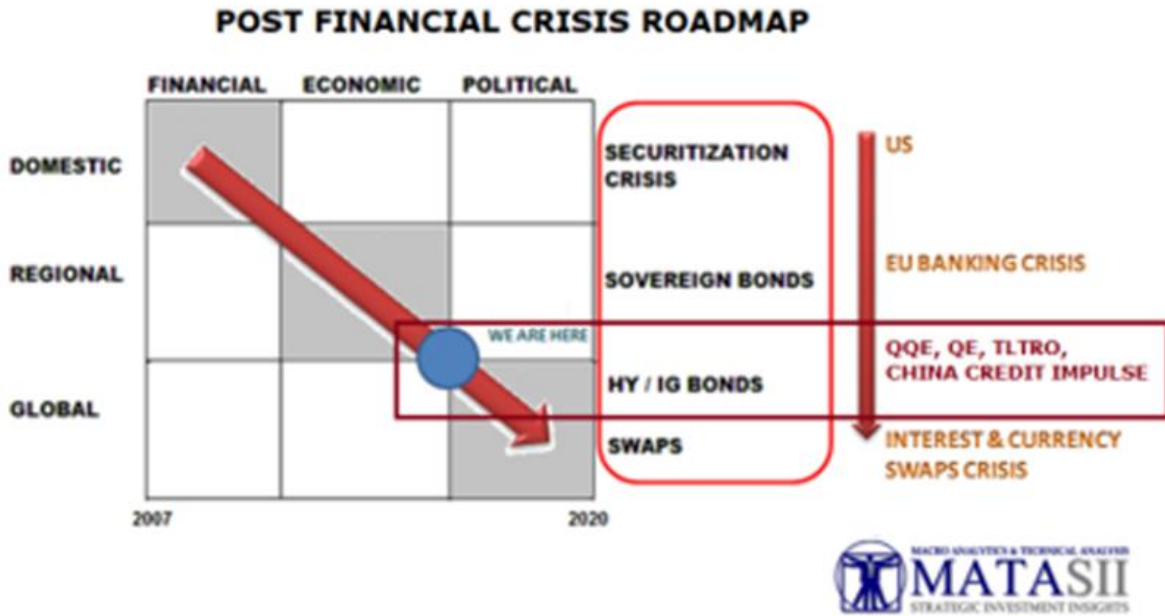
TRUISMS

There are certain Truisms that often help in finding answers to problems.

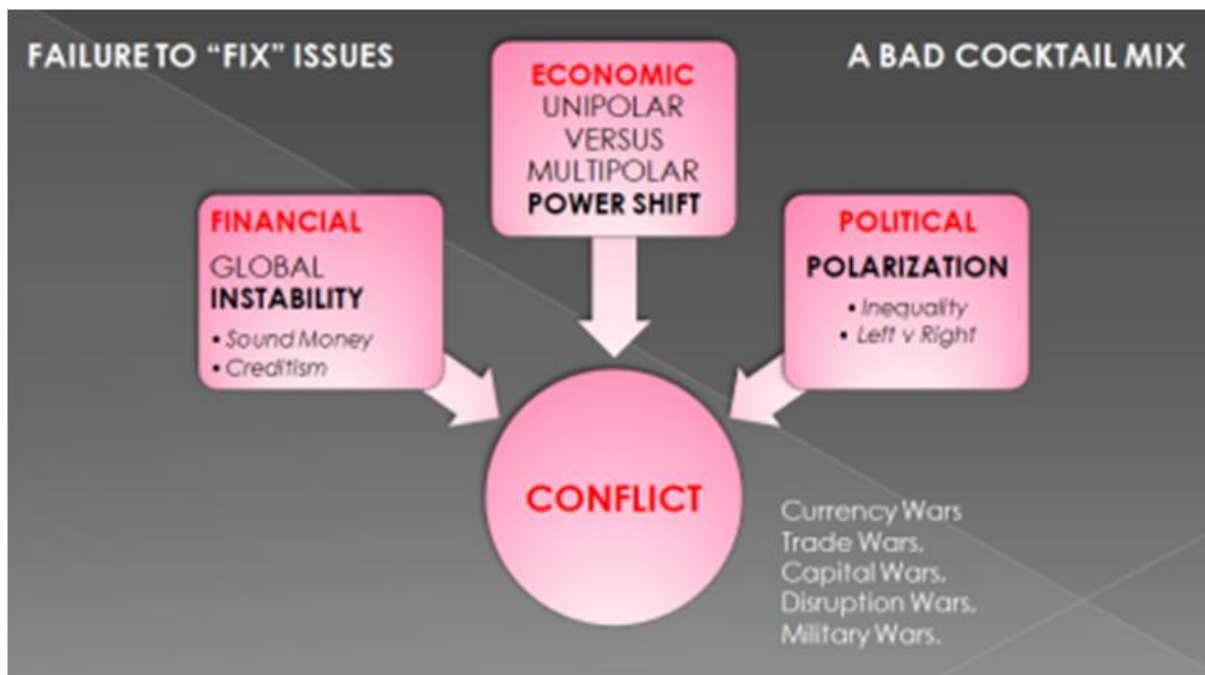
- In business and markets it is "follow the money",
- In politics it is "nothing happens by coincidence",
- In Conflict it is "it is ALWAYS" Financial!"

We have shown the graphic (below) many times since it was created as a roadmap, after the 2008 financial crisis failed to deliver real solutions, as financials problems were papered over with a political "kick-the-can-down-the-road" policy approaches.

We have arrived, as we predicted back then, at the stage of rising Global Political Tensions.



Because we have failed to solve problems at each of the previous stages we now have a very bad "cocktail mix". A mix that effectively now feeds on itself and leads to conflict in the obvious forms such as Currency, Trade, Capital and Military Wars.



WHAT LEADS TO CONFLICTS?

The catalysts for conflict have historically been:

HISTORICALLY	TODAY
1- BORDERS	SOUTH CHINA SEA, POLES, SPACE
2- SOVEREIGN INTERFERENCE	HONG KONG,
3- SHORTAGES (Oil (Pre-Pearl Harbor), Food & other Specific Dependencies)	
4- THREATS (PHYSICAL or VERBAL)	NORTH KOREA

Moscow Creates 'Anti-Missile Dome' Over Northern Fleet As Battle For Arctic Heats Up

Posted: Tue, 10 Dec 2019 09:15:00 +0000


Moscow Creates 'Anti-Missile Dome' Over Northern Fleet As Battle For Arctic Heats Up

The international struggle for military supremacy in the Arctic has just risen to absurd new heights.

Following the collapse of the arms control regime that for decades aided the US's tenuous grip on power in the region, the US, Russia and China are now engaged in a winner-takes-all struggle for control of territory north of the Arctic Circle.



NATO To Make Outer Space Next "Operational Domain"



Mission creep getting out of hand? NATO chief says it's a "clear sign that we continue to strengthen our deterrence and defense."

NOV 19, 2019 1:10 PM

"It's about communications, it's about navigation, it's about data imagery.

Space is essential for almost everything we do."

NATO intends to make space an "operational domain" along with air, land, sea and cyber, according to Secretary General Jens Stoltenberg.

The move, to be approved at a meeting of NATO foreign ministers on Wednesday, would bring all five areas within the scope of the alliance's collective-defense commitment and comes as member countries seek to address fresh internal political splits.

We have been witnessing a record shattering rate of Treaty Breakages since the Financial Crisis. All of these breakages have received little or no US media coverage. Why??

US vs Arms Control, Nonproliferation, and Disarmament

 <p>In 2001, the U.S. withdrew from 1972 Anti-Ballistic Missile (ABM) Treaty and started unilateral build-up of its global MD system</p>	 <p>For many years, the U.S. has been gravely violating the Intermediate-Range Nuclear Forces (INF) Treaty</p>
 <p>The U.S. sabotaged the adoption of the Convention on the Prohibition of Biological and Toxin Weapons (BWC) program of work for the period of 2017-2020</p>	 <p>The U.S. does not fulfill its obligations under the NPT: keeps engaging non-nuclear-weapon NATO countries in "nuclear sharing" missions, modernizes its nuclear arsenal</p>
 <p>The U.S. takes irresponsible approach to the use of chemical weapons by non-State actors in the Middle East</p>	 <p>The U.S. avoids the Comprehensive Nuclear-Test-Ban Treaty (CTBT) ratification</p>
 <p>The U.S. has dealt a serious blow to the credibility of the Vienna Document 2011 as a tool for impartial supervision of military activities of the OSCE participating states</p>	 <p>The U.S. & its allies bypassed the restrictive provisions of the Treaty on Conventional Armed Forces in Europe (CFE Treaty) repeatedly by expanding NATO</p>
 <p>In March 2017, U.S. banks froze a tranche of Russia to the IAEA Programme of Action for Cancer Therapy</p>	 <p>The U.S. does not reveal violations of the Treaty on Open Skies (OST) & noncompliance with the Treaty obligations by the United States itself, its NATO allies and other "client" states</p>

www.mid.ru

We also have the simple matter of GLOBAL Economic UNCERTAINTY which further stokes the "tinder box" of the various forms of conflicts.

Global economic policy uncertainty index



Source: Baker, Bloom and Davies, Bloomberg Finance LP, DB Global Research

INTERNAL VERSUS EXTERNAL

But the coming era of conflict is not just 'External' but also 'Internal' within many Developed and Emerging Economies alike.

There are many growing examples:

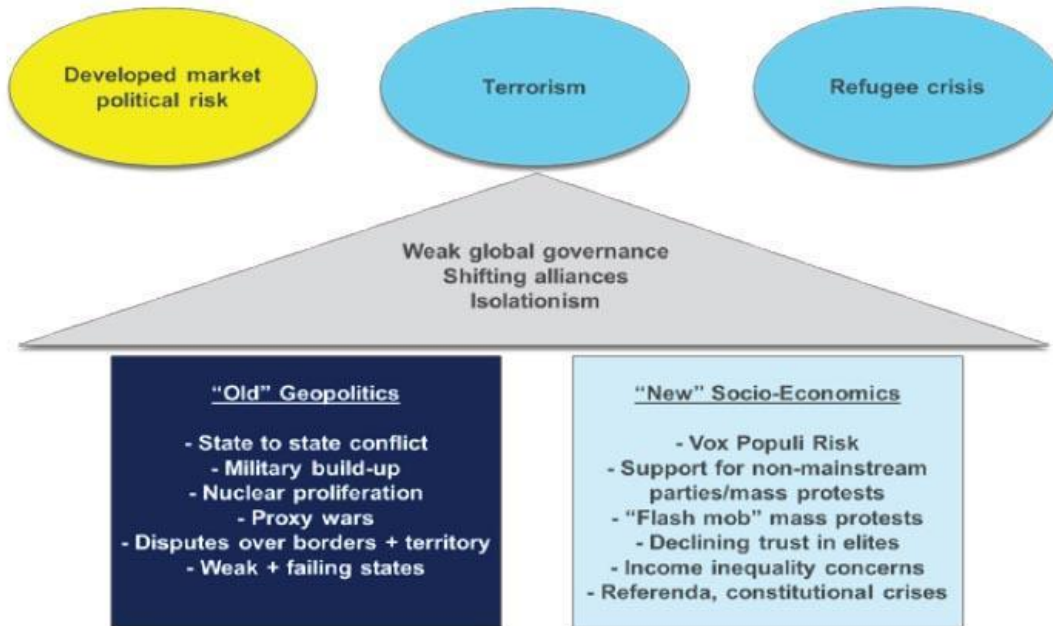
- Civil War (Representation - Corruption & Taxation)
- Separation (Catalina, Brexit, Scotland...)
- Wealth Gap / Inequality (Social Unrest, Migrations,
- Left versus Right Polarization
- Populism (Anti-Establishment, Anti-Status Quo, Anti-Government)

WHAT HISTORY TELLS US

Many of these internal conflicts are percolating up where weak global governance, shifting alliances and Isolationism does nothing to resolve.

It shows itself in the form of Terrorism, Refugee Crisis and Political Stability Risk.

Figure 1. "Old Geopolitics" vs. "New" Socio-Economics: Everything that Rises Must Converge



What history tells us is:

- Historically Irresolvable Sovereign Conflict have been Inevitable,
- Wars have been the final arbitrator,
- Wars have only changed in the form they take - primarily technology has been the driver,
- Wars in the modern era have become accidents or circumstance versus actually been planned.

"It is no coincidence that the century of total war coincided with the century of central banking!"

If every American taxpayer had to submit an extra five or ten thousand dollars to the IRS this April to pay for the war, I'm quite certain it would end very quickly. The problem is that government finances war by borrowing and printing money, rather than presenting a bill directly in the form of higher taxes. When the costs are obscured, the question of whether any war is worth it becomes distorted.

Former Long Term Congressman, Dr Ron Paul

Conflict in the form of all types of violence (direct, indirect and with the multiplier effect) is expensive and approximated \$14.1T in 2018 according to the Global Peace Index! (Next Page – Top)

Government spending on Military and Internal Security comprised approximately 3/4's of total costs of violence in 2018. (Next Page – Bottom)

TOTAL COST OF VIOLENCE (US\$, 2018 PPP)

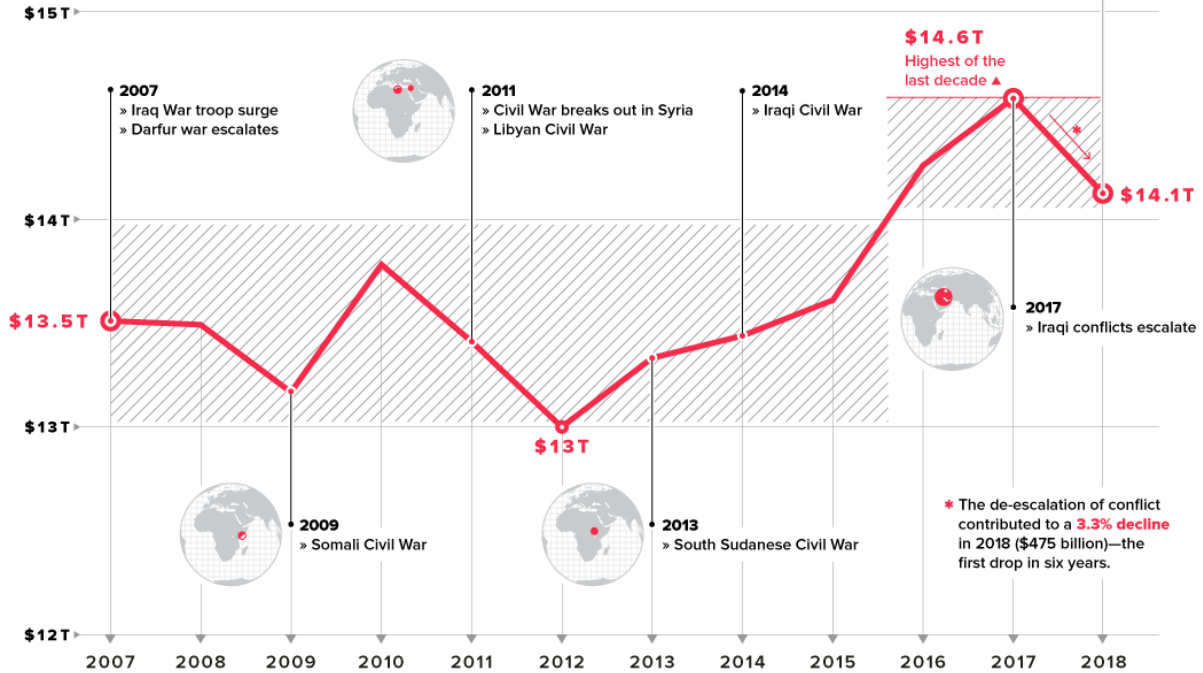
Direct costs: Immediate consequences for the victims, perpetrators, and government.

Indirect costs: Indirect economic losses, physical and psychological trauma to the victim and productivity loss.

Multiplier effect: Calculates the additional economic activity that would have accrued if the direct costs of violence had been avoided.

Cost of violence: **11% of global GDP** (~\$1,853 per person)

2018

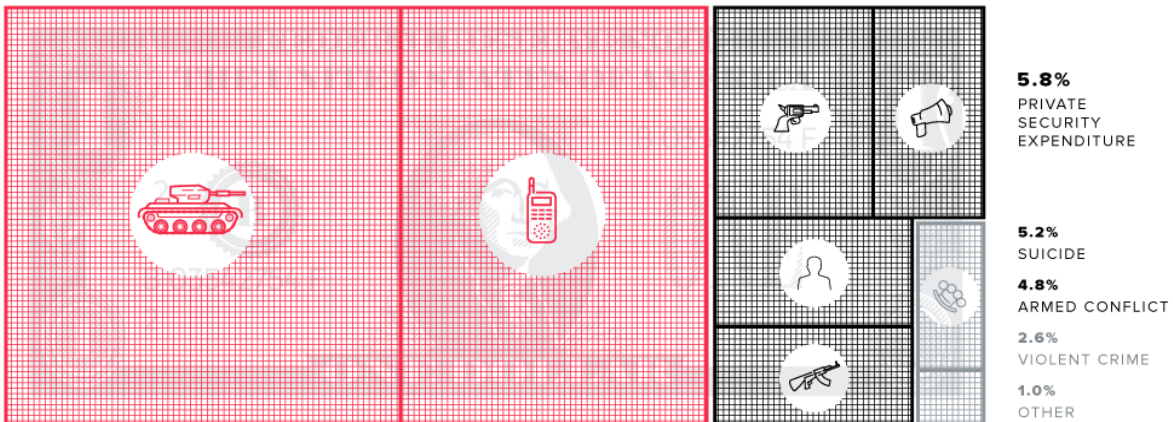


GLOBAL COMPOSITION OF VIOLENCE EXPENDITURE (2018)

40.2% MILITARY EXPENDITURE

31.7% INTERNAL SECURITY

8.6% HOMICIDE



Source: Global Peace Index 2019

Government spending on **Military and Internal Security** comprises approximately $\frac{3}{4}$ the total costs of violence.



Armed Conflict showed the largest decrease of 29% (\$275 billion) since 2017.



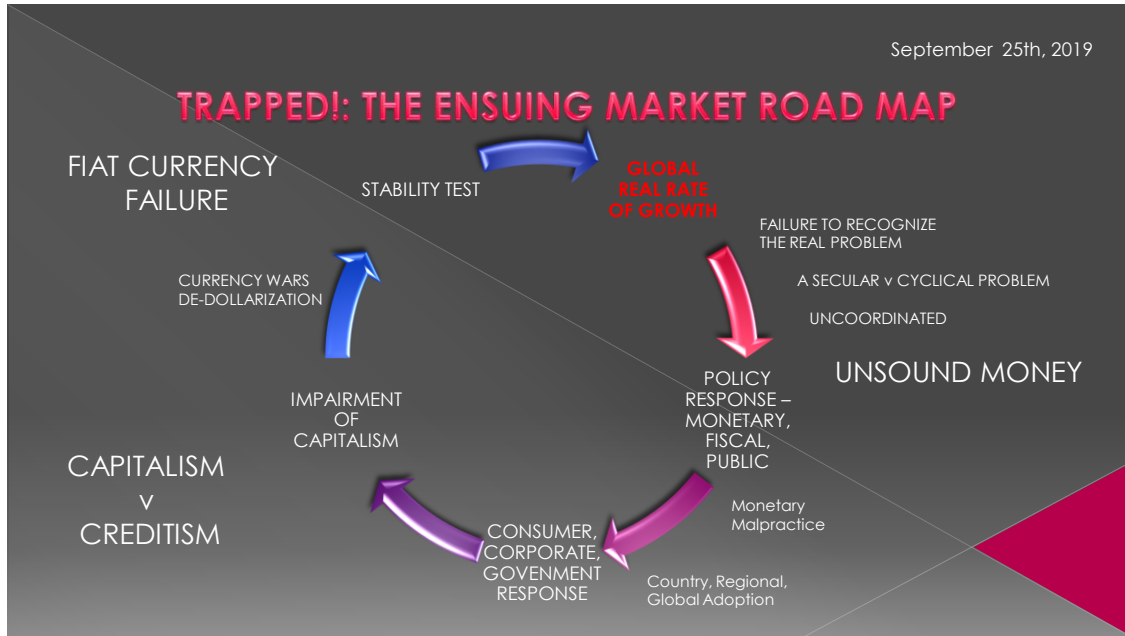
Within **Armed Conflict**, the biggest change was the economic impact of **Terrorism**, which decreased by 48% (\$28.5 billion).



WHAT WE THINK WE KNOW

WHAT FORMS HAS / WILL CONFLICT TAKE?

The reality is the world cannot afford nor fund this level of expenditure which can only be viewed as expected to get worse going forward.



Now we get down to the important question.

We know conflict is usually financially driven. That driver today is the slowing real rate of economic growth.

Therefore what form will conflict actually take?

What will be the new Weapons?

Hot Wars

Will they be Hard or Soft Weapons? Will it be Military forces as in Hot Wars or New Technology in the form of:

- Information Technology,
- FinTec,
- AI or
- Process disruptive?

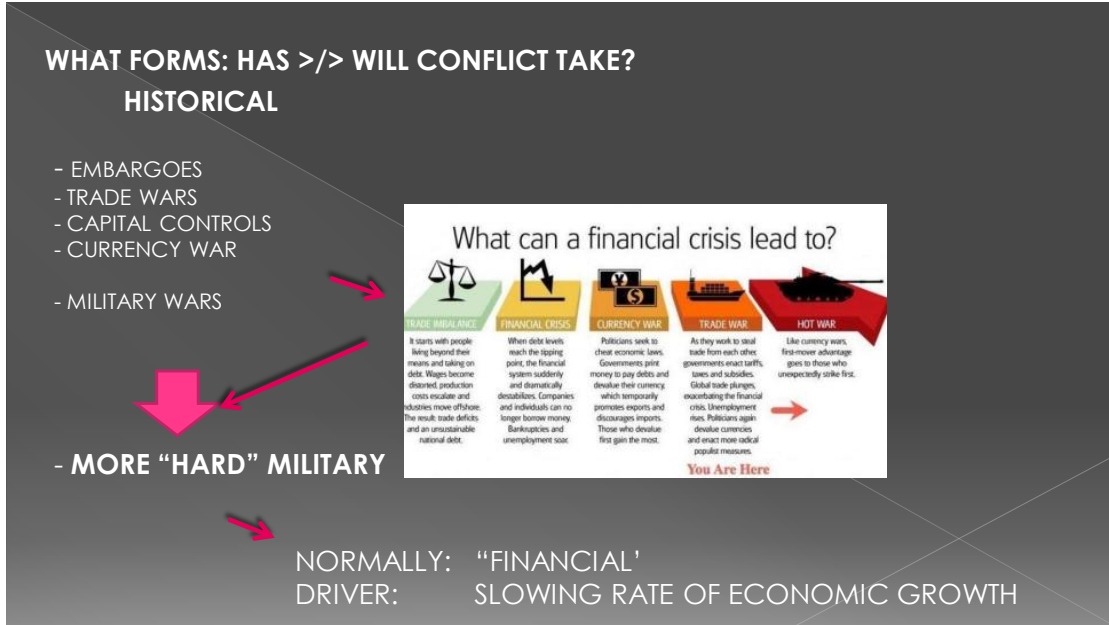
Generals Always Fight the Last War!

What can a financial crisis lead to?



Hard Military

Historically we have seen soft weapons such as embargoes, trade wars, capital controls, currency wars leading to hard weapons as in Military wars.



Soft Economic

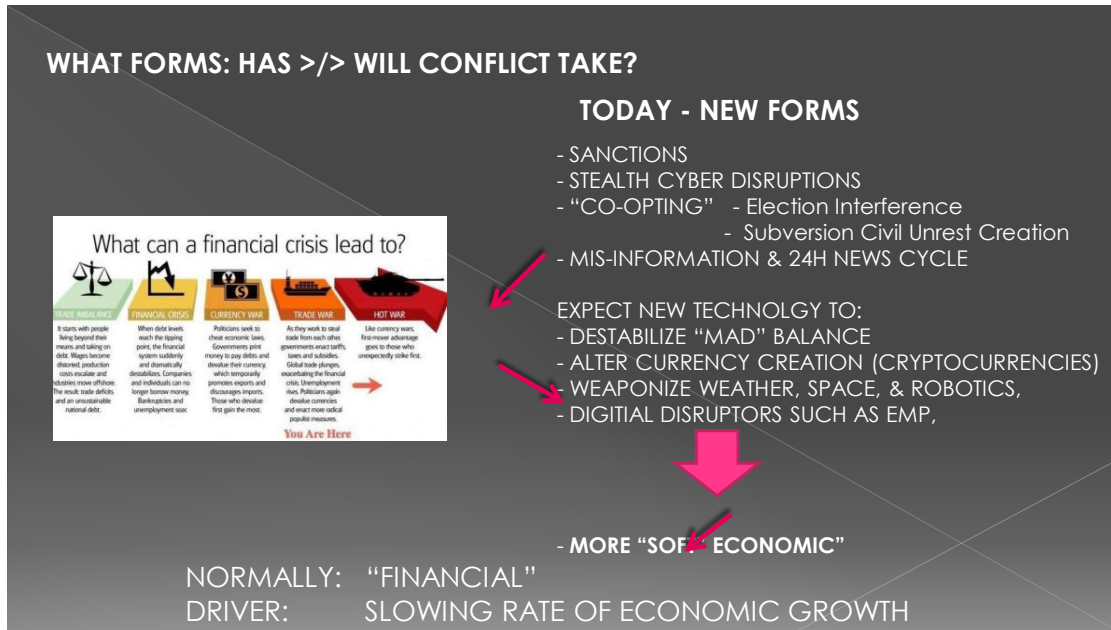
Today we are already seeing soft weapons such as:

- Sanctions,

- Stealth Cyber Disruptors,
- Co-opting - Such as election Interference and Subversive Civil Unrest Creation
- Mis-Information & the 24h News Cycle,

Expect new Technology to:

- Destabilize the "MAD" Balance (Mutually Assured Destruction) we have had since the end of WWII,
- Alter Sovereign Control of Currency Creation & Circulation (Cryptocurrencies),
- Weaponize Weather, Space and Robotics,
- Digital Disruptors such as EMP(Electro Magnetic Pulse)



Here are some headlines I clipped in the last 30 days:

China is reportedly weaponizing water and worsening droughts across Asia.

China Is Weaponizing Water And Worsening Droughts Across Asia



Its dams are provoking regional tensions, so Beijing needs to reconsider its policy...

NOV 4, 2019 8:10 PM

In Russia a Mystery Radiological Blast while developing "Unparalleled Weapons".

Putin: Scientists Killed In "Mystery" Radiological Blast Were Developing "Unparalleled" Weapon



Putin addresses the Severodvinsk accident, saying Russia is developing a weapon that has "no equal in the world"...

NOV 21, 2019 6:45 PM

My friend Greg Hunter at Watchdog USA recently interviewed a just retired 3 Star Air Force General who strongly hinted at US technology that could deliver a person anywhere on the planet in less than an hour.

Navy Patents UFO-Like Compact Nuclear Fusion Reactor And Hybrid Space/Sea Crafts



A mysterious set of patents filed recently by a U.S Navy researcher has caught the eyes of technologists and conspiracy theorists alike...

Recently Retired USAF General Makes Eyebrow-Raising Claims About Advanced Space Technology

I've had the benefit of 33 years of studying and becoming friends with these scientists. This technology can be built today with technology that is not developmental to deliver any human being from any place on planet Earth to any other place in less than an hour.

New forms of Drones appear regularly. What about drone submarines, ships, battlefield equipment at al

Will Drones Push The Middle East Past The Point Of No Return?



The widespread proliferation of these weapons, combined with the range of capabilities they confer and their potential to alter the logic of escalation between states, may cause significant inter-state conflict to occur.

DEC 3, 2019 9:50 PM

Hypersonic Weapons are already operational which means "First Strike" is possible versus MAD (Mutually Assured Destruction).



U.S. AIR FORCE

Roadmap: Hypersonics



Alliance War Games are becoming larger and more threatening....

Iran, China, & Russia Gear Up For Unprecedented War Games In "Message To The World"



Historic first to involve 'massive joint drills' next month in the Indian Ocean.

NOV 28, 2019 8:30 PM

Sabre Rattling no longer carries the news flow like it did only a few short years ago. It takes an IBCM from North Korea over Hawaii to get our attention today.

Turkey Gives NATO The Middle Finger, Threatens To Shutter Critical Military Bases Over Sanction Threats



These comments, only the latest round of complaints about Turkey's behavior toward its Western NATO allies inspired speculation about whether NATO could formally expel Turkey...

DEC 16, 2019 7:00 AM

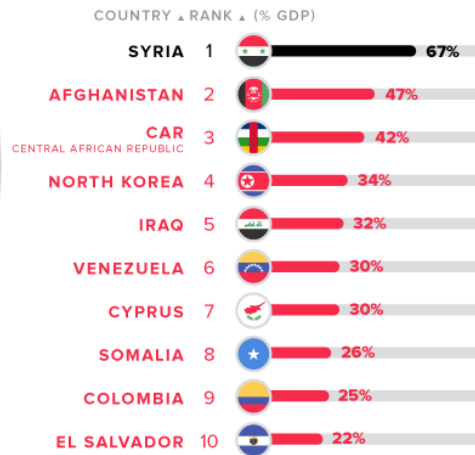
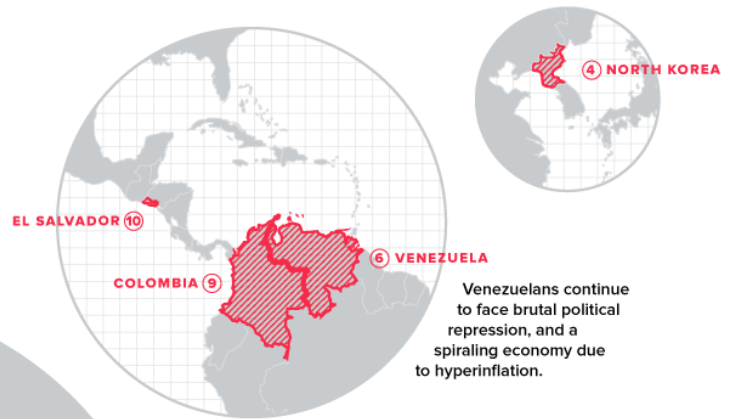
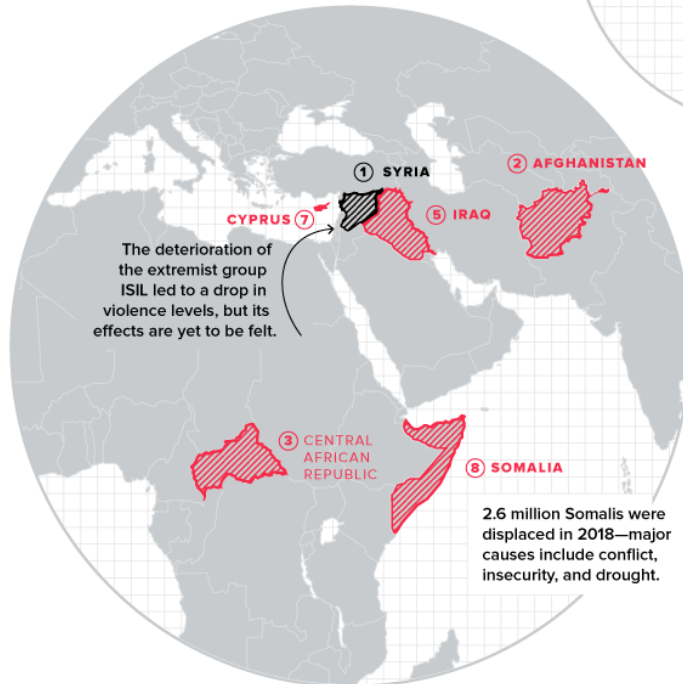
A GLOBAL TINDER BOX

We need to recognize that the world is presently a "Tinder Box" with too many irresponsible sociopathic politicians running around playing with matches.



THE TOP 10 WORST AFFECTED COUNTRIES

In the worst affected countries, the average cost of violence is equal to 35% of GDP—compared to 3.3% in the 10 most peaceful countries.



Present Global Situational Analysis

Chances seem high that 2020 will become the year when a match will be set to the wick of the international powder keg, or that it will be the last relatively calm year in the first quarter of the 21st century. The collapse of international defense treaties and de-escalation mechanisms, as well as accumulating contradictions and conflicts among world nations give rise to an especial concern.

The year 2019 was marked by a number of dangerous developments. In spite of this, it could have been much more dangerous and violent. Political leadership by key actors demonstrated their conditional wisdom by avoiding a number of open military conflicts, all of which had chances to erupt in the Middle East, South Asia, East Asia, South America, and even Europe. A new war in the Persian Gulf, US military conflict with North Korea, an India-Pakistan war -none of these were started. A peaceful transfer of power from Petro Poroshenko to Volodymyr Zelensky in Ukraine allowed for the avoidance of a military escalation in eastern Europe. China and the United States showed their restraint despite tensions in the Asia-Pacific, including the Hong Kong issue. A new global economic crisis, expected for some time by many experts, did not happen. The lack of global economic shocks or new regional wars in 2019 does not mean that knots straining relations among leading world powers were loosened or solved. These knots will remain a constant source of tension on the international level until they are removed within the framework of diplomatic mechanisms or cut as a result of a large military conflict or a series of smaller military conflicts.

Global Geo-Political & Military Tensions

The following report was [prepared by the Southfront.org](https://southfront.org)

In the year 2019 the world was marked with a number of emerging and developing crises. ***The threat of terrorism, conflicts in the Middle East, expanding instability in South America, never-ending military, political and humanitarian crises in Africa and Asia, expansion of NATO, insecurity inside the European Union, sanction wars and sharpening conflicts between key international players.*** One more factor that shaped the international situation throughout the year was the further collapse of the existing system of international treaties. The most widely known examples of this tendency are the collapse of the INF and the US announcement of plans to withdraw from the New START.

Meanwhile, the deterioration of diplomatic mechanisms between key regional and global actors is much wider than these two particular cases. It includes such fields as NATO-Russia relations, the US posture towards Israeli occupation of the Golan Heights, unsuccessful attempts to rescue vestiges of the Iran nuclear deal, as well as recent setbacks in the diplomatic formats created to de-escalate the Korean conflict.

One of the regions of greatest concern in the world, is the Middle East. The main destabilizing factors are the remaining terrorist threat from al-Qaeda and ISIS, the crises in Libya, Syria and Iraq, the ongoing Saudi invasion of Yemen, the deepening Israeli-Arab conflict, and a threat of open military confrontation involving the US and Iran in the Persian Gulf. These factors are further complicated by social and economic instability in several regional countries such as Jordan, Lebanon, Iraq, Saudi Arabia, and even Iran.

After the defeat of ISIS, the war in Syria entered a low intensity phase. However, it appears that the conflict is nowhere near its end and the country remains a point of instability in the region.

ISIS cells are still active in the country. The announced US troop withdrawal appeared to be only an ordinary PR stunt as US forces only changed their main areas of presence to the oil-rich areas in northeastern Syria. Washington exploits its control over Syrian resources and influence on the leadership of the Syrian Kurds in order to effect the course of the conflict. The Trump administration sees Syria as one of the battlegrounds in the fight against the so-called Iranian threat.

The province of Idlib and its surrounding areas remain the key stronghold of radical militant groups in Syria. Over the past years, anti-government armed groups suffered a series of defeats across the country and withdrew towards northwestern Syria. The decision of the Syrian Army to allow encircled militants to withdraw towards Idlib enabled the rescue of thousands of civilians, who were being used by them as human shields in such areas as Aleppo city and Eastern Ghouta. At the same time, this increased significantly the already high concentration of militants in Greater Idlib turning it into a hotbed of radicalism and terrorism. The ensuing attempts to separate the radicals from the so-called moderate opposition and then to neutralize them, which took place within the framework of the Astana format involving Turkey, Syria, Iran and Russia, made no progress.

The Summer-Fall advance of the Syrian Army in northern Hama and southern Idlib led to the liberation of a large area from the militants. Nevertheless, strategically, the situation is still the same. Hayat Tahrir al-Sham, formerly the official branch of al-Qaeda in Syria, controls most of the area. Turkish-backed 'moderate militants' act shoulder to shoulder with terrorist groups.

Turkey is keen to prevent any possible advances of the government forces in Idlib. Therefore it supports further diplomatic cooperation with Russia and Iran to promote a 'non-military' solution of the issue. However it does not seem to have enough influence with the Idlib militant groups, in particular HTS, to impose a ceasefire on them at the present time. Ankara could take control of the situation, but it would need a year or two that it does not have. Therefore, a new round of military escalation in the Idlib zone seems to be only a matter of time.

Syria's northeast is also a source of tensions. Turkey seized a chunk of territory between Ras al-Ayn and Tell Abyad in the framework of its Operation Peace Spring. The large-scale Turkish advance on Kurdish armed groups was halted by the Turkish-Russian 'safe zone' agreement and

now the Syrian Army and the Russian Military Police are working to separate Kurdish rebels from Turkish proxies and to stabilize Syria's northeast. If this is successfully done and the Assad government reaches a political deal with Kurdish leaders, conditions for further peaceful settlement of the conflict in this part of the country will be created. It should be noted that Damascus has been contributing extraordinary efforts to restore the infrastructure in areas liberated from terrorists by force or returned under its control by diplomatic means. In the eyes of the local population, these actions have an obvious advantage over approaches of other actors controlling various parts of Syria.

Israel is another actor pursuing an active policy in the region. It seeks to influence processes which could affect, what the leadership sees as, interests of the state. Israel justifies aggressive actions in Syria by claiming to be surrounded by irreconcilable enemies, foremost Iran and Hezbollah, who try to destroy Israel or at least diminish its security. Tel Aviv makes all efforts to ensure that, in the immediate vicinity of its borders, there would be no force, non-state actors, or states whose international and informational activities or military actions might damage Israeli interests. This, according to the Israeli vision, should ensure the physical security of the entire territory currently under the control of Israel and its population.

The start of the Syrian war became a gift for Israel. It was strong enough to repel direct military aggression by any terrorist organization, but got a chance to use the chaos to propel its own interests. Nonetheless, the rigid stance of the Israeli leadership which became used to employing chaos and civil conflicts in the surrounding countries as the most effective strategy for ensuring the interests of the state, was delivered a blow. Israel missed the moment when it had a chance to intervene in the conflict as a kind of peacemaker, at least on the level of formal rhetoric, and, with US help, settle the conflict to protect its own interests. Instead, leaders of Israel and the Obama administration sabotaged all Russian peace efforts in the first years of the Russian military operation and by 2019, Tel Aviv had found itself excluded from the list of power brokers in the Syrian settlement. Hezbollah and Iran, on the other hand, strengthened their position in the country after they, in alliance with Damascus and Russia, won the war on the major part of Syrian territory, and Iran through the Astana format forged a tactical alliance with Turkey.

Iran and Hezbollah used the preliminary outcome of the conflict in Syria, and the war on ISIS in general, to defend their own security and to expand their influence across the region. The so-called Shia crescent turned from being a myth exploited by Western diplomats and mainstream media into a reality. Iran and Hezbollah appeared to be reliable partners for their regional allies even in the most complicated situations.

Russia's strategic goal is the prevention of radical Islamists from coming to power. Russia showed itself ready to enter dialogue with the moderate part of the Syrian opposition. Its leadership even demonstrated that it is ready to accept the interests of other actors, the US, Israel, Kurdish groups, Turkey, Iran, and Hezbollah, if this would help in reaching a final deal to settle the conflict.

Summing up the developments of 2019, one might expect that the current low-intensity state of the Syrian conflict would continue for years. However, several factors and developments could instigate the renewal of full-fledged hostilities:

- A sudden demise or forceful removal of President Bashar al-Assad could create a situation of uncertainty within the patriotic component of the Syrian leadership;
- Changes within the Russian political system or issues inside Russia which could lead to full or partial withdrawal of support to the Syrian government and withdrawal of Russian forces from Syria;
- A major war in the Middle East which would turn the entire region into a battlefield. In the current situation, such a war could only start by escalation between the US-Israeli-led bloc and Iran.

The Persian Gulf and the Saudi-Yemen battleground are also sources of regional instability. In the second half of 2019, the situation there was marked by increased chances of open military confrontation between the US-Israeli-Saudi bloc and Iran. Drone shoot-downs, oil tanker detentions, open military buildups, and wartime-like rhetoric became something common or at least

not very surprising. The US, Saudi Arabia, and Israel point to Iran as the main instigator of tensions.

Iran and its allies deny responsibility for the escalation reasonably noting that their actions were a response to aggressive moves by the US-Israeli-Saudi axis. From this point of view, Iran's decision to limit its commitments to the already collapsed Nuclear Deal, high level of military activity in the Persian Gulf, shoot down of the US Global Hawk spy drone, and increased support to regional Shia groups are logical steps to deter US—led aggression and to solidify its own position in the region. Iran's main goal is to demonstrate that an open military conflict with it will have a devastating impact to the states which decide to attack it, as well as to the global economy.

The US sanctions war, public diplomatic support of rioters, and the Trump administration's commitment to flexing military muscle only strengthen Tehran's confidence that this approach is right.

As to Yemen's Houthis, who demonstrated an unexpected success in delivering retaliatory strikes to Saudi Arabia, they would continue to pursue their main goal – achieving a victory in the conflict with Saudi Arabia or forcing the Kingdom to accept the peace deal on favorable terms. To achieve this, they need to deliver maximum damage to Saudi Arabia's economy through strikes on its key military and infrastructure objects. In this case, surprising missile and drone strikes on different targets across Saudi Arabia have already demonstrated their effectiveness.

The September 14 strike on Saudi oil infrastructure that put out of commission half of the Saudi oil output became only the first sign of future challenges that Riyadh may face in case of further military confrontation.

The unsuccessful invasion of Yemen and the confrontation with Iran are not the only problems for Saudi Arabia. The interests and vision of the UAE and Saudi Arabia in the Middle East have been in conflict for a long time. Nonetheless, this tendency became especially obvious in 2019. The decline of influence of the House of Saud in the region and inside Saudi Arabia itself led to logical attempts of other regional players to gain a leading position in the Arabian Peninsula. The main challenger is the UAE and the House of Maktoum.

Contradictions between Saudi Arabia and the UAE turned into an open military confrontation between their proxies in Yemen. Since August 29th, Saudi Arabia has provided no symmetric answer to the UAE military action against its proxies. It seems that the Saudi leadership has no will or distinct political vision of how it should react in this situation. Additionally, the Saudi military is bogged down in a bloody conflict in Yemen and struggles to defend its own borders from Houthi attacks.

The UAE already gained an upper hand in the standoff with Saudi Arabia in the economic field. This provided motivation for further actions towards expanding its influence in the region. During the year, Turkey, under the leadership of President Recep Erdogan, continued strengthening its regional positions. It expanded its own influence in Libya and Syria, strengthened its ties with Iran, Qatar, and Russia, obtained the S-400, entered a final phase in the TurkStream project, and even increased controversial drilling activity in the Eastern Mediterranean. Simultaneously, Ankara defended its national interests -repelling pressure from the United States and getting off with removal from the F-35 program only. Meanwhile, Turkish actions should not be seen as a some tectonic shift in its foreign policy or a signal of 'great friendship' with Russia or Iran.

Turkish foreign policy demonstrates that Ankara is not seeking to make 'friends' with other regional and global powers. Turkey's foreign policy is mobile and variable, and always designed to defend the interests of Turkey as a regional leader and the key state of the Turkic world.

Developments in Libya were marked by the strengthening of the Libyan National Army (LNA) led by Field Marshal Khalifa Haftar and backed by the UAE, Egypt, and to some extent Russia. The LNA consolidated control of most of the country and launched an advance on its capital of Tripoli, controlled by the Government of National Accord. The LNA describes its main goal as the creation of the unified government and the defeat of terrorism. In its own turn, the Government of National Accord is backed by Turkey, Qatar, the USA and some European states. It controls a small part of the country, and, in terms of military force, relies on various militias and even radical armed groups linked with al-Qaeda. Ankara signed with the Tripoli government a

memorandum on maritime boundaries in the Mediterranean Sea. Thus, it sees the GNA survival as a factor which would allow it to justify its further economic and security expansion in the region. This clash of interests sets conditions for an escalation of the Libyan conflict in 2020.

Egypt was mostly stable. The country's army and security forces contained the terrorism threat on the Sinai Peninsula and successfully prevented attempts of radical groups to destabilize the country.

By the end of the year, the Greater Middle East had appeared in a twilight zone lying before a new loop of the seemingly never-ending Great Game. The next round of the geopolitical standoff will likely take place in a larger region including the Middle East, the Caucasus, and Central Asia.

Consistently, the stakes will grow involving more resources of states and nations in geopolitical roulette.

The threat that faces Central Asia is particularly severe since the two sets of actors have asymmetrical objectives. Russia and China are rather interested in the political stability and economic success of the region which they view as essential to their own political and security objectives. It is not in the interest of either country to have half a dozen failed states in their immediate political neighborhood, riven by political, economic, and religious conflicts threatening to spread to their own territories. In addition to being a massive security burden to Russia and China, it would threaten the development of their joint Eurasian integration projects and, moreover, attract so much political attention that the foreign policy objectives of both countries would be hamstrung. The effect would be comparable to that of the wars in Afghanistan and Iraq on the US political and military establishment. The monetary price of these wars, the sheer political distraction, wear and demoralization of the armed forces, and the unfortunately frequent killings of civilians amount to a non-tenable cost to the warring party, not to mention damage to US international "soft power" wrought by scandals associated with Guantanamo, Abu Ghraib, and "black sites". Even now, shock-waves in the US military hierarchy continue to be felt regarding the court-martialed senior-ranking US Navy "SEAL" commando charged for the wanton killing of civilians in Northern Iraq during the US military's anti-ISIS operations.

By contrast, this dismal scenario would be enough to satisfy the US foreign policy establishment which, at the moment, is wholly dominated by "hawks" determined to assure the continuation of US hegemony. Preventing the emergence of a multi-polar international system by weakening China and Russia is their desire. This sets the stage for another round of great power rivalry in Central Asia. While the pattern is roughly the same as during the 19th and late 20th centuries—one or more Anglo-Saxon powers seeking to diminish the power of Russia and/or China—the geography of the battlefield is considerably larger for it encompasses the entirety of post-Soviet Central Asian republics. Also included is China's province of Xinjiang which has suddenly attracted considerable Western attention, manifested, as usual, by concern for "human rights" in the region. Historically, such "concern" usually precedes some form of aggressive action. Therefore the two sets of great power actors—the US and other interested Western powers on the one hand, with Russia and China on the other—are locked in a standoff in the region.

The key security problem is militancy and the spread of terrorism. The US and its NATO partners remain unable to achieve a military victory over the Taliban in Afghanistan. The Taliban reached a level of influence in the region, turning it into a rightful party to any negotiations involving the United States. Nonetheless, it is unlikely that a fully-fledged peace deal can be reached between the sides. The Taliban's main demand is the withdrawal of all foreign troops from the country. For Washington, conceding to this would amount to public humiliation and a forceful need to admit that the superpower lost a war to the Taliban. Washington can achieve a military victory in Afghanistan only by drastically increasing its forces in the country. This will go contrary to Trump's publicly declared goal – to limit US participation in conflicts all around the world. Therefore, the stalemate will continue with the Taliban and the US sitting at the negotiating table in Qatar, while Taliban forces slowly take control of more and more territory in Afghanistan.

Besides fighting the US-backed government, in some parts of the country, the Taliban even conducts operations against ISIS in order to prevent this group from spreading further. Despite this, around 5,000 ISIS militants operate in Afghanistan's north, near the border with Tajikistan. Member states of the Collective Security Treaty Organization are concerned that ISIS militants are preparing to shift their focus to Kazakhstan, Uzbekistan, Tajikistan, Kyrgyzstan, Armenia, and Russia. The

terrorists are infiltrating CIS states, incorporating with organized crime, creating clandestine cells, brainwashing and recruiting new supporters, chiefly the socially handicapped youth and migrants, [and] training them to carry out terrorist activities. The worsening situation in Central Asia contributes to the spread of radical ideas. Now the main threat of destabilization of the entire Central Asian region comes from Tajikistan. This state is the main target of militants deployed in northern Afghanistan.

Destabilization of Central Asia and the rise of ISIS both contribute to achievement of US geopolitical goals. The scenario could devastate Russia's influence in the region, undermine security of key Russian regional ally, Kazakhstan, and damage the interests of China. The Chinese, Kazakh, and Russian political leadership understand these risks and engage in joint efforts to prevent this scenario.

In the event of further destabilization of Central Asia, ISIS sleeper cells across the region could be activated and a new ISIS self-proclaimed Caliphate could appear on the territory of northern Afghanistan and southern Tajikistan. Russia and China would not benefit from such a development. In the case of China, such instability could expand to its Xinjiang Uygur Autonomous Region, while in Russia the main targets could be the Northern Caucasus and large cities with high numbers of migrant laborers from Central Asian states.

Armenia now together with Georgia became the center of a US soft power campaign to instigate anti-Russian hysteria in the Caucasus. Ethnic groups in this region are traditionally addicted to US mainstream propaganda. On the other hand, the importance of the South Caucasus for Russia decreased notably because of the strong foothold it gained in the Middle East. 2020 is looking to be another economically complicated year for Georgia and Armenia.

Throughout 2019, China consolidated its position as a global power and the main challenger of the United States. From the military point of view, China successfully turned the South China Sea into an anti-access and area-denial zone controlled by its own military and moved forward with its ambitious modernization program which includes the expansion of China's maritime, airlift, and amphibious capabilities. The balance of power in the Asia-Pacific has in fact shifted and the Chinese Armed Forces are now the main power-broker in the region. China appeared strong enough to fight back against US economic and diplomatic pressure and to repel the Trump Administration's attempts to impose Washington's will upon Beijing. Despite economic war with the United States, China's GDP growth in 2019 is expected to be about 6%, while the yuan exchange rate and the SSE Composite Index demonstrate stability. The United States also tried to pressure China through supporting instability in Hong Kong and by boosting defense aid to Taiwan. However, in both cases, the situation appears to still be within Beijing's comfort zone.

An interesting consequence of US-led pressure on China is that Washington's actions provided an impetus for development of Chinese-Russian cooperation. In 2019, Moscow and Beijing further strengthened their ties and cooperation in the economic and military spheres and demonstrated notable unity in their actions on the international scene as in Africa and in the Arctic for example.

As to Russia itself, during the year, it achieved several foreign policy victories.

- The de-facto diplomatic victory in Syria;
- Resumption of dialogue with the new Ukrainian regime and the reanimation of the Normandy format negotiations;
- Improvement of relations with some large European players, like France, Italy, and even Germany;
- Implementation of the Nord Stream 2 project despite opposition from the US-led bloc;
- Implementation of the Turkish Stream project with Turkey;
- Strengthening of the Russian economy in comparison with previous years and the ruble's stability despite pressure from sanctions. Growth of the Russian GDP for 2019 is expected to be 1.2%, while the Russia Trading System Index demonstrated notable growth from around 1,100 points at the start of the year to around 1,500 by year's end.

The salient accomplishment of the Russian authorities is that no large terrorist attack took place in the country. At the same time, the internal situation was marked by some negative

tendencies. There was an apparent political, media, and social campaign to undermine Chinese-Russian cooperation. This campaign, run by pro-Western and liberal media, became an indicator of the progress in Chinese-Russian relations. Additionally, Russia was rocked by a series of emergencies, corruption scandals linked with law enforcement, the plundering of government funding allocated to the settlement of emergency situations, the space industry, and other similar cases. A number of Russian mid-level officials made statements revealing their real, rent-seeking stance towards the Russian population. Another problem was the deepening social stratification of the population. Most of the citizens experienced a decrease in their real disposable income, while elites continued concentrating margin funds gained through Russia's successful actions in the economy and on the international level. These factors, as well as fatigue with the stubborn resistance of entrenched elites to being dislodged, caused conditions for political instability in big cities. Liberal and pro-Western media and pro-Western organizations exploited this in an attempt to destabilize the country.

Militarization of Japan has given the US a foothold in its campaign against China, Russia, and North Korea. The Japan Self-Defense Forces were turned into a fully-fledged military a long time ago. Japanese diplomatic rhetoric demonstrates that official Tokyo is preparing for a possible new conflict in the region and that it will fight to further expand its zone of influence. The Japanese stance on the Kuril Islands territorial dispute with Russia is an example of this approach. Tokyo rejected a Russian proposal for joint economic management of four islands and nearby waters, while formally the islands will remain within Russian jurisdiction -at least for the coming years. Japan demands the full transfer of islands a term which is unacceptable to Russia from a military and political point of view. The social and economic situation in Japan was in a relatively stable, but guarded state.

Denuclearization talks between the United States and North Korea reached a stalemate after the North Korean leadership claimed that Washington was in no hurry to provide Pyongyang with acceptable terms and conditions of a possible nuclear deal. The example of the US unilateral withdrawal from the nuclear deal with Iran also played a role. The positive point is that tensions on the Korean Peninsula de-escalated anyway because the sides sat down at the negotiation table. Chances of the open military conflict involving North Korea and the United States remain low.

In February 2019, the Indian-Pakistani conflict over the disputed region of Jammu and Kashmir put the greater region on the brink of a large war with potential for the use of nuclear weapons. However, both India and Pakistan demonstrated reasonable restraint and prevented further escalation despite an open confrontation between their militaries which took place at the same moment. Meanwhile, the February escalation demonstrated the growing power of Pakistan. In the coming years, look to Jammu and Kashmir as a point of constant instability and military tensions, with very little chance that the sides will find a comprehensive political solution to their differences.

The threat of terrorism is another destabilizing factor in the region. In 2019, ISIS cells made several attempts to strengthen and expand their presence in such countries as Malaysia and Indonesia. Law enforcement agencies of both countries are well aware of this threat and contribute constant and active efforts to combat this terrorism and radicalism. It should be noted that Malaysia is in conflict with the Euro-Atlantic elites because of its independent foreign policy course. For example, its government repeatedly questioned the mainstream MH17 narrative and officially slammed the JIT investigation as politicized and nontransparent. So, the leadership of the country is forced to be in a state of permanent readiness to repel clandestine and public attempts to bring it into line with the mainstream agenda.

While the European Union is, theoretically, the world's biggest economy using the world's second most popular currency in international transactions, it remains to be seen whether, in the future, it will evolve into a genuine component of a multi-polar international system or become a satellite in someone else's—most likely US—orbit. There still remain many obstacles toward achieving a certain "critical mass" of power and unity. While individual EU member states, most notably Germany and France, are capable of independent action in the international system, individually they are too weak to influence the actions of the United States, China, or even Russia. In the past, individual European powers relied on overseas colonial empires to achieve great power status. In the 21st century, European greatness can only be

achieved through eliminating not just economic but also political barriers on the continent. At present, European leaders are presented with both incentives and obstacles to such integration, though one may readily discern a number of potential future paths toward future integration.

Continued European integration would demand an agreement on how to transfer national sovereignty to some as yet undefined and untested set of European political institutions which would not only guarantee individual rights but, more importantly from the point of view of national elites, preserve the relative influence of individual EU member states even after they forfeited their sovereignty. Even if the Euro-skeptics were not such a powerful presence in EU's politics, it would still be an insurmountable task for even the most visionary and driven group of political leaders. Such a leap is only possible if the number of EU states making it is small, and their level of mutual integration is already high.

The post-2008 Euro zone crisis does appear to have communicated the non-sustainability of the current EU integration approach, hence the recent appearance of "two-speeds Europe" concept which actually originated as a warning against the threat of EU bifurcation into well integrated "core" and a less integrated "periphery". In practical terms it would mean "core" countries, definitely including Germany, France, and possibly the Benelux Union, would abandon the current policy of throwing money at the less well developed EU member states and, instead, focus on forging "a more perfect Union" consisting of this far more homogeneous and smaller set of countries occupying territories that, over a thousand years ago, formed what used to be known as the Carolingian Empire. Like US territories of the 19th century, EU states outside of the core would have to "pull themselves up by their bootstraps" to earn membership in the core, which would require them to adopt, wholesale, the core's political institutions.

The deepening disproportion of EU member state economies, and therefore sharpening economic disputes, are the main factor of instability in Europe. The long-delayed withdrawal of the United Kingdom from the union, which is finally expected to take place in 2020, might trigger an escalation of internal tensions over economic issues which might blow up the EU from the inside. Other cornerstones of European instability are the extraordinary growth of organized crime, street crime, radicalism, and terrorism, most of which were caused by uncontrolled illegal migration and the inability of the European bureaucracy to cut off the flows of illegal migrants, integrate non-radicalized people into European society, and detect all radicals and terrorists that infiltrate Europe with migrants.

The situation is further complicated by the conflict in Ukraine and the destruction of international security treaties, such as the US withdrawal from the Intermediate-Range Nuclear Forces Treaty and its planned withdrawal from the New START (Strategic Arms Reduction Treaty). These developments go amid constant military and political hysteria of micro-states and Poland instigated by the Euro-Atlantic elites. The EU bureaucracy is using this state of hysteria and ramping up speculations about a supposed military threat from Russia and an economic and political threat from China to distract the public and draw attention away from the real problems.

The return of Russia as the diplomatic and military great power to Africa marked a new round of the geo-economic standoff in the region. The apparent Russian-Chinese cooperation is steadily pushing French and British out of what they describe as their traditional sphere of influence. While, in terms of economic strength, Russia cannot compete with China, it does have a wide range of military and diplomatic means and measures with which to influence the region. So, Beijing and Moscow seem to have reached a non-public deal on a "division of labor". China focuses on implementation of its economic projects, while Russia contributes military and diplomatic efforts to stabilize the security situation, obtaining revenue for its military and security assistance. Moscow plays a second violin role in getting these guaranteed zones of influence. Terrorism is one of the main threats to the region. The Chinese-Russian cooperation did not go without a response from their Western counterparts that justified their propaganda and diplomatic opposition to Beijing-Moscow cooperation by describing Chinese investments as "debt-traps" and the Russian military presence as "destabilizing". In 2019, Africa entered into a new round of great powers rivalry.

The intensification of US "soft power" and meddling efforts, social, economic tensions, activities of non-state actors, and organized criminal networks became the main factors of instability in South America. Venezuela and Bolivia were targeted by US-backed coups. While the Venezuelan government, with help from China and Russia, succeeded in repelling the coup

attempt, Bolivia was plunged into a violent civil conflict after the pro-US government seized power. Chile remained in a state of social economic crisis which repeatedly triggered wide-scale anti-government riots. Its pro-US government remained in power, mainly, because there was no foreign 'democratic superpower' to instigate the regime change campaign. Actions of the government of Colombia, one of the key US regional allies, undermined the existing peace deal with the Revolutionary Armed Forces of Colombia (FARC) and forced at least a part of the former FARC members to take up arms once again. If repressions, killings, and clandestine operations aimed at the FARC members committed to the peace continue, they may lead to a resumption of FARC-led guerrilla warfare against the central government. The crisis developing in Mexico is a result of the growth of the drug cartels-related violence and economic tensions with the United States. The right-wing Bolsonaro government put Brazil on track with the US foreign policy course to the extent that, the country worked with Washington against Venezuela, claiming that it should not turn into 'another Cuba'. A deep economic crisis in Argentina opened the road to power for a new left-centric president, Alberto Fernandez. **Washington considers South America as its own geopolitical backyard and sees any non pro-US, or just national-oriented government, as a threat to its vital interests.** In 2020, the US meddling campaign will likely escalate and expand, throwing the region into a new round of instability and triggering an expected resistance from South American states. An example of this is the situation in Bolivia. Regardless of the actions of ousted President Evo Morales, the situation in the country will continue escalating. The inability of the pro-US government to deliver positive changes and its simultaneous actions to destroy all the economic achievements of the Morales period might cause Bolivia to descend into poverty and chaos causing unrest and possibly, a civil war.

During 2019, the world superpower, led by the administration of President Donald Trump, provided a consistent policy designed to defend the interests of US domestic industry and the United States as a national state by any means possible. This included economic and diplomatic pressure campaigns against both US geopolitical competitors and allies. The most widely known Trump administration move of this kind was the tariff war with China. However, at the same time, Washington contributed notable efforts in almost all regions around the globe. For example, the United States opposed Chinese economic projects in Africa, Russia's Nord Stream 2 gas pipeline in Europe, tried to limit exports of the Russian defense industry, pressured NATO member states who did not want to spend enough on defense, and proposed that US allies pay more for the honor and privilege of provided "protection". Additionally, Trump pressured the Federal Reserve Board of Governors into lowering interest rates and announced plans to lower interest rates even further to weaken the dollar in order to boost national industry and increase its product availability on the global market. These plans caused strong resistance from international corporations and global capitalists because this move may undermine the current global financial system based upon a strong US dollar. This straightforward approach demonstrated that Trump and his team were ready to do everything needed to protect US security and economic interests as they see them. Meanwhile, it alienated some "traditional allies", as in the case of Turkey which decided to acquire Russian S-400s, and escalated the conflict between the Trump Administration and the globalists. The expected US GDP growth in 2019 is 2.2%. The expected production growth of 3.9% reflects the policy aimed at supporting the real sector. In terms of foreign policy, the White House attempted to rationalize US military presence in conflict zones around the world. Despite this, the unprecedented level of support to Israel, confrontation with Iran, China, and Russia, militarization of Europe, coups and meddling into the internal affairs of sovereign states remain as the main markers of US foreign policy. Nevertheless, the main threat to United States stability originates not from Iranians, Russians, or Chinese, but rather from internal issues. The constant hysteria in mainstream media, the attempt to impeach Donald Trump, and the radicalization of different social and political groups contributes to destabilization of the country ahead of the 2020 presidential election.

The year 2019 was marked by a number of dangerous developments. In spite of this, it could have been much more dangerous and violent. Political leadership by key actors demonstrated their conditional wisdom by avoiding a number of open military conflicts, all of which had chances to erupt in the Middle East, South Asia, East Asia, South America, and even Europe. A new war in the Persian Gulf, US military conflict with North Korea, an India-Pakistan war -none of these were started. A peaceful transfer of power from Petro Poroshenko to Volodymyr Zelensky in Ukraine allowed for the avoidance of a military escalation in eastern Europe. China and the United States showed their restraint despite tensions in the Asia-Pacific, including the Hong Kong issue. A new global economic crisis, expected for some time by many experts, did not happen. The lack of global economic shocks or new regional wars in 2019 does not mean that knots straining relations among

leading world powers were loosened or solved. These knots will remain a constant source of tension on the international level until they are removed within the framework of diplomatic mechanisms or cut as a result of a large military conflict or a series of smaller military conflicts.

Chances seem high that 2020 will become the year when a match will be set to the wick of the international powder keg, or that it will be the last relatively calm year in the first quarter of the 21st century. The collapse of international defense treaties and de-escalation mechanisms, as well as accumulating contradictions and conflicts among world nations give rise to an especial concern.

VIDEO: Global Trends

Produced by [Southfront.org](https://southfront.org)



Video URL:
<https://southfront.org/wp-content/plugins/fwduvp/content/video.php?path=https%3A%2F%2Fsouthfront.org%2Fmilitary-and-political-trends-of-2019-that-will-shape-2020%2F&pid=1835>

Which weapon that is used to create the triggering threat or respond to a threat may be irrelevant?

However, until such day an Investment Thesis that of what is unfolding needs to be thought through.

WHAT FORMS: HAS >/> WILL CONFLICT TAKE?

TRADITIONAL

- EMBARGOES
- TRADE WARS
- MILITARY WARS
- CURRENCY WARS

TODAY - NEW FORMS

- SANCTIONS
- STEALTH CYBER DISRUPTIONS
- "CO-OPTING" - Election Interference
- Subversion Civil Unrest Creation
- MIS-INFORMATION & 24H NEWS CYCLE

What can a financial crisis lead to?

EXPECT NEW TECHNOLOGY TO:

- DESTABILIZE "MAD" BALANCE
- ALTER CURRENCY CREATION (CRYPTOCURRENCIES)
- WEAPONIZE WEATHER, SPACE, & ROBOTICS,
- DIGITAL DISRUPTORS SUCH AS EMP,

NORMALLY: "FINANCIAL" DRIVER: SLOWING RATE OF ECONOMIC GROWTH

- MORE "HARD" MILITARY

- MORE "SOFT" ECONOMIC"

That is what we will explore next

PART III: NON-FIAT CURRENCIES

MACRO MAP PLATFORM

SEARCHED: THE ENDING MARKET FOLD-NEAR

STAGE I 1980-2008

STAGE II 2008-2013

STAGE III 2013-2019

STAGE IV 2019-2023

POST FINANCIAL CRISIS ROADMAP

DIRECTIONAL

NON-FIAT CURRENCIES ALTERNATIVES

- YELLOW GOLD (Precious Metals)
- BLACK GOLD (Oil)
- CYBER GOLD (Crypto Currencies)

WHY PRECIOUS METALS & CRYPTO CURRENCIES ARE HEADED HIGHER:

- Global Liquidity & Counterparty Risk
- Passive Funds - ETF are a "mouse click" from liquidity crisis
- Advancement of Synthetic ETFs (JP Morgan)

APPENDIX: VIDEO

EMERGING ERA OF POLITICAL & SOCIAL CONFLICT - Part II

The largest wealth and political gaps since the late 1930s exist, which is leading to the emergence of and conflicts between: populists of the left and populists of the right; the elites v bottom 80%; Regional Economic Threats

Trade Wars, Capital Wars, Technology Wars, Military Wars.

What can a financial crisis lead to?

Unprecedented Military investments

MACRO MAP PLATFORM

DIRECTIONAL

URL: <https://youtu.be/MTUGIb8cIWk>

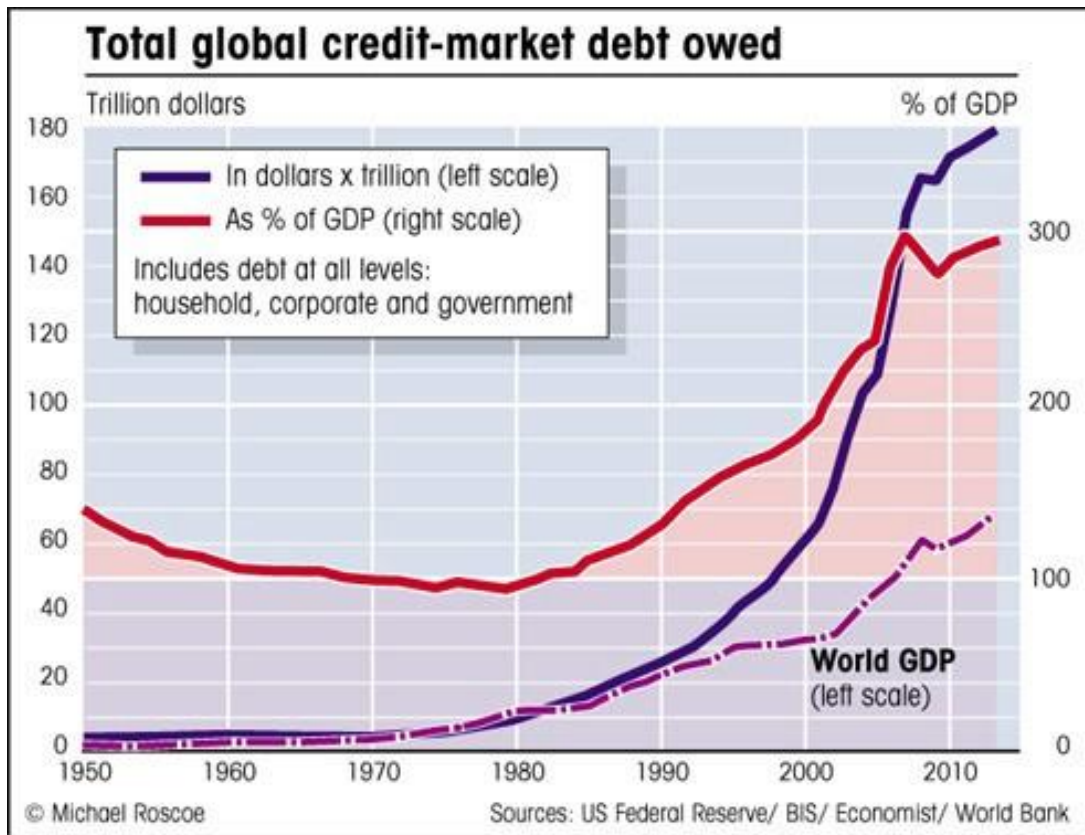
5-ADVANCED FINANCIAL & CURRENCY WARS

KEY MESSAGES

- The Debt Super-Cycle which was kicked off in 1980 with International Balance of Trade Settlements using credit versus gold is coming to an end.
- The Kondratieff Long Wave Cycle is in the "winter" part of its cycle and has been delayed from ravaging the economy and financial markets by untested massive monetary policies of Financial Repression.
- Debt usury fees which have been growing at a faster rate than the economy for an extended period of time are now consuming much needed investment capital.
- Lending is based on Collateral which through Rehypothecation and Collateral Swaps is now highly suspect and exposed to third party failure and collateral contagion.
- The 2008 Financial Crisis which stemmed from the short term funding market seizing up due ABCP being used to borrow short and lend long has been replaced by Repo funding with inherent problems associated with Failing Excess Bank Reserves and banks unwillingness to lend overnight / short term to other banks.
- Policies of Unsound Money and Global Imbalanced are now placing strains on Fiat Currencies which are well advanced on the roadway to failure which has historically always occurred with Fiat Currencies.

END OF THE DEBT SUPPER CYCLE

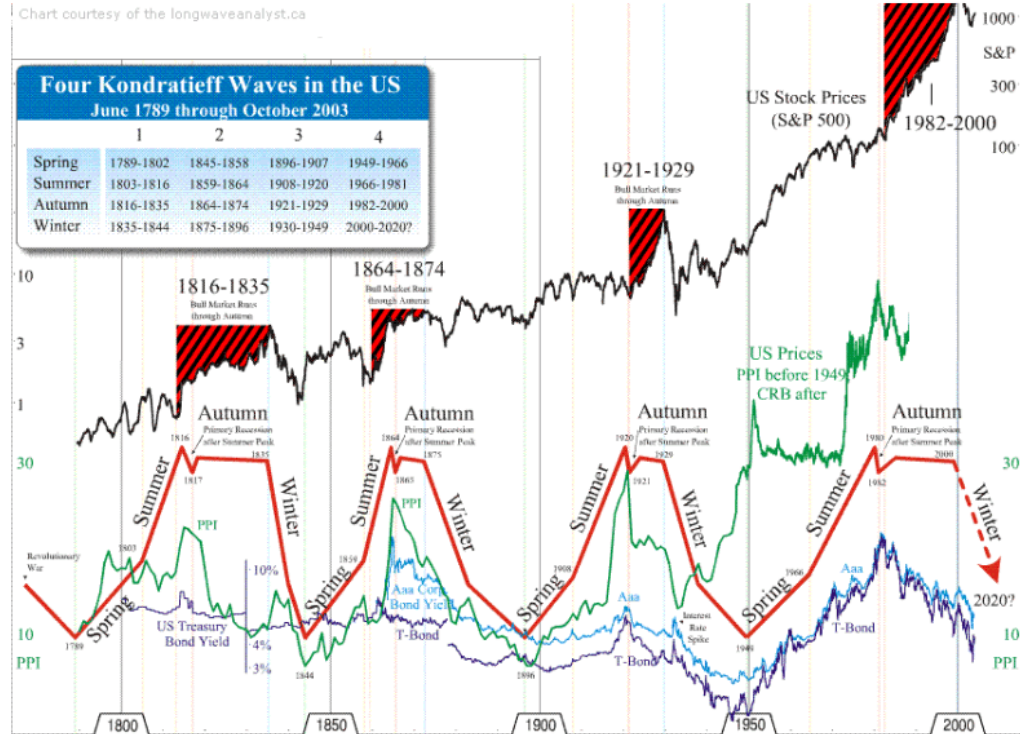
The Debt Super-Cycle which was kicked off in 1980 with International Balance of Trade Settlements using credit versus gold is coming to an end.



Debt usury fees which have been growing at a faster rate than the economy for an extended period of time are now consuming much needed investment capital.

THE KONDRATIEFF 'WINTER' SIGNALS THE END OF THE DEBT SUPER-CYCLE

The Kondratieff Long Wave Cycle is in the "winter" part of its cycle and has been delayed from ravaging the economy and financial markets by untested massive monetary policies of Financial Repression.



The international economy operates in pulses christened Kondratieff waves after Nicolai Kondratieff (1892-1938), the Russian economist and statistician who first identified them. These K-waves consist of an expansionary upswing lasting normally 15-20 years, followed by a downswing of similar length. We are now in such a downswing that could last till the 2030's.

- Social and economic conditions mature to spark a runaway investment boom in the latest cluster of new technologies.
- After a period, excess investment and increased competition lower rates of profitability, curbing the boom.
- At the same time – because this is as much a sociological as an economic process – growth expands the global workforce, both in numbers and geographically.
- The new, militant workforce launches social struggles to capture some of the wealth created in the boom.
- This, in turn, adds to the squeeze on profits.
- The peak and early down wave are characterized by violent social conflicts, whose outcome determines the length of the contraction.

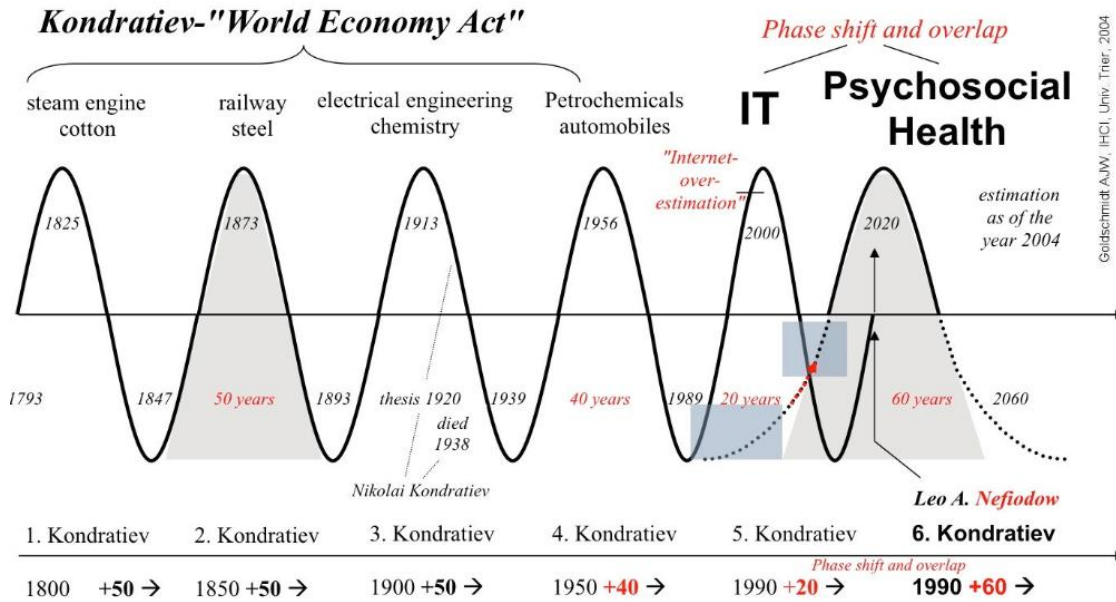
To date each K-wave has seen a crushing of social protest and a halt to wage growth, if not a fall in real incomes for the working class.

- Thus conditions accumulate for a fresh investment boom, as profitability recovers.
- The ultimate trigger for the new up-cycle is investment in the next bunch of new technologies, which simultaneously provide monopoly profits and a new set of markets.

UPSWING OR DOWNSWING: WHERE ARE WE ON THE K-WAVE?

Nikolai Kondratiev: Anti-Marxist theory about 1920's; empirical study UK/USA
 Josef Schumpeter: Definition of a "Kondratiev"-Unit
 Leo A. Nefiodow: 6th Kondratiev "Psychosocial Health"

**"applicable" to a national economy in general,
 not applicable to all participants in a "market"**

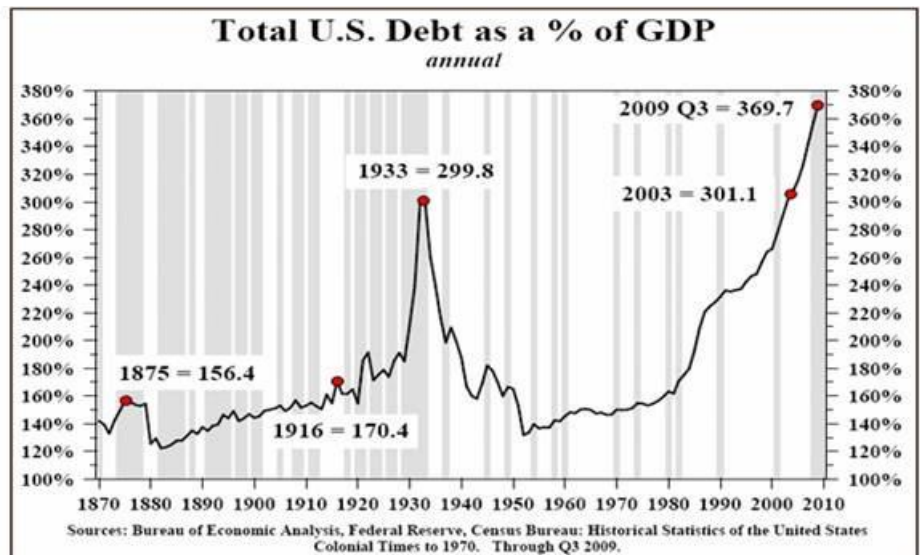


- The current upswing lasted till the Bank Crash of 2010.
- There were several significant features of the 1985-2010 up-wave.
- First, it was longer than the average, suggesting the current downturn could also be lengthy.
- Second, the neoliberal upswing involved a commercial and political victory for a rejuvenated US capitalism.
 - Witness the current dominance of American high-tech. Europe, on the other hand, finds itself in decline, crushed between rival American and Chinese imperialisms.
 - The crisis of the EU, Brexit included, results directly from this geopolitical shift.

The new downswing results from more than the 2008/9 financial crisis.

- There has been a wave of Chinese and Asian working-class resistance to exploitation, which has eroded profits.
- In the West, paradoxically, the historic defeat of the unions has flat lined wages. As a result, goods can be sold (and profits maintained) only by bolstering consumption through easy personal debt.
- That makes the Western capitalist model unsustainable and prone to endemic bank failure.

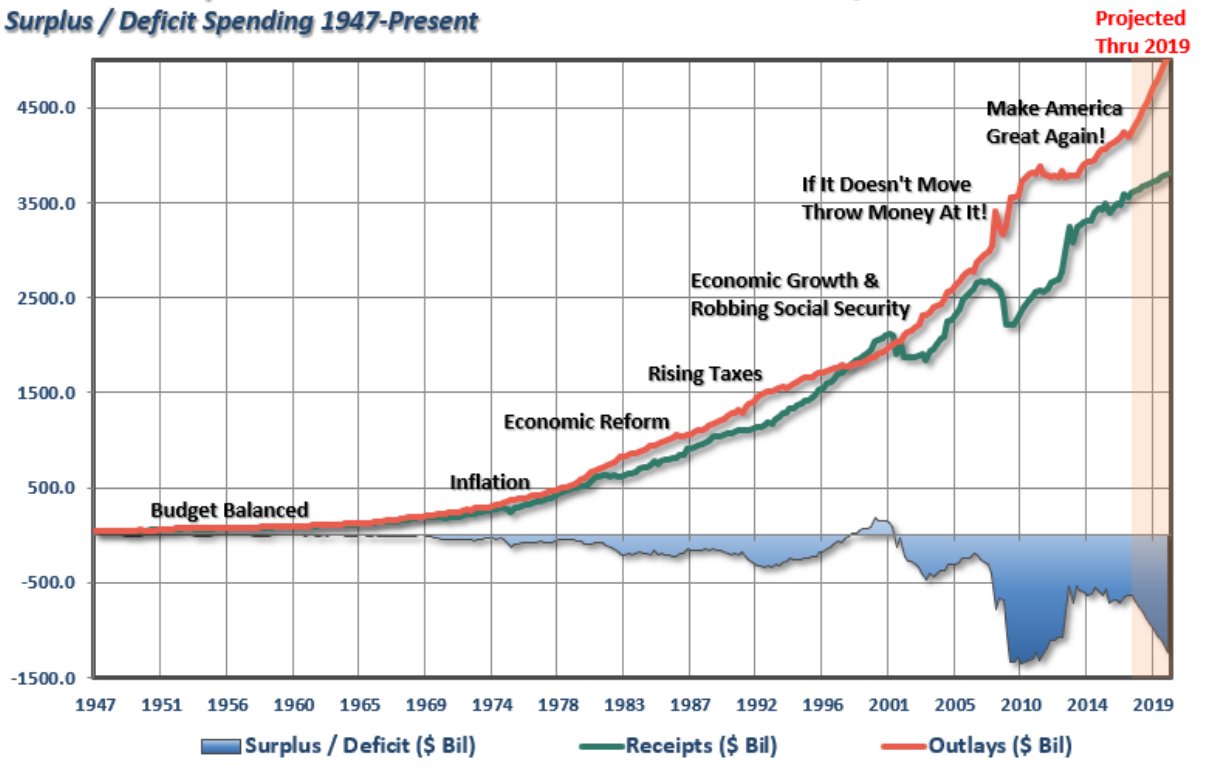
The banks and their tame accounting firms are busy covering up this chronic instability via wholesale fraud. As a result, we are nowhere near the bottom of this K-wave.



Mind The Gap!

Surplus / Deficit Spending 1947-Present

REAL INVESTMENT ADVICE



A FALLING MARKET CANNOT BE ALLOWED – at any cost!

The Central Bankers have clearly painted themselves into a corner as a result of their self-inflicted, extended period of “cheap money”. Their policies have fostered malinvestment, excessive leverage and a speculative casino approach to investments. Investors forced to take on excess risk for yield and scalp speculative investment returns, must operate in an unstable financial environment ripe for a major correction. A correction because of the high degree of market correlation that likely would be instantaneously contagious across all global financial markets.

Any correction more than 10% must be stopped. As a result of the level of instability, even a 10% corrective consolidation could get quickly out of control, so any correction becomes a major risk. What the central bankers are acutely aware of is:

- If Collateral Values were to fall with the excess financial leverage currently in place, it would create a domino effect of margin calls, counter-party risk and immediate withdrawals and flight to areas of perceived safety.
- The already massively underfunded pension sector (which is now beginning to experience the onslaught of baby boomers retiring) would see their remaining assets impaired. This could lead to social and political pressures that would be simply unmanageable for our policy leaders.
- A falling stock market is the surest way of alarming consumers and signaling that things are not as “OK” as the media mantra has continuously brain washed them into believing. In a 70% consumption economy, a worried consumer almost guarantees a further economic slowdown and a potential recession.

As our western society continues to consume more than it produces, productivity is not increasing at the rate that justifies the developed nations standard of living as well as the current levels of equity markets. A possible corrective draw-down to the degree shown in this chart is simply “out of the question”! The central bankers are acutely aware of this.



MARKETS TEMPORARILY HELD UP

The markets are presently, temporarily held up due primarily to three factors:

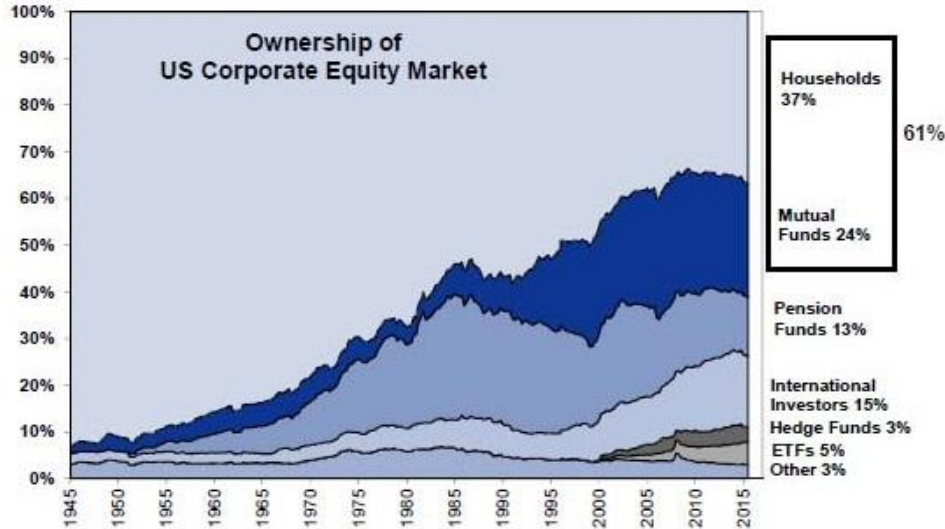
- Historic levels of Corporate Stock Buybacks,
- The chasing of dividend paying stocks for investment yield in a NIRP environment,
- Unusual Foreign Central Bank buying (example: SNB)

Professionals, institutions, hedge funds etc have been steadily lightening up on equity markets (or simply leaving completely) leaving the public holding the bag.

It was estimated in 2016 that the \$325B would leave the US equity markets and be replaced by an artificial \$450B of corporations buying their stocks. With corporate cash flows falling and debt burdens triggering potential credit rating downgrades, the game was quickly slowing. The central bankers were aware of this which prompted further central bank actions which was a shock to the central bankers and caught them flat footed. It prompted major QE / QQE action from the ECB and Japan.



Exhibit 1: Ownership of US corporate equity market (\$36 trillion)
 as of 2Q 2016; includes \$7 trillion of foreign equity holdings



Source: Federal Reserve and Goldman Sachs Global Investment Research.

Exhibit 2: Net US equity demand
 as of 2Q 2016

Category	Net US equity demand					
	Sep-15	Dec-15	2015	Mar-16	Jun-16	2016E
ETFs	\$ 22	\$ 78	\$ 173	\$ (7)	\$ 8	\$ 125
Mutual Funds	9	(60)	56	(3)	(19)	(25)
Life Insurance	(2)	(1)	(3)	1	1	-
Households	(158)	27	1	4	87	250
Foreign Investors	(10)	(130)	(171)	(108)	(46)	(125)
Pension Funds	(37)	(44)	(179)	(28)	(42)	(175)
Other	(1)	18	(5)	(39)	(2)	
less						
Foreign equities by US	54	54	(203)	61	(131)	(325)
Credit ETF purchases	(22)	(12)	(55)	(32)	(15)	(50)
Net demand ex- corp.	(144)	(70)	(385)	(152)	(159)	(325)
Corporations	\$ 165	\$ 151	\$ 561	\$ 154	\$ 174	\$ 450
Total net demand	\$ 22	\$ 81	\$ 176	\$ 3	\$ 15	\$ 125

Source: Federal Reserve and Goldman Sachs Global Investment Research.

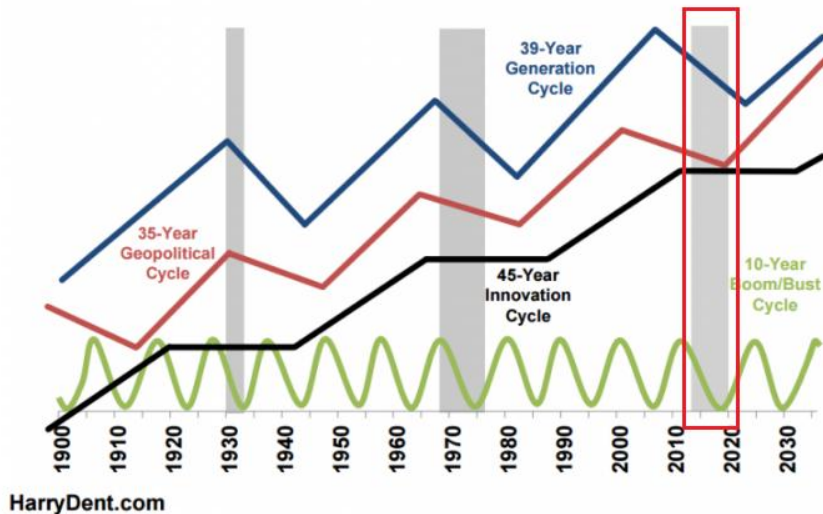
TECHNICALS INDICATING AN END TO THE DEBT SUPPER CYCLE

- **KONDRATIEFF CYCLE:** The 55 Year generational Kondratieff Cycle shows an overdue major downturn with a cleansing of debt as part of the end to what has been termed the "Debt Supper Cycle",

- **DEMOGRAPHIC CYCLES:** Harry Dent has done some major work on Demographic Cycles and cycles overall. I interviewed him for the Financial Repression Authority where you [can find the video](#) and he lays out the seriousness of the shifting demographics and how it overlays of many different types of cycles he has studied.

Hierarchy of Macroeconomic Cycles

Developed Countries



- **ELLIOTT WAVE**

The technicians who study Elliott Wave see clear evidence that we are now completing a multi-decade topping pattern in the form of a classic megaphone top.

THE END OF THE DEBT SUPER CYCLE COMPLETING A LONG TERM MEGAPHONE TOPPING PROCESS



Chart courtesy of [Robert McHugh](#)

The central bankers are aware of this.

- **TECHNO-FUNDAMENTALS**

I could keep on illustrating the types of warnings we are seeing, but let me share what the central bankers are likely most concerned about regarding Correlation, Liquidity and Volatility ETPs.

The markets have become so correlated (think of this as everyone on the same side of the boat) with asset correlations not only being higher, but the correlations themselves are becoming more correlated. While traditionally rising cross-asset volatility has resulted in volatility spikes, [that is no longer the case due to outright vol suppression by central banks](#). While central banks may have given the superficial impression of stability by pressuring volatility, they have also collapsed liquidity in the process, leading to less liquid markets, a surge in “gaps”, and “jerky moves” that are typical of penny stocks.

The greater the cross asset correlation, the lower the vol, the greater the repression, the more trading illiquidity and wider bid ask-spreads, and ultimately increased “gap risk”, which becomes a feedback loop of its own. Global central banks are now injecting a record \$2.5 trillion in fungible liquidity every year – in the process further fragmenting and fracturing an illiquid market which is only fit for notoriously dangerous “penny stocks.”

“More than \$50 billion has poured into low-volatility indexed exchange-traded funds over the past five years or so, in the wake of the 2008-09 market meltdown. There are now 14 “lo-vol” ETFs with assets exceeding \$100 million each, and many more with less. Whenever the market hits a pothole, these ETFs enjoy a bump-up in assets.”

Ticker	Fund	Issuer	Fee	Mgmt. Assets (billions)
USMV	iShares Edge MSCI Min Vol USA ETF	BlackRock	0.15%	\$15.27
SPLV	PowerShares S&P 500 Low Volatility Portfolio	Invesco PowerShares	0.25%	\$7.97
EFAV	iShares Edge MSCI Min Vol EAFE ETF	BlackRock	0.20%	\$7.65
EEMV	iShares Edge MSCI Min Vol Emerging Markets ETF	BlackRock	0.25%	\$4.02
ACWV	iShares Edge MSCI Min Vol Global ETF	BlackRock	0.20%	\$3.22
SPHD	PowerShares S&P 500 High Div Low Vol Portfolio	Invesco PowerShares	0.30%	\$2.35

Source: ETF.com

Even more concerning are Volatility ETPs (Exchange Traded Products) which are derivative of some underlying asset. Volatility ETFs are particularly strange animals since you’re buying a derivative (ETF) on a derivative (the futures contract) which itself is based on a derivative (the implied volatility of options) and those options themselves of course are derivatives which themselves are based on the S&P 500. Getting the picture? The folks at [Capital Exploits warn](#):

....everyone is on the low volatility side of the boat, because the central banks have managed to create a sense of calm in the markets exhibited by record lows in volatility and investor have used linear thinking

extrapolated well into the future assuming ever greater risk ignoring market cycles and extremes at their peril.

Every time you sell volatility you get paid by the counter-party who is typically hedging the volatility (going long) of a particular position and paying you for the privilege. This is not unlike paying a home insurance premium where the insurer takes the ultimate risk of your house burning down and you pay them for the privilege. **The difference however between selling volatility in order to protect against an underlying position and selling volatility in order to receive the yield created is enormous.** And yet this is the game being played.

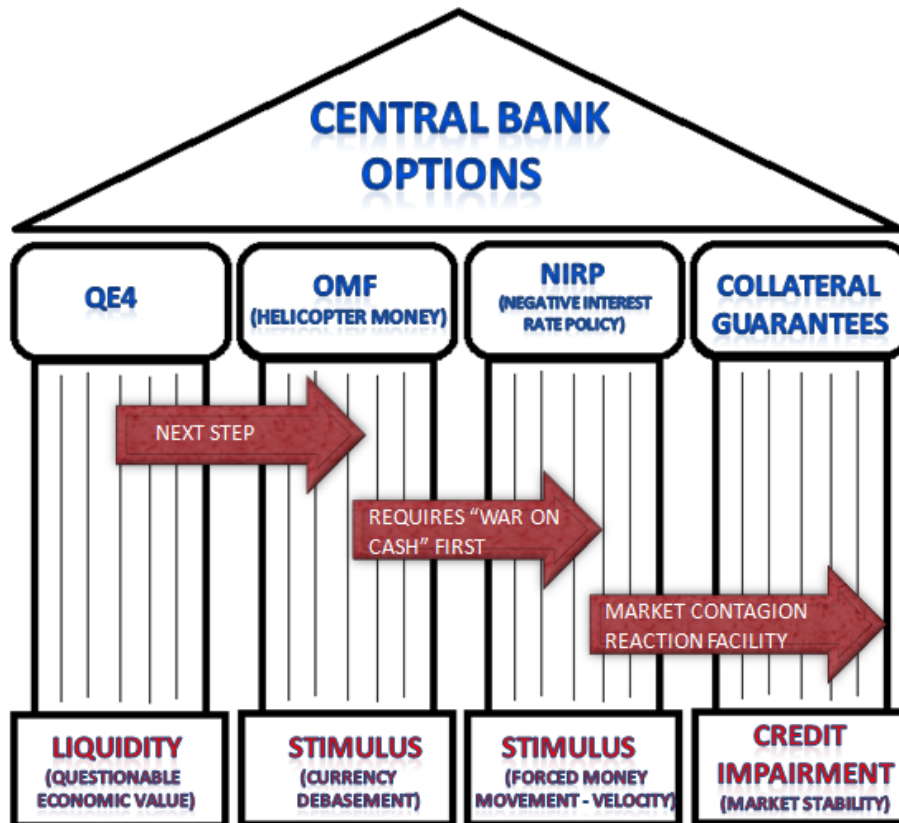
The central banks have managed to create a sense of calm in the markets exhibited by record lows in volatility and for their part Joe Sixpack investor has used linear thinking extrapolated well into the future assuming ever greater risk ignoring market cycles and extremes at their peril.

Again, none of this is going unnoticed by the increasingly worried central bankers.

THE NEXT FED POLICY SHIFT

So what can the central bankers be expected to do? We laid out this road-map at the Financial Repression Authority well over a year ago. We anticipated in our macro-prudential research much of what has now become mainstream discussion:

- Helicopter Money (now openly discussed)
- Fiscal Infrastructure Stimulus (has become part of all candidates election platforms)
- Collateral Guarantees
 - Buying Corporate Bonds – DONE (ECB, BOE)
 - **PLUS more on Collateral Guarantees**



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We now believe the Central Bankers and Federal Reserve specifically is preparing for more in the way of Collateral Guarantees.

We believe it will actually take the form of direct buying the US stock market similar to what the Bank of Japan is already doing with ETFs.

THE "MINSKY MELT-UP"

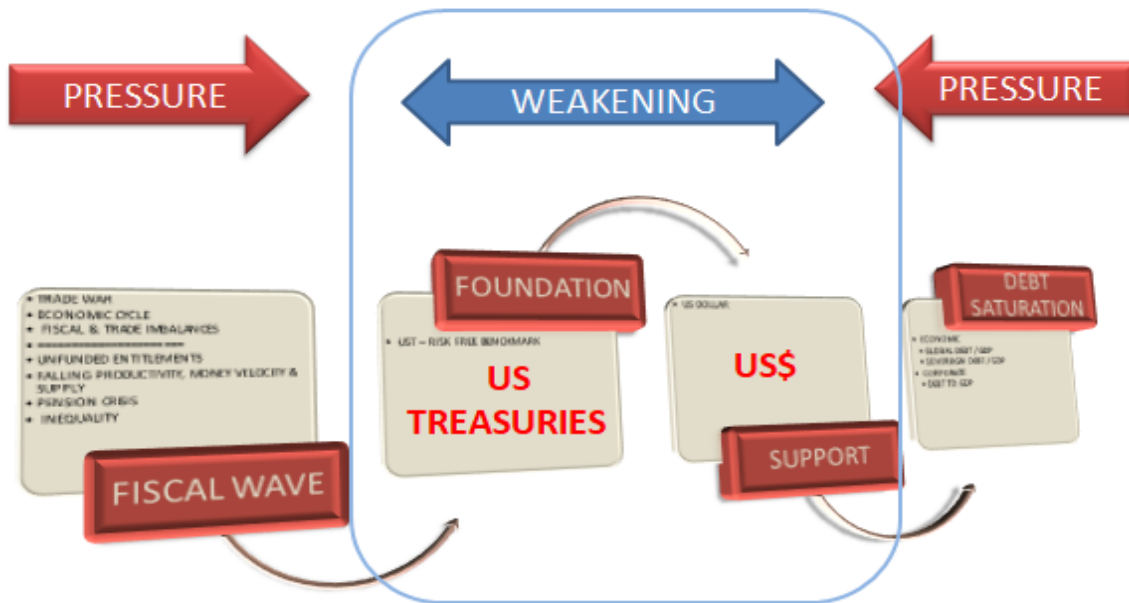
My long time Macro Analytics Co-Host, John Rubino concludes in his most recent writing "[Flood Gates Begin to Open](#)":

Individual countries have in the past tried "temporarily higher rates of inflation," and the result has always and everywhere been a kind of runaway train that either jumps the tracks or slams into some stationary object with ugly results. In other words, the higher consumption and investment that might initially be generated by rising inflation are more than offset by the greater instability that such a policy guarantees.

But never before has the whole world entered monetary panic mode at the same time, which implies that little about what's coming can be said with certainty. It's at least probable that a combination of massive deficit spending and effectively unlimited money creation will indeed generate "growth" of some kind. But it's also probable that once started this process will spin quickly out of control, as everyone realizes that in a world where governments are actively generating inflation (that is, actively devaluing their currencies) it makes sense to borrow as much as possible and spend the proceeds on whatever real things are available, at whatever price. Whether the result is called a crack-up boom or runaway demand-pull inflation or some new term economists coin to shift the blame, it will be an epic mess.

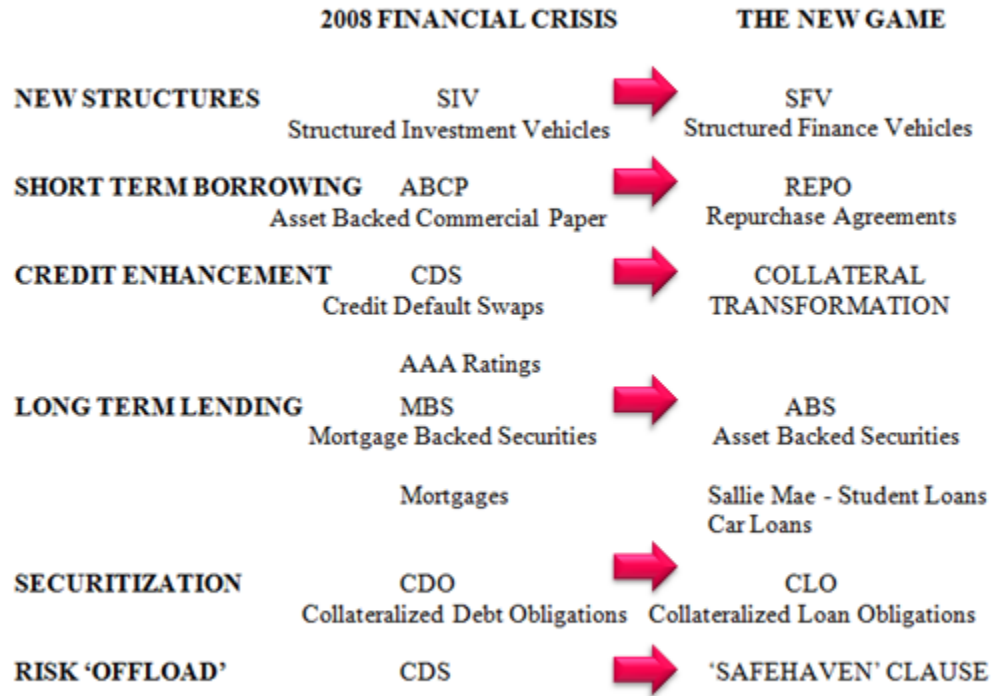
And apparently it's coming soon.

US\$ & US 'RISK FREE' TREASURIES



COLLATERAL CONTAGION

SAME GAME, NEW ACRONYMS
The Acronyms for the Next Crisis



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SECURED COLLATERAL IS THE PROBLEM

COLLATERAL CONTAGION ↔ REHYPOTHECATION

Collateral Transformation is a key part of central banks' liquidity insurance role in financial markets.

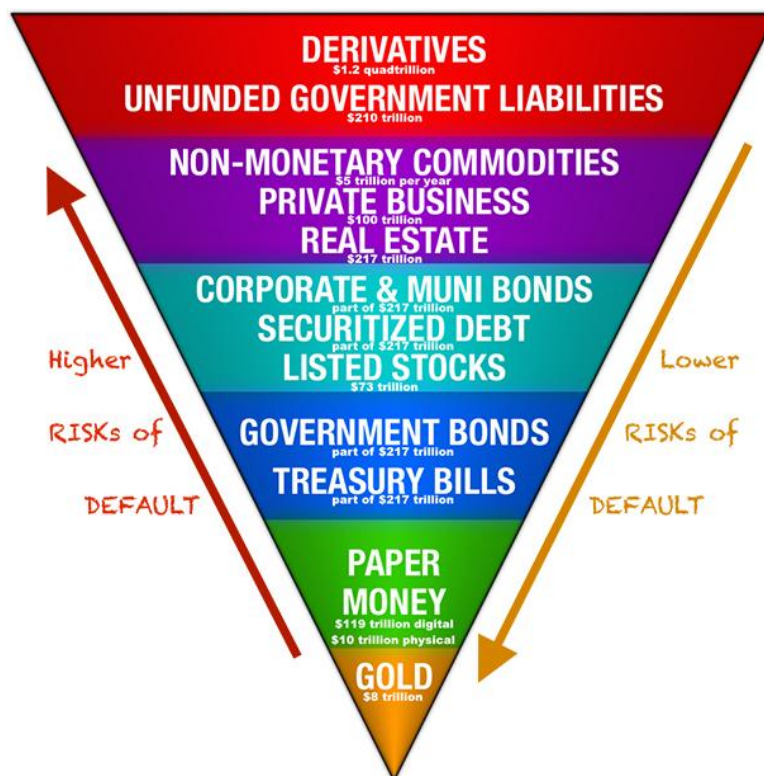
Collateral Transformation allows participating banks to temporarily exchange less liquid forms of collateral, for collateral which is more liquid

- Collateral management became a survival tool for financial firms trading over-the-counter derivatives as regulators mandated central clearing and highly liquid instruments for initial variable margins.
- Collateral transformation—the art of turning illiquid assets into usable margin—was born as they reached for assets to back their trades, and became a profitable service business for a handful of pioneers.

- According to the Bank of International Settlements (BIS), an estimated 70% of the total annually traded volume of OTC contracts will be centrally cleared this year, creating a collateral requirement of between US\$4.7 trillion and US\$5.3 trillion.
- With eligible assets in short supply at many firms, the need to post more and updated margin with a central body put a premium on efficient use of collateral.
- While some firms are learning to free up eligible assets by shuffling their portfolios, many remain significantly short of meeting their margin requirements.
- To fill this gap, a dozen firms including custodians, dealers, and settlement houses are currently offering to convert ineligible assets into usable ones.
- Essentially, these collateral transformation facilities enable clients to post **illiquid securities** that the intermediary swaps **into cash in the repo and securities lending markets** before posting it with the central counterparty clearing houses (CCPs) that ended one-on-one OTC derivative trades by individual firms.
- Succeeding in this market requires more than an ability to transform collateral via repo and securities lending markets or access to highly liquid assets, however. For example, the technological undertaking is not a simple one. Firms must have an architecture that combines data management, automation of flexible business rules, collateral-matching algorithms, performance analytics, risk measurement, monitoring and reporting.

EXTER COLLATERAL PYRAMID

According to Exter's model, those derivatives with the weakest and furthest links from base money are the first to be rejected and potentially bankrupted. As confidence vanishes and a broad based liquidation process ensues, the higher risk asset class values cascade into their underlying **collateral**.



EXTER PYRAMID

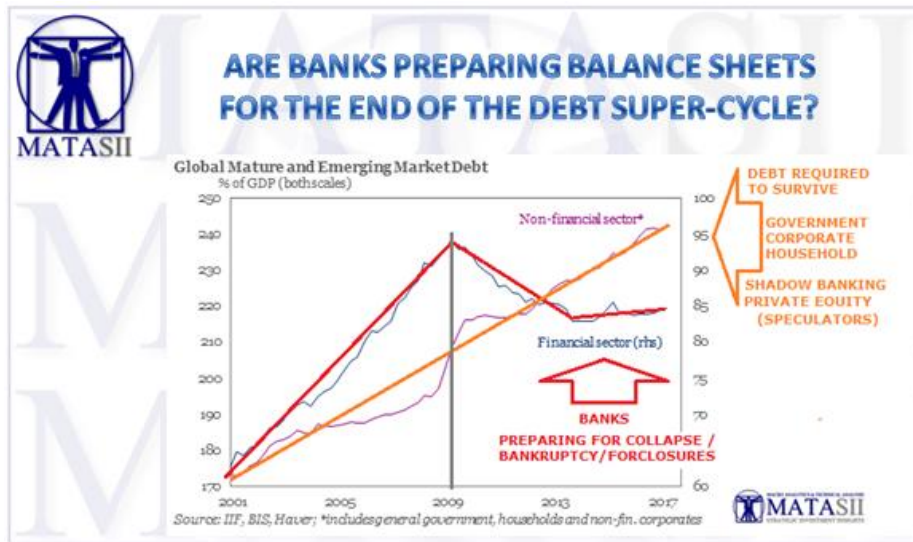
DOES NOT Illustrate the magnitude of the actual distortion!! i.e. SWAPS ~ \$500T (BIS)



TWO WAY INSTABILITY & COLLAPSE

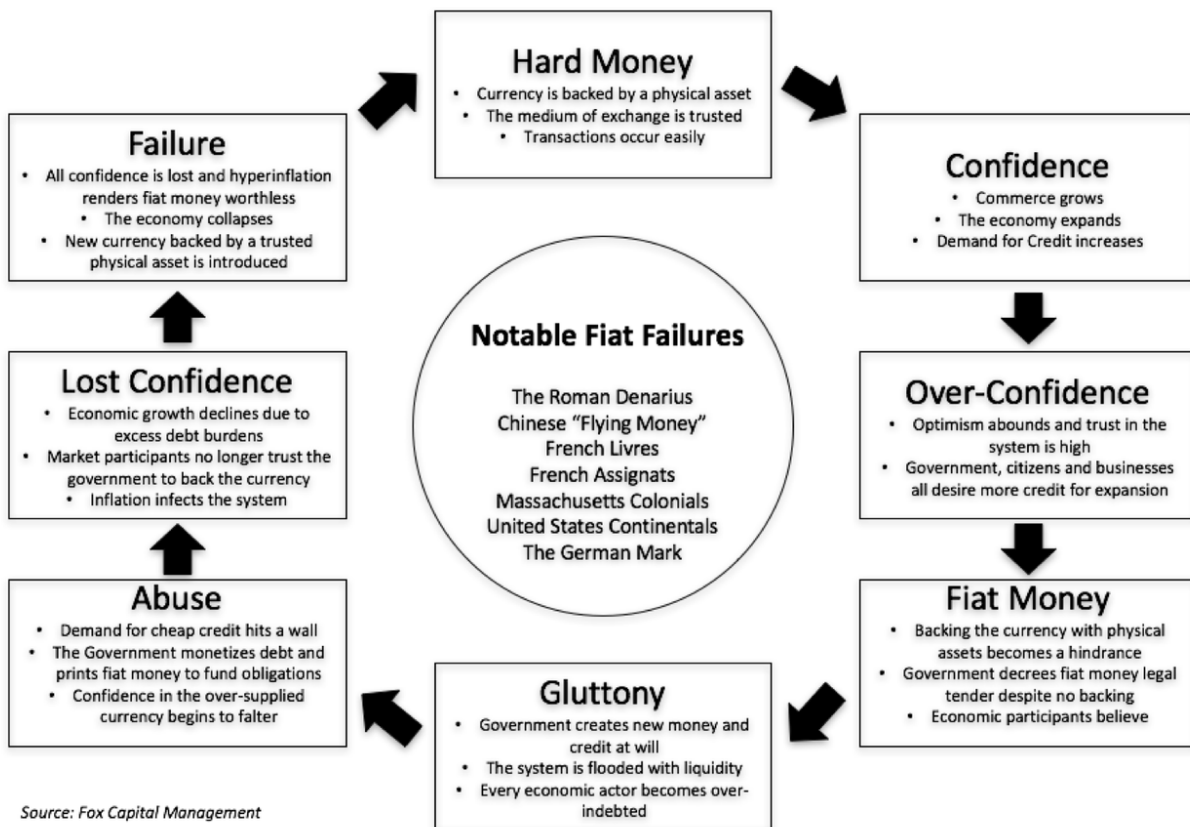


A **Collateral Swap** is a form of secured lending whereby one counter-party transfers relatively liquid assets to another in exchange for a pledge of less liquid **collateral**.



ROADMAP TO FIAT CURRENCY FAILURE

The Fiat Currency Cycle



VALUE VERSUS PRICE

WEALTH VERUSUS MONEY

WEALTH IS CREATED BY:

1. Mining It,
2. Growing It
3. Building It

IT IS NOT CREATED BY PRINTING IT!



Unwilling or unable to meet the world's central banks' DEMANDS for the gold that backed the dollar, Nixon and the US Treasury DEFAULTED on the promises of Bretton Woods I by removing the GOLD reserves that backed the world's reserve currency and thereby converted the functions of the US dollar from:

- ✓ A medium of exchange
- ✓ A store of value
- ✓ A measure of value
- ✓ A standard of value
- ✓ No one else's liability
- ✓ Moving purchasing power through time and space



MONEY

- 1- A Store of Value (*Purchasing Power*),
- 2- A Medium of Exchange,
- 3- Unit of Account,
- 4- Measure of (*Perceived*) Value,
[Price is What you Pay, Value is what you get]
- 5- Basis of Credit

ILLUSION OF MONEY

Money illusion posits that people have a tendency to view their wealth and income in nominal dollar terms, rather than recognize its real value, adjusted for inflation. Economists cite factors such as a lack of financial education, and the price stickiness seen in many goods and services as triggers of **money illusion**.

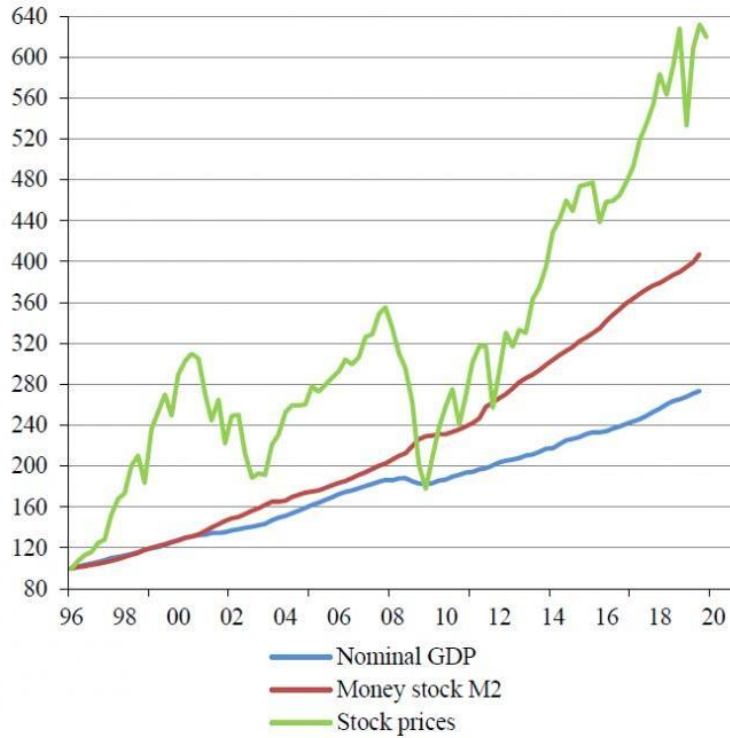
STATISTICAL GAMES:

- Basket Selection & % Allocation
- Substitution
- Hedonics
- Imputation
- 16% Trimmed-Mean

Statistics Don't Lie! But, Statisticians Do!!

The rise in the quantity of money inflates prices

US GDP, M2 and S&P 500⁽¹⁾



Source: Thomson Financial; own calculations.

⁽¹⁾ Series are indexed (Q1 '96 = 100).

APPENDIX: VIDEO

TO BE RELEASED 01-30-20
 See MATASII Web Site

6- RESULTING INVESTMENT TRENDS FOR THE 20's

KEY MESSAGES

- The Era of Global Conflict will result in radical policy extremes in an attempt to maintain the status quo.
- Politicians and Policy Planners will resort to changing established rules.
- Expect changes in the laws, regulations and taxation.
- Disruptions will cause increasing shortages and attempts at hoarding. This will add further to inflationary pressures.
- The challenge to Investors will be to maintain the real value of their capital holdings.
- Investments in various forms of Defense, Value versus Growth, Hard Assets, Precious Metals and Commodities will have their "day in the sun".
- Currency erosion will drive perceived inflation higher with some Fiat Currencies seeing early signs of Hyper-Inflation in the 20's
- Investors will need to pay particular attention to short versus intermediate versus long term timing of investments. The coming Fiat Currency collapse will go through various stages which will require many longer term investment themes and strategies to shift as they develop.

RADICAL POLICY EXTREMES

If you found QE, QQE and TLTRO monetary policies as extreme we have seen nothing compared to what we will likely see unfold in the 20's.

MONETARY POLICY

Policy extremes will continue in Monetary Policy with:

- Various forms of Modern Monetary Theory (MMT or "Helicopter Money"),
- Expansion of QE to include Corporate Bonds (as currently done by the ECB)
- Expansion of QE into the acquisition of Equities versus Treasury Bill, Notes, Bonds and MBS.
- Collateral Guarantee Facilities,

FISCAL POLICY

The dramatic expansion of Fiscal "Stimulus" spending to include major expenditures in:

- Physical Infrastructure.
- Cyber Security Infrastructure,
- Student Loans,
- Public & Private Pension "Bailouts".

PUBLIC POLICY

Public Policy changes to fund existing entitlement programs and broaden to include:

- Universal Basic Income.

All of these policies stemming from Unsound Money and the slowing rate of real economic growth will continue to destabilize the existing economic financial system.

CHANGING RULES: LAWS, REGULATIONS & TAXATION

In an attempt to accommodate radical policy extremes we can expect major changes in existing constitutional and civil laws to give governments more power and control over public behavior and civil reaction to policy changes.

Regulations will be expanded to control the banking and financial sectors adjustments to policy extremes.

Taxation will increase on:

- Personal Income Tax
- Sales Tax

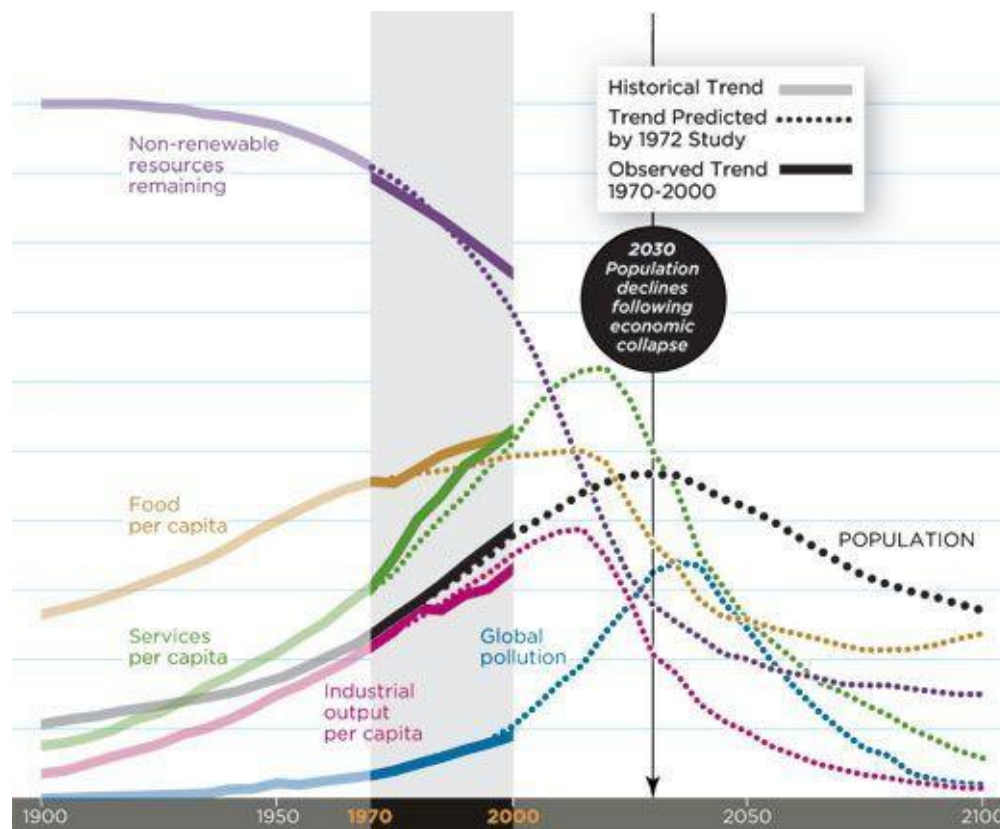
- Property Taxes
- Inheritance Tax,
- IRA, Roth, RRSP et al withdrawal Tax
- Tax Rates on Pensions,

Taxation will increasingly come in the form of:

- Fees & Tolls on public services,
- Licensing Requirements,
- Levies for special programs,

PREPARING FOR DISRUPTIONS & SHORTAGES

Fifty years ago, an international team of researchers was commissioned by the Club of Rome to build a computer simulation of exponential economic and population growth on a finite planet.



In 1971, its findings were first released in Moscow and Rio de Janeiro, and later published in 1972 under the title [The Limits To Growth](#). The report concluded:

1. *Given business as usual, i.e., no changes to historical growth trends, the limits to growth on earth would become evident by 2072, leading to "sudden and uncontrollable decline in both population and industrial capacity". This includes the following:*
 - *Global [Industrial output](#) per capita reaches a peak around 2008, followed by a rapid decline*
 - *Global [Food](#) per capita reaches a peak around 2020, followed by a rapid decline*
 - *Global [Services](#) per capita reaches a peak around 2020, followed by a rapid decline*
 - *[Global population](#) reaches a peak in 2030, followed by a rapid decline*

2. Growth trends existing in 1972 could be altered so that sustainable ecological and economic stability could be achieved.
3. The sooner the world's people start striving for the second outcome above, the better the chance of achieving it.

Few reports have generated as much debate, discussion and disagreement. It is hard to argue that forecasts made back in the early 1970s haven't proved eerily accurate over the ensuing decades.

But most of its warnings have been largely ignored by policymakers hoping (blindly?) for a rosier future.

One of the original seventeen researchers involved in *The Limits To Growth* study, Dennis Meadows recently revisited the study:

Decline is now inevitable.

We're without any question moving into the remainder of a century which is going to see, by the end of these decades, a much smaller population, much lower level of energy and material consumption and so forth.

Whether we retain equity amongst people and avoid the more violent forms of conflict remains to be seen. But sustainable development is no longer an option.

MAINTAINING 'REAL' CAPITAL

All of the above and the fallout from chapters two through five will lead to investment focus in the areas of:

DEFENSE

LOW INTENSITY

- Offensive Cyber Weapons
- Defensive Cyber Weapons

HARD WEAPONS

- Convention Weapon Suppliers
- New Space Race
- Hypersonic Weapons
- AI / Networked Controlled Drones & Robots

PROTECTON

SHIFT TO VALUE

COMMODITIES

HARD ASSETS

- GOLD
- SILVER
- PLATINUM
- COLORED DIAMONDS
- BLACK GOLD - OIL

SOFT ASSETS

- FOOD
 - Grains & Live Stock Feed

PRODUCTIVE LAND & WATER

RISK & LEVERAGE REDUCTION

CREDIT CONTRACTION

- *US TREASURIES
 - US Long Bonds
 - US Notes

FIAT FAILURE

- *US DOLLAR
 - Cryptocurrencies

- * Global Financial Foundation as Reserve Currency & Risk Free Benchmark
- ** Reduced Holding of Assets in Leveraged Financial Institutions - i.e. Banks

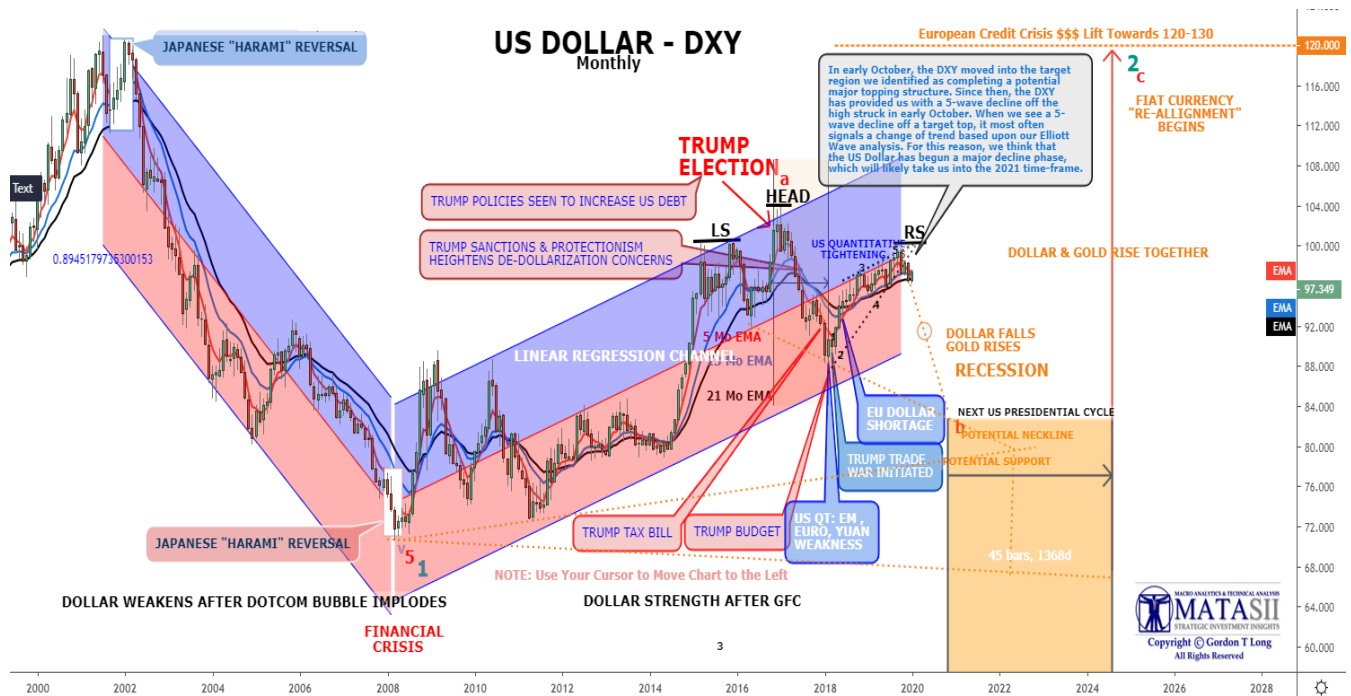
NOTE: SEE MATASII "SII" FOR TARGET SECURITIES WATCH LIST & TECHNICAL ANALYSIS

WHAT IS CRITICALLY IMPORTANT IS NOT NECESSARILY WHAT TO INVEST IN (as listed above), BUT RATHER WHEN!

Strategies must integrate tightly coupled investment themes accommodating changes in the:

- Short Term
- Intermediate Term
- Long Term

The future of the US Dollar is central to developing such strategies.



As we spelled out in the last section, Wealth can only be created by:

1. Mining It,
2. Growing It
3. Building It

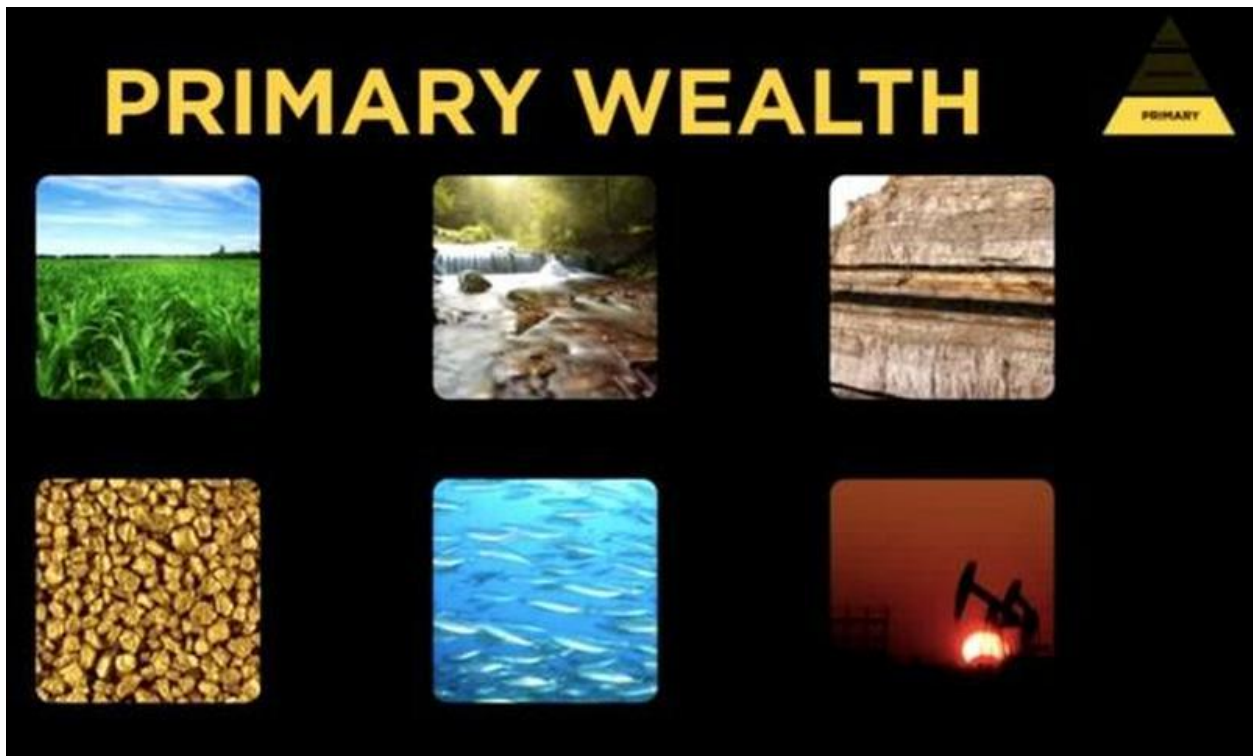
IT IS NOT CREATED BY PRINTING!!

Money is only a claim on wealth and is itself only a promissory note. Today this fact is unimportant as long as money is freely exchanged and values as such. However, if the public stops believing in the value of money then everything changes. Money depends on public confidence. Historically, this has proven fragile in times of uncertainty. History shows us that Fiat Currencies have never lasted.

They are doomed to the frailties of spending beyond economic means.

This is why hard assets as represented by commodities normally do well during eras of uncertainty.

PRIMARY WEALTH: Is represented by FINTITE RESOURCES.

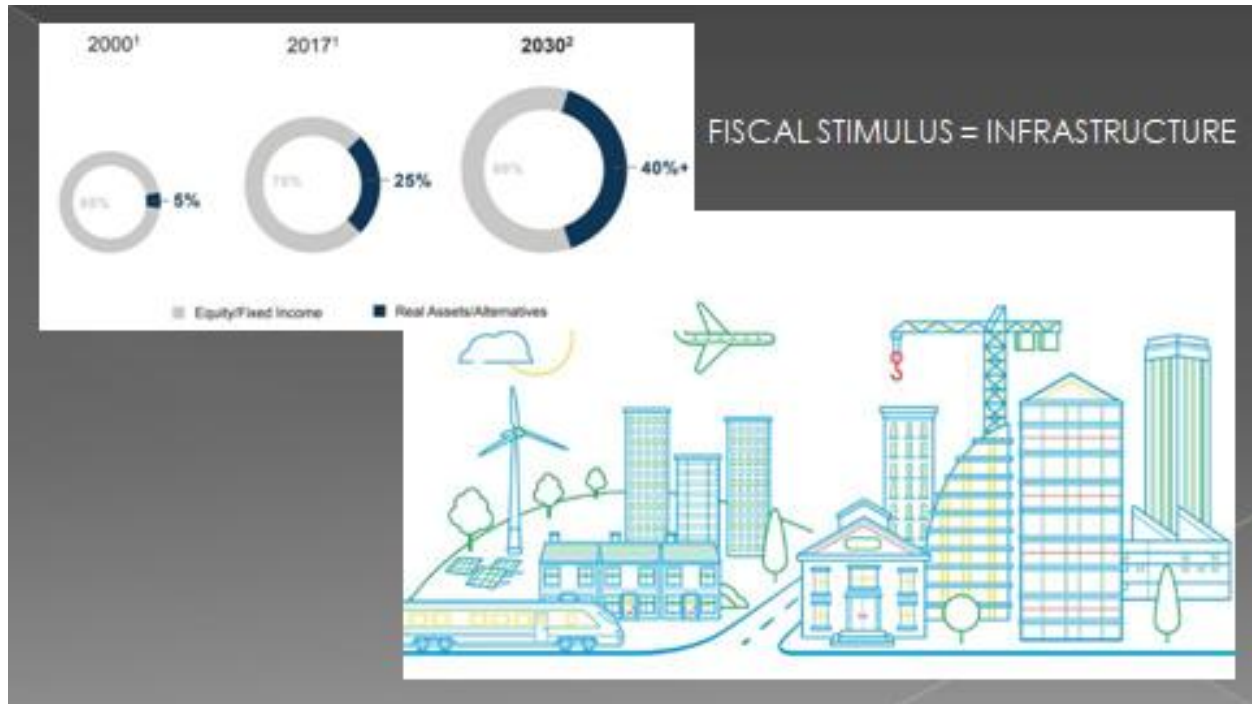


SECONDARY WEALTH: Is represented by transforming Primary Wealth into usable or consumable products.



Many Primary and Secondary Wealth resources are used in Infrastructure.

Enduring Infrastructure can additionally increase overall economic productivity is applied judiciously.



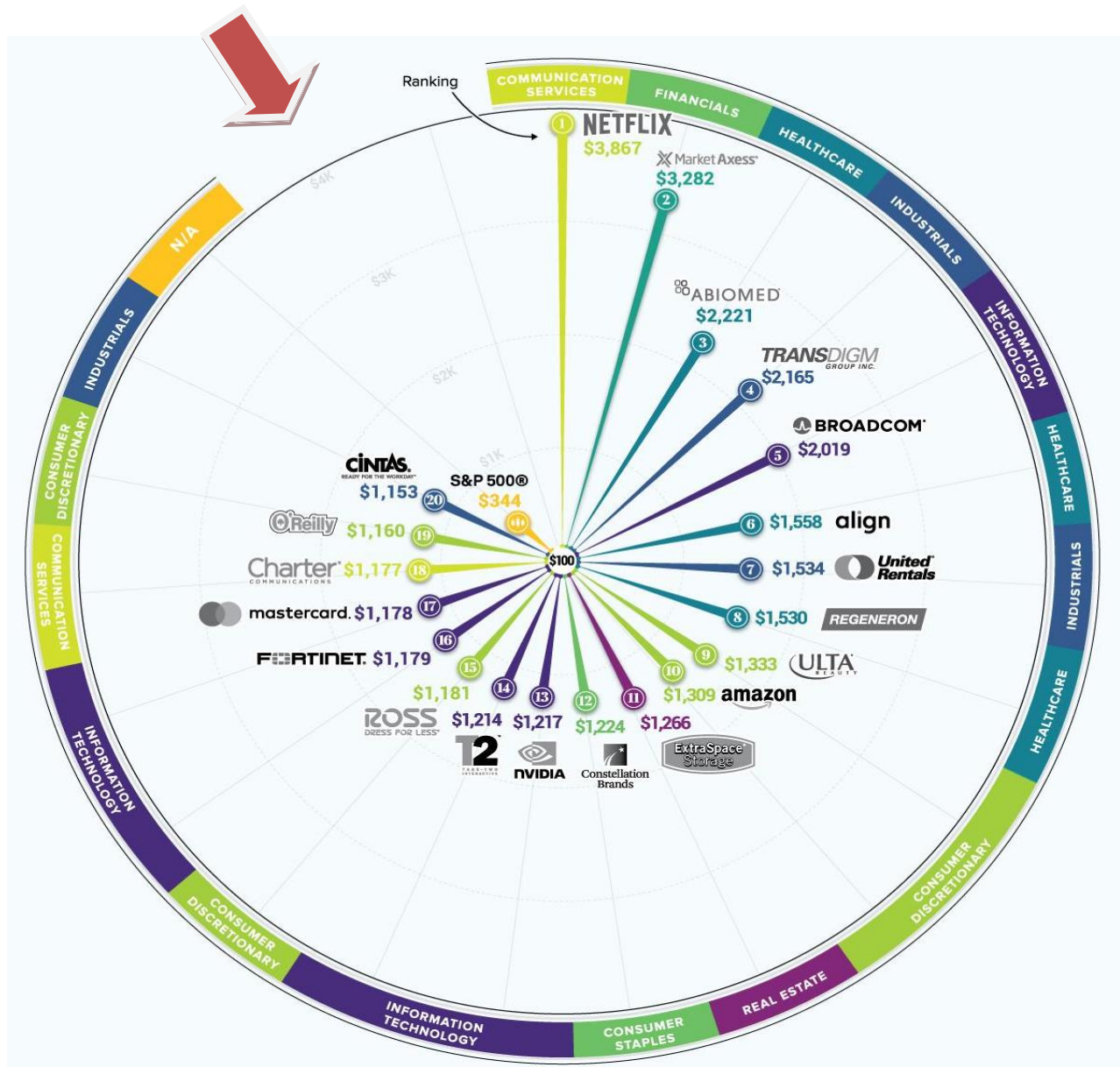
Commodities are at historic lows. Additionally, spending on Infrastructure in most Developed Economies is also at long term lows as many 50-60 year "useful life" projects have been bridged (ie bridges, canals, dikes, aqueducts etc), as well as higher speed railroad construction and newer airports, highway networks to handle expanded capacity.



What we see in the chart below is that the following assets are missing from Top Performing Sectors over the last two decades:

1. COMMODITIES,
2. HARD ASSETS,
3. PRECIOUS METALS.

The Red Arrow illustrates this point.



PRECIOUS METALS

The looming threat of unfunded US pension and healthcare entitlements, coupled with the willingness of central bankers and policymakers to try to inflate it away by printing money — thus weakening the dollar — could make gold the hottest new asset class of the next few years.

Some of the same trends could lead to an upsurge in commodity prices more broadly, even though the prospect of a wider war starting in the Middle East hasn't yet created a sustained oil spike. There are plenty of reasons — from deficit spending, to political risk or the popping of a corporate debt bubble — for the dollar to weaken.

If that happens, commodities, which move inversely to the dollar, would rise. The US stock market would be likely to fall, since corporate margins are tight and there's not much room to buffer against rising energy and input prices. If the dollar weakens, all costs from overseas supply chains rise too.

Should that come to pass, there's little doubt that the US Federal Reserve would try to bolster the market with further monetary easing. But given that every central banker in the world is telling us that monetary policy can't prop up the market forever, it's possible that such a move would trigger not a further rise in stocks, but a stampede towards gold and perhaps towards the commodity asset class in general. QE was a major factor in the last run-up in commodity prices, which aren't just raw materials for business, but tradable assets for speculators. And this is a theory that is currently being bandied about by some momentum investors.

This scenario would only play out if there was no significant collapse in global growth that changed the underlying demand picture. But it is possible that things could go the other way, particularly if growth in Europe or China started to falter alongside the US.

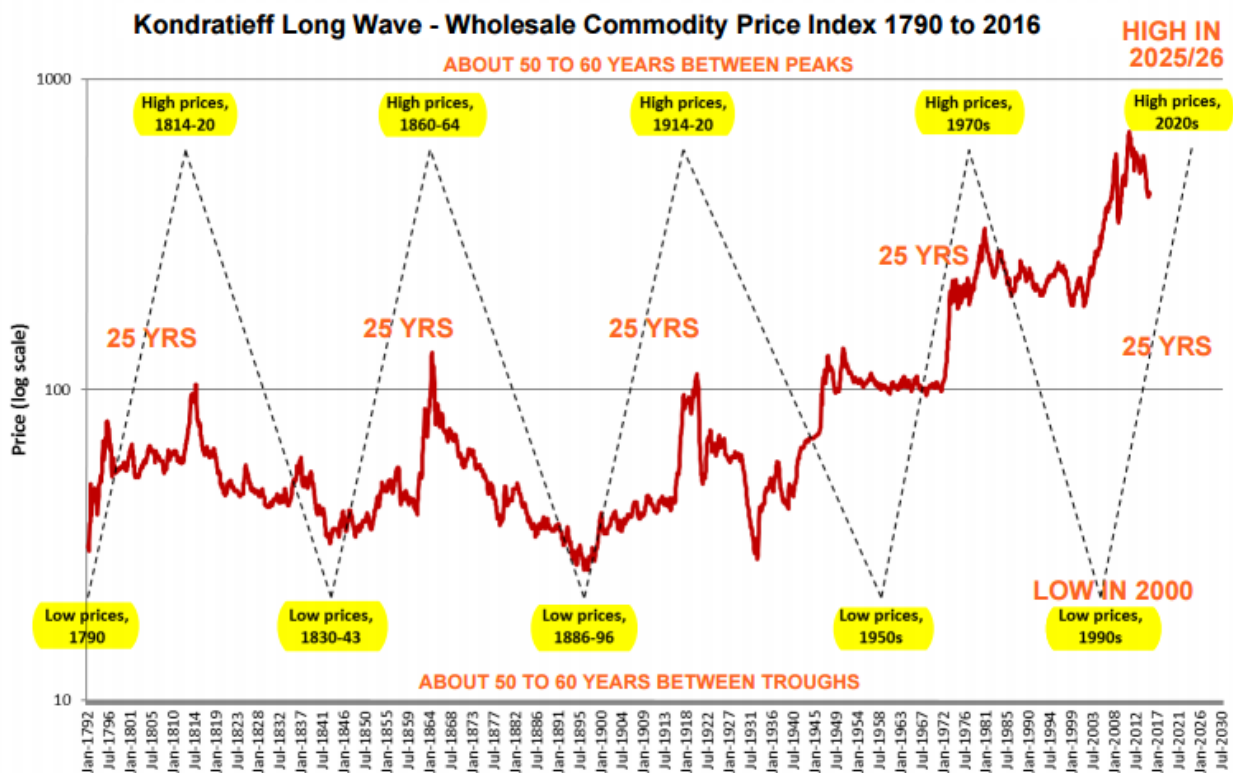
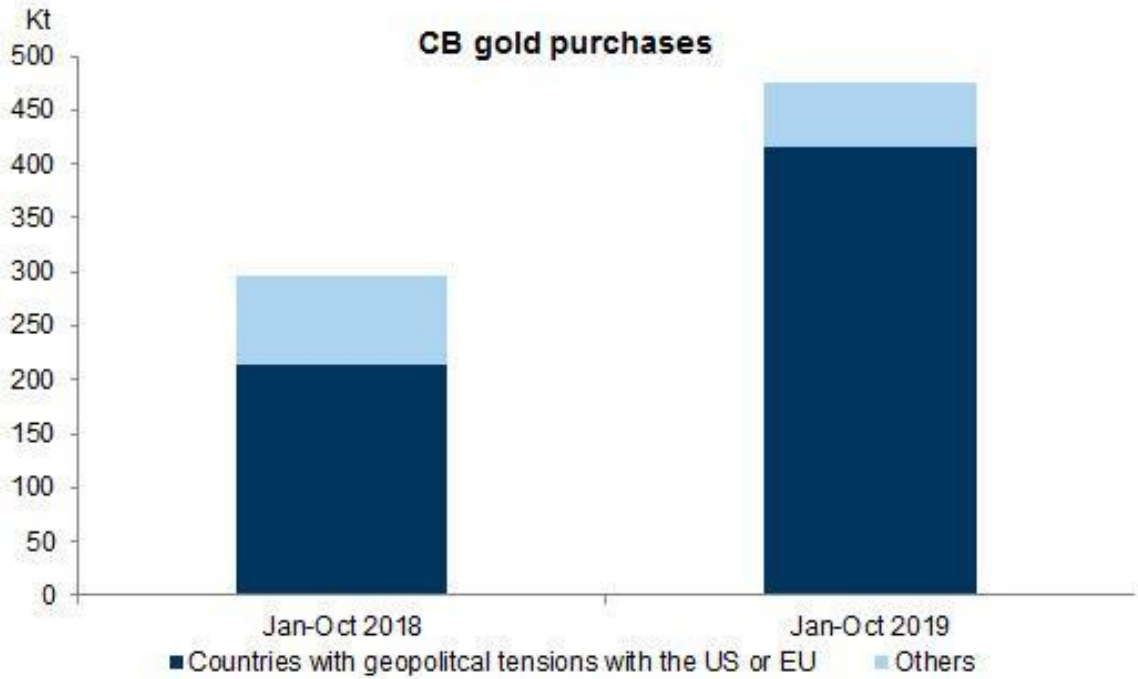
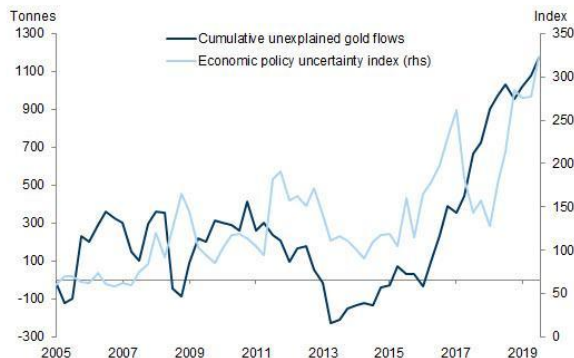


Exhibit 15 : CB purchases are set to reach record highs this year due to geopolitical tensions



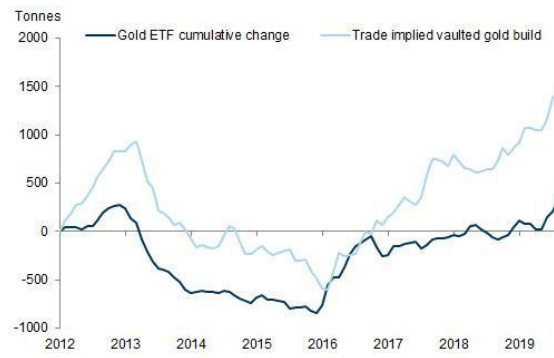
Source: World Gold Council, Goldman Sachs Global Investment Research

Exhibit 17 : Unexplained gold flows have been on the rise together with increased global uncertainty

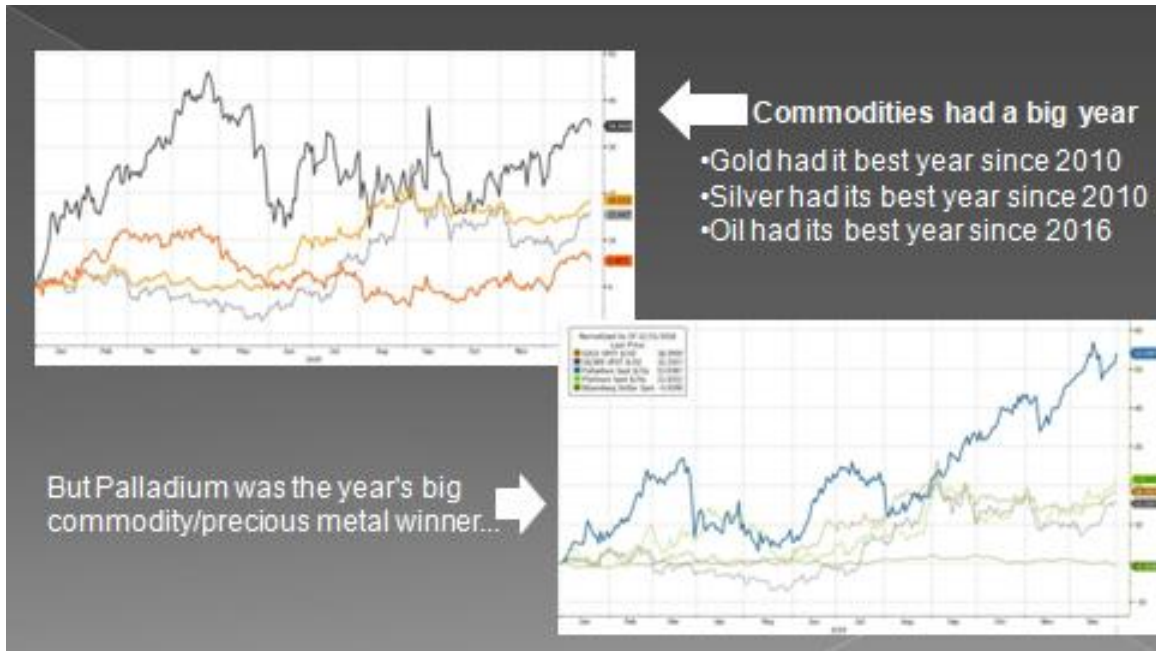


Source: GFMS, World Gold Council, Goldman Sachs Global Investment Research

Exhibit 18 : The implied build in non-transparent gold investment has been larger than the build in gold ETFs



Source: Swiss Customs, UK customs, Goldman Sachs Global Investment Research



VALUE VERSUS GROWTH OR MOMENTUM

Chart 1: Value has never been this cheap vs. Momentum

Relative forward P/E of Value (top decile by forward earning yield) vs. Momentum (top decile by 12-month price return)



Source: BofA Merrill Lynch US Equity & Quant Strategy, FactSet

APPENDIX: VIDEO

TO BE RELEASED 01-23-20
See MATASII Web Site

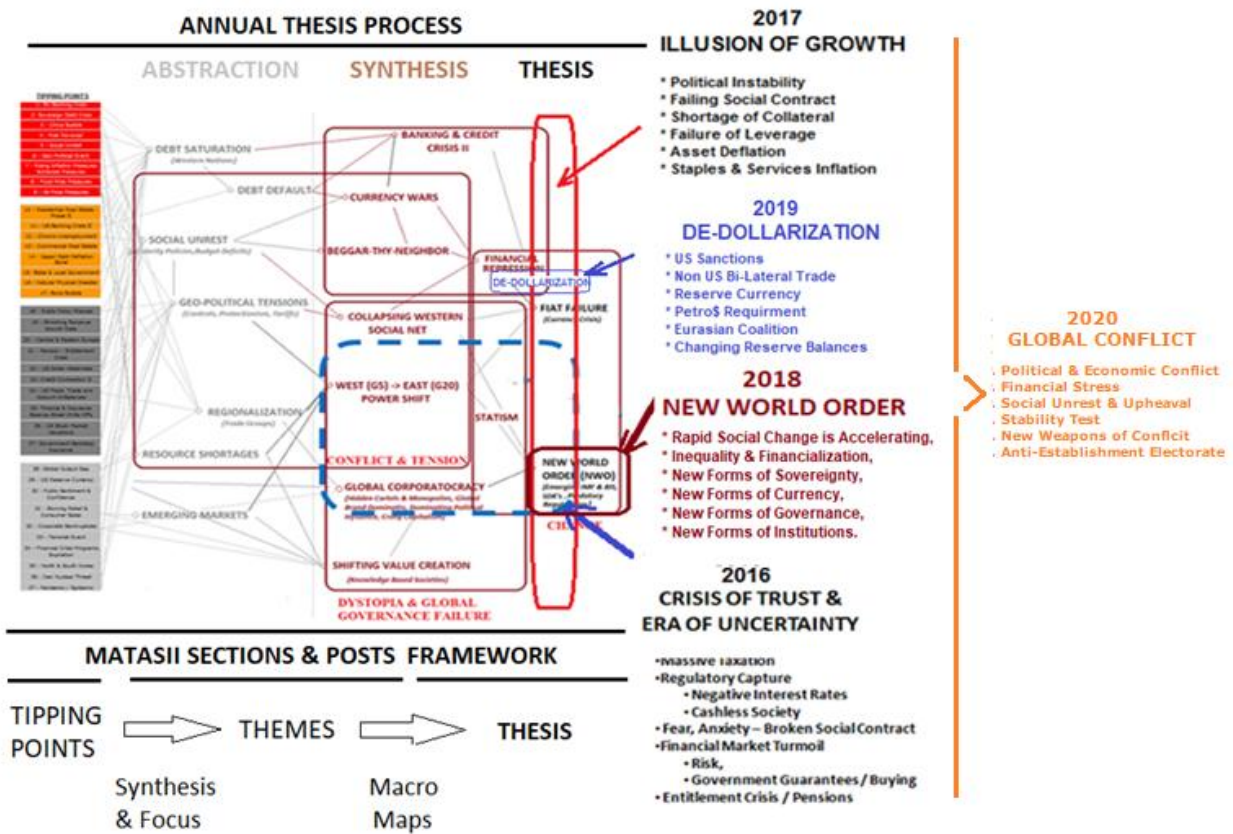
7- CONCLUSION

KEY MESSAGES

- The 20's will be about managing Risk to protect capital. This will contrast with the last two decades that have been primarily about growing capital.
- Our Thesis papers over the last decade have pointed the way. The fact that problems have not been addressed has only lead to heightened investment risk.
- Capitalism has been morphed into Creditism which is only sustainable if lenders can afford to lend and borrowers can afford to borrow, Creditism comes to an abrupt end when insufficient wealth is being created to increase collateralized lending leverage at a sufficient rate to match the rate of growth of the debt/credit burden.
- In an Era of Conflict Economic Growth is stymied while lending becomes riskier and hence more costly!

PRIOR THESIS PAPERS POINT THE WAY

Our Thesis papers over the last decade have pointed the way. The fact that problems have not been addressed has only lead to heightened investment risk.



Previous Annual Thesis Reports ALL available online at MATASII.com:

- 2010 - Extend & Pretend
- 2011 - Currency Wars – 'Beggars-ty-Neighbor'
- 2012 - Financial Repression
- 2013 - Statism
- 2014 - Globalization Trap
- 2015 - Fiduciary Failure
- 2016 - Crisis of Trust
- 2017 - Illusion of Growth

- 2018 - New World Order
- 2019 - De-Dollarization
- 2020 - Global Conflict

RETURN OF CAPITAL

A famous investor once lamented:

"I don't worry as much about Return on Capital as much as Return of the Capital"

My Macro Analyst Co-Host penned this missive after recording the videos highlighted in Sections #3 & #4

The Fed Can't Reverse The Decline Of Financialization And Globalization [Authored by Charles Hugh Smith via OffTwoMinds blog.](#)

The global economy and financial system are both running on the last toxic fumes of Financialization and Globalization.

For two generations, globalization and Financialization have been the two engines of global growth and soaring assets. Globalization can mean many things, but its beating heart is the arbitraging of the labor of the powerless, and commodity, environmental and tax costs by the powerful to increase their profits and wealth.

In other words, globalization is the result of those at the top of the wealth-power pyramid shifting capital around the world to exploit lower costs of labor, commodities, environmental regulations and taxes.

This manifests as off-shoring of jobs, the strip-mining of forests, minerals, etc., the degradation of local ecosystems, the decline of tax revenues derived from capital and the explosive rise in stock market valuations as wages stagnate or decline.

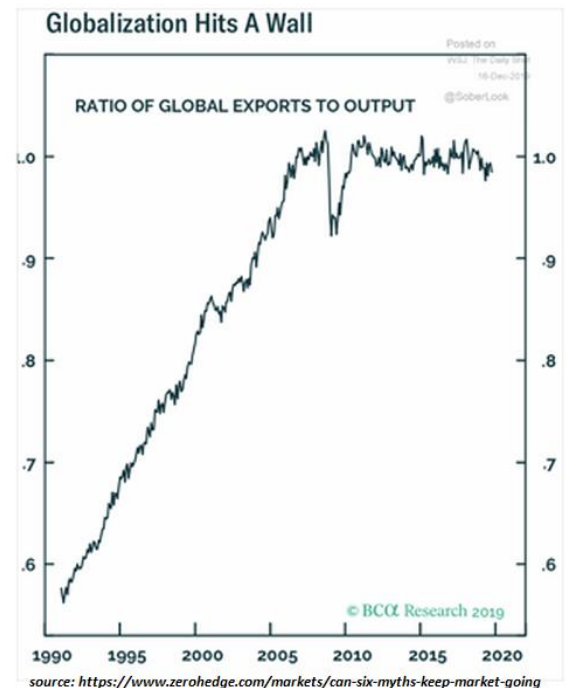
A key element in globalization is the transfer of risk from the owners of capital to the workers and public resources. Examples of this transfer of risk abound: rather than pay workers benefits, corporations game part-time/full-time labor laws so workers' health insurance is paid by taxpayers (Medicaid). Corporations pay wages too low to survive so workers depend on public-sector assistance (food stamps, etc.)

Rather than provide vehicles to workers who drive for a living, corporations such as Uber and Lyft transfer all the risks of ownership, maintenance and enterprise to the drivers. And so on.

Financialization is the exploitation of assets/income that were previously safe from predation by those with access to low-cost central bank credit. While definitions vary, mine is:

Financialization is the mass commoditization of debt collateralized by previously unsecuritized assets, a pyramiding of risk and speculation that is only possible in a massive expansion of low-cost credit and leverage for those at the top of the wealth-power pyramid: financiers, banks and corporations.

One example is the student loan "industry," which prior to Financialization did not exist. A previously safe from predation asset/source of income--college degrees--has been securitized so that loans issued to



students for largely worthless diplomas can be sold globally as "secure assets with guaranteed yields."

That the exploited class of students has little to no income and no guarantee of income doesn't matter. What matters is a previously unexploited asset can be turned into debt that can be sold at an immense profit.

And so student loan debt has skyrocketed from near-zero to \$1.6 trillion in less than a generation. This rapacious, ruthless exploitation would not have been possible without the central bank (Federal Reserve) and federal government enabling and enforcing the supremacy of private capital and the predation of the higher-education cartel.

The subprime mortgage loan bubble was another example of Financialization: a previously inaccessible asset/income--the earnings of households with poor credit ratings--was suddenly available for exploitation, and guaranteed-to-default subprime mortgages were packaged with lower-risk mortgages and sold globally as "secure assets with guaranteed yields."

That this was outright fraud didn't matter to either the Federal Reserve or federal government.

Alas, all good predations end when the herd of prey has been dragged to the ground and consumed. All the fruit of Financialization and globalization have been plucked by the powerful, and now both the engines of "growth" are sputtering.

The Federal Reserve and other central banks enabled this exploitation, but they're powerless to extend it: central banks can create nearly free credit for the powerful, but they can't conjure up new herds to be preyed upon.

As a result, the global economy and financial system are both running on the last toxic fumes of Financialization and globalization, the final extremes of exploitation and predation as the pack of predators has exploded in size and influence while the herd of prey has been decimated.

In the dying light of the predators' last feast, the Fed is worshipped as an omnipotent entity with god-like powers to levitate markets higher forever. But since the Fed is powerless to restore the upward trajectory of Financialization and Globalization, its omnipotence is about to expire.

The prey always seem limitless to the predators, but this illusion expires when suddenly there is no longer enough for the ravenous pack of financial predators. At that point, the predators turn on each other. That is the narrative that will come to the fore in 2020 and play out in the decade ahead.

My view is similar but with an addendum:

The unwitting Prey will run out of 'unexploitable assets' in parallel with the Predators running out of viable Collateral to secure further loans on.

Capitalism has been morphed into Creditism which is only sustainable if lenders can afford to lend and borrowers can afford to borrow, Creditism comes to an abrupt end when insufficient wealth is being created to increase collateralized lending leverage at a sufficient rate to match the rate of growth of the debt/credit burden.

In an Era of Conflict Economic Growth is stymied while lending becomes riskier and hence more costly!

Gordon T Long

general@gordontlong.com

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