



GORDON T LONG

Advanced Technical Analysis



Gordon T Long
Global Macro Research |
Macro-Technical Analysis



Technical Analysis
Market Road Maps | HPTZ
Methodology



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Market Road Maps

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Credit Creation

By commercial
banks

Limitations
of credit
creation

A CRIPPLED CREDIT CREATION CHANNEL!

Credit
Creation

Process of
credit
creation

“Expect the best. Prepare for the worst. Capitalize on what comes!”

AGENDA

April 26th, 2023

CREDIT LEADS THE WAY MULTIPLE PROBLEMS

A RATE OF CREDIT GROWTH PROBLEM DOMESTIC CREDIT GROWTH SLOWING FOREIGN BUYERS EXITING &/or SLOWING

STRONG HEADWINDS APPEARING DEBT CEILING INTEREST ON SOVEREIGN DEBT UNFUNDED LIABILITIES MONEY SUPPLY TAX REVENUES

HIGH REAL RATE DIFFERENTIAL CDS & HEDGING COST FINANCIAL REPRESSION

CONCLUSION

FISCAL GAP & CHINA?

A Crippled Credit Creation Channel!



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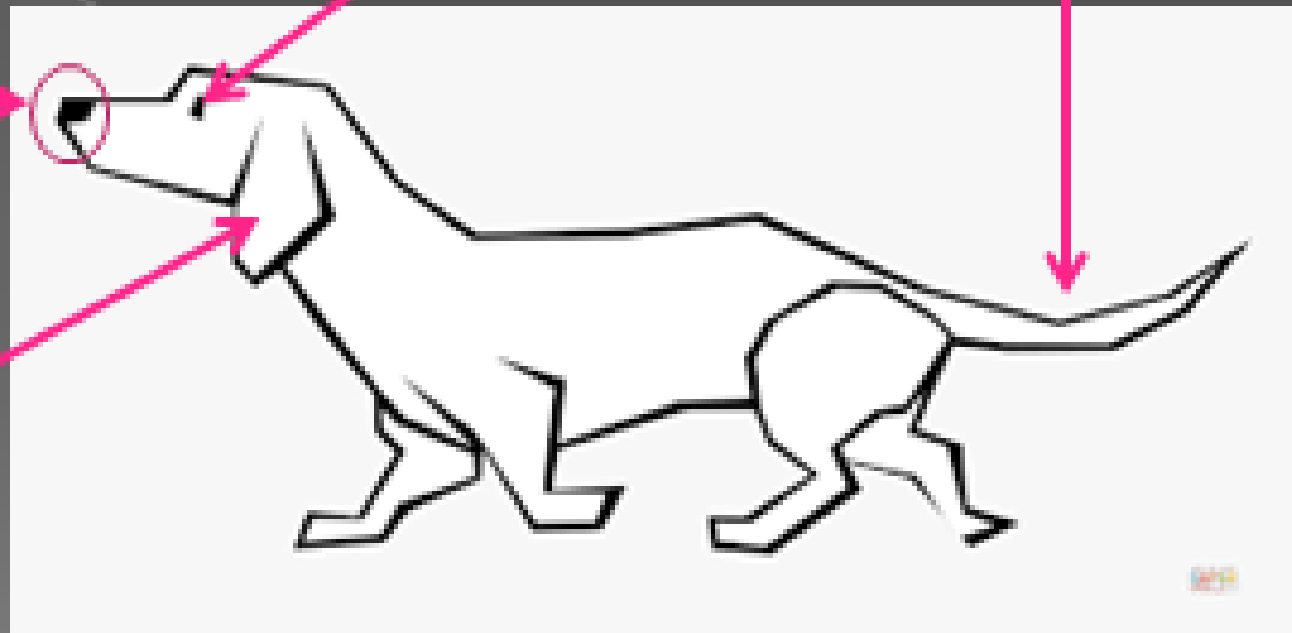
CREDIT LEADS THE WAY!

CURRENCY
MARKET

EQUITY
MARKET

CREDIT
MARKET

BOND
MARKET



CDS & HEDGING COST

TAX REVENUES

DOMESTIC CREDIT GROWTH SLOWING

DEBT CEILING

FISCAL GAP

FOREIGN BUYERS SLOWING

MONEY SUPPLY

INTEREST ON SOVEREIGN DEBT

CHINESE CREDIT IMPULSE

US DOLLAR

UNFUNDED LIABILITIES

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- INTEREST ON SOVEREIGN DEBT
- UNFUNDED LIABILITIES
- MONEY SUPPLY
- TAX REVENUES

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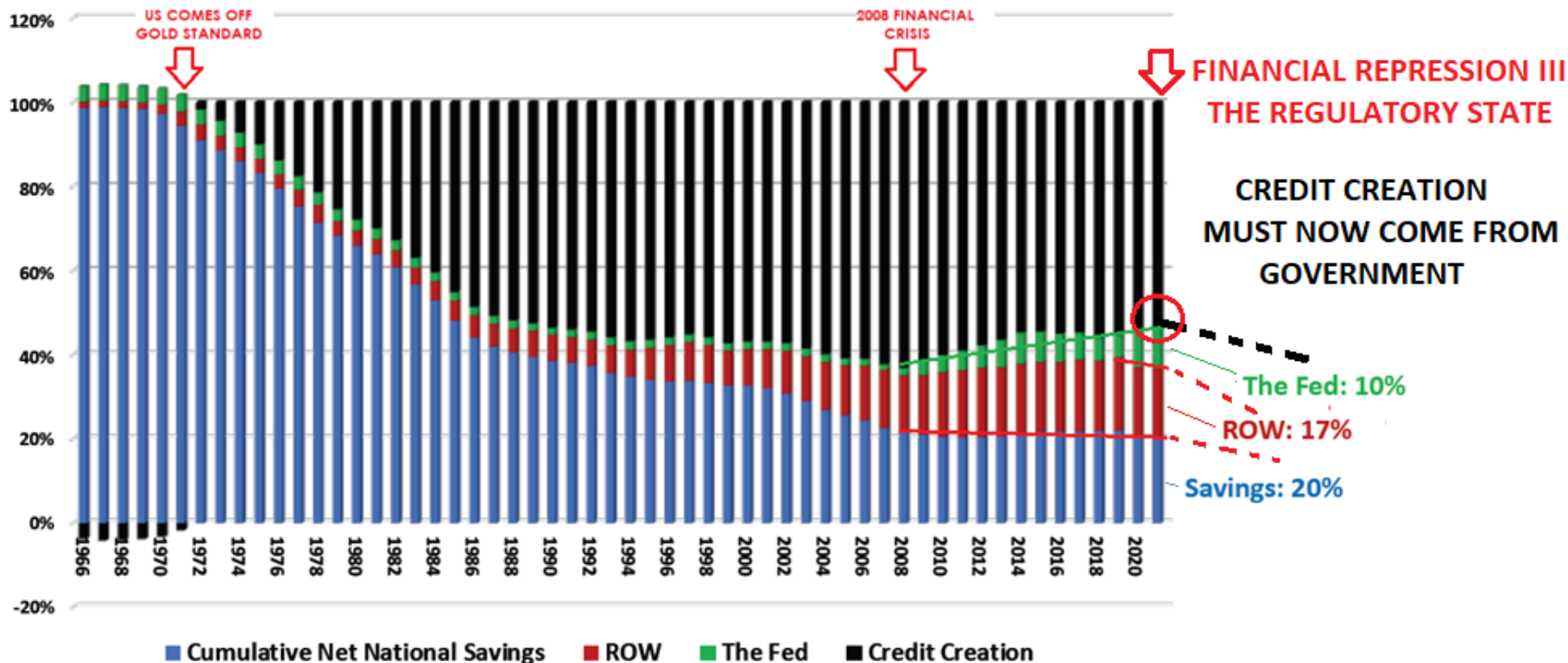
FISCAL GAP & CHINA?

A Crippled Credit Creation Channel!



Where Does The Money Come From To Fund The Debt?

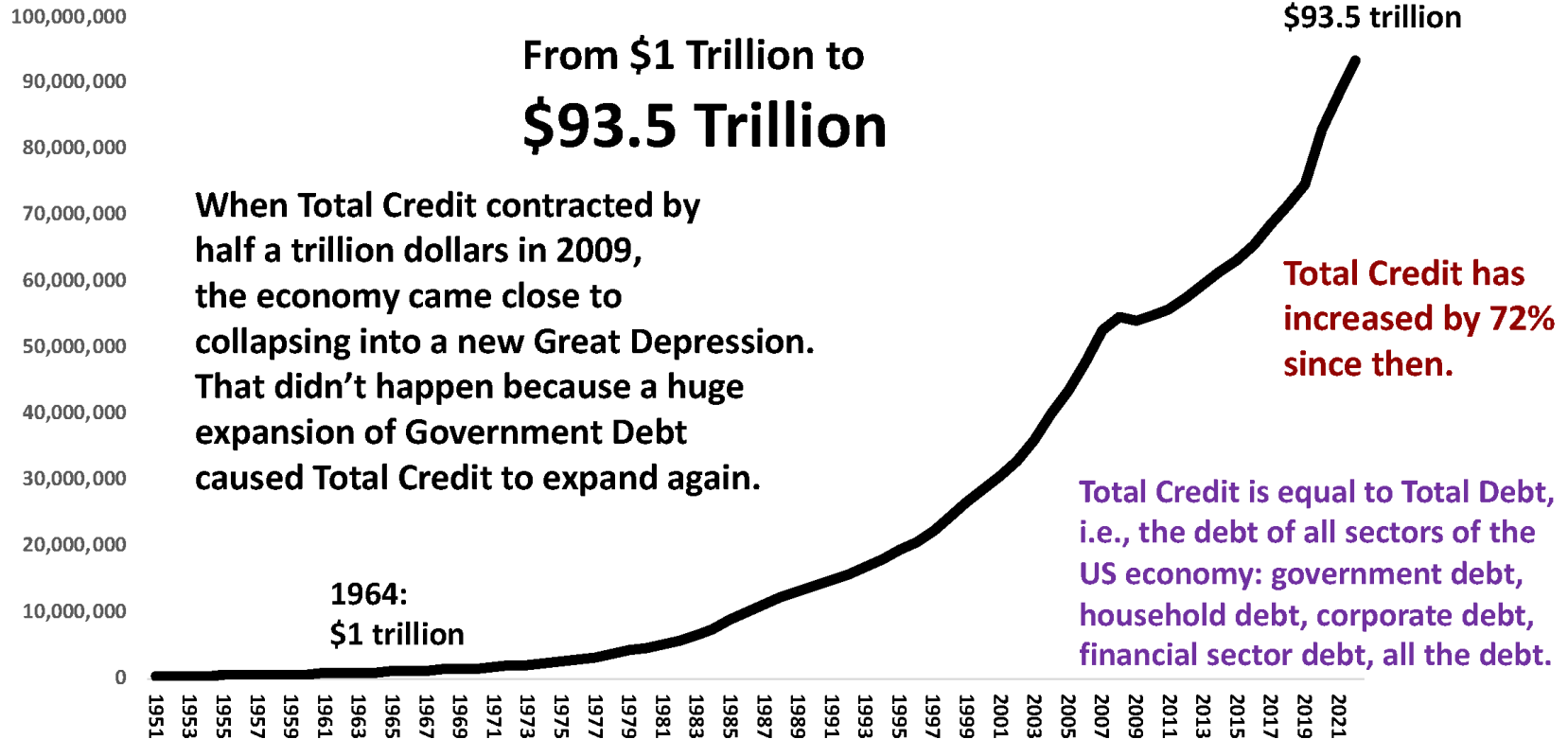
Source Of Funding, % Breakdown from 1966 to 2021



Source: The Fed's Financial Accounts Of The United States; and the Bureau Of Economic Analysis

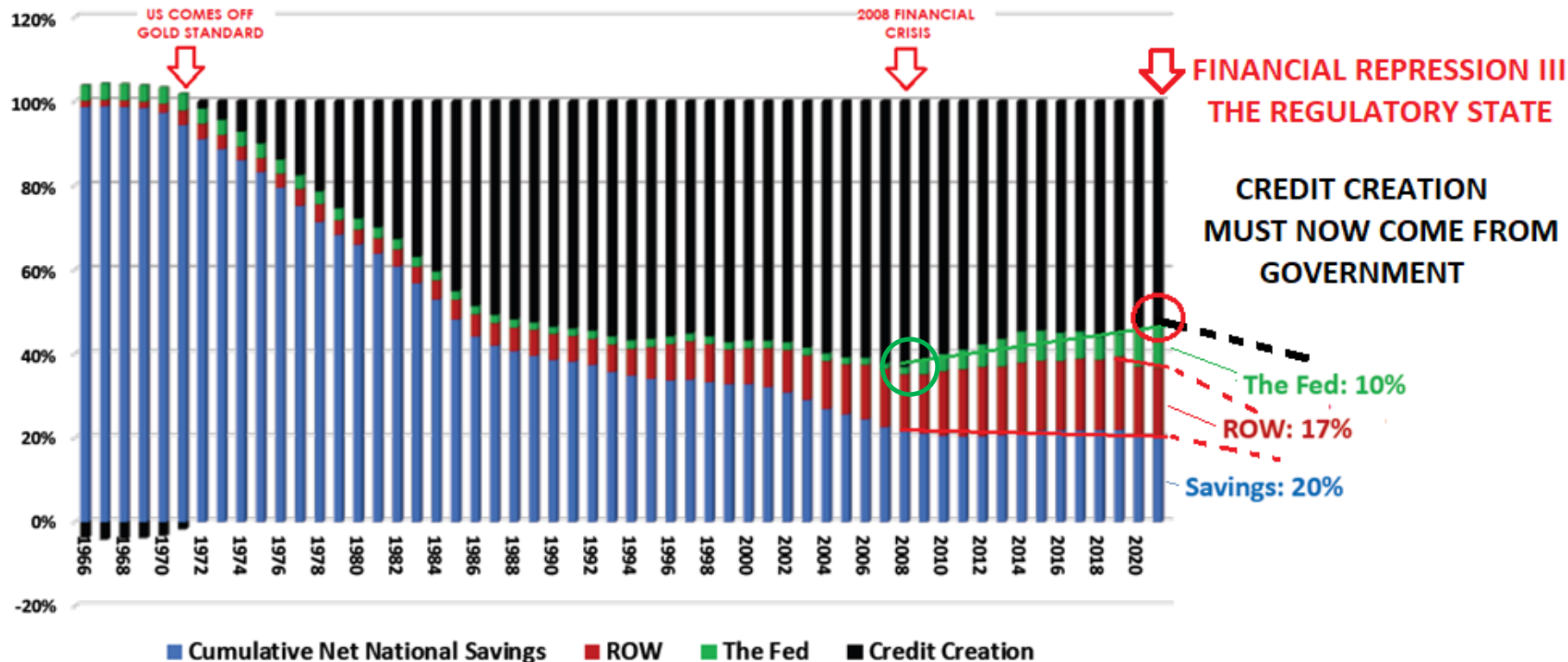
Total Credit = Total Debt

US\$ Millions, 1951 to 2022



Where Does The Money Come From To Fund The Debt?

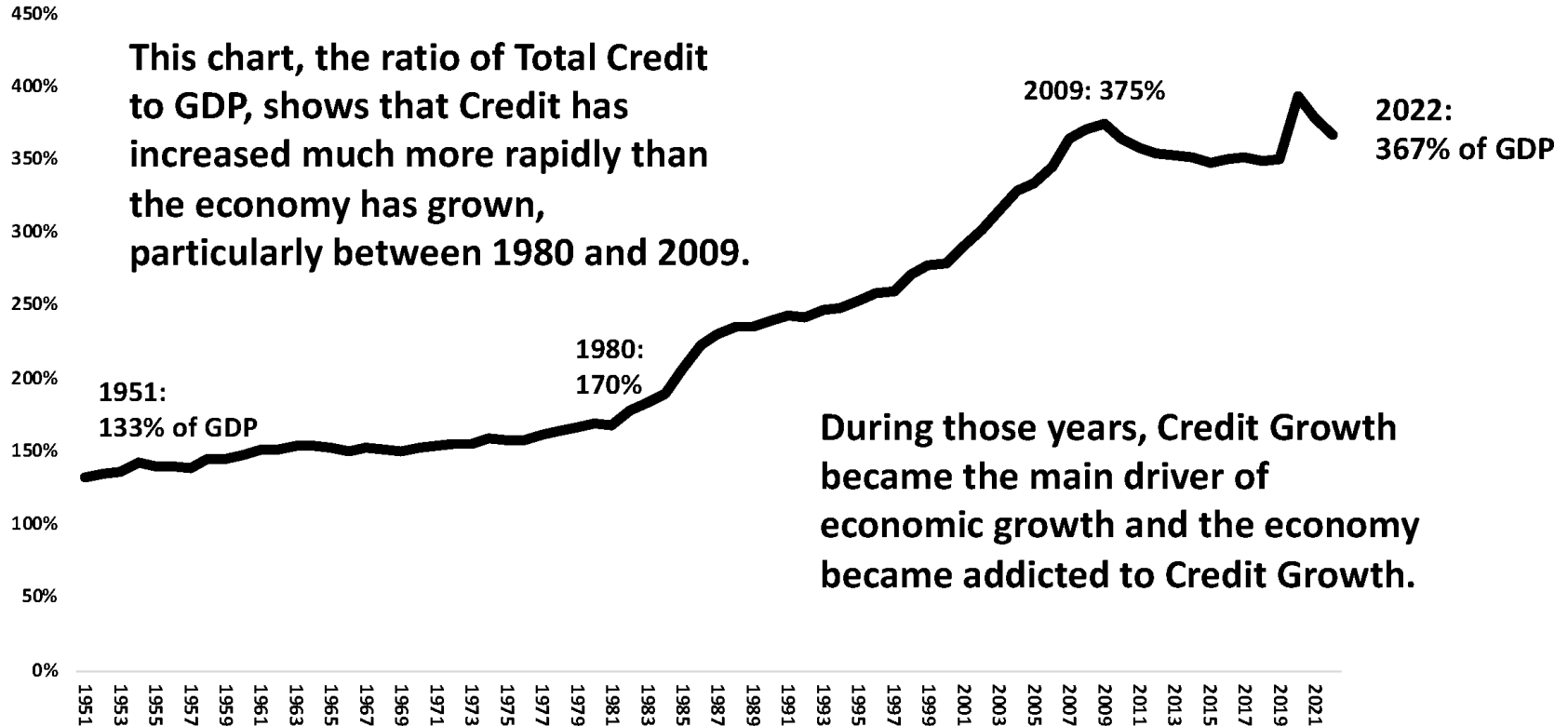
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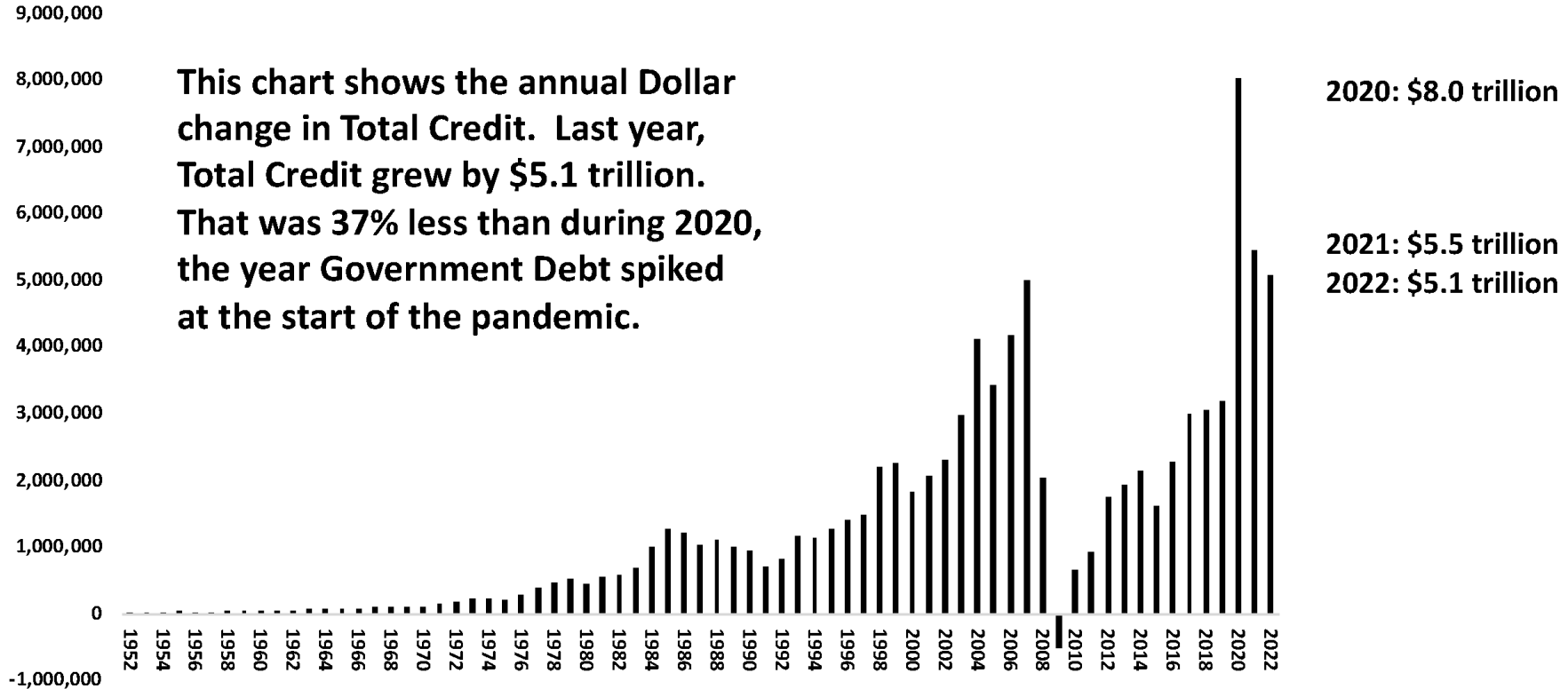
Total Credit (Debt) to GDP

%, 1951 to 2022



Total Credit (Debt), Annual Dollar Change

US\$ Millions, 1952 to 2022



Breakdown Of Total Debt By Sector

US\$ Millions, 1951 to 2022

***Note:** The data for government debt shown here only includes outstanding Treasury Securities. Gross government debt amounted to \$31.4 trillion at the end of 2022.

30,000,000

25,000,000

20,000,000

15,000,000

10,000,000

5,000,000

0

Since 2007 (15 years):
 Government Debt has increased by \$21 trillion or by 340%.
 Household Debt has increased by 33%.
 Corporate Debt by 102%.
 GSE Debt by 59%.
 Non-Corporate Bus. Debt by 87%.
 Financial Sector Debt (less GSEs) is 9% below where it was in 2007.

2007

US\$ Trillions:
 Govt. \$26.9*

Households: \$18.8

Corporates: \$12.8

GSEs: \$11.7

Fin. less GSEs: \$9.3

Non-Corp Bus: \$7.1

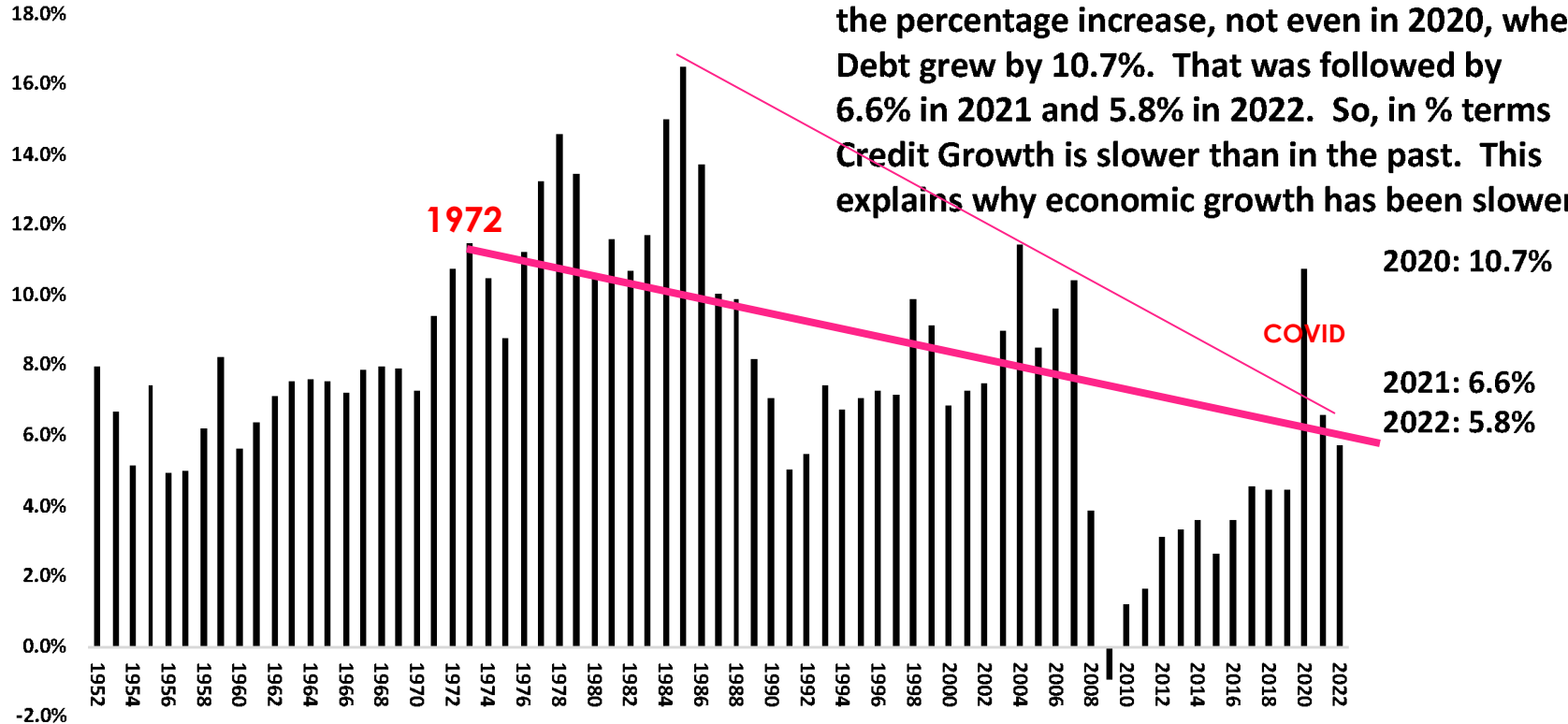
1951 1953 1955 1957 1959 1961 1963 1965 1967 1969 1971 1973 1975 1977 1979 1981 1983 1985 1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011 2013 2015 2017 2019 2021

Federal Government Households Corporate Total GSEs
 Non-Corporate Business State & Local Government Financial Sector Less GSEs Rest Of The World

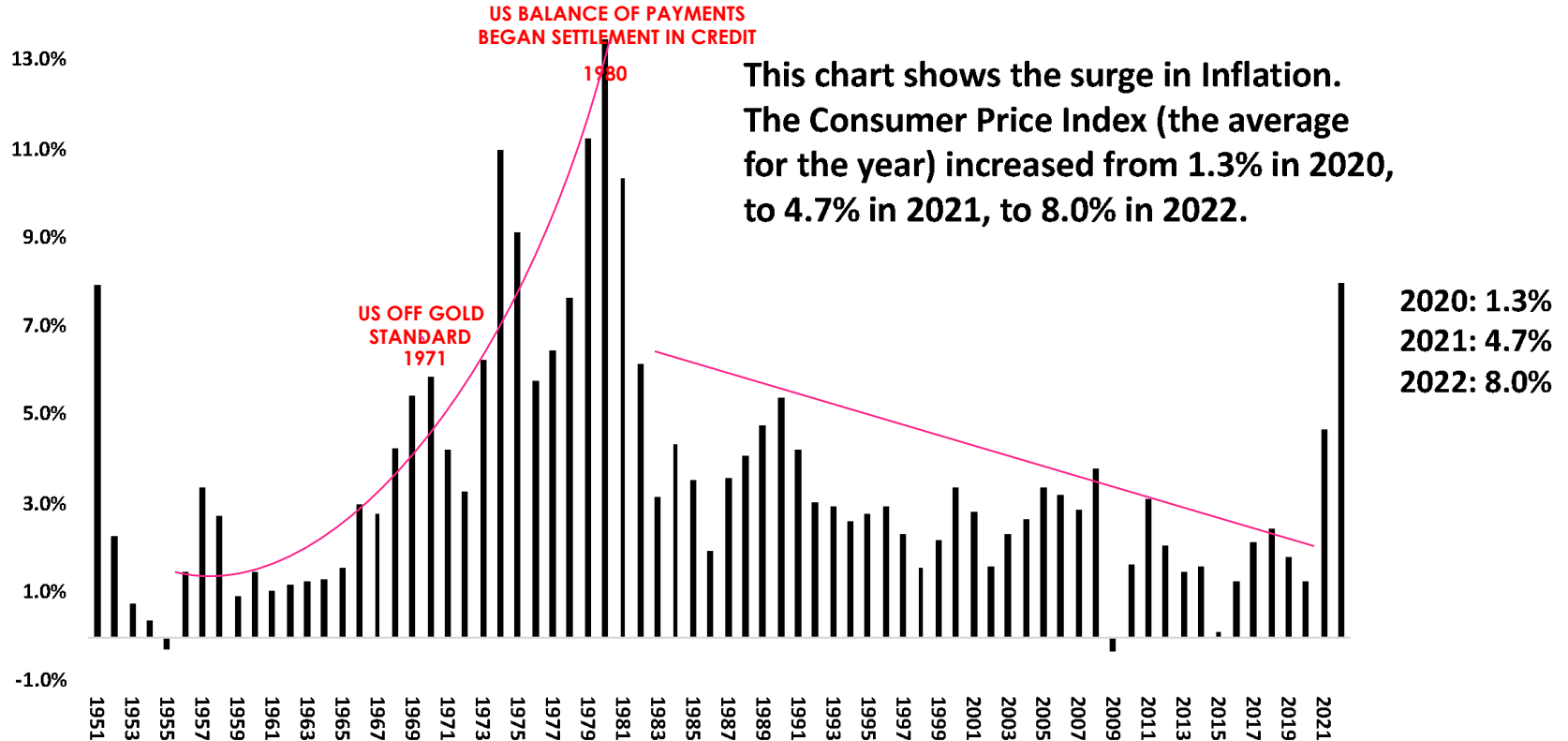
Total Debt (Credit), Annual % Change

1952 to 2022

...they are not record breaking in terms of the percentage increase, not even in 2020, when Debt grew by 10.7%. That was followed by 6.6% in 2021 and 5.8% in 2022. So, in % terms Credit Growth is slower than in the past. This explains why economic growth has been slower.

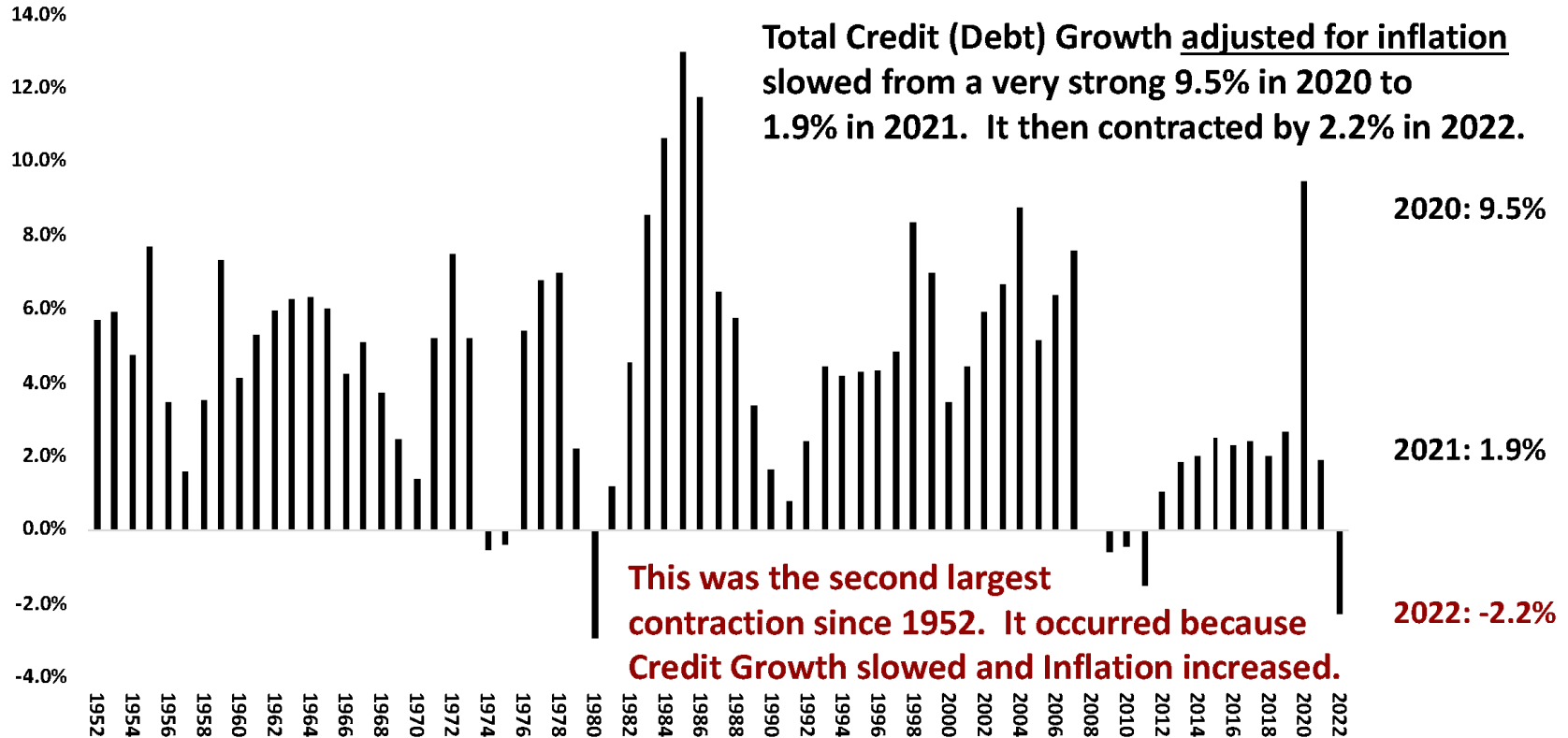


CPI, Annual % Change (Average for the Year), 1951 to 2022



Total Debt, Annual % Change

Adjusted for Inflation, 1952 to 2022



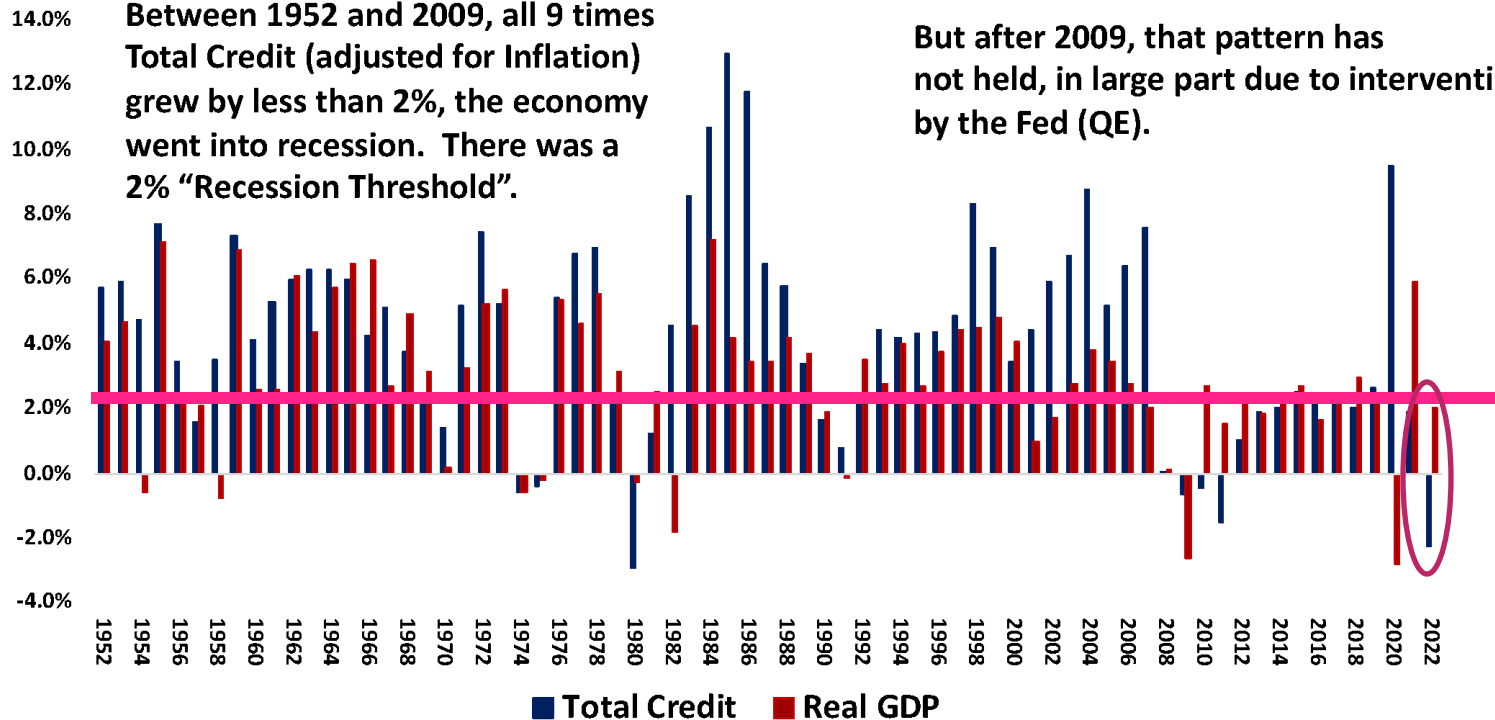
Credit Growth vs. GDP Growth

Both Adjusted for Inflation, Annual % Change

1952 to 2022

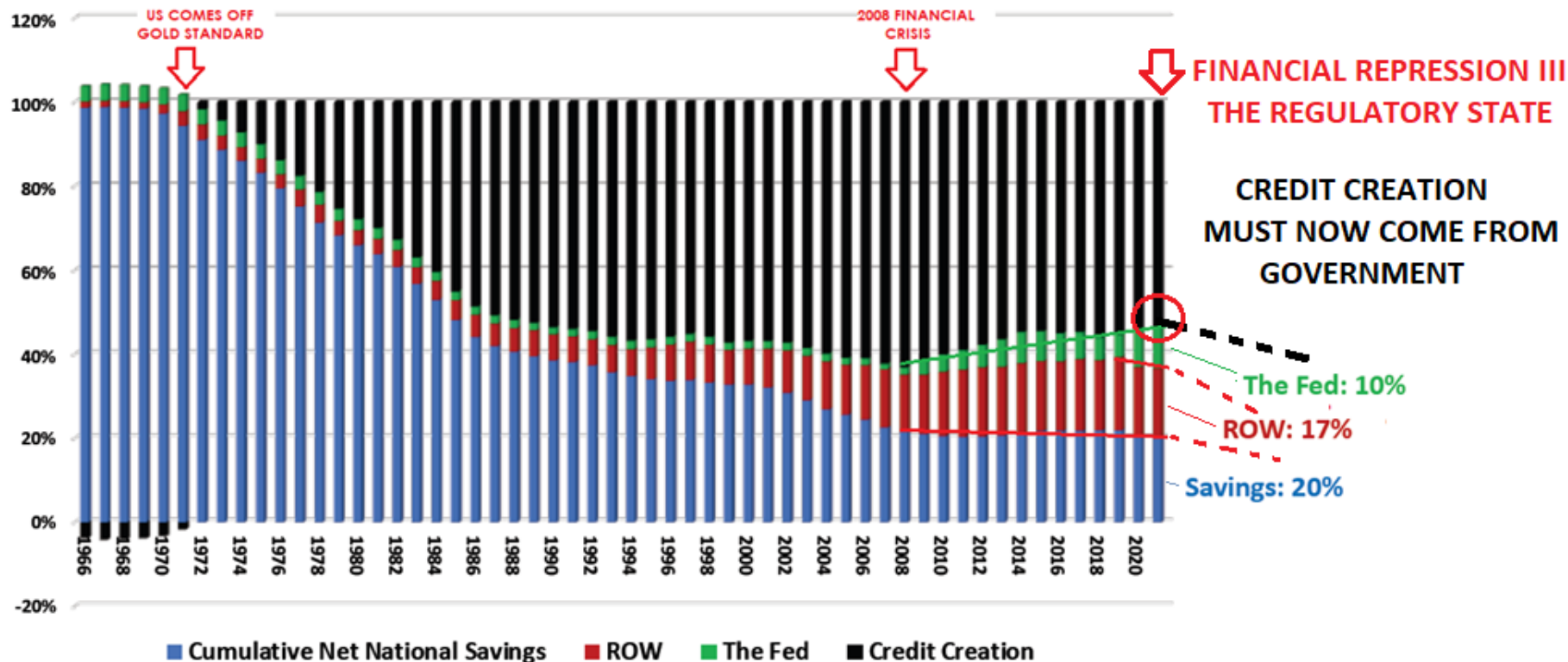
Between 1952 and 2009, all 9 times Total Credit (adjusted for Inflation) grew by less than 2%, the economy went into recession. There was a 2% "Recession Threshold".

But after 2009, that pattern has not held, in large part due to intervention by the Fed (QE).



Where Does The Money Come From To Fund The Debt?

Source Of Funding, % Breakdown from 1966 to 2021



Source: The Fed's Financial Accounts Of The United States; and the Bureau Of Economic Analysis

THESIS 2018

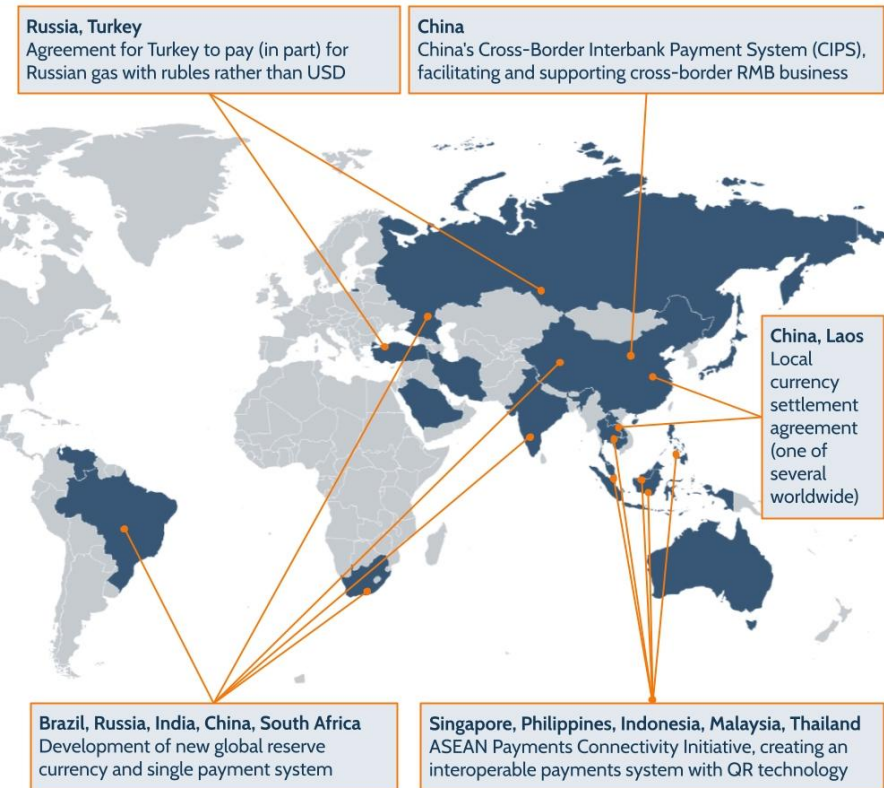
Available at MATASII.com

153 Pages



De-dollarisation around the world

Countries promoting de-dollarisation, with key examples highlighted



Source: FXC Intelligence analysis, country announcements.

FXCintelligence

UNDERSTANDING

DE-DOLLARIZATION

The U.S. dollar has dominated global trade and capital flows for decades.

However, many nations are looking for alternatives to the greenback to reduce their dependence on the U.S.

1 DE-DOLLARIZATION

The process of substituting the U.S. dollar as the currency used for trading commodities and other goods and services.

TIMELINE OF DOLLAR DOMINANCE

1920s

The dollar begins to displace the pound sterling as an international reserve currency after the First World War. The United States is a significant recipient of wartime gold inflows.

1944

International trade is conducted using the U.S. dollar under the Bretton Woods Agreement.

1971

President Nixon announces the direct convertibility of U.S. dollars to gold.

1960s

European and Japanese exports become more competitive with U.S. exports. There is a large supply of dollars around the world, making it difficult to back dollars with gold.

1981

After years of hyperinflation, the U.S. dollar loses two-thirds of its purchasing power.

2007-2008

Global financial crisis: Investors seek U.S. dollars expediting the currency to retain its value.

2014

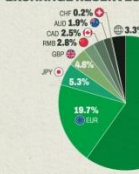
Following the annexation of Crimea, Russia prioritizes de-dollarization in response to Western sanctions.

2023

- Brazil and Argentina discuss the creation of a common currency.
- The UAE and India explore the use of rupees to trade non-oil commodities.
- Russia and Iran are working together to launch a cryptocurrency backed by gold.

Despite these movements, few expect to see the end of the dollar's global sovereign status anytime soon. Currently, central banks still hold about 60% of their foreign exchange reserves in dollars.

WORLD FOREIGN EXCHANGE RESERVES

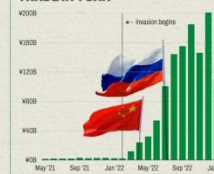


Source: Currency Composition of Official Foreign Exchange Reserves - IMF Data, Reuters, Wall Street

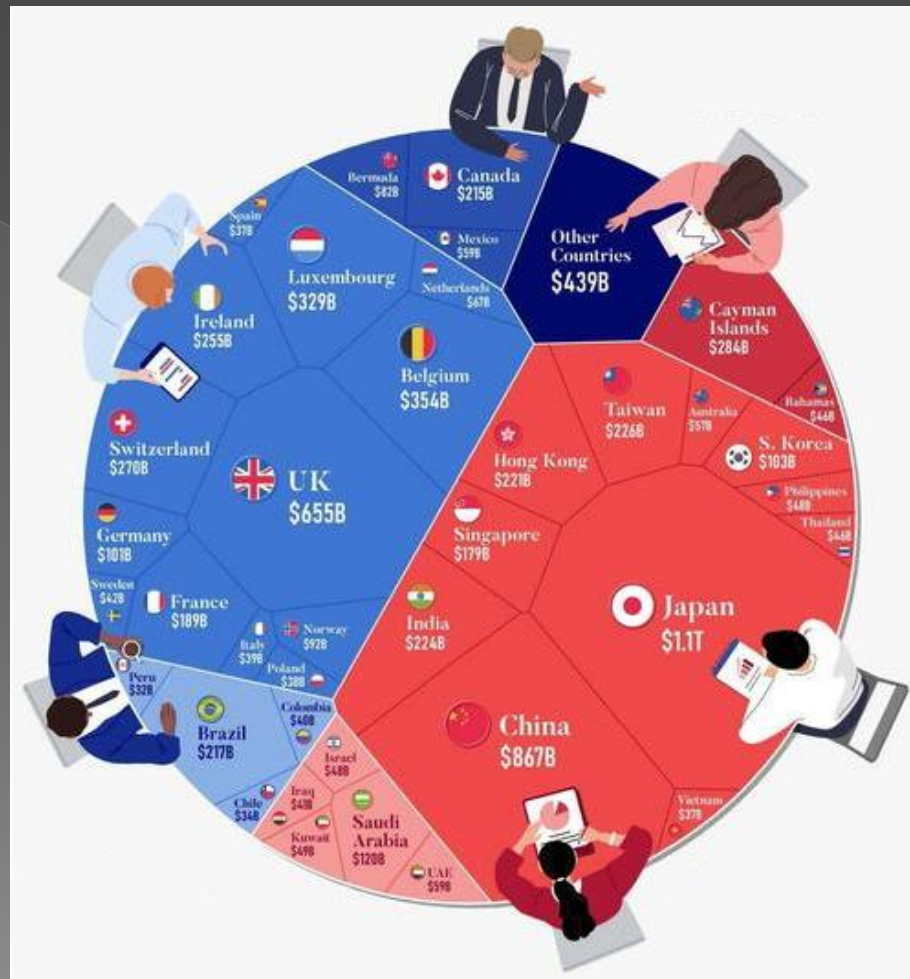
2022

Central banks buy gold at the fastest pace since 1987 as countries diversify their reserves away from the dollar. The war in Ukraine results in Western sanctions against Russia. As a result, Russia and China deepen cooperation between their financial systems, with trade-year trade increasing 8% in eight months.

VOLUME OF CHINESE-RUSSIAN TRADE IN YUAN

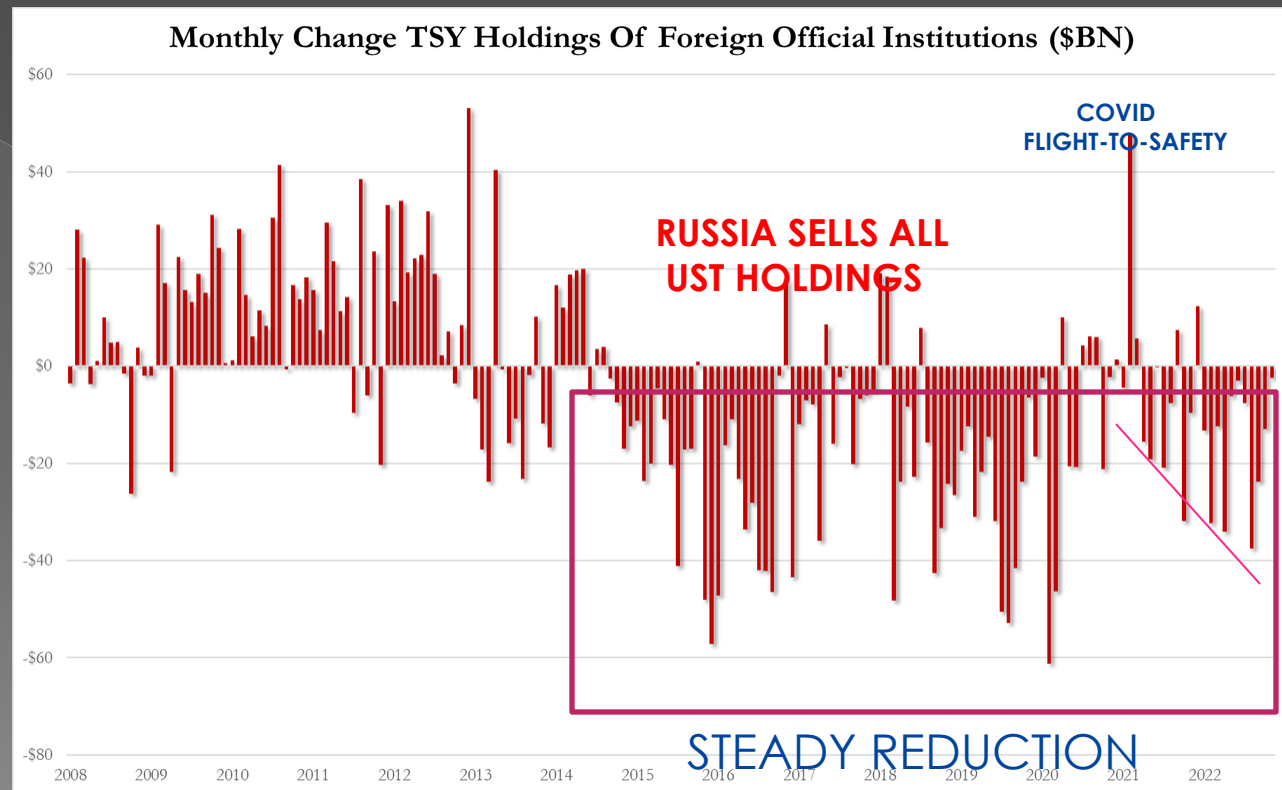


Source: Atlantic Council



REDUCED FOREIGN BUYING

Foreign official institutions (*central banks, wealth funds, reserve managers*), have sold Treasuries for 15 straight months.



THE GROWTH OF FOREIGN DEBT OWNERSHIP AS OF Q3 2022

\$8T U.S. Treasury Holdings

\$7T

\$6T

\$5T

\$4T

\$3T

\$2T

\$1T

\$0

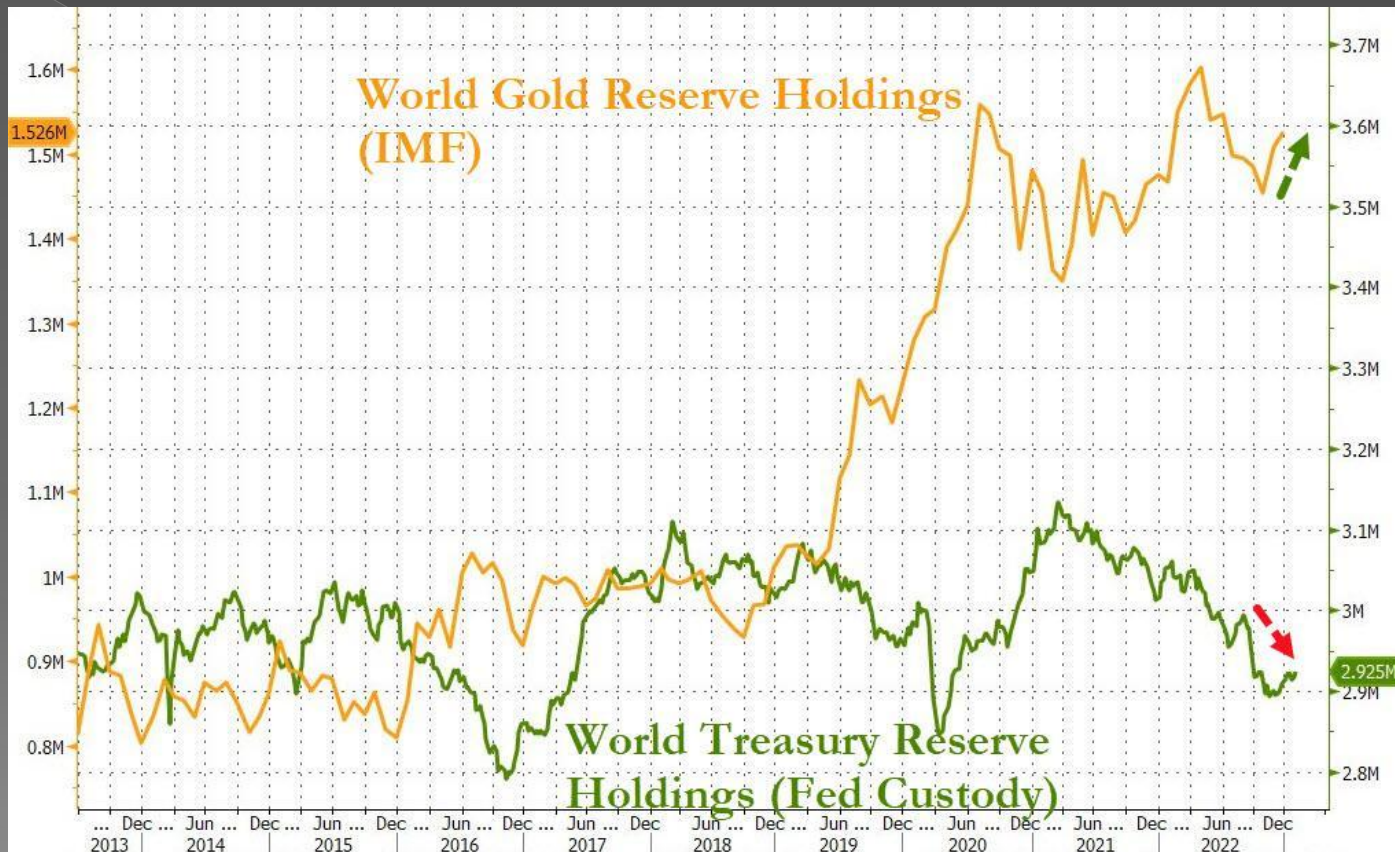
1962 1966 1970 1974 1978 1982 1986 1990 1994 1998 2002 2006 2010 2014 2018 2022



Between 2002 and 2013, China's Treasury holdings jumped from \$100B to a record \$1.3T.

Source: Federal Reserve Board, Financial Times

CENTRAL BANKS SHIFTING THEIR BUYING



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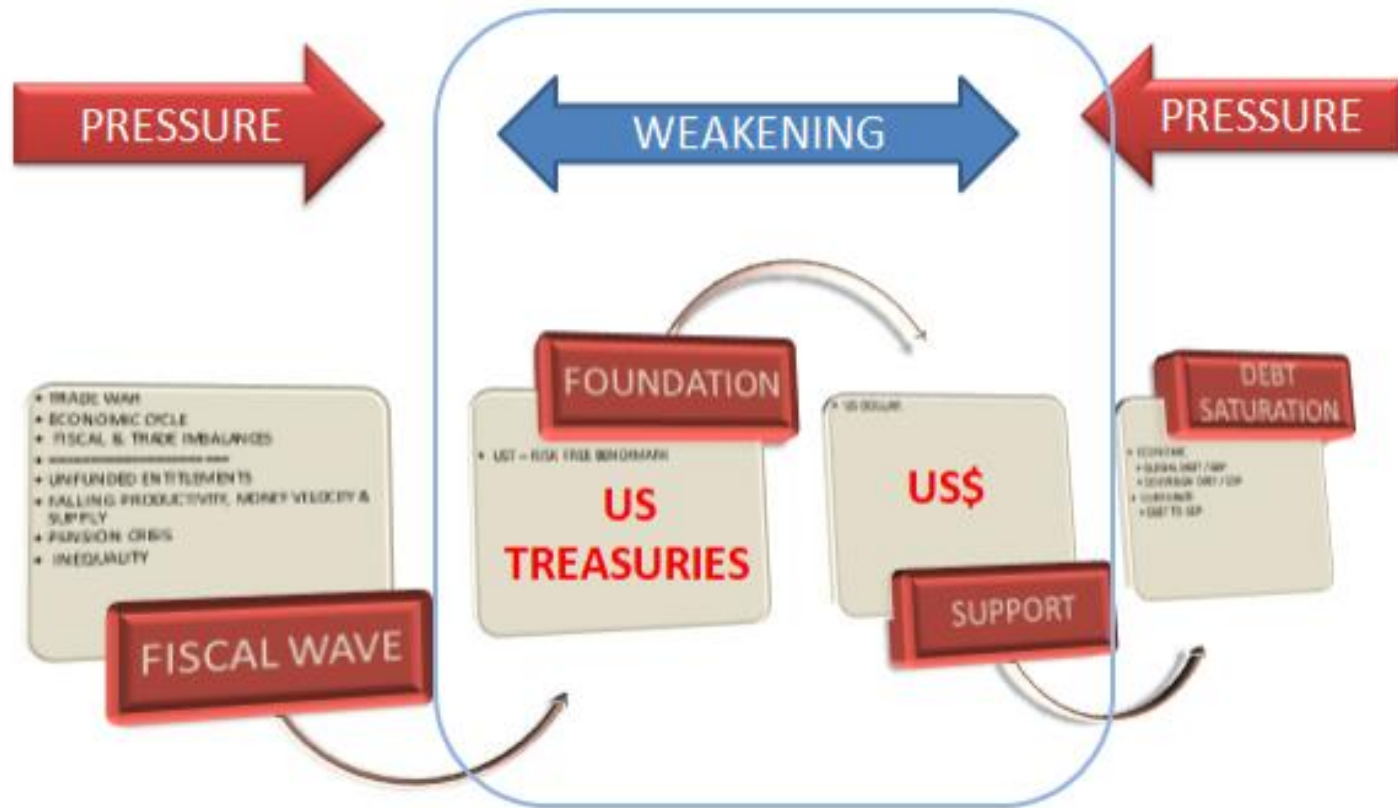
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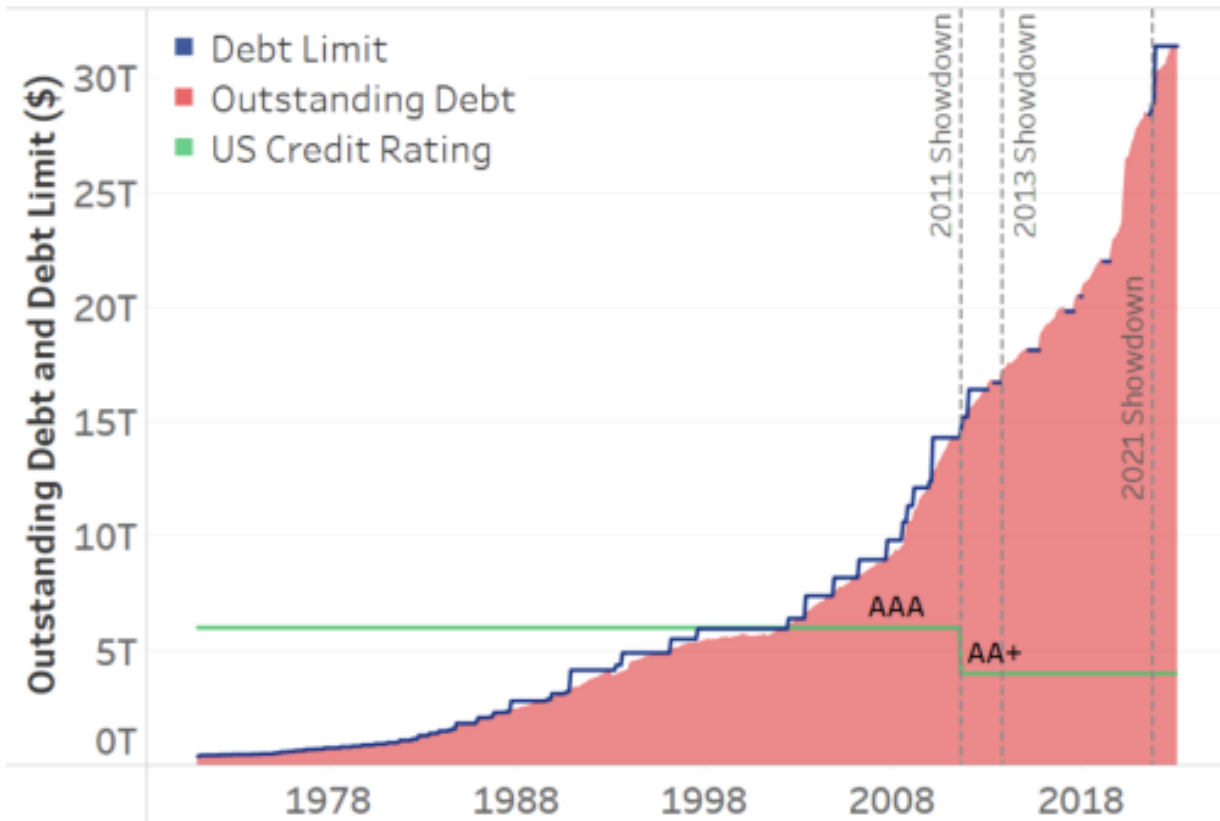




DEBT CEILING

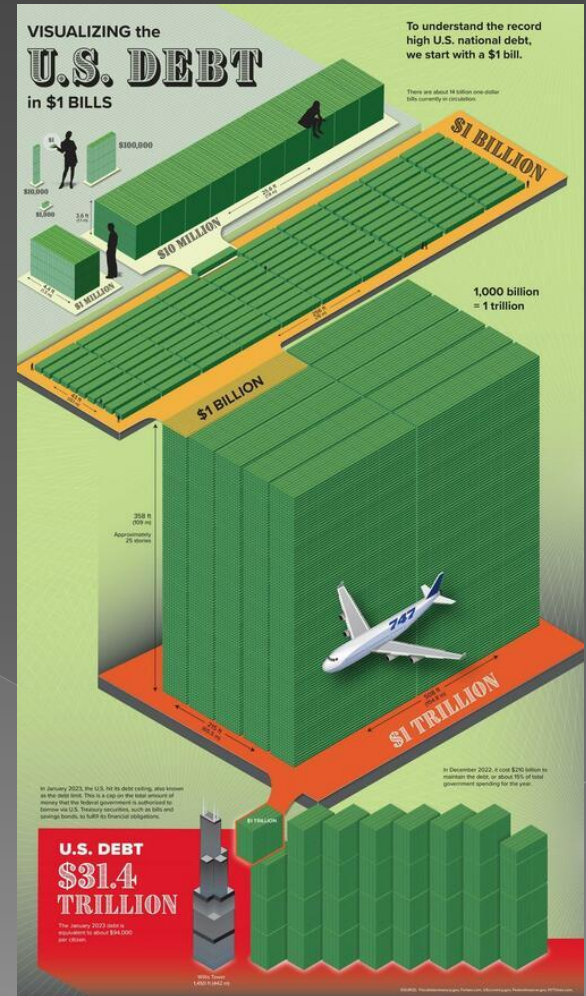
Outstanding Public Debt and Debt Limit

Note: gaps in debt limit denote debt limit suspensions.



Source: FactSet, S&P Global, Nasdaq Economic Research

INTEREST ON DEBT



INTEREST ON DEBT

Cost of US Debt

Estimated annualized debt payments



Source: Bloomberg

UNFUNDED LIABILITIES

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#WASTE OF THE DAY

IT'S YOUR MONEY!



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BOOKS™**

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Every Dime. Online. In Real Time.

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**U.S. MEDICARE AND SOCIAL SECURITY
BENEFITS UNDERFUNDED**

\$96 TRILLION

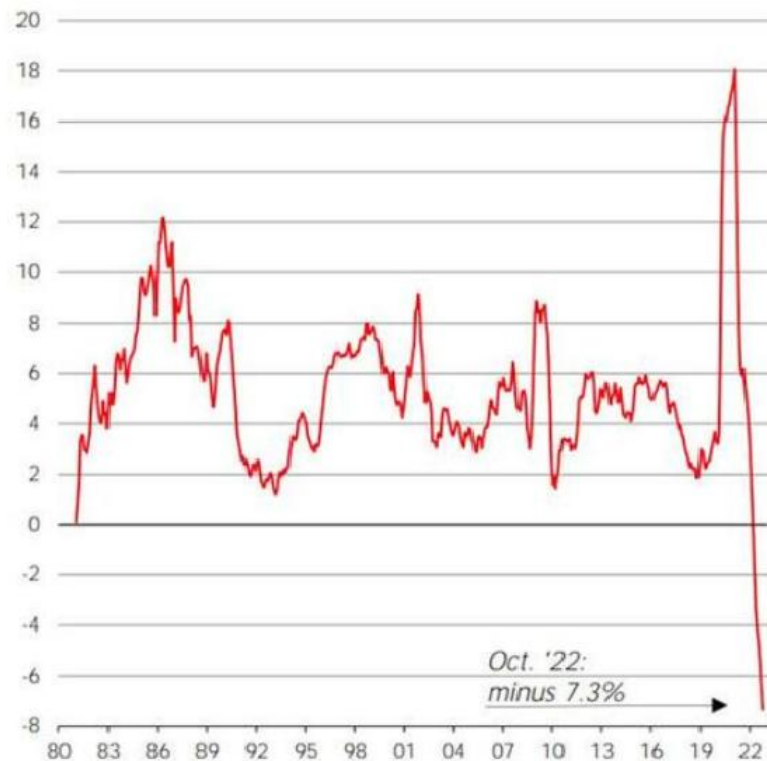
U.S. TAXPAYER-FUNDED
U.S. Federal Government Obligations

MONEY SUPPLY



The 'real money supply' shrinks like never before ...

Real money stock in the OECD, annual changes in per cent



Source: Refinitiv; calculations Degussa.

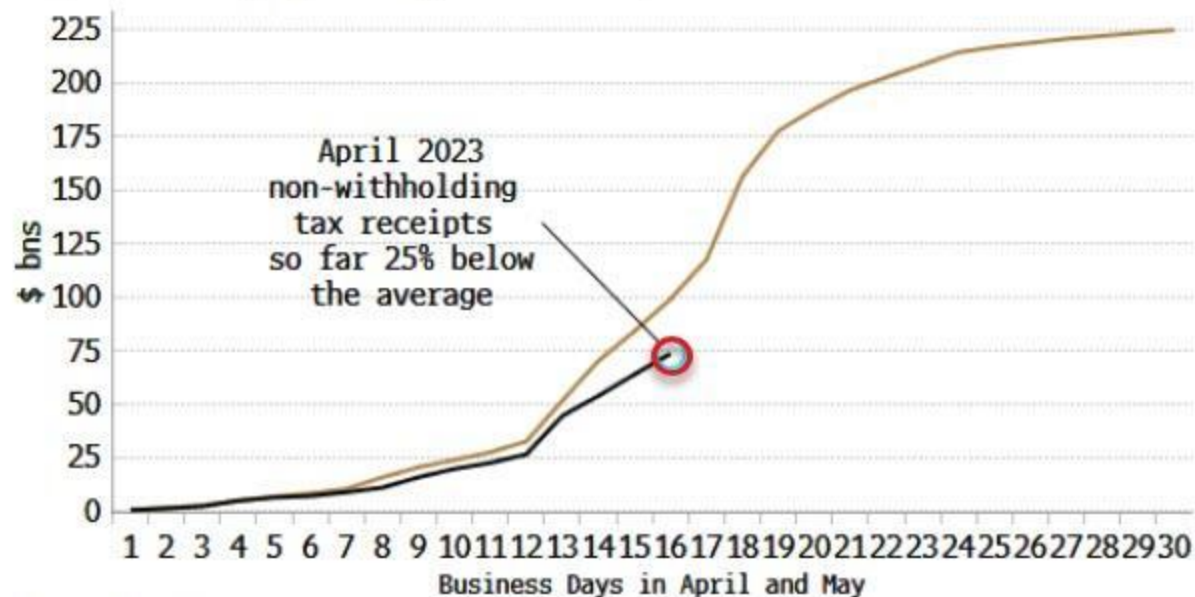
*Annual increase in the "broadly defined" money stock minus annual increase in consumer goods prices.

TAX REVENUES

Taxes Are Currently Tracking Below April Average

— Individual Income & Employment Taxes Not Withheld, April 2023

— 5y April Average (excluding 2020 and 2021)



Source: Bloomberg

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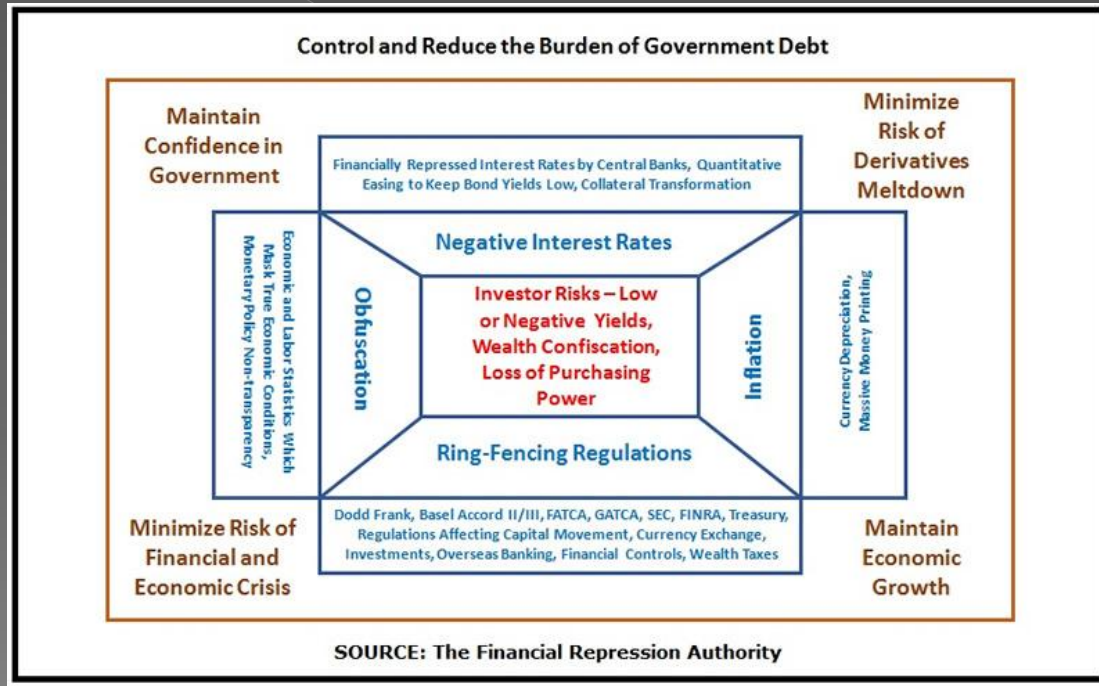
A Crippled Credit Creation Channel!



SOVEREIGN DEFAULT RISK



FINANCIAL REPRESSION



Negative Real Rates
Ended in May 2022

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FISCAL GAP

\$212T

Fiscal gap



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The examples and perspective in this article **deal primarily with the United States and do not represent a worldwide view of the subject**. You may [improve this article](#), discuss the issue on the [talk page](#), or [create a new article](#), as appropriate. *(July 2013)* [\(Learn how and when to remove this template message\)](#)

The **fiscal gap** is a measure of a government's total indebtedness proposed by economists [Laurence Kotlikoff](#) and [Alan Auerbach](#), who define it as the difference between the present value of all of government's projected financial obligations, including future expenditures, including servicing outstanding official federal debt, and the present value of all projected future tax and other receipts, including income accruing from the government's current ownership of financial assets.^[1] According to Kotlikoff and Auerbach, the "fiscal gap" accounting method can be used to calculate the percentage of necessary tax increases or spending reductions needed to close the fiscal gap in the long-run.

[Generational accounting](#), an accounting method closely related to the fiscal gap, has been proposed by the same authors as a measure of the future burden of closing the fiscal gap. The "generational accounting" assumes that current taxpayers are neither asked to pay more in taxes nor receive less in transfer payments than current policy suggests and that successive younger generations' lifetime tax payments net of transfer payments received rise in proportion to their labor earnings.

According to Kotlikoff and Auerbach, "fiscal gap accounting" and "generational accounting" reports have been done for roughly 40 developed and developing countries either by their treasury departments, finance ministries, or central banks, or by the IMF, the World Bank, or other international agencies, or by academics and think tanks.

Size of the U.S. fiscal gap [\[edit \]](#)

Fiscal gap accounting is not new to the U.S. government.^[*citation needed*] The Social Security Trustees and Medicare Trustees have been presenting such calculations for their own systems for years in their annual reports.^[*citation needed*] And generational accounting has been included in the President's Budget on three occasions.^[*citation needed*]

Based on calculations using the 2012 Alternative Fiscal Scenario long-term projections by the [Congressional Budget Office](#), some estimate the U.S. fiscal gap stands to be \$222 trillion – more than 13 times larger than the reported U.S. National Debt.^[*citation needed*] According to the same estimates, the gap grew \$11 trillion from 2011 to 2012.^[*citation needed*] Eliminating the entire U.S. fiscal gap through revenue alone would require a permanent 64% increase in all federal taxes.^[*citation needed*] Alternatively, closing the gap through spending reductions alone would require a permanent 40% cut in all federal purchases and transfer payments.^[2]

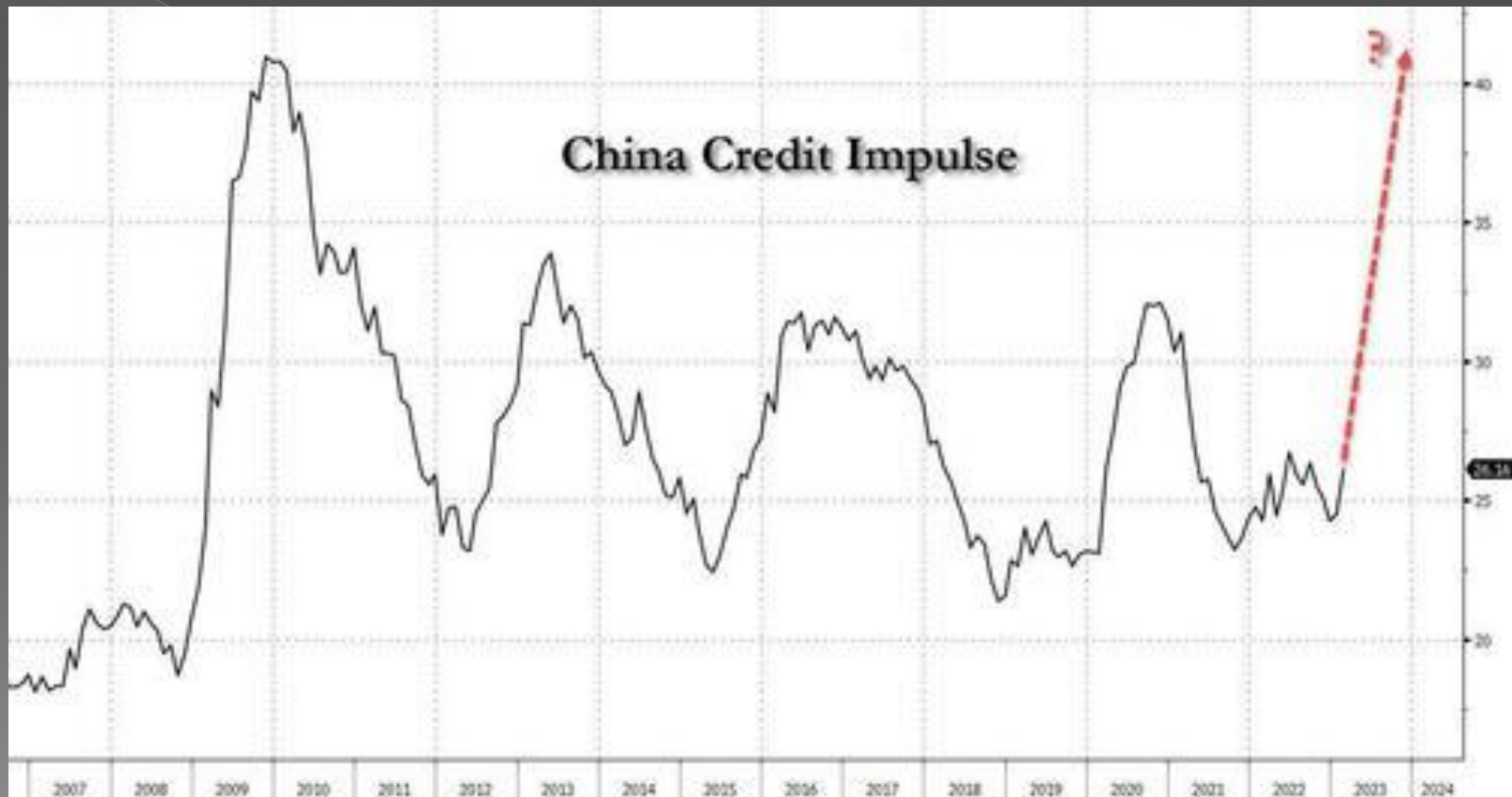
MATASII MACRO MAPS



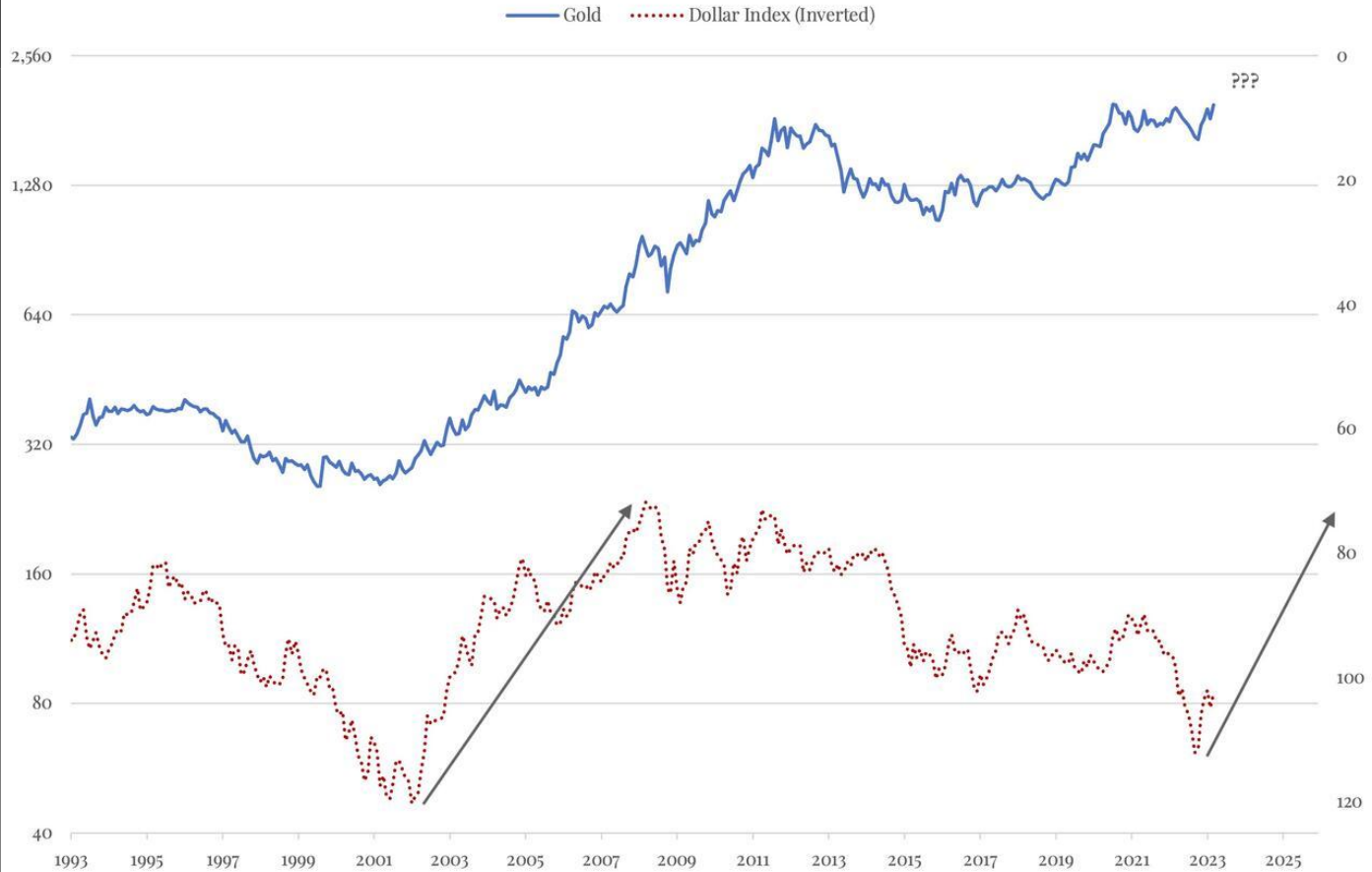
CHINESE CREDIT IMPULSE – Has Saved the Global Economy Four Times Since the 2008 Financial Crisis



CHINESE CREDIT IMPULSE



Gold & The Dollar



ADMINISTRATIONS CHANGE – BUT THE PRINTING NEVER DOES

DON'T WORRY, THEY WILL PRINT THE MONEY!

EVERYONE IS NOW IN PLACE & READY!!



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