

Absurdities in the World will end Badly

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Normality is rare in today's world. We have excesses in debts, asset values, consumer goods and many other areas. Most overvalued are of course stock and bond markets. They have reached extremes which are totally absurd and bear no resemblance to reality.

China is now showing the way what is going to happen to all the bubble markets in the rest of the world. The Chinese stock market topped in mid June at a 70 p/e ratio. This is of course a totally absurd valuation driven by a massive credit expansion. As is always the case in speculative moves, the public comes into the market in the final stages driving the market to dizzy heights supported by colossal margin debt. Since the peak 6 weeks ago, the Chinese market is now down over 25%. The Chinese authorities are clearly concerned about the consequences of this both for credit markets as well as the danger of public uproar. Like for the rest of the world, the Chinese authorities realise that only rising stocks is good for the country so when stocks fall, all kinds of intervention and manipulation is required – even in a communist country. Thus a number of restrictions have been implemented including prosecution of short sellers.

It is fascinating that in all countries in the world, investors and traders can use any method to drive the market up. No one is ever attacked or prosecuted for that. But whether it is in the West or in the East, authorities will jump on anyone who is suspected of driving the market down. Bulls are nurtured but bears are shot. This is the world we are in. False and manipulated markets where only good news is allowed.

The Chinese market is now showing the way for the rest of the world. With falling world trade and falling commodity prices as well as a major credit bubble, China will suffer very badly. From peak p/e of 70, I could see that the p/e will be sub 10, maybe 5, before this bear market is over. We must then also remember that earnings will fall dramatically which means that many stocks will be down by 90-95%.

It is likely that most stock markets in the world will fall heavily this autumn. Although markets in the West are not as overvalued as the Chinese market, I would still expect to see falls in excess of 75% in most countries.

In my latest KWN interview, I also discuss Greece, the smoke and mirrors used by the powers that be as well as gold.

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