

# Why China is Screwed

1. The US owes China 1 trillion bucks. Is it any surprise that China wants a stronger USD?
2. The US government is broke.
3. China cannot buy CDS protection on the US. It would have to buy it from a strong credit. Which counterparty could write 1 trillion USD worth of protection? Well, China, but that's stupid. The EU? China probably wants to buy CDS protection on the EU too. The UK? The UK wants to buy CDS protection on the UK. Bid no offer.
4. China has to participate at US treasury auctions. When you borrow a buck, the lender owns you. When you borrow a million bucks, you own the lender. When you borrow a trillion bucks, that's a cheque that can't be cashed. And China has to continue to lend to the US too if it is to hope to collect on its existing loans. Non participation at the auction will see 10 year yields instantaneously break 5.50.
5. I can see how a major creditor to the US would want to buy CDS protection on US, EU and UK sovereign risk from the major global banks, hedge their counterparty risk by going short the equity of these banks, do it through options so that its levered and the banks arrange the leverage themselves in the money market. If they were ever able to over-hedge their positions, (no way this will happen), they could then boycott a treasury auction.