is unprecedented. Funds running into trillions of dollars are now dedicated to short-term position-taking in markets around the globe. The key gamblers include the notorious hedge funds, the proprietary trading desks of banks and global bond and currency funds."

Riley, like Lewis and other analysts, identified the reflation policy of the Bank of Japan as at the heart of this latest manifestation of the global financial bubble. "Since September," Riley noted, "the Bank of Japan has been holding the U.S. dollar above Y 100 through massive intervention on foreign exchange markets, and by printing money fast enough to hold Japanese interest rates at 0.5%."

But in their effort to prevent full collapse of the fragile Japanese financial markets, the Japanese authorities inadvertently destabilized financial markets in the rest of the world, from South Africa to Germany, and above all in the United States, where interest rates on 30-year bonds rose at an alarming rate from 6.01% in mid-February, to 6.48% by Feb. 28—a huge increase.

The broader impact

But, as large as these bond markets are, the danger is not limited to them alone. Rising interest rates are the consequence of having more bond sellers than buyers on a given date. If those rates continue to climb, in Europe as well as the United States, the falling levels of real economic production will turn, in the coming months, into a full-scale depression, as the 30-year process of financial deregulation and speculative buildup, at the expense of real economic investment, can no longer be sustained. The recent collapse of Europe's largest shipbuilder, Bremer Vulkan, is merely a hint of what would follow.

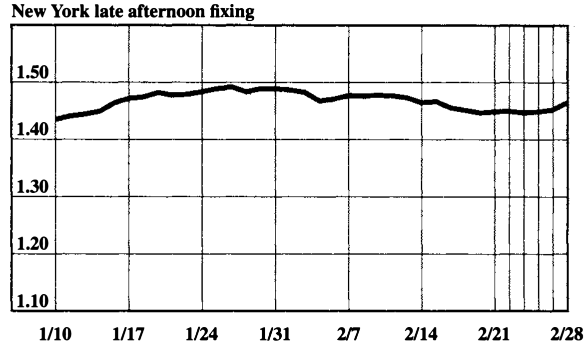
Given the heavy Japanese investment in the United States' bond and stock markets, by far Japan's largest foreign investment markets, the potential consequences of a major crisis in the yen at this point would immediately threaten a chain-reaction collapse of not only the $3.5 trillion of bonds traded in the U.S. secondary market, but, under rising interest rates and a worsening economy overall, the hyperinflated Dow Jones and other major stock market levels would likely collapse in chain-reaction. The total market value today of all stocks traded on the New York Stock Exchange is a staggering $6 trillion.

A simultaneous collapse of both U.S. bonds and stocks would, in turn, most certainly lead to wholesale liquidation of some $1 trillion of American stocks and bonds held by foreign central banks and investors, which, in turn would trigger what is being called in Europe the ultimate "financial Chernobyl" scenario on global financial markets. Little wonder that financial investors have been more than nervous in recent days. As Riley cynically concludes: "The world's financial centers are full of worried gamblers weighing their options. How long have they got before the real crisis hits? No problem: Each one will hit that panic button first."

Currency Rates

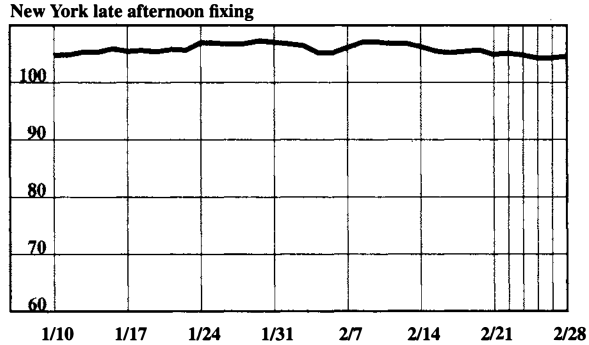
The dollar in deutschemarks

New York late afternoon fixing



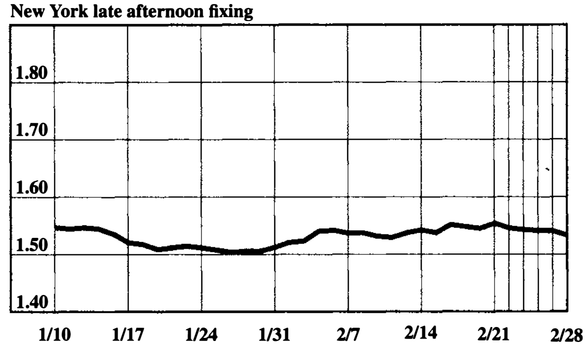
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing