**ChiCap Subverts WorldCap**

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The threat of Chinese 'communism' was a political fabrication that amounted to nothing, but the machinations of Chinese capitalism has managed to undermine the fragile foundation of the world capitalist market economy merely by accident. At least that's where the finger is being pointed. Capitalists in whichever country always want the source of financial crises located elsewhere, thus China, not being able to break the fall of their own markets, spread the contagion to the markets of the world – but, oh no, that doesn't mean our real economies are crapping out, just that our financial sectors, due to an excess of empathy for the suffering of others, will tend to crash simply as a gesture of moral support. In fact the entire world real economy is floundering. If markets fall to the extent that they are in equilibrium to the growth of the real sector, then we will have a the crash of all crashes – one that will be immune to any conventional means of recovery.

American markets opened to huge downturns – 6% for the Dow and 8% for Nasdaq. The DJIA was down 1089 for a short time – the most in its history. Then markets made a complete recovery only to return to reverse. DJIA close - 588. Most major indexes lost between 3.5 and 4%. Overnight China cut its base lending rate to 4.6% (the lowest ever and the 5th since November); cut the savings rate to $1.75 to encourage spending; and took a 1/2% off the amount banks must hold in reserve. Still the Shanghai Composite lost over 7%, but the measures were enough for a major boost in European markets. It appeared the same would translate to American markets; the DJIA rapidly rose above 400. But in the last hour all major American indexes fell like a stone with the DJIA closing with a loss of more than 200 points. It was the biggest and quickest reversal since the collapse of Lehman.

Even though Chinese markets still had an off night, and Europe thought better about going up on Tuesday when all was going down by deciding to give back some of that gain, American markets did well on Wednesday with the DJIA rising more than 600 points. It shot up early, then showed some shakiness, but the Fed's Dudley saying that a September rate rise "seems less compelling" blew away the clouds.

Durable goods orders were up 2.0% in July, significant less than the 4.1% June figure. Ex-transport it was up 0.6% (0.9% June), and down 2.5% from a year ago.

According to Bespoke Investment Group the S&P 500 closed more than 4 standard deviations below its 50 day moving average for the third straight trading day. The last time that happened was in May 1940 – about a year and a half before FDR *eased* the Japanese fleet into Pearl Harbor.

On Thursday the DJIA gained more than 300 points. The two day total was the biggest ever. Credit was given to a Commerce Department adjustment of Q2 from 2.3% to 3.7%. This is not only a huge gain but slightly suspect in that not a single expert prediction was higher than 3.6%. But since it was attributed to increased corporate investment and gain in inventory to $136 billion (the highest ever), it may be translated to mean – business spent more expecting an improvement consumer spending. That didn't happen, hence the hefty inventory buildup. When that is liquidated GDP growth will slow. Still, it's positive news for those with short attention spans.

Creditors have happily accepted a 20% haircut of Ukraine debt – a savings of $3.8 billion. Some of the benefits assigned to a “country” that is little more than a EU-US subsidiary.

Brazil entered a recessionary phase with consecutive negative GDPs of 0.7% and 1.91%. That's a 2.6% contraction from last year. Canada will follow when it reports its second quarter GDP September 1. GDP declined 0.6% in the first quarter and is universally expected to have a further slowdown in the second quarter – most likely around 1%. That news will be of special importance for American businesses as 19% of US exports are to that country.

With one trading day remaining the S&P 500 will likely have its worst month since May 2012. September and October are the historic months for crash testing economies.

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