In short what is going on

The banks had to be rescued to maintain dollar's reserve status

The banks were considered to big to fail because it would have bankrupted the USA and thus its reserve currency and thus it worldwide hegemony, the ability to finance its military power by being able to use the printing press as long as they can maintain keeping the dollar as the reserve currency.

Huge counter party risk following AIG's CDS position threatened the system which will most likely happen again

AIG had given off so many credit default swaps in the OTC market (not visible for other market parties because of the character of the OTC market) that when push came to shove and parties like Goldman were going to exercise their CDS (Credit Default Swaps) rights AIG was not able to fulfill its CDS obligations (because they thought that a breakdown in the system would never happen) and AIG as well as Goldman and other banks were on the brink of bankruptcy. So the ex-CEO of Goldman, Henry Paulson, stepped in "rescued" the system and of course Goldman!! What a coincidence. Anyway never forget anything to do with a piece of paper represents counter party risk hence why you need physical gold in your possession and not paper gold.

So the markets needed to be injected with a shot of confidence and quantitative easing was born. Though as we witnessed the only thing the QEs did was boost the stock market and assets in the hands of the lucky 1% whilst at the same time ZIRP destroyed people's pensions that need an actuarial income of 8% (thanks a million Greenspan (Greenscam would be better) and Bernanke). A lot of pensioners of course can't live on zero interest income hence why we have seen that a lot of seniors entered or stayed in the workplace to supplement their pension income.

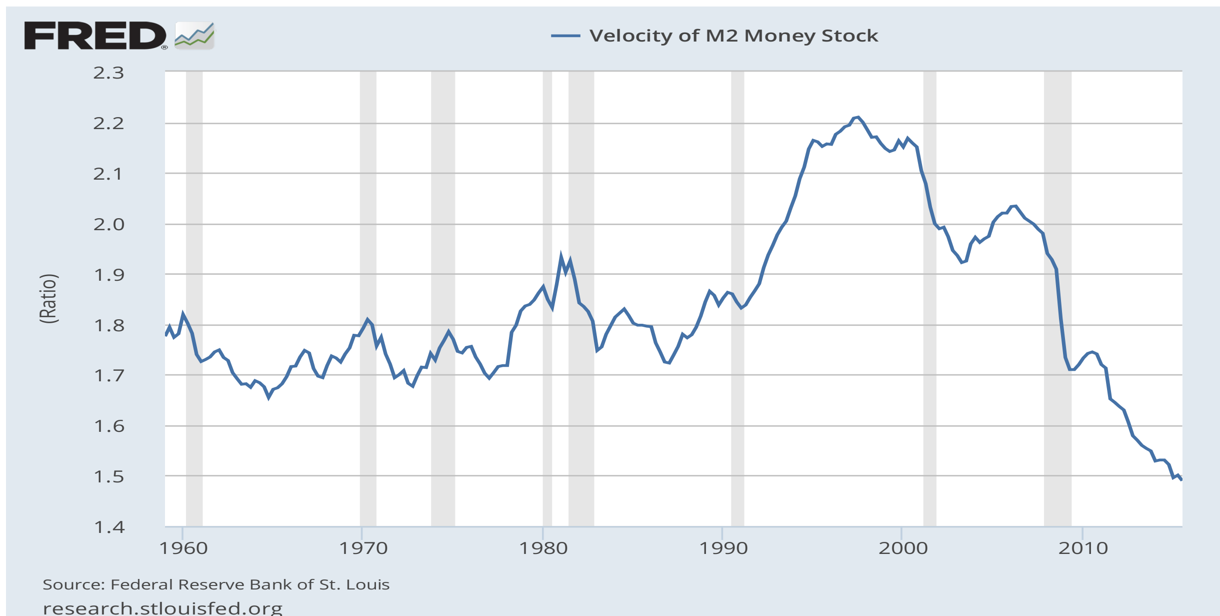
QE didn't boost the confidence/economy it only boosted assets for the upper 1% creating an increasing wealth disparity

Every next QE had a smaller impact on boosting the stock market. Although the idea behind QE was to boost the consumer's confidence so that consumers would spend and lift the economy and improve the employment figures the result was that only those people that had discretionary income (1%) benefitted from the increased equity and bond prices and real estate prices. The gap between the rich and middle and lower class only got bigger which down the road is likely to lead to some severe social unrest. The middle class has been suffering dramatically because they didn't enjoy higher wages and at the same time got squeezed in their disposable income following the much higher cost for Obama care (ObaNoCare) and inflated living expenses, especially rents. So far real median income (consists basically all of disposable income) for working-age Americans has fallen more than 12% since 2000 hence the QEs completely missed their goals and got a huge disparity between poor and rich in return.

The irony of the QEs is that it created the opposite effect strongly reducing the velocity of money because unrealistically high prices,

As an important side effect of the unsuccessful QEs the velocity of money has been reduced dramatically and it looks like it, and thus the economy, is coming to a grinding halt, see chart below. The irony is that the injection of trillions (liquidity) into the banking system resulted in a strongly reduced velocity of money. Following the inflation of a lot of assets, amongst them real estate, which is a major cost component and feeds through in other costs, there have been no buyers for the inflated prices hence why the velocity of money in the economy has fallen far below 1960 levels. Next to that the crowding out of government bonds by the central banks trying

to push interest rates into negative territory has also not helped liquidity in the bond markets. Certain institutions such as pension funds need to invest in long-term bonds in order to match their long-term pension obligations and with the central banks buying up the long-term bonds the free float has become very thin. As a result the liquidity in these "risk-free" bonds is drying up which could lead to substantially higher interest rates when panic hits the market and everybody wants to get out at the same time with no market makers that want to facilitate liquidity.



Another factor that of course also doesn't help the velocity of money is that the banks are very reluctant to lend money.

Fraudulent behavior and flawed government figures are the norm (you just correct once every 10 years!)

This make believe policy initiated in 2009 clearly hasn't worked. Next to that as we have seen with liborgate and other major fraudulent behavior by the banks, who pay penalties (from shareholders funds) but don't admit any wrongdoing (how convoluted can you be), the government also doesn't seem to be able to supply its citizins with correct information. As we just found out all the construction spending data for the past 10 years had been "erroneous." Nothing is what it looks like almost everything is a fraud.

In a release of its estimates for the month of November, the Census Bureau on Monday January 4 included a footnote indicating that it had restated each of its monthly estimates going back to January of 2005. In the November 2015 press release, the footnote reads, "monthly and annual estimates for private residential, total private, total residential and total construction spending for January 2005 through October 2015 have been revised to correct a processing error in the tabulation of data on private residential improvement spending." I have never believed the Government figures for construction, employment etc. and many with me. Though imagine you knowingly manipulate the figures to serve your purpose and then after many years you say oops we made a mistake and correct everything. First this is such an easy way in order to manipulate the figures for a long time and secondly and more importantly is shows the deep distrust investors should have for government figures. And I can't get to any other conclusion than that these figures are manipulated in order to achieve the Government's goals of pretending and making people believe that all is well and thus that consumers should spend hoping that the economy will get traction or escape velocity.

See how the employment figures are most likely manipulated or managed

In my point of view the manipulation of Government figures especially applies to unemployment figures for the reason set out here above. Having 5% unemployment is of course completely baloney in the light of the state of the economy and the people on food stamps, nowadays 46m Americans are on food stamps. I will try to highlight where all the gimmicks are with respect to managing the employment figures with full/temp employed, seasonal and death/birth adjustments and the participation rate.

Part time workers are counted as full time workers for the employment figures

People are classified, as unemployed if they do not have a job, have actively looked for work in the prior 4 weeks, and are currently available for work. People are considered employed if they did any work at all for pay or profit, which includes part-time and temporary work, as well as regular full-time, year-round employment. According to the LBS full time is 35 hours or more per week; part time is 1 to 34 hours per week. The point here is that a part time or temporary job does not have the same economic importance and weight as a full-time job, which gives a distorted picture of the real employment situation. Five employees that work 5 hours per week are accounted as 5 jobs whilst one employee that works for 35 hours a week also counts as one job. See the flaws in the way the unemployment figures are calculated and thus giving a very distorted and false impression of the strength of the economy.

Birth/Death models add "estimates" in terms of jobs

And it doesn't stop here birth/death and seasonal (summer, December month) adjustments are also tools that can be used for manipulation. The idea behind the birth/death model is because small firms are always failing and starting up and it takes a few months for them to report on the payroll survey, an **estimate** is "needed" (?) for the new jobs created! And of course we know that estimates can vary quite extensively. You get the point.

"Seasonal adjustments" add 281k jobs to the December number of 292k!!!! In other words only 11,000 real jobs were added.

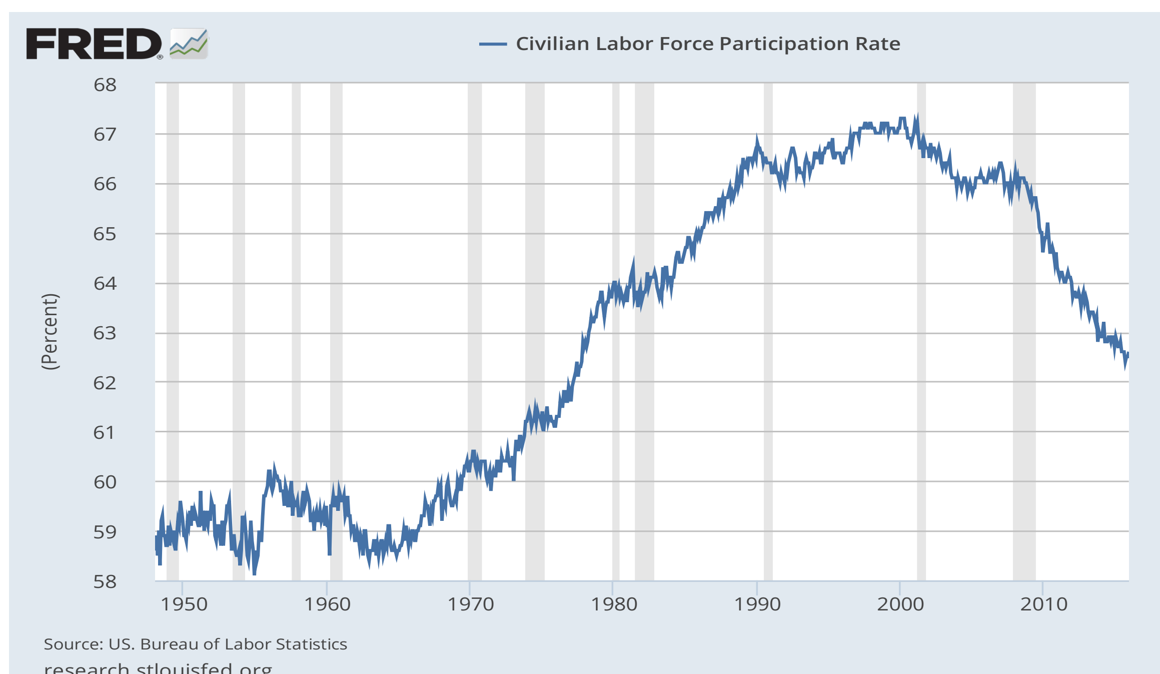
Seasonal adjustment, isn't everything seasonal, is a statistical method for removing the seasonal component of a time series that is used when analyzing non-seasonal trends. It is normal to report seasonally adjusted data for unemployment rates to reveal the underlying trends in labor markets. Though as we know the underlying trend can be easily manipulated to suit political economic goals because again the BLS has to guess what the seasonal impact has been. For December the BLS writers added 281,000 new jobs to their headline number to cover the "seasonal adjustment." This is done on the apparent truism that December is generally colder than November and that workers get holiday vacations. Excluding the 281,000 adjustment the economy didn't generate 292,000 jobs but 11,000 instead. Quite an adjustment no!

The lower the participation rate (at a low since 1978) the fewer people are counted as "unemployed". Another accounting trick

Last but not least there is the participation rate that keeps on declining. The participation rate is now at the same level as it was in 1978. The labor force is that proportion of the population that is 16 and older, that is economically active and that are not in the military or an institution, which was 252m in December. Of that number, 158m (62.6% of the labor force) participated in the labor force by either having a job or actively searching for one, according to BLS data. The labor force is made up of the employed (full + part time!!) and the unemployed. The remainder—those who have no job + are not looking for one—are counted as not in the labor force. The declining

participation in work force basically means that actual unemployment rate is much higher than 5% because a lot of people have stopped looking for jobs because the outlook is so bad. So people who would otherwise be included in the unemployed (looking for a job) are now been seen as not participating in the workforce (not looking for a job).

These are all cosmetic changes in order to make the unemployment figures look better. But in the end and especially if the economy doesn't recover as is now the case these figures will lose their validity. For example I have never seen so many vacant stores in Manhattan and that is telling me something especially in case of a place such as New York which has an economy of its own with Wall Street, Advertising, Fashion, Music and 50m tourists every year. Anyway my point is that you can't trust and sail on the Government statistics and that you have to read between the lines in order to asses what the real state of the economy is. The problem is that in general Wall Street only reads the news through its rose colored glasses because the reality doesn't serve their purpose.



The deflation was put in motion by the central banks, and especially the Fed, the BOJ and the ECB, using ZIRP and as a result now all asset classes are deflating

The zero interest rates, which didn't trigger escape velocity of the economy and created strong economic growth, were the first to establish deflation (deflation of financing costs). As a result economically non-viable commodity producers were able to stay in business much longer as a result of the cheap financing leading to overproduction and thus lower oil, copper and iron ore prices (deflation of commodity prices). Hence why Glencore CDS soared to a 6 year high on January 11 after the bankruptcy of its US subsidiary following ongoing copper carnage (below $2/lb.). Subsequently the currencies of the commodity producing countries such as the Brazilian real, the Canadian dollar, the Australian dollar and South African rand suffered significant falls (deflation of currencies). Just look at the devaluation of the Yuan Real and the SAR. This weakening of the exchange rate of the EM (Emerging Markets) currencies against the US dollar, in turn strongly affected the EM debt in a negative way because more local currency is needed to repay the US dollar loans (EM debt deflation). At the same time as a result of the lower foreign currencies and a much stronger US dollar corporate earnings are being hit by translation losses reducing earnings and affecting US HY debt and US corporate debt (HY+IG debt deflation). Finally this deflation train is now hitting equities following lower forecast profit levels. And the Fed has

the audacity or stupidity to pretend on the basis of its flawed figures that the economy is improving and that up to 4 more rate hikes (according to Stanley Fischer) might be warranted in 2016. And these are the people that are responsible for the your economic and financial welfare or are they there to serve different interests?

The Federal Reserve was set up in 1913 as a "lender of last resort" to backstop bank runs. The Fed's mandate was then and continues to be to keep the private banking system intact. And thus it is serving the interest of the bankers!

It is time to also change the Fed and the role it plays in the economy. On its website the Fed states, "The Federal Reserve System fulfills its public mission as an independent entity within government. It is not "owned" by anyone and is not a private, profit-making institution." That is not true its shareholders are private banks. In fact, 100% of its shareholders are private banks. None of its stock is owned by the government.

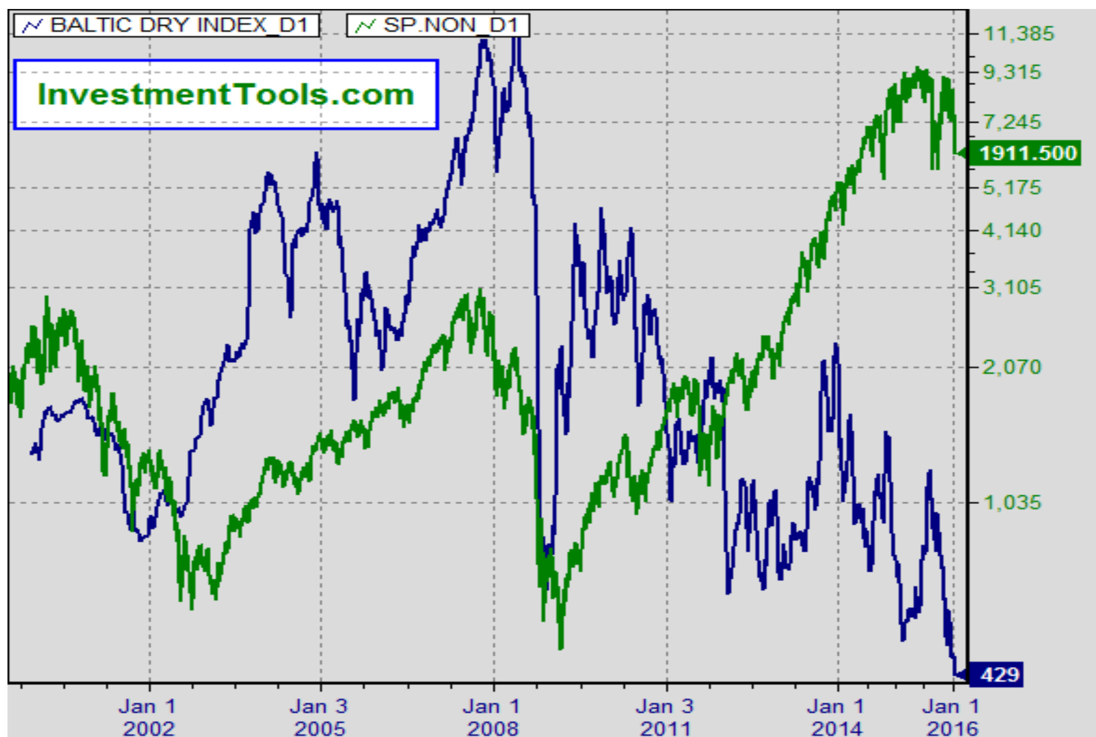
The Federal Reserve was set up in 1913 as a "lender of last resort" to backstop bank runs, following a particularly bad bank panic in 1907. The Fed's mandate was then and continues to be to keep the private banking system intact; and that means keeping intact the system's most valuable asset, a monopoly on creating the national money supply. Except for coins, every dollar in circulation is now created privately as a debt to the Federal Reserve or the banking system it heads.

The Reserve Banks are not operated for profit, and ownership of a certain amount of stock is, by law, a condition of membership in the System. The stock may not be sold, traded, or pledged as security for a loan; dividends are, by law, 6 percent per year." The Federal Reserve is considered an independent central bank because its decisions do not have to be ratified by the President or anyone else in the executive or legislative branch of government, it does not receive funding appropriated by Congress, and the terms of the members of the Board of Governors span multiple presidential and congressional terms. The Federal Reserve's income is derived primarily from the interest on U.S. government securities that it has acquired through open market operations. After paying its expenses, the Federal Reserve turns the rest of its earnings over to the U.S. Treasury."

The Fed has to pretend that the economy is improving; this has been the basis on which the QEs were operated, though this time it will fail. Transport indices clearly confirm earlier statements

Anyway back to deflation. Deflation is also hitting freight transport with lower shipments and lower prices confirming the slowdown in the economies. As a result of the slowdown in the EM economies (mostly dependent on commodities), now accounting for 40% of world GDP ($74trn in 2015), and the weakening western economies we have also seen the BDI index fall to a new historic low of 415 on January 11 (52 week high 1,222). The Baltic Dry Index (BDI) is an economic indicator issued daily by the London-based Baltic Exchange. Not restricted to Baltic Sea countries, the index provides "an assessment of the price of moving the major raw materials by sea. Taking in 23 shipping routes measured on a time charter basis, the index covers Handysize, Supramax, Panamax and Capesize dry bulk carriers carrying a range of commodities including coal, iron ore and grain. Although the much lower index is partly due to the recently added shipping capacity (deflation) the largest part though is the result of strong reduction in world trade, representing a double whammy!

And the following chart clearly shows the discrepancy between the overcapacity hence lower rates and the artificial and unrealistic S&P500 index blown up by the QEs.



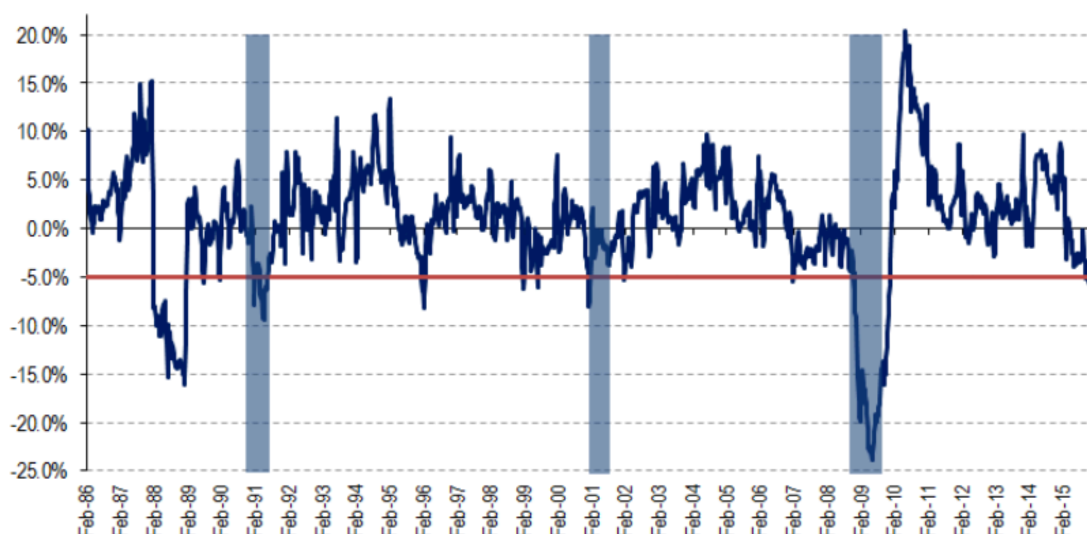
This story of structural weakness in the world economy is also confirmed for the USA where railroad cargo, an important indicator for the health of the national economy, clearly is under pressure.

According to the Bank of America railroad cargo in the U.S. dropped the most in six years in 2015, and things aren't looking good for 2016. "We believe rail data may be signaling a warning for the broader economy," the recent note from Bank of America says. "Carloads have declined more than 5% in each of the past 11 weeks on a year-over-year basis. While one-off volume declines occur occasionally, they are generally followed by a recovery shortly thereafter. The current period of substantial and sustained weakness, including last week's -10.1% decline, has not occurred since 2009."

According to the BofA analysts all such drops in rail carloads preceded, or were accompanied by, an economic slowdown (Note: They excluded 1996 due to an extremely harsh winter). "Similar periods of weakness have occurred in only five other instances since 1985: (1) the majority of 1988, (2) the first half of 1991, (3) several weeks in early 1996, (4) late 2000 and early 2001, and (5) late 2008 and the majority of 2009 … all either overlapped with a recession, or preceded a recession by a few quarters."

Anyhow it is clear to me that all the indicators are forecasting a slowdown of the economies.

Exhibit 1: 4-week moving average of year-over-year change in carload volume highlights the current weakness, not seen since 2009



Source: AAR and BofA Merrill Lynch Global Research estimates

The yield curve is flattening and will even flatten more when it will have to reverse its rate hike

And with the yield curve flattening and the 10-year treasuries at 2.06% (January 14) whilst the Fed is increasing short-term rates, the market and the Fed clearly have different views on the state of the economy. On the basis of the deteriorating fundamentals a further rally in Treasuries as in Aug/ Sep, when the 10y USTs broke below 2%, is more likely every day.

Anyway it was clear to me as I suggested several years ago that at one stage "QE number whatever" will tank the US dollar because investors will lose trust in the Fed policies and the outlook for the US economy because the measures will not deliver. The Fed has become incarcerated by the flawed Government numbers and it pretends that the market is improving even if it isn't. The Fed has become a prisoner of its own manipulation! And we have finally arrived at that point (although I have to admit that I thought this would have happened much earlier) that it will be faced with reality and will have to reverse the rate hike! And the yield curve will most likely flatten even before it starts pricing in the rate cut as soon as the S&P enters a severe correction. It will confirm to the entire world that the December rate hike was nothing more than the latest policy error by the Fed whose legacy will be a record of one mistake after another starting with Greenspan. The subsequent loss of credibility in the Fed/US economy/US dollar will trigger the resumption of the bull market for gold and silver.

Imagine even J.P. Morgan has turned bearish now. Buying the dip is over; it is now selling the kick!

The irony has been of course that also Wall Street only wanted to see the figures that suited their business, as we saw with Japan in the late eighties. Every time the markets were rescued by the Fed needing to keep the markets up. Wall Street would "buy the dip". Those times are over now and now it will be "sell the kick".

In fact even J.P. Morgan Chase is now turning its back on the stock market: For the first time in seven years, the investment bank is urging investors to sell stocks on any bounce. "Our view is that the risk-reward for equities has worsened materially. In contrast to the past seven years, when we advocated using the dips as buying opportunities, we believe the regime has transitioned to one of selling any rally," J.P. Morgan, said in a report. Aside from technical

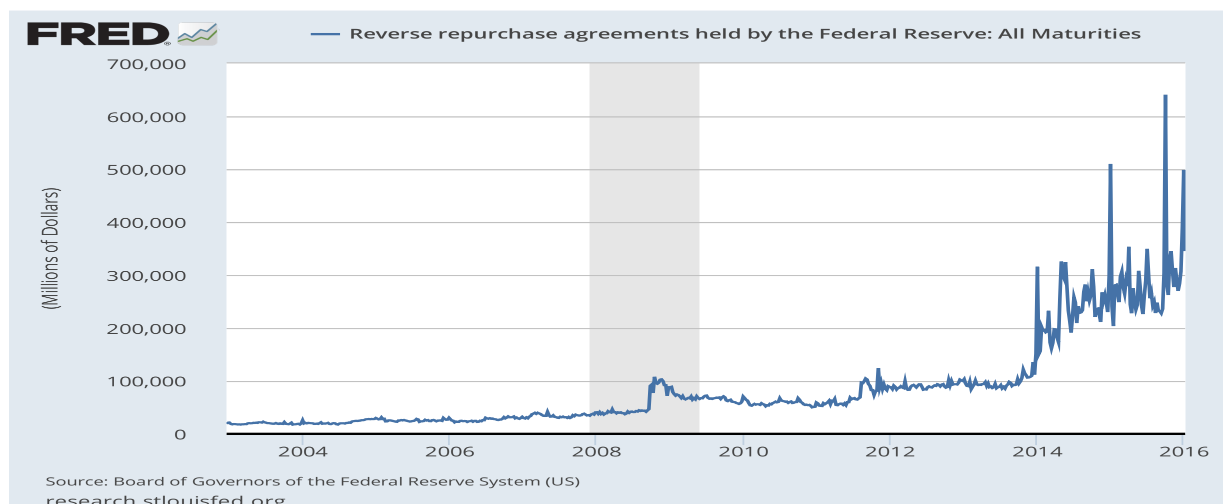
indicators, expectations of anemic corporate earnings combined with the downward trajectory in U.S. manufacturing activity and a continued weakness in commodities are raising red flags.

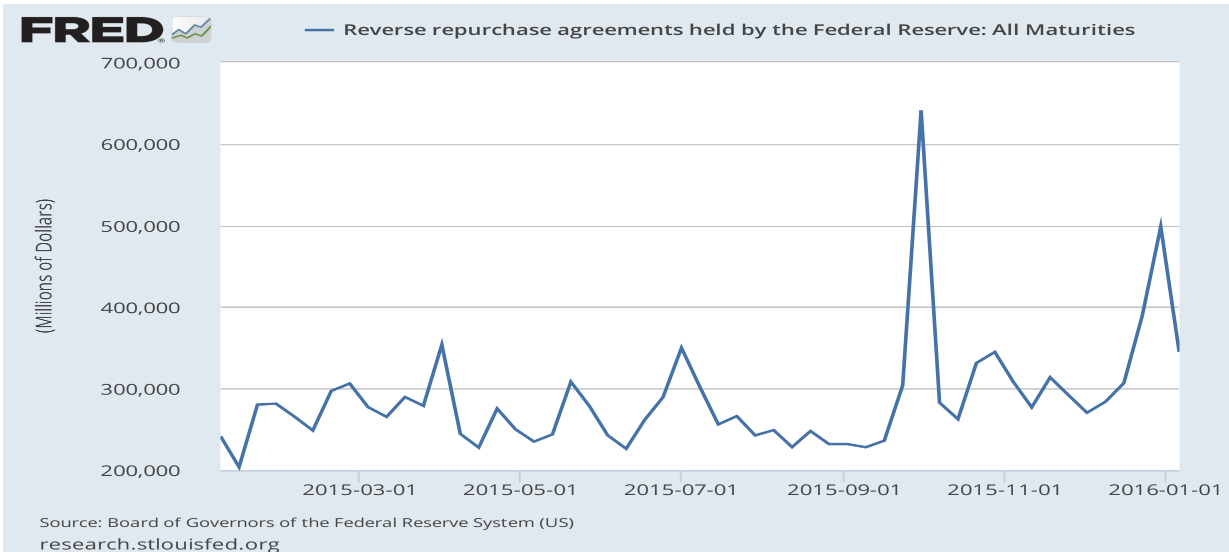
“We fear that the incoming fourth-quarter reporting season won’t be able to provide much reassurance for stocks,” he said. Expectations for earnings are so bearish that the hurdle rate—the minimum rate of return on an investment that makes it worth the risk—for fourth-quarter results is now minus 4%, compared with plus 5% several months earlier.

The Institute for Supply Management’s manufacturing index, released last week, dipped to 48.2% in December from 48.6% in November, the lowest since the Great Recession. The positive correlation between oil prices and earnings on top of the sustained gains in the U.S. dollar — which has an inverse correlation to results — will also weigh on the market. Et voila as they say in French.

The reverse repo levels also confirm the stresses in the system

And another yardstick for stress levels in the economy are the reverse repos, whereby the Fed supplies the market with collateral in the form of treasuries, and they also tells us that not everything is honky dory behind the screens. Reverse repurchase agreements held by the Federal Reserve on 2016-01-06 were $350bn, and this covered all maturities. While it should be mentioned that at the end of the year window dressing definitely plays a role with respect to elevated reverse repos when financial institutions want to make their balance sheets look better. Though to put it in perspective in 2008/2009 the total amount of reverse repo operations only amounted to $100bn. Following the August 25 sell-off in the markets the reverse repo operations on September 30 amounted to a record $641bn indicating a lot of stress in the system. Just imagine what the amount of reverse repos will be when the markets really start taking a beating. Reverse repo operations are an import yardstick for accidents happening behind the screens!





With all tools in the toolbox exhausted it is game over and the precious metals will resume their upward momentum after an exhausting 5-year downtrend.

Only when all the tools in the toolbox are exhausted the markets will nose dive, which we have seen the start of. With failed QEs, deflation taking hold and negative interest rates (who invents such desperate measure to stimulate consumer spending!) and peak equity and bond markets the time has come to preserve your capital and take out an insurance in the form of gold and silver.

I believe the times that the policies of the central bank could guarantee your economic wealth is over. As I have also argued several times the crisis that is now unfolding is caused by the central banks and not so much by the banks as in 2008.

Currencies can be seen as the benchmark of your wealth and purchasing power. Hence why it is so important to ensure that your wealth is preserved in the "right" currency. And gold has proven to be the ultimate insurance against the debasement of the currencies just ask the Brazilians, gold in real rose +30% in 2015, or the South Africans, gold increased 28% in rand (see the chart below).

And especially when the reserve currency loses its appeal the currency of last resort will be gold again. On the following chart for the USD index it looks like the 50 day moving average is topping out which would coincide with the theory that the strength in the US dollar will be over soon when the Fed has to revert course.

Another chart confirming this theory is that of the USD/Yen with an overlay of the gold price, see chart below. The USD/Yen chart is the inverse of the USD chart and correlates directly with the gold price. The Yen is bottoming out and it looks like it is strengthening, which should bode well for gold.

Negative interest rates are the ultimate form of deflation

The nominal currencies are all being destroyed by the negative interest rates, who wants to hold a fiat currency that it is destroying its own value?

An interest rate is the rate at which interest is paid by borrowers (debtors) for the use of money that they borrow from lenders (creditors) and not the other way around. As I have mentioned before how can the lender pay the borrower interest for borrowing his money. The Swiss canton of Zug is now even asking its citizens to delay paying their taxes for as long as possible. Can you imagine, why? Because the cantonal government doesn't want to take in a pile of cash, only to end up paying the bank interest on all the tax revenue. Interest rates in Switzerland are among the

lowest in the world; the official policy rate set by the Swiss National Bank is minus 0.75%. According to the Financial Times, the cantonal government of Zug estimates that they will save $2.5 million in negative interest rate charges by delaying tax receipts.

In German they have a great word that expresses the situation: "Wahnsinn" translated in English as utter madness. In my point of view negative interest rates are the ultimate form of deflation.

With negative interest rates you don't lose money holding gold, in fact you make money and it protects you against counter-party risk

Nonetheless another effect of the negative interest rates is that there are no opportunity costs holding gold because you don't "lose" income in fact you even "win" income because when you hold government bonds you even have to pay interest. It has been a big question mark for me why people haven't piled into gold and silver as a result of the negative rates. Probably because they don't understand the mechanics and because they might think that gold doesn't have a role as money any longer. Though my response then would be why is it then that most central banks have substantial amounts of their forex reserves invested in gold holdings. The US Treasury's Office of the Comptroller of the Currency classifies gold as a currency, as can be seen in the OCC's latest quarterly report on bank "derivatives" activities in which the OCC places gold futures in the foreign exchange derivatives classification. And for the record gold is not the barbaric relic but debt or fiat currency (government debt to the bearer) is! Debt destroys itself ultimately by the virtue that it pays interest and thus dilutes itself over longer periods. Gold unlike paper money doesn't dilute itself because it doesn't pay interest it just gets worth more. Gold doesn't need to have a nominal amount printed on a bar or coin to give it value, fiat money does! That is the difference between having inherent value (gold) and not (paper money). As JP Morgan said, "Gold is money and everything else is credit". Everything else is an obligation by someone else and thus represents counter-party risk.

The paper gold manipulation that has prevented gold from being valued at its real value is coming to an end

Last but not least the paper price setting of gold and silver, which facilitated the manipulation, is nearing its end. Although I am not a conspiracist it has become clear to me that gold and silver are manipulated by the central banks and especially by the Fed. Next to that Zijlstra the former President of the Dutch Central Bank and BIS stated in his memoires that gold and silver are "managed" by the central banks. When Volcker visited Zijlstra on July 7, 1971 as Treasury undersecretary, Volcker said, "You are rocking the boat." Zijlstra replied: "If the boat is rocking because we present $250 million for conversion into gold or something that can be considered an equal asset, then the boat *has* already perished." (P. 191.) Volcker urged the Dutch government not to convert any more of its dollar reserves into gold. Zijlstra still converted dollars into gold.

Gold and silver are considered the mirror image of the reserve currency: the US dollar. Gold and silver reflect the weaknesses and strengths of the reserve currency. In general when the dollar is weak gold it strong and visa versa.

When in 2011 gold threatened to take the $2,000/oz. the authorities managed the price down. Why? Because you can't have so called "good" performing stock markets whilst gold is above $2,000 because investors would say what is wrong with this picture. And thus gold could tarnish the artificial confidence installed in the markets by QE and zero interest rates and brings them down and with them the US dollar. Next to the disbelieve in the Fed policies boosting the performance of the markets the zero interest rates also boosted interest in gold and silver because there were no opportunity costs in terms of missing out on interest income. Real interest rates, the amount by which the nominal interest rate is higher than the inflation rate, have been negative especially with the ZIRP and NIRP.

Anyhow the Fed needs to keep the status quo of the US dollar as the reserve currency intact in order to for the US government to be able to finance its budget deficits and debts. The reserve currency empowerment to print money ensures that the US can maintain its military and economic hegemony for now. Though this about to change with China, Russia and the oil producers no longer wants to be "ruled" by the US and the US dollar. But till that happens the Fed, in cooperation with the bullion banks, investment banks that function as wholesale suppliers dealing in large quantities of gold (definition of the World Gold Council), will try to keep gold and silver under control at all costs because the alternative is no option. By the way all bullion banks are members of the London Bullion Market Association.

Bullion banks manipulate the gold and silver price by issuing new futures contracts thereby diluting the funds flow into gold and silver and stemming any price rise. Next to that I believe that the bullion banks are each other's counter parties in this manipulation scam!

The bullion banks simply issue brand new paper contracts whenever it suits them. If demand for Comex paper gold surges due to fundamental or technical reasons, prices, contrary to what normally would happen, do not rise to a new equilibrium where existing holders are only willing to sell at higher prices. This is because banks simply create new contracts; they increase the float in order to meet the demand and thereby avoiding the existing futures contracts to get bid up.

And you have to wonder how it comes that suddenly the bullion banks find counterparties for their 20,000 futures contracts and especially when they issue futures contracts on a Sunday evening when trading is very thin and likely to crash the gold price, or silver price, through its technical/stop loss levels. Why would any sane and intelligent investor take the other side of futures contracts issued by bullion banks, who are best informed of all market parties, on one of the thinnest trading hours in the week. That doesn't make sense at all. There is basically only one explanation and that is that the bullion banks are each other counterparties. They use the exchange traded markets (Comex and Tocom) and the OTC markets (London Bullion Market) that are intransparant and opaque (which thus makes it very difficult to track and trace transactions) to set off short and long positions to their advantage and "stealing" from mainstream investors. This is also the reason why we had the Liborgate!

The paper gold to physical gold ratio on the exchanges of approx. 300x can't be maintained. Something will have to give! This could mean the end of paper gold trading.

Anyway as mentioned this will change. At the moment the ratio of gold paper contracts outstanding versus one ounce of registered physical gold is in the ballpark number of 300x. This figures has been as high as 320x. The chart below, which is from November 2015, clearly illustrates the changing dynamics in terms of available registered physical gold versus the number of paper gold contracts traded. As we know the price setting doesn't have anything to do with scarcely available physical gold but with the managed paper contracts, which are created out of thin air by the bullion banks. The paper gold determined price is not I repeat is not the real gold price and we will soon witness that when the price setting will be determined by the demand and supply of physical gold.

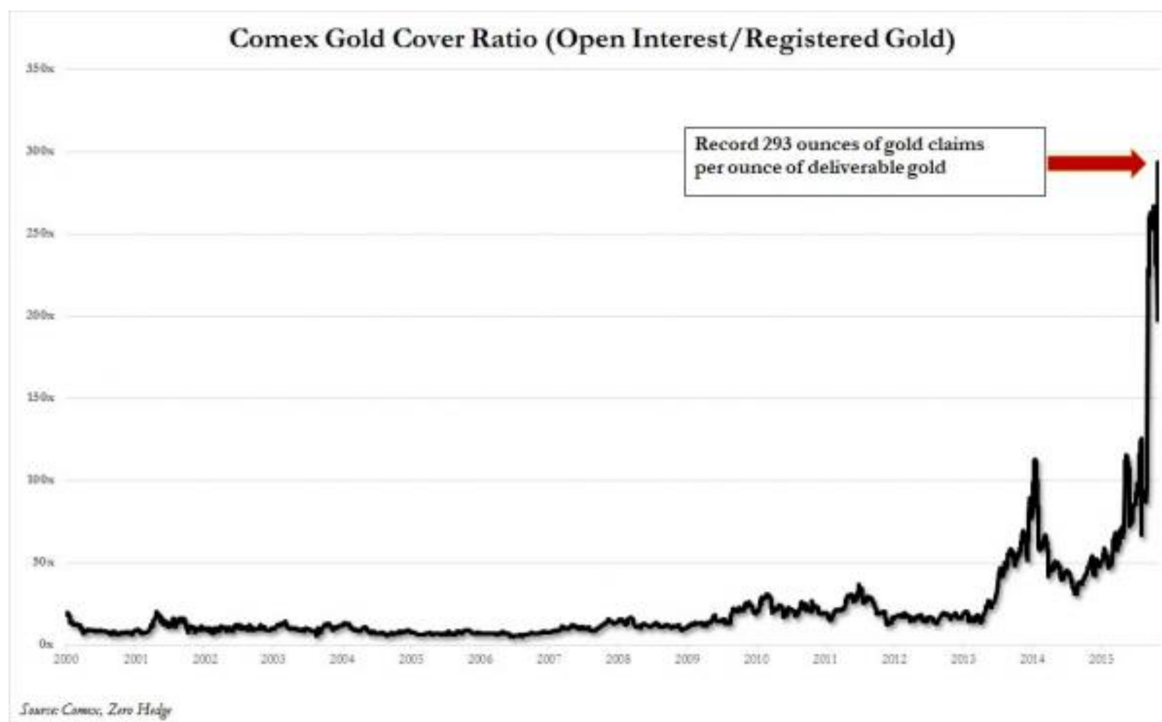
For some time already all the physical gold available is being shipped via Switzerland, where the smelters are, from the West to the East to China, India and Russia. These countries are getting gold on the cheap till the LBMA or Comex can't deliver the physical gold anymore. At present the registered gold inventories in the Comex warehouse amount to approx. 152,000oz!! which is virtually nothing in the bigger scheme of things. In case the Comex gets strapped for physical gold

the Comex in general turns to the LBMA. The gold vaulted in London available to plug any shortfalls is estimated to be some 1,122tons by year-end 2015, which halved from 2014 inventories of 2,015tons. And as mentioned at present for every ounce of gold bullion at the Comex warehouse there are around 300 paper claims. According to the LBMA clearing statistics some 3248 tons of gold are paper traded on a daily basis whilst every day only 10.5 tons of physical supply (mainly mine supply) is hitting the market. Also representing a 300x ratio!

When demand for the physical suddenly explodes and the Comex threatens to default on its delivery obligations it most likely will call in its force majeure clause and settle in cash though this would be the end of paper trading and thus paper manipulation on the Comex.

China is going to play a bigger role in the price setting of gold not determined by paper but by the physical

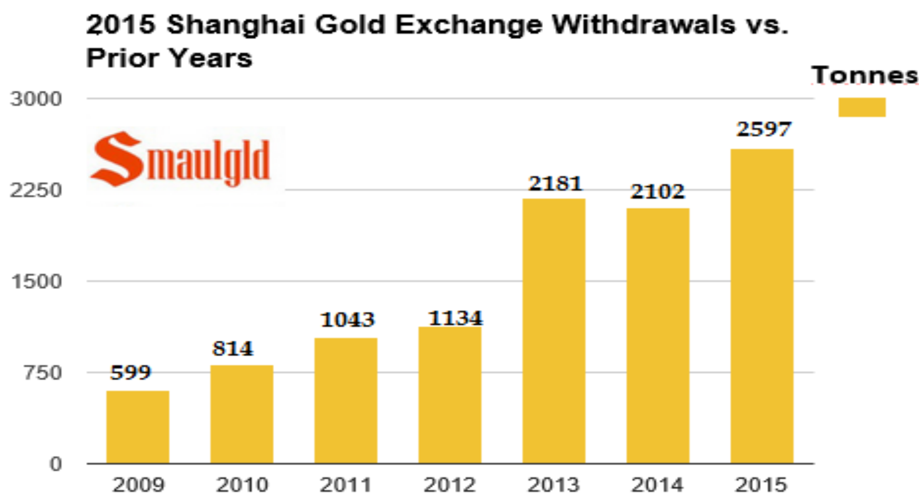
China has indicated for some while now that it wants to play a greater role in setting the price of gold planning to fix prices for gold in Yuan as of April of this year.



As reported by Reuters on June 25, 2015 China announced that it would be establishing a Yuan-denominated gold price fix. The announcement was just one of many China's de-dollarization initiatives At least fifteen Chinese banks are slated to participate in the Yuan based gold fix and China also wants foreign bank participation. China is warning the large foreign bullion banks that they may lose their gold import quotas into China if they do not participate in the Yuan based price fix scheduled to go live in April.

Gold imports to China are big business as gold moves west to east. Next to being world's largest gold producer with 450tons annual production China has also become the world's largest gold importer, consumer and producer of gold. I am forecasting 2015 total world gold supply to be around 4,500 tons. Its Shanghai Gold Exchange averages over 50 tons of gold withdrawals *per week* and has reached 2,597 tons in 2015, dwarfing deliveries on the U.S. COMEX exchange by a factor of nearly sixty to one. In other words Shanghai delivered 60x more physical gold (2597

tons) than the Comex (43 tons) in 2015 and thus the conclusion should be that soon the price setting for gold will not be determined by the paper Comex market in NY any longer but by the Shanghai gold exchange.



Events that could change the price setting of gold on the basis of the available physical gold and not paper contracts with as result that gold will get a major reset (possible to between $2,000-$5,000)

As far as I can foresee there are several events that could change the price setting of gold and silver based on paper contracts to be subject to physical contracts and propel the precious metals much much higher. These events are:

1. The US dollar falls strongly because the Fed has to reverse its course and announces QE4 because the economy is deteriorating
2. The markets drop strongly and investors want to preserve their capital and profits
3. Interest rates go through the roof and government paper is no longer risk-free
4. A major geopolitical event, a regional war or a major terrorist attack in one or several of the main cities in the world
5. There is a run on the banks
6. People are getting worried about counter party risk in the economy
7. The price setting for gold in Yuan in April of this year

Conclusion:

I fully agree with Edwards of SocGen that we have just seen a cyclical bull market within a secular bear market and that the next recession will spell real trouble for investors ill-prepared for equity valuations to fall to new lows. To bottom on a Shiller PE of 7x would see the S&P falling to around 550 a 75% decline from the recent 2100 peak. Clients should be concentrating on return of capital, not return on capital, and that an ominous outlook to the world economy "all looks similar to 2008." Although I think that it will be worse than 2008 because there is no China or other EM countries that can pull us out of the rut. All countries are intertwined. This recession/depression could last 3-5 years before we get to a real reset of our economies. And I even haven't touched in this article on the geopolitical tension that often also coincides with financial tension. Be pragmatic and put some of your savings into physical gold and silver kept in your possession because when you keep it at the bank and when the banks are closed you won't have any access to your property. As a last comment I prefer silver because gold has been confiscated before and silver is cosmetically very cheap and always outperforms gold on the upside.

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