

## **Gold is the opposite of debt (paper money)!**

### **When do you know when measures don't work? Debt saturation.**

Worldwide debt is estimated to be between \$200-\$300trn and getting worse by the day, it becomes a sort of self fulfilling prophecy (increasing debt) whereby the economies can't face tighter credit conditions but are in need of even more lax credit conditions to prevent and make sure that the economies and debt structures don't implode. It started with Greenspan lowering interest rates after every crash followed by Bernanke and now Yellen (who is left to deal with the @#\$%&#) but we have arrived at the end of the road there is no more room for lowering interest rates that are practically zero or negative. Next to that consumers don't have any more room left on their disposable income to take on and service more debt and thus any stimulus is superfluous or plainly said it just won't work! No more stretch in the system, it is the end of the road, game over!

The monetary authorities don't understand or don't want to accept or recognize is that under the current circumstances whereby the QEs facilitate the financial institutions, Wall Street, but not Main Street, the real economy, and that these measures have the opposite effect. Instead of stimulating consumer spending they destroy purchasing power and are debasing the currencies. Ultimately it has a similar effect as tightening credit conditions though with this difference that it takes the pill much later when all means are exhausted and the final outcome is most likely going to be much worse. We see a similar pattern in the dealings with the Greek debt situation; they keep on throwing good money after bad money and hoping that the situation will turn around whilst the Greeks have said "we are bankrupt we can never pay back the loans". Instead the monetary authorities should Grexit Greece and use the money they would otherwise give to Greece to ring-fence the fall out of bondholders. German Duesseldorfer Hypothekenbank AG ran into problems due to its exposure of "only" €348m (2013 annual report) to Austrian lender Hypo Alpe Adria's "bad bank" Heta which blew up on Greek debt that blew a hole of up to €7.6bn in its balance sheet. It illustrates the point that OTC derivatives (not regulated!!) are lurking in the shadows and that relatively small amounts can tip the balance. The global exposure to these financial weapons of mass destruction is most likely to be much worse than it was in 2008 due to the historic low interest rates that trigger massive leverage to get a decent return.

The world is deficient in employment, economic growth, and a decent return on savings (goodbye pensions). We have witnessed the rounds of QE and lower and

even negative interest rates taking place in the US, Japan, China, Europe, without having any powerful impact in terms of sustainable economic growth.

When do you know when measures don't work? When you see diminishing returns from Federal Reserve/central bank interventions, as the initial rounds of quantitative easing pushed stock and bond markets higher for years at a time, while the following interventions generated lower returns that are more likely to last a matter of months and not years. Once the borrowers have maxed out their borrowing power, there is no more expansion of debt or additional debt-based consumption. This is known as debt saturation: flooding the financial sector with more credit no longer boosts borrowings or brings consumption forward. Instead we see the currencies being debased and the household wealth of the middle class slowly but surely being eroded.

When debt which is being created using a fiat/paper currency and when you QE or impose ZIRP (Zero Interest Rate Policy, a method of stimulating economic growth by keeping interest rates close to zero) or NIRP (Negative Interest Rate Policy) you indebt your economy/country because there is no production of goods or services against the issuance. It is putting the car before the horse and as such you are debasing the currency, more money is being brought in circulation whilst the total amount of goods and services don't change. You are deflating, debasing assets and wealth. Milton Friedman advocated a constant increase in the money supply, but the rate he suggested matched the long-term real rate of growth in the U.S. economy. He intended that it would facilitate growth, not attempt to create it.

**Gold is gaining ground on the US dollar and there is an obvious reason for that!**

Gold can't be printed or multiplied like the fiat paper currencies, which is money that the government declares to be legal tender though it is money that cannot be switched in standard specie, i.e. money in the form of gold coins. And thus gold can't be abused by politicians by just printing and thus devaluing it to just try and keep the economy going without imposing unpopular measures that tackle the real underlying problems and most likely won't get the politician again elected!

Gold, in principle, doesn't allow for manipulation (besides the manipulation in the paper futures market that doesn't have the physical to back it up) or abuse whilst paper money creation does. Hence why the monetary authorities don't

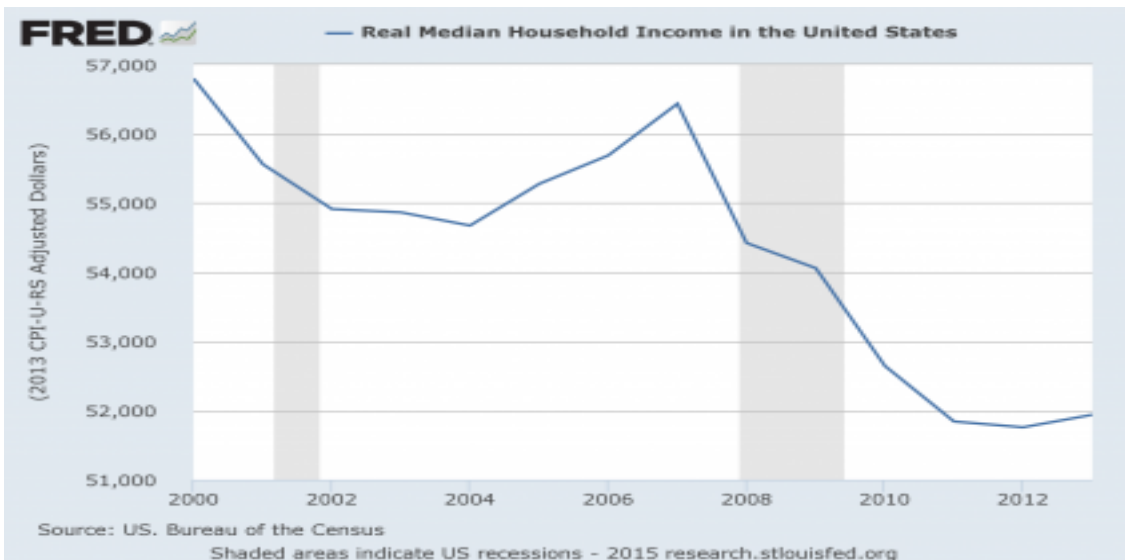
like gold and silver and do like paper money and we are in the situation we are in, a never seen before debt bubble deflating the economies.

Money has a nominal fixed value, for example of \$100, and thus can't fluctuate in value (\$100 doesn't become \$90 though the purchasing power of the \$100 can fluctuate) whilst gold and silver don't have a fixed value and can fluctuate in value. This is an important difference between these two forms of money. Gold is the real benchmark of all currencies and thus of your wealth. Gold and silver act as a mirror image against the fiat currencies and especially vis a vis the reserve currency, the US dollar, the currency in which the gold and silver prices are expressed. The stronger the US dollar against other currencies the weaker the gold and silver prices in general. But this only applies if the purchasing power of the US dollar, say \$100, is not being undermined by the weakening fundamentals of the US economy. We witnessed in 2014 that gold was the second strongest currency behind the US dollar that essentially tells you how strong gold has really been considering its inverse relationship. And it basically is an indication that the flight into the US dollar is a flight for a safe haven and not because of its strong fundamentals otherwise gold wouldn't have been the second strongest currency in 2014. Since July 2014 till year-end the USD index rose 15% from 80 to 92 whilst gold fell by 13% from \$1,347 to \$1,167. Since the beginning of the year the USD index has risen by 5.4% from 92 to 97 whilst gold rose by 2.5% from \$1,167 to \$1,195 on March 25, 2015.

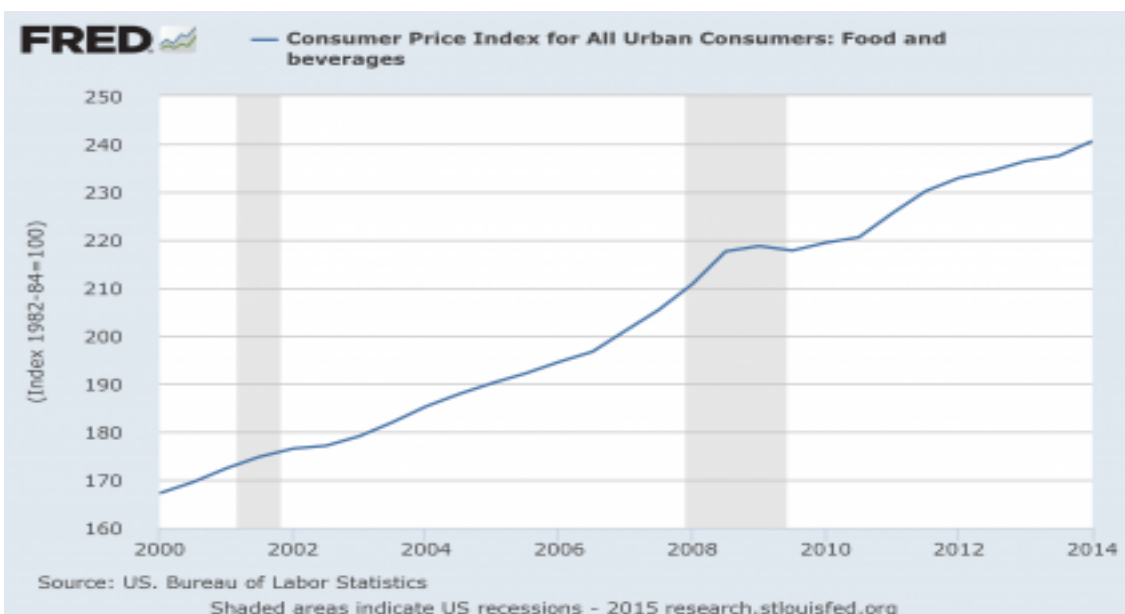




So essentially what we are seeing is that in the first quarter of 2015 gold is actually getting stronger and gaining ground against the USD index considering its rise of 2.5% whilst the USD index rose by 5.4%. And the reason for the relative strengthening of gold against the USD index is that the Fed signaled to the market that the economy can't withstand an interest increase because the weak economy. Yellen understood that the unemployment figures (which are heavily distorted in favor of part time and low paid jobs) are not a true reflection of the strength of the economy. Hence why, now the 5.5% unemployment rate is "achieved", the Fed is now focusing on wage growth as one of the main factors for measuring the real strength in the economy. Median real income in the US hasn't increased over the last 15 years or since 1999! It has declined by 8.8% from \$57,000 in 1999 to \$52,000 in 2013. More supply than demand: deflation!



Factors that have been depleting real median income are globalization (outsourcing to low wage countries), technological developments replacing workers (robots), immigration of low costs workers (Mexico and Latin America) and seniors not exiting the workforce to compensate for reduced pension payouts. Real median household income is unlikely to get stronger going forward with 100m people in the US without a job, a very strong dollar and a consumer food price index that has risen by 43% from 168 to 240 since 2000. Reduced purchasing power! And see how the middle class is being squeezed.



**Fed members are more confusing than ever before, they simply don't know**

The weakness in the recovery of the US economy is in my point of view clearly confirmed by Charles Evans, a leading dove on the Federal Reserve, who said on

Friday March 20 that he was able to support the latest policy statement because it did not rule out the U.S. central bank keep rates at zero for a lengthy period. “I believe we would be well served by being cautious and be in no hurry to raise interest rates,” Evans told reporters. Evans said the key for a move is whether inflation will be picking up. He told reporters that he still thinks that a rate hike in 2016 is more likely than an earlier move based on the economic conditions as he sees them. The Chicago Fed president dismissed suggestions that the Fed might want to raise interest rates above zero to deflate any potential asset bubbles. He said that macro-prudential and regulatory tools were the best way to combat financial market excesses. He said he was not worried about volatile financial markets once the Fed actually does raise interest rates. In a paper released Thursday March 19, Evans argued that the biggest risk for the Fed was a premature rate hike damaging the economy and forcing the Fed to retreat and lower rates.

At the same time the Fed vice-Chair Stanley Fischer speaking on Monday March 23 in NY added confusion saying, “the dollar’s rise also reflects the relative US strength”. Wishful thinking according to the chart below (source: Zero hedge/Bloomberg) and the manipulated economic figures.



Fischer also mentioned that he expects a rate hike possibly as small as 1/8% this year but not regular rate hikes!?

And on Tuesday March 24 Federal Reserve policymaker James Bullard said during a panel session at London City Week "Zero is no longer the appropriate

interest rate for the U.S. economy." Monetary policy would still be "extremely accommodative" even if the central bank began with a small increase in rates "sometime in the summer," he added. "So if we get all the way to the day we actually make a decision and we end up surprising the markets that day, there's going to be reconciliation on that day and that could be violent." And what is "violent" to the St. Louis Fed chief? It is quite clear that even the Fed members don't have a shared opinion on the strength of the economy. They are all talking Mumbo Jumbo! How should businesses and investors take decisions on the basis of these divergent views of the Fed members?

### **The extremely rare 4% move in the US dollar/Euro exchange rate following the Fed announcement shows you "the relative strength of the US dollar" Not!**

But anyway my point is, as I have expressed before, that the US economy is much much weaker than people want to believe, look at the economic releases, and that the US economy can't bear an interest hike. The CEO of Maersk was just quoted saying that "global growth is rather abysmal and will likely continue to depress demand the world over. Worse, Skou went as far as saying that the days of 10% container growth for his industry are probably gone forever". And whom do you think would know better? The CEO of the largest container shipping company or a couple of dissident Fed members who are theorizing about numbers and have much less market experience and insight?

Now that interest rate hikes in my point of view should be off the table, at least for now, and enormous levels of unwanted liquidity abound, and if the Fed is indeed unable to raise interest rates (i.e. the Fed funds rate) the dollar itself is at risk, the only option of the Fed is to create more liquidity for which there is no demand from the real economy. The central banks are now a prisoner of their own making; they don't have any other choice. Perversely, this is why we saw the melt-up in just about every asset class, including gold and silver post the Fed's announcement. The rush for real assets, nonstop increasing in value, is continuing till there is no credible buyer left, except for the central banks!

The message from the U.S. Federal Reserve that it is in no hurry to raise interest rates caused a big slump in the dollar, which has run up a huge rally so far this year. The euro surged more than 4% against the buck, its biggest jump in a single day in 15 years, according to Deutsche Bank. The sheer speed of the moves in the euro-dollar exchange rate—the world's most heavily traded currency pair—left traders and investors reeling. For the most traded and most liquid currency pair to have such percentage moves is extremely rare. Traders

said that the move on Wednesday March 18 brought back memories of January's surge in the Swiss franc, when the currency climbed more than 30% after the Swiss central bank abandoned its policy of capping the franc's strength against the euro. For a few minutes on Wednesday March 18, the lack of dollar buyers caused a short-term freeze in electronic trading platforms, according to a New York-based trader at a major currency-dealing bank, people became very nervous. But what is this telling you about the strength and the confidence in the US dollar! It is an expression of the huge uncertainty surrounding these markets. Nobody knows anymore! Not a healthy situation.

### Has all anticipated "strength" in the US dollar been discounted?

The dollar has been experiencing fastest pace of ascent in 40 years. And with a rate hike of only 1/8% and no subsequent regular rate hikes (Fischer, Yellen) or no rate hikes at all for at least a long long time because the US economy and the debt structure and associated derivatives can't bear a rate hike I can't argue the ongoing strength in the US dollar. A lot of external positive news for the dollar, QE in Japan and Europe with lower and negative interest rates in many countries around the world, has already been anticipated and thus discounted in the dollar. Other possible factors that could potentially further strengthen the US dollar further could be the Grexit or a geopolitical event (Iran, Ukraine). But as mentioned before, in case of the Grexit, it will be more a move by default into the dollar than a move because of the fundamental strength of the US economy. Otherwise the Fed would have already increased interest rates or at least guided the market much clearer on future raises.





Anyway clearly according to the Fed suddenly the 5.5%-6% unemployment rate doesn't suffice anymore for the Fed to ensure rate hikes! Evidently the goalposts are being moved in order to keep investors interested/teased in the bond and equity markets though in my point of view the Fed and the US economy are losing traction and credibility. How many times can you cry wolf?

The Fed is between a rock and a hard place. Not increasing interest rates is an expression of weakness re the US economy and US dollar and increasing interest rates will implode the whole house of cards and will have the same effect. It is incredible that these people on the financial channels are all debating if it will be April or September or 2016 that the Fed raises rates instead of looking at the real fundamentals. They all need to see the ophthalmologist for their short sightedness in my point of view.

### **Are the QEs of the central banks crowding out the bond market and thus the liquidity and the spreads?**

The Fed better focuses on the extreme volatility and the liquidity drying up in the markets, especially the bond markets! It looks like the aggressive QEs of the US, Japan and now Europe are crowding out (occurs when increased government involvement in a sector of the market economy substantially affects the remainder of the market, either on the supply or demand side of the market) all the treasury, corporate and high yield paper and thereby severely limiting the "free float" resulting in a widening of the spreads. We have seen these problems already coming to the surface in Japan and Europe where the respective central banks are barely able to purchase quality paper because unwilling sellers don't want to sell. The reason is that they, the sellers, don't know what they would be able to acquire in return that matches similar quality paper. Many pension funds and other fund managers have clear mandates with respect to the quality of investments they are allowed to invest in. One US fund manager on CNBC recently was complaining how difficult it was to get in or out of a position. Crispin Odey also mentioned this in his recent letters to investors. Anyway it is clear the QEs are creating more and more unwanted results.



## Where does the dollar go from here?

I think that looking at the dollar that most of the upside in the dollar might be over and that investors finally might realize that the US dollar might not be the safe haven that they hoped it was going to be. Especially also in the light of different initiatives that are aiming at the de-dollarization of the reserve currency. Amongst them the gaining of importance of the Asian Infrastructure Investment Bank, a China-led institution aimed at rivaling the US/Japan-backed Asian Development Bank (ADB). Ahead of the March 31 deadline for membership application the U.K., Germany, France, Italy and South Korea have all lined up in recent days to become founding members of the AIIB joining China in its new endeavor snubbing the US. Now, with 35 nations set to join as founders, it appears Washington may be set to concede defeat. The AIIB success effectively represents one of the factors that are signaling the beginning of the end for the US dollar as the world's reserve currency.

Next to that you could wonder how much longer the Chinese are willing to keep their US dollar reserves they also know what the fundamental situation in the world is. With the strong US dollar they have an once in a lifetime opportunity to swap strongly diluted money, i.e. fiat currencies and especially the US dollar, for real money, gold and silver. Whilst our western central bankers are busy creating money, central banks of developing countries led by Russia and the

Chinese are buying gold. Nineteen banks bought gold last year. And the continuation of quantitative easing in Europe only reinforces the perception that paper money continues to be debased making the case for gold and silver ever stronger.

The temptation to use the printing machine to keep politicians in power never fails! History repeats itself over and over again. Gold is up 2.5% year to date despite the fact that the US dollar is not down (up +5.4%). And I can't emphasize enough the reason is that gold can't be printed or easily diluted hence why it is the ultimate benchmark and safe haven against other currencies and especially the reserve currency. Investors are more and more becoming aware of the monetary role gold and silver are starting to play again as the ultimate currencies.

### **Gold is nobody's liability**

Gold stands for discipline and control whilst paper money stands for manipulation or whatever you want to call it, facilitation, enabling, easing but ultimately debt. Physical gold is nobody's liability. Gold's value – unlike that of a banknote, or a share certificate, or a government bond – does not rely on someone else's promise to pay. The value of the gold is in the physical gold itself and its value doesn't depend on anybody's financial performance or leadership ethics. Gold doesn't have any counter party and thus also doesn't carry counter party risk!

Gold restrains the creation of debt because of the need of fixing or indexing the amount of paper money to a certain amount of physical gold. And we are in dear need of a reset getting back to discipline restraining the creation of the all consuming and destructive debt. When our income doesn't suffice anymore and we borrow we basically borrow future income because we have to pay the loan back with income earned in the future. And when we don't have any room left to secure or pay for a loan we are at the end of the road and that is where we are!!! Hence why the QEs and ZIRPs and NIRPs won't work.

According to the Aden sisters the key level for gold is the 23-month moving average at \$1275, which is also the resistance level on the gold chart here above. Once this level is clearly surpassed, gold will turn bullish for the first time since 2012 according to the Aden sisters. This is confirmed by the ever-increasing open interest numbers for gold and silver on the CME even when gold and silver prices are falling. Normally falling prices are accompanied by lower

open interest. The current divergence is therefore indicative of increased buying support, which may be enough to reverse the bear trend of the last three years. And of course what applies to gold in general also applies for silver. Things for gold and silver are looking up. And as JP Morgan said “gold is money everything else is credit”.

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