

## The cabal is setting its own trap! A reset this weekend?

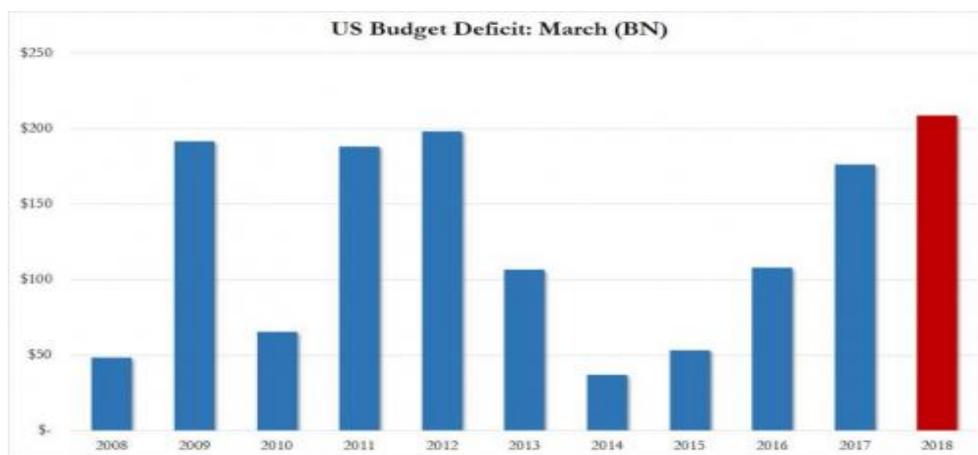
On April 11 gold rose to \$1365 and silver to \$16.85 as the possibility of a war in the Middle East took center stage. Libor rose for the 45th consecutive day to 2.35% on April 12 indicating the tightness in the US dollar market and increased uncertainty re the trust between banks.



It looks like the Libor chart is wanting to break out on the upside boosted by an increasing budget and trade deficit and reduced recycling of US dollars.

## Increasing budgets deficits until 2028 are the name of the game

The March deficit brought the cumulative 2018F budget deficit to over \$600bn during the first six month of the fiscal year, or roughly \$100 billion per month; as a reminder the deficit is expect to rise further amid the tax and spending measures, and rise above \$1 trillion, although at the current run rate it is expected to hit even \$1.2 trillion.

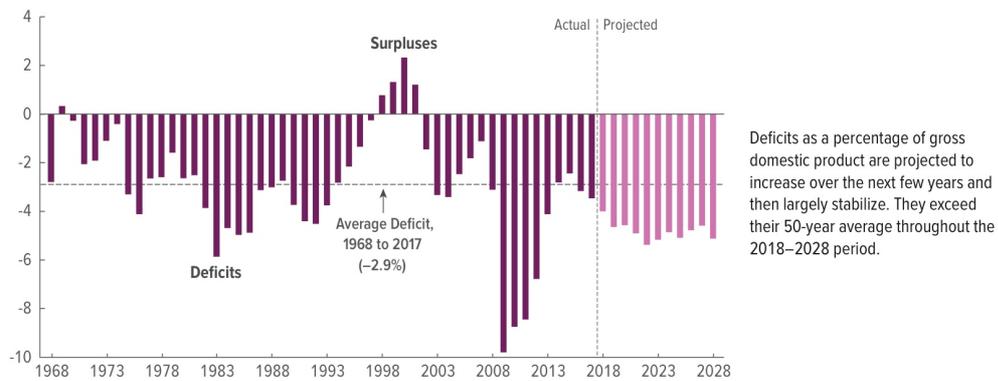


In a recent report, CBO has also significantly raised its deficit projection over the 2018-2028 period.

Figure 4-1.

**Total Deficits or Surpluses**

Percentage of Gross Domestic Product

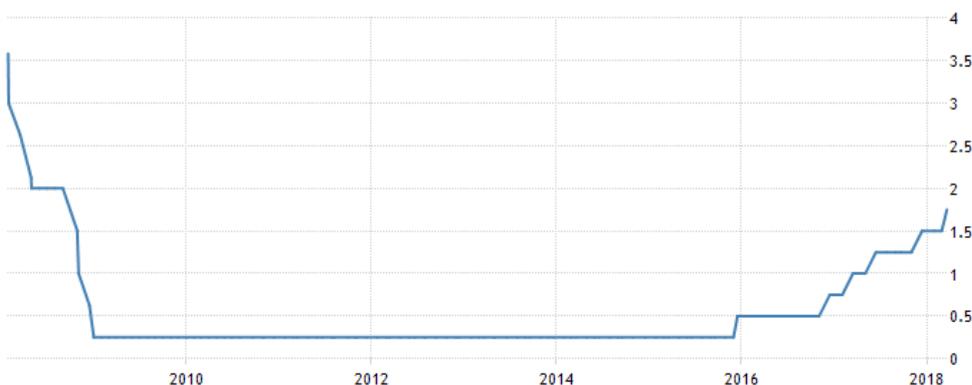


Source: Congressional Budget Office.

**Interest rates will rise either because the economy is doing really well, and thus cause inflation, or because the economy isn't doing well at all, and thus give rise to higher risk, things didn't work out**

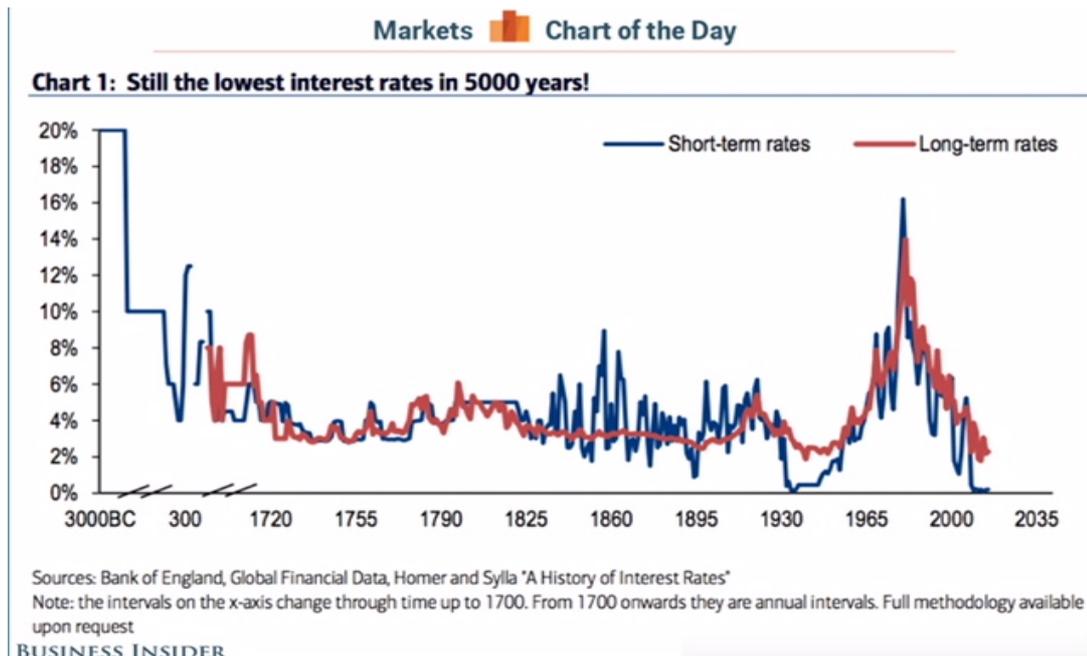
But while out of control government spending is clearly a concern, an even bigger problem is what happens to not only the US debt, which recently surpassed \$21 trillion, but to the interest on that debt, in a time of rising interest rates. Rising interest rates are on the way following 8 years of historic low interest rates (Fed Funds Rate at 0.25%) from 2008 till 2016. Interest rates in my point of view will be rising because out of control inflation and/or because overall risk is growing.

US FED FUNDS RATE



SOURCE: TRADINGECONOMICS.COM | FEDERAL RESERVE

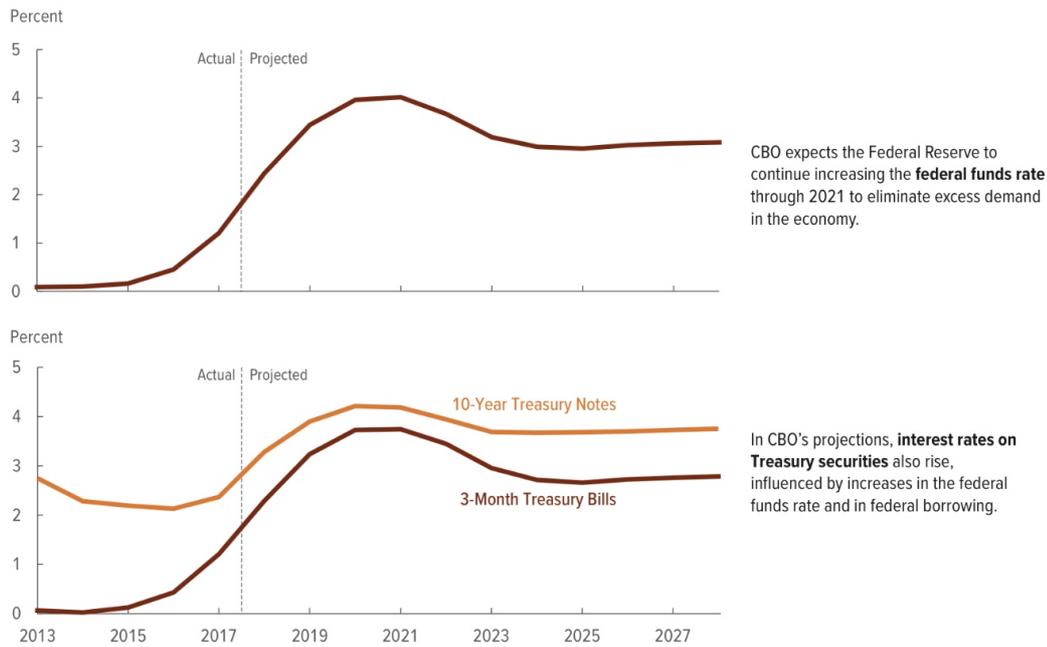
The Federal Reserve, meeting for the first time under Chairman Jerome Powell, raised the target range for the federal funds rate by a quarter point to 1.5%-1.75% during its March 2018 meeting, in line with market expectations. The Fed officials also projected a steeper path of hikes in 2019 and 2020 as the economic outlook is “improving” according to the “reliable” government figures. Normalized Interest rates in the United States have averaged 5.73% from 1971 until 2018 whilst reaching an all time high of 20% in March of 1980.



And therefore, after 8 years of a Fed Fund Rate of 0.25%, it is not unlikely that interest rates will rise. Either, as mentioned, because the economy is doing so well, and thus generating inflation or it is because the Government figures are flawed and the economic situation is not as good as they pretend it to be with the risk profile rising. Anyway the conclusion is that interest rates are rising and will rise most likely much more. According to the CBO the 10y Treasury yield will rise to only 4%-4.5%, which I think is very very modest especially put in a historical context.

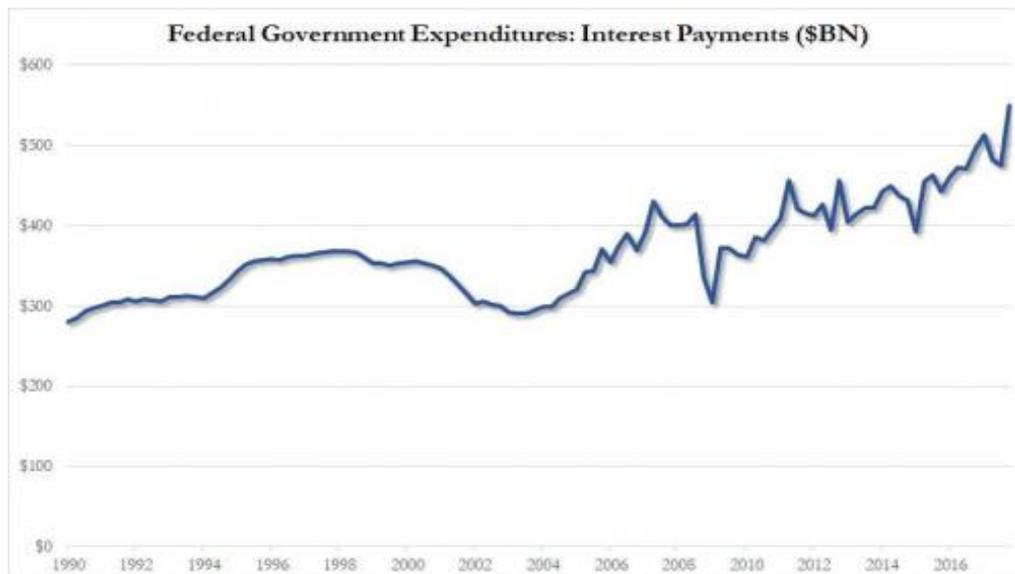
Nevertheless the point is that with out of control US debt interest rates are going to rise either because the rates rise and/or because the debt levels increase further. There is no turning back.

## Interest Rates



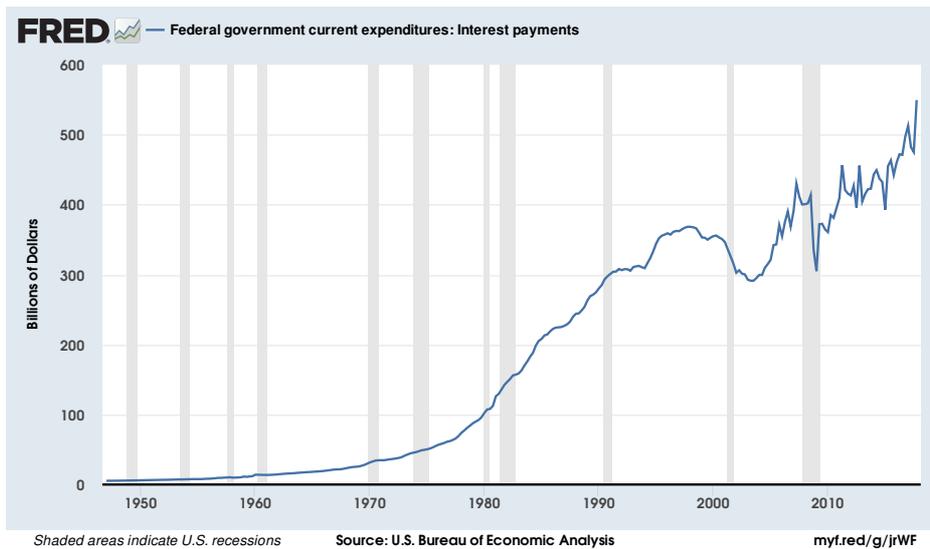
Sources: Congressional Budget Office; Federal Reserve.

As the following chart shows, US government interest payments are already rising rapidly, and just hit an all time high in Q4 2017. And I want to emphasize that's when Fed Funds was still in the low 1%'s. Just what will happen when it reaches 3% as the Fed's dot plot suggests it will? It will implode the whole debt structure with all its subsequent outcomes.



## The U.S. government will start spending more on interest than defense by 2023

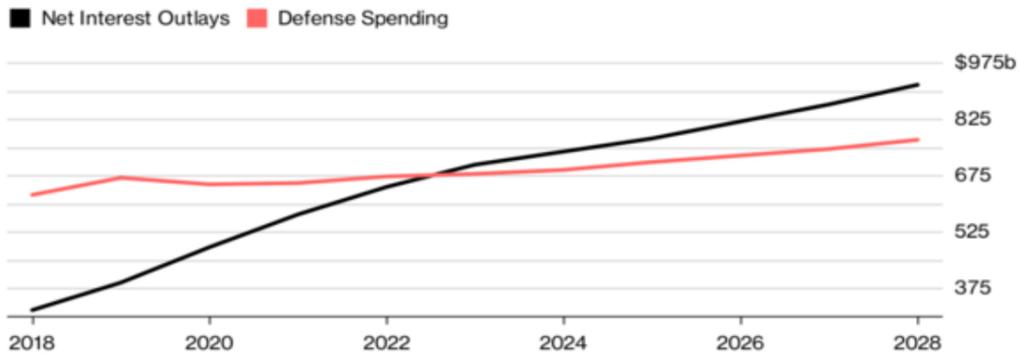
The head of the Congressional Budget Office warned lawmakers that the U.S. government is on track to pay more to its creditors than on its own military, as interest rates and debt levels continue to climb.



CBO chief Keith Hall told the Senate Budget Committee Wednesday that America's net interest payments will triple over the coming decade, outpacing military expenditures. He called the data point "one of my favorite figures" used to highlight the challenges posed by the country's ballooning debt. His office's budget and economic forecasts, published on Monday April 9, show net interest payments first outstripping defense outlays in fiscal 2023 and reaching \$915 billion five years later. The increase will come as debt held by the public almost doubles to \$28.7 trillion in fiscal 2028 from this year, according to the CBO, a non-partisan arm of Congress. The U.S. government will start spending more on interest than defense in 2023, see below. Though imagine what that will do to the value of the US dollar.

## When Interest Takes Over

The U.S. government will start spending more on interest than defense in 2023



Note: Time frame is in fiscal years

Source: Congressional Budget Office's April forecasts

Bloomberg

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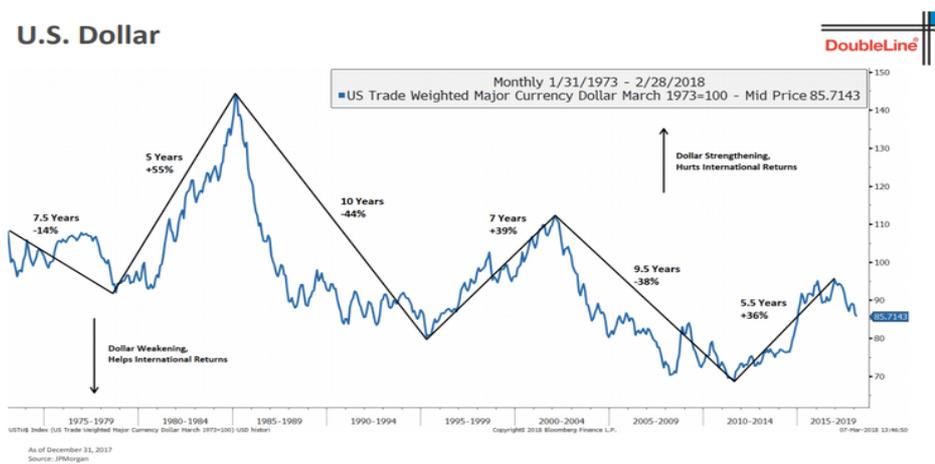
Note: Time frame is in fiscal years

## Increasing total debt or monetizing the debt, following an increasing interest burden, will put further pressure on the US dollar

The options of the US government are either increasing the debt or monetizing the debt (printing US dollars) though in both cases it will diminish the purchasing power, the value of the US dollar. In my point of view the enormous debt levels will create a self fulfilling weakening of the US dollar because of the cumulative burden stemming from the increasing interest rates. Increasing debt and interest rates start feeding on each other!

And these anticipated factors are weakening the US dollar clearly not missing their impact. The US dollar has just begun its third successive fall after another lower recovery high in a hugely strong multi-decade chart pattern (see below).

## U.S. Dollar



The time that US dollars were recycled back into US treasuries is coming to an end as described in one of my latest articles and which consists of three parts. <https://www.gold-eagle.com/article/recycling-us-dollars-financing-us-deficits-going-end-part-1>.

And with the weakening outlook of the US dollar the best way of the Chinese to get rid of their treasuries would be to swap them for physical gold and silver. Swap something that is declining in value (US dollar) for something that will increase in value (gold and silver), after all the US dollar/gold swap is the perfect inverse swap for two reasons:

1. The first reason is that the gold price is expressed in US dollars and
2. The second reason is that gold is the mirror image of the reserve currency because:
  - Its established historic value (for 6,000 years),
  - Its inherent value (gold and silver have value on their own and not being determined by the success or failure of the policies of the monetary authorities),
  - Its scarcity (can't be printed, so no debauchment) and
  - Because it doesn't have counter-party risk (its value is not determined by the performance of a counter-party).

Ultimately gold is the safety net and anchor of the financial system when the fiat currencies fail.

### **Increasing number of EFPs because investors are losing confidence in the US dollar**

Whereas in the first half of last year investors still sufficed with a US dollar or nominal settlement (not in kind) the last several months that dogma has changed. The outlook for the US dollar has worsened with rising twin deficits (trade and budget deficits) and the dollar losing its Petro status being replaced by the Petro Yuan being backed by gold. There is no stronger backer of a currency than gold.

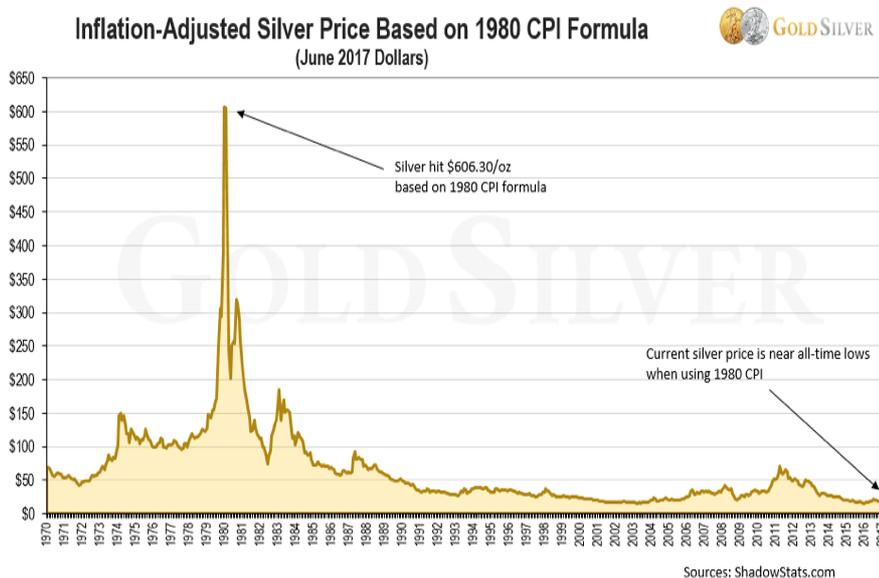
And thus as a result of the declining US dollar we see the number of EFPs increasing quite strongly. We see increasing numbers of EFPs (Exchange Futures for Physical) because the Comex doesn't have any registered inventories to speak of (only 0.7% of all gold futures contracts outstanding are backed with

physical gold whilst that number for silver is 5%) and therefore futures standing for delivery need to be routed through the London LBMA for physical delivery.

Year to date the amount of silver EFPs equals an astounding 90% of the global annual silver mine production of 867m oz. (with a total value of \$14.4bn at the current price of \$16.63/oz) whilst for gold the number of EFPs totals some 70.7m oz. equal to about 70% of annual world production of 106m oz (with a total value of \$142bn at the current price of \$1345/oz). The value of the US stock market alone is some \$30trn based on the total market capitalization of the Russell 3000 Index—which covers 98.5% of the country’s market capitalization. The US bond market is valued at some \$45trn.

### **The cabal is setting its own trap; it is digging its own grave, by suppressing the gold and silver prices**

What the cabal clearly doesn’t understand is that their scheme is meant to fail, they are digging their own grave, because they must believe that they can suppress the ultimate currency without creating ever-larger increasing demand for the physical at these rock bottom prices, especially when one would correct the prices for inflation.



## Inflation-Adjusted Gold Price Using 1980 CPI Formula — Monthly Average Gold Price



Source: ShadowStats.com, St. Louis Federal Reserve



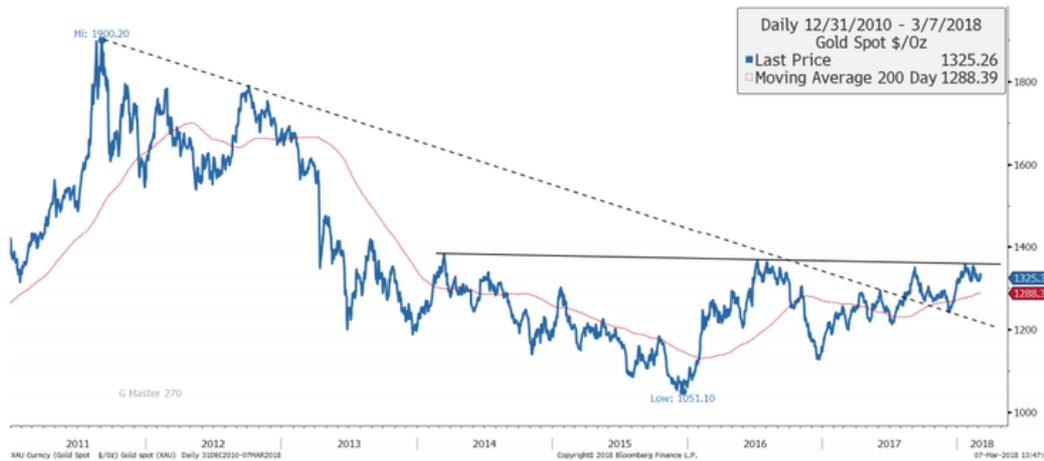
Source: shadowstats.com

With the continuous loss of purchasing power following the abuse (monetary printing) of the fiat currencies, and especially the reserve currency, the precious metals look more attractive by the day. Investors are finally becoming aware what an incredible bargain, inherent value, the ultimate currencies, gold and silver, represent. Gold and silver are the perfect inverse asset class to all paper assets and thus against the counter party risks of anything of value that is represented in a piece of paper.

My point is the more the cabal tries to suppress the precious prices the more gold and silver will trigger demand for the physical because the paper is at the end of its rope.

The cabal under the current circumstances creates the opposite result of what it tries to achieve, less interest and buying of the precious metals, causing more interest in the physical and thus an increasing number of EFPs (physical), which will create the demise of their suppression scheme. The cabal is setting its own trap. They dig their own grave by suppressing the price of gold and silver, the ultimate currencies, to levels, that are considered by more and more investors, at give away prices, with silver at \$16.63/oz. and gold at \$1345/oz., considering the worsening outlook for the US dollar, the increasing record global debt, the flattening of the yield curve, inflationary pressures, budget deficits, higher Libor rates (tightening credit conditions) threat of trade wars and worsening geopolitical situation (Syria).

## Gold with 200-Day Moving Average



Source: Bloomberg, DoubleLine  
SMAV = 200 day moving average. Gold Spot price is quoted in Troy ounces. You cannot invest directly in an index.

3-13-18 TR Webcast



With annualized EFP demand for silver at almost 4x annual global mine production and 2.8x gold mine production this situation is untenable and I believe there is not much time left before this situation will come to a head.

As we know the default of the Comex (with no or hardly any registered inventories) is already being circumvented by using the EFP swaps, “for exceptional cases”, to the London LBMA. Although the London LBMA market is an OTC (over the counter or bi-lateral) market and thus non transparent or not in the public domain and therefore has more leeway in order to hide the tight situation in the physical gold and silver market there are limits to its

containment of the gold and silver delivery obligations and gold and silver prices.

Considering the enormous amounts of forward contracts replacing the 38,609 EFPs for gold (38,609 EFPs equal 3.8moz or 120 tons of gold!) in the last two days (April 11 and 12) the counter parties in London still will have to source the physical gold and silver in the market or from the mining companies to meet their obligations and when the price suddenly takes off they will incur significant losses. The question is when will this scheme break.

It appears that the Commercials are almost net long in silver for the first time in at least 15 years with the open interest at an all-time high, silver volatility near historic lows and silver prices at a low price of \$16.63/oz.

So what could be the consequences what are the options? So either the Commercials will ride this wave up, taking profits at one stage, and then go short again, or there will be a huge reset at much higher prices that will trigger enough gold sales to meet the demand for the gold forwards in London and will diminish the appetite for the EFPs because of the huge price rise, well at least for the moment. Anyway in both cases I believe the genie will be out of the bottle and the unsustainability of the suppression of the gold and silver prices will be demonstrated and we will be looking at many years of much higher prices. And one of the triggers that could have the genie come out of the bottle could be an event as we are witnessing this weekend with the surgical attack on Syrian targets. We are not far off a major reset!

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