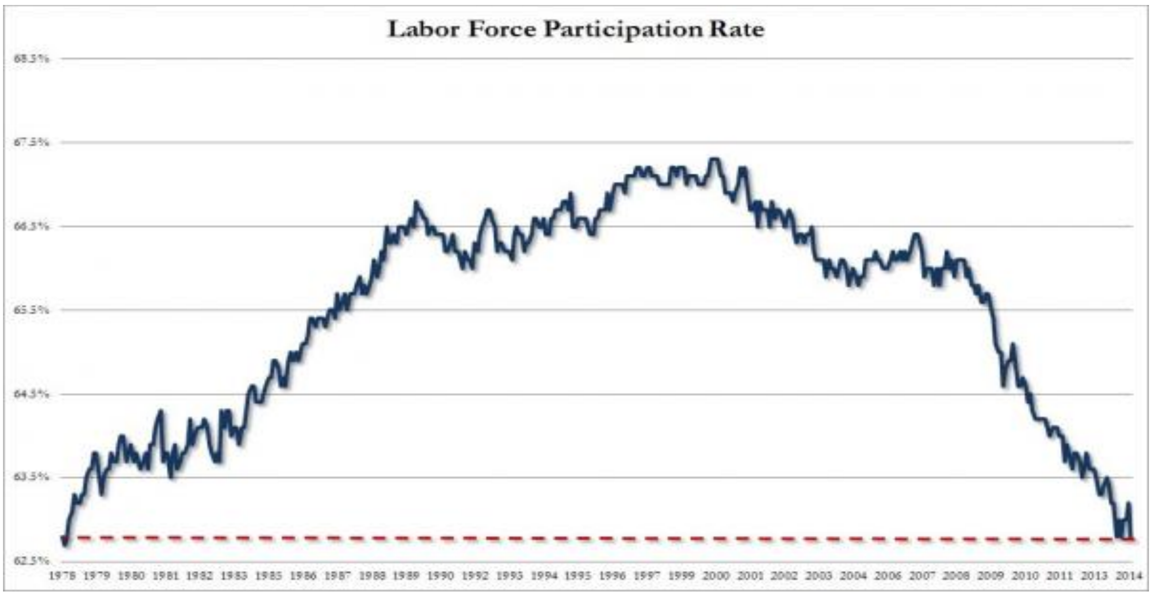
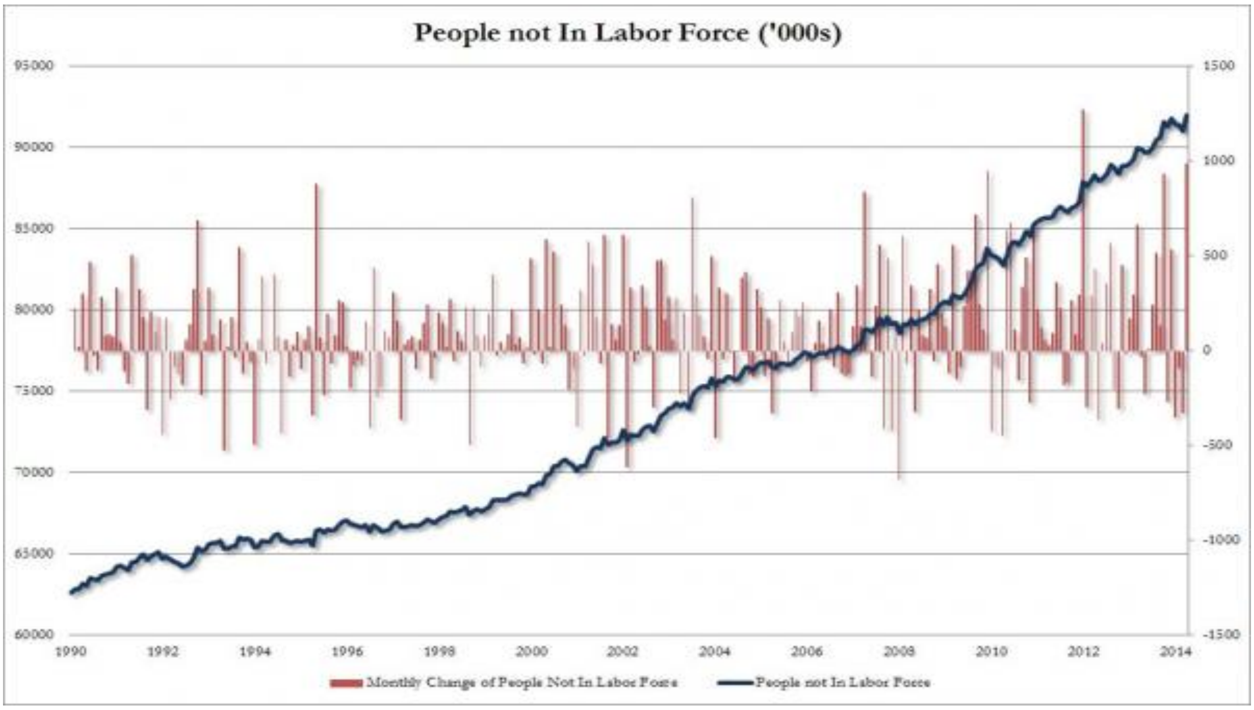
Is the Fed really tapering? And why the $ probably will get weaker!

Is the Fed trying to install misplaced confidence in the economy by saying it is tapering whilst it is really NOT tapering!

I wouldn't be surprised if the Fed, although they say they are tapering, is not really tapering hence why the 10 y treasury yield is at around 2.65% the whole time despite the so called improvements in the economy. New jobs for April were 288,000 though the participation rate fell to 62.8% a 35 year low. The job figures included 234K of "birth/death adjustment" jobs and the main question here is who is fooling whom? The so-called birth-death model factors in jobs assumed to have been created by employers who are too new to have been included in the survey, and subtracts jobs from employers assumed to have failed and therefore not responded to the latest survey. Can you imagine what nonsense and what a tool for manipulation! You have to ask yourself why not just follow the real figures. Past “birth/death adjustment” jobs have shown how off these figures have been from reality. Who needs this nonsense and who benefits from this erratic and manipulated figure that is the question?

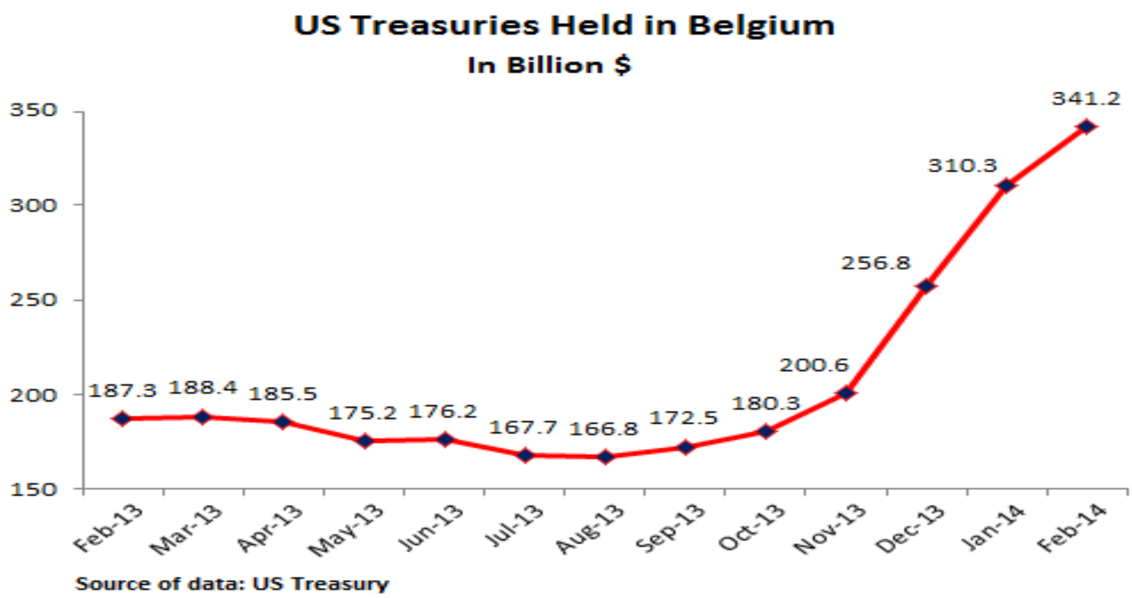
The number of people not in the labor force soared to 92 million, the second highest monthly increase ever and who will pay for them? The labor force tumbled by 800K to 155.4 million from 156.2 million as the delayed effect of the extended jobless benefits ending finally hits. As a result the BLS reported that the U.S. unemployment rate fell from 6.7% to 6.3% in April, the lowest level since the collapse of Lehman Brothers in September 2008, and the largest one-month drop in the jobless rate in three years. We have a new bull market! ☺





They, the Fed governors, talk a tough game now “tapering” $40bn a month but at the same time they probably keep the floodgates open! Wouldn’t you with so many people out of the workforce? This could explain a 10y interest yield of 2.65% and a weak US dollar. Is the Fed trying to install “more confidence” in the economy by saying it is tapering because of so called “improvements” in the economy whilst at the same time keeping interest rates low through other market operations a la Belgium?

How come Belgium suddenly has $300bn+ in Treasuries on its balance sheet?



In recent months, Belgium has surpassed financial centers, including the UK and Switzerland, as well as major oil-exporting nations to become one of the major holders of US government debt. Some countries purchase government bonds through intermediaries in major financial centers such as London or Hong Kong. Traders say reasons for Treasury holdings to climb so sharply in the home of the European Commission may reflect the secret buying of top-rated sovereign debt by other countries using Brussels as a financial center. They also suggest that more investors may be utilizing the clearing and securities lending services of Euroclear, the bank-owned central securities depository and custody service headquartered Brussels. Euroclear, which holds more than €22tn in assets under custody, is renowned for its sophisticated collateral management system, which helps global investors move bonds to various clearing houses around the world.

What is very strange are the $300bn+ treasury holdings in Belgium, with a gross domestic product of $484bn, suddenly up from around $167bn since August 2013, and now the third largest foreign treasury holder after China and Japan. Is the ECB purchasing US Treasuries or is it a repo?? And are they storing the purchased Treasuries in Belgium to mask the situation? In March US government debt held at the US Federal Reserve on behalf of official foreign institutions fell a record $105bn!

The Euro is too strong and the US Dollar is weak so this theory, that the ECB is buying Treasuries, wouldn’t be too far fetched . And if this is indeed the case the US dollar is very weak. By the way who would think differently with first quarter GDP growth of only 0.1%! I was wondering why when the Ukraine situation erupted the gold and silver prices strengthened, as did the Euro and the Pound Sterling but not the US dollar!!! Strange no? Normally in geopolitical situations with potentially global repercussions it is the US dollar that is the safe haven and not the currencies of countries that are closer to the problem area, the Ukraine. Next to that As of February, Russia’s Treasury holdings had declined for the past four months to $126.2bn from $149.9bn last October. Russia may have decided to switch its Treasury holdings to another custodian, rather than run the risk of its assets in the US being frozen due to sanctions over Ukraine.

Or has the Belgian central bank sold or loaned its gold reserves to the Fed? Probably not because a gold transaction wouldn’t involve selling Euros and buying US dollars! Nearly 10% or about 25 metric tons of the National Bank of Belgium’s remaining 227.5 tons of gold reserves are currently lent to bullion banks, Director and Treasurer Jean Hilgers told the central bank’s annual meeting in Brussels in May 2013. 200 tons of gold would represent a value of approximately $86bn (200 x 32,150 x 1,293) so that is not enough to account for the $300bn increase in Treasuries. Or have more European central banks or the ECB sold or loaned gold to the Fed or US Treasury? Are they, the US monetary authorities, running out of options to support the US dollar, one has to wonder?

Anyway it is clear that something strange is going on here. As we know central banks do what they do, they manage the markets or manipulate them, depending on who speaks!

Why is the Euro so strong despite the problems in the Eurozone?

Why is the euro so strong? People are stating three reasons. The first is that investors have been piling into euro-zone stocks and bonds as the region recovers — stronger demand means the price of the currency goes up. Next, the Chinese have been steadily devaluing the Yuan, and the Japanese have been trying to force their currency lower as well which by the way is not working very well. When one currency falls another has to rise — and since the Europeans have been the only major economic bloc not trying to manage their currency lower it is hardly surprising it has been rising. Finally, don't forget deflation. If prices start falling across the euro zone, then holding the cash makes sense. It gets more valuable just by sitting in your bank account.

The steady rise of the euro has been and still is a challenge for the economy and its strength was one of the factors that is pulling down inflation. Exports are the only realistic way of levering the economy out of recession. But you can't lift exports when the currency is rising. Last month, German exports were down by 1.3%. Even worse, a strong currency slows inflation, at a time when falling prices are the biggest threat to the continent. A rise in the exchange rate, all else being equal, implies a tightening of monetary conditions, a downward impact on inflation, and potentially a threat to the ongoing recovery."

So what can the ECB do? First, talk the currency down. You can't usually talk a currency a lot lower, but you can often get it down a bit. Second, direct intervention in the markets. There is nothing to stop the ECB selling euros for dollars or yen, and that would have a big and immediate impact.

Finally, start printing money, euro-zone quantitative easing trying to stimulate a flat lining economy and falling prices. Next to that it is one of the best ways to get a currency down. The dollar has "remained" weak despite the strengthening U.S. economy because the Federal Reserve is still printing money, $4trn+. The yen has been forced lower, although with limited success, by massive QE. A full-scale blitz of QE from the ECB will send the euro lower. European assets have been among the best performing in the world over the past twelve months, with stocks and bonds all sharply higher. But if the currency starts to fall, that will change and the carry trade will be unwound and especially if in this process of a weaker euro the Yen gains in strength.

Adding to the weakness in the US dollar is the attack on the Petrodollar

In this context we should also look at attempts by BRIC countries to dethrone the Petrodollar. The US dollar's position as the base currency for global energy trading gives the US a number of unfair advantages. It seems that Moscow is ready to take those advantages away.

The existence of "petrodollars" is one of the pillars of America's economic might because it creates a significant external demand for American currency, allowing the US to accumulate enormous debts without defaulting, again because of the overwhelming demand for US dollars which despite the massive printing is able to keep its value. If a Japanese buyer wants to buy a barrel of Saudi oil, he has to pay in dollars even if no American oil company ever touches the said barrel. Dollar has held a dominant position in global trading for such a long time that even Gazprom's natural gas contracts for Europe are priced and paid for in US dollars.

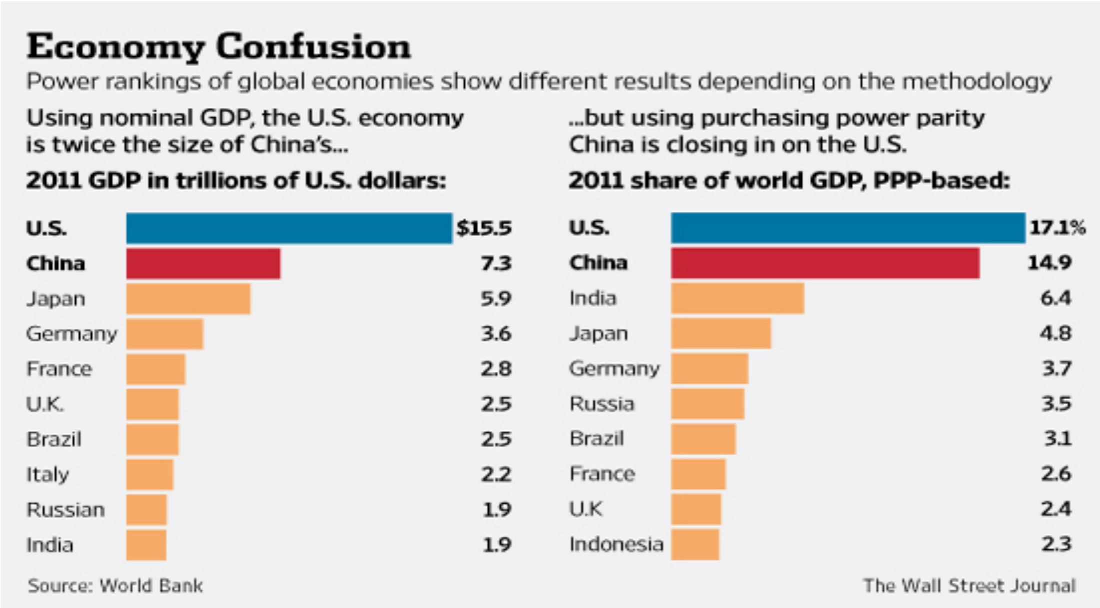
Until recently, a significant part of EU-China trade had been priced in dollars. Lately, China has led the BRICS efforts to dislodge the dollar from its position as the main global currency, but the "sanctions war" between Washington and Moscow gave an impetus to the long-awaited scheme to launch the petro ruble and switch all Russian energy exports away from the US currency. The main supporters of this plan are Sergey Glaziev, the economic aide of the Russian President and Igor Sechin, the CEO of Rosneft, the biggest Russian oil company and a close ally of Vladimir Putin. Interesting no, that Sechin is targeted by the US sanctions as retaliation for the annexation of the Crimea!

It seems that Moscow has decided who will be in charge of the "boomerang". Igor Sechin, the CEO of Rosneft, has been nominated to chair the board of directors of Saint-Petersburg Commodity Exchange, a specialized commodity exchange. In October 2013, speaking at the World Energy Congress in Korea, Sechin called for a "global mechanism to trade natural gas" and went on suggesting that " it was advisable to create an international exchange for the participating countries, where transactions could be registered with the use of regional currencies ". A Russian commodity exchange where reference prices for Russian oil and natural gas will be set in rubles instead of dollars will be a strong blow to the petrodollar. Rosneft has recently signed a series of big contracts for oil exports to China and is close to signing a "jumbo deal" with Indian companies. In both deals, there are no US dollars involved. Reuters reports, that Russia is close to entering a goods-for-oil swap transaction with Iran that will give Rosneft around 500,000 barrels of Iranian oil per day to sell in the global market. The White House and the Russophobes in the Senate are livid and are trying to block the transaction because it opens up some very serious and nasty scenarios for the petrodollar. If Sechin decides to sell this Iranian oil for rubles, through a Russian exchange, such move will boost the chances of the "petro ruble" and will hurt the petrodollar.

It can be said that the US sanctions have opened a Pandora's box of troubles for the American currency. The Russian retaliation will surely be unpleasant for Washington, but what happens if other oil producers and consumers decide to follow the example set by Russia? During the last month, China opened two centers to process Yuan-denominated trade flows, one in London and one in Frankfurt. Are the Chinese preparing a similar move against the greenback? Of course they are and especially in the light that the Chinese economy will be soon the largest economy in the world. And in that context the importance of China’s record gold purchases can’t be neglected.

As a last consideration here I would like to emphasize how factors as the strength of the economy and the availability/control of strategic (hard and soft) commodities could determine going forward which currency or basket of currencies will form the reserve currency or currencies!

Another threat to the hegemony of the US dollar will be the Chines economy taking over from the US economy as the nr 1 economy in the world



There are a number of reports around Wednesday that China's economy is likely to surpass the U.S. in size sometime this year instead of 2020. The International Comparison Program (ICP), a statistical project coordinated by the World Bank, announced new data on the size of economies by purchasing power parity that suggests China's economy is bigger than previously thought.

If you believe China's Yuan currency is undervalued, as U.S. Treasury does, then its GDP converted into U.S. dollars is likely to understate the true size of the economy. Likewise, just because a country's currency devalues by 10% against the dollar, it doesn't follow its relative economic size shrinks by 10%.
Another way of comparing economies, employed by the ICP, uses a concept called purchasing power parity. PPP exchange rates make adjustments for the differing costs of goods and services across countries. They attempt to show what exchange rates would have to be to buy the same basket of goods in different places. As costs are much higher in the industrialized world comparisons of GDP by PPP exchange rates tend to boost the relative size of poorer nations' economies. In essence, money goes further in the developing world. You can buy many more goods with your money and that is what counts, what can I do with my money! What is my purchasing power? Although when one buys articles from abroad the purchasing power changes of course depending if the foreign currency is stronger or weaker than ones own currency. That's why exchange rate valuations are seen as more important when comparing the power of nations. It puts worldwide purchasing power in perspective.

In general the advantage of using GDP at PPP rates is that it better measures welfare, and also PPPs tend to be more stable and thus the $GDPs of countries (used for international comparisons, etc.) don't jump around as much. The ICP data shows the U.S. economy remained the world's largest by PPP data in 2011, the latest year for which figures are available. But China's economy was 87% the size of the U.S. economy in 2011, up from 43% in 2005, the last time the survey was conducted. Projections China will overtake the U.S. on this measure in 2014 are based on China's relatively faster economic growth in the past three years. None of this should be a shock. The ICP's data places India as the world's third-largest economy today, although it is only 10th by the nominal GDP measure. Nevertheless the ICP data clearly show what the next superpowers are going to be.

China and other developing nations are bound to use PPP data to pressure the U.S. and Europe to cede more decision-making at global financial bodies like the IMF. Some economists believe nominal GDP, by using market exchange rates, better measures what a nation's people or its companies can buy in international markets. That depends of course on how dependent an economy is on foreign goods or commodities.

Anyway it is clear that the Yuan, or Renminbi as it is also called, will gain in importance at the expense of the US dollar backed by the size and strength of its economy and its increasing gold holdings!

What is interesting is that now "suddenly" the CME mulls price fluctuation limits for gold, silver futures. Are they afraid for big up moves? Let them first investigate and publish who were behind the dumping of 400 tons of gold in the market in April 2013!

The gold and silver futures are the most-traded commodity contracts after crude oil and other energy products. CME at present has price fluctuation limits for futures contracts in some energy, agricultural commodities and financial products, but none for its precious and base metals products and is now considering the introduction of daily limits on price moves in gold and silver futures in a bid to rein in wild volatility that has spooked investors in recent years. Shouldn't they have thought about this much earlier? Are these people living on a different planet? Let them first investigate and publish who was behind the dumping of 400 tons of gold in April of last year!!

“The biggest concern for the exchange is the array of sophisticated trading programs that are capable of significantly pushing the market higher or lower”, Vias CME Group's director of metal products, said. Unusually big moves and the fears of price "slippage" - the difference between the price at which a market player wants to execute an order and the price at which they are able to do so - have turned some gold and silver futures investors away, he said.

In the first four months of the year, COMEX gold futures volume dropped 10 percent from a year ago...Yeah hello Einstein! people are not buying the paper gold anymore they are buying the physical. Just to remind you in general traders buy paper or futures contracts whilst long term gold investors are more likely to buy the physical gold, the only REAL gold. Another thought to consider is the fact that when fewer futures contracts are being traded, because it is such an old boys network convoluted rigged market, ask Deutsche, the smaller the impact of the paper market and the more obvious when manipulation takes place.

The price of gold suffered a record two-day drop of $225 an ounce on April 12 and April 15 of last year “amid fears” of the U.S. Federal Reserve starting to unwind its market stimulus and news that Cyprus could sell some of its gold reserves. The gold futures markets opened in New York on Friday April 12, 2013 to a monumental 3.4 million ounces or 100 tonnes of gold selling of the June futures contract. The selling took gold to the technically very important level of $1540. Two hours later the initial selling, rumored to have been routed through Merrill Lynch's floor team, the floor was hit by a further 10 million ounces or 300 tonnes over the following 30 minutes of trading. Gold futures with a value of over 400 tonnes were sold in hours and this is equal to 15% of annual gold mine production. The value of the 400 tonnes of gold sold is approximately $20 billion but because it is margined, this short bet would require just $1b.

And guess what, these trades were NOT investigated and now these puppets of the CME wants price fluctuation limits for gold and silver futures! How is it possible that in one day futures representing 15% of the world gold production are being sold and nobody is investigating it. Were the people at the CME sleeping or what?

In October 2013, many traders and investors were rattled by another series of abrupt, and largely unexplained, trade surges that whipsawed prices and disrupted trade in CME Group's COMEX gold futures. These seemingly sporadic trades lasted only minutes but overwhelmed volumes and price direction on each occasion. Again first check who was behind it! I think the whole gold manipulation or management scheme, depending on who is describing it, is running at its last legs hence why now CME suddenly comes out with these suggested price fluctuation measures in order to prevent huge price rises.

One last thought to consider. Why is it that according to some stories a lot of physical gold, also “from” the US and UK, is still finding its way to the East, i.e. China? Especially in the context of the US obligation to deliver 300 tons to the Germans by 2020. Why would you cooperate supplying gold to the Chinese, and “give” them the ultimate safety net in the financial system? It puzzles me.

Anyway I believe the more gold and silver prices will be pushed down from these levels the harder they will bounce back because the whole price depressing exercise is running at its last legs. The bond and equity markets are at their final stage and the market prices of gold and silver are getting close to their production costs. Next to that who wants to own Treasuries that can be tracked, instead of gold and silver, especially in the context of the Ukrainian standoff. Ask the Russians.

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