Part 1: There is no way out! The markets are on a “high”. Gold will show the way!

Why do you think central banks may turn their deposit rates negative?

Why, because the QEs of the central banks to stimulate economic growth is not working and will not work. The QEs are fuelling bond, stock and real estate prices in the US in the hope of stimulating economic growth (coming from whom?) whilst at the same time eroding the middle class’ wealth like never before! Why? Because there is high unemployment and thus no wage increases and because the strongly reduced purchasing power (just check how expensive everything has become next to ever increasing premiums) of the middle class.

The middle class continues to lose purchasing power

Middle class incomes have shrunk 8.5% since 2000, after enjoying mostly steady growth during the previous decade. According to the US Census Bureau in 2011, the average income for the middle 60% of households stood at $53,042, down from $58,009 in 2000. If you barely have the money to pay for all your monthly bills how for heaven sake can people save and benefit from higher equity, bond and real estate prices in order to contribute to growth! It is just not going to happen hence why only the top 10% of the population, who earn ample money to pay for the cost of their primary living needs, is benefitting from the QE measures.

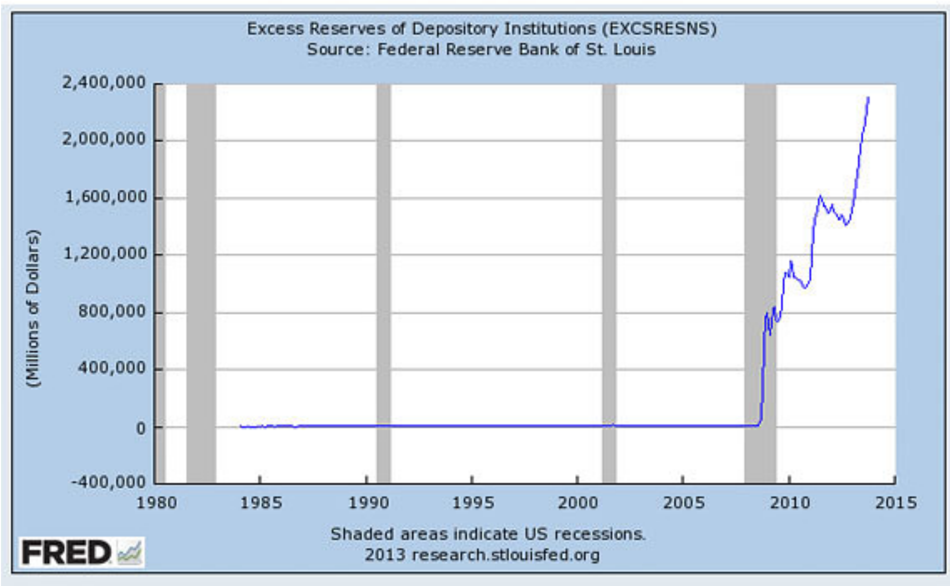
The surreal and the real economy

We are facing two economies: A phantom, surreal economy represented by super-inflated and unrealistic asset valuations, only supported by Monopoly (fake) money and the real economy with un-repayable debts, high unemployment, reducing productivity, a breakdown of Government and growing dissatisfaction with politicians, the imbalance of taxes raised and the way they are spent, the entitlement society and the rip-off world we are living in! At one stage these two economies have to come together, and guess which one will have the most gravity?

What is outrageous is that some banks state that in case of IOER “they would be forced to start charging depositors”

Anyway it clear the central banks are so desperate that the purpose of their QE, stimulating growth, is not working, in fact QE is now deflationary instead of inflationary because of the decreasing velocity of money, that they are even thinking of charging banks interest for their overnight deposits. As if banks suddenly are going to lend money even if don't believe in the economic viability of doing so.

In general if banks can earn a healthy return depositing reserves at a central bank, they are likely to do so. But if they can't, they're believed to deploy their cash elsewhere, such as by lending to households and businesses, which would benefit the broader economy. My reaction: dream on! If they believed in the economy they would already have done so. The thinking is that by making the deposit rate negative, the central bank is trying to prevent these risk-averse banks from locking up their cash. The ECB has been reported to consider lowering its deposit rate from 0.1% to negative 0.1%, according to Bloomberg, which cited anonymous sources. That means banks would have to pay the ECB to lend to it overnight, an unprecedented move for the bank (by the way the announcement sent the Euro weaker) and as discussed such a move would make it less attractive for banks to park their reserves at the ECB.



Federal Reserve Bank of St. Louis

As the Financial Times reported leading US banks have warned the Fed that should it lower Interest On Excess Reserves (IOER), they would be forced to start charging depositors. The report cited executives at two of the top five U.S. banks, who said a cut in the 0.25 percent rate of interest on the $2.4 trillion in reserves they hold at the Fed would lead them to pass on the cost to depositors.

Deposits in regular savings accounts currently pay consumers paltry interest of about 0.1% to 0.2%. Banks earn profit on the money in part by receiving a higher rate to keep it at the Fed. But if the Fed's interest rate falls even further toward zero, the premium that banks pay to the Federal Deposit Insurance Corp. to insure deposits could exceed the return. The FDIC charges 7-10 basis points (100 basis points is 1%) on deposits for the national deposit insurance scheme. Analyst David George of Robert W. Baird & Co. says banks "would need to find alternative revenue sources to compensate" for a decline in the Fed's interest rate and fees on deposits "would be the most likely" option. "Having a bank account is a service, like the water and electric bill. And it has become less and less profitable," he says. I disagree because without deposits banks can't exist they should be shareholders (owners) of the bank and not subordinated creditors. But analyst Jeff Harte of Sandler O'Neill says a new fee is unlikely, noting banks depend on deposits as a source to finance loans, a benefit that will become more significant as the economy heats up. Banks also rely on deposits to sell customers services such as car loans.

Anyway it is clear to me bankers don't have any shame and need a reality check. "My understanding is that banks are supposed to lend to make profit," said Brad Hintz, analyst at Alliance Bernstein. "And not just recycle cash to the Federal Reserve."

Banks are already making record earnings at the cost of the account holders

In the last few years, the debit-fee legislation coming out of the Durbin Amendment as part of the Dodd Frank Act has limited transaction fees imposed on merchants by debit card issuers. That has effectively hit consumer-banking revenues pretty hard, say analysts (don't you really feel for them?!). I don't think analysts of today don't have a clue what they are talking about, ask any account holder how the service is and the fees they have to pay! In one word: horrendous and extortion.

Next to that U.S. banks reported record net income of $42.2 billion for the second quarter on broad gains from trading revenue, according to the Federal Deposit Insurance Corp. Banks' earnings for the three months ending June 30 marked a second consecutive record quarter. Do I need to say more?

Negative interest will further worsen deflation

The Financial Times summarizes it as follows "depositors already have to cope with near-zero interest rates, but paying just to leave money in the bank would be highly unusual and unwelcome for companies and households." In other words these Einsteins are looking to worsen the deflationary forces, if you understand it I do!

Why deposit your money at banks why not invest it in gold and silver

In other words why then keep your money at the banks where account holders are ranked as subordinated creditors after secured and senior creditors in case of bankruptcy. Great deal no? Listen to this! You bring funds to the bank as the owner of those funds, it is your property, and when you deposit the funds with the bank you become a subordinated creditor!? Ever heard of such a degradation of ownership rights and as a expression of gratitude you would be charged a monthly interest!? It would be much better to keep your money and your smartphone and have a common standard for transferring money. We are really at the end of an era. Next to that why then not hold your funds in the form of gold and silver moreover in case of negative interest rates the precious metals should increase in value because this currency is not being charged interest or generates any interest and it doesn't have counter party risk.

Draghi: "gold for the central banks is a reserve of safety"!

When price manipulators take the gold price down, central banks (of emerging countries and the East) see value and buy. Mario Draghi, the head of the European Central Bank (ECB) said it well when he explained:-

"I never thought it wise to sell gold because for central banks this is a reserve of safety."

Isn't that interesting that the head of the ECB says that gold is a reserve of safety for the central banks. Finally a central banker admitting that if the fiat or paper system fails that we most likely will have to return to the ultimate currency: gold. This is in my point of view confirmed by the fact that he in a way says that gold is a good protection against fluctuations in the US dollar for non-U.S. dollar currencies.

Fed's existing and incoming chairmen don't seem to have a clue about gold! Or do they?

This view of Draghi is clearly a different view than that of Ben Bernanke when he told the Senate Banking Committee that “nobody really understands gold prices and I don’t pretend to understand them either.” He doesn’t seem to enjoy talking about the barbarous relic (Aden sisters). In my point of view anybody who still refers to gold as a barbarous relic clearly doesn’t understand the dire straits the reserve currency is in. As I have stated many times the only reason gold and silver go up is because the reserve currency is losing purchasing power and nothing else!

Yellen during a question-and-answer session before the Senate Banking Committee was asked whether rises and falls in the price of gold can act as an economic indicator.

“I don’t think anybody has a very good model of what makes gold prices go up or down,” she said. “But, certainly, it is an asset that people want to hold when they are very fearful about (a) potential financial-market catastrophe or economic troubles and tail risks.“ And, when there is financial-market turbulence, often we see gold prices rise as we see people flee into it.”

Isn’t it interesting that the most powerful Fed central bankers don’t seem to have a clue how important gold is and the workings of it in the monetary system or are they just pretending! Don’t they understand that gold is the opposite of the reserve currency!? They have more than 8,000 tonnes of gold in their vaults with a value of about $325bn at a gold price of $1,250/oz and they don’t understand gold!? At least Volcker, probably the best Fed chairman we had, was truthful. It has been said that the former head of our Federal Reserve system, Paul Volcker, made this statement: **"Gold is my enemy, I'm always watching what gold is doing."**

SDRs were created with as main purpose to eliminate gold as competition to the US dollar, as the ultimate currency.

The fundamental driver behind the promotion of a supranational reserve paper currency SDRs (Special Drawing Rights) had one goal in mind: allowing the US to remain masters of gold and constituting the US dollar as the “only” currency.

Below is a quote of the memo written in 1974 by Sidney Weintraub, Deputy Assistant Secretary of State for International Finance and Development, to Paul Volcker, when he was still just Under Secretary of the Treasury for Monetary Affairs and not yet head of the Federal Reserve.

“To encourage and facilitate the eventual demonetization of gold, our position is to keep the present gold price, maintain the present Bretton Woods agreement ban against official gold purchases at above the official price and encourage the gradual disposition of monetary gold through sales in the private market. An alternative route to demonetization could involve a substitution of SDRs for gold with the IMF, with the latter selling the gold gradually on the private market, and allocating the profits on such sales either to the original gold holders, or by other agreement.... Any redefinition of the role of gold must be based on the principle stated above: that SDR must become the center of the system and that there can be no question of introducing a new form of gold– paper and gold–metal bimetallism, in which the SDR and gold would be in competition.”

Do you need anymore proof that the gold price is manipulated by the US?

In three sentences, you have all the deep thinking behind the IMF's SDR: simply to use it as a vehicle through which a select few can accumulate gold (namely those who can create fiat SDRs), while handing out paper "profits" to the sellers. And this all to ensure the undisputed, even not disputed by gold, reserve status of the US dollar. How naïve to think you can exclude from peoples mind history of thousands of years regarding the validity of gold as the ultimate currency. “**Against stupidity even the gods are powerless**,” Friedrich Schiller.

Gold can’t be eliminated as a currency especially when the US dollar continues to lose purchasing power

Just read some of the poignant quotes about gold here below.

"It is a sobering fact that the prominence of central banks in this century has coincided with a general tendency towards more inflation, not less. If the overriding objective is price stability, we did better with the nineteenth-century gold standard and passive central banks, with currency boards, or even with ‘free banking.’ The truly unique power of a central bank, after all, is the power to create money, and ultimately the power to create is the power to destroy." -- Paul Volcker, ex Federal Reserve Chairman (in the Foreword of "The Central Banks")

"Gold still represents the ultimate form of payment in the world. Fiat money in extremis is accepted by nobody. Gold is always accepted." -- Alan Greenspan, May 20, 1999

"Like gold, U.S. dollars have value only to the extent that they are strictly limited in supply. But the U.S. government has a technology, called a printing press (or, today, its electronic equivalent) that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services." -- Ben Bernanke, the current (2008) Chairman of the Board of Governors of the Federal Reserve Bank of the United States, in a speech he made on November 21, 2002 before the National Economists Club in Washington, D.C.

"In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold. If everyone decided, for example, to convert his entire bank deposits to silver or copper or any other good, and thereafter declined to accept checks as payment for goods, bank deposits would lose their purchasing power and government-created bank credit would be worthless as a claim on goods. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves. This is the shabby secret of the welfare statists' tirades against gold. Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights." -- Alan Greenspan, "Gold and Economic Freedom" in Ayn Rand, ed., *Capitalism: The Unknown Ideal* (New York: Penguin Group, 1967), 101-108

"When the international monetary system was linked to gold, the latter managed the interdependence of the currency system, established an anchor for fixed exchange rates and stabilized inflation. When the gold standard broke down, these valuable functions were no longer performed and the world moved into a regime of permanent inflation. What will be the character of the international monetary system in the next century and how will gold intersect with it? This subject may strike modern audiences as a strange topic, but back in the 1960s, when people were deliberating about the future of the international monetary system, gold figured importantly in the discussions. Even today, the importance of gold in the international monetary system is reflected in the fact that it is today the only commodity held as reserve by the monetary authorities, and it constitutes the largest component after dollars in the total reserves of the international monetary system." -- Robert A. Mundell, Nobel Laureate for Economics, 1999

"Gold, unlike all other commodities, is a currency...and the major thrust in the demand for gold is not for jewelry. It's not for anything other than an escape from what is perceived to be a fiat money system, paper money, that seems to be deteriorating." -– Alan Greenspan, ex-US Federal Reserve Chairman, August 23, 2011

"Gold is the money of kings; silver is the money of gentlemen; barter is the money of peasants; but debt is the money of slaves." -- Norm Franz

"Governments lie; bankers lie; even auditors sometimes lie: gold tells the truth." -- Lord Rees Mogg, economist & former editor of The Times.

I especially like the last quote. Anyway closely follow the gold price and you will know when we have the high in the markets and thus when all tools from the toolbox have been exhausted. Gold, and especially the physical demand for gold, is discounting what will happen in the markets. C'est reculer pour mieux sauter.

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Gijsbert Groenewegen
g.groenewegen@goldarrowpartners.com
www.groenewegenreport.com