

The Biggest Of Big Pictures

Alasdair Macleod

I have had a request from Mrs Macleod to write down in simple terms what on earth is going on in the world, and why is it that I think gold is so important in this context. She-who-must-be-obeyed does not fully share my interest in the subject. An explanation of the big picture is also likely to be useful to many of my readers and their spouses, who do not share an enduring interest in geopolitics either.

That is the purpose of this article. It can be bewildering when a casual observer tries to follow global events, something made more difficult by editorial policies at news outlets, and the commentary from most analysts, who are, frankly, ill-informed. Accordingly, this article addresses the topic that dominates our future. The most important players in the great game of geopolitics are America and China. But before launching into an update, I shall lay down the disciplines required for an informed analysis.

Do try to look at issues from all sides in order to understand both strategic considerations and prospective outcomes. Understand that characteristics which may apply to one side do not necessarily apply to the other. For example, financial analysis that applies to the US economy does not necessarily apply to China's. Do try to remain neutral and objective, analytical and unbiased. Remember the old stockbroker's adage: where there's a tip, there's a tap, meaning that the dissemination of information is usually designed to promote vested interests.

The list of don'ts is somewhat longer. Don't believe what governments say, because they will tell you what they want you to believe. Don't believe anything coming out of intelligence services: if the information is good it is highly unlikely to come your way, and if good information does come your way, it will be indistinguishable from conspiracy theories. Don't believe conspiracy theories because they are almost never true. Don't believe government statistics; in fact, you shouldn't rely on statistics at all, except in the broadest sense. Don't believe western analysts, financial or otherwise, particularly when commenting on China or Russia. Don't believe the mainstream media; it usually toes the establishment line, something we recognize of the Chinese and the Russians, but not in our own organizations. Don't be swayed by nationalism or patriotism: remember Dr Johnson's aphorism, that patriotism is the last refuge of a scoundrel (he was referring to those who invoke it).

Bearing these rules in mind, let us begin with America, and her position in the world because everything else flows through her accelerating descent from post-war influence.

America - becoming introspective?

America's global dominance, unquestioned after the dissolution of the old USSR, is now being challenged by China, which plans to absorb the whole Eurasian continent within its commercial sphere of influence. Before President Trump assumed office in January 2017, the threat to America's hegemony was not widely seen as a public issue, and her policy was to protect US interests through diplomacy, trade, and military presence. Covert operations were used to destabilize regimes which were deemed to be a threat to American interests, particularly in the Middle East, but also in Ukraine, an important buffer-state between Russia and NATO member states in Europe. It was the continuation of persuasion by guns and butter, even though as a global policy it has been getting somewhat tired. The supply of metaphorical butter from America has diminished, and that is now increasingly supplied by China.

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Central Banks Have Gone Rogue, Putting Us All at Risk

Ellen Brown

Excluding institutions such as Blackrock and Vanguard, which are composed of multiple investors, the largest single players in global equity markets are now thought to be central banks themselves. An estimated 30 to 40 central banks are invested in the stock market, either directly or through their investment vehicles (sovereign wealth funds). According to David Haggith at Zero Hedge:

Central banks buying stocks are effectively nationalizing U.S. corporations just to maintain the illusion that their "recovery" plan is working. ... At first, their novel entry into the stock market was only intended to rescue imperiled corporations, such as General Motors during the first plunge into the....

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A Pound Of Cure

Peter Schiff

This week, as investors and economists fixate on record highs set by major stock market indices, they have ignored much more significant developments that emerged from the Federal Reserve's annual meeting in Jackson Hole, Wyoming. Fed Chairman Jerome Powell delivered a speech that somehow was almost universally interpreted as a reiteration of his commitment to continue to raise rates throughout the next few years. "Steady as she goes" was the takeaway from just about any news outlet. But the Chairman's actual message was essentially the opposite of what the media reported. From my perspective, it provided evidence that President Trump has succeeded in getting Powell's mind right on the need for the Fed to continue to stimulate the economy, no matter how much evidence emerges that it is already over-stimulated.

Many reporters, undoubtedly eager to write a story that would cast Trump in a bad light, characterized Powell's speech as a courageous defiance to the President's increasingly strident calls for the central bank to end its tightening campaign. Some stories even jumped onto the current "people turning on Trump" narrative to showcase Trump's foolishness in having appointed someone who would so easily turn on him. I'm not sure what speech they were hearing.

Despite the fact that inflation has moved above the Fed's target 2% threshold (U.S. Dept. of Labor, Bureau of Labor Statistics News Release, 8/10/18), Powell repeatedly suggested that it isn't likely to remain there, and as a result, the Fed would be unwise to lean into a tightening policy as if it were. Instead, he argued that the Fed should pursue a "wait and see" attitude as long as possible, and should only move when the data is unmistakable. When the Fed does act, he suggested that bold and decisive moves would make up for prior restraint. Call this the "whites of their eyes" monetary policy: fire should be held until the last possible minute, and when the order to fire is given the intensity should be massive. (Someone should point out to Powell that we lost the Battle of Bunker Hill).

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Great Recession, but recently their efforts have shifted to propping up the entire stock market via major purchases of the most healthy companies on the market.



The U.S. Federal Reserve, which bailed out General Motors in a rescue operation in 2009, was prohibited from lending to individual companies under the Dodd-Frank Act of 2010, and it is legally barred from owning equities. It parks its reserves instead in bonds and other government-backed securities. But other countries have different rules, and central banks are now buying individual stocks as investments, with a preference for big tech companies like Amazon, Apple, Facebook and Microsoft. Those are the stocks that dominate the market, and central banks are aggressively driving up their value. Markets, including the U.S. stock market, are thus literally being rigged by foreign central banks.

The result, as noted in a January 2017 article at Zero Hedge, is that central bankers, "who create fiat money out of thin air and for whom 'acquisition cost' is a meaningless term, are *increasingly nationalizing the equity capital markets*." Or at least they would be nationalizing equities, if they were actually "national" central banks. But the Swiss National Bank, the biggest single player in this game, is 48 percent privately owned, and most central banks have declared their independence from their governments. They march to the drums not of government but of private industry.

Marking the 10th anniversary of the 2008 collapse, former Fed Chairman Ben Bernanke and former Treasury Secretaries Timothy Geithner and Henry Paulson wrote in a Sept. 7 New York Times op-ed that the Fed's tools needed to be broadened to allow it to fight the next anticipated economic crisis, including allowing it to prop up the stock market by buying individual stocks. To investors, propping up the stock market may seem like a good thing, but what happens when the central banks decide to sell? The Fed's massive \$4 trillion economic support is now being taken away, and other central banks are expected to follow. Their U.S. and global holdings are so large that their withdrawal from the market could trigger another global recession. That means when and how the economy will collapse is now in the hands of central bankers.

Moving Goal Posts

The two most aggressive central bank players in the equity markets are the Swiss National Bank and the Bank of Japan.

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Then there came Trump. His surprise election as president brought a several-times bankrupted businessman with little more than an outsized ego into the White House. His understanding of economics and the political process was zilch, but to his electoral base, that was his attraction, particularly compared with the Clinton alternative. Trump stood on a platform of anti-immigration, anti-globalization, anti-foreign trade, and anti-foreign wars. He was pro-business and pro-America. In short, he was elected to overturn the tired policies of the Clintons, Bushes, and Obama. America was to become introspective in its foreign relationships, reversing the established globalisation trends.

Trump is politically at odds with America's allies, particularly in statist, predominantly-socialist Europe. His insistence that European members of NATO must pay more of NATO's costs was seen as a signal that established relationships could no longer be taken for granted, and Germany in particular should assert greater independence. In fact, the post-war establishment and all its institutions were threatened by the Trump rhetoric. However, the prospect of a better relationship with Russia, one of Trump's pre-election hopes, faded with allegations of Russian interference in the presidential election. But probably the most disruptive Trumpian policies are over trade.

Trump is a firm believer that trade deficits are the result of unfair trade agreements. In this he is supported by Peter Navarro, White House Director of Trade and Industrial Policy, Wilbur Ross, Commerce Secretary, and Robert Lighthizer, US trade representative. Including Trump, these four are on one side of the trade issue, while nearly all the other senior staff, particularly at the Treasury, are on the other. So far, Trump has torn up NAFTA, the trade agreement with Canada and Mexico, which has been "renegotiated", as has KORUS, the trade agreement with South Korea. He pulled America out of the Trans-Pacific Partnership, which included Japan, Australia, Chile and South-Eastern Asian allies. He initiated a trade dispute with the EU, which has been put on ice for now. He has introduced high tariffs on imported steel and aluminum.

Trump's actions on trade have been despite attempts in the administration to stop him, a battle which is ongoing.

America's overall trade deficit is currently running at over \$600bn annually, about two-thirds of which is with China. The current position is that America is threatening to introduce further tariffs on Chinese imports totaling \$200bn and in the absence of an agreement extending it to virtually all of China's \$500bn exports to the US. There are hopes this is Trumpian posturing ahead of the mid-term elections on 6th November. However, whether the US extends sanctions as promised appears to be dependent on the pragmatists in the White House outwitting Navarro and Ross. If they manage to do so, presumably China and America can agree a face-saving compromise. If not, the tariff war will intensify.

American trade policy is therefore undergoing a radical alteration from the days when America was happy to run a trade deficit, so long as the surplus dollars were re-invested in America, financing among other things the government's budget deficit. All commodities, and importantly energy, are priced in dollars on international markets, meaning there is a continuing demand for them to settle non-US trade. The dollar's status as a reserve currency, coupled with America's control over international institutions, such as the IMF, the World Bank and regional development banks, meant that America has been in effect the world's central banker providing the currency, and through its commercial banks the background financier of all cross-border activities. It has been world domination by monetary means, and the need for dollars would always guarantee its global acceptance and underwrite much of its value.

China is maneuvering to eat into the dollar's virtual monopolies in commodity pricing and trade. If it succeeds, there can be no doubt the purchasing power of the dollar will decline. To assess this likelihood, we must now turn to China.

China

China's recovery from the poverty of Maoist communism has been remarkable. It has achieved this by embracing capitalism, while retaining strict political control. It is said that the Chinese leadership observed the successes of Singapore and Hong Kong, driven mainly by Chinese businessmen.

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Powell peppered his speech with many cautionary tales of how the Fed erred in the past by fighting inflation that was never really that dangerous in the first place, and he praised former Fed Chair Alan Greenspan for not raising rates in the face of traditional inflation warnings. By focusing on the phantom menace of inflation, Powell suggested that the Fed cut off prior expansions prematurely. Instead, he advocated for a new doctrine that places less emphasis on prevention and more on reaction. In other words, why bother with an ounce of prevention when a pound of cure will do the trick.

While Powell did strongly suggest that he would deliver at least two more rate hikes in 2018, his outlook for 2019 became significantly less hawkish. In fact, based on my understanding, we should not expect any additional hikes in 2019. That means a 2.5% Fed Funds rate may be the highest we get in the current expansion. So despite the supposedly unprecedented strength of the U.S. economy, this cycle's peak in interest rates would be the lowest by far of any prior economic expansion. This thinking represents a significantly dovish shift in public Fed policy and should certainly play well in the White House.

But investors ignored Powell's words and continued to arrange their money as if the Fed's tightening bias remains firmly in place. In fact, this month the net short position in gold held collectively by hedge funds went positive for the first time since 2001. (Not insignificantly, this last occurred when gold traded below \$300 per ounce and was on the verge of a six-fold increase over the next decade). This continued myth of a hawkish Fed has strengthened the dollar and punished gold, which earlier this month fell below \$1,200 per ounce for the first time since the beginning of the year.

CNBC's Steve Liesman's Jackson Hole interviewed St. Louis Fed President James Bullard showcasing the Fed's thinking in even starker terms. Bullard suggested that the current Fed Funds rate of 2% is already far closer to normal than history would suggest.

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(In the past, a "normal" rate would be considered two percentage points above the rate of inflation). He claimed that since rates have been trending down since the 1980s, 2% today is not the same things as 2% in the 1990s. In other words, it's the new normal. He also said the Fed should take care not to invert the yield curve, which would suggest there is not much room to move rates higher in 2019, given his expectation that 10-year yields will remain below 3%.

Although this rhetoric sounds appealing, it forgets, perhaps intentionally, some key maxims that have guided Fed policy for generations. These include the idea that "the Fed should take away the punch bowl just as the party gets going" and perhaps more significantly, "once the inflation genie gets out of the bottle it's hard to put her back in." These ideas hint at just how much momentum gets built into a monetary policy and how hard it is to change course once things get out of hand.

The Fed's new strategy appears to be keeping the party raging by making sure the punch bowl remains spiked. If the inflation genie gets out of her bottle, Powell claims the Fed will "do whatever it takes" to put her back in. But there has always been a high degree of disagreement about when a bull market turns into a bubble. Usually, experts don't even agree until years later. So how can we expect the Fed to identify a bubble and react decisively, especially given the pushback it would get from investors and politicians for raining on the parade?

The same holds true for inflation, which tends to sneak up on central bankers unexpectedly. On several occasions in the 1970s and 1980s, inflation surged by 3 percentage points or more in one year. (New York Fed, "A History of Fed Leaders and Interest Rates", The NY Times, 12/16/15) If that were to occur again, could we really expect the Fed to react quickly and strongly enough to contain the outbreak? And how would the markets digest such a reaction? Recall that the Fed hasn't raised rates by more than a quarter of a percentage point at one time in more than 18 years.

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The goal of the Bank of Japan, which now owns 75 percent of Japanese exchange-traded funds, is evidently to stimulate growth and defy longstanding expectations of deflation. But the Swiss National Bank is acting more like a hedge fund, snatching up individual stocks because "that is where the money is."

About 20 percent of the SNB's reserves are in equities, and more than half of that is in U.S. equities. The SNB's goal is said to be to counteract the global demand for Swiss francs, which has been driving up the value of the national currency, making it hard for Swiss companies to compete in international trade. The SNB does this by buying up other currencies, and because it needs to put them somewhere, it's putting that money in stocks.

That is a reasonable explanation for the SNB's actions, but some critics suspect it has ulterior motives. Switzerland is home to the Bank for International Settlements, the "central bankers' bank" in Basel, where central bankers meet regularly behind closed doors. Dr. Carroll Quigley, a Georgetown history professor who claimed to be the historian of the international bankers, wrote of this institution in "Tragedy and Hope" in 1966:

[T]he powers of financial capitalism had another far-reaching aim, nothing less than to create a world system of financial control in private hands able to dominate the political system of each country and the economy of the world as a whole. This system was to be controlled in a feudalist fashion by the central banks of the world acting in concert, by secret agreements arrived at in frequent private meetings and conferences. The apex of the system was to be the Bank for International Settlements in Basel, Switzerland, a private bank owned and controlled by the world's central banks, which were themselves private corporations.

The key to their success, said Quigley, was that they would control and manipulate the money system of a nation while letting it appear to be controlled by the government. The economic and political systems of nations would be controlled not by citizens but by bankers, for the benefit of bankers. The goal was to establish an independent (privately owned or controlled) central bank in every country. Today, that goal has largely been achieved.

In a paper presented at the 14th Rhodes Forum in Greece in October 2016, Dr. Richard Werner, director of international development at the University of Southampton in the United Kingdom, argued that central banks have managed to achieve total independence from government and total lack of accountability to the people, and that they are now in the process of consolidating their powers. They control markets by creating bubbles, busts and economic chaos. He pointed to the European Central Bank, which was modeled on the disastrous earlier German central bank, the Reichsbank. The Reichsbank created deflation, hyperinflation and the chaos that helped bring Adolf Hitler to power.

The problem with the Reichsbank, said Werner, was its excessive independence and its lack of accountability to German institutions and Parliament. The founders of postwar Germany changed the new central bank's status by significantly curtailing its independence. Werner wrote, "The Bundesbank was made accountable and subordinated to Parliament, as one would expect in a democracy. It became probably the world's most successful central bank."

But today's central banks, he said, are following the disastrous Reichsbank model, involving an unprecedented concentration of power without accountability. Central banks are not held responsible for their massive policy mistakes and reckless creation of boom-bust cycles, banking crises and large-scale unemployment. Youth unemployment now exceeds 50 percent in Spain and Greece. Many central banks remain in private hands, including not only the Swiss National Bank but the Federal Reserve Bank of New York and the Italian, Greek and South African central banks.

Banks and Central Banks Should Be Made Public Utilities

Werner's proposed solution to this dangerous situation is to bypass both the central banks and the big international banks and decentralize power by creating and supporting local not-for-profit public banks.

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It understood that by copying their economic models of laissez-faire capitalism and with an authoritarian government they could improve the lives and wealth of ordinary people, from which the state ultimately derives its power.

The Chinese state plans and directs its state-owned enterprises towards clear objectives. It does this through a series of consecutive five-year plans, the current being the thirteenth which runs to 2020. Already, the next one has been drafted and dubbed "Made in China 2025". It features state investment in robotics, electric cars, artificial intelligence, biotech and aviation. The equivalent of \$300bn of government money will be spent on these sectors, upsetting the Americans who see themselves being shut out from them in China, and concerned that subsidized Chinese industries will have an unfair commercial advantage in export markets.

China is still improving its own infrastructure and is in the process of moving hundreds of millions of citizens from being trapped in menial agricultural and unskilled factory jobs into joining a growing city-based middle class. China now has more than a hundred cities with over a million people, some of which are mega-cities. We have all heard of Shanghai which has 34 million. Few of us know of Guangzhou which has 25 million, the same as Beijing.

Furthermore, the spread of automation and technological innovation is steroidal, and accelerating. And as if that is not enough, China is building two "silk roads" one overland to Europe and a sea route, both of which will be interconnected at several points along the way. It will be a transport and communications network, bringing together the whole Asian continent through trade.

Already, a Mercedes can be delivered from Stuttgart in Germany to the showroom in Beijing in a fortnight. That will come down to ten days. And Zanussi, the Italian white goods manufacturer, can deliver product from its Chinese factories into its European markets on the same time-scale, compared with thirty days by sea.

So ambitious are China's plans that she has a continuing need to secure the industrial materials for developing infrastructure. She is in a political and economic alliance with Russia, which is the world's largest exporter of energy and has substantial mineral resources. The partnership is secured in a number of ways, the most important being through the Shanghai Cooperation Organization, which can be described as a security and economic forum, embracing military cooperation and infrastructure-building. The SCO membership includes China, India, Kazakhstan, Kyrgyz, Pakistan, Russia, Tajikistan and Uzbekistan. Observer status, which is the stepping-stone to full membership, includes Afghanistan, Belarus, Iran and Mongolia. Turkey, which is also a member of NATO, is a Dialog Partner, which is one step further away from membership from Observer Status, but is a declaration of intent.

The SCO members, Observers and Dialog Partners cover a total population of three and a half billion, 45% of the world's population. This is, in effect, China's backyard and her future market. Add to this her expanding commercial links with Western and Central Europe plus the South Asian nations notionally in America's sphere of influence, and the whole Eurasian continent is hers to dominate through trade.

She has also invested \$140bn in sub-Saharan Africa, developing the African continent as a supplier of raw materials. Africa is itself growing rapidly from a very low base and is a potential future market. China is also Australia's largest trading partner.

Those who think that America controls world trade through the dollar should wake up. She is up against China everywhere. And as we have seen, China exports some \$600bn of goods to America, against only \$200bn the other way. She is the largest miner of gold in the world, by far. Unless something happens to interrupt China's progress, she will have the largest economy by GDP in just a few years, if she hasn't already on a PPP basis. The key to understanding the pace of this change is not to think in linear projections but in exponential terms.

Is putting up trade barriers, which seems certain to diminish her own influence in global trade, the right response by America to this Chinese industrial revolution? Would it not be better to embrace it, as so many American businesses have done by including Chinese production in their supply chains? Obviously not for those who believe with Trump American nationalism is paramount.

Instead of being realistic, America's antagonistic approach to China has effectively pitched America into a financial war with China. China follows Sun Tzu's dictums. Sun Tzu was a Chinese military general and strategist who lived 2,500 years ago and is still quoted today. An appropriate aphorism of his goes as follows: "Be extremely subtle, even to the point of formlessness. Be extremely mysterious, even to the point of soundlessness. Thereby you can be the director of the opponent's fate." And here's one appropriate for dealing with Donald Trump: "Pretend inferiority and encourage his arrogance". Perhaps that's why Trump does all the talking, while Xi smiles politely and says nothing. Trump brags about the excellent relationship he has with Xi. Xi smiles politely and says nothing.

Meanwhile, China is doing away with the dollar as much as possible, developing financial markets for her own currency instead. Admittedly, that part of her plan has been put on hold for the moment, because Trump's trade wars have weakened the yuan, and the Peoples' Bank (China's central bank) has been buying yuan to support the exchange rate. But this is likely to be a temporary phase.

There is another way of looking at this intervention. The other side of buying in her own currency has been selling part of her enormous stockpile of dollars. Measured in yuan, this has been highly profitable.

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Drastic tightening moves have essentially gone the way of the Dodo Bird. If Powell thinks he could deal with a gathering inflation threat with a few quarter-point increases, he should take a few lessons in threat management. The metaphor of bringing a knife to a gunfight would apply.

Also bear in mind that there are many signs that the current bull market, already the longest in history, is reaching the end of its tether, even at a time when Fed policy remains undeniably easy. Firstly, there is the warning sign of dangerously tight yield spreads.

Currently, the difference in yield between the 2-year Treasury bond and the 10-year Treasury bond is just .22%. (FRED, Federal Reserve Bank of St. Louis) This means that those lending money to the government for 10 years are only asking for .22% higher annual interest payments to compensate them for the eight extra years of commitment.

This is the lowest gap since June of 2007. (FRED, Federal Reserve Bank of St. Louis) Narrow spreads between short and long-dated bonds are indicative of high economic fear and show that investors are valuing safety over risk. Generally speaking, the gap only gets to zero, or goes negative, when a recession begins. This could tell us that the very long 10-year economic expansion might also finally be nearing its end.

But this economic uncertainty is not happening against a backdrop of slowing inflation. On the contrary, inflation is finally starting to heat up and is now securely north of the Fed's 2.0% target, with year-over-year CPI rising at 2.9%, and year-over-year PPI rising at an even faster 3.3% clip. (U.S. Dept. of Labor, Bureau of Labor Statistics News Release, 8/9/18) This might indicate that the "stagflation" outcome of high inflation and slow growth is a much greater possibility than is currently believed.

In such an environment could anyone really expect the Fed to "do whatever it takes" to head off inflation even while growth is sluggish?

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And at some stage, China will want the yuan to rise against the dollar for some very good reasons. She needs to import raw materials in enormous quantities, and that will drive their prices up in dollar terms. The effect on price inflation in China will be largely dependent on the exchange rate between dollars and yuan, so it will be in her interests to have a stronger currency to lessen the inflation impact.

China has also been encouraging her suppliers of energy and raw materials to accept yuan instead of dollars. All this points to a managed www.europac.com, higher rate for the yuan against the dollar, in order to encourage widespread acceptance of the yuan. This brings us to the relative future of the yuan against the dollar, and the effect on the gold price.

A stronger yuan will underwrite gold

As noted above, China must embrace the consequences of a stronger yuan if it is to deliver on its current thirteenth five-year plan, and on "Made in China 2025". If she fails to do this, not only will rising commodity prices fuel domestic price inflation, but she will still be vulnerable to America's use of the dollar as a strategic weapon.

It will require China to discard Western thinking that lower currency exchange rates can be used to stimulate demand. Anyway, she is moving her economic emphasis away from the manufacture of cheap goods dependent solely on low prices for their sales, towards the added-values of quality and technology. Instead of employing large numbers of semi-skilled workers on production lines, manufacturing of export goods is becoming highly automated. Capital investment is replacing the wage element in costs. Time taken in manufacturing processes has fallen as a result, so the benefits of having a competitive exchange rate is less of a factor for export profitability.

The supposed disadvantages of managing a currency into continuing weakness are therefore becoming trivial. That being the case, we should expect moves to underscore a change in currency regime. But before we examine them, we must briefly look at the other side of the exchange rate, the dollar.

For the moment, the dollar is strong predominantly against the euro. Despite the US trade deficit with the Eurozone (which creates net buying of the euro by commercial entities), the capital flows the other way are driving the euro lower. Because banks and their hedge fund clients have access to euros through wholesale money markets, they can borrow three-month money at *minus*0.3%, sell the euros for dollars and invest in three-month Treasury bills for a yield of 2.3%. Gear it up ten times (which is what banks do) and you have a slam-dunk 26% annualized return on your capital. And because the dollar's trade weighted index is comprised of 50% euros, the selling of euros for dollars by these interest rate arbitrageurs is why the dollar's TWI is so strong.

This interest dysphasia between euros and dollars is creating enormous currency strains, a situation that cannot last. Either the Fed and the ECB must devise a managed solution, or it will end in a currency crisis.

For the moment, contrary to current widespread commentary, foreign ownership of dollar deposits and dollar-denominated investments are at an all-time high. The US government depends on foreigners buying Treasuries to fund itself. However, Trump's tariffs will help drive domestic consumer prices higher, on top of the price stimulation of a budget deficit about to exceed a trillion dollars. In short, a highly inflationary situation is developing, leading to rapidly rising bond yields (which means falling bond prices) and a potential funding crisis for the US government. Rising inflation and funding difficulties make for a falling dollar exchange rate, which promises to be sudden and severe when the speculative tide turns.

A falling currency raises the cost of energy and industrial commodities, fuelling price inflation even further. Does China go with it, by allowing her currency to maintain a dollar peg? The answer, as we have seen above, must be an emphatic no.

Currently, the yuan is split by capital controls between domestic and foreign markets. Chinese residents are not permitted to hold foreign currency, a situation that cannot continue for much longer if the yuan is to have the required international liquidity.

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Ultimately, he envisions a system of local public money issued by local authorities as receipts for services rendered to the local community. Legally, he noted, 97 percent of the money supply is already just private company credit, which can be created by any company, with or without a banking license. Governments should stop issuing government bonds, he said, and instead fund their public sector credit needs through domestic banks that create money on their books (as all banks have the power to do).

These banks could offer more competitive rates than the bond markets and could stimulate the local economy with injections of new money. They could also put the big bond underwriting firms that feed on the national debt out of business.

Abolishing the central banks is one possibility, but if they were recaptured as public utilities, they could serve some useful purposes. A central bank dedicated to the service of the public could act as an unlimited source of liquidity for a system of public banks, eliminating bank runs since the central bank cannot go bankrupt.

It could also fix the looming problem of an unrepayable federal debt, and it could generate “quantitative easing for the people,” which could be used to fund infrastructure, low-interest loans to cities and states, and other public services.

The ability to nationalize companies by buying them with money created on the central bank’s books could also be a useful public tool. The next time the mega-banks collapse, rather than bailing them out, they could be nationalized and their debts paid off with central bank-generated money.

There are other possibilities. Former Assistant Treasury Secretary Paul Craig Roberts argues that we should also nationalize the media and the armaments industry. Researchers at the Democracy Collaborative have suggested nationalizing the large fossil fuel companies by simply purchasing them with Fed-generated funds.

In a September 2018 policy paper titled “Taking Climate Action to the Next Level,” the researchers wrote, “This action might represent our best chance to gain time and unlock a rapid but orderly energy transition, where wealth and benefits are no longer centralized in growth-oriented, undemocratic, and ethically dubious corporations, such as ExxonMobil and Chevron.”

Critics will say this would result in hyperinflation, but an argument can be made that it wouldn’t. That argument will have to wait for another article, but the point here is that massive central bank interventions that were thought to be impossible in the 20th century are now being implemented in the 21st, and they are being done by independent central banks controlled by an international banking cartel.

It is time to curb central bank independence. If their powerful tools are going to be put to work, it should be in the service of the public and the economy.

Ellen Brown developed her research skills as an attorney practicing civil litigation in Los Angeles. In *Web of Debt*, her latest book, she turns those skills to an analysis of the Federal Reserve and “the money trust.” She shows how this private cartel has usurped the power to create money from the people themselves, and how we the people can get it back.

Her earlier books focused on the pharmaceutical cartel that gets its power from “the money trust.” Her eleven books include *Forbidden Medicine*, *Nature’s Pharmacy* (co-authored with Dr. Lynne Walker), and *The Key to Ultimate Health* (co-authored with Dr. Richard Hansen). Her websites are www.webofdebt.com and www.ellenbrown.com and <http://PublicBankingInstitute.org>

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No doubt capital controls have allowed the Peoples' Bank to control the currency rate without the disadvantage of domestic currency speculation undermining it. A rising yuan will discourage the accumulation of foreign currencies, so if capital controls are to be lifted, it must be against that background.

If the gold price was to rise only moderately measured in dollars, it would continue to be good value in China, the world's largest consumer and savings market for physical gold. That is becoming a worst-case outcome for the price. However, the accumulation of record quantities of dollars in foreign hands is a similar condition that led to the suspension of the Bretton Woods Agreement in 1971, when foreign-owned dollars were being cashed in for gold. Following that dollar crisis, gold rose over twenty times. Only this time, it will be China driving up energy and commodity prices, not the OPEC cartel. Gold's price rise in dollars this time will depend on how the US handles its decline.

This is a market-based argument for the gold price to rise, and not an economic one. The economic case is there in spades as well, but that might be harder to explain to one's spouse.

Article by:
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The Outstanding Public Debt

National Debt:

21,311,114,770,227

The estimated population of the United States is 328,911,589

US citizen's share of this debt is \$65,914.00

The National Debt has continued to increase an average of \$3.8 billion per day

Business, Government, Financial and Unfunded Liabilities Debt exceeds \$100 Trillion

A Pound Of Cure

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Could you imagine the crisis such a policy might cause? Talk about easier said than done!

But perhaps the biggest challenge the Fed could face in trying to put the inflation genie back in her bottle would be the problems it would create for the Federal government.

The size of the rate hikes required to get in front of an accelerating inflation curve would cause the government's interest expense to surge catastrophically. Were this to happen during a recession (which such rate hikes could certainly precipitate), where already record-high budget deficits would be increasing, the fiscal shock could be devastating.

Not only could the recession be intensified by restrictive monetary policy, but it might force an even greater dose of restrictive fiscal policy. The government would be left with three unappealing choices to fight inflation: Raise taxes, cut spending or default on Treasuries. (Since none of these solutions would be politically palatable, we should not expect any serious effort to fight inflation.)

If any of these remedies were actually attempted, they could create a severe economic contraction that could usher in a financial crisis far worse than 2008. All the "too big to fail banks" that are now much bigger than they were a decade ago could fail again. But if the Fed were serious about fighting inflation, it could not deliver the bailouts offered last time. Even depositors of failed banks may lose money as the FDIC would lack the funding to make them whole. This is precisely why the Fed may be all bark and no bite when it comes to fighting inflation after it becomes a problem.

The establishment will no doubt take solace in the belief that a recession will put out the inflation fire even if the Fed can't. However, high inflation is historically associated with economic weakness, not strength.

If the next recession is accompanied by a falling dollar in the face of ballooning budget deficits, consumer prices could be expected to increase even as domestic demand falls. That is because domestic supply will fall faster as a collapsing dollar both chokes off imports and spurs exports. If the Fed ignores the inflation and instead accommodates those deficits with rate cuts and more QE, allowing the government to enact traditional Keynesian fiscal stimulus, the dollar decline may morph into a full-blown currency and sovereign debt crisis.

This will be checkmate for the Fed, and the end of a long road of can-kicking for the U.S. government. The long-playing music will have finally stopped, and the long-overdue day of reckoning will have finally arrived.

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