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Views and Analysis on the Economy and Precious Metals

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History Tells Us To Own Gold When Central Banks Run Out Of Control

Egon von Greyerz

"Extraordinary Popular Delusions and the Madness of Crowds" happen with regular intervals as Charles Mackay wrote about. It seems that the world experiences more delusions and madness than truth and sanity.

The pattern is always the same. The economy is never in equilibrium but moves in cycles of boom and bust. If these cycles were allowed to take their natural course, they would move up and down in a steady rhythm without reaching extremes at the top or bottom.

GOVERNMENTS' PRIME OBJECTIVE IS TO BE REELECTED BY BUYING VOTES

But human psychology and hunger for power prevent these natural cycles from taking place. Most leaders, whether they are kings or presidents, all have fear of failure combined with illusions of grandeur. As the economy peaks and the good times come to an end, they know that the best chance of not being ejected is for the good times to continue. Today's leaders' primary objective is to hang on to power by buying votes.

And how can they buy votes when the economy is turning down and the coffers are empty? Easy! You just print money out of thin air, as I discussed in my article a couple of weeks ago. The Romans did it, and so did the French, the Brits, Germans, Argentineans, and everyone else.

PRICES DON'T GO UP – VALUE OF MONEY GOES DOWN

Initially, when a country prints money to extend the prosperity, nobody notices that it is fake. After all, they are still called dollars or pounds. But gradually things become more expensive. The popular interpretation of increasing prices is calling it inflation. Nobody actually notices or understands that it is not prices going up but the value of the money going down as more and more which has zero value is issued.

THE LATEST PANIC STARTED IN AUGUST 2019

The current crisis started its acute phase back in August 2019. That's when the Fed and the ECB started to panic. Since then they have flooded markets with trillions of dollars and euros and still, the problems are not going away. But how can you solve a debt problem with more debt? I considered the Central Banks panic statements and actions back in August as an extremely critical moment and as important as Nixon closing the gold window in Aug 1971. I wrote back then that the **"world is now standing before a seminal moment and virtually nobody can see it."**

THE END GAME IS STARTING

The US and the world are now entering the end of the end of 50 years' destruction of the world economy and the

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How The Fed Gets Away With Ripping Off Ordinary Americans

Clint Siegner

The Federal Reserve has printed trillions of dollars without generating runaway price inflation through the use of a neat trick.

The privately owned bank cartel shovels the bulk of the money to Wall Street banks and not to the public at large. Instead of millions of Americans rushing out to bid up prices on consumer goods, a relative handful of bankers is using the free money to bid up asset prices and then pay themselves huge performance bonuses.

It's quite the racket. Fed officials have been able to point at stock prices as "proof" of how they successfully

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Also Inside This Issue:

Fed Chairman: "We're Not Even Thinking About Thinking About Raising Rates"

Mike Gleason

Market volatility has suddenly spiked in recent days came after the Federal Reserve vowed last Wednesday to keep its benchmark rate near zero through 2022.

That's an unusually long period for the Fed to be projecting rate policy. It reflects the fact that it will take many months and perhaps years for the tens of millions of jobs that were recently lost to return.

During his press conference, Chairman Powell stumbled and stammered his way into stating that he would be happy to let inflation continue to rise until the economy approaches full employment.

Jerome Powell: We'd be looking to get inflation back up and we'd be prepared to tolerate, uh, pretty low, welcome in fact, not tolerate, but welcome very low readings on unemployment, just based on what we saw in the last, uh, in the last expansion. So, um, we're not thinking about raising rates. We're not even thinking about thinking about raising rates.

So, what we're thinking about, is, providing, uh, support for this economy. We do think this is going to take some time. There are just a lot of people that are unemployed, and it seems quite likely that there'll be a significant group, uh, at the end of, even after a lot of strong job growth, that'll still be struggling to find jobs and we'll still be providing strong accommodation for that.

As is often the case, the stock market initially reacted one way to the Fed only to have second thoughts after a deeper reading of the central bank's policy stance. On the one hand, monetary planners are committed to being ultra-accommodative into 2022.

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engineered an economic recovery.

Wall Street is the true beneficiary of all the largesse and Main Street doesn't ask too many questions as long as the stock market is roaring higher.

Things have to be good, right?

Except now Americans noticing that Fed policy is horribly unfair. The distribution of recent stimulus funds from the Fed and Congress is so lopsided it's outrageous. Politicians printed and borrowed roughly $6 trillion - the equivalent of $30,000 for every adult in the US.

How much of that cash did people actually see? About $1,200 if they were eligible for assistance.

And since Congress borrowed 100% of those funds, Americans are expected to pay it back. They'll have to add it to their tab.

The pro-rata portion of the U.S. debt for each adult is already more than $110,000.

The trillions the Fed created were injected to buy Treasuries, lend into the repo markets and to make bond purchases. In theory, these funds will have to be paid back too. Since the Fed is never audited and doesn't have to provide detail on Fed loans, we have to take their word for it.

We aren't the only ones covering the ridiculous gap between what the Fed and Congress will spend to support bankers versus the rest of us. Wall Street on Parade has been watching the malfeasance for years.

The misnamed CARES Act passed by Congress in March authorized billions of dollars for small businesses. However, some of that was siphoned off by banks, including a New Jersey bank which collected $5.3 billion.

Larger, publicly traded companies with less need for emergency funding have also been cashing in on the program.

Bloomberg reports that two-thirds of the $3 trillion in stimulus money approved by

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financial system. So it has taken half a century to reach the end game but this is like a blink of an eyelid in the history of the world.

The US is now leading the world economy into a total breakdown of not just the financial system but also of trade and social structures. And still nobody can see it. Stock markets are near the all-time highs and the high-end residential property market is booming in and around several capital cities.

The US has all the ingredients that lead to the destruction of an empire: Deficits, debts, excessive military spending, debasement of the currency, breakdown of trade, plague, the collapse of law and order and riots. Two things are missing to complete the picture namely wars, and hyperinflation. Sadly both these factors are likely to occur in the coming years.

1971 marked the beginning of the end of the US Empire

Since 1971 the dollar has collapsed, deficits and debts exploded and social structures including law and order are breaking down. Like all empires, the US had the seeds of its own destruction within it.

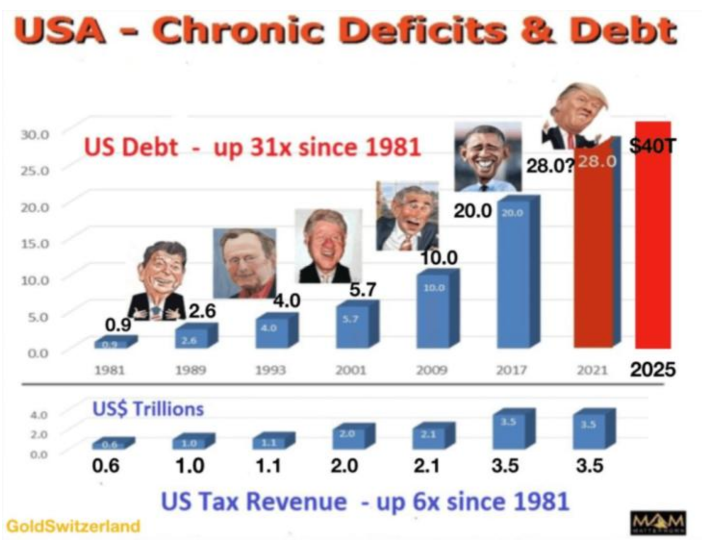
This is how they achieved it:

1. Spend more than you earn and PRINT, PRINT, PRINT

The US has skilfully done this since the early 1960s. Every single year since that time, US Federal debt has increased. Few people realise that the surpluses in the Clinton years were fake since debt continued to go up.

US federal debt in 1971 was $400B and today it is $26 trillion a 65x explosion.

I produced the debt chart below the first time at the end of 2017 when Trump was elected president. I forecast then that US debt would reach $28 trillion by 2021 and double by 2025 to $40 trillion. These massive debt increases seemed incredible at the time. But very few people study history and learn from the past.



Since 1981 US Federal debt has on average doubled every 8 years, without fail. Obama doubled debt during his reign from $10 to $20 trillion. Thus, it was totally in line with the history that the US debt would be $40 trillion 8 years later, in 2025.

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What Does The Great Disconnect Imply For Gold?

Arkadiusz Sieroń

It seems that global stock markets have disconnected from the fundamental reality.

They have been rising since the end of March despite the collapsing economies and soaring unemployment.

We invite you to read our today's article about the Great Disconnect and find out what does it imply for the gold prices.

It seems that global stock markets have disconnected from the fundamental reality. They have been rising since the end of March despite the collapsing economies and soaring unemployment.

Why? And what does it imply for the gold prices?

Let's start with the brief review of the economic reality, focusing on China, as the country offers a preview of what is likely to happen in the West a bit later.

In April, the industrial production grew 3.9 percent year-over-year, following the 1.1 percent decline in March, as the chart below shows.

This is very good news for China's economy. However, it might be too early to trump the full recovery.

As a reminder, the industrial production in December 2019, before the outbreak of the pandemic, rose 6.9 percent.

Chart 1: Industrial production in China from April 2019 to April 2020.

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Congress has been spent.

Those funds have been handed out with practically no oversight.

Fraud and mismanagement should be expected whenever Congress passes a massive spending program. If the spending program is rushed through with plenty of political cover, like the CARES act, it will be a bonanza for grifters, the special interests, and the well-connected.

Unfortunately, there isn't much that frustrated Americans can do about it. Almost everyone in Washington (in both parties) supports what Fed and Congress have done to "stimulate" the economy thus far.

The Federal Reserve itself is entirely unaccountable to the American people. Nobody votes for the bankers in charge there, and they don't have to tell anyone what they are doing in the markets from day to day.

There is no effective movement in Washington to restrain the central bank or limit borrowing and spending. If there ever was one, it vanished entirely over the past decade.

The outlook for sound monetary or fiscal reforms looks grim. The swindle will likely continue until frustration boils over into civil unrest or until confidence in the dollar collapses.

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https://www.moneymetals.com

Fed Chairman: "We're Not Even Thinking About Thinking About Raising Rates"

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On the other hand, they seem convinced that the recovery will be slow – and are likely worried about another devastating wave of coronavirus infections.

Some parts of the country are experiencing a rise in reported COVID-19 cases right now. However, that is due in large part to a massive increase in testing.

Alarmists had predicted a spike in deaths as a result of beaches and swimming pools reopening. But that does not appear to be happening.

When Georgia became the first state to reopen a few weeks ago in defiance of the federal government's guidelines, the media warned it would be catastrophic. And yet Georgia seems to be faring no worse than states that remained locked down.

We will see in the days ahead if illegal protesting and rioting in major cities across the country translates into a surge in coronavirus hospitalizations.

The demonstrations which were initially sparked by outrage over police brutality are now taking on the character of a Maoist cultural revolution. The mob demands we all kneel before it in submission, issue ritualistic apologies for any transgressions against its orthodoxy, and demonstrate our commitment to the cultural revolution by agreeing that we need to erase our history in the name of progress.

A full-scale war on history is being waged on statues, monuments, street names, military bases, and even classic movies such as *Gone with the Wind*. The vandals want us to forget who and what came before us to make us who we are today.

Strangely, corporate America seems to be fully on board with this revolution and is providing hundreds of millions of dollars in funding for it. Big Business is going all-in for globalism and a digital future that breaks down traditional mom-and-pop business practices.

It's in the interest of banks and tech giants to redirect people's anger away from their own financial plight in this new economy. These companies together are worth trillions of dollars thanks in part to the unlimited digital printing press of the Federal Reserve and the lack of a sound money standard.

Of course, there was a time when U.S. currency explicitly stated it was redeemable in precious metal.

It's a history most people today know little about. Those who were around as recently as 1963 may remember when paper dollars were also silver certificates – redeemable in silver coins.

Most politicians, bankers, and business titans today quite prefer digital dollars redeemable in nothing. They would prefer the public to not be tangibly connected to its history.

There is a war on cash and a war on history being waged in this country. They go hand in hand.

If politically incorrect historical landmarks aren't allowed to exist, then the past can't speak to us directly anymore. Every generation will want to apply some new politically correct filter for determining whose history can stand. Some historical figures will be demonized for their words and actions. Others will be dismissed as no longer relevant, their ideas obsolete for modern times.

Similar attacks were launched on gold and silver to shift America's monetary system to a purely fiat one. Gold is outmoded, they said. It's been rendered useless in the modern economy. It's a "barbarous relic"…and so on.

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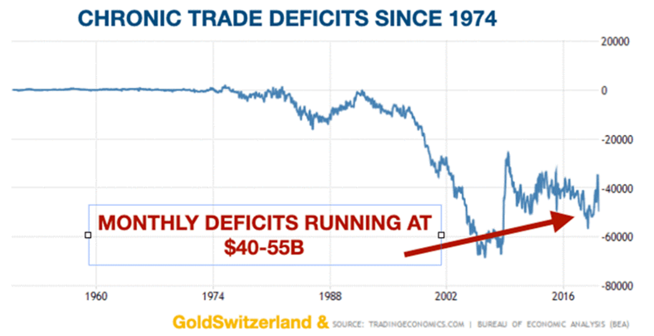
When I made this forecast I assumed that we would see a breakdown of the financial system starting in the 2020s. So **history teaches us a lot more about the world than any economist or other forecaster ever understands.**

The US debt is now at $26T and is very likely to reach more than $28T by the end of the calendar year and $40T by 2025. The projections of the Congressional Budget Office (CRB) and the Committee for a Responsible Federal Budget (CRFB) also confirm that these debt levels are not unlikely.

If we get a real crisis in the economy and the financial system, we could be looking at much higher figures.

2. Import more than you export

Since 1974, the US has had a balance of trade deficit every year. As the graph below shows, the deficit has grown exponentially. In this century it has been running between $20B and $65B monthly and is currently running at $50B.



Half a century of every year importing more than you export is only possible with the assistance of the printing press combined with constant credit expansion.

3. Make the currency worthless

No fiat currency has survived in history. There have been periods when various currencies were backed by gold or silver. This stops governments from spending what they haven't got. That was the dilemma Nixon had. After many years of the costly Vietnam war in the 1960s, President de Gaulle saw where America was heading and asked the US for payment of their debts to France in gold.

Gold backing of the currency prevents countries from spending money they haven't got. Every time a nation has dropped the gold or silver standard, it has led to a destruction of the currency.

With deficits and debts rising fast, the US would have run out of gold and Nixon had no intention to balance the budget by cutting expenses. **Much easier than to close the gold window and open the printing press which he did on 15 August 1971. And that was the beginning of the end of the US empire and the global currency system.**

After Nixon's fatal decision, The People's Daily in China wrote:

"These unpopular measures reflect the seriousness of the US economic crisis and the decay and decline of the entire capitalist system."

The paper went on:

"mark the collapse of the capitalist monetary system with the US dollar as its prop"…. "Nixon's new economic policy cannot extricate the US from financial and economic crisis."

The Chinese saw the consequences of the US actions already 50 years ago and the whilst the rest of the world is about to find out soon.

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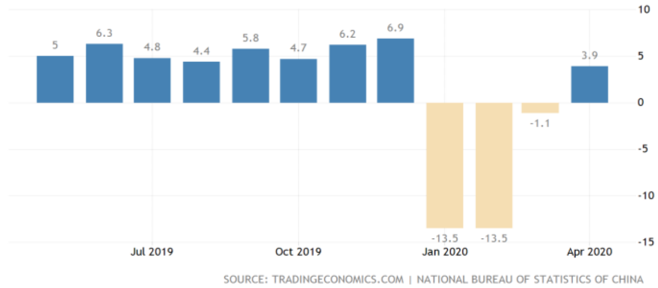


And the domestic demand remains very weak: the retail sales in China dropped 7.5 percent in April from a year earlier. Moreover, investment fell 10.3 percent in the January-April period on an annual basis, a modest improvement from the 16.1 percent drop posted in the first three months of the year, but still a negative growth below expectations.

The official unemployment rate reached 6 percent, up from 5.9 percent in March and just shy of February's record of 6.2 percent. Of course, the true unemployment rate is likely twice as much as the official rate does not include people in rural communities and migrant workers. And remember that the global economy is expected to contract 3 percent in 2020, so this decline will negatively hit China, which is the world's factory.

And there are also significant downside risks on the way to full normalization, with the risk of the second wave of the coronavirus and resulting reemergence of lockdowns being the most important threat for the steady economic recovery. Actually, this is actually materializing right now. According to the Bloomberg News, more than 100 million people in China's northeast region, Jilin province, are once again under lockdown restrictions after new cases of COVID-19 have recently emerged.

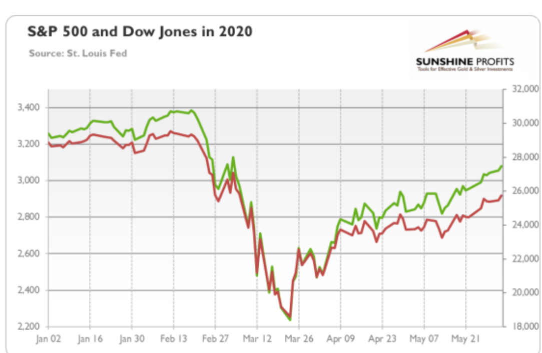
The situation might be even worse, as the Financial Times' China Economic Activity Index in mid-May was still below 80, where 100 is level seen on January 1, 2020. Many of its sub-indices, such as coal consumption, air pollution, container freight or box office numbers, remain subdued.

The conclusion is clear: China – and Western countries as well – can forget about the V-shaped recovery, as we have long ago warned. Instead, we could see a U-shaped recovery, which is deeper and more prolonged, or even a L-shaped recovery, which is even slower, although it might be too pessimistic a forecast. Or, there might be actually a mix of V, U, and L: in some industries the recovery will be quicker, while in certain industries – think airlines – it will be slower. Another possibility is that the recovery will look like W, i.e., there will be a rebound in one or two quarters, followed by another dip because of the second wave of epidemic.

The W-shaped recovery seems to be the most positive scenario for the gold market, as the second wave of injections would imply renewed worries and shaky economy. The slow recovery – U-shaped or L-shaped – will be better for the yellow metal than V-shaped, but they would not have to cause q rally in gold. After all, in the aftermath of the Great Recession, the recovery was very sluggish, but gold entered the bear market in 2011.

However, the performance of the global equity markets suggests that investors are rather optimistic about the future, at least this is the popular interpretation. Despite rising COVID-19 infections and deaths and the Great Lockdown despite the collapsing economy and skyrocketing unemployment, the S&P Index has been rising since March 23, as the chart below shows. We know that the stock market is not the real economy and that stock markets are forward-looking and do not want to fight the Fed, but the disconnect is troubling. After all, Mr. Market is not always correct – for example, it overlooked the risk of Covid-19 pandemic.

Chart 2: S&P 500 Index (green line, left axis) and Dow Jones (red line, right axis) from January 2 to June 2, 2020



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Since 1971, the dollar and all major currencies have fallen 97-99% in real terms.

Real terms means measured in gold which is the only stable currency in history.

THE CURRENCY RACE TO THE BOTTOM

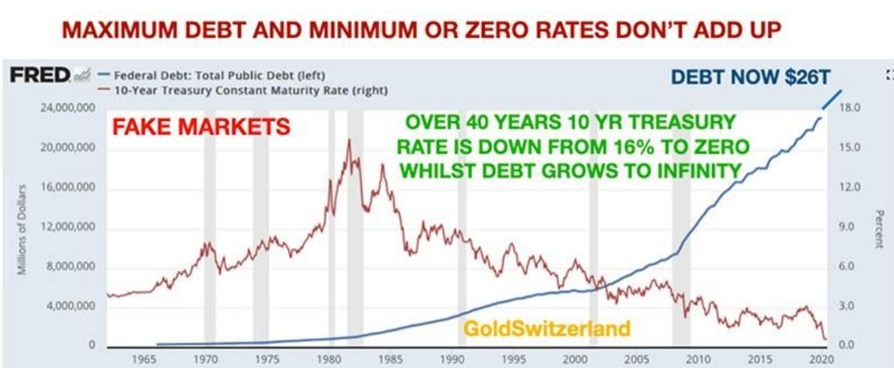
GOLD PER OZ	1971	2000	2020	DROP IN CURRENCY 2000-2020	DROP IN CURRENCY 1971-2020
USA	USD 35	USD 288	USD 1685	83%	98%
UK	GBP 15	GBP 177	GBP 1358	87%	99%
GERMANY/EUR	EUR 65	EUR 286	EUR 1551	82%	95%
SWITZERLAND	CHF 148	CHF 458	CHF 1639	72%	90%
SWEDEN	SEK 182	SEK 2448	SEK 16770	85%	99%
CANADA	CAD 35	CAD 417	CAD 2368	82%	98%
AUSTRALIA	AUD 31	AUD 438	AUD 2673	84%	99%
JAPAN	JPY 12K	JPY 31K	JPY 184k	83%	92%
ARGENTINA		ARS 288	ARS 89k	99.99%	
VENEZUELA		VEF 180	VEF 377M	99.99%	GoldSwitzerland

4. Manipulate all markets

It is not possible to have chronic debts and deficits for half a century without total manipulation of all markets. The US government and the Fed have skilfully intervened in all financial markets be it stocks, bonds, interest rates currencies, derivatives or gold and silver.

The result of this is that there are no real markets today and no real prices. It is a casino in which the government with the assistance of the Fed and their banker friends control virtually all trading and prices.

If we just look at interest rates, it is a perfect example of false markets.



In a market governed by supply and demand, the gap between interest and debt in the chart above would not exist. High demand for debt would automatically push the cost of debt up. But the laws of nature have temporarily been suspended by the Fed and the US government. **Since they can create an unlimited supply of fake money, they can simultaneously set the cost of this money at zero. And as the money is worth nothing, it is self-evident that it should cost nothing to borrow.**

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But the rising S&P 500 Index does not have indicate strong recovery on the horizon. This is because the rebound in the S&P500 was driven by selected few companies, i.e., Microsoft, Apple, Amazon, Alphabet, and Facebook – the relative winners during the Great Lockdown that forced people to shift into the online world. Moreover, the behavior of cyclical commodities and bond yields suggest rather weak recovery.

What does it mean? Well, the fundamental outlook does not bode well for equity markets. Given the expected decline in the GDP, the earnings per share for companies listed on the S&P500 will likely fall by 10-20 percent versus expectations from the beginning of 2020. So, the stock market capitalization from end of May of about 3,000 implies the P/E is higher than before the pandemic! Maybe we should believe more in the collective wisdom of the crowds, but today's equity valuations appear to be at odds with the fundamental reality. The selected few companies will not drive the broad market forever.

We do not say that the stock market crash is imminent, but rather that at least a correction might happen, which could be positive for the gold prices, although the initial downward move could pull the yellow metal down. In other words, investing in the stock market seems to be risky right now given that the V-shaped recovery is unlikely and given elevated equity valuations, so adding gold, which is good portfolio's diversifier, to the portfolio might be a smart move.

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June 15, 2020
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Fed Chairman: “We’re Not Even Thinking About Thinking About Raising Rates”

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This is what central bankers and their ideological allies want us to believe. But if gold were truly obsolete as a monetary asset, then central banks would sell all their gold reserves. They certainly wouldn’t be buying.

But in recent years central banks have been accumulating gold in increasing quantities. And for good reason.

Gold’s history as money spans far longer than the timeline of any fiat currency. Gold’s history gives people confidence in its future as a store of value.

Yes, history still matters. Those who fail to learn its lessons will be caught completely unprepared when history repeats itself and the U.S. dollar plunges toward worthlessness – just like all the other fiat currencies that have come before it.

Article by:
Mike Gleason
June 15, 2020
https://www.moneymetals.com

The Outstanding Public Debt

National Debt:
26,504,487,622,278
The estimated population of the United States is **329,897,779**
US citizen's share of this debt is
$80,323.00
The National Debt has continued to increase an average of
$2.39 billion per day
Business, Government, Financial and Unfunded Liabilities Debt exceeds
$100 Trillion

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But what most people don’t understand is that most assets they buy with the fake money has very little intrinsic value, whether it is stocks, bonds or property. **In the coming collapse of the Everything Bubble investors will have a very rude awakening as all these bubble assets decline 90-100% in real terms.**

MARKETS

Stocks are showing the normal high volatility before the next crash which is imminent. The coming secular bear market will shock the world.

Gold & Silver

The LBMA (London Bullion Market Association) has just published an article in the Alchemist by my good friend Charlie Morris. Charlie makes a very credible case for $7,000 gold by 2030.

The only point I would raise regarding his forecast is if it will really take 10 years to reach that level. I doubt it myself.

In the next few years, the world will learn that the printing of money can never create prosperity. That is the time when the masses will turn to gold and silver. At that point, there will be virtually no physical precious metals to buy at any price.

History tells us that it is imperative to own gold when central banks run out of control.

The few who will be lucky enough to find some gold and silver then will need to pay multiples of current prices.

“The desire of gold is not for gold. It is for the means of freedom and benefit.”
— Ralph Waldo Emerson

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