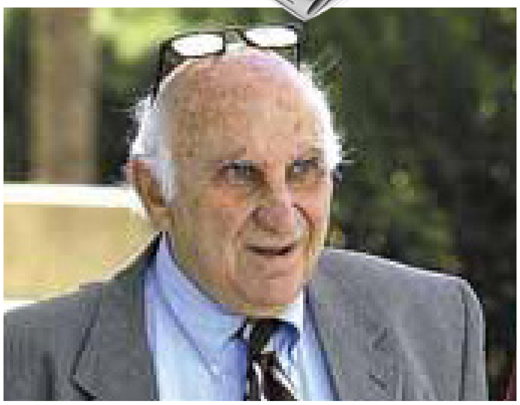
BULLIONBUZZ

April 22, 2015



"All of the government's monetary, economic and political power, as well as its extensive propaganda machinery, will be enlisted in a constant battle to drive down the price of gold - but in the absence of any fundamental change in the nation's monetary, fiscal, and economic direction, simply regard any major retreat in the price of gold as an unexpected buying opportunity."

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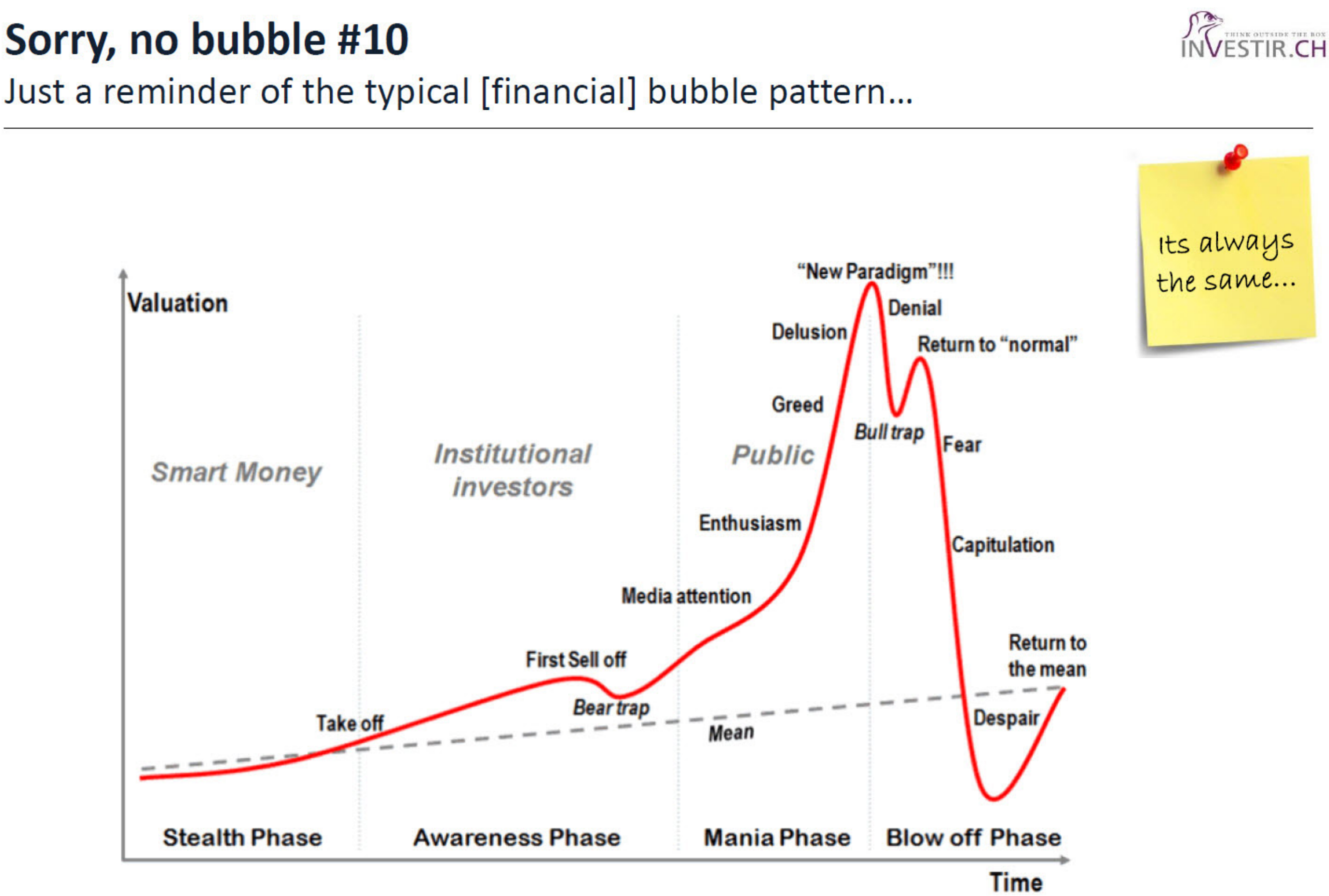
Irwin A. Schiff

Chart of the Week



Enlarge Chart

Video of the Week

The Golden Truth DOLLAR COLLAPSE "2015" Jim Rickards

GOLD

Gold Is (Once Again) Money

by James Rickards

Investors face a challenge in deciding what role gold should play in their portfolios. Few understand that gold is not really an investment – it is money. And money is a good place to start if you want a portfolio that preserves wealth.

Throughout 2014, the gold price closely tracked the commodity index. The trend was downward, which reflected the strong deflationary trends that took hold last year. But in November, this correlation broke down and gold began to diverge sharply from the overall index.

Another significant development in gold late last year: The pace of gold shipments out of the New York Fed increased sharply in October and November. Over 90 tons of gold were shipped out to their rightful owners abroad in those two months alone.

That was more than half the total amount of gold shipped out for the entire year. Prior to 2012, almost no gold had been shipped from the Fed since the 1970s.

It seems that suddenly late last year, gold stopped trading like an investment or a commodity and started behaving like what it has always been — money.

Only three major assets went up strongly in the past six months: US dollars, Swiss francs and gold. Investors are moving to safe havens, and dollars, gold and Swiss francs are at the top of the list.
However, something else may be going on. Russian and Chinese gold acquisition programs, under way for years, have now passed the point that Russia and

China need to have a seat at the table in any new international monetary conference.

Both countries have caught up to the US in terms of the all-important gold-to-GDP ratio. Yet massive gold acquisitions by Russia and China continue. Can something else be going on?

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INVESTMENT

The Global Liquidity Squeeze Has Begun

By Michael Snyder

Today, the global financial system resembles a colossal spiral of debt. Almost all economic activity involves the flow of credit in some way, and so the only way to have economic 'growth' is to introduce even more debt into the system.

In 2008, global authorities responded to the financial crisis by pumping up this debt spiral. Since then, the total amount of global debt has risen by $35 trillion. Unfortunately, any system based on debt is going to break down eventually, and there are signs that it is happening again.

The IMF has warned regulators to prepare for a global liquidity shock; Chinese authorities have announced a ban on certain types of financing for margin trades on over-the-counter stocks; and in Europe, preparations are being made for a Greek debt default and a 'Grexit.' In addition, the biggest spike in credit application rejections ever recorded in the US has just occurred. All of these are signs that credit conditions are tightening, and once a liquidity squeeze begins, it can create a lot of fear.

Snyder discusses why the Chinese stock market has exploded upward even as the overall Chinese economy has started to slow down; the Greek debt crisis; disappointing earnings reports in the US; and the difficulty that Americans are having in meeting their financial obligations.

The bottom line is that we are starting to see the early phases of a liquidity squeeze. The flow of credit is going to get tighter, and that means that global economic activity is going to slow down. This happened during the 2008 financial crisis, and in the next one, the credit crunch is going to be even worse.

This is why it is so important to have an emergency fund. During this type of crisis, you may have to be your own source of liquidity. At a time when it seems like nobody has any cash, those that do have some will be way ahead of the game.

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So Why Are the Banks Lagging?

By David Chapman

The US banking sector is demonstrating considerable weakness; it has failed to keep up with the broader market. Like the broader market, the banking sector has been showing signs of distribution against the backdrop of extreme complacency. There are numerous global debt risks that could result in another major debt collapse and banking crisis, similar to that of 2008. The junk bond to US Treasuries spread has been rising, a sign that credit conditions are weakening. A crisis often starts with a trigger, and there are plenty in the global financial picture. But it could come from elsewhere, such as the deteriorating global geopolitical situation where a mistake or an accident could spark a confrontation between the major powers.

Given current circumstances, bank stocks should be one of the strongest sectors on the NYSE. But the PHLX KBW Bank Index suggests that is not the case. The Index remains well below its 2008 highs. Over the past two years, it has traded sideways as the internal indicators weaken. This suggests that the Index could be poised for a fall, and that a financial crisis is on the cards.

The banks are lagging for good reason. Stringent new capital requirements set by the BIS have forced many banking institutions, especially in Europe and Asia, to shore up their capital. As well, banks are regularly subjected to stress tests to see if they have enough capital to withstand a financial collapse on the scale of what happened in 2008. The regulatory environment remains weak, as the banking institutions have fought oversight.

Chapman discusses previous financial crises; the global debt to GDP ratio; Greece and Ukraine on the verge of sovereign default; leveraging since 2008; household debt; the Chinese economy; pinpointing the timing of a financial crisis; and the estimated $278 trillion of derivatives held by just six large US financial institutions.

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The Mother of All Margin Calls!

By Bill Holter

Reverse Repurchase Agreements (RRPs) held at the Fed are spiking. This is important, because RRPs may be allowing the Fed to hide losses from derivatives.

The derivatives market is a zero-sum game with a winner and a loser. Sometimes the loser is so badly affected that they become insolvent and cannot pay the winner, making all parties losers. If the derivatives chain breaks, it creates a domino effect both upstream and downstream, causing the entire credit system to lock up.

RRPs allow the Fed to put collateral into the system that is lent out over and over (rehypothecated) many times, and is pledged as collateral by the loser in derivatives trades. Thus the system continues unbroken, because the collateral is put up to meet the margin calls.

Holter has wondered why no one ever admits to any large losses, when in fact there have to be losses well into the trillions. Because if there is almost $10 trillion in dollar derivatives outstanding, a 30% move means someone won and someone else lost about $3 trillion. How many firms could lose even 5% of this and remain solvent? And this is just dollars, not oil, interest rates, equities, iron, copper, gold or anything else.

The buildup of RRPs over the last year or so is likely how margin calls have been met and losses hidden. Under the rule of law, if the Fed knows this, it is a criminal act. If they are doing business with bankrupt institutions, that they know or should know are bankrupt, the Fed is breaking all banking laws on the planet.

Holter's charts say that something big has changed, and been changing for over a year. They prove beyond any doubt that stress of some sort has been and is building up somewhere. The stress is now multiples of what we saw in late 2008 when we were only hours from the system seizing up in a giant meltdown.

When this era is looked at in hindsight, it will all be about counterparty risk. What has no counterparty risk? Gold.

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THE ECONOMY

Looming Greek 'Crunch' Threatens Fresh Global Crisis, Warns Osborne

By Ambrose Evans-Pritchard

George Osborne, Britain's Chancellor of the Exchequer, says the escalating crisis in Greece is now the biggest threat to the world. The 'crunch,' he says, appears to be coming in May.

The warnings came as Greek finance minister Yanis Varoufakis prepared to meet the US Treasury Secretary to explore a possible last-minute compromise before Greece runs out of funds.

The Greek government doesn't have enough money to meet the next €1.7 billion bill for salaries and pensions later this month, and faces an almost €1 billion IMF bill in early May. It is scrambling to find bridging finance, eyeing pensions and the holdings of state-owned companies at the central bank.

Greece has been redeeming its debts for the last few months using its own scarce liquidity. Varoufakis says that the country was the victim of 'liquidity asphyxiation' by powerful forces in the Eurozone that were intent on bringing the left-wing Syriza government to its knees.

Jeroen Dijsselbloem, head of the Euro's finance ministers, said the Greek government had shown naivety in their negotiations with creditors. Christine Lagarde said no developed country had ever missed payments to the IMF, and that it would morally indefensible for a relatively rich nation such as Greece to default to the international community.

Mr. Osborne seems to blame Eurozone authorities and creditors as much as Greece for the failure to end the impasse. He also confirmed that Greece doesn't view the IMF as the main antagonist, and that Syriza is more likely to target any default against EMU creditors, if it can get over the immediate hurdle of payments to the Fund.

Following a meeting with ECB president Mario Draghi last week, Varoufakis said the Italian wanted 'a swift resolution soon to help Greece grow.'

However, some view a lapse into temporary arrears on the next IMF payment as a way of sending a powerful warning shot for the whole machinery of creditor power known as the Troika.

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Forget the Snow, Its' the Drought that is Crushing the US Economy

By Tyler Durden

With all eyes and talking heads focused on the weather, it seems that cold, wet, snowy, and frigid are the most GDP-destructive adjectives. However, the drought out west is starting to infiltrate US housing data, according to the chief economist of a homebuilders' group, and is weakening a major part of the nation's economy.

Bloomberg reports that starts in the West fell for a third straight month, dropping by 19% in March to an annualized rate of 201,000 for the weakest since May. Construction rebounded from harsh winter weather in other parts of the country, such as the northeast, where they jumped a record 115%, and the midwest.

Weakness in the west might reflect the record-setting drought, which may be discouraging companies from building or taking out permits for new construction, said David Crowe of the National Association of Home Builders. Uncertainty surrounding local water policy and the ability to obtain water connections for new homes or apartment buildings could be holding some builders back, he said.

And it's not just California. About 21% of the contiguous US fell in the 'moderate' to 'extreme' drought categories at the end of March, according to the Palmer Drought Index.

States such as California, Nevada and Wyoming were experiencing extreme drought in some or all of their boundaries last month, according to the National Climatic Data Center.

Of course, this weakness is transitory, just like the multi-decade drought that is being forecast, but analysts are ever hopeful. According to Patrick Newport and Stephanie Karol, US economists at IHS Global Insight, "When it comes to new-home construction, the stage is set for strength in the second quarter."

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