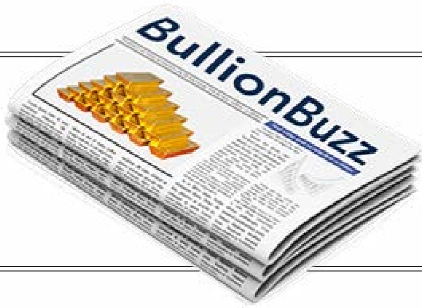


BULLIONBUZZ

May 6, 2015

"All currencies, not only the American dollar but all currencies, always go down, mainly because of democracy. The voters will vote for a person who is going to spend too much. And so you have to expect all currencies to go down. And just recently, America has started to spend too much and the currency has already gone down a lot. But other nations now realize that and they don't want to lose out to America. So they make their money go down, too."

~ Sir John Templeton

Chart of the Week

NYSE Margin Debt and the S&P 500
Real Values (Adjusted to Present-Day Dollars)

dshort.com
May 2015

Recessions — NYSE Margin Debt — S&P 500

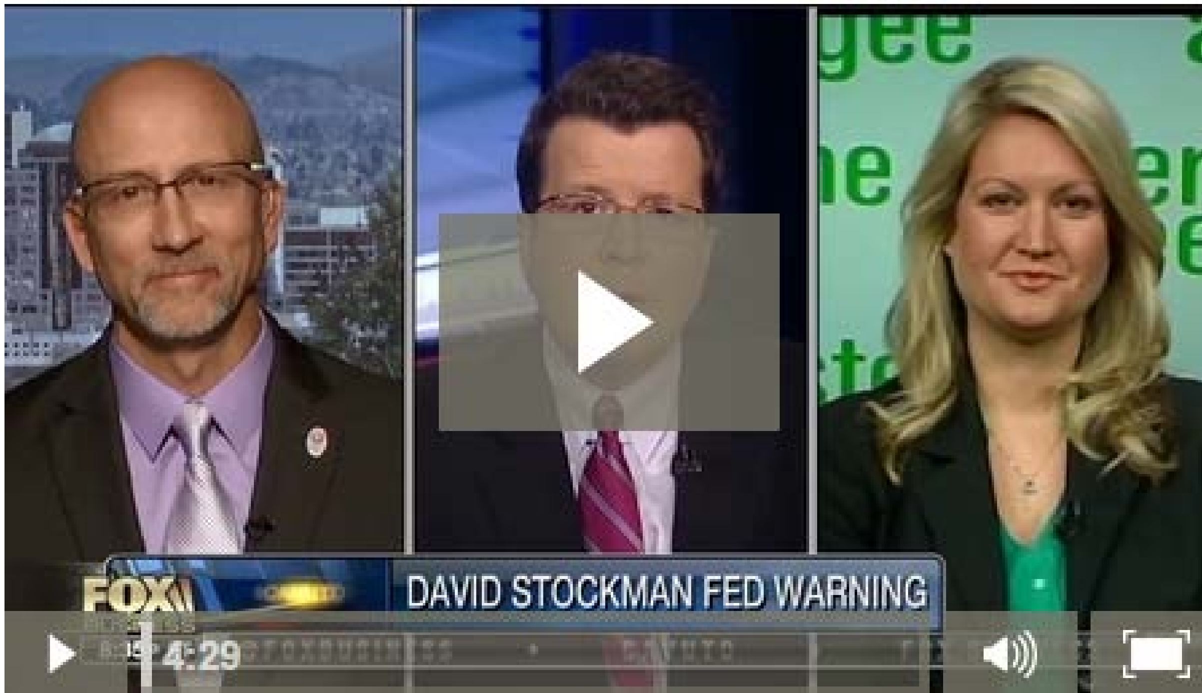
Billions (Inverted)

Data Through March 2015

The above chart shows the relationship between margin debt and the S&P 500 and is enhanced by the visual impact of inverting the margin debt axis. As presented here, a downward sloping red line means margin debt is increasing. So when the two lines diverge, that means stock prices and margin debt are both rising.

Source

Video of the Week



The Fed Has Turned Wall Street into a Raging Casino — David Stockman

GOLD

What Happens To Gold When the Yuan-Renminbi Floats Free of the Dollar?

by Lawrence Williams

To become part of the IMF's Special Drawing Rights basket, China will almost certainly have to unpeg its currency from the US dollar. A massive increase in its gold reserves may be an integral part of this process.

China now holds gold reserves in excess of the 1,054 tonnes it has reported since 2009. Those reserves plus the possible inclusion of the yuan in a revised SDR and the unpegging of the yuan from the dollar are all inextricably linked.

The IMF is meeting in May to discuss revisions to the composition of the SDR. A second meeting will be held in October to will confirm any changes, and the revised SDR basket will come into operation in January 2016. If the yuan is to form part of the new SDR, the announcement of its unpegging from the dollar would likely take place prior to the October announcement.

The Chinese believe that even a partial gold backing of the yuan will enhance the global financial credibility of its currency. Its inclusion in the SDR would be a part of this and, with the size of its economy set to overtake that of the US, its unpegging from the dollar would further improve its global convertibility and help make it a de facto reserve currency. If all this falls into place, then January 1, 2016, will be the beginning of the end for US global financial hegemony.

Any announcement of an increase in China's gold holdings would affect the gold price. Once China has built its gold reserve to the required level, it would have no interest in helping to maintain a depressed gold price; indeed it may prefer higher prices, and could utilize its huge Forex reserves to cement its global position in this respect.

As an economy with enormous foreign exchange reserves, China can certainly follow such a path. With a rapidly growing middle class that has been encouraged to invest in precious metals, a steadily rising gold price to help keep this key part of its population content might be very much in its best interests.

One can't help but believe that this path has been in the thoughts of its leadership, and could soon be coming to reality.

Source

INVESTMENT

Think Different About Purchasing Power

By Keith Weiner

The dollar is always losing value. To measure the decline, people use the Consumer Price Index (CPI), or ShadowStats, or Billion Prices Project. These measure a basket of goods, and the annual changes in price.

However, companies are constantly cutting costs. If dollar prices are rising, it's despite this relentless increase in efficiency.

We need an accurate way to measure monetary debasement. For example, in retirement planning it's tempting to divide your net worth by the cost of consumer goods. This seems to show your purchasing power.

However, this approach is flawed. Before there was lending or banking, people had to set aside some of their income to buy durable goods like salt or silver—hoarding. When they could no longer work, they sold a little bit every week to buy food—dishoarding. People accumulated wealth while working, and spent it in retirement.

Things got better with the advent of lending, because interest enables people to live on the income generated by their savings. People no longer consumed their principal while worrying about outliving their savings.

But capital assets shouldn't be something to sell in order to eat. As the old saying goes, if you give a man a fish he eats for a day, but if you teach a man to fish he eats for a lifetime. Think of a productive asset like a fishery. It should produce for a lifetime. It should not be consumed.

Capital assets should be valued in terms of how many groceries they can buy, not by liquidation. Unfortunately, monetary policy is making this increasingly difficult. Interest rates have been falling for decades, and now there's scant yield to be had anywhere. We are regressing to paying for retirement by dishoarding.

CPI understates monetary debasement because companies are constantly becoming more efficient. Dividing wealth by CPI compounds the error, because asset prices are rising.

Weiner believes we need a different way of looking at monetary debasement. He proposes Yield Purchasing Power, or looking at the productivity of assets to see what you can really afford. A chart shows the staggering monetary devaluation, and tells us that the problem isn't skyrocketing prices, but collapsing yields.

Source

ECONOMY

Negative Interest Rates Put World on Course for Biggest Default in History

By Jeremy Warner

More than 30% of all government debt in the Eurozone – around €2 trillion of securities in total – is trading on a negative interest rate. It's a bubble that is bound to end badly.

With the advent of European Central Bank quantitative easing, what began four months ago when 10-year Swiss yields turned negative for the first time has snowballed into an avalanche of negative rates across European government bond markets. In the hunt for safe assets, investors have thrown caution to the wind, and are collectively determined to pay governments for the privilege of lending to them.

The flip side of the cheap money story is soaring asset prices. The bond market bubble is only half of it; since most other assets are priced relative to bonds, just about everything else has been going up as well. Eventually, there will be a massive correction, in which creditors will suffer sickening losses.

We are living in an extend-and-pretend world in which economies fight between themselves for any scraps of demand. One burst of money printing is met by another in an ultimately futile, zero-sum game of competitive currency devaluation. As if on cue, we

have another soft patch in the British and American economic recoveries, with first-quarter growth weaker than expected. Like a constantly receding horizon, the point at which interest rates begin to rise is pushed ever further into the future.

Both Keynesian and monetary economics seem to be in some kind of end game. What comes next is anyone's guess.

Source

Greek Exit 'Would Leave Western Alliance in Chaos'

By Szu Ping Chan

A Greek exit from the Eurozone would throw the bloc into chaos and put the "whole cohesion of the western alliance in doubt" according to Hung Tran, a key figure in the country's private sector debt restructuring.

While banks have reduced their exposure to Greece, investors are being too complacent about the implications of a Greek exit, which could have far-reaching political ramifications and amplify the polarization between the Eurozone's core and periphery.

Tran said he is optimistic that Greece will remain in the 19-nation bloc. However, he stressed that if the country was forced out of the euro, the consequences would be complex and are currently not fully understood.

Tran said the ECB's €60 billion per month QE program had helped to create a false sense of security with respect to a spillover from the Greek crisis, while pushing down borrowing costs across Europe.

A Greek exit would only serve to amplify the polarization we have already seen in Europe. Greece has been at loggerheads with European creditors over reforms needed to unlock bailout funds and relieve the country's cash crunch.

The government is due to repay €200 million to the IMF this week, but has refused demands to reverse plans to raise the minimum wage and implement further cuts to pensions. A €750 million payment due later this month could push the country closer to default and exit.

While Alexis Tsipras, Greece's prime minister, has denied asking for financial aid from Russia, there has been speculation that Athens would seek help from Moscow to ease the country's debt crisis, and to counter pressure from its creditors in the EU.

Russian President Vladimir Putin has said he would consider loans to Greece for joint projects in the energy sector. He has denied that Russia would use Greece to drive a wedge between EU members.

Source

The War On Cash: Australia Leads the New Age of Economic Totalitarianism

By Martin Armstrong

With Australia about to become the first country to introduce a compulsory tax on savings, it is time for people to start changing the game plan while there is still a game in play. "We have to stop this confiscation of all wealth and the continual borrowing and taxation. This will lead to the total destruction of Western culture for we are plagued by power hungry insane politicians who cannot see past their nose."

Australia's new compulsory tax grab is set out in the 2015 budget: everyone who has any savings must pay taxes on those savings. The measure is expected to serve as a global test balloon, because Europe and North America will be watching the outcome closely. If there is no massive resistance by Australian savers, the rest of the world should expect this outright confiscation to arrive on their doorsteps in short order.

For the banks, the government's plans are anything but good news, since the tax on savings is likely to result in massive withdrawals of cash. Australians would be well advised to withdraw their money and buy tangible assets like gold, and store it anywhere but in a bank.

The IMF's Christine Lagarde has led the battle to impose French socialism/communism upon the entire world. It was the French elite who sold the idea of communism to Marx – not the other way around.

Now the French elite has control of the IMF, and they have pushed for other global financial institutions to require such a compulsory levy, because they see it as the only way to resolve the debt crisis – just confiscate the people's money.

Source

US Jobs Relapse Raises Fresh Doubts on Fed Tightening

Ambrose Evans-Pritchard

A key indicator of manufacturing jobs in the US, the Institute for Supply Management's index, has dropped to its lowest level since the financial crisis as industry lags.

This weak data greatly reduces any likelihood the Fed will raise rates in June, once again delaying the turning point in the global monetary cycle and perhaps offering a reprieve for dollar debtors across the world.

The employment component dropped sharply to 48.3, below the boom-bust line of 50, and the lowest in almost 6 years. Overall manufacturing output failed to pick up as expected, remaining at a 2-year low of 51.5, and looks too weak to power a full recovery in the second quarter.

There is now a clear risk that the US economy may slow to stall speed under the Fed's model, defined as a 'slow-growth phase at the end of expansions before falling into a recession.'

This would be ominous, since the world hasn't yet shaken off the legacy of the Lehman crisis, is struggling with record debt ratios and has already used up most of its fiscal and monetary ammunition. This time the BRIC nations are also in trouble, and cannot step into the breach with fresh stimulus.

The Fed is caught in a bind; QE in Europe has created a huge gap in yield differentials, driving funds into the US debt markets and driving up the dollar. Any Fed tightening could make matters worse.

The weak jobs data will revive the argument over how strong the US labour market really is. Although unemployment is falling, wages haven't picked up. Huge numbers of people dropped out of the workforce after the financial crisis, and have yet to be drawn back into the system.

The futures markets have now pushed out the first rate rise to September. Citigroup doubts that there will be any action until December.

The crucial confirmation either way will come next week with the release of non-farm payroll data. If the jobs market fails to recover yet again, it will be impossible to keep blaming the relapse on the weather.

Source

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