Certified Gold Exchange, Inc.

Views and Analysis on the Economy and Precious Metals

ORE-VISION

A QUARTERLY NEWSLETTER

1st QTR 2016

VOLUME 32, NO.1

# Ron Paul Says To Watch The Petrodollar

**Nick Giambruno**

The chaos that one day will ensue from our 35-year experiment with worldwide fiat money will require a return to money of real value. We will know that day is approaching when oil-producing countries demand gold, or its equivalent, for their oil rather than dollars or euros. The sooner the better. - Ron Paul

Ron Paul is calling for the end of the petrodollar system. This system is one of the main reasons the U.S. dollar is the world's premier reserve currency.

Essentially, Paul is saying that understanding the petrodollar system and the forces affecting it is **the best way to predict when the U.S. dollar will collapse**.

Paul and I discussed this extensively at one of the Casey Research Summits. He told me he stands by his assessment.

Continued on page 3

# Chronicle Of A Debt Foretold

**John Rubino**

Critics of today's fiat currency/fractional reserve banking world have (for what seems like forever) made the common sense point that when debt rises faster than cash flow, bad things are bound to happen. In every cycle since 1980 this has been dismissed by the vast majority who benefit from inflating bubbles -- until the bubble bursts.

Continued on page 2

## Also Inside This Issue:


- **The End Game For Central Banks Has Begun**
  By: Graham Summers
- **Clueless In Davos**
  By: Peter Schiff
- **Proof That The System Is Ready To Implode**
  By: Roxanne Lewis

# The End Game For Central Banks Has Begun

### Graham Summers

For over six years, the markets have been moving based on Central Banker actions and words.

The first phase (2009 to 2013) was dominated by action (ZIRP and QE).

The second phase (2013 to the present) was increasingly reliant on words (verbal intervention) as most Central Banks had by then used up 90% of their ammo.

As former Fed Chair Bernanke who noted in his recent memoirs:

*"Monetary policy is 98% talk and 2% action, especially when short-term rates are near zero"*

However, we are now reaching the point at which even actions AND words are losing their effect on the markets.

Last Friday, the Bank of Japan introduced Negative Interest Rates or NIRP. The ensuing rally in the Nikkei lasted roughly 30 minutes before reversing all of its gains.

It was only through concerted manipulation by the Bank of Japan that the Nikkei finished the day in the green.

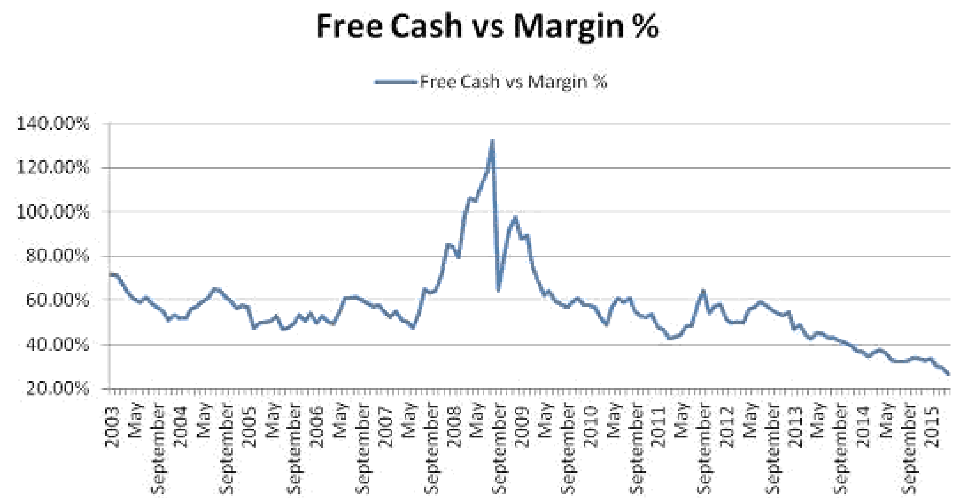
**Fast-forward to today, and the head of the Bank of Japan Haruhiko Kuroda is already promising to engage in even more NIRP if needed. He stressed there was "no limit" to monetary easing measures.**

Continued on page 4

# Chronicle Of A Debt Foretold

Continued from page 1

And here we go again. The following chart from Stock Traders Daily shows the relationship between margin debt (money borrowed by investors against existing stock positions in order to buy more stock) and cash on hand in brokerage accounts. The idea is that when investors hold lots of cash they're pessimistic, and when they borrow a lot, they're optimistic. Extremes of either tend to signal changes in market direction. At the end of 2015 investors were even more excited than at the peak of the housing bubble, indicating that there's not much retail money left to be tossed at US stocks.




China, being a little more bubbly than the US, is a good indicator of where US margin debt might be headed:


Another red flag is being waved by corporate debt, much of which is being taken on to fund share repurchase programs. These tend to benefit shareholders in the moment but at the cost of higher leverage and less flexibility in the future. Where in the past net debt has tended to track EBITDA (a broad measure of earnings), starting in 2014 the former has soared beyond the latter. Just as a spike in margin debt implies a lack of retail stock buying in the future, soaring corporate debt implies limited borrowing power and a scale-back of share repurchases going forward.

Continued on page 4

# Ron Paul Says To Watch The Petrodollar

Continued from page 1

*Nick Giambruno and Ron Paul*

This is critically important. When the dollar loses its coveted status as the world's reserve currency, the window of opportunity for Americans to protect their wealth from the U.S. government will definitively shut.

At that point, the U.S. government will implement the same destructive measures other desperate governments have used throughout history: overt capital controls, wealth confiscation, people controls, price and wage controls, pension nationalizations, etc.

The dollar's demise will wipe out the wealth of a lot of people. But it will also trigger political and social consequences likely to be far more damaging than the financial fallout.

The two key takeaways are:

1. The U.S. dollar's status as the premier reserve currency is tied to the petrodollar system.
2. The sustainability of the petrodollar system relies on volatile geopolitics in the Middle East (where I lived and worked for several years).

**From Bretton Woods to the Petrodollar**

The Bretton Woods international monetary system, which the Allied powers created in 1944, turned the dollar into the world's premier reserve currency.

After WWII, the U.S. had by far the largest gold reserves in the world (around 706 million ounces). These large reserves - in addition to winning the war - allowed the U.S. to reconstruct the global monetary system around the dollar.

The Bretton Woods system tied virtually every country's currency to the U.S. dollar through a fixed exchange rate. It also tied the U.S. dollar to gold at a fixed exchange rate.

Countries around the world stored dollars for international trade or to exchange with the U.S. government at the official rate for gold ($35 an ounce at the time).

By the late 1960s, excessive spending on welfare and warfare, combined with the Federal Reserve monetizing the deficits, drastically increased the number of dollars in circulation relative to the gold backing them.

Naturally, this made other countries exchange more dollars for gold at an increasing rate. This drained the U.S. gold supply. It dropped from 706 million ounces at the end of WWII to around 286 million ounces in 1971 (a figure supposedly held constant to this day).

To stop the drain, President Nixon ended the dollar's convertibility for gold in 1971. This ended the Bretton Woods system.

In other words, the U.S. government defaulted on its promise to back the dollar with gold. This eliminated the main motivation for other countries to hold large U.S. dollar reserves and use the U.S. dollar for international trade.

With the dollar no longer convertible into gold, demand for dollars by foreign nations was sure to fall, and with it, the dollar's purchasing power.

OPEC, a group of oil-producing countries, passed numerous resolutions after the end of Bretton Woods, stating its need to maintain the real value of its earnings. It even discussed accepting gold for oil. Ultimately, OPEC significantly increased the nominal dollar price of oil.

Continued on page 5

# Clueless In Davos

## Peter Schiff

Making their annual pilgrimage to the exclusive Swiss ski sanctuary of Davos last week, the world's political and financial elite once again gathered without having had the slightest idea of what was going on in the outside world. It appears that few of the attendees, if any, had any advance warning that 2016 would dawn with a global financial meltdown. The Dow Jones Industrials posted the worst 10 day start to a calendar year ever, and as of the market close of January 25, the Index is down almost 9% year-to-date, putting it squarely on track for the worst January ever. But now that the trouble that few of the international power posse had foreseen has descended, the ideas on how to deal with the crisis were harder to find in Davos than an $8.99 all-you-can-eat lunch buffet, with a free cocktail.

The dominant theme at last year's Davos conference, in fact the widely held belief up to just a few weeks ago, was that thanks to the strength of the American economy the world would finally shed the lingering effects of the 2008 financial crisis. Instead, it looks like we are heading straight back into a recession. While most economists have been fixated on the supposed strength of the U.S. labor market (evidenced by the low headline unemployment rate), the real symptoms of gathering recession are easy to see: plunging stock prices and decreased corporate revenues, bond defaults in the energy sector and widening spreads across the credit spectrum, rising business inventories, steep falls in industrial production, tepid consumer spending, a deep freeze of business investments and, of course, panic in China. The bigger question is why this is all happening now and what should be done to stop it.

As for the cause of the turmoil, fingers are solidly pointing at China and its slowing economy (with very little explanation as to why the world's second largest economy has just now come off the rails). And since everyone knows that Beijing's policymakers do not take advice from the Western financial establishment,

Continued on page 6

# The End Game For Central Banks Has Begun

Continued from page 2

Yes, this took place only a few days later.

So… the Bank of Japan launches NIRP for the first time in its history. And within THREE trading days is already promising to do MORE, going so far as to say that it has "no limit" on what it will try.

This is what it looks like when a Central Bank loses control= total desperation.

Bear in mind, the Bank of Japan has been at the forefront for ALL monetary policy for decades. The US Federal Reserve launched its first QE program in 2008. The European Central Bank launched its first QE program in 2015.

The Bank of Japan first launched QE back in 2001.

**In short, the Bank of Japan has two decades of experience with QE AND ZIRP.**

**It has launched the single largest QE program in history (an amount equal to over 20% of Japan's GDP). And it has expanded its balance sheet to over 65% of Japan's GDP.**

In short, the Bank of Japan has gone "all in" to attempt to reflate its financial system.

It has completely failed. And now it is so desperate that it is promising to do even MORE only **three days** after its latest monetary surprise.

The End Game for Central Banks has officially begun.

Smart investors are preparing now.

Article by:
Graham Summers
February 3, 2016
https://phoenixcapitalresearch.com/

# Chronicle Of A Debt Foretold

Continued from page 2


Based on both history and common sense, we should expect not just a slowdown, but a cratering of equity demand from both individuals and corporations in the year ahead. What happens then? Either the market crashes and prices go back to levels that attract wiser capital, or a new source of dumb money emerges.

And that would be government. Already, the Bank of Japan owns more than half of the Japanese stock market. And now China -- displaying its customary cluelessness about what markets are and how they work -- is countering the recent bear market with public (which is to say borrowed) funds:

**China Vice President Vows to 'Look After' Stock Market Investors**

(Bloomberg) - China is willing to keep intervening in the stock market to make sure a few speculators don't benefit at the expense of regular investors, China's vice president said in an interview.

Calling the country's market "not yet mature," Vice President Li Yuanchao said the government would boost regulation in an effort to limit volatility.

"An excessively fluctuating market is a market of speculation where only the few will gain the most benefit when most people suffer," Li told Bloomberg News after arriving at the World Economic Forum's annual meeting in Davos, Switzerland. "The Chinese government is going to look after the interests of most of the people, most of the investors."

Li, 65, is the most senior Chinese official yet to underline the government's readiness to intervene should the market turmoil of last summer and the start of 2016 continue. So far this year, the Shanghai Composite and the Hang Seng China indexes have both lost more than 15 percent, even as the central bank injects cash into the system to drive down borrowing costs and boost the economy.

Companies exchanging long term bonds for equities and individuals using equities as collateral to buy more tend to distort equity valuations, but only temporarily, as the players' finite borrowing capacity is eventually maxed out and the buying has to stop.

Continued on page 8

# Ron Paul Says To Watch The Petrodollar

Continued from page 3

For the dollar to maintain its status as the world's reserve currency, the U.S. would have to concoct a new arrangement that gave foreign countries a compelling reason to hold and use dollars.

**The Petrodollar System**

From 1972 to 1974, the U.S. government made a series of agreements with Saudi Arabia. These agreements created the petrodollar system.

The U.S. government chose Saudi Arabia because of its vast petroleum reserves, its dominant position in OPEC, and the (correct) perception that the Saudi royal family was corruptible.

In essence, the petrodollar system was an agreement that the U.S. would guarantee the survival of the House of Saud. In exchange, Saudi Arabia would:

1. Use its dominant position in OPEC to ensure that all oil transactions would happen in U.S. dollars.
2. Invest a large amount of its dollars from oil revenue in U.S. Treasury securities and use the interest payments from those securities to pay U.S. companies to modernize the infrastructure of Saudi Arabia.
3. Guarantee the price of oil within limits acceptable to the U.S. and prevent another oil embargo by other OPEC members.

Oil is the world's most traded and most strategic commodity. Needing to use dollars for oil transactions is a very compelling reason for foreign countries to keep large U.S. dollar reserves.

For example, if Italy wants to buy oil from Kuwait, it has to purchase U.S. dollars on the foreign exchange market to pay for the oil first. This creates an artificial market for U.S. dollars that would not otherwise exist.

The demand is artificial because the U.S. dollar is just a middleman in a transaction that has nothing to do with a U.S. product or service. Ultimately, it translates into increased purchasing power and a deeper, more liquid market for the U.S. dollar and U.S. Treasuries.

Additionally, the U.S. has the unique privilege of not having to use foreign currency to buy imports, including oil. Instead, it gets to use its own currency, which it can print.

It's hard to overstate how much the petrodollar system benefits the U.S. dollar. It's allowed the U.S. government and many Americans to live beyond their means for decades.

**What to Watch For**

The geopolitical sands of the Middle East are rapidly shifting.

Saudi Arabia's strategic regional position is weakening. Iran, which is notably **not part of the petrodollar system**, is on the rise. U.S. military interventions are failing. And the emerging BRICS countries are creating potential alternatives to U.S.-dominated economic/security arrangements. This all affects the sustainability of the petrodollar system.

I'm watching the deteriorating relationship between the U.S. and Saudi Arabia with a particularly close eye.

The Saudis are furious because they don't think the U.S. is holding up its end of the petrodollar deal by more aggressively attacking their regional rivals.

This suggests that they might not uphold their part of the deal much longer, namely selling their oil exclusively in U.S. dollars.

The Saudis have even suggested a "major shift" is under way in their relationship with the U.S. To date, though, they haven't matched their words with action, so it may just be a temper tantrum or a bluff.

The Saudis need an outside protector. So far, they haven't found any suitable replacements for the U.S. In any case, they're using truly unprecedented language.

This situation may reach a turning point when U.S. officials start expounding on the need to transform the

Continued on page 6

# Ron Paul Says To Watch The Petrodollar

Continued from page 5

monarchy in Saudi Arabia into a "democracy." But don't count on that happening as long as Saudi oil sells exclusively for U.S. dollars.

Regardless, the chances that the Kingdom might implode on its own are growing.

For the first time in decades, observers are calling into question the viability of the Saudi currency, the riyal. The Saudi central bank currently pegs the riyal at a rate of 3.75 riyals per U.S. dollar.

The Saudi government spends a ton of money on welfare to keep its citizens sedated. Lower oil prices plus the cost of their mischief in the region are cutting deep into government revenue. So there's less money to spend on welfare.

There's a serious crunch in the Saudi budget. They've only been able to stay afloat by draining their foreign exchange reserves. That threatens their currency peg.

Recently, Saudi officials have begun telling the media that the currency peg is fine and there's nothing to worry about. That's another clue that there's trouble. Official government denial is almost always a sign of the opposite. It's like the old saying: "Believe nothing until it has been officially denied."

If there were a convenient way to short the Saudi riyal, I would do it in a heartbeat.

**Timing the Collapse**

Long before Nixon ended the Bretton Woods system in 1971, it was clear that a paradigm shift in the global monetary system was inevitable.

Today, another paradigm shift seems inevitable. As Ron Paul explained, there's one sure way to know when that shift is imminent:

Continued on page 8

# Clueless In Davos

Continued from page 3

the only solutions that the Davos elite can suggest is more stimulus from those central banks that do listen.

Interviewed on an investment panel in Davos, American multi-billionaire and hedge fund manager, Ray Dalio, perhaps spoke for the elite masses when he said, "...every country in the world needs an easier monetary policy." In other words, despite years (decades in Japan) of monetary stimulus, in the form of low, zero, and, in some cases, negative interest rates, and trillions of dollars in purchases of assets through Quantitative Easing (QE) programs, what the world really needs is more of the same.

Lots more. Despite the fact that no country that has pursued these policies has yet achieved a successful outcome (in the form of sustainable growth and a subsequent return to "normal" monetary policy), it is taken as gospel truth that these remedies must be administered, in ever-greater dosages, until the patient improves. No one of any importance in Davos, or elsewhere for that matter, seems willing to question the efficacy of the policies themselves. And since the U.S. Federal Reserve is the only central bank officially considering policy tightening at present, Dalio's comments should be seen as squarely addressing the Fed. But apparently they were not.

While economists are calling for central banks in Brussels, Beijing, and Tokyo to pull out more of the monetary stops, few have called for the Federal Reserve in Washington to do the same. Most on Wall Street are, publicly at least, supporting rate increases from the Fed, albeit at a slower pace than what was envisioned just a few months, or even weeks, ago. As many economists were very public in excoriating the Fed for moving too slowly in 2015, perhaps they are unwilling to admit that their confidence was misplaced. Many also may realize the colossal embarrassment that would await Fed policymakers if they were to reverse policy so quickly. To have waited nearly 10 years to raise interest rates in the U.S., only to cut rates less than three months later would be to admit that the Fed was both clueless AND ineffective. This could cause an even greater panic as investors became aware that there is no one flying the plane.

But perhaps the main reason other central bankers are reluctant to urge the Fed to ease is that the United States is supposedly the poster boy that proves quantitative easing actually works. After all, the rest of the world is being told to emulate the successes that were achieved in the U.S. Ben Bernanke had the courage to act while European central bankers were too timid, and the result was not only full employment and a recovery strong enough to withstand higher rates in the U.S., but a best-selling book and magazine covers for Bernanke. The world's central bankers are not quite ready to consign Bernanke's book to the fiction section where it rightfully belongs, as it would call into question their own commitment to following a failed policy.

But some doubt is starting to creep in publicly. An underlying headline in a January 25 story in the *Wall Street Journal* finally said what most mainstream pundits have refused to say: "Fed is a key reason markets have plunged and risk of recession is rising." But even in that article, which analyzes why six years of zero percent interest rates created bubble-like conditions that were vulnerable to even the small pin that a 25-basis point increase would provide, the *Journal* was reluctant to say that the Fed should begin to ease policy. At most, they seemed to urge the Fed to call off any future increases until the market could adjust and digest what has already happened.

However, George Soros, another legendary hedge fund billionaire (with a well-known political agenda), is dipping his toes in that controversial pool, by nearly telling the Fed that the time had come to face the music and eat some humble pie. In an interview with Bloomberg Television's Francine Lacqua on January 17, Soros claimed that the Fed's decision to raise rates in December was "a mistake" and that he "would be surprised" if the Fed were to compound the mistake by raising rates again. (Officially the Fed has forecast that it is likely to boost rates four times in 2016). When pressed on whether the Fed would actually do an about-face and cut rates, Soros would simply say that "mistakes need to be corrected and it [a Fed reversal] could happen." Look for many more investors to join the crowd and call for a reversal, regardless of the loss of credibility it would cause Janet Yellen and her crew.

But when I publicly made similar statements months ago, saying that if the Fed were to raise rates, even by a quarter point, the increase would be sufficient to burst the stock bubble and tip the economy into recession, my opinions were considered completely unhinged.

Continued on page 7

# Proof That The System Is Ready To Implode

**Roxanne Lewis**

"I am more concerned with the return of my money than the return on my investment."

-Mark Twain

When the economic model for the U.S. and the world is based on ever increasing debt levels the end result will be an inevitable failure. How long could your home and family exist with a model based on always increasing your personal debt?

YOUR money is at stake if you are invested in this economic model and Friday we received the latest of lies with a report of improving job numbers as the banks and politicians working with the media prop up their failing model. All of the wealth and power held by those at the top of this economy stem from this fiction.

The facts are that the Federal Reserve, Janet, the boys club and other Central Banks haven't a clue how to fix the problem and no incentive to do so. All they have managed to do is continue the lies and eventual failure of their game with a Fed balance sheet growing from $1.3 to $5 trillion, 4 times greater than the last implosion reaped.

1. The bond bubble today has grown since 2008 from $80 trillion to over $100 trillion.
2. The derivative market that uses bonds as collateral is over $555 trillion.
3. The governments of the world and multinational corporations are using derivatives to fake earnings and hide their true debt levels. Companies borrow money to buy back their stocks and prop up stock prices rather than productive reinvestment and the mal-investment grows.
4. Corporate bonds are up double from $3.5 trillion in 2007 to $7 trillion today and half of our G.D.P.
5. The Central banks of the world are ALL leveraged at greater levels than Lehman Brothers was at in 2007 at 30:1. The Fed today is leveraged 78:1 and the E.C.B. is 26:1.

Expanding such a destructive system is NOT the solution. Getting rid of central banking is infinitely preferable as the modern monopoly of central banking is simply genocide in waiting. It concentrates more and more power into fewer hands.

Eventually the imbalance is going to result in further repression, authoritarianism and the inevitable result will be a continuance of wars, destruction of infrastructure and personal property, hunger, disease, suffering and death of the poorest.

The world today exists in a revenue recession as energy, the S & P, industrials, materials and commodity prices fall. We are feeling the effects of an earnings recession at home as well as a global recession. Central banks will continue with monetary easing as collateral values continue to collapse and housing values top out. Some nations are starting a basic income payment like, Finland, Holland and Switzerland.

The U.S. will attempt helicopter drops of money such as tax refunds and student loan forgiveness programs to improve consumer spending levels so that the U.S. can continue to export empty cargo containers to China.

Article by:
Roxanne Lewis
December 8, 2015
www.whynotgold.com

# Clueless In Davos

Continued from page 6

My suggestion that the Fed would have to later reverse policy and cut rates, after having raised them, was looked at as even more outrageous, akin to predicting that the U.S. would be invaded by Canada. Now those pronouncements are creeping into the mainstream.

I was able to see through to this scenario not because I have access to some data that others don't, but because I understood that stimulus in the form of zero percent interest rates and quantitative easing is not a means to jump start an economy and restore health, but a one-way cul-de-sac of addiction and dependency that pushes up asset prices and creates a zombie economy that can't survive without a continued stimulus. In the end, stimulus does not create actual growth, but merely the illusion of it.

This is consistent with what is happening in the global economy. China is in crisis because commodities and oil, which are priced in dollars, have sold off in anticipation of a surging dollar that would result from higher rates. The financial engineering that has been made possible by zero percent interest rates is no longer available to paper over weak corporate results in the U.S. Our economy is addicted to QE and zero rates, and without those supports, I feel strongly we will spiral back into recession. This is the reality that the mainstream tried mightily to ignore the past several years. But the chickens are coming home to roost, and they have a great many eggs to lay.

Investors should take heed. The bust in commodities should only last as long as the Fed pretends that it is on course to continue raising rates. When it finally admits the truth, after its hand is forced by continued market and economic turmoil, look for the dollar to sell off steeply and commodities and foreign currencies to finally move back up after years of declines. The reality is fairly easy to see, and you don't need an invitation to Davos to figure it out.

Article by:
Peter Schiff
January 26, 2016
http://www.europac.com/

# Chronicle Of A Debt Foretold

Continued from page 4

Governments are a different story, since they can create trillions of dollars with a mouse click.

Their ignorance is thus a lot more dangerous because it short-circuits price disclosure on a vast, potentially open-ended scale.

When a central bank buys equities, it doesn't have teams of analysts running valuation studies and creating model portfolios.

Presumably it just makes across-the-board purchases, which tends to float all boats. So the wheat doesn't get separated from the chaff and capital has no idea where to flow.

Malinvestment becomes rampant and the result is, well, what we have today: Chinese ghost cities, Japanese zombie companies and US tech unicorns worth billions before generating their first dollar of earnings.

And that's *before* the Fed and European Central Bank really get going.

Article by:
John Rubino
January 23, 2016
http://dollarcollapse.com/

**The Outstanding Public Debt**

National Debt:
**19,004,864,181,004.54**
The estimated population of the United States is **322,345,600**
US citizen's share of this debt is
**$58,958.04**
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**

# Ron Paul Says To Watch The Petrodollar

Continued from page 6

We will know that day is approaching when oil-producing countries demand gold, or its equivalent, for their oil rather than dollars or euros.

It's very possible that, one day soon, Americans will wake up to a new reality, just as they did in 1971 when Nixon severed the dollar's final link to gold.

The petrodollar system has allowed the U.S. government and many U.S. citizens to live way beyond their means for decades. It also gives the U.S. unchecked geopolitical leverage. The U.S. can exclude virtually any country from the U.S. dollar-based financial system…and, by extension, from the vast majority of international trade.

The U.S. takes this unique position for granted. But it will disappear once the dollar loses its premier status.

This will likely be the tipping point…

Afterward, the U.S. government will be desperate enough to implement capital controls, people controls, nationalization of retirement savings, and other forms of wealth confiscation.

I urge you to prepare for the economic and sociopolitical fallout while you still can. Expect bigger government, less freedom, shrinking prosperity…and possibly worse.

It's probably not going to happen tomorrow. But it's clear where the trend is headed.

Once the petrodollar system kicks the bucket and the dollar loses its status as the world's premier reserve currency, you will have few, if any, options to protect yourself.

This is why it's essential to act *before* that happens.

The sad truth is, most people have no idea how bad things could get, let alone how to prepare…

Yet there are straightforward steps you can start taking today to protect your savings and yourself from the financial and sociopolitical effects of the collapse of the petrodollar.

This recently released video will show you where to begin. Click here to watch it now
https://www.caseyresearch.com/cm/surviving-real-currency-collapse-presentation

Article by:
Nick Giambruno
January 22, 2016