

## King Of Debt Takes The Reins

**Peter Schiff**

The election of Ronald Reagan in 1980 provides the best recent precedent for the unexpected triumph of Donald Trump (in my opinion, the other post-war Republican takeovers of the White House --Ike in '52, Nixon '68, and W. in '00 - did not constitute a real break from the status quo.) As many people expect great changes from Trump, it is worthwhile to look at what the Reagan Revolution actually wrought.

Both Reagan and Trump were better known to many as entertainers rather than politicians, both came from outside the Republican mainstream, and both engineered hostile takeovers of the Party. During the 1970s, the Republican Party was dominated by "Rockefeller Republicans," the Ivy League-educated liberal Eastern elites. Reagan was the Western heir apparent to Barry Goldwater, the deeply conservative standard-bearer who went down in flames in 1964. In 1976, the brash Reagan had the nerve to challenge incumbent Republican President Gerry Ford in the primary, thereby weakening him in the general election, which he ultimately lost to Jimmy Carter. While Reagan was simply too conservative for the Rockefeller wing, Trump's various positions are similarly inconsistent with much of the mainstream neo-conservative orthodoxy. Both candidates also capitalized on a weak economy as a catalyst to encourage voters to cross traditional party lines. Many of the rust belt "Reagan Democrats" came home to Trump.

While books have been written about the cultural and political legacy of Reagan's presidency, harder facts can be found in his budgetary record. Despite the economic revival that his tax-cutting and deregulation tendencies delivered, the national debt ballooned as it never had for any other peacetime President. Although the fiscal imbalances have gotten significantly worse since Reagan left office, the Gipper gave plenty of cover for future Republican presidents to run up red ink. President Donald Trump, the self-proclaimed "King of Debt", now appears to be perfectly positioned to test the limit of how much debt the world's largest economy can issue.

Leading up to the election of 1980, Reagan and the conservative economists who supported him, warned that Federal debt, which had risen to approximately 26% of GDP, had grown too heavy to bear (data from Congressional Budget Office, July 2010) Reagan brought the spirit of Milton Friedman into the Oval Office, and his campaign was based on a clear intention to roll back the nearly 50 years of socialist government expansion that had occurred since Roosevelt's New Deal.

But when Reagan came to Washington he was confronted by a strong Democratic majority in the House of Representative led by House Speaker Tip O'Neill, a skillful and forceful defender of big government. Reagan soon discovered that the political price was always very high when government expenditures are being restricted. And so, Reagan decided to move on the tax cuts (a perennial political winner) but never really got around to the spending cuts. As a result, the 26% debt to GDP ratio that he inherited when he came into office expanded to 41% by the time he left. (data from Congressional Budget Office, July 2010) This was not the complete conservative victory for which his backers had hoped.

Trump comes to office with similar expectations for significant changes. The good news for him is that he will face far fewer restrictions than Reagan had to face. Most importantly, both houses of Congress are now Republican. The Supreme Court is currently split along ideological lines but is likely to swing conservative after Trump's appointment to the open Scalia seat.

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## As Europe's Financial System Fails...Gold Will Rise

**Egon von Greyerz**

"The Die is Cast" for Europe and the EU. This is what Caesar said when he crossed the Rubicon in 49 BC marching towards Rome, leading to a major change in Europe's history. The Italian referendum which took place on December 4 had a similar significance. The Brexit vote in which Britain decided to divorce from the EU started the breakup of the artificial construction of 500 million people being ruled by an unelected and unaccountable elite in Brussels. Even worse is an artificial paper currency, the Euro, which is used by 19 out of the 28 EU countries. All paper currencies are of course artificial constructions that eventually become worthless but to have a currency for 19 countries with different cultures, different growth rates and productivity and vastly different inflation rates is a total disaster.

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# The War On Cash And Then On Gold And Silver

Clive Maund

The global financial system continues to groan under the strain of the accumulated weight of trillions of dollars of debt and derivatives, which have built up to even more fantastic levels than those that precipitated the near collapse in 2008. And thanks to the policy of solving liquidity problems near-term by creating even more debt and derivatives, Quantitative Easing being the most obvious example. However, while the majority consider the situation to be hopeless, there is actually "light at the end of the tunnel."

If only a way could be found to freely tap the funds of savers at will, by imposing duties or taxes on bank accounts with the additional option to appropriate savers' funds on occasion as required. Subsequently, the systemic liquidity problems will be solved. Banks need never fear solvency problems again. Consequently, they can simply fall back on the account holder's funds to meet any obligations. There are in fact already names for these restorative operations, they are called "bails-ins" and NIRP (Negative Interest Rate Policy).

Unfortunately, any immediate attempt to implement bail-ins and NIRP on a large scale will backfire because, faced with being charged significant sums for the privilege of keeping their money in the bank, savers will simply withdraw their funds and keep as cash at home. Alternatively, they may even invest in Precious Metals. It is therefore imperative that these escape routes are blocked off.

We have already seen an interesting "trial balloon" in recent years with respect to bails-ins. This was the celebrated Cyprus bail-in. When Cyprus banks were about to go belly up a couple of years ago, they saved themselves by raiding customers' accounts, which is more palatably described as a bail-in. The reaction of global savers to this action by the Cyprus

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This is why Italy, Greece, Spain, Portugal and many more EU countries are totally bankrupt. These countries have been forced to use a currency which has made them completely uncompetitive and unable to export or function. At the same time, Germany has benefited from a weak Euro which has made their export industries very successful.

## *A Dire Destiny For Europe*

The referendum in Italy last Sunday changes the destiny not only for Italy but for Europe and also the world. The Brexit vote was the first indication that governments and the elite in the West are totally out of touch with the people. Trump's win in the US presidential election confirmed the same phenomenon. In Italy, people are fed up with the Renzi government which lost the referendum on the Italian constitution. In itself, the referendum is not that significant but it is seen as a protest vote against the Renzi government. Interestingly, Renzi is the only European leader that officially backed Hilary Clinton and this is likely to cost him dear. Most of the European leaders hated Trump but no one was stupid enough to officially back Clinton.

With Renzi losing the referendum and resigning, it will likely lead to an election which the actor Beppe Grillo would win. His party is anti-globalism, anti-establishment and anti-immigration and anti-EU and Euro. In Austria's presidential election last Sunday, Norbert Hofer lost by a small margin. Hofer is on the far Right and also anti-immigration and anti-Muslims. Many European countries already have Eurosceptic governments like Hungary, Croatia, Poland and Slovenia. In 2017 there will be elections in France where Marine le Pen's National Front is well placed. In Holland the Party for Freedom which is anti EU is also well placed. And in Germany there will also be elections in 2017. There is strong opposition to Merkel due to the major immigration problems that Germany is now suffering, all of Merkel's making.

## *Italy's Insolvent Financial System*

Italy crossing the Rubicon is yet another confirmation that the trend has changed and that the peoples in Europe are now turning against the establishment and the elite. In addition to the unhappiness in Europe with politicians who are not in touch with the people, there are major problems in the financial system. One of Europe's biggest banks, Deutsche Bank, is very much looking like Lehman. Both the share price and the derivative position are giving indication of a bank on its way to bankruptcy. And in Italy, the whole banking system is insolvent. It is not just Italy's oldest bank Monte dei Paschi which is virtually bankrupt but impaired loans for all Italian banks are at least €360 billion which is around 20% of the Italian banking system. Monte dei Paschi is desperately trying to raise €5 billion and UniCredit, Italy's biggest bank, needs €13 billion.

So Europe is in major trouble both politically and financially. When the difficulties start unraveling in Europe, the rest of the world should not feel confident that this is an isolated local problem. The global economy and financial system is totally interconnected and a problem in a country like Italy will have repercussions around the world. Take Deutsche Bank's derivative position of \$50 trillion for example which is around 20 times German GDP and 70% of global GDP. This is not just too big for Germany, it is too big for the world. A problem erupting in Deutsche would spread like wildfire throughout the global financial system. The 5 largest US banks have a derivatives' portfolio of \$1/4 quadrillion at least and probably double that. That is 3.5 times global GDP and obviously too big for the global financial system.

## *\$ 1.5 Quadrillion Of Derivatives Will Implode*

There are only two ways to deal with a problem in a financial system which has total derivatives of \$1.5 quadrillion on top of already insolvent bank balance sheets.

The cube below shows the amount of global derivatives outstanding. \$1.5 quadrillion is an astronomical amount in relation to all the gold ever produced or to the gold supposedly held by central banks. These derivatives are just illusory contracts with no underlying real value.

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On the taxation side, Trump has proposed cuts in personal and corporate tax rates that could likely sail through Congress. How much these moves will add to the deficit depends on how much growth they generate in the economy. Such predictions are very hard to make. But if the tax cuts are assured, the growth is not. However, there is no need to make algorithmic predictions on the budgetary implications of spending decisions. They are what they are, and their impact is immediate. Trump plans massive increases in Federal spending, initially in the form of a trillion dollar infrastructure spending over ten years, and billions to build his border wall and pay for his planned deportation force. On the spending side, Trump could likely get whatever he wants, and more. Had a smaller infrastructure spending plan been proposed by President Hillary Clinton, it would have likely been voted down by "fiscally hawkish" Congressional Republicans. Such scruples could fall by the wayside when the spending requests come from a Republican President.

Although the years of trillion dollar plus deficits we experienced during the first Obama term have been pared down to the \$500 - \$700 billion dollar range, the Congressional Budget Office's Summary of The Budget and Economic Outlook, 1/19/16, currently predicts that we will officially return to trillion dollar levels by 2022. (In truth we are already there. Over the last 10 years the actual expansion of the debt has averaged \$1.1 trillion per year, about \$300 billion more than the average deficit of \$790 billion over that time). (TreasuryDirect; usgovernmentspending.com) The CBO's projections are based on no unplanned spending increases between now and 2022, steady GDP growth in the 2% to 3% range, and no dip into a recession (even though the current expansion is already far longer than the typical postwar expansion). Given this very optimistic set of assumptions, and Trump's announced plans on taxing and spending, we should absolutely expect a massive expansion of the Federal debt over the next four years. The more difficult question is how it will be financed.

When making a comparison to Reagan, it is important to realize that he financed his debt expansion the old fashioned way: He sold long-term government debt to private investors. In the early 1980s, savings levels in the United States were much higher than they are today. The average American actually had money in the bank. And those with the means to invest were less inclined to dabble in stocks than they are today (there was no eTrade to make the process easy and transparent). The stock market had essentially made no gains between 1966 and 1980, (Dow Jones Industrial Average data) so investors could be forgiven for having given up faith. Bonds were a bigger part of the mix up and down the investment spectrum. And those investors who stepped up to the plate to buy those 30-year bonds in 1981 to finance the Reagan deficit ended up making some of the best portfolio decisions.

It seems impossible to believe in our current low interest world, but in 1982 the U.S government sold 30-year bonds with a 14% annual coupon. That's right, a guaranteed, principal-protected, 14% annual return for 30 years. Investors today could only dream of something so magical. Of course inflation was higher back then (partly because the government hadn't yet figured out how to recalibrate the Consumer Price Index), but even at its worst, inflation rose only to approximately eight percent. (InflationData.com) This means that buyers of those 30-year bonds were getting a real rate of six percent above inflation. But it just gets better from there.

Over the course of the Reagan presidency inflation and interest rates came down steadily. This meant that those investors who bought in 1982 would see their real rate of return increase every year. By 1988 inflation had come down to 4%, so those bonds offered a real yield of 10%. The falling inflation strengthened the value of the dollar itself. So in relative terms Americans holding those bonds were seeing a real increase in purchasing power of their principal relative to the falling prices of imported goods. Also, in an environment of falling interest rates investors holding 30-year 14% bonds could sell those bonds before maturity for more than they paid. That's because even at a price above par the bonds would still offer higher yields to maturity than newly issued bonds. But despite the premium, investors were better just to hold them till maturity. Purchasing Treasury bonds in 1982 was an investment in America's future, but it also happened to turn out to be the deal of the Century.

Think about how different it would be today for investors making a similar choice to finance the Trump deficits. 30-year bonds are currently being offered at a rate of just under 3%. If you believe the government inflation figures of just about 2%, this means that your effective yield is about 1% (pre-tax). If inflation is even slightly higher, the real yield could be negative. And in 30 years there is plenty of time for inflation to go, much, much higher. If it does, these bonds would be all but guaranteed to deliver less purchasing power than their original cost, even if held to maturity.

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# Yuan's Day Of Reckoning

**Michael Pento**

China's economy and markets have been defying the laws of economics since 2009. Amid a worldwide financial crisis during that year, they managed to grow their economy by 8.7%. But that growth was fueled by a \$586 billion dollar government stimulus package, which was followed by an additional \$20 trillion dollars in new construction spending over the next seven years.

China's economy became the envy of the world as the economy expanded through the edict of government to build massive cities that were mostly vacant. In fact, estimates are that 52 million homes in China are currently vacant and 90% of those empty units were purchased for investment purposes.

As investors sat on empty real estate, debt levels in the shadow banking system rose to troubling levels. A real estate bubble of this magnitude would bring most economies to the brink of destruction. But fear not; the megalomaniacs in Beijing had a solution: in 2015 they created a new bubble in the stock market to offset the fragile real estate bubble.

And to accomplish this, 40 online brokerage lenders helped arrange more than 7 billion Yuan worth of loans for stock purchases.

As you can imagine, China's leverage problem quickly reached epic proportions. Fueled by margin debt the Shanghai Composite (SSE) started 2015 at 3,234 and hit 5,023 by June 4th; a 150% surge from the preceding 12 months, before plunging.

With markets in free-fall, the totalitarian regime made daily policy modifications in a desperate attempt to stop the bleeding. Surprise interest rate cuts by the central bank, relaxations in margin trading and other "stability measures" did little to calm investors' angst. But eventually, the central planners stepped in and stemmed the market's decline.

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banks was one of horror and revulsion - and they made it plain that they weren't going to stand idly by and watch banks plunder their funds. They would withdraw them as cash if any such threat should appear over the horizon. This reaction set the great minds of the banking community to work on how to stop savers withdrawing their funds in the face of these threats. The solution was and is simple — abolish cash! Thus we have seen production of the 500 Euro note in the European Union stopped...so that it gradually fades into oblivion. In the US, Larry Summers has proposed abolition of the \$100 bill, which accounts for most of the money in circulation. The idea is to implement the policy for a global cashless society in stages...because if it is done all at once, the public will revolt.

They need to be trained to go cashless and this will take time. By starting with high denomination notes you actually remove most of the currency in circulation at a stroke. However, the masses can still buy cigarettes and candy bars at street corner shops with small denomination notes. The excuse given for the removal of the notes is that it impedes organized crime and money laundering etc, which is of course a convenient smokescreen.

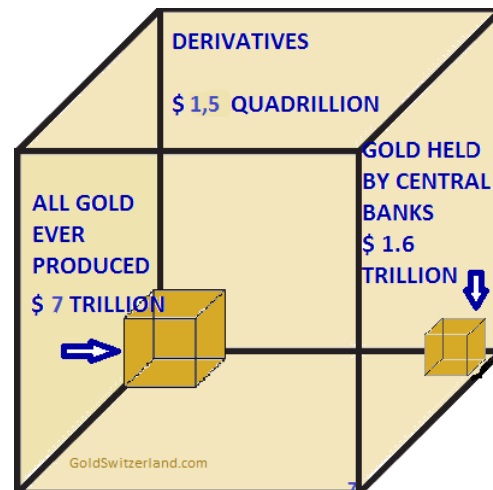
With plans for a cashless society already well advanced, it was time for another trial balloon. India was selected. Anxious to demonstrate his credentials as a card carrying member of the New World Order, and oblivious to the effects of the operation on the hapless citizenry of his country, Indian Prime Minister Narendra Modi went ahead with the withdrawal of two key banknotes. This caused chaos across the country, especially in rural areas where many don't even have bank accounts, and citizens often had to travel long distances to get to banks to change these banknotes,

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The attributed gross value is assuming that an endless chain of counterparties will all settle their part of the chain. It is sufficient that just a handful of major counterparties fail for the whole daisy chain to collapse. This will result in gross values of 70x global GDP disappearing into a black hole, never to be seen again. When this happens, no financial institution will survive. I would say that the likelihood of such an event is greater than 75%. The catalyst could easily be the European financial system. What happened in Italy last weekend could easily be seen as the shot in Sarajevo, an event that is the trigger for a change in history.



## *A False And Corrupt Financial System*

In a futile attempt to stop the inevitable collapse, central banks will print unlimited amounts of money. This will lead to a short period of hyperinflation before the financial system, including the currency system, implodes. But since we are talking about a false and corrupt system that manipulates every single market, a collapse of this system will be a godsend and the only way to replace an irretrievably broken system. There is no chance for the world to grow soundly before the current financial system has been wiped off the face of the earth. In my view this must happen and any attempt to save the system will just make the collapse bigger. The fall of the financial system will obviously cause misery and major upheaval for most people on earth but it is guaranteed to happen and is also necessary for the world to start again with real markets and real growth.

To summarize, the changes that will take place in Europe over the next year or so, are likely to be one of the catalysts that will trigger the inevitable fall of the financial system as well as the world economy. Obviously at some point in the future, there will be a Phoenix coming out of the ashes of the present system which will hopefully lead to a better world over time.

## *Paper Money Is Dying*

In the meantime, as paper money dies, protecting your assets is now more vital than any time in history. All assets within the financial system will implode. Debt and derivatives will implode under their own weight. All the bubble assets that this debt has supported will also collapse. This includes stocks, bonds and property. Anyone who holds anything within the financial system is likely to lose a major part of their assets. And if anything remains of value, it will take a very long time before liquidators have sorted the mess out in order to pay out pennies on the dollar. Unencumbered assets in the system should eventually be released but this could take many years and there is a major risk that a bank under pressure has used these assets as collateral.

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If interest rates were to rise from the current low levels, as almost every economist and investor assumes they must, the value of long-term bonds will surely fall. In another danger to bond prices, Bloomberg News reports that the new Trump economic team will likely put pressure on the Fed to reduce the amount of bonds on its balance sheet. To do so in any meaningful way will require that the Fed sell off portions of its \$4.5 trillion bond stash of holdings into the open market. This could turn the biggest buyer of Treasuries into the biggest seller.

A sustained period of falling bond prices would mean that if current buyers wanted to cash out before maturity, they would likely have to sell for a loss, not the gain that their fathers would have seen with the 1982 bonds. If rates got as high as five or six percent (and I think they will go much higher) those losses could be substantial. As Jim Grant likes to say, today's long maturity bonds represent return-free risk. Or as Warren Buffet likes to say, it's like picking up pennies in front of a steamroller.

The risks become greater still when you consider how America's fiscal position is much worse today than it was in 1980. When Reagan took the oath of office America was the world's largest creditor nation. Today it's the largest debtor. Our debt was just 30% of GDP then, while today it's 105% and projected to go much higher over the next generation...even without Trump's taxing and spending plans factored in.

But arguing the investment merits of long-term government bonds is a bit pointless in the current age. Real investors gave up on bonds long ago. What little savings Americans still have either stays in the bank, or gets directed to stocks or real estate. The bond market has almost become the exclusive playground of central banks. In Japan and Europe, central banks are sucking up the vast majority of government debt. We did the same during our four years of quantitative easing, and the Federal Reserve's balance sheet remains swollen.

If under President Trump annual deficits explode, whom should we expect to buy the trillions in debt we will have to issue to pay for it? In the recent past, the big buyers have been central banks in China, Japan and Saudi Arabia. Should we expect those customers to return? We may be in an all-out trade war with China, Japan is already pushing its own QE program to the limit (its central bank is currently buying large portions of the Japanese stock market) and the Saudis are struggling with \$50 oil. We may need to find new buyers.

But don't look to Mom and Pop USA. Those investors are tapped out. Don't look to the pension funds. They can't meet their numbers with 3% coupons. Don't look to the hedge funds. They are losing money fast due to bad performance, and their investors expect more nuanced thinking than U.S. Treasuries. What's more, (in contrast to 1982) the U.S. dollar is currently near generational highs. If the dollar should weaken, holders of dollar-denominated debt will be left holding the bag. When Reagan was elected, the dollar had been beaten down to all time record lows, having lost about 2/3 of its value against currencies like the Deutsche mark, Swiss franc, and Japanese yen. So high yielding, dollar-denominated Treasuries were attractive investments for foreign savers. But the dollar has already risen sharply over the last few years based on expectations the Fed would normalize interest rates. Investors should not be under any illusions that the dollar will experience another continued rally. With so many reasons arguing against buying long-term dollar Treasuries, the Fed may be the only game in town.

Given that, it's impossible to imagine that the Fed will ever allow interest rates to rise by any significant amount. (Doing so would devastate the value of their bond holdings and raise debt service costs past the point where the government, or most private borrowers, could pay). Already more than \$4.5 Trillion of Treasury bonds sit on the Fed's balance sheet. Look for that number to balloon during the Trump years.

Debt monetization was the term that used to be used by economists to describe the undesirable outcome of a country's central bank becoming the exclusive financier of its national debt. Inflation and currency devaluation were expected to be the results of this brash approach to fiscal policy. But this will likely be our future under Trump. Investors would be wise to recognize this and to diversify appropriately.

In 2009, when the first Quantitative Easing program allowed the Fed to buy large quantities of Treasury bonds, then Fed Chairman Ben Bernanke pushed back against Congressional accusations of debt monetization by claiming that the purchases should be considered temporary, and that they would be unwound when the crisis passed. Since then the Fed has not sold a single Treasury and has used every penny of interest and principal repayments to buy more Treasuries. Should the Trump deficits force the Fed's balance sheet into the stratosphere, it will be obvious to all what the Fed is doing.

America was able to survive Ronald Reagan's debt experiments because we started borrowing from a position of relative strength. But the debt took its toll, and we are now a shadow of our former selves. Yet rather than reversing course before it's too late, Trump may just step on the gas, assuring we go over the cliff that much sooner.

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However, the nation was far from out of the woods. Once a model of fiscal prudence, China became a country swimming in debt and asset bubbles. China's corporate debt levels are now over 150% of its GDP, and estimates of total debt are as high as 280% of GDP.

Consumer credit has grown by over 300% in just the past six years. In October of 2015, debt levels for consumers hit 23.5 trillion Yuan (\$3.41 trillion). The expectations are that this will more than double by the end of 2020, reaching nearly 53 trillion Yuan (\$7.66 trillion).

The nation has now reached a 10-year high in delinquent corporate loans. Bloomberg reports that China has had nearly three times the number of defaults recorded in 2015.

Even the International Monetary Fund (IMF) is beginning to wave the warning flag that failing to act quickly to rein in corporate debt could prove detrimental to both China's economy and the world as a whole.

Of course, supporting the rotating carousel of real estate, commodity, and stock bubbles, while also trying to stem bond defaults, comes at a cost. All of that debt and money creation usually results in a decimated currency.

However, China uses its currency reserves (held mostly in dollar denominated Treasuries) to keep the value of the Yuan from falling too quickly. But what had once been China's get out of financial crisis free card--their immense foreign exchange reserves--is dwindling at an alarming rate.

November's severe drop in reserves marked the fifth straight month of declines and are at the lowest level since March 2011. In fact, Japan just superseded China as the largest holder of U.S. sovereign debt.

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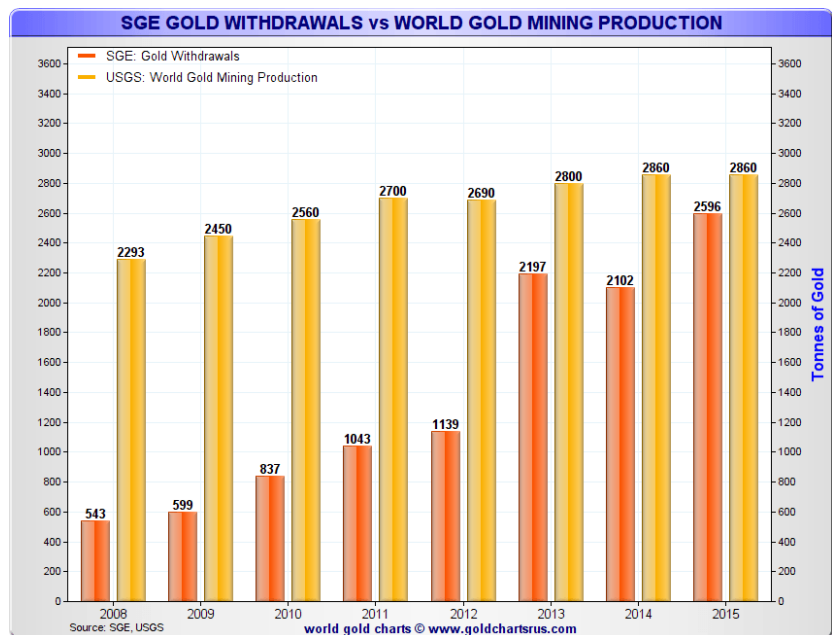
## *Hold Unencumbered Real Assets To Preserve Wealth*

The best way to preserve wealth in coming years is to hold unencumbered real assets outside the financial system such as property, land and mineral rights. The ultimate wealth preservation asset is of course gold. Gold is the only money which has maintained its value throughout history. Since paper money will either be very scarce, especially since most governments will ban it, or worthless, gold will become the only real medium of exchange. Gold will be used as money and for barter. The collapse of paper currencies and the financial system will make gold extremely desirable and valuable.

The current currency restrictions in India have had a major effect on the gold price. Prices as high as \$3,000 per ounce have been seen but currently gold in India is \$1,600-1,700. This is a premium of 35-45% on the current spot of \$1,177. There are of course concerns that import restrictions will slow down demand. But according to my sources, the rampant corruption in India makes it easy to pay the right official to let the gold in. Indians are now likely to buy more gold rather than less as the Modi government has virtually destroyed the paper currency system. Obviously, there is no premium on paper gold in India. **The Indians and the Chinese know that paper gold is worth zero since this market will totally collapse.**

## *China's Insatiable Demand For Gold*

Also in China, premiums for physical gold have shot up and are at a three-year high. Gold in China is today traded at \$24 above spot. The chart below shows the insatiable demand for gold in China which in recent years have absorbed a major part of world production.



## *Swiss Refiners Report Strong Demand*

Goldmine production is today around 3,000 tons annually. By 2025 it will be down to 2,000 tons as we currently have reached peak gold. The refiners in Switzerland who refine most of the gold bars in the world, report strong demand currently. All the gold that is being produced is mainly bought by China, India, Russia and a few other buyers. There are no stockpiles of unsold gold in the world. But there are piles of paper gold that are at least 100 times greater than the physical gold available to settle the paper gold claims.

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only to find that the banks had in many cases run out of smaller denomination notes.

Despite the economic dislocation and suffering experienced by the masses including some deaths, the experiment was deemed a success by the elites, as they had gotten away with it, with the cowed and impotent citizenry accepting it as their fate – what they should have done is rioted until the measures were withdrawn. Globally, the plan therefore is to keep chipping away at it until the cashless society is universally accepted, the only cash likely to remain being small denomination notes and coins suitable for paying street vendors and bus fares etc.

The arrival of the cashless society will not only mean that banks will be able to avail themselves of citizens funds as and when they please, it will also mean that the banks, and by extension the government, will know all your financial business, what you do and when. Tax evasion will be impossible, and eventually you will not be able to do business with companies that are not approved of by the government.

With the escape route into cash set to be blocked off, that leaves Precious Metals, gold and silver, gold as a store of value and silver more for everyday transactions. Gold bugs and others, especially survivalists, and many wealthy investors see this as THE way to escape the rapacious grasp of the banks and the government, and are busy squirreling away fortunes into overseas vaults etc. However, it is unfortunate that if you can think of this, so can they, so can the banks and the government, and they have plans for you and your gold hoard. Remember, their power is absolute, no-one dare stand up to them and they can and will do what they like, changing the law as required to suit their purposes.

They are much more powerful than President Roosevelt, who in the 1930's, in an act of naked piracy, seized the gold of US citizens, and furthermore their modern powers of surveillance and tracking are much more sophisticated than anything back then. Thus we can expect governments to declare the holding of gold (and silver) to be illegal, and to demand forfeiture to the government in exchange for nominal compensation. Vendors of gold bars will be closed down and mints will not sell retail gold. Unlike the 1930's this be a be a coordinated global campaign, a kind of witch hunt if you will, and there will be no corner of the world that is safe, just as they finished off private banking in Switzerland.

Those buying gold and stashing it in various pseudo anonymous remote foreign depositories will be in for a nasty shock as these vaults are arbitrarily raided and plundered, with local and international law being changed as required to facilitate this. Nothing will stand in the way of a system that will not permit alternatives.

We will end on a positive note. No-one really wants to see a complete systemic collapse, which is what will happen if banks don't avail themselves of savers funds quite soon, least of all the controlling elites at the top of the pyramid who live lives of scarcely imaginable opulence and luxury and wish to continue doing so. Such a collapse would lead to bank accounts being frozen, and a breakdown of the distribution system leading to anarchy and hand-to-hand fighting in the streets for essentials like food and gasoline. Should we not therefore be grateful to our illustrious masters who have ingeniously thought of a way out of the current impasse, by availing themselves of your funds as required? Is it not a small price to pay to go cashless and forego your privacy and independence, and forfeit your gold and silver on demand?

It is tempting to blame others for all this, especially those in control of the system. It is imperative we don't forget that for decades one voted for people who routinely lied before elections, and told you what you wanted to hear, that you could have it all right now and to hell with the future. Well, that future has now arrived.

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IMF guidelines put \$2.8 trillion as the minimum prudent level for China to hold in reserves--it is closing in on that level at the current pace.

The Yuan fell to an 8-1/2-year low in November and has dropped 6% against the dollar so far this year despite the government's efforts. Adding to pressure on the Yuan is the newly elected US President, Donald Trump, who has threatened to label China as a currency manipulator on his first day in office and impose huge tariffs on imports of Chinese goods. Pushing even further down on the Yuan (aka Renminbi) are the threatened three Fed rate hikes scheduled for 2017.

In January, Chinese citizens will get an even lower quote from Beijing for exchanging their local currency into foreign dollars. Yes, China's government even tries to dictate the exact value of its currency. Many believe this will create a repeat of the market chaos that ensued at the start of 2016, as capital outflows surge.

Scotiabank Vice President of Economics, Derek Holt, believes these fears are warranted. He said in a recent article: "Why wouldn't they convert like there is no tomorrow?" ... "After another year of Yuan depreciation, would you keep your life savings in a currency that is losing international purchasing power and within a banking and shadow finance system that gets all manner of negative headlines?"

Therein lies China's dilemma: Allow the Yuan to intractably fall, which will increase capital flight and destroy its asset-bubble economy. Or, raise interest rates to stabilize the currency and risk collapsing asset bubbles that will crumble under the weight of rising debt carrying costs.

China embodies a Keynesian dystopia that results from central planning gone mad. It's mirage of prosperity should soon be coming to an unpleasant end.

Continued on page 8

# As Europe's Financial System Fails...Gold Will Rise

Continued from page 6

The paper gold market is corrupt and manipulated by central banks and bullion banks. For the time being, this group has managed to keep gold \$000s below the real price that physical gold would fetch without the paper gold manipulation.

As the problems in the financial system start unfolding, which could happen at any time, the paper gold market will fail and the real gold price for physical gold will be set by China. Once this happens, gold will climb quickly towards \$10,000 in today's money and then much higher in inflationary money.

Short-term, gold in the paper market can always be pushed down another \$100. But with a very limited downside and an upside of many thousand dollars, at current levels of \$1,175 physical gold is an absolute bargain. It is also the best way to protect your wealth against the coming destruction of asset prices and paper money.

Article by:  
Egon von Greyerz  
December 8, 2016  
<http://goldswitzerland.com>

## The Outstanding Public Debt

National Debt:

19,954,982,195,026

The estimated population of the United States is 325,357,547

US citizen's share of this debt is \$61,338.00

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

# Yuan's Day Of Reckoning

Continued from page 7

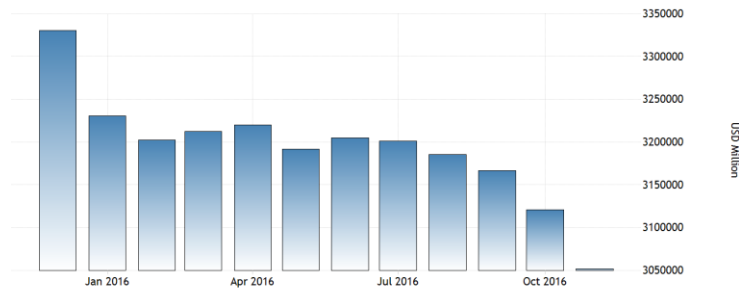
The misguided belief any government can print unlimited amounts of money and issue a massive amount of new credit; while providing the conditions that are the antitheses necessary for viable growth, has one significant Achilles heel: eventually, it will destroy your currency.

Currency is always the pressure valve that explodes in an economy that has reached the apogee of dysfunction. The Red nation isn't the only offender on this front, but is certainly one of the worst. Therefore, China and the Yuan may have finally run out of time.

Shanghai Index:



CHINA FOREIGN EXCHANGE RESERVES



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