

The Economic Future is Sad, Simple & Already Obvious

By Matthew Piepenberg

The foregoing title may seem a bit sensational, no?

With all the recent hype about a gold-backed BRICS currency emerging from this summer's South African meet-and-greet vanishing like oar swirls, one can understand the argument that many gold bugs chase (and create) click-bait like teenage bloggers.

And the precious metals space is no stranger to being labeled perma "doom-and-gloomers" to keep the retail trade forever moving.

Fine. Understood. Yep. I get it. We are all "just selling our book."

The Current Facts are Sensational Enough

But here's the rub: One doesn't need to be a doomer or a gloomer to interpret bond signals, basic math, historical lessons, current geopolitics, or openly obvious energy and precious metal flows with common sense.

If so, one sees the writing on the wall of nations going broke, currencies losing faith and sovereign bonds falling like rocks.

In short, one doesn't need to sensationalize headlines or forecast doom when the current facts and numbers are more than sensational enough.

USTs: Crying Alone in the Corner

Foreigners hold about \$18T worth of US assets, of which \$7.5T are Uncle Sam's increasingly embarrassing and unloved IOUs.

But those IOUs are looking a lot less attractive as an increasingly debt-soaked USA (\$33T and counting of public debt) seeks to borrow an additional \$1.9T (net) into the back-end of 2023 and issue another \$5T of USTs into the next year, all of which has even Jamie Dimon pulling at his hair.

But who will buy those IOUs? Be honest.

And if foreigners start simultaneously dumping existing USTs into an already obvious US debt crisis, subsequent pain levels here and abroad, already felt, will only rise exponentially.

This is not fable but fact.

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How Paper Money Turns Governments into Predators

By Peter St. Onge

Aside from stealing your life savings and launching depressions, one of the nastier features of paper money is what it does to governments.

In short, paper money transforms governments from parasites to predators. Once a government can print what it likes, it no longer needs taxes.

Meaning it no longer needs us.

We saw this in living color during the covid lockdowns. Just imagine a world without a central bank where, in the first days of the pandemic, some young bureaucrat proposed shutting down the entire economy. No worries, he'd say: the economy -- and tax revenue -- will shrink by half. But we can just lay off half of

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- **True Money Supply Is The Correct Measure Of Inflation, Not Consumer Price Index**
By: Andreas Granath

True Money Supply Is the Correct Measure of Inflation, Not Consumer Price Index

By Andreas Granath

Historically, inflation always referred to an increase in the money supply, whereas nowadays it refers to an increase in prices.

This shift in the definition of inflation lets central banks get away with their fraudulent business. Thus, the original definition must be reestablished. We must, by all means, switch the focus from the symptoms to the disease.

The CPI Deserves Less Attention

The lure of the Consumer Price Index (CPI) doesn't just undermine price inflation, but also camouflages monetary inflation. Everywhere in the media and academic circles CPI is used as the main measure of "inflation." Along with this index, "experts" sometimes talk about producer price indexes and personal consumption expenditures.

Although these indexes can provide an estimation of where the economy is headed, they are lagging indicators. Price inflation is a symptom of monetary inflation. Hence, a good economist must identify the cause of rising prices, just like a good physician must find the disease that causes the symptoms.

Monetary inflation is not always the cause of rising prices, though. Market prices change by the means of supply and demand. Thus, an increase in the price of a good or service is the result of the demand for it exceeding the supply of it.

Some prices on the pseudo-free market will change due to natural changes in supply and demand. Such changes depend on people's tastes and preferences. Yet, often, the changes in supply and demand are unnatural. Some unnatural changes

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government workers.

He would have a very short career.

Instead, of course, they did have an in-house money printer. The Fed alone pumped out the \$6 trillion it took to make up for lost taxes and the trillion-dollar bribes it cost to get voters to accept lockdowns. Many voters were happy to get paid to sit on the couch, even if they were arresting priests for conducting mass.

We're now dealing with the economic and social aftermath. With millions still out of the workforce years later, trillions in fresh debt with no end in sight, and kids who can't read.

We'll continue paying for it for decades. Because they had a money printer.

The Early Days of Paper Money

The paper money predator problem has existed since the first days of paper money a thousand years ago in Song Dynasty China.

The Song are interesting for two reasons. First, they were one of humanity's most spectacular golden ages that invented much of the modern world. Second, they invented paper money. Which led to hyperinflation, economic collapse, and turned the Song into a gutted carcass the upstart Mongols rode to burn half the world.

The early Song dynasty was prosperous thanks to pro-growth Confucian policies. Traditional nobles were replaced with the new Imperial Exam system, which promoted from all ranks of society according to ability rather than birth. The Exam curriculum included economics that was surprisingly sound: Property rights and open markets were seen as the foundations for prosperity.

To give a flavor, the standard Imperial Exam answer to local famine was to subsidize inbound transportation — pay for every cart that comes into the district. Which is brilliant and, unlike government policies today, actually works. Compare this to, say, Hurricane Katrina, when our federal government instead impounded every 18-wheeler it could grab and sat on them while the people had no water to drink. Famously, some of those impounded trucks actually contained drinking water Wal-Mart was trying to bring in.

More broadly, the Song operated on Confucian principles that emphasized the importance of a prosperous people. Because prosperity means tax revenue, and it means peasants who don't revolt. The state gets full coffers to pay the soldiers, and the people are content.

Their prosperity led the Song to invent many things we still use today. Dubbed China's "Age of Invention," the Song invented porcelain, tea, the compass, windmills, paddle boats and canal-locks, the university (Donglin Academy), mass production, and commercialization -- what we would call "branding" today. The population soared as new farm implements and techniques were invented and disseminated by marketing.

The era was so prosperous contemporaries complained that the youth were spoiled and that young women didn't know how to cook because they ate out all the time.

Unfortunately, the Song invented something that ended up destroying them: printing blocks. Imported centuries later to Europe by Johannes Gutenberg, blocks were first used in the Song to make cheap books -- including study guides for the Imperial Exam.

But the Song government quickly realized that cheap printing could be used to print counterfeit silver certificates. Certificates were in common use since it's easier to trade paper than coins; the coins would be in a warehouse, the warehouse would issue receipts, and the receipts were traded.

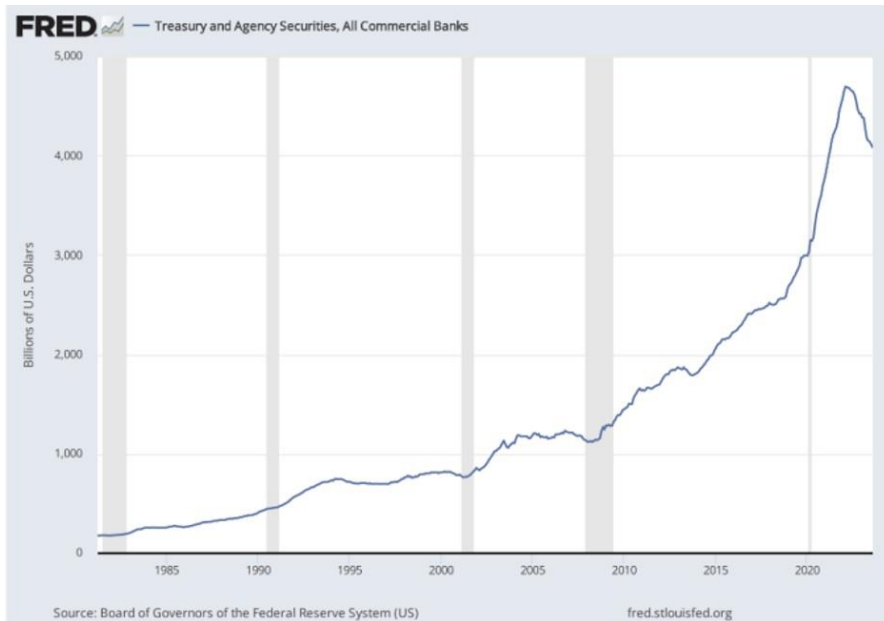
This turned out to be an irresistible temptation for the interventionist Prime Minister Wang Anshi, who cranked up the wood blocks to finance his socialist policies. He mandated the death penalty for refusing the counterfeits, akin to modern "legal tender" laws with a capital kicker.

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Even American banks, traditionally the biggest buyers of USTs, are now cutting back rather than ramping up their purchases...



And hedge funds, currently marginal buyers of USTs, could easily face liquidity scenarios where they will soon be massive sellers of these unloved IOUs.

Basic Math, Basic Liquidity

Meanwhile, as Powell's higher-for-longer and (in my opinion) bogus war on inflation pushes the Dollar higher at the same time oil prices are inflating (shale production declining in the Permian, Russia cutting oil exports while US makes deals with Iran?), those foreigners currently holding that \$7.5T worth of USTs will need liquidity to buy higher oil and pay-down increasingly more expensive (USD-denominated) debts.

This liquidity crisis mathematically means more dumping (rather than buying) of American sovereign bonds and hence more shark-fin rising yields (as bond prices fall), which, mathematically, will send debt costs fatally higher for companies, individuals, home owners and, yes, governments, already way over their skis in debt.

This is important, because, well... the bond market is important, a theme I've been hitting week after week, month after month, and year after year...

Gold Bulls Crying Wolf?

Again, some will still say that such basic math and blunt warnings from boring credit markets are little more than gold bulls crying wolf.

Unfortunately, history confirms that nations spiraling into a debt whirlpool always end with a currency crisis followed by a social crisis followed by increased centralization and less personal and financial freedoms.

Do such centralization trends feel familiar to anyone with their pulse on the current Zeitgeist?

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The Song quickly turned from nurturing prosperity to actively attacking it. Regulations were imposed on small businesses. Landlords and merchants were dispossessed, and their lands were redistributed to the poor who didn't know how to farm. As food output fell, the Wang government issued free seeds to new farmers.

Of course, the hungry farmers didn't plant it. They ate it.

As tax revenue collapsed and welfare payments soared, the Song doubled down on the printing and doubled down on the suppression. A wider range of crimes were made capital offenses. Even the Imperial Exam curriculum was rewritten to promote socialists -- echoing today's socialist capture of the universities.

Coal production and iron smelting collapsed -- again echoing today's suicidal "Green" policies. Entire industrial regions were abandoned -- like our "Rust Belt." The population retreated to subsistence farming. Then they began to starve.

With real wages falling, the army lost its loyalty. Large landlords and merchants went bankrupt. Hyperinflation ravaged what was left.

The money printers, as always, reacted by increasing their annual issues nearly 14-fold. Right up until the Mongols were at the gates of the capital.

Once victorious, the new Khan retired the printing blocks and re-introduced a silver standard in the new Mongol Yuan Dynasty. China's hyperinflation finally ended.

Lessons for Today

We are already far along the path of the Song. Paper money is now worldwide, beginning with World War I and metastasized by Nixon's 1971 "temporary" suspension of the gold standard.

Since 2008 printing has accelerated to the

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True Money Supply Is the Correct Measure of Inflation, Not Consumer Price Index

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include market regulations, price controls, and monetary inflation.

Consequently, the CPI will not reflect only monetary inflation since prices fluctuate with both natural and unnatural changes in supply and demand. Another thing to consider about price inflation is the Cantillon effect. The largest price increases will typically be where large amounts of money are first injected.

Not only must the Cantillon effect be considered, but the growth rate of goods and services must be considered too. Suppose there was a price index that could include *all prices* in the economy. In this hypothetical economy, the money supply is increased by 10 percent at the same time that the total amount of goods and services is increased by 30 percent.

All things being equal, we should expect a drop in the price index, just as we should have had the money supply remained unchanged. However, since it didn't remain unchanged, the price index dropped *less* than it would have otherwise.

Focus on Money Supply

The true money supply (TMS) metric, created by Murray Rothbard and Joseph Salerno, is the best money supply metric and thus the best measure of inflation (and deflation). It is based on the Austrian definition of money, on which Rothbard writes, "Money is the general medium of exchange, the thing that all other goods and services are traded for, the final payment for such goods and services on the market."

Thus, the TMS must include all money substitutes used as a medium of exchange.

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So yeah, desperate bond markets matter, especially when measured in a world reserve currency which, like all currencies marked by unpayable debts, will be the final bubble to pop.

A Broken America Going Broke

The simple, empirical and now increasingly undeniable fact is this: America is writing checks its body can't cash.

Even the US government is cracking/splitting under the pressure of its debt burdens, as anyone tracking the soap-opera with Kevin McCarthy can attest.

And whatever one thinks of Florida's Eddie Munster Congressman, Matt Gaetz, it's hard to disagree with his blunt declaration before a row of cameras outside the nation's Capital—namely that America, already reeling under de-dollarization and debt woes, is now, as he puts it: "F—ing broke."

Is he too just crying wolf, or should we consider the foregoing math? You know, basic facts...

No Good Scenarios Left

There are no good scenarios left for a country, currency and sovereign bond which has replaced productivity, balanced budgets, trade surpluses and national income with historically unprecedented debt, twin deficits and a central bank which has become the un-natural and de-facto (yet busted) portfolio manager over our shattered economy and totally centralized markets.

As I've been saying/asking for years during this slow and openly-ignored frog-boil toward credit implosion (nod to any lobby-bought politician near you), who will be the final buyer of our fatal debts in a world where no private sector entities have the balance sheets to do so?

The answer is sad, simple and already obvious: The Fed.

And where will the Fed find the money to pay for those increasingly more expensive debts (nod to Powell)?

The answer is sad, simple and already obvious: Out of thin air.

The Inflationary End-Game

Such inevitable monetization (i.e., QE + Yield Curve Controls) of historically unprecedented and drunkenly managed debt levels will, of course, be inherently inflationary despite intermediary disinflationary events (i.e., falling credit and equity markets).

All of this makes me repeat the ironic conclusion (shared by even the St. Louis Fed's June white paper on Fiscal Dominance) that Powell's so-called war on inflation (QT + rising rates) will end in historically inevitable inflation in the form of mouse-clicked trillions to "save" our system at the expense of our currency.

Already, the US Treasury Dept (See Josh Frost) is telegraphing its plan to make US bonds more "resilient" (i.e., liquid) via a not-so-clever plan to buy-back its own IOUs.

In other words, the Treasury Dept will be drinking its own (poisoned) Kool Aide with increasingly debased (yet relatively strong) USDs mouse-clicked out of, again...nowhere.

Does this seem like a good plan to any of you already feeling the daily decline of the inherent purchasing power

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of your greenback?

For Now, The Dumb Gains in Consensus

Yet despite such clear and common-sense signals from the simple math of debt gone wild, consensus still favors the long-duration UST as the relatively safest harbor in an admittedly broken global ocean.

Faith in the TLT today is almost as desperate as faith in Captain John Smith of the unsinkable Titanic.

But if math and history are not altogether ignored, cancelled or forgotten, a 15-point fall in the TLT and subsequent spike in already fatally high rates seems the most probable outcome.

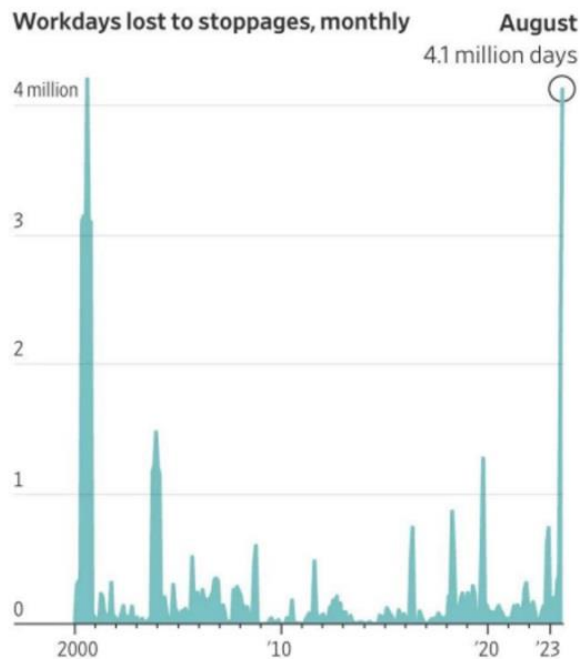
Why? Because there just aren't enough natural buyers of Uncle Sam's criminally negligent bar tab other than a magical (and inflationary) money printer.

That's just how we see it. Soft Landing? It's Already Hard

Meanwhile the Pravda-like efforts by policy makers (and the infantry and artillery support from their vertically integrated media platforms) are still pushing the "soft-landing" narrative despite nearly every indicator (bankruptcies, layoffs, yield-curves, YoY M2 growth, Fitch downgrades, Conference Board of Leading Economic Indicators and Oliver Anthony cries) making it painfully obvious that we are ALREADY in a hard-landing.

(And weren't these the same soft "experts" who told us inflation was "transitory"?). Folks: Things are already hard, not soft.

August in America lost 4.1 million days of work due to strikes (think Ford, GM etc.) as the West tries to tell us in one headline after the next that China (with 7 of the world's 10 largest shipping ports) is the real problem and hence the least investable.



Note: Calculated by multiplying the number of workdays lost each month in a stoppage by the estimated number of workers involved. Stoppages include strikes and lockouts. Data for 2023 are preliminary.

Source: Labor Department

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point that covid lockdowns finally showed the world's governments that they don't need us anymore. Some even say it out loud: MMT proponent Stephanie Kelton has bragged how governments don't really need taxes, so they should instead use taxes to punish carbon sinners and wrong-thinkers.

For the past 50 years, the world has flirted with hyperinflation. As I write this, there are 5 countries with annual inflation over 50 percent, including Turkey and Argentina. The largest economies in the world — the US and the EU — are returning to the double-digit inflation we thought we'd left behind in the 1970s.

The path from 10 percent inflation to hyperinflation isn't direct — historically, it's a ratchet that can go gradually over decades or quickly over years. But, going by the post-Nixon fiscal realities, they are going to hyperinflation as fast as voters will tolerate.

How to fix it? Simple: back the currency with hard assets. Gold, silver, and Bitcoin would all take the money printers away. Hard money would return us to the era when our governments wanted the same things we want today: prosperity, social harmony, and peace. A people who are productive, ambitious, and industrious. Rather than a nation of irresponsible sheep.

The state's incentives should be aligned with ours: governments should only succeed when we succeed. Paper money breaks this. The sooner we re-establish hard money, the sooner we can tame that beast.

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Hmmm. A Global Problem

If anything, China and the USA suffering together will eventually make 2008 seem like a decent year for capital markets and global economies...

The hard reality is this: All western sovereign bonds are in historically deep trouble at the same time that China is facing real estate and debt bubbles on top of geopolitical shifts and hence supply-chain disruptions which are neon-flashing tailwinds for even greater price inflation in all those American products made in, well: China...

For all of these reasons, we favor assets best positioned to play where the inflationary hockey puck (or polo ball) is heading, not just where it sits today.

China: Changing the Gold Price

One of these assets, of course, is physical gold.

Speaking of China, what it has been doing with this asset is nothing short of extraordinary and foretells a great deal of what we can expect in the months and years ahead in the West when it comes to debt, inflation, rates, currencies and gold.

Or to put it even more simply: China is repricing the gold trade.

Unbeknownst to most who get their market data (and interpretations) from the legacy financial media, China has been quietly evidencing a clear intent (as well as ability) to weaponize gold against a now weaponized USD.

In particular, China's central bank recently lifted limits on gold imports, whose temporary imposition, according to the Western press, was a failed effort to defend its currency and to curb USD outflows.

But as with most things legacy press-related, the real story is about 180 degrees opposite...

That is, our Google-searching, 30-something "investigative journalists" ignored the fact that: A) gold in China is bought in Yuan not Dollars and B) and that gold premiums in China jumped back to 5%.

In short, it seems that China did not fail to defend their currency but just succeeded in showing the world that their domestic policies can impact gold pricing.

In fact, the import restrictions only caused the gold price to rise within China's borders by a spread of over \$120 per ounce over London spot.

However, once the import limits ended, the price spread fell to \$76/ounce.

Stated more simply, China just proved that it can control gold, and by extension inflation expectations, rates, and even the USD.

This is because there is a clear and obvious correlation between gold flows (West to East) and gold pricing.

In the past, those flows (from London) were greatest when gold was sinking in price. But now, and for the first time in decades, the flow East is happening even as gold is rising.

Why?

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The Natural Flow from Worthless Paper to Precious (Monetary) Metals

It was my consistent belief that despite no official gold-backed BRICS currency or explicit arbitrage of gold for oil, gas or other real assets, a more natural and expected trade would be unfolding with nearly the same intent and result, all of which will spur further Chinese gold buying (and Dollar dumping) over time.

Net result? Western gold pricing will be chasing/rising to the levels of domestic Chinese gold.

As the Chairman of the Shanghai Gold Exchange, Xu Luode, said in 2014:

“Shanghai Gold will change the current gold market with its ‘consumed in the East but priced in the West’ arrangement. When China has the right to speak in the international gold market, the true price of gold will be revealed.”

Please read that last line again.

As we warned literally from day-1 of the suicidally myopic sanctions against Russia, the net result would be tighter relations between Russia and China, two countries already openly tired of the USD being the tail that wags the global dog.

If you haven’t noticed, Russia is selling much-needed oil to an openly oil-thirsty China in CNY rather than USD.

As gold, priced in CNY, buys more energy in China than in the west, more of that monetary metal will flow toward Shanghai, whose power over the London pricing of gold is about to ratchet upwards.

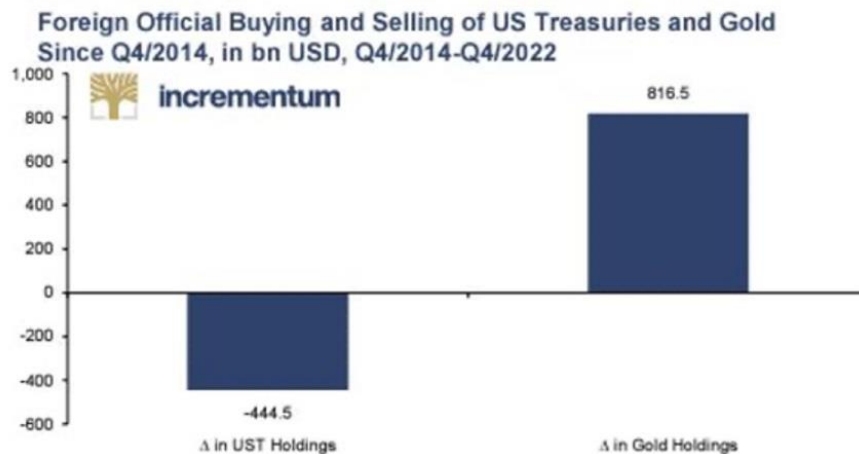
This was so easy to foresee, but the Western media likes to hide such foreseeable facts. After all, one of their greatest sins is the sin of omission.

When weaponizing the world reserve currency against Russia, the US-lead West forgot to mention what Luke Gromen described as its “Achilles Heel”—namely, the unallocated gold markets based out of London.

Changing Battle Tactics

By changing the trench lines of the gold-for-energy battlefield, China and Russia are slowly, but predictably, weaponizing gold and energy commodities against a weaponized USD.

In the long run, my bet is on gold and I’m not alone. Just ask all those central banks stacking the physical metal and dumping America’s paper debt at record levels.



Source: FTTT LLC, US Treasury, World Gold Council, Incrementum AG

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Also, it must exclude all substitutes that other economic schools count as money.

The Mises Institute provides regular updates on the TMS, along with the M2 money supply. It's a great tool for every market forecaster to use in addition to other tools.

The best use of the TMS, however, is to show everyday people that the money supply is inflated.

Perhaps they would raise their eyebrows if they could see the sevenfold growth in the money supply during the past thirty years.

Article by:
Andreas Granath
October 2, 2023
Courtesy of Mises.org

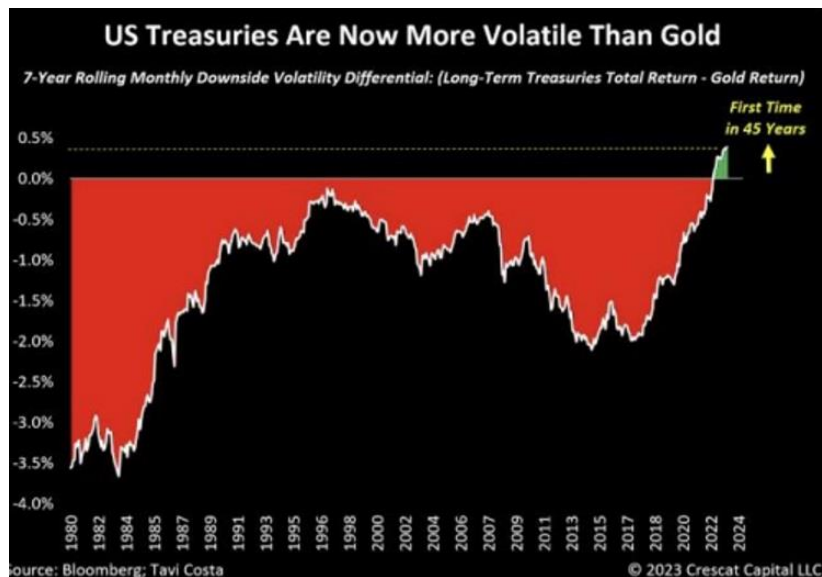
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he border, these central bank gold movements are obvious signs of a coming battle for a new trading system with less focus on Uncle Sam's debt-based trading model and debt-soaked currency.

Needless to say, this is bullish for gold, which unlike the US markets and economy, is the true "resilient" asset, holding its price power despite positive (though manipulated) real rates and spiking UST yields.

This may further explain why the downside volatility for long-duration USTs is now higher than the downside for physical gold, something not seen in almost half a century.



Just saying...

Article by:
Matthew Piepenberg
October 9, 2023
goldswitzerland.com

The Outstanding Public Debt

National Debt:

33,688,614,541,704

The estimated population of the United States is 335,408,022

US citizen's share of this debt is \$100,304.00

The National Debt has continued to increase an average of \$3.8 billion per day

Business, Government, Financial and Unfunded Liabilities Debt exceeds \$100 Trillion

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