

Currency Wars, Market Manipulation and Quantitative Easing

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As we write the US dollar is in the process of trying to find at least a temporary bottom at 76.50 and to launch a countertrend rally. We would think a rally back to 80 is achievable, but we do not believe it's sustainable - only some stabilization through the election. Japan drew a line in the sand at 82 and finished last Friday trading at 81.37. That does not smack of success, but we see improvement over the next two weeks.

One thing the weaker dollar has done is make exports cheaper for transnational conglomerates and that has helped the market along with these companies repurchasing their stock in the market. In spite of these subsidies the market went nowhere last week. That was probably because of the off again, on again, of quantitative easing 2. Half of the Fed members say lets do it and the other half says do not. In the middle of this verbal conflict is the ever-placid Ben Bernanke, who is answering the call of Wall Street by expanding aggregates via the repo market, which he has been doing since early June. At this point we can assume that the wise guys, who really make the decisions and just happen to own the Fed, have discounted an injection of \$500 billion. In addition, they know long-term interest rates are headed lower, although a reduction in the ten year T-note of ½% to 1% is not going to change things much. It will only provide a comfort zone and make big corporations more profits. We do not believe it will have a big influence on home buying with the mortgage scandal in process, which could drag on for years. It will be interesting to see if any bankers are charged criminally. In all probability none will, they just pay fines, or their corporations do, which is all the government is interested in.

While this transpires and international business tightens, exporters all want cheap currencies, that has caused neglect of the dollar by the fed and Treasury and their antics have put the foreign exchange market into disarray. This in part has caused consumer confidence to fall generally worldwide. We see no end in sight and from our point of view this is part of a global trade war as greed distorts rational thinking. It had to come and it will benefit the US in time. You have China increasing aggregates at a 20% rate to cheapen the Yuan for trade purposes. If China does not cease and desist their policies will definitely lead to trade war as everyone else follows. In order to solve these currencies, trade and tariff problems, all these nations have to meet and agree on revaluation, devaluation and debt default settlement. If that doesn't happen the entire system is going to break down.

This is why gold, silver and commodities make sense in this negative environment. Where else can you go that is safe, as countries are most all developing beggar-thy-neighbor policies? We must say the eurozone has refrained from quantitative easing, but how long can that last? The euro just rose from \$1.19 to \$1.40, and the 12% to 15% price advantage for exports is in good part gone. Germany and other members will continue to see falling

exports and that will put great pressure on the ECB to loosen up and perhaps to reduce interest rates. We are seeing one reflationary cycle after another in most nations and that does not solve the problems. We have seen that in the US with the Bush stimulus, then QE1. That is why QE2 is futile. All it does is enable higher gold, silver and commodity prices. The gold and silver markets have been a lock since June of 2000, or for 10 years. Compounded annual gains of almost 20% a year. These kinds of profits have existed nowhere else over that period. In fact nothing comes close and it is going to continue. What you are seeing is classical economics at play. Not only are they an inflationary, hyperinflationary and deflationary depression play, but they are as well the ultimate currency play. The only entity or currency that has no debt or encumbrances. Today we even have ETFs, that are supposed to have physical gold and silver, but instead are loaded with derivatives. We had best hope the derivatives market doesn't fold, because if it does all the players therein will have some serious problems, as well the highly leveraged LBMA and Comex.

Psychologically the new mortgagegate scandal will put a damper on home and commercial real estate sales in the US. Recent G-20 meetings have produced little in the way of solutions on trade and foreign exchange. Derivatives are not even discussed. Protectionism is being forced on nations by greedy nations, as most all unilaterally act in their own interest. They believe they can continue to get away with what they have been getting away with for years. The US and Europe cannot simply look the other way anymore. This as Keynesians all trip over themselves and the fascist economic model. Nations cannot make people buy things and they are pulling their financial horns in worldwide. That means all that money and credit created does not go into plant, equipment and research, or consumerism. It ends up in speculative markets. It serves to beat off inflation, but it creates nothing, especially jobs and consumption. The insiders, insider Goldman Sachs, say the economic scenario is fairly bad and very bad. Does it get any simpler than that?

We see totally surreal markets, because the US government has been manipulating them under the fascist model for years. As in 1984, good news is bad and bad news is good. Market manipulation is insanity and it guarantees a dreadful conclusion. There is no logic and the denizens of Wall Street go right along with the scam least they lose their jobs. Most all of the economic and financial news is bad and that is a fact. Markets cannot thrive on hope in the Fed or the administration or on QE2. The fundamentals simply are not there. Zero interest rates cannot last forever and neither can a never-ending, growing Fed balance sheet. The Fed's policies have been losers. How can you have faith in a failed system driven by the greed and looting of the American public by Wall Street and banking, which owns the Fed? In fact we now see them praying for inflation so their system doesn't collapse. They really believe they can propagandize the public into spending more again. That is going to be a very hard sell with real unemployment at 22-3/4% and real estate still collapsing. In June, the banks began to try to lend to the better quality, small and medium sized businesses. Thus far it has been a failure. In fact there is no upturn, or recovery, in sight. All the Fed is doing is creating another asset bubble in the face of mark-to-model and the carrying of two sets of books by major corporations, especially in Wall Street and banking. That means the downside risks are still latently present. What does Wall Street say about 30% of unemployed have been out of work for more than a year and 40% have been out for more than six months? The projection is 11 million homeowners are going to lose their homes unless government offers an effective modification program. How do you get 42 million people off of food stamps? Can the health care bill be reversed? We hope so, but we do not think so. Corporate America and banking have close to \$5 trillion, but they are reluctant to spend it or lend it. This looks like a blind alley to us.

The kick off of QE2 began with the purchase of long-dated bonds. That plan we are told has a \$500 billion price tag for openers. As we explained in an earlier issue the Fed will have to buy \$1 trillion to \$1.5 trillion in bonds. That should easily take the 10-year T-note down to 1.5%. This is an accepted fact on Wall Street and has already been discounted in the market. Profit growth is receding and costs are rising for corporate America. If they lay off any more people they won't be able to function.

As you all know as the dollar falls foreign goods become more expensive in America and that fuels inflation. In addition commodity prices are rising at a very quick rate fueling further price inflation. These competitive devaluations aid as well the upward movement of gold and silver.

Historically the investments that gain in price and stature during currency wars and with the imposition of trade tariffs are gold, silver, platinum and palladium. Commodities gain as well in the flight to quality.

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