

# Fiat Currencies Versus Gold: Will China and Russia Quit using the US Dollar?

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Theme: [Global Economy](#)

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The Federal Reserve's balance sheet grew a 4th straight week to \$2,328 trillion, up \$31 billion in a week. In May the balance sheet was \$2,333 trillion.

Holdings of government securities totaled \$901.24 billion, and rose \$27.62 billion. Mortgage holdings were unchanged and Agency holdings fell slightly.

It might interest you to know that over the past seven years federal debt has doubled to almost \$14 trillion. That is more than \$100,000 for every American household.

It should be noted that combined expenditures on Social Security, Medicare and Medicaid are projected to account for 45% of primary federal spending. That is a rise equal to 62% of GDP to 185% in 2035. 70% of US Treasuries are held by private investors and once they start to realize the US is really broke the game is over.

On a European note, Germany cannot keep paying for bailouts without going bankrupt itself. Germany is drowning in the debt of other countries.

Assets under management in commodities hit a record high of \$340 billion in October.

A very important event is that China and Russia are going to quit using the US dollar. This is big news. In spite of the current USDX dollar rally it will reduce demand for dollars and expedite the dollar's demise. Once the dollar rally, induced by European problems is over, the dollar should take out 74 on the USDX. Current US insolvency is being ignored as the five-euro zone PIGGS get gored.

In addition, we wonder whether even the strongest country, Germany, can survive the onslaught of the 5 PIGGS and their financial problems. The Germany people are very upset that they have to bail out these Club Med countries. The US has the same problem with large liberal states with vast amounts of illegal aliens that are broke and will have to depend on the federal government for perpetual funding. Accompanying that funding will come further Federal control.

This presents two similar sets of circumstances. A breakup of the euro zone, which we have felt was inevitable since 1997, and a breakup of the unnatural alliance known as the European Union. In the US a similar set of circumstances could bring to the forefront the state sovereign movement. It will be interesting to see how both develop. It could well end up as everyman for themselves. Worldwide banks, individuals and corporations are insolvent in very large numbers. The banks, Wall Street and the City of London have been the root cause of these problems and by the countries bailing them out and transferring the debt to

the taxpayer; they have in turn destroyed the value of their currencies versus gold. The problem is not currency versus fiat currency, but all currencies versus gold. The real exodus from currencies hasn't even as yet begun because 95% of the world hasn't discovered the problem as yet. Once the debt markets discover this the stampede will begin and not everyone will be able to get out the door at the same time - virtual chaos will ensue. The gold and silver markets are already telling you that. Those who act now can save their wealth, the rest, as we have seen in the past, will lose most everything. Next year worldwide more and more will join the flight to quality as prices soar. Confidence in all currencies will lessen as currencies head for a massive crackup. A compounding factor is that exchanges such as the LBMA in London and the Comex in NYC have sold scores more contracts in gold and silver than they can deliver. That will create a delivery crisis, not only for them, but also in the derivatives market as well. That could well destroy the Exchange Traded Funds GLD and SLV in a scenario when everyone loses their investments. The manipulation that has gone on in the gold and silver pits has been ongoing since August 1988, but now they make no effort to cover up what they are doing. It's in your face and arrogant. There have not been free markets for many years, thanks to our government, the CFTC and the SEC as regulators for government and in behalf of government and those who control government. This is an absolute disgrace in a democracy. Obviously we no longer have a democracy or a republic, but in its place corporatist fascism.

Desperate people do desperate things and that goes for governments as well. Many governments are broke. We know about governments in Europe, known as the 5 PIGGS, then there are many in Eastern Europe, England and the US. They all are in desperate shape and that is why the US and the UK in particular are suppressing gold and silver. If they go up in value more and more people will realize something is terribly wrong. The lynchpin of the entire world financial system, the US, is broke and the US dollar is not worth the paper it is written on. The last time we looked at the forex holdings of all nations 59-1/2% was held in US dollars, which means when the dollar falls lower all nations are going to suffer. Those nations, individuals and corporations that figure out the truth through the smoke and mirrors can save what they have by dumping dollar for gold and silver. Once the panic begins it will be too late.

There have been statements as of late in reference to a gold standard from what we consider official sources. We believe the elitists realize that they cannot begin to consider a worldwide trading unit no matter what its form without gold backing. Countries are not going to allow themselves to get hung out to dry again, as they have been with a fiat dollar. We know most economists want the present system to continue, so they do not have to learn real economics. Even so-called conservative economists and analysts believe in the current system, which has been an abysmal failure. That has been borne out by two depressions and a population growth is no excuse for not using gold backing for currencies. It has little to do with central banks and governments creating money and credit. Gold production is falling not rising and adds only 1.5% to existing supply, making it rare and to be valued. The presence of gold backing helps demand for expansion. Keynesians always like to forget wars and the distortions they create, such as fiscal debt and expansion of the fractional banking system. Today we still have wars amidst a new declining world population; a sort of double whammy restricting the excuse for more money and credit.

The real problem is gold caps what central banks and banks can do. That limits leverage that is why the wealth accumulating elitists hate gold and besides gold's upward movement tells us something is wrong within the system. Over and over again every time the system

gets in trouble more money and credit is issued. That might for a time keep the system afloat but it also is debt creation, which in turn depreciates the dollar. It is impossible to separate debt and the affect it has on currency, as German Chancellor Ms. Merkel tried to do this past week. All she did was make a fool out of herself. One has to follow another. Each day credibility is strained and each day gold has another reason to rise. This is why gold-based accounts are starting to appear in Europe, mainly Austria, and under the circumstances that trend will grow as the flight to quality rises. Such responses are understandable as governments compete at destroying their currencies. Every time they want to depreciate the value of their currency, to create more of it, buy dollars thereby cheapening their currency, and use the result to purchase US dollar bonds in a US dollar that is also depreciating versus other currencies and in particular gold. Remember, all currencies have fallen versus gold for the past ten years. Thus, the rat race continues in the currency road to oblivion.

In the final analysis in a form of natural progression exporters may demand to be paid in gold, or a gold backed currency, or simply dump other currencies for their own currency, gold, commodities or something else physical. This is where all this is headed. We could also see, gold, silver and commodity bonds backed by physicals or the shares of producing companies. There will be gold and silver backed accounts, which have begun being offered in Austria. As long as fiat currencies continue to depreciate there will be a growing demand for such accounts, which at worst will maintain gold at some permanent level. The value of gold and silver will remain strong. Even gold backed debit cards could come into everyday use. It is absolutely essential that monetary policy include gold if confidence is to ever be restored in the minds of people worldwide.

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