Gold, Silver and "Crashing Markets". It's Ugly if You Look Under the Hood

By Bill Holter
Global Research, May 01, 2015

Region: USA
Theme: Global Economy

My plan for today was to write a very basic piece hitched to the one written yesterday "the money has to go somewhere". The plan was to point out that gold (and silver) will be the final destination for monies dislodged from crashing markets all over the world. Along came the Q1 figures for U.S. GDP, a disaster on many levels. So switching gears, let's look at the first quarter, how quickly the economy has deteriorated and what it means in the future and in relation to the past. I do plan to tie this together at the end because no matter how you look at it, gold is a magnet for what will be shaken loose.

Q1 GDP came in at .2% growth, this was a whopping $6 billion worth of growth for the quarter. This number was an obvious disappointment as estimates were around 1%+. Of course the apologists were immediately out in full force to remind us of how terrible the winter was and "weather" was to blame. I would ask, isn't that what "seasonal adjustments" are for? Steve Liesman of CNBC even posed the question why seasonal adjustments are "not working". The obvious answer is because you can only stretch, massage and outright lie about economic numbers so far before you cannot any longer …because even the blind will see it.

Breaking the quarter down and looking under the hood, were it not for the biggest inventory build of any quarter in history, the quarter would have shown a negative 2.6% growth rate . What exactly does this mean? It means the consumer or final user has shut off their purchases. It means "stuff" was produced but wasn't sold. The inventory build number was over $120 billion, can this happen again in the 2nd quarter? And what if the end buyer keeps their pocketbook shut again? Something must give, either the inventory gets sold or the producers must cut back production drastically.

It is worth mentioning that QE 3, the "final QE" ended in the fourth quarter. Is this an example of the economy convulsing because the juice was taken away? And let's not forget, today (yesterday) was a Fed meeting and announcement, can they possibly even hint about raising rates and actually withdrawing some of the previous "juice"? Another "blame" is being pinned on the strong dollar, can the Fed really raise rates and put a further bid under the dollar?

What does this mean for the future of the economy and more importantly the financial markets? The markets are at record high valuations, the news of an economy going in reverse can only augur for lower earnings. The strong dollar can only augur for a Fed who doesn't want a stronger dollar. The leverage in the financial system is so thin already, can the risk be taken that something will snap? I don't believe so, I also believe it will not be long before QE 4 gets floated seriously and then implemented.

As I wrote yesterday, "the money has to go somewhere". It looks to me like some sort of come to Jesus moment is close in both the economy and the markets. If you have been awake, you understand the economic and financial systems, are dichotomized yet so intertwined, a spark anywhere means a fire everywhere! Literally hundreds of $trillions will be shaken, some of it "shaken loose" and will look for a safe place to hide.

All the gold ever mined in history is worth some $6 trillion, what do you suppose will happen when $10's of trillions seek the safe harbor of gold? No matter how you look at it, the Fed is in a box of their own making, any action or inaction has the possibility of shaking the tree and dislodging capital, forcing it to look for safety. The result will be your "no offer" moment in time. As capital floods toward the only monetary asset that cannot default, owners will pull their wares off the shelf and withdraw their offers. This only makes sense because the movements will be so large and so fast, no one will even know what various assets are worth or where they will settle until after the dust clears.

I leave you with this thought, if you need to build a fire or light a cigarette, how much would you pay for a BIC lighter? The same could be asked about "money", if one needs to put capital somewhere that cannot ever default (which is gold only), what is one ounce of gold worth? It is crystal clear to me, when this question gets asked, it may take some time for the physical market to clear and give an answer! The true value of gold will shine as a vortex of defaults occurs.

Articles by: **Bill Holter**

About the author:

Bill Holter writes and is partnered with Jim Sinclair at the newly formed Holter/Sinclair collaboration. Prior, he wrote for Miles Franklin from 2012-15. Bill worked as a retail stockbroker for 23 years, including 12 as a branch manager at A.G. Edwards. He left Wall Street in late 2006 to avoid potential liabilities related to management of paper assets. In retirement he and his family moved to Costa Rica where he lived until 2011 when he moved back to the United States. Bill was a well-known contributor to the Gold Anti-Trust Action

Committee (GATA) commentaries from 2007-present.