Rising Debt and Manipulation of the Gold market

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The US welfare state rumbles on and in some sectors of business it is being encouraged. We have to assume this attitude is based on more and increasing profits. Needless to say, it is cloaked in language that refers to the poor suffering people. The economy in the US and in many other countries is being run by and for major corporate interests.

We have government paid for and controlled by wealthy corporatist interest. In America you have $14 trillion in short-term debt and $105 billion in long-term commitments. Then there is the off budget items, such as wars and occupations that adds considerably to this debt, all attuned to keep the welfare state running. Both parties refuse to cut much of anything, although the Republicans say they will. We are skeptical after watching the tax bill become an $862 billion pork stimulus package. Discretionary spending is where the cuts will probably occur if there are any.

The cost of carrying this debt becomes more unpayable and onerous daily and there is little attempt to stop it. The Fed may control the short end of the Treasury bond market, but it has minor influence on the 10-year notes and 30-year bonds. As a result yields have risen and the spread in yields between short and long-term paper has grown to 32-year highs. Needless to say, holders of long-term notes and bonds want to be better compensated because they see more risk, as US debt grows uncontrollably higher. Short-term yields have stayed about the same because the Fed controls them. The demand for capital in small and medium companies has been muted by lenders reluctance to lend for the past two years. Zero interest rates have not helped these potential borrowers that create 70% of the jobs. Funds though are readily available to the major transnational conglomerates. Government and the Fed won't talk about it, but they are manipulating all markets, and that is a long-term negative factor because everything they do is for their own benefit – not for the people. The state of political affairs could be worse but they certainly are not good. We liken the US economy to a rudderless ship being pulled and jerked by one special interest group or another from side to side never gaining equilibrium. As long as this situation persists no headway will be made in solving budget deficits, nor in neutralizing the welfare state.

At the same time we see red flags all over Europe. It is pointed out that in Europe, Greece is uncompetitive and has a sodden public sector; that Ireland borrowed too much and was moving more to a welfare state; that Belgium was a house truly divided with financial problems; that Portugal's economy lagged like that of Greece and has similar major budget deficits, and that Spain doesn't have a diverse enough economy and was literally destroyed by one interest rate fits all. What no one wants to contemplate is why did this all happen? That is because banks lent them all as much money as they wanted. The bankers, the professionals, should have never lent them such outrageous sums in the first place. Now the banks with their bad loans are demanding they be bailed out. It is ludicrous and the banks should be allowed to go bankrupt, they are the experts. They knew exactly what they were doing. That is Europe's solution and the quicker they realize it the better off the Continent will be.

As of this writing gold has fallen about $100, and silver some $3.00. Support for gold lies anywhere between $1,280 and $1,340. Many are disappointed that both metals corrected, which is natural, but they are more upset that the correction was deliberately man-made.

Part of the corrective process was that Germany supposedly was going to save the euro, or at least that is what jawboning Chancellor Merkel seems to think. Germany is not about to bail out six insolvent countries. If they do or even participate in spending of more than the original solvent euro nation commitment of $1 trillion, they may become insolvent as well. The German people are well aware of this and they won't allow it to happen. As we reported in the last issue contingency plans are already underway to reintroduce the Deutsche mark if necessary. The euro zone countries are facing major funding all year, but the heavy end will be in the first quarter with lighter demands in the second quarter. Germany is not about to bail out sick members or the euro, especially with Irish elections coming in three weeks. Thus, we see no eminent moves by Germany.

Gold has spent the last two years moving up in price as it challenged the US dollar for supremacy as the world reserve currency. Now, inflation is again in investor's sights, as companies are forced to raise prices 6% to 15%, after having raised prices over the past year mostly in the form of small packaging. We'd call that stealth inflation. Manufacturers and producers think they are fooling the American public, but they are not. They are just demonstrating how deceitful they are. Raw materials costs are rising and they will continue to rise and so will real inflation, and that makes gold and silver move higher to reflect the loss in purchasing power of the public and the loss of value of all currencies versus gold and silver. In our previous report this week we pointed out the massive short covering by commercials in the gold pits. Unprecedented net short reduction, which can only portent a major upward move in gold and silver. The percentage of silver short covering was not nearly as successful for JPM, HSBC, GS and Citi. That is still yet to come. It will expedite the upside as it has done recently. All the elitists have done is ended their short bias and now will join you on the long side of the market. Their tactics have given you another opportunity to buy at cheaper prices.

The bond market yields will move slowly higher on the long end for the remainder of the year and thus, bonds should move slightly lower.

Stocks, which are way overpriced, will eventually fall probably back to 10,000 on the Dow.

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