

Deepening Economic Crisis: Inflation, Rising Interest Rates, Surge in the Price of Gold and Silver

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Economic recovery does not seem to be taking effect in spite of more massive expenditures by Congress and the Fed. The IMF says financial stability has improved, but then again their vision is almost always clouded. US tax revenues are not increasing in a meaningful way, manufacturing struggles to expand and Wall Street flourishes in a cascade of mega salaries and bonuses. In another six months the US will be three years what the government, the media and Wall Street call a deep recession. We call it an inflationary depression, which has existed for 26 months. After eight years of increasing money and credit, and the creation of a real estate bubble, the Fed has been fighting off asset destruction with ever more money and credit accompanied by debt deflation. Part of the Fed's policy has been zero interest rates, which has helped Wall Street and banking and to a limited extent real estate, but has destroyed the purchasing power of retirees and has driven funds into speculation, which in many cases has ended in ever more losses and less buying power.

The policy left conservative investors no place to turn to other than to join Wall Street and bankers in speculation, something they were not prepared for nor could they compete with. Borrowers have had a field day with virtually free money for which the result has been higher inflation and really major unemployment. You might call this the true Keynesian corporatist fascist model. This has left us with ongoing malinvestment, ridiculous illusions, which have led to the de-capitalizing of the US economy. In that process these interest free loans have given the big hitters the opportunity to enhance their fortunes at the expense of everyone else.

These rates and QE2 at least for the moment have been so powerful that deflation is nowhere in sight, except perhaps in job creation. In fact net inflation has moved up to 9-1/2% and we believe this year it will attain 14%, as government eventually admits to 5-1/2%, as we saw three years ago. If you think we are wrong look at producer prices that are up almost 11% over the past six months. Government and mainline economists are not paying attention. Either the higher costs are passed on or the profits will disappear. Just like in years past, over and over again, the excessive expansionism of monetary and fiscal policy will produce excessive inflation, more inflation than the so-called experts are anticipating.

The bailout of financial institutions by American taxpayers, both in the US, UK and Europe, won't be allowed to happen again. In the next go-around they will go bankrupt. Those in the US and other stock markets with the exception of gold and silver shares, those in bonds, derivatives and hedge funds, will be wiped out as well. Few will be spared.

A year from this June inflation should be near 20% and that is where panic will set in. The 10-year T-note should be yielding 5-1/4% to 5-1/2% and the 30-year fixed rate mortgage should be 6-1/2% to 6-3/4%. After that interest rates and inflation will more than double, as they did in the late 1970s.

An example that is easily understood is that due to foreclosure and lack of job creation, rents should increase 10% over the next 1-1/2 years. That is known as Homeowner's Equivalent Rent, which is 23% of total inflation. We believe that is a conservative figure. We won't deal with core inflation, because it is just a method of obscuring real inflation. That 10% increase would add 4% to net inflation, which is currently about 9-1/2%, not 1.9%, as your faithless government would have you believe. That would put real inflation at 5-1/2%, not to mention increased prices for fuel and food. That is why our estimates are 14% to 25% over that time frame. Don't forget interest rates will be rising as well. This only includes QE and stimulus 1 & 2. If QE3, by that or some other euphemism occurs, which we believe has too, then 50% inflation and hyperinflation is attainable. Readers have to remember that even if oil prices stopped increasing at \$120.00, and food prices stayed at 10% higher levels, it would still rob consumers of \$300 billion in purchasing power. That would drop consumers as a part of GDP from 71% to 69% easily. That means GDP growth even with the Fed adding \$2.5 trillion to the economy, would at best stay even and may reflect as low as a minus 6%. You have to get the feel of the dynamics of this. Raging inflation, plus perhaps hyperinflation, a falling economy and 30% to 40% unemployment, U6 was 37.6% at the top of the great depression and the birth/death ratio didn't exist at that time. Presently wages are stagnant, and they have been so for three years. Wages will finally start to rise so you can add rising wages to the inflationary explosion.

As this transpires we have the Middle East and North Africa, which are now a frightening further calamity waiting to happen. Any further violence there could take oil to \$150.00 or higher. Will there be war with Iran? Perhaps and if that develops oil could escalate to \$200 to \$300 a barrel. Such developments would knock the foundation out from under the entire world, except for those fortunately producing oil.

Another factor is the plight of municipalities and states in the US. We have seen a small reduction in employment in these sectors, but the biggest layoffs are yet to come, as well as more than 100 municipal bankruptcies. We will also see debt default by states in relation to their bonds and other debts. Some states, such as Illinois, New York and California could cease functioning. This is not a pretty picture.

Then we have the woeful situation in the UK and Europe, all beset with rising inflation as well. A sovereign debt crisis has been prevalent for months with Greece, Ireland, Portugal, Spain, Belgium and Italy. All are at different stages of failure and nothing has really been resolved. As we wrote months ago the cost of bailout assistance would be \$4 trillion, and it was just recently that the Germans and other lenders realized that the bailout cost is insurmountable. The cost will easily bankrupt the solvent lenders. Then there are the banks, all of which are close to insolvency already, which are facing massive bond losses, which will put them out of business. These are the loans they made that they should have never made, from funds created out of thin air.

Iceland has rejected paying off British and Dutch depositors, who had funds in Icelandic banks, which went bankrupt. The depositors do not have a leg to stand on and the citizens of Iceland are correct in their refusal. It was the Icelandic bankers who screwed the depositors.



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Recently Finland's voters rejected the bailout of Greece, Ireland and Portugal and who can blame them.

Wait until Greece goes into default, then things will get real interesting.

We normally do not editorialize regarding silver and gold. As you know we have recommended being long gold and silver shares, coins and bullion since June of 2000. Now that story is getting even better. Not only has gold and silver been a safe haven asset all those years, but is finally again becoming a shelter from inflation. The US, UK and Europe are in serious financial and economic trouble. Over the past 11 years, nine major country's currencies on average have fallen more than 20% each year versus gold and silver. That is quite an extraordinary return and from our mail our subscribers are quite happy they followed our advice. Our run, including our market shorts, has simply been unbelievable.

Silver prices are on a tear and as we write they have risen to \$46.30. In spite of these price levels the mining industry is not increasing production in any meaningful way. About 70% of production comes as a by-product of other types of mining, such as copper. There are no new sizeable projects in the works, and thus it is expected that production could fall 5% annually for the next ten years. The easy finds have already been exploited and new large projects are harder to find. In fact, current mines have only been able to increase production by a paltry 2.5% or so. In 2009 Argentina was the only outstanding exception and that could be a one off occurrence.

As we write gold has broken out to \$1,509.30 even as the "Plunge Protection Team" fights viciously to suppress both gold and silver prices. Despite the mantra on Wall Street and in government there is 9-1/2% inflation affecting the US economy and the professionals and the public are finally catching on. In spite of the greatest bull market in gold and silver history, they still do not get it. Less than 1% of Americans own gold and silver related assets.

The QE1 and 2 and stimulus 1 and 2 have done their damage. The inflationary results are in

the pipeline. QE and stimulus being reflected this year and the results of QE2 and stimulus 2 next year. We believe we'll see the results of QE3 the following year, 2013, but it will be called something else. A falling dollar and few buyers of US debt has again set the stage for the Fed taking down 80% or more of Treasury and Agency debt. If they do not do that the whole system will collapse. These programs are like booster rockets aiding an underlying positive fundamental condition for gold and silver. The flip side is the debasement and denigration of the US dollar. As an aside even though the ECB has just raised interest rates they and the UK will continue their own versions of QE, because if they don't their economies will collapse. That will put even more inflation into the world financial system.

As the possibility of QE3, or its equivalent, lurks in the wings the very solvency of America hangs in the balance. Those who have studied financial and economic history know that the course that is being followed is unworkable, and that certainly includes the staff at the Fed and the Treasury Department. In fact, Mr. Bernanke pointed out that in his and Mr. Baskins' writings in 1988 after the market collapses of 1987.

At the heart of America's problems are the insolvency of many financial institutions and the failure of either the Fed or the Treasury to have them liquidated. What the banks have in mind is the liquidation of bad debt held in suspension over the next 50 years. Supposedly as conditions and profits increase part of those profits will be used to lower debt. The problem is that these corporations are bankrupt. Their access in the creation of inside information allows them to produce illegal outsized profits, such as 90 days of proprietary trading without a loss. We were traders for 25 years and know under normal legal circumstances that that is impossible.

The, of course, there are the giant profits, really theft from other investors, that are used in part to offset previous losses and provide outsized salaries and bonuses to the crooks that run these banks and brokerage firms. These results are aided by the creation of money and credit and zero interest rates. The ability to borrow money created out of thin air at almost no cost. As a result the Fed now has a balance sheet of some \$3 trillion loaded with Treasuries, Agencies, toxic waste and if they decide to create more money and credit to keep the government and the economy functioning for another year that figure will become \$5.5 to \$6 trillion. That is some monetization. There is unfortunately no other way for the Fed to do it, when at best they can only expect 20% to 30% of buyers for Treasuries, as the dollar falls in value. The situation is dire as the US dollar has just fallen 5% versus the Mexican peso, as the Mexican economy grows 4.5% a year, inflation is 3.7% and unemployment is 5%, and they haven't used stimulus.

What are we missing here? Nothing except the Fed and Treasury, as well as Congress and the President are out of their minds as were their predecessors. How bad is it when the largest bond fund in the world, PIMCO, not only sells all its US Treasuries and Agencies, because they see no value and then they proceed to short them? It's certainly a sad day for the solvency of America. Who can blame PIMCO when government is projecting \$1.6 trillion deficits as far as the eye can see. In addition, all the funds paid by Americans for Social Security and Medicare have been squandered by government. Now there is no way to pay the promised benefits. That is \$100 trillion that has been stolen, or should we say misappropriated. It is so bad that the US government credit rating may soon be lowered. It was just 1-1/2 years ago we picked August 2011 as the possible time for a downgrading of

that AAA credit rating.

The number of states in serious financial trouble has now risen to 40 and unfortunately that number is still climbing.

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