Gold Rebounds, Dollar Plummets, Higher Inflation is on its Way…

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Gold has again broken out to new highs and silver is on the cusp of doing so as well. Unfortunately more than 95% of the pundits were not on board; they believed it was going lower.

The fight for monetary supremacy between the dollar and gold for over the past 16 months has been won by gold and that is why gold is moving higher and the dollar lower. The recent intervention in the currency markets by Japan, ostensibly to weaken the yen, assisted by the US and foreign central banks, won't strengthen the dollar for any appreciable period of time. The US dollar has broken down and there is no going back.

How can anyone want to be long the dollar when it has lost 80% of its value in 11 years versus purchasing power and more than 15% annually versus gold?

The current rally that has just begun will last at least through February and perhaps through June before there is any meaningful correction. By that time we could be looking at $3,000. It is anyone's guess as to how high it is going, but one thing is for sure, it is going higher.

We predicted these number ten years and three months ago, but we did not envision it would take so long. We were right, but it was a long painful process impeded by the US government in which they won many battles, but we are winning the war. Gold should today be selling at more than $3,000. That will happen over the next two years. The longer government draws out the war the higher gold will climb. We have just entered phase 2 of 3 or 4 phases. This process could take 3 to 5 years, dependent on what happens over that period of time. There could be a financial, monetary and economic collapse or a major war that could sharply alter the results and time frame. What is important is that in owning gold and silver you will be invested in the only assets that can protect you. There also is an outside chance gold or silver could again become part of a future monetary system. Do not forget gold is not only appreciating against the dollar, but every other currency as well.

In spite of government and central bank intervention and manipulation and one of the largest, longest, bull markets in history, there has been little professional participation and in the US less than 2% investor involvement, that in the face of a move from $252 to $1,270.00. It shows you how effective government and major media misdirection and propaganda have been. We have been recommending gold and silver related assets for 10-1/2 years. We witnessed the disgorgement of at least 2/3's of official gold holdings during that period either by outright sale or via leasing, which is tantamount to sale, because the bullion dealer who leases immediately sells the gold into the market to suppress prices, and repays the loan in dollars. Worse yet, the central bank that does the leasing is allowed by the IMF to state on its balance sheet that they still own the gold. Had it not been for central bank selling gold would be selling much higher.

We are already in the second phase during this administration of massive stimulus and the expansion of money and credit, known as quantitative easing. The first phase only caused an expansion of GDP of 5 quarters of 3-1/4% growth. The total cost was $2.5 trillion, which was a stiff price to pay for such limited success. Unemployment unofficially hit 22-3/8% and is presently 21-5/8%. The budget deficit is unconscionable, out of control and unpayable. 285,000 jobs have to be created each month for the next five years just to stay on an even knell. In the 18 and 24 year old group of job seekers unemployment is 52.4%. We are now entering the second phase of the credit crisis and little has changed. The financial corporations are still in serious trouble and still keeping 2 sets of books with the blessing of the EU, the US government, the BIS and the FASB, that will bring higher inflation and perhaps hyperinflation. Nothing has really been fixed and the Fed has cranked out of thin air some $12.75 trillion and they won't tell us where it all went. It's a secret that soon the Supreme Court will have to rule on. The Fed refuses to tell us how much they really have injected into the world financial system. It is estimated that figure is $20 to $24 trillion. Then there is zero interest rates that eventually can only go up.

There is no doubt in our minds that gold is headed for $7,600 as quoted by John Williams, a reflection of real inflation since 1980 when gold reached $850.00. If you watch CNBC or Bloomberg you are told today's gold and silver prices are the result of a commodity craze. How disingenuous when most people on Wall Street know that government and the Fed are deliberately manipulating the stock market to keep it from collapsing. The elitists will keep the inflationary depression alive as long as possible. These people know that gold is your only protection against inflation, hyperinflation and deflation.

Over the past 40 years we have seen one monetary expansion after another, all of which have led to bubbles in stocks, real estate and now bonds. In the final analysis these policies will bring the destruction of the dollar and many other currencies that have followed the same path. All the intervention politics in the world are not going to change the outcome. How can it when Forex trades $4 trillion a day? These policies were implemented for more than 20 years by Sir Alan Greenspan and now we are about to pay the price for his complicity with world elitists. He ushered in the dotcom collapse, which fortunately we called the top on two weeks after it peaked and the real estate collapse that we called the top on for June 2005. What causes recessions and depressions is leveraged credit used by speculators such as banks to maximize profit. During 2003 thru 2007, banks and others were leveraged from 40 to over 100 to one. Banks averaged 70 to 1 and are still leveraged 40 to 1, when the historical norm is 9 to 1. Talk about malfeasance and its consequences, or was it really that. Did the banks and others, who own the Federal Reserve, do this deliberately? We believe they did and if you look at history, not only in this millennium, you will find a pattern of similar supposed incompetence. The Fed caused the "Great Depression" deliberately and they caused our current depression as well. This is not a game – it is deadly war. Over the past three years, Mr. Greenspan's successor Mr. Bernanke, unleashed the greatest expansion of money and credit in modern history. This wasn't stimulus, it was a tidal wave, designed to deny deflation the upper had, as the value of assets collapsed. Indicators for the economy are now negative again, so QE2 has begun. In June lenders, who had cut back lending to small and medium sized companies, which create 70% of new jobs, by more than 25% over 1-1/2 years, attempted to lend to those best risks over the past three months and found very few were interested. That means banks will have to lend to companies with bigger risks, in order to lend sterilized funds and to monetize them within the economy. QE1 tells us one thing starkly and that is QE1 didn't work and in all likelihood QE2 won't either. It all goes to show most everything we learned in college economics was wrong. Milton Friedman was a dreamer, John Maynard Keynes set up an economic system based on corporatist fascism, Alan Greenspan was a disgraceful opportunist and Ben Bernanke is simply out of his element. What goes for theory in the ivory tower does not work on Wall Street and in the City of London.

As we wrote some 15 years ago, Wall Street had become a casino. It no longer was just a place for raising capital; it was a vast gambling emporium for stock touts, investment banks, traders, arbs, insurance companies and pension funds. This is what the world of the Federal Reserve had become. The only concern was and is profits, not the well being of the public.

Government claims inflation is 1.6%. We see it at over 7%. This happens when consumables are so in demand, due to economic growth or to credit expansion, that they rise in price.

Hyperinflation is caused by a flight from currency and into commodities and physical assets. The holders want to escape the currencies by spending them as quickly as possible. It is a loss of faith.

In February we will have been in an inflationary depression for two years. This condition has been extended over the past 16 months by the creation of $2.5 trillion of money and credit and stimulus. That process is starting over again with what is described as Quantitative Easing 2.

Presently banks have about $1.5 trillion in cash and corporate America about $2 trillion. Excepting major, highly rated corporations, banks haven't been lending much over the past 16 months. When they attempted to lend over the past three months to better quality middle and lower tier companies not many wanted to borrow. The reason is that these businesses, that make up 70% of new jobs, don't know what to expect from government, what taxation will be and when will employment increase. Public attitudes concerning debt and debt liquidation, home ownership, and spending are changing dramatically.

As a result, 25 million people are unemployed or forced to work part-time, workers are being forced to tap into retirement funds, cash value life insurance policies and savings. We believe higher inflation is on the way as money and credit are monetized and fiscal spending increases. That could lead to hyperinflation. That then would eventually be followed by a bursting of the bond and stock market bubbles, a loss of control by the Fed and the Treasury and massive deflation. In this latter scenario government stimulus would no longer be effective. This is what happened in the late 1930s and as a result we had another war. What we are seeing now is an exodus of investors from the stock market to bonds, commodities and gold and silver. Both CNBC and Bloomberg term the flight to quality to gold, silver and commodities as a craze. We ask why isn't a flight to bonds a craze? This points up the duplicitous reporting and twisting in the major media. If you want an example of the direction we are headed, just look at Japan over the past 19 years. They have been in a rolling depression from which they have not been able to extricate themselves.

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