

Quantitative Easing (QE3) is on Its Way.... Once QE2 and QE3 meet, inflation will go right through the roof.

By [Bob Chapman](#)

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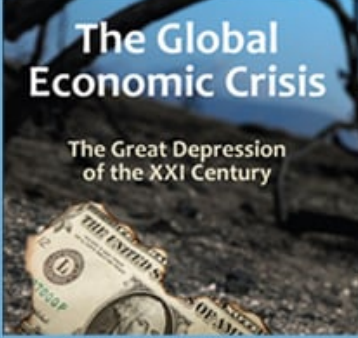
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Region: [USA](#)

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QE3 is on the way accompanied by almost zero official interest rates. QE1 was to bail out the financial sectors in the US and Europe and QE2 was to bail out US government debt. That is why the Fed has purchased 70% to 80% of Treasuries. Previous debt and the \$1.6 trillion of new debt created this year means someone has to buy that debt and there are very few buyers. That means the Fed has to buy most of paper with funds created out of thin air in this monetization process. Those tremendous amounts of funds will most certainly increase inflation. This policy is never ending unless default becomes inevitable. That is why money and credit has to be created indefinitely until hyperinflation occurs and the system eventually collapses. It is no surprise then along with economic, financial, social and political instability that there has been a steady movement into gold and silver related assets and commodities. As long as stimulus of one form or another continues to be used the problems won't be solved and these investment vehicles will move higher and higher. Every time money and credit are created with no collateralized backing, such as gold and silver, the value of these aggregates in circulation falls, and such an endless cycle guarantees the demise of the currency and the rising value of gold and silver.

Recent tragic events in Japan has brought some unexpected developments, which for the time being could lift the economy from depression at least on a temporary basis. Funds committed aggregate just under \$1 trillion not the official \$309 billion. We believe the funds could be raised initially in the following way: \$300 billion from the postal savings plan; \$300 billion from yen bonds sold in the international market and \$300 billion from the liquidation of US government and other US dollar denominated securities. That is for cleanup and infrastructure. Then Japanese insurance companies, as well as foreign insurers, have to raise billions more to pay off the insured.



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In Japan's quest to reconstruct the region affected demand for commodities will increase putting added upward pressure on commodity markets. Not only for base metals and materials, but for food stuffs as well, due to contamination and the disruption in material and food distribution. Needless to say, these problems will create inflation, something not seen in Japan for almost 20 years. Trade surplus will become trade deficit and result in a balance of payments deficit. This tragedy could cost Japan its converted position in the top 5 industrial nations of the world. These events will probably as well lead to the end of the yen carry trade, which has funded speculation worldwide for many years. It will affect exports, but also the purchase of US Treasuries. The recent effort, illegal and unprecedented, by G-7 countries to rescue the yen was in reality a move to purchase US Treasuries being sold by Japan. Yes, the yen fell from \$.76 to \$.81, but that is a transitory move. Central banks and governments didn't want upward pressure on real interest rates, the Fed having to buy all that paper, or the possibility of default by the US. Short term the bailout worked, but now the Fed has to buy the bonds from G-7 members over a period of time putting further pressure on the Fed balance sheet and create more monetization. What you saw was a cleanup operation akin to QE2 that might be termed a QE3 for the Fed. Insiders and others in bond markets in the G-7 know what went on but the public doesn't. It is not surprising that the dollar has been under downward pressure recently. Such currency dilution and depreciation can only lead to further upward pressure on gold and silver in the coming months. You might call the situation global monetization caused by the G-7. This as well will be a catalyst for global price inflation in the coming months, something most people are currently unaware of. This outpouring of money creation will probably take six months to a year and one-half to show up in the form of inflation. It will enlarge the inflation problem of QE2 and stimulus 2. The operation to devalue the yen in the marketplace and mop up Japanese sales of treasuries will go on until Japan has enough fluid cash to get reconstruction underway. Japan's unfortunate plight might be a diversion, but it will prove to be an expensive one for all the countries involved. What is going on in this area will probably only be recognized by a handful of professionals. Most investors and the public will never know what transpired. This procedure could well have set the scene for hyperinflation in 2013. If QE3 becomes reality it can only be worse. Of course, this sets the stage for hard times for citizens of G-7 countries and others and it will send gold and silver considerably higher.

The Fed has for years, and the Treasury as well via the Exchange Stabilization Fund, been intervening in the currency markets. It is part of the legal function of both entities under the Executive Order, signed by President Ronald Reagan, known as "The President's Working Group on Financial Markets." The ESF is a legal subsidiary of the Treasury Department

created in the 1930s to smooth currency markets. It is used frequently and could have as much as \$1 trillion and when used with leverage can affect currency markets for several days in a row. It was used illegally in 1995 to assist Mexico when its economy was about to collapse. Two weeks ago for the first time in a long time, the Fed admitted intervening in currency markets, something they and the ESF do every day via JPM, GS and Citi. the last time we saw open Fed currency activity was 10 years ago in behalf of a falling euro.

These are the kind of things government and the privately owned Fed get away with and the public never knows, because the media refuses to expose what they are up too. Another perfect example is the rigging of the gold and silver markets. Overwhelming evidence of such manipulation is presented every day and the media refuses to carry it. The bottom line is once QE 2, intervention and QE3 meet, inflation will go right through the roof.

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