The Flight into Gold. Rampant Inflation and the Collapsing Dollar System

By Bob Chapman
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We believe that for the past 2-1/2 years the price of gold has been mainly driven by a flight to quality, as gold vied with the dollar for supremacy, as the world's reserve currency. As we have witnessed gold has won that battle. The only way the dollar or any other world reserve currency can compete is by being backed 25% by gold. The elitist's royalty of Wall Street and the City of London are quite upset with these developments, because they want all currencies to be fiat, so that they would not have to have a gold backed international monetary unit. Over the last six months another historic factor has come into play in evaluating gold versus currencies, and that is the interconnectivity of gold's relationship with inflation. In the late 1970s this was the underlying factor for the rise in the prices of both gold and silver. At that time they never had the luxury of strength also coming from recognition of being monetary units. We hear the manic claims that gold and silver are bubbles or are manias. That cannot be because gold is and always has been the only real money. Every time the major media makes these bogus claims they always fail to mention that both gold and silver have appreciated in value in excess of 20% annually versus nine major currencies. They refuse to point out gold and silvers' 11 years track record having risen from $260.00 and $3.80 respectively to more than $1,500 and $50 per ounce. This shows you the massive deception by the major media, which is totally controlled by the elitists from behind the scenes.

When QE3, or something akin to it, is implemented during the summer, it will give the stock and bond markets one last boost. Most of the gains from a future QE3 have already been reflected in the market place. On the other hand such recognition by investors, not as yet discounted, will give a very large boost upward to gold and silver. As this takes place downward pressure will begin to appear in the stocks, bonds and the dollar. Those events will make it even more difficult to sell US Treasury and Agency bonds. Efforts will have to be added by the Fed to cover up the again ongoing losses of banks and brokerage houses – the financial sector – under the concept of too big to fail. The greater the effort needed to save these bankrupt institutions and the government the greater heights gold and silver will rise too. Adding fuel to the fire most other nations will have their own versions of QE3 compounding world inflationary problems. Even if a nation is not causing inflation they are forced to absorb foreign nation inflation whether they like it or not.

You have to look at the terrible fundamentals America is facing. The Fed has a balance sheet close to $3 trillion that could be $5 trillion in a year and one-half. If they purchase 80% of Treasuries and Agencies and bolster the declining economy. There is no end in sight for zero interest rates. Both the increases in money and credit and low interest rates will continue to send inflation into orbit. Monetization is the name of the game and the Fed and other central banks are playing it to the hilt. The ECB raises interest rates ½% and expects miracles. That could happen after they raise them 5% to 6%. Talk about misdirection as they continue to increase money and credit. They must think fellow Europeans and others are dumb and that is not the case. They knew as well as we do that what the Fed and ECB does causes monetization and inflation. Americans are used to inflation and heretofore they have been able to adjust for it. Other nations have not had that luxury in the past. Foreigners are far more sophisticated when it comes to propaganda and do not as easily fall for it as Americans do.

You would have to be stone dumb not to recognize the rampant inflation in the US, England and Europe. Gasoline and petroleum derivative products and food costs have gone up substantially. Not only in the regions but also worldwide. As a result inflation will be 14% in the UK and US by yearend and 8% on the Continent.

It is not only the federal government that is broke, but so are the states and municipalities in the US. Europe and England have the same problems. More than 40 states are struggling to balance their budgets. Most will, some will not and they'll default on the interest payment on their bonds and probably have to pay vendors with IOU's. There could be another federal bailout but we doubt it due to the battle over budget cuts in Washington. As these problems stand in the forefront the government's debt dilemma is not going to go away anytime soon and over the next two years the US could experience a downgrade in its credit rating. Unfunded liabilities are $105 trillion and they are unfunded. Although stretched over years they still have to be paid unless benefits are adjusted.

We address the problems in Europe every week. Greece and its financial problems are still being negotiated. The discussion at hand only carries the shortfall in funding over the next year or two. The demand by banks for collateralization of debt by just about everything Greece owns has been rejected not only by the people, but by most of the politicians as well. Greece cannot pay its debt even over time and should default in part or in total. Again, the loans should have never been made and the bankers knew better. Similar conditions exist in Ireland and Portugal and Belgium, Spain and Italy could and probably will follow. One interest rate could never fit all. The euro zone is in deep trouble and the EU is starting to crumble at the edges. The sovereign lenders, German, France, the Netherlands, Austria and Finland, are very disturbed with the position they find themselves in. The Germans and the Finns have been quite vocal about the situation and recent elections in Germany made it quite clear that they do not want to fund any further loans. As we said a year ago $4 trillion will be needed to solve the problems and producing that kind of funding would certainly break the funding nations. As we said a year ago, the second half of 2011 will be full of dangerous problems. In the midst of all this we have the head of the IMF arrested and charged in what we see as an elitist power struggle with the US faction in the US entrapping a member of the European contingent to remove him from his position. It worked, but the fallout will be felt for many years to come. This intercene warfare is happening at a most unfortunate juncture in the midst of discussion involving Europe and the IMF and Greece and other debtor nations. These events have heightened the pressure on an already unstable situation.

As these events and problems unfold many nations, corporations and investors are reaching for gold and silver investments for safety, as they have many times in the past. The availability of physical metal is acute, as backwardation occurs in paper investments. That is spot markets are trading higher than outside months in a desire by former sellers to take delivery of gold and silver they previously sold. Those who are biding at spot are also offering those who want to take delivery a 25% to 30% bonus not to take delivery. That highlights how difficult it is to get delivery of silver. The same is true with gold, but delivery of physical is not quite as difficult. Control of the paper markets via frauds and manipulation is always present. Regulators, as appendages of the government, are in place to protect certain Wall Street insiders, harass the rest, allow the naked shorts to do as they please and try to put as many small brokers and firms as possible out of business, no matter what the cost. Then there are the frauds of front-running and flash crashes. The big question today is how do you stop fraud when it is institutionalized and Wall Street and banking are run by a crime syndicate in league with Washington? Just look at the trillions the Fed and the Treasury spread all over the US and Europe, which they were forced to divulge after their court appeal failed. The TARP funds episode was another example – $700 billion in free money for Wall Street's Illuminist friends. That was one of the greatest frauds in history. A new movie is being released depicting Hank Paulson as having saved financial America, when in fact he and his friends were looting the American people.

As these events worsen the situation deterioration continues unabated, wars rage as distraction and for geopolitical positing. The costs of which are totally outrageous with the cost to the American taxpayer in the trillions of dollars.

The derivatives market is totally opaque and unregulated, Wall Street and the government want it that way so credit derivatives can be used to keep interest rates near zero and gold and silver and other items can be controlled by insiders.

We won't hit the bottom of the residential housing market until 2013 or later. The end is still nowhere in sight, as Fannie Mae and Freddie Mac, Ginnie Mae and FHA make subprime and ALT-A loans. Commercial real estate is being held up and in place by the Fed, otherwise there would have already been a crash. These two shocks keep the economy headed downward with still yet no bottom in sight. Inventory for sale builds exponentially.

The flight from the dollar continues having entered its 3rd year of this credit crisis. Actually it is a continuation of 11 years of monetary policy, which has been centered on monetary expansion, which has been used to combat deflation and depression. The result has been ongoing continually rising inflation except for an interlude three years ago during a period of de-leveraging. The result of QE1 and stimulus 1 in 2011 will be 14% inflation. That will be followed by 25 to 30 percent as a result of QE2 in 2012 and in 2013 some 50 percent in

2014, the result of what will be known as QE3.

That is why countries, corporations and investors are moving to gold and silver. They want to dump depreciating US dollars and find safety for their assets. There is an enormous shift going on away from the fraudulent World Bank system and the massive debt accumulated by so many entities. The era of fiat money is coming to an end. Not far into the immediate future the whole world will be back on a gold standard because that is the only thing that works. BRIC countries, especially China, India and Russia and Iran want a gold backed currency. Many other nations are heading in that direction as well. This time the petro-dollar is not going to survive. The elitist's forces in NYC and the City of London know this and they are trying to combat the dollar's relegation as a non-world reserve currency. If they lose, and they most likely will, the US will be a big loser. The dollar no longer has the fundamentals and it hasn't had them for many years, some 40 years. What is surprising to most professional observers is that it took so long for the system to approach collapse.

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