THINGS THAT MAKE YOU GO

Hmmm...
A walk around the fringes of finance

“We never change, do we?
We never learn, do we?”
– COLDPLAY, WE NEVER CHANGE

“The truth is neither here nor there - it’s the look of the thing that matters”
– Violet Crawley, Dowager Countess of Grantham - Downton Abbey

“BUFFETT SAYS IT WAS BOYHOOD DREAM TO HAVE TAX NAMED AFTER HIM”
– Reuters headline, October 5, 2011
Well, I’m back after a whirlwind trip to the USA for a little golf and a lot of meetings and BOY, did I pick an interesting couple of weeks to be on the road.

Whilst I was away, I was privileged and humbled to be afforded the opportunity to sit and talk to a great many smart, insightful people, and I return to Singapore a far wiser man than when I left thanks to their extraordinary generosity in sharing both their time and their intellect. My sincere and heartfelt thanks to all of you for finding some time in your busy schedules to spend with me.

So much has happened - so many shifts in the landscape - since I last put finger to keyboard that it would be impossible to do justice to them all so this week’s musings will begin with a brief observation on the so-called ‘Buffet Tax’ and the Occupy Wall Street movement which both came to the fore during my travels, before finishing off with a little piece on gold that I actually began writing on my way to South Carolina three LONG weeks ago but that now, despite the passing of time, feels as though it has perhaps more resonance as opposed to less. I’ll let you be the judge.

In 1977, as a wide-eyed 10 year-old English boy, I made my first trip to the United States, touching down in (of all places) Detroit, Michigan on a sweltering July day with my parents and my younger brother. The moment I stepped out of the airport I was captivated by America. The huge cars, the wide roads and, as we approached the city itself, the enormous gleaming steel and glass structures that made up what to me was the most futuristic skyline I’d ever seen. Granted, I realize 34 years later that, as skylines go, there are certainly more impressive and dramatic examples all over the United States, but my eyes were only about 4’8” above the pavement at the time so to ME, it was incredibly impressive.

Anyway, after a couple of weeks touring around Detroit (Dad had a board meeting there….. we didn’t just arbitrarily decide to choose Motown as our holiday destination in case you were wondering) and Boston we finally reached New York City - and my love for America and all things American was cemented forever.

The week I spent in NY was a whirlwind of sights, sounds and experiences that would go a long way towards shaping a large part of my later life and I can still remember standing at JFK airport in tears when the day came to board the plane home to England and all her small buildings, tiny cars and distinct lack of McDonalds.

That day planted a desire deep inside me to one day return to America and to live in New York where it felt, even to a 10 year-old boy, as though literally anything were possible.

Fast forward 20 years and I finally managed to engineer myself a job running an Asian trading desk (consisting of me) in the city I’d connected with all those years prior. In the interim, my impression of America had been refined through many visits - both on business and vacation - into an abiding love for a country wherein anything seemed possible and anybody could ‘make it’. As much as I love England, there is a deep-rooted need amongst my fellow countrymen to knock someone down when they become successful. We see it with sportsmen, we see it with businessmen - we see it with pretty much anybody who becomes a success, and it is an ugly trait indeed. Part of my attraction to the US was the fact that the country had been built on positivity and the understanding that anybody - liter-
ally - could become rich and successful and, if they were able to make something of their lives then they would be roundly applauded for doing so. That is the way it SHOULD be.

That is the way it used to be.

Whenever I pass comment on America I feel as though I may be perceived as having little right to do so, being an Englishman, or I feel like some bizarre modern-day version of Benedict Arnold for turning on a country that I have grown to love, but in my heart of hearts, I know that the criticism comes from the right place so I’ll continue.

Two weeks ago, I sat open-mouthed as the reports of President Obama’s ‘Buffett Tax’ proposal leaked out. In days gone by, the very essence of America (at least as I understood it) was that ‘The American Dream’ was available to anybody. Now that dream is turning into an American nightmare.

The idea of a millionaires’ tax may be a polarizing one, but whatever else it achieves, it certainly helps generate headlines and reposition a faltering President in an upcoming race that, considering the state of the US economy, is far more wide-open than it has any right to be. That is probably largely a testament to the strength (or lack thereof) of the Republican Party, but that is besides the point. What is obvious is that this kind of move in the current climate is guaranteed to win ‘populist’ support:

(CBS): A CBS News poll released Monday showed that most Americans agree with the notion that taxes on millionaires should be increased in order to reduce the deficit. About 64 percent of respondents said they believe those making a million dollars or more in taxes should pay more.

And just 18 percent agree with the view of opponents that those higher taxes will cause fewer jobs to be created.

None of this should be a surprise when phrases such as ‘fat-cat bankers’ are used with alacrity to push just the right emotional buttons amongst a populace that is looking for somewhere to direct their anger and frustration at their stagnating economy. Anywhere but at the politicians, right? The tax is couched as a ‘tax on millionaires’ rather than simply as an increase in the top end of the tax rate for those earning above a certain threshold because, well, where’s the political mileage in that?

Interestingly enough, the CBO has now weighed in and put a number on just how important the Millionaires’ Tax could potentially be in plugging the ever-widening deficit:

(Zerohedge): In order to keep the ongoing class warfare waged by the administration in perspective, today the CBO was kind enough to score the revenue impact of the proposed and much debated Buffett Tax, now appearing in non-populist literature as “Surtax on Millionaires.” According to the Budget Office, said tax which is the source of substantial consternation among the population, would generate, over the next decade, a grand total of... drum roll... $453 billion. Why the drum roll? Because as we pointed out a few days ago, the US closed the 2011 fiscal year having added $1.23 trillion in debt (a number which would have been $1.4 trillion absent some year end settlement gimmickry). In other words, last year the US government had on average a $100+ billion deficit each month. In yet more other words, the great populist gimmick that is the Buffett Tax will have the great benefit of generating, between 2011 and 2021 enough money to plug a debt hole, at the rate America currently spends money, of 4 months.

Is America REALLY about to penalize its citizens for becoming ‘millionaires’? Is the descent into class warfare about to become more than just a talking point? The assortment of stragglers who formed
the Occupy Wall Street movement this past week would seem to suggest that may well be the case, but amongst the disjointed and somewhat ramshackle message being delivered by those descending upon Lower Manhattan (“what do we want? We’re not sure. When do we want it? NOW!”), there lies a serious and, potentially destabilizing reality. As my friend Mike Krieger wrote this week:

*I am extremely disappointed by the way most people are belittling the Occupy Wall Street protests, which I firmly believe is an extraordinarily important moment in American history that will be seen as the moment when rebellion arrived on the streets of America. Despite my frustrations regarding how pretty much every commentator out there is trying to spin it negatively, this simple fact convinces me without a shadow of a doubt that this is the real deal and we are merely in the second stage of transformative change that Gandhi describes... We are in the ridicule phase. That is good since like anything else, a transformative rebellion manifests as part of a cyclical process just like anything else.*

Mike goes on to point out the similarity that many commentators from both sides of the political spectrum seem to conveniently ignore:

*One thing that I think people are really missing is how similar Occupy Wall Street is to the early stages of Tea Party protests. Do you remember how the fake liberals dismissed that as a bunch of uneducated, racists wearing George Washington costumes? Many claimed it was “astro turf” and would die out...Fast forward a few years, here we are and not only did the Tea Party not peter out but it has become one of the most vibrant and influential political movements in America today...What the Tea Party represented was a rebellion within the Republican Party which had long ago sold itself out to the 0.1% financial elite class, the military industrial complex and large multinational corporations that pay no taxes.*

*So now the Occupy Wall Street protests have begun and the EXACT same thing is happening...I think I can see things for what they really are and what I am here to say is that Occupy Wall Street represents in part a rebellion within the Democratic Party (ie, the other side of the tea party coin). This is why most of the attacks are coming from the “right” side of the fake political divide. Just like the fake liberals couldn’t understand the tea party, the fake right can’t understand Occupy Wall Street. This is alright. It is all part of the process. Next they will fight us. Just like Gandhi said.*

Occupy Wall Street, like the Tea Party, is something that needs to be taken seriously. It is tapping into a populist anger that has been building for several years. But, just as ‘the bankers’ are at the center of the movement’s crosshairs, politicians who have made poor policy decisions seemingly based upon an all-too-cosy relationship with the financial sector, will undoubtedly be dragged into the debate before long.

Gimmicky attempts to ingratiate themselves such as The Buffett Tax and the constant demonizing of the rich and successful will ultimately be a futile exercise.

OK, rant over. Now back to our regularly-scheduled programming.

**So you want to know about gold? Lesson One: ‘experts’ are NOT Experts.**

Suppose you were in the market for a really expensive watch, or your first Supercar - something that meant the outlay of some serious money. What would you do?

I’m willing to bet that before you pull the trigger on that $2.7m Bugatti Veyron or that $1.5 million Patek Philippe Sky Moon Tourbillon 5002P, you’re going to do a little research. But where will you go to find out the kind of information you need to be comfortable making such a big decision?
Well you’re not about to go to the local used car dealership to ask him about the Veyron’s pros and cons any more than you’re about to visit Mr. Mint to see whether he thinks the Patek Philippe is all it’s cracked up to be. No. You’re going to find yourself somebody who knows pretty much all there is to know about the Bugatti and you’re going to consult an expert in luxury watches about the Sky Moon Robillon. If you don’t, then frankly, you’ve either got too much money or you’re simply a buffoon. So why should it be any different whatsoever when people want to understand something that costs almost $2,000 an OUNCE? Simple. It shouldn’t be. But it is.

Gold has been in a bull market for 11 years and shows no sign of altering course and this has created all kinds of problems for people who have awakened to the fact that, right now, gold is arguably this single most important investment concept to understand. Whether an individual buys into the investment case for gold (and for the purposes of this missive, I will use the term ‘gold’ to equate to all precious metals) or not, it behooves him (or her) to at least take the time to understand exactly what has been driving the price relentlessly higher over the past decade or more - to do otherwise would be negligent.

Unfortunately, the majority of people who have begun to awaken to the gold ‘story’ are casually strolling into their local Mr. Mint or second-hand car dealership and asking the person behind the counter to explain gold to them.

When the world ‘suddenly and unexpectedly’ changed course in 2008, many were shocked at the turn of events but for those paying careful attention, the writing had been on the wall for a long, long time. There were no shortage of ‘visionaries’ who saw the future and made their fortune from the dislocations that took place; the John Paulsons, Steve Eissmans and Michael Burrys (or should that be ‘Burries’? Mike - call me!) of the world have entered folklore for their ‘incredible’ ability to foretell the future but, I am sure, in a quiet moment, that they would all readily admit that it was simply a case of looking hard at all the component parts of the equation and then making a set of rational assumptions about the future course of events that enabled them to hit the home runs that would make them legends. Of course, once those assumptions had been made, they had to be prepared to be wrong and have their fortitude tested by the delusions of the wider market, but it was in the fact that they realized they had done their homework properly that their ability lay to withstand the popular misconception that things ‘were going to be OK’ (subsequently, of course, for at least one of that illustrious band, the whole idea of doing proper homework seems to have fallen by the wayside. Sometimes, you just can’t see the (Sino-) forest for the trees).

But I digress….

Currently, the world is awash with gold ‘experts’ whose advice and opinion is trumpeted by various media outlets or brokerage houses and, for the most part, it is these people who have been designated to inform the public about the future trajectory of everyone’s favorite dumb metal.
The majority of these commentators are ‘cautious’ about gold’s prospects - too frightened to make the ‘big call’ and be wrong - and err on the side of safety when making their forecasts. A quick look at the forward curve of gold versus the mean analyst forecast on August 1st 2011 (left) is pretty much all it takes to understand the disbelief that courses through the mainstream bloodstream. This curve, as recently as 2 months ago, showed a near-$500 dollar difference between the mean analyst forecast and the actual forward price of physical gold in 2014.

$500. Remarkable.

I said it at the time, and I’ll say it again; my own feeling is that they will be proven staggeringly errant in their assumptions in the coming years, but that is my own personal belief based on my own personal research - nothing more. I have no crystal ball, I have no insight into the future save that afforded me by my own thought process and, by and large, I have access to the same information as the vast majority of the world - including the analysts and ‘experts’ in question. But that is where a large part of my own confusion begins.

Hypothetically, if I were to give you the opportunity to go back in time to 2006 and enable you to pick the brains of only two individuals about the future directions of markets, who would you select to hold your hand through what was about to unfold? I am guessing that the names already mentioned in the paragraphs above would feature heavily. I doubt very much that the words of cheerleaders who were proven hopelessly and inexplicably wrong about what was then the future (such as the NAR’s David Lerah for example, or Jim “Bear-Stearns-Is-Fine” Cramer) would appear on so much as one reader’s list.

The sub-prime meltdown - that so few people supposedly saw coming - was a short, sharp shock that shook global financial system to its very core.

Gold has been rising for over TEN CONSECUTIVE YEARS.

During that period, there have been a group of investors (I consciously choose NOT to refer to them as ‘commentators’ for fear of cheapening their legacy) who have steadfastly and consistently not only gone against the consensus, but have done so with conviction and the kind of belief that can only be
founded upon a thorough understanding of the subject-at-hand allied with a diligent and comprehensive thought process. This group of people have been absolutely correct at pretty much every turn, have consistently and with great conviction stuck to their guns in the face of great criticism bordering on ridicule - and have been largely ignored by both the mainstream press and the investing public at large.

Many of you probably know them by their collective names - Gold Bugs - but, for the benefit of the latecomers to the gold party, allow me to introduce you to a few of them individually - starting with Jim Sinclair.

Jim Sinclair is primarily a precious metals specialist and a commodities and foreign currency trader. He founded the Sinclair Group of Companies in 1977.

From 1981 to 1984, Jim served as a Precious Metals Advisor to Hunt Oil and the Hunt family for the liquidation of their silver position as a prerequisite for the $1 billion loan arranged by the Chairman of the Federal Reserve, Paul Volcker.

He was also a General Partner and Member of the Executive Committee of two New York Stock Exchange firms and President of Sinclair Global Clearing Corporation (commodity clearing firm) and Global Arbitrage (derivative dealer in metals and currencies). He is also one of the most widely-respected commentators on gold in the world..... oh, and did I mention he recently predicted that gold is going to $12,000?

In October 2008, as gold was in the midst of a huge correction from $1,032 to below $700 that had most ‘commentators’ predictably calling ‘the end of the gold ‘bubble’, Jim wrote about what he termed ‘the beginning of a great economic drama’:

> There is absolutely no question in my mind that gold will trade at $1650 on or before (probably much before) January 14th, 2011.

> Regardless of what financial TV or popular analysts claiming never to have made an error say, we are correct.

> Stay the course. Do not let your guard down. Protect yourself as the most significant dislocation economically in world history for major nations is at our doorstep. In fact it is one foot through your door already. Are you prepared?

You can probably imagine the ridicule Jim was subjected to after such a prognostication (for the record, Jim was off by a little in his prediction - it took gold until July 25th 2011 to breach $1,650).

Fast forward a year and, with gold battling at the $1,000 level (and being labeled a bubble yet again by many of the ‘experts’), Jim had this to say in September 2009:

> Your fear, emotions and confusion communicate to me in more ways than you know.

> The gold community had very little to do with gold recently crossing $1000. China stands right below this level in the cash market as a ready buyer.

> You are fearful due to the proliferation of a flyer that you received in the mail saying that Elliot Wave calls for a decline in the price of gold and a rally will occur in the US dollar.

> You are fearful because all media is unfriendly towards gold and friendly towards the dollar.

> 1. Gold will trade at $1224, $1650 and then on...
4. Do not carry one penny of margin on any silver or gold position. Volatility has only one way to go and that is up.

5. Stay totally away from trading futures.....

Wise words indeed from one of gold’s greatest students and, since it closed above $1,000 for the first time on October 3rd, 2009, gold has never closed below that level. I could go on, but I recommend that if you are interested in gold and want to gain a fuller understanding of the rationale behind the investment case for the ‘dumb metal’, you could do a lot worse than research Jim Sinclair’s commentary over the past decade.

Another luminary who should be at the top of anyone’s list of advisors on the precious metals complex is Canadian money manager Eric Sprott - a very familiar face indeed to regular readers of Things That Make You Go Hmmm..... Below is a little hindsight on some of Eric’s wise counsel:

We expect gold to rise to $800 or a $1000. - October 2005 (gold price ~$490)

We have liked gold now for last six years, since the bottom in 2000. We continue to like it for many, many reasons— as a safety value for investment, as a leverage play on some of these stocks as the prices go up their range of course rise dramatically, and we have committed a large part of our funds to gold and silver. The silver supply/demand situation might even be better and the dynamics and price probably will be better. So no, we’re kind of all in on the precious metal game!... I’m sure it will go north of $1,000 over the next two or three years. I mean it has been moving up very steadily, it has these little gyrations from time to time, but generally it’s in a bull market and I think it will continue to rise quite strongly. August 2006 (gold price ~$580)

Respected Canadian money manager Eric Sprott predicted gold prices will more than double over the next few years as the U.S enters a full-blown depression. Feb 2009 (gold price ~$900)

Consistent. Reasoned. Right.

Or how about Eric’s Chief Strategist, John Embry’s views?

We are “in the early throes” of paper money “getting seriously debased,” warns John Embry of Sprott Asset Management, and the price of gold is headed higher from its current near-term high of over US$ 600 per ounce, by his estimation to $700 this year and $1000 conceivably within two to three years—“maybe quicker.” - May 2006 (gold price ~$570)

Gold is headed for its all-time high of $850, followed by an assault on $1000 per ounce - June 2007 (gold price ~$640)

The historical record is clear: the massive bull market that culminated in a spike high of $850 per ounce in 1980 was not the result of gold’s allure as an ornament. It reflected a time of serious inflation that caused the public to seek a safe haven. Seen in this light, the World Gold Council’s recent program of massive expenditures to promote gold as jewelry was badly misguided, and an utter embarrassment to anybody with a historical understanding of the true role of gold. They may have partially redeemed themselves with their sponsorship of a gold ETF but I must confess that I even have my doubts about these vehicles. Every fibre in my body tells me that some of the gold being held in ETFs is mobilized when the cartel needs a little help. In any case, in my mind the demand side of the gold equation is baked in the cake and it is going to be explosive, to put it mildly. As they say, you ain’t seen nothing yet...I have commented extensively in the past on future mine supply
and nothing has changed so far. Mine supply will decline for at least the next three or four years irrespective of what the gold price does. The gold price could rise to $2500 per ounce and the mine supply outlook would be virtually unaffected in that timeframe - January 2008 (gold price $850).

Now, it stands to reason that John’s views would echo those of Eric Sprott, but, instead of heeding the advice of another 30+ year veteran of the precious metals complex many will have chosen to listen to mainstream ‘experts’ and sold their gold at any of the innumerable ‘bubble tops’ of the last decade.

Too bad.

Moving on, how about we listen to John Hatthaway of Tocqueville Gold Funds? Here is another man whose track record has been consistent and correct over the entire life of gold’s bull run from the low-$200s to almost $2,000 and yet most ‘investors’ in gold wouldn’t be able to select him from a police line-up that contained just John and a uniformed officer.

In December 2009, Hatthaway penned an opinion piece called ‘A Contrarian’s Dilemma’ in which he wrote:

Is gold a “bubble” because it has now become popular or is there still worthwhile upside? As a contrarian, it is more difficult to reconcile the metal’s recent popularity with the prospect of future rewards. Is the investment consensus always wrong, or can it be right for extended periods? Does the perceived flood of new investment mean the jig is up?

In our web site article, “The Investment Case for Gold,” dated January 22, 2002, we suggested that an eventual gold price of four digits would not come as a surprise to us, at a time when the metal was trading below $300/ounce. As outlandish as that forecast seemed then, we did not envision how significantly a credit meltdown of the 2008 magnitude would reset the equation between gold and paper money. Gold seems as undervalued at around $1200 as it did in 2001 at less than $300.

Gold is a bubble only for those who maintain faith in the ability of politicians and financial authorities to swim against the tide of deflation. For the rest of us, it is protection against monetary damage still to come. The bull market in gold still has much going for it...

We seem to have a pattern emerging here.

There are many other investors who anybody even considering buying gold should seek out; James Turk, James Dines, Rick Rule to name but a few. Or how about Bob Quatermain or James Rickards?

I could go on for a long, long time with this, but in the interests of not taking up too much of your weekend, I’ll pick one more for you and that one more is Ben Davies of Hinde Capital in London, who wrote, back in July of 2010 with gold at $960 and a plethora of unfamiliar naysayers calling $1,000 the absolute top:

The anti-gold crowd are right insofar as they have identified a bubble. It is not, however, in gold. Rather it is paper money, in which gold happens to be priced, that is the bubble. Compared to watered-down money, gold looks much undervalued.

If you think this is ridiculous, consider this: in 1980 a house in central London cost 180 troy oz of gold to purchase. Today, that very same house will cost you nearly 5,000 troy oz. So in spite of record values for property and three fold increase in gold prices, gold is still undervalued. Gold has a price and a value. Price is a level at which you make an exchange, and value is whether it is worth...
it. Right now gold is at a high price, but when examined in the context of other assets it remains undervalued.

As gold’s value rises or, more accurately, as paper money’s value falls, what we are seeing is an incremental return of gold to a monetary asset. The fact remains that the subtle confiscation of your day’s labour by issuing watered-down money has only begun to dawn on the populace. They are only just waking up to gold as money.

Governments today are struggling with thumping budget deficits, so the risk of further money printing looms large. With gold already undervalued, its outperformance will only accelerate further.

In April of this year, with gold fighting to get through $1440, Davies had this to say about future price trajectory:

Once we are through that level on a weekly closing basis we’re going to get discovery which in my opinion can easily take the gold market up $400.

And that’s the kind of price appreciation that I’m looking for. Part of my macro thought process for why that is happening despite all of the talk about exit strategies which I think is to some extent, yes they could raise rates or certainly have some asset sales, but personally I think the increase in rates would have a huge impact on servicing of debt.

People can’t afford to pay that coupon, I think that would be an exit. I think they (the Fed) are posturing so I’m not completely convinced that rates are going up or that there is going to be any asset sales. I’m more in the QE3 camp.

Strangely enough, once gold DID break through the $1,440 level, it soared another..... well.... you do the math.

And yet...

For some reason, the words of these men seem to carry far less weight in the mainstream than those of many erstwhile gold ‘experts’ - ‘experts’ such as Fareed Zakaria of CNN who for some reason thought to opine on gold this past week:

People worry that governments are keeping interest rates too low, that will cause inflation and could weaken the dollar and other currencies.

The answer: Store Gold - something that has always been seen as a solid, substantial hedge against inflation. If everything else collapses, the theory goes, gold will hold its value. For this reason, in the last decade gold prices have risen more than 600%. Is this a rational response to legitimate fears of inflation? Or are we in the middle of a bubble?

There are signs that suggest a bubble. The fact is, global demand for gold in industry and jewelry has actually declined by 18% since 2004. And yet over the same period prices have surged. So it’s clear that the market is flooded with speculators who see gold as an investment, not as a usable currency or product.

What’s really changed in the last few years is access. It’s easier to buy gold over the internet than it is stocks or shares. In places like Abu Dhabi and some European cities, you can buy grams of gold at ATM-style dispensers. All over the world, there’s a new Gold Rush. You switch on the TV and commercials warn you that the end of the world is coming and that you need to put your money in gold. Glenn Beck says that if you haven’t switched your savings to gold, you’re nuts. And Donald
Trump is now accepting gold bars instead of wire transfers for luxury condos.

This is bizarre. A lot of it is simply scaremongering. The truth is that for two and half decades, between 1980 and the mid 2000s - gold prices actually declined. Unlike many other commodities which actually have an end use - oil, minerals - gold is just a symbol, and as such its price rises have to do more with psychology and emotion than reason. So, when it falls out of fashion, the price could really collapse. The next time you watch Goldfinger or you hear of the antics of a Hugo Chavez or a Donald Trump, be a little wary.

Gold isn’t a stock with real earnings. It isn’t a bond with interest payments. It isn’t oil. It won’t help you drive a car; it won’t help you light a fire. Yes, you can wear it, but you can’t eat it. If doomsday really arrives, a can of baked beans might be worth a lot more than a brick of gold.

Or how about Bill Emmott, former editor of The Economist who declared in April 2011 that ‘The end of the golden age will soon be with us’?

In truth, the yellow metal is an inscrutable thing, a sort of reductio ad absurdum of pundits’ general difficulty in explaining rises or falls in the prices of most financial instruments. The price goes up because more money is bid to buy it, and sellers and buyers are thereby matched again. Yet the reasons being given for why more money is being bid for gold don’t really add up.

Traditionally, inflation is the reason offered, and it is true that thanks to oil and other commodity prices, inflation has been on the rise worldwide during the past year. But it is hardly at spectacularly scary levels, especially in the country focused on last week by S&P and thus by the latest gold pundits: at 2.7% in America in March we are not exactly seeing the currency being debased by runaway inflation. Unlike in the 1970s, the last time when inflation sent gold soaring, western economies do not have the rigid labour markets and strong trade unions that can create a real wage-price spiral.

The dollar has, admittedly, been falling in value recently, but then that means other currencies—the euro, Swiss Francs, sterling, the yen—have been rising. So a second argument of the gold bugs, that the rising price reflects a general disillusionment with paper currencies, doesn’t ring true either.

Emmott went on to write a paragraph that I am considering having etched to hang on my wall at home:

To believe that, you have to believe that governments are going to stir up inflation deliberately in order to erode the value of their debts, of which devilish intention there is no obvious sign—nor, unless central banks’ independence is removed, any real chance. The European Central Bank’s haste to raise its interest rates points the other way, as do signals from the American Federal Reserve that its “quantitative easing” (ie, printing money to reflate the economy) is coming to an end.

Governments? Stirring up inflation? To erode their DEBTS? Preposterous.

I….. he….. it’s….. Oh to hell with it… I just can’t be bothered.

Writing at Forbes.com in late-September, gold ‘expert’ Ali Meshkati had this to say after gold’s big dip:

Looking at gold following Friday’s historic plunge, it is now apparent that gold is technically broken. SRDR Gold (GLD) fell 5.5% in one day (off 7.8% for the week). Rallies from this point forward will be sold with increasing frequency. A historic move down in an asset class that has received an
abundant amount of publicity—whether on the radio, through newsletters or at the corner “Cash 4 Gold” stores that are popping up everywhere—does not simply end with a one week spike down, followed by a move to new highs.

But the Daddy of them all HAS to be the FT - bastion of financial excellence and viewed worldwide as one of the preeminent sources of accurate financial information.

Over the entire span of the gold bull market, the FT has consistently and continually been bearish on gold - calling top after top after top along the way and their negative bias towards gold is legendary. This week, they pulled out all the stops when they invited Boston University School of Management faculty member, Mark Williams to pen a few words about their favourite yellow metal. Williams' article began thus:

Gold is losing its glimmer. Last month, gold prices dropped more than $300 an ounce – the largest short-term fall in more than 20 years. This suggests that a decade-long bull market is ending. Gold’s recent volatility is spooking investors and destroying demand.

The last bull market for gold ended in 1980, when prices fell by 60 per cent. For 20 years after, owning gold was dead money. In 2011, the bubble is popping again. This time, gold could drop to $700 an ounce, more than $1,000 below its peak.

Williams goes on to compare ‘the current gold bubble’ with the ‘previous one’ as though it is taken as read that both instances were (and ARE) unequivocally ‘bubbles’:

The current gold bubble has lasted nearly three times as long as the previous one. Over the past decade, gold prices quadrupled, rising by 17 per cent per year on average.

In September, Williams had more to say about the gold ‘bubble’:

Using history as a guide, the current pop could push gold down to $700, a drop of over $1,000 per ounce. Recent market price swings indicate that gold has forgotten its script. Face it, gold is no longer going to climb in value indefinitely. In the last decade gold has moved from growth to maturity. It now has entered the dangerous pop stage.

Stepping back in time to October 2010, Williams offered this advice on Foreign Policy.com’s website:

Today, gold is in a bubble. The price stands at an all-time (non-inflation adjusted) high of about $1,400 per ounce... Already, there are signs that gold is poised to burst. The market has been good for too long and the hype is too intense. Many investors are too young to remember the last gold bubble in 1980, when prices peaked at $850 per ounce and then plummeted 60 percent in a single year. For the following two decades, money invested in gold was dead money. Even investments made as recently as 1988 and held to 2004 generated zero return. The real money made in gold has only happened in the last six years. The last gold bubble took four years to inflate; the latest bubble is six years in the making.

Now this isn’t an exercise in bashing one man. I don’t know Mark Williams and I have nothing against him. According to his bio, he is an advisor at Netherby and a teacher at BU, but I’m not sure I see that as the criteria needed for advising me on the future path of the gold price. He is amongst the vast array of ‘experts’ who stand ready to label gold a bubble at every juncture and, to this point in time, that crowd has been wrong for oh, about eleven straight years. Yes, there have been corrections along the way. Yes, we have just witnessed one (17% to be precise). Will there be more to come? Undoubtedly. Is gold in a bubble? Not a chance.
Gold will correct when the reasons for owning it no longer prove valid and that is going to mean much higher interest rates, a lot less debt, a massive reduction in the amount of fiat currency sloshing around the world and a political class who stand ready to make the hard decisions required to get things under control, to name but a few.

But enough of me, and enough of the gold ‘experts’. What do the gold Experts (with a capital ‘E’) have to say about recent events? I will leave you with a few quotes from those who have been right for long enough now that they should be your first stop on the way to forming a judgement on gold and whether it is a popping bubble:

Ben Davies:

At some point we have to talk about when easy money dies rather than when money dies. I really do believe we are going through the death throes of the fractional reserve system. What does that mean? We should all be in real assets, like gold.

There is not doubt that we saw a mass on mass deleveraging across all asset classes. When I see people who do not understand the gold market, one the concept of the two-tiered market and two, they don’t understand that gold is actually a form of money. I don’t think they realize also how much money is being put into the system.

To my mind gold will not be falling back to $1,400. I believe that we have (already) seen the low.

Rick Rule:

“If there is a bid for gold and a hedge fund is having trouble meeting redemptions, they will sell their gold. How long can this go on? I don’t know. Remember this... in the midst of the biggest gold bull market of all-time, the 1970 to 1980 bull market, when gold went from $35 to $850 an ounce, in the middle of that decade, in 1975, the gold price fell by half....

“Could that happen now? I don’t think so. The set of circumstances that caused that market to fall by half was an increase in real US interest rates and a consequent increase in the value of the US dollar. I don’t see that occurring.

Remember also, in 1975 when the gold price fell from $200 to $100 an ounce, certainly an un-nerving event for people who were long gold, in the five years after that gold ran from $100 an ounce to $850 an ounce. So someone who got shaken out of the gold market, in a cyclical decline, deprived themselves of an 850% escalation over the next five years.

Pierre Lassonde:

Two weeks ago I was the keynote speaker at the London Bullion Market Association Annual Meeting meeting in Montreal. Gold at the time was close to $1,900 and in my speech I said don’t be surprised to see a correction in the gold price of up to 20% over the next few months because I think it’s overdue. I didn’t know that it was going to happen in two weeks, but it did.”

“If you look top to bottom, the gold price is down about 17%, so my view at this point is the correction in gold has about run its course, it’s about over. People don’t have to worry for one second. My eyes are focused 100% on my Dow/Gold ratio. The ratio started eleven years ago at 42 to 1 and now it is down near 6 to 1....

“If you look back at 100 years of history, at the top of the bull market in hard assets in gold, that
ratio comes back to 1 to 1. So think about the power of mathematics here, in the year 2000 it took 42 ounces of gold to buy 1 unit of the Dow, today it takes about 6 ounces of gold to buy one unit of the Dow.

The gold price has gone from $250 to roughly $1,650 today, so the gold price is up about $1,400. But to go from 6 to 1 (on the ratio), let’s say the Dow is at say 10,500, the gold price has to go from $1,650 to $10,500. So there is more left in the gold bull market than what we’ve seen over the past ten years. Am I bullish? Absolutely, 100%.”

If the forward curve is anything to go by, mainstream analysts may be starting to get the joke. One-by-one they are upgrading their long-term price forecasts as gold continues to confound them by staying the course. The most recent forward curve looks a LOT different to that of two short months ago (left):

But I will leave the final word to another of the guys who has called gold right for many years and whose track record in identifying bubbles is up there with the very best, Bill Fleckenstein.

I began writing this piece three weeks ago and, in that time gold has fallen 17% (prompting the inevitable ‘bubble’ calls from the ‘experts’) and has now stabilized (exactly as the Experts predicted it would). This past week, Bill managed to sum up, in a couple of perfect paragraphs, exactly what I have been trying to say in 30:

On the subject of gold, I have not bothered to say much about the supposed gold bubble, because the idea is so stupid it hardly merits a comment. But this weekend it occurred to me that virtually no one who recognized the stock and/or real estate bubble now says that gold is a bubble. In fact, almost all of us who warned of the prior bubbles long before they burst actually own gold. It is really only the people who missed the previous two who now think gold is a bubble.

I really don’t understand why the media hasn’t figured out that connection and at least scratched its collective head enough to ask, why is it the case that the people who have been so wrong in the past think gold is a bubble and the people who have been right think it isn’t? But such is the nature of bull markets. As one of my smart commodity trading friends remarked long ago, with gold you can be contrary and with the trend. Gold is not anywhere near the contrary idea that it has been in the past; rather, it is starting to go mainstream, which is also something that happens in bull markets.

In any case, I suspect that before this is all over with, the number of anti-gold articles will disappear, instead of being a feature of one paper or another once a week, at a minimum.

Want to buy a fancy car or an ultra-high-end watch? You know where to go. Want to find out about investing in gold? Well you can’t say you weren’t pointed in the right direction.

After that somewhat lengthy introduction, it’s time to get to the substance and today there is plenty of it for you to wrap your minds around; starting in Europe, where France and Germany are set for yet more ‘crisis talks’ on the financial sector as Spain and Italy become the latest formerly
impregnable sovereigns to be downgraded and Belgium’s Dexia is set to become the latest ward of the state (or in this case ‘states’) after a laughable stress test result three months ago.

Kyle Bass thinks this will all be too much for Germany to stomach, and sees them exiting the Euro, the Chinese and the rest of the BRICs aren’t about to step in and help and little Slovakia could upset the whole apple cart.

Mervyn King is a barrel of laughs, the gold market is playing into China’s hands and Spain’s net foreign debt breaks all kinds of records they don’t want it to.

In our charts section we look at the stunning reduction in silver short positions on the COMEX, Dan Norcini updates us on the new-look, post-correction gold chart, we see just how much money has fled to the perceived safety of the Fed & ECB and we provide a do-it-yourself stress test calculator that everyone should have in their browser bookmarks.

Eric King spends half an hour in the company of Martin Armstrong and provides us with a riveting interview, before sitting down with Madoff whistleblower Harry Markopolos who is hot on the trail of another potentially huge fraud.

Lastly, we follow best-selling mystery writer and thriller novelist Brad Meltzer as he takes the History Channel’s cameras in search of the truth about whether or not there is any gold in Fort Knox.

Boy, it’s good to be back.
France And Germany Set For Crisis Talks On Eurozone Banks
Spain And Italy Hit By Downgrades
The Chinese Mean To Control The Global Gold Market
Kyle Bass On Europe, Germany And Greece: “Germany Will Exit The Euro”
Spain’s Net Foreign Debt Exceeds One Trillion Euros For First Time; How Does Us, Italy, UK, Australia Compare?
How a Good Idea Became a Tragedy
How Did Europe’s Bank Stress Tests Give Dexia A Clean Bill Of Health?
Slovak SaS Party Won’t Back EFSF After Compromise Rejected
An Entire System Of Global Trade Is At Risk
BRICs To The Rescue
Europe’s QE May Pose Problems
Charts That Make You Go Hmmm.....
Words That Make You Go Hmmm.....
And Finally.....

The Gonnie, Gonnie Banks

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Total Cost to FDIC Deposit Insurance Fund 189.7
France and Germany are set for crisis talks in a bid to reach agreement over how to shore up the eurozone’s teetering banking sector.

Nicolas Sarkozy, the French president, and Angela Merkel, the German chancellor, will meet in Berlin on Sunday to debate whether a government must empty its pockets to prop up its country’s struggling banks, or if the euro region’s shared rescue fund can be deployed outside a full-blown emergency.

Amid reports of division between the two powerhouse economies, Fitch downgraded Italy’s sovereign credit rating by one notch to A+ from AA- and cut Spain’s by two rungs, to AA- from AA+, citing a worsening of the eurozone’s debt crisis. “A credible and comprehensive solution ... is politically and technically complex and will take time to put in place,” it warned.

A string of European banks, including the UK’s Royal Bank of Scotland and Lloyds TSB, saw their credit ratings downgraded on Friday, highlighting the pressure on politicians to agree coordinated action to recapitalise the sector.

The European Commission is expected to offer an outline of a plan to member states before the deadline of October 17, when EU leaders meet for a Brussels summit.

The concern is that politicians disagree over how to use the eurozone’s €440bn (£379bn) rescue fund, the European Financial Stability Facility (EFSF) backed by euro states - ultimately, taxpayers.

National leaders agreed in July to bolster the EFSF’s powers, allowing it to recapitalise banks directly rather than via their governments.

France, unwilling to risk its own top-notch sovereign rating by pumping money into its banks, which are heavily exposed to the debt of stricken eurozone nations, is said to want to use the fund to recapitalise its banking sector. Mr Sarkozy faces a presidential election in seven months, which makes retaining the “AAA” grade even more politically sensitive.

Berlin says the shared fund should only be used as a last resort when there are no national funds left.

“Only if a country cannot do this with its own means, then the EFSF can be used as an option,” Ms Merkel said on Friday. A French government source played down reports of a divide.

Spain and Italy suffered debt downgrades Friday, triggering a retreat in the euro as European governments scrambled to develop a common approach to restoring confidence in the region’s banks.

Fitch Ratings surprised financial markets by downgrading Spain two notches to double-A-minus, citing an intensifying crisis in the euro zone and the expectation of growth of less than 2% through 2015; Italy’s cut, by one step to single-A-plus, was less of a shock.

Late Friday, in an indication of how the crisis risks spreading to other euro-zone economies, Moody’s Investors Service also placed Belgium’s Aa1 rating under review for a possible downgrade, indicating concern over the government’s high debts. After the government stepped in this week to guarantee...
the debts of Franco-Belgian bank Dexia SA, Moody’s also cited the likelihood that the government would have to step in to provide additional support to banks.

Moody’s also downgraded the ratings of nine Portuguese banks, citing in part their holdings of Portuguese government debt. (It also lowered the ratings of a dozen British banks, but for different reasons. The agency said those downgrades were due to changes in U.K. rules that diminished the likelihood of future government bailouts. The U.K. doesn’t use the euro.)

The downgrades emphasize the self-feeding downward financial cycle in the euro area. The credit-worthiness of governments of weaker economies is being undermined by the crisis, which is in turn hurting the many banks in the region with big holdings of sovereign bonds. But confidence in banks depends on the belief that governments have the financial muscle to support them in a crisis.

In an effort to come up with an initiative to break that cycle, European officials continued discussions about how to dispel doubts about the region’s banks.

German Chancellor Angela Merkel and French President Nicolas Sarkozy will confer Sunday in Berlin, in a meeting that could be critical in reaching a Europe-wide strategy for the banks. Differences in the approaches of the governments of the two largest euro-zone economies have emerged, with France appearing to favor a common European solution and Germany emphasizing a national approach.

French Finance Minister François Baroin said Wednesday that any recapitalization of banks in the wake of the euro-zone debt crisis would need to take place at a European, not national, level. The French banks and the government deny that France’s banks need any extra capital. Analysts say that if funds are provided on a European level they would have less impact on France’s top triple-A credit rating than if they were provided nationally.

A French finance official said Friday that “It is premature to say there is divergence as we haven’t yet discussed the details” on a political level in Europe. The official said France and Germany agree on the need to boost European banks’ capital, and said financial markets were demanding that such a boost happen sooner rather than later.

Get ready for the Pan Asian Gold Exchange, scheduled to open in June, 2012 in Kunming City, Yunman Province— the gateway to all of Southeast Asia. This is serious, as the Pan Asian Gold Exchange is a part of China’s five year plan— which means it is part of China’s strategy for dominance in global financial markets and the global economy.

Pan Asian will allow Chinese to speculate in gold futures contracts or buy physical gold through an account with a bank or broker. All 320 million customers of the giant Agricultural Bank of China will simply be able to use their Renminbi, the Chinese currency, from their bank accounts to trade gold. Sounds bloody dangerous doesn’t it.

“...the Pan Asian Gold Exchange is a part of China’s five year plan— which means it is part of China’s strategy for dominance in global financial markets and the global economy.

It means the spot market in gold could be headed for China— and away from London’s Metals Exchange or the Comex in New York. I’d like to know who is going to oversee and regulate all this action. For example, when the Comex raises margin requirements to dampen speculative fervor— will China be governed by that? I doubt it very much.

In June you’ll be able to buy spot gold or futures contracts in China. It also means that the Chinese currency— not dollars— will for the first time become the ruling currency used in one of the major speculative
commodities of our age. All eyes will be on the influence of the gold trade in China rather than New York, London, Switzerland or South Africa.

Another reason for registering the reality of gold as a trading vehicle, an investment for households, central banks, hedge funds, endowments. Another bullish force behind the powering of gold prices higher.

No wonder George Soros has bought back some or all of the gold position he sold around $1600 an ounce.

“I believe that Germany and the balance of the Eurocrats will attempt to default Greece within the euro zone first. The frictions associated with such an event will prove to be problematic and the usual benefits of a substantially weakening currency that would historically accrue to the country in default will not be available to Greece. Greece will therefore be forced to go back to the drachma at some point in the near future.

“In the end, it is most likely that after Greece and the next peripheral country begin to hard default, Germany will exit the [European Monetary Union] and recapitalize their own banks.

After recently conducting a population study on the German people, we have determined that the overwhelming majority of the people of Germany think that they would be better off never having formed the euro in the first place. Two thirds of the people do not think that they have any obligation to bail out profligate members of the EMU. The market’s hopes rest upon Germany and the [European Central Bank] going ‘all-in’ at some point in the future. I don’t think that is likely at all.

“There is no playbook for how the world will most likely deal with a cluster of sovereign defaults...I believe it will all read like fiction from here. The organizers and members of the EMU are desperate and have nowhere to turn. The circular references of the optical backstops [International Monetary Fund and European Union] are showing in broad daylight.”

Courtesy of Google translate and my friend Bran who sends links nearly every day from Spain, please consider Spain’s net foreign debt for the first time exceeded one trillion euros

Note: The Google translation says billion. The correct translation is trillion, and I modified the references below.

The latest figures from the Bank of Spain show that the net debt-the difference between what foreigners due to Spain and which in turn owes Spain abroad, not only not reduced but increased. In fact, at the end of the second quarter of 2011 for the first time broke the trillion euro barrier. In relative terms, this means a foreign debt equivalent to 93.7% of GDP, six points more than in 2010.

International Investment Position of Spain was, in particular, at 1.02 trillion euros, the highest ever level. In gross terms, external debt also has picked up , to 1.77 trillion euros, the second worst record in the series, surpassed only very slightly, and by data from the first quarter of 2010. The cause? The increased borrowing by the public and the financial system.
As a result of these developments, Spain’s foreign debt now accounts for 163% of GDP. Spain, thus, has become the second country in most major foreign debt of the world, behind only the U.S., as recently published McKinsey. Below are Australia, Brazil and Italy. The ranking of McKinsey, in any case, does not include Portugal, which, according to data from the central bank, would be over Spain, although its weight in the global economy is much smaller.

Take a good look at that chart.

Spain has 41% of the external debt of the US on an economy about 9% as big. Does anyone think that will be paid back? When?

Germany’s decision to phase out its nuclear power plants by 2022 has rapidly transformed it from power exporter to importer. Despite Berlin’s pledge to move away from nuclear, the country is now merely buying atomic energy from neighbors like the Czech Republic and France.

The nuclear power plant in the Czech village of Temelin, barely 100 kilometers (62 miles) as the crow flies from the Bavarian city of Passau, has a reputation for being particularly prone to malfunctions. Over the years, there have been 130 reported incidents here. Sometimes it’s a generator that fails; at others, a few thousand liters of radioactive liquid leak out of the plant.

“The entire facility needs to be shut down immediately,” says Rebecca Harms, a member of the European Parliament representing Germany’s Green Party.

Still, due to high demand for electricity in Germany, the accident-prone Czech reactor is doing good business. Indeed, when Germany took some of its nuclear power plants offline this spring, the Czech nuclear industry went into the export business. These days, it’s sending roughly 1.2 gigawatt-hours of electricity across the border every day.

Though it might be exaggerating things a bit to say it, after having to worry about the danger of the nearby Czech reactor for years, Passau residents are now glad it’s there to keep their lights from going out.

The German government’s 180-degree turn in nuclear policy has helped breathe new life into Europe’s energy industry -- though not always to Germany’s benefit. The country has gone from being an energy exporter to an energy importer practically overnight, which brings along with it a number of negative consequences for its economy, consumers and security.

The country’s economy is still growing, but only barely. In the second quarter of 2011, Germany’s gross domestic product was just 0.1 percent higher than it was the previous quarter.

The Federal Statistical Office believes the nuclear phase-out has helped cause this anemic growth. “Electricity has increasingly had to be imported in order to satisfy demand,” the organization explains.

This has noticeably weakened Germany’s economic strength. In fact, the Organization for Economic Cooperation and Development (OECD) even believes the country is headed toward an economic downturn. Last Thursday, OECD chief economist Pier Carlo Padoan said that one of its causes will have been the “uncertain consequences of the nuclear phase-out.”
In recent months, the Leipzig-based European Energy Exchange has monitored an increase in electricity prices in Germany of around 10 percent. “Prices are already at an alarmingly high level,” warns European Energy Commissioner Günther Oettinger of Germany.

**The Greek crisis has revealed why the euro is the world’s most dangerous currency. The euro was built on a foundation of debt and trickery, where economic principles were sacrificed to romantic political visions. The history of the common currency is the story of a good idea that turned into a tragedy of epic proportions.**

Before Germany’s Horst Reichenbach had even stepped off the plane in Athens, the Greeks knew who was coming. He had already been given various unflattering nicknames in the Greek media, including “Third Reichenbach” and “Horst Wessel” -- a reference to the Nazi activist of that name who was posthumously elevated to martyr status. The members of his 30-strong team, meanwhile, had been compared to Nazi regional leaders.

The taxi drivers at the airport were on strike, while hundreds stood in front of the parliament building, chanting their slogans. One protestor was wearing a T-shirt that read: “I don’t need sex. The government f*cks me every day.” Within the first few hours, Horst Reichenbach realized that he had landed in a disaster area.

Reichenbach is the head of the task force the European Commission sent to Athens to provide what Brussels officials call “technical assistance” in the implementation of necessary reforms. For the Greek media, the task force is the advance guard of an invasion force, the bureaucrats that have arrived to transform beautiful Greece into a German colony.

Reichenbach describes his tasks as follows: restructure the tax system, streamline the administration, accelerate privatization, strengthen legal certainty, open up access to protected professions, restructure the energy and healthcare sector and remove structures that are hostile to investment. The effort, says Reichenbach, requires “thinking in terms of years instead of months.” He was the vice-president of the European Bank for Reconstruction and Development and had planned to retire at the end of December. But then he received a call from European Commission President José Manuel Barroso, who then dispatched Reichenbach on this mission impossible.

He is a middleman between two Europes, the north and the south. The euro was intended as a currency that would help Europe grow together, but the first major euro crisis is in fact pitting the north and the south, the deutschmark economy and the lira economy, against each other. To make matters worse, there are also two different speeds in Europe, with one part of Europe moving at the high-paced speed of financial markets and banks, while the other drags along at the speed of governments and parliaments.
Dexia, the deeply troubled Franco-Belgian bank, passed the European Banking Authority’s stress tests just three months ago.

It may seem like a lifetime away, but it is only in July that the European Banking Authority published the result of “stress tests” on 90 banks across 21 countries in the EU, covering around 65% of the banking industry.

Eight failed. Sixteen were border line with core tier one capital ratios – a key measure of financial strength – of between 5% and 6%.

So presumably, Dexia, the Franco-Belgian bank on which markets are currently fixated, was in one of the danger-zone categories?

Well no. Its statement issued on the day proclaimed “no need for Dexia to raise additional capital”.

Why? Well under the “shocks” imposed by the EBA its core tier one capital ratio would fall to 10.4% by 2012 from 12.1%, its actual ratio at the end of 2010. An easy pass.

Yet, barely three months later, Dexia is regarded as being in deep trouble, unable to raise the cash it needs on the financial markets – largely because the market is concerned about its ability to withstand losses on its €3.4bn (£2.9bn) of exposure to Greece.

France and Belgium have been forced to make statements promising to stand behind it - which in turn is raising questions about Belgium’s ability to cope with the financial strain.

The tests have proved to be meaningless even quicker than they were in 2010 when Ireland’s banks were given a clean bill of health, only to be bailed out four months later.

Even on the day of the results Andrea Enria, the boss of the EBA, was being forced to defend their usefulness because the tests did not include a default scenario on any of the bonds held by banks.

Slovakia’s ruling Freedom and Solidarity party won’t back the overhaul of the European bail-out mechanism after Prime Minister Iveta Radicova rejected the party’s conditions for approval, a lawmaker said.

The party, known as SaS, insists its three coalition partners agree to two conditions before it will back the enhancement of the euro region’s bailout fund, the European Financial Stability Facility, in a parliamentary vote Oct. 11, said Jozef Kollar, head of SaS’s parliamentary caucus. “If the solutions we have put forward aren’t accepted then we will not vote for the EFSF,” Kollar said in a debate on state Slovak Radio today.

Slovakia and Malta are the only countries that haven’t yet ratified the key element in the European Union’s plan to prevent the region’s debt crisis from spreading. The Slovak row risks sinking the EU plan, which needs the unanimous consent of all 17 euro members to come into force.

SaS is calling for the creation of an inter-party committee that would have a right to veto individual EFSF disbursements. It is also demanding that Slovakia doesn’t participate in the European Stability
Mechanism, a permanent rescue vehicle set to come into force in 2013. SaS will negotiate “until the last minute” with its coalition partners, according to a statement posted on the party’s web site today. Smer, the largest opposition party, has said it won’t support the EFSF overhaul unless the government steps down. The enhanced powers of the 440 billion-euro ($590 billion) EFSF were approved at a July 21 meeting of European leaders in Brussels. The measures would allow the fund to buy the debt of stressed euro-area nations, aid troubled banks in the region and offer credit lines to governments. The EFSF’s current role is to sell bonds to finance rescue loans.

Sir Mervyn King, the Governor of the Bank of England, this week called the current financial crisis “the most serious... since the 1930s, if ever”, in justification for a further £75 billion of “quantitative easing”. Since Sir Mervyn cited the chaos of the inter-war years, it seems appropriate to quote Winston Churchill: “Want of foresight, unwillingness to act when action would be simple and effective, lack of clear thinking, confusions of counsel, until the emergency comes, until self-preservation strikes its jarring gong – these are the features that constitute the endless repetition of history.”

We are at just such a moment again. Little more than two years ago, global leaders were happily congratulating themselves on having avoided the mistakes of the 1930s, thereby averting a depression. But now it appears that the difficulties of 2008 were but a foretaste of what was to come. With the European banking system again on the verge of collapse, there is a sense that politicians and economists are out of options, that governments and central banks are powerless before events. The best of the cavalry has been sent into battle, and it has come back in tatters. The fiscal armoury has been exhausted, the support offered by the boom in emerging markets such as China and India over the past two years seems to be on its last legs, and there is but the small rifle fire of the central bank printing presses left to defend us.

If it has been obvious for some time that we are caught up in an extreme financial crisis, the extent of its severity has acquired greater clarity in being described by the Governor of the Bank of England. Never before has the global financial system been so interlinked and integrated, which means that problems in one part of the world are capable of causing severe stress almost everywhere else. We once more face a perfect storm of cascading default, contracting credit and collapsing economic activity.

Brazilian finance minister Guido Mantega pumped up the frenzy even further when he said senior officials of the BRICs nations would meet in Washington this week to figure out a rescue plan for Europe. Some people suggested he may have gone further than he should have, but Dilma Rousseff didn’t completely back down from his comments. According to an article in Wednesday’s Financial Times:

Brazil’s president Dilma Rousseff has thrown her weight behind proposals for an “international effort” to help rescue Europe from its debt crisis.

Although she stopped short of proposing a solution involving only the “Bric” emerging nations,
which aside from Brazil include Russia, India and China, she said if Europe could present a viable framework for a rescue package, her government would support it. “Brazil will always be willing to participate in any international effort,” Ms Rousseff told reporters in Brasilia.

Any effort by Brazil to co-ordinate a Brics response to the European debt crisis would mark a significant step in the country’s efforts to increase its influence in world affairs. Brazil’s finance minister Guido Mantega first floated the idea on Tuesday when he said senior officials of the Brics nations would meet next Thursday in Washington to hammer out a possible rescue plan for Europe. While he did not elaborate, Brazilian newspaper Valor Econômico reported the plan could involve buying European sovereign bonds, probably those of Germany.

Brazil is clearly trying to make grand statement. After all it would be the first time in history that developing countries had put together a financial rescue package for Europe, and that has to be pretty exciting.

But right away there were rumblings that suggested that, once again, the market was not thinking through its position. There is little chance that any BRIC rescue is likely to happen, and if it does, it would be bad news for Europe, not good.

First off to spoil the party was India, whose response to the announcement that it was going to help rescue Europe was a bit like that of a man being congratulated for having been chosen to “volunteer” to charge into a burning building to rescue the portrait of Chairman Kim. “Uh, not so fast” they said, “We gotta talk.” According to the Financial Times:

Brazil had sprung the suggestion of the leading developing nations coming to the rescue of the eurozone on its fellow Bric countries, India’s finance ministry said on Wednesday. R. Gopalan, secretary in the department of economic affairs at the Indian finance ministry, told the Financial Times that Brazil had “thrown” its proposal at the grouping only days before it is to meet in Washington on September 22.

On Tuesday, Guido Mantega, Brazil’s finance minister told reporters that officials from the leading emerging market economies would meet next week to discuss potential joint action to help the crisis-hit eurozone.

“The idea has been thrown at us by the Brazilian finance minister,” said Mr Gopalan. He declined to say what measures India might consider to assist the eurozone but said his country would wait to see what was discussed at the talks in Washington, which are to include ministers from Brazil, Russia, India, China and South Africa.

Just in case there was any doubt, former Prime Minister Lee Kuan Yew chimed in, saying on Thursday that Singapore had no plans to participate in a bailout. “We’re in no position to rescue the Europeans by buying their bonds. Nor do I think buying their bonds will necessarily rescue them.”

A new round of monetary-easing measures in Europe has boosted investor confidence in the capital market, but may bring more difficulties for China’s policymakers in terms of tackling inflation and the inflow of “hot money”, said economists.

On Thursday, the Europe Central Bank (ECB) decided to hold its key interest rate at 1.5 percent and
offer emergency short-term loans to the continent’s battered banks which are facing difficulties in borrowing because of concerns about each other’s financial stability.

Meanwhile the ECB will cut rates as early as December when the new economic projection is underway, Tobias Blattner, a former ECB economist, was quoted by Bloomberg as saying.

Also on Thursday, the Bank of England (BOE), the United Kingdom’s central bank, reactivated stimulus measures by agreeing to inject 75 billion pounds ($116 billion) into the British economy, increasing the size of the country’s quantitative-easing (QE) package to 275 billion pounds.

Asian stock markets rose strongly on Friday following the moves from the ECB and BOE - Hong Kong’s Hang Seng index leapt 3.11 percent and Japan’s Nikkei index rose 0.98 percent.

Although the market on the Chinese mainland was closed as part of the country’s National Day holiday, analysts expect to see a good performance when stocks begin trading again on Monday.

However, good news for the Chinese capital market may not be beneficial for the country’s macro economy, said Yuan Gangming, a researcher at the Center for China in the World Economy at Tsinghua University in Beijing.

“The QE by Europe’s central banks has helped China’s stock market to dodge a major shock during the holiday,” said Yuan. “But on the other hand, it is also a way of exporting their trouble to the rest of the world.”

As Europe injects liquidity into the global market, the “prudent” monetary policy adopted by China’s central bank is likely to invite more inflows of hot money, adding more pressure to the country’s inflation, Yuan said.

Yuan suggested that the central bank should begin to adopt loosening measures to ease external pressures and the tensions on the domestic credit chain, which is already fragile in the light of the financing difficulties faced by many private businesses.

However, the governor of China’s central bank Zhou Xiaochuan recently reiterated his stance on tackling inflation as the priority task, suggesting the tightening measures will remain in place unless the rate of inflation falls.

... “The QE by Europe’s central banks has helped China’s stock market to dodge a major shock during the holiday,” said Yuan. “But on the other hand, it is also a way of exporting their trouble to the rest of the world.”
The Commodity Futures Trading Commission (CFTC) just released its commitments of traders (COT) report at 15:30 ET Friday for trader’s positions as of the close on Tuesday, October 4, and according to that report traders the CFTC classes as “commercial” reported their least net short positioning for silver in more than eight years.

Recall that a week ago we reported a stunning drop in the large commercial net short positions (LCNS) in both gold and in silver futures. The “commercials” continued to reduce their net short positioning in this week’s report, a small 1,932-contract reduction in gold futures, but another relatively large reduction of 5,339 contracts in the LCNS for silver futures.

To put the silver changes in our usual format, as silver fell $1.84 or 5.8% Tuesday to Tuesday, from $31.88 to $30.04, commercial traders reduced their collective net short positioning by a large 5,339 contracts (22%) to show just 18,923 contracts net short. The total open interest edged 912 contracts lower to 101,102 open.

Indeed, we have to go all the way back to April 1, 2003 to find a lower commercial net short position for silver futures (15,845 contracts then with silver then $4.43). Just below is a much longer term chart of the silver LCNS for reference... As of Tuesday, the largest, best funded and presumably the best informed commercial traders of silver futures continued to get much “smaller” in their net short positioning for silver futures. There can be no doubt that the commercials view the current downdraft for silver as a silver plated opportunity to very strongly reduce their short bets in the leveraged paper silver contracts.

As shown in the graphs above, just since September 6, as the price of silver declined $11.95 or 28.5% COMEX commercial traders have reduced their collective net short positioning for silver by a remarkable 28,383 contracts or 60% (not a misprint), from 47,306 to 18,923 contracts net short.
Here is one to bookmark.

ThompsonReuters' Eurozone bank stress test tool could come in very handy in the next few months as we try to work out who's solvent and who isn’t.

Not happy with the metrics used by the vested interests regulators? Then apply your own and see how things look. My guess? Not good.
Here, courtesy of Diapason’s Sean Corrigan, is the epic “Fear and Loathing” in the European banking system, in all its $1.3 trillion glory, or nearly double where it was when Lehman filed for bankruptcy. Banks may say they trust each other, they may promise the system is viable, they may even submit bogus (if increasing) Libor indications to the collusive organization that is the BBA, but the truth is, in vivid color, presented below. Never before have European banks parked as much of their hard earned cash with the only two remaining pillars of “stability”, the Fed and the ECB.

Dan Norcini updates us on how the gold chart looks after the big correction that took place in the last two weeks:

What we are witnessing on the price charts is merely the pictorial form of uncertainty that currently is reigning over the minds of traders/investors. The long term bullish trends for both metals remains intact but short term fears over further risk aversion trades and hedge fund long liquidation in the commodity sector is preventing both the bull camp and the bear camp from gaining a tactical advantage.
Ah the History Channel..... you can always rely on them to take a look at all the interesting conspiracy theories and this week Brad Meltzer fixes his sights on a topic that is a favourite of Things That Make You Go Hmmm.....:

“The gold at Fort Knox is protected by some of the tightest security in the world, but what if there’s nothing there to guard at all? Brad Meltzer and his team investigate a rumor that some think could damage the American economy.”

Enjoy.....

The story of Martin Armstrong’s travails is fascinating, alarming and downright disgraceful, but through it all he has continued to offer commentary of the very highest order.

Here, in this fascinating 30 minute interview with Eric King, he touches a little on the background of his incarceration and offers his thoughts on a wide range of current situations.

Don’t miss this one.

And finally, for the conspiracy-loving amongst you, Harry Markopolos is back. The man who tried desperately to get people to listen to him about Bernie Madoff talks to Eric King about his latest suspicions of an ongoing fraud in the financial industry:

“The Bank of New York is going to go down, Eric. Between Bank of New York Mellon and State Street, these two institutions have stolen between $6 to $10 billion from tens of millions of Americans retirement savings accounts. It’s been a hell of a crime spree for the bank, but now they are being brought to justice.”
Think Different.

Thank you, Steve. Rest in Peace.

Hmmm...