

The Economic Trail of Tears

By [The Mogambo Guru](#)

09/19/05 The fall of the dollar is a cause for concern to everyone in the U.S. – except for goldbugs. Why? Because as the dollar falls, the price of gold should continue to go up. The Mighty Mogambo explains...

I am reporting from deep inside The Secret Mogambo Ultimate Bunker Of Secrecy And Redundant Redundancy (TSMUBOSARR), so if you are having trouble receiving this message, just remember that it is almost certainly because the CIA, the FBI, or some other people (everybody) that want to hurt The Mogambo are jamming my transmissions; Or just making me crazy for sport. I don't know which.

For an example of “making me crazy for sport,” last week, the Federal Reserve Bank came slinking out from under whatever stinking rock it is that they hide and increased Fed credit for the zillionth time in a row, but only by \$1.4 billion. So, I guess the good news is that the news could have been worse, and usually is.

Staying in the putrid, stinking area known as “the banks,” they suddenly bought up, in the same short week, \$28 billion in other securities, whatever the hell that means.

The U.S. Treasury, of course, is another story, since they are an actual government agency, and the Federal Reserve is just a bunch of private businessmen, getting together in 1913, who convinced the Congress to give them to give them complete, absolute power over the all the banks.

Under a gold standard, that is no big deal, and could actually be very beneficial. But then to seal the deal that sealed our fate (which is a nice turn of phrase, if I say so myself), we became just another idiot country that started down the ugly trail of tears known as, according to the Mogambo Big Book Of Economics Stuff (MBBOES), “a period of time otherwise referred to as ‘Bankruptcy And Misery Every Freaking Where You Looked Because The Money Was Debased.’”

The Fall of the Dollar: Rampant Fiscal Insanity

Anyway, we were talking about the U.S. Treasury, which spent the entire week printing up, literally, \$6.1 billion in actual cash. Perhaps this has something to do with the fact that they have ballooned the national debt to \$7.9 trillion, which is up \$20 billion in just the last week alone. In the last week – one week!

And when you add in the \$62 billion in hastily passed New Orleans-related federal authorizations, suddenly you have a big freaking pot load of money pouring into the United States, because the banks will eagerly lend money now against a guaranteed flood of money in the near future.

How much money is this compared to Louisiana? Well, \$62 billion is more than the entire total of all the retail sales in the state of Louisiana, for the whole of last year. That's how much money that is! The damned place is going to be deluged with money!

The fact that the dollar did not collapse to utter worthlessness in the face of this rampant monetary and fiscal insanity, only proves that Americans are not the only people in the world who are complete idiots. Whew!

With gold exploding to the upside, perhaps the eye-popping collapse of gold lease rates was merely the insiders pounding gold down so that they could take long positions at cheaper prices. The lease rates are what the central banks charge bullion banks and outright speculators to borrow gold and sell it in the open market, with the understanding that the borrowers would repay the gold in the future. It is a way for central banks to make a little money on their stored gold, which brings in no revenue at all. And it helps the government keep the price of gold down so that the yellow metal would not tip off the unwashed masses that we are in big, big, big freaking trouble.

But maybe not... as Victor Hugo of Vega Asset Management reminds us, "Before gambling with the piggy bank and buying only gold shares, remember that there are powerful interests keen to protect the US\$ and dump gold. Credibility for gold is the last thing they want." But anybody who is even vaguely familiar with GATA, or has bought gold in the last couple of years, already knows that. It's just one more fraud committed by our government and Federal Reserve.

But all is not lost for us gold bugs, as Richard Russell, of the Dow Theory Letters, explains. "The trend among nations has for years been to collect dollars as reserves. But now there are questions about the U.S. finances, and as a result central banks are starting to diversify to other currencies. The key, the absolute KEY to U.S. prosperity is the continued willingness of other nations to accept dollars. The test of the dollar is the number of dollars it takes to buy a euro or a yen or an ounce of gold.

"This is the great drama that lies ahead. How long will the rest of the world continue to accept a reserve currency, the dollar, a dollar that is backed by the world's greatest debtor nation? It's almost crazy that a nation that is running massive deficits should possess the world's reserve currency. And I'm wondering how much longer this incredible situation will last. Remember, the euro was created to compete with the dollar. The Chinese yuan will be competing with the dollar. And gold, real money, always competes with the dollar."

The Fall of the Dollar: The Dollar Goes Down; Gold Goes Up

So, the dollar will go down, and your gold, priced in dollars, but with real value determined by everybody else in the world, will go up. It's all but guaranteed.

Steve Saville, of The Speculative Investor, has mulled this over and said, "The main reason we don't think gold's recent advance is the start of the next major upward leg in its long-term bull market is that gold-related investments are rising in price alongside rises in the prices of almost all other assets." In short, it is being treated as just another commodity, as all metals are up!

Saville demonstrates this point when he says, “The gold/GYX ratio (the gold price divided by the Industrial Metals Index) is evidence of this lack of monetary premium in the current gold price and the generally low level of risk aversion prevailing today in the financial markets. Putting it another way, the low price of counter-cyclical gold relative to the average price of cyclical metals such as copper, nickel and zinc, tells us that most investors believe the economic growth to be real (not inflation-induced). The lack of a monetary premium means that the financial markets are presently not differentiating between gold and other metals.”

Why can't this be the start of a bull market in gold? Saville thinks, “Genuine gold bull markets are all about increasing risk aversion and declining confidence in central banks.” But he sees me clenching my fists, and afraid that I will come unglued. Saville adds, “The fact that gold is not receiving a significant monetary premium and is, therefore, incredibly cheap right now compared to almost everything else greatly enhances its longer-term upside potential.”

So, you would think that The Mogambo would be standing up and declaring that this is the time to buy gold and you would be right! But as I am standing up to walk over to the microphone, I am stopped in my tracks by Saville saying, “However, one of the INITIAL effects of a sharp downturn in the stock market and/or the commodity market will most likely be a further decline in inflation expectations and a consequential rise in REAL interest rates, a negative development for gold. As a result, although gold and gold stocks should be eventual standout beneficiaries of downturns in pro-growth investments, they are likely to be initial casualties.”

Well, I hope so! Wouldn't that be nice: Another chance to buy gold cheaply? But methinks that somebody, and I am not naming any names, has forgotten that for gold to go down when priced in U.S. dollars, a lot of other things must happen. First, the dollar must not depreciate against other currencies where people buy gold. If foreign money gets stronger against the dollar, then this means that they can buy the gold from us cheap, even if the price of gold in dollars stays the same! And if they start to buy up American gold to take advantage of the cheap price, then all that added demand will drive the price of gold right back up.

Secondly, I don't think that inflation is going to cool down. I believe inflation is already raging right now, mostly because of the way my wife is screeching in that Penetrating Shriill Harangue (PSH), about how I don't make enough money to pay the bills any more because prices have gone up so much. She is so persistent about it (“Wake up and get to work, you lazy bastard!”) that I assume it must be true.

We now turn to Peter Spina and his Gold Forecaster newsletter, which reports that China is very interested in the future of oil. This is only natural, as befits a huge country containing a third of the people of the whole world. Anyway, these Chinese guys have looked around and decided that oil will rise to \$90 per barrel by next March, and they, “expect global oil production to peak at 94-100 million barrels per day during the next five years.” Mr. Spina cautions us, “Please note the word ‘during,’ not ‘at the end of.’”

These Chinese dudes expect demand for crude oil to rise 9.7% this year. In 2004, they imported 120 million tons of oil, and are thus on track to use up 135 tons this year. Even at that prodigious rate, “China is facing oil shortages on the eastern coast.”

I am getting ready to ask Mr. Spina what in the hell this Chinese oil thing has to do with gold. Anticipating my stupid question, he says that considering that the ratio of the price of a barrel of oil to gold is “nearly 7,” it’s possible to conclude that, “Gold is well undervalued by a minimum of 50 percent.”

Fifty percent? Wow! Now you’re talking!

Regards,

The Mogambo Guru
for The Daily Reckoning
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The Mogambo Sez: Things are not like you think or like they say. Be afraid. Buy gold and silver, and hold onto it for dear life. One day you will be glad you did.