

A Mouthful of Price Inflation

By [The Mogambo Guru](#)

06/04/07 **The Daily Reckoning PRESENTS:** There are certain topics regarding today's markets that are constantly talked about by investors and analysts alike. Among them are China, the usefulness of commodities, and dollar strength. However, there is only one who can discuss them while eating a double-grande burrito supreme. Read on...

A MOUTHFUL OF PRICE INFLATION

The AdenForecast.com takes a look at China and is impressed at "the ongoing, extraordinary growth in China. China is not slowing down. The economy grew at an 11.1% pace in the first quarter, its trade surplus about doubled and its foreign exchange reserves surged to a record \$1.2 trillion."

Since I have heard this "bullish China story" a lot in the last few years, and am actually watching it happen in front of my very eyes, it was old news, and I immediately got bored and was idly daydreaming about what I would do with reserves of \$1.2 trillion and, you know, what kind of car I would buy.

So I was only half listening and half mentally taking a new red Ferrari screaming around a sweeping turn, delighting a crowd of hot babes with my fabulous controlled 4-wheel slide. Abruptly, I was snapped out of my reverie and back to reality when they said, "China is the biggest consumer of copper, nickel, lead, zinc, tin and aluminum." I jumped to rapt attention! That squirry little Chinese economy, with a GDP that is about a tenth of the USA, is the biggest consumer of these industrial metals? Wow!

I was trying unsuccessfully to digest both that surprising news and a foot-long chilidog with greasy fries ("Make it a combo!") I had for lunch when they followed that up with "Copper imports alone were up 123% in the first quarter compared to a year ago." Doubling? More than doubling in a year?!?

If you are like most people, you immediately noticed the odd mixture of punctuation in that last sentence, namely two question marks and one exclamation point. For those of you who do not have a Mogambo Dictionary And Punctuation Code (MDAPC) or are just too damned lazy to get up and look it up, it means, "To indicate surprise and alarm, as in the phrase 'What in the freaking hell is going on here?'"

There was an alternate definition of, "Indicating the state of not trusting your eyes, ears, tongue, nose, or nipples because the facts as stated are so unbelievable, and you finally decide that people are lying to you, which they probably are, because they are all a bunch of lying scumbags who are out to get you."

Well, the Aden Forecast (like everybody else) has a long history of ignoring The Mogambo, and true to form, they go on, “And as long as China’s growth stays on track, we’ll continue to see ongoing rises in commodity prices in the years ahead.”

Well, if you see the Aden sisters, tell them that The Mogambo says that China’s growth rate don’t really mean squat around here, because the prices of imported commodities will become very cheap (and inflation in commodities will fall) to the Chinese when the yuan rises in buying power, and commodities will become very expensive to us as our dollar falls in buying power.

As usual, nobody is impressed with my clever economic analysis, and thus miss the point across about the horror of a falling dollar. Just in time, and as a living example of a falling currency causing higher-priced imports, I proudly present Jack Crooks, the Currency Director of The Sovereign Society, who writes, “Kuwait cried ‘uncle’ and officially dropped its peg to the U.S. dollar. That means their currency, the dinar, is no longer solely controlled by the U.S. dollar’s performance.”

If you are like me, you were instantly quizzical at the connection between Kuwait, a tiny little country that nobody can even find on a map, for crying out loud, and the American dollar. So you looked up after taking a big ol’ bite from a delicious double-grande burrito supremo and, too impatient to chew and swallow the food in your mouth before saying anything, blurted out “A wa en uh how aa aa nee?” meaning, of course, “What in the hell does that mean?” memorably punctuated by pieces of burrito ingredients flying out of my mouth and getting all over the floor and everything, making a big mess. I act like I am going to clean it up, but I don’t, and I just kind of smear things around a little bit with my foot.

Pretending not to notice my appalling lack of couth or the chunks of salsa stuck in my mustache and down the front of my shirt, he politely explains, “They dropped the U.S. dollar peg because they couldn’t afford to anchor their currency to the falling dollar anymore. It was costing them too much. Kuwait’s cost of imports soared, as the dinar was being dragged lower by the sinking greenback, thus triggering a big surge in domestic inflation.”

“Eh uh e!” I cry with another mouthful of burrito, meaning “There it is!” That’s the problem! Inflation in consumer prices! Kuwait is taking drastic action in response to the terrifying inflation in consumer prices, and the terrifying growing grumpiness of the populace, caused by having a falling currency because it is pegged to a falling currency!

And the US dollar is destined to fall even more now that President Bush is going to sign another “supplemental spending” bill of another \$100 billion or so, give or take a few jillion dollars, which is supposed to be enough to last only until (get this!) September! Talk about your Keynesian stimulus spending! Wow!

Now, notice that foreigners are so conceited that they do not even care about our stupid deficit spending problem or how any of this is going to affect me personally, but only about their own stupid problems, which Mr. Crooks proves by quoting Sheikh Salem Abdul-Aziz al-Sabah as saying, “The massive decline in the dollar’s exchange rate against main currencies...has

contributed to the increase in local inflation rates and this step is part of the central bank's efforts to curb inflationary pressure."

In short, "Kuwait, along with the other oil exporters, is earning huge U.S. dollar surpluses from the crude it ships to oil-thirsty America. So Kuwait must issue a huge amount of dinars to maintain its currency peg. This is why Kuwait's domestic money supply growth is running at a whopping 19% a year. That's rocket fuel for inflation. It's no wonder why the Sheikh is concerned."

And you can bet that a lot of other people who have a currency pegged to the dollar are also concerned, and they are looking at Kuwait and wondering if there is lesson in there for them, too.

And there is. An ugly one. For us. Ugh.

Until next week,

The Mogambo Guru
for The Daily Reckoning
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Mogambo sez: Let yourself indulge in a wild, giggling buying spree of gold, silver and oil! The government is doing everything it can to disguise, denigrate and deny the inflation that is raging all around us, and part of that effort is working behind the scenes with "interested others" to keep these three things down in price because it looks so bad otherwise.

And the older you get, the more you savor the sweet victory of making a lot of money on the stupidity of government (now including the Federal Reserve) and stupidity of the overwhelming majority of the laughably incompetent or cowardly PhDs infesting the nation's major universities, especially Princeton, none of whom ever see anything wrong with Fed policy. Hahaha! How delicious a revenge!