

APRES NOUS LE DELUGE

written by Egon von Greyerz | March 6, 2011

Happy days are here again! Stock markets are strong, company profits are up, bankers are making record profits and bonuses, unemployment is declining, and inflation is non-existent. Obama and Bernanke are the dream team making the US into the Superpower it once was.

Yes, it is amazing the castles in the air that can be built with paper money and deceitful manipulation of all economic data. And Madame Bernanke de Pompadour will do anything to keep King Louis XV Obama happy, including flooding markets with unlimited amounts of printed money. They both know that, in their holy alliance, they are committing a cardinal sin. But clinging to power is more important than the good of the country. An economic and social disaster is imminent for the US and a major part of the world and Bernanke de Pompadour and Louis XV Obama are praying that it won't happen during their reign: "Après nous le déluge". (Warm thanks to my good friend the artist Leo Lein).

"APRÈS NOUS LE DÉLUGE"



US PRINTING INC.

Louis XV OBAMA - Mme BERNANKE de POMPADOUR

LEO LEIN ® XI
ISO ● SE

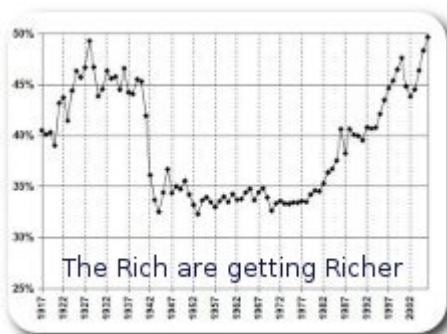
Moral and financial decadence

A deluge of an unprecedented magnitude is both inevitable and imminent. The consequences of the economic and political mismanagement will have a devastating impact on the world for a very long time. And the consequences will touch most corners of the world in so many different areas; economic, financial, social, political and geopolitical. The adjustment that the world will undergo in the next decade or longer, will be of such colossal magnitude

that life will be very different for coming generations compared to the current social, financial and moral decadence. But history always gives us lessons and the one that is coming will be necessary and eventually good for the world. But the transition and adjustment will be extremely traumatic for most of us.

We have reached a degree of decadence that in many aspects equals what happened in the Roman Empire before its fall. The family is no longer the kernel of society. More than 50% of children in the Western world grow up in a one parent home, either being born by a single mother or with divorced parents. Children are neither taught ethical or moral values nor discipline. Many children consider attending school as optional and education standards are declining precipitously. Most families do not have a meal around the dinner table even once a week. Sex and violence are common place on television and in real life. Both press and television create totally false values and ideals. Everyone must be young and beautiful often enhanced by surgical or digital means. Old people have little value and their wisdom is not benefitting the younger generations.

The Golden Calf or materialism is the ultimate value that is worshipped and no means are eschewed to attain material goals. Since most of the prosperity that has been achieved in the last 40 years is based on printed money and debt, it is totally false and unsustainable. A major part of the Western world has improved their living standard, by exchanging services and swapping houses at ever rising prices financed by printed paper and credit. The perceived wealth that is created out of this is illusory and ephemeral. **We have created a world economy which is based on debt and thin air.**



(Click image to enlarge)

The Gini coefficient of income and wealth is now reaching extremes in many countries. This measures the inequality between the rich and the poor. In the US the Gini coefficient is now at the same level as in the 1920s before the depression. In countries like the US, the rich are getting richer whilst 45 million people live below the poverty line, 43 million receive food stamps and over 700,000 are homeless. With a real unemployment rate of 22% and urban youth unemployment much higher, the US will soon experience social unrest.

But it is not only the US that will experience financial misery, famine and social unrest. This will also hit most European countries and in particular the UK, southern Europe, Eastern Europe and the Baltic States as well as

African countries, the Middle East, Asia, yes in fact the whole world.

Are boom and busts inevitable?

Well if you listened to the former British Labour Prime Minister Gordon Brown, he proudly declared that he had abolished booms and busts and thus economic cycles. But he was expeditiously thrown out at the next bust which of course had nothing to do with him since he blamed the US sub-prime market for his ill-fated destiny.

Cycles or ebbs and flows are a natural part of both economic life and nature. And right at the point when something could be done to limit the damage, most nations seem to have the uncanny knack of selecting the political individuals who will put fuel on the fire and make the situation catastrophically worse.

Greenspan was one such individual. During his 19 years as Chairman of the Fed, he could have limited the economic and social damage that the US would suffer. Instead he took every single measure possible to ensure that there would be a catastrophe with uncontrollable consequences. But we shouldn't just blame the incompetence of Greenspan. It was sickening to watch every sycophantic congressman and senator licking Greenspan's boots and praising his wisdom. Because Greenspan's money printing and incompetent interest rate management created one of the biggest financial bubbles in world economic history. But the politicians loved this. It made the stock market boom, and house prices surge. Thus the politicians were all loved by their voters who did not understand the dire consequences that were looming. And Bernanke de Pompadour is continuing the same disastrous policies of creating money out of thin air. When will they ever learn that creating money out of thin air and running astronomical deficits that never will be repaid with normal money leads to the road of total ruin? **When will they ever learn?** The very sad answer is that they won't and therefore they are leading the world into a hyperinflationary depression that will have uncontrollable and cataclysmic consequences for current and future generations.

Empty stomachs are rioting



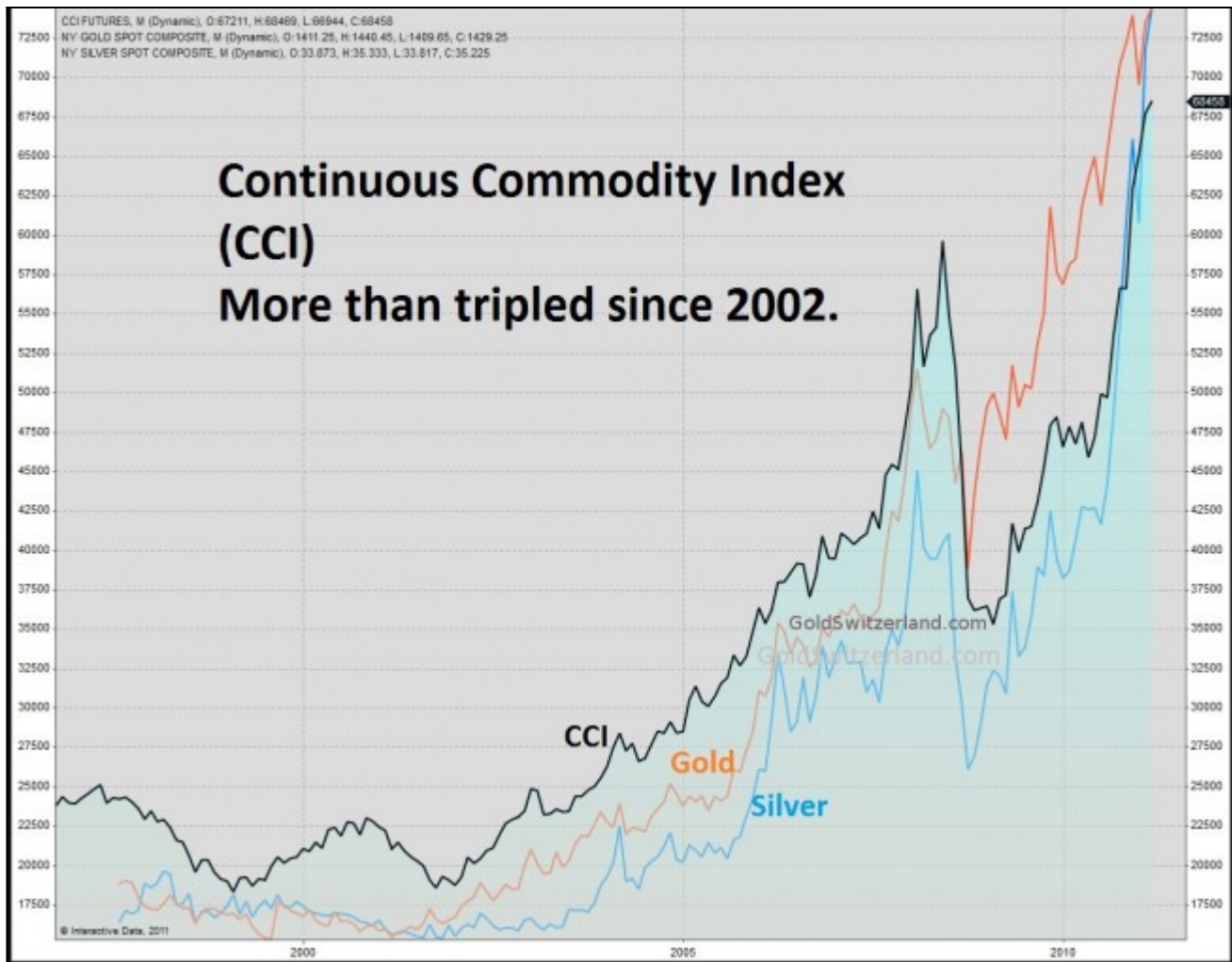
We have for years warned about hyperinflation leading to famine, misery and social unrest. Well, this is exactly what is happening in many parts of the world. The protests and overthrowing of regimes in Tunisia, Egypt and Libya are primarily due to a major part of the peoples of these nations having no job, no money and little food. It is their empty stomachs that are rioting. In addition they are protesting against the leaders of these countries stealing from the people.

It is virtually certain that these riots will spread to many countries in the Middle East, Africa and the developing world. This will lead to new regimes and new political orders that could either be far left or far right politically or religious extremists. But the new regimes will not be in a position to change the root of the problem which is famine and poverty. In Egypt for example there has been a quiet military coup. It is unlikely that a democratic regime will take over from the military. So the people will protest again and again. And this will be the same in most countries. Eventually the people will take the law into their own hands since no regime will be able to give them the food that they need.

The hyperinflationary deluge is imminent

Although food and fuel inflation is rampant worldwide already, we are only seeing the very beginning. Massive oil price rises are likely to continue as a result of the geopolitical situation as well as peak-oil. The Middle East is a time bomb waiting to go off. Israel is in an extremely precarious position and the involvement or non-involvement of the US in this conflict would both have dire consequences for Israel and peace in the world. Food prices will continue to rise dramatically. Major parts of the world are living below the poverty line today and this will increase exponentially.

The lethal concoction of rising food and fuel prices is already affecting the Western world. The Continuous Commodity Index – CCI, (60% food, 17% energy and 23% metals) has almost doubled since the low in early 2009 and has gone up 42% in the last 12 months. The almost vertical rise of the CCI is one of the best indicators of hyperinflation being imminent. **A catastrophe of astronomical proportions is looming. This will hit the world at a time when there is no capacity whatsoever to take any real measures that could alleviate the problems.**

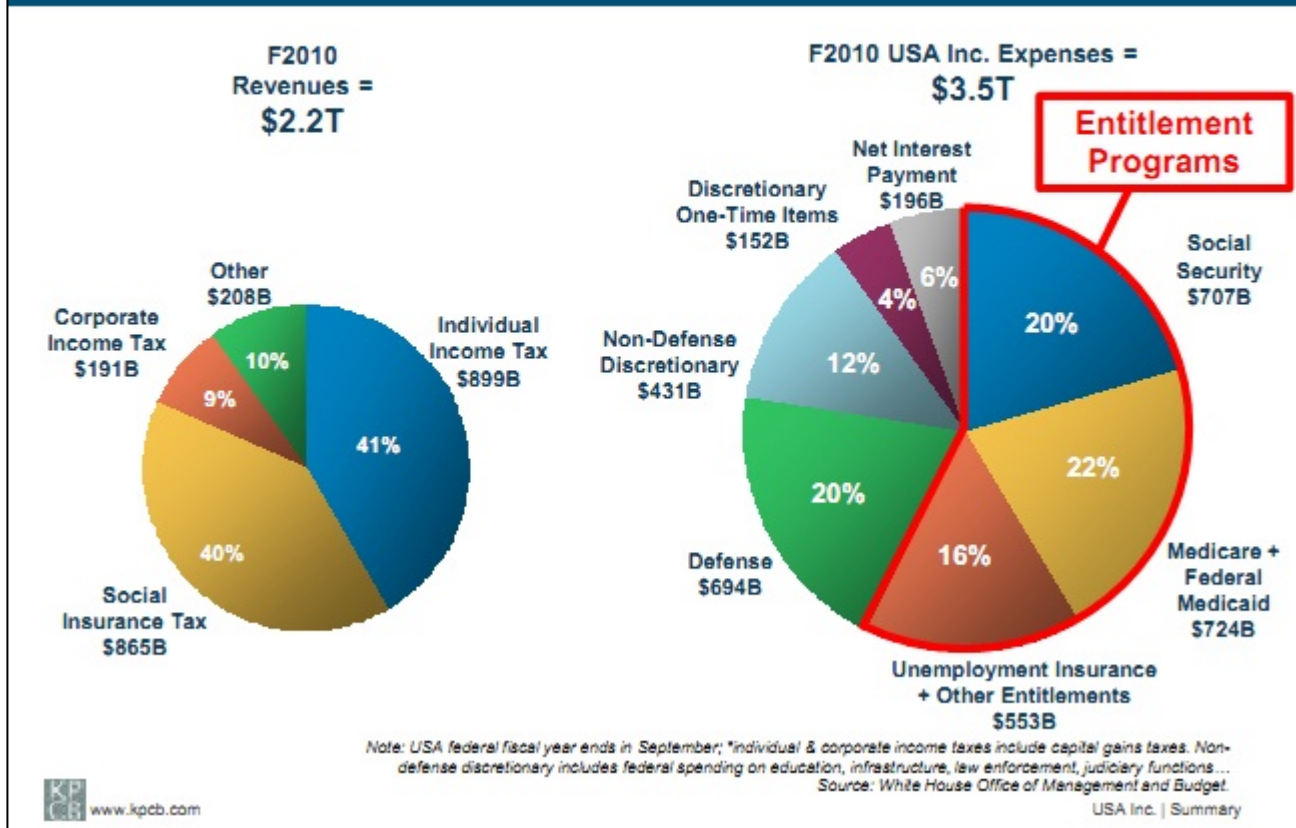


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Most countries are already running major deficits which will increase dramatically in the next few years. The banking system is bankrupt and is only holding together due to false valuations of toxic debt and derivatives. This is done with the blessing of governments since virtually no major bank could face an honest valuation of its assets. Unemployment and especially youth unemployment is currently a problem worldwide and it will get much worse. In 2010, the US government spent 60% more than its revenues. In order to balance the budget individual and corporate income taxes would have to double.

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Never before in history has the world run out of real money as well as (affordable) food and fuel simultaneously. But this is exactly what is happening now and it will get substantially worse in the next few months and years.

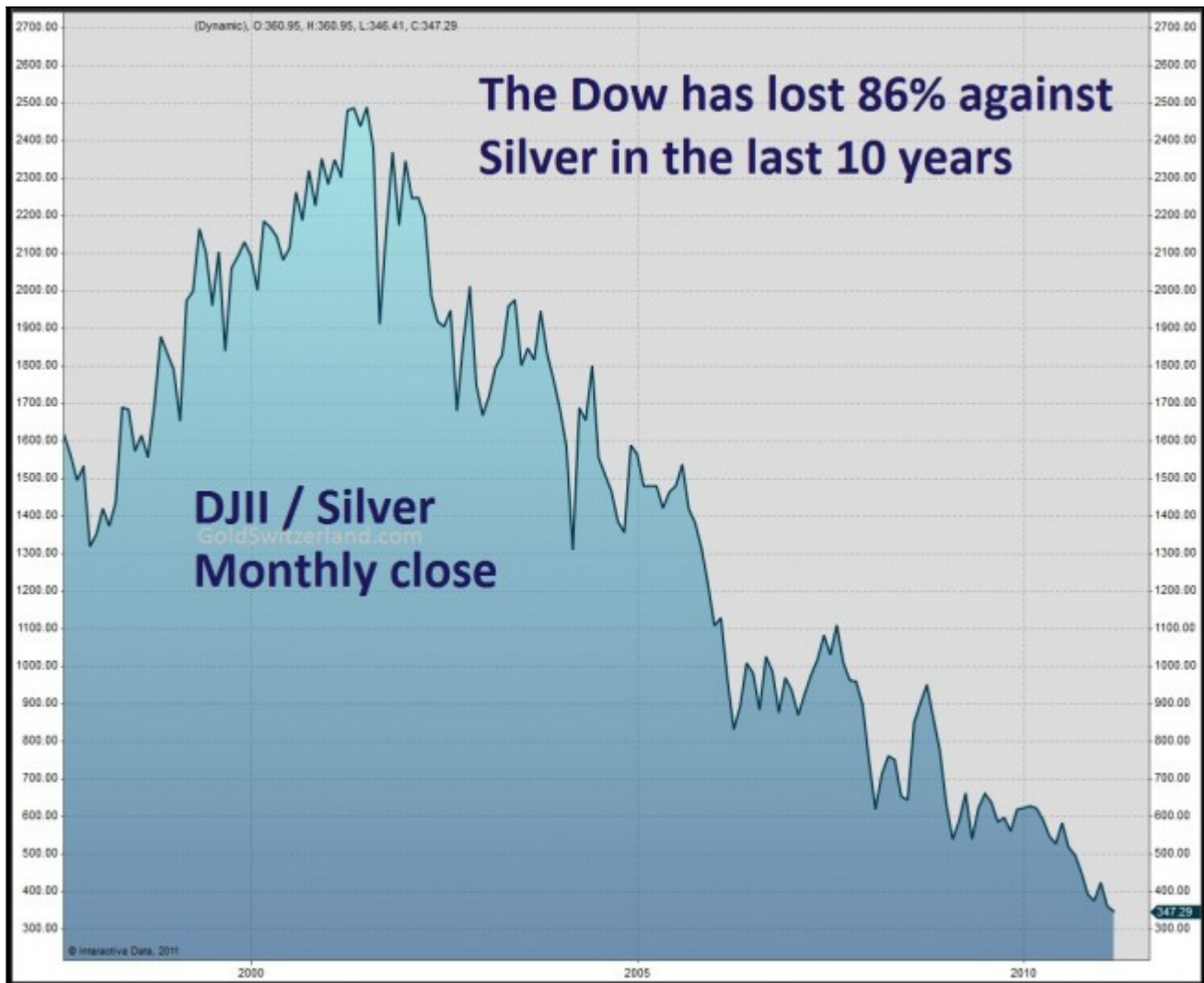
Financial misery, famine and high unemployment combined with governments that will not be in a position to give real help are a recipe for disaster that will lead to social unrest and revolutions not only in developing countries but also in the West. Hungry people are desperate people and desperate people do desperate deeds. We could see already in 2011 food shortages, and riots both in Europe and in the US.

Hyperinflation Watch

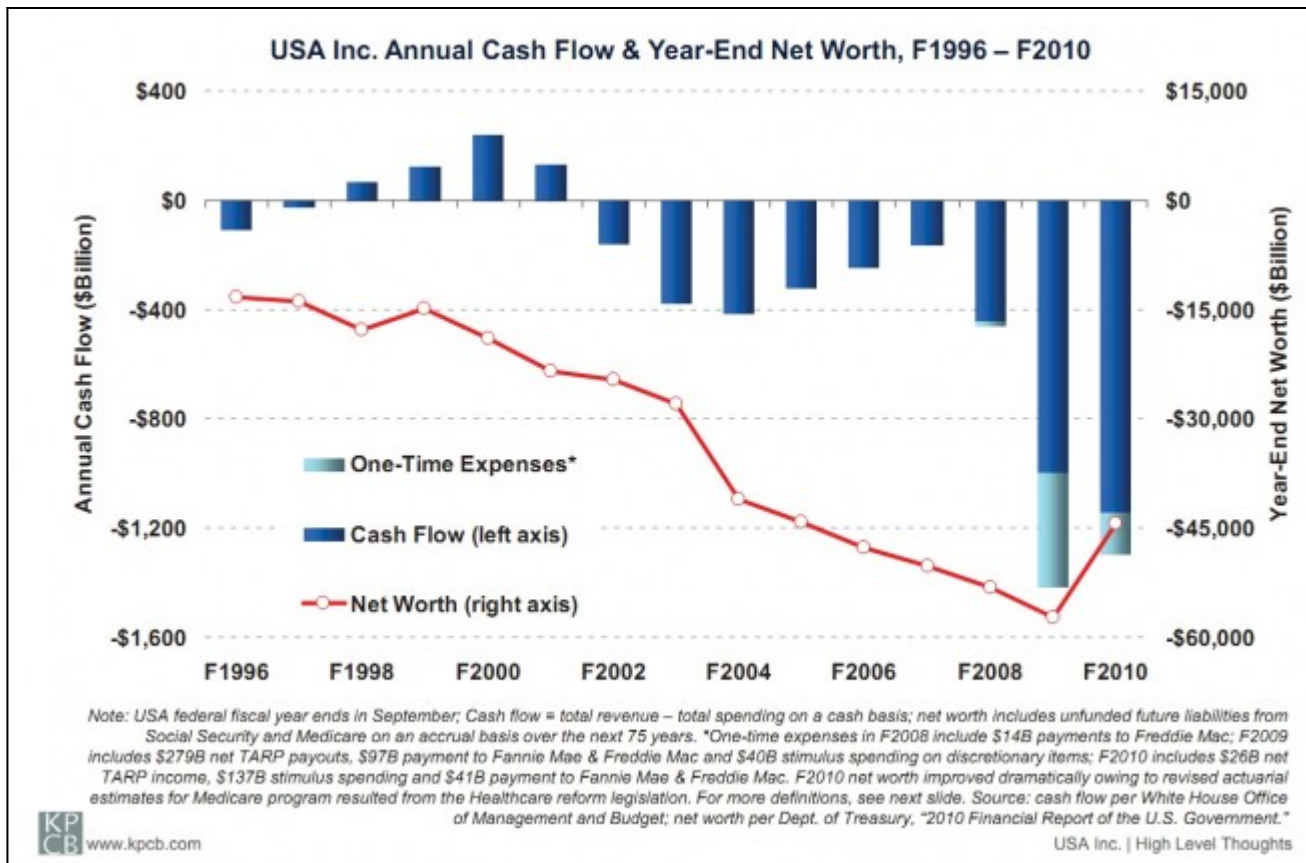
The following are INDISPUTABLE FACTS:

- The US dollar is down 82% against gold since 1999
- The US dollar is down 49% against the Swiss Francs since 2001
- The Dow Jones is down 81% against gold since 1999
- The Continuous Commodity Index is up 100% since 2009

The above facts are clear evidence of an economy that has been totally mismanaged. But more importantly most of these trends are now starting to accelerate – a clear sign that hyperinflation is just around the corner.



With years of negative net worth and negative cash flow, the US is bankrupt today. The Federal deficit is forecast to increase by at least another \$ 5 trillion in the next 5-7 years. Add to this the State deficits, the Municipal and City deficits that are rising at a galloping rate and we have a country that is going to haemorrhage to death in the next few years. One wonders when the totally ineffective and clueless rating agencies are going to fathom this. Not that it will matter if they once do. One also wonders what Mme Bernanke de Pompadour and his court are thinking. "She" and her courtiers should have above average intelligence and could not possibly avoid seeing the facts that we all see today (of course, some of us have seen it coming for over a decade). But "she" has to please her master King Louis XV Obama and her devotion to the king goes above all reasonable common sense, or rationale. So the two of them will continue to crank up the printing press and drown their people and the world in worthless paper.

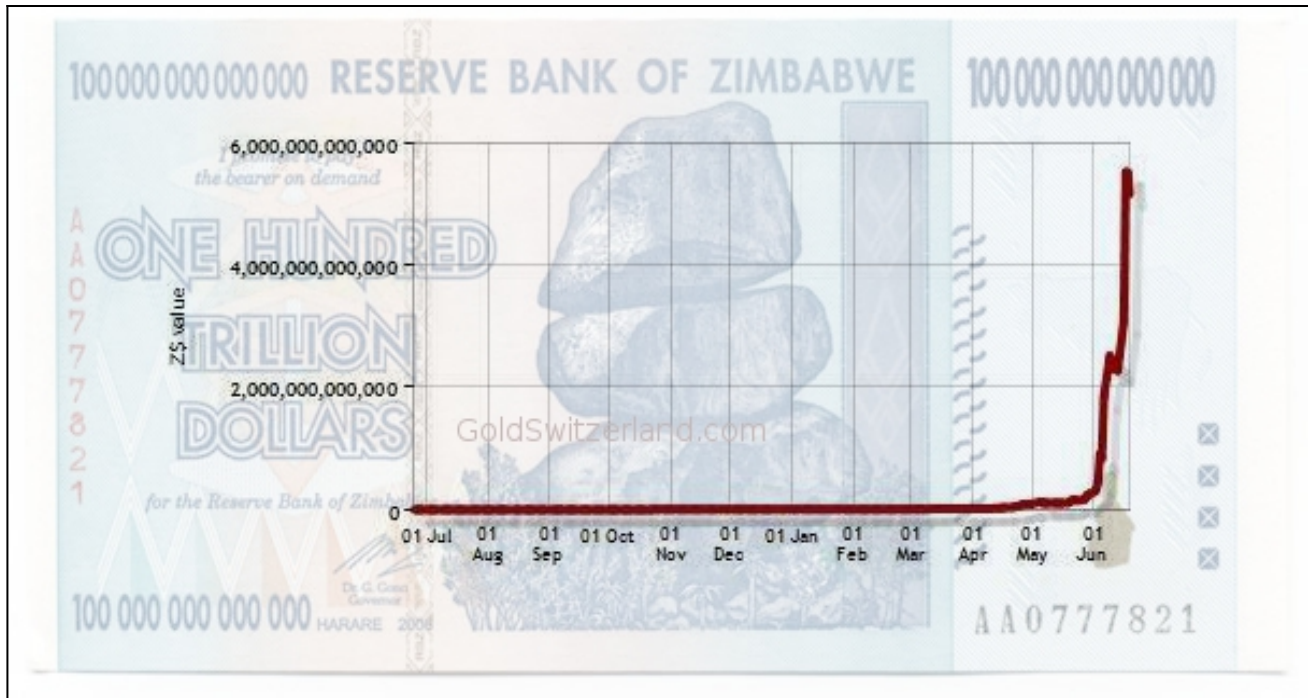


Stock Market

To believe that the current money printing liquidity boom is real and sustainable would be a very serious and expensive mistake. The temporary and illusionary pickup that we are now seeing in the economy and stock market is the normal initial phase of a hyperinflationary economy. It must not be mistaken for a real improvement in the economy.

The normal pattern at the beginning of a hyperinflationary period is that stock markets surge. This is the result of the increased liquidity and a flight to more inflation proof assets. This was the case in for example the Weimar Republic and Zimbabwe. Just look at the chart below of the Zimbabwe stock exchange that went from 1,420 in January 2005 to 5.4 trillion in June 2008, a 3 billion per cent increase. That was of course in Zimbabwe dollars. In US dollars the stock exchange went sideways with major volatility. So in hyperinflationary terms stock markets could continue to rise initially thus making them a better investment than cash. However, measured against real money, the Dow has gone down 82% against gold since 1999 and 86% against silver since 2001 (see chart above). We are currently seeing a dead cat bounce but we expect the Dow to decline a further 90%, at least, against gold in the next few years. So even if stock market investments will initially give the illusion of protecting investors, it will be a very poor hedge against the ravages of hyperinflation in real terms.

ZIMBABWE STOCK INDEX 2007-2008



Bond market

In January 2009, we warned investors that long term interest rates were bottoming. Since then the 30 year bond yield is up from 2.6% to 4.6% an 80% rise. But more importantly the 30 year is currently in the process of breaking a 17 year downtrend line which dates back to 1994. This confirms that rates will now start a major and rapid rise which is likely to reach the mid-teens or higher. Governments will attempt to keep short rates low due to weak economies but eventually the rising long rates will put strong upward pressure on the short rates. So the flight to government bonds that we have seen in the last few years will soon reverse into a massive rush for the exit. This will coincide with rapidly increasing financing requirements by the US, UK, EU and many other governments. The poisonous concoction of rising rates and rising financing needs will create a vicious circle of collapsing bond markets and unsustainably high financing cost. This will continue to drive interest rates even higher which will further increase deficits and necessitate even faster running printing presses. Add to that a collapsing currency and the hyperinflationary picture is complete. It is our very strong view that investors should exit bond markets entirely if they want to avoid a total destruction of their assets.



(Click image to enlarge)

Currency Market

As we have explained for many years, hyperinflation is created by the government destroying the currency as a result of money printing to finance deficits. This leads to the cost push inflation that we are now experiencing. Add to that, shortages in commodities worldwide, thus creating the perfect hyperinflationary scenario. The Dollar, the Pound, the Euro and many other currencies will continue to decline. They can't all decline against each other at the same time so the market will take turns in attacking one currency at a time. But all currencies will continue to decline against gold. We believe that the dollar will soon start a very rapid fall against gold and against many currencies. Investors should exit the Dollar and also the Pound and the Euro. There is no currency better than gold or silver but for any small amounts of cash we prefer the Swiss Franc, the Norwegian Krone, the Singapore dollar and the Canadian dollar.

Wealth Protection



A hyperinflationary depression will destroy the value of money as well as most assets that were financed by the credit bubble (property, stock market).

Wealth protection is now critical and urgent. We see no better way of protecting assets against total destruction than physical gold and silver stored outside the banking system. Thereafter, precious metals, energy and food stocks are our preference. But it must be remembered that any asset including stocks that is held through a bank is dependent on a sound and surviving banking system.

The real move in precious metals is still to come as we have outlined in many articles. Less than 1% of investors own gold. Before this economic cycle is over we are likely to see a mania in physical precious metals that will drive prices exponentially higher. And luckily for investors, this is a mania which is unlikely to end in a collapse since gold most probably will be part of a future reserve currency.

Finally we are again quoting von Mises who clearly understood that “le déluge” is inevitable:

“There is no means of avoiding a final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as a result of a voluntary abandonment of further credit expansion or later as a final and total catastrophe of the currency system involved.” –

Ludwig von Mises