HYPERINFLATION IS NIGH SO GOLD WILL GO HIGH

written by Egon von Greyerz | August 16, 2016

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This coming autumn, we are likely to see the beginning of the hyperinflationary phase of the sovereign debt crisis. Hyperinflation normally hits an economy very quickly and unexpectedly and is the result of the currency collapsing. Hyperinflation does not arise as a result of increasing demand for goods and services.

The course of events in a hyperinflationary scenario can be summarised as follows:

1. **Chronic government deficits**
2. **Debt issuance and money printing escalating rapidly**
3. **Bonds falling – interest rates rising fast**
4. **Currency collapsing**

The above process turns into a vicious circle that accelerates quickly. The more money the government prints, the faster the currency will fall and the faster the currency falls the more money the government must print. Once the hyperinflationary spiral has started, it will feed itself like we have seen in the Weimar Republic, Zimbabwe, Argentina and many other places.

Rates will go to 15-20%

What will exacerbate this process is a financial system which is totally bankrupt in all but name. If banks valued their toxic assets at market instead of at maturity, no bank would be standing today. As longer term government bonds start falling, this will also put upward pressure on short term rates with Central Banks losing control of their manipulation of rates. This will lead to rates going into the teens in the next 2-3 years like in the late 1970s. Virtually no borrower, whether public or private can afford rates just two or three percent higher and definitely not rates of 15% or 20% which we are likely to see – at a minimum. Also, with higher rates, the whole derivatives market of $1.5 quadrillion will blow up since these instruments are all interest rate sensitive.

In a world of exponentially growing sovereign deficits and debts, the outcome of the biggest credit bubble in history has always been guaranteed. But the road there has been laborious. Through financial repression combined with lies and propaganda, governments and central banks have managed to extend the suffering for ordinary people for the benefit of a small elite who has built incredible wealth. The average person is, directly through personal debt or indirectly through sovereign debt, responsible for the $230 trillion global debt but can of course never repay it. On the other side of the balance sheet, these debts have all accrued in the form of assets or wealth of a similar amount to an extremely small elite. This massive inequality is what creates social unrest and eventually revolutions and the problems we now see emerging around the world are most likely the start of that.

Fed policy has totally failed

Governments have since the 1987 crash and the early 1990s property bubble desperately tried to avoid the inevitable. In a panic, Greenspan lowered US short term rates from 8% in 1990 to 2.5% in 1992, thus fuelling the beginning of the final phase of the Fed’s 100-year destruction of the world financial system. Bernanke took over in 2006 when the subprime crisis started and he became the most profligate Fed chairman in history. During his reign, US Federal debt went from $8 trillion to $17 trillion and rates went from 5% to zero. It took the US over 200 years to go from zero debt to $8 trillion

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