POLO METAPHORS, BOND FAILS AND GOLD'S PRICE DIRECTION

written by Matthew Piepenburg | November 9, 2022

Gold's price direction is explained below.

From polo to hockey—it's a known fact that the best players think three moves ahead.

Sadly, the same can't be said of our financial elites…

But as playing conditions deteriorate across the bond, stock, property and currency markets, those with a "three-play- ahead" mindset will have the greatest advantage.

This is especially true for precious metal investors, regardless of their riding or skating skills .

More Horse-Droppings from the Treasury Dept

One of the most important global players on today's macro pitch is the credit market, and that horse is tired.

Last week, former Fed-Chair-turned-US-Treasury Secretary, Janet Yellen, told reporters that her office is "very focused" on Uncle Sam's IOUs, and even confessed "concern" regarding "episodes of illiquidity" wherein it has been difficult to buy or sell US Treasuries, especially in large amounts.

Ultimately, however, the mule-riding Don Quixote, Janet Yellen, does not "see problems at this point in the U.S. Treasury Markets."

Ahhhhh. That's rich….

Apparently, Yellen has a very poor eye for the current playing field and is chasing windmills rather than the rules of a moving target.

Hiding Bond Liquidity with Verbal Liquidity

As we have been warning for months, these **"episodes of illiquidity"** are more than just a "concern."

In fact, they serve as undeniable evidence that the world is running out faith in **Uncle Sam's bloated bar tab** after years of monetary addiction to mouse-click money to pay for (monetize) the so-called "American way."

In short, when GDP, tax receipts and good ol' fashion productivity or trade surpluses no longer work, the US has become good at just borrowing and printing, a tactic (i.e., charade) that bought time, votes and even an appallingly ironic Noble Prize for Bernanke, but a ruse for which the rest of

the world is now losing faith after years of **importing American inflation**.

In short, more and more of the world wants less and less of Uncle Sam's sovereign debt, which means USTs are falling and hence yields and rates are rising.

And **as previously reported**, those rising yields are like rising shark fins approaching a debt-soaked global system already bleeding in the water.

Stated simply, when Yellen says she sees no problems, that's precisely when you know there's a problem.

Or as Otto von Bismarck (and Tree Rings) reminds: "Never believe anything in politics until it is officially denied."

More Treasury Secretaries, More Mules Masquerading as Thoroughbreds …

Speaking of Treasury Secretaries (i.e., the worst players on the "cancha"), former Secretary Larry Summers is doing what he does best, namely: Causing problems behind the scenes (from repealing Glass Steagall to deregulating derivatives), denying/ignoring guilt, and then once those problems become obvious, making public warnings of the same to appear virtuous.

Like Minister Fouche under Napoleon, Summers blows in which ever direction the wind most suits his image.

Toward that end, he's finally speaking of what most of us have known long ago: The US can't afford rising rates in 2022 under Powell the way it could in 1980 under Volcker.

Thanks, again, Larry, for jumping on the band wagon long after it's too late.

Given the foregoing realities, double-speak and just plain dumb out of DC's lowest-goal but best-dressed players, the inevitable consequences of unloved Treasuries as a result of unimpressive Treasury Secretaries simply means an inevitable pivot toward more printed, debased and inflationary Dollars to keep Uncle Sam from defaulting on his bonds.

But politicians are clever foxes. They hide their addictions (and intentions) as cleverly as the BLS **hides inflation facts.**

Just More Backdoor QE Before the Real Thing

Just like politicos can **deny a recession** in a recession or deny inflation during inflation, they can pretend that QE is not QE, even when it is, well… QE.

Toward that end, we can expect the Treasury Department to start buying its own longer-dated bonds (USTs) by swapping them with shorter duration T-Bills.

Officially, this is not Quantitative Easing *per se*, but rather a "UST

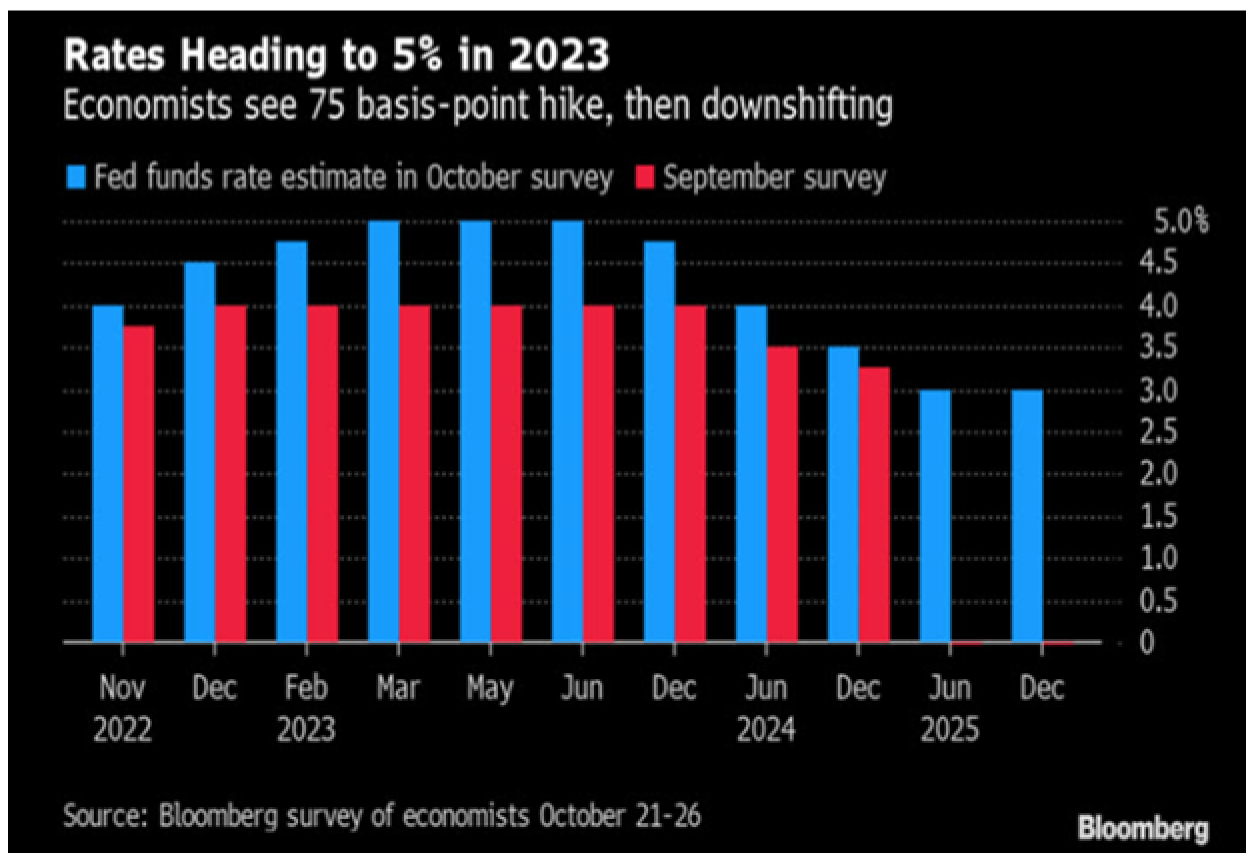
buyback."

But why let fake semantics confuse honest math? The smart players are already three plays ahead of the Fed's empty rhetoric and bad riding skills.

Like the daily repo support from the Fed, in the end, such "buyback" schemes are just QE under a different mask.

Powell's Ruse Continues

Thus, as such shell games in DC continue to hide reality behind words, the **Powell Fed will continue its ruse** to fight inflation the "Volcker way" and likely announce and conduct additional (but 50 rather than 75 bps) rate hikes in the last chapters of 2022 and the early chapters of 2023 before the inevitable surrender to more QE.

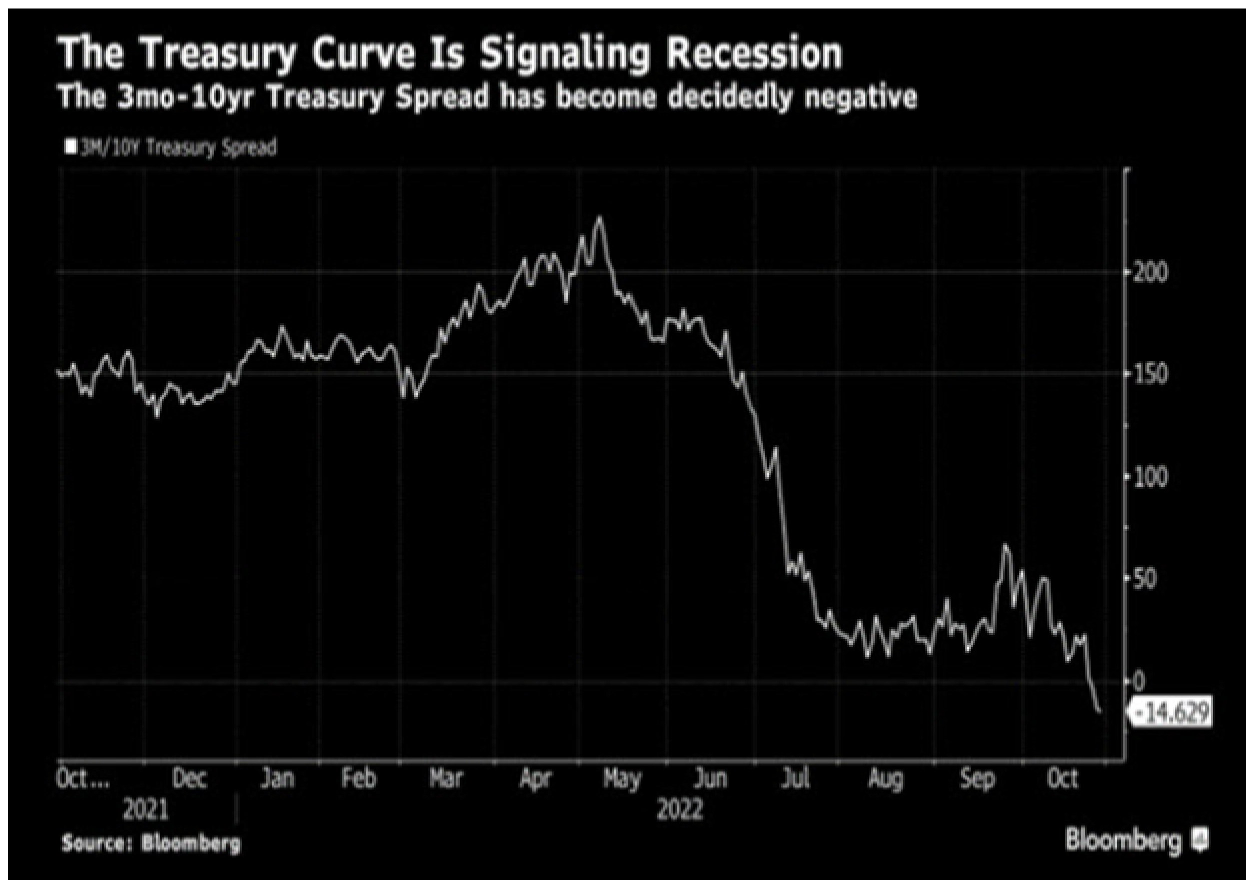


Why the near-time rate hikes?

Powell knows that when the current recession becomes an official recession, he'll need at least one tool in his ever-weakening toolbox.

In short: He's only raising rates today so that he'll at least have *something* to cut tomorrow.

And speaking of recession, the following (and inverted) yield curve is a screaming sign that a recession is coming, if not *already* here.



I See Serious Stagflation Ahead

As for fighting inflation, any short-term hopes of beating inflation will end once the money printers are spinning again at full speed to buy Uncle Sam's increasingly unloved IOUs.

This will likely occur in 2023, but frankly, who the hell knows precisely when it will rain QE money? I don't.

The key is recognizing the shark fins and getting a safe boat. And as warned previously, **we are all gonna need a bigger boat**.

Stated bluntly and simply, there's no way to ever unwind the Fed's balance sheet nor the nation's $31T deficit in the face of a recession that will take that deficit many, many, many trillions higher.

These obvious and fatal *inflationary* realities will ultimately collide with the disinflationary forces of a long and painful (as well as Fed-engineered) recession.

Given that I see inflation as a *monetary issue* rather than just a bogus CPI print, the further and inflationary *debasement* of the USD under further QE ahead (despite the USD's growing and ironic *relative* strength) will be a stronger force than a deflationary recession.

In simple terms, this means we need to prepare for (rather than debate) some serious stagflation ahead.

Toward that end, and as already implied by a number of DC insiders, we can expect the Fed to slowly alter its "target inflation" narrative from the comical 2% range to an equally comical 4% or higher range in the coming months and quarters—all of course, to be blamed on Putin or COVID rather than years of mouse-click money.

Powell, like most mediocre politicians (or polo players), is ego driven rather than Main Street responsible. His main fear today is not about keeping his post, but assuring his legacy.

Secretly, Powell fears looking like another Arthur Burns, who let inflation get too hot. Thus, Powell's *public* image today is about fighting inflation.

But I'm not buying it. The real goal today is to *inflate away debt*.

Karma's a B!7@#

In reality, and to repeatedly shout from the rooftops, *the only way to handle $31T in US public debt is to "inflate it away"* by eventually loosening rather than tightening monetary policy once it becomes obvious that US IOUs won't find enough buyers unless there's a money printer to do so.

Needless to say, such grotesque reliance on a money printer (i.e., money *killer*) is the economic Karma of far too many years living on debt rather than productivity, and far too many years of the US exporting its inflation to the world and clipping the wings of their own allies by making the USD too strong to repay, settle or compete.

By 2024, I expect a disorderly "reset" and central bank digital currencies as the USD loses what little respect it has left.

The World Turning a Slow Back on a Fast Dollar

Toward this end, and as **forewarned too many times to count**, the rest of the world (I.e., the BRICS) is either turning away from the steroid-ruined USD (slowly but surely) or turning toward their currency-debasing money printers (think Japan and the UK *yesterday* and the ECB and the Fed *tomorrow*).

Meanwhile, Saudi Arabia is looking more toward China and less toward Biden to improve energy cooperation.

As warned, the **Petrodollar system**, so critical to the USD's eminence (i.e., forced demand) in the world, is going to slowly unwind as Saudi starts accepting yuan rather than USD for its oil.

So yes, the world (and Dollar) is changing, and fast…

Poor Germany

Over the weekend, for example, I was in Munich, where inflation is already at 11.6% in a country which is considered Europe's most reliable creditor.

But even Germany can’t seem to find any buyers for its bonds as Olaf Scholz scurries to raise $200B to pay for rising energy costs due to its blind (forced?) support for American sanctions against Putin in yet one more example of a long list of U.S. proxy wars on other peoples’ land.

But who wants to buy a German bond when the inflation rate is running some 900 basis points *above* the average interest rate, which means buyers lose almost 9% of their return to inflation the moment they bid?

In short, the reality of negative real yields (the hidden trick of all broke nations) is not only hitting the face of the average US citizen, but Germany’s as well.

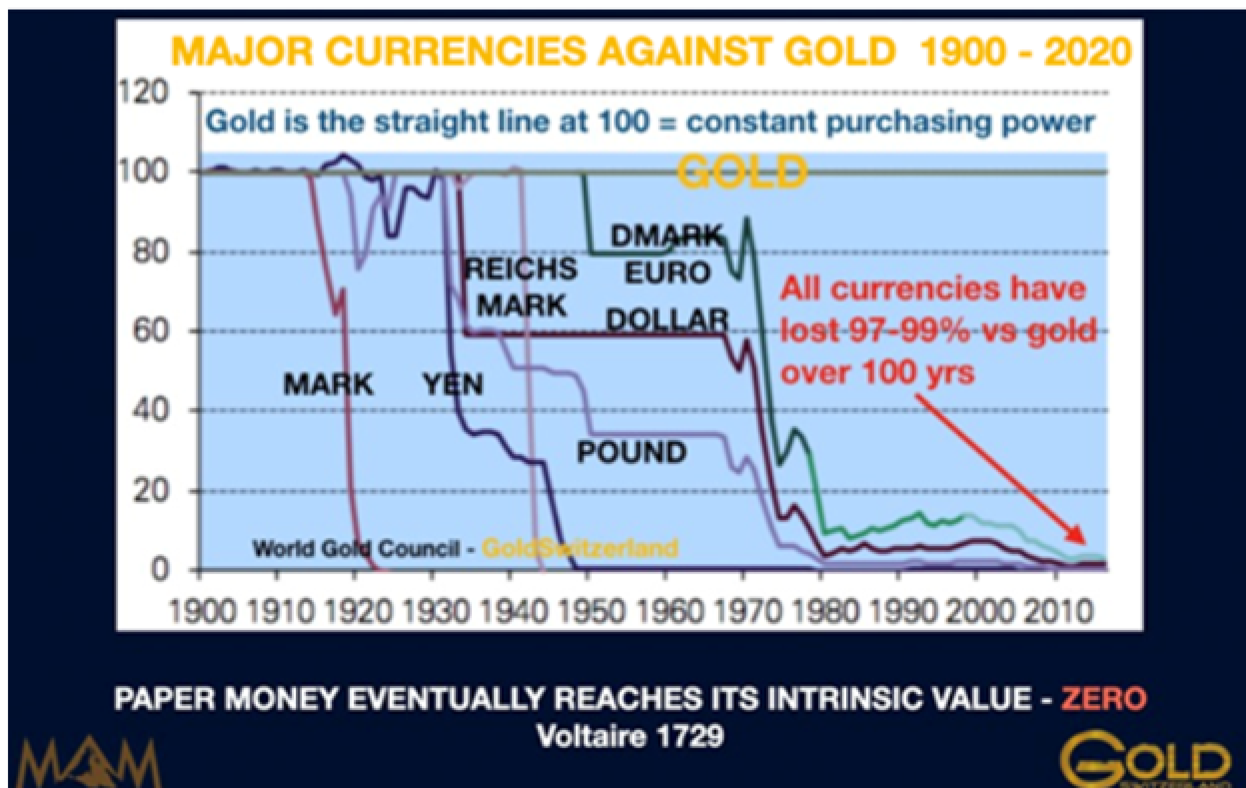
Gold: Play the *Direction* of the Ball

As introduced above, all of these trends point not to where the golden polo ball or hockey puck sits *currently*, but toward where the ball or puck is headed…

Right now, and as explained at length elsewhere, an engineered and only *relatively* strong USD is taking the shine off gold. The current inverse correlation between gold and the USD is undeniable.

But that is where the ball sits now. Where it is headed is another matter, and great players, as well as investors, are always three plays ahead of the moment…

Stated more simply, as more and more currencies (including, yes, even the USD) weaken in a backdrop of inflationary realities and debasing consequences, gold is headed for an historical move, which means central bankers are about to get hit with a golden puck…



Toward this end, investors around the world are always asking Egon and I what the gold price will be in a month, a day, a year etc.

But gold price measured in what? In USD? Yen? Euros? Pound Sterling?

Folks, the simple point is why measure a fixed asset in an increasingly dying

currency? Gold’s real measure is in ounces and grams, not fiat paper.

Or stated more simply: Gold doesn’t rise (see flat/constant top-line in graph below), it just holds its value as fiat currencies gyrate and then die like a fish flopping on the dock, which *all fiat currencies have always done, throughout history, every time and without exception.*

So, are you playing the ball where it lies now, or where it will be three plays ahead?