

# Things That Make Me Go Hmmm: Inflation, Crypto, Command Economies and Gold.

written by Matthew Piepenburg | March 27, 2021

Over the years I've written almost ad nauseum about the crazy I see (and saw) around me as a fund manager, family office principal and individual investor.

The list includes: 1) an **entire book** on the grotesque central bank distortions of free market price discovery, 2) the open (and now accepted) dishonesty on everything from **front-running Musk tweets** and **bogus inflation reporting** to **COMEX price fixing**, 3) the insanity of 100-Year Austrian bonds or just plain *negative-yielding* bonds going mainstream, 4) the open death of classic capitalism and the **rise of economic feudalism**, 5) asset bubble hysteria seen in everything from **BTC to Tesla**; 5) rising **social unrest**, 6) the serious implications of **Yield Curve Control** and the gross mispricing of debt that has midwived the greatest credit binge/bubble in recorded history, and 7) the ignored **power of logical delusion** that so characterizes the **madness of crowds** in the current investment era.

In short, there a great deal of things which, as our advisory colleague, **Grant Williams**, would say: *Makes me go hmmm*.

Speaking of exceptional team advisors at Matterhorn Asset Management, **Ronni Stoeferle** recently had a **compelling discussion** with the equally brilliant, and hitherto *deflationary* thinker, Russell Napier.

Among the many compelling take-aways from that discussion is the fact that Mr. Napier is now turning *inflationary*.

As we'll see below, this broader and structural inflationary pivot, now undeniably on the horizon, has massive (and positive) implications not only for precious metal ownership, but also the very structure of the financial world going forward (negative).

In short, the inflation topic is not just an academic topic nor fodder for podcasters and economic tenure-seekers—it's a critical signal of the repressive financial world staring us straight in the eyes today and heading toward ever-more financial repressions tomorrow.

**Expect Inflation. Period. Full Stop.**

In college, I once read that the only certainty is uncertainty. In short, be weary of anyone who says anything is certain.

That said, I am now arguing that inflation is certain. Hmmm.

Why?

Well, I've written at length in the recent weeks on the many factors which now make inflation inevitable rather than theoretical. Specifically:

- A. Inflation, based on the hitherto honest rather than current CPI scale, is factually at 9%, not the farcical 2% range. In short, inflation is *already* here;
- B. Unlimited QE, by definition, means greater money supply, and inflation, by definition, is about precisely that: Increased money supply;
- C. QE for Wall Street (and the embarrassing new reputation of MMT) is slowly being joined by "QE for the people" in the form of unprecedented, "COVID-justified" broad money creation and fiscal deficits to directing money (and the velocity of the same) straight into Main Street, a classic tailwind for rising inflation;
- D. The now openly felt winds of a commodity super cycle is driving commodity prices higher in everything from corn to plywood, all further (and undeniable) tailwinds of increasing inflation;
- E. Finally, and perhaps most importantly, governments around the world have never, not ever, been as deep in debt as they are today, and the only way to dig themselves out of the Grand Canyon of debt in which they and their central banks put themselves (and us) is to now *inflate their way out of it*. In fact, just last week, the ECB openly confessed as much.

But in case none of the foregoing objective realities has you convinced of inflation's arrival and growing windspeed, Mr. Napier gives us even more reasons to accept, as well as expect, its, well...*certainty*.

### **The Structural Shift Toward Open Inflation: Government Credit Guarantees.**

Unknown to many, inflationary forces far stronger than just monetary and fiscal stimulus have been in open and deliberate play by the world's major governments in the form of government credit guarantees to commercial banks.

This is a critical structural shift.

Why?

As I wrote in **Rigged to Fail**, central banks have been in bed with commercial banks and broke governments since their not-so immaculate conception.

Governments are all too aware that commercial banks can't thrive or create credit and loan money at the artificially repressed rates otherwise so crucial to keeping their massive sovereign debt obligations affordable.

By recently guaranteeing bank credit risk in everything from business loans to mortgages, governments are not only aiding and abetting bank survival in a low-rate new abnormal, but are effectively (and slowly) *taking greater control* of the commercial banking sector.

Such credit guarantees from governments ensure bank money creation to manage everything from housing and the green agenda to consumer and corporate debt needs.

This new direction represents a *permanent structural change* in the banking

system which, despite being largely ignored by the average citizen, will mathematically lead to an even greater expansion in broad money growth, and hence, by definition, a deliberate and now structural as well as *global* expansion in the inflation rate.

In short, *global* governments are permanently taking a more centralized role in the *global* banking system and hence the financial system in which you now sit, wide-eyed to be sure.

The major global markets are now witnessing undeniable and intentional broad money growth—tripling the rate of growth in just the last 6 months.

### **But What About Interest Rates? Well, Here's the Kicker...**

Of course, everything we learned in school, in both economics and history, suggests that if inflation rises, then rates must rise as well, right?

Well, sadly, in this brave new Orwellian world of government centralization and **shameless debt expansion**, nothing we learned in school is now much of a guide.

In short: Everything has changed.

Given these grotesque debt levels (compliments of a politician and central banker near you, rather than the COVID excuse), *policy makers literally have no choice but to inflate their debt away.*

But being the clever little weasels that public policy makers are, they will, of course, make every effort to have their cake and eat it too by *deliberately allowing inflation* (to get out of debt) yet also *repressing the cost of that debt* by turning to yield curve controls to artificially repress rates.

Such rate repression is a must, rather than a choice or pundit debate going forward.

Given current global debt levels (>\$280T), naturally high nominal rates would literally kill the markets and governments with the same, rising rate bullet.

That is, if rates were allowed to rise naturally (i.e., in genuine capitalism), the interest expense on government debt would scream way past 50% of GDP in seconds and the party would end in dramatic fashion immediately.

Thus, central banks will kill free market price moves in the bond market. *They have no choice.*

This is no secret, by the way. Just last week, the ECB so much as confessed this new direction.

In simple speak, the only way to get out of debt is to keep inflation rates above interest rates— and the greater the gap, the faster the road out of debt, something the French (my homeland) have known for centuries...

Of course, this open sham wherein inflation runs higher than nominal yields is also a perfect, textbook setting for *negative real rates*, which as all gold *investors* (rather than *speculators* know), is what I recently described as the **ideal setting** for a structural bull market in precious metals.

But what about my favorite economists—the Austrian School?

Haven't those Austrians always warned that the money creation needed to repress yields/rates via artificial bond buying leads inevitably and without fail to currency destruction and a bursting bomb within the financial markets and broader economy?

In short, won't there be a terrible, terrible price to pay for this new abnormal of rising inflation?

The short answer is "yes," but the only issue remaining is what flavor of terrible are we talking about?

### **Austrian School Disaster vs Command Economy Nightmare?**

Austria's Ludwig von Mises warned that all artificially rising bubbles end in catastrophe—including (and depending on the size of the bubbles) hyperinflation, crashing securities markets, and the advent of social, economic and political chaos which always follows the death of paper money.

Today, of course, such a loss of confidence in paper money is real—from the Austrian school's warnings to the understandable and rising popularity of alternative crypto currencies like Bitcoin.

Russell Napier, however, doesn't see such a von Mises-like explosion or BTC solution.

Rather than allow such events, he believes modern "democracies," now deeper and deeper under the command economy of governments aligned with central bankers (think Yellen at the Treasury and Draghi as Italian PM), will simply take over the economy rather than allow its natural death ala the von Mises forecasting.

So, pick your flavor of policy poison: Either the entire system implodes (ala von Mises), or we enter a Brave New World of command control government wherein capital controls become the new, tragic normal.

Either way, of course, we still face the inevitable slings and arrows of misfortunate-inflation.

### **Where to Hide from Inflation?**

But in a command-control new world, where can investors go to protect themselves from rising inflation?

Well, the regulated big boys in their big banks and other institutions won't have a lot of choices.

This is because the entire survival of an increasingly centralized, command-control economy (20% of US income now comes from government handouts) rests upon having less rather than more escape routes.

Centralized economies, whose bread and butter is by definition "financial repression," will never, not ever allow alternative escape hatches or open channels for monetary outflows which might otherwise threaten their needed inflationary agenda or sacred currency.

Instead, they will tighten rather than expand creative and alternative solutions to inflation and dying currencies.

### **Bad News for Bitcoin**

This also means Bitcoin is facing a dark future, for the simple reason that brilliant loopholes like Bitcoin are a direct threat to the centralized world of financial repression and currency control to which we are not only heading, but already experiencing.

One of the key appeals of Bitcoin, for example, is its anonymity profile. This brilliant and revolutionary blockchain move has my greatest intellectual respect, but sadly, centralized governments will not tolerate such tax less "coins" or anonymous ownership.

Bitcoin is simply too scary a threat to increasingly repressive financial systems. In fact, if Bitcoin were to truly succeed as viable currency, governments would truly fail.

Which bet will you want to take?

This is why governments, including at the US Congress, are already submitting legislation to strip BTC of its anonymous profile.

This does not mean an outright ban of the sexy crypto (yet), but such a move will certainly remove much of Bitcoin's lipstick, price action and investor appeal.

### **Turning Back to Gold...**

As I like to say, all roads, and discussions, turn back to gold, currently biding its time as the ugly girl at the dance as all these structural changes and asset bubble hysterias (including BTC) grab the forever myopic attention of sell-siders, deflationary pundits and bubble-lovers worldwide.

Unlike Bitcoin, however, *physical* gold held *outside* an over-regulated, financially repressed command-economic system, does not rely upon anonymity to maintain (and grow) its value.

In the coming years, we will see more and more capital controls imposed on institutions, where sadly, most of the great national wealth (and even "gold") is held.

At Matterhorn Asset Management, however, we don't believe in holding gold in

commercial banks, for the simple reason that a) such “gold” is not truly “owned” by the banks or even its account holders, and b) those banks are increasingly under the control of governments not depositors.

Instead, the smart money holds real gold, in individual names, stored in real vaults outside of the commercial banking system—typically in a Swiss jurisdiction where privacy rights and capital controls are NOT determined by the central banks in Tokyo, Brussels, London, Beijing or DC...

Gold is a wise investment in an increasingly broken, desperate and hence repressive environment. But how one purchases, owns and secures it is a critical matter.

Individuals going forward will have more freedoms than regulated institutions to hold portions of their wealth *outside* of such openly and increasingly centralized financial systems.

Fortunately, Matterhorn’s founder, and my friend and colleague, Egon von Greyerz understood this decades before less farsighted “stewards” like Yellen or Draghi took office at a centralized bank or government near you.

Matterhorn Asset Management saw the writing on the global wall when gold was less than \$300 an ounce and created an ideal system for acquiring and safeguarding precious metals for the long game not the global putting green.

In short, Mr. von Greyerz created a superior system for acquiring, growing and preserving wealth than the bankers and politicians have since created for the rest of the world, which, as argued above, is sliding ever more toward greater controls and heightened absurdity rather than wider freedoms and effective simplicity.