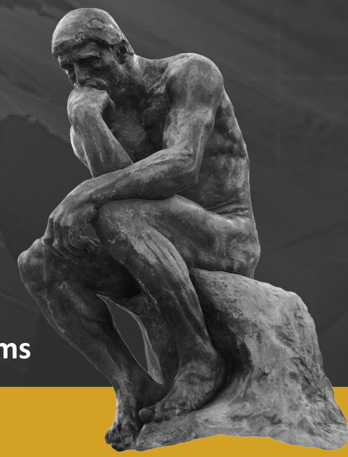
MAULDIN
ECONOMICS

THINGS THAT MAKE YOU GO

Hmmm...

A walk around the fringes of finance

By Grant Williams



02 December 2013

Twisted (By The Pool)

"Give me control of a nation's money and I care not who makes its law."

— Mayer Amschel Bauer Rothschild

"Sunlight is the best disinfectant."

— William O. Douglas

"There is not a crime, there is not a dodge, there is not a trick, there is not a swindle, there is not a vice which does not live by secrecy."

— Joseph Pulitzer

"Total transparency risks country's stability."

— Toba Beta, Betelgeuse Incident

"Telling the difference between transparent and invisible is an acquired skill. Until you've practiced, you can't make the choice between looking through and looking at."

— David Whiteland, Book of Pages

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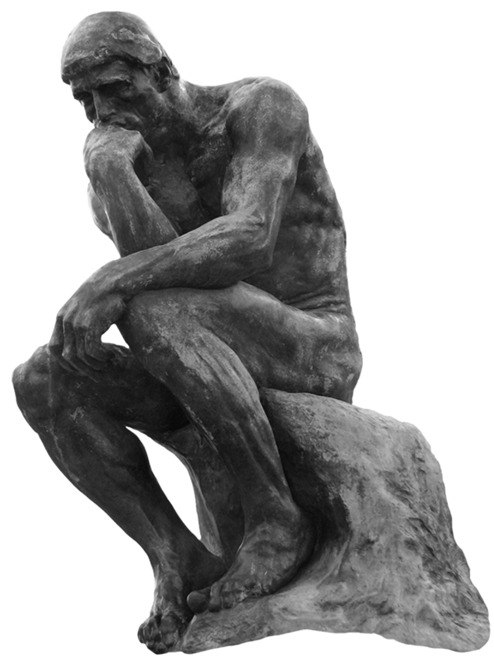
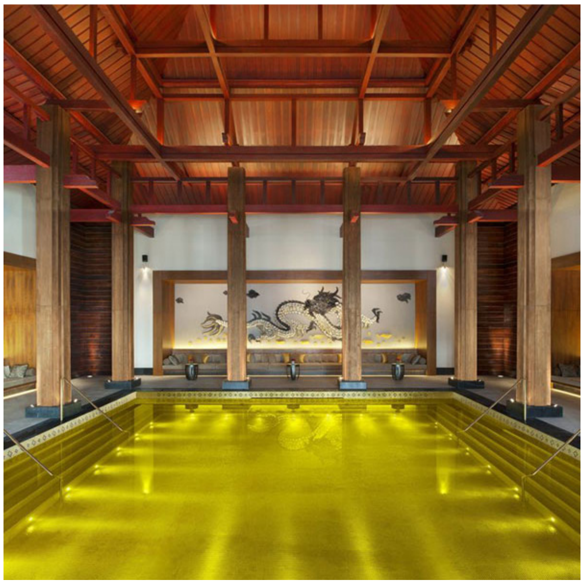


Things That Make You Go *Hmmm...*

This is an early warning. I'm going to be talking about gold (again) this week, so those amongst you who just kinda wish I wouldn't do that may be excused.

There. Now it's just us.



On November 1, 1961, an agreement was reached between the United States and seven European countries to cooperate in achieving a shared, and very clearly, stated aim.

Actually, let me adjust that last paragraph ever so slightly in the interests of accuracy:

> *On November 1st, 1961, an agreement was reached between the central banks of the United States and seven European countries to cooperate in achieving a shared, and very clearly stated, aim.*

Did you see what I did there? A small amendment, I'll concede, but an important one — particularly as, 52 years later, we witness the incredible power now wielded by those august institutions.

But back to November 1961 and those eight central banks.

The signatories to this particular agreement were, in alphabetical order, the central banks of Belgium, France, Germany, Italy, the Netherlands, Switzerland, the United Kingdom, and the United States; but unlike other agreements of the time — such as that signed at Bretton Woods in 1944 — this one had no catchy title and was agreed upon with no fanfare and no publicity. In fact, this particular agreement was, if not exactly secret, then secretive by design.

It was put into place after a sudden spike in the gold price from its "official" level of $35.20 to over $40 on concerns in late 1960 that whoever won the impending US election might devalue the dollar in order to address the country's balance of payments problem.

The agreement became known as the London Gold Pool, and it had a very explicit purpose: to keep the price of gold ~~suppressed~~ "under control" and ~~pegged~~ regulated at $35/oz. through interventions in the London gold market whenever the price got to be a little ... frisky.

The construct was a simple one.

The eight central banks would all chip in an amount of gold to the initial "kitty." Then they would sell enough of the pooled gold to cap any price rises and then replace that which they had been forced to sell on any subsequent weakness.

The United States — which at that stage owned roughly 47% of the world's monetary gold (excluding that owned by the Soviet bloc) — promised to match every other bank's contribution, ounce for ounce. The value of the US gold hoard was very easy to calculate, thanks to the fixed price of gold at the time ($35):

$17,767,000,000.

Or, put another way, roughly 6 days' worth of QE.

However, somewhat remarkably, only seven years prior, the United States' gold hoard constituted 72% of the world's gold (ex-those pesky Soviets) and was worth an additional $7,000,000,000. More than $5,000,000,000 had been sold between 1958 and 1960.

The other tiny problem, what with the dollar's being convertible into gold and all, was that official institutions, banks, and private holders abroad had roughly $19,000,000,000 of short-term and liquid dollar claims.

So... the US Federal Reserve offered to match the contributions of ~~Happy, Bashful, Grumpy, Sleepy, Dopey, Greedy, and Doc~~ the other seven central banks, which meant that, at its inception, the London Gold Pool looked like this:

Country	Contribution	Tons	Value (1961)
United States	50%	120	$135 mln
Germany	11%	27	$30 mln
United Kingdom	9%	22	$25 mln
France	9%	22	$25 mln
Italy	9%	22	$25 mln
Belgium	4%	9	$10 mln
Netherlands	4%	9	$10 mln
Switzerland	4%	9	$10 mln
TOTAL		**240**	**$270 mln**

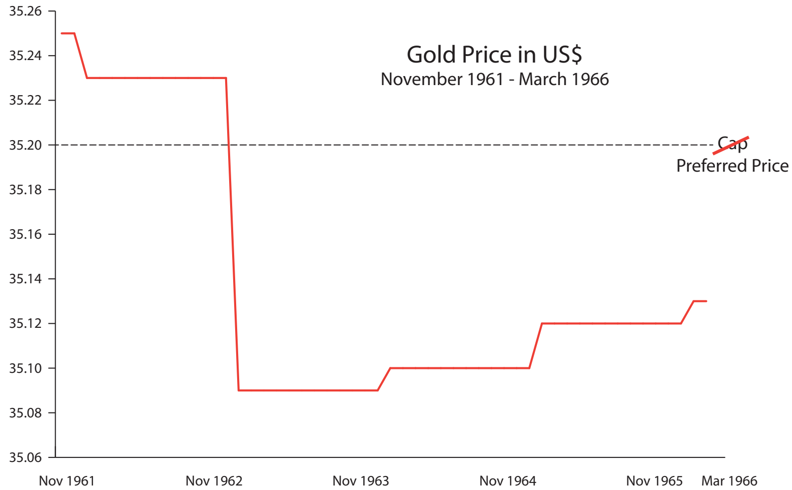
We interrupt this letter to bring you an important message from the Commodities Futures Trading Commission:

> There is no evidence of manipulation in precious metals markets*

*Statement is subject to standard terms and conditions and is not necessarily reflective of any evidence. Government entities are excluded from inclusion based on the fact that we can't really do anything about them; and, anyway, they could put us out of business, and it would make things really, really bad for them. Also, bullion banks are not covered under this statement because we were told they shouldn't be, but individual investors are, and we can categorically confirm that, to the best of our knowledge, no individuals are manipulating the precious metals markets (at this time).

We now return to our regularly scheduled programming.

Initially, everything ran smoothly, and the satisfied grins at those eight central banks must have been borderline sickening to behold. The chart of the gold price looked like this:



Source: Bloomberg

Now, of course, the members of the Pool had the help of the official gold price set by the Bretton Woods agreement; but market forces sometimes inconveniently dictate that prices don't behave as they're supposed to, and that means interested parties need to nudge things back where they need them to be.

The Cuban Missile Crisis in October 1962 (why do these crises always happen in October, I wonder?) tested the Pool's mettle (sorry, irresistible), and increasing tensions between Washington and Moscow hardly helped; but gold was sold to keep the price under control, and the Pool held firm.

(Man, if you were a gold bug back in those days, it must have been frustrating as hell to watch all these situations unfold that ought to have sent the price higher, only to see it languish. Good job... it's... not.... like..... that...... today?)

By the time 1965 rolled around, the London Gold Pool was creaking a little at the seams because — guess what? — the price pressure was in an upward direction and the Gang of Eight were selling far more bullion than they ever had the opportunity to buy back, which meant the Pool was becoming a Puddle.

Then, on November 18, 1967, after a day in which the Bank of England tapped its gold and dollar reserves to the tune of £200 million (equivalent to a little over $3 billion today) to defend the pound, Harold Wilson, Britain's Labour Prime Minister, decided that the 20 denials he'd issued in 37 months about the likelihood of a devaluation of Sterling constituted fair warning, and so he devalued the British pound by 14%.

Of course, his rationale for doing so was that it was in the best interests of "the people":

> *(Harold Wilson): Let me lay to rest the bugaboo of what is called devaluation.*
>
> *If you want to buy a foreign car or take a trip abroad, market conditions may cause your dollar to buy slightly less. But if you are among the overwhelming majority of Americans who buy American-made products in America, your dollar will be worth just as much tomorrow as it is today.*
>
> *The effect of this action, in other words, will be to stabilize the dollar.*

Oh ... sorry ... I'm getting my landmark speeches by embattled leaders confused again. That was a different speech about why another devaluation wasn't going to affect a different country's population. (They never do.) What Wilson said was this:

> *(Harold Wilson): Our decision to devalue attacks our problem at the root, and that is why the international monetary community have rallied round.*
>
> *From now the pound abroad is worth 14% or so less in terms of other currencies. It does not mean, of course, that the pound here in Britain, in your pocket or purse or in your bank, has been devalued.*

> *"What it does mean is that we shall now be able to sell more goods abroad on a competitive basis."*
>
> ~~"These aren't the droids you're looking for."~~

After the devaluation, the flock to gold became even more pronounced (no surprise there), and before December 1967 turned into January 1968, Britain had been forced to sell 20x its usual amount of gold in the market to maintain price stability.

At this point, London and Zurich both banned the forward selling of gold even as desire to own the precious metal (or, more accurately, demand to NOT own currencies that might be devalued) reached fever pitch.

The Pool was forced to sell over 1,000 tons of gold in the market (equivalent to $1.1 billion in 1967 dollars — which used to be a lot of money); and, as if by magic, in a move that must have surprised ~~nobody~~ everybody, the French surrendered.

French President Charles De Gaulle and his famously feisty economist Jacques Rueff pulled France from the Pool and began exchanging every dollar they held for gold.

Hmmm...

Throw in the escalating Vietnam War, and the surge in demand for gold was ... what's the word? "Dramatic"? Yes ... but that's not quite it. "Momentous"? Yeah, closer, but still not quite there.

"Problematic"?

Bingo!

A Top Secret CIA memo ("Is there any other kind?" I hear you ask), declassified in August of 1997, provided some interesting perspective on what went on behind the scenes between the United States and its "oldest ally," France, as well as the extent of the now-quaint American paranoia towards communists:

> *(CIA): French government attitudes, and the actions of some French officials, were important factors contributing to the massive speculation against the dollar and the pound during the recent gold crisis. In the weeks immediately following the devaluation of the pound on 18 November 1967, the French fanned the speculative flames by leaking unsettling financial news to the press and may have encouraged some countries to convert their dollars into gold*.*
>
> ** Throughout November-March crisis, the USSR, Communist China, and other Communist countries played a small role in Western gold markets. Reported Communist purchases of gold were about $47 million for Communist China and $143 million for the USSR and Eastern Europe. However, the absence of these purchases would not have significantly diminished the intensity of the rush against the monetary gold reserves of the gold pool members.*

The memo went on to outline what America's oldest ally, France, had been up to in recent times:

> *Under De Gaulle, the French government has consistently opposed the dominant role of the dollar in international finance, has pressed for elimination of the US balance-of-payments deficit, and has called for an increase in the official price of gold and the use of gold as the only international reserve.*

Sacre Bleu!!!

> *Over recent years, the French have converted nearly all their official reserves from dollars into gold, reduced their cooperation with the other financial powers by withdrawing from the London gold pool, and delayed agreement on and adoption of US proposals for increasing world reserves through creation of new international assets under the International Monetary Fund.*

But of course there's a *slight* problem with central banks trying to manipulate the price of a physical commodity lower when it has both a finite supply and a relatively small and consistent annual production curve.

Actually, let me adjust that last paragraph ever so slightly in the interests of accuracy:

> *But of course there's a slight problem with trying to manipulate the price of a physical commodity lower when it has both a finite supply and a relatively small and consistent annual production curve.*

Did you see what I did there? A small amendment, I'll concede, but an important one — particularly as, 52 years later, we witness the incredible power now wielded by those august institutions.

Something had to give, of course.

Philip Judge takes up the story:

> *On Friday March 8th [1968], London sold 100 ton of gold at market, up from around 5 ton on a normal day. The following Sunday evening, the pool released the statement "the London Gold Pool re-affirm their determination to support the pool at a fixed price of $35 per oz".*

This was, of course, the financial equivalent of the under-fire football manager receiving the "full backing" of his chairman. The end was definitely nigh:

> *Fed chairman William McChesney-Martin announced the US would defend the $35 per oz gold price "down to the last ingot". That week the London Gold Pool continued to fight the free market process and defend $35.20 gold. By midweek it had emergency airlifted several planeloads of gold from the US to London to meet demand. On Wednesday the London market sold 175 ton, 30 times its normal daily turnover, and by Thursday demand exceeded 225 tons.*

OK. So we have a group of central banks fighting the free-market process, with a promise to essentially "do whatever it takes" to defend something.

History may not repeat, but it sure as hell does rhyme.

Back to the '60s we go:

> *That evening, emergency meetings were held in Buckingham Palace, with the Queen subsequently declaring Friday 15th March a "bank holiday". Roy Jenkins, Chancellor of the Exchequer, announced that the decision to close the gold market had been taken "upon the request of the United States".*

Hmmm... a "bank holiday" declared on a Friday evening, after which time there was no access to gold for two weeks for anybody who owned it and didn't have it in their physical possession?

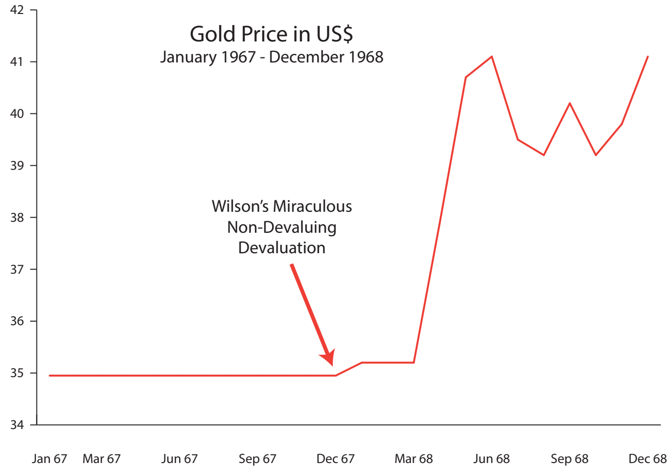
Yeah. Right... Like THAT could ever happen *today*???!!! <coughcoughcough*cyprus*cough>.

What happened next? Let's see:

> *The London gold market remained closed for two weeks, during which time the London Gold Pool was officially disbanded. During that two weeks, Zurich and French markets continued to trade with open market prices for gold exceeding $44 per oz (up 25% from London's official price of $35.20 per oz).*
>
> *A fortnight later, an official "two-tiered" price was announced to the world, where the official price of $35.20 would remain for central banks dealings, while the free market could find its own price, the London market re-opening again on the 1st April.*

Yes, the "free market" price of gold was 25% higher than the level at which it had been maintained by the London Gold Pool. As De Gaulle no doubt said at the time, "Quelle surprise!"

By now, the chart of the gold price looked a little different from the one that had left the Pool members slapping each other on the back and congratulating themselves on a job well done:



Source: Bloomberg

Of course, as anybody with even a passing interest in gold knows, once the London Gold Pool cracked, dominoes began to fall in rapid succession.

De Gaulle's aggressive moves to perfect the gold backing France's dollar reserves was tolerated begrudgingly until it reached the point where others were starting to want THEIR gold, and that just wasn't going to be allowed to happen.

In August of 1971, Richard Nixon made *his* famous speech about devaluation, removed the gold backing of the dollar, left France and everybody else queueing up to get their gold twisting in the wind, and ushered in the age of pure fiat currency.

The parallels are frightening if you look at them closely enough — except that this time, rather than being backed by gold, the dollar is backed by "the full faith and credit of the United States government."

Yes ... the full faith and credit of the government of a country with public debts of $17 trillion ... and rising.

Yes, THAT government.

One difference, however, is that today, with no direct link between gold and ~~confetti~~ fiat currencies, there is of course NO official interference in the setting of the gold price.

Whatsoever.

No. Today, the gold price is set by the natural forces of market supply and demand.

Twice a day.

In London.

At something quite coincidentally called a "fix":

> *(Bloomberg): Every business day in London, five banks meet to set the price of gold in a ritual that dates back to 1919... The London fix, the benchmark rate used by mining companies, jewelers and central banks to buy, sell and value the metal, is published twice daily after a telephone call involving Barclays Plc, Deutsche Bank AG, Bank of Nova Scotia, HSBC Holdings Plc. and Societe Generale SA.*
>
> *The process, during which gold is bought and sold, can take from a few minutes to more than an hour...*

We interrupt this letter to bring you an important message from the vast majority of the mainstream media:

> There is categorically NO manipulation of ~~LIBOR FX markets mortgage markets government bond markets~~ precious metals prices, and anybody who suggests there could be is a lunatic. I mean, how would it even be POSSIBLE?*

*Statement is subject to standard terms and conditions and is not necessarily reflective of any evidence. Government entities are excluded from inclusion based on the fact that we can't really do anything about them and anyway; they could put us out of business; and it would make things really, really bad for them. Also, bullion banks are not covered under this statement because we were told to turn a blind eye; but individual investors are, and we can categorically confirm that, to the best of our knowledge, no individuals are manipulating the precious metals markets (at this time).

We now return to our regularly scheduled programming.

Having laid out the mechanics of this airtight, foolproof, tamperproof solution to ensure fair pricing in the gold bullion market, the Bloomberg article gets a little more interesting:

> *Now, dealers and economists say knowledge gleaned on those calls could give some traders an unfair advantage when buying and selling the precious metal.*
>
> *The U.K. Financial Conduct Authority is scrutinizing how prices are set in the $20 trillion gold market, according to a person with knowledge of the review who asked not to be identified because the matter isn't public.*

Fascinating. Another snowjob on its way just in time for winter, no doubt.

BUT ... the problem is that, after the large fines recently levied against those found guilty of nothing at all untoward in the various manipulated markets, there are a few peccadilloes going on in the gold market that may make brushing this particular investigation under the carpet a little more difficult, now that they are in the public domain.

To wit:

> *The participants also can trade the metal and its derivatives on the spot market and exchanges during the calls.*

'SCUSE me??? They can do WHAT, now???

> *Just after the fixing begins, trading erupts in gold derivatives, according to research published in September. Four traders interviewed by Bloomberg News said that's because dealers and their clients are using information from the talks to bet on the outcome.*
>
> *"Traders involved in this price-determining process have knowledge which, even for a short time, is superior to other people's knowledge," said Thorsten Polleit, chief economist at Frankfurt-based precious-metals broker Degussa Goldhandel GmbH and a former economist at Barclays. "That is the great flaw of the London gold-fixing."*
>
> *Participants on the London call can tell whether the price of gold is rising or falling within a minute or so, based on whether there are a large number of net buyers or sellers after the first round, according to gold traders, academics and investors interviewed by Bloomberg News.*
>
> *It's this feature that could allow dealers and others in receipt of the information to bet on the direction of the market with a high degree of certainty minutes before the fix is made public, they said.*
>
> *"Information trickles down from the five banks, through to their clients and finally to the broader market," Andrew Caminschi, a lecturer at the University of Western Australia in Perth and co-author of a Sept. 2 paper on trading spikes around the London gold fix published online in the Journal of Futures Markets, said by phone. "In a world where trading advantage is measured in milliseconds, that has some value."*

In an age where such things are measured in milliseconds, I'd say an hour's headstart could be said to generate a slight trading advantage, yeah ...

The article goes on to say something that I couldn't even copy and paste with a straight face:

> *There's no evidence that gold dealers sought to manipulate the London fix or worked together to rig prices, as traders did with Libor. Even so, economists and academics say the way the benchmark is set is outdated, vulnerable to abuse and lacking any direct regulatory oversight.*

Errrr ... one small point, if I may? It's probably nothing, but ... there wasn't any evidence of Libor being rigged until the regulators went looking for it aggressively and then, funnily enough, there turned out to be plenty of it.

There are two things about this "probe" that are worth highlighting:

Firstly, take it from someone who has worked in investment banks for the best part of 30 years; if a group of banks are offered a way to manipulate prices to their advantage in order to generate huge profits, they will.

Period (as Barack Obama would say).

Secondly, any investigation into gold price manipulation will differ from that into Libor, FX, or mortgages, in that a lower gold price directly benefits the government. Or, more accurately, a materially higher price directly impacts the government.

Putting those two points together allows a potentially interesting conclusion to be drawn.

If we assume it is a given that, when offered an opportunity to manipulate a price in order to generate huge profits, a group of banks will take it; and if we assume that, just as the five-year investigation into silver markets managed to uncover no evidence whatsoever of price manipulation (despite some overwhelming evidence to the contrary, including Andrew Maguire's now-infamous mind-reading exercise), that the investigation into manipulation of the London Gold Fix will also end up without any charges being laid; then one could argue that the manipulation has been proven, along with government complicity.

> *(Yes, I know that sounds a little like something from the Middle Ages when witches were burned at the stake on the basis that if they didn't burn they were guilty and if they did burn they were innocent, but there is definitely no witchcraft at play here. Just conjuring tricks.)*

... but so far the banks are batting 1000 when charged with manipulation of markets, and the Gold Fix is by far the easiest of them all, mechanically-speaking.

Believe me, it is a LOT harder to manipulate FX and Libor markets than it is the gold market ... just ask the signatories to the London Gold Pool arrangement.

Up to a point, anyway.

> *(Bloomberg): Spokesmen for Barclays, Deutsche Bank, HSBC and Societe Generale declined to comment about the London fix or the regulatory probes, as did Chris Hamilton, a spokesman for the FCA, and Steve Adamske at the CFTC.*
>
> *Joe Konecny, a spokesman for Bank of Nova Scotia, wrote in an e-mail that the Toronto-based company has "a deeply rooted compliance culture and a drive to continually look toward ways to improve our existing processes and practices."*

Folks, all banks have a "deeply rooted" compliance culture. The problem is that, when talking about them, the Australian meaning of the phrase "deeply rooted" is by far the most appropriate.

We've seen how the London Gold Pool operated (selling to cap the price and buying back on any weakness), but today's London Gold Fix is a *real* thing of beauty.

> *(Bloomberg): At the start of the call, the designated chairman — the job rotates annually among the five banks — gives a figure close to the current spot price in dollars for an ounce of gold. The firms then declare how many bars of the metal they wish to buy or sell at that price, based on orders from clients as well as their own account.*
>
> *If there are more buyers than sellers, the starting price is raised and the process begins again. The talks continue until the buy and sell amounts are within 50 bars, or about 620 kilograms, of each other. The procedure is carried out twice a day, at 10:30 a.m. and 3 p.m. in London. Prices are set in dollars, pounds and euros....*
>
> *The traders relay shifts in supply and demand to clients during the calls and take fresh orders to buy or sell as the price changes, according to the website of London Gold Market Fixing, which publishes the results of the fix.*

So that's the mechanics of it, but what does the "gaming" look like, we wonder?

> *Caminschi and Richard Heaney, a professor of accounting and finance at the University of Western Australia, analyzed two of the most widely traded gold derivatives: gold futures on Comex and State Street Corp.'s SPDR Gold Trust, the largest bullion-backed exchange-traded product, from 2007 through 2012.*
>
> *At 3:01 p.m., after the start of the call, trading surged to 47.8 percent above the average for the 20-minute period preceding the start of the fix and remained 20 percent higher for the next six minutes, Caminschi and Heaney found. By comparison, trading was 8.7 percent higher than the average a minute after publication of the price. The results showed a similar pattern for the SPDR Gold Trust.*
>
> *"Intuitively, we expect volumes to spike following the introduction of information to the market" when the final result is published, Caminschi and Heaney wrote in "Fixing a Leaky Fixing: Short-Term Market Reactions to the London P.M. Gold Price Fixing." "What we observe in our analysis is a clustering of trades immediately following the fixing start."*
>
> *The researchers also assessed how accurate movements in gold derivatives were in predicting the final fix. Between 2:59 p.m. and 3 p.m., the direction of futures contracts matched the direction of the fix about half the time.*

> *From 3:01 p.m., the success rate jumped to 69.9 percent, and within five minutes it had climbed to 80 percent, Caminschi and Heaney wrote. On days when the gold price per ounce moved by more than $3, gold futures successfully predicted the outcome in more than nine out of 10 occasions.*
>
> *"Not only are the trades quite accurate in predicting the fixing direction, the more money that is made by way of a larger price change, the more accurate the trade becomes," Caminschi and Heaney wrote. "This is highly suggestive of information leaking from the fixing to these public markets."*

I have nothing to add to that.

Except to say this:

Human beings, when given means and motive, have rather a poor history of eschewing the easy profit in favour of doing the right thing. Governments, when faced with dilemmas, have a rather poor history of doing the right thing as opposed to whatever they think they need to do in order to cling to power. It's quite simple.

Libor, FX rates, and mortgages trades are all fiat in nature. The contracts that are exchanged have no tangible value. (Yes, technically speaking, mortgages have houses underneath them, but the houses are so far down the securitization chain as to be invisible). Such contracts can be created at the push of a button or the stroke of a pen and manipulated easily right up until the point where they can't.

Gold is a different beast altogether.

The manipulation of the gold price takes place in a paper market — away from the physical supply of the metal itself. That metal trades on a premium to the futures contract for a very good reason: it has real, intrinsic value, unlike its paper nemesis.

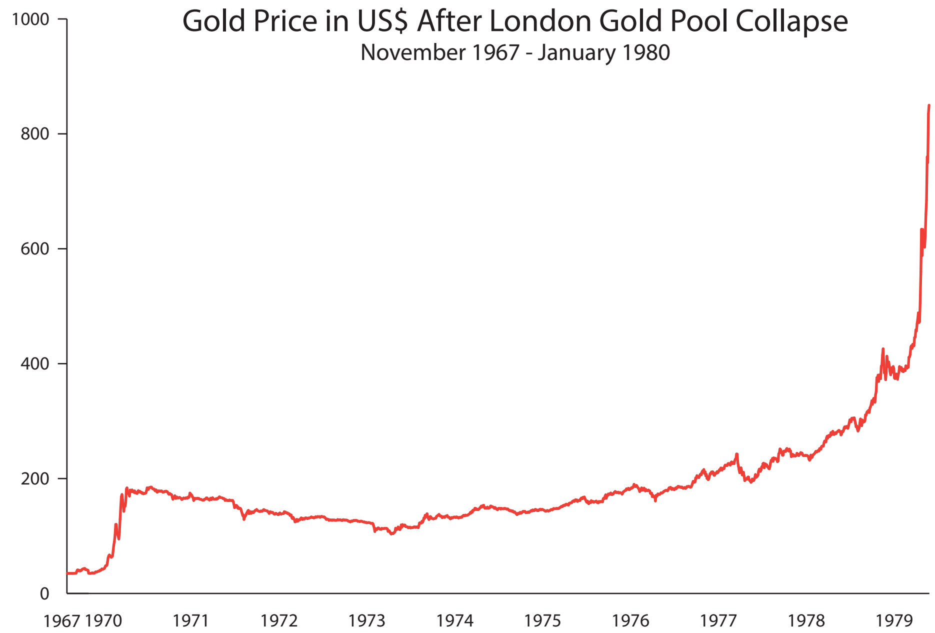
If you want to manipulate the price of a paper futures contract lower, you simply sell that paper. Sell it long, sell it short, it doesn't matter — it is a forward promise. You can always roll it over at a later date or cover it back at a profit if the price moves lower in the interim.

And of course you can do it on margin.

If the trading were actually in the metal itself, then in order to weaken the price you would have to continue to find more physical metal in order to continue selling; and, as is well-documented, there just isn't so much of it around: in recent years what little there is has been pouring into the sorts of places from which it doesn't come back — not at these price levels, anyway.

The London Gold Pool had one thing in common with the rigging of the FX, Libor, and mortgage markets: it worked until it didn't.

The London Gold Pool proved that central banks can ~~collude~~ cooperate to ~~rig~~ maintain the price of gold at what they deem manageable levels, but it also proved that at some point the pressure exerted by market forces to restore the natural order of things becomes overwhelming, and even the strongest ~~cartels~~ groups (whose interests happen to be aligned) — which are made up of the very institutions granted the power to create money out of thin air — can't fight the battle any longer.

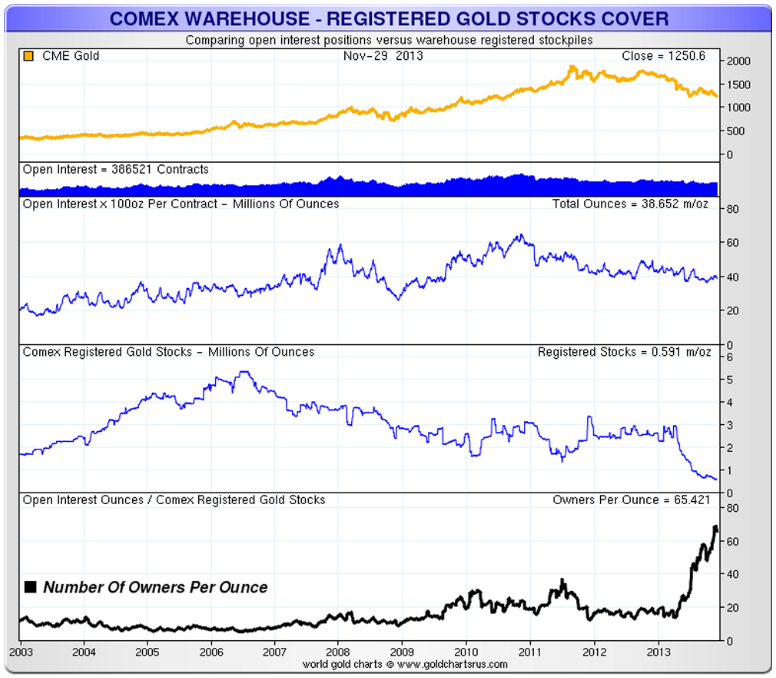


Source: Bloomberg

The last time an effort was made to manipulate the price of gold lower than the market wanted it to be, it ended in a quick 25% spike in the price, followed over the next decade by the manifestation of those market forces in no uncertain terms and ending in a blow-off top some 2,332% higher than the price at which gold had been held for two decades.

If anything were to come of the supposed investigation into the gold price fixing and if charges were filed similar to those laid at the feet of the banks that admitted no fault in the Libor rigging, it would start a mad dash by owners of physical gold to take custody of their assets.

The problem with that eventuality is that currently there are almost 70 claims on every ounce of gold in the COMEX warehouse and serious doubts about the physical metal available for delivery at the LBMA.



Source: www.sharelynx.com

The London Gold Pool was designed to keep the price of gold capped in an era when the world's reserve currency had a tangible backing. In defending the price, the eight members of the Pool were forced to sell way more gold than they had initially contributed in order to keep the price from going where it desperately wanted to go — higher.

This time around, the need for the price to be capped has nothing to do with any kind of gold standard and everything to do with the defense of the fractional reserve gold lending system, about which I have written and spoken many times.

Gold is moving to ever stronger hands, and when the dam does inevitably break again, the true price will be discovered by natural market forces, free of interference.

This time, however, those chasing what little gold is available will include all those central banks that have kept their holdings "safe" in overseas vaults.

The Bundesbank has seen the writing on the wall and demanded its gold back. They were told it would take seven years before their 30 tonnes could be returned to them.

My guess is, this little scheme doesn't have seven years left to play out.

Everybody outta the pool!

****

OK ... so we kick off this week with Chris Martenson, who explains why the Fed must inflate, before he hands the baton over to John Hussman. Hussman's open letter to the FOMC has been doing the rounds this past week. It's an excellent piece that deserves as wide an airing as possible, so I'm doing my bit to make sure you all get a chance to read it.

From the Fed & the FOMC, we travel to Greece to hear about a debate that ought to be raging but isn't, to Venezuela to hear how Goldman Sachs is inserting itself into the gold story, to China to read a piece of news that slipped through the cracks but could have major implications, to Thailand where time looks to be up for ~~Thaksin Shinawatra's sister~~ the PM, and then to Africa, where the ever-increasing Chinese presence is a blessing and a curse for locals.

We look at the pressure building up amidst the Bitcoin phenomenon and watch a video primer that neatly explains how the somewhat confusing crypto-currency works.

Marc Faber brings a few rays of sunshine to the CNBC studios, and if you have nothing better to do, you can watch a recent presentation I gave to the ASFA in Perth, Australia.

Charts of gold deposits, median house prices, negative pre-announcements, and an amazing realtime Bitcoin monitor round things out for another week.

Until Next Time...

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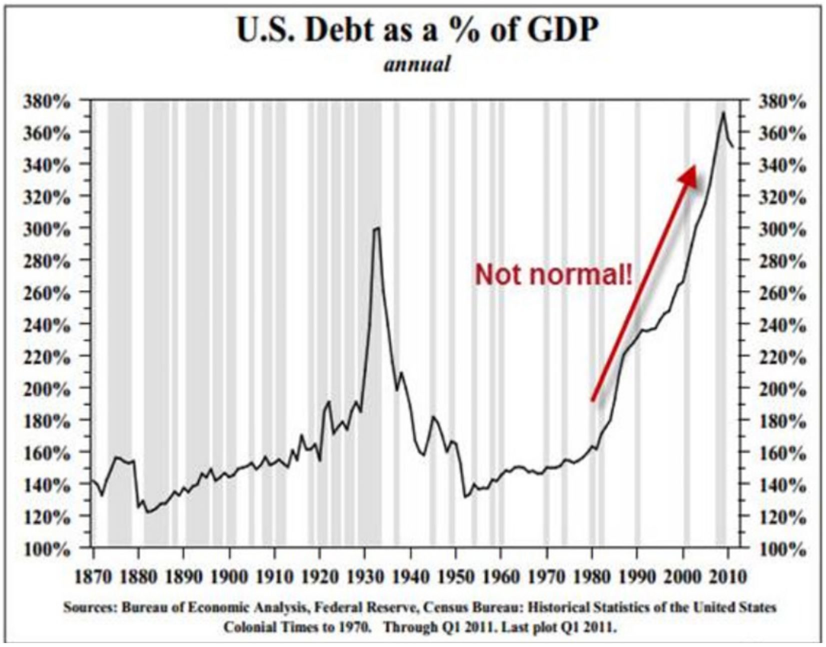
The Fed Must Inflate

The Fed is busy doing everything in its considerable power to get credit (that is, debt) growing again so that we can get back to what it considers to be "normal."

But the problem is that the recent past was not normal. You may have already seen this next chart. It shows total debt in the U.S. as a percent of GDP:

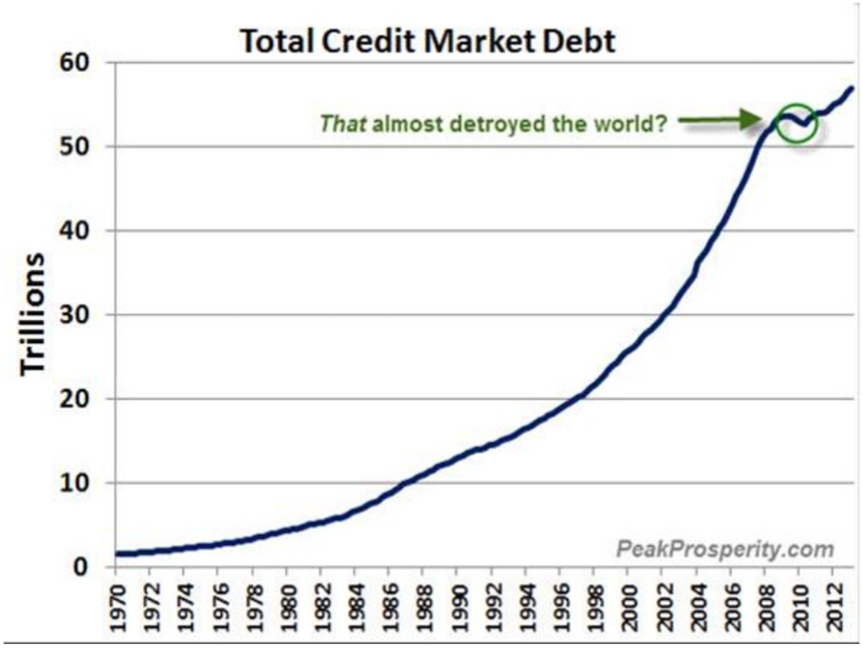


Somewhere right around 1980, things really changed, and debt began climbing far faster than GDP. And that, right there, is the long and the short of why any attempt to continue the behavior that got us to this point is certain to fail.

It is simply not possible to grow your debts faster than your income forever. However, that's been the practice since 1980, and current politicians and Federal Reserve officials developed their opinions about "how the world works" during the 33-year period between 1980 and 2013.

Put bluntly, they want to get us back on that same track, and as soon as possible. The reason? Because every major power center, be that in D.C. or on Wall Street, tuned their thinking, systems, and sense of entitlement, during that period. And, frankly, a huge number of financial firms and political careers will melt away if and when that credit expansion finally stops. And stop it will; that's just a mathematical certainty.

Total Credit Market Debt (TCMD) is a measure of all the various forms of debt in the U.S. That includes corporate, state, federal, and household borrowing. So student loans are in there, as are auto loans, mortgages, and municipal and federal debt. It's pretty much everything debt-related. What it does not include, though, are any unfunded obligations, entitlements, or other types of liabilities. So the Social Security shortfalls are not in there, nor are the underfunded pensions at the state or corporate levels. TCMD is just debt, plain and simple.



As you can see in this next chart, since 1970, TCMD has been growing almost exponentially.

That tiny little wiggle happened in 2008-2009, and it apparently nearly brought down the entire global financial system. That little deviation was practically too much all on its own for the markets to handle.

Now debts are climbing again at a quite nice pace. That's mainly due to the Fed monetizing U.S. federal debt just to keep things patched together. As an aside, based on this chart, we'd expect the Fed to not end their QE efforts until and unless households and corporations once more engage in robust borrowing. The system apparently needs borrowing to keep growing exponentially, or it risks collapse....

*** CHRIS MARTENSON / LINK

The euro debate Greece is not having

You may be amongst those who are not convinced of the devastating effect that the policy mix and pace of fiscal contraction in Greece is having on society. If so, you may subscribe to the official line trotted out by the country's lenders that the program is helping the country regain competitiveness and the economy fix its external imbalances. This is the greater cause that is demanding such a sacrifice. There is no gain without pain, goes the argument.

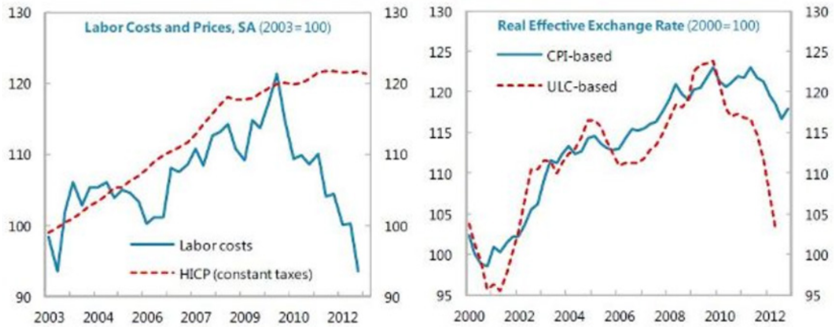
However, more than three years into the troika program there is very little evidence that one of these key objectives has actually been achieved. It is extremely doubtful whether the Greek economy is indeed regaining part of the competitiveness it lost after joining the euro.

There is no dispute that Greece's current account, from a staggering deficit of close to 35 billion euros in 2008, is nearing balance. But the majority of the correction of the trade deficit is covered by a collapse in imports due to domestic demand almost evaporating after three years of austerity and disposable incomes plummeting by almost a third.

It is a fact that Greek exports are on the rise and that 2013 will be a record year for tourism but Greece's total exports will still fall short of the 56-billion-euro level they reached in 2008, a time when the country was uncompetitive, if you believe the prevailing argument.

In a June document evaluating its involvement in the Greek program back in May 2010, the IMF includes the chart below, which shows that although labour costs have nosedived since 2010, prices — which really reflect how competitive you are — have hardly moved to cover the lost competitiveness.

There is much to be debated about the prices' resistance to falling at the same pace as wages, and it is often one of the troika's arguments that there is not enough competition in the products markets. However, aside from the fact that prices are known to be sticky downwards, in a cash-starved economy that is in a downward spiral it may even be a prudent management decision to keep prices up, despite falling wages. This helps compensate for shrinking revenues and profits.



Sources: Elstat; Eurostat; and IMF staff calculations.

The "internal devaluation" rationale is that, in the absence of the currency devaluation which automatically makes everything produced domestically cheaper to the outside world, you suppress domestic demand with the aim of reducing imports and correcting the trade balance. You also implement cuts in costs which are variable, such as wages, unlike other input factors that further feed the effort to push down domestic demand. This naturally leads to higher unemployment and more people without disposable income further suppressing domestic demand. This places the wage negotiating advantage on the employers' side due to the oversupply of labour pushing wages downward either via new collective agreements or wage negotiations at the enterprise level.

Overall, it creates a perfect feedback loop and a concerted effort to sink an economy....

*** MACROPOLIS / LINK

An Open Letter to the FOMC: Recognizing the Valuation Bubble In Equities

To the members of the FOMC,

You've emphasized the tremendous burden placed on the Fed in recent years, and your dedication to collectively doing right by the country. It's important to start with that recognition, because as concerned as I've been about the impact and economic assumptions behind the Fed's actions, I don't question your motives or integrity. What follows is simply information that may be helpful in realistically assessing the outcomes and risks of the present policy course, and perhaps to help prevent a bad situation from becoming worse.

As the head of an investment company, it's natural to conclude that what follows is simply "talking my book," but for what it's worth, the majority of my income is directed to the Hussman Foundation. Academically, I earned my doctorate in economics from Stanford, studying with Tom Sargent, John Taylor, Ron McKinnon, Robert Hall, and Joe Stiglitz, and spent several years as a professor at the University of Michigan and Michigan Business School before focusing on finance.

We've done well in prior complete market cycles (combining both bull and bear markets), and were among the few who warned of the market collapses and recessions of 2000-2002 and 2007-2009. In contrast, the half-cycle of the past 5 years has been challenging because of the awkward transition it provoked, following a credit crisis that we fully anticipated. Economic policy failures, departures from Section 13(3) of the Federal Reserve Act (which Congress subsequently spelled out like a children's book), avoidance of needed debt-restructuring (except in the auto industry), and extortionate cries of "global meltdown" from the financial industry all contributed to a collapse in economic confidence beyond anything witnessed in post-war data. That forced us to stress-test every aspect of our approach against Depression-era outcomes. We missed returns from the market's low in the interim of that stress-testing, and have foregone the more recent speculative advance because identical features have resulted in spectacular market losses throughout history.

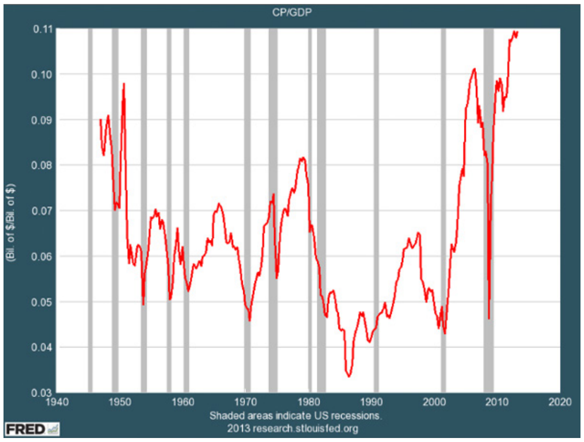
In hindsight, the crisis ended — precisely — on March 16, 2009, when the Financial Accounting Standards Board abandoned FAS 157 "mark-to-market" accounting, in response to Congressional pressure from the House Committee on Financial Services on March 12, 2009. That change immediately removed the threat of widespread insolvency by making insolvency opaque. My impression is that much of the market's confidence and oversensitivity to quantitative easing stems from misattribution of the initial recovery to QE. This has created a nearly self-fulfilling superstition that links the level of stock prices directly to the size of the Fed's balance sheet, despite the absence of any reliable or historically demonstrable transmission mechanism that relates the two with any precision at all.

The FOMC certainly had a part in creating a low-interest rate environment that provoked a reach-for-yield and a gush of demand for securities backed by mortgage lending of increasingly poor credit quality (I'll note in passing that new issuance of "covenant lite" debt has now eclipsed the pre-crisis peak largely due to the same yield-seeking). Still, it may ease the burden of power to consider the likelihood that the actions of the Federal Reserve — though clearly supportive of the mortgage market — were not responsible for the recovery. One can thank the FASB for that, provided we're all comfortable with the reduced transparency that results from mark-to-model and mark-to-unicorn accounting.

How does one establish the value of a long-lived asset? Hopefully, that question stirs the economist in all of you, and you immediately respond that every security is a claim on some long-term stream of cash payments (including any terminal value) that the holder can expect to receive over time. If price is known, the discount rate that equates price to the present value of expected future payments can be interpreted to be the expected long-term return of that security. This is how one calculates the yield-to-maturity on a long-term bond, for example. Conversely, we can make assumptions about the long-term return that investors will require over time and then calculate an implied price. Discounting the expected long-term stream of cash flows using some required long-term return results in a "fair value" that quietly incorporates those underlying assumptions.

Of course, nobody likes to discount an entire stream of expected payments, so investors create shortcuts. The most common shortcut is to compress all of the relevant cash flows and discount rates into a "sufficient statistic." So for example, if we have a perpetuity with price $P that throws off cash flow $C every year forever, the ratio C/P is a sufficient statistic for the expected long-term rate of return, and everything knowable about valuation can be neatly summarized by that ratio. Nice economic assumptions about constant growth rates, returns on invested capital, payout ratios, and other factors encourage similar approaches in the equity market. So we look at price/earnings ratios based on a single year of earnings and immediately believe we know something about long-term value.

But valuation shortcuts are only useful if the "fundamental" being used is representative of the entire long-term stream of cash flows that will be delivered into the hands of investors. And it's precisely here where the FOMC may find a careful review of the evidence to be useful.



The chart [left] is from one of the best tools that the Fed offers the public, the Federal Reserve Economic Database (FRED). The chart shows the ratio of corporate profits to GDP, which is presently at a record.

The fact that profits as a share of GDP are more than 70% above their historical norm should immediately raise a question as to whether current year earnings or next year's projected "forward earnings" should be used as a sufficient statistic for long-term cash flows and equity market valuation without any further reflection. Then again, more work is required to demonstrate that such an approach would be misleading. We're just getting warmed up....

*** JOHN HUSSMAN / LINK

Overlooked News Out of China a Game Changer for US$

Several largely overlooked items came out of China this week. First, the Shanghai Exchange is moving toward trading in petro-yuan. As we have seen with gold, Shanghai is a very effective delivery based market. This helps set the stage for Saudi Arabia to disengage from its 1973 Petro-dollar agreement, which essentially involves selling oil in U.S. dollars in exchange for U.S. debt. In the last few years the Saudis have been the most aggressive country in the world in terms of adding to Treasury holdings, now holding a stash of $700 billion.

The alternative really doesn't seem so far fetched at this late stage: Simply begin selling oil to Europe and China in currencies other than the U.S. dollar. China is now Saudi Arabia's biggest oil customer. With the start up of the joint Sino-Saudi 400,000 bbd refinery at Yanbu next September, this promises to widen further.

It's important to note that China is already moving to buy all of its oil in yuan. So far, Russia, Iran and the UAE transact in yuan, while others have the option and await an opening. The new exchange will facilitate that. But as Libya's Gadhafi found out, putting forth a challenge (Gadhafi's Gold-money Plan Would Have Devastated Dollar) to the Petrodollar regime will end your life like some scene out of Beatlejuice.

I have to admit that because I believed Saudi-U.S. relations to be symbiotic, I haven't really focused much on the petro-dollar aspect of the Ponzi scheme. I believed that the U.S. going against the interests of both Israel and the Saudis on both Syria and Iran was unlikely. In fact I thought an operation against Iran was likely. But now I think Iran has nukes, maybe a half dozen small weapons, a fait accompli, so there is no need or urgency to make dozens more when your target is a confined area. I had also generally believed that a sudden, overnight collapse of the petro-dollar was a low-odds event. In reality, however, the petro-dollar system is becoming obsolete and can no longer be sustained. As such, the blood (dollars) supporting it will bled out in spurts.

So post-facto Obama has cut a deal with Iran to lift some sanctions, against the wishes of Israel and Saudi Arabia. This will cause a furor and fallout, and possibly speed the bleed out of petro-dollars. If China wants to buy in Yuan are the Saudis going to argue at this stage. That alone would take a big chunk out of the Petrodollar scheme's hide. A simple Google search reveals dozens of stories about this. An example is in the Daily Mail:

Upset at President Barack Obama's policies on Iran and Syria, members of Saudi Arabia's ruling family are threatening a rift with the United States that could take the alliance between Washington and the kingdom to its lowest point in years."

U.S.-Saudi relations are poor because Obama hasn't shown a willingness to engage in military operations like some hired mercenary. That's strange because Obama is a mercenary in every sense of the word. So I'm wracking my brain as to how this could be played out to somehow support the petro-dollar con. Perhaps now Israel and the Saudis will team up and take out Iran's facilities with the U.S. uninvolved and winking from arm's length?

If not, the end of petro-dollars and its recycling would mean an end to the era of cheap imports and super low interest rates for the U.S., and would also reset the global economy. Most major developed countries rely on oil imports, which are purchased using dollars, so they are forced to hold large stockpiles of dollars (estimated at 4-7 trillion) in order to continue importing oil. In turn, it also creates consistent demand for dollars and prevents the dollar from losing its relative international monetary value, regardless of what happens to the U.S. economy....

*** SEEKING ALPHA / LINK

What Is Goldman Sachs Doing with Venezuela's Gold?

A while back Greece had a problem. The problem was that it wanted to borrow more money, but didn't want to increase its debt. (Because the European Union would frown on it having more debt.) So it went to Goldman Sachs, and Goldman told Greece, well, what you can do is borrow some money from us, but we won't call it debt, because something something something something swaps.

This worked pretty well for everyone, for a while: Greece got the money, but nobody outside the deal understood that it had borrowed the money, because it was part of a derivative trade that was not accounted for as debt. Then it stopped working, and everyone got mad at Greece for disguising its debt, and at Goldman for helping Greece disguise its debt and charging rather richly for the service.

Anyway last week Goldman said it was sorry and wouldn't do that any more:

Goldman Sachs Group Inc. Vice Chairman Michael S. Sherwood said his firm would refuse another deal like the derivative it sold Greece that masked the nation's growing debt to help it meet European Union standards.

"We absolutely wouldn't do a transaction like that today," Sherwood, 48, said in an interview posted on Channel 4's website yesterday in London. "There have been transactions of that ilk that have been presented to us by other European sovereigns that we've turned down because we felt there wasn't the appropriate transparency surrounding them."

I cannot entirely agree — I'm sort of of the school of "if it's legal and it pays you a lot, you should do it" — but there's probably a reason Sherwood is giving interviews about reputational risk and I'm a blogger.

But a hedge fund reader points me to an intriguing modern parallel, or at least the rumor of one. Venezuela, it seems, has a problem. In its foreign currency reserves, where most countries keep foreign currency, Venezuela has a lot of gold, because its late President Hugo Chavez really liked gold and wanted to "move away from the 'dictatorship of the dollar.'" It has rather fewer dollars, and it turns out that if you want to buy goods and services in international trade, dollars are more useful than gold. Thus the problem.

The normal way to solve that problem is to sell some gold to someone who has dollars. Then you'll have less gold, but more dollars, and the dollars can be used to buy goods and services. But if you're Venezuela, there are problems with this too. For one thing, it seems like sort of a repudiation of your late president's policies. For another thing, spending down your gold reserves might suggest that you're in a bit of a tight spot financially, which though true is awkward.

Also, gold was worth $1,800 an ounce a year ago and is now worth like $1,240 an ounce, so it feels sort of crummy to sell a bunch now.

In comes, apparently, Goldman Sachs? Here is a thing that seems to be happening:

Venezuela newspaper El Nacional reported Tuesday that Venezuela's Central Bank and Goldman Sachs are ready to sign an agreement to swap or exchange international gold reserves with a start date in October 2013 until October 2020.

The negotiated amount is equivalent to 1.45 million ounces of gold, valued at US$1.8 billion at today's prices, which is to be deposited in the Bank of England with the transfers made directly to Goldman Sachs once delivery times are stipulated. Goldman Sachs will then pay U.S. dollars for the gold.

An adjustment of 10% will be made to the asset value as a hedge in case the international gold market price falls. The annual interest rate will be a combination of dollars with the call BBA Libor equivalent to 8%.

Do you know what this means? I do not ..., but it would seem to be a margin loan against the gold; i.e. something like:

Venezuela is borrowing about $1.6 billion from Goldman for seven years.

Venezuela is collateralizing that borrowing with gold worth $1.8 billion at today's prices (i.e. it's 90 percent of the value of the gold; that's the 10 percent haircut), and it's posting that collateral somewhere Goldman can get it (the BoE).

The collateral will be subject to margin calls as the price of gold increases or decreases.

Venezuela is paying about 8 percent a year for this loan.

So is that a good deal for Venezuela? It depends how you count but it's hard to imagine the answer is yes. I mean: Why would Goldman do it if the answer was yes? There are some other arguments below but that is surely the main one.

Because, if true, this is not the most pristine deal you ever will see! (Goldman declined to comment.) I mean, one, Venezuela — it inspires people to feel feelings, plus you might have some weird dynamics around actually getting them to post margin. Two, complex derivatives etc. — more feelings, though despite the word "swap" here, my best guess about what is going on here is that it is really just a secured loan and so barely a derivative at all.

Three, ask yourself, what is the purpose of this trade? I won't tell you the answer, because I don't know, but it sure seems to be for Venezuela to get some money for its gold without "selling" it. Which is the sort of sleight of hand that, as a bank, in 2013, you might want to avoid. Unless, again, it pays well....

*** MATT LEVINE / LINK

Anti-Government Protests Roil Thai Capital Bangkok as 3 Killed

Protesters seeking to oust Thai Prime Minister Yingluck Shinawatra vowed to incite more unrest this week after clashes left three dead in Bangkok at the weekend and the central bank warned the standoff was hurting the economy.

Demonstrators removed barriers surrounding Government House and the prime minister's office, and tear gas was fired to repel them, said Piya Utayo, a police spokesman. The activists, who are seeking to paralyze the administration, massed outside the police headquarters, Piya said. The army chief offered to broker talks, according to an army spokesman.

At stake is control of Southeast Asia's second-largest economy in a conflict between supporters and opponents of Thaksin Shinawatra, Yingluck's brother. Suthep Thaugsuban, head of the protesters and a former deputy prime minister with the main opposition Democrat Party, told supporters it's necessary to break the law to "root out" Thaksin's political network and vowed he wouldn't negotiate with the government.

"Yingluck should listen to the people and return power to the people," Suthep said in a speech late yesterday. "People don't just want her to dissolve the house, they want to take part in making changes for the country to have true democracy."

Suthep has called for Thailand's democratic system to be replaced by a representative assembly consisting of people from a cross-section of society. Parties linked to Yingluck's brother, who was ousted in a 2006 coup, have won the past five elections on support from the rural north and northeastern provinces. The protests in Bangkok are led by the Democrats, who haven't won a national poll in more than 20 years.

Rewrite Constitution

“This will be very bad for the economy because the protests have turned from peaceful to violent,” said Somprawin Manprasert, deputy dean of the economics faculty at Bangkok’s Chulalongkorn University. “We had hoped that government investment will help drive the economy next year. Now the hope is gone.”

Thailand’s economy grew 2.7 percent in the third quarter from a year earlier, the slowest pace since the first three months of 2012, official data show. The central bank cut its 2013 growth estimate to about 3 percent from 3.7 percent on Nov. 27, the same day it unexpectedly lowered its benchmark interest rate by a quarter of a percentage point.

The baht weakened to 32.228 against the dollar on Nov. 28, the lowest level since Sept. 9, and the SET Index of stocks has declined about 17 percent since reaching a high on May 21.

Army chief Prayuth Chan-Ocha is concerned that protesters tried to break into Government House and the Metropolitan Police Office, prompting the use of tear gas, said deputy army spokesman Winthai Suvaree. Prayuth offered to act as mediator to ease tensions, Winthai said.

No Talks

Three people were killed and 54 injured in clashes between pro- and anti-government supporters near Ramkhamhaeng University in Bangkok, the Bangkok Emergency Medical Service said on its website, after earlier saying four were killed.

Suthep said he met Yingluck, Prayuth and the heads of the air force and navy late yesterday, and refused to negotiate. He urged civil servants to go on strike today to aid the cause of the opposition....

*** BLOOMBERG / LINK

Bitcoin under pressure

The Bitcoin system is designed to cope with the fact that improvements in computer hardware make it cheaper and faster to perform the mathematical operations, known as hashes, involved in mining. Every 2,016 blocks, or roughly every two weeks, the system calculates how long it would take for blocks to be created at precisely 10-minute intervals, and resets a difficulty factor in the calculation accordingly. As equipment gets faster, in short, mining gets harder. But faster equipment is constantly coming online, reducing the potential rewards for other miners unless they, too, buy more kit. Miners have formed groups that pool processing power and parcel out the ensuing rewards. Once done with ordinary computers, mining shifted to graphics-processing units, which can perform some calculations more efficiently. Miners then moved on to flexible chips that can be configured for particular tasks, called field-programmable gate arrays. In the past year, bespoke chips called ASICs (application-specific integrated circuits) have appeared on the scene.

Your correspondent visited a miner who operates a rack of mining hardware in his modest apartment. He had purchased his ASIC-based hardware a few months earlier, and it had arrived weeks late, causing him to miss out on a bonanza, because after arrival, the kit generated Bitcoins so quickly that it paid for itself within three days. But the edge that ASICs provide is quickly eroding. Between July, when the gear arrived, and mid-November, the computational capacity of the Bitcoin network increased 25-fold, from 200 trillion to 5 quadrillion hashes per second. This was due in part to the arrival in September of a newer generation of more efficient ASICs. Hashing capacity has increased so rapidly in 2013 that the practice of hijacking thousands of PCs and using them for mining is no longer worth the effort. The average time between blocks has fallen to between five and eight minutes.

The general consensus, says Mike Hearn, one of the volunteers who maintain the Bitcoin software, is that with this new generation of ASICs, mining will have approached a point where only those with access to free or cheap electricity will continue operations, and even they will produce a relatively marginal return on investment, rather than the huge multiples (when exchanged into traditional currency) possible even earlier this year. Mining has become increasingly commercial and professional, he says. Server farms with endless racks of ASIC cards have already sprung up. But as part of Bitcoin's design, the reward for mining a block halves every 210,000 blocks, or roughly every four years. Sometime in 2017, at the current rate, it will drop to 12.5 Bitcoins. If the returns from mining decline, who will verify the integrity of the block chain?

To head off this problem, a market-based mechanism is in the works which will raise the current voluntary fees paid by users (around five cents per transaction) in return for verification. "Nodes in the peer-to-peer network will try to estimate the minimum fee needed to get the transaction confirmed," says Mr Hearn.

Bitcoin's growing popularity is having other ripple effects. Every participant in the system must keep a copy of the block chain, which now exceeds 11 gigabytes in size and continues to grow steadily. This alone deters casual use. Bitcoin's designer proposed a method of pruning the chain to include only unspent amounts, but it has not been implemented.

As the rate of transactions increases, squeezing all financial activity into the preset size limit for each block has started to become problematic. The protocol may need to be tweaked to allow more transactions per block, among other changes. A further problem relates to the volunteer machines, or nodes, that allow Bitcoin to function. These nodes relay transactions and transmit updates to the block chain. But, says Matthew Green, a security researcher at Johns Hopkins University, the ecosystem provides no compensation for maintaining these nodes—only for mining. The rising cost of operating nodes could jeopardise Bitcoin's ability to scale.

"The volunteer programmers who work on Bitcoin's software have no special authority in the system."

The original paper that sparked the creation of Bitcoin has since been supplemented by layers of agreed-upon protocol, updated regularly by the system's participants. The protocol, like the currency, is a fiction they accept as real, because rejection by a large proportion of users—be they banks, exchanges, speculators or miners — could cause the whole system to collapse. Mr Hearn notes that he and other programmers who work on Bitcoin's software have no special authority in the system. Instead, proposals are floated, implemented in software, and must then be taken up by 80% of nodes before becoming permanent — at which point blocks from other nodes are rejected. "The rules of the system are not set in stone," he says. The adoption of improvements is up to the community. Bitcoin is thus both flexible and fragile.

So far, it has kept going. But can it withstand the pressure as it becomes more popular? "It's got this kind of watch-like feel to it," says Mr Hearn. It keeps on ticking, but "a mechanical watch is fragile and can be smashed." Perhaps Bitcoin, like the internet, will smoothly evolve from a quirky experiment to a trusted utility. But it could also go the way of Napster, the trailblazing music-sharing system that pioneered a new category, but was superseded by superior implementations that overcame its technical and commercial flaws.

*** ECONOMIST / LINK

Billions from Beijing: Africans Divided over Chinese Presence

Everything is as it has always been: decayed rows of houses, weathered doorframes with intricate carvings, potholed dirt roads, fishing boats rotting on the beach and, in the middle of it all, the Boma, a stone fortress built by the former German conquerors in Bagamayo, a sleepy coastal town in Tanzania.

Bagamayo was the capital of the colony of German East Africa from 1888 to 1891, when the administrative seat was moved to Dar es Salaam because the shore in Bagamayo was too shallow for a real seaport. Since then, time seems to have stood still.

"But soon nothing will be as it once was in Bagamayo," says Marie Shaba, "because now the new rulers of the world, the Chinese, are coming."

The 65-year-old radio journalist is wearing a bright, mango-yellow kitenge, the traditional dress worn by Tanzanian women. She calls herself a cultural activist. For years, Shaba has been fighting to have Bagamayo, an important arena for the slave trade in the 19th century and for colonial history, declared a United Nations World Heritage Site.

But now Shaba fears that the sleepy town will disappear in the waves of progress.

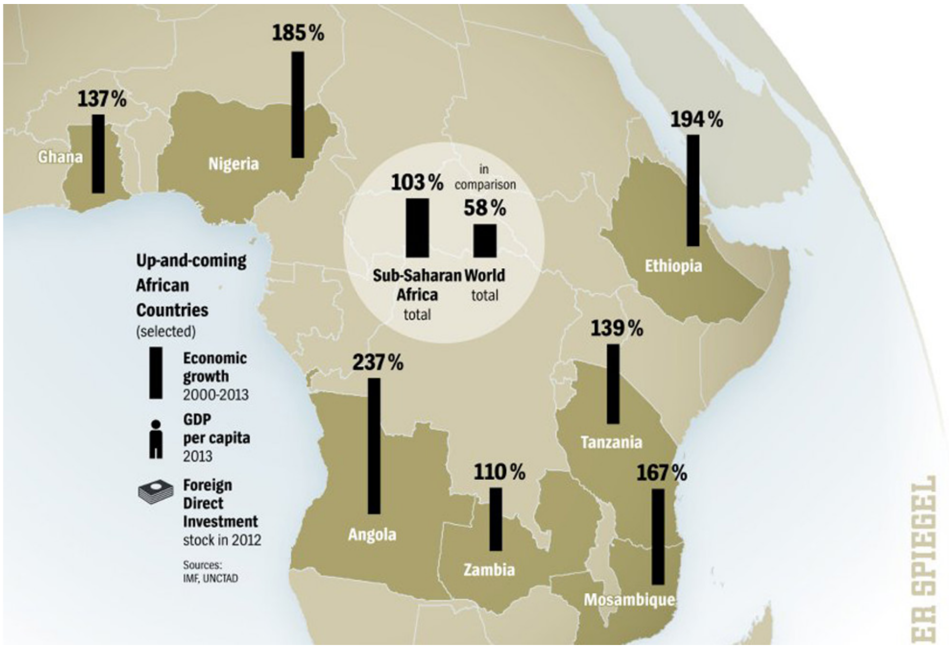
This spring, Bagamayo was the focus of a story in international business news, when more than 400 newspapers worldwide reported that China was making a low-interest loan of $10 billion (€7.4 billion) available for the construction of a modern container terminal 15 kilometers (9 miles) south of the city, and also planned to fund the establishment of a special economic zone in the hinterlands behind the port.

"This is good for Tanzania, very good. It's a poor country that will be making a giant step forward," says Janson Huang, 36. It's also good for him and his company. Huang manages the local office of Chinese construction company Group Six International in Dar es Salaam. A short, wiry man with a sparse moustache, he is dressed casually in an open, gray-and-white striped shirt and dark slacks. Huang speaks English well, and he speaks openly and directly.

This is unusual, as Chinese investors tend to shy away from the media. All other inquiries SPIEGEL made with Chinese companies registered in Tanzania were either rejected or not answered at all.

The Group Six headquarters, in the Mikocheni industrial area, was not easy to find. The unpaved access road hadn't been named yet. The company is housed in an inconspicuous complex behind high walls topped with barbed wire. Across from the materials warehouse are two red Chinese lanterns, marking the entrance to the uninviting dormitory for the Chinese foremen. The manager's office next door is sparsely furnished with imitation leather armchairs and filing cabinets.

Huang, an engineer, has been working in East Africa for a decade, first in Kenya and then in Tanzania. He likes his new home and wants to stay here with his family. He would like to have a second child, preferably a son.



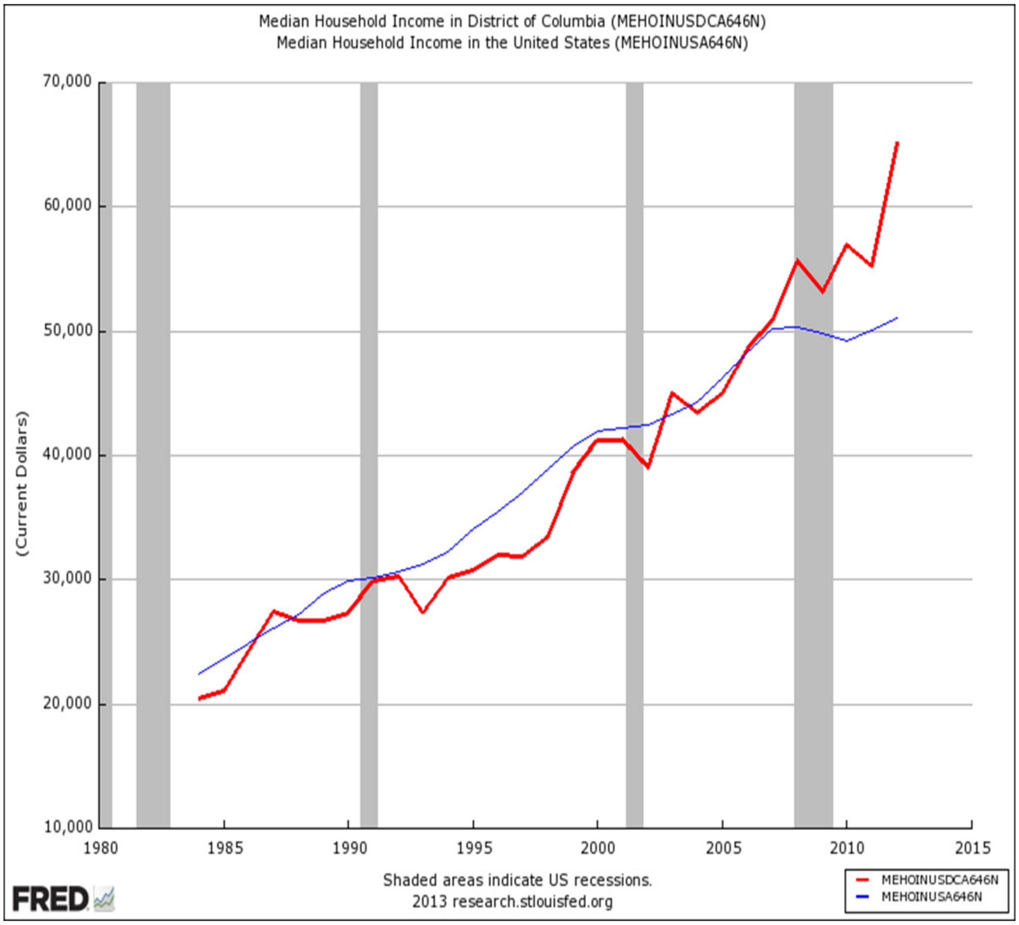
It wasn't easy to gain a foothold in Tanzania, he says, "but we Chinese are not afraid of taking risks. We see Africa with different eyes than the West, not as a rotten continent, but as an economic region with enormous potential."

Huang's privately owned company has had a hand in constructing many buildings. Most recently, it built the Crystal Tower in downtown Dar es Salaam. "We invest and create jobs. It's a win-win situation for both sides," he says.

The only decoration in Huang's office consists of framed photographs on the wall, which depict him during the presentation of company donations for humanitarian purposes. He is especially proud of a group photo with President Xi Jinping. Huang, a young economic pioneer from China, is standing directly behind China's first lady....

*** SPIEGEL ONLINE / LINK

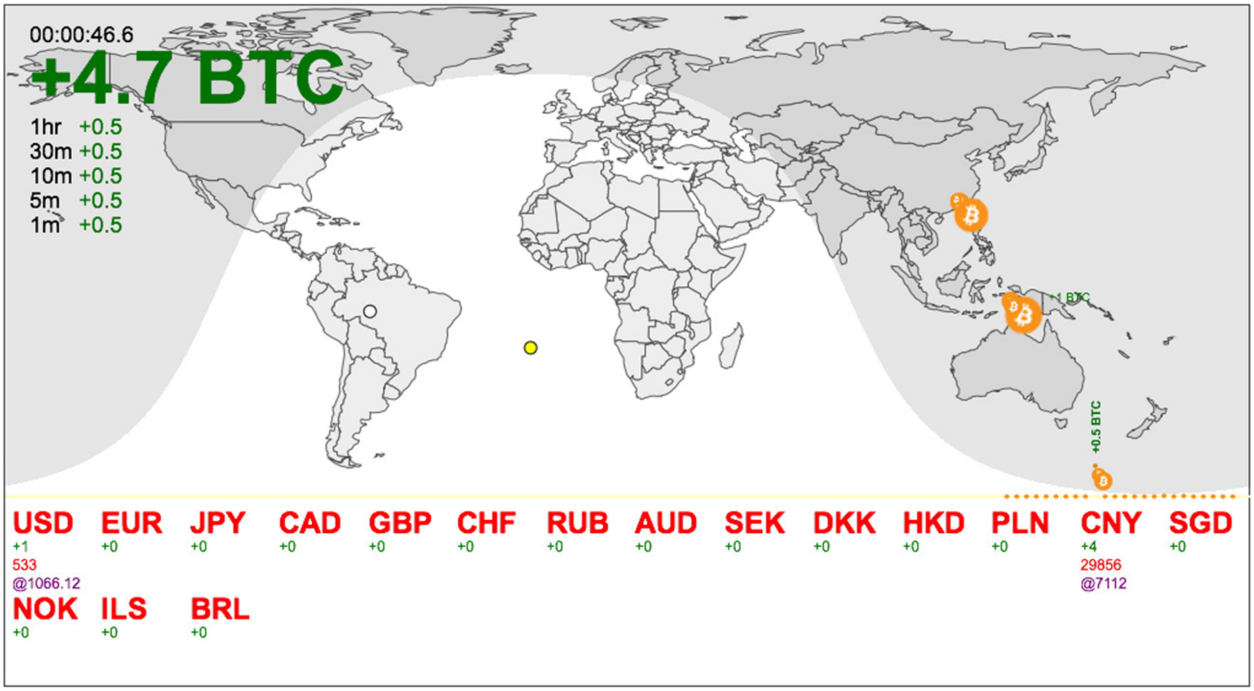
Charts That Make You Go *Hmmm...*



Source: St. Louis Fed

Presented without comment... median household incomes in the United States (blue line) and Washington DC (red line)

Bitcoin, Baby!



www.Sharelynx.com

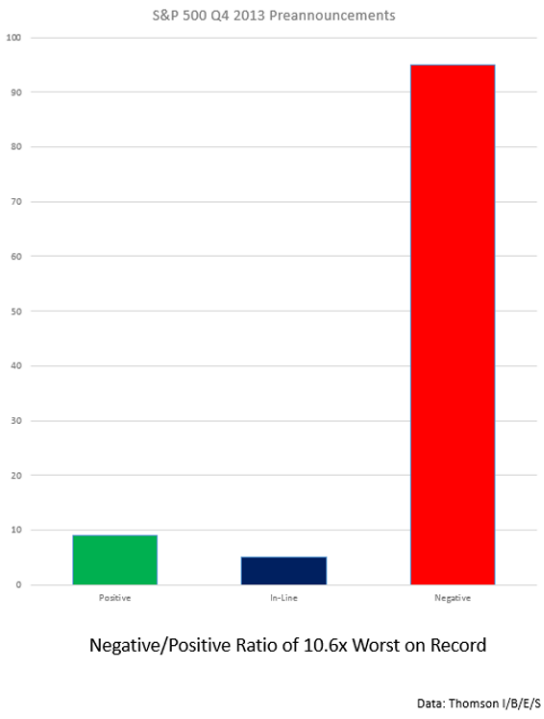
This website is ... awesome!

Watch the flow of Bitcoins in realtime as they pour into both the US and China (and a few other places).

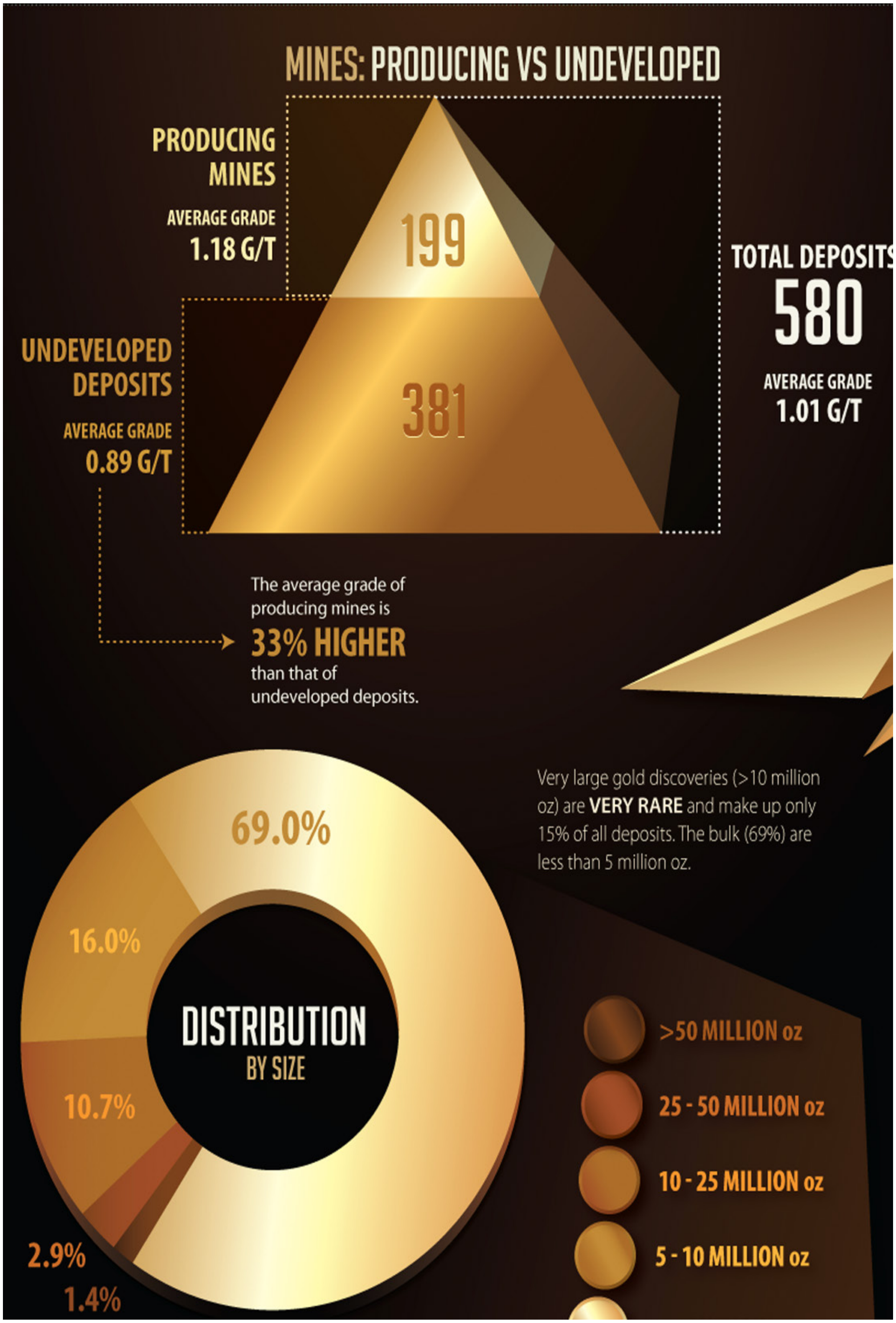
The Bitcoin phenomenon is here to stay, and you will be reading a LOT about it in the coming months and years.

At right, the ratio of negative pre-announcements to positive in Q3 2013 was, at 10.6:1, the worst on record ... not good

*** VIA ZEROHEDGE



Global Gold Mine & Deposit Rankings 2013



Source: Visual Capitalist

Words That Make You Go *Hmmm...*

CLICK TO WATCH

Marc Faber can always be relied upon for consistency — no throwing the towel in for him.

In this interview he explains to Steve Liesman the difference between what CNBC calls "overvaluation" and what the real world calls a "raging bubble." All to Liesman's astonishment, of course...

The Bitcoin Phenomenon has everybody talking, and whether you like it or not, it's not going away any time soon, so before you write it off as some kind of joke, take the time to understand how it works.

One day you may be glad you took the time to watch this video...

CLICK TO WATCH

CLICK TO WATCH

Two weeks ago I was fortunate to be given the opportunity to present to the Association of Superannuation Funds of Australia at their annual conference in Perth.

I was told to pull no punches and so...

The crowd were wonderfully tolerant, the organization superb, and the conference itself incredibly impressive.

It's a shame about that damned fly...

and finally...

Eric & Ernie. *Growing up in England, Christmas meant The Morecambe & Wise Christmas Special, and this sketch is arguably one of their very finest.*

I must have seen it a hundred times over the years, and it still makes me smile.

The reactions of the orchestra alone are worth the price of admission, while Eric's line about playing all the right notes is pure genius.

If you've never seen it, enjoy watching two comedy greats in action.

If you have seen it, enjoy it again...

CLICK HERE TO WATCH VIDEO

Hmmm...

Grant Williams

Grant Williams is the portfolio manager of the Vulpes Precious Metals Fund and strategy advisor to Vulpes Investment Management in Singapore — a hedge fund running over $280 million of largely partners' capital across multiple strategies.

The high level of capital committed by the Vulpes partners ensures the strongest possible alignment between the firm and its investors.

Grant has 28 years of experience in finance on the Asian, Australian, European and US markets and has held senior positions at several international investment houses.

Grant has been writing *Things That Make You Go Hmmm...* since 2009.

For more information on Vulpes, please visit www.vulpesinvest.com

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66th Annual CFA Conference, Singapore 2013 Presentation: 'Do The Math'

Mines & Money, Hong Kong 2013 Presentation: 'Risk: It's Not Just A Board Game'

Fall 2012 Presentation: 'Extraordinary Popular Delusions & the Madness of Markets'

California Investment Conference 2012 Presentation: 'Simplicity': Part I : Part II

As a result of my role at Vulpes Investment Management, it falls upon me to disclose that, from time to time, the views I express and/or the commentary I write in the pages of *Things That Make You Go Hmmm...* may reflect the positioning of one or all of the Vulpes funds—though I will not be making any specific recommendations in this publication.

Grant Williams

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