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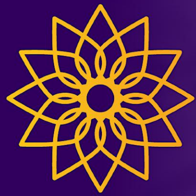

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Central Banks Declare Outright War on Currency Value

The Repercussions and Hence Risks to Focus Upon

Ongoing Global Monetary Debasement Event

By David Mitchell

Today we will have a quick look at….

- " Outright War Is Declared on Currency Purchasing Power "
- " Why Are Policy Makers Ratcheting Up the Volume Dial "
- " Extreme Bubble Overvaluations in The Stock Markets ? "
- " In conclusion "

The monetarist school greater inflation hypothesis has claimed victory already, quick to suggest that a V-shaped recovery in asset prices implies a V-shaped recovery in the real economy as well. This argument I am afraid does not stack up against the hard mathematics of the greater debt crisis, our global policy leaders from the Fed, OECD, BIS and the IIF do not believe a word of it either, so let us focus on their next moves ……

Outright War Is Declared on Currency 'Purchasing Power' Value

Over the last week new policy framework has been publicly stated for the record from the globes central banking governors on their annual symposium get together traditionally held in Jackson Hole, Wyoming. The USA Federal Reserve governor Powell announced their new framework on the 27th August 2020, that will target higher inflation and lower unemployment.

Editor: *Why the FED believes they can control employment numbers is personally quite beyond me, but I digress.*

The main pillars of the new policy framework can be broken down into 3 areas….

- **Maximum employment**, the FOMC emphasized that maximum employment is a broad-based and inclusive goal and reports that its policy decision will be informed by its "assessments of the shortfalls of employment from its maximum level."

- **Price stability**, the FOMC adjusted its strategy for achieving its longer-run inflation goal of 2 percent by noting that it "seeks to achieve inflation that averages 2 percent over time." To this end, the revised statement states that "following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time."

- **Constraints**, the updates to the strategy statement explicitly acknowledge the challenges for monetary policy posed by a persistently low interest rate environment.

What does this mean in plain English exactly ?

Effectively they are advocating the more rapid embrace of 'Modern Monetary Theory' as government policy makers warmly welcome the new framework as a big step in embracing a policy approach that allows the economy to run much hotter for longer, allowing financing of 'ever' larger fiscal deficits at government treasury level. The central banks will remain highly dependent on the ability of successive administrations to maintain more pro-growth policies, particularly the pursuit of measures at fiscal policy and structural reforms via massive sovereign debt growth.

There is real concern here that can be expressed by those worried about excessive mission creep at the Central Banks and also real reputational risk in pursuing an operationally more aggressive target after having repeatedly failed to deliver to date, and of course the obvious and direct risk from an ever wider disconnect between Wall Street (top richest 5%) and Main Street (everyone else) – this being a big problem !

Many in the marketplace will now see the new framework as hard-wiring what until now was seen as 'data-dependent' only policy of money printing. This will reinforce the 'faith based' investors have in ample and predictable liquidity support moving forward, further decoupling asset prices from economic and corporate earning fundamentals - the giant mathematically unsustainable asset bubble.

Editor: Now if you thought I was just reading between the lines here and pulling out the most obvious conclusions then let's hear the shocking comments made from the Bank of England governor, read below and onto the next page........

The Bank of England has the firepower to "*go big and go fast*" with vast stimulus to tackle future downturns in the wake of Covid-19, stated Governor Andrew Bailey.

Mr Bailey, speaking online at the Jackson Hole central banking symposium, said new research showed the Bank's money-printing efforts had the most impact during episodes of major turmoil.

Threadneedle Street is reviewing its arsenal of policy tools, including the 'possibility' (read here "going to use") *of using controversial negative interest rates for the first time*, the Governor said.

But Mr Bailey said: *"We are not out of firepower by any means, and to be honest it looks from today's vantage point that we were too cautious about our remaining firepower pre-Covid. But, hindsight is a wonderful thing when you have it."*

He said: *"As long as people are willing to hold pieces of paper with the Queen's face on then the BoE never runs out of firepower. The central bank always has the ability to end – or prevent – a crisis by creating new money."*

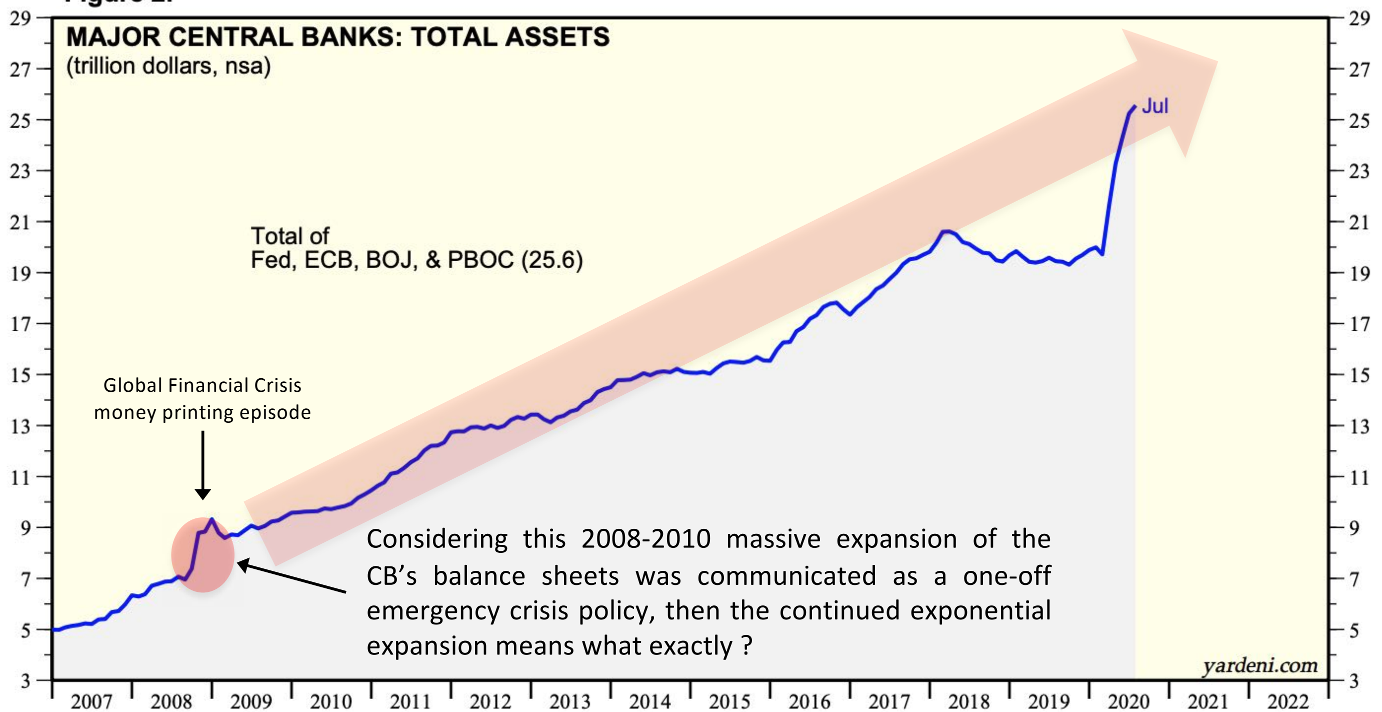
Editor: *Are you kidding me, too cautious in their money printing ! As long as people are willing to hold pieces of paper with the Queens head on, in the face of a giant tsunami of paper washing over everyone ? Should he not re-phrase the sentence "until the house of cards stays up-right we can continue with our money printing" hmmmm, yes indeed .*

To summarise the insane lengths our policy makers have instigated in a single graph image and an indication of the huge expansion of the money supply and devaluation of the currency system itself please have a look on the next page

Now this chart below is truly scary and gives you an idea on the currency expansion (debasement) globally that has been constantly ongoing and increasing dramatically in momentum. This chart understates the true picture as it does not include global debt expansion at the sovereign, corporate and private domestic sector level.

You can hardly see the 2008 to 2009 great money printing episode; at the time it was simply unprecedented. How time and perceptions change !

Figure 2.



Source: Haver Analytics.

The IIF, which represents global banks and financial institutions, said the first-quarter of **2020 Global Debt-to-GDP** ratio jumped by over 10 percentage points, the largest quarterly surge on record, to reach a record 331% and over 258 Trillion US$.

Why Are Policy Markets Ratcheting Up the Volume Dial ?

What the Central banks are clearly stating here with the full political support of the standing governments and treasuries is they are targeting the alarming dangers of the present global asset bubble "deflationary timebomb" they have built and created, which is presently being inflated to absolute extremes.

It's the asset bubble bursting and its deflationary repercussions that is the most damaging immediate problem they face. When asset bubbles burst, debt deflation is the result and with the present largest global debt and insolvency crisis in history, well I will simply point out that's not a good outcome (understatement).

Revenue growth has to be fully supported and sustained to support the underlying debt picture; this is improbable looking across the immediate macro-economic picture considering we are in a severe earnings recession.

The only honest assessment we can make at this point is that the central banks are trapped in a nightmare of their own making and are merely playing for time at this stage of the game. Everything they throw at the situation is designed to hopefully get the global system to limp through the next few quarters without breaking, at which point they'll scramble to come up with the next short-term 'solution'.

Our direct, obvious and eventual future lies in full outright '**debt monetisation**' and that particular volume dial has just been jacked up to a near 7 out of 10.

When it finally hits 10 in the next few years the world will truly shake with the reverberations of such a dramatic and inevitable conclusion of the horrendous global policy mistakes instigated from the mid 90's but taken to extremes after the Dotcom burst in year 2000 into the Global Financial Crisis of 2007 to 2009 and the rolling shocks which drives QE money printing and Fiscal debt expansion into today.

Effectively deflationary forces are rampant: deflationary demographic retirement picture, debt deflation, demand destruction, falling money velocity, largest employment collapse in history, over capacity, technology deflationary forces, enormous earnings contraction all seen very visibly through the incredibly low bond yields in the long end of the curve.

Inflation : is a monetary phenomenon pure and simple, which they fully intend to engender and instigate through a massive global monetary debasement event "come hell or high water".

Extreme Bubble Overvaluations in The Stock Markets ?

Misconception of value presently seems to be a widely embraced judgement call based off pure faith and fantasy, within a misbalanced market and gross overvaluation driven by central bank largesse driving leverage and debt growth and monetary debasement.
The Central Bank policies are driving complacency in risk and value assessment by wealth managers and the people on the street.

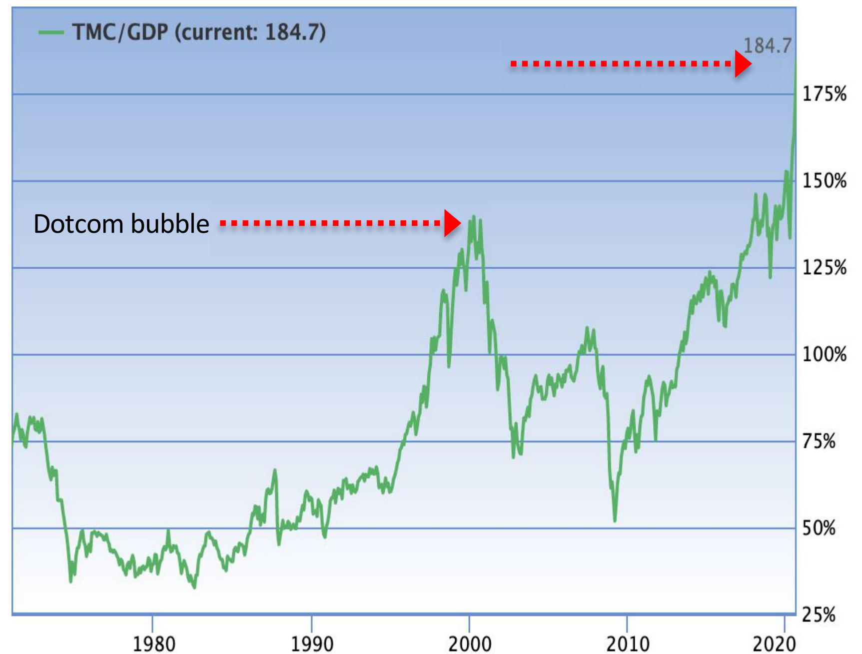
I am not trying to discredit the stock markets whatsoever; I am indeed myself long of stocks within well defined and specific sectors. Stocks have done a brilliant job of hedging the debasement of our monetary and currency system by the central banks – **so far !**
Editor: *It must be said that this only benefits the wealth divide between the 5% who own near 2/3rd of all wealth in America presently as an example. Central bank policies and debasement is throwing untold pain onto the masses.*

However, overvaluations and risks have to be recognised as deep market crashes can cause enormous pain.
Presently we are in a full earning recession with the world in its 7th consecutive Quarter of contraction of earnings per share which started in the 1st Qtr. of 2019.

According to Warren Buffett's own favourite stock market indicator - U.S. stocks are more highly valued now relative to economic output than they were even during the dotcom bubble (biggest bubble ever recorded until now), raising questions about the sustainability of the recent rally.
According to his ratio this is presently where we sit, chart on the next page .....

Ratio = Total Market Cap / GDP	Valuation
Ratio ≤ 72%	Significantly Undervalued
72% < Ratio ≤ 93%	Modestly Undervalued
93% < Ratio ≤ 114%	Fair Valued
114% < Ratio ≤ 135%	Modestly Overvalued
Ratio > 135%	Significantly Overvalued
Where are we today (**2020-08-30**)?	Ratio = **184.7%**, Extremely Overvalued

The combined market capitalization of the universe of U.S. stocks as captured by the Wilshire 5000 Index totalled $36.8 trillion as of Wednesday's close. That amounts close to 185% of the $19.4 trillion value of U.S. gross domestic product as of the second quarter.
The total market valuation is measured by the ratio of total market cap (TMC) to GNP -- the equation representing Warren Buffett's "best single measure".



Meanwhile every technology bull's favourite stock Tesla is trading on a P/E ratio of 1,138 (*delusional insanity ?*), while Apple stock that is the first company in the USA to surpass 2 trillion US$ Market Capitalisation has a P/E ratio of 38 (*still heavily overvalued but quite boring compared to Tesla*), Alphabet Inc (Google) P/E ratio of 37 and NetFlix P/E ratio of 88.

There really does seem to be a widespread false portfolio diversification methodology ongoing presently, recognising what real diversification means and embracing the constant recognition of portfolio re-balancing is essential.

No portfolio can be correctly diversified without recognizing the risk, the tail risks and securing a heavy weighting into physical precious metals 'outside of the financial and banking sector' at this juncture of the macroeconomic cycle.

In Conclusion

Over the last 20 years as an optimal buying opportunity gold, silver and platinum have proven to be excellent buys in November & December, even within the larger bear market of 2011 to 2015.
As we enter the next decade with interest rates at 5,000-year lows, the largest array of asset bubbles in history, a planet in rolling lockdowns with collapsing GDP and in severe historical earnings recession,

alongside a deflationary profile of debt, disruption and demographics, there is more than a compelling macro-economic environment supporting investment demand and flow into the precious metals and hence exceptional price appreciation.
The global debt picture is deteriorating rapidly with deficit control being ignored with the newly found passion for Modern Monetary Theory (MMT) by governments and monetary authorities. Debt monetisation which is now on its way with unknown consequences (*however well recorded historical past experiments in debt monetisation culminated in disastrous currency value destruction*).

Physical precious metals held outside of the banking system with full client ownership title is one of the very few asset classes left that will ensure wealth preservation and growth over the coming years.
It may indeed be a great time to give our team a call and let us advise you on how we would weight a basket of precious metals at this stage.

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