John Williams'
Shadow Government Statistics
Analysis Behind and Beyond Government Economic Reporting

No. 527: SPECIAL COMMENTARY

Update on U.S. Fiscal, Monetary, Economic Conditions and Outlook for U.S. Dollar, Gold and Silver

May 29, 2013

$25 Million Shy of New Debt Ceiling, U.S. Treasury Holds $16.1 Billion, About One Day's Worth of Regular Operating Cash

Since Onset of Expanded QE3, Fed Has Monetized 73% of Net Public Treasury Debt Issuance, Should Hit 100% by Mid-July

Fed Locked into Quantitative Easing for Foreseeable Future by Economic Woes, Banking System Difficulties and Treasury Borrowing Problems

Narrowed Budget Deficit Forecasts Reflect One-Time Accelerated Tax Receipts, "Dividend" Payments and Overly-Optimistic Assumptions, Economic and Otherwise

Developing Washington Scandals Could Impair U.S. Dollar

General Outlook Has Not Changed

PLEASE NOTE: In response to short-term political and financial-market hype and developments aimed at propping the U.S. dollar and pummeling gold, this relatively short Special Commentary *reviews U.S. fiscal, monetary and economic conditions, and other developments, with implications for domestic inflation and market prospects for the U.S. dollar and precious metals. The broad outlook has not changed from* Hyperinflation 2012 *of January 25, 2012, the primary www.ShadowStats.com document detailing the hyperinflationary threat to the United States. This* Commentary*, however, supplements the hyperinflation report, building upon* Special Commentary No. 445 *of June 12, 2012,* Special Commentary No. 485 *of November 27, 2012, and regular intervening* Commentaries *that otherwise have updated major economic and systemic-liquidity issues.*

Some of the points in this Special Commentary *have been lifted from recent regular* Commentaries, *and some will provide a partial preview of updated points in the pending June revision to the* Hyperinflation Report*. Once again, the general outlook has not changed*.

Best wishes to all — John Williams

Economic, Systemic and Political Crises Threaten Fragile Stability of the U.S. Financial System, Promising a Much Weaker U.S. Dollar, Stronger Gold and Higher Inflation

Tap Dancing on Land Mines, Bernanke and Lew Are Not Necessarily Candidates for *Dancing with the Stars*. With due deference to the song lyrics of rock group Aerosmith, Federal Reserve Chairman Ben Shalom Bernanke has been tap dancing on a land mine since 2008. He has avoided detonating an intensified banking-system crisis, so far, but the cost has been that of locking the Fed into near-perpetual quantitative easing and monetization of U.S. Treasury debt, with horrendous implications for future domestic inflation and U.S. dollar debasement. Crises in the economy, financial markets and systemic-solvency continue, with the post-2008 panic environment little moved towards sustainable and renewed normal activity, despite the fancy footwork. Again, the Fed has locked itself into quantitative easing for some time to come, irrespective of any jawboning to the contrary.

Mr. Bernanke's new counterpart in the federal government, U.S. Treasury Secretary Jacob Joseph Lew, is just beginning his carefully orchestrated tap-dancing routine, trying to avoid hitting the new statutory debt limit on Treasury borrowings, along with the risk of detonating a new credit-market Armageddon and/or collapse in the foreign-exchange value of U.S. Dollar. Secretary Lew is reasonably confident that he can keep his fancy footwork going through Labor Day (September 2nd). Despite any interim negotiating turmoil, with its potential impact on the credit rating of the United States and U.S. dollar selling, the Congress will have to take eventual corrective action.

Negotiations surrounding efforts to bring U.S. fiscal conditions into balance appear doomed to contentious political failure, at best, or to a compromised, smoke-and-mirrors balanced-federal-budget package at worst. In the latter case, some among the U.S. public and in the U.S. markets might be misled into thinking that the fiscal issues had been resolved or the crisis contained, losing what limited time still might be left to address the actual fiscal disaster. The longer-term U.S. sovereign solvency issues are the bane of the U.S. dollar and the global financial markets. Unless these problems can be brought under credible control, those same global markets—soon and massively—will revolt against the U.S. dollar.

Dollar Rally versus Sell-Off, Updated Odds. I had expected the U.S. dollar to come under heavy selling pressure by the April-to-May 2013 period. Instead, the U.S. currency has shown recent strength tied to heavily manipulated market perceptions of a pending reversal in the Federal Reserve's quantitative easing (QE3); a turnaround in prospects for the looming U.S. fiscal disaster; and an ongoing recovery—or at least the lack of a double-dip—in U.S. economic activity. These big dollar props are false; they are illusions. Each of those perceptions should shift sharply, soon, in directions that are fundamentally and massively negative for the U.S. dollar. Separately, a potentially significant new negative factor for the

U.S. dollar has begun to unfold, in the nature of political scandals in Washington. Any Watergate-type circumstance that evolves likely would intensify selling pressure against the U.S. dollar.

Nothing is natural or normal: not the economy, not the financial system, not the financial markets and not the political system. The full system remains still in the throes and aftershocks of the 2008 panic and near-systemic collapse, and from the ongoing responses to same by the Federal Reserve and federal government. Those controlling the current federal government are unwilling to address the U.S. government's fiscal problems and the long-range sovereign-solvency issues of the United States.

There never was an actual economic recovery following the business downturn that began in 2006 and collapsed into 2008 and 2009. What then followed was a protracted period of business stagnation that began to turn down anew in second- and third-quarter 2012. That has been the common experience. The official GDP recovery is a statistical illusion created by the use of understated inflation.

Some Odds. Further panic is possible and hyperinflation and full dollar debasement are inevitable, with the hyperinflation most likely taking hold before the end of 2014. First, though, the dollar still faces a massive global sell-off, along with likely dumping of dollar-denominated paper assets, such as U.S. Treasuries. The timing of this remains sooner, rather than later, still likely within calendar 2013. The dollar sell-off probably will be the proximal trigger for the onset of hyperinflation before the end of 2014.

The odds in favor of the hyperinflation call remain in excess of 90% (see *Hyperinflation 2012* and *Special Commentary (No. 485)*). Chances of a significant retrenchment in the Fed's quantitative easing by year-end 2013 are put at less than 10%, with a chance of increased or enhanced easing at greater than 70% for the same period. Chances of a meaningful rebound in economic activity for the year ahead are put at less than 5%. Chances of a meaningful budget-balancing package in the year ahead also are put at less than 5%.

Underlying Fundamentals versus the U.S. Dollar

Underlying Fundamentals	Condition Relative To Major Trading Partners	Near-Term Outlook	Long-Range Impact on USD	Sentiment At Variance With Reality?
Trade Balance	Severe Deficit	Deterioration	Negative	No
Fiscal Condition	Extreme Instability	Deterioration	Negative	Yes
Monetary Policy				
--Interest Rates	Extreme Low	Neutral	Negative	No
--System Stability	Fragile	Ongoing QE3	Negative	Yes
Inflation	Comparable	Deterioration	Negative	Yes
Economic Growth	Low / Turning Down	Deterioration	Negative	Yes
Political Stability	Mounting Scandals	Deterioration	Negative	Not Yet An Issue
Reserve Status	Faltering Dominance	Deterioration	Negative	Mixed

Source: ShadowStats.com

Fundamentals Underlying the U.S. Dollar. The accompanying table outlines basic fundamentals that affect the U.S. dollar. Each fundamental relates to the dollar on a relative basis versus the currency or currencies being compared. The three major market-contentious issues are: the state of the U.S. economy, the federal budget deficit and Federal Reserve policy. Those areas each will be discussed in separate sections, following. A quick overview of the other fundamentals is provided first. In the final section of this missive, the post-1971 history for the U.S. dollar is examined, versus gold and versus the six major Western currencies most commonly traded against the dollar: the euro, yen, pound sterling, Swiss franc, Canadian dollar and Australian dollar.

Trade Balance. Shy of large, irregular swings in oil prices, the U.S. trade deficit remains horrendous and generally continues to deteriorate. Against the major Western currencies (see above), the United States runs a meaningful trade surplus only with Australia.

Fiscal Condition. For details, including GAAP-based deficit, debt ceiling, holdings of U.S. Treasury debt, impact of changed withholding taxes, etc., see the second major section, following.

Monetary Policy. For details, including Fed activity and competitive devaluations, see the third major section, following.

Economic Growth. See the next major section.

Political Stability. A new factor—not yet widely anticipated in the markets—is that developing political scandals tied to the Obama administration could threaten global perceptions of political stability in the United States, placing significant downside pressure on the value of the U.S. currency. The popular press generally has been highly sympathetic to the political needs of the Administration, so increasingly-negative press in these areas suggests that recognition of the "scandals" has gained some momentum. In the event that a Watergate-type circumstance evolves from the current hubbub of touted misdeeds, it could become a seriously-negative factor for the U.S. dollar.

After Nixon floated the U.S. dollar in March 1973, the Watergate scandal began to break open with Congressional hearings. At the time, I was involved in currency trading, hedging corporate exposures in the Deutschemark of the day. Despite other turmoil of the time, including and Arab-Israeli war and an Arab oil embargo, the day-to-day developments in the Watergate scandal dominated day-to-day trading in the U.S. dollar. The Watergate-related dollar weakness is evident in the currency graphs at the end of this missive.

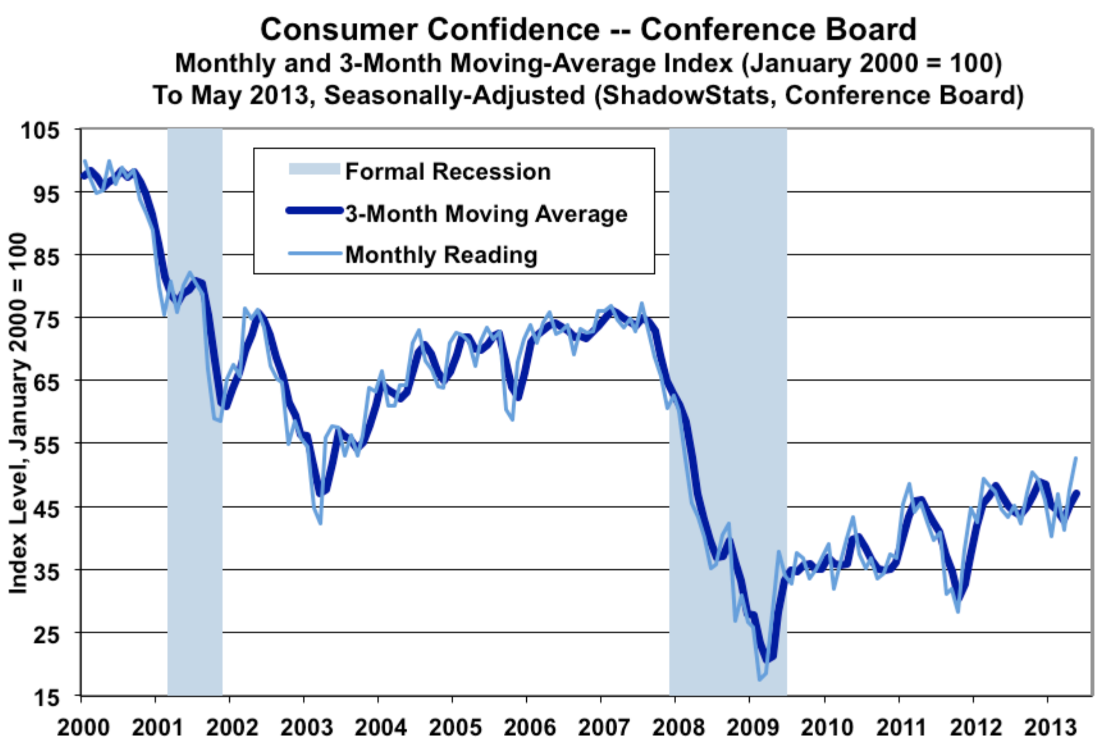
Reserve Status. Movement away from using the U.S. dollar as the primary global reserve currency has intensified recently, with China working direct currency convertibility arrangements with Australia and France, for example. As discussed in *Special Commentary (No. 485)*, the dollar generally has been in decline as a reserve asset among central banks, as pressures also have mounted to replace the pricing of oil with something other than the U.S. dollar. As the U.S. currency comes under heavy selling pressure, the odds of a change in the reserve status of the dollar should rise markedly.

U.S. Economic Activity. Underlying fundamentals show that there has been no economic recovery since the economic crash, and there is none looming in the immediate future. Despite the likely downside nature of the benchmark revisions pending in both the retail sales (May 31st) and the GDP (July 31st)—

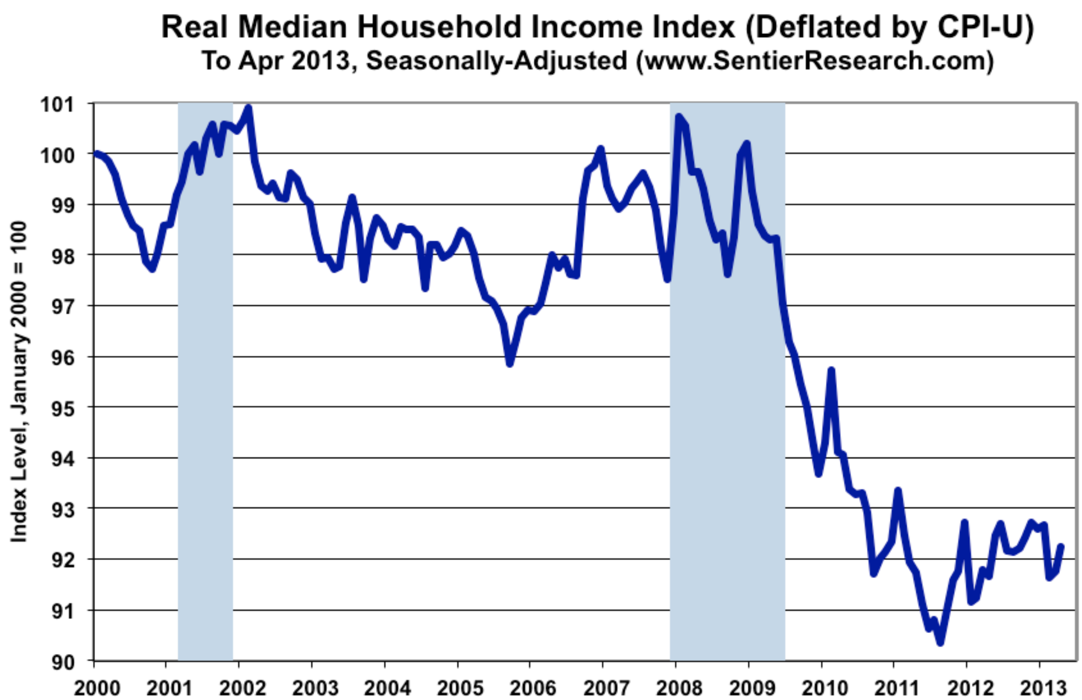
series that are plotted in this section—the revamped data still will not come close to economic reality. The issues remain methodological, where the use of understated inflation in removing inflation effects from the key economic series generates overstated constant-dollar or real growth in the deflated series.

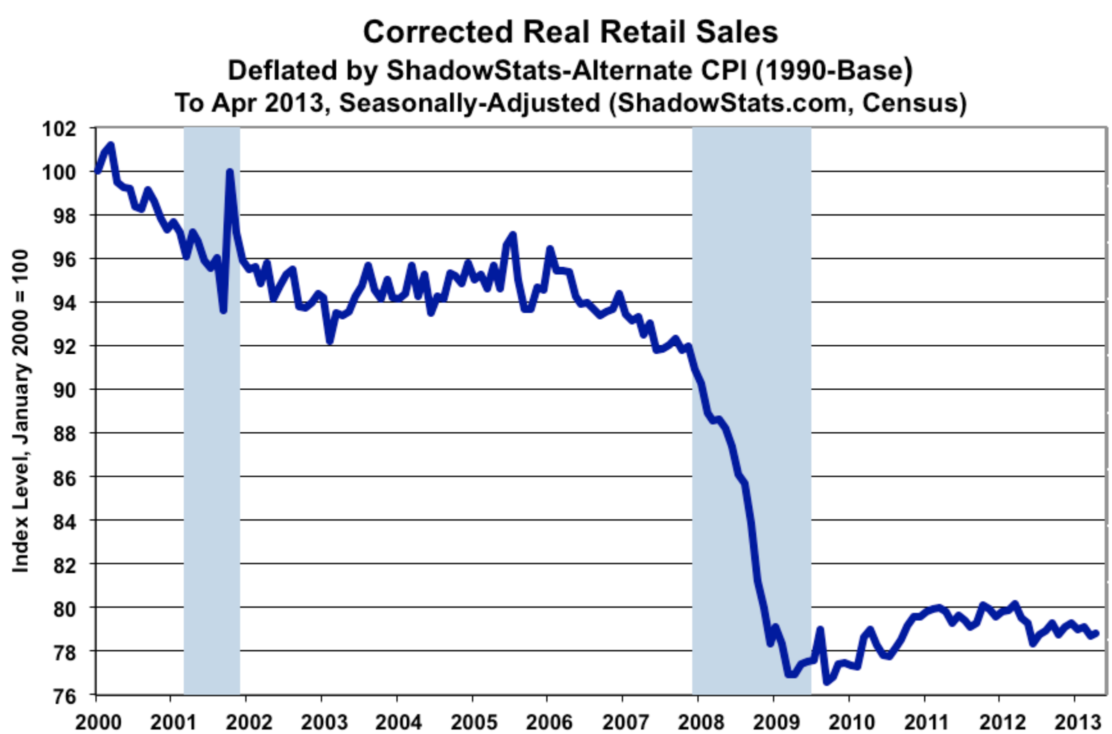
In terms of underlying economic fundamentals, the primary issue remains structural liquidity problems for the consumer, who generates more than 70% of activity in the gross domestic product (GDP) and 100% of retail sales. Without real (inflation-adjusted) income growth, the consumer cannot sustain growth in real consumption. Without credit expansion (all growth in post-crisis consumer credit outstanding remains in federally-owned student loans), the consumer is unable to borrow to cover the shortfall in living standards, as discussed in *Special Commentary (No. 485)*.

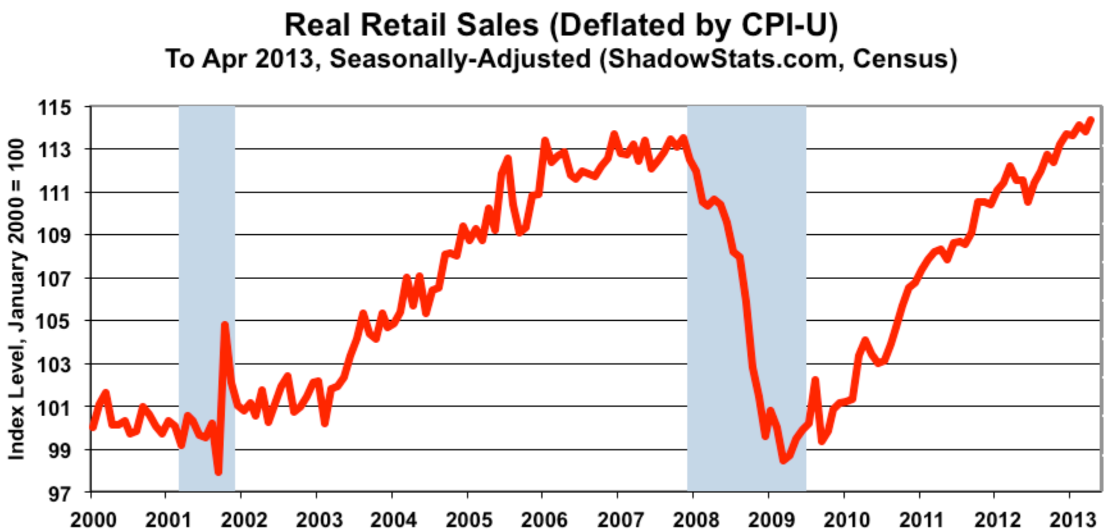
The first two graphs following are updated for data released May 28th. The consumer confidence measure (Conference Board, re-indexed here to January 2000=100 for comparability with the other graphs) is a coincident economic indicator that tends to follow the economic tone of the popular media. The extreme monthly volatility of the series also is smoothed in the graph, with the use of a three-month moving average. Despite the jump in the May 2013 reading, the series still remains deep in recession territory, reflecting a pattern of no economic recovery since the economic crash into 2009.



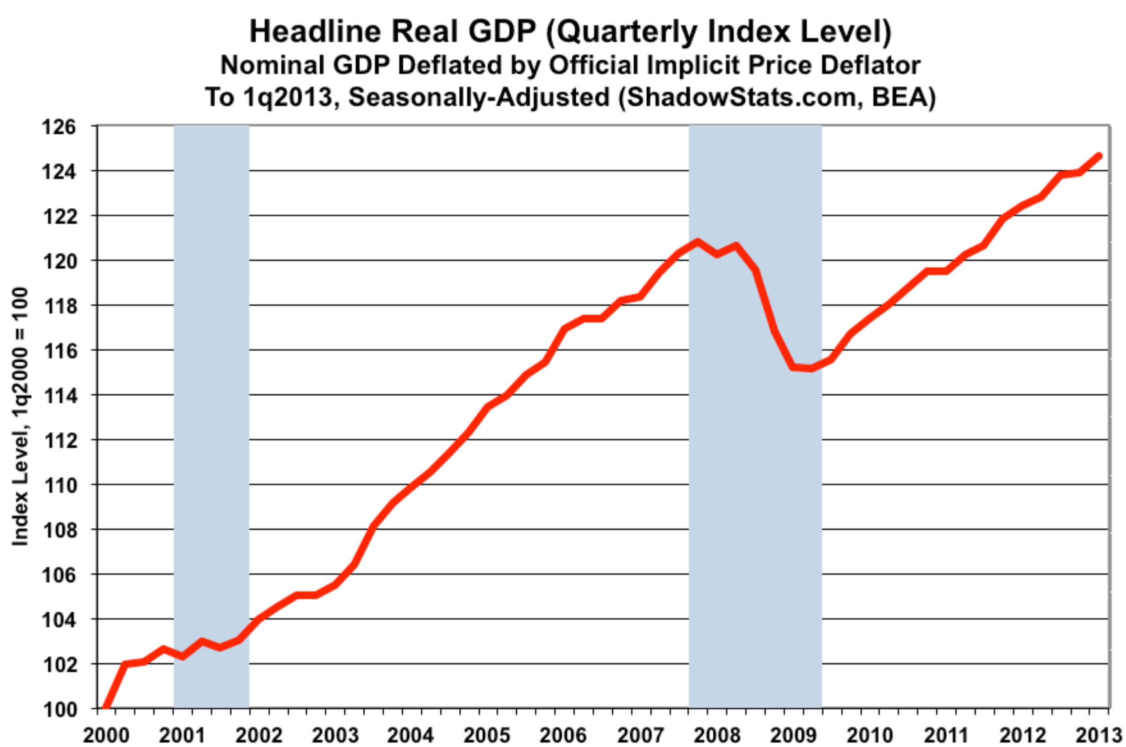
The next graph shows median household income through April 2013, deflated by the CPI-U (www.SentierResearch.com). Income keeps bottom bouncing near its cycle low. The downturn in income accelerated during the purported post-June 2009 economic recovery. The next graph following shows inflation-adjusted retail sales, corrected for the understatement of inflation used in deflating the formal real retail sales number, which is shown as the redline in the second graph following. Note that the corrected retail sales plot (blue line) generally is consistent with the related consumer confidence and household income measures (see *Special Commentary (No. 485)*, and *Commentary No. 525*.

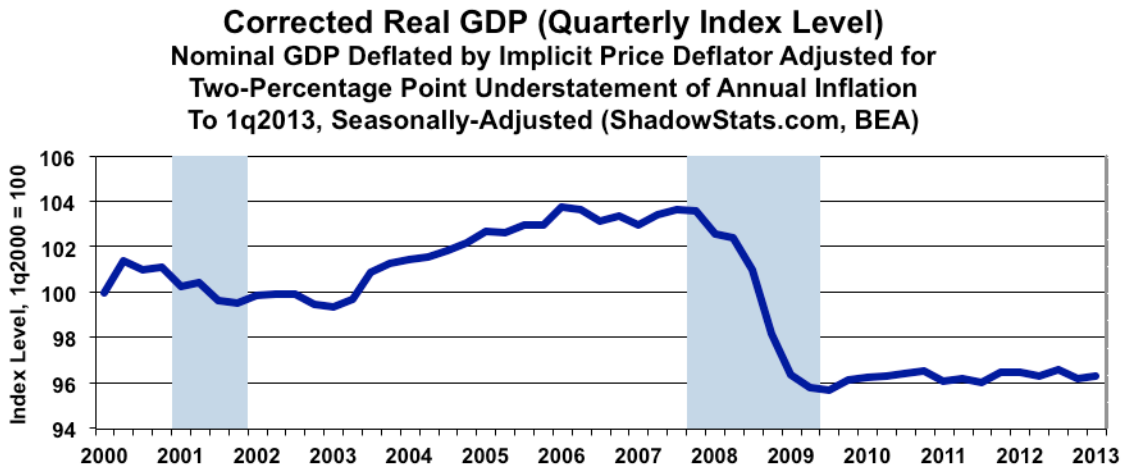






In like manner, as discussed in *Commentary No. 519*, the official recovery in GDP is a statistical illusion. The full recovery as of fourth-quarter 2011, and meaningful economic expansion since, as reflected in the following graph have not been confirmed by any other economic series, including the official real retail sales series shown above, which just hit its pre-recession high. More realistic as to broad economic activity is the second graph following, which shows the GDP "corrected" for inflation understatement.





The "corrected" graph shows the economy slowing from 2006 into 2007, plunging into 2009, and stagnating or bottom-bouncing at a low level of activity. Renewed contraction should be evident, following release of the comprehensive benchmark revision to the GDP series on July 31st.

So long as consumer liquidity remains constrained, the economy has not and cannot recover. Accordingly, any near-term hype from an occasional "good" economic statistic most likely is no more than hype. Economic reality will continue to surprise on the downside, and that is a negative for the U.S. dollar, as well as for budget-deficit and Treasury-funding projections. The U.S. economic weakness is long-term and structural, and that will trump any relative competitive sovereign business cycle in terms of pummeling the U.S. dollar.

Budget Deficit, U.S. Debt and Debt Ceiling. The crux of the dollar debasement and hyperinflation issues is the practical inability of the United States to cover its long-range obligations, other than by printing the money it needs. As discussed and shown in *Commentary No. 500*, the GAAP-based federal budget deficit was $6.6 trillion in fiscal-year 2012 (year-ended September 30th). That level is not sustainable or containable. Beyond the likelihood that the economy is at the tipping point on taxes, where higher taxes actually would increase the deficit due to resulting slower economic growth, the government cannot raise taxes enough to cover the actual deficit in any given year. That shortfall also is so large that every penny of government spending (including defense) could be cut to zero, except for the social programs, and the fiscal circumstance still would be in deficit.

With the global markets waiting to turn on the U.S. dollar if the long-term sovereign solvency issues are not addressed, the options open to those running the government are limited in terms of new taxes and have to include restructurings of Social Security, Medicare, etc., so that all those programs are solvent over the long haul. Accordingly, a meaningful, balanced budget, under those circumstances, is a practical, political impossibility. That, combined with the Federal Reserve already monetizing U.S. Treasury debt, promises an eventual massive dollar sell-off, which, in turn, will lead into the hyperinflation. Consider the following table of holdings of U.S. Treasury bills, notes and bonds.

Major Holders of U.S. Treasury Securities (Foreign and Federal Reserve Board) Quarter-to -Quarter Change and Versus Net Issuance of Public U.S. Treasury Debt Sources: ShadowStats, U.S. Treasury, Federal Reserve Board				
Level or Net Issuance of Public U.S. Treasury Debt / Holders of Public Debt	Quarter Ended Mar 31, 2013 $ Billions	Q/Q % Change	Quarter Ended Dec 31, 2012 $ Billions	Q/Q % Change
Total Public Treasury Debt	$11,916.9	2.9%	$11,581.5	2.8%
Federal Reserve Board (FRB)	$1,799.2	8.2%	$1,662.9	0.9%
China	$1,250.5	2.5%	$1,220.4	5.8%
Japan	1,105.0	-0.6%	1,111.2	-1.5%
Caribbean Banking Centers	291.3	9.4%	266.2	2.0%
Oil Exporters	261.5	-0.2%	262.0	-1.9%
Brazil	258.6	2.1%	253.3	0.8%
Taiwan	189.0	-3.3%	195.4	-3.1%
Belgium	184.3	32.8%	138.8	4.2%
Switzerland	184.2	-5.7%	195.4	1.0%
Russia	162.5	0.6%	161.5	-1.2%
Luxembourg	155.0	0.0%	155.0	5.0%
United Kingdom	150.6	13.6%	132.6	-3.8%
Hong Kong	147.1	3.7%	141.9	3.5%
Ireland	110.5	5.3%	104.9	8.3%
Singapore	102.0	2.6%	99.4	5.3%
Germany	93.3	47.6%	63.2	-3.5%
Other	1,113.0	3.8%	1,072.6	2.9%
Total Foreign Holdings	$5,758.4	3.3%	$5,573.8	1.8%
Foreign Central Bank*	$4,099.1	1.7%	$4,032.2	1.9%
Total FRB and Foreign	$7,557.6	4.4%	$7,236.7	1.6%
Total FRB & Foreign CB	$5,898.3	3.6%	$5,695.1	1.6%
		% of Net Issuance		% of Net Issuance
Net Issuance Public Treasuries	$335.4	100.0%	$311.9	100.0%
FRB Net Change**	$136.3	40.6%	$14.4	4.6%
Foreign Central Bank	$66.9	19.9%	$74.1	23.8%
Total FRB and Foreign	$320.9	95.7%	$112.8	36.2%
Total FRB & Foreign CB	$203.2	60.6%	$88.5	28.4%

* Included in total foreign holdings.

** As of May 22, 2013, FRB holdings were $1,877.2 billion, an increase of $211.0 billion since January 1, 2013, against $287.5 billion (73.4%) of net issuance in the same period. By mid-July 2013, FRB holdings should increase enough to have monetized all net public Treasury issuance since the expansion of QE3 in January.

The Federal Reserve has been monetizing U.S. Treasury debt since November 2010 with QE2. QE3 expanded into monetization of Treasury debt at the beginning of 2013, and the Fed has monetized 73% of the Treasury's net issuance of public debt since the beginning of the year. With new Treasury borrowings capped by the debt ceiling, into the fall, the monetization of debt should top 100% by mid-July 2013.

As shown in the table, the Federal Reserve's holdings of U.S. Treasuries are larger than any one country, and growing at a much more rapid pace than the two major foreign holders, Japan and China. Along with OPEC, Taiwan and Switzerland, Japan appears to be moving out of U.S. Treasuries.

Debt Ceiling at $16.7 Trillion. Per the May 28, 2013 *Daily Treasury Statement* *(DTS)*, released May 29th, the U.S. Treasury's total operating cash balance (Table I of DTS) at the close of business on May 28th was $16,075 billion, roughly one day's average regular cash outlay of about $17 billion, as estimated from the April 2013 *Monthly Treasury Statement*.

As shown and discussed in Table III-C of DTS, as of the close of business on May 28th, the total Treasury debt subject to the newly reset and reinstated statutory debt limit was $16,699,396 million ($16.7 trillion), shy by just $25 million of the statutory debt limit of $16,699,421 million. Where the debt limit had been suspended temporarily as of February 4, 2013, as part of the budget-deficit negotiations, the limit was reactivated and reset to $16,699,421,095,673.60 (again $16.7 trillion) as of May 18, 2013.

Indeed, as discussed earlier, Treasury Secretary Lew has been and will be doing some fancy footwork. In a May 17th letter to Speaker of the House of Representatives John Andrew Boehner, Treasury Secretary Lew indicated that he could delay hitting the new debt ceiling "until after Labor Day."

U.S. Credit Rating Remains at Risk of Further Downgrades. In the context of the reinstated debt ceiling and what should prove to be what ShadowStats views as overly-optimistic budget-deficit projections by the Congressional Budget Office (CBO), Moody's Investors Services, confirmed an earlier threat, of September 11, 2012, to cut the rating on U.S. Treasury securities by a notch, from their top "Aaa" rating to "Aa1." Per a May 20th interview by John Detrixhe of Bloomberg: "U.S. policy makers must address debt loads projected to rise later this decade to avoid a 2013 downgrade, even as the latest projections are 'credit positive,' according to Moody's Investors."

The Moody's pre-fiscal cliff outlook of September 11, 2012 was as follows: *Moody's issues update on the outlook for the US government's debt rating: Budget negotiations key*.

"Budget negotiations during the 2013 Congressional legislative session will likely determine the direction of the US government's Aaa rating and negative outlook, says Moody's Investors Service in the report 'Update of the Outlook for the US Government Debt Rating.'

"If those negotiations lead to specific policies that produce a stabilization and then downward trend in the ratio of federal debt to GDP over the medium term, the rating will likely be affirmed and the outlook returned to stable, says Moody's.

"If those negotiations fail to produce such policies, however, Moody's would expect to lower the rating, probably to Aa1.

"Moody's views the maintenance of the Aaa with a negative outlook into 2014 as unlikely. The only scenario that would likely lead to its temporary maintenance would be if the method adopted to achieve debt stabilization involved a large, immediate fiscal shock—such as would occur if the so-called "fiscal cliff" actually materialized—which could lead to instability. Moody's would then need evidence that the economy could rebound from the shock before it would consider returning to a stable outlook.

"Moody's notes that it is difficult to predict when during 2013 Congress will conclude negotiations that result in a budget package. The Aaa rating, with its negative outlook, is likely to be maintained until the outcome of those negotiations becomes clear.

"The rating outlook also assumes a relatively orderly process for the increase in the statutory debt limit, says Moody's. The debt limit will likely be reached around the end of this year [2012], and the government's ability to meet interest and other expenses out of available resources would likely be exhausted within a few months after the limit is reached.

Under these circumstances, the government's rating would likely be placed under review after the debt limit is reached but several weeks before the exhaustion of the Treasury's resources. Moody's took a similar action during the summer of 2011."

Standard & Poor's previously had downgraded the United States' credit rating from "AAA" to "AA+" on August 5, 2011, which contributed to a massive global run on the U.S. dollar and a surge in gold prices.

Any shift in risks towards a U.S. default—as a result of debt-ceiling issues or otherwise—likely would trigger a broad round of credit downgrades for the United States and its U.S. Treasury debt, along with coincident and significant financial market upheaval.

Pending Confrontation. The issues of the debt ceiling and the unsustainable federal deficit—based on generally accepted accounting principles (GAAP)—suggest a post-Labor Day (early-September 2013) fiscal showdown between those looking to re-establish long-term sovereign solvency for the United States and those who see no problem with the U.S. government living well beyond its means for an indefinite future.

What is being played out here is still part of the confrontation of July and August 2011, which almost collapsed the U.S. dollar. Although the dollar selling is but a blip on the graphs in the last section, there was a dollar selling panic. It was contained by U.S. markets using the euro as a foil, with Switzerland pegging its franc as a prop to the euro and effectively to the U.S. dollar, all related to obvious supportive interventions from the President's Working Group on Financial Markets. The issues here are at the core of the dollar's vulnerability and likely ultimate demise.

The issues never were resolved. They were put off until after the 2012 election, and other than for minimal sequestration, they remain in play, going into a post-Labor Day 2013 showdown.

Both Houses of Congress have put forth ten-year budget-proposal outlines that are well shy on detail. At least moving in the needed fiscal direction, the ten-year plan by the Republican-controlled House proposed to balance the cash-based federal deficit, as well as to address issues related to unfunded liabilities. The plan put forth by the Democrat-controlled Senate did not propose to balance even the cash-based deficit.

Given continued political contentiousness, and the use of overly-optimistic economic assumptions to help the budget projections along, little but gimmicked numbers and further smoke-and-mirrors are likely to come out of pending negotiations or confrontations.

That more-than-likely confrontation offers significant risk of a global sell-off of the U.S. dollar. Indeed, global financial-market concerns can force the issue at any time, in advance, having shown extreme patience and played along with Washington's political games, so far. Likewise, those who are hoping that some one-time, short-term reductions in the current cash-based deficit will alleviate the political needs and pressures to address the fiscal crisis, will face some unhappy shocks, potentially from credit rating agencies and most likely from the global markets, if meaningful action is not pursued, soon.

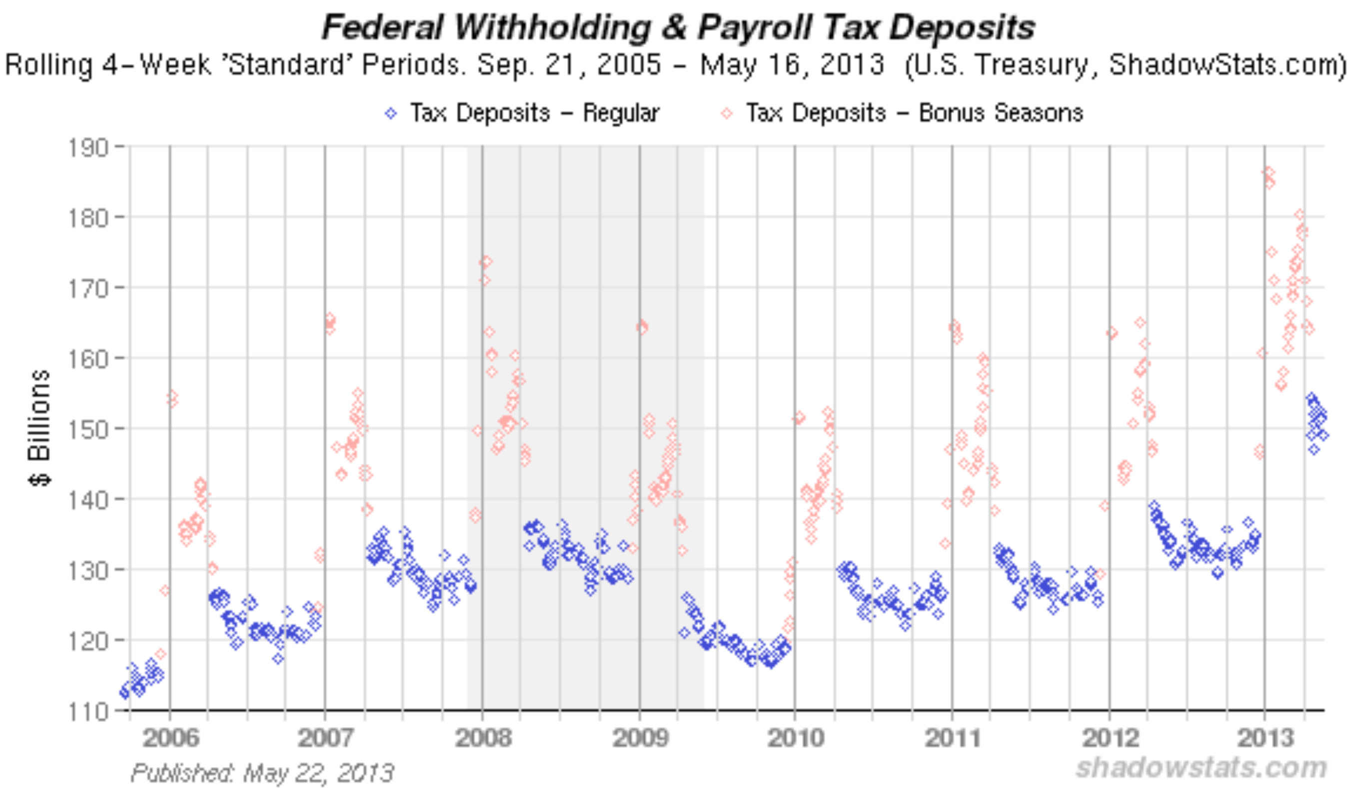
CBO Reduced Its 2013 Budget Deficit Projection. Based largely on one-time revenue factors, the CBO lowered its forecast, on May 15th, for the cash-based federal budget deficit in fiscal 2013 to $642 billion, from an $845 billion estimate in February. As of May 10th, however, the U.S. Treasury still was estimating the 2013 deficit at $979.2 billion (from the *Monthly Treasury Statement*). The improved CBO numbers reflected higher than expected tax receipts in April, which were due largely to people and businesses adjusting annual income reporting, between 2013 and 2012, for the changing tax environment at the end of calendar year 2012. Effectively, recent extra tax inflow was borrowed from the future.

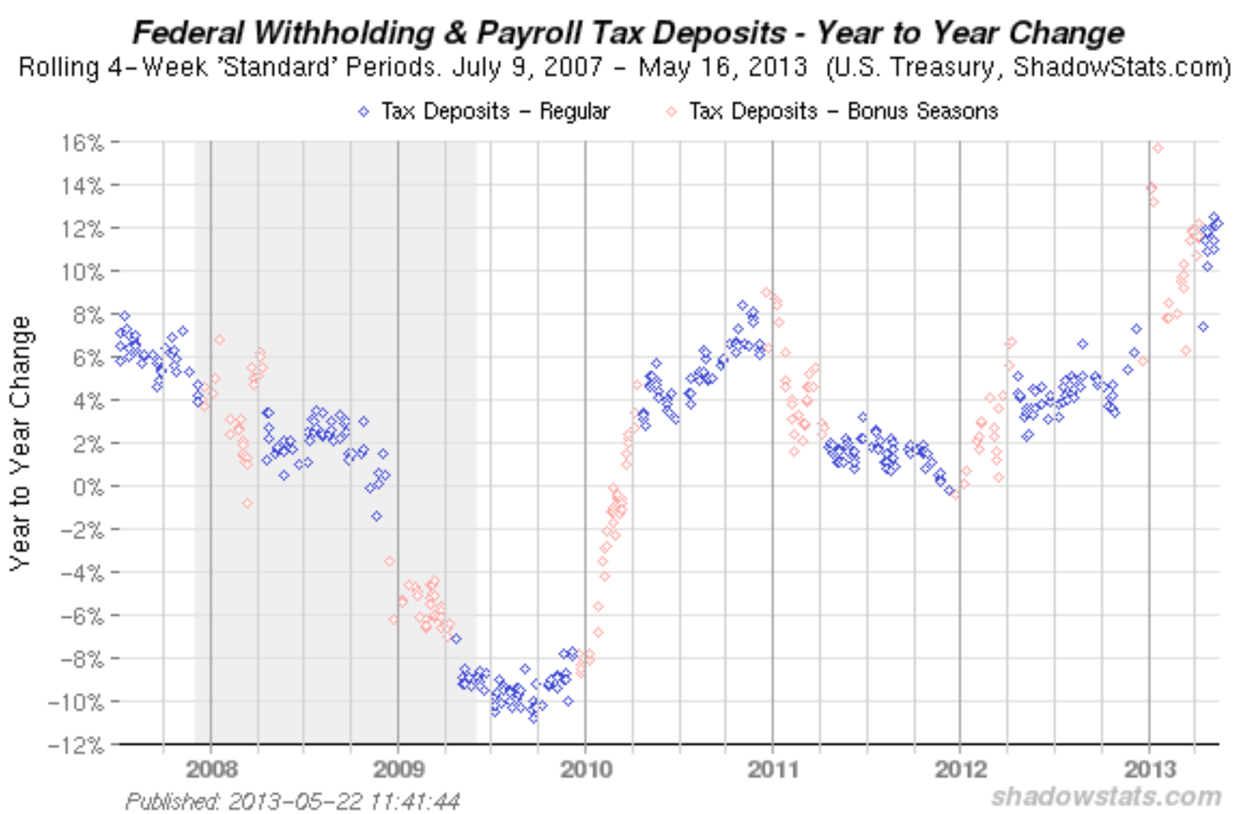
Going forward over the next 10 years—Congress likes to play with numbers—deficit estimates are based on overly optimistic assumptions, such as 4.4% GDP growth in 2016, and annual CPI inflation never rising above 2.3%. Accordingly, the 10-year deficit projections that will be argued over by the House and the Senate simply are happy fantasies.

Effects of Changed Withholding Taxes. One fiscal change that is ongoing was the reversal of the withholding tax holiday that had been in place for two years. It appears that the effect here has been an improvement in tax-revenue flow by roughly $20 billion per month.

The "standard" four-week periods of withholding tax flows are plotted in the following two graphs, both in terms of level and year-to-year change.

The models for synthesizing and smoothing these data are described in the *ShadowStats* Chart Library (Employment/Federal Withholding Taxes) tab on www.shadowstats.com. We expect to update these pages with recent analyses in the next few days.


Federal Withholding & Payroll Tax Deposits
Rolling 4-Week 'Standard' Periods. Sep. 21, 2005 - May 16, 2013 (U.S. Treasury, ShadowStats.com)
Tax Deposits - Regular
Tax Deposits - Bonus Seasons
$ Billions
190
180
170
160
150
140
130
120
110
2006
2007
2008
2009
2010
2011
2012
2013
Published: May 22, 2013
shadowstats.com


Federal Withholding & Payroll Tax Deposits - Year to Year Change
Rolling 4-Week 'Standard' Periods. July 9, 2007 - May 16, 2013 (U.S. Treasury, ShadowStats.com)
Tax Deposits - Regular
Tax Deposits - Bonus Seasons
Year to Year Change
16%
14%
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
-10%
-12%
2008
2009
2010
2011
2012
2013
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shadowstats.com

Monetary Policy. Where the United States remains the elephant in the bathtub of sovereign solvency risks, it holds similar status in terms of quantitative easing, thanks to the Federal Reserve. Copycat actions by the central banks of other major Western currencies—hoping to debase their currencies—still are well behind the extraordinary, dollar-abusive actions taken on the fiscal front by the U.S. government, and on the monetary front by the Federal Reserve. When the dollar selling starts, safe-haven likely will be sought by investors among all the major Western currencies.

Japanese Yen versus the U.S. Dollar. At a fundamental level, for example, recent yen-negative policy actions taken by the Bank of Japan have hammered the value of Japan's currency against the U.S. dollar, but those actions likely already have had the bulk of their negative impact versus the U.S. currency. When global markets begin to dump the U.S. dollar—currency to the world's largest trade-deficit-, economically-, fiscally- and monetarily-impaired major economy—Japan's current account trade surplus and still basic systemic stability likely will act as a beacons for those looking to relocate their investment capital.

In the case of the yen, a fundamentally attractive currency is being made to look quite repulsive by a special effects team creating the visage of a monster, emulating the Federal Reserve's monetary malfeasance. In the other case, the dollar-propping team has given up on standard beauty parlor tricks in order to doll up the U.S. currency, and has called in morticians to try to make the dollar look healthy. The best they can do is make a near-corpse look as peaceful and natural as possible.

Domestic Propaganda and Market Manipulation. When market hype moves into propaganda mode in order to mislead the financial markets, it is time to address underlying reality. The markets are gyrating daily over mixed messages as to whether or not the Fed will wind down its quantitative easing. Keep in mind that deepening economic woes in a non-recovering economy, combined with continued solvency issues in the banking system, have locked the Fed into its existing quantitative easing, along with prospects of even greater "easing" in the future as systemic stability continues to deteriorate.

What appears to be happening are Federal Reserve mind games with the financial markets, as to the possible reduction of purchases of U.S. Treasury securities. Fed Chairman Bernanke likes to use jawboning as a regular Fed policy tool. It is inexpensive, in that it can move markets as desired, buying some time without the U.S. central bank actually having to do anything. In the current circumstance, the Fed can play mortician, enhancing the visage of the terminally-ill U.S. dollar, while also hammering gold and silver prices, without having to do anything of substance.

Bernanke testified before Congress, on May 22nd, that a backing off QE3 would require something of an economic recovery. There is no recovery in place, and one is not pending. The quantitative easing always has been about saving the banking system; such is the Fed's primary mission. The economy and inflation are secondary considerations. So, ongoing QE3, which is aimed at propping the banks—not the economy—is safely in place for a while, and open to further accommodation under the cover of continued foundering of the economy.

Beware the U.S. Dollar. (*Adapted from* Commentary No. 516 *of April 12, 2013*). The Federal Reserve and the federal government already have opted to prevent systemic (as in banking-system and Wall Street) collapse at all costs. That decision was made during the 2008 panic, and little has changed. The economy is turning down, anew, having never really recovered; the domestic and global banking systems remain deeply troubled; and the U.S. government's fiscal crisis and related longer-term, sovereign-solvency issues appear to remain well outside the realm of any potential political solution.

The price of gold has been hit heavily, recently, but the extraordinarily bullish fundamentals supporting gold and silver have not changed. There are a number of entities ranging from central banks—particularly the Federal Reserve—to some on Wall Street, who are terrified by gold. Central bankers view strong gold prices as a condemnation of their horrendously flawed policies, while there are those on Wall Street who see gold as an unhealthy distraction from potential commissioned sales on stocks and bonds.

The games being played here are vicious, but the underlying fundamental value of gold as a store of wealth, and as an asset that preserves the purchasing power of the dollars invested in it, cannot be altered by the machinations of the people who created the crises threatening the collapse of the U.S. dollar. These same people commonly have not been noted for being forthright with the general public.

As to "anti-gold fundamentals" that have been circulating recently, they lack substance. Heavily publicized "concerns" as to current Federal Reserve policy—expressed by some at the Fed—raise legitimate issues. Yet, those issues and risks were understood fully and accepted by the U.S. central bank and its management, when Fed Chairman Bernanke's concepts of quantitative easing were launched and then successively expanded.

Now, a delicate public-relations game is underway, with appropriate cautions being expressed within the Fed. Yet, continued deterioration in the U.S. economy, in U.S. banking-system solvency and in long-term U.S. fiscal stability offers no likely circumstance in the near future that would enable the Federal Reserve to reverse its easing actions of recent years. Quite to the contrary, continuing efforts to prevent the collapse of the financial system most likely will lead to expanded, not reduced, Federal Reserve accommodation. As discussed in *Hyperinflation 2012*, there is no easy or painless way out of this circumstance, for the Federal Reserve or for the U.S. government.

Not so coincidentally with the Fed's orchestrated self-criticism, there have been rumors at different times of large gold sales; likely market interventions aimed at depressing the price of gold; and mounting Wall Street jawboning against gold as a commodity, as a safe-haven preservation-of-wealth investment, and in favor of the soon to be heavily debased U.S. dollar. Contentions that the world (or the stock market) is back to normal, that everything is understood and under control are nonsense. Those happy thoughts should fall apart quickly under the pressures of real world developments.

Jawboning, rumors and intervention are old tricks of the trade, but usually they are short-lived in terms of impact. The Federal Reserve will keep playing its games as long as possible, but economic stresses on the financial system and market stresses from the still simmering fiscal crisis should further force the Fed's save-the-system actions sooner, rather than later. Of particular concern, the U.S. fiscal fiasco—a known toxin for the U.S. dollar—should force its way to the top tier of global financial market concerns after Labor Day, if not before. As a result, ongoing efforts at boosting the dollar and hitting precious metals pricing may be aimed simply at resetting the gold- and dollar-market bases at more-favorable systemic levels, before the turmoil begins.

Irrespective of the irregular, short-term volatility that hits the markets for gold and silver and the exchange rate for the U.S. dollar; held for the long term, gold remains the primary hedge against the U.S. dollar debasement ahead. Again, the fundamentals are unchanged. Whether gold is purchased at $250, $2,500 or $25,000 per ounce, it preserves the purchasing power of the dollars invested. Someone looking to take profits at $100,000 an ounce is missing what has happened. Those "profits" again are just the preserved purchasing power of the invested dollars. Another way of viewing that is the implied proportionate amount of dollar purchasing power that was lost with the dollars not invested in hard assets.

Dollar Graphs. In August 1971, President Richard Milhous Nixon closed the gold window, abandoning gold as the medium of exchange for squaring sovereign accounts. In March of 1973, President Nixon floated the U.S. dollar.

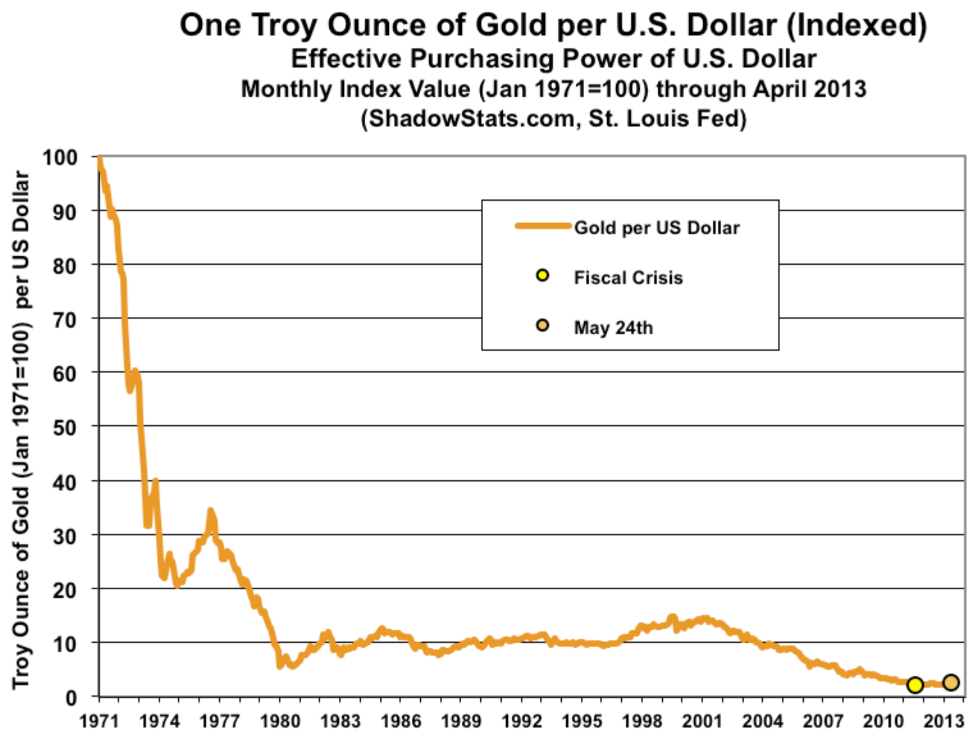
Following is a series of eight graphs that effectively reflect the level of the purchasing power of the U.S. dollar over time—from January 1971 to date—against gold and against the top six major Western currencies, as measured in trading volume against the U.S. dollar. The numbers all have been indexed to January 1971 = 100 to put them on a consistent basis.

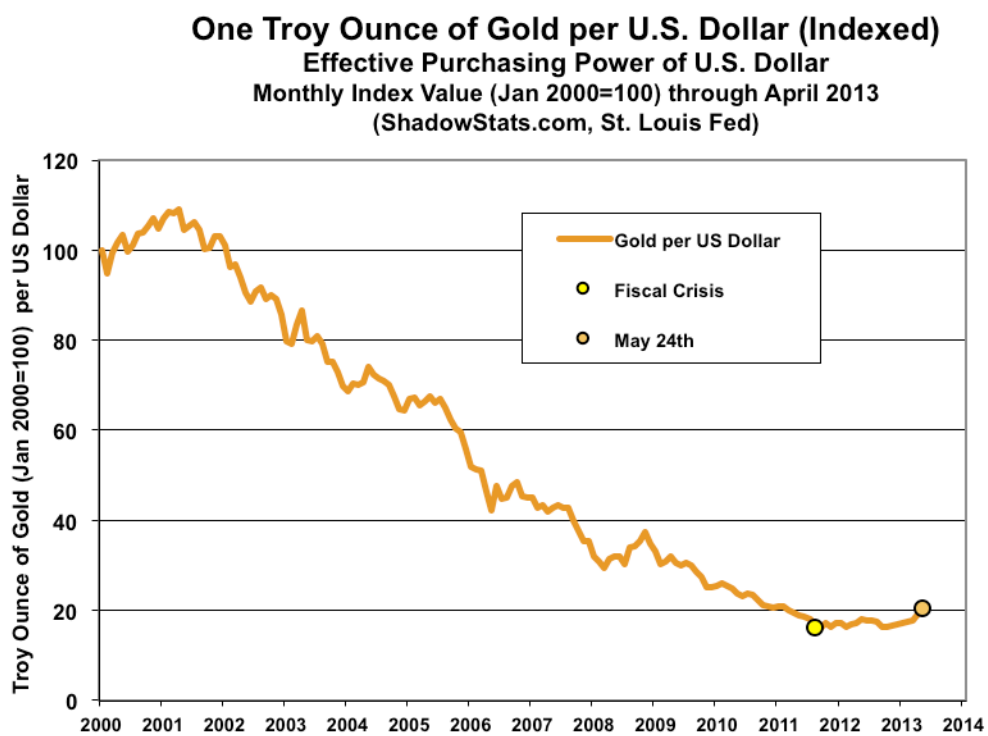
Basically, the lower the value, the weaker is the purchasing power of the U.S. dollar against gold or the given currency, and vice versa.

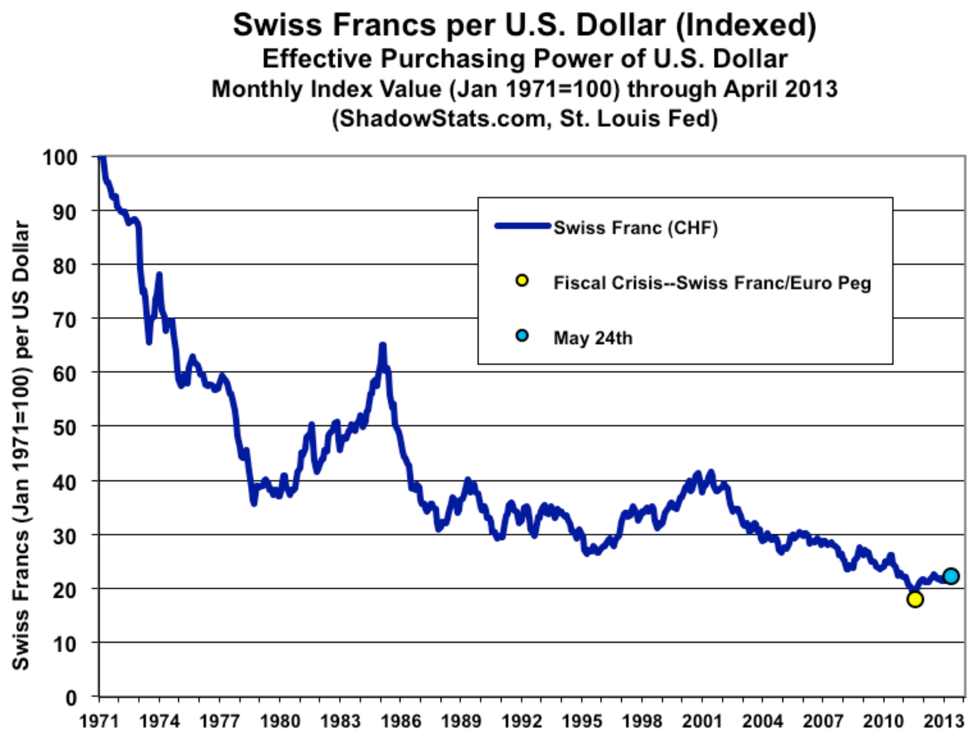
The second graph on gold is recast based on January 2000=1000, so as to show more clearly recent detail.

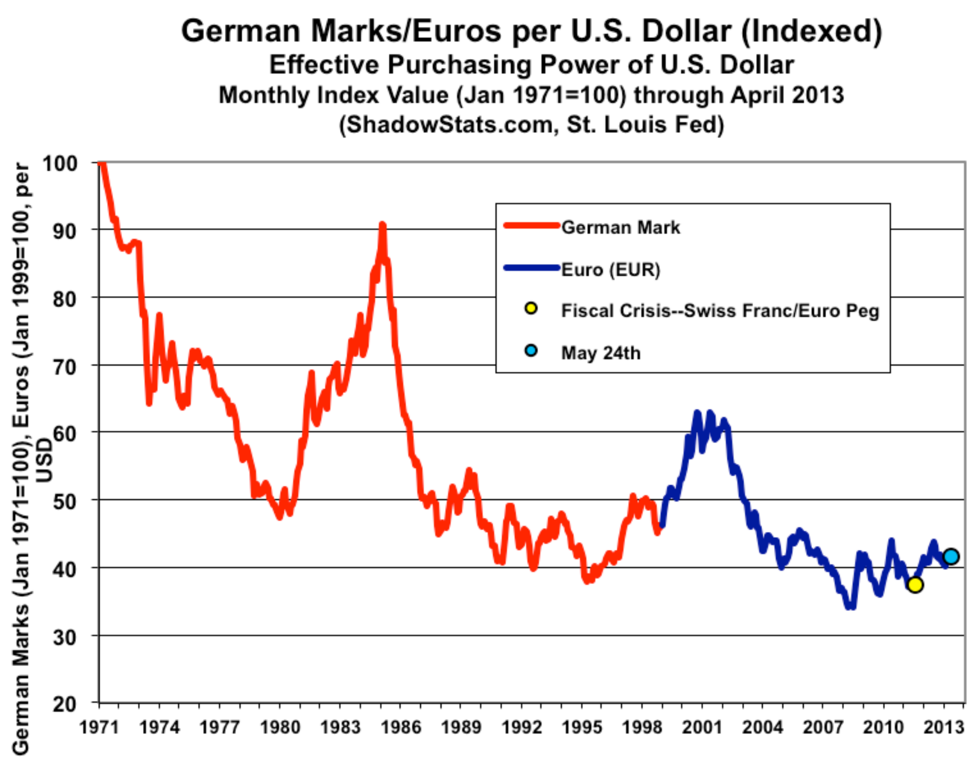
The euro was combined with the Deutschemark for purposes of showing scale since 1971. The strength of the DM was emasculated by its inclusion in the creation of the euro, although its influence has dominated and still dominates the euro area.

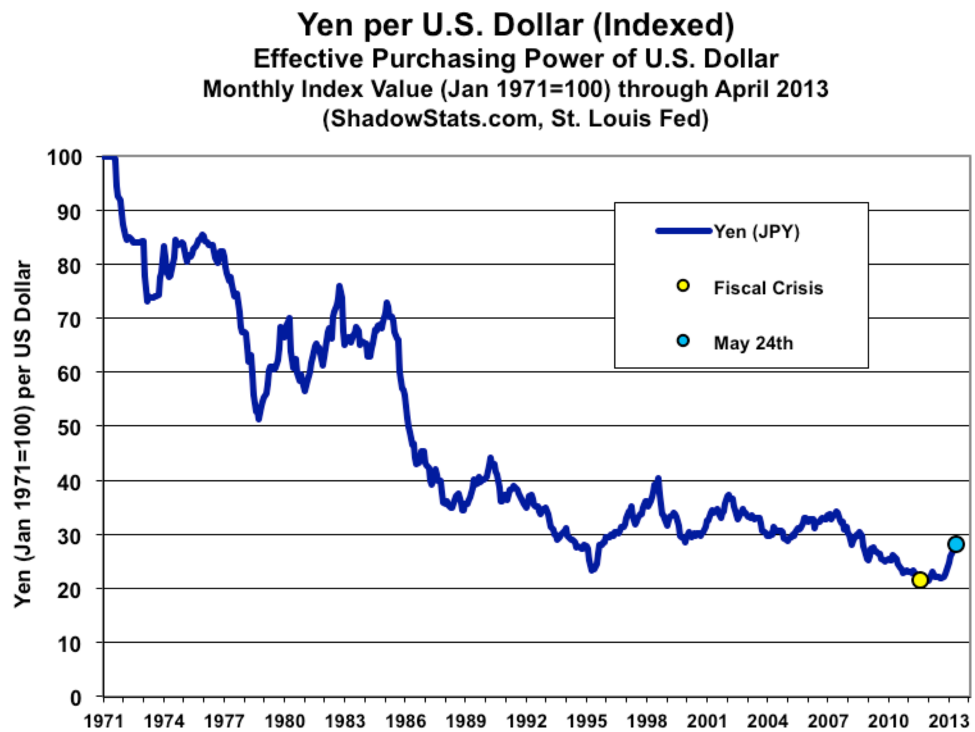
The Watergate-related downside blips in 1973 and 1974 are evident. Separately, the period of fiscal crisis in July/August 2011 and the pegging of Swiss franc versus the euro are marked. The graphs place some of the recent relative strength in perspective; currency movements can be highly volatile and irregular.

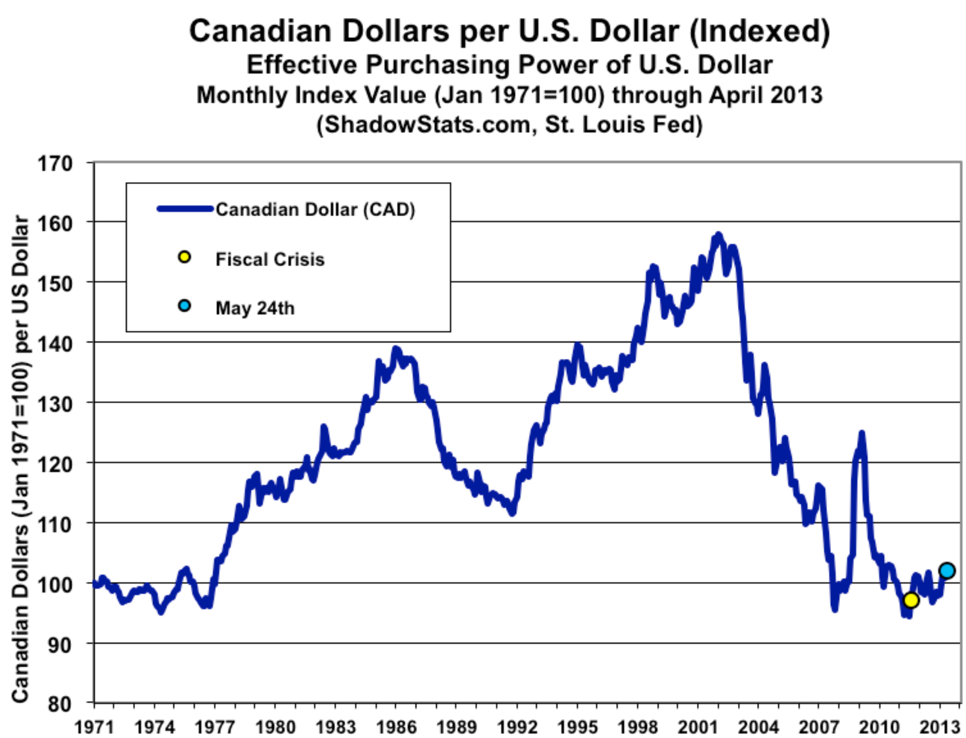

One Troy Ounce of Gold per U.S. Dollar (Indexed)
Effective Purchasing Power of U.S. Dollar
Monthly Index Value (Jan 1971=100) through April 2013
(ShadowStats.com, St. Louis Fed)
Troy Ounce of Gold (Jan 1971=100) per US Dollar
Gold per US Dollar
Fiscal Crisis
May 24th
100
90
80
70
60
50
40
30
20
10
0
1971
1974
1977
1980
1983
1986
1989
1992
1995
1998
2001
2004
2007
2010
2013

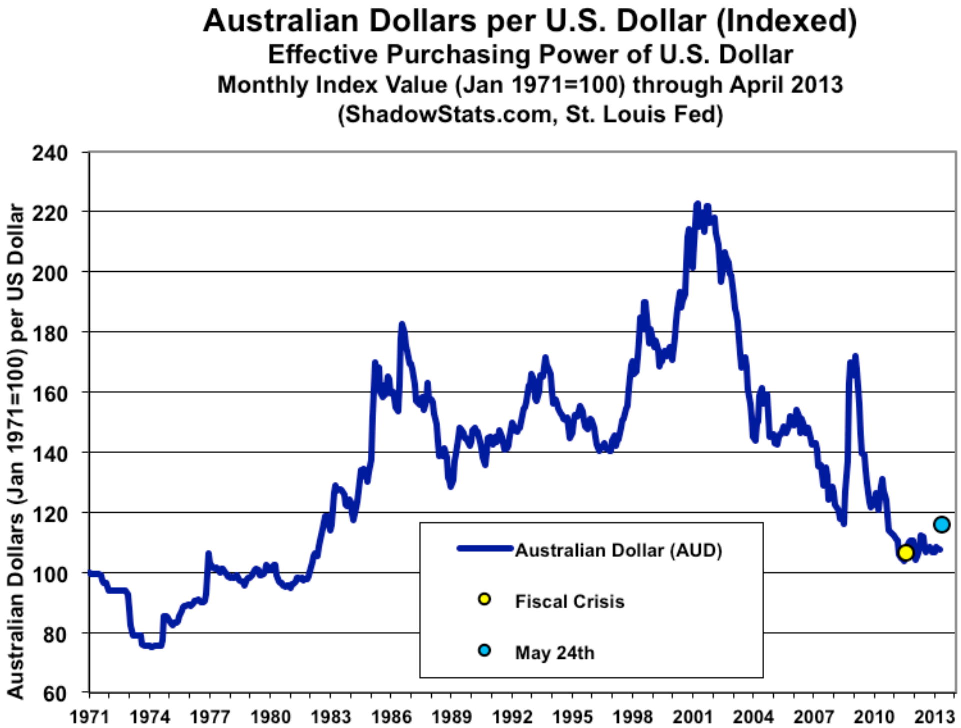

One Troy Ounce of Gold per U.S. Dollar (Indexed)
Effective Purchasing Power of U.S. Dollar
Monthly Index Value (Jan 2000=100) through April 2013
(ShadowStats.com, St. Louis Fed)
Troy Ounce of Gold (Jan 2000=100) per US Dollar
Gold per US Dollar
Fiscal Crisis
May 24th
120
100
80
60
40
20
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014

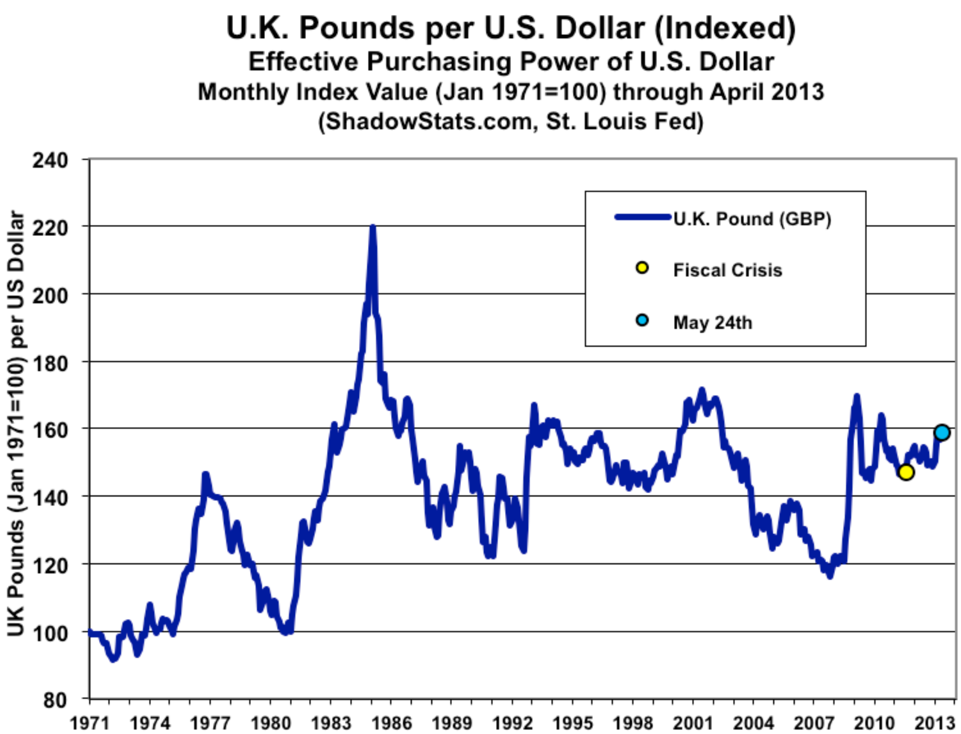

Swiss Francs per U.S. Dollar (Indexed)
Effective Purchasing Power of U.S. Dollar
Monthly Index Value (Jan 1971=100) through April 2013
(ShadowStats.com, St. Louis Fed)
Swiss Francs (Jan 1971=100) per US Dollar
Swiss Franc (CHF)
Fiscal Crisis--Swiss Franc/Euro Peg
May 24th
100
90
80
70
60
50
40
30
20
10
0
1971
1974
1977
1980
1983
1986
1989
1992
1995
1998
2001
2004
2007
2010
2013


German Marks/Euros per U.S. Dollar (Indexed)
Effective Purchasing Power of U.S. Dollar
Monthly Index Value (Jan 1971=100) through April 2013
(ShadowStats.com, St. Louis Fed)
German Marks (Jan 1971=100), Euros (Jan 1999=100, per USD
German Mark
Euro (EUR)
Fiscal Crisis--Swiss Franc/Euro Peg
May 24th
100
90
80
70
60
50
40
30
20
1971
1974
1977
1980
1983
1986
1989
1992
1995
1998
2001
2004
2007
2010
2013


Yen per U.S. Dollar (Indexed)
Effective Purchasing Power of U.S. Dollar
Monthly Index Value (Jan 1971=100) through April 2013
(ShadowStats.com, St. Louis Fed)
Yen (Jan 1971=100) per US Dollar
Yen (JPY)
Fiscal Crisis
May 24th
100
90
80
70
60
50
40
30
20
10
0
1971
1974
1977
1980
1983
1986
1989
1992
1995
1998
2001
2004
2007
2010
2013


Canadian Dollars per U.S. Dollar (Indexed)
Effective Purchasing Power of U.S. Dollar
Monthly Index Value (Jan 1971=100) through April 2013
(ShadowStats.com, St. Louis Fed)
Canadian Dollars (Jan 1971=100) per US Dollar
Canadian Dollar (CAD)
Fiscal Crisis
May 24th
170
160
150
140
130
120
110
100
90
80
1971
1974
1977
1980
1983
1986
1989
1992
1995
1998
2001
2004
2007
2010
2013


Australian Dollars per U.S. Dollar (Indexed)
Effective Purchasing Power of U.S. Dollar
Monthly Index Value (Jan 1971=100) through April 2013
(ShadowStats.com, St. Louis Fed)
Australian Dollars (Jan 1971=100) per US Dollar
240
220
200
180
160
140
120
100
80
60
1971
1974
1977
1980
1983
1986
1989
1992
1995
1998
2001
2004
2007
2010
2013
Australian Dollar (AUD)
Fiscal Crisis
May 24th


U.K. Pounds per U.S. Dollar (Indexed)
Effective Purchasing Power of U.S. Dollar
Monthly Index Value (Jan 1971=100) through April 2013
(ShadowStats.com, St. Louis Fed)
UK Pounds (Jan 1971=100) per US Dollar
240
220
200
180
160
140
120
100
80
1971
1974
1977
1980
1983
1986
1989
1992
1995
1998
2001
2004
2007
2010
2013
U.K. Pound (GBP)
Fiscal Crisis
May 24th

