Farms & Gold & What Else?

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Given the fact that the US is going to run over a $2 trillion deficit this year, and it has to roll over the usual Treasuries as they expire, there is so much Treasury issuance the market probably cannot absorb it. This level of borrowing is 4 times (deficit wise) our highest levels. New TERRIFYING territory is being entered.

Now, the USD is challenging a base of 80 on the USDX, breaking it and will likely go lower and eventually test 70. The key issue to me is what the bond markets think.

After the Fed stated early 09 they will buy Treasuries, rates did not go down they went up! The bond markets are turning down on the USD, US Treasuries now down about 5% this year. The Fed, by attempting to manipulate the bond market is getting the exact opposite of what they want.

The key issue is this new level of borrowing. The US needs to issue or roll over $3 trillion worth of debt this year. That is a hell of a lot of money and unprecedented - in history as far as the amount/size.

This is new terrifying territory, folks

First of all, I want to say we have now entered a new phase for the USD. After the financial collapses and bailouts starting Fall 07, then a nice repeat Fall 08 with Lehman, AIG, BoA, Citi, all the big investment banks going out of business, the USD rallied as everyone hoards cash. Now, is the new phase is to start devaluing the USD?

I'm not talking about it reaching its lower ranges of around 70 on the USDX currency basket index. I'm talking new lows, maybe 60, for starters? That is certainly not a far out possibility, what with China and others making clear moves to prepare for a post USD centered world. Are we just now entering that phase? With a subsequent new loss of credibility for the USD, and currency turmoil?

Or, will Asia and such continue the status quo, buying $trillions of new USD bonds? I think the arguments for the status quo continuing are quickly weakening.

There always was an argument that market deleveraging is USD bullish. And we have seen that happen since Aug 07 - flight to cash / USD rallying the USD.

But, then again, a falling USD would normally help US trade, and maybe that would spur new life into the USD and the world appetite for new US Treasury issuance. But, so far, the bond markets are saying no.

This is a clearly 'when' not 'if' scenario

The only question here is when the USD goes away as we are used to it. Not if it is going away. To say the USD and our way of life in the US will continue as it was for the last decades is to simply ignore the clear signs building of a USD revaluation. The bond markets are the key to this.

If China wanted to prevent their Yuan from strengthening, the only way to do it would be to buy all the US Treasuries they can. Otherwise, the USD is going into the 60's, for starters. At the minimum gold and gold stocks should rise proportionately - putting aside former highs, lets do a quick calculation:

If the USD were to get to 60 on the USDX, where right now 80 was the bar (fast fading) that is a 25% devaluation of the USD which will translate into a minimum 25% gold increase, but likely more. Assuming gold is $950, a 25% increase takes it to roughly $1250 or higher. If the speculators get going, there will be huge currency turmoil and gold volatility too. Gold stocks will also go for a nice ride.

The chaos problem

And what happens if there is some chaotic USD sell down? I would surmise that is not as likely, but if a big bond revolt happened, with the Fed merely buying $3 trillion of UST issues this year, the USD would probably beat a hasty retreat, to low levels we cannot imagine yet-if the USD hit 40 in that eventuality gold goes to $2000 minimum.

I am also most concerned about the unpredictable question. Basically, the USD as we know it has been carefully managed by our trade partners. But unpredictable events might lead to a sudden US bond market revolt, or a war that goes badly for the US etc.

It would be nice to think the USD will merely gradually fade, giving everyone time to react and adjust. But the surprise factor concerns me. But, make no mistake the USD is going away, and not in 20 years either, the time is about now…or close.

Which leads us to strategy. Frankly, I think the most secure way to try to save wealth is to buy paid off real things. Financial accounts and the like would be either severely devalued, or locked in any major USD crisis. Picking currencies in a failing USD world will be tricky. Eventually the USD as we know it will be gone, but if you own paid off real things you have wealth. Financial accounts are quite another matter.

That is not to say get rid of all paper wealth, just to make some more movement to paid off real things - gold, a farm, or whatever. Gold stocks should do well henceforth, with the exception that in any panic/ financial crash they are sold down initially, just something to know/remember.

I have a more or less worry free mix : 25% quality gold stocks, 25% bullion gold or silver, 50% cash. If you want, get a paid off farm too. At some point, obviously, you might want to move more cash into real things, but we always need some substantial cash around for contingencies.

There is a nice piece in our latest newsletter edition on my farm set up.

Stop by and have a look.

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