

US dollar - recent comments

17th February 2011

Chinese President “Dump Dollar for Yuan”

A change is overdue; the US dollar's role as a reserve currency is almost over! Members should note recent comments from Chinese President Hu Jintao who has just made the boldest statement yet on the future of the U.S. Dollar as a reserve currency.

I would draw attention to my various reports on the shortcomings of the USD over the years and frequent comments on the current Global monetary exchange system, It is satisfying to see such a prominent individual agree with my expressed opinion on the current system. The president said “the current global monetary exchange system as I see it as a product of the past”. While I accept that the Chinese President may simply have been promoting his own country's currency as a replacement, he went so far as to suggest an overhaul of the monetary regime, which has been in place since the Bretton Woods accord at the end of World War II. He added that a system that is more “fair, just, inclusive and well-managed”, is required.

The President strongly rejected the common US complaint that China holds the value of the Yuan artificially low to promote exports to support its own rise.

However, the Chinese stance presents some dangers to both the United States and China, considering that a wholesale move by major foreign holders out of US Dollar investments would destroy trillions in their foreign reserves while hitting the US economy with much higher borrowing costs. Note also that China's foreign reserves reached \$2.85 trillion in 2010, a total heavily weighted in US Dollars in the form of Treasury bonds.

More on the US Dollar

The Fed simply keeps adding to the Fiat money pile! This will soon be labeled as the quick fix policy, which just keeps on taking, especially from the poor!

As anticipated, higher commodities shrink profit margins. There are those analysts who are trying to justify high stock prices on the grounds that earnings are at record highs. Of course, if they are at record highs, then it is fair to comment, they would most likely come down. But what will do this?

Bernanke's Fiat money for one. He continues to add more and more to the world's Fiat money. Commodity prices are continuing to rise, especially oil, which in my opinion could easily be heading for over \$110 a barrel, and this is a major cost for most producers.

Higher costs with little pricing power (remember, we're still in a Great Correction) in a nutshell mean lower profits.

Members should also note the big weakness in Bernanke's program. He prints money (\$600 billion in the first half of this year). But the money never gets into the consumer economy. Wages don't rise. But commodity prices do. This raises prices for consumers and business with the net result that there is less discretionary spending. The opposite of what Bernanke wanted, in other words. What a fiasco!

But that's what government almost always gets – just what it doesn't want, as history has shown time and again, which will bring trouble.

So, what does the government do? It always does what the elite that control it want it to do, pretending that they are making the world better. There are times when they just achieve what they want and do not care what people think. But always and everywhere, governments act on behalf of the people who control them, namely the society better off. As always it is the golden rule that applies (he with the gold rules)! That is true of a dictatorship, of an oligarchy and even true of a popular, representative democracy.

In a complex, modern social welfare state there are competing elites and, since they are democracies, they have to pretend to have the interests of the common voter at heart.

So they buy as many votes as possible with bread and circuses "missions accomplished" triumphal marches, food stamps, unemployment compensations, income redistributions and so forth. *Plus ca change, c'est plus ca meme chose!*

But when push comes to shove, the money goes wherever the elite want it to go first and foremost, ie themselves, which is why the Fed bailed out Wall Street. And why Fannie and Freddie continue to push money to the big banks. Investors don't seem to care or worse they choose to ignore these facts.

For those invested in the RIO Prestige Performance the report will be released on Friday to members invested in this Fund. This particular fund will benefit from a new stand alone web-site which will be launched Monday next week.

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