



# Thunder Road report

31st May 2011

## LONDON CALLING FROM THE TOP OF THE DIAL:

Helter Skelter - are you ready for the ride?

Hyper-inflation in the Roman Empire during the late-third century AD

Crisis in the Middle East and the plan for \$200 oil

The Silver "hit"

*"That's the way of the future, it's quality. And those are the people who are going to understand the way out...If you are going to find profits, you are going to find them in quality, whether it's quality food or quality entertainment. Quality and beauty. And by the way, beauty is the antidote of fear."*

Gerald Celente on KWN

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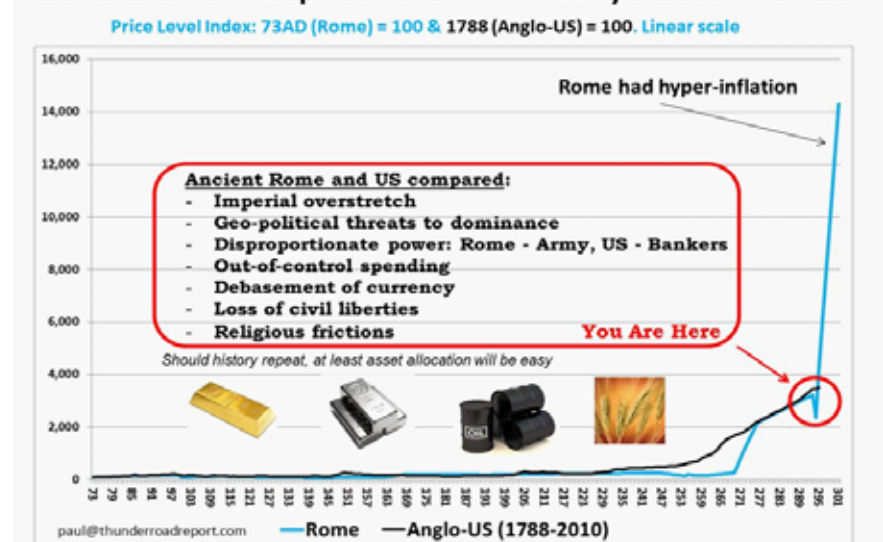
Helter Skelter - the grand illusion of market stability, Rome's hyper-inflation (past as prelude) and \$200 oil.

I was slow taking money "off the table" during the correction in silver, but there's a long way to go in the outperformance of "strategic" assets. Currently I've got exposure to gold and silver, as well some oils and rare earths AND an unusually high 15% in cash. Besides gold and silver, I want to buy more OILS (you NEED TO KNOW the information below) but I'm wondering if there might be an even better opportunity in the next few weeks.

Markets feel incredibly treacherous to me with the end of QE2 looming, so little momentum in the alleged recovery and bankrupt sovereigns everywhere you look. A sudden correction in equity markets, for example, could take everything down with it, including gold and silver (even though they would be the first to recover). Alternatively, if the Fed feels compelled to adopt QE3 fairly close on the heels of QE2, it might want to pre-empt this with a renewed attack on the whole commodity complex.

Inflation IS the policy, but it has to be managed in terms of both its timing and apportionment of the blame.

Inflation: Roman Empire versus the last 223 years. What's next?



**The sheer magnitude of the inflationary forces and the opposing forces of debt deflation are underestimated. The reality is that the financial markets are FAR more precarious than is realized, and even more so just now . Most of the time, investors are lulled into a false sense of security as these powerful forces broadly offset each other. Every time the deflationary forces begin to gain the upper hand, we see a response with policy makers resorting to more extreme inflationary counter measures. This is a debt crisis, which is growing by the day, while the monetary system (as currently configured) is falling apart. It's going to be wild ride, but meanwhile...**

**Never mind the b-----s, here's the (latest) Thunder Road Report.**

Helter Skelter - are you ready for the ride?



As things stand, I think the next phase of the crisis could look something like this:

- ☉ The alleged recovery shows signs of stagnating (already happening) and begins to reverse;
- ☉ Without too much delay comes renewed stimulus (QE3, etc.) which reignites the bull market in commodities as inflation becomes more embedded;
- ☉ Increasing turmoil across the Middle East and North Africa leads to disruption in oil supply (see below as already mentioned) which could take oil as high as US\$200/bbl by the end of next year, literally adding fuel to the inflationary fire;
- ☉ Lower tax revenues lead to an unexpected widening of deficits. Households get crushed by higher taxes AND higher inflation, just as they did in the Roman Empire in the late-third/early-fourth century AD; and
- ☉ Rampant inflation ensues but TPTB, with central bankers high on the list, deny their own culpability.

From Professor Joseph Peden's lecture "Inflation and the Fall of the Roman Empire":

"My analysis is based on the premise that monetary policy cannot be studied or understood in isolation from the overall policies of the State. Monetary, fiscal, military, political and economic issues are all very much intertwined. And the reason, they are all so intertwined is, in part, due to the fact that the State, any State, normally seeks to monopolise the supply of money within its own territory. Monetary policy, therefore, always serves (even if it serves badly) the perceived needs of the rulers of the State. If it also happens to enhance the prosperity and progress of the masses of the people, that is a secondary benefit. But its first aim is to serve the needs of the rulers, not the ruled."

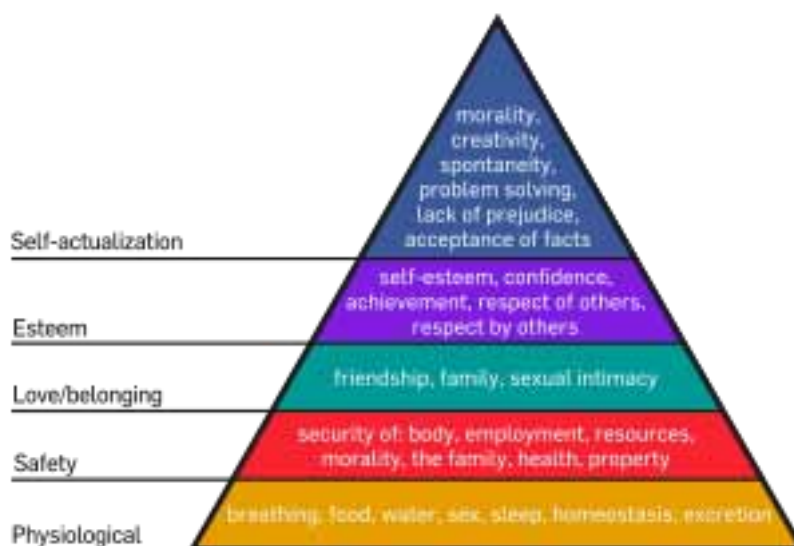
As I've suggested in previous Thunder Roads, this is the "global end of normal" (baby) and it's the strategic assets which will increasingly come into their own – **gold and silver, energy (especially crude oil), food/agriculture and lower profile ones like rare earths (where most of the added value will be in the "heavy" not "light" elements AND in downstream processing)**. I suspect that some parts of the defence industry will do extremely well, but I need to do more research.

*"Welcome to a new kind of tension, all across the alien nation,  
Where everything isn't meant to be okay"*

Green Day, "American Idiot"

Looked at another way, the **lower levels of Maslow's hierarchy of needs are going to account for a growing share of the economic pie**. Demographically, the biggest relative losers will be the middle class.

### Maslow's hierarchy of needs



Source: Wikipedia

Psychologically, the desire to move up the hierarchy of needs has never been stronger, which will make squaring this circle very difficult.

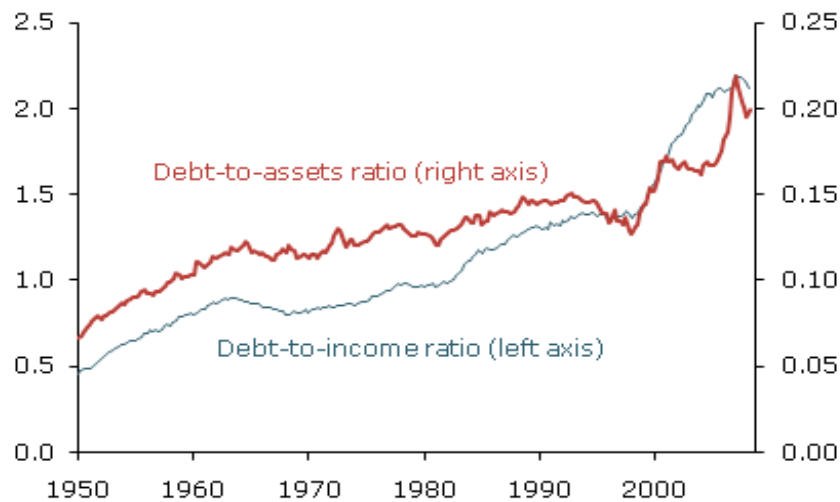
It's a grave situation and I'm concerned that many people are being numbed into near passivity regarding the true state of affairs - although largely not through their own fault:

- ☉ Favourable economic conditions for most of the last thirty years has resulted in a **"normalcy bias"** which has reached an unprecedented level, which is just human nature;
- ☉ A compliant and increasingly irrelevant **mainstream media**, with few exceptions;
- ☉ The modern day version of Ancient Rome's **"bread and circuses"**, i.e. unaffordable social safety nets and myriads of distractions like celebrity culture, reality TV, PS3's and Facebook, etc.;
- ☉ A misguided belief in both **the agendas and/or capabilities of key central bankers and politicians**, for which there is no excuse; and
- ☉ I'm an investment analyst, not an economist, but I'm surprised by the quality of analysis and lack of historical perspective on the part of much of the **economics profession**.

A quick example of that last point: the medium to long-term assumption in the economist community is that the US will return to a trend growth rate of about 3%. Similarly, the US Congressional Budget Office (CBO) and the White House planning assumptions are for real GDP growth during 2011-2021 of 2.9% p.a. and 3.2% p.a., respectively. Why is average real GDP growth of 3% absurd? From 1945-2010, the US economy only managed average real GDP growth of 2.9% p.a. even though it exited World War II as the unrivalled hegemon with 45% of global industrial production. Fast forward to today and a significant part of America's manufacturing base has been hollowed out. Even more important is the debt load. Debt/GDP in 1945 was only 159% and fell to a trough of 132% in 1951. The average GDP growth of 2.9% p.a. since WWII needed an increase in debt/GDP from 132% to 370% at the end of 2010. The ability to take on a

substantial volume of new debt, especially by households, is badly impaired. Furthermore, look how the debt-to-income and debt-to-assets ratios have risen during this p

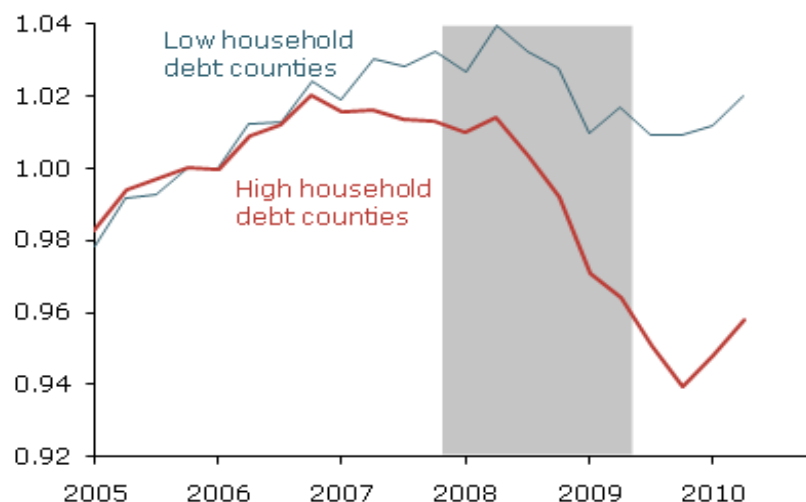
### US household debt versus income/assets since 1950 ("Didn't we have a nice time")



Source: Federal Reserve Bank of San Francisco

Then look at the underperformance of job growth in highly indebted countries:

### Job growth - high versus low debt countries since 2005



Source: Federal Reserve Bank of San Francisco

**Most economists seem to have forgotten that we've been living in a credit-fuelled economy and that debt brings forward consumption** (unless it's inflated away, obviously).

Real GDP growth of 3% p.a. during 2011-21 is dream, as is the CBO/White House base assumption of 11 years of uninterrupted economic growth. Stock markets will face a stark realisation before too long, although the damage will partly depend on timing. Do equity investors see this before or after the tsunami of funds start to flee government bonds, looking for anything which is more "tangible"?

Enough, let's focus on two other reasons for passivity and the illusion that "things are okay really":

- ☉ Macroeconomic data especially for the US, the world's largest economy, is so corrupted as to give a false impression of the current state of the alleged recovery; and
- ☉ The intervention in financial markets.

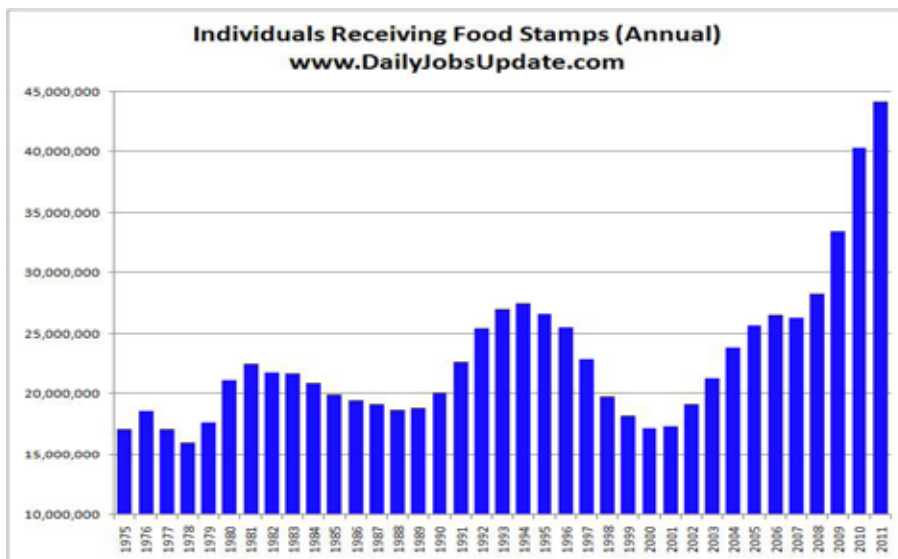
Let's briefly consider these two points within the bigger illusion in today's markets:

Firstly, the most recent US jobs (non-farm payrolls) report for April led to headlines like "Stocks rally as job growth surprises Wall Street". The headline report from the Bureau of Labor Statistics showed a 244,000 increase in April versus the consensus estimate of 185,000. But the devil was in the detail and, in particular, the notorious births/deaths adjustment, i.e. the estimated net jobs gained/lost from the creation/bankruptcy of small businesses which fall below the sampling radar. Of the 244,000 "new jobs", 175,000 were from births/deaths and probably fictional. Then there was this report on Bloomberg on 28 April 2011:

"McDonald's Corp. (MCD), the world's biggest restaurant chain, said it hired 24 per cent more people than planned during an employment event this month. McDonald's and its franchisees hired 62,000 people in the U.S. after receiving more than one million applications, the Oak Brook, Illinois-based company said today in an e-mailed statement. Previously, it said it planned to hire 50,000. The April 19 national hiring day was the company's first, said Danya Proud, a McDonald's spokeswoman."

If those new jobs were counted in the April report, what happened to the rest of the US economy?

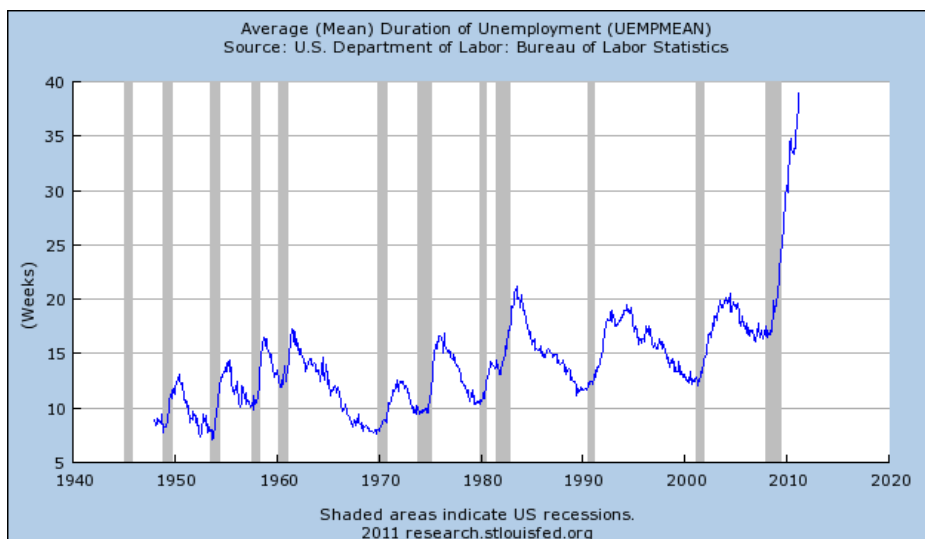
Secondly, if US economic recovery began in July 2009, why has the number of US citizens on food stamps continued to increase to the tragic level of 44.0m? The chart below shows the number of US citizens on food stamps back to 1975. Besides being a horrifying illustration of economic degradation, notice how the number of recipients declined after previous recessions. We are still waiting for the improvement this time.



*"One Sunday morning, in the shadow of the steeple,  
By the Relief Office, I saw my people,  
And they were hungry and they were wondering,  
"If this land was made for you and me?"*

Woody Guthrie, This Land Is Your Land

Another good indication that this alleged recovery is not all it's advertised to be is the average length which people who lose their job remain unemployed:



If you significantly understate the true rate of inflation, the corollary is that you significantly overstate GDP growth. This is the situation in the US.

Secondly, the WHOLE SYSTEM is being supported by unprecedented intervention, or being adult about it - manipulation, by the authorities across a slew of markets:

- ☉ **Money market** – Fed Funds set at 0-0.25%;
- ☉ **Treasury market** – QE2 programme and further interventions via the derivatives market;
- ☉ **Equity market** – directly (Plunge Protection Team, mainly targeting index futures) and, as has been documented by Zero Hedge and others, the correlation between the stock market and the Fed's POMOs;
- ☉ **Housing/mortgage market** – Fannie and Freddie, now part of the US government, have a 70% share of the mortgage market – hence "the Feds" now effectively owns the housing market; and
- ☉ **Currency markets** – central banks admit this.
- ☉ **Gold and silver** – prices of the mortal enemies of paper currencies and governments continue to be suppressed - as meticulously documented by GATA. The "hit" in silver is discussed briefly at the end.

The perception of a free market capitalist system in the US is nowhere near as true as most believe, nor was it even before the 2008 Crisis. Now it's FAR more Marxist than anybody has been prepared to publicly acknowledge except Martin Armstrong.

The stability of the system and, therefore, the financial markets is an **ILLUSION**. This is reminiscent of what the **Situationist** movement in 1968 France described as:

### **"THE SOCIETY OF THE SPECTACLE"**

i.e. the increasing divergence between images, in this case of economic stability, and real life. Most of us are still watching the Spectacle from the comfort of financial centres like London, New York, Boston, Chicago and Singapore, etc, Unfortunately, this "unreality" is not going to last. There is still an irrational belief in the status quo and it's going to be blown out of the water.

Here is Shakespeare from Julius Caesar:

*"There is a tide in the affairs of men  
Which, taken at the flood, leads on to fortune;  
Omitted, all the voyage of their life  
Is bound in shallows and in miseries.  
On such a full sea are we now afloat"*

It seems ever more poignant to me - we are in the midst of a period of great cyclical change and now, more than any other time for decades, there is an opportunity to accumulate or lose wealth on an unprecedented scale. The play from which the quote derives also **harks back to the Roman Empire**, in which the crisis of the late-third and early-fourth century AD shares many similarities with events today.

### **Helter Skelter - first came Charles Manson...!!!**



Sources: questionable

Fairly soon, the man on the street will be asking a lot of questions about the alleged recovery and inflation. **CONFUSION** will become the order of the day. Having told us all how he saved the world after the Lehman collapse, it seems that Ben Bernanke, just like Charles Manson before him, has been hearing subliminal messages from listening to The Beatles' White Album:

***"When I get to the bottom, I go back to the top of the slide,  
Where I stop and turn and I go for a ride,  
Till I get to the bottom and I see you again, yeah, yeah, yeah"***

Helter Skelter, The Beatles

Unlike Manson, Bernanke initiated his modern day "Helter Skelter" by stating his intention to trash the value of the US dollar at the infamous Jackson Hole speech on 27 August 2010:

"The Committee is prepared to provide additional monetary accommodation through unconventional measures if it proves necessary, especially if the outlook were to deteriorate significantly,"

From then on, QE2 was set in stone and more people began to recognise that INFLATION IS THE POLICY – the trick will be to deflect the blame.

Paul McCartney wrote the song "Helter Skelter" in response to an interview with Pete Townsend in which the latter described The Who's new single, "I Can See for Miles", as the loudest, rawest, dirtiest and most uncompromising song they had ever done. According to McCartney:

"I read this and I was inspired...So I sat down and wrote Helter Skelter to be the most raucous vocal, the loudest drums, et cetera et cetera."

McCartney continued (with my emphasis):

**"I was using the symbol of a helter skelter as a ride from the top to the bottom – THE RISE AND FALL OF THE ROMAN EMPIRE – and this was the fall, the demise, the going down."**

There is that parallel to the Roman Empire again. During his trial, Charles Manson told the judge and jury:

**"Helter Skelter means confusion.** Literally. It doesn't mean any war with anyone. It doesn't mean that those people are going to kill other people. It only means what it means. Helter Skelter is confusion. Confusion is coming down fast. If you don't see the confusion coming down fast, you can call it what you wish."

Here is Darryl Rober Schoon on the current situation:

"The once great nation of America is now a goat rodeo where the electorate is both confused and ignorant, yet stubbornly believes itself otherwise. Adroitly ruled by corporate and banking elites whose deadly threat remains unrecognized... America today is bereft of leadership and options, a shadow of the nation intended by its founders."

**Instead of racial strife envisaged by Charles Manson, Bernanke's "Helter Skelter" will come from ECONOMIC AND SOCIAL UNREST - rising prices and widespread economic hardship. Adding in geo-political conflict and climactic change, leads to a potent mixture indeed.**

In the same year (1968) that Paul McCartney wrote "Helter Skelter", Mick Jagger wrote "Street Fighting Man":

***"Everywhere I hear the sound of marching, charging feet, boys***

***Cause Summer's here and the time is right for fighting in the street, boys"***

Rolling Stones, Street Fighting Man

It was banned by radio stations for its subversive lyrics. Keith's opening riff from this performance in Amsterdam in 1995 is probably the most powerful I've ever heard on an acoustic (search: "street fighting man amsterdam" on youtube, it's so good).



Source: youtube

The inspiration for Mick Jagger to pen Street Fighting Man was the student riots on Paris's Left Bank in 1968. They were followed by a two week strike which brought the French economy to a near standstill and brought down the government.

**THEN: Paris 1968 - riots, Sorbonne occupation, Situationist poster symbolising police brutality**



Wikipedia again:

"The de Gaulle administration's attempts to quell those strikes by police action only inflamed the situation further, leading to street battles with the police in the Latin Quarter, followed by a general strike by students and strikes throughout France by eleven million French workers, roughly two-thirds of the French workforce. The protests reached such a point that de Gaulle created a military operations headquarters to deal with the unrest, dissolved the National Assembly and called for new parliamentary elections for 23 June 1968."

Funnily enough, 1968 saw the collapse of the London Gold Pool, which set the stage for today's debt mountain and flawed fiat currency system.

**NOW – clockwise from top left: London, Athens, Dublin and Madrid**



In philosophical terms, the driving force behind the Paris riots were the views of the "Situationists" or, to give them their proper title, **"The Situationist International"**, as outlined in a Wikipedia article:

"The Situationist International was a restricted group of international revolutionaries founded in 1957, and which had its peak in its influence on the unprecedented general wildcat strikes of May 1968 in France"

In his book "The Pirates Dilemma", Matt Mason describes them as:

"a small group of radical artists who, during the 1950s and '60s, promoted their anarchic, anti-establishment world view through art, film, graffiti, writing prose, and any other way they could think of."

I'm not interested in the politics of the Situationists (ironically, given the earlier discussion, they were Marxists), but I'm very interested in some of their ideas and how they are even more relevant to the financial markets, and the world in general, today.

The unofficial manifesto of the Situationists was Guy Debord's 1967 book, "The Society of the Spectacle". Debord argued that **the bombardment of images created by the mass media and advertising, etc, were turning advanced societies into nothing more than spectacles, promoting a fake reality, and turning most of the population into passive consumers of commodities, and of the spectacle itself.** The cover of the book says it all:

## Guy Debord's book and the man himself



Here is Matt Mason on the Spectacle with my emphasis:

"Life itself has become a show contemplated by an audience...Reality is now merely something we look at and think about, not something we experience. In the real world, what is possible is determined by our resources and the limits of our imaginations, but upon this real world a totally fake world - the Spectacle - has been constructed...in our simplest everyday dealings we engage in the construction of social illusions. **THE SPECTACLE IS A CONSTRUCTED REALITY.**"

This idea is **more relevant than ever in today's financial markets** and this sums it up from the last Thunder Road:

"The world's financial system, as currently configured, is falling apart. The vast majority, including bankers and brokers (who should know better), don't appreciate it - a sort of tragi-comedy really. There is an intense, but irrational, belief in the status quo...Here we are, waiting for the "event" which triggers a loss of confidence across the system."

**The illusion in financial markets is going to be wiped out in even more dramatic fashion than the impact which punk had on the music business in 1976!** When confidence goes next time in our over-liquefied world, it will take your breath away.

Here Wikipedia recalls the origins of the punk movement in the UK (please note: to avoid being bounced by firewalls, the name of the group has been shortened to "SP's"):

"McLaren and Westwood saw the incipient London punk movement as a vehicle for more than just couture. They were both captivated by the May 1968 radical uprising in Paris, particularly by the ideology and agitations of the Situationists...These interests were shared with Jamie Reid, an old friend of McLaren's who began producing publicity material for the SP's in spring 1976...'We used to talk to John (Lydon) a lot about the Situationists,' Reid later said."

One strategy of the Situationists was to use "détournement", i.e. take an existing message and subvert its meaning and turn it into a new one, thereby rendering the original statement obsolete. The classic SP's example was to write a song in which the first line mimicked the national anthem:

*"God save the queen  
The fascist regime  
They made you a moron..."*

Jamie Reid's designed the record cover (voted "best record cover ever produced" in 2001) with the safety pin through the Queen's lip, which was inspired by the 1968 French poster "Youth Fearful of the Future":



Sources: Jamie Reid and the SP's, Situationist International

The "Spectacle" doesn't stand still and its strategy is usually predictable in the face of a threat. The knee-jerk reaction is either violence, like that used by riot police against the protesters in 1968 Paris, or by banning the material in the mainstream media.

"What really fascinated me was they thought three 'Herberts' with guitars were a threat to the social structure of the country."

Keith Richards

Like Street Fighting Man, God Save the Queen was also banned, notably by the BBC. When violence or banning doesn't work, the Spectacle has to resort to a longer-term weapon which the Situationists termed "recuperation". Here the Spectacle gradually **absorbs** the opposition or radical elements and over time sells it back to the passive consumer. Think about it:

- ☉ SIR Paul McCartney and SIR Mick Jagger (Keith Richards on the latter "I thought it was ludicrous to take one of those gongs from the establishment...I don't want to step out on stage with someone wearing a &@\*#ing coronet and sporting the old ermine.");
- ☉ When Yale University tried to buy the archive of Guy Debord's work in 2009, the French Minister of Culture, Christine Albanel, declared his work a "national treasure" to prevent it leaving the country.
- ☉ Turning to punk, this was the view of London councillor, Bernard Brook-Partridge, in 1976:

"Most of these groups would be vastly improved by sudden death. The worst of the punk rock groups I suppose currently are the SP's. They are unbelievably nauseating. They are the antithesis of humankind. I would like to see somebody dig a very, very large, exceedingly deep hole and drop the whole bloody lot down it."

In 2002, following the death of The Clash frontman, Joe Strummer, the BBC described punks as: "pioneers who kicked down musical and social barriers, making anything seem possible."

Fortunately the spirit of punk (and the Situationists) wasn't lost and the baton has been passed to bands like Green Day:

*"Don't want to be an American idiot  
Don't want a nation under the new media  
Can you hear the sound of hysteria  
The subliminal mind &@\*# America"*

In the video, the green stripes (which made me think of the "greenback"! ) start sliding off the American flag in the form of a watery green slime which gushes out in a torrent from behind the band (détournement).



Source: youtube

There's also a fleeting, but priceless, image of the drummer (Tré Cool) saluting the flag as he's drenched by the slime. Encore détournement! They talk about people spinning in their graves, but this stuff will have Guy Debord coming back from the dead. Green Day's "Know Your Enemy", if you don't know (!) it, strikes me as the closest thing to "Anarchy in the UK", since Rotten wrote the latter in 1976.

Indian scripture describes the time we are living in as the Kali Yuga, i.e. the "Iron Age" or "Age of Darkness" when the world is characterised by avarice, loss of spirituality, dishonesty and people unhappy in their jobs. Here is Wikipedia on the behaviour we should expect from the authorities:

- ☉ "Rulers will become unreasonable: they will levy taxes unfairly.
- ☉ Rulers will no longer see it as their duty to promote spirituality, or to protect their subjects: they will become a danger to the world."

Fortunately, everything is cyclical..."When I get to the bottom, I go back to the top", etc. The question is what's beyond the chasm? After the Kali Yuga comes the Satya Yoga or "Golden Age" when:

"every manifestation or work is close to the purest ideal and mankind will allow intrinsic godness to rule supreme".



Source: youtube

It's just going to be VERY bumpy for quite a few years.

Back in 1968, Jagger outlined the options as he saw them then:

*"What can a poor boy do, except to sing for a rock 'n' roll band?"*

What can we do as investors? Gold is the "go to" asset, because as a store of value, it is the only asset which outperforms in either inflation or deflation – although historical precedent favours the inflationary outcome as I'm about to show. With the century-long demonetisation of silver having run its course, it fits into the same category. I think that other strategic assets like energy (especially crude oil), food/agriculture, rare earths and defence will also be key investment classes in the next several years.

In terms of "What's next?" let's look at a historic example, the Roman Empire in the third century A.D., for some insight.

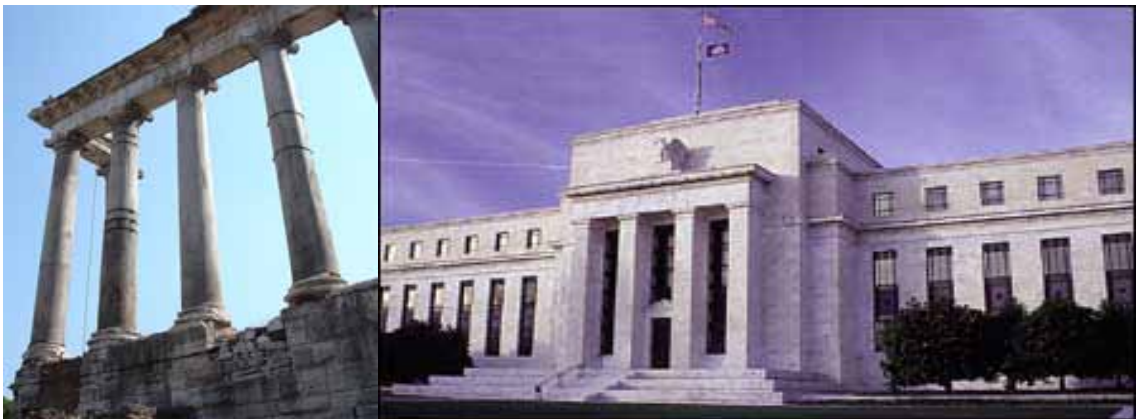
## Hyper-inflation in the Roman Empire during the late-third century AD

In his book, "A History of the Roman World A.D.138-337" H.M.D. Parker summarised monetary policy in the third century Roman Empire as follows:

"With few exceptions the Emperors of the third century pursued a policy of wasteful expenditure. Personal extravagance, donatives to the populace at Rome, costly civil and foreign wars, in which a pandering to the greed of the soldiery was a condition of success, had drained the wealth of the provinces...The conception of a national debt was as foreign to the Emperors of the third century as it had been to the statesmen of the Republic. Instead, to give an air of **SUPERFICIAL PROSPERITY**, resort had been had to a **POLICY OF INFLATION** (my emphasis)."

Doesn't it sound eerily familiar!

### What's left of the Roman Aerarium (treasury) and today's Fed



Parker goes on to explain the outcome:

"The gold coinage lost all stability and regularity, while the debasement of the silver proceeded till Gallienus flooded the market with a worthless billon. The State had virtually declared itself bankrupt...In consequence **PRICES SOARED TO AN ENORMOUS HEIGHT**, trade was undermined and speculation flourished. Individual fortunes were lost, and in town and country alike the honest citizen was faced with untold hardships without any prospects of better days to come."

I wanted to explore the extent and timing of Rome's hyperinflation in quantitative terms and compare what happened then with what's happening to prices today.

Inflation data during the Roman Empire is not exactly easy to come by, but there is a remarkably good proxy in my opinion, which is the price of Egyptian wheat. The source I used was the research paper "Another View on an Old Inflation: Environment and Policies in the Roman Empire up to Diocletian's Price Edict" by the Centre of Planning and Economic Research in Athens. Relying heavily on a multitude of other sources, this paper contains a time series for wheat prices stretching from 18 B.C. to 301 A.D.

It's important to explain why Egyptian wheat prices serve as a good proxy for inflation across the Roman Empire. In very succinct terms, it was probably best expressed by Lionel Casson in "The Role of the State in Rome's Grain Trade":

### "Grain was to antiquity what oil is to the world today"

It's worth making three more detailed observations with regard to the role of wheat in the Roman economy. Firstly, agriculture was overwhelmingly the dominant sector in the economy. Here is Paul Erdkamp from "The Grain Market in the Roman Empire – A Social, Political and Economic Study":

"agriculture was by far the predominant sector within the economy, and in both the Roman world and early modern Europe, agriculture was dominated by the cultivation of grain...**It is a commonplace that in antiquity about 80 per cent of the population were engaged in agriculture**, leaving only 20 per cent for all other sectors of the economy."

Secondly, the importance of wheat to both the agricultural sector and the economy of the Roman Empire as a whole. In "Price behaviour in the Roman Empire", Peter Temin argued:

**"Wheat is a good index of inflation** because its quality does not vary much over time and it forms a large part of ordinary diets."

And this from Wikipedia:

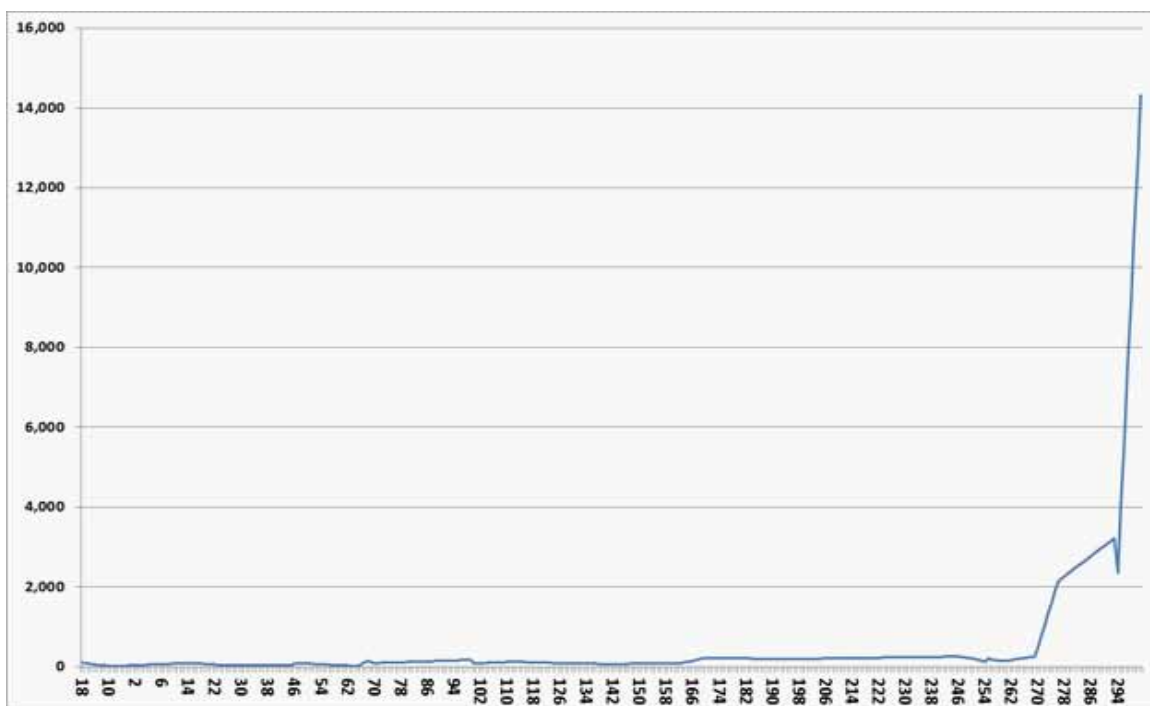
"The **staple crop grown was wheat**, and bread was the mainstay of every Roman table."

Thirdly, **Egypt was at times the largest supplier of wheat to Rome**, although other important regions included North Africa and Sicily. According to Wikipedia:

"Egypt was also important in providing wheat to Rome. Normally, shipments of Egyptian wheat may have amounted to 20 million modii or more annually. This number can be found in the Epitome de Caesaribus. Twenty million modii of wheat was enough for half or two thirds of Rome."

Having established Egyptian wheat as the best proxy we have for price levels in the Roman Empire, the chart below shows the price from 18 B.C. to 301 A.D.:

**Egyptian wheat prices 18 BC to 301 AD (Greco-Egyptian drachmas per artaba)**



Source: Center of Planning and Economic Research, Athens

In "Monetary Regimes and Inflation", Peter Bernholz explained how Roman emperors failed to acknowledge their own guilt - this is with regard to Diocletian's unsuccessful imposition of price controls in 301 AD:

**"It shows that the emperors did not understand the origins of the inflation phenomenon. They believed that prices rose while the harvests were good because of the boundlessness of human greed."**

It's always those "greedy speculators" who get the blame!

Let's consider the run-up to Rome's hyperinflation. I think this comment from jaysromanhistor.com "Good Money, Bad Money, and Runaway Inflation" resonates with what's happening in the US today:

“Severus Alexander (AD 222-235) tried to reform by going back to the denarius but, once started, this path of runaway inflation and financial irresponsibility on the part of the imperial government proved impossible to control.”

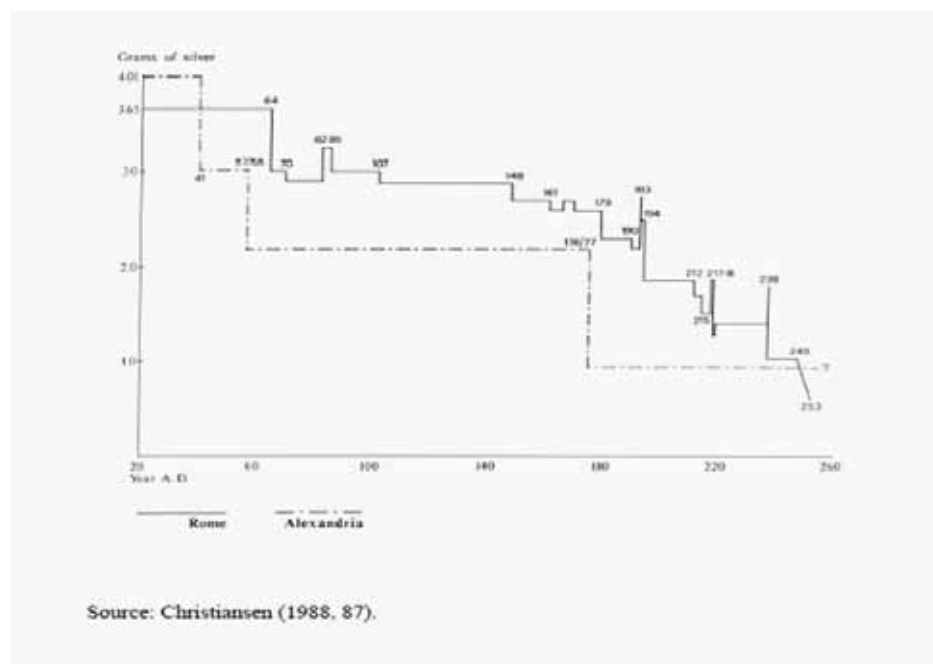
It also seems that **the hyperinflation was preceded by some kind of banking crisis, which is an interesting parallel.** From “Demise and Fall of the Augustan Monetary System” by Koenraad Verboven:

“Papyri show it was common for private individuals to deposit money at a bank and to make and accept payments through bankers. Bankers in the west disappear from view around the middle of the 3rd c... A famous papyrus from Oxyrhynchus from 260 CE shows exchange bankers closing in order to avoid having to change the ‘imperial money’. The strategos ordered the exchange bankers to reopen and accept all genuine coins and warned businessmen to do the same. In 266 CE we find for the first time transactions being expressed in ‘ptolemaeic’ or ‘old silver’ as opposed to ‘new silver’.”

The chart shows how inflation remained relatively subdued until a tipping point was reached in the late-260s A.D

Monetary systems can absorb substantial abuse before there is a dramatic impact on the price level. For example, the debasement of the coinage was already accelerating in the early part of the third century A.D., before plunging in the latter part. Indeed, the chart below (apologies for the quality) only shows the trend up to 253 AD. By around 290 AD, the coins were only dipped in silver to give them a coating (<0.5%):

#### Grams of silver in a denarius 20-253 AD

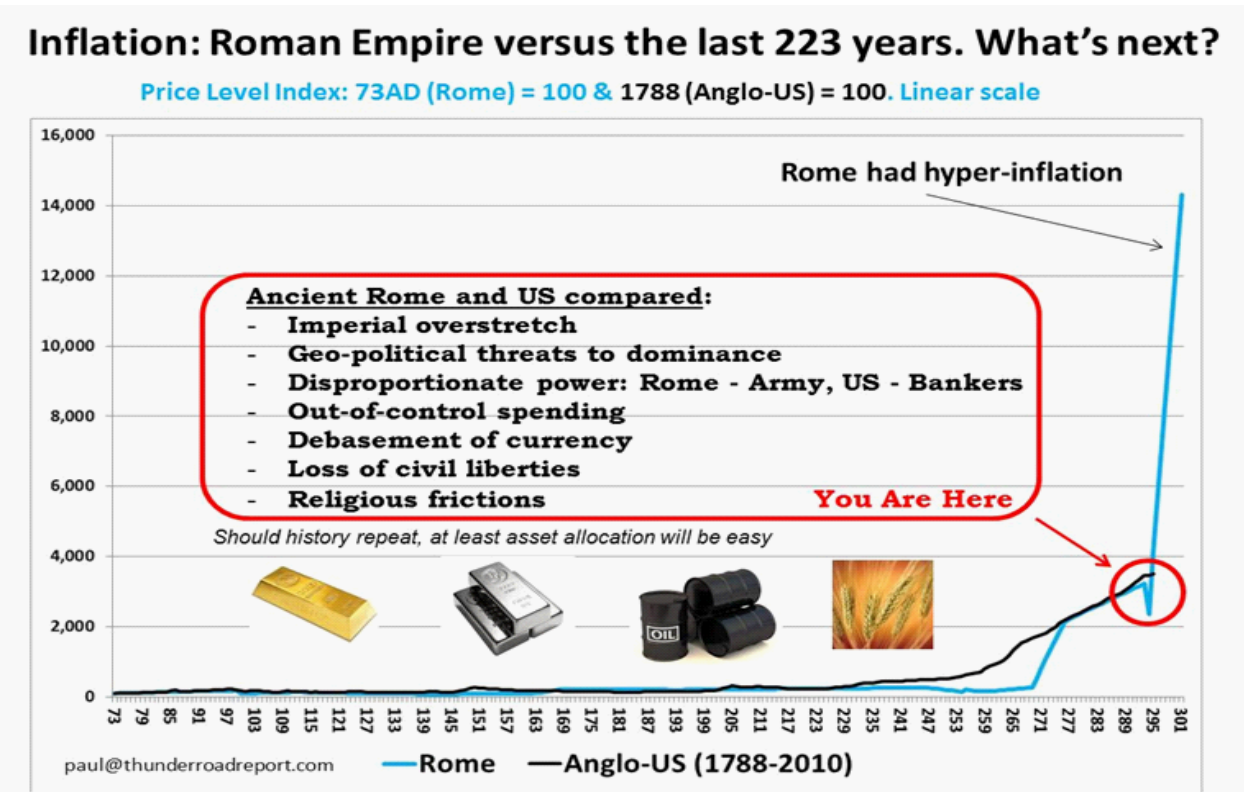


Source: Erik Christiansen, The Roman Coins of Alexandria, 1988

The point I’m trying to emphasize is that **the relationship between the debasement of the coinage and price levels is non-linear. A monetary system can be abused for a long period, but not indefinitely. A tipping point is reached when CONFIDENCE in the value of the currency collapses, leading to a surge in inflation** – hyperinflation in this case.

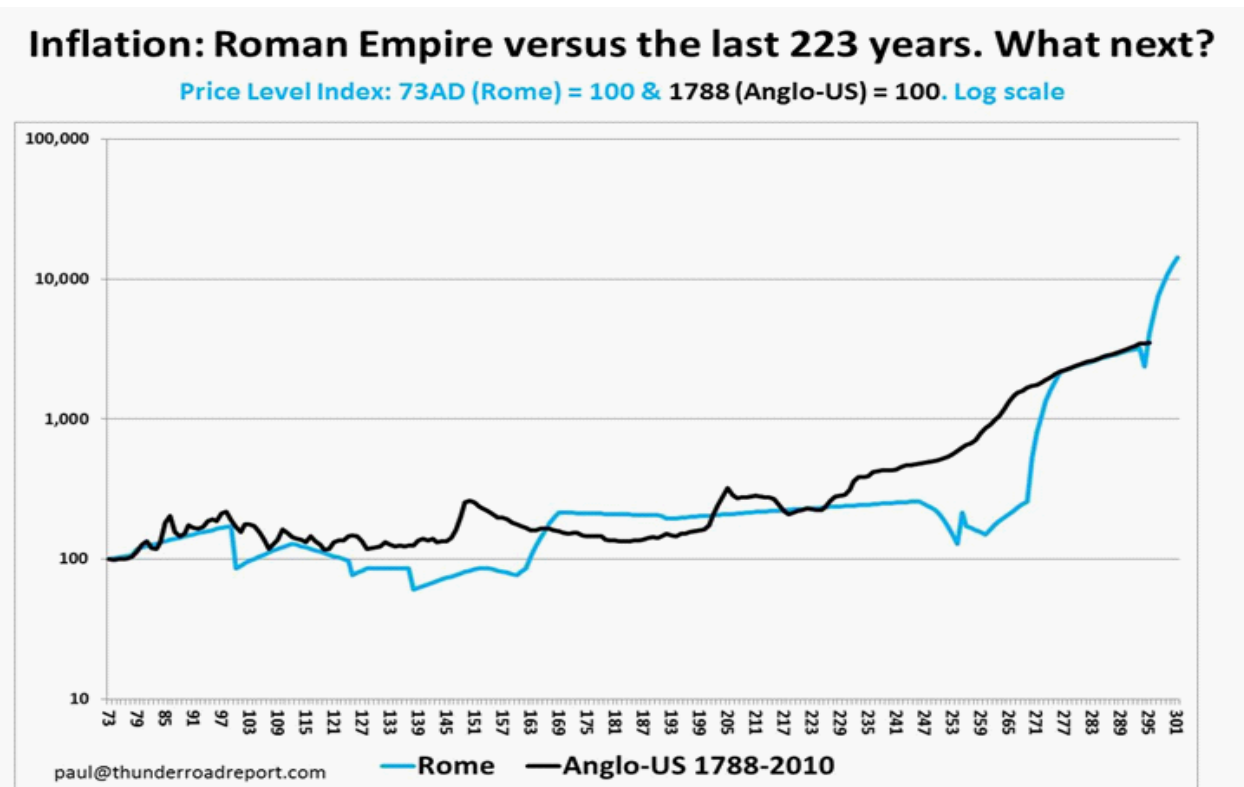
The corollary with today’s financial system is that the quantity theory of money is not linear either. However, the abuses are piling up in obscene fashion and we are approaching the tipping point. Today the “path of runaway inflation and fiscal irresponsibility” incorporates all manner of abuses like trillion dollar deficits, bank bailouts, near zero interest rates and Q1, QE2...!

In the next chart, I overlaid the price level for the last 223 years, i.e. 1814-2010, over the price level in the Roman Empire in a way that gave me the best fit. Please note – the price level for the last 223 years uses data for Britain from 1788-1843 and from the US from 1844-2010 – hence the term “Anglo-US 1788-2010” in the chart below.



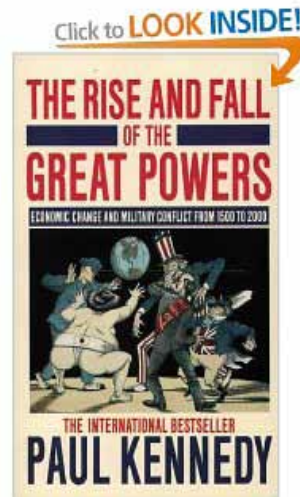
Source: Thunder Road Report and Center of Planning and Economic Research, Athens

Here is the same chart using a logarithmic scale:



If history comes anywhere near to repeating itself, we are on the brink of experiencing a rapid acceleration in inflation during the next few years. It's never going to be a perfect comparison, but there are many similarities which Rome in the late third century A.D. shares with the US, today's global hegemon:

**Imperial overstretch:** In big picture terms, it's the classic case of Paul Kennedy's "imperial overstretch" when empires pass their zenith and their capacity to maintain their military and economic dominance begins to wane. Rome had colonies across Europe, North Africa and the Middle East and the size of its army increased from about 250,000 during the reign of Augustus (27 BC to 14 AD) to 600,000 in Diocletian's time (284 AD to 305 AD). The US has over 700 military bases around the world today and a military presence in at least 130 countries. It also has 11 carrier strike groups.



Source: Amazon

**Both dominated the world militarily but experienced increasing geo-political threats on the borders of their respective empires:** Rome became embroiled in conflicts with the Goths, the Vandals and (guess who?) the Persians in the late-third century AD. Today, the threats to the US are the Taliban in Afghanistan and Yemen, a new front in Libya, growing antagonism with Pakistan, a continuing standoff with Iran (formerly Persia!) and China/Russia in the background. For both Rome and the US, there is that recurring theme of a threat in the Middle East. In his lecture, "The Lessons of the Roman Empire for America Today", J. Rufus Fears argued:

"the Middle East became a quagmire for the Romans - civil war in Judea, trouble in Egypt - and the Romans poured in more and more of their treasure and stretched the limits of their army as far as they could be stretched. It became a constant drain, and, more than that, it became a drain upon the focus of the emperors...In the third century A.D., Iran changed from a passive to a powerfully offensive nation. Iran began to sweep into the frontiers of the Roman Empire, which were too stretched in terms of its military and other commitments...At the same time, the Germanic tribes formed new federations and coalitions and swept into the Roman Empire in the West"



**The source of real power:** Monetary largesse is dispensed to one sector which secures disproportionate political influence. In Rome, it was the army and in the US it is obviously the banking sector, e.g. bailouts, zero interest rates for banks to borrow from the Fed and regulatory agencies turning a blind eye to all manner of financial fraud.

**A history of wasteful expenditure followed by an inability to address the spending problem in terms of the military and social costs:** Besides the army, the Roman Empire bore large social costs, not just in terms of the bureaucracy, but the "dole". Bruce Bartlett explained in "How Excessive Government Killed Ancient Rome":

"The free grain policy evolved gradually over a long period of time and went through periodic adjustment. The genesis of this practice dates from Gaius Gracchus...in 123 B.C...The distribution of free grain in Rome remained in effect until the end of the Empire, although baked bread replaced corn in the 3rd century."

Scholars estimate that the dole was used to feed 300,000-400,000 Roman citizens, at least one third of the city's population. In Rome, the political use of the grain supply and gladiatorial games and other entertainment resulted in the expression "bread and circuses", as methods to pacify the population.



Fast forwarding to the present situation in the US and there are all manner of similarities, like the 44 million people on food stamps as mentioned earlier in this report. Then there's the complete inability to control military spending, like Defense Secretary, Robert Gates, arguing in February 2011 that the Pentagon couldn't do its job with cuts of more than US\$9bn – that compares with a total budget of US\$693bn.

Joseph Peden again from "Inflation and the Fall of the Roman Empire":

**"One of the Christian fathers, Saint Gregory Nazianzus, commented that war is the mother of taxes and I think that's a wonderful thing to keep in mind: war is the mother of taxes. And it's also, of course, the mother of inflation."**

Even bigger are the social costs borne by the US government. In 2010, spending on Health, Medicare, Income Security, Social Security and Veterans amounted to US\$2.26 trn. Social and defence costs amounted to 85% of total Federal government outlays in 2010. Even putting defence costs to one side, it is going to get far worse due to the explosion in social spending which is just beginning with the retirement of the baby boomers. The unfunded liabilities for future expenditure on Medicare, Social Security and pensions for federal workers/veterans, etc. is (according to two sources) between US\$62-66 trn.

**The loss of civil liberties and the rule of law:** Both Rome and the US claimed to embody noble traditions such as the rule of law and fair government, but it was only good while it lasted. In Rome, it was "civus romanus sum" or "I am a Roman citizen" – which implied that the state would protect its citizens against injustice. Increasingly, Roman citizens experienced the curtailment of their civil liberties – in fact it was a

complete loss of freedom – they and their ancestors were tied to their land and occupations and taxed into oblivion. As Joseph Peden explains:

“While the Roman state survived, the Roman state was not destroyed by inflation. What was destroyed by inflation was the freedom of the Roman people and particularly, the first victim, was their economic freedom.”

In the US, there’s so much it’s hard to know where to start, although illegal wiretapping, violation of habeas corpus, full body scans and intrusive pat downs and the right to assassinate its own citizens (if they are deemed to represent a threat) spring immediately to mind. There was also this chilling pledge, reminiscent of 1930s Germany, made by Obama during his campaign:

“We cannot continue to rely on our military in order to achieve the national security objectives we’ve set. We’ve got to have a civilian national security force that’s just as powerful, just as strong, just as well-funded.”

Martin Armstrong has written about the economic effect of these societal trends. The loss of confidence in public institutions going forward is picked up in the “public versus private” cycles in his model. He has also been very explicit in his comments:

“As the debt crisis gets worse, EVERY government turns against its own people. Everything then becomes the fault of the people and that leads to ECONOMIC TYRANNY marking the end of that government as we know it. In the immediate period, the United States will be the worst insofar as becoming ruthless against its own people.”

**Immigration and citizenship:** Before things started to go badly wrong, Rome attracted substantial numbers of immigrants from other parts of the world and Roman citizenship was a prized status. In the final days of the Empire, conquering barbarians were welcomed in some provinces! The US is a country of almost 100% immigrants and “Green cards” are still prized, but for how much longer?

**Religious frictions:** There is a similar theme of religious friction. In third century Rome it was pagans versus Christians, until Constantine made Christianity the official religion early in the fourth century. This time we see the building tensions between Christianity/Judaism and Islam – which will no doubt be exploited further.

**Centralised power and the Spectacle:** Here is D.G. Martin in the Chatham Journal noting another similarity between Rome and the US – the capitals are mine:

“Both experienced a movement to centralize political power. This centralization has been accompanied by a decline in the politics of participation and an increase in the politics of the **SPECTACLE**. Games and pleasure took the place of a civic life.”

To show how far the Spectacle has evolved in the early part of the twenty first century America, this is what a senior adviser to President Bush said to the New York Times’ Ron Suskind in 2004:

“The aide said that guys like me were ‘in what we call the reality-based community,’ which he defined as people who ‘believe that solutions emerge from your judicious study of discernable reality.’ I nodded and murmured something about Enlightenment principles and empiricism. He cut me off. ‘That’s not the way the world really works anymore,’ he continued. ‘We’re an empire now, and when we act, we create reality. And while you are studying that reality – judiciously, as you will – we’ll act again creating other new realities, which you can study too, and that’s how things will sort out. We’re history’s actors ... and you, all of you, will be left to just study what we do.’”

Hubris can be a dangerous thing.

The **impact of the hyperinflation on the Roman Empire was profound** as Wikipedia explains:

"The crisis resulted in such profound changes in the Empire's institutions, society economic life, and eventually religion, that it is increasingly seen by most historians as the transition period between the historical periods of classical antiquity and late antiquity."

In his lecture referred to earlier, J. Rufus Fears explained what happened in the Roman Empire after the destruction of the currency:

"Rome recovered from the crisis, but in a form that left it utterly different than before. It had once rested upon the back of a strong and vigorous and loyal middle class. Now every aspect of Roman society became rigid, formalized. The army became ever larger, ever more inefficient; the bureaucracy became ever larger to collect more taxes; and the very spirit and, ultimately, the loyalty of the middle class was destroyed."

## Crisis in the Middle East and the plan for \$200 oil

Buying oil exposure fits my global end of normal thesis for buying strategic assets in an inflationary environment. I bought some Statoil shares, but I'm looking to buy more oil exposure. However, I mentioned earlier how treacherous markets are at this moment. I'm nervous that there could be a near-term correction in the equity market and/or the oil price and this might provide a better buying opportunity. There is also the low in Martin Armstrong's Economic Confidence Model approaching in mid-June. In the meantime, I want to consider **the geo-political situation in the Middle East and North Africa and how it could support my medium term bullishness on oil – it boils down to an "agenda"**.

If you've never heard of him, let me introduce you to Lindsey Williams, former chaplain at the huge Prudhoe Bay oil field in Alaska. Back in 2008, when oil was approaching its all-time nominal peak of US\$147/bbl (11 July 2008), he stated that his sources were predicting that the price would fall to US\$50/bbl within a matter of months. Here is the link. Obviously nobody believed him, but oil subsequently overshot his dire prediction, bottoming out at US\$34/bbl in October 2008. The chart below shows the oil price from January through mid-November 2008:

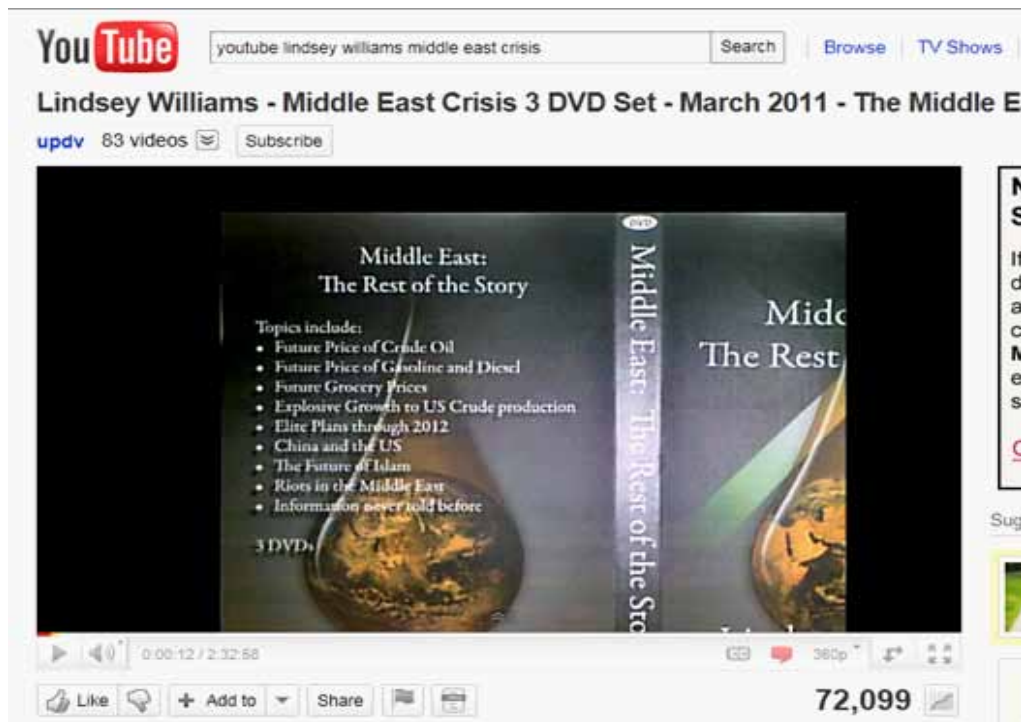


He also said that oil would remain between US\$50-80/bbl for two and a half years.

**"I was told by my informants that it would be two and one half years before the price of gasoline and the price of crude oil would go back up again. Now folks you can go back and see this. It was archived in many radio talk shows across America."**

Apart from some brief periods, the price stayed within that range until the end of September 2010, which was just under two and a half years. Since then his predictions have become even more intriguing.

He put out a DVD, "The Middle East: The Rest of the Story", outlining the world events he was told would happen. The DVD was not copyrighted and can be viewed on youtube - search youtube "Lindsey Williams middle east crisis".



In an interview on 21 October 2010, he commented:

**"There is going to be a definite move in crude oil prices immediately...Two years ago, I said it was going down, it's over."**

This turned out to be yet another stunningly good call. In this chart, we can see how the oil price decisively broke out of the US\$50-80/bbl range at that time:

**Price of crude oil (Brent) - last 3 years (US\$/bbl)**



Source: moneyweek.com

Perhaps his informants are just good oil traders? What about his recent prediction about geo-politics! This prediction came from the same interview (images of youtube versions shown below) in October 2010:

**“The elite want a Middle East crisis within three to four months’ time. They want a conflict in the Middle East.”**



Source: youtube

It didn't even take that long as protests led to the Tunisian regime falling in January this year, followed by Hosni Mubarak in Egypt in February. Elsewhere in the Middle East and North Africa, there's obviously been protests, and conflict in some cases, in Yemen, Algeria, Bahrain, Iraq, Mauritania, Jordan, Syria and Libya.

Chaplain Williams was interviewed on the Alex Jones Show on 13 April 2011 when he discussed new information from his sources who had stated that the crisis will spread across the Middle East:

**“...until the price of crude oil goes to US\$200/bbl.”**

and is expected to happen by the end of 2012. According to his sources, the crisis will gradually draw in all nations in the region, including major ones like Pakistan, and eventually, Saudi Arabia. He expects that the next domino to fall will be Yemen (the backdoor route into Saudi Arabia), although Pakistan looks like a good outside bet to me given current efforts to destabilise the country.

Maybe this will be the first time Lindsey Williams gets it wrong, but what if he's right again? Given the track record of his sources, the unfolding Middle East crisis deserves forensic analysis. There is no doubt that rising food prices, unemployment and dissatisfaction with dictatorships are guaranteed to raise revolutionary angst. The question is whether outside forces played any role in igniting that angst into mass protest?

A good starting point is the uprising in Egypt, which began on 25 January 2011, and an article from the Daily Telegraph on 28 January 2011 by Tim Ross titled:

**“Egypt protests: America's secret backing for rebel leaders behind uprising”.**

The source of the information was US diplomatic cables published by Wikileaks. It turned out that an Egyptian dissident not only received training in the US but outlined a plan in 2008 to overthrow the Mubarak regime in 2011, three years before it happened (my emphasis):

“The American government secretly backed leading figures behind the Egyptian uprising who have been planning ‘regime change’ for the past three years, The Daily Telegraph has learned. The American Embassy in Cairo helped a young dissident attend a US-sponsored summit for activists in New York, while working to keep his identity secret from Egyptian state police. On his return to Cairo in December 2008, **the activist told US diplomats that an alliance of opposition groups had drawn up a plan to overthrow President Hosni Mubarak and install a democratic government in 2011.**”

The story was corroborated by a New York Times report on 15 April 2011:

## “U.S. groups helped nurture Arab uprisings”

which confirmed the behind-the-scenes role of the US in instigating the so-called “Arab Spring”:



Source: New York Times

“Even as the United States poured billions of dollars into foreign military programs and anti-terrorism campaigns, a small core of American government-financed organizations were promoting democracy in authoritarian Arab states. The money spent on these programs was minute compared with efforts led by the Pentagon. But **as American officials and others look back at the uprisings of the Arab spring, they are seeing that the United States’ democracy-building campaigns played a bigger role in fomenting protests than was previously known, with key leaders of the movements having been trained by the Americans in campaigning, organizing through new media tools and monitoring elections.** A number of the groups and individuals directly involved in the revolts and reforms sweeping the region . . . received training and financing from groups like the International Republican Institute, the National Democratic Institute and Freedom House, a nonprofit human rights organization based in Washington, according to interviews in recent weeks and American diplomatic cables obtained by Wikileaks.”

In that article, the duplicitous role of the US was articulated by the Egyptian activist, Bassam Fathy:

“While we appreciated the training we received through the NGOs sponsored by the US government, and it did help us in our struggles, we are also aware that the same government also trained the state security investigative service, which was responsible for the harassment and jailing of many of us.”

This is a classic example of backing both sides followed by a double cross, in this case of Mubarak, but it might not be the last.

In my view, it is the US support of the Egyptian revolution, in particular, which opens the door to there being some kind of grand plan behind this “Arab Spring”. If the US was purely interested in the spread of democracy, it would have opposed the violent suppression of the protests in Bahrain by Saudi Arabia, but it didn’t. In fact, the US and UK and other western nations have a long history of supporting brutal dictatorships for as long as it suits their interests. Mubarak’s regime was not only a key US ally, but had also been a source of much-needed stability in the Middle East – unless the former agenda has changed.

Where the whole story gets interesting is the reaction of the rulers of Saudi Arabia to the Egyptian revolution. Mubarak was a close ally of Saudi Arabia AND an opponent of Iran, Saudi Arabia’s bitter rival. **The failure of the US to support Mubarak angered the Saudis who, not surprisingly, felt threatened by the wave of unrest spreading across the region.** Here is part of an Associated Press article from 6 April 2011 regarding the meeting between Robert Gates and Saudi King Abdullah:

"Defense Secretary Robert Gates tried to smooth **the worst rift in years with Arab ally and oil producer Saudi Arabia on Wednesday**, reassuring the Saudi king that the US remains a steady friend despite support for pro-democracy revolutions in the Middle East."

If you were a Saudi, would you believe Gates? Here is Lindsey Williams on 13 April 2011:

**"The last country that the king will be deposed is Saudi Arabia. They had better be scared, they'd better be running to the Russians and everybody they can. They are going to be scuttled, it's only a matter of time. It's all a part of being able to take the price of crude oil to US\$200/bbl."**

The sensible thing is to analyse Saudi Arabian diplomacy in the recent past to get a sense of whether the Saudis suspect they are being double crossed - the evidence is supportive.

As Lindsey Williams began predicting a Middle East crisis, a high profile Saudi Arabian diplomat, Prince Bandar, made a sudden comeback to public life. This is Simon Henderson from the Foreign Policy blog on 21 October 2010:

"And then, around 2008, Bandar vanished from the public eye. Exactly what caused Bandar to fall out of political favour remains unclear..But now Bandar is back. A brief Saudi Press Agency story last week reported: 'Prince Muqrin bin Abdul Aziz, Chief of Saudi Intelligence, welcomed Prince Bandar home...'"

Bandar was Ambassador to the US from 1983- 2005, has been a friend of the Bush family, but also negotiated the purchase of medium range missiles from China in 1988 - without US knowledge and to the fury of Israel back then. Since his return to public life, Bandar has been very active - for example:

- ☉ On 18 March 2011, Bandar met with the **Chinese Foreign Minister**, Yang Jiechi and is believed to have agreed terms for Saudi Arabia to purchase CSS-5 and CSS-6 short and medium-range ballistic missiles;
- ☉ On 22 March 2011, Bandar visited the **Malaysian President**, Najib Razak, who publicly backed Saudi Arabia's intervention in Bahrain and both nations pledged greater co-operation going forward; and
- ☉ On 25 March 2011, Bandar met with **Pakistani President**, Asif Ali Zardari. Bandar reportedly discussed the possibility with Pakistan that the latter could supply troops which could be used to quell any serious uprisings in Saudi Arabia or Bahrain. Some journalists, like John Hannah, went further:

"Analysts have long speculated that Saudi money financed the **Pakistani nuclear weapons** programme in exchange for a promise that when it became necessary, its fruits would be put at Riyadh's disposal."

There was another important development in Saudi-Pakistan relations on 8 May 2011, Pakistani Interior Minister, Senator A. Rehman Malik visited King Abdullah of Saudi Arabia to hand over a message from Pakistani President Asif Zardari. This was quite some meeting since there were at least 6 other key members of the Saudi ruling elite present including the Foreign Affairs Minister, Chief of General Intelligence, Security General of the National Security Council (Prince Bandar) and the Commander of the National Guard. Whatever they talked about was obviously critical to the security of the Saudi state.



Source: APP

Arab nations are also closing ranks via the Gulf Cooperation Council with Jordan and Morocco looking to join. Here are two interesting comments from Jordanians, the first from Mohammad Masri, a researcher at the University of Jordan Centre for Strategic Studies.

"Gulf countries feel the need to have their own network to protect their interests and security. They can no longer rely on traditional Western allies".

And the second from Samer Tawil, a former Jordanian minister:

"Arab leaders feel that reorganising themselves can help protect them politically and militarily instead of relying on the West, particularly the United States."

Now let's consider **Pakistan, whose relationship with China seems to be getting considerably closer just when its relationship with the US is collapsing**. This is from the BBC News website on 17 May 2011:

"Pakistani Prime Minister Yousuf Raza Gilani has arrived in China on a four-day visit to commemorate 60 years of diplomatic ties between the countries... 'We appreciate that in all difficult circumstances, China stood with Pakistan. Therefore we call China a true friend and a time-tested and all-weather friend,' Mr Gilani told China's official Xinhua news agency. 'We are proud to have China as our best and most trusted friend, and China will always find Pakistan standing beside it at all times,' he said in an interview released on Tuesday."

And the Chinese view reported by Reuters:

"Chinese Premier Wen Jiabao assured his Pakistani counterpart Yusuf Raza Gilani of China's 'all-weather friendship' on Wednesday, during a visit that sharply contrasted with anger between Washington and Islamabad. 'I wish to stress here that no matter what changes might take place in the international landscape, China and Pakistan will remain forever good neighbours, good friends, good partners and good brothers,' Wen told Gilani at the start of a meeting in central Beijing's Great Hall of the People."

Then from another Reuters report on 20 May 2011:

"China has agreed to expedite the delivery of 50 fighter jets to Pakistan, a newspaper reported on Friday, as Islamabad tries to deepen ties with Beijing as an alternative to increasingly fragile relations with the United States. Pakistan's already strained ties with its ally and major donor were battered after U.S. forces on May 2 killed al Qaeda leader Osama bin Laden in a garrison town near Islamabad."

On 17 May 2011, a Nato helicopter (believed to be American) attacked a Pakistani border post. It does make you wonder whether this is deliberate provocation and whether Pakistan is being deliberately destabilized? This might provide the opportunity for a grab of Pakistan's nuclear weapons, that's my guess anyway.

Duplicity is abundant in the west's approach to the Libyan uprising. Having only got UN approval for a no-fly zone, there have been deliberate attempts to take out Gaddafi. I'm not a fan of the latter, but he has outshone the likes of the Saudis in terms of women's rights, for example. And before the double cross, our globalist friends were trying to tell us he was a great guy! Reminiscent of that Rumsfeld meeting...



Just as interesting is how the protests in the country have been hijacked by members of you know who (it begins with "A"), supposedly our bitter enemy, but part of that "organisation" is working alongside western forces in the Libyan theatre while fighting them in Afghanistan. Then there's the timing of "Ossie's" death. Now that we've "got him", and you have to be impressed with the timing (!) and a sandwich short of a picnic if you believe all of the official narrative, it could allow troops in Afghanistan to be redeployed elsewhere in the region - as and when events necessitate?

Having considered the evidence, I think it is unwise to rule out Lindsey Williams' version of future events at this point. Indeed, the way events have unfolded so far seems to be 100% in alignment with his prediction. However, there is another source which is supportive of Lindsey Williams' view and that's James P. (Jim) Tucker of the American Free Press.

Jim Tucker also has high level contacts and a good track record, like calling the downfall of Margaret Thatcher months before it happened. In May 2005, he said that the oil price would go to US\$150/bbl within 2 years - and it hit US\$147/bbl in just over three years. In June 2008, he called a top in the price, which peaked at the aforementioned US\$147/bbl shortly after. After also commenting on the upcoming expansion of the Middle East crisis in an interview on the Alex Jones show on 22 April 2011, he added:

**"There's still some more bad news. They are eager, the Trilaterals (their junior partners) and B'berg, eager for Americans to pay \$7, \$7 a gallon for gasoline...by the end of 2012."**

According to the AAA, the national average gasoline price in the US was US\$3.809 per gallon - which would require an 83% increase to reach US\$7.00. Brent crude ended last week at about US\$115/bbl. Jim Tucker went on to explain how some of the big cheeses among TPTB were bemoaning that the American people had become aware through press stories that the organisation beginning with "A" has been part of the rebel force in Libya.

We shall see what we shall see! In my opinion, inflation is not only US policy, but rampant inflation has become inevitable because the current monetary system has gone past the point of no return. A debt deflation would subsequently precipitate inflation via an alternative route. Imagine the job losses, bankruptcies, impact on house prices and destruction of the banking system, and corresponding multi-trillion dollar deficits and bailouts, if the US economy followed economic gravity into depression now. It would precipitate a loss of confidence in the currency - a kind of backdoor inflationary route.

**One way or another, rampant inflation is the end game, but a Middle East crisis would dramatically worsen the speed and severity process. I hope this doesn't come to pass. Since the rampant inflation can't be pinned directly on TPTB, including the Fed, they need a scapegoat. I can't think of a better or more effective way than a surge in the oil price resulting from the "spontaneous" Arab Spring ("Not our fault, gov'nor"). Besides a scapegoat for the inflation, it provides a pretext for further military intervention and occupation in what is geo-politically the world's most important region AND catastrophic losses for those foreign holders of US\$4.5 trn of US treasuries. If it is the plan, as Lindsey Williams suggests, it's brilliant.**

## The Silver "hit"

Meanwhile, the timing of the coming inflation has to be managed very carefully. If we go back to late-April 2011, the gold price had breached US\$1,500/oz., silver was going ballistic at almost US\$50/bbl, Brent crude was over over US\$125/bbl and S&P had just downgraded the outlook on US sovereign debt to negative. With hindsight, it seems that it was decided that "something had to be done". I'll run through the "hit" on silver because it's fairly easy to implicate the not-so "invisible hand" at work. More and more people understand, but I should just mention that this latest takedown in gold and silver was nothing more than a fairly severe example of the interventions that have been occurring in these markets for more than a decade as documented so successfully by GATA and Ted Butler, etc. The difference now, compared with say 2001-09, is that the buyers - especially for physical metal - return far more quickly than in the past.

The rout in the silver price began with a 12% fall in approximately 10 minutes from US\$48/oz. to US\$42/oz. in Asian trading on Sunday night, 1 May 2011. The mainstream media and most analysts immediately pinned the blame on the CME margin hike which had become effective after the market close on the previous Friday (29 April 2011). This doesn't stand up to scrutiny for several reasons:

- ☉ The Friday margin hike was announced by the CME on the Thursday (28 April 2011) so investors had a full day's trading on Friday to react to this news. The market shrugged it off as it had done with the earlier margin hike that had been announced on the Monday (effective from the close on Tuesday). Harvey Organ commented on his blog:

"The bankers announced on Thursday night that the margin requirements in silver would be increased. They hoped that silver would have a big down day on Friday but that did not happen."

- ☉ In fact, Asian and London trading on Friday (29 April 2011) saw the silver price rise about US\$1/oz from 48 to 49 before merely giving back this US1/oz gain during COMEX trading.

- ☉ If this margin increase was the straw that broke the camel's back, why was there not more of a response in Friday trading OR when Asian markets opened up on Monday morning (Sunday night in the US and Europe)? As this chart clearly shows, the silver price traded sideways for about an hour in early Asian trading until the interventionists moved in with the "hit":

### Spot silver price - 1 May 2011 (green line)



Source: Kitco

**The timing of the selling was impressive** – quiet Asian trading and China, a large buyer of silver in recent months, shut for a holiday. London, where most of the physical buying of silver has taken place, was also shut on the Monday for the May Day Bank Holiday. While the margin hikes were not the initial catalyst, once the downward momentum in the silver price was in place, the CME came in with two further margin hikes (the advertised reason for the sell-off to begin with) to press home its advantage. This succeeded in triggering stops and probably scaring to death traders who weren't used to a commodity which can be as volatile as silver.

Let's just look at a couple of other events which occurred around the time of the hit. Firstly, Friday 29 April 2011 was the "First Notice Day" for the May silver futures contract on the COMEX futures exchange in NY. The open interest in the May contract fell from 2,166 (10.83m oz) contracts to 1,518 contracts (7.59m oz.), i.e. a reduction of 648 contracts (3.24m oz.). However, the shorts on the Exchange only sent 10 delivery notices to the longs that day, so what happened to the other 638 contracts (3.19m oz.)? They almost certainly went to cash settlement for a PREMIUM with a no disclosure clause. These mysterious cases of

disappearing contracts standing for delivery were a feature in March, the previous silver delivery month, and in May. The crisis at the COMEX continues but remains hidden to most analysts.

Secondly, I want to outline how it was all going badly wrong for the Federal Reserve, and especially the Bernank, during the week of the 25-29 April. If you remember, the Wednesday of that week saw the much heralded first Fed press conference following an FOMC meeting. It began at 2.30pm Eastern Time and saw the gold price (below), which was already rising, rise a further US\$10/oz from US\$1520/oz. to US\$1530/oz. as the Bernank tried to convince markets that his inflation policy is not actually inflationary:

### Spot gold price - 27 April 2011 (green line)



Source: Kitco

On Friday 29 April 2011, he gave a lunchtime speech to the Community Affairs Research Department and Zero Hedge put the following chart of the gold price on its website:



Source: Bloomberg via Zero Hedge

The headline was **“Bernanke Starts Talking, Gold Surges Past \$1,558”** and Tyler Durden commented:

"Remember when every appearance of Obama and Geithner would send the market plunging before the institution of central planning? Well, we now have a new phenomenon: every time the Chairsatan opens his mouth gold surges. Pretty simple. The second Bernanke started delivering his prepared propaganda at the Community Affairs Research Conference, whose parallel chat session appears to have been overtaken by conscientious objectors, gold surged from the mid \$1540s to \$1,558."

Silver was following gold during these moves and the oil price was going with them. While inflation IS the policy, it was beginning to go too fast too soon and it had to be slowed down.

With hindsight, the only thing missing was yet ANOTHER bearish article on precious metals in the FT, although there had been one only a few days earlier on 21 April 2011, which was their most comical yet, describing a "conspiracy" of buyers:

"The silver market is never short of a wild rumour. The difference this time, though, is that the conspiracy theories are being seriously considered by senior figures in the industry. As one senior banker puts it: 'I just do think it has the smell of somebody with a pretty significant buying programme ... Silver is the sort of market that every decade attracts someone'."

On two recent occasions there have been quotes from JP Morgan employees and we were spared that although the identity of the "senior banker" was not divulged.

Following the correction, there were plenty of commentators ready to write off the bull market in silver. According to one CNBC guest "It was a bubble which was going to burst". The point is that the bubble is in the paper currencies, not in gold and silver, so it will be interesting to see the commentary when the silver prices gets back to US\$50/oz? The vast majority of the selling was of "paper" silver in yet another example of heavy-handed manipulation – meanwhile physical gold and silver continue to disappear into private and public hoards.

*"Do you know the enemy?*

*Do you know your enemy?*

*Gotta know the enemy"*

Green Day

**Author:** I started work the month before the stock market crash in 1987. I've worked mainly as an analyst covering the Metals & Mining, Oil & Gas and Chemicals industries for a number of brokers and banks including S.G. Warburg (now UBS), Credit Lyonnais, JP Morgan Chase, Schroders (became Citibank) and, latterly, at the soon to be mighty Redburn Partners.

*Lyrics from The Clash and The Jam included*

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