

As West, Debt, & Stocks Implode; East, Gold, & Oil Explode

Description

by [Authored by Egon von Greyerz via GoldSwitzerland.com,](#)

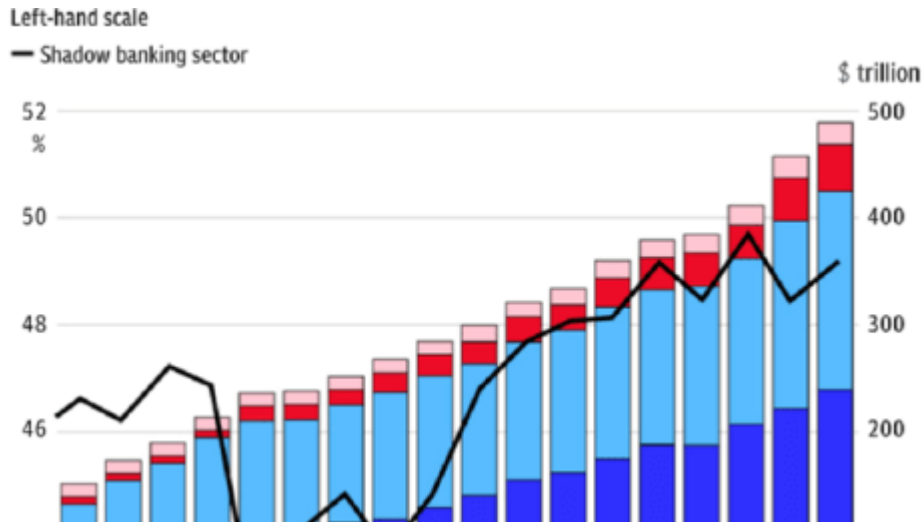
“The risk of over-tightening by the European Central Bank is nothing less than catastrophic” says Prof Kenneth Rogoff .

At Davos he also said: “Italy is extremely vulnerable. But this could pop anywhere. Global debt has gone up massively since the pandemic: public debt, corporate debt, everything.”

Rogoff believes that it is a miracle that the world averted a financial crisis in 2022, but the odds of a major accident are shortening as the delayed effects of past tightening feed through.

As Rogoff said: “We were very fortunate that we didn’t have a global systemic event in 2022, and we can count our blessings for that, but rates are still going higher and the risk keeps rising.”

But lurking in the murkiness is also the global financial assets/liabilities which is almost \$500 trillion including the shadow banking system at 46% of the total. The shadow banking sector includes pension funds, hedge funds and other financial institutions which are largely unregulated.



Shadow banking is not subject to the normal mark-to-market rules. Thus no one knows what the real position or losses are. This means that central banks are in the dark when it comes to evaluation of the real risks of the system.

Clearly, I am not the only one harping on about the catastrophic global debt/liability situation.

And no one knows the extent of total global derivatives. But if they have grown in line with debt and also with the shadow banking system, they could easily be in excess of \$3 quadrillion.

Cultures don't die overnight, but the US has been in decline since at least the Vietnam war in the 1960s. Interestingly, the US has not had a real Budget surplus since the early 1930s with a handful of years of exception.

But when you, like the US, live on borrowed time and borrowed money, it becomes increasingly difficult to keep up appearances. In 1971, the pressures on the US economy and currency became too great. Thus Nixon closed the Gold Window with the dollar having lost over 98% in real terms since then. This is of course a total catastrophe and a guarantee that the remaining 2% fall to ZERO will come in the near term future, whether it takes 5 or 10 years for the dollar to reach oblivion. Remember that the final 2% is 100% from today!

The US, EU and Japan have now reached the stage when no one wants their debt. So sovereign debt of these nations is no longer a question of “passing the parcel” but keeping the parcel. When every third party holder of these debts is a seller, who will buy?

These three countries will end up holding their own debt. Japan already holds over 50% of its debt. Before the Western Ponzi scheme comes to an end, these three nations will virtually hold 100% of their own debt. At that point, the bonds will be worthless and interest rates will have reached infinity. Not a pretty prospect!

US – PERFECT RECIPE FOR DISASTER

The final phase of all empires always includes excessive deficits and debts, inflation, a collapsing currency, decadence and war. And the US qualifies perfectly in all those categories.

Ernest Hemingway stated it superbly:

*The first panacea of a mismanaged nation is inflation of the currency; the second is war.
Both bring temporary prosperity;
both bring a permanent ruin.
But both are the refuge of political
and economic opportunists.*

The US has failed in every war since the Vietnam war, including the Yugoslav Wars, Afghanistan, Iraq, Syria and Libya. The results have been massive casualties and destruction of the countries, often leading to economic misery, anarchy and terrorism.

The Ukrainian war is not between Ukraine and Russia but between the US and Russia as [I discussed in a previous article](#) (Link). The clear proof that there is no desire for peace from the US is that they are sending money and weapons to Ukraine in the \$100s of billions and “encouraging” an increasingly suffering Europe to do the same. But they are not sending any peace negotiators to Russia in an attempt to end the war. This is very ominous.

The geopolitical situation is now on a knife edge with two major nuclear powers fighting about a relatively insignificant country. **This is how major wars normally start.**

Let us hope that the current conflict does not lead to a major nuclear war since that would be the end of the world. Thus not worth to speculate about the outcome of this high risk scenario.

But the economic war and the collapse of the US dominated financial system is not just inevitable but also catastrophic for the Western economies.

A COMMODITY DOMINATED WORLD

As the hegemony of the US is coming to an end, the dominance of the decadent West is moving quickly to the East and South. Commodity based countries like the enlarged BRICS will dominate for the next few decades and probably longer. Oil and gas will form the base of this shift but also many other commodities including gold which is now starting a new era.

It is likely that 2023 will be the first year of many when we will see a strong rise in gold just like 2000 – 2011 which saw a 7.5X gain.

The end of the Western debt based cycle and the rise of the Eastern and Southern commodity cycle is well illustrated in the graph below

OIL, GOLD TO GO UP > 9X AGAINST STOCKS

The S&P Commodity Index relative to Stocks has recently made a 50 year low. Just to return to the mean, the index would need to go up 4X. But when long term cycles turn up from a historical low, they tend to trend higher and longer than anyone expects. So a move past the 1990 high of 9 is very likely. This would mean that commodities, and especially oil and gold, relative to stocks would move up more than 9X!

This 9X move would obviously involve a combination of falling stocks and rising commodity prices.

The expected move of the index confirms the shift from the West, based on an unsound and debt infested system, to the East & South, based on commodities.

Much of this move is based on the fossil fuels of the countries involved – to the chagrin of the climate movement zealots.

In today's woke world, there is a tendency to believe that we can change all the laws of nature and science. This is the case both in the economy and climate. Bankers and governments are confident that they can create permanent prosperity by printing worthless pieces of paper believing that these represent real and lasting value and wealth.

Well surprise, surprise, these people will soon have the shock of a lifetime as all that printed money returns to its intrinsic value of ZERO.

A debt based economy eventually becomes a self-fulfilling prophecy.

The higher the debt, the more the debt needs to grow in a never ending vicious circle. In the end the debt cycle becomes a perpetual motion Ponzi scheme..... UNTIL IT ALL CRASHES!



The debt feeds on itself and the more that is issued, the more needs to be issued. As inflation rises, the escalating interest cost on the debt leads to more debt. Next is defaults, both private and foreign. Then the \$2-3 quadrillion derivatives, a great part of which is in the shadow banking system, comes under pressure. This leads to massive further debt creation by the Fed and other central banks, desperately trying to save the system.

This will eventually lead to what von Mises called: *".... a final and total catastrophe of the currency system involved."*

But remember that we are here talking about the Western financial system. The economic sun in the East will rise strongly and eventually be the guiding light for the world economy.

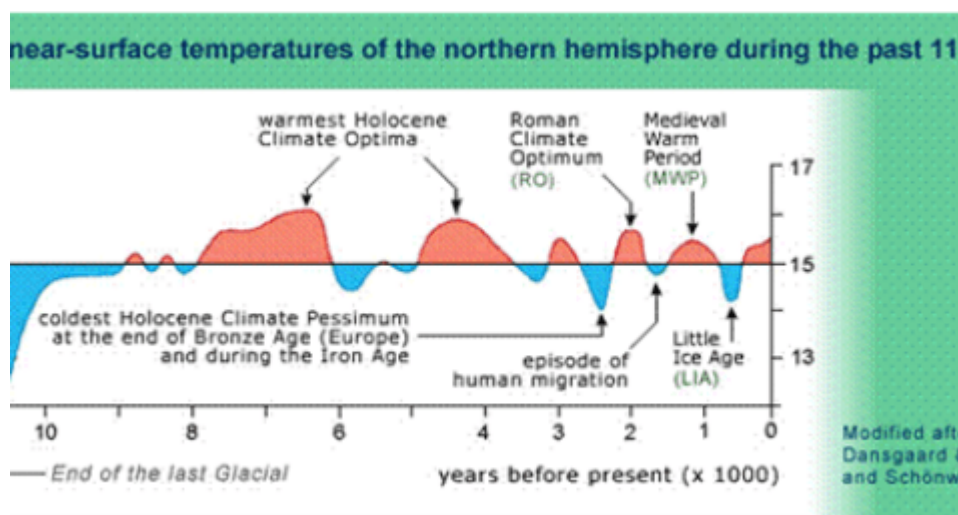
The debt based US and West will to quote Hemingway decline *“first gradually and then suddenly.”* So due to the \$2+ quadrillion size of the problem, the biggest part of the decline is unlikely to take more than 10 years and it could be a lot faster, especially at the end.

But the climate zealots

will have to wait to 2050 to learn that through their actions they didn't manage to limit the increase in temperature to 1.5 degrees. But with a lot of luck, climate cycles might be on their side and make the weather much colder.

Personally I believe that cycles determine the climate and not humans.

The climate cycle graph below covering 11,000 years shows that there has been numerous periods with warmer temperatures than currently. At the peak of the Roman Empire 2000 years ago, Rome had a tropical climate.



Fossil fuels produce 83% of the world's energy today. According to forecasts this percentage is unlikely to come down significantly in the next 50 years.

Partly due to the increased cost of producing energy, fossil fuel production will fall by 26% by 2048. Increases in nuclear and renewables will not compensate for this decline.

If the world stops using fossil fuels, the world economy would totally collapse. Sadly the climate activist movement does not seem to worry about such disastrous consequences.

So it seems fairly clear that for a very long time, the world will be dependent on fossil fuels in order for the economy and population not to collapse.

For the above reasons, the commodity based countries will soon dominate the world and that for a very long time.

The constellations of commodity rich nations are forming rapidly.

Firstly we have the BRICS countries which currently consist of Brazil, Russia, India, China and South Africa. Many countries are in the process of joining BRICS including Saudi Arabia, Iran, Algeria, Argentina and Turkey.

It is the enlarged BRICS aim to bypass the dollar and create their own trading currency.

Many talk about the Petroyuan replacing the Petrodollar but what would everyone do with the Chinese currency since it isn't freely convertible. Better then to have a currency linked to several commodity countries like Special Drawing Rights. This would create more stability and usability. The Credit Suisse analyst Pozsar calls this Bretton Woods III.

There is also the EAEU or Eurasia Economic Union with Russia leading plus China, India, Iran, Turkey and UAE involved.

The SCO – the Shanghai Cooperation Organisation headquartered in China is also an important force. The SCO is a political, economic, international security and defence organisation. It includes many Eurasian nations like China, Russia, Uzbekistan, Kazakhstan etc.

All the economies involved in this important development are commodity based. For example,

commodities are 30% of Russian GDP. Their target is to expand gold mining to 3% of GDP and become the biggest gold producer in the world.

Russia has the world's largest commodity reserves at \$75 trillion and produces 11 million barrels of oil per day. Russian friendly provinces produce another 14M totalling 25M. China produces 5m barrels and the Middle East Oil going through the Strait of Hormuz is 22M barrels. So in a conflict with the US, Russia, China and Iran could decide to close the Strait of Hormuz which means they would have control over 50% of global oil supply. As Goldman Sachs has stated, oil would then be in the \$1000s.

If we take Russia, Iran and Venezuela, they control 40% of the global oil supply.

The point I am making is that these various constellations of commodity countries will be the dominant economic power of the future as the US and Europe decline.

So for Russia, gold and oil are two strategic commodities which will play an important role not just for Russia but for all of these Eastern/Southern countries.

And no one should believe that the US and European sanctions are working. Russia and Iran are selling oil and gas to China at a discount. China then exports this, including refined products, to Europe at premium.

So the sanctions are a farce which totally kills the European economy.

Interestingly, the relationship between yellow gold and black gold has been stable for decades as this chart shows:

GOLD / OIL RATIO 1950 – 2023

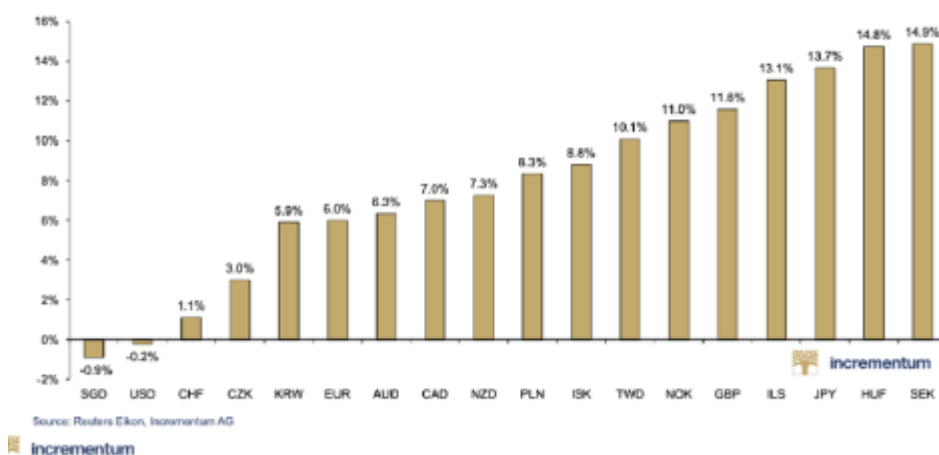
GOLD – THE VITAL WEALTH PRESERVATION ASSET FOR 2023 AND BEYOND

Gold was the best performing asset class in 2022 but the investment world didn't notice since it is

hanging on to the declining bubble assets of stocks, bonds and property.

Let's look at gold's performance in various currencies in 2022:

Gold in Various Developed Market Currencies, 2022



The chart shows gold up 15% against Swedish Kroner on the right and for example up 11.6% in pounds, 6% in Euros and virtually unchanged in US\$.

Bearing in mind that most asset markets, including bonds, have fallen by 20-30%, this is an outstanding performance by gold.

But no one must believe that gold is going up. All gold does it to reflect the total mismanagement of most economies. The chart above should be turned upside down to reflect the loss of purchasing power of all paper money.

As has been the case since 1971, this trend of falling currencies will continue but not at the same steady pace.

With the debt infested Western economies collapsing, their currencies will implode one after the other.

So please firstly acquire as much physical gold as you can afford and then some more.

And when you own your gold, don't measure the value in collapsing currencies. Just measure your gold in ounces, kilos or grammes.

Also please don't keep it in the country where you live, especially if that country has a tendency to grab assets. I don't need to tell you which countries you can't trust. The problem is, there are not many you can trust.

BEWARE – A GOLD CUSTODIAN DISAPPEARED WITH CLIENTS' METALS

Also if you store your gold with a gold custodian, ensure that only you can release it by having the

Warehouse Receipt in your name. **A custodian gold company disappeared last year with the major customer assets in spite of the gold being stored with a major vault company.** The weakness was that the gold company could release the gold without the client's approval. This is not an acceptable way to store your wealth preservation asset.

Finally remember that gold is not just your most important wealth preservation asset but can also be beautiful.



TUTANKHAMUN'S DEATH MASK 1327 BC