Currency Wars For Dummies
How the United States is Hyperventilating the World
by David Chu

Three monks were walking back from a Dharma teaching with their Master. As they arrived back at their village they noticed a flag on a post, fluttering in the wind. The first student looks up says, "I see a flag flapping." The next student looks up and, trying to out-do the first, says, "No, I see the wind flapping." The third student even more sure of his superior understanding, glances up and says, "I see the mind flapping."

Then their Master looks up and says, "And I see mouths flapping!" [1]

Upon hearing such a Buddhic pronouncement, the 3 monks, who were leisurely strolling on their way to economic and financial nirvana, stopped in their tracks and quietly closed their mouths and started staring every which way they could to avoid the penetrating gaze of their Master.

The picture of Henry "Hank" Paulson, Jr. (left), Benjamin Shalom Bernanke, and Timothy Franz Geithner speaks volumes, doesn't it?

No, this article is *NOT* about to name-call these fine gentlemen, “The Three Stooges.” That would be paying them too fine a compliment, not worthy of the three real Stooges: Curly Howard, Larry Fine, and Moe Howard. At least with Curly, Larry, and Moe, they had you in comedic stitches, laughing and crying and backslapping. With Hank, Ben, and Timmy, we'd be lucky if *YOU* did not go postal over what they have committed, once you had figured out what they've done that is.

Now that the much awaited suspense of what the Federal Reserve is going to do or not going to do to save the U.S. economy and the entire universe from Great Depression 2 (GD2) is finally lifted by the

Fed's pronouncement on November 3, we can all go back to our collected amnesia and wallow in our People-magazine pop culture for the ladies and in who's going to win the Super Bowl next February for the guys. There's nothing to see here, move along.

But before we move along any further, I want to unequivocally state for the record that I am not a *PRINCETON/HARVARD/YALE/BULLETS/BOMBS/BANKS* economist or financial expert. [2] Heck, I don't even consider myself as a plain old economist or financial anything. But I do pride myself on being an *AMATEUR* student in economic and financial matters of life-and-death circumstances. [3] In this day and age, if you are not an amateur economist and an amateur financial expert, you are gambling with your precious life because the odds of becoming a road kill on the Fed-brick road are very high. But luckily everyone who shops at Walmart and everyone else who don't are amateur economists and financial experts, even if they don't know it, because they are making economic decisions based on their financial situations on a daily basis.

The Fed's QE2 Pronouncement

According to Bloomberg News, "The Federal Reserve will buy an additional $600 billion of Treasuries through June [2011], expanding record stimulus and risking its credibility in a bid to reduce unemployment and avert deflation." [4] This act of monetary inflation by the Fed is euphemistically known as QE2 or "Quantitative Easing Part 2."

With what is the Fed, helmed by the monk in the middle of the picture above, actually going to buy the additional $600 billion of U.S. Treasuries, Bloomberg News is purposefully vague. Short story shorter, Ben is going to print $600 billion of digital dollars in cyberspace and email it over to the U.S. Treasury, managed by the monk on the right, in exchange for $600 billion of Treasuries or government bonds that will be physically printed out and handed over to the Fed. We could only hope.

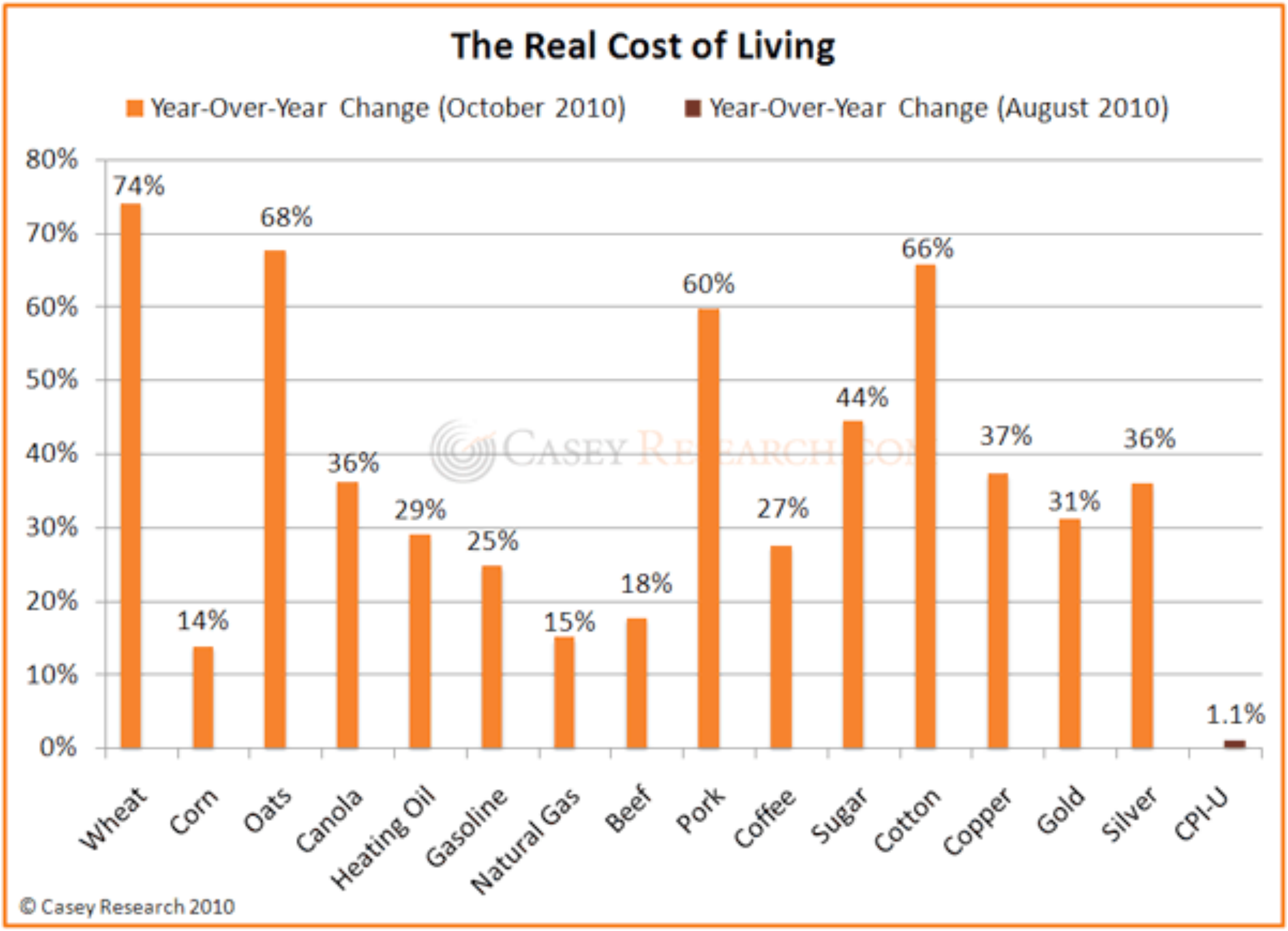
Furthermore, Bloomberg News explains, "While Bernanke's near-zero rates and $1.7 trillion in asset purchases helped end the recession [yeah, right!], the Fed said progress has been 'disappointingly slow' in bringing down joblessness close to a 26-year high."

If the stated purpose of the Fed's action is (1) to reduce unemployment, (2) to avert deflation, and (3) to end the recession, as the Fed and their pals in the lamestream media would lead us to believe, then it has already done a hell of an abysmal job. Isn't the very definition of insanity this: "Doing the same thing over and over again, and expecting a difference result?"

After quantitative easing some $1.7 trillion into existence from 2008 through 2009 (known as QE1), the Fed then purchased or helped to alleviate hundreds of billions, maybe trillions, of toxic, worth-*LESS* financial assets from their Wall Street gangsters and banksters, exemplified by the monk on the left who was the CEO and Chairman of Goldman Sachs before he exchanged his illustrious titles for that of the U.S. Treasury Secretary under Bush II to help implement TARP ($700 billion Troubled Asset Relief Program) and QE1. The result of TARP and QE1 is that the U.S. economy is still sinking in the proverbial bidet.

Official unemployment, according to a recent 60 Minutes report done by Scott Pelley, is approximately 9.5% nationally. Mr. Pelley goes on to state some very interesting facts: "It [the U.S. government's official unemployment figure of 9.5%] doesn't count the people who have seen their hours cut to part-time. It doesn't count the people who have quit looking for work. If you add all of that together, the unemployed and the under-employed, it's not nine and half percent. It's 17%. And here in California, it's 22%." [5]

What about that other ugly monster called "deflation" that the Fed is so worried about? If there are any doubts that what the U.S. is currently experiencing is *NOT* deflation, but inflation, here's a [chart of goodies](#) to consider: [6]



I don't know about real economists and financial gurus, but to me real people consume things like wheat, corn, oats, canola oil, beef, pork, coffee, and sugar. The above chart shows that the cost of these food items rose between 14% and 74%, comparing their wholesale prices in October 2010 to October 2009. The average year-to-year increase of these 8 items is about 43%. Real people also use natural resources like heating oil, gasoline, and natural gas. Their average year-to-year increase is 23%. So, if the wholesale prices of things real Americans consume rose about 43% annually and the wholesale prices of resources that real Americans use increased 23% annually, why is the official inflation index, CPI-U (the Consumer Price Index for All Urban Consumers), indicating only a 1.1% annual increase?

Something is very fishy here. [7] More importantly, we note that the United States is (or will be very shortly) experiencing inflation, not deflation, and huge inflation at that.

The third monster that the Fed is purportedly trying to slay is the "recession." I don't have to tell anyone reading this article, especially those 17% of Americans or the 22% of Californians who are unemployed and underemployed, that the green shoots promised by Hank, Ben, and Timmy have all withered and died, and that the U.S. will be lucky to avoid not only a double dip recession but GD2.

So, what is the real purpose of QE2?

I am so glad you asked. Further into the rabbit hole we go.

<u>The Currency Hole</u>

But before we get to the real reasons for QE2, we need to take a slight and calculated detour and ask the following question.

Why are these 3 presidential-looking gentlemen laughing and having such a great time?

What do they know that we don't know?

In a seminal article published in February 2008 titled, "Inflation: America's Greatest Export," Peter Schiff wrote the following economic words of wisdom (bolded emphasis in all capitalizations are mine): [8]

> *A significant by-product of the current global economic system, wherein Americans spend money they do not earn to buy foreign products that they do not make, is that trillions of dollars are now parked in foreign banks just looking for somewhere to go.*

In a healthy trade relationship, a nation pays for its imports with equal exports that result from real productivity that pumps up demand. In contrast, the current U.S. import boom has been created by the artificial demand of inflation, in which increased money supply has put more dollars in the hands of U.S. consumers. . . . ***IN SHORT, WE HAVE EXPORTED OUR INFLATION ABROAD****.*

What Mr. Schiff is saying is basically what I have said previously and the real reason why our 3 U.S. Presidents are laughing so hard:

The joke around the world is that America exports its monopoly money (electronically created out of thin air and backed by nothing) in exchange for real goods and services provided by the sweat and hard labor from the rest of the world. But the rest of the world is finally waking up to this not-so-funny situation.

Countries like China, which still pegs its currency very closely to the U.S. Dollar [USD] for export purposes, will be forced to allow their currency to appreciate when the USD continues to fall. This is because China cannot continue to absorb the high cost of the resultant inflation that is created there.

Mr. Schiff explains further the real problems that this American trade "practice" is causing in export-driven countries like China (comments in brackets and bolded emphasis in all capitalizations are mine):

Our foreign creditors basically have two choices as how to dispose of their excess dollars. They can use them to buy U.S. financial assets [priced in USD], such as bonds, stocks or real estate, or they can exchange them for other currencies or commodities [purposefully also priced in USD], such as gold or oil. If they choose the former, foreign central banks are off the hook, as those dollars find their way back to the U.S. economy without any additional money creation [in their countries]. However, as foreigners are increasingly choosing the latter, foreign central banks have been "forced" to print money like it's going out of style.

In years past, foreign investors were happy to hold strong U.S. dollars, which they either saved as a store of value, or used to purchase mighty Wall Street stocks and bonds. However, when the dollar began its epic swan dive, and U.S. investments began to grossly underperform non-U.S. alternatives, private investors dumped their dollars en masse by exchanging them for local currencies. The unwanted dollars then became the property and problem of foreign central banks.

If central banks did not buy these dollars, [their] citizens would have been forced to sell their surplus dollars on the open market [if they are able to do so]. To prevent this from happening these [central] banks have become the buyers of first and last resort. ***HOWEVER, TO SOP UP ALL OF THE EXCESS SUPPLY, CENTRAL BANKS MUST CREATE MORE OF THEIR OWN [MONEY], RESULTING IN RAPIDLY EXPANDING MONEY SUPPLIES [IN THEIR OWN COUNTRIES].*** *As much as Wall Street and government economists pretend otherwise, the expansion of money supply is the essential definition of inflation.* ***THE REAL REASON THAT PRICES ARE RISING IN CHINA IS THAT SO MANY YUAN ARE BEING PRINTED TO BUY UP ALL THESE SURPLUS DOLLARS.***

To further illustrate what Mr. Schiff has just said, especially his last paragraph: China has currently $2.65 trillion worth of foreign exchange reserves, the accumulation of U.S. dollars, European Union's euros, British pounds, and Japanese Yen, from its massive trade surpluses over the years. This gargantuan amount of money is a big headache for China's currency, the yuan.

Like most export-driven nations such as Russia, Brazil, and Argentina, China's yuan is what is called a *non-convertible* currency. What this means is that the yuan is not traded openly in international currency markets such as in New York or London. In contrast, the U.S. dollar, the British pound, the European Union's euro, etc. are *convertible* currencies and are traded in international foreign exchange markets. China's yuan is only traded within China and is basically worthless outside of the country for individuals.

When there is an excessive amount of USD swishing around inside the Chinese market, this condition causes the USD to depreciate or devaluate or decrease against the yuan. In other words, the yuan becomes more valuable than the USD. This situation is abhorred greatly by China because any significant increase in the yuan against the USD could mean a potential loss of Chinese export markets to other export-driven nations whose currency remain more competitive than the yuan.

As the Chinese Premier Wen Jiabao recently exclaimed, "The 20-40 percent appreciation of the yuan demanded by U.S. lawmakers would cause many bankruptcies in the Chinese state-owned enterprises, and cut jobs for urban workers and migrant workers, and eventually bring in fierce social turbulence." [9]

So what the Chinese government is doing to prevent such yuan appreciation is that its central bank buys up the excess USD with yuan. How does China do that? Does China have hundreds of billions of yuan just sitting around inside the vaults of its central bank? No, of course not! China, like everyone else, prints billions of yuan out of thin air! Instead of billions of USD floating in the Chinese market, now there are even *MORE* billions of newly minted yuan floating in China (remember, it takes approximately $6.5 yuan to buy $1 USD currently). The net effect of this action conducted by China's central bank is that the price of things in China gets heated up figuratively.

If the rate of increase in goods and services produced in China for the Chinese people does not go up as fast as the rate of increase in new yuan circulating in the Chinese market, then this new money will cause inflation inside China. Price inflation is the appearance of rising prices when in reality it is caused by too much local currency chasing the same amount of local goods and services (i.e., real estate, stocks, foods, etc.) Is there any evidence of such price inflation in China?

Here is an anecdotal example of the huge inflation in China's real estate market, specifically, in Shanghai. One of my relatives has an apartment in Shanghai that was purchased in 2005 for $88,000 USD. Today, that apartment is worth around $300,000 USD. This is an appreciation of almost ***50% PER YEAR***! Not even during the recent housing bubble in the San Francisco area have we witnessed such an unbelievable appreciation rate in real estate prices.

My Argentina Experience

For a better and more concrete example of how the United States is causing monetary and price inflation in other countries, we visit Argentina where I had lived for 2 years. Argentina is also an export-driven country. Genetically modified soybeans is one of its main exports. The Argentina peso is also non-convertible. Argentina must also maintain the competitive edge of its peso for the export market.

When I landed in Argentina in August 2008, the peso was trading at approximately 3 to 1 against the USD, meaning that it took $3 pesos to buy $1 USD. When I left in July 2010, the peso was and still is trading at approximately 4 to 1. This translates into a depreciation or devaluation or decrease of the Argentina peso of 24% against the USD over the past 2 years. [10] How did the Argentineans accomplish this feat, especially against an ever falling USD? Their central bank printed out billions of pesos from thin air and then bought the excess USD inside their country due to its accumulated trade surpluses, that's how. In fact, there is so much monetary inflation in Argentina that they have to import

Argentina pesos from Brazil! [11]

Is there any correlation between monetary inflation and price inflation in Argentina?

The Argentina government states that the official inflation rate in Argentina was 8% in 2009. The International Monetary Fund (IMF) has it pegged at 6.3%. Word on the streets is that the real inflation rate in Argentina was 15 to 18% in 2009 (or **16.5% on average**). What about for 2010? Official government inflation rate for 2010 is projected at 11%, while the IMF is guessing 10.6%. Barclays Capital, the giant international investment banking firm based out of London, England, is quietly telling its key investors to expect inflation in Argentina to be around **16.5%** for 2010. [12] We all know that governments lie, Argentina's is no exception. The IMF, really an arm of the Anglo-American establishment, is not any better.

It's really fascinating to make the following observation. The Argentina peso depreciated from 3 to 1 in late 2008 to 4 to 1 two years later. If we treat the USD as an iPod, it took $3 pesos to buy one iPod in August 2008 and it costs $4 pesos to buy that same iPod in 2010. So, the price of an iPod in Argentina has gone up by 33% over 2 years. Or the inflation rate of our iPod (or USD) is **16.7% per year**. [13]

Is it just a coincidence that the inflation rate experienced by people on the streets of Argentina (16.5% in 2009) and discussed in the private board rooms of investment banking houses (16.5% for 2010) matches almost exactly our theoretically derived calculation of 16.7% per year? It would seem that the price inflation rate in Argentina, at least, matches its monetary inflation rate for the past 2 years.

Currency Wars

> *It is very important for people to understand that the United States of America and no country around the world can devalue its way to prosperity, to [be] competitive. . . . It is not a viable, feasible strategy and we will not engage in it.*

The U.S. Treasury Secretary, Timothy Geithner, uttered those words on October 18, 2010. [14] Almost everyone reading his statement assumes what he said is that no country including the United States can devalue its currency as the means to prosperity. Didn't he promise that the United States won't engage in it?

Wrong!

Please stop now and re-read what he actually said.

What Mr. Geithner actually said is the exact opposite! He is making two statements (1, 2 below) and trying to get away with his first statement by covering up with his last sentence (3).

1. "It is very important for people to understand that the **United States of America can devalue its way to prosperity, to [be] competitive**. . . ."

2. "It is very important for people to understand that **no country around the world can devalue its way to prosperity, to [be] competitive**. . . ."

3. "It is not a viable, feasible strategy and **we will not engage in it**."

How is that for double-speak?

Forget double-speak, the monetary actions of the United States through the Fed and the Treasury speak louder than any words, as the following chart shows the depreciation of the USD against the euro over a 10-year period. One USD went from buying 1.20 euros in November 2000 to just 0.70 euros in November 2010.

To help explain why we are having currency wars, let's look at the Chinese yuan.

The yuan is valued in comparison to another currency, like the USD for example. For the yuan to go up in value or to appreciate against the USD, (1) it could go up in value against a static USD, or (2) it can remain static against a falling USD, or (3) it could be one of many permutations thereof. The U.S. has been devaluating or debasing or decreasing the worth of its USD through monetary inflation as the above chart demonstrates, i.e., printing money from thin air and exporting most of it to other countries, making their currencies like the euro and yuan more valuable.

The Chinese, like other export-driven countries, can't allow that to happen because it would result in losing their export market shares to these other countries. So, they engage in devaluating or debasing or decreasing the worth of their currency in order to keep up with the ever falling USD. The euphemistic term is "quantitative easing."

The other export-driven countries, such as Japan, Brazil, India, etc., are all engaging in the same quantitative easing scheme to keep up with China, and, more significantly, with the crashing USD.

And so this potentially vicious circle of debasement of currencies goes on and on.

What is the real solution to the currency wars?

UNITED STATES OF AMERICA: CEASE AND DESIST FROM DEBASING YOUR CURRENCY!

Unfortunately, such a simple solution would never see the light of day.

Now, let's get back on board the U.S.S. QE2.

The Real Purposes of QE2

To put it in simplest layman's terms what is happening: the United States is "pissing" on its currency, the USD, by hyper-inflating it through QE1 and QE2 and, soon to be, QE3, i.e., it is debasing or devaluing its currency by printing trillion of dollars out of thin air. [15]

The United States government doesn't give a damn to what its citizens and the world think because the USD is currently the reserve currency of the world: (1) it has the only license in the world to freely print its currency from nothing, and the rest of the world will gladly accept the newly minted USD, and (2) because it doesn't plan on paying off its debts to countries such as China. [16]

However, the rest of the world, including China, is catching on to this greatest Ponzi Scheme in history. Countries like China and Japan are slowing down their purchase and accumulation of U.S. Treasuries due to the indisputable fact that their holdings of U.S. government debts are losing value as the USD continues to drop.

What is the United States going to do when other countries are not willing to keep buying its Treasuries when it needs to finance the projected $721 billion for its Department of War (oops, I meant the Department of Defense) in 2011, among other deficit spending expenditures?

That's where the Fed comes in and why QE2 was implemented. And, subsequently, QE3 and QE4. . . .

The Fed is literally forced to print trillions of USD to buy up all of the unwanted U.S. debts in the coming months and years, as other nations stop buying U.S. Treasuries and start selling them back to the U.S. ever so gently and quietly.

The secondary purpose of QE2, of course, is to bail out the Wall Street banksters by providing them with liquidity at an almost zero interest rate. The banksters, in turn, might take some of that $600 billion and use it to shore up their bottom line or they might re-invest it in the stock market or in other higher yield investments.

Contrary to all the pundits who are blaming the Fed for making a big mistake for implementing QE2, the Fed is doing exactly what it was created to do. As an anonymous commentator on Gonzalo Lira's popular blog succinctly puts it: [17]

> *Now, for the assertion that the Fed made a mistake. Wrong! They did exactly the best thing...FOR THE FED! The Fed is a privately held [consortium] of banks. Their actions are not necessarily intended to save us or the economy; their actions are intended to save the banks, to drive up asset valuations so the smart money can get out before the collapse.*
>
> *Ben Bernanke was a boy wonder, child prodigy and a genius academician. He still is. He is only doing the bidding of his betters in this, saving the asses of the asses who drove the economy into the ground. To hell with the best interest of the US.*

Conclusions?

What conclusions can we make from all of this?

For one thing, massive price inflation is coming very soon to the United States in terms of everyday retail prices such as in food and fuel. This will probably be felt by the average American within the next 6 to 9 months. Secondly, the currency wars among the export-driven nations will intensify as the USD keeps falling off the financial cliff. Thirdly, we are headed into Great Depression 2 just as assuredly as the RMS Titanic headed straight to the bottom of the Atlantic Ocean. And last but not least, another major war, maybe even global in scale, may not be too far off in the distance, and it will be initiated by the United States or by one of its proxy allies in a "shock and awe" attempt to bypass and cover up the greatest economic and financial collapse in history.

You know, maybe we should have let these final three gentlemen handle the U.S. economy (from left to right: Moe Howard, Curly Howard, and Larry Fine). They couldn't have done a worse job than Hank, Ben, and Timmy, or Obama, Bush, and Clinton.

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[1] http://buddhistsjustwannahavefun.tribe.net/thread/6e18d590-a7a8-4145-bdd4-afe3a791442f

[2] This term is coined by Gerald Celente of the Trends Research Institute. His original wording, “Princeton, Harvard, Yale, Bullets, Bombs, and Banks” succinctly describes the real underlying causes of the economic and financial problems in the United States.

[3] The word “amateur” comes from the Latin words “amator” or “lover,” and “amare” which means “to love.” To be an amateur in golf, for example, is to love the sport.

[4] http://www.bloomberg.com/news/2010-11-03/federal-reserve-to-buy-additional-600-billion-of-securities-to-aid-growth.html

[5] http://market-ticker.org/akcs-www?post=170176

[6] http://www.shtfplan.com/headline-news/fed-clicks-print-button-saves-america-again_11032010

[7] Changes in wholesale prices usually take about 6 months to appear in the retail markets.

[8] http://www.kitco.com/ind/Schiff/feb222008.html

[9] http://english.caijing.com.cn/2010-09-25/110529595.html

[10] The Argentina peso went from $3 pesos buying $1 USD in 2008 to $4 pesos buying $1 USD in 2010. Or another way to express this currency ratio: from $1 peso buying $0.33 USD to $1 peso buying $0.25 USD. So, what the peso buys in terms of the USD has gone down from $0.33 to $0.25. This decrease can be expressed as a percentage which is equal to (0.33-0.25)/0.33 or 0.24 or 24%. The peso has depreciated by 24% over 2 years or 12% per year.

[11] http://momento24.com/en/2010/11/03/inflation-and-growth-increase-the-printing-bills-of-100-pesos/

[12] http://en.mercopress.com/2010/01/05/argentinas-inflation-third-highest-in-the-world-say-private-consultants

[13] The price of our iPod example went from $3 to $4 pesos, or the iPod went up in price by an amount equal to (4-3)/4 or 0.33 or 33%. Remember this is over a 2 year period. So, our iPod increased by 16.7% per year. We can call this “monetary inflation,” as the iPod is used in place of the USD.

[14] http://news.yahoo.com/s/nm/20101019/bs_nm/us_usa_dollar_geithner

[15] http://www.theglobeandmail.com/report-on-business/commentary/jeff-rubins-smaller-world/quantitative-easing-is-just-devaluation/article1782626/

[16] **http://dailybail.com/home/peter-schiff-of-course-were-not-going-to-pay-back-the-chines.html**

[17] http://gonzalolira.blogspot.com/2010/11/two-more-nails-in-dollars-coffinthe.html