A PEEK AT THE WEEK THAT WAS - September 7, 2013

Patient Capital.... Positioned for Profit

Editorial note: our apologies for being a little late in sending this issue. Like the hot money we write about this week, we too find ourselves in a different time zone which has delayed publication just a wee bit.

"When the rich wage war, it's the poor who die"

Jean-Paul Sartre

Last week we looked at that seemingly inevitable human condition…**WAR**. After some deliberation, Barackus Caesar opted to punt on 4th down and will now consult with the legislative branch...those oh so wise folks in the Senate and the House of Representatives. This is probably a smart political move. After drawing a red line in the sand against chemical weapons, the commander in chief may now be prevented from crossing his own Rubicon by a less than cooperative Congress.

Oh yes…I really wanted to go after that evil Syrian regime but gosh…those darn politicians won't let me cross that red line. Lucky for Bashar...I was ready to bash him good.

Caesar will address the nation on Tuesday evening but it seems like less than 10% of Americans care for more conflict...conflict that we simply cannot afford, either in blood or money. In fact, 90% of Americans surveyed in a recent poll supported the concept of sending the entire Congress (yes, including Nancy) to Syria for an as yet unnamed ground mission. Really...you can read about it here ;-)

Maybe we are becoming smarter after all…even if the Secretary of State says we have the right to be stupid. Before we get too confident, however, remember that there are small determined pockets of influcence that are seriously itching for a fight...that others will actually participate in, of course.

But there is another war going on as well as the cyber war we discussed last week. This war was unleashed by Bartender Ben some time back and it is heating up.

The stock markets have been ho hum at best so this week we'll take a peek at a global currency war that may be short on violence but not on consequences. When turkeys go wild in New Jersey, one suspects that all is not well in our world.

We'll continue our look at the friendly Fed and start taking stock of how well the creature has performed over the past 100 years or so. This should be interesting.

Finally, we take a peek at our chart of the week which shows us that all is not bad in the great republic.

"Let them eat (rice) cake!"

Marie Antoinette (circa 1790) / Ben Bernanke (circa 2013)

There is trouble brewing in the currency world.

Over on the sub-continent, the Indian Rupee is in an uproar….or more precisely…a freefall. In Thailand the Bhat is taking a bath. Indonesia's Rupiah is being ravaged while across the globe, the Brazilian Real is increasingly unreal. In the land of fierce rugby, the South African Rand is being rucked, while in Turkey, the Lira is taking a licking. In NJ,another kind of turkey has been terrorizing gentle ladies in their own homes.

What is going on? And why does it matter?

Well folks, there's a lot going on and it really does matter…and not just to those who like to travel. This currency chicken is coming home to roost and it's looking increasingly like a wild turkey descending through a surburban skylight.

Everything has consequences Ben…intended or unintended…and consequences we shall have.

So why are all these currencies cratering and stock markets tanking?

Put very simply is because the hot money that made them hot is making a run for it. This, in turn, is affecting silly things like their stock markets and the strength of their currencies.

As we all know, in a metaphorical sense, Bartender Ben has been spiking the punch bowl with liberal amounts of vodka to make sure that everyone at Club S&P has a rolling good time. In a literal sense, Benny and his Feds have been printing money…trillions of dollars of it. Alot of this money is "hot" money. In other words, it gets into the hands of Ben's banker friends and their tricky traders go to work…finding a friendly home for all this green.

They are not doing it for love. They are doing it for money. So the hot dollars go looking for hot dates…in exotic places. Places that pay higher interest than Bartender Ben…which is pretty much anywhere other than the US, where prudish Ben feels that zero interest is sexy enough.

So off the money goes…to India, to Brazil, to Thailand…anywhere with a half decent rule of law and a somewhat established currency and stock market. If I can get 9% interest on my hot money in India verses zero in my home country, what's not to like?

So the easy money went looking for a new home in far away places. It propped up the local stock market and papered over a multitude of ugly cracks in pesky things like current account deficits.

Current account what???

From Investopedia:

> *Definition of 'Current Account Deficit'*
> *Occurs when a country's total imports of goods, services and transfers is greater than the country's total export of goods, services and transfers. This situation makes a country a net debtor to the rest of the world.*

If you are running a current account deficit...in other words, importing more than you are exporting...then it's nice to have a strong currency to pay for all those nice imports. But if your currency is weak and getting weaker, that can get very ugly, very quickly. When the hot Yankee dollar was propping everything up, no one noticed...or cared to notice.

But now Bartender Ben is hinting that eventually, at some point, as yet to be determined, but possibly imminently or then again, maybe later…but inevitably nonetheless…he will have to pull back on his generous pours…the so-called "taper".

This is having a cooling effect on the hot money in far flung locales and a lot of it is returning to the perceived safety of the homeland, thereby strengthening the Yankee dollar.

And as the Yankee dollars kiss their foreign girlfriends goodbye, the make up and lipstick that was

covering their delicate financial complexion is disappearing too. Simply put, without the easy money support, the local currencies are showing signs of wear and tear.

From Reuters - Sept. 5, 2013

(Reuters) - Emerging and developed G20 powers struggled to find common ground on Thursday over the turmoil unleashed by the prospect of the United States reducing a flood of dollars to the world economy.

Nothing in this increasingly global economy occurs in a vacuum. As these emerging stock markets sag and their currencies gag, other nations are taking note. You see, a cheaper currency may have many negative effects on pesky things like current accounts but it can be very positive for your domestic export business as your products become cheaper for other countries to buy.

But this can often spiral out of control as other governments intervene to cheapen their own currencies in order to stay competitive. As we have written before….a currency war is the only conflict in which the ultimate objective is to kill oneself. Crazy we know…but we've yet to see any war that makes sense.

From Zerohedge Aug. 25,2013

In September 2010, Guido Mantega coined the phrase "currency war" as he proclaimed the world's central bank's FX interventions were dangerous for citizens' purchasing power and would lead to a vicious circle of competitive devaluations. In March, Mantega unleashed a mini-war by taxing foreign borrowings and threatening capital controls. But this week, after the BRL devalued over 26% since March as Fed Taper talk and EM capital flight takes hold around the world, Brazil has waded into the world's currency war with the largest currency intervention the nation has ever planned. Following a dismal current account deficit print, as The FT reports, "Brazil will launch a currency intervention program worth about $60bn to ensure liquidity and reduce volatility in the nation's foreign exchange market" - offering USD500 million per day in currency swaps to support the Real.

From Zerohedge Sept. 2, 2013

On Monday morning of this week, the RBNZ (New Zealand) and BoK (Korea) intervened in the currency market to try to dull the strength of their currencies. Soon afterward, Sweden and Chile announced they might have to intervene as well. Poland cuts rates to weaken the Zloty.
These actions and comments show that the external ramifications of QE will no longer be tolerated passively. These moves represent a tacit protest against QE. It could be argued that if QE policies do not subside soon, other governments are now willing to retaliate with counter-measures (currency wars, "a race to the bottom", protectionism).

But look…if no one actually gets killed in a currency war, why does it even matter? After all, it's not like a real war…or even a cyber war, where the nefarious nerds could cause real damage.
Again folks, here's the problem with currency wars. Like any other war, there are often serious consequences that can lead to catastrophic calamities.

For example, in order to preserve their currency, countries can and do implement capital controls. If enough countries do this, free flowing capital is curtailed and international trade is impacted. Trade needs liquid currency to grease its wheels and oil its engine. Robust international trade is a healthy deterrent to international turmoil. When trade is stymied, the mischievous hand of malevolence is all too quick to intervene. Cruise liners become troopships. Cannons replace containers. Commerce gives way to conflict.

From Zerohedge (yet again) - Feb.8, 2013

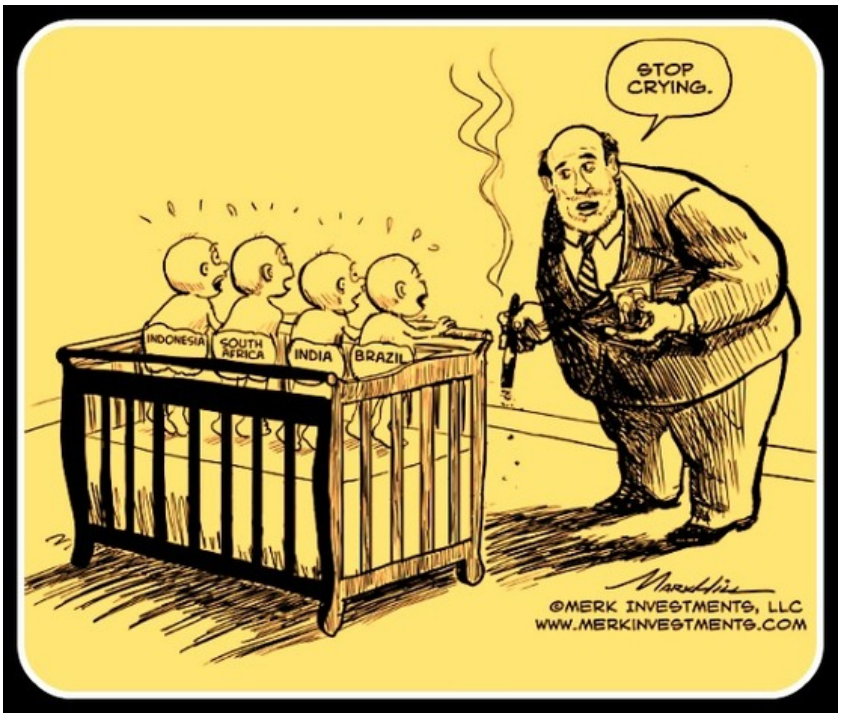
Brazilian president-elect Rousseff said in 2010:
The last time there was a series of competitive devaluations ... it ended in world war two.
Billionaire investor Jim Rogers says:
Trade wars always lead to wars.
Top trend forecaster Gerald Celente has said for years that ***currency wars turn into trade wars ... which in turn lead to hot wars.***
Jim Rickards (author of Currency Wars...a decent read) agrees:
Currency wars lead to trade wars, which often lead to hot wars. *In 2009, Rickards participated in the Pentagon's first-ever "financial" war games. While expressing confidence in America's ability to defeat any other nation-state in battle, Rickards says the U.S. could get dragged into* ***"asymmetric warfare,"*** *if currency wars lead to rising inflation and global economic uncertainty.*
Indeed, trade wars have been leading to hot wars for thousands of years. For example, the war between Rome and Carthage - leading to elephants in the mountains surrounding Rome - essentially started as a trade war.
Indeed, with top economic forecasters predicting war, the American policy of using the military to contain China's growing economic influence, and the U.S. considering economic rivalry to be a basis for war, the global currency and trade wars are creating a tinderbox.

No, we are not predicting a global trade related conflict any time soon. But it has happened before and it could happen again.

Far more likely in the US...and of far more immediate concern to us as investors...is an increasingly more demanding Ms. Bond. And a demanding Ms. Bond can create a whole world of worry for an

economy that is struggling at best. Add to that, weakening economies in Europe and the developing countries and things might not look so great at all.

We'll talk more about Ms. Bond's impact next week...but suffice it to say that it has something to do with real estate prices and real estate prices have a lot to do with the US economy. And the US economy has everything to do with the global economy right now. Stay tuned.



In the meantime, what does Bartender Ben have to say about this fine little mess that arguably he's responsible for?

> ***Bernanke Tells Emerging Markets to Stop Crying and Grow Up!***
> ***Stock-Markets / Emerging Markets***
> ***Aug 28, 2013 - 10:39 AM GMT***

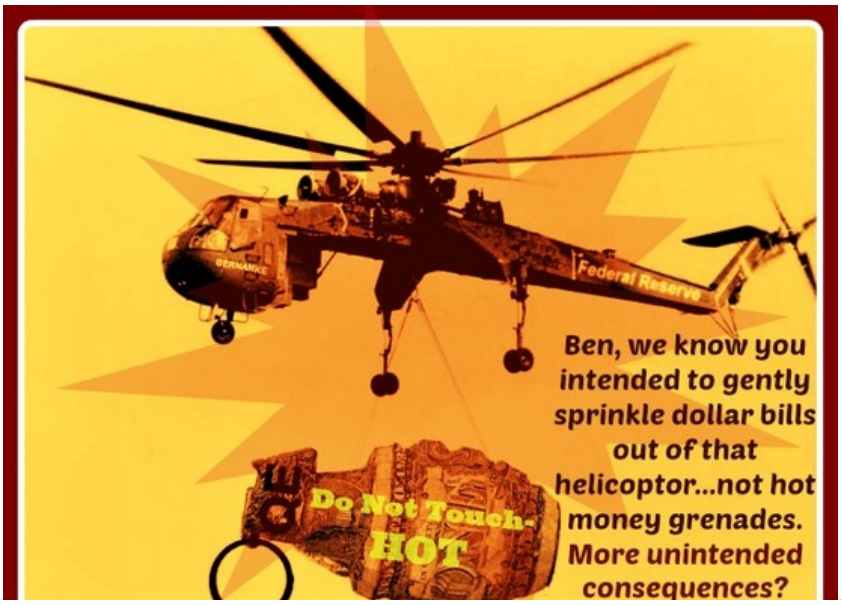
So basically…and channeling the inimitable Mr. Lesley Chow of The Hangover Part 1…

> ***"not my problem"***

or in the majestic…and fateful…words or Marie Antionette...

> ***Let them eat (rice) cake.***

Head's up Ben, that wild turkey is aiming right at you…he doesn't care for rice cakes…and he's clutching a live grenade. And Ms. Bond is right behind him!



Source: Institute - Currency War Archives

"It is well that the people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning."

Henry Ford

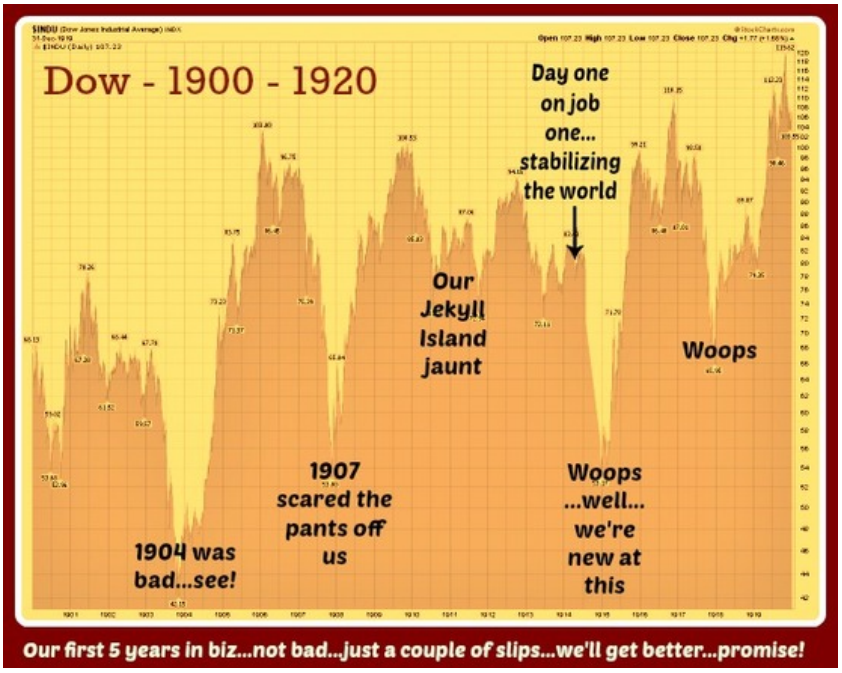
"A great industrial nation is controlled by it's system of credit. Our system of credit is concentrated in the hands of a few men. We have come to be one of the worst ruled, one of the most completely controlled and dominated governments in the world-- no longer a government of free opinion, no longer a government by conviction and vote of the majority, but a government by the opinion and duress of small groups of dominant men."

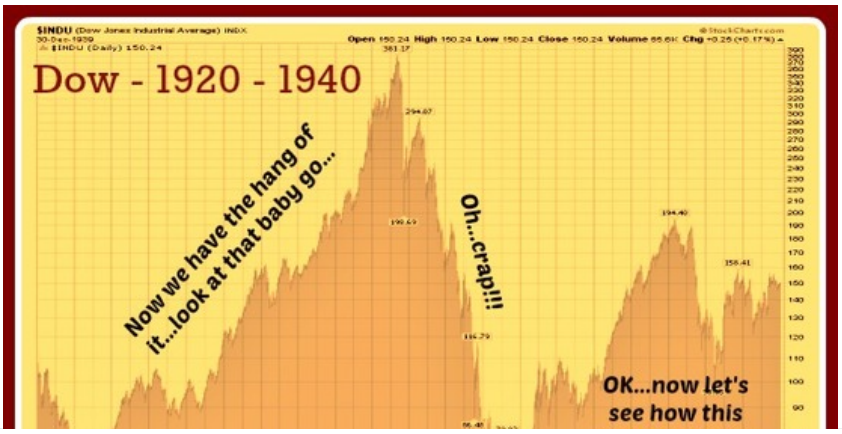
President Woodrow Wilson

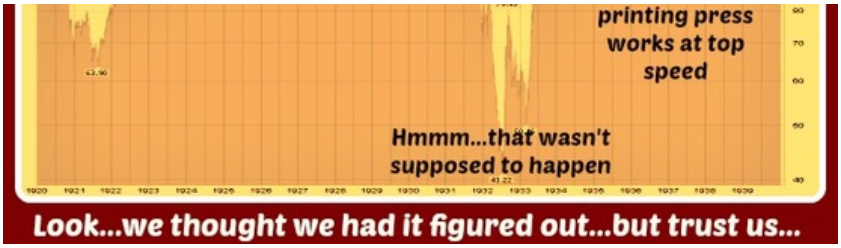
Well...we can understand old Henry Ford being a bit upset with us at the Fed. After all, he was a mechanic, not a banker. But Wilson...why...he was our man. He had no chance at the presidency without us. Where's the loyalty...where's the love? It's tough being the world's most powerful public...semi-public...sort of private...well, mostly private...institution. For some reason we are often misunderstood.

But let's look at how well we've done since we took over in 1914. We'll start with our success at stemming the boom and bust cycle in the stock market. Then next week, we look at the stellar job we have done with inflation...and unemployment, if we have time.

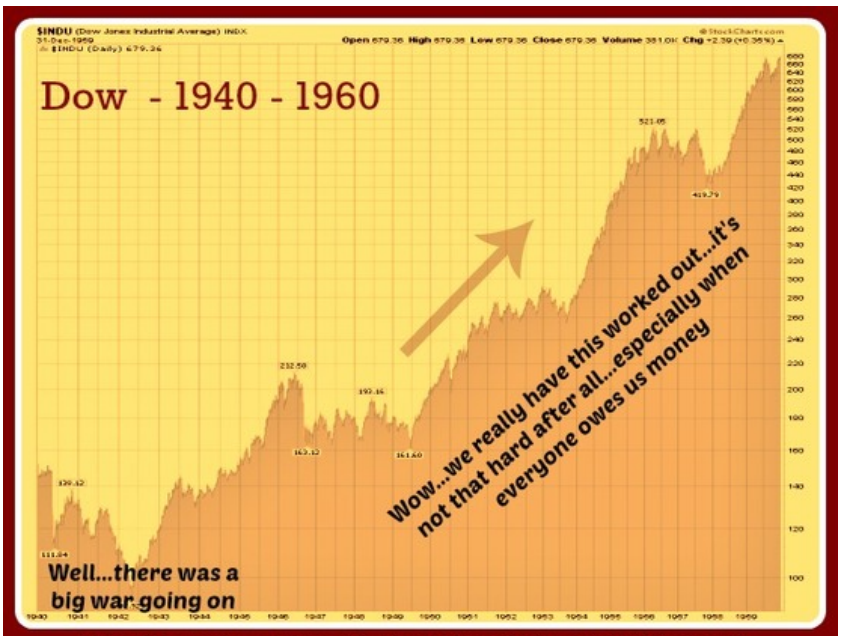
They say a picture is worth a thousand words, so let's show how well we've done through a series of stock market charts through the past 100 years of so. We're sure you'll be impressed.



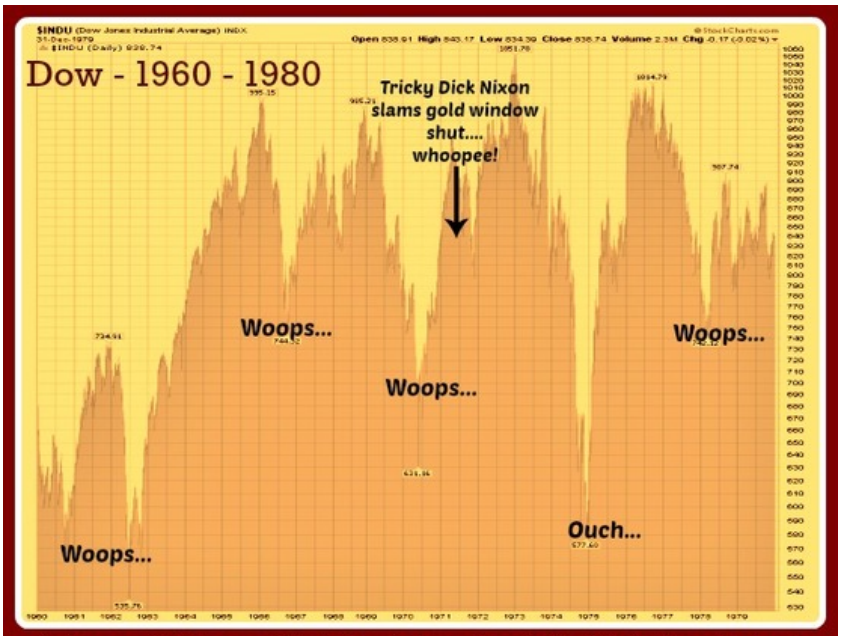




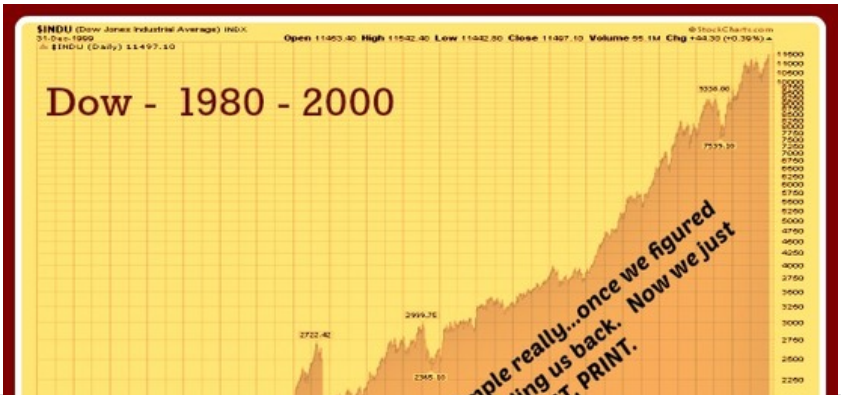
Look...we thought we had it figured out...but trust us...



You have to agree that we're doing pretty well...



Just when you think everything's fine...but we did get rid of that silly gold standard



Ronnie Reagan and Billy Clinton try to claim some credit...but really, it was all us

No...really...we can do more that just print money...really!

OK...maybe we've not been that good at getting rid of those pesky booms and busts. We promise to try harder over the next 100 years. And we know we can do better. We've got rid of gold. Now we just have to get humans out of the game and we're all set.

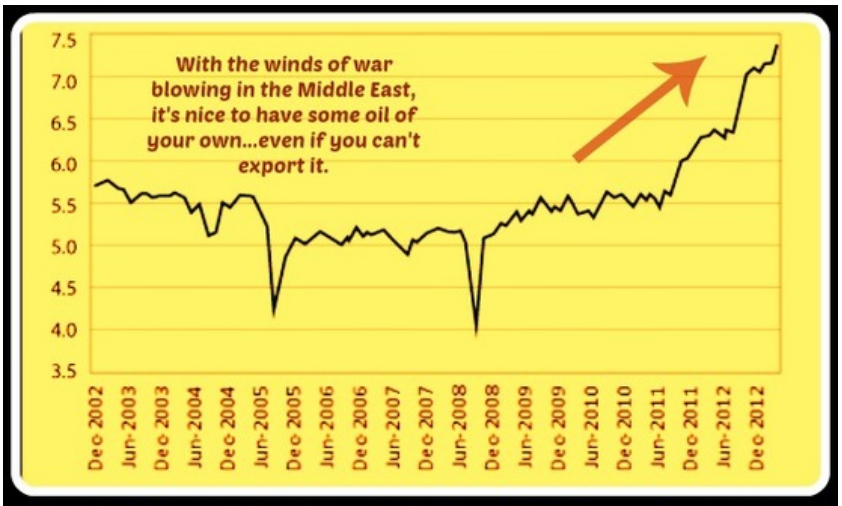
CHART OF THE WEEK - WHY IT'S NOT ALL BAD FOR THE GOOD OLD US of A?

While the politicians have been pontificating, the producers have been producing.

We have written occasionally about the riches of these United States. This is proof...both of the natural and human resources that abound in this great land...but which are in seriously short supply in Washington DC.

Let's hope that the movement to ship Congress to Syria gains momentum.

That's one vote we would gladly line up in the dark, for hours on end...candle in hand...to place.



Black gold (crude oil) production in the US - millions of barrels / day

Til next week...

"Ignorance is the curse of God. Knowledge is the wing wherewith we fly to Heaven."
William Shakespeare

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