



GMR GLOBAL MACRO Roundtable



R. Buss
Editor

GMR Letter | Commentary : Sunday 16 May 2010

[21:00 CET] This is a two part commentary. I wrote the main body last night late while thinking all

weekend about the Euro and other currencies. This part here is just what's happening this morning : As with Friday, my screen is showing ALL RED. Markets are down in Asia ; Euro is continuing to fall ; Oil has dropped to \$70 and copper is back to \$3. Everything is reversing. Gold + Silver are slightly weaker only. The US Dollar is zooming higher—against the AUD and CAD we have seen strength over the last week. Gold short positions are now HIGHEST level in 2010—we may see corrections coming this week. An interesting report out today is that the “shock and awe” EU trillion euro rescue package is already dead. There are no political mechanisms in place to actually transfer such aid to any country. There are now multiple research reports out of the Euro falling to \$1.10 as I charted last week. Euro is at weakest point in 4 years .vs. USD. This week the ECB is supposed to buy bonds from more PIIGS (Spain and Ireland). What will the Euro do ?

	BID	ASK	
AUD-USD	0.8766	0.8770	▼
EUR-CAD	1.2767	1.2774	▼
EUR-CHF	1.4006	1.4009	▲
EUR-JPY	112.84	112.88	▼
EUR-NOK	7.7218	7.7268	▲
EUR-USD	1.2272	1.2274	▼
USD-CAD	1.0403	1.0407	▲

Index	Value	Change
DJIA	10748.64	-0.34%
S&P	1155.00	0.24%
EURO vs. USD	1.27	n/a
OIL	76.54	0.22%
DAX	6121.11	1.36%
NASDAQ	2375.02	0.01%
FTSE	5356.46	0.42%
NIKKEI	10394.03	-0.16%
CAC 40	3727.04	0.91%

These past few days I've been thinking about the ongoing Euro debt crisis and wanted to say a few words. As a trained engineer with 20 yrs. experience, you know, I have in the past often spoke of finance in terms of engineering principles. I shall do so again today. For starters, entropy. Entropy is essentially a measure of the number of ways in which a system may be arranged, often taken to be a measure of "disorder"

Nature's driving force is chaos or entropy. Why ? Well, the real answer to that is I don't know – I guess that is what the „creator“ envisioned. The rational answer is that chaos tends to provide the maximum number of potential outcomes by using the least amount of energy. Thus it follows, by providing the maximum possible outcomes, that there is thereby a greater chance that one of the outcomes will become inherently „better“ and thus survive and ensure the survival of whatever species in question. Or, taking the reverse, we survive because nature has provided us at all times a maximum of alternatives to reach the next level of our evolution or to adapt.



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Just think of a rain forest. It is the epitome of chaos in nature yet provides some of the most diverse, plentiful and symbiotic relationships between plants, animals and functional resources. But it is totally chaotic in nature and oftentimes messy. Whereas a 18th Century French or English garden is the exact opposite – it is the triumph of man over nature. The forcing of nature to grow in a certain way to one's creative will. But we must also admit that such gardens are the exact opposite of entropy – they serve but a few functions and require massive amounts of human energy to force nature's inherent chaos to grow and be „formed“ into artistic forms otherwise fully foreign growth patterns. They also require large of amounts of energy to be maintained in the way that was originally envisioned by the garden designer.

Monetary systems are no different than gardens or rain forests.

Whereas Europe once had a blossoming rain forest of multiple countries with multiple currencies all working in a sort of chaotic but symbiotic way – each with national idiosyncrasies, national Central Banks to set its own monetary policy and thus currency value, a plethora of interest rates and economic diversity, The „Euro Gardeners“ came in and thought they could artificially „design“ a better currency. A currency subjected to the will of the grand currency designer. The grand vision and triumph of man over nature. Of man over money. Of thought over chaos.

They have, with exceptional amounts of misdirected energy, remember Energy = Money, been able to force their local natural money systems into a un-natural money system called the Euro. Because the Euro is the exact opposite of entropy or chaos. And thus, by „killing off“ diversity, they must maintain the Euro Garden with hoards of economic and monetary gardeners, all trying to work in unison, to try and groom the Euro to some grand vision ... just as gardens were groomed throughout Europe 250 years ago – to the delight of Kings and Queens, to the delight of those in Power.

Thus, by expending large amounts of money and energy, against the natural flow of money systems to be diverse and abundant, they have forced us all into a Euro Garden (maze?) and are damned forever in trying to maintain a currency against the entropic forces of nature.

History has repeatedly shown that the energy expended in trying to maintain a far-flung economic empire with a common currency across diverse cultures and economies is ALWAYS doomed to failure. Always. The Romans failed. The British Empire failed. The US Empire of de-facto exported debt Dollars is failing and on the way out. The Euro was a flawed currency from its conception. The Euro as a substitute for the US Dollar as a second reserve currency is truly absurd.

Just as the Romans, the British, and now the US tries to maintain a reserve currency through absolute military power, the amount of expended energy to maintain such a system becomes self-consuming. Instead of investment into productive enterprises, the Empire is forced by fear of loss to constantly expend more and more energy into „grooming“ as opposed to real productive investment. Just as the Kings and Queens went bust and broke in trying to maintain their empires, it is no different with the US or the Euro or the British Pound or the Roman denarius (dinar).



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Natures tends naturally to chaos and diversity – against the will of man. Because it ensures our survival. By trying to maintain an unnatural currency system against the forces of nature one has two choices ; either expend more money and energy to „force“ coherency but increase Power or simply let nature takes its course and use the energy or money for more productive purposes within society but abdicate power.

At the moment, the European Central Bank has taken the former route of absolute power. It shall fail.

The other question on the table is that of inflation or deflation. These are opposite forces within a closed system, called society. But again, closed systems are rational systems, yet nature works in irrational systems.

Society, is per se, a closed system maintained by us all, because we perceive the rationality of our society as being more secure. That may be true, or it may not. It is certainly „cleaner“ and less messy. But „better“ ? That is subjective.

The entire question of inflation or deflation is one of rationality because the Central Banks try to maintain confidence in the entire system and thus prod consumers between the two poles of monetary engagement. In times of profligacy, or the „good times“ we are driven by super-confidence to consume and thus inflation. In times of less confidence we are driven to be more careful and thus „the system“ tends toward deflation.

I have always maintained the opinion that inflation and deflation, while being a function of money supply, are really functions of confidence. If we are confident, we consume more because we believe we will always find the money, or the job, to replace our spending. In times of less confidence or outright fear, we in the closed system, tend to deflation as our confidence falls.

Hence, $V = F(\text{confidence})$, or the velocity of money, i.e. The rate at which we spend or exchange money with others is a direct function of our confidence in the system. The corollary is that when monetary authorities see confidence falling, they try to cajole consumers into spending more by lowering interest rates and getting them to borrow ... thus in fact, increasing the money supply artificially.

But the point is not one of money, it remains confidence as the economic driver. Japan has had 0% interest rates for 20 years and remains in deflation – the consumer confidence is deflationary in



Video - Thermodynamic Entropy

http://www.youtube.com/watch?v=B4SFv_2Skdc

TOP STORIES IN U.S. | JANUARY 31, 2010

Deficit to Hit All-Time High

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Article | Video | Interactive Graphics | Comments (142)

By JONATHAN WEISMAN

WASHINGTON—President Barack Obama will propose on Monday a \$3.8 trillion budget for fiscal 2011 that projects the deficit will shoot up to a record \$1.6 trillion this year, but would...

Video - Hyperinflation Meltup ?

<http://www.youtube.com/watch?v=eb1n1X0Oqdw>

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nature because consumers don't believe in the validity of the system.

The „king maker“ in this debate is debt. By living BEYOND their own means, countries, having trillions upon trillions of debt, have invited massive negative forces into the equation. Because everybody knows that those debts can never be repaid with any normalcy. Hence consumer and **INVESTOR confidence turns negative and invites deflation**. Deflation then means that confidence to invest in the said economy is (extremely) reduced and thus a spiral of no growth to pay off the debt occurs. This is Greece. It will be Spain and Portugal, It will be the UK likely, and most likely the US as well.

Once deflation takes hold, there is less confidence and the States start to increase the money supply by lowering interest rates ... but to no avail. The consumers will not go indefinitely and perpetually into more debt. This self-reinforcement of more debt to literally paper over existing debt is a spiral which cannot be gotten out of pro-actively. **The debt must be repudiated and written off because everybody knows that trillions in debt cannot be serviced in interest payments. But this is EXACTLY what is not happening. Countries are bailed out with trillions of NEW DEBT.** The entire GDP will, at some point, be consumed entirely in interest ... thus nobody wants to buy sovereign bonds like Treasury bills or UK Gilts because they will NEVER see their money again. That is when the confidence slips and no matter what the government says, nobody believes them... Welcome to the real world Mr. Trichet and managing your „Euro“ PIIGS. Spain, Portugal, Ireland and Italy await your gratuitous bailouts. We run like hell.

This is when confidence „turns“ and becomes insoluble, i.e. No more debt can be absorbed in the currency system. And consumers who just before were deflationary, become massively inflationary, ie. they start to spend their money wildly as it becomes less and less in value, or also known as the „Zimbabwe Moment“ or hyperinflationary.

Two things happen at the that moment : there is a flight into safehavens of tangibles, i.e. Food, animals, anything which is known to hold value and can be bargained for. Paper money is just paper – only backed up by confidence.

The Chinese have started to reduce their purchases of US T Bills. Japan, is once again the largest holder of US junk debt, known as T Bills – the US will never be able to pay for all their trillions in debt, never.

My belief we shall see investors run and jump into various safehavens over the coming 2-5 years as they perceive their investments to be at risk in certain monetary systems. This includes jumping out of the Euro, out of the Pound, out of Sovereign Bonds, out of the US Dollar. The only questions remaining, what will they be jumping INTO ?

I know of a few good alternatives ...

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- [Currencies & Commodities JP Morgan: Gold Could Now Face 'Unlimited' Demand](http://www.dinl.net/transporter/link.php?id=28831)
- [Currencies & Commodities In markets tug-of-war, gold holds the key](http://www.dinl.net/transporter/link.php?id=28830)
- [Currencies & Commodities Gold's 'ugly sister' gets a second look](http://www.dinl.net/transporter/link.php?id=28829)
- [Currencies & Commodities Busch: The Case Against the Euro](http://www.dinl.net/transporter/link.php?id=28823)
- [Currencies & Commodities - Video NOW PLAYING: Guggenheim's Miner Sees Euro Falling Lower Than \\$1.10 - OMG !!](http://www.dinl.net/transporter/link.php?id=28822)
- [News English Doubts Remain Despite Efforts to Shore Up Euro](http://www.dinl.net/transporter/link.php?id=28832)
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- [News English White House's Volcker: Future of Euro in Doubt](http://www.dinl.net/transporter/link.php?id=28825)

Many thanks and a nice Monday. Randolph

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