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JIM RICKARDS'

STRATEGIC INTELLIGENCE

Making the Complex Simple

It's Time to Prepare for "Zero Hour"

My second rendezvous with "Goldfinger" revealed just how tight the physical gold market is. Read on for the details of our private Swiss meeting…

INSIDE THIS ISSUE

If you're a fan of the 1964 James Bond movie *Goldfinger*, you recall the plot involved an effort to detonate a nuclear device inside Fort Knox. The purpose was not to blow up the gold, but to make it radioactive and unusable. This would greatly increase the price of other usable gold.

The villain of the movie, Auric Goldfinger, had already cornered the market on physical gold. When the nuclear device detonated, he would be the biggest winner from the spike in gold prices.

Of course, Bond, played by Sean Connery, famously foiled the plan by disabling the nuclear detonator with exactly 007 seconds left on the clock!

While most James Bond fans recall the climax, fewer recall how Goldfinger was able to corner the physical gold market in the first place. He was an international gold dealer and owned a private gold refinery in Switzerland. Goldfinger would smuggle gold into Switzerland (sometimes in the body panels of his Rolls Royce), and then process it into pure gold bars at his Swiss refinery.

I recently visited Switzerland myself and had dinner with the head of the largest gold refinery in the world, located near Lugano, close to the Swiss border with Italy. The refinery chief is a friend whom I have met before. I jokingly refer to him as "Goldfinger." But, he's no villain — he's one of the good guys when it comes to gold!

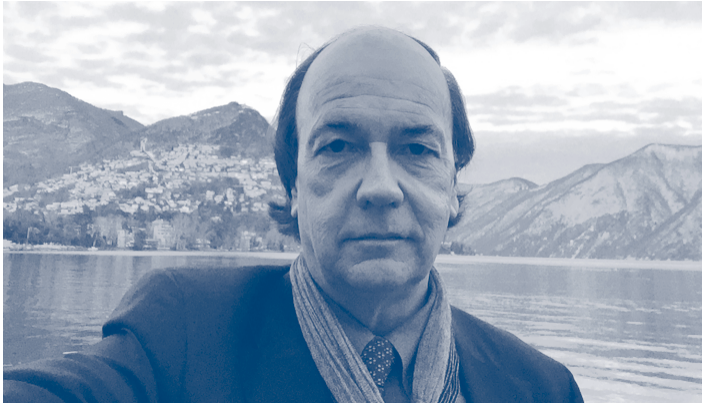
We'll call him Goldfinger in this article to preserve his privacy. I know of no single individual in the world with a more detailed working knowledge of physical gold flows. My meetings with him are always a source of unique insights into his dealings with central banks, Chinese buyers, gold miners and other players in the secretive world of physical gold.

After settling down to dinner and ordering some excellent wines, we picked up where we had left off in our last conversation, about 18 months ago. At that time Goldfinger said he had never seen a tighter supply situation for physical gold.

His refinery was running triple shifts — 24 hours per day — and had orders for all the gold it could produce, 20 tons per week. About half went to China and half to longstanding customers such as Swiss watchmakers and jewelers. New business was simply turned away.

The real problem was sourcing the gold. A refinery receives gold in three main forms — existing gold bars from London Bullion Market Association (LBMA) vaults; so-called

"scrap" (consisting of rings, bracelets, necklaces, etc.); and doré (semi-refined gold bars from mining companies).



Your editor in Lugano, Switzerland on March 8. Lugano is part of Switzerland's "Gold Coast," which runs from the Italian border in the south to Liechtenstein in the north; The Gold Coast is the center of gold refining in Switzerland.

The scrap and doré were between 60% and 90% pure gold; the existing bars (the standard 400-ounce "good delivery" bars under LBMA rules) were about 99.0% pure. The object of the refining was to turn it all into 99.99% pure gold ("four nines" purity), and recast it into one-kilo bars (the new global standard bar established by Chinese buyers).

Goldfinger said he could sell all the gold he could produce. The problem was sourcing the gold in the first place. In over 30 years in the gold business, he had never had difficulty sourcing gold. Now it was a persistent struggle to find any.

At our dinner, he confirmed that the supply scarcity had not changed. He was getting more scrap from Southeast Asia (Malaysia, Indonesia and Thailand). This was due to economic distress in those countries caused by the Chinese slowdown and emerging markets capital outflows after the Federal Reserve started to tighten policy in May 2013. The Fed had put the world into "risk off" mode and capital was leaving emerging markets. Locals were feeling the pinch, and had started selling their gold jewelry to raise dollars.

On the other hand, good delivery bars were becoming more scarce. Vaults in London (such as the vault holding gold for the GLD exchange traded fund) were being stripped bare. Goldfinger knew this because each LBMA good delivery bar is stamped with the name of the refinery that produced it, and the date it was produced.

Bars are generally stored in a vault on a "last-in-first-out" basis. Newer bars are removed first. The older bars (some with dates from the 1980s) are not moved out until the vault is almost empty. Goldfinger was now seeing more of those older bars come in for refining.

He told me he had recently returned from China where he had visited Chinese refineries and gold mines. His tour was somewhat restricted by Chinese Communist officials, but as a prominent gold executive himself, he was able to see far more than most outsiders.

He said Chinese gold demand was voracious. The Chinese were buying over 450 tons per year produced from their own gold mines, and another 1,400 tons per year (approximately) of imports. Chinese gold exports were zero.

Using these figures of 450 tons of indigenous output, 1,400 tons of imports and zero exports; the Chinese were acquiring about 1,850 tons per year. This rate of acquisition has persisted for at least seven years. Based on this information, China has acquired about 13,000 tons of gold since 2009. Even if one assumes China started from a low base in 2009 (say, 3,000 tons), China's total gold hoard today (public and private) would be about 16,000 tons, considerably more than the United States and about the same as India.

In every city he visited, his hosts took him to gold boutiques and gold emporia that sold gold to retail investors. This gold included not only bars and coins, but also jewelry, ornaments, statutes and other decorative items. Some of these objects had been re-refined locally from the "four nines" bars sent to China by Goldfinger's refinery. They added alloy to make the malleable four nines gold more durable for everyday use in jewelry.

The Chinese have recently built a network of state-of-the-art gold refineries of their own. Goldfinger visited some of these new gold refineries. He said the equipment was first-rate, and the refineries were as efficient as any in the world. These Chinese refineries did not compete directly with the Swiss refineries. Instead they mostly processed China's gold output from its own mines.

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Chinese refinery gold bars, like others, were stamped with the seal of the particular refinery that produced them. Goldfinger said that he had only ever seen three Chinese bars outside of China, and he believed these bars had been smuggled out. This is further proof that Chinese gold exports are practically nil.

Based on his observations and conversations, Goldfinger estimated that about 70% of total Chinese production and imports went to private retail consumption, and the remaining 30% to official gold held by the People's Bank of China, PBoC, or one of the Chinese sovereign wealth funds.

This was highly revealing. My own prior estimates (in the absence of better information) were that official gold was about 50% of the total. Lowering my estimate to 30% in line with Goldfinger's would put Chinese official gold at about 4,800 tons. (China admits to having about 1,700 tons of official gold at PBoC, but this figure is well-known to be a deception because most of China's official gold is "off the books" and parked at the State Administration for Foreign Exchange, SAFE).

Further assuming that China's goal is to equal or exceed the official gold position of the United States (about 8,000 tons), this means that China must still acquire over 3,200 tons to surpass the U.S.

Chinese retail demand is unlikely to diminish anytime soon because the Chinese stock and real estate bubbles have popped. Everyday Chinese investors have few alternative investments other than gold.

The bottom line is that the Chinese shopping spree for physical gold is far from over. At current rates of gold consumption, the Chinese demand for gold will remain strong for at least five more years until 2021.

The problem as Goldfinger saw it was that the Chinese may well want the gold but the world was running out of supply. There is only one way to balance out a supply/demand problem of this type. The price of gold has to go up by a lot, initially past $2,000 per ounce, and ultimately much higher.

Our conversation next turned to the role of central banks, other than China, in the gold market. I asked Goldfinger what he knew about the request by Germany to have some of its physical gold returned from custody at the Federal Reserve Bank of New York to vaults in the Frankfurt headquarters of the German central bank, the Deutsche Bundesbank.

The total amount of gold originally stored by Germany in New York is 1,500 tons. Germany was seeking the return of 300 tons from the New York Fed.

"Goldfinger" kindly presented me with this Swiss Army knife that has a 24-karat gold bar embedded in the handle. The gold bar weighs one-gram and was fabricated at Goldfinger's refinery in Switzerland. He jokingly referred to it as his "Swiss survival kit" because the knife could be used as a tool and the gold bar used to purchase food or supplies.

This request had been made in 2013, and had been the subject of enormous speculation in financial blogs and websites. In principle, the gold could have been returned to Germany in a matter of weeks or a few months at most using air deliveries arranged with secure logistics providers such as Brinks.

In fact, the Bundesbank revealed that the process would take seven years. This immediately led to speculation that the New York Fed did not have the gold and was dragging out the delivery process until it could locate enough bullion.

The truth is somewhat more nuanced. The New York Fed certainly did have enough gold on hand to satisfy the Germany request. The problem was that much of the gold was subject to leasing arrangements. There is a well-developed gold leasing market in New York and London, but no similar market in Frankfurt.

(At this point in the conversation, Goldfinger made a fascinating interjection. He said, "Yes, there is no established leasing market in Frankfurt, but if they [the Bundesbank] want to lease it to me, I'll take it!" Right there was confirmation that refiners do in fact take gold bars from central bank vaults and melt them down, *leaving central bank vaults partly empty*).

The Federal Reserve Bank of New York needed years to deliver the gold to Germany not because of logistical problems, but because the gold was tied up in complicated leasing arrangements which needed to be unwound slowly in order

not to cause a shock to the physical gold market that could cause prices to spiral upwards and out of control.

But, Goldfinger told me another reason the Bundesbank had acquiesced in such a long delivery timetable. He said that the gold in the New York vaults was what he called "Fed melt," a term I had never heard before. Fed melt was a disparaging way to describe the quality of the Fed's gold bars.

These bars had originally belonged to member banks of the Federal Reserve System (created in 1913). The private bank gold was consolidated in the regional reserve banks, and ultimately shipped to the Federal Reserve Bank of New York in stages between 1913 and 1934. This gold was re-refined as late as the 1940s into bars that do not meet LBMA good delivery standards; (they had lower purity, and were more irregular as to weight, size and shape).

The United States had about 20,000 tons of official gold in 1950, but by 1980 this official gold hoard had been reduced to the current level of about 8,000 tons. The 12,000 ton reduction was due to U.S. trade deficits under the old Bretton Woods system (ended in 1971) that allowed trading partners to cash in dollar reserves for gold.

Some of the reduction in the U.S. gold hoard was due to U.S. gold dumping efforts in the late 1970s (after Bretton Woods) in a futile attempt to suppress the price of gold as the U.S. teetered on the brink of hyperinflation.

Fed melt was a disparaging way to describe the quality of the Fed's gold bars.

But, while the official U.S. gold hoard was shrinking dramatically, much of the physical gold *never went anywhere*. It simply remained in the New York Fed vault. Ledger entries were made to reflect the new ownership. Now that the gold actually was leaving, the bars being delivered were ones that had been sitting in the vaults for over 50 years, some longer.

Goldfinger said the Bundesbank was surprised and displeased with the low quality of the Fed's gold. They contacted him and insisted that the Fed melt be re-refined, assayed and cast into new bars of four nines quality, the same as the Chinese. Once the Bundesbank realized how expensive and time consuming this process was they agreed to slow down the deliveries from New York.

(The funniest story of the evening was when Goldfinger revealed that the Bundesbank briefly considered putting a small gold refinery in the basement of the central bank's headquarters in Frankfurt to reduce outside refinery costs. In the end, they desisted due to the utter impracticality of the plan).

Ultimately the Bundesbank will get its 300 tons of gold back, but it will take time both in order not to disrupt the gold leasing market, and to spread out the costs of re-refining the gold to modern standards. Eventually "Fed melt" will be a thing of the past; at least in Germany.

One thread that ran through my conversation with Goldfinger was the concept of floating supply. In the physical gold market, the floating supply is the amount of gold available for leasing or immediate delivery in connection with paper gold transactions in futures, options, ETFs, unallocated sales and other leveraged transactions.

One ton of physical gold in the *floating supply* can support as much as 100 tons of paper gold transactions. This enables short sellers to suppress the price of gold by selling paper contracts even though they have no physical gold to sell.

Of course, for every seller there must be a buyer. If 100 tons of short sales of gold are made against each ton of physical gold, then someone in the market must have bought 100 tons of paper gold. Those paper gold buyers are just as much a part of the inverted paper gold pyramid as the sellers.

The reason the inverted pyramid does not tip over is that the buyers do not demand physical delivery from the sellers. Paper gold buyers are content to count their paper profits (or losses), and rollover their paper gold futures contacts (earning steady profits from calendar spreads in contango).

Dealer banks are content to earn bid/offer spreads and arbitrage profits in paper gold while taking relatively little directional risk in the gold price itself. None of the gold bank dealers, gold futures traders, or gold investors has much interest in disrupting these comfortable relationships.

In contrast to the floating supply, is the *total stock*. This is simply the sum of all the above-ground gold in the world, whether it's official gold, private bullion or scrap. Today the floating supply is perhaps only 10 to 15% of the total stock.

As gold moves through Goldfinger's refinery, from West to East, from London to Shanghai, the total stock is unchanged, but the *floating supply is shrinking*. Gold in London and New York vaults is generally available for leasing and other leveraged paper gold transactions, but gold in Chinese vaults is not.

(The Chinese gold is put in what is called "deep storage" where it is unavailable for leveraged transactions and may not see the light of day for centuries). As Goldfinger looks

out over his refinery operations, he is *literally watching the floating supply disappear before his eyes*.

Yet, paper gold transactions continue to grow. More and more paper trading is being supported with less and less physical gold. This leverage is inherently unstable and is destined to collapse in a buying panic and super-spike in gold prices sooner than later.

This end game scenario is just a matter of time. Goldfinger and I call this "Zero Hour." When the buying panic hits, gold will soar past $2,000 per ounce (if it's not there already) and spike to $3,000 per ounce, then higher, in a matter of weeks or months at most.

But when? This is the ultimate question that Goldfinger and I discussed as our dinner in Lugano neared its end. The idea that the paper gold pyramid might tip over has been discussed for years. Yet, far from spiking, the price of gold fell 45% between 2011 and 2015. What would it take to create the upward gold price momentum that both Goldfinger and I foresee?

For years, gold bugs implored futures traders to "stand for delivery" on the COMEX. If every long in the futures market put in a notification that they wanted to take physical delivery instead of closing out or rolling over their contracts, the result would be one of the greatest short squeezes and price spikes since Big Jim Fiske and Jay Gould tried to corner the private gold market in 1869. (Fiske and Gould's corner failed when the U.S. Treasury unexpectedly made public gold available to bail-out the shorts).

This end game scenario is just a matter of time.

But this scenario is unlikely to play out in the way the gold bugs wish for several reasons. The first is that the COMEX has emergency powers to prevent longs from taking delivery in a way that disrupts the orderly functioning of the market. The COMEX rule book makes it clear that a futures exchange is for hedging, price discovery and legal speculation, *but is not a source of supply*. (Physical delivery is permitted, but only enough to keep the paper price "honest." The irony, of course, is that the paper price is anything but honest due to manipulation).

Another rule allows COMEX officials to change the rules as needed in emergencies (something the Hunt Brothers experienced when they tried to corner the silver market in 1980).

The fact that longs know they cannot take delivery in the end is a major deterrent to the attempt.

But, there's another reason the gold longs don't squeeze the gold shorts. *It's illegal*. Most major participants in the gold market (banks, dealers and hedge funds) are regulated by one or more of the Federal Reserve, U.S. Treasury, SEC, or CFTC. Applicable laws contain strict anti-fraud and anti-manipulation rules including jail time in cases of willful and knowing violations. A hedge fund manager who is long gold may want to kick over the inverted paper gold pyramid, but will refrain from doing so if he fears prosecution by the U.S. government.

(Of course, there's great irony in the fact that gold longs fear prosecution, but there have been no anti-manipulation prosecutions aimed at the gold shorts. Part of this is because of what's called "selective prosecution" designed to favor gold price suppression. Another reason is that the chief manipulator is probably China, which is effectively beyond the reach of U.S. investigation and prosecution).

Again, our question was what would trigger the super-spike in gold prices? Why can't price suppression continue indefinitely as it has for the past five years? What if China ultimately agrees to perpetuate price suppression by making some of its gold stock available for leasing?

The answer is found in avalanche theory, our name for the science of complexity. You know as a *Strategic Intelligence* reader that we use the science of complexity to analyze capital markets. The study of complex physical systems reveals that minute, even imperceptible changes in initial conditions, can result in dramatically and exponentially different outcomes.

A single snowflake can turn a seemingly stable snowpack into a roaring avalanche that destroys everything in its path. Once the snowpack is arranged in an unstable way (like the gold market today) a single snowflake can unleash carnage. Of course, a single snowflake is so small you never see it coming.

What this means is that the super-spike in gold prices will not come from any of the obvious sources but from an unexpected source. This could be the bankruptcy of a medium-sized gold dealer. Suddenly customers would have to race to the physical gold market to cover unmet deliveries from the failed dealer. It could be a proposed law that would impose onerous new reporting obligations on gold dealers. Just as gun sales spike every time Washington considers gun control; gold sales would spike if new gold controls were introduced.

The catalyst for a gold price spike could be something that has nothing to do with gold. It could be from an exogenous shock such as a new world war or infectious pandemic that caused people to flee to gold to safeguard wealth in the ensuing panic.

It doesn't matter. Once the avalanche begins, there's no stopping it.

At that point, the hedge funds *can* demand physical delivery of gold without fear of prosecution. If a hedge funds tries to start an avalanche, it's manipulation. But if the avalanche starts from another source, then a hedge fund piling on is "normal" market conduct. (Wouldn't you demand physical delivery if a full-scale buying panic broke out?)

Since every gold market participant knows there's not enough physical gold to go around, everyone will demand physical gold at once. No one wants to be left holding the bag.

The point is that the stage is set. The gold market is in the critical state like an atomic bomb about to detonate. Gold is scarce and the floating supply is shrinking. Open interest in paper gold contacts is expanding. Demand for physical gold is seemingly insatiable while the supply of physical gold is drying up. It will take very little to trigger a buying panic. It could happen tomorrow.

In fact, the buying panic may have started already in a quiet way. We all know the roar of an avalanche when it's in full cascade. But, few can hear the slow slide at the beginning after the critical snowflake hits, before the snowpack completely separates from the mountain.

Right now the price of gold is showing significant strength, especially considering the continued weakness in other commodities such as oil, copper and silver. This indicates that gold is no longer trading as a "commodity" but is beginning to trade as money. This can be thought of as a vote of no confidence in central bank money after seven years of failed monetary experiments.

Investors are expressing a preference for gold as money over other forms of money such as dollars, euros and yen. This is a trend that bears watching. The avalanche may already have begun.

As our dinner ended and we settled the check, I asked Goldfinger one final question. "If you didn't know me and I wasn't an existing customer, would you sell me a few tons of gold if I called you?"

Goldfinger's answer was chilling. "If you weren't an existing customer, I wouldn't take the business. I don't have any gold to spare. I might not even return your call."

When the panic does happen, you can forget about trying to buy gold. There won't be any, at least not for you. Some central banks and major dealers may be able to get some, but mints, small dealers and retail outlets will not be able to get any. The time to get gold is now, before the panic.

Spot Price of Gold, March 2015–March 2016

One-year chart in dollars per ounce

I recommend you have a 10% allocation to physical gold if you don't already. Here I recommend American Gold Eagle or American Buffalo gold coins from the U.S. Mint. The American Eagle is 22-karat gold, and the American Buffalo is 24-carat gold. The Eagle is more durable than the Buffalo because it has some alloy, but both have 1 ounce of gold. You should not buy so-called "collectible" gold coins or older coins, because dealers charge a premium that is not worth it in terms of numismatic value. Stick with new or relatively uncirculated Eagles or Buffalos. Prices are usually at the daily market price for 1 ounce of gold plus a premium, which can range from 4–8%, depending on the dealer. Storage should be with a reliable, insured, nonbank vault near your home or in a home safe. The best security is not to let anyone know you have the coins in the first place.

For a new gold trade, read on for our newest contributor, Tres Knippa. I introduced Tres to you earlier this month. Tres is a professional trader, hedge fund manager and 18-year veteran trader. He's been trading the futures markets for over 22 years and became a member of the Chicago Mercantile Exchange in 1996 after moving to Chicago from Texas.

He focuses his efforts on energy, stock indexes, currency, precious metals, government debt and agricultural futures but holds positions in markets all over the world.

Tres also is an owner and principal of Kenai Capital Management which seeks to profit from what Tres believes is the coming sovereign debt and currency crisis in Japan. Tres has developed many financial websites including ShortJapanDebt.com and is a regular contributor on most of the major financial news networks.

We've invited him to join our team as a monthly contributing editor. Read on for his first recommendation…

The Most Obvious Trade in the History of Finance

I recommend you place your bets right now. Read on for why and how…

By Tres Knippa, Contributing editor

Question: Would you bet on or bet against the stock of a company that…

1. Brings in $50,000 of revenue each year, yet spends $100,000…
2. Pays $25,000 per year in interest on the debt it needs to keep its doors open. And…
3. Has most of its employees approaching retirement any year now with no system in place for replacing them.

If you answered, "bet against," congratulations! That company is headed to bankruptcy court any day now. A bet against such a stock would turn its financial disaster into big investment gains for your portfolio.

Too bad there's not such a clear-cut bet to make in the markets today, though, right?

Wrong.

The setup I described does exist today. And you can and should bet against it right now.

It's not a company, it's a sovereign nation… but the situation is exactly the same. It's spending more money than it takes in. It's paying an unsustainable sum servicing its debt. And its workers are all retiring.

I'm talking about Japan. And I'm confident profits are possible if you bet against it in a very specific way.

"The Widowmaker," Revisited

The Japanese Government spends twice the amount of tax revenue it receives. And half of that tax revenue goes to paying interest on its national debt — which stands at 250% of its GDP.

How is this sustainable? And how is it that Japanese debt has not been downgraded by each and every rating agency? The answers are simple. It's not sustainable. Japan will never pay back its outstanding debt. And the Japanese government's debt has been downgraded many times in the last several years.

If you were thinking like a banker, you'd expect that as these agencies downgrade Japanese debt, Japan's borrowing costs would rise. Many traders have expected the same. But for the last six years the exact opposite has happened. Japanese interest rates have been dropping even as its credit rating and the fiscal picture has gotten worse and worse.

Investors who have bet against Japanese debt have lost a lot of money for a long time. That's why the shorting Japanese debt is known as the "widowmaker." It's absolutely killed traders. But there's a better and far simpler way to "bet against Japan" than shorting its debt outright. One that's as close to a one-way financial bet as you can find in this life…

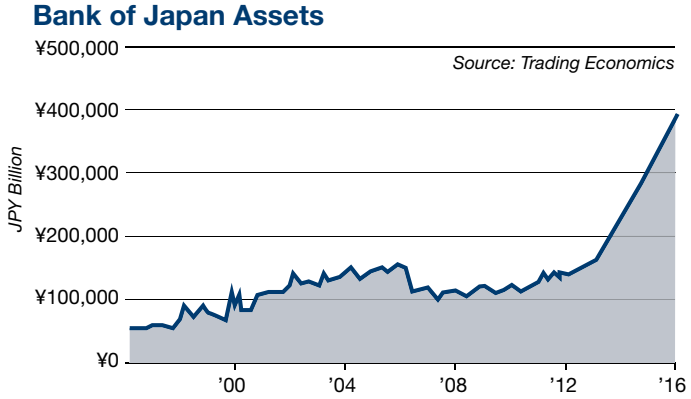
This Trade Is Supported by the Most Powerful Financial Body in Asia

On April 3, 2013 the head of the Bank of Japan (BOJ) Haruhiko Kuroda announced that he would double the existing money supply in an effort to spur growth and inflation.

How could the Bank of Japan go about doubling the money supply? And where exactly were those yen going? The answer is simple…

The Bank of Japan has expanded the money supply by buying bonds issued by the Japanese Government. As more Japanese bonds are demanded and bought by the BOJ, their price goes up and the interest rate they pay goes down. Now do you understand why betting against the bonds has not worked even as Japan's credit rating gets worse?

The BOJ has bought nearly every Japanese government bond issued with newly printed money so far. Relative to the size of the Japanese economy, this is the largest monetary experiment in human history. It's the reason why Japanese interest rates have gone down even though their financial situation is 100% unsustainable.



The Japanese government keeps borrowing money it does not have and ignores any restraint on spending. Because of this, no sane investor will buy Japanese bonds. So, the BOJ steps in and buys them to fill the vacuum.

That causes a feedback loop. More debt means the Japanese money supply will continue to rise as the BOJ continues to purchase this debt with freshly printed currency. This situation has zero chance of changing.

That's the reason why the "widowmaker" has destroyed so many traders. But the mistake traders have made is fighting the BOJ and betting against Japanese bonds. Instead, you should bet against the Japanese currency — the yen. Would you not agree that the supply of yen will continue to grow in the future? The best way to do that is with gold. And I've found a great gold investment with a twist. First, you need to know one thing:

As a currency goes down, gold priced in that currency goes up.

"Whenever I'm asked if gold is going up or down," Jim's explained in the past, "My reply is always, 'Compared to what?"

Hold that thought and picture yourself making a typical gold transaction. You go down to your local gold dealer and give the seller U.S. dollars. In return, the gold dealer gives you gold coins or gold bars. You have just bought gold in U.S. dollars.

Investors around the globe do something similar… except a German pays for his gold with euros and a Russian pays with rubles. But there's nothing forcing anyone to buy gold in his or her domestic currency.

You can also buy gold in a foreign currency. That's the opportunity here. Think back to what Jim said about gold going down or up…

If the BOJ continues printing yen to buy Japanese bonds, the value of the yen should go ever lower. As the yen becomes less and less valuable, it means that the price of gold — in yen — will go higher and higher.

You might have bought gold with dollars because you're worried about the future of the dollar. There's a case for that. But, Japan is much farther down the road to ruining the yen than the U.S. is to ruining the U.S. dollar. It stands to reason that it's going to be much more profitable for you to own gold denominated in yen. If gold goes up, you profit. If yen goes down, you profit. And both outcomes are very likely.

But how do you play it? Since you most likely don't have any yen lying around, I've found an easy way that you can still own gold denominated in yen…

今年の最高の金の投資
Translation: Here's the Best Gold Investment of this Year

The **AdvisorShares Gartman Gold/Yen ETF (GYEN: NYSEArca)** is an ETF that I believe will provide you positive returns.

Here's how it works. The fund managers go out and buy gold using Japanese yen. The investment returns are reflected in the performance of the ETF, which you can buy easily in your brokerage account. You don't need any special privileges or changes made to your account to buy it.

Executing this trade is very simple. Simply buy GYEN in your brokerage account like any ordinary stock, and the "buy gold with yen" trade is executed for you.

I am being very serious when I say that my target for the yen is zero. It will become worthless. Japan's currency will eventually be on par with countries like Zimbabwe and Post World War I Germany.

In the next two years, I am very confident you could see the yen trading to 400–500 Yen to the USD (compared with 114 now). Meanwhile, gold has the entire tailwind you could ever want because Japan is not the only country expanding the monetary base.

Action to take: Buy AdvisorShares Gartman Gold/Yen ETF (GYEN) up to $14 per share.

As Japan's currency continues to weaken and other countries engage in the same monetary madness, my target for this ETF over the next two years is $42 per share. If you do the math, going from $14 to $42 is a 200% potential.

The Deep Ties Binding Mexican-US Elites and a Way to Invest There Despite Them

By Nomi Prins, Contributing editor

I just returned from one of my frequent trips to Mexico. There I had the honor of addressing some of the country's top thinkers and enthusiastic students. It's truly worth a visit. There's a misconception that Mexico is a destitute, drug-cartel ridden country bent on stealing US jobs.

The truth is it's an immensely beautiful country with a diverse economy and entrepreneurial spirit — albeit rife with corruption and risks. Continuing our monthly beat,

if you follow the money and hidden power relationships, an attractive investment opportunity presents itself.

Forget about the wall issue being politicized. There's far more that unites Mexico and the US — some good, some bad — than divides us. Mexico is our number three trading partner. That means if Mexico buys stuff from us, we make money and products and keep jobs involved in creating those products here. We are Mexico's number one trading partner. That means we buy stuff from Mexico (about 80% of their exports) that we use to drive our economy. None of this is perfectly done, but it's what happens.

But here's what you don't know about Mexico and won't hear from Donald Trump, who is fixated on the wall, or Hillary Clinton, who is fixated on idolizing her husband's legacy in creating the North American Free Trade Agreement (NAFTA)…

There are international elite political-finance relationships beneath the surface, the same kind I spoke of last issue, and what you can gain from knowing about them.

The elite Mexico-US connection is long standing and solid. There's one particular Big Six bank that's operated in Mexico for well over a century, with more market share now than ever. It deserves your special attention in the upper echelons of power category.

Never Let a Good Crisis Go to Waste: Mexico Edition

Let's return to the early days of Bill Clinton's administration. Clinton enacted two main items that had been on the bipartisan 'list' for years. One was NAFTA and the other, Riegle-Neale Act (RN), that allowed big banks to gobble up smaller banks across state lines.

Enter Robert Rubin. Rubin was Clinton's Chief Economic Advisor, and then Treasury Secretary. He was among the power elite Jim listed last month. These posts were Rubin's reward for having helped Clinton gather the Wall Street gravitas to get elected while Rubin was co-Chairman of Goldman Sachs.

Goldman was the top international firm advising on Mexican merger and acquisition (M&A) businesses. The peso crisis would upset that applecart. By Jan. 30, 1995, Rubin warned Clinton, "Mexico has about 48 hours to live."

Clinton deployed his emergency executive powers to direct a $20 billion loan from the Treasury department to save Mexico. But really, it was to save the U.S. banks *exposed* to Mexico. Congress investigated Rubin's conflict of interest, but nothing came of it.

Rubin went on to join the Board of Directors of Citigroup just before the 1999 repeal of the Glass-Steagall Act. The repeal allowed Citigroup to become an even bigger conglomerate.

Saving the U.S. banks exposed to Mexico, combined with NAFTA, enabled U.S. banks to buy more banks in Mexico.

You'd think the notions of "free trade" with Mexico and Canada (NAFTA) and unfettered interstate banking in the U.S. are separate. Not for big banks. Now, Mexico has the highest percentage of foreign bank concentration because of its loose financial borders (the only borders that matter to international capital flow).

The top five foreign banks in Mexico control 64% of the market. That concentration is a major long-term risk for Mexico, just as it is in the U.S..

Citigroup bought Mexico's second largest bank, Banco Nacional de Mexico (Banamex) in May 2001 for $12.5 billion. This purchase made Banamex Citigroup's Mexican subsidiary, and a Mexican financial powerhouse.

Lots came from the marriage of Banamex and Citigroup. Former President Ernesto Zedillo, who was close to Clinton and Rubin during the peso crisis, got a seat on Citigroup's Board of Directors in 2010.

The revolving door between Citigroup and Mexico rendered Citigroup the lead U.S. bank in Mexico and it got special bailout treatment.

Lastly and most importantly, Banco de Mexico (the actual central bank) became a key collaborator with the U.S. Federal Reserve.

There's No Wall Between the Fed and Banco de Mexico

In regard to monetary policy, Mexico is a good neighbor to the U.S. It has been mirroring Fed policy since the financial crisis. As the U.S. Fed cut rates to zero, Mexico did the same by cutting rates to a 3% low by 2014.

When the Fed did QE, Mexico did too. When the Fed raised rates for the first time in seven years on Dec. 16, 2015 by 25 basis points, so did Banco de Mexico, the very next day. But, there's a twist…

Banco de Mexico raised rates again on Feb. 17, 2016 by 50 basis points. No one saw that coming. Thus, the peso — that had declined steadily from 10 to 19 to the dollar between 2008 and mid-February 2016 (and by 18% during 2015) — strengthened back to 17.66 to the dollar as of March 24, 2016.

Banco de Mexico didn't raise rates to fight inflation. Mexico has the lowest inflation in Latin America and one of the region's highest 2016 growth projections.

It raised rates to protect the peso. That way Mexicans could keep importing U.S. products without getting hammered on the exchange rate.

The rate hike also bolstered the $101.5 billion of U.S. foreign direct investment (FDI) in Mexico (the U.S. is the highest source of Mexico's FDI.)

But, in order to serve the political-financial Mexican-American elite, Mexico gave up its independent monetary policy (part of Jim's Impossible Trinity analysis, viewed by visiting). That boosted the peso and helps keep foreign capital in Mexican bank accounts. In turn providing slightly higher rates there than in the U.S.

Giving up its independent monetary policy also keeps Mexico from having to sell Treasuries to bolster its reserves. That helps the Fed keep rates low even if it raises rates officially. That's partly due to the cozy relationship between Banco de Mexico Governor Agustin Carstens and Fed Chair Janet Yellen.

These folks have no wall. If you go to Washington, DC, you'll see the Mexican Embassy is the closest G20 nation relative to the White House.

Bad Loans, Lawsuits and Corruption

Citigroup through Banamex, extended lots of loans to Mexico with cheap Fed-fabricated money. In September 2014, Citigroup-Banamex announced a $1.5 billion investment program in Mexico to be implemented over the next four years.

President of Mexico, Enrique Peña Nieto, Citigroup CEO Michael Corbat, and then Chairman of the Board of Banamex and co-President of Citigroup, Manuel Medina Mora were involved.

They said Banamex would particularly expand lending for small and medium-sized enterprises (SMEs) to $4 billion. And expand support to public and private projects in the energy sector by $10 billion through credits, debt and capital issuances.

But with the peso and oil prices down since then, loans that were in the process of getting extended got put on hold, and others began defaulting.

In addition, lawsuits on old financial corruption popped up. According to a suit filed this February, fraudulent Citigroup-Banamex's loans led to the 2014 collapse of Mexican oil services firm, Oceanografia.

The firm had enjoyed cozy high-level connections to senior politicians, though allegations of tightness to former President Vicente Fox and his family were denied, and did work for state-run oil goliath, Pemex.

Dutch lender Rabobank Groep is now suing Citigroup on behalf of clients and investors, for $1.1 billion in associated losses from those scam loans. The fraud became public knowledge in 2014.

Citigroup CEO Michael Corbat admitted in February 2014 that $400 million of loans to Oceanografia by Banamex were fraudulent. As a result Citigroup restated its 2013 earnings. The FBI launched investigations into Citigroup's lack of compliance with banking regulations, and the possibility of a money-laundering scheme.

Citigroup noted certain of Oceanografía's invoices "were falsified to represent Pemex had approved them." The current complaint alleges Citigroup-Banamex conspired with Oceanografia to accept falsified contracts in return for cash advances, while Pemex repaid Citigroup-Banamex with interest.

The suit resurrects that fraud and collusion exists between the financial and political parties and individuals involved. It may even point to Petrobras-type corruption that extends to more companies, government officials and banks across our southern border.

Meanwhile, bolstering the peso and rates stops some bloodletting for Mexican companies stuck having to repay dollar-based loans while losing money on the exchange rate. This helps Citigroup-Banamex ride out other possible loan problems, or lurking 'shenanigans.'

In addition, roughly $26 billion, or 80% of Citigroup's Latin America consumer loans last year, were in Mexico. Citigroup just announced it was shutting retail branches in Brazil, Argentina and Colombia, but not Mexico.

Why?

Because Citigroup's married to Mexico's elite. Plus, its retail business extracts credit card interest rates from Mexicans at levels over 40% per year. That's a great hedge if U.S. defaults rise.

Mexican bank accounts provide an alternative capital source for U.S. banks, like Citigroup. This advantage won't last long because of general economic weakening in the U.S. and Mexico. There are also looming bank problems and crimes, but it helps Mexico for a short while, relative to the rest of Latin America.

I've suggested previously that you find ways to avoid the financially rigged system — to be 'in' but not 'of' the system.

The same goes for Mexico…

A Way to Play Mexico, without Being the Elites' Collateral Damage

There are firms with less exposure to the chaos of speculation, currency wars and loan fraud and that rely on and help the local economy. Some of these benefit from international customers attracted by the current low value of the peso.

These include certain service industries, consumer products companies, airport operators and basic materials producers.

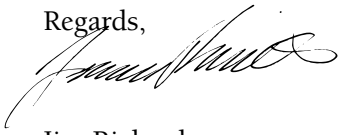
A terrific, expanding company to take advantage of the current situation and expected rise in 2016 tourism in Mexico is **Grupo Aeroportuario del Centro Norte, S.A.B. de C.V. (OMAB: NASDAQ)**, the Mexican airport operator.

It posted an outstanding Q4 201 financial report and caters to both Mexicans traveling more within the country (to avoid more expensive international travel) and tourists. With summer and wedding season coming up, it should see more of an uptick. I'd expect a good 25% return by the fall.

Personally, I spend a lot of time at Mexican airports. One of my favorites is operated by OMAB. It is in Monterrey, the third largest city in Mexico, also known as the City in the Mountains and the Sultan of the North. I'm due back there on May 4 to keynote an annual financial forum of leading Mexican businesspeople, and will let you know how that goes.

Action to Take: Buy Grupo Aeroportuario del Centro Norte, S.A.B. de C.V. (OMAB) up to $50 per share.

Regards,



Jim Rickards
with Nomi Prins, Tres Knippa and Dan Amoss, CFA

APPENDIX: Mexican-U.S. Elite Players You Need to Know

By Nomi Prins, Contributing editor

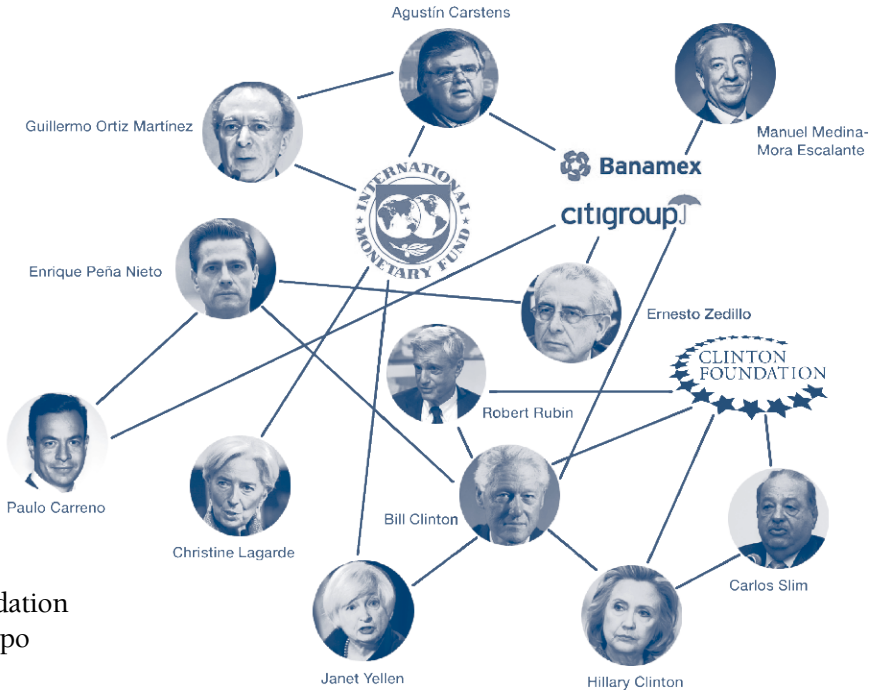
Last issue we told you that a full roster of the power elite would run into the thousands of names. We started the list with the top tier of the power elite and Jim and I are still working on compiling the rest of the list for you. For this issue we've provided the names of the Mexican-U.S. Elite players to add to the list. Pictured on the next page is a list of the Mexican-U.S. elite today.

Here is the breakdown of each and their contemporaries and how they're connected…

- **Agustín Carstens**. He has been the Governor of Banco de Mexico since 2010. Prior to that appointment he was Mexico's Finance Minister from Dec. 2006-Dec. 2009. Since 2000 he has held the Deputy Managing Director (2003–2006) and the Executive Director (1999–2000) positions for the IMF. His wife, Catherine Mansell, is the former Chief Economist for Boston-based Euro American Capital Corp, which is an offshore sub of Banamex (Citigroup)
- **Manuel Medina-Mora Escalante**. He has been the non-executive chairman of Banamex/Citigroup since Feb. 2015. Prior to that, he was the Banamex CEO from 2001–2010. In 2001 he sold Banamex to Citigroup for $12.5 billion. He was also involved in Banamex USA (based in California) money-laundering scheme that was fined $140 million in July 2015. This was part of the "push" factor of Medina-Mora getting fired. Before becoming the non-executive chairman of Banamex, he was the Co-President (2013–2015) and CEO of Global Consumer Banking (2012–2015) of Citigroup.
- **Guillermo Ortiz Martínez**. He has been the BTG Pactual (Brazilian investment bank) Mexico Chairman since 2015. Since 2008, he has also been on the Advisory Board for Globalization and Monetary Policy Institute for the Federal Reserve Bank of Dallas. From March 2009 to December 2009, he was the Chairman of the Board of the Bank for International Settlements (BIS). He was the Governor of Banco de Mexico from 1998 to 2009. Prior to that, from 1994–1997, he was the Secretary of Finance and Public Credit for the Zedillo Administration. Lastly, he was on the IMF Board of Governors from 1984–1988
- **Enrique Peña Nieto**. He has been the President of Mexico since December 2012. Nieto worked under Zedillo during the Clinton years from 1993–1998. He's also a member of the Institutional Revolutionary Party (PRI)
- **Paulo Carreno**. He has worked in the office of Pena Nieto's as the Foreign Press and Country Brand Coordinator "rebranding" communications guru since 2015. Carreno was forced to resign from Citi/Banamex amidst an ongoing fraud scandal involving Oceanografia and Citi/Banamex
- **Ernesto Zedillo**. He has been the Director of the Center for the Study of Globalization and Professor at Yale in 2002. Zedillo was the President of Mexico (1994-2000) during the Clinton administration

and the passing of NAFTA. He's also a member of the Institutional Revolutionary Party (PRI) of Mexico

- **Carlos Slim**. He was named Forbes 2015 Mexico's largest telecom executive second wealthiest man. He is the owner of the Mexican financial bank, Inbursa. Slim's Inbursa financial group bought $150 million worth of shares in Citigroup Mexico City traded shares from Nov. 19 to Nov. 25, 2008 when it was under financial strain, right before the second Citigroup bailout was announced. He is a close friend of Bill and Hillary Clinton and a $100 million contributor to the Clinton Global Initiative (CGSGI). He is currently Chairman of the Board for Telmex A.C. Foundation and Chairman Emeritus and Director of Grupo Financiero Inbursa



- **Robert Rubin**. He was the Chairman of the Board's Executive Committee for Citigroup from 1999–2009 and served as Chairman of Citigroup's Board from Nov. 4 to Dec. 11, 2007. Rubin has been the the Co-Chairman of Council on Foreign Relations since 2007. He served as the United States Treasury Secretary under Bill Clinton from 1995–1999. Also during the Clinton administration he served as Director of the National Econonic Council from 1993–1995.

- **Janet Yellen**. She has been the Federal Reserve Chair since 2014. Prior to that she was the Vice Chair of the Board of Governors for the Federal Reserve Board from 2010-2014. Yellen was the President and CEO of the Federal Reserve Bank of San Francisco from 2004–2010. She took over for Rubin as the Chair of the Council of Economic Advisors during the Clinton Administration from 1997–1999. During that period, Carstens was an Executive Director for the IMF. Both Yellen and Carstens worked in Washington during the Clinton Administration in 1999 and were in the same circles through the IMF and OECD

- **Bill Clinton**. He was the President of the U.S. from 1993–2000. In Nov. 1999 Clinton passed the Glass-Steagall repeal which enabled Citigroup to become a mega bank. He is the founder and board member of the Bill, Hillary and Chelsea Clinton Foundation. In Oct. 2010, Clinton was invited to deliver the keynote speech by the Mexico Business Summit, an influential businessman's club led by a well-connected PRI politician in Mexico. Records show that he gave two presentations the same day to the same group for which he charged $400,000. The event was attended by Mexico's most powerful elite, including then President Felipe Calderon, then Governor of the State of Mexico Enrique Peña Nieto (host of the event) and billionaire Carlos Slim. Over more than a decade, Clinton delivered 14 speeches to 11 different Mexican sponsors. He was paid $3.2 million. One of his first paid appearances in Mexico was in 2003 whenhe was invited by Mexico's Central Bank. His price: $150,000.

- **Hillary Clinton**. She was the First Lady of the U.S. from 1993–2000. After leaving the White House she served as a Senator on the United States Senate from 2001–2009. Her time as Senator also coincided with the bailout of the big banks, including an extra bailout for Citigroup. After leaving the Senate, Clinton served as Secretary of State for the U.S. State Department from 2009–2013. She also served on the Board of Directors for the Bill, Hillary and Chelsea Clinton Foundation from 2013–2015. Lastly, in 2014, Carlos Slim's Telmex Foundation paid her $250,000–$500,000 for a speech.