# Private Wealth Advisory

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## GAME OVER Pt 1

The following quotes signal the beginning of the End Game for the US Dollar:

*"We hope the U.S. government will take responsible policies and measures to safeguard investors' interests,"* [China's ministry] said in a statement.

*"Foreign-exchange reserves have exceeded the reasonable levels that we actually need,"* [China's central bank governor] said. *"The rapid increase in reserves may have led to excessive liquidity and has exerted significant sterilization pressure. If the government doesn't strike the right balance with its policies, the build-up could cause big risks," he said, without elaborating.*

These two statements, in plain terms, are China saying it's sick of the US Dollar. Remember, the US Dollar and Dollar-denominated assets (Treasuries etc) are China's single largest holding. So the reference to "foreign-exchange reserves," is synonymous with "US Dollar denominated assets."

On the surface, it will be easy to chalk all of this up to politician speak. After all, China has been issuing warnings to the US regarding the latter's financial condition since 2009.

However, a few key developments have occurred that make it clear this latest round of statements are the real deal.

First and foremost, China and Russia agreed late last year to begin trading with one another in their own currencies, NOT the US Dollar. In that step alone, two of the largest emerging markets (and economies) in the world moved away from the US Dollar. Add to this the fact that China just agreed to expedite trade relations with Brazil and you've got the beginnings of a flight from the US Dollar and the end of the Dollar's reserve currency status.

Indeed, not three months after China signed this deal with Russia, China's president visited Washington and delivered a speech in which he stated that, *"the current international currency system* ***<u>is the product of the past</u>"*** (edits mine).

Consider the "past" comment in relation to China's decision shutting the US Dollar out of its trade with Russia (and other items I'm about to detail). In this sense, the "past" is the US Dollar as the world's reserve currency.

Indeed, China has been actively moving to distance its reliance on the US as a trade partner.

## China's Exports By Country/ Trade Partner

| In Billions ($) | 2005 | In Billions ($) | 2008 | In Billions ($) | 2009 |
|---|---|---|---|---|---|
| **US** | $162 | **US** | $252 | **US** | $298 |
| **Hong Kong** | $124 | **Hong Kong** | $190 | **Japan** | $228 |
| **Japan** | $84 | **Japan** | $116 | **Hong Kong** | $174 |
| **South Korea** | $35 | **South Korea** | $74 | **South Korea** | $156 |
| **Germany** | $32 | **Germany** | $59 | **Taiwan** | $106 |
| **Netherlands** | $25 | **Netherlands** | $46 | **Germany** | $105 |
| **UK** | $19 | **UK** | $36 | **Australia** | $60 |
| **Singapore** | $16 | **Russia** | $33 | **Malaysia** | $52 |
| **Taiwan** | $16 | **Singapore** | $32 | **Singapore** | $47 |
| **Russia** | $13 | **India** | $31 | **India** | $43 |
| | | | | | |
| **Total Exports** | $526 | **Total Exports** | $869 | **Total Exports** | $1,269 |
| **% From US** | 31% | **% From US** | 29% | **% From US** | 23% |

As you can see, in just four years, the US has gone from accounting for nearly a third of China's exports to less than a quarter. That is a MASSIVE shift in less than a decade (at this pace the US will be down to just 15% of China's exports by 2015).

China is literally putting its money where its mouth is. And its mouth is now openly telling the world that it's no longer interested in US Dollars or Dollar denominated assets.

The world has taken note. Indeed, we are now seeing various other nations preparing for the end of the US Dollar as reserve currency. Consider that Saudi Arabia becoming so fed up with the US that it is sending trade representatives to China and Russia to strengthen trade ties.

Saudi Arabia is the single largest oil producing country in the world. Saudi Arabia IS oil in some regard. Whatever currency Saudi Arabia chooses to denominate its oil exports in will be the world's reserve currency.

So Saudi Arabia's decision to send trade representatives to China and Russia should be seen as Saudia Arabia seeing the writing on the wall, (death of the US Dollar) and starting the process of moving away from the greenback.

Saudi Arabia is not the only one. Singapore announced today that it will begin trading Yuan. The significance of this is enormous. Singapore is one of the four largest financial hubs in the world (the others are New York, London, and Tokyo). It's also the second largest private banking center behind Switzerland. With its English-speaking population, first-world accounting standards, and close proximity to China, Singapore is literally a "gateway to the east" through which world capital flows into Asia.

In simple terms, the world is beginning to shift away from the US Dollar as a reserve currency. This is not idle conjecture. This is fact. The writing is clearly on the wall for those who can read between the lines of the media's US-centric focus.

Indeed, officials from China, India, Brazil, Russia, and South Africa (the latest addition to the BRIC acronym, now to be called BRICS) recently met in southern China to discuss expanding the use of their own currencies in foreign trade (yet another move away from the US Dollar).

To recap:

- China and Russia have removed the US Dollar from their trade
- China is rushing its trade agreement with Brazil
- China, Russia, Brazil, India, and now South Africa are moving to trade more in their own currencies (not the US Dollar)
- Saudi Arabia is moving to formalize trade with China and Russia
- Singapore is moving to trade yuan

The trend here is obvious. The US Dollar's reign as the world's reserve currency is ending. The process will take time to unfold. But the Dollar will be finished as reserve currency within the next five years.

The process will not be linear in fashion: the Greenback will not simply collapse in one go. Moreover, it will not be obvious at first. Remember, the US Dollar is currently priced against a basket of currencies primarily comprised of garbage paper currencies backed by insolvent nations or broken unions (the Japanese Yen and the Euro).

Yet even when priced against this garbage, the US Dollar is still breaking down in a terrifying fashion.


As you can see, the Greenback, when priced against the Euro, Yen and Swiss Franc has broken its multi-year trendline with conviction. Moreover, we've not only broken this but we've actually failed to reclaim it once already.

This is a clear indication that the three+ year uptrend in the US Dollar has been broken. Things are even uglier in the futures session where the US Dollar has *just* taken out its 2009 low, leaving the 2008 low as the final line of support:

This is BAD news for the US Dollar. It's not as though the US Dollar index has much further to join its futures counterpart:

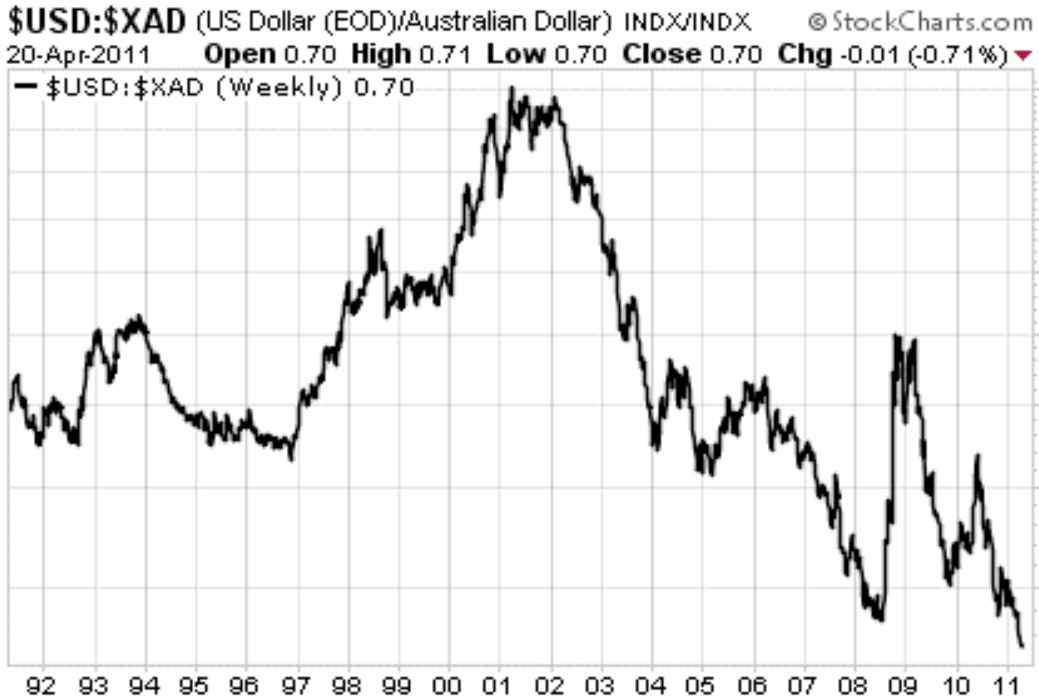

As you can see, the US Dollar index is right on its 2009 low. Below that is the 2008 low. Below that… is the abyss.

Bear in mind, the above charts plot the US Dollar's performance against other worthless paper currencies. When you chart its performance against harder currencies like the Swiss Franc, the picture is even more abysmal.

With its solid financial condition and close relationship to Gold, the Swiss Franc is largely held to be the "hardest money" form of fiat currency. With that in mind, consider the below chart, plotting the US Dollar against the Swiss Franc.


As you can see, the uptrend was broken long ago. And the collapse has already begun. In fact, priced in Swiss Francs, the US Dollar is at an ALL-TIME low:


The same is true for the US Dollar's performance against the "commodity" currencies. Here's the US Dollar priced in Aussie Dollars:




Another all time low. Here's the US Dollar priced is in Canadian Dollars:


Not quite an all-time low… but darn close.

And of course, here's the US Dollar priced in the ultimate currency (the only non-fiat currency in the world), GOLD:


Priced in Gold, the US Dollar has lost nearly 90% of its purchasing power in the last 20 years. Here's the reverse chart: Gold priced in US Dollars:


A new all-time high.

My point with all of this is that the US Dollar collapse is already underway if we look at the Dollar against stronger currencies (Swiss Francs), commodity-centric currencies (Aussie and Canadian Dollar), and non-paper currencies (Gold).

Moreover, we have clear signs that the growing powers of the world (China, Russia, Brazil) as well as the top Oil producer (Saudi Arabia) and global financial hubs (Singapore) are taking steps to prepare for the end of the Dollar reign as the world's global currency.

This process WILL happen, guaranteed. However the process will be volatile and will not necessarily be rapid.

What I mean by this is that the US Dollar can continue lose value… a lot of it, very quickly. However, no trend is completely linear in nature. So there will be rallies (for the Dollar) and pullbacks (in inflation hedges) along the way.

However, the long-term trend is now very, very clear. The US Dollar is doomed and will lose reserve currency status in the coming years. It could happen sooner of course, but the pace will depend on the other paper currencies supported by bankrupt nations, first.

With that in mind, let's look at cross the pond and consider the Euro, which comprises over 50% of the US Dollar index.

Long-term, the Euro is coming up against major resistance at 145. It's already staged a sharp reversal at this level, but is now re-testing it again:

Other signs that the current Euro rally is a little long-in-tooth (aside from the fact that the entire European union is a disaster and won't exist within two years) is the rising bearish wedge pattern (a common ending pattern) it has formed:


As you can see, the Euro has already broken this pattern, but the ECB stepped in and juiced things higher to reclaim it. However, I do not expect the Euro to go much higher than 145. And this pattern is very close to completion. The most likely ending will be a breakdown which ultimately targets the pattern's base: 130.

Should we see a definite break below the lower trendline (and especially if we have a failed attempt to reclaim it) then I'll be suggesting we open a Euro short. However, given the ECB's all out efforts to keep the EU intact, as well as the endless supply of loose money, I'm hesitant to jump back in on the Euro until we get a definite correction.

Long-term the Euro will no longer exist within two years. It's a done deal. Ignore all the short-term gyrations. Europeans don't want any part in the Euro any longer. Not to mention the fact that the countries that are insolvent are STILL insolvent, with even more debt. There will be widespread debt defaults and the Euro in its current form will be gone before the end of 2013. However, right now it's all about loose money.

The same goes for the Japanese Yen,

Japan is an absolute disaster. Having blown trillions in yen trying to prop up a broken financial system (and an aging population), Japan now finds itself having to spend even more in its attempt to rebuild after the earthquake.

Add to this a nuclear disaster that is now clearly worse than Chernobyl and Japan is an absolute disaster and will not see any kind of economic recovery in at least a year.

From a technical perspective, the Yen broke a massive triangle pattern in 2007 and has been on a tear ever since. The ultimate target of this pattern is in the 140 range. However, given that Japan has already spent trillions suppressing the yen, I doubt they'll allow it to get to this level.


Indeed, in the short-term, the Yen is close to breaking the uptrend that has sustained it since 2007:


If this line is broken the Yen is going to at least 100 if not 90 in a hurry. I'm monitoring this situation and will have a trade for it when this happens.

I have a handful of new inflation hedges to share with you. But need just a little more time to research them. So I'll be posting a second portion of this issue tomorrow after the market's close.

In the meantime, please review the intro this issue again. The significance of what's going on CANNOT be overstated. This is the beginning of THE END for the US Dollar. We need to be preparing accordingly.

Until tomorrow…

Good Investing!

Graham Summers

## PORTFOLIO REVIEW

## OPEN POSITIONS

| **Inflation Portfolio (OPEN BUYS NOW)** | | | | | |
|---|---|---|---|---|---|
| **Company** | **Symbol** | **Buy Date** | **Buy Price** | **Current Price** | **Gain/ Loss** |

| | | | | | |
|---|---|---|---|---|---|
| Gold bullion | N/A | 3/17/10 | $1,120 | $1,508.00 | 35% |
| Silver bullion | N/A | 3/17/10 | $17.50 | $45.88 | 162% |
| Vista Gold | VGZ | 12/15/10 | $2.55 | $3.44 | 35% |
| Novus Energy | NVS.V | 12/15/10 | $1.01 | $1.12 | 11% |
| Centamin Mining | CEE.TO | 2/23/11 | $1.95 | $2.22 | 14% |
| Anderson Energy | AXL.TO | 2/23/11 | $1.19 | $1.07 | -10% |
| Bullish Oil ETF | UCO | 4/7/11 | $60.85 | $61.02 | 0% |
| Conoco Phillips | COP | 4/7/11 | $80.40 | $79.99 | -1% |
| Pretium Resources | PVG.TO | 4/7/11 | $10.00 | $9.70 | -3% |
| | | | | **Average** | **27%** |
| | | | | **S&P 500** | **14%** |

| **Coming Crisis Portfolio (Bought at 11/16/10 at 11:46AM)** | | | | | |
|---|---|---|---|---|---|
| **Investment** | **Symbol** | **Buy Date** | **Buy Price** | **Current Price** | **Gain/ Loss** |
| UltraShort Brazil | BZQ | 11/16/10 | $17.74 | $14.12 | -20% |
| UltraShort Emerg. Mkts | EEV | 11/16/10 | $36.57 | $27.88 | -24% |
| UltraShort Russell 2000 | TWM | 11/16/10 | $63.48 | $41.84 | -34% |
| UltraShort Real Estate | SRS | 11/16/10 | $20.94 | $14.93 | -29% |
| UltraShort Materials | SMN | 11/16/10 | $25.49 | $16.57 | -35% |
| UltraShort Financials | SKF | 11/16/10 | $74.68 | $59.07 | -21% |

Recently Sold

| | | | | | |
|---|---|---|---|---|---|
| TimberWest | TWF-UN.TO | 2/23/11 | $4.63 | SOLD 4/11/11 (10:10AM) $6.57 | 42% |