

PIVOTAL EVENTS

THURSDAY, JUNE 2, 2011

BOB HOYE

PUBLISHED BY INSTITUTIONAL ADVISORS

Signs Of The Times

"U.S. Dollar on Verge of Crossing Devastating Threshold"

– Financial Post, May 7, 2011

The article was bearish on the DX.

"Real Estate"

"Low Rates to Keep House Party Going"

– Financial Post, May 30, 2011

The latest rise in Canadian residential prices was boosted by Asian hot-buying in the Vancouver market.

"Consumer Confidence Falls Unexpectedly in May"

– Bloomberg, May 31, 2011

"ISM manufacturing index fell to 53.5 in May from 60.4 in April."

– Bloomberg, June 1, 2011

We don't usually cover such economic reports, because you can't trade them, but at times of probable change they are of interest. Especially, the one on prices paid which dropped from 85.5 in April to 76.5 on the May report.

"Wall Street Baffled by Slowing Economy, Low Yields"

– CNBC, June 1, 2011

Sometime, it seems, it does not need rising short rates to end a business cycle.

* * * * *

Big Picture

The link from commodities turning down to weaker pricing power in industry seems rather direct – again. This has put the bid back into the long treasury market as the bid has gone out of the equity market.

We have been noting the resistance for the bond at the 125 to 126 level and it took some churning to get through it. Last week we advised traders to stand aside. This week, the soft economic numbers are creating another "flight to quality" into the long end but we would not chase the move. Over the past few years, the "flight" has already driven short rates to next to zero and it seems that treasuries have further to run.

Last week we noted that the decline in stock markets was modest compared to commodities, which had dropped to their March lows. The March low for the S&P is 1294, which we thought could be taken out. That is technical analysis, and the establishment's response to this week's economic numbers provides sound fundamentals to the decline.

We have two research approaches to the end of the business cycle that arose out of the panic that ended in March 2009. The first is that at the end of a great bubble the economic world changes as the recession starts with the bear market, rather than lagging by 12 months. The stock market peaked in October 2007 and the recession started that fateful December.

As the first business expansion out the crash ended we've thought that it would fail as the stock market rolled over. Essentially, this was the case in 1937.

The other "model" for calling the recession has been our Forecaster when the big action is in commodities. The signal registered in November 1973 and speculation completed three months late. The recession started in November 1973.

The next big signal registered in November 1979 and the precious metal mania completed in January 1980. The recession started in January 1980.

This time around on the party in commodities, the signal registered in January and the action completed by the end of April and it looks like the recession is starting.

INTEREST RATES

The bid for the long bond and another "fix" for Greece has popped Munis (MUB) up to test the high at 104. This sector registered an Upside Exhaustion and is vulnerable to a severe decline in price. Enough to be included in the great bond revulsion that is devastating the Sovereign market.

Corporates are vulnerable as well but in hanging in there, reminds of an old "light bulb" joke.

"How many bulls does it take to change a light bulb?"

"None – they never burn out!"

Seriously, there has been some widening since mid-May. The spread on Baa has increased from 109 bps to 115 bps. For the High-Yield its from 347 bps to 386 bps. For Junk it's from 632 bps to 677 bps.

Most of the change has happened as treasury yields fell, but since last week the High-Yield and Junk have increased in yield – as treasuries continue to decline.

We have been discussing seasonal narrowing into May and then the reversal to widening. If it occurs as the party becomes reckless, subsequent widening can be severe.

With the action in commodities one can't help but recall some of the stories with the 1974 bust. This writer was sharing office space with Bob Merritt, a savvy fund manager who would not suffer bear markets – not even with "defensive" stocks that offered a slower rate of capital erosion:

After we would get back from lunch (Vancouver time), Bob would call an institutional broker to find out what happened to the stock market. He would come out of his office with an evil grin and say *"The Dow was down ten points, but it's OK, because the broker says it's on lower volume – so it doesn't count."*

Volume declined all through the worst bear market since the 1930s.

Stock market trading volume has been declining since mid-March.

The 1980 bubble had some interesting consequences. Precious metals were plunging – and so were long-dated treasury bonds on their worst bear market in history. After lunch with a few "bombas" of Margaritas, Bob checked the markets and announced *"Don't worry about your bonds – they are as good as gold."* Yield on the long bond soared to fifteen (15) percent in 1981. Gold fell to 281 in 1985.

All of this changed in 1982 when, and although the Fed kept expanding money supply, commodities were hopeless. However, financial assets did begin their great inflation. But that is another story.

Have there been other examples of central bank easy-money policies not driving asset prices up?

The most insane application of "stimulus" has not ramped up US housing prices. It hasn't even stopped them from going down.

And then there is the Bank of Japan's heroic efforts to boost prices – since 1990.

An earlier example has yet to get into the text books. The Fed was very accommodative from the summer of 1929 on and its heroic efforts were overwhelmed by the natural forces of contraction. Actually, the Fed began aggressive accommodation as soon as they opened the doors in 1914.

CURRENCIES

The attached chart on the euro outlines the probable path. Euroland is a bureaucratic confection that in exchange for more open borders Europeans surrendered their sovereignty to a mindless bureaucracy in Brussels.

We have often called it "Moscow on the Maastricht" and being artificial it may not survive the next phase of the financial storm. This will be part of a great political reform as power shifts from central authority to regionalism and individualism. It has happened before.

PRECIOUS METALS

Our publications in the last week in April, described that the pending reversal in silver would be violent. The April 28th Pivot noted that if the silver/gold ratio stayed firm into the next day (Friday) it would accomplish a rare "Momentum Trifecta", which would be a strong sell signal on the sector. Additionally, we made comparisons to the conclusion of the precious metals mania in January 1980.

Also, the reversal in the silver/gold ratio would be the "sell" on all of the hot games.

This has been working out and the violence of the reversal is impressive.

In the overall decline, silver and silver stocks were expected to be weaker than their gold equivalents.

It is interesting that so much damage has been done as the dollar is setting a bottom. How much will be done when the DX sets the uptrend?

Adding considerable irony to the mix is gold's real price turning up. Technically, the uptrend was confirmed in mid-April and that became a warning on the completion of the speculative surge.

Our Gold/Commodities Index has climbed from 303 in February to 365 on May 24. This seems to be consolidating at the 360 level before moving higher on a cyclical bull market. When selling pressures end in the big markets gold shares can soar.

The ChartWorks is monitoring the action.

Ampersand

There is a "news" story that reveals that the former head of the IMF was charged with sex offenses because he had discovered that there is no gold in Fort Knox. This is attached and seems to be an exercise in misinformation. It will be interesting to see how it plays out.

In the meantime, this page is no stranger to the story that there is no gold in Fort Knox. Years ago, we discovered that radon gas that lurks in many basements has turned all of the gold into lead. Sort of a reverse alchemy.

BOB HOYE, INSTITUTIONAL ADVISORS
E-MAIL bobhoye@institutionaladvisors.com
WEBSITE: www.institutionaladvisors.com

CURRENCIES



- Somehow for most folks it is easier to accept “The Euro is going down.”
- Rather than, “The Dollar is going up.”

The European Union Times May 31st, 2011

Russia Says IMF Chief Jailed For Discovering All US Gold is Gone

A new report prepared for Prime Minister Putin by the Federal Security Service (FSB) says that former International Monetary Fund (IMF) Chief Dominique Strauss-Kahn was charged and jailed in the US for sex crimes on May 14th after his discovery that all of the gold held in the United States Bullion Depository located at Fort Knox was 'missing and/or unaccounted' for.

According to this FSB secret report, Strauss-Kahn had become "increasingly concerned" earlier this month after the United States began "stalling" its pledged delivery to the IMF of 191.3 tons of gold agreed to under the Second Amendment of the Articles of Agreement signed by the Executive Board in April 1978 that were to be sold to fund what are called Special Drawing Rights (SDRs) as an alternative to what are called reserve currencies.

This FSB report further states that upon Strauss-Kahn raising his concerns with American government officials close to President Obama he was 'contacted' by 'rogue elements' within the Central Intelligence Agency (CIA) who provided him 'firm evidence' that all of the gold reported to be held by the US 'was gone'.

Upon Strauss-Kahn receiving the CIA evidence, this report continues, he made immediate arrangements to leave the US for Paris, but when contacted by agents working for France's General Directorate for External Security (DGSE) that American authorities were seeking his capture he fled to New York City's JFK airport following these agents directive not to take his cell-phone because US police could track his exact location.

Once Strauss-Kahn was safely boarded on an Air France flight to Paris, however, this FSB report says he made a 'fatal mistake' by calling the hotel from a phone on the plane and asking them to forward the cell-phone he had been told to leave behind to his French residence, after which US agents were able to track and apprehend him.

Within the past fortnight, this report continues, Strauss-Kahn reached out to his close friend and top Egyptian banker Mahmoud Abdel Salam Omar to retrieve from the US the evidence given to him by the CIA. Omar, however, and exactly like Strauss-Kahn before him, was charged yesterday by the US with a sex crime against a luxury hotel maid, a charge the FSB labels as 'beyond belief' due to Omar being 74-years-old and a devout Muslim.

In an astounding move puzzling many in Moscow, Putin after reading this secret FSB report today ordered posted to the Kremlin's official website a defense of Strauss-Kahn becoming the first world leader to state that the former IMF chief was a victim of a US conspiracy. Putin further stated, "It's hard for me to evaluate the hidden political motives but I cannot believe that it looks the way it was initially introduced. It doesn't sit right in my head."

Interesting to note about all of these events is that one of the United States top Congressman, and 2012 Presidential candidate, Ron Paul [photo bottom left] has long stated his belief that the US government has lied about its gold reserves held at Fort Knox. So concerned had Congressman Paul become about the US government and the Federal Reserve hiding the truth about American gold reserves he put forward a bill in

late 2010 to force an audit of them, but which was subsequently defeated by Obama regime forces.

When directly asked by reporters if he believed there was no gold in Fort Knox or the Federal Reserve, Congressman Paul gave the incredible reply, "I think it is a possibility."

Also interesting to note is that barely 3 days after the arrest of Strauss-Kahn, Congressman Paul made a new call for the US to sell its gold reserves by stating, "Given the high price it is now, and the tremendous debt problem we now have, by all means, sell at the peak."

Bizarre reports emanating from the US for years, however, suggest there is no gold to sell, and as we can read as posted in 2009 on the ViewZone.Com news site:

"In October of 2009 the Chinese received a shipment of gold bars. Gold is regularly exchanged between countries to pay debts and to settle the so-called balance of trade. Most gold is exchanged and stored in vaults under the supervision of a special organization based in London, the London Bullion Market Association (or LBMA). When the shipment was received, the Chinese government asked that special tests be performed to guarantee the purity and weight of the gold bars. In this test, four small holes are drilled into the gold bars and the metal is then analyzed.

Officials were shocked to learn that the bars were fake. They contained cores of tungsten with only a outer coating of real gold. What's more, these gold bars, containing serial numbers for tracking, originated in the US and had been stored in Fort Knox for years. There were reportedly between 5,600 to 5,700 bars, weighing 400 oz. each, in the shipment!"

To the final fate of Strauss-Kahn it is not in our knowing, but new reports coming from the United States show his determination not to go down without a fight as he has hired what is described as a 'crack team' of former CIA spies, private investigators and media advisers to defend him.

To the practical effects on the global economy should it be proved that the US, indeed, has been lying about its gold reserves, Russia's Central Bank yesterday ordered the interest rate raised from 0.25 to 3.5 percent and Putin ordered the export ban on wheat and grain crops lifted by July 1st in a move designed to fill the Motherlands coffers with money that normally would have flowed to the US.

The American peoples ability to know the truth of these things, and as always, has been shouted out by their propaganda media organs leaving them in danger of not being prepared for the horrific economic collapse of their nation now believed will much sooner than later.