

Bond Market Collapse is Imminent

By Adrian Douglas

Imagine a country such as Venezuela announced that it was bailing out an investment bank, then just days later said it was nationalizing its mortgage industry, and then just days later that it was bailing out its biggest insurance company, and then just days later its government pledged 700B\$ to inject into its failing banks, and then just days later its stock market fell 20%. Would you feel comfortable having your money invested in such a country, in its stock market, in its bond market or in its currency?

I hope you answered “No” or “Hell, No!” to the above question! So why should you feel any different about the situation if the country is called “America”? I am going to show you that the US Bond market is on the brink of collapse and with it will come the collapse of the currency, just as you would expect to be the outcome of such ridiculously inflationary policies in any other country.

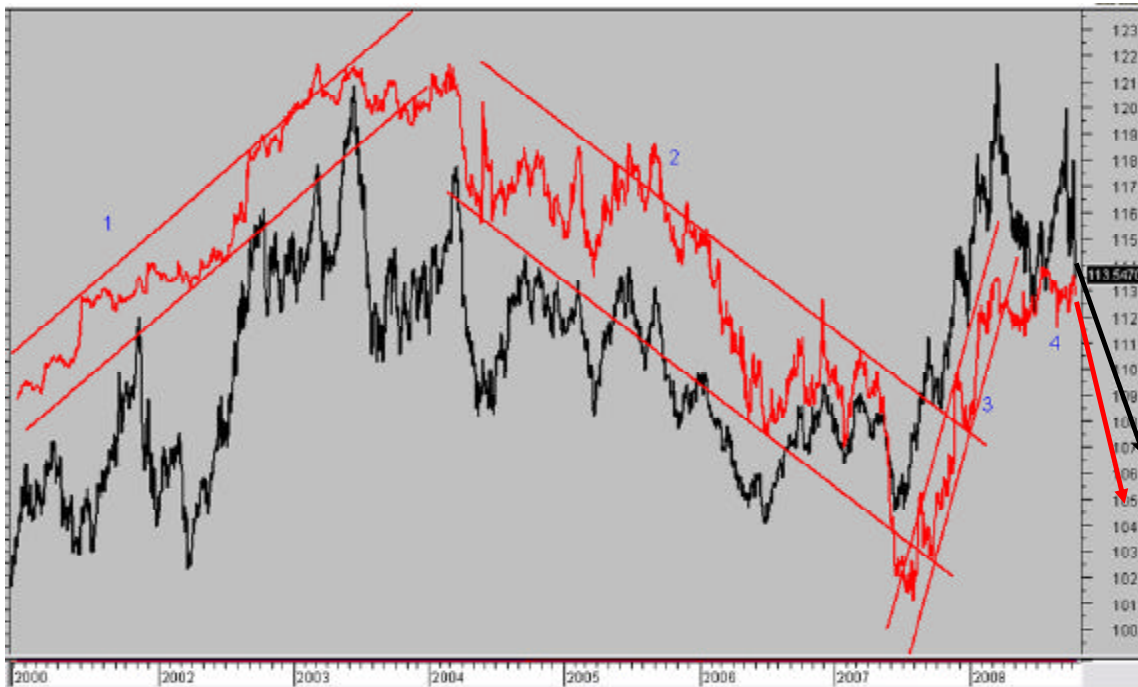


Figure 1 US 10 Year Note Price and MFA

In figure 1 the 10 Year US Treasury Note price is shown in black. The Market Force Analysis (MFA) is shown in red. From 2000-2003 the MFA was rising and in a bull trend identified by the trend channel labeled “1”. The bond price was generally rising (falling yields). In late 2003 the MFA exited the channel and entered into a declining trend labeled “2”. The bond price as a consequence was

falling (rising yields). In early 2007 the MFA fell rapidly and exited the lower side of the channel. This seemed to be signaling an imminent rapid decline of the bond price. But then in mid-2007 the first news broke of sub-prime mortgage problems. There was a sudden rush to “prime” and safe debt in the form of Government Treasury debt. The MFA did a reversal and entered into a new rising trend labeled “3” and the 10Y note commenced a strong bear market rally. In early 2008 the MFA exited this trend and has been tracking sideways suggesting a topping process. Ominously the bond price has made a pronounced double top and is looking ripe for a collapse. As the stock market had its worst week in history the financial press reported on short term treasuries rallying as the initial reaction of investors was to rush into “safe haven” treasuries. The 10 year note tells a different story. It initially rallied on Monday October 6 to 118 but by the end of the worst week in stock market history it had fallen to 113.5. Hardly indicative of a safe haven play!

All the bailouts and “recapitalization” plans of the Treasury and the FED are highly inflationary and require issuing massive amounts of Treasury debt. The bond vigilantes are waking up. They are going to dump bonds like they have gone out of style. Bond prices will drop like a stone (as indicated by the black arrow in figure 1), general equities will drop more and the dollar will nose dive.

This highly inflationary scenario will make money rush into the tiny precious metals market and explode their prices due to paltry supply. The lack of supply of the metals will mean that money will have to spill into anything silver or gold such as the mining equities. Money will also flow back into commodities because the money leaving the bond market and the equities markets will be just too large to be accommodated anywhere else.

On Friday October 10 as the stock market selling intensified and 10 Year note prices were falling CNBC Rick Santelli was saying this was a sign the credit market freeze was easing! This was as the LIBOR-TED spread reached an all time high!

What is more likely is that bond holders were waking up to the certain hyperinflation coming as a consequence of the largesse of the government’s massive rescue plans.

Many analysts are incorrectly talking of deflation. Falling stock markets or falling housing markets do not contract the money supply. The government’s bailouts and “liquidity” injections on the other hand increase it. John Williams shows at shadowstats.com that the money supply is expanding at 14% and when the government guarantees all bank deposits and probably all interbank lending I can’t imagine what it will be!

Imagine that instead of living through this nightmare yourself you were watching this complete financial drama unfolding in Venezuela. Who in his right mind

would predict that Venezuela would experience massive deflation as a result of creating massive amounts of money and credit out of thin air? So why is it different for America? The laws of economics are not country specific. Because the Cartel hit gold and silver in the middle of the night on Thursday October 9 many started invoking deflation theories. This is nonsensical and the bond market is about to confirm it!

We have seen the mega-shorts on TOCOM reduce their shorts in gold and silver to next to zero. They know what is going to happen to the prices of precious metals!

Many investors are starting to think that after this stock market rout and with a G7 package things will begin to improve. That is not the way things work! 20 years of excesses with even more monetary excesses about to be heaped upon us as a “rescue package” do not get unwound in 5 days. This is just the beginning. The bond market is the biggest market in the world (if we ignore the ridiculous, unregulated casino peddling OTC derivatives!). When the bond market heads south the money that has to find a safe haven somewhere else is in the trillions. Just a small percentage of this capital will blow the precious metals to unimaginable levels.

The authorities keep saying that they will “use all tools available to them”. They only have one...it’s an electronic version of the printing press. They will spin it in many different ways using jargon like “increased liquidity” and “injection of capital” and “buying equity stakes” and “buying toxic debt” but it all translates to “create more money out of thin air”. Gold and silver and the mining equities will be the place to be and soon thereafter commodities in general.

Clarity will come when the metals reach new highs and at that point a child of six will be able to say where to invest. Of course, that is the greatest incentive for the Gold cartel to prevent new highs being achieved! But new highs are already being achieved in the retail market and on e-bay. The silly manipulation on the COMEX will soon end. You can help it end if you buy a contract and stand for delivery or buy gold and silver through goldmoney.com.

Adrian Douglas
info@marketforceanalysis.com