



HOW A US CURRENCY CRISIS COULD UNFOLD

by Chris Laird

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Imagine going to your bank (probably online) and wanting to take out say 50k, say half of your cash, so you can go buy say, Yen. The bank tells you, "you are only allowed to take out 5k per month, it's a new law." This would be same situation for a brokerage account.

Sound far fetched????

Argentina did that in about 2002. The Argentinean peso collapsed, people wanted to take their pesos and sell for dollars.

The Argentinean government just told the banks, don't let them pull out their money. Freeze the bank accounts.

The peso dropped like a stone and the people with money in the bank... just had to watch... and starve too.

There was rioting in the streets of course, for months.

Sound far fetched for the US? In the early 30's the US declared a bank holiday amidst having bank runs and bank collapses, after the crash of 1929... and subsequent ensuing depression.....Oh and by the way, the US outlawed gold holdings then.... ordered people to turn it in, and gave them the US exchange rate below 30 bucks, then soon after raised the gold price in USD to 35 bucks.....

I get people asking me about holding cash, instead of gold. The above things happen to people like that.

Suppose the US entered a dollar crisis where, say the dollar is collapsing via foreign currencies.... Say just for example, against the YEN. Then millions of people would want to buy Yen, and the US govt would probably just say, "you cannot take out more than 5K per month out of your accounts. IE they freeze your bank accounts, so you cannot go and buy Yen.

People worry about hyperinflation. But currency crises also come and have come to the US even, and in Dec 2004 we were flirting with pre stage events that could have boiled into a dollar crisis, when the USD was dropping fast late 2004.

So whether its hyperinflation with a resultant mad rush to buy anything real, or a currency crisis where there is a mad rush to buy any currency other than the USD, people with large amounts of cash are asking for big trouble. All the government has to do is freeze or semi freeze your bank accounts, they have already done this in the past, and I guarantee that if the US were to enter into a real bonafide dollar crisis, they certainly will freeze most bank accounts as outlined above?

I suppose that people will think, well gold etf's will do well. Perhaps. But don't you think the US government would be kinda ahead of that curve???? All they have to do is suspend trading, or use a bank freeze to prevent you from getting any money over into that etf anyway, and later when things really get nasty, after the etfs have scarfed up enough gold.....you get my drift? after that then say, "for national security" we are taking "custody" of the etf gold vaults.

They will say its for the protection of the gold, but all it really is is confiscation. All an etf is to me is a vehicle where the public buys all the gold, then the govt seizes it later. Happened before. And it will probably happen again. The govt might say" here is x dollars, but we're taking the gold". A week later gold sells for three times as much on the black market, and the dollar buys exactly one third as much food, gas and so on.....you have the dollars but all of a sudden they just don't buy much.

"They would never do that" you say.

But didn't I just tell you that that is PRECISELY what happened in the 1930s????????? The US govt outlawed gold ownership for the public, took the gold coins out of circulation, and issued all fiat dollar notes.....and took all bank deposit boxes of gold as well, and if you went into a bank to open your deposit box, you had to do that IN VIEW of a federal marshal....

If he saw any gold he forced the owner to had it over for a specified number of fiat bank notes....

If that happened to gold and gold currency in the 1930s why can't that happen today??? What would keep a gold ETF out of that picture?

Of course, if you have that gold stashed here and there, not in a bank.... maybe you'll be ok. There is nothing that equates to 100 pct security. But if you have lots of bank accounts, I wouldn't bet on them keeping you safely out of financial harm's way in such a scenario.

How a USD crisis might unfold this time:

There are many ways a currency crisis could unfold for the US. One main one

would be selling of UST bonds. That effectively would be dollar flight, first out of TBonds into dollar cash, then out of dollar cash into say, Yen. Or Yuan, or Euros....

Now at the **moment** I don't see this happening but it definitely can.

In such a scenario, if other foreign central banks did not all join to support the USD, it would be very possible that the USD could collapse not in weeks, but possibly in a day or even if things got hot, in an hour. Electronic money is so fluid that markets could be flooded in only an hour. Then the US would have to halt trading here, but of course there are foreign markets. I doubt the US could get the international forex markets to close too... in which case, the collapse would continue.

One of the things that concerns me is that the world really has geared their finance on the US consumer, and the US housing boom. Of course they now have their own property booms, but a lot of that started here. Actually, if you want to really trace the present finance boom worldwide we can thank the Japanese, who started this latest mess in the 1990's following twin stock and property boom/collapses and countered that with zero interest rates, but not only for a year or two, but for a decade. Now the world is infected with the imbalances of that ill advised strategy, and the YEN carry trade was the conduit for massively low interest rates world wide. The fact that the US initiated its own virtually zero interest rate environment, post the tech crash and 911, was only a second phase of an already well under way world liquidity boom started by Japan.

At that point, when the US started its own version of ZERO interest rates (zero at least in real rates, if a 1 pct Fed target rate isn't low enough), the world got entrained in the Japanese low interest finance disease via the USD conduit. Now we are really in a mess. **REALLY IN A MESS.**

Now back to my main concern. The US housing boom is peaking. We still have statistics indicating that its going strong, but also clear indications that it is slowing. It is my view that should the US consumer slow decidedly, there will be little incentive for the Chinese, say, to keep supporting the USD. They may decide at some point to go ahead and try to focus on their Asian markets, as might Japan, figuring that the US is toast anyway for a decade. Should that happen, I am sure we will be looking at a very serious possibility of a real bonafide USD crisis. Basically they would be saying, the US consumer market is maxed out, and not worth saving.

Now back in Dec 2004, I wrote at Gold-Eagle that I believed the Chinese would not unpeg the Yuan until late 2005 because they would not mess with the US consumer since that was their biggest customer. It would only be when the housing boom was slowing that they would even consider meaningful Yuan revaluation. They have made their first move in July 2005, albeit a very small one. Probably more than anything else that move was due to pressure from the US with all the threats then of anti China bills in Congress. Now I believe we need to look at the view that, should the US

housing boom slow and the US consumer pull back decidedly, the USD gravy train for Asia has no more gravy left.

2006 will be a very dangerous time. I believe that the US housing boom is peaking. Therefore I believe there is a risk now of a real USD crisis, or semi crisis. There is one major caveat though. The USD is still so strong vis a vis the world reserve currency, that that might make all parties involved not even think of doing anything to harm the USD. But the possibility of major pullbacks of USD holders remains anyway. And, as I said, the scenario where they dump US treasuries is only ONE scenario.

There are many such scenarios.

Another would be the derivatives mess collapsing. That is so fraught with liabilities that it is, as I said before, the single greatest **black box** risk to the US and world economy..... and could result in a USD crisis as well, as the Fed might find itself having to infuse trillions (yes I said trillions) to stem the next major derivatives crisis. That would probably lead to a currency crisis. As a matter of fact, would you believe that China and Russia and other nations right now are making bold moves into all sorts of derivatives markets themselves?????? WHEW!

The world is speculation happy! Most definitely.

In any case, there are many scenarios that can lead to a USD crisis. I don't think those scenarios are all voluntary ones either. It is possible a USD crisis could ensue, not as a result of some definite decision of foreigners to pull out of the USD, but could ensue as an accident, possibly of derivatives.....

Now recently, I wrote the article "something is wrong, something is up, possibly a crisis" In that I stated that gold's recent rise was too fast for the recent behavior to be only due to some usual economic news, but rather looks to me like there is a hidden crisis.....I pegged derivatives as suspect number one. That argument has now showed itself in many financial publications. (not necessarily the derivatives component).

We still are not clear on what crisis is at hand, but I suspect there is one. The problem is that if it remains hidden then by the time you know about it, it will be too late for you to make any moves.....This is why I keep saying be in PROTECTIVE MODE.

Stop chasing new yields, and new capital gains. Stay in protect mode.

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