The Solari Report

May 26, 2016

Precious Metals Market Report

with Franklin Sanders

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C. Austin Fitts: Ladies and gentlemen, it's a pleasure to be back in the United States and be back in Tennessee and to have a chance to talk with long-time ally and amazing precious metals dealer, farmer, and author, Franklin Sanders.

Franklin, I've missed you. We're delighted to have you back on The Solari Report.

Franklin Sanders: We've missed you, too. It's good to be back.

C. Austin Fitts: At this point, trying to make sense of the markets may be beyond us all, but you prepared some charts. Bring us up to date on what is happening in the precious metals market and what you see.

Franklin Sanders: Let me just preface what I'm going to say by saying this: I know that you have fried eggs, right? Everybody has fried eggs at one time or another. You know how this goes. Think about it in slow motion. What happens is you get out the skillet, you put some grease in the skillet, you let the grease get really hot – the hotter the better – and then you crack the egg on the side of the skillet and you open the egg. Sometimes that membrane on the inside fights you just a little bit. Then you want to drop the egg into the grease just right so that the yolk doesn't break.

Well, in slow motion, that's what we're watching; the eggs have been cracked. They're just being dropped into the grease now, and the frying is going to take place soon. So just bear in mind that what I think has happened is the shells have been broken, the eggs have been cracked, and what we're watching now is the takeoff in slow motion – the real frying of the egg.

Having said all that, I've got a chart here of the gold Philadelphia bank stock index. That's the gold price divided by the Philadelphia bank stock index. The reason I have index up is simple: physical demand does not drive the price of gold or the price of silver. Most of the gold that has ever been mined is still in existence, so you can't do commodity-type supply and demand analysis for gold the way you could for oil, oats, or wheat, or something like that.

It's not physical supply and demand that drives the prices of gold and silver. What drives those prices is monetary demand, and monetary demand is the


$GOLD:$BKX Gold - Spot Price (EOD)/KBW Bank Index CME/INDX
@StockCharts.com
25-May-2016
Open 17.28 High 17.32 Low 17.14 Close 17.23 Chg -0.37 (-2.09%)
RSI(14) 33.12
$GOLD:$BKX (Daily) 17.23 (25 May)
MA(50) 18.76
MA(200) 16.98
Volume undef
MACD(12,26,9) -0.243, -0.081, -0.161
D 14 F M A M J J A S O N D 15 F M A M J J A S O N D 16 F M A M

inverse or the reciprocal of trust in the financial and monetary system.

So, when people don't trust the financial and monetary system, they buy gold. When they trust the financial and monetary system, they buy bank stocks. So what you've got here is a spread that seesaws between confidence and no confidence.

In other words, gold began strengthening bank stocks and blasted straight up.

I'd like to point out that we have a slightly down-trending channel – that is the green lines there. That pattern ruled for several years – about four years. Back at the start of 2016, the gold bank stock index broke up. In other words, gold began strengthening bank stocks and blasted straight up. You can see that long run. Then it came back, and it's been settling back in a downward trending channel.

But think about that green line that is a long-term line. What markets do when they make a significant breakout? Usually they run up and then, almost as if they think about what they were doing, they run back to get one final kiss goodbye. That's what it appears to me the gold stock index is doing. It's going to go back either to that line or to the 200-day moving average and get that final kiss goodbye before it takes off to the upside.

The breakout over the long-term downtrend line says that the trend has changed; the egg has been broken. This chart right here seems to me the most important chart for understanding gold. I may be overstating, but not much.

Then the next chart I've got is the gold and silver ratio, and that's just the price of gold divided by the price of silver. You can't tell from the shorter-term chart, but there is a range. The top of the range is about 84. That is, it takes 84 ounces of silver to buy one ounce of gold. The bottom of that range is 45. If you looked for the last 20 years or so, you would see that the gold/silver spread stays within that range. Occasionally it will go way up to the top and go to 84. Occasionally it will go past the bottom; way down to 32 like in 2011.

So what we know is that gold and silver are languishing; they're not doing well except when gold is outperforming silver. When I say that, I mean that ratio is

$GOLD:$SILVER Gold - Spot Price (EOD)/Silver - Spot Price (EOD) CME
© StockCharts.com
25-May-2016
Open 75.11 High 75.29 Low 74.52 Close 74.93 Volume 5 Chg -0.62 (-0.82%)
RSI(14) 49.11
$GOLD:$SILVER (Daily) 74.93 (25 May)
MA(50) 76.43
MA(200) 76.58
MA(20) 74.20
MACD(12,26,9) -0.080, -0.450, 0.369
ROC(12) 1.02%
Full STO %K(14,3) %D(3) 68.60, 77.71
Dec 2016 Feb Mar Apr May Jun Jul

up toward the high end of that 84-45 range.

It got there back in March after dropping back; and look at what happened. Since the first of March, that ratio has simply collapsed. That means that silver has been outperforming gold. It's a general truth to say that silver rises faster than gold in a gold and silver bull market. That's the general truth. But it doesn't happen every time.

The fact that the ratio is broken from 84 and broken out of the channel it was trading in; that heavy red line is the long-term uptrend line from 2011, thus it has walked through that line.

Now it's broken down from the trading channel with those two nice gaps, and now it's traded back up to the 200-day moving average, which is about at the same place as the bottom boundary of the channel. So that's another market that says, "The egg has fallen out of its shell. It's on its way to the grease, and it's fixing to fry big time," because that ratio may go a little higher in this correction, but there's nothing in the gold/silver ratio in that chart that I see that says it's going to go much higher. It might go back to 80, which is the point of that triangle that it broke out of. They do that sometimes, but this says that gold and silver have turned up again.

Then I've got the dollar index, and the dollar index is the third chart. That's the chart that's got everybody wringing hands now. You probably know more about the imposters in the Federal Reserve than I know, but they have lying mouthpieces that they send around the country for "jawboning," which is when they talk markets up or down.

Without ever lifting a peg or turning a screw or nailing a nail or making any change whatsoever, from July of 2014 to March of 2015 that jawboning drove the threat, "We're going to raise interest rates! We're going to raise interest rates," which drove the dollar up from about 80 on the dollar index to 100. They didn't do anything else. They took no steps.

C. Austin Fitts: I do think they lent dollars all over the world. Then as its commodity revenues fell, you had borrowers all over the world in a dollar trap.


$USD US Dollar Index - Cash Settle (EOD) ICE
©StockCharts.com
25-May-2016
Open 95.65 High 95.67 Low 95.32 Close 95.34 Chg -0.24 (-0.25%)
MA(50) 94.60
MA(200) 96.64
MA(20) 94.25
US DOLLAR INDEX

Franklin Sanders: They're in one now, sure enough.

C. Austin Fitts: Right. So it wasn't just threatening to raise interest rates; it was creating a huge lending business in dollars and then turning around and making dollars a little bit scarce.

Franklin Sanders: But apparently they have been working against that since December. There was another high in the dollar index in December, but it was a failure at 100:1. Just from a technical standpoint, that, followed by lower peaks, defines a market in a downtrend.

C. Austin Fitts: The Fed is in a very funny situation – not that the Fed is necessarily in control – but if you want to keep the stock market high, then you need a lower dollar. In other words, the rise of the dollar up to 100 has been devastating to a lot of the S&P earnings because you've got a big position in multinational earnings, and you're consolidating back.

I thought the dollar was going to go much higher, but from what I've seen, the corporate pressure to keep the dollar lower and the cut that it has put in the S&P forward earnings are both significant. I think the political pressures to keep the dollar within a band are pretty high.

Franklin Sanders: I don't doubt that that is so. The Fed is the servant of the big banks. While they obviously target keeping the stock market up, they also want to do everything possible to make life easy for those banks.

C. Austin Fitts: Right.

Franklin Sanders: If they create a worldwide shortage of dollars, they have to make sure that the dollars come back to the United States. The only way is to keep that dollar high. But clearly, since we know they manipulate currency exchange rates, you can see on this chart what the banks have been doing. They've been letting it go down.

Now it got down to the bottom of the range – it got down to 92.5. In fact, it spiked through that one day. Now suddenly it turns around and comes back up the other way.

Technically you can say, "Yeah, it got to the bottom of the range. It bounced off the bottom of the range, and it's going back up." Right, but I see a policy decision here to cheapen the dollar.

I hear all these voices now. They've sent people around to say they're going to raise interest rates. Obviously the reason they do that is to move the dollar up. I don't know that I know what it means, but that's what they're doing.

C. Austin Fitts: I think they really did want to raise interest rates a nominal amount each quarter. Then when things started to come apart in February, particularly in China, I think they got scared and backed off. That surprised me. It surprised me that they backed off.

Franklin Sanders: That surprised you? These people are spineless academics. I mean, I don't see them as brave economic warriors out on the front leading the battle.

C. Austin Fitts: I'll tell you why it surprised me. I had assumed that there was enough strength in the general economy globally to do it, and if you look at what is happening to the interest companies and the pension funds as a result of lower interest rates, it seems that you could do a nominal amount each quarter and just let markets adjust.

I can't tell whether they really thought that you could end up with a bad spiral down in Asia or globally, or we just have gotten to the point where we're afraid to let markets adjust and to take the pain. I don't really know what happened, but I think they were really committed to try to raise interest rates because the number one problem in the US economy right now is the pension funds. The basic business model of the insurance companies in the pension funds is being blown up right now. If you don't start to let them roll over to a slightly higher interest rate, that problem is just going to get worse.

I think they were really committed to doing that and they backed off because they got scared. The question is, Why?

I think you've got a group of academics, but the people telling them what to do are not just academics.

Franklin Sanders: It appeared to me that they backed off because they were afraid they'd crash every stock market in the world by raising the interest rates.

C. Austin Fitts: Right. I agree.

Franklin Sanders: But you are right – they are in a trap because pension funds are now beginning to go under. I mean, if you built a pension fund based on an assumption that you're going to make 6% and you make .5%, you can't pay out too many years.

During the 1990s all of these state pension funds and city pension funds and county pension funds made all of these promises to their pensioners about what they were going to pay, based on these ridiculous assumptions of what they could make.

C. Austin Fitts: Right.

Franklin Sanders: The Teamsters Union pension fund is negotiating with the Pension Benefit Corporation for a 60% haircut. They said, "We need to cut benefits by 60%."

The government says, "Oh, no. That's not enough," because their fund is going to be exhausted in something like six years.

C. Austin Fitts: Right.

Franklin Sanders: My point is that they're not the only ones. During the 1990s all of these state pension funds and city pension funds and county pension funds made all of these promises to their pensioners about what they were going to pay, based on these ridiculous assumptions of what they could make. Then, when the stock market goes down for a long time, and when interest rates go to zero, there's no way they can do anything. They're not earning any income to deliver.

C. Austin Fitts: I would also argue that between pump and dumps, stock market fraud, and mortgage fraud, there was a lot of money back-doored out of the pension funds that has never really ever been clarified and shown to have happened. I think the story is even uglier.

Franklin Sanders: The bottom line remains that pension funds are in big trouble, and that requires higher interest rates – not just a little higher, but significantly higher interest rates.

So now I've got a chart of the S&P 500. It looks to me like there is a head and shoulders top formation. The right shoulder has been filled out, and I would expect – given the proverb "Sell in May and go away." You're probably seeing the end of this. Probably by the end of this week it will turn around and start going down again.

Chart #5 is gold. This is gold since last November. You can see there's this nice bowl-shaped formation, and an uptrend line. Gold was slung up out of that bowl and rose. Then it stalled and went sideways for some time. It really wasn't clear whether it was going to go sideways or it was going to make another leg up.

Now it's correcting. That top red arrow points to the breakdown yesterday out of that up-trending range. So that gives you a target down around 1,205 to 1,190. I mean, it's possible to go down to the 200-day moving average down at 1,161, but you're going to get some kind of correction. The important thing happened in December. That's the bottom after the correction that has lasted since 2011. That's the turnaround.

What we've seen – the rallies that we've seen and the amount of time that it spent over the 200-day moving average – there's nothing comparable in that 2011 through 2015 correction.

I have no doubt that this point represents the bottom, but you're in the middle of a correction now. This would be a good time to buy gold, and you're going to get that opportunity within the next two weeks. Once it starts falling out, there's a lot of air under there until you get to 1,190 or something like that. It was down $8 this morning.

I'm saving the best for last – the silver chart. The silver chart looks a lot like gold's chart in that it made a bowl back in December. Then it flung itself up out of that bowl, and this really looks more like what is called a "cup and saucer" than a bowl. In any event, it traded sideways. Then you see that about

$SPX S&P 500 Large Cap Index INDX
© StockCharts.com
26-May-2016 12:57pm Open 2091.44 High 2094.30 Low 2087.08 Last 2088.37 Chg -2.17 (-0.10%)
RSI(14) 58.37
HEAD
SHOULDER
SHOULDER
$SPX (Daily) 2088.37
MA(50) 2064.90
MA(200) 2010.83
MA(20) 2062.21
2111.05
2094.73
2084.87
2075.07
2056.60
2033.80
2039.45
2025.91
2022.49
2009.13
1962.96
1969.25
1931.81
Volume undef
MACD(12,26,9) 2.882, 0.292, 2.590
Full STO %K(14,3) %D(3) 89.91, 72.62
Mar 7 14 21 28 Apr 11 18 25 May 9 16 23 Jun 6


$GOLD Gold - Spot Price (EOD) CME
©StockCharts.com
25-May-2016 Open 1227.30 High 1230.20 Low 1217.70 Close 1224.30 Volume 227.3K Chg -2.90 (-0.24%)
RSI(14) 36.66
$GOLD (Daily) 1224.30 (25 May)
MA(50) 1251.11
MA(200) 1162.22
Volume 227,335
Downtrend from
October 2012 High
MACD(12,26,9) -3.672, 3.151, -6.823


$SILVER Silver - Spot Price (EOD) CME
©StockCharts.com
25-May-2016
Open 16.24 High 16.38 Low 16.18 Close 16.34 Volume 44.2K Chg +0.09 (+0.58%)
RSI(14) 41.21
$SILVER (Daily) 16.34 (25 May)
MA(50) 16.40
MA(200) 15.19
Volume 44,154
Downtrend from April 2011
Downtrend from Oct 2013
MACD(12,26,9) -0.041, 0.130, -0.171
Nov 9 16 23 Dec 7 14 21 2016 11 19 25 Feb 8 16 22 Mar 7 14 21 28 Apr 11 18 25 May 9 16 23

the middle of April, there was a range marked by those dashed green lines. It was trading within that range, and all of a sudden it broke up out of that range.

When the market does that, you can just flip the boundary over and double the size of the range. That's about where it will go. Sure enough, it went just a little above the top of that range to 1,806 and came back. It's in the middle of a correction now that will take it down to $16 or $15.50. The reason I say $15.50 is that seeing that long red line that goes diagonally across there, that is the downtrend line from the top in April of 2011. This is the most significant breakout possible.

So, silver is out above that. If it comes back to that downtrend line, which is at about $15.50, then it will snatch one of those final kisses goodbye that I mentioned earlier and turn around and run.

But these two charts together – the gold chart and the silver chart – leave me firmly persuaded that we've seen the bottom in gold and silver. So it will be up from here. That doesn't mean that you'll always get these thrilling runs like we had in February or even up into May, but you're going to get steady advances.

C. Austin Fitts: You know me; I'm always a skeptic. I do think low interest rates are going to stay low for a long time, and I think that's going to be very good for gold and silver.

I'll tell you what has got me shaking my head, Franklin, and that is I remember in the 1990s when I looked at what was happening with technology. I thought, "Okay, we can disintermediate all the banks." I underestimated the political power of the banking industry.

If you look at what's going on in terms of the effort to use technology to disintermediate the banking industry, I think there's a really good chance it's going to happen this time. The big banks are in for real loss of market share in a really dramatic way.

I've been spending a lot of time trying to understand blockchain technology– how it works and what it could do. I don't know if you've been looking at all of the Fintech websites that are happening to try to disintermediate the banking the banking industry, but I think the banking industry is in for a real period of enormous creative destruction. So I just don't see how the banking industry does well, no matter how much money you pump into it.

Franklin Sanders: As Joseph Stalin said, "Obsolete classes do not voluntarily leave the stage of history." It's true. They fight, they claw, and they use all of their power.

I'm sitting here listening to you talk about this technology at the margin of newness, and my last three weeks have been partially consumed – and my mind has been almost totally consumed – reading a book that was written in 1935 called *A World in Debt*.

It's available in a reprint from India. It's got it spelled "Dept" – *A World in Dept*. It's a photographic reproduction of a book written by Tilden Freeman in 1935. Freeman lays out the blueprint or the growth curve of a credit bubble. Of course, we're in the greatest credit bubble the world has ever seen. Surely the technology is different from that of 1935. The way money is created is different, etc. but, Catherine, I'm telling you that Freeman's book it's just like reading something written yesterday. It's just a masterpiece,

He is a engaging stylist, and he writes plainly. I keep pounding myself on the head. Of all the stuff I've read about debt and the problem of over-indebtedness with money and so forth, how I missed this book, I don't know.

The conclusion that it leaves me with is that the banks are toast. There is going to be a default. There is going to be a massive default. In a default, usually the creditor pays off the debt. So those banks – from the standpoint of the debt position that they've built up and the credit bubble that they have blown up themselves – that bubble is going to explode. It hasn't near exploded yet. We saw the real estate crisis and all that sort of stuff, but the debt has not yet been written down.

C. Austin Fitts: Let's break it down. If you look at the United States, what we did during the bailout, is that we took the debt on the bank's balance sheet and moved it onto the government balance sheet.

Franklin Sanders: Yes. I understand.

C. Austin Fitts: Then in China, it looks like they are about to write a great deal down. Many big banks carrying most of the debt are government banks. So, in North America the government assumes responsibility. In Europe increasingly it looks like the governments are shifting debt onto their balance sheets. So the question is not "Will the banks blow up?" It is "Will the government blow up?"

One way or another, the debt will be done away with: One way or another.

Franklin Sanders: One way or another, the debt will be done away with: One way or another.

You are right. The bank balance sheets were made whole by the Fed buying $4 trillion worth of mortgage-backed securities and other trash. That is correct, but it's also correct to say that they have reached the peak of their maturity curve. You can't keep doing this. There's no elasticity left in the system for you to keep on. The banks built so much overcapacity, and consumers are tapped out. So, the banks can't keep it going.

What's the next credit bubble that will burst?

C. Austin Fitts: Here is the thing: The financial sector has grown and grown and grown. It has grown in a way that is destructive on the productive economy. It's parasitic.

The amount of fraud in it can be debated, but you know I'm on the side that it's way beyond what anybody will admit or can fathom. The game is up. It's not just up here, but globally the debt growth game is up. The question is "How do we digest or get rid of the debt?" I don't think anybody knows.

Franklin Sanders: It might be written off because it can't be paid. You can't grow your way out of the debt levels that we have. The total debt level in the United States, everything taken into account, is probably 350% of gross domestic product.

C. Austin Fitts: I think you can grow your way out of it, but as a practical matter, the politics are difficult. Right now we are in a period of tremendous productivity. If you just look at energy technology and what is probably going to happen over the next five years in terms of energy, the price is going to come down dramatically and stay down. That's unbelievably wealth creating. But the politics differ, of how you share that wealth. If anything, the political structures are going the wrong way. They're destroying trust.

To me, you look at the whole situation, and it's unbelievably fluid. I told you that we did all sorts of analysis in the 1990s that showed that if you just stopped lawlessness, how much wealth could be created. I believe lies and lawlessness are taxes on the body politic, which is extraordinary. If you took these taxes away, great things could happen.

Franklin Sanders: But you're asking to go against a 150-year-old tide.

C. Austin Fitts: Oh, I'm asking to go against the 10,000-year-old tide.

Franklin Sanders: The tide I was thinking about was state control in the United States – and in the world, in Europe, too--the idea that the state has to control everything. You've literally gotten to the point now where, I think behind the scenes at least, states are controlling the prices in most markets. I have no question that the Fed targets the stock market. They always keep one eye on the stock market to see what it is doing, and I'm confident that the plunge protection team goes in there and buys stocks to keep the market up. How many other markets do they do that in? Oil? We know they do that in interest rates. We know they do that in currency.

C. Austin Fitts: Oil is definitely a managed price.

I wanted to talk a little bit about the depositories because there are signs steadily every day that the global trading system for gold and silver are being built out in a very interesting way. We saw an announcement that the state of Texas is creating its own depository, which I think is significant. I thought we might talk a little bit about that.

Franklin Sanders: The Texans passed the law. The problem is that there is many a slip betwixt cup and lip. There is many a slip between passing the law and putting it into effect. They haven't landed yet on a contractor who is willing to do the work.

There is a big software job that needs doing. If you read the bill, I'm not saying that it's impossible by any means, but it just looks like an expensive job to keep up with, not only transfers in and out of accounts and across accounts, but also acquisition costs. It appears to me that the bill requires Texas to maintain a record of the acquisition costs of their gold or silver for depositors.

Anyway, it's a big deal. It is not just one depository; there's a chain of depositories and a chain of transfer agents all over the State of Texas. It's the best imaginable bill, wiser than anything I might have devised, but the problem is finding that person who is willing to do it. Several people have said that they would, but they just haven't stepped up yet.

You might be interested to know that we've got senators in Tennessee who are in favor of that same thing and have gone on the record in favor of it.

C. Austin Fitts: Do you think it's possible to support them?

Franklin Sanders: Yes, I think so. I'm not sure how much support would exist for that particular bill in Tennessee. I mean, I spoke with a senator in 2011. We were at the Capital building and I went to see the Tennessee treasurer and talked to him. The staff manage a huge pension fund.

Anyway, the state senator said, "You know what we ought to do?" If you've ever been to the Tennessee capital, you know that it's built on the top of a hill. He said, "What we ought to do is just dig down under this place, dig a big hole, and put concrete in there, and have our own vault right here."

I thought, "That's exactly right." That's really what Texas has done.

C. Austin Fitts: Just from talking to clients and subscribers all over the country, a state-controlled depository would be like candy. Everyone is looking for a depository he can trust, and a state-controlled one would just be the cat's meow. The demand would be off the charts.

Franklin Sanders: And it's not certain that Texas would enforce this, but in the legislation there is a provision that says that they will not give over any gold or silver if the Federal government confiscates it. So if anybody would make good on that threat, it would be Texas. I don't know that they would, but if anybody would, it is probably Texas,

So, yes, I think there is a huge demand for it. What you haven't said is that this is not only a place to store gold and silver; this is a liquefaction system. This is a system that makes gold and silver so liquid that they can be transferred easily. They can be transferred electronically, they can be transferred by check, and, the very problem silver and gold have now that prevents them from circulating as money, is that they are not liquid and they are not widely accepted.

If you can overcome that problem, like this depository would do, and have an office in every big town, my goodness: How long do you think it would take for people to desert the dollar?

I told Jim Turk back in 1991 when he got his patent on gold money, "If the government will leave you alone, you can replace every national currency within two years by a gold-backed and silver-backed electronic money."

That opportunity and that potential are there. I agree, and it is exciting. They just have to come up with the money and pony up the dough and say, "Okay, we're going to build a system and we're going to build a depository."

C. Austin Fitts: One of the large Chinese banks bought a depository in London.

Franklin Sanders: Yes. Did you need a can opener for that can of worms?

I get all these emails and all this buzz on the internet – or "fuzz" on the internet – about how the Chinese are going to replace the London Gold Fix, and replace New York and London, because New York and London are crooked and they're manipulated. The Chinese are just right around the corner from replacing them, and the Shanghai Gold Fix is going to replace the London Fix and the New York COMEX.

Well, that's not true. I believe that the Chinese are trying to overthrow Anglo-American dominance and financial hegemony. There's no question about that. I would do the same if I were in their place. But you can't do that fast.

I saw a graphic yesterday from *Visual Capitalist* where 88 percent of the gold in the world is traded in London.

C. Austin Fitts: Right. I think that's why they want to be there.

Franklin Sanders: Sure they do, but the point is they didn't buy that vault, dismantle it, and ship it to Shanghai.

Another problem with Shanghai is if you put gold in there, you can't take it out of China. Do you follow what I'm saying?

C. Austin Fitts: Really?

Franklin Sanders: Gold can't be taken out of China. The Chinese consider it a strategic metal, so the fact that there is no free movement is going to hamper them. That immobility has to change.

I think their long-term plan certainly is to displace the Anglo-American gold-trading establishment, but that is not going to happen overnight.

C. Austin Fitts: When I was in Brisbane I stopped in the duty-free and got a new watch. I started to put my credit card in the machine and she said, "No, that's the Chinese machine. You want to put it in this machine."

The shop had two credit card machines there. So, the Chinese won't take VISA or MasterCard; you have to have UnionPay.

Franklin Sanders: I think that's very clever. They understand where American power comes from, and if they control all the payments in the world, you don't have to get a very big piece of all the payments in the world to make a lot of money.

C. Austin Fitts: The one thing I saw when I was in Asia was that the Chinese structural reform is going to have a very big impact. If you look at what happened from 1990 until 2008, essentially China was buying treasuries, and then the US government was taking the money and sending people checks. Everybody was then going to Walmart and buying Chinese goods. So, China built its manufacturing center on playing a game that extended to the consumer purchasing power in the United States.

Then that came to an end. Now China is trying to build its own consumer markets, its own base. So rather than financing America and keeping their game going, they're financing themselves and building their own game. Whether it's trying to make their currency liquid globally or build out their Navy and try to become a global military and satellite presence, they're just building their own power. That is a huge structural reform vis-à-vis the United States and the Anglo-American Alliance.

Franklin Sanders: True, but I think the problem they face is that production comes before consumption.

C. Austin Fitts: Right.

Franklin Sanders: They don't have a middle class big enough to do the necessary consumption to keep their economic machinery going. They overbuilt hugely, and that has got to be worked out somewhere. So there have got to be some bad years while all that stuff is written down and rationalized.

C. Austin Fitts: Right. To a certain extent you see them around the world trying to finance infrastructure and other things for everybody else, and trying to create demand. What I heard when I was in Asia, was that interest rates will stay low because the excess capacity is unbelievable.

Franklin Sanders: Oh, gosh it's huge!

C. Austin Fitts: Yes.

Franklin Sanders: I was reading the other day that China has built something like 800% of world steel-making capacity. They built that in recent years. Well there's no way that the Chinese can absorb that kind of steel production. Overcapacity, and surplus factories must be written off some way, written down and done away with some way or another. That's going to be a big indigestion problem for a while.

C. Austin Fitts: There are a couple of things I wanted to ask you about.

I was in Australia for a week and a half, and I was in Sydney for the first week. For six days I was really going all over the place. I was going to business meetings. Sydney is right on the ocean with 5 million people. Forty-two percent of the people who live in Sydney were born in another country. It's amazingly multicultural and very cosmopolitan. It's so beautiful, and the lifestyle is everybody runs down and goes to the beach and goes surfing before they get dressed and go to work. It's a lifestyle.

It took me until the sixth day to see a police car. It got to be a big joke. "Can Catherine find a police officer or police car in Sydney?" Of course, I live in a place where you see ten a day, and I'm in the middle of nowhere.

So it was just astonishing the quality of life and how safe everybody felt and how human everyone felt. Now you have a much less dense country, but coming back to the United States, being in a place that had that high quality of life, I came back being much more intolerant of American politicians. It was quite extraordinary, and you realize the extent to which – and I'm struggling to find a word other than "demonic." Maybe I shouldn't struggle. The debasement and the perversion here is beyond belief.

One of the things I've discovered is the extraordinary fear of the election here and the extent to which Clinton is perceived; she is very popular globally whereas Trump is seen as horrible.

Before I left, Peggy Noonan wrote an editorial. She said, "Oh, great. Now we have a choice between a criminal and a crazy man." I was amazed at how a criminal was broadly socially acceptable based on what they said as opposed to what they did.

Franklin Sanders: Yes, but the criminal follows the globalist agenda, and the crazy man doesn't. I mean, Clinton has always been an establishment character.

She's been an *apparat chic* forever and ever. The media support her and attack Trump. I have no brief for Trump either, but that's what is going on.

C. Austin Fitts: Here's the thing. Let me grossly oversimplify and use an example. The National Security Council with Bush at the helm and the Clintons in Arkansas worked to bring drugs into Mena, Arkansas. The drugs go into south-central L.A. They kill thousands, if not millions, of people ultimately as they build out across the country. That money is levered with mortgage fraud and mortgage securities fraud. It creates a huge amount of money that you throw at Silicon Valley, and you keep throwing that money at Silicon Valley long enough until they build a juggernaut of all the things they've built. Then Silicon Valley comes and tells you how it is a private entrepreneurship and doesn't want to be bothered by government.

The San Jose *Mercury News* comes out in support of Clinton for President. Sure, because Clinton was part of a group of people who went out and got capital by stealing it from others, in what I would describe loosely as genocide – whether it was financial genocide or physical genocide.

That game works as long as you can pretend it's not really going on, and you can continue to promote the appearance of the rule of law. Not to belabor this point, but the Clintons were part of the group in Washington who thought it was hunky-dory, as the government was bringing drugs into communities and dropping SWAT teams, and rounding up innocent kids and throwing them into prison where they make uniforms for the Department of Defense. Where I come from, we call that Nazi.

So we're in a period where the secrecy is still good enough that everybody can pretend that the Clintons are part of a lawful system, but the reality is that they are not part of a lawful system. There are enough people and there is enough communication on the internet that we're all getting pretty mad about that.

It seems to me, if you look at the disapproval ratings on both Trump and Clinton – and I'm assuming they will both be the candidates--although it's still open for doubt. Either way, you're going to come out of this when the campaign begins with 100% of the country not trusting one of them, and that's before they start to have a food fight and point out their other issues.

We could end up in a campaign where the establishment really gets outed one way or the other.

Franklin Sanders: There are a couple of assumptions there. One is that Trump is what he seems to be, which I'm not at all convinced of.

C. Austin Fitts: For one minute, I don't believe Trump is what he seems to be.

Franklin Sanders: But there is something else interesting going on with Hillary: the mainstream media are publishing articles about her weakness. The mainstream media is publishing articles that are negative in one way or the other, and that would signal that somebody in the establishment would like to get rid of her.

But there is something else interesting going on with Hillary: the mainstream media are publishing articles about her weakness.

That would signal that she is not going to be around come November. In other words, maybe something will happen between now and then. She will get indicted, and Obama will give her a pardon, and the inside deal will be that she'll drop her candidacy if she gets the pardon.

All that stuff is speculative on my part, but it's easy to see how she might be replaced. The question is "Who in the heck would replace her"? That's the horrible thought. Do you want Bernie Sanders with his hand in your pocket? I mean, he's ridiculous.

C. Austin Fitts: I'd rather have Bernie Sanders than Hillary Clinton or Donald Trump.

Franklin Sanders: Oh, he's just an out-and-out thief.

C. Austin Fitts: Really?

Franklin Sanders: I can't see any good thing that is going to come out of

Trump or that is going to come out of Hillary except that it may be that Trump might possibly accidentally fall upon some pro-American policies – either economic or military or something – that would stop all the wars. That's another thing they hate. They thrive off of war.

C. Austin Fitts: Here's the good thing I expect out of Trump: If Trump is the Republican candidate, I expect Trump to raise serious issues. In other words, I think Trump is going to make it easy for people to have an honest conversation. So Trump came out and said that Common Core was a bunch of hooey and we ought to let locals control. Whether he believes it or not, and whether he will do it or not, who knows? But the ability to have that conversation, i.e. he intimated that heavy schedules of vaccines was a problem, and it might be connected to autism.

Franklin Sanders: Oh, my gosh!

C. Austin Fitts: Right. How about that? So what I'm hoping out of Trump is that we'll at least have an honest conversation. But let me bring this back to gold and silver.

You said that the demand was driven by trust in the system. I don't see how we get out of this election with any trust. I think this is going to be expensive on trust in the system.

Franklin Sanders: Well, I think if you are shorting trust in the system, you're on the right side of the trade. There's no question about that.

The central banks have been losing credibility increasingly since 2008 because of the things that they've tried that have not worked. If you stand back and look at it, increasingly since last September when the Fed blinked instead of raising interest rates, they've been losing credibility. Now government is losing credibility.

I think there are more people than unusual who are looking at the election and saying, "A pox on both your houses! I don't want either one of you."

All that drains trust out of the system. You are correct.

C. Austin Fitts: It's interesting. I got the latest book, *The End of Alchemy*, by the former head of the Bank of England, Mervyn King, and I wanted to read it because I wanted to know what the enemy was saying. I never expected to like it. I haven't finished it, but one of the things he points out is that money doesn't make the world go around; trust makes the world go around. The problem with what is going on is it's destroying trust.

It's a very eloquent description of why productivity in the United States has collapsed. We're not getting any productivity increases, and it makes perfect sense to me. The more we see from technology and the more technology is used to just centralize everything and make it more productive for a few people and less productive for everybody else. So it doesn't surprise me at all.

I don't see how you get productivity rising when the trust is going out of a system.

Franklin Sanders: You don't.

C. Austin Fitts: You don't. Right.

Franklin Sanders: That's all part of the social mood. When the whole social mood turns down, then distrust is what you get. When people are distrustful, they give less of themselves.

C. Austin Fitts: One of the Solari Reports we're about to do is how to build and create a local food system in your neighborhood. As you've been teaching us for many decades, Franklin, I think a lot of this all comes back to food.

In other words, if we're going to rebuild the economy in a way that is good for all of us, one of the things we have to do is have a revolution in food and food supply. I would like to point out a couple of positive developments. One is that Monsanto is failing, and the Germans are trying to pick it up cheap. It just goes to show you that sometimes you can overdo evildoing. That's number one.

Franklin Sanders: That's a relief.

C. Austin Fitts: Number two, you've had a whole series of companies –

General Mills, Mars, and a lot of big companies – coming out and saying that they're not going to use GMOs or they're going to use GMO labeling, and I think they're basically folding in the face of overwhelming consumer rejection.

Franklin Sanders: They are a huge part of the market, though. They are 80% of the corn, 80-90% of the soybeans and grapeseed. There are all kinds of things that are GMO, and when they are GMO they are nearly 100% of the market. That would be a big change, but to get rid of glyphosate – which is Roundup –is number one on the agenda to clean up the food supply.

Catherine, do you realize that when they harvest wheat, they go into the ripe wheat. In order to make it die and dry faster, they spray it with glyphosate.

C. Austin Fitts: Oh!

Franklin Sanders: That's right! Most of the wheat that you get is sprayed with glyphosate, even though they're not spraying the wheat for weeds; they're spraying it to kill the wheat faster and dry it.

You know how many more people are allergic to gluten now or have gluten intolerances. It may be that there is a synergistic affect with that glyphosate. It's not just the gluten, but it's the glyphosate as well. It's the glyphosate plus the gluten.

The glyphosate by itself is a bad actor. It's an endocrine disturber. It goes into your hormone system and wreaks havoc with it. It's just hard to find clean food, but you're right. That would be a huge step toward a clean food system. That would be huge to get rid of glyphosate.

C. Austin Fitts: Right. Well, what it looks like to me is that consumers are getting smarter and smarter. I think that's probably reflected in the Texas depository--just the legislation getting passed. I'm hearing huge demand for depositories you can trust that are much more easily accessible.

Franklin Sanders: Yes.

C. Austin Fitts: So a state that has a depository – even if it's not in every county, but every other county – wow! That's going to get a lot of immigration from other states.

Franklin Sanders: I don't know about Texas for sure, but if it were its own country, it would probably be one of the 20 largest economies in the world. It would probably rank up there.

C. Austin Fitts: Well, Franklin, this has been most informative. We're going to have your charts up on the website, and of course in the transcript.

I'm certainly telling anybody who doesn't have a core position this summer that this is an opportunity to buy and fill up your core position. I just think it's going to be a very interesting fall because trust in the system is down, and the politics are at a real inflection point. If we don't get a cleaning of the house, we're going to have a very interesting 2017.

Franklin Sanders: Let's just hope we get a house cleaning. How about that? Let's just pray for that house cleaning.

C. Austin Fitts: I have one great ally who says, "Our circumstances are far too dire for the luxury of realism."

Okay, Franklin, you have a great day. Thank you again so much.

Franklin Sanders: Thank you. I appreciate it. Goodbye.