



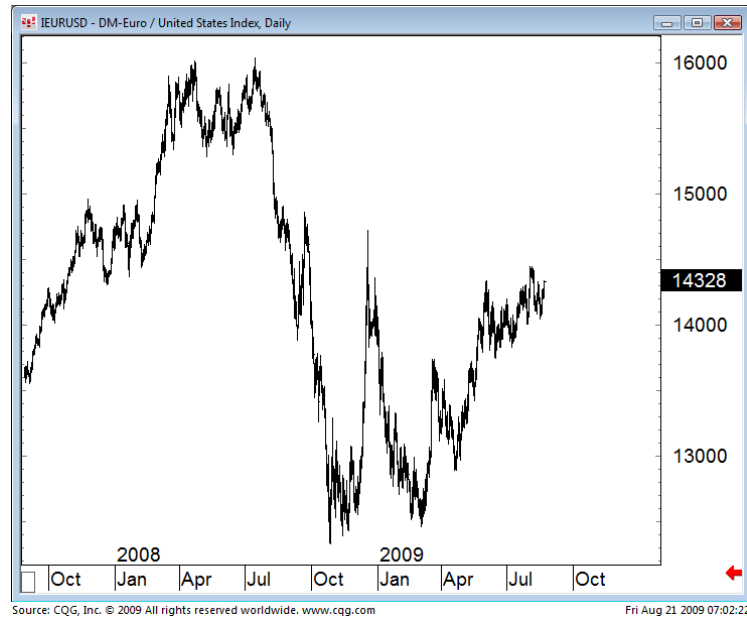
## Quotable

“Idealism is the noble toga that political gentlemen drape over their will to power.”

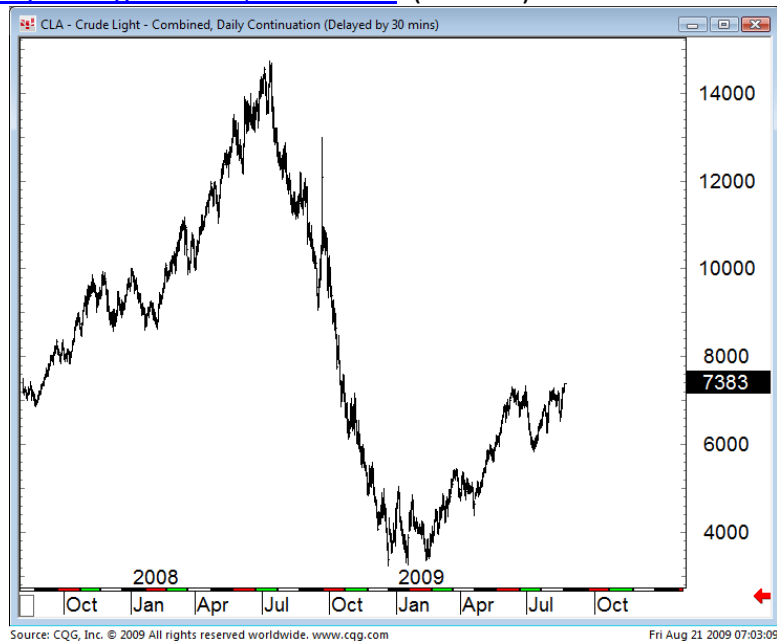
Aldous Huxley

## Key News/Picture Day

- [German services and French manufacturing unexpectedly expanded](#) in August. (Bloomberg)



- [Oil touched a year-high above \\$73 a barrel.](#) (Reuters)



- [Mexico's economy shrank](#) 10.3 percent in the second quarter. (AP)



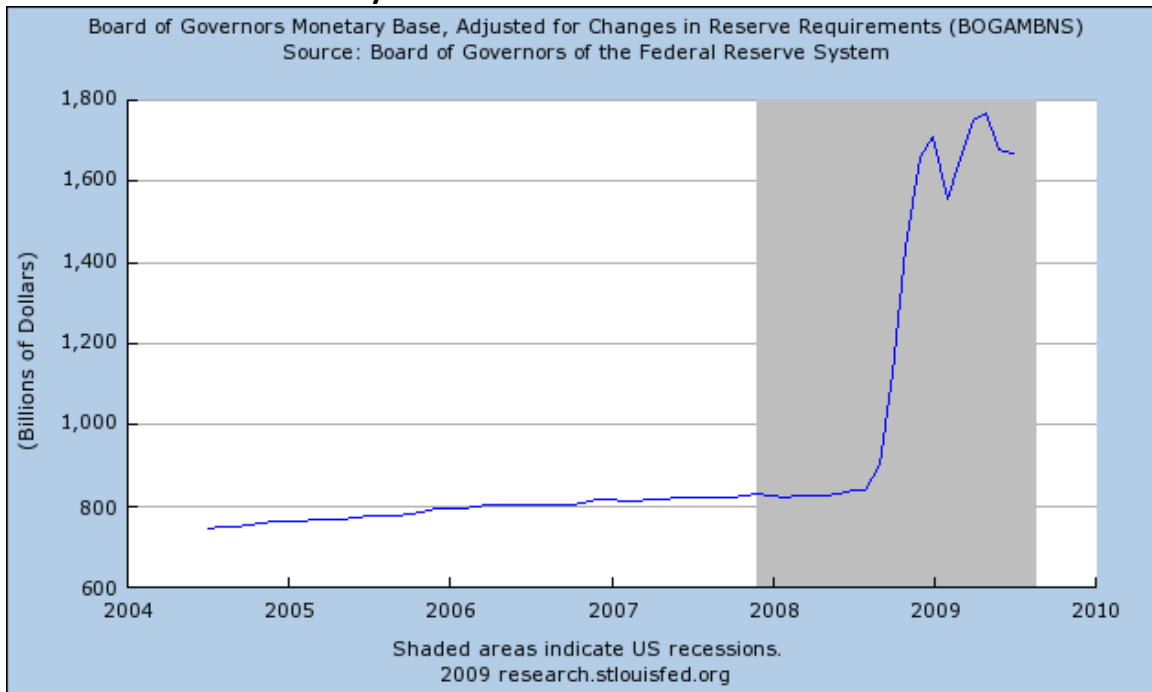
- [China plans to tighten capital requirements](#) for banks. (Bloomberg)



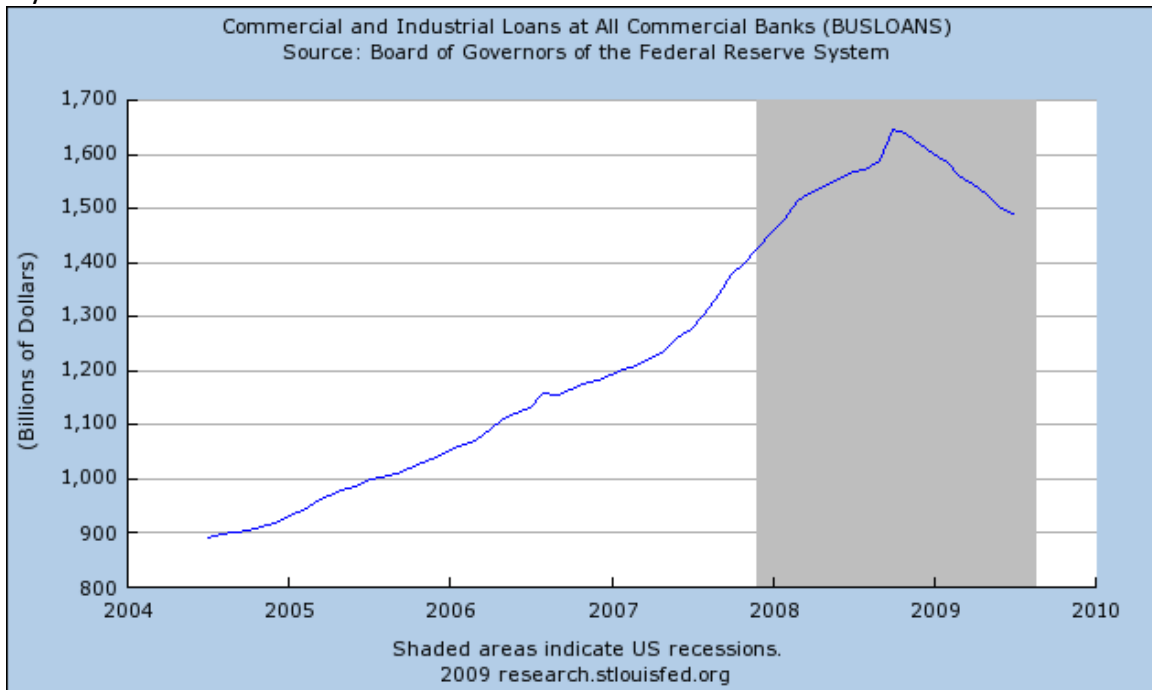
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- [Federal Reserve Chairman Ben Bernanke flooded it with trillions of dollars](#) to save the banks and free up credit for consumers and businesses. Looming in the future is a high-risk challenge for the economy's rescuer-in-chief: He will have to mop up that money without disrupting a nascent recovery. (AP)

Zoom-zoom in the **Monetary Base**



...yet **Commercial and Business loans** have fallen....



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**S&P 500 divided by Gold...hmmm...it at least tells us the relative value of gold has risen dramatically compared to stocks, as we switched from the up with paper stock rally to the in with stuff commodities rally in 2000. And of course is the same image of the US dollar index over that time frame i.e. the bear market in the dollar (next chart)**



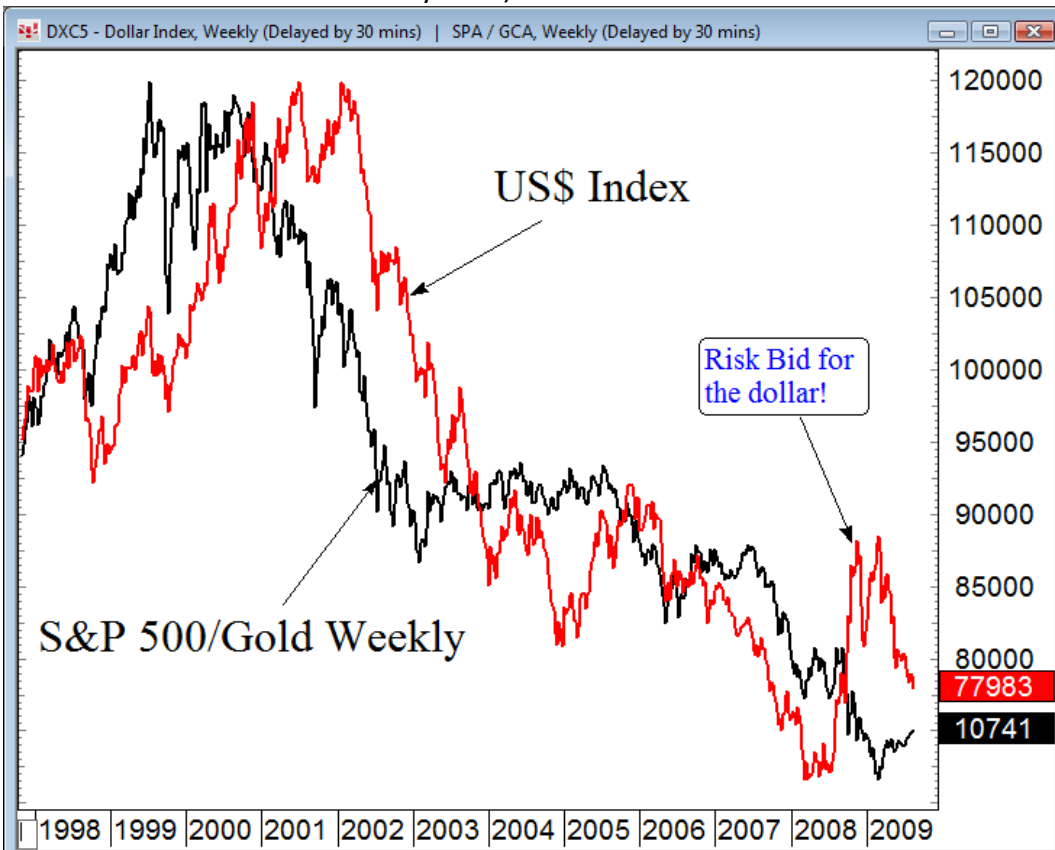
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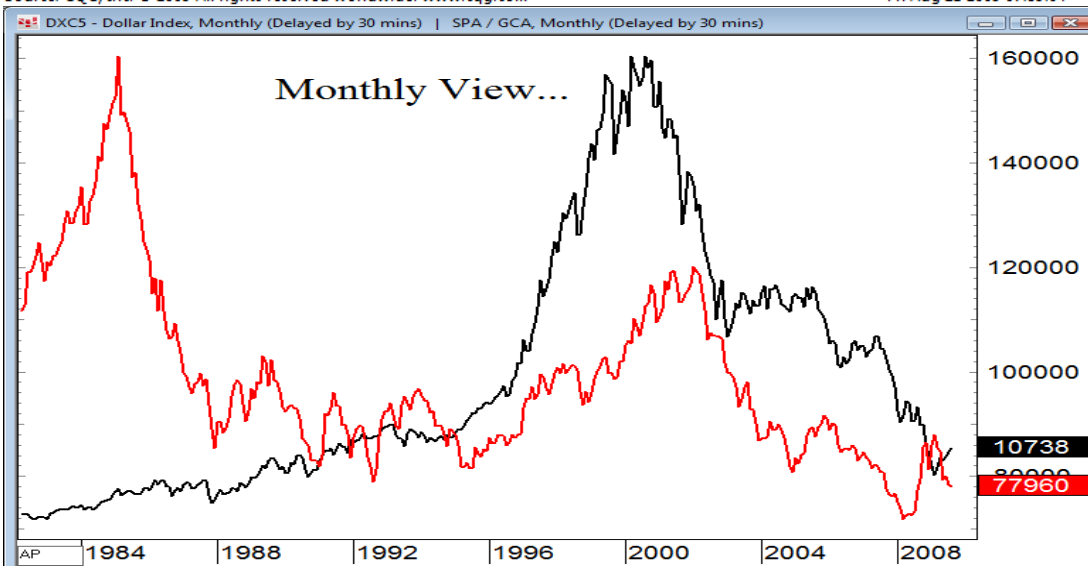
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**Comp of S&P 500/Gold to US \$ Index Weekly:** Is SPU/Gold ratio leading the US\$ Index? Was the risk bid rally in the US\$ index an aberration, now on track to new lows as suggested by the SPU/Gold ratio? Or has the SPU/Gold ratio gone low enough? (see next chart below for the monthly view)



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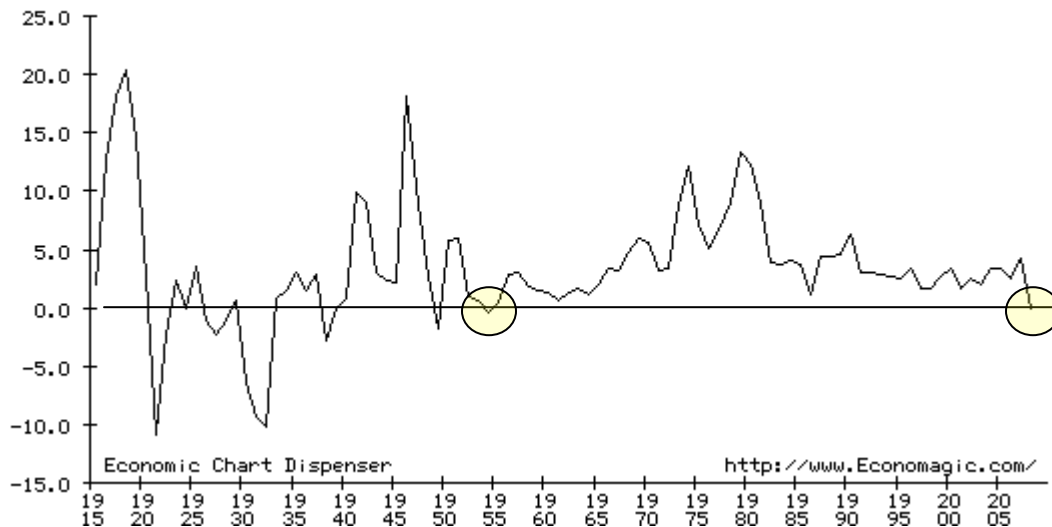
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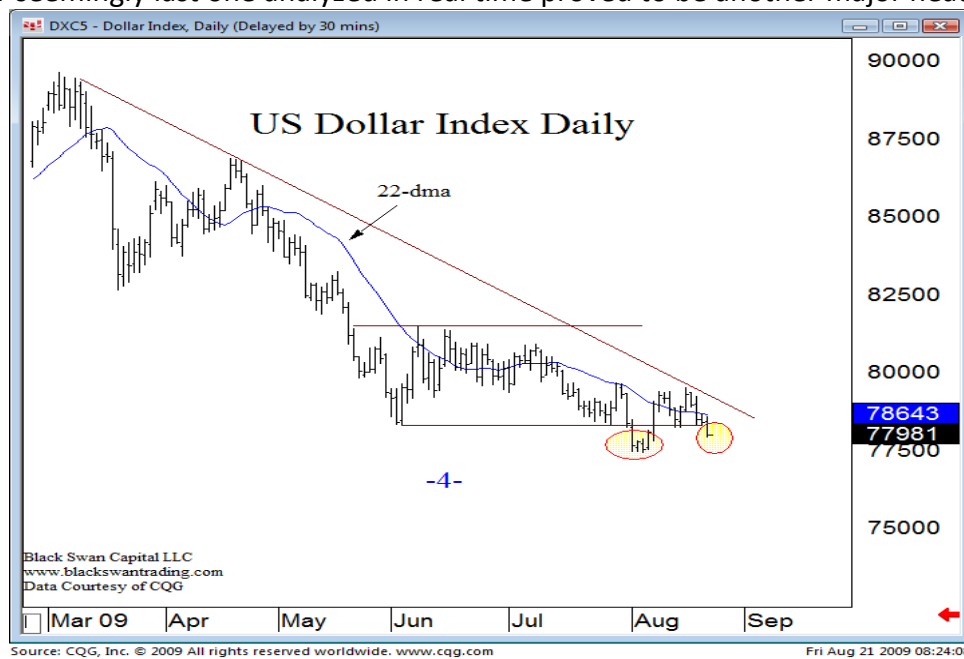
And last but not least...**Inflation as measured by US CPI...2007 to 2008 was the first CPI year-over-year decline since 1954.** How will “stuff” i.e. gold do in a deflationary environment? The deflation future may of course assume all the money in the monetary base chart above that has yet to make it to the real economy i.e. a decline in non-financial lending, doesn't come rushing in.

**Inflation in Consumer Prices: Percent (Dec-Dec): CPI-U**



The dollar is getting hit again this morning on the better than expected European Services news...commodity currencies up now, after being off overnight on China concern in the Asian session. High volatility in a narrow range for the currencies still makes this market a “dealers’ delight” as they know what the order book looks like.

A dollar index breakout, one way or another should be extremely powerful... The last one, or seemingly last one analyzed in real time proved to be another major head fake.



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