

CHINA COMMODITIES UNDERCUT USDOLLAR

by Jim Willie CB

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Use the above link to subscribe to the paid research reports, which include coverage of several smallcap companies positioned to rise during the ongoing panicky attempt to sustain an unsustainable system burdened by numerous imbalances aggravated by global village forces. An historically unprecedented mess has been created by compromised central bankers and inept economic advisors, whose interference has irreversibly altered and damaged the world financial system, urgently pushed after the removed anchor of money to gold. Analysis features Gold, Crude Oil, USDollar, Treasury bonds, and inter-market dynamics with the US Economy and US Federal Reserve monetary policy.

China is directing their mountain of reserves away from acquired mining firms and toward managed hedge funds. This is a new direction for Beijing, clearly in response to the refusal by Rio Tinto to permit a \$19 billion stake from the Chinese aluminum giant Chinalco. They were frustrated and angered by the other refusal with the failed Unocal deal in 2005. Clearly, whether stated openly or not, the Chinese are thwarted by USGovt and UKGovt hidden leaders from investing in strategic firms. From their point of view, tarnished by ill feelings, their money is good for credit supply but not good for commodity supply lines. So China will continue its pursuit of significant interests in commodity firms, both metals and energy related, and will amplify the pressures by taking scattered interests in hedge funds,

Felix Chee is a key adviser to China's \$200 billion sovereign wealth fund. At the prestigious GAIM International hedge fund conference in Monaco this week, Chee stated "*We will have a preference for managed accounts. The platform would like a core of single manager funds and fund of funds. We are looking for the best managers and a handful of fund of funds, and when I say handful I mean five or less.*" Chee will initially run the China Investment Corp hedge fund and its proprietary trading desk. Chee previously managed the endowment at the University of Toronto, whose \$1 billion portfolio centered on hedge fund assets.

STRATEGIC ANGLES

The Chinese are set to buy a minority interest in the entire US hedge fund industry potentially. They will surely push for more commodity investments, in a clever stroke, maybe a brilliant stroke. Now, interestingly, if the USGovt through its Wall Street offices, attacks hedge funds, then the Chinese will resist both on a financial front and political front. This puts an end possibly to the attacks of hedge funds like what we saw last autumn. Those attacks resulted in powerful continuation of the decline in prices for key commodities last autumn. The USGovt released a huge amount of crude oil from the Strategic Petroleum Reserve, which started the cascade process. Next came the Wall Street maneuvers to pull credit from hedge funds. They in all likelihood targeted the funds that were heavily long in those key commodities. Imagine competing against your own banker in an investment strategy, sure to lose most of the time.

This entire strategy announced by China should severely weaken a hidden USDollar support, long used with successful short-term results. **The Wall Street syndicate has long hit gold and crude oil, smashing temporarily their prices, when its purpose was to prop the USDollar. The Chinese skillfully are working to take that device away.** While such directed efforts undercut their own US\$-based assets valued at over \$2 trillion, they better enable a wider employed strategy of diversification of investments into hard assets. By the way, Russian President Medvedev has recently learned that mere words spoken from a podium can move the price of crude oil and the exchange rate of the USDollar. The adversaries of the USGovt are fast learners of old US devious tricks.

SECOND WIND FOR HEDGE FUNDS

The attacks by Wall Street, clearly urged by the USDept Treasury and several USGovt agencies, has had many frontal assaults. Hedge funds have been blamed for much of the speculation and deep damage done to the US financial system. The real villains are on Wall Street, with their mortgage bond fraud (totally unprosecuted), **their gold suppression & depletion game to support & weaken the USDollar** (totally unprosecuted), their destruction of proper usury prices (totally unprosecuted) which means the cost of money, and routine insider trading as they execute USGovt policy (totally unprosecuted). The establishment of a decade long silly low cost of money is probably the biggest single cause for prevalent asset bubbles, with Economic Mother Nature responsible for their collapse employing gravity as the chief weapon. Wall Street and their satellite USGovt ministries frequently blame hedge funds, and their unregulated free wheeling style, whenever vast systemic damage occurs. It is like the fox attacking with words the meat packers, after raids to the ranches and pens. Many initiatives by the USGovt to force open the balance sheets and portfolio positions of hedge funds failed. They were illicit fishing expeditions that served as yet another example of Fascist Business Model tactics by Wall Street. They wanted to know their competitors, inside and out, even if illegally, by using the tight relationship between the state and big business. Many see this linkage of power structures as a national advantage, when it is probably the greatest structural deficiency ensuring eventual system breakdown. No agency stopped the major turns on the precarious path to perdition.

Hedge funds are private pools of capital whose managers engage in active trading of their assets. Their managers participate in profits from money invested, and earn base fees. Hedge Fund Research estimates there were about 6644 hedge funds operating at the end of March. At the industry peak in December 2007, the army of hedge funds totaled 7634. They managed \$1.9 trillion at that point. In year 2008, they track for every hedge fund started, two closed down. The Chinese initiative is certain to breathe new life on a monthly basis into the hedge fund industry. **Better yet, they can post USTreasurys as collateral for vast hedge fund positions in commodities. If they undergo Wall Street assaults, the USTBonds must be liquidated in the process if a particular hedge fund position is ruined, like with crude oil or gold.** More surreptitiously, the vast mechanisms used by the official US financial system support for USTreasurys can now be indirectly deployed by China to transfer thrust and power to the commodity arena, via the hedge funds. The process will take time. Let's watch to see if Beijing and Shanghai become new centers for hedge funds with close business ties with New York and London. What a paradoxical twist! So Chinese sovereign wealth funds breathe new

life into the flagging acidic residue stuck to the walls of the two biggest financial cities, whose businesses were almost killed off by their own fraud and failed risk management!!!

The hedge fund industry has a longstanding preference for the US\$ bear trade, those assets which rise in value upon slides in the USDollar currency. Commodities like gold and crude oil are the leading assets with a negative US\$ correlation, but others like copper and natural gas also align in opposite fashion and have been very popular. China has the capability and potential to add continuation to the commodity price recovery seen in the last three months.

DIVERSE CHINESE ACTIONS TOWARD ACQUISITIONS

The failures by China to acquire important stakes in Western commodity firms are highly publicized. Four years ago the China National Offshore Oil Corp (CNOOC) bid for Unocal was finally rejected. The collapse of the Chinalco proposed \$19 billion investment in Rio Tinto has caused more ill will in China. Rio Tinto is one of two giant the Anglo-Australian miners, the other BHP Billiton. **China not only boasts the Great Wall, but also commands the Great Wall of Money that will eventually cascade onto world markets. That cascade could be more important as a factor in generating US price inflation than the buildup and spillover of the USFed balance sheet.** Great distrust lingers with Western leaders, that the Chinese motives are not purely commercial in nature, but rather are strategic in rendering damage to the USDollar, and worse, in creating different supply lines that could cut off actual supply to entire economies. On the other hand, the Western firms are desperate for cash, something the Chinese have in mountains, not of metal ore, but paper with ink. China Investment Corp, one of their major sovereign wealth funds, recently attempted to grease the gears, to engage in back door payola, by investing over \$1 billion to fortify its 10% stake in Morgan Stanley. Also, the Sichuan machinery maker has taken the Hummer pig off General Motors hands for \$250m. It is ranked #200 in reliability, maybe lower, but it looks cool and can drive through rivers. Maybe it can drive through the river of federal red ink or the river of central bank liquidity.

These are small sums of money actually, when one considers that China must diversify over \$2000 billion of foreign exchange reserves. Their many relatively small deals serve as big drops in a giant bucket. The bigger action clearly has been Beijing initiatives to secure deals in Africa, Latin America, and Central Asia, where no objections are raised about Chinese money. They skillfully have set up grand contracts for building infrastructure (like railroads, port facilities) and community systems (like schools, hospitals). The Chinalco/Rio Tinto failure will motivate a new course in China policy to spread portfolio risks via diversification. They have decided, with the hedge fund approach, to use a double pronged phalanx approach. They will invest tens of billion\$ to acquire hundreds of exposures across a broad range of companies in the West, under managed portfolios. They will undercut the politically motivated financial attacks against those hedge funds themselves. If the USGovt defies Beijing, then the great creditor can yank a cord and deny USTreasury Bond purchase until the vassal turns more obedient.

CHINESE STRATEGY BECOMES CLEAR

China will not openly sell the USDollar, which means openly dump their USTreasurys and USAgency Mortgage Bonds. Doing so would constitute an open declaration of financial war,

thereby destroying the value of its reserves and inviting open war with the US. Instead, China will continue to encircle the USDollar, to encircle the vast supply chain, and pursue what should be regarded as a tight noose around the neck of the USGovt and USEconomy. Call it a pair of leashes as they walk the dog of war. Recent efforts to establish the Chinese yuan currency as a global reserve alternative have proven effective. See the landmark deal with Brazil. Settlement of international transactions will more often be completed in currencies outside the USDollar sphere. **What we are witnessing is a death of the USDollar by a thousand cuts, a Chinese torture tradition. The Beijing leaders have decided, for political and practicality reasons, to employ the Gradualist Approach.** Maybe they enjoy financial torture. For certain, China is already cashing out of the crippled USDollar, and is doing what it practically can, before the great monetary writedown occurs. The \$1.8 trillion in USGovt deficits just this year will create sinkholes under the US\$. The deficits next year will create more sinkholes, as the deficits in 2011 and beyond will create even more sinkholes. Denials of the USDollar becoming a Third World currency are empty and baseless. The real danger comes from a global financial structure built atop a reserve currency walking down a path destined for such ruined status.

If truth be known, as Seeking Alpha puts it, *“Indeed, China has already begun moving into a new currency, one that is neither fiat nor flawed. And they did it in their usual manner: under the radar with great focus and determination. **That new currency is natural resources.** One should also consider that these are merely the transactions that are publicly displayed. The Chinese government has proved adept at buying assets below the radar via foreign holding companies and other complicated business structures. Informal accounts posit that China has in fact scooped up even more natural resources and mines via these methods today. The reasoning here is simple. **Unlike paper currencies, natural resources and commodities cannot be reproduced ad infinitum by central banks. Thus they are inflation proof.**”* See the Seeking Alpha article (CLICK [HERE](#)) for more detail and more excellent commentary.

50-DAY MOVING AVERAGE MAGIC

Despite the selloff in gold & silver, and rise in the USDollar, not much has happened on a technical basis. The 50-day moving average has held as support for gold and it has held for support for silver, while the 50-day moving average has resisted for the US\$ DX index. All the hullabaloo is much ado about nothing, when in fact, nothing has changed. The USDollar remains in a suspended animation stage, during its breakdown. The gold price remains in consolidation stage, during its inevitable breakout.



Despite its lowly exchange rate, the US\$ DX index is in overbought territory, as seen with the daily stochastic. The DX index is due to decline. The bounce on this counter-trend rally, fully engineered by central banks, which came to the rescue of dangerously transpiring USTreasury auctions, is largely completed. Notice the series of reversal bowls, smaller in size, shorter in time span in the gold chart. The gold price is in oversold territory, again seen with the daily stochastic. The gold price is due to rise. The pressure builds for a breakout, as the 1000 mark is eyed by the market. It will come, not to be denied. When it does, sort of a natural dispensation of justice, the shorts aligned just under gold 1000 will simultaneously be crushed, run over by gold laden trucks. Their short covering assures a powerful rise well beyond the 1000 mark.



CREDIT CRISIS AUTOPSY

Trace Mayer comes to the gold community with a different slant and background. He has a law scholar with emphasis on the Constitution, especially how it applies to the gold and currency topics. In his e-book entitled [“The Great Credit Contraction”](#) one can read about the historical significance of a crisis that will surely reshape the world. The global economy is built upon a currency whose illusion is evaporating before our very eyes. This book is an autopsy of the current worldwide systems and begins with financial history, discusses the current great deflationary credit contraction, projects the future environment, and concludes with suggestions on how to generate and preserve wealth in this challenging time. An appendix analyzes important topics. (CLICK [HERE](#) TO ORDER)

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(RobertN in Texas)

Jim Willie CB is a statistical analyst in marketing research and retail forecasting. He holds a PhD in Statistics. His career has stretched over 25 years. He aspires to thrive in the financial editor world, unencumbered by the limitations of economic credentials.

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