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Financial and Geopolitical Intelligence

FORECASTS and JULY 2009 LETTER

A STRATEGY FOR PROFITING FROM THE CARTEL'S DARK INTERVENTIONS & EVOLVING TECHNIQUES - II

FORECASTS

Equities

The Equities Market Takedown which we earlier Forecast appears now to have arrived, albeit somewhat delayed.

The Cartel, we must say, has its own time frame which they strenuously endeavor to keep hidden.

Nonetheless, the "Fireworks" that Deepcaster earlier forecast for the Fireworks Fortnight certainly erupted in the worst sell-off the day before Independence Day in history – with The Dow being taken down 223.32 points on July 2nd.

Consistent with our earlier Alert we forecast the Equities Markets Takedown to continue for perhaps as much as two to three weeks. We would not however, be surprised at a sudden Equities Reversal any day during that Period. Whatever the case, we see The Target for the Takedown as between 7,400 and 7,800, basis The Dow. But then we reiterate we expect a dramatic Equities Market Reversal to the Upside likely sometime in late July or early August, pointing Equities upward again and headed for the ultimate Target of 9,500ish, basis The Dow.

Gold and Silver

We expect Gold's recent chop in the low to mid $900s is about to end. We reiterate that in the most likely scenario Gold would briefly spike up, perhaps just enough to lead Gold-Bullish Technical Analytical devotees to believe that the "promise" of the Beautiful Reverse Head and Shoulders pattern will be fulfilled, with an ultimate Target of about $1,300/oz, and soon.

But our fear, and our Forecast is that The Cartel will use any such (Faux) upside Breakout as a "Lure" to catch and smash more Gold longs.

But whether or not such a spike occurs, we forecast the next Major Gold move is <u>down</u>.

That is, **we expect the next Major Takedown of Gold and Silver is close at hand**. We forecast it will likely begin in July, and bring Gold down to at least $850/oz.

Crude Oil

Over the next few days we expect Crude will continue its decline toward $50/bbl.

The Key Interventionals, Technicals and short-term Fundamentals all support this Forecast. Of course, that does not mean that such a Takedown is Guaranteed to occur, just that it is highly probable.

It is doubtless the case The Cartel desire that there be a pretext for such a Takedown.

An economy-favorable result emanating from the G8 meeting in Italy would do quite nicely.

U.S. Dollar

Short term, that is over the next few days, or very few weeks we reiterate our Forecast that the U.S. Dollar is due for a **Bounce up back at least to 84ish and perhaps** even to 86 basis the USDX.

JULY 2009, LETTER

A STRATEGY FOR PROFITING FROM THE CARTEL'S DARK INTERVENTIONS & EVOLVING TECHNIQUES - II

> *"Federal Reserve chairman Ben Bernanke unleashed an alarming veiled threat of financial terrorism when he was questioned by Rep. Duncan on Thursday about his response to the fact that a majority of Congress (is) co-sponsoring Ron Pauls H.R. 1207 bill to audit the Federal Reserve.*
>
> *"Bernanke clearly regarded the bills intent as hostile to the institution he represents:*

> *"My concern about the legislation is that if the GAO is auditing not only the operational aspects of the programs and the details of the programs but making judgments about our policy decisions (it) would effectively be a takeover of policy by the Congress and a repudiation of the Federal Reserve (which) would be highly destructive to the stability of the financial system, the Dollar and our national economic situation."*

"The brunt of Bernanke's statement is as crystal clear as a threat from a common street thug -- back off from the Fed, or the economy gets it.

"The chairman clearly implies that any attempt to restore monetary powers constitutionally granted to the Congress would be seen as a takeover and that the defensive and repudiated Fed would respond destructively.

"Of course Congress' constitutional power over money is enumerated in Article I, Section 8 of the U.S. Constitution:

> *"The Congress shall have power To coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures;"*

"Bernankes open use of financial terrorism in the face of Congress blatant Constitutional authority is absurd and despicable.

"Greenspan, Bernanke and other Fed-related cronies have already bad-mouthed the Dollar and signaled its decline as the worlds currency. So what else is new?"

> ***Bernanke Threatens Economic Collapse If Fed Audited***
> ***Aaron Dykes, Infowars, Friday, June 26, 2009***

It is understandable that a majority of the Members of the U.S. House of Representatives has signed on to a Bill (H.R. H.R. 1207) to audit the private for-profit U.S. Federal Reserve.

That is because, whether all the signatories are fully aware of it or not, Federal Policies and actions are the Primary Cause of the Economic and Financial Crises from which we suffer today, as we show below.

Moreover, there is clear and convincing evidence that the Fed leads a Cartel of key Central Bankers and favored Mega-Financial Institutions in an ongoing Regime of Overt **and Covert** Manipulation of the Precious Metals Equities, Strategic Commodities and other Markets, as we also demonstrate below.

**We encourage those who doubt the scope and power of Intervention by a Fed-led Cartel of Key Central Bankers and favored financial institutions to read Deepcaster's December, 2008 Letter containing a summary overview of Overt and Covert Intervention entitled "A Strategy for Profiting from the Cartel's Dark Interventions & Evolving Techniques" and Deepcaster's July, 2008 Letter entitled "Market Intervention, Data Manipulation — Increasing Risks, The Cartel End Game, and Latest Forecast" at www.deepcaster.com. Also consider the substantial evidence collected by the Gold AntiTrust Action Committee at* *www.gata.org for information on precious metals price manipulation. Virtually all of the evidence for Intervention has been gleaned from publicly available records. Deepcaster's profitable recommendations displayed at www.deepcaster.com have been facilitated by attention to these "Interventionals."*

In connection with the issue of Cartel Intervention via the use of OTC Derivatives consider the following:

"The fact that the mid-March, 2008 financial markets crisis (capped by the demise of Bear Stearns) and the Financial Crises and "Bailouts" of August through November, 2008 were accompanied by substantial drops in Gold and Silver prices is quite significant. After examining the evidence, how can a rational observer conclude anything other than that the price of Gold, Silver, other key commodities and equities markets are manipulated?"

Deepcaster, December 3, 2008

"Charlie and I are of one mind in how we feel about derivatives and the trading activities that go with them: we view them as time bombs, both for the parties that deal in them and the economic system."

Warren Buffet, February 21, 2003

"*Essential to maximizing profits and to avoiding losses is to recognize that the Fed-led Cartel manages two complementary Interventional Regimes — one quite **public**, and the other dark one, at least as powerful, **covert**. Thus, a critical key to profit and loss is tracking the Dark Interventions as best one can, as well as the public ones."*

Deepcaster, December 3, 2008

This July, 2009 Letter is the ninth in a series of Deepcaster's work originally entitled "Juiced Numbers". It provides an Overview of Market Intervention and Data Manipulation. It analyzes the recent Releases from (and actions of) the BIS (Bank for International Settlements – The Central Banker's Bank), BLS (Bureau of Labor Statistics) and The U.S. Federal Reserve, as well as Highlights of recent Interventions culminating in the Fall, 2008 financial crises and accompanying Takedown of Gold and Silver, and The Cartel* "End Game."

IMPORTANT NOTE: The aforementioned important new data releases are quite astounding. They reflect a considerable acceleration of Market Intervention and ongoing Data Manipulation, **as well as the apparent adoption of new Interventional Techniques in recent months**. They also reflect dramatic increases in OTC (Over-the-Counter) Derivatives (Dark Liquidity), and in Exchange-Traded Derivatives in recent years, and an apparent intensification of Data Manipulation. As we demonstrate, these developments dramatically increase Systemic Risk and also reflect the significance of The Cartel's creating (and/or having available) more OTC Derivatives in order to affect market outcomes. In sum, this report provides even more evidence of Increased Risk of Systemic Collapse, and of the beginning of the attempted implementations of The Cartel's Nefarious "End Game."

Indeed, the OTC Derivatives figures through December, 2008 released by the BIS in late May 2009 indicate that even greater Markets Turmoil and Systemic Threat are likely. They also suggest that **The Cartel* and its Favored Financial Institutions gained Trillions in Profits while Investors lost Trillions in the Fall, 2008 Market Crash – see below**.

In conclusion Deepcaster provides a Strategy for profiting and protecting from the Interventional Regime's actions and policies.

The Covert Interventional Context — Overview

Deepcaster is periodically asked to explain, and provide evidence for, our view that a U.S. Federal Reserve-led Cartel* (apparently composed of the U.S. Federal Reserve, Major Central Bankers and key Primary Dealers manipulates a wide variety of markets. [Apparently one "Operational Vehicle" through which The Cartel works is called "The Working Group on Financial Markets" established after the 1987 crash, and which is often informally and widely referred to as "The Plunge Protection Team" or PPT.]

So it is important to explain what we mean by our claim of Cartel Intervention and to indicate how Deepcaster takes account of that in our Portfolio Recommendations

Essential to maximizing profits and to avoiding losses is to recognize that **the Fed-led Cartel* manages two complementary Interventional Regimes — one quite public, and the other dark one, at least as powerful, covert**. Thus, a critical key to profit and loss is tracking the "Dark Interventionals" as best one can, as well as the public ones.

Moreover, whether an Intervention is Overt or Covert is often a matter of degree. Overt Intervention often has a Covert aspect (e.g. how is that TARP Bailout Money being used and who receives it?), and Covert ones are often difficult to detect, but nonetheless can be tracked using publicly available information.

It is important to note also that by "Cartel Intervention" we do **not** (usually) mean that the Cartel totally controls prices in any particular market, at all times. Various markets are affected in varying degrees, at varying times, by Cartel manipulation attempts. Cartel actions can substantially affect, but often do not totally control, prices in many markets — **though they certainly have that capacity much of the time**. The price of Crude Oil is relatively difficult to manipulate, for example, but there has been substantial effective manipulation (as we shall show) for several years.

Also notable is the evidence that the **degree** of manipulation, and, therefore, control, varies from time to time and market to market.

In markets such as the (relatively) Small Cap markets for Gold and Silver Bullion and Securities, Cartel manipulation attempts can have much more impact and are, at times, and for certain time periods, tantamount to control. Typically, Interventions in the Precious Metals Markets depress prices dramatically.

To answer the exceedingly important question regarding **how** the wide varieties of markets are manipulated one must recognize that there are **two main methods** of manipulation, **Direct** and **Indirect**. **Direct** Manipulations are of two sorts: **Overt** and **Covert**. Here we do **not** focus on the Overt Intervention since they are described at length in various financial newspapers.

I. COVERT DIRECT INTERVENTION

Covert Direct Intervention to manipulate a variety of markets appears to be accomplished primarily via three vehicles:

1) "Repo" Injections from The Fed
2) Over The Counter (OTC) Derivatives (reported at www.bis.org, see below)
3) "Bailout" monies and authorizations which Congress unwisely gave the Fed **without** requiring full disclosure and, in particular, the TARP and TSLF (Term Securities Lending Facility) injections by The Fed.

Regarding Repos, The Fed makes injections of Repos (Repurchase Agreements — usually TOMOs — Temporary Open Market Operations typically expiring in 1 to 30 days) into the market most business days.

Repurchase Agreements are loans (at Fed Fund rates) issued daily, in amounts typically ranging from U.S. $1 to U.S. $20 billion, by the Federal Reserve to Primary Dealers, the proceeds of which can be used to buy, for example, Dow index futures, if the Fed seeks to boost the Dow. **The total amount of un-expired Repos on any given day constitutes the "Repo Pool."** Monitoring changes in Repo Poll levels (which is publicly available information) is crucial to determining how the Interventions will likely affect the markets.

While the Repo Pool is one vehicle for manipulating the markets it is not the only one — Interventions can and do occur without changes in the Repo Pool. **It now appears that The Fed uses TSLF injections and TARP funds to intervene as well**!

Thus, the several Primary Dealers (e.g. Goldman Sachs, J.P. Morgan Chase, Citibank), who apparently work under the Fed's direction, are able to use these loaned funds and/or "TSLF/Bailout Funds" and/or OTC Derivatives to buy or sell various securities and futures to affect the markets. The fact that the loaned funds can be used to purchase Derivatives (as well as plain equities) gives the manipulators the tremendous leverage which derivatives afford.

But along with that tremendous leverage comes great and greatly increasing (as the recent data releases described below indicate) **Systemic Risk**.

The Challenge: Determining the Impact of The Interventionals

The challenge for Investors and Forecasters is to determine where (i.e. in what Sector/s) and how (immediately, in increments, etc.) the Repo-backed funds and/or TARP/TSLF/Bailout Funds and/or OTC Derivatives ("Interventional Funds") will be employed. Deepcaster and those very few others, who monitor the daily Interventional Funding (and related Cartel and Allies' actions) to the extent that is feasible, make educated Forecasts of where and how such funds are likely to be used based on patterns, tendencies, and judgments. But no outsider can know for sure (So where is the transparency, Ben?).

Those who doubt whether the Cartel has the **capacity** to manipulate the markets (and especially the larger markets like the multi-trillion dollar currency and bond markets) are invited to inform themselves about the tens of trillions of OTC Derivatives at Fed Primary Dealer J.P. Morgan Chase, or Fed Primary Dealer Citibank, or the U.S. $592 **trillion** in December, 2008 (up from U.S. $370 **trillion** in June, 2006) total Dark OTC Derivatives positions at the Bank for International Settlements (the Central Banker's Bank). See www.bis.org, then follow the path: Statistics>Derivatives>Table 19). **Note that Dark OTC Derivatives total has increased by over U.S. $200 TRILLION in just two and one-half years!** Unlike publicly visible and clearinghouse-guaranteed Exchange Traded Derivatives, OTC Derivatives are not generally publicly revealed, except in the aggregate.

Indeed **both Opportunities for and Threats to Investors are generated by Cartel Policies and the Massive OTC Derivatives positions**. Consider:

> *"With Key Mega-Financial Institutions around the World claiming in 2008 that they risked collapse if they were not bailed out, one must ask which ones benefited from the $13 **Trillion** plus **Increase** in Gross Market Value of their OTC Derivatives in the six months between June, 2008 and December, 2008 when the Equities Markets were crashing? A logical Conclusion:*

Key Central Bankers and Favored Financial Institutions of The Fed-led Cartel, quite possibly including the shareholders of the private for-profit U.S. Federal Reserve" (See Chart below)*

Deepcaster, May 29, 2009

OPPORTUNITIES & THREATS IN DERIVATIVES SHOCKER

For investors, both Opportunities and Threats reveal themselves in the recently reported stunning drop ($90 **Trillion**+) in Total **Notional** Value of OTC Derivatives Contracts Outstanding worldwide and an equally stunning rise ($13 **Trillion**+) in **Actual** Gross Market Value of OTC Derivatives Contracts Outstanding, in just the last 6 months of 2008. (See Chart Below)

The Total Notional Value of OTC Derivatives Outstanding dropped from some $683 Trillion as of June, 2008 to $592 **Trillion** as of December, 2008, according to the Bank for International Settlements (BIS – the Central Banker's Bank – see www.bis.org, Path: Statistics > Derivatives > Table 19) (Ed Note: A Rough "Cocktail Party" Definition of "Notional Value" is "Unrealized Potential Maximum Value.")

This first drop in Notional Amount of OTC Derivatives Outstanding in years, mainly reflects the massive deleveraging which occurred during the Fall, 2008 Market Crash.

Perhaps even more stunning was the drop in Notional Amounts of OTC Gold Contracts outstanding from $649 Billion in June, 2008 to $395 Billion as of December, 2008. Yet the change in Gross Market Values of the OTC Gold Contracts outstanding during that period was minimal – a drop from $68 Billion to $65 Billion. We comment on what that portends for Gold below.

In order to determine and evaluate the Opportunities and Threats created by the aforementioned drop in Notional Value of OTC Derivatives outstanding coupled with a dramatic increase of $13 Trillion in Gross Market Values we must first consider a few facts.

To put the Derivatives Monster in perspective, consider that the value of all publicly (exchange-traded) Equities now existing in markets world-wide is "only" about $31 Trillion.

That $31 Trillion is only just over 5% of the still **remaining** nearly $600 Trillion in Notional OTC Private (i.e. Dark) Derivatives Contracts outstanding. The implications are stunning:

1. If the unwinding of a "mere" $91 **Trillion** in Derivatives contracts (to bring the Total down to $592 Trillion from $683 Trillion) reflected the Magnitude of the pain that the Fall, 2008 Crash caused, then imagine the Pain which awaits if and when (and probably **when**) any substantial Portion of the $592 Trillion remaining get unwound.
2. But a substantial portion will likely have to be unwound given that various ongoing Crises have yet to be resolved, and, in many cases are worsening e.g.: Consider:
    a. The U.S. Treasury/Fed etc have **already** committed some $12.8 Trillion (by one reckoning) for Bailouts, Loans, Stimulus packages and Guarantees, much of it borrowed from, or guaranteed by, U.S. Taxpayers. Yet, clearly, the Toxic Derivatives problem has a long way to go before being solved.
    b. The Fed has moved over $577 billion of U.S. Treasures onto its Balance Sheet in the short time since it publicly admitted it was monetizing the Debt. (One wonders how many hundreds of Billions in Treasures were moved (and where!?) before that public admission.)
    c. The Chinese are switching from a U.S. Dollar basis to a Yuan basis domestically.
    d. The Chinese have authorized certain non-Chinese Banks to sell Yuan – based government Bonds.
    e. **Foreign Creditors own over half the U.S. Dollar based government and Agency bonds leaving the fate of the U.S. Economy and Security in the hands of foreigners and primarily the Chinese government**.
    f. The United Arab Emirates are spearheading plans to launch an Asset-backed (likely with Gold and Crude Oil) Currency, the Dinar.
    g. Germany has reportedly demanded return of all Gold held in custodial Accounts in the U.S.
    h. The Chinese have increased their Gold reserves from 400 Tonnes to over 1,000 Tonnes in the past five years.
    i. The default rate on U.S. Option ARMS recently rose to 35%. There are still some $300 Billion of these loans still outstanding.
    j. The interest Rates on about one Million Pick N Pay loans will reset in the next two years.
3. Clearly, given the foregoing, acquiring Gold and Silver as Safe Haven Assets is the Prudent Course. However, Gold and Silver are subject to price Manipulation by the Fed-led Cartel* of Central Bankers and Favored Financial Institutions as we explain below. But we also explain that there is a Strategy to Profit from these Interventions while acquiring an increasing core Position in these Precious Metals.
4. A substantial portion of the aforementioned $592 Trillion in OTC Derivatives is available to The Fed-led Cartel* to **continue** to overtly **and covertly** manipulate the Precious Metals, Strategic Commodities, and Equities Markets.

5. And Market Manipulation is an Enterprise with Great Profit Potential. Consider specifically, as of June 2008 the Gross **Market** Value of all Derivatives Outstanding was $20,353 billion (see chart below). By December 2008, that $20 trillion has risen to $33,889 billion, a rise of over $13 trillion in Actual Gross Market Value of OTC Derivatives. Clearly, some of the Derivatives that were liquidated in the drop from the **notional** value $683 to $592 trillion resulted in (or, at least, were accompanied by) a very considerable increase in market value (otherwise known as "profits" – whether realized or unrealized) for the Mega Financial Institutions holding them.

   These remarkable developments reflected in the BIS Gross Market Value of OTC Derivatives figures (below) for period June 2008 through December 2008 prompt certain questions.

   a) First question: which financial institutions in the world experienced an increase in $13 trillions of **market value** in their OTC Derivatives Positions in the last six months of 2008 while the Equities Market were crashing?
   b) Why do we not see anyone publicizing this information (Tongue-in-cheek-intended) much less the private for-profit U.S. Federal Reserve, which has declined to respond to inquires from Members of Congress about the specific amounts of, or parties to, their transactions and holdings.
   c) Can we not logically conclude that some Mega-financial entities profited immensely from the market takedowns of the Fall 2008 – specifically profiting in the amount of $13 Trillion in increase Gross Market Value of derivatives owned?

      Consider too that the aforementioned figures were generated by the Ultimate Official Source. They come from the Bank of Central Banks itself, The Bank Of International Settlements, Switzerland, housed in the Tower of Basel.

      Indeed we encourage readers to consider the figures themselves, by visiting www.bis.org > statistics > derivatives > Table 19, "Amounts outstanding of over-the-counter (OTC) derivatives by risk category and instrument." Of course, not all "official" statistics are accurate as we demonstrate below. Indeed, some are intentionally misleading. (See chart below)

      But an increase of $13 trillion in gross market value of Derivatives held by major Financial Institutions, is testimony to the Resources and Power of The Fed-led Cartel*. See

Deepcaster's article "Coping with the Superpower-Cartel Threat!" (1/30/09) at www.deepcaster.com.

Table 19: Amounts outstanding of over-the-counter (OTC) derivatives
By risk category and instrument
In billions of US dollars

	Notional amounts outstanding					Gross market values				
Risk Category / Instrument	Dec 2006	Jun 2007	Dec 2007	Jun 2008	Dec 2008	Dec 2006	Jun 2007	Dec 2007	Jun 2008	Dec 2008
Total contracts	**418,131**	**516,407**	**595,341**	**683,726**	**591,963**	**9,791**	**11,140**	**15,813**	**20,353**	**33,889**
Foreign exchange contracts	**40,271**	**48,645**	**56,238**	**62,983**	**49,753**	**1,266**	**1,345**	**1,807**	**2,262**	**3,917**
Forwards and forex swaps	19,882	24,530	29,144	31,966	24,562	469	492	675	802	1,732
Currency swaps	10,792	12,312	14,347	16,307	14,725	601	619	817	1,071	1,588
Options	9,597	11,804	12,748	14,710	10,466	196	235	315	388	597
Interest rate contracts	**291,581**	**347,312**	**393,138**	**458,304**	**418,678**	**4,826**	**6,063**	**7,177**	**9,263**	**18,420**
Forward rate agreements	18,668	22,809	26,599	39,370	39,262	32	43	41	88	153
Interest rate swaps	229,693	272,216	309,588	356,772	328,114	4,163	5,321	6,183	8,056	16,573
Options	43,221	52,288	56,951	62,162	51,301	631	700	953	1,120	1,694
Equity-linked contracts	**7,488**	**8,590**	**8,469**	**10,177**	**6,494**	**853**	**1,116**	**1,142**	**1,146**	**1,113**
Forwards and swaps	1,767	2,470	2,233	2,657	1,632	166	240	239	283	338
Options	5,720	6,119	6,236	7,520	4,862	686	876	903	863	775
Commodity contracts	**7,115**	**7,567**	**8,455**	**13,229**	**4,427**	**667**	**636**	**1,899**	**2,209**	**955**
Gold	640	426	595	649	395	56	47	70	68	65
Other commodities	6,475	7,141	7,861	12,580	4,032	611	589	1,829	2,142	890
Forwards and swaps	2,813	3,447	5,085	7,561	2,471					
Options	3,663	3,694	2,776	5,019	1,561					
Credit default swaps	**28,650**	**42,581**	**57,894**	**57,325**	**41,868**	**470**	**721**	**2,002**	**3,172**	**5,652**
Single-name instruments	17,879	24,239	32,246	33,334	25,730	278	406	1,143	1,889	3,695
Multi-name instruments	10,771	18,341	25,648	23,991	16,138	192	315	859	1,283	1,957
Unallocated	**43,026**	**61,713**	**71,146**	**81,708**	**70,742**	**1,709**	**1,259**	**1,788**	**2,301**	**3,831**
Memorandum Item:										
Gross Credit Exposure						2,036	2,672	3,256	3,859	5,004

Source: Bank for International Settlements
www.bis.org, Path: Statistics > Derivatives > Table 19

6. **Moreover, Key Statistics continue to be gimmicked by Official Sources** much to the detriment of American Citizens and Investors Worldwide.

Indeed, the True State of the Economy is much worse than the Official Figures suggest.

As the Real Numbers mentioned below demonstrate, our ongoing economic and financial crisis is **not** merely a "normal" business cycle Recession, but a System-Threatening Crisis. Indeed, we have entered into a Depression. (see below)

It is thus another **Naïve and False Assumption that the Official Figures accurately reflect the state of the Economy and Markets** — for example, that the current Recession is merely a normal "business cycle" phenomenon.

Making matters worse, Investors and citizens-at-large are misled by Official Statistics which have been gimmicked, as shadowstats.com demonstrates. All of the following Genuine Numbers are calculated by shadowstats.com, which calculates them according to traditional methods used in the 1980s, and early 1990s, before The Political Adjustments currently being utilized began.

Consider the following Real Numbers from shadowstats:

U.S. Consumer Price Inflation (CPI) actually averaged about **11% annualized** for much of 2008, rather than the 5% to 6% figures, which have been reported as Official Statistics. Thus, the consumer must cope with diminished purchasing power and the threat or reality of job loss.

Though Official Figures show CPI dropping to 0% in early 2009, the Real early 2009 numbers reveal that CPI was still about 7% annualized.

U.S. Unemployment has (according to Official Numbers) been ranging 4% to 6% from 1995 to 2007, spiking "only" to about just under 7% in late 2008 and 8% in early 2009. In fact, **Real U.S. Unemployment in 2009 now about 20% and is still increasing**! (shadowstats.com) Thus **the consumer** (70% of U.S. GDP, we reiterate) is increasingly unemployed, under-employed, and indebted.

As well, the **Delusion of Economic Growth** claimed by Official Statistics is just that — a Delusion. **Real GDP growth** has been negative since 2004. Indeed, in early 2009 GDP "growth" **is a negative 5%**. (shadowstats.com) Thus **the consumer** is faced with a deteriorating economy, as well as diminishing job prospects and purchasing power.

As well, the **2008 U.S, Federal Deficit**, rather than being about $1 trillion as reported officially, is over $5 trillion if one includes Social Security and Medicare. And, if downstream-unfunded U.S. obligations are included, the U.S. National Debt is about **$66 trillion** and rising!

Knowing these Real Numbers facilitated Deepcaster's recommending "Opportunities in the Impending Perfect Storm" — the title of his early September, 2008 (pre-Crash) Article warning of the impending Crash (available in the Articles Cache at www.deepcaster.com) and his making five short (and subsequently quite profitable) recommendations to subscribers at about that time.

To consider Deepcaster's Strategy for Profit and Protection read "Opportunities & Threats In Derivatives Shocker" (5/29/09) in the 'Articles by Deepcaster" cache at www.deepcaster.com.

Attitudes of The Fed/Treasury/BIS Toward Intervention

The positive attitude of the leaders of the U.S. Treasury and the U.S. Federal Reserve concerning manipulation of markets and public perceptions is quite revealing — see Deepcaster's July, 2008 Letter for details.

To understand the motives for Fed and Cartel Policies and actions consider:

A Brief Anatomy of the "U.S." Federal Reserve

An excellent analysis of the defects of the "U.S." Federal Reserve — so far as the United States' National Interest (and the interest of investors around the world) is concerned — is well documented in G. Edward Griffin's superb book, ***The Creature From Jekyll Island: A Second Look at the Federal Reserve*)**.

Indeed, the Profit Motive lies behind Fed Actions. Even the most causal student of Economic History knows that the United States' Federal Reserve system, or "The Fed" as it is called, is **not** a U.S. government owned or controlled entity.

Various international **private** banks, several of which are headquartered in Europe, own "shares" in the "United States" Fed. Moreover, this "United States" Fed leads a Cartel of Central and Private Banks* who collectively intervene in a wide variety of markets, as Deepcaster demonstrates here. All this is obviously quite financially incestuous.

These International Bankers, acting through their "U.S." Fed, profit both by creating money out of "thin air" and by collecting "interest" from U.S. Taxpayers on the Treasury Securities it has bought with U.S. Dollars (Federal Reserve Notes) it has created out of thin air. The Dean of the Newsletter Writers, Richard Russell, eloquently describes all this:

> *"I still can't get over the whole Federal Reserve racket.*
>
> *"Consider the following — let's take a situation where the U.S. government needs money.*
>
> *"The U.S. doesn't just issue United States Notes, which, of course it could. These notes would be dollars backed by the full faith and credit of the United States. No, the U.S. doesn't issue dollars straight out of the U.S. Treasury.*
>
> *"This is what the U.S. does — it issues Treasury Bonds. The U.S. then sells these bonds to the Fed. The Fed buys the bonds. Wait, how does the Fed pay for the bonds? The Fed simply creates money "out of thin air" (book-keeping entry) with which it buys the bonds. The money that the Fed creates from nowhere then goes to the U.S. The Fed holds the U.S. bonds, and the unbelievable irony is that the U.S. then pays interest on the very bonds that the U.S. itself issued. (With great profit to the private owners of The Fed — Ed. Note) The mind boggles.*

> *"The damnable result is that the Fed effectively controls the U.S. money supply. The Fed is …not even a branch of the U.S. government. The Fed is not mentioned in the Constitution of the United States. No Constitutional amendment was ever created or voted on to accept the Fed. The Constitutionality of the Federal Reserve has never come before the Supreme Court. The Fed is a private bank that keeps the U.S. forever in debt — or I should say in increasing debt along with ever rising interest payments.*
>
> *"How did the Fed get away with this outrage? A tiny secretive group of bankers sneaked through a bill in 1913 at a time when many in Congress were absent. Those who were there and voted for the bill didn't realize (as so often happens) what they were voting for (shades of the shameful 2002 vote to hand over to President Bush the power to decide on war with Iraq)."*
>
> ***Richard Russell, "Richards Remarks," dowtheoryletters.com, March 27 2007***

After President Wilson signed the Federal Reserve Act into law in 1913, he reportedly said, "*I am a most unhappy man, I have unwittingly ruined my country…a great industrial nation is now controlled by its system of credit…the growth of the nation, therefore, and all of our activities are in the hands of a few men…"*

Insightful economic forecaster Ian Gordon notes several negative consequences of the nearly 100-year reign of The Fed, consequences with which we cope today.

> *"Since its inception in 1913, the Federal Reserve Board has been responsible for almost 95% devaluation of the U.S. Dollar. All this has been achieved through its ability to continually inflate the money supply.*
>
> *"And, between 1985 and 2005, the Federal Reserve Board has increased the money supply by five times. This extraordinary money creation is merely the catalyst for debt creation. In a fiat money system, money is debt…there is absolutely no way this money can ever be repaid except by continued inflation. But, now that the credit bubble is blown up, inflation is no longer an option; bankruptcy looms."*
>
> ***"The Federal Reserve…What Has It Done For You Lately?"***
> ***Ian Gordon, December 29, 2007 (www.axisoflogic.com)***

[**Historical note**: recall that President Kennedy was unhappy with Fed policy and therefore caused U.S. Notes to be printed by the U.S. Treasury as Constitutionally Authorized and as a substitute for Federal Reserve Notes. The issuance of these Notes ceased shortly after President Kennedy's assassination.]

The one **conclusion** that one can make from the foregoing is that the **failure to take account of the power, force and pervasiveness of Fed-led Cartel Manipulations (i.e. The Interventionals) is an invitation to financial and investment suicide**.

The Interventional Regime – Motive, Causes and Consequences

But The Interventional Regime is showing increasing signs of stress which are reflected in accelerating Derivatives Creation, and thus in Increasing Systemic Risk. The $592 **trillion** plus OTC Derivatives Colossus (see www.bis.org, path: statistics-derivatives-Table19 and following) on which the Interventional Regime is built is increasingly subject to counterparty defaults and to Darkly Liquid OTC Derivatives turning illiquid (resulting, inter alia, in the ongoing credit freeze-up) among many symptoms.

Clearly, The Cartel has created a Financial System subject to ever-greater Systemic Risk. Why?

Harry Schultz, one of the Eminence Grises of the Financial Newsletter writing fraternity, puts the question in this way — what is the reason for this "seemingly random monetary mess that multiplies its momentum every day? The answer, in one word, control. The elite/insiders already have control of the financial system, but they wanted more, much more…and **it was not random, it was planned**." (emphasis added)

And what is the effect of all of this on the average investor? In the inimitable words of Harry Schultz, "How will all the above manifest itself in your life? The answer: "All you own will shrink...your income, assets, net worth, will shrink year after year in real terms inflation adjusted and possibly also nominally."

Harry concludes by advocating that we all try to shrink less "relative to the herd" so that we hold our position. Part of the strategy for shrinking less, according to Harry, is "it will, over 10 years, involve moving in and out of investments as price action will be very dramatic. **Buy and hold will not work in any area, including gold."** ***HS Letter, April 27, 2008.***

Indeed, Deepcaster has been sounding the theme that the "Buy and Hold Strategy Increasingly Fails" since the inception of Deepcaster's newsletter.

But Deepcaster is not satisfied with a strategy which merely accepts "shrinking less" as a goal.

Thus, Deepcaster has developed a strategy for coping with **and profiting from** not only Cartel Intervention in the Precious Metals Market but also the "Shrinking Assets" problem. That strategy can best be employed in the Precious Metals Sector, with Gold and Silver bullion and shares. It is entitled "Defeating The Cartel…With Profit" and was published on 3/28/08 and can be found in the Articles Cache at www.deepcaster.com.

Since the cornerstone of The Cartel's power lies in maintaining the legitimacy of their Fiat Currencies and Treasury Securities, the last thing they want is to have Gold, Silver and Tangible Assets held by investors to increasingly be seen as the Ultimate Stores and Measures of Value. Thus they will continue Takedown attempts of Gold and Silver prices.

Deepcaster must issue a Word of Caution here: The paper based edifice of increasing Fiat Currencies, OTC Derivatives and the Repo Intervention is **not** indefinitely sustainable. It will inevitably collapse, and that is why the evidence increasingly indicates that The Cartel has begun to plan **and implement** its ominous 'End Game' described below.

Cautions for Investors and Traders Regarding Interventions

We issue a word of caution to our readers. So long as The Cartel is in a very active interventional mode (e.g. as in taking down the price of Gold and Silver) do not be lured into thinking that the periodic up spikes in the prices of Gold and Silver necessarily present a "breakout" or a buying opportunity. As a practical matter, technical breakouts are sometimes a lure designed to suck in more "longs" prior to a subsequent deeper Takedown.

Nonetheless, it is essential to study the Fundamentals and Technicals even though the Interventionals can override the Fundamentals and Technicals. One must study the Fundamentals not only for all the usual reasons but also because Fundamentals somewhat constrain the timing and effectiveness of Interventions by The Cartel.

Similarly, one should study the Technicals for all the usual reasons and, in addition, because it is in **The Cartel's interest to make its actions seem technically plausible in order to continue to "run mainly under the radar**." It is not in The Cartel's interest to make its Interventions any more visible than they already are. Indeed, there is powerful evidence that The Cartel often uses and/or helps create technical patterns which lure certain investors (such as hard asset investors) into getting "off sides" before Cartel actions such as taking down the price of Gold or Silver.

Thus one primary Deepcaster goal is to identify approximate interim bottoms of Gold, Silver, Oil and other sectors, through the use of Fundamentals, Technicals, **and Interventionals**, and thus to help readers profit from their inevitable resurgence and ascendance to new heights. For example, Deepcaster's profitable recommendations displayed at www.deepcaster.com were facilitated by attention to the Interventionals, as well as Fundamentals and Technicals.

Significant and Increasing Systemic Threats Via Derivatives

Dramatic increases in two major species of Derivatives emphasize the increasing magnitude of systemic risks.

Exchange-Traded Derivatives: Exchange-Traded Derivatives are in the hundreds of trillions. But they are not our focus here because they are publicly disclosed and typically their performance is clearinghouse exchange-guaranteed. **They perform a valuable, indeed an indispensable, function in our markets**.

Yet that other main category of derivatives -- Over The Counter (OTC) — is not visible, except for the BIS and a few other disclosures. Yet the inherent risks are greater, much greater.

Over The Counter (OTC) Derivatives: Consider **the import** of the data from the BIS' own website www.bis.org. Note that as of June, 2006 the following OTC Derivatives Contracts were outstanding:

- \$5.938 **trillion** Commodities Contracts (excluding gold)
- \$38.127 **trillion** Foreign Exchange Contracts
- \$262.526 **trillion** Interest Rate Contracts

But consider the stunning increases in OTC Derivatives in just the twenty-four months between June, 2006 and June, 2008. As of June, 2008 there were:

- \$12.580 **trillion** in Commodities (excluding gold) Contracts Outstanding, a \$6.642 trillion (approx.**112%**) increase in only 24 months
- \$62.983 **trillion** in Foreign Exchange Contracts, a \$24.856 trillion (approx. **65%**) increase in only 24 months
- \$458.304 **trillion** in Interest Rate Market Contracts, a \$195.778 trillion (approx. **75%**) increase in only 24 months

What is also obvious from a comparison invited by Table 19 — comparing June, 2006 figures with June, 2008 figures — is the increasing Systemic Threat this interventional regime imposes.

Gold Derivatives

Increases in the amounts of OTC derivatives outstanding for the Gold Market are perhaps the most stunning:

From the \$456 billion outstanding at end-June 2006 they increased nearly 50% to \$649 billion at end-June, 2008.

Interventions Increase Systemic Risk

For an analysis of why the kind of liquidity injections The Fed has been making or catalyzing (e.g. the $40 billion "fund" made available to banks on December 12, 2007, the March 11, 2008 establishment of the new Term Securities Lending Facility TSLF and the Monster $700 billion Bailout pushed through Congress by The Fed and U.S. Treasury) in the Fall, 2008 increase the systemic (and other) threat(s), see "The Fed Cure Worsens the Disease" later in this document. With similar negative long-term effects are the various provisions regarding lending. For example, the March establishment of the TSLF occurred during the crisis which resulted in the (de facto taxpayer guaranteed) takeover of Bear Stearns.

Indeed, The Fed/Treasury had already made $7.7 trillion in capital injections, purchases, loans and guarantees as of November 24, 2008, according to Bloomberg News.

So now let us take a brief look back to see how all this "Interventional Firepower" is manifested in the Markets.

Gold and Silver Market Manipulation

The profound impact of these market manipulation efforts has been most well documented regarding the price capping of the Gold and Silver markets. For those who have any doubts whatsoever about the fact and extent of government (Central Banks) manipulation, we have (thanks to Bill Murphy, Chris Powell, and other leaders of the Gold Antitrust Action Committee — www.gata.org) the following June, 2005 blatant admission of manipulation by the Head of the BIS (Bank for International Settlements — i.e. the Central Bankers' Bank) Monetary and Economic Department, W.R. White:

> "*…It is perhaps worth spending a minute on what is meant by Central Bank cooperation…{it includes]…last, the provision of international credits and joint efforts to influence asset prices (especially gold and foreign exchange) in circumstances where this might be thought useful…*"

Among the many items of evidence are those cited by GATA Secretary Chris Powell in his superb article "There Are No Markets Anymore, Just Interventions," all of which are matters of public record, and which can be found at www.gata.org.

Interest Rate Manipulation

Clearly the fact that Intervention occurs is amply documented, but Intervention is **not** limited to the Gold and Silver Markets.

Fed Chairman Bernanke's statement in his academic paper "Zero Rate Bound Economies" can reasonably be taken as a justification for the Fed purchasing its own paper, otherwise known as monetizing the debt. **Specifically, regarding long bond purchases, the purpose of this would be to boost the 10 and 30-year bonds, and, therefore, reduce long-term interest rates**.

But in light of increasing **Real** Consumer Price Inflation now at about 6% annually (per shadowstats.com — see "Indirect Manipulation" below) one can reasonably ask: So why haven't the storied "Bond Vigilantes" pushed interest rates (and especially long-term interest rates) up to account for the massively expansionary monetary inflation of recent years?

That is because the Fed-led Cartel* of Central Bankers and Allies has quite apparently been using "interest rate swaps" and other Derivatives (via their Chosen Primary Dealers) to suppress what would otherwise be dramatically rising interest rates, both short and long term, according to Rob Kirby. Consider that there were $458 **trillion** in Outstanding Dark OTC Interest Rate Contracts as of June, 2008 according to the BIS, **up** from $262 trillion in June, 2006. And even after the Fall, 2008 Crash, there were still some $418 **Trillion** in Interest Rate Contracts outstanding (December, 2008).

Kirby's excellent paper, "*The Elephant in the Room*," demonstrating how interest rates (which would, if there were no suppression, be dramatically rising) have been suppressed by The Cartel, was presented at the Spring 2008 Washington, D.C., GATA (Gold Anti-Trust Action Committee, www.gata.org) Conference. Kirby concluded:

> *"Monetary authorities have long been pursuing expansionary monetary policies while attempting to cloak their actions by suppressing rising interest rates and other natural market reactions.*
>
> *"This has completely perverted our whole banking and monetary system.*
>
> *"This is why false values have been assigned to a host of financial instruments.*
>
> *"This explains why the gold price has been suppressed. It's another canary in the coal mine that was vigorously and nefariously silenced.*
>
> *"If you're wondering why J.P. Morgan never seems to get caught up in any sort of hideous market-to-market losses concerning their derivatives or hedge book – consider that back in the spring of 2006, Business Week's Dawn Kopecki reported, "President George W. Bush has bestowed on his intelligence czar, John Negroponte, broad authority, in the name of national security, to excuse publicly traded companies from their usual accounting and securities-disclosure obligations. Notice of the development came in a brief entry in the Federal Register, dated May 5, 2006, that was opaque to the untrained eye."*

Thus, what would otherwise be the markets' "normal" reaction to the **ongoing and worsening** credit, subprime, and other financial crises — dramatically rising interest rates, especially on the long end — has been suppressed by The Cartel's Interventional Regime.

Specific Interventions

For a full discussion of the following Interventions, see Deepcaster's July, 2008 and December, 2008 Letters posted in the 'Letters' Archive at www.deepcaster.com:

The Spring 2006 Interventional Takedown
The August through October, 2006 Interventions
The August and September, 2007 Market Interventions.

The March 2008 Crisis-Induced Takedown of Gold & Silver

On March 14, 2008 Deepcaster reiterated that the risk to the U.S. Economy

> *"…Is the greatest since The Great Depression. The Credit Default Swap Market agrees. March 11, 2008 was the first time ever that the risk of losses on U.S. Treasury Notes exceeded that of German Bonds according to the "judgment" of that market. U.S. Treasury Contracts traded at 16 basis points compared with German Bonds which traded at 15."*

Just prior to Bear Stearns' demise, the Fed's March 11, 2008 establishment of a new Term Securities Lending Facility (TSLF) was merely a short-term Band-Aid for a Structural Systemic Crisis. The TLSF allowed Federal Agency and non-Agency (i.e. private entity) AAA/Aaa Residential Mortgage backed (and otherwise illiquid) securities (some of which is irretrievably illiquid "bad debt") to be used for collateral. Allowing these securities (containing bad debt) as collateral made it possible for banks to liquidate or transfer previously illiquid securities in their portfolios.

Allowing questionable "illiquid" (i.e. bad) debt to be used as collateral began the significant weakening of the security and legitimacy of U.S. Treasury Securities (as reflected in Credit Default Swap Premiums) and, ultimately, the U.S. Dollar. Moreover, it helped only Fed-favored financial institutions while further diminishing the purchasing power of the middle class and working poor.

Thus the Big Fed-favored Financial Institutions are being insulated from the consequences of their Reckless Securities and Derivatives Speculation. Result: we are in the midst of a crisis.

But The Fed clearly wanted to make the markets think that The Fed could achieve a Great Fix. To achieve this effect, in the week ending Friday, March 14, 2008, they injected $10 billion in POMOs which dramatically (in addition to the TOMOs) increased the Interventional Power of The Fed.

The Fed's POMO injection is understandable considering that the Equities Market Technicals were looking quite ominous before the next day's (March 11, 2008) Fed Action which propelled the Dow up over 400 points. The Dow Jones Industrials, just the preceding Friday March 7, 2008, had broken below the bottom boundary of a 26-year rising Trend Channel from 1982.

Moreover, a very bearish Equities Head and Shoulders Pattern had completed its right shoulder and fallen decisively below its neckline. Thus, before the March 11th Fed Action, the downside technical targets for the Equity Indices were 20-25% lower.

Predictably, Gold (that legitimate Safe Haven from all manner of catastrophes) **had** been hitting record highs in early March. Moreover, the HUI AMEX Gold Bugs Index was on a bullish breakout from its 15-month consolidation pattern, though the Monday, March 10, 2008 shares action put the HUI on a short-term sell signal.

And, in the Energy Markets, Crude Oil had hit $110-$111 range as the first technical target for a seemingly continuing upward ascent.

So the result of the TOMO and POMO "juice" injections was to create the interventionally generated 400-point Equities Rally (of Tuesday, March 11, 2008). That Fed Action turned many of the Equities Markets Technicals from down to up. But on the next two days, Wednesday & Thursday, there was no significant follow-through "bounce" — an ominous sign indeed! Couple that fact with the consideration that The Fed Action "provided a long-term solution for none of the aforementioned ongoing problems, one had to reasonably ask how long such a rally could last. The answer is it probably would not last.

In sum, at that time, if one considered only the Fundamentals and Technicals, Gold and Silver prices should have skyrocketed.

However, The Fed Interventions stopped that rocket. The Fed, as leader of The Cartel*, pumped $15 billion and $9 billion in Temporary Open Market Operations (TOMOs) Repo Injections into the markets on March 10 and 11, 2008.

And, more significant (because many times more potent), on March 10, 2008, it added another $10 billion in POMOs (Permanent Open Market Operations) which have several times the effect of TOMOs (we now see this was priming the "pump" to generate the March 11, 2008 "market rally").

All this occurred against the backdrop of Gold's hitting $1000. Had Gold broken out conclusively over $1000 that would have generated even more interest in it. And with Crude Oil and Silver also at record highs, the Fed-led Cartel would truly be at a crisis point in terms of their legitimacy as financial market and monetary managers.

Thus the conclusion was foregone — these Interventions succeeded in dramatically taking down Gold and Silver in the next very few days.

It is not hard to see to see the motivation for these Takedowns. The power of the Fed-led Cartel of Central Banks (and allied Major Financial Institutions) depends on continuing legitimacy of their "paper" including first and foremost their Treasury Securities and Fiat Currencies.

Increasing Gold, Silver, Crude Oil and other Tangible Commodities prices threaten this Power because they compete for legitimacy as Stores and Measures of Value with The Cartel's paper. Therefore, we can expect The Cartel to continue to attack Gold, Silver, Crude Oil and the Other Strategic Commodities with a vengeance. The main question is, can they continue to succeed? That depends on whether the Fundamentals will overwhelm Cartel attempts at market manipulation.

In addressing that question, consider the "Rule" that 'The Biggest Player in the Market makes the Market Price.' The Cartel's multi-trillion dollar Derivatives Positions make it The Biggest Player in the aforementioned Markets.

But, for sure, the countervailing consideration is the ever-more-bullish Fundamentals.

June 2008: The Cartel Catalyzes a Volatility Fog to Mask Interventions and Worsening Fundamentals

But it is also certainly **not** in The Cartel's interest to have its Interventional Market Rigging "Game" revealed. That explains why it is increasingly apparent that The Cartel uses a variety of techniques (e.g. "lures") including catalyzing Volatility "Fogs" to mask its Interventions.

See the December, 2008 letter for further details.

"Earned" Liquidity versus "Borrowed" Liquidity

A key point is that the Fed/Treasury Actions of 2008 are **not long-term fixes**. The reason this is not a long-term fix is that it "fixes" a liquidity problem in a way that allows insolvent or nearly insolvent financial institutions to have liquidity that would allow certain normal but often deleterious operations (i.e. the continuation of even more lending based on borrowed liquidity). Deepcaster has previously demonstrated the perils inherent in an economy relying on "borrowed liquidity" (i.e. debt) rather than "earned liquidity" (i.e. savings) – see Deepcaster's January, 2008 Letter.**

Thus, the "borrowed liquidity "cure" is worse than the disease. Thus, what The Fed has given us is a flawed Financial Band-Aid, and only a Band-Aid for the Big Boys at that.

We must not forget another fundamental factor which demonstrates that The Fed Actions are neither a long-term, nor an adequate, remedy.

> *"This Fed injection does nothing for households. And it is households that will determine if we avert depression or not. Consumer spending is 70 percent of GDP. Households need the money, and they can't get it. Credit card companies are cutting lines. Banks are raising lending standards. House values are dropping below outstanding mortgage and home equity debts. Incomes can't keep up. Jobs are shrinking. Trickle down won't work. We need trickle up this time. The Fed's announced plan today is to monetize bad debt from Wall Street banks, to accept their securities baked by bad loans in exchange for cash. This in lieu of a drastic further drop in interest rates. Once again, save Wall Street and to blazes with households. Because they are not doing a thing here for households, this plan will fail. Households get more inflation and that is it. Wall Street gets a free ride. Somebody ought to be arrested. What a heist. Of course Spitzer can't do anything. He's preoccupied*." (emphasis added)

Robert McHugh, Tuesday, March 11, 2008 Briefing

And there is yet another structural problem which is a fundamental contributor to The Crises and which will cause The Crises to continue for months at least. At the urging of those pushing a misunderstood "free market" ideology, the Glass-Stegall Act (which separated the commercial banking from the securities business) was repealed in 1999. That Act was passed in 1933 in the midst of The Great Depression to prevent securities speculation from further destroying bank capital and shrinking deposits.

Since 1999, the Banking and Securities businesses have become increasingly merged, with today's disastrous results being quite apparent. [Note: truly "free" markets mean markets that have better regulations, not "no regulation" — Freedom of choice requires a structure which provides meaningful alternatives. To enhance freedom one needs to improve a structure, not abolish it. A basic philosophical point, thanks for which we owe to the philosopher Immanuel Kant.]

Recent Interventions and Evidence

Recent Covert Interventions in the Gold, Silver, Equities and Bond Markets have been quite dramatic as well. Indeed, evidence for Cartel Interventions in many Markets becomes ever stronger. Consider…

Silver: Noted Silver analyst Ted Butler has compiled evidence that two large banks (both Primary Dealers for The Fed) are manipulating (downward) the price of Silver and are being protected by the supposed government watchdog group CFTC (Commodity Futures Trading Commission):

> *"Certainly, with the release of the August Bank Participation Report, the case for manipulation grew stronger still. This report indicated that one or two U.S. banks held a net concentrated short position of more than 25% of the world annual mine production of silver, a level of concentration never witnessed in any market. Suddenly, the question become not if there was a manipulation, but how could such an historic extreme concentration not be manipulative? No explanation has been offered.*
>
> *"So obvious was this evidence and so strong was the public outcry over it, that the CFTC hastily convened a formal investigation around September 25. But it has become obvious that this investigation was designed to diffuse public outrage by stalling the search for the truth. This has allowed the big short manipulators (thought to be led by JP Morgan Chase) to complete their short covering during the epic sell-off. In fact, at the time of announcement of the silver investigation, the price of silver was above $13 an ounce, down almost 3-% from the summer highs. After the investigation was announced, silver fell an additional 30%.*
>
> *"Let me be clear, I am alleging that the CTFC permitted JP Morgan to continue their manipulation of the silver market under the guise that the Commission was investigating. In reality, the CTFC sided with and allowed JP Morgan to profit and clean up its shorts at the expense of great loss to the public…"*
>
> ***Ted Butler, November, 2008***

Consider also…

The Bond Market: Some pundits claim the multi-trillion dollar Bond Market is "too big to manipulate." But Deepcaster notes that the BIS reports there are a $418 **trillion** in Dark OTC Interest Rate Contracts Outstanding and further notes that the Biggest Player in the Market typically makes Market Price.

Cartel Intervention is the only explanation, is it not, that while the Credit Default Swaps Market attributes (via its premiums) a record-high risk-of-loss to U.S. Treasuries, the actual interest rates on U.S. Treasury Notes and Bonds has dropped to record lows.

> *"…The cost of hedging against losses on U.S. Treasuries surged to an all-time high after the Federal Reserve's new $800 billion effort to combat the financial crisis raised concern about*

ballooning government debt. Benchmark 10-year credit default swaps on U.S. government bonds jumped six basis points to 56. The contracts have risen from below two basis points at the start of the credit crisis in July 2007. 'There is a lot more money to be spent and it is not clear how it is going to be financed,' said Tim Brunne, a strategist at UniCredit SpA."

International Forecaster, November 29, 2008

And consider the following sensible comment posted at LeMetropoleCafe:

"It is absolutely inconceivable that the bonds are rallying (disappearing yields) due to a 'safe haven flow of funds' when their risk of default is being assessed at an all-time high!!! What is wrong with this picture???…The risk premium that the) market is assigning to U.S. Government bonds is now wider than the risk premium the market was using to price the highest rated corporate bonds as recently as November 2007!!! What this is saying is that the market is now assessing the probability of a U.S. Government default at a higher rate than was being assigned to the highest quality corporate debt just 12 months ago. Incredible!!! (Words fail me! – Ed)

The December 1, 2008 Interventions and Precious Metals Takedowns

One could reasonably claim the Interventions of December 1, 2008 "Take the Cake."

One would expect that that day's news that it was officially confirmed that the U.S. had been in a recession for a year coupled with the ongoing agony of the Big Three Automakers and laid off workers, and the news that the Taxpayers' "Bill" for the Bailouts, loans, guarantees, etc., totaled $7.7 trillion according to Bloomberg, would substantially take down the Equities Markets. But what is utterly inexplicable (absent Intervention) is that that very day in December the price of Gold was taken down nearly $50! Only Cartel Intervention can explain such a development!

II. INDIRECT MANIPULATION

The other major form of government (including agency) market manipulation can most accurately be called **indirect**. It consists of "massaging" or hiding various statistical measures and data to create results that suit the manipulator's (usually, whatever Presidential Administration has power at a given time) preferences, insofar as it's political, economic, or financial or market goals are concerned. It is the U.S. Federal Reserve Bank's (a **privately** owned "national" bank) and the United States government agencies' generation of "creative statistics" on which we focus here.

Refer to the beginning of this Letter to consider today's massaged government and agency data in comparison with today's data calculated the "old fashioned way" (i.e. sans contemporary statistical gimmickry).

III. SYSTEMIC RISKS

On the Brink of a Cartel-Facilitated Systemic Meltdown

The August, 2007 credit freeze-up and the Fed's bailouts of August 17 & September 18, 2007, mid-March 2008 and August through November, 2008 illustrate just how increasingly close to the brink of a Systemic Meltdown we are.

See the December, 2008 Letter for details regarding

The Fed's "Cure" Worsens the Disease

Prophetic words indeed!

The Systemic Solution

Allowing the International Economy to be based on a Fiat Reserve Currency is unsustainable. No **Fiat** Currency Regime in the history of the world has ever survived indefinitely.

So **The Systemic Solution** is apparent. We **outline** it as follows:

1) Re-link the world's Reserve Currency (the U.S. Dollar) to Gold and Silver, the Monetary Metals which are both **stores** and measures of value, **tangible value**.

   Failure to re-link currencies to Gold and Silver will allow a continuing massive and unsustainable inflation of the money supply by the Fed-led Cartel* of Central Bankers. Unless such re-linking to Gold and Silver is accomplished the U.S. Dollar is likely doomed in the long-run, with severely negative consequences.

   Money supply inflation ultimately leads to price inflation and the continuing extraordinary rate of increase in the money supply, (as a number of commentators have pointed out) is leading us down the path to a Hyperinflationary Depression. (c.f. shadowstats.com). And, more ominously, it is leading us to an attempt to implement The Cartel "End Game" (see June 2007 Letter "Profiting From the Push to Denationalize Currencies and Deconstruct Nations" at www.deepcaster.com.).

   But the **private for-profit** U.S. Federal Reserve and its Cartel Allies are not likely to give up their Fiat Currency and "un-backed" Treasury Securities that easily

— they are the source of its power. The Fed and associated International Financial Allies will strenuously resist. Thus,

2) Legendary investor Jim Rogers recently neatly expressed **The Solution** to the problem of The Fed: **"The Fed should be abolished and Chairman Bernanke should resign."** (March, 2008, CNBC)

   An **excellent** idea. Indeed, The Fed is a **private for-profit** group of International Banks, whose main motivation is in providing profits for, and protecting the interests of, The International Bankers Cartel and favored institutions and parasites, not in serving the needs of U.S. citizens (or most citizens of other countries for that matter).

3) To replace The Fed, and in order to protect ordinary citizens interests, the U.S. Congress should create a genuinely **National** Bank under the auspices of the U.S. Treasury Department as authorized by the U.S. Constitution. That truly **National** Bank should be the money issuer for the United States, not the **private for-profit** Cartel of International Bankers known as The Fed.

   This is not such a radical idea. President Kennedy caused U.S. Notes to be issued late in his presidency as a replacement for Federal Reserve Notes. [He was killed a few months after the issuance was started and the U.S. Notes disappeared from the market.

The Cartel End Game

We are facing at an international crisis of unprecedented proportion. It is also clear to Deepcaster that those who run the Fed-led Cartel cannot be so stupid as to **not** know where their hyperinflation of the money supply (according to shadowstats.com M3, as of the June 12, 2009 Report, was increasing at an annual rate of about 7.5% which is nearly a **ten year doubling time**!), and other bubble-crisis-creating policies are leading us.

Thus if The Cartel leaders **know** what they are doing what is their End Game? For details regarding The Cartel End Game see "Investor Advantage Revisiting the Cartel's 'End Game'" (3/6/09)**.

The Solution — A Strategy for Investors & Traders

A major premise of The Strategy is that **one can certainly remain a Hard Assets Partisan while at the same time insulating oneself from future Takedowns**. The following points provide an outline of The Strategy (particularly as applied to the Gold and Silver Markets) and are designed to help avoid such unpleasantness, or even possible financial ruin, in the future, as well as to profit along the way:

1) Recognize that The Cartel is still Potent, as difficult as that may be psychologically for Deepcaster and other Hard Asset Partisans to acknowledge. The Cartel is still the Biggest Player in many markets and, <u>if</u> the timing and market context are propitious, the Biggest Player makes Market Price. In addition, The Cartel has the advantage of de facto controlling the structure and regulation of various marketplaces and that is a tremendous advantage; just as the Hunt Brothers years ago discovered much to their dismay and misfortune, when they tried to corner the Silver Market.
2) Accumulate Hard Assets near the Interim Bottoms of Cartel- induced Takedowns.
3) **In order to know when one is near the bottom of a Cartel-generated takedown, it is essential to take account of the Interventionals as well as the Technicals and Fundamentals**.
4) For example, regarding Gold & Silver, near such Interim Bottoms, accumulate a combination of the Physical Commodity (Deepcaster prefers "low premium to melt" bullion coins) and well-managed Juniors with large reserves. (Deepcaster provides a list of such Junior Candidates in our December 20, 2007 Alert "A Strategy for Profiting from Cartel Intervention" available in the Alerts Cache at www.deepcaster.com.) **The "Physical" and "Juniors" are for holding for the long-term as a Core Position**.
5) Then, to the extent one wishes to speculate on the next "long" move, one should buy the major producers or long-term options on them. These latter positions are for ultimate liquidation at the next Interim Top and are **not** for holding for the long-term.
6) Indeed, there will be a time when The Cartel price capping is ineffective and Gold & Silver make record moves upward. The benefit of this Strategy is that one will likely be long in one's speculative positions when this happens.
7) Near the next Interim Top, liquidate the long options and majors. Again, in order to know when we are close to the next Interim Top, it is essential to monitor the Interventionals, as well as Fundamentals and Technicals.
8) At that Top, sell short or buy puts on Majors. We re-emphasize the Majors as preferred vehicles for trading positions because such positions are more liquid and tend to be quite responsive to Cartel moves.
9) At the next Interim Bottom, cover your shorts and liquidate your puts and go long again to begin the process all over again. We emphasize that it is essential to consider the Interventionals as well as the Fundamentals and Technicals in order to determine the approximate Interim Tops and Bottoms.

10) Finally, Hard Assets Partisans have the opportunity to become involved in Political Action to diminish the power of the Central Banker Cartel. It is truly outrageous that the average unsuspecting citizen, and prospective retiree, can and does put his hard won assets in Tangible Assets only to have those assets effectively de-valued by Cartel Takedowns. This is extremely injurious to many average citizens in many countries who are saving for the rainy day or retirement and have their retirement and/or reserves effectively taken from them. In order to help prevent this and similar outrages, we recommend taking three steps:

a. **Become involved in the movement to abolish the U.S. Federal Reserve (a private for-profit Cartel** of International Banks) as Deepcaster, Presidential candidate Rep. Ron Paul, and legendary investor Jim Rogers, all have advocated.
b. **Join the Gold AntiTrust Action Committee** which works to eliminate the manipulation of the Gold and Silver markets (www.gata.org). GATA is a non-profit organization which makes a great contribution by gathering evidence regarding the suppression of prices of Gold, Silver and other commodities.
c. **Work to defeat The Cartel 'End Game.'** Deepcaster has laid out the evidence regarding the Ominous Cartel "End Game." Clearly The Cartel is sacrificing the U.S. Dollar to prop up international financial institutions and to maintain its power. But this sacrifice cannot continue forever.

** Archiving in Process