

Monday Missive 08.23.2021 It's Bigger Than Kabul

Chairman of the Joint Chiefs of Staff Gen. Mark Milley said no one saw Afghanistan collapsing as fast as it did. Recent Headline

Uhhh, no. Many knew it could happen. Those who served in Afghanistan knew that the “graveyard of empires” was inhabited by dozens of tribes. Many of whom had historical animosities against each other that were beyond repair.

Nonetheless, the UN (yes, the United Nations and not the military) dreamt up the **International Security Assistance Force (ISAF)** concept.

The idea was to unite dozens of tribes into a cohesive fighting force.

Pashtun, Tajik, Hazara, Uzbek, Aimaq, Turkmen, Baloch, Pashai, Nuristani, Gujjar, Arab, Brahui, Qizilbash, Pamiri, Kyrgyz, Sadat – each with its own language, religion, culture---were expected to overcome deep grudges and fight for the future of Afghanistan.

American soldiers tasked with training these men quickly assessed how impossible this task was. The acronym **ISAF** became known as “*I Suck At Fighting*” or “*I See Americans Fighting*”.

Thus, all the political protestations of “no one saw it coming” rings hollow. The forces on the ground knew.

So, how do we link this to your investments?

Let's do a quick review of what long-time missive readers already know.

- The US came off the gold standard in August of 1971.

- Knowing the dollar had to be backed by something, Henry Kissinger raced to cut a deal with OPEC requiring that oil be exclusively traded in dollars.
- In exchange, The US agreed to defend OPEC with our military.
- This was known as the petro-dollar deal (petro meaning petroleum).
- This deal allowed the US to print lots of dollars knowing there was constant demand for our currency. For example, if the Japanese wanted oil, they had to trade yen for dollars (dollar demand) to get their energy. The same was true for every other country on the planet.
- And, yes, the world resented it....but no one else could defend the Middle East.

But now look at the map below.



Notice the countries surrounding Saudi Arabia. Iran is neither friendly toward the US nor Saudi Arabia. Nor is Iraq. Turkey? No. How about Syria, Lebanon & Yemen? No. No. No.

And now Afghanistan.

If you were Saudi Arabia, it is reasonable to expect you would question America's ability to defend the Kingdom. And if the Americans can't (or won't) keep their end of the petro-dollar deal, why should you?

And, in fact, last week we saw OPEC take a step in that direction. OPEC rejected the Biden Administration's request to open the spigots to bring the price of oil down. (And yes, I know we have simultaneously crippled our own domestic oil production---think Keystone pipeline.)

So, what is likely coming?

My belief is OPEC (led by the Saudis) is already looking for other deals. The demise of the petro-dollar system (which was already weakening) will now accelerate.

That means global demand for dollars will fall. Simultaneously, the supply of dollars (think the \$1.2 trillion Infrastructure bill and the coming \$3.5 trillion Budget Reconciliation bill) is rising...fast.

You don't have to be an economist to know that as demand for a currency falls while the supply rises... the value of that currency will decline. And prices will rise.

So don't worry too much about stagnant gold and silver prices. Big money is keeping precious metal prices down in the paper markets (think "paper gold and silver" futures markets) while these same players are accumulating (at artificially low prices) real physical precious metals from the commodities exchanges.

Is this legal? No. Do regulators stop it? No.

But at some point, there is not enough physical gold or silver to deliver. There are limits. Supply is not infinite. At that point, the thumb comes off the "paper market" scale and the prices will go up very quickly.

When will that happen? I don't know. But physical metal is leaving the exchanges in record amounts. Below gives you an idea of how much silver is being delivered. Think real physical silver loaded on trucks/boats/planes to be placed into someone's vault.

- **6.065 MILLION OZ Standing August 2018 (This used to be a "normal" deliver month)**
- **Now look.**

- **27.120 MILLION OZ STANDING IN MARCH 2019.**
- **45.220 MILLION OZ FINAL STANDING FOR MAY 2020 (5TH HIGHEST EVER RECORDED FOR SILVER)**
- **86.470 MILLION OZ FINAL STANDING IN JULY 2020. (The #1 HIGHEST EVER RECORDED)**
- **55.400 MILLION OZ FINAL STANDING IN SEPT 2020 (3rd HIGHEST EVER RECORDED)**
- **46.685 MILLION OZ FINAL STANDING FOR DEC. 2020 (4TH HIGHEST EVER RECORDED)**
- **58.425 MILLION OZ FINAL STANDING FOR MARCH 2021 (2ND HIGHEST EVER RECORDED)**

So, all these deliveries of physical silver are occurring, but the price is stagnant? Hmmmm.

Signed, Your How-Will-Parents-Recognize-Their-Children's-Back-To-School-Pictures-If-They-Are-All-Wearing-Masks? Financial Advisor,

Greg

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