—Sudhir Shetty

An interview with the mysterious, reclusive 'Fofoa'

The dollar is as safe as a bomb shelter that's rigged to blow up once everyone is "safely" inside/ Gold will be repriced somewhere around $55,000 per ounce in today's purchasing power

Half way through the interview, I ask him where does he see the price of gold reaching in the days to come. "Well, I don't see gold's trajectory being typical of what you'd expect to see in a bull market… And I expect that physical gold will be repriced somewhere around $55,000 per ounce in today's purchasing power. I have to add that purchasing power part because it will likely be concurrent with currency devaluation," he replies. Meet **Fofoa**, *an anonymous blogger whose writings on fofoa.blogspot.com, have taken the world by storm over the last few years. In a rare interview – one of his preconditions was he'll not be photographed — he talks to* **Vivek Kaul** *on paper money, the fall of the dollar, the coming hyperinflation and the rise of 'physical' gold.*

The world is printing a lot of paper money to solve the economic problems. But that doesn't seem to be happening. What are your views?

Paper money being printed to solve the problems… this was *always* on the cards. It doesn't surprise me, nor does it anger me, because I understand that it was always to be expected. The monetary and financial system we've been living with—immersed in like fish in water—for the past 90 years uses the obligations of counterparties as its foundation. These obligations are noted on paper. In describing the specific obligations these papers represent, we use well-known words like dollars, euro, yen, rupees and yuan. But what do these purely symbolic words really mean? What are these paper obligations really worth in the physical world? Ultimately, after 90 years, we have arrived at our inevitable destination: the intractable problem of an unimaginably intertwined, interconnected Gordian knot of purely symbolic obligations. A Gordian knot is like an unsolvable puzzle. It cannot be untangled. The only solution comes from "thinking outside the box". You've got to cut the knot to untangle it. So, the endgame was always going to be debasing these purely symbolic units. Anyone who expected anything else simply fooled themselves into believing the rules wouldn't be changed.

Do you see the paper money continuing in days to come?

Yes, of course! Paper money, or today's equivalent which is electronic currency, is the most efficient primary medium of exchange ever used in all of human history. To see this, you only need to abandon the idea of accumulating these symbolic units for your future financial security. They aren't meant for that! They are great for trading in the here-and-now, not for storing for the unknown future. To paraphrase Silvio Gesell, an economist in favour of symbolic currency almost a century ago, "All the physical assets of the world are at the disposal of those who wish to save, so why should they make their savings in the form of money? Money was not made to be saved!" In hindsight, this statement is true whether money is a hard commodity like gold or silver, or a symbolic word like dollar, euro or rupee. In both cases, saving in "money" leads to monetary tension between the debtors and the savers. When money was a hard commodity, this tension was sometimes even released through bloodshed, like the French Revolution. So no, I don't think we're swinging back to a hard currency this time.

Do you see the world going back to the gold standard?

No, of course not! 'The gold standard' means different things depending on which period you are talking about. But in all cases, it used gold to denominate credit, the economy's primary medium

> **Bank runs like the 1930s are a thing of the past. But that's not to say that gold will not play a central role in the future. It will...! Physical gold will replace paper obligations as the reserve within the system**

of exchange. Today, we have a really efficient and ultimately flexible currency. Bank runs like the 1930s are a thing of the past. But that's not to say that gold will not play a central role in the future. It will! The signs of it already happening are everywhere! Gold is not going to replace our primary medium of exchange, which is paper or electronic units with those names I mentioned above. Instead, physical gold will replace paper obligations as the reserves—or store of value—within the system. Physical gold in unambiguous ownership has no counterparty. This is a much more resilient foundation than the tangled web of obligations we have today.

Can you give an example?

If you'd like to see this change in action, go to the ECB (European Central Bank) website and look at the euro-system's balance sheet. On the asset side, gold is on line 1 and obligations from counterparties are below it. Additionally, they adjust all their assets to the market price every three months. I have a chart of these MTM (marked to market) adjustments on my blog. Over the last decade, you can see gold rising from around 30% of total reserves to over 60% while paper obligations have fallen from 70% to less than 40%. I expect this to continue until gold is more than 90% of the reserves behind the euro.

Where do you see all this money printing heading to? Will the world see hyperinflation?

Yes, this will end. I am pretty well known for predicting dollar hyperinflation. As controversial as that prediction is, I think it is a fairly certain and obvious end. I don't like to guess at the timing because there are so many factors to consider and I'm no supercomputer, but ever since I started following this stuff I've always said it is overdue in the same way an earthquake can be overdue. As for other currencies, I don't know. Perhaps yes, for the UK pound and the yen, but I don't know about the rupee. The important things to watch are the balance of trade and the government's control over the printing press. If you're running a trade deficit and your government can (and will) print, then you are a candidate for hyperinflation.

In that context, what price do you see gold going to?

Well, I don't see gold's trajectory being typical of what you'd expect to see in a bull market. Instead, it will be a reset of sorts, kind of like an overnight revaluation of a currency. I'm sure some of your readers have experienced a bank holiday followed by a devaluation. This will be similar. And I expect that gold will be repriced somewhere around $55,000 per ounce in today's purchasing power. I have to add that purchasing power part because it will likely be concurrent with currency devaluation. So, in rupee terms, I guess that's about Rs3.2 million (32 lakh) per ounce at today's exchange rate.

The price of gold has been rather flat lately. What are the reasons for the same? Where do you see the price of gold going over the next couple of years?

"The price of gold" is an interesting turn of phrase because I use it often to express "all things goldish" in the gold market. In today's market, "gold" is very loosely defined. What passes for "gold" in the financial market is mostly the paper obligations of counterparties. These include forward sales, futures contracts, swaps, options and unallocated accounts. I often use the abbreviation "$PoG" to refer to the going dollar price for this loose financial "gold".

The LBMA (London Bullion Market Association) recently released a survey of the total daily trading volume of unallocated (paper) gold. That survey revealed a trading flow of such magnitude that it compares to every ounce of gold that has ever been mined in all of history changing hands in just three months, or about 250 times faster than gold miners are actually pulling metal out of the ground. Equally stunning were the net sales during the survey period. The rate at which the banking system created "paper gold" was 11 times faster than real gold was being mined.

Q&A
Fofoa

What is the point you are trying to make?

The point is that gold is being used by the global money market as a hard currency. But it is being treated by the marketplace as both a commodity that gets consumed and also as a fiat currency that can be credited at will. It is neither, and gold's global traders are in for a rude awakening when they find out that ounce-denominated credits will not be exchangeable for a price anywhere near a physical ounce of gold in extremis—ironically failing at the very stage where they were expected to perform.

So, what are you predicting?

But don't get me wrong. It is not a short squeeze that I am predicting. In a short squeeze, the paper price runs up until it draws out enough real supply to cover all of the paper. But this paper will not be covered by physical gold in the end. It will be cash settled, and it will be cash settled at a price much lower than the price of a real ounce of gold, like a check written by an overstretched counterparty. It is a tough job to make my case for the future of the $PoG in just a few paragraphs. The $PoG will fall and then some short time later we will find that the market has changed out of necessity into a physical-only market at a much higher price. If you were holding paper you will be sad. If you were holding the real thing, you'll be very happy.

Why is the gold price so flat these days?

Today's surprisingly stabilised $PoG tells me that someone is throwing money into the fire to delay the inevitable. Where do I see the $PoG going over the next couple of years? Maybe to $500 or less, but you won't be able to get any physical at that price. I think that today's price of $1,575 is still a fantastic bargain for physical gold.

Franklin Roosevelt had confiscated all the gold that Americans had in 1933. Do you see something similar happening in days to come?

Not at all! The purpose of the confiscation was to stop the bank run epidemic at that time. There's no need to do it again. The dollar is no longer defined as a fixed weight of gold, so the reason for the last confiscation—and subsequent devaluation—no longer exists. Gold that's still in the ground is a different story, however. Gold mines will likely be considered strategically important national assets after the revaluation, and will therefore fall under tight government control.

The irony of the entire situation is that a currency like "dollar" which is being printed big time has become the safe haven. How safe do you think is the safe haven?

Indeed, everyone seems to be piling into the dollar. Especially on the short end of the curve, helping drive interest rates ridiculously low. The dollar is as safe as a bomb shelter that's rigged to blow up once everyone is "safely" inside. You can go check it out if you want to (sure, from the outside it might look like shelter), but you don't want to be in there when it blows up. You've got to realise that it is both economically and politically undesirable for any currency to appreciate against its peer currencies due to its use as a safe haven. Remember the Swiss franc? As soon as it started rising due to safe haven use, they started printing it back down. The dollar is no different except that it's got a whole world full of paper obligations denominated in it. So when it blows, the fireworks will be something to behold.

What will change the confidence that people have in the dollar? Will there be some catastrophic event?

That's the $55,000 question. It is impossible to predict the exact pin that will pop the bubble in a world full of pins, but I have an idea that it will be one of two things. I think the two most likely proximate triggers to a catastrophic loss of confidence are a major failure in the London gold market, or the US government's response to an unexpected budget crisis due to consumer price inflation. Most people who expect a catastrophic loss of confidence in the dollar seem to think it will begin in the financial markets like a stock market crash or a Treasury auction failure or something like that. But I think it is more likely to come from where, as I like to say, the rubber meets the road. And here I'm talking about what connects the monetary world to the physical world: prices. I think these "worlds" are connected in two ways. The first is the general price level of goods and services and the second is the price of gold. If one of these two connections is broken by a failure to deliver the real-world items at the financial-system prices, then we suddenly have a real problem with the monetary side. So, I think it will be a relatively quick and catastrophic event, but maybe not as dramatic as a major stock market crash. It will be confusing to most of the pundits as to what it really means, so it will take a little while for reality to sink in.

The Romans debased the denarius by almost 100% over a period of 500 years. The dollar, on the other hand, has lost more than 95% of its purchasing power since the Federal Reserve of United States was established in 1913, nearly 100 years back. Do you think the Federal Reserve has been responsible for the dollar losing almost all of its purchasing power in hundred years?

Yes, inflation was a lot slower in Roman times because it entailed the physical melting and reissuing of coins of a certain face value with less metal content than previous issues. This was a physical process so it occurred on a much longer time scale. The dollar, on the other hand, has lost nearly 97% of its purchasing power in roughly a 100 years. Do I think the Federal Reserve is responsible for this? Well, given that the lending/borrowing dynamics causes expansion of the money supply, I think the government and the people of the world share in the responsibility. But just because the dollar has lost 97% of its purchasing power doesn't mean that any individual lost that much. How many people do you think are still holding onto dollars today that they earned a 100 years ago? How long would you hold dollars today? As long as the prices of things you want to buy don't change during the time you are holding the currency, what have you lost? So, imagine that you simply use currency for earning, borrowing and spending, but not for saving. Will it matter how much it falls over a 100 years? Your earning and spending will happen within a month or so, and prices won't change much in a month. Also, your borrowing will be made easier on you as your currency depreciates. And your gold savings will rise. So, with the proper use of money, there is no need for alarm if the currency is slowly falling at, say, 2% or 3% per year.

Do you see America repaying all the debt that it has taken from the rest of the world? Or will they just inflate it away by printing more and more dollars?

The debts that exist today can never be repaid in real terms. And as I mentioned before, they are all denominated in symbolic words like dollars, euro, yen, yuan and rupees. The debt of the US Treasury, most of all, will of course be inflated away.

What does Fofoa stand for?

I remain anonymous because my blog is not about me. It is a tribute to "Another" and "Friend of Another" or "FOA" who wrote about this subject from 1997 through 2001. So FOFOA could stand for Friend of FOA or Follower of FOA or Fan of FOA. I never really stated what it stands for, so you can decide for yourself! Sincerely, Fofoa.

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'Super Brussels' saves the world — maybe!

Continued from Page 11

Support from the International Monetary Fund (IMF) is uncertain. The lack of conditions and supervision of loans may be a barrier to IMF participation. Domestic politics within the US in a presidential election year may also limit flexibility.

Arithmetical impossibility...

The cost of support for the peripheral nations is rising. The ECB has provided over Euro 2 trillion in the form of bond purchases and funding for European banks. Euro zone members are directly and indirectly supporting the two European bailout funds -- the EFSF and ESM -- for around €1 trillion. National central banks in Germany, Netherlands, Finland and Luxembourg have provided more than €700 billion in financing for weaker nations.

Even without agreement on euro zone bonds, mutualisation of debt is already a fact as stronger countries, especially Germany and France, effectively underwrite these facilities. As more financing for weaker nations moves to official institutions, the commitment will increase. Germany faces potential losses of between €800 and €1.4 trillion (up to 40% of its GDP). France also faces large losses. Chancellor Merkel has increasingly emphasised that Germany's financial strength is not infinite.

The monetary arithmetic of European debt problems looks unsustainable.

The EU may simply not have enough funds to carry out their programs, unless the bailout funds are increased in some way or the ECB follows the US, UK and Japan into full-scale quantitative easing to monetise European sovereign debt. As those countries have found, such measures also do not represent a simple solution.

Political impossibility...

In the short run, the ECB will probably lower rates and continue to provide liquidity to manage the risk of financial collapse. But the deep-seated problems remain.

The real economy – growth, employment, investment, capital flight out of weak nation -- will continue to be problematic. The economic performance of stronger countries like Germany will deteriorate. The problems of the financial system – loan losses, funding difficulties -- will continue. Weaker sovereigns will continue to face challenges in raising funds at acceptable costs.

The problems are increasingly political.

The June Summit highlighted deep fissures within the euro zone itself. Germany, which is substantially bearing the financial burden of the European debt bailouts, finds itself increasingly vilified and isolated.

Spanish, Italian and French newspapers and political commentary were triumphant, depicting the summit as a humiliating back down by Germany. Northern European countries aligned with Germany have expressed concern about weaker conditions for aid to the indebted European countries. Dutch financial daily *Het Financieele Dagblad* wrote that *"the southern euro countries are taking the north hostage"*.

While her political position remains relatively secure, the German chancellor Angela Merkel faces increasing domestic criticism for providing assistance without extracting agreement to suitable tough conditions from recipients.

Merkel insists that German taxpayers' money will not be committed without strict conditions. She has reiterated that there was no increase in German guarantees for the euro zone rescue funds and no jointly guaranteed euro zone bonds to finance weaker states. She insists that the commitment to use the EFSF/ ESM to buy sovereign bonds for countries facing market pressure would be conditional. Spain and Italy's gleeful boasts of unconditional aid does not square with Dutch and Finnish insistence that any money would require compliance with strict conditions.

Germany and the northern European countries' willingness to continue to finance the existence of the euro zone may be weakening.

At the summit, the joke of the day was that Germany lost 2-1 to Italy in the semi-finals of 2012 European soccer championship in Warsaw but lost 16-1 at the EU summit in Brussels!

Italian prime minister Mario Monti, with uncharacteristic indiscretion, boasted that *"it is a double satisfaction for Italy"* referring to Italian victories over Germany in both soccer and the debt negotiation.

Spain, Italy and France may well live to regret its triumphalism in antagonising its paymasters. The euro zone itself seems the loser in the longer term.

Real impossibility...

Despite progress, European leaders refuse to acknowledge that a portion of the debt of the peripheral nations is unrecoverable. None of steps announced improves the sustainability of the debt levels of the affected countries, their access to markets or cost of borrowing in the medium to long term. Ultimately, it is not possible to solve the problem of excessive indebtedness with more debt or by simply changing the lender.

Austerity dooms Europe to a prolonged contained depression as the debt burden is worked off. The alternative, a debt write-off, would result in significant loss of wealth for the mainly European lenders and investors triggering an economic contraction and prolonged period of economic stagnation. There are now limited policy options available.

For the moment, investors and the non-German members of the euro zone are celebrating. It would be wise to remember American writer Edgar Howe's observation: *"There is nothing so well known as that we should not expect something for nothing -- but we all do and call it hope."*

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GVK sees first coal from Hancock mines in 2016

Continued from Page 11

GVK, however, holds 100% stake in the rail and port projects.

"I am always here to invest more into the projects," Rinehart told reporters after the company's board meeting in Hyderabad, though her plans to increase her stake may not go well with the plans of the GVK group in raising funds.

GVK has invested in Hancock through family-owned entities and members of the family as core investors. GVKPIL, the group's listed entity, has about 10% holding in the entire deal in lieu of assured coal supplies to its thermal power assets and also the guarantees extended by it to the debt the group would raise to fund the mega deal.

"The coal projects have about 8 billion tonne of coal and we would develop the Alpha Coal project in the first phase followed by Kevin's Corner mine. Alpha Coal has reserves of about 1.8 billion tonne and Kevin's corner has about 4.3 billion tonnes of reserves. We plan to produce about 32 million tonne of coal from Alpha Coal every year," said Reddy.

The coal projects would achieve a cumulative production of about 80 million tonne in about 10 years from the first coal stage.

According to Reddy, there is "solid order book" already available for the Alpha Coal project with buyers coming in from South East Asian countries including Korea, China, Taiwan and Japan. Interestingly, the prospective coal buyers are also said to be keen on investing in the project.

"Many buyers, in order to ensure that they have assured long-term supplies from the mines, would invest in the equity. In that scenario, we would reduce our stake and divest in their favour. However, we would hold at least 51% in all the projects," he explained.

To be sure, the project has been mired in environmental issues, particularly due to a tussle between the Queensland state government and the Australian federal government. Though the state government has already accorded approvals for the project, the federal government is still taking time in giving all the required clearances.

"I have not seen in my lifetime any project getting held up in the approval process in Australia. We expect all the clearances to come in by July-August this year. This project with GVK is important for Australia and particularly for Queensland. It means some revenue and jobs for Australia. Particularly, Australia needs the revenue," said Rinehart.

She, however, said the new tax regime including imposition of carbon tax on businesses in Australia would not make the country cost-competitive. "The new tax regime has come into effect from July 1 and this is a sad day for us. But, we see the next government in office would make changes to structure after the elections in 2013."