

# “We” Includes the Chinese

By [The Mogambo Guru](#)

07/24/06 **The Daily Reckoning PRESENTS:** For reasons the Mighty Mogambo cannot wrap his head around, the Chinese, instead of learning from us here in the United States, have decided to mirror the mistakes we’ve made with monetary policy. So when the Mogambo tells us “We’re all freaking doomed” – he doesn’t just mean the United States...

## “WE” INCLUDES THE CHINESE

The policeman was yelling through the megaphone, “What are you so mad about, Mogambo? Come out of the famed Mogambo Bunker (MB), nice and quiet, with your hands up, and let’s talk about it!”

So, I fire off another burst of machinegun fire over their heads to recapture their attention, and shout through the gun port, “Don’t pretend you don’t know about how the Federal Reserve reversed course from their previous outsized \$11 billion injection of credit into the banking system, you stinking lying cop! So, don’t insult me by acting like you were completely unaware that Total Fed Credit fell by \$6 billion last week!”

As I am jamming home a fresh clip of ammo, I shout, “And what about Japan finally raising interest rates from zero to 0.25%? Rates have been zero for six years, you idiot Gestapo pig!” I squeeze of another long burst.

How could I explain to this government goon squad about the strange and scary perturbations in the flow of economics? Can they even be made aware of such things as the frightening levels of activity in the bank repo market, where \$11 billion per day is now expected? With spikes into the high \$20’s of billions! Per day!

Then, I realize how to connect with them! I shout, “What about oil, you jerks? The price per barrel is up around \$75 a barrel, and the price zooms up and down by a buck and a half a day sometimes!”

And it is not just the money, but that such sudden, wild fluctuations are completely out of character for stable systems. And the terrifying thing about breakdowns in smooth, laminar flows is that a chaotic, catastrophic breakdown soon appears.

At this point, everything became confused and chaotic, as suddenly my wife and children were, for some reason, there in the bunker with me, bathed in a strange, wavering light, urging me to heroically shoot it out with the fascist goons and die like a proud martyr to Austrian economics and the gold standard. Suddenly, I awoke!

It turns out that I was only dreaming the whole thing! Whew! But the statistics, my panic, and the bullet holes in the walls of my neighbor's houses are all too real, as are their vicious, lizard-like lawyers.

But the slimy schemes of the Federal Reserve are one thing, the paranoid hallucinations of The Mogambo are another. Actual inflation is yet a third thing altogether, making, in all, three. And on that note, and because I don't want you to miss so much as a single syllable, I pick up my Mogambo High-Powered Megaphone (MHPM) and scream through it: "The JOC-ECRI Industrial Price Index jumped in July, rising to 130.17 from 128.18! That one-month gain of 1.6% in prices is a lot of inflation in one month! What is even more interesting, if you think that being eaten alive by inflation is 'interesting', is that the index is up from 108.95 a year ago at this time, which is an inflation rate of 19.5%!"

In an odd, almost tangential way, Frank Holmes, CEO and chief investment officer of U.S. Global Investors, has a few words in the annual report, entitled "The Rise of The Chinese Consumer." He writes, "China's energy consumption is expected to be 69 percent higher in 2010 than in 2002, according to the Federal Energy Information Administration. That growth rate is five times higher than the estimate for the United States and more than 15 times higher than Europe. China, in the midst of a massive infrastructure build-out, used half of the world's cement and 40 percent of the world's steel last year, according to government statistics."

Now, as a pop quiz, take out a clean sheet of paper. After paying particular notice to his use of the phrase "in the midst of a massive infrastructure build-out," combine that with the statistic that China, alone, was responsible for half the world's consumption of cement and steel (and a lot of other things, too!) last year, to derive the longitudinal extrapolation of this exponential trend to arrive at Probable Price Predictions (PPP) for various assets, upon which we could Make A Big Pile Of Money (MABPOM) by investing in them.

Congratulations to those of you who demonstrated True Mogambo Attitude (TMA) and contemptuously said, "Screw that!" As luck would have it, Mr. Holmes immediately went on to give the answer to that very problem when he said, "But because of years of low commodity prices and other factors, exploration and development of these now-coveted resources have not kept pace with global population and GDP growth. That has created an Economics 101 scenario – demand is greater than supply, so prices climb."

And, if you are not content with merely owning gold and silver to participate in the general rise of prices, but want the excitement of daily wheeling and dealing and trading to make the Big Money Fast (BMF), then Mr. Holmes has the perfect investment philosophy for you: "Whatever China needs, get long, and whatever they have as surplus, get it out of the way, because China will just dump it."

I can personally testify to this last point. Mogambo Money-Grubbing Enterprises, Inc. (MMGEI) has the distinction of being the only stock in the world that actually has a negative worth, as even one share of this despicable company is considered too many, and people actually take a loss to pay other people to take the stock off their hands. Well, the story is that last week one lousy share of this toxic stock accidentally got misfiled in the portfolio of a Chinese woman, see, and

desperate to get rid of it, her hand moved so fast throwing it out that it went through the time barrier! Talk about being dumped! Hahaha!

But Mr. Holmes is apparently not remotely how despicable both my corrupt company and he calmly goes on to note that the continued gobbling of resources by China for years to come is written in stone, as “China plans to build 14 express highways, six railways and a dozen new seaport facilities before 2010.” In three years!

It is not only China, but he also says that “India invests 3.5 percent of its GDP on power plants, roads and other infrastructure and the government there is financing ‘industrial townships’ to promote more manufacturing. Even Bangladesh, one of the world’s poorest countries, is building hundreds of miles of highways, as well as schools, water systems and the like.”

I jump up and say, “Hey! Mr. Holmes! Hey dude! How about an analogy so that we can, you know, like, get a taste of the economic results?” He looks at me with the usual disgust and revulsion, and with a voice dripping sarcasm, asks “Do you even know what an analogy is?” I say, “No, but that was not my question! So do you have an analogy, yes or no, and why are you motioning to the security guards like that?”

Without even pausing for a moment’s reflection, he says, “A good example of this is when the U.S. built interstate highways in the 1950s. This construction work absorbed more than half of the world’s commodities.” Yow! What an amazing statistic! And what a nice economy it produced, too! I was so stunned by this that I reacted too slowly to the sound of someone yelling, “Get him, boys!” I was soon unceremoniously hustled toward, and dumped into, the hallway outside.

And a good thing, too, as down the hall I heard Stephen Roach, of Morgan Stanley, saying that China “has a central bank that was reorganized in 1998 along the lines of America’s Federal Reserve System.” And they have a fiat currency! In other words, China is screwed, too!

I laugh contemptuously (“Hahaha!”) at these Chinese doofuses for their incompetence and stupidity for copying the same stupid mistakes in monetary policy that everyone else made, namely listening to America when we, slopping around in our stupidity and greed, extolled the siren-song virtues of a fiat currency and the powerful currency derivative of electronic digits in bank computers, all multiplied by an extraordinarily lax fractional-reserve banking system. Morons! Just like the rest of us! Morons!

That means that China and India will also experience the horrifying inflation in prices, too. And so the next time you hear me say “We’re all freaking doomed,” remember that the category “we” includes the Chinese.

Regards,

The Mogambo Guru  
for The Daily Reckoning  
July 24, 2006

**Mogambo sez:** There will not be a Mogambo Guru newsletter next week, due to a confluence of an unforeseen family situation and my appearance at the Agora Financial Wealth Symposium in Vancouver. But this issue of the MoGu was extra long.

And don't look for one of those filler "Best Of" substitutes by publishers, because they have all looked, and there isn't a single issue that ever rose above the level of "awful and stupid," which I think says something more ugly about the people who publish or read the Mogambo Guru newsletter than it does about me.

So use the time wisely: Buy more silver and gold.