AN IMMINENT COLLAPSE OF THE GLOBAL MONEY SYSTEM?

J Silvis (Foundation for New Thinking)
N Lessing (RAU)

The global money system should from a biblical perspective be based on a true weight. However, the existing global money system is based on a false weight. To track the use of a false weight in the US, the total US debt to gross domestic product (GDP) and the Dow Jones are compared from 1950 to 17 November 2004. From 1950 to 14 January 2000 there was a positive correlation between total US debt to GDP and the nominal value of the Dow Jones. From 14 January 2000 added false weight to the system did not increase the nominal value of the Dow Jones beyond the high of 14 January 2004. According to this research the US and the global money system is set to implode.

Keywords: collapse, true weight, false weight, global money system

ORIENTATION

Over the past nine years an integrated conceptual framework had been developed to understand the global money system from a holistic Christian perspective. The purpose of this article is to share some insights and findings of the research study. The cut-off date of the research was on 17 November 2004 and this article gives an update of developments in the financial markets up to this date.

MONEY SYSTEM

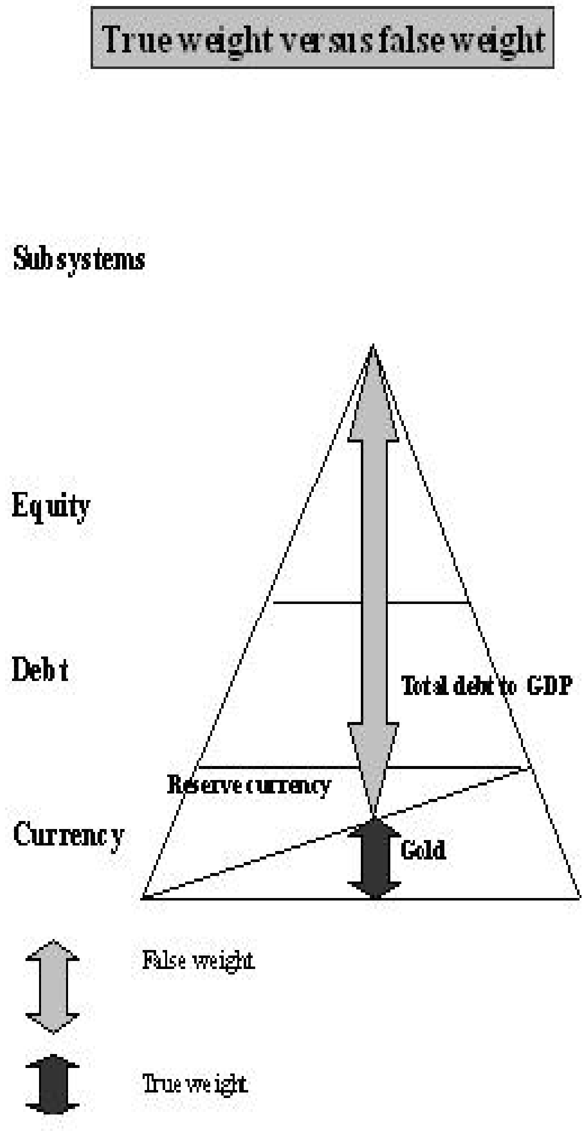
The biblical principle is that the money system should be based on a *true weigh*t. The non-biblical model is the use of a system based on a *false weight*. The Bible is explicit about the foundation and principles of any money system. The basic principle is that people may not steal from one another or have a money system that is based on a false weight.

The existing global money system is a paper system based on a false weight. The fraud of debauching the currency is as old as the history of money, but has always had dire consequences. Lenin (quoted by Lord John Maynard Keynes) was right: “There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction and does it in a manner which no one in a million can diagnose” (Bugos 2000:Internet).

A systems approach was followed to develop a model of the global money system, as is illustrated in figure 1.

The global money system consists of the subsystems of equity, debt and currency. The biblical system prescribes a money system that should be based on a true weight, shown by the black arrow in figure 1. The existing money system is a paper-based system with the US dollar as the reserve currency of the world, illustrated by the grey arrow. In a paper-based system additional debt, not represented by savings, to the system can create money.

Figure 1 Model of global money system

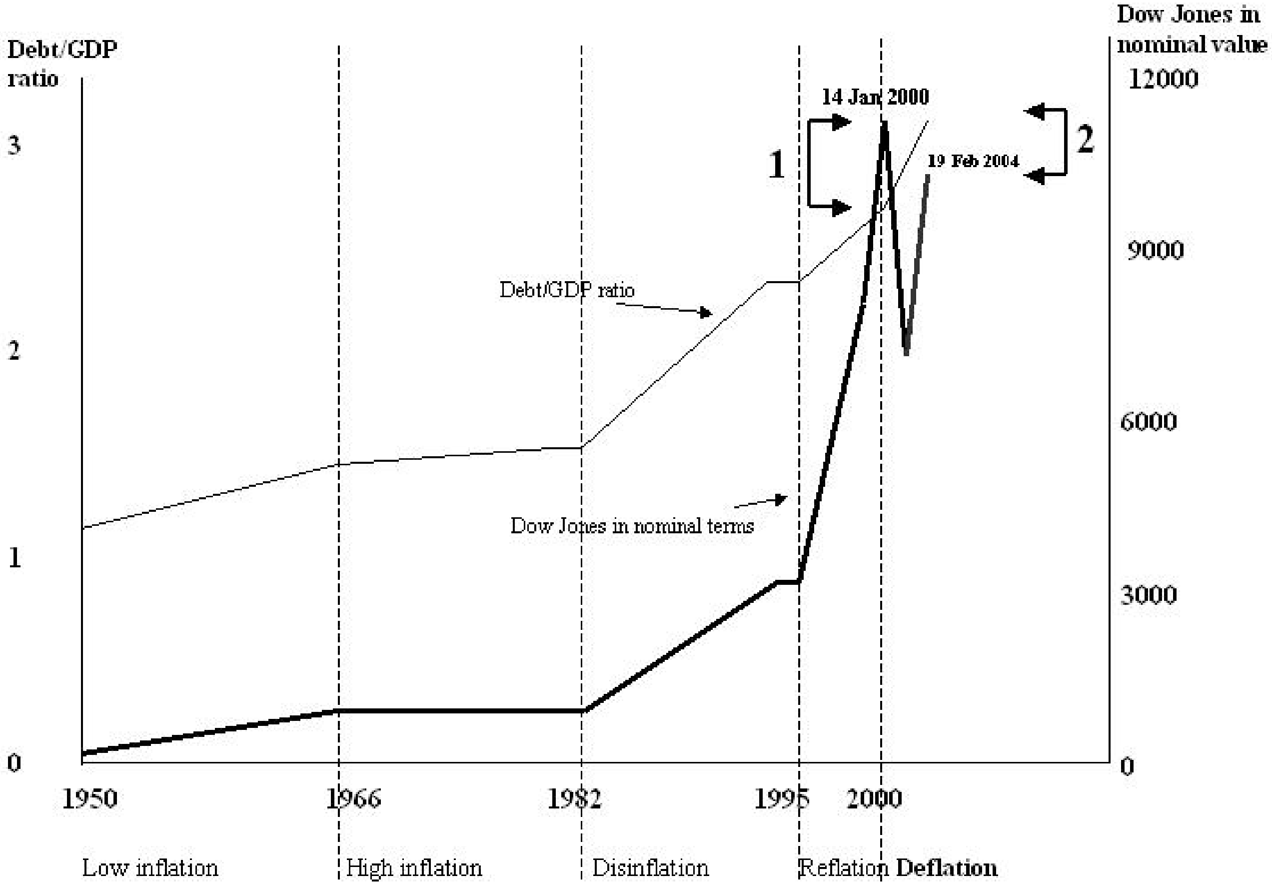


To trace this process, the total debt to GDP in the US economy was followed, as indicated in figure 1. The creation of debt not backed by savings boosts demand and corporate profitability and thus artificially increases the nominal value of the equity building block. The higher nominal value of the equity building block in turn provides the system with more collateral to add more debt without savings.

The Dow Jones has been *debt driven* for the last 54 years as illustrated in figure 2.

Five types of inflation were experienced over this period as indicated in figure 2 and summarised in table 3

Figure 2 Total US debt to GDP versus Dow Jones



Source: Adapted from IDSS 2004 subscriber service & Gabelli's graph by Gross 2004:4

Table 3 Inflationary phases

Type of inflation	Period
Low inflationary phase	1950 - 1966
High inflationary phase	1966 - 1982
Disinflationary phase	1982 - 1995
Reflationary phase	1995 - 2000
Deflationary phase	2000 –

Up to 14 January 2000 there was a positive correlation between the increase in total debt to GDP and the rise of the Dow Jones in nominal terms.

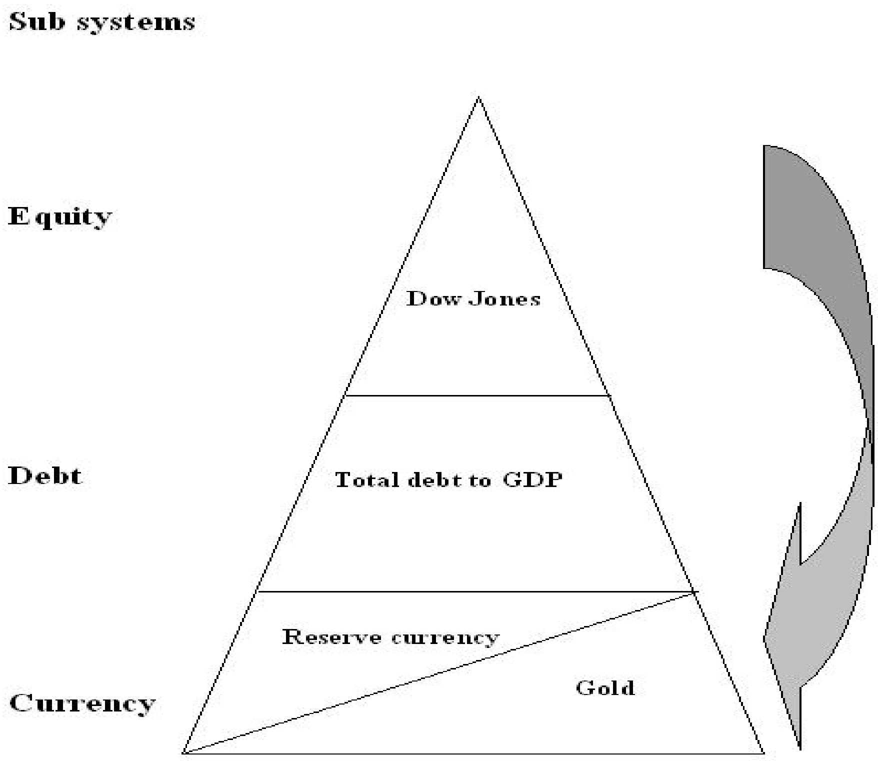
The *deflationary* period started with the top of the Dow Jones on 14 January 2000. After 14 January 2000 the total debt to GDP kept *rising* indicated by reference 1 in figure 2, but the Dow Jones *declined* as indicated by reference 2 in figure 2. The fall in the Dow Jones from 14 January 2000 and subsequent retracement to 19 February 2004 could not exceed the high reached on 14 January 2000. From 14 January 2000 the positive correlation between the total debt to GDP and the Dow Jones had been broken.

The total debt to GDP ratio is a tool to measure the extent to which a false weight is added to the money system. The breakdown in the correlation means that although debt not supported by savings was added to the system, it did not lead to a higher nominal value in the Dow Jones. From the peak of the Dow Jones on 14 January 2000 the US was a net dissaver as represented by the deficits on the current account. Although the US was a net dissaver it created debt without savings as shown by the increase in the total debt to GDP ratio from 14 January 2000.

DOW JONES VERSUS GOLD PRICE RATIO

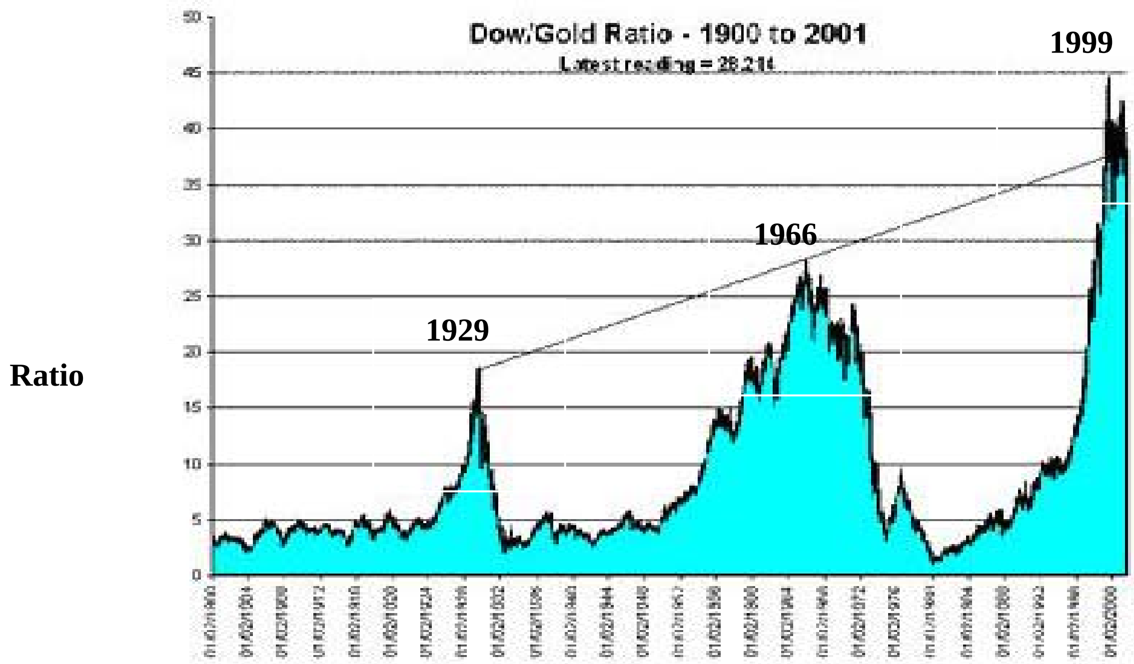
The Dow Jones is a proxy for the equity building block and representative of a false weight. Gold is a proxy of the currency building block and representative of a true weight. To measure the cosmic antithesis between a true weight and a false weight the relationship between the Dow Jones and the gold price is monitored as illustrated in figure 4.

Figure 4 Dow Jones/gold price ratio



The confidence in paper money from 1900 to 2001 as represented by the Dow Jones/gold price ratio is illustrated in figure 5.

Figure 5 Confidence indicator: Dow Jones/gold price ratio



Source: Dow/gold ratio 2004:1

The higher the Dow Jones / gold price ratio, the higher the level of confidence in the paper-based money system. Three peaks in the confidence in paper money had occurred during this period in 1929, 1966 and 1999 as indicated. Each level of confidence was higher than the previous one. The most recent peak in the ratio in 1999 implied that the confidence in the paper-based system was the highest since 1900.

In analysing the total US debt to GDP in figure 5, it can be seen that the ratio was at its highest since 1900, implying that the risk in the global money system was the highest since 1900. This is an anomaly. In 1999 the confidence in the paper-based system was the highest since 1900 whilst the total debt to GDP was at the *highest* level since 1900. From 1999 the total debt to GDP ratio had increased, which means the risk profile of the system had increased. Over this same period the collateral against which the debt had been created as represented by the Dow Jones had decreased.

This anomaly was sustainable from 14 January 2000 to 16 November 2004 because the *property* building block (Yahoo 2004:1) provided the system with the collateral to sustain the increased level of debt. The property investment trusts, being real estate investment trusts (REITS), were used as a proxy to monitor the value of the property building block of the system which reached an all-time high on 16 November 2004.

If the paper system implodes, as expected, gold as a representative of a true weight would increase dramatically in value. On 2 November 2004 there were $49 trillion of US paper assets compared to $500 billion of gold and gold share opportunities in the world. If only a small portion of the investors holding paper assets were to switch to gold, it would cause a sharp rise in the price of gold.

Elliott wave

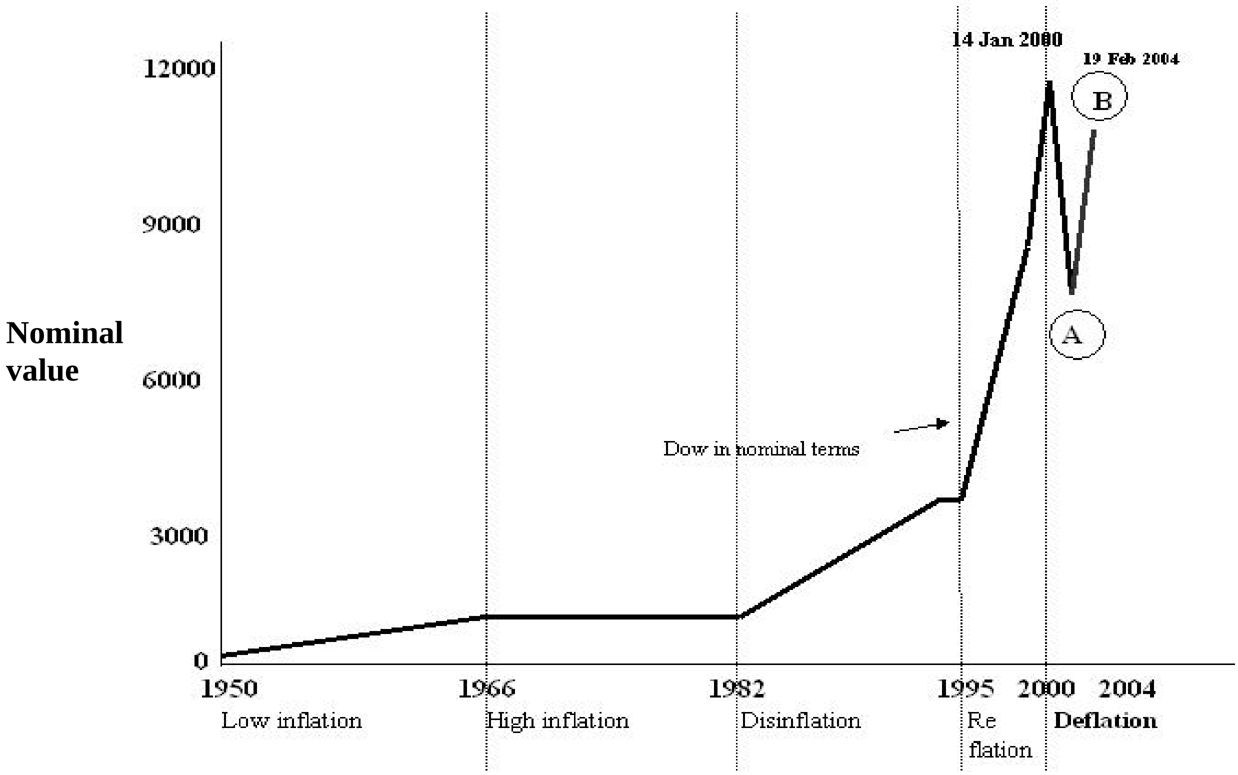
Ralph Nelson Elliott (1871-1948) developed a theory of stock market behaviour called the wave principle (Prechter 1990:37). By analysing the financial market behaviour Elliott discovered fractal patterns and he developed a theory for such behaviour. It was set out in 1938 in a document entitled "The wave principle" and followed in 1946 by "Nature's law: The secret of the universe in 1946" (Prechter 1990:39, 151). The wave principle is Elliott's discovery that social or crowd behaviour trends and reversals in recognisable patterns.

In the next section the price patterns of the Dow Jones and gold price are labelled in terms of the Elliott wave. The Elliott wave labelling is an adapted version of the patterns described by Prechter (1995:25).

Dow Jones

The Dow Jones from 1950 to 19 February 2004 and Elliott wave from 14 January 2000 are shown in figure 6. The all-time high of the Dow Jones was reached on 14 January 2000 as indicated. From the peak the Dow Jones completed an A and B correction Elliott wave that ended on 19 February 2004 as shown in figure 6.

Figure 6 Dow Jones – 1950 to 19 February 2004



Source: Adapted from IDSS 2004 subscriber service

The graph shown in figure 7 of the Dow Jones from 12 February 2004 to 17 November 2004 is representative of a false weight in the equity building block. The Elliott wave starts with wave C on 19 February 2004 as indicated in the top left corner of figure 7.

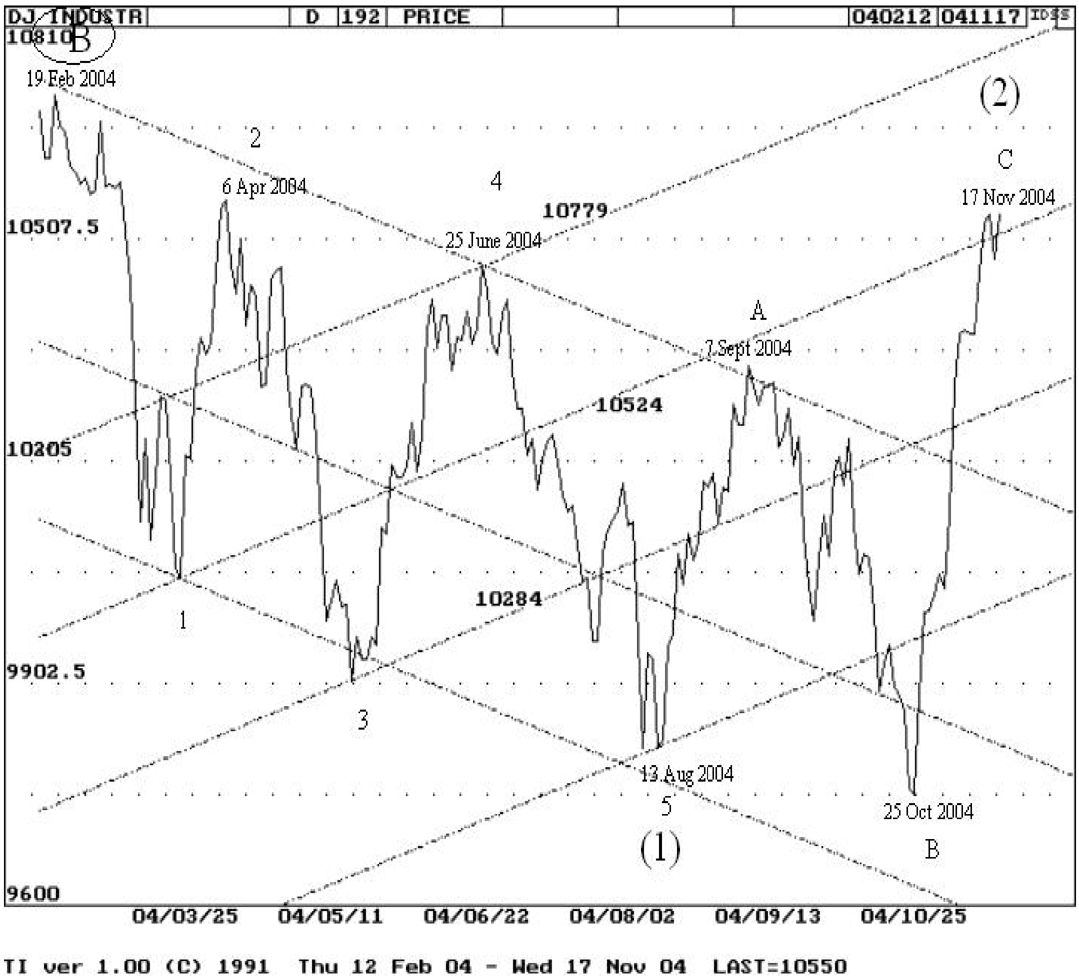
From 19 February 2004 the pattern indicates five waves annotated as (1) on 13 August 2004. From 13 August 2004 the price retraced an A-B-C wave (2) on 17 November 2004. According to the Elliott wave count, the Dow Jones was ready to start wave (3) of C on 17 November 2004 as illustrated in figure 7.

There are two *different* third waves in this count, which in terms of Elliott wave could be the explosive part of the wave count (Prechter 1995:24). Wave C is a third wave.

The false weight, as represented by the Dow Jones, is therefore expected to fall sharply from 17 November 2004.

Figure 7 Dow Jones – 12 February 2004 to 17 November 2004

Nominal value



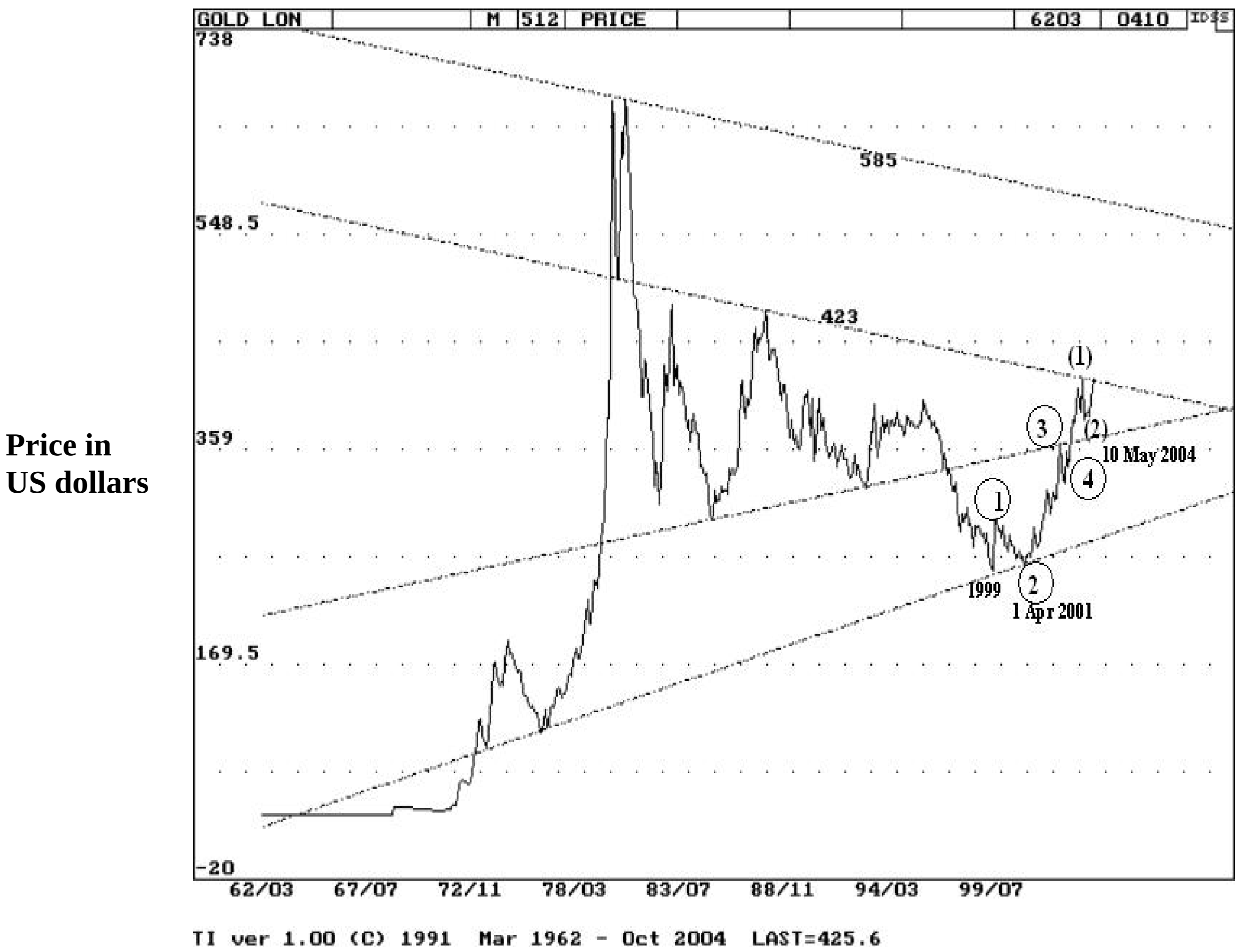
Source: Adapted from IDSS 2004 subscriber service

Gold price

In figure 8 the history of the gold price in US dollars is shown from March 1962 to October 2004. The gold price was fixed at $35 up to 15 August 1971 when President Nixon closed the "gold window". (Foreign holders of US dollars could not exchange their US dollars for gold after that date.)

The Elliott waves 1 to 4 from the 19-year low in 1999 are shown in figure 8. Wave (1) of 5 ended on 6 January 2004. It was followed by an A-B-C wave (2) correction that ended on 10 May 2004 as indicated in figure 8.

Figure 8 Gold price in US dollars – March 1962 to October 2004

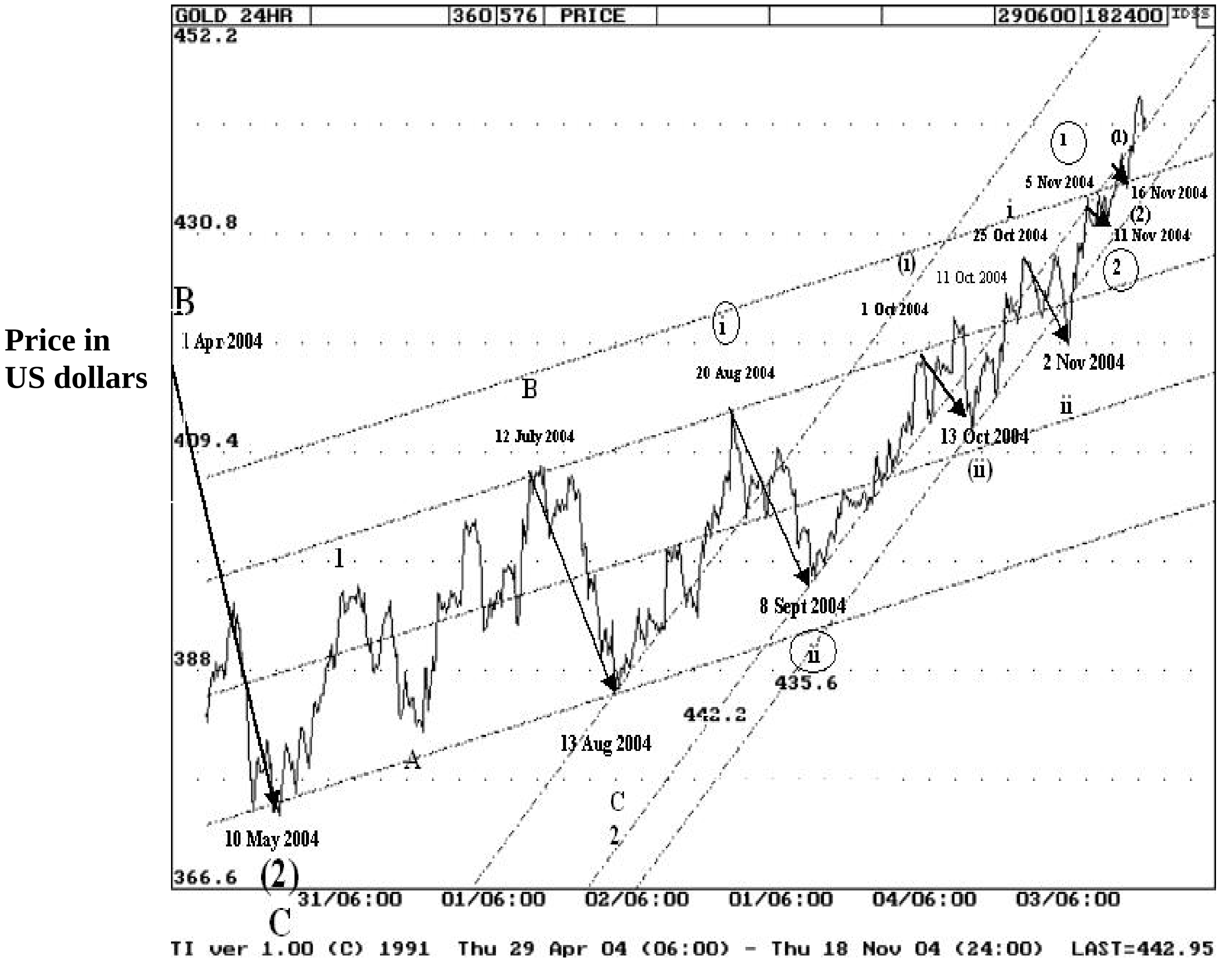


Source: Adapted from IDSS 2004 subscriber service

The gold price in US dollars from 29 April 2004 to 18 November 2004 is shown in figure 9. The start of wave (2) was on 10 May 2004 as indicated in both figures 8 and 9. According to the Elliott wave count, the gold price stated wave (3) of 3 of iii of (iii) of iii of 3 of (3) of 5 on 16

November 2004. It consists of seven *different* third waves in a fifth wave that is the explosive part of a commodity price pattern. (The explosive part of the Elliott wave in a non-commodities price pattern is the third wave as seen with the Dow Jones.)

Figure 9 Gold price – 29 April 2004 to 18 November 2004



Source: Adapted from IDSS 2004 subscriber service

The open interest in gold on the New York commodity exchange (COMEX) and gold price in US dollars is shown in figure 10. The gold market started to increase from $255 in early April 2001 up to $420 in October 2004 as illustrated in the bottom graph in figure 10. From late 2001 the open interest in gold on COMEX has increased from 110 000 contracts to 293 000 contracts in October 2004. It means that the long positions made money over this period and the short positions lost money. The rising gold price has been met with fresh selling, as reflected by the increase in the open interest.

This is not a normal situation. With rising prices it is normal for the short positions to cut their losses by selling their positions to *new* long positions entering the market as reflected by the rising open interest. This has not been the case. The entire rise in the gold price has been met by fresh selling. It could imply that some party has a vested interest in the gold price not rising too sharply. If the increased demand for gold, as reflected by the rising open interest, had not been met by fresh selling, the gold price would have been higher.

On 17 November 2004 the open interest had risen to 362 236 contracts and the gold price has risen to $443. This means that the short positions have incurred bigger losses and the long positions have increased their profits.

An explosion in the price of gold can be expected when the short positions start buying contracts to cut their losses and/or when the long positions demand physical delivery where the sellers cannot deliver forcing the sellers to buy in the open market to honour their commitments.

Figure 10 Open interest in gold on COMEX and gold price in US dollars

Number of contracts

Price is US dollar

Source: Norcini 2004:5

COLLAPSE OF THE GLOBAL MONEY SYSTEM?

The Dow Jones is a proxy of the US Empire in this analysis.

In terms of the antithesis between a true weight and a false weight, as represented by the gold price and Dow Jones, the US and the global money system are set to collapse. The biblical time line (Malan 2003:110) and Elliott wave count of the Dow Jones indicate that the global money system could implode. The Elliott wave count of the gold price indicates that it has entered the explosive part of a rising movement. Based on the cosmic antithesis of the false weight (Dow Jones) and the true weight (gold price), a collapse of the global money system is imminent.

BIBLIOGRAPHY

BUGOS E. 2000. Mr Nixon, What is the "value" of a dollar? (Internet: www.safehaven.com; downloaded 10 June 2000; 14:31; printout in possession of researchers.)

DOW/GOLD RATIO. 2004. (Internet: www.safehaven.com; downloaded 6 July 2004; 12:30; printout in possession of researchers.)

GROSS B. 2004. The last vigilante. *Investment Outlook,* February. (Internet: www.pimco.com; downloaded 5 July 2004; 20:11; printout in possession of researchers.)

IDSS. 2004. Investment Decision Support Systems. daanj@kingsley.co.za**.**

MALAN J. 2003. Bybelse profesieë oor die einde. Paarl: Paarl Print.

NORCINI D. 2004. The anomalous open interest pattern of the gold market. (Internet: www.gold-eagle.com; downloaded 6 Oct 2004; 16:09; printout in possession of researchers.)

PRECHTER RR. 1990. The major works of R.N. Elliott. Gainesville: New Classics Library.

PRECHTER RR. 1995. At the crest of the tidal wave. Gainesville: New Classics Library.

YAHOO. 2004. IYR summary for ISHR DJ RL ES-YAHOO! [Internet: Finance.url downloaded 17 Nov 2004; 20:34; printout in possession of researchers.]