

Prof. Antal Fekete Interview with Guillermo Barba

GB: In your opinion, what are the most important events since our last interview two years ago?

P: The most important development was the establishment of the negative interest rate structure by various countries; including Switzerland, which is an amazing development. I thought Switzerland would be the last country that would play with fire and here it is - they were leading the pack and hailing the advent of negative interest rates, which is just insane. I think that was the most important development over the past two years.

GB: Could you please explain to people why that is insane?

P: First of all, it betrays a complete ignorance about the nature and the theory of interest and I go back to Carl Menger. Carl Menger didn't have a formal theory of interest rates, but Carl Menger had the general framework of economic theory and I believe that if Carl Menger had lived longer, then he would have actually finished the job and included a complete theory of interest rates in his economic theories. This didn't happen, but it shouldn't prevent us from trying to fill in the details and trying to reconstruct what such an interesting theory it could have been, if Carl Menger had lived longer and completed the job. So, why is it insane? Because it is not that interest rates are falling to zero and then keep falling until they become negative - this is not what is happening. It's not doing it on its own - it's being pushed. This is equivalent to deliberate destruction of capital. If you push interest rates into negative territory - that is the equivalent to the destruction of capital and not only financial capital, but also physical capital.

Falling interest rates destroy capital because the interest rates and capital values move in opposite directions. If the interest rates falls, then the bond price goes up, if the interest rate goes up then the bond price goes down. So if interest rates go to zero, then the bond price goes up. But how far can it go up? Can it go to infinity? Well, that's clearly a contradiction.

Negative interest rates, first of all it has never happened in history that worldwide interest rates became negative, but it's very destructive as far as the integrity of capital is concerned.

GB: Who is artificially depressing the interest rates?

P: We can only guess. I mentioned Switzerland, and this is my most shocking example because what Switzerland is trying to do is to fix the value of the Swiss Franc in terms of the Euro and also other currencies, and in order to do that they have to keep buying a lot of junk. They are buying assets of other central banks which are just no good! A lot of bad assets are being added to the balance sheets of the *Federal Reserve*, *The Bank of England*, *The Bank of Japan* and even *The Bank of China - The People's Bank of China*.

So, what I see is a great destruction of capital all over the world, including solid countries also such as Switzerland and The National Bank of Switzerland, which is turning the Swiss economy into a shadow economy that is losing capital all the time. So, I think will end in a bad way. I don't see anything constructive in this effort of pushing interest rates into negative territory.

GB: Why do the central banks keep pushing the interest rates down? Why do they keep trying this?

P: Well, one explanation, especially in the case of the Swiss, is their effort is to fix the value of the Swiss Franc in terms of other currencies, but looking at the picture more globally, what you see is a rush to destroy the value of ALL currencies. You've probably heard the expression *race to the bottom*. The idea is that the various

currencies - the Dollar, the Yen etc. are floating, but that floating has turned into sinking, and ultimately that sinking is a race to the bottom. The winner is the one which loses the most value fastest. This , in itself, is insane.

GB: *Is it a currency war?*

P: Yes, that's right. A currency war and more importantly, a trade war. Countries think that by cheapening their own currency, they're boosting exports. They are begging their neighbors. But it is going to backfire, in a bad way, while they think that cheapening their national currency is a valid way to create jobs and boost exports.

GB: *Is that true?*

P: No, no, no. This has been refuted thousands of times over the centuries. This was the idea of mercantilism, and it never worked. It always backfired. A country cannot get richer by cheapening its currency because that means destroying the value of the savings of the people; including companies, individuals, pensioners and so on and so forth. So, you cannot create wealth by destroying the value of your currency. That is the reason why they try to do that, including the Swiss. They want to keep exports at an artificially high level, even if this means making people at large poorer. It is similar to a champion trying to become more competitive at the race through self-mutilation

GB: *Last December, the Fed's FOMC raised the interest rate. Do you think that they are doing the correct thing this time?*

P: In the US, *The Federal Reserve* doesn't have a clue what they are doing. They are completely confused. They have been saying they're going to raise interest rates to normalise the interest rate structure.

GB: *Should they do it or just leave interest rates to the free market?*

P: It's obvious that interest rates should be left to the free market because the free market is the ultimate judge of what is good for the economy - what is good for the people, and, if you go against the free market you only cause damage. In this case, you cause damage by hurting the pensioners, the insurance companies, the saving institutions and ultimately the banking industry, because the capital of the banking system is being destroyed. So that is going to be the outcome, the destruction of capital at large. That is what I think is going to happen and it is already happening. Raising interest rates artificially is just as bad as suppressing them.

GB: *Do you think we will see negative interest rates in the US?*

P: We can only guess. My guess is that yes, this is on the cards because the *Fed* is utterly frustrated that nothing they try works. They've tried everything; they tried zero interest, they've tried lowering interest rates, but nothing works. The economy is sinking, it's not improving in spite of a big propaganda effort that says unemployment is down, the economy is picking up and companies are generating profit. This is not true, it's just a bunch of lies through the propaganda channels which the government and the Federal Reserve have at their disposal.

GB: *If negative interest rates destroy capital, can they reverse this process by raising them?*

P: I have been saying it for a long time that falling interest rates destroys capital and once capital is destroyed, it's not so easy to recreate it.. They say "ok", if interest rates are being pushed down and capital is destroyed, we can always readjust by going back to the higher rate". This is not so. It's much easier to destroy something than to build.

GB: Do you think that the US dollar could become a bubble? Will the crisis of the dollar be the ultimate crisis?

P: What is happening now is the ultimate outcome. The rush into the dollar is completely misleading. It suggests strength - of the US Dollar, its banking system and its economy, but that completely obscures the fact that behind all of the superficial appearance there is destruction. So, I cannot help but believe that we are at that point where the destruction has reached a point where the whole structure has become unstable, it could collapse at any time.

GB: What's the role of gold in this financial and economic mess?

P: Gold is the only antidote we have, it's the only stable rock or anchor on which we could fix things. Everybody knows that gold is an anathema in the United States. It's an antithesis of *Keynesianism* and **there is a war against gold by the central banks and by all the government**, which in a way is understandable because the artificial creation of credit has reached a level where it is weakening the whole system. Without gold this rot cannot be stopped - the rot has already gone very far and is still going on. So, I think gold is the key to the situation. The dismissal of gold is very damaging for the western world.

GB: Why is gold so important? Do you think that we could return to the gold standard?

P: I firmly believe that it is possible to return to the gold standard but not before some cataclysmic event - such as the collapse of the world economy or that of the financial system, takes place, because the present thinking in academia, in government circles, in the financial world - is still for the destruction of solid, sound values. So, we have to go back to Menger for the answer to the question why gold is important. Why is gold so important? Well, the answer according to Menger is that gold is the only commodity which has constant marginal utility. Every other commodity or financial asset has the property that if you buy more and more of it, the value of each unit is going to be lower, the marginal utility will be lower, and gold is the only exception to this decay of value. Gold defies that law of declining marginal utility. Gold has the property that if you keep holding it, it's not going to lose its value. That is the secret of gold and that is what they try to make people forget, but people will not keep holding assets which have declining marginal utility as all our financial assets do. People will instinctively hoard that gold, and to a lesser degree, silver. (They) are the two commodities that defy the law of declining marginal utility.

GB: Do you think that gold would be the solution to revive the world trade?

P: Definitely! Here I have a very recent paper by Sr. Hugo Salinas Price. The title is *The Coming Revaluation of Gold*, and in this article, Sr. Salinas very cogently analyses the situation and points out the reasons why it is absolutely necessary to revalue gold. He even mentions figures - he mentions the gold price going to 10,000 dollars an ounce or even 20 or 50 thousand dollars an ounce. I would not comment on future possibilities because we just don't know the future. There is no scientific method to predict, with any assurance, what the future gold price will be. But, this is not even necessary, because instead of a quantitative statement we can make a qualitative statement, which has more scientific respectability than the quantitative statement, talking about the future gold price. This qualitative statement that I have been advocating for several years is that you

have to look at the backwardation of gold, which is now a reality. When I started talking about the backwardation and even permanent backwardation of gold more than a decade ago, it was not yet a reality, it was just a possibility - but now it's a reality. This means that the nearby future price of gold, which normally should be higher than the spot price, it becomes lower and the spot price becomes higher. This is a qualitative statement. We don't say what the price of gold is in terms of numbers, we just state the difference of magnitudes: between the nearby future price and the spot price.

So, if the spot price rises above the near future price, this is a grave danger sign – it's a blinking red light showing that there is a tremendous shortage of deliverable gold in the market and that the market is not going to be able to satisfy that demand. So, rather than putting numbers on it, we just say that the backwardation of gold, first, will be sporadic; then backwardation appears but then it disappears again. This can flip-flop for a time, but there is a point, a threshold, beyond which the backwardation of gold becomes permanent. That means that gold cannot be obtained at any price because nobody will give up gold unless he can see clearly that he can replenish his holdings through trade or through transactions. When this becomes impossible – that's the end of the monetary system. At that point there'll be a flight from paper money. This, again, is part of the general destruction of capital values.

GB: So, even if we cannot know how high the "price" of gold will be, will there be a revaluation of it? What do you think?

The coming revaluation of gold casts a long shadow ahead. In other words it's not something that happens from one day to the next - it's something, which like a storm or a hurricane approaching - the signs are all around us. We have to read these signs and interpret them to see what is happening. In the case of this revaluation of gold, especially when you try to imagine it in terms of such very large numbers as 10,000; 20,000 dollars; 50,000 dollars for one ounce of gold is not easy. Yet somehow people will feel it in their system - they know that something very drastic is happening and they will react basically in two ways.

A lot of people, including speculators who have disdained gold, will make a *volte face* as they see this revaluation coming. They will start hoarding more and more gold in the hope of large capital gains. That has the effect that the call option premium in the gold market will go higher and, as it does, trading or selling call options on gold will be very profitable.

The second aspect of this reaction is on the part of those who already possess gold. As I said, the coming revaluation of gold is casting a long, long shadow ahead. A lot of people, and also governments, central banks, industrial enterprises, individuals, pension funds etc. - who already have the gold but they are afraid that this value that they already have is exposed to possible setbacks. For all they know, it may even disappear altogether. Naturally, they will want to protect or ensure this value - they will want to buy put options - a form of insurance against this type of loss. This means that there is a pent-up demand for put options and therefore selling put options is going to be very profitable. So, to cut a long story short, I would like to describe the coming revaluation of gold in terms of trading call options as well put options - in particular, buying call options by those who want to earn a capital gain, and buying put options by those who want to protect the value they already have accumulated, in anticipation of the coming revaluation.

What does that mean in practical terms? In practical terms this means that the successful self-protection in these cataclysmic times - which the coming revaluation of gold is going to bring - is not buying low and selling high or selling high and buying low, which is the traditional approach - but it is trading call options and put options on gold, basically, selling call and put options.

Undoubtedly, some people are already doing it. Naturally, they keep their cards close to their chest. They would not think of sharing their secret with you. Information on this kind of trading is hard to come by. The consensus is that the more successful or profitable a trading strategy is, the riskier it must be. However, this is

not necessarily so. In crazy times when governments do crazy things such as experimenting with negative interest rates, higher profits need not involve higher risks. We cannot be sure whether the next move in the gold price will be up or down. But we can be absolutely sure that the ongoing crazy experimentation with negative interest rates will increase the volatility of the gold price. That is all we need to know. Higher volatility means higher premiums for options. These are available for picking, with limited risk, if you apply proper safeguards.

We have experimented with option trading based on this insight. I have decided to share some of the information we gathered with others. We have followed a formula of selling call options on the gold we already have or selling put options when we expect the gold price to rise. It may not necessarily mean physical gold, it may be a substitute such as gold mining shares, because there are also liquid options markets trading calls and puts on these shares. The share price of gold mining firms shows a high correlation with the gold price. We have consistently pursued a trading policy based on selling options and I may mention a trading system which we have pursued in Hungary for something like two-and-a-half years - the idea of selling puts or selling calls. Another experiment is being carried out in London. These experiments have been very successful, I'm happy to report. It is no longer a question that this is a matter of luck, or a matter of good timing or good bottom-picking. Rather it is a trading system designed to benefit from the insane monetary policy of the Fed or other central banks pushing interest rates into negative territory. In two cases, we can now independently document profit on invested capital in the order of 100% *per annum*, which means doubling your capital every year. It sounds impossible, it seems that it defies the laws of physics or of nature, but it doesn't, because it simply means taking advantage of a leaky and wasteful not to say crazy monetary system ignoring and badmouthing gold. We now have two working examples of this happening. You just have to hold your bucket and catch the proceeds of the leakage from the faulty monetary system

I am pushing this point because I consider this as another proof that the FIAT monetary system is going to collapse. To be sure, there are several proofs of this; one is history - that there has never been a permanent established FIAT monetary system in all history: - in every instance that they have tried, their system collapsed ignominiously. Now we have proof that it is possible to double your capital every year and the way to do that is trading options - call and put options, and I would like to go public with this record. I think it is a little bit premature to say more about it now, but those that don't believe me should stay tuned because I'm going to make further disclosures in the near future about this experiment.

Thank you, professor Fekete, for the interview.

Thank you Guillermo, for the searching questions.

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