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Today's Notes:

1. Paper and Printing

1. PAPER AND PRINTING PRESSES

> ***"We live in an amazing world. Everybody has big budget deficits and big easy money but somehow the world as a whole cannot fully employ itself. … It is a serious question. We are no longer talking about a single country having a big depression but the entire world."***
>
> Former Fed Chair Paul Volcker.

In case you didn't get my message from Turkey last week, the world's fiat currency system is becoming more dysfunctional by the day. Today the key players are the BRICS. They will no longer be dictated to by a near-bankrupt, indebted American regime. The US has been in the geopolitical driver's seat, and rightfully so, since the Bretton Woods agreements in July 1944. It was, after all, the Free World led by the US, which opposed and defeated the totalitarian states of Japan, Germany and Italy. The intervening and remarkably short, Euro-American dominance has been a mere 66 years. During this time the US and its World Bank / IMF have ruled the developing roost. After WW II, the developing and devastated economies, were given the loans when necessary and then directed on the terms to pay them back. In other words, in the past there was little choice for those countries that "needed" World Bank and IMF "help." It was then a rigged game in favor of the victors. Harvard's Niall Ferguson explains this process in some detail in his excellent book "The Ascent of Money."

But the shoe is definitely on the other foot today. Guido Mantega, Brazil's Finance Minister, notes in the FT, that a currency war is now, or will be soon, be underway. This will be the "Great Race to the Currency Bottom", the re-advent of protectionism, controls and fiat currency devaluation. Based on the fiscal and monetary programs spawned during the Credit Crisis of 2008, there is more liquidity sloshing around the world than the advanced economies can handle. Much of this excess is finding its way to the BRICS and BRACS and the commodity sector instead of lifting the economies of the old-guard G5 countries.
"We're in the midst of an international currency war, a general weakening of currency" Brazil's Mr. Mantega said publicly asserting the existence of a "currency war.

"***This threatens us because it takes away our competitiveness. Advanced countries are seeking to devalue their currencies,"*** It's not only the US Congress that is squawking about China's currency cheating, it's far more widespread. The Brazilian Finance Minister notes that ***"a series of recent interventions by central banks, in Japan, South Korea and Taiwan in an effort to make their currencies cheaper have recently occurred."*** This then is the Achilles heel of the omniscient central banking establishment and with it its fiat currency. You see there is increasing pain in Brazil as the Brazilian currency has strengthened 25% relative to the US currency. The Brazilian Real is one of the strongest currencies on our globe. Bonds in Brazil are yielding 11% as money pours into that country. Ian Stannard, a currency expert at BNP Paribas said ***"Everybody is worried that global growth is fading and they are trying to use exchange rates to protect exports. Brazil has watched as the Asians intervened and feels it can't stand by,"***

Korea is in much the same bind with respect to China, its largest trading partner. Japan likewise cannot stand by. These are the beginning global "gunshots over the bow." At present they are only rhetoric. But Brazil and the other emerging BRICS no longer have to sit by and take this as they have in the past (for example the US sponsored Plaza and Louvre Accords). That isn't gonna happen, ever again. Brazil cannot sit idly by and allow its currency to appreciate uncontrollably versus the dollar just to allow the US to inflate away its huge debt pile. Fiat money inflows to countries whose currencies are strengthening result in inflation. At present food inflation in many countries seems to be on the rise. This is a serious and most visible impact for citizens particularly in emerging countries such as India and China.

Rumi Masih, global head of JP Morgan's Asset Management strategic investment advisory group, says the slump in commodity prices that followed the financial crisis ***"increasingly looks like an aberration",*** given their subsequent recovery. He predicts demand for commodities will continue to rise due to supply constraints and a structural shift in consumption in emerging markets.

"The big wild card is agricultural prices … Unless China and India significantly increase the capital intensity of their agricultural production, then their agricultural imports will continue to rise."

There are now three very salient points that we offer for consideration in the global Discovery space. First, it is becoming alarmingly apparent that the solons in Washington and Europe cannot dig their respective economies out of this slump. Quantitative Easing in the form of open market purchases has been going on for quite some time in the US with little or no effect.

Second, as the reality of free trade fades away no country is going to allow unrestricted relative currency appreciation of their currency. Historically wars have been fought over less. Given today's access to iPods, iPads and the Internet, in general, and the education of Common Man Woman, thoughtful people are now realizing the inherent weakness of fiat currency regimes and the deleterious impact of the dismantling of the Bretton Woods exchange rate agreement as well as President Nixon's decoupling of gold from the dollar in 1971. The French understood the role of gold all too well at the time.

Finally, there is the undeniable and unquenchable thirst of 6 billion soon-to-be newly knowledge-enfranchised souls worldwide. They must have resources. Today's prices of copper and wheat reflect this nascent thirst. The new emanation of money is in the form of commodities, Gartman's things that hurt when thy fall on your feet. I need not discuss gold and silver to make my point further. It's not that the world is resorting to barter; instead it is about the growing lack of public confidence in paper, printing presses and talking heads in the US and at the world's Central Banks. They all used to agree to agree, but now they cannot. For all these reasons I do not think these commodity assets are in bubbles at all.

That does not mean that these high flying commodities will not correct in price. But here at Morning Notes we do focus on discovery of these assets more directly than ownership of the commodities themselves.

It will be discovery that will be rewarded. In the current export morass, perhaps the next line of traditional defense will be capital controls. It all boils down to the fact that we live in a new world where the definition and role of money and power are changing. Please be aware and govern your investment actions accordingly. The role of creating and storing wealth is changing.

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