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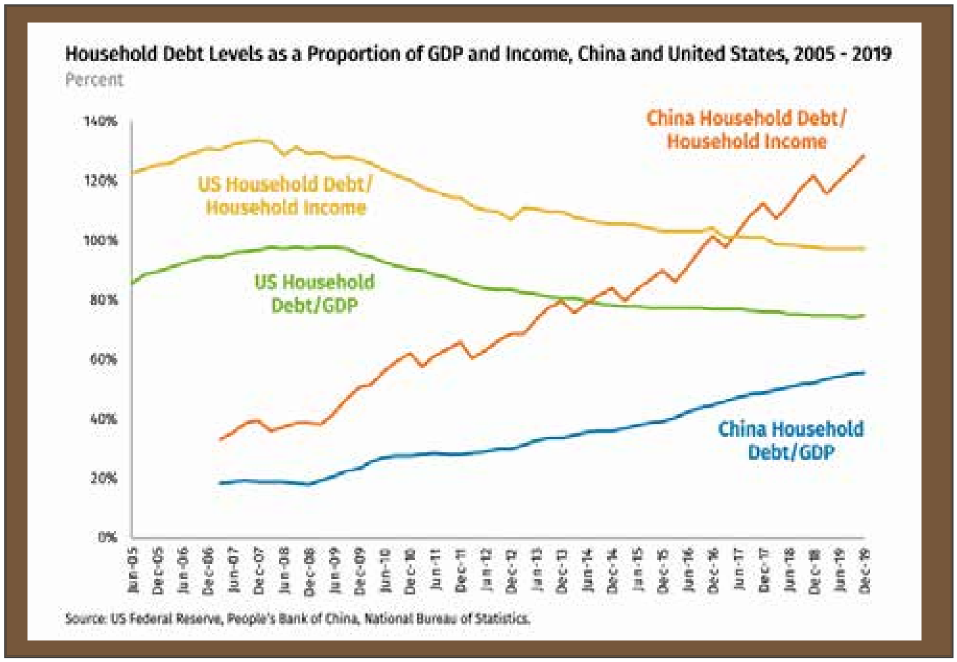
THE COMING CHINA CRASH & WHAT IT MEANS FOR GOLD



Leave aside the fact that we are about to go into (or are already in) a recession, with all that this implies for financial markets. Ignore that in a few years interest on the national debt will most likely be larger than Social Security as an expenditure for the federal government (potentially sending us into what economists regard as a debt “doom loop”). **Focus your attention for a moment on China, the world’s second-largest economy.**

We have all read about the intensifying diplomatic friction between the U.S. and China and the military buildup the latter has embarked on. China will take Taiwan eventually, if necessary by force (and the U.S. will not stand by). We know that China has close ties to Russia, which last year launched the largest European land invasion since WWII, and that Chinese leaders are considering supplying the Russians with advanced weaponry. But what is not discussed extensively outside financial circles is the economic calamity that China’s leaders face today.

Economic crashes almost always are the result of debt getting out of control, which is precisely what caused the 2008 financial crisis here in the United States. Ours was created by a real estate bubble, but China was able to avoid our crisis by embarking on one of the largest borrowing binges in world history. In 2009, to keep its economy from sinking along with the world economy, the country took on 4 trillion yuan ($600 USD) in new debt, spent it on infrastructure and property, and encouraged its citizens to borrow and spend, as well.

As you can see in the chart above (covering 2005 to 2019, when the Covid crisis began), Chinese household debt as a percentage of income blasted off to a level higher than even our country has ever seen, to well over 120%. The chart also shows that **debt has been accelerating: for the five years ending in 2019, consumers added five Trillion dollars in new debt. This amounts to around the same in U.S. consumers added in the five years leading up to the 2008 crisis, but the U.S. economy was much larger.**

Most of the Chinese debt is related to property, which is the country’s preferred way of saving. Real estate, directly (through construction) and indirectly (roads, furniture, etc.) accounts for a massive 30% of economic activity, more than 3 times the level in the United States. Over 80% of Chinese households own at least one home, but a great many households own several. However, unlike here, where people who own more than one home will rent them **out, in** China a large portion of these second and third homes are not rented. This is because there's no property tax, no related carrying cost. It basically costs nothing to leave a home vacant. In addition, there is a concern that strangers inhabiting your home could leave their bad luck behind.

So a great many of these investment properties are left vacant. Perhaps you have read about Chinese ghost cities, fully-built out sets of dozens and dozens of large buildings that are completely vacant. (Google: China ghost cities.) **How many empty homes are there in China? It is estimated that 65 million homes in China are uninhabited, and the number could be much higher.**

This hidden excess housing supply led famed investor Jim Chanos to say that "China is on a treadmill to hell," given the size of the country's real estate bubble. However, 13 years ago when overall leverage in the economy was much smaller, he said the economy was growing at a 10% clip.

At present, China would be lucky to be growing at 3% a year, but few truly believe much of the published economic data. But it is not only properties that households have been buying: **the absolute level of credit card debt is now higher than we have in the United States. This is insane considering that GDP per capita is $12,500, a fraction of the $70,300 per capita level of the United States.**

For the last two decades, the debt-driven Chinese economy has been the main driver of the global economy, as it had been growing 2-3x faster than the world. This will give you a sense of how important China is: **more than half of all copper produced in the world today is used in Chinese real estate and infrastructure building. What happens to the global economy if Chinese growth abruptly stops?**

The "global reset" that is often talked about is based on the dramatic levels of debt in the United States and Europe, but less attention is given to China. All the discussions on financial TV regarding a "soft landing" here will be meaningless if China takes the world into a global recession, before the U.S. recession even starts.

When that occurs, get ready for accelerated money printing around the world and for gold to soar to new highs. **Gold quietly outperformed all major asset classes (stocks, bonds, real estate) around the world last year. Consider what will occur once the Chinese crisis begins.**

China Continues to Build Up Gold Reserves

Given the economic uncertainty in China, it is no surprise that the country has been aggressively accumulating gold reserves. According to the World Gold Council, China has been the world's largest gold consumer and producer for several years. In 2020, China's central bank added 5.9 million ounces of gold to its reserves, bringing the country's total gold reserves to over 105 million ounces!

One reason for China's increased interest in gold is to diversify its foreign reserves away from the US dollar, which has been the world's dominant reserve currency for decades. China's growing geopolitical tensions with the US, including the ongoing trade war and the recent COVID-19 pandemic, have increased its concerns about the potential risks of holding too many US dollars.

Inflation is viewed as a threat to the value of fiat currencies, and gold is seen as a hedge against it. With China's central bank pumping huge amounts of money into its economy to spur growth, there are concerns about rising inflation and currency devaluation. When the economy is shaky, investors seeking a safe haven for their money may turn to gold.

If China were to experience a severe economic crisis, as some analysts predict, it is possible that the country could use its gold reserves to support its currency and stabilize its economy. In such a scenario, gold prices could skyrocket as institutional investors seek refuge from the economic turmoil.

China's growing gold reserves are a reflection of the country's concerns about the stability of the US dollar and the potential risks of its debt-fueled economy. Gold will probably continue to be a valuable asset for investors trying to safeguard their capital as long as the global economy remains unstable.

Why Invest in Gold?

It is crucial for US residents to protect their wealth from coming market volatility given the potential economic havoc that China's impending crisis could cause. Throughout history investors have long turned to gold and silver during economic unrest. Unlike paper money, which can quickly lose value from inflation, precious metals have continuously maintained their value through the worst crisis.