

China to Buy Portuguese Bailout Bonds. Euro Rallies.

By [Chuck Butler](#)



05/26/11 St. Louis, Missouri – It doesn't look so gloomy for the euro ([EUR](#)) and Eurozone this morning... Just three days ago, the euro was getting sold like funnel cakes at a state fair because of the Greek debt situation. (As if the Greek debt problem just appeared on the scene...NOT!) But today, three days later, the euro is in rally mode, as *The Financial Times* reported that China is looking to buy more Eurozone debt, specifically the Portuguese bailout bonds that will get sold next month.

I make this point very clear when I talk about China moving to take over the reserve currency of the world... They finance the US and now finance the Eurozone, as next month's buying would not be their first rodeo in the Eurozone. So... China has replaced the US as the world's financier... Yes, that used to be us... But now, we have gone from the world's largest financier to one of the world's largest debtor nations... And people demonstrate, and cause problems when an attempt to stop the deficit spending bleeding is made... I just have to wonder, what has happened to the American spirit of going out and making something of yourself, without the government paving and paying the way... I know it still exists; it's just that the squeaky wheel always gets the grease, right?

So... Anyway... Back at the farm... The currencies have taken their lead from the euro rally, and as I look at the currency screens I see mostly stronger currencies this morning... What I don't see is a stronger price for either gold or silver. After another \$1 increase in silver's price yesterday, both gold and silver are backing off this morning. Here's my take on that... The news that China is going to help the Eurozone with more bond buying, reduces the need to have the "safe haven" precious metals. That's just for now, folks... There'll be another geopolitical problem or government debt problem to take gold and silver higher; I think I can say that with ease...

Back to China... CIC is a sovereign wealth fund in China and last night it was reported that CIC may have set aside up to 1.5% of its funds to invest in New Zealand assets, including government bonds, companies and potentially dairy farms. CIC is much smaller in size than China's official FX reserves, but that doesn't mean they are poor... They have been growing in size, with another \$200 billion in capital added last month and potentially a lot more in years to come.

And looky there! Kiwi ([NZD](#)) is almost 81-cents! Nothing like hearing that China or a Chinese Sovereign Wealth Fund is going to invest in something, eh? Actually, as someone that's outside of this... I find it appealing... But, if I were in a country that China was controlling by bailing it out, I would be upset... WAIT! Chuck, you silly goose! You do live in a country where China represents the largest foreign owner of our debt! OK... Now I'm upset!

OK... As I said it would be yesterday, US Durable Goods Orders for April were weak... Unfortunately, they were weaker than forecast coming in at -3.6% (versus a consensus of -2.5%), which just confirms my thoughts that the US economy is flagging... And yes, I know that historically, Durable Goods Orders can be volatile from one month to the next... But, when you go back and look at all the recent data that has seen some steep declines or loss of momentum, you come to the same conclusion I have come to... That the economy doesn't have legs under it to get up and run.

But it will take the Fed Heads a while before they come to that conclusion, and by then the economy will be a real mess again... And instead of leaving the economy alone, they'll mess with it... Just like they have before... Just let the economy go! See where it bottoms out, and forms a new base to begin growth... It reminds me of a song... Momma let your boy, play some rock and roll, jazz is much too crazy; he can play it when he's old... Momma let him play, let him play... Fed Heads, let the economy alone...

So... Haven't you heard... It's a battle of words, and most of them are lies? (Thanks P.F.) And that's what is being played out before your eyes, folks... This battle by the government to tell you that everything is fine, and to go out and spend, is just plain wrong!

OK... So... The Swiss franc ([CHF](#)) is really pushing the envelope (along with euros and kiwi) of strength versus the dollar, this morning. One would think that if gold and silver are going to back off because China has rode its white horse to the

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rescue of the Eurozone, then francs would also be backing off... But not this morning, as the franc has a 1.15 handle! What's strange here is that even with the franc holding quite an edge over the dollar, Swiss exports increased in April. One good result from such strong exports is that Switzerland widened their trade surplus (I know we don't see that word often, "surplus") to SF1.52 billion, from SF997 million...

You know me... I love surplus countries! Or at least ones that teeter between surplus and deficit, like Australia. Just the other day I told you that the Aussie dollar ([AUD](#)) was getting sold because of the goings on in the US and Eurozone, putting the kyboshes on global growth... But with China riding in on that white horse to rescue the Eurozone, the Aussie dollar can get back on the rally tracks!

And then before I head to the Big Finish, I wanted to mention the Norwegian krone ([NOK](#)), which long-time readers know as one of my fave currencies (talk about surpluses!). I was reading a story on Norway yesterday afternoon that made a lot of sense to me... The article talked about how Norway had been holding back on the rate hikes, because the krone was already strong, and they didn't want it stronger... But that's not the case any longer, as the economy is now so strong, as it is stimulated by domestic demand and increased private consumption...and that was confirmed by Norwegian PM Jens Stoltenberg...

Well... If that's the case then Stoltenberg has just sounded the "all-clear" horn for Norwegian rate hikes and currency appreciation...

Then there was this... A long-time reader sent me an article from the Cato Institute, a group that I truly admire... In an article written by Michael D. Tanner, a senior fellow at the Cato Institute, he compared the Greek debt problem with the US debt problem... The article is long, so I'll just give you a snippet...

Obviously, the US economy has advantages that the Greek economy does not. And as bad as our current fiscal situation is, we have not yet reached the point of no return. On the other hand, the Greeks have at least begun, however tentatively and reluctantly, to cut back government spending. The United States remains in deep denial.

This country really has reached a moment of decision. Unless we face up to the need to radically reduce the size and cost of government, and to reform our entitlement programs, we are headed down the same road to ruin as the welfare states of Europe.

And the Greeks aren't going to bail us out.

I first made the comparison of the Eurozone peripheral country debt problems to the US states' debt problems in January of 2010... And although the mass media still hasn't a clue, at least the Cato Institute is seeing what I've seen...

To recap... A story in the *FT* suggests that China is ready to step up and buy Portuguese bailout bonds next month, which would support the Eurozone, and which pushed the euro higher overnight. News that a Chinese Sovereign Wealth Fund (CIC) is going to invest a large sum into New Zealand, has kiwi soaring this morning. Gold and silver see some profit taking, and the Swiss franc hits \$1.15!