

# Beware of the Bell

July 25, 2005

The big news of last week was the revaluation of China's currency. It was seized upon by the inflationist and gold bugs as the bell ringing of the century. "Who says nobody rings a bell?" was their cry. The answer is, this move was more a "non-shot" heard around the world. We urge all who have a computer to view the web sight of our friend and business associate John Mauldin. It is [www.frontlinethoughts.com](http://www.frontlinethoughts.com) and the piece is "The Clever Chinese."

China is one of, and probably the largest, perpetrator of deflation the world has even seen. They have an overcapacity of people and business and their only salvation is to produce, produce, produce. Their almost only market is the USA and, guess what? The second largest perpetrator is probably us, why? Because we are up to our eyeballs in debt and we are lacking in income. Now if we and China were sweethearts maybe this thing could be "worked out." Maybe it will be "worked out" anyway, but the slight test of tumbles will, in our opinion, throw the worldwide economy into a recession.

Will the Chinese quit buying our government debt? No way! They are not the culture that falls on their sword. That destination lies to their northeast. John Mauldin's piece "The Clever Chinese" referred to above outlines very well the mutual need we have for one another. It is even quite possible their need for us is much larger than the other way around.

Those who are inclined to short the government bond market will likely rue the day they heard the bell ring. It will be more likely a case of "for whom the bell tolls-it tolls for Thee!"

Below is another look at the deflation cycle in a different form, note the author's idea of where we are today. It looks about right.

