

ARMSTRONG ECONOMICS™

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I Apologize For having to write on SCRAP PAPER. I have gone from no bed, no clean clothes for 3 weeks, to a paper shortage, But hey, America criticises China for Human Rights Abuses but never looks at what is going on in its own backyard.

I have read Matt Taibbi latest, "How Wall St Ripped Off Main Street" published in Rolling Stone issue April 19th, 2010. It is right on point, yet just the tip of the iceberg. "Neither JP Morgan nor Goldman have been prosecuted for it is yet another ~~mystery~~ mystery of the current financial crisis," id/p936. The USA is addicted to debt. No matter what the NY Bankers do to destroy our economy, they are above the law because they are the drug dealers. With the US hopelessly in a downward spiral of debt, they fear prosecuting them will cut off the salesmen who raise money to keep the borrowing going. A drug addict will not turn in his supplier and cut off his own drugs. There will never be a criminal charge against NY Bankers as long as Govt needs to borrow. What Taibbi has exposed in just one county, is widespread and at the Federal level. Greece is not unique. **IT'S** merely on the edge and the first national government ready to fail.

The economy is rebounding in many isolated areas, but languishing in real estate and the public sector in general. Anyone who has a muni or state job, better start looking now for the next crisis is public debt. Taibbi has pulled back the curtain just a crack. The conduct exposed is standard operational procedure. The bribes are widespread and your future has been betrayed for a small purse of silver.

Looking at the Fed debt, the 5yr closed March at 115 28/64, and a monthly below 112 will ring the warning bell, and a month close below 109 40/64 will be a sell signal pointing to 107 16/64 and a break below that warns we will test the 8% level about 2 years or sooner. The 10yr closed March at 116 16/64. Initial support lies at 114 and 113. A monthly close below 113 points to the major support at 110 level, and a monthly close below that may signal 10% rates ahead. The 30 year closed at 116 8/64. This is a subtle sign of weakness. A monthly close below 113 10/64 will point to 112 and a close below 112 8/64 will warn of a drop to perhaps retest the 1981 lows for 2015 (34.4 year decline).

The USA still appears ~~strongly~~ not as desperate as Europe. A failure in Greece, because it is a national state, can bring down the whole Euro. For you see, a nation in 1929 had a choice, maintain the gold standard and suffer deflation or abandon gold and inflate. Those countries that abandoned gold terminated their depressions. The Euro eliminated that option and now the choice is between default or civil unrest. However, each nation shares the Euro. Europe will have to abandon the Euro for civil unrest will erupt in Southern Europe and blame will be laid once more on Germany. The idea of trying to mimic the dollar has its downside that ignites old hatreds.

My beloved Britain has a worse debt crisis than the USA. It cannot survive a Greek default. A monthly close below 140 will signal a retest of the 1985 Par level. The 2009 close was a yearly sell signal that will not be relieved without a yearly close above 171. Even a monthly closing below 147.50 will signal weakness. A bull market requires a monthly close above 179.50.

The Euro closed 2009 neutral, but short-term monthly sell signals have been achieved. The main support lies at 126 on a monthly closing basis. A monthly close below 118 would open the door for a drop to 96-97. Germany will suffer greatly and is likely to raise rates to defend the Euro magnifying the economic decline.

The Swiss Franc has been holding initial support 90.40 on a monthly closing basis. The major support lies at 80 and as long as that holds, there is still a potential for a high in 2013 with a long range high in 2019. Near-term, consolidation is likely in April/May. A trend seems to begin in June that may prevail into next February with a wild swing in October 2010.

The Japanese economy is in a real debt crisis. The rise in the yen is still a deflationary type contraction. We could see this culminate in a new high for the yen even above that of 1995. 2008 is still the yearly closing high since the 1998 low. The turning points are 2011 and 2016 and key support on the LMM futures lies at 10%. A monthly close below this points to 95.

The Canadian dollar primary support lies at 78 on a monthly closing basis. Only a monthly close beneath that area would signal a bear market. Near-term, the C\$ has closing monthly support at 91 and holding that keep the C\$ in a positive position. Yearly levels are still bullish warning we could see a major high as early as 2013 against the US\$ or 2015. A monthly close above PAR will signal another rally. Breaking out to new highs in April could lead to a high in June and exceeding June in July points to September high with October showing high volatility in the clear opposite direction of September.

Australia appears to be situated to profit from the rise in China into 2016 where it should emerge as the largest economy displacing the US as it did to Britain. The A\$ is clearly the strongest on the block. A monthly close above 92.70 on the 1mm signals a test of the PAR level. Only a monthly close below 82 would cause the long-term bullish trend. This suggests that Australian stocks benefit also as a currency hedge for everyone else. Weekly buy signals remain at 92.50 with initial resistance at 95. This is the area to watch just as 85.80 is the first weekly closing support.

The Dollar Index (ICE) has weekly closing support at 79 and 77. Monthly closing resistance stands at 82 followed by 88.70. Keep in mind, when sovereign debt goes, the first reaction will be to buy dollars. Long-term does not matter in a crisis. A bullish trend will not be sustainable, but the dollar bears can get killed. Caution is the key word.

Mexico does not look good. The stupidity of making drugs illegal, drives up the price and fuels criminal activity that now threatens most of South America the same as booze made the Mafia that funding widespread corruption from unions to buying judges in NYC. Making anything illegal to stop social behavior is a part of communism and does not prevent anything. The money squandered in the drug enforcement & corruption of police makes no sense any more than prohibition. The laws label someone with even 1 ounce of pot a felon and fills prisons and courts ignoring violent crime that truly threatens society. The drug trade now undermines Central American govts and the DEA and police in major cities are corrupt because of the vast amounts of cash in the trade.

Gold has two targets - 2012 and 2016. Pay close attention to gold. We are likely to see a change in trend begin in April that appears headed into September. Support lies at 1073 and 1040. A monthly close below 1075 will suggest retest of support but major support lies 930 and only a monthly close that area warns of a sustainable decline. A breakout to the upside will follow a monthly close above 1195. Turning points are May and September with Dec/Jan thereafter.

Crude oil held the yearly sell signal, and still appears headed into a major high in 2015. Staying above 79 keeps crude long-term bullish and next year \$100 will be the big number. It will take a monthly closing above \$130 for a breakout, but a monthly close above \$100 will signal inflation. Support lies at \$68 so holding that on a monthly closing basis keeps crude positive. June and December should be the key turning points.

The Dow Jones Industrial still has initial resistance at 11,000 followed by 11,800. The March close above 10,800 was positive. April has a potential for a high with retest of support. But exceeding an April high warns of a rally into Aug/Sep with a last quarter collapse. Initial support lies at 10235 and a month-end close beneath this level warns of test of key support at 9400 and that is the key monthly closing support.

This is a quick overview of key markets. Looks like volatility returns Sept/Oct. Greece is still in trouble and the advice of the IMF is the same advice to balance budgets that everyone attributed to the creation of the Great Depression. We are facing a wholesale sovereign debt default. The EMO will crack and pressure on the dollar will be huge. The only way government suppresses a revolution is to mask the default by creating a new currency.

Stay away from public debt. China will be unable to keep the yuan from rising. Buy China & Australia may be one bet. But stay clear of public debt at state and muni levels and Fed debt keep in T-Bills - real short.

America's #1 Political Prisoner
Martin A. Armstrong
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