

# Introduction

This month there are three main events that will determine what happens in the near future. On the basis of our extensive August 2015 analysis we wrote at that time: “The world should prepare for Donald Trump as the next president of the USA”. Among European analysts we were the only ones who saw this coming. It is stunning and worrisome that European political analysts and American experts from renowned European institutions were convinced Trump had no chance to become a GOP nominee. Academia and the elites do not seem to have a hold on US political reality, which is precisely why Gefira is an indispensable tool for future planners and strategists. In the March Gefira we analyze the US election process; Trump’s rise shows a sharp division in the electorate and, what is even more important, it displays a split between those who have an influence on the voters.

In February, the ECB Council voted to scrap the 500 euro note. This seemingly minor announcement is a clear signal that the European Monetary authorities are desperate. If the 500 euro note were to be eliminated it would do away with 33% of the physical monetary base as it would be impossible to convert them into lower denomination notes. Our team has found conclusive proof that the only reason to ban these notes is because the ECB wants to experiment with interest rates far below zero.

The third significant event we will analyze in detail in the next Gefira is the situation in Turkey and the push by the NATO lobby to incorporate it into the EU, cost it what it may. There is a powerful trend to accelerate Turkish EU membership, but Turkey’s accession would destabilize the European Union to its core.

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## 2 Even if Trump loses the genie is out of the bottle

### Fear of Trump

Donald Trump, one of the Republican candidates for the next presidency, was at first a curiosity to whom hardly anyone paid any serious attention. Over time, however, he began to ring alarm bells, not only with the Democrats, which would be understandable, but also some Republicans. Seeing his unstoppable rise to power, helpless opponents in a bid to discourage voters from a Donald Trump presidency, resorted to name calling. The mass media have been vilifying him as someone who talks like a daft teenager, who is an embarrassment to half the country; a short-fingered vulgarian; worse than Lord Voldemort; a fulminating demagogue who uses fascist-like rhetoric, advancing incendiary politics<sup>1</sup>; a mad dictator, a national socialist, the dirty mirror of the American mind, the most dangerous man in the world; a nightmare turned reality; a fear monger, an intellectual descendant of Charles Lindbergh, Joe McCarthy, George Wallace and Pat Buchanan<sup>2</sup>; he is a terrifying phenomenon who has opened the door to madness; he is no less than... Frankenstein's monster to top it all<sup>3</sup>, and a populist who runs on the wave of populism. The name calling is by no means restricted to Donald Trump; his supporters come in for heavy criticism as well. They are deranged Trumpkins; mental midgets; xenophobic troglodytes; revolting peasants; ill-informed people<sup>4</sup>.

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- 1 Donald Trump is only succeeding because our relativist elites have lost the plot, [The Telegraph](#) 2016-03-03; Elites and Media Really Hate Donald Trump's Voters, [New York Post](#) 2015-12-26; Europe hates Trump. Does it matter? [BBC](#) 2016-03-04; Donald Trump's angry America, [The Spectator](#) 2016-03-05
  - 2 Donald Trump's campaign simply tells angry people what they want to hear, [The Guardian](#) 2016-02-11; Europe hates Trump. Does it matter? [BBC](#) 2016-03-04; Playing with fear, [The Economist](#) 2015-12-12; One of the GOP's biggest hawks explains why he'd vote for Clinton over Trump, [Vox](#) 2016 -03-01
  - 3 Opinion: Trump - The specter haunting Germany, [Deutsche Welle](#) 2016-03-02; Trump is the GOP's Frankenstein monster, [The Washington Post](#) 2016-02-25
  - 4 Elites and Media Really Hate Donald Trump's Voters, [New York Post](#) 2015-12-26; Donald Trump's campaign simply tells angry people what they want to hear, [The Guardian](#) 2016-02-11

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One might say the European media are indulging in an Orwellian two minutes of hate. Trump is being compared to Viktor Orban in Hungary (the Fidesz, or the Hungarian Civic Alliance)<sup>5</sup>, Geert Wilders (the Freedom Party) in the Netherlands, Nigel Farage (the UK Independence Party) in the United Kingdom, Marine Le Pen (the National Front) in France or Silvio Berlusconi, the erstwhile Prime Minister of Italy. In 2015, top analysts and experts from renowned European institutions gave Trump no chance at all of becoming a nominee for the Republicans let alone winning the presidency. A clear sign the European elite lacks knowledge of the current US domestic political forces. One University professor explained to the media that Donald Trump's political base attracts "extremely stupid middle-aged men".



Image Gage Skidmore

What's so strange about Donald Trump that even members of the Republican Party denounce him and make public statements that they'd sooner vote for Hillary Clinton<sup>6</sup>

5 The message is that we may have a glimpse into a Trump presidency in America by watching the course of events in Hungary: 'Europe may also offer a peek at what a Trump presidency could look like if he makes it to the White House and delivers on his campaign promises. In Hungary, Prime Minister Viktor Orbán's government has become increasingly authoritarian. Recently, he's positioned himself as a defender of Christianity against an influx of Muslim immigrants, responding to the biggest refugee crisis since World War II by building a fence along the border with Serbia and passing a law that makes illegal immigration punishable by three years in jail.' Europe Is Horrified at Trump, but He'd Fit Right In, [Bloomberg](#) 2016-03-03

6 To Republicans afraid to take a stand against Donald Trump: Grow up, [The Washington Post](#) 2016-03-03

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than him<sup>7</sup>? That they wish that the Republican Party would split, or disintegrate, should Donald Trump be eventually nominated<sup>8</sup>? Why is he feared so much? What lies behind his popularity and attracts crowds of voters to him? Is he a maverick, a loner, a passing meteorite (America has witnessed billionaires running for president before), or does he enjoy someone's backing?

## Elites

The two leading parties, the Republicans and the Democrats, present but the surface of American politics. There are also such influential groupings like the Tea Party or the Neoconservatives. There is the industrial and military complex. There are the rich, and the poor. And there is a shrinking middle class in between. As far as foreign policy is concerned the American elites fall into two general camps: those (often referred to as hawks) who would like to figuratively conquer the world, to literally maintain American world dominance, and those who care for domestic matters only; those who would like to export American values, and those who would stop policing the world. To make the picture even more complex, neoconservatives recruit their members from the whole political spectrum. They, like Robert Kagan, are proponents of manageable chaos, advocates of the interventions in Libya, Iraq, Syria, and Ukraine (where Victoria Nuland, Kagan's wife was active, distributing cookies on Kiev's Maidan).

## The Donald Trump phenomenon

Whence this Donald Trump phenomenon? He may be a billionaire who is advancing his image by taking part in a presidential campaign; or he may be a candidate of a part of the establishment, a part that has been disillusioned with American foreign (and possibly domestic) policy; or he may be a contender whose only task was to sound out public opinion, to test the acceptability of various political solutions; or he may have been put up to reduce the number of votes that would otherwise go to Marco Rubio or Ted Cruz; or, to follow a more bizarre theory, he may have been put up to make it easier for Hillary Clinton to win, with the Republican voters so miserably divided. In any of these cases, Donald Trump may have broken loose on the wave of the popularity that he ignited, much to the surprise of his backers, perhaps even much to his own surprise.

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7 Open Letter On Donald Trump From GOP National Security Leaders, [War on the Rocks](#), 2016-03-02

8 The party cannot be saved, but the country still can be, GOP Jews Cannot Unite Against Donald Trump — Despite 'Neutral' on Israel Declaration, [Forward](#) 2016 -03-02

Whether he is taking part in the elections to suit his own ends or someone else's agenda, the indisputable facts are: without anybody's support he would not have succeeded so far, and: he has struck a chord with his audiences. The mass media's effort to downplay his clout with the people, dubbing him a populist, is anything but convincing. After all are not President Obama's "change we can believe in" populist catchwords in their own right?

## Donald Trump's political platform as compared to that of his opponents

There is a distinct split between what Donald Trump and his political opponents, such as William Kristol and Robert Kagan, stand for. What Trump is for, they are against; what they are for, Trump is against. So off we go. Donald Trump is against, which automatically as it were, means Democrats and part of the Republicans are for: (i) political correctness, (ii) the current wars in the Middle East, (iii) shipping production and thus jobs overseas (globalism), (iv) liberal stance on immigrants, (v) escalating tensions with Russia, (vi) exporting the American way of life (democracy) through changing regimes around the world, (vi) and providing humanitarian aid for other countries. That's pretty much along the lines of such politicians as Ron Paul and Patrick Buchanan. But that said Ron Paul is not convinced by Trump's statements<sup>9</sup>.

Or, to put it otherwise, Donald Trump is in favour of, and his political opponents are against: (i) an economic war with China and Japan, (ii) active policies to bring back jobs to the US (iii) cooperation with Putin's Russia, (iv) the construction of a "high wall" at the border between the USA and Mexico, (v) the withdrawal of American troops from where they have been unnecessarily deployed, (vi) the adoption of a neutral stance in the Israeli-Palestinian conflict, (vii) a resolution of the Ukrainian problem for Europeans (Germany?)<sup>10</sup>.

That's Donald Trump's recipe to make America great again. That's exactly part of the American elite's nightmare. Is he feared also because he financed his campaign less traditionally to make himself less dependent on the usual suspects?

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<sup>9</sup> Ron Paul Reveals Why Donald Trump is Bad for America, [YouTube](#)

<sup>10</sup> All neatly summed up in: Panicked Neocon Armchair Warhawks Penning Harshly-Worded Letter on Trump Foreign Policy, [ronpaulinstitute.org](http://ronpaulinstitute.org) 2016-03-02



## 6

Trump's New York friends are the Wall Street financial engineers. A modern political campaign is not financed with donations but with a loan. A loan is not legally limited in amount as are donations. Trump himself used to loan money to campaigners, now someone is loaning money to Trump. His backers must be among the banks with which Donald Trump does business i.e. Wall Street. According to Trump's financial statements he is owned by every Wall Street bank, he has hundreds of millions of dollars in loans from Citibank and Goldman Sachs, with some of them being repaid, others discharged by bankruptcy proceedings. While his campaign is probably financially engineered with zero interest rate loans from Wall Street banks, he is also looking for other donors. In February 2016 Trump scheduled a meeting with the godfather of the Israeli lobby and prime GOP donor, billionaire and casino magnate, Sheldon Adelson. Sheldon Adelson demands unconditional support for Israel in return for campaign funds<sup>11</sup>

Wealth and being rich is not the same as having a lot of money in a bank account. Trump's daughter said in the documentary "Born Rich" that her father had once pointed to a homeless man and said he had "\$8 billion more than me", thus letting her know that all he had was debt. The \$3.3 billion value of the 'Trump' name makes him eligible to take out a \$3.3 billion loan using his "name" as collateral. For that reason it is very important for him to have a high net value. If his name were valued at \$15 million he probably wouldn't be able to fund his campaign with a \$15 million loan<sup>12</sup>.

Is he loathed because he has levelled heavy criticism at the architects of the failed American foreign policy in the Middle East, in Iraq, in Syria<sup>13</sup>?

## How come he became unstoppable?

There were several stages in Donald Trump's flight to popularity. At first he was a curiosity and, since he talked in a way the other candidates didn't, he attracted public interest. He did not need to seek publicity, rather it was the broadcasting stations who wanted to have him on air, to attract viewers and thus increase advertising revenue. His originality coupled with television time assigned to him helped boost his fame. Here we are seeing two opposing trends: a ferocious attack against him in the media while at the same time he is getting all the attention he needs to become a serious candidate. It is possible that

11 Governors Christie, Walker and Kasich woo billionaire Sheldon Adelson at Vegas event, [The Washington Post](#) 2014-03-29; Donald Trump to meet with Sheldon Adelson in Vegas, [Politico](#) 2015-12-15

12 Is Donald Trump really self-funding his presidential campaign? [Sunlight Foundation](#) 2016-02-24

13 Cornered Neocons: Trump's heresy on foreign policy has put Republican hawks in nightmare scenario — backing Hillary Clinton, [Salon](#) 2016-03-04

the initial backers only backed him because of his entertainment value to find out now that they are supporting someone they wouldn't like as president. But it's too late.

**7** The opposing trends could also reveal a palace revolution or a revolt from the men from behind the scenes. Influential people like Herman Cane, Rudy Giuliani and Carl Icahn have been behind Trump from the beginning as his financiers have been.

It seems the media pundits are getting mixed signals from their editors who, in turn, are receiving opposing signals from the owners, which is responsible for all the confusion. The Megyn Kelly feud showcases the point. Megyn Kelly was twice publicly humiliated by Trump. Fox News Channel editors demanded an apology from him but never got it, he even skipped a GOP debate hosted by her<sup>14</sup>. While the GOP candidate was having a serious conflict with the Fox team, somebody pulled strings and Trump was invited as the only GOP candidate to the Fox New Year's Eve show. By March 2016 it seems all had been settled behind the scenes and somebody had told the Fox chief editor to keep quiet and demanded that Megyn Kelly support Trump.

While the pundits on other networks were attacking Trump, they also made Trump's appearance on the Fox New Year's Eve show a bigger event than that of Bernie Sanders beating Hillary Clinton in Michigan. MSNBC is the most confusing as they discuss Trump day and night, literally doing the campaign field work for him while attacking him fiercely at the same time. MSNBC television hosts, Jou Scarborough and Mika Brzezinski have no really interesting or demanding questions about his relations with Wall Street bankers but attack him on two points over and over again: Trump anti-Muslim rhetoric and his endorsement from Putin.

Without any doubt some part of the establishment backed Trump for whatever purpose; then realized he was gaining too much momentum and needed to be stopped, but again it was too late, and so another part must have decided they would openly rally behind him.

Donald Trump became too popular to simply be ignored, to be cut loose. So his opponents adopted a strategy of vilifying him, calling him all the names we have opened this text with and more, whereas others chose to keep all options open.

This, however, did not do the job of suppressing him, of intimidating his followers. People tend to side with a person that has the image of a lone, vilified fighter. So the strate-

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14 The long, strange history of the Donald Trump-Megyn Kelly feud, [The Washington Post](#) 2016-01-27

gy of Donald Trump's opponents changed to that of treating him as a serious candidate who, so the message goes, would be a bad choice for America.

## 8

### Donald Trump's supporters

Contrary to what the mainstream media are attempting to impress on the public, it is neither the Ku Klux Klan supporters nor racists who favour a Donald Trump presidency in the first place. It is white, working-class people and the farmers of the Middle States that show up at his rallies, who for the last eight years have heard the mainstream media talk about a US economic recovery without themselves seeing any progress. These are the traditional-minded men and women who can see their world changing out of all recognition and their values derided by the high-minded establishment; these are, perhaps surprisingly, blacks disillusioned with the Obama presidency and even some Hispanics. He is backed by the disappearing middle class, angry with shipping jobs overseas; by people who have had enough of political correctness, people who have lost their trust in the mainstream mass media, people whose feelings and intelligence have been relentlessly insulted in it, by them.

Donald Trump has been voicing anti-immigration and anti Muslim sentiment. Many ill-informed European political analysts believe that Trump's anti-immigration and anti-Muslim rhetoric offends black voters. They forget that US citizens of African descent are neither (illegal) immigrants, nor are they Muslims. At the Trump rallies there are black guests; both black GOP candidates Herman Cain (2012) and Ben Carson endorse and he is able to attract more black voters as he takes exception to Hillary Clinton whose mass incarceration legacy will turn a lot of black voters against her if played well by Trump. During Clinton's eight years in the White House the incarceration figures saw some of their steepest rises in modern times due to the 1994 Crime Bill: "three strikes and you're out", which means that on your third conviction, whatever the reason, you are sent life in prison. More than 2.3 million people, most of them blacks, in the US are still held in jail; 25% of the world's prison inmates are in American jails although the US makes up a mere 5% of the world's population<sup>15</sup>. A legacy Trump will turn to his ends to persuade the blacks not to vote for the Democrats. Also Hillary Clinton's admiration for her former mentor, senator and Klu Klux Klan leader Robert Byrn, will be used against her to persuade black voters not to vote for her. Hillary Clinton's beloved mentor was worried that during World War II, he might have to

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<sup>15</sup> U.S. prison population dwarfs that of other nations, [The New York Times](#) 2008-04-23



fight alongside “race mongrels, a throwback to the blackest specimen from the wilds,” as he wrote to Senator Theodore Bilbo<sup>16</sup>.

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According to FactCheck, Trump now is doing neither better nor worse than other Republicans<sup>17</sup>, a sign that black voters do not feel offended by him.

It is noteworthy that ‘President George W. Bush received less than 9% of the black vote, and Senator John McCain (R-AZ) less than 4% when running against Barack Obama.’<sup>18</sup> Trump’s isolationist and protectionist rhetoric does not seem to deter some of the Hispanic voters. ““I don’t care if he likes me or not as a Hispanic or Latino, as long as he creates the jobs he promised,” said Carlo Maffatt, a Mexican immigrant who lives in Las Vegas. [...] “The job of the president of the United States is to create jobs, not to be the friend of every American.””<sup>19</sup>

The resentment harboured against the establishment appears to have rallied people of various walks of life around a champion who has thrown down the gauntlet to Washington. Even a small but substantial minority of Bernie Sanders voters prefer Trump over Hillary.

## A Donald Trump presidency and the world

On the basis of our analysis we said in August the world should be prepared for Trump being the next president of the US.

Japan, China and Saudi Arabia will not have any ideological problem with Trump’s anti-immigration and anti-Muslim rhetoric. Japan is a country that has a tradition of keeping foreigners out. Even as their workforce is aging and shrinking, Japan has never tried mass immigration as a solution; children and grandchildren of immigrants are denied Japanese citizenship thus preventing them becoming a part of Japanese society. The Japanese elite are not shocked by Trump’s remarks on immigration and the government takes notice of anti-Japanese rhetoric but as long as the US foreign affairs team’s composition is unknown, that’s all it does.

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16 Flashback: Hillary Clinton Praised Former KKK Member Sen., [The Daily Caller](#) 2016-02-29

17 Trump and the Black Vote, [FactCheck.org](#), 2016-02-24

18 Trump Gets UNEXPECTED Announcement About Blacks... Hillary Clinton Is Scared!, [The Political Insider](#). This data is being disputed in Trump and the Black Vote, [FactCheck.org](#) 2016-02-24, where it is estimated that Donald Trump might count on between 4 and 8% of the black vote.

19 Donald Trump could win over Hispanics who fear job competition from illegals, [The Washington Times](#) 2015-11-03

Saudi Arabia is a country that forbids its poor Asian and African migrants from practising the Christian faith by law and does not allow immigrants to become Saudi citizens. Saudi Prince Alwaleed's remark: "You [Trump] are a disgrace not only to the GOP [the Republican Party] but to all America. Withdraw from the US presidential race as you will never win," tells us more about the double standards of the Saudi leadership. Even with Trump as president the US will be a thousand times more tolerant and open to other minorities and religions than Saudi Arabia.

We will not touch on the complicated Chinese-American relationship here. Whatever may divide American and West European elites, there is one thing that unites them across the Atlantic: antipathy, not to say hostility, to Donald Trump as the next American president. 'German Economy Minister Sigmar Gabriel has branded leading US Republican presidential candidate Donald Trump a threat to peace and prosperity;' Chancellor Angela Merkel used more diplomatic language, stating merely that 'it had always been a pleasure to work with Democrat Hillary Clinton'<sup>20</sup>. The UK Parliament debated banning Donald Trump from entering the United Kingdom<sup>21</sup> in retaliation for the latter's election promise of banning Muslims from entering the USA. Needless to say, Prime Minister David Cameron's views are anything but overlapping Donald Trump's<sup>22</sup>.

The European elites are obsessed with Barack Obama as they awarded him the Nobel Peace Prize just for being Obama. Trump's candidacy will have a devastating effect on trans-Atlantic relations. The European elites are under the influence of the United States, and Germany is by many seen as a vassal state of the US. The European elites will be shocked to their core if Donald Trump becomes the next US president and will be mentally split between loyalty to the US and loyalty to someone that they perceive as a political equal to their most despised European political enemies, such as the Dutch PVV, the German AFD and the French Front National. Trump as the next president will have a tremendous effect on European policy. The European elite will become openly hostile to Washington, a situation that will not go unnoticed by Moscow.

Unfortunately, European leaders fail to notice Trump's anti-Iran rhetoric. The situation on Europe's south-eastern border is extremely fragile. We will not elaborate on it here, but in Turkey there is already a civil war, and it is only a matter of time before Turkish refugees start appearing on European outer borders. A new violent US-Iranian conflict

20 German minister calls Trump a threat, Merkel lauds Clinton, [Reuters](#) 2016-03-06

21 MPs to debate call to ban Donald Trump from UK, [BBC](#) 2016-01-18; the debate was held in response to the online petition demanding the same, signed by 570000 people. The proposal was ultimately rejected: Donald Trump: Parliament rounds on Republican but doesn't ban him from UK, [Independent](#) 2016-01-19

22 Donald Trump is making it harder to defeat extremists, says David Cameron, [The Guardian](#) 2016-01-22

on behalf of the Israeli lobby will have a devastating effect on stability in the Middle East, which would have some impact on Europe.

## II

## Reaction to Donald Trump by the Israeli lobby

What begs the question is that, though Donald Trump has duly pledged to defend the State of Israel, as all the other Republican candidates have done<sup>23</sup>, though he has a Jewish son-in-law and two Jewish grandchildren, not only is he not supported by the Israeli lobby but fiercely opposed. It is Hillary Clinton who has received handsome donations from Haim Saban and George Soros<sup>24</sup>, whilst Americans of Jewish descent or holding double American-Israeli citizenship across the political spectrum only level harsh criticism at him. Is it because Donald Trump, with all due respect to the interests of Israel, dared to suggest a more neutral stance, an *audiatur-at-altera-pars* attitude to the negotiations aiming at solving the Middle East conflict<sup>25</sup>? Haim Saban, Hillary Clinton's supporter, said Donald Trump was a 'clown who would be dangerous to Israel.'<sup>26</sup> What exasperated the billionaire so much? He gives the answer himself: Donald Trump's suggestion he will be neutral in the Israeli-Palestinian conflict. As for the former secretary of state Hillary Clinton, Saban said she would be a much better candidate for Israel.<sup>27</sup> That said Trump is in line with Netanyahu, a fierce opponent of the Iran-deal, who still regards Iran as Israel's main enemy. All of which goes to show that the political split cuts not only through the American elites but also the American Jewish community.

## Even if he loses he will have won

America is revolting against the establishment, against domestic and especially foreign policy. The revolt may have been initiated by some part of that same establishment and it has certainly been fuelled by the Republican Party's grass roots, the broad masses of middle class (mostly white) Americans. Donald Trump, by design or by accident, has become the face of the resentment, of the grievances, of the disappointment that have accumulated over the years. He has become the champion for a new America, an

23 Full Transcript of the Twelfth Republican Debate in Miami, [Time](#) 2016-03-10

24 George Soros, Haim Saban give \$12 million to Clinton campaign, [Press TV](#) 2016-02-01

25 'If I go in, I'll say I'm pro-Israel and I've told that to everybody and anybody that would listen. But I would like to at least have the other side think I'm somewhat neutral as to them, so that we can maybe get a deal done.' Full Transcript of the Twelfth Republican Debate in Miami, [Time](#) 2016-03-10

26 Saban: Trump's a 'clown,' and would be 'dangerous' for Israel, [The Times of Israel](#) 2016 -03-05

27 Ibid.

America that seems to look like an America once proposed by Patrick Buchanan and Ron Paul, two former presidential candidates. That said Pat Buchanan is enthusiastic about Trump while Ron Paul himself sees him as a candidate from the establishment even worse than those currently in power. Trump's rhetoric on immigrants, torture and "let's make the army even bigger" is not to Ron Paul's liking.

It appears the time is (about) ripe for drastic changes in American policies, for the withdrawal of the many American troops, for a new relationship with Russia, for another policy on immigration, overseas job shipping and America's engagement in the Middle East.

The powers that be have levelled all their cannons against Donald Trump, so his chances of being elected do not seem too good. At the same time we see the pattern we already described: more prominent politicians such as Chris Christies, Ben Carson, Governor Rick Scott from Florida and Mike Huckabee endorse Trump or will do it in the coming weeks. Fox News is already behind Trump's campaign. Robert Murdoch, owner of Twentieth Century Fox Film Corporation, the parent of Fox News, tweeted: "GOP Would Be Mad Not to Unify' Around Trump If He Is Nominee".<sup>28</sup> Fred Malek, a top Republican fundraiser, says he believes the majority of the party's donor class will ultimately "fall in line" behind Donald Trump as the party's presidential nominee despite last-ditch attempts by some wealthy conservatives to derail the billionaire front-runner. We suspect that the people who pull the strings from behind the scenes as well as many influential donors are still biding their time to take sides. Sheldon Adelson, who promised to reveal his endorsement during the Arizona caucus, kept his vote secret. Many will wait before they decide to back Trump<sup>29</sup>. With or without Trump winning the presidency, some of the current elite are already finished.

To use McCain's own words directed at Putin, "The people will determine their own future." If we were McCain, we would be "nervous" about the revolution that is underway. For there is definitely a revolution going on: the Trump phenomenon can end in extreme violence. US citizens are armed to the teeth while history teaches that anti-migrant and pro-migrant movements do not shy away from using extreme violence. It seems the political chaos the US helped to provoke in many foreign countries has come home to roost. Even with Trump losing the election, getting the genie back into the bottle will be very hard.

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28 Murdoch: GOP 'would be mad' not to unify around Trump if he's nominee, [The Hill](#) 2016-03-02

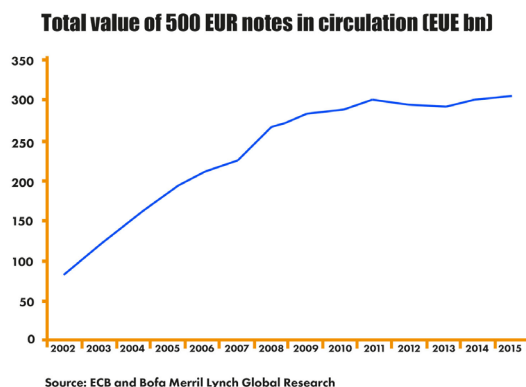
29 Sheldon Adelson caucused in Nevada — but who got his vote is a mystery, [The Week](#) 2016-02-24

# The planned ban on cash will have serious consequences

At the beginning of the year, a week after the world economic forum held in Davos, the media began a discussion about a possible withdrawal of high denomination banknotes, such as the 500 euro note. The idea was supported by no lesser figure than Mario Draghi, president of the European Central Bank (ECB). Mr. Draghi said a ban was warranted in the necessity to fight crime and international terrorism<sup>30</sup>. The media was willing to repeat this message without questioning it. The request to remove 500 euro notes from circulation dates back to the introduction of the euro.

## 500 Euro note is an important store of value

The ECB on its own website rightly states: “Using the high denominations (€200, €500), people can hold large sums in cash. They serve mainly as a store of value, but are also used to purchase expensive items.”<sup>31</sup> According the ECB, 40% of the euro notes in circulation are used as a store of value inside, with 25% circulating outside, the European Monetary Union (EMU)<sup>32</sup>.



<sup>30</sup> Death of the 500 euro bill getting closer, [CNN Money](#) 2016-02-15

<sup>31</sup> Circulation of euro banknotes, [European Central Bank](#)

<sup>32</sup> Euro banknotes – a means of payment recognized worldwide, [European Central Bank](#)



The 500 euro note is first and foremost a store of value for (small) savers in, and outside, the EMU. 30% of all euro-notes in circulation are 500 euro notes, having a combined value of 300 billion euros<sup>33</sup>. It is a safe haven in periods of financial distress. During the peak of the financial crisis in October 2008, demand for 500 euro notes spiked, from less than an average of one billion per month, to more than 10 billion. During the 2011-2012 euro crisis, people lost confidence in the euro banking system but not in euro notes. In 2012 Greeks withdrew three billion euros from their banks in 10 days<sup>34</sup>, in May 2015 Greek savers withdrew 300 million euros from their accounts in one day<sup>35</sup>, and in June 2015 deposit withdrawals hit three billion euro over four days<sup>36</sup>. Euro notes offered savers a good alternative to unreliable banks in such EMU countries as Greece, Spain and also in some countries outside the EMU like Ukraine, because having euro notes protects savers from inflation as well as unreliable banks. The dysfunctional EMU banking system makes people dependent on cash as a store of value so many savers keep their savings outside European banks due to the combined factors of high risk and low interest rates. Some European countries have capital taxes that are far higher than interest rates, forcing people to squirrel away their money, which is more rational than paying it into a bank account.

Taking the 500 euro note out of circulation will be the next blow dealt to the trustworthiness of the euro. If it is banned savers collectively will have to reallocate 300 billion euros into lower denomination notes. These savers will have second thoughts about the euro as a reliable store of value and the ECB as a trustworthy institution. The EMU monetary authorities (ECB and the ministers of finance) are counting on small savers to refrain from openly revolting. By staging a protest you are exposing yourself as a saver with potentially a lot of cash kept at home and that can be very risky: you become an attractive target for burglars. While the ECB is propping up the banks with a stimulus that comes in the form of an unlimited amount of printed money, it has, unfortunately, failed small savers. By taking 500 euro notes out of circulation, the ECB breaches the trust of many small savers who would now, for all practical purposes, be branded as criminals. This ban will certainly entail political consequences: a political backlash is inevitable. Draghi and the ECB have to realize that the euro is not merely a local currency, it is a reserve currency. The withdrawal of the 500 euro note from circulation can damage euro credibility beyond repair.

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33 The banknotes in your wallet, [European Central Bank](#)

34 Greek bank run: Deposit withdrawals hit €3 billion in four days – media, [The Guardian](#) 2012-05-16

35 Greek savers withdraw €300 million from accounts in one day as default fears increased.

36 Greek bank run: Deposit withdrawals hit €3 billion in four days – media, [RT](#) 2015-06-19

## Better save than sorry

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Savers should prepare themselves for the consequences of this draconian measure. We do not believe the ECB will be able to replace 30% of the monetary base overnight. According to Greek bank officials, depositing 500 euro notes at a bank is the only way for people to dispose of them without loss, since they wouldn't be allowed to simply exchange such high denomination notes for smaller ones. If the ECB decides to withdraw these notes it will give plenty of time, probably more than a year, for owners to return them to banks according to the Greek bank authorities<sup>37</sup>. The very moment the ECB announces its ban on 500 euro notes, we expect banks to impose capital controls, prohibiting savers from withdrawing their deposited 500 euros in smaller denominations, for example not allowing people to deposit a 500 euro note and to withdraw the same amount in 50 euro notes the next day at the local ATM, making an exchange of 500 euro notes directly into smaller denominations impossible. Each 500 euro note deposited as part of the 500 euro notes ban program would be blocked in a bank account for a predetermined time. Banks would charge a small fee for accepting 500 euro notes, and the authorities could fine depositors if they couldn't give proof of origin of their high-denomination banknotes. In particular those with undeclared cash are running the risk of having their money partially confiscated. In many countries people have to declare their assets and in some European countries banks give tax authorities details of their clients' accounts annually. Hoarded cash and gold are not exempt from declaration although many small savers are unwilling to disclose their savings. Savers who use 500 euro notes should be aware of the outcomes mentioned above and should take action before ECB officials announce a ban. Better safe than sorry.

### Banks will impose capital control on deposited 500 euro notes.

They can do so by creating a special "cash deposit" account attached to a standard deposit account. Creating special purpose accounts such as savings and trading accounts is a common bank practice and is relatively easy to implement. Banks will impose withdrawal restrictions on this "cash-deposit" account comparable to what we have seen in Greece. Clients will be allowed to withdraw money from these accounts only for a particular purpose such as covering medical expenses or only in small amounts. Banks can also impose a delay between the moment funds are deposited at the bank's counter and the moment it is credited to the client's deposit account. If this delay exceeds one month, then for all practical purposes banks control their clients' funds.

The mainstream media did not mention the relation between the plan to abolish high denomination banknotes and the policy of negative interest rates. Our analysts have

<sup>37</sup> Greece's 500-euro note bank run, [ekathimerini.com](http://ekathimerini.com) 2016-02-11

found ample proof that negative interest rates are the only reason behind the ban on 500 euro notes. We don't believe the 500 euro note plays any role in funding ISIS as we will argue later. Since the introduction of the euro, politicians have been calling for dispensing with higher denomination notes, although the ECB and the banking community has always resisted this idea, because these notes are important for the standing and trustworthiness of the European Monetary System, since it leaves people with the option of holding their savings in euros as cash.

The initial proposal to withdraw cash from circulation within the banking community was voiced at a 2015 London conference held by VOX CEPR, whose central topic was not criminality but: **“Removing the Zero Lower Bound on Interest Rates”**. This was at the dawn of the negative interest rate era, initiated by the ECB, Sveriges Riksbank, Danmarks Nationalbank and the Swiss National Bank. The participants at the conference called a spade a spade, and so they openly voiced the opinion of the necessity of getting rid of cash which might impair the efficiency of the negative interest rate policy. Martin Andersson, the Swedish finance minister explained to his audience at the conference: *‘We have difficulty to transmit that [Negative Interest Rate Policy] into the real economy. One reason is because of cash. Because cash is interest rate free and it's better to me to hoard cash than have my money in a bank deposit if I had to pay for having the money there. There are some things that we don't really know how to handle and how to transmit this out to the general public. And I think this is what this discussion is about. It's about how to find a way to get rid of this restriction.’*<sup>38</sup>

Charles Goodhart's, Emeritus Professor and Former MPC Member, statement at the conference removes all doubt: *‘I think the main idea that is going to come out of today's discussions is going to get rid of all high denomination currencies and try and work only with relatively low-value currencies 10-20 pounds, maybe up to \$50 but not more. In order to make the costs of using and storing currency as a way of avoiding negative interest rates and deposits much less attractive. It wouldn't be too difficult simply to withdraw the high denomination notes.’*

One of the speakers at this 2015 May conference was Benoît Coeuré, Executive Board member of the ECB, the same Benoît Coeuré that on 11 February 2016 announced that the ECB is considering a ban on 500 euro notes. He told the Le Parisien: *We're actively considering the question [to abandon 500 Euro notes] and will take a decision shortly. Authorities increasingly suspect that the notes are being used for illicit purposes, an argument we cannot ignore given the importance of fighting money laundering and the*

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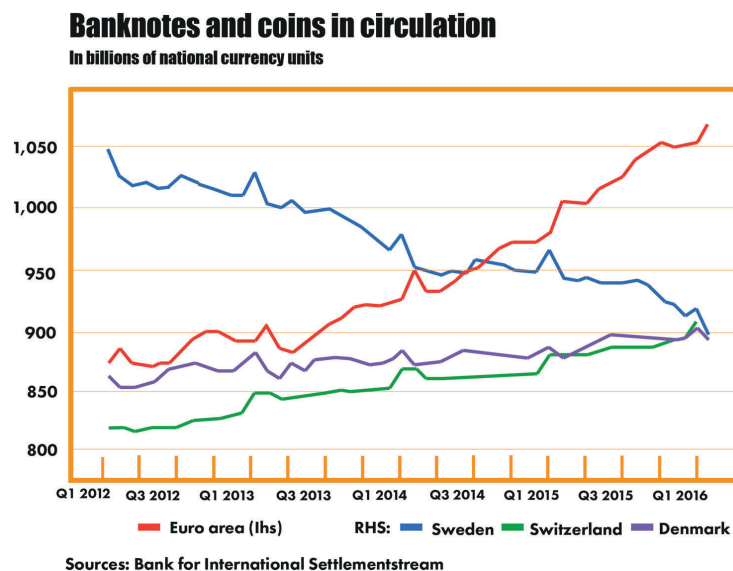
<sup>38</sup> Removing the Zero Lower Bound on Interest Rates, VOX

*financing of terrorism*<sup>39</sup>. Just as there was no word on terrorism at the May 2015 conference, there was no word on “**Removing the Zero Lower Bound on Interest Rates**” at the February 2016 press briefing.

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## Following in the footsteps of cashless Sweden

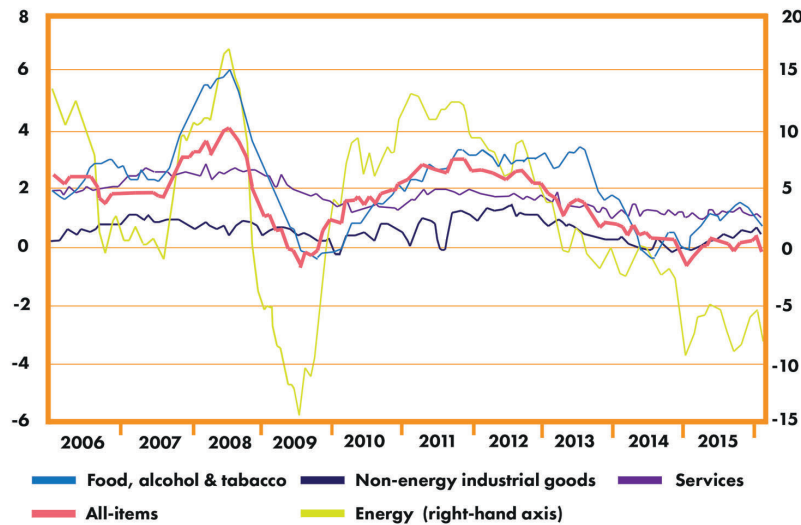
The genuine objective in banning the 500 euro note is to punish savers by means of negative interest rates for hoarding money. Without a gradual elimination of cash the negative interest rate policy will fail to push up inflation, and this failure can be borne out with hard data. The graph below shows the value of the cash in circulation in the Eurozone and in the remaining three European countries that pursue negative interest rate policies. As can be seen, it is only in Sweden that the value of all coins and banknotes has decreased in the last four years.



At the same time **only in Sweden has core inflation** measured by the HICP index (Harmonized Index of Consumer Prices) **risen distinctly over the previous months**. More distinctly than in the Eurozone, where recent inflation data has turned out to be lower than expected. It is no secret that NIRP (Negative Interest Rate Policy) was introduced by the ECB to stimulate inflation, which is low, due for the most part to the fall of commodity prices, especially crude oil.

39 Argumente für 500-Euro-Schein „immer weniger überzeugend“ <http://www.handelsblatt.com/finanzen/steuern-recht/recht/ezb-direktor-coeure-argumente-fuer-500-euro-schein-immer-weniger-ueberzeugend/12951370.html>

### Euro area annual inflation and its main components



Source: Eurostat

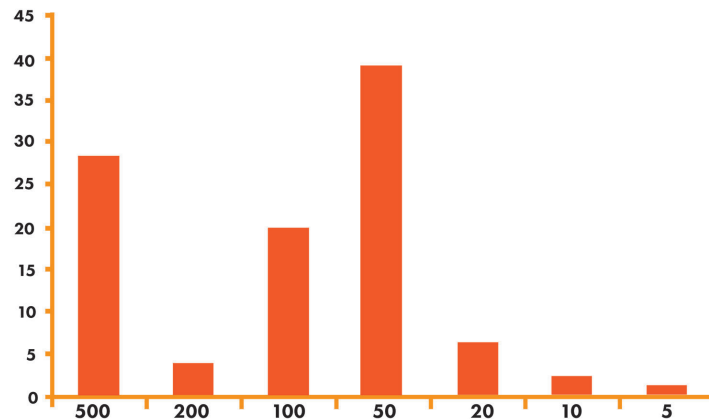
From the ECB's viewpoint there is no better way out of this dilemma than going deeper into negative interest rate territory and relinquishing cash. As the use of cash as a store of value would be limited with savers having to pay for their bank deposits, they would see their savings disappear like snow in the sun, which would force them to spend money instead of saving it.

Since 500 euro notes make up a third in value of all the currency issued by the ECB, the solution appears to be self-evident. The elimination of only these bank notes would reduce the supply of tangible money in circulation from 1.1 trillion to 700 billion euros. But Sweden is a tiny economy, not comparable to the EMU area. Low inflation in the latter is primarily related to the crash in the oil price, as can be concluded from the Eurostat data, which is an economic replication of the 2009 pattern<sup>40</sup>. Inflation as well as negative interest rates transmit some wealth from savers to debtors. A negative interest rate has the same effect on savers as inflation but with this difference however: a negative interest rate is more direct, and savers will be very much aware of it, seeing their savings literally disappearing before their eyes year after year.

<sup>40</sup> File: Euro area annual inflation and its main components, Eurostat 2006-February-2016



Share of EUR notes in total value, 2015



Source: ECB and Bofa Merrill Lynch Global Research

## Savers will not surrender to Draghi without a fight

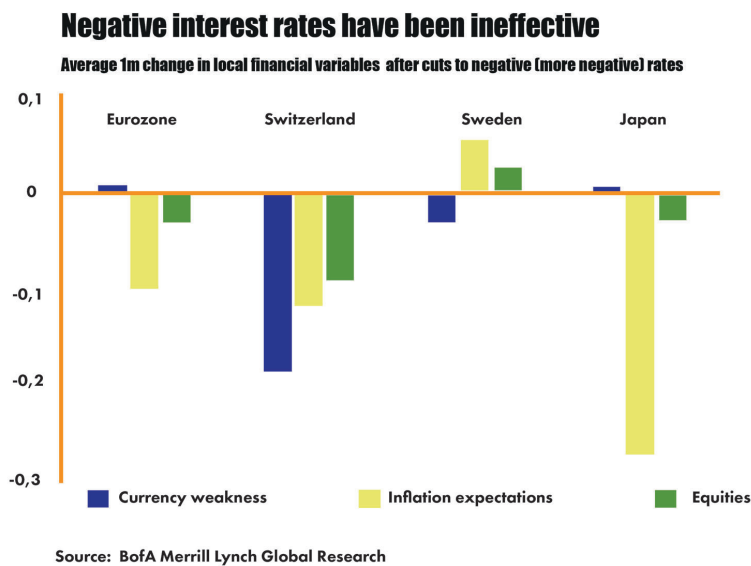
The Germans and Austrians are much too accustomed to using cash to embrace the idea of abandoning it. In Germany a letter-writing campaign has been launched, protesting the European Central Bank's plans to scrap 500 euro notes<sup>41</sup>. The German website "Stop Bargeldverbot" quotes Andreas Höfert, chief economist of UBS, as saying: "A fully electronic money system – completely transparent, without any protection of privacy in transactions and **with the constant risk of expropriation** by the state – means that money will not be private property any more. The road to hell is paved with good intentions."<sup>42</sup> Also, Bundesbank officials voiced their dissent, its President Jens Weidmann warns that the abolition of cash is a false and disproportionate response to negative interest rates. In Germany the CDU is against restrictions on cash; Austrian politicians go even further: the People's Party took up the issue and demanded anchoring the "right to cash" in the Constitution<sup>43</sup>.

The ECB's negative interest rate policy is limited by the existence of cash. The political discussion between proponents, the SPD, and opponents, the CDU, in Germany, of cash limitation has become a proxy discussion on ECB negative interest rates policies. ECB monetary policy again results in a political discussion and monetary policy is, in the end, politics.

<sup>41</sup> Why \$100 Bills and €500 Notes May Soon Be Killed Off, [Money](#) 2016-02-17

<sup>42</sup> [Stop Bargeldverbot](#)

<sup>43</sup> Austria targets constitutional protection of cash, [EurActiv.com](#) 2016-02-18



The cash ban will not be the only monetary issue that ends in a heated political debate. Negative interest rates will eradicate the pension funds. Because the Dutch have some of the world's largest pension funds, it is no wonder the Dutch Deputy Minister of Finance publicly denounced current ECB monetary policy, an unusual political interference in monetary policy! The head of the DNB (Central Bank of the Netherlands) was, besides Sabine Lautenschlager, the German member of the governing council, one of two people who voted against the European Central Bank's new package of negative interest rates. The ECB's policy will make it impossible for some countries to fulfil their pension promises. Countries in the EMU that have a funded system that recipients and employers pay into in advance will be confronted with extreme political upheaval as people will feel robbed by their retirement institutions. According to the Gefira team monetary policy is a facet of politics and to maintain an artificial division between politics and finance will become harder and harder.

## ISIL and Banking

The best proof that 500 euro note holders are not criminals has been produced by the Greek newspaper "Ekathimerini", which reported on the unrest that broke out among savers who in 2015 alone withdrew at least 20 billion euros from banks and stored it in their own safes or piggy banks<sup>44</sup>. In February they stormed banks, trying to elicit an explanation regarding plans for withdrawing 500 euro notes.

44 Greece's 500-euro-note bank run, [ekathimerini.com](http://ekathimerini.com) 2016-02-11

The French government, in response to the alleged terrorist threat, has deprived the French citizens of the right to make cash payments in excess of 1,000 euros, and it has imposed an automatic limit on bank account withdrawals larger than 10,000 euros a month<sup>45</sup>. The biggest terrorist threat comes from ISIL. According to the Financial Action Task Force (FATF), the multinational body that develops and promotes policies to counter illicit financial activities, there are still Iraqi and Syrian banks active in ISIL-held areas.

These banks, in ISIL-held territory in Iraq and Syria, are still connected to their headquarters in Baghdad and Damascus. The Iraqi and Syrian governments still have civil servants working in these areas that receive remuneration from their governments. However, bank transfers to the international community are difficult, because Syria is targeted by international sanctions, while Baghdad actively tries to block banks in ISIL held territories. The FATF also underscored that banks operating in ISIL territory are still able to liaise with certain countries other than Iraq and Syria, though it did not name them.

500 euro notes are not used to transfer money from Europe to ISIL-held territory. The authorities in Finland have reported money transfers from banks in Finland to bank accounts just outside ISIL-held territory, in some cases these transactions were closely coordinated. At first accounts were credited with large deposits that shortly thereafter were withdrawn at ATMs near ISIL territory. The Dutch authorities reportedly found similar evidence that foreign terrorist fighters were using debit cards “linked to their national bank accounts when withdrawing money from ATMs alongside those areas where ISIL operates.” There’s no need to use 500 euro notes to transfer money to ISIL-held territories.

Beyond the formal banking system, ISIS can also send and receive funds through nearby foreign money remitters. The Finnish and Dutch authorities reported to FATF that a common method of transmitting funds to foreign fighters is to send them via money remitters who have agents operating in border areas close to ISIL-held territory. We do not think these agents prefer high denomination 500 euro notes as these are not really suitable for cash operations.

The FATF even has mentioned ISIL funding operations through international prepaid cards (e.g. mobile phone credit, store credit) or by sending ISIL operatives the card numbers via Skype. The information would eventually reach jihad fighters near ISIL-held territory in Syria, who could then sell the prepaid cards and take the resulting cash to the group.

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45 EU finance ministers call for restrictions on €500 note over crime fears, [The Guardian](#) 2016-02-12

Modern internet technology no longer necessitates having a bank building in ISIL territory. An estimated 70% of foreign fighters can make transactions among themselves, using their internet bank account; in combination with some easily available software, the bank does not even notice that the transactions are made from ISIL-held territory. As ISIL operates from the suburbs of Amsterdam, London, Ankara and Riyadh one can easily envision a shadow banking and transaction system that runs completely on the European and Gulf States banks' internet infrastructure. Advanced improvement of cashless payment systems makes it possible in the near future to make all transactions in ISIL-held territories through European banks. A German ISIL fighter can pay his comrade from France while being at the market in Raqqa in the blink of an eye using German and French banks alone. No money has to go in or out of Syria.

Apart from the fact that European and US policymakers show ambiguity in their support for Jihadists in Syria, we do not understand how the removal of 500 euro notes will hinder ISIL and their affiliates.

The reason to abandon cash is, as Glenn Harlan Reynolds, law professor at the University of Tennessee, explains that: **Governments want to get rid of cash for two reasons. First, it gives them more control over citizens: They justify it in the name of fighting terrorists and organized crime, but what they really care about is making sure that nobody escapes their scrutiny, for purposes of taxes, regulation and political finagling. Second, if you're stuck putting your money in a bank, they can force you to spend it (and thus "stimulate" the economy) by subjecting you to negative interest rates, in which money that just sits in the bank shrinks away, providing an incentive to spend. (...) When you realize that inflation helps debtors and that governments are the world's biggest debtors, this makes a certain amount of sense — for them<sup>46</sup>.**

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46 Glenn Reynolds: Cash is the currency of freedom, [USA Today](#) 2016-02-29

## Recommendations

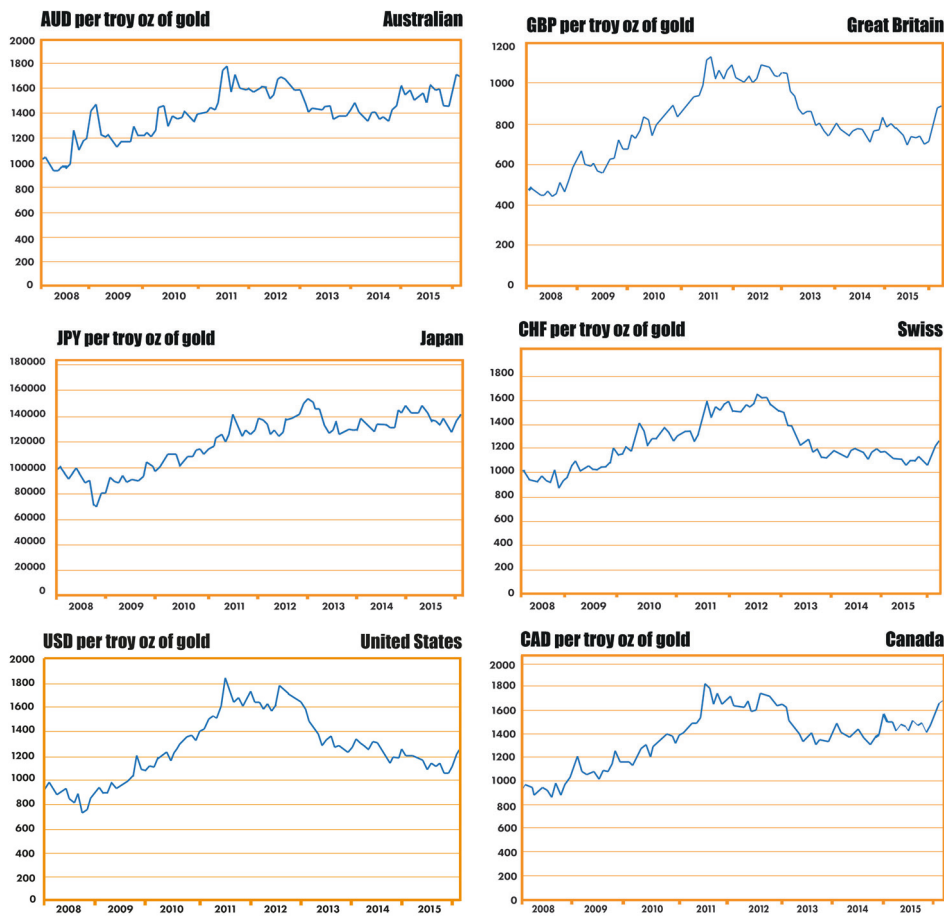
### **Removing cash from your bank accounts and converting high denomination notes**

The ECB has not yet officially decided to ban high-denomination euro-notes, but the ECB's announcement should be understood as a signal to the market as prior to making a public statement, the ECB carefully considers its wording. The announcement was a signal for banks and monetary authorities, it literally said: "be prepared, we will soon announce a 500-euro note ban". This has, however, brought about an appreciable political pressure aimed at stopping this ban. Still, holders of 500, 200, and 100 euro banknotes had better act to forestall this unfavourable course of events. People who want to convert their 500 euro notes into smaller denominations should do it as soon as possible. Personally, we suggest converting them into 50 euro-notes; we wouldn't be surprised if there is also a ban on 200 and 100 euro banknotes.

### **Gold is still valuable**

Gold is an alternative to cash and money kept in bank accounts; it is no alternative to investment. Now that we are ever closer to a period of negative interest rates and the imposition of restrictions on cash, we expect gold to gain in importance. After a spectacular increase in value, the price of gold expressed in dollars started to slide in 2012. It is still 33% lower than its peak price in the summer of 2011. That said everybody who invested in gold before summer 2010 made a profit. Most of the investors depending on other currencies are much better off, gold denominated in the yen still trades close to its all-time peak price. Japanese and Australian investors that bought gold at its peak lost just 9% and 7% of their investment as the price of gold since 2010 has been relatively flat in these currencies. For long-term small investors we recommend holding a percentage of their assets in gold.





## Oil could still fall further

We have not noticed a significant fall in oil supply as some pundits argue. The Chinese are lowering production, so it will not be as high as expected, world economic growth is still low and demand is not catching up with supply. We do not see an increase in the demand for oil, yet there is massive oversupply. According to OilPrice: *In an oil sector first, the oil-rich United Arab Emirates (UAE) has offered free oil to India in return for a storage deal at India's planned underground facility as the supply glut worsens*<sup>47</sup> - a signal that the era of low oil prices is not yet at its end and that it is still possible that oil can crash to 20 dollars a barrel. As long as there are no real disturbances in oil supply, caused either by the market or by civil unrest, we do not expect oil prices to rebound sharply.

47 UAE Offers India Free Oil To Ease Storage Woes, [OilPrice.com](http://OilPrice.com) 2016-02-14

## We have reached the “nullifying point”

We do not go into details, but there is one simple rule: If interest rates go down, asset prices go up. Since 2008 Central Banks have been suppressing interest rates, as a result of which all assets such as bonds, shares and real estate have gone up. Wealth funds like pension funds have been able to achieve good results during this period because of the so called “capital gain”. At present, interest rates are around zero, pension-funds cannot realize capital gains any more and there is no income on capital due to a near-zero yield on nearly all assets. At the same time the fact that the population in Europe is aging results in those funds having to pay out more pensions than they are receiving in contributions. Thus we have reached the “nullifying point” where these funds have to survive on zero interest, zero capital gains and, to top it all, pay out more than they receive. The only strategy left for them is liquidating more of their assets.

Due to the low oil price, Norwegian, Russian and Saudi Arabian wealth funds are already liquidating their assets. We expect European pension funds, such as APG with more than 300 billion euros in assets, to follow suit. The ECB extension of the QE programme envisions that more big funds will liquidate their assets.

Without ECB intervention, markets will definitely crash further, but we doubt if the ECB can save them. Due to low interest rates and low commodity prices we are convinced there are huge losses in the energy sector and there are problems under the surface in such financial institutions as wealth funds and banks which are just waiting to pop up. We expect stock markets to fall lower than they did in February.

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