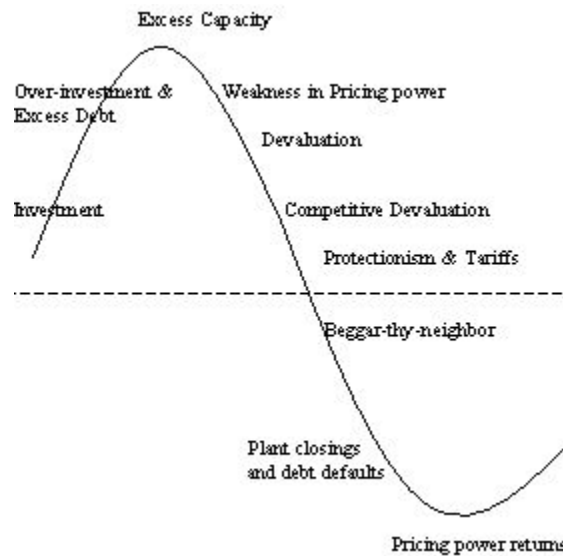


A RACE TO THE BOTTOM WEB BUZZ 2011.08.08

A grand rush to 0% interest rates and competitive devaluation is developing across the world. The Central Bank of Switzerland recently announced that they were going to intervene in the currency market to reduce the value of the Swiss franc. This is going to accelerate the competitive devaluation of currency. This is a part of our favorite chart - the deflation cycle:



Adapted from prudentinvestor.com

Why do we say 0% interest rates are in our future? This is due to the level of debt all over the world. Debt of every kind and particularly sovereign debt is a major problem and countries will do everything in their power to keep rates low. In that regard we expect the Fed to initiate a new stimulus package, such as an operation twist* program, before long. The economic conditions demand that interest rates remain low in those countries which still command the confidence of the financial markets. At the present time, there are only a handful of such countries. The U.S. remains one of those select turfs in spite of the downgrade.

Of course, at the same time exports remain one of the better ways to pull an economy out of the doldrums - thus the intervention in the currency exchange markets to keep one's export items cheap. Friends, it's a race to the bottom!

*operation twist - Fed sells short-term treasuries and buys long-term bonds. This will flatten the yield curve and make investment more attractive. In case short rates get too high, they then might just buy long bonds period.