Negative Interest Rates. Debt is Better than Cash? …Who's Running the Monetary Asylum Anyway?

By Bill Holter
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Two days ago Reuters reported the 3 month "Euribor" went into negative interest rate territory. In this missive I will try to make sense of this as to "why or how" this could happen. I do not believe there is an answer other than the madness and insanity of being locked in a "short squeeze" room with the exits being blocked.

Over the last three years we have seen gold trade many times in backwardation, James Turk has reported this again is occurring in London. The only explanations for this is that market participants either need gold now for whatever reason and will pay a premium to get it …or, they fear not receiving gold contracted for in the future. The bottom line is this, for backwardation to occur, the "current" gold must be in short supply for some reason. I believe this is what we are seeing in Europe, "collateral" is in shortage and a short squeeze has pushed pricing into a Twilight Zone without logic.

After gold backwardation came the next head scratcher which began last year where various bonds, bank accounts and even mortgages being written with negative interest rates. How do any of these make sense? You "pay" the sovereign or even corporate borrower to lend money to them? Or a bank pays you to borrow money on a house or property? Think about the incentives here. Wouldn't it be better to just take your money out of a bank or broker to avoid the negative interest and just bury it in a hole somewhere? How about banks lending at negative interest rates for a home, wouldn't the bank be better off NOT making the loan and instead just sitting on the reserves? Here is David Stockman's current take.

A similar situation to this happened years ago in Switzerland (and again currently) where interest rates went negative as people wanted assurance "of" principal rather than "on" principal. The fear of currency devaluation was so great, capital piled into the "hard currency" francs. This is NOT what is happening today in Europe, no one is accepting negative yield just to own the euro "for safety" as it has already crashed versus the dollar and more so versus gold. What I believe has happened is the system has fewer and fewer doors where the exists are being blocked and collateral withdrawn.

It is only a matter of time before we see depositors burying actual currency notes, they are also converting into precious metals but the paper exchange subsidy still holds, for now? Not only is the ECB withdrawing collateral via "QE", individual depositors are purchasing German sovereign debt and withdrawing it from the market. Take the Greeks for example, they fear their own banks and know they are not safe, they fear depositing in German or other banks because their deposits may be frozen or worse, confiscated. So what is their option for "safety" in this paper room? Direct purchases of sovereign debt!

Now, “interbank” lending has gone into negative interest rates which is beyond lunacy. Banks which are theoretically run by “smart” people are paying to lend and of course willfully being paid to borrow. The only explanation I can come up with is that collateral has become so scarce that a short squeeze has resulted. Any institution that needs collateral is forced to pay the market rate which now includes locking in a guaranteed loss. Business in Europe has become so poor, no one can, much less wants to borrow anything. “Debt saturation” is where we came from in 2007-08 and further down the rabbit hole to where we are now, inverted interest rates on ALL levels …now even between “pros”?

I view what is now happening as “eating into the bone”. Debt has become so highly priced, locking in guaranteed losses is now seen as “wisdom”. When viewed in history, the current mania will not be seen as a tribe or nation gone mad, it will be seen as the entire human population losing sight of their senses and allowing the lunatics to run the insane asylum. I have no idea what the event will be to wake up the world but the event is out there and its realization will be akin to awakening from a nightmare in a cold sweat.

“Debt is better than money” is becoming the current belief in the world. In fact, with negative interest rates it can be said the world now values debt greater than money. This cannot be so because of the simple fact that actual paper notes can be held out of the system and not “discounted”. How can owning debt today which promises less currency in the future be worth more than more currency today? The fear of loss is so great that currency itself is being discounted versus debt. If you think this through, it says “everything is worth nothing” because the currency itself is bad and losing confidence. Maybe this is why we are seeing a push from all around the world to go “cashless” and fully digitize? This would be closing and locking the only remaining door other than making precious metals illegal. The only way for this to be “normal” is if the lunatics are running the asylum …they surely are!

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About the author:

Bill Holter writes and is partnered with Jim Sinclair at the newly formed Holter/Sinclair collaboration. Prior, he wrote for Miles Franklin from 2012-15. Bill worked as a retail stockbroker for 23 years, including 12 as a branch manager at A.G. Edwards. He left Wall Street in late 2006 to avoid potential liabilities related to management of paper assets. In retirement he and his family moved to Costa Rica where he lived until 2011 when he moved back to the United States. Bill was a well-known contributor to the Gold Anti-Trust Action Committee (GATA) commentaries from 2007-present.