

THE ECONOMICS OF ZERO INTEREST RATES

By [Bob Chapman](#)

Global Research, April 25, 2012

[International Forecaster](#) 25 April 2012

Region: [USA](#)

Theme: [Global Economy](#)

Zero interest rates certainly limits what the elitists can do in that end of the market. It is becoming more and more evident that the Fed is not making the final decisions, they are being made by JPM and Goldman Sachs, as we touched on negative rates not all that long ago. The Fed was forced into the market. We fear that negative rates are on the way unless the Fed wants to buy all the Treasury issuance, not just 61%, which they admit too. This really would force all bonds higher and yields lower. Of course, there is always the possibility of the issue of floating rate bonds. Those bonds would tend to give higher yields overall.

Europe is reentering the spotlight and it is not an auspicious entry. The EU officials still believe Spain will not need financial support. This, the 5th largest economy in the euro zone and presently has public debt of GP OF 68%. Experts believe that that number will be 120% in 2013. Their property bubble ended in 2007 and since then prices have fallen 38%. Spain borrowed \$225 billion about 50% what everyone else was borrowing. This past week it did 2 and 10-year paper for about \$333 trillion. The bid to cover was 3.3% (2 to 1 is normal), so there was plenty of demand for the bonds. We might add a good part of the buying came from banks that borrowed LTRO funds to do so. Rumors of recapitalization are in the works, but we do not see that happening. It would force the opening of Spain's domestic banking to industry and foreign ownership. The banks in turn lose the subsidies and we are sure the Rothschild's and Europe's royalty would not like it very much.

The IMF raised \$420 billion in new capital to be thrown into the pot and is looking for an additional \$262 billion. At the same time Spain for the 10th time says we do not need rescue funds for their banks - we will see. It could be a difficult affair inasmuch as Holland will have a new government in the fall. Lending free funds is one thing, but borrowing to lend and creating debt to lend is another. The Dutch are going to have to go into austerity just to financially help others and that be over. Worse yet, Fitch is now going to probably lower their debt rating.

Spain's answer looks to be two sets of books which so many banks, sovereigns and corporations used in the US and UK. One for good assets, one for bad, the latter to be written off over 50 years. Even after \$200 billion or so was borrowed to purchase it was not enough for Spanish banks, 10-year bonds to keep the yield from rising to almost record levels.

We do not think Spain will be rescued. \$1.5 trillion is a lot of money and even if it is, how long will it last? The world has to recognize monetization problems but the major problem is a global system that is out of control. Global credit has been expanded, unchecked and each day it worsens, particularly among banks and sovereigns.

As we wrote in 1991, the euro was going to be a disaster and essentially it has been. As we wrote long ago one interest rate cannot fit all, because of different stages of development. This caused more than 10 years of prolonged mispricing of pricing in credit and bonds. What we have as a result is a dysfunctional global monetary apparatus. Leveraged speculation is what is going on and it hasn't stopped. Use of derivatives has gone exponential, which makes it even worse.

This past week was not a good one for bonds, particularly that of Greece, Spain and Italy. The Europeans keep talking recovery and none has appeared as yet.

The ECB has to sort this mess out and it is impossible for them to do. There are not going to be any soft landings. Everyone is going to be touched by this disaster. China will be touched as well.

The Fed, and other central banks will continue to inject massive amounts of funds into their monetary systems. They have no choice.

We have a long way to go. These conditions could last for five years, who knows? What we do know is hyperinflation is on its way. Accumulate your gold and silver shares, coins and bullion while they are still inexpensive. You have no other choice. Go long and stay long.

The original source of this article is [International Forecaster](#)
Copyright © [Bob Chapman](#), [International Forecaster](#), 2012

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Bob Chapman](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca