Infomail
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Central Banks' "Hail Mary"

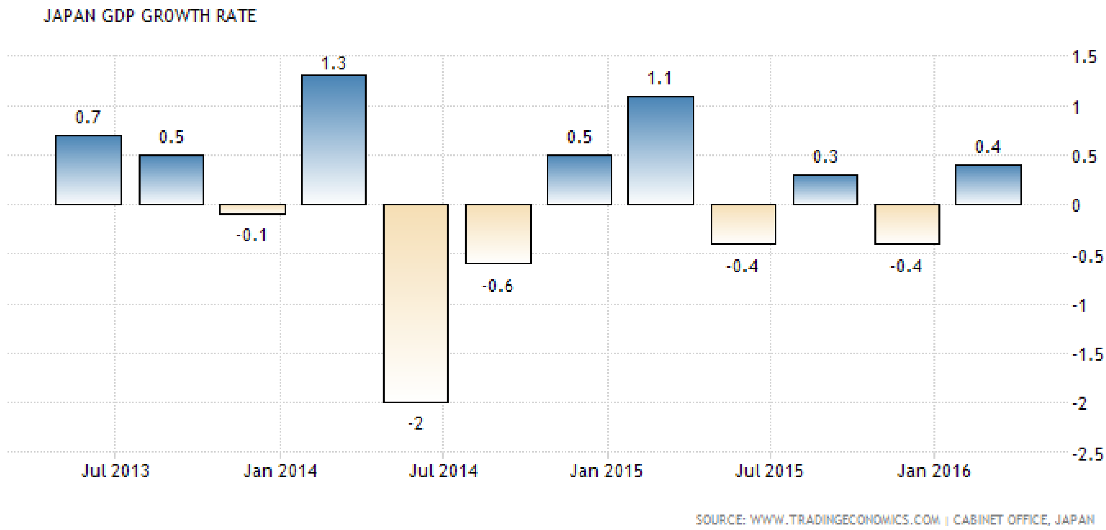
For football fans, a "Hail Mary" pass is usually a last ditch effort made in desperation with only a small chance of success. Most of the time it fails, but when it works, you sure can look like a hero.

If one looks around the world, serious students of economics would say most of the planet's Central Banks are throwing it "up for grabs" and tossing their own form of a "Hail Mary". Last summer, the Bank of Japan became the first to apply negative interest rates in an attempt to stimulate their economy. Europe's ECB followed suit in the fall, and the approach was implemented by many central banks soon thereafter.

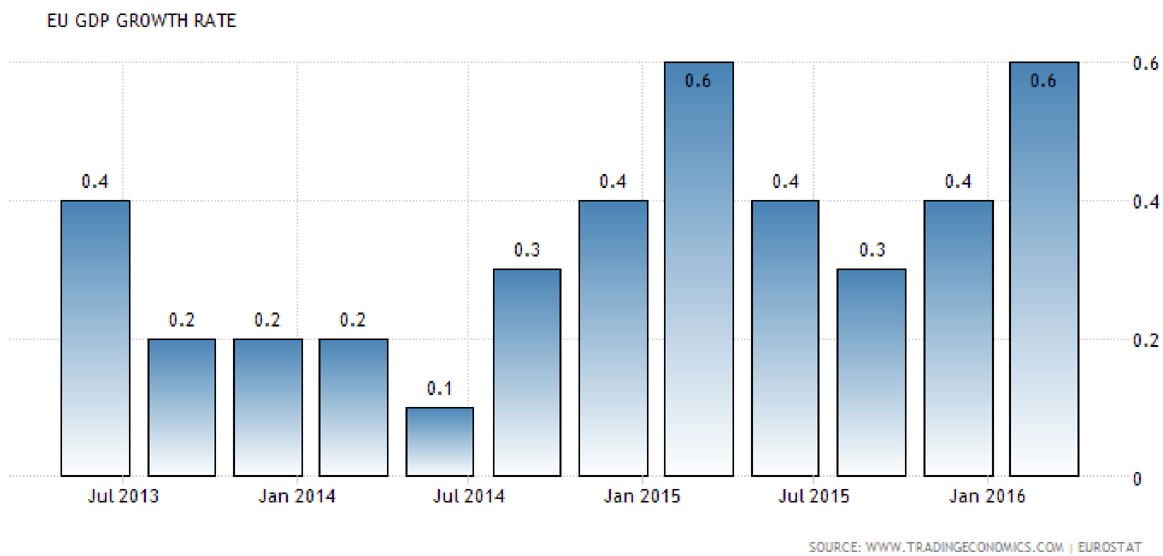
As of this past week, there were twenty (20) countries using negative rates in a desperate attempt to stimulate, or at the very least, appear like they were trying to do something. The dollar value of bonds issued with negative rates has now crossed an incredible $10 trillion dollars.

This is insanity……

Is it working? Well, if one looks at Japan, since they were first off the mark and it's had almost a year to filter down, one would say a definite "NO!". The Japanese economy expanded a measly 0.4% on the Q1 ending March 2016. The quarter before that was but 0.3% GDP growth. They are barley holding off going into recession.



Europe was second off the mark. How have they done? Not much better. Their Q1 came in at 0.5%, and hasn't crossed 1.0% in the past three years, and that number should have "slingshoted" off the lows from 2011-2012:



Canada's head of the Bank of Canada has verbalized several "trial balloons" about negative rates, but we aren't there….yet. Even Fed Chair Yellen has hinted at the possibility of negative rates, but on the other side still talks about higher rates.

I think there's a larger chance that US interest rates might rise over the next 2-6 months, only to be followed by rapid cuts once again.

Why?

If one looks at May's US jobs number released on Friday, the mighty USA, with a population of about 320 million, created a mere 38,000 jobs (private jobs were

25,000 of that). Consensus was for a +160,000. A lot of people were "spinning" it as an anomaly but it was a spin, because the April and March numbers were greatly reduced as well from previously reported numbers.

By any measurement, the numbers were a disaster.

But the administrations "spin doctors" say the unemployment rate hit a new low at 4.70%!! True, but that's only because 458,000 "left" the labour force, stopped looking, and most likely went on a government payroll.

If only the rest of those still looking for work would stop looking, we could get that unemployment rate to zero!

This trend spells trouble for the economy, and negative rates only make it worse because of the implications on interest rate spreads, cost of capital and margins. Remember, the whole purpose of the capital markets is to bring together those who have capital to invest, with those that need it for whatever purpose. And the risk/reward for both sides of that equation have to make sense, and negative rates muck all that up. So both sides (providers of capital/users of capital) simply do what they've been doing: NOTHING. And that's how you end up with no economic growth.

Take business equipment spending. That would be plants & equipment, buildings, software, etc. It has been slowing for six straight quarters in the USA, and actually went negative in Q1.

If businesses aren't investing and growing, then they are not making profits, which means they aren't hiring either. Which might explain the lack of job growth.

So no, negative rates won't help anything. The Fed missed their opportunity to raise rates when they should have in 2011, or even 2012, but hey, Bernanke knew he was on the way out, so why create any waves? Leave it for Janet to figure out.

To be fair, central bankers have done everything they could with absolutely No help from politicians in the forms of tax and fiscal reform. In fact, the politicians all over the globe, who seem to be unable to curtail their spending in any shape or form, has been aided by low rates.

What will be the cure to get the global economy rolling again? In my opinion:

1. Stop (or at least reduce) the insane wasteful spending by governments
2. "Normalize" the yield curves and real interest rates
3. Slash business taxes (to create jobs)
4. Reduce burdensome regulations
5. Fiscal tax reform across the board

But hey, I'm not holding my breath. There is absolutely zero political will anywhere to do the right thing.

Stay tuned,

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