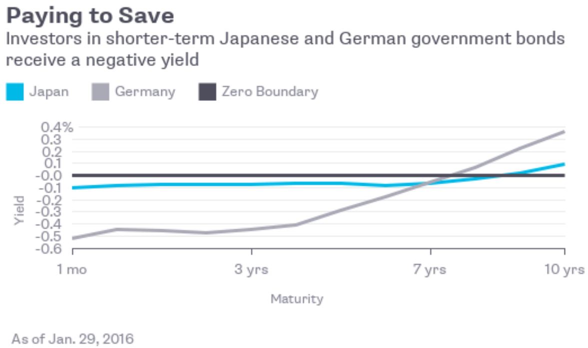
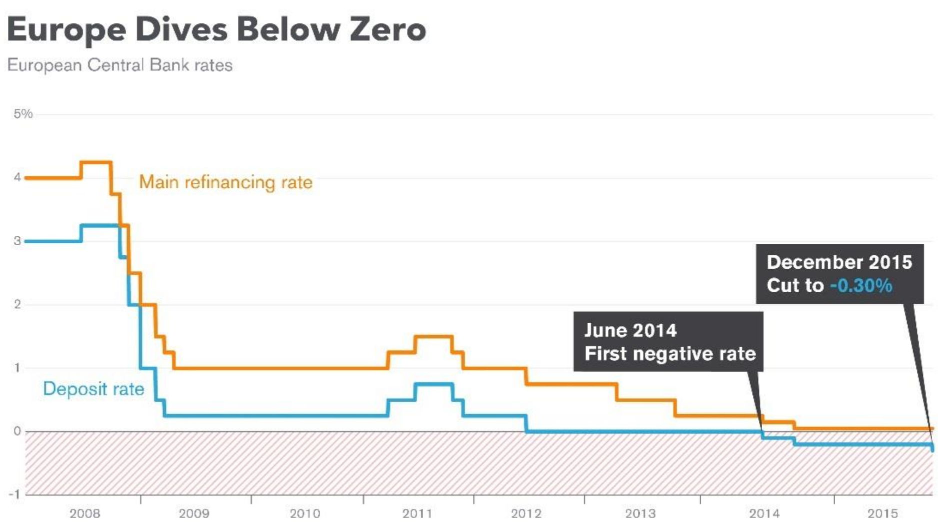
DK Analytics, Post #14: On heels of spreading NIRP, is cash going, going, gone? 02/12/2016
10-year Treasury: 1.71%; S&P 500: 1846.90; Oil: $28.77; Gold: $1,235; Silver: $15.67 (02/12/16 quotes)



Source: www.bloombergview.com/quicktake/negative-interest-rates

Introduction:

On the heels of an unprecedented, eight-year-plus ZIRP (zero interest rate policy)/near ZIRP by leading central banks aimed at supporting debtors at the expense of creditors (savers/depositors/pension plan beneficiaries), even more creditor detrimental NIRP (negative interest rate policy) is spreading from Europe to Japan and may also come to US shores.



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This obviously raises the question: why should depositors not empty their bank-based savings/checking accounts and put the banknotes in a non-bank safe (to avoid misappropriation and potentially even "bail-in" risks) instead of actually paying the bank money (NIRP) for making their money available to others?! Banknotes/bills and coins (or "cash," of which over 95% in the US is comprised of notes) typically constitute less than 10% of a nation's GDP; cash-thwarting Sweden is at 2.1%, "plastic" America is at 7.7%, and the European area overall is at 10.3%.

Moreover, recall that banks typically put customer deposits, which can easily constitute between 50% to 60% of bank funding sources, to work in a manner that a) usually leaves minimal cash balances on hand and b) characteristically results in only roughly 20% of bank assets being allocated to very low return, highly liquid, available-for-sale securities. The upshot: banks would quickly run out of banknotes. Even their highly liquid assets, if sold, would quickly overwhelm banknotes in circulation, should depositors decide to seek substantial cash withdrawals of their accounts, i.e., as in a run on banks.

So how about simply banning cash? Problem "solved" (in the interim, never mind that NIRP may well make "run-fearing" banks even less likely to lend to Main Street than is already the case, thus ironically tightening monetary policy -- more Keynesian "brilliance" on display!). This is where the powers that be are heading, as we hope to show below. And that's why depositors have to inform themselves. In any event, we hope this post will help raise our readers' level of awareness of what is in the "statists' pipeline," i.e., an international war on cash.

There's more to it:

We live in an age of unparalleled spin, increasing demagoguery, and metastasizing social media-enabled bullying/character assassination greased by global 24/7 wireless Internet-based connectivity on the one hand and by the Western mainstream media (MSM), which is totally in the leftist tank, on the other hand. This isn't a tirade, rather it's to draw to the reader's attention that our statist puppeteers' propaganda machine, as ably displayed by the social media savvy Obama administration that "sends a thrill up MSM's collective leg," is already busily demonizing cash or soon will be, across the globe. ZeroHedge's brilliant Tyler Durden (pseudonym) sums up what is likely being hatched, in "phase one," by global elites on this front:

- Link the free movement of cash to terrorism (create a consciousness that any movement of large sums suggests criminal activity);
- Establish upper limits on the amount of money that can be moved without reporting to some government investigatory agency;
- Periodically lower those limits;
- Accustom people to making all purchases, however small or large, through a bank card;
- Create a consciousness that the mere possession of cash is suspect, since it's no longer "necessary."

Needless to say, the powers-that-be are not blind to potentially substantial, and thus intolerably disruptive, NIRP-engendered deposit withdrawal implications, and signs are mounting that they are rapidly positioning the "central planning machinery" for it. Concretely, and as many of you may be aware, the call from statists -- big government types that scoff at such "inconvenient notions" as representative government, innocent until proven guilty, and private property rights/liberty-- to put a stop to citizens' ability to withdraw their dwindling yet still hefty cash balances from their checking or savings accounts is growing consistently louder and more brazenly overt the world over. For flavor, fasten your seatbelts, and please consider these headline links:

- http://hosted.ap.org/dynamic/stories/E/EU_GERMANY_CASH_LIMIT?SITE=AP&SECTION=HOME&TEMPLATE=DEFAULT&CTIME=2016-02-03-06-58-46
- http://www.businessinsider.com/sweden-has-declared-war-on-cash-2015-12?IR=T
- http://www.zerohedge.com/news/2016-01-23/norways-biggest-bank-demands-cash-ban
- http://libertarianhome.co.uk/2015/10/the-war-on-cash-gets-worse/
- http://www.zerohedge.com/news/2016-01-20/war-cash-escalates-china-readies-digital-currency-imf-says-extremely-beneficial

Banning cash, meaning moving to purely electronic money and ultimately taking banknotes out of circulation with the de facto goal of eventually banning them entirely as "legal tender for all debts, public and private," would be "adding insult to ZIRP/NIRP property transfer injury." It would also magnify unsecured creditor risks that depositors are, usually unbeknownst to them, already shouldering for the simple reason that depositors could no longer escape the electronic money property transfer racket. Did anyone say "double-whammy?" The confiscation skullduggery being engaged in by our unelected, unconstitutional global "monetary authorities" is truly beyond the pale. To wit:

> Few depositors realize that legally, the bank owns the depositor's funds as soon as they are put in the bank. Our money becomes the bank's, and we become unsecured creditors holding IOUs. But until now, the bank has been obligated to pay the money back as cash on demand. Under the FDIC-BOE plan, our IOUs will be converted into "bank equity." The bank will get the money and we will get stock in the bank. With any luck we may be able to sell the stock to someone else, but when and at what price? Most people keep a deposit account so they can have ready cash to pay the bills.
>
> The 15-page FDIC-BOE document is called "Resolving Globally Active, Systemically Important, Financial Institutions (G-SIFI)." It begins by explaining that since the 2008 banking crisis, it has become clear that some other way besides taxpayer bailouts are needed to maintain "financial stability." Evidently anticipating that the next financial collapse will be on a grander scale than either the taxpayers or Congress is willing to underwrite, the authors present this alternative:
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> An efficient path for returning the sound operations of the G-SIFI to the private sector would be provided by exchanging or converting a sufficient amount of the unsecured debt from the original creditors of the failed company [meaning the depositors] into equity [or stock]. In the U.S., the new equity would become capital in one or more newly formed operating entities. In the U.K., the same approach could be used, or the equity could be used to recapitalize the failing financial company itself–thus, the highest layer of surviving bailed-in creditors would become the owners of the resolved firm. In either country, the new equity holders would take on the corresponding risk of being shareholders in a financial institution.
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> **No exception is indicated for "insured deposits" in the U.S., meaning those under $250,000, the deposits we thought were protected by FDIC insurance.** This can hardly be an oversight, since it is the FDIC that is issuing the directive. The FDIC is an insurance company funded by premiums paid by private banks. The directive is called a "resolution process," defined elsewhere as a plan that "would be triggered in the event of the failure of an insurer and would facilitate [the failed bank's] resolution in a controlled manner, avoiding

systemic disruption and use of public funds." The only mention of "insured deposits" is in connection with existing UK legislation, which the FDIC-BOE directive goes on to say is inadequate, implying that it needs to be modified or overridden.

If our IOUs are converted to bank stock, they will no longer be subject to insurance protection but will be "at risk" and vulnerable to being wiped out, just as the Lehman Brothers shareholders were in 2008. That this dire scenario could actually materialize was underscored by Yves Smith in a March 19 post titled "When You Weren't Looking, Democrat Bank Stooges Launch Bills to Permit Bailouts, Deregulate Derivatives."

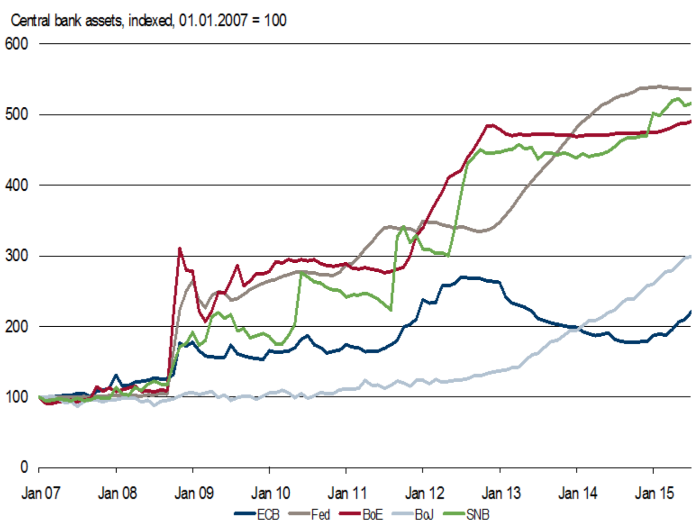
In the U.S., depositors have actually been put in a worse position than Cyprus deposit-holders, at least if they are at the big banks that play in the derivatives casino. The regulators have turned a blind eye as banks use their depositaries to fund derivatives exposures. And as bad as that is, the depositors, unlike their Cypriot confreres, aren't even senior creditors. Remember Lehman? When the investment bank failed, unsecured creditors (and remember, depositors are unsecured creditors) got eight cents on the dollar. One big reason was that derivatives counterparties require collateral for any exposures, meaning they are secured creditors. **The 2005 bankruptcy reforms made derivatives counterparties senior to unsecured lenders.** *(There are $553trn in notional amounts of unregulated, opaque, off-balance sheet OTC derivative contracts outstanding! Notional value is the total value of forwards, swaps, and options contracts outstanding; notional value is calculated by multiplying units in a contract by the spot price. Interest rate contracts accounted for 79% of $553trn as of 12/15. Leading global banks are massively exposed to rising interest rates. DK Analytics)*

One might wonder why the posting of collateral by a derivative counterparty, at some percentage of full exposure, makes the creditor "secured," while the depositor who posted collateral at 100 cents on the dollar is "unsecured."

So what's next?

As mentioned in other posts and reports, the Keynesian monetary powers that be, whose interests are strongly aligned with statists and Wall Street/K Street cronies and are thus aligned against the rule of law, citizens' property right protections, regulatory and tax sanity, and the free market economy, will only "double down" on their increasingly totalitarian redistribution of wealth. Translation: "laughing all the way to the bank," they will do whatever they can to sustain, if not widen, their unconstitutional/Fifth Amendment violating, ill-deserved wealth and power at the expense of republicanism and thus the people, i.e., the true sovereigns.

As our globally toxic public policy stew continues to weigh increasingly heavily on productivity, on economic growth, and on Main Street, our "unwealth-of-nations" trajectory continues to be sustained by outsized debt growth, itself a testament to faltering productivity growth, courtesy of central bank money printing/bond purchases (please see below). This is the status quo that "1% of the population" wants to sustain at the expense of the other "99%."



Sources: Datastream, CS, Haver Analytics, BIS, IMF, www.mckinsey.com/insights/economic_studies/debt_and_not_much_leveraging, http://www.marketwatch.com/story/global-stock-market-cap-has-doubled-since-qes-start-2015-02-12

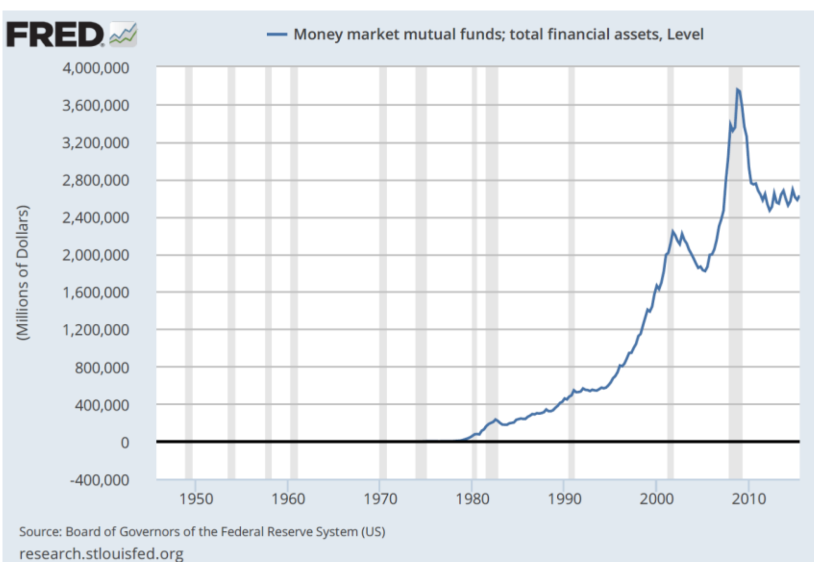
As both QE and ZIRP (financial repression) have proven to be an utter growth policy failure while hugely fanning expanding government deficit-defined misallocations, the world collectively stands at an inflection point otherwise known as a full-blown recession "laboring" under unparalleled post WWII debt to GDP.

Instead of abandoning what doesn't work, or financial repression, the policy has been getting a deeply contortionist central planning twist called NIRP (negative interest rate policy), which was "pioneered" by Denmark in 2012 for currency reasons. Swiss monetary authorities, in an effort to weaken the franc after the Swiss National Bank (SNB) threw in the towel in January 2015 regarding sustaining the euro peg at 1.20 francs per euro principally via unrivalled central bank balance sheet expansion (the Swiss cantons that own the vast majority of the SNB have had to shoulder unparalleled losses as a result of the SNB giving up its ill-fated euro peg-driven QE), have been pre-occupied at least since their December 2014 negative interest rate announcement with their next ill-fated effort to strip depositors/taxpayers of more of their property. How so? By joining the European Central Bank's (ECB) initial foray into NIRP in June 2014, at which point it pushed the deposit rate to -.10%, as depicted in the "Europe dives below zero" chart on the first page of this post. (Swiss depositors have so far been spared the outrage of negative rates thanks to artificially high mortgage rates, which have been subsidizing depositors and homeowners).

Sweden has been in the NIRP game since February 2015. Meanwhile, the ECB further amplified its NIRP this past December, pushing the deposit rate to -0.30% from -0.20% in September of 2014. And the Keynesian Bank of Japan (BOJ) most unexpectedly joined the ECB's NIRP in late January of this year with its about-face-move to nominally negative short-term rates. Keynesian peers such as the Bank of England (BOE), the People's Bank of China (PBOC), and even the Fed, allegedly in a Fed Funds rate raising mode despite a tanking economy, are all considering the ultimate insanity of NIRP, as reverberated via their fractional reserve member banks. Those banks will charge depositors money for the savings they provide banks to work with so as to force people to spend "out of an increasingly empty pocket" with deteriorating job prospects!

We would be remiss if we didn't mention that the depositor subsidies awarded by the Swiss monetary authorities will not necessarily be as easily aped for a protracted period of time in nations featuring substantially higher mortgage rates. Moreover, not many nations have such advantageously low government debt/GDP ratios, next to non-existent government deficits over many years despite an unparalleled national infrastructure, and such a huge net creditor status, thus most nations may have to be a bit more cavalier with creditors, as they are not "self-financing." Our point: Switzerland's depositor subsidy policy may be a one-off -- or, at the very least, difficult to sustain/extend elsewhere.

The result: globally spreading and deepening NIRP (negative interest rate policy) recklessness to be endured by depositors, which, as mentioned from our vantage point, looks more like monetary tightening than the sought after loosening, could eventually trigger depositor withdrawal stampedes. This would threaten bank liquidity and potentially even solvency. But NIRP could also disrupt the money market funds that still play a pivotal role in funding financial institutions (remember the "breaking the buck" fiasco that raised systemic solvency concerns for a time in 2008?):



Clearly, as shown not only by our global financial rulers' increasingly creditor-hostile policy trajectory, but by history itself, the high priests of fiat money will carry forward a monetary policy which virtually guarantees the eventual destruction of fiat currency/money.

Speaking of history, on average fiat currencies have lasted roughly 35 years. We are nearly 45 years into the paper dollar standard (post Bretton Woods gold-based dollar standard). Experience has shown us that fiat currency misuse grows exponentially in sync with declining economic fortunes. It is thus not a stretch, as enabled by electronic money/technology, that our global currency destroying central bank statists will choose the "nuclear option" to save an unsustainable system.

That (nuclear) option is banning and then eliminating cash, which has had a good 4,000-year odd run! From the statists' perspective, what's not to like? Consider what a post-cash, electronic-cash-only world would look like:
- Each financial transaction would be taxed because every transaction would be shared electronically with the government, and we know that transaction taxes only rise over time (think of VAT trajectories)
- Each financial transaction would be recorded, pulverizing the remaining privacy of private market transactions
- Each financial transaction would be charged a fee, and we know that financial fees steadily increase over time
- Depositors could no longer escape negative interest rates, a huge and direct transfer of wealth to debtors
- A run on banks would become impossible
- Asset bubbles would get even worse, governments could run even bigger deficits, misallocations would rise further still, and Main Street would suffer even more at the hands of Wall Street and K Street.

"What to do" conclusion:
In our most creditor unfriendly era that is getting ever more threatening, it behooves "Main Street" or non-crony depositors/401-K beneficiaries/small business owners to consider how to best protect their increasingly assailed property (savings). Caveat: our advice below falls short of leaving a particularly creditor unfriendly jurisdiction for a better one.

As regards sidestepping bail-in risks or even "breaking the buck" risks from a US perspective, we suggest you consolidate your non-working capital-based liquid assets into one-to-three-month Treasury Bills; despite prior government shutdown/potential illiquidity demagoguery, there is ample tax-receipt funding to make creditors whole, the Fed can "print the money" just in case, and the very last thing the US government is going to do is not stay current on interest payments/principal repayments, which would radically increase the cost of future government debt financing, of which there will be plenty! And while you're at it, also consider taking capital gains on steeply overvalued 10-year government (junk) bonds and re-investing a portion of the proceeds in Treasury Bills. (We're convinced a similar posture would be apt for residents of most other OECD nations.)

As regards evading NIRP (negative interest rate policy) or paying a bank to lend it your money (!) even as your health insurance, food, tuition, utility bill, and rental costs are either rising or soaring, withdraw a chunky portion your non-working capital related liquidity and place the banknotes in the safety of a home-based safe (concerns about a government someday no longer accepting the very bills it has issued as settlement for debts is unlikely to dissuade neighbors from accepting "your $20s").

As regards protecting against the property (your savings/checking accounts) transfer ravages of a globally widening NIRP while positioning yourself to escape bail-in-based confiscation and simultaneously protecting yourself against the (type of) inflation our central planners so desperately seek, we suggest diversification into scarce real assets. Scarce real assets can't be printed into existence. Dense energy and ag/water assets come to mind. Exposure can be garnered through attractively priced common stocks. Make sure you request the related stock (ownership) certificates. Place them in your safe. This way you circumvent the risks that, unbeknownst to you, your securities "held in street name" get pledged as collateral to a third party, and you end up in a dogged fight just to retrieve them. We also suggest that you devote up to 10% - 15% of your investable assets in physical silver and gold held outside of the banking system. Having a satellite allocation in physical silver and gold, whose prices have been increasingly artificially suppressed by the fiat currency kingpins, will likely prove especially prescient. The reason: extremely scarce gold and silver have been the tried and true "revisited backbone" of currency reforms throughout history. Precious metals have also protected your purchasing power very nicely over time.

While all Main Street depositors, defined contribution plan beneficiaries (401-K Plans, IRAs, etc.), and non-K Street/non-Wall Street businesses stand to potentially lose substantial portions of their investable net worth in a reset of the highly corrupt global fiat currency regime (central bank operations are "orchestrated") http://dkanalytics.com/dkblog/index.php/2016/01/26/dk-analytics-post-13-gold-in-debt-based-deflation-offset-with-increasingly-unbridled-qe/, taking mitigating action, such as above, to preserve as much investable wealth as possible is arguably the only sane course of action. This is especially apt in a world in which ZIRP is morphing into NIRP, your bank deposits are effectively "derivative exposure bail-in funds," and banknote-based cash is under siege.

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Greetings,
Dan Kurz, CFA
dan@dkanalytics.com
DK Analytics