

Hello Everyone,

[Government Accidentally Shuts Itself Down With Ban On Non-Essential Businesses](#)

The Babylon Bee

Hmmmm. The ***Babylon Bee*** may have a point.

Today's missive attempts to unwind something that seems counter-intuitive. How can the dollar strengthen as we print trillions of them? To explain, I will use the weed-killer, *Round Up*, to make my point.

Also, when you see the long & science-y word in that paragraph, please know I had to look it up and practice saying it several times before going on air. Big words are a struggle for Army-types like me. The Air Force and Navy, however, are experts in this area. :->)

Signed, Your Over-Hill-Over-Dale Financial Advisor,

Greg

KKOB 03.27.2020 Round-Up and the Dollar

Bob: Well, Greg, what we are seeing is unprecedented. Free money for everyone. Banks. Corporations. Individuals. This is something else.

Greg: You left one out. Foreigners. Let me explain. When our Federal Reserve prints money, it is dispersed to what are called its 24 Primary Dealers. Among those are US banks like JP Morgan, Goldman Sachs, and Bank of America. However, 15 of those 24 banks are foreign. Names like Credit Suisse, Daiwa Capital, Barclays (British), & RBC (Canadian).

Bob: Wait. So, when the Fed prints \$5 trillion---which the US taxpayer is on the hook for---part of that \$5 trill goes overseas to Europe and Asia?

Greg: Yes. So, the question you must ask yourself is this. Is the Federal Reserve more loyal to America or to its member banks? I'll let your intrepid listeners answer that one.

And this leads to our next question.

Bob, have you wondered how it is we have been printing trillions, but the value of the dollar has been rising? I mean, if you flood the world with paper dollars, you would expect its value to go down, right?

Bob: Right. I just kind of assumed that we were printing a lot, but Europe and Asia were printing more. So, relatively, we were---as they say---the cleanest dirty shirt out there.

Greg: Your thinking is good, but the answer is a little different. People are complaining there is a dollar shortage across the globe. And it's true. Dollars are in short supply. But, again, you ask, "How can that be? We have printed trillions of them."

Here is the answer.

Remember, what we first printed was trillions of debt. And, we all know foreigners have been buying our debt for decades.

Add to that, let's say a businessman from Thailand takes out a loan from a large international bank. Very often that debt is denominated in dollars. He must make interest payments in US currency, not the Thai baht.

But now, Covid19 has hit. ***Governments and businesses*** are scrambling to make payments. They are dipping into savings. They have US treasuries-- or dollar denominated debt-- but not cash dollars.

Think of it this way.

Bob, let's say your grandma left you a bunch of US savings bonds. And, you had these in a shoebox in your closet. But now you're short of cash--- and you need to pay your PNM bill. Can you take your savings bonds to PNM to pay your bill?

Bob: Well, no. They would just stare at them. I'd need to cash out the savings bonds, get real dollars, and then pay my bill.

Greg: Right. This is what is happening globally. Therefore, last week when our Treasury Department went to sell more of our debt, we couldn't find buyers. Traders were stunned. No one wanted to buy US Treasuries?!

But it makes sense. The world doesn't need savings bonds (treasuries) now. It needs cash to pay bills.

Thus, the Federal Reserve stepped in. Not only did they buy our debt, they vacuumed up the treasuries everyone else was selling. In short, the Federal Reserve is buying our debt in exchange for cash to alleviate a dollar shortage.

Bob: So, I get it. Because of coronavirus, demand for cash-dollars is high. Thus, the dollar strengthens. But, how long can this go on?

Greg: Great question. The answer is, I don't know. I do know, however, what endgame is. In a weird way we are growing our dollar to death. Here is the analogy.

Bob, do you know how Round Up kills a weed? It uses dichloro-phen-oxy-acetic acid to hyper-stimulate the weed's growth mechanism. The weed grows so fast it curls over and dies. In short, it grows itself to death.

My concern is, as we spray dollars across the country and the globe, we will grow dollars so fast they will eventually curl over. The dollar may not die, but it will weaken.

Bob: So, you're investing with that in mind...and you're doing it as the dollar strengthens. That's the plan, right?

Greg: Right. In the long run, the US will be OK. I just need to get my clients through this cycle change.

Bob: Very helpful. Thanks. How do people reach you? My number is 250-3754. Or, go to my website at zanettifinancial.com.

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