

Hello Everyone,

Everyone is cheering the jobs report this morning. I'm glad. We're a resilient nation.

Still, something doesn't seem quite right.

According to today's Bureau of Labor and Statistics report, a record 345,000 new jobs were created due to new (!) businesses forming. This supposedly happened in a month where the US was effectively shut down. Hmmmm.

I'd expect some revision to the numbers in the next few months.

Moving on. Today's missive looks at the structural flaw in the euro and why "a currency event" is likely in our future---and that event will originate "across the pond".

It's not our normal financial fare, but I hope you find it interesting.

Signed, Your Also,-How-Can-You-Classify-Workers-As-"Employed"-But-"Absent-From-Work"?
Financial Advisor,

Greg

KKOB 06.05.2020 The Euro Is Flailing

Bob: So, Greg, we are the subject of currencies. And, as I said on Monday, I don't know much about them. But I'm beginning to see how currencies can affect stocks.

So, it does matter to me--- since I have a 401K that has stocks in it.

Greg: Right. When a currency either strengthens or weakens it can have a huge impact on the stock market...both ways, either positive or negative. So, let's address a question that has flummoxed US investors for a long time. And the question is this:

- ***How can the US continue to print trillions of dollars, and yet the dollar strengthen?***

Well, part of the answer is other countries have their digital printing presses running 24/7 just like we do. But, it isn't just the quantity of currency that is being sprayed all over the globe that matters. It is also the quality of the currency. And, Bob, to make my point, let's look at the Euro.

Bob: Wait. Before you go on. The Euro is pretty new currency. I mean before the Euro, we had francs, marks, lira, and kroner. The euro is really only about 30 years old.

Greg: Right. And the problem is, they built it wrong. The idea was to create the United States of Europe. Thus, they agreed to consolidate all those currencies into one...mostly to compete against us. However, they didn't consolidate the debts. And that one error has led to all kinds of imbalances and distortions in the European economy.

Over the past several years, we have seen this problem manifest in Greece, Spain, Portugal, and Italy. Their banks are a wreck. And these countries are very resentful of the Germans for being an "economic bully". Meanwhile, the Germans are disdainful of them for being reckless in their spending.

Now throw in a European immigration and refugee crisis--- and a Covid19 pandemic ---and it's not hard to understand why there are stresses in the euro.

Bob: So, where is this going? Do you see a collapse of the euro? I mean, if so, that would be big. Investors would then race to dollars, or yen, or any other currency they think is safe.

Greg: Agreed. Maybe not collapse, but I see major changes coming. What they have now is not working. They can tinker with it all they want. But, if you build something on a bad foundation, eventually a strong economic (or political wind) comes along to knock the whole structure over. Think Brexit.

Anyway, what I could see happening is the euro breaking in two. There would be a northern euro supported by countries like Germany, Finland, Austria, and the Netherlands. Those countries

historically save money and live within their means. I could see them banding together and jettisoning the southern countries.

The southern counties could then possibly cobble together a southern euro---- or they could just revert to back to their traditional lira, drachma, and pesetas. Either way, those countries could then devalue their currencies, pay down some debts, and become competitive again.

Bob: So, given that possibility, that gives the US has some leeway to print money. I mean who would race to the euro believing their currency is a house of cards?

Greg: Exactly. Meanwhile, the yen has all kinds of issues ranging from a rapidly ageing population...they sell more Depends Adult diapers than they do baby diapers. Plus, they have strained relationships with China and Korea.

Then you have the Chinese situation, where their debts are double ours. Plus, the communist system is rife with corruption and graft. Oh, and throw in the international anger over Covid19, and suddenly the Chinese yuan isn't exactly a safe-haven currency either.

Bob: So, the *quality* of the dollar vs. the others, makes it the current currency of choice.

Greg: Right. That doesn't make the dollar perfect, but it's better than the competitors. So, the lesson is this. In an "everything is relative" currency world, if you only look at money printing (quantity), you will be confused about why things don't behave as you think they should. Look at quality, too.

Bob: I get that. It's always more complicated than we think. How do people reach you?

Greg: Agreed. My number is 250-3754. Or, go to my website at zanettifinancial.com.

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