

Some Thoughts on Global Economics

As global economies shrink due to the continuing debt contraction, global slowdown in final demand, and by western governments shrinking their spending to control and shrink their deficit spending there will be a "race to the bottom".

Countries will be fighting to keep their currency cheap to keep exports going which means interest rates will be low, oil is probably overpriced at today's levels, large safe multi-nationals are probably fully priced today having rebounded from all time lows during the crisis.

Lowest cost producers will likely be in greater favor, ie. Vietnam, Thailand, India, Malaysia to some degree Korea, (China is becoming a higher cost producer of low value goods and is rapidly "producing up" the value chain to maintain markets).

Hard assets will be in greater favor as fears of "money printing" become prevalent to stave off deflation. The Euro probably has further to fall, Japan will likely let the Yen fall to improve exports, so will China. (Fall against the dollar). There will be pressure on the U.S. dollar to fall as government debt is monetized, and as a push for exports.

With low interest rates and yields prevalent, investors will search for higher yields in emerging market bonds, alternative investments, real estate, and greater speculation and volatility in the markets.

It is possible that because so many governments are printing money to "inflate" their way out of the downturn and credit contraction that there will be high inflation. This could be a driver of hard assets (real estate), gold and gold related investments.

While it is a possibility I am unconvinced of the inflation scenario because while I agree printing money is inherently inflationary the other side of the equation is missing which is a shortage of goods, materials and labor. There are sufficiently low levels of capacity utilization in the industrialized economies and no shortage of raw materials as long as there slack demand.

If inflation is a possibility then u would want to invest in hard assets, and perhaps short bonds. Watch the Balkin index and shipping companys.

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