Cash chaos and how to profit

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It's a banknote. Couldn't be much simpler or more taken for granted. You've probably never really spared the time to think about what it really is. You just use them without a second thought. And always have.

But all around the world, cash is causing all sorts of surprising confusion. People are rediscovering that money is not as simple as it seems. Understanding what money really is will become what separates the winners from the losers of currency chaos in the future.

The signs are everywhere.

Thanks to the rocky <u>Brexit</u> negotiations, the pound's cash exchange rate has been fluctuating all over the place. In Cardiff, British travellers were offered 88 euro cents per pound at the airport. That's 24 cents less than the market rate. It's not quite as bad at other major airports, but the rate is still below a euro.

The papers were quick to blame profiteering instead of a lack of competition. The busiest day at British airports ever probably left currency exchange kiosks short of euros. Because busy airports on the first day of the holidays is not a predictable phenomenon...

It's always interesting how the reality of finance on the ground can differ so wildly to the markets we hear about on the news. Even when it comes to something as immutable as cash, the premium charged at an exchange kiosk dominates the actual moves in the exchange rate that day.

In Germany, things are even stranger

The major banks are sick of the European Central Bank's (ECB) negative penalty rates. If a bank wants to keep its funds in reserve with the ECB, it has to pay around 0.4% of the funds in the account. The idea is to encourage banks to lend instead of hoard.

But they have better ideas – cash. In the last two years, German banks have stored €10 billion in banknotes in their safes according to the German central bank. And that's set to continue.

The banks argue that German borrowers simply aren't biting. They won't borrow, leaving the banks with vast amounts of money at the ECB. Transferring the reserves into cash is cheaper because there are no penalty rates.

The only problem is, €10 billion is a lot of cash. Given the €500 note is being phased out, the €10 billion weighs at least 50 tonnes in the next highest denomination.

While banks in Germany hoard cash, banks in Scandinavia are hell-bent on banning it.

Norway's largest bank is promoting the idea. One of their executives came out and said this:

Today, there is approximately 50 billion kroner in circulation and [the country's central bank] Norges Bank can only account for 40 percent of its use. That means that 60 percent of money usage is outside of any control. We believe that is due to under-the-table money and laundering.

Huh?

Anything that <u>central bankers don't know about</u> is now a crime. The institutions have gone from obscurity to ruling the economy in the space of a century.

Of course it's obvious why big companies want cash banned. It advantages them enormously over smaller companies because the cost of electronic payment mechanisms and the infrastructure that goes with it is a tiny part of their budget but a big part of a small business'. And people perceive bigger banks as safer.

What's fascinating about the government crackdown on cash in Scandinavia is completely missed by the media. The proposed laws do not ban cash, but allow companies to refuse cash payments. In other words, for now at least, the war on cash in

Scandinavia is really the reassertion of a basic right – to choose your method of payment and the power to reject the method of payment your customer is offering you.

But things don't stay agreeable for long. Complete bans are on the cards too.

<u>India comes closest</u>. It's the guinea pig of the war on cash. The government decided to de-cash its economy last year. 86% of the country's currency became worthless overnight. In their fear of prosecution, many Indians shredded their banknotes.

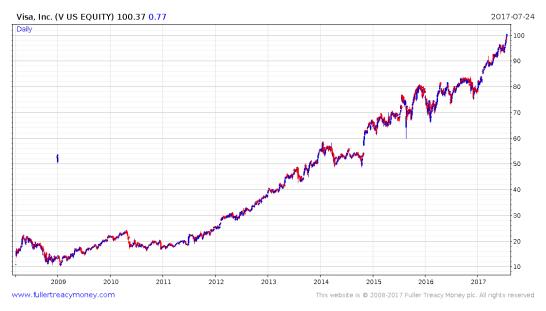
The aim was to digitise payments and bring in the new VAT called GST. As well as clamp down on corruption. Which brings up an important point.

One reason the war on cash came to India is, once again, glossed over by the media. India's state governments are a disaster. The country has customs inspections at its state borders, which can hold up business for days. The new ban on cash and digitisation of payments came with a complete revamp of the former absurd inefficiencies. Because of the measures it was coupled with, the ban on cash looks like a good idea. Don't be fooled by the two separate issues.

How to profit from the war on cash

Who would've thought banknotes could've caused so much drama? Having them, hoarding them, getting rid of them and using them is now a major economic and political issue. Opinion polls suggest the matter divides Europe.

So how can you profit? Well if Visa's stock price is anything to go by, the war on cash is a pretty good deal for payment processors:



But there's an even better option.

Imagine you owned dollars in Argentina

Imagine you owned US dollars in Cuba in 1960. The exchange rate went from par to 125 pesos over the subsequent decades. You'd have been 125 times as rich as those stuck with the local currency.

You could buy anything with pocket change.

Or if you'd owned dollars in Argentina, you'd be 37% richer per year on average over the last 100 years. Now that's keeping up with the Joneses!

The French who occupied the Ruhr Valley discovered their francs were worth a small fortune in Weimar Germany.

In Venezuela, the official dollar exchange rate gets you less than half the black market rate, doubling the purchasing power of dollar holders.

In each case, simply by owning a foreign currency in cash, anyone was able to escape the poverty and chaos of a financial breakdown. Instead, the surge in purchasing power during these desperate times meant owners of foreign currencies became

outrageously rich without lifting a finger. They were just smart, and early.

It's time for you to do the same thing. But this time, the world is different. You need to...

Escape government money altogether

The Bank of England's balance sheet has quadrupled since the financial crisis. Brexit is looking shaky. A full-blown socialist who idolises Venezuela is in charge of the Labour Party.

Confiscation is also on the government's menu. British bank accounts in Cyprus were raided when the country went broke. The government's deposit insurance is set at just £85,000, so any bank failures here mean your savings aren't safe in the bank.

What are you going to do?

Owning another currency is the truest form of diversification. Governments know this, so they try to stop it.

But there's one currency they can't stop, or print. They don't even know who owns it.

The media recently reported on a currency exchange trader known only as 0x00A651D43B6e209F5Ada45A35F92EFC0De3A5184. He or she made \$200 million in about a month. But no knows who to tax.

The obscure currency that turned the profit is your way to <u>escape the pound</u> and all the other government currencies around the world.

Every day people in the basket-case economy of Venezuela are using this new option to buy groceries off Amazon and then smuggling them into the country.

In other words, it works. But what is it?

You better find out before governments realise it gives their citizens the power to escape financial repression of any kind.

Until next time,

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