INDEPENDENT TRADER NEWSLETTER

Independent Financial Portal
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In today's edition:

Brexit: consequences to look out for.

On June 23rd, British will decide about their future in the European Union. The Brexit vote stirs a lot of discussions and worth noting is the fact that the incoming referendum is not just a whim of a small group of politicians but rather a result of a change that happened in the British society. The UK Prime Minister – David Cameron – committed himself to let people decide whether to stay in the EU during his last campaign. He won also thanks to that promise and now it is time to deliver. The atmosphere is tense as there is no clear winner in the polls. The 'Remain' campaign scored higher until Barack Obama visited the UK and recommended UK public to vote for staying. Since then the 'out' option gained few percentage points and now polls suggest either deadlock or marginal differences.

Among those who advocate against the 'Leave' vote are mostly the British government officials. Cameron in recent debate tried to reaffirm how destructive for the country the decision of leaving would be. His finance right hand - George Osborne - warned that the economic fallout of leaving the EU could be felt by everyone. Countless celebrities joined the mainstream media in solidifying the view that the UK can play a big role on the world's stage only if it is a part of the EU.

The 'Leave' campaign also has a lot of names behind it. Over 100 financial figures from the city of London signed a letter in which they doubt in the capability of the EU to innovate so needed in Europe. They highlighted that outside the EU, UK's economy can flourish. The former mayor of London, Boris Johnson – a big Brexit supporter – added that Britain would finally get the burden of the EU bureaucracy and high membership fees off their back of the economy and finally be able to sign sovereign trade deals and thrive.

The Brexit – a sign of time

Those who are still young cannot imagine the world around them without the EU. I would draw a parallel to millions having similar beliefs when it came to the collapse of the Soviet Union that fell in the '90s. The EU has different economic foundation than the USSR but flaws we can observe can bring it down.

One of the biggest problems in the EU is demographic. The demographic growth is very low when compared to Muslim countries. It was demographic coupled with democracy that resulted in solutions catering for gaining votes of 'old' generations and giving them stability at the expense of the young that are facing now terrible conditions of the job market. What is worse, in many European countries young people watch how welfare systems they have to pay for are exploited by illegal immigrants.

The EU became a symbol of bureaucracy and economic stagnation. The countless number of regulations was not seen as a problem when countries were recording decent GDP growth. Unfortunately, the financial crisis changed this perspective. The majority of Europe could not avoid the recession and while some are finally returning to the levels of prosperity from before the crisis, many countries are still rebuilding their economies without much success. The EU decided to spearhead policies of secondary importance and could not handle the key issues.

Die Welt is highlighting that the EU managed to regulate the size and shape of a cucumber but is unable to cope with the migrant crisis. Many Europeans now envy British as they have a chance to directly take part in answering the question of staying in the EU.

The European Union does not give any reason for optimism when it comes to many crises it experiences. Additionally, a statement of German finance minister Wolfgang Schauble is virally gaining more views. He said that an eventual crisis will be a good occasion to introduce changes he is the proponent of. In the video, he mentions that the concept of nation states is exhausted and a new form of central government should be implemented.

Under the weight of regulations, Europe lost its competitive edge against Asia and North America. It should be no surprise that the culmination of dissent ends up in ever stronger Eurosceptic movement – especially in the UK.

The Great Britain – a rebel with a cause

British always were perceived as farsighted people pushing for their own interest and security first. The treaty negotiations the UK participated in were always long and at the end of the day special opt-out rules always could be found in the annex.

The beginning of the end of the EU journey for the UK may have happened in 1950 when they refused to sign the Schuman Declaration and lose their national sovereignty. One year after they refused to join the European Coal and Steel Community. Ultimately, the Great Britain joined the European Economic Community in 1973. After solving their economic problems the UK flourished and established themselves as a member of the European community that vetoed the EU decisions proving a lot of common sense throughout the years. Already in 1984 Margaret Thatcher succeeded in negotiating the so-called 'UK rebate' thanks to which their membership fee was lowered by 1/3.

In 2007 during Lisbon Treaty negotiations, the UK and Poland were sceptical about ratifying the Charter of Fundamental Rights. Positively confirming their independence in areas mentioned in the Charter. In 2011 David Cameron was against more financial austerity imposed on members of the EU. Two years later he also protested against accepting new members unless conditions of immigration were renegotiated.

The UK vs the EU

Today the UK is deeply entrenched inside the EU organisation. British did not accept the Euro but according to the Office for National Statistics, the UK export more to the EU than to any other world destination. Data about imports tells a similar story.

A month before the referendum the UK Treasury shared an analysis of the consequences of possible Brexit. According to government's data in just two years after leaving the EU, the UK's GDP will shrink by 3.6% and over half a million people could lose their job while average salary is going to drop by 2.8%. On top of that, home prices are going to rise by 10% and the British Pound is going to lose 12% of its value. What is very important is that this report does not consider the UK making any trade deals. Of course, the pound can weaken but can anyone imagine politicians not trying to do anything about it? The UK is the second largest economy in the EU, this argument by itself is a sufficient reason to believe that other member states and by generalisation – the EU itself – would like to trade and have a robust cooperation with islanders. Most probable scenario is the trade-off between low customs in exchange for access to the European market for British products.

Consequences for the EU

Whole attention of media is captured by any possible detriment that can hurt the UK after leaving but it may mean way bigger problems for the Union itself. The situation of Europe is far from being economically and socially stable. Thousands of people are protesting each week in Greece, France or Germany. The case for Brexit can set the example for other countries to follow and the domino effect that can bring down the whole EU can be set to motion.

To understand how close this union got to the possible break up we can research reaction of the EU highest bureaucrats. Seemingly invisible Donald Tusk, the president or the European Council – the President of the EU – said something which contradicts with the opinion of Wolfgang Schauble mentioned before. The former Prime Minister of Poland is against the marginalisation of nation states in Europe as: "Europe without nation states is a utopia". Brussels is "blind to citizens of some member states who hardly are euro enthusiasts". Although Tusk is not chairing any position of real power he still has his political intuition working well. He sees that the Union is now closer to a collapse than to factual substitution of stigmatised nation states.

The European Commissioner for Economic and Financial Affairs, Taxation and Customs, Pierre Moscovici admitted that the "EU has no plan B" in case the UK leaves. This is a testimony to the weakness of this union. We can safely assume that when another country decides to vote to leave, the European Community unable to cope with its problems will be powerless also in this matter. It will not take much for other countries to question reasons behind staying in the entity that is in the evident state of decay. Especially when countries all over the globe are signing new trade deals everyday fuelling their economies.

The US and Brexit

The UK leaving the EU would not be good for Washington. The US economy is very weak and stays afloat thanks to printing the dollar and ZIRP. The interference with Brexit vote is another way to keep up the appearance of strength on the international stage. Another tool used is the TTIP – Transatlantic Trade and Investment Partnership, a trade deal between the US and the EU. Washington never offers deals against their interests and this one is no exception. As the content of this deal is confidential we have to assume that the US is getting the better side of the deal and signing it with all EU members is better than signing after Brexit.

Barack Obama shared his opinion about the EU referendum when he was recently in the UK. He made it obvious that in the case of Brexit, London will be put at the end of the queue while the negotiations with the European bloc will be prioritised. He strongly advised Britons to stay in the organisation that helped British economy. Polls after his visit showed a negative – 53% - perception of his words, while 59% said the special US-UK relation will not be hurt after Brexit. Maybe it will be Barack Obama who in just a few weeks will be named the person who tilted the vote in the direction of leaving?

Financial markets and Brexit

The vote to leave, at least in the short term, will negatively impact British currency. Also, EUR may be weakened as Brexit will mean that the EU as an institution cannot 'hold onto' it's 'assets'. Anxious investors may look for safe havens and this may drain capital from emerging markets.

The transitional period may be harsh for the British economy. Companies will question future direction of the Great Britain and in turn, hold investments for some time. In case Westminster will work towards unburdening the economy from bureaucracy this tough interlude is not going to take long.

Bond markets will also be affected and a capital flight is going to increase the yield of British bonds, increasing the costs of UK's debt. The reaction of rating agencies is hard to forecast as they tend to take into consideration political factors more often.

Looking at capital markets, in the long run, the direction of the capital transfer may change. In case the situation on the continent is going to deteriorate (just like it did in recent months) and the UK is going to successfully deal with illegal immigrants the result will be clearly safer UK and torn apart Europe. The capital will recognise better opportunity very quickly.

What after Brexit

In September 2015 George Osborne visited China. The result is a detailed plan of Chinese investments in Britain called by Osborne the "golden decade" in Sino-UK relations. Before that visit, the UK became one of the founding members of the AAIB – a potential competition to the IMF. A month after Osborne returned, Xi Jinping came to London. Some estimate the value of planned Chinese investment at 30 bn GBP (all foreign investment in the UK is equal to 35 bn GBP per year). The key element of negotiations was building the first new generation nuclear power plant in Southern England.

Only 3-4 years ago relations between China and the UK were dismal and the 180-degree change may be the proof that British are searching for an alternative. Cooperation with China may be the priority in this regard.

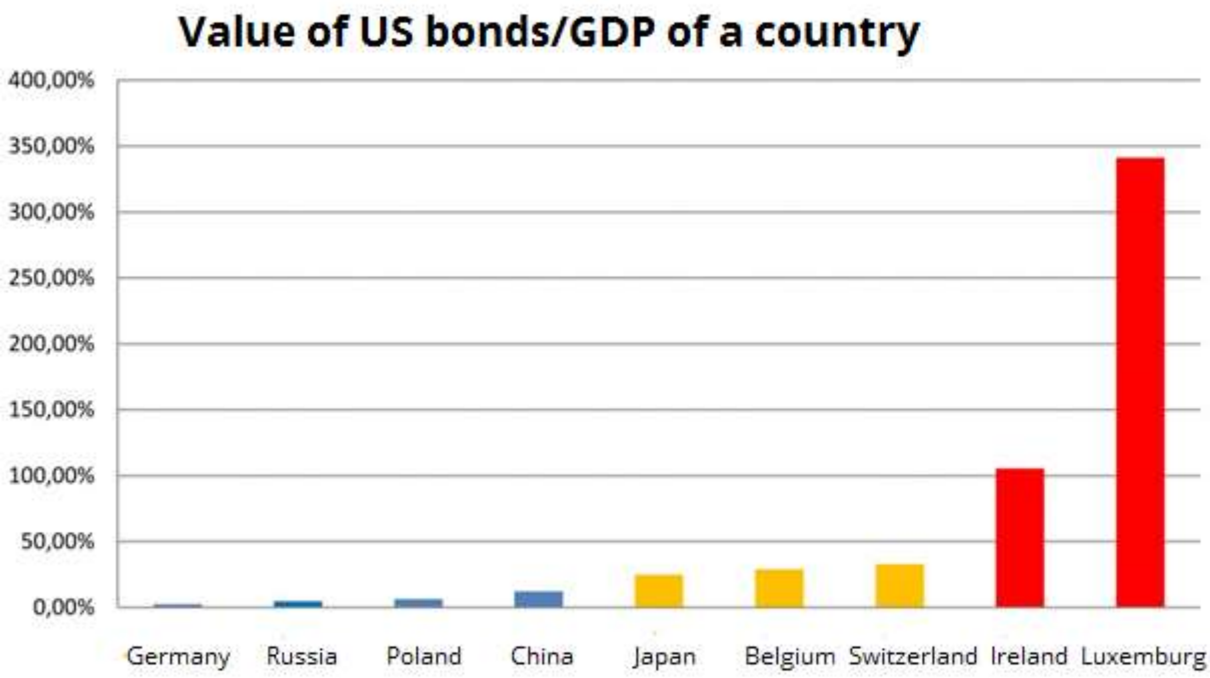
Summary

Whether the UK will stay in the EU or not, we know two things. First, the life beyond the EU exists. Some examples of this life prove that its standard of living is very high. Secondly, leaving the community and experiencing temporary turbulence does not mean assuming a weaker position on the international stage. But it may mean the end for the EU.

Independent Trader Team

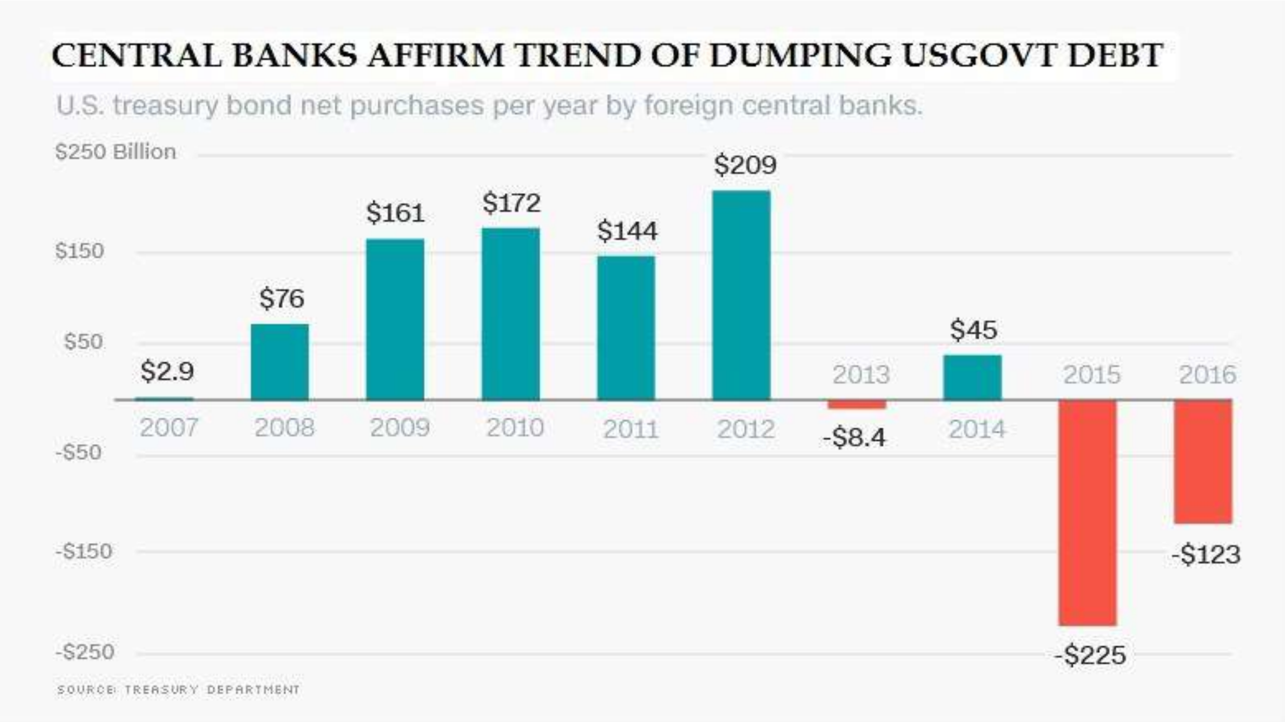
The USA hides debt in developed countries

The Federal Reserve to hide the actual level of their debt acquisitions does so through the use of entities in Western Europe. Why would they do that? The crisis made the emerging markets debt look more attractive to prevent the crash someone has to buy it.



Source: Self-made

As you can see above, small European countries have very good cooperation with the Bank for International Settlements (BIS) in Basel. Thanks to coordinated action US debt still looks attractive enough for the FED not to initiate another round of QE and admit a total failure of their policy. The trend of leaving the dollar is strengthening. It's not enough anymore to use swaps making the balance look better. Central banks that own US bonds have a negative balance and Washington's deficit of 30% requires increasing (and not limiting) world currency reserves in USD.



We can expect that there will be more countries with exposure to US bonds – adding others to the list of Belgium, Ireland or Luxemburg. How much of American debt will be added? We can only imply from examples above. For the last 5 years, the value of currency reserves of Ireland increased fourfold and is higher than the Irish GDP.

The alternative? Another round of QE but this would be counterproductive if indeed the FED is eyeing the rate hike.

Saudi companies on sale

The Kingdom of Saudi Arabia is having problems. Not only it had to issue bonds for the first time in 20 years but to get more capital it now sells public companies. One of the biggest transactions worth following is the sale of 5% of Aramco (estimated for 100 bn USD) – the biggest oil producer on the globe. According to International Finance institute to balance Riyadh's budget oil price has to break $100 per barrel.

Saudis have 600 bn USD in currency reserves and 330 tons of gold in London vaults. Why would they take on debt and sell crown jewels (Aramco and others)? Something is stopping them from using their assets – or someone. The US is actively blocking attempts to sell their bonds (9/11 and Saudi interference scandal). Also, it is very much possible that those gold reserves have already been moved to Switzerland, smelted and sold to Chinese.

Why can the West manipulate Saudis like this? Their rule is not stable and dependent on the whim of the US. The royal family has many enemies inside the country and protection of America can help keeping the power in the right hands. If the current state of affairs would present itself as inconvenient for Saudis they may want to leave American auspices but then they would be replaced by new regime or 'democratically elected authorities'. The Recent leak of Saudi involvement in 9/11 attacks cemented this scenario in case of Arab disobedience.

How German's interest trumps sanctions

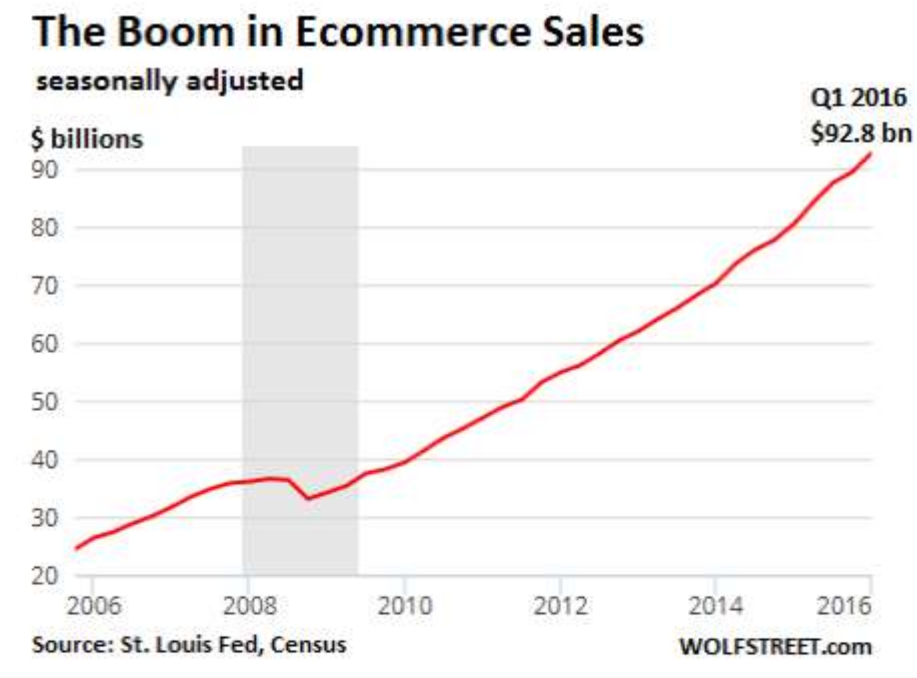
The biggest German dairy company – DMK Deutsches Milchkontor – was allowed to buy four Russian companies in the sector consisting of both dairy factories and specialised cheese factories. Thanks to that move former biggest exporter of cheese to the Russian Federation can resume operations even with sanctions not being lifted. This is not the only example of how German companies are breaking the agreement. Many of them – e.g. Merck, Siemens, GEA, Class – moved their manufacturing units to Russia to exclude their products from the list of exports.

Draghi saves the European banks. Again.

According to unofficial sources – the ECB is using a clearing system of central banks to save insolvent commercial banks in the Eurozone. The amount of risky credits freshly printed by the ECB is worth 820 bn EUR. To save European institutions from bankruptcy (mostly Italian entities), Bundesbank gave them (through the Italian Central bank) 250 bn EUR of credit. Although this sum may seem big it may not be sufficient as the amount of bad debt it tries to cover – belonging to the biggest banks in Italy – amounts to 360 bn EUR.

E-commerce sales on the rise

Traditional retail chain stores are clearly losing to booming online sales which grow on average 15% each year.



The result is seen all around the US with more people losing their jobs in retail. Only last year shares recorded huge drops – Kohl's Corporation (-47%), Dillard's (-52%), Macy's (-53%), Sears (-72%). This grim situation will soon translate into commercial shopping centres. Many shopping malls are getting emptier but their share price holds still – this may be a very good time to profit from shorting entities invested in shopping centres in the US.

The corporate world faces mass redundancies

In 2016, layoffs increased by 24% compared to 2015. Only in the last four months a quarter of million people lost their job. This is the biggest number since 2009 and the IT sector is leading in this classification.

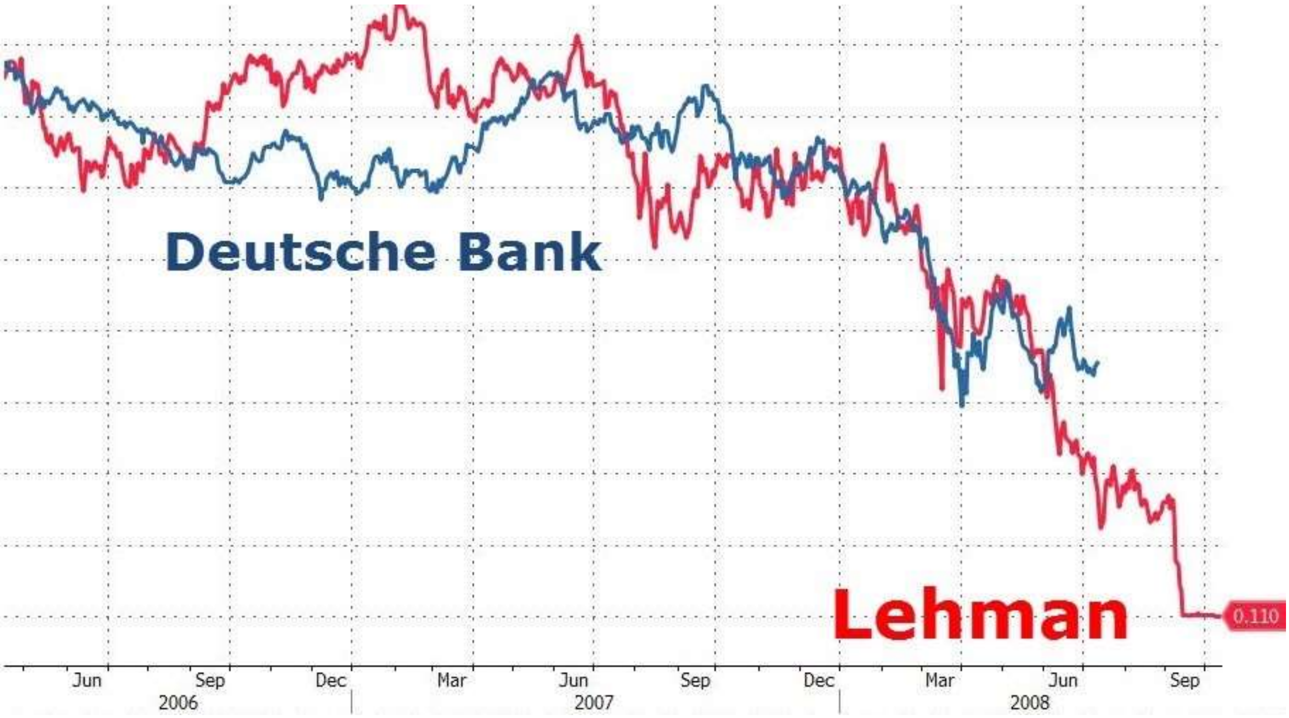
Over 12 thousand people were fired in just one week avoiding a standard procedure as one of Intel's employees shared. Normally, an operation like this is executed over several months, while carefully picking people that have to go. The form and speed of mass layoffs suggest that Intel must be in real financial troubles.

In my opinion, not many people believed in such a crisis in the high-tech sector. Especially that in 2016 it was the energy sector making headlines with over 150 companies going bankrupt. If bankruptcies of energy companies are viewed as catastrophic then what we see in the IT is definitely an omen of huge problems in the high-tech segment.

Deutsche Bank desperately looks for capital

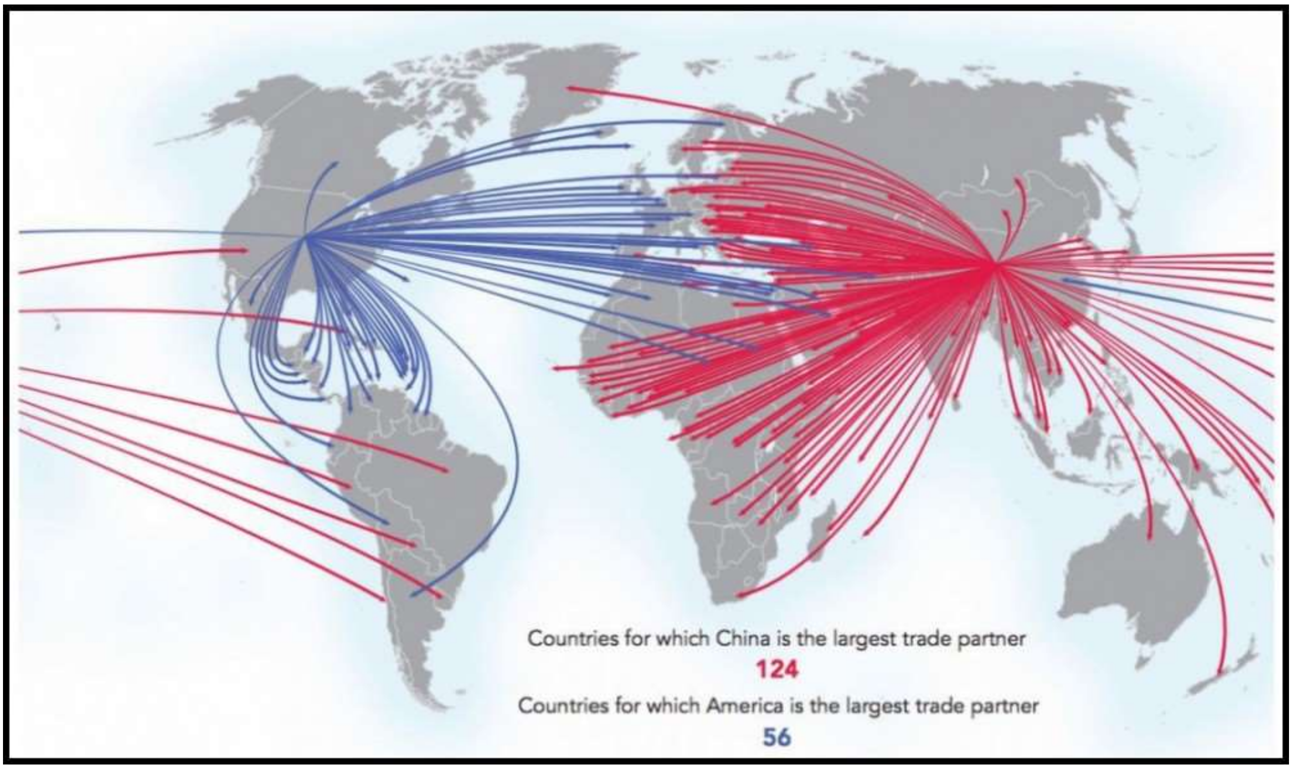
We knew about DB's problems for a while. Last year they ended up with 6.7 bn EUR in the red. Another blow came from Moody's reducing DB's rating to Baa2 (only 2 steps from 'junk'). All this made its bonds very risky. If anyone believed in the strength of German bank the last act of desperation should make it clear for everyone. DB offered Belgian clients 3-moth deposit with 5% interest - for 10-15 thousand EUR deposits.

While rates in Belgium are equal to zero, for unknown reasons DB decided that paying 5% interest is a good business. They clearly need more capital and they need it now to prevent liquidity problems. One question is looming – will DB be another Lehman Brothers?



China dominated global trade

The most important battlefield for China and the US is now trade. China has a huge advantage and the map below shows how bit it really is. Big successes of Asians are market takeovers in Oceania, majority of Africa and South America. This makes China doubling the result of the US.



Source: businessinsider.sg

The US is fighting to hold onto power in Europe and to stop an expansion of the New Silk Road, TTIP - 'free trade' agreement is being formed. While controversy around TTIP is growing negotiations continue. They do so – under the European Commission's supervision – even after the European Parliament issued a resolution against it. China is far from being passive in the battle of Europe – Western part of the EU joined the AAIB (which funds 'One Belt One Road'). Below you can see membership of the AAIB – countries in red which paid a share of the founding capital of 100 bn USD.

Source: paiz.gov.pl

Washington actively tries to resurrect the idea of Intermarium ('Between-seas') to disable China's expansion westward. The project with a key role of Poland and its neighbouring countries already made China look for an alternative – Greece. This is why Chinese are increasingly active in the Mediterranean region. Taking Greece out of German auspices (indirect US governance) can help Greeks solve their debt problem. The US knows this and the IMF already lobbies for a write-off to unburden Athens.

China is eyeing a takeover in Venezuela and Brazil

Through both diplomatic and trade channels, China wants to strengthen relations with those two countries. The reason is simple. The corruption problem in Brazil and Venezuela is not discounting their offer and they have a lot of assets that are attractive to Beijing. A decomposition of the state in Brazil is still at a very early stage (the crisis hit political circles for now) but Venezuela is on the brink of a total collapse. When the new government will start structural reforms – which are much needed due to country's economic ruin – valuable factories and other capital will be available for privatisation. To feed people and go through the hardest early phase of transformation, the government will require capital to import necessary goods. The Chinese will be ready to help at the right moment.

The main target is Amazonian fresh water, forests and areas rich in mineral deposits. China territory is becoming desertified and available resources of drinkable water are heavily polluted. To secure an ability to develop for 1,36 billion people, basic resources must be acquired from somewhere else. The Amazonian region seems perfect for Asians as the economic crisis gives options to achieve Chinese goals. No crisis should be left unused.

The vaults of London are empty

Independent experts of the precious metal market have agreed for a long time now that more gold is leaving the UK than it is coming in. The island has no gold mines and the only source where shiny metal can come from is the vault of London where gold reserves of many countries are stashed. Furthermore, according to data from Koos Jansen, the amount of gold trade is above the balance of all LBMA clients. This means that some part of gold trade has no official confirmation normally found in the balance of country storing the metal.

Gold is hardly available for purchase. The demand is now twice as high as the supply because China has been a major buyer. This shouldn't come as a surprise that Chinese ICBC bank is preparing to buy one of the biggest gold vaults in Europe - one of the LBMA storage in London. Its capacity is 2000 ton. Various sources confirm that British Barclays is now finishing their precious metal trading after DB admitted to metal price manipulation and agreed to share evidence pointing to Barclays and others.

The LBMA is not only dealing in physical gold but also it is the exchange that is arbitrarily setting the price of gold and silver – so called 'fixing'. This process is done daily through two teleconferences in which few representatives of the biggest banks in the world decide on the price of gold. Recently silver price fixing has been updated and 'correction' happened automatically. This has been confirmed by GATA group, in connection to precious metals price rigging done by future contracts. How many contracts are we talking about when it comes to gold – settled in USD and not in physical metal? Look at the infographic below.

Source: visualcapitalist.com

China enters silver market with a bang

JP Morgan owns the biggest physical gold reserves in the world – 70 million ounces. There is a contender on the horizon. Shanghai's precious metal exchange in just one year attracted 47 million ounces of silver. Americans needed 4 years to do that.

JP Morgan is responsible for settling Comex's futures contracts in physical metal when required. The bank owns this amount of silver reserves not only because of its status but also due to an event in the early '80s. Hunt brothers bought a huge quantity of silver and this pushed the price up.

The "Silver Thursday" was possible because the market for silver was very shallow. The value of silver produced in one year is not higher than 16 bn USD and storages of this metal basically do not exist. The numbers we are talking about could easily be handled by many investment funds. In case of any troubles, JP Morgan accumulated enough silver to be able to cover futures. Why is that Chinese hoarded so much silver in such a short period of time? In my opinion, this is their way of spending surplus of dollar reserves. In similar fashion, but maybe less aggressive, other commodities like iron ore or crude oil are stockpiled.

If authorities of the SGE are not going to slow down with their shopping spree they could create another spike in silver pricing. I do not believe this is their plan. They rather prepare to amass enough reserves for future take over the precious metals trade from today's leaders – LBMA and Comex.

Druckenmiller buys gold

During New York conference, Druckenmiller said that the boom in equity markets is ending and the biggest share of his portfolio is now gold. It is worth paying attention to this gentleman. Druckenmiller was an operative of George Soros for whom he led Quantum Fund. It was his idea to short GBP in 1992. Jim Rogers complimented him as the 'best money making machine'. These are not empty words. Throughout his 25 year career (during which he did not close any year with a loss) he multiplied managed capital 20 fold (on average 24% each year). Today he is working for himself and his recommendations can be seen as credible and independent.

His former employer – Soros – is also focusing on gold. According to unofficial sources, he doesn't buy metal himself but rather through specialised trusts. Also, he bought over 1 million units of ETF SPDR Gold Trust and Barrick Gold Corp equities worth 264 million USD. Soros, apart from shorting equities, sees the situation in China and in the US in very bad colours.

Donald Trump: Brexit would be good for the UK

The Republican Party presumptive nominee endorsed British initiative to leave the EU. The referendum on the matter is going to take place in just 2 weeks. The price of GBP recorded falls since the initiative was first announced and this is a clear signal of investors being anxious about the result of the vote.

Important question: is the UK leaving the EU something bad? Looking at the number of crises in Europe, overregulation and millions of immigrants ready to come aboard, it seems to be reasonable to abandon this sinking ship. Especially that Union looks more and more like German protectorate. Trump's words are contrary to statements of Barack Obama, seen by some as a threat of losing privileged position in the US-UK relations (TTIP negotiations).

More about potential hazards and advantages of leaving the EU we can learn from the film below.

Brexit The Movie: https://youtu.be/eYqzcqDtL3k

Independent Trader Team

Why Brexit is sending seismic quakes all over the world?

We definitely have an interesting day today. Although I was hoping for Brexit, I thought British were too scared of the Armageddon announced by Cameron and whole ‘Remain’ campaign to actually do it. Ultimately, citizens of the UK showed a lot of common sense and as the first nation in history decided to evacuate from the sinking ship of the undemocratic and insolvent EU. This referendum binds only the UK but it will be remembered as the day the EU has fallen. The implications in both financial and geopolitical sphere are huge.

Geopolitics

Let me start with the fact that the UK is still in the EU. The result of the referendum is, of course, vital but politicians haven’t prepared any procedures for leaving the EU. The main European institutions are going to delay the process and pre-emptively discourage others from leaving. During the incoming negotiations, it will be the UK with the upper hand, neither the European Commission nor the European Parliament.

Assuming that the process of exiting the Union will be handled in a controlled fashion, the most important deals should be done in one year. During this time London is going to write, negotiate and sign trade deals with countries of the EU but also with the rest of the world. Scaremongering tactics talking about trade paralysis are absolutely false. The EU membership doesn’t give you a monopoly in the area of trade and the best example is Switzerland. Swiss without an intervention of any third parties, successfully negotiated great trade agreements with nearly the whole world.

The single most important fact is that the precedent has been set. You can join the EU and when citizens decide to leave its structures it will happen. The Great Britain started the process of the EU collapse. I believe that in just one month other countries are going to start a serious debate about following British footsteps. Counter-intuitively it will not be bankrupts but rather Denmark, Austria, Luxemburg or Finland. Why them?

Countries with very sensible fiscal policy have the most to lose while staying in the EU. The ECB is printing 80 bn EUR each month – this is faster than the FED at its peak. Draghi is doing that to buy junk debt of bankrupted southerners. This is not going to help them but instead, we are going to see the monetary crash with hyperinflation spreading to other countries using the EUR. The sooner particular countries evacuate the better their chance to prevent unintended consequences of the EU policy that can crush the Eurozone.

In my opinion, the fate of the EU has been decided today. The question is whether it should be a controlled transition towards new structures or should it resemble the process of the USSR collapse.

Against popular belief, in my opinion, the United Kingdom is the biggest victor today. It has time for necessary reforms and new trade deals.

China and Russia take respectively 2nd and 3rd place. Geopolitically, these are the countries gaining from the EU collapse. Without the EU, it now is possible to avoid sanctions against Russia and intensify trade exchange with China – the first big steps for the UK. London is strengthening its ties with China notwithstanding protests from Washington. Being one of the founding members of the AIIB, London became the centre for CNY exchange.

Another winner is Turkey with its role drastically gaining both militarily and economically. The decomposition of the European Union will also aggravate problems that NATO is facing for some time now.

The financial tsunami

The Brexit is an event on affecting the world in a similar fashion as the fall of the Soviet Union. For financial markets this event is global. Today the main factor which has to be calculated in is the probability of the whole EU collapsing.

a) Weakening of GBP

Seeing GBP as a currency recording its historical lows I can't see any investment value in it. GBP was one of the participants in the devaluation race to the bottom. Neither the central bank nor the government has enough gold to reclaim the trust for their currency. What is more, investors are afraid of any problems that can slow down the transformation. In other words, apart from GDP being at its historical lows prospects of this currency surging are low. I don't own any GBP and I don't plan to buy any.

b) Weakening of EUR

It wasn't since yesterday that the thought of EU and Eurozone collapse hit the mainstream. The United Kingdom wasn't in the Eurozone but if a country can leave the Union what stands in its way of leaving common currency?

The Euro was doomed in 2011 when Mario Draghi decided to get rid of the myth of EUR 'as strong as Deutsche Mark'. He tried to save southerners with printed press. This move just bought some time while trashing European currency to junk league of modern currencies. Today with mass printing, a huge bubble in government bonds (40% being NIRP) and ailing PIIGS the real scenario to watch out for is the failure of the EUR.

c) Gold and CHF

The traditional beneficiaries of any turmoil in financial markets are both gold and CHF which is still seen as a safe haven. Gold is just 10% below its 2011 peaks. Both assets have a big margin for growths but if you want to see huge jumps pay attention to equities of mining companies.

d) Equities

The panic seen in the equity market is something totally normal. Problems can be deepened by rating agencies that will definitely lower their estimates for the UK and many other countries in the EU.

Today two groups of assets are losing the most:

- Banks in the UK due to investors believing there can be transactional issues regarding new trade deals preparation.

- Equities in countries threatened by insolvency: Spain, Greece, Italy. Last few years euro-bankrupts were buying their time with currency printing of the ECB. I already showed you the sheer scale of distortions by comparing interest rates Italy, Portugal and Singapore have to pay on their debt. The EBC by buying junk bonds no one in the right mind would buy, only postponed the inevitable bankruptcy. Since today, investors are seriously considering the fall of the Eurozone and bankruptcies of at least few countries.

Today equities in Spain are attractive. Given that the transformation can still push their prices down by 40% it will be great chance to build your position then.

Summary

Today's result of the referendum leads to a big earthquake in financial markets. It is going to take some time before it goes away. Finally, the risk of both the EU and the Eurozone collapse has to be considered. In the long-term, it is a development for the better. Also, part of the Eurozone debt may be written off to keep it alive.

We have creditors and debtors on the opposite sides. Write off means losses for creditors. Who has debt? How big is it? Who is insuring it? There are a lot of questions and the lack of answers makes people scared. This fear is clearly seen in equities.

I may be wrong but I believe Brexit is not another 'Lehman' moment. For few weeks markets are going to experience volatility after which the FED will cut the rates. Look for the announcement of another round of QE to 'clean up the British mess'. This will calm the situation in the market for a while. It will buy time until another ___exit.

Me? I am calmly 'sitting' in metals, currencies, commodities and Russian equities. Today with a big satisfaction I will capitalise on my options that gained due to weakening pound and the UK equities. Those who participated in the webinar during the weekend know what I'm talking about.

Trader21

Universal Basic Income.

It wasn't long time ago when Swiss had a referendum about universal basic income (UBI). They rejected it. The initiators of the campaign for UBI wanted a minimum salary to be paid to everyone regardless of their age, occupation or level of income. The UBI was aimed to replace pensions and benefits thanks to which numbers of bureaucrats would decrease. One argument for such a change is advancing automation and the end goal is to disconnect salary from work.

The Swiss economy is one of the most efficient economies in the world. Robotised manufacturing produces high-quality goods and thanks to that country records a big surplus in foreign trade for nearly four decades. High productivity and relatively small intervention of government in the economy make sure that salaries both in nominal terms and when compared to costs of living are very high. The unemployment is practically non-existent.

Swiss have realised that a truly free market (do not mistake with monopolies) and small government translate into prosperity for everyone. Because of this, a few months earlier they refused a proposal for a minimum wage. At the beginning of this month, they rejected the idea of UBI. It seems so that Swiss understand the very basic rule of government spending – if the authorities are about to give you something they first have to take at least 150% of the handout in taxes.

There is an equal number of those for and against the idea of UBI. This is why I will analyse the topic thoroughly.

1. Automation of work

The main argument to introduce UBI was the advancement of automation – replacement of human capital with machines. If you can do the same work but more effectively without humans should people work at all? This view is very simplistic and with this angle, you may even go further and say that machines will replace all workers. Developing technologies change the structure of employment but do not wipe it out.

Two hundred years ago 90% of the population was working in agriculture doing nothing else but produce food. Technology enabled us to push this number down to 30% and still feed 100% of society. Today in developed countries agriculture share of the economy reaches 3% of the population. Is the rest 97% unemployed? No.

In XIX century former farmers migrated to cities to work in factories and industry's role in the economy was growing. In time services sector crowded out the industry in developed economies. Automation and development helped to create new occupations or even sectors, expanding human potential. Just 20 years ago no one heard of personal fitness or yoga trainers. The share of tourism in the global economy literally exploded thanks to cheaper transportation. Apparently, deflation (fall of prices) is terrible for the economy :-)

Automation indeed lowers the demand for human work but technological progress creates new jobs and sectors changing the structure of employment. Should we then give away money because automatons take over part of our jobs? In my opinion, no - at least not on a massive scale.

2. UBI – it's all about the money

Campaigners for UBI assumed that it can stimulate spending – especially the poorer part of the population – and this in turn will increase the velocity of money circulating in the economy fostering the economic growth. It should also simplify the system and limit counterproductive bureaucracy as it would replace benefits and pensions. They have a point here. What is more, in Switzerland the majority of society treats occupation not as a necessary evil but a chance for self-actualisation. It is not likely for people to resign from jobs just because they would have alternative – UBI.

This doesn't change the fact that you still have to get the money from somewhere to fund this project. Printing money is out of the question because it produces hidden inflation tax. In Swiss constitution, there is a ban on budget deficits. The last option is to raise taxes. Increasing VAT? I doubt that – increase in prices hurts those who spend most of their money to satisfy basic needs – the poor. Raising income tax? Also a bad idea as a total contradiction to the spirit of UBI. The last one is CIT (corporate income tax) and it may seem a logical solution because it is the corporate world that benefits from automation the most. In theory. With taxes being too high some entrepreneurs will start to optimise their tax payments, some lose spirit to work as hard as before and corporations move to more tax-friendly states. This is how it works unfortunately, politicians rarely understand this simple mechanism.

3. Social benefits of UBI

a) Change of the employment structure

Campaigners for UBI raised a very important issue – raising the standard of living. According to their data, UBI is approximately at the same level as an unqualified people's low income. For this reason, they would stop working and focus on self-actualisation and raise their qualifications (sounds a bit dreamy to me). Simultaneously, a decrease of able hands in the job market should increase wages.

Let's analyse this train of thought a bit longer. The result of an increase in wages is an inevitable hike in prices of goods, lowered productivity and competitiveness especially when compared with imported goods. This, in turn, shrinks sales and leads to layoffs. At the end of the day, we are back at square one with a big difference: lower tax revenue for the government.

The effect is similar to a minimum wage increase – although the idea is beautiful we have to judge it on its merits and effects – it leads to more unemployment and poverty. In whole Europe, it seems that only Swiss understand that fact.

b) Elimination of pathology of poverty

The UBI campaign assumed that many people who live on the verge of poverty are 'coerced' to make a living out of crime. Basing on this assumption they implied that UBI has to decrease 'pathology'. I think, it will have the opposite effect. Criminal element exists in every society. In the case of Switzerland, it is extremely low with 3.3%. If someone doesn't have a job it is only because one chooses not to have it.

UBI is going to make part of the society value their job less than what they can get for free. They will resign and turn to 'vegetation' mode with fewer aspirations and no self-development which can lead in some cases to crime.

Very good example of this is suburbs of Paris. The majority of the population there lives off benefits. The crime rate is record high there. Another example of this is a town only 12 km from the city where I live, where immigrants from Marocco are now the majority (70%) and live only from governmental handouts.

Due to the level of welfare, especially in the case of big family, no one thinks about getting a job, developing oneself or guaranteeing better education for children. This model of 'welfare family' is being transferred onto younger generation because this is the only thing children see and will naturally try to copy it later in their families.

The difference worth highlighting here is the attitude you have towards money which is given and money which is earned. The price you are paying in your hard work makes you respect money as you had to sacrifice 8-12 hours for it. This link doesn't exist in the head of a person receiving money for nothing.

4. Dependency on the government and the "Big Brother"

What campaigners for UBI forget is one very important fact. When you put people on any kind of governmental program most likely they will become dependent on it. Society more dependent on the government is going to bend according to the will of their rulers much easier. Politicians manipulated by lobby groups could threaten to decrease or annul UBI unless cash will be eliminated. With enough leverage, authorities are able to push through reforms that in normal circumstances wouldn't be possible. Another example is similar to the situation we saw in 2008.

Imagine some supervisory body – the European Commission – being able to coerce governments to buy toxic vaccines just like in 2008 under the threat of withdrawing funds for UBI.

What seems impossible today, in the case of society dependent on the government, may happen without any substantive dissent. Being even more reliant on the government – UBI – can enable the rulers to have yet another way of exerting their power over ourselves. This is definitely a scary path for a free society to take.

We cannot forget that it is all of us who need to pay for anything that government gives to some particular part of society. On top of that, any handout making nation more dependent on the corruptible government turns us eventually into slaves unaware of our shackles.

5. Feudalism – slavery – the façade of freedom

The biggest pathology of today's world is overreaching socialism coupled with the dictatorship of corporations of which only 5% of the population is aware. In the majority of 'Western' countries, public participation in the economy is around 40-45%. In the insolvent EU, it is gargantuan 48%. Inefficient, corrupted government is responsible for the half of the economy. Overgrown administration, unnecessary regulation and welfare payments make this enterprise very expensive. The Tax Freedom Day in the majority of countries is around the end of May/beginning of June. This means that for nearly half a year you are working not for yourself but only to pay for government expenditure! To put it into perspective, in the US during early XX**th** century the Tax Freedom Day was at the end of January. The state was able to function with great success, burdening average Joe with taxes 7 times smaller than today.

6. Future of UBI

Switzerland is not the only country interested in UBI. Alaska already has one funded partially from hydrocarbon tax. Countries like Canada, the Netherlands and Finland are preparing for local pilot programs of UBI. As much as I am against UBI in the big scale I am interested in these pilot programs as I believe, ultimately all social payments will be reduced to one fixed benefit. The power corrupts since the beginning of time. Sacrificing independence and being at the mercy of politicians is the definition of a relation between modern slave and its master. We cannot change human's nature. The paramount objective for those wielding power and architects of this system is the control exercised through a distribution of capital.

7. An alternative to UBI

Advancing automation of production may not necessarily render human labour superfluous. If we had told farmers living 200 years ago that soon 97% of population is not going to produce any food they wouldn't have believed us. "What else are they supposed to do? The system would collapse!"

Right now we react similarly to technological developments. In my opinion, separation of income and work is not a good solution.

The people are creative. Many of us want to develop and pursue our dreams. It is people – not governments – pushing technological breakthroughs beyond what we previously understood as the limit. The institution of government, as we learnt from history many times, is more of an obstacle. There are many other solutions that improve living standards but virtually all of them require serious reduction of the government's role. We shouldn't rely on the whim of politicians to administer handouts but rather improve the system. With modern technology without any problems, we could reduce our working day to 4h and not only sustain but better our standard of living.

a) Total elimination of taxation on labour

Human labour is very expensive today not because of machines but due to taxes. Labour in some countries is taxed on the punitive level of excise taxes on alcohol or tobacco. Social security and income taxes make employment's cost double when compared to what the employee gets. The solution is the replacement of human with a machine. Elimination of labour taxation will dramatically lower the cost of employment and in turn, lower the unemployment rate. What is more people's ambitions will not be curbed and many young aspiring entrepreneurs will choose to create their own companies, further improving thesituation in the job market.

I am not against automation. It is vital for lowering prices of many goods and services. Assembly line robots are not taxed, human labour is. This puts humans on the losing side.

b) Abolishing minimum wage and other employment regulations

Employment is nothing else than a contract between employee and employer. The state by intervening in 90% of cases result in the negative effect notwithstanding good intentions of the legislators. This negative effect is increasing the cost of employment for the employer, rising costs of labour and drop in efficiency. The amount of regulation is positively correlated with unemployment.

Minimum wage makes the job hunt for unqualified people or those without experience much harder because they are not able to take a job below an arbitrary level of salary set by the central planners of the government. This precludes people in poorer regions to gain experience which could increase their salary in the future. The introduction of the minimum wage or raising it will inevitably end up in exclusion of the vulnerable group from accessing the job market, jump in unemployment, lower productivity, rise in prices and slower economic growth.

There are countless examples of such predicaments to growth:

- Prevention of employers against firing people 2 years before reaching the retirement age. The effect is that employers make people redundant 6 months before this safety period. No one wants to employ people he is not able to dismiss. For politicians, it doesn't matter whether someone who can't be dismissed is working efficiently and adds value to the company or not.

- Require from employers to pay for "special, expensive training" for employees and you won't see those jobs being created in the first place.

I believe I'm not overestimating when saying that 90% of the law which is supposed to guard the rights of employees has the opposite effect. The correlation between unemployment and regulation is proven by countries with low regulation having low joblessness rate. The best guardian of employee's rights is not the government but low unemployment. In such circumstances, it is the employer who has to fight for the employee, not the other way around. With high employment ratings, we need to offer many things to attract specialists to work for us. Starting with high salary and ending with free medical insurance, gym, a decrease of working hours or great team of people to work with.

c) Bureaucracy on every level

The absolute majority of regulations is harmful. The main "sponsors" of most of them are international corporations that 'buy' the law detrimental to competition securing their spot in the market. Today, SMEs are fighting the uphill battle against big corporations. To comply with all the law corporate word spends less than 1% of revenues but if you are a 5-emloyee SME the battle with the bureaucracy monster is too costly and can drag for years.

Countries with very high level of regulation tend to 'enjoy' bigger share of corporations in the economy. Now in Switzerland small and medium enterprises produce 75% of the GDP thanks to minimising the impact of regulation on the market. In Europe, we see unfortunately the opposite trend of destruction of SMEs. This leads to big corporations gaining a dominant position in the market, becoming monopolies to the detriment of the society's good. Who will take care of the client better – owner of the family business knowing his clients for 30 years or cashier in the market with a minimum wage?

d) Elimination of monopolies

Monopolies in any sector create barriers of entry to stifle competition and lower the quality of their services while margins increase with prices. With time we can expect them to break the law on a massive scale and the victim is always the consumer – 99% of the society. There is only one winner – the shareholder of the monopoly. In just one decade we moved from "Bail-out" to "Too big to fail" arriving at "Too big to jail".

Another problem with monopolisation is planned obsolescence – creating a product which stops functioning after the warranty ends. Consumers instead of using their hard-earned money on something they planned to buy have to purchase the equivalent. The equivalent, again, will function 10 times shorter than what we could expect from the real competitive environment.

In terms of effectiveness of anti-monopoly bodies and consumer protection authorities you can judge for yourself but it is not far from the bureaucratic efficacy of the rest of administration.

e) Elimination of the government from the life of the individual

The role of the government should be limited to internal security (police, fire department), external (military), judicial branch and energy, transport and water infrastructure.

Everything else can be left to the private sector to take care of.

- Why schools can't realise their own educational programs that actually fit the job market? Better schools will prevail while the bad ones will disappear from the market. Who knows best what is good for children? Parents or some clerks pushing common core into every child's head?

- Why medicine can't be exclusively in private hands? Why the patient can't decide for himself which therapy to choose – just like in Mexico where many 'incurable diseases' are being treated? The difference between Mexico and 98% of countries is that it is constitutionally guaranteed for a patient to choose his method of treatment. This freedom enabled competition, reduction of costs and significant increase of the quality of services. The effect is visible for citizens of San Diego in Southern California who go to Tijuana for treatment.

- Why should it be up to the state to allow you to build your house on your land?

- Why hundreds and thousands of licences are introduced to block so many people from working? Wouldn't it be good for them to be employed rather than jobless?

Leaving those spheres – now monopolised by the state – in private hands could solve economic problems while lowering costs thus, improving salary/cost of living ratio.

Finally, the end result of all of the above would be an increase in the efficacy of the economy, plummeting unemployment and lowering prices due to competition forces. What is more important, everyone would feel the rise of their real income. This enables you not only to cover your living costs but also start saving.

The long-term effect would be shrinking working week from 40 to approximately 25 hours. This reduction cannot be forced by regulation but rather an unwritten compromise in the free market environment between employers and employees. Are you young, ambitious and in need of money? Work even 60h per week – the decision is only yours to make.

In case your free time is worth more and you prefer 25 working hours and can sustain yourself with that – again – it is your decision. The government is not going to interfere.

This is the path to take instead of public overspending! Economic freedom and low taxes are the ingredients fuelling the economy, lowering unemployment and increasing real income. The government with its redistribution of goods is an anchor slowing down the aforementioned process. Unfortunately, there are very few countries which understand that simple fact.

The place where I live, where the ratio of income to living costs is high, many of my friends work only 8 months in a year. Considering a 12-month framework, it is 25 hours per week system.

If we were able to eliminate the 'parasites' living off benefits only, saved money could be used to lower taxes and suddenly it may occur to average Joe that working 4 hours per day or 6 months in a year completely suffices to cover basic expenses. Annulling piling regulations and directives would definitely result in a speedy process of healing the economy and enable a further decrease in working week.

This is the way forward, not the bankrupt system where politicians look for a way to coercively make everyone happy with regulation lobbied by interest groups.

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