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An Excerpt from the Editorial of the Weekly Courier

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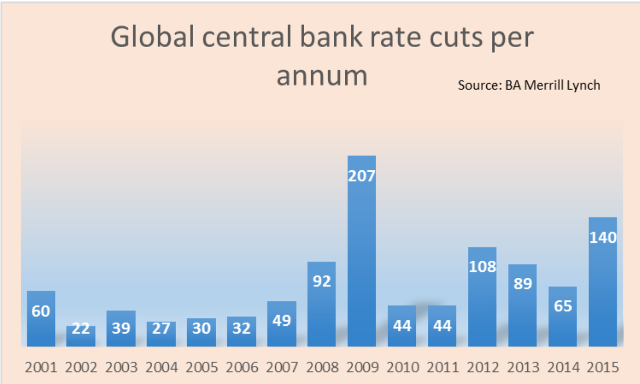
Monetary expansion

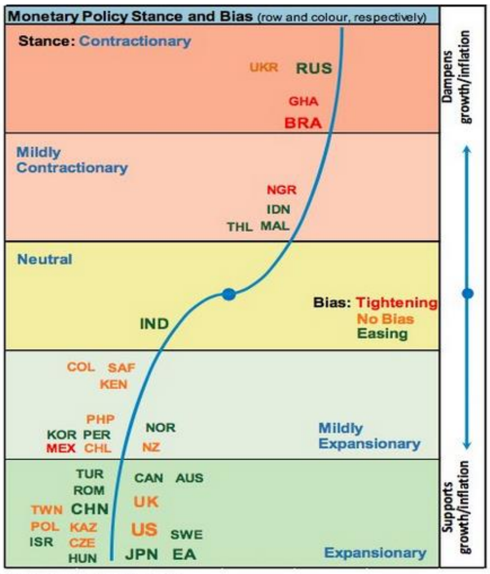
Over the last two years there have been many suggestions that the US Federal Reserve might start to raise interest rates. The US economy looks to be on the mend in spite of low GDP growth in the last quarter.



Monetary tightening in the US runs against the grain as most central banks in the world are busy relaxing monetary conditions.

Seven years after the crisis reached its zenith, central banks across the globe are still reducing interest rates and increasing money supply. This year alone, central banks have already cut interest rates 49 times and if they continue at this pace for the whole year, they will have cut rates 140 times.

Indeed, central banks policies are probably more expansive this year than during the Euro-crisis in 2011/2012. How can this be the case when the world is growing apace and stock markets are hitting new records weekly?



Source: Morgan Stanley Research

Morgan Stanly created a spectral overview over the current central bank activity. It shows that many developed countries and Europe in particular are trying to create growth by expanding their money supply. Some developing countries are trying to keep growth in check by increasing interest rates. Other countries such as Russia, Ukraine, Brazil and Iceland are trying to artificially to pump up their damaged currency, raising rates in a contracting economic environment.

History tells us that a sick currency eventually falls to its intrinsic value. Using interest rates to pump up the value of currencies usually ends in tears.

History also tells us that increasing money supply to create growth can only go so far and may lead to dangerous imbalances.

Central banks at both ends of the spectrum need to understand, that while their actions can help economic stability in the short and sometimes medium term, monetary policies will not cure ailing economies in the long run.

The Ukraine creditors

The government of Ukraine is dealing with extremely hardnosed creditors as it tries to restructure its $23 bn debt. The biggest problem is that the members of the creditors committee have so far not been willing to reveal their identity and that only one single member of it is known to the Ukraine government. The government can therefore not conclude any confidentiality letters with the creditors which is a necessary prerequisite for any agreement.

The Weekly Courier suspects that the debt is heavily traded at the moment as hedge funds are moving aggressively in and replacing more "normal" investors in government bonds. The new owners don't want their identities revealed while they can continue to pick up substantial quantities of debt at knock down prices. Once they become privy to confidential insider information they have to cease trading.

It would not surprise The Weekly Courier that once the new creditors come up to the surface, their names will be very familiar to the Icelandic government negotiating teams.