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Safe-Haven Currencies: If You Want to Flee the U.S. Dollar, Here Are Four Places to Hide

July 26, 2011
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As a young British banker in the inflation-ridden 1970s, I got used to carrying large amounts of German deutsche marks, Swiss francs and Japanese yen in my wallet - to have some security against the lousy performance of the British pound sterling.

While paying for a pizza in London with this foreign cash was difficult, having those "safe-haven" currencies in hand helped me sleep at night.

We've reached that point again. In light of the escalating debt-ceiling debacle that's unfolded in Washington, the potential for a U.S. credit-rating downgrade no matter the outcome, and the likelihood that a long stretch of dollar-killing stagflation is headed our way, it's time to take refuge in today's safe-haven currencies.

And I'm going to show you the safest of those safe havens.

The Battle-Damaged Greenback

I know that many of you are extremely worried about what will happen if Standard & Poor's downgrades U.S. Treasury debt from its top-tier AAA credit rating.

But I'm telling you that there's a much bigger cause for concern. While I concede that having our federal debt lose its top-tier credit rating wouldn't be good, the bigger cause for concern is what happens to us if the U.S. dollar stops being regarded as AAA - meaning it's no longer good for settlement of all international transactions.

If that happens, you have to ask yourself two questions:

- What would be the impact on the U.S. and world economies?
- And, even more importantly, what would investors like us need to do?

The answer to the first question is clear: The fallout will be worse than you imagine. And that means that, even now, you need to be searching for refuge in the very best of the world's safe-haven currencies.

With the Aug. 2 deadline for raising the debt ceiling approaching fast, the U.S. dollar took another beating and fell against safe-haven currencies yesterday (Monday), after Washington failed to reach agreement on the nation's $14.3 trillion debt ceiling. The Swiss franc actually reached an all-time high against the dollar, which has slipped 25% against that currency in just the last 12 months.

What a lot of folks don't realize is that the fate of the U.S. dollar is closely tied to that of U.S. Treasury bonds. If U.S.

inflation takes off to serious levels - as I'm almost certain it will - both Treasuries (except Treasury Inflation Protected Securities, or TIPS, which are inflation-protected) and the dollar will tank simultaneously.

After all, the United States has been running balance-of-payments deficits of $500 billion or more for almost a decade now - much longer than the country has been running $500 billion budget deficits.

The dollar is also almost certain to drop if the vast U.S. budget deficit causes a crisis in the Treasury bond market. Finally, the advent of modern communications technology has made global manufacturing much easier, lowering the market premium of U.S. wage levels above emerging-market-wage levels (that's one reason unemployment has been so stubbornly high this time around). The easiest way for these wage levels to be equalized again, necessary for U.S. unemployment to fall, is for the dollar to decline sharply against emerging-market currencies.

For these reasons, we can expect the dollar to be generally weak against other currencies. That will unsettle international traders who receive payments in dollars. They will look to get paid for their goods and services in other "safe-haven" currencies.

The challenge, of course, is to determine exactly which safe-haven currencies we're talking about ...

The answers will surprise you.

The Four Real "Safe-Haven" Currencies

So if we're searching for safe-haven currencies, which ones should we look at?

The European euro? That won't do - there's too much of a chance of it splitting in two. That would be either good or bad - good if the weak-sister PIIGS of Portugal, Ireland, Italy, Greece and Spain split off to form their own weak bloc (leaving the euro strong), or bad if Germany and a few stronger countries split off (leaving only the weaker currencies in the euro). Either way, the euro is a risk, and a big one: After a split, the currencies would probably shift by 20% to 30% against each other, to give the weaker countries a chance of exporting their way out of problems.

The British pound sterling? What a very sweet, old-fashioned idea. If this were 1911 - or, better still, 1821 - this would be the ideal safe haven. But it's 2011, and Britain has all the same problems as the United States - only to a greater degree.

The Japanese yen? Japan has a much worse debt problem than the United States, and only the fact that Japan owes all that money to itself is keeping the Japan Government Bond (JGB) market stable.

The Chinese renminbi? A fashionable solution, but the reality is that China still won't let its own citizens get their money out freely. What's more, there is a huge glop of bad debts in the Chinese banking system that at some stage will cause big problems - so big, in fact, that the 2008 financial-system crash and collapse of Lehman Brothers Holdings (PINK: LEHMQ) will seem like a springtime stroll.

Such afterthoughts as the Brazilian real, Australian dollar or Canadian dollar? While I'll grant you that Canada is much-better run than the United States, the ugly truth is that Brazil and Australia are no better run than any other country. In fact, all three of these countries had the great fortune to be heavily dependent on commodities at a time when commodity prices happened to soar.

If commodity prices decline, the innate problems facing each of these currencies' problems will become painfully apparent.

As our trip around the world

There are thus very few safe-haven currencies for you to invest in.

There are actually four clear winners:

- **The Swiss franc**: Switzerland is the ideal European country - chiefly because it has a large-but-safe banking system. The Swiss National Bank made UBS AG (NYSE: UBS) and Credit Suisse Group AG (NYSE ADR: CS) recapitalize themselves properly and have forced the two to do more wealth management and less investment banking.
- **The Norwegian crown**: Norway has oil, a large trust fund and no European Union membership. That trust fund (actually a very-well-managed, $570 billion sovereign wealth fund) makes this one ideal - even if oil prices collapse.
- **The Singapore dollar:** This is a beautifully run country - the least corrupt in the world, in fact - and is a banking-and-trading entrepôt, to boot.
- **The Chilean peso**: Yes, I'm recommending a South American currency as a safe-haven currency - my 1970s global-merchant banking colleagues would recoil in horror. All the same, Chile is less corrupt than the United States. It has a commodity economy, but is better run than Australia (and less likely to be under cut by cheaper labor, since Chilean labor is still quite cheap). And it has a trust fund (sovereign wealth fund) to guard against a return of low commodity prices.

Moves to Make Now

Even when you know what currencies you want to be in, buying them is not all that easy. Generally, the currencies themselves can be bought at any major commercial bank, although you may get killed on the rate. However, this will give you a pile of paper money with no yield and a danger of being eaten by mice.

A better alternative is to buy bank deposits. Here our friends EverBank can help you; it offers a bank-deposit service in a wide range of foreign currencies. Three of our four currencies are on EverBank's list; you can open accounts in Norwegian crowns, Singapore dollars and Swiss francs - but not in Chilean pesos.

Foreign-currency bonds are another alternative, although not all brokerages allow you to buy them. The difficulty here is the minimum amounts are generally large, and there is a substantial bid-offer spread. Still, this is probably your best alternative for Chilean pesos, where the government is currently rated AA for Chilean-peso obligations and 10-year peso government bonds yield about 2.4%.

Safe-haven currencies gave me such a sense of security when I turned to them during the economically tumultuous 1970s that I still can recall the feeling today - nearly 40 years later; now it's time for you to seek out that kind of security.

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About the Author

Martin Hutchinson has nearly 30 years' experience as a global investment banker – plus a reputation for being bearish at just the right time. ***Slate*** magazine singled him out as the financier who most accurately predicted how bad the 2009 bear market would turn out to be. Martin is the editor of the ***Permanent Wealth Investor***, where he focuses on stocks that pay high, reliable dividends. In his ***Merchant Banker Alert***, Martin uncovers the fastest-growing companies in the fastest-growing economies and brings those ideas back home to you. Learn more about Martin on our contributors page.

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45 Responses

Don. Chauncey M. Freeman | July 26, 2011

Just to say THANK YOU. In a ever growing UNSURE World it gives me great pleasure to have read you article on SAFE CURRENCIES. I am soon to come into a sizable inheritance and had wondered just where I could somewhat feel safe. The SWISS FRANC seems to me a good place to be, as I live in Spain. I am wondering however if it is still possible to maintain a Numbered Banking Account. Sadly my Government, the United States Government is no more than a bunch of thieves. Senators, Congressmen, all vote their own pay raises, retire with full pay, and God knows what else, yet when a common citizen inherits an amount of money there these thieves are with their hand stuck out saying give it to us. Horse manure I say. If there be a place where I can hide it then I certainly will. Anyone knowing where I can safely