Quantitative Easing 2 raising bubble fears

The Fed's decision to pump another $600bn into the U.S. economy is raising concerns that capital will be driven abroad, creating inflated commodity "bubbles", particularly in emerging markets, who fear exports will be damaged as their currencies hit new highs

Pump-priming the U.S. economy

1 Interest rates: So low that reducing them would have no effect on consumer spending

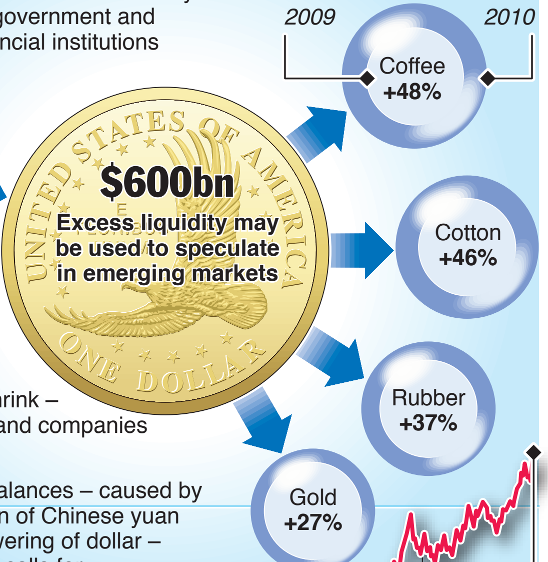
2 QE2: Fed "creates" fixed amount of money to buy bonds – high-quality government and corporate debt – from financial institutions

3 Increased liquidity
Banks have more cash to lend to businesses

4 Greater investment
Bond prices rise, yields shrink – investors shift to equities and companies

Commodity bubbles?

Priced in dollars – so if dollar slides, relative prices will drop



Safe haven

Currency imbalances – caused by undervaluation of Chinese yuan or artificial lowering of dollar – are leading to calls for return to gold standard as global reserve

Source: Wire agencies