

How will it End? Not Well We Guess

January 23, 2006

Despite the fact that this recovery to date has been the weakest in history since WW II (see chart below), the Fed again is shoveling money into the system like a drunken sailor. Please note the following we obtained from Richard Russells website January 17th, 2006.

January 17, 2006 -- I want to begin with a shocking statistic and quote -- (courtesy of Robert McHugh). "For the past two weeks, the Fed added \$93.5 billion to the money supply, a 24.0 percent annual clip. Over the past six weeks it is up \$192.9 billion, a 16.7 percent Banana Republic hyperinflationary pace. Should be a fascinating storm in 2006."

Yeah, it should be. And I'm sitting here wondering what the Fed is thinking (worrying?) about. Is this Greenspan's idea of giving Ben Bernanke a "safe" all-out liquidity send-off -- or is it Bernanke already implementing his anti-deflation stance? Who knows. All I know is that the Fed is creating liquidity at a pace that I don't think I've ever seen before. No wonder the Fed will hide the evidence by eliminating the M-3 broad money supply statistics starting in March.

My guess is that the Fed (which is watching the growing strength in the bond market) is afraid that business is going to simmer down in 2006. The Fed is noting the weakness in housing, which in turn is creating weakness in consumer spending. So what's the antidote? The antidote is always the same -- flood the system with ever-more liquidity. But isn't that inflationary? The Fed is not worried about inflation -- the Fed is much more worried about deflation.

Look at the facts and make up your own mind. 1. Over the last 4 years we have had the greatest simulative fiscal and monetary policy since 1934-36. 2. In order to fight the last war (inflation) over the last two years the Fed has raised short-term rates some 300 Basis points. 3. As the economy seems to be slowing again we are pumping money into the market place in order to avoid a possible recession.

This cannot go on forever, something is sure to pop. Nobody knows when, but one thing is certain, it will end. Caution is the name of the game.