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Facts vs. Fed-Speak: A Comical History with Tragic Consequences

By Matthew Piepenberg

Below, we look at simple facts in the context of complex markets to underscore the dangerous direction of Fed-Speak and Fed policy.

Keep It Simple, Stupid

It's true that, "the Devil is in the details."

Anyone familiar with Wall Street in general, or market math in particular, for example, can wax poetic on acronym jargon, Greek math symbols, sigma moves in bond yields, chart contango or derivative market lingo.

Notwithstanding all those "details," however, is a more fitting phrase for our times, namely: "Keep it simple, stupid."

The Simple and the Stupid

The simple facts are clear to almost anyone who wishes to see them.

With US debt, for example, at greater than 120% of its GDP, Uncle Sam has a problem.

That is, he's broke, and not just debt-ceiling broke, but I mean broke, broke.

It's just THAT simple.

Consequently, no one wants his IOUs, confirmed by the simple/stupid fact that in 2014, foreign Central Banks stopped buying US Treasuries on net, something not seen in five decades.

In short, the US, and its sacred bonds, just aren't what they used to be.

To fill this gap, that creature from Jekyll Island otherwise known as the Federal Reserve, which is neither Federal nor a reserve, has to mouse-click money to pay the deficit spending of short-sighted and opportunistic administrations (left and right) year after year after year.

Uncle Fed, along with its TBTF nephews, have thus become the largest marginal financiers of US deficits for the last 8 years.

In short, the Fed and big banks are literally drinking Uncle Sam's debt-laced Kool aide.

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Will The U.S. Dollar Collapse?

By Neptune Global

DOLLAR COLLAPSE?

It seems as if the U.S. dollar is under constant attack. Calls for its imminent collapse are heard daily. Fears of worsening inflation, expectations for hyperinflation, a weaker dollar, and political machinations of the BRIC countries populate the headlines.

Some investors are even more vocal and sound at times like cheerleaders, taunting others who may not be as raucous in expressing their contempt.

For not just a few people, the prediction and expectation of "a collapse in the U.S. dollar" is accepted as a foregone conclusion.

There is no room for alternative scenarios or conflicting possibilities in the minds of

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- **Price Inflation Slowed to 3 Percent. That's Still Far Too High**
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those who live and plan their lives based on the inevitable event.

WHAT IS MEANT BY 'COLLAPSE'?

There are several different meanings (medical, structural, etc.) depending on the specific situation referenced, but for our purposes here is the one that matters...

collapse: *to suddenly lose force, significance, effectiveness, or worth* ("fears that the currency may collapse") ...Merriam Webster Dictionary

Being more elaborate we might say that a collapse in the dollar (a currency) would involve a dramatic loss of purchasing power in a very short period of time, maybe only a few months. This could eventually lead to unwillingness to accept dollars in trade or exchange.

In a situation as that described above, the price of any particular good or service becomes meaningless; and the money itself becomes *worthless*.

worthless: *having no usefulness* ...Merriam Webster Dictionary

SOME HISTORICAL PERSPECTIVE

Could the U.S. dollar suddenly become worthless? Yes, it could. Before jumping to conclusions, though, we need to consider some historical perspective.

Between 1913 and 1980, the U.S. dollar lost ninety-seven percent of its purchasing power. That means that what you could buy with a dollar in 1980 was the equivalent of what 3 cents would have purchased six decades earlier.

Using 1913 (origin of the Federal Reserve; ratification of 16th Amendment – Federal Income Tax) as the reference point, it took sixty-seven years for the U.S. dollar to lose nearly all of its purchasing power.

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The Fed's money printer has thus become central to keeping credit markets alive despite the equal fact (paradox) that its rate hikes are simultaneously gutting bonds, banks and small businesses to fight inflation despite the stubborn fact that such inflation is still here.

The Inflation Narrative: Form Over Substance

My view, of course, is that the Fed's war on inflation is a **headline optic rather than policy fact.**

Like all debt-soaked and failing regimes, the Fed secretly wants inflation to outpace rates (i.e., it wants "negative real rates") in order to inflate away some of that aforementioned and embarrassing debt.

But admitting that is akin to political suicide, and **the Fed *is* political, not "independent."**

Thus, the Fed will seek inflation while simultaneously **mis/under-reporting CPI inflation** by at least 50%. I've described this as "having your cake and eating it too."

All that said, inflation, which was supposed to be transitory, is clearly sticky (**as we warned from the beginning**), and even its under-reported 6% range has the experts in a tizzy of comical proportions.

Neel Kashkari, for example, is thinking the US may need to get rates to at least 6% to "beat" inflation. James Bullard is asking for more rate hikes too.

But what these "go higher, longer" folks are failing to mention is that rate hikes make Uncle Sam's bar tab (i.e., debt) even more expensive, a fact which deepens rather than alleviates the US deficit nightmare.

The War on Inflation is a Policy that Actually Adds to Inflation

Ironically, however, few (including Kashkari, Bullard, Powell or just about any economic midget in the House of Representatives) are recognizing the additional paradox that greater deficits only *add* to (rather than "combat") the inflation problem, as deficit spending (an economy on debt respirator) keeps artificial demand (and hence) prices rising rather than falling.

Furthermore, these deficits will ultimately be paid for with more fiat fake money created out of thin air at the Eccles building, a policy which is inherently (and by definition): INFLATIONARY.

In short, and as even Warren B. Mosler recently tweeted, "the Fed is chasing its own tail."

Inflation, in other words, is not only here to stay, the Fed's "anti-inflationary" rate hike policies are actually making it worse.

Even party-line economists are forecasting higher core inflation this year:

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The Real Solution to Inflation? Scorched Earth.

In fact, the only way to truly dis-inflate the inflation problem is to raise rates high enough to destroy the bond market and the economy.

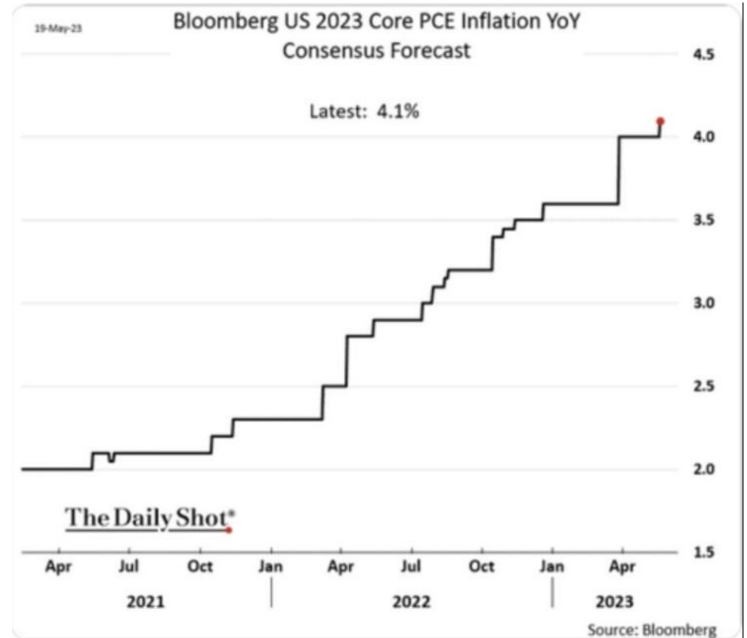
Afterall, major recessions/depressions do "beat" inflation—along with just about everything and everyone else.

The current Fed's answer to combatting the inflation problem is in many ways the equivalent of combatting a kitchen rodent problem by placing dynamite in the sink.

Meanwhile, the Rate Hikes Keep Blowing Things Up

Buried beneath the headlines of one failing bank (and tax-payer-funded depositor bailout) after the next, is the equally dark picture of US small businesses, all of which rely on loans to stay afloat.

But according to the U.S. Small Business Association, loan rates for the "little guys" have reached double digit levels.



Needless to say, such debt costs don't just hurt small enterprises, they destroy them.

This credit crunch is only just beginning, as small enterprises borrow less in the face of rising rates.

Real estate, of course, is just another sector for which the "war on inflation" rate hikes are creating collateral damage.

Homeowners enjoying the fixed low rates of days past are naturally remiss to sell current homes only to face the pain of buying a newer one at much higher mortgage rates.

This means the re-sale inventory for older homes is shrinking, which means the market (as well as price) for new construction homes is spiking—serving as yet another and ironic example of how the Fed's alleged war on inflation is actually adding to price inflation…

In short, Fed rate hikes can make inflation rise, and equally tragic, is that Fed rate cuts can also make inflation rise, as cheaper money only means greater velocity of the same, which, alas, is inflationary…

See the Paradox?

And that, folks, is the paradox, conundrum, corner or trap in which our central planners have placed us and themselves.

As I've warned countless times, we must eventually **pick our poison**: It's either a depression or an inflation crisis.

Ultimately, Powell's rate hikes, having already murdered bonds, stocks and banks, will also murder the economy.

Save the System or the Currency?

At that inevitable moment when the financial and social rubble of a national and then global recession is too impossible to ignore, the central planners will have to take a long and hard look at the glowing red buttons on their money printers and decide which is worthy of saving: The "system" or the currency?

The answer is simple. They'll push the red button while swallowing the blue pill.

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Will The U.S. Dollar Collapse?

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But, the nearly complete loss in purchasing power (as horrible as it is) which occurred over those years does not qualify as a collapse. Below is the same definition from above with one slight modification...

collapse: *to 'suddenly' lose force, significance, effectiveness, or worth* (*"*fears that the currency may collapse") ...Merriam Webster Dictionary

The key to the meaning and intent of the term 'collapse' is embodied in the use of the word *suddenly.* To *"suddenly lose force, significance, effectiveness, or worth"* is more descriptive of a catastrophic single event than a longer term process.

The element of time becomes more important than the total destruction involved. For example, if the prices of consumer goods and services doubled over the next six months, the meaning and intent of the term *collapse* would be satisfied.

A doubling of prices for goods and services, though, represents a fifty percent loss in purchasing power compared to the ninety-seven percent loss referred to earlier in this article. However, the resulting financial and economic damage, because it occurs over such a short time span, would be worse than almost anything imaginable.

POSSIBILITIES AND LIKELIHOOD

The dollar has lost nearly all of its original purchasing power dating back to 1913. Most (ninety-seven percent) of that loss came between 1913-1980. The additional loss since 1980 brings the total to ninety-nine percent.

That additional two percent is the equivalent of a sixty-seven percent loss in purchasing power just since 1980. As radical as that sounds, it is not indicative of a collapse.

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Ultimately, and not too far off in our horizon, the central planners will "save" the system (bonds and TBTF banks) by mouse-clicking trillions of more USDs.

This simply means that the *deflationary* recession ahead will be followed by a hyper-*inflationary* "solution."

Again, and worth repeating, **history confirms** in debt crisis after debt crisis, and failed regime after failed regime, that the last bubble to "pop" is **always the currency**.

A Long History of Stupid

In my ever-growing data base of things Fed-Chairs have said that turned out to be completely and utterly, well...100% WRONG, one of my favorites was Ben Bernanke's 2010 assertion that QE would be "temporary" and with "no consequence" to the USD.

According to this false idol, QE was safe because the Fed was merely paying out dollars to purchase Treasuries is an even swap of contractually even values.

What Bernanke failed to foresee or consider, however, is that such an elegant "swap" is anything but elegant when the Fed is marred by an operating loss in which its Treasuries are tanking in value.

That is, the "swap" is now a swindle.

As deficits rise, the TBTF banks will require more mouse-clicked (i.e., inflationary) dollars to meet Uncle Sam's interest expense promise to the banks ("Interest on Excess Reserves").

In the early days of standard QE operations, at least the Fed's printed money was "balanced" by its purchased USTs which the TBTF banks then removed from the market and parked "safely" at the Fed.

But today, given the operating losses in play, the Fed's raw money printing will be like like raw sewage with nowhere to go but straight into the economy with an inflationary odor.

Bad Options, Fluffy Words

Again, the cornered Fed's options are simple/stupid: It can continue to hawkishly raise rates higher for longer and send the economy into a depression and the markets into a spiral while declaring victory over inflation, or it can print trillions more fiat dollars to prop the system and neuter/debase the dollar.

And for this wonderful set of options, Bernanke won a Nobel Prize? The ironies do abound...

But as a famous French moralist once said, the highest offices are rarely, if ever, held by the highest minds.

Gold, of course, is not something the Fed (nor anyone else) can print or mouse-click, and gold's ultimate role as a currency-insurer is not a matter of debate, but a matter of cycles, history and simple/stupid common sense. (See below).

Markets Are Prepping

In the interim, the markets are slowly catching on to the fact that protecting purchasing power is now more of a priority than looking for safety in grossly and un-naturally inflated "fixed income" or "risk-free-return" bonds.

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Why? Because those bonds are now (thanks to Uncle Fed) empirically and mathematically nothing more than "no-income" and "return-free-risk."

Meanwhile, hedge funds are building their net short positions in S&P futures at levels not seen since 2007 for the simple reason that they foresee a Powell-induced market implosion off the American bow.

Once that foreseeable implosion occurs, get ready for the Fed's only pathetic tools left: Lower rates and trillions of instant liquidity—the kind that kills a currency.

In Gold We Trust

The case for gold as insurance against such a backdrop of debt, financial fragility and openly dying currencies is, well: Simple stupid and plain to see.

Few on this round earth see the simple among the complex better than our advisor and friend, Ronni Stoeferle, whose most recent **In Gold We Trust Report** has just been released.

Co-produced with his Incrementum AG colleague, Mark Valek, this annual report has become *the* seminal report in the precious metal space.

The 2023 edition is replete with not only the most sobering and clear data points and contextual common sense, but also a litany of entertaining quotations from Churchill and the Austrian School to The Grateful Dead and *Anchorman* …

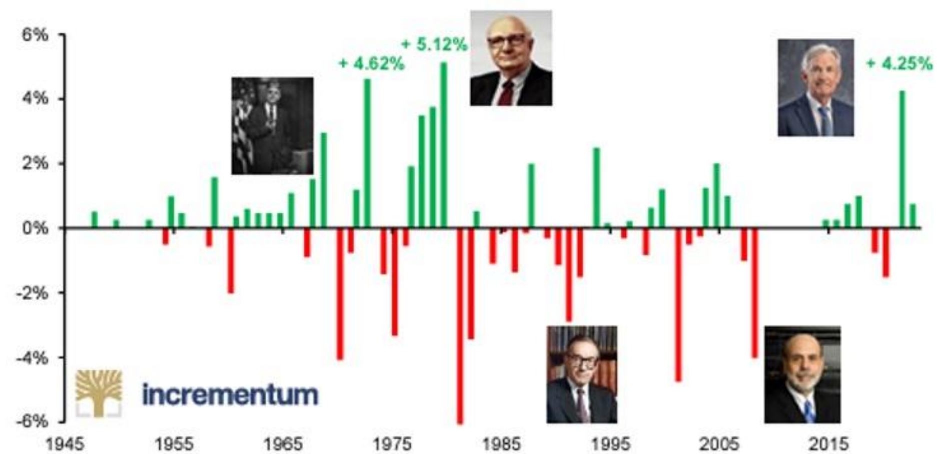
Ronni and Mark unpack the consequences of a Fed that has raised rates too high, too fast and too late, which is, again a fact plain to see:

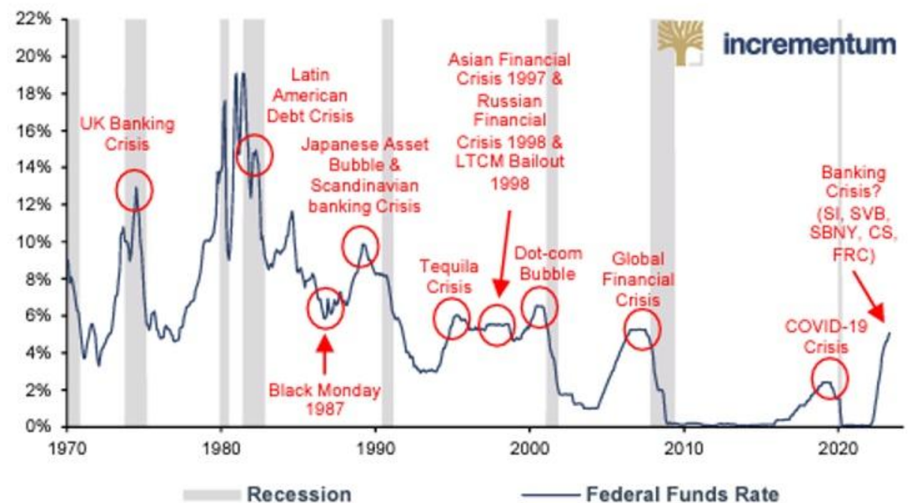
Needless to say, hiking rates into an economic setting already historically "debt fragile" tends to break things (from USTs to regional banks)

and portends far more pain ahead, as both history and math also plainly confirm:

In a debt-soaked world fully addicted to years of instant liquidity from a central bank near you, Powell's sudden (but again too late, too much) hiking policies will not "softly" restrain market exuberance nor contain inflation without unleashing the mother of all recessions.

Instead, the subsequent and sudden negative growth of money supply will only hasten a recession as opposed to a "softish" landing:





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Price Inflation Slowed to 3 Percent. That's Still Far Too High

By Daniel Lacalle

The recent University of Michigan survey's reading of one-year price inflation expectations rose to 3.4 percent in July from 3.3 percent in June. The five-year outlook also increased to 3.1 percent from 3.0 percent in the previous month.

There is a mainstream narrative that is growing all over the financial media: We must accept three percent annual price inflation as a success at combating rising prices. This is enough to pivot and return to monetary easing. It is not.

Three percent annual price inflation for ten years is a loss of purchasing power of the currency of 34 percent after what is already a disastrous inflationary environment.

There is nothing positive about rising long-term price inflation expectations. It is not just the confirmation of a terrible destruction of real wages and deposit savings, but a huge incentive to maintaining the least efficient and unproductive parts of the economy. Price inflation is not just a hidden tax created by bloated government spending financed with artificially created currency, it is also a hidden subsidy to obsolescence and a huge disincentive to innovation and technological transformation.

It is not a surprise to read so many market participants demanding more quantitative easing. Monetary expansion has been a huge driver of market bubbles, and many investors want the "bubble of everything" to return, even if it means weaker economic growth, poor productivity, and declining real wages.

The evidence from the past six months is that the entire bounce of the S&P 500 has been driven by multiple expansions. While sales and earnings growth have been weak, the index now trades above twenty times earnings from seventeen times at the end of December.

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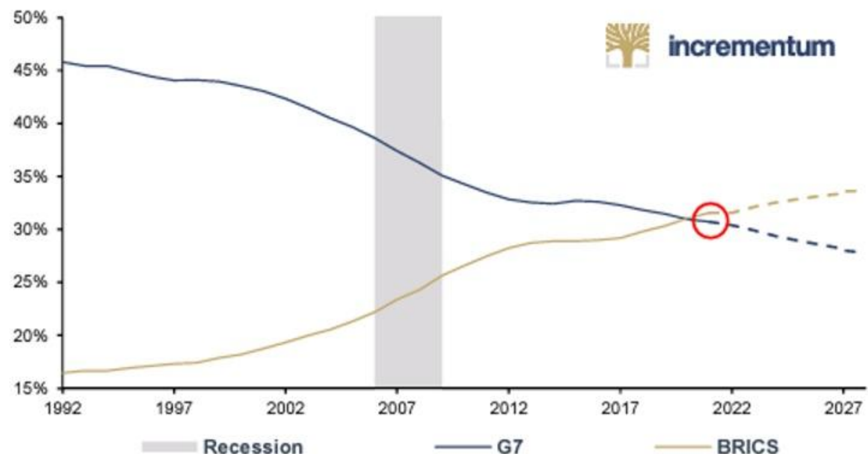
As the foregoing report warns, the looming approach of this recession is already (and further) confirmed by such basic indicators as the Conference Board of Leading Indicators, an inverted yield curve and the alarming spread between 10Y and 2Y yields.

Self-Inflicted Geopolitical Risks

The report further examines the geopolitical shifts of which we have been warning(and writing) since March of 2022, when Western sanctions against Russia unleashed a watershed trend by the BRICS and other nations to seek settlement payments outside of the weaponized USD.

One would be unwise to ignore the significance of this shift or underestimate the growing power of these BRICS (and BRICS "plus") alliances, as their combined share of global GDP is rising not falling…



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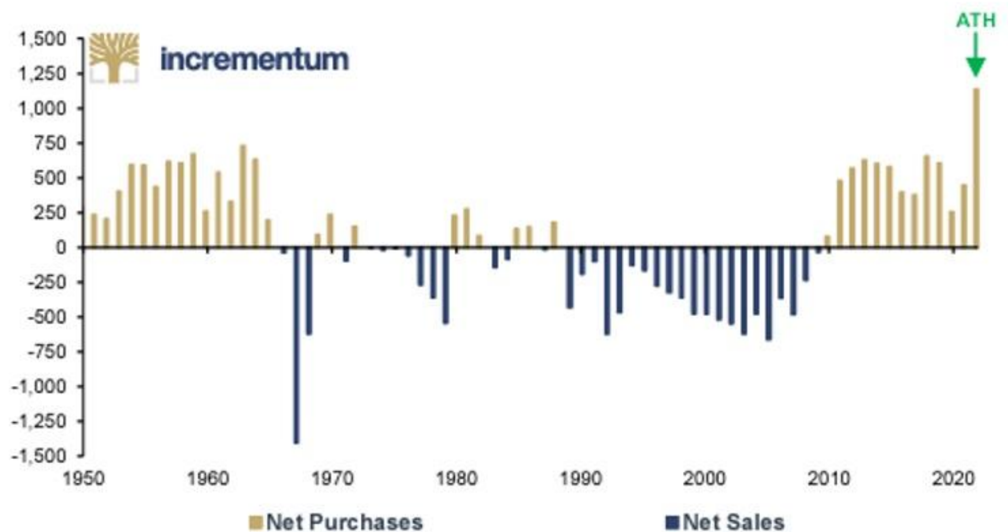
As interest in (and trust for) the now weaponized USD as a payment system declines alongside a weakening faith in Uncle Sam's IOUs, the world, and its central banks (especially out East) are turning away from USTs and turning toward physical gold.

Again, I give credit to the *In Gold We Trust Report*:

See a trend? See why?

It's fairly simple, and for this we can thank the fairly stupid policies of the Fed in particular and the declining faith in their prowess in general:



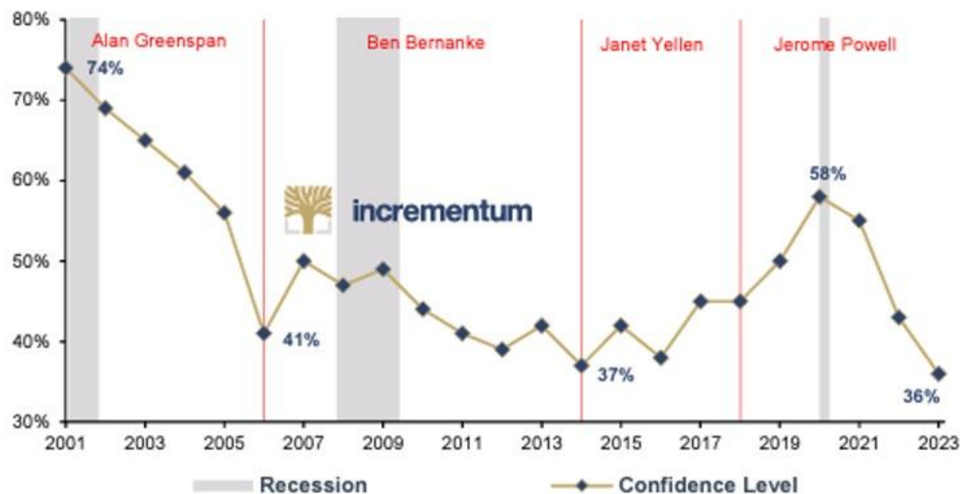
Myths Are Stubborn Things

Many, of course, find it hard to imagine that a Federal Reserve based in DC and within the land of the Great American dream (and world reserve currency) could be anything but wise, efficient and stabilizing, despite an **embarrassing Fed track record** that is empirically unwise, inefficient and consistently destabilizing…

Myths are hard to break, despite the fact the myth of MMT and QE on demand has been a failed experiment and is sending the US, as well as the global, economy toward a reckoning of historical proportions.

But the messaging of "Keep calm and carry on" from Powell is calming in spirit despite the fact that it hides terrifying math and historically confirmed consequences for the fiat money by which investors still wrongly measure their wealth.

But as Brian Fantana of *Anchorman* would tell us, trust the central planners.



"They've done studies, you know. 60% of the time it works every time."

As for us, we trust the kind of data Ronni and Mark have gathered and that barbarous relic of gold far more than calming words and debased, fiat currencies. As history reminds, when currencies die within a backdrop of unsustainable debt, gold in fact does work—and *every* time.

Article by:
Matthew Piepenberg
May 29, 2023
https://goldswitzerland.com/

Will The U.S. Dollar Collapse?

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With all of the rumors, undercurrents, and latest flirtation with higher CPI rates, it doesn't mean a U.S. dollar collapse is any more likely now than it was in 1980.

A collapse in the U.S. dollar at this point is highly predicated on unknown factors. The effects of inflation are unpredictable.

Overtime, those effects become more volatile. That volatility could lead to a credit collapse in the truest sense. A credit collapse would likely be accompanied by wide-scale drops in all asset prices, deflation, and economic depression; but not a collapse in the U.S. dollar. In fact, the dollar would gain purchasing power under those conditions.

Also, the occurrence of a "black swan event" is not inevitable. In any event, it doesn't mean the U.S. dollar would become worthless overnight.

While it is reasonable, maybe even likely, that the U.S. government and Federal Reserve provide aggressive response similar to 2008-10 and in 2020-21 when the threat of credit collapse and economic devastation are upon us, the Fed's efforts might not be enough to turn the tide.

by Kelsey Williams
July 7, 2023
for https://neptuneglobal.com/

The Outstanding Public Debt

National Debt:
32,675,57,124,012
The estimated population of the United States is **335,053,737**
US citizen's share of this debt is
$97,488.00
The National Debt has continued to increase an average of
$3.8 billion per day
Business, Government, Financial and Unfunded Liabilities Debt exceeds
$100 Trillion

Price Inflation Slowed to 3 Percent. That's Still Far Too High

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Furthermore, and considering the wave of downgrades of earnings' estimates, the most bullish investors seem to require more multiple expansion, and that can only come from easing.

The reality, though, is that a three percent per annum average price inflation rate means much higher food, utilities, gas, and all essential purchases. The June price inflation reading was particularly concerning because all items except four were rising in a month when we should have seen steep declines in most prices.

Price inflation is not caused by commodities, wages, or profits. Inflation is caused by the constant increase in the quantity of currency in circulation well above real demand. The biggest consumer of newly created currency is the government, in a country where the annual deficit is not expected to be lower than $1 trillion every year until 2032. Government spending causes inflation, which is the loss of the purchasing power of the currency the central bank issues. When many said there was "no inflation" what we witnessed was massive financial asset inflation and a disproportionate increase in the prices of non-replicable goods and services. How can anyone that pays for healthcare, insurance, education, or housing truly believe that "there was no inflation"?

Remember that what they call "no inflation" was the period between 1996 and 2018, when healthcare costs rose 100 percent, childcare by 110 percent, housing by 60 percent, college tuition by 200 percent and the average price increase of non-replaceable goods and services rose by 57 percent, according to the American Enterprise Institute study collecting Bureau of Labor Statistics data. Between 2000 and 2022 the same study showed an overall price inflation of essential goods and services of 74 percent.

If "no inflation" is 74 percent price increases in the average basket of essential goods and services, imagine for a second what three percent annual official consumer price index would be for those same non-replaceable goods. This is what is wiping out the middle class. Negative real wage growth and massive increases in the prices of the essential goods created by the constant erosion of the purchasing power of the currency.

Can economists truly ignore the destruction of the economy and the middle class only to justify more government spending or a small increase in equity and bond valuations? Maybe, but it is a bad idea to support the destruction of the economy only to see some asset values rising, particularly because those vanish with increasingly frequent and aggressive market corrections. The economy should not be driven by government spending and financial assets, but by a thriving middle class and growing productive investment. Monetary easing is not strengthening the economy. It is weakening the fabric that creates progress only to support an ever-increasing size of government.

Article by: Daniel Lacalle
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