Inflation Expectations

By The Mogambo Guru

11/14/05 Once again, our mighty masked economist requires a sedative and a straightjacket due to his strong reaction to comments made by everyone's favorite central banker, Alan Greenspan. Find out just what the maestro said to make the Mogambo's face so red…

Disobeying doctor's orders, I watched Alan "See No Evil" Greenspan as he testified before the Congressional Joint Economic Committee, and of course, I was straining mightily against the straps of the straightjacket I am now forced to wear, but I could still swear and spit at the television screen every time I disagreed with something that this horrible little man said.

The whole thing, these days, is "containing inflationary expectations." The point that we obviously have price inflation is never discussed, and now the only thing that matters is that the Fed, somehow, control people's expectations! Hahahaha! Where is this written in the charter of the Fed? Hahahaha! This stupid bit of nonsense is so preposterous that I cannot even fathom anybody but the morons on CNBC falling for it.

And fall for it they did. CNBC had three dimwits, including Steve Liesman (the resident "economist" at CNBC), Rick Santelli (cub reporter), and some talking-head from some bank (guest doofus) all talking excitedly about this "inflation expectations" thing, never once mentioning: 1) that price inflation is a fact and rising inflation is a fact; 2) that the damnable U.S. Federal Reserve is still pumping out money and credit at record speeds (monetary inflation), which means that price inflation is going to get worse, and worse, and worse; or 3) the effect that this would have on The Mogambo, or how local television stations are already setting up cameras outside my house because they know that pretty soon I am going to go freaking berserk in a blaze of self-righteous outrage.

Alan Greenspan and Inflation: Lying Nitwit

To show you what a lying nitwit this Greenspan is, he said, "Thus, although spending continued to rise rapidly last year, the deficit in the unified budget dropped to $319 billion, nearly $100 billion less than the figure for fiscal year 2004 and a much smaller figure than many had anticipated earlier in the year." Hahaha! Just in new federal debt alone, the deficit was over $500 billion! And yet some cockamamie "unified" budget, a concoction of lies, distortions and "off-budget" expenditures, shows a deficit of only $319 billion? Hahahaha! And this deceitful jackass is the chairman of the U.S. Federal Reserve? Hahaha! No wonder people are trying to kill us, we're morons with nuclear weapons!

Greenspan also said, "Inflation expectations have decreased, and accordingly, the inflation premiums embodied in long-term interest rates around the world have come down." Huh? Bond prices are falling, interest rates are rising, and yet this blowhard jerk thinks that inflation premiums have come down? Hahahaha! Then what in the hell went up that made rates go up? Hahahaha! What a moron!

He did, in an odd instance of candid honesty, say, "Nevertheless, the suppression of cost growth and world inflation, at some point, will begin to abate and, with the completion of this level adjustment, gradually end." So, he admits they are suppressing cost growth and world inflation? And he admits that the ruse must end? And then what happens? I'll tell you what happens next: We die a horrible economic death!

But this "managing inflation expectations" is completely lost on Stuart Thomson, who is a fixed-income strategist at Charles Stanley Sutherlands, in Scotland. Since we are dealing with a Scotchman, or Scotchperson, I decided to start slugging single-malt scotch. What he said was that he thinks that T-bonds are a good deal because treasury 10-year yields ended last week at the highest yield since the U.S. Federal Reserve started raising interest rates in June 2004, and that this means that, for bonds, "it's a good buying opportunity. The market has been seduced by the Fed's aggressive commentary." Hahaha! As the market-commentator Half-Monty explains, "What are rising interest rates, after all, but a measure of money leaving the bond market?"

Apparently Mr. Thomson doesn't agree with me. In the November 5th issue of the Economist, he said that the "price of 10-year American Treasury bonds fell," and that "Bonds elsewhere are also losing their appeal."

Alan Greenspan and Inflation: Creating Money

To see why, all one has to do, since we are already looking at the Economist magazine, is take a look at the money supply figures, and one is stunned to see that money is being created at double-digit rates all over the place. This monetary inflation means that future price inflation is already written in stone. Bonds always react negatively to rising price inflation (although they seem oblivious to monetary inflation. Weird!). And a negative reaction to rising inflation is always bad news for the prices of bonds.

Someone in the front row raises his hand and asks, "So, how much more money is being created around the world?" Good question! As I dutifully start adding it up on my fingers and taking off my shoes to continue this exercise in addition, Richard Russell, of the Dow Theory Letters, either gets tired of waiting, or is aghast at the thought of me taking off my stinking shoes and exposing my stinking feet to his sensitive nose, and hurries to supply the answer: Australia 9.8%, Britain 11.2%, Canada 9.8%, Denmark 16.3%, Sweden 5.6%, Switzerland 6.3%, United States 6.6%, and the Euro area 8.5%!

All of this money is owed to the banks, as only banks can create money out of thin air. So, you may be asking yourself, "Well, if the banks are owed all of this money, and people cannot pay their debts, what does this mean for the shares of banks and money centers?" I was ready to give you some vague, noncommittal answer to conceal the fact that I have no idea, when up comes Jim Willie CB, he of the Hat Trick Letter, who saves my bacon and says, "battle of the titans is shaping up. The BKX bank index is in the process of breaking down. It represents some of the largest and most powerful money center banks in the United States. Just two weeks ago, a warning was given that the BKX was in danger of breaking below critical support at 95. That level was broken last week."

Well, I can see that he is stealing the show, but before I could get a word in, here comes Robert Prechter, of Elliott Wave fame, who says, "Banks are leveraged so greatly that the slightest retrenchment in property prices will precipitate an unprecedented downward spiral of evictions and property sales, and then will come the bank failures."

Alan Greenspan and Inflation: Rates Have to Be Raised, Right?

But property prices are dependent on interest rates. So, can the Fed stop hiking rates? Hmmm! Another good question! If inflation is starting to surge everywhere, and now other countries are already raising their interest rates in response, then not simultaneously raising American interest rates would make the dollar tend to fall, would it not? And doesn't money tend to exit a country where the value of the currency is falling? If so, then Greenspan must raise rates, too! Right?

Here comes Martin Weiss again, whose says, "We have a bulging budget deficit, a sinking trade balance, and wild, debt-driven speculation among banks, consumers, and even governments. We have some of the biggest bull markets of all time in commodities such as oil, gas, copper and many more. And as you just saw this week, we also have the biggest monthly jump in prices in a quarter-century! All of these forces are pressuring interest rates higher. And all are coming together at the same time. But right now, interest rates are still not far from their 45-year lows!"

These rising rates are starting to affect the housing bubble, and in that regard, Steve Sjuggerud reports, "Bill Gross is confident that a major change in the U.S. economy is just around the corner." He uses the words "almost inevitable." What's "almost inevitable?" According to Bill Gross, it's: 1) a housing bust followed by 2) a weakening U.S. economy. I knew you were not going to believe me, so I am going to actually quote Mr. Gross directly when he says, "Let me state categorically that [this] sequence is barely questionable, almost inevitable, 99% unavoidable, and in modern parlance – a 'slam-dunk.'"

Why is it a "slam-dunk"? Well, Mr. Gross writes, "The Fed found that housing booms peak, on average, four to six quarters after that country's Federal Reserve first starts to raise interest rates. Subsequently [after the peak], real house prices fall for about five years, on average, and their previous run-up is largely reversed." And how much did the house prices fall? They fell about 15% over the five years after the peak. And that was before we had the enormous run-up in housing prices! So, look for a much bigger fall than some piddly 15%!

Regards,

The Mogambo Guru
for The Daily Reckoning

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Mogambo Sez: If I was ever bullish on gold, silver and oil, then those are the "good old days" when I was not hyperactive, because I am now so addled with anger that I am leaning out of the windows, throwing rocks at people to get their damned attention and yelling that everyone should be buying some of all of them. But they are ignoring me, and that makes me even more bullish, because I know that the longer they wait to get their nasty little butts in gear, the bigger will be the rush when they wake up out of whatever catatonic stupor they are in, and try to get in on the gold rush, and the silver rush, and the oil rush – after the trains have left the station. Idiots!