Gasoline on the Money Supply Fire

By The Mogambo Guru

03/30/09 Tampa Bay, Florida Agora Financial's 5-Minute Forecast conveniently distills the Truly Horrifying News (THN) of recent Federal Reserve action by saying, "In a single breath, the Fed committed another $1.15 trillion to the credit quagmire" with "$750 billion for purchasing mortgage-backed securities from Fannie Mae and Freddie Mac (on top of the $500 billion the Fed has already promised)" plus "Another $100 billion directly toward Fannie and Freddie's debt. That's also atop a pre-existing $100 billion program."

We all agree that this is truly breathtaking stuff, and the "knockout blow" is that "the Fed will officially begin buying 'longer-term' U.S. Treasury notes. The FOMC said they'd spend at least $300 billion over the next 6 months" which is known as "sterilization" and I say is a lowlife stinking fraud where the Federal Reserve creates money out of thin air, then uses the money to buy Treasury bonds, agency debt and/or (literally) buying anything that they want, as much as they want, anytime they want, which they are doing because the Federal Reserve has destroyed the economy by creating so damned much excessive money and credit that nobody in their right mind is going to buy any stinking Treasury bonds yielding (in the original Spanish) el squato when inflation will be raging higher than the puny yield, meaning that bond prices will collapse and interest rates will rise, which is the last thing that the Fed or the government wants.

As the comedian Dana Carvey's Church Lady character used to say, "Now isn't that special!"

Of course, there are people in the world who are not as stupid as us Americans, and they look at this and say to themselves, "Holy crap! The American central bank, with what appears to be cowardly compliance from their federal government, has committed the ultimate economic sin, and we had better get our money out of that stupid currency before it loses all of its purchasing power!" which resulted in a fall in the dollar on the forex market, or, as The 5 puts it, a "2.7% drop for the dollar index – its worst one-day performance since 1971 when the index began."

Neil Irwin at the Washington Post reported, with that subtle-yet-unmistakable hint of panic, "The Federal Reserve yesterday escalated its massive campaign to stabilize the economy, saying it would flood the financial system with an additional $1.2 trillion."

Aghast, I raise a shaky index finger to direct your attention to Mr. Irwin's appropriate use of the adjectives "massive", "flood" and "additional" to describe the sudden scary appearance of "$1.2 trillion" in promised expansion of the money supply by the Federal Reserve, which is so scary that this is where Mr. Irwin lost valuable Mogambo Stylistic Points (MSP) when he forgot to extend "$1.2 trillion" into a phrase that would reflect the preceding phrases.

So, according to the Mogambo Big Book Of Economic Editorial Style (MBBOES), It should have read (in light of preceding adjectives "massive", "flood" and "additional"), "$1.2 trillion, which is a freaking unbelievable orgy of monumentally irresponsible monetary and fiscal insanity that not only makes you pee in your pants in terror of the inflation in consumer prices that will inevitably follow such enormous expansion of the money supply, but is even more terrifyingly that this same deficit-spending lunacy is forecasted far, far into the future, too, making the total situation of such a horrific magnitude that you can be fully justified in screaming your brains out in horror and outrage, being, as you are, 100 percent sure that it will destroy us completely by the simple expedient of destroying the purchasing power of existing dollars by creating too many new dollars!"

Bill Bonner here at The Daily Reckoning notes, "In response to the Fed's latest move, the yield on 10-year Treasuries fell more than any time since they started keeping records in 1962. From 3.01% it had fallen to 2.48% when last we looked" which seems paradoxical, since normal people would look at this massive creation of money and know that it means higher consumer prices, which means that bond yields would rise! And yet bond investors bought bonds, driving their yield down! Weird!

But this is the kind of stupidity that makes investing in gold, silver and oil so easy and cheap! Whee!