

Brace For Hyperinflation

The economy is cratering, so the Fed is printing money. When the Fed prints money, this eventually produces inflation (more dollars, same amount of goods).

Ben Bernanke assured us yesterday that, this time, the Fed's money-printing won't eventually lead to inflation because the moment the economy begins to recover, the Fed will stop printing money and start burning it. Specifically, the Fed will start selling assets instead of buying them and thus shrink the money supply.

Unfortunately, Ben is unlikely to keep this promise.

Why?

Several reasons:

- First, it will be hard to confidently assert that the economy is in full recovery. Remember, in 2007, Ben (and most other people) thought the economy was in great shape as far as the eye could see. He and most other observers missed that disastrous turning point. So why do we think he'll correctly spot the next one? Especially because, if he blows it by jacking up rates too early, he'll kill the recovery.
- Second, there will be intense political pressure to MAKE SURE that the economy is in rip-roaring health before hammering consumers and businesses by raising interest rates. Everyone loves low interest rates. And they'll only stop screaming about your taking them away when they're fat and happy (which will be long after inflation really gets going).
- Third, the US government desperately needs low interest rates to fund its soon-to-be-monstrous debt load, so there will be another source of pressure on Ben to keep rates low. When we finish with all this stimulus, we're going to owe a boatload of money. We're really going to allow our Fed chief to send interest rates to the moon and jack up our refinancing costs?
- Fourth, many of the assets that Bernanke has been buying to print money won't be easy to sell. This time around, the Fed isn't just buying easy-to-sell Treasuries. It's buying trash mortgage assets, et al. To reduce the money supply, it will need to sell them to someone. But who?

We're now officially addicted to low interest rates and that Bernanke will be both unwilling and unable to raise them significantly when the time comes. And the failure to raise, them, of course, will lead to hyperinflation.

The better answer? Stop denying reality and force the country to take its losses. Restructure existing debts, instead of encouraging people to borrow more. That, after all, is what got us into this mess in the first place.

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