Subject:	INTRODUCING: The Dick Cheney of the Federal Reserve
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Date:	Wednesday, August 13, 2014 10:35 AM

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Wednesday morning -- August 13, 2014

Having had a relative many years back who died of Amyotrophic lateral sclerosis (ALS), often referred to as Lou Gehrig's Disease, I have been heartened to see the attention this has been receiving recently. Kudos to those celebrities and others who have accepted the "Ice bucket challenge" and/or otherwise donated money, time and more toward raising awareness and advancing research!

"Cold water" is also being dumped on the markets' head right now in a couple of different fashions.Reinforced by a deluge of news just in the last 24 hours, expectations for both better economic growth and for interest rates to rise in some places sooner rather than later are being doused.

Here, Janet "Bush" Yellen swears in Stanley "Cheney" Fischer

Signaling what is likely ahead as the central banks from all the world try and figure out what to do about this, we heard earlier this week from the Federal Reserve's Vice Chairman Stanley Fischer. I have been asking aloud for a while now why it was that Fischer has pretty much been A.W.O.L. from the cacophony of Fed heads and others holding forth on the likely course of monetary policy.

That was answered for us the other day.

As I quipped in an interview yesterday, Fischer to me is going to be the

Fed's Dick Cheney figure, to that of the less sure Janet Yellen, who is playing more the George W. Bush role. You can't help but notice recently that Mrs. Yellen's honeymoon as the central bank's head proved rather short. She has been increasingly the source of not only criticism, but often a measure of ridicule for seemingly being a lot less able than her last couple of predecessors to instill much confidence in the markets. Her often *blatantly* contradictory statements--one minute seeming to signal early rate hikes, the next dumping cold water on such expectations--have become common.

At long last, Fischer came to the rescue the other day. In a speech in Stockholm, the seasoned banking veteran (who, among other things, once ran the I.M.F. and the Bank of Israel, and is the first senior Fed official ever to have dual citizenship) laid out *how the debate is about to change.*

You see, for some time now central bankers pretty much everywhere have promised that their trickle-down money printing policies were going to gain traction any time now and -- as a result -- "create" the kind of durable employment gains and other economic growth that would eventually make their extraordinary/emergency policies redundant. **But that hasn't been happening.** Consider some of the news from just the last day or so:

* Euro zone industrial production has unexpectedly dropped further.

* Business and investment sentiment in that continent's strongest economy -- Germany -- are crashing.

* Japan's economy SHRANK in the latest quarter by nearly 7%.

* U.S. retail sales announced this morning were FLAT (and there weren't any snow storms in the last month I remember hearing about!)

* Credit growth in China is flagging along with that country's economy; and alarmingly (I say that due to the increased speed with which bad debts associated with it will now mount) the once-booming housing market has come to a screeching halt.

All this and more only reinforces the fact that economies the world over face problems that a lot MORE cheap money just won't cure. And now that we have the learned Mr. Fischer telling us this--as he did his Stockholm audience--prepare yourselves for some surprises.

One of the ironies about all this is that Fischer is essentially endorsing what one- time Fed chair candidate Larry Summers warned months ago.

Many did not want Summers as Fed chair due, among other reasons, to the belief that he would be *too hawkish*. Yet, since Yellen was anointed for the job, Summers has suggested such measures as having NEGATIVE interest rates here in the U.S. (a position Yellen is also on record supporting, if she thought she could get away with it) due to his belief that various structural issues bedeviling the economy are such that Q.E. has had little effect.

We will probably get some clues at next week's annual gathering in Jackson, Wyoming as to how the central bankers and their various assets are 1) going to sell a new "playbook" of sorts and 2) how they may NOW try to justify keeping rates low for even LONGER such "considerable periods" that they have been promising.

Needless to say, the implications for YOU as an investor and consumer alike will be important to understand!

A key discussion now listed on the host Kansas City Fed's web site will be "Re-Evaluating Labor Market Dynamics." In short, I think the Fed is going to have to concede what the Bank of England's Mark Carney just did overnight: that wage growth is simply NOT going to happen in any meaningful way for a host of reasons (in Carney's case, he just CUT IN HALF the BoE's forecast of wage growth to 1.25%, from a previous 2.5%; laying *his* groundwork to not raise interest rates as early in 2015 as had been expected.)

A new narrative may be coming from the global banking elite at next week's shadowy meeting underneath the Tetons.

Yellen will have a hard time admitting such a thing herself; after all, she has been quite insistent that her bank's monetary potion and Z.I.R.P. (zero interest rate policy) was about to bring us a 1970s-style virtuous cycle of wage gains, leading to modest inflation, leading to more wage gains, etc. **That is why Fischer has now materialized, figuratively coming out of his previous "undisclosed location."**

Just as there were many in the military-industrial complex and elsewhere who were comforted by Dick Cheney's steady (and warmongering) hand behind the scenes in the Bush White House, so too is the expectation that Fischer will command more confidence than Yellen where the markets are concerned.

Among his other jobs, Fischer will need to control the rate at which cold water is dumped on market expectations over both growth and interest rates. Those who are the biggest devotees of the Fed and other central banks are going to see their confidence increasingly shaken; after all, most *really believed* that all this money printing was going to have the average yokel on Main Street singing "Happy Days are Here Again" any day now.

The risk is that--not massaged properly--the bankers' changed message will lead the markets to change their underlying attitude about all this monetary alchemy, not to mention further shake their faith in the bankers. Instead of thinking, "Oh good--interest rates are staying low to help the economy," the transition *could be* toward, "Oh my God! Things really ARE that bad that interest rates *can't* go up!"

For what it's worth, the behavior of the markets so far this morning sort of provides a microcosm for what we can expect as time goes on. Strong overnight and premarket gains for equities noticeably fizzled. The recently-stronger U.S. dollar got sold some, as currency traders considered the possibility that the U.S. economy is on its way to joining Europe and Japan.

And "The Odd Couple" -- gold and U.S. Treasury bonds -- turned overnight losses into modest gains.

Summing up, this week we had our first look at why the well-traveled, shadowy Fischer was chosen in the first place to be "The Dick Cheney of the Fed." I expect him to continue being a key point man as the central banks change their narratives and as their various justifications for stubbornly (but necessarily) hanging on

to their "Inflate or Die" policies evolve.

One of the good things we can say about all this is that, longer-term, the impact of all this on the markets is fairly predictable, allowing us to take some advantage of the central banks once again digging down deep to find the last few tricks in their bags!

All the best,

Chris Temple -- Editor/Publisher
The National Investor

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