

THE National Investor

Oct. 28, 2019

You can get information anywhere. Here, you get KNOWLEDGE.

Vol. No. 24 --21

EVEN MORE "DRANO"; JUST HOW BAD IS THIS MESS, ANYHOW?

Introducing... "Cargo Plane Jay" Powell and his sidekick
"Bombs Away John" Williams



"I just need to fix a little plumbing problem."

of them telling us that the "plumbing problem" is WELL beyond what we were first told. As I mused the other day, whether that is due to 1. A frightened Fed lying to us, not wanting to fess up to the real extent of the problem for fear of spooking the markets or 2. Powell and Company simply *not knowing themselves* how bad things are, **it doesn't change the fact that something is amiss.**

Lest you've lost track of the progression of things, here's a quick recap:

* **September 17** – News of the Fed beginning to intervene in the overnight system having already leaked out, Powell admits that there are short-term "plumbing" issues requiring that the Fed pony up some overnight dough to smooth things out. The "plumbing fix" will last but *a couple days*.

Prior to discussing the **uranium** (ever closer to a VERY bullish turn) and **broader energy sectors** (BIG trouble ahead) on Thursday's podcast (check it all out at <http://www.kereport.com/2019/10/24/a-look-at-some-of-the-weaker-markets-energy-and-uranium/>) I discussed the **Fed's latest announcement that it is adding yet more "Drano" to apparently illiquid markets.** That's a euphemism, of course, that Fed Chairman Powell himself invited, by his largely dismissing the "plumbing" problems in the markets he described at the Fed's last meeting in mid-September.

In case you haven't been keeping track, this past Wednesday's latest announcement from Powell's Fed was but the most recent *in a string*

* **September 19** – On second thought, the liquidity issues aren't only to do with end-of-quarter cash shortages. So, the Fed says, it will extend the repo operations *through to mid-October*, targeting as much as \$75 billion daily in overnight repo market injections AND \$30 billion in longer-term financing.

* **October 4** – Ummm...we're extending all this further *until November*.

* **October 11** – We're now extending all of this into *as late as Q2 of 2020*. And we're ADDING further to our operations (Did we remember to remind you, though, that this is NOT Quantitative Easing??) by planning to buy \$60 billion/month in Treasury bills.

* **October 23** – *Break out more Drano!* We're increasing the overnight repo offerings (HEY, we said this is NOT Q.E. !!) to \$120 billion and "term" repo operations to \$45 billion.

Now, as I said near the outset of the Fed's latest campaign (*whatever* one wants to call it) the trouble the central bank is addressing is akin to a farmer or business that is asset rich but VERY cash poor. But this predicament is seemingly befalling a large swath of companies and financial institutions.

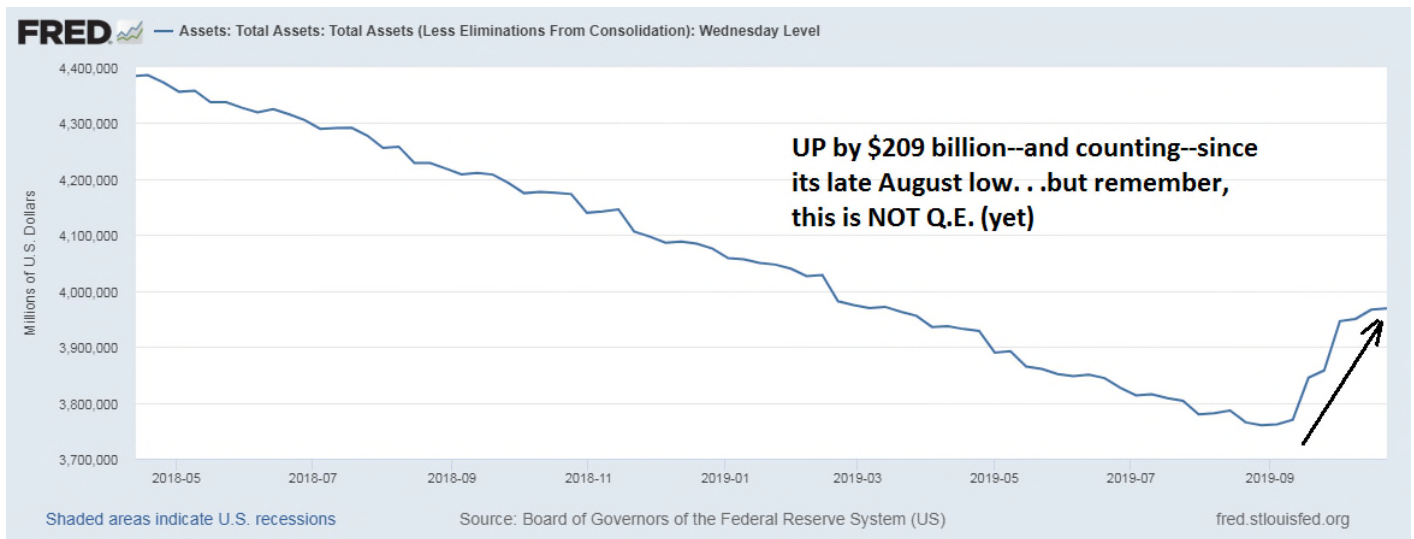
For dollar valuation, look to excess reserves



Sources: Bloomberg; Macrobond; Morgan Stanley Research
© FT

And it's one largely of policy

makers' own creation: between measures that Washington put in place to make the system "safer" post-2008 AND the mechanics of the Fed's own policies, **the level of excess reserves in the system has been falling sharply**, as I have discussed in more detail elsewhere recently. I'll grant that, *technically*, Powell and the crew aren't being totally disingenuous when they insist these growing plumbing fixes are *not* the same thing as Q.E. But again, that doesn't change the problem: That being, issues of illiquidity *in markets*—now made more intractable as the economy slows to boot—are *growing*.



As the *Financial Times*' Colby Smith and Joe Rennison wrote on Wednesday after the latest missive from the Fed on its growing operations, "The flood of cash entering the repo market from the Federal Reserve has served to dampen concerns that a repeat of the bout of (September's) volatility could occur at the end of the year, when banks typically retreat from the market and shrink their balance sheets for December 31 regulatory calculations. . ." As I said on Thursday, in this regard, at least, **we see a difference between the Powell Fed today and the Bernanke Fed of 2007: Powell is at least trying to get *ahead* of events.**

The parallels between the present time and the 2007 environment where cracks started appearing in "the plumbing" (initially, back then, in the subprime mortgage markets and associated derivatives and securitized inventions) are uncanny, as many have been pointing out of late; see https://www.marketwatch.com/story/stock-markets-eerie-parallels-to-september-2007-should-raise-recession-fears-2019-09-18?link=sfmw_tw for an especially good take on this from Sven Henrich, published in *MarketWatch* late last month. Here again, we can all quibble over terminology. But *the problem* the Fed is facing is what matters, together with whether its actions are going to be sufficient to prevent a credit/markets crisis.



That problem—as in that 2006-2008 time frame, as cracks appeared ahead of the markets' implosion—is simply one of **the over-stretched fractional reserve system being at the point *again* where it cannot be stretched any further.** For over a decade, the Fed and the

other central banks blew and re-blew all manner of bubbles to "rescue" us from the 2008 crisis, etc. But now, as I said this past week, not only is all this easing no longer doing anything for economic growth, but now *even markets* are STILL starving for oxygen despite all that the central banks have been doing. As the carnival performer, the Fed and the others have no choice but to keep putting more plates up. They can't stop. *But the more they have put up over the recent years, the less able they are to avoid the plates all falling off the sticks and to the ground.*

The next test for the Fed is ahead of us this coming week, when the F.O.M.C. gathers once more. By and large, Powell and several other Fed heads have attempted to get the markets to understand that—given the aggressive repo market and related operations—this all more than mitigates any need for further cuts to short-term interest rates *right now*.

But the trouble is, markets *still* have priced in a greater chance than not of another cut this week. And in what I personally see as one sign that the "plumbing problem" is more severe than the Fed is letting on, the bank seems more scared than usual of doing *anything* to upset market expectations.



They don't want to be "turned on" as Dr. Frankenstein's creation turned on him. So yet again, the upcoming F.O.M.C. meeting's Priority One will be to soothe the markets' fears. . .and avoid a market rebellion.



While Powell will lead the effort to keep spoiled and vulnerable markets more or less mollified, the *mechanics* of things demonstrating how successful the central bank is right now in its Drano-injecting efforts will STILL chiefly include the level of the U.S. Dollar Index. As I suggested, the greenback was due its recent bounce, if for no other reason than it had become technically oversold in the short term. **The trick now for the Fed, to the extent it can still control the situation, is to somehow break the back of the dollar's steady increase of the last 18 months or so for good.**

Between the Fed's increasing "Not Q.E." and its *probably* ongoing "mid-cycle adjustment" that could manifest itself in another rate cut come Wednesday, **the hope is that the dollar's long run is at an end**. We'll know more—and I'll likely have more to say, if not advocate as far as our portfolio and sector allocations—by or before week's end, I suspect.

As I want to get on to several more company updates as well as some thoughts on our current portfolio positioning, **I'm going to refer you to this past week's podcasts for more goodies**. Friday especially, I wrapped up the week's news (at <http://www.kereport.com/2019/10/25/wrapping-up-the-week-with-amazon-earnings-results-the-balance-between-us-markets-and-gold-and-an-update-on-brexit/>) discussing SEVERAL subjects:

- * Stocks at their all-time highs, *despite Amazon's sobering news*.
- * China trade – "skinny deal" still coming, or just more talk?
- * Why—unlike 2008—a financial/credit crisis will NOT hurt the gold price, but more likely help it.
- * The political "Game of Chicken" over Brexit

* The preceding is excerpted from the fourth regular issue
of *The National Investor* for October, 2019

**Don't forget that those of you so inclined can follow my thoughts, focus and all
daily !!!**

* On Twitter, at <https://twitter.com/NatInvestor>

* On Facebook at <https://www.facebook.com/TheNationalInvestor>

* Via my (usually) daily podcasts/commentaries at <http://www.kereport.com/>

* On my You Tube channel, at https://www.youtube.com/channel/UCdGx9NPLTogMj4_4Ye_HLLA

The National Investor is published and is e-mailed to subscribers from chris@nationalinvestor.com. The Editor/Publisher, Christopher L. Temple may be personally addressed at this address, or at our physical address, which is -- National Investor Publishing, P.O. Box 1257, Saint Augustine, FL 32085. The Internet web site can be accessed at <https://nationalinvestor.com/>. **Subscription Rates:** \$275 for 1 year, \$475 for two years for "full service" membership (twice-monthly newsletter, Special Reports and between-issues e-mail alerts and commentaries.) **Trial Rate:** \$75 for a one-time, 3-month full-service trial. Current sample may be obtained upon request (for first-time inquirers ONLY.)

The information contained herein is conscientiously compiled and is correct and accurate to the best of the Editor's knowledge. Commentary, opinion, suggestions and recommendations are of a general nature that are collectively deemed to be of potential interest and value to readers/investors. Opinions that are expressed herein are subject to change without notice, though our best efforts will be made to convey such changed opinions to then-current paid subscribers. We take due care to properly represent and to transcribe accurately any quotes, attributions or comments of others. No opinions or recommendations can be guaranteed. The Editor may have positions in some securities discussed. Subscribers are encouraged to investigate any situation or recommendation further before investing. The Editor receives no undisclosed kickbacks, fees, commissions, gratuities, honoraria or other emoluments from any companies, brokers or vendors discussed herein in exchange for his recommendation of them. All rights reserved. Copying or redistributing this proprietary information by any means without prior written permission is prohibited.

No Offers being made to sell securities: within the above context, we, in part, make suggestions to readers/investors regarding markets, sectors, stocks and other financial investments. These are to be deemed informational in purpose. None of the content of this newsletter is to be considered as an offer to sell or a solicitation of an offer to buy any security. Readers/investors should be aware that the securities, investments and/or strategies mentioned herein, if any, contain varying degrees of risk for loss of principal. Investors are advised to seek the counsel of a competent financial adviser or other professional for utilizing these or any other investment strategies or purchasing or selling any securities mentioned. Chris Temple is not registered with the United States Securities and Exchange Commission (the "SEC"): as a "broker-dealer" under the Exchange Act, as an "investment adviser" under the Investment Advisers Act of 1940, or in any other capacity. He is also not registered with any state securities commission or authority as a broker-dealer or investment advisor or in any other capacity.

Notice regarding forward-looking statements: certain statements and commentary in this publication may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 or other applicable laws in the U.S. or Canada. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of a particular company or industry to be materially different from what may be suggested herein. We caution readers/investors that any forward-looking statements made herein are not guarantees of any future performance, and that actual results may differ materially from those in forward-looking statements made herein. **Copyright issues or unintentional/inadvertent infringement:** In compiling information for this publication the Editor regularly uses, quotes or mentions research, graphics content or other material of others, whether supplied directly or indirectly. Additionally he makes use of the vast amount of such information available on the Internet or in the public domain. Proper care is exercised to not improperly use information protected by copyright, to use information without prior permission, to use information or work intended for a specific audience or to use others' information or work of a proprietary nature that was not intended to be already publicly disseminated. If you believe that your work has been used or copied in such a manner as to represent a copyright infringement, please notify the Editor at the contact information above so that the situation can be promptly addressed and resolved.