

P2 is Bearish on Magic Beans

Written by Bruce Enberg

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Initial Unemployment Claims edged up slightly for the week, but are still near five year lows. Building contractors in some previously depressed areas are finding it impossible to keep up with the demand for new units. This is partly because of the unavailability of existing homes because underwater owners can't sell, and partly it's pent up demand that is being released by the improving economy.

All of a sudden we don't have an immediate debt crisis, at least according to some prominent Republicans in Congress. Basically they're admitting to having lied about the 'debt crisis', literally the day before the new talking points came out, because nothing has changed. A new Continuing Resolution has passed Congress that will take some things off the Sequester chopping block, it still requires the President's signature. Sounds like Obama is a brand new friend to some Republican Congressmen who suddenly don't care about the 'debt crisis!!!', as long as their pet projects get funding. Would this be a good place to insert one of those 'Obama playing chess' metaphors?

The Federal Reserve has announced that they will continue to print 85 billion in new money to buy up mortgage bonds and US Treasury bonds every month for the indefinite future. Their current balance sheet stands at over 3.2 trillion. The stated reason for doing so is to keep interest rates low in order to stimulate the economy and create jobs. This is true as far as that statement goes, but the real reason is to counter the trillions in cash hoarding that billionaires have been doing offshore. If the Fed didn't put up the cash we would slip into a deflationary spiral that would convert the country in the 'paradise' that the libertarians claim they want. That is if you want to live in Somalia.

I constantly hear from the right who blivate about the huge debt and the printing of money by the Fed who insist that we're set for hyper-inflation any day. This is simply not going to happen, they've been predicting this will happen 'any day now' for many years. The Fed can start selling its balance sheet holdings off again once the economy recovers to the very people who have been hoarding cash. It's like putting up sand bags to keep the river out of town. Proper planning and regulation would have been smarter, but for the moment we aren't drowning. Just keep the

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tea baggers away from the sand bags until the river goes down.

The Cypriots may go the Iceland route, throw the bankers out, and print their own currency. They are actually better positioned to do that, and it worked great for Iceland. However they haven't been willing to give up the delusion that they can keep their money laundering business, but they may come to reality at some point. If they don't throw the bankers out, they will have simply given the island away for a handful of Euros, they might as well take magic beans.

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