Peter Schiff: It’s Game Over If The Markets Call The Fed’s Bluff

Description

USA: The Federal Reserve insists inflation is “transitory” and the economy is making “progress.” Yet, it continues with the extraordinary monetary policy it launched at the onset of the COVID-19 pandemic. Meanwhile, we’re seeing all kinds of data hinting that the economy may not be as great as advertised. Despite this, and even as prices continue to spiral higher, the Fed’s only monetary policy is talk. Peter breaks it all down on his podcast and drills down to the key question: what happens if the markets call the Fed’s bluff?

The July Federal Reserve meeting took center stage this week, but there was a lot of economic data that got lost in the shuffle. Peter said the data “really evidences the stagflationary environment that we’re in.”

On Wednesday, the trade deficit in goods data came out. It exceeded the high end of estimates and set another record high, rising 3.5% to $91.2 billion. Peter said he doesn’t think this record will last long.

> These records are going to fall like dominoes. And this is not happening because we have a strong economy. It’s happening because we have a weak economy.”

A lot of mainstream pundits keep looking at these numbers as if they somehow reflect strength because Americans are buying so much stuff. But as Peter pointed out, the strength of an economy isn’t measured by what you buy but by what you produce.

> Strong economies produce more. They don’t simply consume more. We are consuming more despite the fact that our economy is weak. How are we doing that? Well, the Fed is printing money and we are spending it. But that does not constitute strength. That really evidences profound weakness.”

Recklessly spending money created out of thin air does not create economic strength. The only reason these numbers look good is because of Fed magic via monetary policy.

> **The Fed is really not as clueless as people think when it comes to inflation. They're not missing the inflation problem. I think they understand that there's an inflation problem. They also understand that they would create an even bigger problem, from their perspective, if they tried to do anything about it, which is why they're not, which is why they are pretending that the situation is transitory."**

The mainstream understands that inflation is worse than the Fed claims. But it doesn't understand why the Fed isn't doing anything about it because they don't understand the Fed can't do anything about it without collapsing the economy.

> **They don't understand that we have a bubble. It is the biggest bubble in history. And even the tiniest little pin would prick it, which is why the Fed does not want to supply that pin."**

Most people in the mainstream think the Fed did the right thing by expanding monetary policy in response to the pandemic. (It didn't.) But they don't understand why the Fed is continuing that policy now, given that we're in a recovery. They're sitting around scratching their heads wondering why the Fed doesn't go ahead and tighten things back up.

> They don't understand that we haven't recovered. We've just become addicted to the stimulus. The stimulus is a monetary heroin. And not only can't the fed withdraw the drug; the Fed has to continue to supply the habit with greater and greater quantities of the drug."

Over the last two months, exports have remained flat while imports exploded. Peter said this is like a company hemorrhaging red ink. How can the US finance these massive deficits? Because foreigners are willing to trade stuff for financial assets. But how much longer can this continue?

June durable goods data also came out on Wednesday. It was also a big miss on the downside and the number is trending lower. Meanwhile, new homes sales collapsed in June for the third consecutive month, hitting a 14-month low. Why are home sales slowing? Because prices are rising so fast. Even with mortgage interest rates at record low levels, people are being priced out of the market. Peter said he doesn't think the rise in home prices is anywhere close to ending because the cost of construction continues to rise. At some point, construction will likely slow and that will have an impact on employment.

Rent is a big component of CPI. According to government calculations, rents have remained relatively low. But MarketWatch analysis shows that actual rents are up 25% year-over-year. That is 10 times the level the government is using to calculate CPI.

> **Imagine what the CPI would be right now if you replaced the government number with a 25% private-sector number from Realtor.com. You would be looking, I think, at a year-over-year inflation rate, right now, at 13%."**

Meanwhile, the Fed continues to insist inflation is “transitory” and everything is fine.

Peter goes on to break down the Fed meeting and Jerome Powell’s post-meeting press conference. He notes that **it’s all talk and the Fed is basically bluffing.**

The real question is what happens if markets call that bluff? And there are signs that may be happening.

by Tyler Durden

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