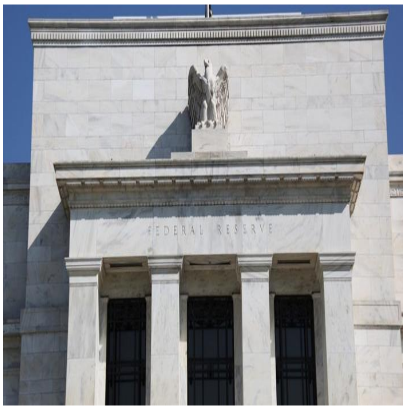

Peter Schiff: The Fed Is Running A “No Stick” Monetary Policy

Description

USA: The markets reacted to last week’s Federal Reserve meeting as if the central bank was about to embark on a major monetary policy tightening spree. But as Peter Schiff discussed in his podcast, the Fed is all talk. It can’t possibly do what the markets think it might do. In effect, the central bank is running a “no stick” monetary policy. The Fed talking but it’s not carrying any kind of stick to back it up.

After the FOMC meeting, Chairman Jerome Powell did his best to set a dovish tone, even though the markets considered the messaging coming out of the central bank to be hawkish. But on Friday, St. Louis Fed President Jim Bullard undid Powell’s damage control saying he sees the first rate hike coming down the pike in 2022. Stocks sold off, gold continued to fall, the dollar strengthened, and stocks tanked on Friday after Bullard’s comments.

Powell said it was too early to talk about tightening. “You can think of this meeting that we had as the ‘talking about talking about’ meeting,” he said.

As Peter put it, “The FOMC members went from not thinking about raising interest rates to thinking about raising interest rates. Of course, they haven’t raised interest rates. They’re simply thinking about something that in the past they weren’t thinking about at all.”

In effect, even Bullard only conceded that the Fed is now talking about talking about raising rates.

He’s slightly more hawkish sounding than Powell, but he’s not signaling any substantive change in policy.

> **All this is a bunch of nonsense because the Federal Reserve has not actually done anything.** But the markets are responding to this rhetoric as if they’ve actually done something substantive when they’ve done nothing at all. It is all much ado about nothing.”

At some point, the Fed may shift to actually talking about raising rates. The markets will almostcertainly act like it's tightening more. But what's next?

> **How do they tighten monetary policy further once they're talking about raising interest rates but without actually raising them?"**

Peter said this is all a bunch of talk because the Fed really can't tighten at all.

> **It could do it in theory if it didn't mind crashing the stock market, crashing the economy, maybe forcing the US government to default on its debts creating a much worse financial crisis than 2008, except with no bailouts. Maybe if the Fed is willing to do all that, then sure, it can actually do what it's thinking about and talking about. But since it's not willing to do that, this is all a bunch of nonsense."**

It's like the difference between thinking about going on a diet, talking about going on a diet, and actually dieting.

> You can talk about going on a diet all you want. But you're not going to lose any weight, especially if while you're thinking about dieting, and telling your friends about your diet, you continue to overeat. You continue to stuff your face with junk food, and between bites, you tell everybody about this diet that you're going to go on in the future. You are not only not going to lose weight, you're going to keep gaining weight."

Look at what the Fed is actually doing. On Thursday, we got the weekly Federal Reserve balance sheet data. It surged by $111.9 billion, after topping $8 trillion for the first time ever the week before.

> **So, while the Fed is talking about talking about tapering its asset purchases … it's actually purchasing much more. So, it's expanding its asset purchase program as it's talking about contracting it. Again, it's like your fat friend talking about going on a diet as he's stuffing his face with more food."**

Don't believe what the Fed says. Look at what it actually does.

> **Understand that the Fed has absolutely no ability to do what it's claiming it's thinking about and talking about doing."**

This is essentially what the Fed did after the 2008 financial crisis. It talked about tightening for years before raising rates the first time in December 2015. It was able to create the illusion of tightening without actually tightening. But even when the Fed actually started raising rates and shrinking its balance sheet, it never finished the journey. The central bankers likely think they can get away with this maneuver again.

Peter said the markets still don't get it.

> **Even after the Fed tried and failed to shrink a four-and-a-half trillion-dollar balance sheet, somehow now they believe that at some point in the future, they will be able to succeed in shrinking a balance sheet that's already in excess of eight trillion."**

The last time around, the Fed had to abort the rate hike process at 2.5%.

> That was the most the overly indebted US economy could handle before the wheels started coming off the bus. Given the fact that we have so much more debt now than we did back then, we're so much further levered up that we probably couldn't even handle 1%. I'm not even sure we could handle 50 basis points That's how screwed up the economy is now. So, if the Fed ever embarks on this journey, we're not even going to come as close to completing it as we did last time."

Teddy Roosevelt said, "Talk softly and carry a big stick." The Fed is doing the exact opposite. It's talking loudly but it doesn't have any stick at all.

> When you've got interest rates at zero and all you're doing is discussing whether or not you should slightly increase them from zero in a year, or in two years, or in three years, yet stay at zero the entire time, you are not talking about a hawkish Fed. **The fact that this type of minimal increase in rates is hawkish – this shows you how low that hawkish bar has been lowered**."

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