Rodney’s Take

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Where the Powerful Sit in Comfort To Decide Your Fate

Summer in the Rockies can be glorious. The high mountain air warms to the 80s and 90s most days, but the nights are still chilly at high elevations. Combine that with decidedly dry air, and you have a recipe for a very comfortable climate, which explains why so many people head west during July and August… even central bankers.

The Kansas City Federal Reserve Bank has hosted a central bank symposium in Jackson Hole for more than a decade. Few people took note of the gathering until 2007, when the credit crunch took hold. While the Great Financial Crisis (GFC) officially started in 2008, those who work in the financial plumbing, dealing with borrowing rates on weekly resets, commercial paper, and repos, know that the markets showed stress in the summer of 2007 as auctions began to fail. That’s when new Fed Chair Ben Bernanke gave his first speech of note at the Jackson Hole symposium. Because it wasn’t limited to research, he also addressed the current financial climate.

This happened again in 2008, as the Jackson Hole gathering, which takes place the last weekend in August, was held just after Fannie Mae and Freddie Mac went into conservatorship and just before Lehman Brothers collapsed. After that, the Fed began printing money with abandon in the spring of 2009, often using the Jackson Hole gathering as the occasion to tell us what comes next.

This year is likely to prove no exception.

In 2010, the first round of quantitative easing was coming to an end, but housing prices were still falling and the economy was a long way from recovery. Instead of allowing asset prices to find their natural equilibrium, at Jackson Hole that year, then-Fed-Chair Ben Bernanke told the world that the bankers would launch QE2 in the fall, which sent the equity markets marching higher and set the tone for years to come. When monetary policy failed to deliver, the central bank would double and then triple down.

This year, Fed Chair Powell likely will give guidance as to how the bankers intend to taper their latest round of bond purchases to head off rising inflation. If investors deem the pace of tapering too slow, then the dollar should fall, boosting equities and gold. If the pace is too fast, then yields should move higher and put a dent in precious metals and equities.

As we wait for words (literally) from on high, it's worth remembering that all of this comes down to one thing, market manipulation. When buying $120 billion worth of bonds each month, the Federal Reserve is not acting as the lender of last resort by providing liquidity for good assets in the absence of willing bidders. Instead, the bankers are choosing to pursue economic priorities by sacrificing market-based price discovery on bonds. They are choosing to move the markets as they see fit to achieve a goal at the expense of savers, which is why the national average interest rate on a savings account is a whopping 0.1%, even though inflation is running 5.4%. Even if you think inflation will fall closer to 3% over the next year, that still leaves short-term savers with a negative interest rate of 2.9%.

Jackson Hole, Wyoming, is in one of the richest zip codes in the nation and is one of the most beautiful spots to spend late summer days. It's only fitting that the central bankers would choose this setting to let us know what levels of market manipulation, which affect investors large and small as well as consumers and workers, they will pursue in the months ahead.

It's likely to be a choppy 10 days as we wait for their guidance from the mountains.

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Got a question or comment? You can contact us at info@hsdent.com.