Fed Falls to its Knees -- Extends Prayer Vigil

3-20-15

The big news of the week -- The Fed stopped using the term "patience" in its report -- It had to do it because its already over long use would have speculators believe the sky was about to fall. But since expunging the term would mean the Fed was on track to raise rates, and that would frighten speculators and further weaken the bubble-propped real economy, it substituted that polite word with four bombshell statements: Until the bogus job figures become a real improvement in the real jobs we will delay a rate rise; until those real jobs cause an increase in real wages we wait a bit longer before a rate rise; until core or expected inflation -- or basically, until we don't have to worry about deflation, real or expected -- we won't be making a move up from zero.

The markets loved it until a thought entered the degraded brains of the speculators -- Doesn't this suggest that the entire Fed mission has done nothing but make us immensely richer and now will cease to make us even more astoundingly immensely richer? Does it prove that when you try to run an economy on no wheels all that moves is the part that is made of nothing? They should have known better, nothing risks puncturing a balloon than the process of thinking -- that caused a couple of down days until the other big event of the week slapped big smiles on their greedy faces. Friday was quad-witching day. All stock index futures and stock index options come to an end. It leads to a usually very profitable week as those with these options make deals and then around the last hour of trading on Friday decide to repurchase or do whatever with what remains. The Dow traded more than 5 billion shares.

Meanwhile, on the European front their QE began this week and the universality of greedy capitalism was displayed for all. The FTSE closed above 7000 for the first time ever. The German DAX closed above 12,000. Any little cue to buy will suffice. On Friday it was some positive hot air regarding Greece. Whatever is finally agreed upon just kicks the can closer to the crusher. Burning police cars and the arrest of hundreds outside the dedication ceremony for the new $1.4 ECB headquarters meant nothing. Where is the vaunted foresight of capitalist analysts? Presumably so blinded by dollars that they can't see the pitchforks.

A bit of news from reality. From Bloomberg -- Mining companies reduced the production of metallurgical grade coal by 15 million tons last year and are expected to double that this year. This according to the CEO of Teck Resources, the second largest exporter of the coal. Prices have dropped from $330 to $117 a ton. Many high cost mines need to continue production, others have contracts to fulfill even if it amounts to a loss. The cause is a reduction in demand by China following their stimulus inspired expenditures in 2010-11 for infrastructure improvements and construction that required much steel. The real slumps.

But the unreal flourishes. From the Guardian -- Wall Street profits fell 4.2% to $16 in 2014 compared to 2013. That is 33% below 2012 profits and 74% less than

2009 profits when the Fed opened wide the free money and no interest spigot. Yet bonuses continue to increase. Only 2% in 2014 -- in 2013 profits were down 30.1% while bonuses rose 15%. Of course, bonuses are from revenue, not profits, and for last year exceeded profits by 170%. Soon we may see NYC have a mini-Detroit experience when profits collapse along with the market and the secondary bleeder effect frees up some space in lower Manhattan for the working, rather than the work-aversion, class.

Big gain Monday though the manufacturing index was down for the third month in a row as was the National Association of Home Builders confidence rating. How come? At the WSJ described it -- ". . .recent sessions have been dominated by short term investors making buy or sell decisions based on broad economic and financial trends rather than individual stocks . . ." Or, after scraping off the BS, "Friday was a down day. . .Monday must be an up day."

From the 2000 to 2003 Greenspan lowered interest rate from 6% to 1%. Began raising rates June 2005 until cutting began again in August 2007. Thus, two years of growth sufficient enough to be called recovery before the next bust. For this crisis treatment interest rates have been bottomed out for 91 months (thru Feb 2015) - 75 months at near zero. The Fed has gotten themselves in a well-deserved bind. The end of the QE largesse resulted in a weakening economy. Now they know that it and the interest free credit are indeed nothing more than props. Their dilemma: The longer they put off raising rates, the more everyone else will know it

17% drop in new housing starts in Feb. compared to Jan. Annualized starts 897,000. Not a single expert (out of 81) predicted anything that low. As for the weather -- The west temperature was well above average -- starts there dropped 18.2%. Obviously too hot to build. Figures for single family homes are considered more stable - their annual rate of 593k is almost exactly the same as 589k last Feb.

The ratio of corporate equity value to GDP is 127%. The only higher numbers were in the run up and the run down at the end of the dot com bubble when it peaked at 153%. Practically all that paper wealth is going to a few. Average household net worth is $301,000 -- but the median is $45,000. Enlightenment will arrive when the masses understand that world capitalism is just one big banana republic daring them to respond.

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