

# GRANT'S

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## The art of inflation

A seven-foot shiny steel rendering of Popeye the sailor man by the sculptor Jeff Koons is tipped as the *piece de resistance* of next month's evening auction of postwar and contemporary art at Sotheby's in New York. It's expected to fetch \$25 million. The cycles and vagaries of taste and value are the topics at hand. We approach them by way of 21<sup>st</sup> century London and 17<sup>th</sup> century Seville.

Connoisseurs of pictures and collectors of securities may profitably reflect on the respective fortunes of the painters Oscar Murillo (b. 1986) and Esteban Murillo (1617-1682). The current Murillo, Oscar, is the creator of the work shown at the bottom left, "Untitled (Burrito)." It brought £194,500, or \$322,870, commission included, in February at Christie's in London. The price was 10 times the low end of the pre-auction estimate.



Oscar Murillo, *Untitled (Burrito)*

The 17<sup>th</sup> century Murillo painted the picture at the lower right. "Ecce Homo" depicts the scourged figure of Christ in the moments before his crucifixion. "Mater Dolorosa," a rendering of Christ's anguished mother, which accompanies it, is not shown. The two pictures were offered together for sale by Sotheby's in December. Failing to attract a bid suitably close to \$320,000, the low end of the pre-sale estimate (which happened almost exactly to anticipate the inclusive "Burrito" price), the works were withdrawn.

Oscar Murillo, 28-year-old former office cleaner, is one of the hottest of the so-called emerging artists. Esteban Murillo, a shining light of Counter-Reformation Spain, is one of the colder of the submerging Old Masters (there is no claimed family connection between the two). At the Christie's Old Masters auction in New York in January, 109 paintings—all the works on offer—fetched a combined \$19.1 million, or not quite four-fifths of the expected value of one Popeye, observes colleague Charley Grant. In the language of Wall Street, Oscar Murillo is a kind of momentum stock. Esteban Murillo is a kind of value stock.

Before listening to Cliff Asness hold forth at last week's *Grant's* Conference, we might have glibly proposed a conceptual pair trade: shorting Oscar while going long Esteban. Asness, a Ph.D. in finance from the University of Chicago, advised the *Grant's* audience not to disparage momentum investing. Scholarly studies, including his own, show that one can profit by being long what has been going up and being short what has been going down. It's not that value in-

vesting doesn't work, Asness said, only that momentum deserves a place in the professional canon, too.

Well and good. Oscar—let us say—is trading above his personal 200-day moving average. He is going up and has been going up. Perhaps his bull market is only beginning. Maybe one of his canvasses will make a new record at the May auctions. Possibly, one of Esteban's devotional paintings will make a new low.

This publication is in receipt of a selection of pointers for any who would compete in the red-hot, momentum department of the contemporary art market. The fundamental concept, advises our well-connected informant, is to heed the buzz. Buy with your "ears," she advises, as opposed to your eyes. Hear what the insiders are saying—curators, dealers, artists and collectors.

Here, according to Carol Vogel, writing in *The New York Times* last month, is



Esteban Murillo, *Ecce Homo*



Cindy Sherman, *Untitled# 93.*

what one noted collector has said. Mera Rubell and her husband had arrived at 9 A.M. at the Independent Art Fair in New York to meet Murillo. This was in March 2012. “[H]e looked disheveled, exhausted, like a homeless person,” Rubell is quoted as saying. “He’d stayed up for 36 hours straight and made seven or eight paintings, so he had something to show us. They blew us away. We ended up spending four hours talking to him. . . the last time I saw that kind of energy was Keith Haring or Jean-Michel. It was so intense. I don’t even think he was on drugs.”

Maybe the central bankers are on drugs. Maybe modern money sets the prices on modern art. We shall now climb down, slightly, from that approach to the valuation question. We have been reading Gerald Reitlinger’s “The Economics of Taste: The Rise and Fall of Picture Prices, 1760-1960” (the first volume of what turned out to be a three-volume work was published in London in 1961). It’s a history of cycles.

In the early Victorian era, Esteban Murillo was a hot artist. To be sure, he was long dead, but the taste-makers of the day, including a Bonaparte

prince and the Czar of Russia, appraised him a genius. In 1852, Murillo’s “Immaculate Conception” fetched £24,600 in a private sale, the highest price that any picture would command until the mid-1880s. In today’s gold value, the painting brought £3.9 million or \$6.6 million. Nine feet high, it shows the Virgin “surrounded with a tumbling torrent of corpulent cherubs,” as Reitlinger puts it. Victorian taste “died hard,” the author relates, but die it did, and Esteban Murillo’s work entered a long bear market. In 1950, a very good Murillo, “Christ Healing the Paralytic,” cost Britain’s National Gallery 8,000 fiat pounds sterling—a deep discount from the gold pounds fetched by “Immaculate Conception.”

Nearby you see a rendering of “Untitled #93,” a photograph by Cindy Sherman, which sold for \$96,000 at Christie’s in 1998 and is expected to bring between \$2 million and \$3 million when auctioned next month at the Sotheby’s contemporary art extravaganza in New York.

“No. 93,” as far as we know, was created to be viewed. To describe a type of work whose evident purpose

is to be sold, *The New York Times* correspondent Scott Reyburn has coined the term “Flip Art.” Murillo, among others, he writes, “make abstract painting that are a clever play on the act of painting. These abstracts often employ novel—not to mention cheap—painting techniques, such as using a fire extinguisher. . . or home improvement products. . . . They’re often big, and have significant wall power.”

Time will tell about their staying power. Fifty years ago, on April 21, 1964, Andy Warhol unveiled “Brillo Boxes.” It did not seem obvious to the established art world that those ever-so-familiar-looking packages were art or that the artist who produced them would become a cult figure.

Claude Gellée (1600-1682), known simply as Claude, “the most perfect landscape painter the world ever saw,” according to John Constable, was a cult figure in the early 19<sup>th</sup> century. He was among the highest-priced painters on the market until the cultists found other immortals to venerate. In 1808, one Claude landscape had fetched £12,600; in 1895, another made just £472.

Now Claude is rediscovered. At a Christie’s sale in New York in January, the artist’s “A Wooded Landscape,” a drawing of an unidentified vista in the Roman countryside, brought \$6.1 million, more than seven times the estimate. If it can happen to Claude, why can’t it happen to Murillo—Esteban, that is? And if could happen to Esteban, why couldn’t it happen, in reverse, to Oscar?

Tastes change, money cheapens—and cycles turn.

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# Vacation delectation

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Sincerely yours,

  
James Grant, Editor  
August 22, 2014

# GRANT'S

## INTEREST RATE OBSERVER®

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### Fiat-fest 2014

(July 25, 2014) The annual summertime monetary hoedown at Jackson Hole, Wyo., won't be the same this year. Bloomberg reports. The Kansas City Fed, host of the August fiat-fest, is cutting Wall Street dead. Economists from the TBTF banks, longtime schmoozers in Jackson Hole, are this year being invited to stay home.

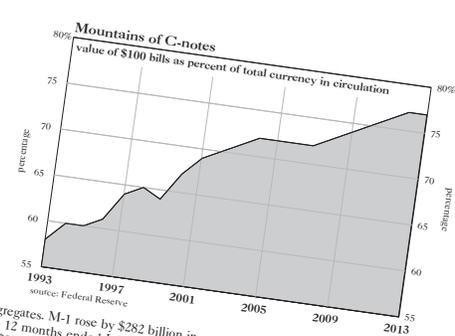
Maybe that's a good thing—the crony financiers were especially thick on the ground at the 2006 proceedings, where they collectively seemed no more alert to the looming mortgage-cum-credit-crisis than the government employees did. Then, again, the Fed has a job of work on its hands. Its balance sheet is too big and its interest rates are too low. It may need some help in strategizing.

With money-supply growth ticking higher and the rate of producer-price inflation accelerating. "How to exit?" is one question. "Which rates are relevant in this zero-percent world?" is another.

Before QE, the funds rate was the central bank's one and only. "However," excess reserves measured in the trillions today vs. in the billions pre-crisis, the fed funds market has ceased to function. On to the next rate, then: The new reverse-repurchase rate, perhaps? Or maybe the not-so-far-fetched risk that the mere existence of the RRP facility might invite a bank run (*Grant's*, May 2), or maybe the interest rate on excess reserves, now fixed at 25 basis points? Or a new funds rate that encompasses more than the funds market?

Accompanying the technical debate is the continued growth of the monetary aggregates. M-1 rose by \$282 billion in the 12 months ended July 7, paced by an \$87 billion increase in currency and a \$196 billion jump in deposits. If \$100 bills represent 77% of the currency growth (as the Fed reports that they did in 2013), and if \$20 bills account for the 3.8 million pounds. More significant growth in deposits, which corroborates the surge in business lending—after all, loans create deposits.

Nearly four million pounds of paper money do create a sense of inflationary anticipation. Where's the thing itself? The Cleveland Fed, which calculates the CPI every which way (median, trimmed and otherwise), essentially comes up with 2%. Two percent is supposedly what the Fed is shooting for. Still, the Fed keeps shooting. And as it fires, asset prices dance. Measured year-over-year, the S&P 500 is up by 17%, the Russell 2000 by 18%, the S&P/Case-Shiller Composite Price Index by 10.8%.



source: Federal Reserve



"Well I, for one, am going to miss QE." sb2014

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