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Stay-cations for Wall Street

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," colleague Evan Lorenz observes, "with 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? Maybe or maybe not, the thinking goes, given the not-so-farfetched 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 rest, the green emission would weigh 3.8 million pounds. More significant from a pure monetary perspective is the 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 on shooting. And as it fires, asset prices dance. Measured year-over-year, the S&P 500 is up by 17%, the Russell 2000 by 9.8%, the S&P/Case-Shiller Composite-20 Home Price Index by 10.8%.

Neither, for the 31st consecutive year, did *Grant's* cop a Jackson Hole invitation. Still, we contribute a question for the guests to bat around: "What is inflation, anyway?"

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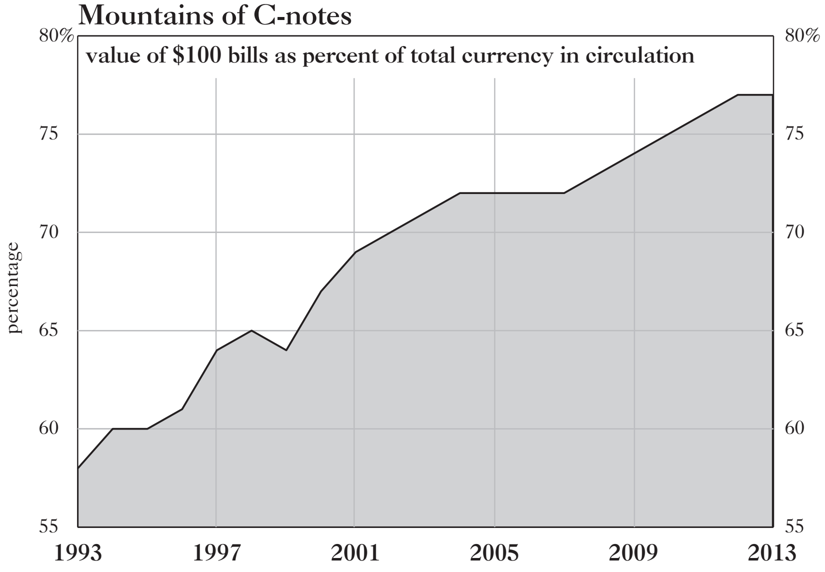
Mountains of C-notes



source: Federal Reserve

Vacation delectation

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We resume regular publication with the issue dated Sept. 5 (don't miss it!).

Sincerely yours,

James Grant, Editor
August 22, 2014

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Fiat-fest 2014

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

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