THE National Investor

Sept. 12, 2021 *You can get information anywhere. Here, you get KNOWLEDGE*. COMMENTARY

"PLUMBING PROBLEMS" STILL TO COME

In September of 2019—several months before the Plannedemic of the last year and a half or so was front page news—a significant event occurred in the markets that *even then* was not paid attention to by most. Now, of course, even the average market pundit has long since forgotten.

I speak of Federal Reserve Chairman "Cargo Plane Jay" Powell's sudden discovery back then of what he euphemistically called "a plumbing problem" in the financial system.

That plumbing problem, lest you need to be reminded, pretty much overnight saw the need for the Fed to begin injecting hundreds of billions of dollars into repo markets. I'll talk a bit about those *mechanics* shortly; for now, we need to first look at what got markets into a mess—*one which they are still in on some fronts*—where liquidity and market function have been so threatened (and continue to carry the risk of another nasty DEFLATION) despite (indeed, *because of*) ever-more money printing by the Fed.

Some of you have, over time, read or listened to my "signature presentation" entitled *Understanding the Game* (a primer on this subject of sorts was delivered by Yours truly to a few dozen of our folks at a dinner get-together not long ago; it can be viewed at https://www.youtube.com/watch?v=UqmLVme0UkI, on my YouTube channel.) The main points I drive home are to explain to you:

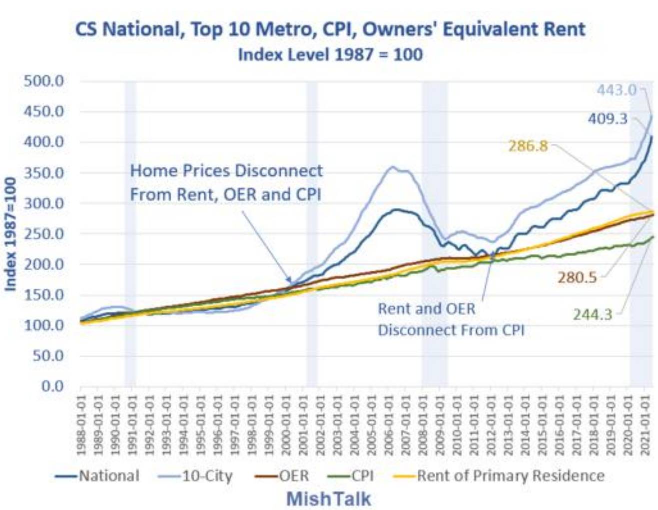
1. *The simple laws of mathematics* that lead to ever-greater debt levels and ever-greater money printing/need for *even easier* money, just to keep the bloated skyscrapers of cards built by the bankers from falling.

2. How and why all the easy credit/flooding of markets by the Fed ultimately leads to DEFLATION, as the system simply can't "keep all the balls in the air."

Current Fed Chairman Powell once upon a time eloquently explained these very dangers *himself*; at least back when he started at his current post at the beginning of 2018. Indeed, he squarely laid the blame for the prior two major financial/economic busts—those following the tech bubble which peaked in 2000, and then the mortgage finance/real estate one that blew up in 2008—*on the Fed itself*. Only by first getting WAY too reckless and going overboard with credit creation in the name of "supporting the economy" (i.e.—MARKETS) did the Fed sow the seeds of the resulting busts, once the "financial imbalances" (Powell's once-favorite euphemism for *bubbles*) were too great for either the financial system itself to keep things together or—**in a few key ways we are now seeing repeated**—for what remains of a healthy, organic economy itself to support/service.

Powell, as you know well if you have kept up with me, has now become *in spades* that which he purportedly denigrated. And it goes WAY beyond what Yours truly had discussed on this subject before the Plannedemic reared its head in the late winter of 2020. Before then, we had merely the inevitable "evolution" of Powell from hawk to dove, similar to that of Paul Volcker about four decades previously (see https://www.nationalinvestor.com/2009/a-year-in-the-life-of-fed-chair-jerome-powell/)

But these recent moves after Powell's "surrender" to the markets near the end of his first year at the helm are REALLY off the charts. As I have explained concerning why I have used the term "Plannedemic," it MUST be realized that the added measures that have come from the Fed (and other central banking authorities) in the last year and a half were *needed* to keep global markets from IMPLODING ANEW. And it was that plumbing problem Powell was suddenly required to deal with back in September, 2019 that was the shot across the bow to him *then* that if he did not find a way to get into full-on, nutso "Inflate or Die" mode, we were about to see a repeat of 2000 or 2008.



This is why, my friend, Powell *seems* to have lost all touch with reality where the highest inflation rates in *decades* are concerned. He really *isn't* that dumb. He simply knows he MUST continue to keep the money and credit flowing to keep things from imploding; even though he knows full well himself the risks of even greater BUSTS to come as he overdoes things in ways that vastly exceed the past mistakes of Fed policies that led to the 2000 and 2008 busts.

In no way is Powell's recklessness—and increasing propensity to be disingenuous to the point of bald-faced LYING—more on display than in

his claims regarding the housing market. In so many ways these days, the seemingly more "woke" Fed—in keeping up with the times and the latest propaganda fad which, as always, benefits the rulers more than the ruled—must, Powell insists, keep its various bubbles growing in order to "help" the hoi polloi, minorities specifically, unemployed, etc. more. *Yet he has been caught totally flat-footed a few times when courageous, honest reporters ask him how it is that pricing millions of these very people out of the housing market is "helping" them*.

Housing costs have risen in the last year at a nearly 20% annualized rate; the highest *ever*. Speculation and misallocation of capital is more rampant than ever on Wall Street. All of this and similar hyperinflation and "imbalances"—once things warned about by Powell—are now embraced and created *by him*. And far from helping Joe Sixpack, all this craziness helps investors, finance…and the Fed itself to keep "The Game" going.

A "WHIRLING DERVISH" OF A SYSTEM READY TO BREAK *AGAIN*?

Like Powell once recapped himself in the Fed creating "imbalances" which then mathematically *and necessarily* led to busts, his own going into unprecedented overdrive in these regards has created an ever-more imbalanced marketplace today. Bolstered more than ever with the "need" to respond to the Plannedemic and help "save" us all, Powell and his comrades have sown the seeds of future plumbing problems; *and likely even larger ones than they have had to deal with on and off over time*.

Those repo markets themselves are one of the main evidences of just how out of control the Fed is as it has used every excuse and means to recklessly flood the system with "liquidity." I have read with great interest in more recent months about how the Fed one minute is pumping gazillions more into repo markets…*and then somehow turning right around and "removing" huge gobs of money via "reverse" repo facilities*.

Among other things, of course, this begs the question: How *and why* is the Fed creating so much new money when from time to time it has to turn right around and remove it!?

I'll be speaking and writing much more in the weeks ahead on all of this. For present purposes, though, here are a few recent items from some smart gents that speak to this MESS of things the Fed has created in various ways:

* https://mishtalk.com/economics/the-fed-is-killing-money-market-mutual-funds-on-purpose-or-collateral-damage -- This by my colleague and buddy Mike "Mish" Shedlock on, among other thing, so much Fed liquidity actually leading to some market *illiquidity*.

* https://wolfstreet.com/2021/06/10/treasury-general-account-tga-drops-to-674-billion-as-fed-reverse-repo-cash-drain-hits-record-534-billion/ -- A piece from pundit Wolf Richter on this same dichotomy.

* https://www.ft.com/content/82845ef0-28a5-4f92-b40a-c4c59e17bc27 -- This was a piece carried by the *Financial Times* and written by Rishabh Bhandari, Senior Portfolio manager at Capstone; here again, explaining **the means by which too much Fed liquidity leads to *illiquidity***.

* https://mises.org/wire/reverse-repos-fed-now-trying-clean-its-own-mess -- Here, Doug French—in part, quoting Jim Bianco, President and Macro Strategist at Bianco Research—adds more sordid (and scary) details on this "plumbing issue" which the Fed itself seems at times to not understand.

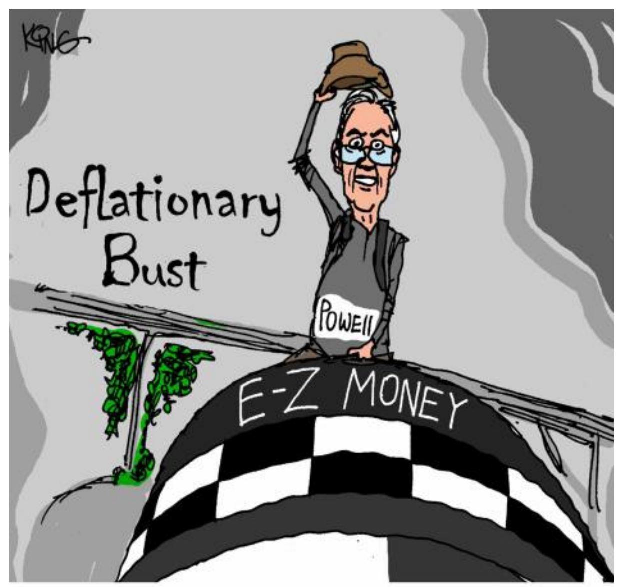
Indeed, once you truly understand all this landscape—and the various new/renewed messes we are in thanks to the Fed and the fractional reserve system it oversees—one thing becomes evident. And that is, Jerome Powell and his comrades' monetary policy that (as Bianco quips, and as former Fed Chair—and monetary mad scientists of all time still—Alan Greenspan regularly told Congress and all of us) they say is over our heads is little more than the "policy" of the circus performer who sees how many plates he can get simultaneously spinning on sticks before he loses control.

There is one difference though: the Fed MUST keep adding plates and sticks. It cannot stop, claim victory and take a bow. *Thus, we know how this recent exercise risks ending*.

THE NEXT PLUMBING PROBLEM(S)?

I have been talking a LOT recently about how the producer and consumer price inflation surges of recent months are going to prove to be something other than "transitory" in some cases. *Much about that is on my web site and YouTube channel*. Ultimately, I think that we will be dealing with a form of "Stagflation" longer-term.

But the *near-term* risks of yet another major "plumbing problem," if not an outright BUST again (which, of course the central banks will respond to as always; maybe by adding another "zero" to the next Q.E. campaigns if needed) are palpable. It all stems, of course, from Dr. StrangePowell having morphed into an even more reckless "dove" in some ways than *any* of his predecessors, embracing and blowing all manner of bubbles. The ride might be heady; but there won't be anything left of you when that bomb you are riding *explodes*.



Dr.StrangePowell (Or, How I learned to stop worrying and Love the Bubbles)

Juist who or what serves as the first domino to fall in the next go-round is anyone's guess. The esteemed financial journalist John Dizard recently wrote in the *Financial Times* (for his article, see https://www.ft.com/content/f796f6c2-3295-4310-878f-3a392890bd82) as well about the stresses the Fed has created elsewhere. For his part, he warns that Powell & Co. could well be dealing with a much bigger "plumbing" mess *as early as this fall*, with what he sees happening already.

And one of the most recent shots across the bow of how reckless credit carries within it the seeds of its own undoing is the story of China's Evergrande Group, one of the largest real estate developers in the world. **The Chinese colossus carries some $300 billion of debt; *some of which it is now in default on*.** See https://www.france24.com/en/asia-pacific/20210910-evergrande-s-collapse-would-have-profound-consequences-for-china-s-economy for one of the better reports/analyses of this evolving story.

Much as the American mortgage/housing bubble that burst in 2007-2008, Evergrande has been a poster child for how China has "outdone" the U.S. in this regard too, as that country's debt-to-GDP ratio is now the worst on the planet of any major power/bloc. Whether China's command-and-control leaders are finally facing a dilemma they cannot simply make go away (or, more accurately, *postpone*) by decree will be interesting to see; *but major Wall Street firms, analysts and others have been like rats frantically leaving this sinking ship of late, if that tells you anything*.

It goes without saying that even a massive bailout of Evergrande would cause its own problems, as global markets would look, then, to China as even more reckless than others…consequences of *that* for Chinese assets and involvements (basically, *the world*) may need to be considered soon.

To be continued…

KEEP IN MIND….

There are reasons why I have the below reminder in *every* issue and in basically *every single e-mail* of any kind I send you…

Those who do not follow me on social media (Twitter is the best of the bunch, as I have mentioned before) and, more recently, on my You Tube channel have missed a LOT this summer. Especially where the latter is concerned, Eric and I have put a LOT of work into giving you comprehensive and engaging video interviews with a fair number of my recommended companies (with more to come in September.)

So…make sure you go back and spend some time perusing and studying those!!

Don't forget that those of you so inclined can follow my thoughts, focus and all pretty much *daily* ! ! !

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