

## KEYNES SAID THERE WOULD BE DAYS LIKE THIS WEB BUZZ 2010.11.22

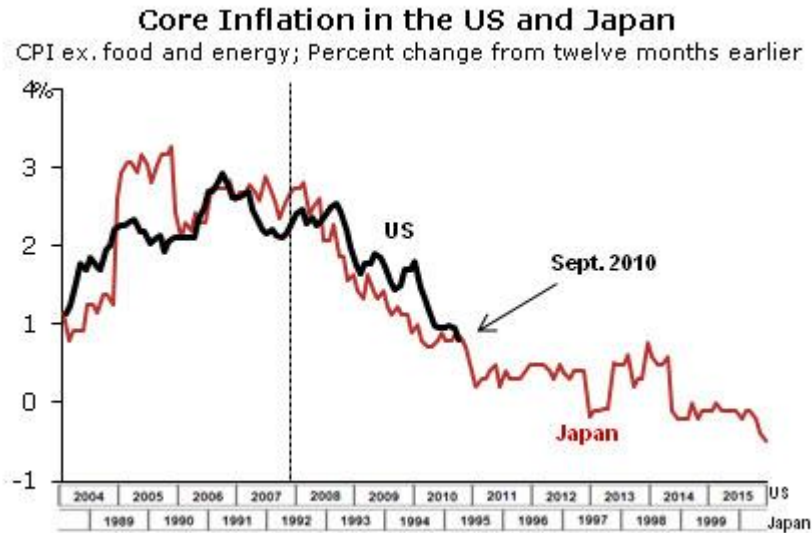
Wholesale prices for the month of October were +4% and -6% on an annualized basis. The +4% was for all prices. The -6% was for all prices minus food and energy. This is the result that one would expect when monetary policy has gone berserk. Adding another \$600 billion of liquidity to the use of Wall Street speculators drives them to hard assets such as oil, food, copper, etc. In other words, they return to the days of yesteryear - bubble blowing. This has been the result of Federal Reserve action since the days of Alan Greenspan and so it continues. It completely distorts the financial markets while doing absolutely nothing for the real economy. Who gets hurt in this scenario? Almost everyone outside of the axis of evil - Wall Street and Washington. As John Maynard Keynes himself said, "Markets can remain irrational a lot longer than you and I can remain solvent."

A look at consumer prices also points out the same result. October CPI (Consumer Price Index) was +2% and 0%. Again that's annualized with the 2% being all items and the 0% being all items minus food and energy. Over the last twelve months the CPI rose 1.2% and 0.6% less food and energy. As a matter of fact, when viewing the myriad of inflation measures, all core indices minus food and energy were less than 1%. There is no inflation now and none in the pipeline for the simple reason that food and oil are inelastic and therefore serve as tax increases, while other items are elastic and price increases cannot be passed on to the consumer.

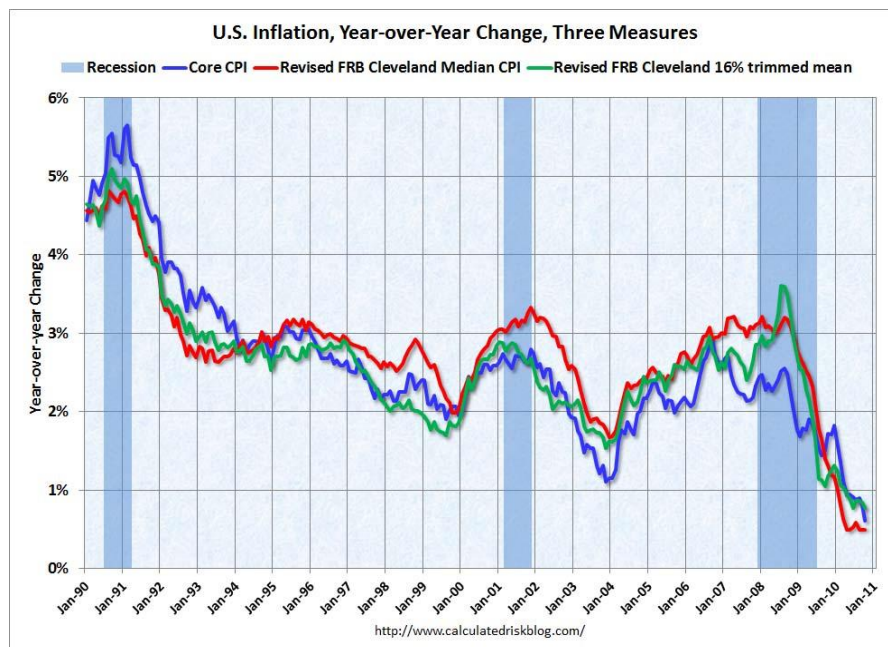
Wall Street has seen fit to sell long government bonds and go to bubble-making in hard assets. We have seen this before. It has nothing to do with the economic fundamentals and everything to do with rank speculation. This phase will come to an end, probably marked by another financial accident, á la

Lehman Brothers. Meanwhile, we will keep our eye on the fundamentals to make sure that we win once the fundamentals again become the consensus.

Please note the charts below concerning inflation measures. The comparison to Japan is quite revealing.



Adapted from Economist's View



Adapted from Calculated Risk Blog