

# Howling Wolf

By [The Mogambo Guru](#)

07/26/04 More monstrous piles of money, more mental anxieties, more derogatory remarks about high ranking Fed officials...yes, it must be, it's Mogambo on Monday...

"The Chinese government is doing what they can to create a dynamic manufacturing machine," suggests John Mauldin. This amazing machine, which sounds like something from an Isaac Asimov novel, creates unlimited new employment, and by extension, unlimited internal demand. China, reckons Mauldin, is being structured in a way that is sure to create a true future economic powerhouse.

And to that I say, "I sure HOPE so, because if they manage to screw up this great opportunity, then it would be de facto evidence that they are really, really stupid, and if there is one thing that I am desperately afraid of, it's that the Chinese, who make up nearly a third of the population of the world, will end up acting as stupid as us!"

In fact, it is exactly what the American government SHOULD be doing too, but they don't. Instead, our idiotic government spends all their time and money growing the bureaucracy like a cancer, and installing every idiotic socialist, communist, and fascist entitlement program that they can think of. And now look at us!

## **Soaring Inflation: "Staggering" Isn't the Word**

"In the 12 months to March 2004," quotes Mauldin, "global reserves grew by a staggering \$791 billion (equivalent to around 7.5% U.S. GDP), a 30.3% year over year increase."

Notice the way he uses the word "staggering" to characterize the size of the pile of money that is \$791 billion. This shows how literate this guy is. As for me, I would have been perplexed for days, fruitlessly searching for the word that means 'to act like you have just had your brains scrambled by a knockout punch delivered by a professional heavyweight boxer who is in a really bad mood.'

I will understand if you cannot comprehend how much money that is. Your puny earthling brains were not designed to comprehend the enormity of such money excesses. But just between you and me – and don't let this get around – there are only a few, exotic species in this whole sector of the galaxy that are stupid enough to create this much money and credit in one year, and they mostly live in Washington. Now the music gets all spooky, and, off in the distance, you can hear a wolf howling. The camera zooms-in for the close-up: "Something was reported last week that hasn't been seen since December 2001. Global liquidity fell."

Now, normally, I would launch into some long-winded and pointless diatribe about how bad this is and then suggest we all go out for something to eat. But as I am feeling particularly lazy today,

I will turn the microphone over to Martin Hutchison, reading from his column "The Bear's Lair: Life After Greenspan."

I sit back, open a fresh beer, and listen attentively as Mr. Hutchinson begins: "Contrary to much calming media and analyst speculation, the rise in inflation is the beginning of a long-term trend, caused primarily by excessive money creation over almost a decade." Needless to say, he is referring to the inevitable inflation that monetary insanity causes.

Hutchinson does not stop there – although I wish he would, as my heart is now pounding like a kettledrum, boom boom boom – but instead explains how far Greenspan is behind the curve: "If inflation is running at 4.9 percent per annum, or even at the 3.7 percent per annum of June's superficially anodyne figure, then a Federal Funds rate of 1.25 percent is not the beginnings of restriction, it is still wildly inflationary, being minus 2.5 percent or more in real terms. Now that inflation has stirred, now in the 3.4 to 4 percent range, the neutral Federal Funds rate is not 4 percent, but at least 6 percent."

### **Soaring Inflation: Worse than the 1970s**

The Aden sisters agree. These two have also been around this economic biz long enough to see the writing on the wall. They write: "Inflation is headed higher," although they qualify their assessment with the soothing caveat, "It may not become as extreme as it did in the 1970s."

Well, they have their opinion and I have mine, which is that inflation will be worse, much, much worse, than it was in the 1970s, if only because the outrageous level of money creation and the sheer size and cost of the government makes the 1970s look like a stroll on the beach.

The sisters provide this little snapshot on how prices have been acting lately: "Last month, import prices soared at an annual rate of 19.2%. Consumer prices had their biggest jump in 14 years this year with the latest rise at 7.2% annualized. This included a 55% surge in energy prices and a near 11% gain in food prices (both annualized). Excluding these, the popular core rate was obviously less. But since we all eat and drive, the core rate is actually meaningless."

"Producer prices reinforced the other inflation figures. They too have soared faster than at any time in the last 14 years, over the past year, with the latest figures up at an annual rate of nearly 10%. Energy and food prices surged over 19% and 18% annualized, respectively. So who says there's no inflation? There is, and it's soaring."

### **Soaring Inflation: Merely Overpriced**

And not one of the morons at the Fed had the foresight to realize that monstrously excessive monetary laxity would result in price inflation. Now, belatedly, they are starting to gradually, painfully gradually, increase interest rates. They need to try and stem this rising price inflation, although their efforts are ludicrously insufficient. How does one define ludicrously insufficient? How about: "Raising interest rates from a third of the rate of inflation to slightly less than half the rate?"

But it is this next nugget that ought to curdle the blood of equity investors. "The May inflow of foreign funds into the U.S. economy was also announced Friday; at \$54.8 billion, down from \$81.2 billion in April, it dropped for the fourth successive month."

And since foreigners are the only ones with money these days, attested to by the \$540 billion trade deficit, it's pretty scary when they chop their U.S. investments month after month.

There is a disaster afoot if stocks deflate from "insanely overpriced" to merely "overpriced," and the Fed knows it. There's just no room to cut rates any lower and besides, they need to be fighting inflation. It just goes to show, the forces of nature can be delayed for a while, but they can't be reversed. What's coming is coming, whether the Fed likes it or not.

Bad things are going to happen. Ugh.

Regards,

**The Mogambo Guru  
for The Daily Reckoning  
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—Mogambo Sez: Things are getting so weird here lately that I am more scared and dyspeptic than usual. You can bet that every trick in the book is being used, and will be used, to keep this whole thing from collapsing until after the election in November. If they can do it, then this may be your last chance to buy gold and silver at these prices. And if you do not want to buy any gold and silver, then send me the money and let ME buy some more!