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## **Inflationary Record Book**

by The Mogambo Guru

*"With inflation in prices running at more than 10%, and inflation in credit running at up to 100% and more, bond investors are getting the lowest yield in half a freaking century? Hahahaha! Morons!"*

From Bloomberg.com we get the headline "Treasuries' Scarcity Triggers Repo Market Failures", by Liz Capo McCormick, which is probably very scary, but I have no idea what the hell she is even talking about or why it is important, neither of which is made any clearer when the article explains, "In a repurchase agreement, or repo, a customer provides cash to a dealer in exchange for a bill, note or bond. The exchange is reversed the next day, with the customer receiving interest on the overnight loan. A Treasury security is termed on 'special' when it is in such demand that owners can borrow cash against it at interest rates lower than the general collateral rate", which is, in this case, so I gather, Treasury debt.

I cleverly sense that I am too stupid to make money with this complicated news, but I do understand the part that went, "Surging demand for U.S. Treasuries is causing failures to deliver or receive government debt in the \$6.3 trillion a day market for borrowing and lending to climb to the highest level in almost four years", because it means that lots of guys are essentially naked short in Treasury bonds, the price went up too high for them to buy the bonds to cover their short position, and now they can't pay up.

This is partially being alleviated through the simple expedient of trillions of dollars in new money that the Fed and Treasury are trying to pound into the economy, which has to go somewhere; and it is apparently going into Treasury debt and driving the prices of bonds So Freaking High (SFH) that the guys who are short bonds are getting clobbered, and especially guys who are naked short in bonds, and doubly especially those who guys who are leveraged to the hilt to multiply their potential gains (and their risk!), none of whom can buy to cover their losing position since they are actually already wiped out a dozen times over.

So they, too, take The Mogambo Way Out (TMWO), which is to just wait for nightfall, sneak into the office, loot the petty cash fund and go somewhere new to start over in a new town, with a new name, a new suit and a snazzy new pair of shoes. Maybe a nice new car, too!

Anyway, these days, they don't call it "Thieving little bastard on the lam" anymore. Today they call it "failure to deliver"! Hahaha! I love this stuff!

Anyway, I kinda figure that this is actually kind of interesting, as it means that the \$6.3 trillion daily turnover (float) of Treasury debt is about 60% of the sheer number of U.S. Treasuries extant today (national debt = \$10.5 trillion), and is actually about equal to the entire \$7 trillion national debt of just four years ago, too! Hahaha! We are so doomed!

Ms. McCormick obviously sees, what I think is my clever observation, as being childish

elementary, and tries to regain a little momentum for the adults in the room by saying that the numbers are pretty impressive, as, "Failures, an indication of scarcity, surged to \$1.795 trillion in the week ended March 5, the highest since May 2004, and up from \$374 billion the prior week."

Well, I say that this may well be an "indication of scarcity", but it is also an indication of the demand being so high that the price has risen to the point where the yield on the bonds is less than 4%! "Official inflation" is 4.6%! Real inflation is higher than 10%! And yet people want these things so badly that they will accept less than half the rate of inflation, all taxable, to own them! Wow!

Well, they obviously note the sarcasm in my voice and wisely choose not to get into a long and pointless argument with me; but they do concede that demand financed by all of this new money being poured into economies Around The Freaking World (ATFW) has resulted in "Investors seeking the safety of government debt amid the loss of confidence in credit markets [which has] pushed rates on three-month bills" way, way down, and which are, right now, yielding 0.19%! Hahaha! One-fifth of one percent! On a hundred dollars invested in 3-month bills, you earn 19 cents a year! Hahaha!

At twice this level, at 0.387%, it was "the lowest level since 1954." The lowest yield in 55 years, more than a half century! Hahahaha! With inflation in prices running at more than 10%, and inflation in credit running at up to 100% and more, bond investors are getting the lowest yield in half a freaking century? Hahahaha! Morons!

Apparently, Ms. McCormick does not appreciate my unsolicited-yet-stupid comments, and sticks pretty much to the dismal fact that guys are getting screwed at record rates as "Treasury fails rose to a record \$3.244 trillion in the week ended Aug. 20, 2003, the highest to date through July 1990, or as far back as the New York Fed tracks the data on its Web site." So we could be talking "in all of history" here!

As a comparison, she offers the fact that failures to deliver is way up, as "For the month of August 2003, the weekly average was \$2.751 trillion."

Apparently, Andrew Williams, a spokesman for the New York Fed, knew that I was going to latch onto this like a hungry piranha on the shapely leg of a beautiful woman wading across a river while exploring the remorseless South American jungle, and the article discloses that the little coward "declined to comment on the fails data", probably because he knows that as soon as I had him on the witness stand, I would have started with my vicious cross-examination ("Tell me, Mr. Williams, does the Federal Reserve actually delight in creating so much money and credit, so that the government can borrow and spend it, that consumer prices rise and rise, more and more, until little children start going to bed hungry, and their pitiful little cries remind their parents that they are pretty hungry, too, all because their money and their wealth was destroyed by you, your filthy Federal Reserve and Congressional ilk condoning the creation of excess money and credit?").

Since he did not testify, I now bring to the witness stand Howard S. Katz, of the goldbug.net, concerning his essay "Economic Basics and Today's Gold Market" posted at goldseek.com, where he explains that you can "cut through an awful lot of nonsense in economics if we just understand that there are only two things which can happen: expansion or contraction. And if we want to know which, all we need to do is look at the

money supply figures published by the Fed."

So, somehow knowing that I am too lazy to look up anything, he obligingly does the work for me, and says, "The monetary base has increased by 35% in the past 6 weeks. This does not look to me like a contraction. It looks like the biggest expansion in U.S. history."

Here is where I tried to interrupt to bring up the same tired point that I always bring up, which is that an such an excessive expansion in the money supply that can be described as "the biggest expansion in U.S. history" must result in inflation in consumer prices that can also be described as "the highest in U.S. history", and that rates at least two exclamation points!! Maybe three!!!

But Mr. Katz is too smart to let me get a word in edgewise, particularly about punctuation, and preempts me by saying "This surely is one of the great buying opportunities for gold and gold stocks that gold bugs will ever see."

Perhaps hearing us talk of money supplies, and probably since parallels to the Great Depression are all the rage these days, Junior Mogambo Ranger (JMR) George L. has looked at the two money supply situations and says that one can estimate "how much money will be printed before this recession, or whatever it is, is over."

Intrigued, I listen as he goes on "In the 1930s, FDR revalued gold from \$20.67/oz. to \$35/oz - a 69% increase, corresponding to a 69% devaluation in the dollar. There's your answer."

I angrily think to myself, "What? What is the answer? I don't see any answer! What in the hell is he talking about? Will somebody please tell me what in the hell is the freaking answer? I just don't see it!"

Fortunately, before I had to take any action to force somebody to tell me the answer, JMR George happily supplies the answer! He says "if the money supply started at, say, \$10-trillion, it would have to expand to \$30-trillion, or so, to achieve the same effect."

The same effect? Hahaha! Tripling the money supply achieves total failure? Hahaha!

But apparently so, as Mish of the [globeconomicanalysis.blogspot.com](http://globeconomicanalysis.blogspot.com) was talking to Paul Kasriel of Northern Trust, and he said "Most people are not aware of actions the Fed took during the great depression. Bernanke claims that the Fed did not act strong enough during the great depression. This is simply not true. The Fed slashed interest rates and injected huge sums of base money but it did no good. More recently, Japan did the same thing. It also did no good."

And now the Fed and the Treasury and the Congress are doing what? Hahahahaha!