



# INFLATION

THE MATCH THAT WILL LIGHT  
THE FUSE OF OUR ROCKET

420

PART I

PART II

U/DISMAL-JELLYFISH



# TL:DR – I believe inflation is the match that has been lit that will light the fuse of our rocket.

DD

Good evening [r/Superstonk](#), neighborhood jellyfish here! I would like to revisit the [CPI report](#) from yesterday while considering Reverse Repos. One thing that happened after the 5% number came out was that junk-bond yields fell to new record lows.

Two bonds I would like to share with you all are:



ICE BofA Single-B US High Yield Index Effective Yield @ 4.47% -.53% adjusted for inflation (Highly Speculative)



ICE BofA CCC & Lower US High Yield Index Effective Yield @ 6.83% 1.83% adjusted for inflation ("extremely speculative" to "default is imminent with little prospect for recovery")

Before we go any further, let's do some quick level setting on bonds and their risk descriptions:

Moody's		S&P		Fitch		Equivalent to SVO Designations	Rating description							
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	NAIC								
Aaa	P-1	AAA	A-1+	AAA	F1+	1	Prime	Investment-grade						
Aa1		AA+		AA+			High grade							
Aa2		AA		AA										
Aa3		AA-		AA-			Upper medium grade							
A1		A+	A-1	A+	F1									
A2	P-2	A	A-2	A	F2	2	Lower medium grade							
A3		A-		A-					F2					
Baa1		BBB+	BBB+											
Baa2	P-3	BBB	A-3	BBB	F3		3		Non-investment grade speculative	Non-investment grade AKA high-yield bonds AKA junk bonds				
Baa3		BBB-		BBB-										
Ba1	Not prime	BB+	B	BB+	B	4		Highly speculative						
Ba2		BB		BB										
Ba3		BB-		BB-										
B1		B+		B+			5	Substantial risks Extremely speculative Default imminent with little prospect for recovery						
B2		B		B										
B3		B-		B-										
Caa1	Not prime	CCC+	C	CCC	C	6	In default							
Caa2		CCC												
Caa3		CCC-												
Ca		CC												
C		C												
/	Not prime	D	/	DDD	/									
				DD										
				D										

How the Credit Rating Agencies Classify Corporate Bonds and Loans by Credit Risk, or the Risk of Default.

Ok, so back on topic, [inflation came in at 5% yesterday](#). Single-B yields drop to 4.47% and CCC & lower hit 6.83%.

However, after adjusting for inflation, these bonds are yielding -.53% on the Single-B and 1.83% on CCC & lower.

Can we let that sink in for a moment? To get any sort of positive yield an investor must expose themselves to bonds rated “**extremely speculative**” to “**default is imminent with little prospect for recovery**”. If they invest in the Single-B ‘**Highly Speculative**’ they lose principal capital to inflation!

Stopping here for a moment, **I believe this to be a primary driver to the Reverse Repo market exploding**—because remember, counterparties can give the Fed as much cash as they aren’t able to place for 0%, while ‘investing’ in something ‘AAA’ related.

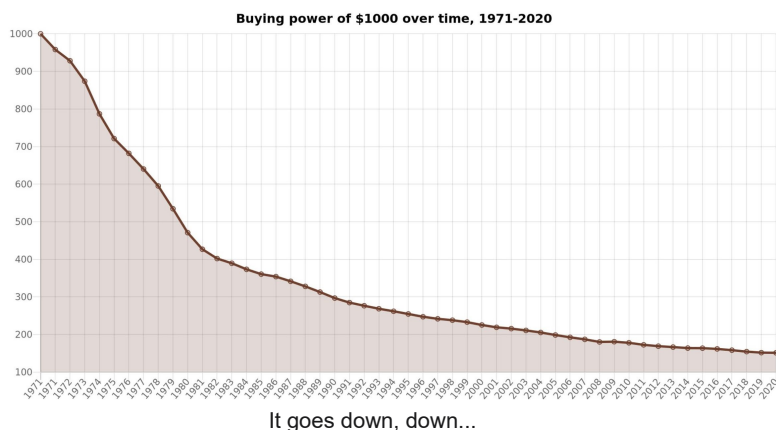
However, the money for these institutions have to place is continuing to grow at a good clip because:

- Yellen is still drawing down the packed General Account Mnuchin stockpiled for her—she wants it at [\\$500 billion by the end of June](#) (~ \$174 billion more to go)
- local governments are getting Covid money ([\\$350 billion included in the American Rescue Plan](#))
- Central-bank asset purchases that continue chugging along ([\\$120 billion per month](#))

In theory, all of this (~\$644 billion) could end up in Reverse Repo. Add that to what they are already sheltering (\$547 billion) and we could see the Reverse Repo market hit **\$1.191 trillion**.

Ok Jellyfish, but what does this hypothetical reverse repo number have anything to do with CPI, and how the heck does it tie to GME?

First, even before all of this talk of inflation, the buying power of the dollar has gone down over time.



Next, remember those ICE BofA CCC & Lower rated bonds we looked at up top? Those are the only bonds available for US corporate bonds whose **average yield is above the rate of inflation**.

Everything else currently has negative real yields, where the purchasing power of capital (remember this has already been taking a hit the last 50 years) is **further obliterated by inflation**, to the point these yields are just too low to effectively compensate for the loss of purchasing power, especially for the wildly risky assets and substantial risk that would have to be purchased to earn said yield.

Let's imagine for a moment that inflation **only** holds at 5% for the rest of the year (ha!) and comes back down to that 2ish% the Fed is **PROMISING** will happen. Whoever makes this investment is still **down in real terms since bonds purchased at today's rates (unless you are okay with investments only in "extremely speculative" to "default is imminent with little prospect for recovery" assets) because yields are below that of inflation**.

Viewed through this lens, one can say the Reverse Repo markets are being used as intended and not abused. But now inflation has been unleashed, **and a permanent loss in purchasing power** is in store for anyone who is buying bonds that aren't **"extremely speculative" to "default is imminent with little prospect for recovery"**. **Everything else is getting a haircut from the current rate of inflation, and this isn't coming back.**

This brings me back to how this **could** tie to GME and **begins the 'speculation' parts of this post**.

Ok, we have established that the counterparties in the reverse repo market still have ~\$644 billion or more coming their way that will have to be placed somewhere.

Remember, they can't just sit on this cash as the dollar is losing buying power (as we have seen above), the cash would get eaten by inflation, and it is a liability for them—since they must pay interest on client cash.

So I believe it is safe to assume that most (if not all) of the incoming cash will continue to make its way to the overnight Reverse Repo market. But what about cash that had been deployed to bonds on the balance sheet that are now getting its lunch eaten by inflation (as we established above with the adjusted for inflation rates)?

On April 7, [The Wallstreet Journal](#) reported that Destiny USA's owner, Pyramid Management Group, hired representation to look into restructuring the mall's debt, which includes Commercial Mortgage-Backed Securities (CMBS) and municipal securities known as PILOTs (Payments In-Lieu of Property Taxes). I don't know much about PILOTs but I only bring it up because the PILOT debt is senior to the larger of Destiny USA's two CMBS.

These two debt issues represent a total of roughly \$716 million in outstanding principal (\$286 Million in PILOT and \$430 million in CMBS).

However, appraisers lowered the mall's valuation to just \$203 million. That is not even enough to even cover the \$286 million in PILOT bonds (which would get paid first!), leaving CMBS investors holding the bag. Consequently, their bonds have been [downgraded \(from BB to B\)](#).

Now let's imagine you are an institution that has: made a bunch of these CMBS moves in commercial property that is not going to recover because of the pandemic.

Previously, these bonds *had* been able to be used as collateral for staving off margin calls or for whatever other fucking around they might happen to be doing.

Two things are now occurring. First, the new rules say this junk can't be used anymore as collateral. Second, inflation is coming and eating that sweet profit the bonds offer so any refinancing sees you losing more money on the bet.

Recall, the yield from interest payments is supposed to compensate for the loss of purchasing power, *and* also for the level of risk of default they are taking on by investing. But as we saw above, rates suck, the risk is through the roof, and evaluations/ratings of debt are all kinds of out of whack to [fraudulent](#).



I hope she comes back for the sequel!

OK, so to try and wrap this up (I hope):

- Cash is going to continue to pour in that needs to be placed.
- Inflation is going to make it impossible to earn positive rates on assets after being adjusted for inflation on anything but ***“extremely speculative” to “default is imminent with little prospect for recovery”*** risks.
- Cash can be stashed with the Fed @ 0% currently--although there are rumblings of having to taper support.
- Previous collateral (zombie CMBS as example) is considered junk and may be losing value due to being mistakenly rated/valued to begin, with yield rates, which had been used to secure the balance sheet now also being eaten by inflation.
- Their cash can't be used as collateral because it is a liability, and even if used, will suffer a loss of value from inflation.

Opinion: Because of inflation, the shorts are going to drown in their cash. There is no place for it to go to earn a positive yield greater than what inflation will eat, or should be acceptable for the level of risk of default.

With nowhere to park this cash to generate positive yields and while having to contend with balance sheets that are having assets eaten away, participants will continue to use the Reverse Repo to buy time until:

1. Being down in real terms because of inflation is something that cannot be made back up to service the debt and will weigh on balance sheets as they try to protect from margin calls.
2. Their existing collateral on the balance sheet can get re-rated lower, re-appraised lower, or just eaten by inflation to the point even what they are borrowing in treasuries can't meet the requirements to hold off a margin call.
3. They hit the 80 billion Reverse Repo limit because of nowhere else to place cash, are tapped out on treasuries, and no longer able to post acceptable collateral to meet their margin requirements.

TL:DR – I believe inflation is the match that has been lit that will light the fuse of our rocket.





## DD



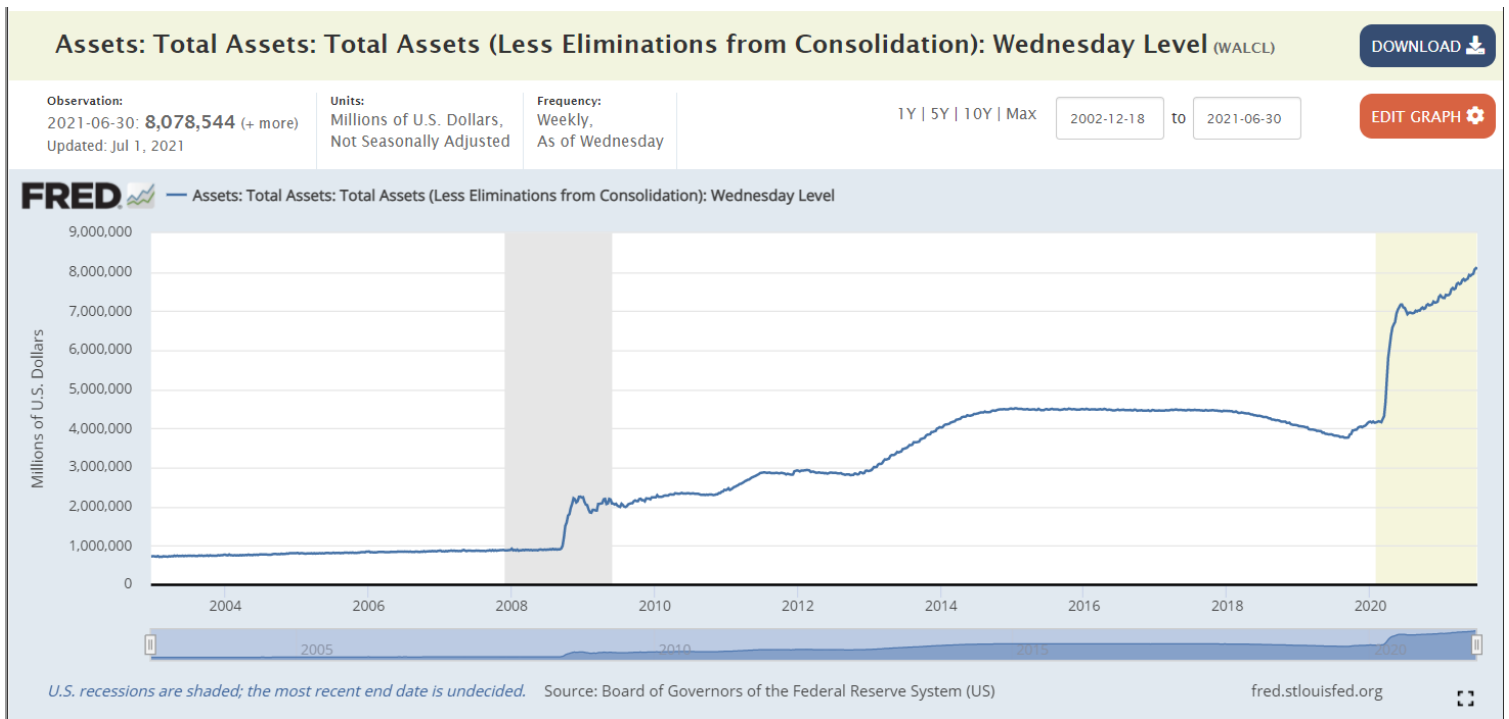
I would like to revisit some more data recently released and posted and continue trying to tie this all together as the situation continues to evolve.

I want to start by revisiting the Fed's balance sheet. The last time we talked about it (6/17), it stood at a then RECORD \$8.064 trillion. Let's write this one out: \$8,064,000,000,000. As of July 1st, that number stands at a **NEW RECORD \$8,078,544,000,000**—an increase of \$14,544,000,000.

Statement of Condition of Each Federal Reserve Bank, June 30, 2021 (continued)													
Millions of dollars													
Assets, liabilities, and capital	Total	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
<b>Liabilities</b>													
Federal Reserve notes, net	2,134,139	64,690	697,577	63,410	104,461	156,956	299,735	128,161	57,559	32,429	53,550	194,222	281,390
Reverse repurchase agreements (6)	1,260,925	21,071	712,746	26,632	45,880	84,492	73,880	68,809	16,439	9,757	16,744	55,760	128,715
Deposits	4,593,815	112,466	2,667,959	116,749	172,086	285,452	144,683	331,825	42,770	33,760	50,897	125,020	510,146
Depository institutions	3,511,630	112,160	1,765,173	116,748	171,753	284,855	144,002	156,962	42,760	32,458	49,984	124,655	510,120
U.S. Treasury, General Account	851,929	0	851,929	0	0	0	0	0	0	0	0	0	0
Foreign official	5,255	2	5,228	1	3	8	2	2	1	0	0	1	6
Other (7)	225,002	303	45,630	0	330	588	679	174,862	10	1,302	913	364	20
Earnings remittances due to the U.S. Treasury (8)	1,587	16	949	28	46	72	102	89	18	18	20	78	151
Treasury contributions to credit facilities (9)	40,278	16,572	23,706	0	0	0	0	0	0	0	0	0	0
Other liabilities and accrued dividends	8,195	-2,019	4,860	269	333	777	563	537	214	1,280	236	392	753
<b>Total liabilities</b>	<b>8,038,940</b>	<b>212,795</b>	<b>4,107,796</b>	<b>207,087</b>	<b>322,807</b>	<b>527,749</b>	<b>518,963</b>	<b>529,421</b>	<b>117,001</b>	<b>77,244</b>	<b>121,448</b>	<b>375,473</b>	<b>921,156</b>
<b>Capital</b>													
Capital paid in	32,819	1,472	10,987	1,257	2,921	6,756	1,486	1,275	613	167	361	709	4,815
Surplus	6,785	308	2,280	244	587	1,412	307	266	129	58	73	122	999
Other capital	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total liabilities and capital</b>	<b>8,078,544</b>	<b>214,575</b>	<b>4,121,063</b>	<b>208,588</b>	<b>326,314</b>	<b>535,917</b>	<b>520,756</b>	<b>530,962</b>	<b>117,744</b>	<b>77,468</b>	<b>121,882</b>	<b>376,304</b>	<b>926,970</b>

Note: Components may not sum to totals because of rounding. Footnotes appear at the end of the table.

\$8,078,544,000,000



Look at that triangle that has started at \$7 trillion!

## So what caused the jump in the balance sheet?

The Treasury General Account (TGA), which Yellen said in February she wanted to [get to \\$500 billion by the end of June](#), actually increased by \$86.815 Billion to \$851 Billion.

Federal Reserve Notes, net jumped \$4,594 million.

## The Fed's balance sheet is jumping while we are watching the housing bubble inflate in front of us.

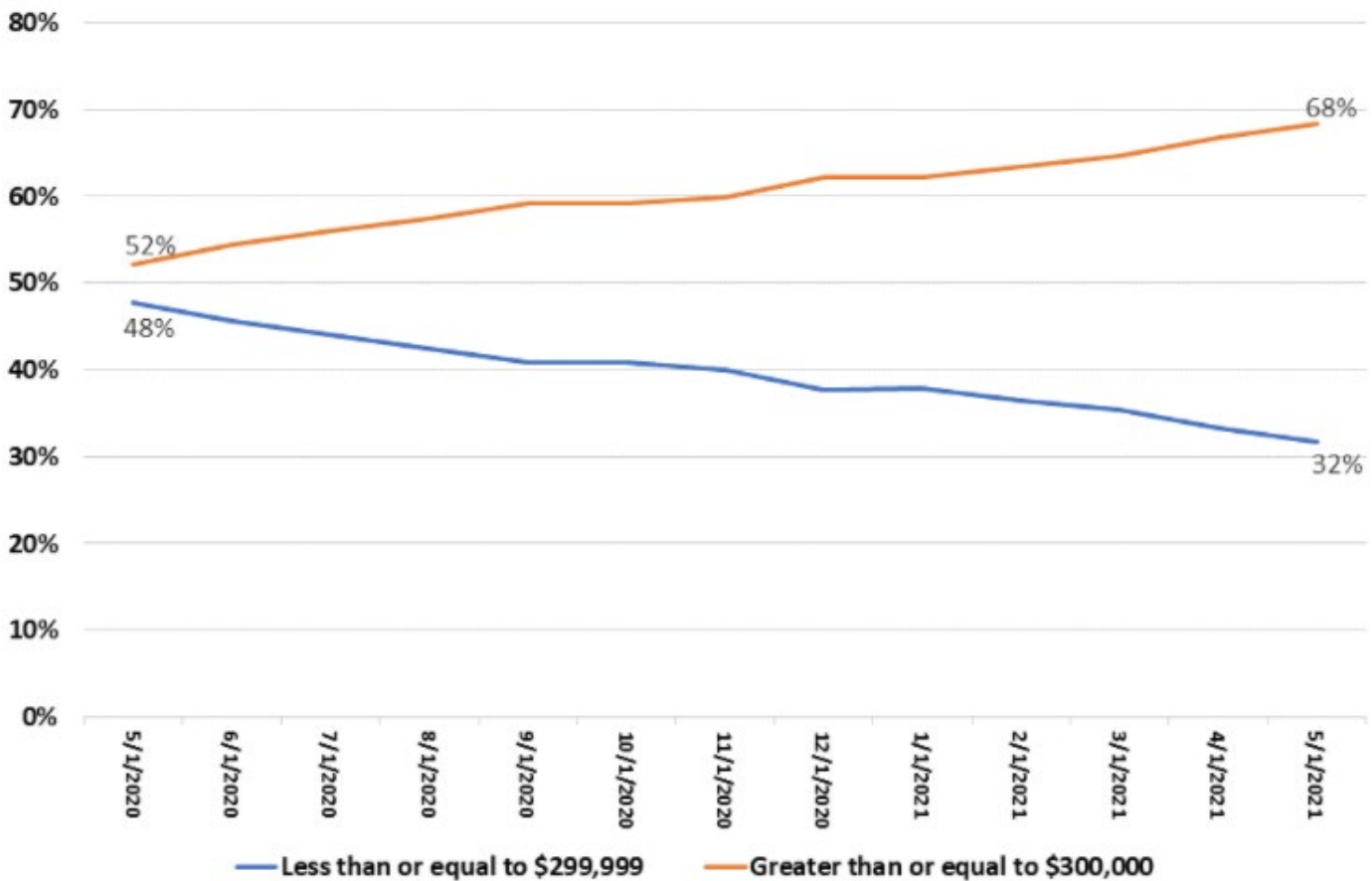
The rate of sales continues to trend downward, but median home prices for **existing homes** are up 23.6% year-over-year to an all-time high of \$350,300 with May rising at the greatest year-over-year pace since at least 1999, up from \$283,500 last year and \$340,600 in April.

So, months' supply is increasing (supply taking longer to move), sales are beginning to decrease (.9%) (demand), and median existing-home price across all housing types hit a record high of \$350,300 in May, an increase of 23.6% from the year before (price).

Despite supply increasing for months, **single-family home sales** by homebuilders to the public in May fell 6% from the prior month to a seasonally adjusted annual rate of 769,000 houses, down 23% from the recent high in January. This steep decline in sales occurred amid rising prices.

The median price of new single-family houses rose 2.5% from the previous month, and spiked 18.1% year-over-year, to a record \$374,400:

## BAS: Loan Size Shares



The drop in sales of new homes in the past months brought sales back to about pre-pandemic levels. On the other end of our equation, inventory really is rising!

Unsold speculative houses rose for the fifth month in a row to 330,000 houses and months' supply rose to 5.1 months.

New single-family homes completed since Jan 2021 :  $1,328,000 + 1,347,000 + 1,497,000 + 1,426,000 + 1,368,000 = 6,966,000$  homes

New single-family homes sold since Jan 2021 :  $993,000 + 823,000 + 886,000 + 817,000 + 769,000 = 4,288,000$  homes

Supply is up +2,678,000 homes in 2021 so far.

Stated another way:

The current supply is steady with current inventory not moving at the current prices and is increasing as more homes come online (census bureau has it at ~ 4-8 months in 2020 to build from start to finish, projects started during the pandemic will be coming online), Demand is decreasing, Median Prices has increased to an all-time high.

**With the conditions of the housing market above, I believe we are entering 'textbook' bubble territory.**

# What Is a Housing Bubble?

A housing bubble, or real estate bubble, is a run-up in housing prices fueled by demand, speculation, and exuberant spending to the point of collapse. Housing bubbles usually start with an increase in demand, in the face of limited supply, which takes a relatively extended period to replenish and increase. Speculators pour money into the market, further driving up demand. At some point, demand decreases or stagnates at the same time supply increases, resulting in a sharp drop in prices—and the bubble bursts.

Source: [https://www.investopedia.com/terms/h/housing\\_bubble.asp](https://www.investopedia.com/terms/h/housing_bubble.asp)

Ok, as we covered above, demand had been through the roof, but the supply is back on the rise and current stock is taking longer to move. At the same time, demand for new mortgages is decreasing as the supply continues to hold and increase—but prices continue to go up!

## Forces that Burst the Bubble

The bubble finally bursts when excessive risk-taking becomes pervasive throughout the housing system and prices no longer reflect anything close to fundamentals. This will happen while the supply of housing is still increasing in response to the prior demand spike. In other words, demand decreases while supply still increases, resulting in a sharp fall in prices as nobody is left to pay for even more homes and even higher prices.

This realization of risk throughout the system is triggered by losses suffered by homeowners, mortgage lenders, mortgage investors, and property investors. Those realizations could be precipitated by a number of things:

- An increase in interest rates that puts homeownership out of reach for some buyers and, in some instances, makes the home a person currently owns unaffordable. This often leads to default and foreclosure, which eventually adds to the current supply available in the market.
- A downturn in general economic activity that leads to less disposable income, job loss or fewer available jobs, which decreases the demand for housing. A recession is particularly dangerous.
- Demand is exhausted, bringing supply and demand into equilibrium and slowing the rapid pace of home price appreciation that some homeowners, particularly speculators, count on to make their purchases affordable or profitable. When rapid price appreciation stagnates, those who count on it to afford their homes may lose their homes, bringing more supply to the market.

The bottom line is that when losses mount, credit standards are tightened, easy mortgage borrowing is no longer available, demand decreases, supply increases, speculators leave the market, and prices fall.

But what about delinquency rates? This can be a source to the supply...

**Mortgage Delinquency Rate and Unemployment Rate**  
Seasonally adjusted, percent



<https://www.mba.org/2021-press-releases/may/mortgage-delinquencies-decrease-in-the-first-quarter-of-2021>

On a year-over-year basis, total mortgage delinquencies increased for all loans outstanding. The delinquency rate increased by 141 basis points for conventional loans, increased 498 basis points for FHA loans, and increased 297 basis points for VA loans. The delinquency rate includes loans that are at least one payment past due but does not include loans in the process of foreclosure. The percentage of loans on which foreclosure actions were started in the first quarter rose by 1 basis point to 0.04 percent. The percentage of loans in the foreclosure process at the end of the first quarter was 0.54 percent, down 2 basis points from the fourth quarter of 2020 and 19 basis points from one year ago. This is the lowest foreclosure inventory rate since the first quarter of 1982. The seriously delinquent rate, the percentage of loans that are 90 days or more past due or in the process of foreclosure, was 4.70 percent. It decreased by 33 basis points from last quarter and increased by 303 basis points from last year. From the previous quarter, the seriously delinquent rate decreased 34 basis points for conventional loans, decreased 19 basis points for FHA loans, and decreased 37 basis points for VA loans. Compared to a year ago, the seriously delinquent rate increased by 205 basis points for conventional loans, increased 771 basis points for FHA loans, and increased 379 basis points for VA loans.

**Then there are those still in or coming out of forbearance with the likely expiration and non-renewal of these Covid rules at the end of the month:**

[The Mortgage Bankers Association's \(MBA\) latest Forbearance and Call Volume Survey revealed that the total number of loans now in forbearance decreased by 2 basis points from 4.18% of servicers' portfolio volume in the prior week to 4.16% as of May 30, 2021. According to MBA's estimate, 2.1 million homeowners are in forbearance plans.](#)

## Key findings of MBA's Forbearance and Call Volume Survey - May 24 to May 30, 2021

- Total loans in forbearance decreased by 2 basis points relative to the prior week: from 4.18% to 4.16%.
  - By investor type, the share of Ginnie Mae loans in forbearance decreased relative to the prior week: from 5.55% to 5.54%.
  - The share of Fannie Mae and Freddie Mac loans in forbearance decreased relative to the prior week: from 2.19% to 2.18%.
  - The share of other loans (e.g., portfolio and PLS loans) in forbearance decreased relative to the prior week: from 8.37% to 8.31%.
- By stage, 11.1% of total loans in forbearance are in the initial forbearance plan stage, while 83.2% are in a forbearance extension. The remaining 5.7% are forbearance re-entries.
- Total weekly forbearance requests as a percent of servicing portfolio volume (#) decreased relative to the prior week: from 0.05% to 0.04%.
- Of the cumulative forbearance exits for the period from June 1, 2020, through May 30, 2021:
  - 27.4% resulted in a loan deferral/partial claim.
  - 24.6% represented borrowers who continued to make their monthly payments during their forbearance period.
  - 15.0% represented borrowers who did not make all of their monthly payments and exited forbearance without a loss mitigation plan in place yet.
  - 14.0% resulted in reinstatements, in which past-due amounts are paid back when exiting forbearance.
  - 10.0% resulted in a loan modification or trial loan modification.
  - 7.5% resulted in loans paid off through either a refinance or by selling the home.
  - The remaining 1.5% resulted in repayment plans, short sales, deed-in-lieu or other reasons.

While it is great to see people come out of forbearance, if I am reading the numbers correctly, more than half of folks coming out are still going to have amounts that still need to be paid back. Budgets are already stretched tight, wage growth is decreasing, and inflation is making everything else more expensive.

So, the central-bank asset purchases that continue chugging along ([\\$120 billion per month](#)) continue to help directly inflate this bubble! The music on inflating home prices is going to stop!

This brings me back to a comment from earlier this week I made in the RRP's post:

Inflation is blowing up as they have a full-blown liquidity crisis on their hands!

The Fed has backed themselves & the banks in a corner after letting the printer run brrrrr. High Reverse Repo Purchase usage signals that the banks simply don't have the balance sheets to accept the excess reserves. Even accounting for end-of-quarter use spiking, \$991.939 billion to 90 participants is absolutely bonkers!!!

Thus, they are forced to park them right back with the Fed using the [Overnight Reverse Repo Purchase and 0.05% lending](#).

This has created a dangerous game of chicken in the market. Currently, the liquidity in the market is entirely artificial because of the aforementioned brrrrr. If the Fed lets up the slightest bit on the central-bank asset purchases ([\\$120 billion per month currently](#)), it could shut down the entire game. However, if JPow keeps letting the printer run, he risks hyperinflation and [further cracks in support from his members](#).



It's turned into either no more liquidity for anyone or so much liquidity that the value of USD becomes near worthless and we see [Weimar Republic levels of hyperinflation](#).

For GME, I believe the thought is that no liquidity means institutions will have to sell off other assets to increase their capital supply. This will continue until they can no longer increase their capital supply to meet margin requirements.

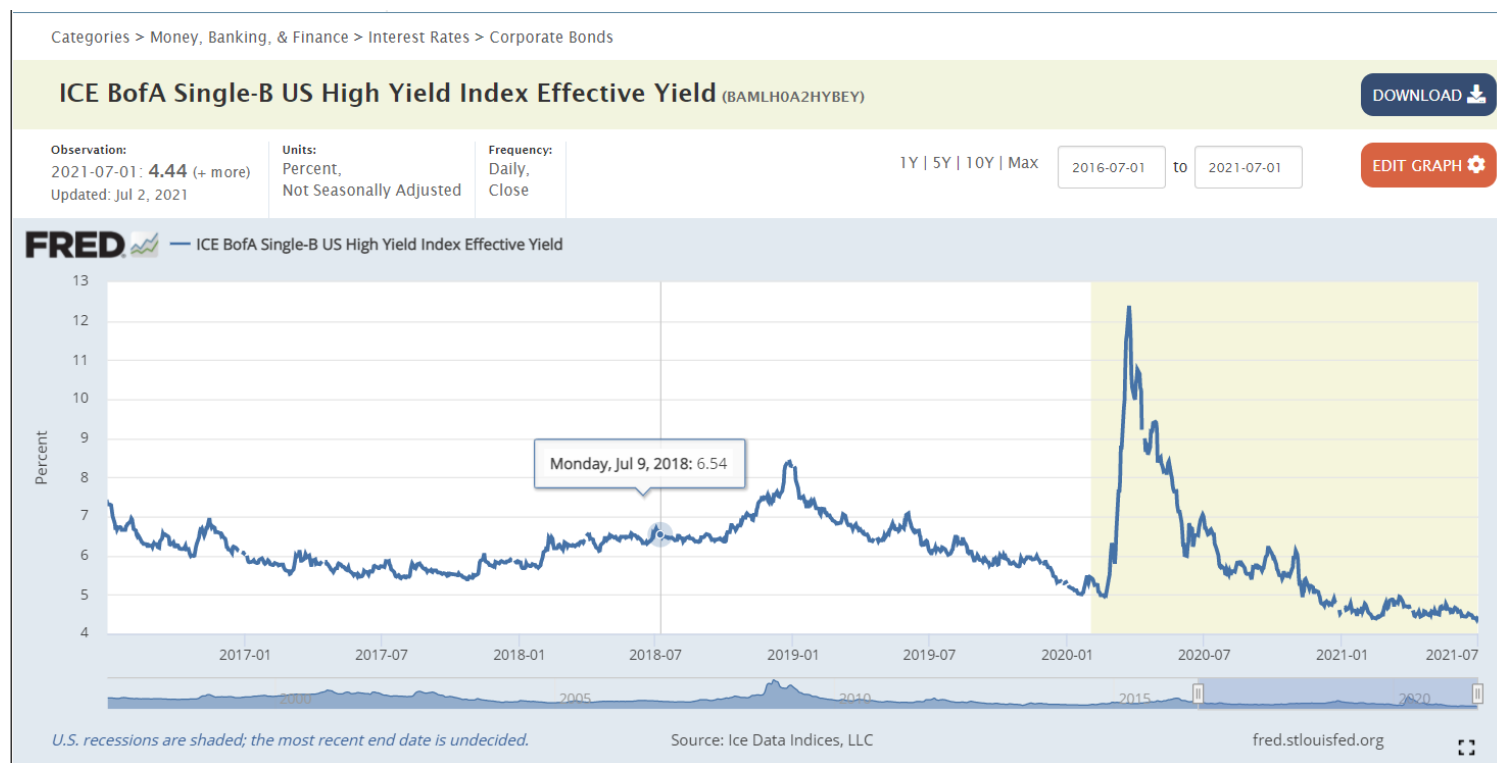
When/if institutions cannot meet their margin requirements (aka prove liquidity to be able to cover positions), DTCC will forcibly close all of their positions and MOASS takes flight

**This is the game of chicken the Fed is caught up in—demand for housing (as we covered above) is going down, supply is increasing, yet prices continue to inflate—I believe this is in large part because of the \$120 billion per month central bank MBS is allowing prices to continue to increase and build this bubble!**

Let's revisit the rate of inflation from my first post. The [CPI report](#) had inflation at 5% and we reviewed ICE BofA Single-B US High Yield Index Effective Yield @ 4.47% - .53% adjusted for inflation (Highly Speculative) and ICE BofA CCC & Lower US High Yield Index Effective Yield @ 6.83% 1.83% adjusted for inflation ("extremely speculative" to "default is imminent with little prospect for recovery").

Annualizing the Personal Consumption Expenditures, excluding food and energy (PCE), again the *most conservative* inflation number the government offers, from the BEA report the other day, inflation is at 6.4%--inflation is at least 28% higher than the first time we examined this at 5%!!!

Looking at the bonds again, adjusted for inflation, things are worse!



ICE BofA Single-B US High Yield Index Effective Yield @ 4.44% -1.93% adjusted for PCE inflation (Highly Speculative)

## ICE BofA CCC & Lower US High Yield Index Effective Yield (BAMLH0A3HYCEY)

[DOWNLOAD](#)

Observation:  
2021-07-01: **6.60** (+ more)  
Updated: Jul 2, 2021

Units:  
Percent,  
Not Seasonally Adjusted

Frequency:  
Daily,  
Close

1Y | 5Y | 10Y | Max

2016-07-01 to 2021-07-01

[EDIT GRAPH](#)


ICE BofA CCC & Lower US High Yield Index Effective Yield @ 6.60% .2% adjusted for inflation ("extremely speculative" to "default is imminent with little prospect for recovery")

Can we let that sink in again for a moment? To get any sort of positive yield an investor must expose themselves to bonds rated **"extremely speculative" to "default is imminent with little prospect for recovery"**. If they invest in the Single-B **'Highly Speculative'** they lose principal capital to inflation!

Remember, they can't just sit on this cash as the dollar is losing buying power (as we have covered before), the cash would get eaten by inflation, and it is a liability for them—since they must pay interest on client cash. (This is where having *too much* cash is considered a liquidity crisis! There isn't enough good debt to place it in!). No wonder the Reverse Repo Markets are so heavily used!

Before we go any further, let's do some quick level setting on bonds and their risk descriptions:

Moody's		S&P		Fitch		Equivalent to SVO Designations		Rating description				
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	NAIC						
Aaa	P-1	AAA	A-1+	AAA	F1+	1	Prime	High grade	Investment-grade			
Aa1		AA+		AA+								
Aa2		AA		AA								
Aa3		AA-		AA-								
A1		A+		A+								
A2	P-2	A	A-1	A	F1	1	Upper medium grade					
A3		A-		A-								
Baa1		BBB+		BBB+								
Baa2	P-3	BBB	A-3	BBB	F3	2	Lower medium grade					
Baa3		BBB-		BBB-								
Ba1		BB+		BB+								
Ba2	Not prime	BB	B	BB	B	3	Non-investment grade speculative					
Ba3		BB-		BB-								
B1		B+		B+		4						
B2		B		B								
B3		B-		B-								
Caa1	Not prime	CCC+	C	CCC	C	5	Substantial risks	Non-investment grade AKA high-yield bonds AKA junk bonds				
Caa2		CCC		CCC			Extremely speculative					
Caa3		CCC-		CCC			Default imminent with little prospect for recovery					
Ca		CC		CC		6	In default					
C		C		C								
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				DD								
				D								

How the Credit Rating Agencies Classify Corporate Bonds and Loans by Credit Risk or the Risk of Default.



Again, JPow believes this inflation is transitory and will drop back down to 2%. The Fed has been 2 steps behind on inflation and I think they are severely underplaying a new wild dynamic in this inflation madness—people and businesses are willing to pay these [increased prices](#)!

We have looked extensively at the record median prices in homes, but let's consider cars for a minute. This is why I think the inflation game has changed! According to data from the [Bureau of Economic Analysis](#) June sales for autos fell to 1.30 million vehicles, down 14.2% from June 2019, after a strong March, April, and May.

#### Vehicle sales picture

The Seasonally Adjusted Annual Rate (SAAR) of sales, (takes the number of selling days and other seasonal factors into account and then annualizes the result), vehicle sales look:

June: 15.4 million SAAR, -9.5% from June 2019; the lowest for any month since January 2014.

May: 17.0 million SAAR, -1.0% from May 2019.

April: 18.6 million SAAR, the highest total for any month in 16 years, +7.4% from April 2019.

March: 17.9 million SAAR, +7.9% from March 2019.

Carmakers and dealers are making money hand over fist though! Dealers by and large don't produce 'economy' cars and trucks anymore. Everything is has shifted to high profit-margin vehicles—for example, Ford (except for the Mustang) doesn't produce cars anymore!

Because of this and shifting to have 'on-demand' inventories, the average transaction price for cars is at record highs, so is average gross profits per unit—the average transaction price (ATP) of new vehicles in June jumped 14.9% from a year ago, to \$40,206, a [joint forecast from J.D. Power and LMC Automotive](#)—a record surge,

The combination of strong retail volumes and higher prices means that consumers are on track to spend \$45.6 billion on new vehicles this month, the highest on record for the month of June. Consumer expenditures on new vehicles are expected to reach a Q2 record of \$149.7 billion, up 60.7% from 2020 and up 27.9% from 2019.

Total retailer profit per unit, inclusive of grosses and finance & insurance income, is on pace to reach an all-time high of \$3,908, an increase of \$2,061 from a year ago. Grosses have been above \$2,000 for 11 of the past 12 months. Coupled with the strong retail sales pace, total aggregate retailer profits from new-vehicle sales will be \$4.4 billion, the highest ever for the month of June and up an astounding 175% from June 2019.

The combination of strong retail volumes and higher prices means that consumer expenditures on new vehicles are expected to reach a first-half record of \$270.8 billion, up 47.8% from 2020 and up 24.7% from 2019.

Retailer profits from new-vehicle sales will reach first-half record levels on both, a per unit, and total basis. Profit per unit for the first half of 2021 will reach \$2,844, up \$1,310 from the same period in 2020 and up \$1,457 from 2019, while total profits will reach \$20.2 billion, up \$12.1 billion from 2020 and up \$11.2 billion from 2019.

The trade-in market is also nuts! [The chip shortage](#) and covid have set the secondary market on fire. Normally, it is tempered through rental car companies and the like offloading their fleets. Covid has thrown a huge wrench into that, and add in the chip shortage in new vehicles, has led to what I believe is **the fairy dust on this inflation fire**, reports of

low-mileage used vehicles costing more than the new model would cost if it were available.

**(timeout, I do hope RC and the GameStop team are reading up on how Toyota is killing this chip shortage since they had this sort of risk already identified in their Business Continuity Plan because of what happened with Fukushima in 2011!)**

A study by [iSeeCars](#), which combed through over 470,000 new vehicles and “lightly used” 2019 and 2020 model-year vehicles, found that the gap between new and slightly used had “drastically narrowed” across the board, and it found that 16 hot models were selling for more money as used vehicles than their equivalent new versions, that were not in stock.

On top of this list is the Kia Telluride, it would sell for \$44,166 as new vehicle sold for \$47,730 as a slightly used vehicle. The first six on the list were either pickups (GMC Sierra 1500, Toyota Tacoma, Toyota Tundra) or SUVs (Telluride, Mercedes-Benz G-Class, Toyota RAV4 Hybrid).

**Rather than haggle till they get the price down, or just not buy as they had done for a couple of years of the Great Recession, consumers are buying are paying whatever it takes to get a new or used vehicle or new or used home as their whole mindset about inflation has changed!**



The brakes on inflation have been cut! This beast is going to keep running!

OK, so to try and wrap this up again:

- More cash is going to continue to pour in that needs to be placed.
- Inflation is going to make it impossible to earn positive rates on assets after being adjusted for inflation on anything but “extremely speculative” to “default is imminent with little prospect for recovery” risks.
- Cash can be stashed with the Fed @ 0.05% currently
- Previous collateral (zombie CMBS as an example) is considered junk and may be losing value due to being mistakenly rated/valued to begin, with yield rates, which had been used to secure the balance sheet now also being eaten by inflation. ([Washington Prime Group and certain of its subsidiaries filed for Chapter 11 bankruptcy protection since the last time](#))

- Their cash can't be used as collateral because it is a liability, and even if used, will suffer a loss of value from inflation.

Opinion: Because of inflation, the shorts are going to drown in their cash. There is no place for it to go to earn a positive yield greater than what inflation will eat, or should be acceptable for the level of risk of default.

With nowhere to park this cash to generate positive yields and while having to contend with balance sheets that are having assets eaten away, participants will continue to use the Reverse Repo to buy time until:

Being down in real terms because of inflation is something that **cannot be made back up** to service the debt and will weigh on balance sheets as they try to protect from margin calls.

Their existing collateral on the balance sheet can get re-rated lower, re-appraised lower, or just eaten by inflation to the point even what they are borrowing in treasuries can't meet the requirements to hold off a margin call.

They hit the 80 billion Reverse Repo limit because of nowhere else to place cash, are tapped out on treasuries, and no longer able to post acceptable collateral to meet their margin requirements.

## Finally, GameStop now faces inflation concerns because of that fat stack of cash they have ready to deploy!

I am sure RC and company have plans to deploy that capital in ways that will earn more than the rate of inflation, but I would like to propose they consider setting at least 1% of that cash aside to hedge the company against inflation moving forward to invest in b l t c o l n and e t h e r e u m.

I know this investment suggestion is probably controversial! However, I've been in crypto longer than GameStop (and DFV has been in GameStop), and it was understanding these fundamentals that helped make his explanations and some of the DD here click for me to ape into GameStop when I learned about it.

I am happy to touch on these subjects in the comments further (but I do want to keep this on the topic as much as possible and try and wrap up), but in short, I believe in [PlanB's Stock-to-Flow](#) hypothesis on b l t c o l n.

I think GameStop could benefit some cash to this asset that cannot be inflated away, and as Elon proved, can be turned from cash-b l t c o l n-cash instantly.

More importantly, though, I think the company should allocate a portion of that to staking e t h e r e u m and offering the ability to stake to GameStop's user base.

In the future, I believe GME values decentralization of ownership of our digital assets, which is why we should buy and mint NFT's on GameStop's Blockchain.

For the less blockchain familiar GameStop users, I think GameStop should open up the protocol to allow ETH2 staking with GME? Empower the players to secure the metaverse?

For the balance sheet though, if you're staking on E t h e r e u m 2.0, E t h e r e u m 's parallel PoS network, your operations are earning you a roughly 8% annual percentage return (APR). **This number is higher than the rate of inflation that we covered as well! Yes, E t h e r e u m fluctuates in price, but as we covered above, staking will also further secure and make the network stronger, which in turn does the same for the metaverse!**

EIP-1559 is in flight. What this means is that net "issuance" of new coins minted is going to be dramatically lowered. To put it in perspective, the issuance rate right now is 4.5% per year, the estimates for the issuance rate after EIP 1559 is implemented are .5 - 1%. Why does this matter?

So b I t c o in issuance halves every 4 years right? (this is what makes the stock-to-flow model tick) Well, an issuance drop from 4.5% is the equivalent of 3 halvings happening at one time. (4.5 cut in half to 2.25 again to 1.125 and again to .56). E t h e r e u m is already at a multi-year low supply on exchanges, once this happens E t h e r e u m will become more instantly scarce. People have dubbed this the "Cliffening".

**I believe this increasingly scarce asset that will also secure the metaverse would be a great place to place cash to avoid inflation!**

EDIT 1: Many in the comments are viewing the crypto turn to fight inflation as me turning to shilling crypto. My response to that is:

But let's revisit my crypto comment at the end:

Its value is based on demand/supply dynamics rather than underlying fundamentals (similar to how gold has historically). I believe it should only be included as a long-term hedge against weak stock returns and USD devaluation, for a small part of the company's portfolio.

Let's say they went hog wild and initiated a position of ~1% of the \$1 billion portfolio (@10,000,000 ~297 coins @ \$33,650) in b I t c o I n only for the longer term (completely screwing over their belief in E t h e r e u m and the metaverse). I believe there might be four scenario's with this strategy:

Scenario	B I t c o I n 2023 price target	Total	impact on portfolio
B I t c o I n completely crumbles	Price goes down to \$3000 (2018 lows)	-\$9,109,000	-\$9,109,000
B I t c o I n stays flat. Sideways trading guy gets a new job	(\$36,500)	\$0	\$0
B I t c o I n starts a new rally but not as big	\$125,000	\$36,375,000	\$26,3750,000
B I t c o I n Really rallies	\$420,000	\$124,740,000	\$114,740,000

Inflation + loss of buying power in USD is a huge concern. Short of GameStop buying, precious metals (would they then have to take delivery and secure those?), how else would you propose they stave off inflation while protecting the balance sheet? Again, this example, completely ignores E t h e r e u m and the importance it has for the metaverse!

Again, I understand that RC and company are going to be deploying a lot of that war chest but how do we best protect the cash war chest in the interim?!?!?



Elon has done it and seen this technique make his company more money than they have by actually selling cars? RC and GameStop bring the metaverse  
fire!

Edit 2: The E t h e r e u m London hard fork (which includes EIP-1559) has been confirmed for block 12965000 on  
August 4th

TL:DR – I believe inflation is the match that has been lit that will light the fuse of our rocket.

