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as in 2008, inflation was rising. In 1973-1974, the Fed didn't have this flexibility, becauseâ??just as nowâ??it had kept monetary policy far too easy as inflationary pressures built (under pressure from President Richard Nixon to help him win the 1972 election). So when the Arab oil embargo was imposed, the Fed was still trying to deal with inflation that had soared above 7% even before fuel prices leapt. Rates were jacked up during the deep recession that followed as stagflation took hold.Disruption to fuel supply from Russia would be far less bad than the Arab embargo, and unlike in 1974, recession seems to me unlikely this year. But the underlying problem is the same, that the Fed has fallen far behind the curve on inflation. That leaves it less flexibility to change course to deal with shocks.Politically the Fed's situation is even more difficult. Concern about inflation has gripped both parties and the country, and there is much more worry about price rises than about jobs (not surprisingly, given there are 1.7 vacancies for everyone who is unemployed).a Russian invasionIn this environment, it is very hard to imagine the Fed offering relief to Wall Street if a Russian invasion pushes up inflation even further. It was able to cut rates three times in 1998 when Russia defaulted, to ease the pain from a major hedge-fund failure, because interest rates were high, and inflation was below 2%. With inflation high and interest rates low, the focus now is the other way around.Worse, the Fed has less ability to help than in the past, even if it wanted to. It can't cut rates, because they are already on the floor. It could buy more bonds, but that doesn't do much. Its most powerful tool would be to reduce expectations for rate rises this year from the 1.75 percentage points or more CME Group calculates is being priced by futures markets. That would help a bit, but not raising rates is clearly less powerful than cutting rates when things get bad.james.mackintosh@wsj.comWrite to James Mackintosh at james.mackintosh@wsj.com

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9:58

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5:06a ET 2/17/2022 - Editor's Picks

If Russia Hurts Wall Street, Don't Expect Fed Help

Mentioned: CME

By James Mackintosh

start a European land war,Usually when there is a crisis, investors can count on the Federal Reserve to come to the rescue. If Russian troops poised on the border of Ukraine start a European land war, the Fed may be less helpful to markets than normal.To be clear: The Fed can't do anything to help the casualties of war, the real victims if Russia invades.But investors have been schooled in the 'Fed put' since the late 1990s, with policy makers slashing interest ratesâ??and since 2008, buying bondsâ?? whenever markets fall or the economy dives.scrambling to catch up with inflationThis time, Fed support looks a lot less secure, because of inflation. Aside from fear, the main way that a Russian invasion of Ukraine would feed into markets and Western economies is through the price of world oil and European natural gas, which would surely soar. At a time when the Fed is already scrambling to catch up with inflation far higher than it predicted, it would be very hard to accept yet higher prices.The Fed would be restrained by both economics and politics.Economically, central banks typically ignore what they call supply shocks, which a war-driven rise in oil prices would be. These are one-offs, and while higher prices at the pump may be painful, raising interest rates wouldn't help drill more oil, merely slow the economy and thus, demand for oil.The trouble is, the Fed's just tried ignoring a one-off, to disastrous effect. Widespread post-Covid supply problems are a big part of the reason inflation is so high, and the Fed initially did nothing because it thought they were 'transitory.' Many of the

Dashboard Watch Lists Accounts Trade More because it thought they were 'transitory.' Many of the problems pushing up prices are still transitory, to the extent that they will go away eventually as Covid retreats: shortages of microchips, clogged-up Chinese ports and sick workers, among other issues. But they have gone on so long that it became untenable for the Fed to keep insisting that prices were going to come down by themselves.The danger to the Fed harks back to the 1970s. By disturbing workers' and businesses' expectations of inflation, a one-off shock can push up wage demands, which push up prices as companies pass through the additional costs, back to wages, prices and so on.according to the New York FedSure enough, consumer inflation expectations are much higher than they were, although few expect the current rate to continue for long. The median consumer expects inflation still to be nearly 6% in a year's time, according to the New York Fed, down slightly on the previous month, which was by far the highest since the survey started in 2013. Consumers expect longer-term inflation to fall back, although still to be far above the Fed's 2% target.Labor unions have been crushedinflation has soared to 7.5%Labor unions have been crushed since the last wage-price spiral, making it harder for one to take hold, even if inflation expectations rise further. But as inflation has soared to 7.5%, the highest since 1982, wages are rising at their fastest rate in more than 20 yearsâ??albeit still slower than overall inflation.Without strong unions a wage-price spiral may not be sustained. But we don't know, and the Fed doesn't know.The parallel with the 1970s isn't only the risk of a wage-price spiral. In every recession since 1981, the Fed has cut rates, even when, as in 2008, inflation was rising. In 1973-1974, the Fed didn't have this flexibility, becauseâ??just as nowâ??it had kept monetary policy far too easy as inflationary pressures built (under pressure from President Richard Nixon to help him win the 1972 election). So when the Arab oil embargo was imposed, the Fed was still trying to