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Restaurant Review: The Fed Scambles the Eggs

We readily admit our error. We thought better of the chef. Surely, it depends on what you like: a precisely made omelet or just a mess of scrambled eggs with ingredients thrown in from every direction. A hungry man doesn't argue about finesse. Uncle Ben must have been ravenous. The market loved the 50 point cut in the Fed Funds rate and the (now) inconsequential 50 basis point cut in the discount rate. To put it more precisely, the FOMC threw out all of their previous sanctimonious concerns about moral hazard and letting the market work to eliminate careless lenders. Perhaps it was just to celebrate Greenspan's new autobiography? They demonstrated that they are as fearful in a storm as their predecessor. Bernanke delivered the put, no doubt about it. He will have to live with the expectations that such action creates...alas, so will we!

The Federal Open Market Committee decided today to lower its target for the federal funds rate 50 basis points to 4-3/4 percent.

Economic growth was moderate during the first half of the year, but the tightening of credit conditions has the potential to intensify the housing correction and to restrain economic growth more generally. Today's action is intended to help forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time.

Readings on core inflation have improved modestly this year. However, the Committee judges that some inflation risks remain, and it will continue to monitor inflation developments carefully.

Developments in financial markets since the Committee's last regular meeting have increased the uncertainty surrounding the economic outlook. The Committee will continue to assess the effects of these and other developments on economic prospects and will act as needed to foster price stability and sustainable economic growth.

Greenspan cut three times in the 1998 crisis, each time 25 basis points. This Fed outdid him today, jumping into the fray whole hog by giving the market what it wanted. If you believe that putting 335 points on the Dow or 43.13 points on the S&P or 70.00 points on the Nasdaq, today was your birthday party. The S&P and the Nasdaq had their largest point gains since July 29, 2002. It was a celebration of high 2's. Well, why not? Worrying about moral hazard never got anyone elected or cheered and even Mervyn King at the BoE had to bail out a mortgage bank. So much for paying attention to the 'rhetoric' of monetary economics. When the shoe pinches, get a new pair!

We admit to having been "had," and will now pay attention more to political economy than to economics. Being a Gold Bug has its virtues because if 50 basis points doesn't do it, then this Fed will pile on some more! They must be looking for the Wealth Effect on bonds, equities and other financials to bail out sick housing!

"I'm forever blowing bubbles, Pretty bubbles in the air. They fly so high. Nearly reach the sky. But then they fall And fade and die."

Alan, get out the clarinet. Ben joined your band today. We'll just have to wait a while for his autobiography.

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