AGRINEWS

Welch: Whatever goes up will go up some more

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August 8, 2018

The Fed announced this week it would hold the course on hiking interest rates further in the months ahead. According to MarketWatch.com. The Fed "expects that further gradual increases in the target range for the federal funds rate will be consistent with sustained expansion of economic activity, strong labor market conditions, and inflation near the committee's symmetric 2 percent objective over the medium term."

MarketWatch.com went on to state,. "Economists said this language pointed to another tightening in September, when Fed Chairman Jerome Powell will hold a press conference."

Needless to say, the Fed announcement was not greeted kindly by the stock and the commodity markets. History shows there are basically three fundamental forces that can break the back of a bull market for stocks and commodities. Those three forces are a war, a recession or higher interest rates. With the Fed on course to hike rates further to keep inflation in check, there is hand-wringing on Wall Street and on ranches and farms across the nation.

Note that the Fed is bound and determined to keep year-over-year inflation at 2 percent and no higher, which they believe is excessive. However, let's take a look at some extreme examples of galloping inflation outside the United States. From Barron's dated July 25 with a headline that blares "The Venezuelan Stock Market's on Fire as Inflation Heads to 1,000,000 percent," Randall Forsyth wrote: "It may be forgiven if you missed this bull market, but consider that stocks in Venezuela are up over 73,000 percent in the past year. A large part of that rocket ride is due to hyperinflation, which is estimated recently to be at over 46,000 percent, but could accelerate to 1,000,000 percent."

No doubt, there is big difference between inflation at 2 percent compared to 1 million percent. But looking back on history, consider the following from "Haunted By Markets" in a chapter entitled "Inflation Indeed!" that I composed on Nov. 28, 2008: 'In Zimbabwe, Africa inflation remains a dragon to slay. According Steve H. Hanke, Professor of Applied Economics at the John Hopkins University and Senior Fellow at the Cato Institute, Zimbabwe is the first country in the 21st century to hyperinflate. Mr. Hanke writes, 'In February 2007, Zimbabwe's inflation rate topped 50 percent per month, the minimum rate required to qualify as a hyperinflation (50 percent per month is equal to a 12,875 percent per year). Since then, inflation has soared.'"

I went on to state in the same chapter, "As of Nov. 14, 2008, Zimbabwe's annual inflation rate was 89.7 sextillion percent. Here is what the figure 89.7 sextillion looks like and keep in mind that it is a percentage rise in inflation: 89,700,000,000,000,000,000,000 percent. Inflation indeed!"

According to Wikipedia, the worst case of hyperinflation took place in Hungary right after WWII in July 1946 where prices were doubling every 15.3 hours, which projected a yearly rate of 41,900,000,000,000,000 percent. Even in Zimbabwe in November 2008 prices were "only" doubling every 24.7 hours. Inflation indeed! On the bright side, there are numerous quotes about inflation. Here are a few:

- "Inflation is taxation without legislation," Milton Friedman.
- "Law of inflation: Whatever goes up will go up some more," Anonymous.
- "The best way to destroy the capitalist system is to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens," John Maynard Keynes.
- "Inflation is bringing us true democracy. For the first time in history, luxuries and necessities are selling at the same price," Robert Orben.

If you are interested in the history of markets and the impact inflation can have on the Big Four – stocks, bonds, currencies and commodities – check out "Haunted By Markets." Simply go to www.commodityinsite.com and look around. And please take note of the special offer for those who purchase my book.

And by the way, an employment report was released today and it showed the 12-month rate of wage gains unchanged at 2.7 percent. But even those modest gains were devoured by rising inflation of 2 percent or less. Imagine!