

## Bernanke Takes Some Wind From Beneath Market's Wings

By [Aaron Task](#) | [Daily Ticker](#) – 1 hr 56 mins ago

What a difference a day, and a central banker, can make.

On Wednesday, the European Central Bank declared it stands "ready to act" and the market surged, with the Dow having the biggest rally of the year rising 287 points. On Thursday, Fed Chairman Ben Bernanke testified the Fed "remains prepared to take action as needed to" and some wind came out of the market's sails.

After trading as high as 12,555 early on, the Dow (^DJI) was recently up 0.78% to 12,511 while gold was down 2.6%.

Some of the disappointment in [Bernanke's testimony](#) before the Joint Economic Committee of Congress was, quite frankly, a sign of traders' greed and eagerness for a "green light" from the Fed. As Europe's crisis has escalated in recent weeks, featuring fears of a bank run in Spain, many traders have been betting on another bailout from the world's central bankers.

Dovish comments Wednesday from a trio of Fed officials -- including vice chair Janet Yellen - - further raised expectations for Bernanke's testimony, as did an overnight rate cut from China's central bank.

Gerald O'Driscoll, former vice president of the Dallas Federal Reserve and a senior fellow at the Cato Institute, says anyone disappointed in Bernanke's testimony has misread the tealeaves.

The Fed chairman may be trying to build consensus for additional action "but I doubt he has consensus [now] to do something new," O'Driscoll says.

Dallas Fed President Richard Fisher, who is not a voting member of the FOMC this year, has been an outspoken opponent of more Fed action. (**See:** [Richard Fisher: The Fed Has Done Its Job, Congress Needs To Do Theirs](#))

More importantly, perhaps, O'Driscoll notes Cleveland Fed President Sandra Pianalto -- who is a voting FOMC member this year -- recently [told The WSJ](#) she hasn't changed her view that the Fed should stand pat.

This may seem like inside baseball but Bernanke is much more of a consensus-builder than his predecessor, Alan Greenspan, so is not going to run policy by decree.

Given all this, O'Driscoll believes the most likely path for monetary policy is an extension of 'Operation Twist,' which is currently set to expire on June 30, rather than a new round of asset purchases, a.k.a. QE3.

That said, O'Driscoll stands by his prior stance that the Fed is "running out of tools" to have a major impact on the economy.

"I think the things that beset the global economy, especially outside the U.S. are not easily addressed by monetary policy," he says. "It's not clear...anything the Fed does at this point will have a substantial impact."

Even Bernanke, who says "the Fed still has the tools to keep the economy moving," admitted Thursday the efficacy of monetary policy is lower today than it was in 2009. But that won't stop speculators from wishing for more from the Fed.

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