



## Key News

- [The cost of goods leaving South African factories and mines fell](#) an annual 4 percent in August, the fourth consecutive decline. (Bloomberg)

**Live Webinar Event Today** - Black Swan Capital, Courtesy of Tom Busby's DTI

**Topic:** Interest rate rules and expectations as it impacts currency prices

**Time:** 11:30 a.m. EST

**To register:** [Please click here](#)

## Quotable

"Credit expansion is the governments' foremost tool in their struggle against the market economy. In their hands it is the magic wand designed to conjure away the scarcity of capital goods, to lower the rate of interest or to abolish it altogether, to finance lavish government spending, to expropriate the capitalists, to contrive everlasting booms, and to make everybody prosperous. The final outcome of the credit expansion is general impoverishment."

Ludwig von Mises

## FX Trading – Fed Wednesday. It might be interesting.

Quiet so far this morning in front of the Federal Reserve Bank's pronouncement on all things monetary due out later this afternoon. We wait to hear how Mr. Bernanke & Co. will decide to save us from ourselves yet again.

One of the questions on the minds of traders everywhere might be: When will Mr. B and Co. decide it's time to start removing some of the hooch from the punch bowl? We are not sure we will get an answer today, but maybe the Fat Lady of the Fed is warming up. Yesterday, we saw a story indicating as such:

"The Federal Reserve has started talks with bond dealers about withdrawing the unprecedented amount of cash injected into the system the last two years, according to people with knowledge of the discussions," Bloomberg News reported yesterday.

Of course, as you read further on in the story, the same people with "knowledge of the discussions" say there are no plans to do this anytime soon. I guess the Fed is just getting a brush up from dealers about the arcane process known as reverse purchase agreements—a process used to drain reserves from the system. Heck, the Fed hasn't drained reserves for so darn long it likely has forgotten how to do it.

Even if Mr. B wants to drain some reserves from the system, most of which are simply sitting un-loaned on banks' balance sheets anyway, we wonder if Barney Frank will allow it?

But, should the Fed provide some inclination that it's actually getting ready to act, it might throw some cold water on the idea the dollar is now the carry trade currency of choice, thanks to super low short-term interest rates and US Treasury benign neglect of the dollar. We think there is a lot more to a carry trade currency that meets the eye than just low rates, but we save that view for later today.

We all know there is a wall of momentum, spurred by excess dollar reserves, booting up asset markets here and abroad (whether a bubble or not depends ultimately on a revival of global demand or not). And we all know the "Stimulator of Last Resort" (US government) is big on the wealth effect i.e. juicing asset markets to try to juice consumer confidence to try to juice global demand, so they seem quite happy with stocks going up.

So if the Fed doesn't do something to suggest it might mop up something soon, it may be taken as green lighting the seeming US government implicit weak dollar policy as a tool that will continue as long as said dollar falls in an "orderly" matter—bada-bing-bada-boom.

Net, net, this post meeting commentary might actually be interesting.



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