

If the Fed really does follow the market, then negative rates are almost assured. However, even though the market pared back bets on negative interest rates, questions still persist.

A chicken and egg scenario involving the Fed has emerged. Who is following whom?

## Traders Trim Bets

<https://twitter.com/throughnothing/status/1260668753303539715?s=20>

## Does the Fed Follow the Markets?

It appears that way, but if all the Fed does is follow the markets, why do we need the Fed at all?

## Fed Uncertainty Theory

I discussed the above question in detail, on April 3, 2008, before the collapse of Lehman in the [Fed Uncertainty Principle](#).

It is still one of my favorite posts. Here are the key ideas.

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## The Observer Affects The Observed

Most think the Fed follows market expectations.


However, this creates what would appear at first glance to be a major paradox: If the Fed is simply following market expectations, can the Fed be to blame for the consequences? More pointedly, why isn't the market to blame if the Fed is simply following market expectations? This is a very interesting theoretical question.

While it's true the Fed typically only does what is expected, those expectations become distorted over time by observations of Fed actions.

I liken this to [Heisenberg's Uncertainty Principle](#) where observation of a subatomic particle changes the ability to measure it accurately.

## Fed Uncertainty Basic Principle:

The fed, by its very existence, has completely distorted the market via self-reinforcing observer/participant feedback loops. Thus, it is fatally flawed logic to suggest the Fed is simply following the market, therefore the market is to blame for the Fed's actions. There would not be a Fed in a free market, and by implication, there would not be observer/participant feedback loops either.


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### **Corollary Number One:**

*The Fed has no idea where interest rates should be. Only a free market does. The Fed will be disingenuous about what it knows (nothing of use) and doesn't know (much more than it wants to admit), particularly in times of economic stress.*

**Corollary Number Two:** The government/quasi-government body most responsible for creating this mess (the Fed), will attempt a big power grab, purportedly to fix whatever problems it creates. The bigger the mess it creates, the more power it will attempt to grab. Over time this leads to dangerously concentrated power into the hands of those who have already proven they do not know what they are doing.

### **Corollary Number Three:**

*Don't expect the Fed to learn from past mistakes. Instead, expect the Fed to repeat them with bigger and bigger doses of exactly what created the initial problem.*

### **Corollary Number Four:**

The Fed does not care whether its actions are illegal or not. The Fed is operating under the principle that it's easier to get forgiveness than permission. And forgiveness is just another means to the desired power grab it is seeking.



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## **Negative Rates?**

No, the Fed may not know much but it has observed that negative rates did not help either Europe or Japan.

It's easier to see someone else's mistakes than your own.

### **Fed Beholden to Banks**

And whereas the ECB punished European banks by charging interest on excess reserves, the Fed paid the banks money effectively bailing them out over time.

Given the Fed is beholden to the banks, the Fed will not set rates in negative territory although it may be possible for rates to go a few basis points negative for technical reasons.

### **Why Are We In This Mess?**

In regards to corollary number 1, we are in this mess because once again the Fed held rates too low, too long blowing another huge asset bubble in the wake.

## **There Are No Temporary Measures, Just Permanent Lies**

In regards to corollary 4, the Fed announced that it will buy junk bonds. This exceeds its legal authority, adding to illegal actions it took fighting the Great Recession.

Supposedly, junk bond buying is temporary.

But as I pointed out, [There Are No Temporary Measures, Just Permanent Lies](#)

## Gold vs Faith in Central Banks



## Buy Gold

Stephanie Pomboy, President-Meridian Macro Research, summed things up nicely in two short sentences.

*"The Fed is clueless. Not like a little clueless...like A LOT clueless"*

*"Buy Gold"*