A Paralyzed Fed Defers Decision On Monetary Policy To Primary Dealers In An Act That Can Only Be Classified As Treason

Submitted by Tyler Durden on 10/27/2010 23:23 -0500

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- Ben Bernanke
- Bloomberg News
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As if there was any doubt before which way the arrow of control, and particularly causality, points in America's financial system, the following stunner just released from Bloomberg confirms it once and for all. According to Rebecca Christie and Craig Torres, the New York Fed has issued a survey to Primary Dealers, which asks for suggestions on the size of QE2 as well as the time over which it would be completed. **It also asks firms how often they anticipate the Fed will re-evaluate the program, and to estimate its ultimate size.** This is nothing short of a stunning indication of three things: i) that the Fed is most likely completely paralyzed due to the escalating confrontation between the Hawks and the Doves, and that not even Bernanke believes has has sufficient clout to prevent what Time magazine has dubbed a potential opening salvo into a chain of events that could lead to civil war: in effect Bernanke will use the PD's decision as a trump card to the Hawks and say the market will plunge unless at least this much money is printed, ii) that the Fed is effectively asking the Primary Dealers to act as underwriters on whatever announcement the Fed will come up with, and thus prop the market, and, most importantly, iii) that the PDs will most likely demand the highest possible amount, using Goldman's $2-4 trillion as a benchmark, and not only frontrun the ultimate issuance knowing full well what the syndicate of 18 will decide in advance of what the final amount will be, but will also ramp stocks on November 3 to make the actual QE announcement seem like a surprise. **This also means that the Primary Dealers of America, which include among them such hedge funds as Goldman Sachs, such mortgage frauds as Bank of America, such insolvent <u>foreign</u> banks as Deutsche, RBS, UBS and RBS, and such middle-market excuses for banks as Jefferies, are now in control of US monetary, and as we explain below fiscal, policy.**

It also means that the Fed has absolutely no confidence in its actions, and, more importantly, no confidence in how its actions will be perceived by the market which is why it is not only telegraphing its decision to the bankers, **but is having its decision be dictated by them, an act so unconstitutional it would be seen as treason in any non-Banana republic!** This is the last straw confirming that the only ones left trading the market are the Fed and the PDs, passing hot potatoes to each other, and the HFTs, churning the shit out of everything else to pretend someone is still trading.

And the saddest conclusion is that this is the definitive end of US capital markets: not only is the Fed's political subordination a moot point, but the Fed, and the middle class' purchasing power via the imminent dollar destruction that is sure to follow as the PDs seek to obliterate their underwater assets by raging inflation, is now effectively confirmed to be a bitch of Lloyd Blankfein and his posse.

The official explanation for this unprecedented incursion by the banking crime syndicate in US monetary policy is as follows:

Avoiding Disruption

Treasury officials say they want to avoid any disruption to the $8.5 trillion market in U.S. government debt, the world's most liquid, as the Fed weighs restarting large-scale asset purchases. The Treasury also doesn't want to give any impression to investors, particularly those based overseas, that it might be coordinating with the Fed to finance the national debt.

"Treasury debt-management decisions are designed to deliver the lowest cost of borrowing over time and are entirely independent from monetary-policy decisions made by the Federal Reserve," Mary Miller, assistant secretary for financial markets, said in an e-mail to Bloomberg News yesterday. Before joining the Treasury last year, Miller was head of global fixed- income portfolio management at T. Rowe Price Group Inc. in Baltimore.

The Treasury is scheduled to hold its quarterly meetings with bond dealers tomorrow, ahead of the department's Nov. 3 refunding announcement.

Fill in the blank: the Fed has essentially given PDs the option of $250BN, $500BN or $1 trillion in monetization over six months. It is now absolutely clear that the PDs will pick the biggest number possible... **which incidentally amounts to $2 trillion per year**, and is precisely what Goldman's downside case was, as we presented previously.

The New York Fed surveyed primary dealers required to bid in U.S. debt auctions. It asked dealers to estimate changes in nominal and real 10-year Treasury yields "if the purchases were announced and completed over a six-month period." The amounts dealers can choose from are zero, $250 billion, $500 billion and $1 trillion.

Of course, since a $2 trillion purchase over 1 year means the Fed will have to monetize every single bond issued, the SOMA limit will have to be raised, another prediction we made months ago:

The Fed is unlikely to buy up the entire supply of new securities, although it may adjust its internal guidelines of how much it can hold of any given issue. The Fed limits itself to owning no more than 35 percent of any specific security it holds in its System Open Market Account, or SOMA.

"Our Treasury strategists point out it could also cause pricing distortions along the curve, if, for example, the Fed continues to target a 40 percent purchase concentration in the 6-10 year maturity bucket, as it has in its recent purchases," analysts at JPMorgan Chase & Co., including Alex Roever, wrote in an Oct. 22 research report. The report predicts the Fed will buy about $250 billion a quarter during the easing campaign.

How about $500 billion?

And, incidentally, since the "independent" Treasury will be ***forced*** to issue more debt to fill all the demand for $2 trillion over the next 12 months, as there is **not enough debt in the pipeline** to fill $2TN worth of demand and prevent the entire curve pancaking at zero (i.e., the 30 year yielding precisely 0.001%) it also means that the government will be ***forced*** to come up with more deficit programs, **which also means that primary dealers will now also determine US fiscal policy.**

Which begs the question, why is anyone pretending that the **political** vote on November 3 matters at all?

Below are the 18 banks that, in a completely separate vote, will henceforth rule America, regardless of what particular puppets end up in the Congress and Senate:

BNP Paribas Securities Corp.
Banc of America Securities LLC
Barclays Capital Inc.
Cantor Fitzgerald & Co.
Citigroup Global Markets Inc.
Credit Suisse Securities (USA) LLC

Daiwa Capital Markets America Inc.
Deutsche Bank Securities Inc.
Goldman, Sachs & Co.
HSBC Securities (USA) Inc.
Jefferies & Company, Inc.
J.P. Morgan Securities LLC
Mizuho Securities USA Inc.
Morgan Stanley & Co. Incorporated
Nomura Securities International, Inc.
RBC Capital Markets Corporation
RBS Securities Inc.
UBS Securities LLC.