"The Fed's Game of Chicken, OPEC+ and a Hard Landing"

- Carol Roth

In this informative newsletter, Carol covers how central planners have created a scenario with no likely good outcomes; how the OPEC+ cuts create a harder job for the Fed vis-à-vis inflation; why a global currency crisis might be in play; how the Fed is a dangerous player in a dangerous game of "Chicken"; possible short- and long-term implications for your wealth; and more.

Please note this content does not constitute financial, investment or tax advice; it is being provided for informational purposes only. You should consider any investment based on your own financial position, risk tolerance and other factors. Please consult your own advisor(s) before making any decision to invest.

The Fed's Game of Chicken, OPEC+, and a Hard Landing

A fractured fairy tale that ends like the ones from the 1800s—without a happy ending

Once upon a time, there were a bunch of central planners that had their eyes on creating more power for themselves and transferring wealth to their friends and associates. These planners, who thought of themselves as at least intellectually superior, if not otherwise entitled and morally superior, to your average human being, were, of course, not so. However, that didn't stop them from their nefarious plans and actions, all in the name of power.

Their plans worked, until they didn't—the classic myopia of short-term gains at the expense of long-term benefits. Governments shut down large swaths of the global economy. They spent frivolously and irresponsibly, incurring large debts. They enticed their central banking counterparts to enact expansionary monetary policy, manipulating markets and transferring wealth via suppressing interest rates (even going to negative interest rates in Europe) and Qualitative Easing (QE), with large scale purchases of assets. They then stimulated the supply-constrained economy that they had created by their own mandate.

The problem with their plans and actions is that they had real economic impacts, from pumping up the value of assets to historic inflation in goods and services - as well as social and political impacts.

Then, these planners messed with energy policy. Energy, which is at the foundation of global human flourishing, created a big financial and power-grabbing opportunity (no pun intended) for these planners and their cronies. They greedily enacted a smear campaign against traditional sources of energy and worked to direct capital and resources away from fossil fuels, so that the central planners could crush the power of those that helped produce energy and get more money for their friends investing in alternative energy sources. The problem with this is that they had no scalable proposed alternative to swap out. It would be like attacking and stopping the production of a life-saving medicine for the promise of a future life-saving wonder-drug being peddled by a scammer.

These central planners thought they were the Roadrunner, but they were really Wile E. Coyote.

As the central planners sought to put out the fires that they caused, new ones predictably sprung up. Given the US dollar's current status as the world's reserve currency, the US being relatively energy independent and the Federal Reserve aggressively hiking rates in an attempt to undo their own damage, the dollar has strengthened against many of the other currencies around the globe. Although, the dollar was not, as market analyst Jim Iuorio said in our recent economic round table special with Glenn Beck, strong against a loaf of bread here in the US.

This panoply of issues is causing the Fed to play a major game of "Chicken". If they continue to raise interest rates, countries that import energy, which is priced primarily in US dollars, will need to raise more and more dollars to buy their energy. This further weakens these countries' currencies, creating more havoc for their home economies. It also strengthens the dollar (again, only against these currencies), which creates a sort of feedback loop as this cycle repeats.

This has led to countries and groups around the globe to plead with the Fed to stop hiking interest rates.

But, that's not all. On the back of the ridiculous energy policies that have curtailed supply, and despite the political tricks (such as emergency stockpile or Strategic Petroleum Reserve "SPR" releases) and begging from President Biden to increase production, OPEC+ had the administration and Europe over a barrel—well, really, a lot of barrels. In early October, OPEC+ agreed to not increase but instead cut production more than two million barrels per day to maximize prices for their producer nations. It was not hard to project they would do anything differently—the incentives, short-term and long-term, were clear for them to want to maximize price and save their supply for later, particularly given the global under-investment in fossil fuels.

With all of this, the Fed is now facing limited choices. What they choose is clearly based on their intentions. They can choose some combination of pausing their rate hikes and/or their Quantitative Tightening plans, or even reverse course into QE like we saw the Bank of England announce recently. That likely helps, but doesn't guarantee, saving the EU, the UK, and other countries from currency crises. It also eases up the forces creating some of the economic pain those countries will face no matter what.

While we will still likely endure a hard landing in the US, pausing the Fed's current actions would likely allow for the recessionary pressures to be shallower and shorter in duration. It would, however, also likely keep inflation higher for longer, creating a longer-term stagflationary environment in the US.

This paused or slower Fed approach would engender the best of the not-so-great courses of action. There are many outside forces around the globe creating natural demand destruction already. More importantly, the inflation issues remain very supply-side oriented. But as the Fed can't print labor or oil the way they have printed dollars, particularly with the addition of the OPEC+ cuts, their tools are fairly useless and potentially damaging.

Moreover, the Fed isn't going to receive any help from the Biden administration. The administration remains committed to overspending and running huge, trillion-dollar-plus deficits. With the national debt surpassing $31 trillion, and a rising interest rate environment making it more expensive than ever for the government to finance and re-finance their debt, total interest expense creates another theoretical constraint for the Fed's action.

On the other hand, should the Fed purposely be trying to cause global financial chaos to usher in some type of financial reset or as a precursor to a Central Bank Digital Currency or "digital dollar" as a means to deal with not only the issues they have helped cause today, but longer-term financial issues, they may plow ahead with increasing rates and financial tightening.

That course of action could further up-end financial markets and labor. It could exponentially increase the devastation of a global recession, lead to rationing of food and energy and global unrest.

The Fed doesn't have a great track record playing "Chicken". They did so with inflation and it led to 40-plus year historic highs. This is a dangerous game with a dangerous player.

So, the fairy tale ends with either the Big, Bad Wolf eating grandma but maybe not Little Red Riding Hood, or it ends with the Wolf burning the house down with everyone inside. There's not exactly a happy ending to this story.

In the short term, preparing for all scenarios is critical. Engaging in personal austerity and keeping some of your capital as "dry powder" can help you prepare for the aftermath. Talking to a financial advisor about how to divide up your portfolio to maximize capital preservation is a must.

Both scenarios seem prime for physical gold ownership long-term. Either currencies worldwide are destroyed slowly or very rapidly. Gold can potentially be a physical hedge against that as a longer-term store of value, and possibly a backbone of a financial reset, depending on the scope of the Fed's and other global central planners' actions.

If you need help in adding to your gold and other metals positions, please consider giving my friends at Goldline a ring for help.

When you read a scary story, don't hide under the covers. Let it inform you and empower you to take action.