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Gold explodes as the Fed baulks at tapering

Precious metal prices rallied strongly overnight as the US Federal Reserve decided not to taper its current bond-buying programme, despite months of speculation that September was the month they'd begin winding back their $1 trillion per annum monetary stimulus plan.

Gold, which had traded below USD $1300 before the announcement by the Fed, shot up an incredible USD $70, and is now trading at USD $1362.

It was gold's best day since January 2009 (and one the worst days in the year for the USD), whilst silver bounced even more impressively, from below USD $21.50 to $22.95 as we speak.

For the week, this puts the metals up 3.30% and 5.66% respectively based on the PM fixes from Friday the 13th September.

For anyone looking for some graphical representation of how the Fed 'non-taper' impacted asset markets overnight, this article is an eye-opener.

The non-taper and the end of Summers

In the end there was no tapering of QE. The Fed decided the economy was not growing strongly enough to justify it, and hence they are staying put for now, waiting to see which way the wind blows with the economic data that will roll in over the coming weeks and months.

This is no surprise, as any rational assessment of the US economy highlights how sick and fragile it remains, whether we look at food stamp usage, unemployment and under-employment rates, industrial production, retail sales and so on.

The only things that have looked 'healthy' have been booming equity and property markets, but, as the GFC made clear, they are no sign of a healthy economy, and they can turn south both quickly and violently.

Not surprisingly, mainstream analysts are saying this is good for 'risk assets' like stocks, conveniently ignoring the fact that the Fed is effectively admitting the economy is weaker than hoped for. A weaker economy means fewer jobs, less personal spending and lower profits. But higher share prices? Go figure.

The ridiculous amount of media attention and 'expert' analysis that went into analysing the size of the taper ($10bn or $20bn), the nature of the taper (scale it all back from Treasury or half-Treasury, half-mortgage-backed), and the impact of the taper (good or bad for bond yields, stocks, gold) has all been put on hold now.

Make no mistake about it though, next month, and the month after that and so on and so forth, the financial media, asset managers and economists the world over will spend the majority of their time analysing the likelihood of a change in Fed policy.

The other big Fed story of the week was to do with Larry Summers. After months of speculation that he would be the next Fed chairman, and overwhelming consensus in the financial media and on Wall Street that he was 'Obama's guy', Larry Summers dramatically pulled out of the race to be the next Fed chairman.

Markets rallied almost immediately on this news earlier in the week, as Summers, despite being one of the architects of relaxed regulation and promoting the casino that is Wall Street today, was seen as a monetary 'hawk', and a bit of a maverick.

It says something about the times we live in that a 'hawk' these days is one who might 'only' print $50 to $60 billion a month. We've come along way since Paul Volcker raised interest rates (remember when they use to go *up* as well as *down*?) to nearly 20% back in the early 1980s.

With Summers out of the way, it would seem Janet Yellen is the likely next Fed chair, and she is widely considered a 'steadier hand', which in today's world of central banking and monetary policy, can easily be interpreted as 'more likely to just keep on printing'

My personal view on the non-taper and the latest drama in the 'race to replace' Bernanke is that it is of no long-term value to markets or investors.

It is just giving the 24/7 financial news media something to talk about, providing hours of air-time, 'analysis' and 'expert opinion'.

In reality, unless they are reaching into their own pockets, picking Janet Yellen, Larry Summers, or any of the other candidates doesn't actually repay even $1 of the $17 trillion in debt America owes.

It doesn't alter the balance sheet of the Federal Reserve as it stands today (nor necessarily its trajectory).

It doesn't create one private sector job or reform the unaffordable social welfare state.

It is, in short, much ado about nothing.

Whoever it is that's unfortunate enough to be appointed to oversee setting the printer alignment and making sure there are enough ink cartridges available is largely irrelevant in the long run.

Whether it's Janet Yellen or another, they're going to have to continue monetising debt and supporting bond yields. That's why QE3 really was rightly dubbed QE4EVA.

Failure to maintain (and perhaps even expand) the printing presses will either lead to rising borrowing costs and a reduction in economic activity, or a huge re-allocation of capital from the private sector to Washington, with negative implications for private sector growth.

For those interested in a more detailed read on the subject of QE tapering and the true state of the US and global economy, the following article is a good read.

Suffice to say, a rock and a hard place doesn't even come to close to explaining how stuck the Fed and other central bankers now are, and it's something all investors should keep at the forefront of their minds when allocating capital.

The effects of this policy will be felt all throughout the world, including here in Australia, as the USD sell-off (and AUD strength) has increased the likelihood the RBA will need to keep cutting interest rates here, as we desperately seek a lower exchange rate.

Final thoughts from an international precious metal expert and friend of ABC Bullion

Finally, as many of you know, one of the world's leading gold analysts, Ronald Stoeferle, was out in Australia last week, talking at our annual investment seminar.

We'll be releasing a video of the seminar next week, but in the meantime, here is a short interview Ronald gave to Finance News Network on the outlook for precious metals in the years ahead.

It was filmed just before Summers pulled out of the race for the Fed Governorship, but Ronald's insights are always worth listening too so if you have a spare few minutes please do check it out.

Until next week,

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