# FED Panics and Inflation Will Continue to Rise Because of it

March 20, 2023 - You may not have noticed it but the FED just blinked on interest rate hikes. Actually, they just panicked. No matter what happens at the FED meeting Wednesday - and they are likely to raise rates again by 25 basis points - their action to stem a massive bank collapse will ensure that inflation continues to rise. So what are they doing? In simple terms, they're going to print more money.

Tweet

```
(function() {
var s = document.createElement('SCRIPT'), s1 = document.getElementsByTagName('SCRIPT')[0];


s.type = 'text/javascript';
s.src = 'http://widgets.digg.com/buttons.js';
s1.parentNode.insertBefore(s, s1);
})();
```

```
 (function() {
   var po = document.createElement('script'); po.type = 'text/javascript'; po.async = true;
   po.src = 'https://apis.google.com/js/plusone.js';
   var s = document.getElementsByTagName('script')[0]; s.parentNode.insertBefore(po, s);
 })();
```

The FED got together with major international central banks and announced they were forming bank "dollar swap lines" to give banks "liquidity." In layman's terms, when banks don't have "liquidity" they are already insolvent. They don't have money to lend because they don't have enough money to cover their depositors need for access to cash. And liquidity has been a real issue now in the banking industry for about two weeks; since the fall of Silicon Valley Bank.

Since then, there have been several other failures and the problem has gone international. Over the weekend Credit Suisse - Switzerland's second largest bank - basically failed and was sold to the country's largest bank. But in order to pull that sale off, the bank received huge guarantees of "liquidity" from the Swiss government. That was the only way to avoid a complete collapse of the bank.

At about the same time this was happening, a report came out that stated there are 186 American banks that are in basically the same position at Silicon Valley Bank was. That bank was leveraged at 185 to 1. Put another way, they had lent out $185 for every $1 they had in deposits. That may sound absurd, but apparently with another 186 banks in the same position, federal regulators have been ok with this practice. And based on what happened with Credit Suisse, it apparently wasn't just American regulators who weren't doing their jobs.

So now the FED and other central banks around the globe are realizing that they have a problem. If their continue to raise their interest rates to curb inflation, they will collapse banks around the globe and they don't have enough money to cover those losses. So they are going to try to prop up the industry by giving banks what amounts to an unlimited credit line so they can keep their doors open. But the only way they can do that is by creating more money, which will only make inflation worse in the short term, and which is a policy that doesnâ€™t do anything to fix the banking problems that have come to light. Frankly, it is a policy that is almost guaranteed to fail and which will result in runaway inflation along with a bank collapse. They're trying to control the uncontrollable mess that they actually made.

At the same time, they'll continue to raise rates so they can claim they are doing something to stop inflation. And don't be surprised if you see them change their target for inflation. The current claim is that they want to get inflation down to 2%. My bet is that number will change between now and the end of the year.

The bottom line is that there isn't a good outcome here. It's just that some outcomes could be worse than others and it seems that the FED is now aiming for the worst of them all.

by Jim Malmberg

Note: When posting a comment, please sign-in first if you want a response. If you are not registered, click here. Registration is easy and free.

Follow ACCESS