

Treasury Holdings

Lately, the running question in my mind is the incredibly low yields realized on the Treasuries. Why would anyone invest in these securities? Some may not hold onto these securities up to maturity, so if they hold for a few months, ride out the insecurity in the market, and accrue interest on the coupon, without seeing much of a dip on the Treasury price, then they will be able to preserve capital, while receiving a higher coupon than placing the money in Money market funds.

One of the concerns expressed by skeptics of the FED's recent QE moves is, how will they unravel their exponentially growing holdings of the Treasuries and mortgage related securities? The answer: they won't. The FED was created as a form of elastic currency, available to the government should they face dire economic conditions. If the government trusted in a gold standard, they would be constrained to the commodity supply, and we would not have realized the breathtaking growth in the US, and the world. So, a lot of the wealth generated is paper wealth, which in a way, was never realized or ours from the beginning.

Then what are the implications for the broader economy and individuals? There is a sense of an impending doom, be it in the conspiracy theory community, or industry figureheads like Bill Gross. None of their theories have panned out, and we think it is just kicking the can further down the road with the QE, Infinity and MBS purchases.

The FED doesn't actually print the physical cash, it is done by the Treasury. Then what does it mean when people say the FED is creating money out of thin air? So, if the US Government needs more cash, it can collect from the existing pool of cash in the form of taxes, or they could issue bonds. Who buys these bonds? The FED. The FED writes a check to the US government to buy the bonds, and the US Government receives the authority to print more cash, to put into their bank account. This is jaw dropping revelation which is now being understood by the public. The FED is the water spout, which can flood the market with more dollars. This private entity, owned by the large Wall Street banks, controls the issuance of US dollar creation, not the US government. In other words, the US government is borrowing from the FED. The US government's bank is the FED.

So what happens if the market gets flooded with dollars? The FED is buying up all the Treasuries, and booking them under the Assets side. Do they have a liability for the cash creation? So, they can effortlessly acquire more and more Treasuries, and it doesn't hurt that the dollar serves as the global trade currency. On an accounting basis, the logic went out the window a while back, once we jumped off the gold standard. The dollar does not have to be created with an offsetting asset base. It is the beauty of the fiat, elastic currency system in place. As such, the repurchase of the Treasury from the hands of investors, guaranteed principal preservation for those investors, staving off an economic meltdown with the source at Wall Street, and ensures a low interest rate for the time being. This just seems all too fabricated and very non-Free market to me.