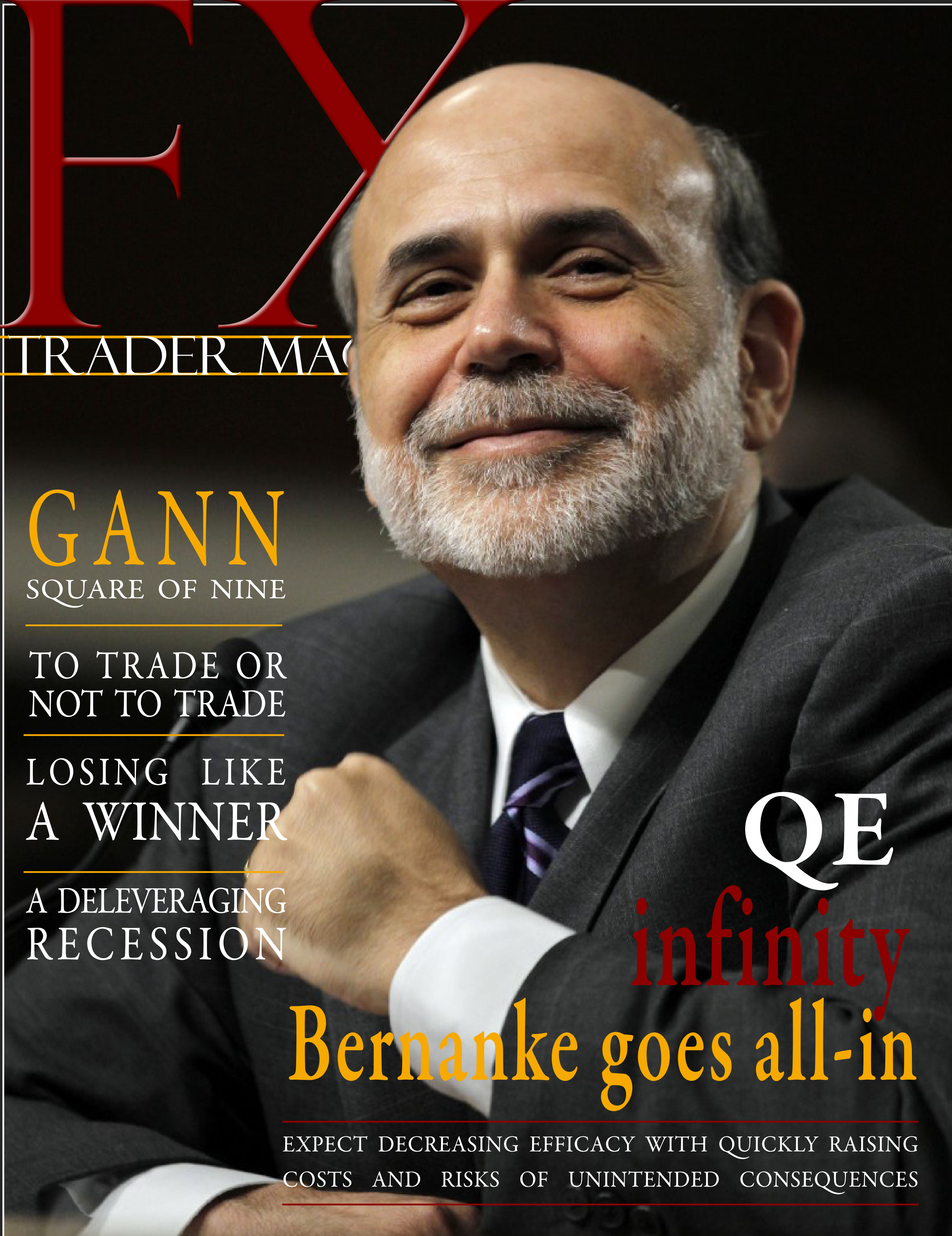
FOREIGN EXCHANGE NEWS, ANALYSIS AND EDUCATION FOR CURRENCY TRADERS

FX TRADER MAG



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SQUARE OF NINE

TO TRADE OR NOT TO TRADE

LOSING LIKE A WINNER

A DELEVERAGING RECESSION

QE infinity
Bernanke goes all-in

EXPECT DECREASING EFFICACY WITH QUICKLY RAISING COSTS AND RISKS OF UNINTENDED CONSEQUENCES

OCTOBER - DECEMBER 2012

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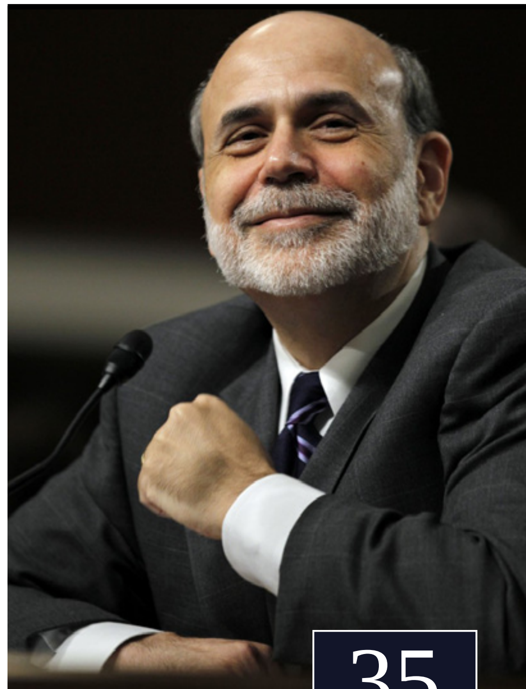
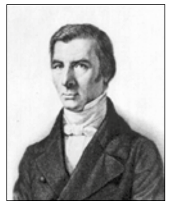


Ludwig von Mises

"No very deep knowledge of economics is usually needed for grasping the immediate effects of a measure; but the task of economics is to foretell the remoter effects, and so to allow us to avoid such acts as attempt to remedy a present ill by sowing the seeds of a much greater ill for the future."



Frédéric Bastiat

"There is only one difference between a bad economist and a good one: the bad economist confines himself to the visible effect; the good economist takes into account both the effect that can be seen and those effects that must be foreseen. Yet this difference is tremendous; for it almost always happens that when the immediate consequence is favorable, the later consequences are disastrous, and vice versa."

BERNANKE GOES ALL-IN: QE INFINITY

Expect decreasing efficacy with quickly raising costs and risks of unintended consequences

When I started to write this article few days ago "QE3" was supposed to appear in the title. A third round of Quantitative Easing had in fact been well flagged from Fed Chairman Ben Bernanke in his recent - much awaited – speech at the yearly Jackson Hole symposium on August 31st (http://www.federalreserve.gov/newsevents/speech/bernanke20120831a.htm). What has been announced in the meantime, on the September 13th FOMC, went well beyond market central expectations. Probably even beyond what the most dovish analyst could reasonably be anticipating.

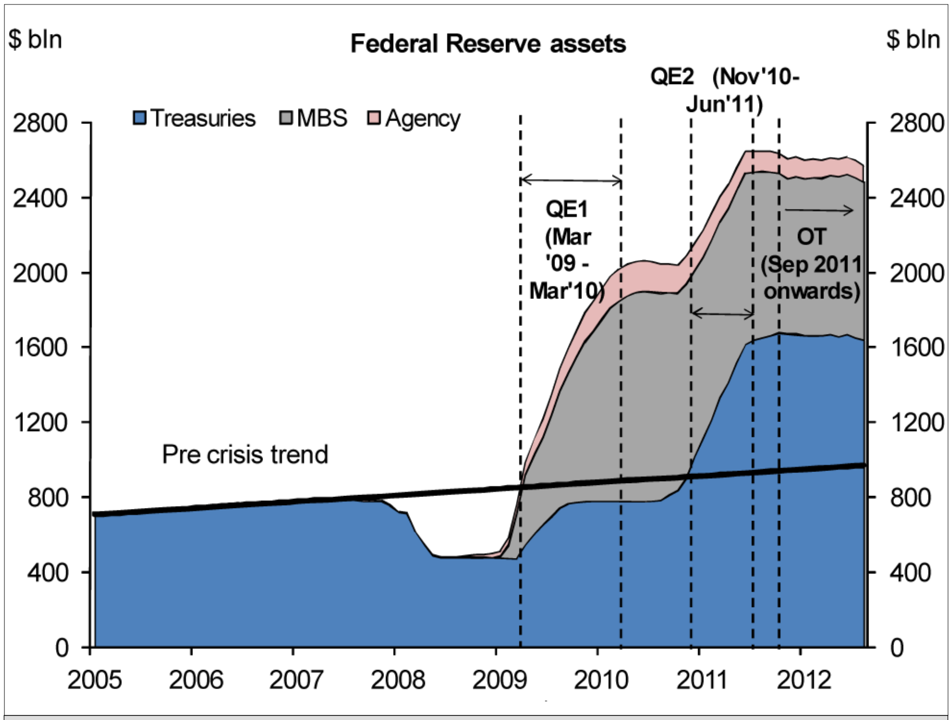


Chart 1: Fed balance sheet expansion

Source: FRB, Haver Analytics, DB Global Markets Research

From the Federal Open Market Committee Press Release:

"To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee agreed today to increase policy accommodation by purchasing additional agency mortgage-backed securities at a pace of $40 billion per month. The Committee also will continue through the end of the year its program to extend the average maturity of its holdings of securities as announced in June, and it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities. These actions, which together will increase the Committee's holdings of longer-term securities by about $85 billion each month through the end of the year, should put downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

The Committee will closely monitor incoming information on economic and financial developments in coming months. ***If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability."***

Basically no time limit, no fixed amount pre-set as in the previous QEs. Just aiming, full speed, for a substantial improvement in the labour market. Technically, if for some reason payrolls and/or unemployment do not improve substantially, purchase of MBS and eventually Treasuries or other assets could continue forever.

Ben is definitely hitting the nuclear button here and obviously the Fed

The Federal Market Open Committee