Dr. Vincent J. Malanga  
President  

Weekly Inklings  
June 24, 2011  

1. The Federal Reserve’s FOMC policy statement offered little new. The economy is softer than the FOMC expected and inflation is somewhat higher. The FOMC deems these to be transitory, warranting no change in monetary policy other than to end QE2 on schedule at month end.

2. The tone of the Fed Chairman’s remarks at his press conference left the impression that the risk to the FOMC forecast is to the downside. Both bonds and stocks sold off on the remarks, perhaps on disappointment that there was no acknowledgement of the possibility of a QE3.

3. Commodity price trends are consistent with the FOMC expectation. Energy prices are falling and Saudi wants even lower prices. Agricultural commodity prices are easing as well as good weather is prevailing around the world. The world should be over the hump on food inflation. And if a budget deal is negotiated we suspect precious metals prices are the next to drop.

4. The economy is another story. Jobless claims remain stubbornly above 400K although they are expected to soon drop as automotive production ramps up. Let us hope so. Discretionary income will benefit from lower food and energy prices, but jobs jobs jobs have to come through.

5. The June ISM report will very likely barely show expansion but the June jobs report may get a boost from an abnormally long survey period.

6. The next phase of the Greek saga, V.P. Biden’s report on bipartisan deficit negotiations, and the ISM and jobs reports all hit in the beginning of July.

7. The oil price is attempting to be manipulated lower and subtly administration officials are suggesting that lenders should not be so cautious in approving loans. We have long maintained that in the end the Federal Reserve may require banks to pay it interest on excess reserves.