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Is the Fed Planning a Coup?

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Is the Fed Planning a Coup?

Let me introduce you to William "Bill" Dudley.

Bill Dudley is the former President of the NY Fed from 2009-2018. As a brief reminder, the NY Fed is the branch of the Fed that is in charge of market operations.

Before being promoted to NY Fed President in 2009, Dudley was in charge of the department of the NY Fed that was in charge of buying government securities from 2007 to 2009. And before that, from 1986-2007, Dudley was at Goldman Sachs.

In simple terms, Bill Dudley is one of the most connected insiders at the very top echelons of the financial industry. He is one of only a handful of individuals who knows the inner workings of the Fed's market operations and has personally managed teams that were involved in buying/ selling securities via Quantitative Easing (QE).

I bring all of this up, because earlier this week, Bill Dudley penned an op-ed piece in which he openly called for the Fed to crash the economy to stop President Trump from winning the 2020 Presidential election.

I'm not making this up.

In a piece titled *The Fed Shouldn't Enable Donald Trump*, Dudley writes the following:

> *U.S. President Donald Trump's trade war with China keeps undermining the confidence of businesses and consumers, worsening the economic outlook.* ***This manufactured disaster-in-the-making presents the Federal Reserve with a***

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SHORT-TERM ISSUES

- Stocks to retest the highs.
- Gold and Silver to take a breather.
- Bonds to correct.

INTERMEDIATE-TERM ISSUES

- Inflationary pressures to build shrinking profit margins.
- A retest of the December '18 lows.

LONG-TERM ISSUES

- A Crisis worse than 2008.
- Eventual market collapse of 50%+ in real terms.
- Central Banks to implement NIRP, Nuclear QE, and Cash Bans.

dilemma: Should it mitigate the damage by providing offsetting stimulus, or refuse to play along?

*If the ultimate goal is a healthy economy**, the Fed should seriously consider the latter approach…***

I understand and support Fed officials' desire to remain apolitical. But Trump's ongoing attacks on Powell and on the institution have made that untenable. Central bank officials face a choice: enable the Trump administration to continue down a disastrous path of trade war escalation, or send a clear signal that if the administration does so, the president, not the Fed, will bear the risks — including the risk of losing the next election.

There's even an argument that the election itself falls within the Fed's purview**. After all, Trump's reelection arguably presents a threat to the U.S. and global economy, to the Fed's independence and its ability to achieve its employment and inflation objectives. **If the goal of monetary policy is to achieve the best long-term economic outcome, then Fed officials should consider how their decisions will affect the political outcome in 2020.

https://www.bloomberg.com/opinion/articles/2019-08-27/the-fed-shouldn-t-enable-donald-trump

Let's cut through the Fed speak here… the former head of the NY Fed, the man who presided over multiple QE programs that were political in nature (more on this shortly), is openly calling for the Fed to consider implementing monetary policy that would stop President Trump from winning the 2020 election.

Put simply, **Dudley is proposing that Fed the stage an economic coup.**

Before proceeding I want to emphasize that none of the following analysis is meant to be political. I am not endorsing anything Dudley is suggesting, nor am I endorsing anything that President Trump is doing. Rather, I'm simply outlining what appears to be taking place from a neutral perspective.

First and foremost, Dudley is a high level insider both at the Fed and Goldman Sachs. I've reached out to several contacts about Dudley's statements and have been told that he is not an "individualist" meaning that he doesn't have a history of making bold statements on his own.

With that in mind, it is safe to assume that Dudley's views were discussed and supported by his associates. The key issue is whether they were associates at Goldman Sachs or the NY Fed.

We know that Goldman Sachs didn't want Trump to win the 2016 Presidential election. Indeed, the company formally implemented policy that banned its high level employees from donating to the Trump 2016 Presidential campaign.

> ***Goldman Sachs has enacted a set of rules that bans the firm's top employees from contributing to certain campaigns****, including the Trump-Pence ticket.*
>
> ***At the same time, the rules do not restrict donations to Clinton-Kaine****. Kaine is a U.S. Senator for Virginia, and not considered a local official under Goldman's rules. Although the memo does say that Goldman partners are no longer able to donate to the Virginia Democratic party, which could be a reference to Kaine. Lloyd Blankfein, Goldman's CEO, has declined to say who he is supporting for president, but is known as a long-time Clinton supporter*. Blankfein donated to Clinton when she ran against Obama is 2008.
>
> https://fortune.com/2016/09/06/goldman-elite-trump-pence/

Bear in mind that Goldman also paid Hillary Clinton $675,000 for several speeches in 2013. And as the above article notes, Goldman's then-CEO Lloyd Blankfein was a major supporter of Clinton's prior Presidential run in 2008.

So we know that Goldman Sachs has major issues with President Trump. So it's tempting to simply assume that Bill Dudley's call for the Fed to perform an economic coup reflects only his and his Goldman associates' views.

However, I'm not convinced that Dudley's opinions don't also reflect the views of the Fed.

If you'll recall, back in June former Fed Vice Chair, Stanley Fisher strongly hinted during a private talk in Israel, that the Fed might not have raised rates last December if President Trump had not been so critical of the Central Bank's policies.

> ***Fischer also said there was a good chance the Fed wouldn't have raised borrowing costs in December if Trump had been less vocal****, adding: "It's not a desirable thing to have the president pronouncing on monetary policy."*
>
> *https://www.bloomberg.com/news/articles/2019-06-16/stanley-fischer-says-powell-out-if-trump-re-elected-in-2020*

Fed officials are typically guarded about the Fed's inner workings during public speeches. So the fact that Fischer is suggesting this means the reality is likely far worse… **that the Fed definitely raised rates in December out of spite for the President**

Based on this, as well as several of the most recent verbal jabs at President Trump coming from various Fed officials, I'm inclined to believe that Bill Dudley's call for the Fed to *intentionally* hurt the economy to hurt President Trump's re-election chances are inline with the Fed's own thinking.

Among Fed voting members there are at least four officials who clearly have major issues with the President. They are Lael Brainard, John Williams, Eric Rosengren and Esther George. All of them have shown themselves to show an intense disliking of the President via their works or actions.

I'm also inclined to believe Fed Chair Jerome Powell hates the President, or at least has started to based on the President's non-stop bashing of Powell and the Fed's policies.

With that in mind, it's not a stretch to also see Dudley's push for a Fed-driven economic coup as reflecting the thinking of multiple current Fed officials if not the Fed as a whole.

Which brings me to the President's position.

President Trump has long believed that despite its claims to neutrality, the Fed is a political organization.

While running for President he made multiple claims that the Fed was intentionally maintaining extreme monetary easing to support then-President Obama. Regardless of what you think of Donald Trump, what the Fed did during the Obama years compared to what it did during Trump's first three years prove his claims are accurate.

Between 2008 and 2016, the Fed raised interest rates only twice. During that same time it spent over $3 trillion in QE.

Of course, from 2008-2009, the U.S. experienced the worst financial crisis in 80 years so we can expect the Fed to implement aggressive easing during that time. But the fact remains that by the time 2011 rolled around there were no sound economic reasons for the Fed to have rates at zero.

Even more egregious was the Fed's decision to launch QE 3 in September 2012, a mere two months before the 2012 Presidential election. This had a clear and obvious benefit to then-President Obama's re-election bid, bordering on election meddling.

Again, I'm not trying to be pick sides here; I'm merely pointing out that there were NO sound economic reasons for what the Fed did in September 2012. Whether the Fed launched QE 3 of its own volition or if it did so due to political pressure from the Obama administration is

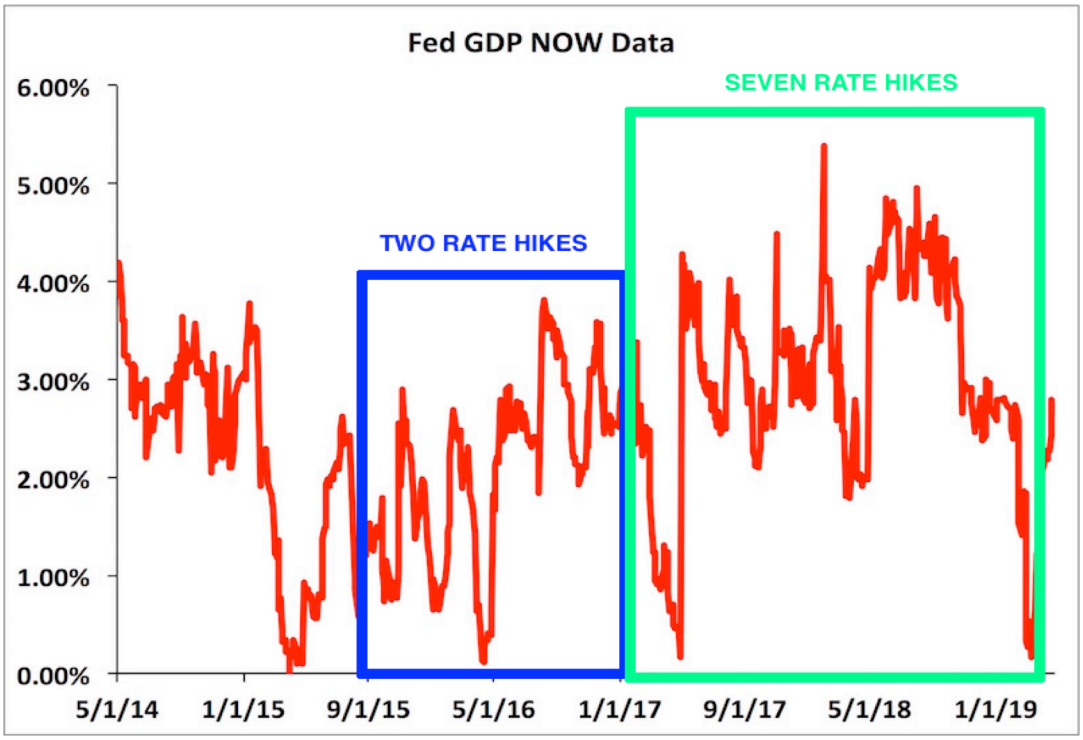
irrelevant, QE 3 was a *political* move. And it was one that benefitted President Obama's 2012 re-election bid.

In contrast, during the first three years of President Trump's presidency, the Fed raised interest rates SEVEN times. Over the same time period it shrank its balance sheet by roughly $600 billion. Bear in mind that every $200 billion in balance sheet reduction is the equivalent of a rate hike. **So we're talking the equivalent of TEN rates hikes in three years.**

Thus, we find the during the EIGHT years of the Obama Presidency the Fed raised rates only twice and engaged in $3 trillion in QE. During the first three years of the Trump presidency it raised rates seven times and engaged in $600 billion in QT.

What makes these differences in monetary policy *political* in nature is the fact the US economy wasn't that much stronger during the Trump years. Take a look at the chart below which uses the Fed's own GDPNow data.

The blue rectangle represents GDP growth during the period in which the Fed was hiking rates during the Obama years. The green rectangle represents GDP growth during the period in which the Fed was hiking rates during the Trump years.



While GDP *was* stronger during the Trump years compared to the Obama years… was it strong enough to warrant FIVE additional rate hikes along with $600 billion in QT?

I don't think so.

In light of all of this, President Trump is well within reason to claim the Fed is political. Regardless of how obnoxious his constant nagging of the Fed might be, he is 100% correct that Fed policy during his first term was extraordinarily aggressive compared to that employed during the Obama years.

We've covered a lot of ground here, so let's do a quick recap.

- The former head of the NY Fed, a man with deep ties to Goldman Sachs and the Fed, has called of the Fed to engage in an economic coup to stop President Trump from winning re-election in 2020.
- The former Vice Chair of the Fed has stated that he believes the Fed *intentionally* raised rates in December 2018 to hurt the economy out of spite for President Trump.
- President Trump has long argued that the Fed is a political entity and that it has acted to hurt his agenda.
- The Fed's own GDP data suggests President Trump is correct in his assertion that the Fed is political and has acted to hurt his economic agenda.

Which brings me to the original point of this issue: *is the Fed planning a coup?*

All of the above leads me to believe the answer is **YES**.

The issue now is how President Trump will respond to this. Rest assured, he will. The issue is what he chooses to do and when.

That remains to be seen. But we are experiencing a very dangerous period for the financial system today. The last time a President was this at odds with the Fed was in 1971 when Richard Nixon ended the Gold Standard because then-Fed Chair Arthur Burns wouldn't ease aggressively enough.

Could President Trump be planning a policy move of equal magnitude? Perhaps a massive $USD intervention? Something else?

We'll find out soon.

I realize all of this is a tough pill to swallow. But everything I've written here has been backed up by evidence. And the evidence points to the Fed acting to sabotage the President of the United States.

Regardless of one's political views that is a horrifying idea.

Let's move on to the markets.

For all the excitement of the last week stocks remain range bound. The S&P 500 has yet to stage a breakout either to the upside or the downside.

Breadth continues to suggest the move should be a breakout to the upside.

So does high yields credit.

My current view is we are likely to see a final move to retest the all-time highs around 3,030 or so. This of course, could change if the Trade War worsens dramatically. But right now there is little to suggest stocks are about to implode.

On that note, Fed Ex (FDX) should soon rally hard. The shipping company has fallen dramatically in the last six months. Typically during periods in which FDX underperforms, it quickly catches up with the S&P 500 (red rectangles in the chart below).

The chart suggests a run to $165. And if FDX can break its downward trendline, $205 could happen.

Action to Take: Buy Fed Ex (FDX)

Outside of this, everything else continues on as I expected. Stocks will likely drift higher for now until the Fed September meeting (unless the Trade War suddenly worsens). Gold and Silver are taking a breather before their next legs up. Bonds are beyond overbought and due to correct. And commodities are a mixed bag.

Put simply, things look relatively calm right now. The bigger issue is what happens once we get to mid-September. If the war between the Fed and the White House is going to get truly nasty, that is when it will start.

Until then I expect we'll see more tweets by the President nagging the Fed to ease, and more pushback by Fed officials as to why the Fed won't. But until we get to mid-September and the Fed follows up its words with actions, things should hold together.

This concludes this month's issue for ***Private Wealth Advisory***. I'm watching the markets closely and will issue updates as needed. Barring any new developments you'll next hear from me next Thursday in our regular weekly market update of ***Private Wealth Advisory.***

In the mean time, if you are looking for a way to play short-term market moves or to get into day trading for larger, more rapid gains, I also run a weekly options trading service that typically holds positions for just 2-3 weeks at the most, and usually just a few days.

It's called ***The Crisis Trader*** and it uses options to trade highly predictable moves in stocks and ETFs for double-digit gains. **Since inception, this newsletter has returned average annual gains of 41%.**

Typically a subscription to this service costs $799. But I'd like to invite any of you to join at a discounted rate of $499 (35% off the usual market price).

You can try it for 60 days. If you find it's not what you're looking for, you can email us at support@phoenixcapitalresearch.com and we'll issue a full refund no questions asked.

To take out a 60 day $499 trial subscription to ***The Crisis Trader*** use the link below.

https://www.phoenixcapitalmarketing.com/tctrenewal499.html

Until Next Thursday…

Best Regards,

Graham Summers
Chief Market Strategist
Phoenix Capital Research

OPEN POSITIONS

LONG PORTFOLIO

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Uranium ETF	URA	1/17/18	$14.93	$10.43	-30%
Emerging Markets ETF	EEM	5/1/19	$44.00	$39.88	-9%
European Financials ETF	EUFN	5/1/19	$19.62	$16.39	-16%
Ultralong S&P 500 ETF	SSO	8/8/19	$123.30	$124.08	1%
CDW Corp	CDW	8/8/19	$112.37	$114.70	2%
Workday	WDAY	8/8/19	$191.08	$187.65	-2%
Gold	GLD	8/23/19	$144.12	$144.12	0%
Silver	SLV	8/23/19	$16.35	$17.07	4%
Silver Miners	SIL	8/23/19	$29.72	$30.69	3%
Silver Mining Juniors	SILJ	8/23/19	$10.54	$10.93	4%
Fed Ex	FDX	8/29/19	$157.45	**NEW**	**BUY!**

SHORT PORTFOLIO (KEEP POSITIONS SMALL)

Position	Symbol	Buy Date	Buy Price	Current Price	Total Return*
Japan ETF (SHORT)	EWJ	1/3/19	$51.08	$53.75	-5%
UltraShort Russell 2000 ETF	TWM	1/3/19	$18.24	$15.86	-13%
JP Morgan	JPM	1/10/19	$99.89	$109.22	-9%
Italy ETF (SHORT)	EWI	2/7/19	$25.71	$27.02	-5%
Shopify	SHOP	5/23/19	$271.54	$391.71	-44%
UltraShort Oil ETF	SCO	8/15/19	$18.16	$16.66	-8%
Etsy (SHORT)	ETSY	8/15/19	$52.38	$54.40	-4%
Tradedesk (SHORT)	TTD	8/15/19	$243.52	$250.07	-3%

Prices as of 8/29/19 at the market's close.
***Gains include dividends**

RECENTLY CLOSED POSITIONS

Position	Symbol	Buy Date	Buy Price	Sell Date	Sell Price	Total Return*
Retail ETF (SHORT)	XRT	1/10/19	$43.51	5/23/19	$41.45	5%
Freeport McMoran	FCX	6/13/19	$10.75	6/20/19	$11.48	7%
First Majestic Silver	AG	5/12/17	$6.59	6/20/19	$7.40	12%
Gold Mining ETF	GDX	6/6/18	$21.38	6/20/19	$25.05	17%
Gold Mining Juniors ETF	GDXJ	6/6/18	$30.59	6/20/19	$34.23	12%
Gold		3/17/10	$1,120	7/1/19	$1,392.00	24%
Long Treasury ETF	TLT	6/27/18	$120.24	7/11/19	$130.07	11%
1-3 Year Treasury ETF	SHY	2/7/19	$83.68	7/11/19	$84.51	2%
7-10 Year Treasury ETF	IEF	3/21/19	$105.66	7/11/19	$108.93	4%
Netflix (SHORT)	NFLX	3/7/19	$352.60	7/18/19	$321.00	9%
Amazon	AMZN	6/13/19	$1,864.00	7/18/19	$1,981.00	6%
US Steel	X	7/11/19	$13.79	7/18/19	$14.84	8%
Wayfair (SHORT)	W	5/23/19	$144.01	7/31/19	$130.92	9%
ServiceNow (SHORT)	NOW	5/23/19	$266.26	8/5/19	$252.40	5%
UltraShort China ETF	FXP	5/23/19	$70.52	8/5/19	$74.56	6%
Silver		3/17/10	$16.15	8/8/19	$16.96	5%
Short Term Volatility ETF	VXX	5/16/19	$28.10	8/14/19	$29.56	5%
Energy ETF	XLE	3/21/19	$67.08	8/15/19	$56.89	-15%
Oil Fund	USO	7/11/19	$12.55	8/15/19	$11.46	-9%
Gold Mining Juniors ETF	GDXJ	7/25/19	$38.87	8/23/19	$41.18	-6%