

### The First Tee...

#### Thoroughly Modern Monetary (Theory)...MMT has become the new financial panacea for socialist leaning legislators in Washington..."a chicken in every pot and a car in every garage?":

- Politicians are looking to fund projects such as free education and the Green New Deal:
  - MMT's premise is that countries who have their own central bank and currency can accumulate unlimited debt because it can print more money to service interest payments as long as it does not generate high inflation (*using the U.S. history of undisciplined fiscal policy spending to steer the economy*).
  - Countries have removed restrictions for creating money by adopting "fiat currency" standards:
    - Fiat currency is legal tender not backed by a physical commodity (such as gold)...the value of money is derived from the relationship between supply and demand rather than the value of the material supporting the currency:
      - The monetarists of the early 1980's were quite aware of the impact of large amounts of currency in the U.S. economy as the rate of inflation surged to a peak of 14.8%...the prime lending rate hit a record high of 21.5% at the end of 1980.
- Here are some of the key characteristics of Modern Monetary Theory (MMT 101):
  - Economies should be guided by fiscal policy government spending and taxation...governments tend to run unduly restrictive fiscal policy stances so as not to contradict the monetary policy (*it's hard to classify U.S. government spending as restrictive*).
  - The Federal Reserve should do the bidding for the Treasury...if the Treasury needs money, the Central Bank prints it.
  - An increase in budget deficits will **not** tend to raise interest rates (*contrarian thinking to traditional economic theory*):
    - When governments increase spending, the private sector gets the money and places it in the banking system...with more money in the system and no increase in demand for cash, interest rates tend to fall (unless the government chooses to absorb excess reserves by selling bonds)
    - The government does not need to sell treasury securities, or levy taxes, to spend money because the Fed (under the control of the Treasury) can pay for everything by creating electronic money (*the government could cut spending on paper and ink for printing money!*).
    - Too large of deficit can cause excessive inflation...too small of deficit can deprive the economy of a critical source of income, sales and profits.
  - Inflation is not primarily the result of excessively strong economic growth, but businesses' excessive pricing power:
    - Instead of tightening monetary policy to slow economic growth to reduce inflation, a strategy of breaking-up monopolies and restricting the banking system from making too many loans would be implemented...actively regulating big business for public purpose.
  - Taxes on the wealthy are good for reducing inequality, but are not essential to pay for government spending:
    - The main purpose of taxes (besides lessening inequality) is to keep inflation under control:
      - Taxes would take just enough money from consumers and businesses so total spending in the economy would not be excessive.
  - The economy should not be directed by raising and lowering of interest rates...the natural rate of interest is zero percent in a world of fiat money (setting the rate higher than 0% is a giveaway to investors):
    - Adjusting rates is ineffectual because businesses make investment decisions based on prospects for growth, not the cost of money.
  - Banks do not make loans based on deposits, but from the demand for borrowing...payments by a borrower to a supplier is invested in another bank...loans create deposits, not visa-versa.
  - To stabilize employment, federally funded, locally administered job guarantees should be enacted...the government would employ more people in economic slumps than in expansion periods...government employed workers would move back to the private sector when the economy strengthens (*not sure who would do the jobs of the departing workers?...governments version of doing more with less!*)
- I've looked at MMT from both sides now...there has been theory pushback from prominent persons
  - Here are some of the reactions to the application of MMT as the policy blueprint:
    - "You don't have to worry about interest payments because the central bank can buy the debt...this is a very wrong-minded theory because that's how you get hyper-inflation" Janet Yellen (former Federal Reserve Bank Chairman).
    - "Many countries have tried using money financing to bankroll budget deficits...experience suggests that usually ends up with uncontrolled inflation with a collapse in investment and growth" Gita Gopinath (Chief Economist for the IMF):
      - Gopinath went on to say, "There is no free lunch. There are limits to how much countries can spend."
    - "I am not a fan of MMT, not at all...We don't need to get into danger zones of spiraling inflation and unchecked deficit spending" Warren Buffet (CEO Berkshire Hathaway). "It's just wrong" William Powell (Federal Reserve Chairman).
    - Others are not pulling punches: "Fallacious at multiple levels" Larry Summers (former Treasury Secretary); "Garbage" Larry Fink (CEO of BlackRock); "MMT is smoke and mirrors nonsense" Kenneth Rogoff (Harvard Economics Professor); "Complete nonsense that's being used to justify a massive socialist program" Jeffrey Gundlach (CEO DoubleLine Capital).

### At the turn...

## The Back Nine...

### Priming the Pumps...U.S. crude-oil output continues to hit new record highs:

- U.S. oil production is forecast rise to 12.4 million barrels a day this year (13.2 million in 2020):
  - America became the worlds largest oil producer last year at 10.9 million barrels a day (up 17% from 2017):
    - The U.S. is expected to become a net exporter of crude oil and petroleum products next year.
- U.S. consumption of petroleum products accounted for 42% of total global output in 2018:
  - Most of the gains in U.S. consumption came from shale drilling by-products (liquified petroleum gases and ethane):
    - Petrochemical producers have been building new facilities (called crackers) along the U.S. Gulf Coast that will separate ethane from natural gas...the new plants will make it more economical to compete with foreign suppliers.
- OPEC is projecting global oil demand will decline by 240k to 30.6 million barrels per day.

### Belly Ache...intermediate portion of yield-curve moves to inverted...stocks get indigestion relief:

- Data format: April 1, 2018 / January 1, 2019 / April 1, 2019:

#### Equities

**Dow:** 247143 / 23327 / 25928  
**S&P 500:** 2641 / 2506 / 2834  
**NASDAQ:** 7063 / 6635 / 7729  
**Russell 2000:** 1529 / 1348 / 1539

#### Commodities

**CRB:** 195 / 169 / 183  
**Oil:** \$64.94 / \$45.41 / \$60.14  
**Gold:** \$1325 / \$1282 / \$1292  
**Copper:** \$302 / \$263 / \$293  
**Natural Gas:** \$2.84 / \$2.94 / \$2.66

#### Borrowing Benchmarks

**Libor:**  
**1mo:** 1.876% / 2.502% / 2.494%  
**3mo:** 2.302% / 2.807% / 2.599%  
**SOFR:** (U.S Secured Overnight Financing Rate)  
**1day:** 1.80% / 3.00% / 2.65%

#### Treasuries Issues

**3mo:** 1.37% / 2.31% / 2.40%  
**6mo:** 1.87% / 2.41% / 2.44%  
**1yr:** 2.02% / 2.52% / 2.40%  
**2yr:** 2.26% / 2.49% / 2.27%  
**3yr:** 2.39% / 2.46% / 2.21%  
**5yr:** 2.56% / 2.50% / 2.23%  
**7yr:** 2.68% / 2.58% / 2.31%  
**10yr:** 2.73% / 2.68% / 2.41%  
**30yr:** 2.97% / 3.01% / 2.81%

#### Currencies

**Euro:** 1.232 / 1.146 / 1.121  
**Yen:** 106.28 / 109.69 / 110.86  
**Peso:** 18.18 / 19.65 / 19.42  
**Canadian \$:** 1.290 / 1.363 / 1.334  
**Yuan:** 6.275 / 6.878 / 6.712

#### Grain Futures

**Corn:** \$3.88 / \$3.75 / \$3.56  
**Soybeans:** \$10.45 / \$8.95 / \$8.84  
**Wheat:** \$4.51 / \$5.03 / \$4.57

#### Job / Inflation Indicators

**Unemployment:** 4.1% / 3.9% / 3.8%  
**Consumer Price Index:** 2.4% / 1.9% /  
**Core PCE Index:** 1.8% / 1.9% / 1.8%

**Federal Funds Open:** 1.68% / 2.40% / 2.40%  
**Prime Rate:** 4.75% / 5.50% / 5.50%

## 19th Hole...

***Pennies don't fall from heaven. They have to be earned on earth.***

Margaret Thatcher

**Ross Elford, First Vice President**

Direct: 314.746.3679 | Mobile: 314.223.9739 | Fax: 314.746.8737



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