

Re: drop in demand for US bonds

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From: polar bear (*bear_at_pole.com*)

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In article <4144A70F.688A@mindspring.com>, Ron Hardin
<rhhardin@mindspring.com> wrote:

> *polar bear wrote:*

> > *They can use the dollars to buy oil, iron ore, aluminum, nickel,
> > copper, manganese, soybeans, jelly beans, whatever seems most important
> > to them at the time.*

>

> *They can buy from the US, and get out of dollars. But if it's not from the
> US, they just shift the problem to the guy they gave the dollars to. The number
> of dollars _somebody_ has to ``get out of'' does not decline until they're used
> for a purchase from the US.*

True enough, but if foreign buyers shift their preference from US paper assets towards commodities, they are now competing with US producers/consumers for those commodities. The effect is a rise in producer prices, which gets passed along as higher consumer prices or lower corporate profits (mutual funds, pension funds etc), concurrent with a rise in interest rates caused by the drop in demand for paper assets. And that's bad. M'kay?

> *Only then does it compete with the domestic money supply, which is what
> constrains
> the Fed from printing more to replace it. The Fed targets the proper domestic
> money supply, not any particular number of dollars existing.*

I'm not sure this has any bearing on the effects of a drop in demand for US bonds. Frankly, I'm not even sure the fed CAN control money supply at this late stage of the game. There's a lot of entities issuing credit outside the banking system these days.

pb