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Federal Reserve Chair Yellen Rattles Markets Citing Obstacles to Negative Rates

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Global Research, February 12, 2016
Wall Street On Parade 11 February 2016

Region: USA
Theme: Global Economy

At 8:00 a.m. this morning, futures on the Dow Jones Industrial Average were flashing a 274 point plunge at the open of the stock market at 9:30 a.m. ET, following a selloff of 99.64 points by the close of trading yesterday.

There's plenty of things rattling this market, not the least of which is the continued weakness in the share prices of the mega Wall Street and European banks. Analysts have started asking on business news outlets if there is something going on that the public can't see.

Fed Chair Janet Yellen Testifying at the February 10, 2016 House Hearing

Adding to the market angst was the jumble of questions Fed Chair Janet Yellen received during her semi-annual testimony before the House Financial Services Committee yesterday. One particular line of questioning from multiple members of the Committee was on whether the Federal Reserve has the legal authority to use negative interest rates as part of its monetary policy tools. Central banks in Europe and the Bank of Japan have deployed negative rates and financial markets have a built-in assumption that the Fed could do likewise. Yellen threw a bucket of cold water on that assumption with two revealing remarks.

First, Yellen said that the Fed had looked at the possibility of using negative rates in 2010, explaining:

> We got only to the point of thinking it wasn't a preferred tool. We were concerned about the impact it would have on money markets. We were worried it wouldn't work in our institutional environment.

If you're a hedge fund and you've staked a billion dollar bet on the potential for the Fed using negative rates in the U.S., this is not the answer you wanted to hear.

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