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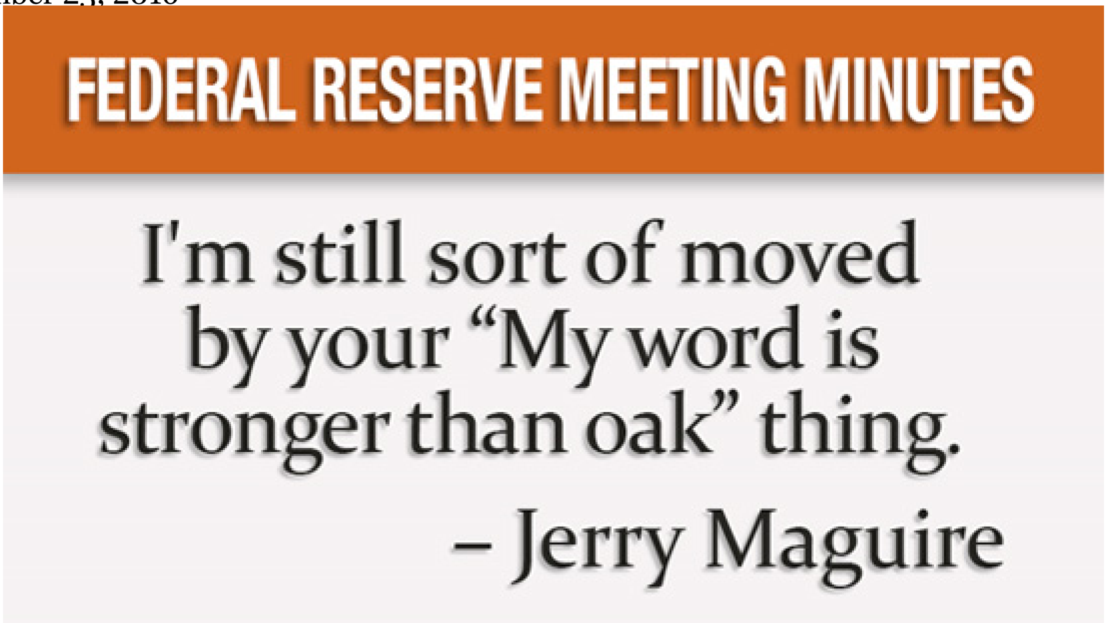

Ever heard of an Alpha quote? That's how best to classify, "Show me the money!!!"

It didn't take you but a nanosecond to picture Jerry Maguire screaming that line into his phone. The shame, for lack of a better word, is that another quote from the same movie, that's almost as good, will only live on to minor fame.

Getting to the not quite as famous quote requires that you navigate not one, but two scenes in the 1996 Tom Cruise blockbuster. Sports agent Maguire has landed an Odessa, Texas high school superstar quarterback. In perfect stereotypical form, the boy's father is chief negotiator. Out Maguire drives to dusty West Texas to seal the deal, on paper, to which the father replies: "You know I don't do contracts, but what you do have is my word. And it's stronger than oak." One firm handshake later, we see an elated Maguire driving off singing and pounding his steering wheel to the beat of Tom Petty's "Free Falling."

Of course, a betrayal follows as sure as night follows day and the father signs, yes signs, with a rival agent offering a sweeter as in "Sugar" deal. But what about the strength of that oak? A pumped-up Maguire arrives for the young star's big moment and learns that in all likelihood Cushman Senior does sign contracts. To that Maguire bitterly retorts, "I'm still sort of moved by your, 'My word is stronger than oak' thing." The moral we saw coming: Always get it in writing.

But what happens when those written words still aren't good enough? The occasion of the release of most Federal Open Market Committee (FOMC) Meeting Minutes would seem to be a great opportunity to get a behind-the-scenes take on all those round the table machinations. Minutes of lame duck meetings – no press conference, no action – hold even greater appeal, especially if multiple dissents accompany the decision. Hence the media jockeying for instant live reaction at 2 pm EST three weeks to the minute from the moment the statement is released. Hey, it beats waiting around five years for the meeting transcripts.

Did someone mention transcripts? In 2008, Janet Yellen herself suggested – in plain English, mind you – that the FOMC deploy the Minutes as they would any other tool in their quickly dwindling toolbox of conventionality. In the event the data or the markets have not reacted to the meticulously crafted statement in the manner Fed officials intended, whip out the Minutes to reshape the public's thinking. Rather than become a monkey on her back, Yellen's suggestion to outright manipulate the Minutes has been embraced by her peers and the public alike; parsing the message in the Minutes has become a favorite Wall Street parlor game.
That is, until today. A massage is one thing, a machete that leaves a blood trail quite another; hence the impossible task of weaving an entirely unexpected election result (especially for those on the FOMC) into the Minutes of a meeting that took place a week beforehand. Today, in other words, we will see relatively clean minutes, the prospect of which holds a whole different kind of appeal. (It may also explain the downright deluge of Fedspeak since the election. Do you get the sense there's an unwritten Fed policy that dictates more is more when the Minutes have been disengaged?)

Given the violent reaction in the bond market to the election, it's bound to be killing Yellen to not nod as to how the Fed is apt to react come December 14th. But the truth is the market has already placed its bet, pegging the probability of a quarter-percentage-point hike at a neat 100 percent. That gets us to the "What's next?" portion of the program, which is when things begin to look a little hazardous.

The brilliant (word not used with even a scintilla of hyperbole) William White was recently honored with the Adam Smith prize, the highest on offer from the National Association of Business Economics. White's career has been long and esteemed. In 2008, he retired from the Bank for International Settlements (BIS) and is now chairman of the Economic Development Review Committee of the OECD in Paris. On a personal level, yours truly has been honored to get to know White as fellow participants at The Ditchley Foundation's annual gatherings.

But back to that, "What's next?" for Yellen et al. Let's just say White has uncovered the answer. To mark the occasion of his receiving the Adam Smith award, White penned, "Ultra-Easy Money: Digging a Deeper Hole?" Gotta love the subtlety in that title.

Do yourself a favor and Google the paper and read it in its entirety. It is blessedly readable and free of econometrics, as in approachable by those outside the insular field of economics.

White has never been one to kowtow to his peers. Rather than blindly acquiesce to the notion that monetary policy can solve all the world's problems, White rightly recognizes the elephant in the room, namely that, "by encouraging still more credit and debt expansion, monetary policy has 'dug a deeper hole.'" White's basic premise is that central bankers' hubris (my word) has deluded them into believing the economy can be modelled, "as an understandable and controllable machine rather than as a complex, adaptive system."

Prior to the financial crisis, monetary policy was "unnaturally easy" and after the crisis broke, "ultra-easy." Put differently, the failure of lower for longer was not recognized as a failure and taken as an opportunity from which to learn and grow into a new paradigm. Rather, monetary policymakers dug the hole deeper, insisting that failure be not acknowledged, but instead institutionalized. And so policy has been lower for even longer, exit delayed time and again.

Into this breach, Yellen steps again, one year after her first stab at a rate hike. The rest of the world can be thankful she wears sensible shoes, as opposed to strappy, red stilettos, given the potentially dangerous landing for this second rate hike since 2006. Maybe the Minutes will reveal how heated the discussion was about the impending December hike and its aftermath. We can only hope.

Most of the market's focus since the election has been on major currencies' moves against the dollar in reaction to the near one percentage point rise in the benchmark 10-year Treasury off its post-Brexit lows. No doubt, the move in the euro has been nothing short of magnificent. The powers that be at the Bundesbank have to be sweating out the ramifications of the next potential move given the double whammy of an interest rate increase here and a losing vote for Italian Prime Minister Matteo Renzi's referendum on December 4th.

You'd never know it given the euphoria in the stock market, but a strong dollar can be harmful to the global economy's health. While in no way inconsequential, the euro's weakness pales compared to that of the shellacking underway in emerging market (EM) currencies. According to the BIS, since the financial crisis, outstanding dollar-denominated credit extended to non-bank borrowers outside the United States has increased from $6 trillion to $9.8 trillion.

The game changer in the current episode is the catalyst that drove the growth in EM dollar-denominated debt, namely unconventional Fed policy. The yield drought created by seven years of zero interest rate policy and quantitative easing pushed investors to show EM debt issuers the money. In prior periods, cross border bank loans were the source of the growth. Let's see. Is it investors or bankers who are more likely and able to panic and run?

"This raises the specter of currency mismatch problems of the sort seen in the South Eastern Asia crisis of 1997," worries White. "The fact that many of the corporate borrowers have rather low credit ratings also raises serious concerns, as does the maturity profile. About $340 billion of such debt matures between 2016 and 2018."

Talk about a black box of uncertainty that's sure to dominate the discussion at the upcoming FOMC meeting. The differences between last December and now, however, cannot be captured in any model. That should prove vexing to current members of the FOMC who'd prefer to not wander blindly onto a field littered with landmines.

As White forewarns, "Future economic setbacks tied to ultra-easy money could threaten social and political stability, particularly given the many signs of strains already evident worldwide. In short, the policy stakes are now very high."

Oh how the Fed must long for the days of yore, when it was feasible to make policy in a domestic vacuum. Though the new reality set in over a matter of years, last August's rude reminder on the part of People's Bank of China abruptly ended that bygone era once and for all. The Fed can jawbone all it likes, in tiptoe style in the Minutes, or in gaudy fashion in an endless parade of FedSpeak.

But the reality of it is, if the rest of the world's economic vulnerabilities and systemic fault lines are laid bare by this December's hike, Fed officials' words won't amount to much more than trash talk, kind of like their vociferous vows to raise rates four times this year. In the end, their word proved to be as strong as, well, West Texas Oak.

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