LAROUCHE PAC

From Bail-out to Bail-in to Bailiff

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(*editors note:Here are three related stories on the collapse of the Trans-Atlantic financial sector. Such a collapse, at this time, is a significant factor in the British Empire's attempted confrontation between the United States and Russia, on a thermonuclear scale. We have placed the stories together, for their similarity of topic.*)

'Bail-in Bonds': The Elevator Starts to fall

The bail-in elevator has started to drop from the 70th Floor. Eurozone and Japan megabanks have started to issue openly worthless "bail-in bonds" — to each other.

In the deadly austerity of the "bank bail-in" process now adopted by the European Commission's Single Resolution Mechanism (SRM), the first step after a bank's collapsing assets have wiped out part, or all of its capital and fallen below its liabilities, is for a national government to attempt to bail the bank out. But bailouts and austerity have largely exhausted the national governments' capacity for more bailouts, and the EU mechanisms now supposedly will not contribute. Thus to step two: The bank defaults on its unsecured creditors, "bailing them in" by issuing them probably worthless bank stock shares in place of their defaulted bonds.

Step two might improve the megabank's balance sheet, and even pretend to increase its "capital," were it not for the fact that these banks' "assets" are dominated by derivatives, so-called "qualified financial contracts" in huge volumes, whose counterparties can seize collateral from the bank. In the face of this tidal wave washing over capital and "assets," it's on to the next stage: bailing in uninsured deposits. These are wiped off your deposit book and, again, replaced with dubious bank stock.

But the sheer mass of "qualified financial contracts" taking their pounds of flesh still wipes out the new "capital" as fast as bail in creates it. And as the Bank of England says, "in particular for G-SIFIs whose operations are too large, complex, or interconnected to split without threatening the critical services that the bank provides [!!], the bail-in power may be further used to ensure creditors are exposed to losses without disrupting critical functions." Thus explicitly because the City and Wall Street hate and reject Glass-Steagall, the bail-in goes on to stage four: bailing in insured deposits, secured creditors, etc.

Nor should this bail-in process wait until the bank crash actually begins, when it can help to start it. Thus, "bail-in bonds."

The *Financial Times* reported March 31 that Mizuho Bank in Tokyo will kick off "bail-

in bonds" in Japan on April 3, with an issue of $1.5 billion. These are essentially deep subprime bank bonds; they bear high interest (nearly 5% in this case); and they are officially, instantly, permanently worth zero if the bank is even ordered to recapitalize, let alone threatened with insolvency. The purchasers, "investors," will be other banks and shadow banks, hot money looking for high yield before the crash. The same thing is also occurring in the Eurozone with even known bankrupts like Monte dei Paschi selling "bail-in bonds." They are allowed to count them as Tier II capital, even as S&P and Moody's downgrade these banks. The "credit" to buy them? Fleeing out of the Fed's "emerging markets' carry trade" of quantitative easing, into the most collapsed economies of Europe.

British Banks Facing Crash, Trying to Blame China and 'Carry Trade'

The avalanche of articles by British financial columns attacking China, continues, led by *Daily Telegraph* columnist Ambrose Evans-Pritchard. Fear of the coming Eurozone bank breakdown has Evans-Pritchard and his ilk blaming China with the intensity which once characterized his British assignment to attack President Bill Clinton. The overall thrust of the obsession is that China's nearly $5 trillion in investments in infrastructure, industry and urban development in the past six years have created "global overcapacity" and thus the ogre of deflation and depression collapse in Europe. This is blaming a European policy of economic and productivity growth, for a British imperial policy of no-growth and austerity. The actual cause of this trans-Atlantic collapse is hopelessly unpayable debts on banks' books, and lack of credit and investment, particularly bank credit.

Evans-Pritchard's column March 30, "Global Banks Issue Alerts on China Carry Trade..." [1] is more revealing; ironically, it is discussing a threatening, self-made British bank crash.

Foreign banks — abetted, to be sure, by banks in China — have put $1.2 trillion in "hot money" through short-term collateral repurchase (repo) markets into China companies (real estate, commodities futures speculation) since 2011 alone, even as the Chinese government invested trillions in infrastructure and industry. This represents one-third of the entire so-called "emerging market" hot-money boom of about $3.5 trillion.

As Evans-Pritchard admits, this is "a function of the Fed" and its quantitative easing policy, as also those of the Bank of England and Bank of Japan. Half of this $1.2 trillion in "China carry trade" is from British and Hong Kong banks (one-quarter each). To produce speculative profit, it required the yuan's value to rise continuously, as the Empire and the United States demanded.

China's government is now cracking down on these bubbles and lowering the yuan, while the Fed is trying to exit QE. China real estate and commodity speculator companies are starting to resemble the U.S. mortgage-company "Implodometer" of 2007. The "warnings by global banks" Evans-Pritchard is writing about, are that this carry trade has reversed even faster than others, and foreign (especially London) banks'

assets in this trade are collapsing as hot money tries to get out.

Evans-Pritchard complains that China "could rapidly pump $2 trillion into its banks" to save these bubbles; but China's President Xi refuses to do so. The result: bank panic threatens, especially HSBC, Lloyds, and Standard Chartered. With the usual idiotic knives-out *schadenfreude* of the megabanks and their "research" departments, the "global banks issuing alerts" of Evans-Pritchard's headline are Credit Suisse, Nomura, and Citigroup.

In China, *China Daily* described the "thorough cure" being prepared for the economy. "Yes, there will be defaults by funds tied to unfinished property projects. There will be bankruptcies of companies burdened with excess capacity. There will be banks with ugly balance sheets — and runs on small financial institutions. Some cities, and some industries, will have to endure almost as much distress as they would under shock therapy. But the worst outcomes will be limited to the regional level.... Most importantly, as Premier Li Keqiang said two weeks ago, as the economy keeps growing, it will also generate new jobs.... Judging from the immense task China faces, it's going to be another two years, at least, before change can be quantified in the central government's statistical reports. Some assets, valuable just a few years ago, will become useless. The money that was spent on them, and their contribution to GDP, likewise will vanish."

Eurozone 'Deflation Threat' Intensifies

The monthly report for February on consumer and producer prices from the Eurostat agency showed outright price deflation coming closer. Another country, Spain, showed a deflationary trend with prices falling by 0.2%, and for the whole Eurozone inflation was just 0.4%.

Demand for economic production is completely collapsed in Europe by unpayable bank and government debts, brutal austerity programs of the "Troika", and unemployment at least in the double digits for most countries with youth unemployment surging to 40-50% and more. Bank lending is also continuing a two-year downward slide, now at about 3%/year rate. In February British bank "lending to business" reported contraction for the third straight month; the UK had been bragging that it was the exception to Europe in this regard last year, but no more.

Links:
[1] http://www.telegraph.co.uk/finance/china-business/10732889/Global-banks-issue-alerts-on-China-carry-trade-as-Fed-tightens-and-yuan-falls.html

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