Will Crypto-Tanking be the Next Subprime Collapse

May 13, 2022

Everyone knew that the economy in the first quarter 2022 couldn't reproduce the last of 2021's 6.9% GDP growth, but it at least should be a decent figure. Needless to say no growth at all (actually a slight decline) makes it seem that a Boom and Bust occurred in the two quarters. With a such a decline in growth there was likely to be a decline in productivity. A blended analysis of Bureau of Labor Statistics hours and Bureau of Economic Analysis private output showed that in Q1 2022 productivity declined at an astounding 7.5% seasonally-adjusted annual rate.

This is the second really bad quarter out of the last three and shows that claimed 'full employment' economic rebound cannot be true. When the same happened following the GFC it was blamed on drugs addled lazy workers and Boomer retirees. Now it's the Great Resignation. Apparently the pandemic caused masses of workers to rethink their lives. That probably included a rethinking about the system they were living in.

There is more support for a genuinely weak economy in that weak growth was blamed on commodity delivery bottlenecks rather than the productive system itself. But it has since become clear that commodity imports have declined because of lagging demand. But that should not lead to inflation, which according to the textbooks, is caused by demand exceeding supply – unless it's monetary inflation, thus the Fed raising interest rates tamp down an overheated economy, and announcing that it will begin selling securities purchased to stimulate the economy when it was showing signs of weakness. This could mean making a bad thing worse – the European Central Bank is holding off on the US action – meanwhile China is doing exactly the opposite in stimulating its weakening economy.

Investors seemed to have made their own conclusion independent of official decrees – the economy is tanking and its time to cash out. The DJIA's is on its longest losing streak since 2001. $7 trillion in S&P 500 market value has vaporized so far this year. It has touched the Bear several times intra-day but it is currently 18% down for the year. The Dow is down 13%. Nasdaq is solidly in bear territory.

While the dollar is strong the medium touted as its future replacement is in freefall. Bitcoin futures are down 55% since last November. The current $1.4 market value for crypto was $2.9 trillion last November and was $2.2 trillion as recently as early April. And then quietly in the background is the medium that played a critical role in the GFC, derivatives (an agreement to purchase a commodity or financial instrument at a specific price and time.) There are currently $234 trillion (face value – they are usually purchased on margin for a tiny percentage of the notional value) worth of these securities. $200 trillion are on the books of 5 giant banks that had to be bailed out in 2008 (JP Morgan Chase, Citigroup, Bank of America, Goldman Sachs and Morgan Stanley), and all of them have regular deposit banks. Experiencing the same shit returning time after time cannot lead to hope for a better future. Thus the various ways many attempt to escape this one.

Sri Lankan Default

This April Sri Lanka defaulted on its foreign debt. That debt totaled $35.1 billion while existing foreign exchange reserves amounted to $2.31 billion. China bashers like to refer to the China funded expansion and development of port facilities as a cause of the nation's dilemma. It may be true that Lankan officials wanted more than their practical needs but that's really their problem and the China part of the debt accounts for only 17.2% of their outstanding foreign debts. Further, China's interest rate on loans is among the lowest, and they have made partial settlements by trading use of facilities in exchange for monetary payments.

Part of the cause for the default is the world situation -- the pandemic along with a terrorist bombing that hurt their tourist industry. And then there is was the ridiculously sharp cut in taxes as an expected economic stimulus (which didn't happen) and a vote getter for the middle class. Only 12.7% of GDP revenue came from taxes between 2017-19, and that fell to 8% in 2020. Hopefully a solution will be found before it leads to another civil war.

http://unrealeconomy.org