The Mystery of the Curvaceous Yield

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The powers that be don't get it. If the economy is allegedly ‘booming’, then why is there such a close yield relationship between 2 and 10 year treasuries. The greater the demand, the higher the price at auction and the lower the yield rate. Investors stashing away their wealth long term is the financial equivalent of battening down the hatches. At the present time the difference in yield rates between the two types of bonds has lessened but they have not crossed. But in the highly critical eurodollar futures market they have done just that.

The gist of it is that the fuel that is the motor force of a capitalist economy is provided in the form of credit by financial institutions. That is an investment made with the expectation of getting a defined return. If the future looks good everybody is happy. But if it only looks good short term but not in ten years then investments tend to be shifted to long term safe havens: institutional bonds or future contracts based on those bonds.

It’s curious how the inversion in the bond market mirrors an inversion of ostensible belief in the public sphere. It's like one sector of the capitalist class is giving another a solid boot in the ass which is then felt by real conditions and returned right back to the initiator.

When the Great Slump struck and the only quick way to stanch the bleeding of a dying economy was the tail wagging the dog approach. The flood of credit boosted the investment markets to new heights but didn't do much more than preserve a breath of life in the real economy. A way for officials to stifle concern that their efforts were failing was to promote a series of false dawns – from take off to emergency landing – repeat. While it's just as important for banks to get the general public believing in 'the future looks bright' line of bull shit, they will not put their money money where their mouth is. Too bad for them that what they say and what they actually do are highly visible.

Recently there have been some large stock gains based supposedly on great financial news. The GDP for the second quarter was raised slightly to 4.2%, the highest since 2014, the year in which the last 'false dawn' came and went. Because GDP for the second quarter was greatly enhanced by the Trump tax cuts, honest financial reporting would have prominently displayed this fact and placed GDP in a long term perspective. Like: annual GDP growth since the Great Slump has average a lousy 2.25%. Then there was big news that corporate profits were up a humongous 6.7% last quarter. That was after tax -- pre-tax it was up a minuscule 0.2%. A one off tax break is not so impressive. More recently it was good news that the PCE (Personal Consumption Expenditure) Index or Deflator managed to hit the magical 2.0% last month, indicating just about the right amount of inflation for the time being. It's only done this twice before out of the past 70 months. But that doesn't mean much if it's mainly caused by an oil price increase rather than purchase of, for example, manufactured goods.

An interesting stat from the St. Louis Fed. The average full time employed male worker in inflation adjusted constant dollars earned about $410 a week in 1980. Currently a worker under those same conditions earns about $380 a week. According to Fortune Magazine in 2016 the CEO average income was 271 times that of the worker. In 1980 it was only 27 times. Nothing makes the general sense of dissatisfaction permeating the working class clearer. They know they are being mightily screwed by their bosses but their inability to fight back, their weakness, their public humiliation, currently leads them to hide their shame behind personal or public antisocial activity. They will only recover their humanity when they stop pissing on the system and begin tearing it apart.

It had been stated repeatedly that China is the real motor of the world economy. But now that the motor has started to sputter and cough itself toward a possible halt positive propaganda has found it necessary to search elsewhere for a prop. What's happening is not being hidden from the Chinese people. 93.3% of the 1478 stocks in the Shanghai Composite are trading below their 200 day average. Only 99.9% in 2008 and 98.2 % in 2012 during the mid recovery bust were worse. 173 stocks are trading below books value – only 27 less than the 200 in 2008. Trade has been below 50 (in contraction) for three consecutive months. And the growth rate is slipping toward 6%. And to make matters totally absurd, some fools still call the place communist.

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