

Markets Explode as the Economy Implodes

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Every bit of bad economic data was immediately interpreted as hopeful evidence that the Fed will cheapen credit. And that led to a burst in what even the mainstream now recognizes (without using the word) a huge expansion of the equity bubble. Powell abjectly apologized before a congressional committee for being too precipitous in raising the fund rate which guarantees a cut in July. A big bump up for the markets which was then duplicated by Trump when he announced that he was giving up on trying to get Big Pharma to ease up on gouging the sick who need their medicines to stay alive. The drug-makers stocks shot up sending the DJIA above 27,000 for the first time and which Trump trumpeted to the world as evidence of his brilliance in managing the economy.

There have been many warnings from reliable sources which have come to be routinely shoved aside as if they were coming from little boys crying 'wolf.' But the troubles with Deutsche Bank may wedged themselves into investors' dreams of endless success. That brought back thoughts of August 2007 when BN Paribas closed three of its investment accounts because it couldn't cover a run on withdrawals. That problem in a minor French bank became the falling domino that circled the world.

DB decided after the Big Bust that it was the perfect time to transform itself into an investment bank like JP Morgan and big boys and jump on the band wagon of a robust recovery that was sure to follow. That's how capitalism works; big negatives sweep away lost competitors leaving the field to be occupied by the brave winners.

So it opened trading offices in NY, London and elsewhere and began trading in securities, including junk bonds. It's never a good thing when the source of sales bullshit starts to believe its blowback. In DB's case having backed its risky investments with derivatives and the strong the strong German bund, the former are following a trajectory toward toxicity and the latter's backing was diminished when demand was such as to generate a negative yield, meaning that there was a cost in just holding them.

As conditions worsened the German government tried to merge DB with Commerzbank but the latter wasn't all that healthy itself and didn't want to catch what DB had. As a result DB began a partial liquidation creating an internal 'bad bank' to isolate and dissolve risk weighted assets, and shutting down its trading operations. DB confidently says it has enough cash and liquid securities (260 billion euros) to pay off its gambling losses which are certainly more than the published 74 billion euros (recently boosted from 50 billion) and is likely to be

much more than 100 billion euros. A sinking world economy will test the bank's ability to survive. Perhaps after DB, the deluge.

Economic Info

-- Bloomberg published a piece on Boeing laying off its own code writing engineers and jobbing out the work to Indian firms that paid their computer engineers as little as \$9 an hour. It's not that the Indian programmers, who incidentally did write code for the 737 Max 8, were unskilled, it's that Boeing's own programmers knew more about everything having to do with flying a plane. Insiders reported many errors requiring many redos and testing. No doubt Boeing now has some regrets about the capitalist model of maximizing profits, which is, cut costs until the commodity you sell blows up in your face. And like the recidivist who sincerely promises never to do it again, Boeing bosses will gradually wipe away their self-disgust at the more 300 lives they caused and do it again, and again. But at least Boeing got some satisfaction in evening the score with India. That country's airlines normally buy from Airbus, but to strengthen ties with Boeing they bought 100 of their planes -- and yes, they are the 737 Max 8.

-- An article in Dollars and Sense dealt with the wildly false but only 'good' news that can make the wildly false 'recovery' seem like it might be true. That is the shouted from the rooftops *lowest unemployment rate in 50 years*. The BLS concocted that rubbish in the form of the U-3 unemployment rate that only counted people that looked for work in the previous 4 weeks and ignored those underemployed in part time work. The U-3 is what is sold to the general public. On a need an only 'need to know' basis the BLS also created a more accurate method of counting the unemployed, the U-6 rate, which included those so discouraged because of not finding work that they are outside of the 4 week loop, and those underemployed because they cannot find full time work. That reports a much more accurate 7.3% unemployment rate. Historically 55-65% of new hires came from outside the labor force, like recent graduates getting their first job. Now the figure is about 75%. That means a greater proportion of the unemployed remain mired in that state.

-- Evan Davis, the former Economics Editor of the BBC, wrote a piece on why economists have been so wrong since the Great Slump. He concludes that one source of error is the inadequacy of mathematical models to account for the far more complex functioning of the real economy. A solution would include breaking free from mathematical reduction and searching for a broad range of solutions in the social sciences. Associated with reductiveness is the narrowness of cause and effect such as in the classic "invisible hand" of the economy which meant that a presumed individual selfishness gradually works out to the benefit of

all. In fact, there is increasing evidence that community and cooperativeness will be the only way out of a mess created by beggar thy neighbor selfishness.

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