

## Leveraged Sell Out

03-13-2020

First we had the worst trading day since 2008 driving the markets into bear territory. Then we had the worst trading day since 1987. And finally on Friday we had a well planned spurt that recovered much of Thursday's loss from Trump announcing \$50 billions of relief with a half hour left in trading.

All attention will be focused on the anomalous development of a virus pandemic as the cause, but the first solid sign of an impending crash began six months ago when the NY Fed was forced to take the place of banks and security dealers by flooding the repo market with what came to be trillions of high quality securities. The big investors borrow for their buys which have to be backed up with easily converted collateral.

That private lenders preferred to hang on to their 'money' indicates their understanding that the end was near. Banks were satisfied with a nice, safe, 1% paid to them by the Fed rather than take a risk for more. That the Fed doesn't do the obvious and withdraw the free money in order to get banks to do their job and support the financial economy shows who is first among equals. After all, the Fed was formed by a collection of big banks. But the banks would like to fool the public into believing that their hands are tied by government rules. The Bank Policy Institute proposed this week that the Fed lower capital requirements to zero. That would allow them to make unlimited loans without having enough securities or cash to back them up. Fat chance that would ever be approved.

The EU announced that 37 billion euros will be used to buttress the European economy, and Japan also announced its support. The EU will also likely suspend the 3% debt to GDP maximum for a time. Collapsing debt causes crises while at the same time it's the only way this system knows how to get out of one.

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China's battle against Covid-19 is nearing a satisfactory conclusion and the economy should soon return to normal business. Dun and Bradstreet recently provided some figures on the importance of China for business around the world. 51,000 companies have one or more suppliers in Wuhan, the center of China's epidemic. 5 million have secondary suppliers there. It's also important to note that 80% of this country's pharmaceuticals are made in China.

## **Economic Info**

- China Feb manufacturing PMI was 35.7. The lowest it reached in the Big Slump was 38.8 in Nov. 2008. Production index was 27.8 from 51.3. The non manufacturing PMI 29.6 from 54.1.
- Italy will be showing even worse numbers in the near future. In 2019 Italy's economic growth was where it was 15 years earlier, and still 4% lower than 2007.
- Total American credit card debt is more than \$1 trillion. At only 3% of personal debt the amount is said to be of no concern. But that's an average. For the middle and lower classes it's 9% which also might have to be added to auto and student debt. The government has gifted the 1% \$15 trillion in tax cuts since 2001 but is quite stingy when it comes to the common folk.
- So much wealth was switched to bonds this week that yield for all denominations (only intra day for the 30 year) was below 1% for the first time ever.
- Lebanon is broke. The parliament has voted not to pay off a \$1.2 billion eurobond that came due on March 9<sup>th</sup>. Such things even by small countries have triggered in the past big world problems.
- American preparedness. The CDC has not performed well. In 2018 it had a budget of \$6.8 billion. Trump cut 2019 to \$6.5 billion. But Americans are fortunate that the epidemic held off for awhile because Trump's planned cut for this year was to be \$5.2 billion.

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