Financial Turbulence Signals Global Meltdown in Process

by EIR Economics Staff

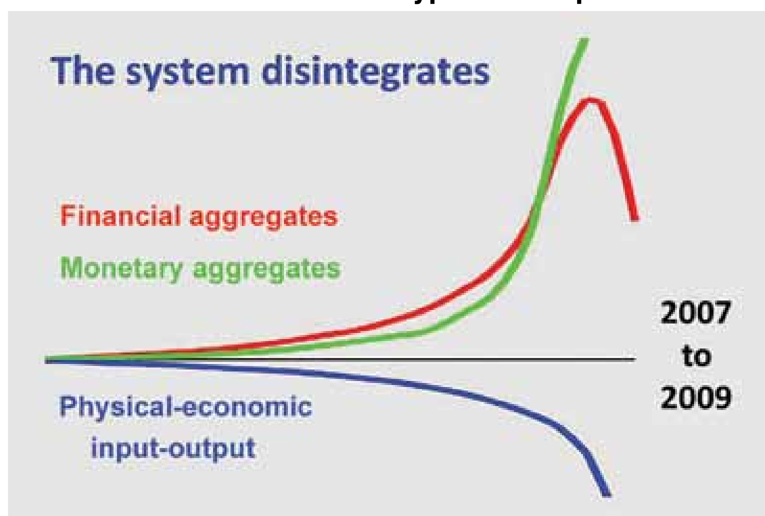
June 18—The world financial system has entered a twilight zone of uncontrolled hyperinflation, characterized by the fact that no amount of monetary expansion can any longer sustain the rate of growth of the British Empire's cancerous financial aggregates bubble. As a result, massive "unexpected" turbulence and capital flows are rapidly spinning out of control.

The nature of the problem can only be understood from the standpoint of Lyndon LaRouche's famous Typical Collapse Function graphic (**Figure 1**). We have now entered the region of that collapse function, where the *rate of growth* of financial aggregates not only has dropped below the curve of the rate of growth of the monetary pumping, but has begun to plunge rapidly downwards. In this new geometry, massive monetary infusions such as quantitative easing (QE) both fail to bail out the financial aggregates, and actually accelerate their meltdown, all the while, driving the physical economy deeper into hell.

It's like a heroin addict who is so hooked on the "fix" of the increasing QE of the last few years, that it is no longer a matter of what happens when the QE stops. You can't *stop* the QE; you can't *talk* about stopping it; and you can't even *think* about the topic of eventually "tapering" it. In fact, global markets today are already undergoing full-fledged junkie withdrawal symptoms and wild contortions, even as the financial heroin continues to flow freely.

Indeed, the current system cannot be saved, nor does the ruling British-based financial oligarchy intend to do so. As Lyndon LaRouche commented on June 14, the British Empire has something different in mind, and is deliberately taking steps that will mean mass death in the U.S., and elsewhere, very quickly. What will happen when the food supplies are cut, when people can no

FIGURE 1
LaRouche's Schematic of a Typical Collapse Function



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longer eat? That is the Queen's policy for reducing the population from 7 billion to 1 billion.

Symptoms Abound

The symptoms of the terminal illness of the system are myriad, from rising interest rates on long-term government bonds in Japan and the United States, to huge market volatility. The following reports are indicative:

• Global bond markets are collapsing, and this is "threatening to halt a global refinancing wave," the *Financial Times* warned June 14. They noted that "US sales of investment grade corporate debt ... have this week almost come to a complete halt." The recent weekly average of such sales had been about $23.2 billion; this week it is only $3.2 billion—an almost 90% drop. The same thing is happening in the junk bond market.

• Massive reverse carry-trade flows are underway out of the so-called emerging markets (EM), such as Brazil. The World Bank has issued a statement warning of the EM implosion, while the International Monetary Fund has demanded that the U.S. Fed not even think about exiting from QE. In reporting on the EM crisis, the *Daily Telegraph*'s Ambrose Evans-Pritchard noted June 14 that "the emerging market rout has become pervasive," with huge outflows occurring from Brazil, Indonesia, Philippines, Thailand, Turkey, Mexico, etc. Brazil alone has spent $5.7 billion in reserves this month to try to stop the capital flight, and has also used derivatives contracts to do the same.

Evans-Pritchard quoted a Brazilian asset manager saying: "Brazil seems to be under speculative attack. We are losing reserves very fast. We should not forget that Russia lost $210 billion in reserves in a few weeks during the Lehman crisis in 2008." Brazil has $375 billion in reserves. In the last week they have dropped their 6% tax on foreign bond investors, and lifted their 1% tax on currency derivatives.

• *FT Alphaville* fretted June 14 that current levels of QE-smack are no longer producing the desired high: "The smoke and mirrors are fading. What is worrying, however, is that a move of this size has been prompted by simple talk of tapering [the QE purchases]. If that's what tapering does, what will the first hint of a proper QE exit inspire?"

• Bloomberg wire service demanded the same day that its dope distributor continue to deliver the stuff, big time: "Bernanke needs to emphasize on June 19 [after the next Federal Open Market Committee meeting] that 'policy will remain quite accommodative.'"

The Fed Prints—for Whom?

Bloomberg vastly understated the pressure on the FOMC, which opens its meeting today. In fact, recently released figures show that the Fed is currently playing the role of Atlas, holding up the entire financial system by issuing liquidity—including to the failing European banks.

According to the reliable website ZeroHedge.com, the Fed's flow-of-funds reports from the fourth quarter of 2012 and first quarter of 2013 show that the majority of the Federal Reserve's money-printing continues to go to support the liquidity and cover the losses of European banks—and not to lending.

The site demonstrates that *more than all* net bank lending in the United States in the first quarter was done by a single bank—the Federal Reserve! Its $303 billion increase in assets dwarfed the $158 billion increase in assets of the whole banking system; in other words, all the other banks had a net *decline* in lending by $145 billion. And again in the first quarter, more than half of all of this "reserve creation" by the Fed went to the U.S.-based branches of British and Eurozone banks.

On the U.S. side, the Federal Reserve now holds 15% of all U.S. Treasury debt, as well as a huge portfolio of mortgage-backed securities—pure bailouts for the Wall Street banks. And when interest rates suddenly began to rise in May—*without* any sign of a Fed "exit"—the central bank lost $155 billion in one month, according to estimates by *Forbes*. This is three times its total equity capital.

Since Jan. 1, 2011, the fiction has been created that the Fed never need recognize such losses, but can simply book them as offsets to the interest payments which the Treasury will make to it on those securities. For one thing, this means Fed payments of its profits *to* the Treasury will stop, creating more U.S. government debt.

More importantly, the process will lead to a hyperinflationary meltdown, further stripping the real economy, which is already bereft of productive credit. LaRouche's Typical Collapse Function shows the process, which his Three-Step Economic program—Glass-Steagall, a Hamiltonian credit system, and NAWAPA—can uniquely stop.