

# Inflation, Bond-Market Plunge Hitting Together

by Paul Gallagher

The breakout of inflationary fire into prices of all kinds of commodities and services this Spring, in all the G-7 economies but particularly in the United States, has broken the coverup of the underlying, raging money-supply and asset-price hyperinflation pointed to by Lyndon LaRouche alone among political leaders, during the recent years' claimed "no-inflation economy." Those fraudulent claims have been silenced by soaring prices of especially gasoline and food. But the hyperinflationary surge is across the board—the product of six years' "wall of money" policy by central banks since the 1997-98 global financial crises, combined with the general disappearance of production and productive employment in the "formerly industrial nations." This hyperinflationary pressure is behind the urgent demands for interest rate hikes, from central banks and other private bankers, which have sent bond and mortgage markets into a sudden plunge.

The trigger for that plunge, setting up a bond- and housing-market crash, has ironically been the cries of "recovery" from the Bush White House since the first fraudulent, March employment report of the Labor Department. American workers have seen their jobs disappear for three years; now they are watching their paychecks shrink instead. Adjusted for even the officially reported inflation, the average employee's weekly salary declined by 0.7% in the "recovery month" of March, the Bureau of Labor Statistics reported. The average household's debt was 11-12% higher than a year earlier, according to Federal Reserve reports, while the wage or salary for that period was only 1% higher.

The sharp global surge in energy prices reflects the shrinking real industrial production of the globalized economy. Gasoline prices in the United States are 20% higher than a year ago, and 10% above even the Summer 2001 energy crisis spikes. Refinery capacity in the country is 15% below its 1980s peak. Crude oil prices have risen to near \$40 a barrel as the huge Shell Oil, since January, has had to acknowledge that 4.5 billion barrels of its claimed world reserves actually don't exist, the result of decay of its exploration activities. Natural gas prices have risen up toward \$10 per million btus as U.S. production has shrunk; now the big El Paso Gas Co. has announced it will have to restate (downwards) its reserves of oil and natural gas for 1999-2003.

On May 4 alone, prices on the NY market for June delivery of crude oil rose by 2%; for June delivery of gasoline on the same market, by 3.5%; heating oil, same category, by

2.1%. Prices for June delivery of crude oil rose 4.2% on the London Brent market.

No less an inflation-denier than Fed Chairman Alan Greenspan said on May 1 that very high energy prices may be becoming "permanent" in the U.S. economy.

The *Washington Post* published on May 1 the results of the American Farm Bureau Administration's Marketbasket Survey of food prices. The annual report showed that a cross-section of 16 kinds of food, ranging from meats and eggs to fruits and cereals, had risen in retail price by *an average of 11%* across the board, from the first quarter of 2003 to the first quarter of 2004.

The Commodity Research Bureau's CRB index of raw materials futures prices has risen 56% in two years, and is now 10% higher than its peak of the last 15 years.

Healthcare costs in the United States are 11% higher than a year ago; public college tuition has risen 9% annually for three years; housing costs nationally are up 9% in a year.

That shrunken, globalized production is the dry tinder of hyperinflation is shown dramatically in the case of industrial metals prices in Germany. Andreas Moehlenkamp, head of the German association of steel and metal processing companies, WSM, told a German daily on May 4 that "more and more companies are close to bankruptcy" even though their order books appear full! The 4,400 firms covered by WSM are having ever bigger supply problems, in particular in respect to steel. And those who are able to receive enough steel are being forced to pay incredible prices. The steel plants, in turn, have quite similar problems in respect to coke and scrap. On the commodities future markets, hedge funds and other investors have stepped in and further pushed up prices. The crucial factor in this price-inflation of metals prices is the downsizing of production facilities among the so-called industrialized nations. The *Frankfurter Allgemeine Zeitung* noted on May 4 that formerly coke-rich Germany, producing 40 million tons of coke in 1970, now imports 4 million tons a year. The leading German coke producer, RAG (Ruhrkohle), after a dramatic downsizing of its operations, now runs just one cokery in Germany. After the merger of Thyssen and Krupp-Hoesch, and the following shut-down of the Krupp-Hoesch steel plant in Dortmund, RAG decided to dismantle its most efficient Kaiserstuhl cokery in Dortmund in 2001, and to sell it to China. Kaiserstuhl was built in the early 1990s for 600 million euros; it was sold for 30 million euros.

Coke prices have increased six-fold, from \$70 per ton in May 2002 to \$210 per ton in December 2003, to \$425 per ton now. German prices for certain steel categories (*Warmband*) have more than doubled, from 150 euros per ton in early 2002 to 385 euros per ton now. Some remaining German steel producers fear getting no coke at all, no matter what prices they are willing to pay. The Economics Minister of Bremen has called on German Economics Minister Wolfgang Clement to intervene, as RAG has indicated that it will cut coke supplies to Bremen steel plants, threatening thousands of jobs.