
Economics Briefs

Corporate Debt Blowout: Bailouts Thus Far Much Less than ‘Needed’

A corporate liquidity crisis in the trillions of euros is shaping up in Europe due to energy-price and other producer-price hyperinflation. The problem is margin calls for collateral in commodity trading, as it was in March and April, but now the demands are so large—due to inflation by an order of magnitude in the meantime—that banks are not willing nor would be capable. These are supposedly “only” demands for liquidity, but if companies are forced to try covering the demands on their own, they shortly become insolvent.

The UK joined the parade Sept. 6 with incoming Prime Minister Liz Truss promising £150 billion in aid over several years for paying bills of all kinds—company, household, local government, and including an immediate £40 billion in Bank of England liquidity loans to companies. Switzerland also joined Sept. 6 with an announcement that Axpo, a large energy utility, had been extended a government credit line of 4 billion Swiss francs (equal to US\$4.1 billion) for urgent liquidity needs. But the government bailouts, which have been in the billions or low tens of billions of euro thus far, are still not in the ballpark. The senior vice president of Equinor ASA, a giant Norwegian oil and gas company and energy-commodity trader, said on Sept. 6, according to Bloomberg News, that his company’s estimate of the “liquidity support that is going to be needed” is equivalent to

\$1.5 trillion, and “that is conservative.” It must be “a permanent liquidity scheme,” Helge Haugane said at a Gas-tech conference in Milan, and added, “This is just capital that is dead and tied up in margin calls.” Thus this bailout is not for a real energy market, but for the speculative paper markets, the financial derivatives markets on which the production and trading companies have to place liquid collateral, and which are “too big to fail.” Otherwise, a blowout of corporate debts will begin to hit the big banks.

ECB Raises Rates in the Face of a Liquidity Squeeze

As a liquidity crisis is rapidly worsening, the European Central Bank raised its discount interest rate by 75 basis points Sept. 8, the largest single increase in its history. This sounds like a contradiction, but it is not. With Euro-zone inflation at 8.9% in July, the ECB’s interest rate—now at 1.25%—is, in reality, at a net of minus 6.7%. If you consider the extended time when inflation was flat and ECB rates were negative, current rates represent *de facto* a continuation of monetary expansion.

We do not commend the new ECB inflation prognosis, because they have been regularly wrong. But the rate hike had been already priced in by the markets, which in fact did not react to the decision. What the ECB is facing now is a liquidity squeeze typical of all recent systemic crises, this time hitting energy utilities, which are hit by a wave of margin calls due to their over indebtedness.

European Commission President Ursula Von der Leyen answered the calls for government-provided liquidity, with her proposals for the agenda of the Sept. 9 extraordinary EU summit on energy.

Europe’s energy bill will be €2 trillion higher in 2023, says Goldman Sachs Global Investment Research. On the eve of the EU energy summit, it published a report warning the overall bill might be €2 trillion higher than in 2021, and households might pay 20% of their income for energy.

Most Ukraine Grain Shipments Went to EU, Not Poor Countries

In his Sept. 7 speech before the Eastern Economic Forum in Vladivostok, President Vladimir Putin had some pointed remarks about the destination of grain shipments that left Ukraine under the trilateral Russia-Ukraine-Turkey arrangement brokered by the UN. Despite the very complicated situation with Ukraine, Putin said, his government did “everything to ensure that Ukrainian grain was exported,” and assumed that it would be going to the poor nations of Africa and elsewhere. He had met with leaders of the African Union and of African states, he said, and “I promised them that we would make every effort to uphold their interest and would facilitate the export of Ukrainian grain.”

But leaving out the intermediary Turkey, Putin charged, “all the grain exported from Ukraine, almost in its entirety, went to the European Union, not to the developing and poorest countries.” He

claimed only two ships out of 87, carrying only 60,000 metric tons out of 2.2 million metric tons of food, reached poor countries under the World Food Program (WFP). “That’s just 3%.”

The Russian President’s statement was ironically backed up by an Aug. 20 World Food Program release, which reported the United States was to fund 150,000 tonnes of grain to Africa “over the next several weeks,” and that that would bring WFP shipments to 180,000 tonnes—i.e., there was only one 30,000-tonne Africa shipment, to Djibouti, at that point, more than a month after ships started leaving Ukraine’s Black Sea ports.

Reuters reported Russian Foreign Minister Sergey Lavrov’s remarks at a Moscow news conference Sept. 6 that the West has failed to relax sanctions to facilitate Russia shipping its own agricultural products (food and fertilizer) abroad. That Western promise was part of the UN-brokered deal to allow grain shipments to leave Ukrainian ports. The failure to honor it complicates shipping and insurance arrangements for Russian cargoes, Lavrov elaborated.

Rapid Inflation Hitting Electric Vehicle Prices Already

As forecast by *EIR* and other opponents of the Green New Deal financial bubble, the intense promotion of electric vehicles by developed nation governments is becoming inflationary looting. In rapid succession during August, all the major U.S.-based electric vehicle makers have announced big price increases. The cause is battery material shortages and price spikes in all cases.

Ford raised the price of its electric Mustang models by more than \$8,000 starting Aug. 30, and also increased shipping charges by \$800–\$1,000. The company says the cause of this price

hike to \$50,000–70,000 per car is “raw materials costs for batteries,” according to CNBC’s report Aug. 26. The cost of these battery materials has more than doubled in the past two years—“during the pandemic,” says CNBC speculatively, but physical economic constraints on mining of lithium, cobalt and other materials could be—and were forecast—before the pandemic began, including by *EIR*. These constraints were not a function of the pandemic disruptions, but of the Green New Deal’s inherent economic insanity.

More accurately, CNBC reports that commodity prices for battery materials are in the process of raising the price of battery cells by more than 20%, and that this has elicited big EV price increases this month from Rivian, General Motors, Tesla, and Lucid as well as Fords, from Mustang EVs to electric F-150 pickups. Tesla CEO Elon Musk admitted, “We’re seeing very significant recent inflation pressure,” and the price of Tesla’s most “affordable” EV has risen 23% in a year, from roughly \$38,000 to \$46,000.

These prices are not affordable to most households, in fact, and therein lies the *inflationary* impact of the Democrats’ just-enacted Inflation Reduction Act. That Act provides for government subsidies of \$8,000–\$10,000 per vehicle to allow households with relatively higher incomes to buy electric vehicles, and then smaller subsidies for home charging systems. The effect which availability of such subsidies has on EV prices is inflationary, and is likely affecting the size of the price increases being announced.

Argentina Formally Requests Membership in the BRICS

Speaking Sept. 6 at a BRICS forum in the Chinese city of Xiamen,

Argentine Ambassador to China, Sabino Vaca Narvaja, reported that his government has formally requested membership in the BRICS economic group of Brazil, Russia, India, China and South Africa. The ambassador said his President, Alberto Fernández, had sent a letter to President Xi Jinping to this effect. The Xiamen forum, on the subject of the Fourth Industrial Revolution, was also attended by the Russian, South African, and Brazilian ambassadors, as well as the Chinese Vice Minister of Industry and the governor of Fujian, where Xiamen is located.

According to the daily *Dangdai*, forum participants had a lively discussion on the advantages of Argentina’s joining the BRICS, given its role as a major world food producer and an energy powerhouse. Ambassador Vaca Narvaja was effusive about the BRICS’ role in the world, stating that this group will become increasingly important in determining world macroeconomic stability and economic growth.

Reflecting the move of developing countries in a non-aligned direction away from the “rules-based” order, Vaca Narvaja called the BRICS New Development Bank (NDB) “without doubt the institutionalization of a new world order, the first real alternative to the Atlantic system of global financial governance, which has created so many problems for all emerging countries. We must create our own system that doesn’t condition or apply sanctions of any kind on our countries.” He said the strengthening of the NDB “is a decisive step toward creating a new financial architecture based on production and development,” and added that the proposal to use national currencies for investment and trade “will play a determining role in the world economy.”