The Financial Bubbles Are About To Burst

by EIR Staff

In the midst of Weimar-style hyperinflation, which has taken precious and industrial metal prices to all-time highs, occasional short-term dips by profit-taking notwithstanding, the world's financial markets were suddenly hit with a wave of dramatic turbulence during the second week of May. Stock markets in both the industrialized nations and the emerging markets were hit with major sell-offs, at the same time that the prices of the major commodities began to jump around like a yoyo, and bond markets soared.

Internationally, a number of financial commentators pointed, with good reason, to the possibility that these rapid shifts were the result of financial problems hitting some of the large hedge funds which have been driving the commodities markets into the stratosphere.

Warning of upcoming problems was the now-frequent Cassandra of the New York Federal Reserve Bank, its chief Timothy Geithner, who cautioned in a speech on May 16 that the odds are rising of "negative surprises" in the markets. "The major dealers, as well as the large commercial and investment banks, should take a cold, hard look at financing conditions and margin practice, particularly with respect to hedge fund counterparties and in OTC [over the counter] derivatives," he said.

A more explicit warning came from London *Guardian* economics editor Larry Elliott on May 16. Noting various indicators of how commodities' prices have been going through the ceiling, Elliott writes: "So beware: All of this has bubble written all over it. It is a time of extreme danger for the unwary, with all the sadly familiar tell-tale signs of trouble ahead."

Simultaneously, the London *Daily Telegraph* published an article by Ambrose Evans-Pritchard entitled "Markets Braced for the Worst." The article said that global markets were braced for turmoil that day, after the slump in the U.S. dollar, and in equity and bond prices last week "sent tremors through the global financial system, evoking memories of the 1987 crash." Evans-Pritchard quoted one analyst: "The crash in the autumn of 1987 started with a massive dollar and bond decline in the Spring. We are experiencing exactly the same now."

Weimar Hyperinflation

Over the days prior to the turbulence, and in the wake of Lyndon LaRouche's April 20 article forecasting a likely blowout of the bubble by September of this year, the international financial press had been filled with articles and commentaries, expressing profound nervousness and fear over the escalating ruptures on financial markets. On May 13, the German daily *Süddeutsche Zeitung* carried a lengthy piece on the "rush into gold," citing fears of "hyperinflation" and the "breakdown of the system" by investors. The paper quoted a precious-metal dealer, who said: "Employees of big banks are among my best customers."

Indeed, the price of precious metals has been rising exponentially. In 2006, after just four and a half months, the gold price has already shot up by $213, closing on May 12 in London at $726. Most of that rise occurred just within the last two months ($181). This means that gold, just since the beginning of the year, is up 42%. The price of silver at the London Bullion Market has jumped up this year from $8.83 to $14.94 per ounce, an increase of 69%. Palladium and platinum prices have reached all-time highs.

At the London Metal Exchange, copper started the year at $4,537 per ton. By May 12 it closed at $8,619, an increase of 90% since the beginning of the year. Prices of zinc and nickel are at all-time highs, and the aluminum price is the highest in 17 years.

The price explosion of industrial metals and record-high energy prices are dramatically pushing up production costs in industrial sectors—from automobile production to machine building.

Even the Gnomes of Zürich

On May 18, financial mouthpieces in Europe sounded an even louder alarm. "The world economy is in an unsustainable condition." the lead editor of the *Financial Times* said, according to the Swiss *Neue Zürcher Zeitung* of May 17. Reporting on a lecture delivered in Zürich by Martin Wolf, co-editor of the *Financial Times,* the Swiss paper wrote that Wolf warned that things cannot go on like this much longer. The world is posed with two uncomfortable scenarios, he said, namely 1) the "positive" scenario: a severe but controlled correction, or 2) the "negative" scenario: an explosion, which will send the world economy into a deep crisis.

For its part, the *Süddeutsche Zeitung* urges putting the hedge funds "on a leash," to try to prevent another LTCM-size disaster, which would threaten the entire financial system of the globe. Banks are saying they have reduced risks, and have the thing under control, but that does not sound very convincing, the paper writes; the interdependency of the financial markets and its players is so dense today, that another LTCM crisis would cause a much bigger disaster, than in 1998.

In fact, as LaRouche has warned, only a top-down reorganization of the world financial system, into a New Bretton Woods—the creation of a new system—could prevent a disastrous collapse one way or another. The situation is beyond the state of warnings: Action is required now.