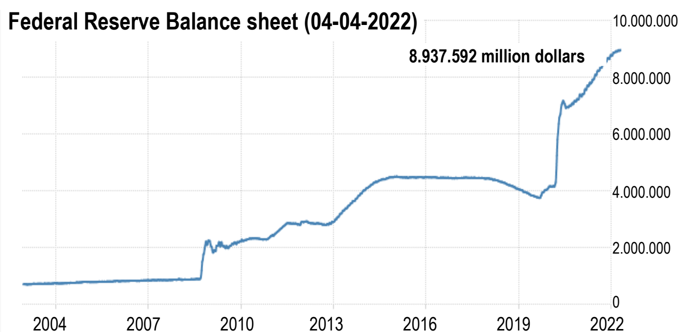
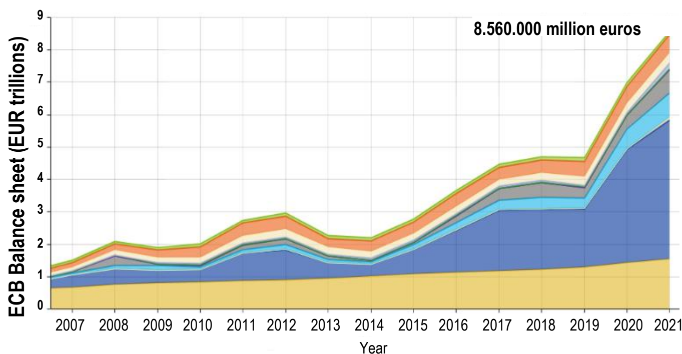
World volume of purchases and injections

As a starting point, this is the enormous injection of capitalism that the capitalist system has provided itself: *"Since the pandemic began, central banks have injected **$32 trillion into markets around the world**, equivalent to buying **$800m of financial assets every hour of the past 20 months**, according to Bank of America. Global equity market capitalization has soared by $60 trillion."* (Financial Times, 19-12-2021).

The two main – but not the only – compulsive debt buyers have been the ECB and the Fed. Let us recall succinctly that the ECB had restarted in August 2019 its asset purchase program at a rate of €40 billion per month to which it added another purchase program (called... surprise... pandemic emergency!) with which it came to acquire up to €80 billion per month in addition to the previous program. At the end of the second program, at the beginning of 2022, the first program was initially increased to 40 billion euros per month. The Fed after a first injection, continued at the pace of buying $120 billion per month, slowing the pace in the last half of 2021, until slowing down in March 2022. The result of this debt guzzling is as follows:



Source: Federal Reserve



Source: European Central Bank

The ECB's balance sheet is equivalent to 75% of the euro zone's GDP (8.56 trillion out of 11.41 trillion euros) and the Fed's is equivalent to 37.2% of US GDP (8.757 trillion out of 23.54 trillion dollars).

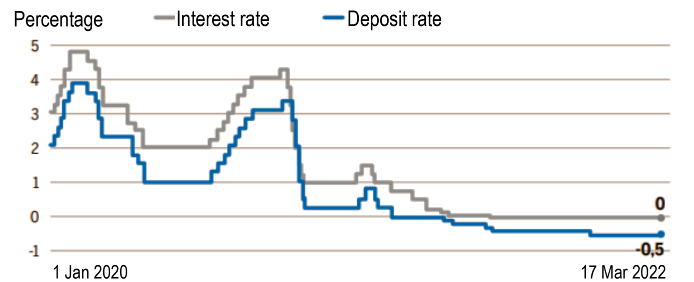
The hard digestion of the debt binge

As long as the gobbled debt balances are not reduced, market intervention by the major central banks will be a fact of life. Central banks (Fed, ECB) have been buying new debt to inject liquidity into the market, but they have not limited themselves to this. The debt purchased has a maturity date and if, once this maturity date is reached, the debt is not repurchased at the same value, the liquidity injected would be offset by the liquidity withdrawn from circulation by the collection of the debts at maturity.

When the Fed stopped its asset purchase program, it didn't really stop. It only stopped – temporarily – increasing its balance sheet, but continued to buy back debt for the value gobbled up so far. The mere attempt to slow down this permanent buyback set off all the alarm bells in world capitalist finances. Now the situation is repeating itself, but with a starting point of more than three times the accumulated debt.

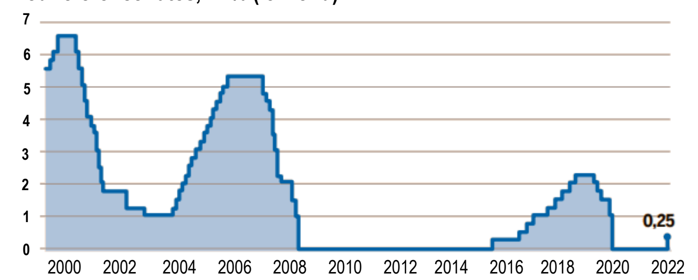
Negative bank interest rates

At the same time, both ECB and Fed interest rates have been nominally at zero or negative.



Recall that the ECB, through liquidity injections (TRLTRO), has **been paying the banks for lending them money**, i.e. with an interest rate not only of 0% but in negative: *"If at first they offered a rate of up to -0.5%, for the period from June 2020 to June 2021 the interest rate improves to -1%. This leaves an average of -0.66% for operations over the three-year term."* (Expansión, 09-08-2021). This has led to the accumulation of excess liquidity in the European banking system of €4 trillion.

For its part, the Fed cut the interest rate to 0% in 2008, tried to raise it between 2015 and 2019, falling back to the floor in 2020:



These huge capital injections are both a reflection and a cause of the enormous overproduction of capital flooding the global speculative market. It is in this context that the increase in the price of energy, raw materials, transport and intermediate products has been presented to slice off an increasing part of the profit, threatening to strangle it even more. But the drug cannot be withdrawn from the addict without producing a collapse, a major withdrawal syndrome.

To ponder the magnitude of the explosive potential accumulated in the world capitalist economy, we will still have to follow the manifestations and consequences of the overproduction of capital.

Negative interest debt

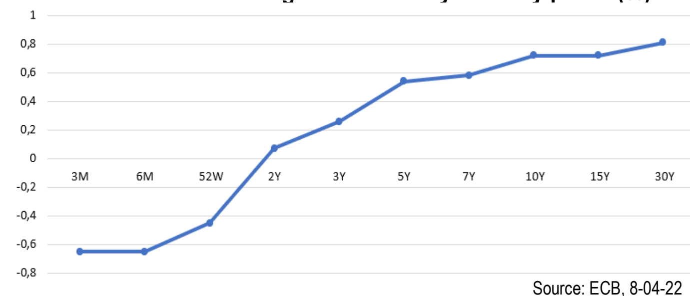
The volume of debt with nominal negative interest had ballooned to $18 trillion globally by 2021. In September 2021, when the total stood at $14.84 trillion, this nominally negative

debt broke down by region as follows: Japan (32.67%), euro area without Germany and France (23.71%), Germany (16.21%), France (12.61%) and the rest of the world (14.81%); and by type of debt: sovereign (72.54%), government-related (12.84%), secured (7.94%), corporate (6.68%) (Financial Times, 27-09-2021). Currently, it has been reduced to around 4.5 trillion.

But the debt that was trading with a negative nominal yield has not "disappeared", its par value has fallen and, as a result, its yield has increased: *"So far this year, European debt has lost 4% of its value and is heading for its second consecutive year of losses."* (Expansión, 12-03-2022).

Does this mean that this debt has actually turned positive? In the following two charts we see the yields of the German bund according to the term to maturity and the evolution of inflation in the euro zone.

Yield of the german bund by maturity period(%)

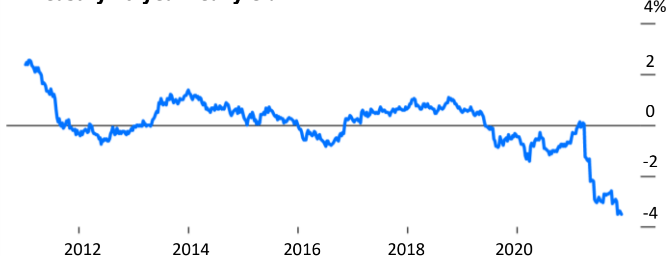


HCIP inflation rate - February 2022: 5,9%

Source ECB, 17-03-2022

If only February 2022 year-on-year inflation averages 5.9% in the Eurozone, what does it mean that capitalists are lending nominally in the negative for maturities of less than one year and slightly above 0.7% for 10-, 15- and 30-year maturities? It means that, for the time being, **the real returns are negative and that they are making an investment at a loss.**

Treasury 10-year real yield



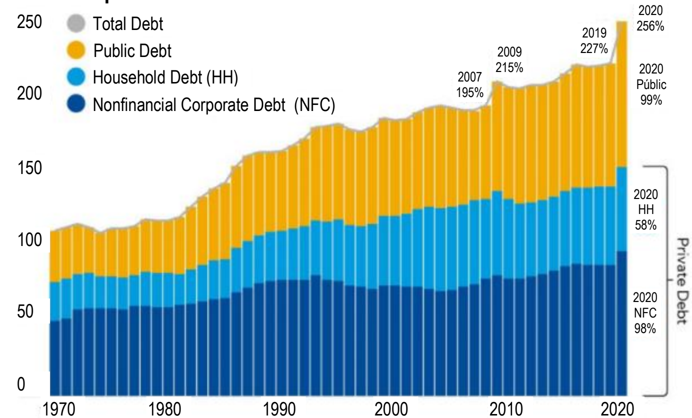
Source: Bloomberg

And the same can be said of US bonds (see the graph above), to which we will return later. After discounting for inflation, they still have negative yields.

Swelling of total debt volume

If we now take the total volume of debt worldwide, according to IMF data, we will see that it has risen to 256% of world GDP. The capitalist economy owes 2.5 times more than what it produces annually... (without prejudice to our reservations as to the correctness of the bourgeoisie's computation of GDP). What is the effect of inflation and rising interest rates on this debt? If inflation is maintained and interest rates do not rise, the level of real debt would decrease. However, if interest rates rise as a result of inflation, even if there is a devaluation of the debt, the refinancing of this debt will become more expensive.

Debt as a percent of GDP



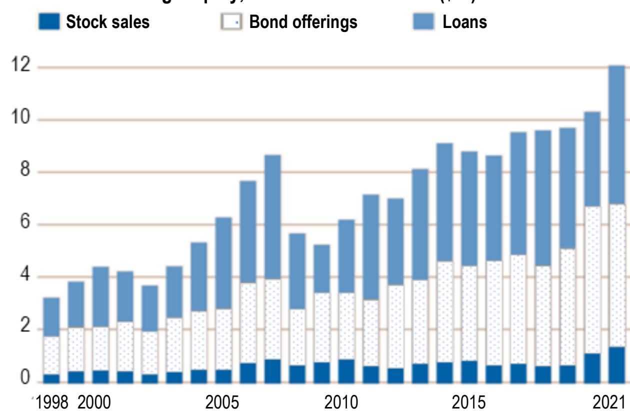
Source: IMF Global Debt Database

Government debt in the euro zone has reached 100.5% of its GDP, but *"The European Commission will continue to flood the markets with debt in 2022 to finance the Next Generation Recovery Fund. (...), deploying an arsenal of up to 800 billion euros by 2026."* (Expansión, 12-12-2021). These debt auctions are having a symptomatic characteristic: the influx of buying capital for a volume 11 (eleven!) times higher than the debt auctioned: *"Brussels has raised 71 billion euros on the markets, including 12 billion euros through its first green bond issue, which received eleven times more demand: EUR 135 billion."* (Expansión, 12-12-2021). The capitals don't know where to go...

Swelling in the volume of corporate debt

Corporate debt has also continued to swell, globally, although almost half of the financing in the chart has been raised by U.S. companies.

Cash raised though equity, debt and loan Markets ($tn)



"Companies raised a record $12.1tn in 2021 by selling stock, issuing debt and inking new loans most notably the US, where more than $5tn was raised." (Financial Times, 28-12-2021).

This trend continued during the first week of 2022: *"Global corporate bond issuance reached $101bn in the year to January 7, with US deals reaching a record pace."* (Financial Times, 10-01-2022).

What kind of debt are we talking about? *"Junk bond sales climbed 17 per cent from the previous year to just under $650bn, while new issuance of leveraged loans – lending to highly-indebted borrowers – more than doubled to $614bn."* (Financial Times, 28-12-2021).

In this way, a significant number of companies have replaced the (absent) profit from their own activity with an artificial return based on obtaining financing at derisory or even negative interest rates: *"In this way every individual industrial manufacturer and merchant* ***gets around the necessity of keeping a large reserve capital and being dependent upon his actual returns****. On the other hand, the whole process becomes so complicated, partly by simply manipulating bills of exchange, partly by commodity transactions for the sole purpose of manufacturing bills of exchange, that* ***the semblance of a very solvent business with a smooth flow of returns can easily persist even long after returns actually come in only at the expense partly of swindled money lenders and partly of swindled producers. Thus business always appears almost excessively sound right on the eve of a crash.****"* (Capital, Book III, Part 5, Chapter XXX, K. Marx).

Stock market swelling simultaneous to the fall of most companies' shares

During the last months of 2021, under the surface of speculative euphoria, massive drops in stock prices began to manifest themselves, masked behind the global rise.

"US stock markets are once again sailing to record peaks, yet under the surface, a strong tide is pulling down the share prices of hundreds of companies to their lowest levels of the past 12 months. (…) Days later, when the S&P 500 clinched its first record closing high in three weeks and extended its year-to-date gain to 25 per cent, more than 210 stocks in the index were at least 10 per cent below their 52-week highs. (…) On the tech-heavy Nasdaq Composite the figures are even more striking, with more than 1,300 stocks down 50 per cent or more from their highest level of the past year. And roughly 80 per cent of the more than 3,000 stocks on the exchange are off at least 10 per cent. (…) Just five stocks — Apple, Microsoft, Nvidia, Tesla and Google parent Alphabet — have accounted for more than half of the S&P 500's returns since April." (Financial Times, 16-12-2021).

And if the fall did not manifest itself more abruptly, it is due to the systematic repurchase of shares by the companies themselves: *"(...) buybacks of proprietary securities on the major Western exchanges stood at $1.17 trillion last year, or just over one trillion euros, an all-time record. Buybacks in the United States grew by 25% in 2021 compared to 2020, reaching $910 billion. The jump in Europe was 51%, to 263 billion dollars. These operations make the listed companies themselves one of the main buying forces on the stock market. By comparison, the flow of money placed on the stock market by global investment funds last year reached $950 billion."* (Expansión, 12-01-2022).

Fed's attempt to raise interest rates

The avalanche of goods from Asia, the increase in the prices of their transportation, the congestion of the entry points of circulation, the increase in the price of energy due to the maintenance of production below the demand, the shortage of the commodity labor force, the fall of prices in the previous period, etc. All of this pushed up inflation rates and put the classic recipe on the table: abandon the asset purchase program, raise interest rates and even start thinking about reducing the Fed's accumulated balance sheet.

Let us recall that *"****the price of these securities rises and falls inversely as the rate of interest****."* (Capital, Volume III, Part 5, Chapter XXIX, K. Marx). Therefore, the rise in interest rates would burst the bubble in the bond market, hit the stock market hard, and make it very difficult to refinance highly indebted companies through junk bonds and leveraged loans, affecting U.S. companies in particular. For now, the Fed announced a 0.5% increase in February and the increase actually implemented was 0.25%.

The yield curve inversion

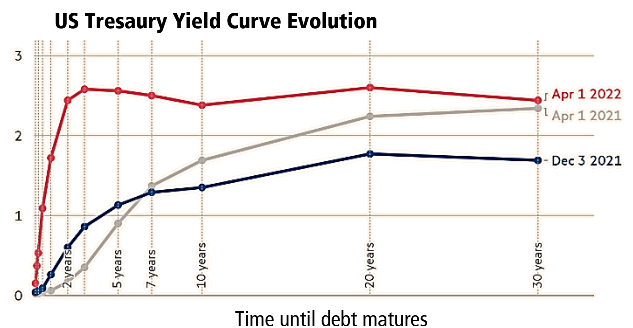
We have seen that the capitalist system only manages to get closer to returning to nominally "normal" coordinates on the financial plane by administering collapses, convulsions, paralysis and destruction one after the other.

The normal expectation for capitalists is that the interest rates at which money is lent in the short term will be lower than the interest rates at which money is lent in the medium or long term. In February 2000, December 2005 and August 2019 the difference between the interest rate on 2-year and 10-year bonds reversed, which was a prelude respectively to 2001, 2008 and 2020.

In "The Internationalist Proletarian" nº5 (page. 11) we said that the bourgeoisie had less confidence in their immediate future than that the situation could improve in the indeterminate future. We add that it can also be seen that, given a certain loss, the bourgeoisie prefers to write it down to 10 or 20 years instead of 2.

Well, the U.S. bourgeoisie is on its way to see for the fourth time how its "normal" coordinates are turned upside down just when they thought they were moving towards normality.

US Tresaury Yield Curve Evolution



Source: US Treasury, Financial Times

According to Morgan Stanley forecasts *"Two-year, five-year and 10-year yields will end 2022 at 2.75%, 2.50%, and 2.40% respectively, with inverted curves across the entire Treasury space (…)"* (Bloomberg, 18-03-2022). This is the same as saying that the expectation of US speculators and their theoreticians and representatives is that of a **tendency of their profits to fall...**

Speculative shift toward China

There is another reason why the Fed feels the urge to raise interest rates. The chronification of low interest rates in Europe, Japan and the US has pushed more speculative capital to seek

an exit in China by buying an increasing amount of Chinese stocks and bonds. The spread between the Chinese 10-year bond and its U.S. equivalent exceeded 200 basis points, resulting in the following capital movements: *"The result was a 62% increase in overseas holdings of local stocks from a year earlier to 3.4 trillion yuan ($520 billion), a 47% fillip for the bond market to 3.3 trillion yuan, and the Chinese currency's best quarter in more than a decade. Foreign investors bought another net $53.5 billion worth of Chinese debt in January and February this year, according to Gavekal Dragonomics. (…) China's $10.9 trillion equity market and $18 trillion bond market make the country an obvious target."* (Bloomberg, 07-04-2021).

In the immediate term, the rise in U.S. bond yields combined with the slight decline in Chinese bond yields has narrowed the gap between the two, with the following result: *"Overseas investors offloaded a record 51.8 billion yuan ($8 billion) of Chinese sovereign debt in March, reducing their holdings to 2.43 trillion yuan, according to Bloomberg calculations based on data from Chinabond."* (Bloomberg, 08-04-2022).

Even so, the medium-term trend will be the resumption of the capital flow process initiated earlier, as shown by the meetings between US business representatives and Chinese representatives on the sidelines of the US government in August 2021: *"A contingent of Wall Street veterans and high-level Chinese government officials are preparing for talks again, as business leaders work outside of the Biden administration for greater access to the world's most populous country. (...) At stake is a piece of China's $54 trillion financial-services market and as much as $30 trillion in overall fund assets to be managed within three years."* (Bloomberg, 25-08-2021).

"As tensions were rising between the U.S. and China last summer, the chief executive officer of JPMorgan Chase & Co. was letting it be known that he wanted to get to Hong Kong as soon as he could. (...) it was also a reminder of the company's commitment to the territory, as well as to mainland China, where JPMorgan has exposure of about $20 billion, mainly from lending, deposits, trading, and investments.

Some U.S. politicians have been calling for companies to back away from China, over concerns about national security and human rights. But Wall Street banks are instead deepening their ties. JPMorgan in August took full control of a securities joint venture with a Chinese company, and now wants to do the same with an asset management business it partly owns. Morgan Stanley is seeking five new banking licenses in mainland China in 2022, while Goldman Sachs Group Inc. has been doubling its workforce. Citigroup Inc. applied in December for a securities trading and investment banking permit and plans to seek a futures license in 2022, adding 100 employees in the country in all." (Bloomberg, 05-01-2022).

China's central bank starts down the path the Fed is trying to leave behind

If the Bank of Japan inaugurated interest rate cuts and massive asset purchases in 1999, the Fed followed in its footsteps in 2008. When the Fed left this path, the ECB began its turn in the same direction and both have plunged fully into it during 2020 and 2021. Now that the Fed is trying to get back out of the continuous injection of capital into capitalism, the Chinese Central Bank has been taking timid and not so timid steps towards the same path for a few months, steps that we will have to see if they consolidate or fade away.

"On Tuesday, PBOC Governor Yi Gang said he'll aim to match the expansion of money supply and nominal economic growth." (Bloomberg, 24-08-2021).

"Meanwhile, China's central bank injected another 9.2 billion euros into the banking system yesterday, bringing the total introduced during the week to 61 billion euros." (La Vanguardia, 25-09-25).

"Benchmark 10-year yields slid to the lowest in over a year in late December when the PBOC injected a net 650 billion yuan into the financial system via reverse repurchase agreements in the last two weeks of the month." (Bloomberg, 03-01-2022).

Interest rate Bank of China

Source: Trading Economics | PBOC

"The People's Bank of China at the December fixing slashed its one-year loan prime rate by 5 bps to 3.80 percent, the first such move since April 2020 (…) The move followed an early decision by the central bank to lower the RRR by 50 bps that came into effect on December 15th and freed up CNY 1.2 trillion in long-term liquidity." (Trading Economics, 05-01-2022).

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