Expected announcements

Both the European Central Bank and the Federal Reserve have started to lower interest rates. The upward cycle started in the first half of 2022 (the Fed in March, the ECB in July) peaked and begins the decline in the second half of 2024 (the ECB in June, the Fed in September). The Bank of England has also lowered rates. And the Chinese central bank has also announced it. Let's observe the process that has brought them to this point.

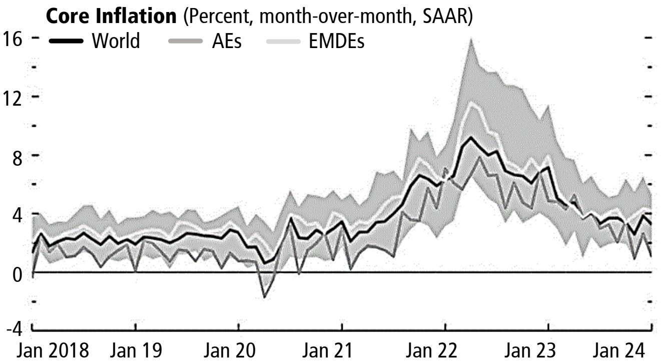
The infamous inflation

Probably few economic notions are more widespread among the mass of the population than inflation, and even more so in the past few years in which it has been the center of media attention. The working class certainly has reason to fear inflation: the prices of all commodities rise but the price of the commodity labor power (wages) tends to lag behind. For the same reason, the bourgeoisie sympathizes with moderate or even high inflation, although the second scenario can cause suffering to enterprises which temporarily have to pay more for their constant capital (materials and means of production) without yet being able to transfer this increase to the final price (see "The Internationalist Proletarian" No.11, page 17).

Worldwide inflation trends

Let us look in the following graph prepared by the International Monetary Fund at the evolution of core inflation (seasonally adjusted annual rate). This world organ of the bourgeoisie takes as a reference 57 economies representing 78% of world GDP (in purchasing power parity) in 2023. The bands represent the 25th to 75th percentiles of the data of these economies.

It can be seen that, despite differences in the magnitude of inflation across economies, both the average curves and the dispersion bands show an analogous movement over time. This reflects the global nature of underlying inflationary pressures during this period.



AEs: advanced economies (IMF classification)
EMDEs: emerging markets and developing economies (IMF classification)

The epileptic resumption of production

In previous issues we have analyzed the beginning of the supply and demand imbalances produced by *"the sequential closure of a whole range of industries during the years 2020 and 2021 [that] has produced a halt or slowdown in the production itself in these sectors but also in those industries that provide the raw materials or semi-finished or auxiliary products that are needed"* ("The Internationalist Proletarian" No.7, July 2021, page 8) followed by *"the unsynchronized resumption of production [that] has generated an abrupt increase in the demand for these products. This demand cannot be satisfied in the short term: stocks are reduced to the minimum and the scale of production is adjusted to satisfy a continuous demand distributed over time and not to the sudden accumulation of the same volume of demand in a short time."* ("The Internationalist Proletarian" No. 7, July 2021, page 8), analyzing then the bottlenecks *"produced by the convulsions of the start-up of the different productive sectors which, rather than a resumption, looks like a* ***gigantic EPILEPTIC ATTACK of the capitalist productive organism****."* ("The Internationalist Proletarian" No.7, July 2021, page 8).

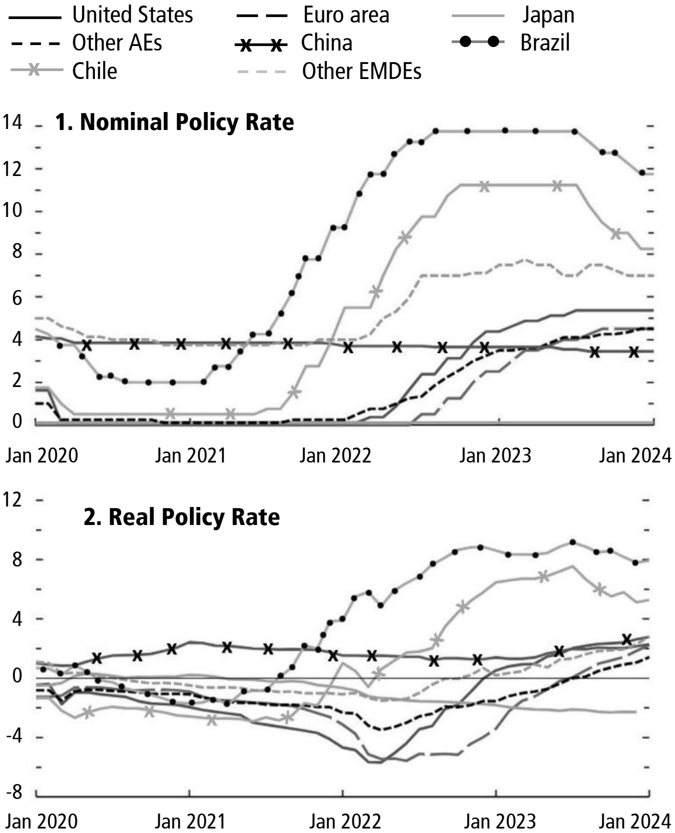
We also saw the RALES and SPASMS of the capitalist commodity circulation through which *"the arteries of capitalist circulation have been simultaneously collapsed and undersupplied, in the dialectic intertwining of the contradictions of capitalism that produce overcrowding and undersupply at the same time"* ("The Internationalist Proletarian" No.9, April 2022, page10) and how *"the saturation of circulation due to overcrowding produces shortages in another pole. And to avoid shortages, each competitor tries to monopolize as many supplies as possible, leading to a spiral that continues to reproduce overcrowding and shortages at each pole"* ("The Internationalist Proletarian" No.9, April 2022, page 11).

We were able to reiterate that it was the *"phenomenon, which occurred within the context of the process of reproduction and rotation of productive capital (which encompasses its production and circulation), that has motivated the rise in prices"* ("The Internationalist Proletarian" No.10, September 2022, page 6), ruling out erroneous explanations of inflation based on monetary policy ("The Internationalist Proletarian" No.10, September 2022, pages 7 and 8) and analyze the evolution of supply chain tensions to show the turning point that was reflected in the fall in semiconductor sales (and corresponding increase in inventories), the price drop of multiple metals and grains, the attempts to reduce inventories in the USA (even selling at a loss) and the gradual decline in container shipping prices ("The Internationalist Proletarian" No.10, September 2022, pages 11 and 12). In "The Internationalist Proletarian" No.11 (Abril 2023, pages 16 and 17) we analyzed the gradual but consolidated disinflation of the supply chain in late 2022, in the decrease of freight rates, transit days, container unloading times, etc. as well as the increasing overcrowding of inventories, the decrease in the availability of space in US distribution warehouses and the corresponding increase in the cost of renting those warehouses. In "The Internationalist Proletarian" No.13 (March 2024, page 26), after outlining the **general historical framework** in which capitalism operates and to which we refer the reader, we reiterated: *"It is in this context that the blockages and stoppages of capitalist production and circulation in 2020-2021 took place and were prolonged in time, as well as the subsequent epileptic resumption of world capitalist production and circulation. This electroshock applied to capitalism by the system itself allowed the economies of Western imperialism to temporarily emerge from the swamp of deflation in which they had been sinking for years"*. And we also reported: *"For the time being, the Fed and the ECB have put their interest rate hikes on hold and are starting to talk about interest rate cuts. The trend is there: "The latest data collected by Bank of America reflects no less than 30 interest rate cuts globally in the last three months, the most since 2020." (Expansión, 21-11-2023)."* ("The Internationalist Proletarian" No.13, March 2024, page 27).

Nominal and real monetary policy

In "The Internationalist Proletarian" No.11 (April 2023, page 5) we questioned *"the effect of central bank monetary policy (not to be confused with government spending on investment, subsidies and aid) on this decline in inflation"* since during most of the process *"rates were far from having a really restrictive effect"*.

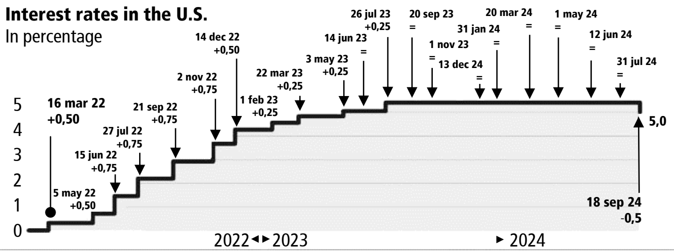
The IMF provides a useful comparison of real rates compared to nominal rates:



In reality (except in Brazil, Chile and China), rates have started to have a restrictive effect once inflation had declined and more as a result of the decline in inflation itself than the other way around. We reiterate the characterization of central banks as MARIONETTES under the control of more powerful forces.

The Fed, rates and unemployment

As we have said before, the US Federal Reserve has cut the interest rate: it has reduced it by 0.5 points on September 18, 2024, to 5%.



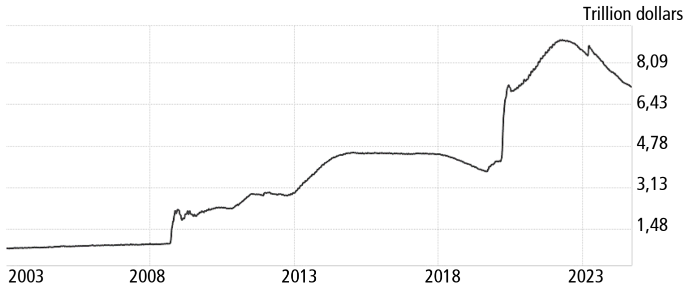
Source: Federal Reserve

The Fed has repeatedly stated in recent times its objective of breaking the "labor market". In other words, to make unemployment rise so that salaried workers find themselves in a position of having to accept lower wages and conditions (see "The Internationalist Proletarian" No. 9, April 2022, page 13, and "The Internationalist Proletarian" No. 11, April 2023, page 12). But, with utter brazenness, the turn in monetary policy was anticipated back in August with this justification: *"we will do everything possible to support a strong labor market"* (Expansión, 24-08-2024).

Despite the Fed trying to justify its decisions by saying that they are to strengthen the labor market, the truth is that the reason lies elsewhere. In fact, only two months earlier, the Fed Chairman said the opposite: *"he insisted yesterday that the unemployment rate remains 'historically low', even though it has climbed to 4%"* (Expansión, 13-06-2024).

The Fed's balance sheet evolution

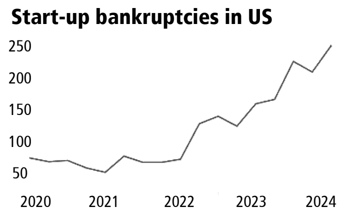
The Federal Reserve had begun in May 2024 to slow down the pace of debt reduction in the previous period: *"Until now, each month its balance sheet was reduced by 95,000 million dollars and, starting next month, this amount will be reduced to 60,000 million -35,000 million in mortgage bonds and 25,000 million in bonds-."* (Expansión, 02-05-2024). As can be seen in the following graph, the balance (the debt that has been gobbled up and is being repurchased at maturity) has been reduced, but it is still very high.



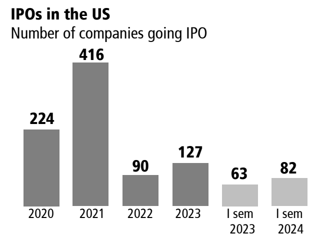
Source: Federal Reserve

Turbulences in the US economy

In the following graphs, it can be seen the increase in start-up bankruptcies and also the reduced number of companies going public in the US (see "The Internationalist Proletarian" No.12, September 2023, page 12).



Source: Carta



Source: Expansión, EY

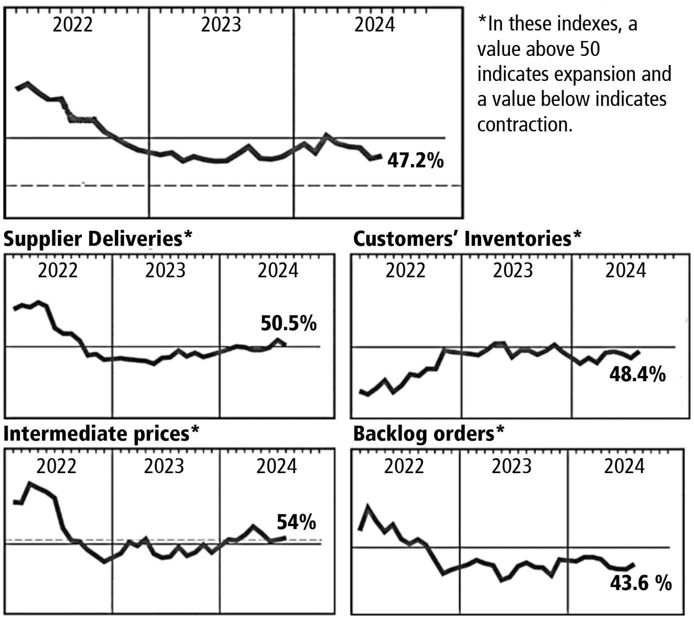
In April 2024 *"US regulators rescue Republic First Bancorp. This is the first bank failure in the United States in 2024, (...) The cost to the deposit guarantee fund related to the failure of the entity is estimated to be $667 million."* (Expansión, 29-04-2024).

The stock markets also gave an alarm signal to global speculators in August. In one day: *"the search for refuge by investors yesterday took around 1.5 trillion euros of market capitalization on the world's stock exchanges in one fell swoop, although during the session the losses were considerably greater"* (Expansión, 06-08-2024) and *"in the span of three weeks, the meltdown erased some $6.4 trillion from global stock markets."* (Bloomberg, 05-08-2024). The falls were concentrated in banks and technology companies. If we look at the evolution of the Nasdaq we can see: 1) the fall immediately following the 2020 lockdowns, 2) the subsequent swelling resulting from the monetary injection that led to a doubling of the index value, 3) the incineration of speculative capital due to the start of interest rate hikes from the first half of 2022, 4) the subsequent resumption of the swelling demonstrating the maintenance of the overproduction of capital and the corresponding excess liquidity and 5) the "alarm" of August 2024.

Source: Trading Economics Sep,20, 2024

Finally, the US manufacturing economy has been in contraction for 21 months, interrupted only by a glimpse of expansion in March 2024.

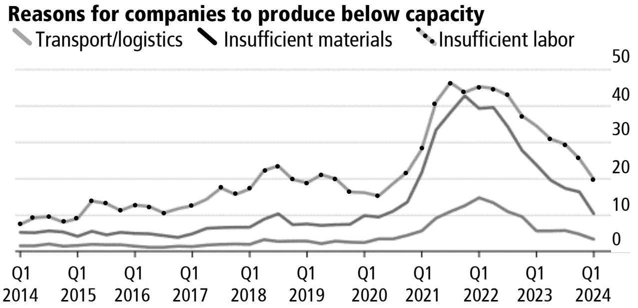
US Manufacturing Production Index (PMI) *



These are far more powerful reasons for starting to lower interest rates than the Fed's crocodile tears about the labor market.

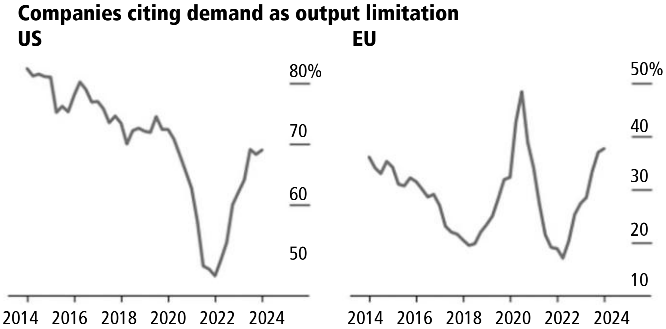
The concerns of the US bourgeoisie have reversed course in the process of supply chain disinflation and OVERPRODUCTION is back in the form of OVERSUPPLY and insufficient demand.

Reasons for companies to produce below capacity



Source: Census Bureau; Jason Miller at Michigan State

Companies citing demand as output limitation



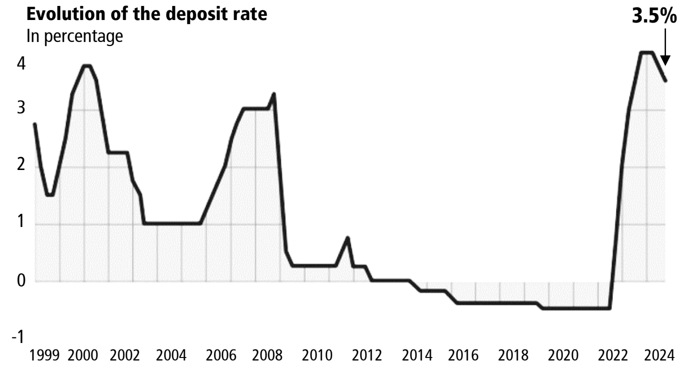
Source: Bloomberg

Incidentally, note in the previous chart that the index in the EU was rising from 2018 until just before the lockdowns and note also the momentary relief brought by the (partial) halt in production.

ECB and the reference rate change

In June 2024, the ECB began lowering interest rates. This is only two years after starting to raise them in July 2022. For about a year, from July 2022 to September 2023, the ECB was raising rates from 0% to 4.5%. For almost a year it left them at 4.5% and now it has started to lower them. The first decrease was in July 2024 (-0.25%), followed by another decrease (-0.60%).

This last reduction was presented by means of a subterfuge, stating that the reduction was 0.25%. The TRICK was that, instead of announcing the reduction in the refinancing interest rate, the announcement focused on the interest rate of the deposit facility, a maneuver that had already been prepared since March: *"starting in September, it will reduce the spread between the deposit facility, which is the price it pays to banks for leaving their money on deposit in Frankfurt, and the refinancing rate, which is the price it charges banks for borrowing money. The margin will now be 15 basis points instead of 50."* (Expansión, 24-04-2024).



Source: Bloomberg

Indeed, the deposit rate fell by only 0.25% in September. But the refinancing rate, which is what has been understood until now when speaking generally of the interest rate, has fallen from 4.25% to 3.65% (a decrease of 0.60 points and of almost a full point if counted from the level at which it has been for a year).

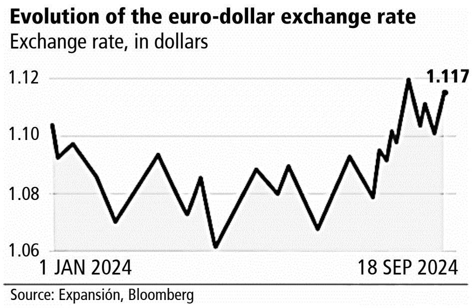
Beyond the cosmetic component of the operation of opportunity to mask the real pace of the reductions, it is significant that the ECB admits that the reference rate is not what interest the bank lends but how much the bank pays (or how much it charges, when it is negative) for deposits. And this happens at the same time that it admits the reduction of the margin between the two interest rates, a margin that is the core of the banking business.

One idea of the bourgeoisie behind this narrowing of the margin is to make their relationship with the central bank more profitable for commercial banks. To what extent this is a strategic measure to encourage lending or the reflection of a manifestation of the real narrowing of that margin is something we will have to observe in the times to come. What can be said is that *"European banks are swimming in liquidity and are ignoring the open-bar auctions held every week by the monetary authority. But now they are going further: they are ruling out bidding for them massively even in spite of the improvement in the interest rates of these operations that will arrive in September"*. (Expansión, 24-04-2024).

The impact on the trade war

What we have tried to explain in relation to inflation and, more generally, about the limitation of central banks' decisions does not mean that they have no effect whatsoever. In particular, the rise in US interest rates has had a clear effect of revaluing the dollar relative to other currencies. This has been a mechanism by which other central banks have been pushed to raise their interest rates and take other measures (selling dollars or more specifically buying back their own currencies) in order not to see their currencies fall excessively. Currency devaluation may favor exports, but excessive devaluation increases the cost of all imports, reduces the attractiveness for speculative capital, and therefore it is not in the interest of exporters that it deepens excessively.

Now that the Fed has embarked on the opposite course (that of reducing its interest rates), the other central banks will come under additional pressure (which is not the only one) to lower their rates as well and prevent an excessive appreciation of their currencies. The European bourgeoisie calculates the turning point at which the rise in the price of its goods could harm its exports at: *"the area of 1.15-1.20 dollars at which the economy would feel the full impact of the exchange rate could force it to change gear and turn to tables".* (Expansión, 19-09-2024).



In a context in which all imperialisms are competing to maintain their market share and displace the rest of the world market, the beginning of the interest rate cut shows the pressure of the overproduction volcano whose epicenter is in Asia.

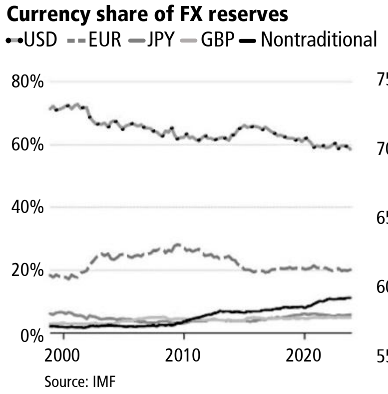
Payment currency

What allows the Fed to force the rest to follow its movements (without meaning for a moment that the Fed escapes from being determined in turn by the course of the economy), is the still predominant position of the dollar as a payment currency and its correlative privilege as a hoarding currency.

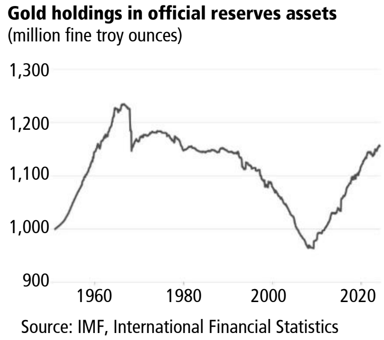
As we have been able to observe in "The International Proletarian", the undermining of this role has been dialectically catalyzed by its use as a means of pressure against other imperialisms; in a situation in which the role of the US neither in world production nor in the military plane corresponds to that which its currency still holds.

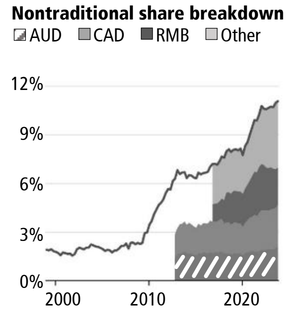
There has been some hype about the existence or not of a formal agreement between the US and Saudi Arabia on petrodollars (the latter's commitment to sell oil exclusively in the former's currency) and its non-renewal in 2024, 50 years later. Regardless of the more or less official or secret papers, what is certain is that this change has taken place or, rather, has been taking place and already in 2022 Saudi Arabia was selling oil in yuan to China, without the US having been able to apply to it the remedy it applied to Saddam Hussein for selling oil in euros.

As shown in the following graphs, the dollar's share of foreign exchange reserves has fallen from 70% in 2000 to 58% in nominal terms (55% if adjusted for interest rates), according to IMF data.



There is a clear downward trend in the dollar's share in foreign exchange reserves, which however manifests itself as a rather slow and gradual process for the time being. But accelerations cannot be excluded in the future since the process contains all the ingredients for an abrupt change if certain critical thresholds are reached, either by the gradual erosion of its hegemony or by the rise of another currency.





This is the context in which the purchase of gold by central banks is framed: *"(...) they have recorded 14 years of consecutive net acquisitions of this precious metal, bringing their holdings to over 36,700 tons for a value of 2.52 trillion dollars. The last two years, moreover, have been particularly prolific. With purchases amounting to 1,000 tons in both years, all recent records have been surpassed, taking acquisitions to levels unknown since 1967 (...) gold has surpassed a new milestone by becoming, only behind the dollar, the second most important reserve among the monetary authorities in terms of volume".* (Expansión, 25-03-2024). It must be said that, despite the boom in gold purchases by central banks, gold will not play the role it once did and, for the time being, the weight of other currencies has some way to go to reach the critical mass necessary to impose itself on the dollar.

The world's ever-growing debt

The unstoppable growth of the global debt of states and companies is a reality that is beginning to scare sectors of the bourgeoisie: *"the president of the World Economic Forum (...) pointed out yesterday at this meeting that 'we have not seen such a high debt since the Napoleonic Wars, it is close to 100% of the world GDP'."* (Expansión, 29-04-2024).

In relation to the US debt, the IMF expresses itself in diplomatic but nonetheless clear terms regarding the unsustainability of the situation by referring to the "exceptional" recent performance of the United States: *"But it reflects strong demand factors as well, including a fiscal stance that is out of line with long-term fiscal sustainability."* (Bloomberg, 16-04-2024).

In less diplomatic terms, the head of analysis at Barclays expresses himself as follows *"We are spending money as a* *country like a drunken sailor on shore for the weekend' (…) the expanded deficit would require the US to issue an additional $150bn of debt in the three months before the fiscal year ends in September. (…) Such a move would increase the total outstanding stock of Treasury bills — unredeemed short-term US debt — from $5.7tn at the end of 2023 to an all-time high of $6.2tn by the end of this year (…) which opens up the question of who is going to buy them (…) The size of the Treasury market has quintupled since the financial crisis, in an indication of how much the US has turned to debt financing over the past 15 years."* (Financial Times, 21-06-2024).

And yet, we observe that this is not an exclusive US process but a global process, in which Chinese capitalism is also being immersed.

Source: IMF

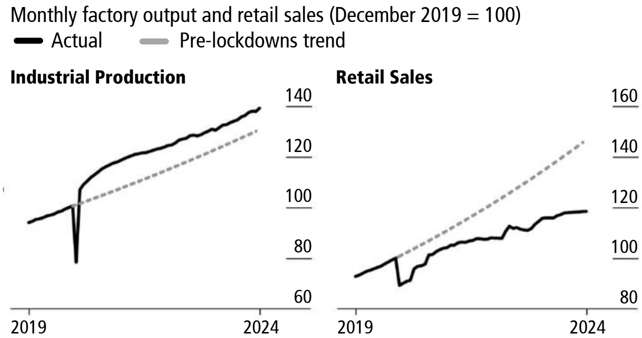
Energy price

The situation prior to the orchestrated stoppage or partial stoppage of production in 2020 was a trend of falling oil prices, despite the monopolistic efforts of OPEC+, plummeting at the beginning of the lockdowns ("The Internationalist Proletarian", No.5, September 2020, page 12). Then, the abrupt shift towards non-fossil energies that had been brewing in the previous years produced the opposite effect and a scenario in which the production restrictions agreed by OPEC+ were able to have the effect of raising the price of oil. ("The Internationalist Proletarian", No.9, Abril 2022 page 14). In this scenario, as initial effect of the redirection of oil flows due to the start of sanctions against Russian imperialism together with a speculative component that also affected the price of gas in Europe, the price of oil reached a peak of $120 per barrel in June 2022. But this same redirection implied the sale at a steep discount of Russian oil and, if its first effect was a peak, its medium-term effect had to be a decline in its price. ("The Internationalist Proletarian" No.10, September 2022, pages 6 to 8). A decline that effectively occurred just as the speculative bubble around gas in Europe burst ("The Internationalist Proletarian" No.11, April 2023, pages 13 to 15), both factors converging with the disinflation of the supply chain that had begun earlier and consolidating the decline in inflation. The internal contradictions within OPEC+, its relative loss of market share, the rise of the US as the world's leading oil producer, the medium-term shift away from fossil fuels have characterized this period together with the unsuccessful attempt to impose a blockade on Russian oil and to raise the price of oil by heating up the Middle East area and torpedoing transport routes ("The Internationalist Proletarian", No.13, pages 31 and 32). The growing global pressure of the **relative overproduction of commodities and capital** causes that despite the oil blockade in Libya and Israel's terrorist attacks and bombings in Lebanon, oil prices have risen slightly to return to around 70 dollars.

In the meantime, the deployment of a number of non-fossil fuel energies generates an overproduction of energy that manifests itself in a growing accumulation of hours with negative prices in several areas of the world.

The production volcano

The development of capitalism since the Second World War has resulted in the displacement of the center of gravity to the areas in which it spread in that period and, in particular in Asia which met the conditions of a high rate of profit (young capitalism) with considerable reserves of proletarianizable mass which have been translated (already a few decades ago) into a great mass of proletarians accumulated in high densities of population. The surplus value extracted through the exploitation of this part of the world proletariat has nourished the western capitalisms that have invested there to compensate the fall of their rate of profit and also the local bourgeoisies that have catapulted themselves to capitalist powers. From this center of gravity of capitalism come the mountains of commodities that flood the markets and the exported capitals against which the older imperialisms have tried to raise and are trying to raise their tariff walls. Here we want to focus on some of the effects of this process on the main Asian and world CAPITALIST power: China.



Source: Bloomberg Economics based on National Bureau of Statistics

The above graph illustrates well the internal situation of Chinese capitalism. While industrial production progresses, domestic consumption does so at a slower pace. In neither of the two graphs we are facing a growth that maintains the rate of profit (we should see a geometric and not a linear evolution), meaning that Chinese capitalism does not escape from the decreasing trend of the rate of profit. But this does not exclude the existence and clear increase of the aforementioned differential. **This differential redoubles the pressure for the commodities produced by Chinese capitalism to find their way out in their export and to flood with even more force the world market of commodities at lower cost than their competitors.**

This situation of OVERPRODUCTION is noticeable inside the Chinese market in the falling prices of a whole range of commodities: *"Consumer prices were particularly affected by falling food costs. Fresh vegetable prices fell by 7.3% year-on-year in June, while fruit prices fell by 8.7% and beef by 13.4%."* (Financial Times, 11-07-2024). *"In China, luxury goods are selling at discounts of up to 50% as the middle class is holding back spending on expensive items and retailers try to clear excess stock."* (Expansión, 17-07-2024).

But food and luxury are not the only commodities being devalued in Chinese capitalism: *"The data from the National Bureau of Statistics on Saturday showed prices in China's industrial sector in April remained mired in negative territory. The producer price index declined by 2.5 per cent on a year earlier last month, after declining 2.8 per cent in March and 2.7 per cent* *in February"* (Financial Times, 11-05-2024) and *"new housing prices fell at a faster pace in April than a month earlier, while the value of existing homes posted its steepest decline in a decade."* (Bloomberg, 31-05-2024).

Faced with this situation, the Chinese capitalist state has gradually announced several measures. In March 2024 it published *"a plan to promote the renewal of machinery or the delivery of consumer goods, as part of the payment to acquire new ones. According to the local press it will give a new boost to the national market by opening a market of some 640,000 million euros, reports Efe (...) The goal is that, by 2027, investment in machinery - which includes sectors such as agriculture, heavy industry, construction or transport, among others - will have increased by more than 25% compared to 2023. Other targets mentioned are a rate of more than 90% in the penetration of digital research, development and design tools in the country's main industrial companies or a recycling volume of scrapped vehicles of almost double that in 2023. (...) By the end of 2023, the number of civilian vehicles in China reached 336 million, while the number of household appliances such as refrigerators, washing machines or air conditioners exceeded 3 billion units."* (Expansión, 16-03-2024). It is easy to see that although part of the plan is aimed at encouraging final consumption, a no less important part of the plan is aimed at encouraging the consumption of constant capital and of fixed capital in particular. If this consumption materializes, Chinese capitalism will have created an even broader base for overproduction in its domestic market and in the world market.

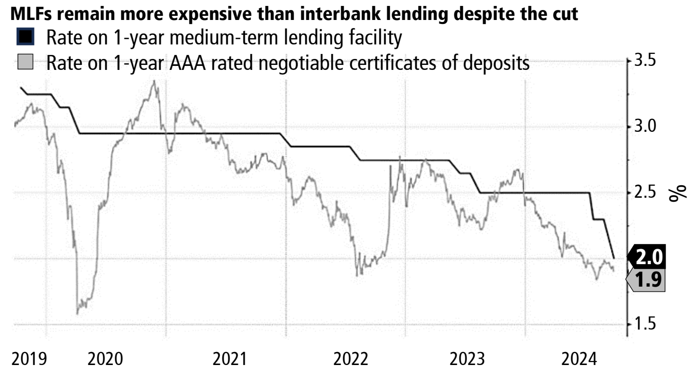
In May 2024 it announced that it *"(…) will start selling the first batch of its 1 trillion yuan ($138 billion) of ultra-long bonds (…) 100 billion yuan for a 50-year term, 600 billion yuan for a 30-year term and 300 billion yuan for a 20-year term."* (Bloomberg, 13-05-2024). *"The sale comes after China's regional banks piled into long-dated sovereign bonds in the first quarter of this year — driving the cost of government borrowing to record lows — as they sought a haven from volatility in China's equity and property markets."* (Financial Times, 14-05-2024).

In September the Chinese capitalist state announced the following measures: *"(…) lowering borrowing costs on as much as $5.3 trillion in mortgages and easing down-payment requirements for second home purchases to a historical low.*

The People's Bank of China will cut outstanding mortgage rates for individual borrowers by an average of 0.5 percentage point (…). The minimum down-payment ratio on second home purchases will be lowered to 15% from 25%. (...) Currently, existing mortgages carry an average interest rate of about 4%, compared with 3.2% on newly issued loans for a first home and 3.5% for a second home, according to data compiled by China Real Estate Information Corp. in late August." (Bloomberg, 24-09-2024). And these measures are having an impact on the margins of Chinese commercial banks: *"Banks have resorted to multiple deposit rate cuts to mitigate the impact of lower loan rates. Combined profits at China's commercial lenders rose 0.4% in the first half, the slowest pace since 2020, according to official data. The sector's net interest margins have continued to decline, hitting a record low of 1.54% at the end of June, well below the 1.8% threshold regarded as necessary to maintain reasonable profitability."* (Bloomberg, 24-09-2024).

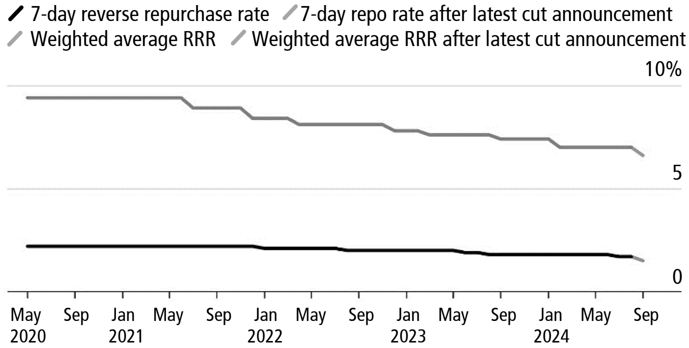
The measures of the Chinese capitalist state do not stop here: *"For the nation's stocks, (…) the central bank will provide at least 800 billion yuan ($113 billion) of liquidity support"* (Bloomberg, 24-09-2024).

We have seen mortgage rates, bond funding rates, deposit rates, bank margins decline and, finally, *"The People's Bank of China cut the rate of the medium-term lending facility to 2% from 2.3%, according to a statement on Wednesday. The 30-basis-point cut was the biggest since (…) 2016."* (Bloomberg, 25-09-2024).



Source: People's Bank of China, Bloomberg

Bank reserve requirements and one-week repurchase rates have also been reduced:



Source: People's Bank of China, Bloomberg

Chinese capitalism offered resistance at the time when the rest of the imperialisms were giving free rein to the expansive monetary policy. It applied it gradually and reluctantly when the rest were on inflationary roller coasters, but the interesting thing about the moment is that the measures that all of them are forced to take tend to converge in time, as a symptom of the same common and global root problem: the **relative OVERPRODUCTION of capital and commodities**.

READ, SUPPORT AND SPREAD THE COMMUNIST PRESS!

FOR CORRESPONDENCE (without further data):
Apartado 52076 - 28080 MADRID – ESPAÑA
www.pcielcomunista.org – pci@pcielcomunista.org