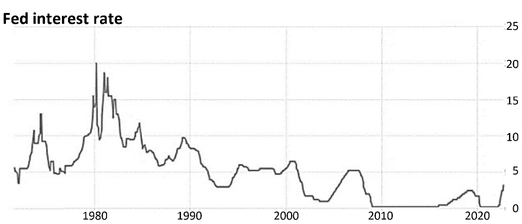
As we explained in the previous issue, *"The avalanche of goods from Asia, the increase in the prices of their transportation, the congestion of the entry points of circulation, the increase in the price of energy due to the maintenance of production below the demand, the shortage of the commodity labor 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 Internationalist Proletarian No.9, page 19).

This has been precisely the course of events.

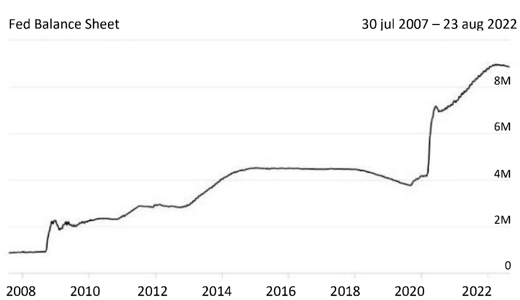
Fed's steps

The Federal Reserve, after curbing the asset purchase program, has raised interest rates several times since March 2022 reaching at 3,25% in September 2022.



Source: Trading economics.com | Fed

It has also let mature a small portion of the debt accumulated on its balance sheet. All in all, the Fed continues to intervene massively in the debt market, buying debt valued at more than $8 trillion to maintain its balance sheet, which has shrunk by only 2%:



Source: https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm

All these increases are only the prelude to many other decreases, which will ultimately be imposed as a result of the fall in the rate of profit, just as scarcity is the prelude to future overproduction.

Revaluation of the dollar

The dollar has appreciated substantially relative to most currencies, which means – because of the dollar's role in world trade – that the U.S. has become an **exporter of inflation** just as China and Asia were previously **exporting deflation**.

As of April 8, 2022, the evolution of the G-10 currencies in relation to the dollar was as follows (Expansión, 08-04-2022): +2.97% (Australia); +1.01% (New Zealand); +0.39% (Canada); +0.10% (Norway); -2.24% (Switzerland); -3.43% (United Kingdom); -4.26% (EU); -4.26% (Denmark); -4.30% (Sweden); -7.17% (Japan).

This largely forces the rest of the central banks to also act in the sense of raising interest rates to try to counteract the devaluation of their currency in relation to the dollar. It will also result in an additional reason for the rest of the world bourgeoisies to settle their trade in other currencies so as not to be subject to the Fed's swings against the dollar. Its position of strength will end up becoming the mechanism that will weaken it.

As we said in "The Internationalist Proletarian" No.9, the devaluation of the euro is one of the reasons for inflation in the EU zone.

Source: Bloomberg

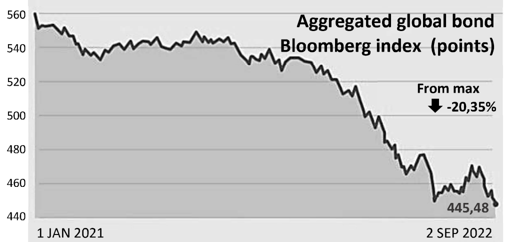
In the historical evolution in relation to the dollar, the euro had a first devaluation just after its birth in 1999, followed by a continuous revaluation until July 2008. From that moment on, the trend through the oscillations has been downward. The current continuous devaluation pull began in May 2021, one year before the start of the Fed's interest rate hike.

While the ECB has generally sought to keep the euro from overvaluing against the dollar in order to boost EU exports, the too low level of the euro in the current inflation environment multiplies the effects of inflation by making all dollar-denominated imports more expensive. A series of interest rate hikes by the ECB would tend to revalue the euro relative to the dollar. The ECB in particular ended the asset purchase program in June and made two rate hikes of 0.5% and 0.75%, moving away from having a negative deposit rate for the first time since 2014 to a nominally positive interest rate of 1.25%. We say "would tend to" because there are other elements that are pulling the euro down, such as the release of euros by various central banks in their eagerness to secure dollars and yuan, or the loss of confidence in the European economy, which may be even more decisive.

The dollar's appreciation is not synonymous with absolute advantages for the United States either, since it is detrimental to companies that have a significant part of their business abroad: *"The list of bellwethers stomaching multimillion- or billion-dollar hits has grown by the day after the US currency surged to its highest level in 20 years this month, including IBM, Netflix, Johnson & Johnson and Philip Morris (…) the strong dollar lowers the value of their international sales and makes them less competitive compared with local rivals."* (Financial Times, 25-07-2022).

Speculative capital burst

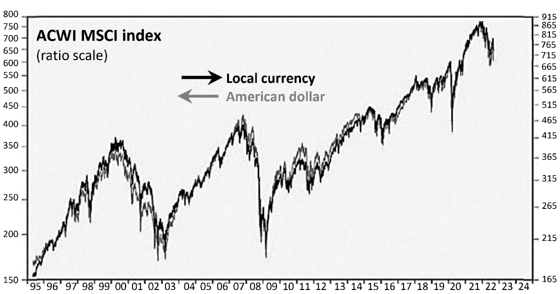
The bourgeois world gloated at the beginning of the year with the shower of dividends received by shareholders while the nominal value of speculative capital collapsed under their feet: stock markets around the world have suffered drastic falls during the year as well as the fixed income market, cryptocurrencies have plummeted, the platforms with which they deluded small investors (Robinhood, among others) are in serious trouble and the subscriptions collected in initial public offerings this year have fallen by 95% in US.



Source: Bloomberg

The cumulative annual declines in 2022 for the stock markets as of September 1 are, in the American stock markets: -13.29% (Dow Jones); -17.02% (S&P 500); -24.47% (Nasdaq); and, in the European stock markets: -1.36% (FTSE, British); -9.5% (Ibex, Spanish); -14.37% (Cac, French); -15.69% (SMI, Swiss); -18.17% (Euro Stoxx 50, European); -21.16% (FTSE Mib, Italian).

The MSCI ACWI index, which monitors almost 3,000 stock exchanges in 48 countries, shows the global drop:

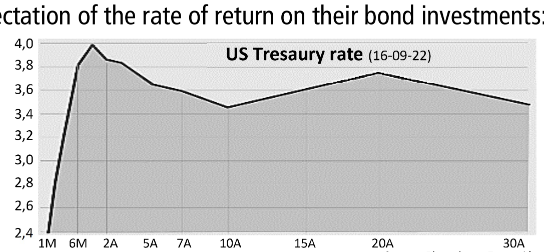


Source: MSCL

Additionally, the whole cryptocurrency bubble has burst, with the consequent freezing of withdrawals and bankruptcies. In July the cumulative annual drop was: -44.26% (Binance Coin); -52.13% (Bitcoin); -56.23% (Ripple); -57.3% (Ethereum); -60.5% (Dogecoin); -61.69% (Cardano) and -76.95% (Solana).

Inversion of the yield curve

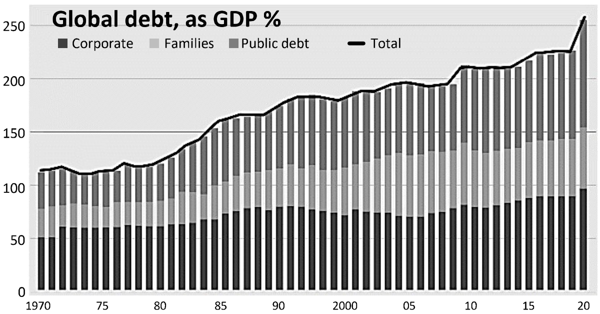
The inversion of the US bond yield curve continues to reflect in the actions of capitalist agents their perception of a declining expectation of the rate of return on their bond investments:



And not only in the US: *"(...) New Zealand 's two-year yields exceeded 10-year rates for the first time since 2015 on Wednesday. The difference between Australia's 10- and three-year bond futures -- its favored measure -- is at the flattest in more than a decade, while the UK's yield curve briefly inverted earlier this month."* (Bloomberg, 09-08-2022).

Global excess debt, real yields

The capitalist world is at record debt levels. Corporate debt issuance has fallen to record lows while the amount of junk debt, the difficulty of refinancing and the risk of default has increased.

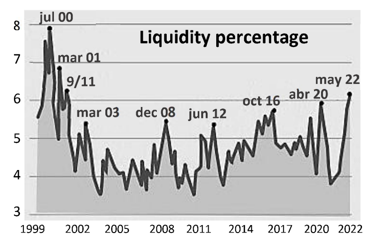


Source: FMI, Expansión

The volume of nominally negative debt has been reduced (with mainly Japanese debt remaining negative), but yields are still negative when inflation is considered.

Excess liquidity of funds

The effect of stock and bond sales (this is the way their price drop has been implemented in practice) by the funds has generated a high percentage of liquidity. That means that the reimbursements obtained in these sales are not reinvested. It is said that this is to have a "hedge", but this is nothing else than **a mass of idle capital that does not find a scope for investment** in real production or in the speculative investment sphere that is in full burst.



Source: Bank of America, Expansión

In other words, this is a sign that we are still in a framework of relative overproduction of capital: *"There would be absolute overproduction of capital as soon as additional capital for purposes of capitalist production = 0. The purpose of capitalist production, however, is self-expansion of capital, i. e., appropriation of surplus labour, production of surplus value, of profit. (…) In reality, it would appear that a portion of the capital would lie completely or partially idle (because it would have to crowd out some of the active capital before it could expand its own value), and the other portion would produce values at a lower rate of profit, owing the pressure of unemployed or but partly employed capital."* (Capital, Volume III, Part 3, Chapter XV, K. Marx).

China continues on the path that the others are trying to leave behind

While most other central banks restrict their monetary intervention, the People's Bank of China on April 15th 2022 cut the required reserve ratio by 0.25%, on May 20th 2022 cut the minimum mortgage rate by 0.20% (to which was added a 0.15% cut in the five-year mortgage rate by Chinese banks) and cut interest rates by 0.10% on August 15th 2022.