Economics in Brief

Junk Bonds

LaRouche: 'An Echo Of Germany 1923'

Jan. 14—Lyndon H. LaRouche, Jr. commented today on a wire service report, concerning the euphoric speculators at Loomis Sayles & Co. In the Bloomberg article, "Junk Bonds Defy Krugman's Bubble Warning as Loomis Sees Gains," authors Pierre Paulden and Caroline Salas wrote:

"Jan. 14 (Bloomberg)—The world's biggest bond investors are brushing off concern that the high-yield market is a bubble poised to burst after the Federal Reserve's zero interest-rate policy spurred returns of 57.5 percent last year.

"While Nobel Prize-winning economist Paul Krugman and Morgan Stanley's Stephen Roach see as much as a 40 percent chance for another recession, Loomis Sayles & Co. says debt of the neediest corporate borrowers may be the best bonds to own for 2010."

Here is LaRouche's reply:

"The relevant question is, whether Loomis Sayles & Co. are wittingly luring the suckers who believe that report to their doom, presumably to promote the firm's intention to profit from their clients' wishful credulities, or Loomis itself is the sort of 'true believer' who was found standing on the top of a rain-soaked hill, on the night when the predicted resurrection did not come.

"Apparently, one must conclude that Krugman and Roach are less dumb than the credulous clients of Loomis & Sayles, but appear, nonetheless, to be already 'as dumb as rocks' on their own account.

"My recommendation to witting and wise is, why do we not simply push through an early and often enforcement of a Glass-Stegall reform, send Wall Street to the burying ground, and launch a global fixed-exchange-rate credit system, starting with the U.S.A., Russia, China, and India, as leading sponsors of such a global reform?"

Power

Turkey, Russia Agree On Broad Cooperation

Jan. 13—Turkish Prime Minister Recep Tayyip Erdogan concluded a series of agreements with Russia today, after meetings in Moscow with President Dmitri Medvedev and Prime Minister Vladimir Putin. Turkey has agreed to allow Russia to build part of its South Stream gas pipeline, through the Turkish part of the Black Sea to ports in Turkey, whence the gas will be transported to Europe and the Middle East. Turkey hopes to become a major energy corridor for the region.

Turkey has been courted by the European Union to become a part of its planned Nabucco pipeline, a project that was designed as an alternative to Russia. While Turkey has not reneged on a possible role in Nabucco, it is determined to strengthen its relationship with Russia.

Erdogan stressed that the agreements were not only about gas and oil, but concern the overall energy relationship. Turkey will initially put out tenders for three nuclear power plants, the first, and maybe more, going to Russia. The two sides are also discussing the possibility of eliminating visa requirements between them. "The Russian-Turkish relationship is improving. It is really a strategic partnership," Medvedev told reporters.

Central Banks

BIS Meeting Throws Up a Smokescreen

Jan. 12—From today's Basel meeting of the Bank for International Settlements (BIS), European Central Bank president Jean-Claude Trichet proclaimed that the financial recovery is on. But in reality, the meeting itself was called because central bankers are realizing that the financial system is on the verge of another collapse. The ECB's latest figures indicate that in the Eurozone, loans to firms fell by 0.7% in November 2009, after a drop of 0.8% in October.

The BIS is advising banks to reduce their loan-to-deposit ratio (LDR) from 140% to 100%—a suggestion which would bankrupt most of them. A report from Barclays Capital (BarCap) evaluates the impact of the BIS proposal: Banks would either have to increase their deposits substantially, or reduce lending drastically. The Franco-Belgian Bank Dexia would need to increase its deposits threefold, or reduce lending by 69%! Danske Bank would need to increase deposits by 123%, or reduce lending by 55%. Lloyds Banking Group, Unicredit, and Santander would also enter critical conditions, while UBS and Crédit Suisse are apparently in conformity with a 100% LDR.

The meeting also discussed state balance sheets, which are exhausting their capacity to absorb losses from the private sector.

The bankers' meeting occurs in the context in which the threat of sovereign national defaults is increasing. Developments in Greece, Iceland, and Argentina were likely on the agenda. According to Massimo Mucchetti in the Italian daily *Corriere della Sera* Jan. 11, penalties on long-term government bonds are so high, that the market has virtually ceased to exist.

Infrastructure

China To Invest in Sarawak, Malaysia

Jan. 12—The State Grid Corp. of China and the 1 Malaysia Development Fund will cooperate in an $11 billion investment in Sarawak, one of the Malay provinces on the Island of Borneo, which is shared with Indonesia and Brunei. The details have not been released, but sources indicate that the program, financed primarily by China, will include up to four hydropower facilities and a large aluminium smelter. With the huge Bakun Dam ready to go on line next year, Sarawak will have the potential to become a major industrial area.