Business Briefs

Brazil

Rollovers Show Dollar Debt Default Threat

For the first time in over six months, Brazil refinancing dollar-denominated obligations in the first week of June, thus, proceeding full steam-ahead towards default. Last month, Brazil's Central Bank cancelled several debt auctions, because they were not willing to pay the interest rates "the market" demanded. Now, with June not half over, the Central Bank held an auction to sell dollar-swap credits, to roll over 40% of the over $900 million of the swap credits which come due on June 17.

The decision reversed a seven-month policy of redeeming outright all dollar-denominated bonds, as well as the dollar-swaps which companies use to hedge on the value of the real when they came due. By not rolling over the debt, the bank reduced the percentage of its total public debt which is linked to the dollar, from over 37% about 18 months ago, to around 17% today, and cut the total dollar hedge contracts outstanding in half, from $26.1 billion in November, to $13.2 billion now. The government repeatedly held up those facts as "proof" that Brazil was no longer so vulnerable to a debt crisis.

In a floating-rate system, dollar-linked debt is the most vulnerable to fluctuations of a nation's foreign exchange—as Mexico found when the infamous tesobonos blew out in Dec. 1994. Every time the national currency devalues, the value in local currency of the dollar-denominated debt soars, and if creditors demand payment, the Central Bank has to have enough foreign exchange to cover the outflow.

Russia

Default Fears Hit The Banking System

Two medium-sized Russian banks have recently defaulted on bonds, and were shut down by the government on June 8, thereby spreading concerns for a repeat of the 1998 crisis. Like Brazil, Turkey, and other so-called "emerging markets," the Russian banking system is right now suffering from repatriations of foreign hot money. Furthermore, the Russian government has started to impose tighter money-laundering legislation.

The first victim was Sodbiznesbank, which was shut down under the new money laundering laws, and as a consequence defaulted on ruble bonds on May 25. When rumors spread that CreditTrust, another medium-sized Russian bank, was linked to Sodbiznesbank, investors withdrew money from the bank and sent it into liquidation as well. In early June, CreditTrust therefore failed to meet bond obligations.

Many more, and probably bigger, default cases are expected to erupt soon in the Russian banking sector. Russian banks are now closing down credit lines to other Russian banks, which means that liquidity in the interbanking market has disappeared. Usually, interbanking interest rates in Russia are about 2% to 3%. But on June 8, the rate quadrupled from 3% late on Friday to 12%, while at some point that day, it even shot up to 20%. The Russian media is speculating about a "black list" of other troubled banks that might be targetted by the government in the coming weeks.

Nuclear Power

'Neutron Source' Reactor Inaugurated

One of the world's most modern nuclear research reactors was inaugurated in Munich on June 9. The FRM II, also known as the "neutron source" reactor, was opened for regular operation in a ceremony, attended by Bavarian State Governor Edmund Stoiber and German Interior Minister Otto Schily. The research reactor, built for 450 million euros, has the advantage of producing more neutrons than average nuclear reactors, from which researchers have so far received neutrons only as a by-product from the regular processing. The neutron-producing capacity of the Munich site is almost the same as the one at the world's biggest existing such facility in Grenoble, France.

Since the Munich reactor works with very densely-packed fuel elements of highly-enriched uranium, ecologists and anti-war activists have, with the open support of the U.S. Administration, fought the research project for years on grounds that it might or would be misused by the Germans to breed atomic bombs.

The FRM II is, however, designed for producing neutrons that can be used for numerous industrial processes, from materials research and development and testing of new special alloys, to the development of special new high-tech ceramics, and development of new methods of nuclear medicine. About 30% of the research reactor's work will be for paid special projects for industry, including machine-building, electric engineering, chemical and biological production.

Oil

Speculators Making a Killing on Futures

Large speculators in the world oil price per barrel have been making unusually large profits on surging oil futures, reported the *Hong Kong Standard* and London *Financial Times* on June 6 and 7, supporting U.S. Presidential candidate Lyndon LaRouche's accusation that speculators, not supply-and-demand, are driving up the price of oil to prop up the bankrupt monetary-financial system. Led by hedge funds, speculative interests are raking in the money, having, in the words of one trader, "discovered the real black gold is oil futures." A number of hedge fund managers that have placed bets on oil, made significant gains as oil prices have soared. Some of the riskier hedge funds, who had "long" positions in oil derivatives—betting that the price would increase—have made a "killing."

Oil "has been our savior," said Duncan Brown of Winton Capital, the London-based managed futures fund, quoted in the *Financial Times.* "We have made a lot of money because we have been long," he said, adding that the hedge fund has even increased its bets on oil.

According to published reports, there has been a significant jump in bets on oil derivatives in the New York Metal Exchange (Nymex) in the past month. Speculators accounted for 20% of the oil futures market in recent weeks—the highest level ever—up from 3.5% in 2003. Hedge funds that specialize in futures now account for a large proportion of oil trading, having rushed into the futures market after computer-generated statistics pointed to oil. Kitson said, "When the market is going up, they buy. So it can be self-perpetuating and push the price up further."

Traders admit that the rate at which money is flooding into the oil futures market is driving up the price of oil by as much as 33%. David Kitson, global head of energy trading at J.P. Morgan, said that speculators "could account for about $10 a barrel."

Britain

Household Debt Jumps 27% in a Year

British households are in a far worse debt situation than either the government or the Bank of England are calculating, according to new research from the Capital Economics think-tank, reported by *Guardian* economics editor Larry Elliott on June 7. In April, net mortgage borrowing had risen 27% over April 2003; 60% over April 2002; and a "staggering" 131% over April 2001.

But mortgage debt is not the only debt burden on British households. New Labour Chancellor Gordon Brown is claiming that low interest rates make any repeat of the end-1980s crash impossible, but his calculations leave out financial reality.

Researcher Vicky Redwood of Capital Economics reported that, while interest rates now are 4.25% [raised to 4.5% on June 11—ed.] rather than 15% in 1989-90, overall debt is much worse. If mortgage principle payments, credit card, overdraft, and other unsecured debt repayments are added, "income gearing" is now much closer to 1989 levels. (Income gearing refers to the percent of profits eaten up by gross interest.)

Current "income gearing" is at 19% rather than the 7% claimed by the government, Redwood found, because unsecured debt is growing faster than secured debt, Redwood reports. "If interest rates rise in line with market expectations to 5.25% by the end of 2005, and debt continues to rise at its recent rate, income gearing will surpass its 1990s peak by the end of 2004—in fact, income gearing (including repayments of debt) is already above the level at which household borrowing started to slow in the late 1980s."

Deregulation

Senator Demands FERC Make Enron Repay West

At a press conference in Everett, Washington on June 7, U.S. Senator Maria Cantwell (D.-Wash.) called on the Department of Justice to release the rest of the Enron tapes that contain conversations between the bankrupt company's day traders; in the tapes, the traders are heard bragging about how they had ripped off customers in California.

Partial transcripts of the tapes have been released over the past few weeks. On the basis of what is on the tapes, western utilities, and the Attorney General of California, are suing Enron and the Federal Energy Regulatory Commission (FERC), in a renewed attempt to try to force repayment of some of the billions of dollars stolen by Enron—and other power marketers such as Reliant Energy, Williams, and Duke—to California, Washington, and other states whose economies and treasuries were looted in the electricity deregulation fiasco of 2000-2002.

Rep. Jay Inslee (D-Wash.) has asked that Bush Administration's FERC to reconsider the constraints they have placed on western utilities requesting refunds stemming from the manipulation of the electricity market during 2000-2001. So far, FERC has only allowed utilities to file for refunds for Enron overcharges after June 25, 2003—by which time the company had collapsed into bankruptcy! Inslee will be introducing an amendment to the Federal energy bill to push that refund date back to 2000.

Briefly

BRAZIL'S National Development Bank (BNDES) has returned to a police of state intervention, based on long-term "strategic planning of the economy," BNDES' Vice President Darc Costa announced June 3.
The 1990s model of "the invisible hand which does all," without state intervention, will be replaced by the concept given up in the 1970s, Costa said. BNDES will no longer act as the investment bank to which it had been reduced, but as the development bank which it was founded to be.

GERMAN Chancellor Gerhard Schröder, at the G-8 summit on June 9, said that high oil prices are due mainly to speculative and security concerns, fed by instability in the Middle East. Only a minor share of the price has to do with production as such; said. most of the drastic price hikes of the recent period are due to speculation by hedge funds and others, Schröder said.

'MONSTROUS' bubbles are about to burst and might force Fed Chairman Greenspan to announce emergency rate *cuts,* stated a European banker following Greenspan's address via satellite to a London banking conference on June 8.
Greenspan stated at that conference that the "ample liquidity" which the Fed had provided to the financial system in recent years might soon be removed. "The FOMC is prepared to do what is required to . . . achieve the maintenance of price stability," Greenspan said.

BRITISH house prices rose another 2.2% in May, and are up by 20.4% over a year ago, Halifax Bank, Britain's biggest mortgage lender, reported on June 8. In April, house prices rose by 1.8%. The average British real estate property now costs nearly 158,000 pounds. A lack of new housing is adding to the sharp price rise. Halifax reported that there was a 3% fall in the number of private sector new houses completed in the first three months of 2004, compared to 2003.