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## Economics Briefs

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### Bank of England Goes Back to QE, as Bond Market Breaks Down

Coming amid furious rate-hiking by the Federal Reserve, the British Liz Truss government's announced "borrow a trillion" budget of Sept. 22 has blown a hole in the global bond markets. There is the sovereign side: British 2-year so-called "gilts" suddenly on Sept. 27 had an interest rate above 5%, having recently been 1%. Much more international in scope is the corporate bond market's upward explosion in rates. Some details on this below. And the sudden moves in currencies: Dollar spikes; other major currencies' plunge led by sterling; developing nations' central banks forced into big "preemptive" rate hikes which are ruinous to their economies.

Some current average interest rates on corporate bonds on Sept. 27:

OECD average of investment-grade bonds as a whole: 5.75%

Average of high-yield or "junk" bonds (now a majority): 9%

Average of BBB-rated bonds (just above junk in investment-grade): 7.25-7.5%

JPMorgan Chase index of "Emerging Market" (sovereign) bonds: 8.55%

Index of no-recourse capital-raising notes issued by Canadian banks: 6.75-7.25%

And to add, the U.S. 30-year mortgage rate: 7.1% (was 3% this Spring).

The end of zero or super-low interest rates on nearly all kinds of borrowing for 11 years straight, was only six months ago. When interest rates spike in such unprecedented ways, all funds which hold bonds—pension, mutual,

money-market, bank, etc.—have the value of their holdings suddenly fall and face margin calls for more collateral for their current investment activities. All operations speculating in currencies get margin calls. This has already been the case since the Spring for commodity producing and trading companies worldwide due to inflation, war and sanctions.

The Governor of the Bank of England, Andrew Bailey, [stated](#) on Sept. 26: "This repricing has become more significant in the past day—and it is particularly affecting long-dated UK government debt. Were dysfunction in this market to continue or worsen, there would be a material risk to UK financial stability.... On 28 September, the Bank of England's Financial Policy Committee noted the risks to UK financial stability from dysfunction in the gilt market. It recommended that action be taken, and welcomed the Bank's plans for temporary and targeted purchases in the gilt market on financial stability grounds at an urgent pace.... To achieve this, the Bank will carry out temporary purchases of long-dated UK government bonds from 28 September. The purpose of these purchases will be to restore orderly market conditions. The purchases will be carried out on whatever scale is necessary to effect this outcome."

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### Europe's Key Metals Production Drastically Cut by Inflation

Eurozone inflation in mid-September was announced Sept. 29 at 10.0%, above all expectations and a record high. Energy inflation is far worse, and those sectors of European Union

industry that have rapidly increasing costs for intense energy usage are experiencing shutdowns. Most dramatically, by the beginning of September Europe had already lost about 1 million tons of its primary aluminum production, many of these cutbacks and closures having occurred before the end of 2021, according to Eurometaux, the European association of non-ferrous producers. This is a loss of 50% of total primary aluminum production in the EU. Eurometaux has sent a letter addressing the dramatic perspective to the European Commission, urging instant action.

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### Wind Power Suffers Reality Shock

German-Spanish wind turbine manufacturer Siemens Gamesa announced Sept. 29 that it is cutting 2,900 jobs worldwide. Most of the jobs will be eliminated in Denmark (800), Germany (300) and Spain (475).

"Such a decision is never easy, but now is the time to take necessary actions to get the company back on track for a sustainable future," Siemens Gamesa CEO Jochen Eickholt said, justifying the drastic move. The savings program is part of the so-called "Mistral strategy," which is intended to revive the crisis-ridden wind group.

Due to the record prices for raw materials, supply chain chaos and internal problems, Siemens Gamesa's problems are getting worse and worse. Eickholt had already announced in a *Handelsblatt* interview in June that there would be major job cuts as a result.

Although Siemens Gamesa is one of the largest wind companies in the world, and even the market leader at

sea, business is poor. In the last six years, there have been several profit warnings, red figures, and four different bosses. Just at the beginning of August, the turbine manufacturer had to lower its profit forecast again. “The situation remains tense. We see material costs continuing to go up, and at the same time we have long-term contracts that were concluded in 2021 with significantly lower prices,” Group CEO Eickholt said at that time.

Market leader Vestas and competitors such as Nordex, Enercon, and GE Renewables have also been posting losses for months. And not just since record raw material prices, supply chain chaos, and the Ukraine war have been weighing on business. There has been a fierce price war in the market for years. Above all, the switch from fixed state payments to free tendering systems, in which only the cheapest bidder is awarded the contract, has driven turbine manufacturers into ruinous competition.

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## Germany Follows UK to the New Frontier: Rate Hikes, QE, Hyperinflation

The German government on Sept. 29 followed the fiscal-monetary somersault of the UK one week earlier. Chancellor Olaf Scholz held a press conference to announce that “prices must come down” and that his government would throw out its debt limit and borrow on a large scale in order to provide €200 billion in support for households and companies in paying their energy bills, as well as cutting the (natural) gas sales tax and other taxes.

But as in the UK, whose policy lurch Germany is copying, this will not make “prices come down,” but merely have the government increasingly pay the prices of energy for companies and households, thus creating plenty of demand for prices to continue to go up.

German inflation for the month was over 10% for the first time in many years. “Prices have to come down, so the government will do everything it can. To this end, we are setting up a large defensive shield,” said Scholz, according to Reuters, which reported him also confirming that two nuclear reactors planned for shutdown will be kept online until spring.

Thus the UK government and Bank of England have engineered—and that is the right word for this new inflation product—a bailout for pension funds, money-market funds, hedge funds, and, implicitly, banks down the line a bit; capped household energy bills for a while; and set off earthquakes throughout the bond and currency markets of the world. And Germany has followed the British lead.

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## China-EU Trade Grows

China-EU trade has increased by 8.8% year-on-year so far for 2022, and EU investment in China has increased by 123.7%, reported the Chinese Foreign Ministry Sept. 26. “The China-Europe Railway Express made its 10,000th trip of the year ten days sooner than last year,” said spokesman Wang Wenbin.

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## Carney’s ‘Net-Zero’ Alliance of Banks Starts To Unravel

Both the *Financial Times* and Reuters reported Sept. 21 that major Wall Street banks have threatened to leave former global central bank leader Mark Carney’s financial alliance. The *Financial Times* evidently had reports from sources involved in Carney’s Glasgow Financial Alliance for Net Zero (GFANZ). Carney is the United Nations climate envoy who was Bank of England Governor for eight years while also head of the

global Financial Stability Board and several “net-zero” committees of the central banks.

Businessgreen.com separately reported on Sept. 26 that Australian and Austrian pension funds had actually withdrawn from part of the GFANZ called the Net Zero Owner Asset Alliance. The *Financial Times* listed Morgan Stanley, JPMorgan Chase, and Bank of America, as well as other unnamed banks, as considering getting out of the GFANZ—which in 2021 claimed members’ assets under management in the range of \$200 trillion—because “they fear being sued over the alliance’s stringent decarbonisation commitments.” Other reasons are also given: the banks “feel blindsided by [new and] tougher UN climate criteria” and are “anxious about U.S. Securities and Exchange Commission (SEC) rules [on] climate-risk disclosures.”

But the underlying cause is that identified in the Reuters coverage: “The bankers have also complained that the demands placed on them are not supported by enough government action on climate change.” In fact the demands made by the 2015 Paris Accord, and more recently the November 2021 Glasgow World Climate Summit at which Prince (now King) Charles called for a “military-style mobilization” of green finance, have run into physical economic reality: The Green New Deal has failed to deliver power and heat. Nation after nation—and not just those constantly blamed, China and India and other Asian economic powers, but also European countries and the United States—has “temporarily” abandoned “green” shutdowns of fossil fuels. The so-called “renewables” have not provided much power, the materials and commodities required for green schemes have suffered huge price inflation or become unavailable, and the sanctioning of Russian fossil fuels has boomeranged on the NATO countries.