# Economics Briefs

## Bloomberg Reports Russia Reshaping the World's Oil Trade

For decades an exclusive prerogative of the United States and UK, the world's trade in oil is being reshaped by Russia, its main fossil fuel customers, and BRICS oil producers, following the NATO nations' attempt to destroy it by sanctions, reports *Bloomberg News* in an article Dec. 7, a summary of which was published by *RT*.

*EIR* reported this development in detail in its Sept. 29, 2023 issue.

The article's "headline" development is the doubling of Russia's oil export revenues in the period April–October 2023, following the NATO attempt at a "price cap" for Russia's oil exports, supposedly the definitive sanction. Russia's export price is averaging $72/barrel, and its current account was back in surplus in October according to the Russian Finance Ministry. Russia's growing tanker fleet, factitiously called a "shadow fleet" in Western media, "allow[s] Moscow to maintain control over its exports and progressively increase prices," *Bloomberg* acknowledged.

The financial architecture of maritime trade, especially in oil, has been reshaped "in a way that some experts say might be hard to reverse at the end of the conflict or after the eventual lifting of the sanctions regime." (Though not mentioned in the article, readouts from Russian President Putin's meetings Dec. 6 with the leaders of Saudi Arabia and the United Arab Emirates show that this coordinated reshaping of fossil fuel trade and transport, not merely its production and price levels, was clearly on the agenda.)

An anti-Russian Senior Research Scholar at the Columbia University Center on Global Energy Policy, Edward Fishman, who has helped design anti-Russian and anti-Iran sanctions, admitted to *Bloomberg News* that "alternatives to Western services will eventually become a structural feature of the global oil trade."

## Commerce Secretary's No-Chips-for-China Rant Gets a Stern Response

Furious declarations of economic war on China by U.S. Commerce Secretary Gina Raimondo at the Reagan National Defense Forum on Dec. 3 have drawn a very firm response from China's Foreign Ministry, which said its semiconductor and related technology advancement could not be stopped, by the United States or otherwise. Raimondo showed again the Biden Administration's intent dramatically to weaken China's economy—if not "crush" it, as Russia's was to be—while talking about a stable but competitive relationship.

Raimondo interrupted the CNBC interviewer who asked about Huawei's new smartphone featuring a very advanced semiconductor chip:

"[China's] capable of doing very bad things, and we're gonna deny the entire country this class of equipment. We can't let China get these chips. Period. Listen, America leads the world in artificial intelligence. Period. Full stop. We're a couple years ahead of China. No way are we going to let them catch up. We cannot let them catch up. So, we're going to deny them our most cutting-edge technology. This is the biggest threat we've ever had."

Chinese Foreign Ministry spokesman Wang Wenbin said in response:

"The violation of the rules and regulations of the free-trade market is just like building a dam with a sieve. No matter how hard you try, the water will just flow through it. The U.S. should stick to the right perception and work with China to deliver on the common understandings reached in the San Francisco meeting [between Presidents Biden and Xi]. It should stop seeing China as a hypothetical enemy and saying one thing but doing another."

China's semiconductor industry has in fact, since the Biden Administration's drastic sanctions and attempted embargo beginning October 2022, increased its dominant share of the "legacy chip" market while also rapidly developing new chips with nodes as small as 7 nanometers, which were supposed to be "denied" to China by that embargo.

## Kerry Announces a 'New' Fusion Partnership at COP28

Speaking at an Atlantic Council panel session at COP28 in Dubai, the Biden Administration's climate envoy John Kerry announced "a U.S. international engagement plan for fusion energy" which appears to focus on the Department of Energy's collaboration with the UK, Japan, and European Union nations. He said the "engagement plan" would have five areas of concentration: R&D; supply chains and marketplaces; regulation; educating fusion workforces; and engagement.

Kerry's announcement did not mention nations other than the UK, and anecdotally his speech referred to the Commonwealth Fusion company in Massachusetts, TAE Technologies in California, and to Japan's JT60SA tokamak experiment, a joint project with the European Union.

Kerry, and later Dr. Ernest Moniz, the former Obama Administration Secretary of Energy, emphasized that private companies' fusion R&D projects were making rapid progress; recently, the Department of Energy made a series of grants of about $40 million each to foster 10 of the companies' collaborating with university or national laboratories. Moniz stressed the $5 billion in private venture capital investments in fusion companies in the past three years, as the most convincing evidence that fusion was not 30 years away; this is much more than public funding of working fusion experiments in those three years.

Kerry said the United States had "proudly announced a decadal program to commercialize fusion energy in March 2022, but we cannot realize this grand ambition alone. We are laying out the road ahead for an international structure."

There was no mention of China in this structure, although China has developed two world-leading tokamak experiments, including the EAST tokamak in Hebei Province; they lead in the achievement of up to 20 minutes of stable confinement of plasmas at 70 million and 100 million degrees. Commenting on Kerry's presentation, panelist Andrew Holland, Chief Executive Officer of the Fusion Industry Association, said, "We're trying to build a global posse to get there before the Chinese, so the Chinese don't dominate another new technology."

Overall, Kerry began from the standpoint of cutting global carbon emissions as the *raison d'être* of fusion power, while in contradictory manner referencing President Eisenhower and the Atoms for Peace program, begun in 1954, which had the purpose of electrifying the world.

## Treasury Market Threatens To Bring Back 'Repo Crisis' of Late 2019

The rising volatility and slowly declining liquidity in the market for U.S. Treasury securities is making possible a near-future dangerous crisis in interbank lending, according to a Dec. 5 *Bloomberg News* article, "Repo Market Spikes Conjure Memories of September 2019 U.S. Funding Turmoil." It reports that the Secured Overnight Funding Rate (SOFR) of the Federal Reserve rose sharply and stuck at 5.54% Nov. 30—still only half the spike of Sept. 15–16, 2019, but "drawing unsettling comparisons with turmoil that rocked the space more than four years ago."

The U.S. Treasury's huge and continuing debt issuance, largely in Treasury Notes of only 6 months' to 2 years' duration, has magnified the greatly expanded role of hedge funds in "buying frenzies" and has skyrocketed those funds' demand for repurchase agreements ("repos"), essentially using Treasuries as collateral to borrow from banks to buy more Treasuries or, even more often, Treasury security *futures*, i.e., derivatives. In late 2019 big banks stopped making those loans to the hedge funds and the market for loans among the banks themselves froze up across the trans-Atlantic banking centers. The Federal Reserve had to rush in with hundreds of billions of dollars in liquidity loans, and then an unexpected "QE5" which within months became "QE Infinity."

A senior TD Securities manager tried shaky reassurance:

"It looks, walks and talks like September 2019, but I don't think it's being driven by quite the same reserve scarcity reasons this time around."

Interminable bank-economist talk was then cited by *Bloomberg News*, ending with an economist's note to clients which concludes that "risks are mounting."

## 'Nobody Wants U.S. Treasury Bonds'

A straightforward report with the headline "Nobody Wants U.S. Treasury Bonds" appeared on the venture capital-type "news platform" SEMAFOR on Nov. 28 and was run by Yahoo!Finance Nov. 28. It describes "the worst stretch for U.S. government bonds since the Civil War. The government keeps borrowing to cover its budget deficits, while once-reliable buyers of that debt, both at home and abroad, have pulled back. [Despite] the steepest yields since 2007. Auctions of fresh bonds that were once routine are now getting absolutely hammered. The longest-dated Treasury bonds are in a bear market worse than the dot-com bust and almost as bad as 2008."

A decade ago, China and Japan combined held 22% of U.S. Treasury debt; now they hold 7%. Major banks have also pulled back because they have suffered large unrealized losses primarily on Treasuries.

Regarding those unrealized losses of U.S.-based banks, they rose from $518 billion at the end of the first half of 2023 to $684 billion at the end of the third quarter. This latter figure is 13% of the total value of all securities held by all U.S.-based banks; and about 30% of the total equity capital of all banks, which is $2.24 trillion, according to *Wolf Street*. The unrealized losses rose this much despite the disappearance of the securities losses of the five banks which went under in February and March. Those losses, which totaled about $40 billion, disappeared from the banking system when the FDIC bought all those devalued securities, and the Treasury thus absorbed the losses.