Weekly Commentary 33 – August 2023

The US Bond Market Implosion and its Fallout

The bellwether US 10-year Treasury Bond, used widely by the entire financial industry as the benchmark long term interest rate to price other interest rate instruments, rose to a yield of 4.30 percent before closing the week at 4.27 percent. The event can be likened to a herd of stampeding cattle breaking out of a corral.

I wrote about that before it happened in the weeks before, and I will extend my analysis with an in-depth focus on the fallout of this major market event. I had speculated that this breakdown in yield would happen and I have gotten it right. (Readers who may think my English is amiss as I write this commentary by using terms like "breakdown in yield" when it is going up, should understand that yields going up on bonds is the same as a fall in price, so indeed, there has to be some familiarity with how bonds work to understand the English that is used to describe their behaviour).

A rise in bond yields is a bearish market condition because its value and price are depreciating. If you are holding bonds, and yields rise on you, you lose money.

The current bear market in bonds has been ongoing for three years, since the halcyon days in the summer of 2020, when the 10-year bond was paying ½ percent in yield. Now, three years later, this same benchmark bond is nearly 4 percent higher, closing in on 4½ percent. It is probably the worst bear market in about forty years. The difference between the elevated bond yields of 1980-81 and those of today are that the size of the national debt back then was a mere US$900 billion; now it is US$32 trillion - a 35x in just about 40 years. Just about 1x increase per year…For the same bond yield, the debt service is 35 times. Is that sustainable? Sure it is, this is Amerika, for crying out loud. The question is, for how long?

But there is more to it. As bond yields are in fact a long-term interest rate, this rise in yields is a major setback for economic management of the country by the American government. The treasury yields represent the base interest rate for all other interest rate instruments, from mortgages to business loans. All other private sector interest rates take their cue off these treasury yields and add on layers of additional interest to reflect the higher risks in other types of loans to economic activities throughout the economy. For example, the prime rate in the US is now at 8.5% - 4% higher than the 10 Year Treasury – and it is itself the rate available from banks to its best customers. If you are the average American borrower taking on a business loan or a mortgage, you will probably be paying a double-digit interest rate.

Hell, if your credit is not quite so good, 12-15 percent is not unlikely. On an absolute basis, there is nothing good in this structure of interest rates to move the economy forward.

In short, low interest rates are benign and beneficial to economic activity. When rates are at current levels, it is a bloody disaster.

Let's look at the history of this event to analyse where it is now headed. When the covid pandemic happened, around Q2 2020, the US government saw that the economy tanked like it never did in nearly 100 years. Panic set in. They thought it would lead to another Great Depression all over again.

The response of the US government – forget all the rhetoric about its being a capitalist economy – was entirely socialist. They basically did two things. The first was to hand out money generously (or should I say indiscriminately?) - thousands of dollars to each household, and they did it twice, in a "print money and splurge" campaign to save the economy. It was unfettered socialism.

The second thing they did is to reduce interest rates to zero. The stated aim of these actions was to prevent American households from crashing through a hole so that there would be no Steinbeck-type queues at food banks, the type we all remember from the black and white movies of the1930s. Well, the food queues still appeared in the early days of that looming recession, except that the queues were made in fancy cars that snaked for blocks around the food banks giving out cereals and canned food. It was a sight to behold. But the panic of the Biden government was palpable, and they reacted in great haste to become the most socialist government in modern history. Every citizen got a generous handout to tide over the second Great Depression. Never happened quite like that in 100 years of communism in either the Soviet Union or overtly Communist China. That's America, the self-declared bastion of capitalism, the land of no government handouts, or even intervention, for you.

And at half time, through the three years of policy flipflops, the Americans were dealing first with a perceived Great Depression which didn't happen, and then when they realised they put too much money into the system and interest rates were too low, they reversed course abruptly and raised interest rates ten times in eighteen months. And we are not even at full time yet…

If we argue that these three years of economic policy was about "managing the unknown", and they did the best they could have in the circumstances, we would realise that's not quite true if we just look at how they did it in China, facing the same unknown…

By comparison, since the discovery of covid, China the first victim and with a far larger population that could have been a much bigger problem in any pandemic, did not quite react in the same fashion on economic policy as the Americans did – first with a bountiful largesse and then a sharp reversal of that policy. Basically, Chinese economic policy did not over-react. They were calm and collected at the helm as their steer the ship of state through the pandemic without much action on either the fiscal front or monetary policy. There was poise in what they did.

And today, they have zero inflation, are able to cut interest rates, spend money on infrastructure, achieve a Q2 growth rate of 6.3% and now drive towards a zero-inflation growth rate of 5% in 2023, while deflating excessive leverage (nothing close to Lehman levels) in the real estate sector as well as in the Local Government Financing Vehicles. But you would think, if you only read western media, that this economy is teetering on the brink of collapse, and America is close to scoring a touch-down. The media hype cannot be further from the truth.

In case you don't know it already, there is absolutely zero objectivity in western media when they try to turn economic comparisons between China and the US into pro-America propaganda. Read it with eyes open.

Anyway, that is not our story today. It is about the failure of US economy policy in the Biden Administration so far. The immediate actions of Biden in 2020, as he stepped into his new shoes as POTUS, were to engage in the largest money expansion program in the history of monetary policy in the country, PLUS a dive-to-zero interest rate policy simultaneously. Never mind the de facto socialism this represents. But even by capitalist norms, this is totally excessive and deviant behaviour.

Firstly, it brought stock and bond markets to stratospheric heights. Looking in the rear view mirror (and in the past three years, I have written continuously and analytically about this so I am not exactly talking with the benefit of perfect hindsight), we know that both were overbought. Stocks soared and in 2022 crashed – symptomatic of this was the rise and fall of an ETF called Ark. Crypto became all too fashionable and also in 2022, three major fraud cases were uncovered. This was a reflection of too much free money chasing what were de facto ponzi schemes. People who played the game got burned. Whether there should be value judgement to say if the losers deserved it on not, the massive losses were just a fact. Speculators lost big betting that the policies of free money and zero rates by the Biden Administration were a sound basis for economic management.

But the erratic fluctuations in the bond market is what we want to focus on today. Firstly, at the peak of the zero rate induced rally, the yield on the ten year Treasury bond went down to 0.5 percent. This basically meant that investors in these bonds were lending money to the US government for ten years, earning ½ percent in interest every year for all of those ten years. Inflation at that time was between 1.2 and 2 percent. I was following these numbers closely at that time, all the time. Buying that 10 year bond meant you would invariably lose money to inflation. I mean, objectively, can people be so bankrupt of investment ideas to do such a stupid thing?

People woke up very quickly, though. From the height of the bond bull market that lasted from April 2020 till Aug 2020, reaching that ridiculous 0.5 percent yield at its peak, the yields rebounded to 1% by the end of that year.

And you all remember that the real crash in bonds begun when the US Fed recognized that the easy money was overdone, and with the war in Ukraine and ineffective Russian economic sanctions, as well as the cumulative effects of another ineffective trade war against China, inflation started to surge in the country. From 1.5-2%, core inflation rose to 9% in just a few months. This was a disaster, because inflation had been buried for forty years since Paul Volcker wiped that notion off the map in the early 1980s. The US Fed had to act. Rate hikes until today have been enacted 10 times, with a regularity that feels almost like a heartbeat.

The bond market initially understood what the first turn in interest rates would mean for bonds. From Jan 2021 to today, the bond market went through three rounds of bust and boom. It first reached 4 percent, and then fell back to 3.25% in the first year of the bear market (2021); it then went back up to 4.10 percent in November last year; and came back below 4 percent for a few months. Along the way, it bankrupted three American mid-sized banks. The ensuing banking crisis also broke Credit Suisse, already deep in trouble from imprudent lending.

Then finally last week, after the Fitch downgrade, it became obvious that the pressure on the Fed and the Treasury is just beginning, and rates will continue to rise. Technically, it is the breaching of a "double top" formation, and after that, there is no more "resistance" to the upward movement of the yield. It will inevitably go up. Cattle stampeding out of the corral.

All the above are just the most obvious financial market effects of the prolonged bond market crash. Basically, you don't want to buy bonds for the foreseeable future. Period.

Haven't I been saying that in this blog for a couple of years already?

And of course, as bond yields are part of the term structure of US interest rates (or the complex web of interrelated interest rates for US dollar assets), a rise in the US ten year yield is also an indication of interest rates rising across the board. And as sure as the sun will rise, bank deposit rates will also rise.

That is actually the only favourable thing to say about this interest rate scenario. Folks with money to put into bank deposits will enjoy higher rates. This is what the Wall Street Journal has to say about this situation:

Rising Yields Fatten Americans' Pocketbooks

Higher yields on everything from Treasurys to money-market funds are delivering a windfall to savers

By Gunjan Banerji
Aug. 18, 2023 5:24 pm ET

The summer bond-market rout is delivering a windfall to savers whose rush into higher-yielding investment products is reshaping the U.S. financial system.

Americans poured $36 billion into money-market funds in the latest week, taking advantage of yields that have soared past 5%— a figure that only recently seemed like a dream for consumers and businesses shopping for a place to park their cash. That marked the biggest weekly inflows since May, according to Refinitiv Lipper data through Aug. 16.

Assets in retail money-market funds have surged more than 25% this year, according to Federal Reserve data, to a record $1.5 trillion. Funds from firms including Vanguard Group, Charles Schwab and JPMorgan Chase are offering yields above 5%.

Money-market funds are a type of mutual fund treated by most investors like bank accounts as a safe place to store spare cash. They hold only high-quality liquid assets such as Treasurys and, in some cases, short-term corporate debt. The funds recently paid an average interest rate of 5.15%, according to Crane Data, the highest level since 1999.

And they aren't the only source of succor to savers. Savings accounts at many banks are now paying above 4%—after years in which many paid next to nothing.

The torrent of cash reflects the continuing strength of the U.S. economy, whose continued expansion has prompted the fastest pace of Fed interest-rate increases in decades. The yield on the 10-year Treasury note settled Friday at 4.251%, near its highest level since 2008.

For consumers and businesses, higher short-term interest rates are giving them a chance to do something they haven't since the days before the 2008 financial crisis: park money in safe places and get paid well for it.

"I can earn 5% on cash doing nothing, versus risking losing a bunch in the market," said Yaacov Teplow-Phipps, a 42-year-old who works in real estate in Briarcliff Manor, N.Y.

The high rates on offer from many financial institutions, together with the recent decline of interest rates and the home-refinancing wave of 2021, mean that U.S. consumers are better off than they have been in some time. That fact helps to explain why the economy continues to perform months after many economists and investors confidently predicted a 2023 recession, which for now seems to be on hold.

Similar to many Americans, Teplow-Phipps said he locked in a low rate on his mortgage years ago. He's still spending money, dishing out cash for things such as camp for his children and fixing up the windows on his home.

"We're not cutting back," Teplow-Phipps said.

Around two-thirds of Americans held on to mortgage rates below 4% as of the first quarter, according to Freddie Mac. That is well below the roughly 7% rates many banks are offering to lend at today.

Of course, the epic shift of these funds isn't without its potential costs. Regional banks have come under pressure this year as savers awoke to the possibility of getting better paid elsewhere to park their funds. Deposits in noninterest-bearing deposits at U.S. banks fell 18% from a year ago in the first quarter, according to Federal Deposit Insurance Corp. data.

Those fleeting deposits are raising questions on Wall Street about the viability and long-term business prospects of thousands of smaller banks.

The banking crisis that started in March was the most extreme example of this dynamic, and many investors remain concerned about the prospect that the higher rates will create problems within various sectors of the economy that they and others haven't yet grappled with.

But for now, individuals such as Barry Wong aren't complaining about the higher returns.

"It's been great," said Wong, who is 44 and works in insurance. He opened a Charles Schwab account and bought Treasury bills for the first time ever this month after years of investing in stocks. "I had money sitting on the sidelines," he added.

Wong, like many others, locked in a mortgage rate of around 3% after refinancing in 2020. He was caught off guard by the tumbling stock market last year and kept expecting the economy to deteriorate. Instead, it seems to be humming along.

"I kept thinking for the past two years that the sky was going to fall and it hasn't," Wong said.

Investors are basking in the stock market's strength as well. The S&P 500 has rallied almost 14% in 2023 after its worst year since the financial crisis, further buttressing individual investors' portfolios.

Yet the rush to cash marks the shift of a long-prevailing attitude toward stocks, which seemed to be the best and only place to seek robust returns.

"For the first time in a long time, we're perfectly comfortable holding cash in our accounts," said David Sadkin, a partner at Bel Air Investment Advisors. "We can go back to a more traditional asset allocation without having to take undue risk to get a return."

Sadkin, who typically works with individuals with more than $20 million in assets, says that he has been allocating 5% to 10% of his clients' portfolios into cash or cashlike investments, such as Treasury bills or money-market funds.

A year ago, he said, he would have had no allocations to such investments.

Higher incomes for Americans, in part because of these rising yields, have helped propel the broader economy. Some Wall Street firms, including Bank of America, have said they expect the U.S. to avoid a recession this year.

"The consumer has a lot going for it right now," said Stephen Juneau, senior U.S. economist at Bank of America.

—Hannah Miao and Gina Heeb contributed to this article.

I cannot believe the revered Wall Street Journal would publish a stupid article like the above. I don't buy it. The tale may be true for a small group of people who have cash to put into deposits or T-bills. But the vast majority of Americans who have no savings will be in trouble.

Consider this story with an opposite point of view published by CNBC, another financial news outlet:

Americans are saving far less than normal in 2023. Here's why

APR 27 20239:56 AM EDT

By ***Carlos Waters e saving less in 2023***

KEY POINTS

- *The U.S. personal savings rate was hovering around 4.6% in February, which was below a decades long average of roughly 8.9%.*

- *Economists note that this dip in the savings rate is occurring as inflation continues and wage growth slows.*

- *Deposits at banks have crested but remain well elevated compared with pre-pandemic levels.*

The U.S. personal savings rate remains below its historical average, according to the U.S. Bureau of Economic Analysis.

The seasonally adjusted annual rate of personal saving was 4.6% in February. That's well below the average annual rate of more than 8%, according to the data, which traces back to 1959. In June 2022, the rate had dipped to 2.7%, a 15-year low.

This was a large fall from periods of the pandemic when households across the country were saving as much as 30% of their monthly income.

"Something like $2 [trillion] to $2.5 trillion above what we would have otherwise expected were saved by American households," said Curt Long, chief economist at the National Association of Federally-Insured Credit Unions.

Collectively, Americans have trillions in excess savings compared with expectations leading up to the pandemic, according to Federal Reserve economists.

"That really has helped to buoy the economy," said Shelley Stewart, a senior partner at McKinsey & Company, "particularly in a place like the U.S., where consumption is such a big part of GDP."

Federal Reserve economists note that the lion's share of excess savings is concentrated in the top half of households by income.

But the lower half built up savings in this time, too, according to the central bank's October note. They noted at the time that the lower half of earners had roughly $5,500 in excess savings per household. Experts believe these stockpiles of cash will begin to dwindle in 2023.

In the months since, headline inflation stayed stubbornly high, at an annual rate of 5% in March. This weighs on consumer spending, while devaluing savings held in low return positions such as cash.

In other words, the sanguine portrayal of the state of the consumer economy in the US caused by rising interest rates is not an accurate portrayal of the actual state of affairs. The CNBC article is closer to the truth. At the end of the day, higher interest rates can benefit savers if and only if there are enough savers…

Here is a statistical study of the state of the savings vs indebtedness in the US :

SNAPSHOT STATISTICS FOR AVERAGE AMERICAN DEBT 2020

- 80% of Americans have consumer debt
- Americans have $14 Trillion in debt collectively (the government has $32 Trillion)
- Mortgage debt is the biggest debt in America - with $9.44 trillion owed collectively
- The average American household mortgage is $189,586
- The average consumer debt is $38,000 excluding mortgages
- People aged 45-54 have the greatest average debt when compared to other age groups, but they also earn the most money on average.
- 13% of Americans expect to be in debt for the rest of their lives
- Medical costs have increased 33% in the past 30 years, while income has only grown 30%
- The cost of raising a child in America is around $250,000 from birth to age 18.
- 2 out of 10 Americans use at least 50% of their income to pay back what they owe.
- Only 1 in 3 Americans have a written budget
- Almost half of the families in the US live paycheck to paycheck
- 19% of Americans have $0 set aside for an emergency

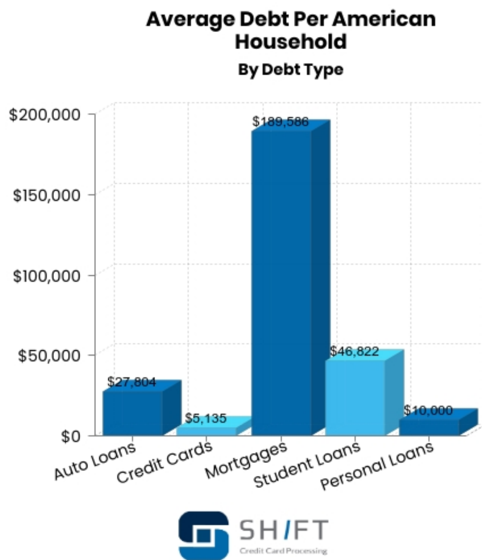
Americans In Debt

What percentage of Americans are in debt?

Just how many Americans are in debt? According to financial experts, the percentage of Americans in debt is around 80%. 8 in 10 Americans have some form of consumer debt, and the average debt in America is $38,000 not including mortgage debt. Owing money just seems to be a way of life for Americans, as collectively we have $14 trillion in debt. That amount is climbing ever higher. Consumer debt can be broken up into 4 main categories: mortgage debt, auto loans, student loans, and credit card debt. Unpaid medical bills and expensive medical costs are quickly contributing to debt that Americans currently carry.

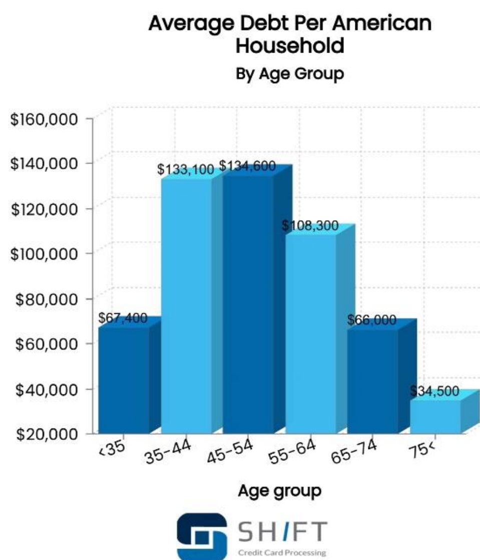
What is the biggest debt in America?

The biggest debt in America is mortgage debt with the average American household mortgage debt being $189,586 with the total of $9.44 trillion owed in the US. The next biggest debt is student loans, with the average amount per American household is $46,822. The average auto loan debt is $27,804 and the average credit card debt per household is $5135.



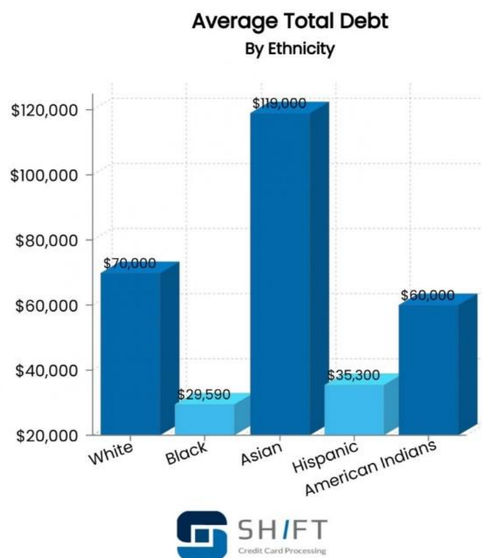
A study done on budgeting done by the Bureau of Labor Statistics reflects that mortgages & housing are our biggest expense. The most recent numbers from their study show that 33% of our monthly income is going toward housing - which includes mortgage repayment, utilities & bills, repairs & furnishings.

However, the largest debt you have can vary by age group and stage of life. For example, people who are younger than 35 have, on average, about $67,400 of debt. The majority of their debt is made up of credit card debt and student loans. But as we look at age groups as they get old and consider their stage of life, it makes sense that mortgage debt would be the main source of debt for households 35-44, as many people buy houses and start families.



The most common reasons Americans go into debt are medical costs, home improvements and having children. Indeed, there is a cost to having children. In fact, about 37% of couples are delaying having children and starting families until they get established financially & get most of their debt paid off. They fear the additional debt that having children could add - including loss of income from time off work and paying for daycare until the child reaches school age. The average costs associated with raising a child from birth to age 18 in America

is $250,000, or $13,889/year, which include housing, food, & education. Adding children to the family also includes cost of medical care, which is increasing faster than our income is.



MEDICAL CARE

Unpaid medical bills and the resulting accumulation of debt is a rising trend among Americans. Some Americans are paying for insurance AND their expenses out of pocket until their deductible is reached. This is even true with people with insurance, as some plans have very high deductibles. 62% of people who have trouble paying their medical bills report that they had health insurance at the time treatment started.

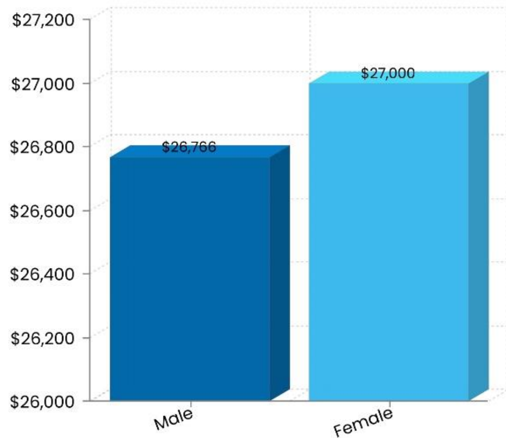
Medical bills can get incredibly expensive and add up quickly, especially if it is the result of an emergency or accident.   40% of Americans report they could not cover an unexpected expense of $400. And indeed, 15% of Americans are in medical debt of at least $10,000.

The rising cost of medical expenses is outpacing income growth. The analysis of the past 10 years has shown that medical costs have increased 33% while income has only increased 30%. Though the powers-that-be are trying to change healthcare, many families are feeling the burden of unpaid medical debt. The average cost of medical care per person in America is $5000/year, which has doubled since 1984 (after adjusting for inflation).

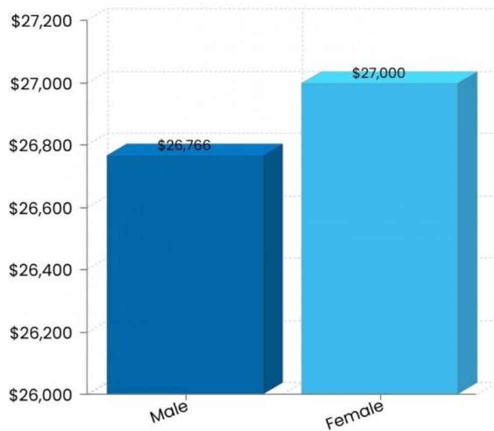
STUDENT DEBT

The cost of higher education is dramatically increasing as well. The median debt of students who either attend or graduate college with an undergraduate is $49,000. Forty million Americans have student loan debt, and 14% of those owe more than $50,000. The percentage of Americans with student loans who default is at least 28%.

In our personal financial statistics article, we were able to see that if we look at income & ethnicity, Asians have higher incomes, on average, than any other races. The average income of Asians is $81,331 / year.. If we look at student debt, by ethnicity, we see that Asians are right in the middle when it comes to what they owe for their education.



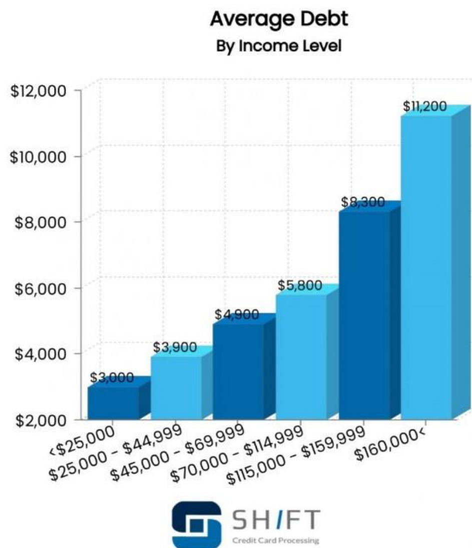
And while males tend to earn more money than females, females have more student debt on average than their male counterparts. Regardless of age, job type, industry, or seniority, men tend to earn $11,791 more than women on average.



INCOME LEVEL

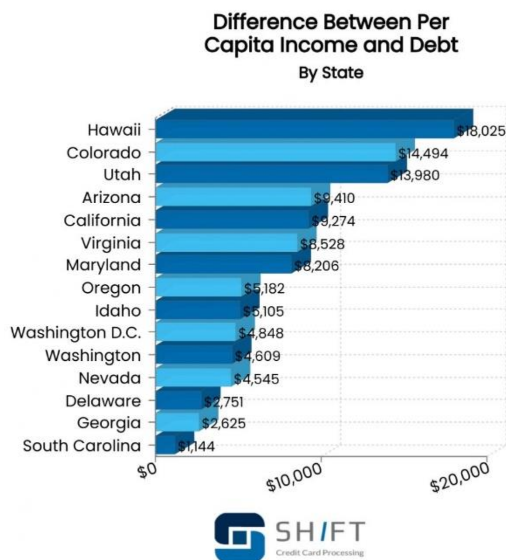
Currently, the amount of debt is positively correlated with the level of income. This means that the amount of debt rises as the amount of income rises. With more income,you can be approved for a higher mortgage or auto loan. You have greater ability to go into debt because you have greater ability to pay it back.

However, $11,200 is 7% of 160,000, while $3000 is 12% of $25,000. So while the dollar amount of debt is greater as income rises, the percentage of debt compared to their income decreases. Those with lower incomes feel the crunch much more than those with higher incomes.



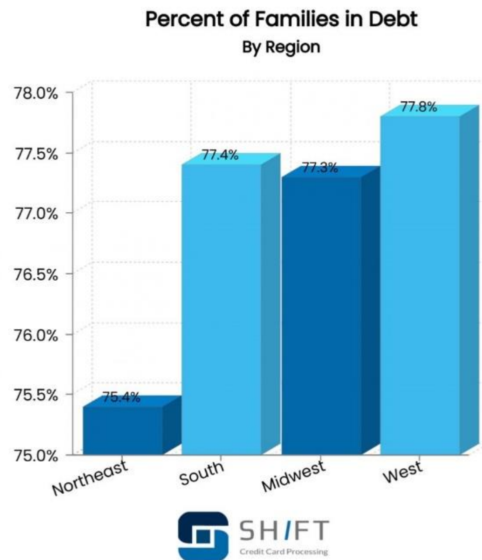
Income level is only one piece of the puzzle. Depending on where you live, your income might go really far or you might be strapped for cash due to the cost of living. There are some states where the average debt per capita is higher than the average income. We've all heard that it's expensive to live in California and Hawaii - and we can see that the average debt in Hawaii is $18,025 higher than the average income. The average debt in Hawaii is $72,590 while the average income is $54,565.

Below are more examples of where the average debt exceeds the average income. On average, they owe more than they make.



DEBT BY REGION

The percentage of families in debt by US region are listed below. On average, only 75.4% of families are in debt in the northeast, as compared to 77.8% of families in the west.



The Costs of Being in Debt

Indeed, going into debt is borrowing from your future. Some debt can be considered "good." Mortgages or student loans can be used to build your credit score and establish credit history. However, bills can pile up fast and then you can find yourself stuck in a cycle where the mountain gets ever higher and harder to climb.

Indeed, there are some people that are in so much debt they use at least half of their income to repay it. Indeed, 20% of Americans use at least 50% of their income to repay their debt. The more debt you owe will cause less available cash to pay for other things or save for an emergency. There's a reason why it's important to do your research and make a plan before you incur more debt. Will your college degree get you into a career that will worth what you paid for it? Will you be "house poor" after you buy a house you thought you could afford, only to realize too late that all the additional costs of owning a home leave you strapped for cash? Will the lack of cash prompt you to use a credit card or get a personal loan, going ever further into debt? Debt leaves us with less disposable income and more obligations.

It's easy to get into the spend then borrow cycle. With almost half of Americans reporting they live paycheck to paycheck and 40% Americans reporting they wouldn't be able to cover an unexpected $400 expense, we see that we need to take a good hard look at our finances and get them back on track.

Budgeting

WHERE'S OUR MONEY GOING?

We can't talk about debt without talking about budgeting. As we see the amount of money we owe grow and grow, we must ask ourselves - where is our money going? Most Americans couldn't really answer that question - **only about 1 in 3 people keep a household budget**. What's more alarming is that almost half of US families report living paycheck to paycheck. Sadly, 19% of Americans also report that they have $0 set aside to cover an unexpected financial emergency.

CONCLUSION

The problems with debt in the US will only continue to rise as more people are spending beyond their means. While some debt might be unavoidable, there really is no reason to keep up with the Joneses.

Looking at the three articles above, we can now make some definitive and objective conclusions about the impact of the rise in bond yields and interest rates.

1) Forget the WSJ story. It is small sample being covered and can be easily refuted. The vast majority of Americans will be weighed down by crippling debt and they will pay ever rising interest rates.

2) The way the US government has been handling the problem of indebtedness in the country is misguided. Yes, Biden did try to provide moratoria for mortgages and student loans, the two largest categories of debt in American society. But that policy was short-lived, designed for the "counter-depression" part of economic policy when people were expected to lose their jobs and not be able to service debt. In those circumstances a moratorium made sense. But they did not figure on interest rates rising sharply through the next year and a half. Those who were prescient locked in low rates during the zero rate phase. But those who did not, will have to suffer the high rates that have started to prevail since 18 months ago. It has been unrelenting and devastating.

3) The government itself will face the same debt-servicing problem which I just covered last week. I will extract from my Weekly Commentary 32 on this pressing matter for the US Treasury.

    "The debt is at $32 trillion and the Treasury needs to borrow about US$1.5 trillion every six months. According to the US Treasury's own website, the borrowing requirement for Q2 (April to June 2023) is $726 billion. This is $449 billion higher than announced in January 2023 due to lower cash balances and projections of lower receipts and higher outlays of $117 billion. During the July-September quarter, the treasury expects to borrow another $733 billion. With the Fitch downgrade leading to higher borrowing costs, this number is large enough as it is, and will likely be even larger. That means for a full year, the borrowing will be more than $3 trillion. Even assuming some of it is used to retire debt, it is simple arithmetic that there the debt servicing will increase every year and before you know it, the borrowing will be $4 trillion, then $5 trillion a year. That's every year. There is no doubt in my mind that the national debt will grow to become US$40 trillion before the end of the decade.

    Measured against a nominal GDP of about $21 trillion, that's a huge burden. This is the first of several ticking time bombs Mr Biden is presiding over, and there has not been one speech in recent memory when he has even addressed the issue, let alone propose a solution except blame the Republicans for bringing it up and trying to curb his administration's extravagance"

4) Together, the US government and 80 percent of private citizens are in a sort of death embrace. They will together face increasing or compounding debt. That will surely weaken consumption (C), savings (S), investment (I) and government spending (G) in the economy as both the US Treasury as well as most private citizens face a higher debt burden. What can this possibly mean? An economy with a permanent limp, trying to overcome indebtedness that will divert resources from other productive deployments. C, G, I and S go down. GDP goes down. This is Economics 101.

5) There is also the problem of keeping the US Dollar high in order to sustain the Treasury's ability to sell its debt. I actually think de-dollarization should be interpreted in a different way from what most analysts expect. De-dollarization may not be an actual fall in the value of the dollar. It may mean that it will take a lot more resources to enable the Dollar to stay strong. For example, to keep the Dollar say at 1.10 Euro in the absence of de-dollarization, it may require normal interest rates (say at 3-4%) to do it; but when the BRICs countries and the Global South find alternatives to the dollar, then to keep the Dollar at 1.10 Euro, it may take interest rates to be boosted to 4-5% to attract yield seeking investors. Or even higher yields may be needed.

6) In short, the onset of de-dollarization will require higher interest rates to keep the dollar buoyant than in the case when there could have been a natural premium its users are willing to pay. That is a huge burden on the US economy that will rob it of its vitality. I want to be the first to put forward this hypothesis - de-dollarization may not result in a lower dollar forex rate; it may just result in higher domestic interest rates. Think about what that means if the country is heavily indebted. It is simply mortgaging its future. It does not take China or Russia to weaken the US. The US is doing it to itself.

In fact, this is why I think western media which has recently been painting the Chinese government as being unresponsive to more stimulus spending to kick start an economy "struggling", not to avoid a dip into recession but simply to maintain the highest projected growth rate in the world, are completely moronic. I mean, the problem of avoiding recession is not quite the same as maintain 5% growth. Why over-react? If you are an astute investor, don't bother with western analysts. They don't know what they are talking about.

The biggest thing that Beijing is doing internally is to cut speculation, reduce debt, rather than keep fuelling the same kind of fire that is consuming the American economy. Western commentators like the "shock and awe" efforts of American government policy to boost the economy but at the end of the day, we need to assess the effectiveness of those measures. Right now, the US is growing at 1.8 percent and it is requiring huge amounts of debt to make it happen. As that debt continues to pile up, it causes an inability of literally everybody to find new resources to invest in the future. What future can there be?

On the other hand, the lack of shock and awe tactics and loud headline economic stimulus measures in China are disappointing the Yuan forex markets and the investors in Chinese stocks. I take a different view. Reducing leverage, even if this is already much lower than in the US, should always be the first thing to do to build a healthier economy. I think the Chinese are on the right track.

That is exactly what I would do in running my personal finances. It is the only way to move forward.

Therefore the upward surge of US bond yields is a signal from the debt markets to the US government to arrest its profligacy and get back to running the country with financial prudence. But I doubt that the Biden Administration possesses the political courage to follow basic economics or the guideposts of personal finance to heed the bond market's call to scale back indebtedness. Or to do things that will protect the general public from the ravages of high and rising interest rates. If you are American or living in a country with interest rates linked to the US, like in HK, you would face a bleak future. As evidence of non-action on profligacy continues, the 10 year bond will likely rise above 4.3%, prompting prime rates to be benchmarked off that rate to reach double digits in the months ahead. And if Joe Sixpack is borrowing, it will be 12-15 percent, with banks practically behaving like loan sharks. It will spiral downwards into hell.

How America can survive its own profligacy, I have no clue. It does not take a challenge from China to break up the American empire. The US bond and banking markets will do that easily enough on their own.

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Un-Influencer in a World full of Hubris