

Weekly Commentary 40 – October 2023

Collapsing bond markets and vanishing finance for wars...

The collective west could not have had a more rotten week this last week.

As the week started, their puppet, Zelensky went on a whirlwind tour of the UN in New York, Washington DC, Canada and Poland. In all four places, the outcome of his quest, which is to get more support for the NATO war against Russia, turned out dramatically unsuccessful. The results are probably the exact opposite of what he wanted. It was an unmitigated disaster.

Firstly, there was his ho-hum, ignored speech at the UN. Other than his friends and fans, acolytes overall, the people he really wanted to convince were those who prefer to stay on the sidelines. Which is about 85% of all human beings on the planet, residing in the Global South. None of these have joined in the collective west's sanctions on Russia, and are increasingly happy to form commercial relationships with Russia. Of these countries which Zelensky needs to convince of his case, most of them stayed away. The UN Chamber was only one-third full.

That's just the first part of the ugly spectacle. The Ukrainian media, not happy to show that Zelensky has no audience, tried to lie about the disinterest in the chest thumping by using fake video showing a packed audience (filmed earlier) to combine with the speech. But that deception was revealed when Zelensky appeared in the audience while he was speaking. WTF! This adds to the huge array of evidence that this corrupt government in Ukraine lies all the time, right through the war so far, and discredits the entire western mission.

Biden also spoke, but nobody even bothered to pay attention to the same hackneyed speech that the world must support the Ukrainians to defeat Russia. You could have put another 80-year-old fella up there talking about his dog biting his bodyguards and there would have been more applause. The twin effort by Biden and Zelensky at the UN was a colossal PR failure.

Then Zelensky showed up in Washington, nine months after he was welcomed as a hero by both houses of congress, and that time, he took away a lot of money. This time, he was not even allowed to address congress in public, besides attending some sideshow in a nondescript venue, and he met a small number of US officials who made it clear to him that further

military and financial support will be sparse going forward. There were telecasts of senators and congressmen explicitly calling for a stop to this wanton waste of American taxpayers' money and for greater scrutiny into endemic corruption. There was no grand gesture, even by Biden, the ultimate commander in chief of the warmongers, to send definitive sums of money to Kyiv. Biden himself couldn't get approval.

Next, Zelensky went to Ottawa, guest of Justin Trudeau who planned a hero's welcome, and that was a stupendous fxxk-up. They all got up to cheer, on global television, with Zelensky himself pumping fist in air, and giving a standing ovation to a former Waffen SS (Nazi) soldier who "fought Russia" in WW2. Except that it was on Hitler's side... The fall out is still going on, and has already engulfed the speaker of the Canada parliament and made the entire political elite look either racist, or just dumb, unaware of salient facts about WW2 history. Trudeau should resign too, because there is no way he would not have known about a Nazi being invited to this ceremony, in which he was the host. Zelensky, who has denied that Nazis exist in Ukraine, is hiding in conspicuous silence after the event. If you ask me, this is one of the last nails in his coffin as increasingly, his credibility runs dry.

Finally, the clown stopped over in Poland on his way home, and not a single Polish leader received him, when he was once showered with brotherly comradeship. The Poles have enough of him, with his obnoxious demands on everybody else who has been generous to his country. He's the guy described as the drowning man that can pull down his rescuers. Zelensky is now toxic.

Well, if you ask me, the true colours of the man have been revealed. A narcissistic man who did nothing more than act out a role as a war leader, proper analyses of everything he has done since taking the role indicate that he has no brains, no experience and pursues only policies that make Ukraine look good in the only situation he is used to – show business. He is callous and ignorant. Note the simplistic projection of his own image – army greens all the time (the novelty has worn off...). Even in the war, he calls for men to do what Hitler used to exhort the Wehrmacht to do – fight to the last man, and don't retreat a single step. That has been the same mission for the Ukrainian armed forces since Feb 2022. Well, Ukrainian youth is truly paying the price, as Nazi Germany once did. There are so many parallels between this and the last great war in Europe.

The beginning of the last week was all Zelensky. He's on a spiral downwards now, bringing with him the speaker of the Canadian parliament and the credibility of all his supporters across the collective west. His antics are splitting the political elite in America. It is leading to the next disaster, a funding crisis in America in which the federal government almost closed down because of strong opposition in the House that there must be no more funding of the war. Well, for the moment, it seems that this crisis is over...as reported in the New York Times:

Here's the latest on the funding crisis.

Congress narrowly averted a government shutdown on Saturday with just hours to spare as the House, in a stunning turnabout, approved a stopgap plan to keep the federal government open into mid-November and the Senate then cleared it and sent it to the White House.

The Senate voted 88-9 to approve the measure, which President Biden was expected to sign.

“We will have avoided a shutdown,” said Senator Chuck Schumer, Democrat of New York and the majority leader, just before the Senate began voting, less than four hours before the deadline. “Bipartisanship, which has been the trademark of the Senate, has prevailed and the American people can breathe a sigh of relief.”

Its passage capped off a dramatic day on Capitol Hill that started with the government appearing headed for a near-certain shutdown. Instead, House Speaker Kevin McCarthy, who had for weeks brushed off demands to work with Democrats on a spending solution, brought forward a temporary patch that could pass only with substantial Democratic help.

Here is what else to know:

- In the House, a coalition of House Democrats and Republicans voted to pass the plan, which keeps money flowing to government agencies and provide billions of dollars for disaster recovery efforts. **The bill did not include money for Ukraine despite a push for it by the White House and members of both parties in the Senate, but House Democrats embraced the plan anyway, seeing it as the most expedient way to avoid widespread government disruption.** It passed the House on a vote of 335 to 91, with more Democrats than Republicans supporting it.
- Action in the Senate was briefly delayed after Senator Michael Bennet, Democrat of Colorado, insisted on assurances that Congress would provide funding for Ukraine in the weeks ahead. **The failure to provide any money for Kyiv in the bill was a disappointment for the White House and a reflection of diminishing Republican backing for the war effort.**
- Bringing up the stopgap bill was a final effort by Mr. McCarthy to head off a shutdown, after hard-right Republicans refused to support one. But it put his job at serious risk. He has faced continuous threats from far-right lawmakers that they would move to oust him from the speakership if he steered around Republicans and pushed through a funding plan with Democratic support.
- A White House official, speaking on the condition of anonymity, said that the bill was a “win” for Democrats, and that the president would sign it. Mr. Biden’s aides pointed out that the measure contained disaster relief funding and money to keep air travel running smoothly, and that it did not include spending cuts that House Republicans had included in an earlier stopgap bill that failed on Friday.
- Federal agencies had braced to be closed starting Sunday if no stopgap were enacted by then. The armed forces and other so-called essential workers such

as air traffic controllers and airport security workers would have remained on the job but without pay until the standoff was resolved.

Leaving out the double talk, the report above simply says that this is temporary for just about 1½ months until the money is used up. The opposition to this federal funding is by the conservative ultra-right wing in the House of Representatives, which is flexing political muscle to stop further involvement in the Ukrainian war using American taxpayers' money. It is a sign of the times. Patience for talk-only is wearing thin, and supporters need evidence of results on the use of money sent to the battle front – which of course does not exist, since the Russians are in fact winning the war. Even as America itself won't stop its own federal government from operating because of disagreement over Ukraine – hence the stop gap bill – there are obvious signs in what was agreed that support for Zelensky will end soon enough. Biden asked for \$24 billion to be approved by Congress, but the bill did not even approve a few hundred million. It approved nothing...

And there was this piece of fiction going through the halls of power in Washington to persuade the lawmakers to give money to fight Russia and China. Even the Secretary of State, Blinken, weighed in on twitter. One of the messages was this:

“5% Of U.S. Defense Budget Destroyed 50% Of Russia’s Military In Ukraine”

This appeared in a Republican Party ad, numerous reports of American politicians repeating the same BS. If this were true, why is there any concern in the west that Russia would conquer the rest of Ukraine, march into Poland and the Baltic states, and compel Finland and Sweden to join NATO? They can just spend a few percent more, say 10 percent, to totally wipe out the Russia military. What's the problem?

The fact of the matter is that the political elite in the collective west has made it a habit to lie. The support to Ukraine is not just 5% of the US Defense Budget – heck, that was just the start. And does not include the financial aid to support the entire Kiev government. The total aid so far has been about \$120b, plus the \$24 in the pipeline. That about 16%. That's not a small number, because as Senator Rand Paul said, there is no pot of money lying on the side because the US military is not cutting their own expenditures by 16% to support the war.

And there is this ridiculous bullshit that the Russian military has been degraded by 50%. Indeed, their manpower resources have taken a hit of about 50,000, relative to 400,000 on the Ukrainian side. Equipment? No wonder there is an “inflation” or shall we say, “exaggeration” problem in America...it is well known that the Russians in just the deployment of mines, have laid them one per meter across the hundreds of kilometers along the line of contact. Missiles and drones are dropping all over Ukraine since the beginning of the war. The western media has been highlighting the uneven odds in the attrition war,

which is based on logistics and ultimately manufacturing capacity. This is incongruent with the 50% loss assertion. It is either one story or the other, but both cannot be concurrently true. And the Russians have just announced a doubling of their war budget in 2024. Take away the bullshit and this is not a war the west has the uncommitted resources their own electorate have given the blessing to their leaders to give unconditionally to Kyiv.

Even the NYT has to admit it. It published an article under the following headline:
<https://www.nytimes.com/interactive/2023/09/28/world/europe/russia-ukraine-war-map-front-line.html>

The sub text reads:

“Who’s Gaining Ground in Ukraine? This Year, No One.

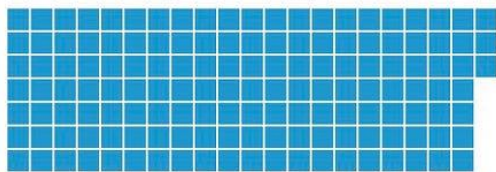
Although both sides have launched ambitious offensives, the front line has barely shifted. After 18 months of war, a breakthrough looks more difficult than ever.”

But I prefer to cite a commentary on that article written by Indi.ca on Medium

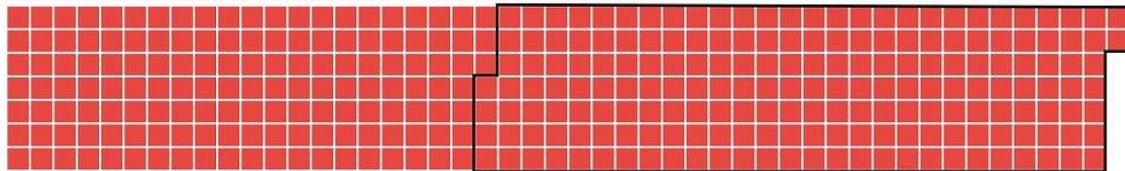
Ukraine Has Lost Ground In Its Counter-Offensive

The NYTimes buries the bloody lede

Since Jan. 1, Ukraine gained: 143 square miles



Russia gained: 331 square miles



Net gain: 188 square miles

Via the *NYTimes*

Ukraine has somehow *lost* ground in its counter-offensive. The NYTimes buries it under a false headline, but Russia has actually *gained* territory (a net 188 miles²) since January 1st. Given that attackers usually take higher casualties, hideous amounts of Ukrainians have died for less than nothing.

All of this carnage is incomprehensible unless you follow the cash. As Caitlin Johnston writes, American officials openly *boast* about what a good ‘investment’ Ukraine is for them. As the craven columnist David Ignatius writes, “*for the United States and its NATO allies, these 18 months of war have been a strategic windfall, at relatively low cost (other than for the Ukrainians).*” Ignatius, of course, supported the Iraq war saying, “*The decision by George W. Bush and Tony Blair to defy global opinion and invade Iraq was a hasanna — a good deed. Perhaps it will bring the United States a reward in greater security, perhaps not. But it was a virtuous act that freed a desperate people from a tyrannical regime.*” Now he’s dropped the virtue signalling and simply supports the US doing what it wants, with Ukrainian suffering in parentheses.

The American military-media-industrial complex is just saying the quiet parts out loud now. As the Republican Senator Mitch McConnell said, “*We haven’t lost a single American in this war... Most of the money that we spend related to Ukraine is actually spent in the US, replenishing weapons, more modern weapons. So it’s actually employing people here and improving our own military for what may lie ahead.*” And bear in mind, this is a war started by the Democrats. America is a one-party state when it comes to war.

The only difference is that Democrats seem to believe their own bullshit. Hence you get Democratic Senator Richard Blumenthal saying the same thing as his ostensible opponent. He said, “*Even Americans who have no particular interest in freedom and independence in democracies worldwide, should be satisfied that **we’re getting our money’s worth on our Ukraine investment.***” America’s corrupt leadership openly uses the language of business, while trusting all the marketing bullshit about ‘freedom’ and ‘independence’ to cover it up.

Today the Wall Street Journal just matter-of-factly says, “The War in Ukraine Is Also a Giant Arms Fair.” This war is *advertising* for arms dealers, and the WSJ profits from carrying it. As some corrupted British soldier/consultant said in that article, “*Successful operation allows manufacturers to write ‘proven in combat,’ which helps sales.*” As I said in the beginning, you can safely ignore the territorial gains, which are going backwards. Just follow the blood money. That shows you what’s happening.

This is the great innovation of American Empire. They have figured out that there’s more money in *losing* wars. American oligarchs have figured out how to loot their own treasury, make the world less secure, and make a killing doing it. America has run this con in Vietnam, Afghanistan, Iraq, etc, and faced no consequences. The same politicians keep getting elected, the same arms dealers cycle in and out of government office, the same columnists keep inciting the violence. As much as they fail, they can only fail upwards.

Even the places where America/NATO ‘win’ end up completely ruined (ie, Libya), making any victory literally Pyrrhic. It doesn’t make any sense unless you look at the dollars. Forever wars mean a forever orders for arms dealers. It means forever programming for the western media. And it even means forever funding for NGOs and think tanks, to bemoan the last war while getting into the next one. America is completely corrupted by cannon-makers and cannon-marketers and the entire world is just cannon fodder. Ukraine is just the latest country shoved down the barrel and blasted out. As Henry Kissinger said in a moment of rare honesty, “*It may be dangerous to be America’s enemy, but to be America’s friend is fatal.*” If you’re asking what Ukraine should have done in this situation, it’s more what was done to them. They should have maintained peace with their Russian neighbors and own citizens, but they unfortunately got couped and corrupted by the Americans, for whom this is just another deadly ‘investment’.

How many Americans even know that Ukraine is losing this proxy war? How many know how much that country is losing? Ukraine is being absolutely wrecked and poor conscripts are being thrown against prepared defenses as helpless infantry. Because arms dealers don’t want to see their tanks burning, and no one reports on the actual casualties. All Americans see is marketing. The simple fact that Ukraine is actually *losing* ground is obscured by the very publication that publishes it. You can see the loss clearly in the numbers, but the headline is “*Who’s Gaining Ground in Ukraine? This Year, No One.*” This of course just isn’t true, but who’s reading? Who’s thinking? At this point, the Ukraine counter-offensive offends only the human conscience. Ukrainian people are getting slaughtered to put on a show in the cable-TV Colosseum, and if you’re still cheering at this point, it’s sickening.

But the bad news for the west do not stop here. The political reluctance to replenish diminishing supplies to a side that has lost the war is just surfacing on the American side. In terms of the economics, the last week was merciless in the bad news emerging everywhere. Here is an article on the impending problem on the EU economy:

The eurozone isn’t looking healthy

28 Sep 2023

Bond yields are soaring. The cost of debt, and very soon mortgages, is rising. And the government is getting nervous about how it is going to borrow the next ten or twenty billion.

This might sound like the opening of a one-year-on post-mortem of Liz Truss’s ill-fated mini-Budget (we have all been treated to those recently). But in fact, it is a description of what is happening right now across Europe. The eurozone is facing its Liz Truss moment, and the results are likely to be every bit as catastrophic.

Across Europe the bond markets are starting to look jittery. Over the last couple of days, the yield on ten-year Italian bonds has risen to 4.89 per cent, the highest level since 2013, while the spread against far safer German debt has reached its highest level since the banking crisis

last March. The market was reacting to forecasts from the government that it would borrow another 5 per cent of GDP next year, while growth would slip below 1 per cent. The EU's grand plan to reboot the Italian economy with hundreds of billions of euros of borrowed money on its own account is lying in tatters. Most of the money was blown on expensive green subsidies that have done nothing to improve its competitiveness and left it with more debt than ever before.

Even more worrying are the creeping doubts about French debt. The yield on its ten-year bonds has risen to 3.5 per cent, its highest level since 2011, after the country was criticised by its own fiscal watchdog for hopelessly inadequate plans to reduce spending next year. Under Emmanuel Macron, France's debts have ballooned to the third largest in the world in absolute terms, behind only the US and Japan, while the state has grown larger and larger. The markets have grown used to the idea that Italy is a basket case and have learned to shrug it off. If traders start to have doubts about France that will be far more serious. It owes more money, and the debt is far more widely held globally.

In the background, the European Central Bank has pushed interest rates up to the highest level since before the 2008/09 financial crisis and has started winding up the quantitative easing that papered over the cracks in the zone over the last decade. The bond market revolt over the UK's wild spending last year may have seemed an isolated incident. In reality, Britain may have just faced reckoning a little earlier. The eurozone now looks about to catch up. It may get ugly.

Written by:

Matthew Lynn is a financial columnist and author of 'Bust: Greece, The Euro and The Sovereign Debt Crisis' and 'The Long Depression: The Slump of 2008 to 2031'

Which is why I said three days ago in my Daily Report that Ukraine is kaput, and so is the EU. There is no money left to be sucked into a bottomless pit in which reside bottom feeders such as the corrupt politicians in the Kyiv regime. All the while with nobodies snatched off the streets to be sent, untrained to be slaughtered, or increasingly to surrender (documented graphically on many videos) to the Russians. The economic challenges facing the EU is a direct consequence of the sanctions against their own energy supplier, intended to break up the "gas station masquerading as an economy", an act of supreme arrogance by the Americans, but never thought to incorporate the possibility that Russia can develop a business with their neighbours to the south (China and India) and eventually sell it back to the brain-dead EU elite at many times their direct price. Europe is in tatters today because of dummkopfs like Ursula von der Leyen who is incapable of independent thought. There are no leaders in Europe, just parrots of the American line, which by the way is articulated by other ideologues like Anthony Blinken, who has been called "not so smart" by thought leaders like John Mearsheimer.

Obviously, the inflationary pressures experienced by the EU are self inflicted. They cannot break off decades of an economic dependence on Russian fuel just because American foreign

policy calls for the destruction of the Russian economy. Europeans have been forced into a conflict because of unrealistic fears of a nuclear winter without an American umbrella, but provision of that umbrella requires ditching cheap Russian energy and replacing it with punitively-priced American supplies.

For what? Well, here is one account:

The eurozone isn't looking healthy

28 September 2023, 3:39pm

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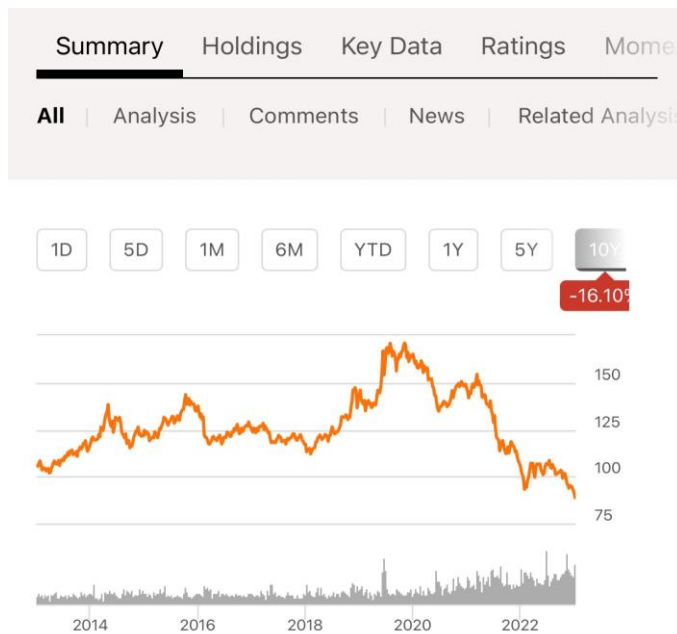
WRITTEN BY

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Europe is caught in a vice from which there is no escape. All that for pushing NATO's frontiers to the country that has every reason to push back on account of their own security. The fact that even as of today, the EU continues to buy Russian energy from India and China, which basically sells them what they directly import from Moscow, at some huge premium. Fools are made to part with their money quickly.

Of course, the bond market problems are not confined to the self-inflicted problems in Europe. Over in the imperial capital across the Atlantic, the financial system is also breaking down, with the bond market rising to the same levels as that last time when the system cracked under the Lehman debacle. There was news that a US Government Treasury ETF has lost 48% of its value. Here is a chart of it since about ten years ago:



Like I said on Friday, this chart shows that the bond market has broken through new lows, and there is no support. It can be expected that price levels will continue to deteriorate and the bearish sentiments will likely prevail. Lower prices simply translate into higher interest rates, and if bond prices go up, it will drive the entire spectrum of interest rates up as well.

The resultant scenario is a freezing up of the financial markets, as articulated in this article published in the Wall Street Journal:

America's Debt Problem Is Too Big for the Bond Vigilantes

Surging deficits and bond yields create an opening, but investors are likely to take a painful hit this time

By
Spencer Jakab

Sept. 30, 2023

Markets can scare even Washington bigwigs straight sometimes, but the latest tumult in stocks and bonds might not get the reaction investors want to see.

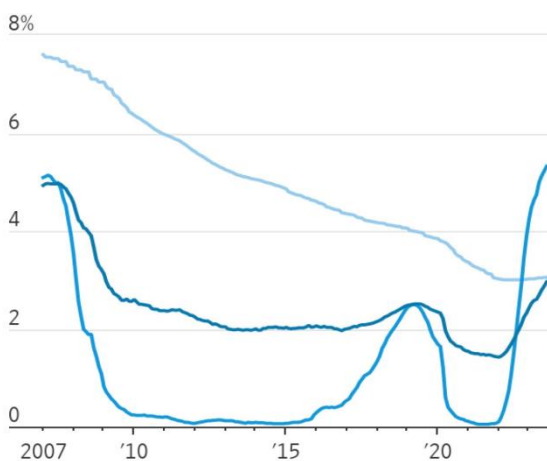
One time they did was the early 1990s, when bond yields surged during the Clinton administration in response to budget deficits. In fiscal 1992, President George H.W. Bush's final full year in office, the shortfall hit a then-record \$290 billion. Running on a campaign of fiscal rectitude and warning of disaster, Ross Perot shocked the political establishment by winning 19% of the popular vote in that year's presidential election.

Investors soon spoke even more loudly than Perot through the bond vigilantes—a term coined by economist Ed Yardeni for traders who vote with their feet. Benchmark 10-year Treasury yields surged from a 20-year low near 5.2% in late 1993 to above 8% a year later in what was called the Great Bond Massacre.

Interesting Times

Average yield on various Treasury securities

■ All marketable debt ■ Bills ■ Bonds



Source: U.S. Treasury

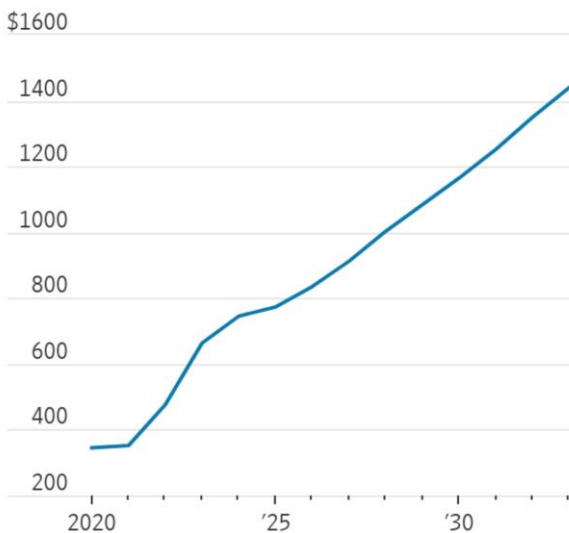
The federal government within a few years ran its first balanced budget since the 1960s and even a surplus of \$236 billion in 2000.

Clinton adviser James Carville summed up the vigilantes' influence: "I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody."

History rhymes, but it is unlikely to repeat. The 10-year yield has once again soared by 3 percentage points in barely a year to its highest since 2007. And, without a crisis or recession, the budget deficit was \$1.5 trillion in the first 11 months of the fiscal year that ended Saturday.

No More Teaser Rate

Net interest paid by federal government, billions



Source: CBO; projections for fiscal 2023 onward

If bond vigilantes had influence 30 years ago, they certainly could now with gross federal debt more than seven times as high. Net interest payments alone this coming fiscal year will be \$745 billion, according to Congressional Budget Office projections. The average interest rate on marketable debt went from nearly 5% before the financial crisis to as low as 1.42% in early 2022, but it is about to cross 3% again and is rising quickly.

This time, though, the vigilantes won't get far in Congress. Of \$6.4 trillion in projected federal outlays in fiscal 2024, only \$1.85 trillion is neither mandatory nor net interest. Of that, about half is defense—a vexing category to trim, even in peacetime. Making draconian cuts to what is left would cause a public outcry and still wouldn't be enough.

Tax hikes could make more of a dent. The left-leaning Center for American Progress points out that, if taxes as a share of the U.S. economy were to rise to just the average among developed economies, the budget would take in \$26 trillion more in revenue over the coming decade, based on CBO projections. That is unrealistic, though.

So are the CBO's projections: They see average interest rates reversing and no recessions. Adding just a percentage point to their assumed rate would contribute about \$3.5 trillion to federal debt by 2033, according to Wall Street Journal calculations.

What is a poor deficit hawk to do? There is one more part of the federal government that can act. Strategists at GlobalData TS Lombard point out that there have been two ways to deal with unsustainable government debt over the years—the orthodox approach of austerity and reform or the unorthodox one of default, inflation or financial repression. For the U.S., actual default is fortunately off the table because it borrows in dollars. But some combination of inflation and repression might be necessary if deficits and rates stay near current levels.

Inflation is called the cruelest tax because it erodes the wealth of savers, including people who live off their savings. It can artificially boost government revenue and reduce the real value of borrowings. Repression means the government's forcing interest rates to stay below the rate of inflation as a way to transfer wealth from the private sector back to itself.

Bond bulls are now giving up, says George Goncalves, head of U.S. macro strategy at MUFG Securities. He thinks that if interest rates just stay at current levels beyond a year or so, interest costs will become a strain on government finances. But rates also could fall without repression, because of the drag they are now exerting on the U.S. economy, forcing the Fed to ease.

Thanks in part to the bond vigilantes, the late 1990s were great for bond investors and epic for stocks. The coming years could look very different.

Indeed, these are the problems that are associated with a national debt that has grown too big. To put it simply, the debt is now at a size that the interest/debt servicing alone will require a large pool of investors who will add to that lending. And nobody is buying those bonds when recent experience is that you will lose big money if you invest. This is the bad news. The national debt is reaching unsustainable levels.

Therefore one can forget about shallow thinkers like Biden and Blinken making brave talk about sending more money to Ukraine. The right wing of the Republican Party is of course playing politics by refusing to agree to the free spending ways of the Biden Administration but they have a point to make. There is no more money.

The accepted wisdom of the American government is oh, why me worry? Just print more dollars...What the bond market is saying is, stop, we are not buying that shit. And if there are no buyers, bond yields will reflect that, rising to levels which will continuously increase the debt and interest rates further. It is a perverse situation. Rising budget deficits will increase interest rates which will increase the value of the US dollar. In short, a strong dollar is not the reflection of a strong nation; on the contrary, the strong dollar is a residual of the

economic forces that are bringing down a country that owns the reserve currency of the world.

Then there is the problem of the inverted yield curve. The yield curve connects all the interest rates of every maturity in the entire spectrum of bonds. An inverted yield curve shows that short term interest rates are higher than longer term ones. The yield curve changes its shape all the time, but for the last one year, it has been “inverted” meaning that under normal circumstances, short term rates are lower than long term ones. It’s a visual representation of the difference in the compensation investors will receive for choosing to buy shorter- versus longer-term debt. Most of the time, bond investors demand a higher return, or yield, for the greater uncertainty that comes with locking away their money for longer periods. So yield curves usually slope upward. It is upside down now.

In almost every recession since 1955, the inverted yield curve has predicted it. By mid-2023, the downturn had failed to materialize. That is causing some concern among financial analysts on what the future holds.

The most alarming developments are yield curve inversions, such as those that exist now in the Treasury bond market.

The yield curve has historically reflected the market’s sense of prospects for the economy, particularly inflation and what kind of policy the central bank is likely to adopt (whether it’s adding or removing stimulus, or trying to keep the status quo). Normally, elevated inflation would lead to an upward sloping curve, as rising prices prompt investors to demand greater long-term returns to offset the loss of purchasing power in the payments they eventually receive. But yield curves can invert when investors expect that a recession resulting from US Federal Reserve policy will make inflation lower in the future than in the near term. That connection has made an inverted yield curve a reliable indicator of impending economic slumps, like the one that started in 2007.

The problem with inverted yield curves is that businesses tend to borrow at the long term rates implied by long maturity bonds. The banks will lend businesses money at say 8%. And they will borrow it at say 5%. But if interest rates rise to 7%, there would not be enough of a profit margin to pay for expenses and bad loans. Worse still, financial institutions tend to keep a portion of their balance in government securities, and once they buy these bonds, they will be stuck at that yield as their funding costs go up. Therefore, there are various risks inherent in the US interest rate markets right now, and like in the case of the

Silicon Valley Bank, these risks may blow up at unexpected times. Especially if the Fed's management doggedly pursues its policy of countering inflation at every turn. The current structure of interest rates in the US therefore contains risks as long as inflation is still a threat.

If I were in the White House, I would be very concerned about the rise in energy prices. This is a direct cause of inflation. And for the moment, if we assume that Putin is smarter than Biden or Blinken (or von der Leyen of which there is no doubt), he will keep energy prices up, which through inflation will cause interest rates to stay high in the US as well as in Europe. The western bond markets will collapse. When that happens, the western governments cannot raise any money. No more money will be available to be spent on weapons. Economically, both economies will break, sooner or later. The EU will break first, but the US is not so far behind it. Putin can win even without having to deploy his military. Just sit back and watch western bond markets and public finance fall into helpless disarray.

Not forgetting that the propaganda war has also been lost, with the shit shows in the UN, and the Canadian parliament.

But it seems to me that nobody has caught on to the nexus between the NATO war on Russia, the sanctions war and its blowback, and the ongoing bond market implosion in every western country and the restrictions on public financing lining up to fight the war. With what, may I ask, if they don't have bond markets to finance the purchase of the weaponry??? Bonds are the only means to buy arms, and bonds are highly sensitive to inflation. Create inflation, bonds crash and no more public finance, no more weapons and no more wars...

Here is a picture that tells a thousand words. It the direct correlation between oil prices (WTI) and 10 year treasury yields:



In case you are not aware, the correlation between crude oil price and the US treasury bond yield is perfect. If the crude price goes up, US bond yields go up too, meaning bonds crash. When bonds crash, as they are happening now, governments cannot raise money easily. Even if they can, it will come at huge cost.

And this historical relationship between bond yields and crude oil prices is very strong, and has transcended whoever is in the White House or the US Federal Reserve.

In short, if Putin continues to control oil prices via OPEC Plus, and he is pushing them higher, together with Saudi Arabia, who would have no reason to object to higher crude prices, the US bond market tanks, and there is no way that the US government can raise money to build weapons. Devilishly simple. Much more effective than western sanctions on Russia...

If after reading all the above, you have not understood that Putin has got the entire west by the balls, by crashing their bond markets, through aggravating inflation injected by higher energy prices, you wouldn't have had as much fun reading it as I had in writing it. Man, the man is brilliant. Turn the table on his antagonists by using the same economic sanctions they had used to contain his country to strike back and upend their bond markets which serves as the main form of western public finance. Just keep inflation in the west high and they are doomed.

Even if we assume that he was not that smart in initiating such a devilishly clever plan, you've got to give him that sense of opportunism that he was able to follow through on an obvious weakness in western governmental finance. Crash their bond markets and they will have no means to pursue a war. Brilliant!

There you have it. A war winning strategy by Moscow. Actually initiated by the collective west which then backfired. I am sure nobody in the Biden White House or in Brussels have caught on to this yet.

The entire western elite outmanoeuvred by Putin. Absolutely clever...

You get it?

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Un-Influencer in a World full of Hubris