

Will Credit Suisse crack global finance?

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Lead Editorial

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The chickens of unresolved crises past are coming home to roost in the Credit Suisse crunch. A victim of the Greensill supply-chain finance scam and the Archegos Capital Management derivatives disaster, Credit Suisse now threatens to blow up the world financial system.

The bank's shares have lost around 60 per cent of their value in the past year. The Credit Suisse CEO addressed concerns in a 30 September memo, admitting "this

is a critical moment" for the institution. The troubles stem from the bank's investment banking arm which engages in speculative activities that have exposed it to enormous risk. The cost of insuring against the bank defaulting on its bonds, priced by "credit default swaps", has soared. Some have dubbed it "Debit Suisse". Speculation is rife that it will either collapse or merge with rival UBS.

CS is one of 24 banks which operate the US "repo" (shortterm lending) market, vital for ensuring liquidity, ensuring its collapse would have far-reaching consequences. The problem is, virtually every other bank is in the same boat. That other perennially troubled outfit, Deutsche Bank, is also facing heightened crisis. Its share price plunged 40 per cent over the past year and its credit default swaps also spiked in recent days. Deutsche has been labelled by the IMF as "the most important net contributor to systemic risks" in the world.

These developments occur on top of the ongoing global shock delivered by the new British government, whose push for tax cuts for the wealthiest 1 per cent of the population sparked a currency and bond meltdown that had to be stanchied with a £65 billion Bank of England bond purchase at a time when it, along with every other central bank, is trying to tighten the monetary strings. (Back page)

The market turmoil threatened to collapse British pension funds, setting off a chain reaction. Former London City trader Henry Jennings said pension funds which had borrowed money to make money suddenly had to pay up, but forcing them to liquidate their assets would send financial markets into a "death spiral", the ABC reported on 1 October. "We came within inches of 'global financial crisis mark 2'," noted journalist David Taylor. "That's not hyperbole." Announcing its intervention, the Bank of England acknowledged the dangers of bond market dislocation: "Were dysfunction in this market to continue or worsen, there would be a material risk to UK financial stability."

Even the Bank of England's own pension fund was using complex derivatives for leverage. Pension funds were sold snake oil by asset management companies including Legal & General, Insight Investments and Blackrock, in what they call "liability-driven investment" to manage risk. It was all going well until it wasn't, and "pension funds were forced into asset fire sales to meet collateral calls



The financial situation is in a death spiral. Photo: Screenshots

on their LDI holdings”, noted the 4 October London *Times*.

Note that Europe was already reeling from a margin call crunch on the energy front, worth €1.5 trillion, as AAS reported 14 September in “[Will Europe’s energy crisis trigger the next crash?](#)” This shock has had global ramifications, even impacting Australia as British funds scrambled to sell off Australian-issued financial instruments such as mortgage-backed securities—bundled mortgages sold for their income stream, like those which triggered the 2008 crisis.

Given the interconnectedness of the entire global system, it is not surprising that the European Systemic Risk Board (encompassing the European Commission and European Central Bank) has made an unprecedented warning specifying the risk of sharp asset price falls and liquidity strains.

Add to this picture the breakdown of the real economy, particularly in Europe. With the sabotage of the Nord Stream gas pipelines (p. 8), a long, cold winter lies ahead. Without action by governments this will guarantee popular uprisings, feeding into the contrived frenzy for war. Restoring financial regulation teamed with economic development could not be more urgent—for all nations.

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