Financial Mudslide Goes On - ‘Bail-In’ has Shut Down European Bond Markets

Jan. 8, 2016 (EIRNS)—A Jan. 7 Reuters report, “Novo Banco, Volatility Cast Shadow over Senior Debt Market,” showed that the ‘bank bail-in’ policy which began Jan. 1 across Europe (and is mandated in the U.S. Dodd-Frank Act) has paralyzed the European market for senior, investment-grade bonds. EIR’s Founding Editor Lyndon LaRouche had warned late in December that Jan. 1 would be a turning point for general financial and economic collapse without immediate corrective, Glass-Steagall action. The global stock market plunges since Jan. 1 have been falsely blamed on China; the European bond market shut down shows that the ‘bail-in’ policy LaRouche warned against is the central cause.

Reuters reports not a single senior financial bond has been successfully issued in Europe since Jan. 1, and its sources attribute this squarely to ‘bail-in’, especially the Portuguese central bank’s lawless ‘bail-in’ of Novo Banco bondholders. Banks raised over 16.5 billion-equivalent across euros, sterling and U.S. dollars in the first week of 2015, and almost 18 billion-equivalent in 2014. But in 2016’s first week, zero—for the first time since the crash year 2008.

The news service quotes the head of one investment fund:

> “Novo Banco has blown a massive hole in investors’ portfolios and many will be looking at their investment plans and retreating into core national champions [big banks] where there is no question on solvency and liquidity.”

Another is shocked that senior, investment-grade bonds were expropriated in the Novo Banco ‘bail-in’:

> “What happened with Novo Banco ought to remind investors that regulators will do what suits them in times of distress.”

Bank bonds have lost value across the board, from the most senior to the most expropriatable, the so-called ‘bail-in bonds’ that banks have been ordered to sell by regulators under the London-inspired policy.

Santander UK Group Holdings Plc is one of several banks which announced sales of bonds this week, then had to withdraw them because they did not sell or were too heavily discounted.

The bond market will be further upended as banks attempt to sell the “loss-absorbing” ‘bail-in’ bonds, which are made to become worthless in a crisis—as the bond market now knows this is.

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