SWISS BANKS
PLANETARY BALANCES

The end of the Cold War opened a new economic cycle that is perhaps only now truly changing in form and substance. The Soviet Union had been defeated by the United States partly because of the then-President Ronald Regan's threat to build a very expensive space shield that would have annihilated the enemy's defence capabilities. Reagan knew that Soviet civil society was suffering and that Moscow would not be able to meet the cost of accepting the space challenge. But Washington had a tool that its adversary lacked: Wall Street and the role of the dollar that became a trust currency in 1971. The US was able to finance itself through the hegemony of the greenback, supported by its big banks. In the old gold-based hegemonic system, the Soviets could have been able to meet the challenge. But on that level the battle had already been lost.

The American banking system, well aware of being the structural architect that allowed the United States to humiliate the Soviet Union, demanded and was granted a place at the centre of the new globalisation process that would emerge with the fall of the Berlin Wall. The world would be 'financialised' and American banks would manage currency flows to more profitable ports. Politics would partly cede its power. The dream of the brightest young people was to become an executive at Goldman Sachs, instead of aspiring for a career in public administration, perhaps as a minister. Everything was to be securitised, made free to move in international finance. Even pension provision became an instrument of financial power. And the big Swiss banks were among the first to realise that they had to strengthen themselves, by means of internal mergers, in order to force their way onto Wall Street and participate in the financial wealth that was exploding. This model enabled a few billion people to rise out of poverty and China to become a world power.

However, its excesses appeared with the Great Financial Crisis of 2008, when the entire global financial system risked collapse, as did Switzerland's most important bank, UBS. But the big banks still had a strong hegemonic, even cultural power and managed the bailout according to their own schemes. The bank of banks, the Federal Reserve, bailed out finance. Quantitative Easing, i.e. the exasperated pumping of liquidity into the system to save it from itself, has allowed the whole scaffolding to survive since 2010. In a world where the real economy, the one made up of factories and raw materials, was clearly subordinated to finance, with the direction of Wall Street it was relatively easy to intervene. Manufacturing relocations and low wage bargaining power kept inflation low: it seemed that money could be printed indefinitely, as Modern Monetary Theory suggested. The idea of the fragility of the system was latent. To such an extent that it prompted central banks to prepare plans to deal with the next crisis.

In fact, when the pandemic manifested itself in full force at the beginning of 2020, the central banks were ready to inject an impressive amount of liquidity into the system, aided also by fiscal policy. It was a resounding success. People in the US and also in Europe were being paid to stay at home. The extreme indebtedness of states, at zero or sub-zero rates, was not a concern in an environment that still feared deflation. Quite the contrary. Given the ease with which free money could be created, Wall Street had sniffed out the business again: the necessary, unquestionable energy transition could be financed by managing the flows for the new energy and digital revolution: Trump had tried to slow down this process, but not Joe Biden.

This apparently linear development has been well reflected in the growth of stock markets over the last decade, especially Wall Street. However, one has forgotten to consider the losers, who in the last two decades have nevertheless regained strength to the extent that they have put the United States in the position of relative rather than absolute power, first and foremost Russia. Putin realised that to regain the coveted power, which the Soviet Union possessed in its youth, it was first necessary to target the post-Cold War financial castle. The reckless attack on Ukraine, which would lead to a rise in the price of raw materials, is probably also the result of this reflection. If the price of gas and oil, but not only oil, rises, inflation sets in, which can put the entire American-dominated financial system in trouble. In its design, pandemic economics is an important ally. In Europe, shutting off gas supplies has an inflationary effect. But less so in the United States, which is a producer of it. Across the Atlantic, however, there is another hotbed. The accelerated exit from work of those approaching sixty, the baby boomers. The last wave of this generation (those born between 1946 and 1964) has taken advantage of the pandemic to stay at home by leaving the productive system and thus bringing back the risk of inflationary wage spirals. China, for its part, which could continue to play its deflationary role at this stage, with its 'zero covid' policy is instead helping to keep the world under tension, even if its firmness will eventually exasperate its citizens. Saudi Arabia, which could flood the world with oil, deliberately chooses not to openly side with its historical American ally: a strong oil price allows it to finance its new decarbonised and digitised economy. It is therefore clear that the interests of the West do not match those of new emerging powers.

The overwhelming power accumulated over the years has prevented the Federal Reserve from correctly assessing the changes taking place, as Jerome Powell himself has admitted. Now, the US central bank has only one chance to save itself and the advanced economies from a collapse that would have planetary repercussions: to bring inflation under control at any price, even risking a severe recession if necessary. It cannot possibly back down from this objective, if it wants to prevent catastrophic loss of credibility. That is why in 2022 there were four turbo hikes of 0.75% each time, taking rates from 0-0.25% to 3.5-3.75%. An impressive rise that probably contributed, in the US, to bring inflation down in September to 7.7% from 9% on 30 June, while the PPI fell from 18.3% to 11.14%.

At its meeting on 2 November, the Federal Reserve (the FOMC) again raised rates by 0.75%, as expected by the markets. The statement, however, was relatively soft as it hinted that the cumulative effect with previous interventions would dampen inflation. But then, in the press conference, Jerome Powell dismissed hopes of a change of course. The stock markets reacted negatively, but without undermining the bear market rally. The minutes of that meeting, published on 24 November, confirm the Fed's willingness to slow down the rate hike, although it is easy to guess that there will be another 0.5% intervention in December. Interestingly, the members of the FOMC (Federal Open Market Committee) hint at their concern for international financial stability and specifically mention what happened in England, where the previous government tried to stimulate demand without worrying about inflation. The markets sanctioned that experiment and the government itself resigned, after the contagion had also reached Wall Steet. If major rate hikes have allowed the Fed to regain credibility and probably curb domestic inflation, it now becomes important to save the 'dollar-centric' financial system, and others must also be thought of. Asia - the communiqué does not name names, but it is clear that it is Japan and South Korea - is obliged to burn reserves to prop up its currencies against USD, while 'others' (Europe) might give up on following Washington if austerity becomes unsustainable for them and thus cause the instability already experienced by England. A large part of the Fed's board sees fit to resort to less marked hikes. The markets, after the first moment of bewilderment at the beginning of November, continued to celebrate thanks to the fall in inflation, also fuelled by the fall in oil, the presumed end of the lockdowns in China with the release of the related bottlenecks in production and the better-than-expected third-quarter corporate results on both sides of the Atlantic. The bear market rally target is within reach with a first target for the S&P, the flagship index, at 4'084 and a second at 4'200. Other stock exchanges are also benefiting from the grace period. The Eurostoxx appreciated by 8% in November and by almost 20% since the lows of 14 October. The deliberate devaluation of the US dollar is behind the resurgence of risk assets. But it is unlikely to go much further than the current phase. It is possible that the traditional Christmas rally will continue - after some profit-taking in December - as a matter of behavioural finance: funds and pension funds will try not to sell at the end of the year, hoping to be emulated and to recover some performance points. But central banks, especially the Fed, are not particularly stock market friendly at this stage. If indices go up, it increases the greed of investors who may be stimulated to spend and fuel inflation. Two members of the Federal Reserve and Cristine Lagarde of the European Central Bank have missed no opportunity to point out that the inflation issue is not resolved and that further rate hikes are to be expected. The message is probably to take advantage of this upward phase to close leveraged positions (reduce speculative borrowing where possible). Soon, the topic of reducing the balance sheets of credit institutions will also be back on the agenda. The near future will be determined by inflation trends (in any case linked to geopolitical problems). The Federal Reserve will remain vigilant and dangerously aggressive: it cannot afford to let inflation restart due to its further leeway. It already made a mistake last year (in not raising rates in time). A second mistake could lead to terrible consequences.

Perhaps this phase in the history of dollar-centric finance can also be interpreted through the fate of a Swiss bank, Credit Suisse. In the first decade of the third millennium, UBS was bailed out because its failure would have destroyed not only the Swiss economy, but also the world economy. It was a direction between the two sides of the Atlantic that defined a bailout that also involved one of the most famous central bankers Axel Weber, former Bundesbank, who backed up Philppe Hildebrand of the Swiss National Bank (SNB), who later became vice-president of BlackRock (the Goldman Sachs of our times). For Credit Suisse, the historical context is different. In order to save itself, it has asked Saudi Arabia for help, which can either become a link between the West and emerging countries or a break. The rapprochement of this important country with Israel is probably not only to be interpreted from an anti-Iran perspective but is also dictated by the desire to acquire the technology, which Israel has, necessary for its plans. If Credit Suisse is swallowed up by Wall Street's appetites, which the Anglo-Saxon press misses no opportunity to point out, international tensions are bound to rise. If, on the other hand, it is allowed to emerge in its connecting position - no matter whether desired or de facto forced -, it will be easier to overcome this difficult phase of changing substance in the international equilibrium.

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