Funding the Future

The debts don't work anymore

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The FT has an article this morning with the subheading:

Companies from Brazil to China are finding it harder to repay loans and raise fresh cash, hampering growth

Why is that?

The Fed has called an end to ultra-loose money, pushing companies into a credit crunch and forcing them to postpone or cancel investments.

What't the consequence?

The result is a world economy dicing with deflation and recession.

And the scale of the problem?

Some estimate that $7tn of QE has flowed to emerging markets since the Fed began buying bonds

Any chance of a happy ending?

No: the party is over.

That's a view I agree with. Conventional QE is not working (the EU please note) and unless a lot of debt is going to be turned into equity, soon these debts are going to drag these companies down. But nothing in accounting standards encourages lenders to do that: the banks are encouraged to hand onto debts still, zombie like (although this will be changing).

I'm not sure why but this came to mind as a result:

https://www.youtube.com/watch?v=ToQ0n3itoII

Sometime we are going to have to face the morning after.

And we won't get there without People's Quantitative Easing, which is a very different beast indeed, largely because it works like equity.