Funding the Future

The stock markets are dead

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The FT reports this morning that:

UK banks are raising debt at the fastest pace since the aftermath of the financial crisis, as lenders prepare for tighter regulatory capital requirements and scramble to replace cheap funding that until last month was supplied by the Bank of England.

British banks sold a net £16bn of bonds and short-dated commercial paper in March, according to figures from the Bank of England – the highest monthly amount since January 2009.

In the 12 months to March they raised a net £52bn of capital, comparable to the amount they raised over the course of 2009; £31bn of that total came from bonds while a further £21bn came from commercial paper. Both categories of capital raising were at near-decade highs.

Three things to note: first the banks thought cheap money was running out. I think they're wrong on that. The BoE decided not to raise rates yesterday, and they won't be any time soon in my opinion.

Second, the banks remain under-capitalised. They still need backing to face the risks to come.

Third, they aren't using share capital to increase their funding. No one does. As I have noted, the plan is to make sure shares are in as short supply as possible to artificially inflate their price. Why? It boosts management bonuses; it makes it look as though markets are humming; it keeps pension deficits down and it spins the lie that all is well in the body corporate.

The reality is that the stock markets do not do the job of supplying businesses with capital anymore. So why are they used as savings mediums when they serve no further social or economic purpose?