

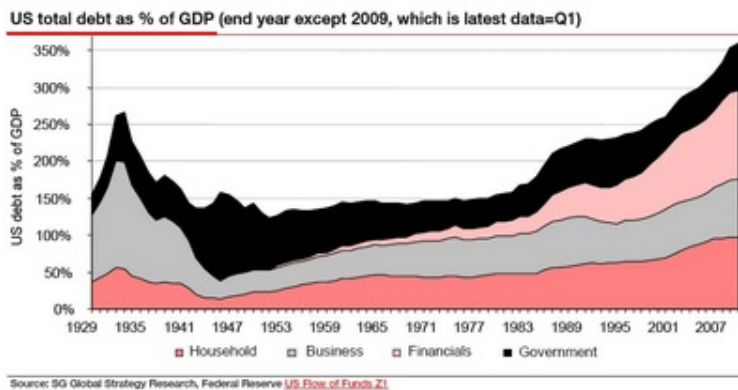
Albert Edwards: "The Global Credit Crunch Is Not Receding, It Is Intensifying"

Submitted by Tyler Durden on 09/17/2009 13:22 -0500

Granted, you wouldn't know it if you followed the stock market melt up as the wild rush to eek out any and all P&L before tax loss selling season hits (assuming there even is one this year), but read on. If nothing else, SocGen's Albert Edwards, unlike many others, has stuck to his convictions.

The reasoning behind the acceleration of the credit crunch is simple and needs to be reemphasised. The unwinding of the grotesque debt excesses of the last decade have only just begun (see chart below)! Rapid expansion of government debt and QE will not and cannot prevent the revulsion that is now underway (the Fed publishes the Q2 update of the debt data today, Thursday).

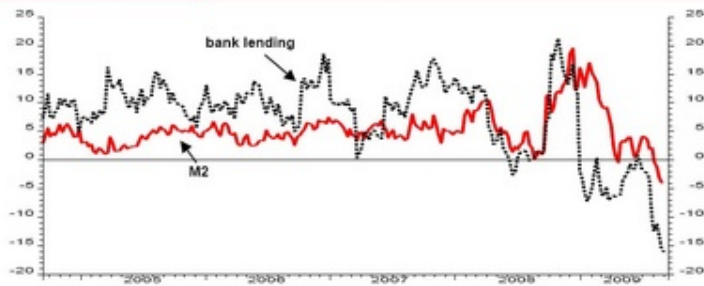
*In addition, banks are retrenching their loan books as policy makers force higher capital requirements. In all probability this process would occur irrespective of government involvement as banks inevitably act pro-cyclically, exacerbating both boom and bust. But as we repeatedly highlight, one of the lessons from Japan is not to mistakenly believe that banks are the problem. Similarly a healthy, recapitalised banking sector is not the solution. **As Japan experienced before, it is deleveraging that is the problem and retrenchment takes many years, rendering the economy extremely vulnerable to rapid relapses back into recession when any reverse or pause in extreme stimulus occurs.** The Great Moderation relied on the debt super-cycle which is dead and buried.*



Some other observations include the ongoing decline in both bank lending and the monetary base, both topics extensively discussed here previously: in essence confirming, over and over and over, that even as gobs of liquidity are injected into the market they have no place else to go but in risky assets, and paradoxically, safe ones, explaining the ongoing melt up in both equities and Treasuries.

*One doesn't have to be a dyed-in-the-wool monetarist to be very disturbed at the recent developments in the money data - although it definitely helps. The US stands out as having suffered a massive monetary shrinkage in the last few weeks. The bank lending data is even worse than the money supply data. **US bank lending is contracting at an unprecedented annualized pace (our data goes back 35 years and this is a record contraction both for the three-month period shown in the chart below and over a six-month period).***

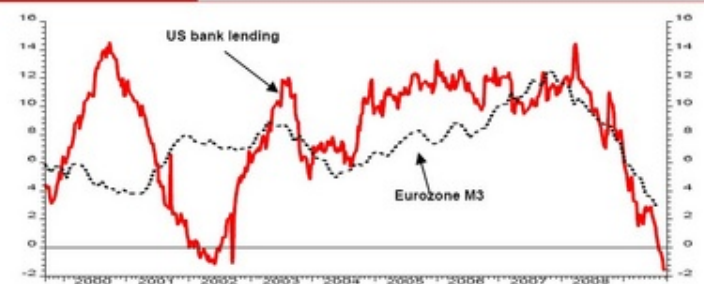
US bank lending (ex securities) and M2 growth slumping (% chg on 3 months, annualized rate)



Source: Datastream

Despite the three- and six-month annualised decline in bank lending (ex securities) running at the fastest rate since the Great Depression, the year-on-year rate of decline, although negative, is not yet nose-bleed double-digit deep. It will be soon though.

US bank lending and Eurozone money supply growth (yoy %)



Source: Datastream

And the core empirical observation, which ties the whole deleveraging concept in a tidy little packet which the Fed apparently, no matter how hard it tries to push equities higher, will have major headaches with, is the discussed continuing consumer deleveraging.

Among the more shocking credit data recently, July's \$21bn contraction in US consumer credit was double expectations. Credit is now contracting sharply. And to the extent that this is supply led due to bank capital adequacy problems, things are set to get worse. Deutsche CEO, Joseph Akermann, pointed out recently that 2010 will see the 'next wave' of the financial crisis due to mounting bad loans from consumer and corporate borrowers. 'Banks that have fared relatively well so far will also be affected by this?' He certainly thinks 'the crisis is not over'.

Yet what it ultimately boils down to, is at what point will the Fed be satisfied that the economy is truly stable and stop the [monetary diarrhea](#)". Contrary to the Chairman's soothing words on the stability of the economy, it is unlikely that rates will be raised for many years, thereby setting the seeds for the next credit crisis, which however assumes that the consumer will at some point return to the profligate spending ways of the past. Yet consumer psychology is tricky, and with the shadow credit system dead and buried, despite numerous reincarnation attempts, this is the biggest wildcard which the pundits seem to ignore even as they highlight how cheap the market is relative to its all time highs. What they seem to be forgetting is the ten of trillions of "money" in the liquidity pyramid that is gone for good. But at least they get some free airtime, and an opportunity to pump whatever stocks they need to go up by x% before they sell them to unwitting and naive investors/speculators, who had the misfortune of believing what they said.

<http://www.zerohedge.com/article/albert-edwards-global-credit-crunch-not-receding-it-intensifying>