# THE GHOSAL JOURNAL

A Weekly Comprehensive Macroeconomic Overview

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## A snapshoot of the Semiconductors Industry

The global semiconductor industry is a critical component of the modern economy. It is essential to the production of all consumer products, as well as many new forms of energy and transportation. Given the geopolitical situation in Asia and the current state of global demand, it is paramount that governments ensure that domestic semiconductor production remains competitive, and that technology transfers are regulated. The US government has taken the lead in this regard by providing financial incentives for re-shoring and taking steps to restrict technology transfers. Within this context, the industry is on the verge of potential diversification due to investments from companies such as Tata (Indian) and TSMC (Taiwan). However, there are concerns that the troubled relations between China and the West might lead to a technological decoupling, which could stifle innovation and growth. Supporters of diversification believe that it can provide an insurance policy against geopolitical risk and worry that the current incentives might not be enough to truly transform the industry. Critics, on the other hand, oppose industrial policy and believe it goes against the efficiency goals of a market-based economy.

## US Blacklists 36 Chinese Businesses

The US and China are deliberately separating themselves. As part of its most recent campaign to obstruct Beijing's creation of cutting-edge semiconductors and technology for military applications, the US on Thursday added thirty-six Chinese businesses to a trade blacklist. Washington is particularly interested in reducing China's manufacture of hypersonic missiles which can reach speeds of 4,000 mph (almost five times the speed of sound).

Trade tensions between the United States and China were heightened by the Trump administration in 2018, and the current White House has maintained the pressure, causing Chinese President Xi Jinping to retaliate. In this world, not even TikTok is secure. To address security concerns, the Senate agreed on Wednesday to prohibit the Chinese-owned doom scroller software from being used on official devices. In addition to the "foreign direct product regulation," 21 corporations are now prohibited from exporting goods to China that include more than a certain level of US technology:

- Yangtze Memory Technologies, China's largest manufacturer of memory chips, was the US's main target because it was said to have supplied Huawei, a Chinese manufacturer of telecom equipment, in violation of US export laws.
- The chipmakers Cambricon and Shanghai Micro Electronics, the state-owned military supplier AVIC Research, and Tiandy—a company that makes surveillance software and is accused of aiding Iran's acquisition of US technology

## Further developments following the fall of FTX

Following FTX's file for bankruptcy in November, this past week, the disgraced co-founder, and former CEO of the crypto exchange Sam Bankman-Fried has been arrested in the Bahamas, charged by US prosecutors with eight counts, including wire fraud, money laundering and conspiracy to commit fraud.

This serves as a significant moment in the story of the maturation of the cryptocurrency market. Bloomberg has identified that the regulations applying to traditional equities markets would have prohibited FTX's relationship with Alameda Research (the crypto market maker to which FTX had lent customers' assets and had been exempt from their typical auto-liquidation protocols) if also applied to cryptocurrency markets. However, on paper, the use of digital currencies can provide opportunities for reduction of financial crime, with blockchain allowing for more decentralised storage of data and more transparent transactions, despite the fraud at FTX.

This leaves authorities with plenty to ponder regarding the future regulatory framework for cryptocurrency markets, with the incoming FCA chair Ashley Alder warning that crypto firms facilitate money laundering. Meanwhile, for investors, digital asset prices such as bitcoin and Ethereum are yet to make a recovery and banks' curiosity to invest in cryptocurrency has significantly reduced.

## Digital Euro

Christine Lagarde, President of the European Central Bank, delivered a speech last November on the project to develop a "digital euro". Lagarde's video has begun to generate a lot of excitement a month after its original broadcast, as more people have been able to view the message. The idea of the "digital euro" has been on the table for a while with the increasing adoption of blockchain technology. Like the physical euro, which is a currency represented in coins and bill, what the ECB proposes is to issue a digital currency that would serve as an electronic means of payment. The institution pointed out that "being issued by the central bank, it would be different from private money," in clear reference to the development of cryptocurrencies such as Bitcoin and the growing mistrust in the crypto market after FTX bankruptcy.

## Overview of the bond market

This week, the Federal Reserve increased its benchmark policy rate by 50 basis points after 4 consecutive rises of 75 basis points. The ECB and BoE also followed suite, cementing 2022 as the worst year for European bonds as the sector sees record losses of 15.5%. Massive selloffs come after the ECB's upward revision in its inflation forecasts, now expecting a CPI of 3.4% in 2024 – 1.4% off its 2% target. The ECB also moves to reduce its debt holdings after it accrued a €8.8tn balance sheet following its eight years of lending and bond-buying, removing significant support from the market during a time of turmoil. The ECB acts with the expectation that governments will use the new supply of bonds to bolster citizens' protection from further price increases, but as this supply pressure doesn't yet exist in American bond markets, European bondholders may ditch European bonds in favour of America's.

Though the pace of interest rate increases has slowed, further tightening and pain for investors are still imminent. Yields on longer-dated bonds have also risen, with Italy's 10-year-yield rising to 4.33%, reflecting fears that the ECB may have more long-term difficulties in restraining prices than planned. This also raises concerns on how the ECB can keep tightening without punishing its weaker and more indebted members like Hungary and Italy.