Global stock sell-off amidst signs of deepening slump

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Global stock markets plunged Wednesday following the release of negative economic indicators pointing to a deepening slump in the United States, Europe and Asia and statements by US Federal Reserve officials suggesting a pull-back in monetary stimulus.

Japan's stock market in particular, which had soared as a result of the Bank of Japan's massive yen-printing program, suffered a sharp sell-off, falling 3.8 percent on Wednesday. The Nikkei Index was up 80 percent over the past year before it plunged more than 15 percent in the last ten trading days. Wednesday marked the index's fifth daily fall of over three percent in two weeks.

The Japanese sell-off was followed by further stock losses in Europe, where the British FTSE 100 fell by 2 percent, the French CAC 40 declined 1.9 percent, the German DAX dropped 1.2 percent and the pan-European Eurofirst 300 index fell 1.5 percent.

In the United States, the Dow Jones Industrial Average lost 215 points, or 1.42 percent, closing below 15,000 for the first time in a month. The index has posted losses in four out of the past six trading days. The Standard and Poor's 500 Index fell 21 points, or 1.3 percent, while the NASDAQ was down 43 points, or 1.27 percent.

The extreme volatility in financial markets reflects the artificial and unsustainable character of the rise in asset prices, which is entirely dependent on the continued pumping of trillions of dollars of virtually free credit into the banking system by the Federal Reserve and other major central banks. Meanwhile, the real economy in the US, Europe and much of Asia continues to stagnate or contract under the impact of austerity measures aimed at impoverishing the working class.

Wednesday's sell-off came amid warnings by Wall Street insiders that the combination of vast cash infusions by central banks and anemic growth in the real economy will likely lead to a catastrophic collapse of the stock market.

Economist Gary Shilling noted that investors have been "paying little attention to weak and declining economies around the world, and concentrating on the flood of money being created by central banks." The vast infusions of cash have created an explosion of toxic debt, "the zeal for yield, amidst low interest rates, benefited junk bonds and other low-quality debt," he said.

William Gross, the cofounder of bond-trading firm PIMCO, warned earlier this year of a "credit supernova" and noted, "Investment banking, which only a decade ago promoted small business development and transition to public markets, now is dominated by leveraged speculation and the Ponzi finance."

As stocks plunged Wednesday, the *Financial Times* reported that many of the largest global hedge funds have suffered huge losses as a result of a general sell-off in the bond market, rooted in fears that the Federal Reserve will wind down its asset-purchasing program. Yields on Treasury bills have surged in recent weeks, hitting 2.23 percent last week, up from 1.61 percent in early May. Bond prices move in the opposite direction from bond yields.

"Since mid-May it has been a perfect storm of some of the biggest trends in markets reversing all at once," one fund manager told the *Financial Times*. The newspaper noted that the $16 billion hedge fund AHL lost more than 11 percent of its total assets in the last two weeks as a result of the bond sell-off. This triggered a 15 percent drop in the stock value of the hedge fund's parent company, the Man Group.

Particularly unsettling for the markets were indications of a slowdown in the US. On Monday, the Institute for Supply Management said its manufacturing activity index fell to 49 in May, down from 50.7 in April, the third consecutive monthly fall for the manufacturing index.

The reading was the lowest in four years and the first time that the measure fell below 50, which indicates a contraction, since November. The Institute for Supply Management index of new orders also fell, as did its measures of production and employment.

On Wednesday, ADP, the payrolls processing firm, reported that the US private sector created, on net, only 135,000 new jobs in May, less than the 165,000 economists had predicted. The report showed a drop of 6,000 manufacturing positions.

"The number was weak," Mark Zandi, chief economist at Moody's Analytics, told Reuters. "The ADP is suggesting instead of job growth stepping up, it's actually stepping down as we move into the summer months," he added.

The ADP figures led economists to lower their expectations for the Labor Department's official employment report for May, which is due Friday, as well as projections of economic growth in the second quarter of the year.

The meager ADP payroll figure was echoed by the Federal Reserve's beige book report, which showed only tepid growth in business activity in the period from early April to late May.

The drop in US manufacturing activity is linked to a fall in global demand resulting from the ongoing slump in Europe and slowdown in growth in China and other Asian countries. Eurostat, the European statistics agency, said Wednesday that retail sales in the European Union fell by 0.7 percent in April.

HSBC Bank said earlier this week that its China Purchasing Managers' Index (PMI) fell to 49.2 percent from 50.4 in April, the lowest reading since October of last year.

"This is not a good moment for the world economy," David Bloom, currency chief at HSBC, told the British *Telegraph*. "The manufacturing indices came in weaker than expected in China, Korea, India and Russia, and then we got America's ISM."

The current infusion of cash by central banks into the financial system follows the multitrillion-dollar bailout of the banks by governments in the US and Europe. These policies, dictated by the global financial elite, have further enriched those parasitic social layers that were responsible for the crisis in the first place, while the full burden of the crisis has been placed on the international working class.

Five years after the Wall Street crash, the ruling classes of the world have demonstrated their inability to revive the real economy, underscoring the fact that the current crisis is not merely a recession, but rather a breakdown of the world capitalist system.

The disconnect between the wild rise on stock markets, which have been surging for four years, and the moribund condition of the global economy is setting the stage for a financial collapse on the scale of, or even greater than, the meltdown of September 2008.