Share prices fall as global currency turmoil continues

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30 January 2014

Stock prices on Wall Street fell yesterday after the US Federal Reserve Board's decision to cut back its asset buying program by a further $10 billion per month, following an initial cut of $10 billion in December.

The slide, which started in the morning, continued after the widely expected Fed decision, with the Dow Jones index closing 190 points down for the day. The S&P 500 index dropped 1 percent, its fourth fall in the five days. Altogether, 7.8 billion shares were traded, 26 percent above the three-month average.

Market commentators speculated on whether this was just a "normal" correction, following the record highs in market indexes over the past few months, or the start of a more fundamental movement.

The decline on Wall Street was part of continuing turbulence in international financial markets as the currencies of so-called emerging markets continued to fall. There are growing concerns that rising interest rates in the US, induced by the Fed's "taper" of its asset buying, will see the rapid exit of capital back from these countries to the US.

The "taper" is aimed at winding back the program of "quantitative easing," through which the Fed has pumped trillions of dollars into financial markets since 2008.

On Wednesday, the Turkish central bank announced a 4.25 percentage point rise in its base rate in an effort to halt the plunge in the lira, which has lost more than 10 percent of its value so far this year.

The emergency move had little effect on the lira's value. After strengthening by 5 percent against the dollar in the space of four hours, it then fell sharply, rising again at the end of the day to finish roughly where it started.

The Turkish move was followed by a surprise decision by the South African central bank to lift its base rate, the first such move since the financial crisis of 2008, in a bid to curb steep falls in the value of the rand.

Speaking to Bloomberg News, John Loos, an economist at the First National Bank, said the South African bank had been "accommodative of growth in recent years but you can't really ignore what is now a massive rand depreciation and the potential inflation impact."

However, the central bank's move did not halt the rand's slide. The currency fell 2 percent against the dollar, bringing its decline so far this year to 6.8 percent.

The mood in the major finance houses was summed up by Bill Gross, the head of Pimco, the world's biggest bond investor. He tweeted: "Turkey & South Africa flunk currency test—don't wait around to see who's next. De-risk, move to Treasuries."

These views were echoed by Benoit Anne, the head of emerging markets strategy at Société Générale, the French banking and financial services company. "We are in a full-blown contagion mode," he said. "There is no point trying to pick and choose when faced with a severe market crisis like the one we are witnessing. Right now, sell everything."

Brazilian Finance Minister Guido Mantega made a somewhat desperate attempt to deny that his country was subject to the same pressures that have hit other "emerging markets."

Mantega said a recent report by Morgan Stanley designating Brazil as having one of the world's "fragile five" currencies—the others being those of India, Indonesia, Russia and South Africa—was groundless. He claimed that Brazil had international reserves at near record highs, a solid fiscal position and a floating exchange rate that would allow it to weather any

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financial volatility resulting from the Fed's "tapering" moves.

These assurances did not cut much ice. The Brazilian real dropped 0.6 percent yesterday to finish at its lowest level since last August. It has fallen by 10 percent in the past three months amid concerns that international agencies may give Brazil a lower credit rating.

The invention of new terms—such as the "fragile five"—for the "emerging markets" is indicative of the underlying processes driving the currency turmoil. When Goldman Sachs coined the term BRICS, to designate Brazil, Russia, India, China and South Africa, the "conventional wisdom" was that the expansion of these economies would provide a new foundation for the growth of the world capitalist economy as a whole.

That scenario has now been exposed for the delusion it always was. Not only are these economies dependent on the major capitalist economies for their exports, their financial systems are inherently unstable and face being ripped apart by changes in the direction of global capital flows.

Moreover, their economic and financial instability is being compounded by lower growth in China, thereby cutting their export markets, and mounting fears that the Chinese financial system could be heading for a major crisis.

Speaking on Australian ABC radio yesterday, well-known financial analyst Satyajit Das said what was happening in currency markets was a symptom of underlying problems in the world economy that have developed since the 2008 financial crisis.

"The real issue is the emerging markets, to some extent, have been held up by the massive flow of money, which came out of the developed world—partly because of the fears of meltdown in the developed markets," Das commented. The other factor, he added, was the "policies, particularly the policy of quantitative easing, which led to abundant liquidity—much of which found its way into the emerging markets."

The inflow of cash had covered up a lot of unresolved structural problems in the emerging markets, Das said, with much of the "boom" in these economies the effect of short-term capital flows and lower interest rates. There could be a repeat of the Asian financial crisis of 1997–98, only this time spread across continents, he warned.

An editorial in today's *Financial Times* indicated that the world economy is at a turning point.

"It was good while it lasted," the editorial began. "After a short spell of tranquility, the consequences of the US Federal Reserve's great unwinding are reverberating across the globe. In anticipation of a world of tighter money, investors are pulling out of emerging markets, bringing their money back to what they feel are safer shores. From Asia to South America, assets that were once in strong demand have found themselves suddenly shunned."

The wave of interventions by central bankers, it continued, has failed to placate investors, with many emerging markets facing "painful recession."

While it was not intended as such, the editorial is an indictment of the ruling elites and the high priests of finance capital. The policies initiated after the 2008 financial meltdown, which enriched the bankers and speculators responsible for the catastrophe in the first place, have now created the conditions for another crisis, in which the attacks on the working class in the major capitalist countries and "emerging markets" alike will be intensified.

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