

Global recessionary trends strengthening

Nick Beams

11 December 2014

A series of reports, analyses and comments in recent days, together with market fluctuations, have underscored how rapidly the world economy is moving into recession, amid increasing concerns over the stability of the global financial system.

The week began with the issuing of a quarterly report by the Swiss-based Bank for International Settlements (BIS) warning that the rise in the value of the US dollar could pose significant problems for companies in emerging markets. Having taken out dollar-denominated loans, any rise in the US currency increases their debt and interest burdens.

Commenting on the report, an editorial in the *Financial Times* noted that while many emerging market economies no longer peg their currencies to the US dollar and have cut back on overseas borrowing, nonfinancial firms have issued foreign currency bonds that have been bought up by US and other investment funds.

According to the BIS report, these borrowers have issued \$2.6 trillion worth of debt securities, some three-quarters of which are in dollars. While global markets remain “febrile,” the risk of a sharp and brutal unwinding cannot be discounted, the editorial said.

The state of the euro zone economy, where output levels have yet to return to where they were in 2007 amid a reduction in investment of more than 25 percent, continues to go from bad to worse.

On Monday, the head of the Austrian central bank, Ewald Nowotny, issued a stark warning about European economic prospects. “We see a massive weakening in the euro zone economy,” he told a meeting in Germany.

His comments were made in the wake of a decision by Standard & Poor’s to cut its credit rating for Italy, the region’s third largest economy, to one grade above junk bond status.

In another sign that the European malaise is

increasingly concentrated in the so-called core economies, the German Bundesbank last week slashed its growth forecast for next year by half. Last June it had predicted that the German economy would expand by 2 percent next year. Now its prediction is for a 1 percent expansion. But, like many other forecasts in the recent period, this one too could be downgraded.

The problem of lower growth is compounded by problems in the European banking system. At the end of October, the European Central Bank (ECB) concluded that as a result of “stress tests” carried out over the past year, thirteen banks, including four in Italy, had insufficient capital.

However, according to a senior ECB official, there are deeper problems. Ignazio Angeloni, a member of the ECB Supervisory Board, told a banking conference in Rome on Wednesday that while the checks had focused on capital levels, it was necessary to probe “the roots of the problems” through an examination of business risk models, internal control systems, and the management of credit and operational risk.

“We have to consider that in many cases the shortfall is just the tip of the iceberg,” he said.

Concerns over a potential crisis in the euro zone financial system once again came to the fore on Tuesday when the announcement by Greek Prime Minister Antonis Samaras that he was bringing forward an election for a new president sparked a stock market plunge.

The election will take place through parliament, where the coalition government does not command sufficient votes to ensure support for its preferred candidate. If no agreement is reached, a general election could be triggered, with the prospect of political instability if Syriza gains the largest number of seats and there are problems forming a new coalition.

Such concerns triggered a 12.8 percent drop on the Athens stock exchange, the biggest one-day fall since

December 1987.

The continued fallout from the decision last month by the oil cartel, OPEC, not to cut production to counter the 40 percent slump in prices since June is another sign of recessionary trends. This week oil prices fell to a five-year low as major companies announced they were shelving plans for expansion.

ConocoPhillips has announced that it will cut its capital spending plans by about 20 percent next year compared to 2014. It also said it will slow down its activity in US shale oil and gas exploration and defer work in some major areas of shale exploitation.

Oil industry analyst Paul Sankey told the *Financial Times* that he expected a “wave” of capital expenditure announcements in the next two weeks and into January, as other companies followed the Conoco decision.

Santos, the Australian oil and gas producer, this week suffered what was described as a “savage” share sell-off in the wake of a downgrade in its credit rating by Standard & Poor’s. The company has lost a third of its market capitalisation in the past two weeks and has been forced to scrap a large-scale capital-raising plan based on the issuing of bonds in Europe.

Further downgrades are possible, with analysts warning that the company could face a liquidity problem if the price of oil continues to fall.

One of the most significant potential sources of global financial instability is Russia, where the combination of falling oil prices and tightening economic sanctions imposed by the United States and the European Union has seen the rouble plunge by 40 percent for the year and 21 percent against the US dollar since the start of November.

Yesterday, *Bloomberg* reported that Russian companies had lost tens of billions of roubles on foreign exchange derivatives. The losses were incurred because the central bank concluded that it could no longer use foreign reserves to try to halt the rouble’s plunge and would allow it to float.

Another indication of the overall global deflationary trend is contained in the latest price data from China. Prices of goods at the factory gate, measured in the producer price index, dropped by 2.7 percent in November compared to a year earlier in the biggest fall since 2009. The result was the 33rd consecutive monthly decline.

According to the National Bureau of Statistics, the

price of coal products was down 11.6 percent from a year earlier, oil and gas were down 13 percent, and the prices of ferrous metal products fell by 16.6 percent.

The chief economist for Greater China at the ANZ bank in Hong Kong, Liu Li-Gang, said that China had entered a “rapid disinflation process and faces the risk of deflation.”

In other words, far from providing a basis for the revival of the world economy—the prospect held out in the immediate years following the eruption of the financial crisis in 2008—China is increasingly being gripped by intensifying recessionary trends.



To contact the WSWWS and the
Socialist Equality Party visit:

wsws.org/contact