Global financial markets facing instability in 2015

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World financial markets enter 2015 with a series of potential triggers for the eruption of instability and turbulence.

The year has ended with Greece back in the spotlight following the calling of an early general election after Prime Minister Antonis Samaras failed in his third attempt to win parliamentary backing for his chosen candidate for president.

The election will be held on January 25, with polls predicting that the pseudo-left SYRIZA party (Coalition of the Radical Left) will win the ballot. It has led opinion polls consistently over past months, though the gap has narrowed more recently.

The new government's central task will be to finalise a bailout and austerity agreement with the International Monetary Fund, the European Central Bank and the European Commission. The so-called troika has already dictated savage spending cuts that have resulted in a 25 percent fall in gross domestic product since the onset of the financial crisis in 2008.

In 2012 the prospect of a SYRIZA government and political instability caused considerable financial turbulence, raising the prospect of a Greek exit from the euro zone and financial contagion extending to other countries, most notably Spain, Portugal and Italy.

But financial markets appeared to take Monday's announcement of a general election in their stride as SYRIZA has made it clear in repeated statements and assurances by its leader Alexis Tsipras that it is no threat to the ruling US and European financial elites. The party no longer talks about "debt default" but insists instead that it is for "debt renegotiation."

Summing up the position of financial markets, the chief European economist of JPMorgan Chase in London, David Mackie, said: "Our judgment is that the region [meaning the troika] will take a tough line with the SYRIZA-led government. Ultimately SYRIZA, will trim its ambitions in order to ensure that it can remain in the monetary union." Other analysts voiced the same opinion.

But there are concerns that all may not be smooth sailing. Bloomberg cited remarks by Holger Schmieding, the chief economist at the Berenberg bank in London, that there was "a risk of about 30 percent that Greece may descend into a new deep crisis with potential euro exit, beyond the inevitable bout of near-term uncertainty now."

The ECB, which has played a central role in imposing poverty and misery on the Greek people through a series of diktats, responded to the election announcement with a cynical statement. "It's now for the Greek electorate to decide about the future composition of the parliament and the government. We will not interfere in or comment on this democratic process," it said.

While the prospect of a SYRIZA government in itself holds no fears for financial markets, there are concerns in ruling circles that its election could be the beginning of struggles by the working class, which SYRIZA would not be able to contain.

These concerns were voiced by *Financial Times* commentator Gideon Rachman in a column published on Monday describing the euro zone's voters as its "weakest link." He raised the prospect that if "voters revolt against economic austerity" then the "whole delicate house of cards of debt bailouts and austerity" could begin to wobble.

Another potential source of instability is the divergence between the policies of the world's major central banks.

Next year, the US Federal Reserve is set to begin tightening official interest rates, although, as Fed chair

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Janet Yellen has made clear, it will be "patient" so as not to precipitously cut off financial speculators from their supply of ultra-cheap cash.

But while the Fed begins tightening, however slowly, the ECB and the Bank of Japan are moving in the other direction.

The ECB is due to meet on January 22, when it is expected to take further steps towards full-scale quantitative easing involving the purchase of government debt. The Bank of Japan will continue to expand its asset purchases—even higher relative to the size of the economy than those undertaken by the Fed—in line with the program of "Abenomics."

Rising US interest rates are likely to be most keenly felt in "emerging markets" where dollar-denominated debt has risen sharply over the past five years. An increase in US rates and a rise in the value of the American dollar raises the real level of both debt and interest payments.

Bloomberg has reported that emerging-market distressed debt losses this month were at their worst level since the global financial crisis. An index compiled by Bank of America Merrill Lynch fell by 13.4 percent in its worst monthly performance since October 2008, with the decline in 2014 as a whole also the worst for six years.

The worst performing currency among emerging markets is the Russian rouble. It has declined 37 percent this year as a result of the halving of oil prices over the past six months and the impact of economic and financial sanctions imposed by the US and the EU.

The Russian economy contracted by 0.5 percent in November compared to the same month last year in what seems certain to be the start of a slide into recession. In the first 11 months of this year, the economy grew by only 0.6 percent compared to the same period a year ago.

The Russian central bank has forecast that the economy will contract by 4.5 percent if oil prices continue to remain at their present level of around $60 per barrel. And the recession will be even deeper if the oil price resumes its fall.

The chief economist at the ING Bank in Moscow, Dmitry Polevoy, told the *Financial Times* that the worsening situation was the result of sanctions, oil prices and the market panic, which saw a plunge in the rouble earlier this month. "There is no cause for optimism," he said.

While there is something of an uptick in the US economy, the worsening situation in the rest of the world—continuing stagnation in Europe, recession in Japan and lower growth in China—coupled with financial instability in emerging markets could rapidly impact on both US and global markets in the near future.

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