Fed acts to push US stocks higher

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A top official of the Federal Reserve Board broadly hinted Wednesday that the US central bank, contrary to previous indications, would not begin to raise its benchmark interest rate at the September meeting of its policymaking committee.

The statement by William Dudley, president of the Federal Reserve Bank of New York and vice chairman of the Fed's Federal Open Market Committee (FOMC), was timed to buttress and expand an early morning rally on US stock exchanges, which had seen over $2 trillion in market capitalization wiped out in massive declines over the previous six trading sessions. Over those six days, the Dow lost 11 percent of its market value.

Speaking in New York about one hour after the 9:30 a.m. start of trading, Dudley said, "From my perspective, at this moment, the decision to begin the normalization process at the September FOMC meeting seems less compelling to me than it was a few weeks ago." "Normalization" is Fed-talk for beginning to gradually lift the federal funds rate from near-zero, where it has remained since shortly after the September 2008 Wall Street crash.

Dudley's remarks carry additional weight because he is known to be a close ally of Fed Chairwoman Janet Yellen. His statement was a calculated signal to Wall Street banks and other financial interests that the US central bank and government were prepared to open the cash spigot even wider and provide whatever public funds were necessary to shield the financial elite from the consequences of a new eruption of the global capitalist crisis.

When Dudley made his remarks, an opening bell surge of 430 points on the Dow Jones industrial average had fallen back to 300 points and fears were mounting of a repeat of Tuesday's session, when an opening gain of 442 points turned into a rout in the final 30 minutes of trading, with the Dow closing down 205 points, or 1.3 percent.

Dudley's intervention had the desired effect. Major investors went on a buying spree and drove the rally higher, resulting in massive gains for all three major indexes—the Dow, the Standard & Poor's 500, and the technology-laden Nasdaq. The Dow finished with a gain of 619 points (3.5 percent), the S&P 500 closed 73 points higher (3.90 percent), and the Nasdaq gained 191 points (4.24 percent). These were the biggest one-day gains for all three indexes since the second half of 2011.

The surge on US markets came despite another down day on Chinese markets. An early rally on the Shanghai Composite Index collapsed, leading to a 1.3 percent loss at the close of trading. It was the fifth consecutive down session, during which the main Chinese exchange has lost more than a quarter of its value.

The loss was all the more significant in that it followed Tuesday's announcement by the Chinese central bank of major moves, including a quarter percentage point cut in the benchmark interest rate and a reduction in bank reserve capital ratios, designed to push hundreds of billions of dollars worth of new cash into the country's financial markets.

The surge on Wall Street came as well against the backdrop of new losses on European markets. On Wednesday, the French CAC 40 closed down 1.40 percent, the German DAX lost 1.29 percent, and Britain's FTSE 100 index declined by 1.68 percent.

There were other signs that the global deflationary pressures underlying the recent stock market selloffs were continuing unabated. The protracted fall in commodity prices continued, with oil prices falling in both the US and Europe. The drop in the US market followed the release of weekly US inventory data showing a drop in gasoline demand and record-high stockpiles of crude oil and petroleum products.

Copper prices were down 3.1 percent.

Besides the sharp slowdown in Chinese economic growth and collapsing commodity prices, the other acute expression of a worsening world slump and mounting financial problems is the crisis in the so-called emerging market economies. Countries ranging from Brazil, to Russia, Turkey, Indonesia, Thailand, and South Africa are reeling from falling stock and bond prices, plunging currencies, and increasing indebtedness.

They are being hit particularly hard by the slowdown in China, a major market for commodity exports, and the broader combination of plunging commodity prices and glutted markets. On Tuesday, South Africa, the biggest economy on the African continent, unexpectedly reported that its economic output contracted by 1.3 percent on an annualized basis in the second quarter. Economists had predicted a gain of 0.6 percent, itself a sharp decline from the country's first-quarter 1.3 percent expansion.

In his morning remarks to reporters, Dudley alluded to the recent global stock market and currency turmoil. "International developments have increased the downside risk to US economic growth somewhat," he said. "The slowdown in China and the sharp fall in commodity prices are increasing the strains on many emerging market economies and this could lead to a slower global growth rate and less demand for US goods and services."

While implicitly acceding to demands from prominent financial figures, such as former Treasury Secretary Lawrence Summers, to delay any increase in interest rates, Dudley rebuffed the call made Tuesday by Summers and Ray Dalio, head of hedge fund giant Bridgewater Associates, for a new round of "quantitative easing," i.e., Fed bond purchases, to directly pump additional billions of dollars into US financial markets.

"I'm a long way from quantitative easing. The US economy is performing quite well," he said. He also held out the possibility of the Fed raising rates before the end of 2015, saying, "I really hope we can raise interest rates this year."

But in signaling the Fed's determination to do whatever is necessary to rescue the financial aristocracy from the consequences of its own speculative and semi-criminal activities, Dudley is making clear that the ruling class will continue to carry out the very policies that, far from producing a genuine recovery, have deepened the crisis announced by the Wall Street meltdown of 2008.

The US central bank and government, and their counterparts internationally, have focused all of their efforts on rescuing the financial oligarchy and creating the conditions for it to further enrich itself at the expense of the working class.

The primary means has been the provision of unlimited funds to subsidize and underwrite the parasitic activities of the banks and hedge funds. The main mechanism for promoting what the Fed calls the "wealth effect," i.e., the enrichment of the financial-corporate elite, has been the stock market, with the Fed financing a massive inflation of share values by means of zero interest rates and money-printing in the form of quantitative easing.

Before the latest market turmoil, share values on US markets had tripled from their lows at the height of the financial crisis in early 2009, and stock markets internationally had hit record highs.

This has gone hand in hand with a relentless attack on the conditions of the working population by means of mass layoffs, wage-cutting and the gutting of social programs. Governments have been bankrupted by the diversion of funds to bail out the banks and speculators, whose debts have been shifted onto the balance sheets of the capitalist state, with the working class made to foot the bill.

Meanwhile, the real economy has been starved of productive investment and left to stagnate. The current stock market turmoil reflects the growth of deflationary forces in the global economy that threaten to overpower the efforts to inflate and maintain financial bubbles for the benefit of the rich.