Markets “celebrate” poor US jobs data

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Last Friday, the US Labor Department reported that jobs growth for September was only 142,000, some two-fifths below the trend of the past 12 months and well below expectations of an increase of 201,000. Coupled with the revising down of August jobs growth from 173,000 to 136,000, it was clear evidence that the deflationary and recessionary trends worldwide are impacting on the US economy.

Financial markets interpreted this news as meaning that the Fed would not now increase interest rates from their present level of near zero until March 2016 and possibly beyond. In September, the Fed had kept rates on hold but indicated that it favored an initial increase before the end of the year.

With that prospect receding rapidly, the stock market began to rise after the release of the jobs data. On Monday, having digested the news over the weekend, the stock market celebrated in anticipation that the supply of ultra-cheap money was going to continue, possibly for at least the next six months.

It was as if the players in a gambling casino had been told that they would get another supply of free chips from the house.

The bad news is good news syndrome saw the Dow rise more than 300 points, an increase of 1.8 percent, the S&P 500 rose by 1.8 percent and the NASDAQ Composite advanced by 1.6 percent. For the S&P it was the fifth straight day of gains and the longest stretch of increases since last December.

In an interview with the business channel CNBC, the former Fed chairman Ben Bernanke, the principal architect of the cheap money policy following the financial crisis of 2008, said the “mediocre job numbers for the last couple of months” were a “negative” for any move to lift interest rates. In other words, what has become known as the Bernanke put—the belief that that Fed will underpin financial markets—will continue.

His comments followed remarks by Boston Fed president Eric Rosenberg over the weekend, who said his confidence that interest rates could rise had been diminished. Rosenberg is not a voting member of the Federal Open Market Committee, which sets rates, but his comments were significant because in the recent period he has moved into the camp of those who favor an interest rate increase this year.

However this was not a unanimous view. St Louis Fed present James Bullard, who is on record as favoring a move to normalizing the interest rate regime, repeated his view that now was the time to start that process. Fed vice chairman Stanley Fischer said there were obvious “bubbles” in the economy and the Fed could target them with higher interest rates at certain times.

But the prevailing view is that interest rates will not move this year. “In terms of demand, concern about Fed hikes in 2015 is evaporating, particularly following the disappointing jobs numbers,” said Andrew Hollenhorst, an interest rate strategist at Citigroup Global Markets.

Andrew Brenner, head of international fixed income at National Alliance Capital Markets, said: “The Fed is off the table for 2015, no matter what they say.”

It was significant that among the rises on the stock market were energy and mining companies. This was not because the prices of commodities have risen—the downward pressure is continuing. Rather, it was a reflection of the belief that many of these highly indebted companies would not be faced with an immediate funding squeeze which could occur in the event of an interest rate increase by the Fed.

Another expression of the perversity that prevails in financial markets came with the announcement yesterday that, for the first time in history, the US Treasury had sold a government security with a three-month maturity for a yield of zero. This implied that if investors held the security for its full term they would have given the government a short-term loan for free. In fact, those who purchased the security anticipate that with the cheap money spigot still open they will be able to sell at a higher price than they purchased it for and make a profit.

The latest jump in Wall Street again underscores the divorce between financial markets and the underlying real economy. The US jobs data were an expression of global trends, including a marked slowdown in the Chinese economy, lower growth in emerging markets, the mounting prospect of two consecutive quarters of negative growth in Japan—a technical recession—and continuing deflationary pressures.

As the *Financial Times* noted in an article published Monday: “Deflation, a prolonged decline in the price of products, is flowing like a draught of cold air from Asia’s powerhouse economies and casting a chill over Japan and Europe, while also endangering US efforts to sustain a recovery.”

The intensifying deflationary trend could see both the Bank of Japan and the European Central Bank pump still more money into the financial system. However, the continued boosting of the financial markets by the world’s three major central banks is creating the conditions for a potential disaster.

Philip Moffitt, the head of Goldman Sachs Asset Management, which oversees $1 trillion worldwide, told *Bloomberg*: “The next stage for both the Bank of Japan and the ECB [European Central Bank] is more easing; they’re going to keep putting more fuel on the fire, but at some point the fire’s big and there’s nothing left to burn. What do we do?”

The immediate response to such a situation, he continued, “would be a huge sell-off in risk assets.”

Following the wiping out of trillions of dollars from global equity markets in August and September, Monday’s rise on Wall Street is not a sign of a return to stability, but rather another gyration in the fever chart of the global financial system.