Stock markets continue to plunge amidst growing signs of economic crisis

Andre Damon
8 January 2016

World stock markets continued to plunge on Thursday. The sell-off began in China, where trading was suspended for the second time in four days when stocks fell by more than seven percent in 30 minutes, resulting in the shortest trading day of the Chinese stock market.

Losses extended to Europe, where major indices fell between one and two percent. In the United States, the Dow Jones Industrial Average (DJIA) fell by 392 points, or 2.3 percent. The S&P 500 fell by 2.37 percent, while the NASDAQ Composite Index fell by 3.03 percent.

Both the S&P 500 and the DJIA are off to their worst annual starts in history, with the DJIA down by 5.2 percent in the first four trading days of the year, and the S&P 500 down by 4.9 percent.

The NASDAQ has now officially entered a "correction," defined as a decline of 10 percent or more from the recent peak, while the DJIA and S&P 500 are down by 9.8 percent and 8.8 percent, respectively.

The continued sell-off points to growing fears of a divergence between global stock market values, which have been rising for nearly six years, and the ongoing slowdown of the world economy.

Economic growth in 2015 is expected to have been the lowest of any year since 2009, and International Monetary Fund Managing Director Christine Lagarde has hinted that 2016 could be even worse.

The fall in economic output has contributed to a steep drop in demand and prices for commodities. The price of Brent crude oil fell by another 2.1 percent Thursday, hitting $33.27 a barrel, down from nearly $65 in May and its lowest level since February 2004.

The global sell-off centered on fears of a further deterioration of China's economy, amid concerns that the country's slowing growth could lead to a significant destabilization of its exchange rate regime. The country's annualized growth rate in the fourth quarter of last year is expected to have been less than 7 percent, down from 14.2 percent in 2007.

China's central bank reported Thursday morning that it would set the target value for the renminbi at 6.56 to the dollar, the lowest valuation in nearly six years. While Chinese monetary officials have allowed the country's currency to depreciate in an attempt to boost exports, they have been forced to burn through foreign exchange reserves in an effort to defend the currency's value and prevent it from falling even faster.

The country's foreign exchange reserves fell by $108 billion last month, hitting $3.33 trillion, after a fall of $87 billion in November.

The *New York Times* reported that a "quarterly survey of 2,000 Chinese manufacturers and other industrial companies shows that almost none are currently investing in new equipment and factories." The newspaper quotes Gan Jie, the director of the Center on Finance and Economic Growth at the Cheung Kong Graduate School of Business in Beijing, who said, "In the past four quarters, it's only 2 to 3 percent that are making expansionary investments."

The latest stock market falls follow the panicked sell-off in the Chinese market over last summer, which led the country's benchmark index to fall by up to 45 percent from earlier highs. The Chinese government was able to halt the sell-off with massive injections of cash into the financial markets totaling some $234 billion, according to an analysis by Goldman Sachs.

Fears that the current sell-off in China could be the start of a much broader correction were intensified when billionaire investor George Soros drew a parallel between the current economic conjuncture and the 2008 financial crisis. Speaking at an economic forum in Sri

Lanka, Soros pointed to the uncertainty related to China's slowing economy and unstable currency regime.

"China has a major adjustment problem," Soros said. "I would say it amounts to a crisis. When I look at the financial markets there is a serious challenge which reminds me of the crisis we had in 2008."

Whether or not the current market moves are the beginning of a significant unraveling remains to be seen. Most of the markets are still significantly higher than lows from last year. Regardless, there is a growing nervousness in the ruling class about the state of the world economy seven years after the 2008 crash, and the markets function as something of a barometer for this sentiment.

Among the concerns are not only the slowdown in China and the general stagnation of the world economy, but also the signs of a significant growth of opposition in the working class. The entire financial system is a house of cards, built on a foundation of free money from the central banks, and premised on the assumption that there will be an unending transfer of wealth from the international working class into corporate coffers and the speculators on Wall Street.