Chinese markets continue to fall, amid mounting concerns over growth

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12 January 2016

Chinese stocks continued to fall yesterday despite intervention by financial authorities to stabilise the value of the renminbi (also known as the yuan) and head off growing fears that it is set for a major fall.

A plunge in the renminbi would initiate a new deflationary wave through the global economy and provoke capital flight from China, which saw its currency reserves fall by $500 billion last year, with December setting a monthly record.

The day began with the announcement that the currency regulator was setting the rate of the renminbi at a slightly higher level than the previous day. At the same time, the People’s Bank of China intervened in the offshore market to buy the renminbi. The bank sought to curb the activities of speculators, who have been short-selling the currency in the offshore market in order to make profits on the difference between its value in the internal and external markets.

Despite these measures, Chinese equities hit fresh lows for the year, with the Shanghai Composite index down 4.7 percent and the Shenzhen Composite falling by 6.2 percent, extending its losses so far this year to more than 20 percent. In the first week of the year, almost $1 trillion has been wiped off share values.

In the US, the Dow and the S&P 500 indexes ended slightly up on the day following a lift at the end of a volatile day’s trading. One of the reasons for the late bounce may have been remarks by Atlanta Federal Reserve Bank president Dennis Lockhart that there did not seem to be enough new data on inflation to justify an increase in US interest rates at the Fed meeting in January or March.

The Fed lifted its rate for the first time in a decade last month and attention in the markets has focused on when the next step will take place in what it has described as a “gradual” tightening of monetary policy.

While the US markets have gone up slightly, after their worst opening for a new year in history, no one is predicting an end to volatility. “The market is very stretched to the downside,” according to one market analysis cited by the business channel CNBC.

While the overall market was up, the S&P energy sector was down 2.1 percent, following further falls in the oil price. Both the price of Brent and West Texas Intermediate, two key oil benchmarks, have gone below $33 per barrel in recent days, with predictions they are set to fall further.

The precipitous drop in oil prices from more than $100 per barrel a little more than 18 months ago, and to levels of between $60 and $70 per barrel in the first half of last year, is impacting both on the bottom line of oil and energy companies, and on bond markets. There is a growing fear of defaults in high-yielding or junk bonds, issued when the oil price was over $100.

Initially the slump in oil prices was attributed to an increase in supply as Saudi Arabia maintained production levels, seeking to induce lower prices and force higher-cost US shale oil producers out of the market. As the price slump has continued, however, there is growing acknowledgement that it is indicative of demand, rather than supply pressures, and points to the worsening state of the global economy.

In a comment published in the *Financial Times* last Friday, Stephen King, chief economic adviser to HSBC, noted that contrary to previous experiences—when falling oil prices provided a boost to the global economy, enabling the lowering of interest rates as inflation fell—this time around, with oil prices falling for 18 months, “evidence in favour of an economic nirvana is sorely lacking.”

Throughout the major economies, growth last year was still less than 2 percent, and the emerging markets had gone “from bad to worse,” King wrote. Global growth for last year came in at just 3.8 percent, “the lowest rate of expansion since 2009, the year in which the whole world appeared to be on the verge of collapse.”

According to King: “These outcomes suggest that falling oil prices are less about shale production or the Machiavellian machinations of oil ministers and more about weaker-than-expected global growth.”

Rather than an outward movement in the supply curve, the slump was the result of an inward movement in the demand curve. “Seen in this light,” King continued, “collapsing oil prices are less a sign that things are a lot better and more a sign that things are in danger of getting a lot worse.”

Those signs are most evident in China, both in the turbulence surrounding the stock market and the currency and growing fears about the impact of slowing growth.

Earlier this year, following a major meeting of the Chinese Communist Party leadership, President Xi Jinping announced a target of 6.5 percent growth as the minimum necessary to achieve the target of doubling the size of the economy from 2010 to 2020.

This week, however, Li Wei, president of the State Council’s Development Research Centre, cast considerable doubt on this perspective. Citing the worsening global economic outlook and rising Chinese labour costs, he said that “6.5 percent is not high, but it will be very difficult to achieve this pace of growth.”

The worsening state of the Chinese economy is evidenced by figures on strike activity published by the China Labour Bulletin. While the figures are at best sketchy, they do show important trends. The bulletin reported 2,774 “incidents” last year, compared to 1,379 in 2014, with a marked rise in December.

More than two-thirds of all disputes were related to the non-payment of wages. “Wage arrears have been endemic in the construction industry for decades but are now increasingly evident in manufacturing, mining and services as employers simply refuse to pay workers or close their businesses down and disappear,” it reported.

If the rise in strike activity continues under worsening economic conditions, this will have a decisive impact, not only on the Chinese regime.

Writing on the *Business Spectator* web site this week, Mark Beeson, professor of international politics at the University of Western Australia, noted that while capital was full of contradictions, “as the Marxists used to say,” one of the more “remarkable features of capitalism these days is that even the most serious crises pose remarkably little threat to the system as a whole.” Even during the biggest shock since the Great Depression, “the proletariat was strikingly quiescent in the US and Europe,” where it was most deeply felt.

The growing signs of resistance in China and elsewhere point to the fact that, no matter how much complacent academics and others may write it off, the class struggle does arise from the objective contradictions of capitalism that, as mounting financial and economic turbulence demonstrates, are intensifying.