Wall Street fall continues in day of swings

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Wall Street's sell-off continued yesterday, with the Dow Jones index falling by 546 points following its 832 point decline on Wednesday. The S&P 500 index, regarded as key benchmark, was down by 2.1 percent, recording its sixth consecutive day of losses.

The technology-heavy Nasdaq index fell by 1.3 percent and at one point was in "correction" territory, having dropped by 10.3 percent from its closing peak at the end of August, before recovering slightly.

All major US indexes are now below their 200-day moving average, which is regarded as a key indicator of the direction of the market.

The continued plunge on Wall Street followed significant falls across global markets on Thursday in response to the downturn in the US the previous day. The London and Paris markets were both down by 1.9 percent, while Asian markets took a heavier hit.

The Hong Kong market was down 3.5 percent, Tokyo 3.9 percent, Seoul 4.4 percent and Shanghai 5.2 percent.

The Europe-wide Stoxx 600 index fell by 1.7 percent to hit a two-year low, while emerging markets overall dropped by 2.7 percent, taking their fall this year to more than 17 percent.

The most significant feature of the activity on Wall Street was the increased volatility, with sharp swings at the end of the day. From 2.38 p.m. to 2.45 p.m., the Dow lost 260 points, but just seven minutes later was up by 198 points. An hour later, it was down again by 420 points, before closing for the day at 546 points lower.

That brought the Dow's losses over two days to almost 1,400 points, or more than 5 percent. After nearing 27,000 points on October 3, the Dow is now just above 25,000.

The market turmoil has been accompanied by a series of comments from US President Donald Trump, variously describing the interest rate tightening policy of the US Federal Reserve as "crazy" and "loco."

Trump said he was "disappointed" in the actions of Fed chairman Jay Powell because of its "aggressive" policy on interest rates but said he had no plans to try to remove him.

In a speech last week, Powell pointed to the strength of the US economy and indicated that the Fed's base interest rate had some way to go before reaching a neutral level—an indication that the central bank plans another rise later this year. Together with the rise in the yield (interest rate) on 10-year US Treasury bonds, Powell's remarks are widely seen as being the trigger for the market sell-off.

The Fed's interest rate tightening has also come under criticism from emerging markets, which have seen capital outflow this year, amid warnings that it could accelerate.

Speaking to Bloomberg Television in Bali, Sri Mulyani Indrawati, the finance minister of Indonesia, which has been hosting the semi-annual meeting of the International Monetary Fund (IMF) this week, said the US "needs to be very mindful that spillover from the effect of their policies is very real for many countries."

She said Indonesia, which has lifted its interest rates five times this year to try to prevent the slide in its currency, was "doing all the right things, yet we have to be very vigilant with the global environment changing very fast."

Despite action by financial authorities, the Indonesian rupiah has fallen to its lowest level since the Asian financial crisis of 1997–98. Indrawati said she expected the US to "design a policy that creates a friendlier environment for many emerging countries to adjust to."

Concerns over the situation facing emerging markets were voiced yesterday by IMF managing director Christine Lagarde. She said policymakers in these economies had to use "all the tools" at their disposal to stem the capital outflow that would inevitably result from a tightening US monetary policy. She also issued a warning about the impact of the US-China trade war.

In earlier comments to a meeting held on the sidelines of the IMF gathering, Lagarde repeated warnings that buffers had to be set up in response to global turbulence, and that moment had arrived. “It’s not just clouds on the horizon that we see, but some of the clouds have started opening up and it’s a bit more than a drizzle,” she said.

The *Financial Times* reported that financial stress hitting emerging market economies “has dominated discussion” at the IMF meeting, recalling the Asian crisis of 20 years ago.

The IMF has agreed to the largest bailout package in its history—a $57 billion loan for Argentina—and is considering a request from Pakistan for a loan estimated to be $7 billion.

According to the FT report, IMF officials have said they do not see evidence of contagion.

“But the fear is nonetheless that Argentina and Pakistan are only the beginning and over the coming months the fund may be forced to consider lending to other countries facing problems including depreciating currencies, rising fiscal gaps, and debt servicing challenges exacerbated by rising interest rates,” the newspaper noted.

There is also growing concern that the US is destabilising the world economy with its “America First” trade war measures against China, the withdrawal from the Iran nuclear deal and the threat of sanctions against companies that continue to trade with it.

Lagarde also referred to the trade war in her remarks yesterday, stating that while the world economy was continuing to grow, it had hit a plateau and may not be strong enough to withstand trade conflicts.

She said: “The real question is: Is the economy strong enough? To that my answer is ‘probably not enough.’ Moreover, some of the risks that we highlighted at our spring meetings in April have now begun to materialize, especially from rising trade barriers. If these tensions were to escalate, the global economy would take a significant hit.”

While most analysts of the US stock market fall have focused on specific national issues, others have pointed to the worsening global economic environment.

“For much of 2018, the US economy has been oblivious to a turn in the global economic cycles, and the US equity market has been unaffected as emerging market equities and currencies have come under pressure,” Kit Juckes, a strategist with the French financial firm Société Générale, told the *Financial Times*.

“This week has seen the S&P, and the Nasdaq, sit up and take notice,” he said.