As Dow drops another 560 points

Wall Street Journal warns of stock “stampede”

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The sell-off on Wall Street continued Friday, with the Dow ending the day down 560 points. The new plunge came amid rising concerns over the impact of the arrest of Huawei executive Meng Wanzhou on the US-China trade conflict, slower global economic growth, and the intensification of class conflict as evidenced by events in France.

Reporting on the sell-off, the *Wall Street Journal* said the “retreat” away from US stocks “turned into a stampede Friday, with major indexes suffering declines of more than 4 percent for the week and their worst start to a December since 2008.”

The previous day the newspaper had played its part in trying to boost the markets, following a fall of 784 points in the Dow in the opening hours of trading, by publishing a front-page report that the US Federal Reserve was considering pulling back on interest rate rises next year. This led to an upturn, with the markets closing just 80 points down for the day.

On Friday, both the Dow and the S&P 500 indexes opened with slight gains, but then quickly moved into negative territory, with the Dow down by more than 660 points at one stage. Over the course of the week, the Dow finished down 4.5 percent, the S&P 500 4.6 percent lower and the Nasdaq off by 4.9 percent.

The larger fall in the Nasdaq reflects the sharp decline in tech stocks, which have been hard hit by the deepening US-China trade conflict because of the impact it could have on both the companies’ global supply chains and markets.

Reporting on the market downturn, the *Financial Times* pointed to the “bearish momentum” and the emergence of the so-called “death cross” in the graph of the S&P 500 index, as its 50-day moving average fell below its 200-day average.

Commenting on market sentiment to the *Wall Street Journal*, Erik Davidson, chief investment officer for Wells Fargo Private Bank, said: “The list of worries is very, very long these days. Investors are on pins and needles, worried about something at all times, whether it’s the China trade deal, Brexit, the inverted yield curve or monetary policy.”

The main factor in this week’s market downturn has been the issue of US-China economic relations and the prospect that the outcome of the talks between US President Trump and China’s President Xi Jinping, held on the sidelines of the G20 summit last Saturday night, is at best a temporary and very fragile ceasefire.

The Dow rose by 300 points on Monday following Trump’s positive tweets on the outcome of the discussions. But the upturn quickly went into reverse when divergent reports from US and Chinese authorities called that assessment into question, and the Dow plunged 800 points on Tuesday.

This was followed by a further 784 point drop on Thursday morning on the back of the news that Meng Wanzhou had been arrested during a layover at Vancouver international airport and that the US Justice Department was seeking her extradition to face charges related to the breach of US sanctions imposed on Iran.

Details of those charges were revealed in a court hearing yesterday at which it was alleged by Canadian authorities, acting on behalf of their US counterparts, that Meng had fraudulently covered up Huawei’s control of a company called Skycom that was doing business in Iran.

The Canadian prosecutor, John Gibb-Carsley, said Meng had misled financial authorities about the connection between Huawei and Skycom when US sanctions were in operation against Iran. Meng, he asserted, had said there was no connection, when in fact Huawei and Skycom were the same company. “This is the crux… of the alleged fraud,” he said.

Meng served on the board of Skycom, a Hong Kong-based company, for a period in 2008–2009. But Meng’s attorney, David Martin, said there was “no evidence” that Skycom was a subsidiary of Huawei during the time of the alleged sanctions breach. It had been a subsidiary, but had been sold in 2009, and the claim that Meng was engaged in fraud would be “hotly contested.”

The action against Meng and Huawei is the outcome of a long-running investigation by the US Justice Department and Gibb-Carsley said the warrant for Meng’s arrest was issued by a New York court on August 22 this year. It was executed at the Vancouver airport last Saturday at the very time Trump was in discussions with Xi.

There is uncertainty over who knew what while the talks were taking place and whether Trump had been advised. But the president’s national security adviser John Bolton, who was in overall charge of the US arrangements for the discussions, told National Public Radio on Thursday that he knew in advance of the request to Canada to detain Meng.

He said the conduct of Chinese companies, and especially technology companies, which the US claims steal intellectual property and carry out forced technology transfers from US companies doing business in China, was a key issue.

“Huawei is one company we’ve been concerned about,” he said. “There are others as well.”

The move against Huawei is a further indication that for key sections of the US political and national security establishment, the conflict with China is not primarily over trade, but rather the drive to prevent it from expanding its technological and industrial base.

This is why, for past seven months, tentative agreements to move towards a resolution of the trade conflicts have broken down almost as soon as they were made. Last May, a deal that China increase its imports from the US, which US Treasury Secretary Steven Mnuchin said had put the trade war “on hold,” was overturned a few days later.

Now, within just a few days of the latest Trump-Xi talks, any prospect of an agreement appears to have been blown out of the water. This is because the action against Meng and Huawei will confirm the view in Beijing that there is no basis for any agreement because the central US aim is to halt China’s development in crucial high-tech areas.

While the US-China conflict was the central reason for this week’s market turbulence, other significant factors have been at work.

The agreement reached yesterday at the meeting of OPEC to reduce oil production brought a rise in the price. Under most conditions this would have led to a rise on Wall Street, but not on this occasion because of concerns that the oversupply of oil in the past two months is the outcome of a slowing global economy.

There is also another, longer-term process at work. The rise in financial markets, and above the surge on Wall Street since the low point in March 2009—the longest bull market in history—has rested on the suppression of the class struggle by the trade union bureaucracy. But this is now breaking apart, as the ongoing “yellow vests’ demonstrations in France, taking place outside the control of and in opposition to the trade unions, coupled with the growing anger among US autoworkers over latest round of plant closures, make clear.