

Fed attempt at calming markets fails

Wall Street plunge continues

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Wall Street had another wild day yesterday with the Dow ending down by 415 points, after rising by almost 400 points in the opening hours of trading. The S&P 500 index fell by 2 percent and the NASDAQ was down by 2.99 percent, capping the worst week for Wall Street since October 2008.

The Dow lost 1655 points for the week, a decline of 6.8 percent, its worst percentage drop since the onset of the financial crisis a decade ago, the NASDAQ lost 8.3 percent for the week and is now 22 percent below its high last August and the S&P fell by 7 percent and is now down 17.8 percent from its high.

Both the S&P and the Dow are on track for their worst December performance since December 1931, amid the Great Depression.

Bloomberg published an article noting that currently 38 percent of stocks are trading at 52-week lows. Since 1984, there have only been eight days when a larger proportion of stocks traded at those levels. Two of them took place during the October 1987 crash, when the Dow fell 23 percent in a day, with the rest occurring in October and November 2008.

The brief rally was set off by an interview with New York Federal Reserve president John Williams with the business channel CNBC in which he said the Fed was going into 2019 with eyes “wide open” and was willing to reassess its outlook for the economy and by implication its monetary policy.

He had clearly been given a brief to calm the markets after their adverse reaction to Wednesday’s decision to lift interest rates by 0.25 percent and indicate that the Fed was taking note. He defended the rate rise, based on the assessment that the economy would continue to grow next year, but said the Fed was paying close attention to financial markets.

The effect of his reassurances lasted about two hours

before the markets started to plunge again.

The rate hike was not the only aspect of monetary policy which impacted the markets. There was an adverse reaction to the statement by Fed chair Jerome Powell during his Wednesday press conference that the wind back of its asset holdings, acquired under the program of quantitative easing (QE) when the Fed entered the market to buy bonds, was on “auto pilot” and would continue at the rate of \$50 billion per month.

Under QE, the Fed expanded its assets from around \$800 billion to more than \$4 trillion. The effect of this measure was to push up the price of bonds and lower interest rates—the two have an inverse relationship. The downward pressure on interest rates under QE fuelled the continuation of the very financial speculation which had led to the crisis of 2008, giving rise to the longest bull-run on the stock market in history.

While the Fed began to reverse its QE policy 15 months ago, similar operations were continued by other central banks. But now they are moving in the same direction, tightening credit conditions in global financial markets.

One of the fears on Wall Street is that its dirty secret is being exposed and that just as the wave of cheap money under QE provided a major boost for financial operations its reversal, or quantitative tightening (QT), is going to bring an unravelling. This is because growth in the global economy remains well below the level attained before the financial crisis and it cannot withstand a return to what were once considered to be “normal” financial conditions.

There are increasing signs that the global economy is slowing significantly and could be headed for a recession. The year began with claims that in 2017 the world economy had enjoyed “synchronised” growth and had experienced its best year since the financial

crisis of 2008.

But prospects for a continuation of that trend proved to be short lived and the year has ended with significant slowdowns in both the German and Japanese economies. Another indicator of global trends is the fall in commodity prices, with oil leading the way, having fallen by 30 percent in the last two months.

For most of this year, the US has been something of an outlier from this trend, with corporations receiving a major boost as a result of the corporate tax cuts enacted by the Trump administration at the end of last year. Trump claimed this would be a boost to investment and jobs. But that claim has already been given the lie by the major job cuts and closures announced by General Motors and the fact that the increase in corporate profits has largely been used to finance share buybacks and boost dividends.

It is significant that what the *Financial Times* described as a “tsunami of money”—estimated to reach \$1 trillion for the year—has failed to prevent what could be the worst year for stock markets since the global financial crisis.

Besides financial conditions, trade-war tensions are another key factor in the sell-off. This was illustrated yesterday when an interview with Trump’s White House trade adviser Peter Navarro led to a further market fall late in the day.

Navarro told the Japanese news agency, Nikkei, that it would be “very difficult” for the US and China to reach an agreement within the 90-day deadline agreed to by Trump and China’s President Xi Jinping at their meeting in Buenos Aires on December 1.

Navarro, one of the main anti-China hawks within the administration, said there could be “no half-measures” and China had to address all US demands, including claims of forced technology transfers, cyber spying on business networks, state-directed investments and tariff and non-tariff barriers. In short, there had to be a total capitulation by China before any deal could be reached.

Underlining the central issues motivating the most hawkish anti-China forces within the administration and the military and intelligence apparatuses that have stepped up their offensive against China in recent weeks, he said: “China is basically trying to steal the future of Japan, the US and Europe, by going after our technology.”

He called the “Made in China 2025” program—the

centre of its plan for industrial and technological development—a “label for a Chinese strategy to achieve dominance in the industries of the future.”

While China has dropped references to the plan in recent times, “no one in Japan or the United States really believes that they have abandoned the goals of China 2025.”

Another significant aspect of the present market plunge is the way in which economic processes are intersecting with growing political turmoil both internationally—the Brexit crisis in the UK being one of the most prominent examples—and the ongoing and deepening conflicts within the US political establishment.

Both the impending government shutdown in the US, over Trump’s insistence that funding for a wall between the US and Mexico must be included in any settlement of the standoff with Congress, and the political firestorm set off by Trump’s announcement of a withdrawal of US troops from Syria and the consequent resignation of Defence Secretary James Mattis have played into the market plunge.

In the longer term, the market and political turmoil is the outcome of the breakdown of the global capitalist order which erupted in the form of the financial crisis of 2008. In the decade since, none of the contradictions that produced it have been resolved, they have simply metastasized to return in even more malignant forms.



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