As German industrial production records "devastating" fall

Bond markets point to global recession

Nick Beams 8 August 2019

Global bond markets are sending a clear message that significant sections of the world economy are moving into a recession, if they are not already in one.

This week yields on government bonds have been falling as investors seek a "safe haven." At the same time the price of gold, the ultimate store of value, has been steadily rising and has topped \$1,500 per ounce, its highest level in six years.

The immediate trigger for the rush to safety was the new tariff threat against China by the Trump administration and the devaluation of the Chinese currency, the renminbi, on Monday, which led to the decision by the US Treasury to name China as a "currency manipulator."

The Treasury decision may not immiediately have a direct effect, but it has raised the spectre of a global currency war, as central banks around the world cut their interest rates, thereby lowering the value of their currencies, or prepare to do so, in what has been characterised as a "race to the bottom."

Yesterday three central banks in the Asia-Pacific region cut their rates. The New Zealand central bank reduced its rate by 0.5 percentage points, double the cut that had been expected. Thailand's central bank cut its base rate by 0.25 percentage points, contrary to market expectations it would keep it on hold. India's central bank dropped its rate by 0.35 percentage points, taking it to the lowest level in nine years.

The major central banks are also expected to move as well. The European Central Bank has signalled it is ready to carry out further monetary stimulus at its meeting next month. The US Fed is expected to announce a further reduction in its base rate by at least 0.25 percentage points, and possibly more, following its rate reduction last month.

St Louis Fed President James Bullard said yesterday he thought the US central bank "can do more policy adjustments."

US President Donald Trump has continued his demand

for a reduction in US rates, saying the Fed moves should be "bigger and faster," and has again indicated the focus should be on positioning the US in what is emerging as a global currency conflict.

"Incompetence is a terrible thing to watch, especially when things could be taken care of sooo easily," he tweeted. "It would be much easier if the Fed understood, which they don't, that we are competing against other countries, all of whom want to do well at our expense!"

The growing global financial turbulence led to major swings on Wall Street. The Dow fell by 589 points in early trading before moving up to finish only 22 points down for the day. The S&P 500 index finished 0.1 percent higher after falling by as much as 2 percent when trading began.

The yield on 10-year Treasury bonds, which move in the opposite direction to their price, dipped below 1.6 percent before rising slightly.

In a somewhat concerned editorial published yesterday, the *Wall Street Journal* took issue with the US decision to impose new tariffs on China. It noted that multiple reports from the White House indicated Trump had overruled all his economic advisers, save the anti-China hawk Peter Navarro, in making the move. Since then, it said, "global and American economic conditions have been heading south."

It pointed to the contradictions in the Trump economic agenda. The trade policy was contributing to exchange rate instability, leading to a rising dollar as capital flowed into the US seeking a safe haven. China was not manipulating its currency but was setting a lower peg to reflect supply and demand.

"We aren't predicting a recession, but then few thought we were in a recession in mid-2008 either," the editorial said, warning that economic expansions do not end on their own, but flow from policy mistakes. Calling for at least a trade truce, it concluded: "Mr Trump's willy-nilly trade offensive could be the mistake that turns a

slowdown into the Navarro recession."

The signs of a global slowdown, if not an outright recession, are most evident in the trade-sensitive Asia-Pacific region, as shown by yesterday's central bank rate cuts, and in Germany.

Figures released yesterday show that industrial production in Germany, the euro zone's largest economy and the key driver of economic growth, fell by a larger-than-expected 1.5 percent in June. According to a Reuters' poll, analysts had predicted it would drop by just 0.4 percent.

With industrial production now down by 5.2 percent from its level in June 2018, there are fears that Germany is heading for its first recession in six years.

Commenting on the latest data, Carsten Brzeski, the chief economist at the financial firm ING, said: "All in all, we would characterise today's industrial production report as devastating, with no silver lining."

In its report on the German data, the *Financial Times* said the figures "highlight how a crisis in the carmaking industry and an intensifying trade war between the US and China have turned Germany from being the powerhouse of the euro zone into one of its weakest performing members."

While the car industry is the focus of the decline, industrial production was down across the board. The deputy head of economic research at Commerzbank said the crisis in the car industry was continuing "unabated." He warned, "However, the main reason for this weakness is now likely to be significantly weaker foreign demand."

Alexander Krueger, an economist at Bankhaus Lampe, said the ongoing "plunge in production" was "scary," and the longer it continued "the more likely it is that other sectors of the economy" would be dragged into it.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact