# Financial turbulence continues as major economies move towards recession

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Markets around the world fell yesterday in response to the biggest fall on Wall Street for the year on Wednesday, amid further indications from bond markets and production data that the global economy is moving into recession.

In response to the Wall Street decline, markets in Asia fell, with Japan's Topix index down 1 percent while the Australian market dropped 2.9 percent, wiping $60 billion off share values. Markets in Europe also fell before recovering some of their losses later in the day.

Yesterday Wall Street whipsawed in response to news reports on the state of the US-China trade war. Futures markets were down before the start of trade on the basis of a statement from Beijing that it would "retaliate" against the latest imposition of tariffs by the US, but the market rose in response to what was seen as a more conciliatory statement from Beijing.

Foreign Ministry spokesman Hua Chunying said: "We hope the US can work in concert with China to implement the two presidents' consensus that was reached in Osaka, and to work out a mutually acceptable solution through equal-footed dialogue and consultation with mutual respect."

But any prospect of such a resolution appears no closer with Trump saying that any agreement with China had to be "on our terms."

As trade war tensions show no sign of easing, the bond markets continue to send out signals that the conditions for a recession are building. This week the yield curve inverted in both the US and the UK, meaning that the yield on two-year government debt rose above that on ten-year bonds. This is regarded as a forecast of recession because it indicates that investors are seeking a "safe haven."

Deutsche Bank strategist Jim Reid told the *Financial Times*: "For me yesterday's … inversion is the one that worries me the most. In my opinion, it has the best track record for predicting an upcoming recession over more cycles than any of the others."

In a further indication of the worsening economic outlook, the yield on 30-year US Treasury bonds dropped below 2 percent, for the first time ever, reaching its lowest level on records going back to the 1970s.

The historically unprecedented conditions now prevailing in financial markets—the result of the pumping out of trillions of dollars by the world's central banks in response to the global financial crisis of 2008—is indicated by the latest data on negative yielding debt.

Bonds with a negative yield, meaning that investors would make a loss if they held them to maturity, have risen to $16 trillion, after passing the $15 trillion mark just 10 days ago. At the end of last year the value of bonds with negative yield was $8 trillion, meaning that it has doubled in just eight months.

And the central banks are preparing to pump still more money into financial markets. The US Federal Reserve is set to cut its base rate by at least 0.25 percentage points in September and possibly more, while the European Central Bank (ECB) is set to make a major move on monetary policy when it meets next month.

It will be a large-scale operation as indicated by remarks by Olli Rehn, the governor of Finland's central bank and a member of the ECB's governing council, in an interview with the *Wall Street Journal* yesterday.

"It is important that we come up with a significant and impactful policy package in September," he said.

"When you're working with financial markets, it's often better to overshoot than undershoot and better to have a very strong package of policy measures than to tinker."

The measures under consideration include a further cut in the ECB key interest rate, already sitting at minus 0.4 percent, and a resumption of its asset purchasing program after the ECB had previously decided to phase it out. Rehn pointed to a series of risks, including an unstable political situation in Italy, an economic slowdown in China, uncertainties caused by the US-China trade conflict and the prospect of a hard Brexit as justification for the ECB move.

But any move on monetary policy will do nothing to boost global growth. The increased supply of cheap cash will simply be used for speculative financial operations.

When the central banks initiated their so-called "unconventional" measures in the wake of the global financial crisis, the claim was that this would provide a boost to the economy and lead eventually to a "normalisation" of monetary policy. That program has been thrown aside. Easy money has done nothing to promote economic expansion but has been the chief means of boosting financial markets. So addicted have they now become to the continued flow of cheap cash that any move to cut it off threatens to set off a new crisis.

At the same time, growth in key areas of the world is slowing, with major economies on the brink of recession or already entering one.

A report on CNN Business noted this week that "five big economies are at risk of recession" and it would not "take much to push them over the edge."

The British economy contracted in the second quarter as did Germany's, the world's fourth largest, which has been described as "teetering on the edge of recession."

Growth is "flat lining" in Italy, Mexico has narrowly avoided a recession, defined as two consecutive quarters of contraction, and "data suggest that Brazil slipped into recession in the second quarter," the CNN report said.

There are also indications of a downturn in the US, with business investment on the decline, coupled with a fall in industrial production, which dropped by 0.2 percent in July from the previous month.

All the countries on the edge of recession are members of the G20 group of the world's major economies.

Argentina, another G20 member, could well be added to the list following this week's plunge in share markets and the precipitous fall in the currency after the deepening opposition to austerity measures saw "market friendly" President Mauricio Macri take a battering in primary presidential elections over the weekend. The result led to a sell-off on Wall Street earlier in the week because it was taken as indication of the growing movement of the international working class against the global financial oligarchy.

The gyrations in financial markets and the growing signs of recession—threatening to set in motion a crisis even more severe than that of 2008—pose vital political issues before the working class in every country.

The global financial oligarchy has only one response to the mounting crisis: to step up its drive to put value back into its vast holdings of financial assets by intensifying its offensive against the working class, carried out with the force of the capitalist state.

This means that whatever form the struggles of the working class initially emerge—the fight for jobs, against austerity measures, the defence of wages and social conditions—they can only go forward on the basis of a unified international struggle directed to the conquest of political power in order to implement a socialist program for the reconstruction of the global economy in the interests of the world's producers of wealth.