

Stock markets plunge in biggest fall since October 1987 crash

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Stock markets around the world yesterday experienced their worst day since the crash of October 1987, as prices plunged and clear indications emerged of a deepening crisis throughout the entire financial system.

The global sell-off began in the US futures market and during trading in the Asia-Pacific region as US President Donald Trump was delivering his address to the nation on Wednesday evening. Trump advanced no emergency measures to counter the coronavirus spread, but instead announced an economically damaging 30-day travel ban on Europe.

The market collapse then spread to Europe, where stocks had their worst day in decades. Market indexes in France and Germany fell by around 10 percent, with banks the hardest hit. The Euro Stoxx Bank Index fell 16 percent for the day, taking its total loss for the year to around 42 percent.

Wall Street opened sharply down, triggering a 15-minute halt in trading for the second time this week. The fall continued throughout the day, with the Dow losing 2,352 points, or 10 percent. The S&P 500 dropped 9.5 percent and the Nasdaq lost 9.4 percent.

The stock market plunge is now generating a crisis in the entire financial system. In a report issued yesterday, the Bank of America (BofA) said financial markets were being “overwhelmed by liquidity concerns” and this could “stop the Treasury market from functioning.” It concluded: “If that happens, it is a national security issue.”

The US Treasury market, the bank noted, is the bedrock for all other financial markets. If it experienced large-scale illiquidity other markets would not “be able to price effectively.” That is, they would virtually cease to function.

The BofA said all asset classes, including stocks,

corporate debt and mortgage-backed securities, were vulnerable. One portfolio manager at a large asset management firm told the *Financial Times*: “We’re not trading.”

A mortgage banker told the *Wall Street Journal*: “Our market is now completely closed. There is no offer to buy any agency mortgage product of any type.”

The US Federal Reserve has intervened saying it will pump at least \$1.5 trillion into short-term money markets. A statement by the New York Fed, which conducts the central bank’s money market operations, said: “These changes are being made to address highly unusual disruptions in Treasury financing markets associated with the coronavirus outbreak.”

The Fed’s intervention, as in the global financial crisis of 2008, underscores the basic class response of the state and its financial authorities. While nothing is being done to address the mounting health disaster facing millions of people, all stops are being pulled out to assist Wall Street and finance capital.

But in the absence of any meaningful measures to address the underlying crisis, financial measures aimed at bolstering the markets are having the opposite effect.

If Trump’s address was, as one commentator noted, the “most expensive speech in history,” yesterday’s remarks by the European Central Bank (ECB) president, Christine Lagarde, were almost as disastrous.

The ECB announced it would expand its quantitative easing program with an additional €120 billion of bond purchases by the end of the year, on top of its existing purchases of €20 billion a month, and it would make borrowing conditions easier for banks.

But remarks by Lagarde announcing the new measures set off a storm under conditions where the differences between the yields on bonds issued by countries in the eurozone are widening.

“We are not here to close spreads, this is not the function or the mission of the ECB,” she said. “There are other tools for that and other actors to deal with those issues.”

The reference to “other actors” reflects Lagarde’s insistence that, having already lowered interest rates to negative levels and resumed its quantitative easing program, there is little more the ECB can do.

She said it was not her intention to emulate her predecessor Mario Draghi and do “whatever it takes, number two.” This was a reference to the famous remark by Draghi in 2012 in the midst of the eurozone debt crisis that led to a fall in the yields on Spanish and Italian bonds.

In the past weeks, Lagarde has been insisting that European governments step up spending to meet the coronavirus crisis. She repeated this at her press conference, asserting that the response had to be “fiscal first and foremost.”

However, she has run into opposition from the governments of the Netherlands and Germany, which regard increased spending measures as a form of bailout for weaker economies in the eurozone, particularly Italy.

Lagarde’s remarks sparked outrage in Italy because they raised concerns that, as the economy moves into recession as a result of coronavirus and the lockdown of the country, its ability to finance its debts will be impaired.

Following Lagarde’s speech, Italian sovereign bond prices fell by a record amount, widening the gap in the yield between Italian and German bonds that is regarded as an indicator of Italian sovereign debt risk.

For the first time in the history of the ECB, Lagarde was forced to make a statement correcting her remarks. In a television interview she said she was “fully committed to avoid any fragmentation in a difficult moment for the euro area.”

While the US stock market and financial system is the eye of the storm, the tightening of liquidity in its markets threatens to rapidly travel around the world, as the US dollar is the basis of the global trading and financial system.

In an analysis issued earlier this month, Credit Suisse warned of big dislocations in demand for dollar funding.

It said its main concern was about “missed payments

for dollars globally” as this could have a cascading effect that severely impacts on individual banks and regional banking systems.

There have been calls for a revival of so-called “dollar swap lines,” in which the US Fed makes money available to other central banks. Though these measures were little reported on at the time, they played a central role in preventing a complete meltdown of the global financial system in 2008.

But with the rise of “America First” nationalism in the US, personified by Trump, there are doubts over whether such measures can be repeated. In his address, Trump said nothing about addressing the coronavirus outbreak as a global problem that requires a global solution.

Rather, he said it was a “foreign virus” that had “started in China” and denounced the European Union for failing to take action, resulting in outbreaks in the US being “seeded” by travellers from Europe.

There is a more than a symbolic significance to the fact that yesterday’s market meltdown was the largest since the crash of October 1987. When the Fed intervened in that crisis, opening the money spigot to prop up the markets, it initiated a policy that has prevailed over the past three decades.

This has involved the siphoning of wealth to the upper echelons of society by the creation of ever larger and more dangerous financial bubbles, at the expense of the social conditions of the working class.

The coronavirus outbreak and the response of the ruling elites has exposed, in the living experience of billions of people the world, the malignancy that lies at the heart of the profit system.



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