

Markets plunge again in rush to cash

Nick Beams
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The turmoil in global financial markets made a qualitative turn yesterday with a massive sell-off in all asset classes, stocks, bonds and precious metals, as confidence in government and central bank measures to halt the crisis disintegrated.

Selling on Wall Street went across the board, with the Dow losing around 6 percent, taking the index to below 20,000. It has now dropped by around one-third since the market high in mid-February. All the gains in the market since the election of Donald Trump to the presidency have been wiped out.

The *Financial Times* (FT) described it is a “panic-ridden day of forced selling and a loss of faith in government intervention.”

The *Wall Street Journal* said the rush for cash “shook the financial system ... as companies and investors hunkered down for a prolonged economic stall, taking the recent market turmoil into a new, more troubling liquidation phase.”

But even more significant were events in government bond markets. Normally the price of these bonds rises in a market sell-off, sending their yields lower, as investors seek a safe haven.

But the reverse is happening. Bond prices are falling, and their yields rising, as funds sell them off in a desperate effort to obtain cash either to stay afloat or pay back investors.

The sell-off means that efforts by the Fed and other central banks to lower interest rates and ease the constrictions in credit markets are being undermined by the rise in interest rates in the bond market.

As the *Financial Times* noted: “Higher sovereign yields at this juncture only tighten financial conditions and compound the pain from sharply weaker equity and credit prices, together with a strengthening dollar. That compromises the monetary easing policies of central banks.”

Interest rates are also coming under upward pressure

because of the recognition that the measures being prepared by the Trump administration for a stimulus package, almost entirely aimed at trying to prop up corporations, will lead to the issuing of more government bonds, sending their price down and the yields higher.

Consequently, there have been calls for the stepping up of quantitative easing—the purchase of government debt and other financial assets by central banks—in order to lower interest rates.

This would lead to the extension to the US and other major economies of the conditions that have prevailed for some time in Japan, where new government debt is largely purchased by the Bank of Japan.

Such a move, which would amount to the stateisation of the entire financial system, was foreshadowed in an editorial in the *Financial Times*, which asserted “we may be witnessing the biggest dash for cash the world has seen.”

Praising the actions taken so far by the Fed, the FT said more was needed. The US Treasuries market was “too important to rely only on private market-making,” especially because after 2008 the major banks have played a less significant role and there has been a shift to “less scrutinised operators such as hedge fund groups.”

Under these conditions, the FT declared, the Fed “must assume the role of market-maker of last resort” and could adopt the “yield control” policy developed by the Bank of Japan. “The Fed would target the 10-year Treasury yield directly, committing to buy or sell bonds in sufficient quantity to achieve that rate.”

Such a policy would mean that rather than the Fed acting as a market setter of “last resort,” it creates a situation where one arm of the state issues debt and another arm buys it.

Moves in this direction are already underway. In a day where UK financial markets took a hammering—the

pound tumbled by 5 percent against the US dollar to reach its lowest point since the 1980s—the Bank of England (BoE) announced what amounts to unlimited quantitative easing.

Incoming BoE governor Andrew Bailey said the central bank would print money to provide short-term loans to investment-grade companies in the form of a new commercial paper facility. “We didn’t want to put a limit,” he said.

The European Central Bank (ECB) is also escalating its quantitative easing measures. In an emergency call by the rate setting committee yesterday evening, it announced plans to buy an additional €750 billion worth of bonds.

The new purchases, adding to the ECB’s stockpile of more than €2 trillion, would be carried out over the course of this year and involve both government bonds and corporate debt.

The actions by the major central banks, however, will do nothing to revive the real global economy, as it plunges into a deep recession or even depression. They are entirely aimed at providing support for finance capital.

Such so-called stimulus measures cannot lift the real economy because economic activity is being wound down as part of measures to prevent the spread of the coronavirus.

The deepening crisis is now leading to a wave of job losses, some of the most significant of which are in the airline industry.

Reflecting the position of all airline companies, the Australian carrier Qantas has announced it is halting all international flights and will stand down 20,000 workers, two thirds of its workforce, until at least the end of May.

CEO Alan Joyce said efforts to contain the coronavirus had led to a “huge drop in travel demand, the like of which we have never seen before.”

A wave of job destruction is now sweeping the world. In the UK it is estimated that 200,000 workers in the leisure and hospitality industry have been laid off since mid-February, with many more to be hit.

According to the chief executive of the trade group UKHospitality, Kate Nicholls, in excess of one million jobs are on the line. “Job cuts are extraordinarily deep and they are happening now,” she said.

In the US, a survey released earlier this week found

that 18 percent of American workers had either been laid off or had their working hours cut, with the proportion rising to 25 percent for those earning under \$50,000.

The inexorable slide of the world economy into a deep slump is reflected in the ongoing fall in oil prices. The prospect of rapidly falling energy demand yesterday sent the US oil benchmark, WTI crude, down by more than 15 percent to \$23 a barrel, its lowest level in 17 years. Brent, the international benchmark, dropped 9 percent to \$25 a barrel.



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