US bank chief warns of economic “hurricane”

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Jamie Dimon, the chief executive of America’s largest bank, JPMorgan Chase, has warned that an economic “hurricane” is about to hit the US because of the war in Ukraine and the tightening of monetary policy by the US Federal Reserve.

Two weeks ago, Dimon warned of “storm clouds” gathering over the US economy. He escalated that assessment at a financial services conference yesterday.

“I said they’re storm clouds, they’re big storm clouds here. It’s a hurricane. That hurricane is right out there down the road coming our way,” he said.

“We just don’t know if it’s a minor one or Superstorm Sandy [the devastating hurricane of 2012] … And you better brace yourself,” he told investors at the conference.

He warned the Ukraine war would continue to put upward pressure on oil prices, which could go to as high as $150 or $175 per barrel. At present oil is over $120 after a spike following the decision by the European Union to ban seaborne oil imports from Russia as part of its tightening sanctions regime.

Dimon warned that oil prices would continue to rise over the longer term.

“We’re not taking the proper actions to protect Europe from what’s going to happen to oil in the short run. And we’re not taking the proper actions to protect you all from what’s going to happen to oil in the next five years, which means it almost has to go up in price.”

He also directed attention to the monetary tightening initiated by the Fed.

This consists of two components: Interest rate rises each of 0.5 percent over the next two meetings of its policymaking body, with more to follow; and a winding down of the $9 trillion of financial assets purchased by the Fed in response to the 2008 financial crisis and the market meltdown in March 2020 at the start of the pandemic.

The effects of interest increases are generally known, at least if historical experience is any guide. They must be lifted to “stunt” economic growth, in the words of one of the Fed governors, Christopher Waller, in a speech delivered on Monday calling for sustained interest rate increases.

But the effect on financial markets and the economy more broadly of a continuous reduction in the Fed’s balance sheet, known as “quantitative tightening [QT],” is not because it has never been undertaken in a sustained way before. Before the 2008 crisis the Fed held just under $1 trillion in financial assets in order to facilitate the operation of its monetary policy.

The expansion of its assets holding since then has had a different purpose—to prevent the implosion of the financial system which has loomed large twice in the past 14 years.

The only other occasion when the Fed, briefly, moved to cut its asset holdings took place in 2018. It contributed to a sharp fall on Wall Street at the end of that year and was rapidly withdrawn by Federal Reserve Chair Jerome Powell in January 2019.

Dimon warned that there was a risk of market volatility as the Fed began quantitative tightening.

“They do not have a choice because there’s so much liquidity in the system,” he said. “They have to remove some of the liquidity to stop the speculation, to reduce home prices and stuff like that. And you’ve never been through QT.”

With the Fed reducing its holding of Treasury bonds, the supply will increase, bringing about a “huge change in the flow of funds around the world. I don’t know what the effect of that is,” he said, warning of the potential for “huge volatility.”

His “hope” was that it would end up “OK,” but “who the hell knows?”

As Dimon was making his remarks, the rating agency S&P Global issued a warning that investors were underestimating the severity of the financial and social effects of what it called the "global food shock."

In a report published yesterday, it said food price rises, combined with the escalation of energy prices, would impact the credit worthiness of a large number of emerging economies.

According to Frank Gill, a specialist on sovereign debt for Europe, the Middle East and Africa at the ratings agency: "Rising energy and food prices represent yet further balance-of-payments, fiscal and growth shocks to the majority of emerging markets. This intensifies strains on their public finances and ratings, which are already impacted negatively by the global pandemic."

These markets are already experiencing an outflow of capital from their bond markets, which have already had their worst start to a year in almost three decades, as a result of the increase in interest rates in the US. Dollar-denominated debt is also coming under increasing stress because of the rise in the value of the US currency on global markets.

S&P Global said emerging markets exposed to the food price hikes already had low credit ratings, and they could fall even further.

The social and political consequences were underscored in remarks by Uday Patnaik, head of emerging market debt at Legal and General Investment, a major European asset management firm, to the *Financial Times*.

"For emerging markets, food is a much more significant part of your disposable income. If you're a big importer or poorer country this is painful. This is an issue that can cause governments to fall," he said.

He commented that Sri Lanka, where ongoing protests strikes have erupted calling for the end of the Rajapaksa presidency, was already "highly stressed" before the war in Ukraine, but the food price shock was "the final straw that pushed them over the edge."

Other countries could follow, with the S&P Global report noting that price shock and the reduction in food supplies raised the risk of social unrest with the crisis to last for years not months.

The economic and social turmoil will not be confined to so-called emerging market economies because the crisis is striking at the major economies as well. Inflation in the UK is running at 10 percent and threatening to go even higher. In the Eurozone it hit 8.1 percent in May, up from 7.4 percent in March and April; and in the US it is running at more than 8 percent.

In all these regions, as well as others, the cost of basic items, such as food and energy that make up much of the spending of the working class, are rising much faster than the official inflation rate.

The policy of capitalist governments and central banks everywhere is to hike interest rates, inducing a recession if that is considered necessary, to try to crush a wages movement of the working class.

In the US, the Fed's agenda received the backing of the Biden administration in a meeting between the president, the Treasury secretary Janet Yellen and Fed chair Powell earlier this week.

Following the meeting Biden said: "My plan … to address inflation starts with a simple proposition: Respect the Fed, respect the Fed's independence which I have done and will continue to do."

He said Powell and other members of the Fed were focused, "laser-focused on addressing inflation as I am."

As Powell had made clear on numerous occasions, that "laser focus" means continuing to lift interest rates to a level where they drive down wages, and a preparedness to follow the path of Fed chair Paul Volcker in the 1980s. He raised rates to record highs, resulting in the deepest recession since the 1930s and inflicting social and economic devastation from which the working class has never fully recovered.

Dimon's "hurricane" remarks were directed to an audience of financial market operators. But it is also clear that a social and economic hurricane is confronting the working class in the US and around the world.