Financial markets signal more interest rates hikes to come

Nick Beams
2 March 2023

Financial markets are sending out clear signals that while it may not proceed at the same rapid pace as last year, when there were four consecutive interest rate hikes of 0.75 percentage points (75 basis points), the US Federal Reserve and other major central banks will continue to tighten monetary policy.

The initial gloss put on the rate hike decisions was the need to "fight inflation." As that fiction is increasingly exposed, the real objective stands out more clearly. That is the further suppression of wages, already well below the rate of price increases, by slowing the economy and inducing a recession if that proves necessary.

In conditions where large sections of the European working class are pressing forward with wage demands in the face of the highest price rises in four decades, European Central Bank (ECB) president Christine Lagarde has made clear the driving force behind the higher interest rate regime of all the central banks.

Last week, as the ECB prepares for its next interest rate increase later this month, she said the central bank was "looking at wages and negotiated wages very, very closely."

Isabel Schnabel, a German representative on the ECB's executive board and a spokesperson for what is regarded as the "hard line" of that country's finance capital sector, said wage growth of 4 to 5 percent—less than half the current rate of European inflation—was "too high to be consistent with our 2 percent inflation target."

Wage suppression is long-term policy of the ECB with its chief economist Philip Lane remarking last November that "even after energy and pandemic factors fade… wage inflation will be a primary driver of price inflation over the next several years."

Fed chair Jerome Powell has also made it increasingly clear the suppression of wages is the objective of the US central bank, even as he has acknowledged that pay increases are not the cause of inflation.

Speaking to reporters after the latest meeting of the Fed's policy-making body at the beginning of February he said: "You don't see [a wage-price spiral] yet. But the whole point is… once you see it, you have a serious problem. That's what we can't allow to happen."

In other words, strikes and other forms of industrial action by workers to even maintain their living standards must be suppressed at all costs. Here the Fed, as with other central banks, is working in tandem with the trade unions which play the role of industrial policemen.

For a brief period, the financial markets inclined to the view that with the reduction of the rate rises first to 50 basis points and then to 25, the Fed might be easing its rate tightening cycle and the days of cheap money, which have sent stock markets to record highs, may be coming back, at least in some form.

But those hopes have largely been dispelled in light of data which have continued to show that what the Fed characterises as a "tight" labour market remains, along with remarks by members of its policy-making body that it is not done.

On Wednesday the yield, or interest rate, on the benchmark US Treasury bond rose to above 4 percent for the first time since last November in anticipation of higher interest rates from the Fed. Yields rose again yesterday, along with a rise in the value of the dollar on currency markets.

Rates on the 10-year bond are now at their highest point in around a decade. The yield on the two-year Treasury note rose to 4.89 percent, its highest level in 16 years. Significantly it meant that yield curve

inversion—a situation where, contrary to normal experience, the rates at the shorter end of the market are higher than those at the longer end—was at its steepest in 42 years.

Yield curve inversion is widely regarded as an indicator of a developing recession.

In its analysis of the market shift, the *Financial Times* (FT) noted: "Expectations have changed drastically over the past month after releases of hotter-than-expected US economic data. Investors at the start of February anticipated that rates would peak at just under 5 percent in the second quarter."

Now the belief is that the Fed rate will rise from its current range of 4.5-4.75 percent to 5.5 percent by the third quarter. A rate of increase of this size is expected to increase unemployment by hundreds of thousands.

The main set of data impacting on market expectations came from the Labor Department which reported early in February that the unemployment rate fell to a new low, "potentially extending upward pressure on wages," as the *Wall Street Journal* commented.

At the same time inflation is not receding, with the latest data showing that the Fed's key measure, the personal consumption expenditure price index, increased in January.

In a recent article, the FT cited comments by an economist, Bill Diviney, at the financial firm ABN Amro, which spelled out the class logic of the policies being pursued by finance capital.

"Given tight labour markets, it is clear that central banks want to see convincing signs that the economy is turning down and subsequently that unemployment will turn up," he said.

In the recent period, as it has become glaringly obvious, both from statistics and the experiences of life for billions of people the world over, that wages are not the cause of inflation, and there is no wage-price spiral, attempts are being made to put forward the claim that the central bank agenda is a mistake, the result of a misdiagnosis.

Economist Dr Jim Stanford of the Australia Institute has calculated on the basis of Australian Bureau of Statistics data that 69 percent of Australian inflation is due to profit gouging by corporations. Calculations in other major economies would no doubt show the same results.

His conclusion is that the focus of the Reserve Bank of Australia on wage restraint, and by implication that of every other central bank is "misplaced."

What flows from such an analysis is that if the facts of economic life are brought to light, then this policy can be corrected.

This is false. The central banks have not made a mistake. They are pursuing a consciously directed class-war agenda against the working class on behalf of the corporate and financial elites.

The handing out of trillions of dollars to the financial markets since the 2008 crisis by the central banks, a process accelerated with the onset of the pandemic in 2020, together with the refusal by the ruling elites to eliminate COVID-19, lit the fires of inflation.

They have been further stoked by massive government war spending in all major countries and profit gouging by the giant food and energy corporations and now the central banks are seeking to make the working class pay for the deepening global crisis through unending cuts in real wages.