

Market gyrations a symptom of a deep-seated crisis

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The gyrations on Wall Street and the Tokyo stock market last week, recalling those of 2008 and even the collapse of October 1987, have seen media pundits, commentators and financial analysts scratching their heads as they try to provide an explanation.

When markets open this week, they will be slightly down on what they were after several days of turmoil, but no one is confident that any lasting stability has been restored.

Various explanations are being offered. One of the most prominent points to the lower-than-expected new US jobs numbers in July, 114,000 as compared to estimates of 175,000, and the fear that this indicates a coming recession in the economy.

Others maintain this cannot be the explanation because the number of new jobs created was still a relatively healthy number and was not the lowest so far this year. According to this view, the key factor was the surprise decision by the Bank of Japan to lift its base interest rate into positive territory to halt the downward slide of the yen on currency markets.

They maintain this led to a contraction in the so-called carry trade in which investors borrow cheap yen and then invest them in higher yielding assets in the US to make a profit. The rise in the yen's value because of the BoJ's actions led to a sell-off of stocks, mainly in the high-tech area.

Another explanation is that the sell-off was the result of the bubble in artificial intelligence (AI) starting to collapse as the high-blown expectations of the returns came up against the reality of lower and slower real gains.

Those who point to this factor note, for example, that the rise in the shares of Nvidia, the leading chipmaker for AI, had been responsible singled-handedly for almost one-third of the total rise in the market in the first six months of 2024. In that time two-thirds of the rise in the S&P 500

was linked to the handful of tech stocks known as the Magnificent Seven – Alphabet (the owner of Google), Meta (the owner of Facebook), Microsoft, Apple, Amazon, Nvidia and Tesla.

Whatever the different explanations of the immediate trigger or combination of factors there is no doubt about the extent of the turmoil which has seen confidence severely shaken.

The *Financial Times* reported that as the sell-off was developing last Monday, “officials and traders at the New York Stock Exchange were discussing whether circuit breakers would force a market wide trading halt for the first time since the outbreak of the coronavirus pandemic.”

It noted that by the end of the day almost 90 percent of all stocks in a worldwide index “had fallen in an indiscriminate global selloff.”

On Wall Street the Vix volatility index, known as the “fear gauge,” went as high as 65.73 from a level of below 20. It was the third highest level since records started to be collected in 1992, exceeded only by levels reached in the crisis of 2008 and at the start of the pandemic in 2020.

In Tokyo, stocks had started to fall on the preceding Friday on the back of the BoJ's interest rate decision and the upward movement in the value of the yen because of its effect on the ability of major Japanese companies to compete and profit from their sales in world markets.

Following the release of the US jobs data, the selloff on Friday turned into a rout when trading began on Monday morning, setting the stage for a plunge on Wall Street.

An article in the FT cited a fund manager who recalled that at the time of the nuclear plant explosion at Fukushima in 2011 there was talk of evacuating Tokyo, but all it took to wipe billions off the Japanese markets was a “soft US jobs report and a modest hike in the Bank of Japan's overnight rate to send the Nikkei average down 12 percent in a day” and that the whole market was

“trading like a penny stock.”

In the space of a week, the article noted “the broad Topix Index lurched drunkenly from being one of the best performing benchmarks of 2024 to one of the worst, and then back to narrowly positive territory.”

The single day fall in the Japanese market was the most significant such event since the Wall Street and global market crash of October 1987. According to calculations by analysts at Goldman Sachs reported in the *New York Times*, the three-day loss of 20 percent in Japanese stocks through to last Monday was the largest since 1950.

The impact of the carry trade on Wall Street has attracted considerable attention. Because of the anarchy and chaos of the so-called free market, no one can put an accurate figure on its extent, with estimates ranging from billions of dollars to trillions.

For example, Bloomberg reported that the amount of money involved is disputed and that “estimates range from tens of billions of dollars into the trillions.”

The *New York Times* reported that “a tremendous amount of money has been borrowed in yen by investors outside Japan, with economists at the European Bank ING estimating that these cross-border loans have increased by more than \$721 billion since 2021.”

Long-time FT financial columnist John Plender reported that the dynamics of the unwinding of the yen carry trade were difficult to determine because of the data, but the financial firm TS Lombard had estimated “investors may need to find \$1.1 trillion to pay off yen carry trade borrowing.”

The rise of the yen carry trade has been in operation since the 1990s, but there appears to have been an acceleration in the recent period. In late 2021 the US Federal Reserve ended its quantitative easing – the buying of government bonds keeping interest rates at historic low levels – and then began lifting interest rates sharply in 2022. This led to an explosion in the carry trade to continue financial arrangements and profit-making based on cheap money.

The basic problem with all the analysis in the financial press is that while it provides some important and significant data, it is at best superficial because it does not seek to probe the underlying forces at work in the capitalist system. It deals only with the transmission mechanisms by which the fundamental historic crisis of the capitalist system is expressed in the financial markets.

This leads to the kind of bromides that were offered in an article published in the *Wall Street Journal* which declared: “A crash driven by complex undercurrents is the

most benign kind of crash because it doesn’t reflect a deeper problem. ‘Black Monday’ in 1987 ended up being a blip, and even the 1998 Russian crisis that took down Long-Term Capital Management didn’t keep equities down for that long.”

This is a complete misreading of history and the forces at work which produce continual financial storms. The crash of 1987 marked a major turning point in that the stock market was only “saved” by the commitment of the Fed to supply liquidity.

This decision was not a one off. It inaugurated a new agenda advanced by the then Fed chair Alan Greenspan, continued by his successors, that its task was not to prevent the development of financial bubbles based on speculation, but to supply free money when they burst to facilitate a new round of speculation.

The collapse of Long-Term Capital Management and the \$3 billion intervention by the New York Fed to prevent a financial market disaster was a preview of the crisis of 2008 which had major consequences for the working class, including wage cuts, unemployment and the repossession of homes.

The injection of ultra-cheap money into the financial system has created a huge inverse pyramid of fictitious capital which embodies no real value, divorced from the real economy, and in and of itself, in the final analysis, is but a claim on the surplus value extracted from the working class. The bail-out operations by the Fed to sustain it cannot go on indefinitely.

Finance capital will be driven to respond, and is already responding, to this crisis by demanding a full-scale assault on the social position of the working class, not only through the cutting of wages and the destruction of vital social spending, but with the imposition of authoritarian and even fascist forms of rule to enforce it.

The working class must draw the lessons from the financial storms of last week and make its preparations through the development of its independent fight for a socialist program to take the levers of the economy out of the hands of the financial oligarchy and their political representatives and establish a workers’ government.



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