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More Signs of Global Downturn Send Stocks Plunging Again

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Global stock markets staged yet another selloff Tuesday following the release of negative economic data in the US and China and downbeat assessments of the global economy from officials at the Federal Reserve and International Monetary Fund.

At the time of this writing, Asian markets continued to fall Wednesday morning, with China's Shanghai Composite Index down by 3.66 percent.

The Dow Jones Industrial Average fell 469 points, or 2.8 percent, on Tuesday. The Standard & Poor's 500 index fell 3 percent and the Nasdaq fell 2.9 percent. All three indexes are now down by more than 10 percent from their recent highs, placing them in correction territory.

The selloff in the US followed a 3.8 percent drop on the Japanese Nikkei and a 3 percent fall on Britain's FTSE 100, with almost every major global stock index closing down for the day. The Shanghai index fell by over 5 percent before closing with a loss of 1.3 percent.

The renewed turbulence on financial markets follows last week's dramatic global selloff, in which the Dow opened August 24 with a loss of nearly 1,100 points, its largest intraday fall in history, and closed down by 588 points.

Tuesday's selloff was initially triggered by weak data from China, showing the country's manufacturing activity hitting its lowest level since August 2012. China's official Purchasing Managers' Index fell to 49.7 last month, indicating the first contraction in manufacturing since February.

As one trader quoted by the *Financial Times* put it, "People are losing confidence, with the whole situation [in China] breaking down, not just in the stock market but in [real economic] data as well."

The same day, an index of factory activity in the US for August fell to a two-year low of 51.1, down from 52.7 in July, a decline that analysts attributed to the slump in global demand and the appreciation of the dollar.

The negative data corresponded with a downbeat assessment of the global economy by the International Monetary Fund and Federal Reserve. IMF Managing Director Christine Lagarde said Tuesday that global growth is expected to be weaker than the IMF had predicted, reflecting "a weaker-than-expected recovery in advanced economies and a further slowdown in emerging economies, especially Latin America."

Eric Rosengren, president of the Boston Federal Reserve, said in a speech in New York later in the day that the collapse in commodity prices and the slowdown in the global economy "might suggest a downward revision in the forecast" for economic growth in the United States.

Also Tuesday, the South Korean trade ministry said the country's exports fell by 14.7 percent compared with a year ago, the eighth consecutive monthly decline. The figure showed the worst annual fall in exports for South Korea, the biggest exporter to China, since 2009.

This report added weight to the observation by the *Financial Times* over the weekend that recent data showed "world goods trade contracting at its fastest rate since the global financial crisis."

Over the weekend the newspaper concluded, based on its own research, that "weakness in emerging market currencies is hurting global trade by reducing imports without any benefit to export volumes." It quoted former Pimco CEO Mohamed El-Erian as declaring, "We risk slipping into a beggar thy neighbour, competitive spiral of currency devaluations."

The article noted,

> "Since June 2014, the currencies of Russia, Colombia, Brazil, Turkey, Mexico and Chile have fallen by between 20 per cent and 50 per cent against the dollar, while the Malaysian ringgit and Indonesian rupiah are at their weakest since the Asian financial crisis of 1998."

The global turbulence is leading to a substantial selloff of assets by mutual funds, particularly those with exposure to emerging markets. CNBC noted that "if current trends hold, July and August will mark the first consecutive monthly net outflow from both bond and equity funds since late 2008."

A major factor in the financial turbulence is the dramatic economic reversal in emerging market economies, whose export-led booms are collapsing amid slowing global demand, the slump in commoditiy prices and a reversal of massive capital inflows that predominated in previous years. As a result, the prices of both sovereign and corporate bonds are falling, threatening the solvency of financial institutions that speculated in these assets.

Commodity prices also slumped dramatically, with oil prices dropping by 7 percent following a three-day rally. The *Financial Times* cited hedge fund manager Pierre Andurand as declaring that oil prices were likely to continue falling, possibly sinking as low as $30 per barrel.

The rout on global markets took place despite renewed indications from central banks that they would respond to the weakening economic situation with a further easing of monetary policy. Boston Fed President Rosengren, in the speech noted above, suggested that the weakening of economic data "is large enough to raise concerns about whether further tightening of labour markets is likely."

This points to the fact that the continuing flood of money from the Fed, European Central Bank, Bank of England and Bank of Japan into the financial markets does little to halt or reverse the stagnation in the real economy. While propping up the asset values of the

financial elite, this policy has only exacerbated the financial parasitism that underlies the slump dominating the world economy.

The world's governments and central banks responded to the 2008 financial crisis by blowing a massive financial bubble and transferring trillions of dollars in social wealth from the working class to the financial aristocracy. Seven years after the collapse of Lehman Brothers, the global capitalist crisis is once again erupting with full force.

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