Where will the Next Global Economic Crisis Explode? Colossal Stock Market Losses in 2016

By Ariel Noyola Rodríguez
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The year 2016 has hardly begun and the losses in different stock markets around the world care colossal: nearly 8 trillion US dollars during the first three weeks of January according to the calculations of the Bank of America Merrill Lynch. The Government of the United States made addicts of investment banks of policies of cheap credit. And now that the System of the Federal Reserve ended their monetary stimuli the whole world is paying the consequences. In the most recent Davos summit it was noted that there is much uncertainty among big businesses: no one knows when the next crisis will explode.

A financial tremor left the Davos club sunk in pessimism. Over 2 000 businessmen and political leaders met in Switzerland (from January 20 to 23rd) and do not really know how to convince the people of the world that the economy is under control. A few days after the XLVI edition of the World Economic Forum[1], the investors panicked: over the first three weeks of January different stock markets lost 7.8 trillion US dollars, according to the estimates of the Bank of America Merrill Lynch[2].

For the US investment bank this month of January will be remembered as the most dramatic moment for finances since the Great Depression of 1929. International financial circuits are increasingly vulnerable. PricewaterhouseCoopers (PwC) recently published the results of a survey that collected the opinions of 1 409 CEOs of 83 countries on the economic panorama: 66% of those interviewed consider that their corporate organizations face greater threats today than three years ago, and only 27% think that global growth will improve[3].

The uncertainty is such that during the Davos summit there was no consensus among business giants as to when the next crisis will hit. With this, the western press did not hesitate to point out that the deceleration of China is the principal cause of the turbulence in the world economy. In fact, George Soros (who hit the pound sterling in the 1990s) maintained in Davos that a violent landing of the Chinese economy is "inevitable"[4]: without doubt an exaggerated affirmation. In my judgement there is a propaganda campaign against Beijing that attempts to hide the serious economic and social contradictions that persist in the industrialized countries (the United States, Germany, France, the United Kingdom, Japan, etc.).

In spite of the triumphalism of the Head of the Federal Reserve System (Fed), Janet Yellen, in recent weeks the United States' economy has begun to show signs of debility. The manufacturing sector accumulated two months of contraction in December: the lowest level in the last six years. At the same time, the fall of commodity prices has resulted in an appreciation of the dollar and with this, it becomes more complicated for the North American Government to bury the danger of deflation. The horizon now is more somber since the international valuation of petroleum has fallen below 30 US dollars per barrel[5].

Still worse, the International Monetary Fund (IMF) reduced the new account of its perspectives of growth of the global Gross Domestic Product (GDP) for this year from 3.6 to 3.4%[6].

The truth is that the policies of cheap credit impulsed by the central banks of the industrialized countries after the bankruptcy of Lehman Brothers provoked enormous distortions in the credit market and now the world is paying the bill[7]. According to the calculations of the investment fund Elliot Management (directed by Paul Singer), the central banks of the great powers have injected approximately 15 trillion US dollars since the crisis of 2008 through the purchase of sovereign debt bonds and mortgage assets[8]. Sadly this strategy did not establish the bases of a stable recovery, but on the contrary increased financial fragility.

The euro zone has not been able to get out of low rates of economic growth. The crisis did not only strike countries such as Spain and Greece, the core of Europe has encountered severe difficulties: deflation now threatens Germany, after indicating that the consumer prices rose only 0.3% on average in 2015, the lowest since the recession of 2009, when the German GDP fell 5%; and the President of France, François Hollande, recently announced a "state of economic emergency" in the face of high unemployment and the debility of investment[9].

This has left the President of the European Central Bank (ECB) Mario Draghi very preoccupied, and he has been obliged to consider the extension of measures of stimulation for the month of March[10]. The same thing has happened in the Bank of England and the Bank of Japan: in spite of having placed the interest rate at a minimum level and launched aggressive programmes of injection of liquidity, they still have not managed to bring their respective economies out of the predicament nor increase in a substantive way their inflation, that is still a long way from the official objective of 2%.

With all this, the overwhelming domination of the dollar in the global capital market attributes to the United States a decisive role in the determination of the monetary policy of the other countries. There is no doubt that the FED was mistaken in raising the federal funds rate in last December. Simply there were no sufficient elements that allowed the conclusion that the recovery of the US economy was solid and sustained. Now that the situation has become worse it is almost that in its proximate meetings the Federal Open Market Committee (FOMC) of the FED will not only increase the cost of credit, but may well reduce the reference interest rate.

Nevertheless, the big problem is that no one seriously knows how the financial markets[11] will react to even a very light movement of the FED. Will the successive falls of Wall Street occasion a world recession? Will the hegemony of the dollar be fatally wounded by the massive sales of US Treasury bonds? To what point will China and the emerging countries resist? The coming crisis is an enigma for all….

Ariel Noyola Rodriguez is an economist that graduated from the National Autonomous University of Mexico.

Translation: Jordan Bishop.

Source: Russia Today.

Notes:

[1] «Davos 2016: Global economy seen to be hanging in the balance», Chris Giles, *The Financial Times*, January 19, 2016.

[2] «Nearly $8 trillion wiped off world stocks in January, U.S. recession chances rising: BAML», Jamie Mcgeever, *Reuters*, January 22, 2016.

[3] «En Davos, el pesimismo es el sentimiento de moda», Dana Cimilluca, *The Wall Street Journal*, 20 de enero de 2016.

[4] «Soros: China Hard Landing Is Practically Unavoidable», *Bloomberg*, January 21, 2016.

[5] «Goldman Sachs makes oil prices drop», by Mikhail Leontyev, Translation Deimantas Steponavicius, *1tv* (Russia), *Voltaire Network*, 19 January 2016.

[6] «IMF Cuts Global Growth Forecast to 3.4% in Year of 'Great Challenges'», *Bloomberg*, January 19, 2016.

[7] «El crédito barato ya no alcanza para estimular la economía mundial», Lingling Wei & Jon Hilsenrath, *The Wall Street Journal*, 20 de enero de 2016.

[8] «Fears of global liquidity crunch haunt Davos elites», Ambrose Evans-Pritchard, *The Telegraph*, January 20, 2016.

[9] «François Hollande en état d'urgence», Gérard Courtois, *Le Monde*, 19 janvier 2016.

[10] «Draghi hints at more stimulus in March», Claire Jones & Elaine Moore, *The Financial Times*, January 21, 2016.

[11] «The world has glimpsed financial crisis. But is the worst to come?», Jamie Doward, Larry Elliott, Rod Ardehali & Terry Macalister, *The Guardian*, January 24, 2016.

Articles by: Ariel Noyola Rodríguez

About the author:

Ariel Noyola Rodríguez is an economist graduated from the National Autonomous University of Mexico (UNAM).

Involved in the Centre for Research on Globalization, Global Research, based in Canada. His reports on World Economy are published in the weekly magazine Contralínea and his opinion columns in the international news chain Russia Today. The Journalists Club of Mexico awarded him the National Journalism Prize in the category of Best Economic and Financial Analysis for his pieces issued in the Voltaire Network during 2015. He can be reached at noyolara@gmail.com. Twitter: @noyola_ariel.