# Rate cuts, UK bank bailout fail to stem global financial panic

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World stock exchanges continued to plummet Wednesday despite unprecedented measures aimed at unfreezing credit markets and restoring confidence in the financial system.

Britain's announcement of an $880 billion bank bailout and coordinated interest rate cuts by central banks in North America, Europe and Asia were widely seen in financial markets as desperation measures that would do little to stabilize a banking system in the throes of the deepest crisis since the Great Depression.

The trading day opened with frenzied selling on Asian stock exchanges. Japan's Nikkei index lost 9.4 percent, its biggest single-day fall since the global stock market crash of October 1987. Hong Kong's Hang Seng declined 8.2 percent, the Mumbai exchange fell 7.3 percent and markets in Indonesia had to close early after plunging 10 percentage points.

Japanese auto stocks fell sharply amid fears of a world recession and severe contraction in Japanese export markets. Toyota, Nissan and Honda all fell more than 10 percent.

Russia's MISEX index fell 13 percent in the first minutes of trading and the Moscow exchange was suspended shortly thereafter.

European markets opened sharply lower, rallied somewhat after the announcement of coordinated interest rate cuts by the US Federal Reserve, the Bank of Canada, the Bank of England, the European Central Bank and the central banks of Switzerland, Sweden and China, and then resumed their downward spiral.

The pan-European Dow Jones Stoxx 600 Index ended the day down 6 percent. London's FTSE 100 Index brushed aside the massive bailout package announced by the government and plunged 5.2 percent. France's CAC-40 Index declined 7.4 percent and Germany's DAX Index fell 5.9 percent.

European bank stocks continued to suffer large losses. Shares in Germany's Deutsche Bank sank by 10.6 percent, France's Societe Generale lost 9.8 percent and Credit Agricole fell 8.2 percent.

In the US, share prices gyrated feverishly throughout the day, following a 508 point drop in the Dow Jones Industrial Average on Tuesday. By the close of trading, all three major indexes were down sharply. The Dow ended with a loss of 189 points (minus 2 percent), the Nasdaq Composite Index fell 14 points (0.8 percent) and the Standard & Poor's 500 Index fell by 11 points (1 percent).

Major bank stocks continued to suffer big losses, with Bank of America shares declining 7 percent and Citigroup losing nearly 5 percent. Indicative of the mounting toll of the banking crisis on the "real" economy, the giant aluminum maker Alcoa suffered a loss of nearly 12 percent.

It was the sixth straight day of declines on the US markets. Over that period, the Dow has lost 14.7 percent.

Since the passage of the $700 billion government bailout of the banks last Friday, the Dow has lost nearly 1,200 points. The downward spiral has not been stemmed by further emergency measures taken by the government, including a doubling and redoubling of Federal Reserve emergency loan facilities to the banks, bringing the total to $900 billion, and the Fed's unprecedented announcement Tuesday that it would begin buying up short-term commercial debt for all types of businesses.

As the *New York Times* put it on Tuesday: "When the White House brought out its $700 billion rescue plan two weeks ago, its sheer size was meant to soothe the global financial system, restoring trust and confidence. Three days after the plan was approved, it looks like a

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pebble tossed into a churning sea."

*Bloomberg.com* noted that US stock indexes are heading for their biggest annual decline since 1937.

Speaking of the markets' dismissal of the coordinated interest rate cuts on Wednesday, Marc Chandler, global head of currency strategy at Brown Brothers Harriman, said, "Officials didn't even have time to pat themselves on the back before the market said, ‘So what? This doesn't address the problem.'" He continued, "Every time officials do something that doesn't work, it breeds even greater anxiety."

Market panic was intensified by a dire economic forecast issued Wednesday by the International Monetary Fund (IMF). In its biannual World Economic Outlook, timed to coincide with the annuals meetings of the IMF and World Bank in Washington DC this weekend, the organization wrote: "The global economy is now entering a major downturn in the face of the most dangerous shock in mature financial markets since the 1930s." It added, "After years of strong growth, the world economy is decelerating quickly."

The IMF revised downward its July forecast for global economic growth in 2009 to 3.0 percent. It said the major industrialized countries of the G-7 group would be among the hardest hit economies, including the United States, which it called the "center of the intensifying global financial storm."

The IMF forecasts economic growth in the US to grind to a halt in 2009, estimating an increase of 0.1 percent. This means a dramatic rise in unemployment.

The IMF forecasts sharply lower growth in most of Europe, with an actual contraction in Britain, Italy and Spain. It also anticipates slower growth in China, India and the so-called developing world.

The report suggests that the recession will be protracted, stating that "the pickup is likely to be unusually gradual, held back by continued financial market deleveraging."

Data on retail sales in September provided further evidence of mounting recessionary trends in the US. With the exception of discount chains such as Wal-Mart, major retailers registered sharp declines, pointing to what some analysts are predicting will be the worst holiday sale season in 17 years.

JC Penney, the third largest department store chain, reported a 12.4 percent drop in sales. Some 63 percent of retailers who reported sales results on Wednesday fell short of already lowered expectations.

The National Association of Realtors reported a 7.4 percent increase in pending home sales for August, but that unexpected increase was largely due, in the words of one economist, to "vulture investors buying foreclosed homes." The biggest increase, a jump of 18.4 percent, came in the West, which has had the highest foreclosure rate.

One factor that is compounding the crisis on the markets is a growing lack of confidence in the major central banks and government policy makers, who increasingly exhibit a combination of desperation and perplexity. A stunning example was the reaction by US markets to a speech given Wednesday afternoon by Treasury Secretary Henry Paulson.

Paulson delivered what he called an update on the bailout plan for the banks which he had authored. Meant to reassure the markets in the final hour of trading, his remarks had the exact opposite impact.

He asserted that the US is "a strong and wealthy nation, with the resources to address the needs we face." But in the course of his remarks, he noted that "some financial institutions will fail" and concluded by warning against hopes for a quick resolution of the crisis. "But patience is also needed," he said, "because the turmoil will not end quickly and significant challenges remain ahead. Neither passage of this new law nor the implementation of these initiatives will bring an immediate end to current difficulties."

In a brief question-and-answer session following his prepared remarks, Paulson brushed off a query as to whether a meeting to be held Friday in Washington of G-7 finance ministers and central bankers would produce a more coordinated international response to the crisis. "It would make no sense to have identical policies," he said.

When Paulson began speaking, the Dow was up 150 points. In the course of his remarks it turned downward and continued to fall until the closing bell.

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