

China, emerging economies and commodities roil financial markets

Barry Grey
24 September 2015

Signs of a deepening slump in the world economy, led by a marked slowdown in China, continue to roil financial markets. Last week's decision by the US Federal Reserve to delay a promised hike in interest rates due to "global conditions" has only heightened fears of new financial crisis.

Stock prices on global markets have been generally down since the Fed announced its decision last Thursday. This week, US stock indexes fell sharply on Tuesday and slid further on Wednesday. Asian markets, including the Shanghai Composite and Japan's Nikkei, fell broadly Wednesday following a negative report on Chinese manufacturing.

The week began with further declines in commodity prices, a marker for falling trade, production and demand. The ongoing commodities slump is linked to an intensifying crisis of the so-called emerging market economies, most of which are heavily dependent on commodity exports, particularly to China. As a group, they are caught in a downward spiral of falling growth, plunging currencies, mounting debt and capital flight.

The very economies that were hailed as the engines of global growth following the Wall Street crash of September 2008—China and "emerging" markets such as Brazil, Russia, Turkey, South Africa, etc.—are now at the forefront of a deflationary crisis that threatens to plunge the world into a full-scale depression.

On Tuesday, copper prices tumbled 3.6 percent on the London Metal Exchange, aluminum fell 1.7 percent, and zinc declined 1.8 percent. Brent crude oil was down 1.4 percent at 48.22 a barrel.

Stock prices of major mining companies plunged across the board. Shares in Glencore, a giant commodity-producing and trading company, fell 15 percent to a new record low. Since Glencore's initial public offering in 2011, its shares are down 80 percent.

The company has lost more than 60 percent of its market capitalization this year, making it the worst performing firm on London's FTSE 100 stock index.

In an attempt to stave off collapse, the heavily-indebted company recently announced a major retrenchment in production and investment and suspended dividend payments.

Anglo-American, a large copper producer, fell by more than 6 percent to its lowest level in 15 years. Antofagasta was down more than 6 percent.

Commodity markets are experiencing their sharpest downturn since the financial crisis of 2008 and 2009. David Hufton of PVM, an oil brokerage, told the *Financial Times*: "The Fed decision is alarming because of the implications. It implies that Fed policymakers are so concerned about events in China and emerging markets that they are prepared to risk... the US economy financially overheating yet again."

The *Wall Street Journal* reported Tuesday that analysts have become even more bearish about the price of oil, predicting that crude will remain below \$60 a barrel through 2016. Goldman Sachs said it believed it was possible for crude to fall as low as \$20 a barrel, noting that "the potential for oil prices to fall to such levels... is becoming greater."

The position of many emerging market economies further deteriorated as the week began. Brazil led the downward charge of these countries' currencies, with its real reaching its lowest point versus the US dollar since the Brazilian currency was introduced in 1994. The real has lost 35 percent of its value against the dollar thus far in 2015.

Yields on the country's real-denominated government bonds have soared to 16 percent, and trading in credit default swaps that would pay off if Brazil defaulted has surged. The country's central bank

has raised interest rates five times this year in an attempt to contain inflation, and its rating has been downgraded to junk by Standard & Poor's Ratings Services.

Brazil is highly dependent on commodity exports to China, its biggest trading partner.

This week has likewise seen further declines in the currencies of other emerging market countries. On Tuesday, the Mexican peso was off 1.4 percent and there were sharp declines for the Korean won, the Turkish lira, the Russian rouble and the Malaysian ringgit. Developing countries' currencies, on average, have declined to the lowest levels since 2002.

The *Financial Times*, citing Oxford Economics, reported Wednesday that emerging market gross domestic product growth rates are set to fall to 3.6 percent this year on average, their lowest level since the 2008–2009 financial crisis. The newspaper cited analysts at Commerzbank as saying: “The majority of market participants are concerned that China could see a hard landing which would drag the global economy—or at least the emerging economies—down with it.”

These fears were compounded Wednesday when a new report on manufacturing in China showed the biggest contraction since March of 2009. The preliminary Caixin/Markit China Manufacturing Purchasing Managers' Index (PMI) dropped to 47.0 for September, falling below market expectations of 47.5 and declining from August's final 47.3. Levels below 50 signify a contraction.

Reuters quoted Craig Erlam, senior market analyst at Oanda in London, as saying, “The decline was driven by a fall in new orders and new export orders. Falling demand both domestically and abroad is only going to make the task of achieving 7 percent growth that much harder.”

In fact, the day before, the Asian Development Bank had lowered its growth forecast for China in 2015 to 6.8 percent.

John Burbank, whose Passport Capital hedge fund has profited from bets against commodities and emerging markets, told the *Financial Times*, “I think we are on the precipice of a liquidation in emerging markets.” He added, referring to the Asian financial crisis of 1997–1998, that “this feels the way that the fourth quarter of 1997 felt.”

Financial Times commentary published

Tuesday, headlined “Signs point to deepening China distress,” Henny Sender wrote: “More importantly, the Fed matters far less for world growth than China does. Indeed, the US as a market generally also matters less. In spite of the fact that the Fed's low rates were meant to trigger a new corporate investment cycle, the only thing that corporate financial officers have been signing off on is share buybacks—and those too are dwindling....”

“The Fed has helped China and many emerging markets by not raising rates. Yet neither the Fed nor anyone else has a clue where global growth will come from in future.”

The prospect of the US economy, supposedly the “bright light” in an otherwise dismal world picture, providing the impulse to restore global growth was given a further jolt by reports this week on the housing and manufacturing sectors.

On Monday, the National Association of Realtors reported that existing home sales in the US fell 4.8 percent in August, the sharpest month-to-month decline since January.

On Wednesday, the financial data firm Markit released its preliminary US Manufacturing Purchasing Managers' Index for September, reporting a level of 53. That is the same as August, which was the lowest level since October 2013. The index's job creation figure also slowed in September, hitting its lowest level since July 2014.

“The survey is indicating the weakest manufacturing growth for almost two years,” said Chris Williamson, chief economist at Markit.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact