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Take cover: a financial hurricane is blowing in

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The end of summer is a dangerous economic time. The next four weeks will show if the global economy is sinking

Late August marks the start of the North Atlantic hurricane season as everyone was reminded last weekend. But there is less awareness of an even bigger climatic event that normally begins at this time of year — the financial hurricane season usually starts around the August Bank Holiday and the US Labor Day in the first weekend in September.

Almost all the great financial crises of history have occurred between late August and mid October: the Wall Street crash in September and October 1929, the collapse of the prewar gold standard in September 1931, the sterling devaluation of September 1949, the collapse of the postwar Bretton Woods currency system in August 1971, the Mexican default in August 1982, which triggered the Third World debt crisis, the stockmarket crash on Black Monday in October 1987, the break-up of the European exchange rate mechanism on Black Wednesday in September 1992, the Russian default in August 1998, the Lehman bankruptcy in September 2008 — the list goes on.

The overlap between the financial hurricane season and the meteorological one is more than mere coincidence. Like the weather, global financial markets are a complex and finely balanced system with optimistic buyers always precariously matched by pessimists who want to sell. In any such system small perturbations can trigger big effects.

Financial hurricanes tend to occur in autumn for a reason similar to meteorological ones: a build-up of pressure in the hot summer months when trading is stifled is suddenly released as financial activity returns to normal after the holidays. Unlike the Caribbean, the world economy does not experience this every summer; but when big disruptive events happen in the summer, some kind of autumn crisis becomes a reasonable bet.

This summer there have been at least four highly disruptive events to which investors have not yet reacted in full: the crisis in the eurozone, with Germany backing away from further bailouts; the downgrading of US growth to near-recession levels; the collapse of confidence among US consumers caused by the brinkmanship over a government default; and, last weekend, the confusing message from Ben Bernanke, the Chairman of the Federal Reserve, on whether he will try any additional action to stimulate US growth.

And what's more, a series of events next month will draw renewed attention to all these problems and will probably make them worse.

On September 7 the Bundestag will vote on Germany's participation in the Greek bailout and on the same day the Constitutional Court in Karlsruhe will rule on a long-running legal challenge to the financial support already provided to other European states by the German Government and the European Central Bank.

A currency crisis of historic proportions would be almost inevitable if either decision went against German participation. This is unlikely, but by no means impossible, to judge by recent statements from legal scholars and senior politicians, all the way up to President Wulff, who last week declared his "personal opinion" that the ECB was acting in defiance of German law.

But a shock could be in store as early as Friday this week when the US publishes its August employment figures. If these suggest another month of dismal job growth — quite probable given the near-record fall yesterday in US consumer confidence — fears of a double-dip recession will surely intensify, as will calls for additional action to stimulate the US economy. The trouble is that there may be nothing much that the US Government or the Fed can do.

This depressing message is all too likely to be confirmed next week, when President Obama has promised to deliver his most important speech of the year on the economy and jobs. If he offers no impressive new ideas for strengthening employment and growth — or none that has much hope of passing through a hostile Congress — then attention will shift to another event that could prove even more disappointing and disruptive to financial markets: the Federal Reserve meeting of September 20 and 21.

This meeting, which Mr Bernanke's recent comments have rather rashly promoted into a major event, will offer the last remaining hope of substantial action to revive growth. If Mr Bernanke has no new tricks up his sleeve, the financial world will almost inevitably be disappointed. An even worse reaction could follow if the Fed does try some novel gimmicks that look feeble and unconvincing. Businesses, investors and consumers around the world could then jump to a truly frightening conclusion that the US and the global economy are sinking and nobody can do anything to help.

If the markets react badly to any of these events, their falls will further damage consumer confidence and aggravate the underlying conditions, creating the sort of vicious circle that often culminates in full-scale panic.

So a financial hurricane this autumn is a risk for which the prudent family should prepare, just as New Yorkers prepared for Hurricane Irene.

But just as Irene turned out to be much less destructive than predicted, so the financial hurricane season could pass without event. The US figures could be better than expected, especially as expectations are so low. Oil prices have fallen, industrial supply lines disrupted by the earthquake in Japan are back in action and companies have more cash in their coffers than ever before. Moreover, there are plenty of policy measures that could transform the outlook:

for instance, if the ECB cuts interest rates; if there is a globally co-ordinated intervention in the currency markets to support the dollar, or an initiative by the Fed to support the housing market by buying repossessed houses or refinancing defaulted mortgages, instead of simply buying more government bonds.

Even the euro crisis could move to an unexpectedly benign conclusion, with Germany either agreeing to unlimited bailouts or announcing an orderly and consensual withdrawal from the euro — as suggested two weeks ago in this column and proposed, more authoritatively, by a former head of the German industrial federation this week. Such happy outcomes are perfectly possible. The first, a natural acceleration in the US economy, may even be quite likely in the next few months.

But unless and until the political news or the economic climate start to improve it is time to batten down the hatches — at least until the hurricane season ends.