

Credit rating agency downgrades 15 global banks

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Moody's Investors Service announced Thursday that it had downgraded the debt ratings of 15 of the largest global banks, including five in the United States, as the European debt crisis continues to ripple through the global economic and financial system.

The ratings agency reduced the credit ratings of Goldman Sachs, J.P. Morgan Chase, Deutsche Bank and Citigroup by two notches, along with seven other banks, and Credit Suisse by three notches.

Moody's action reflects the banks' growing exposure to the sovereign debt crisis, as the euro zone is threatened with breakup and geopolitical tensions mount. It will no doubt intensify pressure on the most exposed banks and may well be the prelude to further financial destabilization.

The move comes amidst a flurry of economic figures pointing to a global downturn.

The US stock market had its second-worst trading day of the year Thursday, after the release of figures showing a slowdown in manufacturing in Germany and China, two pillars of global production. That same day, Goldman Sachs advised its clients that US stocks were overvalued, contributing to the selloff. Stocks continued to fall Friday in Europe and Asia.

The downgrade did not prompt a major stock selloff Friday in the US because it had been widely anticipated and had been communicated to markets beforehand.

Moody's had announced February 15 that it was planning to review 15 banks active in global capital markets, but only moved on the downgrades Thursday. Partly in response to the threat of downgrade, Morgan Stanley saw its stock fall by more than 25 percent since February.

The downgrade came after the announcement Thursday that an index of euro-area manufacturing fell to a three-year low of 44.8 this month, according to an

initial Purchasing Managers Index (PMI) estimate by Markit Economics.

Germany's composite PMI likewise hit a three year low, falling to 48.5 in June from 49.3 a month before. The HSBC China Manufacturing PMI meanwhile fell to 48.1 in June, down from 48.4 in May. It was the eighth consecutive month of readings below 50, indicating contraction.

Other major developing economies are also slowing. India's economy grew only 5.3 percent in the first quarter of the year, its lowest growth rate in nine years and down nearly four percentage points from 2011, when it grew at a rate of 9.2 percent.

The Brazilian Central Bank said last week that the country's economy probably contracted in April compared with a year earlier, the first such yearly decline since late 2009.

Meanwhile, the US Federal Reserve slashed its outlook for the US economy Wednesday, saying that it would grow only 1.9 percent this year, down from its April forecast of 2.4 percent.



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