

Stocks plunge amid fears of global slump and credit meltdown

Barry Grey

12 December 2015

Global stock markets plunged Friday as oil prices hit new lows, threatening to crash the junk bond market and trigger a new financial meltdown. Investor nervousness was heightened by the prospect of the US Federal Reserve Board raising interest rates for the first time in nearly a decade when it meets next week.

Fed officials have repeatedly signaled to the financial markets that any increase will be small and interest rates will remain well below normal levels for an indefinite period. However, any increase from the current near-zero level will likely intensify a selloff of junk bonds, a large percentage of which are energy-related, threatening to destabilize the entire credit system.

The Dow Jones Industrial Average fell 309 points (1.76 percent), the Standard & Poor's 500 index dropped 39 points (1.94 percent), and the Nasdaq index fell 111 points (2.21 percent). For the week, the S&P 500 fell 3.8 percent, its worst week since late August, at the height of the global selloff that followed China's surprise currency devaluation. The Dow dropped 3.3 percent for the week and the Nasdaq plunged 4.1 percent.

European markets also fell sharply, with the major indexes in Britain and Germany declining by more than 2 percent and the French CAC 40 sliding by more than 1.8 percent. The composite EURO STOXX 50 fell by 2.04 percent.

Most Asian markets were also down substantially, and the MSCI all-country index fell 1.44 percent.

The deepening global slowdown, reflected in collapsing prices for oil and other basic commodities, as demand falls and markets grow increasingly glutted, is now wreaking havoc on the corporate bond market. Energy and other commodity-producing companies are finding it increasingly difficult to finance debt loads

that grew rapidly when oil was selling for \$100 a barrel and central banks were flooding the financial markets with virtually free credit.

Now, write-downs and defaults on high-yield, high-risk "junk" bonds issued by these firms are rising, heightening the prospects of a new financial crisis even worse than the Wall Street crash of 2008.

Energy and other firms facing rising borrowing rates and declining prices for their stock are cutting costs by slashing jobs and selling assets. This week, the global mining giant Anglo American announced that it will eliminate 85,000 workers, 60 percent of its workforce, put 60 percent of its assets up for sale and close more than half of its mining sites.

US employment in mining, a category that includes oil extraction, fell by 123,000 jobs in November from a year earlier. This massive downsizing is, however, just the beginning. The new year promises to see a further decline in commodity prices and an acceleration of layoffs.

Crude oil prices fell to their lowest levels in seven years on Friday. Brent crude, the international benchmark, fell to \$37.36 a barrel and West Texas Intermediate, the US oil benchmark, slid to \$35.67 a barrel. These benchmarks declined 13 percent and 11 percent respectively just in the past week.

The new declines were largely triggered by two developments. Last week, the OPEC oil cartel removed formal limits on production, and on Friday, the International Energy Agency said Iran's return to world markets next year, when sanctions are removed, would increase the glut in supply.

Crude oil is down 63 percent from 2014, but other basic commodities are also collapsing. Natural gas is down 52 percent and copper is down 40 percent. Prices for iron ore, aluminum and platinum have also

plummeted. This week, the Bloomberg Commodity Index fell to its lowest level since June 1999.

The free-fall in commodity prices is a sharp expression of the global economic slowdown that was long underway even as stock and bond prices continued to soar, fueled by cheap credit and an ever more ruthless assault on the living standards of the working class. The slowdown in China as well as the so-called emerging market economies has sapped demand for goods.

In Europe, Japan and North America, growth was been negative or anemic, in large part because corporations have reduced their investments in production and diverted funds to speculative and parasitic operations such as stock buybacks, dividend increases and mergers. This has further enriched the financial aristocracy while driving the living standards of the broad masses of people even lower.

This week, it was reported that imports to China fell 8.7 percent in November compared with a year earlier, and Chinese exports fell 6.8 percent year on year. Productive activity in the world's largest manufacturing center has been steadily declining. The slowdown was reflected in a fall in the Chinese currency Friday to its lowest level in four-and-a-half years, sparking concerns of a new devaluation.

As for the United States, the Institute for Supply Management reported last week that manufacturing in the US contracted in November, falling to its lowest level since June 2009.

Concerns over the impact on the bond market of the fall in oil prices and the general economic slowdown spiked Friday after a large mutual fund specializing in high-risk, high-yield corporate bonds linked to the oil industry suddenly announced it was liquidating and blocking investors from getting their money back.

Third Avenue Management closed its \$788 million Focused Credit Fund in the face of a rush of redemption orders from clients that it could not meet. The firm failed even to notify the Securities and Exchange Commission in advance of its announcement, underscoring the desperate character of the move.

This could be just the tip of the iceberg. Standard & Poor's Rating Service warned recently that 50 percent of energy junk bonds are "distressed," meaning at risk of default. The situation is, if anything, worse for bonds in the metals, mining and steel industries, of which,

according to S&P, 72 percent are distressed.

Overall, some \$180 billion of debt is distressed, the highest level since the official end of the "Great Recession" in June of 2009. S&P reports that corporate defaults topped 100 this year, the first time that has occurred since 2009. Almost one-third of these were oil, gas or energy companies. There have been 40 Chapter 11 bankruptcy filings by North American oil and gas producers.

In all, more than \$1 trillion in US corporate debt has been downgraded this year. Moody's Investors Service predicts that corporate defaults will increase to 3.8 percent next year from 2.8 percent this year, under conditions where corporate debt is at its highest levels since the 2008 crash.

CNN Money on Friday cited an analyst who covers the metals and mining industry as saying, "Sentiment is horrendous. It's the worst since the financial crisis—and it's getting worse every day."

The *Financial Times* quoted John Roe, a fund manager at Legat & General Investment Management, harking back to the lead-up to the 2008 crash by noting, "We saw this kind of thing before in 2008-09 in the property market, when a number of funds had to be closed because of liquidity problems."

Billionaire speculator Carl Icahn, who is heavily invested in one of the distressed oil companies, Chesapeake Energy, wrote on his Twitter account Friday, "Unfortunately, I believe the meltdown in high yield is just beginning."

More than seven years after the 2008 financial meltdown, not only is there no genuine economic recovery, the measures taken to rescue the banks and the financial elite have compounded the underlying contradictions of the world capitalist system, bringing it to the brink of an even more catastrophic breakdown.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact