

# Stock market sell-off resumes

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Stock markets around the world experienced a new wave of selling yesterday, after a few days of an upturn, with Wall Street ending the day down by more than 4 percent.

The renewed market sell-off came in the wake of statements by President Trump that US deaths from the coronavirus could be 240,000, while hinting the toll could be even higher.

Other factors leading to the slide were indications that credit markets are again tightening, even after massive interventions by the Fed; economic contraction across Asia; the rapid rise in the jobless rate around the world; and the precipitous fall in oil prices that could send marginal US producers and others to the wall.

The Dow fell 973 points yesterday, or 4.4 percent, its worst-ever start to a quarter, while the S&P dropped 4.4 percent and the Nasdaq was off by the same amount. All three indexes are at least 25 percent below their record highs in February.

There were several indications that credit conditions are continuing to tighten. The *Financial Times* reported that bond markets “reflected the rising concern about the financial health of borrowers with heavy selling of junk bonds.”

Despite the Fed’s announcement last month that it was intervening in the \$4 trillion municipal bond market, yields on highly rated 10-year debt rose by 30 basis points while those on 30-year bonds climbed by 50 basis points. This indicates these bonds are being sold off—the yield rises as the price of the bonds falls. Normally yield movements in this market are only a small fraction of what they were yesterday.

Two new actions by the Fed yesterday indicate that it fears liquidity problems are far from being overcome, both internationally and in the US.

In a move to try to ease stress in international currency markets, where there has been a rush to acquire dollars, it announced it would launch a

temporary lending facility allowing foreign central banks to convert their holdings of US Treasury securities into dollars.

The Fed also moved to allow major US banks to increase their lending by lowering the amount of reserves they are required to hold with the central bank, at least until March 31 next year.

In a statement announcing the move, it said liquidity conditions in Treasury markets had “deteriorated rapidly” and the existing regulatory restrictions may constrain the ability of banks to “serve as financial intermediaries and provide credit to households and businesses.”

The ongoing slump across the world, hitting corporate profits, was also another key factor in the renewed market slide.

Estimates indicate that the number of people no longer in their regular employment in the US and Europe has risen to about 10 percent of the workforce in a single two-week period. This increase is as large as that which took place between 2007 and 2009.

Initial jobless claims in the US rose by 3.3 million in the week to March 21. This was four times as high as the previous record set in the deep recession of 1982. A similar jump may take place when new data are released today.

Purchasing managers’ indexes (PMIs) across Asia indicate recession in Japan, South Korea, Thailand, the Philippines, Malaysia and Vietnam. Better figures from China and Taiwan show stabilisation at a lower rate but not the much searched for V-shaped recovery.

In South Korea, the PMI dropped from 48.7 in February to 44.2 in March, its lowest level in 11 years, with a figure of 50 indicating neither expansion nor contraction. The PMIs in Thailand, the Philippines and Vietnam were at record lows.

Joe Hayes, an economist at IHS Markit, which conducts the PMI surveys, said while South Korea—one

of the world's major manufacturing centres—had succeeded in “flattening the curve” in the spread of the coronavirus, “it still has succumbed to a substantial economic shock.”

The economic mayhem caused by the coronavirus is hitting all less developed economies as their state budgets and foreign currency reserves take a battering. They have been impacted by capital outflows, falling oil prices, a collapse in tourism and a fall in the demand for their commodity exports.

At least 85 countries have applied to the International Monetary Fund (IMF) for short-term emergency assistance. This is double the number that applied as a result of the 2008 financial crisis.

The IMF has tripled its lending capacity to \$750 billion. But even on its own estimates this will not be enough.

IMF managing director Kristalina Georgieva has said that a “very conservative low-end estimate” of the financial needs of emerging economies is \$2.5 trillion.

The fall in the price of oil is another key impetus for the stock market and financial turmoil. Oil prices have dropped by 67 percent since the start of the year. The slide was initiated by the oil price war between Saudi Arabia and Russia but has since been compounded by the spread of the coronavirus and the collapse of economic activity.

Global demand for oil is down by around one quarter, 25 million barrels a day, equivalent to the production of the entire oil producers group OPEC.

Mathios Rigas, the head of Energean, a European producer, told the *Financial Times*: “With oil prices below \$20 [per barrel], we’re going to see a lot of shutdowns.”

US shale oil producers are among those in the firing line. According to industry analysts, if the price of oil is below \$35 none of them makes any money. So far this year prices have dropped by \$41.

The oil price slump could feed into the financial system because many shale oil operations in the US have been financed by risky loans, the viability of which depends on oil prices remaining at around \$50.

If loan defaults take place these could well be the source of a crisis in the already shaky markets for corporate bonds, especially those that do not have investment-grade status.



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