# Wild swings in global markets

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Global markets experienced major turmoil yesterday leading to an intervention by US president Trump aimed at halting a further sharp rise in oil prices and a slide on Wall Street.

When the trading day began in the US the price of oil had surged from around $90 a barrel to as high as $119 and was set to go even higher as stocks were falling following significant further selloffs in Asia.

Trump then told CBS that the Iran war was “very complete, pretty much” and there was “nothing left to complete in a military sense.” He later described the hike in oil prices as a small price to pay for what he described as an “excursion.”

The oil price then fell back to below $90 a barrel and Wall Street rose with the Dow finishing up by 239 points after being 900 points down earlier in the day.

The global trading day had begun with further falls in Japan and South Korea. The main Japanese index finished the day 5 percent down, bringing its fall since its high point last month to more than 10 percent. The South Korean Kospi index dropped 6 percent after a suffering a record 12 percent loss in a single day last week.

But the initial movements were even larger with the Kospi dropping 8 percent and Japanese stocks falling 7 percent. In Japan, the semi-conductor material producer Nitto Boseki dropped 18 percent and in South Korea the major memory chip firms Samsung and SK Hynix lost around 10 percent.

Other Asian markets were also down significantly reflecting the dependence of the region on Middle Eastern oil which passes through the now closed off Strait of Hormuz.

Trump’s intervention, driven by fears of what could happen on Wall Street, combined with a statement by the G7 powers that the group “stands ready” to release oil reserves should that become necessary halted the oil price escalation and induced a fall—at least for a day.

But as the *Wall Street Journal* reported, an oil advisory firm predicted that oil could reach $130 per barrel later this week with a 70 percent to 80 percent chance of this happening. It said the longer the Strait of Hormuz remained closed the longer it would take to get back to normal production with the prospect that “some permanent oil field damage could develop.”

Energy prices are rising around the world and the price for consumers at the petrol pump has also already shown sharp increases. And as took place in 2022 following the hikes after the start of the Ukraine war, food prices are also set to escalate because of the dependency of mass-production agriculture on energy.

The Middle East is a centre for fertiliser production with around 35 percent of urea, the most widely used nitrogen fertiliser, passing through the Strait of Hormuz. The waterway is also used for the passage of 45 percent of global sulphur exports which form a key ingredient for phosphate fertilisers.

The head of Europe’s largest fertiliser group, Svein Tore Holsether, told the *Financial Times* (FT): “We shouldn’t underestimate what this potentially could mean for global food production. If you’re not getting [fertiliser] into the fields of the farmers, yields could go down by up to 50 percent in the first harvest.”

Fertiliser prices have already risen sharply with granular urea prices up by around $130 a tonne just since last Friday.

The prospect of an international inflationary surge is driving developments in global bond markets. Normally in times of financial turbulence, there is a shift of money into government debt as a safe haven, pushing up their price and lowering the yield or interest rate. (The two have an inverse relationship.)

But the reverse is now taking place as financial capital fears that the prospect of renewed global inflation means that the expected interest rate cuts by central banks are off the agenda and that rates may even

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be increased.

This movement is most sharply expressed in the market for UK bonds, or gilts as they are known. According to the FT: “A rout in gilts deepened on Monday in volatile trading, as surging energy prices fuelled fears of an inflation shock in the UK and prompted traders to bet on an interest rate rise from the Bank of England.”

The yield on the two-year bond rose by 0.1 percentage points, which the FT described as “one of the biggest one-day sell-offs in recent years,” while the yield on the 10-year bond rose by 0.11 percentage points.

The head of the UK rates strategy at Barclays described the turnaround in the expectation of what central banks would do as “fast and brutal.” The UK financial system lives in fear of a repeat of what happened in 2022 when the attempt by the short-lived Tory government of Liz Truss to finance tax cuts with debt sparked a major crisis requiring Bank of England intervention.

The movement in the US bond market has not been as severe, but it has gone in the same direction as the prospect for any further rate cuts by the Federal Reserve are increasingly ruled out. Last week the yield on the 10-year Treasury bond, which functions as a global benchmark, was 3.93 cent. It has since risen to 4.2 percent and could climb further.

The turmoil is hitting smaller markets. A report in the *Australian Financial Review* said that yesterday “panic swept across the bond market” with the surge in oil prices and described the 2 percent fall in the major stock market index as “the most brutal selloff” since Trump roiled financial markets with his sweeping “reciprocal tariffs” in April last year.

The war on Iran is impacting on a global financial system which was already showing signs of fragility. In a comment piece in the FT, financial analyst Mohamed El-Arian pointed to three distinct risks, each of which did not appear on its own, large enough to cause systemic risk.

“Together, however they can form a self-reinforcing, destabilising force,” he continued.

The first is the situation in private credit in the major economies where there have been “textbook signs of an overextended industry—poor underwriting, questionable valuations, ill-suited investment vehicles and fraud.”

The second is the massive funding of AI development and the signs that application of AI will cause major dislocation of the workforce. The third is the ability of bond markets, with inflation heading higher, to absorb major increases in government debt.

He concluded by noting that the global economy was not just looking at a volatile 2026 but was “on the road to further fragmentation.”

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