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Markets slide on credit uncertainty

8/8/2011

Global markets have seen a mixed day of trading, with Asian stock exchanges posting sharp losses while European bourses recovered from initial losses, bolstered by news of the European Central Bank buying eurozone bonds in a bid to stem a debt crisis.

Milan's FTSE MIB was up 2.4 per cent on the news, while Spain's benchmark index initially rose by 3 per cent but dropped by 0.3 per cent by the middle of the trading day.

London's FTSE-100 was down 1.69 per cent, the German DAX by 2.57 per cent and Paris' CAC-40 by 2.37 per cent as of 1030GMT.

Earlier, the FTSE-100 traded down 1.15 per cent and the DAX dipped 1.05 per cent on opening. The French CAC-40 posted modest gains in opening trade, rising by 0.27 per cent.

The European Central Bank said on Sunday that it would "actively implement" its controversial bond-buying programme to fight the eurozone's debt crisis.

After a rare Sunday night conference call, the ECB welcomed announcements by Italy and Spain of new deficit cutting measures and economic reforms as well as a Franco-German pledge that the eurozone's rescue fund would take responsibility for bond-buying once it is operational, probably in October.

Asian market turmoil

The Asian markets felt the brunt of the day's uncertainty. The benchmark Nikkei-225 index of the Tokyo Stock Exchange closed down 2.18 per cent at 9,098 on Monday, as South Korea's KOSPI index closed down nearly four per cent at 1,869.45 points. The KOSPI had briefly plunged more than seven per cent earlier in the day.

Australian stocks fell by more than 2.9 per cent, closing at 3,986 points, while India's Bombay SENSEX index fell 1.4 per cent to 17,055.78 with trading ongoing.

"No one really fully understands the full implications of this [US] credit downgrade, which is why we have seen the market sold off hard. It's a classic case of sell first, ask questions later," said Ben Potter, an analyst at IG Markets.

Hong Kong's Hang Seng index slid 2.17 per cent to close at 20,491 points, while China's Shanghai Composite Index dropped 3.62 per cent to close at 2,531 points.

"There were a lot of questions whether we would see a reaction in Shanghai and Shenzhen [to the downgrading of US debt]. The Chinese stock exchanges tend to look inwards, to react to domestic issues such as inflation figures .... But certainly it looks like what S&P has done over the weekend is affecting traders here," reported Melissa Chan, Al Jazeera's correspondent in Beijing.

Patrick Chovanec, a business professor at Beijing's Tsinghua University, told Al Jazeera that the market's "concerns are much broader than just S&P's downgrade of the US debt. That is one issue that is contributing to a much broader set of concerns: the debt crisis in Europe [and an] apparent slowdown in the US recovery".

Futures pointed towards losses on Wall Street when it opens on Monday, with the Dow Futures trading down 225 points (two per cent) and S&P 500 Futures down 2.1 per cent.

Meanwhile, the US dollar was changing hands at 78.11 yen in early Asian trade, compared with rates below 77.00 yen last week before Tokyo stepped into markets to stem its currency's strength to safeguard its exports.

Gold, meanwhile, surged to yet another record high, opening at $1,686.00-$1,687.00 an ounce in Hong Kong.

G7 and G20 pledges

The statement from the ECB marked a watershed in its fire-fighting efforts, after modest bond-buying last week failed to stem contagion to the currency bloc's larger economies.

It did not explicitly say that effort would now include buying Spanish and Italian paper, but the fact that last week's purchases were confined to Irish and Portuguese paper drove Italian and

Spanish 10-year paper to a 14-year high.

Group of 20 finance chiefs and central bankers said on Monday, meanwhile, that they would "remain in close contact through the coming weeks and co-operate as appropriate" and that they were "ready to take action to ensure financial stability and liquidity in financial markets", according to a statement.

"No change in fundamentals warrants the recent financial tensions faced by Spain and Italy. We welcome the additional policy measures announced by Italy and Spain to strengthen fiscal discipline and underpin the recovery in economic activity and job creation," the G7 finance ministers and central bank governors said in a statement released early on Monday.

The G7 statement came after global leaders and finance ministers held emergency consultations to discuss the twin debt crises in Europe and the United States.

Christine Lagarde, the chief of the International Monetary Fund, welcomed the move.

"This cooperation will contribute to maintaining confidence and spurring global economic growth," Lagarde said in a statement.

US credit downgrade

Timothy Geithner, the US treasury secretary, sought to reassure investors before the markets opened by slamming a historic US credit downgrade as a "terrible judgement" and insisting the US economy is strong.

Credit rating agency Standard & Poor's stunned Americans on Friday when it lowered the credit rating for US Treasuries for the first time ever from AAA to AA+, pointing to the deep divisions in Washington over its long-term fiscal standing.

"I think S&P has shown really terrible judgement and they've handled themselves poorly, and they have shown a stunning lack of knowledge about basic US fiscal budget math, and I think they came to exactly the wrong conclusion," Geithner said.