TAIPEI TIMES

Oil prices plummet amid Iranian sanctions easing

HARD LANDING: Analysts say that China is likely to drag the global economy into a recession, but it is unlikely to hit as hard as it did in 2008, as fewer assets are overvalued

Reuters, NEW YORK

Sun, Jan 17, 2016 - Page 10

Oil prices plummeted to US$29 a barrel on Friday on the impending resumption of Iranian oil exports into an already flooded market as international sanctions against the nation are lifted, dragging equity indices around the world sharply lower.

Skittish investors snapped up gold and other safe-haven assets amid fears of an international economic slowdown, coupled with concerns about a potential credit default as lower commodity prices make payments by creditors in emerging markets difficult.

Major stock indices in Europe and on Wall Street closed down more than 2 percent, while US crude futures settled down 5.7 percent at US$29.42 a barrel after sliding to a low of US$29.13 and the March Brent contract settled 6.3 percent lower at US$28.94, capping a 13 percent decline for the week.

“We’re seeing the final capitulation,” FIS Group chief investment officer Tina Byles Williams said.

Williams said crude could hit US$20 a barrel, a price analysts at Goldman Sachs have said might be needed to accelerate a slowdown in drilling and return international oil inventories to a supply-demand balance that would allow prices to rise.

The risk is that a creditor faced with declining revenues and higher payment costs because of a stronger US dollar on its dollar-denominated debt sparks a default, Williams said.

“If that dollar-denominated debt went to finance commodity projects, then that’s obviously quite a toxic brew,” she said.

Yields on the benchmark 10-year US Treasury note briefly fell below 2 percent for the first time since October, as retreating oil and stock prices underpinned demand for assets perceived as safer. The yield fell to 2.0347 percent.

In Europe, yields on eurozone debt fell as slumping oil prices eroded inflation expectations and raised the prospect that the European Central Bank would again ease monetary policy. German 10-year yields fell 4 basis points to 0.48 percent.

The Australian, New Zealand and Canadian dollars all sank against the US dollar on the back of another slide in Chinese stock markets and the slide in oil, but the US dollar fell against both the euro and yen.

World stock markets posted their third week of losses. European shares fell to their lowest since December 2014, hit by losses in commodity-related stocks after BHP Billiton Ltd announced a US$7.2 billion write-down on its US shale assets. Frankfurt fell 2.4 percent, Paris 2.3 percent and London 1.9 percent.

On Wall Street, the sell-off was broad, with all 10 major S&P 500 sectors in the red and all 30 components of the Dow industrials lower. The beaten-down energy sector fell 2.9 percent, the second-largest declining sector on the S&P 500.

More than one-fifth of S&P 500 stocks touched 52-week lows as the benchmark index slid to lows last seen in October 2014.

The leading Moscow index dropped 5.8 percent, while Brazil’s IBOVESPA index lost 2.4 percent.

The widespread market losses over the start of this year has sparked talk of the potential for an international recession.

Kenjol Capital Management portfolio manager David Levy said such a downturn would likely be less severe than in 2008 because fewer assets are overvalued.

“Even if we are in a global recession, I don’t think the damage will be nearly as significant as a 2008-type event,” Levy said. “But certainly the evidence is giving us a higher probability of recession in 2016 and certainly the market is speaking that it believes that is a possibility.”

Topping investor concerns is a possible hard landing in China, the world’s second-largest economy, that drags the rest of the world into recession, Federated Investors chief equity strategist Phil Orlando said.

Other concerns include the US dollar’s strength, the pace of rate increases planned this year by the US Fed and a manufacturing recession, besides plunging oil prices, he said.

“It’s not giving anyone any confidence because to me at least it resembles a bad reality show on television,” he said.

The Dow Jones industrial average fell 390.97 points, or 2.39 percent, to 15,988.08. The S&P 500 slid 41.55 points, or 2.16 percent, to 1,880.33 and the NASDAQ Composite lost 126.59 points, or 2.74 percent, to 4,488.42.

Both of China's major stock indices shed more than 3 percent, raising questions about Beijing's ability to halt a sell-off that has now reached 18 percent since the beginning of the year.

Additional reporting by AFP

Published on Taipei Times

http://www.taipeitimes.com/News/biz/archives/2016/01/17/2003637371