Credit panic hits historic levels
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The panic in world credit markets reached historic intensity yesterday, prompting a flight to safety of the kind not seen since the second world war.

Barometers of financial stress hit record peaks across the world. Yields on short-term US Treasuries hit their lowest level since the London Blitz. Lending between banks in effect halted and investors scrambled to pull their funding from any institution or sector whose future had been called into doubt.

The $85bn emergency Federal Reserve loan for the troubled insurance group AIG, announced on Tuesday night, failed to curb the surge in risk aversion. Instead, markets were hit by a fresh wave of anxiety.

Speculation mounted that the Federal Reserve, which refused to cut rates on Tuesday, could be forced into an embarrassing U-turn. Amid the financial chaos, traders were pricing in 32 basis points of rate cuts by the end of the month - essentially betting that there was a 60 per cent chance the Fed would cut rates by half a percentage point in the coming days.

One cause for fear came when shares in a supposedly safe money market mutual fund fell below par value - or "broke the buck" - due to losses on Lehman Brothers debt. This raised the risk that retail investors in other such funds could panic and pull out their money.

All thought of profit was abandoned as traders piled in to the safety of short-term treasuries, with the yield on three-month bills falling as low as 0.03 per cent - rates that characterised the "lost decade" in Japan. The last time they were this low was January 1941.

Shares in the two largest independent US investment banks left standing - Morgan Stanley and Goldman Sachs - fell 24 per cent and 14 per cent respectively as the cost of insuring their debt soared, threatening their ability to finance themselves.

Repercussions were felt far beyond the US. There was turbulent trading in HBOS, a leading UK mortgage lender, which was forced - at the prompting of the British government - to enter into merger talks with fellow retail bank Lloyds TSB after drastic falls in its share price.

Lending between banks in Europe and the US in effect halted. The so-called Ted spread - the difference between three-month Libor and Treasury bill rates, which measures fear over banks moved above 3 per cent, higher than the record close after the Black Monday crash of 1987.

The authorities fired back with the Treasury announcing it would borrow money to give to the Fed to use for its emergency lending - in essence removing any balance sheet constraint on the size of this assistance.

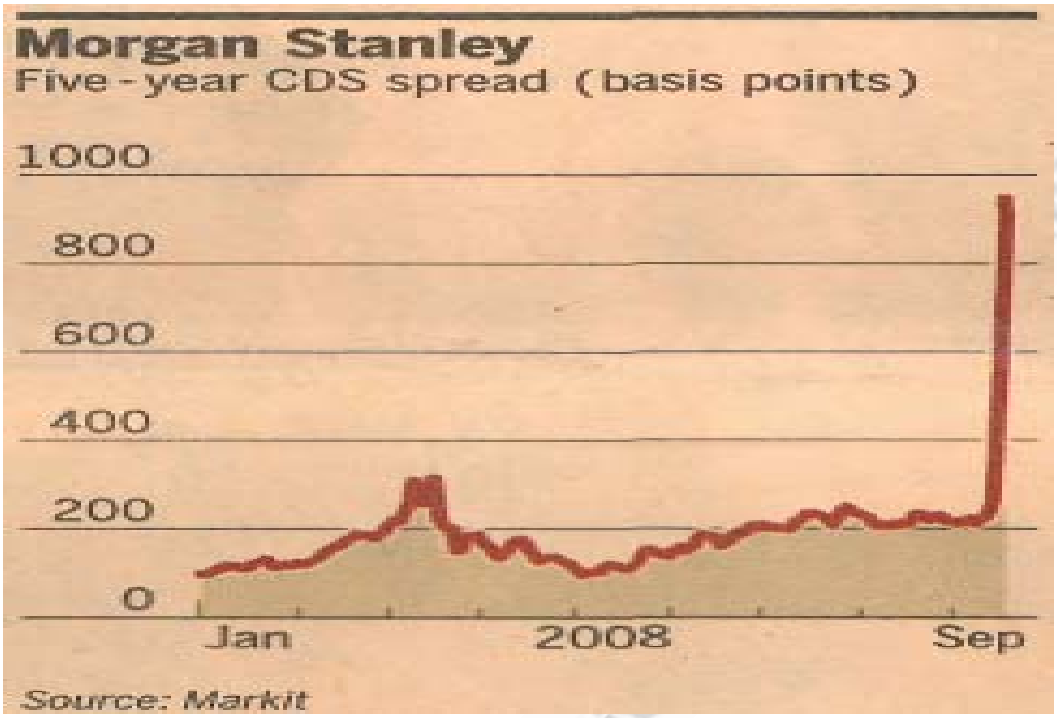
The Securities and Exchange Commission, the regulator, announced new curbs on short selling that traders called draconian. Short sellers, who profit from share price declines, were widely blamed for the trouble at AIG. But these efforts failed to avert heavy selling, particularly of US financial stocks.

Many analysts criticised the US authorities for adopting an arbitrary approach to rescues - saving AIG but not Lehman that was impossible for investors to predict and therefore did nothing to boost confidence.

The S&P 500 fell 4.7 per cent, led by a 8.9 per cent slump in financials. Equity volatility was near its highest level since March. The dollar weakened slightly, while the Japanese yen rallied as risky currency funding trades were unwound.

Gold benefited from safe-haven buying, with prices at their biggest one-day precentage gain, up 11.2 per cent to a three-week high of $866.47 a troy ounce.

Andrew Brenner, co-head of structured products and emerging markets at MF Global, said: "It feels like no one wants to take anyone's credit... it feels like we are on a precipice."



Fonte: Financial Times, London, September 18 2008, Primeiro Caderno, p. 1.