Fears over new financial crisis come back to haunt global markets

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Fears over new financial crisis come back to haunt global markets as trading turmoil hits

Anxiety over negative central bank interest rates and new bail-in laws send banking stocks spiralling in a turbulent day of trading

Banks stocks in Europe have fallen nearly 18pc in a month

By Mehreen Khan

6:30PM GMT 08 Feb 2016

Global stocks were gripped by a fresh bout of panic selling on Monday, raising fears over the health of the world's banking system for the first time since the financial crisis.

European markets slumped to their lowest level in more than two years amid an unremittingly bleak outlook for the global economy and concerns over the resilience of the world's biggest lenders.

The Euro Stoxx 600 index of leading bank shares fell as much as 6pc in Monday's trading, closing down 5.6pc, plumbing depths not seen since August 2012. The continent's lenders have now lost 17.3pc of their value of the last 30 days.

Volatility forced shares in Barclays to be briefly suspended in late afternoon trading. Barclays, along with BNP Paribas and ING Santander all closed down more than 5pc.

• Why this market crash is like nothing we've seen before

Deutsche Bank was world's biggest bank faller, with its shares down as much as 11.8pc. Germany's largest lender, which posted a record loss in 2015, closed down 9.5pc on the day, and has seen 40pc of its market capitalisation wiped off since the start of the year. Its shares are now down to their lowest ever level at €13.82 per share.

Deutsche Bank headquarters in Frankfurt

The losses helped push down all Europe's major indices into the red. The FTSE 100 fell 2.7pc, closing below the 5700 mark for the first time since January 20. Germany's Dax and France's CAC Index both declined 3.3pc and 3.2pc respectively.

Greece's battered Athens Stock Exchange saw its market capitalisation collapse to levels last seen in 1990.

Banks bore the brunt of the sell-off as the "ugly spectre" of negative interests rates in two of the world's three largest central banks - Europe and Japan - was spooking investors, said Jasper Lawler at CMC Markets.

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Morgan Stanley

The Bank of Japan joined the negative interest rate club at the end of January. Japan, along with Denmark, Sweden, Switzerland and the eurozone are effectively penalising commercial banks for holding reserves at the central bank.

Negative rates, coupled with weak earnings growth in some of the world's largest lenders, and concerns over new EU "bail-in" laws designed to force investors to take the hit from

bankruptcies, all weighed on bank shares.
"Investors have significantly reassessed the chance of an earnings turnaround after years of regulatory fines for past misdeeds", said Mr Lawler.
Risk-off sentiment dominated in a turbulent day of trading, as safe haven flows pushed yields on government bonds to fresh lows.
Germany's two-year bund fell to its lowest ever level at -0.506pc, while 10-year UK gilts declined 13 basis points to 1.43pc - their lowest level since February 2015.
Bearish sentiment was driven by perennial concerns over the health of the Chinese economy, a strong US dollar, and fears over insipid global growth in 2016.

"We struggle to remember many occasions when investor sentiment was quite as bearish and widespread as it feels today", said Graham Secker at Morgan Stanley.
"Sure, 2008 was worse as the global financial crisis and fears of global depression created panic in markets, but today's cool disdain for risk assets still takes some beating."
The cost of insuring against default for investment grade bank debt rose to its highest level since 2013 to 119 basis points.
“Putting on a trade at the moment would feel like standing in front of an oncoming freight train,” said Juan Esteban Valencia at Societe Generale.
“There are too many issues to worry about, whether it’s oil, China’s slowdown, emerging markets or bank exposures to emerging markets and commodities.”