



Will Another Financial Crisis Occur in 2020?

Description

There are growing claims from a range of government and international bodies that a financial crisis could occur in 2020. The UN's trade and development body has warned of a global recession in 2020, and there are fears that rising levels of debt, a lack of job creation, a weak manufacturing sector and trade wars will spark a deep global economic downturn.

Likelihood of a downturn

In 2019, there were a range of signals indicating that a recession was due, the most prominent being the inversion of the yield curve that has occurred before every major U.S. recession since 1975.

When the yield curve inverts, it means that short-term interest rates are higher than long-term rates. This is a key indicator, as it essentially suggests that financial markets are expecting an economic downturn, which will cause interest rates to fall.

While this is a widely watched indicator, it's not as significant as believed; of greater concern is the global slump in manufacturing activity across industrialized economies.

That has led a decline in jobs and is weighing on commodities, like base metals, which are crucial to construction and the production of goods.

Copper has remained relatively flat, gaining 3% since the start of 2019, primarily on emerging supply fears and weak manufacturing data, while zinc lost 8% and lead has softened by 5%.

There are fears that commodities will weaken further regardless of the increasingly positive rhetoric surrounding the trade war between the U.S. and China.

Softer base metals will sharply impact many vulnerable emerging markets such as Chile, Colombia and Peru, which have suffered because of currency gyrations, civil unrest and fiscal weakness.

Many developing economies are highly dependent on the extraction of metals and oil to drive

economic growth, highlighting how the contagion of a global recession could spread, worsening its impact and leading to a deeper financial crisis.

A key fear is that central banks globally lack sufficient firepower to deal with a recession because of near historically low interest rates and a decade of quantitative easing to buoy growth.

That could see a deeper than anticipated recession or even the emergence of another financial crisis sparked by the global debt overhang.

Over the last decade, the economy is increasingly vulnerable to another crisis.

The International Monetary Fund (IMF) believes that almost half of corporate debt across leading economies would be impossible to service should a major global downturn occur.

That could trigger massive downsizing across the private sector and cause credit markets to freeze up, magnifying any slump and increasing the likelihood of a financial crisis.

Miners are vulnerable

The impact of a global slowdown would be mostly felt by [base metals miners](#) such as **First Quantum Minerals** ([TSX:FM](#)) and **Teck Resources**.

First Quantum owns a globally diversified portfolio of copper mines and is developing the Cobre Panama project in Panama where commercial production was declared in September 2019.

First Quantum expects to extract up to 735,000 tonnes of copper for 2019, which is responsible for around 89% of its revenue, meaning that it's heavily exposed to the fortunes of the red metal.

Copper is an important indicator of global economic health because of its importance as an industrial metal, which is used in a wide range of manufacturing and construction applications.

First Quantum's vulnerability is magnified by its considerable leverage with long-term debt of US\$7.4 billion and near-term maturities between now and 2022, totalling over US\$3.7 billion.

The miner has also experienced a range of issues at its Zambian operations, where regulatory and tax changes and increased geopolitical risk have impacted profitability.

After gaining 22% since the start of 2019, First Quantum will likely fall sharply if a recession strikes and copper weakens.

Bottom line

A range of fundamental economic indicators highlight that the optimistic outlook surrounding the global economy for 2020 could be overdone.

A range of issues, including the U.S.-China [trade war](#), high levels of debt and weaker manufacturing activity indicate that a global recession and even financial crisis could emerge.

That would sharply impact commodities and miners, making them unattractive investments, particularly

given their solid performance over the last two years.

CATEGORY

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2. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:FM (First Quantum Minerals Ltd.)

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Date

2025/08/24

Date Created

2019/12/29

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