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Stock Market To Cast Confidence Vote On Eurozone Monday After Disastrous German Debt Auction

By Bonnie Kavoussi
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The eurozone will face a vote of confidence on Monday by the U.S. stock market.

Heading into the Thanksgiving holiday, the U.S. stock market plunged after Germany, Europe's largest -- and arguably most secure -- economy, found it surprisingly difficult to sell its government bonds or sovereign debt Wednesday. It's a sign that private investors are fleeing Europe and exacerbating the sovereign debt crisis there.

With the stock market closed Thursday and open for just a half a day on Friday, it likely won't be clear until Monday if the crisis is starting to spread to the United States. U.S. stocks may plunge on Monday if the situation in Europe deteriorates, some economists said.

"The markets are exaggerating the situation," said Peter Cardillo, chief market economist at Rockwell Global Capital in New York. "But by the same token, they're sending a message, and that strikes a cautious note."

By avoiding Germany's sovereign bond auction, private investors signaled that they have lost patience with European leaders and confidence that the eurozone will be able to avoid a breakup and a deep recession. The impact of investors' skittishness is growing. If they don't buy government bonds, interest rates on European sovereign debt spike, making it harder for countries to finance their debt pushing them closer to default.

In other words, investors fearing the worst could actually be making their fears come true.

The German central bank was forced to buy 39 percent of the 10-year sovereign bonds that Germany issued today, in a clear rebuke by private investors. The U.S.

stock market plunged in response, as the S&P 500 fell 2.21 percent, and the Dow Jones Industrial Average plummeted 236 points to 11,257.55. European stocks also took a beating. The DAX index in Germany fell 1.44 percent and the CAC 40 in France fell 1.68 percent, and the value of the euro fell one percent against the dollar.

"This auction was disastrous for Germany, and one can easily conclude that this is one of the first concrete signs that the eurozone is in the process of breaking up, that investors have just about given up," **Bernard Baumohl, chief global economist at the Economic Outlook Group**, said.

Germany almost set itself up for an unsuccessful bond auction though, said Jay Bryson, global economist at Wells Fargo Securities. He noted that the interest rate that Germany was offering on its new 10-year bonds -- just 2 percent -- was lower than the 2.25 percent interest rate offered last month and 3.25 percent interest rate during the summer. The lower returns simply were not as appealing, Bryson said.

If Germany, Europe's safe haven, can't sell off its debt to private investors, then more troubled countries such as Italy and Spain may find it difficult to avoid insolvency. And if those countries default, it could spell the end for the euro.

Investors are at this point afraid of nearly all European bonds. Interest rates on French and Austrian sovereign debt are approaching four percent, indicating that investors are increasingly eager to sell any European sovereign debt, no matter how well the country's fiscal house has been put in order nor how strong the economy is. Bryson noted that European banks also have been less willing to lend to large corporations in a sign that credit is tightening.

"The markets seem to think that euro is on the edge, ready to fall off the cliff," Cardillo said. "The message is loud and clear that the markets are basically going to force the Germans to compromise."

Germany, the most powerful country in the eurozone, has largely stood in the way of a rescue by the European Central Bank. The president of Germany's influential central bank recently said that the ECB must not violate its charter, which prevents it from buying sovereign debt directly from European governments.

But if the markets continue to inflict harm on Germany as well as the rest of the eurozone, Cardillo said, Germany eventually may relent and allow the ECB to buy large amounts of sovereign debt and issue euro bonds, driving down borrowing costs and ending the short-term crisis.