



Credit investors ponder GM-sized hole in universe

Posted by [Stuart Staniford](#) on March 29, 2006 - 3:19am

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Via the estimable [Mish](#), I note the following [Reuters story](#). This is in the category of "things I don't understand that sound like they could hurt me".

Like the elephant in the living room, the decline of General Motors is a problem that investors don't want to think about but can't ignore.

The world's largest automaker, whose debt is close to the gross domestic product (GDP) of Belgium, lost more than \$10 billion last year and is facing a bankruptcy that would reap devastation in the financial markets.

GM's (GM.N: [Quote](#), [Profile](#), [Research](#)) share price has halved in the past year, while its \$100 billion of bonds have been cut to junk, confronting investors with the prospect of never getting their money back. Others in the highly-leveraged derivatives market face incalculable losses should a bankruptcy occur.

"A GM default would be absolutely huge," said Jonathan Loredo, of credit manager Cairn Capital. "It would be the biggest thing to hit the market in terms of losses and operational stress."

The story adds later:

The complex market in CDO squared, or CDOs of CDOs, also faces significant risk following a GM downgrade, one London-based hedge fund manager said.

"To be blunt -- it would be carnage," he said.

Obviously, few peak-oilers are going to be very bullish on a US car company that has made a central focus of extremely large and fuel-inefficient vehicles. But I'd love to have a better understanding of the credit market implications. The credit markets seem to be to be very important to understanding the whole deflation versus inflation post-peak question, as well as how the relative timing and impact of the housing bubble bursting versus peak oil, which has profound implications for oil prices.

But after spending an extended period over at the Wikipedia on [Collateralized debt obligation](#), [Credit derivatives](#) etc, I have to confess that I'm not really there yet. I still don't understand why one corporation is so significant to these markets, or what it means.

Anyone out there got a good grip on this and care to explain it to us?



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