

Stocks tank on GM, oil

Wall Street slumps with the Nasdaq, the small-cap index and fuel-sensitive transportation issues hardest hit. Private sector jobs slump ahead of June jobs report, due Thursday.

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NEW YORK (CNNMoney.com) -- Spiking oil prices and a downgrade of General Motors were among the factors dragging on stocks Wednesday afternoon.

Almost three hours into the session, the Dow Jones industrial average ([INDU](#)) had fallen 0.4%, weighed down by a nearly 10% slide in GM stock. The broader Standard & Poor's 500 ([SPX](#)) index lost 0.4% and the tech-heavy Nasdaq composite ([COMP](#)) lost 1%.

The Russell 2000 small-cap index fell 1.9%.

Stocks were mixed in the morning on seesawing oil prices, a weak dollar and economic reports that showed improved factory orders and worse private sector employment. But any gains evaporated near midday, with stocks turning lower.

GM helped the market Tuesday and hurt it Wednesday.

The Dow and the Nasdaq managed to bounce back from bear-market levels during the session Tuesday after GM reported a June sales loss that was not as terrible as expected. But a Merrill Lynch downgrade of the stock Wednesday sent it tumbling and weighed on the broader market.

Oil prices rose after a mixed weekly oil inventories report, dragging on airlines and other companies that derive a large portion of their revenue from fuel.

The Dow Jones Transportation average lost 2.5%, with 19 of its 20 components sliding, led by AMR ([AMR](#), [Fortune 500](#)) and Continental Airlines ([CAL](#), [Fortune 500](#)).

Financial stocks were up Wednesday, helping to stave off bigger losses, after both Deutsche Bank ([DB](#)) and UBS ([UBS](#)) said that they would not need to raise additional capital. Deutsche Bank also said it would post a second-quarter profit.

"With the financials holding in there, I would have expected a bounce, but I guess you have GM and the oil prices taking it down," said **Joseph Saluzzi**, co-head of equity trading at **Themis Trading**.

Saluzzi said the selling was also a continuation of the downward trend and maybe some fear ahead of Thursday's unemployment report and expected interest-rate hike from the European Central Bank.

Should the ECB boost rates that would likely lift the euro and drag on the already hard-hit dollar, which in turn would pressure oil prices. Dollar-traded commodities such as oil have been on the rise partly because of the greenback's weakness.

Oil prices up after report: U.S. light [crude](#) for August delivery rose \$1.99 to \$142.96 a barrel on the New York Mercantile Exchange after ending the previous session at an all-time closing high. Prices are already up 50% this year in response to tight supply and tensions in the Middle East.

Prices were choppy after the government said that crude supplies dropped by 2 million barrels

last week, topping forecasts for a drop of 1.2 million barrel. Gasoline stocks rose by 2.1 million barrels, beating forecasts for a drop of 500,000 barrel. Distillates, used in heating oil, rose by 1.3 million barrels versus forecasts for a rise of 2.4 million barrels.

On Tuesday, the International Energy Agency said that global supply will remain tight, despite higher prices and less demand in the United States and Europe, with demand from developing countries surging over the next five years.

The national average price for a gallon of regular unleaded [gas](#) rose to a record \$4.092 from the record \$4.087 the previous day, according to AAA. ([Full story](#)).

Corporate news: Dow component General Motors ([GM](#), [Fortune 500](#)) slipped nearly 10% Wednesday morning after Merrill Lynch downgraded it to "underperform" from "buy" and cut the automaker's price target to \$7 per share from \$28 per share. On Tuesday, GM said June U.S. sales fell 18%, versus forecasts for a drop of 25%.

Microsoft ([MSFT](#), [Fortune 500](#)) has approached other media companies about the possibility of partnering to buy Yahoo ([YHOO](#), [Fortune 500](#))'s search business, according to a *Wall Street Journal* report. News Corp. and CNNMoney.com parent Time Warner were among the companies approached, the paper said. In May, Microsoft abandoned its \$47.4 billion bid for Yahoo. ([Full story](#))

Blockbuster ([BBI](#), [Fortune 500](#)) said its withdrawing its more than \$1 billion bid for Circuit City ([CC](#), [Fortune 500](#)) because of poor market conditions. Circuit City sales have tanked this year in response to the sluggish economy and consumer spending environment. Shares of Blockbuster rallied 12% on the news, while Circuit City shares slumped 14%. ([Full story](#))

UnitedHealth Group ([UNH](#), [Fortune 500](#)) warned that profits will suffer this year as a result of higher costs and weaker business.

In other news, Starbucks ([SBUX](#), [Fortune 500](#)) said late Tuesday that it will close 600 stores, or 8.5% of its 7,100 stores, expanding an initial plan to close 100 stores. The coffee chain has been struggling amid the weak economy. Shares tiptoed higher. ([Full story](#)).

Economic news: Factory orders rose 0.6% in May, after rising a revised 1.1% in April, the government reported. That was above economists' forecasts for a rise of 0.5%, according to Briefing.com, but was the weakest showing since February, reflecting weaker demand for autos, heavy machinery and steel. ([Full story](#)).

Private sector employment slumped in June, with employers cutting 79,000 jobs from their payrolls after adding a revised 25,000 in May, according to payroll services firm ADP. Economists surveyed by Briefing.com expected employers to cut 20,000 jobs, on average.

The report exacerbated jitters about Thursday's big government employment report. That report is expected to show that employers cut 60,000 jobs from their payrolls in June after cutting 49,000 in the prior month. The unemployment rate, generated by a separate survey, is expected to have fallen to 5.4% from 5.5% the previous month.

Other markets: In currency trading, the [dollar](#) fell versus the euro and the yen.

In the bond market, Treasury [prices](#) rose, lowering the yield on the benchmark 10-year note to 3.96% from 4.00% late Tuesday. Bond prices and yields move in opposite directions.

COMEX [gold](#) for August delivery fell \$5.70 to \$938.80 an ounce. ■