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Global stocks soar in sigh of relief on US fiscal deal

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Reuters in New York and London

Global stocks jumped 2 per cent or more and commodities rallied on Wednesday after US legislators struck a deal to halt a round of automatic fiscal tightening that threatened to push the world's largest economy into recession.

The deal reached on Tuesday to avert the "fiscal cliff" put off the immediate pain of income tax hikes for almost all US households but did nothing to resolve other political impasses on the budget that loom in coming months, including the debt ceiling.

Oil prices pared some gains but Wall Street rallied at the close, with the benchmark S&P 500 posting its best day in more than a year. The CBOE Volatility Index, or VIX, a gauge of investor anxiety, dropped 18.5 per cent to 14.68 at the close. The VIX has fallen 35.4 per cent over the past two sessions.

The markets' reaction to the US budget deal was a "sigh of relief that a recession in the world's largest economy has been averted", said Marc Chandler, global head of currency strategy at Brown Brothers Harriman in New York.

Copper rose to its highest in more than two months, while silver and platinum group metals also rose sharply. The S&P 500 achieved its biggest one-day gain since December 20, last year, pushing the index to its highest close since September 14.

The Dow Jones industrial average closed up 308.41 points, or 2.35 per cent, at 13,412.55. The Standard & Poor's 500 Index rose 36.23 points, or 2.54 per cent, at 1,462.42. The Nasdaq Composite Index gained 92.75 points, or 3.07 per cent, at 3,112.26.

Still, the rally may be short-lived. Spending cuts of US$109 billion in military and domestic programmes were only delayed for two months, and a fight over the limit for US government debt also looms.

"There was the fiscal cliff euphoria, but the markets are a little overdone and people realise you still have the debt ceiling battle, social security taxes going up and dealing with spending sequestration and budget cuts," said Mark Waggoner, president at Excel Futures.

In Europe, the last-minute US budget deal sent shares to 20-month highs, pushing some regional indexes into "overbought" territory and leaving them vulnerable to a pullback.

The pan-European FTSEurofirst 300 index closed 2.1 per cent higher at 1,157.40 points in the first trading session of the year, led by shares in the cyclical basic resources sector.

The Euro STOXX 50 rose 2.9 per cent to 2,711.25 while the Euro STOXX 50 Volatility Index, which measures option prices on euro zone blue chips and is regarded as a measure of stock market risk aversion, dropped 14 per cent.

Further US political showdowns are expected over the next two months, however, all of which could dent investor sentiment and result in increased share price volatility.

“We’ll see a few more days of euphoria but then the reality will set in,” said Mike Turner, head of global strategy and asset allocation at Aberdeen Asset Management, adding he would sell futures contracts on major indexes at the first sign of fresh political jitters.

The STOXX Europe 600 index, the euro zone Euro STOXX 50 and Germany’s Dax moved into ”overbought” territory on their 20-day Relative Strength Index, a momentum indicator, meaning that some short-term sellers may start to take profit on the indexes in the coming days.

Charts on the STOXX 600 also showed the pan-European gauge closed at a resistance level, 285, that capped the index twice in May 2011.

“If you’re long, you should stay long and set a stop loss, but if you’re not long it’s pretty dangerous to buy now,” Valerie Gastaldy, the head of Paris-based technical analysis firm Day-By-Day, said.

“If we consolidate now it will not be a very steep fall, but if we get to the 2011 peak at 292, that will be really overstretched.”

She recommended setting a stop loss at 281, the higher end of a gap between Wednesday’s open and the previous session’s high.

The deal boosted investors’ appetite for riskier assets and depressed the US dollar against major currencies. Brent crude oil hit an 11-week high of nearly US$113 per barrel and gold prices rose nearly 1 per cent.

Brent February crude rose US$1.36 to settle at US$112.47 a barrel, after reaching US$112.90. US crude for February delivery rose US$1.30 to settle at US$93.12 a barrel.

The vote in Congress removed a major uncertainty hanging over markets, but some analysts cautioned that the optimism could fade if US economic data later this week, including the December payroll report, disappoints.

US manufacturing expanded slightly in December, bouncing back from an unexpected contraction the prior month, according to an industry report released on Wednesday.

The MSCI all-country world equity index rose 2.05 per cent. The pan-European FTSEurofirst 300 closed 2.1 per cent higher at 1157.40.

In currency markets, the euro retreated after reaching a two-week high earlier in the session to trade down 0.15 per cent at 1.3183. The US dollar rose 0.06 per cent against a basket of major currencies.

Prices of safe-haven government debt fell. Germany's Bund future posted its biggest daily fall since early September, settling down 1.57 points at 144.07.

Yields on US benchmark 10-year Treasury notes hit a more than three-month high, with the price falling 24/32 to yield 1.8406 per cent.

Venezuela's US dollar-denominated sovereign bonds rallied across the yield curve on Wednesday in a sign of increased appetite for risk. The benchmark 2027 Global bond gained 1.536 points in price to bid 99.79, yielding 9.273.

The Thomson Reuters-Jefferies CRB index of 19 commodities rose 0.85 per cent, with metals dominating gains.

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