**Battle to gain ground at end of stellar quarter**
*Telis Demos*

Glimmers of hope for troubled banks and the US economy eased market stress but stock markets struggled to make headway at the close of a stellar quarter.
Ireland, as anticipated, struck a deal to inject an additional €10bn into three financial institutions, including Anglo Irish Bank.

The amount brings the total bail-out bill for Ireland's banks to €29bn. It could reach as much as €34bn, which represents nearly a quarter of Ireland's gross domestic product.
But the move calmed markets in the short term.

"Despite the sizeable additional capital requirements ... we see the announcements as positive," said Antonio Garcia Pascual, an economist at Barclays Capital. "They provide clarity to the markets with a mapping [of the scenarios] for the path of real estate prices to the additional haircuts on the real estate portfolios."

The spread on Irish 10-year bonds versus benchmark German Bunds compressed by 19 basis points as Irish bonds soared, the sharpest improvement since July. Spreads on Greek and Spanish bonds narrowed.

The expiration of €225bn of European Central Bank liquidity provision to banks saw three-month interbank lending rates rise to their highest level since June.

It was the hoped-for result as the banks themselves began to stand in for the ECB. Stock markets spent much of the day lower, due in part to an offsetting announcement by Moody's, the rating agency, that it was downgrading Spain to just below triple A.

"We still believe that the downgrade story will remain in play for several countries in Europe," said Win Thin, a currency strategist at Brown Brothers Harriman.
In the US there was a surprise decline in initial jobless claims and an improvement in the Chicago purchasing managers index.

A small upward revision in GDP, raising the second-quarter growth rate from 1.6 per cent to 1.7 per cent, led to a brief spike in equity prices. But it was not enough to allay fears. Earlier, Japan and South Korea had reported declining industrial production in August.

"Growth [in the US] below or even at potential is not good enough to generate enough job growth to lower the unemployment rate in a steady fashion," said Jonathan Basile, US economist at Credit Suisse.

After ending its best quarter in a year – the FTSE All-World index rose 13.9 per cent, the fifth-best performance in the past decade – global equities markets begin the new quarter with little momentum.

Japan's Nikkei 225 Average was off 2 per cent and Australia's S&P/ASX 200 was down by 1.3 per cent. The FTSE Eurofirst 300 index declined 0.4 per cent while the S&P 500 index slipped by 0.3 per cent. Risk factors in the political realm also weighed on sentiment, with troubles in the US-China trade relationship resurfacing. Lawmakers in the world's largest economy voted to urge the second-largest to allow its currency to appreciate further.

In trading, the renminbi depreciated by 0.1 per cent to Rmb6.69 against the dollar, off its strongest mark since China allowed it to float in a wider daily range earlier this year.

"[The US] might end up imposing punitive tariffs on Chinese imports if China is not prepared to allow greater flexibility of the renminbi," said John Higgins, senior market economist at Capital Economics. "A resulting trade war would be a currency war in all but name, and undoubtedly be detrimental to the outlook for global growth."

Currencies were in a risk-off pattern. The US dollar index was higher, off a nine-month low, while the Australian dollar slipped from a 2008 high. The yen continued to strengthen, above Y83.50 to the dollar.

Expectations of quantitative easing subside as economic data improve, which reduces worries about the debasement of the US's paper currency. Trading in government bonds followed this pattern.

Haven bonds were sold off. Ten-year US Treasury yields rose 1 basis point to 2.51 per cent. German Bund and Japanese government bond yields were higher, although all remain near 2010 lows.

Gold touched a fresh high of $1,315 a troy ounce, but eased back 0.1 per cent, falling below $1,308. Oil led strength in other commodities, adding 2.6 per cent to just below $80 a barrel.

**Fonte: Financial Times, London, Oct. 1 2010, Markets, online.**