Source: AFX UK Focus Wire
Date: Wednesday 4, March 2009

Keyword: ODL Securities

GLOBAL MARKETS-Equities rise after heavy loss, dollar stronger

By Jeremy Gaunt, European Investment Correspondent

LONDON, March 4 (Reuters) - World stocks clawed their way back up from multi-year lows on Wednesday as investors sought bargains after three days of steep losses brought on by deep fears for the world economy and financial system.

Prospects of more stimulus spending in the Chinese economy helped.

Government bonds sold off and the dollar gained.

Investors were moving tentatively back into stocks after the MSCI world equity index racked up a 7.5 percent loss over three sessions.

The fall in world stocks had sent many indexes down to historic levels. Japan's Nikkei average, for example, neared a 26-year trough and the pan-European FTSEurofirst 300 hit a lifetime low.

But, on Wednesday, there was some stabilisation with the MSCI index up 0.5 percent and the FTSEurofirst gaining 1.7 percent.

'The market has been both a financial and emotional rollercoaster over the past fortnight. Investors are scrambling to find an area of support to help justify buying back in,' said Chris Hossain, senior sales manager at ODL Securities.

Oil companies helped the relative rally, boosted by gains in crude, which rose $1 to beyond $42.50 a barrel after surging 4 percent overnight.

Japan's Nikkei closed up 0.9 percent on news that China is likely to increase stimulus spending.

A senior Chinese economic planning official said China would increase spending in areas such as manufacturing and infrastructure, on top of the 4 trillion yuan ($584.7 billion) stimulus package unveiled in November.

WEAKER BONDS, STRONGER DOLLAR

Government bonds sold off, with Europe tracking losses in U.S. Treasuries.

The euro zone two-year Schatz yield gained 2 basis points, still hovering within reach of a lifetime low, but the 10-year bond gained 8 basis points to 3.120 percent.

There has been some evidence recently of a weakening of demand for bonds and even of the inverse correlation between bond and equity prices in which one gains when the other falls.

Caution may be growing about the benefits of holding low-yielding government debt in the face of huge new supply needed to boost economies.

Broad dollar gains shook the euro to its lowest in more than three months, while the yean also yen weakened.

The dollar was up 0.9 percent on the day at 99.20 yen, having earlier hit 99.36 -- its highest since early November -- according to Reuters data.

The euro fell as far as $1.2457 on trading platform EBS to its lowest in more than three months. It was last down 0.3 percent at $1.2521.

The dollar index climbed to a fresh three-year peak at 89.624.

(Additional reporting by Atul Prakash; Editing by Andy Bruce)

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Keywords: MARKETS GLOBAL/

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