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Stocks, Commodities Advance as EU Leaders Draft Framework for Bailout Fund

Rob Verdonck and Nikolaj Gammeltoft - Nov 28, 2011 9:33 PM GMT

Global stocks rose for the first time in 11 days and commodities climbed after U.S. Thanksgiving weekend retail sales jumped to a record and speculation grew that European leaders will do more to tame the debt crisis. The euro rose, while Treasuries reversed earlier losses.

The MSCI All-Country World Index added 3 percent at 4 p.m. in New York, snapping its longest slump since 2008, and the Standard & Poor's 500 Index rallied 2.9 percent to halt a seven- day losing streak. The euro strengthened 0.6 percent to $1.3312 after climbing as much as 1.2 percent. Ten-year Treasury yields were little changed at 1.97 percent after jumping as much as 11 points. The cost of insuring European government debt fell for the first time in eight days. Oil rose 1.5 percent.

The S&P 500 rallied the most in a month after the National Retail Federation said yesterday that retail sales climbed 16 percent to a record over the holiday weekend. German Finance Minister Wolfgang Schaeuble urged fast-track treaty changes to tighten budget discipline, while guidelines that finance ministers will discuss this week showed that Europe's rescue fund may insure bonds of debt-stricken countries with guarantees of 20 percent to 30 percent.

"It's a sea of green and nothing is being left behind in this rally," Mark Luschini, chief investment strategist at Philadelphia-based Janney Montgomery Scott LLC, which manages $54 billion, said in a telephone interview. "Equity prices are being powered higher by the quite good Black Friday sales in the U.S. and reports that European officials are rallying around some form of political cohesion to solve the debt crisis."

Stocks (MXWD) Rebound

About $4.6 trillion was wiped from the value of global equities this month through the start of trading today amid mounting concern that Europe's debt crisis is spreading. Moody's Investors Service said the "rapid escalation" of the crisis threatens all of the region's sovereign ratings. Belgium paid the most since 2000 to sell debt.

The S&P 500 rebounded after slumping 4.7 percent last week, its biggest drop since September and worst Thanksgiving week since 1932. Alcoa Inc., Caterpillar Inc. and Hewlett-Packard Co. climbed at least 4.5 percent to lead gains in the Dow Jones Industrial Average, which rallied 291.23 points, or 2.6 percent, to 11,523.01.

AT&T Inc. rose 2 percent as it was said to consider offering to divest as much as 40 percent of T-Mobile USA's assets to convince the Justice Department to let the company take over the U.S. unit of Deutsche Telekom AG. Commercial Metals Co. rallied 24 percent after billionaire investor Carl Icahn offered to buy the steel-scrap recycler for about $1.73 billion.

Retailers Advance

Macy's Inc. and Tiffany & Co. climbed at least 4.7 percent to pace an advance in 28 of 30 stocks in the S&P 500 Retailing Index. Retail sales totaled $52.4 billion during the holiday weekend and the average shopper spent $398.62, up from $365.34 a year earlier, the Washington-based National Retail Federation said yesterday, citing a survey conducted by BIGresearch.

Online retail sales today, so-called Cyber Monday, were up 20 percent from a year earlier as of 12 p.m. New York time, according to International Business Machines Corp.

The S&P 500 is trading for 10.9 times analysts' forecast for earnings in 2012, compared with its five-decade average of 16.4 times reported profits, data compiled by Bloomberg show. Companies in the benchmark gauge for American common equity are projected to increase earnings 10 percent next year, extending a streak of gains to 13 quarters, the data show.

The yield on the 30-year U.S. Treasury bond rose less than one basis point to 2.93 percent after earlier exceeding 3 percent for the first time since Nov. 18.

Fitch Affirms AAA

After financial markets closed in New York, Fitch Ratings affirmed the U.S.'s AAA long-term foreign and local currency issuer default ratings. The outlook on the long-term rating was revised to negative from stable, with Fitch saying that a failure to reach a “credible deficit reduction plan” in 2013 and a worsening economy could lead to a downgrade.

The biggest bond dealers in the U.S. say the Federal Reserve is poised to start a new round of stimulus, injecting more money into the economy by purchasing mortgage securities instead of Treasuries.

The Fed, which bought $2.3 trillion of Treasury and mortgage-related bonds between 2008 and June, will start another program next quarter, 16 of the 21 primary dealers of U.S. government securities that trade with the central bank said in a Bloomberg News survey last week. The Fed may buy about $545 billion in home-loan debt, based on the median of the 10 firms that provided estimates.

Global Stocks

Commodity producers and financial stocks were the best performers in the MSCI All-Country World Index, helping the gauge rebound from a 10-day, 9 percent slump.

The Stoxx Europe 600 Index rallied 3.8 percent for its largest advance in two months as the gauge rebounded from its biggest weekly slide since September. All 19 industries in the benchmark measure climbed more than 2 percent with gauges of banks, auto companies and insurers posting the biggest gains. Deutsche Bank AG jumped 7.2 percent, BNP Paribas SA surged 10 percent, Societe Generale SA advanced 9.6 percent and UniCredit SpA added 8.1 percent.

Growth Forecasts

Germany spurned investor calls to maximize financial firepower to calm markets, saying its fast-track proposals for EU treaty change are key to solving the euro-area debt crisis. Chancellor Angela Merkel will deliver a speech on the crisis to the lower house of parliament in Berlin on Dec. 2, previewing a Dec. 8-9 summit of European leaders that is due to discuss proposals for treaty change, Merkel’s chief spokesman, Steffen Seibert, told reporters today.

Italian bonds led gains among the securities of heavily indebted euro-area nations after French Budget Minister Valerie Pecresse said greater financial assistance may be available in exchange for tougher budget rules.

“European leaders have been pushed into a position that they have to do something,” said Mike Lenhoff, the London-based chief strategist at Brewin Dolphin Securities Ltd., which oversees $39 billion. “We are getting to a point where policy makers are now responding. The message from the market is clear: get your act together or we are going to destroy you.”

The Organization for Economic Cooperation and Development said today that growing doubt about the survival of Europe’s monetary union has caused global growth to stall and represents the main risk to the world economy. The 34 OECD nations will expand 1.9 percent this year and 1.6 percent next, down from 2.3 percent and 2.8 percent predicted in May, the Paris-based organization said in a report.

Belgian Auction

Belgian 10-year bond yields fell 26 basis points to 5.55 percent after the nation sold 2 billion euros ($2.68 billion) of debt maturing between 2018 and 2041. The debt agency in Brussels sold 450 million euros of bonds due in September 2021 at a weighted average yield of 5.659 percent, up from 4.372 percent in the previous sale on Oct. 31 and the most since January 2010. Demand for the securities was 2.59 times the amount of notes sold, up from 1.65 times a month ago.

It’s the first debt sale since S&P lowered Belgium’s credit standing one step to AA with a negative outlook on Nov. 25. Coalition talks produced a budget agreement less than 24 hours later.

Italian Bonds

Italian bonds rose for the first time in six days as the country’s banking association promoted an initiative to encourage purchases of the securities today. The yield on the 10-year security dropped three basis points to 7.23 percent, trimming a decrease of as much as 19 points, after surging 62 basis points last week. The government sold 567 million euros of September 2023 index-linked bonds at a yield of 7.3 percent. The maximum target for the auction was 750 million euros.

The International Monetary Fund said today it isn’t discussing a rescue package with Italy after La Stampa newspaper reported it may be preparing a loan of as much as 600 billion euros ($802 billion).

The Dollar Index, which tracks the U.S. currency against those of six trading partners, declined 0.6 percent to 79.226 as the dollar weakened against 14 of 16 major counterparts.

New Zealand's dollar climbed against 14 of 16 peers, surging 1.9 percent against the U.S. currency, after Prime Minister John Key was re-elected with his party's biggest mandate in 60 years.

Emerging Markets

The MSCI Emerging Markets Index (MXEF) jumped 2.8 percent, its biggest gain in a month, after closing last week at a seven-week low. The Micex Index surged 3.9 percent in Moscow as oil rose in New York. The Hang Seng China Enterprises Index (HSCEI) of Chinese stocks listed in Hong Kong gained 2.3 percent and the BSE India Sensitive Index (SENSEX), or Sensex, rose 3 percent, the most since Aug. 29.

The Markit iTraxx SovX Western Europe Index of credit- default swaps on 15 governments dropped from a record, falling 11 basis points to 374. Debt-insurance costs for European financial companies also fell from the highest ever. Gauges of credit risk among U.S. and European companies also decreased.

Oil futures rose 1.5 percent to settle at $98.21 a barrel after earlier topping $100. Gasoline climbed 2.8 percent to $2.5181 a gallon and silver and copper climbed more than 3.3 percent to lead the S&P GSCI index of 24 commodities up 1.4 percent amid gains in 19 of the materials it tracks.

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