guardian.co.uk

GLOBAL MARKETS-Stocks, dollar fall as Lehman ignites concerns

Reuters, Tuesday September 9 2008

* Stocks slide as Fannie, Freddie bailout jubilation fades
* Dollar cuts gains, turns lower as Lehman stock weighs
* Safety bid gives bonds a boost on both sides of Atlantic
* Oil near five-month low as hurricane threat recedes (Recasts with U.S. markets, adds byline; changes dateline; previous LONDON)

By Herbert Lash

NEW YORK, Sept 9 (Reuters) - U.S. and European stocks fell on Tuesday, pulled down by energy shares that fell on lower oil prices and renewed concerns about economic growth worldwide and a new plunge in shares of Lehman Brothers.

The tumble in Lehman's share prices reignited investors' concerns over the banking sector and fueled demand for safe-haven government debt on both sides of the Atlantic.

Oil fell to a new five-month low on expectations the Organization of Petroleum Exporting Countries would leave output targets unchanged and as the threat of Hurricane Ike to U.S. energy infrastructure in the Gulf of Mexico receded.

Early U.S. dollar strength sparked a sell-off in all corners of the commodities market, even sending European Union wheat prices to their lowest levels in more than a year.

The dollar fell as Lehman's woes shifted the spotlight back on the fragile financial sector. Investors questioned the investment bank's ability to raise capital amid expectations it could post bigger losses.

Lehman's 35 percent slide to record lows below $10 a share also helped wipe out recent optimism over the U.S. government's bailout of mortgage finance companies Fannie Mae and Freddie Mac that was announced on Sunday.

Lehman's plunge hit financial shares and helped drag down markets as investors fled risky trades to pile into securities seen as safer.

"Several opportunities for Lehman seem to be diminishing. Investors are obviously getting concerned about their long-term financial stability," said William Lefkowitz, options strategist at brokerage vFinance Investments in Chicago.

Shares of energy shares fell in sync with a drop in crude oil prices with Exxon Mobil Corp the top drag on the S&P 500.

Before 1 p.m., the Dow Jones industrial average <.DJI> wasdown 77.51 points, or 0.67 percent, at 11,433.23. The Standard & Poor's 500 Index <.SPX> was down 17.71 points, or 1.40 percent, at 1,250.08. The Nasdaq Composite Index <.IXIC> was down 17.78 points, or 0.78 percent, at 2,251.98. Wall Street

European shares fell as mining stocks lost ground amid renewed worries about economic growth.

The FTSEurofirst 300 <.FTEU3> index of top European shares closed 0.6 percent lower at 1,155.58 points, after having risen more than 1 percent earlier in the session.
The basic resources sector <.SXPP>, which includes miners, slumped 5 percent as copper prices fell to a 7-1/2 month low.
Miners Anglo American lost 6.1 percent, BHP Billiton 5.1 percent and Rio Tinto 4.7 percent.
Financials in Europe were mixed after Monday's sharp rally triggered by the Fannie and Freddie takeovers.
"The bailout of Fannie Mae and Freddie Mac was not an all-clear," said **Alan Lancz**, president of **Alan** B. **Lancz** & Associates Inc, an investment advisory firm based in Toledo, Ohio. "Reality is setting in that it's not only the U.S. Europe is even in the worst shape, you've also got a slowdown in China."
Euro zone and U.S. government bond prices rose.
The December Bund future rose 35 ticks after hitting a session high of 115.14 in late trading.
The benchmark 10-year U.S. Treasury note rose 21/32 to yield 3.62 percent. The 30-year U.S. Treasury bond added 41/32 to yield 4.20 percent.
Investors fretted over what the government bailout of Fannie and Freddie means about the state of the U.S. economy.
"That flight-to-quality into Treasuries is an indication -- and the same with the Dow Jones being down -- that there are going to be more questions develop from the Fannie and Freddie situation," said William Larkin, fixed income portfolio manager at Cabot Money Management in Salem, Massachusetts.
The dollar fell against major currencies, with the U.S. Dollar Index <.DXY> off 0.49 percent at 79.138. Against the yen, the dollar fell 0.78 percent at 107.46.
The euro rose 0.50 percent to $1.4196.
U.S. light sweet crude oil fell $2.16 to $104.18 a barrel. Spot gold prices fell $14.75 to $786.60 an ounce.
Gold fell 3 percent as investors continued to take money out of commodities following a broad rally in the U.S. dollar.
The sell-off spilled over into other precious metals, with silver and platinum dropping to their lowest in a year.
Overnight in Asia, stocks retreated and government bonds rose on the sobering realization the takeovers of Fannie and Freddie Mac does not resolve the financial crisis.
Japan's Nikkei share average <.N225> fell 1.8 percent and Asia-Pacific stocks <.MIAPJ0000PUS> outside Japan shed 2.5 percent after their biggest daily gain of 2008 on Monday. (Reporting by Ellis Mnyandu, Chris Reese, Lucia Mutikani, Vivianne Rodrigues in New York; Jane Merriman, Matthew Robinson, Jamie McGeever and Bate Felix in London and Peter Starck in Frankfurt. Editing by Richard Satran) (Writing by Herbert Lash)