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By Emily Flitter and Luke Baker
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(Reuters) - Euro-zone officials are working to magnify the firepower of the region's rescue fund, European Central Bank policymakers said on Monday, while President Barack Obama piled on pressure for Europe to staunch a sovereign debt crisis that threatens the world economy.

Obama, saying the crisis "is scaring the world," urged leaders of the 17-nation euro zone to act quickly to help a region where banks have not fully recovered from the 2008 financial crisis and which is now suffering from the Greek government's debt crisis.

"They are trying to take responsible actions but those actions haven't been quite as quick as they need to be," Obama told a citizens' meeting in Mountain View, California.

After meeting at the IMF/World Bank and G20 meetings in Washington D.C. last week, European policymakers said on Monday they are working on ways to shore up the euro zone financial system and prevent the region's government debt crisis from spreading, but their mixed messages on the size of a rescue fund and the role of the ECB underscored the difficulties for 17 euro-zone nations in reaching consensus.

ECB Executive Board member Lorenzo Bini Smaghi, speaking in New York, said that the 440 billion euros in the bailout fund, known as the European Financial Stability Facility (ESFS), could be used as collateral to borrow from the European Central Bank making more money available for crisis fighting, but it was up to European Union governments to decide how to do this.

"I know that people are thinking about these things. They may not be willing to admit it in the public, but they are thinking about these things," he said, citing the example of two U.S. programs used to recapitalize banks in the 2008-09 financial crisis.

Officials are examining "how to leverage the money out of the EFSF in a more innovative and efficient way," he told a conference organized by Medley Advisors.

But Germany's central banker Jens Weidmann poured scorn on a beefed-up bailout fund. Leveraging the assets could discourage politicians from taking the tough political decisions to cut budget deficits and would weaken faith in the euro, Weidmann said in Washington.

"A bazooka! I don't think it is a recipe that works in Europe," he told the American Council on Germany.

Markets are not concerned about the size of the rescue fund, rather about the political capacity to deliver, he said

"This is a very dangerous thing. It means you completely blur the responsibility between fiscal and monetary policy."

Germany's Finance Minister Wolfgang Schaeuble speaking in Berlin also ruled out increasing the size of the fund although he had said in Washington over the weekend that leverage without tapping the ECB was possible.

A senior European official told Reuters on Saturday that the aim was for a five-fold leverage to give the fund the firepower to help bigger economies such as Italy and Spain if necessary.

Analysts have estimated that 1-2 trillion euros is needed to achieve that goal and win market confidence.

ECB Governing Council member Ewald Nowotny from Austria said at a Harvard University forum in Massachussetts on Monday that an increase in the fund was likely, but it "might not be a trillion (euros).

Investors are anxious to see a plan big enough to backstop European banks and help debt laden euro zone governments. U.S. stocks jumped when CNBC television reported that a detailed plan was in the works to leverage the fund up to eight-fold and to use the European Investment Bank to issue bonds and buy up sovereign debt of troubled countries via the ECB.

An EU official in Brussels involved in crisis resolution dismissed the CNBC report as "just bizarre." The official said talks are in the early stages and those with the EIB involve infrastructure projects.

PRESSURE

In Germany, Chancellor Angela Merkel pressed for the European Union to strengthen its power to discipline member states that break fiscal rules. Budget deficits are the primary source of Europe's debt crisis and Germany's key concern.

"There should be the right to declare such budgets null and void...otherwise we will not get out of the situation," she said in her strongest language yet on common EU fiscal powers.

Germany's legislature is due to vote this week on expanded EFSF powers and leaders are seeking to quell concerns the new bailout fund would discourage countries from cutting deficits.

Europe came under fierce pressure from the United States and other major economies at weekend talks in Washington to take swift action to stop Greece's debt woes from engulfing bigger euro zone states and harming the world economy.

But officials said reports that planning was already in place for a 50 percent write-down in Greek debt and a vast increase in the euro zone rescue fund were highly premature.

"There is no change to the framework we are working on," said a euro zone official who is involved in decision-making on financial assistance to Greece, Ireland and Portugal.

"All this talk of a specific haircut for Greece or an enlargement of the EFSF, it is all just speculation. We are not working along those lines," said the official.

Merkel, struggling to convince her fractious center-right coalition to back a strengthening of the EFSF in a crucial vote on Thursday, warned that letting Greece default would destroy investor confidence in the euro zone.

Diplomats said any talk of a fallback plan for Greece that would raise the cost to German taxpayers could only make her task more difficult in parliament this week.

DEFAULT WITHIN MONTHS?

Private economists and Brussels think-tanks expect a Greek debt default within months, coupled with a capital injection for European banks and a leveraging up of the EFSF.

Euro zone officials acknowledge that such policy ideas are circulating, but insist planning continues on the basis that Greece's debt burden, which is close to 160 percent of GDP, can be sustained as long as its government cuts its fiscal deficit as demanded by the European Commission, the European Central Bank and the International Monetary Fund, the so-called troika.

Treasury Secretary Timothy Geithner warned this weekend that inadequate European crisis management heightens the threat of "cascading default, bank runs and catastrophic risk that must be taken off the table." IMF chief Christine Lagarde, also made clear the euro zone needs to act more decisively, notably to recapitalise banks on a large recapitalizescale.

Quietly, euro zone policy makers accept that a combination of a much deeper Greek debt restructuring allied to coordinated bank recapitalizations and a bolstered rescue fund would make sense, but such a plan would require support from all 17 euro zone countries which can take time in the EU.

"The ideas are all there, but it's not as straightforward as just sitting down and deciding it," said another euro zone financial official involved in handling the crisis.

"Many of us can agree privately that anything less than a 50 percent haircut for Greece would just be cosmetic, but getting that decided by all and implementing it is not so easy."

(Additional reporting by Alister Bull in California, Lesley Wroughton in Washington, Marc Jones in Washingotn, Ros Krasny in Boston and John O'Donnell in Brussels; Writing by Stella Dawson, Paul Taylor; Editing by Catherine Evans and Leslie Adler)

By **Alex Richardson**
SINGAPORE | Tue Sep 27, 2011 2:22am EDT

(Reuters) - European stock index futures rose sharply on Tuesday, after Asian shares rebounded from multi-month lows and as the euro clung to gains on hopes that euro zone officials will act to corral Greece's debt woes and prevent a financial meltdown.

Financial stocks and global miners were among the biggest gainers in Asia, although some market players cautioned against undue optimism that European leaders were finally getting to grips with a protracted solvency and liquidity crisis.

"It's a knee-jerk reaction to the world failing to come to an end last night," said Richard Morrow, director at Melbourne-based private client stockbroker E.L. & C. Baillieu. "It is a reversal and I don't see it lasting. The market has been as gloomy as I can remember since the last days of 2008."

After three sessions of steepening falls and wild swings on commodities markets, oil, copper, gold and silver all rose. U.S. crude jumped nearly $2 a barrel.

The dollar, U.S. Treasuries and Japanese government bonds, currently safe haven assets of choice, all eased.

Euro STOXX 50 index futures rose 2.7 percent. Futures for Germany's DAX and France's CAC-40 also rose more than 2.5 percent, while financial spreadbetters called the FTSE 100 finance/markets/index?symbol=gb%21ftse">.FTSE to open up as much as 2.2 percent.

Turbulence on global markets since late July has been driven by investors' twin fears of renewed recession in the United States, and the chaos that Europe's sovereign debt crisis could inflict on the financial system if it continues unchecked.

European Central Bank policymakers said on Monday that officials were working to increase the firepower of the region's rescue fund in their latest effort to staunch a crisis that U.S. President Barack Obama said was "scaring the world."

U.S. markets reacted positively, finishing more than 2 percent higher on Monday .DJI .SPX, and the mood continued in Asia, where Tokyo's Nikkei .N225 rose 2.8 percent, coming off its lowest close in more than two years.

S&P 500 index futures rose 0.4 percent.

MSCI's broadest index of Asia Pacific shares outside Japan .MIAPJ0000PUS rose 4.5 percent, after plumbing its lowest level in 16 months on Monday. The index is down 26 percent from its 2011 high in April.

UBS analysts said fund flow data showed foreign money managers had pulled money out of Asia ex-Japan markets last week and predicted more selling by funds looking to send money back to Britain, the United States and Europe.

RATE REVERSAL

Expectations have been rising among market economists that Greece will be forced soon to default on its massive debts, with uncertain consequences for both the exposed European banking sector and other struggling euro zone nations.

There is also concern that, whilst Europe's rescue vehicle has been able to cope with bailing out Greece, Portugal and Ireland, its resources would be overwhelmed if a bigger nation such as Italy or Spain were to need help.

Senior ECB officials confirmed the 440 billion euro rescue fund would likely be increased in size, and there were also hints from policymakers that the central bank could cut interest rates next month, reversing a hike earlier this year in a move already expected by markets.

"Markets are getting more confident around some action plan in Europe, which is positive, but on the other side, markets are also looking for more policy easing from the ECB, which is negative," said Greg Gibbs, currency strategist at RBS in Sydney.

"The combination of both will leave the euro caught in the middle somewhere."

The single currency traded around $1.3545, up about 0.1 percent on the day, after rallying from an eight-month low of $1.3360 on Monday. The dollar eased 0.6 percent against a basket of currencies.

JGBs LOWER

Gains in equities and other riskier assets knocked Japanese government bonds lower, with the benchmark 10-year yield rising 2 basis points to 0.995 percent.

The 10-year U.S. Treasury yield edged up to 1.907 percent, having risen from a more-than-60-year low at 1.674 percent last Friday.

The improved sentiment also helped credit markets, with spreads tightening on the iTraxx benchmark index of investment grade Asia ex-Japan corporate bonds.

Commodities were helped by a weaker dollar, which makes assets priced in the U.S. currency cheaper for holders of other currencies.

Brent crude oil rose 1.4 percent to $105.41 a barrel and U.S. crude gained 2.3 percent to $82.06.

"Clarity on the euro zone plan is still key, crude prices are swinging back and forth depending on what comments come out of Europe," said Victor Say, an analyst with Informa Global Markets in Singapore.

"Commodities have also been boosted by a weaker dollar and short covering after the recent sell-down."

Copper, which ended Monday up 2 percent after falling more than 6 percent at one stage, rose another 2 percent on Tuesday to $7,409.75 a tonne.

Gold, which has been hammered in recent days by selling by hedge funds to cover losses elsewhere in portfolios, rose 1.3 percent to around $1,648 an ounce.

(Additional reporting by Cecile Lefort in Sydney and Victoria Thieberger in Melbourne; Editing by Neil Fullick)