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Markets update

S&P 500 index

Change on week +2.05%

● **US equities**
The S&P 500 reached levels not seen since 2008, helped by expectations for further economic stimulus measures from the Federal Reserve and a renewed sense of optimism about the eurozone debt crisis

FTSE 100 index

Change on week +1.46%

● **UK equities**
The FTSE 100 took its advance from its 2012 low on June 1 to 10 per cent, as sentiment was lifted by the prospect of further quantitative easing in the US and unlimited bond-buying by the European Central Bank

FTSE Eurofirst 300 index

Change on week +2.20%

● **European equities**
A wave of investor optimism over the European Central Bank's new bond-buying plan helped drive the Eurofirst 300 to its highest intraday level in 13 months, with banking stocks spearheading the advance

Nikkei 225 Average

Change on week +0.36%

● **Asian equities**
The Nikkei put in its best one-day showing in five months yesterday as it gained 2.2 per cent. Hong Kong did even better as the Hang Seng index jumped 3.1 per cent – its biggest single-session rise this year

Source: Thomson Reuters Datastream

Markets updated at www.ft.com/markets

Optimism over central banks lifts risky assets

GLOBAL OVERVIEW

Spanish 10-year yields below 6%

Sharp gains for equities worldwide

By Dave Shellock

The European Central Bank's bold plan to save the euro – plus heightened speculation of further economic stimulus measures from the US Federal Reserve – fuelled strong gains this week for global equities, peripheral eurozone government bonds and gold.

The euro itself also powered ahead after Mario Draghi, the ECB president, said the central bank would purchase unlimited quantities of shorter-dated government bonds to help alleviate funding pressures for struggling nations that had sought help from Europe's rescue funds.

The single currency rallied even further after a weak US employment report hardened expectations for a third round of quantitative easing when the Federal Open Market Committee concludes a two-day meeting next Thursday.

But the underlying trigger for the increased confidence in "riskier" assets came from the ECB's new bond-buying programme, to be known as outright monetary transactions, which most economists and analysts welcomed – albeit with some caveats.

"For all the scepticism, limitations and uncertainty that have surrounded the ECB's programme from the start, this is a monumental achievement," said Lena Komileva, chief economist at G+ Economics.

"From a market perspective, the political risk of a country leaving the euro is not eliminated. But the risk of a forced default of a large continental economy, that could unleash large-scale bank defaults and a balance of payments crisis – ultimately forcing a medium-sized economy out of the euro – is now contained."

Société Générale's team of fixed-income strategists said the ECB's actions would afford it time and allow risk appetite to stage a comeback – for now.

But they cautioned: "Mr Draghi has won a battle, but cannot win the euro area crisis war by himself. The hardest task of all – getting governments to drop posturing in return for leadership and deep reforms – still awaits us."

The ECB's move helped soothe growing concerns about the outlook for the eurozone economy – particularly after data showed the manufacturing sector contracting for a 13th successive month in August.

Dhaval Joshi, economist at BCA Research, said it would be vital to monitor the effects of the ECB's plan on yields in Germany and other core nations, as well as on those in Spain and Italy, so as to gauge its broader impact.

"If seven- to 10-year yields – the fundamental driver of overall credit conditions in the euro area – decline in the periphery, that's great news for Italy and Spain," Mr Joshi said. "But if yields simultaneously rise in the core to push the weighted-average higher, there would also be a cost – a negative impact on the overall euro area economy."

Indeed, the yield on Spain's 10-year **government bond** sank below 6 per cent this week to its lowest level since May – as that on Germany's Bund climbed 19 basis points to 1.53 per cent.

Meanwhile, the US 10-year Treasury yield rose 5bp to 1.62 per cent, in spite of a sharp fall following the release of the August non-farm payrolls report.

This showed that just 96,000 jobs were created in the US last month, much fewer than had been expected, while the increases in the preceding two months were revised down sharply.

Although the unemployment rate fell to 8.1 per cent from 8.3 per cent, analysts noted that this reflected a contraction in the labour force.

"If the doves [on the FOMC] needed any further proof that more policy stimulus is warranted, today's employment report brought it," said Harm Bandholz, chief US economist at UniCredit. "We think that the Fed will announce QE3 at next week's FOMC meeting, along with a change in the forward guidance."

The biggest beneficiary of the growing talk of a third round of monetary easing was **gold**, which climbed more than 2 per cent in the wake of the payrolls report to a six-month high above $1,740 an ounce. Over the week, the metal gained nearly 5 per cent.

The expectations of further Fed policy easing also pushed the dollar sharply lower.

The euro – already bolstered by the ECB's bond-buying plan – reached a four-month high against the US **currency** above the $1.28 level.

Equity markets also had a strong week, after a stuttering start. In New York, the S&P 500 climbed 2 per cent to reach its highest level since the onset of the financial crisis.

The FTSE Eurofirst 300 index reached a 13-month peak, before edging back yesterday to end the week with a gain of 2.2 per cent.

In Tokyo, the Nikkei 225 Average yesterday recorded its biggest one-day gain for five months.

Emerging market stocks were poised to record their first weekly gain for a month.

Among industrial **commodities**, copper rose more than 5 per cent over the week to a four-month high as the market welcomed news that China's government had approved a significant number of infrastructure projects.

Oil prices eased slightly over the five-day period, with Brent slipping 68 cents to $113.89 a barrel.

Amazon soars as it puts heat on Apple over tablets

WALL STREET

By Arash Massoudi in New York

Amazon soared to a record high this week as the online retailer unveiled the latest versions of its popular Kindle tablet and raised the pressure on rival **Apple** by pricing the improved products competitively.

Source: Thomson Reuters Datastream

Key indicators

Indices	Close	Day's change
S&P 500	1435.75	+3.63
DJ Industrials	13281.67	-10.33
Nasdaq Comp	3131.92	-3.89
Russell 2000	841.37	+3.42
VIX	14.77	-0.83
US 10 yr Treas Bd	1.61	-0.07
US 2 yr Treas Bd	0.25	-0.01

Investors appeared to react positively to the new products and sent shares in the company up 4.1 per cent to $258.20 over the week.

Analysts highlighted the company's efforts to increase revenues by selling content on its premium subscription service, Prime, by pricing the new line of Kindle tablets below those set by Apple for its iPad tablet.

Edward Williams, analyst at BMO Capital Markets, said: "In typical Amazon fashion, the price points were kept low, suggesting that the company is poised to be profitable with the device as it is used [and new content is consumed] rather than when the hardware is sold."

Apple investors, however, remained focused on expectations that the consumer product and technology company would unveil the latest version of the iPhone next week.

Apple rose 2.3 per cent to $680.28 and were set to finish the week at their own all-time high.

Earlier in the week, Amazon said it agreed to a deal with Epix, a TV channel with programming that includes movies such as *The Hunger Games*, to broadcast its content on Prime.

The news took a toll on shares of **Netflix**, the home DVD and online streaming company, which fell heavily at the start of the week. Netflix shares pared some of its losses but were on pace to finish 5.5 per cent lower for the week at $56.34.

Mr Williams warned that the continued spending on new initiatives by Amazon, in highly competitive markets such as tablets and content streaming, would keep pressure on the company's margins.

Overall, US stocks on the benchmark S&P 500 climbed to multiyear highs as investors were encouraged by the European Central Bank's decision to extend its bond-buying operations to defend single currency.

The S&P 500 rose 2 per cent higher to 1,435.11 over an abbreviated trading week after markets were closed for a US holiday on Monday. The S&P 500 has risen 14.1 per cent in the year to date and stocks are trading at their highest level since January 2008.

The Dow Jones Industrial Average climbed 1.5 per cent to 13,279.16, helped by gains from the bank stocks.

Bank of America increased 9.1 per cent to $8.73. **JPMorgan Chase** rose 6 per cent to $39.38 as reports said the bank faces a new probe from the US Senate into trading losses suffered earlier this year.

The Nasdaq Composite index moved 2.2 per cent higher for the week to 3,135.21.

The gains came despite fresh economic data released throughout the four-day trading period that showed little reason for optimism about the prospects of the US economy.

Yesterday, the labour department said the US economy added 96,000 jobs last month, below expectations of 130,000. Earlier in the week, a closely watched survey of manufacturing activity revealed a contraction for the third straight month in August and came in below market consensus.

The negative data seemed to have had a reverse effect on stocks since many on Wall Street expect that any signs of gloom will increase the chances that the Federal Reserve will need to announce some form of monetary easing in the coming weeks.

Materials stocks were the biggest beneficiary of the shift into riskier assets for the week and rose 3.3 per cent. **Cliffs Natural Resources** gained 9.6 per cent to $39.27 while copper and gold miner **Freeport-McMoRan** jumped 9.3 per cent to $39.47.

Shares in **FedEx**, the global package delivery company, dropped 0.3 per cent to $87.35. The company cut its earnings outlook sharply, citing global economic weakness for the slowdown in its business.

Information technology stocks climbed higher for the week despite a sales warning by **Intel**, the semiconductor maker.

Intel shares were 2.3 per cent lower to $24.26 as it said third-quarter revenues would be less than expected because of sluggish global demand.

Dell moved 0.6 per cent higher to $10.65 as the computer maker said it would pay its first quarterly dividend in the company's history.

News Corp, the Rupert Murdoch-owned media company, gained 4.6 per cent to $24.47 as it said it would buy Consolidated Media Holdings for A$1.94bn.

If completed, the deal would extend News Corp's reach into the Australian television market. News Corp shares have risen 37 per cent since the start of the year.

Imperial Tobacco lags behind FTSE

LONDON

By Bryce Elder

The sharpest weekly fall in three-and-a-half years left **Imperial Tobacco** lagging behind a buoyant London market yesterday.

Tobacco makers have dropped this week on reports that France would follow Australia in enforcing plain packaging. That followed news earlier in the week that Russia would seek to ban smoking in public spaces, and added to speculation that Imperial may miss full-year targets.

Imperial lost 3.5 per cent to £22.62, taking its fall since Monday to 7.9 per cent. **British American Tobacco** was down 2 per cent at £31.74 and had lost 3.9 per cent over the week.

Metals companies lifted the wider market after China approved new infrastructure projects, which triggered the biggest rebound in iron ore prices since spring.

The FTSE 100 rose 17.46 points or 0.3 per cent to 5,794.80, giving the index a weekly gain of 1.5 per cent.

Leading the way were steelmakers and producers of related metals. **Rio Tinto** gained 6.2 per cent to £30.21, **Evraz** surged 14.9 per cent to 260.4p and **Ferrexpo** was up 18.2 per cent to 182.8p.

Banks and financial stocks rose as a weaker than expected US jobs report added fuel to hopes of central bank stimulus. **Schroders** firmed 2.9 per cent to £15.06 and **Royal Bank of Scotland** rose 4.7 per cent to 244.5p.

Barclays, up 6.9 per cent to 206.4p, was upgraded to "buy" at Deutsche Bank.

Wholesale broker **ICAP** rallied 6.2 per cent to 344.9p, while **Tullett Prebon** rose 8.9 per cent to 315.5p.

Hunting, the oil well maker, climbed 8 per cent to 867.5p.

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Lenders surge on bond-buying plans

EUROPE

By Alexandra Stevenson

Fresh signs of the European Central Bank's monetary firepower emboldened investors to buy into riskier assets over the week and sent European markets to their highest levels this year.

Banking stocks outperformed European markets as Mario Draghi, the ECB's president, unveiled a bond buying plan to save the eurozone.

In France, **Société Générale** soared 16.4 per cent over the week to €24.49, while **Crédit Agricole** rallied 15.1 per cent to €5.34.

Natixis gained 13.4 per cent to €2.46. The French CAC 40 index rose 3.1 per cent over the week to 3,519.05.

In Germany, **Commerzbank** and **Deutsche Bank** helped to propel the Xetra Dax index to close at its highest level so far this year.

Shares in Commerzbank rallied 10.5 per cent to €1.39, while Deutsche Bank gained 10.9 per cent to €31.36. The Xetra Dax index climbed 3.5 per cent to 7,214.50.

The FTSE Eurofirst 300 gained 2.2 per cent over the week to close at 1,106.72, a new high for the year. The banking sub-index jumped 6.2 per cent to 414.31.

"For the time being, one thing is clear: never underestimate Mario Draghi," Carsten Brzeski, economist at ING, said. "[Draghi] clearly delivered on his 'believe me it will be enough' announcement."

Source: Thomson Reuters Datastream

Stocks in the periphery of Italy and Spain received the biggest fillip from news that the ECB will buy eurozone countries' sovereign debt on a short-term basis in a programme dubbed "outright monetary transactions", or OMT.

The mechanism is meant to help reduce surging borrowing costs for Spanish and Italian governments and thereby also companies.

Investors continued to rush into Italian stocks, sending the FTSE MIB index up 6.7 per cent to 16,110.27, its biggest weekly gain in 10 months.

UniCredit shares surged 16.3 per cent to €3.66, and **Intesa Sanpaolo** rallied 8.4 per cent to €1.36.

In Spain, insurer **Mapfre** gained 11.9 per cent to €2.16. **Iberdrola**, Spain's largest power utility by market value, climbed 13.9 per cent to €3.59.

Spain's biggest lender by assets **Santander** rose 7 per cent to €6.08, while the Ibex 35 gained 6.2 per cent to 7,882.8.

Some analysts questioned whether the market rally, fuelled by ECB news, would be sustainable.

Mr Brzeski at ING said that while the ECB measures would buy the market some time, "as he [Draghi] said himself: 'the proof is in the pudding'."

Jennifer McKeown, economist at Capital Economics cautioned: "The ECB will presumably be delighted by the favourable reaction in the Spanish and Italian bond markets. But its plans do not draw a line under the crisis."

Elsewhere, **Nokia**'s shares took a dive south this week after the struggling handset maker unveiled its new Windows 8 smartphones on Wednesday.

Investors sold out of the stock, sending the handset maker's share price tumbling 9.1 per cent to €2.06.

Tracy Alloway
ON WALL STREET

Facebook's dismal IPO is emboldening the reformers

On May 18, a grinning hoodie-wearing Mark Zuckerberg rang the opening bell of Nasdaq. The 28-year-old Facebook chief executive had reason to be cheerful. The stock of his former Harvard University pet project was about to debut at $38 a share, valuing the social network behemoth at a whopping $104bn.

A little over three months later and few would doubt that Mr Zuckerberg is no longer as pleased with the initial public offering. On Tuesday, he rushed out a public statement promising not to sell his shares for at least a year after Facebook stock dipped to $17.85, its lowest price since listing.

While Facebook's dramatic fall may have been because of idiosyncratic reasons, Mr Zuckerberg is not alone in his dismal IPO experience. There are a host of other initial listings that have foundered in recent months. A number of less visible data points indicate something has gone awry in the US IPO world.

At a time when the S&P 500, which aggregates shares of the biggest publicly traded companies in the US, is at a four-year high, new company listings are more prone to collapse than ever. Today more than half of IPOs dip below their issue price within 30 days of their initial public offerings.

Often the "pop" in share price that investors have (rightly or wrongly) come to expect from a first listing is short-lived or non-existent.

> **A number of less visible data points indicate something has gone awry in the US IPO world**

The total annual volume of IPOs in the US has slipped from pre-crisis highs of $91bn to $37bn so far this year. In absolute numbers, the market looks even worse. Since the bursting of the dotcom bubble, individual initial offerings have averaged about 128 a year. Before 2001, they averaged 539 a year. And *before* the tech bubble build-up in the late 1990s, there were still more than 500 a year.

While some bankers are hopeful that they can soon turn the market round, with what they say is a record number of companies waiting in the wings to list, other market participants argue that large chunks of the IPO market are simply broken. They are now pushing an array of unusual ideas to fix it – including raising the size of individual trades (known as "tick sizes") for smaller companies. The idea is that boosting the size of trades will eventually increase liquidity in the stock.

David Weild, head of capital markets at accounting and advisory firm Grant Thornton, is a big proponent of the idea. Mr Weild has been instrumental in developing the JOBS Act, the recent legislation aimed at boosting the ability of small businesses to raise capital from markets. Next week, Mr Weild and his team will publish a study arguing that changes in the overall stock market structure have removed the economic incentives that once led market-makers such as the big Wall Street banks to support smaller IPOs.

One of the culprits, Mr Weild says, is the so-called "decimalisation" of stocks brought in by the US Securities and Exchange Commission in 2001. Allowing traders to exchange shares in one-penny increments rather than the previous 25 cents allowed the high-frequency and algorithmic traders that have proliferated in recent years to decimate traditional market-making economics.

> **Some argue chunks of the IPO market are broken. They are pushing an array of ideas to fix it**

"Anybody can easily step in front of you for a penny trade," Mr Weild told me. "When you had 25 cent quoted spreads there was a lot more risk taking and capital commitment – real market-making by dealers." Increasing trade sizes for some companies would restore some of that market-maker motivation, he argues.

It's a theory that's likely to prove controversial. Some market-makers argue that raising trade sizes will create a tiered stock market – one that would come rife with technology problems and added expense. Stocks with higher trade sizes could end up being abandoned altogether.

A study by the SEC, commissioned as part of the JOBS Act, concluded in July that further examination of the issue was needed.

Still, with capital creation and the fortunes of small businesses a prime focus of competing politicians, influential market veterans such as Mr Weild have a decent chance of pushing through their ideas.

It is, after all, an election year and there are a host of embarrassing IPO statistics and eye-catching anecdotes to brandish to the public.

A temporarily chastened Mark Zuckerberg is just one of them.

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ECB bazooka faces peripheral tests

News analysis

Central bank will have to grapple with risk of moral hazard, writes James Mackintosh

Even before Mario Draghi stood up to unveil the European Central Bank's grand plan to save the euro on Thursday, leaks of the key points had seen it dubbed "SMP 2.0" by none other than Goldman Sachs, his former employer. Comparing the bond-buying programme to the ECB's 2010 attempt to control the bond yields of troubled countries was an unpleasant reminder of just how unsuccessful that programme was (see below).

Mr Draghi is convinced the ECB he presides over has it right this time. Renewed bond buying will be unlimited, unlike last time. Help will be tied to reform and austerity conditions imposed from Brussels, with the International Monetary Fund asked to supervise errant countries too. Most importantly, the ECB says it will consider itself ranked equally with other creditors, so its buying will not weaken the credit quality of privately held bonds.

"There are very many differences with the previous [programme], which lead us to think that it will actually work," Mr Draghi said.

The markets took him at his word, with bond yields in Spain, Italy and the rest of the eurozone periphery plunging and shares soaring.

Investors, in a word, were euphoric. They had two good reasons. The ECB is promising to take away the risk of a euro break-up, the biggest threat hanging over the world economy. Strip that away, and every risk asset is worth more. The icing on what already looked like a very tasty cake was the ECB's surprise decision to loosen its collateral requirements again, meaning it will accept junk-rated assets as security against loans and even some assets denominated in foreign currencies.

Put simply, the central bank is ready to absorb a big chunk of Europe's credit and currency risk, making the remaining assets safer.

"This is a very substantive throw of the dice," says Ewen Cameron-Watt, chief strategist at BlackRock, the world's biggest fund manager. "It's perhaps not the last shot in the locker but it is a very big play by the ECB."

Many are supportive of the move. But John Burbank, who runs the San Francisco-based hedge fund Passport Capital, says the plan amounts to little more than manipulating market prices. "Markets are going in the opposite direction of the world economy," he points out. "If you're positioned fundamentally [betting on economic slowdown] you're positioned against these clowns."

Yet, even supporters of the plan accept major challenges remain.

The most immediate problem is that the ECB will not do anything until Spain agrees to the politically toxic imposition of conditions by Brussels and, probably, the IMF.

> 'Is the ECB going to be fiscal inquisitor or enabler?'
>
> **Louis Bacon, founder of Moore Capital**

The rapid fall in bond yields gives Spain more financial headroom – removing the urgent need for help. But the longer Madrid resists conditional aid, the more risk there is that investor fears return.

Mariano Rajoy, Spain's Prime Minister, has to sell a deal domestically, which will need delicate negotiations over the terms. And any rescue conditions are sure to be harder to accept if the IMF, already a hate figure in Greece, are involved. "He certainly can't sell the men in black suits," Mr Cameron-Watt says.

The question for the longer term is how the ECB deals with the risk of moral hazard, the danger that Spain or another beneficiary fritters away the savings from cheaper financing in order to please voters.

"What's extraordinary is that the euro is rallying almost because the ultimate taboo of central banking is being violated, the proactive financing of fiscal imbalances through the central bank balance sheet," says Louis Bacon, founder of hedge fund Moore Capital.

"Before this all other QE [quantitative easing] was to further monetary policy when the interest rate lever had been exhausted. Here it's financing a government deficit because the market won't."

For him, the ECB's approach to moral hazard will be vital. "Is the ECB going to be a fiscal inquisitor or enabler?"

Germany's Bundesbank is so fearful of moral hazard that Jens Weidmann, its president, was the only dissenter from the plan among ECB policy makers.

Many investors dismiss German fears as inappropriate when the survival of the euro is at stake. But the interaction of politics and the plan create genuine reasons to worry.

Governments everywhere have a tendency to be over-optimistic in their forecasts, and those in the eurozone even more so. If and when Spain or another country being helped by the ECB misses its Brussels/IMF targets, the ECB will face a hard choice.

It could threaten to stop buying bonds in order to enforce further austerity to put the country back on the fiscal track, at the cost of a deeper recession. But that would risk domestic turmoil and the rise of populist, anti-reform parties, as in Greece, while the market would be sure to go into a deep funk.

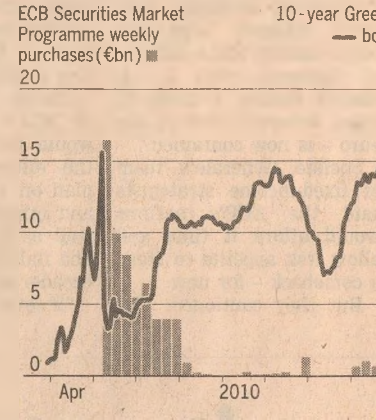
Or the ECB could accept that a country had tried its best, and keep buying bonds even though targets were missed. But that would risk a backlash from Germany and a crisis of confidence in the central bank.

Navigating between these two political risks would be tricky for a central banker at the best of times. When the world economy is slowing, it will be even harder.

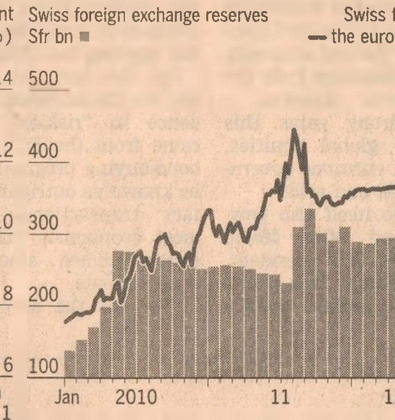
Draghi effect buoys Spanish markets ...

Source: Thomson Reuters Datastream

... but ECB buying failed last time ...



... while SNB action finally succeeded



Draghi's firepower is here but policy maker intervention has mixed record

Mario Draghi finally has his bazooka. Assuming Spain swallows the political poison and signs up to Brussels budget conditions, Mr Draghi's European Central Bank is willing to spend "unlimited" amounts on its bonds. Italy could follow.

The markets reacted with a bout of "europhoria" not seen for a long time, with share prices soaring and bond yields of troubled countries plunging.

Can this last? Put another way, will Mr Draghi have to pull the trigger on his fearsome weapon?

History suggests he will, and it could be expensive.

The bazooka analogy was made by Hank Paulson, US Treasury secretary when the financial crisis kicked off.

"If you have a bazooka in your pocket and people know it, you probably won't have to use it," he said when Congress gave him the power to rescue Fannie Mae and Freddie Mac, the mortgage agencies. Just two months later the bond markets called his bluff, and the subsequent bailout has cost American taxpayers $150bn.

That was also the hope the first time the ECB tried buying bonds, through the Securities Market Programme. In May 2010 it successfully brought down Greek bond yields by spending €16.5bn in the first week. But as the second chart above shows, the market tested its resolve a month later – and the ECB, tortured by internal divisions, proved unwilling to keep spending.

The same has happened lots of times in the currency markets. Most famously, Britain proved unwilling to shoulder the burdens needed to fight speculators and keep the pound strong enough to remain in the European exchange rate mechanism, the precursor to the euro. But even central banks in the easier position of trying to weaken their currency – where they can print unlimited ammunition – often misfire.

The third chart shows how the Swiss National Bank's efforts to keep the Swiss franc weak failed miserably at the same time the ECB was struggling with the bond markets in 2010. The SNB spent $60bn in a month in an effort to weaken the franc, boosting its foreign exchange reserves, but the franc soared.

A further $55bn spent during the next year had no noticeable effect and the franc came close to parity with the euro, as the market sensed the weakness of policy makers' commitment. Only when the SNB spent $90bn in a month and announced a public ceiling on the currency did the market settle down – and even then flows into francs have forced the central bank to keep spending.

Market reports

Dollar falls as US jobs data point to monetary easing

CURRENCIES

By Alice Ross

The dollar fell against other major currencies after the release of US jobs data set the scene for a potential third round of monetary easing by the Federal Reserve.

The number of jobs created in the US in August missed forecasts of 125,000 and came in at 96,000, increasing expectations of more quantitative easing when the Fed meets next week.

The dollar lost ground against the euro, the pound and the Australian dollar in the wake of the non-farm payrolls data.

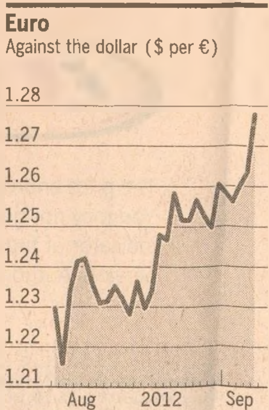
The euro was a particularly strong mover, gaining from both the weaker US data and stronger risk appetite in the markets after the European Central Bank laid out plans on Thursday to buy government bonds in an effort to stem the eurozone debt crisis.

"As the disappointing US jobs data increases the likelihood of a balance sheet response by the Fed next week, and the Draghi-induced euphoria continues, the US dollar has suffered," said Marc Chandler, head of currency strategy at Brown Brothers Harriman in New York.

The euro rose 1.3 per cent to $1.2806, its strongest level since May, while the pound rose 0.5 per cent to $1.6033 and the Australian dollar rose 1 per cent to $1.0397.

The euro also made strong gains against the UK pound, which had benefited earlier in the year from haven demand when sentiment towards the eurozone worsened. The euro rose 0.7 per cent to £0.7994, its strongest level in more than two months.

Euro
Against the dollar ($ per €)



Source: Thomson Reuters Datastream

Other haven currencies also continued to weaken as investor appetite for risk-related assets rebounded.

The euro rose against the Swiss franc for the third day in a row, gaining more than 0.5 per cent to a session high of SFr1.2156.

The yen also weakened against other currencies associated with risk appetite. The euro rose to a high of Y100.42, gaining more than 0.4 per cent, while the Australian dollar rose 0.2 per cent to Y81.25.

However, the yen was stronger against the US dollar, which fell 0.9 per cent to Y78.02.

Analysts were urging caution on how much further the euro could rise, however, with neither Spain nor Italy requesting a bailout that would allow the ECB's new so-called outright monetary transactions – or bond-buying – programme to kick in.

"The euro could struggle to extend its gains also because of lingering uncertainty surrounding the implementation of the ECB bond programme," warned analysts at Citigroup's foreign exchange desk.

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China fuels hopes of recovery in demand for raw materials

COMMODITIES

By Emiko Terazono in London

The prospect of fiscal stimulus in China and monetary easing in the US boosted metals prices, lifting copper to a four-month high above the $8,000 level.

The rally came as risk appetite among commodity traders improved thanks to the European Central Bank's announcement on Thursday, signalling its commitment to supporting the euro.

Industrial metals prices rallied on the Chinese government's approval for Rmb1tn ($160bn) in infrastructure spending over the next few years. Weak demand in China, the leading consumer of raw material, has depressed commodities over the past few months.

The approval by the National Development and Reform Commission, a top central planning agency, of rail, highway construction, waterway and water treatment projects fuelled hopes of a recovery in demand for industrial raw materials.

"The market saw a boost of confidence," said Leon Westgate at Standard Bank in London. He added that the numbers came ahead of Chinese economic data releases, including industrial production and retail sales figures for August. "The key is whether it can hold on to this rally," he said.

Copper for three-month delivery on the London Metal Exchange jumped 3.8 per cent to $8,000 a tonne, up 5.4 per cent on the week. Technical buying helped the red metal, after the benchmark rose above the 200-day average of $7,889 a tonne and another key level of $7,906.

> 'Additional stimulus presents the catalyst gold requires to set new intra-year highs'
>
> **Barclays analysts**

Iron ore, which has been sliding since April, was also given an uplift. The benchmark iron ore price for material containing 62 per cent iron delivered in China recovered from $88 a tonne to $90.75, according to Platts, the price reporting agency.

Precious metals rallied on expectations of increased liquidity. Gold, which had been buoyed by the ECB's plans to buy eurozone debt, gained further ground on weaker than expected US employment figures yesterday. August non-farm payroll data which showed that 96,000 jobs were created, compared with a consensus forecast of 125,000, was seen as increasing the likelihood of further quantitative easing by the US Federal Reserve.

Gold rose 1.9 per cent to $1,734.26 a troy ounce, up 2.6 per cent on the week. The $1,700 level has been regarded as a technical resistance, and traders are now focused on next week's Federal Open Market Committee meeting, where a decision on monetary policy is expected to be taken.

With buying in the physical gold market still weak, "additional stimulus presents the catalyst gold requires to set new intra-year highs but, given gold's track record this year, it is likely to give up its gains quickly if the market is disappointed", said analysts at Barclays.