Slide of Stock Markets around the World

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GLOBAL MARKETS-Stocks slide on bank stress, consumer jitters

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By Mike Dolan

LONDON, Feb 5 (Reuters) – Stock markets around the world slipped again on Tuesday on concerns the six-month-old credit and banking crisis was already hitting consumers and service sector firms in the United States and Europe.

Banks and financial stocks were in the firing line once again with stretched balance sheets from the mortgage market hiatus and wholesale funding difficulties compounded by new jitters over U.S. credit card businesses and a wider recession.

Nerves about full-year results from European banks continue to jangle, with Germany's Deutsche Bank DBKGm.DE and Spain's Banco Santander (SAN.MC: Quote, Profile, Research) due to report later this week.

Reflecting the persistent stress, euro and dollar interbank lending markets remained tight and banks' short-term funding costs edged higher again on Tuesday. [ID:nL05444438]

And while few expect the European Central Bank to lower interest rates at its latest policy meeting on Thursday, speculation it may be forced to cut sooner than currently forecast sent the euro <EUR=> down one percent on the dollar. ECB easing talk was fuelled by data showing Europe starting to feel the effects of U.S. subprime mortgage fallout.

Surveys of purchasing managers showed Germany's service sector contracting for the first time in 4-1/2 years in January. Spanish and Italian service sectors also shrank and overall euro zone services growth decelerated to a virtual standstill.

"The purchasing managers' index for the service sector fell to 50.6 in January, a level at which ECB rate cuts have been likely in the past," said Michael Schubert, economist at Commerzbank.

Adding to the gloom, the Bundesbank said German retail sales fell 1.8 percent in the last quarter of 2007.

The FTSEurofirst 300 index fell 1.1 percent, outstripping 0.8 percent losses on MSCI's world equity index .MIWD00000PUS.

DJ Stoxx European bank index was down 2.4 percent. Auto, retail and construction stocks were down heavily too.

"In the financial sector there is still some nervous feeling about the results that will be coming in the next couple of weeks," said Gerhard Schwarz, head of global equity strategy at UniCredit.

WARM GLOW FLEETING

The chill of a global economic slowdown and the ongoing credit squeeze overwhelmed the optimism in recent sessions that some renewed merger and acquisition activity may help offset damage to corporate bottom lines.

European shares followed Asia bourses lower, both taking their cue from Monday losses of about one percent on Wall Street, where U.S. credit card firms and banks were downgraded and a U.S. Federal Reserve survey showed the credit tightening.

Share markets in Tokyo, Hong Kong and Sydney fell between 0.8-1.3 percent. MSCI's measure of Asian stocks excluding Japan .MIAPJ0000PUS was down 0.5 percent.

S&P futures SPc1 were down about half a percent on the day, indicating a lower start on Wall Street later.

"We had a nice recovery last week. But we're still in the midst of a major credit crisis," said David Buik of Cantor Index. "As we see with these banks, capital bases are eroded which makes conditions for credit very difficult."

MONEY'S TOO TIGHT

Downgrades to financial institutions such as American Express (AXP.N: Quote, Profile, Research) hit economically sensitive sectors such as home builders and retailers on Wall Street on Monday. The start of voting in a whole series of key primaries to select the next U.S. presidential candidates also fuelled investor caution.

The credit crisis has raised the cost of credit and prompted the Federal Reserve to cut U.S. interest rates several times in recent months.

But despite that easing, banks in the United States tightened their lending standards and terms for businesses and consumers alike in January, the Fed's latest senior loan officer survey showed on Monday.

And fears for the U.S. economy spilled into Asia again on Tuesday too.

Japan's Nikkei index .N225 closed down 0.8 percent, with Honda Motor Co Ltd (7267.T: Quote, Profile, Research) under pressure amid U.S. recession fears. Camera maker Olympus Corp (7733.T: Quote, Profile, Research) fell almost 14 percent after it issued a weaker outlook.

"Ordinary investors can't wipe off the image that if the U.S. economy slows, Japanese exporters will be hit," said Fujio Ando, a senior managing director at Chibagin Asset Management.

Elsewhere, the Australian dollar <AUD=D4> was supported by an expected hike in interest rates to an 11-year high and signs of further rate rises to come. [ID:nSYD211370]

Oil fell one percent back below $90 CLc1 a barrel on economic jitters and news that some ships had managed to pass through into the Houston area in the United States after dense sea fog lifted briefly. The area is a key refining centre.

Spot gold <XAU=> traded at $902.50/903.50 an ounce. (Additional reporting by Ana Nicolaci da Costa, Louise Heavens, Dominic Lau and Paul Carrel, editing by David Christian-Edwards)

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