

## U.S. GDP data disappoints; stocks capped, euro up



REUTERS - A U.S. economic contraction in the fourth quarter pressured stocks in Europe and the United States on Wednesday even as it bolstered expectations the U.S. central bank will continue its easy monetary policy and kept the euro near a 14-month high.

Positive stock sentiment after strong results at Boeing and Amazon.com and a strong private sector employment report was largely offset by the negative U.S. gross domestic product report. Gold rallied on the drop in the dollar.

The Federal Reserve is expected to maintain asset buying at \$85 billion a month when it concludes its policy meeting later in the day and stick to its commitment to hold interest rates near zero until unemployment falls to at least 6.5 percent from the current 7.8 percent.

The GDP data, which showed the world's largest economy in the fourth quarter unexpectedly suffered its first decline since the 2007-09 recession, bolstered that expectation. Gross domestic product fell at a 0.1 percent annual rate after growing at a 3.1 percent clip in the third quarter.

The GDP data also overshadowed a third straight rise in European economic confidence, an increase in European Central Bank crisis loan repayments and a solid sale of five- and 10-year Italian bonds, which provided fresh evidence of the recent improvement in the region.

"This is one chink in the armor of the recent better-than-expected economic indicators. This will make people start to get wary," said Wayne Kaufman, chief market analyst at John Thomas Financial in New York. "If it turns out (Superstorm) Sandy and the 'fiscal cliff' were the reasons for (the contraction), people will shrug it off."

The Dow Jones industrial average .DJI was down 4.07 points, or 0.03 percent, at 13,950.35. The Standard & Poor's 500 Index .SPX was down 1.03 points, or 0.07 percent, at 1,506.81. The Nasdaq Composite Index .IXIC was up 3.33 points, or 0.11 percent, at 3,156.99.

European shares .FTEU3 were off 0.6 percent, although a rise in Asian shares kept the MSCI world share index .MIWD00000PUS near a 21-month high.

### EURO HIGHER

There had been optimism earlier in the day after several encouraging reports on the European economy that caused the euro to break above \$1.35 for the first time since December 2011.<FRX/> The euro was last at \$1.3572.

Expectations of easy U.S. monetary policy added to the attractiveness of the euro. In recent years investors would buy the dollar as a safer haven on bad economic data, but at least on Wednesday, they saw the euro as a better bet.

"This is a source of weakness for the dollar because it takes away the narrative that the U.S. economy is performing better than the rest of the world," said Joe Manimbo, senior market analyst at Western Union Business Solutions.

Alongside the rebound in confidence in the euro zone, one of the key drivers behind the currency's recent spike has been the eagerness of banks to repay the crisis loans they took from the ECB just over a year ago.

Banks returned a larger-than-expected 137.2 billion euros of those loans on Wednesday and also surprised analysts by trimming their three-month funding, despite predictions they would use it partly to restock their coffers.

The euro's rise against the dollar was also good for bullion, with spot gold prices rising \$17.75, to \$1,681.20.

## **CONFIDENCE RALLY**

The focus of the Fed decision will be on its outlook for the economy and its bond buying program after it sounded slightly more hawkish last month.

The benchmark 10-year U.S. Treasury note was down 7/32, the yield at 2.0244 percent.

Bund futures fell to session lows on Wednesday, with investors taking the view that the contraction in the U.S. economy was not going to have significant impact on the Fed's policy moves.

Bund futures fell as low as 141.36, down 46 ticks on the day.

China's promising economic growth forecast for 2013 raised expectations for robust demand for fuel and industrial commodities, underpinning oil prices. <O/R><MET/L>

Brent crude oil reached its highest level in three and a half months as it passed \$115 a barrel. It last traded at \$114.68. U.S. light sweet crude oil rose 5 cents, to \$97.62 per barrel.

**REUTERS**