Beat: Business

Oil lifts European shares, caution reigns ahead of Fed

Oil lifts European shares

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USPA NEWS - Shares were mixed and the dollar rose on Wednesday as markets awaited the outcome of the U.S. Federal Reserve's policy meeting, seen leaving interest rates on hold but the door open for further increases later in the year.

Investors have welcomed the easing of the intense volatility that swept through financial markets in the first two months of the year, but are aware that calmer conditions mean the Fed might be more inclined to resume its policy tightening soon.
That supported the dollar, which gained most ground against the yen after Bank of Japan governor Haruhiko Kuroda said the central bank had room to slash interest rates to around -0.5 percent from -0.1 percent at present.
European shares bucked the trend in Asia, rising in early trade thanks to a recovery in oil prices following two days of losses that had culminated in a decline of around 5 percent.
In Britain, investors were eyeing a budget presentation during which Chancellor George Osborne is expected to cut public spending and warn that the domestic economy will not escape the global economic turbulence unscathed.
"Given that stocks have been trading near multi-week highs, more prudent players in the markets pared back some of their recent exposure ahead of the conclusion to today's Federal Reserve rate meeting," said Michael Hewson, chief markets strategist at CMC Markets.
"Having said that, today's oil rebound has led to a slightly higher open this morning in Europe."
In early European trade, the FTSEuroFirst 300 index of leading shares was up 0.4 percent at 1,346 points .FTEU3. Germany's DAX was 0.7 percent higher, France's CAC 40 up 0.5 percent .FCHI and Britain's FTSE 100 gained 0.4 percent .FTSE.
Oil prices managed a bounce after data from industry group the American Petroleum Institute (API) showed U.S. crude stockpiles rose by less than half what analysts had expected.
U.S. crude CLc1 gained 1.7 percent to $36.96 a barrel, while Brent LCOc1 rose 1.3 percent to $39.27, lifting resources stocks. Shares in BP (BP.L) were up 2 percent.
In Asian trading, MSCI's broadest index of Asia-Pacific shares outside Japan .MIAPJ0000PUS edged down 0.1 percent, and Japan's Nikkei .N225 took a knock from an initial rise in the yen and fell 0.8 percent.
MSCI's global share index was last down 0.1 percent, while U.S. futures pointed to a slender rise of 0.1 percent at the open on Wall Street ESc1.

LOSING THE (DOT) PLOT
While no rate move is expected at the Fed's meeting it does include updates of members' economic projections and a news conference with Chair Janet Yellen, events that have caused violent market reactions in the past.
Hurting sentiment on Tuesday were downward revisions to retail sales that left consumer spending looking a lot softer. One result was that the Atlanta Fed "GDPNow" measure of economic growth dropped to 1.9 percent for the first quarter from 2.2 percent.
On the other hand, financial market volatility has subsided in recent weeks. The Fed had pointed to this uncertainty as one reason behind its decision in January not to follow the previous month's historic rate hike with another rise.
This highlights the tough balancing act the Federal Open Market Committee (FOMC) must perform at its meeting.
Analysts generally assume Fed projections for interest rates -- widely known as the "dots" -- will indicate only three hikes are likely this year instead of four. Yet the market is pricing in just one move of 25 basis points for 2016.
"We do not expect that the Fed will raise rates today. Instead, we may see a consensus forming for a next rate hike in June," analysts at Rabobank said in a note on Wednesday.
"Meanwhile the FOMC's dot plot still includes an expectation of four rate increases this year, which seems excessive. We may therefore see the FOMC bring down the number of rate hikes predicted in the dot plot to three."
The dollar was up a quarter of 1 percent against a basket of currencies .DXY and had reversed an earlier slip against the yen to trade 0.4 percent higher at 113.65 yen JPY=. The euro slipped 0.2 percent back below $1.11 EUR=.
Sterling was also down a little against the dollar at $1.4120 GBP= before the budget, in which Osborne will try to get his austerity drive, and his own political ambitions, on track without upsetting voters before June's EU referendum.
(Editing by Catherine Evans)

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