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Mixed start on Wall St fails to calm markets.

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Global stock markets remained under pressure after a mixed start to trading on Wall Street failed to lift investor confidence.

Wall Street initially opened modestly higher on bargain hunting, but shares soon gave up gains with leading market indices broadly flat after dipping in and out of positive territory.

The S&P 500 index was trading 0.18 per cent down at 1,375.45 while the Dow Jones Industrial Average was 0.33 per cent lower at 12,036.07.

The uncertain start came after an earlier rout of European and Asian equities, as fears over the growing crisis in the US subprime mortgage market triggered fresh selling.Markets editor Chris Brown-Humes on fresh equity markets selling following the concerns over US subprime

In Asia, the sell-off was broad and deep on investors' worries that the subprime mortgage problems could hit the US housing market and the broader US economy – a big export market for many of the region's companies.

The Tokyo stock market plunged 2.9 per cent, Singapore by 3.3 per cent, Mumbai dropped 3.5 per cent, Hong Kong by 2.5 per cent and Shanghai by 1.9 per cent.

In Europe, heavy falls were also seen as rattled investors offloaded stocks although most market indices were off intra-day lows. By midday in London, the FTSE Eurofirst 300 index was down 1.7 per cent while the FTSE 100 index in the UK had slumped 1.6 per cent.

Elsewhere, the Xetra Dax index lost 1.7 per cent in Germany, the CAC-40 index by 1.55 per cent in Paris and the Swiss market fell by 1.8 per cent.

On government bond markets, the rally in US Treasuries faltered. The yield on the 10-year US Treasury rose 1 basis point to 4.51 per cent.

Credit markets were generally weaker. The iTraxx Crossover index, a basket of credit default swaps on mainly junk-rated European corporate bonds, recovered some of its losses early on Wednesday afternoon. The Crossover, which tracks the 45 most-liquid names, was trading around 235 basis points, about 7bp tighter than the early morning opening price.

The yen lost ground on Wednesday after a sharp rally in the previous session as US equities tumbled. Analysts said the consequent rise in risk aversion on Tuesday benefitted the Japanese currency as investors unwound carry trades, in which the purchase of riskier high-yielding assets is funded by selling the yen.

However, as the sell-off in US equities slowed, the yen gave back some of its gains, falling 0.4 per cent to Y116.60 against the dollar, losing 0.3 per cent to Y153.73 against the euro and dropping 0.2 per cent to Y224.60 against sterling.

Meanwhile, the high-yielding Australian and New Zealand dollars, which were particularly hard hit on Tuesday, rallied more strongly against the yen, rising 0.9 per cent to Y91.30 and gaining 0.7 per cent toY80.20 respectively.

Julian Jessop, chief international economist at Capital Economics, said although the full extent of the problem was not clear, at the very least, the sub-prime crisis can be expected to worsen the downturn in the US housing market.

“We think it is right to be concerned, particularly about the knock-on effect on US consumer spending. Moreover, the US sub-prime mortgage market is yet another example of the financial excesses and extraordinarily high degree of risk appetite that have supported a wide range of asset prices in recent years,” he said.

David Rosenberg, North American economist at Merrill Lynch, said the direct macroeconomic effects of sub-prime stress were likely to be fairly small. But he was concerned about the knock-on effects from the pullback that the US was most certainly going to see in mortgage credit availability.

“Even if the pullback is only aimed at the sub-prime market, there could well be potentially significant further drags on home prices, construction activity and of course consumer spending growth via the reduced wealth effect,” he said.

“It is not inconceivable (given what is happening now to mortgage originations) that we end up with something closer to a 10 per cent decline in home prices this year. This would shave a further 0.5 percentage points off GDP growth via the wealth effect, which means GDP growth this year comes in around 1¾ per cent, closer to 1½ per cent by the end of the year; and the unemployment rate goes back above 5 per cent by the end of 2007 from 4.5 per cent right now. “

“That’s not a classical recession, but it’s what we call a growth recession, and an old rule of thumb says that anything lower than 2 per cent GDP growth generally spells a weak credit environment.”

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