Stocks Fall As Fed Chief Disappoints On Stimulus

Colleen Barry, AP Business Writer

MILAN (AP) — World stock markets dropped Friday after the U.S. Federal Reserve chairman disappointed investors that there would no immediate action to jump start the world's largest economy, wiping out any gains from China's surprise interest rate cut.

In an appearance before members of the U.S. Congress, Ben Bernanke avoided giving any signals about what the Fed might do in response to a slowdown in hiring. The 69,000 jobs created in May were the fewest in a year. And China made its first interest rate cut in more than three years, but not enough to excite market interest.

Markets, instead of reacting to the cut, were also bracing for the possibility of glum economic data from China over the weekend.

"Clearly sentiment is all over the place," said Chris Weston of IG Markets.

In early European trading, Britain's FTSE 100 dropped 0.88 percent to 5,399. Germany's DAX lost 0.84 percent to 6,092 and France's CAC-40 fell 1.05 percent to 3,038.

U.S. futures pointed to a lower opening on Wall Street. Dow Jones industrial futures fell 0.49 percent to 12,345 and S&P 500 futures lost 0.6 percent at 1,302.

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Francis Lun, managing director of Lyncean Holdings in Hong Kong, said markets were "slightly disappointed" that Bernanke had not said the Fed would extend its Treasury bond-buying program, known as quantitative easing. The program injects money into the financial system, lowering interest rates to spur lending and growth.

"The economy is slowing much faster than people expected," he said.

China has rolled out a series of measures to stimulate the economy after growth fell to a nearly three-year low of 8.1 percent in the first quarter and April factory output grew at its slowest rate since the 2008 crisis. Private sector analysts expect this quarter's growth to fall further.

Investor concerns remained focused on Europe — where a lingering financial crisis has now infected Spain and its banks.

Expectations are rising that Spain's leaders will have to seek an international bailout for banks, which credit agency Fitch estimates could reach €100 billion ($126

billion). According to unconfirmed reports in Reuters, Spain is set to request an aid package for banks this Saturday.

Benchmark oil for July delivery was down $2.59 to $82.24 per barrel in electronic trading on the New York Mercantile Exchange. The contract fell 20 cents to finish at $84.82 per barrel in New York.

In currencies, the euro fell to $1.2459 from $1.2601 late Thursday in New York. The dollar fell to 79.26 yen from 79.68 yen.

Mainland Chinese shares lost ground, with the benchmark Shanghai Composite Index falling for a fifth straight trading day, shedding 0.5 percent, or 11.68 points, to 2,281.45, the lowest closing in more than two months.

Elsewhere in Asia, Japan's Nikkei 225 index fell 2.1 percent to close at 8,459.26. South Korea's Kospi dropped 0.7 percent to 1,835.64.

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