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US markets make early gains in hope of eurozone bailout deal

Obama administration officials urge European leaders to reach a deal amid fears that America's economy is at stake

Ewen MacAskill in Washington
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Timothy Geithner said he had urged European leaders to deliver on commitments already made. Photograph: Manuel Balce Ceneta/AP

The US stock market made early gains on Wednesday in anticipation that European leaders will come up with a deal to bail out struggling member states and avoid a global debt crisis.

The Obama administration has been lobbying European leaders to reach a deal, fearful that failure could several damage America's fragile economy.

Although US investment and trade with countries such as Greece is limited, the concern is over US trade and investment in Europe in general and the close ties with European banks.

In spite of the early gains in New York, financial analysts in the US expressed scepticism over whether European leaders would do enough to resolve the issue.

The US Treasury secretary, Tim Geithner, who has warned of a "catastrophic risk" of a debt crisis, has been in daily contact with his European counterparts. During a visit to North Carolina on Tuesday, he told the press he had urged European leaders to deliver on commitments already made.

"I think they are saying a lot of the right things and they are clearly working on it and they're moving with a greater sense of urgency. That's all welcome, but until we see what they come together with, it's a little hard to evaluate," Geithner said.

He said he wanted to see the details, not just the objectives.

Charles Collyns, an assistant secretary at the Treasury, told a congressional hearing that the uncertainty in Europe was undermining business and consumer confidence, and that any agreement would need to be implemented quickly.

Collyns added US investment in the countries most at risk was very limited and the main fear was over US banks' exposusre to European banks.

Although there have been glimmers of recovery appearing in government data released over the last few months, consumer confidence in the US remains extremely low.

But there were further figures this morning offering a hint that that a tentative recovery may be underway, in spite of high unemployment and a depressed housing market.

Government figures showed a rise in orders in September for heavy machinery and other durable goods. Other figures showed new home sales in the US rose 5.7% last month.

Barack Obama, fearful of financial meltdown comparable to 2008, spoke to European leaders last week urging them to reach a deal. The White House view is that European countries have the financial capacity to resolve the crisis and all that is missing is the political will.

But financial analysts were much more sceptical about the chances of a lasting and meaningful deal.

David Levy, chairman of Jerome Levy Forecasting Centre, said the current eurozone crisis was "the most dangerous economic situation that I have ever seen."

He said the combination of Europe's single currency and politically and financially autonomous member states was creating a nightmare scenario.

"Fewer and fewer countries are now guaranteeing the finances of more and more troubled countries. What is needed is far greater union but I'm afraid that in order to get there we will have to see a much bigger and more frightening crisis than is on the table now," he said.

Levy said any solution reached now was likely to prove a "Band-aid", and was unlikely to resolve a situation he said was likely to pull the whole of the eurozone into recession – and the US along with it.

"If they reach a solution, the stock markets will be happy, but we are just getting started. We are witnessing a dramatic scene in an early part of a story, unfortunately there is worse to come," he said.

Gus Faucher, director of macroeconomics at Moody's Analytics, said it was probably a good thing that the meeting of European finance ministers had been cancelled. "It is better to set low expectations and meet them than to aim high and fail," he said. "But they can't just keep kicking the can down the road. At some point they are going to have to resolve this in a big way or we will have another financial crisis," said Faucher.

Ann Miletti, a senior portfolio manager with Wells Capital Management, said US investors and consumers needed to see positive signs of improvement in the American economy as well as in Europe. She told AP: "We look at Europe and blame them for a lot of problems, but a lot of the uncertainty has really been US-driven."

Barry Eichengreen, an economics professor at the University of California at Berkeley, told Bloomberg Surveillance: "Buck up, this crisis is going to be with us still for a while. I fear they're not going to take the kind of steps to resolve it."