YAHOO NEWS

OBAMA SIGNS 'FISCAL CLIFF' DEAL,

STOCKS COOL ON DEBT

by

Stephanie Griffith

03 Jan 2013

http://uk.news.yahoo.com/obama-signs-fiscal-cliff-bill-law-060415031--finance.html

CMG Archives
http://www.campbellmgold.com

(2013)

--()--

US President Barack Obama signed the "fiscal cliff" deal into law, averting a financial crisis with global repercussions, but the IMF, rating agencies and analysts warned that the critical problem of deficits and debt still hang over the US economy.

AFP/AFP/File - US President Barack Obama steps off Air Force One on January 2, 2013 at Hickam Air Force Base, Honolulu, Hawaii. Obama returned to Hawaii to continue his vacation which he interrupted to deal with the "fiscal cliff" crisis. He signed the deal into law but the IMF, rating agencies and analysts warn the critical problem of deficits and debt still hang over the US economy

Financial markets turned cool towards the last-minute agreement Thursday, in contrast to the initial stocks surge which had greeted the deal Wednesday.

London's benchmark FTSE 100 index of top companies dipped 0.14 percent to 6,019.16 points in late morning deals, Frankfurt's DAX 30 index dropped 0.27 percent to 7,757.51 points and the Paris CAC 40 fell 0.54 percent to 3,713.64.

All three indices had surged by more than two percent on Wednesday, in a bright start to 2013, after US lawmakers agreed a deal to avert the so-called fiscal cliff.

In New York, the S&P 500 index had its best day of trading in more than a year Wednesday, closing more than 2.5 percent to the good.

The White House said in a statement that Obama had signed the bill late Wednesday, marking the culmination of weeks of high-stakes talks with lawmakers in Congress.

The agreement averted across-the-board tax hikes and automatic spending cuts which some had feared could have tipped the US economy back into recession.

But then the International Monetary Fund, while welcoming the agreement for averting dire effects on the economy in the short term, warned that the underlying problem of hugely over-stretched public finances remained.

"More remains to be done to put US public finances back on a sustainable path without harming the still fragile recovery," warned IMF spokesman Gerry Rice.

"Specifically, a comprehensive plan that ensures both higher revenues and containment of entitlement spending over the medium term should be approved as soon as possible."

Additionally, he said, "it is crucial to raise the debt ceiling expeditiously and remove remaining uncertainties about the spending sequester and expiring appropriation bills."

And credit rating agencies Moody's and Standard&Poor's said that the deal fell far short of coping with the "serious" level of federal debt in the medium term.

Moody's said that more action to cut the debt was needed and on this would hang its future credit ratings for the US economy.

Analysts also warned that world markets were expected to continue to be roiled, with tough battles still ahead.

"It's good that they struck a deal, but there's a harder fight in the next six to eight weeks, and it's tough to imagine the market doesn't stay choppy until we get past the debt-ceiling debate," Richard England, portfolio manager for Atlanta Capital Management, told Dow Jones Newswires.

Capital Economics in London said that "the fiscal cliff deal falls a long way short of what is needed."

Analyst Julian Jessop, taking a line similar to the view of several analysts, commented that the deal was better than nothing but did not include a provision to raise the debt ceiling, and scheduled spending cuts had been delayed for only two months, he said.

And given the "cantankerous" climate of the negotiations, there could be another stand-off leading to "a shutdown of the federal government" at the end of February or beginning of March, he suggested.

Meanwhile, China's official news agency Xinhua warned of more profound problems with the US economy, including the growing debt.

"People, or governments, can overspend for some time, but they simply cannot live on borrowed prosperity forever," it said.

The hard-fought agreement, seen as a political victory for Obama, raised taxes on the very rich and delayed the threat of $109 billion in automatic spending cuts for two months.

The respite will prove temporary, however: The Democratic administration and the Republican-controlled House of Representatives face several clashes in the coming months on spending cuts and raising the government debt ceiling.

The legislation mainly addresses tax issues but delays crucial federal spending cuts for two months, setting up another round of bruising political battles and stoking uncertainty in the markets.

And while Democrats and Republicans passed a compromise, they only delayed the imposition of spending cuts for two months, meaning another debilitating stand-off is almost certain at the end of February.

There are also worries over the lifting of the debt ceiling -- also at the end of February -- with analysts saying the country could see a repeat of the row in summer 2011 that saw Washington's credit rating downgraded for the first time.

As post-cliff euphoria wore off, oil prices -- buoyed in the immediate aftermath of the deal, were down in Asian trading Thursday.

Meanwhile, the dollar's gain was limited.

"While equity traders welcomed Washington's fiscal-cliff deal, the price action in the foreign exchange market today suggests that forex traders are growing worried about unfinished business in Washington," said Kathy Lien of BK Asset Management.

http://uk.news.yahoo.com/obama-signs-fiscal-cliff-bill-law-060415031--finance.html

End

--()--

http://www.campbellmgold.com

04012013