Shares hit three-month high on debt, QE policy hopes

By Chikako Mogi TOKYO (Reuters) - Asian shares extended gains for a third straight session to reach a three-month high on Wednesday, as investors continue to bet that policymakers will soon decisively address the euro zone fiscal crisis and declining global growth. Oil and copper eased from their highs but remained underpinned by such hopes, while the euro stabilized and safe-haven government bonds suffered from weakening demand. MSCI's broadest index of Asia-Pacific shares outside Japan .MIAPJ0000PUS gained 0.6 percent, after world stocks .MIWD00000PUS climbed to a three-month high on Tuesday, shrugging off soft data showing further contraction in Italy and a fall in factory orders in Germany. Japan's Nikkei stock average .N225 surged 1.6 percent. .T "Markets are undergoing a small correction from excessive pessimism as the U.S. jobs data showed that conditions were not one-sidely taking a turn for the worse," said Ayako Sera, senior market economist at Sumitomo Mitsui Trust Bank, adding that a lack of negative news from Europe helped keep the positive tone. "The source of European instability is fiscal convergence, which will take years to be accomplished, and as long as this insecurity remains, investors won't easily let go of expectations for further monetary stimulus from the Federal Reserve to underpin sentiment and growth, bolstering equities," she said. Risk assets began their rising trend on Friday after U.S. nonfarm payrolls overshot expectations and eased concerns over recovery, while a rise in the jobless rate kept hopes intact for the Fed to ease further next month. Markets also re-evaluated the European Central Bank's pledge for action to contain borrowing costs for Spain. In the absence of major economic data or events this session, investors were turning to data from China due on Thursday as a catalyst. When China reports industrial output, retail sales and inflation, investors will look for indications the world's second-largest economy can pick up momentum in the second half of the year from a lackluster first half."The immediate focus is now on growth and the key litmus test this week will be provided by Chinese data, which needs to show a convincing sign of recovery from a sluggish first half in order to sustain the renewed appetite for risk," Kim Byung-yeon, an analyst at Woori Investment & Securities. As risk appetite recovered on hopes that global policymakers will act to help resolve the euro zone's three-year debt crisis, demand weakened for safe-haven assets such as U.S. Treasuries and German government bonds, driving benchmark Treasury yields up to a one-month high on Tuesday. Ten-year Japanese government bond yield hit a one-month high of 0.810 percent on Wednesday. Asian credit markets firmed, with the spread on the iTraxx Asia ex-Japan investment-grade index tightening by 1 basis point and hovering near its lowest since March. Oil prices fell after racing up to a 12-week high on Tuesday on expectations of further economic stimulus, supply worries linked to an expected drop in North Sea output next month, Middle East tensions and the Gulf of Mexico hurricane season. Brent crude futures fell 0.3 percent to $111.66 a barrel and U.S. crude eased 0.4 percent to $93.28 a barrel. EURO STEADIES The euro was down 0.1 percent at $1.2394, off a one-month high of $1.2444 hit on Monday. The safe-haven yen also retreated from its recent high against the dollar, trading on Wednesday at 78.53 yen.

On top of hopes the ECB will soon start buying bonds to ease bond market jitters, sentiment was boosted by Italy's Prime Minister Mario Monti winning a confidence vote on Tuesday on a bill to cut spending, which comes in addition to his austerity package passed in December. But markets were still worried by Germany continuing to oppose any large-scale bond-buying program while Greece is walking a tightrope over its deficit chasm, awaiting global creditors to approve bailout funds. A Greek exit from the euro zone would be manageable but is not desirable, Eurogroup President Jean-Claude Juncker said in an interview with Germany's WDR television posted on the Luxembourg government's website on Tuesday. "For now, the disparate and 'off the cuff' talk from the politicians indicates that the debate on what to do is still ongoing. We don't see the debate over Greece affecting risk sentiment much more over August. The risks for later in September and beyond remain real however," Societe Generale said in a research note. (Additional reporting by Joonhee Yu; in Seoul; Editing by Eric Meijer)