Emergency ECB meeting lifts Europe

European markets rallied on Wednesday on news the European Central Bank would hold an emergency meeting on the recent bond market sell-off ahead of what is expected to be the most aggressive rise in U.S. interest rates since 1994.

Hopes of a quiet run in to what is forecast to be a three-quarter point hike by the Federal Reserve later were quickly dashed as the ECB's unexpected meeting - less than week after its last scheduled one - triggered a rush of activity.

The euro jumped almost 0.75% to $1.0487 pushing the dollar index off a 20-year high in the process.

Italy's 10-year bond yields, which have risen to 8-year highs as euro zone debt worries have returned, charged back under 4% on course for the biggest daily fall since the start of March.

Italy's stock market also jumped 2% as its banks leapt 6%. Europe more broadly climbed 0.5% while the euro's rise also scored a 16-month high against Britain's pound as it suffered the Brexit blues again. [/FRX]

"The best laid plans of the ECB and President Lagarde to normalise policy in an orderly fashion have just run into the reality of the bond market," said Societe Generale (OTC:SCGLY) strategist Kit Juckes.

"The big question is whether it is even possible (to normalise policy) or we are just stuck in the same old world where we need some kind of asset buying programme to hold the bond market together," he added.

The worries about rising borrowing costs and inflation globally have been hammering financial markets all year.

Economists fear drastic Fed action in particular could tip the world into recession and the degree to which the U.S. central bank lifts rates later is being intensely watched.

"Against a backdrop of sky-high inflation, rising rates, and growing recession concerns, the S&P 500 has had its worst start to the year since 1962," analysts at Goldman Sachs (NYSE:GS) said.

"A likely coming peak in inflation is probably not sufficient to see the bottom, and that similar past drawdowns have only ended when the Fed has shifted towards easier policy."

That could be some time away so they recommend investors reduce portfolio duration and increase exposure to real assets.

MSCI's broadest index of Asia-Pacific shares outside Japan was closing almost flat, but is down sharply on the week.

Japan's Nikkei lost 1.1%, though sentiment was helped by a survey showing an improvement in confidence among Japanese manufacturers.

Chinese shares bucked the trend with a gain of 1.3%. Data on Chinese retail sales and industrial output for May were a little better than forecast, but still showed the drag from coronavirus lockdowns.