European shares slide over surge in oil prices

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BY REUTERS

European shares tumbled to their lowest level in more than two months yesterday, as a sharp surge in oil prices exacerbated inflation fears and the US-Israeli war with Iran showed no signs of easing.

The pan-European STOXX 600 (.STOXX), fell for a third straight session, down 1.8 percent, by 0927 GMT. The benchmark index shed 5.5 percent last week, marking its worst weekly performance in nearly a year.

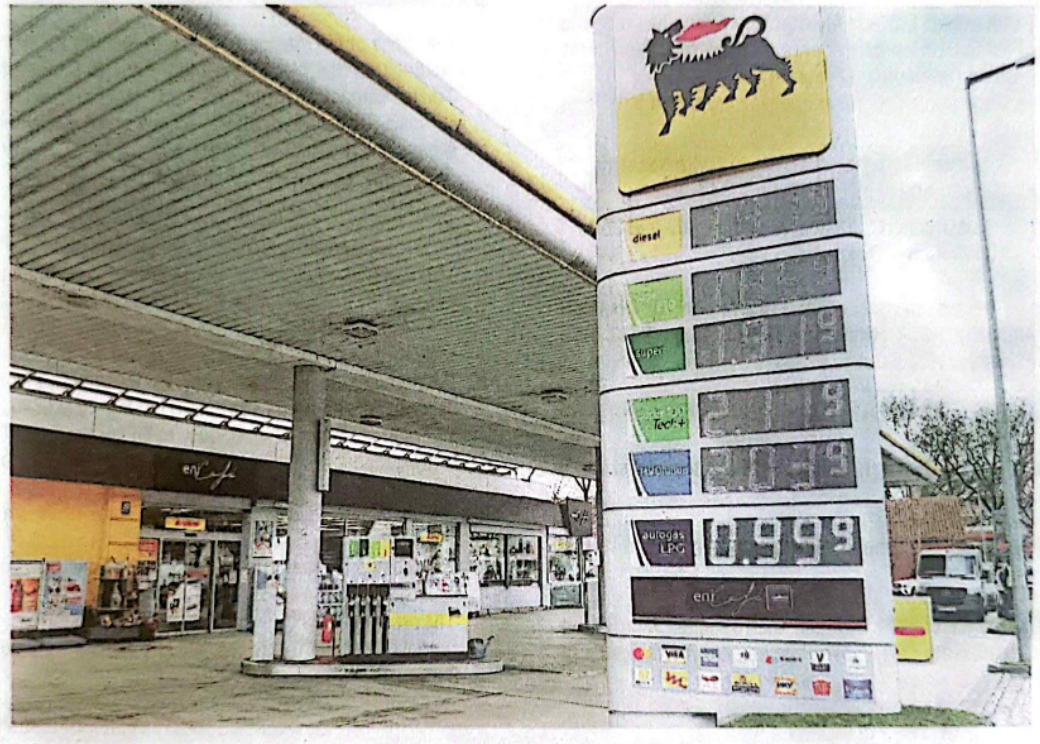
The selloff has now dragged the index nearly 8 percent below its record closing high hit on February 27. Europe's fear gauge, the STOXX volatility index (.V2TX), vaulted above the 38-point mark for the first time since April.

Europe is heavily dependent on liquefied natural gas and imported oil, which has surged more than 25 percent to just under $120 (Shs451,700) a barrel, leaving it particularly exposed to supply shocks. A prolonged conflict could drive energy and transport costs even higher at a time when economic growth is already fragile.

Iran, meanwhile, named Mojtaba Khamenei as successor to his father, Ali Khamenei, as supreme leader - a move seen as reinforcing the grip of hardliners in Tehran.

Frankfurt's bourse (.GDAXI) slid to its lowest level in more than 10 months, while Milan (.FTMIB) and Madrid (.IBEX) sank to three-month lows. Paris (.FCHI) touched its weakest level in over five months, and London (.FTSE) fell to a one-month low.

Oslo (.OSEAX) however, extended gains for a fourth consecutive session.



A display board shows the current prices of fuel at a gas station in Munich, Germany, on March 3. European shares have tumbled to their lowest level in more than two months. PHOTO/REUTERS

All major sectors in Europe traded in negative territory, with banks (.SX7E) at the heart of last week's selloff - extending losses and falling 3.2 percent.

Basic resources (.SXPP) led the declines, while rate-sensitive real estate stocks (.SX86P) dropped 3.1 percent. Lufthansa (LHAG.DE) was down 3.9 percent and Air France-KLM (AIRF.PA) fell 4.1 percent, as rising fuel costs darkened the outlook for carriers.

Energy stocks (.SXEP) rose, while Italian defence group Leonardo gained 2.5 percent.

German industrial orders fell more than expected in January. Investors were awaiting consumer price data from several European Union countries for further clues on the inflation outlook later in the week.

Expectations of higher interest rates pushed European bond yields to their highest levels in a year. Markets are now pricing in a 25-basis-point rate hike from the European Central Bank in July, as per LSEG data.

"An energy shock will put upward pressure on inflation and downward pressure on growth, but its severity will depend crucially on how long the conflict will last and what disruptions it will cause," UBS analysts said.

ECB board member Isabel Schnabel said late Friday that geopolitical volatility posed upside risks to inflation and warranted vigilance from policymakers.

Attention will also turn to comments from ECB President Christine Lagarde, board member Piero Cipollone and euro zone finance ministers, all scheduled to speak later in the day.

Roche (ROG.S) dropped 4.6 percent as the drugmaker's oral breast cancer drug failed in a trial.

GLOBAL SUPPLY CRISIS

The Iran war has already cut global oil supply by a combined 200 million barrels over the past 10 days, according to analysts' estimates.

The International Energy Agency, which coordinates energy policies of Western and some other industrialised nations, holds over 1.2 billion barrels of public emergency oil stocks and a further 600 million barrels of industry stocks.

Oil prices hit their highest since 2022 at more than $119 a barrel on Monday, although they later pared gains.

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