By Michael Casey
Of DOW JONES NEWSWIRES

(Updates with stock market opening, prices from debt and commodities markets.)

NEW YORK (Dow Jones)--Stocks and other growth-sensitive markets got the best news they've had for some time Friday with a better-than-expected U.S. payrolls report for August.

Stocks opened sharply higher on Wall Street, while Treasurys weakened as the data all but took the prospect of further Federal Reserve monetary easing off the table. And in everything from commodities to currencies markets, safe-haven plays were supplanted with pro-growth trades.

The report "alleviates some of the fears that we're going to be in a sustained recession," said Anthony Conroy, head trader for equities at BNY ConvergEx. "Maybe it's not going to be the turnaround that some people expected and it will be slower than people looked for, but everybody's been looking for some kind of positive news."

The Labor Department said non-farm payrolls fell by 54,000 in August, considerably less than the 110,000 that economists had expected. With much of the decline explained by the continued closing of government positions associated with the Census, the private sector payrolls number was even more positive, which showed a gain of 65,000, whereas consensus estimates put that figure at 28,000.

Just as encouraging for investors in stocks and other growth-sensitive assets, the July payrolls report was revised up significantly to show a decline of 54,000. The previous reading of minus 131,000 had helped sow fears of a so-called double-dip recession and contributed to the general malaise in financial markets over the past month.

Shortly after the opening, the Dow Jones Industrial Average was up 0.96% at 10,420.01 and the S&P 500 was up 1.07% at 1101.80.

While the move into stocks was to be expected, some analysts cautioned that the economy is still a long way from showing solid growth, suggesting that the market could still be in for some trouble when people return from the Labor Day holiday next week. Other elements of the report, such as the length of the work week was unchanged, for example.

"The numbers were better than anticipated, but I still feel that there's still some inherent risks with the economy," said Stephen Leuer, floor trader at X-FA Trading. "I don't think it really changes the big picture overall."

Still, there was unambiguous response in Treasurys, which have seen an impressive bull run in recent months, most of it on fears that the economy was shifting into a deflation zone and on expectations that the Fed would embark on more "quantitative easing" purchases of government debt.

There was an especially strong move lower in growth-sensitive long-dated bonds, with the 30-year Treasury recently down 2 2/32 to yield 3.861%. The benchmark 10-year note was down 1 3/32 at 2.755% having briefly hit 2.77% to mark its highest level since Aug. 10. The two-year note, which is sensitive to Fed policy expectations, was off 2/32 at 0.534%. Bond price and yields move in opposite directions.

"The employment picture looks better than we thought, which means no quantitative easing at the September Fed meeting," said Rick Klingman, managing director of trading at BNP Paribas Securities Corp. in New York.

It likely too early to call this a reversal in the long-running uptrend for Treasurys, however.

"The market is going to be on the defensive and the back-end is definitely for sale right now," said James Combias, head of U.S. Treasury trading at Mizuho Securities USA Inc. But he added, "This is just an overdue correction in what has been an overbought bond market...We need more data to put the pieces together first."

The biggest move in currency markets was seen in the yen, which dropped sharply against all its major counterparts on the data. The low-yielding Japanese currency had risen to 15-year highs against the dollar in recent weeks as fears of a global slowdown led many investors to park their money in this traditional safe-haven currency.

The euro, which tends to rise when risk appetites improve, also gained versus the dollar but only modestly. The European currency is "caught between there being a higher risk appetite and perhaps the realization that the US economy is not as weak as feared," said Vassili Serebriakov, foreign exchange strategist at Wells Fargo in New York.

Shortly after the report, the euro was at $1.2856 from $1.2821 late Thursday, according to EBS via CQG. The dollar was at Y85.13 from Y84.21, while the euro was at Y109.46 from Y107.96. The U.K. pound was at $1.5454 from $1.5388. The dollar was at CHF1.0218 from CHF1.0128.

The ICE Dollar Index, which tracks the greenback against a trade-weighted basket of currencies, was at 82.328 from 82.451.

A similar trend played out in emering market debt, which tends to gain as risk appetites grow. However, the sector is constrained by some strong price gains in certain markets over the past year and by the risk of monetary policy tightening in some of the fastest-growing developing countries.

The risk premium on JPMorgan's Emerging Markets Bond Index Global is 14 basis points tighter, falling back below the key level of 300 basis points over Treasurys to 293 basis points over Treasurys.

Other debt markets also improved, as rising Treasury yields narrowed the differential with higher-yielding corporate and agency bonds. The benchmark high-grade derivative index, the CDX IG 14, tightened by 3.5 basis points after the data. It was recently quoted at 103.5/104.5 basis points, according to Tradeweb.

And while prices on agency mortgage bonds with lower rates of interest fell, risk premiums outperfomed as result of the Treasurys pullback. The current coupon is 6 basis points narrower at 129 basis points over comparable Treasury yields, even though the Fannie 30-year bond with 4% interest plunged to 102-20/32 from 103-01/32, according to Tradeweb data.

In commodities markets, the post-payrolls trade off between risk and safety was clear.

Gold was a clear loser, as its safe haven status took a blow. The metal had threatened a run toward its record high of around $1,265 this week, but that now looks to have been put off for a while at least.

The most-actively traded gold contract, for December delivery, was recently down

$10.50 on the day, or 0.8%, at $1,242.90 an ounce on the Comex division of the New York Mercantile Exchange. That compares with $1,250.00 shortly before the jobs data were released.

Conversely, metals with an industrial use rallied.

The most actively traded copper contract, for December delivery, recently was up 3.05 cents, or 0.9%, at $3.5260 a pound on the Comex division of the New York Mercantile Exchange.

"The [copper] market is saying, 'Hey, the world's not ending,'" said Ira Epstein, director of the Ira Epstein division of the Linn Group in Chicago.

Oil also rallied as stronger growth implies greater demand, although traders remain wary of high fuels and crude inventories in the U.S. October crude futures were recently up 27 cents, or 0.4%, to $75.29 a barrel.

"Obviously the economy has been growing in certain areas, but is it driving the use of oil or not?" said Tony Rosado, a broker with GA Global Markets. "It's positive enough to give us a little bit of a boost."

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