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GLOBAL MARKETS-Stocks fall on inflation fear, oil at new high

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* Stocks fall as oil hits record \$126.98 barrel

* Dollar gains, bond prices fall on U.S. retail sales

* Federal Reserve comments on inflation damp sentiment

By Herbert Lash

NEW YORK, May 13 (Reuters) - U.S. stocks mostly slipped on Tuesday as Wal-Mart's cautious outlook and a renewed focus on inflation sparked by a record oil price near \$127 a barrel and comments by Federal Reserve officials dampened sentiment.

Fed Chairman Ben Bernanke said the credit crisis was not over, and several of his colleagues expressed a growing concern about inflation that may signal a pause in interest rate cuts.

The comments by several regional Fed presidents accelerated a sell-off of U.S. government debt that was driven earlier in the day by a stronger-than-expected U.S. retail sales report.

The retail sales report helped lift the dollar broadly as it bolstered the view that the Fed is unlikely to cut interest rates when policy-makers meet next month, a move that would help strengthen the dollar.

The slide in stocks overshadowed earlier optimism after the Commerce Department report showed surprising strength in April retail sales, excluding the hard-pressed autos sector.

U.S. Treasury debt prices fell because the report hinted that economic weakness in the United States might not be as pronounced as anticipated, while a rise in import prices underscored the persistent inflation threat to bonds.

"Oil prices and food prices are certainly the root of inflation at this point. To me oil going up is probably what capped the (stock) market today," said **Joe Saluzzi**, co-manager of trading at **Themis Trading** in Chatham, New Jersey.

On Wall Street, shares of Hewlett-Packard dragged down the Dow Jones industrial average after it struck a deal to buy Electronic Data Systems for \$12.6 billion. Some analysts said HP was paying a rich premium for a slow-growing business.

HP shares fell 6.6 percent to \$43.68, making it the biggest drag on the Dow and the benchmark Standard & Poor's 500 Index.

Wal-Mart Stores Inc said quarterly profit rose 7 percent as price-wary shoppers snapped up discounts. But its shares fell after the world's largest retailer indicated second-quarter results could miss Wall Street estimates.

Wal-Mart shares fell 2.2 percent to \$56.75.

The Dow Jones industrial average ended down 44.13 points, or 0.34 percent, at 12,832.18. The Standard & Poor's 500 Index fell 0.54 points, or 0.04 percent, to 1,403.04. The Nasdaq Composite Index finished up 6.63 points, or 0.27 percent, at 2,495.12.

In Europe, stocks ended slightly lower as inflation fears that hit UK stocks and the banking sector fell on renewed concerns over asset write-downs from a credit crisis that is still spreading across Europe.

Credit Agricole, France's biggest retail bank, tumbled 5.7 percent after unveiling a capital increase of 5.9 billion euros (\$9.1 billion) following more subprime mortgage-related write-downs.

The FTSEurofirst 300 index of top European shares ended 0.03 percent lower at 1,346.08 points.

The U.S. retail sales report helped stem the slide in European shares.

"The market seems to see in the data some sort of positive signal, but I don't think it's a green light to buy stocks," said Yann Lepape, chief of global macro strategy at Oddo Securities in Paris.

Asian shares gained as banks were bolstered by further signals that the worst of the credit crisis may now be over, a sentiment that investors expressed on Monday.

Japan's Nikkei share average rose 210.37, or 1.5 percent, to 13,953.73.

The MSCI's index of Asian markets outside Japan rose 0.6 percent. The latest rise took the index's gains since hitting a mid-March low to around 17 percent.

Oil surged after OPEC producer Iran said it was studying a plan to cut output despite signs that record-high prices are hurting consumer nations.

U.S. crude settled up \$1.57 at \$125.80 a barrel, after striking a record \$126.98 earlier. London Brent crude rose \$1.19 to \$124.10 a barrel.

The benchmark 10-year U.S. Treasury note fell 29/32 to yield 3.91 percent. The two-year U.S. Treasury note fell 9/32 to yield 2.47 percent. The 30-year U.S. Treasury bond fell 42/32 to yield 4.62 percent.

The retail sales data bolstered the dollar because consumer spending accounts for about two-thirds of the U.S. economy.

"The U.S. consumer is out there and still spending," said Kurt Karl, U.S. chief economist at Swiss Re in New York. "As for the Fed, given the recent data, it wouldn't be a bad thing to stop for a while at 2 percent" -- a reference to the benchmark federal funds rate, the Fed's lending rate for banks.

The dollar rose against major currencies, with the U.S. Dollar Index up 0.44 percent at 73.271. The euro fell 0.44 percent to \$1.5477. Against the yen, the dollar rose 0.98 percent to 104.78.

Spot gold prices fell \$16.85, or 1.91 percent, to \$865.05. (Reporting by Herbert Lash; Editing by Jonathan Oatis)