

# Brief summary

of key market developments

April 30, 2013

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- **Major European bourses** were firmer in mid-trade on Tuesday supported by the formation of a new government in Italy. Expectations that both the Fed and the ECB will maintain their accommodative monetary policy stance also favored.
- In FX markets, the **USD** was among the main underperformers weighed down by increased expectations that the Fed is unlikely to scale back its quantitative easing programme any time soon.
- **Greece:** As expected, the Euro Working Group gave the green light at its meeting on Monday for the release of the last EFSF sub-tranche (€2.8bn) of the 2<sup>nd</sup> loan disbursement (€49.1bn) that was approved last December and was originally scheduled for March 2013. The decision came after the Greek Parliament endorsed late on Sunday a multi-bill containing the required legislation for the implementation of a number of new measures and policies the two sides agreed in the context of the 3<sup>rd</sup> programme review, aiming to facilitate fulfillment of the programme targets

## Latest Developments/News & Macro releases

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## Equity markets

**Major European bourses** were firmer in mid-trade on Tuesday supported by the formation of a new government in Italy that ended a two-month political deadlock in the aftermath of an inconclusive general election in February. The new government won a confidence vote in the Lower House on Monday and will be fully empowered after a second vote of confidence in the Senate later in the day. The new government is mostly made up of politicians but also includes some technocrats in the key positions including Bank of Italy Deputy Governor Fabrizio Saccomanni in the post of Economy Minister.

The latest string of firmer-than-expected Q1 earning results from several large European corporates and increased expectations that both the Fed and the ECB will maintain their accommodative monetary policy stance, also favored market sentiment. The **FOMC's** two-day meeting session starts later today. Amid signs of a sluggish US domestic economic recovery and subdued inflation, the Fed is widely expected to stay put on interest rates and maintain its current stimulus monetary policy. The **ECB** meets on Thursday and a 25bps rate cut is nearly fully priced-in while the prospect of additional stimulus measures can not be ruled out.

Against this environment, **Europe's FTSEurofirst 300 index** was standing 0.5% higher at the time of writing, heading for a 11<sup>th</sup> consecutive monthly rise. In a similar vein, **major equity markets in Asia** ended firmer earlier today taking their cue from the positive trend on Wall Street overnight with the S&P 500 index closing at a fresh record-high following stronger-than-expected US housing data and a new string of positive US corporate earning results. According to Thomson data, out of the 274 S&P

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companies that have reported earning results so far, 69% outperformed market expectations. On the data front, the National Association of Realtors announced on Monday that its Pending Sales Index for March, based on contracts signed last month for the purchase of previously owned homes, rose by 1.5%mom suggesting that activity in the domestic housing market continues to improve gradually.

### FX markets

The **USD** was among the main underperformers in European trade on Tuesday weighed down by increased expectations that the Fed is unlikely to scale back its quantitative easing programme any time soon. Against this background, the **EUR/USD** was hovering around 1.3085/90 at the time of writing after hitting an intraday high of 1.3120 earlier in Asia having recovered from levels slightly below 1.3000 a couple of sessions earlier. Despite its latest upside attempt, the pair continued to consolidate within recent ranges awaiting the outcome of this week's FOMC and ECB policy meeting for further direction. Technically, the next major upside target stands at 1.3200 (April 17 peak) while on the downside strong support lies at 1.2955 (April 24 low). Elsewhere, the **USD/JPY** stood close to 97.65/85 at the time of writing, not far from y-day's 97.35 two-week low after testing levels near 100 late last week. If the FOMC adopts a more dovish-than-expected tone and/or the US non-farm payrolls report comes in weaker-than-expected on Friday, the prospect of further USD/JPY weakness in the coming sessions can not be ruled out. Yet, on a longer-term perspective, the pair's upside trend looks set to remain intact as the US seems to be ahead of Japan as regards economic momentum while the prospect of more aggressive BoJ monetary easing policy remains on the cards.

### Government bond markets

**German government bonds** were little changed in European trade on Tuesday with investors being reluctant to establish fresh sizable positions ahead of the ECB policy meeting on Thursday. Long-dated Bunds fared relatively better with the 10-yr yield trading close to 1.18% at the time of writing, the lowest since mid-July 2012. Against this background, the 2/10 Bund yield curve undertook some bullish flattening with the corresponding spread hovering around 118bps at the time of writing, the narrowest since early July 2012 and some 2bps lower relative to y-day's settlement. Turning to the US, **Treasuries** retained a firm tone favored by the latest US data releases suggesting that the domestic economy is losing momentum. The 2/10-yr UST yield spread was trading close to 144.8bps at the time of writing, the narrowest since early December 2012 after ending close to 146.3bps on Monday.

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