

Brief summary

of key market developments

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Paraskevi Petropoulou

G10 Markets Analyst

ppetropoulou@eurobank.gr

- **Major European bourses** were mixed in early trade on Wednesday as investors digest Q1 GDP figures from euro area member states. The Eurozone's economy contracted for the sixth straight quarter pushing **German government bonds** higher.
- In FX markets, the **USD** retained a firm tone supported by increased market optimism about the sustainability of the US economic recovery.
- **Ratings Agency Fitch upgraded Greece's sovereign credit rating** by one notch to "B-" from "CCC" with a stable outlook. In other news, **Greek debt agency (PDMA)** successfully auctioned €1.3bn of 3-month T-bills on Tuesday (May 14, 2013).

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Ratings Agency Fitch upgraded Greece's sovereign credit rating by one notch to "B-" from "CCC" with a stable outlook. In the accompanying statement, Fitch cited that "clear progress has been made towards eliminating twin fiscal and current account deficits" adding that structural reforms are progressing, the financial system has stabilized and the degree of default risk for private creditors has been subsided. The Fitch move comes after S&P also raised Greece's sovereign credit rating to B- with a stable outlook from selective default in early December 2012. In other news, **Greek debt agency (PDMA)** successfully auctioned €1.3bn of 3-month T-bills y-day (Tuesday, May 14, 2013). The auction produced a yield of 4.02%, down from 4.05% in a previous auction last month when bills with a similar maturity were issued. Investors bid 1.75 times the bills offered compared with a bid-to-cover ratio of 1.65 in the April auction.

German ZEW business investor sentiment edged up to 36.4 in May from 36.3 in the prior month following recent signs of stabilization in the domestic economy. Yet, the May improvement was below market consensus of 38.3 mainly due to lingering worries over the growth outlook of the euro area economy.

US import prices fell by a higher-than-expected 0.5%mom in April, the biggest decline in four months, following a drop of 0.2%mom in the prior month. The higher-than-expected April decline suggested benign inflation pressures adding to the prevailing market view that the Fed is unlikely to scale back the pace of its quantitative easing programme any time soon.

Equity markets

Major European bourses were mixed in early trade on Wednesday as investors digest Q1 GDP figures from euro area member states. The **German economy** grew by just 0.1%qoq in the January-March period, less than 0.3%qoq expected mainly due to adverse weather conditions after contracted by 0.7%qoq in the final quarter of 2012. Along similar lines, **the French economy** shrunk by a higher-than-expected 0.2%qoq following contraction by the same pace in the prior quarter, suggesting that the Eurozone's second biggest economy slid into a technical recession for the first time in four years.. Against this background, the **Eurozone's economy** shrunk by 0.2%qoq, the sixth quarterly contraction in a row and slightly worse than -0.1%qoq expected.

In **Asia**, major equity markets ended mixed. Japan's Nikkei 225 average index was among the main region outperformers, ending above the psychologically important level of 15,000 for the first time since January 2008 mainly supported by the weaker domestic currency following the BoJ's decision

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earlier this year to launch aggressive monetary policy measures in an effort to boost domestic economy and address persisting deflationary pressures. Turning to Wall Street, **major US equity indices** remained in an upward trend overnight with both the S&P 500 and the Dow Jones industrial average indices ending at fresh record closing highs favored by increased market optimism about the growth prospects of the US economy. A string of firmer-than-expected Q1 earning results from big US corporate names, also favored. According to Thomson data, out of the 90% of the S&P 500 companies that have reported results so far, 67.2% have exceeded market expectations and only 46.9% have come in below consensus.

FX markets

The **USD** retained a firm tone across the board supported by increased market optimism about the sustainability of the US economic recovery following a recent flurry of firmer-than-expected US macro data releases. An official survey published on Tuesday which showed that the National Federal of Independent Business sentiment index rose to a higher-than-expected 92.1 in April, the highest level since October 2012, added to USD-positives. Against this background, the **USD/JPY** extended its recent gains hitting a fresh 4 ½ year high of 102.75 earlier today. The G7 finance ministers meeting over the weekend which did not seem putting any roadblocks in the way of further JPY weakness, also continued to favor the USD/JPY. Amid lingering expectations for additional BoJ monetary policy measures in the months ahead, the likelihood of further USD/JPY strengthening in the coming sessions/weeks can not be ruled out. This holds especially if upcoming US macro data releases deliver positive surprises. Technically, major resistance lies at 103.50. Elsewhere, the **EUR/USD** was hovering around 1.2845/50 at the time of writing, within distance from a five-week trough of 1.2840 recorded earlier today weighed down by weaker-than-expected Eurozone Q1 GDP figures which reinforced market expectations for lower ECB interest rates ahead. The ECB cut its refinancing facility rate by 25bps to a fresh record low of 0.50% earlier this month and according to comments by President Mario Draghi at the press conference that followed the conclusion of the meeting, the central bank is ready to act again if economic conditions deteriorate. Increased market worries over the growth prospects of the euro area economy, are expected to keep the EUR/USD under pressure in the coming sessions. However, there is little to suggest that the EUR/USD has embarked on a sustained downward trend on the view that the Fed is unlikely to scale back the pace of its quantitative easing programme any time soon. Technically, strong support for the EUR/USD stands at 1.2750-1.2770.

Government bond markets

German government bonds were firmer in European trade on Wednesday supported by heightened market worries over the growth prospects of the Eurozone's economy. Long-dated Bunds outperformed with the 2/10 Bund yield curve undertook some bullish flattening. The corresponding spread was hovering around 133.3bps at the time of writing, some 1.5bp narrower compared to Tuesday's settlement which was the widest since mid-March. Elsewhere, **EU periphery sovereign debt markets** were mixed. The **Greek government bond (GGB) market** was one of the main outperformers with the 10-year GGB/German Bund yield spread hovering around 735bps at the time of writing, the narrowest since late October 2010, after ending at 794bps on Tuesday, favored by the Fitch upgrade of the country's sovereign credit rating. Taking their lead from firmer German government bonds, **US Treasuries** moved higher favored by data releases pointing to subdued domestic inflation pressures. The 2/10-yr UST yield spread was trading close to 170bps at the time of writing, ca 3bps narrower compared to Tuesday's close which was the widest since mid-March.

Research Team

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Chief Economist & Director of Research Eurobank Group

Financial Markets Research Division

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Galatia Phoka: *Emerging Markets Analyst*

Economic Research & Forecasting Division

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Maria Prandeka: *Economic Analyst*

Theodosios Sampaniotis: *Senior Economic Analyst*

Theodoros Stamatou: *Research Economist*

Eurobank EFG, 20 Amalias Av & 5 Souris Str, 10557 Athens, tel: +30.210.333.7365, fax: +30.210.333.7687, contact email: Research@eurobank.gr

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