Brief summary *of key market developments*

Eurobank EFG

December 15, 2011

Written by:

Paraskevi Petropoulou
G10 Markets Analyst
ppetropoulou@eurobank.gr

- The **EUR** remained under pressure in European trade on Thursday amid ongoing market skepticism about the outcome of the December 9th EU Summit. **German government bonds** edged slightly lower on profit taking.

- **Greece: Speaking at the annual conference of American-Hellenic Chamber of Commerce in Athens on Wednesday, Poul Thomsen, the International Monetary Fund mission chief in Greece**, warned that agreed structural reforms are behind schedule in most areas and the delays are stalling recovery.

Latest Developments/News & Macro releases

Greece: Speaking at the annual conference of American-Hellenic Chamber of Commerce in Athens on Wednesdya, Poul Thomsen, the International Monetary Fund mission chief in Greece, warned that agreed structural reforms are behind schedule in most areas and the delays are stalling recovery. The IMF top official added that Greece has reached its limit in raising taxes and needs to refocus its austerity program on long-term spending cuts. More specifically, he urged the government to "move aggressively" to reduce the size of the public sector and "address the legacy of too high and inflexible wages". The IMF official cautioned that unless there is an acceleration of reforms in the public sector, the budget deficit will be stuck near the 10% level given that "we have clearly reached the limit of what can be achieved through raising taxes".

Equity markets

US equity markets fell on Wednesday for the third straight session to their lowest level in two weeks on the market view that the last EU Summit failed to produce a comprehensive solution to the eurozone sovereign debt crisis. Meanwhile, comments by ECB President Mario Draghi at the December 8th press conference which doused hopes that the Central Bank would take much more decisive action to tackle the debt crisis, are still in investors' ears. **Asian equity markets** followed suit on Thursday with Hong Kong and Shanghai's benchmark stock indexes underperforming following the release of **China's December HSBC flash PMI** for the services sector which showed that output shrunk again in December. New orders –this component includes both domestic and export orders- continued to decline pressured by waning global demand and tight domestic credit conditions. A downgrade by **Fitch** of five major European financial groups, including France's Credit Agricole, added to the bearish tone. In the meantime, worries over a **potential sovereign credit rating downgrade** in Europe linger. Moody's warned earlier this week that it intends to review the sovereign ratings of all 27 EU member states in Q1 2012 after EU leaders offered "few new measures" to resolve the debt crisis at the last summit. Separately, Fitch commented recently that EU leaders failed to prove a "comprehensive" solution to the ongoing crisis while the S&P's chief economist said earlier this week that time is running out for EU officials to resolve the euro area's debt problem. After ending at a two-week low on Wednesday, **major European bourses** were slightly firmer in early trade with investors eagerly awaiting Spain's debt auctions later in the day. Spain is scheduled to sell between €2.5bn and €3.5bn in sovereign paper maturing in January 2016, April 2020 and April 2021.

FX markets

The **EUR** remained under pressure in European trade on Thursday amid ongoing market skepticism about the outcome of the December 9th EU Summit. Meanwhile, worries over a sovereign credit rating downgrade linger. Adding to EUR negatives, **ECB policy member Jens Weidmann** downplayed hopes that the Central Bank will likely step up the Securities Markets Programme (SMP), saying that ECB members are growing more skeptical about this programme. After falling to a fresh 11-month low of 1.2945 y-day, the **EUR/USD** was hovering around 1.3010/15 in early European trade, remaining though below levels near 1.3240 recorded earlier this week. With market participants remaining increasingly concerned that a comprehensive solution to the ongoing debt crisis seems still to be some way off, there is little to suggest that the common currency is poised for further significant gains in the coming sessions. Technically, immediate resistance lies at 1.3030 today's session high ahead of 1.3065 (December 14 peak) while only a clear move above 1.3290 (15-day MA) could point to an improved near-term outlook. Elsewhere, the **EUR/CHF** stood close to 1.2335/40 at the time of writing, remaining stuck within the 1.2250-1.2450 recent trading range. The **Swiss National Bank** meets today and is expected to announce the outcome of its policy review along with its updated growth and inflation forecasts at 08:30GTM. The Swiss Central Bank is expected to keep interest rates stable and revise downwards its growth and inflation forecasts for next year as the firmer franc and a slow down in the pace of the global economic recovery weigh on exports.

Government bond markets

German government bonds were modestly weaker in early European trade on Thursday on profit taking following recent hefty gains. Long-dated Bunds underperformed with the 10-year yield hovering around 1.93% at the time of writing after ending at a three-week low of 1.92% in the prior sessions. The **2/10-yr Bund yield curve** undertook some bearish steepening with the corresponding spread standing close to 165.4bps, 1bp wider relative to Wednesday's one-week closing low. **Peripheral sovereign bond yield spreads against the corresponding Bunds** were little changed with investors awaiting Spain's bond auctions later in the day. Elsewhere, **US Treasuries** retained a positive tone amid ongoing concerns about the eurozone debt crisis. Long-dated Treasuries outperformed with the 10-year yield dropping to a three-week low in early European trade at levels near 1.88% after ending slightly above 1.90% in the prior session. The **2/10-UST yield** spread stood close to 164bps, the narrowest in three weeks and some 2bps lower relative to Wednesday's close.

Research Team

Financial Markets Research Division
Platon Monokroussos, *Head of Financial Markets Research Division*
Paraskevi Petropoulou, *G10 Markets Analyst*
Galatia Phoka, *Emerging Markets Analyst*

Sales Team
Nikos Laios, *Head of Sales*
Vassilis Gioulbaxiotis, *Head of International Sales*
Yiannis Seimenis, Ioannis Maggel, *Corporate Sales*
Stogioglou Achilleas, *Private Banking Sales*
Alexandra Papathanasiou, *Institutional Sales*

Economic Research & Forecasting Division
Dimitris Malliaropulos, *Economic Research Advisor*
Tasos Anastasatos, *Senior Economist*
Ioannis Gkionis, *Research Economist*
Vasilis Zarkos, *Economic Analyst*
Stella Kanellopoulou, *Research Economist*
Olga Kosma, *Economic Analyst*
Maria Prandeka, *Economic Analyst*
Theodosios Sampaniotis, *Senior Economic Analyst*
Theodoros Stamatiou, *Research Economist*

Eurobank EFG, 20 Amalias Av & 5 Souri Str, 10557 Athens, tel: +30.210.333 .7365, fax: +30.210.333.7687, contact email:

Eurobank EFG Economic Research

More research editions available at http://www.eurobank.gr/research

- **New Europe**: Economics & Strategy Monthly edition on the economies and the markets of New Europe
- **Economy & Markets**: Monthly economic research edition
- **Global Economic & Market Outlook**: Quarterly review of the international economy and financial markets

Subscribe electronically at