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Brief summary of key market developments

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- The **EUR** remained under pressure in European trade on Monday. **Executive Board Member Juergen Stark,** the European Central Bank's chief economist, **unexpectedly resigned from the ECB Governing Board** reportedly due to his disagreement with the ECB's bond-buying program.
- **German government bonds** were firmer, extending recent hefty gains. Long-dated Bunds outperformed with the 10-yr yield hitting a fresh record intraday low.
- **Greece: Following an extraordinary cabinet meeting on Sunday, the government announced a new package of fiscal measures aiming to cover an expected financing gap of ca €2bn in this year's budget**. In a news conference that followed, Finance Minister Evangelos Venizelos announced: i) a property tax which will be imposed over the next two years and will be levied through electricity bills to ensure rapid collection, ii) a cut to all elected officials' salaries by the equivalent of one-month.
- **Cyprus's** Finance Minister Kikis Kazamias said on Friday that the government was holding consultations about securing long-term financing.

Latest Developments/News & Macro releases

Executive Board Member Juergen Stark, the European Central Bank's chief economist, unexpectedly resigned on Friday from the ECB Governing Board reportedly due to his disagreement with the ECB's bond-buying program to combat the euro zone's debt crisis. While Mr. Juergen Stark gave no public explanation for his resignation – almost three years before his term is due to expire in May 2014, he sent an article to German financial daily Handelsblatt for publication next Monday in which he said the only solution to the debt crisis was for governments to cut spending.

Greece: Following an extraordinary cabinet meeting on Sunday, **the government announced a new package of fiscal measures aiming to cover an expected financing gap of ca €2bn in this year's budget**. In a news conference that followed **Finance Minister Evangelos Venizelos** announced: **i) a property tax** which will be imposed over the next two years and will be levied through electricity bills to ensure rapid collection. It will average about €4 per square meter, ii) a **cut to all elected officials' salaries by the equivalent of one-month**. In the post-meeting press conference, the Finance Minister said that the government has also decided to bring forward the parliamentary vote on its 2012 budget. The draft budget will be submitted to parliament on the 3rd of October, and will be voted on by the end of October (instead of December). The new fiscal measures followed comments from German Finance Minister Wolfgang Schaeuble on Saturday over a threat to withhold the next €8bn EU/IMF loan tranche unless Greece shows it can meet its agreed fiscal targets.

Cyprus's Finance Minister Kikis Kazamias said on Friday that the government was holding consultations about securing long-term financing, but stopped short from naming the creditor. He added that negotiations "are not focused just in one specific direction", highlighting that potential deal would not encompass any fiscal consolidation requirements. Earlier on Friday, local media had suggested that the government is in talks for a €2.0-2.5bn five year loan from

Russia with 4.5% interest, which would alleviate the pressure from public debt management. The Finance Minister also said that, if agreed, the loan would be utilized for the repayment of bonds hence providing additional liquidity into the Cypriot economy.

Equity markets

Mirroring losses on Wall Street on Friday, **Asian stocks** moved lower on Monday and **major European bourses** opened sharply weaker after the sudden resignation of Juergen Stark from the ECB Governing Board. Press wires suggested that this was due to his disagreement with the ECB's bond purchasing program casing further doubt on the EU policymakers' ability to tackle the ongoing eurozone sovereign debt crisis. Adding to market jitters, Moody's is likely to announce a credit rating downgrade for three top French banks - **BNP Paribas, Societe Generale and Credit Agricole**- later this week following the June 15 announcement that these banks were put on review for a possible downgrade due to their high exposure to Greek sovereign debt. Investors are also bracing for a possible ratings downgrade on **Italy's** sovereign credit rating. Moody's warned on June 17 that it may cut Italy's credit rating in the next 90 days.. The G7 meeting failed to provide any respite on market sentiment. The G7 Finance Ministers pledged a coordinated response to a slowdown in the pace of the global economic recovery, but did not signal any concrete measures to tackle the ongoing eurozone debt crisis.

FX markets

The **EUR** remained under selling pressure in European trade on Monday amid heightened eurozone debt worries following the unexpected resignation of Juergen Stark from the ECB Governing Board. Weaker global equity markets in the face of deteriorating global growth prospects continued to weigh on the common currency. The **EUR/USD** was standing stand close to 1.3560/65 at the time of writing, not far from a fresh six-month low of 1.3500 marked earlier today after hitting intraday highs of 1.3950 early on Friday and levels near 1.4300 a week earlier. With concerns about the Eurozone's economic outlook and the euro area sovereign debt crisis unlikely to evaporate any time soon, near-term EUR/USD risks seem skewed to the downside with investors eagerly awaiting the meeting of the EU Finance Ministers and central bank presidents in the latter half of the week. Technically, the next major downside target lies at 1.3390 (February 20 low). Elshwere, the **EUR/CHF** was little changed hovering above the 1.2000 minimum exchange rate the Swiss central bank set last week. Against an environment of subdued inflation pressures in the Swiss economy and increased worries over the world economic outlook, the SNB's aggressive policy response should be deemed credible at present and we expect the EUR/CHF to consolidate around current levels in the coming weeks. With the CHF no longer presenting the option as a safe haven and the JPY failing to gain much from heightened eurozone debt woes amid fears that the Japanese authorities may respond in a similar way to curb the domestic currency's pace of appreciation, the USD outperformed its major currency peers . The **dollar DXY index** extended recent gains rising to as far as 77.784 earlier today, its highest level in almost seven months.

Government bond markets

German government bonds were firmer in European trade on Monday, extending recent hefty gains, supported by mounting worries over the eurozone's debt crisis following the unexpected resignation of Juergen Stark from the ECB Governing Board. Heightened uncertainty about the commitment of Italy to tackle its debt woes and concerns about a timely implementation of Greece's new bailout plan, also favored market sentiment towards German government bonds. Long-dated Bunds outperformed with the 10-yr yield hitting a fresh record intraday low near 1.727% earlier in European trade. The **2/10-yr Bund yield curve** undertook some further bullish flattening today with the corresponding spread trading close to 134.8bps at the time of writing, the narrowest since mid-May, after ending at 138.2bps in the prior session. Elsewhere, **US Treasuries** retained a firm tone. The 10-yr yield was hovering around 1.894% in early European trade, some 2.5bps lower compared to Friday's close. Against this environment, the **2/10-yr UST yield** spread stood close to 171.74bps at the time of writing, the narrowest since mid-January 2009, after ending near 175bps in the prior session.

Elsewhere, **eurozone periphery sovereign debt spreads** were wider on Monday. Greece was among the main underperformers on revived euro exit speculation and lingering worries over the timely and swift implementation of the new assistance program, also kept investors on edge.. The **10-year Greek/Bund yield spread** hit a fresh intraday record high of 1,915bps earlier today, some 35bps wider compared to the settlement in the prior session.

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