The two-day FOMC policy meeting which concluded y-day came in broadly as expected. The central bank’s monetary policy committee signaled its intention to conclude the QE2 programme at the end of June, as planned, and reiterated its pledge to keep the federal funds rate at exceptionally low levels for an extended period.

US equity markets moved higher overnight, the USD extended recent losses on the view that the prospect of a Fed rate hike remains distant.

Tensions in EMU peripheral debt markets linger amid persisting Greek debt restructuring talk. Mohamed El-Erian, chief executive of Pacific Investment Management Company (PIMCO), was quoted as saying in German daily “Handelsblatt” y-day that Greece is far from stabilising its finances and should restructure its sovereign debt.

Turkey’s Central Bank revised its 2011-end annual CPI forecast to 6.9% from 5.9% previously and its end-2012 projection to 5.2% from 5.1%.

CEE stock markets, regional currencies were mixed on Thursday after the FOMC decision. Turkish government bonds underperformed their peers following the CBT’s upward revision on inflation.

Latest Developments/News & Macro releases

The two-day FOMC policy meeting which concluded y-day came in broadly as expected. The central bank’s monetary policy committee acknowledged that the US economic recovery “is proceeding at a moderate pace”, as opposed to being “on firmer footing” in the March policy statement. The Fed reiterated that the recent pick up in inflation due to higher energy and commodity prices is expected to be “transitory” while longer-term inflation expectations have “remained stable” and “measures of underlying inflation are still subdued”. The committee also pledged to maintain its existing QE2 programme by the end of June, as planned, and renewed its commitment to keep the federal funds rate at exceptionally low levels for an extended period. In the subsequent press conference, Chairman Bernanke said that Q1 GDP is expected to slow to a 2.0%qoq annualized rate or even lower following a 3.1%qoq annualized pace in Q4 2010. However, the FOMC Chairman noted that the slowdown in the first quarter of the year is anticipated to prove temporary on the view that gasoline prices are unlikely to continue rising at their recent fast pace and instead, should stabilise or even decline.

The Fed revised down its 2011 GDP growth forecast to between 3.1% and 3.3% from 3.4% to 3.9% in January while the US economy is now expected to grow between 3.5% to 4.2% in 2012 vs. 3.5% to 4.4% previously. The Fed lowered its projection for the unemployment rate to a mid point of 8.5% for the current year from 8.9% previously while core PCE is now expected to range between 1.3% to 1.6% this year vs. 1.0% to 1.3% previously.

Turkey’s Central Bank revised its 2011-end annual CPI forecast to 6.9% from 5.9% previously, well above this year’s target of 5.5%, citing higher commodity prices behind its decision. The CBT also revised, slightly upwards, its end-2012 projection, to 5.2% from 5.1% earlier, and noted that it expects medium-term inflation to converge to 5%. The Bank reiterated that it anticipates a slowdown in credit growth in Q2 as a result of its policy mix adopted late last year and the recently appointed Central Bank Governor Erdem Basci highlighted that he sees no signs of overheating in the domestic economy in view of weak external demand dynamics. In other news, tourism revenues rose by 28.5%yoy in Q1, to $ 3.10bn, following a 4.9%yoy gain to $5.26bn in the last quarter of 2010.
Poland’s March retail sales exceeded expectations, marking a 9.4%yoy rise vs. a 7.2%yoy increase anticipated but slowing down from a 12.2%yoy gain registered a month earlier. The stronger-than-expected rise was primarily due to higher car and fuel sales, adding to the view for further rate hikes by the NBP in the months ahead. Even so, a rate hike as soon as May should not be considered as a done deal, with several Committee members recently playing down calls for hasty monetary tightening. Meanwhile, the rate of unemployment inched down to 13.1% in March from 13.2% in February but stood slightly above a 13.0% print marked over the same month last year. Separately, deputy head of the statistics office Halina Dmochowska said on Wednesday that Q1 real GDP growth will likely come in close to the 4.5%yoy figure registered in the last quarter of 2010.

The head of the Hungarian central bank’s supervisory board Zsigmond Jarai - a former Governor but currently not an MPC member - said on Wednesday that the MNB’s key policy rate could ease below its current 6.00% level by the end of the year as investor confidence towards the country’s macroeconomic outlook improves. Separately, Hungary’s 3-month rolling unemployment rate crept up to 11.6% in Q1 from 11.5% in the December-February period. The January-March figure stands within distance from a 17-year high of 11.8% hit in Q1 2010, suggesting that the headwinds in the labour market are far from over.

Romania’s Finance Ministry said on Wednesday that it plans to auction RON 4.8bn (€1.18bn) of government T-bills and bonds in May, following sales of RON 6.1bn (€1.5bn) so far this month. The government has sold around RON 21.3bn (€5.23bn) worth of government paper so far this year.

Equity markets
US equity markets enjoyed a positive session overnight supported by the Fed’s cautiously optimistic economic assessment and its reassurance that it is in no rush for a policy reversal. The recent flurry of upbeat Q1 corporate earning results, also boosted market sentiment with Thomson Reuters data suggesting that, out of the 220 S&P 500 companies that have reported so far, 73% have posted earnings above the median estimate. The Dow Jones industrial average index gained 0.76% to 12,690.96 and the Standard & Poor’s 500 Index rose 0.62% to 1,355.66. The Nasdaq Composite Index edged up 0.78% to 2,869.88, the highest closing level since December 12, 2000. Reflecting gains on Wall Street, major Asian bourses moved higher today. Japan’s Nikkei 225 average index ended 1.6% higher shrugging off disappointing Japanese household spending and factory output data for March. European equity markets followed suit to stand in positive territory in mid-trade buoyed by strong corporate earnings and the prevailing view that a Fed rate hike is still some way off.

Looking at today’s US calendar, focus is on Q1 GDP where consensus is for a 2.0%qoq annualized pace of growth. The pending home sales report and the jobless claims data, also lure market attention.

FX markets
The USD extended recent losses across the board as the Fed appeared in no rush to tighten its monetary policy. In contrast, market expectations for higher ECB interest rates remain intact with ECB’s Orphanides saying y-day that further increases in euro zone interest rates may be warranted if the inflation outlook deteriorates further this year. The EUR/USD remained in an upward trend hitting a fresh 16-month high f 1.4880 earlier today while the technical picture suggests that a daily close above 1.4850 could open the way for further appreciation towards 1.5000 (end-December 2009 peak). Against a broadly weaker US currency, the GBP/USD jumped to a 19-month high of 1.6745 earlier today before retreating modestly to levels around 1.6680/85 at the time of writing. The UK Q1 GDP report, released y-day, which showed a growth rate of 0.5%qoq, as expected, also helped the UK currency. Technically, the next upside target stands at 1.7000 (200-week MA) ahead of 1.7045 (August 2009 peak).

Government bond markets
US Treasuries were firmer today supported by the FOMC statement which read that the recent pick up in inflation is expected to be transitory and the central bank will complete its QE2 programme as planned. Long-dated Treasuries outperformed with the 2/10-yr UST
yield spread narrowing to levels around 270bps in early European trade, the lowest in three weeks. Elsewhere, tensions in EMU peripheral debt markets persist amid continuing Greek debt restructuring talk and worries over how soon Portugal’s EU/IMF bailout plan will be sealed. In the EMU sovereign debt space, Greece underperformed with short-dated government bond yields rising the most. Indicatively, the 2-yr yield was hovering around 24.65% at the time of writing, not far from fresh 25.40% record highs marked y-day. Meanwhile, the 10-yr GGB/German Bund yield spread was trading close to 1.273bps in early European trade, within distance from y-day’s new record closing peak of 1.289bps. Adding to market jitters, Mohamed El-Erian, chief executive of Pacific Investment Management Company (PIMCO), was quoted as saying in German daily “Handelsblatt” y-day that Greece is far from stabilising its finances and should restructure its sovereign debt.

G10 Event Risk Calendar this week (April 25 – April 29)

Monday, April 25
Japan’s all industry index for February, US new home sales for March

Tuesday, April 26
Eurozone’s government debt/GDP for 2010, ECB’s Liikanen speaks, US consumer confidence, Richmond Fed for April, Japan’s retail trade for March

Wednesday, April 27
Australian CPI for Q1, France’s consumer confidence for April, German Gfk consumer confidence for May, preliminary CPI/HICP for April, UK flash GDP for Q1, Gfk consumer confidence for April, Eurozone’s industrial new orders for February, US MBA mortgage applications for week ending April 22, durable goods orders for March, FOMC rate announcement, New Zealand RBNZ rate announcement, Japan’s unemployment rate for March, Tokyo CPI for April, Nationwide CPI for March, preliminary industrial production for March

Thursday, April 28
Japanese unemployment rate for April, US GDP for Q1 (A), core PCE for Q1 (A), personal consumption for Q1 (A), initial jobless claims for week ending April 23, pending home sales for March, Japan’s MPC rate announcement, ECB’s Liikanen/Mersch speak, Fed’s Williams speaks, BoC Deputy Governor Boivin speaks

Friday, April 29
German retail sales for March, Eurozone’s CPI for March, consumer/economic/industrial confidence for April, unemployment rate for March, Canada’s GDP for February, US PCE core, PCE deflator, personal spending, personal income, for March, Chicago PMI for April, UM confidence for April (final)

Emerging Markets

CEE stock markets were mixed in morning trade on Thursday following the FOMC’s decision yesterday. Turkey’s XU100 posed among the region’s worst performers falling by 0.6% earlier today after the CBT’s Inflation Report release. CEE currencies were also mixed in European trade today with the Serbian dinar leading the winners’ pack. The EUR/RSD touched 1-year lows of 99.20 in Asia, having eased by more than 1% on the day. Against a background of a stronger euro, the Turkish lira also firmed, with its gains exaggerated by the upward revisions in the CBT’s inflation forecasts for this year and the next. The USD/TRY slid as far as 1-week lows of 1.5040 before bouncing towards levels of 1.5169 later. Technically, with risks skewed for further downside immediate support stands at 1.5040 (today’s lows) ahead of 1.5018 (50% Fibonacci retracement from November 2010 lows to March 2011 highs). Elsewhere, the Polish zloty remained supported by recent news that the government will start exchanging EU funds on the spot market this quarter. As a result the EUR/PLN hovered around levels of 3.9350 at the time of writing remaining not far off from a 2-month trough of 3.9187 temporarily touched intraday. Technically, immediate support lies at today’s lows in the way to 3.8927 (February 17, 2011, lows). In the local rates markets, government bonds were mixed in morning trade today. Turkey underperformed its regional peers with the yield of the 2-year benchmark paper climbing to 8.47% after the CBT revised upwards its end-2011 and 2012 inflation forecasts from a 2-½-month low of 8.17% touched intraday.
CEE Event Risk Calendar for the remainder of this week (April 28 – 29, 2011)

**Thursday, April 28:** Unemployment rate for March (Hungary), Inflation Report (Turkey)

**Friday, April 29:** PPI for March (Hungary), trade balance for Mar (Turkey), PPI, budget balance for March (Bulgaria), industrial output, retail trade, trade balance for March (Serbia)
28 April 2011

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