Global equity markets remained volatile on Thursday amid persisting FOMC stimulus jitters.

In FX markets, the USD/JPY extended its post-BoJ meeting losses and the EUR/USD retained a positive trend hitting a fresh 3½ high.

Greece: The two junior ruling coalition partners, PASOK and Democratic Left, opposed the government’s decision earlier this week to close down the country’s public broadcaster ERT and reopen it in due course with fewer employees. According to the local press, the leaders of the two junior coalition partners have called for a meeting with Greek Prime Minister Antonis Samaras in the coming sessions.

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Greece: The two junior ruling coalition partners, PASOK and Democratic Left, opposed the government’s decision earlier this week to close down the country’s public broadcaster ERT and reopen it in due course with fewer employees. The said decision followed the issuance of a Legislative Act earlier this week authorizing ministers to close down or merge public enterprises under their supervision. According to the local press, PASOK and Democratic Left submitted to Parliament on Wednesday a draft law that aims to cancel the aforementioned Legislative Act. As per the same sources, the leaders of the two junior coalition partners have called for a meeting with the Prime Minister in the coming sessions.

Equity markets

Global markets remained volatile on Thursday mainly due to lingering uncertainty about the likelihood of the Fed start tapering off the €85bn-per-month bond-buying programme in the coming months. All three major US equity indices extended recent losses overnight with the Dow Jones falling for the seventh time in the past 15 trading sessions and the S&P 500 closing not very far from its 50-day MA. The CBOE Volatility index, VIX, rose by 8.9% on Wednesday to 18.59, the highest closing level in four months. Taking their cue from the poor session on Wall Street, Asian bourses remained under pressure in today’s session with Japan’s Nikkei 225 average index plunging by 6.3% the second biggest decline in over a year. Comments by BoJ Governor Haruhiko Kuroda earlier today that financial markets will gradually calm down, reflecting positive developments in the Japanese economy, were broadly shrugged off. Turning to Europe, major bourses opened lower on Thursday with banks and commodity-related stocks leading the way down as FOMC stimulus jitters prevail. In his Congressional testimony in late May, FOMC Chairman Ben Bernanke stated clearly that the central bank could slow down the pace of bond purchases in the next few policy meetings provided that “we see continued improvement in the labor market and we have confidence that it is going to be sustained”.

Looking at the day ahead, focus is on US retail sales data for May as well as US initial jobless claims ahead of next week’s FOMC policy meeting (June 18-19) and the upcoming Chairman Ben Bernanke’s press conference for more clues about the central bank’s policy deliberations.
FX markets
The USD/JPY extended its post-BoJ meeting losses on Thursday hitting a 2½ month trough of 93.80 earlier in Asia before gaining some ground to stand close to 94.35/40 in European trade at the time of writing. Despite its latest upside attempt, the pair remained well below levels slightly above 99.00 tested earlier this week and a 4½ year peak of 103.75 hit just three weeks ago. While medium- term risks seem skewed to the upside amid prevailing market expectations of relative US economic outperformance, the prospect of some further USD/JPY weakness in the coming sessions cannot be ruled out entirely on the back of persisting anxiety ahead of the June 18-19 FOMC policy meeting. Technically, immediate support for the USD/JPY stands at today’s intraday low while a clear break below the technical important level of 93.50 (61.8% Fibonacci) would open the way for a move towards 93.00 ahead of 92.50. On the upside, only a sustainable move above 96.00 could negative the pair’s current negative trend. Elsewhere, the EUR/USD retained a positive trend on Thursday hitting a fresh 3½ month high of 1.3390 earlier in Asia supported by recent comments from a number of ECB policymakers suggesting that the central bank does not intend to push its deposit rate into negative territory any time soon. Y- day’s euro area data which revealed an unexpected monthly increase in May’s industrial output, also favored the EUR. Technically, as long as at 1.3195 prevails (10-day MA), short-term risks seem skewed to the upside. However, on the back of persisting worries over the euro area’s economic growth prospects, the EUR/USD may find it difficult to extend gains above 1.3350/1.3400 in the coming sessions.

Government bond markets
US Treasuries moved higher in European trade on Thursday favored by global equity markets’ lackluster performance. Long-dated Treasuries outperformed with the 10-year yield hovering around 2.174% at the time of writing, after ending at a 14-month high of 2.228% in the prior session. Against this environment, the 2/10-yr UST yield curve undertook some bullish flattening with the corresponding spread trading close to 186bps at the time of writing, ca 3.5bps narrower relative to Wednesday’s close which was the highest since April 2012. On the supply front, the US Treasury auctions $13bn in 30-year bonds later in the day. Taking their lead from US Treasuries, German government bonds firmed in European trade with the 2/10-yr Bund yield spread hovering around 140bps at the time of writing after ending at a one-week closing high near 141bps in the prior session. Elsewhere, EU peripheral government bond markets weakened ahead of Italian supply of 3- and 15-year sovereign debt. Greece was among the main underperformers pressured by renewed domestic political jitters. The 10-year government bond yield spread against its German counterpart was hovering around 897.5bps at the time of writing, the widest since early May and some 19bps higher compared to the settlement in the prior session.