Global Markets: Major European equity markets retained a positive tone on Tuesday supported by increased market expectations that the Fed will not begin trimming its monthly bond purchases until early next year. In FX markets, the USD remained under pressure.

Greece: The heads of the EC/ECB/IMF troika mission to Greece are reportedly expected to come back to Athens on November 4, 2013 to resume talks with the Greek government in the context of the 9th programme review. As per the same sources, this holds provided that the Greek side will have fulfilled by then the agreed prior actions for the release of the next EFSF sub-tranche. Among others, the size of a possible fiscal gap in 2014 and identification of measures for its coverage are also reportedly expected to take centre stage at the upcoming official discussions.

Latest Developments/News & Macro releases

**Greece: The heads of the EC/ECB/IMF troika mission to Greece** are reportedly expected to come back to Athens on November 4, 2013 to resume talks with the Greek government in the context of the 9th programme review. As per the same sources, this holds provided that the Greek side will have fulfilled by then the agreed prior actions for the release of the next EFSF sub-tranche, i.e., (i) adoption of irreversible decisions (to be implemented by December 2013) as regards the restructuring or resolution of a restructuring plan of Hellenic Vehicle Industry (ELVO), General Mining and Metallurgical Company (LARCO) and Hellenic Defense Systems (HDS); (ii) the disposal of 12.5% public employees to the so-called mobility scheme; (iii) validation by general government entities of outstanding water and drainage bills to the Water Supply & Sewerage companies in Athens and Thessaloniki (EYPAD, EYATH) and agreement on the direct payment of all undisputed claims from the programme envelope earmarked for the clearance of State arrears; and (iv) adoption of a new Code of Lawyers.

Among others, the size of a possible fiscal gap in 2014 and identification of measures for its coverage are also reportedly expected to take centre stage at the upcoming official discussions. The troika has reportedly identified a budgetary shortfall worth €2bn for FY-2014 mainly as a result of: (i) a shortfall of ca €600mn due to the government’s decision not to impose a 2% annual tax on business turnover in favor of Freelancers Insurance Organization (OEADD), as envisaged in the Medium-Term Fiscal Strategy (MTFS) for 2013-2016; (ii) a shortfall of ca €200mnb, resulting from the government’s decision not to apply the new wage grid for the uniformed pensioners; (iii) a projected shortfall from the implementation of certain agreed measures envisaged in the Medium-Term Fiscal Strategy (MTS) for 2013-2016 (e.g. a two-year increase in the retirement age); and (iv) the risk of lower-than-projected tax revenues. On its part, the Greek government reportedly insists the said fiscal shortfall to be no higher than €500mn due to stabilizing GDP dynamics and expected gains from the ongoing reforms in the tax collection mechanism and in the broader public sector. In an interview to a local TV station on Sunday, Greece’s Minister of Labour, Social Security & Welfare Yiannis Voutsis announced that the said fiscal shortfall will be covered through adjustments in the social security system and a related bill will be submitted to parliament on Tuesday. Official discussion on the size of a possible budgetary shortfall in 2014 and identification of measures for its coverage are expected to be completed by November 22, 2013 when the Greek government is reportedly expected to submit to parliament the final budget for 2014.
Equity markets

Major European equity markets retained a positive tone in early trade on Tuesday supported by market expectations that the Fed will probably not start tapering its bond purchases before Q1 2014. A number of key US macro data releases have been delayed due to the temporary closure of numerous statistical offices while recent data releases (e.g. new home sales, non-farm payrolls) suggest that the growth rate of the US economy in the July-September period will probably prove rather modest. Moreover, the Fed is not expected to start scaling back its $85bn-a-month bond-buying programme until it has a clear view on the impact of a near two week partial shutdown of the US federal government on the domestic economy. Separately, the fiscal deal US politicians agreed earlier this month, envisions an increase in the US debt limit until February 7, 2014 and adequate funding to government agencies until January 15, 2014. That said, market worries over another government shutdown or debt default, might come to the fore again early next year. Against this background, the FTSEurofirst 300 index was standing ca. 0.2% higher at 1,285.50pts at the time of writing, within distance from a five-year peak of 1,288.06pts recorded last week. In a similar vein, the S&P 500 index closed at a fresh record high overnight and major Asian bourses ended little changed from their recent multi-year highs earlier today.

The Fed begins its two-day policy meeting later today and is widely expected to stay put on interest rates and maintain the $85bn timezone size of cumulative monthly purchases of Treasuries and mortgage-backed securities.

FX markets

The USD remained under pressure in European trade on Tuesday amid increased market expectations that the Fed will probably extend its monetary stimulus into Q1 2014, especially following the latest flurry of weak US macro data releases y-day. US pending home sales dropped by 5.6% mom in September, the biggest monthly decline in more than three years, coming in at their lowest level since December 2011. Separately, US manufacturing production edged up by just 0.1% mom in September following a downwardly revised figure of -0.5% mom in the prior month. One of the main beneficiaries of the US dollar's weakness has been the common currency with the EUR/USD standing close to 1.3765/70 in European trade at the time of writing, not very far from a near two-year peak of 1.3830 recorded late last week. Technically, a sustainable move above 1.3800/50 has the potential to open the way for further appreciation towards the October 2011 peak of 1.4248 especially if this week's Fed policy statement provides further support to the prevailing market view that the central bank will not rush to start tapering its bond purchases any time soon. Meanwhile, the US dollar index DXY was hovering around 79.466 at the time of writing, up slightly from 79.388 multi-month low hit a few sessions earlier. Despite its latest upside attempt, the said index remained not far off Friday's 78.998 trough, the lowest level since February 1.

Government bond markets

US Treasuries retained a positive tone in European trade on Thursday supported by the prevailing market view that the Fed may not begin tapering until early next year, especially following the latest string of weaker-than-expected US macro data releases. Long-dated Treasuries outperformed with the 10-yr note yielding levels close to 2.513% at the time of writing after ending at a multi-session high of 2.523% on Monday. Against this background, the 2/10yr US yield curve undertook some bullish flattening with the corresponding spread standing close to 220bps at the time of writing, the narrowest level since mid-August and ca. 2bps lower compared to the settlement in the prior session. Following a well-received $32bn auction of 2-year notes y-day, the US Treasury is scheduled to sell $35bn of 5-yr notes later today and $29bn of 7-year notes on Wednesday. In a similar vein, German Bunds extended recent gains with the 10-yr Bund yielding levels close to 1.74% at the time of writing, the lowest level since mid-August after ending near 1.75% in the prior session. The 2/10yr Bund yield spread was trading close to 155.4bps in early European trade, the lowest level since mid-August but not much changed compared to Monday's 155.85bps close.