The Financial Times reported today that China and other Asian investors are “clearly interested” in buying a “strong proportion” of Portuguese bail-out bonds when the EFSF starts auctioning them next month. The EUR regained some composure, German government bonds moved lower, giving back some of their recent hefty gains.

Greece: Reportedly, the IMF is calling for the EU to commit new financial aid for Greece which will secure the country’s 2012 funding needs, before it agrees to release the next loan tranche in June. In other news, German Finance Minister Wolfgang Schaeuble was quoted as saying in business daily Handelsblatt today that a restructuring of Greek debt “bears high risks” for the country’s solvency.

US durable goods orders disappointed dropping by a higher-than-expected 3.6%mom in April, the biggest fall in six months, weighed down by a 30% plunge in aircraft bookings. Expectations were for a 2.2%mom decline following an upwardly revised gain of 4.4%mom (from 4.1%mom initially). Adding to the view that factory activity is probably losing momentum, transportation, durable goods orders fell by 1.5%mom, confounding expectations for a 0.5%mom increase following a 2.5%mom gain in March. Nondefense capital goods orders ex-aircraft, a closely watched proxy for business spending, unexpectedly dropped by 2.6%mom, boding poorly for Q2 GDP. Expectations were for a 0.2%mom rise after gaining 5.4%mom (revised up from +4.3%mom) in March.

The US Mortgage Bankers Association’s seasonally adjusted index of mortgage applications, which includes both purchase and refinance loans, increased by 1.1% in the week ended May 20. Applications for home refinancing loans advanced 0.9% while mortgage applications for home purchases rose by 1.5%, the fourth straight weekly increase. Fixed 30-year mortgage rates averaged 4.69%, up 9bps from the level in the week before.

UK Q1 GDP grew by a final 0.5%qoq, in line with the flash estimate, after contracting by the same magnitude in the last quarter of 2010. The annual pace of growth was unrevised at 1.8%, vs. 1.5% in the prior quarter. A breakdown of the report showed that household spending contracted by 0.6%qoq, its biggest drop since Q2 2009 when the economy was still in recession. In a sign of mounting price pressures, GDP deflator rose by 1.8%qoq, its biggest quarterly rise since 1996. On a positive tone, the trade deficit decreased to GBP 5.7bn from GBP 11.5 bn in the October-December 2010 period.

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**Equity markets**

Tracking gains on Wall Street overnight, Asian equity markets were firmer today on bargain-hunting. Resources and consumer sectors led the way up. The MSCI's index of Asia-Pacific stocks outside Japan rose 1.7%, the biggest daily percentage gain since April 20 after closing at a two-month low in the prior session. Japan’s Nikkei 225 average index gained 1.5%. However, major European equity markets gave back early gains to stand in negative territory in mid-trade weighed down by disappointing earning results from British Luxury goods group Berberry. The FTSEurofrist 300 index was down 0.1% at the time of writing to stand at 1.125.94 after hitting session highs of 1,130 earlier.

Elsewhere, precious metals moved higher helped by a softer US currency and lingering euro zone-peripheral sovereign debt worries. Spot gold rose some 0.2% on the day to stand at $1,526.49 an ounce at the time of writing, the highest level in three weeks. Similarly, silver was up 1.3% to $38.34, moving higher for the third session in a row. US crude oil was up 0.2% on the day standing close to $101.56 per barrel in early European trade, the highest level since May 10, favored by y-day’s official data showing an unexpected drop in distillate inventories.

**FX markets**

The EUR edged higher today supported by a report in the Financial Times today which quoted Klaus Regling, CEO of the EFSF as saying that China and other Asian investors are “clearly interested” in buying a “strong proportion” of Portuguese bail-out bonds where they are auctioned next month. The EUR/USD was hovering around 1.4172/76 at the time of writing, not far from multi-session highs near 1.4200 touched earlier today, after hitting session lows of 1.4010 in the prior session. However, market worries over a new comprehensive deal for Greece persist while contagions fears to other eurozone peripheral countries continue to mount. Against this environment, any further EUR appreciation in the coming session is likely to prove limited. Technically, strong support for the EUR/USD lies at 1.3968 this week’s low while, on the upside, key resistance stands at 1.4350 (20-day MA). Elsewhere, the GBP/USD stood close to 1.6288/90 in European trade, having recovered from 1.6130 y-day's trough boosted by a tentative improvement in market sentiment. However, the UK currency continues to face a number of headwinds. Worries over the UK’s economic growth prospects persist. UK Q1 GDP grew by a 0.5%oqo, after contracting by the same magnitude in the last quarter of 2010, with household spending posting the biggest drop since Q2 2009. Moreover, in its latest Economic Outlook report released y-day, the OECD lowered its forecast for the UK’s 2011 GDP growth to 1.4% from 1.5% predicted in March. The technical picture for the GBP/USD suggests that only a sustainable move above 1.6400 (23.6% Fibonacci retracement of its late December to late April rally) could point to an improved short-term FX outlook. Elsewhere, the dollar index DXY, which tracks its performance against a basket of six major currencies, was hovering around 75.617 in early European trade, having retreated from y-day’s 76.269 highs.

**Government bond markets**

German government bonds moved lower on Thursday, giving back some of their recent hefty gains, in the way of the FT report which suggested that China and other Asian investors are expected to buy a “strong proportion” of Portuguese bailout-bonds when the EFSF auctions them in June. However, losses were limited amid lingering euro zone-peripheral sovereign debt worries. After ending at 1.66% on Wednesday, the 2-yr yield was trading close to 1.67% in European trade today, remaining though well below levels near 1.70% recorded earlier this week. The 2/10-yr Bund yield spread was standing close to 138.5bps at the time of writing, little changed compared to y-day's settlement.

In a similar vein, US Treasuries were modestly weaker today. Long-dated Treasuries underperformed with the 2/10-yr UST yield spread hovering around 260.5bps in early European trade after ending at 259.5bps in the prior session. On the supply front, the US Treasury will auction $29bn in seven-year Treasuries later in the day. Euro zone-peripheral sovereign debt spreads undertook some narrowing today in the way of the FT report. However, they still remained at elevated levels. The 10-yr GGB/Bund yield spread was hovering around 1354bps at the time of writing, some 13bps narrower compared to y-day's close but not far from all-time highs of 1401bps recorded earlier this week.

**G10 Event Risk Calendar this week (May 23 – May 27, 2011)**

*Monday, May 23*
- Eurozone PMI-services & manufacturing for the month of May (preliminary)

*Tuesday, May 24*
- German Q1 GDP, France’s business confidence index for May, German IFO business climate index for May, US new home sales for April

*Wednesday, May 25*
**UK Q1 GDP (preliminary), US durable goods orders for April**

**Thursday, May 26**
German Gfk consumption indicator for June, France’s consumer confidence for May, US initial jobless claims, US Q1 GDP (preliminary)

**Friday, May 27**
Japan’s CPI for April, German CPI for May, German retail sales for April, Eurozone M3 money supply growth for April, Eurozone economic sentiment indicator for May, US personal income & personal spending for April, US UM consumer sentiment for May (final), US pending home sales for April

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**Emerging Markets**

CEE stock markets moved broadly higher in early trade on Tuesday, trailing gains in major European bourses but sentiment remained fragile amid lingering concerns about the eurozone’s debt crisis. Turkey’s main stock index XU100, was flat standing at 63,232 at the time of writing, having however recovered from 2-month lows of 62,512 hit a couple of sessions earlier. Elsewhere, Hungary’s BUX led the winners’ pack firming by ca 1.4% intraday and standing 3% higher compared to yesterday’s 2-month trough of 22,123. Most CEE currencies were little changed in European trade today, but remained under pressure in view of lingering euro area debt crisis jitters. The Hungarian forint marginally firmed against the euro on the day. However, the EUR/HUF hovered around levels of 269.87/270.02 at the time of writing standing within distance from a 271.10 two-month high touched on Monday as government plans to fix foreign currency mortgage loans to assist troubled borrowers added to the forint’s woes yesterday. In the local rates markets, government bonds firmed with Turkish paper outperforming. The 2- and 10-year yields of Turkish bonds retreated ca 4bps and 8bps to respective levels of 8.96% and 9.38% ahead of the CBT meeting tomorrow. The Central Bank is broadly expected to maintain its key policy rate stable at 6.25% but raise by 100-200bps banks’ reserve requirement ratios in line with an unorthodox policy mix it adopted late last year in order to address the dual objective of price and financial stability.

**CEE Event Risk Calendar for the remainder of this week (May 23 – 27, 2011)**

**Monday, May 23:** CBT bi-monthly survey of expectations (Turkey)

**Tuesday, May 24:** Retail sales for March (Hungary), industrial confidence, capacity utilization for May, Treasury auctions 7-year floating coupon bonds (Turkey)

**Wednesday, May 25:** Retail sales, unemployment rate for April (Poland), foreign tourist arrivals for April, MPC meeting (Turkey), real gross wage growth for April (Serbia)

**Thursday, May 26:** Gross external debt for March (Bulgaria)