Monday, July 5, 2010

Brief summary of key market developments

HIGHLIGHTS

- **European bourses** were standing in negative territory in early trade today, taking their cue from losses on Wall Street last Friday. Global growth concerns continued to mount after US non-farm payrolls fell by more-than-expected last month.
- **German government bonds** retained a firm tone in early trade on Monday favored by weaker equity markets, lingering euro area fiscal woes.
- **US markets are closed today** on a national holiday.
- **Greece:** The Bank of Greece reported that the government's **cash deficit** shrunk by 41.8%yoy to €11.45bn in the first half of 2010 from €19.68bn in the same period a year earlier. The budget's primary deficit, which excludes debt servicing costs, also narrowed, to €5.47bn from €12.42bn in January-June 2009, based on provisional data.
- **Poland's speaker of parliament** and acting President, Bronislaw Komorowski, won Sunday's Presidential election runoff.
- The **IMF** said on Friday that completed its fourth review of **Romania's** Stand-By Arrangement and approved the disbursement of the programme's next tranche, worth € 913.2mn.

Equity markets

US equity markets ended lower on Friday for the seventh session in a row as disappointing payrolls data and a bigger-than-expected decline in factory orders, reinforced concerns that the country's economic recovery is stalling. The **Dow Jones industrial average index** dropped by 0.47% to 9,686.48, the **Nasdaq Composite Index** fell by 0.46% to 2,091.79 and the **Standard & Poor's 500 Index** lost 0.47% to 1,022.58. US markets will be closed today on a national holiday (Independence Day). Elsewhere, **Asian bourses** moved higher today as bargain hunting emerged. Though gains proved limited on lingering global growth concerns. The **MSCI index of Asia-Pacific shares outside Japan** closed just 0.2% higher while **Japan's Nikkei 225 average index** gained 0.7% remaining within distance from a seven-month closing low recorded late last week. Meanwhile, major **European bourses** stood in negative territory in early trade, taking their cue from losses on Wall Street last Friday. Banking stocks take centre stage after **French Economy Minister Christine Legarde** said on Sunday that street-test results, expected to be published on July 23, will show that "banks in Europe are solid and healthy". Looking at this week's **global calendar**, central bank meetings will be a highlight. Australia's RBA meets on Tuesday and, after delivering a cumulative 150bps of rate tightening between October 2009 and May 2010, it is expected to stay on hold amid persisting fears over a severe slowdown in the global economy. The ECB and the BoE are also expected to keep their key interest rates unchanged on Thursday. In terms of macro data, the US' ISM-non manufacturing report is due on Tuesday and German industrial production data are due on Thursday.

FX markets

The **EUR/USD** was hovering around 1.2543/45 at the time of writing, not far from a two-month high of 1.2613 touched last Friday soon after the release of the US employment report which added to recent evidence pointing to a tepid US economic recovery. Increased expectations that the Fed will probably embark on a tightening cycle later than expected, suggest potential for further EUR/USD upside in the coming sessions. But in view of lingering euro area fiscal concerns and mounting worries over the state of the European banking sector, any further gains will likely prove limited. Technically, strong resistance lies at 1.2630 (a 38.2% retracement of its drop from its March high near 1.3820 to its four-year low of 1.1875) ahead of 1.2672 (May 21 high). On the downside, immediate support stands at 1.2523 session lows in the way to 1.2480 (July 2 low). Elsewhere, the **USD/JPY** was trading close to the 88.00 level in early European trade, having recovered some ground from a seven-month

Research Team:
Gikas Hardouvelis, *Chief Economist and Director of Research*
Platon Monokroussos, *Head of Financial Markets Research*
Paraskevi Petropoulou, *Economist*
Galatia Phoka, *Economist*

Sales Team:
Fokion Karavias, *Treasurer*
Nikos Laios, *Head of Sales*
Yiannis Seimenis, Ioannis Maggel, *Corporate Sales*
Stogioglou Achilleas, *Private Banking Sales*
Petropoulos Theodore, *Institutional Sales*
Karanastasis Kostas, *Retail Sales*

EFG Eurobank Ergasias, 8 Othonos Str,GR 105 57, Athens,Tel:(30210) 3718 906, 3718 999, Fax:(30210) 3337 190, Reuters Page: EMBA,Internet Address: http://www.eurobank.gr

low 86.95 touched late last week. But in view of mounting concerns about the US economic growth outlook, pressures on the USD/JPY will likely to persist in the coming sessions. Against this background, **the dollar index DXY** was hovering around 84.445 in early European trade, not far from last Friday's 84.132 two-month lows.

Government bond markets

German government bonds were firmer today favored by weaker European bourses. Comments by **ECB President Trichet** on Sunday that he does "not believe at all" that Europe is facing a double-dip recession, were broadly shrugged-off. The **2/10-year Bund yield spread** was trading close to 191.6bps at the time of writing, not much changed compared to last Friday's close and within distance from an eight-month closing low of 189bps recorded early last week. Meanwhile, **US Treasuries** retained a firm tone today supported by mounting concerns about the country's growth outlook following a string of disappointing macro data over the last few sessions/weeks. The **2/10-year UST yield spread** was standing close to 235bps at the time of writing, not much changed from last Friday's settlement and not far from a nine-month closing low of 232bps recorded a few sessions ago. Meanwhile, the **10-yr Greek/German bond yield spread** was standing close to 765bps at the time of writing, not much changed compared to the settlement level in the prior session after touching levels slightly over 800bps a few sessions ago. In an interview published in Sunday's Eleftherotypia newspaper, **Greek Prime Minister George Papandreou** urged Social Party's members of Parliament to back a sweeping pension bill in a parliamentary vote expected on Thursday, July 8. Meanwhile, **Deputy Finance Minister Philippos Sachinidis** confirmed recently that Greece plans to issue T-bills of three, six and twelve months in mid-July to cover maturing debt. A total of €4.56bn of T-bills mature in July; €2.16bn of one-year and six-month government paper are due on July 16 and another €2.4bn of 13-week T-bills on July 23. In other news, the Bank of Greece reported that the government's **cash deficit** shrunk by 41.8%yoy to €11.45bn in the first half of 2010 from €19.68bn in the same period a year earlier. The budget's primary deficit, which excludes debt servicing costs, also narrowed to €5.47bn from €12.42bn in January-June 2009, based on provisional data.

News & Macro data releases

US non-farm payrolls fell by a higher-than-expected 125k in June, the first decline this year, vs. -110k expected following a 433k increase in May, mainly due to the removal of 225k temporary Census workers**.** **Manufacturing payrolls** rose by just 9k vs. +32k in the prior month, the **private sector** created 83k new jobs from 33k, **construction** employment dropped by 22 after posting a 30k decline a month earlier while the dominant **services sector** saw payrolls increasing by 91k after rising by 20k in May. **Average workweek hours** edged down to 34.1 vs. May's 34.2 while **average hourly earnings** dropped by 0.1%mom, confounding expectations for a 0.1%mom increase after rising by 0.2%mom in the prior month. The Household Survey showed that **the unemployment rate** fell to 9.5%, the lowest level in nearly a year, against expectations for an uptick at 9.8% from 9.7% in May. But the unexpected decline was occurred as a result of a 652k drop (from -322k previously) in the labour force**.** Employment fell by 301k and unemployment dropped by 350k suggesting that unemployed individuals stopped looking for work and hence were no longer considered part of the labour force.

US factory orders dropped by a higher-than-expected 1.4%mom in May, the biggest drop since March 2009 and the first drop in nine months, vs. -0.5%mom expected following a downwardly revised gain of 1.0%mom (from +1.2%mom initially) in the prior month. **Ex-transportation, factory orders** dropped by 0.6%mom, the second consecutive monthly decline, vs. -0.7%mom a month earlier. **Durable orders** for May were revised upwards to -0.6%mom from -1.1%mom initially while **nondefense capital orders ex-aircraft** –a good proxy for business spending- were also re-estimated up at 3.9% from 2.1%. Total manufacturing **inventories** fell by 0.4%mom after rising by 0.6%mom a month earlier pushing the **inventories-to-shipments ratio** up at 1.25 months from 1.24 in April, the lowest level since August 2008.

Eurozone unemployment rate was held steady in May at the prior month's level of 10.0% against expectations were for an increase at 10.1%.

G10 Event Risk Calendar this week

Monday, July 5: Switzerland's retail sales for May, Eurozone May's retail sales, UK PMI-services for June, US markets on national holiday (Independence Day)

Tuesday, July 6: RBA rate announcement, Switzerland's CPI for June, US ISM-non manufacturing for June, Japan's leading index for April

Wednesday, July 7: Eurozone's Q1 GDP (final estimate), Germany's factory orders for May, US Challenger job cuts for June, Fed's Kocherlakota (non-voter) speaks

Thursday, July 8: Australia's labor force for June, Switzerland's unemployment rate for June, German industrial production for May, ECB rate decision, UK industrial production for May, BoE rate decision, US initial jobless claims, Japan's June bank lending, Japan's May current account, Japan's May machinery orders

Friday, July 9: ECB President Trichet speaks at conference in Frankfurt, UK trade balance for May, US wholesale inventories for May

Emerging Markets

With nearly all of the vote having been counted, **Poland's** speaker of parliament and acting President, Bronislaw Komorowski, won 52.6% of the vote on Sunday's Presidential election runoff. Former Prime Minister and twin brother of the deceased President, Jaroslaw Kaczynski, followed with a share of 47.4%. Most recent opinion polls had signaled a neck and neck race. Komorowski's win is broadly seen as positive for financial markets. He is a member of the ruling PO party and is expected to cooperate efficiently with the government on the adoption of the euro and on fiscal policies aimed at curbing the country's budget deficit at the EU ceiling over the coming years. Final results are anticipated to be released later on Monday.

The IMF said on Friday that completed its fourth review of **Romania's** Stand-By Arrangement and approved the disbursement of the programme's next tranche worth € 913.2mn. Including last week's funds the total amount of aid having so far been made available under the rescue package is about € 10.739bn.

Financial Markets Research Division
Paraskevi Petropoulou
Galatia Phoka