

Brief summary of key market developments

HIGHLIGHTS

- ❖ **U.S. equity markets** closed in a marginally negative territory on Thursday on intensified concerns about the pace of the US economic recovery. **Asian bourses** also moved modestly lower but **major European stock markets** were firmer in early trade on Friday.
- ❖ The **USD** remained under pressure on lingering concerns about the pace of the US economic recovery.
- ❖ **US Treasuries** moved lower in early trade on Friday on profit taking ahead of the NFP report due later today.

Equity markets

U.S. equity markets closed in a marginally negative territory on Thursday following an unexpected increase in initial jobless claims last week and a slower than anticipated rise in ICSC chain store sales in July, ahead of today's NFP report. The **Standard & Poor's 500 Index** fell 0.13% to 1,125.81, the **Dow Jones industrial average index** slid 0.05% to 10,674.98 and the **Nasdaq Composite Index** lost 0.46% to end at 2,293.06. **Asian bourses** also moved modestly lower today with **Japan's Nikkei 225 average index** easing 0.12% and the **MSCI index of stocks in Asia-Pacific outside Japan** recoiling 0.2%. **Major European bourses** were firmer in early trade on Friday receiving support from some relatively positive earnings results, but caution prevailed ahead of the NFP report from the US.

FX markets

The **USD** remained under pressure on lingering concerns about the pace of the US economic recovery. The **EUR/USD** hovered around levels of 1.3184/87 at the time of writing standing not too far from a 3-month high of 1.3261 touched a few sessions earlier. Meanwhile, the **USD/JPY** at levels of 86.06/10 in early trade on Friday remained close to a 9-month low of 85.29. Against this background, the **DX index**, a gauge of the USD's performance against six major currencies, stood at 80.821 in early trade on Friday remaining within distance from Tuesday's 4-month low of 80.469.

Government bond markets

US Treasuries moved lower in early trade on Friday on profit taking ahead of the NFP report due later today, having staged a short-lived rally in the prior session on the back of heightened concerns about the pace of the US economic recovery. The 2-year UST yield stood near 0.550% levels at the time of writing having bounced from Thursday's close of 0.534% and an all-time low of 0.526% achieved a few sessions earlier. The **2/10-yr Treasury yield spread** narrowed 2bps to 236bps on Friday, compared to yesterday's settlement. Meanwhile, **German government bonds** also weakened earlier today as caution prevailed ahead of the NFP report from the US, with the **2/10-yr Bund yield spread** remaining unchanged at 181bps in early European trade.

News & Macro data releases

US jobless claims unexpectedly rose to 479k in the week ended July 31, the highest level since early April, from 460k (from 457k initially reported) a week earlier, confounding expectations for a slight drop to 455k. The 4-wk average rose 5,250 to 458,500, while **continuing claims** fell less-than-expected in the week ended July 24 to 4537k from 4571k (4565k initially reported) a week earlier vs. a market consensus of 4515k.

US ICSC chain store sales rose by 2.8%yoy in July following a stronger growth of 3.0%yoy a month earlier.

The **ECB decided to keep the refi rate unchanged at a record low of 1.00%** y-day for the 15th month in a row, in line with market expectations. In the post-meeting press conference, President Trichet reiterated that interest rates are at appropriate levels and that inflation pressures are expected to remain contained over

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medium term. Mr. Trichet also said that the Eurozone's economy is expected to grow at a moderate pace in an environment of uncertainty adding that economic activity is seen strengthening in Q210 while in Q310 it was anticipated to come in better-than-previously expected. However, he noted that GDP growth in H210 was likely to slowdown from that in the second quarter.

The **BoE** decided to keep its repo rate stable at a record low of 0.50% y-day and maintain the pause in its asset quantitative easing programme, as expected (no policy statement was published).

Upon completion of their visit to **Greece** during July 26-August 5, EC, ECB and IMF officials said on Thursday that the government's economic program is being implemented as scheduled and that the end-June quantitative performance criteria have all been met. However, they warned that "important challenges and risks remain" and urged the Greek government to pursue reforms in energy, banking and the public sector. The positive assessment paves the way for the conclusion of the first review of the country's financial aid programme with the EU/IMF and the disbursement of the next tranche of the EUR 110bn loan, estimated at EUR 9bn.

G10 Event Risk Calendar this week

Monday, August 2: Switzerland's retail sales for June, UK PMI-manufacturing for July, US construction spending for June, USM-manufacturing for July, US Treasury Secretary Geithner speaks on "next steps for financial reform"

Tuesday, August 3: Australia's retail sales for June, Switzerland's CPI for July, Eurozone PPI for June, UK Halifax house prices for July, US personal income & consumer spending for June, US factory orders for June, US pending home sales for June, US Q2 Senior Loan Officer survey

Wednesday, August 4: Eurozone retail sales for June, UK PMI-services for June, US ADP employment survey for July, US ISM-non manufacturing for July

Thursday, August 5: German factory orders for June, BoE rate decision, ECB rate decision & press conference, US initial jobless claims

Friday, August 6: RBA Monetary Policy Statement, Switzerland's unemployment rate for July, German industrial production for June, UK industrial production for June, US non-farm payrolls & unemployment rate for July