

Brief summary of key market developments

- **Global equity markets** rally on upbeat manufacturing data from the US, Europe and China.
- The **USD** broadly firmed against major currency peers in early European trade on market optimism for an improved US economic outlook in 2011.
- **US Treasuries** under pressure ahead of this week's flurry of key macro data.

Equity markets

US equity markets rallied in the first trading day of the year following upbeat manufacturing data from the US, Europe and China. Financials led the gains having largely lagged the market in 2010. The **Dow Jones industrial average index** closed 0.81% higher at 11,670.75 having hit a 2-year high of 11,711.47 intraday. The **Standard & Poor's 500 Index** jumped 1.13% to 1,271.87, having touched a 2-year peak of 1,276.00 earlier in the day after posting 6.5% cumulative monthly gains last month to mark the index's best December performance in nearly two decades. The **Nasdaq Composite Index** spiked 1.46% to 2,691.87 achieving a 2,704.86 3-year high intraday. In an environment of increased risk appetite, the **CBOE Volatility Index** dropped 0.79% to 17.61, approaching anew a near 3-yr closing low of 15.45 touched on December 22.

Taking their cue from the positive tone in Wall Street, **Asian bourses** moved higher today. Japan's **Nikkei 225 average index** led the gains in the region staging a 1.65% rally to end at its highest level in 7-½-months on the back of higher oil and commodities prices which boosted resource companies' shares. The **MSCI's index of Asian stocks ex Japan** was little changed but remained within distance from a 2-½-year peak achieved in November. The **Shanghai Composite Index** rose 1.4%, receiving support from a 5% rise in property shares on easing worries about further monetary tightening after data showed that Chinese factory inflation may be subsiding. In a similar vein, European bourses also firmed, with the FTSEurofirst 300 index of top European shares advancing by ca 0.4% earlier today after registering gains to the tune of 1% in the prior session.

FX markets

The **USD** broadly firmed against major currency peers in early European trade today on market optimism for an improved US economic outlook in 2011. Meanwhile, bond redemptions and coupon repayments in euro area sovereign debt may have weighed on the euro. The **USD/JPY** rose as far as a 1-week high of 82.27 earlier today bouncing further away from a 15-year low of 80.22 hit in November. Elsewhere, the **EUR/USD** slid to session lows of 1.3322 in early trade on Tuesday after falling to as low as 1.3248 y-day. Separately, the Australian dollar remained under pressure today as the recent flooding in the country may bear negative repercussions for exports. In detail, the **AUD/USD recoiled as far as 1.0051 multi-session lows** from a 28-yr peak of 1.0257 last week. Elsewhere, the **EUR/CHF** rose as far as a 1-week peak of 1.2598 earlier today after plunging to a new record low near 1.2400 on December 30.

Government bond markets

US Treasuries remained under pressure in early European trade ahead of this week's data, including the NFP report for December that may further add to optimism about the US economy. The 2- and 10-year UST yields rose 2bps each with the **2/10-yr UST yield spread** standing at 273bps, little changed from yesterday's settlement. Elsewhere, **German government bonds** were weaker today weighed down by firmer equities. The **2/10-yr Bund yield spread** was hovering around 211bps in early European trade, in line with Monday's close. **EMU periphery sovereign debt spreads** narrowed earlier today, with Greece's **10-yr government bond (GGB) to German Bund** yield spread standing close to 943bps at the time of writing, some 16bps narrower relative to the prior session's settlement, but remained not far from 965bps record highs marked on May 7.

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News & Macro data releases

According to the final estimate, **the Markit Eurozone PMI manufacturing** advanced to 57.1 in December, revised from a preliminary reading of 56.8 and coming in against a 55.3 print in November to stand no far off April's 57.6 46-month high.

US ISM manufacturing index for December rose to a 7-month high of 57.0, in line with expectations, from November's 56.6 print. The index revealed expansion in the sector for the 17th month running adding to hopes that the rebound in the US economy is gaining traction. The new orders and production indexes came in at 60.9 and 60.7, respectively, bouncing by ca 5-6bps each above the prior month's reading. On the flipside, the **employment index** slid to a 9-month trough of 55.7 vs. 57.7 in November.

US construction spending rose by 0.4%mom in November, outpacing expectations for a 0.2%mom gain, but slowing from a 0.7%mom rise in October.

G10 Event Risk Calendar this week (January 3 – January 7)

Monday, January 3

Riksbank's MPC minutes, final **Eurozone** PMI manufacturing for December, **US** ISM manufacturing for December, construction spending for November

Tuesday, January 4

Eurozone HICP estimate for December, **US** factory orders for December, **German** unemployment rate for December

Wednesday, January 5

Eurozone PMI services, composite for December, industrial orders for October, PPI for November, **US** ADP payrolls for December, ISM non-manufacturing for December

Thursday, January 6

Eurozone consumer confidence, industrial survey for December, retail sales for November, **US** initial jobless claims

Friday, January 7

German retail sales, trade balance, industrial production for November, **Eurozone** final Q3 GDP, unemployment rate for November, **US** average hourly earnings, average weekly hours, consumer credit, NFP report, unemployment rate for December

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