FINANCIAL TIMES

GLOBAL MARKET OVERVIEW

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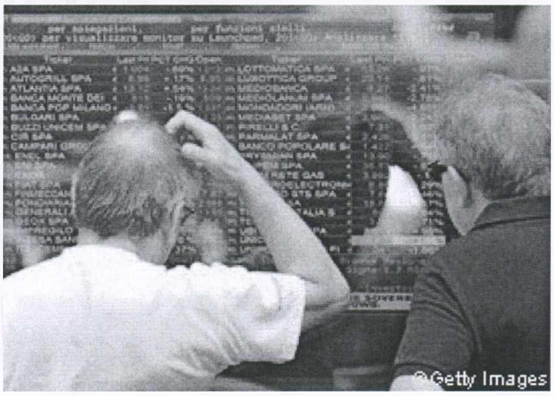
Shares fall as Greek fears weigh on sentiment

By Jamie Chisholm, Global Markets Commentator


People look at a board outside Milan's stock exchange on July 11, 2011.

Thursday 08.00 GMT. Growth-focused assets are under pressure as investors once again fret about the financial and political stability of the eurozone after Greece's plan for an austerity referendum left receipt of its latest rescue package in doubt.

The mood has also been dampened by the US Federal Reserve cutting its forecast for the world's largest economy – though Fed chairman Ben Bernanke's pledge to consider further easing measures has taken some of the sting out of those concerns.

The FTSE All-World equity index is down 0.9 per cent, commodity prices are lower and perceived havens such as US Treasuries and the dollar are in demand. S&P 500 futures point to Wall Street greeting the bell with a fall of 1.4 per cent.

The FTSE Eurofirst 300 has opened with a loss of 1.6 per cent, following another weak start to the global trading day as the the FTSE Asia-Pacific excluding Japan index slumps 2 per cent. Tokyo was shut for a national holiday.

Investors don't need to look far for the source of the anxiety. The euro's 0.6 per cent fall, to $1.3668, illustrates that fears over the prospects for the bloc have been revived. The euphoria delivered by last month's Brussels deal on a package of measures to contain the sovereign debt crisis has swiftly evaporated.

Greek prime minister George Papandreou's decision to offer his people a vote on the latest aid programme has thrown that deal back in the air. Athens' EU partners have made it clear that a No vote would mean Greece would not receive the latest tranche of emergency funds and investors fear this would result in a messy default that would roil the financial system.

Meanwhile, traders also remain wary about the performance of other eurozone members' sovereign debt – a sign fiscal woes are not the preserve of Athens. In particular, all eyes are on the yields of Italian paper as benchmark yields above 6 per cent are considered incompatible with Rome's funding needs.

A linked test of investor sentiment in that regard will come when Madrid and Paris offer bonds for sale on Thursday.

With those issues in mind, investors are watching out for the European Central Bank's policy decision later in the day, the first led by new president Mario Draghi. Markets will be interested in anything Mr Draghi has to say about the ECB's programme of buying eurozone sovereign bonds.

They will also be wary of any comments out of the Group of 20 nations' summit, which might give a clue to any move on resolving the European debt crisis.

For now though, the trend is decidedly "risk off". And the usual suspects are under the cosh. Growth-focused currencies are attracting sellers, with the Aussie dollar down 1.2 per cent to $1.0220. Raw materials with a high beta to economic activity are losing ground: copper is down 2.7 per cent to $3.49 a pound, and Brent crude is off 1.2 per cent to $107.98 a barrel.

In contrast, the US dollar, which tends to do well at times of broader market stress, is up 0.4 per cent on a trade-weighted basis. Money is moving into "core" fixed income, with the yield on 10-year Treasuries down 4 basis points to 1.95 per cent (also helped by the possibility of more Fed quantitative easing) and the yield on equivalent Bunds down 7bp to 1.77 per cent.

Gold is down 0.8 per cent to $1,725 an ounce. seemingly taking a breather after its recent good run.

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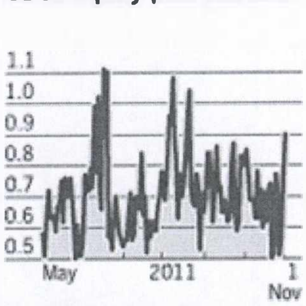
Trading Post.

Wall Street's pop at Wednesday's open, and subsequent rally of 1.6 per cent on the S&P 500, may provide much succour to those predicting a year-end surge.

CBOE equity put/call ratio



Source: Thomson Reuters Datastream

The foundation for the day's initial bounce was laid at the end of the previous session, in the 15-minute period between when the equity cash market closed and the S&P 500 futures settled.

For, no sooner had the cash market shut near the lows of the day, the futures pushed up to finish 0.9 per cent above "fair value".

Traders had talked of the need for the futures to hold the 1,225 mark for the bullish trend to remain intact. Surprise! that's just where it closed.

Given the sour mood at the time – the CBOE Equity Put/Call ratio hit 0.9 as investors paid up to protect portfolios – such a bullish bet on the next day's action speaks to a strong conviction among some that the market would rally.

There is much talk of fund managers having to chase performance gauges into November and December, two months that have averaged gains of 1.5 per cent and 1.7 per cent respectively over the past 60 years, according to Strategas.

In addition, contrarians will note the Bull/Bear ratio is near the bottom of its range, suggesting that there are plenty of pessimists left ripe for conversion.

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