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GLOBAL MARKET OVERVIEW

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Investors wary as spotlight falls on Rome

By Jamie Chisholm, Global Markets Commentator.

Monday 08:00 GMT. Traders appear wary of adopting bold strategies as they await developments in the eurozone debt saga, with Greece shifting to the background as Italy is framed by the spotlight.

Sentiment has deteriorated just prior to the European open as a move higher in Italian bond yields pushes down the euro and hurts risk appetite.

The FTSE All-World equity index is down 0.4 per cent and industrial commodities are mixed, but Treasury and Bund yields are nudging lower by a couple of basis points as traders seek "havens".

S&P 500 futures are weaker by 1 per cent, and the FTSE Eurofirst 300 is off 1.1 per cent. Currencies are displaying risk aversion, with the dollar index up 0.4 per cent and the euro down 0.8 per cent to $1.3726.

The underlying uncertainty is finding a vehicle in gold. The bullion has hit a fresh 6-week high above $1,773 an ounce as it rediscovers its haven cachet among some investors. It is currently up 0.9 per cent to $1,770 for the session.

Still, the moves are relatively calm compared with last week's storm. Markets were rocked back and forth by eurozone hopes and fears as the possibility of a messy Greek default rose and subsided in line with the possibility of a No vote in a Greek referendum on the latest bail-out package.

Investors fretted that such a scenario would fracture confidence in the European banking system and exacerbate the global economic slowdown.

That immediate threat has subsided after George Papandreou, outgoing Greek prime minister, reversed his referendum decision and entered talks with the parliamentary opposition.

Negotiations continue in Athens over who will lead the government of national unity that will start to implement the country's €130bn rescue plan. Investors tentatively await the outcome.

Meanwhile, leadership is also the issue in Rome, as Italian prime minister Silvio Berlusconi faces rebellion by allies that would leave him unable to move ahead with economic reforms pledged at October's eurozone summit in Brussels.

Italy's bonds have thus become the de facto prime gauge of eurozone stress. Investors are demanding euro-era record amounts to compensate for the risk of holding Rome's paper as the Italian government struggles to tackle its budget deficit.

The spread between Italian and German benchmark bonds is above 450 basis points and the yield on Rome's 10-year paper is up another 9bp to 6.46 per cent, a level widely considered unsustainable for Italy's funding needs.

Italy has thus overtaken Greece as the market's main concern for sovereign bond contagion.

Indeed, non-eurozone catalysts may be thin on the ground this week as the slate of premier macroeconomic data looks anaemic.

Traders may thus continue to reflect on last Friday's US payrolls numbers which, after revisions to previous months' data were taken into account, were supportive of the thesis that the world's biggest economy is not slipping into recession but is nevertheless struggling to gain significant traction.

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Earlier, in Asia, investors were minded to do some selling after Wall Street's 0.6 per cent dip on Friday. The FTSE Asia-Pacific index is down 0.5 per cent, led by a 0.4 per cent slip for Tokyo's Nikkei 225.

Exporters and financial shares struggled on concerns of Europe's debt crisis and the global economic outlook.

Chinese property shares slumped after Premier Wen Jiabao reaffirmed the government's intention to drive down property prices. But Chinese steelmakers gained ground after Shanghai Securities News said the government will release a five-year plan to develop the industry. The Shanghai Composite fell 0.7 per cent and Hong Kong's Hang Seng lost 0.4 per cent.

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