FINANCIAL TIMES

GLOBAL MARKET OVERVIEW

Last updated: February 8, 2012 8:17 am

Stocks hit fresh six month highs

26

By Jamie Chisholm, Global Markets Commentator

Wednesday 0800 GMT. Global stocks have hit a fresh six month high as hopes for the global economic recovery outweigh the sentiment-sapping impact of the lingering eurozone fiscal crisis.

The FTSE All-World equity index is up 0.4 per cent, its best level since the start of August, while traditional "risk on" features populate dealers' screens.

S&P 500 futures suggest Wall Street will start the session with a gain of 0.2 per cent, leaving the benchmark index just 1 per cent shy of its best close since the summer of 2008. The FTSE Eurofirst 300 has opened with an advance of 0.4 per cent.

Industrial commodities are seeing demand, with copper up 1.1 per cent to $3.91 a pound and Brent crude consolidates just above $116 a barrel.

US 10-year bonds have moved back to the 2 per cent level, up 2 basis points on the day, as residual "haven" buying is counteracted by optimism the US economy is gaining some traction, following Friday's stronger than expected jobs report. The US Treasury will auction $72bn in securities this week, with $24bn of 10-year up for grabs on Wednesday.

The move higher in core bond yields and major equity gauges of late speaks to the increasing conviction among traders that better economic data from the world's two biggest economies of late – the US and China – mean global commerce can absorb the fallout from the eurozone's debt woes.

Indeed, the euro is hovering near an 8-week peak on hopes that a debt restructuring and bailout deal can soon be reached between Athens and its creditors, which can stave off a messy default and so further reduce recently easing tensions in the bloc's sovereign bond complex.

The yields on Italian debt remain at 4-month lows, another sign say some, that the chances of sovereign debt contagion – beyond Greece, and potentially Portugal – is becoming increasingly unlikely.

Not so supportive of growth-focused assets has been the mixed corporate earnings season. Overnight, Disney became the latest big name to "miss" Wall Street's forecasts and Wednesday and Thursday brings a plethora of results for traders to chew on.

Earlier in Asia, Shanghai stood out with a 2.3 per cent gain as investors hoped Thursday's release of the January inflation report will show the pace of price rises is slowing, allowing Beijing to continue easing monetary policy.

The optimism on easing inflation came even as the Chinese government raised retail prices of petrol and diesel, a move that boosted the shares of the country's energy majors, a theme seen across the region following recent highs in the prices of crude oil. Property stocks also found support from Beijing's pledge to support first time buyers. Hong Kong added 1.2 per cent and the FTSE Asia-Pacific index is up 1.2 per cent.

In Tokyo, the Nikkei 225 rose 1.1 per cent to close above the 9,000 mark for the first time since October as a well-received earnings report from Toyota improved the mood in the sector. Shares in the carmaker hit a six-month high after it upgraded its fiscal-year earnings outlook.

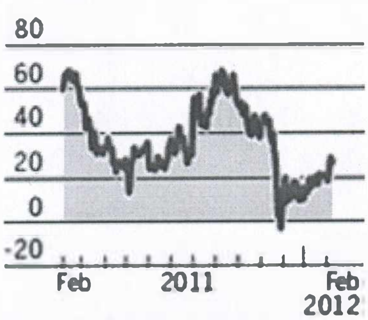
Sydney underperformed the region with a rise of 0.4 per cent after first-half earnings of mining giant BHP Billiton disappointed investors.

……

Trading Post.

The extra investors demand to hold 10-year gilts over Bunds has moved to more than 25 basis points for the first time since November.

Bunds and Gilts spread
10-year (basis points)



Source: Thomson Reuters Datastream

Does this signal the spread is on its way to the average of 59 basis points witnessed over the past 10 years? Gilts have been relatively stable, with yields trundling to record lows as a result of haven flows, growth fears and/or quantitative easing.

Indeed, much of the action, of late, has come from the Bund side of the equation. The spread turned negative at the end of November after investors were spooked by poor demand for a €6bn 10-year Bund auction. German yields moved swiftly higher.

The recent pullback in spread reflects the removal of that "failed" auction worry and the European Central Bank's programme of cheap lending to banks.

The wider spread also suggests investors have long priced in expectations that the Bank of England will announce further QE at its monetary policy decision on Thursday. An extra £50bn seems to be the consensus.

But the spread could tighten again if a Greek debt deal is done and Bunds lose haven cachet. Or the same could happen if no deal is reached and traders fret about Berlin's eurozone exposure.

......

Additional reporting by Song Jung-a in Seoul and Vivianne Rodrigues in New York