FINANCIAL TIMES

GLOBAL MARKET OVERVIEW

Last updated: February 16, 2012 8:09 am

Mood grim on Greek bail-out delay worries

84

By Jamie Chisholm, Global Markets Commentator

Thursday 08:00 GMT. The euro dipped below $1.30 and the market mood is fairly grim as traders react with dismay to a lack of resolution and building political tensions over the Greek bail-out.

So-called riskier assets are seeing sellers and funds are switching into perceived havens, with investors fretting that the impasse over Athens' €130bn aid package may result in a messy default by the Mediterranean nation and that this would batter regional sentiment and roil the continent's financial system.

The FTSE All-World equity index is down 0.6 per cent after Asia fell 1.1 per cent and the FTSE Eurofirst 300 opens with a loss of 0.8 per cent as dealers struggle to process a very busy day of European corporate results.

Financial stocks are having to deal with additional pressure from news that Moody's Investors Service placed various ratings of 114 financial institutions in 16 European countries on review for a possible downgrade. The FTSE Eurofirst banking index is down 1.7 per cent.

S&P 500 futures suggest Wall Street will lose 0.2 per cent on top of the previous session's 0.5 per cent decline. As well as worries over Greece, some analysts reckon that traders were disappointed that the US Federal Reserve's minutes, released on Wednesday, pointed to disagreement about the need for more market support measures, such as additional quantitative easing.

Commodities are struggling in the more cautious environment, with copper off 1.3 per cent to $3.75 a pound and Brent crude a few cents weaker at $118.88 a barrel.

The euro has hit a three week low of $1.2995 and is now down 0.4 per cent to $1.3015 as growth -focused currencies, such as the Australian dollar, come under pressure.

Stresses are again building in the eurozone sovereign bond complex as investors are fearful that the Greek farrago will re-ignite contagion effects. The yield on the Italian 10-year bond, for example, is up 9 basis points to 5.83 per cent, a two week high.

All eyes will be on a roughly €5bn auction of medium term Spanish bonds on Thursday, with France also due to test demand as it sells up to €8bn of paper.

Boltholes are in demand. The price of US 10-year Treasuries is higher, nudging yields down 2 basis points to 1.92 per cent. Bunds yields are also lower at 1.84 per cent.

On the same reasoning, the dollar index is up 0.3 per cent, and this is pressuring gold, which is off 0.4 per cent to $1,720 an ounce.

Earlier, Asian stocks were influenced by the Greek/Eurozone spat. "Suffice to say if 'Greece' appears in a headline, the knee-jerk reaction is to sell risk and try to figure things out later," David Watt, senior currency strategist at RBC Capital Markets, said in a note.

Australia underperformed regional markets as a series of disappointing earnings results outweighed a better than expected employment reading. Miners lost ground after metal prices declined and Brazilian resources group Vale said profit fell as customers pressed for pricing revisions. Sydney's S&P/ASX 200 lost 1.7 per cent.

Commodity shares were also soft in Hong Kong, leaving the Hang Seng lower by 0.6 per cent, while the mainland's Shanghai Composite shed 0.4 per cent after data showed foreign direct investment in China declined for the third month in a row.

In Tokyo, a weaker yen gave exporters a boost, but shipbuilders lost ground after Nomura warned that container shipping rates may begin to slip in the next few months. The Nikkei 225 could not buck the regional trend and closed down 0.2 per cent.

In Seoul, retailers were on the back foot as investors responded to figures showing sales at major South Korean department stores fell the most in three years last month, pushing the Kospi index down 1.4 per cent.

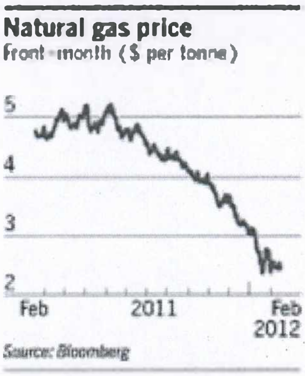
……

Trading Post.

Here's a trio of market nuggets that have piqued Trading Post's interest.

The yen. We warned two weeks ago that investors should watch out for Bank of Japan intervention. We were half correct. The BoJ has weakened the yen not by aggressively selling it but by boosting its asset purchase programme by Y65tn.

The dollar/yen cross this week traded above Y78.50 for the first time since October's traditional intervention. On Thursday it is Y78.42, little changed on the session.



The prospects for further yen weakness will depend on a continuing reduction in haven demand as the broader market sentiment improves, reckon analysts.

Silver. The grey metal fell hard and has rallied harder, since hitting, along with gold, a Christmas low of $26 an ounce. It is now struggling with resistance at $33-$35, and is at the bottom of that band on $33.27.

But investment demand is building. Futures market positioning is the strongest since the dramatic fall last September, says Standard Bank.

Natural Gas. Has the tide finally turned for the oversupplied and perennially bearish energy product?

Some brave souls have noted the chart below and reckon they can see a base being formed around $2.5 per mBtu.

......