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GLOBAL MARKET OVERVIEW

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Risk assets jump on Greek optimism

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By Stephen Smith in London

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Monday 6.00pm GMT. Global stocks advanced to six-month highs while crude oil hit nine-month peaks as risk assets rallied after China loosened monetary policy and optimism grew over a bail-out deal for Greece.

China's move to cut the reserve requirement ratio by 50 basis points initially pushed Asian commodity-linked currencies higher but these gains were pared during European trading, even though the perceived havens of the dollar and yen remained under selling pressure.

"We believe that the failure of the Australian dollar to extend gains following the announcement by China that it is to cut the reserve requirement ratio shows that bullish momentum is now fading," said Morgan Stanley analysts.

Although some Asian risk assets suffered a pullback as the impact of China's monetary easing move lessened, positive momentum globally was maintained by optimism over Greece.

With markets closed in the US for the Presidents Day holiday, the focus was firmly on Europe and the afternoon meeting of eurozone finance ministers with a positive resolution being increasingly priced in by investors.

"There is plenty of optimism that eurozone finance ministers will finally be able to rubber stamp Greece's second bail-out package at this afternoon's meeting in Brussels," said Jane Foley, of Rabobank.

The FTSE All World index climbed 0.6 per cent to 217.71, supported in earlier trading by a near 1 per cent rise for Asian stocks. Japan's Nikkei 225 Average pushed 1.1 per cent higher to close at its highest level for more than six months.

The positive sentiment also provided a firm underpinning for European stocks with the FTSE Eurofirst 300 climbing 0.7 per cent to 1,090.95 points and London's FTSE 100 index gaining 0.7 per cent to 5,945.25. In a shortened trading session US equity futures climbed, indicating that the S&P 500 was set to open at its highest level since June 2008, when the cash market starts on Tuesday.

"As always, expressions of optimism prior to any meeting of European leaders these days should be heavily discounted as the result is almost always a huge disappointment," said Michael Derks, of FxPro. "Greece remains a horror show and no amount of hype will change that reality. However, with investors more inclined to take on risk amid positive economic news from most advanced economies, Greece is not spooking risk-takers like it did last year."

The easing of tensions was indicated by a drop in sovereign benchmark bond yields across the eurozone periphery with Portugal's 10-year down 9 basis points to 12.37 per cent and Spain's lower by 9bp to 5.16 per cent, according to Reuters data. Italy's fell 9bp to 5.47 per cent.

"The likely delivery today of Greece's second bail-out might provide some aid to bonds in the periphery of the eurozone but, as far as we are concerned, meaningful and long-term improvement can only come if the eurozone corrects the structural flaws that gave way to this crisis in the first place," said Steven Barrow, of Standard Bank. "Greece should not be seen as the one bad apple in the region."

The euro was also buoyed by the upbeat mood, pushing forward 0.6 per cent to its strongest level for a week against the dollar at $1.3248 while broad dollar weakness was indicated by the dollar index slipping 0.5 per cent to 78.95.

Commodities also strongly benefited from rising risk appetite with Brent crude oil increasing 0.7 per cent to $120.27 a barrel after hitting eight-month intraday highs. US West Texas Intermediate crude reached nine-month highs of $105.74 a barrel, jumping 1.6 per cent, as markets also reacted to increasing tensions between Iran and the west.

"The apparent escalation in tensions between Iran and the EU over the weekend has been widely interpreted as bullish for oil prices," said Julian Jessop, of Capital Economics. "However, Iran's position looks increasingly weak and the regime may now be close to backing down. A release of oil from official stocks could also drive prices lower."

Copper, the metal strongly linked with expectations of global growth, reversed a six-day losing streak to gain 1.4 per cent to $8,290 a tonne in London. Spot gold rose for the first time in three sessions, up 0.5 per cent to $1,733 a troy ounce.

Elsewhere in Asia, Australia's S&P/ASX 200 index gained 1.4 per cent while South Korea's Kospi index added 0.1 per cent.

Chinese shares rallied as the reserve requirement ratio move is expected to boost lending capacity by an estimated Rmb350bn-Rmb400bn.

China's Shanghai Composite index gained 0.3 per cent but Hong Kong's Hang Seng index erased gains of as much as 1.3 per cent to finish down 0.3 per cent after investors took profits.

In the currency markets, the haven of the yen extended losses, trading at Y79.45 against the dollar, down 0.2 per cent.

The Australian dollar hit a session high of $1.0817 after Beijing's easing but reversed these gains to stand 0.1 per cent lower on the day at $1.0760. The New Zealand dollar came off a five-month high of $0.8429 reached early in the session for gains of just 0.1 per cent at $0.8397.

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