FINANCIAL TIMES

GLOBAL MARKET OVERVIEW

Last updated: May 7, 2012 9:41 am

Risk assets shunned after eurozone votes

85

By Neil Dennis in London

Monday 09.30 BST. The euro and equity markets fell sharply and bond yields in the eurozone's periphery nations climbed after France elected a new president and support for pro-Europe parties in Greece collapsed.

Europe's single currency fell below $1.30 for the first time since January – falling more than 1 per cent as low as $1.2964 – prompting foreign exchange analysts to predict the single currency would finally break out of its recent range against the US dollar.

Analysts said that rising spreads between debt of the peripheral eurozone nations and those of the core could be crucial in determining the euro's value over the coming days.

"Should peripheral spreads rise in response to the election outcomes it would likely signal deeper vulnerability for the euro," said analysts at Citigroup. They predicted that the European Central Bank would be forced to embark on another round of its longer-term refinancing operation as early as next month to restore stability.

Election results in France and Greece on Sunday reflected failing public support for the eurozone, costly bailouts and austerity measures implemented across the currency bloc.

In France, François Hollande swept to victory in the presidential election, ousting Nicolas Sarkozy who had played a key role in structuring bailout schemes for indebted eurozone members and pushed for strict fiscal policies aimed at managing huge debts.

While the country's stock market opened sharply lower, yields on benchmark bonds climbed as investors sold off French debt ahead of the scheduled sale of up to €8bn of short-term notes later in the day. The yield on the 10-year bond climbed 6 basis points to 2.87 per cent.

Greece's general election proved inconclusive, meaning there will probably be another election in a few months, but the results showed a dramatic swing away from the pro-Europe parties in favour of anti-austerity groups, prompting a flight of capital away from equities, particularly banks, and the country's sovereign debt.

Greece's 10-year bond yield soared 187 basis points to 21.75 per cent, while the Athens General equity index opened 7.7 per cent lower as banks bore the brunt of the sharp sell off. Alpha Bank lost 22.1 per cent, while National Bank of Greece shed 21.9 per cent in early trade.

Elsewhere across the periphery bond markets, Italy's 10-year yield rose 12bp to 5.53 per cent and Spain's added 10bp to 5.78 per cent. By contrast, Germany's 10-year Bund yield was down 1bp at 1.57 per cent.

Meanwhile, equity markets were sharply lower across the region, including Germany's Xetra Dax – down 1.4 per cent – after Angela Merkel's ruling party lost ground in a local election.

France's CAC 40 fell 1.2 per cent, with Crédit Agricole leading the losses, down 6.5 per cent. Italy's MIB lost 0.7 per cent and Spain's Ibex 35 fell 1.5 per cent.

Asian equities fell, hit also after US jobs data disappointed. By the close in Hong Kong, the FTSE Asia Pacific index was down 2.3 per cent, with every major Asian stock market in the red.

The Hang Seng in Hong Kong was down 2.6 per cent, the Kospi in Seoul was off 1.6 per cent and the Nikkei was 2.8 per cent lower.

US, Japanese and Australian bonds rose as investors sought the safest assets. US 10-year yields, which move inversely to prices, fell 4bp to 1.84 per cent by mid-morning in Tokyo, according to Bloomberg.

Additional reporting by Alice Ross in London, Robert Cookson in Hong Kong and Song Jung-a in Seoul