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GLOBAL MARKET OVERVIEW

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Strong German GDP eases eurozone fears

By Jamie Chisholm, Global Markets Commentator

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Tuesday 10.00 BST. Signs that the German economy is standing stoic within the eurozone maelstrom is helping to ameliorate lingering fears about the destabilising impact of any possible Greek default and exit from the monetary union.

The euro has perked up, gaining 0.2 per cent to $1.2852, after Berlin revealed that first-quarter GDP in the continent's biggest economy had expanded by 0.5 per cent, much stronger than expected.

Europe's FTSE Eurofirst 300 rose 0.5 per cent at the open, having lost 3.8 per cent in just the previous six sessions.

But the underlying mood is still cautious after several sessions of heavy declines for growth-focused products as traders try to discount Europe's tense fiscal, political and financial system environment.

And the Eurofirst has shed most of its initial gains to trade flat as banks once gain soften.

Indeed the better news on the German economy – which has helped the 10-year Bund yield move off record lows to trade up 4 basis points at 1.48 per cent – has been tempered by disappointing GDP data from France and Italy.

Spanish and Italian bond yields remain near recent highs, the former above the 6 per cent mark deemed a sentiment-sapping line in the sand for many analysts.

Meanwhile, commodities are still under pressure. Copper is down 0.4 per cent to $3.54 a pound and US-traded crude is down 0.5 per cent to $94.32 a barrel, a near five-month low.

"Risk has primarily traded with European headlines, which we suspect will continue to put a damper on prospects until a more sustainable solution can be found to Greece's political imbroglio," said Morgan Stanley in a research note.

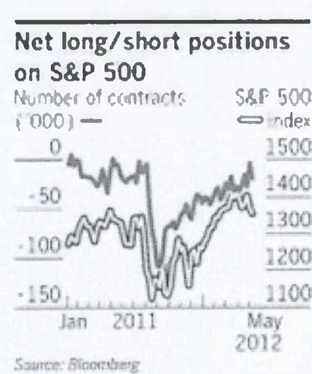
The wave of risk asset selling has continued to flow round the global trading zones, though its momentum does appear to be ebbing, with traditional gauges of optimism putting in mixed performances.

The dollar index, for example, which tends to rally at times of stress, is down 0.1 per cent, while gold, which of late has been more closely correlated to broader market optimism, is down another 0.1 per cent to $1,553 an ounce, just a few bucks above its cheapest price in 2012.

Equities are also offering a muddled picture. Asia has borne the brunt, with the FTSE Asia Pacific index falling 0.9 per cent to a four-month low. Exporters were badly hit on worries about demand from Europe. Resources groups struggled after the Reuters-Jefferies CRB commodities basket closed the Monday session at its lowest level since October 2010.

But Wall Street looks set to rally from its weakest close since the start of February, with US stock futures suggesting the S&P 500 will gain 0.3 per cent.

The benchmark, like global peers, has been the victim of resurgent eurozone woes and soft economic data.



These factors have dimmed the glow from a generally well-received corporate earnings season, where, with more than 90 per cent of S&P 500 companies reporting, about two-thirds have beaten expectations.

And the talk on the Street is that the charts for the equity market look precarious. On Monday, the S&P 500 closed at 1,338, below the supposed 1,340 support level. Next stop may be 1,320, argue some.

Possibly bullish is the sight of the 10-day relative strength index at 27.8, already in "oversold" territory – often a handy contrarian indicator.

More worrying for the bulls, perhaps, is that large players in futures still appear relatively optimistic.

The chart shows how traders are net short only 19,375 S&P 500 (and adjusted S&P E-mini) contracts, having sharply trimmed bearish positions since their September four-year high.

Again, such moves have tended to be contrarian but for a year they have merely tracked the market.

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

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