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GLOBAL MARKET OVERVIEW

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Eurozone concerns weigh on sentiment

By Jamie Chisholm, Global markets Commentator

Tuesday 08:00 BST. Euphoria over Spain's bank rescue proved fleeting as a British summer.

The ebullience of recent sessions has been replaced with cautious fiddling – the overall tone mildly downbeat.

Elevated eurozone "peripheral" sovereign bond yields speak to the market's nervousness that Madrid's €100bn deal is no panacea with regards to the bloc's chronic debt crisis.

The FTSE All-World equity index is down 0.3 per cent, industrial commodities are once again in retreat and money is moving into selected havens, such as German Bunds. The Europe-wide FTSE Eurofirst 300 has opened with a loss of 0.1 per cent after the Asia-Pacific region shed 0.7 per cent.

Not all prime sentiment gauges are pointing to "risk off". however. The dollar index is down 0.1 per cent and the euro is a bit firmer, up 0.2 per cent to $1.2485.

US stock futures suggest Wall Street will gain 0.3 per cent as the S&P 500 looks to claw back some of the previous session's 1.3 per cent slide.

Indeed, movement in the S&P 500 futures over recent days encapsulates the markets reasoning and mood swings of late.

Late on Sunday night the S&P 500 futures contract was pointing to the cash market trading at nearly 1,350 as traders welcomed the Spanish bank bailout deal.

But the S&P 500 closed on Monday at 1,309, a near 3 per cent retrenchment from the inter-session peak as the euro faltered and initial strength in Spanish sovereign debt evaporated, pointing to wariness over Madrid's fiscal position.

The reversal rather suggests that the rally seen at the end of last week and in the early hours of Monday was in expectation a Spanish bailout would sharply ease eurozone tensions.

Investors became, and clearly still are, anxious about the detailed structure of the deal, what impact it may have on Madrid's finances and how it will effect the pecking order for the country's creditors.

"The [ECB] loans will add directly to the Spanish government's liabilities and so increase the debt-to-GDP ratio by around 10 per cent, leaving further downgrades likely," said strategists at RBC Capital.

Traders are also worried about prospects for Italy. Rome's benchmark yields moved higher with Madrid's on Monday and this is likely to add to the costs for Italy when it auctions what may be about €10bn of bonds on Thursday.

In addition, the markets also face the hurdle of the June 17 election in Greece, a poll that could determine the country's fate within the eurozone, with the more pessimistic fearing a "Grexit" which might deliver political, economic, social and financial system turmoil to the region.

These worries can be seen in the sovereign bond markets. The yield on Spain's 10-year benchmark is stable on the day but sitting near a 5-month high of 6.51 per cent. Italian 10-years are 6.01 per cent, close to a fresh four month high.

Meanwhile, German Bund yields remain only several basis points above record lows as investors continue to place a high premium on perceived havens. The 10-year Bund is down 1bp at 1.31. US equivalents are up 1bp to 1.60 per cent.

Asian markets had finished the previous session in chipper mood only to find Europe and the US had had second thoughts on the Spanish bank deal. Consequently, many Asian bourses are in a sulk, with Tokyo's Nikkei 225 losing half Monday's 2 per cent advance.

Energy producers slumped as global growth concerns pushed benchmark US crude futures below $83 a barrel for the first time since October. The WTI contract is now down 1.2 per cent to $81.73 a barrel.

Miners lost ground on growth concerns and copper is off 0.9 per cent to $3.31 a pound.

Still, Australia's resource-rich S&P/ASX 200 index inched up 0.2 per cent as investors returned from a three-day weekend, and helped as Qantas Airways soared on news the carrier is putting in place steps to defend against a possible hostile takeover attempt.

In China, higher-than-estimated new bank loans supported property developers. Bank stocks slipped, however, with BNP Paribas cutting estimates for profits and margins in the sector after Beijing's recent interest rate cut. The Shanghai Composite lost 0.7 per cent.

Additional reporting by Song Jung-a in Seoul

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