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GLOBAL MARKET OVERVIEW

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Spain bailout cheers markets

By Jamie Chisholm, Global Markets Commentator

Monday 08:00 BST. Stocks and the euro are rallying hard as traders bet that Spain's up-to-€100bn bank bailout deal can ease the eurozone debt crisis.

Industrial commodities are also seeing firm demand after Chinese data showed stronger than expected exports and weaker than forecast inflation, raising hopes that Beijing could continue to loosen monetary policy if required.

The FTSE All-World equity index is up 1.2 per cent after the Asia-Pacific region surged 1.8 per cent and as the FTSE Eurofirst 300 opens with a gain of 1.5 per cent. Madrid's Ibex 35 is up 4.6 per cent and Europe's banking sector is adding 3.3 per cent.

S&P 500 futures suggest Wall Street will continue the bullish trend of late last week, adding 1.3 per cent when the bell rings.

As money moves into growth-focused products, it leaves perceived havens. The yield on US 10-year Treasuries, which just a week ago was at a record low below 1.50 per cent, is up 5 basis points at 1.68 per cent. Equivalent duration Bunds are up 7bp to 1.38 per cent.

The dollar, which has benefited of late from burgeoning eurozone and global growth worries, is pulling back sharply from recent highs, losing 0.7 per cent on a trade weighted basis.

The main source of the building risk appetite is clear. The euro is trading at $1.2634 compared with Friday's close of $1.2516 as investors welcome news that Madrid has agreed to borrow as much as €100bn to shore up its struggling financial system.

The latest US currency futures data show record short euro positions and it is likely that some of these investors are feeling the need to cover their trades, so adding to the single currency's bounce.

The market feels the Spain-EU deal has treated a source of banking sector contagion. As Barclays says in a note to clients, it offers "highly reassuring evidence that European governments were co-operating effectively, after a period when such co-operation seemed less evident than usual".

Spanish sovereign bonds are attracting buyers as the deal reduces tensions. The yield on the benchmark 10-year is down 14 basis points to 6.07 per cent.

Investors sensitive to eurozone disappointment will be aware, however, that the market faces another hurdle at the end of the week when Greece holds its second election in quick succession after a previous poll left politicians unable to form a coalition.

Of particular concern to some traders is the prospect of a victory for parties who seek to dismiss the latest EU/IMF bailout and austerity package – a move many fear could result in Athens leaving the eurozone, triggering uncertainty, possible capital flight and further contagion.

Still, for now, the mood is generally upbeat and the usual suspects are taking advantage with gold up 0.4 per cent to $1,601 an ounce and the Australian dollar at $0.9983 against Friday's close of $0.9911.

The latter has been particularly buoyed by news out of China, where figures over the weekend showed exports rose 15.3 per cent in May from a year earlier while inflation receded to a two-year low of 3 per cent.

The Shanghai Composite added 0.9 per cent, Hong Kong's Hang Seng bounced 2.4 per cent and Tokyo rose 2 per cent in response to the news from China and Spain.

Oil prices jumped after China's crude imports hit a record in May, with Brent crude up $1.90 at $101.36 a barrel. Meanwhile, copper leads the metals rally, gaining 2.6 per cent to $3.37 a pound on expectations of continuing demand from the world's second biggest economy.

Additional reporting by Song Jung-a in Seoul

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