ISSN: 2241-4916

Eurobank Research
www.eurobank.gr/research
research@eurobank.gr

Brief summary of key market developments

August 7, 2013

Paraskevi Petropoulou
G10 Markets Analyst
ppetropoulou@eurobank.gr

Ioannis Gkionis
Research Economist
igkionis@eurobank.gr

- **US Treasuries** moved higher in European trade on Wednesday supported by y-day's well received sovereign bond auction. Global equity markets' lackluster performance also favored. **German government bonds** followed suit.
- In **FX markets**, the **USD/JPY** remained under pressure, weighed down by heightened market uncertainty about when the Fed will start scaling back its monetary stimulus. The **EUR/USD** remained stuck in a consolidation phase.
- **Greece**: Speaking to reporters y-day, **Greece's Minister of Labour, Social Security and Welfare Yiannis Vroutsis** reiterated that the government does not intend to further reduce the minimum wage before 2016 or abolish the 13th and 14th month salary payments to the private sector. Mr. Vroutsis's comments followed recent press reports suggesting that the troika has requested the imminent adoption of new structural measures aiming to induce more flexibility in the domestic labor market. In other news, **Greece remained in deflation territory** in July for the fifth month in a row as the on-going acceleration of product market reforms, labor cost declines and subdued domestic demand are slowly feeding through into lower consumer prices.
- **Bulgaria: Consumer confidence** deteriorated, albeit marginally, in July.
- **Serbia: Gas prices** are expected to rise by another 5.7% on average as of September 1st.
- **Romania:** Industrial sales expanded by 5.4% yoy in H1-2013.

Latest Developments/News & Macro releases

Greece: Speaking to reporters y-day, **Greece's Minister of Labour, Social Security and Welfare Yiannis Vroutsis** reiterated that the government does not intend to further reduce the minimum wage before 2016 or abolish the 13th and 14th month salary payments to the private sector. Mr. Vroutsis's comments followed recent press reports suggesting that the troika has requested the imminent adoption of new structural measures aiming to induce more flexibility in the domestic labor market including, among others, a further reduction in the minimum wage or/and the doubling of the 5% monthly limit of layoffs in companies with more than 150 employees. In other news, Greece remained in deflation territory in July for the firth month in a row as the on-going acceleration of product market reforms, labor cost declines and subdued domestic demand are slowly feeding through into lower consumer prices. Specifically, the **EU-Harmonized Index of Consumer Prices (HICP)** dropped by 0.5%yoy in July following a 0.3%yoy decline in June. According to the updated IMF report on Greece (July 2013), Greece's HICP inflation rate is projected to average -0.8% in 2013 following a realization of +0.9%yoy in 2012.

Bulgaria: Consumer confidence deteriorated, albeit marginally in July as Bulgarians became more pessimistic about the prospects of the domestic economy the next 12 months and more concerned about the outlook of the labor market. The consumer composite confidence index came at -37.9 down from -37.0 in June.

Serbia: The energy regulator AERS announced that that the **gas tariffs for industrial and residential consumer**s could increase by an average of 5.7% as of September 1, due to higher wholesale gas prices for public suppliers. This would be the second gas price hike so far this year after AERS approved a 9.6% average increase in early 2013.

Romania: Industrial sales rose by 5.4% yoy in H1-2013 driven by higher demand for manufactured items (+5.7% yoy) and lower sales of mining & quarrying items (-2.9% yoy). Sales of capital goods increased by 16.8% yoy while sales of durable and intermediate goods were up by 5.7% yoy and 4.5% yoy respectively. Consumer goods sales rose by 1.6% yoy, but sales in the energy sector fell by 13.5% yoy.

Equity markets

Major European bourses were seen tracking Asian markets lower in early trade on Wednesday, pressured by heightened market uncertainty about the timing of a possible reduction in the pace of the Fed's monthly bond purchases. Speaking to reporters y-day, FOMC's policy-setting committee members Charles Evans and Dennis Lockhart reaffirmed the central bank's intention to start scaling back its economic stimulus program in the not too distant future. Yet, market participants who were eagerly waiting for clarity on the timing of the Fed's plan, were disappointed. **Chicago Fed President Charles Evans** said that the US central bank "is quite likely" to start reducing the flow of monthly bond purchases later this year, adding that upcoming domestic economic data will determine the exact month this will occur. In a separate event, **Atlanta Fed President Dennis Lockhart** said that the central bank could start reducing its bond-buying programme as soon as next month, adding that the Fed might wait longer if the pace of economic growth in the second half of this year fails to improve in line with the bank's staff projections. Investors' appetite for profit taking following the recent rally that lifted major European bourses to multi-month highs, may also had an impact. Against this background, the **Euro STOXX 50 index** was trading 0.4% lower at the time of writing close to 2,780, adding to y-day's 0.7% losses and slipping further away from a two-month closing high of 2,809 recorded last week. Amid persisting uncertainty about the timing of the Fed's tentative plan to start tapering off its bond-buying programme, **major US equity indices** also ended lower overnight with the Dow Jones industrial average index falling by 0.60%, to 15,518.74 while the S&P 500 index declined by 0.57%, its biggest one-session fall since June 24, to 1,697.37 and the Nasdaq Composite index dropped by 0.74% to 3,665.77.

FX markets

The **EUR/USD** remained stuck in a consolidation phase in European trade on Wednesday. The pair was trading close to 1.3282/85 at the time of writing, trapped within the 1.3050-1.3350 range that prevails since mid-July. The recent string of firmer-than-expected US data supports the view that the Fed will probably start tapering off its QE before the end of this year. On the flip side, ECB President Mario Draghi reiterated last week that interest rates will remain at present or lower levels for an extended period of time. While an expected policy divergence between the Fed and the ECB does not bode well for the EUR/USD, market participants do not seem willing to push the pair below the lower boundary of the recent range amid persisting uncertainty over the timing of the Fed's planned tapering program. Against this background, there is little to suggest that the EUR/USD is poised to break the recent range in either side any time soon. Technically, immediate support stands at today's intraday low of 1.3272 ahead of last week's 1.3188 trough while on the upside, major resistance lies within 1.3315/20 in the wake to last week's 1.3345 peak. Elsewhere, the **USD/JPY** remained under pressure for the third session in a row hovering around 96.95/98 at the time of writing, not far from a six-week low of 96.75 recorded earlier in Asia amid persisting market uncertainty over when the Fed will start tapering off its economic stimulus programme. Focus is on the outcome of the BoJ's two-day policy meeting that concludes on Thursday as well as Governor Haruhiko Kuroda's press conference. Any potential comments related to the need for the implementation of certain fiscal reforms have the potential to push the JPY even higher in the coming sessions. This is because such remarks could be perceived as a signal that the BoJ starts getting uncomfortable in pursuing aggressive monetary easing policy. Technically, strong support lies at 96.72, the 61.8% retracement of the USD/JPY's rally from June 13 to July 8.

Government bond markets

US Treasuries moved higher in European trade on Wednesday supported by y-day's well received $32bn bond auction in 3-year notes. Global equity markets' lackluster performance amid heightened market uncertainty about when the Fed will start scaling back its monetary stimulus, also favored. Long-dated Treasuries outperformed with the 10-year yield trading close to 2.618% at the time of writing after ending at a multi-session high of 2.642% in the prior session. Against this background, the 2/10-year UST yield curve undertook some bullish flattening with the corresponding spread standing close to 232bps at the time of writing, ca 2bps narrower compared to y-day's settlement. The US Treasury is scheduled to execute the second and final part of its three-part August refunding selling $24bn in 10-yr Treasuries on Wednesday and $16bn in 30-year bonds on Thursday. Tracking gains in US Treasuries, **German government bonds** firmed in European trade with the 2/10-year yield spread hovering around 151bps at the time of writing after ending near a four-week high slightly above 153bps in the prior session.

Research Team

Editor, Professor **Gikas Hardouvelis**
Chief Economist & Director of Research Eurobank Group

Financial Markets Research Division

Platon Monokroussos: *Head of Financial Markets Research Division*
Paraskevi Petropoulou: *G10 Markets Analyst*
Galatia Phoka: *Emerging Markets Analyst*

Economic Research & Forecasting Division

Tasos Anastasatos: *Senior Economist*
Ioannis Gkionis: *Research Economist*
Vasilis Zarkos: *Economic Analyst*
Olga Kosma: *Economic Analyst*
Maria Prandeka: *Economic Analyst*
Theodosios Sampaniotis: *Senior Economic Analyst*
Theodoros Stamatiou: *Research Economist*

Eurobank EFG, 20 Amalias Av & 5 Souri Str, 10557 Athens, tel: +30.210.333 .7365, fax: +30.210.333.7687, contact email: Research@eurobank.gr

Eurobank Economic Research

More research editions available at http://www.eurobank.gr/research

- **New Europe**: Economics & Strategy Monthly edition on the economies and the markets of New Europe
- **Economy & Markets**: Monthly economic research edition
- **Global Economic & Market Outlook**: Quarterly review of the international economy and financial markets

Subscribe electronically at http://www.eurobank.gr/research
Follow us on twitter: http://twitter.com/Eurobank

ISSN: 2241-4916