Equities cheer eurozone deal

By Jamie Chisholm, Global Markets Commentator

**Thursday 12.30 BST.** Risk assets are in demand after European leaders in Brussels reached a deal to tackle the region’s sovereign debt crisis.

“No complacency, hard work now,” said outgoing European Central Bank president Jean-Claude Trichet as he left the summit in the early hours of the morning.

But traders are not minded to heed such caution. The FTSE All-World equity index is up 2 per cent, commodities are higher, with Brent crude up 1.8 per cent to $110.90 a barrel, while growth-focused currencies, such as the Aussie dollar, surging 2.4 per cent, are attracting buyers.

The euro is up 1 per cent to $1.4019, having earlier hit a seven-week high of $1.4037. The FTSE Eurofirst 300 has followed a strong Asian session with a gain of 3.2 per cent, with the banking sub-index bouncing 8.3 per cent on hopes the financial sector’s sovereign debt exposure can be contained and that capital raisings will not have to be as onerous as feared.

Haven trades are losing ground, with the dollar index off 0.7 per cent and 10-year Treasury yields up 8 basis points to 2.29 per cent. Bunds are losing their cachet, as investors’ fears about Europe decline. The 10-year Bund yield has jumped 13bp to 2.16 per cent.

Stresses in the eurozone credit markets are receding after the summit pledged to raise the European Financial Stability Facility firepower to €1,000bn. Yields on Italian benchmarks, which have been in the line of fire of late, are down 12bp to 5.80 per cent.

Charles Diebel, head of market strategy at Lloyds Bank Corporate Markets in London, seemed to sum up much initial comment on the Brussels deal: positive that progress had been made, but wary that it was no “silver bullet” for the eurozone debt crisis and much detail had yet to be hammered out.

“Officials have certainly come up with a comprehensive list of actions but we are certainly still a long way from all the process parts being in place and thereby we will remain subject to ‘headline risk’ in the coming months,” he said in a note.

“I think the announcement is enough to buy some time and generate a moderate risk-on phase. However, without more emphasis on growth and how to support the restructuring of economies without direct support is something that is not addressed and will need to be,” he added.

Still, S&P 500 futures suggest Wall Street will greet the opening bell with a 2.1 per cent pop, This would take the benchmark to its best level since the start of August, a move that reflects hopes for the eurozone deal, a decent global corporate earnings season and some marginally better US and Chinese
economic data of late.

One of the busiest company reporting days of the year across Asia, Europe and the Americas will be scanned for further evidence of corporate prospects, while the macroeconomic highlight is the first reading of US gross domestic product, due at 1330 BST.

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Trading Post.

Two recent Trading Posts need revisiting.

First, the yen. The Japanese unit on Wednesday hit a postwar high against the dollar of Y75.69, prompting more chatter about intervention from the Bank of Japan.

At the end of September, we noted two differing views about the yen’s prospects. Technical considerations led Mizuho Bank to predict the $/Y cross would hit Y60.

But Capital Economics thought debt and demographic issues, intervention fears and easier monetary policy would see it weaken to Y90 by the end of 2012.

CE is honest enough to state it has changed its call. In a note, the research boutique says those three factors have been overwhelmed by continued haven flows and a rising belief the US may get QE3. It now sees Y60 by 2013.

Some traders had mused that the BoJ could intervene on Thursday after its October policy meeting. In the event, the central bank eased further by ramping up its programme of bond purchases, and the yen has subsequently firmed to Y75.86, up 0.5 per cent on the day.

Next copper. Last week, we noted how the recent stock market rally had come at a time of poor performance by the metal, suggesting investors were not paying attention to deteriorating global economic conditions.

Cue an intraday three-session bounce of 15 per cent for copper after China’s factory PMI data showed expansion. A broad commodity rally ensued. The market-wide risk appetite on Thursday is helping copper put on another 4 per cent to $3.62 a pound.

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