

Unchanged ECB, euro zone PMIs halt stock rally
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Slightly slower growth in euro zone business activity last month and unchanged interest rates today halted this week's European stock market rally in its tracks.

Investor appetite for risk showed up in some areas, however, with 10-year Greek government borrowing costs falling below 6% for the first time in four years ahead of the country's expected return to the bond market later this month.

Seventy of 72 economists polled by Reuters correctly predicted the European Central Bank would keep its main interest rate on hold at a record low 0.25%.

But with inflation at a four-year low of 0.5% and many observers saying the door is open to further easing, the decision not to act pushed stocks into negative territory and lifted the euro from its low of the day.

The focus now shifts to a news conference with ECB President Mario Draghi due to start at 1230 GMT (8.30pm MYT), where markets will watch for any comments that may indicate possible action ahead.

Signs of a post-winter improvement in the US economy, expectations Beijing will take steps to boost the Chinese economy and a reduction in emerging market volatility had lifted global stocks and core government bond yields this week.

Yesterday, the S&P 500 hit a record high and Asian stocks a four-month peak, while benchmark US 10-year Treasury yields hit a one-month high and Greek 10-year yields posted their biggest one-day fall in two months.

"Risk assets in Europe are broadly flat. The main news in Europe was the PMI reports (and) the final euro area indices for March were a tad lower than expected," said Barclays economists in a note to clients.

At 1200 GMT (8pm MYT), most of Europe's major indices were lower on the day. The FTSE Eurofirst 300 index of leading European shares was down 0.2% at 1,340 points, Germany's DAX was down a quarter of 1% at 9,600 points and France's CAC 40 was off a fifth of 1% at 4,422.

Britain's FTSE 100 index was flat at 6,658 points.

Overnight, MSCI's broadest index of Asia-Pacific shares outside Japan added 0.1%, brushing a new four-month high, and Japan's Nikkei jumped 1.2% to a three-week peak after China cut taxes for small firms and updated infrastructure spending plans.

In bond markets, 10-year German government bond yields inched up a basis point to 1.63% and their Greek equivalent slipped to a fresh four-year low of 6.16%.

Greece lined up a group of banks today to manage its first new bond sale since the country restructured its debt two years ago. The transaction, expected later this month, will mark one of the fastest-ever comebacks for a defaulted sovereign.

France and Spain sold a combined 13.1 billion euros (RM59.19 billion) of bonds today in auctions that drew strong demand from investors.

In currencies, the yen remained on the back foot as its safe-haven appeal continued to fade. The dollar traded at 103.95 yen (RM3.28), after briefly touching a 10-week high of 104.075.

The euro was marginally higher on the day at US\$1.3775 (RM4.52) against the dollar, recovering a quarter of a cent after the ECB kept rates on hold.

Juergen Michels, chief economist at BayernLB, said Draghi was "likely to give a very strong verbal message that (ECB policymakers)... are willing to take further action on both the rate side as well as on the side of quantitative easing (QE)."

Sterling slid 0.2% to US\$1.6590 as a fall in UK service sector growth to an eight-month low in March offset earlier remarks from Bank of England governor Mark Carney that interest rates could rise before May next year.

In commodities markets, gold fell 0.5% to US\$1,283 an ounce, three-month copper on the London Metal Exchange was down 1% at US\$6,607.00 a tonne, and Brent oil was up 0.4% at US\$105.18 a barrel.

Investors are also looking ahead to US employment data for March on Friday. Private-sector jobs and factory orders data yesterday strengthened expectations of another solid report. – Reuters, April 3, 2014.

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