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EU Cheatsheet: ECB Can't Lift the Spirits

- The ECB cut its benchmark refi rate by 25bp to 0.75%, as most analysts had expected. It also lowered the marginal lending rate to 1.5% and the deposit rate to zero, but refrained from announcing a further long-term LTRO. ECB President Draghi said it would take time for the effects of the first two LTROs to feed through, and that the board had not discussed the possibility of another operation.

- EURUSD responded negatively to the outcome, slumping to its lowest in over a month and back in sight of its 2012 low at 1.2288.

- Nor did the cut did not offer much of a fillip for Spanish bonds, which took a further beating on Thursday. Part of that was down to a disappointing Bono auction. Spain managed to sell the EUR3bn it was targeting across three lines, but market sources spotted immediately that the auctions had long tails. The bid cover/ratios were also lower than last time round (Spain sold EUR1.239bn in the 3y; bid/cover 2.3 vs 3.01 last time; EUR1.015bn in the 4y; bid cover 3.57 vs 3.16, and EUR747mn in the 10y; bid/cover 3.2 vs 3.29).

- A French auction was also disappointing, with yields higher than the previous sale. EUR7.825bn of Oats were sold across three lines (Oct 2019; April 2022 and Oct 2023).

- Ireland's return to the market was more successful, if modest in ambition. It sold EUR500mn of 3m T-bills at an average yield of 1.8% -- less than Spain is currently paying for the same duration. The head of the debt agency said Dublin hoped to return to the longer-term debt market by early 2013.

- While the market was waiting for Draghi's press conference to start, comments from German Chancellor Angela Merkel hit the wires. Her emphasis on the status quo merely added to the EUR bearishness, saying last week's Summit deal did not entail any change to current bailout rules and did not involve any parties taking on additional liabilities.

- Denmark also cut its benchmark rate by 25bp to 0.20%, and cut its certificates of deposit (CD) rate to -0.2% -- the first time Denmark's central bank has cut one of its secondary rates to negative.

- UK-based consultancy Capital Economics has won a GBP250,000 prize to plan the least disruptive way in which a country could leave the Eurozone. The 18-point exit plan involves bank closures, temporary capital controls and the introduction of an official one-for-one exchange rate with the euro and a new currency.

Older News

- France's new government has announced EUR7.2bn of tax rises, including one-off levies on wealthy households and big corporations, on Wednesday. "In its first major raft of economic measures since Francois Hollande was elected president in May promising to avoid the painful austerity seen elsewhere in Europe, the government targeted companies and the rich with tax hikes," writes the UK's Daily Telegraph. France is attempting to cut its public deficit from 5.2% of GDP last year to an EU limit of 3% in 2013.

- France also announced an increase in taxes on all foreign second holiday home owners. They will now be liable to a 35.5% tax on rental income from January 1, 2012 and 34.5% tax and on any profits made from selling it with effect from end of this month.

- The WSJ reports German Chancellor Angela Merkel's party has gained some support after the European Summit. Merkel's popularity rose from 34% to 36%.

- Finland continues to voice opposition to the way the ESM will be used. "A June 29 statement from the 17 euro-area leaders stripping the European Stability Mechanism of its preferred creditor status in Spain was incomplete," Bloomberg reports Martti Salmi, a Finnish Finance Ministry official, as saying.

- In Spain, the country's high court has opened a fraud probe into Rodrigo Rato, the former IMF chief who was until recently chairman of Bankia. "The investigation into Mr Rato, along with 32 other top Bankia executives, is likely to draw in some of the most prominent names in Spanish politics and business," writes the FT.

- Is Cyprus the new Iceland? Cypriot president Demetris Christofias said on Wednesday Russia is offering more favorable bailout terms than the Troika. Estimates say the country requires around EUR12.5bn in aid.

- On Tuesday, the ECB announced it would cap the amount of government-guaranteed debt that banks can post as collateral in return for its loans at current levels.

- Reuters reported Tuesday that Eurozone finance ministers need more time to finalize the bailout for Spanish banks and that the deadline has been pushed back to July 20.

Published by: CitiFX Wire
05 July 2012

Contact: [redacted]
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