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GLOBAL MARKETS : Fed party poopers

Dissident voices from the **FOMC** are getting louder and talk of modifying QE prematurely is getting more frequent. This can still easily be outweighed by the dovish members of the Fed, led by Bernanke himself. A different matter is how much closer unemployment will be to the Fed's stated condition for an end to QE of 6.5% towards year-end. The present US recovery has clearly been less buoyant than previous ones due, no doubt, to indebtedness, and job creation has been slower. But the upward trend in employment is steady, and growth in the labour force looks unlikely to keep the unemployment rate from being closer to 7% than to 8% by year-end. It's hardly bad news, of course, if an end to QE, or even monetary tightening, came for all the right economic reasons. But risk markets would still need to adjust to less hand-holding from the Fed.

US stock market jitters last week were perhaps a foretaste of such *QE anxiety*, even if US macro-data and renewed housing bubble concerns over China contributed as well (see below). Against this background, **US Treasuries** actually received a modest flight-to-quality bid. This pattern could continue for a while, as market trends generally flatten. The **USD** still looks like a winner in this setting, both against EUR and JPY. **Eurozone equities** rebounded on Friday, mostly on German data, and outperformed the US over the week, for the first time in a while. A less than catastrophic outcome in this week's **Italian election** could add to this. But general EZ macro and the level of the EUR still look like a drag on Eurostoxx performance.

MACRO UPDATE: A mixed bag

In the US, data were once again on the soft side. **Housing starts** dropped 8.5% in January, but building permits were slighter stronger than expected. This doesn't change the conclusion, however, that the housing market is firmly in recovery mode. Starts and permits are still up 23.6%y/y and 35.2%y/y, respectively, and home sales look solid. The preliminary **Markit PMI** for February was a tad weaker than expected, but still at a healthy level of 55.2. More clearly negative was the **Philly Fed** manufacturing survey for February which surprised with a reading as low as –12.5, possibly a consequence of the uncertainty over the fiscal cliff negotiations.

In the Eurozone, both the manufacturing and the service sector **PMIs** for February for the area as a whole were weaker than expected at 47.8 and 47.3 respectively, with the composite PMI at 47.3. The same readings for Germany were 50.1 for manufacturing and 54.1 for services, both somewhat lower than expected but still way above the rest of the Eurozone. Both the **ZEW** and the **IFO** for February were buoyant reflecting a clearly positive business sentiment, but the break-down of Germany's GDP-figures for 4Q12 saw exports contract as much as 2% q/q, suggesting that the Eurozone crisis is taking its toll. Germany's domestic demand grew 0.2% in 4Q12, helped by private consumption and government spending; hardly a spending spree, though.

Inflation figures out of the both the US and the Eurozone were generally muted, but the increase in **property prices in China** in January prompted expectations of new restrictive measures from the Chinese authorities. Managing China's likely property bubble is no easy feat.

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