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GLOBAL MARKETS : Decoupling lite

Bernanke delivered a forceful defense of the Fed's monetary policy last week, laying to rest any speculation about an end to QE for now. As expected, no advance was made in the budgetary negotiations, and president Obama had no choice but to sign the order to initiate unwanted spending cuts. The game of chicken between the Democrats and the GOP will probably drag on for a while, but a solution looks likely to be found well before the full impact of the Fiscal Cliff has been felt. In the Eurozone, the big event was the worse than expected result in the Italian election. Whether the outcome from now on is a caretaker government, a grand coalition, or fresh elections the Italian situation looks destabilized beyond the short term.

Risk assets put in a mixed performance over the week. The Eurostoxx index continued its underperformance and is now down 0.7% ytd against an advance of 6.5% ytd for the S&P. Favourable stock market valuations in the Eurozone require a stable environment to become a market factor, and renewed peripheral tensions in Europe on top of a dismal macro picture look likely to imply further underperformance for the Eurostoxx short term. Core bonds continue well bid in this environment even if they are, of course, exempt of any fundamental value. Not so the USD, in our view. We continue to believe US macro fundamentals will surprise positively in 2H, renewing talks about an end to QE. Short term, the USD is seeing a bid for much the same reasons that US Treasuries and German Bunds are.

MACRO UPDATE: *Sequestered* by not out…

US GDP figures for 4Q12 were revised upwards by less than expected due, in part, to weakness in private consumption. Personal income dropped significantly in January (due to one-off factors) but consumer spending nonetheless held up. Between higher taxes and petrol prices US consumers have plenty of reason to hold back on spending in the short run. But the outlook further down the line does look more upbeat given the gradual improvement in employment and housing. Whether this was behind the improvement in the consumer confidence surveys (Conference Board and U. of Michigan) is debatable. But perhaps gloominess is on the wane. New home sales jumped up 15.6% in January and pending sales pointed in the same direction. Construction Spending for January disappointed somewhat but is still up a decent 7.1%y/y. Finally, the ISM Manufacturing surprised positively with a reading as high as 54.2.

Economic Confidence for February for the Euzone as a whole surprised positively. The other highlights included a further increase in the unemployment rate, to 11.9 %, a further contraction in lending to non-financial companies, and a CPI estimate for February lower than expected (1.8%); all in all, arguably, all the ingredients for a reaction from the ECB. But don't hold your breath. Draghi's "risk-of-too-low-inflation" argument doesn't seem to wash short term, and the Italian situation might be a further impediment to easing rather than an incentive.

The Chinese economy continues somewhat enigmatic with the February official manufacturing PMI below expectations but still (just) above 50. Spotting the trend in that series is practically impossible. But perhaps that's how it's meant to be.

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