

RELEASE IN FULL

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To: H
Subject: Fw: quick market update

FYI

From: Crebo-Rediker, Heidi E
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To: Hormats, Robert D; Sullivan, Jacob J
Subject: quick market update

Relief rally over Greek election fades, as stress on Spain increase. U.S. stocks fell this morning (but are starting to recover) amid concern about a worsening of Europe's debt crisis as Spanish bond yields climbed to a euro-era record. *Markets had rallied on Friday on expectations that global central banks will step in to add support in the event of an unfavorable outcome in the Greek election, but now all eyes are back on Spain. Greece increasingly a sideline issue as existential challenge remains over Spain and Italy –with no unified political support for any financial or fiscal proposals on the table.*

Spanish and Italian spreads have widened sharply despite the pro-bailout election result in Greece. Greek spreads tightened significantly (-70 bps to 25.6% in the 10-year and -146 bps to 20.5% in the 30-year) after the election results, although uncertainties about renegotiation of the program remain. Meanwhile, the Spanish 10-year yield (+27 bps) reached a new euro era record high of 7.15% as spreads to bunds (+32 bps) also reached a new euro era record high of 576 bps. Italian spreads are also sharply wider (+18 bps in the 2- and 10-year).

A pro-bailout coalition expected to be formed in Greece over the next few days. New Democracy won 29.7% of the vote, versus 26.9% for Syriza and 12.3% for PASOK. New Democracy leader Samaras called for a salvation government with the participation of as many parties as possible. PASOK leader Venizelos has now indicated that it would support a government without Syriza. A New Democracy-Pasok coalition would achieve a majority of 162 seats of the 300 parliamentary seats. **Discussions about the renegotiation of the second bailout package are expected to start as soon as the new government is formed.** The German foreign minister said today that the substance of Greek reforms is non-negotiable, but the timeframe could be adjusted.