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WHAT THE FINANCIAL ANALYSTS ARE SAYING

Spread back up at 263
See-saw effect feared once again

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The transaction-truth of the Economic-Financial Document also includes the spread—back up again around the high threshold of 263 basis points and one of the causes cited by the Treasury for the “slowdown”. The question that is making the rounds in financial circles is whether or not to expect a new see-saw effect. “A scenario of surges in the spread cannot be ruled out”, explains Angelo Meda, Head of Equities at Banor Sim. “Regardless of the political evaluations of the manoeuvre, the increase in the VAT rate and duration of the government, history shows us that Europe’s rigidity on national budgets has always created tension”. The analyst believes that, in the run-up to the next EU parliament, “a widening of the spread before a macroeconomic slowdown (like the Bund is showing with negative rates), and then policies to reduce the deficit seems an entirely plausible scenario”. This concern is also mentioned by John Authers in an editorial column for *Bloomberg*: “Conversely to 2011, worries are now specifically concentrated on Italy and not on so-called PIGS. There may be a head-on clash between Italy and Brussels if debt rates should reach the three-point level”. No one, however, wants to see the roller coaster start up again. “The spread between the German and Italian ten-year bond yields is caused by various factors, not necessarily linked to the Italian domestic policy,” stresses Francesco Dalla Libera, from the Euclidea Sim investments team. “Just like the ECB manoeuvres have also zeroed the German ten-year bond yields. The potential trade agreement that may be reached by the USA and China also weighs heavy and may result in a hike in German rates. Clearly, the instability of the Italian political expansion also drives the spread, above all with the unknown factors surrounding “Quota 100” and “Citizens’ Income”, even if somewhat defused”. So, what now? “We believe that if, on the one hand, there is no reason to assume a global rise in rates, nor indeed is there any reason to assume a decline in the spread”.