

Sterling: Losing Steam

June 2011



CMP	\$1.60
RECOMMENDATION	SELL
1st TARGET	\$1.57
2nd TARGET	\$1.55
STOP LOSS	\$1.62

➤ **GBP/USD Daily Technical Chart:**



- GBP/USD has broken the neckline of the head and shoulder pattern.
- Broken a major trend line support connected from May 2010, Dec 2010 and May 2011.
- The bearish symmetrical triangle has also broken.
- MACD resisting the zero line and gave a negative crossover, which is confirming a negative intermediate trend

➤ **Fundamental factors**

- ✓ The fragile banking sector remains exposed to downgrading by rating agencies.
- ✓ High-stake of British banks to European debt makes them vulnerable to any negative outcome from peripheral countries. British-based banks and subsidiaries have \$225bn at stake in Ireland, and \$152bn in Spain, but little in Portugal or Greece.
- ✓ Public sector net borrowing (excluding financial interventions) was £27.4 billion in the year to date for 2011/12, is up from £25.9 billion in the same period last year, in spite of the austerity measures underway.
- ✓ Manufacturing and housing numbers continue to point at shrinking economic activities.
- ✓ Last MPC minutes sounded more dovish than expected. Moreover, the change in voting equation for an interest rate hike from 3-0-4 to 2-0-5 somewhat dampens the prospects of rate hike in 2011.

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