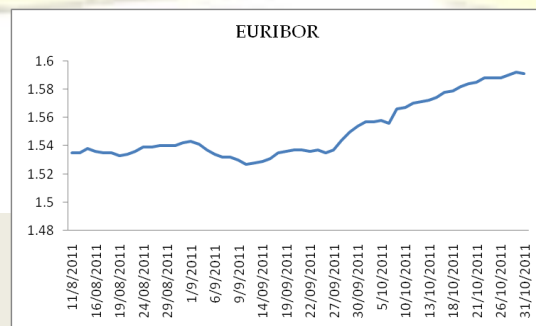
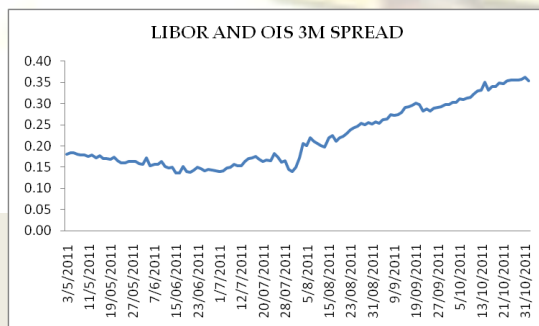


THE **Unrealistic** HOPE

	Strategy	Range	Target	Stop Loss
EUR/USD	Sell	\$1.3800-3850	\$1.3000	\$1.4100

Euro enjoyed a phenomenal run of late on the back of developments in Europe regarding the solutions to the euro zone debt crisis. The rally went on to the extent of \$1.4250 against the US dollar. However, we believe that this **rally was rooted more on hopes rather than realities**. Apparently, an extended EFSF (European Financial Stability Fund) seems to be a comprehensive solution for the ongoing debt crisis. But the devil lies in the details as the European summit left a number of questions unanswered. The foremost being the sources of funding for an extended EFSF. Furthermore, a 50 percent hair cut on Greek debt is as good as a 50 percent default by Greece on its debt. Moreover, in spite of the risk-on witnessed of late, money markets barely showed any signs of easing-off. Going forward, we believe the larger concerns would hit back the markets which will drive euro to the levels of \$1.30 against the US dollar. We may witness a last leg of rally in euro, pinning hopes on some measures from the FED in the upcoming FOMC (Federal Open Market Committee) meet which will eventually fizzle out.

- ✓ Growth of European nation is questionable and IMF has forecasted further slowdown in the euro zone
- ✓ Rising yields of the peripheral countries is a big concern as it makes the debts unsustainable over the period of time.
- ✓ Despite multiple liquidity programs like re-launch of LTROs (Long-term refinancing operations) by ECB (European Central Bank), EURIBOR (inter-bank lending rate in euro zone) continues to inch up indicating a liquidity crunch in inter-bank lending market of Europe.



Source: Reuters, NB Research

- ✓ LIBOR-OIS Spread (a proxy of risk premiums or liquidity premiums in the inter-bank lending market) indicates persistent dollar shortages.
- ✓ To spur growth in euro zone rate cut is imminent at least by 50 basis points which will dampen the attractiveness of euro over the US dollar.
- ✓ France may face a downgrade if it participates in any kind of excessive guarantees and it might lose its AAA rating.
- ✓ EFSF may not be sufficient to contain the debt crisis in the near term as there is lack of clarity on the mechanism to be followed in solving the crisis.

Detailed report to be followed

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