14th April 2011

Market Update:

UPDATE
Technical
Fundamental

The Euro is looking good

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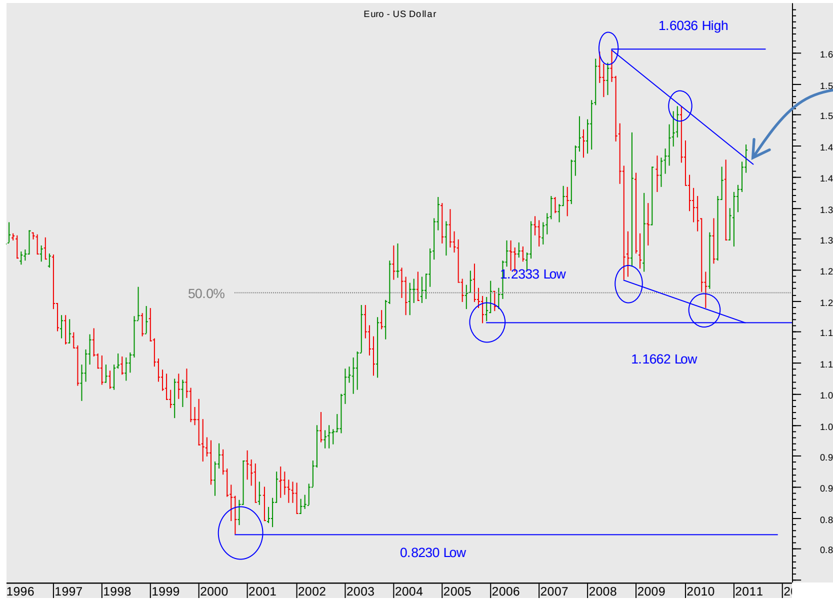

MONTHLY CHART

The unmistakable completion of a large bull falling wedge is what is exciting the bulls for the Euro.

DAILY CHART

The detail of the market's reaction to completing the falling wedge further encourages the bulls – note the pause beneath the Prior High Pivot at 1.4281 , then the drive up through.

The <u>two</u> prior highs beneath the market are now good support on any pull-backs.

The rising bull trendline support (well-established in three place) is important too. THE MARKET IS WELL-SET.

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FUNDAMENTALS:

The price action in Dollar/Euro over the last several weeks has been quite dramatic as the Dollar struggles under the weight of the yet-to-be-tamed budget deficit and the Euro finds support from the increasingly hawkish rhetoric coming from the ECB.

In the US, President Obama has staked his claim for re-election in 2012, and the battle ground as ever is the economy. This time round it is the nation's finances that dominate the argument.

Aware that the American public are broadly unhappy with the spiralling debt under his administration, Obama has published his own deficit reduction plan, which aims to cut US$4.0T from the budget over time.

The problem is that his proposal relies more on tax increases for the rich and less on spending cuts, where as the Republican-led House of Representatives sees spending cuts as the way to reduce the deficit and tame the national debt.

At the heart of the debate lies Obama's essentially liberal leanings which foresee the state playing a greater role in the nation's life. The Republicans and the broader electorate do not want to see a European nanny state model imposed in the US. So the US fiscal policy is set to dominate the Presidential election campaign and undermine the Dollar.

Cross the Atlantic and focus on the Euro zone. Here a Sovereign debt crisis has been in full swing for over a year. Three countries have had to apply for a financial bailout. It is far from clear whether others will need to follow, with Spain still seen at risk.

FUNDAMENTALS: CONTINUED

The bailout/rescue doesn't actually reduce the pool of debt, it merely shifts it from one place to another with less-troubled Euro zone member states and the IMF underwriting a fund which is used as a rescue vehicle.

However, the Euro has somehow freed itself from this burden, as the ECB has shifted the debate to inflation. The Eurozone economy, flattered by very strong German growth and supported by French growth is enjoying a strong recovery. Dig deeper and the long peripheral tail is either struggling to grow or still mired in recession as individual economies deal with the impact of the strict fiscal consolidation imposed earlier in the Sovereign debt crisis.

But since Germany and France account for approximately 40% of Euro zone growth and inflation in the Euro zone stands at 2.6% compared to the ECB's 2.0% target, policy makers are now embarked on a tightening cycle.

As the interest rate differential between the US and Euro zone looks set to grow, the Euro looks a strong buy against the Dollar. Although the Fed is set to let their QE2 policy expire as planned, they still sense the economy isn't yet strong enough to handle tighter monetary policy, even though Fed officials are noticing an upward creep in headline inflation.

In short, the US and Euro zone both have a debt problem. The US seems unable to agree a means of dealing with hers where as the Euro zone has, albeit imperfectly. Add to this the now divergent monetary policies of the US and Euro zone and **the current trend in Dollar/Euro shouldn't surprise anyone.**

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