



1st March 2012

Market Update:

Is the Euro still a buy against the Dollar?

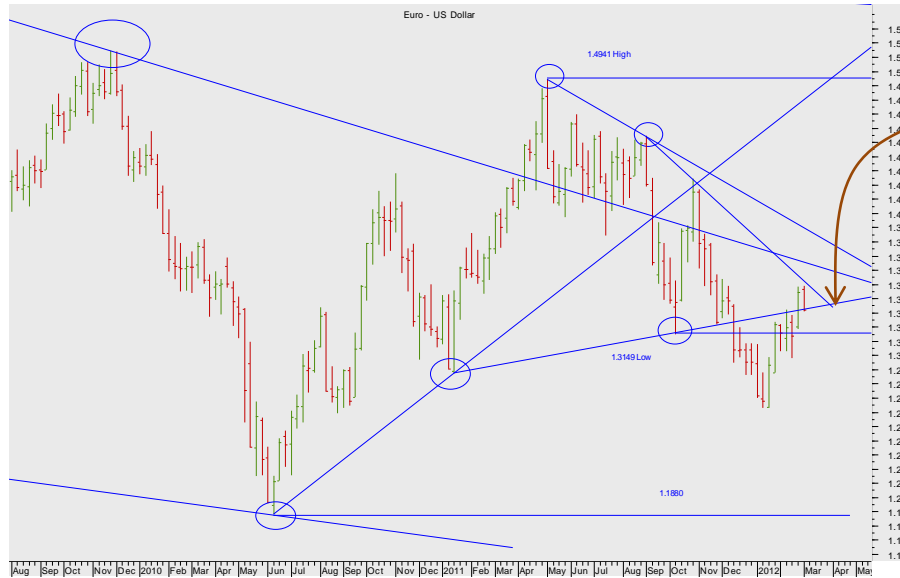
UPDATE
Technical
Fundamental





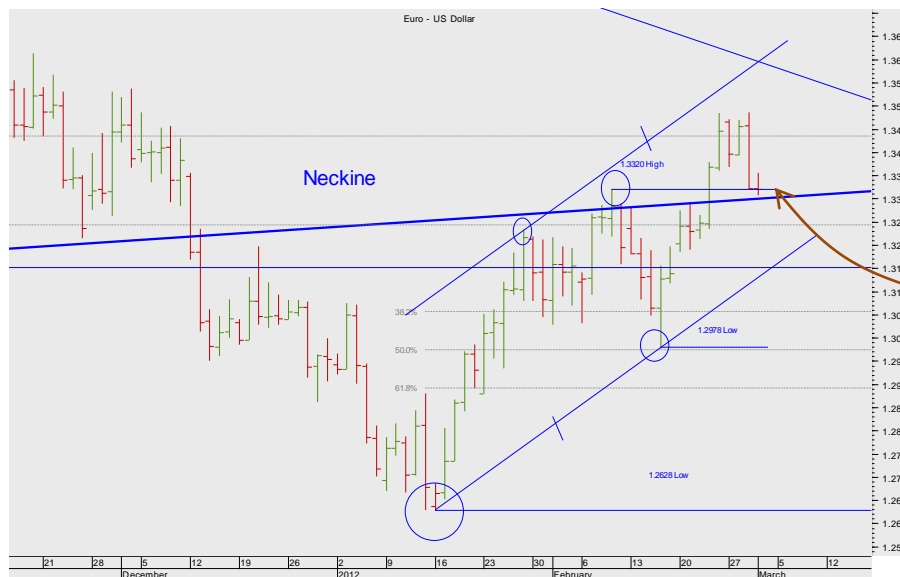
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WEEKLY CHART

The penetration of the medium-term neckline was a major blow to the bear Euro stance.



DAILY CHART

The manner of the break up through the Neckline was especially impressive.

Twice the market failed at the resistance and then broke up emphatically.

The pull-back has found support at the prior High 1.3320. **If the bull Euro trend is strong, the support should hold.**

Disclaimer

More



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UPDATE Technical Fundamental

FUNDAMENTALS:

Dollar/Euro is emerging as something of a conundrum. The US economy has recently produced data pointing to a gradually accelerating recovery, but the Dollar has come under selling pressure against the Euro, largely due to relief over Greece.

After a protracted period of negotiations between Greece and her private creditors and Germany serially moving the bailout criteria goal posts, Greece finally managed to jump through all the hoops and secured the rescue cash she needed to avoid default.

The Euro staged a strong relief rally as a direct result, even though Euro zone data was still pointing more towards recession than recovery.

The basic underlying rationale for the Euros strength was a relative, not absolute shift of strengths in the Euros favour due to a Greek default looking less likely. Short/medium term and fears of a Euro zone break up dramatically receding.

But yesterday the Dollar snapped back. Is this the end of the Euros rally and what caused the Dollar to strengthen?

Fed Chairman Ben Bernanke delivered his bi-annual monetary policy address to congress yesterday and although some of his comments could be taken as a little contradictory they had an impact on the US Dollar.

On the one hand he noted the improving economy and sounded less enthusiastic about the need for more QE, but then he said interest rates are too high.



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FUNDAMENTALS: CONTINUED

Bearing in mind Fed Funds stand at 0.25% that is a strong statement. His analysis was based on the fact that although the economy is growing, and yesterday saw Q4 GDP revised up on an annualised basis from 2.8% to 3.0%, and recent non-farm payroll reports have posted stronger job creation, he noted the economy still needed to create many more jobs for the recovery to become self-sustaining.

He also noted the US economy wasn't directly exposed excessively to the Euro zone Sovereign debt crisis, since US Banks had largely hedged much of their exposure, but he said the economy would be negatively affected through contagion if there were to be a Euro zone generated shock.

On balance his comments sounded less Dollar-supportive than the market received them; if interest rates are too high, that implies they should be lower, but since they can't go through Zero, that then implies they stay low for a very long time.

Similarly if the recovery needs many new jobs to become self-sustaining, that too implies that the current bout of strength is transitory and a lapse back into a period of slow growth is a risk, and that's without factoring in a shock from the Euro zone which remains a medium/long term risk.

On balance, while we are medium/long term bears of the Euro, we judge yesterday's price action a little incongruous, unless one factors in the 500.0B Euros the ECB was obliged to lend to the banking industry to keep it afloat. But even that isn't strictly new news since the ECB has been aggressively pumping out liquidity for a prolonged period.

We think the criteria for a reassertion of Dollar strength isn't yet present and sense the Euro might just rally a little further in this corrective phase.



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