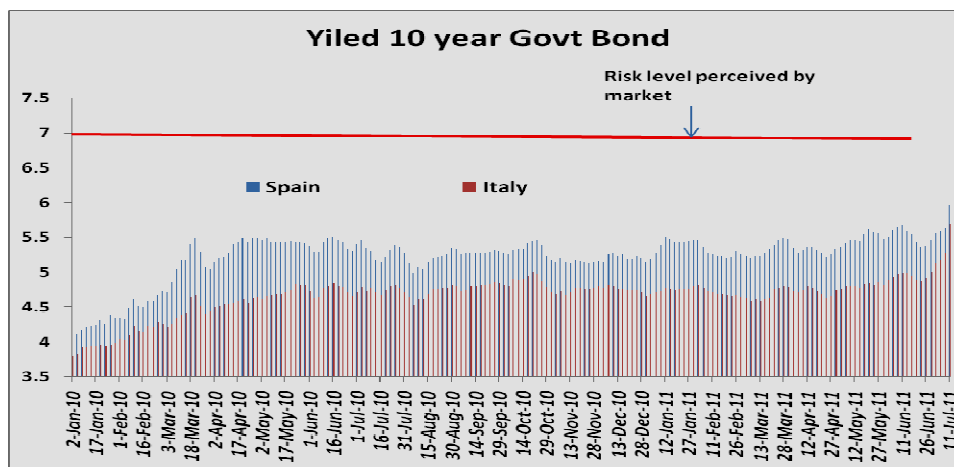


Euro rally from 1.17 has been contained at the resistance of 1.50. Now the market is turning lower breaching supports such as 1.40.

As we all know, the Euro zone is under a serious debt crisis and countries such as Greece, Portugal and Ireland will sooner and later come into default. The second bailout of Greece seems like policy makers are avoiding default at this time where the global economy is slowing.

Apart those, Italy and Spain are now under pressure as their sovereign yield have shoot up. The 10-year yield continued to push above the 5% level this week. Spain 10 yr bond yield almost around 5.64%. However, yields remain well below the 7% threshold that served as death knells for the ability of governments to tap credit markets to meet funding needs in these two countries. Spain and Italy are too big to be bailed out by the European Union. ***Ireland and Portugal all sought international assistance after their 10-year yields rose past 7%. Italy has more than 500 billion euros of bonds maturing in the next three years. That's about twice as much as the 256 billion euros extended to Greece, Ireland and Portugal in their three-year aid programs.***



Source- Bloomberg

Debt Status of PIIGS Nation

Country	Debt (MM)	S&P	Moody	Fitch	Debt as %GDP
Greece	486,726	NEG	NEG	--	144
Portugal	204,999	NEG	NEG	--	83.2
Ireland	199,093	STABLE	NEG	NEG	94.2
Spain	912,024	NEG	NEG	NEG	63.4
Italy	2,226,652	NEG	--	STABLE	118.1

Few Economic Indicators of PIIGS nations

Countries	Real GDP YoY	Real GDP QoQ	Unemployment SA	CPI YoY	Indus Prod YoY	Retail Sales YoY	Consumer Confidence
Greece	-5.5	0.2	16.2	3.3	-10	-4.8	-75
Portugal	-0.6	-0.6	12.4	3.8	-0.3	-7.9	-50.7
Ireland	0.1	1.9	14.2	2.7	-5.4	-2.1	56.3
Spain	0.8	0.29	20.9	3.2	0.8	-1.4	74.9
Italy	1	0.1	8.1	2.7	1.8	2.52	105.8
Euro zone	2.5	0.8	9.9	2.7	5.3	-1.9	-9.8

Euro Heading towards 1.32 or below?

The crisis may deepen further if any Italy and Spain yield reaches 7% or above. Looking at the recent GDP figures from PIIGS, their economic outlook looks weak. Austerity measures taken by these countries will dampen the long term growth for next 5 to 10 years.

The outlook of Euro has turned bearish while the worsening US debt situation may give clear cut direction of the EURUSD pair.

In just over three weeks from here, the U.S. will default, According to Treasury Secretary Timothy Geithner, if the U.S. debt limit is not raised soon, the U.S. will be unable to meet all of its obligations. Many market-movers such as Ben Bernanke and Warren Buffet have warned of the dangers of allowing the U.S. to default. Consequently, it seems fairly unlikely that congress will fail to raise the debt ceiling. If US default which is unlikely, may limit decline in EURUSD

Otherwise, Euro is going to have a sharp decline from here as well



Source- Bloomberg

Technically, the chart has turned bearish after breaching the support of 1.40 and now likely to take support at the 1.37 trend line level. Below that 1.32 level is mostly achievable. Bearing the present events in mind, a fall in EURUSD is most likely scenario and 1.32 is achievable.

DISCLAIMER: This research report is prepared by JRG research. The report is only for the purpose of use by the recipient and should not be circulated or copied without the prior permission of the company. The views expressed in this report are based on the analysis of data and information obtained from sources we consider reliable. However, the company takes no responsibility for the accuracy and completeness of any such data or information. Investors may note that neither the company nor any persons, associates or any subsidiaries accept any responsibility for any potential loss arising as a result of use of the data, information or views expressed in this report. The recipient is requested to seek independent expert advice prior to acting on this report.