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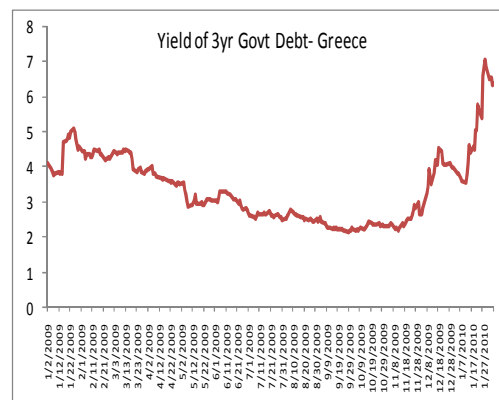
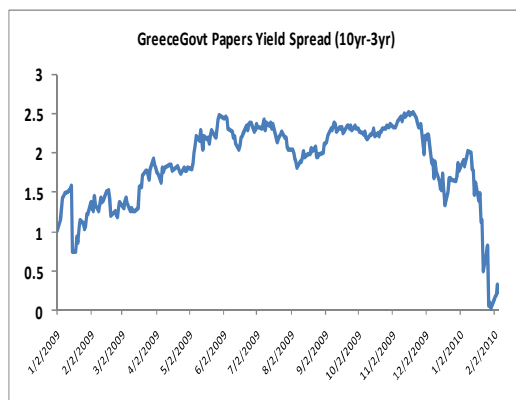
*Greece plans to cut its fiscal deficit by 4 percent this year, Prime Minister George Papandreou said on Friday. The European Union has demanded Greece slash its 2009 deficit of 12.7 percent to below 3 percent in 2012.*

## The Market Theme- Euro Zone on Contagion Risk, ECB and BoE kept rates Steady

The FX market witnessed sharp swing last week with the Euro, GBP fell sharply. The US dollar and the Japanese Yen gained against European Currencies. Euro zone peripheral economies took centre stage this week after growing worries about Greece's public finances drew attention.

The Euro fell to a 10 months low against the US dollar and the cable fell to 9 months low. However, the Japanese Yen gain against the US dollar last week with the USDJPY to a fresh two months low of 89.37.

Greek Prime Minister George Papandreou has repeatedly denied speculation that it will have to be bailed out. The European Union (EU) also said there was no chance of Greece defaulting or leaving the euro zone. **Greece's public debt stands at about 300bn Euros (\$419bn, £259bn)**. EU rules state that no nation in the bloc should have an annual budget deficit higher than 3% of its gross domestic product.



Source - Reuters

Greek government debt is the world's worst performing in January, according to Bloomberg. Greek 10-year bonds costs 3.96 percentage points' more than German debt - the safest in Europe - on Thursday, the highest since 1998.

Greece plans to cut its fiscal deficit by 4 percent this year, Prime Minister George Papandreou said on Friday. The European Union has demanded Greece slash its 2009 deficit of 12.7 percent to below 3 percent in 2012

Apart from Greece, other Euro zone countries like Spain and Portugal are under increasing pressure to show that they will bring public finances under control as financial markets' fears about the situation in one country spread to others.

Spain was the last of the bigger European economies still in recession in the fourth quarter, ending a year which produced its steepest contraction for decades, according to a Bank of Spain report on Friday.

*The spread on Spanish 10-year treasury bonds over benchmark German bunds hit 100 basis points on Friday, as nerves rose over peripheral euro zone countries.*

*In recent ECB meeting, the back kept the interest rate unchanged at 1.00% and the BoE MPC also kept the rates unchanged. The MPC voted this week to keep the policy rate at 0.5% and to hold its asset purchase programme at £200bn.*

*The US labor market gave mixed signals in January with nonfarm payrolls falling once again versus hopes of modest gains while the unemployment rate unexpectedly fell.*

*The nonfarm payrolls shed 20,000 jobs in January*

The central bank, in line with government forecasts, said the economy shrank 3.6 percent last year, but the rate of decline in gross domestic product eased in the final quarter to 0.1 percent in quarterly terms. The seventh consecutive quarterly contraction compared to a decline of 0.3 percent in the third quarter and meant Spain was the last major European economy still in recession. With unemployment closing in on 20 percent, some investors are beginning to fear the country will struggle to cut a budget deficit which reached 11.4 percent of GDP in 2009.

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On mounting tension, Portugal's parliament passed on a controversial bill on regional finances, defeating the minority Socialist government which said it would try to block the law by other means, warning it will raise the budget gap. Pedro Soares, one of the leaders of the right-wing opposition CDS-PP party in parliament, said all the additional expenses with the autonomous regions of Madeira and the Azores under the new law would amount to a deficit increase of just 0.03 percent of gross domestic product. That compares to a target of 8.3 percent deficit the government set in the 2010 budget presented last week. Last year's fiscal gap had spiked to 9.3 percent from 2.6 percent in 2008 and the government has pledged to the European Union it will bring the deficit below 3 percent by 2013.

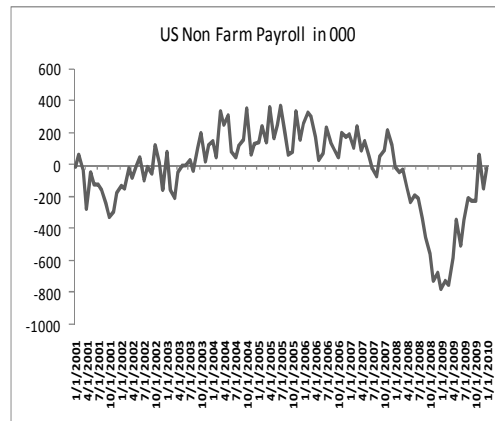
Ratings agencies have said the announced deficit cut for 2010 was unambitious and last month urged Portugal to enact further deficit cuts in 2011-2013, warning they would downgrade Portugal's ratings if no credible austerity steps are taken.

The 10-year Portuguese yield spread over German Bunds was last at 161 bps, 17 basis points up on the day, after earlier reaching 175 bps

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Our central expectation remains that there will be no further extension of QE, and that the policy debate will shift towards the question of tightening towards the middle of the year. In the November Inflation Report, the MPC projected that inflation would be above target and rising in two years' time if policy maintained its current setting. We expect a similar projection in the February Inflation Report, which will be published next week.

### US Jobs Report Below Market Expectation



Source- Reuters

The US labor market gave mixed signals in January with nonfarm payrolls falling once again versus hopes of modest gains while the unemployment rate unexpectedly fell.

The nonfarm payrolls shed 20,000 jobs in January versus forecasts which had called for 15,000 new jobs to be added. Even more sobering are the nonfarm payrolls for December that were downwardly revised to -150,000 jobs destroyed from the 85,000 jobs lost originally reported.

In some positive side from the nonfarm payroll front, the modest 4,000 jobs created in November were revised upwards to 64,000, making November 2009 the only month of job creation the US has seen since December 2007.

### INDIAN FX PAIRS

#### USDINR Feb MCXSX: Pair gained on Weak Domestic Share market, and US dollar gain overseas

The USDINR bounced sharply to almost 46.80 levels from a low near 46.02 levels. With sell off in domestic share market Indian rupee lost ground against the safe haven currency.

The contagion risk with the EU economies had spillover impact on the domestic share market with the benchmark Nifty index fell as much as 125 points or 2.5%.

The pair is likely to reverse the gain and likely to find stiff resistance at 46.95-47.00 zone.

Pair	Recommendation
USDINR Feb MCXSX	Sell at 46.95-47.00 targeting 46.30 with stoploss above 47.30 level

#### EURINR Feb MCXSX: Downside Limited, 64.35 is the major resistance

The EURINR fell to a low of 63.75 with broad based weakness in the Euro. The market however recovered marginally on Friday late session to finish trading at 64.14 levels.

The EURINR cross is expected to find resistance at 64.35 ranges and if the market succeeds to break the level then a recovery can be expected till 64.60-65 range

The market is expected to take support at 63.80-75 range. The market outlook depends on the Euro's treatment against the US dollar.

Pair	Recommendation
EURINR Feb MCXSX	The market is expected to find resistance at 64.35; break above the same may bring in pullback till 64.60 ranges.

#### GBPINR Feb MCXSX: Downside Limited

The GBP INR fell to a low of 73.03 on Friday and recovered to 73.50 to finish the session at 73.41 levels.

The market is expected to experience mix trend. The resistance of 73.90 should be carefully watched and if the market breaks and sustain above the levels, recovery can be expected till 74.30 levels. Support is seen at 73.10-73.00 range.

Pair	Recommendation/View
GBPINR Feb MCXSX	The market is expected to find resistance at 73.90. Buy at 73.20-25 range targeting 73.70 with stoploss at 72.95 levels.

#### JPYINR Feb MCXSX: Gained on USDJPY gain and on broad sell off in European markets

The JPYINR pair was highly volatile last week. The pair posted a low of 50.67 on Thursday and recovered above 52 levels.

Investors tend to buy the yen and dollar in times of heightened risk aversion as they unwind trades in risky assets financed by both currencies' near zero interest rates.

*The USD INR pair is likely to reverse the gain and likely to find stiff resistance at 46.95-47.00 zone.*

*The EURINR cross is expected to find resistance at 64.35 ranges and if the market succeeds to break the level then a recovery can be expected till 64.60-65 range*

*The market is expected to experience mix trend. The resistance of 73.90 should be carefully watched and if the market breaks and sustain above the levels, recovery can be expected till 74.30 levels.*

*The market holding above the 51.50 level should keep rates higher for the week. However, gains should be limited till 52.80 levels and this should be the stopping points of the market this week.*

The gain in USDINR was less compared to the JPYINR, which gained almost 2.5% on Friday.

The pair is expected to carry the upward move this week, but some correction can be expected till 51.50 levels. The market holding above the 51.50 level should keep rates higher for the week. However, gains should be limited till 52.80 levels and this should be the stopping points of the market this week.

Pair	Recommendation/View
<b>JPYINR Feb</b>	The market is expected to find resistance at 52.80 levels. One can short at
<b>MCXSX</b>	the level with stoploss above 53.00 targeting 51.70.

### Macroeconomic Data for the Week

Date	Country	Event	Forecast	Previous
02-08-2010 00:00 GMT	Germany	Retail Sales (MoM)	-\$9.4B	0.80%
02-08-2010 05:00 GMT	Japan	Eco Watchers Survey: Current	35.9	35.4
02-08-2010 05:00 GMT	Japan	Eco Watchers Survey: Outlook	35.9	36.3
02-08-2010 09:30 GMT	EMU	Sentix Investor Confidence	NA	-3.7
02-09-2010 07:00 GMT	Germany	Consumer Price Index (MoM)	NA	0.80%
02-09-2010 07:00 GMT	Germany	Trade Balance	NA	â,-17.4B
02-09-2010 09:30 GMT	UK	DCLG House Price Index (YoY)	NA	0.60%
02-09-2010 15:00 GMT	US	Wholesale Inventories	NA	1.50%
02-09-2010 23:50 GMT	Japan	Core Machinery Orders (MoM)	NA	-11.30%
02-10-2010 00:00 GMT	UK	NIESR GDP Estimate	NA	0.30%
02-10-2010 06:00 GMT	Japan	Machine Tool Orders (YoY)	NA	63.40%
02-10-2010 09:30 GMT	UK	Industrial Production (MoM)	NA	0.40%
02-10-2010 09:30 GMT	UK	Manufacturing Production (MoM)	NA	0%
02-10-2010 12:00 GMT	US	MBA Mortgage Applications	NA	21%
02-10-2010 13:30 GMT	US	Trade Balance	NA	-\$36.4B
02-11-2010 09:30 GMT	EMU	ECB Monthly Report	NA	0.30%
02-11-2010 13:30 GMT	US	Continuing Jobless Claims	NA	4602K
02-11-2010 13:30 GMT	US	Initial Jobless Claims	NA	480K
02-11-2010 13:30 GMT	US	Retail Sales (MoM)	NA	-0.30%
02-11-2010 13:30 GMT	US	Retail Sales ex Autos (MoM)	NA	-0.20%
02-11-2010 15:00 GMT	US	Business Inventories	NA	0.40%
02-12-2010 05:00 GMT	Japan	Consumer Confidence Households	NA	37.6
02-12-2010 07:00 GMT	Germany	Gross Domestic Product s.a (QoQ)	NA	0.70%
02-12-2010 10:00 GMT	EMU	Gross Domestic Product s.a. (QoQ)	NA	0.40%
02-12-2010 10:00 GMT	EMU	Industrial Production s.a. (MoM)	NA	1%
02-12-2010 10:00 GMT	UK	Leading Indicator Index	NA	0.90%
02-12-2010 14:55 GMT	US	Reuters/Michigan Consumer Sentiment Index	NA	74.4

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