

6/12/11

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HEDGFX MODEL TRENDS								BANK RATES	
	Quote	Current Trend	Expected Trend	TF	Comment	Key Levels		USD	0.25
EURUSD	1.3375	↔	↓	D	↓	1.3140	1.4090	EUR	1.25%
GBPUSD	1.5623	↔	↓	D	↓	1.6110	1.5340	GBP	0.50%
USDJPY	0.7780	↔	↑	D	CT↑	0.7600	0.7931	JPY	0.10%
USDCHF	0.9220	↑	↑	D	↑	0.9370	0.8750	CHF	0.00
USDINR	51.395	↔	↑	4H	↑	-	-	INR	6.00%
S&P500	1257	↑	↔	D	CT↑	1265	1150	CNY	6.56%
FTSE	5567	↑	↑	D	CT↑	5100	5647	AUD	4.25%
NIKKEI	8613	↑	↔	D	CT↑	8480	8950		
DAX	6081	↑	↔	D	CT↑	6550	5580		
NIFTY	5039	↑	↔	D	CT↑	5100	4920		
GOLD	1712	↑	↓	D	↔	1756	1670		
SILVER	31.98	↔	↓	D	↔	34.50	30.0		
Crude Oil	100.48	↑	↔	D	CT↑	95	102.50		

  

<u>ECONOMIC CALENDAR</u>				CCY	Forecast	Previous	GMT
RBA Cash Rate and Rate Statement				AUD	4.25%	4.5%	930
Foreign Currency Reserves				CHF			800
Halifax HPI m/m				GBP		1.2%	800
CPI m/m				CHF	0.1%	-0.1%	815
BoC Rate Statements and Overnight Rate				CAD			
Ivey PMI				CAD	55.2	54.4	1500

\*Hedgfx Trend is based on technical analysis and may not hold in serious fundamental shifts

**To Risk-on or Risk-off, that is the question.**

With just hours to go into the climactic European conferences the positioning and the lack of it is being made. Players are getting ready for the end-game. A whistle – a final one or for the first half. Players are picking sides, some going for Risk-on and some for risk-off and some choose to be on sidelines. Who wins the bet will be known on 9<sup>th</sup>.

The Mario Monti euphoria has evaporated. It last a little more than 24 hours. The Italy's "austerity measures" were just not enough to fool people for longer time. Adding 40billion in a nation that needs to rollover at-least \$300billion in first half of 2012, was a good start but peanuts. The ratifying of the budget however seems to have hit a obstacle called Berlusconi, the bung-bunga man who is now in opposition.

However the key measure is the backstopping the Italian banks i.e. Italian govt would now guarantee the debts of banks' debts. It doesn't make much sense as Italian govt is currently not able to guarantee its own debts. And adding debt in the name of backstopping only makes it worse for Italy. Hence this "austerity measure" euphoria had to fade off.

QOTD belongs to Mario Monti: "Only three months differentiates Italy from Greece." Market agrees with him.

**A (brief) respite:**

Ahead of such crucial trend-decider meetings the lots of bets were taken off the board in almost all the markets giving the beleaguered Eurozone debt and CDSs a brief respite. Yields of almost all countries came down and spreads to Bunds reduced. Euro popped up in a dull trade.

The volumes are likely to be low going into the meetings. The positioning is unlikely to be big, even if the players have chosen their sides. Hence the ensuing rally is likely to be huge or a whimper.

**Coming Rating Shockers**

- S&P put France, Italy and seven other countries on a "negative watch." The news promptly pulled the rug off the Euro and commodities. We are now below the Monday ranges.
- Italy, Estonia, Belgium, Slovak Republic and Luxemburg are on the negative credit watch.
- France is on the watch for 2 notches.
- S&P's review completion is coinciding with EU summits and is expected to be announced on Thursday or Friday.

- This is déjà-vu of the how S&P downgraded US during the heated budget debates earlier this year.
- Other rating agencies are likely to follow suit.

In other news:

- Merkel has again ruled out Eurobonds.
- Merkel: EFSF funds are less than required. [Goes well with the nickname EFSF has earned for itself: Enormous Failure to Secure Funds]
- ISM PMI came less than expected but news barely had its normal sting. No Dollar bears here.
- Markets await key rate decisions in this week.
- Iran warns of \$250 oil if any sanctions are placed. Imagine that in this downbeat economy!

### **ECB rate cut?**

It seems ECB is gunning for a rate cut. Probably they would wait till summits. Whichever way the causality is likely to be Euro. Unless politicians of EUzone can spring a surprise in terms of political unity and will to resolve the differences and get to work on the real economic issues – (asking for too much?), Euro is unlikely to move anywhere above 1.37s (its current strong resistance). If the solution is not convincing enough the yield spreads will restart ballooning very soon.

### **Trading Strategy:**

We are aligned with the risk-off group. We expect equities to regress a lot more from its current extension rallies.

Our crude oil trade deserves a word. After coming close to 7 cents(!) of the stop loss, crude oil has given up all its gains and now back to out initiation levels. The failure of crude to raise when there was an overwhelming geo-political advantages for its rise is a very significant price action behavior. Crude has overlooked the some serious geo-political escalations in Syria, Iran (hostage, sanctions risks) and Sudan (escalations between North and South). These actions confirm the slowdown of the global economy is dragging oil down. Any breakdown in the talks would have serious consequences on the Crude on the downside. The risk from the conference is that any measures on additional or explicit QE by ECB could send it soaring.

**Indian Rupee Hedging Strategy:**

USDINR has strong supports at Rs.48.60-70 levels and resistances are currently at Rs52.70 levels. The choppy year-end trades and due to weak global economic factors INR could extend its weakness towards 53.50 - 54.00 levels.

Indian Exporter can look to sell 20% of their Jan and Feb exposure at current levels. In case of sustained weakness due to global pressures, they may look to add above Rs. 53.50 levels.

Importers are recommended to buy 50% to 70% of their current month-end exposures.

HEDGFX TRADING CALLS									
Market	Security	Date	Strategy	TTF	Initiate	T1	T2	SL	Result
COM	Crude Oil	28/11/11	Short	-	\$100	\$95	\$93	\$102.50	Initiated
FX	EURUSD	29/11/11	Short	4H	<1.3140	1.3000s	1.2860	1.3240	
FX	USDJPY	30/11/11	Buy	8H	77.95	80.00	81.50	76.85	Initiated

**HEDGFX Forex Concepts**

A unit of Agastheeshwaran Securities and Trading Pvt Ltd

No 212, Palace Orchard, Bellary Road, Sadashivnagar, Bangalore, India.

Mail: [Hedgfx@gmail.com](mailto:Hedgfx@gmail.com) Phone: +91 87490 94542

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