

Global FX Strategy

The euro is here to stay

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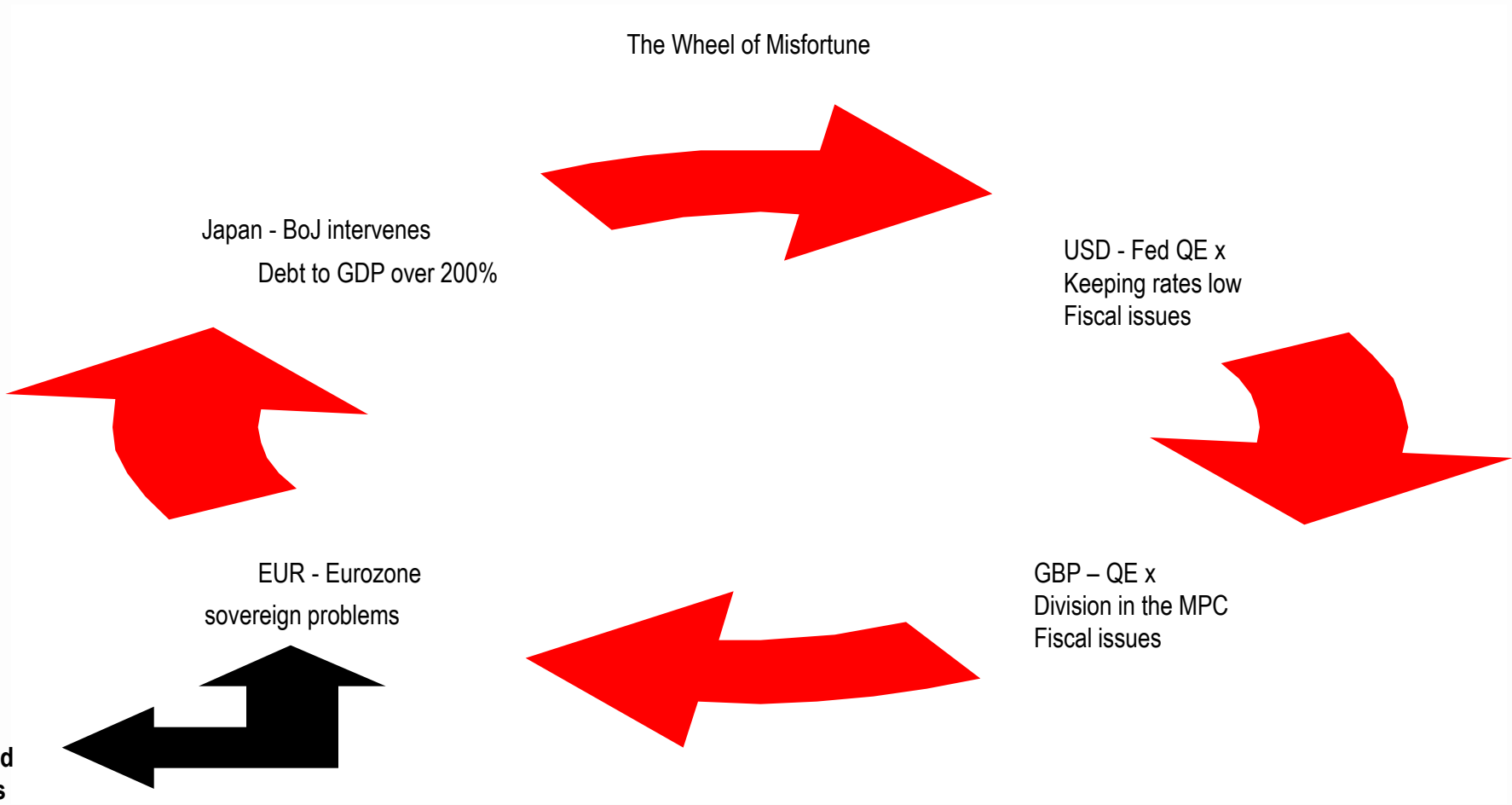
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Global Banking and Markets

2. The ugly contest get uglier



3. Euro is here to stay

- **The first half of 2012 was again dominated by the Eurozone**
- **We continue to believe that the euro will not break u**
- **Problems will rotate to the US**

4. Conventional wisdom

Yield

FX

QE

FX

5. Government Borrowing

- If I bought a 5 year bond
- Say 10 million
- How do you get your principal back?

6. The interplay between choices

Borrow

Print

Default

Surplus

7. Debt dynamics

US

EUR



Borrow

X



Print

X

Default

X

Surplus

Bad but stable

EUR EUR

Now T-6

X X

✓ X

X ✓

✓ X

8. Debt dynamics

USD

✓

Borrow

✓

Print

X

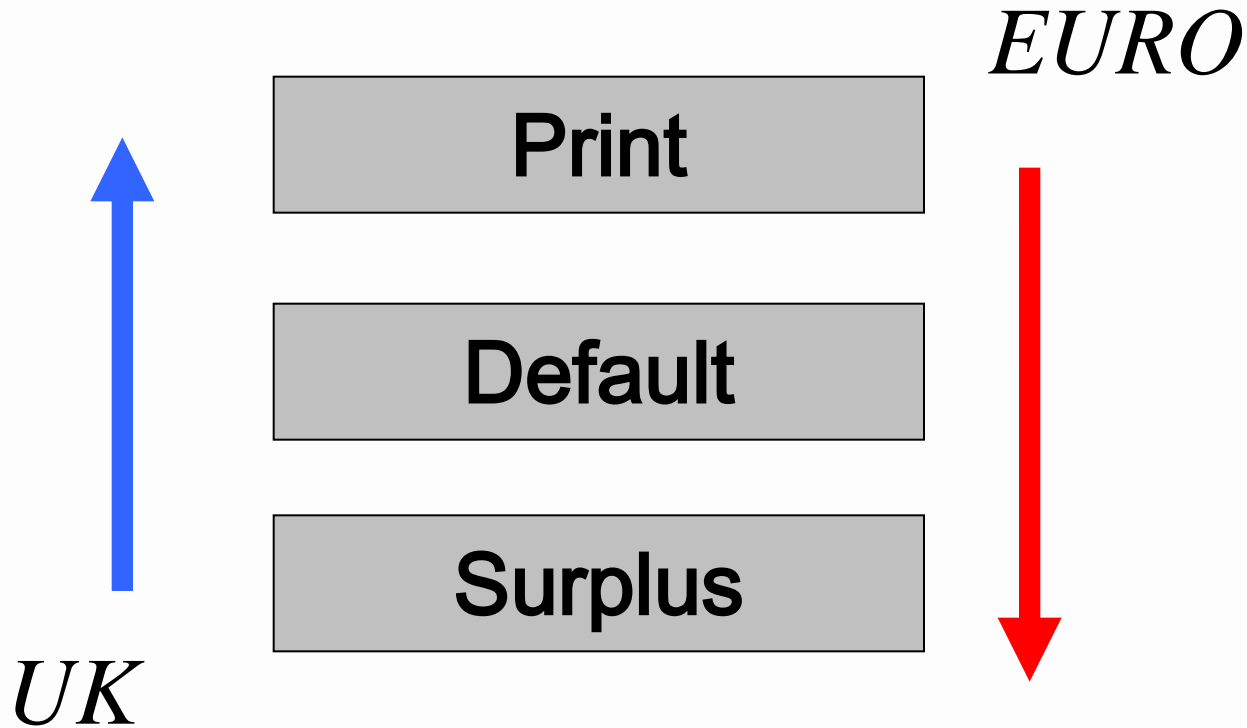
Default

X

Surplus

Bad but stable

9. Politics – UK has political legitimacy

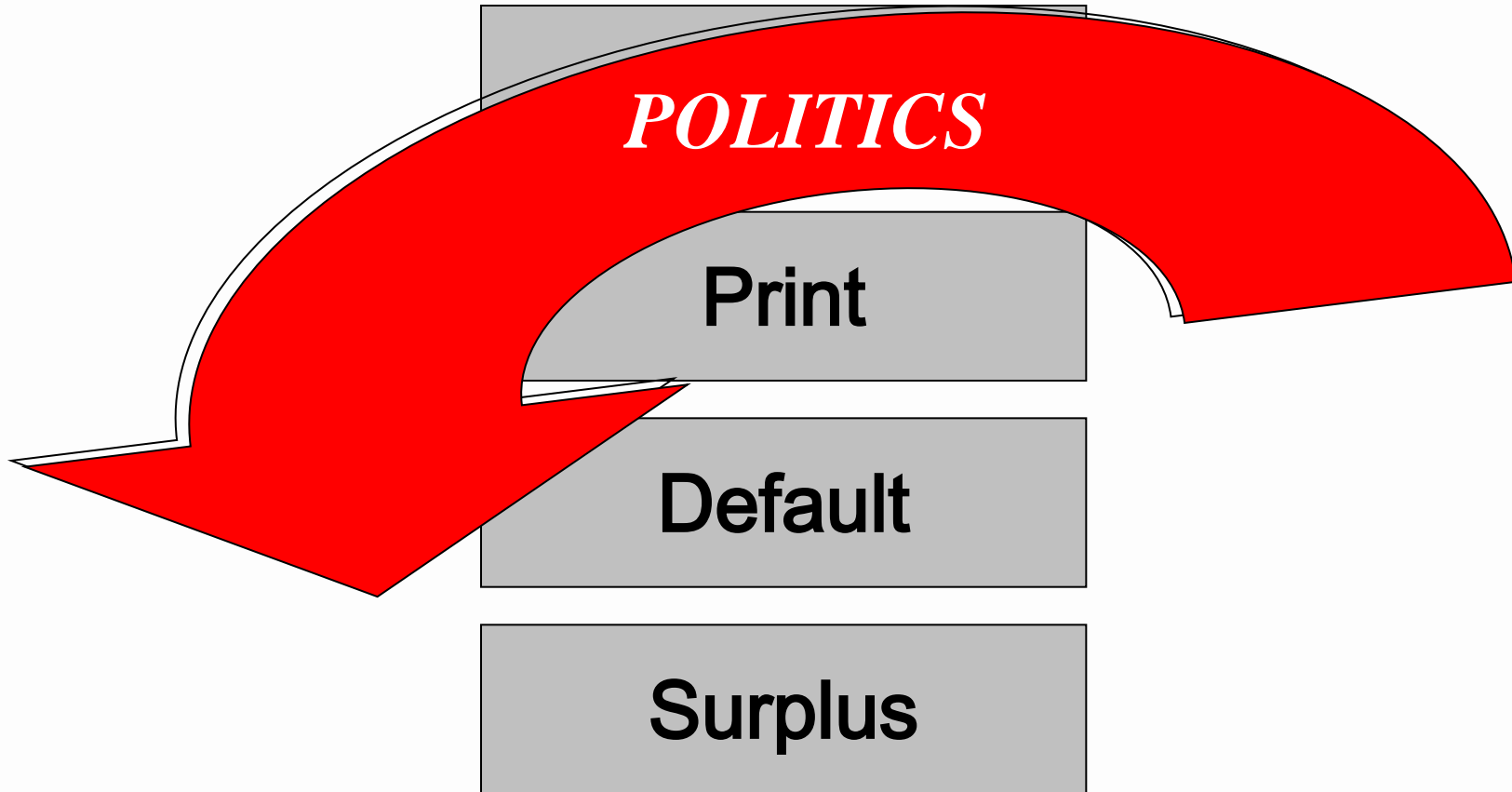


What makes US switch?

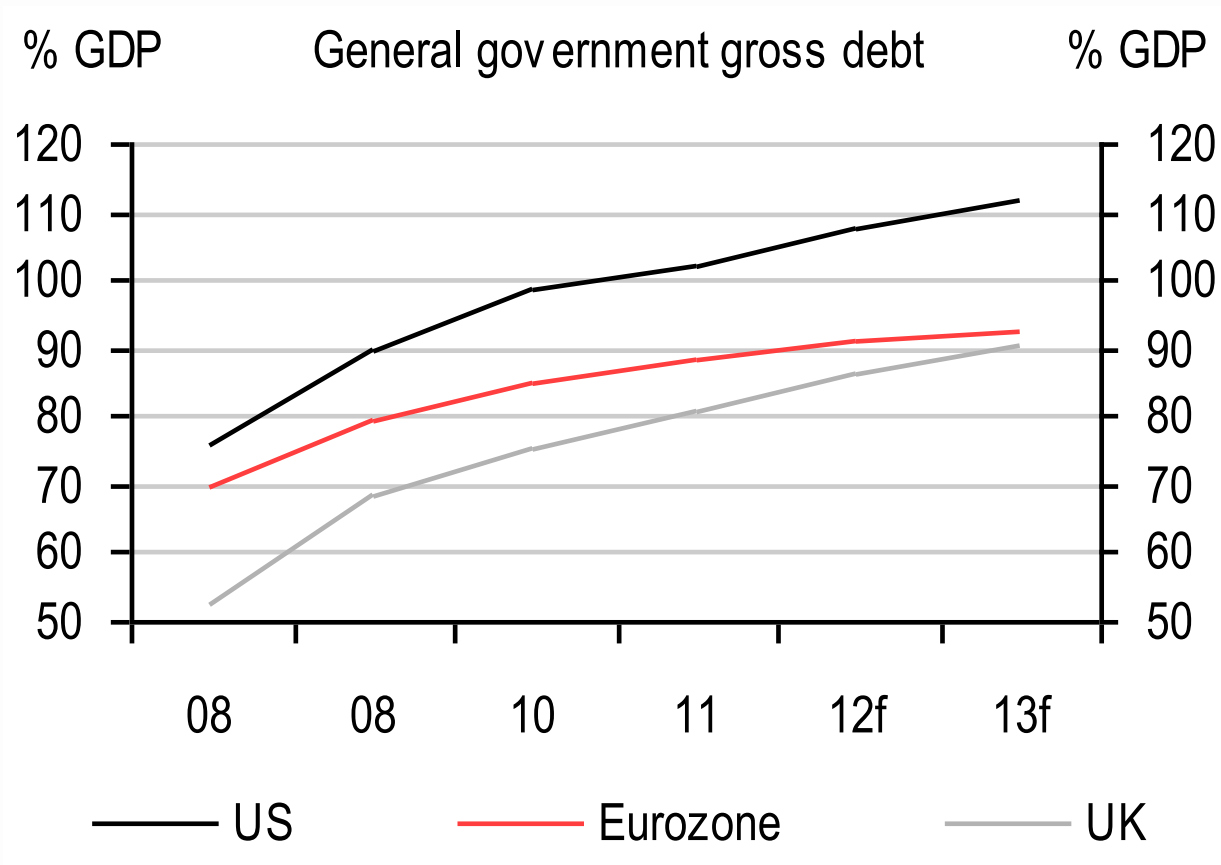
10.

US

EUR Now

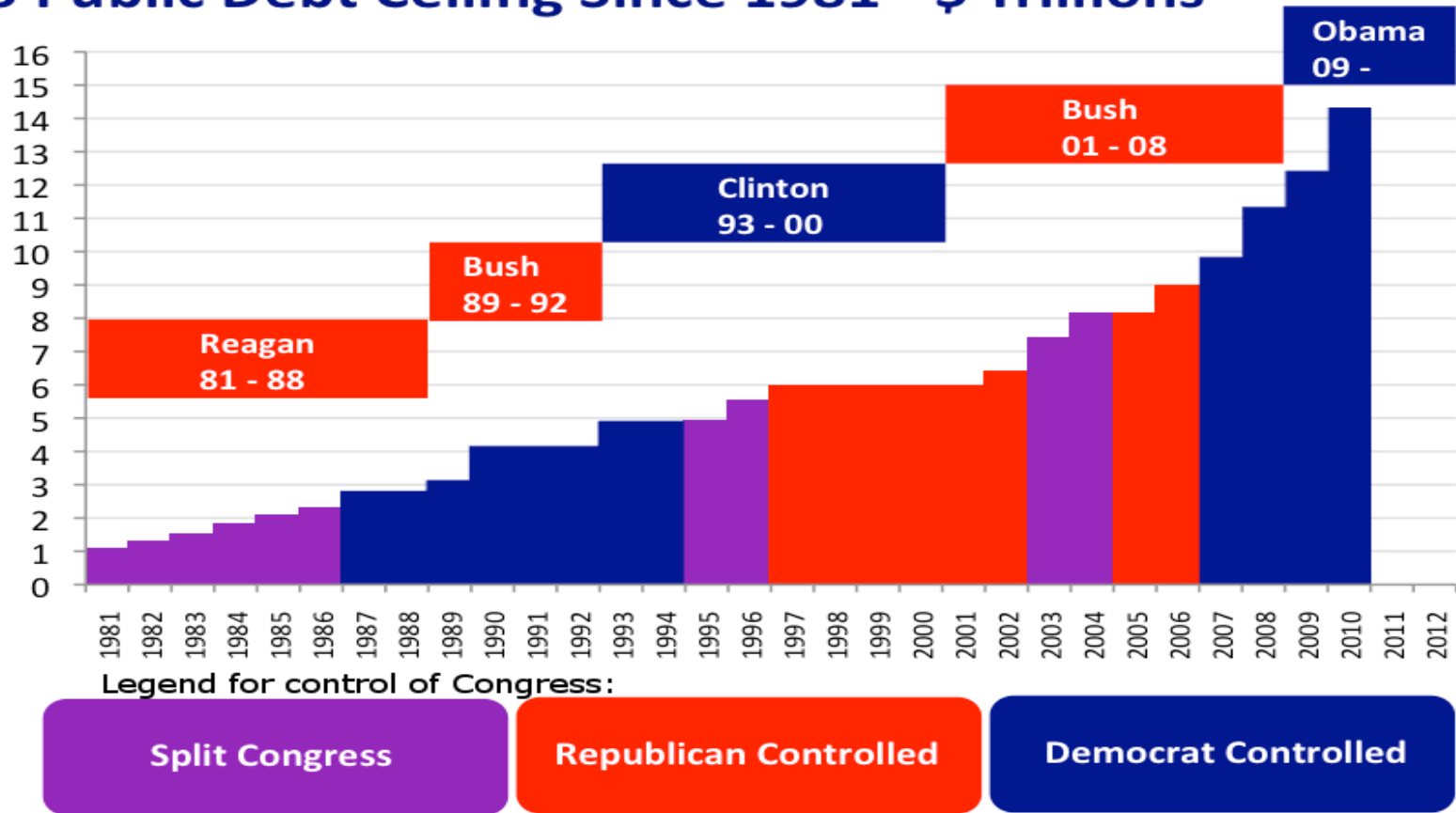


11. Presidential election may focus the market

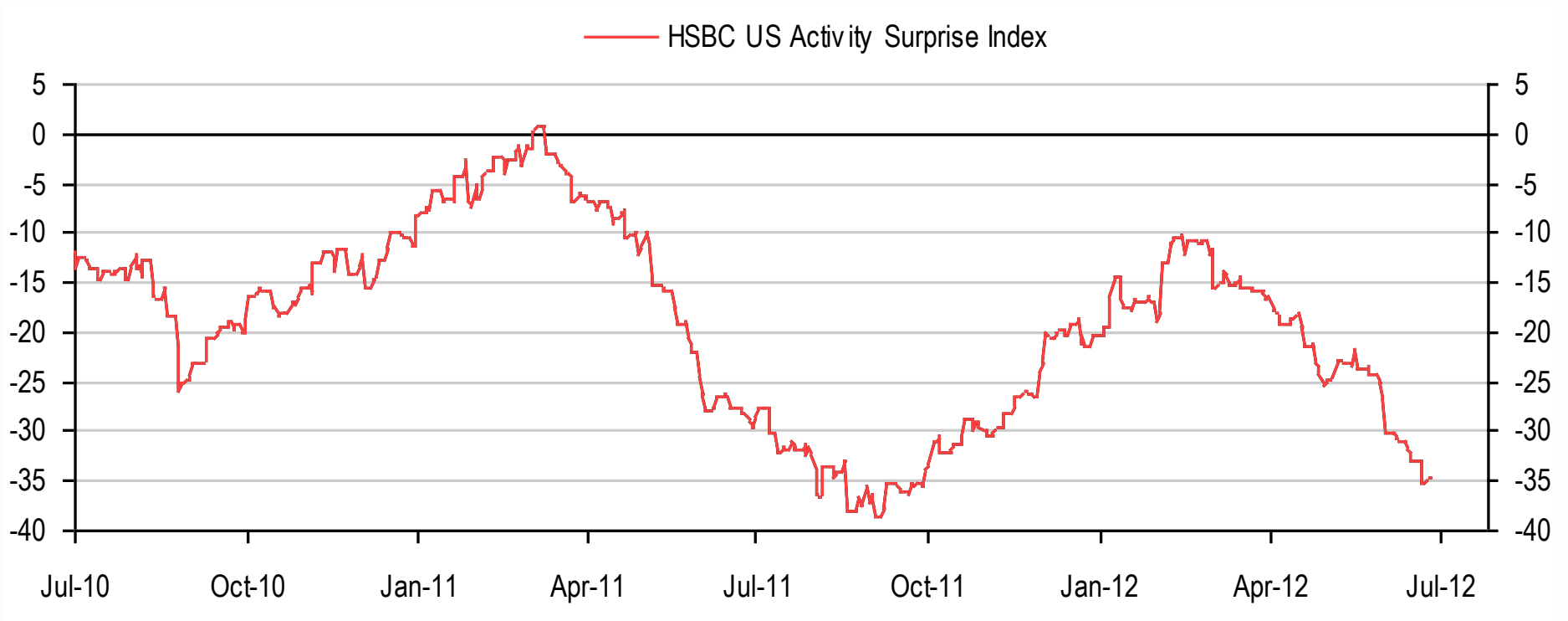


12. Debt ceiling will resurface last time it was 14trn

US Public Debt Ceiling Since 1981 - \$ Trillions



13. US economy now surprising to the downside



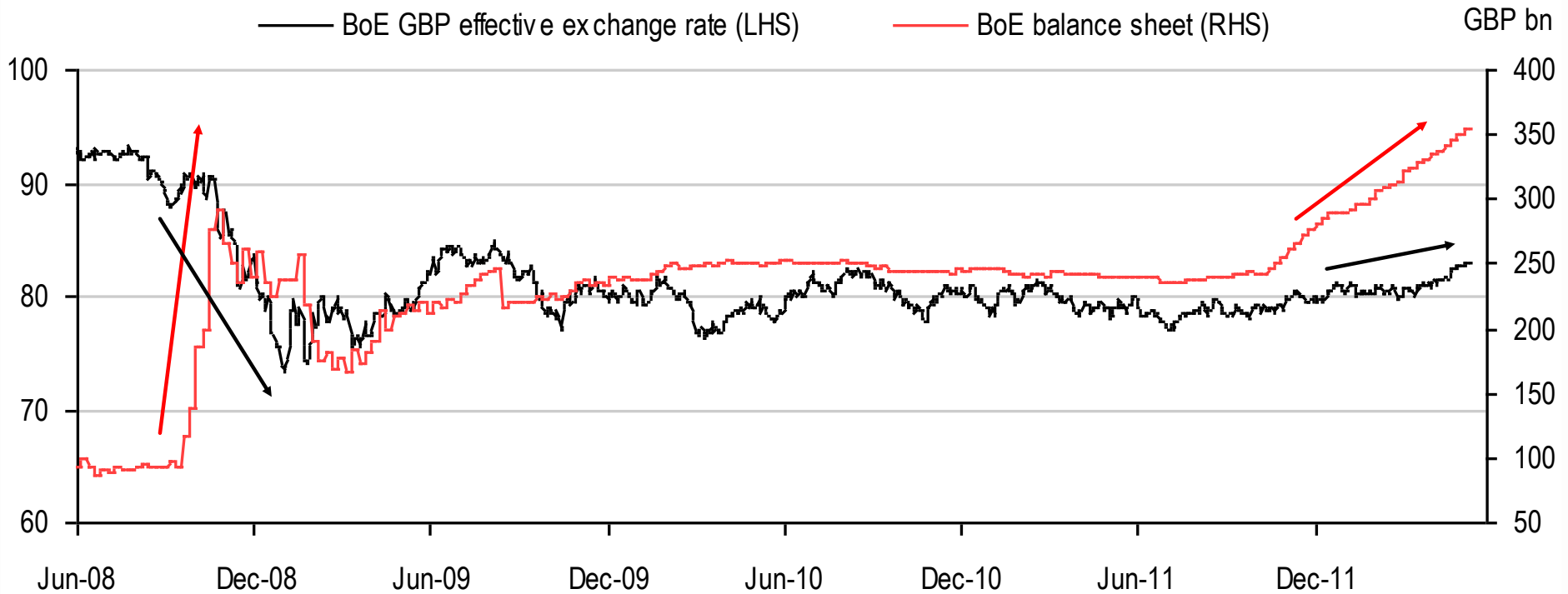
14. The QE pendulum



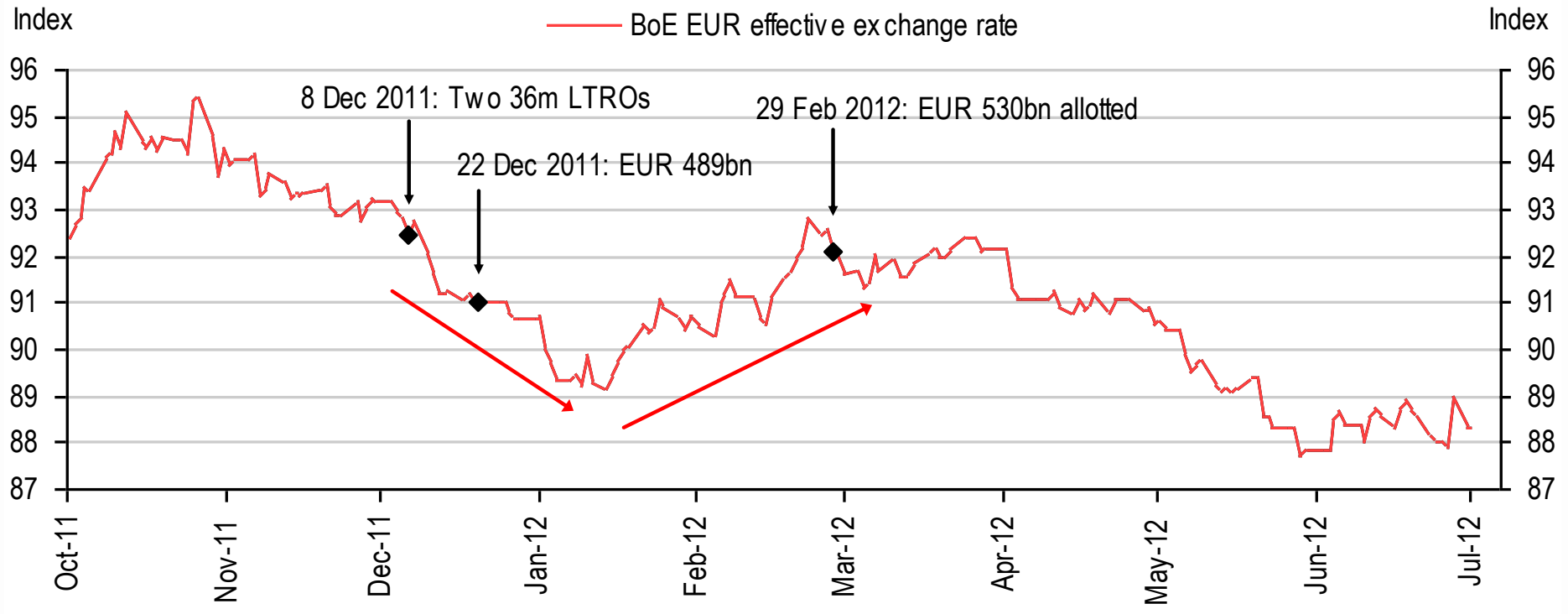
15. P...QE pendulum...what we used to think...

- When the Fed and the BoE first did QE, market thought it was FX negative
- Injecting money would create inflation and erode the value of the currency
- In simpler terms, if you have more of a currency relative to another, its value must fall
- The market has changed its mind

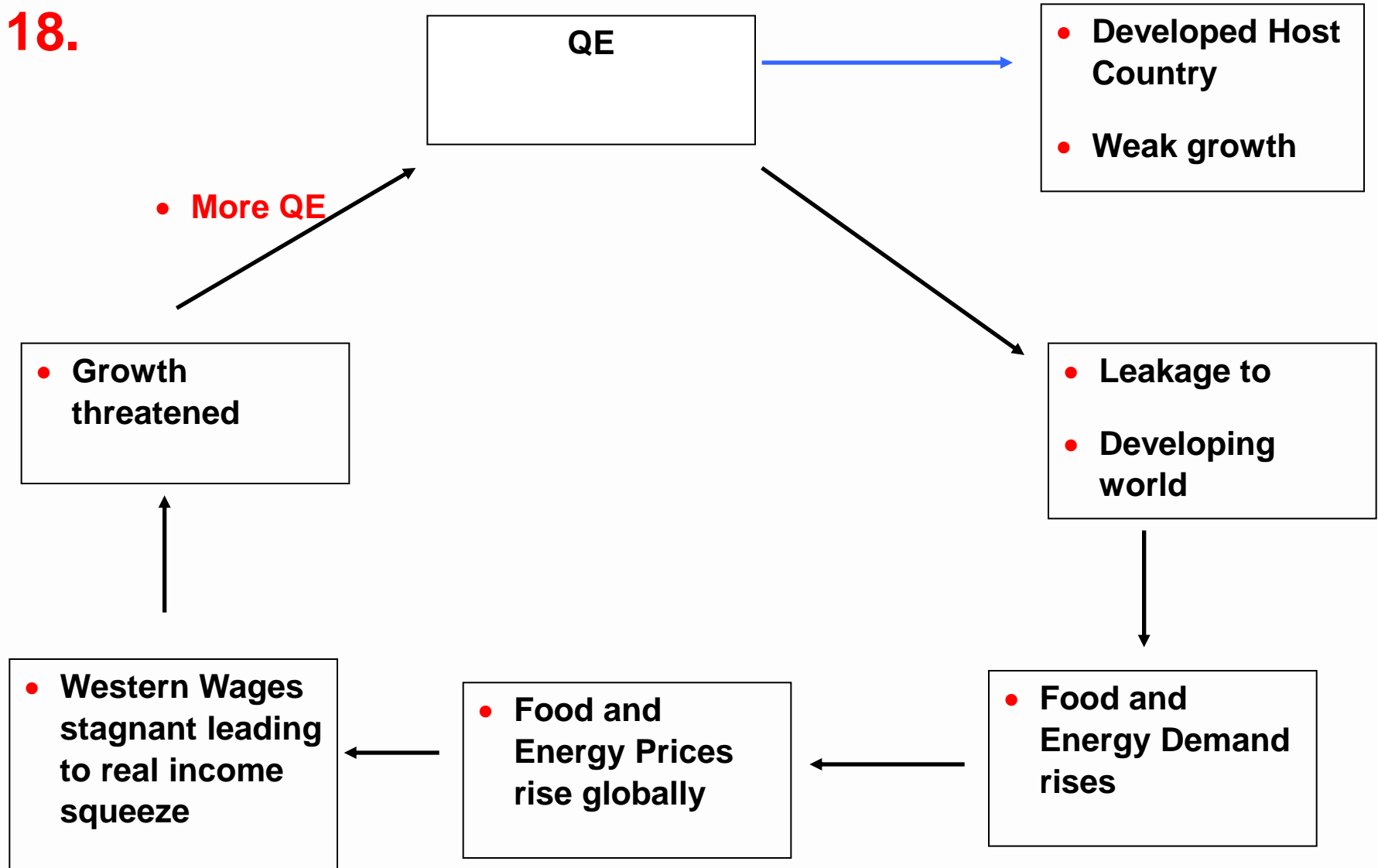
16. GBP weakness in response to BoE balance sheet expansion has not been repeated

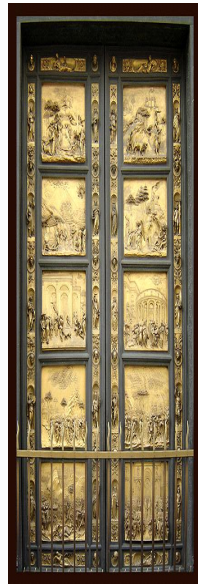


17. The market sold the EUR on the LTRO announcement, but then reconsidered



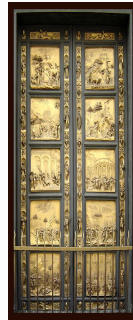
18.





EUR

The Gates of Paradise



JPY



GBP



CHF



SEK



NOK

*BRL,
ZAR,
TRY,
PLN*

*THB,
CZK,
IND,
ILS*

Source: HSBC, Gates of Paradise by Ghiberti. Battistero di San Giovanni (Florence), Wikipedia

20. Conclusions

- Euro is here to stay

21.

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22.

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