

Currency Profile for the Euro



April 8, 2010

A MarketLinksm Service from Travelex Global Business Payments

EUR performance against the U.S. dollar:

Current bias for the EUR: Negative

EUR set a 10-month low in late March

Past week: -1.21%

Past month: -2.00%

Year-to-date: -6.81%

Sources of EUR strength:

With benchmark lending rates at 1.00% the ECB has the highest lending rates and the least accommodative policy stance of major G7 nations.

The latest metrics of activity in the euro zone highlight an economy that is recovering at a gradual pace. Stabilization in global demand from record low levels helped improve the performance of euro zone exporters.

Near-term risk of credit default in Greece has been reduced by the agreement between the EU and the IMF to backstop Athens in the event of a financial emergency.

Continued improvement in risk appetite, fueled by additional signs of global recovery, will help support the euro, which generally trades in tandem with other risk assets.

Sources of EUR weakness:

While some of the near-term credit concerns about Greece may subside, the euro's upside is likely to remain limited by ongoing worries about Portugal, Spain, Ireland and Italy.

The widening spreads between Greek and German bonds represents the premium investors charge Athens to borrow and the growing lack of confidence in its ability to continue financing its massive deficits.

Euro zone GDP was recently revised to show stagnation in the final months of 2009. The data, while backward looking, highlighted the anemic recovery in the 16-member bloc.

Needed fiscal reform in peripheral euro zone economies is likely to result in growth-dampening austerity measures that will ultimately postpone policy normalization by the ECB.

The cost of insuring Greek debt against default rose above the cost to insure Icelandic debt.

Monetary Policy: The European Central Bank has kept its key lending rate at a record low of 1.00% since May 2009 and instituted the purchase of 60 billion euros worth of covered bonds in its quantitative easing program. The ECB also provided billions of euros in fixed-rate loans to the banking system to ensure that ample liquidity remained available to institutions to encourage lending to businesses and households. Recently, the ECB has allowed its purchases of bonds and some of its fixed-rate loan operations to wind down as economic and financial conditions have improved. The removal of some of the ECB's emergency facilities was consistent with the improvement in the 16-member bloc's underlying economy, but the fact that officials have kept some of their loan operations in place highlights the still fragile nature of the Europe's recovery. Recent data showed that the euro zone economy stagnated in Q4 2009. Forecast by the Organization for Economic Cooperation and Development (OECD) call for Germany, the euro zone's largest economy, to be the only G7 nation to contract in the first quarter of 2010. The very lackluster recovery in the euro zone, despite some upside surprises to data, should keep the ECB sidelined longer than its counterparts in the U.S. and Canada. Moreover, the needed fiscal tightening in peripheral euro zone nation's like Greece, Spain, Portugal, Ireland and Italy to bring their soaring budget deficits under control will weigh on already anemic recovery and postpone any eventual monetary tightening by the ECB. Consequently, the ECB will not likely begin to lift lending rates until sometime in 2011.

EUR Outlook: Balance of market opinion: Negative

Much of the euro's recent weakness has been the result mounting concerns about sovereign credit risk within the 16-member bloc. Investors worry that a combination of economic malaise, which has led to the steep drop in government revenues, combined with elevated fiscal spending on entitlement and stimulus programs, will lead to soaring deficits and difficulties in servicing and repaying debt. The widening of credit spreads between Greek, Portuguese and Spanish bonds with benchmark German Bunds highlighted investors nervousness. While an EU and IMF backstop for Greece has alleviated some of the euro's near-term negative tone, its upside will remain severely limited by ongoing worries about sovereign credit risk in peripheral euro zone states. The fiscal reforms needed to bring budget gaps back down to more reasonable levels will exacerbate the economic downturn and could postpone eventual monetary policy normalization by the ECB. The issues over Greece, Portugal, Spain and Italy also highlight a fundamental question about the viability of the European monetary experiment: can a monetary union exist in the absence of political union. Such questions should continue to undermine the appeal of the euro as a replacement reserve currency to the dollar and keep its upside severely limited.

Upcoming critical events:

Apr 14: EU Feb Industrial Production

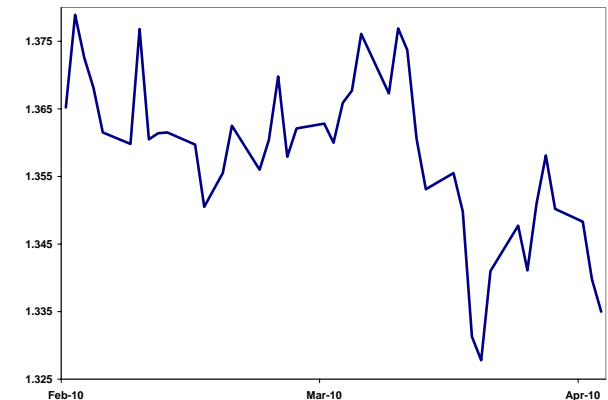
Apr 15: EZ February Trade Balance

Apr 16: EU March CPI

Apr 20: DE April ZEW

May 6: ECB Governing Council Meeting

Economic indicators	EUR	USD
3-month Deposit Rate	0.41%	0.43%
GDP (annual rate)	-2.2%	5.6%
Inflation (annual rate)	0.9%	2.1%
Unemployment	9.9%	9.7%
Trade Balance (US\$)	+35.5 bln	-518.8 bln



Visit www.travelexbusiness.com/na/market-news/daily-outlook to view online.

The information contained herein is derived from multiple public sources, the accuracy of which, Travelex has not independently verified. Accordingly, Travelex cannot guarantee it to be free from errors or omissions. The information presented on this page is not an offer to buy or sell any currency.

© 2009. Travelex Global Business Payments, Inc