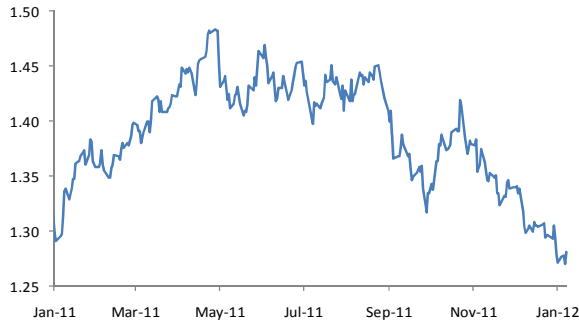


Market Watch

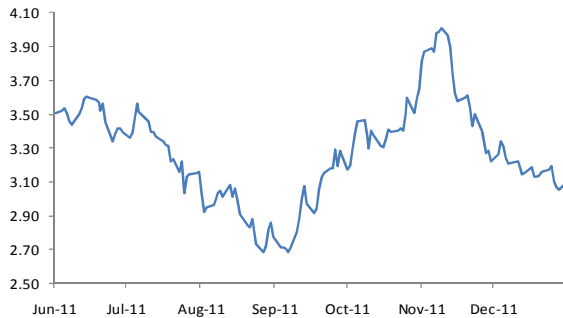
17 January 2012

Euro likely to remain under pressure EUR-USD exchange rate



Source: Bloomberg, Standard Chartered

Downgrade impact on EFSF bonds muted Yield-to-maturity of EFSF 07/21 bond



Source: Bloomberg, Standard Chartered

Number of risks loom over the next few months Upcoming events in the Euro area

Date	Country	Event
Jan	Greece	Bond swap conducted
1-Feb	Italy	First major bond redemption of the year (EUR 25.8bn)
29-Feb	Italy	Bond redemption (EUR 10.6bn)
1-Mar	Italy	Bond redemption (EUR 27.2bn)
1-2 Mar	EU27	EU Council Summit
20-Mar	Greece	Bond redemption (EUR 14.4bn)

Source: Standard Chartered Research

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Articulating risks to the Euro

SUMMARY

- S&P downgraded French, Austrian and EFSF credit ratings to AA+. The ratings of 7 other countries were also cut. Moody's left France's rating unchanged at AAA.
- We continue to believe the Euro area will muddle-through the crisis, with policymakers bringing us back from the brink each time market concerns escalate.
- It is important to recognise, however, there is a real risk that one or more countries leave the Euro area.
- Standard Chartered Research expects the EUR-USD to fall to 1.20 in Q1 but close 2012 at 1.30.

I. Muddle-through still the most likely outcome over 2012

- S&P downgraded 9 European countries, including France and Austria which lost their AAA rating. The rating of the European Financial Stability Facility (EFSF) was also cut to AA+. The Euro weakened, but EFSF bonds were little changed.
- A number of risks will continue to influence the Euro in early 2012, including Greece haircut negotiations and Italy's large redemption payments.
- We believe political will to keep the Euro area together is still strong, and policymakers will continue efforts to tackle the crisis.

II. We would not underplay the risk of Euro area departures

- We recognise that a non-trivial probability exists of one or more countries leaving the Euro area.
- One country's departure would risk sparking a domino effect as markets speculate on who may leave next.
- Likely consequences for a peripheral country departing the Euro area could include bank runs, massive depreciation of the new national currency and insolvency of companies with foreign currency debt.
- Likely consequences for core countries from a fragmenting Euro area could include a need for bank recapitalisations, significant currency appreciation and lower export demand.
- It is unclear how Euro-denominated contracts would be settled and/or redenominated in the event the currency ceases to exist

III. Risks likely to maintain pressure on the Euro

- The extent of negative sentiment priced into the market mean the possibility of short bouts of appreciation should not be discounted. However, these are likely to be short-lived.
- Near-term risks are likely to maintain downward pressure on the Euro until risks are addressed forcefully by policymakers.

Disclosure Appendix

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