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## [Moody's hits Spain again](#)

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### **Moody's hits Spain again**

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After being flagged well beforehand for most of yesterday ratings agency **Moody's** finally announced it was **downgrading 28 Spanish** banks following up its downgrade of the Spanish sovereign earlier this month on 13<sup>th</sup> June.

The downgrade also reflected concerns that **Spanish banks exposure** to a deteriorating **housing markets**, in the face of a deteriorating economy and rising unemployment, would reflect badly on the quality of its loan books, which in turn would mean that they could well need further financial assistance.

This action by Moody's was largely expected by the markets and probably also helps explain the reasoning behind last week's relaxation of collateral rules by the **ECB**, in order that Spanish banks are able to retain access to EU funding.

The problem facing Spanish banks, which is again being reflected in **rising Spanish bond yields**, is that no-one is clear on how much bailout money Spanish banks will end up needing, despite **Spanish Finance Minister Luis de Guindos** finally getting around yesterday to finally requesting access to the EU's offer of **€100bn** of loans for its ailing banking sector.

Despite this letter there still remains uncertainty as to the amount needed, and what conditions might be attached to the aid, as well as the seniority question with respect to the **EFSF and ESM**. The Spanish finance minister may shed more light on some of the detail behind the request when he talks to the Spanish parliament today.

With **bond yields** rising in **Spain**, **Italy's yields** have also been dragged higher as fears remain as to whether Italian PM will be able to continue along with his current reform program. **Today's Italian bond auction of up to €3bn** is likely to be another key test of demand with 10 year yields once again back above 6%, while **Spain** is also looking to sell **three and six-month T-bills**, just a week after selling one year paper at over 5%.

**In the UK** the state of the **public finances for May** is likely to be in focus once more and given that the economy is in its second quarter of contraction they aren't likely to be good. Market expectations are for a figure of **£14.8bn**, only slightly below the same month a year ago, which is likely to raise questions as to whether the Chancellor will be able to meet his fiscal targets with an economy that is clearly struggling.

The pound will also be in focus when **Bank of England governor Mervyn King** and chief economist Spencer Dale, amongst others will speak to the Treasury Select Committee where the Bank's latest easing program is expected to raise some questions.

**EURUSD** – downside pressure continues to predominate as the single currency homes in on support at the 1.2430/40 level. This remains the main barrier to a test towards the lower end of the recent range at 1.2290.

Any pullbacks should find resistance at the 1.2620 area, while the major resistance remains at the 1.2750 area.

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The primary objective still remains the 2010 post first Greek bailout lows at 1.1880, but we could see a bit of a short squeeze first.

**GBPUSD** – yesterday's failure to get above the 1.5620 area keeps the onus on the downside and for a retest of the broader support at the 1.5470/80 level, and 14<sup>th</sup> and 15<sup>th</sup> June lows. A move back above the 1.5620 level retargets the 200 day MA at 1.5755, which remains the major resistance, as well as trend line resistance from the 1.6305 highs.

Only a close above 1.5755, the 200 day MA and through 1.5780 targets 1.5910 which would be the 61.8% retracement of the same move.

**EURGBP** – yesterday's down move in the euro held above trend line support from the recent lows at 0.7950, at the 0.8010 level which continues to limit the downside here. A break below targets the previous lows at 0.7950. Below 0.7950 could well see a move towards 0.7845 and the November 2008 lows.

The 55 day MA and trend line resistance from the highs this year at 0.8505 continues to act as a cap on the upside at 0.8105.

The key resistance remains at this months highs at 0.8150 and is the main obstacle to a move towards 0.8200, the trend line resistance from the 0.8830 highs last November.

**USDJPY** – as suspected the US dollar did slip back after closing on the cusp of resistance at 80.43 at the end of last week. The subsequent pullback fell below 79.80 and looks set to test trend line support at 79.25 from the 77.60 lows in June.

We need to stay above the 200 day MA at 78.80 to keep the current upward bias intact.

This makes this weeks close even more important and a strong close above the cloud is needed to reboot the bullish US dollar scenario.

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