

# Is a double-dip recession coming?

The Grecian episode shook the market and more could follow, according to **Sachin Patki**. What can we expect next, he asks.

**A**fter a few quarters of optimistic outlook for the future, we are seeing questions over “U” or “W” popping up in different media. These refer to the shape of the economic recovery, which was expected to be a short period of recession followed by a gradual pickup, giving it a “U” shape. The discussion, therefore, is whether we are expecting another repeat, albeit a smaller one of the same (alluding to the “W” shape) during 2010. We have had some economic concerns coming through economic releases in the US and the EU.

Part of the reason for the concerns is being seen in the gradual withdrawal of emergency funding provided by central banks to corporations, the support of semi-government institutions like the mortgage back lending in the US and the huge amount of liquidity provided to banks to ensure that they start lending again. This has been in place since 2008 in some form and quantum, which has helped the economies post only a few quarters of recession. The fear that most governments had was a repeat of a lost decade in the 1930s (called the Great Depression), which saw destruction of industry and new parameters of risk being set up. Have the governments really succeeded in getting the economies back on track, or is this just an illusion? Will we see another period of sinking corporations and uncertainty over the evaluation of credit risk? Only time will tell.

The whole episode in Greece has seen calls being raised by different government officials asking for control over the use of derivatives. The use of instruments like credit default swaps has been pilloried in the European press for a while now. However, aside from Greece, there are other economies also in the region that are not efficient in managing their fiscal deficits and are likely to face similar fates. The whole concept of a “European Community” has been tested yet again to see if the common body will be ready to support member countries in case of economic stress. The verbal support has been measured, the actual actions have been missing and this really does not augur well for the growth of economic blocs across the globe if they are unable to find the means to provide a network for members to access support.

This whole crisis has left the euro a bit tarnished, as global smart money has moved to the US dollar as a safe haven currency. The US is showing some signs of recovery, and the next thing to look for is the consumer spending to increase for the recovery there to get traction. The Federal Reserve is expected to remain vigilant on inflationary trends, which has the potential to devalue recovery. The Fed is expected to err in favour of economic recovery versus inflation; however, the longer they delay an indication in policy change, the longer-term bond yields are expected to go higher, raising long-term borrowing costs of corporations and effectively working as a measure of control.



The euro has been consolidating for a while now in its down move, which has the potential to break the near-term support at 1.3350 for a test of 1.3100 and below that towards 1.2970, 1.2680 and 1.2550. The real area of support can be expected around the 1.2200 level for any consolidation and bounce back to test the 1.2680 area again. A failure to break the 1.3100 support will mean a further period of consolidation within a range. The recovery will take some time, as the momentum indicators are currently pointing the way down.

The sterling looks to correct further below the 1.5000 region for a test of 1.4800, 1.4710, 1.4575, 1.4340, 1.4225 and 1.4100. The top formation seen near the 1.7000 area should take it lower towards the 1.4010 area for the correction to complete. Any buying interest along the way will only look to give it some time to build up further pressure on the downside. This is also seen in the sterling/euro cross, which is looking ready for a downward correction to 1.0750 and potentially to 1.0500. If the sterling continues to look fragile, these supports may also be broken for a test of 1.0200 last seen in early 2009.

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Views expressed are his own and not necessarily those of Mashreq. Data and comments are as of March 13, 2010.