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EURO ZONE UPDATES & KEY EVENTS

S&P which placed 15 of the 17 euro-zone countries in December on watch for possible downgrades, announced on last Friday to lower the debt ratings of nine of them because it felt the currency bloc has so far failed to take adequate action. S&P cut the debt ratings of France and Austria by one notch to AA+ from triple-A. Malta, Slovakia and Slovenia were also downgraded by one notch. S&P lowered the ratings of Italy, Spain, Portugal and Cyprus by two notches.

The downgrade of France, the world's fifth-largest economy, marks the second high-profile downgrade of a top tier triple-A nation by S&P in less than six months, after it stripped the U.S. of the ranking and sparked a wave of controversy in August. France continues to hold triple-A ratings from Fitch Ratings and Moody's Investors Service. Fitch ratings has announced recently that it doesn't plan to downgrade the country's triple-A rating in 2012, although it maintained negative outlook. Moody's Investors Service also is reviewing European sovereign ratings, including those of Italy and France. France and Austria's high external funding costs and high government debt levels were primary reasons for their downgrade, said John Chambers, chairman of S&P's sovereign ratings committee. S&P did not complete its review on the European Financial Stability Facility's (EFSF) triple-A rating on Friday because of sequencing issues, Chambers said. With individual countries' ratings so vital to the rating of the EFSF, a conclusion of that review is expected to come in this week.

As France is the second-biggest contributor to the EFSF, country's rating has widely been considered vital to keeping its triple-A rating on fund. Lowering the rating on the fund, would increase its borrowing costs and reduce the amount of money available to support struggling peripheral euro-zone nations such as Italy and Spain. After the rating agency removed France from its list of risk-free borrowers on Friday, French banks which have been facing worse economic conditions could also suffer the same fate. They have seen their shares plummet since the beginning of the summer on concerns over their exposure to the sovereign debt of Europe's periphery. The decision to cut Italy by two levels, from single-A to triple-B-plus, will have a ripple effect on the ratings of Italian banks, driving up their borrowing costs and exacerbating their funding woes. Italy's banks, which are major holders of Italian bonds, are struggling to meet demands by European regulators to raise more capital to cushion against the debt crisis.

Once the downgrade news has been digested, market participants will turn their attention to the cradle of Europe's current crisis. In Athens, talks broke down on last Friday between Greece and a group of creditors negotiating to restructure its debt. The Greek government is facing hurdle to wind up the talks seeking a 50% write-down on its debt owed to creditor banks by the end of this month. Greece has a principal repayment of more than \$14 billion due in mid-March and debt negotiation must get done in order to first reduce the size of that payment in March. If there is a failure in that deal, which is aimed at cutting half the value of Greek bonds held by private creditors, many fear that the nation could eventually be forced out of the 17-member euro zone. That is because EU, IMF and ECB inspectors, who arrive in Athens on Tuesday for talks on a new, 130-billion-euro rescue plan for Greece, also want to see an agreement on the debt swap before they agree on the bailout. Under the terms agreed in October, Greek privately held debt would be reduced by half, so that, together with structural reforms, the overall debt to GDP ratio of Greece would fall to a sustainable 120 pct in 2020 from 160 percent now. Altogether this is a crucial week for financial market.

Upcoming Events

Tuesday, Jan 17: Spanish, Greek T-bill auctions. German January ZEW economic sentiment indicator. Three months since Moody's began review of France's "stable" rating outlook. Troika of international inspectors expected to return to Greece to resume talks on new bailout deal. EFSF 6-month T-bill auction
Wednesday Jan 18: ECB seven-day dollar operation. Portuguese T-bill auction. German bond auction. Greece likely to resume talks with private sector creditors on debt writedown.
Thursday Jan 19: Spanish, French bond auctions.
Friday, Jan. 20: Troika talks in Greece expected to end. Ireland's troika of lenders releases its latest quarterly review of the country's bailout. Sarkozy, Merkel meet Mario Monti in Italy.
Sunday, Jan. 22: Finnish presidential election, first round.
Monday, Jan. 23: Euro-zone finance ministers meet. French January business sentiment index.
Tuesday, Jan. 24: European Union finance ministers meet. Spanish T-bill auction. Flash euro-zone January PMI data
Wednesday, Jan. 25: Preliminary data on the Spanish government's annual budget deficit expected around this time. German January Ifo business climate index. ECB seven-day dollar operation. ECB three-month long-term refinancing operation. German bond auction. World Economic Forum begins in Davos, Switzerland (through Jan. 29).
Thursday, Jan. 26: Italian bond auction. EUR45 billion of 3-month ECB LTRO funds mature.
Friday, Jan. 27: Italian T-bill auction.
Monday, Jan. 30: EU leaders' summit. Italian, Belgian bond auctions.
Tuesday, Jan. 31: Greece aims to conclude talks detailing new EUR130 billion loan deal, debt-exchange program with private-sector creditors by this date.
Wednesday, Feb. 1: EUR25.8 billion of Italian BTP bonds due. Portuguese T-bill auction. German bond auction. Euro-zone January manufacturing PMI data.
Thursday, Feb. 2: French bond auction.
Friday, Feb. 3: Euro-zone January services PMI data.
Monday, Feb. 6: Italian parliament must have approved government's fiscal, growth package by this date.
Wednesday, Feb. 8: German bond auction.
Thursday, Feb. 9: ECB interest-rate statement, press conference.
Friday, Feb. 10: EUR1.0 billion in Greek debt maturing.
Monday, Feb. 13: Italian T-bill auction.
Tuesday, Feb. 14: Italian BTP auction. Greek T-bill auction. German February ZEW economic sentiment indicator.
Wednesday, Feb. 15: Portuguese T-bill auction. Flash data on Q4 EU gross domestic product.
Thursday, Feb. 16: French bond auction.
Friday, Feb. 17: EUR1.6 billion Greek T-bills maturing.
Monday, Feb. 20: Euro-zone finance ministers meet. Flash euro-zone February PMI data.
Tuesday, Feb. 21: European Union finance ministers meet. Greek T-bill auction.
Wednesday, Feb. 22: German bond auction.
Thursday, Feb. 23: German February Ifo business climate index.
Friday, Feb. 24: Italian bond auction.
Saturday, Feb. 25: Group of 20 finance ministers, central-bank governors meet.
Monday, Feb. 27: Belgian bond auction, Italian T-bill auction.
Tuesday, Feb. 28: ECB three-month, three-year long-term refinancing operation. Italian bond auction.
Wednesday, Feb. 29: EUR10.6 billion of Italian CTZ bonds mature. German bond auction.
Thursday, March 1: EUR14.9 billion of Italian BTP and EUR12.3 billion CCT bonds mature.
Friday, March 2: EU leaders summit.

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