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## European debt crisis coming back

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### Overview

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The Portugal parliament's rejection of the government's newest austerity proposal on March 23 triggered resignation of Jose Socrates, the Prime minister of Portugal. Socrates recently proposed new austerity measures to regain market confidence and prevent contagion of the debt crisis to the rest of the Euro Zone. The rejection is likely to lead to further downgrades of Portugal debt, a higher risk aversion for the country's debt and higher interest rates of government bonds, implying lower possibility of debt financing from the market. Portugal might have to seek for a bailout program soon following Greece and Ireland, likely totaling up to EUR 75 bn.

It is not the end. Spain could soon be the next one to face debt crisis when its peak of debt due is coming in April, July and September this year. Given its high exposure to Portugal, high debt burden, economic difficulties and fragile banking system, Spain needs a rescue package from the stability fund of Euro zone to come out the crisis. These periphery countries will have to struggle to repay the bailouts in the coming years, and a possible extension of the stabilization mechanism beyond 2013 implies a sharing of losses and risks among European partners via debt restructuring of the most fragile countries.

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### CITIC Securities Research

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Yifan Hu  
(o) 852-22379116  
[yifanhu@citics.com.hk](mailto:yifanhu@citics.com.hk)

Alexis Garatti  
(o) 852-22379117  
[alexisgaratti@citics.com.hk](mailto:alexisgaratti@citics.com.hk)

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Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

地址:	香港中环 添美道 1 号 中信大厦 26 楼	ADDRESS:	26/F CITIC Tower 1 Tim Mei Avenue Central, Hong Kong
电话:	(852) 2237 6409	TEL:	(852) 2237 6409
传真:	(852) 2104 6580	FAX:	(852) 2104 6580
Email:	hkresearch@citics.com.hk	Email	hkresearch@citics.com.hk
网址:	http://www.citics.com.hk	Web:	http://www.citics.com.hk