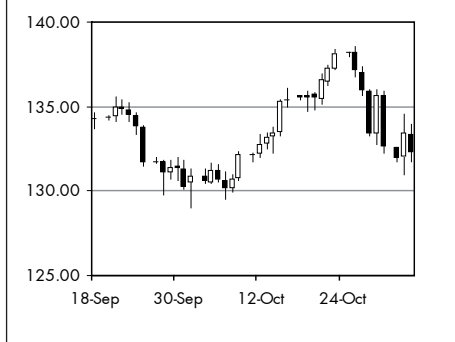


Focus FX monthly

Issue 44/2009

3 November 2009

EUR/JPY daily

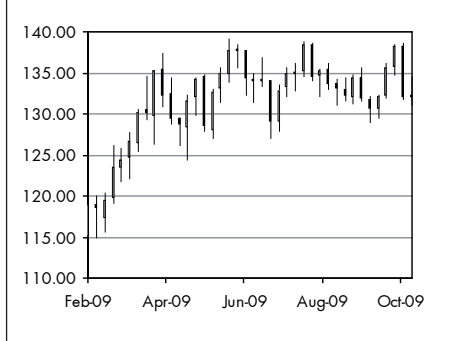


Source: Thomson Reuters

EUR/JPY: 131.9 → 135 (December)
USD/JPY: 90.0 → 90 (December)

At its meeting last Friday, the Bank of Japan (BoJ) left its key rate (collateralised overnight call rate for lending) unchanged at 0.1%. With termination of the purchase programme for corporate debt (corporate bonds and commercial papers) at the end of December, one of the measures to combat the economic crisis was withdrawn. In order to avoid a shock to the market at year-end, it was also decided to extend the provision of unlimited collateralised liquidity for commercial banks until March 2010. While the new report on the economy praised the economic recovery process (unemployment dropped from 5.5% to 5.3% in September), it also underlined the need to fight against the stubborn deflation.

EUR/JPY weekly

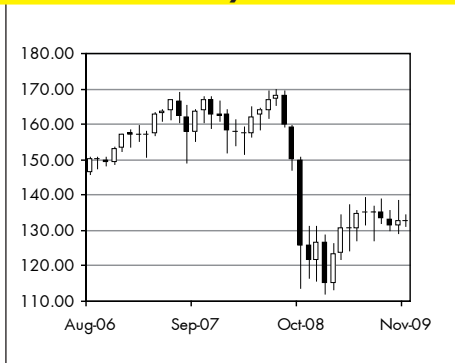


Source: Thomson Reuters

Exchange rate forecasts

	actual	Dec-09	Mar-10	Jun-10	Sep-10
EUR/USD	1.474	1.50	1.55	1.55	1.45
EUR/CHF	1.511	1.53	1.55	1.58	1.55
EUR/JPY	131.9	135	130	135	145
USD/JPY	90.0	90	84	87	100
EUR/GBP	0.903	0.93	0.95	0.95	0.95
EUR/PLN	4.295	4.00	4.05	3.80	3.75
EUR/HUF	278.8	270	285	275	270
EUR/CZK	26.42	26.0	25.2	25.0	24.80
EUR/RON	4.303	4.15	4.10	4.00	3.95
EUR/HRK	7.248	7.45	7.60	7.40	7.40
EUR/RUB	43.16	42.86	42.99	42.74	41.24
USD/RUB	29.27	28.57	27.74	27.58	28.44
EUR/UAH	12.070	13.50	13.95	12.40	11.96
USD/UAH	8.183	9.00	9.00	8.00	8.25
EUR/TRY	2.224	2.22	2.20	2.25	2.06
USD/TRY	1.508	1.48	1.42	1.45	1.42
EUR/BYR	4035	4125	4185	4263	4205
USD/BYR	2737	2750	2700	2750	2900
EUR/BGN	1.956	1.96	1.96	1.96	1.96
EUR/ALL	137.45	130.5	129.0	127.5	127.5
EUR/RSD	93.44	95.0	93.0	91.0	91.00
EUR/CNY	10.064	10.25	10.57	10.56	9.86
USD/CNY	6.828	6.83	6.82	6.81	6.80
EUR/BRL	2.602	2.63	2.95	2.79	2.47
USD/BRL	1.765	1.75	1.90	1.80	1.70
EUR/ZAR	11.653	10.650	11.005	10.695	10.15
USD/ZAR	7.903	7.10	7.10	6.90	7.00
EUR/KZT	222.354	225.00	232.50	232.50	217.50
USD/KZT	150.810	150.00	150.00	150.00	150.00

EUR/JPY monthly



Source: Thomson Reuters

Source: Thomson Reuters. Raiffeisen RESEARCH



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on. Japan's central banker forecast negative rates of consumer price inflation in the coming two years (2010: -1.2% to -0.7%; 2011: -1.0% to -0.3%). The end of the programme to buy up corporate debt should under no circumstances be interpreted as a turnaround towards a restrictive monetary policy. The BoJ was simply reacting to changes in market conditions. In the recent past, the recovery in the private credit markets in Japan had rendered this financing channel obsolete. As a consequence, for example the volume of commercial paper purchased by the BoJ dropped from JPY 1,600 bn to JPY 70.4 bn. On the whole, the BoJ's decisions were broadly expected by the market and thus did not result in any

major moves. The report on the economy confirmed our opinion that Japan will be one of the last established markets to raise interest rates. Consequently, we project that the key interest rate will remain unchanged at 0.1% in Japan in 2010 and that the yen will weaken against the euro and the US dollar. We close our trading idea, which was able to book a gain from the latest slump on the equity markets and take these profits. Sell EUR/JPY (= Buy yen): opened on 20 Oct 2009 at EUR/JPY 135; closed on 03 Nov 2009 at EUR/JPY 131.9; performance: 2.35%.

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Trading Ideas

FX

Recommendation	Entry date	Entry level	Current level	Target level	Stop	Carry (ann. %)	Comments
Sell GBP/USD	23/10/2009	1.643	1.6542	1.58	1.675		disappointing UK GDP data, stronger US data expected

Source: Thomson Reuters, Bloomberg

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total Return	Comments
Buy EUR/CHF	21/10/2009	1.5097	27/10/2009	1.515	0.35%	Closed early
Buy EUR/JPY	29/09/2009	131.1	13/10/2009	133.1	1.53%	Closed early
Buy EUR/USD	04/08/2009	1.4364	07/08/2009	1.425	-0.80%	Stopped out
Sell EUR/JPY	20/10/2009	135	03/11/2009	131.9	2.35%	Closed early
Buy EUR/CHF	25/08/2009	1.516	09/10/2009	1.5186	0.17%	Closed early
Sell EUR/PLN	13/10/2009	4.22	02/11/2009	4.3	-1.86%	Stopped out

Source: Thomson Reuters, Bloomberg

Note: This list contains only the strongest trading ideas for the markets that we cover. Therefore not every market forecast that implies a buy recommendation is also listed as a trading idea! Trading ideas may also differ from our quarterly forecasts, as the time horizon can be different. The time horizon of the trade is at least two weeks, but not more than 3 months.

EUR/USD: 1.474 → 1.50 (December)

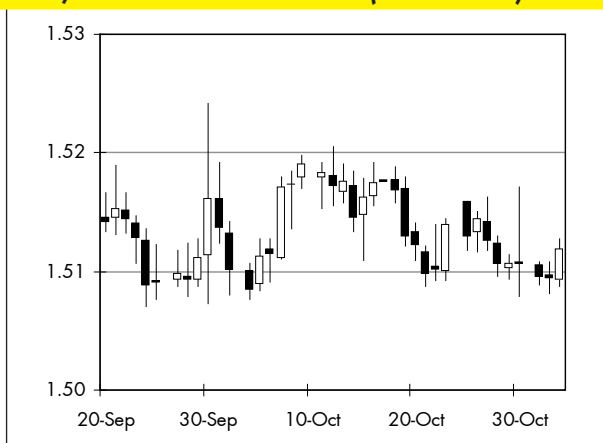
Source: Thomson Reuters

At first glance, it seems like a paradox: as projected, the most important leading US indicator, the ISM index for the manufacturing sector, was considerably stronger than expected by the market yesterday, advancing to 55.7 points and in response, the US dollar lost ground (EUR/USD rose). Nonetheless, this pattern fits right in with the behaviour of USD in recent quarters, as carry trades take centre stage.

Better economic data (especially from the USA) boost the optimism of global investors, leading to more purchases of risky assets (e.g. equities) around the world, some of which is financed with borrowings of USD at very low interest rates, which in turn generates depreciation pressure on USD. The opposite of this was seen last week: a correction on the equity markets resulted in repayments of loans and for this purchases of USD are necessary, prompting USD to appreciate (along with JPY). And so the short-term outlook looks clear: another bad week on the stock markets could easily send EUR/USD to 1.45, but this too will pass and subsequently there will be no obstacles to EUR/USD hitting 1.50 (and higher). At some point, the US economic data will become so strong that interest rate hikes will ensue, and then USD should react to the stronger data with appreciation (= rising US interest rates). But the Fed's rate-setting meeting on Wednesday evening should make it clear that this is still a ways off yet. Nevertheless, the central bank meeting (along with the ECB's rate-setting meeting on Thursday) means that there will be volatility.

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EUR/CHF: 1.511 → 1.53 (December)

Source: Thomson Reuters

In recent weeks, the CHF exchange rate has remained within a tight trading range to the euro, without any obvious trend. The Swiss National Bank, which has repeatedly intervened since March of this year, has become the main factor on the EUR/CHF market. On several occasions, EUR/CHF touched the current presumed intervention limit of 1.508, but then depreciated quite sharply but not for long. Friday of last week, this game culminated in an intra-day trading band of almost one rappen, with the opening and clo-

sing quotes remaining the same, after EUR/CHF touched the bottom edge of the trading range. Clearly, the SNB is exercising restraint with its interventions on the currency market, i.e. using small volumes. At any rate, the SNB's official FX reserves rose in September, but less strongly than in the previous month, when intervention on the currency market triggered more significant contortions on the market. This more cautious approach can be seen as a sign that the SNB is quite comfortable with the current exchange rate of the franc, but wishes to prevent appreciation with as little commotion as possible. Nonetheless, we do not view this as being the first sign of a more restrictive monetary policy in the near future. Rather, it appears that the SNB wishes to maintain the status quo, as the successful combination of low interest rates and unorthodox monetary policy is supporting a strong recovery in the Swiss economy. Accordingly, the results of the Swiss leading indicators in the months ahead will be of key importance for the SNB in its decision to withdraw from the very loose monetary policy. The most important leading indicator, the PMI, took a break this week at 54. Accordingly, the SNB is probably not particularly interested in winding up its expansive monetary policy just yet.

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EUR/GBP: 0.903 → 0.93 (December)



Source: Thomson Reuters

GBP was able to rebound from the losses versus EUR, which were triggered by the poor GDP figures. The market appears to still be paying attention to the monthly leading indicators, which were partially better than expected last week and were able to provide positive surprises this week as well (PMI rose to 53.7 points in September versus consensus of 50). This week features several data publications (industrial production, consumer confidence) in the run-up to the

BoE's rate-setting meeting on Thursday. As noted last week, the chances of more QE measures has increased significantly, as the preliminary Q3 GDP estimates fell short of expectations. The growth rate for the M4 monetary aggregate (ex IOFCs) in September was -0.9%, showing that there are also arguments for expanding QE measures based on this aspect as well. The range of information suggests that the BoE will continue to be more worried about the sustained decline in inflation (to below the target of 2%), rather than any increases in inflation. Accordingly, we expect that the BoE will boost its measures by GBP 25 to 50 bn, leading to a weaker GBP. The programme will likely be carried out during the period until the next inflation report in February 2010. It is also not possible to rule out that the BoE will lower the interest rate on commercial banks' reserves deposited at the BoE to 0%. Nonetheless, we believe that the impact of such a measure on banks' lending would be limited and hence see a low probability of a move of this nature. We continue to expect more depreciation for GBP versus EUR, in particular due to the uncertainties about the BoE's monetary policy going forward.

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EUR/PLN: 4.295 → 4.00 (December)



Source: Thomson Reuters

Last week's rise in risk aversion pushed the euro back to levels of EUR/PLN 4.27. The NBP's rate-setting decision hardly had any impact on the exchange rate, as the central bank left the reference interest rate unchanged at 3.5% and took a neutral stance on its monetary policy in its accompanying comments. In terms of economic data, the PMI rose to 48.8 points in October, once again confirming the rebound in manufacturing. This was the best result for the PMI in more than one and a half years. We still believe that from a fundamental perspective PLN is undervalued at its current level. In our view, the zloty should move towards EUR/PLN 4.00 this year still, thanks to the growth differential, the lack of pressure on the currency from the current account and the interest rate differential versus the euro area. Accordingly, we confirm our Buy recommendation for zloty versus euro.

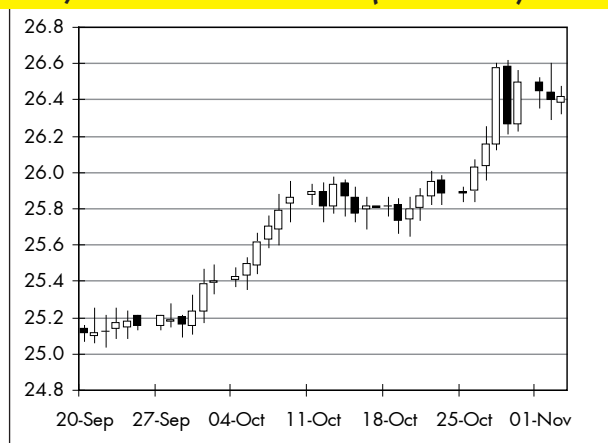
*Analyst: Marcin Kopaczynski
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EUR/HUF: 278.8 → 270 (December)

Source: Thomson Reuters

The hiccup on the stock markets brought some weakness in the forint with it. In the current market environment with persistent uncertainties regarding the economic outlook, we expect to see more high volatility. This week will feature data on industrial production and trade balance figures for September. Even though we expect industrial production to improve from -19.8% yoy to -15% yoy, the data should have very limited effects on the forint. EUR/HUF will continue to follow the events on the established markets. We expect no lasting appreciation of EUR/HUF below 270 and continue to see HUF in a volatile sideways movement around 270 until year-end 2009.

Analyst: Wolfgang Ernst
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EUR/CZK: 26.42 → 26.0 (December)

Source: Thomson Reuters

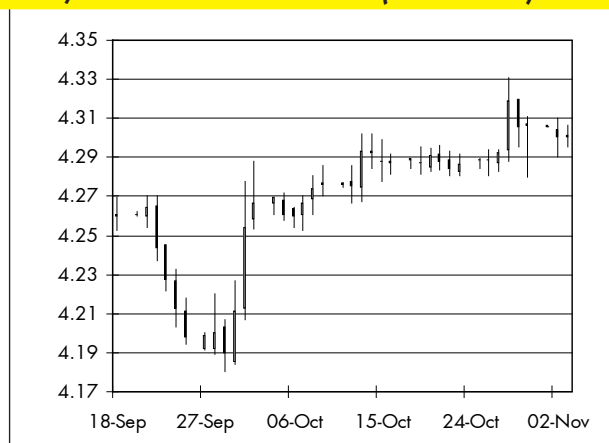
The Czech koruna (CZK) was trading at around 26.5 against the euro at the beginning of the week, marking a 4-month low. As with the other CEE currencies, CZK is being weighed down by increasing fears regarding the sustainability of the global economic recovery as the fiscal stimuli in the USA and Europe are gradually running out.

The key domestic event this week is the monetary policy board meeting of the Czech National Bank (CNB) on Thursday. We expect no change in the CNB's key 2-week repo rate. CZK recently corrected and is now even weaker than what the CNB forecasted for Q4 2009 (EUR/CZK 25.9). Moreover, the board members seem to not share a consensual view on the rate decision. While CNB governor Zdenek Tuma and vice-governor Miroslav Singer have publicly supported a further rate cut, Roman Holman favours stable rates. Since the market widely expects at least a 25bp cut, a decision to keep the key rate unchanged might temporarily support the CZK. However, the key driver for the CZK is still global market sentiment, which has deteriorated at least for the time being. Our December target remains unchanged at 26. In a medium- to longer-term perspective, we assume a return to the CZK's fundamental long-term appreciation trend.

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EUR/RON: 4.303 → 4.15 (December)



Source: Thomson Reuters

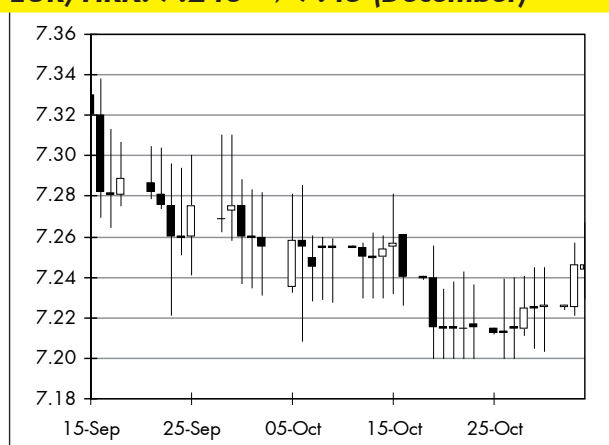
RON remained under pressure against EUR last week, trading slightly above the 4.30 level. The de-

mand for euros stems mainly from the commercial side (both companies and households). At the regional level, currencies came also under pressure as foreign investors proceeded to unwind carry trades and speculative positions. This week, Parliament will vote on the structure of the new government, but there is a strong probability that the government will not receive enough votes (according to the political statements made by the opposition parties). Thus, political instability may continue to weigh on the RON exchange rate at least until the presidential elections are over, at the beginning of December. Also, the outcome of the visit of the IMF mission, which is scheduled for this period, will have an important impact on the exchange rate. Under these circumstances, we think that the risks for the exchange rate dynamics are on the upside over the short term.

Analyst: Martin Stelzeneder

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EUR/HRK: 7.248 → 7.45 (December)



Source: Thomson Reuters

The start of the last week was relatively calm with EUR/HRK at 7.22 and modest trading volumes. This was then replaced by depreciation pressure on the kuna in the second part of the week. Corporate demand for euros was backed up by demand for euros

from the banking sector which finally resulted in an increase in EUR/HRK to more than 7.23. The very end of the week was marked by trading around that rate, while – in line with expectations – the CNB’s middle rate increased mildly at the weekly level. Since the liquidity in the system was at a satisfying level, there was no need for the CNB to carry out a reverse repo auction, for the second time in a row. This week started with signs of depreciation pressures on the kuna and the rate moved over EUR/HRK 7.23. With solid corporate and banking sector demand for euros, the rate should continue to rise in the period ahead. Thus, at the weekly level, we expect the kuna to weaken. We expect the same trend at the monthly level, which will primarily be influenced by government borrowing abroad. However, public enterprises and HBOR borrowing abroad on the international markets could result in appreciation pressures on the kuna.

Analyst: Martin Stelzeneder

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EUR/RUB: 43.16 → 42.86 (December)
USD/RUB: 29.27 → 28.57 (December)



Source: Thomson Reuters

Last week, as we predicted, the rouble rally continued beyond the 35.00 level against the dual currency basket. In an apparent policy shift, the central bank continued to lower its bid on the foreign exchange market. On Friday, 30 October, the bank moved its rouble bid from 35.40 to 35.35. The rouble bid also came in stronger, up from the previous 35.65 at the beginning of the last week. But in confirmation of our earlier concerns, the reversal of the dollar plight and some weakness in the commodity markets at the end of the last week forced market players to open wea-

ker on Monday, 2 November. As a result the rouble dropped back to 35.48 in the morning session on Monday, but later recovered to 35.41.

The central bank apparently remains within a comfort zone and is pushing the rouble bid up in an attempt to refrain from larger anti-rouble interventions. The bank sees no threat from a stronger rouble since oil prices remain firmly above USD 70 per barrel and capital inflows into Russian financial markets have been increasing in the last couple of months.

We see USD strengthening in international markets and weaker equity markets as obstacles to further rouble appreciation. Likewise, we predict RUB to remain range bound between 35.30 and 35.60 against the basket. Weaker equity markets and a stronger dollar traditionally push oil prices lower and consequently trigger rouble weakness. Still, we stick to our new target for RUB at 35.00 against the basket, believing the currency will see more demand since the economy is showing some first signs of rebounding and inflows of foreign currency from foreign trade will be increasing towards year-end.

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EUR/UAH: 12.070 → 13.50 (December)
USD/UAH: 8.183 → 9.00 (December)



Source: Thomson Reuters

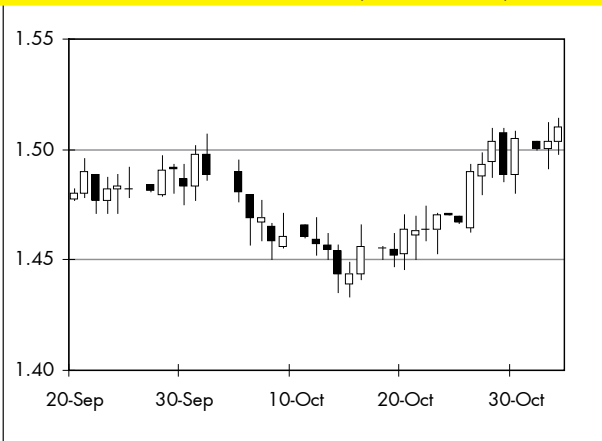
Following an appreciation trend last week, the Ukrainian currency was weaker this week, depreciating to USD/UAH 8.20 and EUR/UAH 12.10. On Friday, there was some commotion due to the announce-

ment of stricter government measures in response to the outbreak of (swine) flu in the Western part of the country, as well as the signing of an act on increasing the minimum wage by the president. In the negotiations on disbursement of another USD 3.5 bn, the IMF had expressly called on President Yushchenko to veto the law. Signing of the act should be viewed in the context of the enmity between the PM and the President, and the upcoming presidential elections. IMF Director Strauss-Kahn retracted his initial comment that the programme had gotten off track and stressed that cooperation with Ukraine would be continued. Signing of the act prompted S&P to lower its outlook on the country's CCC+ rating from "positive" to "stable". The extremely tense public finances could grow even worse if disbursement of the next IMF tranche is delayed (which is looking more probable now). Another risk factor for the currency is the possibility of another dispute about gas with Gazprom at the end of the year.

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EUR/TRY: 2.224 → 2.22 (December)
USD/TRY: 1.508 → 1.48 (December)



Source: Thomson Reuters

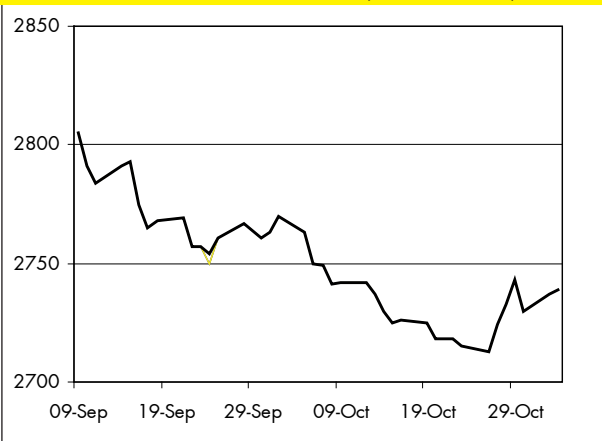
The lira strengthened to 1.44 against the dollar in mid-October, but this trend later reversed pushing the lira back to 1.48. The market became anxious about the speed of the lira and equity markets rally, whereas economists expressed some concerns about rising consumer prices in October.

The Turkish economy, similarly to other Emerging Markets, has shown some signs of pulling out of the recessionary spiral. Turkish exports rose by 4.6% yoy in October for the first time since the recession hit the country. The trade deficit in September narrowed by 22.5% yoy, after falling 40.6% in the previous month. Secondly, market watchers are nervous about consumer price growth in October: consensus sees October inflation at 1.8%, after an increase of 0.39% in September. Despite this expectation, annual inflation will continue to decrease thanks to the low base effect. The increase in consumer prices, however, if it continues, could undermine the medium-term price stability goal of the central bank and lead to an abrupt reversal of the central bank's current lax monetary policy.

We foresee Turkish lira stuck between 1.45 and 1.50 to USD, as depreciation risks for the lira mount. Consequently, the lira might slide beyond 1.50 to 1.55 against the dollar by the end of November.

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EUR/BYR: 4035 → 4125 (December)
USD/BYR: 2737 → 2750 (December)

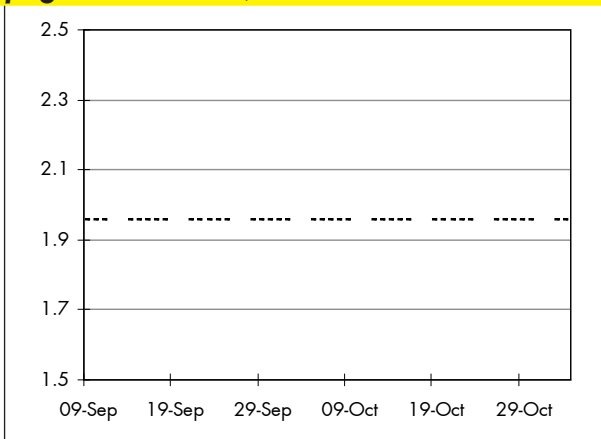


Source: Thomson Reuters

In mid-October, the IMF successfully ended its second review of the stand-by programme for Belarus. The third tranche of more than USD 700 mn from the USD 3.5 bn programme was approved. On the

whole, the IMF was satisfied with Belarusian economic policy, praised the restrictive fiscal policy and the currency regime that has been implemented (currency basket containing USD, EUR and RUB). Criticism was voiced on the significant state control of lending, which had resulted in a 20% increase in the trade balance deficit (USD 5 bn in Q1 –Q3), despite the economic crisis. Financial support from abroad, the unexpectedly high "roll-over ratios" for foreign debt and the decelerating increase in the trade deficit in H2 made it possible to stabilise and even mildly increase the currency reserves. Consequently, we no longer expect more depreciation in 2009, and adjust our exchange rate forecasts to reflect a stronger level for BYR. More depreciation of the Belarusian rouble in 2010 cannot be ruled out, however, although the gradual fading of the global economic crisis should support exports and allow for a broad stabilisation in BYR.

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EUR/BGN: 1.956 → 1.96 (Currency Board pegs BGN to EUR)

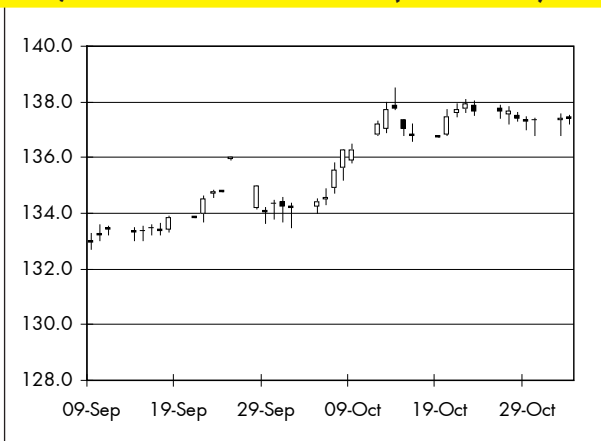
Source: Thomson Reuters

The International Monetary Fund (IMF) revised Bulgaria's economic performance from -7.0% to -6.5% yoy in 2009 and expects a 2.5% contraction in 2010. The government expects the economy to contract by 6.3% this year. The economy shrank by 4.2% yoy in H1 2009. The cabinet of the centre-right GERB party invited the IMF to consult with Bulgaria in

reviewing its 2009 budget and help it draft the 2010 budget bill. For the first time since 2002, Bulgaria registered a consolidated budget deficit of BGN 372.4 mn at the end of July, compared to a consolidated budget surplus of BGN 4.2 bn a year earlier. The government approved an austere 2010 budget draft aiming to achieve a zero deficit in a bid to avoid a prolonged recession and currency pressure. The draft, which sees the economy contracting by 2% yoy in 2010, imposes a freeze on pensions and public sector wages and envisages less spending on almost all sectors, ranging from health and education to defence. Taxes should be kept unchanged next year and the social security burden might be cut by two percentage points to help businesses and protect jobs. The government has already curbed spending by 15% this year and took measures to fight smuggling to boost tax revenue and avoid an end-year deficit. According to Finance Minister Djankov, Bulgaria will wait until the beginning of next year before deciding whether to seek IMF funding. The Bulgarian government plans to keep the peg of 1.95583 leva per euro until entering the Eurozone.

Analyst: Martin Stelzeneder

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EUR/ALL: 137.45 → 130.5 (December)

Source: Thomson Reuters

The Albanian central bank cut the key repo rate by 50bp from 5.75% to 5.25% after keeping the rate unchanged since January as the economy showed po-

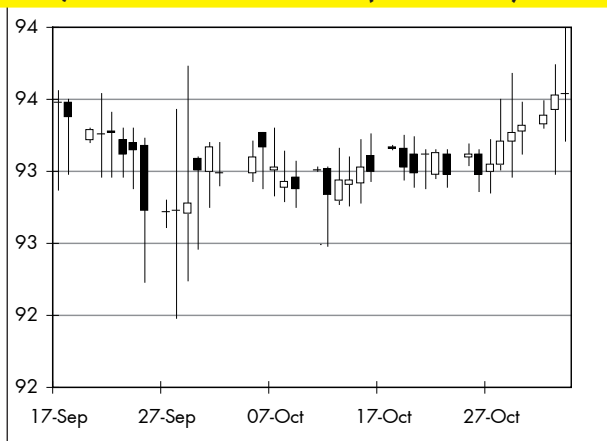
sitive signs in the third quarter and marked a turning point in the public's faith in the banking system. According to the IMF, the Albanian economy will grow by 2% yoy in 2009 (3% yoy in 2010). Therefore, the institution urged the government to end fiscal stimulus and set realistic targets in the 2010 budget. Finance Minister Ridvan Bode expects that Albania might not need financial support from the IMF. The Institute of Statistics has estimated growth of around 5.3% yoy for the second quarter. The European Bank for Reconstruction and Development increased the forecast for economic growth in Albania for 2009 to 3% yoy, but foresees a further slowdown in economic growth in 2010 to 1.6% yoy. Albania is highly dependent on the economic performance of the EU. Trade with the EU countries (especially Greece and Italy) represents 64.7% of total volume.

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EUR/RSD: 93.44 → 95.0 (December)



Source: Thomson Reuters

In early October, the national bank cut the key interest rate to 11%, facilitated by the slower growth of regulated prices in the second half of the year,

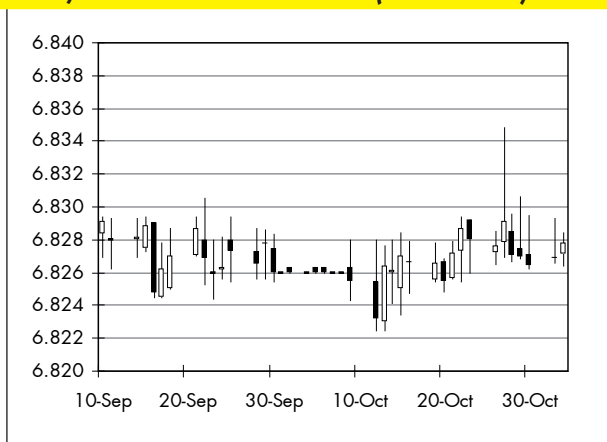
lower risk premia, easing inflationary pressures, and a stable dinar exchange rate. Further reductions will depend upon the government's economic policy for 2010. In addition, the NBS cut the dinar share in banks' reserve requirements to 25% from 30%, which will release RSD 14.5 bn in domestic currency. With interest rates still perceived as being high, the NBS' reference rate cuts made funding the government's deficit cheaper, boosting demand for T-bills and driving FX stability. Given the extensive pressures from the economy, it is hard to believe that the dinar will gain significantly by the end of year. As there are no significant privatization measures or FDI in sight for the near future, stronger FX inflows cannot be expected, suggesting that the market will see volatile movements and small volumes. Some support for the dinar could come from possible EU membership application in the next few months.

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EUR/CNY: 10.064 → 10.25 (December)

USD/CNY: 6.828 → 6.83 (December)



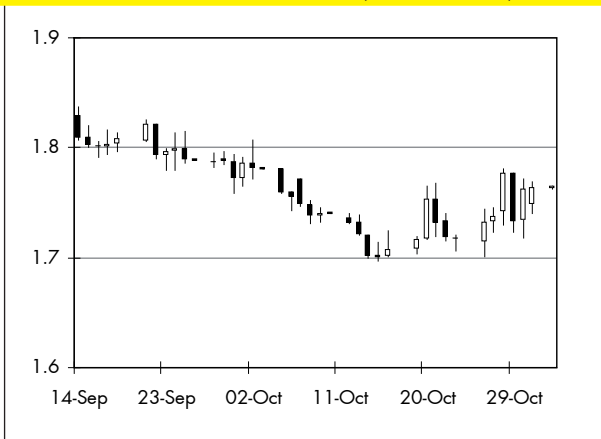
Source: Thomson Reuters

There continue to be controversial discussions about exchange rate policy in China. Whilst Trade Minister Chen supports a stable yuan, creating secure planning conditions for exporters, central bank governor Zhou insists on a currency adjustments; the de facto peg to USD was merely a special measure to soften the impact of the global crisis. In the end, a middle-of-the-road solution will probably come about. Depending on the future performance of exports and the development of inflation, the trend may gravitate towards some appreciation again. In the months ahead, both indicators should move into positive territory in year-on-year terms, paving the way for some upward speculation in NDFs again.

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EUR/BRL: 2.602 → 2.63 (December)
USD/BRL: 1.765 → 1.75 (December)



Source: Thomson Reuters

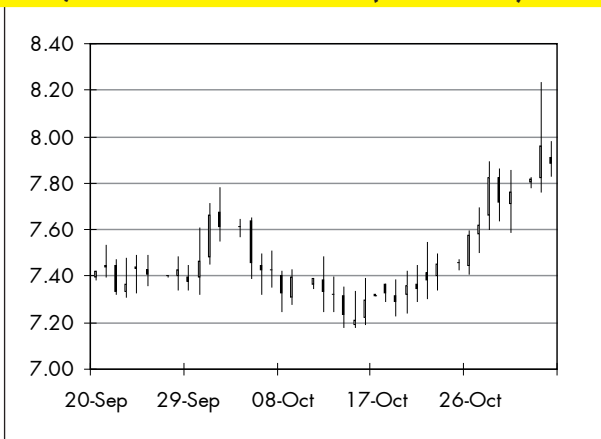
Economic data in Brazil continue to look very robust. Unemployment is still declining (Sept: 7.7%) and

inflation remains relative modest (Sept: 4.3% yoy). One interesting thing is that the data on capacity utilisation have risen sharply in recent months and are now back over the long-term trend again. Business surveys also reflect optimism about the economy. As a result, we expect that the data on industrial production this week will feature more positive numbers, along with the retail sales data next week. The Brazilian real lost some momentum last week and is now moving sideways. Headwind was felt from profit-taking on the equity markets and the introduction of a transaction tax on investments in bonds and equities in order to arrest the rapid appreciation of the currency. Although we expect economic activity to continue strengthening, capital inflows will wane due to deterioration in risk sentiment. As a result, we project that the Brazilian real will fluctuate around 1.75 to the US dollar through to year-end.

Analyst: Josef Wolfesberger

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EUR/ZAR: 11.653 → 10.65 (December)
USD/ZAR: 7.903 → 7.10 (December)



Source: Thomson Reuters

The South African economy remains mired in recession. The latest data on industrial production (July: -13.5% yoy; Aug: -14.5% yoy) reflected more declines in year-on-year terms in August. Although the number of bankruptcies eased in August, dropping by 7.4% compared to the previous year, the rate then increased again in September, rising to 1.8%. In October, the purchasing managers' index rose from a revised number of 45.9 to 47.6. Furthermore, mounting unemployment also represents a threat to

private consumption. One approximation for this can be found in retail sales, which fell by 6.9% yoy in August. As unemployment trails behind the development in economic activity, private consumption will likely remain weak in 2010, whereby possible wages increases may provide some support. Along with the recession, South Africa is also suffering from a relatively high inflation rate compared to the other Emerging Markets. Although inflation has subsided from its almost record-setting highs in 2008, it is still projected at 5.5% yoy in 2010, near the upper end of the central bank's target range of 3-6% (down from 7% in 2009). So far, the performance of the South African rand versus the euro and the US dollar has been impressive. Nevertheless, a strong currency is no help to the export industry, which is one reason that the central bank resorted to verbal intervention again recently. Together with the less sterling performance of the equity markets, this resulted in depreciation of the rand, both versus the euro and the US dollar. With an eye to the weeks ahead, we expect a slightly weaker rand. Nevertheless, if market conditions turn positive, another round of appreciation is possible, as the correlation between USD/ZAR and the international equity markets remains intact.

Analyst: Nina Kukic

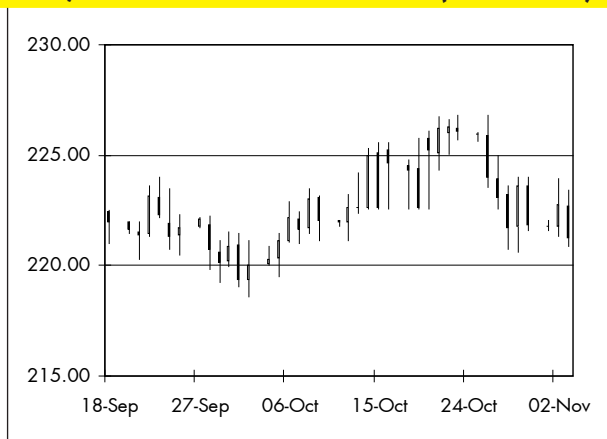
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EUR/KZT: 222.354 → 225.00 (December)
USD/KZT: 150.810 → 150.00 (December)



Source: Thomson Reuters

Industrial production in Kazakhstan rose by 1.5% mom and 2.8% yoy in September, mainly due to the commodity sector and the stronger base effect in this

field. Although global risk aversion has strengthened somewhat in recent weeks, crude prices have remained at a relatively high level. This should allow the NBK to continue pegging the tenge to the US dollar without any problems. Moreover, the governor of the Kazakh central bank, Grigory Marchenko, commented on 19 October that the NBK would avoid excessive strengthening of the tenge, in order to prevent deterioration in domestic producers' competitiveness. Monthly CPI inflation in October was 0.4% mom again, pushing the annual rate to below 6%. As a result, the central bank has further leeway for more rate cuts. As noted several times, we currently see no changes in the USD/KZT rate, which is confirmed by Marchenko's comments. Consequently, we stick with our USD/KZT forecast of 150 for the quarters ahead, and expect to see another rate cut by the NBK by the end of the year.

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