Focus FX weekly

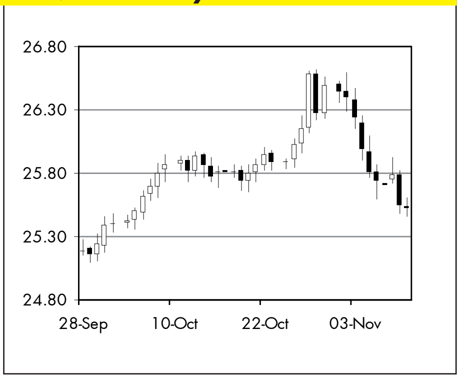
Issue 45/2009 **10 November 2009**

EUR/CZK: 25.51 → 26.00 (December)

The Czech koruna (CZK) appreciated by almost a full crown from 26.5 to 25.6 against the Euro after the Czech National Bank (CNB) left its key 2-week repo rate unchanged at 1.25% on its monetary policy board meeting on Thursday last week. The money market had priced in a rather high probability of a rate cut, causing a strong market correction when it failed to materialise. In fact the vote was very close with 3 out of the 7 board members voting for a rate cut. In addition the CZK is being supported by the positive global market environment. However, the volatility of international financial markets and possible dovish comments from CNB board members are likely to prevent further strong CZK gains in a short-term perspective. With regards to the domestic economy, inflation turned into deflation in October (-0.2% yoy), but the base effect of higher energy prices in a year-on-year comparison will make sure that the inflation rate will return into positive territory and gradually increase in the coming months. Thanks to seasonal factors the unemployment rate declined slightly to 8.5%. The flash estimate for real GDP in Q3 2009 should confirm that the Czech economy has bottomed out, although the pace of recovery will remain weak in quarter-on-quarter terms. We maintain our December target for the CZK at 26.0 against the Euro. For 2010 we foresee a return to the koruna's fundamental long-term appreciation trend.

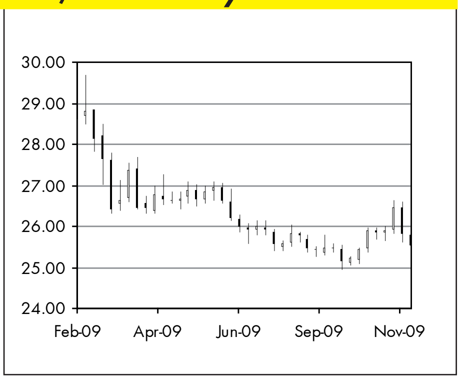
Analyst: Walter Demel
walter.demel@raiffeisenresearch.at

EUR/CZK daily



Source: Thomson Reuters

EUR/CZK weekly



Source: Thomson Reuters

EUR/CZK monthly

Source: Thomson Reuters

Exchange rate forecasts

	actual	Dec-09	Mar-10	Jun-10	Sep-10
EUR/USD	1.499	1.50	1.55	1.55	1.45
EUR/CHF	1.511	1.53	1.55	1.58	1.55
EUR/JPY	134.6	135	130	135	145.00
USD/JPY	89.8	90	84	87	100.00
EUR/GBP	0.900	0.93	0.95	0.95	0.95
EUR/PLN	4.206	4.00	4.05	3.80	3.75
EUR/HUF	272.0	270	285	275	270
EUR/CZK	25.51	26.0	25.2	25.0	24.8
EUR/RON	4.293	4.35	4.30	4.25	4.20
EUR/HRK	7.262	7.45	7.60	7.40	7.40
EUR/RUB	43.06	42.86	42.99	42.74	41.24
USD/RUB	28.73	28.57	27.74	27.58	28.44
EUR/UAH	12.277	13.50	13.95	12.40	11.96
USD/UAH	8.190	9.00	9.00	8.00	8.25
EUR/TRY	2.204	2.22	2.20	2.25	2.06
USD/TRY	1.472	1.48	1.42	1.45	1.42

Source: Thomson Reuters. Raiffeisen RESEARCH

Trading Ideas

FX

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comment
Buy EUR/USD	05/11/2009	1.483	1.499	1.52	1.46		Decreasing risk aversion

Source: Thomson Reuters, Bloomberg

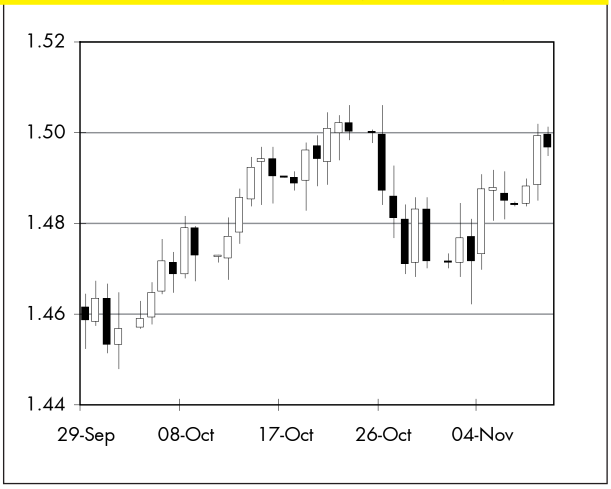
Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comments
Sell GBP/USD	23/10/2009	1,643	09/11/2009	1,675	-1.91%	Stopped Out
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
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: 1.499 → 1.50 (December)



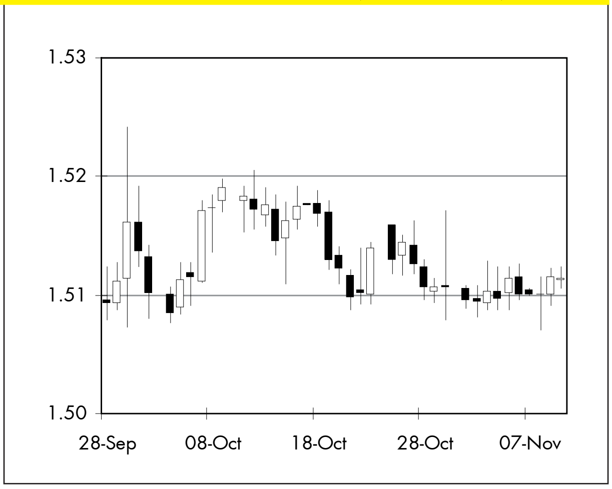
Source: Thomson Reuters

The end of the correction on the stock markets also put an end to the downward trend in EUR/USD. The rate is now at almost 1.50, having returned near its peaks from October (1.506). Since last week, more good economic data and more good corporate data have boosted investors' appetite for risk, and we remain optimistic that there is even more room for improvement (there should at least be plenty of upbeat economic data). Due to its increasing use as a financing currency for carry trades, USD should thus continue to weaken.

Another factor supporting more rises in EUR/USD was probably that the main long-term risk, i.e. higher US interest rates, dropped on Wednesday, when – as noted on Tuesday – the US Fed made it clear at its Wednesday rate-setting meeting that it wished to leave interest rates at the extremely low levels for a longer period of time (despite tangible improvement in the economic situation). Accordingly, we expect rates to remain low and unchanged until H2 2010. Although the ECB is also not expected to hike its rates in the coming two quarters, in our view it did make it clear on Thursday that before moving rates it wishes to reduce the amount of cheap funds it has provided to the markets and this should cause money market rates to increase from their current level, which is distorted downwards. Hence, this factor (increasing difference in money market rates) should also facilitate more strengthening of the euro versus the US dollar. With this in mind, we still expect EUR/USD to reach 1.55 (with levels of 1.52/53 in reach in the days ahead if the gains on the equity markets continue at this pace). We do not anticipate that the scant data slated for release this week will cause any problems (including a strong gain in GDP of at least 1% qoq for Germany on Friday). Hence, our short-term Trading Idea "Buy EUR/USD" opened in our daily commentary on Wednesday still looks interesting.

Analyst: Valentin Hofstätter
valentin.hofstaetter@raiffeisenresearch.at

EUR/CHF: 1.511 → 1.53 (December)

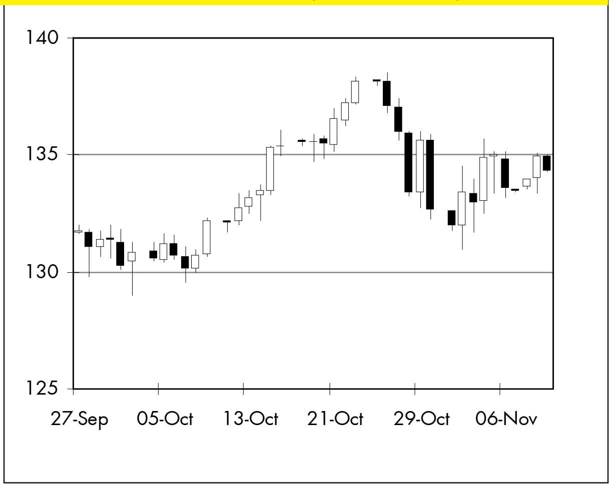


Source: Thomson Reuters

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. 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 economic indicators (especially inflation figures, PMI and KOF) in the months ahead will be of key importance for the SNB in its decision to withdraw from the very loose monetary policy.

Analyst: Ingo Jungwirth
ingo.jungwirth@raiffeisenresearch.at

EUR/JPY: 1347.6 → 135 (December)
USD/JPY: 98.9 → 90 (December)

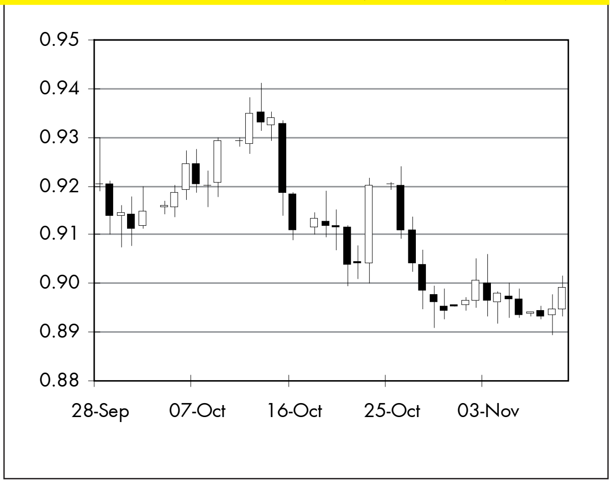


Source: Thomson Reuters

Following the setback in October, the stock markets roared ahead again last week, triggering more weakness for the yen as usual. Nowadays, however, the US dollar is the carry trade currency of preference due to the extremely low interest rates in the USA, so JPY only lost ground against EUR and remained almost unchanged vis-à-vis USD. Since mid-year, EUR/JPY has moved sideways in a relatively broad trading channel of 130 to 138.5. We project that this trend will continue until year-end (target: 135). Accordingly, attractive opportunities to enter the market with speculative positions may arise at the upper or lower edges of this channel, provided the data offer suitable support. The markets will certainly not be at all surprised if the BoJ opts not to change interest rates in 2010. The key factor is more likely to be speculation about efforts to wind up the very expansive monetary policies of the ECB and the Fed. Although a road map for an exit scenario has been outlined for the ECB, there should not be any major disruptions on the FX market as the reduction in liquidity will occur as part of a slow, gradual process. Taking a longer-term view (end-2010), however, these interest rate and liquidity factors point to a significantly weaker yen.

Analyst: Ingo Jungwirth
ingo.jungwirth@raiffeisenresearch.at

EUR/GBP: 0.900 → 0.93 (December)

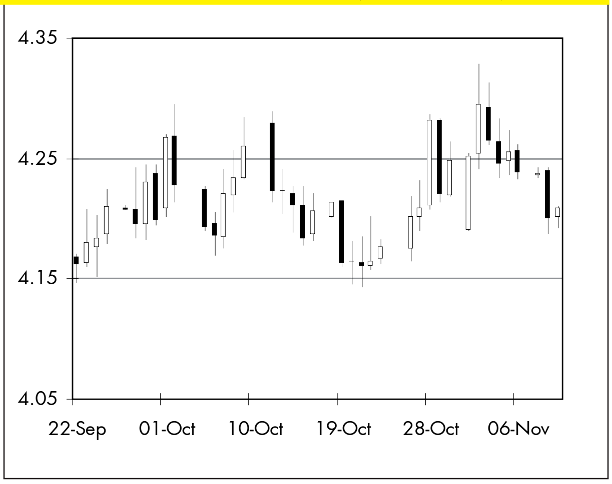


Source: Thomson Reuters

GBP was initially able to stabilise versus EUR last week, and then appreciated to 89 pence to the euro. The positive economic data had a benign effect along with the rate decision of the BoE. Both the manufacturing PMI and the services PMI reflected stronger-than-expected gains in October. Furthermore, industrial production in September recovered more strongly than projected from the slump in August. On Thursday, the UK's central bank announced a GBP 25 bn expansion of its QE measures to GBP 200 bn, but there had been speculation about an expansion of GBP 50 bn. As the central bank's move thus remained below expectations, sterling appreciated. Pressure was only felt on GBP yesterday and this morning again, as the pound slipped to 90.1 pence. This was triggered by a statement by the rating agency Fitch, which noted that the UK was the industrialised country with the greatest risk of losing its AAA rating. The pound's significant reaction to this news underlines how fragile its recovery versus the euro since mid-October really is. Keeping in mind the uncertainties with regard to the future monetary policy of the BoE (which is expected to stick to its expansive stance longer than the ECB), we expect to see more weakening of the pound versus the euro.

Analyst: Marcin Kopaczynski
marcin.kopaczynski@raiffeisenresearch.at

EUR/PLN: 4.206 → 4.00 (December)



Source: Thomson Reuters

Improving risk sentiment on the stock markets briefly pushed the EUR/PLN rate below 4.20 again on Monday. The government's plans to change the pension system so that the state-sponsored social insurance system will receive higher inflows to the detriment of the private pension savings pillar hardly had any impact. On Monday, Polish PM Donald Tusk noted that these plans were not fixed yet. In our view, the government's measures to keep public debt below 55% in 2010 will continue to have little effect on the EUR/PLN rate, as the risk of overshooting the legally mandated safety level for 2011 is significant and over the longer term the measure merely delays an increase in debt to a later date. We believe that the elaboration of a credible plan for a sustainable reduction of the budget deficit in the years ahead would tend to support the zloty. As a result, our EUR/PLN forecasts for the coming quarters remains unaffected by the planned measures.

Analyst: Marcin Kopaczynski
marcin.kopaczynski@raiffeisenresearch.at

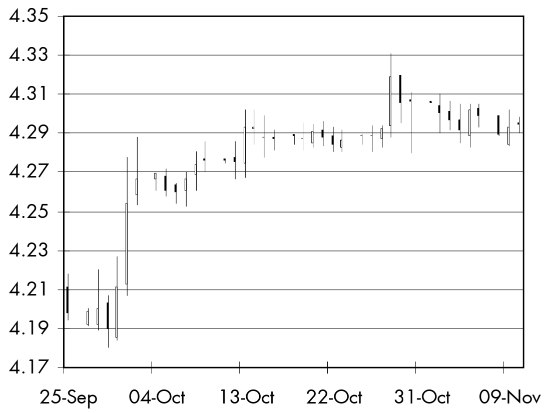
EUR/HUF: 272.0 → 270 (December)

Source: Thomson Reuters

After a phase of weakening in EUR/HUF the forint was able to regain some strength and moved back towards 270. The stronger volatility was due to the global development and the stock markets. Inflation data on Wednesday and GDP figures for the third quarter on Friday should not influence the forint to much. Nevertheless, inflation data could give a hint for an additional interest rate cut in the fourth quarter. While we expect inflation to increase slightly we project an improvement in GDP figures to -6.1% for the third quarter compared to -7.5% in Q2. All together we see continued volatility in EUR/HUF but remain with our year-end forecast of 270. Continued short term phases of weakening as seen in the past days are likely to prolong.

Analyst: Wolfgang Ernst
wolfgang.ernst@raiffeisenresearch.at

EUR/RON: 4.293 → 4.35 (December)

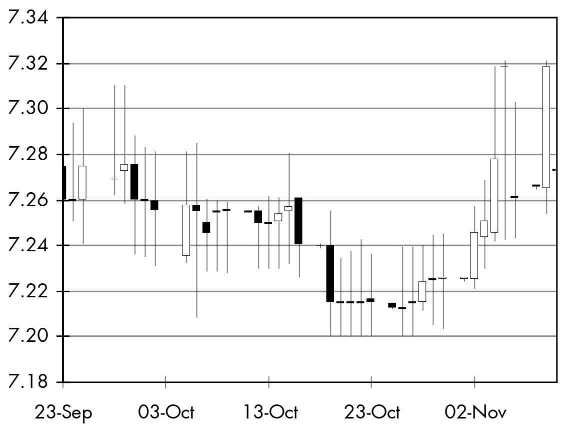


Source: Thomson Reuters

The leu exchange rate traded in a narrow range in last week, with EUR/RON ending the week almost unchanged. Trading volumes in the FX market remain at a low level, while the presence of non-resident players is very moderate. The prolonged political turmoil has not yet had a strong impact on the effective exchange rate. On Friday, the IMF said that there are only small chances (we read close to zero) for Romania to receive the third instalment from the loan which was agreed in March by the end of this year. This announcement also had no impact on the exchange rate. However, recent developments have increased expectations of additional depreciation for RON. Given these circumstances, we decided to adjust our exchange rate forecast higher. We now expect EUR/RON to trade close to the current level (4.30) in March of next year as well. Over short term (December-January), we see risks of an even weaker leu, taking into account that some more time has to pass until a new government can be established and until the budget plan for 2010 can be approved. Accordingly, we think negotiations with the IMF could be successfully completed in the second half of January at the earliest. Until then, uncertainty should persist and this could have a negative impact on the leu.

Analyst: Martin Stelzeneder
martin.stelzeneder@raiffeisenresearch.at

EUR/HRK: 7.262 → 7.45 (December)



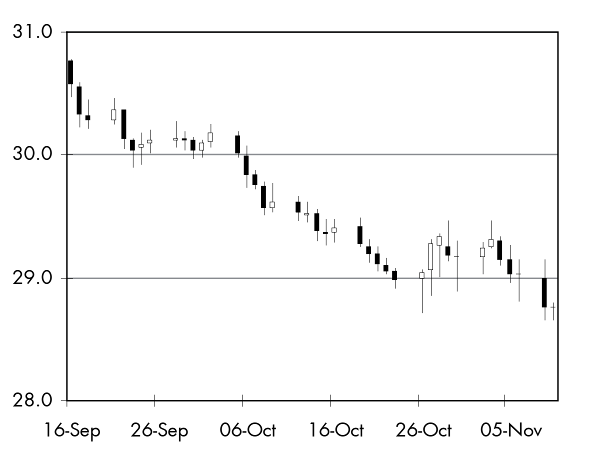
Source: Thomson Reuters

Last week, depreciation pressures prevailed on the domestic FX market, causing EUR/HRK to rise from 7.23 to 7.28 by the end of the week. This was mainly due to solid demand for euros from institutional investors and the corporate sector, which is usual for this period of the year. Furthermore, weakening was fuelled by banking sector demand for euros as well. The money market saw a decrease in trading volumes, while the ZIBOR (at all maturities) slumped to the lowest level this year as liquidity in the system was at a satisfactory level. Hence, there was no need for the CNB to carry out a reverse repo auction (for the third time in a row). The start of this week was relatively calm with trading at around 7.27 kuna per euro.

In the week ahead, high liquidity and low interest rates, as well as mounting demand for euros, should maintain the increase in EUR/HRK. However, there is a possibility that the government may exchange part of the foreign currency from the last bond issuance worth USD1.5 bn on the FX market which would certainly increase demand for kuna and push EUR/HRK down. Therefore, at a weekly level we do not see any a significant changes in the current FX level. Taking a one-month perspective, we still expect more kuna weakening.

Analyst: Martin Stelzeneder
martin.stelzeneder@raiffeisenresearch.at

EUR/RUB: 43.06 → 42.86 (December)
USD/RUB: 28.73 → 28.57 (December)

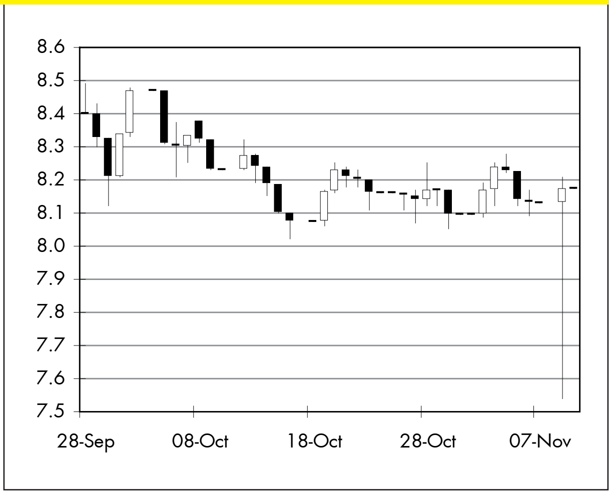


Source: Thomson Reuters

On Monday, 9 November, the rouble opened sharply higher, going from 35.39 to just 35.21 against the dual currency basket in a matter of just a few hours. The currency remained strong throughout the whole day, and the appreciation drive might remain intact, unless the US dollar plight can be reversed this week.
Monetary conditions remain benign, signalling more rate cuts as likely down the road, and the central bank's rouble soft-bid policy chiefly aims to smooth currency volatility rather than to fix the rouble exchange rate within a certain price frame. According to Moscow traders, the Bank already lowered its bid in the rouble market from 35.30 to 35.25 early on Monday. Meanwhile, the current levels suggest the Bank might be willing to move its rouble bid to a stronger level if current USD weakness persists. Bank officials also cited stronger prospects for another rate cut by the end of 2009. We still believe that the central bank will move aggressively on the monetary front. Consequently, we expect a 50bp rate cut to materialise in 2009.
We see the rouble market growing closely anchored to the dollar and gold markets, whereas a weak dollar automatically translates into higher oil prices, which form the backbone of Russia's exports and foreign currency receipts. In today's market situation, we are inclined not to provide specific targets for the rouble. However, persistent US dollar weakness could lead to the rouble appreciating to 35.00 against the dual currency basket in a matter of a week. We must mention that the rouble has already achieved our year-end targets against the dual currency basket, which might prompt a new revision of our rouble forecasts.

Analyst: Gintaras Shlizhyus
gintaras.shlizhyus@raiffeisenresearch.at

EUR/UAH: 12.277 → 13.50 (December)
USD/UAH: 8.190 → 9.00 (December)



Source: Thomson Reuters

In an interview last Saturday, IMF head Strauss-Kahn said that the IMF will probably begin cooperating with Ukraine again only after the presidential elections in January (or possibly the run-offs in February). As the reasons for this, he cited the negative impact of the election campaign on the political decisions and as a result on the cooperation with the IMF. On Monday, however, Deputy Prime Minister Grigorij Nemyria announced that the IMF would be meeting on Tuesday with representatives of the Government, the President and the central bank to discuss the outlook for further cooperation. Handling of the law to increase the minimum wage, which had been criticised by the IMF, and the budget draft plans for 2010 were on the agenda. Despite this positive rhetoric of the government, we still see a delay in disbursal of the USD 3.5 bn tranche of the IMF loan as the most likely scenario.
Nevertheless, UAH hardly budged in reaction to the negative newsflow on the IMF programme. Data on the FX market reflect an improvement in the situation in October. The central bank's interventions were limited to a net sum of USD -300 mn. As a result, reserves fell only modestly to USD 27.7 bn. Net household demand for foreign currency was still at a high level of USD 800 mn. Over the short run, a negative impact on UAH from the situation related to the IMF programme cannot be ruled out. N

Analyst: Andreas Schwabe
andreas.schwabe@raiffeisenresearch.at

RZB Group
Raiffeisen Zentralbank Österreich AG (RZB Austria)

Raiffeisen Zentralbank Österreich AG, Vienna
Global Markets
Head of Sales: Stefan Weiser Tel: +43 1 71707 3974
Head of International Sales: Luca Scalzini Tel: +43 1 71707 3981
Head FI Sales (AUT/GE/LIE): Hans Rettl Tel: +43 1 71707 3300
Head of MM & FX Sales: Richard Quinn Tel: +43 1 71707 3904
Corporate Sales: Wolfgang Kalinka Tel: +43 1 71707 3959

Belgrade: Raiffeisenbank a.d. Serbia
Treasury: Branko Novakovic Tel: +381 11 2207 131

Bratislava: Tatra banka, a.s.
Treasury: Miroslav Paracka Tel: +421 2 5919 1386
Sales: Milan Cavojec Tel: +421 2 5919 1212

Bucharest: Raiffeisen Bank S.A.
Treasury: Cristian Sporis Tel: +40 21 306 1210
Sales: Razvan Szilagyi Tel: +40 21 306 1205

Budapest: Raiffeisen Bank Zrt.
Treasury:Gabor Liener Tel: +36 1 484 4304
Sales: Zsolt Matolcsi Tel: +36 1 484 4840

Kiev: Raiffeisen Bank Aval
Treasury: Vladimir Kravchenko Tel: +380 44 490 8808

Maribor: Raiffeisen Krekova banka d.d. Slovenia
Treasury: Thomas Schindl Tel: +386 1 475 7841

Minsk: Priorbank JSC Belarus
Treasury: Andrey Filazafivich Tel: +375 17 289 9312

Moscow: ZAO Raiffeisenbank Austria
Treasury: Sergei Monin Tel: +7 495 721 9922
Sales: Arsen Manoukian Tel: +7 495 721 9978

RZB London Branch
Sales: Stefan Gabriele Tel: +44 20 7933 8104

Raiffeisen Centrobank AG, Vienna
Equity Capital Markets
Head: Wilhelm Celeda Tel: +43 1 515 20 402
Sales: Klaus della Torre Tel: +43 1 515 20 472

Prague: Raiffeisenbank a.s.
Treasury: Vit Brdlik Tel: +420 221 141 145
Sales: Michal Michalov Tel: +420 221 141 830

Pristina: Raiffeisen Bank Kosovo JSC
Treasury: Berat Isa Tel: +381 38 226400 129

Sarajevo: Raiffeisen BANK d.d. Bosna i Hercegovina
Treasury: Sanja Korene Tel: +387 33 208 372

Sofia: Raiffeisenbank (Bulgaria) EAD
Treasury: Evelina Miltenova Tel: +359 2 91985 441

Tirana: Raiffeisen Bank Sh.a. Albania
Treasury: Adriana Jorgji Tel: +355 4 222 669 2545

Warsaw: Raiffeisen Bank Polska S.A.
Treasury: Miroslaw Winiarczyk Tel: +48 22 585 26 00
Sales: Adam Pers Tel: +48 22 585 26 26

Zagreb: Raiffeisenbank Austria d.d.
Treasury: Ivan Zizic Tel: +385 1 46 95 076

Editor:
Raiffeisen RESEARCH GmbH
A-1030 Vienna, Am Stadtpark 9
Tel.: +43 1 717 07-1521

Head of Raiffeisen RESEARCH:
Peter Brezinschek (1517)

This report was completed on 10 November 2009.