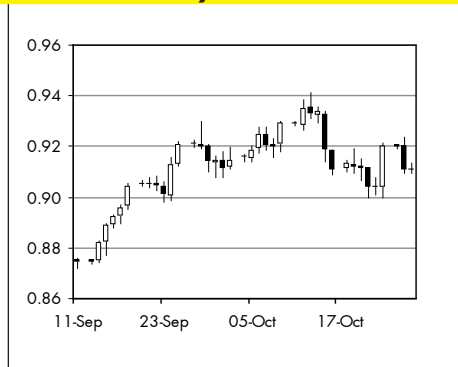


# Focus FX weekly

Issue 43/2009

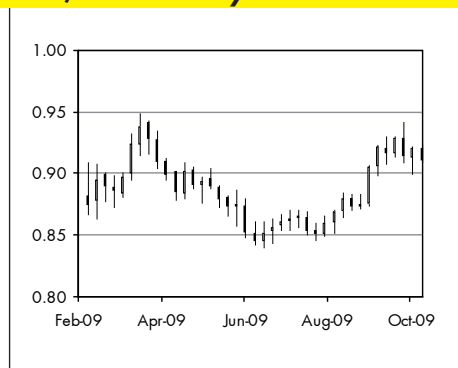
27 October 2009

## EUR/GBP daily



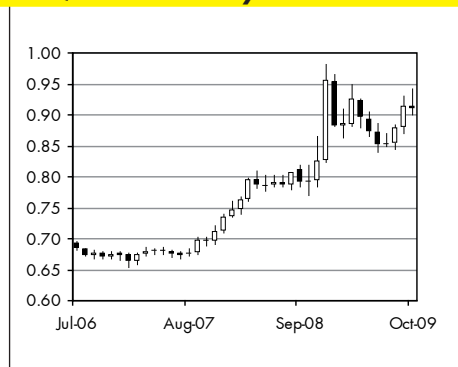
Source: Thomson Reuters

## EUR/GBP weekly



Source: Thomson Reuters

## EUR/GBP monthly



Source: Thomson Reuters

## EUR/GBP: 1.498 → 1.50 (December)

The upward movement in GBP versus USD and EUR was stopped for the time being by publication of the flash estimates for Q3 GDP. According to the release, the UK's GDP dropped by 0.4% qoq in Q3, missing analysts' estimates of +0.2% by a very long shot. It was particularly disappointing that the service sector has still not found its way back to growth, despite the positive signals from the service sector PMI. In reaction to the weak data, we raised our forecasts for EUR/GBP, as we had expected to see at least some modest growth in Q3. As noted several times in recent weeks, there is now a greater likelihood that we will see further QE measures by the BoE. Moreover, the process of economic recovery will take longer than expected and interest rates will remain at the current low levels for a longer period of time. Taking a short-term perspective, we see pressure on GBP in particular versus USD, as the upcoming data for the USA should be positive in our view (GDP on Thursday and the labour market report next week). As a result, we already moved with a Trading Idea on Friday, with a short position for GBP/USD at 1.6430 and a short-term target of GBP/USD 1.58.

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## Exchange rate forecasts

	actual	Dec-09	Mar-10	Jun-10	Sep-10
EUR/USD	1.489	1.50	1.55	1.55	1.45
EUR/CHF	1.515	1.53	1.55	1.58	1.55
EUR/JPY	136.9	135	130	135	145.00
USD/JPY	92.0	90	84	87	100.00
EUR/GBP	0.910	0.93	0.95	0.95	0.95
EUR/PLN	4.196	4.00	4.05	3.80	3.75
EUR/HUF	268.3	270	285	275	270.00
EUR/CZK	26.03	26.0	25.2	25.0	24.80
EUR/RON	4.289	4.15	4.10	4.00	3.95
EUR/HRK	7.215	7.45	7.60	7.40	7.40
EUR/RUB	43.27	42.86	42.99	42.74	41.24
USD/RUB	29.06	28.57	27.74	27.58	28.44
EUR/UAH	12.140	13.50	13.95	12.40	11.96
USD/UAH	8.153	9.00	9.00	8.00	8.25
EUR/TRY	2.213	2.22	2.20	2.25	2.06
USD/TRY	1.488	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
Sell EUR/JPY	20/10/2009	135	136.9	130	138.6		Fading intervention threat
Sell GBP/USD	23/10/2009	1.643	1.644	1.58	1.675		weak UK GDP data, stronger US data expected
Sell EUR/PLN	13/10/2009	4.22	4,196	4.1	4.3		Recent depreciation of zloty overdone

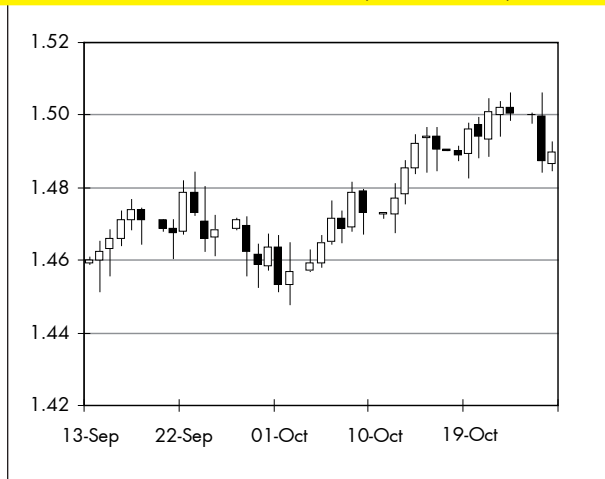
Source: Thomson Reuters, Bloomberg

### 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
Buy EUR/CHF	25/08/2009	1.516	09/10/2009	1.5186	0.17%	Closed early

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: 1.489 → 1.50 (December)**

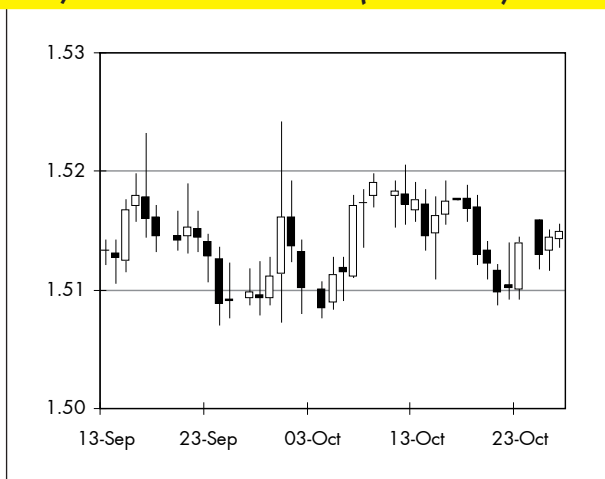
Source: Thomson Reuters

On the whole, the wealth of economic data this week (cf. Market Outlook from Friday) should confirm the picture of the economy recovering from extremely low levels, both in the USA and in Europe. In the USA, this is particularly true for new orders (Wed) and the first official GDP estimates for Q3 (Thu), which should put an end to the recession with a strong gain on the previous quarter, after four negative quarters in a row (we expect the increase to be better than consensus). Nevertheless, it will be very

interesting to see if the data are robust enough to put an end to the current correction in riskier assets (especially equities), because one thing appears to be clear: as long as risk aversion continues to rise again (i.e. falling equity markets), the USD should keep gaining versus EUR temporarily, just like other "carry trade" currencies such as JPY in the past. As EUR/USD is extremely "overbought" after the strong rises seen in recent weeks and appears vulnerable to a more significant correction, we would only recommend new EUR/USD long (sales of USD) when stabilisation for EUR/USD and the equity markets begins to take shape, and hence we prefer to wait it out over the short term. But as long as it is only the aforementioned rising risk aversion which is dragging down on EUR/USD, then a downward correction of this nature represents a good buying opportunity for USD, because even if a correction on the equity markets is sharp, it probably will not last very long at this juncture. A robust reversal in the trend for EUR/USD will likely only come when the US central bank's monetary policy takes a more restrictive tack. And there need be no worries in that regard for some time to come, which prompts us to project new highs near EUR/USD 1.55 over the medium term, with this easily coming to pass sometime in the fourth quarter.

Analyst: Valentin Hofstätter

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**EUR/CHF: 1.515 → 1.53 (December)**

Source: Thomson Reuters

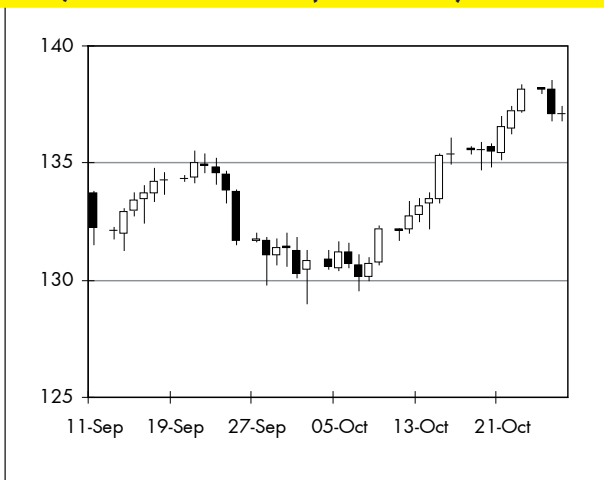
The scenario described here last week occurred, as EUR/CHF continued to move towards the extreme lo-

wer edge of the recently established trading range of 1.508 and 1.52. With an eye to this, last Wednesday we opened a short-term trading recommendation of Buy EUR/CHF (= sell francs). Due to the still-present disinflationary tendencies and the precarious situation of Swiss exporters, appreciation of the franc would jeopardise the economic recovery in the country. Consequently, we believe that the SNB will stick with its interventions on the currency market. Over the long term, the interest rate outlook also suggests a weaker franc. By year-end we forecast EUR/CHF at 1.53. In the short run, however, an increase in risk aversion that according to our assessment could easily take place this week could strengthen the Swiss franc again. Thus, we close our trading idea and take profits. Buy EUR/CHF (= sell francs): opened on 21/10/2009 at EUR/CHF 1.5097; closed on 27/10/2009 at EUR/CHF 1.515; Performance: 0,35%.

Analyst: Ingo Jungwirth

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**EUR/JPY: 136.9 → 135 (December)**  
**USD/JPY: 92.0 → 90 (December)**



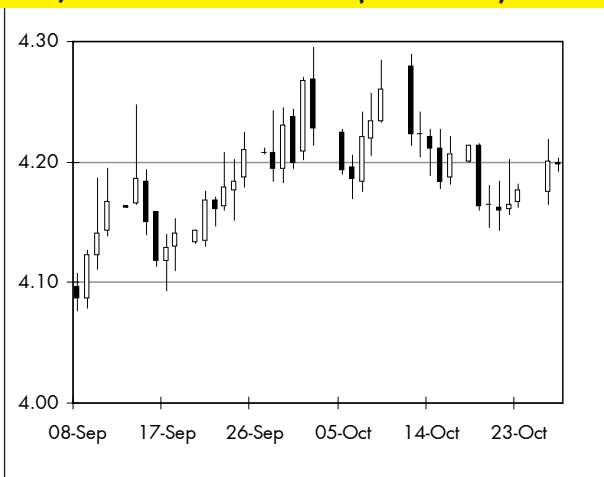
Source: Thomson Reuters

Running counter to our expectations, the yen continued to depreciate last week, despite weaker equity markets. Obviously, the speculation about currency market intervention by the BoJ wore off more slowly than we were anticipating. Finally, the yen appreciated slightly again at the beginning of this week.

Our Trading Idea Sell EUR/JPY (= buy yen) just barely missed the stop and is now 1.41% in the red. We expect speculation about possible intervention to continue subsiding and accordingly we project a stronger yen over the short term (one week). Towards the end of this week, things will become more interesting in terms of the data again, with the publication of the BoJ's new economic forecasts, which should allow for some insight into the central bank's expectations about inflation and thus represent an important source of information on the future path of interest rates. We expect this report will confirm our opinion that Japan will be one of the last established markets to raise interest rates. Low inflation, mounting unemployment, low levels of capacity utilisation and exports suffering from the strong yen will not allow for any hikes in 2010. Over the long term, this outlook for interest rates points to a weaker yen. On the whole therefore, the rate-setting meeting will be extremely interesting from an economic point of view, but the insight into the BoJ's expectations will probably not change the market's specific opinions. By year-end we project EUR/JPY at 135.

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**EUR/PLN: 4.196 → 4.00 (December)**

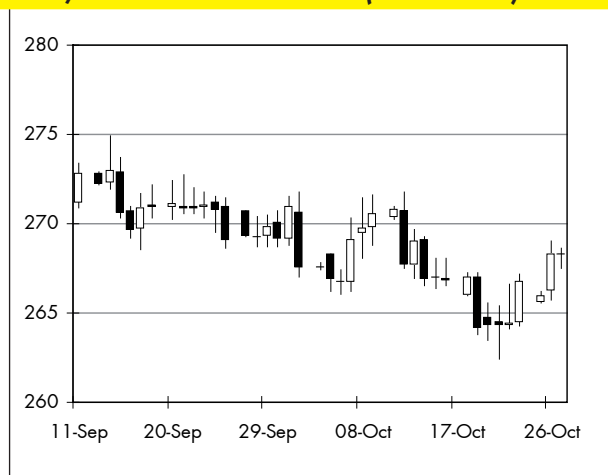


Source: Thomson Reuters

The last data for September which was released on Friday confirm that the slump in consumption growth rates may continue for some time. Retail sales managed a gain of 2.5% yoy in nominal terms, and thus

fell well short of the rates from the holiday months of July and August (both over 5% yoy). This also confirms that the strong rise in retail sales for those two months was mainly due to the increase in domestic vacation activity. The rate of unemployment rose to 10.9% in September from 10.8% in August and was thus lower than consensus. Nevertheless, in previous years, the unemployment rate dropped from August to September. Accordingly, this news is also hardly seen as a reason to be happy. Nonetheless, we do not believe that the NBP will make a move on interest rates on Wednesday. The key questions will be whether the monetary policy council officially changes its monetary policy stance from restrictive to neutral at this meeting. EUR/PLN will continue to be influenced by global market developments. Further declines on the equity markets will also weigh on zloty. Nevertheless, for now we stick with our sell recommendation for EUR/PLN with a short-term target of 4.10.

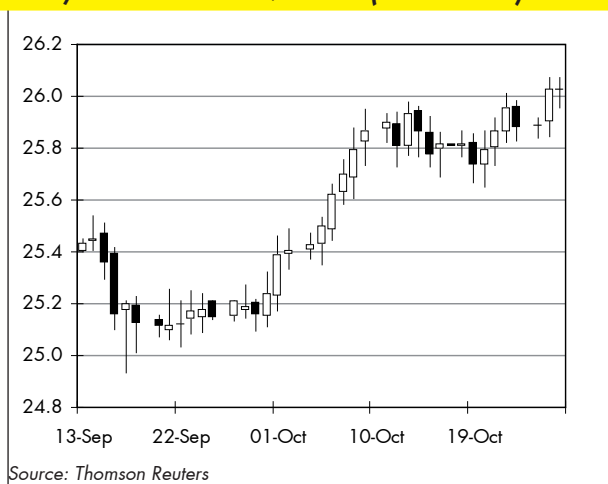
Analyst: Marcin Kopaczynski  
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**EUR/HUF: 268.3 → 270 (December)**

Source: Thomson Reuters

Weaker than expected retail sale figures of -7.2% yoy for August indicated, that the economic improvement is still far away. We had expected at least a moderate improvement from very weak levels. Statements by the monetary council after the last interest rate decision indicate that we could be in for at least one more interest rate cut until year end 2009. Nevertheless, room for further interest rate cuts is diminishing. As expected the forint retreated from the recent stronger levels and we expect EUR/HUF to remain in the region of 270 until the end of 2009.

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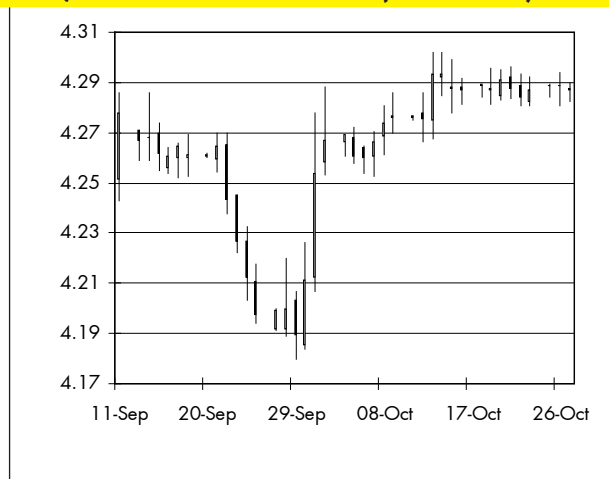
**EUR/CZK: 26.03 → 26.0 (December)**

Source: Thomson Reuters

The Czech koruna (CZK) was traded at around 25.9 against the Euro at the beginning of the week, slightly weaker compared to one week ago and quite close to our December forecast of 26.0. On 5 November the Czech National Bank (CNB) will hold its next monetary policy board meeting. Recent dovish comments and warnings against the strength of the currency have weighed on the CZK. The Czech parliament approved the budget draft of the interim government in the first of three readings. The planned deficit of around 5.2% of GDP would be below our 6% of GDP estimate for the current year. Our December target for the CZK remains unchanged at 26. In a medium to longer term perspective we assume a return to the CZK's long-term appreciation trend.

Analyst: Walter Demel  
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## EUR/RON: 4.289 → 4.15 (December)

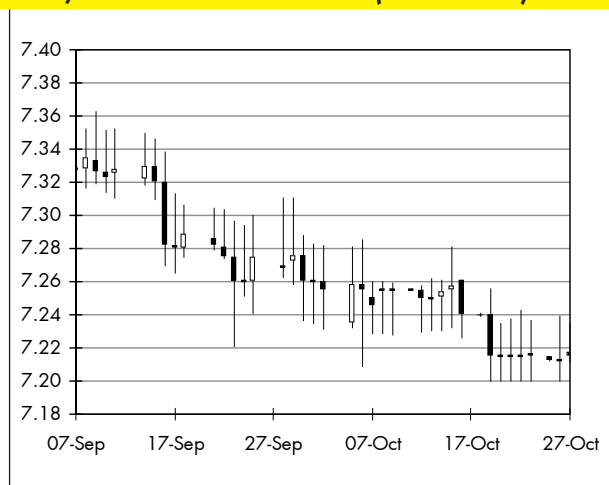


Source: Thomson Reuters

The leu exchange rate has been almost flat over the last 2 weeks, with EUR/RON trading in the vicinity of 4.29. At the same time, trading volumes are very low, while non-residents' interest in leu is also very weak. Looking forward, the most important events in the period ahead are the Parliament's vote on the structure of the new government (announced for 4 November), the visit of the IMF mission for the second review of the Stand-By Agreement (scheduled to take place between 28 November and 9 November) and the next monetary policy meeting on 3 November. In particular, the first two events might have an important impact on the exchange rate, given that both of them are likely to decide the timing and the size of the next instalments from the IMF loan. We feel that the uncertainty regarding exchange rate dynamics remain high for the time being.

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## EUR/HRK: 7.215 → 7.45 (December)



Source: Thomson Reuters

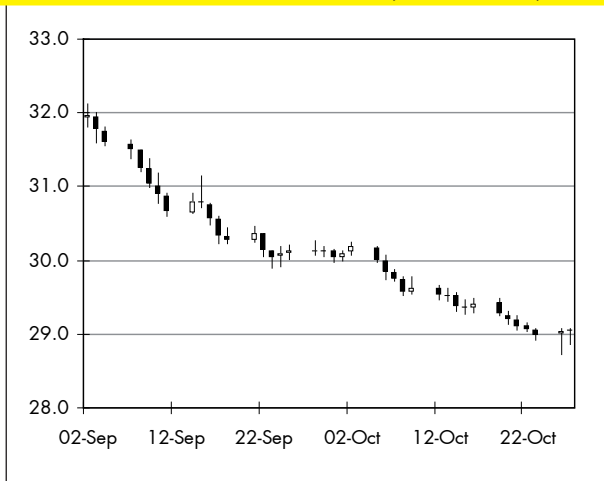
Appreciation pressure on the kuna continued last week, primarily as a result of a higher supply of euros from institutional investors and the banking sector. Not even slightly higher demand for euros

from the corporate sector could stop EUR/HRK from weakening towards 7.21. As a result, for the sixth time this year the CNB intervened and purchased EUR 80 mn from banks at an average buying rate of EUR/HRK 7.219. Since the liquidity in the system was satisfactory, there was no need for the CNB to undertake a reverse repo auction.

In the period ahead, at the weekly level, we expect to see trading in a range between 7.22-7.25. Although the supply of foreign currency is still at a high level, stronger corporate demand for EUR could lead to higher rate, which is now at the lowest level since the end of December 2008. At the monthly level, we expect to see stronger demand for foreign currency which should increase the EUR/HRK FX rate. However, appreciation pressure on the domestic currency is possible, depending on the inflow of foreign currency from government and public enterprises borrowing abroad.

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**EUR/RUB: 43.27 → 42.86 (December)**  
**USD/RUB: 29.06 → 28.57 (December)**



Source: Thomson Reuters

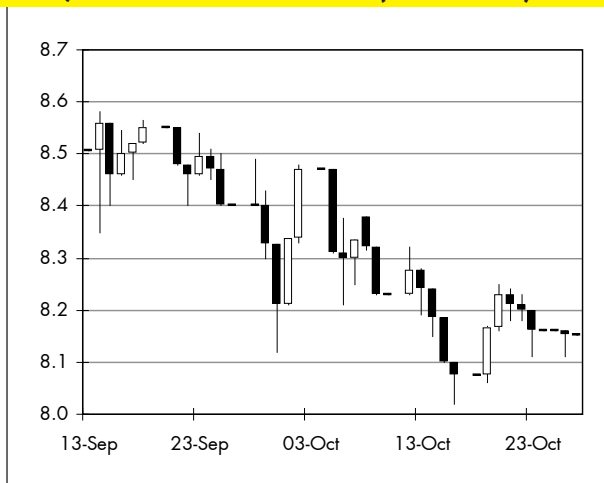
The strong rouble rally in the foreign exchange market confirmed our earlier predictions of sustained appreciation on the heels of fading capital outflows and stronger oil prices. The rouble smashed through the old resistance and traded below 35.50 against the dual currency basket on Monday's market opening. As we noted in last week's issue of Focus FX, we will revise our rouble targets for this year and for 2010. Consequently, we move the rouble basket rate forecast from 36.20 to just 35.00, which

we believe is realistic taking into account the slowly improving fundamentals and increasing currency inflows into the country as a result of higher oil prices and surging capital markets. In 2010, we foresee the trend continuing albeit with a few pauses in between which may result in further strengthening of the rouble to 34.00-34.50 by the end of Q3. On the other hand, any reversal of the dollar's plight might send our targets back to a slightly weaker spot. In any case, we forecast the rouble remaining stronger than 35.00 against the basket in 2010. Altogether, the stronger disinflation observed at the end of this year and the substantial appreciation of the rouble will pave the way for further rate cuts, as we have been forecasting for a few months already. We expect the central bank to cut the rates by 50bp by end-2009 and expect to slash rates in early November when the October inflation figures come out. Furthermore, the bank will remain on an easing path since inflation is unlikely to pick up in any substantial manner so as to jeopardise the bank's monetary goals. Last week, the central bank's first deputy chairman mentioned – in confirmation of our own analysis – that real interest rates in Russia might be negative next year. Assuming a weak economy and a substantial output gap, we believe the bank will cut rates to 2-3% below inflation, which we project at around 10-11%.

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**EUR/UAH: 12.140 → 13.50 (December)**  
**USD/UAH: 8.153 → 9.00 (December)**



Source: Thomson Reuters

Last week, UAH continued to trade in ranges of USD/UAH 8.10 to 8.30 and EUR/UAH 12.15 to 12.30, strengthening mildly early this week to USD/UAH 8.15 and EUR/UAH 12.25. The current account balance swung into positive numbers in September at

USD 100 mn (following a slightly negative outturn in the previous month). Capital outflows dropped by almost one-half in September, falling to USD 1.5 bn. In part, this positive development is due to direct investment of over USD 800 mn (recapitalisation measures by foreign banks). Households' net demand for foreign currency remained stable at almost USD 900 mn. These figures confirm our view of a modest current account deficit and a financeable capital balance in 2009. The IMF mission on the approval of the fourth tranche of the credit has reached an agreement at a technical level. In a short press release, it confirmed the stabilisation of the economy, but at the same time called for a joint declaration of the (feuding) political figures and a veto by the president of an act to raise pensions, which has already been passed. Prime Minister Tymoshenko is interested in a quick disbursement of the tranche (to shore up public finances), whereas her opponents may attempt to raise political capital by delaying. Nevertheless, the currency market is currently shrugging off the (fiscal) political risks and over the short term UAH may continue trading at USD/UAH 8-8.30.

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Peter Brezinschek (1517)

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