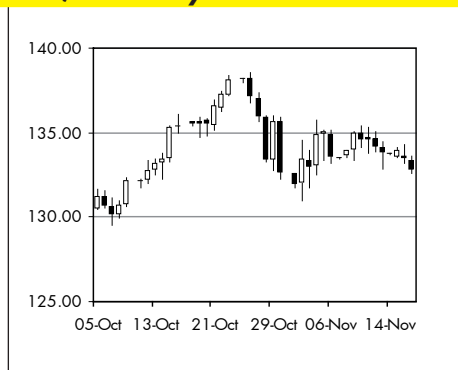


Focus FX weekly

Issue 46/2009

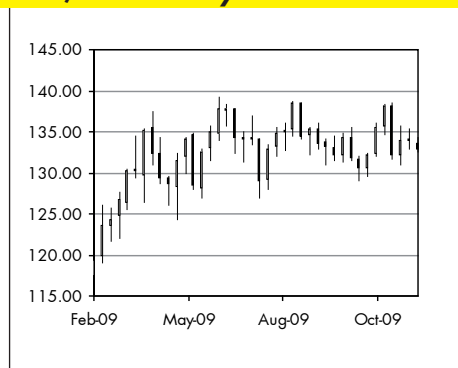
17 November 2009

EUR/JPY daily



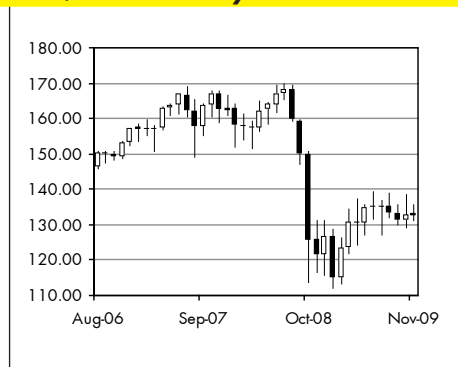
Source: Thomson Reuters

EUR/JPY weekly



Source: Thomson Reuters

EUR/JPY monthly



Source: Thomson Reuters

EUR/JPY: 132.8 → 135 (December)
USD/JPY: 88.8 → 90 (December)

The initial preliminary estimates of the Cabinet Office for Japan's third-quarter gross domestic product (GDP) featured a strong rise of 1.2% compared to the previous quarter. This means that real GDP is still down 4.5% on Q3 2008, but has given the world's second largest economy the second quarter in a row with positive growth figures. Prior to the release, our projection for growth (1% qoq) was much stronger than the majority of analysts polled by Reuters, who were merely expecting a figure of 0.7% qoq. Of course, the robust performance of the Japanese economy in Q3 did not come out of nowhere, as one should recall the 7.5% expansion in industrial production. In contrast to the second quarter, economic growth was borne mainly by private consumption in Japan. As a result, it appears that the severe recession in Japan has now finally come to an end, as it is no longer simply positive net exports and government stimulus programmes which are powering the economic recovery. In the months from July to September there was no additional contribution to growth from the public sector (investment and consumption). Inventory components had a strongly negative impact on GDP in H1 2009, but in the third quarter inventory build-up resulted in additional economic growth of 0.4%. These temporary effects should ensure more momentum for growth in the coming quarters as well. In Q4 2009 we are looking for growth of 0.7% compared to one quarter earlier, which will amount to a 5% decline in GDP for 2009. In 2010, the clear-cut economic recovery should continue, with weaker but sustainable growth, leading to a GDP growth rate of 2% yoy. Even though the recovery in Japan is a welcome development, it

Exchange rate forecasts

	actual	Dec-09	Mar-10	Jun-10	Sep-10
EUR/USD	1.495	1.50	1.55	1.55	1.45
EUR/CHF	1.510	1.53	1.55	1.58	1.55
EUR/JPY	132.8	135	130	135	145.00
USD/JPY	88.8	90	84	87	100.00
EUR/GBP	0.888	0.93	0.95	0.95	0.95
EUR/PLN	4.087	4.00	4.05	3.80	3.75
EUR/HUF	265.2	270	285	275	270.00
EUR/CZK	25.43	26.0	25.2	25.0	24.80
EUR/RON	4.287	4.35	4.30	4.25	4.20
EUR/HRK	7.323	7.45	7.60	7.40	7.40
EUR/RUB	42.90	42.86	42.99	42.74	41.24
USD/RUB	28.69	28.57	27.74	27.58	28.44
EUR/UAH	12.150	13.50	13.95	12.40	11.96
USD/UAH	8.085	9.00	9.00	8.00	8.25
EUR/TRY	2.209	2.22	2.20	2.25	2.06
USD/TRY	1.475	1.48	1.42	1.45	1.42

Source: Thomson Reuters. Raiffeisen RESEARCH

still cannot hide the structural economic problems facing the country. In Q3 2009, for example, the GDP deflator for domestic demand was -2.6% yoy. With clear deflation on this order of magnitude, the Bank of Japan will avoid raising interest rates next year as growth remains modest. Consequently, Japan will

likely be one of the last established markets to join in the upcoming round of rate increases. Due to the effect of the interest rates, the yen will likely weaken next year, in particular versus the euro.

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Trading Ideas

FX

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comment
Buy EUR/USD	05/11/2009	1.483	1.494	1.52	1.46		Decreasing risk aversion

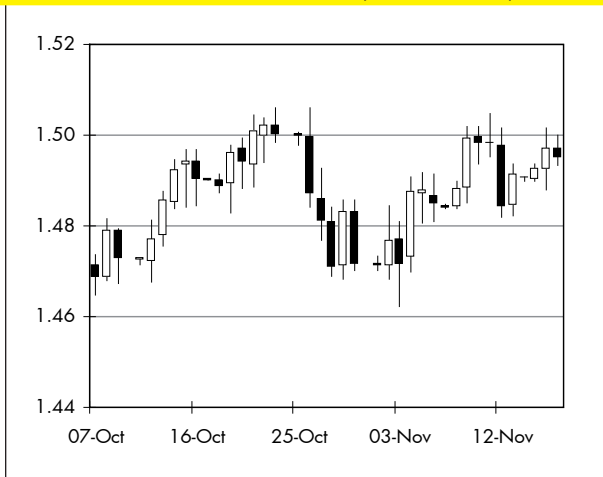
Source: Thomson Reuters, Bloomberg

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

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: 1.495 → 1.52 (short-term)

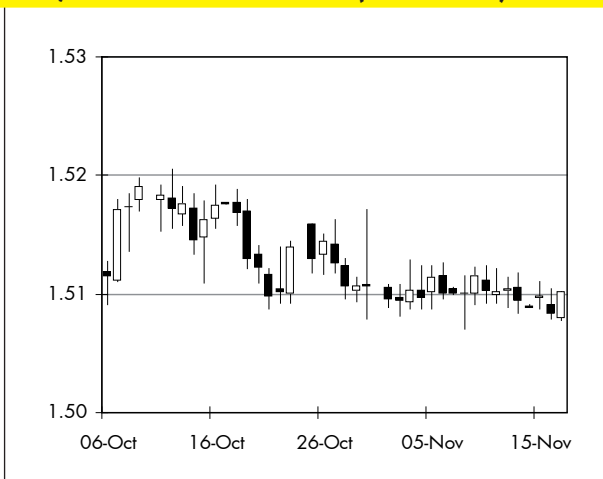
Source: Thomson Reuters

With the rally on the equity market in recent days (thanks to rising risk appetite), EUR/USD is now once again probing the 1.50 mark, and provided that the stock market rally continues we believe that the rate will quickly move to new highs for the year. This will probably not change due to the mixed economic data in the days ahead (cf. market outlook

publication on Friday, as none of these data will be able to alter the (quite rightly) prevailing opinion on the market (continuation of the recovery, with questions as to its resilience in 2010). As long as there is no massive change in the market's interest rate expectations, economic data will not hinder EUR/USD and the uptrend will remain intact (interrupted here and there by passing setbacks on the stock markets). Take, for example, the US inflation data this Wednesday: although headline inflation is set to rise strongly (from -1.3% yoy to just under zero, rising to around +2.0% yoy in just a few months!), this trend is due exclusively to the impact of the base effect (oil prices) from the previous year (core inflation, which excludes energy prices, will keep falling until 2010) and the market should be well aware of this. Consequently, there is really no reason at all for worries about US interest rates to flare up, as a rate hike by the Fed remains a long ways off; and thankfully so, too, because mounting expectations of US rate hikes would almost certainly trigger a massive downward correction in EUR/USD (and in gold prices, concomitantly).

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EUR/CHF: 1.510 → 1.53 (December)

Source: Thomson Reuters

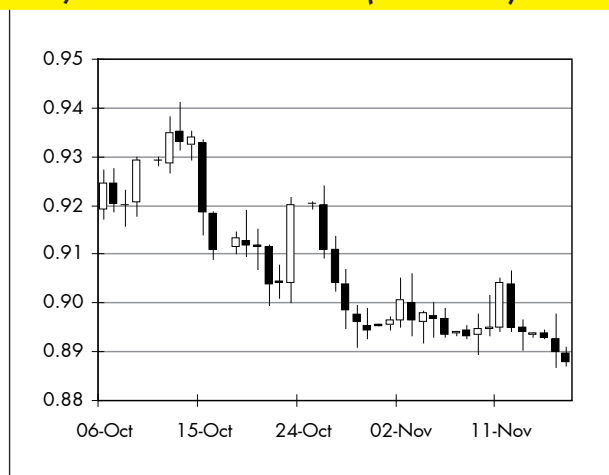
In recent weeks, the CHF exchange rate has remained within a tight trading range to the euro, without any obvious trend. The Swiss National Bank (SNB), which has repeatedly intervened since March of this year, has become the main factor on the EUR/CHF market. On several occasions, EUR/CHF touched the 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.

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EUR/GBP: 0.888 → 0.93 (December)



Source: Thomson Reuters

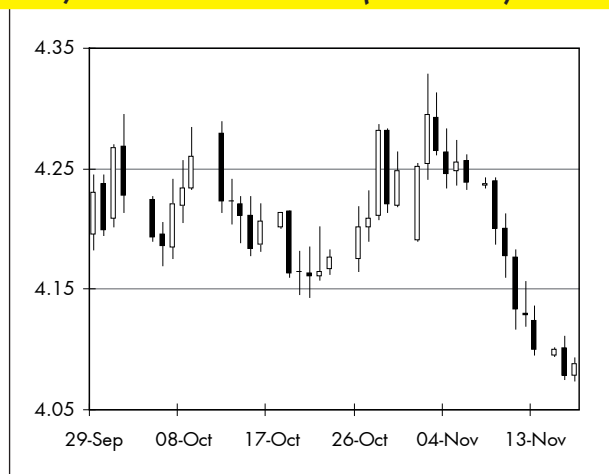
Last week, in the immediate run-up to and right after the publication of the BoE's Inflation Report, the pound depreciated to 0.904 to the euro, only to bounce back to EUR/GBP 0.887 later in the week. In its Inflation Report, the BoE raised its growth and

inflation forecasts mildly compared to the report from last quarter. In contrast to the last BoE forecasts, the inflation target of 2% should be reached within three years and should be exceeded at times due to base effects and the VAT increase early next year. GDP growth is expected to advance to 4% in Q1 2011. Nevertheless, the publication was greeted with a "dovish" response from the market as expectations of rate hikes were forestalled. Moreover, BoE head King underlined the positive role of the weak GBP for the UK's exports and did not rule out the possibility of more QE measures. When the minutes of the MPC meeting are published on Wednesday, we expect to gain some insight on the voting ratio in relation to the expansion of QE measures decided upon at the last rate-setting meeting. We still anticipate more depreciation for GBP versus EUR, against a backdrop of uncertainties about the BoE's monetary policy going forward. We do not believe that the current appreciation trend for GBP is supported by the fundamental data, but rather that it is driven by the generally strong risk appetite on the market.

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EUR/PLN: 4.087 → 4.00 (December)



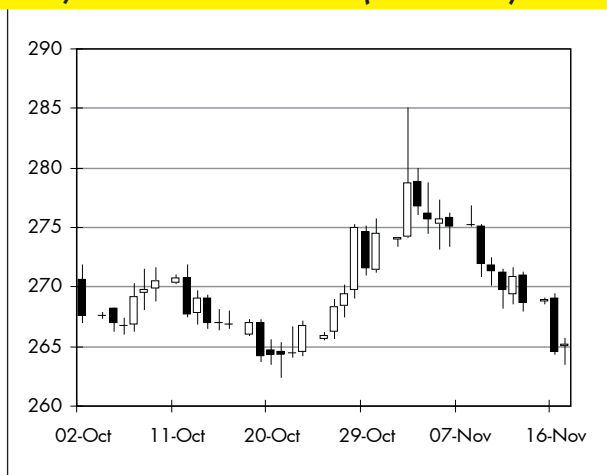
Source: Thomson Reuters

More improvement in risk sentiment on the global markets has pushed the euro back below EUR/PLN 4.10 again. The budget figures released on Monday

for the first 10 months of the year showed that the budget deficit amounted to PLN 24 bn in comparison to the planned target of PLN 27.2 bn. Accordingly, the government is on track, and we believe that there will not be any more negative surprises in this regard for the year as a whole. Inflation for October was slightly lower than expected (3.1% yoy). The main driver for this was the surprisingly strong drop in fuel prices (-1.7% mom). We project that inflation will accelerate again in December and January, and then quickly move towards the NBP's target of 2.5%. No reaction was elicited in EUR/PLN by the news. We forecast that the zloty will reach the EUR/PLN 4.00 this year still, as long as there are no changes in the developed markets' risk sentiment. In our view, the most important piece of economic data that will be released this week in Poland will be industrial production: we project a modest decline of 1.3% yoy in October.

Analyst: Marcin Kopaczynski

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EUR/HUF: 265.2 → 270 (December)

Source: Thomson Reuters

Inflation data for October brought a renewed surprise with inflation being lower than expected. With this data the possibility of a renewed 50bp interest rate cut has risen and it could already come on the 23 November. Weaker than anticipated GDP data for the third quarter 2009 had little impact on the forint. Nevertheless, the past weeks have seen increased volatility in the forint. For this week there will be no more relevant economic data from Hungary and the focus will be on events on the established markets. We stick to our year-end projection of EUR/HUF 270 with continued high volatility.

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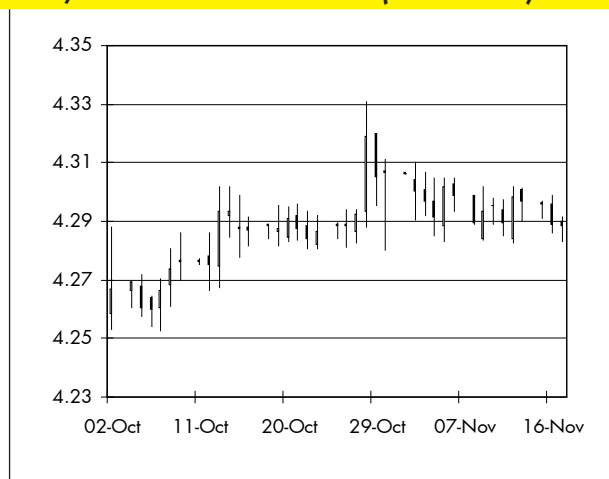
EUR/CZK: 25.43 → 26.0 (December)

Source: Thomson Reuters

The Czech koruna (CZK) extended its recent gains and appreciated beyond the 25.5 threshold against the euro during last week. GDP data for Q3 2009 were released on Friday last week. The figures show that the Czech economy has overcome recession as the GDP increased 0.8% qoq after a 0.3% qoq rise in Q2 2009 (revised up from previously published 0.1% qoq). However, retail sales recorded a deeper-than-expected drop in September (-7.6% yoy), signalling weak domestic consumption demand which is likely to prevail in the coming quarters. The CZK remains driven by the global financial market sentiment, which has remained mildly positive over the past days. 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*
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EUR/RON: 4.293 → 4.35 (December)



Source: Thomson Reuters

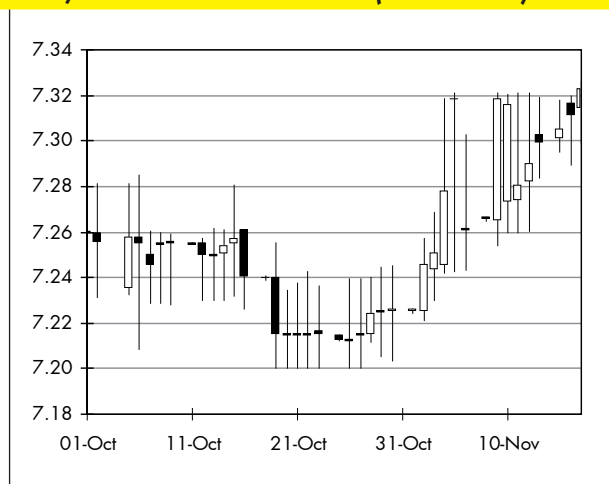
On Monday, at a special meeting the Board of the National Bank of Romania decided to lower the minimum reserve requirement ratio on foreign currency-denominated liabilities to 25% from 30% starting with the 24 November - 23 December 2009 maintenance period. The decision is aimed at boosting liquidity in the market to ensure budget deficit finan-

cing. The leu exchange rate remained flat last week. RON was untouched by the appreciation tendency seen amongst its regional peers (HUF and PLN) and unmoved by the better-than-expected GDP data on Friday (real GDP fell by only -7.1% yoy in Q3, while market expectations were for a contraction of -9% yoy). In fact, trading volumes in the FX market remain at a very low level, and non-resident interest in the leu is also low. Presidential elections scheduled for Sunday are the most important event this week. We think the results of the elections will also be important for RON exchange rate dynamics. Although the final result will only be known after the second round on 6 December, it may be possible to discern some clues about a new coalition in Parliament even after Sunday's result. We believe that if the political turmoil calms down and a new government is established, this should be very positive for the leu exchange rate over the medium and long term. Improvement in economic fundamentals argues for a stronger leu. We recall that we recently adjusted up the exchange rate forecast based only on the prolonged political instability.

Analyst: Martin Stelzener

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EUR/HRK: 7.323 → 7.45 (December)



Source: Thomson Reuters

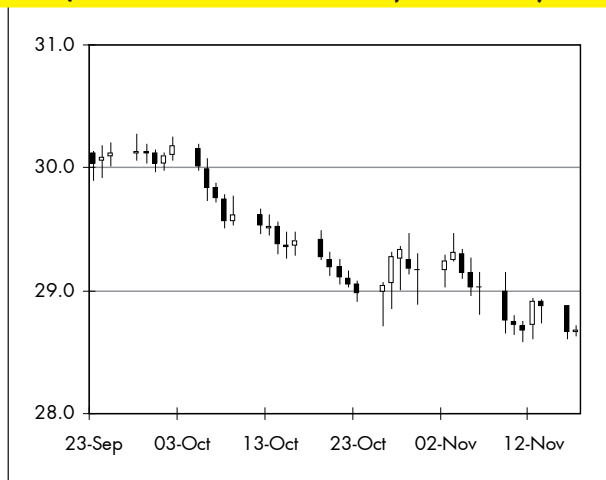
Last week featured more of the expected depreciation pressure on HRK. By mid-week EUR/HRK went over 7.29, backed mainly by corporate and ban-

king sector demand for euros. Corporate demand for euros resulted from the relatively high proportion of external debt maturing in the last quarter of this year. At the end of the week, the market saw EUR/HRK increase to 7.30. The start of this week was relatively calm with trading at around 7.30. After rising on the first day of the new reserve maintenance period, the ZIBOR (at all maturities) decreased the very next day. Since the liquidity in the system was at a satisfactory level, there was no need for CNB to execute a reverse repo auction. The upcoming week should be marked by good liquidity in the system, which will result in a continuation of low money market interest rates. Since the liquidity in the system will be at an acceptable level and as we expect increased demand for euros to persist, we see more depreciation pressures on kuna. Hence, EUR/EHR should continue rising at both the weekly and the monthly level.

Analyst: Martin Stelzener

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EUR/RUB: 42.90 → 42.86 (December)
USD/RUB: 28.69 → 28.57 (December)



Source: Thomson Reuters

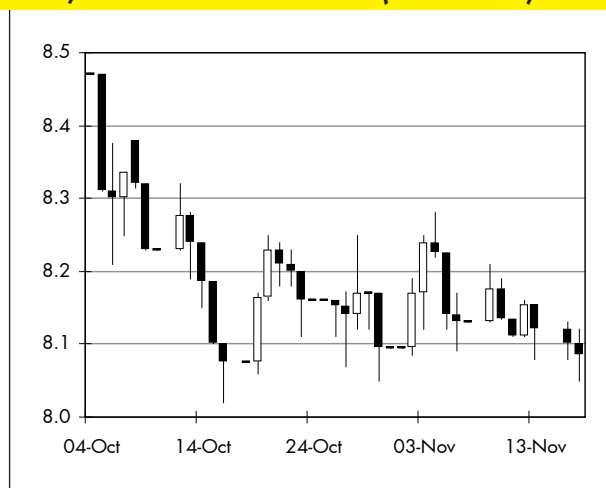
As we expected, the rouble met stronger resistance at 35.00 versus the dual currency basket. According to Moscow FX dealers, the central bank shifted its basket/rouble bid to 35.05, responding to a strong opening in the market which pushed the rouble to

35.08 early in the morning session on Monday, November 16. However, the rouble rally did not last, as mild US dollar strengthening and the previous correction on the Russian equity market sent the rouble back to 35.11 by mid-day. The central bank also seems to have increased its anti-rouble intervention efforts today. Perhaps, as we expected, at these levels the bank will more vigorously defend its position against further rouble appreciation, and US dollar resurrection could also be a crucial factor which might embolden the central bank's response as well as possibly weaken the position of rouble speculators. We expect the rouble to stay within a trading range of 35.00-35.30 versus the basket this week, unless the dollar crashes through 1.50 to the euro again, which might then require a larger intervention from the central bank. At any rate, we do not expect the central bank to go against the wind should the dollar begin to slide on the market again. Therefore, we still see the possibility of mild appreciation for the rouble over the medium term, if the weak USD trend remains.

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EUR/UAH: 12.150 → 13.50 (December)
USD/UAH: 8.085 → 9.00 (December)



Source: Thomson Reuters

Unperturbed by the suspension of negotiations with the IMF, the precarious budget situation and a rating downgrade by Fitch from B to B- (outlook negative), UAH managed to appreciate mildly last week from

USD/UAH 8.18 to 8.11, and from EUR/UAH 12.25 to 12.10.

One positive factor may have been Naftogas's on-time payment of the gas bill to Gazprom for October for more than USD 500 mn. This involved resorting to the currency reserves of the National Bank (circumventing the FX market), and specifically involved using some of the SDR from the IMF which was increased in the summer. Nonetheless, the method used once again underlines the catastrophic state of public finances.

Ukraine's GDP figure for Q3 2009 was lightly weaker than expected, coming in at -15.9% compared to the same quarter of the previous year. Despite this, growth of 4-5% qoq was registered for both Q2 and Q3 (seasonally adjusted). Although industrial production in Ukraine continued to rise (+5% mom in October), retail sales remain lacklustre at -21% yoy. For 2010, we forecast modest GDP growth of 3-4% yoy.

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