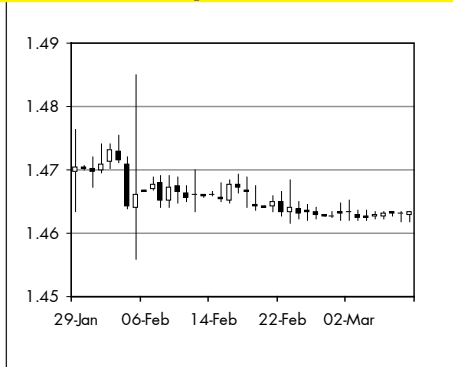


Focus FX weekly

Issue 10/2010

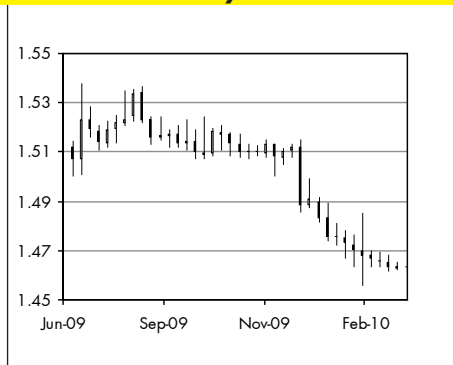
9 March 2010

EUR/CHF daily



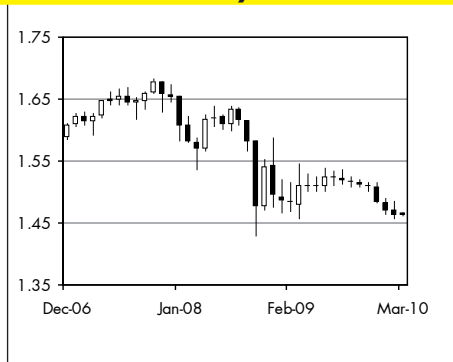
Source: Thomson Reuters

EUR/CHF weekly



Source: Thomson Reuters

EUR/CHF monthly



Source: Thomson Reuters

EUR/CHF: 1.463 → 1.47 (June)

For several weeks now, almost the only factor influencing EUR/CHF has been the monetary policy of the Swiss National Bank (SNB). Accordingly, this week promises to be very interesting, as the SNB will be holding its quarterly meeting to assess the monetary policy situation. Since December, the SNB has intervened on numerous occasions when the franc has appreciated significantly. These interventions, however, have been marked by smaller volumes than those undertaken in 2009. Consequently, the resulting change in the exchange rate has been short-lived and disappeared again after just a few hours. This cautious, tentative approach can be seen as a sign that the SNB no longer wishes to actively weaken the franc. Up to now, the interventions on the currency market have been cut back, but not done away with altogether, in case economic activity begins to falter again.

In its last assessment of the monetary policy situation in December 2009, the SNB stuck with its conservative approach and did not forecast major gains or losses in GDP going forward. The latest increases in Swiss leading indicators, however, are now putting some pressure on their forecasts. Although we still expect to see economic activity to slow down around the middle of the year, this will probably not lead to the kind of slump envisioned in the SNB prognoses. As a result, the SNB will probably raise its forecasts on 11 March.

There may also be more loosening when it comes to the SNB's choice of words about currency market intervention. Indeed, the SNB may even decide to wind up its interventions completely.

Exchange rate forecasts

	actual	Jun-10	Sep-10	Dec-10
EUR/USD	1.362	1.42	1.39	1.35
EUR/CHF	1.463	1.47	1.43	1.45
EUR/JPY	122.7	124	118	122
USD/JPY	90.1	87	85	90
EUR/GBP	0.907	0.93	0.95	0.95
EUR/PLN	3.876	3.80	3.75	3.65
EUR/HUF	266.2	285	275	275
EUR/CZK	25.61	25.4	24.8	25.0
EUR/RON	4.091	4.10	4.05	3.95
EUR/HRK	7.259	7.40	7.40	7.45
EUR/RUB	40.48	41.6	40.9	40.1
USD/RUB	29.71	29.3	29.4	29.7
EUR/UAH	10.835	10.50	10.60	10.40
USD/UAH	7.975	7.40	7.60	7.70
EUR/TRY*	2.088	2.07	2.11	2.08
USD/TRY*	1.534	1.46	1.52	1.54

* under revision

Source: Thomson Reuters. Raiffeisen RESEARCH

Hence, the franc should remain strong. We take this opportunity to open up a short-term trading idea Sell EUR/CHF (i.e. buy francs): Current: 1.463; target: 1.45; stop: 1.47.

The focus on a more restrictive monetary policy and the outlook for higher inflation may also lead to a

rise in the currently low capital market yields. Accordingly, we open a Trading Idea on the 10-year CHF bond future: Buy CONF Future (June contract): Current: 137.5; Target: 135.6; stop: 138,7.

Analyst: Ingo Jungwirth

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Trading Ideas

FX

Recommendation	Entry date	Entry level	Current level	Target	Stop	Comment
Sell EUR/CHF	09/03/2010	1.463	1.463	1.45	1.47	Fading intervention threat

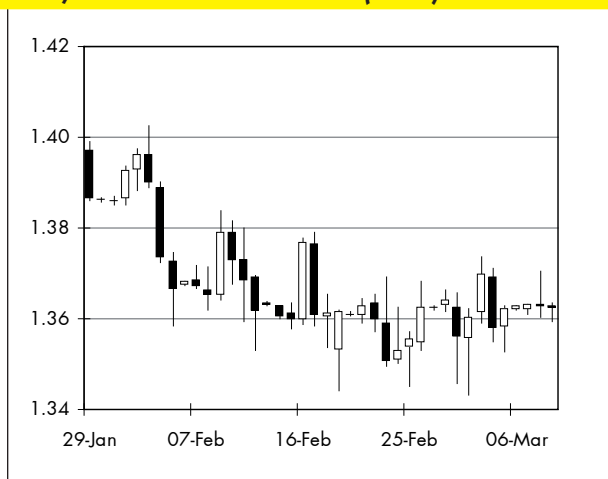
Source: Thomson Reuters, Bloomberg

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comments
BUY EUR/JPY	09/02/2010	123.3	25/02/2010	120.5	-2.27%	Stopped Out
BUY EUR/USD	09/02/2010	1.3784	11/02/2010	1.36	-1.33%	Stopped Out
SELL EUR/USD	21/01/2010	1.4118	04/02/2010	1.37	2.96%	Target Reached
BUY EUR/JPY	02/02/2010	126	04/02/2010	123	-2.38%	Stopped Out
BUY EUR/JPY	28/01/2010	126.8	29/01/2010	125	-1.42%	Stopped Out
BUY EUR/JPY	25/01/2010	127.44	26/01/2010	126.5	-0.74%	Stopped Out
BUY USD/JPY	21/01/2010	91.64	21/01/2010	90.5	-1.24%	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: 1.362 → 1.42 (June)

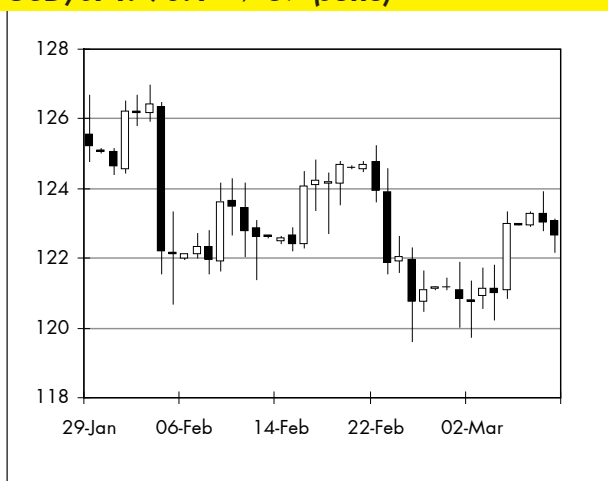
Source: Thomson Reuters

EUR/USD has continued to bottom out at around 1.36 in recent days. While this is a refreshing development in the wake of the steep declines in ra-

tes seen until the middle of February, the amount of rebound by the euro is disappointing, considering how much the hysterics about refinancing problems in Greece have calmed down. With its third austerity package in a row, Greece was able to calm the financial markets so much that its EUR 5 bn bond was oversubscribed threefold. Accordingly, support from its EU partners has increased strongly and risk premiums on Greek bonds have narrowed quite a bit as a result. So what else could cause EUR/USD to rise? Not much can be expected in the immediate future from the ECB's monetary policy in this regard, and its announcement last Thursday left EUR/USD completely unchanged. Although it does seem feasible to us that EUR/USD could climb back to levels around 1.40 in the months to come, the lack of any reaction to the improvement in the Greek situation leaves us wary and prevents us from issuing a short-term buy recommendation (buy EUR/sell USD) at this juncture.

Analyst: Jörg Angelé

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EUR/JPY: 122.7 → 124 (June)**USD/JPY: 90.1 → 87 (June)**

Source: Thomson Reuters

Over the last few days, the yen lost ground both against the US dollar and the euro. EUR/JPY moved towards our June target of 124. According to the interest rate differential on the money market, this level represents a fair value. Shifts in investors' risk

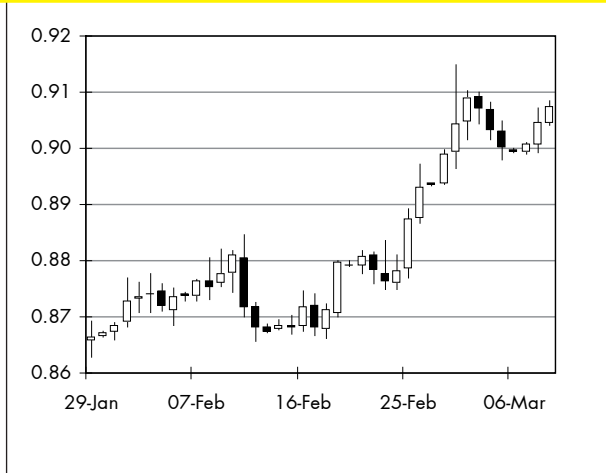
tolerance can always lead to relatively strong appreciation and depreciation for the yen. On average, however, EUR/JPY should fluctuate around the current level until June. As we are forecasting weaker economic dynamics at the global level in Q2 and Q3, we do not expect to see any overly strong increase in risk appetite or quick moves to raise interest rates again in the USA. Consequently, the yen should appreciate more over the long term.

The Economy Watchers Poll (EWS) published yesterday is a closely watched leading indicator for Japan and is now pointing to sustained strong momentum in economic growth. While the rates of growth in industrial production for the manufacturing sector will likely settle in at about 0.5% mom on average in February and March (compared to approximately 2% mom in the last three months), GDP for Q1 2010 should come in at an annualised rate of around 4.5%, and thus be similarly strong as Q4 2009. Nevertheless, this good news cannot obscure the fact that there will likely be neither inflationary pressure in Japan until mid-2011 nor any hikes in interest rates.

Analyst: Ingo Jungwirth

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EUR/GBP: 0.907 → 0.93 (June)



Source: Thomson Reuters

Early last week, the pound depreciated sharply, hitting peaks of EUR/GBP 1.478 and GBP/USD 0.915, on the heels of political uncertainty related to the upcoming parliamentary elections and due to speculation about a multi-billion takeover by the UK insurer Prudential. During the week, sterling was hardly able to claw back any of these losses and trading opened up at EUR/GBP 0.904 today, almost as weak as last week. Around mid-week, a brief spell of support came from the surprisingly strong re-

sult registered for the service sector PMI (58.4) and good data on consumer confidence. As anticipated, the rate-setting meeting of the Bank of England (BoE) last Thursday resulted in no changes in the key interest rate and the QE measures remain suspended for now. In our view, there will not be much change in the BoE's monetary policy stance in the months ahead. We do not expect to see a rate hike until early 2011 at the earliest; with regard to the asset purchase programme, things should become interesting in May again, when the next inflation report is released. Until then, the BoE will wait and see, monitoring the extent to which its QE measures are having an effect on the economy. Restarting this programme would be negative for the pound, but in our view a decision of this nature would only be realistic in the event of very disappointing economic performance. Over the medium term, however, we see little potential for a lasting come-back by GBP. Indeed, on the contrary, even the surprisingly positive early indicators have hardly been able to boost the pound at all recently. The possibility of a hung parliament after the upcoming elections and the related worries about the UK's budget situation seem to be having a strong impact on the market, which is currently quite sensitive about public debt, suggesting that the pound will at least remain weak until the elections in May/June.

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EUR/PLN: 3.876 → 3.80 (June)



Source: Thomson Reuters

Sentiment on the zloty and on Poland in general remains positive. Not only the zloty profited from this, as yields on the Polish bond market also benefited, falling below 6% on 10-year maturities and thus trading at the lowest levels since early February 2009. According to media reports, the budget deficit for the first two months of 2010 will come in between 19% and 29% of the full-year target of PLN 52.2 bn. In the previous year, the ratio after 2 months was 29%. The figures indicate that the 2010 budget will very likely turn out better than expected. But there have been signs of this since the beginning of the year and hence it will come as no surprise. Following the strong rise in the zloty, we feel that there is a significant chance of a correction over the short term. Nevertheless, looking to the next quarter we still see the potential for PLN to keep appreciating versus EUR.

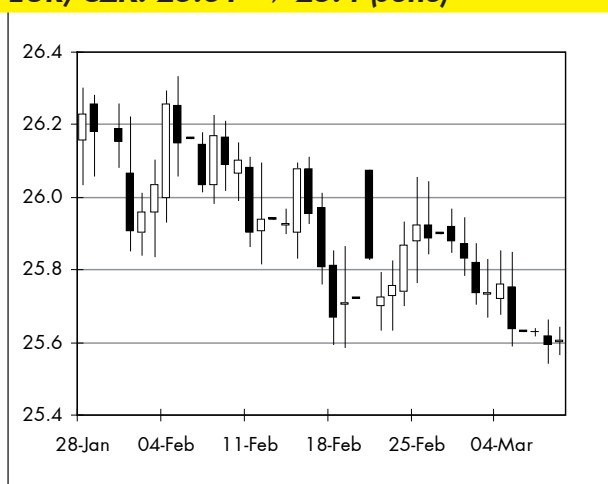
Analyst: Marcin Kopaczynski
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EUR/HUF: 266.2 → 285 (June)

Source: Thomson Reuters

With a positive market sentiment EUR/HUF also gained some strength and stood around 266. With the current development the market is pricing in another 25bp interest rate cut. Nevertheless, we remain skeptical about a further interest rate cut and see the forint appreciation as not sustainable and not economically justified. The uncertainties surrounding the budget plans 2010 are high and the fiscal politics following the elections are vague. At the same time the economic recovery is slow and domestic demand is extremely weak. Accordingly we expect depreciation in the forint against the euro as the next movement.

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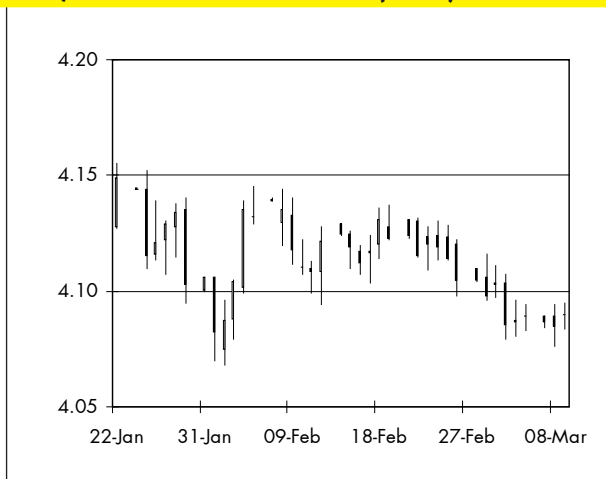
EUR/CZK: 25.61 → 25.4 (June)

Source: Thomson Reuters

Over the past week the currencies of the region remained well supported. The Czech koruna (CZK) continued to appreciate to levels below 25.6 against the euro at the beginning of the week, its strongest level since early December. Although we believe in the continuation of the fundamental long-term appreciation trend of the CZK in the course of 2010 (in Q3 2010 even beyond 25.0), the CZK remains vulnerable to the global market sentiment and risk aversion. Consumer prices were unchanged month-on-month in February, bringing the inflation rate down to 0.6% yoy (after 0.7% yoy in January). The market had expected a slight increase to 0.8% yoy. The main risk to our forecast scenario is a stalemate after parliamentary elections in spring. This would postpone the necessary medium-term fiscal consolidation and could weigh on the CZK.

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EUR/RON: 4.091 → 4.10 (June)

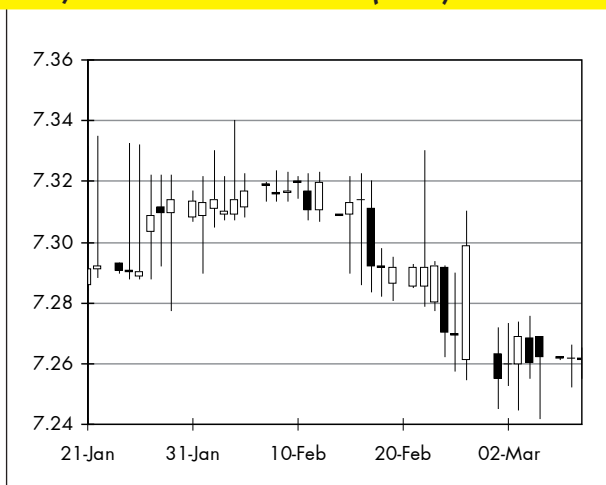


Source: Thomson Reuters

The leu gained around 0.5% over the last week, in the context of more favourable sentiment on all the regional currencies (with the Polish zloty leading the gains). The positive sentiment on the leu allowed the central bank to let more liquidity into the money market, which pushed interest rates to lower levels. Overnight interest rates are trading close to the level of the interest paid by the central bank on the deposit facility (3%), while the 1M ROBOR is trading close to 6% (1 percentage point below the level of the monetary policy rate). We do not see any reasons for leu weakening as long as sentiment remains favourable on the external markets. But neither should any important gains be expected over the short term. For instance, at a press conference last week, central bank governor Mugur Isarescu said that he is somewhat "worried" that the leu could strengthen "too much".

Analyst: Martin Stelzener
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EUR/HRK: 7.259 → 7.40 (June)



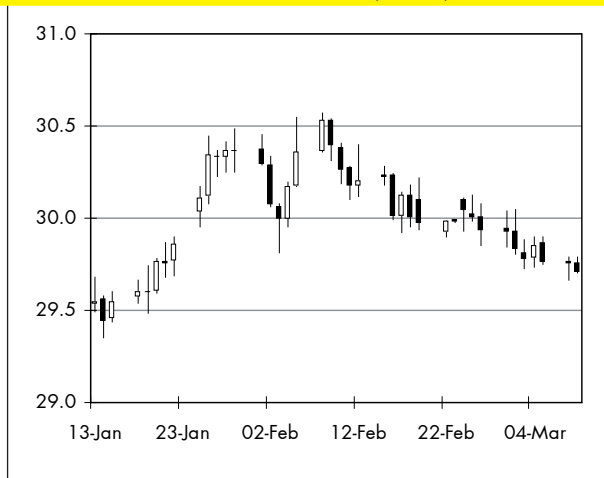
Source: Thomson Reuters

HRK to fall below 7.26. The previously announced issuance of government bonds and a higher supply of euros contributed most to this decrease. The CNB's middle rate consequently fell to the lowest level since early November 2009. With the end of the week approaching, the rate briefly rose to 7.27 and then fell again to 7.26. On the money market, the ample liquidity in the system is keeping interest rates at the lowest levels in the last five years. The focus of investors' interest last week was on the Ministry of Finance Treasury Bill auction, where demand for Bills with a maturity of less than one year appeared for the first time in this year. This week, we expect EUR/HRK to hover around 7.26, with a small chance of more depreciation pressure towards the end of the week. At a monthly level, foreign debt maturing in the next few weeks might bring about depreciation pressures on the kuna, and the rate could return to 7.30.

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For most of last week, the domestic FX market was marked by appreciation pressures, causing EUR/

EUR/RUB: 40.48 → 41.6 (June)
USD/RUB: 29.71 → 29.3 (June)



Source: Thomson Reuters

Rouble appreciation continued throughout the week, due to rallying oil prices and stronger stock markets.

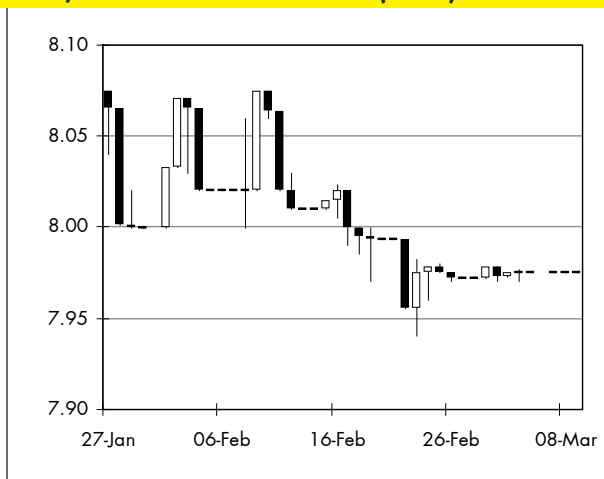
On Tuesday, 9 March, the rouble market re-opened stronger after a market holiday in Russia. The rouble exchange rate against the dual currency basket rallied to a stronger level of 34.55, down from 34.65 at market closing on 5 March. The end of the tax payment season did not alter the direction of the rouble market.

Rallying commodity and gold prices should benefit commodity-based currencies such as the rouble. We see stronger resistance for the rouble at 34.50 and expect more interventions by the central bank to curb unwanted rouble strengthening. But central bank interventions perhaps can do little to stop the rouble rally right now, since the factors driving this appreciation are outside the central bank's control. As a result, we expect the rouble to break through 34.50 and rally towards 34.25 this week, provided that oil prices remain strong. Eurozone troubles are still casting a shadow over the euro market, which should lend additional support to rouble bulls.

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EUR/UAH: 10.835 → 10.50 (June)
USD/UAH: 7.975 → 7.40 (June)



Source: Thomson Reuters

Last week, the Ukrainian currency remained stable at a rate of around USD/UAH 7.97. Versus the euro, the rate moved between EUR/UAH 10.75 and 10.90, due to fluctuations in EUR/USD.

At 1.9% mom, February's increase in consumer prices was unexpectedly strong. With this, prices are rising at almost 2% mom in the second month of the year already. Annual inflation edged up slightly from 11.1% to 11.5% yoy. Higher prices of food, in par-

ticular sugar, vegetables, cheese and milk, were behind this. We see CPI inflation rates remaining in the low double digits this year.

According to the central bank, international currency reserves sank by another USD 1.1 bn in February to USD 24.1 bn. A decline of USD 1.2 bn was also registered in January. One reason for this was the monthly exchange of foreign currency handled directly by the NBU for gas payments to Gazprom. Although the central bank continued to sell more dollars than it bought on the interbank market in February (net sales of USD 560 mn), FX surpluses were registered in the second half of the month, allowing the central bank to buy up dollars at USD/UAH 7.98. The net sales by the central bank for the month as a whole can probably be traced back to unbroken excess household demand for hard currency (USD 700 mn in February).

Over the short run, we do not see any reasons for major fluctuations in the exchange rate. The central bank will probably keep the currency near USD/UAH 8. Continuation of the positive trends for UAH seen in the last two weeks would foster development of international reserves, and possibly allow for mild appreciation of the currency, if the central banks wants to let this occur.

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