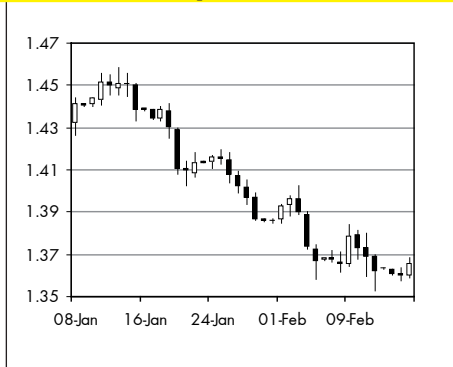


# Focus FX weekly

Issue 7/2010

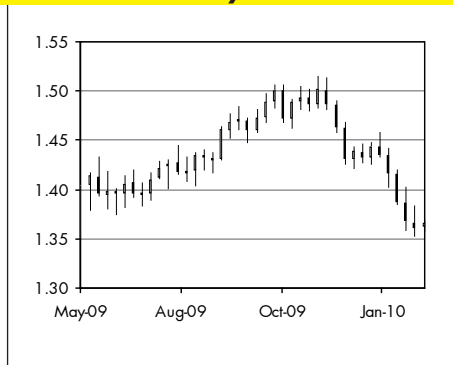
16 February 2010

## EUR/USD daily



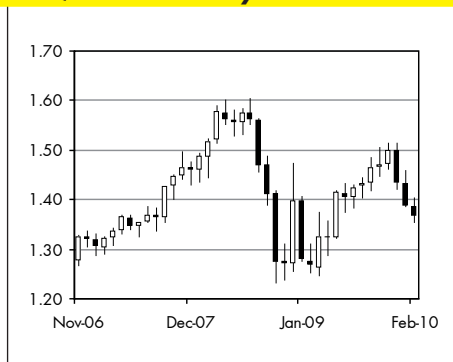
Source: Thomson Reuters

## EUR/USD weekly



Source: Thomson Reuters

## EUR/USD monthly



Source: Thomson Reuters

## EUR/USD: 1.366 → 1.35 (March)

Much more quickly than we expected, the member countries of the euro area vowed to help embattled Greece should it become necessary. News leaked out as early as Tuesday evening last week that an agreement had been reached in principle to provide assistance. As could be expected, this bolstered the euro and the single European currency rose to EUR/USD 1.384. Yet contrary to what we anticipated, the euro rally on the back of this news was short-lived. In a very volatile downward movement it slid back in the following days to EUR/USD 1.355. Consequently, our Trading Idea Buy EUR/USD (=Sell USD) set on Tuesday evening was stopped out. Still, the single European currency seems to have stabilised between EUR/USD 1.36 and 1.37. Given that the markets were obviously left completely unimpressed by the declaration of support for Greece, we no longer assume that the euro will be able to firm up in a sustained manner over the next few weeks as there's nothing to drive such a trend. What is more, labour market figures in the USA are likely to support the dollar until May. Given the census that is to take place this year there will be a sharp increase in employment in March and April, but particularly in May. Another factor speaking in favour of the dollar is that the US economy is currently recovering much better from the recession than the euro-area economy. Speculation of interest rate hikes is thus more likely to emerge on the other side of the Atlantic in the next few weeks than in Europe. Accordingly we are revising our euro-dollar forecast for March to EUR/USD 1.35. Through to mid-year, however, we stick by our projection that sees the euro gaining some strength again. The strong economic activity in the USA will not have the

## Exchange rate forecasts

|          | actual | Mar-10 | Jun-10 | Sep-10 | Dec-10 |
|----------|--------|--------|--------|--------|--------|
| EUR/USD  | 1.366  | 1.35   | 1.42   | 1.39   | 1.35   |
| EUR/CHF  | 1.466  | 1.47   | 1.50   | 1.50   | 1.53   |
| EUR/JPY* | 122.9  | 132    | 140    | 142    | 147    |
| USD/JPY  | 90.0   | 91     | 93     | 98     | 107    |
| EUR/GBP  | 0.871  | 0.90   | 0.93   | 0.95   | 0.95   |
| EUR/PLN  | 4.018  | 4.20   | 3.80   | 3.75   | 3.65   |
| EUR/HUF  | 271.4  | 285    | 285    | 275    | 275    |
| EUR/CZK  | 25.99  | 25.8   | 25.4   | 24.8   | 25.0   |
| EUR/RON  | 4.113  | 4.15   | 4.10   | 4.05   | 3.95   |
| EUR/HRK  | 7.313  | 7.36   | 7.40   | 7.40   | 7.50   |
| EUR/RUB  | 41.14  | 42.9   | 42.1   | 41.7   | 40.9   |
| USD/RUB  | 30.12  | 29.6   | 28.1   | 28.8   | 29.8   |
| EUR/UAH* | 10.940 | 11.75  | 12.00  | 11.96  | 11.51  |
| USD/UAH* | 8.005  | 8.10   | 8.00   | 8.25   | 8.4    |
| EUR/TRY* | 2.062  | 2.18   | 2.19   | 2.20   | 2.11   |
| USD/TRY* | 1.508  | 1.50   | 1.46   | 1.52   | 1.54   |

\* under revision

Source: Thomson Reuters. Raiffeisen RESEARCH

legs and will taper off once more in the second half of the year. The sharp upturn in the employment figures in the spring will also be temporary. From June to September the positive effects of the national census will unravel and exert a very negative impact on employment trends. Also, the adverse effect of budget problems in some member states of the euro area will not be a long-lasting problem for the euro in our

view. In the end, as regards the budget deficit and public debt the USA is barely better off than its European counterparts. Yet from a much lower level the euro will no longer be able to strengthen to EUR/USD 1.50. Looking ahead to the summer we reckon rates of between EUR/USD 1.40 and 1.45 are likely.

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## Trading Ideas

### FX

| Recommendation | Entry date | Entry level | Current level | Target | Stop  | Carry (ann. %) | Comment            |
|----------------|------------|-------------|---------------|--------|-------|----------------|--------------------|
| BUY EUR/JPY    | 09/02/2010 | 123.3       | 122.88        | 131    | 120.5 | 52bp           | Support for Greece |

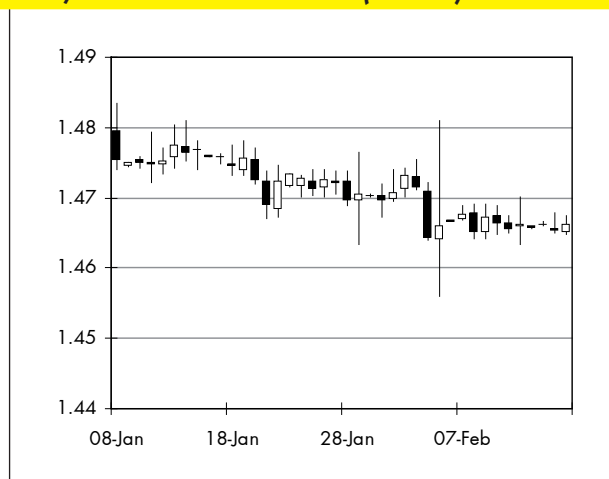
Source: Thomson Reuters, Bloomberg

### Recently closed trades

| Recommendation | Entry date | Entry level | Close date | Close level | Total return | Comments       |
|----------------|------------|-------------|------------|-------------|--------------|----------------|
| 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.

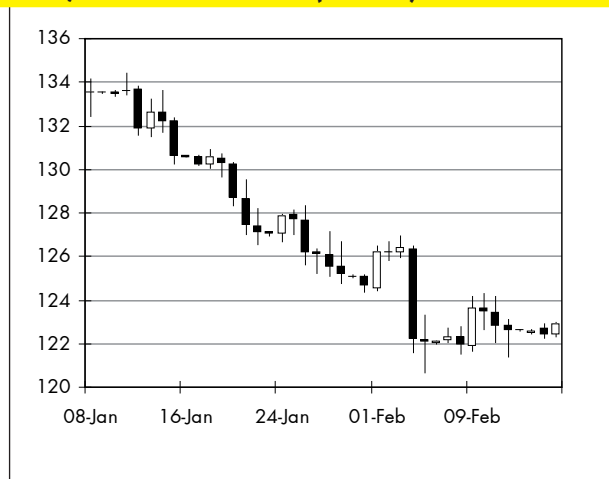
**EUR/CHF: 1.466 → 1.47 (March)**

Source: Thomson Reuters

Again and again the franc falls below the presumed intervention threshold of the SNB on Fridays, which is EUR/CHF 1.464. Once again this was followed

by a swift correction, but similar to previous weeks it did not lead to a sustained weakening of the franc. Due to the robust Swiss economic data, the SNB is probably not interested in weakening the franc over the long term. Both the PMI and the KOF economic survey show that potential growth was achieved in January. As a result, the SNB is probably quite comfortable with the current rate of EUR/CHF 1.47 right now. If Swiss economic activity does not slow down significantly starting from Q2 2010, as projected in the SNB's and our own forecasts, then rate hikes may become an issue in the Confederation earlier than in the euro area. Hence, unless leading economic indicators begin heading lower in the months ahead (by April), we may see emerging speculation about rate hikes fuelling more appreciation for the franc. In the coming weeks, the franc is likely to continue moving sideways in a narrow range (aside from small bouts of intervention).

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**EUR/JPY\*: 122.9 → 132 (March)****USD/JPY: 90.0 → 91 (March)**

\* under revision

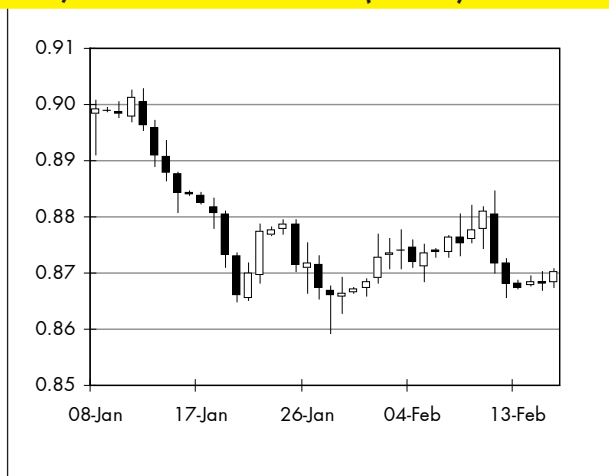
Source: Thomson Reuters

As announced on Monday, Japanese gross domestic product swelled by 4.6% in annual terms in the fourth quarter of 2009 compared to the previous quarter. This means Japan managed to benefit more from the cyclical recovery of global trade than Germany (Q4 2009: 0.0% qoq), which is also strongly reliant on exports. Although we were expecting an even more

robust rate of growth, we were much closer to the eventual result than the much too pessimistic consensus (3.7% qoq). However, the downwards revision of GDP growth in the third quarter from 1.3% qoq to 0.0% qoq was less pleasing. The strong growth was fuelled by exports and private consumption, while investments (both residential and non-residential) made no positive contribution to growth. Nevertheless, the investment cycle should now have bottomed out. The number of housing starts has been rising for several months, while inventories are now also making a positive contribution to growth, and they should continue to do so in Japan over the next two quarters. The continuation of the government-funded stimulus programme totalling roughly EUR 60 bn (1.8% of GDP) is likely to bolster private consumption too, which means we expect growth in 2010 of 2% yoy. In light of the negative rating outlook from Standard & Poor's that is based on the ongoing deflation, the GDP deflator of -3% yoy gives cause for concern. This is why we believe that the BoJ will persist with its lax monetary policy for longer than other western central banks, which should weaken the yen in the long run.

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**EUR/GBP: 0.871 → 0.90 (March)**



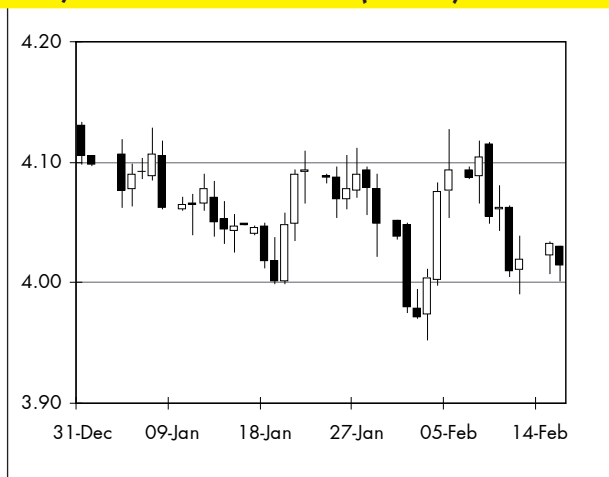
Source: Thomson Reuters

The publication of the quarterly inflation report by the Bank of England (BoE) in the middle of last week piled pressure on the sterling and pushed the EUR/GBP rate to 0.882. In addition to the downwards revision of growth forecasts, which was expected, the BoE managed to surprise the markets with its optimistic inflation projection. The BoE reckons inflation will come in easily under the target of 2% over a two-year horizon. Only until the middle of the year does the monetary policy committee expect consumer price inflation to be more than 2%, which is attributa-

ble to base effects (restoration of the standard rate of VAT to 17.5%, higher energy prices). In January the inflation rate soared well above the inflation target to 3.5% yoy (-0.2% qoq), forcing BoE chief Mervin King to write an open letter to the Chancellor of the Exchequer Alistair Darling. On the whole, the moderate tone of Mervin King's latest statements and the downward revision of inflation and growth outlooks reinforce our prediction that the Bank of England will stick by its ultra-expansive monetary policy throughout the entire year. Comments by Mervin King that it is far too early to rule out further bond purchases definitively, coupled with the indication of different opinions in the MPC regarding inflation trends, also suggest a split vote at the last committee meeting. A minority in the monetary policy committee, possibly also including the Governor, are likely to have advocated another extension of the QE measures. In a week that will be raining January data releases (job figures, public finances and retail sales), the eyes of the market will therefore be trained on the publication of the MPC minutes on Wednesday. The lack of any exit scenario from the BoE suggests that the monetary policy committee will persist with its lax monetary policy for longer than other western central banks. Consequently, we believe that the pound will remain under depreciation pressure over a one-year horizon.

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**EUR/PLN: 4.018 → 4.20 (March)**

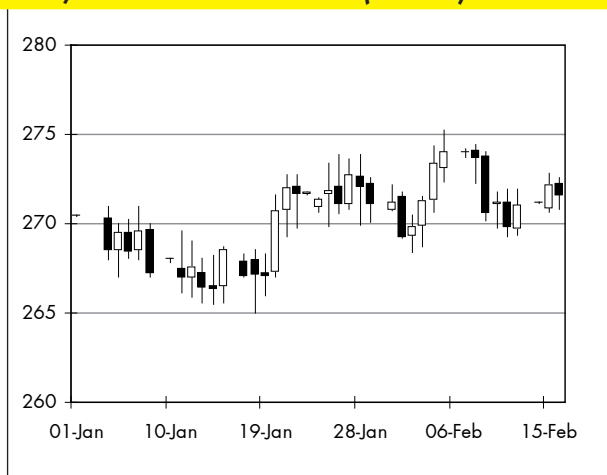


Source: Thomson Reuters

Current account data for December 2009 and the entire year barely added anything new of note. Ex-

ports continue to recover and rose 12.3% yoy compared to the previous year. By contrast, imports fell again, this time by a marginal rate of -2.6% yoy. We get a similar picture for the entire year in 2009 with exports and imports contracting by 17.6% and 25.6% yoy. We do not believe that these trends can be sustained and during 2010 import growth will just manage to overtake that of exports, reflecting an increase in domestic demand. This is not likely to influence the EUR/PLN much since the financing needs of the government (bond issues, privatisation) will also lead to significant inbound capital flows given that global economic trends have not worsened to any great extent. In the short term we believe the EUR/PLN will stay above 4.00 since the risk sentiment on the international markets will remain unfavourable until at least the end of Q1 in our view. The exchange rates will barely be affected by the employment figures due for release today.

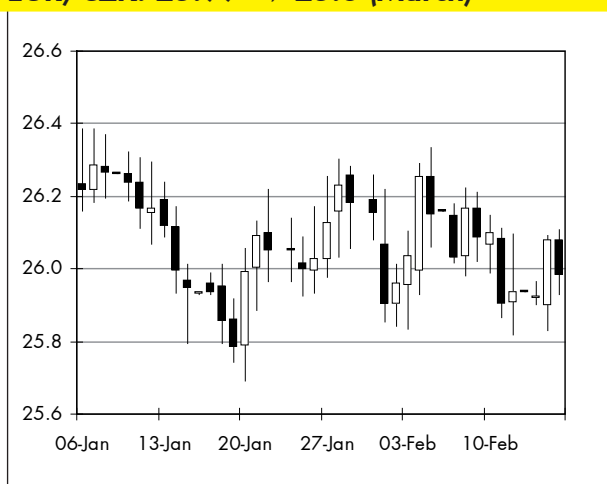
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**EUR/HUF: 271.4 → 285 (March)**

Source: Thomson Reuters

GDP data for Q4 came in better than expected at -4.0% yoy while staying negative on a qoq basis with -0.4%. The economic recovery in Hungary will continue to be slow and we do not expect any real positive signs of a recovery before the second half of 2010. Consumer prices in January came in at 6.4% yoy and therefore above market expectation. Nevertheless, core inflation was only an inch above the December figure. All together the data should not prevent another 25bp interest rate cut in February. In our opinion this should then be the last cut due to the upcoming elections. EUR/HUF remained relatively stable at just above 270. In a nervous market environment we continue to expect some weakening in the forint as elections and the uncertainty surrounding the budget 2010 should get more and more into focus.

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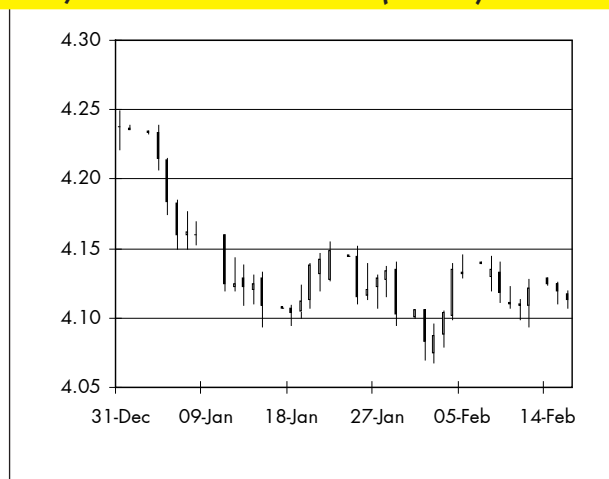
**EUR/CZK: 25.99 → 25.8 (March)**

Source: Thomson Reuters

The Czech koruna (CZK) has stabilised close to the 26 level against the Euro in recent days. 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 price inflation for January came out slightly lower than generally expected at 0.7% yoy. The GDP for Q4 2009 also was behind market expectations. For the full year 2009 real GDP contracted by 4.3% 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: 4.113 → 4.15 (March)

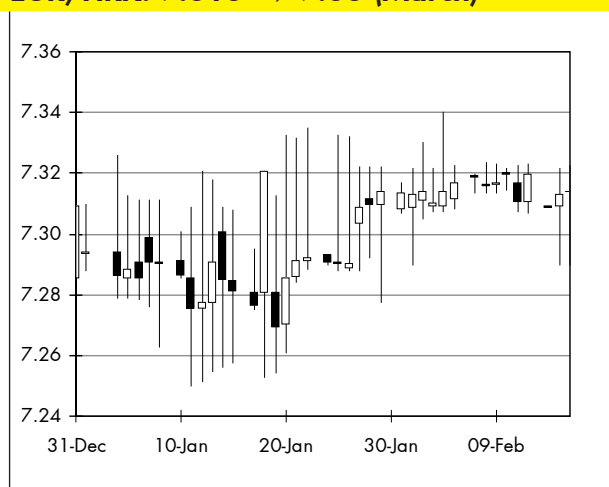


Source: Thomson Reuters

GDP and inflation data on Friday were disappointing: inflation was higher than expected (1.7% mom), while real GDP shrank again (-1.5% qoq). The leu depreciated slightly following the GDP data, but it recovered part of these losses on Monday. In our opinion, the current level of the exchange rate is well supported by domestic fundamentals, and we see no reason for depreciation or appreciation either for the time being. At the same time, the changes in investor sentiment on the international markets should remain the key driver behind short-term fluctuations in the exchange rate. At the end of this week, the IMF Board is expected to approve the disbursement of the third and fourth instalments (amounting to EUR 2.3 bn) from the financial package approved last year.

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## EUR/HRK: 7.313 → 7.36 (March)



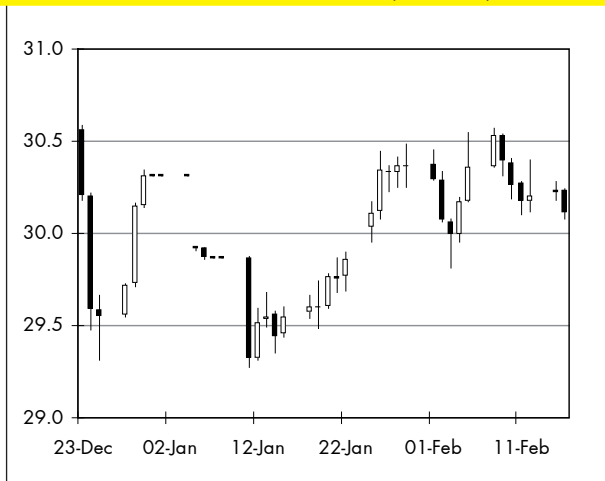
Source: Thomson Reuters

Almost the whole of last week on the domestic FX market was marked by low trading volumes and balanced supply and demand from both the corporate and the banking sector. Hence, the EUR/HRK rate hovered around 7.32 kuna per euro. On Friday the rate fell towards 7.31 kuna per euro mainly due to an excess supply of euros from the banking sector.

On the money market, the Ministry of Finance issued 1-year Treasury bills to finance short-term debt. Since liquidity is at a high level, the yield for 1-year bills fell to 3.49%, which is the lowest in almost four years. Since liquidity is high and the supply of euros is relatively good, we do not expect to see significant changes in the EUR/HRK in the week ahead. With lower trading volumes, the rate should float between 7.30 and 7.32 kuna per euro. Foreign debt maturing at the end of February and at the beginning of March should not exert a strong impact on the FX rate. This is because we presume the government already has sufficient euros to cope with foreign liabilities. However, in monthly terms, corporate foreign debt, high liquidity and the low interest rates could potentially weaken the domestic currency. Still, there is a possibility that these foreign debts will be settled by the new foreign debenture, which ultimately will have no impact on the FX rate. In light of the above, we expect slight depreciation pressures over the month, but how maturing corporate foreign debt is financed will set the tone for movements on the domestic FX market.

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**EUR/RUB: 41.14 → 42.9 (March)**  
**USD/RUB: 30.12 → 29.60 (March)**



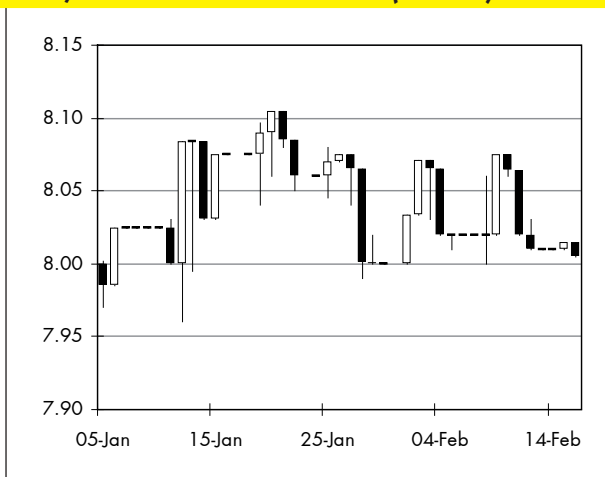
Source: Thomson Reuters

Confirming our earlier predictions the rouble continued rallying this week, buoyed by stabilising equity markets and the modest recovery in oil prices. The rouble jumped to 35.14 against the dual currency basket, the strongest level seen since last November and throughout 2009. Current difficulties in the euro area are also helping the rouble extend its gains against both the euro alone and the basket. Another reason for the stronger rouble is the tax payment season kicking in at the end of the month. Appa-

rently, local banks are stocking up on rouble liquidity in expectation of greater client demand for rouble funds. The upbeat interest rate outlook is also impacting on the government debt market, where the rouble NDF curve moved down and almost converged with the rouble government bond curve. This phenomenon is particularly interesting due to the radically changing expectations for the rouble and rouble interest rates. The local market is flush with rouble funds at present, which makes a short-term correction in the rouble market likely in the coming weeks. On the other hand, the interest rate outlook gives way to rouble bulls buying roubles in anticipation of low inflation and subsequent rate cuts. The market consensus expects about 100 basis points in rate cuts. Whereas foresee 150 basis points in rate cuts based on a combination of low inflation and a slow pick-up in credit growth. We project a bullish tightening of the rouble bond curve while the NDF curve is most likely to remain relatively stable without gaining much in the coming days. For day traders we do not recommend buying rouble FX in view of the possible short-term correction in the rouble market. However, we recommend a long position on the rouble against the dual currency basket for portfolio investors with a target of 29.44 roubles against the dual currency basket in the next six months.

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**EUR/UAH\*: 10.940 → 11.75 (March)**  
**USD/UAH\*: 8.005 → 8.10 (March)**



\* under revision  
 Source: Thomson Reuters

Last week the UAH strengthened slightly vs. the USD and traded at 8.02. The continued weakness of the euro to the dollar resulted in a move from EUR/UAH 11.10 to around 10.90. Meanwhile, last Sunday the

Central Election Commission declared Viktor Yanukovich president-elect. International monitors hailed the result as democratic and transparent, but the loser of the election, PM Yulia Tymoshenko, declared her opposition to the result in the courts, alleging Yanukovich of election fraud. This might delay the inauguration of President Yanukovich. However, the chances of Tymoshenko successfully contesting the election are pretty low. In terms of our USD/UAH rate expectations, we see chances of moderate hryvnia appreciation in the coming months. First of all, FX demand is traditionally lower during the summer months as the share of energy imports declines. Secondly, given some economic and political stability, capital inflows may pick up and the net outflow of currency due to cash operations may be reduced or even reversed. However, considerable short-term FX volatility is quite possible as FX rate trends are likely to be amplified (on both sides!) by cash transactions. Also, the newly-elected President (and his supporters) may affect NBU policies, especially as the new head of the NBU will be appointed in early summer.

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This report was completed on 16 February 2010.

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