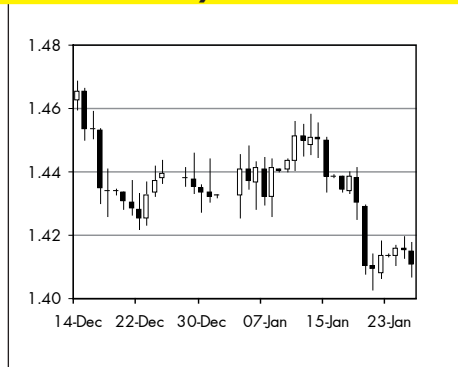


Focus FX weekly

Issue 4/2010

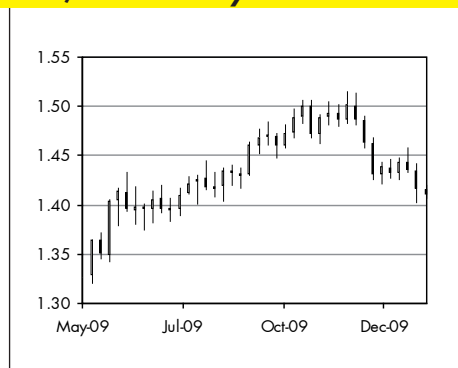
26 January 2010

EUR/USD daily



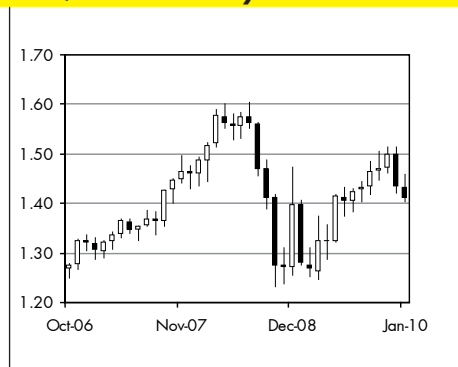
Source: Thomson Reuters

EUR/USD weekly



Source: Thomson Reuters

EUR/USD monthly



Source: Thomson Reuters

EUR/USD: 1.410 → 1.45 (March)

A pronounced rise in risk aversion was felt on the financial markets last week. Amongst other things, this was reflected in the very poor performance of the equity markets. For example, the Dow Jones lost 4%, and the EuroStoxx 50 registered a decline of more than 6%. One of the main losers of this development was the euro: the single currency came under pressure versus almost all of the other important currencies. Versus the US dollar, the euro depreciated to peaks of 1.405. Along with the rise in risk aversion, however, sentiment was also much gloomier due to uncertainty about the developments in Greece. Worries about a possible default on payments continue to hang like the Sword of Damocles over the euro. At the beginning of the week, EUR rebounded a bit, bouncing back to EUR/USD 1.418, but this move proved to be brief. Greece was able to place a 5-year bond on the market yesterday. The bond was strongly oversubscribed, which comes as no surprise in light of the coupon of around 6.5%. Comparable Greek bonds on the secondary market yield a good one-half percentage point less than that. The resurgence in risk aversion overnight then pushed the euro back below EUR/USD 1.41 again. The trigger this time was a flare-up in worries about a more restrictive lending policy in China. Over the short term, not much will change in terms of the overall situation: in light of some initial signs of overheating in the Chinese economy the central bank will continue to introduce measures to tighten monetary policy, which will likely result in more setbacks on the stock markets. Furthermore, worries about Greece's ability to meet its obligations will last until a credible long-term plan to consolidate public finances is presented;

Exchange rate forecasts

	actual	Mar-10	Jun-10	Sep-10	Dec-10
EUR/USD	1.410	1.45	1.50	1.45	1.37
EUR/CHF	1.471	1.51	1.50	1.50	1.53
EUR/JPY	127.1	132	140	142	147
USD/JPY	90.1	91	93	98	107
EUR/GBP	0.869	0.90	0.93	0.95	0.95
EUR/PLN	4.089	4.20	3.80	3.75	3.65
EUR/HUF	273.0	285	275	275	275
EUR/CZK	26.09	25.8	25.4	24.8	25
EUR/RON*	4.130	4.30	4.25	4.20	4.15
EUR/HRK	7.291	7.50	7.40	7.40	7.50
EUR/RUB	42.67	42.9	42.1	41.7	40.9
USD/RUB	30.27	29.6	28.1	28.8	29.8
EUR/UAH*	11.430	13.05	12.00	11.96	11.51
USD/UAH*	8.070	9.00	8.00	8.25	8.40
EUR/TRY	2.105	2.18	2.19	2.20	2.11
USD/TRY	1.495	1.50	1.46	1.52	1.54

* under revision

Source: Thomson Reuters. Raiffeisen RESEARCH

bond issues like yesterday are merely a drop in the bucket. Looking forward to the coming weeks, we thus expect to see the euro remain weak versus the US dollar. It is possible that the rate could even drop below EUR/USD 1.40 by the end of this week. Data on US orders for durables and especially the figures on GDP due out on Thursday and Friday should be

well better than consensus. As the dollar has been reacting positively to strong US data recently, we see a good likelihood that USD will appreciate tangibly in reaction to the data.

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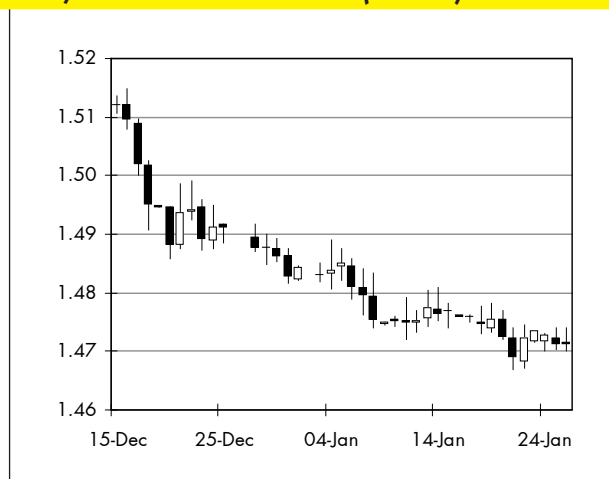
Trading Ideas

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comments
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
Buy EUR/CHF	07/01/2010	1.476	19/01/2010	1.475	-0.07%	Closed early
Buy EUR/CHF	04/01/2010	1.486	06/01/2010	1.48	-0.40%	Stopped Out
Buy EUR/JPY	22/12/2009	130.7	08/01/2010	134	2.52%	Target reached
Buy EUR/JPY	01/12/2009	131.1	07/12/2009	133	1.45%	Trailing Stop hit
Buy EUR/USD	05/11/2009	1.483	20/11/2009	1.4826	-0.03%	Closed early
Sell GBP/USD	23/10/2009	1643	09/11/2009	1675	-1.91%	Stopped Out
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.

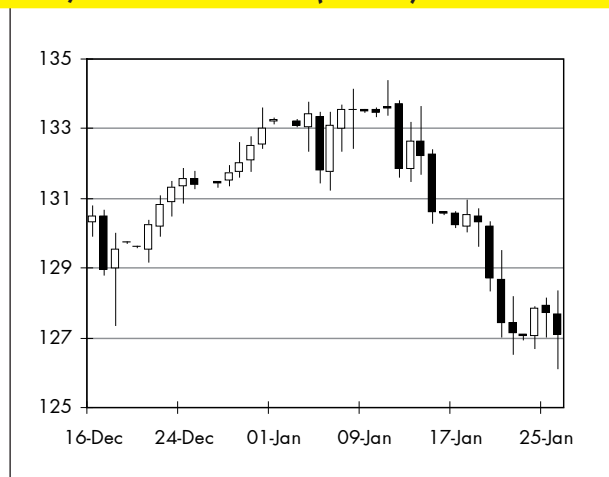
EUR/CHF: 1.471 → 1.51 (March)

Source: Thomson Reuters

EUR/CHF was also affected by the sharp moves on the stock market last week. The ensuing appreciation of the franc brought the rate down below EUR/CHF 1.467, but this did not last long. EUR/CHF continues to trade at levels from before the first market intervention by the SNB in March 2009. All in all, the intervention by Swiss central bankers resulted in a sustained change of 6 rappen or 4% in the exchange

rate. Since relaxing its intervention policy at the last SNB meeting in December 2009, CHF has appreciated by 2.6% and thus made up more than one-half of the deviation caused by the intervention. The main driver for these movements – which are rather hefty by CHF standards – was short-term speculation about the present lack of any SNB intervention threshold. If the franc appreciates to just over EUR/CHF 1.455, then all of the buffer created by the intervention will have been used up. We do not believe that the SNB would permit such a move, as this would certainly constitute “excessive appreciation” against which the central bank would “act decisively”. Accordingly, it is likely that the SNB’s current threshold is somewhere between 1.46 and 1.47. Hence, it is possible that the SNB is behind the weakening of the franc on Friday, which was unusual in light of the general correlation (weaker stock markets mean a stronger franc). If it was an intervention on the market that was responsible for this, then it was a very restrained intervention (with a small volume) as were the last ones. Apparently, the SNB has not yet lost its patience at the current level of EUR/CHF 1.47.

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EUR/JPY: 127.1 → 132 (March)
USD/JPY: 90.1 → 91 (March)

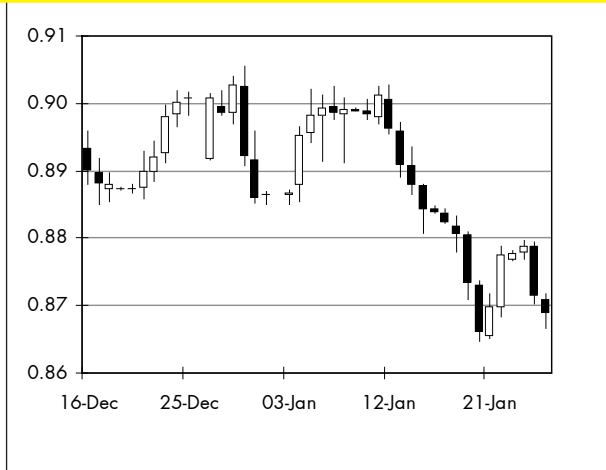
Source: Thomson Reuters

The easing of monetary policy in Japan has not yet reached its peak yet, due to the hesitant approach of the Bank of Japan (BoJ) so far and the country’s structural problems. At the press conference this mor-

ning in the wake of the rate-setting meeting, Japan’s central bankers stressed that they wish to continue pursuing a loose monetary policy for some time to come. We, on the other hand, were expecting to see more action by the BoJ in the form of broadening the QE measures and had thus bet on a weaker yen in the run-up to the meeting with a short-term Trading Idea. In the end, however, the BoJ did not move to boost its purchasing programme for bonds (EUR 14.1 bn per month) and did not expand its special lines of credit for commercial banks. After the BoJ press conference, the rating agency Standard & Poor’s (S&P) lowered its outlook on Japanese AA rating (long-term sovereign debt) to negative. Along with the massive public debt, S&P also criticised the deflation in Japan, which is expected to continue for the foreseeable future. In light of this, we anticipate more QE measures and a weaker yen in the months ahead. Over the short term, however, the yen may appreciate somewhat more, which could offer very attractive levels for a Buy on EUR/JPY.

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EUR/GBP: 0.869 → 0.90 (March)



Source: Thomson Reuters

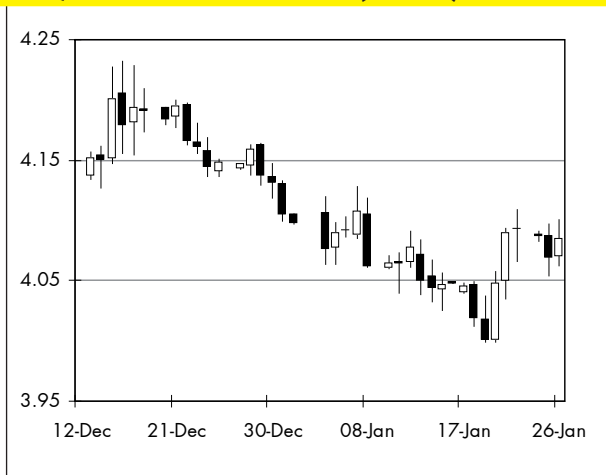
Sterling remained volatile in recent days, moving in a range of EUR/GBP 0.882 to 0.865. Towards the middle of the week, sterling hit a 5-month high against the single currency, against a backdrop of general weakness of the euro and surprisingly positive real estate and labour market publications in the UK. Nevertheless, appreciation for GBP was cut

short by the sell-off in risky assets that unfolded as the week came to an end. Other negative factors for GBP included the disappointing figures on broader money supply (M4: -1.1% mom) and weak retail sales figures for December (+0.3% mom).

The minutes of the rate-setting meeting for January did not contain any changes in the BoE's dovish wording, as the UK central bank still does not expect any price pressure and showed no signs of possible changes in its current monetary policy stance. Despite the jump in inflation to 2.9% yoy in December and inflation most likely peaking at over 3% in Q1 2010, the BoE will refrain from raising rates until end-2010. This assessment was underlined by the dimly low quarterly growth rate for GDP in Q4 2009: with growth of just +0.1% qoq, the consensus expectation of a quarterly increase of +0.4% was missed by a large margin. In our view, the weak pace of economic activity actually increases the chances of another expansion of QE measures at the next central bank rate-setting meeting in February. With this in mind, we project weakening of the pound versus the euro in the course of 2010.

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EUR/PLN: 4.089 → 4.20 (March)



Source: Thomson Reuters

As in the previous months, the NBP's rate-setting meeting on Tuesday was not a major event and will provide no ammunition for changes in PLN. As expected the NBP left its key interest rates unchanged. Any course of action other than that would have come as a major surprise. A first hike in interest rates can be expected around the end of Q3 2010, when the impacts of the crisis on the labour market have sub-

sided for the most part. The rate of unemployment rose to 11.9% in December and should continue to rise in H1 2010. Over the short run, we see three risk factors for PLN: possible speculation about rate hikes in the USA, which would drag down the equity markets, uncertainty on Greece and the question of public debt levels in Poland. The last of these three should be at least partially cleared up this week: PM Tusk intends to present the consolidation plan for public finances on Friday. Generally speaking, the pressures on the government to push forward with reforms have eased somewhat, thanks to better-than-expected growth in 2010 and additional revenues which were not planned into this year's budget (e.g. NBP profits). On the other hand, factors suggesting the need for a radical reform of public finances include overshooting the safety limits on debt for 2011 and the planned adoption of the euro (by 2015 at the earliest) to pave the way for a sustained decline in public debt levels and the budget deficit in the coming years. At end-Q1 we see the zloty at around 4.20, as our assumptions of more weakness on the equity markets will be a negative factor for Poland's currency.

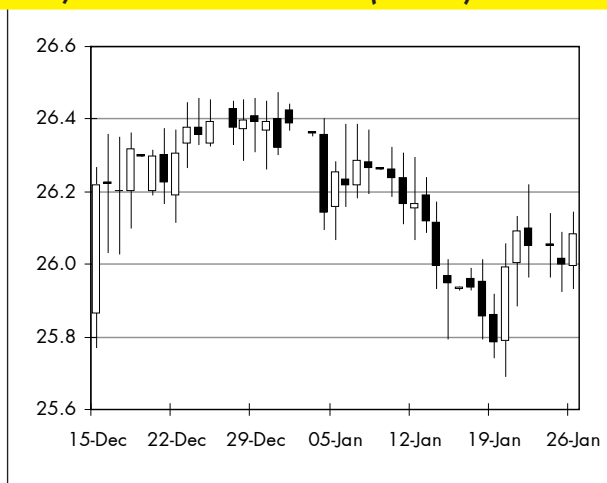
Analyst: Marcin Kopaczynski
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EUR/HUF: 273.0 → 285 (March)

Source: Thomson Reuters

The monetary council as expected lowered the interest rate by another 25bp yesterday to 6.0%. According to statements by the council there were discussions on a 25bp cut as well as a 50bp cut. As in December the council already turned from 50bp moves to a 25bp move a renewed 50bp cut would have been a surprise to us. For February we expect another 25bp cut but then would expect interest rates to move sideways with elections drawing closer. The election phase as well as a fiscal outlook after the elections will then bring more insight on the possibility of continued interest rate cuts. The forint should lose some more ground in the coming weeks against the euro and remain very volatile.

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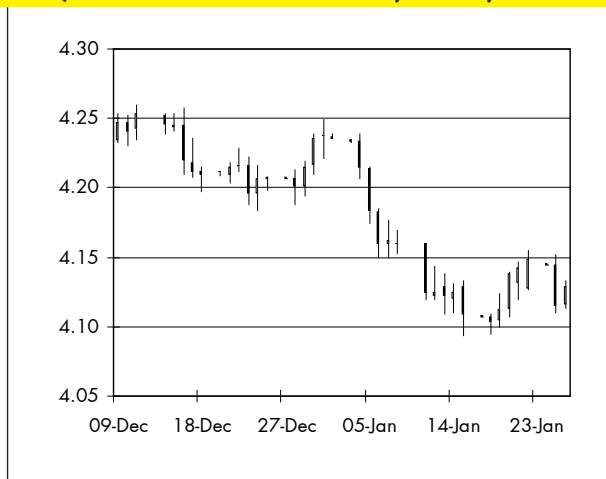
EUR/CZK: 26.09 → 25.8 (March)

Source: Thomson Reuters

The Czech koruna (CZK) slightly weakened above the 26 level against the Euro at the beginning of the week. 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. Therefore, a possible correction of the global equity market or further troubles with Greece could also cause a temporary CZK weakening. We would see such a correction as a buying opportunity for the CZK. 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 expose the CZK to the risk of a change in the rating of Czech debt.

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EUR/RON*: 4.130 → 4.30 (March)

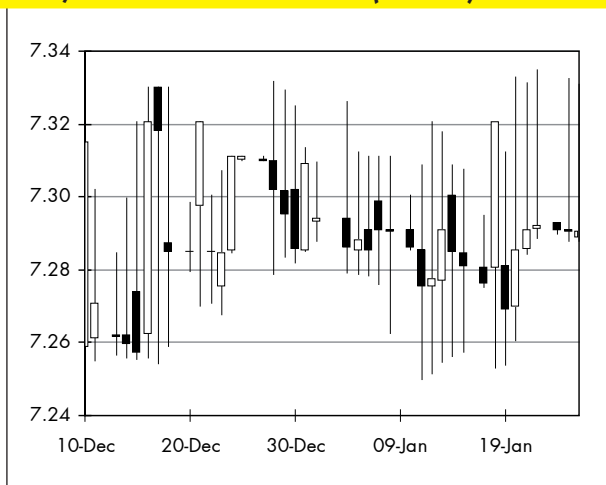


* under revision
Source: Thomson Reuters

The leu depreciated slightly last week, as an increase in risk aversion on the international markets negatively affected both the leu and its regional peers. However, the leu erased much of these losses on Monday and returned close to its maximum level reached one week ago. We think that the current stronger levels are supported by improved fundamentals, but also by the improving risk perception. We cannot rule out some more small gains in the upcoming period (as long as the external environment remains benign). Technical missions from the IMF and the European Commission are to end their assessment on 27 January. We expect the missions to recommend disbursement of the tranches due at the end of 2009. The IMF also said that the decision regarding the tranche due in March 2010 would also be made now. With a positive evaluation, Romania is to receive EUR 2.3 bn from the IMF and EUR 1 bn from the European Commission in February-March.

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EUR/HRK: 7.291 → 7.50 (March)



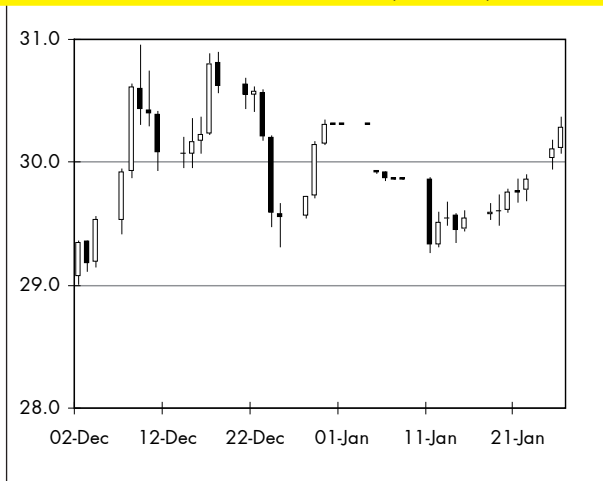
Source: Thomson Reuters

Last week was yet another calm period on the domestic FX market, without any surprises, as EUR/HRK traded between 7.29 and 7.30. Despite occasional

bursts of corporate sector demand, 7.30 once again proved to be a strong level of resistance. As we expected, there was only a mild increase in the CNB middle rate during the week, but it stayed below 7.30. On the domestic money market, the high liquidity and low trading volumes kept the ZIBOR at low levels for all maturities. As expected, the CNB still does not show any intentions to hold a reverse repo auction (the last one took place in October 2009), and the Ministry of Finance did not hold a Treasury Bill auction for the third consecutive week. In the week ahead, we do not expect to see any significant changes on the domestic FX market. Therefore, the FX rate should stay at its current level. At the monthly level, the rise in EUR/HRK, which should be supported by the external liabilities maturing during the next month, could be limited by further inflow of euros and by the significantly less pronounced need for financing imports compared to the last few years.

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EUR/RUB: 42.67 → 42.9 (March)
USD/RUB: 30.27 → 29.60 (March)



Source: Thomson Reuters

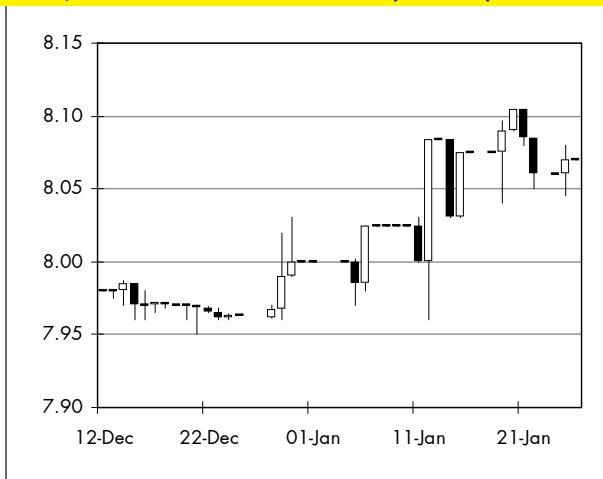
This week, the declines on the equity market and weaker oil prices dictated a downward trend for the rouble, as the Russian currency lost all of its gains

from the last two weeks and slid back to a weaker level of 35.74 against the dual currency basket. We assume that higher rouble liquidity in the local banking system boosted the selling pressure on the rouble, as many local banks were possibly long on rouble from the beginning of the year. We see little change in the rouble market as concerns the driving forces influencing the rouble's direction. First of all, the rouble continues to exhibit strong correlation to oil prices, and a stronger dollar triggers lower oil prices. Secondly, there is a fair amount of rouble dependence on capital flows in Russia's stock market, which consists of about 70% energy sector capitalisation. We see macro fundamentals playing a smaller role in the rouble market, as the latest statistical report suggesting a stronger increase in the mining sector in Q4 2009 had little impact on the Russian market. Consequently, the strong dependence on oil prices and the profit-taking mood in global markets may continue to exert negative pressure on the rouble in the coming days.

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EUR/UAH*: 11.430 → 13.05 (March)
USD/UAH*: 8.070 → 9.00 (March)



* under revision

Source: Thomson Reuters

The Ukrainian hryvnia remained practically unchanged compared to the US dollar, with some mild appreciation bringing the rate to USD/UAH 8.10. In line with the development of EUR/USD, the hryvnia strengthened from EUR/UAH 11.60 to around 11.40. In a resolution (No. 18 of 21 January 2010), the central bank commented on its intervention policy on the FX market during the first quarter of this year:

FX auctions will be held on Wednesdays (USD) and Fridays (EUR and CHF) to support private individuals with FX liabilities. Intervention and auctions will also be used if necessary to smooth out the exchange rate, and finally the central bank reserved the right to carry out targeted intervention in cases of acute needs of national importance. This resolution represents a seamless continuation of the exchange rate policy pursued in the previous year. Moreover, it was reported that USD 170 mn has been used to support the UAH this year already.

A new conflict between the central bank and the government may hinder payments for gas supplies. At the end of last year, the IMF said that it was willing to lower the requirement for the minimum international FX reserves by USD 2 bn. The central bank, however, has refused to transfer this USD 2 bn from the FX reserves to the government. It was only willing to sell these reserves to the government for UAH. Nonetheless, we do not believe that gas supply payments will be directly jeopardised.

From a fundamentals perspective, we now see UAH as slightly stronger than in our current forecasts. Nevertheless, we wish to wait for the outcome of the second round of presidential elections on 7 February before revising our data.

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This report was completed on 19 January 2010.

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