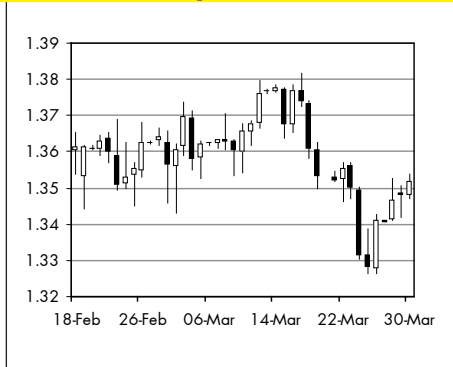


# Focus FX weekly

Issue 13/2010

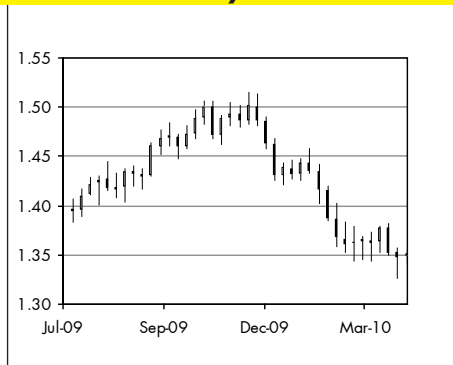
30 March 2010

## EUR/USD daily



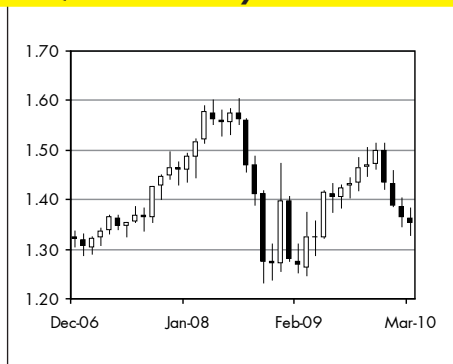
Source: Thomson Reuters

## EUR/USD weekly



Source: Thomson Reuters

## EUR/USD monthly



Source: Thomson Reuters

## EUR/USD: 1.353 → 1.33 (next move)

The slippery slope for EUR finally ended late last week at around 1.33, after the EU member states were able to reach an agreement on procedures for supporting countries suffering from financing difficulties on the market (read as: Greece). Since then, Europe's single currency has been able to bounce back to 1.35, as the concerns about Greece's problems duly subsided (in our view, these worries were exaggerated anyway). If the Greek debacle was the only problem to finally be resolved (at least temporarily, as the country's long-term sovereign debt outlook remains very gloomy), then EUR would be free to start appreciating against USD. And it is quite possible that the euro gain further ground against the greenback in the days ahead. But we remain very sceptical that EUR/USD will be able to edge over 1.40 in the second quarter, as more downside risks for the euro are waiting in the wings: although the economic data in the euro area are also brightening up considerably (cf. last week's ifo and PMI results), the long-awaited, much debated improvement on the US labour market should materialise this Friday, with very robust job gains for several months. This is expected to boost US interest rate expectations for a time and should, for lack of any similar development in the euro area, generate more downward pressure on EUR/USD. Accordingly, we expect EUR/USD to take another stab at 1.30 during the second quarter.

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## Exchange rate forecasts

	actual	Jun-10	Sep-10	Dec-10
EUR/USD	1.353	1.35	1.42	1.35
EUR/CHF	1.434	1.41	1.43	1.45
EUR/JPY	125.3	124	118	130
USD/JPY	92.7	92	83	96
EUR/GBP	0.898	0.91	0.89	0.90
EUR/PLN	3.874	3.80	3.75	3.65
EUR/HUF	265.2	275	275	270
EUR/CZK	25.38	25.4	24.8	25.0
EUR/RON	4.069	4.10	4.05	3.95
EUR/HRK	7.260	7.32	7.30	7.32
EUR/RUB	39.73	39.3	40.8	38.8
USD/RUB	29.37	29.1	28.8	28.8
EUR/UAH	10.710	10.00	10.80	10.40
USD/UAH	7.919	7.40	7.60	7.70
EUR/TRY*	2.063	2.03	2.06	1.92
USD/TRY*	1.527	1.50	1.45	1.42

\* under revision

Source: Thomson Reuters. Raiffeisen RESEARCH

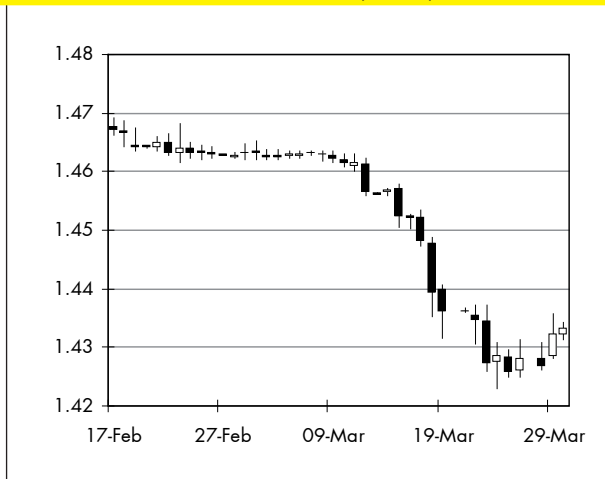
## Trading Ideas

### Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comments
SELL EUR/USD	24/03/2010	1.336	29/03/2010	1.35	-1.04%	Stopped Out
SELL EUR/CHF	09/03/2010	1.463	19/03/2010	1.44	1.57%	Target Reached
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/CHF: 1.434 → 1.41 (June)**

Source: Thomson Reuters

Until the middle of last week, the franc kept strengthening, marking an all-time high of EUR/CHF 1.4229 on Wednesday. The appreciation occurred even though central bank governor Hildebrand once again stressed in his first speech as Chairman of the SNB that the National Bank has a "comprehensive range of tools" to prevent "excessive" appreciation of the franc. Obviously, some market players wanted

to immediately test what the SNB meant by excessive appreciation, as the franc reacted with further gains to the Chairman's statements. It was only the agreement of the Eurozone members on a possible support package for Greece's ailing public finances that granted Europe's single currency a brief respite, as the rate finally settled in around EUR/CHF 1.43. It remains to be seen whether the franc's strengthening has now come to an end. We do not think that it has. At any rate, the fundamentals right now are not pointing to any quick end to CHF appreciation. Despite the country's massive banking sector, economic recovery in the Confederation is progressing more quickly than in the euro area. Consequently, the SNB may be forced to raise its interest rates from their currently extremely low level before the ECB increases its rates. Another factor behind the sustained appreciation pressure on CHF is the winding up of FX financing and carry trades from the years 2006 and 2007. Accordingly, we expect that the franc will make another attempt at EUR/CHF 1.40 in the weeks ahead. But the SNB will probably also view this as a key testing point.

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**EUR/JPY: 125.3 → 124 (June)  
USD/JPY: 92.7 → 92 (June)**

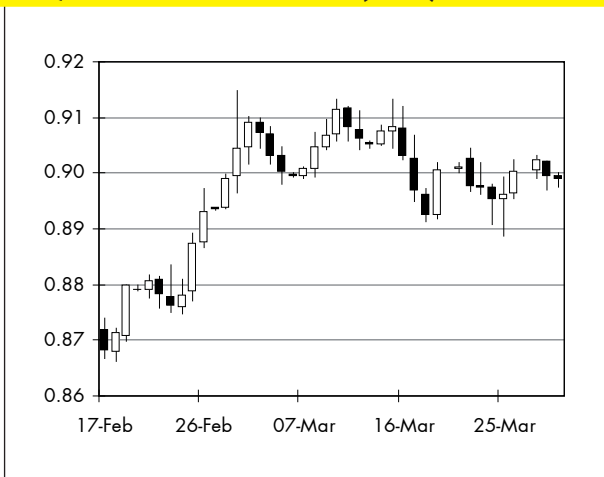
Source: Thomson Reuters

Versus the US dollar, the development of the yen is still looking like the appreciation trend seen since mid-2007 is bottoming out. Last week, the Japanese currency dropped by 2.5 yen, falling to USD/JPY 92.5. There were no specific triggers for this. The yen's losses against the euro were even more severe, as the rate slid from EUR/JPY 121 to EUR/JPY 125. In the weeks to come, the positive and negative fac-

tors for the yen will be balanced, and consequently we expect the yen to move sideways near its current levels until the middle of the year, both versus USD and EUR. Factors favouring the yen include the unbroken, vigorous recovery in the Japanese economy, which is strongly driven by exports. Another supportive factor is the tax incentive to repatriate corporate earnings. Negative factors include speculation about an increase in the interest rate differential to USD and EUR towards the end of this year, and the stubborn problems with deflation in the Land of the Rising Sun. Sooner or later, this last aspect could prompt the Japanese central bank to take action against the strong yen or at least to temporarily hinder appreciation, as a strong currency exacerbates the problems with deflation due to falling import prices. Looking ahead to the third quarter, we expect a period of weaker economic performance combined with rising risk aversion. This should temporarily strengthen the yen. From the fourth quarter, we then expect significantly higher money market rates in the euro area and the USA, as excess liquidity is siphoned off. At that point, the Japanese currency should move towards EUR/JPY 130 and USD/JPY 96 again.

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**EUR/GBP: 0.898 → 0.91 (June)**



Source: Thomson Reuters

Last week, the pound moved sideways on the whole, trading at EUR/GBP 0.898 today. The budget for 2010/11 was published at the middle of last week, featuring little real news aside from the anticipated mild downward revision in the deficit forecast. Finance Minister Alistair Darling resisted the temptation to boost spending on the key voting constituencies shortly before the elections. GBP hardly showed any reaction to the publication, and it appears as if the market is content to sit back and wait until the elec-

tions at least for specific plans on how the budget is to be consolidated. By then at the latest, however, the new government will have to table a convincing consolidation programme to avoid putting investors' confidence on the line and thus generating depreciation pressure on GBP.

Consumer price data was released last Tuesday, showing an increase of 3.0% yoy, which was slightly lower than consensus. During the year, the rate of inflation should trend lower, falling below the targeted rate of 2% in the third quarter again, as the base effects fade and capacity utilisation remains low. Consequently, inflation should be largely in line with the BOE'S modest forecasts which project price increases to fall shy of 2% from Q3 2010 until the forecast horizon of 2013. Hence, with regard to price stability, there is no need for the BoE to take any action this year. As a result, the BoE should stick with its expansive monetary policy in the months to come, against a backdrop of mixed economic data. In our view, the first hikes in interest rates will not come before in Q1 2011. With this in mind, fundamental conditions are currently not suggesting any sustained recovery for the pound. We expect to see a sideways trend for the UK currency during the year, around a level of EUR/GBP 0.90.

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**EUR/PLN: 3.874 → 3.80 (June)**

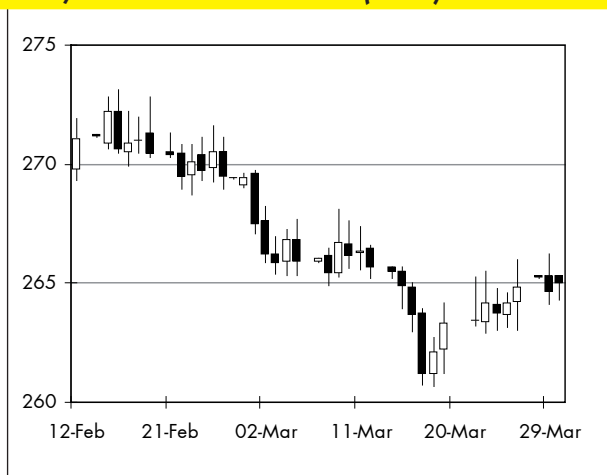


Source: Thomson Reuters

On Monday, Poland's Deputy Finance Minister announced that the Ministry of Finance wished to issue USD-denominated bonds with a volume of USD 1 bn. This issue is to take place in H1 2010 (probably in April already). In total, Poland has already covered 39% of its financing needs for 2010 and with its re-

cent FX-denominated bond issues (EUR 4.25 bn and CHF 475 mn) it has taken the strain off the local bond market, which remains attractive. We believe that the latest pause for the PLN exchange rate is a positive development, as excessively rapid appreciation could hamper the economic recovery. Verbal intervention expressing the concerns of the central bank and the government about the speed of zloty strengthening will continue to occur if EUR/PLN starts appreciating at the same pace again. A rate decision is scheduled for Wednesday, but no news is expected. We do not believe that key rates will be raised yet and project that Poland's monetary policy will remain "neutral". This view is supported by the lacklustre results for retail sales in February, which were published last week and featured an increase of just 0.1% in year-on-year terms and a month-on-month decline of 4%. The PMI is slated for release on Thursday, and by contrast this indicator is expected to reflect more expansion in the manufacturing sector. We forecast the index at 52.8 points in March, from 52.4 in February.

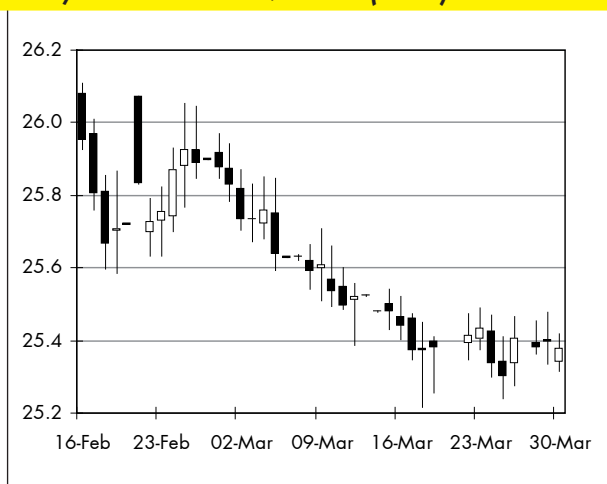
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**EUR/HUF: 265.2 → 275 (June)**

Source: Thomson Reuters

As expected the monetary council decided to lower the interest rate further by 25bp to 5.5%. This adds up to 400bp of interest rate cuts in the current rate cutting cycle. With the positive external sentiment and falling risk aversion we think more cuts could be in the pipeline. However, we expect a shift of rate cuts from monthly to quarterly basis, meaning cuts in Q2 and Q3 by 25bp each. Then we see an end of the interest rate cutting cycle at 5.0% in Q 3. The current positive sentiment should continue to support the forint, but with the elections in April and the softening of the budget deficit goal a depreciation towards above EUR/HUF 270 seems likely in our view.

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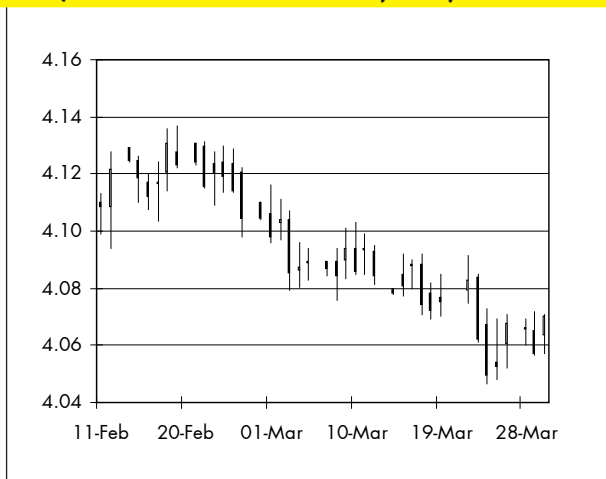
**EUR/CZK: 25.38 → 25.4 (June)**

Source: Thomson Reuters

The Czech koruna (CZK) weakened slightly to levels around 25.4 against the euro after the Czech National Bank's (CNB) monetary policy meeting last Thursday. While the bank board left the key 2-week repo rate unchanged at 1.0% as expected, 2 of the board members surprised the market by voting for a rate cut. 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. We still see the main risk to our forecast scenario in the parliamentary elections in May, as a stalemate in parliament similar to the 2006 elections would postpone the urgently necessary medium-term fiscal consolidation.

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## EUR/RON: 4.069 → 4.10 (June)



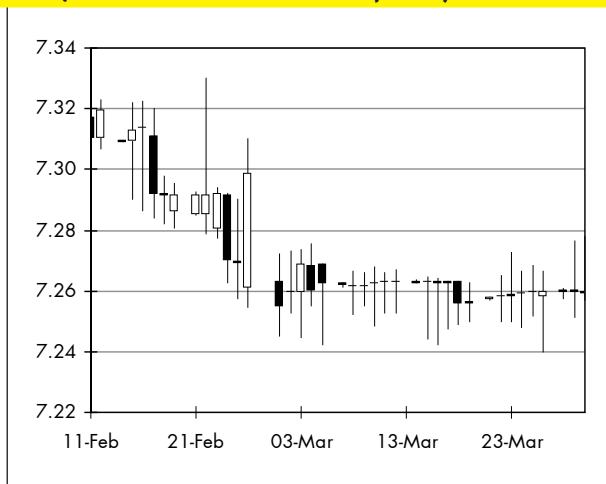
Source: Thomson Reuters

Yesterday, the central bank cut the key rate by 50bp to 6.5%. The decision was in line with market expect-

tations and had no impact on market interest rates, bond yields and the leu exchange rate. In our opinion, the NBR's expectations regarding declines in inflation, continuing weak economic activity and leu appreciation were the main factors behind the decision. We think the move was also aimed at accelerating the decline in deposit and lending interest rates in the economy, which the NBR considers as being "relatively high" compared to the monetary policy rate. We expect the NBR to once again cut the key interest rate to 6.25% on 4 May and then to pause before resuming the downtrend in the key rate in Q4 with another cut of 25bp. Market interest rates and bond yields, however, are already at low levels. In March, the effective interest rate in the money market stood at 5.6%, while the 1m ROBOR is currently trading at 5%. Hence, we see limited room for these rates to decrease by the end of this year.

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## EUR/HRK: 7.260 → 7.32 (June)



Source: Thomson Reuters

For most of last week, the domestic FX market was once again marked by low trading volumes and balanced supply and demand from both the corporate and the banking sector, with the rate hovering at

around EUR/HRK 7.26. Trading intensified slightly towards the end of the week, primarily due to stronger demand for euros from the corporate sector, causing the rate to rise to 7.263. As the end of the quarter is approaching, this is most probably the result of maturing of foreign liabilities. On the money market, liquidity has been at a high level for nearly six months now. ZIBOR of shortest maturities is still below 1%, while some upward movements were spotted on longer maturities (six months and longer). At the Treasury Bills' auction on Tuesday, yields on 1-year bills recorded an increase, reflecting the higher need of the government to refinance its liabilities.

In the last week of March, we expect EUR/HRK to stay around 7.26, with the absence of seasonal movements typical of holiday periods. Lower consumption combined with the already high level of liquidity in the system will foster stable trading and consequently a stable FX rate. At the monthly level though, we expect gradual intensification of depreciation pressures, with the FX rate edging towards 7.30.

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**EUR/RUB: 39.73 → 39.3 (June)**  
**USD/RUB: 29.37 → 29.1 (June)**



Source: Thomson Reuters

The news about the deadly blasts on the Moscow metro system put some pressure on the rouble exchange in early morning hours. The rouble moved 7 kopeks weaker to 34.19 against the dual currency basket, with RUB losing slightly, both against USD and EUR. Later on Monday, the rouble firmed a bit to 34.15

against the basket. We attribute the initial market reaction to the shock effect. However, in our opinion, the rouble market was overheated in recent days and some market players might decide to use the moment for profit-taking and to cut their overly large rouble positions, which could put the rouble on a slightly downward track this week. The end of the month tax payment period last week will also withdraw some support for the rouble, so market sentiment might be solely dictated by oil prices in global markets and investor sentiment in equity markets.

Last week, the market's attempts to break the 34.00 mark versus the basket did not succeed, and the rouble slid later in mild profit-taking. We assume that the chances for the market bulls to rally the rouble below 34.00 are not strong, and thus we would recommend tactical (technical) sell at 34.00 or below versus the basket. Meanwhile, the likely correction in the rouble market will not change the fundamental reasons for rouble appreciation. We recommend long-term investors buy the rouble with a 12-month horizon to a target of 32.50 against the dual currency basket and use potential rouble market weakness for re-entry.

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**EUR/UAH: 10.700 → 10.00 (June)**  
**USD/UAH: 7.919 → 7.40 (June)**



Source: Thomson Reuters

UAH has continued its slow but steady appreciation versus USD, recently hitting levels of USD/UAH 7.90-7.92. UAH weakened mildly against EUR, as Europe's single currency appreciated versus the

greenback. The central bank continued its interventions on the FX market to slow down the appreciation, recently offering UAH at USD/UAH 7.93.

This week, an IMF delegation will be negotiating with the government on resuming the aid programme which was suspended in November. According to Ukrainian sources, one of the conditions of the IMF is approval of a government budget for 2010 with a maximum deficit of 6% of GDP. If such a budget is passed in April, we may see disbursement of the fourth IMF tranche in May already. Roughly USD 6 bn of the sum total of USD 16.5 bn is still available. The new PM Asarow expressed his wishes for further IMF funds for modernising the Ukrainian economy and infrastructure. We are sceptical, however, as this is not one of the IMF core areas of activity.

Political risks include the threat by President Yanukovich to call snap elections if the constitutional court declares the formation of the coalition and government to be illegal. The court may decide the verdict as early as mid April.

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