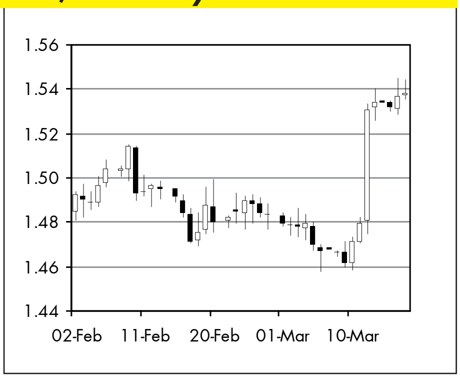
Focus FX weekly

Issue 11/2009

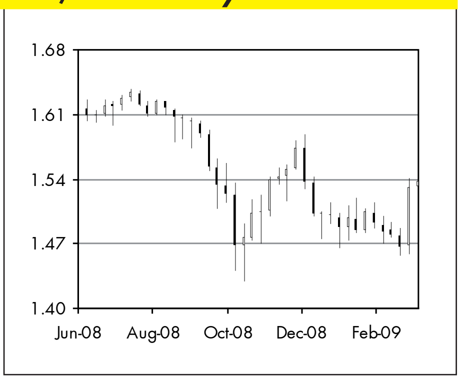
17 March 2009

EUR/CHF daily



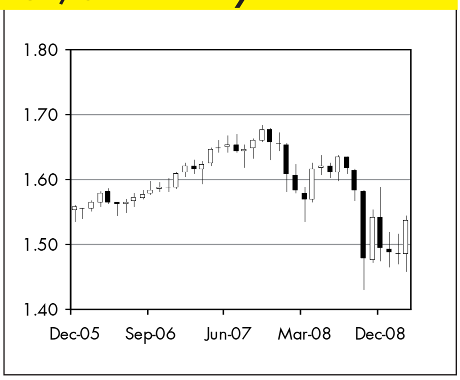
Source: Reuters

EUR/CHF weekly



Source: Reuters

EUR/CHF monthly



Source: Reuters

EUR/CHF*: 1.538 → 1.45 (June)

The meeting of the Swiss National Bank (SNB) last week featured a monetary blowoff: although the rate cut of 25 basis points was expected in the run-up to the meeting, the announcement of additional measures of quantitative easing came as a surprise effect. According to the SNB, additional repo deals will be concluded, CHF-denominated private bonds will be bought and Swiss francs will be injected into the FX-market in order to depreciate the foreign exchange rate.

In reaction to the announcement, the Swiss franc depreciated from 1.48 to 1.53 and moves sideways since. Spokespersons of the SNB affirm their intention to continue to oppose a strong Franc and their readiness to step in against a potential appreciation of the currency.

Since last autumn, the SNB aggressively lowered their interest rate by 2.5 percentage points. Investors undid the efforts of the rate cuts by regarding the franc as a "save haven" in times of crisis. This did not only increase the deflationary tendencies, but also the export sector – which is one of the most important branches of Swiss economic activity – was put under pressure due to the higher export prices.

The resolute proceeding of the SNB underlines the readiness to unconventional and progressive measures. This could herald the end of the francs bullishness, since the SNB disposes of virtually limitless funds for physical FX-interventions. Indeed, there is some evidence in favour of a weaker Franc in the long run. As soon as the worldwide economic situation improves and the stock markets

*** under revision**

Exchange rate forecasts

	actual	Jun-09	Sep-09	Dec-09
EUR/USD	1.298	1.35	1.45	1.50
EUR/CHF*	1.538	1.45	1.50	1.52
EUR/JPY	127.9	120	130	140
USD/JPY	98.5	89	90	93
EUR/PLN	4.481	4.70	4.80	4.50
EUR/HUF	298.5	300	280	270
EUR/CZK	26.56	28.2	27.0	26.0
EUR/RON	4.291	4.25	4.20	4.10
EUR/HRK	7.447	7.45	7.55	7.50
EUR/RUB*	44.86	48.98	49.44	48.98
USD/RUB*	34.55	36.29	34.10	32.65
EUR/UAH	10.508	12.83	11.60	12.75
USD/UAH	7.950	9.50	8.00	8.50
EUR/TRY	2.206	2.50	2.39	2.40
USD/TRY	1.703	1.85	1.65	1.60

* under revision
Source: Reuters. Raiffeisen RESEARCH

Raiffeisen RESEARCH
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strengthen, the franc's function as a funding currency should result in a weakening of the currency. Our forecasts are currently under revision, but we regard the return of a strong franc as an unlikely scenario in the near future.

Analyst: Ingo Jungwirth
ingo.jungwirth@raiffeisenresearch.at

Trading Ideas

FX

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comment
Buy EUR/USD	13/03/2009	1.29	1.297	1.35	1.265		Stock market rebound

Source: Reuters, Bloomberg

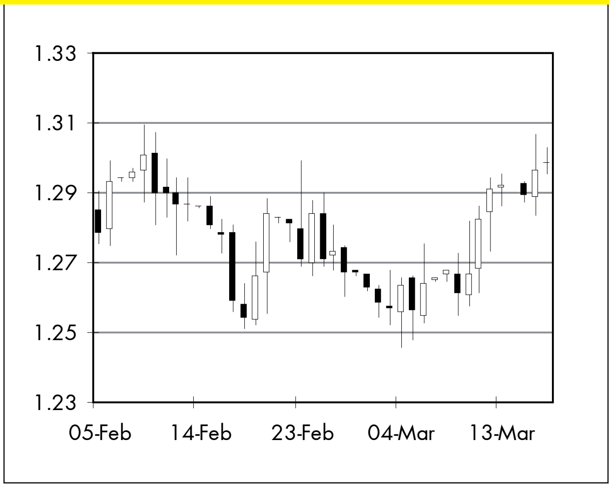
Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total Return	Comments
Buy EUR/USD	23/02/2009	1.293	02/03/2009	1.26	-2.60%	Stopped out
Buy EUR/GBP	03/02/2009	0.903	05/02/2009	0.88	-2.50%	Stopped out

Source: 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: 1,298 → 1,35 (June)



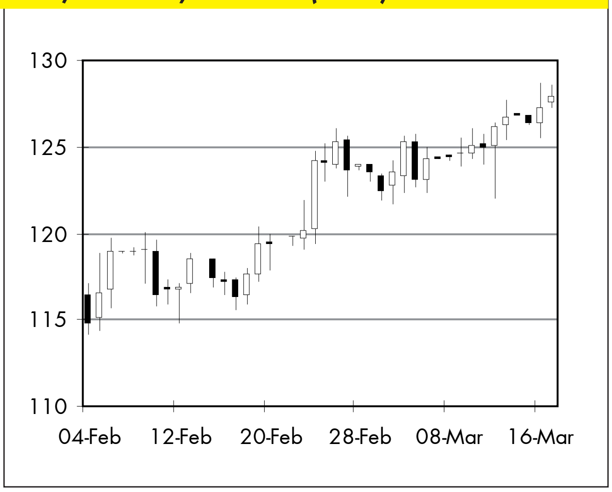
Source: Reuters

In the last few days, the improvement of international investor sentiment achieved something what the weak economic data did not accomplish for weeks, namely to weaken the USD. As we stated last week, our target for June of EUR/USD 1.35 could be reached quite quickly as soon as the global risk appetite improves (stock market rebound). This is what is happening at the moment, where investors are drawn back not only into the stock market but also out of the "save haven" USD (this may be a contradiction to many, but seemingly not for all) into other currencies. Virtually all emerging market currencies gain vis-á-vis the USD, the CEE currencies gain even vis-á-vis the EUR, and the EUR eventually gains vis-á-vis the USD.

Since we expect a continuation of the bear market rallye after the extremely pessimistic capital market sentiment in the last weeks, we belief that we have not reached the end of the rope in EUR/USD (we therefore opened a "Trading Idea" Buy EUR/USD in our morning note last Friday). Our next target remains 1.35; the sideways-movement even leaves some room up to 1.40. As we don't expect any important trends in the economic data released this week, the main risk would be a further collapse on the stock markets: economic data on both sides of the Atlantic will be weak, and we don't expect any big news from the Fed-meeting on Wednesday evening (before taking further steps, the Fed will have to make fuller use of their programs already announced).

Analyst: Valentin Hofstätter
valentin.hofstaetter@raiffeisenresearch.at

EUR/JPY: 127,9 → 120 (June)
USD/JPY: 98,4 → 89 (June)



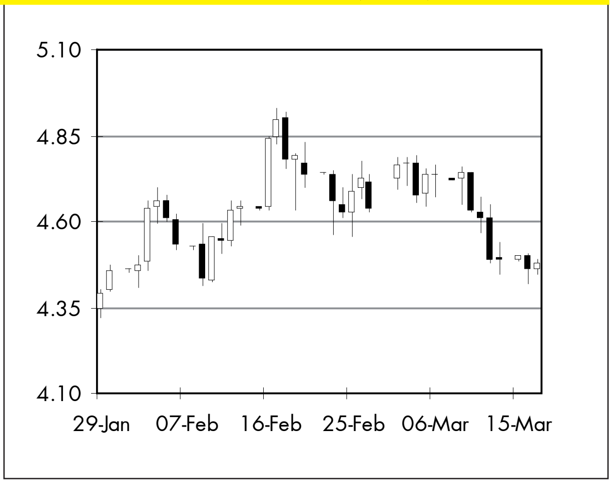
Source: Reuters

While yesterday, on Monday, USD/JPY essentially returned to its level of the beginning of last week (closing price 98.17), EUR/JPY reached with 128.3 intraday its weakest quote since January 5. On the one hand, this was attributed to speculation that the BoJ could take similarly dramatic measures as the SNB last week. On the other hand this was due to renewed stock rallies in the USA and Europe during the day. Thus, risk appetite of investors currently seems to have come back which weakens the "save haven" currencies USD and JPY. Therefore, should the stock market rebound continue, there is, in our view, even more room for further JPY depreciation.

The focus of this week's data is on the meeting of the BoJ with the press conference scheduled for Wednesday. The market is eager to see whether the monthly amount for buying long term government bonds will be increased in order to keep interest levels low and support the economy. Furthermore the purchase of subordinated bank bonds to improve banks capitalisation is discussed. The Reuters Tankan index, which is deemed to be a good indicator for the BoJ Tankan report (due on April 1), will be released on Thursday. On Friday, markets in Japan are closed because of public holidays.

Analyst: Philipp Bonato
philipp.bonato@raiffeisenresearch.at

EUR/PLN: 4,481 → 4,70 (June)

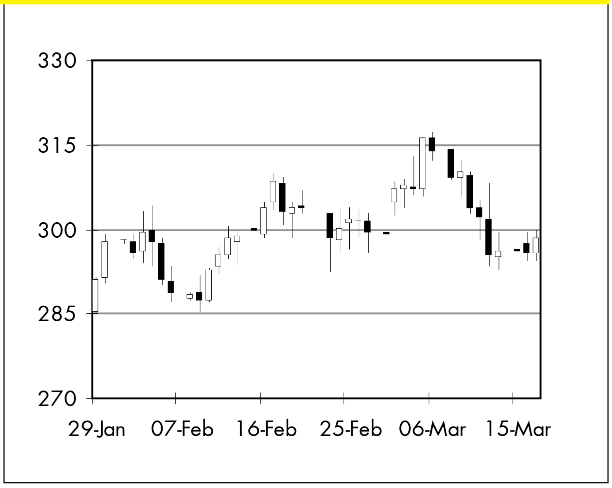


Source: Reuters

The zloty gained considerably last week and this Monday, prior to today's employment data. During the session on Monday, EUR/PLN dropped below 4.42, hitting the lowest level since early February. This development showed how dependent the CEE currencies are on investors' global risk appetite. On the other hand, the interventions of the Swiss National Bank (SNB) with the aim at weakening the Swiss franc have also contributed to the improvement of the sentiment towards zloty and other CEE currencies. We think that in the short run, there is a good chance for the zloty to hold the current levels. Positive factors are, however, coming only from verbal or real interventions and could be short-lived. Due to the still worsening growth prospects (we have revised our 2009 GDP growth forecasts for Poland to -0.8% yoy) and other potentially weak fundamentals (possibility of failure to enter ERM II soon and a likely downward revision of the budget deficit), we expect EUR/PLN to be above the level of 4.55 over the mid-term. We also think that EUR/PLN will remain volatile and especially susceptible to sudden growing risk aversion as was the case in the past months.

Analyst: Marcin Kopaczynski
marcin.kopaczynski@raiffeisenresearch.at

EUR/HUF: 298,5→ 300 (June)

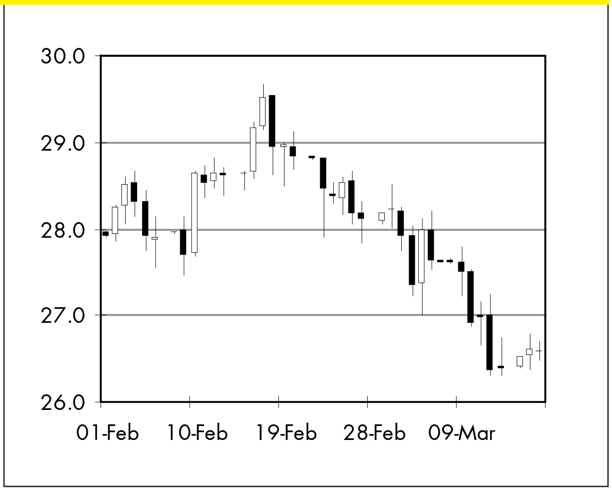


Source: Reuters

Comments by Federal Reserve Chairman Bernanke and the overall improvement on the stock markets showed their impact also on the forint. After hitting levels well above EUR/HUF 300 the forint managed to break through the 300 level again and ever since has fluctuated around EUR/HUF 297. Speculation is that the Hungarian Central Bank has intervened in the market that is trading in very thin volume. While we do not see significant room for substantial short term appreciation we also do not expect any short term moves well above EUR/HUF 310. We think a sideways movement around 300 is the most likely scenario in the coming weeks. Nevertheless, short term volatility has to be expected, depending on the news flow coming from established markets.

Analyst: Wolfgang Ernst
wolfgang.ernst@raiffeisenresearch.at

EUR/CZK: 26,56 → 28,2 (June)

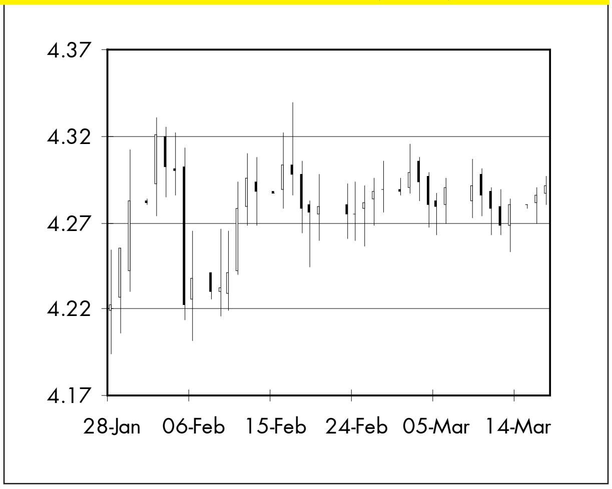


Source: Reuters

The Czech crown continued to strengthen in the course of the past week and even moved well below the level of EUR/CZK 27.0 again. The trigger was the intervention of the Swiss central bank against the strength of the Swiss franc. This boosted the currencies of Poland and Hungary, where loans denominated in Swiss franc were popular in the past years, but also the crown - even though foreign currency loans play only a marginal role in the Czech Republic. It is rather questionable if the sudden improvement in the sentiment for the region can be sustained, given the existing economic uncertainties. Thus, the volatility on the currency markets will likely remain high. Economic indicators like the drop in exports (minus 24% yoy in January) or the rise of unemployment (to 7.4% in February) speak against the appreciation of the currency. Thus, we would rather expect a correction of the crown back above 28.0 over the coming weeks and months.

Analyst: Walter Demel
walter.demel@raiffeisenresearch.at

EUR/RON: 4,291 → 4,25 (June)

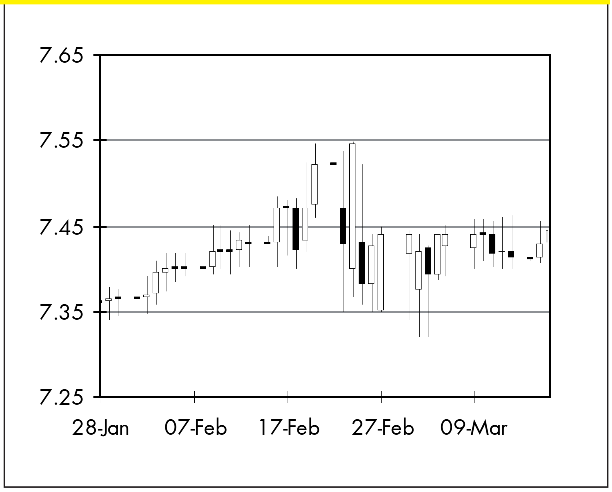


Source: Reuters

As we expected, the exchange rate remained almost unchanged last week. In fact, EUR/RON has been trading in a narrow range since early February. In the last few days, the leu has not benefited from the strengthening of the other regional currencies. But this is not surprising, given that the leu also did not depreciate the moment these currencies suffered large-scale losses. Looking forward, we continue to see EUR/RON trading in a narrow range over the short term. Among the good news in the previous week, there was foreign trade data which revealed a rapid adjustment in the current account deficit (even though this also means contraction in domestic demand) and FDI inflows in January, which stood at the very high level of EUR 912 mn. The dynamics of the two indicators point to a lower external financing gap in the period ahead. We recall that an IMF mission is in Bucharest (since 11 March) to negotiate a multilateral financing package for Romania with the authorities. Concluding a deal with the IMF and the European Commission should be positive for the leu.

Analyst: Martin Stelzeneder
martin.stelzeneder@raiffeisenresearch.at

EUR/HRK: 7,447 → 7,45 (June)



Source: Reuters

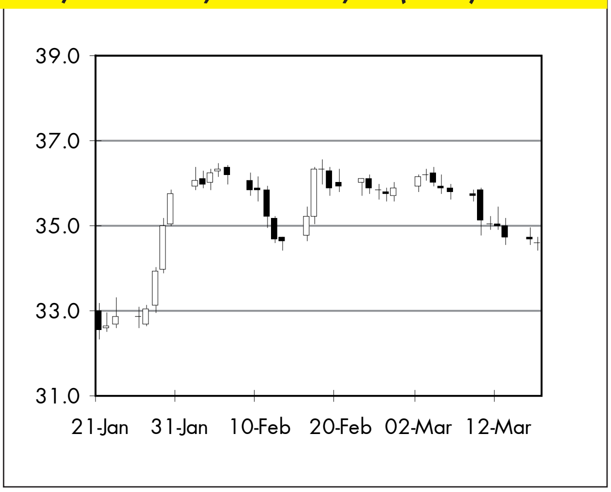
Rating agency Standard & Poor's (S&P) lowered its long-term local currency sovereign credit ratings on Croatia from „BBB+" to „BBB". According to S&P the downgrade reflects the diminishing economic policy options in the face of intensifying external pressures and the exchange rate regime increases the burden of adjustment on the real economy while fiscal flexibility remains encumbered by a large public sector. Furthermore, the rating could be lowered in the absence of a sufficient policy response to narrowing opportunities for government and private sector funding or if there is further deterioration in the external environment.

EUR/HRK broadly remained stable. Last week, the MM was marked by the end of the previous cycle and the beginning of the new mandatory reserves maintenance cycle. Despite the reduction in liquidity (through the reverse repo auction and T-bill auction), tensions on the market decreased compared to the week before.

This week, we do not expect significant changes in EUR/HRK. Specifically, the CNB is still oriented towards maintaining the rate at the current levels, primarily by controlling kuna liquidity. Also, an impact on FX rate movements could come from news on the government borrowing on foreign capital markets. Over a somewhat longer period, we expect stronger depreciation pressures on the kuna. However, the slightly higher supply of foreign currency should mitigate these pressures.

Analyst: Martin Stelzeneder
martin.stelzeneder@raiffeisenresearch.at

EUR/RUB*: 44,86 → 48,98 (June)
USD/RUB*: 34,55 → 36,29 (June)



** in Revision*
Source: Reuters

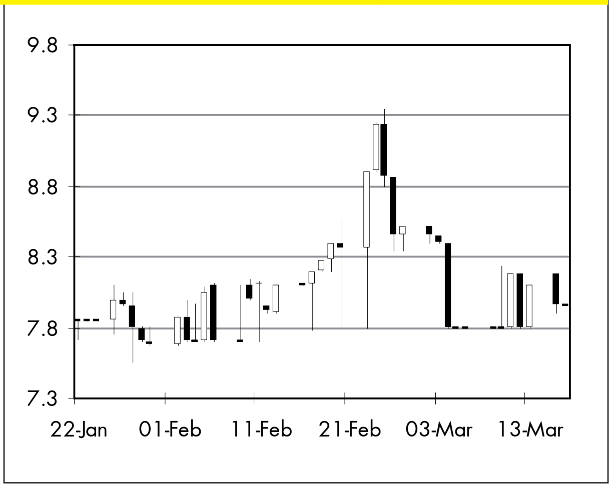
The rouble finished the last week a touch stronger, reaching 39.32 against the dual currency basket, and traded relatively stable on Monday around 39.40.

The rouble may remain relatively stable throughout the week supported by the following factors: a) the monthly tax payment period is beginning, so local banks and companies are likely to hold larger rouble liquidity at the expense of foreign currency; b) a relative stabilisation and apparent short-covering activity in the global capital markets suggest that selling pressure on EM assets should be easing as evidenced by stock markets; and c) finally, domestic market tends to believe the Central Bank, which declared the end of the rouble devaluation and pledged to keep the rouble under a 41 minimum limit which the Bank announced itself at the beginning of February.

As a result, we see no immediate selling pressure on the rouble and assume that rouble stability can last through the entire week. Furthermore, the rouble bulls in Moscow might be looking to test the upside by attempting to break a psychological level of 39 to the basket. We foresee the rouble trading firmly under 40 and perhaps remaining in a 39.10-39.50 range this week. In the domestic market, it appears that a great deal of negative news has already been discounted, and the market failed to react to the weak industrial output data released on Monday. However, the risk of a positive reversal in the global markets and OPEC's decision to keep oil production stable can be dampening factors for the rouble.

Analyst: Gintaras Shlizhyus
gintaras.shlizhyus@raiffeisenresearch.at

EUR/UAH: 10,508 → 12,83 (June)
USD/UAH: 7,950 → 9,50 (June)



Source: Reuters

Last week, the central bank continued to keep the official exchange rate at USD/UAH 7.7. According to Reuters, USD/UAH quoted stable last week with closing rates between 7.80 and 8.18.
On Friday, there was another currency auction to the benefit of private individuals and small and medium-sized enterprises for servicing foreign currency debt. In this auction USD 68.6 mn were sold at a rate of USD/UAH 7.80 and one million euro at a rate of EUR/UAH 9.97. At yesterday's interventions on Monday the bank intervened at USD/UAH 7.9 and sold approximately USD 46 mn according to a central bank official. Positive is the decline in pressure from the FX cash market, which recorded significant FX outflows in recent months.
The figures for industrial production in February remained depressed at -31.6% yoy. They improved slightly, though, in comparison to January, when -34.1% had been reported. We lowered our growth forecast for GDP in 2009 from -4% yoy to -8% yoy to account for deteriorating growth prospects of major trading partners (Russia / CIS and the euro zone).
Despite the lack of progress regarding the disbursement of the second tranche of the IMF loan, we see the rate unchanged at around USD/UAH 8 in the short run: The central bank supports the market with USD sales and the larger banks serve their customers – due to pressure from the central bank – with USD just under USD/UAH 8.

Analyst: Andreas Schwabe
andreas.schwabe@raiffeisenresearch.at

RZB Group

Raiffeisen Zentralbank Österreich AG (RZB Austria)

Raiffeisen Zentralbank Österreich AG, Vienna
Global Markets
Head of Sales: Stefan Weiser Tel: +43 1 71707 3974
Financials Sales: Hans Rettl Tel: +43 1 71707 3300
Corporate Sales: Wolfgang Kalinka Tel: +43 1 71707 3959

Belgrade: Raiffeisenbank a.d. Serbia
Treasury: Branko Novakovic Tel: +381 11 2207 131

Bratislava: Tatra banka, a.s.
Treasury: Miroslav Paracka Tel: +421 2 5919 1386
Sales: Milan Cavojec Tel: +421 2 5919 1212

Bucharest: Raiffeisen Bank S.A.
Treasury: Cristian Sporis Tel: +40 21 306 1210
Sales: Razvan Szilagyi Tel: +40 21 306 1205

Budapest: Raiffeisen Bank Zrt.
Treasury:Gabor Liener Tel: +36 1 484 4304
Sales: Zsolt Matolcsi Tel: +36 1 484 4840

Kiev: Raiffeisen Bank Aval
Treasury: Vladimir Kravchenko Tel: +380 44 490 8808
Sales: Roland Vizner Tel: +380 44 490 8962

Maribor: Raiffeisen Krekova banka d.d. Slovenia
Treasury: Thomas Schindl Tel: +386 1 475 7841

Minsk: Priorbank JSC Belarus
Treasury: Andrey Filazafivich Tel: +375 17 289 9312

Moscow: ZAO Raiffeisenbank Austria
Treasury: Sergei Monin Tel: +7 495 721 9922
Sales: Arsen Manoukian Tel: +7 495 721 9978

RZB London Branch
Treasury: Paul Underwood Tel: +44 20 7933 8106
Sales: Stefan Gabriele Tel: +44 20 7933 8104

Raiffeisen Centrobank AG, Vienna
Equity Capital Markets
Head: Wilhelm Celeda Tel: +43 1 515 20 402
Sales: Klaus della Torre Tel: +43 1 515 20 472

Prague: Raiffeisenbank a.s.
Treasury: Vit Brdlik Tel: +420 221 141 145
Sales: Michal Michalov Tel: +420 221 141 830

Pristina: Raiffeisen Bank Kosovo JSC
Treasury: Berat Isa Tel: +381 38 226400 129

Sarajevo: Raiffeisen BANK d.d. Bosna i Hercegovina
Treasury: Sanja Korene Tel: +387 33 208 372

Sofia: Raiffeisenbank (Bulgaria) EAD
Treasury: Evelina Miltenova Tel: +359 2 91985 441

Tirana: Raiffeisen Bank Sh.a. Albania
Treasury: Adriana Jorgji Tel: +355 4 222 669 2545

Warsaw: Raiffeisen Bank Polska S.A.
Treasury: Miroslaw Winiarczyk Tel: +48 22 585 26 00
Sales: Adam Pers Tel: +48 22 585 26 26

Zagreb: Raiffeisenbank Austria d.d.
Treasury: Ivan Zizic Tel: +385 1 46 95 076

Editor:
Raiffeisen RESEARCH GmbH
A-1030 Vienna, Am Stadtpark 9
Tel.: +43 1 717 07-1521

Head of Raiffeisen RESEARCH:
Peter Brezinschek (1517)

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