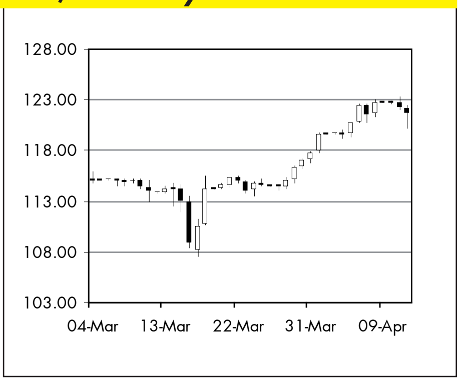
Focus FX weekly

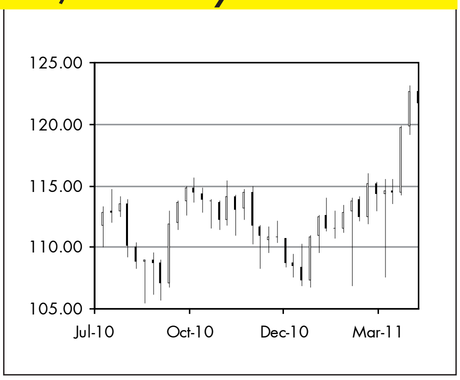
Issue 15/2011 12 April 2011

EUR/JPY daily



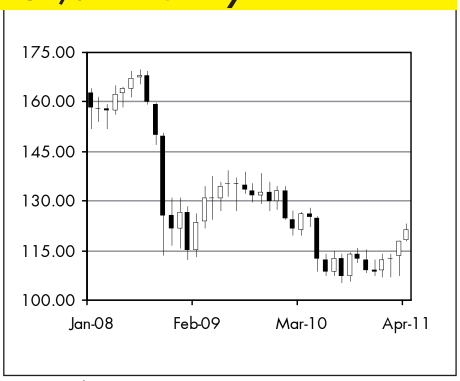
Source: Thomson Reuters

EUR/JPY weekly



Source: Thomson Reuters

EUR/JPY monthly



Source: Thomson Reuters

EUR/JPY: 121.6 → 120 (June)
USD/JPY: 84.3 → 82 (June)

Japan's nuclear safety agency now rates the reactor catastrophe in Fukushima at the highest level of 7 on the INES Scale (International Nuclear and Radiological Event Scale). Accordingly, along with Chernobyl, Fukushima is now the most serious officially recognised nuclear accident. So far, some 80,000 inhabitants have been evacuated from an exclusion zone of 20 km around the damaged plant. In the meantime, the exclusion zone has been expanded, however, to distances of up to 50 km. Some 25 years after the reactor accident, for example the exclusion zone around Chernobyl still measures 60 km in diameter. One thing is clear: parts of Japan will not be useable for decades due to radioactive contamination.

The consequences of the earthquake disaster will plunge the country's economy into a recession in H1 2011. The first economic indicators since the quake on March 11 confirm this assessment. For example, the Japanese purchasing managers' index for the manufacturing sector in March plunged from 52.9 to 46.4 points and the Economy Watchers Survey, which is strongly driven by sentiment, slid to its lowest level (outlook sub-index) since the economic crisis of 2008/09. We forecast that GDP will contract by 2% in H1 2011. In the second half of the year, GDP should then bounce back strongly as reconstruction gets underway and this will offset the slump in the first half of the year. Consequently, like so many times before, Japan should be able to handle the economic consequences of a devastating catastrophe.

Exchange rate forecasts

	actual	Jun-11	Sep-11	Dec-11
EUR/USD	1.442	1.47	1.45	1.35
EUR/CHF	1.304	1.30	1.30	1.32
EUR/JPY	121.6	120	120	120
USD/JPY	84.3	82	83	89
EUR/GBP	0.885	0.89	0.86	0.82
GBP/USD	1.629	1.65	1.69	1.65
EUR/PLN	3.976	3.90	3.85	3.75
EUR/HUF	265.8	275	270	270
EUR/CZK	24.40	24.4	24.2	24.0
EUR/RON	4.114	4.15	4.15	4.10
EUR/HRK	7.363	7.30	7.38	7.42
EUR/RUB	40.57	38.8	39.2	37.9
USD/RUB	28.13	26.4	27.0	28.1
EUR/UAH	11.460	11.50	11.30	10.50
USD/UAH	7.968	7.80	7.80	7.80
EUR/TRY	2.191	2.35	2.25	2.09
USD/TRY	1.519	1.60	1.55	1.55

Source: Thomson Reuters. Raiffeisen RESEARCH

In mid-March, the Bank of Japan (BoJ) agreed with the other G7 central banks on coordinated actions to artificially weaken the Japanese currency. The central bank provided additional JPY liquidity on the FX market in order to weaken the yen versus other currencies and to make Japanese exports cheaper abroad. The FX purchases are causing Japan's FX reserves to rise: as a result, holdings of FX reserves rose from USD 1,090 bn to USD 1,120 bn from end-February to end-March 2011.
Since the beginning of this intervention, the yen has weakened by about 8% versus the US dollar and even by around 12% vis-à-vis the euro. The catastrophe in Japan will also be a topic of discussion at the G7 and G20 summits on 14 and 15 April. Japanese Finance Minister Noda already announced that he would lobby strongly for continuation of the interventions. We assume that a political decision will be made to prevent appreciation of the Japanese yen during the critical phase when reconstruction gets underway. Accordingly, we project JPY rates of USD/JPY 89 and EUR/JPY 120 by year-end.

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Trading Ideas

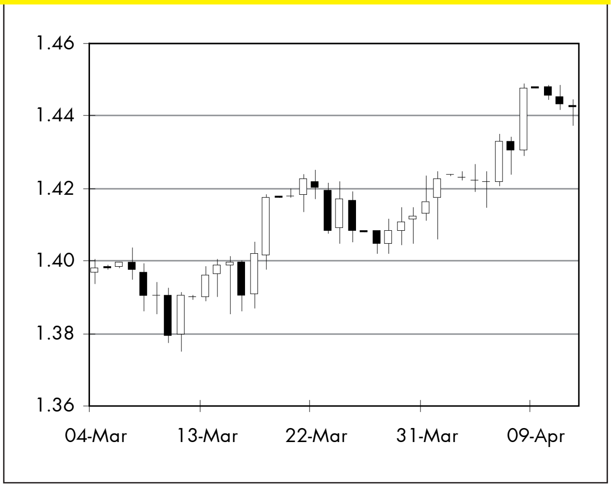
Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comments
Buy EUR/CHF	01/03/2011	1.286	15/03/2011	1.275	-0.86%	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/USD: 1.442 → 1.47 (June)



Source: Thomson Reuters

The appreciation trend of the euro versus the US dollar which has been in place since the beginning of the year continued last week. The single currency was supported by three factors: first, there is mounting evidence of weak or even very weak GDP growth in the USA in Q1. The latest data are increasingly indicating that real GDP growth for Jan-Mar was tangibly lower compared to the end of 2010, despite the extremely robust ISM survey results. In the Eurozone, by contrast, economic activity remains very strong. The second factor deserving mention is the ECB's move to increase its key rates. As anticipated, the Eurozone's central bankers started to normalise interest rate levels with the hike on Thursday. Furthermore, the prospect of more rate increases by year-end was also raised. By contrast, the Fed has not yet hinted that it plans on altering its monetary policy in the immediate future. Finally, the US dollar also came under some pressure due to the threat of a collapse in the negotiations on the US budget between the Democrats and Republicans. A compromise was finally reached at the last minute on Sunday night. These three factors will continue to weigh on the US dollar in the weeks to come as well. Many forecasters are currently still downgrading their economic projections for the USA, the Fed will stick with its zero-rate policy for some time to come, and the next round of US budget problems will come in May, when the debt ceiling of USD 14.3 trillion is reached. If this ceiling is not increased, there is another threat of the government shutting down. Consequently, we see good support for the euro until mid-year and continue to expect appreciation towards EUR/USD 1.50.

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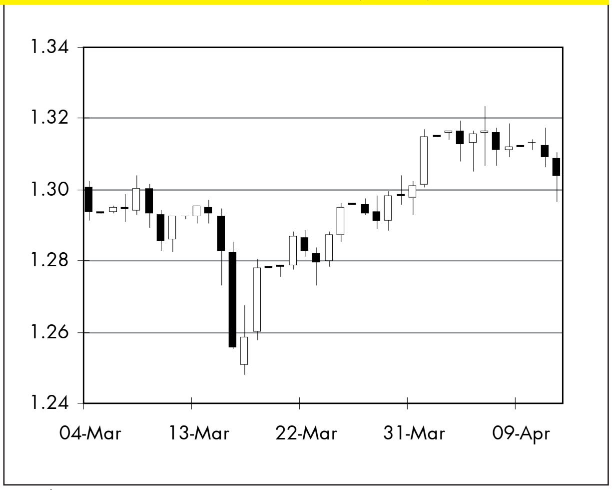
EUR/CHF: 1.304 → 1.30 (June)



** under revision*
Source: Thomson Reuters

Inflation in Switzerland in April reached 1.0%, the highest level since May 2010. Whilst appreciation of the franc had dampened inflation since mid-2010 and helped to offset the impact of rising energy prices, the pendulum swung back in the other direction in March. Looking ahead to H2 2011, inflationary pressure in Switzerland is too high for the currently very low interest rate level of 0.25%. Starting from June 2011, inflation should edge to rates just below 2.0%. Core inflation, which filters out the impact of food and energy prices, should also climb over 1.0% from June (current: 0.6%). Right now, our expectations and the forward market (FRA) both point to an increase in the key rate to 0.50% in September 2011. If CHF weakens to well over EUR/CHF 1.32, however, and inflationary pressure (especially in terms of core inflation) picks up more quickly than expected, it is possible that the Swiss National Bank will opt to raise the key interest rate at its next meeting in June. For the rest of the year we see EUR/CHF remaining above 1.30, with a rate of EUR/CHF 1.32 projected by December. With the rate currently above EUR/CHF 1.30, we thus see a greater chance of CHF weakening, rather than appreciation to the old lows of EUR/CHF 1.25.

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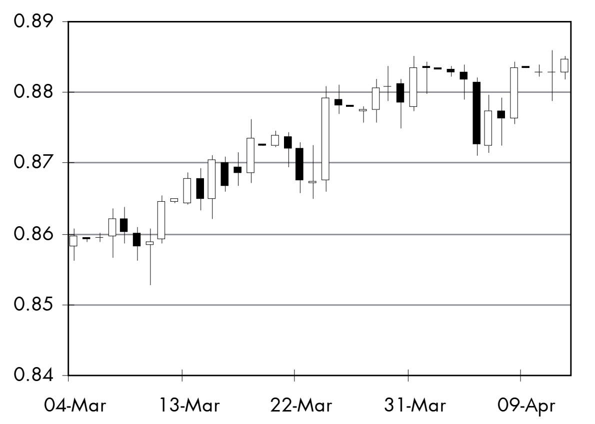
EUR/GBP: 0.885 → 0.89 (June)
GBP/USD: 1.629 → 1.65 (June)



Source: Thomson Reuters

Last week, sterling ascended to peaks of GBP/USD 1.642, reaching its highest levels in the last 15 months. The disparity in the outlook for interest rates in these two currency regions is behind this strengthening. While the market is only pricing in a rate hike by the Fed towards the end of the year, it is possible that the Bank of England will raise its key rate as early as its next rate-setting meeting, due to the unfavourable development of inflation in the UK. Although the rate of inflation in March dropped back to 4.0%, this still leaves the rate two percentage points higher than the BoE's inflation target., Despite the high inflation rate, however, there is a serious risk that the majority of members of the MPC will only vote to exit the BoE's ultra-expansive monetary policy during the second half of the year. This scenario is backed up by the recently lacklustre economic data on private consumption and construction activity, which point to just moderate growth of 0.3% qoq for Q1 2011, on the heels of a strong decline in GDP in Q4 2010. In our view, when the MPC is weighing up the economic risks and the inflation risk, worries about rising inflation expectations will tip the balance and trigger a 25-bp rate hike in May, also with an eye to maintaining the BoE's credibility when it comes to pursuing the goal of price stability. With regard to the development of the pound, an initial rate hike by the BoE in May would point to appreciation of GBP versus USD towards our June target of GBP/USD 1.65. As the ECB already started to normalise its interest rate levels last week, the interest rate outlook suggests a sideways movement by GBP versus EUR at rates around EUR/GBP 0.89 until mid-year.

Analyst: Julia Neudorfer
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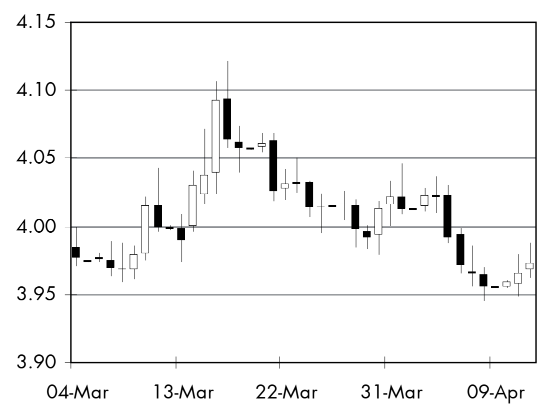
EUR/PLN: 3.976 → 3.90 (June)



Source: Thomson Reuters

As expected, the MPC delivered a 25bp hike last Tuesday. Interestingly, the MPC statement was much more hawkish than anticipated (citing concerns about inflationary pressure and mounting inflation expectations). The statement leaves the door open for the tightening cycle to be continued. This is especially true in light of the inflation data releases that we are expecting for the coming months (around 4% yoy). Moreover, the MPC took a rather positive view of the macroeconomic development, which may have been supported by recent better-than-expected unemployment releases. Markets should start to price in another rate hike in May or June, in light of the recent MPC statement as well as the inflation trajectory we project in the coming months. Such a scenario should be PLN supportive. After the MPC move, PLN inched towards the 3.95 level on Friday, losing some ground afterwards. In the coming weeks we expect EUR/PLN to trade in the 3.95-4.00 range. We would seize any weakening well beyond 4.00 to enter the market looking for a bounce-back to EUR/PLN 3.95.

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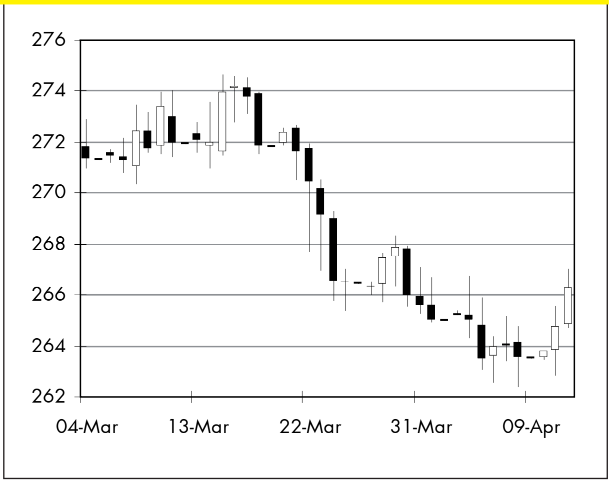
EUR/HUF: 265.8→ 275 (June)



Source: Thomson Reuters

The forint remains on the strong side versus the euro, at around 265. Positive sentiment on the forint is coming from a number of factors. On the one hand, the USD issuance went smoothly and on the other hand the convergence plan being presented to the European Committee will show a decreasing budget deficit and debt level. Nevertheless, even though investors are currently focusing on the positive points in the newsflow, we are rather sceptical about the continuation of such a positive view. The 2011 budget surplus and debt reduction result from the nationalisation of pension assets, the structural reform measures bear some implementation risk, political behaviour remains unpredictable and – apart from improvement in the manufacturing sector – the economic situation (domestic consumption, construction etc.) is still fragile. Therefore, our assumption is that the air is thin for further appreciation. While we assume that positive sentiment may prevail in the coming weeks, the next trend will most likely be back towards above EUR/HUF 270.

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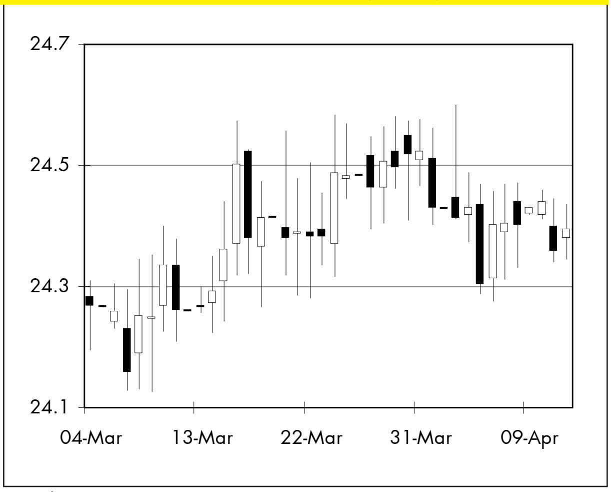
EUR/CZK: 24.40 → 24.4 (June)



* under revision
Source: Thomson Reuters

Last week's data confirmed the upward trend in the Czech economy, even though the very positive retail sales data profited from high car sales. Without the car sales, the picture would have pointed much more towards subdued household consumption. Inflation data for March (1.7% yoy, 0.1% mom) indicated that inflation currently does not pose too high a risk and price pressure coming from the energy side cannot be tamed by the monetary council. Nevertheless, our expectations are for a rise in inflation which could come in above the inflation target of 2% in H2 2011, due to further improvement in the economy. With such an outlook, the monetary council could be forced to react in its interest rate policy, possibly hiking in late summer (we currently think August). In our view, the council's tightening measures will lag behind ECB interest rates in 2011, as the ECB has already started to hike at its last meeting. The spread in interest rates between the ECB and the Czech National Bank should keep the koruna from appreciating against the euro in the coming months. In the case of CZK depreciation, we would see stronger resistance at EUR/CZK 24.6.

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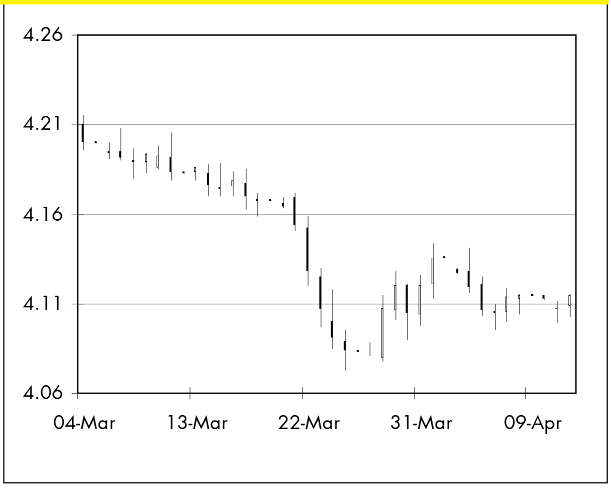
EUR/RON: 4.114 → 4.15 (June)



Source: Thomson Reuters

The EUR/RON rate seems to have stabilised in a new range of 4.10-4.12. We are expecting the leu exchange rate to trade further in this range in the coming period. However, sentiment for RON assets is much more on the positive side. Investors' bids for RON government securities were very high at the last auctions. The government borrowed more money than initially planned and at decreasing yields. While official data regarding demand from non-resident players are not available, we think that such demand did exist. In March, the monthly inflation rate came in at 0.6% mom (above market expectations), while the annual rate of inflation climbed to 8% yoy from 7.6% yoy in February. However, fears about a potential increase in the yields in the period ahead lost intensity after the last monetary policy meeting, when central bank was perceived as remaining dovish on interest rates. The recent increase in the excess of the liquidity in the money market supports also this point of view.

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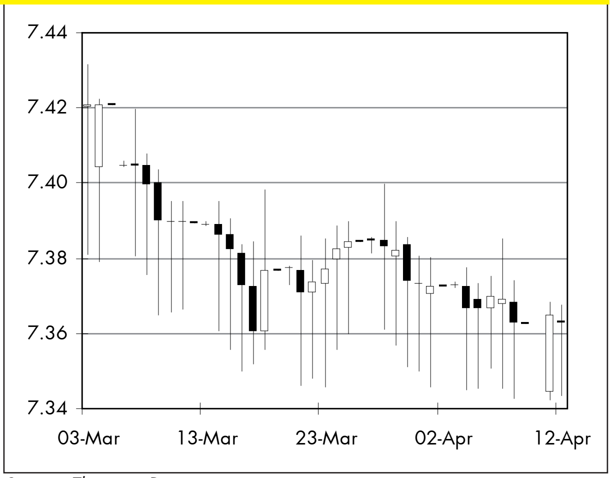
EUR/HRK: 7.363 → 7.30 (June)



Source: Thomson Reuters

Throughout this week, appreciation pressures on HRK prevailed on the domestic FX market. Driven by the excess supply of euros from the banking sector, EUR/HRK fell from levels around 7.375 to below 7.37. Hence, the CNB's middle rate fell to 7.365.

In the week ahead, EUR/HRK trading should be carried out in a range between 7.365 and 7.390. As Easter and the start of the low season approaches, we expect the usual seasonal inflow of euros. This will continue in the peak season and appreciation pressures on HRK will strengthen, further pushing the exchange rate towards EUR/HRK 7.30. Furthermore, ample liquidity is expected to persist at least for a quarter or two, lending activity will remain very subdued and weak imports do not imply any significant increase in FX demand.

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EUR/RUB: 40.57 → 38.8 (June)
USD/RUB: 28.13 → 26.4 (June)

Source: Thomson Reuters

The rouble market experienced high volatility, due to a combination of increasing external risk and domestic factors. As global risk aversion increased, the rouble dropped back to 33.70 against the dual currency basket early in the week. High oil prices did not help the rouble, which was under the pressure from the threat of domestic market profit-taking. Many market players in Russia's stock market are tempted to take profits after a good market rally, and the current situation provides them with a pretty good excuse. Still, the relative strength of the rouble against the US dollar until this week kept many of the rouble sellers on the sidelines. A positive inflation report for March is unlikely to change the course of monetary tightening action. We expect the central bank to hike key rates by 50bp this month. However, market players remain anxious about external risk factors and a stronger US dollar, due to the risk of global economic slowdown. The political crisis in the Middle East continues to keep oil price elevated, which helps offset rouble risks. Still, the market is ready to sell the rouble on the increasing risk of global economic slowdown. Interestingly enough, the domestic rouble bond market remains fairly liquid and demand for new issues remains fairly good, thanks to ample rouble liquidity in the banking system. However, possible profit-taking on the equity market puts the rouble into shaky situation.

We expect another volatile week for RUB, as the risk remains of selling back to 33.80 against the dual currency basket. However, if risk aversion wanes we can expect the rouble to strengthen back to 33.50.

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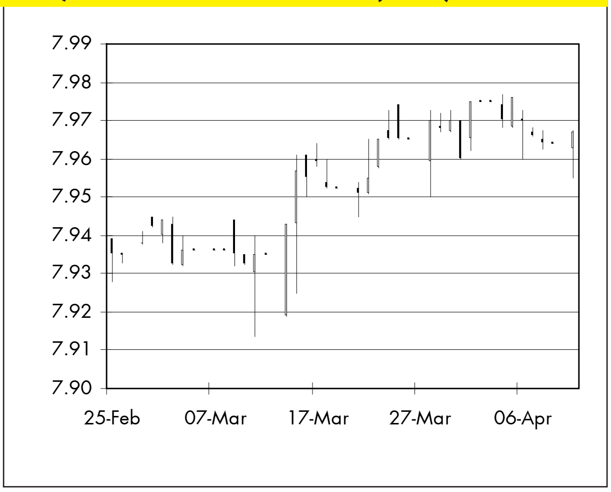
EUR/UAH: 11.460 → 11.50 (June)
USD/UAH: 7.968 → 7.80 (June)



Source: Thomson Reuters

The hryvnia continued to trade stable against the US dollar. The interbank USD/UAH exchange rate is quoted in a narrow range of 7.96-7.98, with the National Bank not seeing any need for large-scale intervention. The balance of NBU interventions (i.e. FX purchases minus sales) was USD 251 mn in March, turning from the negative balance of USD 7 mn in February. Gross FX reserves declined by USD 240 mn last month (to USD 36.4 bn) due to a USD 620 mn repayment of sovereign Eurobonds. Demand for cash FX remains steadily strong, as net purchases amounted to USD 1.1 bn in March. Since the start of this trend in September 2010 the cumulative drain of cash FX has reached USD 10.4 bn – 8% of GDP (as of 2010). At the same time, no panic in the cash FX market has been observed; local currency deposits are increasing faster than FX deposits. Inflation accelerated to 1.4% mom in March. The year-on-year growth rate increased from 7.2% at end-February to 7.7%. Food prices grew 1.8% mom (contributing almost 70% to CPI growth in March), due to seasonal factors and the Easter fast. Gasoline prices increased by 9.3% mom in March (more than 20% ytd), propelled by the surge in global oil prices. Yet the direct impact is negligible, which is not true for second-round effects. Therefore, we expect inflation to rise further in the very near future (forecast 2011 eop CPI: 11%).

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This report was completed on 12 April 2011.