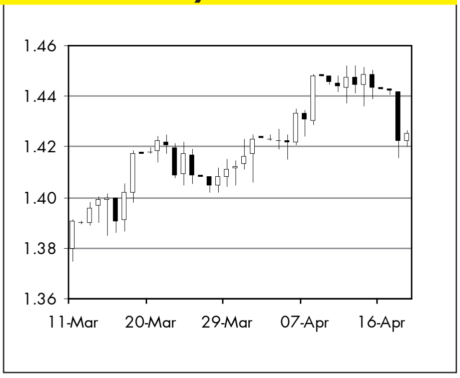
Focus FX weekly

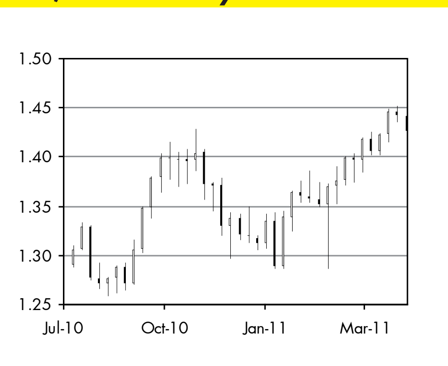
Issue 16/2011 19 April 2011

EUR/USD daily



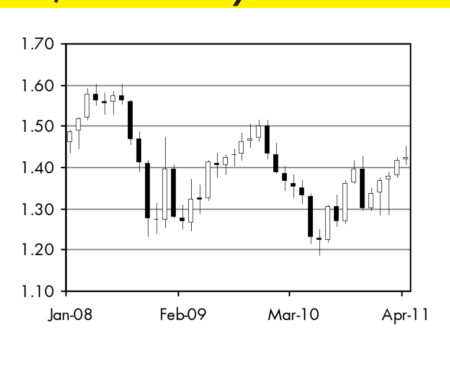
Source: Thomson Reuters

EUR/USD weekly



Source: Thomson Reuters

EUR/USD monthly



Source: Thomson Reuters

EUR/USD: 1.425 → 1.47 (June)

Until the end of last week, the euro remained stable against the US dollar at EUR/USD 1.45, supported by prospects of more ECB rate hikes and weak US economic data. Recent data increasingly show that – despite the extremely robust ISM survey results – real GDP growth for Jan-Mar 2011 was tangibly lower compared to the end of 2010, when an annualised rate of 3.1% yoy was registered. Right now, it appears as if growth for Q1 will amount to 1%-2% qoq annualised. From Friday afternoon, however, the euro began to lose ground again, weakening to yesterday's lows of less than EUR/USD 1.42, due to resurgent worries about possible restructuring of Greek public debt and the related concerns about contagion affecting other Eurozone countries. The new talk was triggered by comments from German politicians, who cryptically made reference to the possibility of a haircut on Greek government bonds. But even at the IMF and within the Greek government itself one hears hushed talk that restructuring of Greece's gigantic debts (which are growing everyday) is just a matter of time. Of course, the official line is immediate denial of such reports. Another factor that did little for confidence in the euro was the report that the Greek government was unable to get its new budget plan, which calls for more drastic savings measures, through parliament on Friday. Nor is the problem of sovereign debt a purely European affair: yesterday, the rating agency Standard & Poor's announced that it was lowering the outlook on US government bonds from stable to negative. The last time a move like this occurred was in 1996 by the agency Moody's. S&P was particularly disturbed by

Exchange rate forecasts

	actual	Jun-11	Sep-11	Dec-11
EUR/USD	1.425	1.47	1.45	1.35
EUR/CHF	1.278	1.30	1.30	1.32
EUR/JPY	117.7	120	120	120
USD/JPY	82.5	82	83	89
EUR/GBP	0.876	0.89	0.86	0.82
GBP/USD	1.626	1.65	1.69	1.65
EUR/PLN	3.975	3.90	3.85	3.75
EUR/HUF	267.2	275	270	270
EUR/CZK	24.10	24.4	24.2	24.0
EUR/RON	4.090	4.15	4.15	4.10
EUR/HRK	7.358	7.30	7.38	7.42
EUR/RUB	40.41	38.8	39.2	37.9
USD/RUB	28.36	26.4	27.0	28.1
EUR/UAH	11.370	11.50	11.30	10.50
USD/UAH	7.970	7.80	7.80	7.80
EUR/TRY	2.184	2.35	2.25	2.09
USD/TRY	1.533	1.60	1.55	1.55

Source: Thomson Reuters. Raiffeisen RESEARCH the US government's lack of efforts to consolidate the budget and thus implicitly threatened that it would lower the USA's AAA rating from 2013 unless there were serious attempts to consolidate public finances. This news did not, however, generate any sustained support for the euro. We presume that the recent increase in speculation about Greece will fade in the days ahead, as it has so often in recent months. On the one hand, there is no reason to move forward with debt restructuring right now, after so many political efforts have been made to prevent this from occurring. On the other hand, Greece is already unable to finance itself on the market and will be dependent on aid from the EU and the IMF for the foreseeable future. We thus stick with our forecast of a stronger euro by mid-year. For instance, the weak performance of the US economy will likely weigh on the dollar in the coming weeks, along with the Fed's commitment to its zero-rate interest policy. Furthermore, the next round of US budget challenges loom on the horizon 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.

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Trading Ideas

FX

Recommendation	Entry date	Entry level	Current level	Target	Stop	Comments
Buy USD/JPY	19/04/11	82.5	82.5	85.5	80.6	decreasing risk aversion

Source: Thomson Reuters, Bloomberg

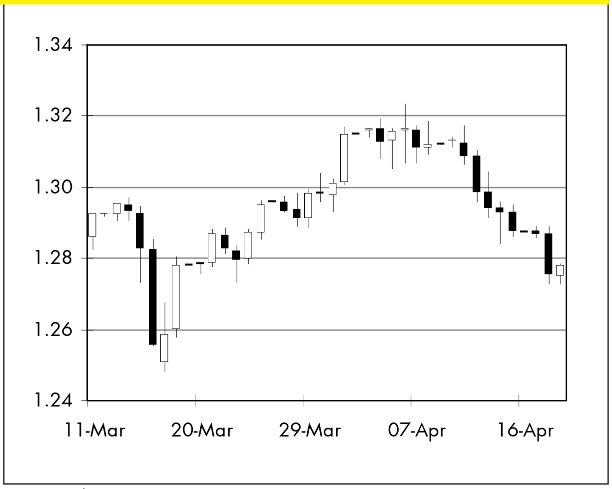
Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comments
Buy EUR/CHF	01/03/11	1.286	15/03/11	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/CHF: 1.278 → 1.30 (June)



Source: Thomson Reuters

Safe haven assets are enjoying demand again, amidst renewed worries about government debt restructuring in the Eurozone and a negative rating outlook for the USA. Swiss francs, gold and German and Swiss government bonds have all posted handsome gains in recent days. For example, yields on 10-year CHF government bonds issued by Switzerland fell from their high for the year of 2.15% in early April to the current level of 2.07%. Ultimately, however, we believe that the strong economic recovery will gain the upper hand over Eurozone fiscal risks and lead to rising interest rates and yields over the medium to long term. From June 2011, Swiss core inflation, which filters out the impact of food and energy prices, should also climb to levels consistently higher than 1.0% (current: 0.6%). Accordingly, we expect to see the first increases in interest rates in Q3. As CHF yields continue to price in this increase, we would take advantage of the brief drop in yields on 10-year Swiss government bonds for a short-term trading idea: Sell Conf-Future (= Sell Swiss government bonds): Open: 136.8; Target: 135; Stop: 138. We do not expect to see an immediate escalation of the European debt crisis (restructuring of Greek debt) and project that the Swiss franc will weaken significantly until June, heading towards EUR/CHF 1.30.

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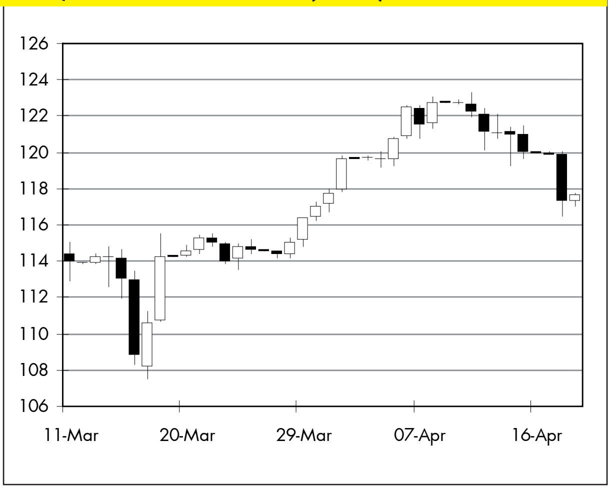
EUR/JPY: 117.7 → 120 (June)
USD/JPY: 82.5 → 82 (June)



Source: Thomson Reuters

The Japanese yen appreciated against both the euro and the U.S. dollar in the last two weeks. But this appreciation had little to do with the strength of the Japanese economy, which was badly hit by the earthquake disaster, and more to do with the general rise in risk aversion. All of the economic indicators published for March show a significant drop in growth in the manufacturing sector and in the service sector. For example, the manufacturing PMI dropped from 52.9 to 46.4 (with the sub-index for output falling from 53.9 to 37.8 points), the Economy Watchers Survey fell from 47.2 to 26.6 (outlook sub-index), the services PMI slipped from 49.8 points to 35.3 and consumer confidence declined from 40.7 to 38.3 points. All the signs are pointing to Japan slipping back into a recession. Whilst central banks around the world are beginning to wind up their expansive monetary policies, the Bank of Japan is actually moving to expand its easing measures. For instance, holdings of FX reserves rose from USD 1,090 bn to USD 1,120 bn from end-February to end-March 2011. Japan's politicians are probably still interested in keeping the exchange rate of the yen weak to help support Japanese (export) industry. Accordingly, Japanese Economics Minister Kaoru Yosano made it clear that Japan would stick with US government bonds even in the event of a downgrade of the USA's credit rating by a rating agency (more on this issue in the section on EUR/USD). A large portion of Japan's FX reserves are held in these instruments. We project weakening of the Japanese yen against the US dollar and the euro in the weeks to come. With an eye to this outlook, we open a short-term trading idea: Buy USD/JPY (= Sell yen): Open: USD/JPY 82.5; Target: USD/JPY 85.5; Stop: USD/JPY 80.6.

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EUR/PLN: 3.975 → 3.90 (June)

Source: Thomson Reuters

EUR/PLN continues to trade well below the 4.00 level, on the back of speculations about rate hikes. Annual CPI inflation increased to 4.3% in March (3.6% February), which was well above market expectations (core inflation increased to 1.9%-2.0% from 1.7% yoy). We expect that central bankers will fuel the market's debate about rate hikes with numerous comments in the weeks to come: we think that MPC members will aim to contain inflation expectations and would like to show that the NBP is not behind the curve. Such an environment should be PLN supportive, as bets on a 50-bp hike in May could be priced in at some point in time. Therefore, EUR/PLN may pass 3.95 in the next two weeks. We would seize any PLN strength at 3.92-3.93 to open a short position (looking for a retreat to 4.01). We think that the MPC will not hike by 50bp in May and believe that the MPC will continue with 25-bp steps. An aggressive 50-bp hike in May could fuel concerns that the MPC is behind the curve, which is – as we understand – something the MPC wants to avoid.

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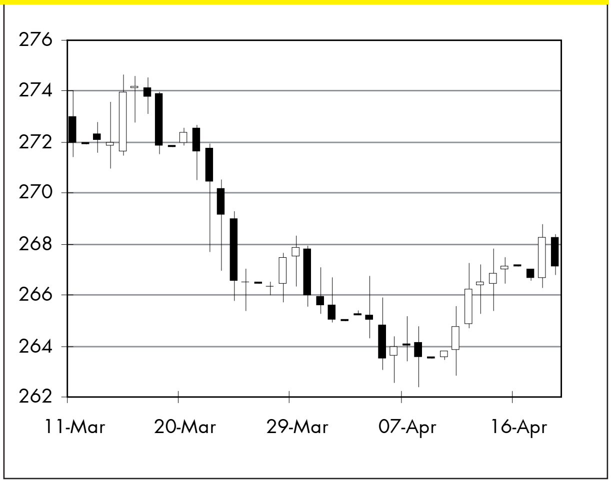
EUR/HUF: 267.2→ 275 (June)



Source: Thomson Reuters

Although the forint lost some ground against the euro, it was able to stay below 270. This week in Hungary got started with a rate-setting meeting, at which the base rate was left at 6.0% as anticipated. Although there had been some speculation about possible rate cuts in recent days, the surprisingly strong 4.5% yoy rise in CPI inflation for March quickly put an end to such conjectures. In the months ahead, we expect no changes in Hungarian interest rates. EUR/HUF should continue to be strongly driven by external development and appreciation potential should remain limited with an eye to the current levels. We actually tend to expect that the next strong move in EUR/HUF will be a return to levels over 270.

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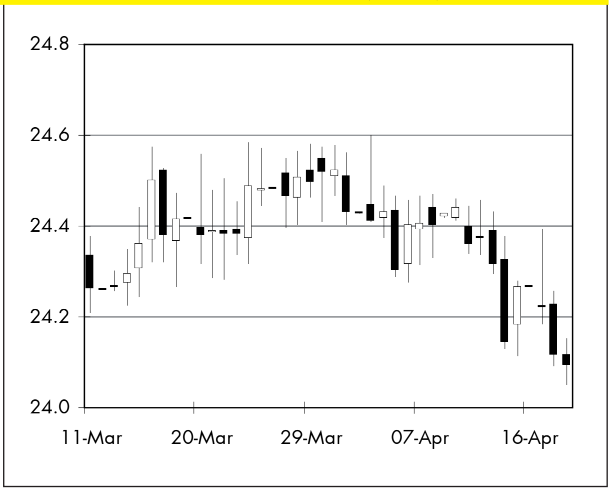
EUR/CZK: 24.10 → 24.4 (June)



Source: Thomson Reuters

So far, some political unrest within the ruling coalition has not really had any effects on EUR/CHK. We expect the situation to calm down, and our biggest worry is that the necessary reforms will suffer from delays. This in turn could cause possible rating upgrades to be postponed, which would hamper the medium-term appreciation potential of CZK. Consumer price data for March featured no surprises (1.7% yoy), but rising commodity and energy prices did push producer prices higher (6.3% yoy). In light of the lack of macro-economic data from the Czech Republic this week, the currency will probably track the global trend more strongly. Our expectation continues to be that the country's central bank will wait longer than the ECB before starting to raise rates; this undermines the short-term appreciation potential for CZK. Additionally, we only expect to see better economic growth data in H2 2011, accompanied by more appreciation potential for EUR/CZK.

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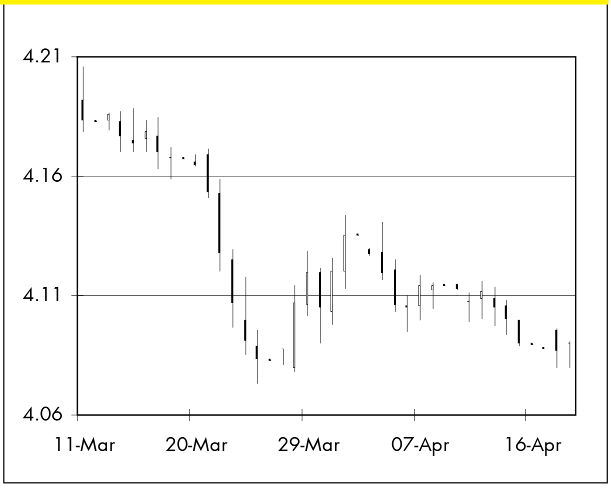
EUR/RON: 4.090 → 4.15 (June)



Source: Thomson Reuters

The leu exchange rate has remained immune to the increased risk aversion on the international capital markets. The leu even strengthened in recent trading days as EUR/RON fell below 4.09. We think that the trading range seen in the previous weeks (4.10 - 4.12) is more appropriate, but sentiment on RON stills seems to be on the positive side. We cannot rule out an increase in the volatility of short-term interbank interest rates, or even the exchange rate in the coming period. Payments of companies to the public budget are higher in April as they have to pay tax on profit. This might put some pressures on liquidity in the interbank market and could temporarily result in slightly higher interbank rates. This might happen especially in the last week of the April.

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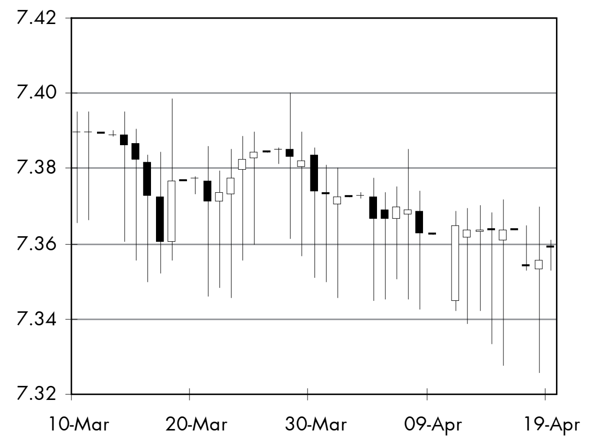
EUR/HRK: 7.358 → 7.30 (June)



Source: Thomson Reuters

The first half of last week was rather calm on the domestic FX market, as EUR/HRK moved in a tight range around 7.366, with low trading volumes contributing to stability. Late in the week, the stronger supply of euros from the banking sector exerted appreciation pressures on HRK and pushed EUR/HRK below 7.36.

The EUR/HRK trading range in the week ahead will probably be 7.345 - 7.375. Accordingly, downward tendencies are expected to continue, supported mainly by FI supply of euros. It appears that corporate demand and supply related to the euro are slowly being equalised, and the current appreciation pressures mainly stem from financial institutions and expectations of a further EUR/HRK dip. Over a one-month horizon, appreciation pressures will strengthen further as the low season starts pushing the exchange rate towards 7.30.

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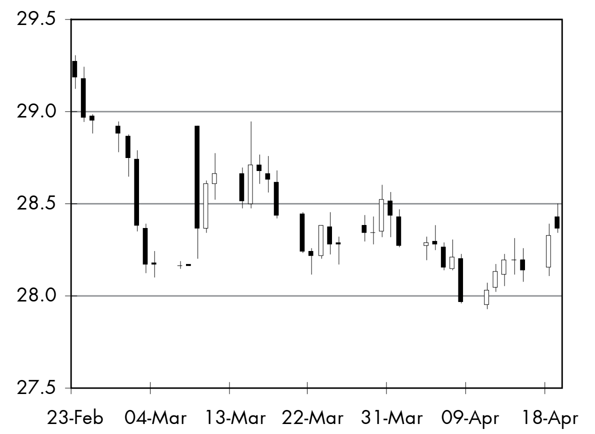
EUR/RUB: 40.41 → 38.8 (June)
USD/RUB: 28.36 → 26.4 (June)



Source: Thomson Reuters

High oil prices did not help the rouble recently, as RUB slipped from 33.64 back to 33.73 against the dual currency basket in the week under review. Increasing risk aversion amidst growing risk of a global economic slowdown and the worsening outlook on the European interest rates and fiscal situation continue to exert pressure. In the domestic equity market, a profit-taking mood is prevailing. Weaker industrial output in March – just 5.3% vs. 5.8% in February – boosted fears that the central bank of Russia will keep rates on hold during its April monetary policy meeting. Coupled with the prospects of higher interest rates across EU, this will reduce the arbitrage possibilities on which many market players have been betting since the start of 2011.

The rouble market is likely to remain under pressure, in light of the worsening global market backdrop. The beneficial impact of high oil prices will be offset by deterioration in the global economic outlook. In this situation, we believe that the profit-taking mood affecting the whole market spectrum will only strengthen during this week. We see the rouble trading within a 33.60 - 33.85 range, with a risk of further weakness to 33.90 against the dual currency basket. Next week, the central bank will hold a meeting, at which we expect no change in interest rates. The bank is also likely to keep reserve requirements flat at the present levels.

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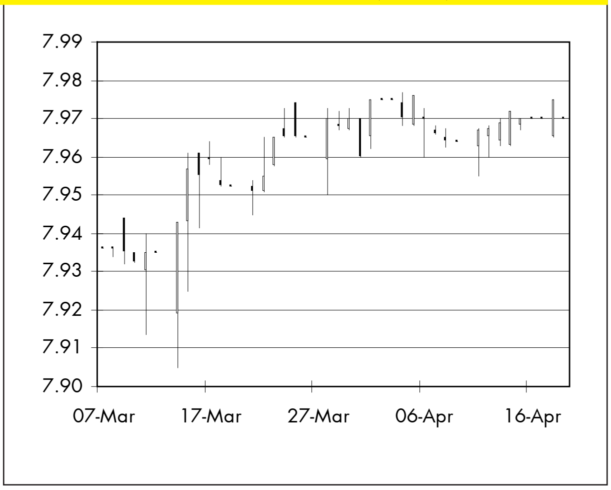
EUR/UAH: 11.370 → 11.50 (June)
USD/UAH: 7.970 → 7.80 (June)



Source: Thomson Reuters

There was not much news on the Ukrainian FX market, as the central bank allowed for some minimal appreciation of USD in recent weeks. Apparently, the bank is pursuing the strategy of keeping its intervention on the market to support the currency as limited as possible. At the same time, it is trying to siphon off excess liquidity from the market in order to keep boosting currency reserves. Presently, there are no signs of any changes in the central bank's exchange rate policy, and thus we expect the rate to remain near USD/UAH 8.

The latest industrial production data for March provide some insight on economic developments in Ukraine: in year-on-year terms, production increased by 8%, falling just shy of the figure for February (+11.5% yoy). One reason for this slowdown was the weak performance in steel production, which only registered a gain of 5.7% yoy. On the other hand, machinery builders and the energy sector are seeing strong recovery, at +24% yoy and +14% yoy, respectively.

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