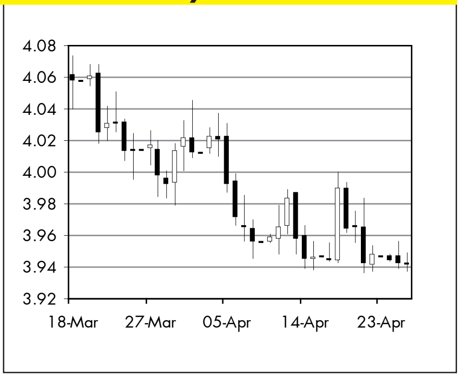
Focus FX weekly

Issue 17/2011 *26 April 2011*

EUR/PLN: 3.942 → 3.90 (June)

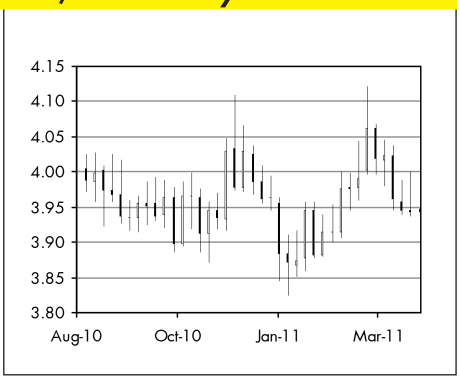
EUR/PLN inched below the 3.95 level. The recent move may have been supported by the announcement that the government will sell EU funds for PLN on the market via Bank Gospodarstwa Krajowego (i.e. part of the EUR 13-14 bn Poland will receive in EU funding in 2011). No details regarding the overall sums involved and dates have been released. The announcement shows that Polish policymakers (including the central bank) are interested in a stronger PLN as this may help to contain the current inflationary pressure. Thus, the potential FX exchange is also designed to mitigate pressure on the NBP to increase rates. In our understanding, the recent move shows that policymakers are not convinced that PLN may show pronounced strength without any support measures, while excessive rate hikes should be avoided. Thus, the possibility of nudging the market via EUR sales was announced. The governor of the NBP explicitly stated that the market exchange of funds will help to carry out monetary policy. Given that the recent move does not speak for too much confidence in PLN on behalf of local policymakers, we would not bet on a much stronger PLN from a short-term perspective (i.e. the next 2-4 weeks). Moreover, any sizeable EUR selling may translate into a more gradual monetary tightening in comparison to what some market participants are expecting. We would seize any PLN strength at 3.92/3.93 to open a short position (looking for a retreat to the 4.01 level). We think the MPC will not hike by 50bp in May, given the recent developments. Moreover, an aggressive 50-bp hike would nourish

EUR/PLN daily



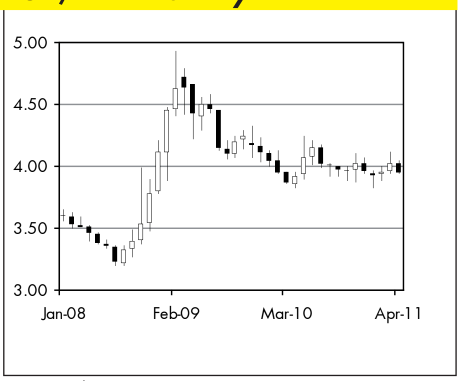
Source: Thomson Reuters

EUR/PLN weekly



Source: Thomson Reuters

EUR/PLN monthly



Source: Thomson Reuters

Exchange rate forecasts

	actual	Jun-11	Sep-11	Dec-11
EUR/USD	1.461	1.47	1.45	1.35
EUR/CHF	1.281	1.30	1.30	1.32
EUR/JPY	119.4	120	120	120
USD/JPY	81.7	82	83	89
EUR/GBP	0.884	0.89	0.86	0.82
GBP/USD	1.653	1.65	1.69	1.65
EUR/PLN	3.942	3.90	3.85	3.75
EUR/HUF	264.5	275	270	270
EUR/CZK	24.11	24.4	24.2	24.0
EUR/RON	4.075	4.15	4.15	4.10
EUR/HRK	7.357	7.30	7.38	7.42
EUR/RUB	40.65	38.8	39.2	37.9
USD/RUB	27.82	26.4	27.0	28.1
EUR/UAH	11.624	11.50	11.30	10.50
USD/UAH	7.966	7.80	7.80	7.80
EUR/TRY	2.231	2.35	2.25	2.09
USD/TRY	1.528	1.60	1.55	1.55

Source: Thomson Reuters. Raiffeisen RESEARCH concerns that the MPC is behind the curve, which we understand is something the MPC wants to avoid.

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Trading Ideas

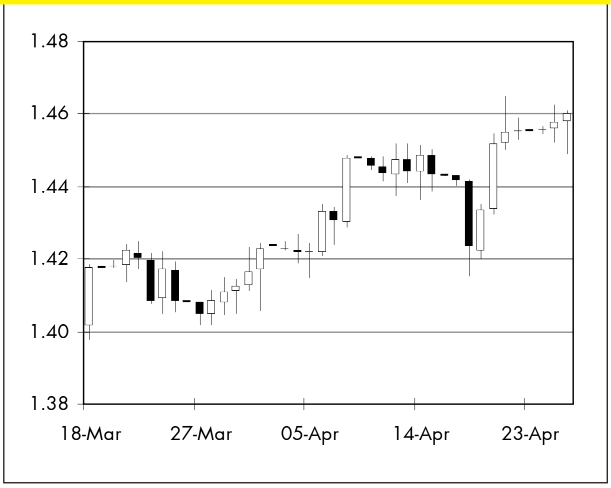
Recently closed trades

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
Buy USD/JPY	19/04/2011	82.5	26/04/2011	81.7	-0.97%	Closed early

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: 1.461 → 1.47 (June)



Source: Thomson Reuters

As anticipated, the latest speculation about restructuring of Greek government debt, which had pushed EUR/USD to 1.42 early last week turned out to be a passing fad rather than a lasting trend. Market participants rapidly returned to the two main factors which we believe will determine exchange rate developments in the coming weeks: central bank policy and economic activity. Based on the available monthly data on private consumption spending, foreign trade, residential construction and inventory investment, it can now be projected that the real rate of growth for US gross domestic product during Q1 2011 has fallen by one-half compared to Q4 2010, when GDP expanded at an annualised rate of 3.1% qoq. Initial estimates on US GDP will be released on Thursday. By contrast, economic activity in the Eurozone remains very strong. This is currently supporting the euro, along with the latest comments by ECB council members, who all hinted at prospects of more rate hikes. At its meeting on Wednesday this week, however, the US Fed will not announce that it is exiting its ultra-expansive monetary policy. Both in the press release on the rate decision and at the press conference to be held for the first time, the Fed's central bankers will continue to stress that key interest rates will be left at the current levels for an extended period of time. Accordingly, we see a strong likelihood that the euro will appreciate towards EUR/USD 1.50 in the weeks to come.

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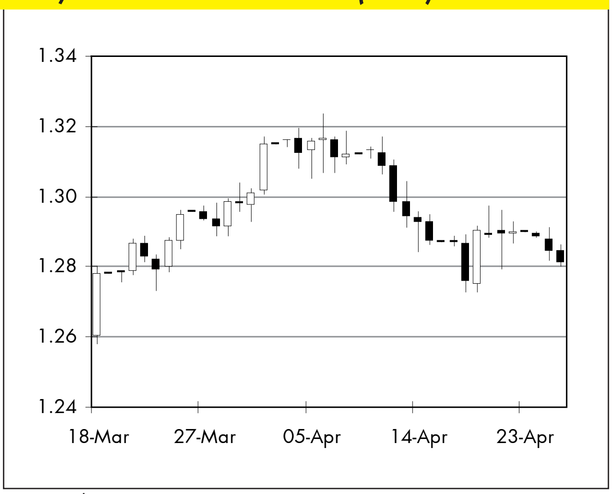
EUR/CHF: 1.281 → 1.30 (June)



Source: Thomson Reuters

The Swiss franc appreciated versus the euro in recent days, moving to EUR/CHF 1.273. Along with temporary factors, EUR/CHF should mainly be driven by two factors in the months ahead: the Eurozone sovereign debt problems on the one hand, and the differences between interest rates in Switzerland and the Eurozone on the other. The topic of sovereign debt is certain to keep markets busy for some time to come. First of all, in the past the Swiss franc has appreciated strongly due to sovereign debt worries and second we do not expect to see any escalation along the lines of restructuring of Greek government bonds or the bonds of other aid candidates in 2011. The latter would represent a clear break with the policies of the ECB, EU and IMF and would render any preventive measures for an orderly restructuring obsolete. Furthermore, a sudden escalation of the situation would neither be Greece's interest (as savings measures would have to be even more radical) nor the interests of the EU (uncontrolled contagion of scepticism about other countries would be the result). Accordingly, we expect to see tensions ease until June, with the EUR/CHF rate heading for levels around 1.30. The further development of interest rates and the corresponding path of the interest rate differential should initially lead to some weakening of the franc (more rate hikes by the ECB) and then support CHF in the second half of the year (first rate hikes by the SNB in Q3). Consequently, levels around EUR/CHF 1.32 are well within reach until September, but the rate will probably only settle in at levels like this after the end of 2011. By September 2011, we project the average EUR/CHF rate at approximately EUR/CHF 1.30.

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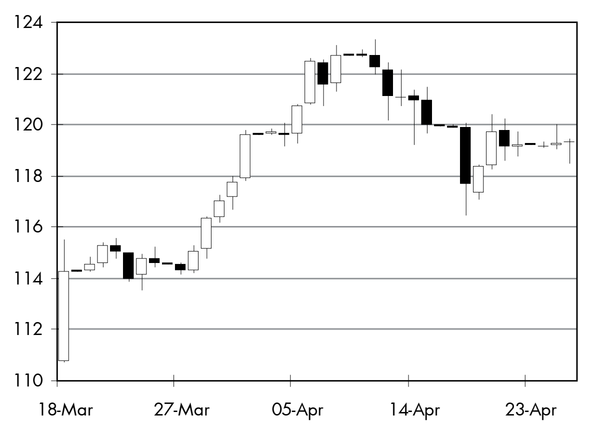
EUR/JPY: 119.4 → 120 (June)
USD/JPY: 81.7 → 82 (June)



Source: Thomson Reuters

At the end of last week, the OECD lowered its growth outlook for Japan as a result of the earthquake catastrophe on March 11. The international organisation headquartered in Paris now expects to see growth of 0.8% yoy in 2011 growth, followed by a relatively strong rebound of 2.3% yoy in 2012. With this move, the OECD is also forecasting the same path as we have, on the basis of previous natural catastrophes in Japan and other highly developed markets, whereby we project a more pronounced path of -0.2% yoy change in GDP in 2011 and +2.6% in 2012. Japanese GDP will suffer particularly strongly from the devastating tsunami and the power shortages in the greater Tokyo area. Preliminary estimates by the Japanese government project damage to infrastructure, buildings and production capacity at 3.3% to 5.2% of Japanese GDP (EUR 145 bn to EUR 230 bn).

Right now, the FX markets appear to be dominated by the weakness of the US dollar. For example, EUR/JPY is almost at the same level as last week, where as the yen has appreciated by around 1.0% versus the US dollar. During the days ahead, this movement in USD/JPY may continue, especially since general risk appetite may deteriorate. Consequently, we close our Trading Idea Buy USD/JPY and wait for better levels for further purchases of USD/JPY. By the end of June, we expect both USD/JPY and EUR/JPY to be approximately on par with the current levels.

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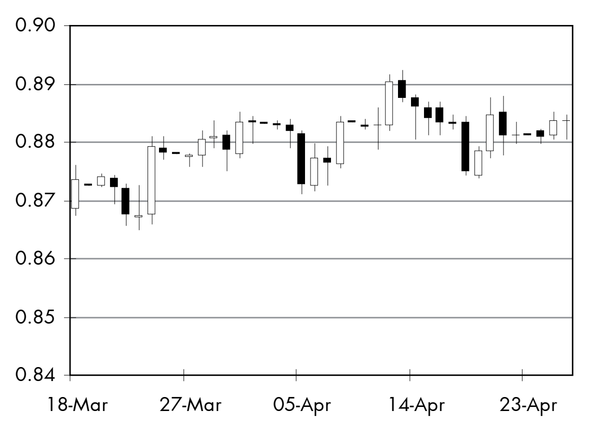
EUR/GBP: 0.884 → 0.89 (June)
GBP/USD: 1.653 → 1.65 (June)



Source: Thomson Reuters

This Wednesday, Great Britain will be the first G7 country to release its estimate of gross domestic product for Q1 2011. In Q4 2010, contraction of 0.5% was registered for British GDP, mainly as a result of the adverse weather conditions. According to the UK statistics office, growth would have merely been flat without the impact of the weather as well. In light of the strong weather-related distortion of the GDP data for Q4 2010, the data for Q1 2011 will provide a more clear picture of the current economic performance in the UK. According to our assessment, the recently weak data on industrial production and activity in the construction sector only point to moderate GDP growth of 0.3% qoq in Q1 2011. This kind of result would fall significantly below the latest GDP estimate of the Bank of England (BoE) for Q1 2011 (+0.8% qoq). Despite the high inflation rate (4.0% yoy in March), the unexpectedly weak growth conditions increase the probability 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 is also supported by the unchanged voting results from the last rate-setting meeting in April (3 to 6 for a rate hike) and the economic risks which were strongly underlined in the minutes of the BoE's rate-setting meeting. Despite the lower likelihood of a rate hike in May indicated by the latest minutes, sterling climbed to over GBP/USD 1.65 last week. As our GDP forecast is at the lower end of the range of analysts' projections, we see some short-term potential for the pound to weaken against the euro and the US dollar this week. Over a one-year horizon, however, we see the pound moving back towards our June target of GBP/USD 1.65 as the BoE should start the process of normalising interest rates earlier than the US central bank does.

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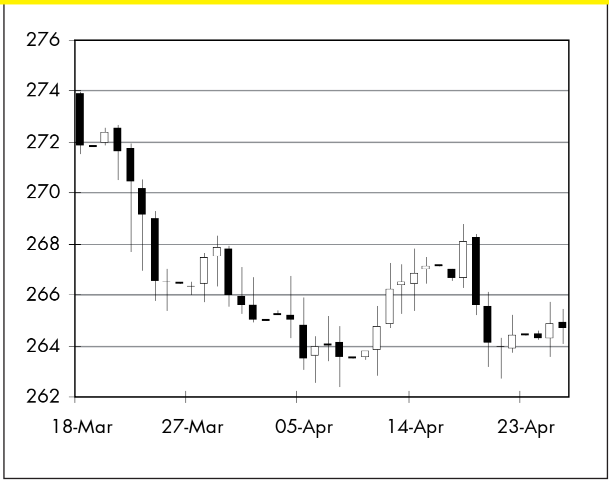
EUR/HUF: 265.5 → 275 (June)



Source: Thomson Reuters

At around 264 to the euro, the forint once again reached a very strong level, before slipping slightly back towards 265. Right now, market sentiment is rather positive on CE currencies, and there is hardly any domestic news from Hungary which would be capable of moving the market. Inflation data for March surprised on the upside at 4.5% yoy, quickly pulling the rug out from under any speculation about possible rate cuts. We expect to see the base rates remain unchanged at 6.0% in the months to come. Over the short term, it will take some (exogenous) factors to put an end to the currently phase of HUF strength, otherwise we would continue to expect EUR/HUF at 265. We believe that the next major move in EUR/HUF will be weakening towards 270.

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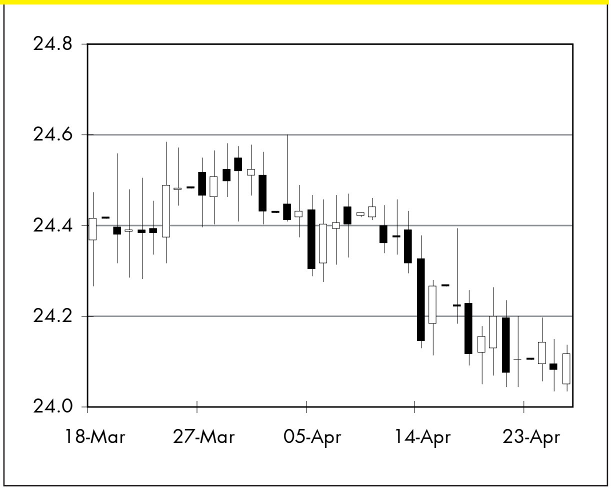
EUR/CZK: 24.11 → 24.4 (June)



Source: Thomson Reuters

Since the beginning of April, the Czech koruna has been on an appreciation trend, which has brought the rate to 24.1 by now. The recent squabbling in the coalition has had little to no effect on the koruna, and we are not expecting any major negative impacts from politics in the weeks to come, in particular as it looks like the situation will calm down. On the other hand, the conflict within the government coalition may result in delays in future reform efforts or even scuttle such attempts, which may have a detrimental impact on the koruna over the medium term. A delay in the rating upgrade would certainly be possible in such a case. There is no relevant data scheduled for release in the Czech Republic this week and thus CZK should continue to track external developments. Bad news could easily put a quick end to the current phase of high-flying for EUR/CZK and for us it would appear that the current strength of CZK will run out around 24.0.

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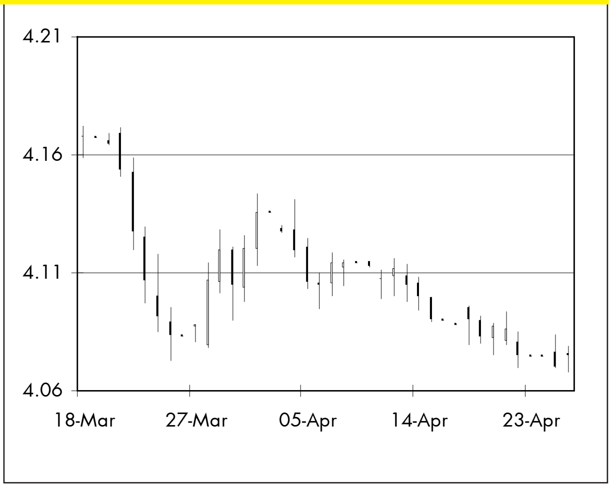
EUR/RON: 4.075 → 4.15 (June)



Source: Thomson Reuters

The leu mainly traded in a range of 4.075-4.095, lower than in the previous weeks, suggesting that it remains on a smooth appreciation path. We expect this behaviour to persist this week as well, as there is no manifest pressure from either side. However, as the recent values are comparable with the lows recorded at the end of March 2010, we think that the appreciation pace will be even smoother than before.
As far as news on economic fundamentals are concerned, a joint team from the International Monetary Fund (IMF) and the European Commission (EC) will visit Romania from 27April to 9 May to review the performance of the authorities under the new precautionary agreement. We expect the conclusions of the joint IMF/EC review to confirm the progress made under the new programme, further contributing to positive sentiment on RON.

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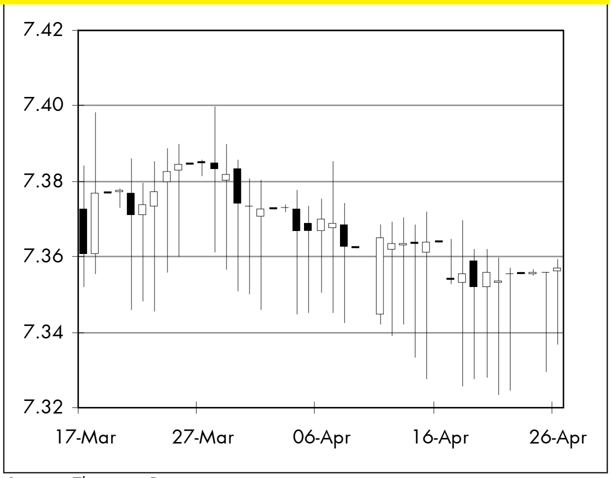
EUR/HRK: 7.357 → 7.30 (June)



Source: Thomson Reuters

In the pre-holiday week, trading on the domestic market was even calmer than usual. EUR/HRK remained in a tight range amid thinner interbank trades, with trading between 7.35 and 7.36.
However, as widely expected, the mid CNB exchange rate is falling and appreciation pressures will strengthen further as the low season starts pushing the exchange rate towards EUR/HRK 7.30. Namely, the widely expected good tourist season implies greater inflow of foreign currency and stronger demand for HRK. As the Easter holidays represent the beginning of tourist season downward tendencies are expected to go on in months ahead. Furthermore, the absence of stronger depreciation pressures is backed by sluggish domestic demand and consequently low import activity.

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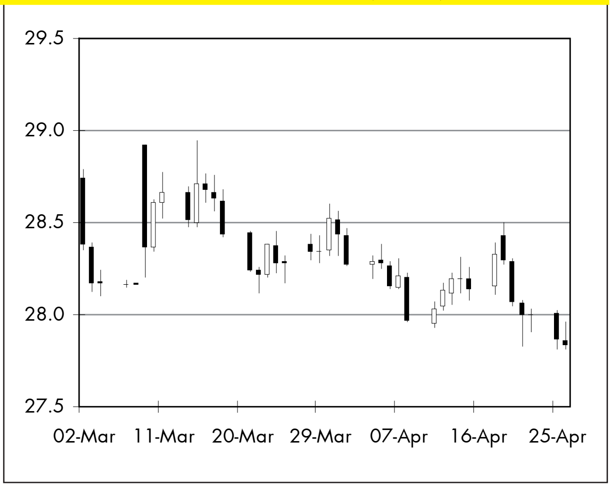
EUR/RUB: 40.65 → 38.8 (June)
USD/RUB: 27.82 → 26.4 (June)



Source: Thomson Reuters

The rouble remains under the spell of global markets and oil price dynamics, while domestic economic news and the stock market played a lesser role. Incidentally, the local stock market remained rather upbeat and even lowered its correlation with the oil price, which we believe is mainly a technical development. However, the rouble market may remain fairly calm as local market players say they are waiting for the US FOMC meeting this week (April 26-27) and also for USA GDP Q1 data (April 28), and so they do not expect any active trading beforehand. Oil prices remain stubbornly high with Middle Eastern political situation showing no improvement.

This week Russia's central bank will hold a regular monthly policy meeting from which we expect no change in interest rates and/or reserve requirements for banks. The policy wording of the bank, however, is likely to remain mildly hawkish. This notwithstanding, domestic economic conditions and declining consumer prices hint that the bank might soon opt to change from tightening to a neutral stance. We see moderate rouble strengthening in the week ahead, as the weaker US dollar will be positive for the oil price and consequently for the rouble.

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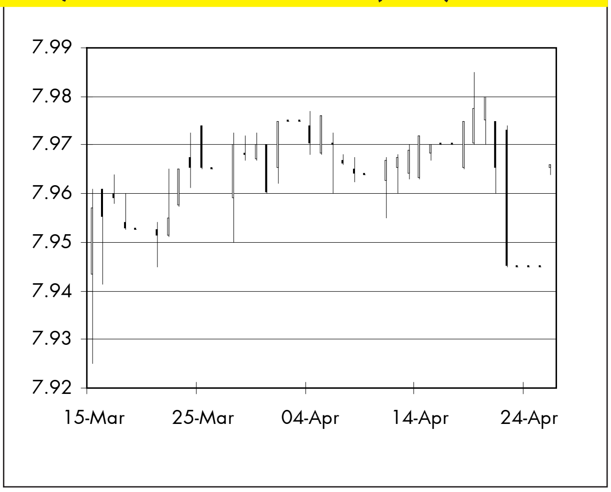
EUR/UAH: 11.624 → 11.50 (June)
USD/UAH: 7.966 → 7.80 (June)



Source: Thomson Reuters

Quick disbursal of the next tranche of the IMF loan to Ukraine is looking more and more unlikely: PM Asarow recently proposed that the increase in the pension age for women initially (for the next 2-3 years) only be introduced on a voluntary basis. The pension reform, however, is a key point of the IMF reform programme, and approval by parliament was originally scheduled for the end of last year. Delay of approval until June at the earliest and possible watering-down of the reform will thus be frowned upon by the IMF. The next working group from the IMF is expected to arrive in Kiev following the May 1 holidays, and it will be interesting to see if the IMF sticks to its hard line.
UAH has been able to book mild gains in recent days, but we do not expect to see any major swings in the exchange rate versus the US dollar. The central bank will most likely continue to intervene in the interests of stability on the market if necessary. The delays in the IMF programme do not represent a risk to the exchange rate for now, as there would have to be a major escalation for that to occur.

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