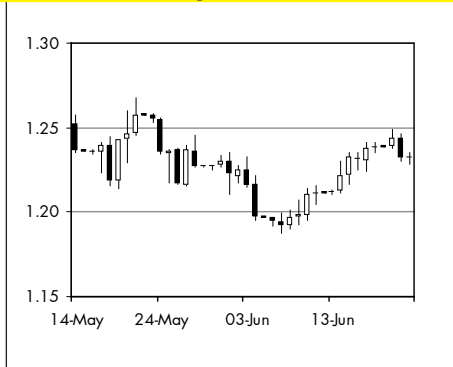


Focus FX weekly

Issue 25/2010

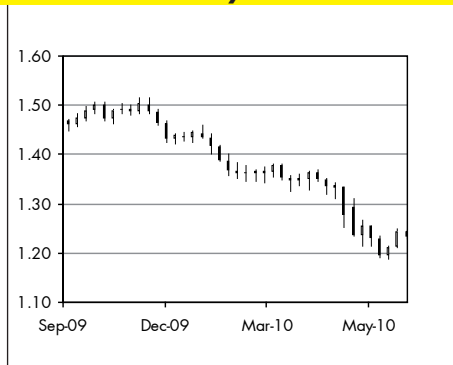
22 June 2010

EUR/USD daily



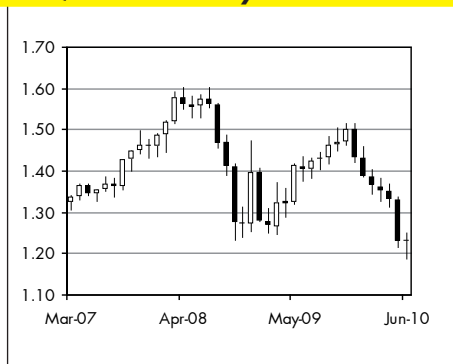
Source: Thomson Reuters

EUR/USD weekly



Source: Thomson Reuters

EUR/USD monthly



Source: Thomson Reuters

EUR/USD: 1.232 → 1.25 (September)

The euro continued to rebound against USD until yesterday. At the peak, the single currency reached rates of EUR/USD 1.246, up some 6 cents on the low from early June. There was not really one specific factor that triggered this sustained appreciation trend for the euro. Weaker US economic data were balanced by speculation about the results of the stress tests for European banks. In this regard, it appears that Spanish banks – which have come under considerable criticism recently – performed quite well, whereas the German regional banks (Landesbanks) appear to be on a very shaky footing. The official results are to be released in the coming days or weeks; no publication date has been set. Against this backdrop, the appreciation trend for the euro can probably be most accurately characterised as a technical recovery, which is moving in parallel with the gains on the equity markets.

No more data which are relevant for the development of the exchange rate are slated for release this week. As a result, investors will focus all the more closely on tomorrow's FOMC rate-setting decision. After the bitterly disappointing outcome of the labour market report in May and in light of central bank governor Bernanke's latest very reserved comments on the further outlook for economic activity in the United States and especially on the labour market, we do not expect that the central bank will change its statement following the rate-setting meeting in any significant points compared to the statement issued in April. On the other hand, this possibility cannot be ruled out with 100% certainty, especially since there have recently been louder and louder voices at the Fed itself criticising the current extremely low levels of interest rates.

Exchange rate forecasts

	actual	Sep-10	Dec-10	Mar-11
EUR/USD	1.232	1.25	1.20	1.15
EUR/CHF	1.367	1.39	1.35	1.35
EUR/JPY	111.9	115	120	115
USD/JPY	90.8	92	100	100
EUR/GBP	0.834	0.84	0.80	0.76
EUR/PLN*	4.048	3.75	3.65	3.50
EUR/HUF*	278.8	275	275	270
EUR/CZK*	25.73	24.8	25.0	24.6
EUR/RON*	4.224	4.05	3.95	3.90
EUR/HRK*	7.199	7.30	7.32	7.35
EUR/RUB*	38.03	37.3	35.8	35.2
USD/RUB*	30.85	29.8	29.8	30.6
EUR/UAH*	9.730	9.50	9.20	8.50
USD/UAH*	7.908	7.60	7.70	7.40
EUR/TRY*	1.915	1.88	1.80	1.67
USD/TRY*	1.557	1.50	1.50	1.45

* under revision

Source: Thomson Reuters. Raiffeisen RESEARCH

We now close our Trading Idea Buy EUR/USD early at a rate of EUR/USD 1.23 and take a profit of 0,98%, because in the days and weeks ahead there are a number of event risks (Fed meeting, stress tests for banks) and because the euro has already accom-

plished most of the rebound back to EUR/USD 1.25 that we had been anticipating.

Analyst: Jörg Angelé
joerg.angele@raiffeisenresearch.at

Trading Ideas

FX

Recommendation	Entry date	Entry level	Current level	Target	Stop	Carry (ann. %)	Comment
Sell EUR/RON (long RON)	14/06/2010	4.23	4.24	4.15	4.27	6.20	Positive impact on budget cuts and surviving the no-confidence vote

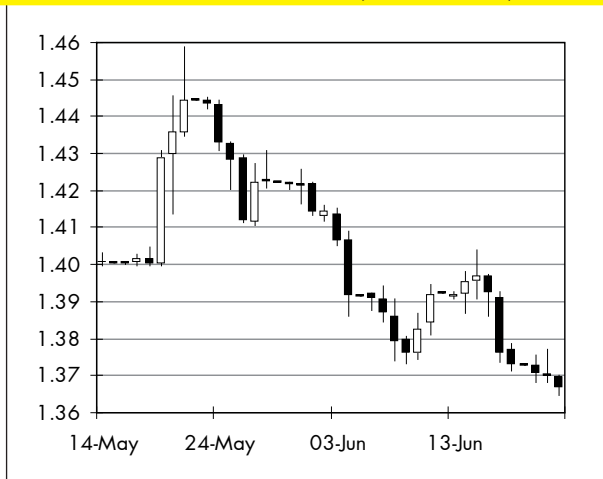
Source: Thomson Reuters, Bloomberg

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total return	Comments
Buy EUR/USD	14/06/2010	1.218	22/06/2010	1.23	0.98%	Closed Early
Sell EUR/CHF	25/05/2010	1.423	04/06/2010	1.4	1.64%	Target Reached
Sell EUR/CHF	03/05/2010	1.432	06/05/2010	1.415	1.20%	Target Reached
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 USD/TRY (long TRY)	13/04/2010	1.492	28/04/2010	1.51	-0.93%	Stopped out
SELL BASKET/RUB (long RUB)	06/04/2010	33.81	06/05/2010	34.1	-0.86%	Stopped out
SELL EUR/PLN (long PLN)	10/05/2010	4.023	11/05/2010	4.05	-0.66%	Stopped out
SELL BASKET/RUB (long RUB)	10/05/2010	34.1812	21/05/2010	34.67	-1.43%	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: 1.367 → 1.35 (next move)

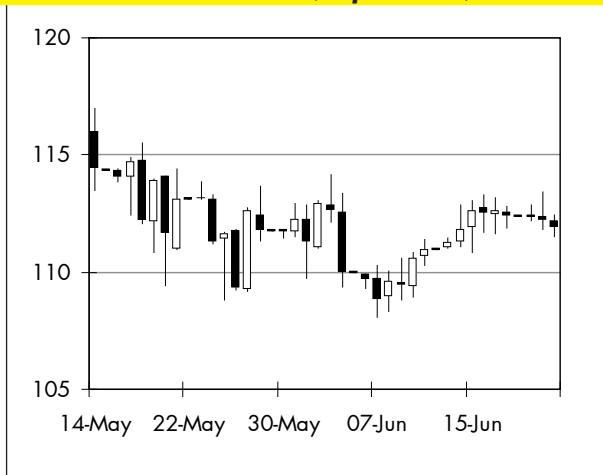
Source: Thomson Reuters

Last week, the Swiss franc strengthened considerably against the euro, reaching a new all-time low at a rate of EUR/CHF 1.365. For months now, the Swiss franc has been a currency that has mainly been driven by the Swiss National Bank (SNB). At the SNB's quarterly rate-setting meeting last week, there was no change in the interest rate, but the country's central bankers did bid farewell to one of their most ag-

gressive weapons in their fight against deflation, namely currency market intervention. On Monday, the central bankers headed by Chairman Philipp Hildebrand confirmed this decision. Nonetheless, they did not rule out renewed intervention on the currency market, in the event that Switzerland was hit by deflationary tendencies again. In the current situation, the SNB does not see the EUR/CHF exchange rate as a deflationary risk nor as a threat to Switzerland's export sector.

Our advice is to prepare for a stronger franc over the long term and to take advantage of any weak phases for the Swiss currency to build up appropriate positions. A reduction in money supply would make sense from both a monetary policy and economic policy perspective in Switzerland, and thus lead to more CHF appreciation. The SNB's inflation forecasts show that the current low interest rate policy will be coming to an end in the foreseeable future. We expect to see the first interest rate hikes around the turn of the year 2010/2011. Consequently, this could pave the way for our next forecast target of EUR/CHF 1.35.

Analyst: Ingo Jungwirth
 ingo.jungwirth@raiffeisenresearch.at

**EUR/JPY: 111.9 → 110 (next move)
 USD/JPY: 90.8 → 92 (September)**

Source: Thomson Reuters

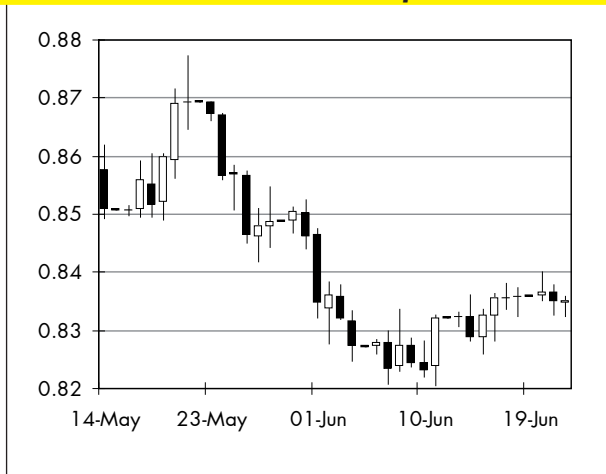
The never-ending disputes in domestic politics and the external pressure from rating agencies prompted to the Japanese government under the new PM

and former finance minister Naoto Kan to announce measures to consolidate the budget. The planned reforms, however, are not far-reaching enough and as a result Japan will advance to be the stand-alone leader in public debt in the foreseeable future. The announcement of tax hikes despite the upcoming elections to the upper house on July 11 at least represents a departure from the opportunistic style of governing pursued by previous governments in Japan. But the current announcements are not really suitable for drawing any long-term conclusions for the Japanese economy, the development of interest rates and the exchange rate. Specific measures will probably only be announced and implemented when Japan's domestic politics calms down following the elections.

EUR/JPY was mainly affected by the EUR/USD development in the last few days. We expect to see this trend continue over the short term, bringing the rate to at least EUR/JPY 110..

Analyst: Ingo Jungwirth
 ingo.jungwirth@raiffeisenresearch.at

EUR/GBP: 0.834 → 0.84 (September)



Source: Thomson Reuters

In light of the slightly calmer mood on the capital markets, the pound has been relatively stable against the euro and the US dollar in recent days, with the current rates near our September targets of EUR/GBP 0.835 and GBP/USD 1.472. For lack of data surprises in the last week, the traditional Mansion House speech by central bank governor Mervyn King and the regulatory changes in the field of financial market oversight attracted the most attention, with the latter centralizing responsibilities at the Bank

of England (BoE). The Financial Policy Committee (FPC) to be formed within the BoE is to take over the tasks of the Financial Services Authority (FSA) in the future. Thus the BoE will have overall responsibility for maintaining the systemic stability of the financial market. Mervyn King's speech confirmed our view that no interest rate hikes can be expected by the BoE before early 2011. While King stressed that the BoE was keeping a close eye on the recent increase in inflation expectations, the rate-setting committee still felt that the current peaks in inflation were a passing phenomenon. Furthermore, King underlined that the central bank would take fiscal policy conditions into account in its monetary policy and thus consider the effects of the upcoming budget consolidation in the UK. Against this backdrop, the focus on the markets this week is clearly on today's presentation of the emergency budget by the Conservative-Liberal government. Chancellor of Exchequer Osborne outlined an even tougher as anticipated emergency budget with fiscal tightening measures building up to some GBP 40 bn per annum (just over 2 % of GDP) till 2015. The dampening impact of the consolidation measures on the economy could prompt the BoE to stick with its loose monetary policy longer than previously expected

Analyst: Julia Neudorfer
julia.neudorfer@raiffeisenresearch.at

EUR/PLN*: 4.048 → 3.75 (September)



* under revision
 Source: Thomson Reuters

The presidential elections at the weekend ended with the expected result: a run-off election will be held on July 4 to decide whether Bronislaw Komorowski or Jaroslaw Kaczynski will be Poland's next president. The percentage of votes won by the Social Democrat's candidate was surprisingly high. It will mainly be the

voters from this camp who will decide the outcome of the run-off, and we believe that the majority of these voters will tend to favour Komorowski. In our opinion, a victory for the PO candidate Komorowski would be a better result in relation to the reform of public finances, as the governing PO-PSL coalition would then not have to worry about a veto by the president. At the same time, the coalition could no longer put off reforms by pointing to the likelihood of a veto by the president. Nevertheless, we do not believe that any major reforms will be undertaken before the general elections next year. Still, amidst the current market conditions the Polish government will have no alternative but to present a credible budget plan for 2011, if they want to keep their borrowing costs in check. We see EUR/PLN as enjoying good upside support right now, thanks to the good fundamental data on Poland. On the downside, however, potential is also limited, as global uncertainties are now being accompanied by local uncertainty factors. Accordingly, our short-term recommendation is not to enter into any new positions on EUR/PLN.

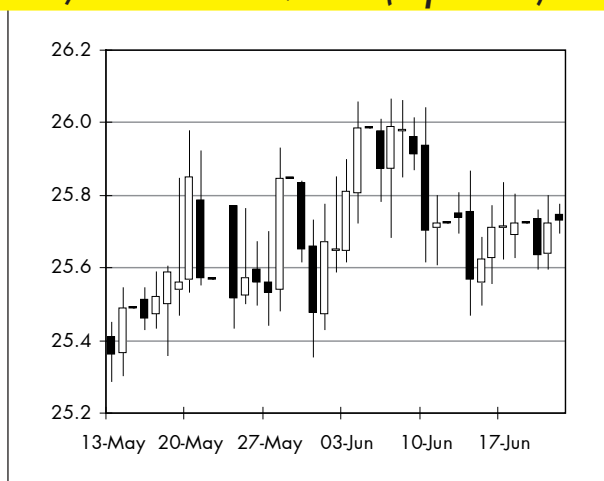
Analyst: Marcin Kopaczynski
marcin.kopaczynski@raiffeisenresearch.at

EUR/HUF*: 278.8 → 275 (June)

* under revision
Source: Thomson Reuters

As expected the Monetary Council decided to leave interest rates unchanged at 5.25%. However, we expect to see continuing pressure from the new government to continue cutting rates in the months to come. In the meantime the situation following the unconsidered remarks about the financial situation of Hungary eased and EUR/HUF gained some ground below 280. In any case the government should deviate from the plan of a much higher deficit 2010 and will try to come close to the original budget deficit of 3.8% of GDP. While details of the 2010 budget are not known there are plans for a new banking tax, wage cuts in the public sector and other tax changes (including a flat tax). We expect a continued calming of the situation and see EUR/HUF coming back towards 275.

Analyst: Wolfgang Ernst
wolfgang.ernst@raiffeisenresearch.at

EUR/CZK*: 25.73 → 24.8 (September)

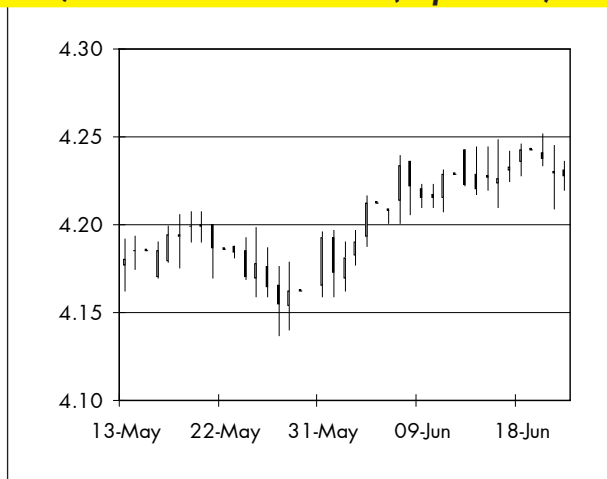
* under revision
Source: Thomson Reuters

The Czech koruna (CZK) kept at levels around 25.7 against the Euro over the past days. The CZK did

not pay much attention to a much higher than expected current account surplus (CZK 12.4 bn in April). It is generally expected that the Czech National Bank will keep its key 2-week repo rate unchanged at 0.75% on its monetary policy board meeting this week. However, it will be interesting to see how the bank board comments on the recent economic data, which had a slightly inflationary trend (higher than expected producer prices, stronger than expected decline in unemployment). Negotiations about forming a centre-right government coalition are continuing and should be completed in a few weeks time. In the meantime the CZK remains dominated by external factors. We still consider a quick formation of a new government whose top priority will be the budget consolidation, including long overdue reforms of the pension and healthcare systems, as positive for the CZK outlook in a medium term perspective.

Analyst: Walter Demel
walter.demel@raiffeisenresearch.at

EUR/RON*: 4.224 → 4.05 (September)



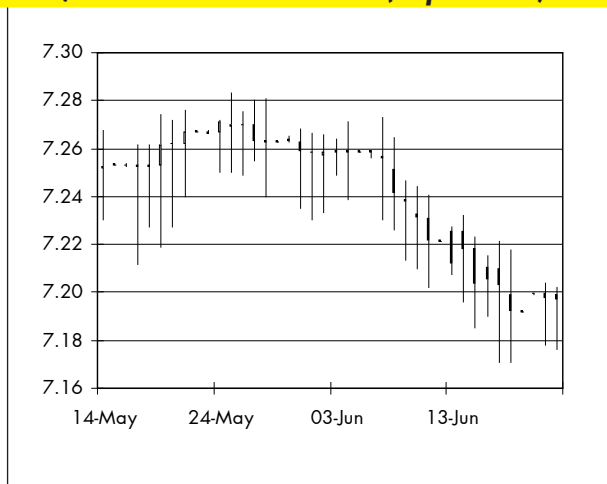
* under revision
Source: Thomson Reuters

The leu remained on a slight depreciation trend last week, losing another 0.5% against the euro. Romania's currency remained unresponsive to the

government's success in surviving the no-confidence vote and Parliament passing the austerity measures aiming at reducing public wages by 25% and pensions by 15%. Once again, external factors proved more important than domestic ones. On Monday, in the context of improving sentiment on the external markets, the leu completely erased the losses from the previous week. No important key economic information is to be released until the next monetary policy meeting on 30 June. Accordingly, external factors should continue to be the main drivers behind exchange rate fluctuations. In a medium and long-term perspective, we remain positive on the leu and see chances for some leu appreciation by the end of this year, depending on the ability of the government to implement the austerity program. However, our previous exchange rate forecast now seems to be too optimistic.

Analyst: Martin Stelzener
martin.stelzener@raiffeisenresearch.at

EUR/HRK*: 7.199 → 7.30 (September)



* under revision
Source: Thomson Reuters

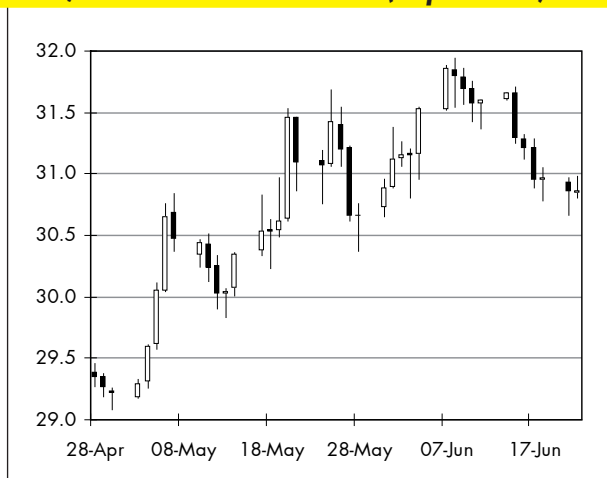
The domestic FX market was marked by further appreciation pressures last week, resulting in a decline in EUR/HRK towards 7.21. Consequently, the CNB's middle rate for EUR/HRK also temporarily

fell below 7.21, its lowest level since end-December 2008. Along with significantly lower demand for foreign currency (due to a huge fall in imports), one of the drivers behind these movements was investors' positioning in the run-up to the euro-denominated T-bill auction and market speculation about possible domestic bond issuance in the summer. The MM T-bill auction held last week attracted somewhat less attention than in previous weeks, while the interest rates remained stable, consistent with high levels of liquidity in the system.

In the week ahead, we do not expect significant changes in the exchange rate, as trading on the domestic FX market should be carried out in a range between 7.20 and 7.22, allowing for short drops below the aforementioned level. At a monthly level, the beginning of the tourist season might create further appreciation pressures on HRK, but seasonal influences could be less pronounced than in previous years.

Analyst: Martin Stelzener
martin.stelzener@raiffeisenresearch.at

EUR/RUB*: 38.03 → 37.3 (September)
USD/RUB*: 30.85 → 29.8 (September)



* under revision
 Source: Thomson Reuters

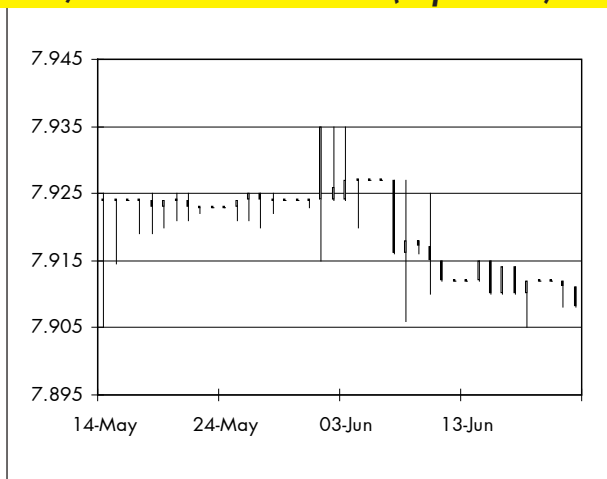
Improving sentiment on the local equity market and firmer oil prices abroad helped to spark more buying in the rouble currency market. The rouble broke out of its old trading range of 34.15-34.65 vs. the dual currency basket to trade at 34.07 as of Monday,

June 21. It appears the rouble bulls took control of the market as local banks began selling excessive FX positions ahead of the tax payment period which traditionally kicks in during the 3rd to the 4th week of each month.

We believe the rouble might be poised for a fresh wave of market rallying if global market volatility remains on a downtrend and oil prices stabilise at higher levels. That said, we see the possibility for the rouble breaking the 34.00 level to trade at 33.85 in the coming two weeks. Likewise the rouble trading range will change from 34.15-34.65 to 33.65-34.10. Benign inflation developments will also pave the way for monetary easing. We expect the central bank of Russia to trim its key rates by another 25bp within the next 30-45 days, which will bring the end of the rate cycle closer. However, as annual inflation will continue falling after August and the monthly average rate is likely to remain fairly low until the end of 2010, we estimate that key interest rates will be kept at relatively low levels until the end of Q1 2011.

Analyst: *Gintaras Shlizhyus*
gintaras.shlizhyus@raiffeisenresearch.at

EUR/UAH*: 9.730 → 9.50 (September)
USD/UAH*: 7.908 → 7.60 (September)



* under revision
 Source: Thomson Reuters

The Ukrainian hryvnia traded stable at USD/UAH 7.92 and even managed to appreciate minimally versus the dollar last week. With the euro strengthen-

ing against USD, Ukraine's currency lost a bit of ground against EUR. There is currently still no end in sight to stabilisation of the exchange rate versus USD (i.e. a change in the central bank's exchange rate policy). Accordingly, with regard to the months ahead we expect to see a relatively unchanged rate to USD as well.

The latest economic data point to a moderate recovery in business activity. For example, industrial production for the first five months of the year increased by 12.6% yoy, thus recouping some of the massive decline of 22% yoy from the previous year. For the same period, GDP expanded at a rate of 6.1% yoy, according to government information. On the other hand, demand by private households is developing in a much more subdued manner: for example, retail sales for Jan-May 2010 rose by just 1.6% yoy after adjustment for inflation (following a decline of 17.4% in 2009). Hence, Ukraine still has a long ways to go before its economy fully recovers.

Analyst: *Andreas Schwabe*
andreas.schwabe@raiffeisenresearch.at

Raiffeisen Zentralbank Österreich AG, Vienna Global Markets

Head of Sales: Stefan Weiser Tel: +43 1 71707 3974
Head of International Sales: Luca Scalzini Tel: +43 1 71707 3981
Head FI Sales (AUT/GE/LIE): Hans Retzl Tel: +43 1 71707 3300
Head of MM & FX Sales: Richard Quinn Tel: +43 1 71707 3904
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

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

Editor:

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

Head of Raiffeisen RESEARCH:

Peter Brezinschek (1517)

RZB London Branch

Sales: Luca Scalzini Tel: +43 1 71707 3981

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: Lejla Kurtovic Tel: +387 33 287 144
Sales: Haris Mustafic Tel: +387 33 287 127

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: Mirosław 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

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