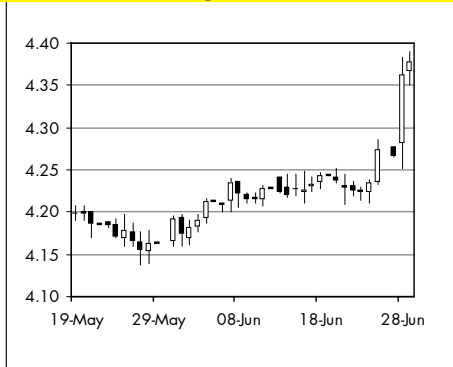


# Focus FX weekly

Issue 26/2010

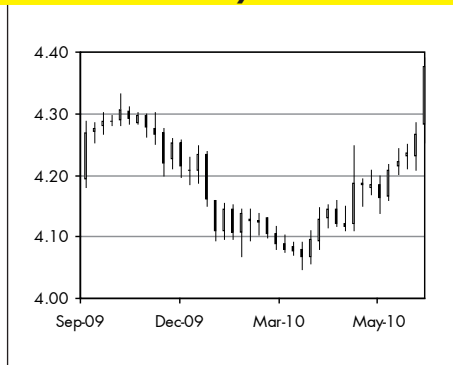
29 June 2010

## EUR/RON daily



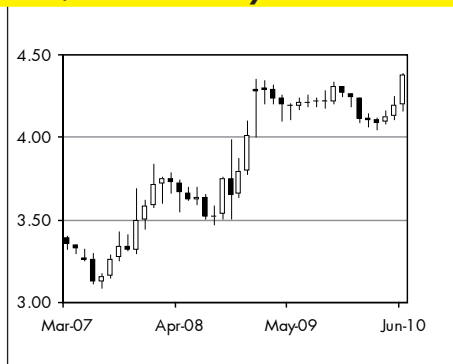
Source: Thomson Reuters

## EUR/RON weekly



Source: Thomson Reuters

## EUR/RON monthly



Source: Thomson Reuters

## EUR/RON\*: 4.376 → 4.05 (September)

On Friday, the Constitutional Court said that the measure to cut pensions by 15% cannot be applied as it contravenes the principles stated in country's fundamental law. The decision was largely unexpected by the market (including us) and had a strong impact on the RON exchange rate, which depreciated rapidly on Friday. On Saturday, the government announced that it would increase VAT from 19% to 24%, with additional public revenues from this measure to offset the inability to lower public spending by cutting pensions. RON continued to depreciate rapidly on Monday. The leu lost 2.6% against the euro between Thursday and Monday. Bids from local players were the main driver behind the exchange rate move, while the activity of non-resident players remained low. Also, there were no signs of activity from the central bank to defend the leu. An expected increase in the inflation rate due to the VAT hike is one reason for a weaker leu. But there is more than that: uncertainty regarding the ability of the government to effectively implement a fiscal consolidation plan has increased following the recent events. Under these circumstances, risks for the leu remain on the downside (a weaker leu) for the time being. One bit of good news in the last few days was that the IMF board postponed the decision to analyse Romania's letter of intent from Monday to Wednesday. Romanian authorities said that the IMF agreed with the hike in VAT.

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## Exchange rate forecasts

	actual	Sep-10	Dec-10	Mar-11
EUR/USD	1.224	1.25	1.20	1.15
EUR/CHF	1.332	1.32	1.30	1.35
EUR/JPY	108.6	106	125	120
USD/JPY	88.8	85	104	104
EUR/GBP	0.811	0.82	0.80	0.76
EUR/PLN*	4.170	3.75	3.65	3.50
EUR/HUF*	287.1	275	275	270
EUR/CZK*	25.79	24.8	25.0	24.6
EUR/RON*	4.376	4.05	3.95	3.90
EUR/HRK*	7.184	7.30	7.32	7.35
EUR/RUB*	38.20	37.3	35.8	35.2
USD/RUB*	31.19	29.8	29.8	30.6
EUR/UAH*	9.673	9.50	9.20	8.50
USD/UAH*	7.905	7.60	7.70	7.40
EUR/TRY*	1.934	1.88	1.80	1.67
USD/TRY*	1.581	1.50	1.50	1.45

\* under revision

Source: Thomson Reuters. Raiffeisen RESEARCH

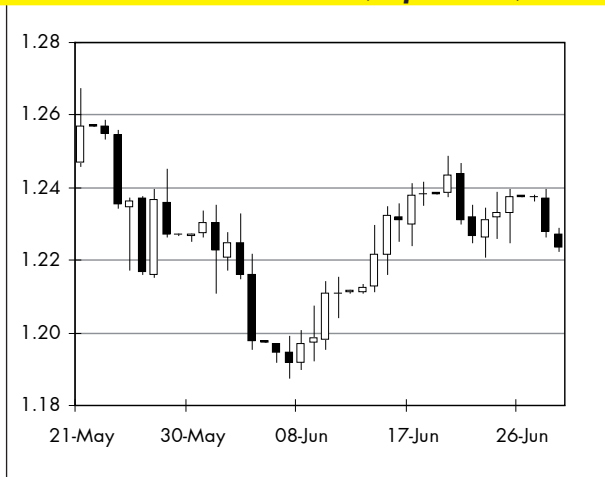
## Trading Ideas

### 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
SELL EUR/RON (long RON)	14/06/2010	4.23	25/06/2010	4.27	-0.76%	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: 1.224 → 1.25 (September)**

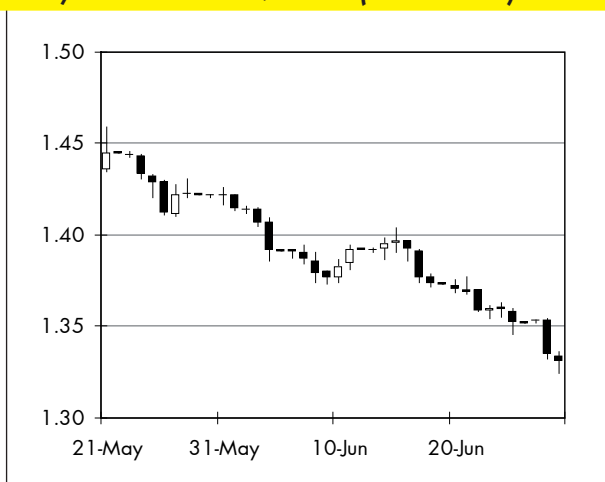
Source: Thomson Reuters

While some are disappointed that the rebound in EUR/USD has stalled in the last few days and that EUR/USD has been drifting sideways between 1.215 and 1.247 since then, we see this development as quite heartening: after all, during the same period risk premiums for Greek government bonds opened up again drastically and the global equity markets corrected significantly lower, both of which are phe-

nomena that precipitated new EUR/USD lows in the recent past, whereas this time they only produced a flat trend in the EUR exchange rate. While it is not possible to rule out that EUR/USD will make new lows 1.215 again, we think it is more likely that the rebound for EUR will continue (beyond 1.25 as well), as soon as global risk appetite improves again. Although another bond auction is scheduled in Spain this Thursday, it should go off without a hitch, in light of what are likely to be high coupons. Nor do we expect any significant problems to be triggered by the economic data: the US ISM index (Thu) should decline (which is theoretically negative for USD, but this is consensus already), whereas the US labour market report on Friday should be quite robust (excluding job losses amongst census workers). Our medium-term outlook thus remains unchanged: during the coming weeks/months, we still see a strong possibility that temporary rebounds in EUR/USD will push the rate back up to around levels of 1.25-1.30 temporarily. From the current vantage point, this would represent a good time to switch out of EUR into USD. Because over a one-year horizon, we do not believe that EUR/USD has hit its ultimate lows yet.

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**EUR/CHF: 1.332 → 1.30 (next move)**

Source: Thomson Reuters

Last week, the Swiss franc strengthened considerably against the euro, reaching a new all-time high at a rate of EUR/CHF 1.325. CHF has been appreciating strongly for several months now. This strengthening trend was only slowed down by the Swiss National Bank (SNB). The decisions of the central bankers at the quarterly interest-rate setting meeting held in mid-June actually reinforced this trend: while the key rate was left untouched, the SNB abandoned one of its

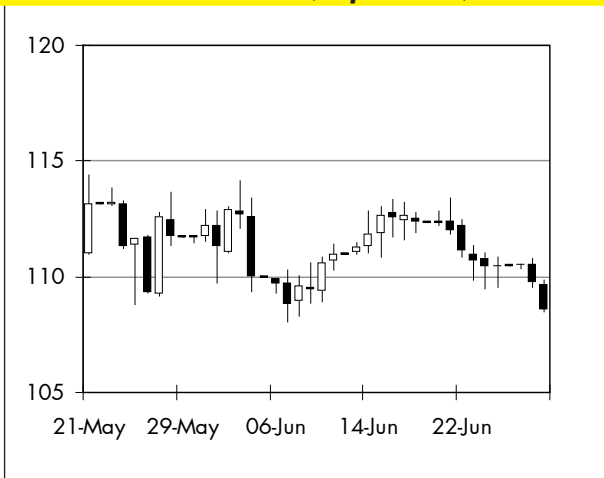
most aggressive tools for fighting deflation, namely intervention on the currency markets. This has opened the door for more franc strength for now. Renewed intervention on the currency market was not ruled out in the event that deflationary trends begin to emerge in Switzerland again. In the current situation, however, the SNB does not see the EUR/CHF exchange rate as a deflationary risk nor as a threat to Switzerland's export sector.

Consequently, 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. Because a reduction in money supply would make sense from both a monetary policy and economic policy perspective in Switzerland, and would lead to more CHF appreciation. The market is already beginning to price in rising interest rates right now. We project that the first rate hike will come around end-2010/early 2011 (well before the ECB moves), which should lead to further appreciation of the Swiss franc in the months to come. Intervention will probably not be an issue with exchange rate levels of over EUR/CHF 1.32. As a result, we expect the current trend to continue to EUR/CHF 1.30.

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**EUR/JPY: 108.6 → 110 (next move)**  
**USD/JPY: 88.8 → 85 (September)**



Source: Thomson Reuters

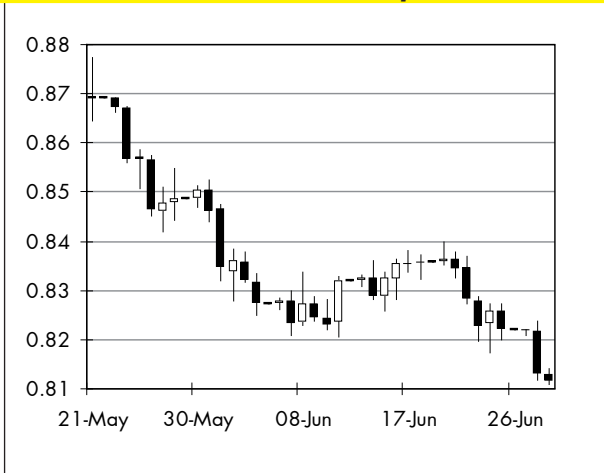
Even if the strong economic performance seen in recent quarters continues in Japan, it will still take

until at least the end of 2011 before any inflationary pressure begins to emerge. Furthermore, with the latest events it looks like the distinction between the government and the central bank is becoming blurred in Japan. Consequently, the Japanese central bank may continue its programme for purchasing Japanese government debt. The loose monetary policy of the Japanese central bank will likely remain in place longer than in most of the Western markets and this should lead to weakening of the Japanese yen, which is quite strong at the moment. In Q3, we project that the rate will move to EUR/JPY 106, but initially the yen will remain strong due to the persistently high volatility in risky assets.

EUR/JPY was mainly affected by the developments in EUR/USD in the last few days. Over the short term (next few days), we expect to see the sideways trend around EUR/JPY 110 continue.

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**EUR/GBP: 0.811 → 0.82 (September)**

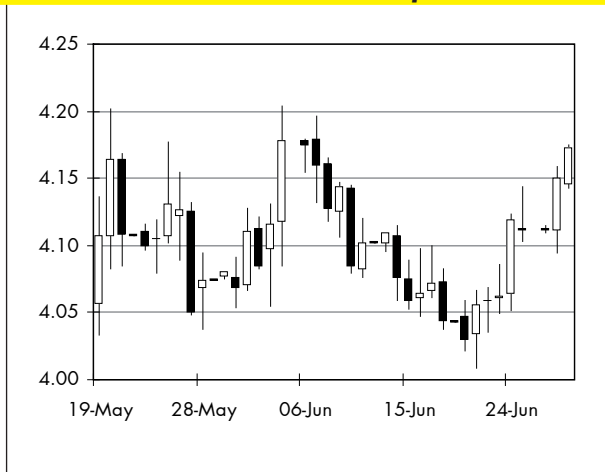


Source: Thomson Reuters

Currently, the pound is trading at EUR/GBP 0.811, which is around 3% stronger than at the beginning of the previous week. Sterling was also able to firm versus the US dollar, strengthening by 1.6% to GBP/USD 1.51. Triggers for this broad appreciation trend included the announcement of the emergency budget, which calls for additional consolidation measures amounting to GBP 32 bn annually (or about 2% of GDP). With this, the budget deficit is to be lowered by around 8 percentage points to 2.1% of GDP over the next five years. This exceeds all previous consolidation efforts in the UK. The reaction of the market and the rating agencies was correspondingly positive. The risk of a downgrade to the UK's cre-

dit rating, which was weighing heavily on GBP, has thus declined significantly. Additional strength for the pound was generated by the publication of the minutes of the last rate-setting meeting of the Bank of England (BoE). The minutes clearly showed that there is a lack of consensus within the Committee when it comes to the outlook for inflation. One particularly surprising aspect was the dissenting vote of Committee member Andrew Sentance, who voted in favour of a rate hike of 25bp. In our view, the hawks in the rate-setting committee are still clearly in the minority. BoE governor Mervyn King in particular has specifically stressed on many occasions that monetary policy must be coordinated with the overall fiscal policy conditions. The anticipated negative impact of the consolidation package on private consumption is one strong factor suggesting that the BoE will look past the present surges in inflation (which are driven by base effects) and opt to raise its key rates later rather than sooner. Consequently, we still do not expect the BoE to hike interest rates before Q1 2011 at the earliest. Nevertheless, in light of the current appreciation dynamics, we believe that rates lower than EUR/GBP 0.80 are still possible over the short term. Looking forward to year-end, however, EUR/GBP should settle in at levels around 0.80. We only see potential for sustained appreciation of the pound towards EUR/GBP 0.76 when the first rate hike does occur in the UK (and at the same time interest rates remain unchanged at a low level in the euro area).

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**EUR/PLN\*: 4.170 → 3.75 (September)**

\* under revision

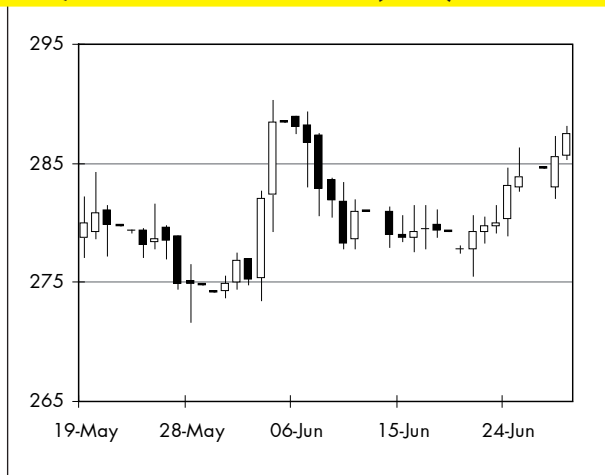
Source: Thomson Reuters

The decision by Romania's Constitutional Court to declare some of the budget consolidation measures as unconstitutional rocked the currencies as early as Friday of last week. The weakening trend continued at the beginning of this week as well. Eco-

nomie data from Poland were promising again: the unemployment rate fell to below 12% in May and another increase was registered in retail sales on a year-on-year basis. All of the data published for May confirmed that the Polish economy is set to grow at a rate of 3% yoy in Q2. Despite this positive news, there is extremely limited potential for PLN appreciation at the moment. We believe that the bad news on public debt (not only in CEE) will trigger repeated set-backs for the zloty. We can still imagine a slow appreciation of the zloty until year-end, but over the short term we advise against short positions in EUR/PLN, as there is currently elevated uncertainty about the outcome of the presidential elections on July 4. The rate-setting decision scheduled for Wednesday, however, should not involve any surprises. It is highly unlikely that the Monetary Policy Council will change the key rates. At best, in the accompanying statement we might expect to see some hints as to a possible change in the monetary policy bias of the Council (but only in the months to come).

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**EUR/HUF\*: 287.1 → 275 (June)**

\* under revision

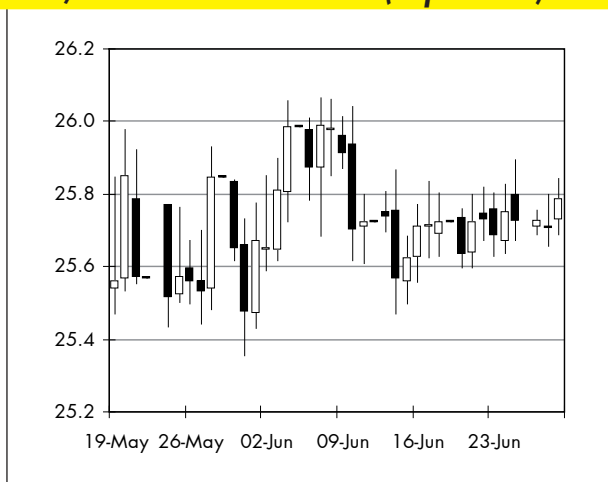
Source: Thomson Reuters

Continued high risk aversion and weakness in the Romanian leu kept EUR/HUF well above 280. In Hungary the discussions about the 2010 budget continue and the only thing that seems clear is that the new government accepts the goal of a 3.8% budget deficit as agreed with the IMF and the EU. To achieve this, a banking tax seems a done deal but apart from this there are numerous proposals that do not bring any clarity for investors. Previously a statement was made that the rest of the IMF money not taken so far could be used to ease burdens for financially hit FX debtors. All in all the uncertainty over the budget plan persists and the accelerated risk aversion should only allow for a slow calming of EUR/HUF. Nevertheless, given that a lot of negative news are priced into the forint we would expect some stabilization of EUR/HUF.

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## EUR/CZK\*: 25.79 → 24.8 (September)

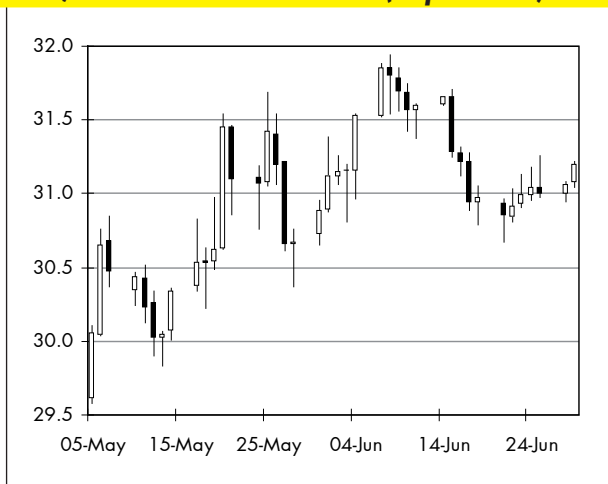


\* under revision  
Source: Thomson Reuters

The Czech koruna (CZK) kept at levels around 25.7 against the Euro over the past days. As was generally expected the Czech National Bank left its key 2-week repo rate unchanged at 0.75% on its monetary policy board meeting last week. Also Czech President Vaclav Klaus appointed former Vice-Governor Miroslav Singer as the successor of Governor Zdenek Tuma, who decided to leave his post early by the end of June. Despite some open questions on the distribution of some ministries the 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*  
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## EUR/HRK\*: 7.184 → 7.30 (September)



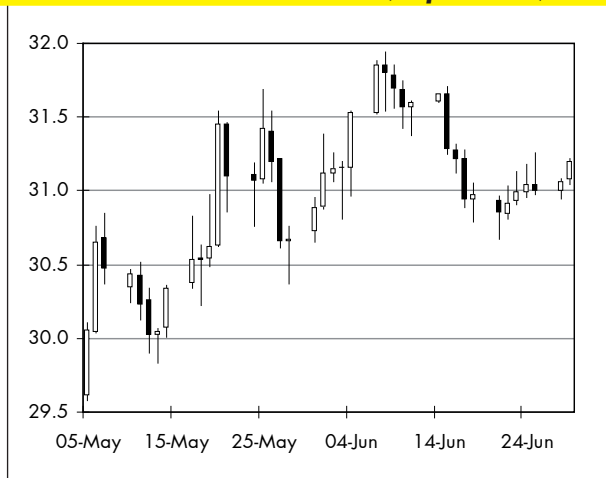
\* under revision  
Source: Thomson Reuters

Last week was marked by stronger appreciation pressures on HRK. Early in the week, EUR/HRK was stable at 7.20, but the rate fell below 7.19 in the second half of the week, driven by the increased supply of euros from the banking sector and institutional investors. To prevent further appreciation pressure and maintain a stable exchange rate, the Croatian National Bank carried out an FX intervention, purchasing EUR 125.6 mn at EUR/HRK 7.201 on Thursday. This was the first FX intervention since December of last year.

This week, we do not expect significant changes in EUR/HRK: trading should remain between 7.20 and 7.22. At the monthly level, as the main tourist season is approaching, we expect appreciation pressures to prevail, due to the increased inflow of foreign currency. However, seasonal effects in this year will be far less pronounced than in previous years.

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**EUR/RUB\*: 38.20 → 37.3 (September)**  
**USD/RUB\*: 31.19 → 29.8 (September)**



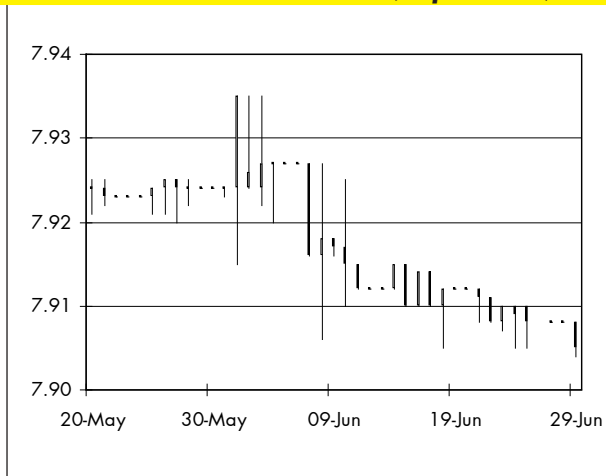
\* under revision  
 Source: Thomson Reuters

The rouble did not manage to sustain its earlier gains and slid back to within the old trading range of 34.15-34.65. The currency fell from 34.11 to 34.31 last week, before recovering to 34.25 by the end of the week. However, worsening global sentiment and weaker oil prices, as always, put the rouble on

downward trajectory on Monday, June 28. Despite the central bank trying to play down rate cut expectations by alleging substantial improvement in economic growth and worrying about inflation risks in the coming months, we believe there is a good possibility for the bank to axe rates by another 25bp, before shifting to neutral stance since average monthly inflation is unlikely to pick up before October. At the same time, market consensus sidelines with the central bank on the rate policy outlook, whereas we and a few other banks believe that additional 25-50bp of rate cuts might be feasible in 2010. However, easing is unlikely to produce another wave of buying in the rouble, since the amount of easing left is miniscule in comparison. This week, the IMF also commented on Russia's rouble policy, stating the need to let the currency rise to curb inflation and also called on the government to withdraw large fiscal stimulus, especially taking into account questionable efficiency of that extra spending for the economy. We see the rouble staying within the 34.15-34.65 trading range and have neutral outlook on the rouble for the week ahead.

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**EUR/UAH\*: 9.673 → 9.50 (September)**  
**USD/UAH\*: 7.905 → 7.60 (September)**



\* under revision  
 Source: Thomson Reuters

Last week, the Ukrainian hryvnia traded stable around USD/UAH 7.91, appreciating minimally versus USD. With EUR weakening against USD, the hryvnia gained a bit of ground against EUR. The central bank continued to intervene and thus prevented any substantial appreciation versus USD. BoP data for May confirmed the surplus of foreign currency: both the current account and the capital account

showed surpluses of USD 260 mn and USD 730 mn, respectively. This also applies to the entire period of January to May, for which a cumulative surplus of USD 1.6 bn was registered. During May, the current account balance profited mainly from the traditionally positive service account balance, which overcompensated for the slightly negative result on the goods balance. In respect of capital flows, slightly higher direct investments were registered, amounting to almost USD 400 mn, whereas banks and companies paid back a total of USD 700 mn in loans in May. One interesting point was an inflow of over USD 1.05 bn in "other capital" which the central bank explained as being trade credits granted. We believe that the weaker steel price entails risks for the current account, which could also alleviate some of the appreciation pressure on the currency in the months to come.

There is no official new news from the IMF on the state of affairs with regard to the negotiations. We are sceptical about the comments of Vice-PM Tigipko to the effect that a positive conclusion will be reached within a week, particularly considering the government's unwillingness to move ahead with painful fiscal measures and the tougher negotiating position of the IMF.

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