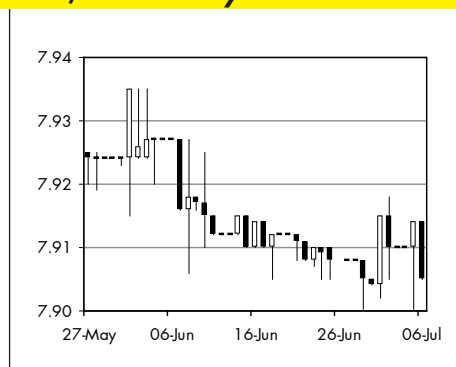


# Focus FX monthly

Issue 27/2010

6 July 2010

## USD/UAH\* daily



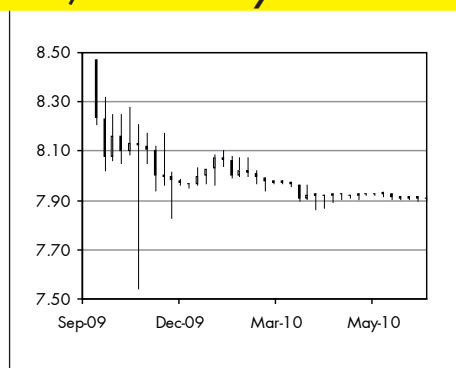
\* under revision

Source: Thomson Reuters

## USD/UAH\*: 7.905 → 7.70 (December)

The IMF and the Ukrainian government were indeed able to move quite quickly to reach an agreement on a new aid package for the crisis-ridden country. The key data on the staff-level agreement for an SBA (which will replace the previous programme which was suspended in November of last year) are the following: a volume of USD 14.9 bn (SDR 10 bn); duration: 2.5 years; fiscal consolidation measures on both the revenue and spending side with the goal of a general government deficit of a maximum of 5.5% of GDP and 3.5% of GDP next year; limitation of the Naftogas deficit to 1% of GDP in 2010 and balanced finances in 2011. Details on the tranches, performance conditions, structural benchmarks and prior actions have not been released by the IMF yet. However;

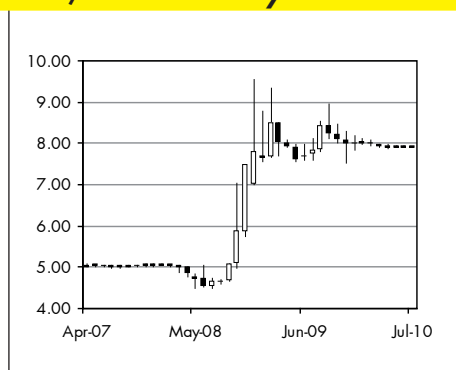
## USD/UAH\* weekly



\* under revision

Source: Thomson Reuters

## USD/UAH\* monthly



\* under revision

Source: Thomson Reuters

## Exchange rate forecasts

	actual	Sep-10	Dec-10	Mar-11
EUR/USD	1.258	1.25	1.20	1.15
EUR/CHF	1.336	1.32	1.30	1.35
EUR/JPY	110.5	106	125	120
USD/JPY	87.8	85	104	104
EUR/GBP	0.829	0.82	0.80	0.76
EUR/PLN*	4.107	3.75	3.65	3.50
EUR/HUF*	284.8	275	275	270
EUR/CZK*	25.50	24.8	25.0	24.6
EUR/RON*	4.237	4.05	3.95	3.90
EUR/HRK*	7.194	7.30	7.32	7.35
EUR/RUB*	39.10	37.3	35.8	35.2
USD/RUB*	31.06	29.8	29.8	30.6
EUR/UAH*	9.935	9.50	9.20	8.50
USD/UAH*	7.905	7.60	7.70	7.40
EUR/TRY*	1.959	1.88	1.80	1.67
USD/TRY*	1.557	1.50	1.50	1.45
EUR/BYR*	3655	3800	3700	3700
USD/BYR*	3018	3050	3050	3200
EUR/BGN	1.956	1.96	1.96	1.96
EUR/ALL*	136.20	139.0	139.0	137.5
EUR/RSD*	103.11	99.0	98.5	97.0
EUR/CNY	8.529	8.44	8.08	7.65
USD/CNY	6.780	6.75	6.73	6.65
EUR/BRL	2.218	2.19	2.04	1.90
USD/BRL	1.775	1.75	1.70	1.65
EUR/ZAR	9.690	9.50	9.48	8.97
USD/ZAR	7.685	7.60	7.90	7.80
EUR/KZT*	179.440	178.75	170.40	161.00
USD/KZT*	147.200	143.00	142.00	140.00

\* under revision

Source: Thomson Reuters. Raiffeisen RESEARCH



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these may be published after the decisive IMF Board meeting on approval of the programme at the end of July.

We see this agreement as clearly good news for Ukraine. If approved, the funds will bolster currency reserves (which increased another 10.5% to USD 29.5 bn in June), ease the strains on the public budget, open the door for other loans from the EU and World Bank and provide impetus for desperately needed structural reforms (pension reform, increase in gas tariffs for households). Moreover, the agreement will boost investors' confidence in the planned Eurobond issue (rumours on Monday about a restructuring of Eurobonds issued by the City of Kiev caused a stir, forcing Kiev to issue a statement denying this and to

make an early coupon payment on one of its outstanding Eurobonds).

At the same time, in light of the experiences in recent years, we remain sceptical that reforms and conditions (especially the budget deficit) can be implemented without problems. Even if the loan is quickly approved by the IMF, problems may arise later in the year with programme compliance, which in turn may (again) lead to delays in disbursement.

The currency regime is not mentioned in the IMF press release. This supports our view that we will not see any immediate changes in the current stabilisation policy of the UAH exchange rate versus USD.

Analyst: *Andreas Schwabe*

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## Trading Ideas

### FX

Recommendation	Entry date	Entry level	Current level	Target level	Stop	Carry (ann. %)	Comments
Buy EUR/USD	06/07/10	1.258	1.258	1.29	1.244		rebound risky assets, weaker US data
Buy EUR/JPY	06/07/10	110.5	110.5	113.5	109		Euro recovery
Buy GBP/USD	06/07/10	1.516	1.516	1.540	1.504		rebound risky assets
SELL EUR/PLN (long PLN)	05/07/10	4.138	4.102	4.07	4.18	3.01	rebound risky assets, Komorowski victory in elections
SELL BASKET/RUB (long RUB)	06/07/10	34.72	34.72	34.35	34.95	2.97	rising oil prices

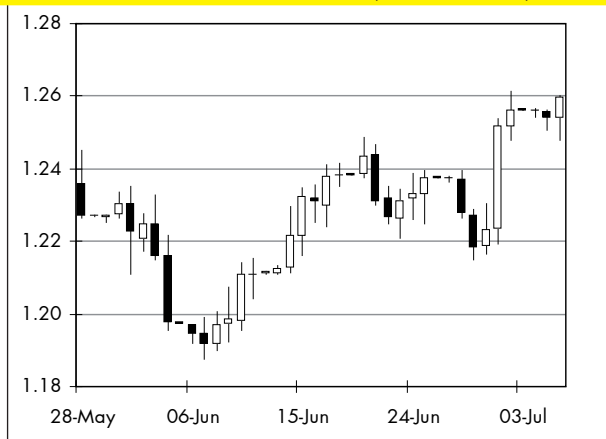
Source: Thomson Reuters, Bloomberg

### Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total Return	Comments
Buy EUR/USD	14/06/10	1.218	22/06/10	1.23	0.98%	Closed Early
Sell EUR/CHF	25/05/10	1.423	04/06/10	1.4	1.64%	Target Reached
Sell EUR/CHF	03/05/10	1.432	06/05/10	1.415	1.20%	Target Reached
SELL EUR/USD	24/03/10	1.336	29/03/10	1.35	-1.04%	Stopped Out
SELL EUR/CHF	09/03/10	1.463	19/03/10	1.44	1.57%	Target Reached
BUY EUR/JPY	09/02/10	123.3	25/02/10	120.5	-2.27%	Stopped Out
BUY EUR/USD	09/02/10	1.3784	11/02/10	1.36	-1.33%	Stopped Out
SELL USD/TRY (long TRY)	13/04/10	1.492	28/04/10	1.51	-0.93%	Stopped out
SELL BASKET/RUB (long RUB)	06/04/10	33.81	06/05/10	34.1	-0.86%	Stopped out
SELL EUR/PLN (long PLN)	10/05/10	4.023	11/05/10	4.05	-0.66%	Stopped out
SELL BASKET/RUB (long RUB)	10/05/10	34.1812	21/05/10	34.67	-1.43%	Stopped out
SELL EUR/RON (long RON)	14/06/10	4.23	25/06/10	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: 1.258 → 1.29 (next move)**

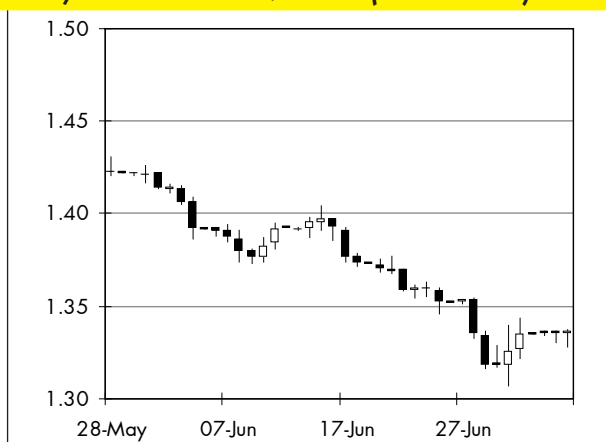
Source: Thomson Reuters

One good sign of how market sentiment has changed for EUR was the reaction to the weak US data last week (ISM, labour market report): just a few weeks ago, back when the market saw everything as negative for EUR, even weaker US data were accompanied

by declining equity markets and a falling EUR/USD; last week, by contrast, the data were enough to send EUR/USD to 1.26 (clearly the fact that Spain did not have any problems placing EUR 3.5 bn in 5-year bonds on the market, with 1.7x oversubscription, also did not hurt the euro). This week is short on relevant data. Nor are any new measures expected by the ECB on Thursday. And so, for lack of relevant triggers, there would have to be a rebound for risky assets (which tends to favour EUR over USD), in order for there to be any further increases in EUR/USD towards 1.30, in our view. And after two weeks with some sharp losses, there are not such bad chances of at least a brief rebound on the equity market. Accordingly, we believe that higher EUR/USD rates will be in reach in the days and weeks ahead. With this in mind, we even move to open a short-term speculative Trading Idea: Buy EUR/USD, current 1.258, with a target at 1.29, and a stop at 1.244. Our medium to long-term outlook remains unchanged by this.

Analyst: Valentin Hofstätter

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**EUR/CHF: 1.336 → 1.35 (next move)**

Source: Thomson Reuters

The Swiss franc advanced to a new all-time record low of EUR/CHF 1.307 on Thursday of last week, and then ended its appreciation trend against the euro, for the time being at least. The main driver was the recovery of the euro versus most of the ma-

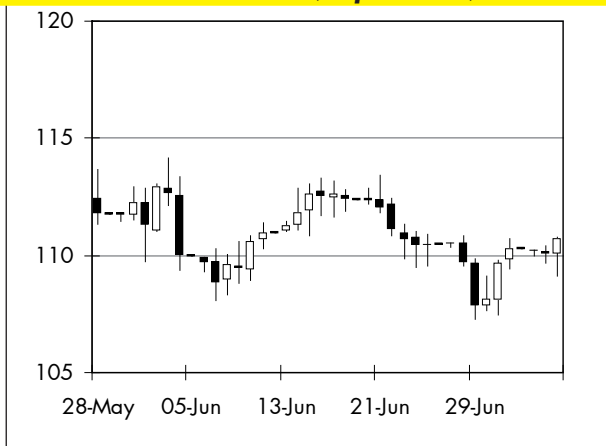
ior currencies. As a result of the strong EUR sales in recent months, there could be a temporary technical correction in EUR/CHF at any time, triggered by short coverage. Nevertheless, our recommendation is to prepare for a stronger franc at least until year-end, and to take any corrections that happen in the meantime as opportunities to position accordingly. We now expect to see a correction to EUR/CHF 1.35 and would then consider selling EUR/CHF (i.e. buying francs) again. 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. We project that the first rate hike will come around end-2010/early 2011 (well before the ECB moves), which should lead to a stronger Swiss franc in the months to come. Intervention will probably not be an issue with exchange rate levels of over EUR/CHF 1.30.

Analyst: Ingo Jungwirth

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**EUR/JPY: 110.5 → 113.5 (next move)**  
**USD/JPY: 87.8 → 85 (September)**



Source: Thomson Reuters

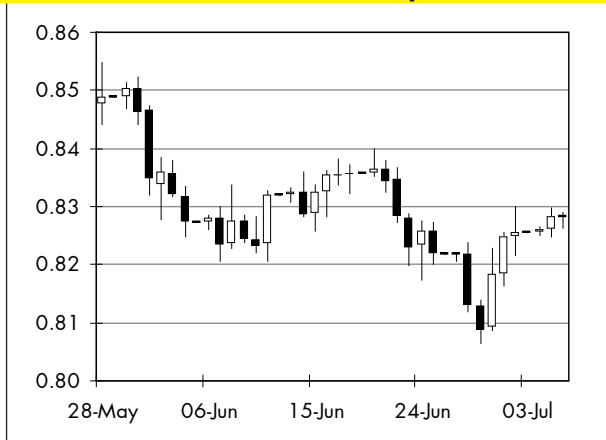
Even if the strong economic performance seen in recent quarters continues in Japan, it will still take until at least the end of 2011 before any inflationary pressure begins to emerge. Furthermore, with

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, however, we project that the yen will remain strong for now with EUR/JPY at 106 due to the persistently high volatility in risky assets.

During recent days, EUR/JPY was mainly affected by the developments in EUR/USD, and drifted sideways to EUR/JPY 110 as we had expected. Over the short term (next few days), we expect to see a mild recovery for the euro to around EUR/JPY 113. Consequently, we open a short-term trading idea Buy EUR/JPY (= sell yen): open: ; target: 113.5; stop: 109.

Analyst: Ingo Jungwirth  
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**EUR/GBP: 0.829 → 0.82 (September)**

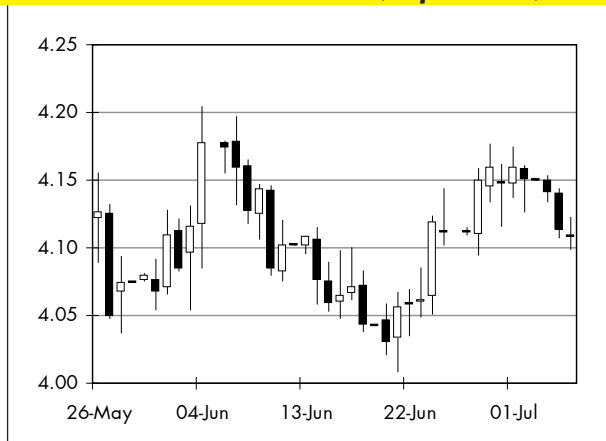


Source: Thomson Reuters

At EUR/GBP 0.806, the pound's exchange rate on Tuesday was the strongest versus the euro since October 2008. By mid-week, however, the appreciation of GBP came to an end. The main catalyst for this was the strong rebound of the euro due to the weak US data (ISM, labour market). Against this background the pound was able to move forward on its appreciation trend to the dollar, advancing to GBP/USD 1.522. As we expect that a rebound for risky assets

will follow the latest losses on the equity markets, we believe it is possible that this trend will continue over the short term. Consequently, we open a short-term Trading Idea: Buy GBP/USD, current 1.516, with a target at 1.540, and a stop at 1.504. With an eye to our medium to long-term assessment of the currency, this week's rate-setting meeting of the Bank of England (BoE) will be interesting. The monetary policy committee recently looked divided in its assessment of the inflation outlook: one member voted for a rate hike of 25bp. Nonetheless, the majority of the central bankers seems prepared to stick with the expansive monetary policy for a longer period of time, in light of the upcoming budget consolidation and the uncertain outlook for growth. Consequently, we still do not expect the BoE to hike interest rates before Q1 2011 at the earliest. Looking ahead to year-end, we see only limited potential for the pound to appreciate mildly to EUR/GBP 0.80. Sustained appreciation of the pound towards EUR/GBP 0.76 should probably only be possible 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).

Analyst: Julia Neudorfer  
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**EUR/PLN\*: 4.107 → 3.75 (September)**

\* under revision

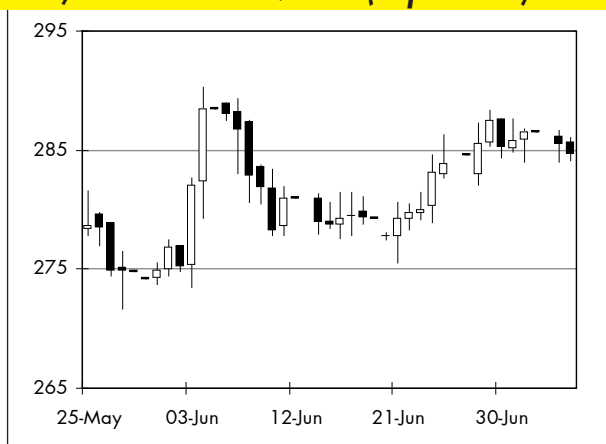
Source: Thomson Reuters

Following the presidential elections, PLN appreciated mildly versus EUR on Monday. The outcome of the election, for which more than 55% of voters turned out, was not very surprising, although it was rather tight: Bronislaw Komorowski (Civic Platform) took around 53% of the votes and is now the new Polish President. What will be interesting is the government's reaction, especially in respect of public finances and reducing the budget deficit. The argument that reforms cannot be pushed through because of the president's veto right is no longer applicable and in the months to come the PO+PSL coalition will have to present a credible budget plan for 2011. There are several arguments against radical reform in the public sector: parliamentary elections in 2011,

coupled with the narrow election victory in the presidential elections will certainly keep the government's risk appetite low. Particularly following the election fiasco for Vice-PM Pawlak (PSL) in the first round of the presidential elections two weeks ago. Furthermore, as growth picks up in Poland there will be less and less pressure to move quickly forward with deep-reaching measures. Counter-arguments include external pressure on the government: many European countries have already unveiled their budget consolidation plans and the Polish government will not want to be an exception in this regard. Moreover, Poland's dependence on foreign capital may work as a disciplining force on the government (especially in light of the developments in Greece). Measures which do not satisfy the market will immediately lead to higher yields and a weaker PLN. In our opinion though, no major breakthroughs can be expected. The government will instead concentrate on smaller savings measures and wait for the parliamentary elections in 2011 before undertaking major measures. All in all, the election result this weekend is seen as being positive. The uncertainty in relation to the election had mounted in the days prior to the vote and this will now probably be priced out. On these grounds and as we anticipate an improvement in sentiment at the global level, we have opened a trading idea with a Sell recommendation for EUR/PLN at 4.1380, with a target rate of 4.07 and a stop-loss at 4.18.

Analyst: Marcin Kopaczynski

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**EUR/HUF\*: 284.8 → 275 (September)**

\* under revision

Source: Thomson Reuters

In a weak environment EUR/HUF remains in a trading range around 285 at the moment. Currently the new government is trying to negotiate a new deal with the IMF for 2011-2012 in order to regain market confidence regarding the financial situation. Hungary's budget deficit in the first six months of 2010 meanwhile reached almost 119% of the planned total budget deficit for 2010. Nevertheless, in our opinion the deficit goal should be manageable with further fiscal consolidation measures as for example the bank tax. The new government is also trying to renegotiate the budget deficit goal of 3% of GDP for 2011. More steps to consolidate the budget will definitely have to follow. Apart from these aspects the forint is also relying on external risk sentiment. We see some moderate room for improvement as a lot of negative expectations have already been priced into EUR/HUF.

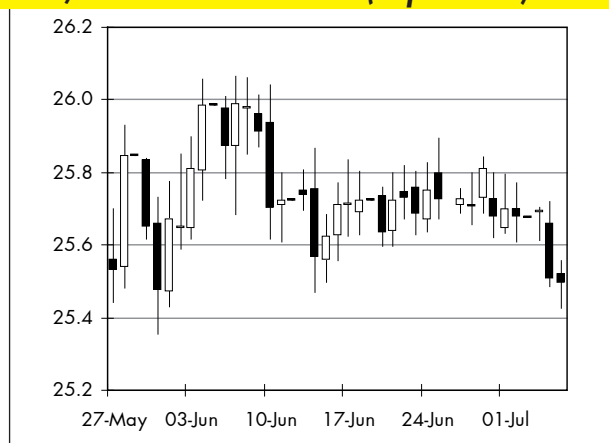
Analyst: Wolfgang Ernst

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## EUR/CZK\*: 25.5 → 24.8 (September)



\* under revision

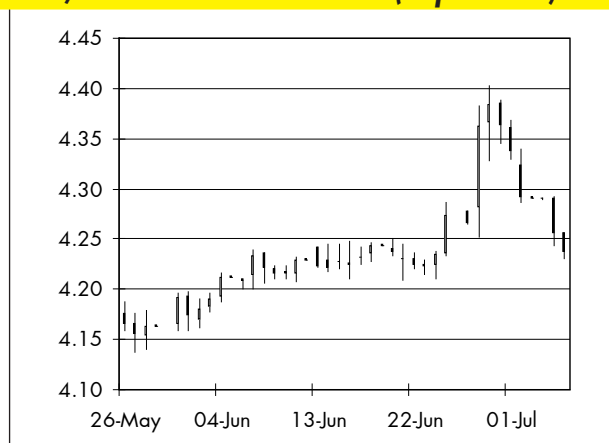
Source: Thomson Reuters

The Czech koruna (CZK) strengthened to levels at 25.5 against the Euro in a generally more supportive environment for the currencies of the region. The three center-right parties agreed on the distribution of ministries in the new cabinet. Therefore, the new coalition government should be sworn in soon. New Prime Minister Petr Necas recently stated that his government would aim to keep the budget deficit below 4.6% of GDP in 2010. With that the new government would be slightly more ambitious than the previous caretaker government. We still consider the 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/RON\*: 4.237 → 4.05 (September)



\* under revision

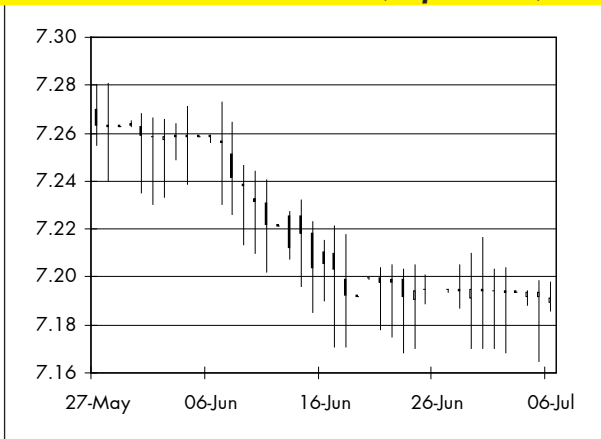
Source: Thomson Reuters

On Friday, the Board of the International Monetary Fund (IMF) completed the fourth review of the Stand-By Agreement (SBA) with Romania and approved disbursement of the fifth instalment amounting to EUR 913 mn. So far, Romania has received around EUR

10.7 bn from the IMF, out of a total of around EUR 13.6 bn. The statement following the Board meeting had positive remarks for the Romanian authorities: "Against the background of the large downturn, the Romanian authorities have made significant strides toward restoring macroeconomic stability and achieving an orderly adjustment of pre-crisis imbalances. They are taking ambitious adjustment measures to contain the weakening of the fiscal position and set the stage for a sustained improvement in public finances." The leu started to strengthen rapidly in the middle of last week and almost completely erased the losses incurred after the Constitutional Court rejected the 15% cut in pensions. Since Wednesday, it has gained more than 3% against the euro and EUR/RON is now trading close to the level from before the Constitutional Court's ruling. Despite recent gains, we are looking for a slightly weaker RON in the coming months.

Analyst: *Martin Stelzeneder*

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**EUR/HRK\*: 7.194 → 7.30 (September)**

\* under revision

Source: Thomson Reuters

Last week, appreciation pressures on HRK remained strong, despite the FX intervention on 24 June. These pressures resulted from an increased supply of euros from the banking sector and institutional investors,

caused by speculation that the government might issue a new domestic bond. As a result, the CNB's middle EUR/HRK rate fell below 7.19. Since the first FX intervention did not have the desired effect, on Tuesday the CNB carried out another intervention, purchasing EUR 118.7 mn at EUR/HRK 7.20, thereby clearly demonstrating its intention to defend the rate at 7.20. However, until the end of the last week and at the beginning of this week, trading was still conducted slightly below 7.20.

In the week ahead, we expect that EUR/HRK should stay below 7.20, which means that another FX intervention cannot be ruled out. At the monthly level, after the expected issuance of the government bond, EUR/HRK will stabilise and return to levels slightly over 7.20. However, inflows of euros from tourism, a continuation of decline in imports of goods and the lack of external borrowing by the corporate sector will keep the rate from rising significantly over 7.20.

Analyst: Martin Stelzeneder

[martin.stelzeneder@raiffeisenresearch.at](mailto:martin.stelzeneder@raiffeisenresearch.at)**EUR/RUB\*: 39.10 → 37.3 (September)****USD/RUB\*: 31.06 → 29.8 (September)**

\* under revision

Source: Thomson Reuters

Last week, we saw the rouble lose ground and crash from 34.20 to 34.70, outside of the weaker band of the old trading range. The reason for this sell-off

came from international markets, as the rouble took a beating in conjunction with lower oil prices and weaker equity markets. However, there might be a few pure domestic reasons as well. First of all, end of the tax payment period put local banks in a rouble-selling mood. Second, it could be the efforts of the central bank, which increased purchases of foreign currency from the market. And finally, we suspect demand for foreign currency from local residents who purchased more currency for trips abroad.

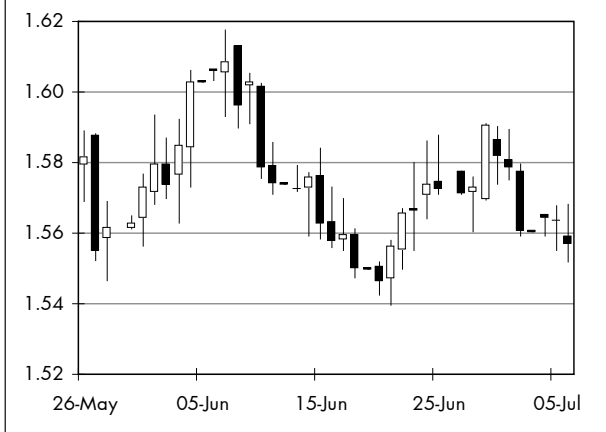
We assume the market trades the rouble as a pure oil-based currency, so some stabilisation in oil market might help offset the rouble weakness. Furthermore, a possible bounce back on the oil market could send the rouble stronger in the coming days.

Assuming we can play this volatility, we recommend a short-term trade by selling euro and purchasing roubles at 34.70 with a price target of 34.35 and a stop loss of 34.95. Overall, we believe the rouble might go stronger this week.

Analyst: Gintaras Shlizhyus

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**EUR/TRY\*: 1.959 → 1.88 (September)**  
**USD/TRY\*: 1.557 → 1.50 (September)**



\* under revision  
 Source: Thomson Reuters

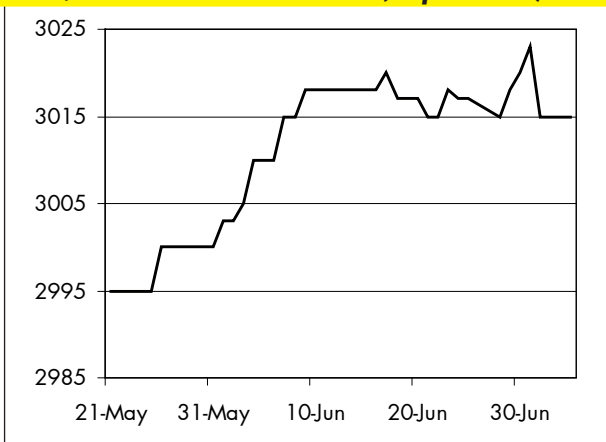
Turkish inflation continued to drop. The rate of price increases was negative in May already (-0.4% mom), and June also showed more disinflation (-0.6% mom),

whereas consensus was for stable prices. As a result, the annual rate edged lower to 8.4% yoy and may moderate even more to 7%-8% by year-end. This is supportive for local government bonds, with yields on the 2-year benchmark recently falling another 20bp to around 8.50%, as well as for the Turkish lira. The latter advanced towards USD/TRY 1.55 again, after having surpassed 1.60 in early June.

Risks for the lira can be found as usual in the ups and downs in global risk appetite. In country-specific factors, one decisive moment will be the upcoming decision of the constitutional court on permitting a referendum on constitutional reform. If it is rejected, new general elections could be called for the autumn, and political risk and thus also bumpiness for the currency will increase. Based on the comparatively good fundamental data for Turkey, however, we see more potential for the currency to appreciate towards USD/TRY 1.50 by year-end.

Analyst: *Andreas Schwabe*  
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**EUR/BYR\*: 3655 → 3800 (September)**  
**USD/BYR\*: 3018 → 3050 (September)**

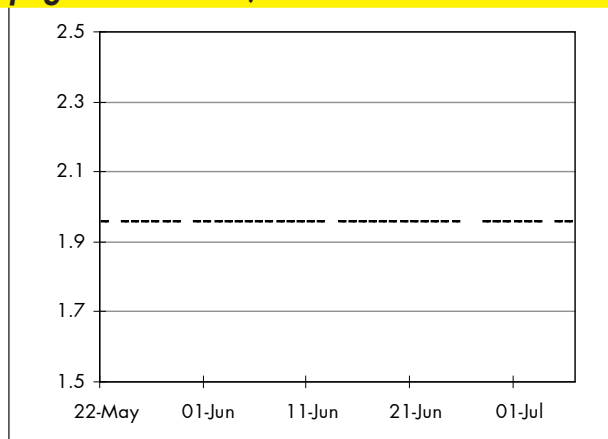


\* under revision  
 Source: Thomson Reuters

After 3% depreciation against the currency basket in Q1, BYR appreciated again on the back of a weakening EUR and RUB. However, by end-June BYR came under pressure and is likely to weaken further (by 5-10% in 2010). Our view is supported by the downward trend in FX reserves over the last two months. Lack of external inflows (IMF not to resume talks on potential follow-up agreement until autumn and Eurobond issue on hold, due to uncertainties on international markets) might push the government to sell stakes in strategic enterprises, such as the potash producer, and oil and gas pipeline operators. Furthermore, though the foreign trade deficit is still 20% lower than a year ago (thanks to 30% stronger exports in Jan-Apr 2010), we have concerns about rapidly accelerating imports which might bring the trade deficit back to last year's level.

Analyst: *Andreas Schwabe*  
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### EUR/BGN: 1.956 → 1.96 (Currency Board pegs BGN to EUR)



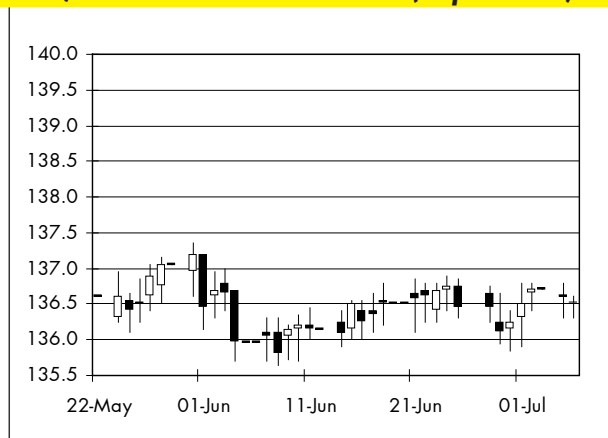
Source: Thomson Reuters

Real GDP contracted by 3.6% yoy in Q1 2010, improving slightly compared to Q4 2009 (-5.9% yoy). This was driven by smaller declines in all components. The increase in net exports is considered to be a positive factor for the country's recovery. The unemployment rate remains high, although it fell in May to 9.5% from 10.0% in April 2010. Still more progress will be needed to break the upward trend in unemployment which started at end-2008. FX reserves remain high (June 2010: EUR 12.1 bn), ensuring 197% coverage of the monetary base, although reserves have fallen by EUR 840 mn since end-2009, due to the EUR 662 mn drop in fiscal reserves. Although the government announced Bulgaria's withdrawal of its ERM-II entry bid due to the discovery of unaccounted procurement deals, it recently stated that a new bid is likely to occur in 2011.

Analyst: Martin Stelzener

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### EUR/ALL\*: 136.20 → 139.0 (September)



\* under revision

Source: Thomson Reuters

The Supervisory Council of the Bank of Albania decided to leave its main refinancing rate unchanged at the level of 5.25%. According to the governor of the

Bank of Albania, Adrian Fullani, the financial markets appeared calmer while trading volumes have risen during this period. The drop in deposit interest rates, interest rates of T-bills and also easing of loans costs has helped to create better conditions for the development of economic activity. The Bank of Albania decided to reduce its main interest rate to 5.25% last October. It also approved the change of its operational objective of monetary policy. The central bank will now aim maintaining short-term interest rates near repo levels.

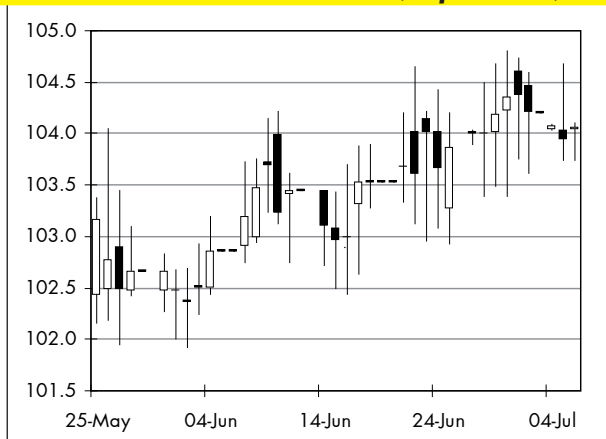
Albania's government plans to cut budget spending by 25% (EUR 200 mn) this year, aiming to halve the budget deficit in line with advice from the IMF. Albania failed to place a Eurobond on the international markets following the turmoil on the European markets triggered by the Greek financial woes.

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## EUR/RSD\*: 103.11 → 99.0 (September)



\* under revision

Source: Thomson Reuters

Despite a flash estimate by the Statistical Office of Serbia that indicated real GDP growth (in constant prices of 2002) of 1% yoy in Q1, GDP finally grew by 0.6% yoy in the first quarter of 2010. The construction sector nose-dived by 12% yoy, but a higher negative impact came from the wholesale&retail trade, which dropped by 6.8% yoy. However, growth in the transport sector of 8.6% yoy, finan-

cial intermediation (+6.3% yoy) and manufacturing (+2.0% yoy) compensated these falls, leading GDP just barely into positive territory. Seasonally adjusted data for Q1 2010 show growth of 0.8% qoq, compared to -1.5% qoq in Q1 2009.

Given the frail tax revenues, in its fourth review the IMF approved raising the budget gap to 4.75% of GDP in 2010 (from 4%) and to 4% in 2011 (from 3%), while keeping public wages and pensions frozen. The new EUR 380 mn tranche is conditioned on moving forward with a 10% cut in public administration, which has been delayed for some time.

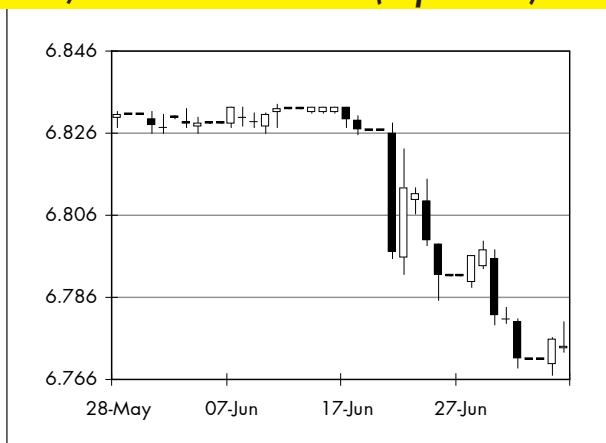
The Greek crisis, a cut in the key rate to 8% and lower foreign trade volumes resulted in weakening for the dinar, which has racked up 7.3% in nominal depreciation for the year to date. We expect to see more dinar weakening, given the repeated government claims about launching a new economic model based on exports & investments, but this depreciation will probably not be so intense. The central bank might be satisfied with the exchange rate and will likely keep a watchful eye on CPI for their future policy decisions.

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## EUR/CNY: 8.529 → 8.44 (September)

## USD/CNY: 6.780 → 6.75 (September)



Source: Thomson Reuters

The talk about currency appreciation has died down. The central parity rate for USD/CNY, which is set once daily by the People's Bank of China, is currently at 6.7738, slightly lower than the level of the previous day. One step forward, one step back, runs

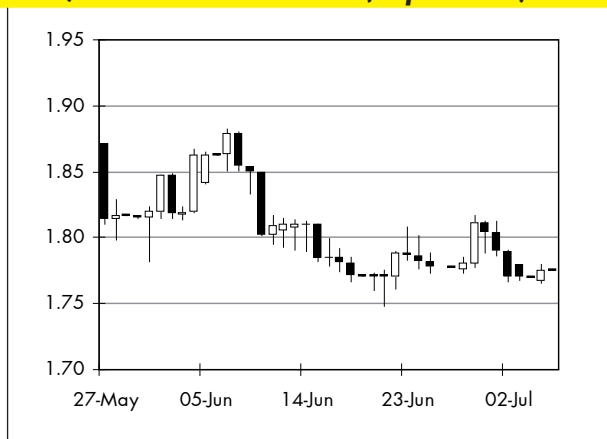
the critique from the currency traders. Since returning to a more flexible exchange rate regime again, the yuan has appreciated by 0.84% to the US dollar, and if our projection of 6.73 is on target at the end of the year, then appreciation to USD will amount to just 1.5%. The latest statements by PM Wen are more cautious again and have dashed any hopes of stronger appreciation. The original statements are also being underlined again: higher flexibility (goes in both directions) and orientation to a basket of currencies. Another item of note is the latest relaxation of regulations for Chinese banks making direct investments abroad. The new rules are to come into effect from September.

The economic recovery is seen as being solid, even though there are considerable macro-economic risks at the international level. The latest PMI data confirm that GDP growth is tapering off. As long as growth does not fall below the potential rate for China (9%), this kind of cooling off is seen as healthy, as it helps to allay worries about overheating.

Analyst: Lydia Kranner

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**EUR/BRL: 2.218 → 2.19 (September)**  
**USD/BRL: 1.775 → 1.75 (September)**



Source: Thomson Reuters

In Brazil, GDP expanded at a rate of 2.7% in Q1 compared to the previous quarter. In our opinion, this will be the peak in the quarterly growth rate.

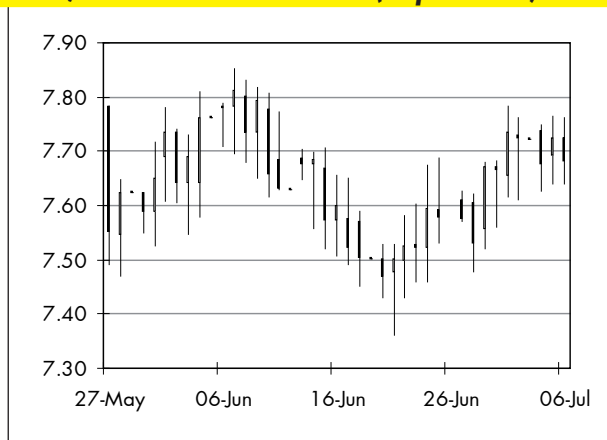
Nevertheless, economic growth will remain robust and be slightly higher than the potential rate. In our projection, GDP will expand at a rate of 7.4% in 2010. Next year we expect to see growth ease back towards the potential rate (4.8% yoy).

Inflation seems to be near its peak. A slowdown in economic activity and a restrictive monetary policy will lead to falling inflation going forward. The Brazilian central bank has already increased the key interest by 150bp since the end of April, bringing it to 10.25%. At year-end, the key rate should be at 12.50% in our estimation. The Brazilian real held up quite well during this phase. The attraction of the Brazilian financial market and the good economic data have led to continuing stability for the currency. Nevertheless, it must be stressed that appreciation is limited to about USD/BRL 1.70 in our opinion, because massive intervention can be expected at that point.

Analyst: Josef Wolfesberger

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**EUR/ZAR: 9.690 → 9.50 (September)**  
**USD/ZAR: 7.685 → 7.60 (September)**



Source: Thomson Reuters

The South African purchasing managers' index dropped from 51.1 to 48.4 in June, dropping back to levels indicating contraction. We believe that this decline is exaggerated, as we do not expect that

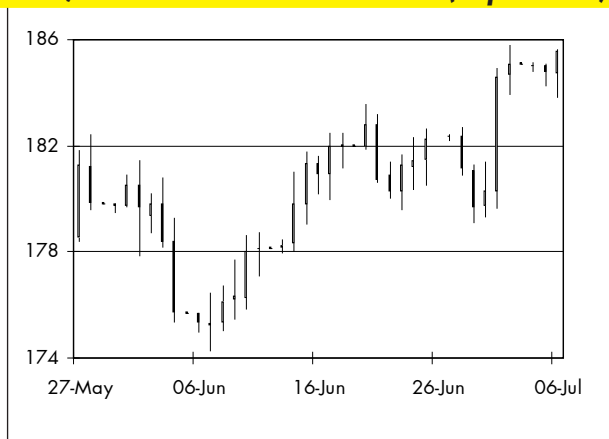
production will continue to fall. Nevertheless, the latest data published for April (industrial production: +8.7% yoy) profited from the very low basis in April of the previous year. The South African rand has come under pressure again recently, due to the poor equity market conditions. The weaker rand and slightly stronger looking numbers on economic performance should keep the South African central bank from lowering the key rate again. The sole argument for another cut in the interest rate would be the deceleration in inflation, but the rate of price increases is projected to edge back towards the upper end of the targeted range (3%-6%) during the latter half of the year. One reason for the renewed rise in the rate of inflation will likely be the USD/ZAR exchange rate. Until end-September we project a sideways drift around USD/ZAR 7.6, with the rate most likely moving in band of USD/ZAR 7.4-7.7. For the rest of the year, the rand should weaken to 7.9 versus the US dollar.

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**EUR/KZT\*: 179.440 178.75 (September)**  
**USD/KZT\*: 147.200 → 143.00 (September)**



\* under revision

Source: Thomson Reuters

The rise in risk aversion in recent weeks has alleviated some of the pressure on the tenge, and the NBK

allowed the USD/KZT rate to rise slightly over 147 again. Nevertheless, the situation on the global markets is beginning to stabilise and oil prices remain high, which is beneficial for more KZT appreciation. Furthermore, the RUB has appreciated as well, already clawing back 15% versus the US dollar since the depreciation of KZT in February 2009. This would enable a 10% appreciation of KZT versus USD and the competitiveness of the country's industry versus Russian imports would nonetheless still be ensured, compared to pre-crisis levels. We thus continue to believe that KZT appreciation is a realistic scenario for H2 2010. A further improvement in global risk sentiment could result in a one-off move to appreciate KZT by the NBK. For now, we stick with our forecast of EUR/KZT 140 for year-end. The risk to our forecast is of an abrupt drop, as a result of which the rate would probably come to rest below 140.

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