Focus FX

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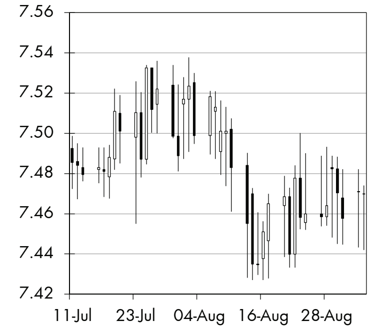
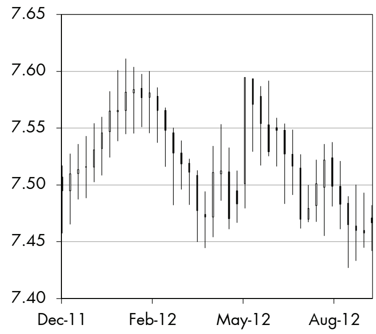
Raiffeisen RESEARCH

EUR/HRK daily



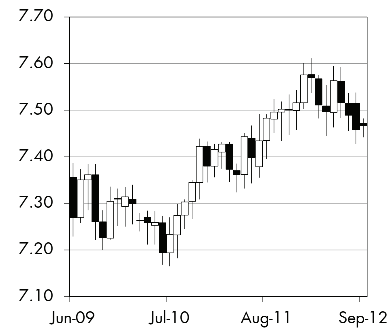

Source: Thomson Reuters

EUR/HRK weekly




Source: Thomson Reuters

EUR/HRK monthly




Source: Thomson Reuters

## EUR/HRK: 7.470 → 7.60 (December)

In the first half of August, after the issuance of domestic bonds, liquidity in the system decreased pushing money market rates up. Consequently, HRK appreciated vs. EUR reaching 7.45, despite the fact that the peak of the tourist season, when market players usually start to anticipate HRK weakening, was approaching. However, after the allocation of excess liquidity improved and interest rates declined, HRK depreciated to levels around 7.50, finally stabilising at 7.475. At the end of the last week the statistical office announced that GDP contracted by 2.1% yoy (in real terms) in Q2. Since the result was largely expected, it did not affect the FX market significantly.

Fundamentally speaking, upward movement in EUR/HRK is clear, especially after September. Depreciation pressures on HRK will be supported by corporate sector demand for foreign currency and the expected lower money market interest rates. As the end of the year approaches, we expect to see the usual weakening of HRK versus EUR. The strength of depreciation pressures will depend mostly on inflows of foreign capital.

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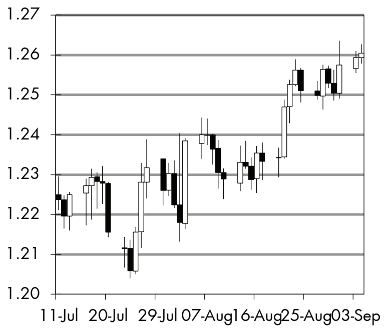
**Exchange rate forecasts**

| | current[1] | Dec-12 | Mar-13 | Jun-13 |
|---|---|---|---|---|
| EUR/USD | 1.261 | 1.15 | 1.25 | 1.28 |
| EUR/CHF | 1.201 | 1.20 | 1.20 | 1.20 |
| EUR/JPY | 98.8 | 89 | 100 | 102 |
| USD/JPY | 78.4 | 77 | 80 | 80 |
| EUR/GBP* | 0.793 | 0.72 | 0.75 | 0.78 |
| EUR/PLN | 4.185 | 4.20 | 4.15 | 4.15 |
| EUR/HUF* | 284.3 | 305 | 305 | 305 |
| EUR/CZK | 24.87 | 24.20 | 24.00 | 23.80 |
| EUR/RON | 4.487 | 4.65 | 4.65 | 4.60 |
| EUR/HRK | 7.470 | 7.60 | 7.55 | 7.50 |
| EUR/RUB | 40.70 | 39.3 | 40.2 | 41.5 |
| USD/RUB | 32.29 | 34.2 | 32.2 | 32.4 |
| EUR/UAH | 10.224 | 10.1 | 11.0 | 11.3 |
| USD/UAH | 8.135 | 8.8 | 8.8 | 8.8 |
| EUR/TRY | 2.289 | 2.01 | 2.13 | 2.18 |
| USD/TRY | 1.817 | 1.75 | 1.70 | 1.70 |
| EUR/BYR | 10614 | 10600 | 11900 | 12700 |
| USD/BYR | 8420 | 9200 | 9550 | 9900 |
| EUR/BGN | 1.956 | 1.96 | 1.96 | 1.96 |
| EUR/ALL | 138.28 | 140 | 140 | 139 |
| EUR/RSD | 118.22 | 120 | 118 | 117 |
| EUR/CNY | 7.994 | 7.38 | 7.94 | 8.06 |
| USD/CNY | 6.341 | 6.42 | 6.35 | 6.30 |
| EUR/BRL | 2.562 | 2.47 | 2.38 | 2.30 |
| USD/BRL | 2.033 | 2.15 | 1.90 | 1.80 |
| EUR/KZT | 188.58 | 170 | 185 | n.a. |
| USD/KZT | 149.58 | 148 | 148 | n.a. |

*1 as per 4 September 2012, 08:17 a.m. CET *under revision*
*Source: Thomson Reuters, Raiffeisen RESEARCH*

## EUR/USD: 1.261 → 1.15 (Dec)




*Source: Thomson Reuters*

During his highly anticipated speech in Jackson Hole last Friday, Fed President Bernanke expressed himself quite sibylline concerning further bond purchases (QE3): hurdles for using non-traditional policies are very high, yet costs for these appear manageable, thus one should not rule out the further use of such policies. At the end of the day, Bernanke offered no clear indications about Q3. The market did not care and the speech was thus twisted the way it was needed: QE3 is coming. Yesterday, it was announced that ECB President Draghi told members of the European Parliament at a closed-door meeting that the purchase of bonds with maturities of up to about three years would not represent a problem for him as it does not constitute state financing. Therefore, the odds in favour of the ECB delivering the big hit, i.e. details on the planned bond purchase program, already at the ECB rate-setting meeting on Thursday have increased. In this case the currently euro-friendly sentiment shall initially boost further the common currency. Nonetheless, we still do not see a "solution" to the euro debt crisis and expect the euro to come once again under considerable pressure until the end of the year.

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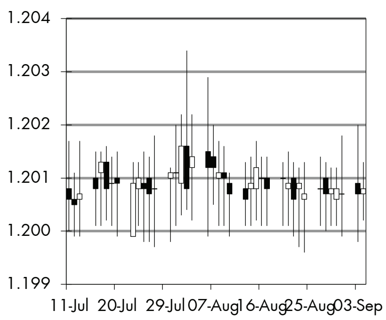
## EUR/CHF: 1.201 → 1.20 (Dec)




*Source: Thomson Reuters*

The divergence between the KOF Economic Barometer and the PMI Manufacturing Index has increased also in August. While the first indicator (Wednesday) was able to post a repeated surge to 1.57 points, the PMI (yesterday) dropped to 46.7 and thus even more clearly below the expansionary threshold (50 points); the consensus had expected an increase. The Q2 GDP figures released today confirmed the gloomy picture conveyed by the PMI: economic activity for Q2 contracted by 0.1% qoq in real terms, the consensus projected a positive figure (+0.2% qoq). Moreover, Q1 GDP data were revised down from +0.7% qoq to +0.5% qoq. Consequently, the Swiss economy also has to pay tribute to the bleak economic outlook in the Eurozone. The slump in growth is to be attributed primarily to inventories as all other components (apart from investments) made positive contributions to growth, especially private consumption (although its contribution to growth is significantly smaller than in Q1). Thus, the SNB still does not have a reason to abandon the EUR/CHF lower limit over the next few quarters since such a step would increase again the pressure on the Swiss economy.

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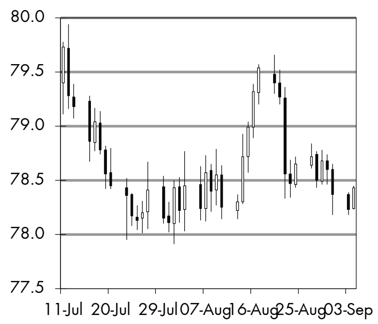
## EUR/JPY: 98.8 → 89 (Dec), USD/JPY: 78.4 → 77 (Dec)




*Source: Thomson Reuters*

Influenced by Ben Bernanke's speech in Jackson Hole last Friday as well as by the minutes of the last FOMC meeting, according to which an additional monetary easing seems more and more likely, the Japanese yen (JPY) advanced again significantly against the US dollar (USD). As we do not expect that the US economy will pick-up in a sustainable manner over the next few months, QE3 seems just a matter of time. At the upcoming meeting on September 13 this could already be the case. The actions expected from the Fed should already largely be priced in on the markets (among other things the US-JP 2Y interest rate differential suffered recently a considerable downward movement), yet we expect, also due to a new round of escalation in the EUR debt crisis, a further appreciation of the Yen in Q4 (77 USD/JPY, 89 EUR/JPY). Although traditionally less important, national factors such as the uncertainty over the elections (announced for November) as well as the clearly declining economic dynamics in Japan shall support the Yen as a safe haven, too.

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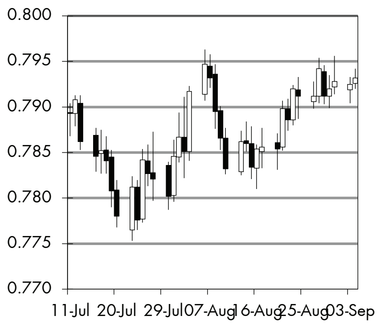
**EUR/GBP*: 0.793 → 0.75 (Dec)**




*Source: Thomson Reuters *under revision*

As long as EUR/USD remains relatively firm, there is also little room for appreciation of GBP against EUR. This explains the sideways movement for several weeks now. With regard to the economic issues, the signs are currently mixed. The British Retail Consortium (BRC) reported for August purchasing figures that remained far below expectations (-0.4% yoy). This time around the lack of demand was attributed to the special effect "Olympic Games". On the other hand, the Markit survey reflects a light at the end of the tunnel. At 49.5 points it reached a four-month high. Although figures below the 50-points mark still indicate a contraction, the orders index soared surprisingly high from 41.8 to 49.9 points. This is the largest monthly increase since the beginning of the series. Hence, the focus will be on the BoE rate-setting meeting on Thursday. A change in the current monetary policy stance is unlikely and the minutes will only be released in mid-September. The current peace on the currency front will however not last. Our expectations for a strong appreciation of GBP against EUR are based on the resurgence of the euro crisis in Q4.

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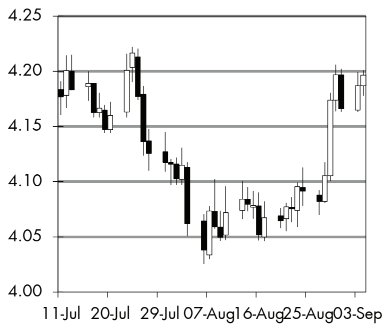
**EUR/PLN: 4.185 → 4.20 (Dec)**




*Source: Thomson Reuters*

EUR/PLN continues to trade on the weak side, driven by the much weaker-than-expected PMI result (48.3 points in August) and thus boosting expectations that the National Bank of Poland (NBP) may even cut rates as early as this week. This scenario is not totally unlikely. In fact, a "surprise" rate cut this week would be more or less just a reversal of the "surprise" rate hike from May of this year. Going forward, we expect the base rate to be lowered to 4% in the upcoming easing cycle (i.e. over the next 4-6 months). Recent Polish PMI weakness and economic softening in the core Eurozone countries clearly supports an overall bearish scenario on Polish markets, and we have also adjusted our growth forecasts for 2012 and 2013 (for both years we expect GDP growth at 2.5% yoy vs. our previous assumptions of 2.8% and 3.3% yoy for 2012 and 2013). From a short-term perspective, rate cut speculations are a constraint for PLN, but this effect is fairly ambiguous as another bout of yield compression on the bond market should support non-resident positioning in the LCY bond market.

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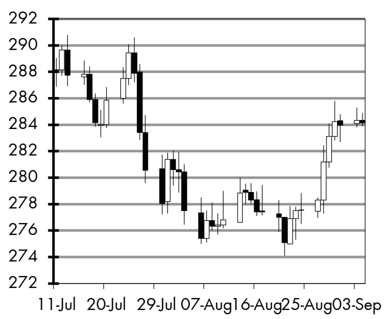
**EUR/HUF*: 284.3 → 305 (Dec)**




*Source: Thomson Reuters *under revision*

After the surprise interest rate cut, HUF weakened back above 280 against EUR. Nevertheless, the fairly strong forint is still benefitting from the support of global risk sentiment. We still expect more depreciation potential in the coming months with domestic data from Hungary not giving much support for HUF. While we do not see the beginning of an interest rate cutting cycle, we see a considerable chance that the Monetary Council may cut interest rates by another 25bp by year-end 2012. However, high inflation rates and the threat of renewed global risk aversion will prevent any stronger cuts. For EUR/HUF, we still expect more weakening in the coming months, even though the potential for depreciation will largely depend on external developments (Eurozone). Meanwhile, there is no news on the IMF negotiations and an agreement will most likely not be reached soon. An agreement would be one of the few supporting factors for the forint, but it is unlikely to happen before the end of 2012 or early 2013.

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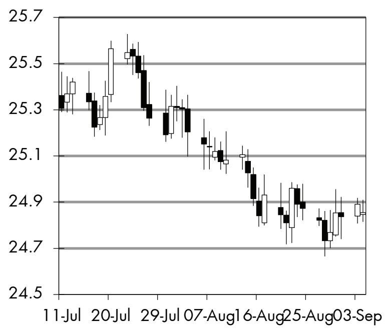
## EUR/CZK: 24.87 → 24.20 (Dec)




Source: *Thomson Reuters*

From mid-year 2012, CZK showed a strong appreciation trend against EUR. Although the most recent movement was towards a weaker CZK (bringing EUR/CZK back close to 25), we see the overall appreciation trend as still being intact. Given the disappointing GDP data for Q2 2012 and a falling CPI trend, we now expect the Monetary Council to reduce the interest rate further in September (next Monetary Council meeting is on 27 September) by 25bp to 0.25%. At such a low rate we do not expect any further interest rate reductions, but cannot rule out that interest rates will be cut to 0% or that some other unorthodox measures may be implemented. Nevertheless, the ongoing fundamental outlook for the Czech Republic will support further EUR/CZK strengthening in the coming months in our view. But we cannot rule out phases of weakening in the event of renewed turmoil in the Eurozone. Even though the Czech Republic shows signs of being a safe haven, negative external events could put pressure on EUR/CZK and lead to a correction phase.

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## EUR/RON: 4.487 → 4.65 (Dec)


Source: *Thomson Reuters*

After outperforming its regional peers last week, RON came under depreciation pressure on Monday as the NBR injected unlimited liquidity through the weekly repo open market operation (10 banks took RON 13 bn). This move surprised the market and came after four weeks when the injected amount was capped at less than half of the liquidity provided at previous similar operations (between RON 4 and 6 bn). We believe the uncertainty concerning liquidity conditions puts a premium on money market rates and hampers a decline in rates. Thus, rates are likely to remain at the current elevated levels. With regard to the currency, our assessment of fundamentals does not support RON appreciation, while volatility could remain in the FX space given the opaque liquidity conditions and mixed signals from the NBR. On a political note, the executive decided to hold parliamentary elections on 9 December, the date agreed by the ruling USL alliance and the main opposition PDL party. The approaching elections will also support higher FX volatility and new political tensions might support some depreciation.

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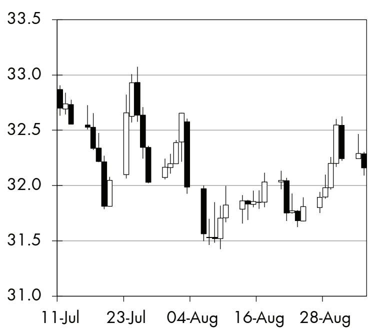
## EUR/RUB: 40.70 → 39.3 (Dec), USD/RUB: 32.29 → 34.2 (Dec)




Source: *Thomson Reuters*

The rouble defied our mildly bullish outlook, slipping down in volatile trading over the week. An apparent increase in demand for foreign currency and the relatively thin market liquidity prompted RUB to lose ground, as the currency all the way from 35.72 to 36.20 vs. the dual currency basket by Monday of this week, September 3. The unstable oil price market and contrasting macro news from USA and China fuelled more nervousness on Russia's market. We believe the rouble might be poised for some minor strengthening as the Brent price remains above 110 USD per barrel and MICEX index is managing to hover above 1400, which is a psychologically important resistance level for Russia's stock market, helping it to fend off more selling pressure. As a result, we expect the rouble to firm within a 35.85-36.05 trading range – as measured against the basket – in a week's time.

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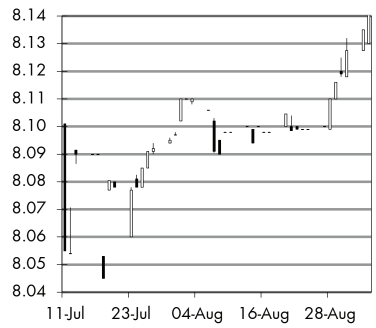
**EUR/UAH: 10.224 → 10.1 (Dec), USD/UAH: 8.135 → 8.8 (Dec)**




*Source: Thomson Reuters*

The weakness of the hryvnia against the dollar, which has been installed since the last week of August, proceeded at the beginning of September, too. On Tuesday, USD/UAH closed at 8.18. The size of this movement is indeed still small albeit noteworthy due to the quasi peg of the exchange rate over the last three years. According to news reports, the NBU refrained from intervening and did not step in with measures to support the exchange rate in the past couple of weeks. The money market rates are, at least at the short end of the curve, back in the single-digit range (overnight rate currently at 6.2%), indicating a short-term relaxation on this market. Fundamentally, our assessment of the hryvnia remains negative: The current account deficit widens excessively as imports are strong. In the first seven months of the year the current account deficit amounted to USD 6.7 bn (70% higher in a year-on-year comparison). In July, the financing of the current account deficit of USD 1.3 bn was secured only by the placement of a government bond worth USD 2 bn. Thus, Ukraine's economy as well as its currency are highly prone to export losses due to a weaker global economy and political uncertainties surrounding the elections in late October.

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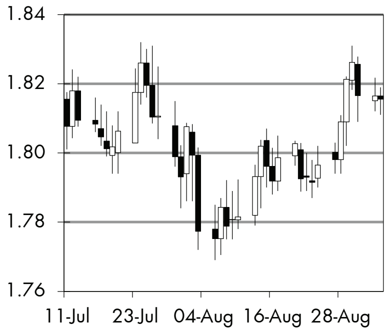
**EUR/TRY: 2.289 → 2.01 (Dec), USD/TRY: 1.816 → 1.75 (Dec)**




*Source: Thomson Reuters*

As we had expected, the macro picture of bullish market participants is currently under revision. For instance, the consumer price inflation in August dipped only slightly and was above market expectations, recording 8.9% yoy. In addition to that, the latest leading economic indicators point on balance to a stronger slowdown in economic momentum. Against this background and the expectation of accelerating disinflation dynamics in Q4 2012, TCMB governor Basci mentioned the prospect of an easing of monetary policy. This was also the main reason for the gradual depreciation of TRY against USD over the past four weeks. Thus, in line with our baseline scenario, the upper edge of the 5.0% -11.5% interest rate corridor could be lowered already at the next TCMB rate-setting meeting in September, whereby we see a total of -200bp on a six-month horizon. The Turkish lira is, however, likely to maintain its current levels as the weaker rate basis should be compensated by further monetary easing measures on a global level, which should keep the appetite for Turkish assets high.

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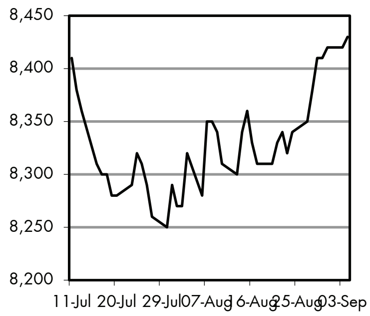
**EUR/BYR: 10,614 → 10,600 (Dec), USD/BYR: 8,420 → 9,200 (Dec)**




*Source: Thomson Reuters*

At first glance, the developments in Belarus seem extremely positive: Moderate economic growth, no devaluation of the currency since the beginning of the year, positive trade balance and also current balance in H1, FX reserves stable above USD 8 bn and inflation on the decline. We are, however, sceptical, taking into consideration the following (negative) developments and risks: (1) Wages have risen way too fast since the beginning of the year. Compared to Q4 2011, the average pay increased in USD terms by 40% up to USD 450. (2) The positive development in foreign trade was partially supported by dubious albeit highly profitable practices in the import-export business with oil products. Under Russia's pressure, this will probably not continue in H2. (3) The weak global economic outlook could lead to losses in the export sector. Especially an economic downturn in Russia would hit Belarus hard. In sum, we see risks for the exchange rate, which could lead to a greater depreciation pressure on BYR starting in Q4 2012/Q1 2013.

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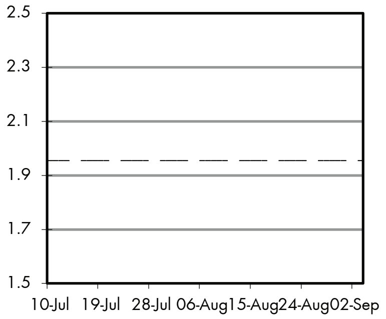
## EUR/BGN: 1.956 → 1.96 (Currency Board pegs BGN to EUR)




*Source: Thomson Reuters*

The latest GDP flash estimates confirmed the trend of slow but positive economic growth in Q2 2012: 0.5% yoy (according to the seasonally adjusted data). Exports – which drove the economy upwards in 2011 and declined in Q1 2012 – picked up marginally in Q2 (2.8% yoy). At the same time, positive developments were observed in domestic demand: consumption grew 2.7% yoy, and fixed investment also followed a favourable trend.

In July, the successful 5y Eurobond issue (EUR 950 mn, yield 4.436%) carried out by the Bulgarian government boosted the country's FX reserves to EUR 15 bn. The coverage of the monetary base jumped to 192.9%, which was almost two times higher than the 100% required for currency board stability. Although EUR 818 mn of the reserves will be used to repay Eurobonds maturing on 15 January 2013, the good fiscal management that took place so far (a small fiscal surplus in H1 2012) and which is projected to continue in the second semester of the year provides a solid background for relatively good economic performance in the short-to-medium term.

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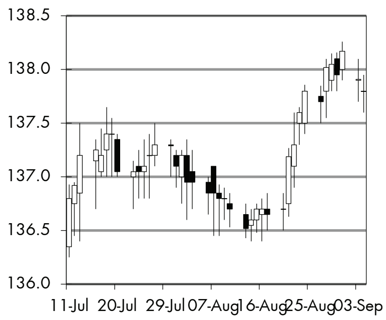
## EUR/ALL: 138.28 → 140 (Dec)




*Source: Thomson Reuters*

The Monetary Policy Council of the central bank left the key interest rate unchanged at a record low of 4%, a level which should be just enough so that the inflation target can be met and which should support economic growth. Economic indicators point to a deceleration in economic activity in Q2. Albanian economic growth is expected to be below its potential, largely affected by sluggish domestic demand, which is also influenced by the severe economic crises in the main trade partners. Italy and Greece remain the main trade partners, accounting for 36.9% and 7.8% of total external trade of goods. Lower remittances, the more pronounced saving behaviour and reduced demand for lending are causing a drop in consumption. Domestic demand is expected to be weak because of hesitation about consumption and private investments, while external demand will make a positive, but lower contribution in the aggregate demand. The weakening economic sentiment and low trading volumes suggest that the EUR/ALL exchange rate will move in a range of 137 to 138.5.

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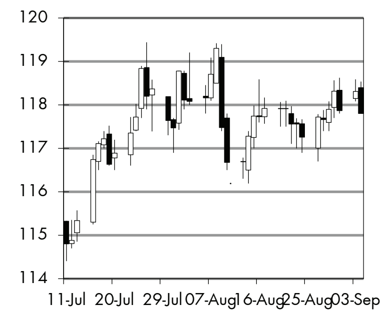
## EUR/RSD: 118.22 → 120 (Dec)




*Source: Thomson Reuters*

The final trading week of August saw more intensive trading which eventually ended on Friday with EUR/RSD up to 118.60. Again, local market actors were mainly watching for RSD over the short term, to determine their spot trading strategies. Foreign and local buyers were closing the month and helped EUR in its climb from just a tick below 117.00 level. Range trading came to mind when watching the recent swings, with the central bank adding to the cyclically changing RSD environment, in which only large RSD providers can survive without being too affected. In the period to come, the market will be watching Executive Council of the Central Bank in its pricing of RSD repo auctions, in case that change in benchmark rate sees upward revision, which would add to already high cost of long EUR, and additionally pressures RSD borrowers in the economy, which seems to be moving into last quarter in a very slow fashion, which aids stability on the cash markets.

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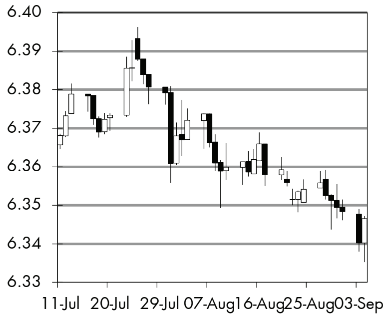
**EUR/CNY: 7.994 → 7.38 (Dec), USD/CNY: 6.341 → 6.42 (Dec)**




*Source: Thomson Reuters*

China's PMIs for August still do not show any signs of recovery. The officially calculated index for the manufacturing sector dipped to 49.2 and thus fell below the 50-point mark (for first time since November 2011). Likewise, the PMI Manufacturing calculated by the HSBC deteriorated further to 47.6, too. A slight improvement (from 55.6 to 56.3) recorded the PMI Non-Manufacturing. Overall, however, the sluggish export demand remains one of the biggest concerns. Only recently, Premier Wen urged measures to support exports. Q3 is seasonally very significant for meeting the annual target growth rate of exports (10% for 2012). Hence, the likelihood of monetary easing measures has gone up again. In this context, CNY appreciated a bit against USD and currently trades at 6.34. Given the rising property and food prices, Chinese authorities will act cautiously, however, even though the annual target inflation rate of 4% still provides room for monetary policy measures.

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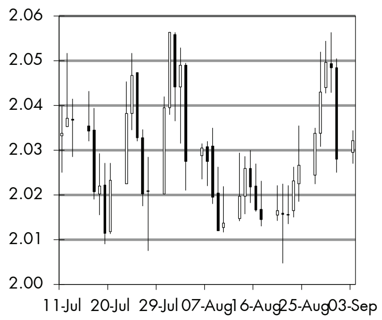
**EUR/BRL: 2.562 → 2.47 (Dec) , USD/BRL: 2.033 → 2.15 (Dec)**




*Source: Thomson Reuters*

The Brazilian economy should have bottomed out in Q2. GDP expanded 0.4% qoq in Q2 after the revised figure of 0.1% qoq in Q1. In a year-on-year comparison, this means a GDP increase of 0.5% yoy. Nevertheless, GDP growth turned out weaker than expected by consensus. Therefore, a strong recovery is still not on the way, among other things since have the government's measures for stimulating the economy contributed largely to growth. The PMI indicates a slight rebound, too: in August it climbed from 48.7 to 49.3 points. As the economic slowdown has apparently hit bottom and the inflation rate is tending upwards again, we assume that the Central bank cut interest rates for the last time at its last rate-setting meeting (50bp down to 7.5%). The Brazilian real continued fluctuating sideways in the range around 2.03USD/BRL. There should not be any larger movements over the next few weeks as well.

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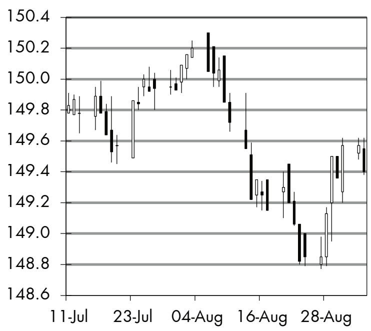
**EUR/KZT: 188.58 → 170 (Dec), USD/KZT: 149.58 → 148 (Dec)**




*Source: Thomson Reuters*

KZT experienced a sudden drop amid worsening market confidence fuelled in by poorer global economic outlook and volatile oil prices. The Kazakh economy decelerated remarkably this year. Official statistics showed H1 GDP at only 5.6% yoy compared to the 7.1% growth for the same period of a year ago. Both the Kazakh government and IMF forecast GDP growth at 6% for 2012 while there are signs that the economy might be falling short of expectations this year. Industrial output also nosedived, with H1 growth barely scratching 1.3% yoy which was significantly below the official 3.9% forecast by the government for the whole year. The Kazakh National Bank is relaxing its monetary policy amid record low inflation in an attempt to prevent the economy from slipping into a deeper slump. With CPI inflation well below the official target range of 6-8% at just 4.9% yoy, the regulator cut the key interest rate again in August to a record low 5.5%. In September, we expect the tenge to hold steady around 149-150 vs. the US dollar with the central bank intervening at above the 150 level.

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