Focus FX

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Raiffeisen RESEARCH

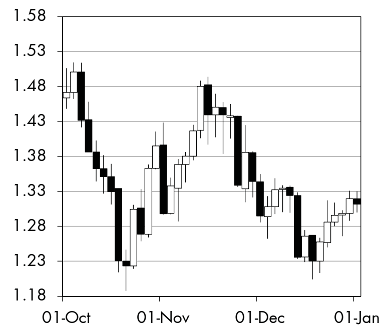
EUR/USD daily

Source: Thomson Reuters

EUR/USD weekly

Source: Thomson Reuters

EUR/USD monthly



Source: Thomson Reuters

EUR/USD: 1.312 → 1.30 (March)

The „agreement“ over the fiscal cliff between Republicans and Democrats and the meeting minutes from the Fed’s interest rate meeting in mid-December both gave the dollar a boost at the start of the year. At slightly above 1.30 EUR/USD, the exchange rate remains just above the exchange rate that one can infer from the difference between interest rates for two-year German and American government bonds. By the end of Q1 2013, the EUR/USD should continue to hover around this level. There certainly remains room for movement around the 1.30 mark depending on the current states of the European debt crisis and the fight over the US budget. As the deficit numbers for the various Eurozone member states come in over the course of the next few weeks, there are likely to be some negative surprises along the way and could increase the burden already being carried by the euro. On the other side of the Atlantic, the next two months will most certainly not be filled with fun and games as negotiations over spending cuts and a sustainable plan to consolidate the US budget. Moreover, the debt ceiling will have to be raised again at the start of March and that is definitely going to be a sight to see. Should the situation escalate as it did in the summer of 2011, this would present a short-term negative factor for the US dollar.

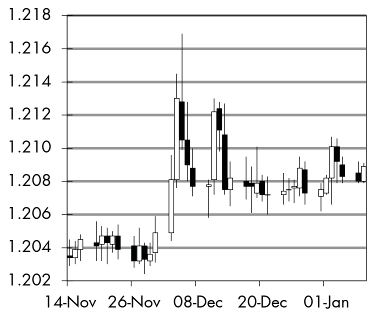
Analyst: Jörg Angelé
joerg.angele@raiffeisenresearch.at

Exchange rate forecasts

	current[1]	Mar-13	Jun-13	Sep-13
EUR/USD	1.312	1.30	1.31	1.33
EUR/CHF	1.209	1.20	1.20	1.21
EUR/JPY	114.7	109	110	114
USD/JPY	87.4	84	84	86
EUR/GBP	0.815	0.82	0.83	0.81
EUR/PLN	4.122	4.15	4.15	4.00
EUR/HUF	291.1	300	295	290
EUR/CZK	25.52	25.10	24.80	24.60
EUR/RON	4.407	4.55	4.50	4.55
EUR/HRK	7.566	7.55	7.50	7.55
EUR/RSD	113.01	115	113	113
EUR/RUB	39.80	39.4	40.4	41.1
USD/RUB	30.35	30.3	30.8	30.9
EUR/UAH	10.452	10.9	11.3	11.7
USD/UAH	8.030	8.4	8.6	8.8
EUR/TRY	2.335	2.34	2.29	2.39
USD/TRY	1.781	1.80	1.75	1.80
EUR/BYR	11,298	11,700	12,100	12,100
USD/BYR	8,620	8,975	9,250	9,525
EUR/BGN	1.956	1.96	1.96	1.96
EUR/ALL	139.90	140	139	139
EUR/CNY	8.167	8.11	8.12	8.22
USD/CNY	6.225	6.24	6.20	6.18
EUR/BRL	2.658	2.73	2.75	2.79
USD/BRL	2.026	2.10	2.10	2.10
EUR/KZT	197.68	194	197	198
USD/KZT	150.67	150	150	149

1 as per 08 January 2013, 08:55 a.m. CET
** under revison*
Source: Thomson Reuters, Raiffeisen RESEARCH

EUR/CHF: 1.209 ⟶ 1.20 (March)

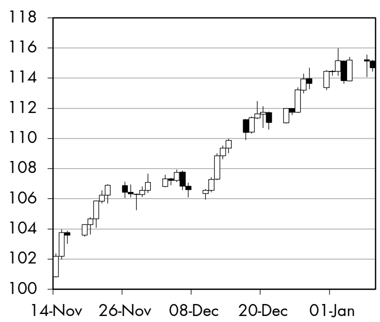


Source: Thomson Reuters

The Swiss franc is able to start the new year without any earth-shattering news. According to the Swiss National Bank (SNB), currency reserves fell slightly to CHF 427.17 bn in December. The weekly data for demand deposits that domestic banks hold at the SNB also fell, to CHF 282 bn. Both of these are indications that the SNB will be able to hold back from defending its 1.20 lower bound for the EUR/CHF rate and the Swiss franc will continue to trade above this mark. Following statements from central bank member Zurbruegg, a reduction in interest rates in the near future is unthinkable, although at the same time he warned that there is potential for the Swiss real estate market to be overheating. There is, however, some economic light at the end of the tunnel coming from flash indicators: the PMI has stabilized but is still slightly below 50. More promising is the index for the subcomponent of order backlog, which is at 54.7 and well above the threshold of 50. We expect the EUR/CHF rate to remain in the coming year close above the intervention limit of 1.20.

Analyst: Lydia Kranner
lydia.kranner@raiffeisenresearch.at

EUR/JPY: 114.7⟶ 109 (March), USD/JPY: 87.4 ⟶ 84 (March)

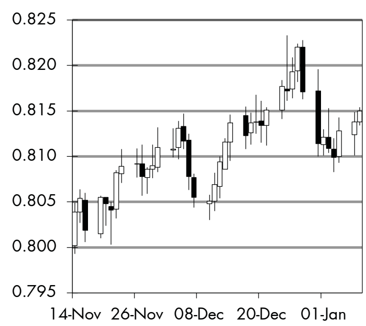


Source: Thomson Reuters

Since the start of December, the yen has lost approx. 7% against the dollar and approx. 6.5% against the euro. The devaluation was especially stronger over the Christmas holidays than we expected. The USD/JPY rate has now moved even further away from the level justified by two-year yield differences. This means that the market is betting on Abe's new government's planned reflationing of the economy. Therefore, the Bank of Japan's (BoJ) meeting on 22 January will take center stage. The result of the monetary loosening from the most recent meeting December is thus at the end of the scale: an expansion of the Asset Purchase Program by JPY 10 tr to JPY 101 tr by the end of 2013 was already calculated into things. At the next meeting, the inflation goal is only going to be "checked". In terms of fiscal policy, Abe seems to have put a number of gears in motion in order to support the economy. A supplementary budget is also going to be decided upon on 15 January. Since currencies rarely ever move in only one direction, the next weeks should see a change in direction and depending on how large this change is will show whether or not a revision to our forecasts is necessary.

Analyst: Lydia Kranner
lydia.kranner@raiffeisenresearch.at

EUR/GBP: 0.815 ⟶ 0.82 (March)

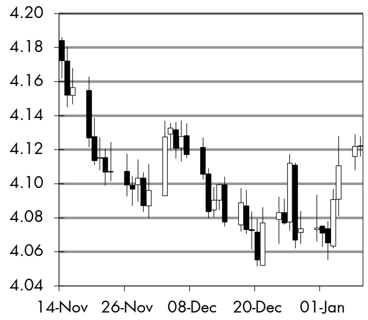


Source: Thomson Reuters

Economic data is divided and refuses to signal a green light for a change in the economic trend. Especially disappointing is December's services PMI, which fell below 50 points for the first time in two years. Retail sales have also been unable to pick up the pace following a weak Christmas shopping season. Compared to last year, there was only an increase of +1.5% and in real numbers this plus becomes a minus. Great Britain is therefore standing at the edge of a renewed plunge into a recession and with or without a change in the trend, all of these are aspects, which are closely monitored by rating agencies. S&P, as one recalls, has already put Great Britain's AAA rating on negative outlook. Thursday's central bank meeting is also unlikely to bring with it any stimulation measures as considerable hope is being put on the effects from FLS (Funding for Lending Scheme), although these are only to be seen in the course of 2013. The GBP is therefore likely to tend weaker against the euro in the coming months and in the second half should regain some of its strength.

Analyst: Lydia Kranner
lydia.kranner@raiffeisenresearch.at

EUR/PLN: 4.122 → 4.15 (March)

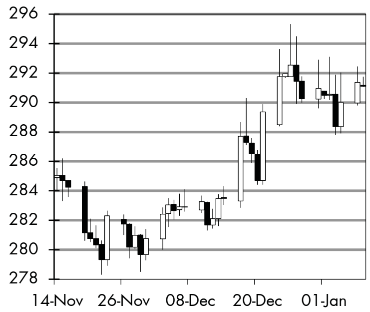


Source: Thomson Reuters

As we expected, another wave of PLN strengthening in December was followed by a correction in the first days of January. EUR/PLN returned from 4.06 to 4.12, which was supported not only by weaker market sentiment, but also by expectations of more interest rate cuts in Poland. Monetary policy will probably be the main event for PLN this week, but the most probable outcome, a cut of 25bp, is already priced in. Therefore, the commentary after the meeting and hints at decisions in the following months may be more important (we see the chance of a pause in easing until March when the new inflation projection will be published). Meanwhile, the upward move in EUR/PLN also came after the Ministry of Finance said that too much PLN appreciation would not be good for the economy, which is yet another argument suggesting it is still too early to see a break below 4.0.

Analyst: Dorota Strauch
dorota.strauch@raiffeisen.pl

EUR/HUF: 291.1 → 300 (March)



Source: Thomson Reuters

From mid-December 2012 onward, the forint started to depreciate against the euro. In our opinion, a great deal of external positive sentiment was priced into the Hungarian market in the past months and therefore this latest depreciation appeared overdue to us. Given the weak macroeconomic picture, which is not likely to improve in 2013, and the uncertainties regarding the successor of MNB governor Simor, there is little positive news that could support HUF in the coming weeks (aside from external risk sentiment). We therefore continue to expect further pressure on EUR/HUF in the course of Q1 2013. The next monetary council meeting is set for 29 January, when we are likely to see another 25bp interest rate cut. The (external) council members will most likely only stop the cutting cycle when they see stronger movement on the HUF market. This strategy could turn out to be risky.

Analyst: Wolfgang Ernst
wolfgang.ernst@raiffeisenresearch.at

EUR/CZK: 25.52 → 25.10 (March)

Source: Thomson Reuters

The year 2013 started with some depreciation of CZK vs. EUR towards 25.5. The industrial production figures for November which were released yesterday disappointed at -3.9% yoy and indicate ongoing weakness in economic activity. More data will be released later this week with CPI and retail sales likely attracting the most attention. The weak economic data as well as the wording of the central bank will keep pressure on EUR/CZK. On the other hand, risk sentiment and the healthy fundamentals, which give the Czech Republic its safe haven status, should prevent stronger depreciation tendencies in the coming months. Therefore, we expect no sustained appreciation trend below 25.1, but on the other hand we see support at levels of 25.8. The first direct presidential elections on 11-12 January will have no effect on CZK in our view.

Analyst: Wolfgang Ernst
wolfgang.ernst@raiffeisenresearch.at

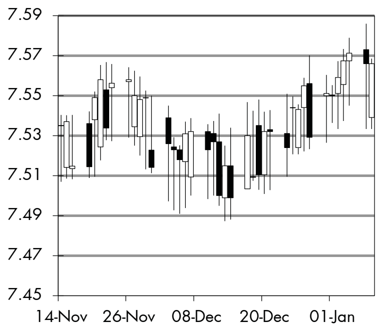
EUR/RON: 4.407 → 4.55 (March)

Source: Thomson Reuters

The Romanian currency gained ground vs. the euro, moving to 4.41 per euro, a level not seen since May 2012. Driving this positive momentum was the appetite of non-residents for Romanian T-bonds, spurred by lower political risk and speculation about inclusion in a popular EM LCY index. The RON is likely to continue to benefit from this over the short run, given the attractive yields levels and as the looser liquidity conditions signalled by the NBR at Monday's monetary policy meeting ("adequate" instead of "firm" liquidity management) bodes well for bond prices. We believe the monetary policy stance is likely to remain prudent, given the risks to the inflation outlook ("developments in the external environment, capital flows, administered prices and some volatile prices"). On Friday, we expect the December annual inflation rate to be almost unchanged at 4.5%, a touch below the previous reading of 4.6%, driven by a stronger RON (by 0.8% on average). Still, annual inflation is likely to print in the region of 5% during the first half of 2013.

Analyst: Nicolae Covrig
nicolae.covrig@raiffeisen.ro

EUR/HRK: 7.566 → 7.55 (March)



Source: Thomson Reuters

The beginning of the year was marked by pronounced depreciation pressures on HRK. On the heels of more intense corporate demand for EUR, the EUR/HRK rate peaked at 7.575 at the end of the last week and slid back slightly below 7.570 at the beginning of this week.

This week, we expect mild weakening of HRK vs. EUR, and the trend of HRK depreciation should continue over the one-month period as well. Namely, the first quarter is usually marked by increased demand for EUR from the corporate sector (to meet maturing foreign liabilities), so EUR/HRK could gradually approach the 7.60 level.

The slow but steady upward trend for EUR/HRK should continue in 2013. Although FCY deleveraging might slow down, weak exports, high risk aversion and lack of foreign capital inflows are still keeping EUR/HRK at higher levels. Divergence from this trend and the usual seasonal developments in EUR/HRK will primarily depend on FCY inflows via the borrowing of public enterprises and the government.

Analyst: Ivana Juric
ivana.juric@rba.hr

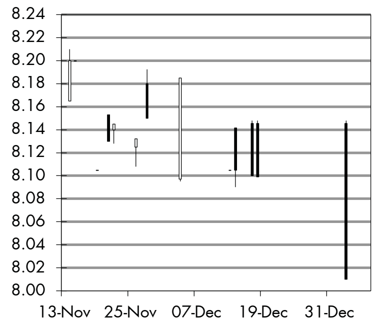
EUR/RUB: 39.80 → 39.4 (March), USD/RUB: 30.35 → 30.3 (March)

Source: Thomson Reuters

In the second half of December, the rouble made gains of 1% against the currency basket comprised of 55% USD and 45% EUR. Total volatility was very low and traded in the entire fourth quarter only between 34.7 and 35.7. Due to the new year and Christmas holidays, Russian markets remained closed at the beginning of the week. The Russian rouble, in our opinion, still has growth potential in the first quarter in the wake of the seasonally high current account surplus and the strong portfolio inflows (following the forthcoming of liberalization in the rouble-denominated government bond market). As always, though, developments in oil prices and the global risk sentiment will provide the decisive influences for the rouble.

Analyst: Andreas Schwabe
andres.schwabe@raiffeisenresearch.at

EUR/UAH: 10.452 → 10.9 (March), USD/UAH: 8.132 → 8.4 (March)

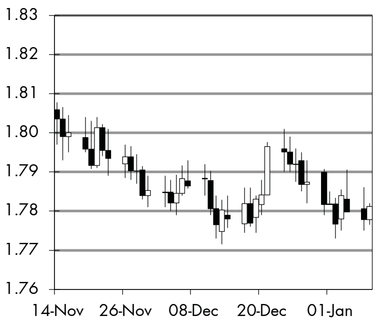


Source: Thomson Reuters

Against our own expectations and forecasts, the Ukrainian central bank did not permit the hryvnia to depreciate against the US dollar (we expected depreciation of around 10%). Not that there was no pressure of depreciation, though, it actually increased in the fourth quarter. No, the central bank continued to defend the fixed exchange rate with FX market interventions and finally with administrative measures. In December, total reserves further fell by USD 830 mn to USD 24.5 bn. The central bank's behavior is understandable, though, when one considers that there are high risks for panicked behavior following devaluation, regardless of whether or not the devaluation is gradual or a quick jump. Nonetheless, the economic fundamentals (open economy, high current account deficit, high gas prices and volatile steel prices) do speak for a shift to a more flexible currency policy, an opinion also shared by the IMF. Just because it is has been pushed aside does not mean it is off the table, though. For 2013 we (again) expect a depreciation of 10% against the dollar following a renewed IMF aid program.

Analyst: Andreas Schwabe
andreas.schwabe@raiffeisenresearch.at

EUR/TRY: 2.335 → 2.34 (March), USD/TRY: 1.781 → 1.80 (March)

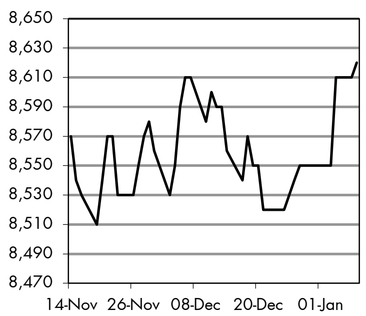


Source: Thomson Reuters

Following the almost 20% losses versus USD in 2011 the Turkish lira had had a favorable year 2012. Helped by monetary easing on the global stage and the improving prospects of a soft landing of the Turkish economy, but also backed by the growing confidence in the unorthodox policy mix of the Turkish central bank (TCMB) the lira appreciated rapidly at the beginning of 2012 and leveled off around USD/TRY 1.80 in the remainder of the year. Overall gains in 2012 account for more than 5%. We expect that the TCMB will maintain its commitment in 2013 to defend the currency through its multifunctional and flexible monetary policy practice. At the same time, monetary policy should not tolerate too strong appreciation pressures on the local unit as this would come at the expense of the improvements of the export performance and, hence, the current account. The main risks in this context are too strong capital-inflows which the TCMB is ready to fight through the relaxation of its interest policy.

Analyst: Stephan Imre
stephan.imre@raiffeisenresearch.at

EUR/BYR: 11,298 → 11,700 (March), USD/BYR: 8,620 → 8,975 (March)

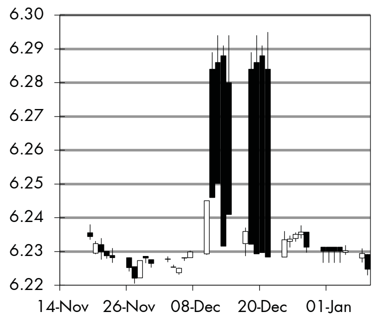


Source: Thomson Reuters

Just as in Ukraine, there was no strong devaluation in Belarus in 2012; against the dollar the Belarusian rouble lost only 2.5% in the course of the year. When compared with the high of April 2012, however, the currency lost 7%. Since December there have been fears concerning a strong devaluation, which has caused many to seek safety in foreign currency. At the end of last week, rumors were denied by the central bank, though. The negative memories remain fresh: on 2 January 2009, the central bank devalued the rouble by 20% and in 2011 it fell by a further 60%. Thus, future outlooks for the Belarusian rouble remain difficult. While the country can continue to count on cheap Russian gas, a new current account deficit opened up in the second half of the year 2012 and that will not disappear in 2013 and needs to be financed. President Lukashenko will either be forced to sell companies to Russia, take on new foreign-held debt or the central bank must sell reserves in order to keep the rouble stable.

Analyst: Andreas Schwabe
andreas.schwabe@raiffeisenresearch.at

EUR/CNY: 8.167 → 8.11 (March), USD/CNY: 6.225 → 6.24 (March)

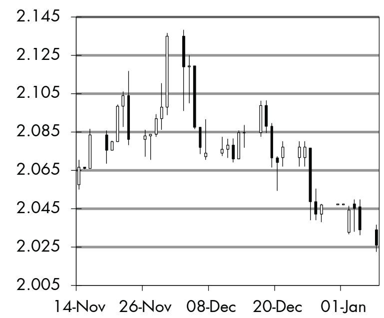


Source: Thomson Reuters

The pressure on the CNY against the USD has slightly lessened since the start of December following the worse than expected exports. While the renminbi continues to trade in the upper bandwidth, it is no longer scratching at the 1% mark, which is the maximum allowed deviation from the reference rate. The People's Bank of China continues to hang on to the 6.29 rate. We are assuming that this sideways movement will continue in Q1 2013. Furthermore, reforms regarding convertibility of the currency in the framework of capital accounts are being pushed. The pilot program for a financial reform zone has been expanded around the city of Quanzhou. Within the confines of this program, focus is being put on generating attractive investment possibilities for capital from Taiwan and Chinese living abroad. In other news, according to newspaper reports, regulations for loan issuances between China and Hong Kong were enacted. Companies within the Special Economic Zone of Qianhai in the city of Shenzhen can now receive renminbi-denominated loans from Hong Kong (the exact quotas are yet to be defined). Additionally, in Shanghai offshore renminbi will now be allowed to be invested into companies via "Private Equity Investment" instruments.

Analyst: Veronika Lammer
veronika.lammer@raiffeisenresearch.at

EUR/BRL: 2.658 → 2.73 (March) , USD/BRL: 2.026 → 2.10 (March)



Source: Thomson Reuters

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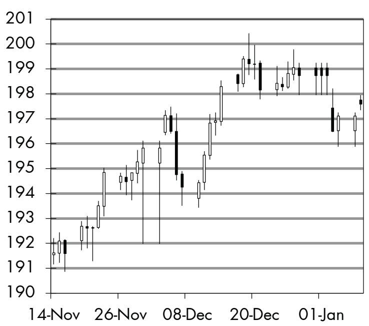
Analyst: Nina Kukic
nina.kukic@raiffeisenresearch.at

EUR/KZT: 197.68 → 194 (March), USD/KZT: 150.67 → 150 (March)



Source: Thomson Reuters

The Kazakh tenge remained little changed at 150.59 vs. the US dollar at the start of January, compared to 150.52 at the end of November last year. The central bank has scaled back its FX interventions since November, which was also reflected in the increase of foreign exchange reserves by USD 600 mn to an overall sum of USD 29.1 bn as of end November. The monetary outlook remains stable, amidst lower inflation in 2012 which fell to 6% eop, coming in at the lower end of the central bank's expectation for the whole year. Falling inflation allowed the regulator to cut interest rates to an all-time low of 5.5% in four steps during 2012. However, as inflation is likely to bottom out and economic growth is expected to be over 5% for 2012, the central bank is likely to demonstrate conservative stance. We expect a neutral policy stance with no rate hike at least in H1, since the growth rate will remain fairly acceptable for the regulator. Meanwhile, inflation might bottom out in H1 due to the lower base effect and negative lasting effect of high food prices on overall inflation. We expect the tenge to remain fairly stable at 149.75-150.75 vs. the US dollar in the month ahead.

Analyst: Gintaras Shlizhyus
gintaras.shlizhyus@raiffeisenresearch.at

Raiffeisen Bank International AG

Raiffeisen Bank International AG, Vienna
Head of Fixed Income Sales:
Luca Scalzini
Tel: +43 1 71707 3981
FX/MM Sales:
Wolfgang Kalinka
Tel: +43 1 71707 3959
Solution Sales:
Harald Schönauer
Tel: +43 1 71707 1148

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: Aurelian Mihailescu
Tel: +40 21 306 1221
Sales: Razvan Szilagyi
Tel: +40 21 306 1205

Budapest: Raiffeisen Bank Zrt.
Treasury:Gabor Liener
Tel: +36 1 484 4304
Sales: Istvan Gondi
Tel: ++36 1 484-4702

Kiev: Raiffeisen Bank Aval
Treasury: Vladimir Kravchenko
Tel: +380 44 490 8808

Maribor: Raiffeisen banka d.d. Slovenia
Treasury: Marko Stolica
Tel: +386 2 229 3183

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

RBI London Branch
Sales: Lorna Robertson
Tel: +44 20 7933-8113

RB International Markets (USA) LLC
Sales: Stefan Gabriele
Tel. +1 212 600 2588

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: Miroslaw Winiarczyk
Tel: +48 22 585 26 00
Sales: Konrad Kopciuch
Tel: +48 22 585 26 26

Zagreb: Raiffeisenbank Austria d.d.
Treasury: Ivan Zizic
Tel: +385 1 46 95 076

Acknowledgements

Global Head of Research:
Peter Brezinschek (1517)

Research Sales:
Werner Weingraber (5975)

Economics, Fixed Income, FX:
Valentin Hofstätter (Head, 1685), Jörg Angelé (1687), Eva Bauer (5644), Gunter Deuber (5707), Wolfgang Ernst (1500), Stephan Imre (6757), Lydia Kranner (1609), Matthias Reith (6741); Andreas Schwabe (1389), Gintaras Shlizhyus (1343), Gottfried Steindl (1523), Martin Stelzeneder (1614)

Credit/Corporate Bonds:
Christoph Klaper (Head, 1652), Jörg Bayer (1909), Igor Kovacic (6732), Martin Kutny (2013), Peter Onofrej (2049), Manuel Schreiber (3533), Gleb Shpilevoy (1461), Alexander Sklemin (1212), Jürgen Walter (5932)

Stocks:
Helge Rechberger (Head, 1533), Aaron Alber (1513), Christian Hinterwallner (1633), Jörn Lange (5934), Hannes Loacker (1885), Richard Malzer (5935), Johannes Mattner (1463), Christine Nowak (1625), Leopold Salcher (2176), Andreas Schiller (1358), Connie Schümann (2178), Magdalena Wasowicz (2169)

Quant Research/Emerging Markets:
Veronika Lammer (Head, 3741), Mario Annau (1355), Björn Chyba (8161), Nina Kukic (1635), Andreas Mannsparth (8133), Manuel Schuster (1529), Stefan Theußl (1593)

Technical Analysis:
Robert Schittler (1537), Stefan Memmer (1421)

Layout:
Birgit Bachhofner (3518), Kathrin Rauchlatner (1518), Marion Stadler (1846)

Translation:
David Wietstruk (Head, 6781), Marina Ivanova, Ventsislav Mishev, Benedict Raho, Esther Wöckinger

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Editor

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