



USD/RUB daily



Source: Thomson Reuters

USD/RUB weekly



Source: Thomson Reuters

USD/RUB monthly



Source: Thomson Reuters

EUR/RUB: 43.13 → 43.0 (December)
USD/RUB: 32.30 → 33.0 (December)

The Russian rouble regained strength during the last two weeks, reversing the July and August losses of around 3% versus the dual currency basket of 55% USD and 45% EUR. On the one hand, the rouble participated in the easing of market tensions which affected most risky assets, as especially EM assets had probably been beaten too much before. On the other hand, the reluctance of the central bank to cut interest rates – as demonstrated again last Friday – is also supportive for the currency. Moreover, the strengthening can be seen as a sign of market confidence in the new leadership of the Russian central bank headed by Ms. Nabiullina, who indicated her intention to continue the transition to a fully-floating rouble rate and keeping emphasis on inflation reduction. As with other EM assets, the rouble will be sensitive to US monetary policy and thus the result of tomorrow's FOMC meeting.

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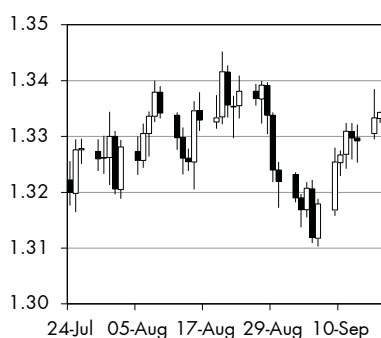
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Exchange rate forecasts

	current ¹	Dec-13	Mar-14	Jun-14
EUR/USD	1.334	1.30	1.31	1.29
EUR/CHF	1.236	1.25	1.28	1.28
EUR/JPY	132.3	130	135	135
USD/JPY	99.1	100	103	105
EUR/GBP	0.838	0.84	0.84	0.83
EUR/PLN	4.199	4.15	4.10	4.00
EUR/HUF	299.0	300	305	305
EUR/CZK	25.74	25.50	25.40	25.10
EUR/RON	4.453	4.50	4.45	4.50
EUR/HRK	7.600	7.60	7.57	7.48
EUR/RSD	114.53	115	113	112
EUR/RUB	43.13	43.0	42.5	43.7
USD/RUB	32.30	33.0	32.5	32.4
EUR/UAH*	10.905	10.7	10.7	11.2
USD/UAH*	8.180	8.2	8.2	8.3
EUR/CNY	8.168	7.90	7.93	8.10
USD/CNY	6.121	6.08	6.05	6.00
EUR/BGN	1.956	1.96	1.96	1.96
EUR/ALL	140.50	140.0	139.5	139.0
EUR/BYR*	12,005	12,700	13,100	13,900
USD/BYR*	9,000	9,800	10,000	10,300
EUR/KZT	204.67	199	202	200
USD/KZT	153.38	153	154	155
EUR/TRY	2.668	2.54	2.62	2.71
USD/TRY	2.001	1.95	2.00	2.10
EUR/BRL	3.047	2.96	3.01	3.04
USD/BRL	2.284	2.28	2.30	2.25

¹ as per 17 September 2013, 08:51 a.m. CET; * under revision
 BGN, ALL, BYR, KZT, TRY and BRL are only covered on a monthly basis
 Source: Reuters, Raiffeisen RESEARCH



EUR/USD: 1.334 → 1.30 (December)

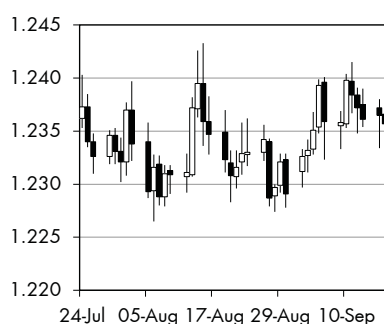
Source: Thomson Reuters

Relative to the yield differential between two-year German and American government bonds, the euro's quotation of 1.335 EUR/USD against

the dollar is currently around two cents too tight. Most recently, the euro was supported by weak US economic data (retail sales, consumer confidence) as well as the withdrawal of university professor Lawrence Summers's candidacy for the succession of Fed chairman Ben Bernanke next year. Along with current vice chairman Janet Yellen, Summers was the most promising candidate for the most important position at the US Fed. The path now seems to be free for Yellen who is considered to be an absolute "dove" and advocate of an ultra-loose monetary policy. She is a confessing opponent of a reduction of

bond purchases. Many market players apparently expect a longer adherence to the present zero interest rate policy and to QE3 under her leadership than would have been the case with Summers's guidance. We nevertheless believe it to be likely that the Fed will announce a cutback on bond purchases at Wednesday's FOMC meeting. If this happened, there would be downward potential for the euro, which should lose one or two cents in value after such decision.

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EUR/CHF: 1.236 → 1.25 (December)

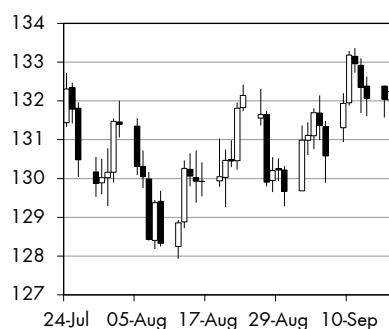
Source: Thomson Reuters

Over the last three months, the Swiss franc has been fluctuating within a narrow range of just below 1.23 and slightly above 1.24. In the two previ-

ous quarters, the Swiss economy has demonstrated its strength to leave deflation behind. For the time being, this news was reason enough for the Swiss franc to refrain from further depreciation. By the end of the year, a target value near the 1.25 CHF per EUR will likely have established. In 2014, however, depreciation should gain steam, bringing the CHF to the 1.30 mark against the EUR. The main reason for this might be the euro economy's stronger momentum, which is also directly linked to the monetary policy discussion of when interest rates will be increased for the first time. We as-

sume that the ECB will turn the interest rate twist earlier than the Swiss national bank (SNB). That's why the interest rate and yield differential might develop to the benefit of the EUR and weaken the CHF. If the Swiss economy remains on track, the country's central bank will think aloud about raising the CHF bottom threshold. Yet, there is still time until then. In fact, also the SNB lets us know that there is still no end in sight to the 1.20 CHF limit, which has been valid for two years

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EUR/JPY: 132.3 → 130 (December), USD/JPY: 99.1 → 100 (December)

Source: Thomson Reuters

The yen seems to be facing difficulties holding above the 100 mark against

the USD. In the absence of fundamental impulses, the USD development is currently having the main impact on the yen. We nevertheless stick to our forecast of a weaker yen in the longer term. Even if markets have already anticipated some of this, the difference in the monetary policy orientation between the US and Japan still speaks for a weak yen. This clearly emerges with a view to the yield differentials, which have again seen a significant increase most recently. This trend will continue further next year. In addition,

Japan finds itself at a crossroads: In the event of a lack of reforms, the excitement around which has abated recently, the currently ongoing economic recovery will not be of lasting nature. Without a distinct economic recovery it might be difficult to reduce debt and the risk of capital outflows increases. A combination of all the arguments reflects better on a JPY depreciation than on an appreciation.

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EUR/GBP: 0.838 → 0.84 (December)

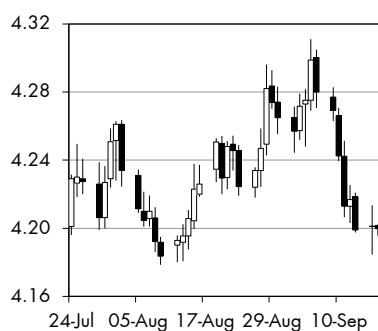
Source: Thomson Reuters

At 0.87, the British pound in August has obviously reached rock bottom against the EUR. The GBP has

since appreciated around 4%. That's why the downward trend might end earlier than originally assumed. Also Great Britain is among the countries in which a surprising GDP growth was achieved in the first two quarters. Leading indicators suggest a continuation of this trend over the next one or two quarters. At that point, however, the dynamic will likely start to lose momentum. In terms of monetary policy, the British central bank (BoE), similar to the US Fed, is facing the dilemma of having linked possible interest rate hikes to a fall in the unemployment

rate below a specific percentage (7.0%). The date for the first interest rate move will therefore be the subject of strong debate also next year and give the GBP a boost. Yet, we assume that the BoE will increase interest rates only after the Fed and the ECB have done so. As a result, most recently established yield differentials will again decrease, which speaks against a stronger appreciation.

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EUR/PLN: 4.199 → 4.15 (December)

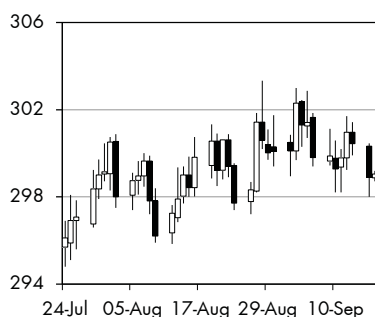
Source: Thomson Reuters

Going forward, we see more reasons why PLN should trade at stronger rather than weaker levels (i.e. well

below 4.20) vs. EUR. First, the recent sell-off may have been a bit overdone. This leaves a certain amount of recovery potential. Second, several structural drivers should support modest PLN strengthening going forward. The Polish real economy seems to be on a clear recovery path. Therefore, central bank communication and real monetary policy in Poland will change much earlier than inside the euro area (i.e. we already expect rate hikes in H2 2014 in Poland, while we do not see rate hikes in the euro area in 2014). This outlook is definitely

totally different than the situation in H1 2013. Nevertheless, there are still some external volatility risks for EUR/PLN. Moreover, one should not underestimate domestic factors resulting from the recent pension system changes with relevance for the bond market that could drive PLN volatility. That said, any EUR/PLN weakening towards 4.30 in the case of external risks materialising would provide good opportunities for opening long positions.

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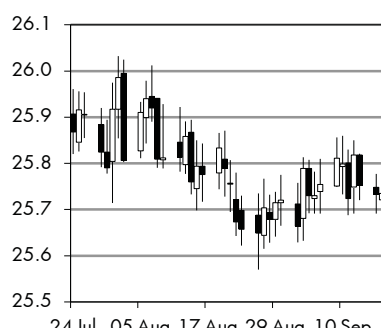
EUR/HUF: 299.0 → 300 (December)

Source: Thomson Reuters

The forint remains in its trading range around 300 against the euro with no important data expected to be released this week. Eyes are rather on the Fed tapering decision. In terms of domestic news, the FX mortgage scheme remains one major source of concern, while investors continue to estimate how far the central bank will cut interest rates in the coming months. The cuts will most likely be smaller, and we currently project the rate-cutting cycle ending at 3.2%, al-

though in a supportive environment cuts could continue even to 3.0% (the central bank indicated it would end the cutting cycle at 3-3.5%). EUR/HUF is likely to remain in the 300 range for the coming months. We do not see any support for a pronounced appreciation trend, but then again we also do not see any source for a stronger depreciation if external markets remain calm.

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EUR/CZK: 25.74 → 25.50 (December)

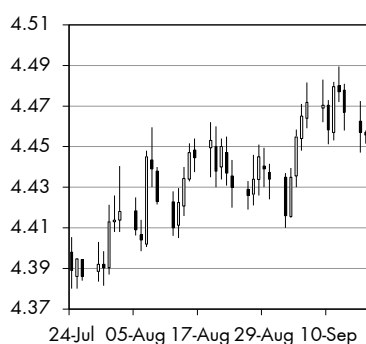
Source: Thomson Reuters

Statements by central bank board members continue to underline the possibility of FX interventions, should the risk of a deflationary environment persist. We still do not expect FX interventions by the central bank, even though the topic will remain on the agenda for the near future. Given at least the verbal intervention, we do not project any stronger appreciation in EUR/CZK for the time being, but only project a slow appreciation trend that should go hand in hand

with improving economic growth in H2 2013. No relevant data publications are due in the Czech Republic in the coming two weeks, apart from the monetary council meeting on the 26 September, where we do not expect any changes in terms of interest rate or wording. Therefore, the focus will be on external news, especially the Fed's tapering decision and German elections.

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EUR/RON: 4.453 → 4.50 (December)

Source: Thomson Reuters

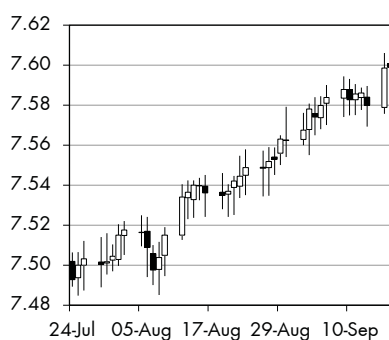
The leu exchange rate underperformed its regional peers (PLN, HUF) in the past two weeks. During the period, RON lost around 0.6% against

EUR. Clearly, the losses are low enough not to raise any concerns. But exchange rate dynamics over the last couple of months show a modest depreciation tendency for the leu. In addition, we expect portfolio flows to offer less support for the leu in the period ahead compared with the first part of the year. We believe the foreign trade deficit will increase, while net portfolio inflows will remain positive, but will not be very large. In this context, the potential for leu appreciation remains limited. Accordingly, we decided to marginally adjust our

exchange rate scenario to take into account the limited appreciation potential. Otherwise, we do not see any reason to be bearish on the leu: there is good interest from non-residents in RON-government securities: last week's 7y Eurobond issue (amounting to EUR 1.5 bn) was very well received by the market, and the rating agency Fitch recently re-affirmed Romania's ratings and outlook (BBB- with stable outlook for long-term FCY debt).

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EUR/HRK: 7.600 → 7.60 (December)

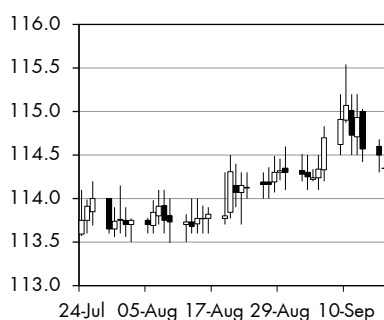
Source: Thomson Reuters

EUR/HRK was quite stable last week hovering around 7.585. For a couple of weeks, EUR/HRK has been steadily close to 7.60, but has resisted an increase over that level. However, this week opened with EUR/HRK increasing to 7.60, with the banking sector as the main driver behind higher demand for foreign currency. As the 7.60 level has been crossed, we expect to see further increases towards 7.62. Strengthening depreciation pressures are usual in Q4 as demand

for foreign currency mounts, but this trend is also supported by negative trade balance developments and generally stronger foreign deleveraging by domestic sectors. However, the CNB will remain committed to its goal of preserving exchange rate stability. Hence, we stand by our end of the year estimate of 7.60 (central bank's middle rate).

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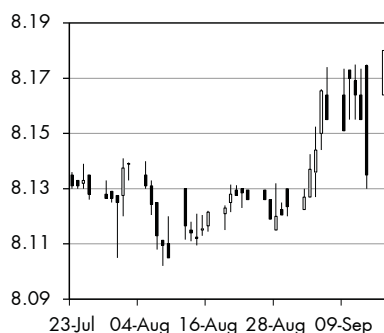
EUR/RSD: 114.53 → 115 (December)

Source: Thomson Reuters

The repositioning of foreign funds' exposure in RSD MinFin T-bills was the factor behind EUR/RSD depreciation last week. These corrections were driven both by geopolitical developments (i.e. moving to USD investments) as well as by concerns about whether the reshuffled government has the power to move forward with reforms, given the social policy framework of the Social Party of Serbia and the Party of United Pensioners of Serbia. Together

with other CEE currencies, the dinar was able to make up for some of the losses in the last days. The National Bank of Serbia (NBS) is maintaining a watchful stance, leaving the key rate at 11% for the third time in a row. We expect this will also stay this way at October's rate-setting meeting until the NBS sees the prospective changes to the Budget Law 2013.

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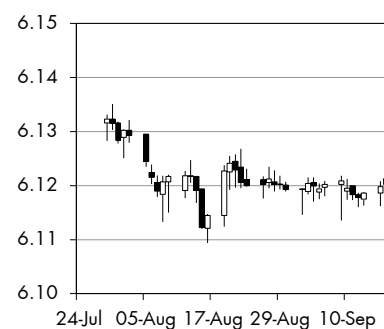
EUR/UAH*: 10.905 → 10.7 (December), USD/UAH*: 8.180 → 8.2 (December)* under revision
Source: Thomson Reuters

Traditionally, the exchange rate has gone up at the beginning of autumn. Starting on Monday, 2 September, the USD/UAH rate in the interbank market

started to rise smoothly from levels of 8.125-8.130, reaching 8.170-8.175 by 6 September. Since then, quotes have remained about the same. However, despite the increase in the rate, according to market participants, there is no panic and some of the hryvnia weakening is a natural process associated with the resumption of business after the summer holidays. This conclusion is evidenced by such facts as the still-high balances on correspondent accounts (that is, market participants are not running to buy the currency for a free hryvnia) and the lack of excitement in the cash market. Data on

the cash market of individual banks suggest that the volume of household currency purchases increased slightly in early September (compared to August), but remains far from the figures seen September 2011 and 2012. It is worth noting that up to August net household purchases of foreign currency totalled USD 136 mn, while in the previous four months, households sold more FX than they bought. Although compared to the same period last year, net purchases of currency declined by almost 6 times.

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EUR/CNY: 8.168 → 7.90 (December), USD/CNY: 6.121 → 6.08 (December)

Source: Thomson Reuters

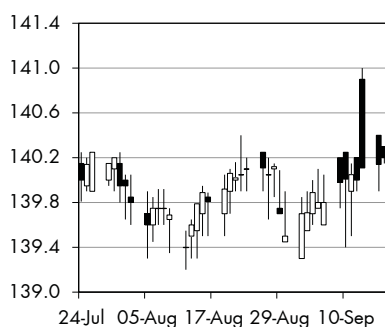
China's economic stabilisation might have proven to be true. Export and economic data for August surprised to

the upside; added to this is the fact that consumer price inflation remains low. Nevertheless, the CNY's sideways movement with a slight upward tendency against the USD currently persists. The CNH in Hong Kong, however, continues to trend slightly stronger. This trend will likely persist for a while, yet until year's end, the pace of the appreciation with a further acceleration of exports due to increasing external demand should be stepped up once again.

With regard to a liberalisation of the currency, the emerging Free Trade

Zone (FTZ) in Pudong, a part of Shanghai, might lend fresh impetus. According to official reports, the yuan is to be made freely convertible for the companies in this FTZ. Also interest rates might be liberalised as part of this effort. Yet, no details about the exact implementation are known so far. Under these circumstances, a particular challenge might be capital mobility between the FTZ and the rest of the mainland.

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EUR/ALL: 140.50 → 140.0 (December)

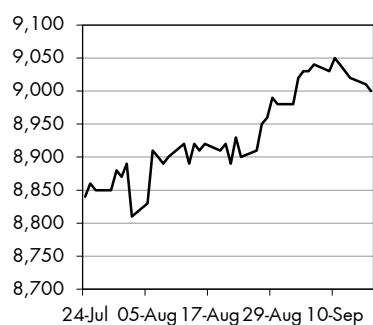
Source: Thomson Reuters

The new government was approved by the Albanian Parliament in a vote on 15 September. 82 of 140 members of

parliament voted for the new ministers under the leadership of Prime Minister Edi Rama, who won parliamentary elections in June with his socialist party's. The government program consists of three main pillars in the next four years: fight against corruption, reform of the judiciary and boosting domestic production. However, one of the main goals is the progress in the EU integration. Albania hopes to obtain EU candidacy status as soon as possible. Furthermore, the cooperation with the IMF should be intensified. The Alba-

nian lek weakened slightly to 140.4 against euro in the first weeks of September due to seasonal effect and strong demand for foreign currency from some oil corporates. Until further notice, the currency is expected to remain stable and EUR/ALL to move around the level of 140. However, during Q4, when we usually see a small depreciation, EUR/ALL could reach 141.00, without breaking the resistance level 141.30.

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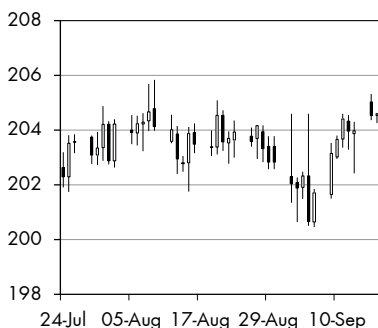
EUR/BYR*: 12,005 → 12,700 (December), USD/BYR*: 9,000 → 9,800 (December)

* under revision
Source: Thomson Reuters

More C/A deficit widening (USD 3.1 bn or 9.3% of GDP in H1 2013) and uncertain funding sources for heavy external debt repayments coverage have boosted tensions in FX market. The Belarusian rouble has returned to a depreciation path and since early 2013 it has already lost more than 5% of its value versus USD and EUR. Moreover, further BYR weakening can be provoked by increasing imports of consumer goods amidst higher wages, devaluation of the Russian rouble

and net FX purchases by households. FX reserves decreased slightly in August to USD 7.7 bn after a long period of stabilisation at USD 8 bn since late 2011 and are forecasted to decline further. Taking into account the aforementioned, we revised our EUR/BYR forecast for 2014 with a more negative outlook for the Belarusian currency.

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EUR/KZT: 204.67 → 199 (December), USD/KZT: 153.38 → 153 (December)

Source: Thomson Reuters

Late in August, Kazakhstan's central bank announced that from then on the Kazakh tenge would be pegged to a

currency basket made up of the USD (70%), the euro (20%) and the Russian rouble (10%). This replaces the pure USD/KZT price focus and represents a first step towards greater exchange rate flexibility. By adopting this system, Kazakhstan follows the example of Russia, where a currency basket was introduced eight years ago and has meanwhile reached a high degree of flexibility. The consideration of the rouble and the euro through linkage to a currency basket is reasonable as it better reflects trade rela-

tions with the corresponding currency areas. At the same time, the USD as the most important reserve currency (for foreign exchange interventions) continues to uphold a prominent position. The practical significance for the USD/KZT price is a slightly higher volatility (due to fluctuations between the EUR, the USD and the RUB). Yet, as long as the currency basket's stability is upheld, these fluctuations should remain limited.

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