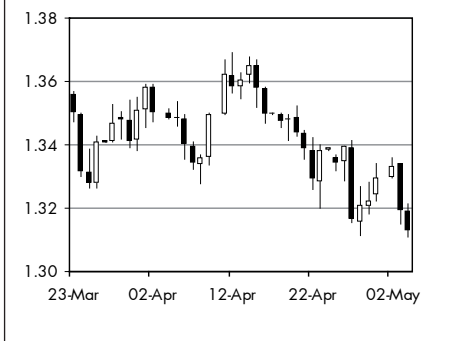


Focus FX monthly

Issue 18/2010

4 May 2010

EUR/USD daily

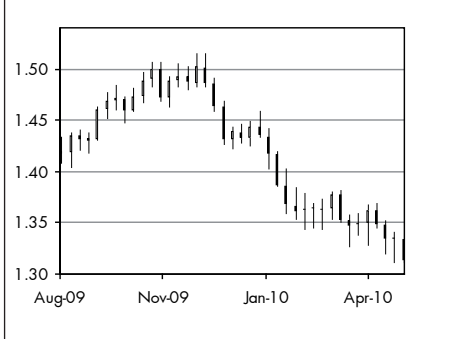


Source: Thomson Reuters

EUR/USD: 1.316 → 1.27 (June)

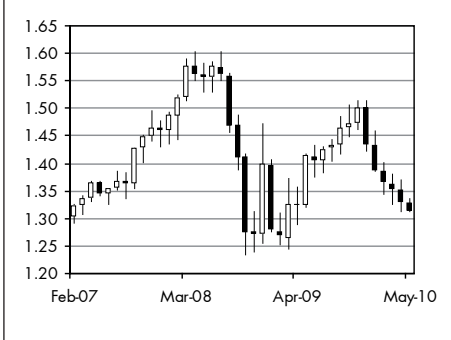
Just a few weeks ago a EUR 110 bn rescue package for Greece (without a haircut and together with additional support from the ECB by means of relaxed rules regarding the eligibility of Greek government bonds as collateral) would probably have brought some relief to the markets and at least in the short run alleviated some of the pressure on the struggling euro. In fact, the opposite happened: sitting at EUR/USD 1.314 the single currency has not been as weak since April 2009. It appears as if the downward trend in the euro that has persisted since December 2009 is not over yet. This means, however, that one of the fundamental assumptions of our exchange rate forecast has proved to be false, i.e. that the FX markets would react positively once the problems

EUR/USD weekly



Source: Thomson Reuters

EUR/USD monthly



Source: Thomson Reuters

Exchange rate forecasts

	actual	Jun-10	Sep-10	Dec-10
EUR/USD	1.313	1.27	1.35	1.25
EUR/CHF	1.433	1.41	1.43	1.45
EUR/JPY	124.2	124	118	130.00
USD/JPY	94.6	98	87	104.00
EUR/GBP	0.864	0.91	0.89	0.90
EUR/PLN	3.944	3.80	3.75	3.65
EUR/HUF	272.0	275	275	270.00
EUR/CZK	25.61	25.4	24.8	25.00
EUR/RON	4.136	4.10	4.05	3.95
EUR/HRK	7.260	7.32	7.30	7.32
EUR/RUB	38.57	37.60	37.9	36.7
USD/RUB	29.38	29.60	28.1	29.4
EUR/UAH	10.528	9.40	10.30	9.60
USD/UAH	7.920	7.40	7.60	7.70
EUR/TRY	1.970	1.84	1.96	1.78
USD/TRY	1.501	1.45	1.45	1.42
EUR/BYR	3883	3900	4100	4000
USD/BYR	2961	3050	3050	3200
EUR/BGN	1.956	1.96	1.96	1.96
EUR/ALL	136.80	139.0	139.0	137.50
EUR/RSD	99.31	99.0	98.5	97.00
EUR/CNY	8.961	8.66	9.17	8.44
USD/CNY	6.826	6.82	6.79	6.75
EUR/BRL	2.266	2.16	2.30	2.06
USD/BRL	1.726	1.70	1.70	1.65
EUR/ZAR	9.818	9.271	10.06	9.38
USD/ZAR	7.480	7.30	7.45	7.50
EUR/KZT	192.365	181.61	191.70	175.00
USD/KZT	146.530	143.00	142.00	140.00

Source: Thomson Reuters. Raiffeisen RESEARCH



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surrounding Greece eased. Looking over the coming months, the pledge of financial aid means we no longer perceive any acute risk of a payment default by Greece. Yet since our other assumptions – strong development in the US economy in comparison to the euro area, recovery on US labour market – have proved to be correct so far, and we are sticking by them, we have lowered our EUR/USD projection. The decline in confidence in the European single currency will also be aggravated by the ECB decision to soften its rules with regard to credit rating requirements for eligible collateral. In our view, major cracks have appeared in the credibility of the European Central Bank anyway following its hand-

ling of the Greek affair. Until June the euro is likely to slip further against the dollar towards EUR/USD 1.25. We still reckon the single currency will recover afterwards, just from a lower starting point. The triggers for this should be a tangible cool-down in the US economy from the middle of the year, as well as weak US labour market figures from July to September. We expect a recovery in the euro from a lower level, and only up to EUR/USD 1.35. Then towards the end of the year we anticipate another weaker period for the euro, as we have before, and so we uphold our forecast of a stronger dollar over the 12-month horizon.

Analyst: Valentin Hofstätter

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Trading Ideas

FX

Recommendation	Entry date	Entry level	Current level	Target level	Stop	Carry (ann. %)	Comments
Sell EUR/CHF	03/05/2010	1.432	1.432	1.445	1.44	-0.59	Early CHF-interest rate hikes
SELL BASKET/RUB (long RUB)	06/04/2010	33.81	33.47	33.2	34.1	3.7	high oil prices, monetary easing, higher economic growth

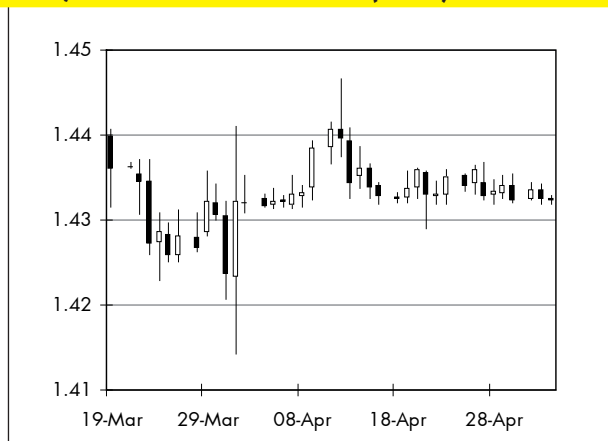
Source: Thomson Reuters, Bloomberg

Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total Return	Comments
SELL USD/TRY (long TRY)	13/04/2010	1.492	28/04/2010	1.51	-0.93%	Stopped out
SELL EUR/USD	24/03/2010	1.336	29/03/2010	1.35	-1.04%	Stopped Out
SELL EUR/CHF	09/03/2010	1.463	19/03/2010	1.44	1.57%	Target Reached
BUY EUR/JPY	09/02/2010	123.3	25/02/2010	120.5	-2.27%	Stopped Out
BUY EUR/USD	09/02/2010	1.3784	11/02/2010	1.36	-1.33%	Stopped Out
SELL EUR/USD	21/01/2010	1.4118	04/02/2010	1.37	2.96%	Target Reached
BUY EUR/JPY	02/02/2010	126	04/02/2010	123	-2.38%	Stopped Out
BUY EUR/JPY	28/01/2010	126.8	29/01/2010	125	-1.42%	Stopped Out
BUY EUR/JPY	25/01/2010	127.44	26/01/2010	126.5	-0.74%	Stopped Out
BUY USD/JPY	21/01/2010	91.64	21/01/2010	90.5	-1.24%	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/CHF: 1.432 → 1.41 (June)

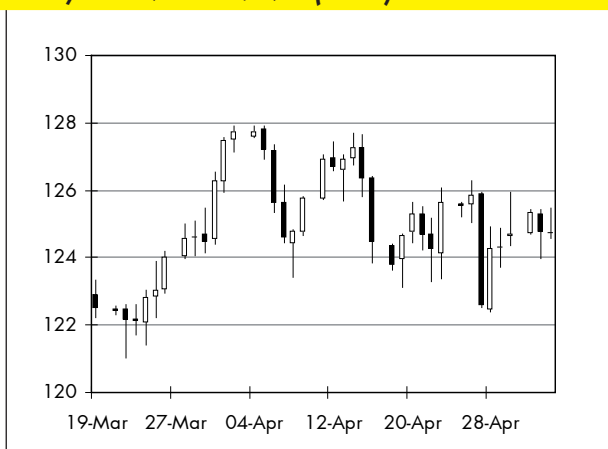
Source: Thomson Reuters

Growth in the Swiss economy continues unrelenting. In contrast to broad parts of Europe, production activity in Switzerland is following the path shown

by the strong sentiment indicators. On Monday the PMI index for manufacturing hit its highest level since November 2006 at 65.9. This means the Swiss economy should register some robust growth in the first half of 2010. Since the counter-cyclical orientation of industry and the relatively committed support measures of the Swiss National Bank (SNB) meant that the decline in the Swiss economy was less pronounced, interest rate hikes are likely to become a topic of conversation earlier in Switzerland than in the euro area. In preparation for such a move we reckon that currency market intervention by the SNB will finally be shelved completely, probably at the next rate-setting meeting on 17 June. Production and price trends should point in this direction in the coming months. This is why yesterday we opened a short-term trading idea: short EUR/CHF (= buy francs): current: 1.432; target: 1.415; stop: 1,44.

Analyst: Ingo Jungwirth

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EUR/JPY: 124.7 → 124 (June)**USD/JPY: 94.8 → 98 (June)**

Source: Thomson Reuters

The Japanese equity and bond markets are closed until Wednesday on account of the religious and imperial holidays during Golden Week. This explains the yawning gaps in the data calendar, while trading volumes on the foreign currency market are also likely to be rather low this week. In the wake of the turmoil in Greece the financial markets punished German creditworthiness more than the rather shaky quality of Japanese credits. Although the German

CDS spread is trading below its Japanese peer, this default insurance has risen relatively sharply for Germany in recent weeks. Thus, despite its colossal public debt totalling around 200% of GDP, Japan is (still) viewed as a safe haven amidst the current concerns about public finances.

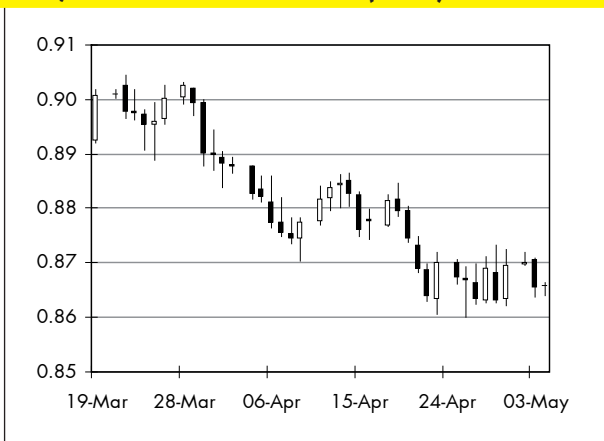
At the rate-setting meeting of the Bank of Japan (BoJ) last Friday the guardians of the local currency left the key rate unchanged at 0.1% and did not expand its purchasing programme for government bonds. The BoJ signalled that by monetising public debt it would not assume the responsibility from politicians, but announced at the same time it would maintain the extremely accommodative financial environment. The next move from the BoJ should therefore be expansionary again. Thus, Japan has yet to take a step back from its loose monetary policy! In light of the current turmoil we cannot dismiss the possibility of the market pricing short-term rate hikes out in the euro area, or pushing them back even further. Consequently, we advise against adopting a clear position on the currency market for now. Yet as soon as interest rate hikes are announced in the euro area or the USA, we recommend selling the Japanese yen.

Analyst: Ingo Jungwirth

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EUR/GBP: 0.866 → 0.91 (June)



Source: Thomson Reuters

In recent days the EUR/GBP was driven once more by developments relating to Greece, while UK economic data exerted little influence. This week it will also be a political event that takes the limelight: the parliamentary elections to be held on Thursday. For the first time since 1974 it is highly likely that neither of the large parties (Labour, Conservatives) will be able to gain an absolute majority. Since February

most of the opinion polls have indicated the possibility of a „hung parliament“, and the chances of this happening have only increased in the last month with the strong support flowing in the direction of the Liberal Democrats under Nick Clegg, who put in an impressive performance during the televised debates. A hung parliament would not be to the market’s liking as this could potentially lead to an unstable minority/coalition government or even to new elections. In both cases, investors fear there may be delays in consolidating UK public finances, which in turn could result in a downgrade of UK’s triple-A rating. Consequently, if the official election result on Friday creates the hung parliament that we expect, then concerns from the market regarding the scenario outlined above could push the sterling close to our June target of EUR/GBP 0.91. While an election result with a clear winner seems unlikely according to the opinion polls, it would put our June projection at risk. If the Conservative party nevertheless manages to garner a clear majority of seats in the Parliament, this relief would lend the sterling some much-needed momentum.

Analyst: Julia Neudorfer
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EUR/PLN: 3.929 → 3.80 (June)

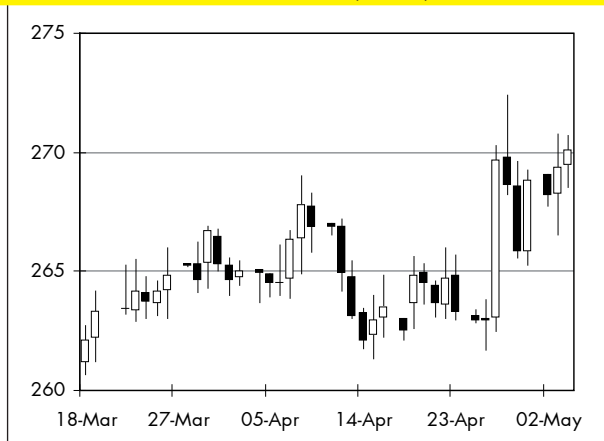


Source: Thomson Reuters

The financial assistance for Greece that was announced at the weekend barely brought any respite for the EUR/PLN. Early on Tuesday the zloty again moved towards 3.95. Last week the NBP made no change to the interest rate, as expected. We still be-

lieve that it will stick by this policy until Q1 2011. PMI for manufacturing remained stuck in April at the same level for March, and continues to demonstrate expansion in this sector. The decoupling of the zloty from the debt problems in Greece has taken some time, but it should now be consigned to history. We do not reckon there is much scope for appreciation in the PLN vs. EUR in the short term, despite the fact it currently sits at an appealing level. The most probable scenario after the prolonged strengthening will likely be a consolidation phase just short of EUR/PLN 4.00. This may well suit the NBP and so now is probably not the best time to make an investment. We have already switched our short-term recommendation for Polish bonds from „Buy“ to „Neutral“, thus taking account of the current uncertainties regarding CEE currencies. Under current conditions we do not recommend building up new positions in the EUR/PLN pair.

Analyst: Marcin Kopaczynski
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EUR/HUF: 270.3 → 275 (June)

Source: Thomson Reuters

The financial aid package for Greece had very limited effects on the forint that currently hovers around 270 towards the euro. Apart from the turmoil surrounding Greece there are also domestic events in Hungary that cause ongoing uncertainty. On the one hand the possible replacement of the central bank governor Andras Simor and on the other hand the ongoing uncertainty over the budget deficit 2010, leaving plenty of room to scare investors. All together our opinion remains that we are likely to witness more forint weakness and higher volatility in the coming weeks with EUR/HUF moving towards 275 until June 2010.

Analyst: Wolfgang Ernst
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EUR/CZK: 25.59 → 25.4 (June)

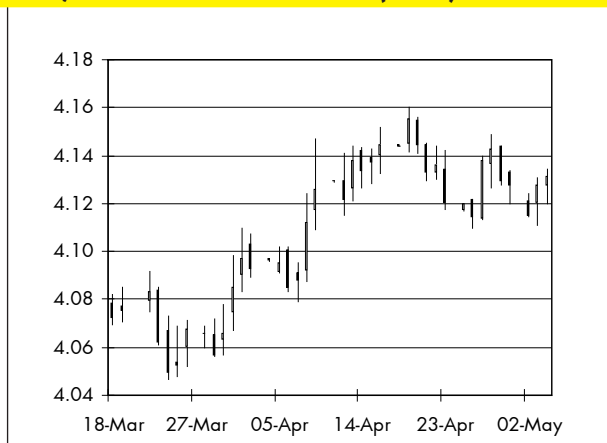
Source: Thomson Reuters

Prevailing fears about Greece and the resulting appreciation of the USD contributed to a further weakening of the Czech koruna (CZK) to levels around 25.6 against the euro, from 25.4 one week ago. The Czech National Bank holds its monetary policy board meeting this week. Although we expect no change of the key 2-week repo rate from the current 1.0%, we cannot fully exclude the possibility of a rate cut. One board member will be missing and two of the six remaining members voted already for a rate cut on the last meeting. Although we believe in the continuation of the fundamental long-term appreciation trend of the CZK in the course of 2010 (in Q3 2010 even below 25.0), the CZK remains vulnerable to the global market sentiment and the degree of risk aversion. We still see the main risk to our forecast scenario in the parliamentary elections in May, as a stalemate in parliament similar to the 2006 elections would postpone the urgently necessary medium-term fiscal consolidation.

Analyst: Walter Demel
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EUR/RON: 4.132 → 4.10 (June)



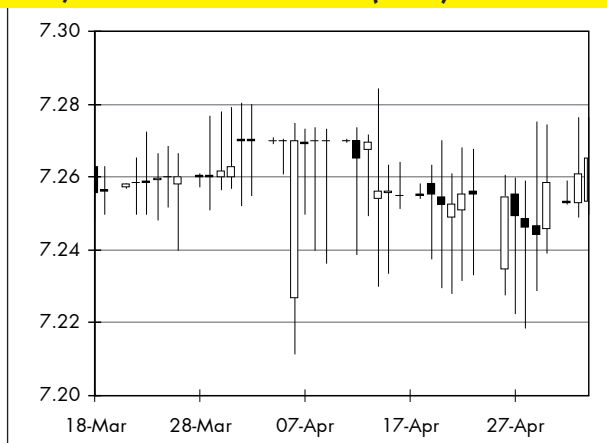
Source: Thomson Reuters

The monetary policy decision on Tuesday and the comments of the IMF and EU technical missions at the end of their visit to Romania on Friday are the main events this week. We are looking for the NBR

to cut the key interest rate by 25bp to 6.25%. Such a move should have no impact on the exchange rate. Recent statements from government officials suggest that technical missions from both the IMF and the EU would recommend the disbursement of additional funds from the external package agreed in 2009. We concur. However, we expect the IMF technical mission will level some criticism at the policies pursued by the Romanian authorities. The IMF and the EU will very likely ask for additional restrictive measures on spending to ensure a sustainable decrease in the public budget deficit from 2011. The deficit target for 2010 will probably increase from its current level of 5.9% of GDP, while the IMF could also lower its GDP growth projection for 2010 from 0.8% towards 0%. In our opinion, such comments have already been taken into account by the current level of the exchange rate.

Analyst: *Martin Stelzener*
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EUR/HRK: 7.253 → 7.32 (June)



Source: Thomson Reuters

Last week finally brought a little excitement to the domestic FX market. After starting with a EUR/HRK rate of 7.26 EUR/HRK, the rate declined almost the whole week and even dropped below 7.25 kuna per euro. Moreover, the CNB's middle rate fell to its lowest level in almost six months. However, at the

end of the day, increased demand for euros, mainly from the banking sector, pushed the rate up towards 7.26 EUR/HRK. The domestic money market is still dominated by high liquidity and low interest rates. The ZIBOR of the shortest maturities (1 week or less) remains below 1%, while longer maturities are showing signs of mild growth. Since liquidity is high and the supply of euros is relatively good, in the week ahead we do not expect to see any significant changes in the EUR/HRK. The previously announced auction of MoF Treasury Bills will probably absorb the excess kuna supply and the rate should stay around 7.26 kuna per euro. The expected continuation of quasi-sovereign external borrowing and consequently the higher inflow of euros is supporting appreciation pressures on the kuna and thwarting the fundamentally justified increase in the EUR/HRK FX rate. Therefore, even in monthly terms the rate should float between 7.25 and 7.265 EUR/HRK.

Analyst: *Martin Stelzener*
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EUR/RUB: 38.57 → 37.6 (June)
USD/RUB: 29.30 → 29.6 (June)



Source: Thomson Reuters

As we predicted the rouble slid to 33.60 against the dual currency basket, pushed down by profit taking and oil-price volatility. However, the market correction did not last long and the currency resumed its upward trend towards the end of last week. This week the rouble regained some strength, surpassing 33.50 vs. the basket and inching closer to our target level of 33.20.

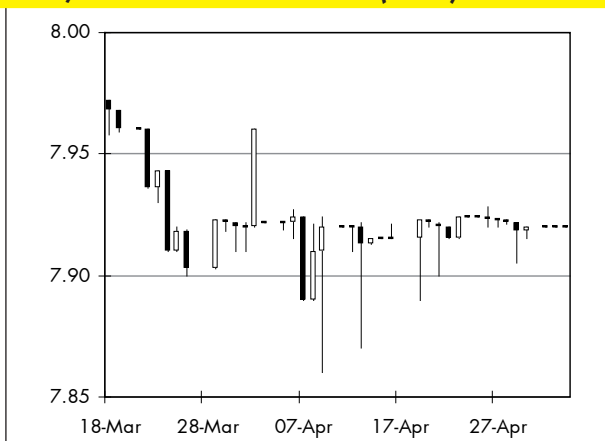
The central bank's decision to cut key interest rates by another 25bp to 8% had little impact on the rouble market since the rate cut was already priced in and the market took a more cautious approach, foreseeing the end of the rate-cutting cycle in the near future. We and a few other banks including Morgan Stanley believe that the market is getting a bit ahead of itself since factors underlying inflation will not come into play before Q4 2010, while inflation will bottom out at 5.7-5.9% in May-June due to the low statistical base effect of the previous year. We recommend monitoring the 12-month rolling average monthly inflation rate parallel to the year-on-year figure. We believe that the central bank may still have room to push through an additional 50-75bp in rate cuts, including the latest rate cut.

Fundamentally the rouble still retains some appreciation potential although the magnitude of this appreciation will be far smaller compared to the recent past. Investors are still buying the economic recovery story, underpinned by the higher oil price. This week the PMI showed that Russia's manufacturing sector rose in April to its strongest level for almost two years, supported by growth in new orders, output and the recovery in employment.

Analyst: Gintaras Shlizhyus

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EUR/UAH: 10.528 → 9.40 (June)
USD/UAH: 7.920 → 7.40 (June)



Source: Thomson Reuters

The central bank stabilised the USD/UAH exchange rate last week too at USD/UAH 7.92, permitting no further appreciation. And the UAH is trading at roughly the same level to the euro as well – after a weakening of the euro last week – sitting unchanged at EUR/UAH 10.55.

The central bank continues to pursue its policy of

buying up foreign currency. The official figures for the currency market in April are not yet available, however, press reports suggest that a total of USD 1,45 bn was purchased on the market between 1 and 22 April. This means that the increase in foreign currency reserves in April surpasses that from March (USD 1 bn), pushing reserves back over 26 bn.

In a statement on the talks with Ukrainian leaders the IMF emphasised that some clarification is still required with regard to the budget consolidation and reforms in the finance sector. The IMF confirmed at the same time that negotiations were underway regarding a new multi-year IMF programme. According to information from Deputy Prime Minister Tigipko, another IMF delegation will visit Ukraine on 17 May to focus in particular on the budget recently passed for 2010. The budget and the planned deficit of 5.2% of GDP may prove to be overly optimistic and in our opinion could total up to 8% of GDP. Nonetheless, Tigipko still assumes a new programme will be approved, paving the way for the payment of a new credit tranche as early as June.

Analyst: Andreas Schwabe

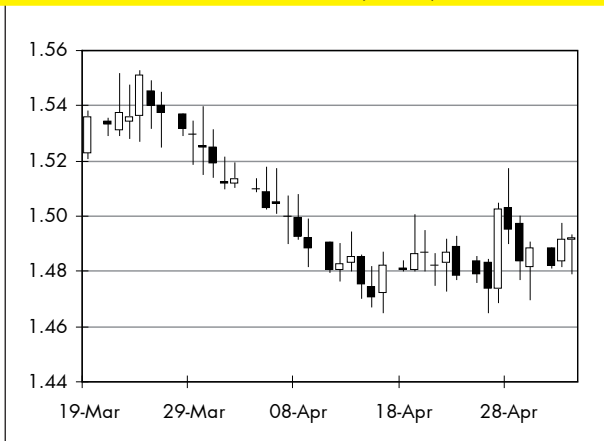
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EUR/TRY: 1.961 → 1.84 (June)
USD/TRY: 1.492 → 1.45 (June)



Source: Thomson Reuters

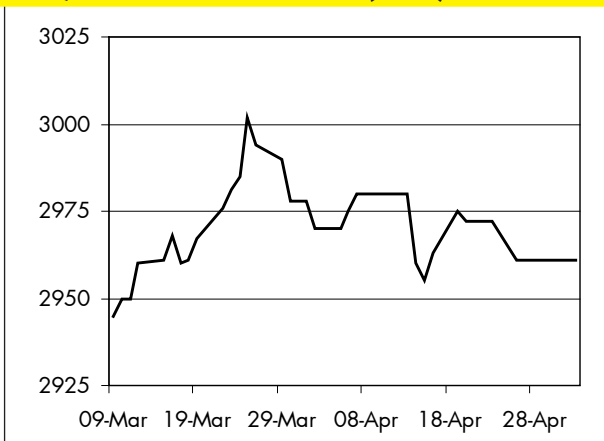
After posting some strong gains against the USD from late March through to mid-April, the lira traded at somewhat weaker levels again in the second half of April. The Turkish equity market was unable to

record any new highs and trended sideward. The debt crisis in Greece is (increasingly) mitigating the risk appetite of foreign investors for Turkish assets. In the meantime, the economic upswing is picking up speed: the purchasing managers' index for April rose again – and year-on-year GDP growth in the first quarter could reach double figures. The latest figures on inflation for April show no improvement: although consumer prices increased somewhat more slowly in April than expected (0.6% p.m.), the annual rate of more than 10% is much higher than the central bank's target. Moreover, inflation in producer prices intensified too – rising to 2.4% p.m. in April (annual rate: 10.4%). However, the central bank does not want to hike interest rates before the fourth quarter. Thus the risks for the lira include a sustained period of risk aversion if things do not calm down in the euro area, an overly expansionary monetary policy given the high inflation, and finally the political uncertainties of the disputed changes to the Constitution (possible referendum in the summer).

Analyst: *Andreas Schwabe*

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EUR/BYR: 3893 → 3900 (June)
USD/BYR: 2961 → 3050 (June)



Source: Thomson Reuters

Robust real sector development in the first quarter of this year (GDP growth of 4.0% yoy, increase in industrial production by 5.9%) thanks to stronger domestic demand and a recovery in exports supported the local currency versus the currency basket in April. Exports were up 29.2% in Jan-Mar 2010 in comparison with the previous year. This led to a contraction

of the foreign trade deficit by a third (to USD 1.2 bn), as imports remained broadly stable. The main contribution to the deficit reduction was a 50% yoy increase in exports to neighbouring Russia. Nevertheless, we think that the trade balance deficit is still too high and that there is further need for improvement.

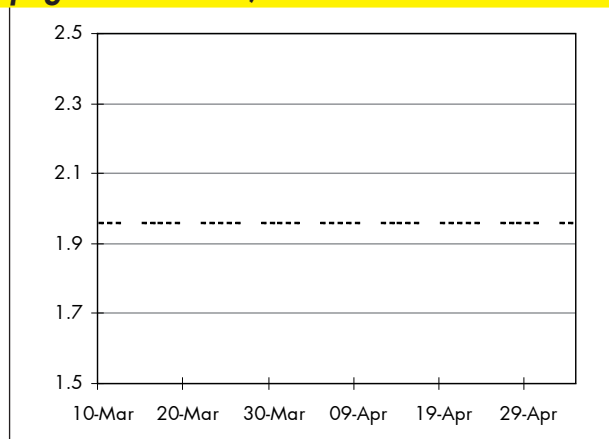
Also, net demand by households for hard currencies diminished thanks to subsiding devaluation fears. These factors contributed to an easing of depreciation pressure on the FX market. The BYR even appreciated somewhat in April, as cumulated depreciation from the beginning of 2010 to end-April stood at 2% (against 3% at end-March). Since the beginning of the year, the BYR has lost 7% to the Russian rouble and 3.4% to the US dollar, but gained more than 4% on the weakening European currency.

We still reckon the lack of own resources and limited external financing will trigger some more depreciation in the BYR by year-end. However, the rate will most likely be kept within the official band of +10% against the currency basket. Consequently we could see EUR/BYR 4000 and USD/BYR 3200 by the end of the year.

Analyst: *Andreas Schwabe*

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



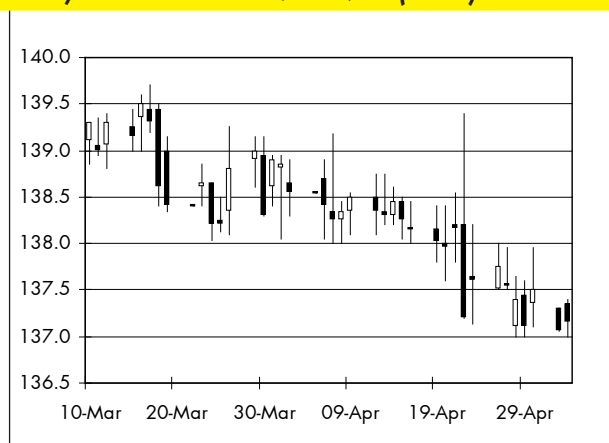
Source: Thomson Reuters

According to Prime Minister Boiko Borisov, Bulgaria is officially giving up its plan to bid for ERM II entry because of a larger-than-expected 2009 budget deficit caused by unaccounted procurement deals of the former cabinet. The previous Socialist-led government had signed deals which were not budgeted for and which increased the 2009 deficit to 3.7% of GDP from the initial figure of 1.9%. Mr Borisov mentioned that the disputed deals could increase the budget deficit to 6-7% of GDP in 2010 if related payments had to be made this year. Given the Greek situation, such news raises scepticism. However, even with a revision the budget deficit would not be huge and the debt level is low. The currency board is not expected to be at risk. There will be a delay to ERM II entry but plans to apply to join ERM II have already been postponed for almost half a year.

Analyst: Martin Stelzeneder

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EUR/ALL: 137.15 → 139.0 (June)



Source: Thomson Reuters

Standard & Poor's assigned "B+" long-term sovereign foreign and local currency sovereign credit ratings as well as "B" short-term foreign and local currency

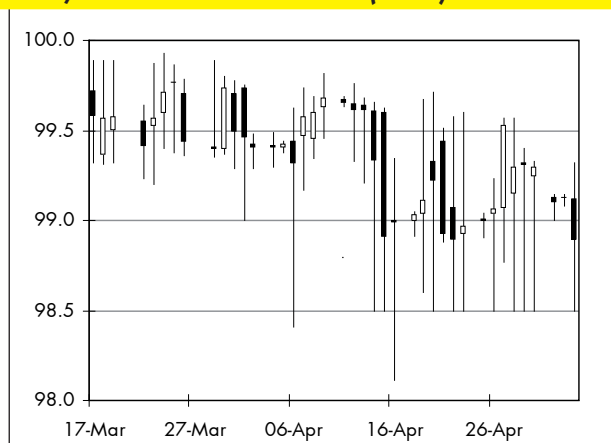
ratings to the Republic of Albania. The outlook is stable. Furthermore, a transfer and convertibility assessment of "BB-" was assigned. S&P expects real GDP to grow between 2%-3% yoy in 2010, given the planned partial withdrawal of fiscal stimulus measures and the likelihood of more subdued credit growth. They believe that the economy is poised to return to its GDP growth potential of 5%-6% per year over the medium term. So far, Albania has only been rated by Moody's with a long-term foreign and local currency rating of "B1". The Albanian economy maintained its positive development in terms of growth and stability in 2009 as well. This year we expect GDP growth to remain below the average level of recent years, mainly due to developments in construction and some service sectors on the back of tightening credit and demand. Over the medium term, growth should be able to reach its potential again.

Analyst: Martin Stelzeneder

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EUR/RSD: 98.83 → 99.0 (June)



Source: Thomson Reuters

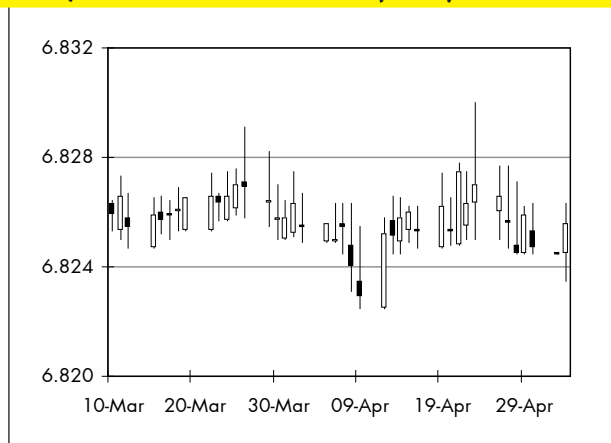
The Monetary Board of the National Bank of Serbia decided to ease monetary policy further, cutting the rate by 50bp. In 2010 the NBS reduced the rate from 9.5% to 8.5%, representing a historical low since its introduction. This relaxation in the policy came amidst diminishing inflationary pressures in the early months of 2010 as CPI was below the lower

band of the targeted range. Despite an increase in CPI in March, triggered mostly by regulated price hikes, fragile demand is expected to keep inflationary pressures low and thus inflation stable. The NBS Monetary Board also passed a new Decision on the mandatory reserve rate. The Decision, aimed at stimulating growth in deposits, foreign borrowings and lending, brings about a significant reduction in the reserve rate – the LCY MRR was reduced to 5% from 10%, while the FCY MRR was cut to 25% from 40%/45%. The new reserve rate on FCY deposits will be phased in gradually during 2010 and any excess amount of allocated required reserves will be returned to banks in three monthly instalments starting from February 2011.

The interventions from the NBS seemed to have preserved the rate trend, but also drained enough dinars from the market so that LCY liquidity became subject reflecting to the rate itself. For the time being we do not see much room for dinar appreciation and the NBS might intervene due to depreciation pressures.

Analyst: *Martin Stelzener*
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EUR/CNY: 8.983 → 8.66 (June)
USD/CNY: 6.826 → 6.82 (June)

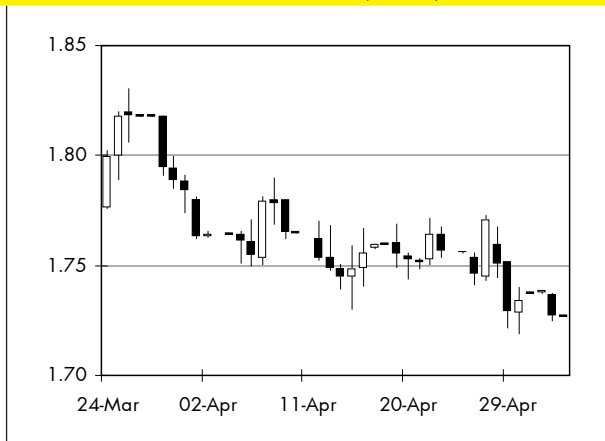


Source: Thomson Reuters

China's PMI, published by HSBC, fell from 57.0 to 55.4, its lowest level for 6 months. But there is good news as well: it does remain above the growth threshold, albeit at a moderate level. The restrictive measures are having an effect and this has cooled talks about an overheated economy. Only at the weekend did the Chinese central bank bump its Reserve Requirement Ratio up again by 0.5 percentage points. These measures and the direct credit controls are perceived to be more efficient than raising interest rates. In addition, new regulations to control the real estate market are being passed on almost a daily basis. Stability has become priority number one, while discussions about the yuan have tapered off again for now. We still expect an adjustment in the exchange rate, sometime in the course of Q3.

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EUR/BRL: 2.273 → 2.16 (June)
USD/BRL: 1.727 → 1.70 (June)



Source: Thomson Reuters

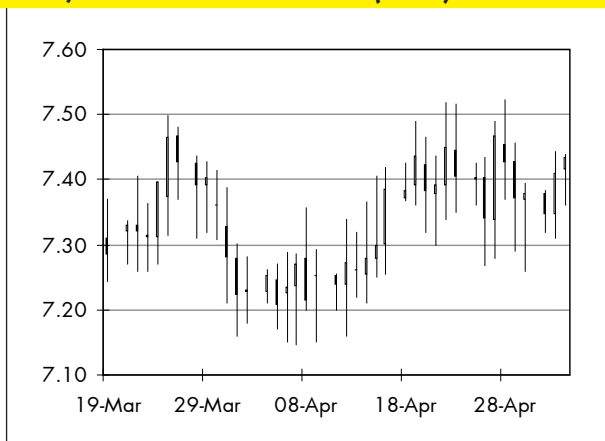
In its rate-setting meeting at the end of April the Brazilian central bank reached a unanimous decision to hike the key rate of interest up 75bp to 9.5%. This move was bolder than expected. We assume that the

key rate will sit at 12% come the end of the year. The triggers for this decision were the persistently strong growth in economic activity and, especially, the sharp increases in inflation and inflation expectations. We assume that the inflation rate will continue to rise up to 5.5% p.a. until the summer from its current level of 5.17% p.a., and only then will it start to trend downward again. But in any case, the inflation rate will not fall to the central bank's target of 4.5% p.a. by the end of the year. Economic growth is not likely to maintain its current pace and will taper off to some extent. Nonetheless, we expect that inflowing capital will remain at a very high level. Given the interest rate hikes and the inbound capital the Brazilian real should continue to strengthen. However, the Brazilian central bank and the Ministry of Finance will step up their intervention and keep a clamp on any appreciation. We assume that everything will be done to prevent the BRL appreciating to less than 1.65 against the USD.

Analyst: Josef Wolfesberger

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EUR/ZAR: 9.787 → 9.27 (June)
USD/ZAR: 7.435 → 7.30 (June)



Source: Thomson Reuters

The South African rand managed to remain stable against the USD in the first quarter of 2010. Inflows of capital into South African securities in the form of carry trades kept the rand trending sideward. While a stable currency is certainly beneficial for inflationary trends, we reckon this poses significant risks

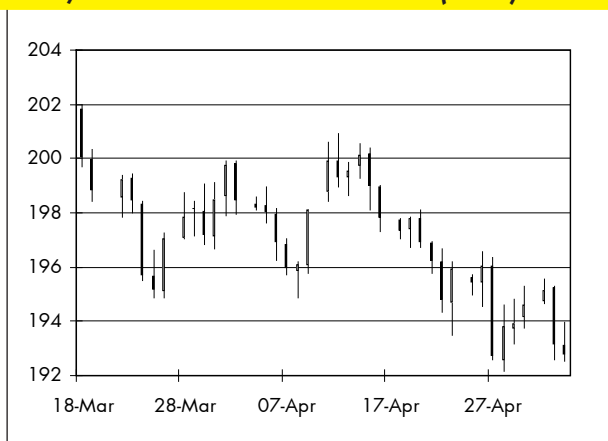
for the economic recovery as South African exports will lose competitiveness as a result. The central bank too has already expressed its reservations about the strong currency on several occasions. However, the rand proved to be relatively apathetic to the interest rate cut in March. If we take purchasing power parities into account, the South African rand is overvalued against both the US dollar and the euro. Its fair value (according to purchasing power parity) would be 8.3 for the USD/ZAR and 11.3 for the EUR/ZAR. The debt problems facing Greece and the resultant increase in risk aversion are pushing the volatility of the USD/ZAR back up again. Nonetheless, we do not forecast any continued weakening over the next quarter. On the one hand the FIFA World Cup is likely to generate higher inflows of capital, while on the other hand the South African rand should enjoy some stability as things calm down on the international financial markets. We predict a USD/ZAR rate of 7.3 by the end of June followed by depreciation to 7.5 in what remains of the year.

Analyst: Nina Kukic

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EUR/KZT: 192.757 → 181.61 (June)
USD/KZT: 146.450 → 143.00 (June)



Source: Thomson Reuters

The Statistical Office announced that the balance of trade posted a surplus in the first two months of 2010 amounting to USD 5.4 bn. Goods exports apparently rose by 60% p.a. while imports dropped by 17.7% p.a. This export trend reflects the high oil prices first and foremost, and should continue

through 2010. The surprisingly slow recovery of goods imports in comparison to exports favours an increase in the trade balance surplus and therefore our forecast of USD +23.4 bn for the entire year is rather beset by upside risks. However, we can also expect that the recovery in domestic demand in the course of 2010 will result in a recovery of imports, and this will somewhat dampen the positive impact on the trade balance. Kazakhstan continues to enjoy an economic recovery. According to statements from President Nursultan Nazarbayev, GDP growth in Q1 2010 apparently totalled 6.6% p.a. What is more, the Statistical Office announced that industrial output expanded by 11.5% p.a in Q1. For the year as a whole the government predicts GDP growth of 2.0% p.a, while we forecast expansion of 3.0% p.a. Given the base effect, Q1 will probably be the strongest quarter on an annual basis. The central bank continues to hold the USD/KZT exchange rate steady at 146.50 and we reckon the tenge will slowly gain on the USD, while the central bank will likely intervene to prevent any overly rapid KZT appreciation.

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