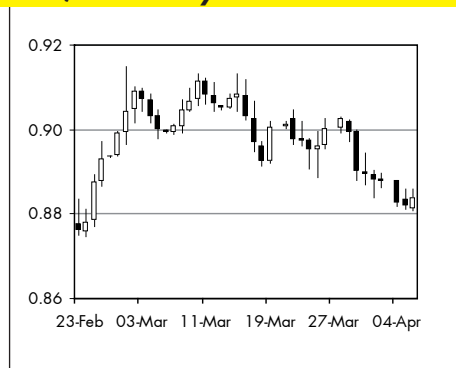


# Focus FX monthly

Issue 14/2010

6 April 2010

## EUR/GBP daily

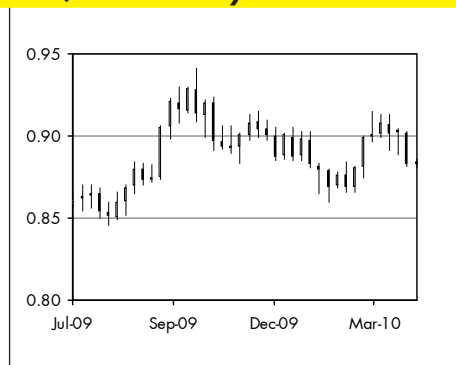


Source: Thomson Reuters

## EUR/GBP: 0.883 → 0.91 (June)

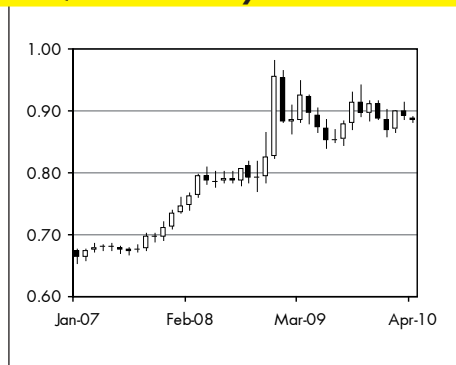
At EUR/GBP 0.883, the exchange rate of the British pound was around 2.0% stronger today than it was at the beginning of the previous week. At the middle of last week, an upward revision of GDP for the fourth quarter had a benign impact on the UK's currency. At 0.4%, quarterly GDP growth was slightly higher than previously reported (0.3%). The pound showed a surprisingly strong reaction to this mild upward revision, with GBP gaining around 1 pence against the euro during the day. The market's previously strong positioning against the British currency probably contributed significantly to this sharp move in the exchange rate. Additional support for the pound last week came in the form of

## EUR/GBP weekly



Source: Thomson Reuters

## EUR/GBP monthly



Source: Thomson Reuters

## Exchange rate forecasts

	actual	Jun-10	Sep-10	Dec-10
EUR/USD	1.341	1.35	1.42	1.35
EUR/CHF	1.432	1.41	1.43	1.45
EUR/JPY	125.8	124	118	130
USD/JPY	93.8	92	83	96
EUR/GBP	0.883	0.91	0.89	0.90
EUR/PLN	3.833	3.80	3.75	3.65
EUR/HUF	264.8	275	275	270
EUR/CZK	25.35	25.4	24.8	25.0
EUR/RON	4.093	4.10	4.05	3.95
EUR/HRK	7.265	7.32	7.30	7.32
EUR/RUB	39.24	39.3	40.8	38.8
USD/RUB	29.25	29.1	28.8	28.8
EUR/UAH	10.732	10.00	10.80	10.40
USD/UAH	7.915	7.40	7.60	7.70
EUR/TRY	2.031	2.03	2.06	1.92
USD/TRY	1.513	1.50	1.45	1.42
EUR/BYR	3985	4100	4300	4300
USD/BYR	2970	3050	3050	3200
EUR/BGN	1.956	1.96	1.96	1.96
EUR/ALL	138.50	139.0	139.0	137.5
EUR/RSD	99.34	99.0	98.5	97.0
EUR/CNY	9.156	9.21	9.64	9.11
USD/CNY	6.826	6.82	6.79	6.75
EUR/BRL	2.362	2.30	2.41	2.23
USD/BRL	1.761	1.70	1.70	1.65
EUR/ZAR	9.725	9.86	10.58	10.13
USD/ZAR	7.252	7.30	7.45	7.50
EUR/KZT	196.997	193.05	201.64	189.00
USD/KZT	146.870	143.00	142.00	140.00

\* under revision

Source: Thomson Reuters. Raiffeisen RESEARCH



**Raiffeisen  
RESEARCH**

R Z B Group

a rise in the manufacturing PMI, which advanced to its highest level since 1994 (57.2 points). The sustained high level of the PMI since the beginning of the year points to better month-on-month performance in industrial production, which is scheduled for release on Thursday. After the sharp decline in production in January (0.4% mom), consensus is looking for a gain of 0.5% mom in February. As the impact of the unusually cold weather on production in January is difficult to estimate, we believe that an even more tangible rebound in industrial production may be on the cards. A positive surprise of this kind could propel the pound to nearly EUR/GBP 0.87, a rate last seen around mid-February. Although we do believe

that the current appreciation trend will continue over the short term, we do not think that this represents the beginning of a sustained recovery for the British currency. The pound will probably still be hampered by the persistent uncertainty about the outlook for fiscal policy, until the elections at least. With regard to monetary policy, this Thursday features a rate-setting meeting of the Bank of England (BoE). The effect on the GBP exchange rate should be limited, as neither rate hikes nor expansion of the bond purchase programme is expected.

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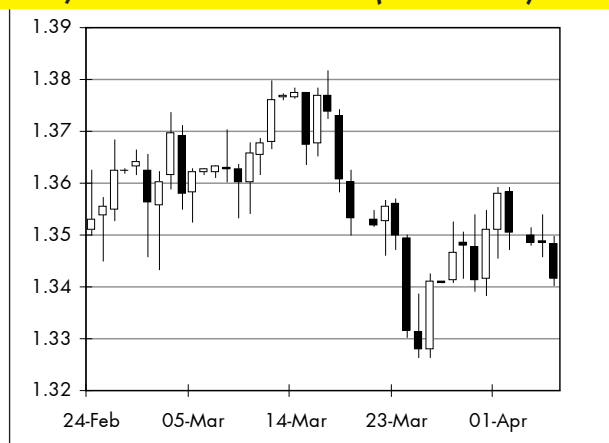
## Trading Ideas

### Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total Return	Comments
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/USD: 1.341 → 1.33 (next move)**

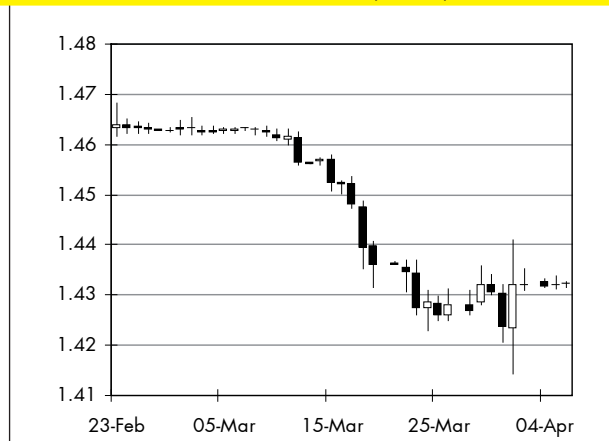
Source: Thomson Reuters

Until last Thursday, EUR/USD was able to improve to over 1.35, but since then the next minor downward correction has already started. It does not take long to see what triggered this: Friday's labour market report in the USA reflected a strong gain of 162K payrolls, the biggest increase since March 2007,

and yesterday, on Monday, the service sector ISM increased from 53 to 55.4 points, the highest level since May 2006 and well better than consensus. Thus, the news was full of good US data, with the Eurozone coming up empty-handed in the last few days. Nothing will turn this picture around this week, as there is a lack of first-string economic data in both Europe and the USA. While the ECB's rate-setting meeting on Thursday could theoretically help the euro if it reflected a more aggressive stance, nothing of this sort is really expected. The ECB will merely reiterate its well-known positions and perhaps present a slightly better assessment of the economic outlook. Accordingly, we stick with our assessment from the previous week, and expect to see the correction continue to 1.33. A rebound back to 1.40 will probably have to wait (and would not turn out to be lasting anyway), at least until the issue of Greek refinancing is resolved and the US economy begins to lose pace again. According to our forecasts, this will only occur in the summer.

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**EUR/CHF: 1.432 → 1.41 (June)**

Source: Thomson Reuters

As anticipated, the Swiss franc continued to appreciate versus the euro last week, until reaching a new annual low of 1.414, at which point the appreciation obviously became too much for the Swiss central bank which intervened and sent the rate shooting back to over 1.44 in a matter of minutes. By do-

ing so, the SNB at least demonstrated that it is not interested in seeing excessively quick appreciation below 1.42. It remains to be seen, however, how the SNB would react to a slow, gradual appreciation below this level. The market, however, seems intent on finding out, as EUR/CHF began slipping below 1.44 again right after the intervention.

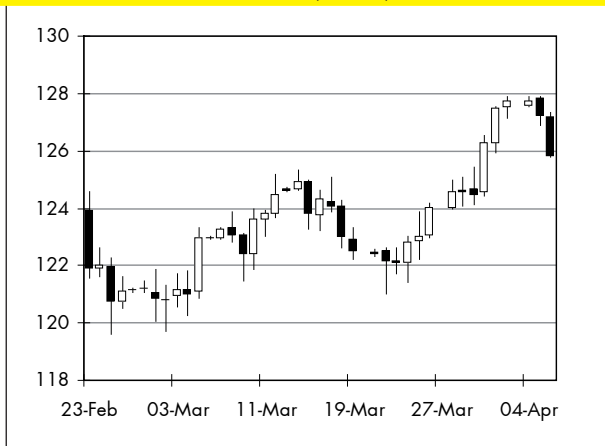
Right now, fundamentals are not pointing to any quick end to CHF appreciation. Despite the country's massive banking sector, economic recovery in the Confederation is progressing more quickly than in the euro area. Consequently, the SNB may be forced to raise its interest rates from their currently extremely low level before the ECB increases its rates. Another factor behind the sustained appreciation pressure on CHF is the winding up of FX financing and carry trades from the years 2006 and 2007. As a result, we expect that the franc will once again set its sights on 1.40 against the euro in Q2 2010, before weakening to 1.45 towards year-end.

Analyst: Ingo Jungwirth

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**EUR/JPY: 125.8 → 124 (June)**  
**USD/JPY: 93.8 → 92 (June)**



Source: Thomson Reuters

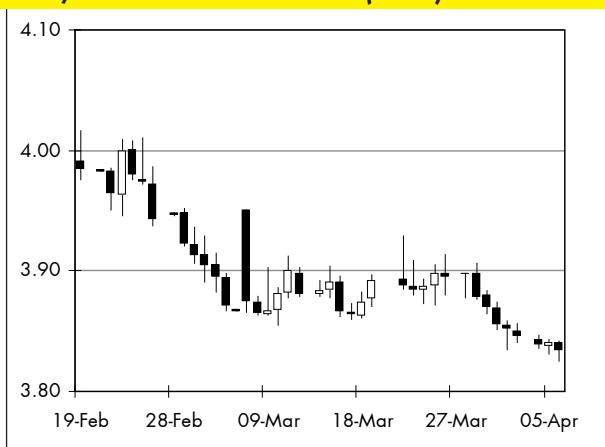
For the most part of last week, the yen continued to weaken both against the euro and against the US dollar. Versus EUR, the yen fell to a rate of almost EUR/JPY 128, before the slide in EUR/USD, which

was triggered by a stronger US labour market report, also resulted in a decline in EUR/JPY, based on the usual correlation. The USD even advanced to a new high of USD/JPY 94.8, based on the robust US labour market report. In light of this, the outlook for the future also diverges: as we expect to see further declines in EUR/USD, there are grounds for a lower EUR/JPY on this basis alone, and we still see our June forecast of 124 as being realistic.

USD/JPY though may quite easily hit new highs during the second quarter, as soon as the mini-correction that started yesterday is over. One should keep in mind that the run of very strong US economic data is not over yet, and should actually get even better during Q2 with regard to the labour market, which should fuel more speculation about possible interest rate hikes in the USA. Despite the strong economic recovery, Japan has nothing to match this, and hence it appears quite feasible that USD/JPY 96 may be reached at times during Q2.

Analyst: Ingo Jungwirth  
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**EUR/PLN: 3.833 → 3.80 (June)**



Source: Thomson Reuters

At 52.5, the March PMI fell just shy of our expectations and reflects more growth in industry. Last week's rate-setting decision by the NBP was even less surprising, as interest rates were left on hold, as expected. The most important topic of the Monetary Council's meeting was the resolution on supplementing the rules on forming reserves to cover FX losses. This supplement will affect the 2009 profit of the NBP (95% of which is transferred to the state budget), which could amount to between PLN 4.2

bn (8% of the planned 2010 deficit) and PLN 8 bn (15%) depending on the rules on forming reserves. Amongst other things, the directorate of the NBP is not happy that this change is to be effective retroactively for 2009 and that it will violate the accounting principles of the central bank. Additionally, there is a lack of consensus between the NBP directorate and the government in respect of extending the Flexible Credit Line (FCL) with the IMF, which is due to run out in May. The government supports an extension, whereas the NBP sees no need for it. With an eye to the decline in yields in Poland in recent weeks, extension of this line of credit would at least increase the probability that the government's financing costs would remain at the current low levels. Accordingly, we would view an extension as a positive move. In light of the budget situation, a higher 2009 profit by the NBP would also be a welcome development. The MoF estimates that the deficit was PLN 2-3 bn lower than originally planned by end-March. This, however, will not come as a surprise for the markets. Even though the political wrangling between the NBP, and the MPC and the government certainly does not shed a favourable light on the country, we still think that this will not have any major impacts on EUR/PLN.

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**EUR/HUF: 264.8 → 275 (June)**

Source: Thomson Reuters

With the elections coming up (11 and 25 April) and the winner most likely being the FIDESZ the forint is currently hovering around EUR/HUF 265. More exciting than the elections result will be what the fiscal policy of the FIDESZ will look like after the election. We expect the budget deficit goal for 2010 of currently 3.8% of GDP to be revised upwards after the elections. It remains to be seen how investors will react to such a move. In general there is little room for fiscal maneuver given the slow recovery in economic growth and there is no alternative as to continue with the austerity measures. Taking all this into consideration we remain skeptical towards the forint and expect a depreciation of EUR/HUF towards 275.

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**EUR/CZK: 25.35 → 25.4 (June)**

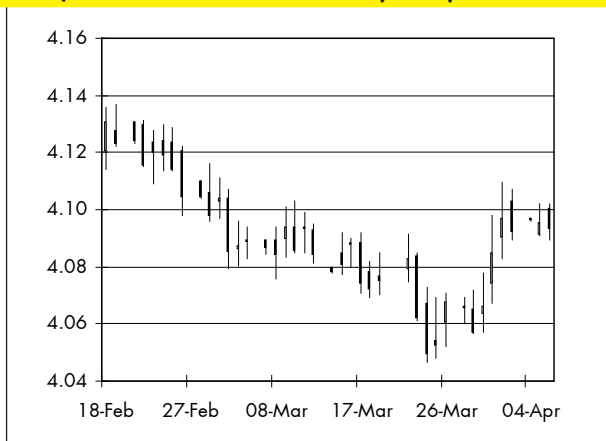
Source: Thomson Reuters

The Czech koruna (CZK) opened the week on a strong note, appreciating to levels around 25.3 against the euro. Domestic data released on Tuesday confirmed a gradually improving trend in the economy. Although retail sales remained in negative territory year-on-year in February, the decline was less than expected. The foreign trade balance also fulfilled market expectations with a CZK 15.3 bn surplus for February. 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 beyond 25.0), the CZK remains vulnerable to the global market sentiment and 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.

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## EUR/RON: 4.093 → 4.10 (June)



Source: Thomson Reuters

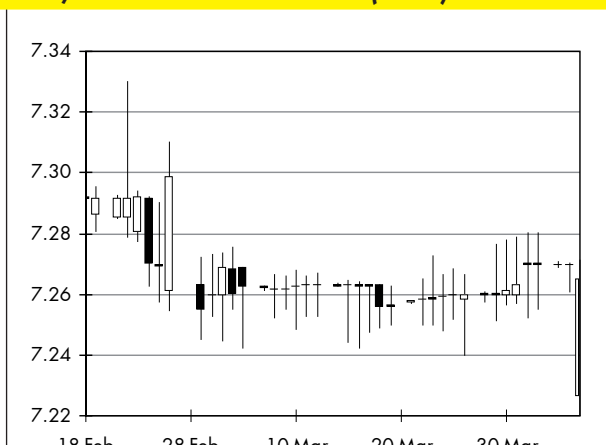
It seems that leu strengthening to below 4.1 against the euro has increased the concerns of the central bank. NBR governor Mugur Isarescu said several

weeks ago that that central bank is concerned about the rapid appreciation of the leu, and NBR deputy governor Cristian Popa had similar comments last week, noting that current economic fundamentals do not justify further firming of the leu. Shortly after these comments, the leu depreciated and EUR/RON climbed towards 4.11. The current level of the exchange rate is close to our forecast for the end of June. We think that this level is supported by the improvement in the country's external vulnerability indicators (C/A deficit and short-term debt) and we do not foresee any important fluctuations in the period ahead. Short-term movements may be driven mainly by changes in investor sentiment on the external markets. With data on retail sales and industrial output in February to be released this week, the evidence regarding the trends in economic activity in Q1 2010 should improve. We expect the data to be on the positive side.

Analyst: Martin Stelzeneder

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## EUR/HRK: 7.265 → 7.32 (June)



Source: Thomson Reuters

Last week, EUR/HRK remained stable between 7.262 and 7.265. On Tuesday, demand for EUR increased slightly, due to the relatively high amount of EUR-denominated Treasury Bills that matured on

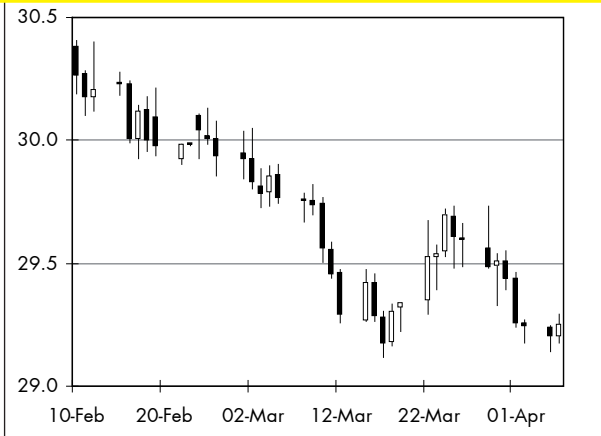
Thursday. Hence, the rate rose to 7.265 and stayed at that level until the end of the week, when it rose to EUR/HRK 7.267. On the domestic money market, high liquidity and low trading volumes kept the ZIBOR at low levels for all maturities. However, some upward movements were spotted for shorter maturities. Since the government's need to refinance its liabilities is strong, and liquidity in the system is at a high level, the Ministry of Finance once again held a Treasury Bill auction.

For the week ahead, we expect the rate to remain roughly flat at EUR/HRK 7.26-7.27, while at the monthly level a gradual intensification of depreciation pressures is expected, and the rate could climb towards 7.30. Before the main tourist season starts, we could see some depreciation pressure, but the rate should stay below 7.35, otherwise the CNB would probably react. Moreover, on the whole 2010 depreciation pressures should remain mild, and the rate should hover between 7.25 and 7.35.

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**EUR/RUB: 39.24 → 39.3 (June)**  
**USD/RUB: 29.25 → 29.1 (June)**



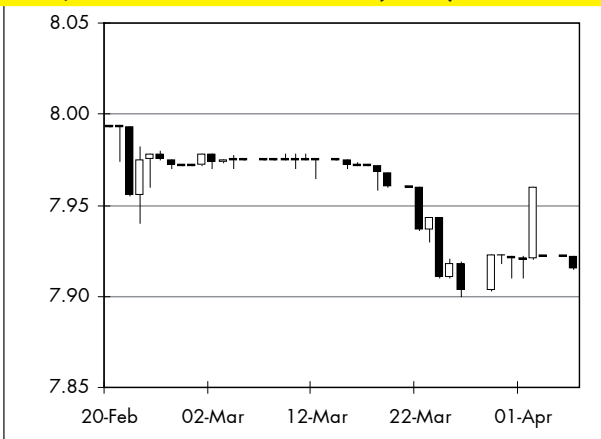
Source: Thomson Reuters

Last week, our predictions of a rouble market correction failed to materialise. A stiff speculative push on the oil market and the improving outlook for the global economic recovery propelled oil prices to fresh highs of nearly USD 86 per barrel (Brent) and the rouble to a level of 33.8 to the dual currency basket. The Russian equity market, in which oil & gas companies account for nearly 70% of market capitalisation, also rallied on stronger oil prices. Russian stocks continue to attract substantial buyers, betting on global recovery and higher commodity prices, although

the pace of the recovery remains uncertain. Whilst we attribute the oil market rally to speculation, we nevertheless cannot ignore a strong correlation between energy prices and the rouble. Accordingly, we cancel our sell recommendation on the rouble and move it to neutral (hold recommendation) for the time being. Despite this, we remain concerned about the speed of the rouble rally amidst the speculative drive in the oil and equity markets, which may bring on an abrupt correction in these asset prices later. This week, the rouble bulls might try to push the rouble to 33.50 against the dual currency basket, a point at which we would expect a stronger resistance and more interventions from the central bank. Likewise, we are still betting on a modest market correction at this level and expect the rouble to reverse its direction upon hitting the 33.50 mark. As for our quarterly and annual projections, we keep them unchanged but are prepared, if the rouble rally pushes us closer to our year-end limits in a month's time. Bear in mind that 99% of this rouble rally is due to high oil prices, and thus any correction in the oil market will be mimicked by the rouble market one to one. We also see a higher oil price above USD 90 per barrel potentially reviving old discussions about its negative impact on the global economic recovery.

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**EUR/UAH: 10.732 → 10.00 (June)**  
**USD/UAH: 7.915 → 7.40 (June)**



Source: Thomson Reuters

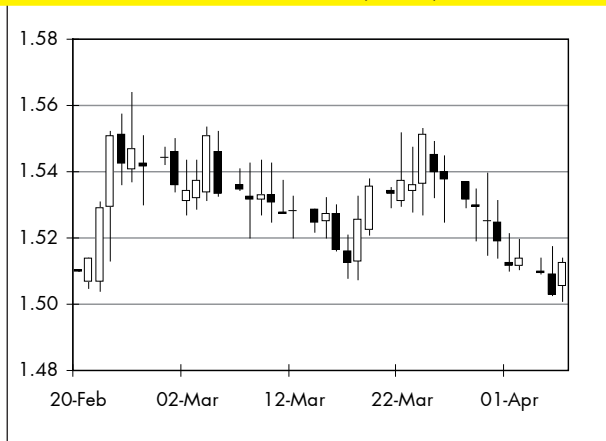
Trading in the Ukrainian hryvnia remained stable last week at USD/UAH 7.91-7.92. The central bank (NBU) continued to intervene, buying USD at 7.924 to the US dollar. By doing so, the NBU put the brakes on more UAH appreciation. According to a representative of the NBU, USD 1.5 bn was purchased in March, leading to an increase of USD 800 mn in

currency reserves (this already takes into account the sale of currency reserves to Naftogas). As a result, currency reserves increased for the first time since the last tranche of the loan from the IMF in mid-2009 was distributed. Stronger demand for UAH can be traced back to the recent political stabilisation, which has lowered net household demand for hard currencies and has been attracting (portfolio) investors from abroad. If the newsflow remains positive, we see more appreciation pressure on the currency. To what extent this is reflected in actual strengthening of the currency will depend on the NBU's policy approach, as the central bank will probably only allow for limited appreciation in the months to come. In the meantime, an IMF delegation completed its visit to Ukraine. The delegation had positive comments on economic performance, but noted that more negotiations were needed on the subject of fiscal policy. The Ukrainian government, on the other hand, announced an agreement on a limit of -6% of GDP for the budget deficit and expects disbursements of the loan to be restarted in May.

Analyst: *Andreas Schwabe*  
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**EUR/TRY: 2.031 → 2.03 (June)**  
**USD/TRY: 1.513 → 1.50 (June)**



Source: Thomson Reuters

During the second half of March, the Turkish lira was able to make up some ground against USD again, as the currency appreciated from USD/TRY 1.55 to almost 1.50, advancing by 2.5%. Positive international conditions, surprisingly good data on the economy and waning political worries helped foster this development.

In terms of economic performance, the very strong GDP growth of 6% yoy in Q4 2009 was quite ple-

asing. Furthermore, the purchasing managers' index for March managed a significant jump of 4 points to 54.9, which indicates continuation of the economic recovery in Q1 2010. Publication of the industrial production data for February (slated for this Thursday) should shed more light on the situation.

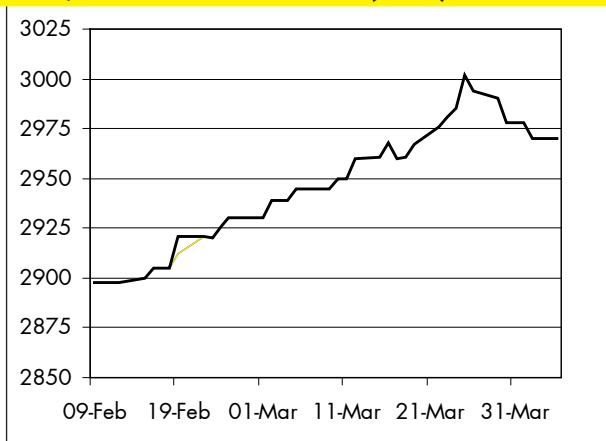
In the meantime, the Turkish central bank has announced that it will unveil its exit strategy for withdrawing from loose monetary policy on 14 April (following the rate-setting meeting on 13 April). At the same time, the central bank does not want to strangle the upturn with higher interest rates, but is worried about meeting its inflation target for the year, in light of the current inflation rate of 9.6%. We do expect to see a rate hike in early summer of this year.

Right now, the good fundamentals (compared to other EMEA markets as well) are supporting a stronger lira along with the outlook for rising interest rates. There are still risks in relation to political tensions between the military and the government (officers were arrested again on Monday), as well as deterioration in the country's fiscal position, persistently high inflation and a rise in global risk aversion. We presume that the lira will continue to trade around USD/TRY 1.50 over the short term. In H2 2010, the currency may then move further towards USD/TRY 1.45.

Analyst: *Andreas Schwabe*

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**EUR/BYR: 3985 → 4050 (June)**  
**USD/BYR: 2970 → 3000 (June)**



Source: Thomson Reuters

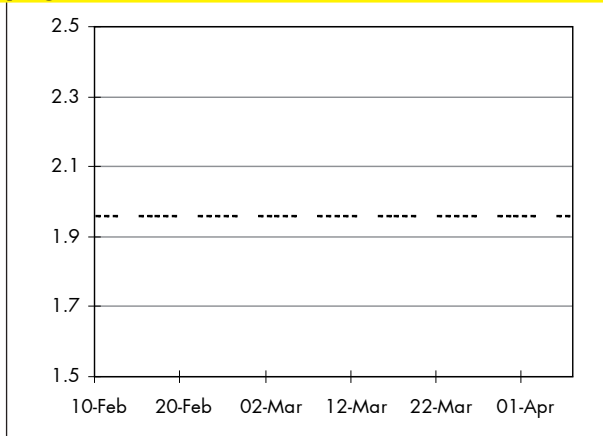
By the end of March, the National Bank allowed 3% devaluation of the Belarusian rouble against the currency basket made of EUR, USD and RUB, which is

set to support external adjustment to more expensive oil imports. Last month, the IMF disbursed its final USD 670 mn tranche to Belarus within the framework of the Stand-By-Arrangement, bringing the total amount of its assistance to around USD 3.5 bn. The country's external public debt is still relatively low (16.5% of GDP as of 1 Jan 2010), which gives it room to continue external borrowing. In this regard, the Belarusian government expressed its intentions to negotiate a successor arrangement with the IMF. It is also considering a debut Eurobond issue and has agreed on USD 1.0 bn from China for financing investment projects. These capital inflows will likely allow the exchange rate to remain within the set band of  $\pm 10\%$  maximal rate change in 2010. Still, as a financing gap remains, we cannot rule out using more flexibility with regard to the exchange rate and see BYR somewhat weaker by the end of 2010 than earlier expected (EUR/BYR 4300 and USD/BYR 3200).

Analyst: *Andreas Schwabe*

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



Source: Thomson Reuters

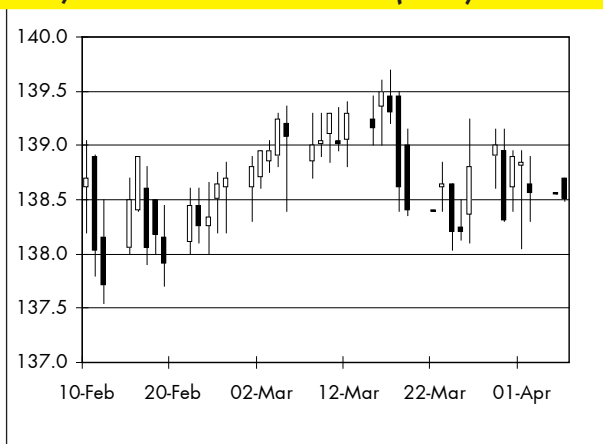
Real GDP contracted by 5% yoy in 2009, versus 6% growth in 2008, which was in line with our expectations. The drop in GDP in real terms accelerated in Q4 to -5.9% yoy from -5.4% yoy in Q3. Investment

slumped by 26.9% in 2009, due to tighter lending conditions. Private consumption contracted by 6.8%, on the back of rising unemployment and higher propensity to save. We forecast economic growth close to 0% in 2010, with a possible further deceleration of GDP. Unemployment (9.9% in January) is projected to rise. The inflation rate is still low, but increases in excise and administrative taxes could result in a higher rate. The Bulgarian government decided to cut salaries, freeze pensions and sell state assets and bonds to keep down the fiscal deficit and avoid currency pressure. The centre-right government also approved higher spending for social payments to the poor, compensation for the unemployed and creation of new jobs after the economic pain knocked its popularity rating. The cabinet wants to keep the budget deficit below 2% of GDP this year to improve its bid to join the ERM II to qualify for euro adoption and prevent possible pressure on the lev currency peg to the euro

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### EUR/ALL: 138.50 → 139.0 (June)



Source: Thomson Reuters

The central bank kept the key repo rate unchanged at 5.25% in a bid to anchor inflation over the medium term. This decision guarantees the appropriate monetary policy conditions in order to meet the inflation target in the mid-term. Albania's annual inflation accelerated to 4.4% in February from 3.6% in January, 0.4 percentage points over the upper limit of the central bank's target band. The stable mac-

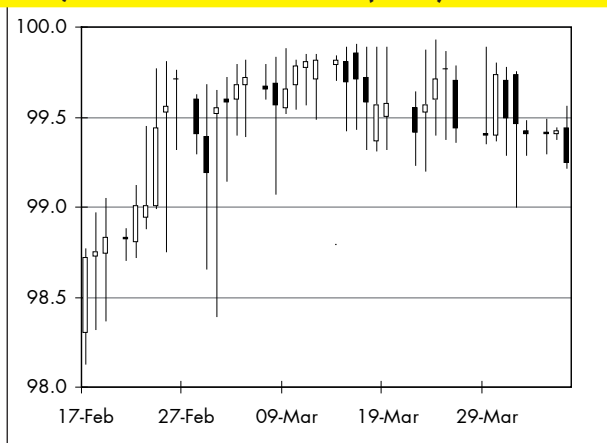
roeconomic situation and the lack of pressure from domestic demand have managed to absorb and balance the inflationary pressure stemming from domestic currency depreciation. Administrative price increases may drive headline inflation temporarily above the 3% +/-1 target band in the near term. However, underlying inflation is expected to remain well contained. The effects of the crisis were felt mostly in depreciation of the local currency, as EUR/ALL lost almost 10.2% yoy and emigrant remittances decreased 6.5% yoy. Helped by the depreciation of the real exchange rate, the current account deficit may narrow this year, as private consumption continues to adjust, and should decline further over the medium term. The latest indicators of the real economy, such as sales, monetary and confidence indicators signal the stopping of further economic growth in Q4 2009 and the beginning of 2010. Most businesses have frozen investment plans, cut capacity utilisation and lowered imports of equipment. Investment loans have risen slightly. Presently and in the short term, consumption has been reined in.

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**EUR/RSD: 99.34 → 99.0 (June)**



Source: Thomson Reuters

The Serbian economy shrank by 1.6% yoy in Q4 2009. Seasonally-adjusted GDP data, in constant prices 2002, show a decrease of 0.1% qoq in Q4 2009. Real GDP (in prices of 2002) declined by 3.0% yoy in 2009. Outstanding growth in the transport sector (+7.2% yoy), largely stemming from telecommunications, together with financial sector performance (+5.1% yoy) counterbalanced a moderate weakening of the economy in 2009. We think domestic demand should remain weak at least in H1 2010. Industrial production is still at a weak level and should only recover gradually. We expect that GDP will enter positive territory no sooner than H2

2010, supported by a recovery in foreign demand, and growth in the telecommunication sector and the financial industry as well. Accordingly, we expect real GDP to post only moderate growth in 2010 (1.5% yoy).

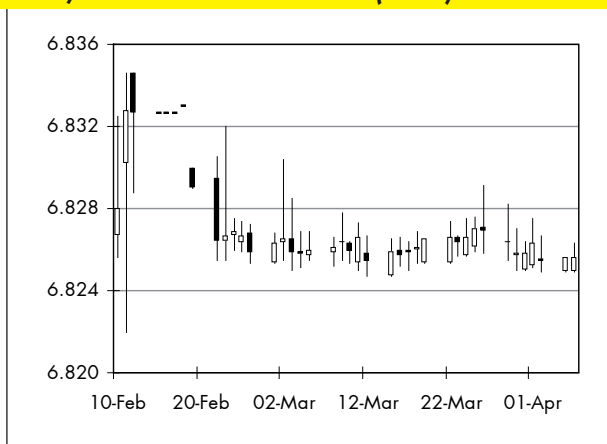
The Governor of the National Bank of Serbia, Mr. Radovan Jelasic, said he would be resigning from his office for the personal reasons, but that he would continue to perform his duties until parliament appoints a successor. Mr Jelasic took his position in 2004, was re-elected in 2007 and the mandate would expire in 2012. The new governor is expected to be named this week.

Serbia will draw only half of a EUR 360 mn loan tranche made available by the International Monetary Fund after its board completed review of Serbia's performance. Following the positive assessment, Serbia will draw EUR 180 mn on 6 April to strengthen its hard currency reserves, bringing total disbursements to EUR 1.3 bn. While past performance was in line with the EUR 3 bn loan programme, Serbia should now focus on pension, health, education and administrative reforms to ensure long-term savings and maintain fiscal discipline.

For the time being we do not see much room for dinar appreciation and the national bank might intervene due to depreciation pressures.

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**EUR/CNY: 9.156 → 9.21 (June)**  
**USD/CNY: 6.826 → 6.82 (June)**

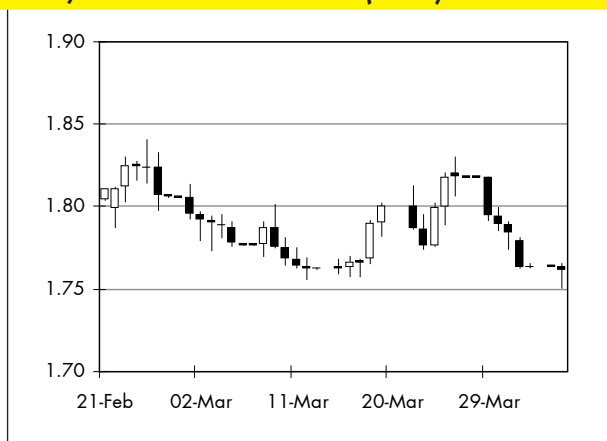


Source: Thomson Reuters

The dispute between China and the USA drags on: while China insists on pressing forward with its currency reforms (but only at its own pace) and does not believe that the exchange rate of the yuan can be the cause of the current account imbalances between the USA and China, the USA is close to calling China a "currency manipulator" (which could lead to official trade sanctions). Postponement of the report on this subject, which was originally slated for publication next week, may provide a ray of hope that an agreement will be reached after all. NDFs reacted promptly, and stronger appreciation of the yuan to the US dollar is now priced in along the entire curve. For example, 6-month NDFs are now at 6.704, with our forecast at 6.79.

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**EUR/BRL: 2.362 → 2.30 (June)**  
**USD/BRL: 1.761 → 1.70 (June)**



Source: Thomson Reuters

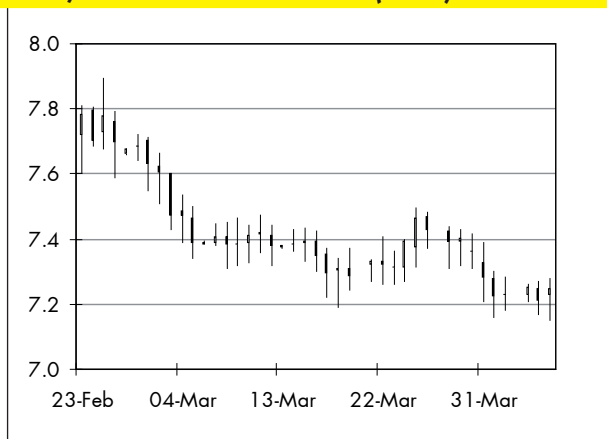
In Brazil, Q4 GDP was up two percent on the previous quarter. In our opinion, this will be the peak in the quarterly growth rate. Due to the low base for GDP from the previous year, especially in the first half of

the year, we forecast GDP growth of 5.4% yoy in 2010. Inflation rates are also starting to rise strongly again. In February, the rates advanced to 4.8% yoy in Brazil as well. In Brazil, the consumer price index is expected to rise by 1.9% in the first quarter alone. This means that inflation rates will advance to over 5% yoy, and then subside to the central bank's target of 4.5% towards the end of the year. In Brazil, the first rate hike will come in April. We project that rates will be lifted by a total of 275bp by the end of the year. After that there should be a longer period without increases, even though the market is still expecting more hikes in 2011. The growing interest rate spread compared to the established economies will lead to more strong inflows of capital, and this should support the Brazilian real. Nonetheless, we see the lower limit being around 1.70-1.65 to USD. At that level, we presume there will be significant intervention by the central bank and the Ministry of Finance.

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**EUR/ZAR: 9.725 → 9.86 (June)**  
**USD/ZAR: 7.252 → 7.30 (June)**



Source: Thomson Reuters

The economic data in South Africa is now showing steady signs of a recovery, as most of the indicators (ISM, industrial production) reflected gains last

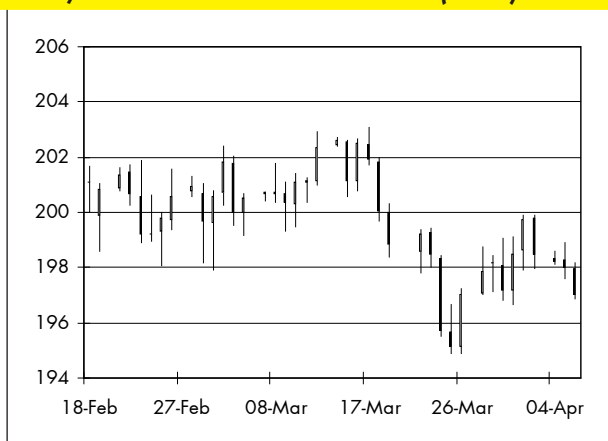
month. The largest surprise came from the country's central bank, which lowered the key interest rate by 50bp to 6.5% at the end of March. There was speculation about this on the markets prior to the decision, but market agents had seen the possibility of a rate cut as being relatively small. In her speech, the governor of central bank stressed the long road to recovery from the recession and the negative impacts of the very strong South African rand. Along with this, the rate of inflation, which was within the desired band at 5.7% yoy in January, and the lower inflation expectations for this year paved the way for this move. We do not expect to see further rate cuts, even though the possibility of such cannot be ruled out completely. With regard to USD/ZAR, we project some support from the positive performance expected on the international equity markets in Q2 2010, and forecast a small amount of appreciation to USD/ZAR 7.3 by end-June.

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**EUR/KZT: 196.997 → 193.05 (June)**  
**USD/KZT: 146.870 → 143.00 (June)**



Source: Thomson Reuters

Publication of the final C/A balance data for 2009 showed a deficit of USD 3.4 bn, equivalent to 3.4% of 2009 GDP. With this, the deficit was higher than we expected, but this can mainly be traced back to

the revision of the Q1-Q3 figures. Q4 already reflected a surplus of around USD 700 mn on the current account balance. Since H2, exports of goods increased significantly more quickly than imports, and in our opinion this should remain the case in the quarters ahead, in light of our oil price forecast of USD 80 per barrel of Brent on average for 2010. For 2010 as a whole, we project a current account surplus of USD 2.7 bn. Hence, along with the increase in direct investments to USD 11 bn (2009: USD 9.5 bn), the NBK should be able to further boost its reserves. The central bank continues to intervene on the FX market to prevent abrupt increases in the tenge. Currency reserves (incl. the oil fund) increased to around USD 53 bn by the end of February. With the current oil prices, not much will change in this regard. Accordingly, we expect more intervention by the central bank and mild appreciation of the tenge versus USD. At of end-2010, we project USD/KZT at 140 and EUR/KZT at 189.

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