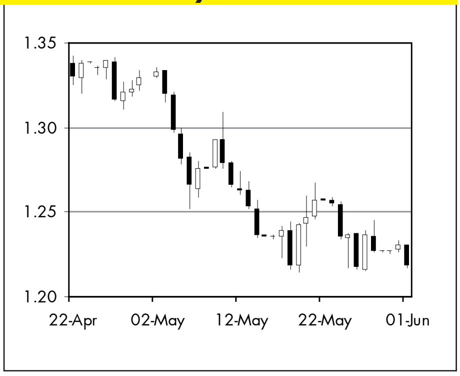
Focus FX monthly

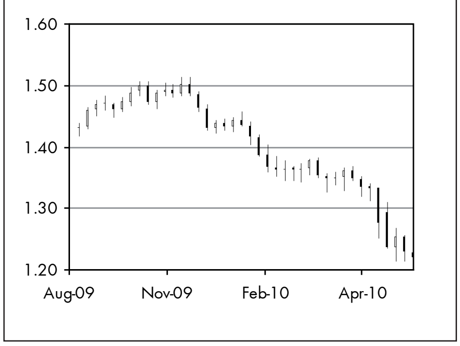
Issue 22/2010 1 June 2010

EUR/USD daily



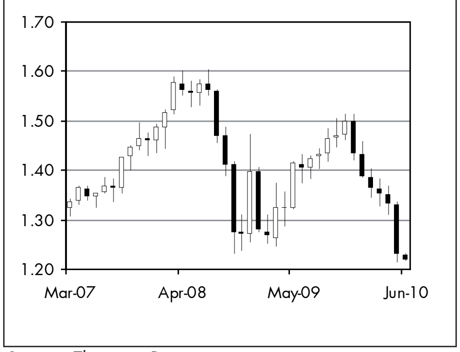
Source: Thomson Reuters

EUR/USD weekly



Source: Thomson Reuters

EUR/USD monthly



Source: Thomson Reuters

EUR/USD: 1.222 → 1.20 (next move)

Jitters about the downgrade of Spain by Fitch after trading closed on Friday from AAA to AA+ appear somewhat exaggerated, if one stops to consider that Spain has been rated AA by S&P for some time now, which after all is only one grade worse than Germany (while Germany has to pay about 150bp less on its government bonds). Accordingly, Spain was already being traded on the market at a much lower level than AA+, and so the rating agencies are only following through with what the market has long since priced in. A bigger problem for the euro may be the US labour market report on Friday, in which a massive increase of 500K jobs looks realistic (250K in the private sector, and another 250K from the census, with an upward revision to last

Exchange rate forecasts

	actual	Sep-10	Dec-10	Mar-11
EUR/USD	1.222	1.25	1.20	1.15
EUR/CHF	1.416	1.43	1.45	1.42
EUR/JPY	111.2	115	120.00	115.00
USD/JPY	91.0	92	100.00	100.00
EUR/GBP	0.843	0.84	0.80	0.76
EUR/PLN	4.113	3.75	3.65	3.50
EUR/HUF	276.6	275	270.00	270.00
EUR/CZK	25.56	24.8	25.00	24.60
EUR/RON	4.195	4.05	3.95	3.90
EUR/HRK	7.261	7.30	7.32	7.35
EUR/RUB	38.00	36.5	36.0	35.1
USD/RUB	31.07	29.2	30.0	30.5
EUR/UAH	9.660	9.50	9.20	8.50
USD/UAH	7.920	7.60	7.70	7.40
EUR/TRY	1.934	1.81	1.70	1.61
USD/TRY	1.581	1.45	1.42	1.40
EUR/BYR	3655	3800	3800	3700
USD/BYR	3000	3050	3200	3250
EUR/BGN	1.956	1.96	1.96	1.96
EUR/ALL	137.05	139.0	137.50	135.50
EUR/RSD	102.44	98.5	97.00	96.50
EUR/CNY	8.327	8.53	8.10	7.74
USD/CNY	6.829	6.82	6.75	6.73
EUR/BRL	2.220	2.19	2.04	1.90
USD/BRL	1.820	1.75	1.70	1.65
EUR/ZAR	9.465	9.50	9.48	8.97
USD/ZAR	7.736	7.60	7.90	7.80
EUR/KZT	179.450	177.50	168.00	161.00
USD/KZT	146.850	142.00	140.00	140.00

Source: Thomson Reuters. Raiffeisen RESEARCH month's figures also likely). While this is already expected by consensus, it may still push US interest rate expectations a bit higher and bolster USD. There is probably less to worry about with regard to today's ISM index, which should drop sharply from a very high level. Following the significant decline in the Chicago PMI last Friday, we project that today's ISM index will slip 2 points to 58.5 points. As a result, we are somewhat more pessimistic than consensus. On the whole, EUR/USD still looks vulnerable to further declines, even though the debt crisis should to some extent already be priced in. Consequently, any more short-term weakening would hopefully be part of some kind of bottoming out for the euro, and would prompt us to consider a short-term buy on EUR (at the current level we have no short-term position, and our recommendation is neutral). Over the medium term (i.e. the coming weeks/months), we still see a strong possibility that temporary rebounds in EUR/USD may bring the rate briefly back up to around 1.30. From the current vantage point, this would represent a good opportunity to switch out of EUR into USD. Because over a one-year horizon, we do not believe that EUR/USD has hit its ultimate lows yet: in 2011, the interest rate differential should work against EUR and in favour of USD, as the ECB will have to pursue a loose monetary policy for a longer period of time due to the crisis, and also because worries about Greek debt restructuring will not disappear completely.

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Trading Ideas

FX

Recommendation	Entry date	Entry level	Current level	Target level	Stop	Carry (ann. %)	Comments
Sell EUR/CHF	25/05/2010	1.423	1.416	1.405	1.432		EUR/CHF overshot

Source: Thomson Reuters, Bloomberg

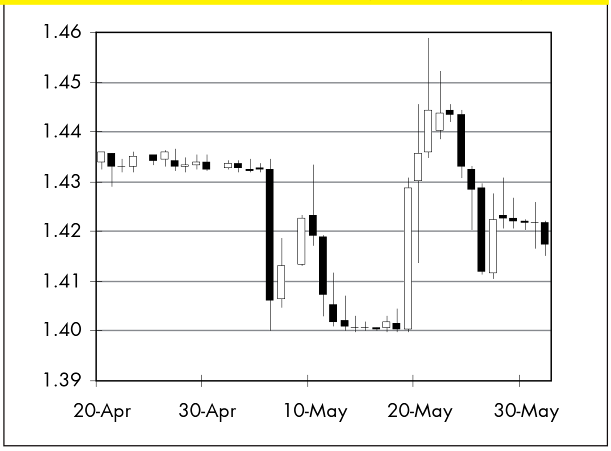
Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total Return	Comments
Sell EUR/CHF	03/05/2010	1.432	06/05/2010	1.415	1.20%	Target Reached
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: 1.416 → 1.40 (next move)



Source: Thomson Reuters

As expected, the franc started heading lower again almost as soon as the Swiss National Bank (SNB) backed away from its interventions on the currency market. Over a one-week period, the franc gained over 1 centime, advancing to EUR/CHF 1.418. The protracted discussions about the public debt situation in many euro-area countries and (in our view) the quite exaggerated worries about an increase in inflation in the currency union as a result of the ECB's bond purchases are certainly helping the franc play its part as a 'safe haven' currency. On the other hand, economic developments are also favouring the Swiss currency right now: For example, GDP increased by 0.4% qoq in Q1 2010, and the result for Q4 2009 was revised upwards from 0.7% to 0.9% qoq (by way of comparison, in the Eurozone the corresponding rates were 0.0% qoq for Q4 2009 and 0.2% qoq for Q1 2010). Economic growth is expected to remain robust for the time being. For example, the purchasing managers' index for the manufacturing industry which was released today rose in May to 66.4 points. In light of this development, there is gradually mounting pressure on the SNB to start normalising the extremely low level of interest rates, which is currently just over 0% in Switzerland. On the other hand, higher interest rates will intensify appreciation pressure on the franc. Without intervention by the central bank, the appreciation of the Swiss franc will continue. But on e has to keep in mind, that more intervention by the SNB can be expected at any time.

Analyst: Jörg Angelé

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EUR/JPY: 111.2→ 115 (September)
USD/JPY: 91.0 → 92 (September)

Source: Thomson Reuters

As if Japan did not have enough problems already (including sky-high public debt, a high structural budget deficit and high unemployment), the country is now faced with a full-blown government crisis. On Sunday, the Social Democratic Party (SDP) announced that it was withdrawing from the government coalition. In contrast to Europe, the disputes were not about savings measures for budget consolidation, but rather centred on the relocation of a US air force base on the island of Okinawa. The Democratic Party (DPJ) under PM Hatoyama can continue to govern with the remaining coalition party, the People's New Party, thanks to an adequate majority in the lower house. There is a risk, however, that the governing parties will not achieve a majority in the elections to the upper house of parliament scheduled for July. As a result, the two chambers could obstruct one another, which would make the work of the government very difficult.

It also appears that economic activity in Japan is slowing down, following the strong uptick in economic performance in Q1 2010 (+1.2% qoq). For instance, yesterday's data publication on industrial production for April featured a gain of 1.3% mom, which was lower than expected. This is particularly the case, as companies were very restrained in their outlook for the rest of the second quarter. All of this bad news, however, had little negative impact on the yen. During the week, JPY only slipped one yen against USD, moving to USD/JPY 90.8. The EUR/JPY rate remained roughly unchanged at 110.5. Through to year-end, we project that the yen will depreciate by about 10% versus both the US dollar and the euro.

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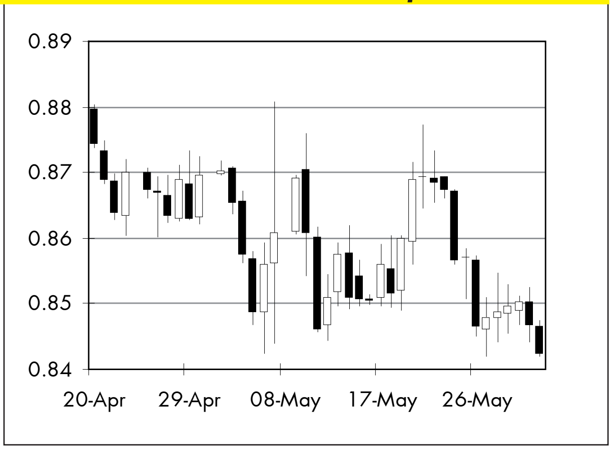
EUR/GBP: 0.843 → 0.84 (September)



Source: Thomson Reuters

In recent days, the pound has been able to bounce back against the weak euro, appreciating by around 3% to EUR/GBP 0.84 since the beginning of last week. In doing so, GBP shrugged off the broadly weak data (second GDP estimate for Q1 with a small upward revision to +0.3%, a slump in the CBI survey of distributive). This week's data features the purchasing managers' indices (PMI) for manufacturing and the services sector. The manufacturing PMI held steady at 58 points in May again, maintaining the strong level from the previous month. Following the declines in recent months, the services PMI is back to its long-term average, but even with another decline in May, it would still be significantly higher than the growth threshold of 50 points. On the whole, the currently high levels for the most important leading indicators suggest that economic growth will be strong in Q2 and Q3. Against this backdrop, we expect the pound to firm up in the months ahead, moving to a level of EUR/GBP 0.84-0.80. Looking at the longer-term perspectives for the pound, the results of this week's data releases for the two most important house price indices (Nationwide, Halifax) will also be interesting, as the UK real estate market is traditionally very closely linked with private consumption. Most recently, there have been signs of a slight slowdown in price dynamics on the real estate market, and this trend may even strengthen in the second half of the year.

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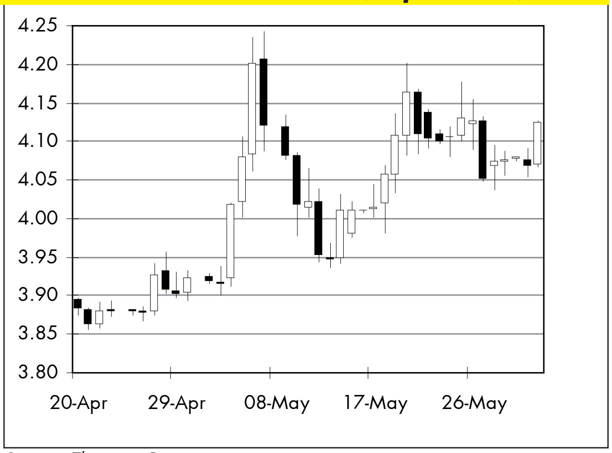
EUR/PLN: 4.113 → 3.75 (September)



Source: Thomson Reuters

The initial estimate for Q1 GDP was released by the statistical office on Monday: with GDP growth of 3.0% yoy and a seasonally adjusted rate of 0.5% qoq, the results were in line with analysts' expectations. Provided that conditions on the labour market continue to improve and that consumer sentiment increases, consumption growth may turn out to be better than expected in 2010. Furthermore, the government's revenues from VAT may increase more quickly than anticipated, which would foster more easing in the Polish budget. On the whole, the numbers can be viewed in a positive light, especially since domestic demand made its highest contribution to GDP growth since Q4 2008, at +2.3 percentage points. The contribution of net exports will probably continue to taper off in the quarters ahead. The sharp drop in investment is likely a one-off phenomenon, and without this effect GDP growth would have been even higher. In the quarters after Q2, gross fixed capital formation should make a positive contribution to GDP again. The result could be that GDP growth for 2010 will turn out to be higher on the whole. Nevertheless, we will have to wait and see how Q2 shapes up, as some special events may have undermined the rate of consumption growth and investment activity during this period. The data did not have a direct impact on the EUR/PLN exchange rate, but in light of the medium-range growth outlook for Poland, they can be interpreted as a clear sign in favour of PLN appreciation. At the time being, however, the rate is being driven by external factors. Accordingly, right now we only see a marginal chance of any stronger, more lasting appreciation of the zloty.

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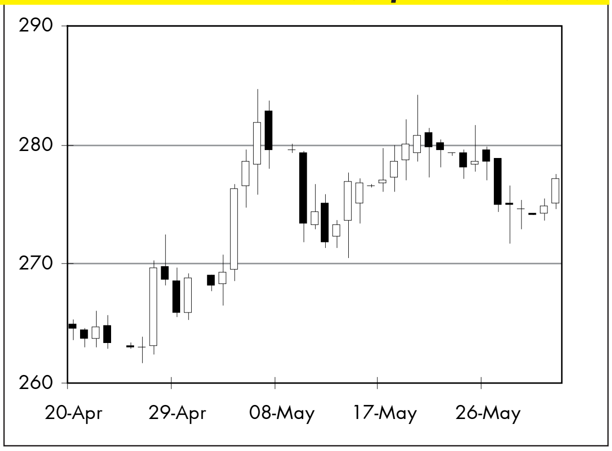
EUR/HUF: 276.6 → 275 (September)



Source: Thomson Reuters

As expected the monetary council left the interest rate unchanged at 5.25%. Given the weak forint and the current volatility due to the events surrounding the Eurozone, a further cut in interest rates would have been a big surprise. With this decision the interest rate cut cycle that started in July 2009 at 8.5% has come to an end. In the meantime the new government under Orban took office. In the summer months negotiations with the IMF about a higher budget deficit 2010 could bring more uncertainty. Even though the forint stabilized against the EUR at 275 we continue to expect high volatility and more phases of weakening for the forint during the coming months.

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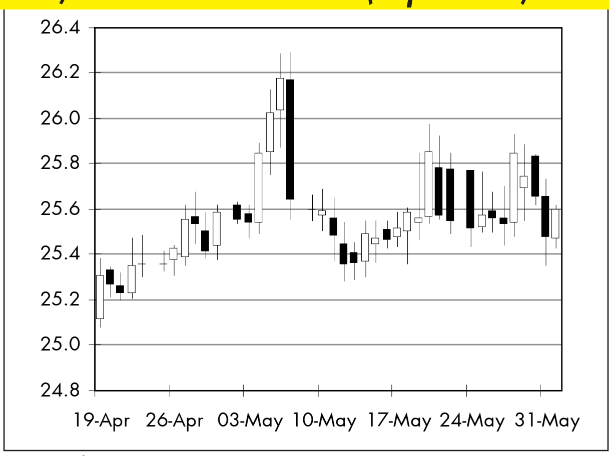
EUR/CZK: 25.56 → 24.8 (September)



Source: Thomson Reuters

The Czech parliamentary elections are behind us and the result is really a surprise. Since the early 90s Czech elections were always characterised by the lack of clear majorities. This is now different with the centre-right parties having won a clear election victory. The Social Democrats still gained the most votes, but much less than indicated by the polls and now have no chance to find a majority in parliament. Apart from the national-conservative ODS the future centre-right government will include the two new parties TOP 09 of the former Minister of Foreign Affairs Karel Schwarzenberg and VV of the former TV journalist Radek John. Both new parties managed to gain more than 10% of votes and TOP 09 will even be the third largest faction in the new parliament ahead of Communists. Thus, the wish of the financial market will become reality: a quick formation of a new government whose top priority will be the budget consolidation. This should include long overdue reforms of the pension and healthcare systems. With that our long-standing optimistic forecast scenario, which expects the Czech koruna (CZK) to appreciate below the level of 25 against the euro in Q3 2010, remains intact. Also in a medium term perspective we assume a continuation of the fundamental long-term appreciation trend in 2011.

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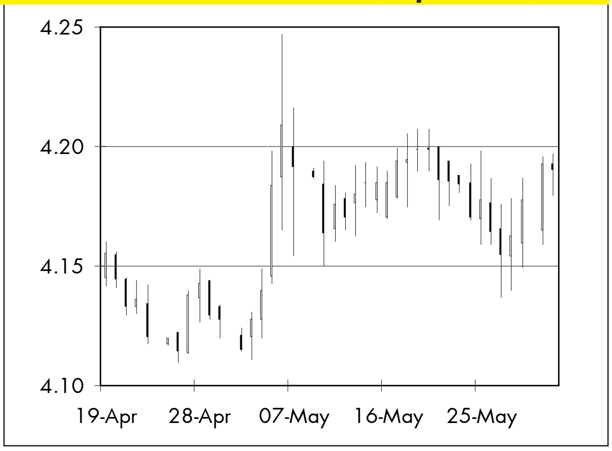
EUR/RON: 4.195 → 4.05 (September)



Source: Thomson Reuters

After strengthening last week, the leu lost ground again on Monday, as EUR/RON returned to 4.19. At the moment, we do not see any reasons for more depreciation, but we do recommend paying attention to developments in the fiscal area. On Sunday, the government approved a draft law, according to which wages in the public sector would be reduced by 25% and pensions and other social transfers would be cut by 15%. This week, the government will go to Parliament to assume responsibility for these two laws. The opposition parties announced they will call for a no-confidence vote. The government is backed by a majority, but not a very large one. Hence, surviving the no-confidence vote is not fully guaranteed (although it remains the most plausible scenario). On Thursday, the statistical office will announce details on GDP growth for Q1 2010. Flash estimates pointed to a contraction of 0.3% qoq and -2.6% yoy. We expect the new data to be in line with these estimates. Moreover, we are looking for negative quarterly growth rates for all GDP components (consumption, investments).

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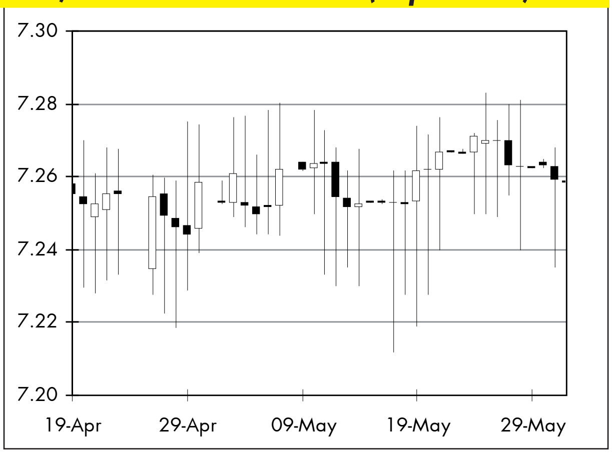
EUR/HRK: 7.261 → 7.30 (September)



Source: Thomson Reuters

During the last week of May, the domestic FX market was stabile again. For almost the whole week, EUR/HRK stayed at or slightly above 7.27, which is somewhat higher than in previous weeks, but nonetheless trading was equally stabile. At the end of the week, the rate slid back below 7.27. On the money market, it was the third consecutive week without a Treasury Bill auction by the Ministry of Finance. However, since almost HRK 1 bn of liabilities mature in the following week, announcement of an auction for this week was expected. Liquidity is still at a very high level and the overnight ZIBOR is below 1%. In the week ahead, we expect EUR/HRK to stay between 7.25 and 7.27. Moreover, we expect a stabile rate throughout the entire year. Over a one-month timeframe, we expect appreciation pressures on the kuna to prevail, especially as the main tourist season is approaching. However, this year's seasonal effects will be far less pronounced than in previous years. Appreciation pressures on the kuna should also be amplified by the inflow of euros from expected quasi-sovereign external borrowing. On the other hand, due to higher risk aversion on the global markets, we do not expect the government to resort to external borrowing for refinancing domestic liabilities, which should tame the appreciation pressures and keep the rate from falling below EUR/HRK 7.25. As for the possibility of the rate increasing significantly, sluggish domestic demand is keeping imports of goods at very low levels and this is a key factor preventing depreciation pressure on the kuna.

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EUR/RUB: 38.00 → 36.5 (September)
USD/RUB: 31.07 → 29.2 (September)

Source: Thomson Reuters

As we predicted, rouble volatility remained intense last week. Higher oil prices and recovering stock markets sparked a positive mood on the rouble market at the beginning of last week. However, earlier rouble gains were partially offset by the end of the week. Local market FX dealers told Reuters that major local banks were actively buying foreign currency for their clients and increasing their own FX positions. As a result, the rouble appreciated from 34.75 against the dual currency basket to 33.64 by 28 May, before slipping back to 34.09 vs. the basket. Stronger selling activity in the rouble market leads us to believe that the rouble might be under pressure from investors, especially in the stock market, who are looking for foreign currency to fund margin calls that were triggered two weeks ago. However we expect this trend to be partially offset by the return of bargain hunters to the stock market. Furthermore, once equity margin calls are settled, we expect the selling wave in the rouble market to decrease substantially. Much will depend on the oil price levels in the coming weeks, since investors monitor oil prices closely as there is pretty high correlation between the latter and the rouble. Nevertheless, we expect the rouble to return to its older trading range of 33.80-34.15 vs. the basket expecting a more stabile oil price as well.

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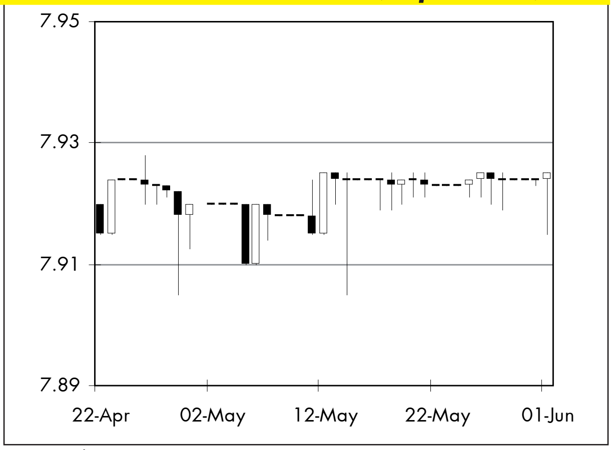
EUR/UAH: 9.660 → 9.50 (September)
USD/UAH: 7.920 → 7.60 (September)



Source: Thomson Reuters

Despite persistent volatility on the international financial markets, UAH remained stable versus USD (with rates around 7.91 - 7.93), against the background of a strong foreign trade surplus and subdued demand for cash foreign exchange. The National Bank recently reported that its gross FX reserves had fallen by approximately USD 650-750 mn, due to the sharp depreciation of EUR against USD (according to our estimates, the share of EUR-denominated assets in Ukraine's FX reserves is nearly 25-30%). Nevertheless, given the continued daily interventions by the NBU (with a volume reportedly exceeding USD 1 bn in May), gross international reserves rose last month. According to the balance of payments data released by the NBU, both current and capital accounts posted a surplus in April. In particular, the surplus on the current account was USD 234 mn, against the background of growing steel exports (fuelled by surging global steel prices) and the reduction in energy imports following introduction of a 30% discount on gas imported from Russia. Given the seasonal improvement in the trade balance and a few more Eurobond placements in May, we expect the balance of payments to remain positive over the next few months. However, it is important to note that the risks to external stability have risen recently amidst tumbling global commodity prices and investors' mounting risk aversion. Therefore, in the event of adverse changes in global commodity and financial markets, we cannot fully rule out the possibility of increased volatility in the USD/UAH exchange rate.

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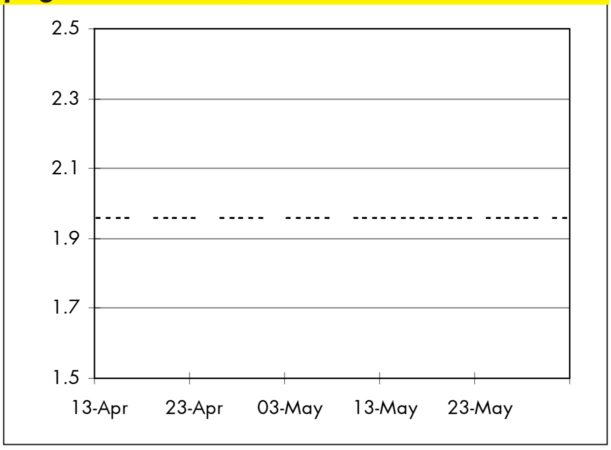
EUR/BGN: 1.956 → 1.96 (Currency Board pegs BGN to EUR)



Source: Thomson Reuters

As we have said several times, "postponed is not abandoned". At the end of May, Finance Minister Simeon Djankov stated that Bulgaria has delayed its plans to apply for ERM II until next year. One month ago, Prime Minister Boiko Borisov officially gave up plans to bid for ERM-II entry because of the larger-than-expected 2009 budget deficit caused by unaccounted procurement deals by the previous cabinet. Bulgaria's new budget deficit target for 2010 is 4.8% of GDP (before it was 0.7%). As Bulgaria has fiscal reserves amounting to 9.5% of GDP, the deficit can be funded from local resources. A Eurobond will not be issued in 2010. The centre-right government had agreed with trade unions and business organisations to up the deficit target, due to falling revenues and increased spending on infrastructure and delayed payments to businesses. The budget revision draft has been sent to Parliament for approval. A representative of the International Monetary Fund mentioned that it could revise the GDP forecasts depending on the government's commitment to cutting the budget deficit this year. Right now, the IMF expects Bulgaria's GDP to grow by real 0.2% in 2010 and 2.0% in 2011.

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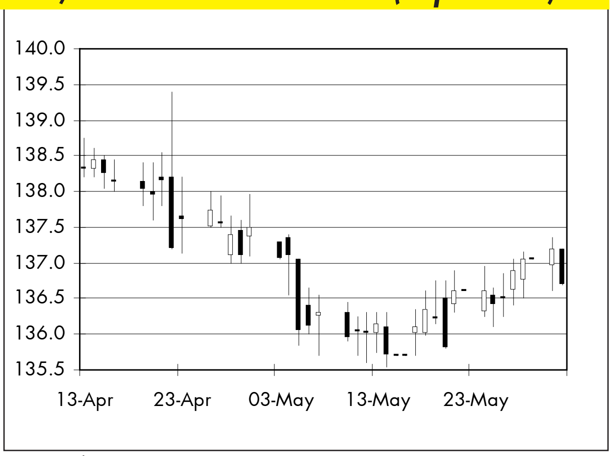
EUR/ALL: 137.15 → 139.0 (September)



Source: Thomson Reuters

The Supervisory Council of the central bank decided to keep its repo rate at 5.25%. This is the eighth straight month the Supervisory Council has decided to keep the main refinancing rate at this level. The drop in the reverse repo rate came gradually, in order to ease the cost of credit in the market for the Albanian lek. Although there is strong interest in the Albanian Eurobond, which will be issued for the first time in the history of Albania, the issue has been postponed, as it is dependent on the situation in the Eurozone. The Eurobond will be used to finance investments in infrastructure and will help improve the economic development of the country.

Remittances fell by 6.4% yoy to EUR 780 mn in 2009, compared with EUR 833 mn in 2008 and EUR 951 mn in 2007. Remittances account for over 20% of GDP. Falling remittances mean that support for the lek is deteriorating. However, this might be evident in the summer months.

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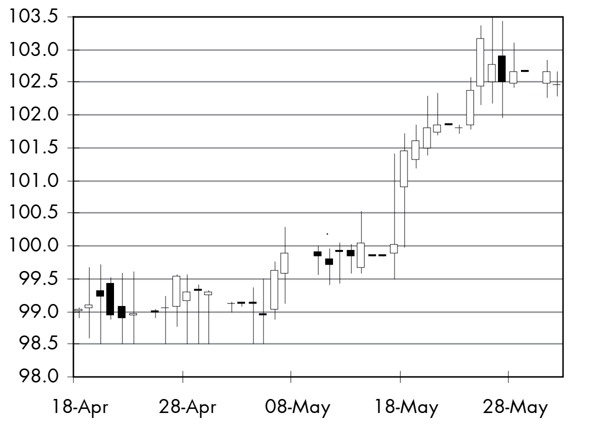
EUR/RSD: 102.44 → 98.5 (September)



Source: Thomson Reuters

The IMF mission concluded its talks with Serbia as part of the fourth review of the lender's ongoing EUR 2.9 bn Stand-By Agreement, but warned the government that it must send a bill on pension system reform to the parliament and adopt a decision that will speed up the delayed public administration job cuts by June for the review to pass the IMF Executive Board late next month. If the IMF does not approve the fourth review at a meeting in June, both the fourth and the fifth review, scheduled to begin in August, will be called into question. Serbia agreed to keep public sector wages and pensions frozen in 2010. The IMF Board's approval of the fourth review will release about EUR 380 mn to Serbia under the SBA. The IMF has cut its forecast for Serbia's GDP growth from 2% to 1.5% in 2010 and 4% to 3% in 2011. The central bank has changed its intervention method from direct sales involving all market participants, to auctioning FX for interested counterparties, thus enabling market demand to be more recognisable in terms of depth, and banks to bid for their actual needs instead of getting as much as the central bank is willing to call and sell. The market will be watching the central bank's move on the interest rate at the next Monetary Council session, as the price of EUR has influenced hikes among imported goods and energy.

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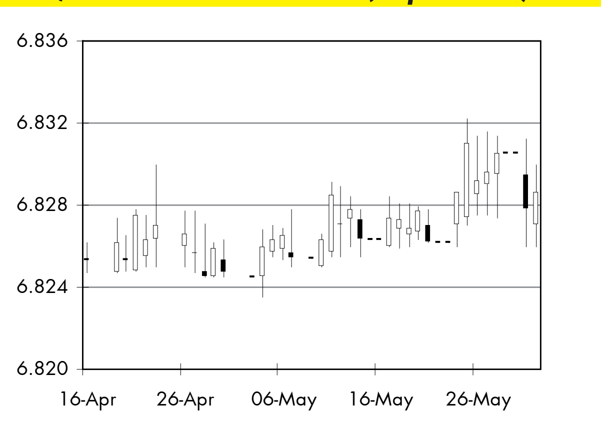
EUR/CNY: 8.327 → 8.53 (September)
USD/CNY: 6.829 → 6.82 (September)



Source: Thomson Reuters

According to information released by the country's statistics authorities, PMI figures in China dropped more strongly than previously assumed. With a reading of 53.9 points in May (55.7 in April), the economy should be coming out of its boom phase and returning to calmer activity. On the one hand, this slowdown in economic activity means that the worries about overheating in recent months were exaggerated. On the other hand, the economic risks on the downside will be considered more strongly on the markets, due to the international sovereign debt crisis. This topic was recently mentioned by PM Wen, who pointed out that there were massive international risks, but said that China's growth was nevertheless based on a solid foundation.

With regard to the yuan, this means that the currency authorities now have additional arguments against allowing any immediate appreciation. So far, the argument has been that the yuan has appreciated massively versus the euro. Despite the initially loud demands by the Americans, the latest US-Chinese meeting resulted in no changes in the end. Consequently, our cautious expectation of appreciation has proven to be correct. We see the first step in another phase of appreciation as being delayed further into the future.

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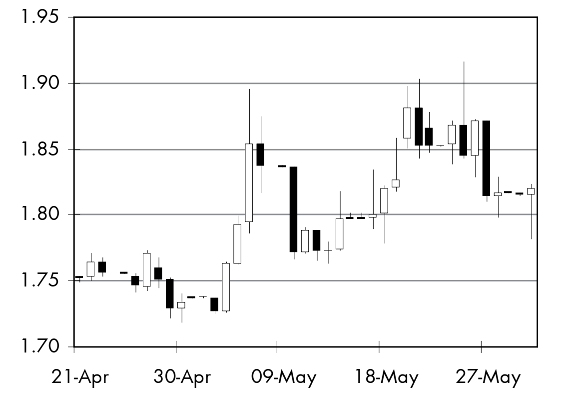
EUR/BRL: 2.220 → 2.19 (September)
USD/BRL: 1.820 → 1.75 (September)



Source: Thomson Reuters

Economic activity remains quite strong in Brazil. Industrial production is rising robustly, but the really impressive performance is being seen in retail sales, which are currently growing at rates of up to 15% yoy. This leads to the projection that GDP may grow strongly again compared to the previous quarter, with the rate likely to be on the order of 2.1% qoq, which would point to annualised growth of 7.4%. Consequently, we once again upgrade our 2010 GDP forecast, raising it to 6.4% yoy. This vigorous economic performance is, however, making itself felt in sharply increasing inflation as well, with the rate currently at 5.3% yoy. The country's central bank is reacting to this with large increases in interest rates, starting with a hike of 75bp to 9.5% in April. More steps like this are expected to follow. In our view, rate hikes will amount to 300bp by year-end. As a result, the interest rate spread to other established economies will continue to widen, leading to appreciation. Right now, the Brazilian real is suffering from the weakness in commodity prices. In fundamental terms, however, there are not many reasons for this weakness, and hence we also expect to see more appreciation potential from this factor as the year progresses.

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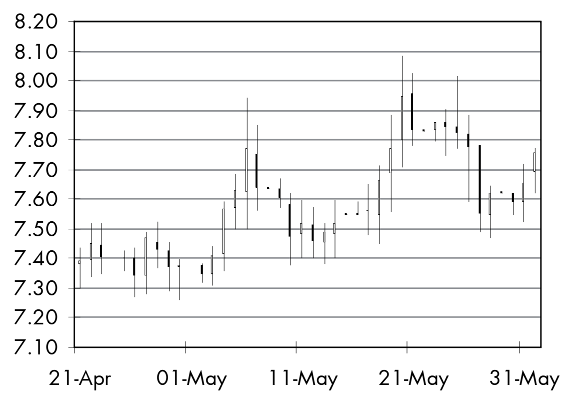
EUR/ZAR: 9.465 → 9.50 (September)
USD/ZAR: 7.736 → 7.60 (September)



Source: Thomson Reuters

The economic recovery in South Africa started to gain traction in Q1, as GDP advanced by 1.6%, which was stronger than anticipated. Another piece of good news was that retail sales finally edged back into positive territory again, with yoy growth of 1% in March. Despite the rather upbeat economic news, the South African rand was hit by depreciation pressures in May. The main reasons for this were the sovereign debt crisis in the euro area and the related rise in risk aversion on the international financial markets. USD/ZAR weakened to levels of 8 at times, but then stabilised at around 7.70 by the end of May. Looking to the months ahead, we see little potential for USD/ZAR, and thus expect the rate to drift sideways at around 7.60. Nevertheless, if there is another spike in volatility on the equity markets, USD/ZAR could easily move as far as 7.9.

Analyst: Nina Kukic
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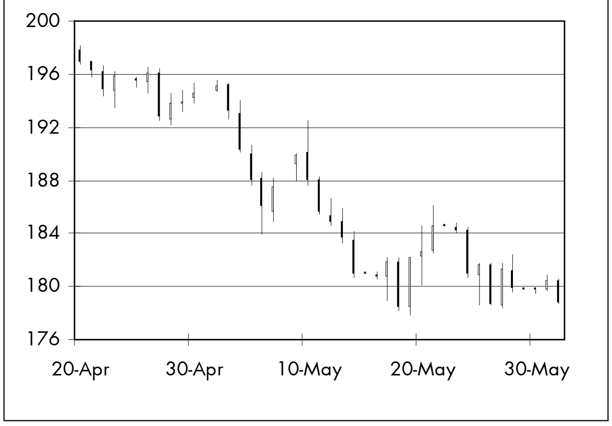
EUR/KZT: 197.450 → 177.50 (September)
USD/KZT: 146.850 → 142.00 (September)



Source: Thomson Reuters

According to the initial estimates of the Kazakh central bank, the surplus on the current account in Q1 increased to USD 2.97 bn, thus exceeding our forecasts. The main reason for this was the surplus on the trade balance. In nominal terms, exports of goods increased by almost 70% yoy (as anticipated), whereas imports fell by around 11% yoy and 31% qoq. We had been expecting to see a sharp rise in imports. In light of the unexpectedly slow growth in imports, our forecasts for the year as a whole are being revised higher (we currently forecast USD 2.7 bn). The weak growth in imports of goods comes as all the more of a surprise, as GDP growth in Q1 amounted to 7.1% yoy in the first quarter, according to the country's statistical office. The figures suggest that growth is mainly due to net exports, while growth in domestic demand is lagging behind. The decline in the price of oil has alleviated some of the appreciation pressure on the currency, but in our view is not strong enough to cause the current account balance to turn around back into negative territory, even if the level remains the same until the end of the year. A decline in risk aversion following the latest bout of turbulence on the international equity markets will result in more flows of FX for the central bank. Through to year-end, we project a mild appreciation of KZT versus USD.

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