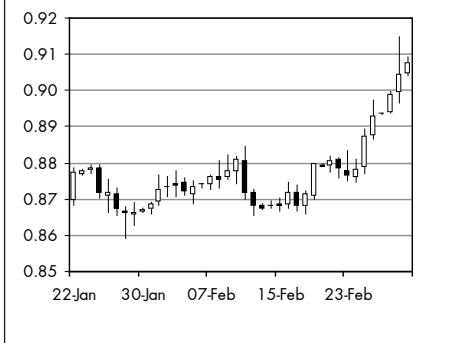


# Focus FX monthly

Issue 9/2010

2 March 2010

## EUR/GBP daily

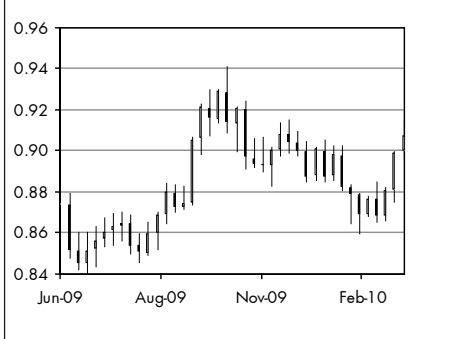


Source: Thomson Reuters

## EUR/GBP: 0.906 → 0.93 (June)

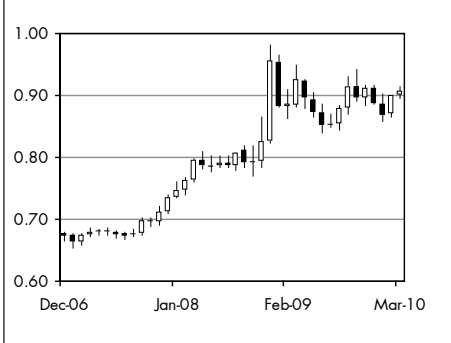
During the last few days, the broad trend of GBP depreciation continued, with the trade-weighted exchange rate reaching its lowest level in more than a year last Monday. Compared to the US dollar, the pound slipped by up to 3% heading to GBP/USD 1.478, the weakest rate in the last 10 months. Sterling also lost ground versus the euro, as the single currency climbed over EUR/GBP 0.915, for the first time this year. The main factor behind the weakness of the pound was the announcement that the UK insurer Prudential was taking over the Asian operations of the struggling US insurance giant AIG. Speculation about Prudential's need for

## EUR/GBP weekly



Source: Thomson Reuters

## EUR/GBP monthly



Source: Thomson Reuters

## Exchange rate forecasts

	actual	Jun-10	Sep-10	Dec-10
EUR/USD	1.348	1.42	1.39	1.35
EUR/CHF	1.463	1.47	1.43	1.45
EUR/JPY	120.7	124	118.00	122.00
USD/JPY	89.3	87	84.89	90.37
EUR/GBP	0.906	0.93	0.95	0.95
EUR/PLN	3.924	3.80	3.75	3.65
EUR/HUF	267.9	285	275.00	275.00
EUR/CZK	25.79	25.4	24.80	25.00
EUR/RON	4.102	4.10	4.05	3.95
EUR/HRK	7.260	7.40	7.40	7.50
EUR/RUB	40.51	41.56	40.91	40.12
USD/RUB	29.97	29.27	29.43	29.72
EUR/UAH	10.760	10.50	10.60	10.40
USD/UAH	7.978	7.40	7.60	7.70
EUR/TRY*	2.077	2.07	2.11	2.08
USD/TRY*	1.540	1.46	1.52	1.54
EUR/BYR	3964	4100	4100.50	4117.50
USD/BYR	2930	2900	2950.00	3050.00
EUR/BGN	1.956	1.96	1.96	1.96
EUR/ALL	138.75	137.0	135.50	133.00
EUR/RSD	99.52	97.0	96.50	95.00
EUR/CNY	9.230	9.64	9.38	8.98
USD/CNY	6.827	6.79	6.75	6.65
EUR/BRL	2.428	2.63	2.43	2.30
USD/BRL	1.796	1.85	1.75	1.70
EUR/ZAR	10.344	10.863	11.05	10.73
USD/ZAR	7.648	7.65	7.95	7.95
EUR/KZT	199.065	204.48	197.38	189.00
USD/KZT	147.270	144.00	142.00	140.00

\* under revision

Source: Thomson Reuters. Raiffeisen RESEARCH



**Raiffeisen  
RESEARCH**

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US dollars (around USD 25 bn) for settling the cash part of the USD 35.5 bn deal led to a sell-off of the pound.

Another negative factor for GBP was the results of the latest Sunday poll on the upcoming general elections which will likely take place in early May. The poll showed a narrowing decline in the lead held by the Conservative Party over the governing Labour Party (only 2-percentage points). If this balance of power was the outcome on election day, the UK would end up with a hung parliament, resulting in a stalemate in which neither of the major parties have an absolute majority. For many market pundits, a result of this kind would be the worst-possible scenario, because it would significantly delay any prospects for vigorous consolidation of the country's budget.

Consequently, the economic recovery of the UK is on a shaky footing in the months ahead, and the political developments could also be marred by great uncertainty. Neither of these aspects will help to improve the market's sentiment on the already weakened UK currency. Nor is the rate-setting meeting scheduled for Thursday expected to have a beneficial impact on the GBP exchange rate, as there will not likely be any changes to the key rate or the QE measures. Accordingly, we stick with our projection of more depreciation for sterling to EUR/GBP 0.93 by mid-year, and expect to see very volatile developments in the rate during the weeks before the elections in particular.

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## Trading Ideas

### Recently closed trades

Recommendation	Entry date	Entry level	Close date	Close level	Total Return	Comments
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.

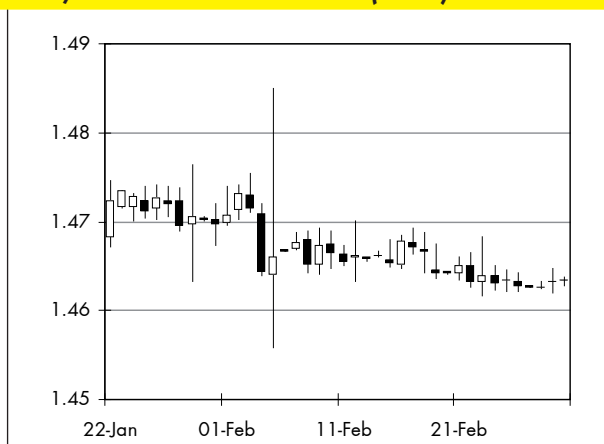
**EUR/USD: 1.348 → 1.42 (June)**

Source: Thomson Reuters

At EUR/USD 1.348, the euro was trading some 2 cents lower to the US dollar compared to one week ago. The trading range extended from EUR/USD 1.345 to 1.37. Initially, the euro came under pressure on the heels of a string of disappointing economic data. For example, the German ifo business sentiment indicator dropped in a surprise move and consumer confidence in the USA also slumped. Furthermore, the situation on the US real estate market is now apparently considerably worse than previ-

ously thought. Despite all of this, however, the single currency regained some strength again towards the end of the week. The trigger for this was renewed rumours about possible aid for Greece. Apparently, one of the options being considered is that the German state-owned development bank KfW could make major purchases of Greek government securities, thereby at least guaranteeing the country's short-term financing viability. On Monday, however, the euro dived again. This time it was news of the takeover of AIG's Asian operations by the UK insurer Prudential. This triggered weakening for the pound, which also affected the euro as well. Secondly, German Chancellor Merkel again refused any kind of financial support for Greece. Although the euro has been stuck around EUR/USD 1.35 recently, we do not expect to see a sustained recovery in euro in the months ahead, as the single currency is much more likely to remain trapped at around the current levels. In early summer, when the tensions involving Greece subside and the US economy begins to visibly cool off again, we should see a temporary phase of strength for the euro. We expect to see the rate go well higher than EUR/USD 1.40 again during that phase.

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**EUR/CHF: 1.463 → 1.47 (June)**

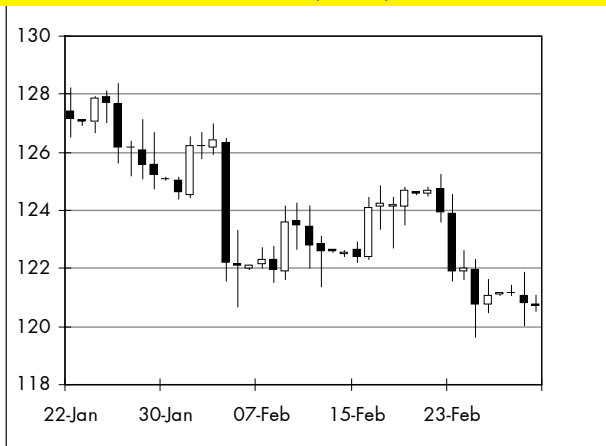
Source: Thomson Reuters

For several months now, monetary policy has been the only factor that has been able to generate any movement in the very flat trend in EUR/CHF. In December, the Swiss central bank decided to loosen its policy of intervening on the FX market, and the franc promptly responded by appreciating all the way to EUR/CHF 1.463, using up all of the 6-centime buffer created by the SNB's intervention efforts. With all of this in mind, the SNB's next rate-setting meeting on March 11 is being awaited with considerable inte-

rest. We expect that the recently strong Swiss economic indicators will be reflected in a more optimistic stance by the SNB. Today's publication of GDP data for Q4 2009 showed growth of 0.7% compared to the previous quarter. The strongest growth driver was investment in business equipment, exports and private consumption. On the whole, this means that real GDP was just 1% lower than it was before the downward spiral started in Q1 2008. In line with these developments, the economic forecasts of the SNB are likely to be revised upwards. While it is also conceivable that intervention on the FX market will be scrapped altogether, we believe that the SNB will wait and monitor price developments in the months ahead before finally doing away with this policy instrument at its meeting in June. For EUR/CHF, this means that the door should be open for further declines (i.e. a stronger franc). Nonetheless, by June a resolution of the problems related to Greece should ensure that the euro does not depreciate too strongly versus the franc, and that EUR/CHF will continue to move sideways at roughly the current levels. If the Swiss economy continues to power ahead in Q2 and Q3, the SNB may begin to mull interest rate hikes, leading to more strengthening of the franc in H2 2010.

Analyst: Ingo Jungwirth  
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**EUR/JPY: 120.7 → 124 (June)**  
**USD/JPY: 89.3 → 87 (June)**



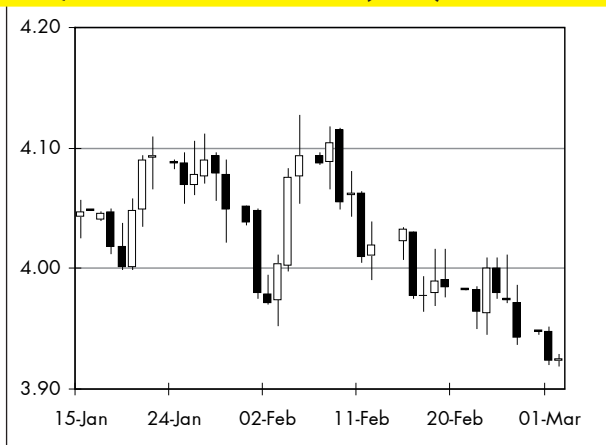
Source: Thomson Reuters

During the last few days, the yen has appreciated both versus the euro and versus the US dollar. Although interest rate hikes can only be expected in H2

2011 in Japan, doubts on early rate hikes in the USA and Europe during in 2010 are also on the rise now. These doubts are due to the poor data on private consumption, which is the most important component for sustainable economic growth. Accordingly, right now the main driver of yen strength is not the Japanese economy but rather fading speculation about a quick return to rate hikes in the USA and Europe. As we are forecasting weaker economic dynamics at the global level in Q2 and Q3, we do not expect to see any overly strong increase in risk appetite or quick moves to raise interest rates again. Consequently, the yen should appreciate more over the long term. Right now, however, in light of the interest rate differential the Japanese currency is overvalued versus both the euro and the US dollar. A correction to above EUR/JPY 124 will thus probably occur when the mood brightens briefly again on the equity markets.

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**EUR/PLN: 3.924 → 3.80 (June)**

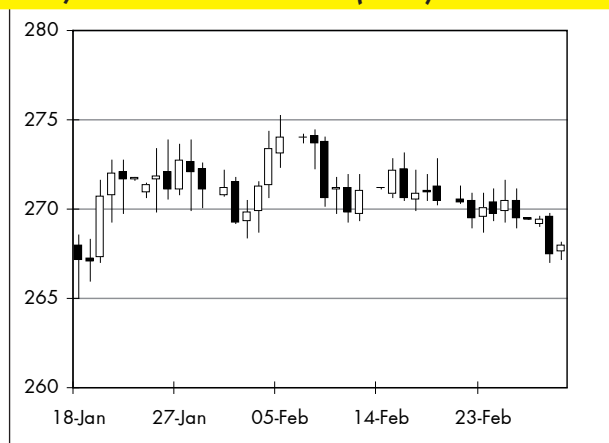


Source: Thomson Reuters

In February, the PMI jumped surprisingly from 51.0 to 52.4, pushing EUR/PLN below 3.92, which was the lowest level since early January 2009. The decline in January thus turned out to be temporary, whereas production growth and new domestic and export orders in February continued to be robust, and the sub-index for procurement volumes reflected the strongest

rise since March 2008. We assume that these data imply more increases in industrial production figures in the months ahead. One uncertain aspect continues to be the employment situation (there are still more firms shedding labour than adding jobs). This may have a persistently negative impact on consumption in H1 2010. GDP data for Q4 2009 reflected yet another mild decline in the growth rate of household consumption (from 2.2% in Q3 to 2.0%). This component will continue to be uncertain, at least for the first half of 2010. Nevertheless, during the year the structure of GDP growth should shift towards a larger share of domestic demand. This trend was also confirmed by the Q2 2009 data: domestic demand made a positive contribution to GDP growth for the first time since Q4 2008. Growth will alleviate a great deal of the pressure on budget revenues in 2010 and also reduce the public sector's financing needs. Accordingly, we believe that EUR/PLN has more potential to go lower over the months ahead and thus maintain our target of EUR/PLN 3.80 for end-June.

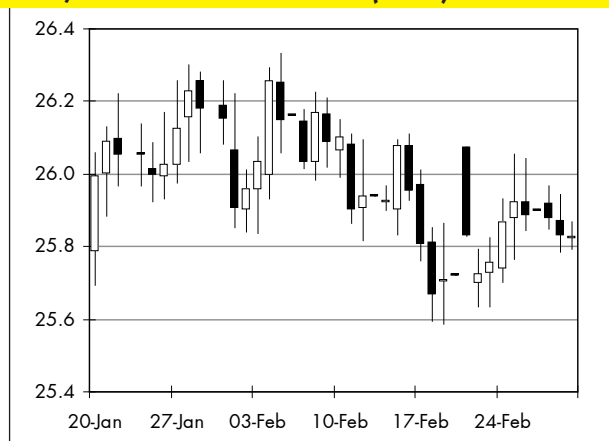
Analyst: Marcin Kopaczynski  
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**EUR/HUF: 267.9 → 285 (June)**

Source: Thomson Reuters

Rather without any direction EUR/HUF is still in a sideways movement around 270. A possible weakening due to the budgetary outlook 2010 and the elections has not yet occurred. While timing for such a weakening is difficult we continue to expect a medium term depreciation of the forint against the euro. Overall the economic recovery remains slow, interest rate reductions should have come to an end and at the moment the forint is profiting from low risk aversion. As far as the fiscal politics after the elections are concerned we see ongoing uncertainty and see our cautious view on the forint supported. All in all we therefore remain pessimistic on the forint even though up until now we have not seen the expected weakening.

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**EUR/CZK: 25.79 → 25.4 (June)**

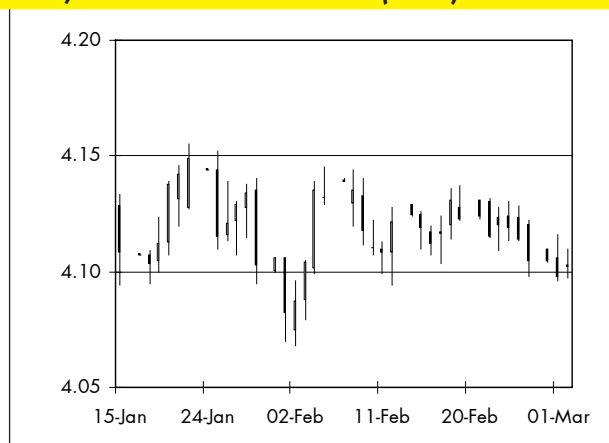
Source: Thomson Reuters

The Czech koruna (CZK) maintained levels below the 26 threshold against the euro over the past week. 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. The flash estimate for real GDP in Q4 2009 was well behind expectations with a minus of 0.6% quarter-on-quarter after two consecutive quarters of positive growth. This confirms the expectations of an only slow and gradual recovery of the Czech economy. The main risk to our forecast scenario is a stalemate after parliamentary elections in spring. This would postpone the necessary medium-term fiscal consolidation and could weigh on the CZK.

Analyst: Walter Demel  
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## EUR/RON: 4.102 → 4.10 (June)

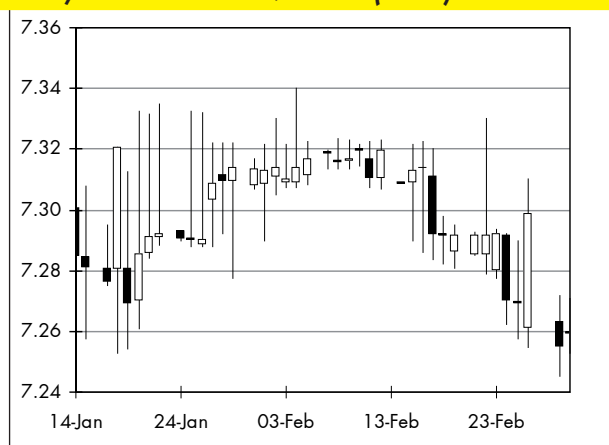


Source: Thomson Reuters

Last week, the EUR/RON rate traded in a tight range of 4.105-4.13, with a tendency to appreciate slightly at the end of the period, in line with slight improvement in investors' sentiment on the international markets. Looking forward, we think the leu should continue to fluctuate around the current level for the time being, with moves driven mainly by changes in investors' mood on the external markets. On Wednesday, the statistical office will release details on the dynamics of GDP components for Q4 2009: given the flash estimate released on 13 February (-1.5% qoq and -6.6% yoy), we think the data will show that both consumption and investment contracted in late 2009. In our opinion, the GDP data should not have a significant impact on the exchange rate, even though they will reflect some contraction.

Analyst: *Martin Stelzener*  
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## EUR/HRK: 7.260 → 7.36 (June)



Source: Thomson Reuters

After a relatively calm beginning to last week on the domestic FX market, with modest trading volumes and EUR/HRK between 7.28 and 7.285, ap-

preciation pressures on the kuna then emerged at the middle of the week. The excess supply of euros, primarily from the banking sector, caused a decline in the rate to below 7.26. It seems that the movement of the FX rate is mostly influenced by Government Bond and Treasury Bills maturing at the beginning of March. The money market is still marked by high liquidity and, consequently, low interest rates. A Treasury Bill auction was not held last week and the last repo auction took place in the middle of October. In the week ahead, we may see further appreciation pressures on the kuna. But we think that the room for further declines in the exchange rate is limited, because one can expect the CNB to take action if appreciation pressures continue. At a monthly level, foreign debt maturing in the next few weeks might exert slight depreciation pressures on kuna, and the rate could return to 7.30.

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**EUR/RUB: 40.51 → 41.6 (June)**  
**USD/RUB: 29.97 → 29.3 (June)**



Source: Thomson Reuters

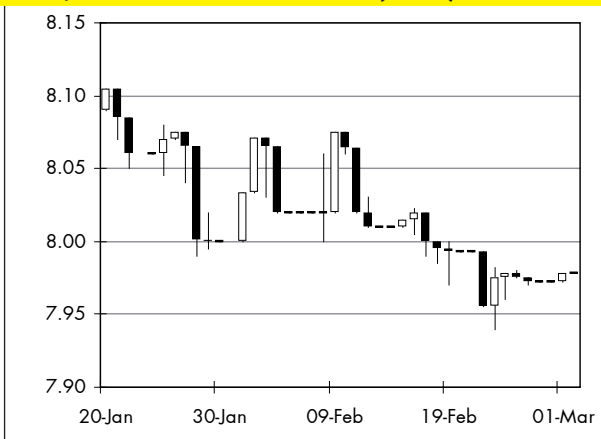
The rouble exhibited higher volatility as appreciation pressure on the rouble mounted last week. The rouble touched 34.75 against the dual currency basket on February 25, before bouncing back to 34.80-34.85 by the end of the week. On Monday, March 1, the rouble market re-opened stronger, advancing

to 34.77-34.79 in the morning session. The rouble continues to benefit from the relative increase in oil prices and euro weakness in the global markets. Surprisingly, the end-of-month tax payment season had virtually no impact on the rouble market, which rallied at the beginning of this week.

Despite the fairly strong outlook for the rouble, we are a bit concerned about the overly fast appreciation in the recent week, suggesting that local banks might be too long in the rouble. This creates the possibility of a substantial correction in the rouble market if-and-when the oil prices supporting the rouble change direction, and the local equity market goes into profit-taking mood. We also see the central bank more strongly resisting rouble appreciation, if the rouble heads to 34.50 which will be the next important support for the rouble. Thus, we project that the currency may slide into profit-taking in the coming days. But the monthly outlook remains fairly benign, and we see the rouble reaching 34.50 against the basket by the end of March.

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**EUR/UAH: 10.760 → 10.50 (June)**  
**USD/UAH: 7.978 → 7.40 (June)**



Source: Thomson Reuters

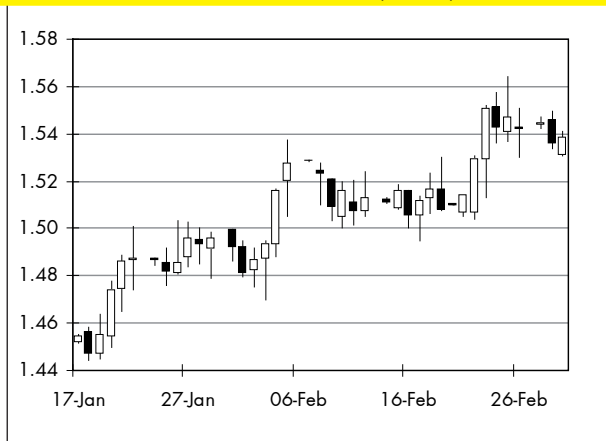
Last week, the Ukrainian currency remained stable at a rate of around USD/UAH 7.95-7.98. Versus the euro, the rate moved between EUR/UAH 10.75 and 10.90, due to movements in EUR/USD. According to the central bank, demand for hard currency has

dropped off since the beginning of February, both on the interbank market and on the spot market. The central bank cited a decline in payments from import contracts and FX loans as reasons behind this. Last Tuesday, the central bank began to buy up foreign currency again at a rate of USD/UAH 7.98, in order to smooth out rate fluctuations and prevent stronger appreciation of the currency in the current situation. Due to some degree of stabilisation in the country's political situation following the presidential elections and the lack of any triggers (fundamental or speculative), no major shifts in the exchange rate are expected over the short term right now. In the summer months, hryvnia may appreciate versus USD to the extent that the central bank is willing to allow this (in our view, appreciation should not go beyond USD/UAH 7.40). Despite the central bank's effort to smooth out the rate, stronger volatility cannot be ruled out as movements (in both directions!) may be intensified by cash transactions.

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**EUR/TRY\*: 2.077 → 2.07 (June)**  
**USD/TRY\*: 1.540 → 1.46 (June)**



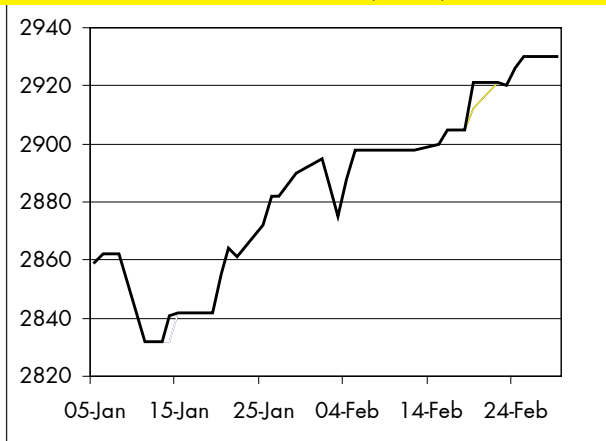
\* under revision  
 Source: Thomson Reuters

In February, the Turkish lira was hit on the one hand by the deterioration in risk sentiment (especially in the neighbouring Eurozone) and on the other hand by an escalation of internal political problems. On month-on-month terms, the lira lost 4% versus the US dollar and around 2% to the weakening euro. The

leading index for the stock market (ISE 100) dropped 9%. In the latter half of the month a sharp conflict erupted between the governing AK Party and the traditional (secular) military elite and the judiciary. In the last week of February, more than 30 high-ranking (ex-)officers were arrested on the suspicion of participating in planning a coup in 2003, with charges already having been filed against two officers. Negotiations between the military leadership and the government have not been able to defuse the situation so far. PM Tayyip Erdogan also announced a constitutional reform for the end of March, which is to limit the (political) role of the judiciary. Consequently, the lira may continue to be (negatively) affected by the political events over the short run. Over the longer term, however, we believe that the dispute will not really be solved fundamentally, but that it will move away from centre stage. Then, if conditions on the capital markets are favourable (i.e. global risk aversion) and activity in the Turkish economy picks up, we project that the exchange rate may return to USD/TRY 1.50 or lower.

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**EUR/BYR: 3964 → 4100 (June)**  
**USD/BYR: 2930 → 2900 (June)**



Source: Thomson Reuters

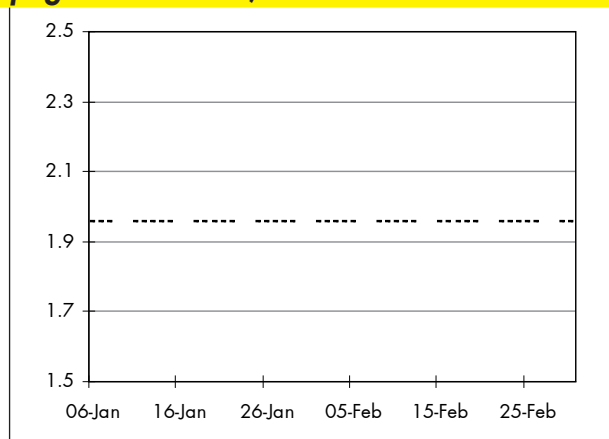
In February, the value of the local currency showed only a slight downward change of 0.9% versus the currency basket (consisting of EUR, USD and RUB) driven by a 2.7% devaluation of BYR against RUB and 1.4% against USD.

One important Indication in favour of exchange rate stability is the continued positive trend in FX reserves. In February, however, a once-a-year payment of USD 625 mn to Belarus by Gazprom (due to the

Beltransgas privatisation) may have played a significant role as well. Another piece of positive news regarding capital inflows is the IMF's satisfaction with the Belarusian government's efforts to fulfil the Stand-By Arrangement. This will most likely result in the approval of the last USD 700 mn tranche before the end of March and possible agreement on a new programme. The IMF assessed the current exchange rate regime to "remain appropriate", but demands further policy action to support its credibility (especially a tightening of directed lending). On a negative note, some contraction in FX proceeds from Western countries was observed in February (mainly due to oil spats with Russia regarding oil export tariffs and shrinking exports of oil product). Although this was offset by 75% growth in payments from CIS countries leading to an overall increase of FX proceeds, we will keep an eye on current account developments. We believe the National Bank will further pursue the policy of limiting BYR volatility to ± 10% around the currency basket value and leave our year-end USD/BYR forecast at 3050 and EUR/BYR at around 4100. This forecast implies around 5% depreciation to the basket by the end of the year and is thus within the official target range.

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



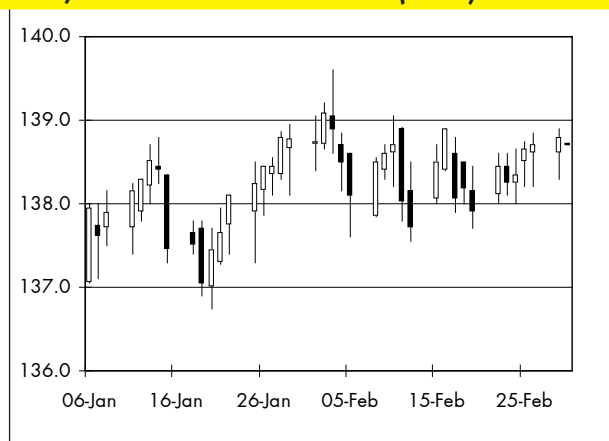
Source: Thomson Reuters

The IMF and the European Central Bank began a review of Bulgaria's readiness for euro entry. However, linked to the debt problems of Greece, the European Union is supposed to put euro area enlargement on hold for all new entrants. Bulgaria's centre-right government, elected in July 2009 plans to apply to join ERM II in the first half of this year and adopt the euro by 2013. The low budget deficit, falling inflation and a narrowing current account gap should support Bulgaria's case for Eurozone entry. The currency board regime, which pegs the lev to the euro at a level of 1.95583, significantly limits the central bank's monetary operations, leaving fiscal policy as the main tool for steering the economy.

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### EUR/ALL: 138.75 → 137.0 (June)



Source: Thomson Reuters

According to the National Institute of Statistics (INSTAT), inflation advanced to 3.6% on a year-on-year basis in January and rose by 0.5% compared to the

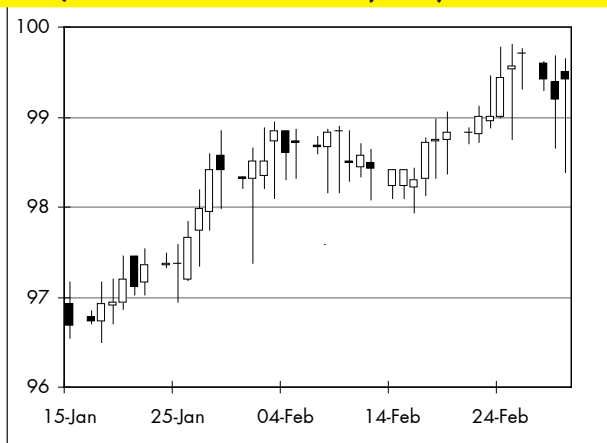
previous month. Despite this increase, inflation remains within the upper target established by the Bank of Albania at 4%. The rise in inflation was caused by an increase of 1.3% in prices of "alimentary and non-alcoholic beverages". Higher public investment spending last year have resulted in growing public debt. According to official sources for 2009, public debt amounts to 59.5% of GDP. Compared to 2008, public debt has grown by 5%, due to increased borrowing for budgetary needs. Last year, the local currency depreciated by 11.5% versus the euro, thus creating artificial budget growth. According to Deputy Finance Minister Nezir Haldeda, Albania plans to sell its first international bonds in the last week of April, in the form of an Eurobond issue with a volume of at least EUR 300 mn and a likely maturity of five years.

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**EUR/RSD: 99.52 → 97.0 (June)**



Source: Thomson Reuters

An IMF staff mission and the Serbian authorities have reached agreement, subject to approval by the IMF Management and Executive Board (expected in late March), on the completion of the third review of the Stand-By Agreement. This will allow Serbia to draw EUR 350 mn to support its external reserve position. The IMF expects a modest recovery in GDP in 2010

and 2011 of 2% and 3%, respectively. Serbia's January industrial output already rose by 3.7% yoy, mainly driven by stronger activity in manufacturing industries.

The Serbian central bank has proposed cutting lenders' compulsory reserve requirements to 5% on dinar deposits and 25% on hard currencies. Currently, Serbian banks must hold 10% of their dinar deposits and 40% to 45% of hard currency deposits as compulsory reserves.

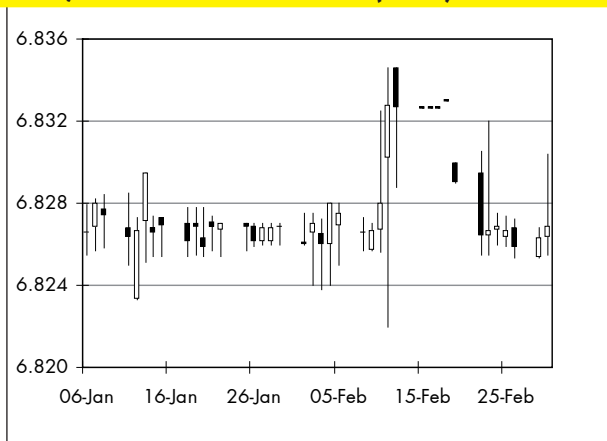
The central bank has sold EUR 535 mn since the start of 2010 to add liquidity to the market as banks prefer to keep the level of their liquid hard currency assets high. The dinar has lost around 7% since October. Although a link between dinar depreciation and troubles in Greece is seen, the central bank believes the pressures are seasonal and, with the end of the season, the pressures should subside. A longer winter and USD appreciation against the euro, along with longer-term pressures from balance of payments adjustments are explained as the key reasons for the decline. Room for further interventions exists.

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**EUR/CNY: 9.230 → 9.64 (June)**

**USD/CNY: 6.827 → 6.79 (June)**



Source: Thomson Reuters

Since the beginning of the year, the Chinese authorities have putting on the brakes when it comes to monetary policy and have lifted the minimum reserve rate twice, each time by 50bp. The main priority is to curb the immense demand for credit. According to

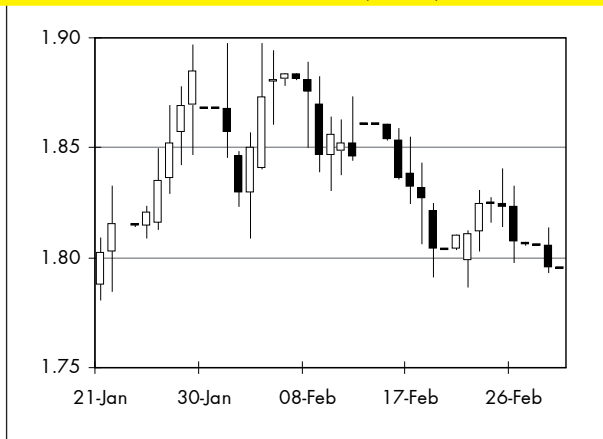
information released by the country's 4 largest bank to the effect that new lending was down 40% in February (after adjusting for seasonal effects), it appears that the set of restrictive measures is having the desired impact. A similar trend can be seen in the PMI, which according to the NBS dropped from 55.8 to 52.0, reflecting slower growth.

There is still no sign of any appreciation of the yuan to the US dollar. International calls for appreciation are being met with a wait-and-see stance by the Chinese government authorities. Although exports are growing more strongly again now, the impression is that it is still too early to make any adjustments to the yuan's exchange rate. In line with this, market participants are gradually scaling back their expectation of CNY appreciation. We have shifted our expectations of a return to appreciation to the US dollar one quarter into the future. One risk to this forecast, however, is that the yuan will remain unchanged versus USD through to year-end.

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**EUR/BRL: 2.428 → 2.63 (June)**  
**USD/BRL: 1.796 → 1.85 (June)**



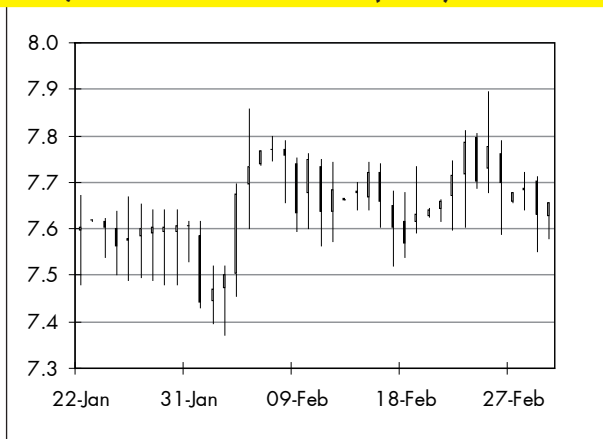
Source: Thomson Reuters

The slowdown in economic activity seen in December – which was reflected in industrial production and retail sales figures – seems to have been a temporary phase, as data on the labour market and credit continue to paint a positive picture. Nevertheless, it should be noted that the increase in industrial pro-

duction will begin to slow down as the restocking of inventories is completed. Robust domestic demand, however, will power more vigorous growth. There was a sharp increase in inflation to 4.6% yoy in January, up from 4.3% yoy in December. In our view, this just represents the start of an upward trend in inflation. Inflation expectations are also beginning to rise significantly again. This could prompt the Brazilian central bank to raise interest rates as early as March. But we do not see a very large probability of this happening and still expect to see the first hike come in April. The Brazilian real depreciated strongly against USD in January, but was then able to stabilise somewhat again in February. Capital flows into Brazil have weakened slightly compared to the final months of 2009 and risk sentiment has deteriorated, leading to these declines. We only expect to see modest declines to about BRL/USD 1.9, in the event of more deterioration in risk sentiment. This, however, should be viewed as an opportunity for buying.

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**EUR/ZAR: 10.344 → 10.86 (June)**  
**USD/ZAR: 7.648 → 7.65 (June)**



Source: Thomson Reuters

The South African Reserve Bank (SARB) has recently come under increasingly strong pressure from the left wing of the governing ANC party to lower interest rates again. At the last rate-setting meeting on January 28, the key rate was left unchanged at 7%. Nevertheless, the comments by the central bank can be seen as being rather dovish. This fuelled some initial hopes on the market that a rate cut might still

be possible. In the meantime, these hopes have faded as the latest data on economic activity were far more positive than anticipated. We see the possibility of another rate cut as being remote, as this would leave the central bank acting in contravention of its primary goal of controlling inflation. We believe an initial rate hike, up to a possible 50bp, will come towards the end of 2010, as inflation is poised to rise to the upper edge of the inflation band of 3-6% in H2 2010. Following the outstanding performance of the South Africa rand versus the US dollar last year, the first two months of the new year did not go so well. Uncertainty on the financial markets triggered outflows of capital from risky assets and South African securities also suffered as a result. The rand lost 5% versus USD. Looking forward to the rest of the quarter, we expect further depreciation to USD/ZAR 7.90. During the weeks ahead, we still expect to see elevated risk aversion and, as a result, a weaker rand. Despite this, ZAR should stabilise as the year moves ahead and also profit from stronger demand in relation to the football World Cup.

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**EUR/KZT: 199.065 → 204.48 (June)**  
**USD/KZT: 147.270 → 144.00 (June)**



Source: Thomson Reuters

On February 5, the Kazakh central bank (NBK) extended the fluctuation band for USD/KZT from KZT 150 +/- 5 to KZT 150 +15/-22.5, in line with an earlier announcement. As expected, the central bank has allowed gradual appreciation of the Kazakh currency, and appreciation pressure was probably particularly intense prior to extension of the band: in the

first five days of February alone, the NBK had to buy up around USD 400 mn of tenge in order to prevent even stronger appreciation of the currency. According to comments by NBK Governor Marchenko, the central bank will continue to intervene on the market to prevent any abrupt appreciation of KZT. The GDP figures released by the statistical office for 2009 show growth of 1.2% yoy, and were thus marginally higher than the government's forecast of 1.1% yoy. This means that GDP in Q4 alone must have been around 10% yoy. Strong growth in the final quarter was driven by a recovery in industrial production and especially by the positive annual growth contribution of the materials sector. Nevertheless, it should be noted that the figures are still only preliminary. No detailed breakdown of demand components is available yet. Based on our oil price forecast of USD 80/bbl on average for 2010, we expect to see more gradual appreciation of the tenge this year. Higher oil prices will also bolster exports and support GDP growth. With these factors in mind, we project a current account surplus of 1.3% of GDP for 2010 and real GDP growth of 3% yoy.

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