

FX trading recommendation

Sell CHF/TRY

We recommend selling CHF/TRY on a one-month horizon as a speculative play on the improved short-term outlook for emerging markets' FX outlook on the back of increased global risk appetite.

Even though we still believe that the fundamental macro outlook for many emerging markets economies is relatively bleak, we expect some positive surprises on US economic data in the coming weeks/months – specifically we expect a positive ISM manufacturing surprise tomorrow.

In such environment EM FX could advance in the short term. A way to play this - with a high positive carry - would be a short position in CHF/TRY.

TRY – high carry:

The Turkish lira offers high carry for this trade and the Turkish currency in general performs well when the global sentiment improves. Next week's inflation data will confirm the downtrend in inflation rates, which opens further monetary easing from the Turkish central bank. However, a key factor for a fairly stable currency outlook involves finalising the stand-by-agreement with the IMF – something we expect to happen in the coming weeks.

CHF – the SNB put:

We expect the Swiss National Bank to be successful in capping any potential short-term CHF appreciation and look for CHF to gradually weaken during 2009 on a continued improvement in risk sentiment and a sustained very expansive Swiss monetary policy.

Risk factors:

A key risk against this trade would be renewed fears over the swine-flu. Last night the WHO raised the current level of influenza pandemic alert from phase 4 to phase 5, but this did not seem to rattle markets with Nikkei rising 4.0% this morning.

Note that this trade is highly positively correlated with the global risk appetite.

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Horizon	1 month
<i>Indicative prices</i>	
Spot	1.400
Fwd	1.410
Stop loss / take profit	1.450/1.320
Hist. vol. (ann.)	24.4%

Source: Ecowin and Danske Bank

Chief Analyst

Lars Christensen
+45 4512 8530
larch@danskebank.dk

Senior Analyst

Lars Tranberg Rasmussen
+45 4512 8534
laras@danskebank.dk

Analyst

Kasper Kirkegaard
+45 4513 7018
kaki@danskebank.dk

Emerging Markets Contacts

Emerging Markets Research

Lars Christensen	+45 45 12 85 30	larch@danskebank.dk
Flemming Jegbjærg Nielsen	+45 45 12 85 35	flemm@danskebank.dk
Violeta Klyviene	+370 5 2156992	vkly@danskebank.com
Lars Tranberg Rasmussen	+45 45 12 85 34	laras@danskebank.dk
Stanislava Pravdova	+45 45 12 80 71	spra@danskebank.dk
Jens Nærvig Pedersen	+45 45 12 84 98	jenpe@danskebank.dk

Emerging Markets Sales, Danske Markets

Stephen A. Ryan	+45 45 14 68 98	sry@danskebank.dk
Ulf Rafstedt	+45 45 14 61 43	ulra@danskebank.dk
Erik Rasmussen	+45 45 14 32 47	eras@danskebank.dk

Global Retail SME, FX

Stig Hansen	+45 45 14 60 86	sh@danskebank.dk
Flemming Winther	+45 45 14 68 24	flw@danskebank.dk

Trading FX, Fixed Income, Danske Markets

Frank Sandbæk Vig	+45 45 12 85 30	fsv@danskebank.dk
Thomas Manthorpe	+45 45 12 85 35	tman@danskebank.dk
Markku Anttila	+370 5 2156992	markku.anttila@sampopankki.fi
Perttu Tuomi	+45 45 12 85 34	perttu.tuomi@sampopankki.fi

Danske Bank Poland, Warsaw

Marciej Semeniuk	+48 22 33 77 114	msem@pl.danskebank.com
Bartłomiej Dzieńciecki	+48 22 33 77 112	bdz@pl.danskebank.com

Danske Markets Baltics

Howard Wilkinson	+358 50 374 559	howard.wilkinson@danskebank.com
Martins Strazds	+371 6707 2245	martins.strazds@danskebanka.lv
Giedre Geciauskiene	+370 5215 6180	giedre.geciauskiene@danskebankas.lt
Lauri Palmaru	+372 675 2464	lauri.palmaru@sampopank.ee

ZAO Danske Bank Russia, Saint-Petersburg Treasury Department

Antti Urvas	+7 812 332 73 06	antti.urvas@sampopanki.fi
Vladimir Biserov	+7 812 332 73 04	vladimir.biserov@danskebank.ru
Darja Kounina	+7 812 332 73 04	darja.kounina@danskebank.ru

All EM research is available on Bloomberg DDEM

This report has been prepared by Danske Research, which is part of Danske Markets, a division of Danske Bank. Danske Bank is under supervision by the Danish Financial Supervisory Authority. Jens Nærvig Pedersen, Assistant Analyst, Lars Christensen, Chief Analyst

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