

Emerging Markets Briefer

October 02, 2006

Shaky New Europe

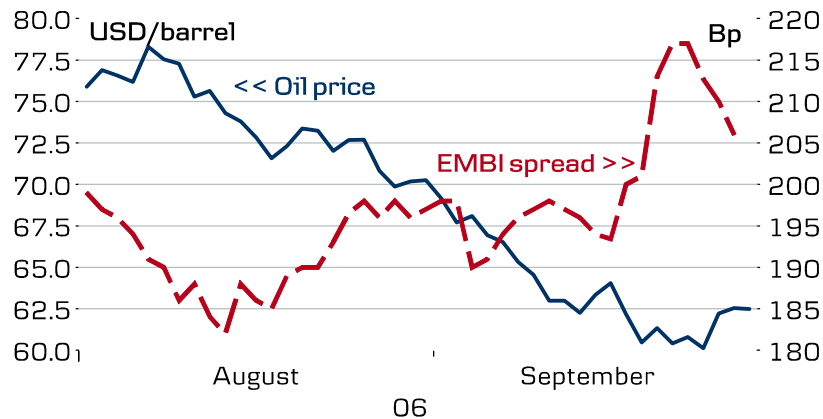
Risk aversion on the rise...

- Demonstrations in Hungary, the de facto collapse of the Polish government, the military coup in Thailand, and new political scandals in Brazil led to increased risk aversion in September.
- Falling energy prices in September have affected external balances in Emerging Markets negatively in LATAM and CIS countries and positively in Asian countries.

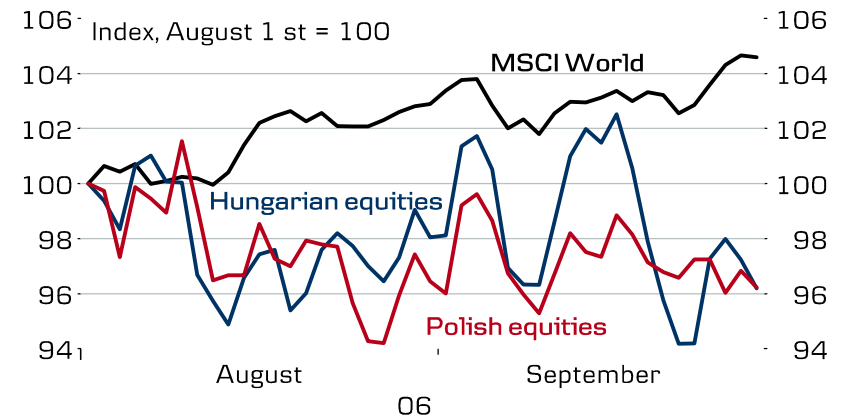
...and New Europe will scare investors

- Focus in October will continue to be on political uncertainty in Emerging Markets. Will the Hungarian Prime Minister stay put after the beating in yesterday's local elections? Can the Polish government survive? Is Lula up for victory in the second round elections in Brazil?
- Renewed focus on external imbalances - especially in Central and Eastern Europe

Lower oil prices - good or bad news for EM?



Politics weigh on the New Europe markets



Movers and shakers – last month and in the month ahead

New Europe trouble – more than jitters

September saw a clear change in market sentiment as investors scaled down risky positions in line with our predictions in last month's briefer. This prompted a sell-off in high-yield and high-volatility markets like the Turkish and South African markets. Growing risk aversion was driven in part by a stream of negative news from Emerging Markets – violent demonstrations in Hungary, the de facto collapse of the Polish government, the military coup in Thailand, speculation about an Ecuadorian debt default, and new political scandals in Brazil. The negative sentiment was moreover spurred by rising concern about the state of the US economy. Amid growing risk aversion, Emerging Asia served as a safe haven for investors because of Asia's strong external balances. Furthermore, some Asian currencies have been supported by the fact that, over the past month, the Chinese authorities have allowed the renminbi to appreciate at its fastest pace since its revaluation.

So, where are we going in October? The easy answer is more of the same – higher risk aversion and renewed focus on external imbalances. But there is more to it than that. We are especially concerned about the situation in Central and Eastern Europe (CEE). As we noted in a recent paper – *Research New Europe: Be careful! Risk on the rise*, September 26, 2006 – we see certain parallels between the current situation in Central and Eastern Europe and the Asian crisis in 1997 – especially in relation to the large external imbalances. We argue that the risk of a more serious negative correction in CEE markets has increased significantly. On the other hand, the core CEE countries, unlike Asian countries in 1997, have flexible exchange rates, which make them less vulnerable to speculative attacks. This does not mean, though, that the large external imbalances in CEE countries should be ignored. We believe the CEE markets will be natural “victims” if markets begin to focus increasingly on external imbalances. And, to be sure, there are enough reasons for investors to scale down positions in CEE markets.

One such reason is the worrying political development in a number of major countries in the region – not least the highly uncertain political situation in Poland and Hungary, whose governments are nearing a collapse. Furthermore, there is a risk that a major sell-off in one CEE market will feed through into other CEE – and other emerging – markets through the, by now, all-familiar “hedge fund channel” – where losses in one market may spark risk reduction and sell-offs in other markets. October may also see renewed trouble for some of the Non-Emerging Markets high-yielders, especially NZD and ISK, where market positions are looking overstretched at the moment. A sell-off in these markets could also trigger corrections in CEE markets.

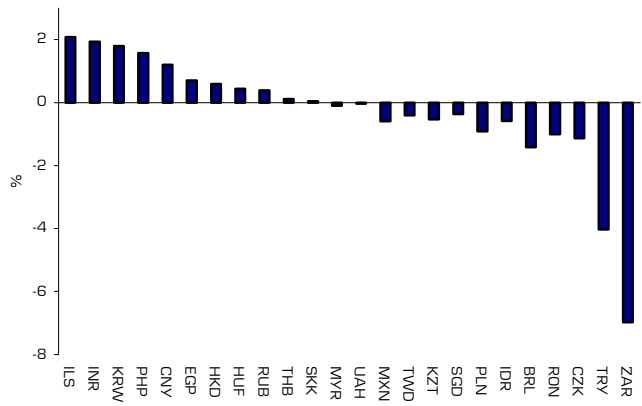
In a situation with a continued increase in risk aversion and renewed focus on external imbalances, the Asian markets will continue to outperform other markets, as Asia is the region in the world with the absolutely strongest external balances. Oil-importing Asia currently is also supported by much lower energy prices. The Latin American markets could come under pressure in October as political uncertainty continues to grow as the Brazilian election goes to second round. On top of this, a further softening of energy prices will tend to weigh on the LATAM markets. Finally, US data is likely to stay on the soft side in the coming month, maintaining the negative market sentiment towards the US economy. This is negative for LATAM markets.

General recommendations for October

- Significantly reduce exposure to the Central and Eastern European markets – the markets of Poland, Hungary, Slovakia, and Romania look especially shaky.
- Reduce exposure to high-volatility markets like the Turkish and LATAM markets.
- Continue to overweight Asian markets supported by strong external balances.

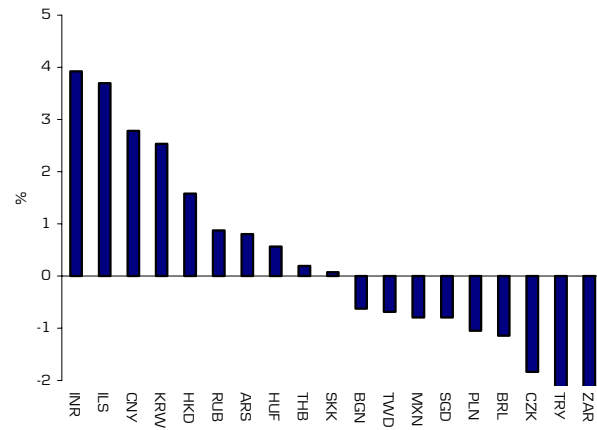
Emerging Market performance over the past month

FX change against EUR and USD



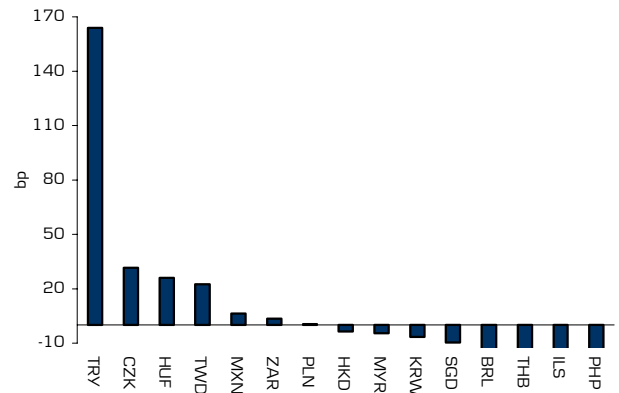
(Simple average relative to EUR and USD)

Risk adjusted FX change against USD

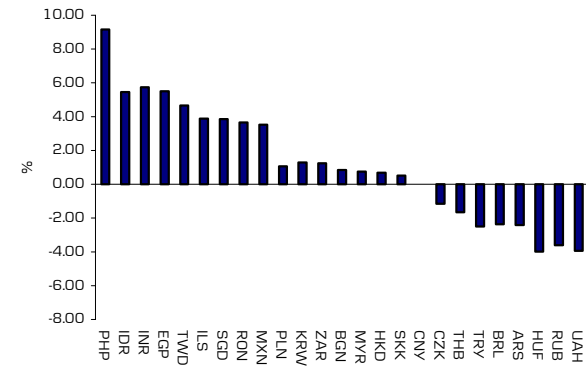


(Annualized return divided by 1-year volatility)

Change in 2 year swap yield



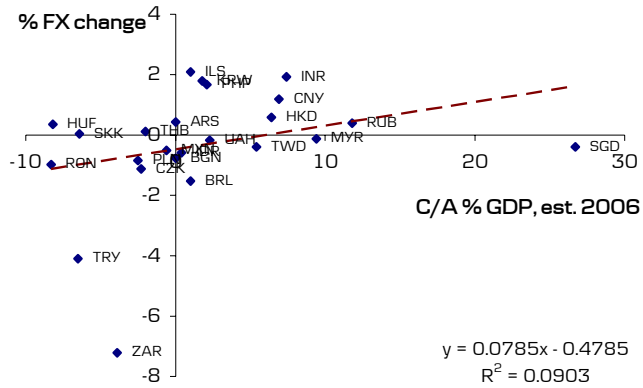
Stock market performance



(Local currency)

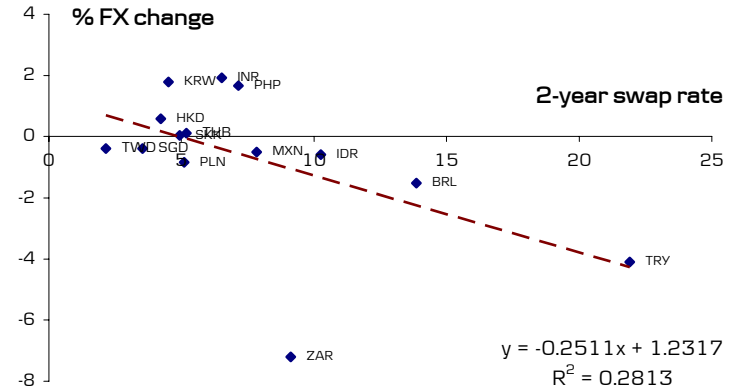
Drivers and themes in emerging markets over the past month

Current account



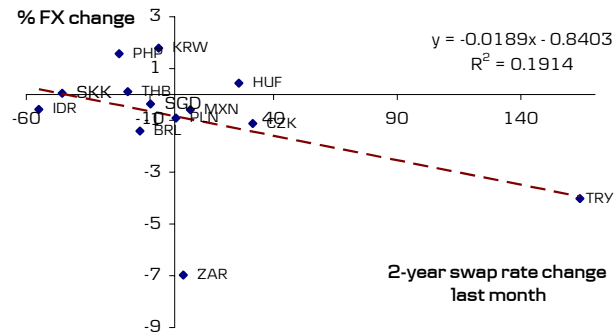
(Simple average relative to EUR and USD)

Carry



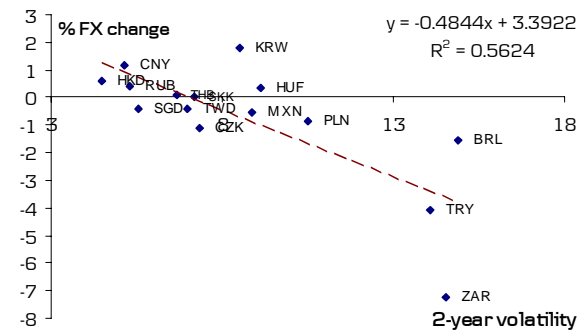
(Simple average relative to EUR and USD)

Change in yields









(Simple average relative to EUR and USD)




Risk and volatility






(Simple average relative to EUR and USD)



	Macro Outlook	FX & Monetary Policy	Other factors
Region: CEE			
Poland 	<ul style="list-style-type: none"> Growth is strong and accelerating. Strong macro balances. Despite strong growth, inflation and wage growth remain very subdued. 	<ul style="list-style-type: none"> Inflation is still low, but has recently accelerated above 1½% and rate hikes are clearly moving closer. The significant rise in political uncertainty increases the risk of a major sell-off in the zloty. 	<ul style="list-style-type: none"> The Polish government has de facto collapsed and early elections look very likely. Political uncertainty will most likely remain high for some time to come.
Czech Republic 	<ul style="list-style-type: none"> Budget deficit situation is serious. 2007 budget deficit is far above the 3.3% envisaged by euro convergence program. Alarming rise in welfare spending will add more fuel to already accelerating consumer spending. 	<ul style="list-style-type: none"> Fiscal easing may cause Czech central bank to tight monetary conditions more than expected. Uncertain political situation and other bad news will further weigh on the CZK. 	<ul style="list-style-type: none"> Political stalemate continues. Government likely to lose confidence vote on Oct. 3. Euro entry in 2010 is now ruled out. New entry date has not yet been set - might be announced by the end of the year.
Slovakia 	<ul style="list-style-type: none"> Slovak economy keeps expanding robustly, exports are starting to contribute to growth. Inflationary pressures remain strong. Current account deficit still key risk. 	<ul style="list-style-type: none"> Slovak central bank still needs to reduce inflationary pressures - so more tightening to come. Risk of SKK weakness. 	<ul style="list-style-type: none"> Populist style of new Slovak government remains a worry. State budget for 2007 has to be presented to parliament for approval by Oct. 15.



	Macro Outlook	FX & Monetary Policy	Other factors
Hungary 	<ul style="list-style-type: none"> The macro economic outlook is highly uncertain and will to a large extent depend on the political situation. Growth is likely slow significantly whether or not fiscal policy is tightened. 	<ul style="list-style-type: none"> The continued uncertain political situation has increased the risk of a further sell-off in the forint. Monetary policy seems set to be tightened further. 	<ul style="list-style-type: none"> The outcome of the local elections is a clear blow to the governing Socialist Party and the PM Ferenc Gyurcsany. Fiscal reforms will be much harder to push through. Downgrades are likely.
Romania 	<ul style="list-style-type: none"> Growth remains very strong, but with a risk of overheating. Current account deficit is a major risk. Inflation still high, but expected to slow. 	<ul style="list-style-type: none"> Slowing inflation means the central bank will most likely wait with further tightening. Serious current account situation will weigh further on the currency. 	<ul style="list-style-type: none"> Romania got green light to join the EU in January 2007 - positive news. Government still committed to reform, but EU entry conditions are tough.
Turkey 	<ul style="list-style-type: none"> Growth is still strong but likely to slow on lira weakness in May-June this year and significant rate hikes of late. Current account deficit is a key risk. Inflation has been pushed up significantly since the lira slumped. 	<ul style="list-style-type: none"> Inflation has probably already peaked and will drop below 10% soon. We expect a couple more hikes, but monetary policy should be eased slightly in 2007. With the risk of a further rise in global risk aversion the lira could again fall victim to a fairly large sell-off, but probably not as massive as in May-June. 	<ul style="list-style-type: none"> Fiscal policy remains on track. There is, however, a risk of more populist measures going into the election year in 2007. EU negotiations progressing, but Cyprus remains a key stumbling block.



	Macro Outlook	FX & Monetary Policy	Other factors
Region: CIS			
Russia 	<ul style="list-style-type: none"> High oil prices have spurred growth in Russia despite lack of economic reform. Very strong external balances. Strong inflationary pressures. Very high growth in money supply and credit growth has reaccelerated. 	<ul style="list-style-type: none"> The ruble (RUB) has been allowed to appreciate to dampen inflationary pressures. This trend is likely to continue. The RUB is fully convertible, and the FX market will mature with time. 	<ul style="list-style-type: none"> The murder of Deputy Kozlov of the Russian central bank, head of the fight against financial corruption, is a reminder of the risk in Russia. Putin has had his application to run for president for a third time rejected. He will step down in 2008.
Ukraine 	<ul style="list-style-type: none"> Growth slumped last year but has recovered somewhat this year. Strong global demand for steel should continue to support exports. Inflation is still high. 	<ul style="list-style-type: none"> Ukrainian central bank is unlikely to introduce any major policy changes despite excessive inflation. The currency looks undervalued but the NBU will keep a strong grip on the UAH. 	<ul style="list-style-type: none"> With an "Orange" president and "Blue" prime minister, major economic reform looks unlikely, but at least the political situation is less uncertain than earlier. NATO membership could become a key policy topic.
Kazakhstan 	<ul style="list-style-type: none"> Oil prices have supported growth, and the current account surplus remains large. Strong domestic demand is underpinning considerable inflationary pressures. 	<ul style="list-style-type: none"> The central bank has allowed the currency to appreciate somewhat this year to reduce inflationary pressures. We expect further KZT appreciation over the coming year due to inflationary pressures remaining high. 	<ul style="list-style-type: none"> President Nazarbayev remains firmly in power and there are no signs of political reform. Gradual economic reform is, however, likely to continue. The chances of an "Orange"-style revolution seem remote.




	Macro Outlook	FX & Monetary Policy	Other factors
Region: MEA			
Israel 	<ul style="list-style-type: none"> • Strong recovery after a drop in economic activity due to the war with Hezbollah. • Positive current account situation. Inflation under control and well within the Israeli central bank's inflation target of 1-3%. 	<ul style="list-style-type: none"> • With a positive inflation outlook and the US Federal Reserve Bank on hold, no imminent need for tighter monetary conditions. • Shekel is at record highs, but further strengthening is likely to be fairly limited. 	<ul style="list-style-type: none"> • State budget awaiting parliamentary approval. Prolonged debate may create some nervousness, particularly about the size of budget deficit relative to GDP. • Geopolitics remains on the agenda.
South Africa 	<ul style="list-style-type: none"> • Economic growth still strong but current account deficit remains alarming despite narrowing to 6.1% in Q2 (down from record high of 6.4% in Q1). • Inflationary pressures continue to build. 	<ul style="list-style-type: none"> • Consumer finances continue to be fuelled by credit and large current account deficit - which is weakening the rand and adding to inflation. Consequently, interest rates being fanned higher. • Rand looks extremely cheap and should rebound, but risks remain. 	<ul style="list-style-type: none"> • Political situation is getting cloudier - still no successor to President Thabo Mbeki. • All corruption charges against ex-Deputy President Zuma dropped. Zuma might run for presidency, which would be negative for the markets, as he may abandon the current government's business-friendly policies.




	Macro Outlook	FX & Monetary Policy	Other factors
<p>Egypt</p> 	<ul style="list-style-type: none"> • Macroeconomic fundamentals look fairly robust and growth remains strong driven by, among other things, high oil prices. • External balances are solid and inflation remains well-contained around 4%. 	<ul style="list-style-type: none"> • The central bank continues to keep a tight grip on the currency and EGP should be expected to remain fairly stable against USD. • However, EGP looks somewhat undervalued but with inflation well-contained the central bank is unlikely to letting the EGP appreciate much - especially given the political pressures to keep the EGP "competitive". 	<ul style="list-style-type: none"> • The government under the leadership of PM Nazif remains broadly reformist. • However, reform momentum seems to have lost some steam. • Clear risk of increased political tension between the secular government and the islamist opposition.



	Macro Outlook	FX & Monetary Policy	Other factors
Region: LATAM			
Brazil 	<ul style="list-style-type: none"> Economic growth is soft due to weak domestic demand. C/A surplus remains high due to strong exports, but falling commodity prices will put pressure on trade balance. Growth in net foreign direct investment (FDI) is falling. Inflationary pressures remain well under target and the trend is pointing downwards. 	<ul style="list-style-type: none"> The weakening in industrial activity and decline in inflation indicate that the Brazilian central bank will continue cutting rates (25bp in October). Brazilian real (BRL) has been supported in recent years by a strong trade balance and high interest rates. But the BRL has depreciated in recent weeks on political uncertainty and falling commodity prices. This trend could continue. 	<ul style="list-style-type: none"> Brazilian elections will go to a second round after latest political scandal in which Lula's campaign chief was dismissed. The run-off will take place on October 29 between Lula and Alckmin. We expect some nervousness in Brazilian financial markets until elections are settled. If the BRL gets under pressure it could put central bank on hold in October.
Argentina 	<ul style="list-style-type: none"> Robust growth driven by industry, construction, and exports. Inflationary pressures very high, prompted by strong external balances and a pegged nominal exchange rate. 	<ul style="list-style-type: none"> Argentinean central bank is targeting inflation by controlling money supply (M2) growth. High inflation will keep money growth close to lower limit of monetary policy band. Argentinean peso (ARS) is pegged to USD and this is unlikely to change for now. 	<ul style="list-style-type: none"> Nervousness in the Brazilian financial markets ahead of second round elections may spread to the Argentinean financial markets in the coming weeks.

	Macro Outlook	FX & Monetary Policy	Other factors
Mexico 	<ul style="list-style-type: none"> Growth is still strong, but trade surplus has weakened dramatically in August on higher imports of consumer goods. Inflationary pressures temporarily rising due to increasing food prices, but still in comfort zone. 	<ul style="list-style-type: none"> The Mexican central bank will end its easing cycle and stay on hold for at least another 6 months. The Mexican peso (MXN) could come under some pressure if energy prices keep falling and if US growth concerns remain. 	<ul style="list-style-type: none"> Calderon was finally declared the winner of July elections in early September. Mexico is regaining a sense of political normalcy after months of uncertainty. Nervousness in Brazilian financial markets may spread to the Mexican financial market.
Chile 	<ul style="list-style-type: none"> Growth is disappointing, due to slowing industrial production and retail sales. We could see a recovery late this year. Inflationary pressures have been dampened by fall in oil prices. 	<ul style="list-style-type: none"> Inflationary pressures have eased and the Chilean central bank will probably stay on hold in the coming months. Falling copper and oil prices could lead to a depreciating currency in the coming months. 	<ul style="list-style-type: none"> Nervousness in the Brazilian financial markets ahead of second round elections may spread to the Chilean financial markets in the coming weeks.

	Macro Outlook	FX & Monetary Policy	Other factors
Region: Asia Ex Japan			
China 	<ul style="list-style-type: none"> The economy is slowing gently, driven by a fall in the global industrial cycle and money/credit policy tightening. Inflationary pressures remain subdued although wages are rising. 	<ul style="list-style-type: none"> The Chinese authorities are nearly finished tightening monetary/credit policy. Over the past month, the authorities have allowed the renminbi to appreciate at a record fast rate against USD. The speed is likely to slow down although a widening of the dollar band is approaching. 	<ul style="list-style-type: none"> The Chinese leadership is continuing its attempt to crack down on corruption and abuse of land rights in the provinces.
South Korea 	<ul style="list-style-type: none"> Growth will soften under the influence of a slowdown in investment and global industry. Current account pressure will ease as long as oil prices stay at around USD 60 a barrel. Core inflation is still running below the inflation target of 2.5-3.5%. 	<ul style="list-style-type: none"> KRW will appreciate on renminbi strength. Moreover, the negative effects of C/A weakness may ease if oil prices stabilise at current levels. The Bank of Korea is done hiking rates this year after its surprise hike in August. 	<ul style="list-style-type: none"> President Roh's position is relatively weak after his party's poor showing in the May local elections. Roh faces a huge challenge in carrying through his reform programme ahead of the presidential elections at the end of 2007.

	Macro Outlook	FX & Monetary Policy	Other factors
Thailand 	<ul style="list-style-type: none"> • Growth is slowing due to weaker domestic demand. Lower energy prices should ease C/A pressures. • Inflation will decrease further due to large base effects and the strengthening of THB. 	<ul style="list-style-type: none"> • The currency is likely to depreciate because of political risk. • The central bank is finished hiking interest rates this year due to slowing inflationary pressures. 	<ul style="list-style-type: none"> • Former general Surayud Chalanont has just been appointed interim Prime Minister after the military coup on 20 September. • How the new government will deal with structural reform remains to be seen.
Singapore 	<ul style="list-style-type: none"> • Growth is slowing gently, driven by a slowdown in the global industrial cycle. However, the “chronic” C/A surplus is not threatened. • Inflationary pressures remain subdued. 	<ul style="list-style-type: none"> • The Singapore dollar will resume its appreciating trend, supported by renminbi strength. • The MAS is done tightening liquidity, as the Fed is on hold. 	<ul style="list-style-type: none"> • The People’s Action Party (PAN) again has a strong grip on power after the elections in May.
Hong Kong 	<ul style="list-style-type: none"> • Economic growth is decelerating due to a slowdown in exports and investment. • Inflation is picking up. 	<ul style="list-style-type: none"> • HK will keep its currency peg to the dollar for the foreseeable future. • The HKMA has stopped tightening monetary policy, as the Fed is on hold. 	<ul style="list-style-type: none"> • No major news on the prospect of democratization of the Special Administrative Region.

	Macro Outlook	FX & Monetary Policy	Other factors
Malaysia 	<ul style="list-style-type: none"> Economic growth remains strong, supported by a pick-up in private consumption. The “chronic” C/A surplus is not threatened. Inflationary pressures are still strong. 	<ul style="list-style-type: none"> MYR has failed to benefit from the strengthening of CNY. Longer term, we expect MYR to go stronger due to cheap valuations. Monetary tightening has come to an end. 	<ul style="list-style-type: none"> The government is in a crisis after former PM Mahathir attacked incumbent PM Badawi.
Philippines 	<ul style="list-style-type: none"> Strong growth driven by a surge in exports. Large remittances from Philippines living abroad help reduce the trade deficits. Inflation is stabilising at 5-6% but is still running above the inflation target of 4-5%. 	<ul style="list-style-type: none"> Better C/A balances and an improving fiscal situation are benefiting the peso. The BSP is done tightening monetary policy due to reduced inflationary pressures. 	<ul style="list-style-type: none"> Political risks are on the agenda ahead of the mid-term elections in May 2007.
Indonesia 	<ul style="list-style-type: none"> Growth is picking up due to a surge in exports. Basic balances are strong. Inflationary pressures are easing and will fall dramatically in October because of large base effects. 	<ul style="list-style-type: none"> The rupiah may weaken if global risk aversion increases. The Bank of Indonesia will continue its easing cycle, cutting rates by 50bp per meeting. 	<ul style="list-style-type: none"> Although President Yodhoyono is losing in the ratings, he will have time to introduce much-needed structural reforms as the next election is not due until 2009.

	Macro Outlook	FX & Monetary Policy	Other factors
India 	<ul style="list-style-type: none"> Growth remains strong on the back of high domestic demand. C/A balances improved in Q2, and with energy prices at lower levels, C/A pressures are now less pronounced. Inflationary pressures are still building. 	<ul style="list-style-type: none"> The rupee is starting to be less vulnerable due to improving C/A balances. The Reserve Bank of India will tighten monetary policy further to stem inflationary pressures. 	<ul style="list-style-type: none"> Prime Minister Singh faces problems in advancing much-needed structural reforms because of a highly fragmented government.
Taiwan 	<ul style="list-style-type: none"> Growth is soft due to still sluggish investment. "Chronic" C/A surpluses are not threatened. Inflation remains subdued although it has been ticking slightly upwards in recent months. 	<ul style="list-style-type: none"> The Taiwan dollar will appreciate on renminbi strength. However, very low interest rates and capital outflows are weighting on TWD. With the Fed on hold, the tightening cycle has ended for now. 	<ul style="list-style-type: none"> Protests against President Chen are rising due to corruption scandals. The protests make it increasingly likely that the main opposition party KMT will return to power at the election in 2008.

FX Forecast

Core Majors											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
EUR	02-okt			1,27		745,5		929,0		827,3	
	+1m			1,27	1,27	746,0	745,6	920,0	928,3	815,0	829,8
	+3m			1,30	1,27	746,0	745,7	910,0	927,4	800,0	827,1
	+6m			1,28	1,28	746,0	745,8	900,0	926,3	780,0	826,9
	+12m			1,26	1,29	746,0	746,2	890,0	925,3	770,0	827,8
USD	02-okt	1,27				587,8		732,5		652,3	
	+1m	1,27	1,27			573,8	573,5	707,7	714,0	626,9	651,1
	+3m	1,30	1,27			573,8	573,6	700,0	713,4	615,4	649,0
	+6m	1,28	1,28			582,8	582,6	703,1	723,7	609,4	646,3
	+12m	1,26	1,29			592,1	592,2	706,3	734,3	611,1	642,9
JPY	02-okt	149,8		118,1		4,98		6,20		5,52	
	+1m	149,5	148,1	117,7	117,6	4,99	5,02	6,15	6,25	5,45	5,58
	+3m	149,5	148,6	115,0	116,6	4,99	5,02	6,09	6,24	5,35	5,57
	+6m	143,4	147,5	112,0	115,3	5,20	5,06	6,28	6,28	5,44	5,61
	+12m	141,1	145,2	112,0	112,8	5,29	5,14	6,31	6,37	5,46	5,70
Wider CEE											
PLN	02-okt	3,97		3,13		187,6		233,8		208,2	
	+1m	4,10	3,97	3,23	3,13	182,0	187,9	224,4	233,9	198,8	208,0
	+3m	4,10	3,98	3,15	3,12	182,0	187,3	222,0	233,0	195,1	207,8
	+6m	4,10	3,99	3,20	3,12	182,0	187,0	219,5	232,6	190,2	207,4
	+12m	4,10	4,01	3,25	3,11	182,0	186,0	217,1	231,3	187,8	206,5
HUF	02-okt	273,2		215,4		2,73		3,40		3,03	
	+1m	280,0	274,2	220,5	215,8	2,66	2,72	3,29	3,39	2,91	3,02
	+3m	280,0	276,3	215,4	216,8	2,66	2,70	3,25	3,36	2,86	2,99
	+6m	275,0	279,5	214,8	218,5	2,71	2,67	3,27	3,31	2,84	2,96
	+12m	275,0	285,7	218,3	221,9	2,71	2,61	3,24	3,24	2,80	2,90
CZK	02-okt	28,28		22,30		26,36		32,85		29,25	
	+1m	28,90	27,66	22,76	21,77	25,81	26,96	31,83	33,56	28,20	29,91
	+3m	28,50	26,47	21,92	20,77	26,18	28,17	31,93	35,04	28,07	31,25
	+6m	28,50	24,98	22,27	19,52	26,18	29,86	31,58	37,08	27,37	33,11
	+12m	28,50	22,82	22,62	17,73	26,18	32,69	31,23	40,54	27,02	36,27
SKK	02-okt	37,42		29,51		19,92		24,82		22,11	
	+1m	38,00	37,48	29,92	29,50	19,63	19,90	24,21	24,77	21,45	22,07
	+3m	38,60	37,57	29,69	29,48	19,33	19,85	23,58	24,68	20,73	22,01
	+6m	38,60	37,68	30,16	29,45	19,33	19,79	23,32	24,58	20,21	21,95
	+12m	38,80	37,87	30,79	29,41	19,23	19,70	22,94	24,43	19,85	21,86
RON	02-okt	3,54		2,79		210,6		262,4		233,7	
	+1m	3,65	3,56	2,87	2,80	204,4	209,3	252,1	260,5	223,3	232,2
	+3m	3,65	3,61	2,81	2,83	204,4	206,8	249,3	257,2	219,2	229,4
	+6m	3,65	3,67	2,85	2,87	204,4	203,3	246,6	252,5	213,7	225,5
	+12m	3,75	3,78	2,98	2,94	198,9	197,4	237,3	244,8	205,3	219,0

Explanatory note: Green colours indicate that Danske Bank forecasts a five percent appreciation compared to market forward prices. Red colours indicate a forecast of five percent depreciation compared to market forward prices.

FX Forecast

Wider CEE (Cont.)											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
BGN	02-okt	1,96		1,54		380,7		474,4		422,5	
	+1m	1,96	-	1,54	-	381,6	-	470,6	-	416,9	-
	+3m	1,96	-	1,50	-	381,6	-	465,5	-	409,2	-
	+6m	1,96	-	1,53	-	381,6	-	460,4	-	399,0	-
	+12m	1,96	-	1,55	-	381,6	-	455,2	-	393,9	-
TRY	02-okt	1,92		1,51		388,6		484,2		431,2	
	+1m	2,00	1,99	1,57	1,52	373,0	374,5	460,0	466,2	407,5	427,0
	+3m	2,05	2,00	1,58	1,57	363,9	373,3	443,9	464,3	390,2	414,1
	+6m	2,10	2,07	1,64	1,62	355,2	359,6	428,6	446,6	371,4	398,7
	+12m	2,15	2,23	1,71	1,73	347,0	334,1	414,0	414,3	358,1	370,7
CIS											
RUB	02-okt	33,99		26,80		21,94		27,33		24,34	
	+1m	34,29	33,96	27,00	26,74	21,76	21,95	26,83	27,33	23,77	24,35
	+3m	34,24	34,00	26,34	26,68	21,79	21,93	26,58	27,28	23,36	24,33
	+6m	33,13	34,05	25,88	26,61	22,52	21,90	27,17	27,20	23,55	24,29
	+12m	31,44	34,29	24,95	26,63	23,73	21,76	28,31	26,98	24,49	24,14
UAH	02-okt	6,44		5,08		115,8		144,3		128,5	
	+1m	6,48	6,49	5,10	5,11	115,2	115,0	142,0	143,1	125,8	127,5
	+3m	6,50	6,58	5,00	5,17	114,8	113,2	140,0	140,8	123,1	125,6
	+6m	6,37	6,64	4,98	5,19	117,0	112,3	141,2	139,5	122,4	124,5
	+12m	6,25	6,77	4,96	5,25	119,4	110,3	142,4	136,8	123,2	122,4
KZT	02-okt	161,4		127,2		4,62		5,76		5,13	
	+1m	161,3	161,5	127,0	127,1	4,63	4,62	5,70	5,75	5,05	5,12
	+3m	151,8	161,8	116,8	127,0	4,92	4,61	6,00	5,73	5,27	5,11
	+6m	146,6	162,4	114,5	127,0	5,09	4,59	6,14	5,70	5,32	5,09
	+12m	138,6	163,5	110,0	127,0	5,38	4,56	6,42	5,66	5,56	5,06

Explanatory note: Green colours indicate that Danske Bank forecasts a five percent appreciation compared to market forward prices. Red colours indicate a forecast of five percent depreciation compared to market forward prices.

FX Forecast

MEA											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
ILS	02-okt	5,46		4,30		136,6		170,2		151,5	
	+1m	5,52	5,47	4,35	4,31	135,0	136,3	166,5	169,7	147,5	151,2
	+3m	5,66	5,49	4,35	4,31	131,9	135,8	160,9	168,9	141,5	150,7
	+6m	5,57	5,51	4,35	4,31	134,0	135,2	161,6	168,0	140,1	150,0
	+12m	5,48	5,56	4,35	4,32	136,1	134,1	162,4	166,3	140,5	148,8
ZAR	02-okt	9,85		7,77		75,7		94,3		84,0	
	+1m	9,78	9,95	7,70	7,79	76,3	74,9	94,1	93,3	83,3	83,6
	+3m	9,88	9,98	7,60	7,83	75,5	74,7	92,1	92,9	81,0	82,9
	+6m	9,47	10,12	7,40	7,91	78,8	73,7	95,0	91,5	82,3	81,7
	+12m	9,07	10,41	7,20	8,08	82,2	71,7	98,1	88,9	84,9	79,5
EGP	02-okt	7,28		5,74		102,4		127,6		113,6	
	+1m	7,29	7,29	5,74	5,74	102,3	102,2	126,2	127,3	111,8	113,4
	+3m	7,48	7,32	5,75	5,74	99,8	101,9	121,7	126,7	107,0	113,0
	+6m	7,36	7,36	5,75	5,75	101,4	101,4	122,3	125,9	106,0	112,4
	+12m	7,25	7,42	5,75	5,76	103,0	100,6	122,8	124,8	106,3	111,6
LATAM											
BRL	02-okt	2,75		2,17		271,2		337,9		300,9	
	+1m	2,79	2,77	2,20	2,18	267,0	268,9	329,3	334,7	291,7	298,3
	+3m	2,90	2,81	2,23	2,21	257,3	265,2	313,9	329,8	276,0	294,1
	+6m	2,89	2,87	2,26	2,25	257,9	259,6	311,1	322,4	269,6	287,9
	+12m	2,96	3,00	2,35	2,33	251,9	248,7	300,6	308,5	260,0	276,0
ARS	02-okt	3,94		3,10		189,4		236,0		210,1	
	+1m	3,96	3,96	3,12	3,11	188,3	188,4	232,2	234,6	205,7	209,1
	+3m	4,08	4,00	3,14	3,14	182,8	186,5	222,9	232,0	196,0	206,9
	+6m	4,07	4,06	3,18	3,17	183,3	183,7	221,1	228,2	191,6	203,7
	+12m	4,11	4,19	3,26	3,25	181,6	178,1	216,7	220,8	187,5	197,6
MXN	02-okt	13,92		10,98		53,55		66,7		59,4	
	+1m	14,03	13,97	11,05	10,99	53,2	53,4	65,6	66,5	58,1	59,2
	+3m	14,56	14,06	11,20	11,03	51,2	53,0	62,5	66,0	54,9	58,8
	+6m	14,46	14,11	11,30	11,03	51,6	52,8	62,2	65,6	53,9	58,6
	+12m	14,30	14,20	11,35	11,03	52,2	52,5	62,2	65,1	53,8	58,3
CLP	02-okt	680,0		536,2		1,10		1,37		1,22	
	+1m	683,8	681,3	538,5	536,3	1,09	1,09	1,35	1,36	1,19	1,21
	+3m	700,2	683,8	538,6	536,6	1,07	1,09	1,33	1,36	1,17	1,21
	+6m	689,8	686,6	538,9	536,6	1,08	1,09	1,29	1,35	1,11	1,20
	+12m	679,9	691,0	539,6	536,6	1,10	1,08	1,29	1,34	1,12	1,20

Explanatory note: Green colours indicate that Danske Bank forecasts a five percent appreciation compared to market forward prices. Red colours indicate a forecast of five percent depreciation compared to market forward prices.

FX Forecast

Asia Ex Japan											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
CNY	02-okt	10,02		7,90		74,4		92,7		82,5	
	+1m	9,99	10,00	7,87	7,87	74,6	74,5	92,0	92,8	81,5	82,7
	+3m	10,14	9,98	7,80	7,83	73,6	74,7	89,7	92,9	78,9	82,9
	+6m	9,86	9,94	7,70	7,77	75,7	75,0	91,3	93,2	79,1	83,9
	+12m	9,45	9,85	7,50	7,65	78,9	75,7	94,2	93,9	81,5	85,7
KRW	02-okt	1202		948		0,6		0,8		0,7	
	+1m	1194	1203	940	947	0,62	0,62	0,77	0,77	0,68	0,69
	+3m	1209	1205	930	945	0,62	0,62	0,75	0,77	0,66	0,70
	+6m	1178	1206	920	943	0,63	0,62	0,76	0,77	0,66	0,70
	+12m	1140	1208	905	938	0,65	0,62	0,78	0,77	0,68	0,71
THB	02-okt	47,7		37,6		15,6		19,5		17,3	
	+1m	48,3	48,0	38,0	37,8	15,5	15,5	19,1	19,3	16,9	17,1
	+3m	50,1	48,2	38,5	37,8	14,9	15,5	18,2	19,2	16,0	16,9
	+6m	49,9	48,4	39,0	37,8	14,9	15,4	18,0	19,1	15,6	16,6
	+12m	50,4	48,8	40,0	37,9	14,8	15,3	17,7	19,0	15,3	16,1
SGD	02-okt	2,02		1,59		370		461		411	
	+1m	2,01	2,02	1,58	1,59	372	370	458	461	406	412
	+3m	2,03	2,02	1,56	1,58	368	370	449	460	394	416
	+6m	1,97	2,01	1,54	1,57	378	370	457	460	396	420
	+12m	1,89	2,01	1,50	1,56	395	371	471	460	407	429
HKD	02-okt	9,88		7,79		75,44		94,01		83,71	
	+1m	9,91	9,89	7,80	7,78	75,31	75,39	92,87	93,86	82,27	83,47
	+3m	10,14	9,90	7,80	7,77	73,57	75,31	89,74	93,66	78,90	83,21
	+6m	9,92	9,92	7,75	7,75	75,20	75,21	90,73	93,41	78,63	83,39
	+12m	9,77	9,94	7,75	7,72	76,40	75,07	91,14	93,09	78,85	82,95
MYR	02-okt	4,68		3,69		159		199		177	
	+1m	4,64	4,68	3,65	3,68	161	159	198	198	176	178
	+3m	4,72	4,68	3,63	3,67	158	159	193	198	170	179
	+6m	4,58	4,68	3,58	3,66	163	159	196	198	170	181
	+12m	4,41	4,67	3,50	3,63	169	160	202	198	175	184

Explanatory note: Green colours indicate that Danske Bank forecast a five percent appreciation compared to market forward prices. Red colours indicate a forecast of five percent depreciation compared to market forward prices.

FX Forecast

Asia Ex Japan (Cont.)											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PHP	02-okt	63,5		50,2		11,7		14,6		13,0	
	+1m	63,5	63,7	50,0	50,2	11,7	11,7	14,5	14,6	12,8	12,9
	+3m	65,7	64,1	50,5	50,4	11,4	11,6	13,9	14,5	12,2	12,8
	+6m	65,3	64,6	51,0	50,6	11,4	11,5	13,8	14,3	11,9	12,6
	+12m	64,9	65,6	51,5	51,0	11,5	11,4	13,7	14,1	11,9	12,4
IDR	02-okt	11687		9228		0,064		0,079		0,070	
	+1m	11748	11760	9250	9270	0,064	0,063	0,078	0,079	0,069	0,070
	+3m	12090	11907	9300	9356	0,062	0,063	0,075	0,078	0,066	0,070
	+6m	11968	12090	9350	9463	0,062	0,062	0,075	0,077	0,065	0,069
	+12m	11970	12425	9500	9663	0,062	0,060	0,074	0,074	0,064	0,067
INR	02-okt	58,2		45,9		12,8		16,0		14,2	
	+1m	58,4	58,3	46,0	46,0	12,8	12,8	15,7	15,9	14,0	14,1
	+3m	60,5	58,6	46,5	46,1	12,3	12,7	15,1	15,8	13,2	13,9
	+6m	60,2	59,1	47,0	46,2	12,4	12,6	15,0	15,7	13,0	13,7
	+12m	60,5	59,9	48,0	46,6	12,3	12,5	14,7	15,4	12,7	13,3
TWD	02-okt	41,9		33,1		17,8		22,1		19,6	
	+1m	41,7	42,0	32,8	33,1	18	17,8	22,1	22,1	19,6	19,8
	+3m	42,3	41,9	32,5	32,9	17,7	17,8	21,5	22,1	18,9	19,9
	+6m	41,0	41,7	32,0	32,6	18,2	17,9	22,0	22,2	19,0	20,1
	+12m	39,1	41,3	31,0	32,1	19,1	18,1	22,8	22,4	19,7	20,7

Fixed Income Forecast

	Policy Rate				2 Year yield			10 Year yield		
	02 October 2006	3	6	12	3	6	12	3	6	12
Wider CEE										
PLN	4.00	4.25	4.50	4.75	6.10	6.40	6.50	5.60	5.85	6.00
CZK	2.50	2.75	3.00	3.00	3.50	3.60	4.00	3.90	4.25	2.90
SKK	4.75	5.00	5.50	6.00	6.00	6.50	7.00	5.90	6.40	6.90
HUF	7.75	8.50	8.50	8.50	9.00	9.00	9.00	7.55	7.55	7.80
RON	8.75	9.00	9.25	9.25	-	-	-	-	-	-
TRY	17.50	18.00	17.50	17.00	22.50	23.00	22.50	-	-	-
MEA										
ILS	5.50	5.50	5.75	5.75	-	-	-	6.15	6.35	6.85
ZAR	8.00	9.00	9.50	9.50	-	-	-	9.00	9.50	9.75
LATAM										
BRL	14.25	13.50	13.00	12.00	5.50	5.60	5.70	6.65	6.75	7.05
MXN	7.00	7.00	6.75	6.75	7.75	7.75	8.00	8.65	8.70	8.80
Asia Ex Japan										
CNY	6.12	6.39	6.39	6.39	2.75	2.75	2.75	3.50	3.50	3.50
KRW	4.50	4.50	4.75	4.75	4.75	5.00	5.00	5.00	5.25	5.25
THB	5.00	5.00	5.25	5.25	5.25	5.50	5.40	5.60	5.75	6.00
SGD	3.22	3.40	3.60	3.20	3.40	3.60	3.20	4.05	4.25	4.25
HKD	6.75	6.75	7.00	7.00	4.20	4.50	4.70	4.50	4.80	5.00
MYR	3.50	3.50	3.75	3.75	3.75	4.00	4.00	4.25	4.35	4.50
PHP	7.50	7.50	7.50	7.25	7.75	7.75	7.70	8.00	8.00	7.75
IDR	11.25	9.75	9.00	9.00	9.50	8.50	8.50	10.00	9.00	9.00
INR	6.00	6.25	6.50	6.50	7.30	7.50	8.00	8.10	8.50	9.00
TWD	2.625	2.63	2.75	2.75	1.75	2.00	2.25	2.00	2.25	2.50

Monetary Policy Calendar

	Policy Rate (%)	Latest Change	Next Change	Next Meeting
	29 September 2006			
Wider CEE				
PLN	4.00	- 25 bp (Feb, 2006)	+ 25 bp (Q4, 2006)	25 October 2006
HUF	7.75	+ 50 bp (Sep, 2006)	+25 bp (Q4, 2006)	24 October 2006
CZK	2.50	+ 25 bp (Sep, 2006)	+ 25 bp (Q4, 2006)	26 October 2006
SKK	4.75	+ 25 bp (Sep, 2006)	+25 bp (Q4, 2006)	31 October 2006
RON	8.75	+25 bp (June, 2006)	+25 bp (Q1, 2007)	10 November 2006
TRY	17.50	+ 25 bp (July, 2006)	+25 bp (Oct, 2006)	19 October 2006
MEA				
ILS	5.50	+25 bp (July, 2006)	+25 bp (Q1, 2007)	26 October 2006
ZAR	8.00	+50 bp (Aug. 2006)	+100 bp (Oct, 2006)	12 October 2006
LATAM				
BRL	14.25	- 50 bp (Aug, 2006)	-25 bp (Oct, 2006)	17 October 2006
MXN	7.00	- 25 bp (Apr, 2006)	-25 bp (Q1, 2007)	27 October 2006
CLP	5.25	+25 bp (Jul, 2006)	+25 bp (Q1, 2007)	12 October 2006
Asia Ex Japan				
CNY	6.12	+27 bp (Aug, 2006)	+27 bp (Q4, 2006)	Not announced
KRW	4.50	+25 bp (Aug, 2006)	+25 bp (Q1, 2007)	12 October 2006
THB	5.00	+25 bp (June, 2006)	+25 bp (Q1, 2007)	18 October 2006
SGD	3.20	Exchange rate target	Exchange rate target	Not announced
HKD	6.75	+25 bp (June, 2006)	+25 bp (Q1, 2007)	Not announced
MYR	3.50	+ 25 bp (Apr, 2006)	+25 bp (Q1, 2007)	24 November 2006
PHP	7.50	+25 bp (Oct, 2005)	-25 bp (Q3, 2007)	02 November 2006
IDR	11.25	-50 bp (Sep, 2006)	-50 bp (Oct, 2006)	05 October 2006
INR	6.00	+25 bp (July, 2006)	+25 bp (Oct, 2006)	31 October 2006
TWD	2.625	+12.5 bp (Sep, 2006)	+12.5 bp (Q1, 2006)	21 December 2006

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Disclosure

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FX Crossroads is updated every week.

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Please see the front page of this research report.

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