

May 5, 2009

Forex News

USD CHF JPY

Dollar: Economic data triggers dollar weakening

CHF: SNB sees deflationary threat

Yen slightly weaker

US dollar

Further indicators pointing to a slowing economic decline in the most important markets led to the depreciation of the dollar. The foreign exchange markets thus followed yet again the rationale that the dollar would lose its status as safe haven and hence its attractiveness once the economic crisis has been overcome. Overall the losses of the dollar were of moderate nature, and the euro fell clearly short of its earlier 2009 highs of 1.36 US dollar.

The latest meeting of the Open Market Committee of the US Fed did not result in any new decisions, but this was precisely why it supported hopes of a stabilising economy. Apparently the Committee did not feel it necessary to stimulate the economy with additional liquidity injections, but instead decided to wait and see. At the same time, however, the wording of the press statement remained very cautious. Even if the outlook has slightly improved, the economy is expected to remain weak for a while. Indicators of the manufacturing industry and consumer sentiment were slightly better. Both indicators had risen on the month and achieved the highest value since the Lehman bankruptcy (September 2008). At the same time, however, they were still indicative of a contraction in the economy. Even if the Fed managed to stabilise the economy in cooperation with the government, it would still be in for a range of challenges. At some point it will have to prove that it can withdraw the right amount of liquidity at the right time. With the economy on the way to recovery, the markets will be increasingly more concerned about inflation risks. This should lead the US dollar to decline.

Swiss franc

The Swiss franc remains in a sideways movement. A minor strengthening trend can be observed, but this should be counteracted by the SNB.

The future president of the SNB, Hildebrand, again pointed to the threat of deflation in an interview, implying the need to counteract a stronger franc.

He stated that the aftermath of the current crisis could be long-lasting. Even though some leading indicators show a turning point, this does not necessarily imply a return to robust growth yet. The elimination or reduction of global imbalances (e.g. in foreign trade or indebtedness) could still take some time.

The risk of falling prices is in turn increased by lower growth. Hence, the SNB is trying to counteract the additional deflationary pressure that would be generated by a stronger franc.

In addition, monetary conditions should be expansive. Nevertheless, one should bear in mind a so-called exit strategy, permitting increased liquidity to be drained when necessary. Either additional liquidity is provided for a limited amount of time only (repo auctions) or bills can be issued (in the case of the SNB).

On the whole, we still think that the flight to safe havens, implying a strengthening of the franc, stands against the counteracting measures of the SNB, leading in the end to a sideways movement of the EURCHF.

Japanese yen

The yen has slightly weakened vs. the USD, but remains close to the level of USDJPY 98.

Identifying reasons for this evolution is intricate. At the meetings of the Fed and the BoJ last week, no change in monetary policy was decided on. The BoJ revised its forecasts for economic growth and inflation downwards, coming closer to market expectations, which would thus hardly produce any reaction. The economic data did not give any clear signal either. The first estimate of US GDP was clearly below expectations, but this estimate is often unreliable and there have been negative contributions from government expenditures (a trend that should reverse very soon) and destocking. Even though a decrease in stocks has a negative influence on current GDP growth, it is the basis for a future recovery of the manufacturing sector. On the Japanese side, quite positive signs came from industrial production and exports, in contrast with a manifest deterioration of the labor market. The positive evolution on equity markets might have caused investors to move out of the yen as a safe haven.

In the mid term, we expect an oscillation of the USDJPY around the current levels. For the EURJPY, this implies an evolution in consonance with the EURUSD.

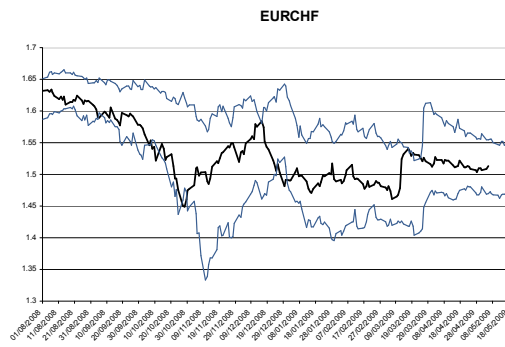
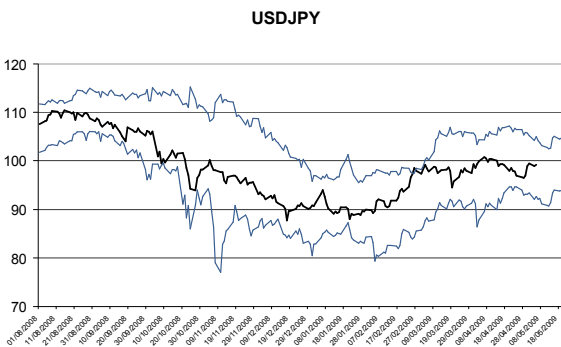
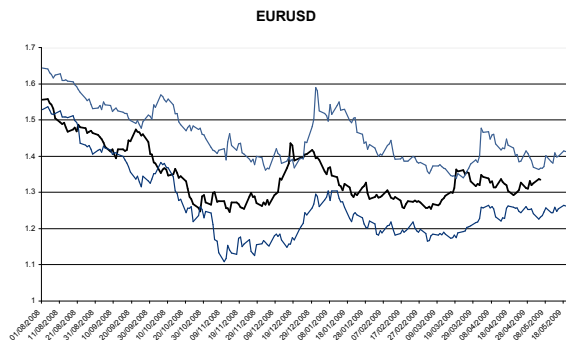
Bandwidths for next two weeks

Forex News – USD CHF JPY

The bandwidths were prepared based on market estimates of future exchange rate risks. Starting with today's exchange rate, an upper and a lower limit can be estimated for the exchange rate in two weeks. This covers the most probable scenarios.

We have compared the forecasted bandwidth with the actual exchange rate in a chart.

The markets *expect* much wider fluctuations than seen in the past in the future as well. Thus, the forecasting risk has become much higher.

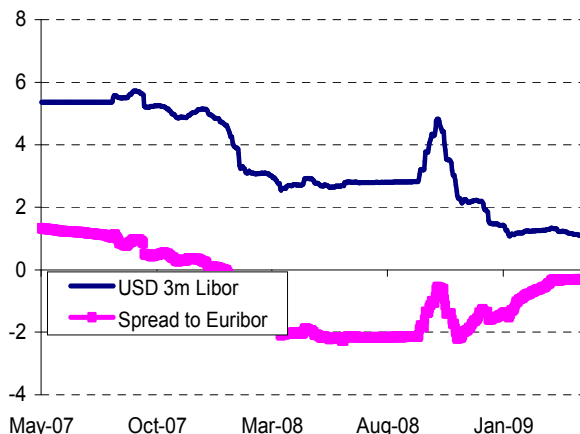


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EURUSD



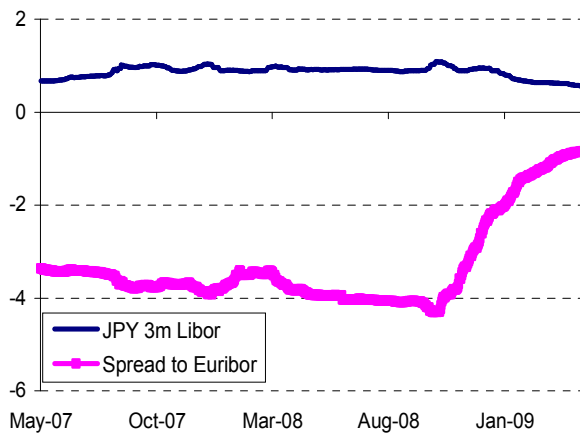
3m US Libor and Spread to Euribor



EURJPY



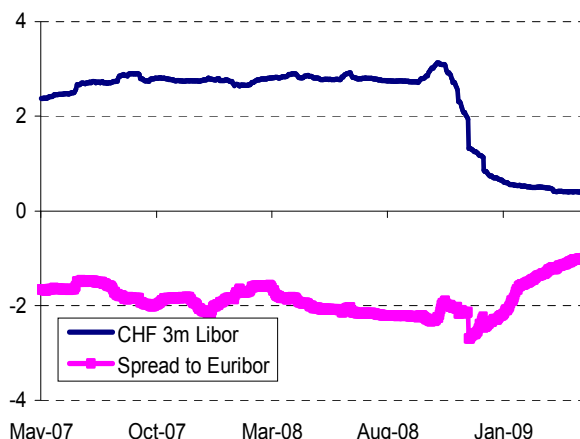
3m JPY Libor and Spread to Euribor



EURCHF



3m CHF Libor and Spread to Euribor



Forecasts: Exchange Rates

End of Month	Current	Jun. 09	Sep. 09	Dec. 09	Mar. 10
EURUSD	1.3337	1.45	1.50	1.50	1.53
EURJPY	131.95	137.8	142.5	147.0	149.9
USDJPY	98.94	95.0	95.0	98.0	98.0
EURCHF	1.51	1.50	1.51	1.53	1.53

Forecasts: 3m interest rates

End of Month	Current	Jun. 09	Sep. 09	Dec. 09	Mar. 10
EURO	1.35	1.20	1.20	1.40	1.50
Japan	0.55	0.60	0.50	0.50	0.50
USA	1.01	0.80	0.60	0.70	0.90
Switzerland	0.40	0.25	0.25	0.25	0.25
Spread vs Euribor	-0.95	-0.95	-0.95	-1.15	-1.25

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	Treasury Domestic Sales	+43 (0)5 0100 - 84130
	Institutional Sales	+43 (0)5 0100 - 84300
	Corporate Sales	+43 (0)5 0100 - 84100

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