

July 01, 2009

Forex News

USD CHF JPY

EURUSD: Sideways around 1.4

Swiss Franc weaker – thanks to SNB?

USDJPY: 95 to 98

US dollar

The EURUSD exchange rate has seen little movement in the past weeks, hovering around 1.4 and with any larger deviations being short-lived. Indeed, the underlying data would not have justified any large-scale fluctuations. The economic data on both sides of the Atlantic confirm a slow movement out of recession, which, however, has not been left yet.

The US central bank did not change any of its monetary actions in its latest meeting. Both the level of interest rates and the extent of the scheduled purchases of securities remained the same. The central bank did refer to the improved economic outlook, but said that in the medium term the economy would remain weak. We, too, believe that the US economy will only grow moderately in the second half of the year, given that a whole range of burdening factors remain in place. When will the economy be on solid enough grounds for the US central bank to reverse the actions taken when the crisis hit? In view of the magnitude of the liquidity injections administered especially since the collapse of Lehman Brothers, a partial withdrawal of liquidity may be justified before the end of the year. At the same time there should be no pressure from inflation, which means the central bank has wiggle room in its decisions. We expect interest rate hikes in 12 months' time at the earliest. Even if the US economy should yet again grow at a faster pace than that of Euroland, this would only be possible on the back of a drastic expansion of debt – a fact that the markets should keep their eyes on. The rapidly rising level of public debt in the coming years in conjunction with the risk of potential inflation resulting from the actions of the central bank after all will burden the US dollar.

Swiss franc

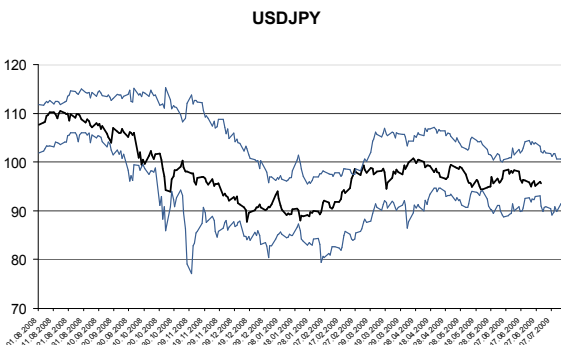
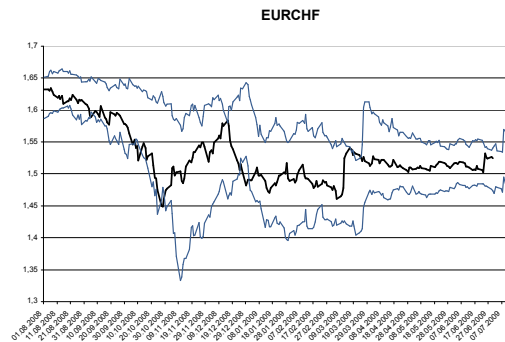
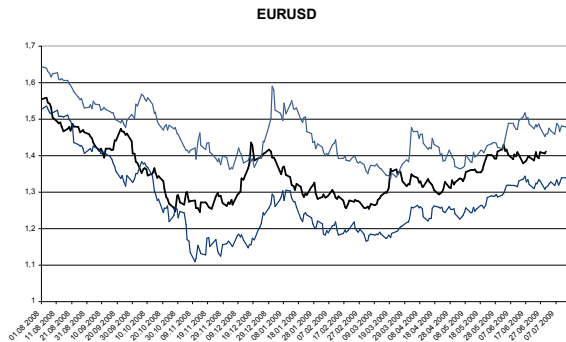
The Swiss Franc has reached the EURCHF 1.53 level for the first time since mid-march, which could have been favored by the SNB's Interventions as indicated by rumors on the markets. The National Bank had again emphasized the will to resolutely counteract a stronger Franc at their last meeting. In a recent speech, Council member Jordan pointed out the dangers inherent in persistently low interest rates. These could lead to excessive indebtedness as well as an excessive increase of house prices. He called upon households and banks to adopt a very conservative stance when incurring debt so as to minimize possible future risks. We do not interpret this call as a preparation for future rate hikes though, but merely as an attempt to avoid undesirable "side-effects" of low interest rates. This is consistent with the assessment made at the last council meeting for the evolution of inflation rates. Deflationary risks were said to have decreased but not disappeared, and a possible acceleration of inflation rates could only be seen from 2011 on if both interest rates remained low AND a robust economic recovery would materialize. The latter does not seem to be granted in our opinion. Finally, interest rate hikes would be extremely counterproductive for the exchange rate. On the whole, we think that time for interest rate speculations has not come yet, and that the SNB should maintain the focus on a stable – if not weaker – exchange rate.

Japanese yen

The Yen has strengthened again vs. the US Dollar. The two phases of strengthening within the last two weeks coincided once more exactly with those of a negative evolution of the equity markets (S&P 500). Given the lack of fundamental economic factors pointing to one or another direction for the exchange rate, we think that the Yen will continue to oscillate between USDJPY 95 (forecast for end of month of June and September) and 98 (forecast for December).

Bandwidths for next two weeks

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, even though a slight tightening could be seen in the recent past. Thus, the forecasting risk is elevated.

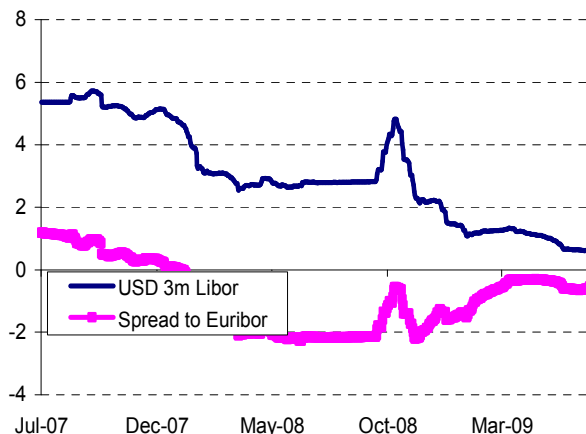


Forex News – USD CHF JPY

EURUSD



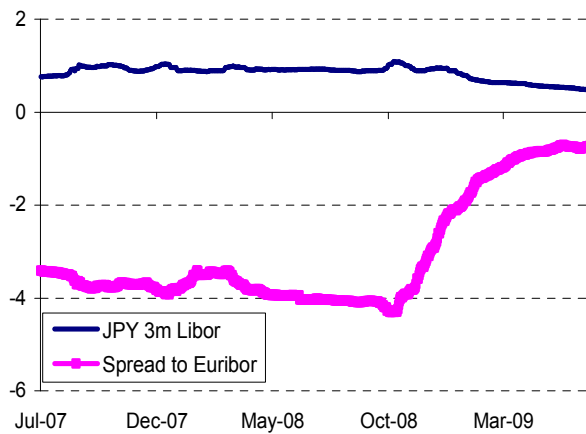
3m US Libor and Spread to Euribor



EURJPY



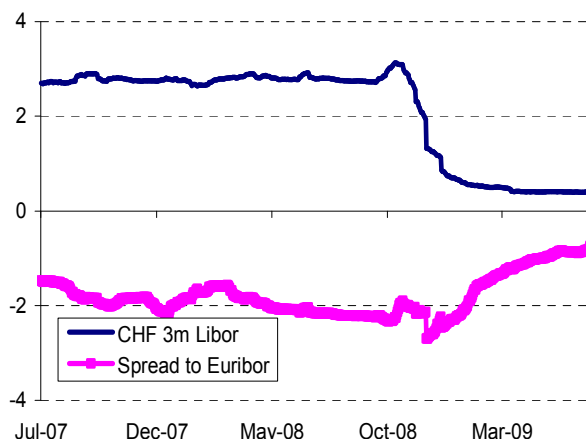
3m JPY Libor and Spread to Euribor



EURCHF



3m CHF Libor and Spread to Euribor



Forecasts: Exchange Rates

End of Month	Current	Sep. 09	Dec. 09	Mar. 10	Jun. 10
EURUSD	1.4108	1.45	1.50	1.53	1.55
EURJPY	134.82	137.8	147.0	149.9	151.9
USDJPY	95.56	95.0	98.0	98.0	98.0
EURCHF	1.52	1.51	1.51	1.51	1.51

Forecasts: 3m interest rates

End of Month	Current	Sep. 09	Dec. 09	Mar. 10	Jun. 10
EURO	1.11	1.20	1.40	1.50	1.90
Japan	0.46	0.50	0.50	0.50	0.50
USA	0.60	0.60	0.70	0.90	1.00
Switzerland	0.40	0.40	0.25	0.25	0.30
Spread vs Euribor	-0.71	-0.80	-1.15	-1.25	-1.60

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