

May 19, 2009

Forex News

USD CHF JPY

Dollar: Approaching 2009 low

CHF: Careful balancing

Yen stronger again

US dollar

The dollar continued to weaken over the last few weeks, prolonging a trend that began in the middle of April. However, in the past few days a sideways drift has become apparent after the euro failed to surpass the 2009 high set in mid March. Other reasons were likely the US retail sales figures and the slightly weaker US stock market, since expectations about how long the current financial and economic crisis will go on are still determining the short-term fluctuations of the EUR/USD.

The more the data points to an end of the crisis, the “worse” for the dollar, and vice versa. Although an end of the crisis is not the same thing as a recovery. For now, it is enough for the markets that an end of the recession in the USA in the second half of the year is becoming more and more probable. We believe the indications in this direction will be getting stronger and thus the downward pressure on the dollar will continue. The argument of a smaller inflow to the safe-haven greenback will in all likelihood remain in the foreground. But the stabilisation of the US economy will come at a high price. New debt for the public sector during the ongoing fiscal year will amount to over 12% of the GDP and the deficits will remain high in the years to come as well, although clearly less than this year. On top of this, the Fed took an extreme course of action to fight the crisis and no one has any experience with such a situation. Not to mention the uncertainties about the “exit strategy”, i.e. how, when and to what extent to back out from the steps taken so far. As the global crisis relaxes, these US-specific factors will come to the fore. Thus, we continue to expect a weakening of the dollar. If the euro surpasses this year’s highs against the dollar the fall could gain momentum over the short term.

Swiss franc

The SNB released their interim report for the first quarter, containing the results of the interventions on the corporate bond and currency markets. Corporate bond purchases have surprisingly not exceeded CHF 1bn (0.2% of GDP is a very modest amount compared to other central bank purchases). In contrast, the balance sheet has been expanded by approximately CHF 20bn (CHF 40bn originated in deposits by banks, but repo liabilities decreased by CHF 20bn). In this respect, Council member Jordan insists on the importance of an exit strategy. As the amount of purchases is moderate and the SNB could issue additional bills, this should be less of a problem than in other countries.

Finally, foreign exchange has been bought for CHF 8.5bn, which should have contributed to a stabilization of the currency. Indeed, EURCHF volatility has declined lately, inducing hopes of a more stable evolution. We expect a careful balancing of safe haven money flows via SNB interventions in the future and thus an oscillation of the franc around current levels.

Japanese yen

The yen has again strengthened vs. the US dollar, reaching USDJPY 95 (our June forecast), but rebounding soon thereafter. The synchronization of this movement with the S&P was quite remarkable, pointing to safe haven effects (the short-lived decline on equity markets induced a strengthening of the yen). From a longer-term perspective, the increase of exports in March (and the first 10 days of April) might have fueled hopes of an improvement of the trade balance, which would support the Japanese currency.

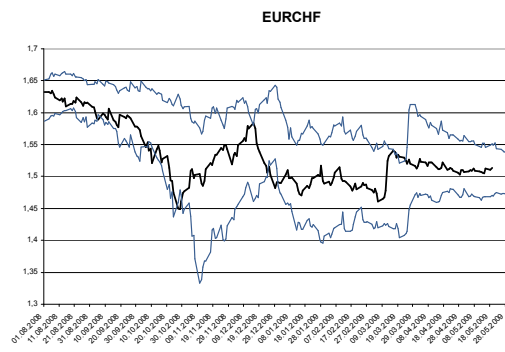
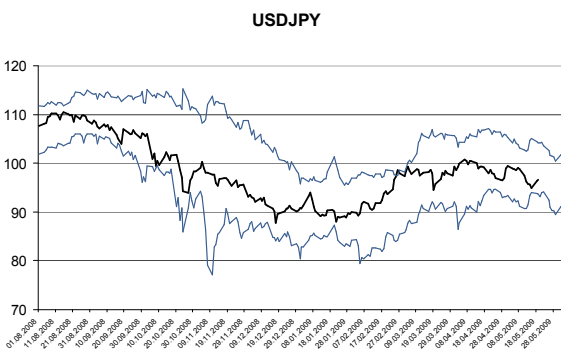
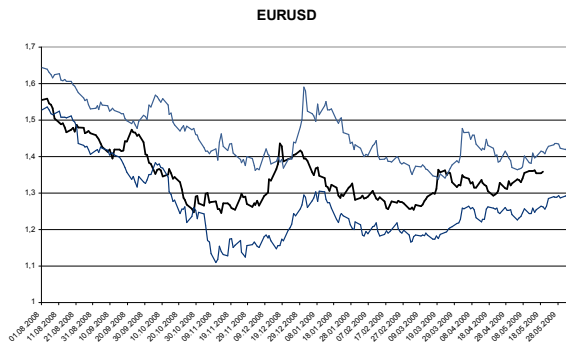
As several leading indicators point to an improvement of the global economic situation although this is not confirmed unanimously by economic data (e.g. the American retail sales decrease, see USD), the markets are moving up and down in short-lived trends, without building up dynamics that would be sustainable. Thus, we still think that this prevailing uncertainty will imply higher exchange rate fluctuations in the future. For the USDJPY, this implies that, in phases of optimism regarding the economic evolution, the yen weakens, while negative news should support the Japanese currency.

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.

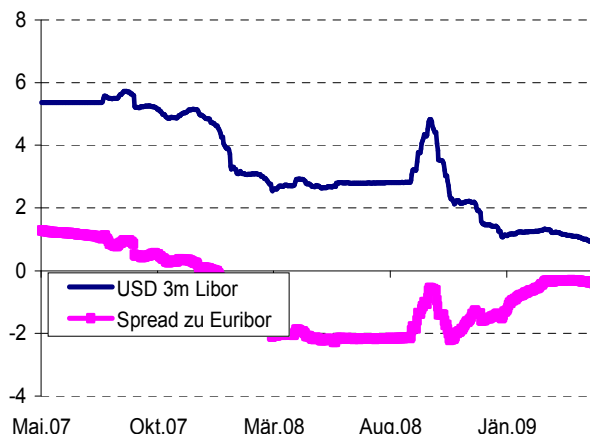
The markets *expect* much wider fluctuations than seen in the past in the future as well, even though a slight tightening could be seen in the recent past (especially for EURCHF). Thus, the forecasting risk is elevated.



EURUSD



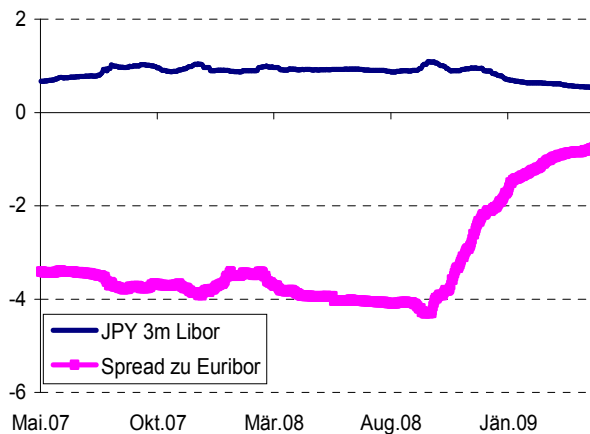
3m US Libor and Spread to Euribor



EURJPY



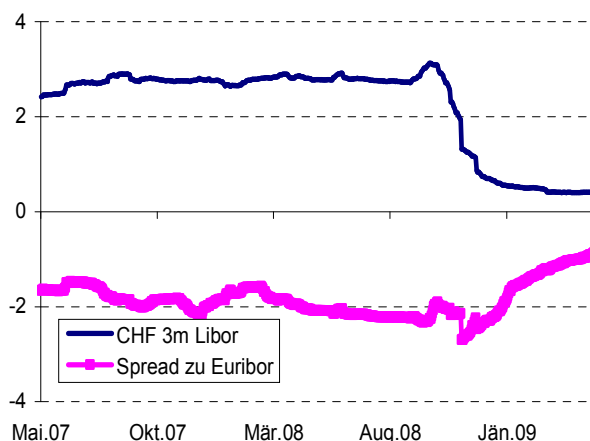
3m JPY Libor and Spread to Euribor



EURCHF



3m CHF Libor and Spread to Euribor



Forecasts: Exchange Rates

End of Month	Current	Jun. 09	Sep. 09	Dez. 09	Mär. 10
EURUSD	1,3584	1,45	1,50	1,50	1,53
EURJPY	131,10	137,8	142,5	147,0	149,9
USDJPY	96,51	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	Dez. 09	Mär. 10
EURO	1,24	1,20	1,20	1,40	1,50
Japan	0,53	0,50	0,50	0,50	0,50
USA	0,79	0,80	0,60	0,70	0,90
Switzerland	0,40	0,25	0,25	0,25	0,25
Spread vs Euribor	-0,84	-0,95	-0,95	-1,15	-1,25

Head of Research	Friedrich Mostböck		+43 (0)5 0100 - 11902
Major Markets & Credit Research	Gudrun Egger	Euroland	+43 (0)5 0100 - 11909
	Mildred Hager	Switzerland, Japan	+43 (0)5 0100 - 17331
	Rainer Singer	USA	+43 (0)5 0100 - 11185
	Alihan Karadagoglu	Corporate Bonds	+43 (0)5 0100 - 19633
	Elena Statelov	Corporate Bonds	+43 (0)5 0100 - 19641
Sales	Fixed Income Domestic Sales		+43 (0)5 0100 - 83200
	Treasury Domestic Sales		+43 (0)5 0100 - 84130
	Institutional Sales		+43 (0)5 0100 - 84300
	Corporate Sales		+43 (0)5 0100 - 84100

Published by Erste Group Bank AG, Neutorgasse 17, 1010 Vienna, Austria.

Phone +43 (0)5 0100 - ext.

Erste Group Homepage: www.erstegroup.com On Bloomberg please type: ERBK <GO>.

This research report was prepared by Erste Group Bank AG ("Erste Group") or its affiliate named herein. The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable, but we do not represent that it is accurate or complete and it should not be relied upon as such. All opinions, forecasts and estimates herein reflect our judgement on the date of this report and are subject to change without notice. The report is not intended to be an offer, or the solicitation of any offer, to buy or sell the securities referred to herein. From time to time, Erste Group or its affiliates or the principals or employees of Erste Group or its affiliates may have a position in the securities referred to herein or hold options, warrants or rights with respect thereto or other securities of such issuers and may make a market or otherwise act as principal in transactions in any of these securities. Erste Group or its affiliates or the principals or employees of Erste Group or its affiliates may from time to time provide investment banking or consulting services to or serve as a director of a company being reported on herein. Further information on the securities referred to herein may be obtained from Erste Group upon request. Past performance is not necessarily indicative for future results and transactions in securities, options or futures can be considered risky. Not all transaction are suitable for every investor. Investors should consult their advisor, to make sure that the planned investment fits into their needs and preferences and that the involved risks are fully understood. This document may not be reproduced, distributed or published without the prior consent of Erste Group. Erste Group Bank AG confirms that it has approved any investment advertisements contained in this material. Erste Group Bank AG is regulated by the Financial Services Authority for the conduct of investment business in the UK.

Please refer to www.erstegroup.com for the current list of specific disclosures and the breakdown of Erste Group's investment recommendations.