

June 2, 2009

Forex News

USD CHF JPY

Dollar: Mounting pressures

CHF unimpressed by GDP data

Yen sideways

US dollar

After the euro reached a new year-high vs. the dollar, downwards pressure on the USD mounted further until the EURUSD reached 1.43. Besides risks arising from the extreme monetary and fiscal policy of the US, which we have pointed out repeatedly, the rising oil price contributed to the recent weakening of the USD. After impressive losses for the US currency in a short period of time, a rebound might be seen. In the mid term though, risks for the USD are skewed to the downside.

As signs of an economic recovery emerge, markets are getting increasingly worried about the possible consequences of monetary policy measures. Will the “exit strategy” be successful, or are risks to price stability mounting? From the macroeconomic perspective, the crisis has led to excess capacity, implying that inflation should not be a concern for the moment. Thus, even potentially increasing demand can easily be met by existing resources and hence without putting pressure on prices. But the markets will not wait and see until hard data reflect increasing inflationary pressures. The uncertainty about the outcome of the “experiment” the Fed has launched suffices to create worries about the USD, and the massive increase of government debt coming forward in the next years will intensify these fears. This anxiety is not likely to disappear anytime soon, and could even increase further.

Swiss franc

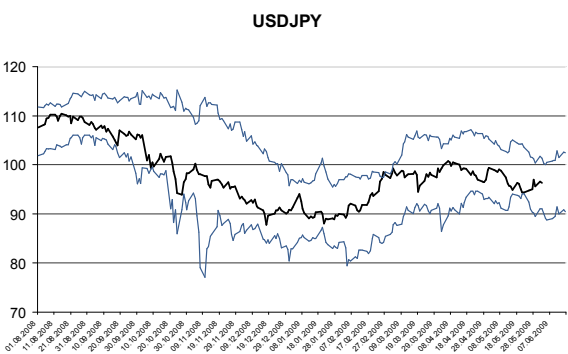
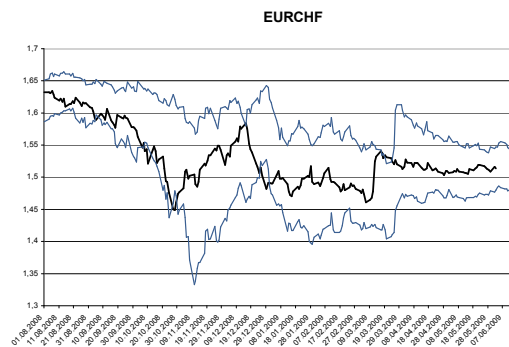
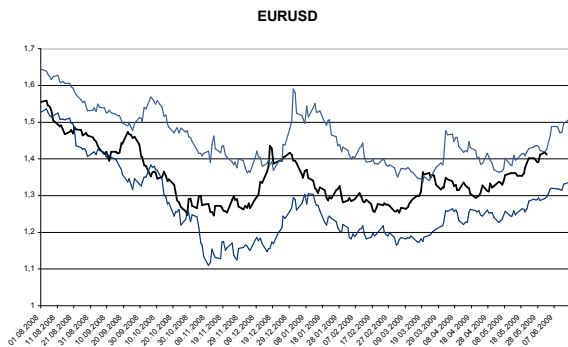
Today's release of GDP data did not give the markets any clear indication about the state of the economy. While seasonally-adjusted data was – taking into account revisions in previous quarters - in line both with expectations and the estimate based on the KOF leading indicator, the y/y growth rate of the original series was below expectations (-2.4% y/y), pointing to a possible divergence, due to seasonal adjustments. Still, both readings are compatible with the SNB's expectations of -2% to -3% y/y for 2009 and are clearly more positive than the Eurozone's GDP growth. Thus, the franc did not build up any trend as a reaction to the ambiguous reading. We think that the main focus is on leading and sentiment indicators, while GDP data is considered outdated by the time of release. In the current environment, rumors are often sufficient to provoke a flight to safe havens, thus putting strengthening pressures on the franc. These should last as long as a sustainable relaxation on the markets does not return, but are in turn counteracted by the SNB. On the whole, this implies a sideways movement for the Swiss franc, accompanied by short-term oscillations.

Japanese yen

In Japan, the economic data is ambiguous. Even though exports and - in consonance with exports - industrial production increased in April (the latter by a significant 5% m/m), the same held true for the unemployment rate, which jumped to 5%. Even though this is consistent with a delayed reaction of the labor market to the crisis, the extent of the move was well above expectations (indicated by the job-to-applicant ratio, for example). In the meantime, on both the American and Japanese sides, first signs announcing a possible recovery are emerging, albeit still alternating with negative news and making it difficult to draw any conclusions for the yen. Thus, we stick to the point of view that negative news will put the yen under strengthening pressures, while otherwise the current levels of USDJPY should be maintained.

Bandwidths for next two weeks

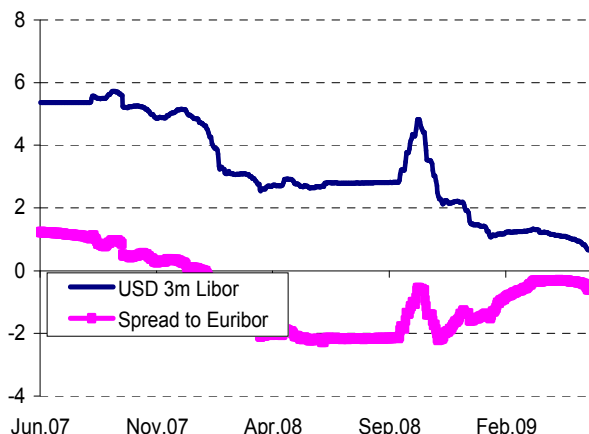
The bandwidths were prepared based on market estimates of future exchange rate risks. Starting with today's exchange rate, an upper and a lower limit can be estimated for the exchange rate in two weeks. This covers the most probable scenarios. We have compared the forecasted bandwidth with the actual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



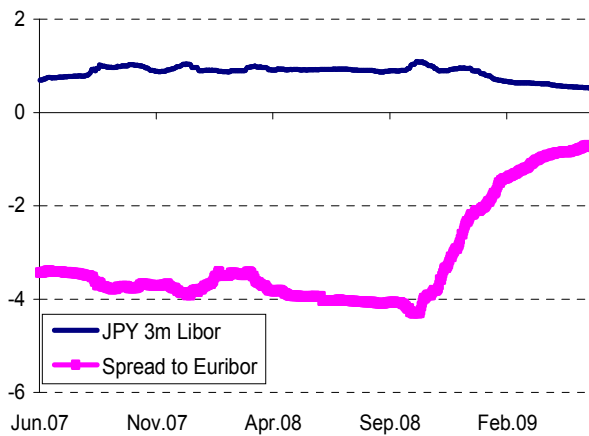
3m US Libor and Spread to Euribor



EURJPY



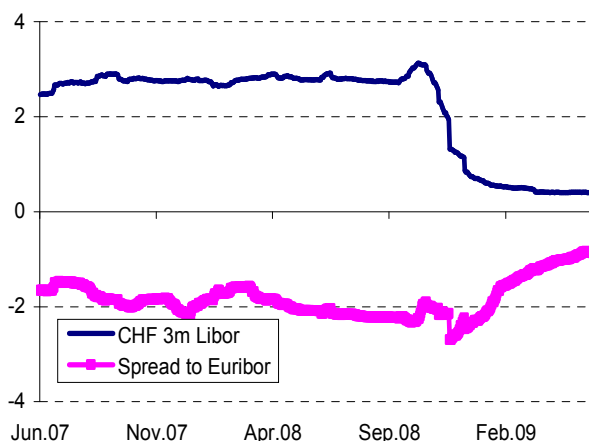
3m JPY Libor and Spread to Euribor



EURCHF



3m CHF Libor and Spread to Euribor



Forecasts: Exchange Rates

End of Month	Current	Jun. 09	Sep. 09	Dez. 09	Mär. 10
EURUSD	1,4127	1,45	1,50	1,50	1,53
EURJPY	136,05	137,8	142,5	147,0	149,9
USDJPY	96,30	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	1,26	1,20	1,20	1,40	1,50
Japan	0,52	0,50	0,50	0,50	0,50
USA	0,65	0,80	0,60	0,70	0,90
Switzerland	0,40	0,25	0,25	0,25	0,25
Spread vs Euribor	-0,86	-0,95	-0,95	-1,15	-1,25

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

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