

June 17, 2009

# Forex News

## USD CHF JPY

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**EURUSD: Correction movement**

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**SNB “will resolutely counteract a strengthening of the franc vs. the euro”**

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**Yen stronger again**

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## US dollar

At the beginning of the month, EURUSD reached a temporary high at 1.43. Since then, the euro has weakened vs. the dollar. In our view, this was above all a technical movement. After gains of 10% of the euro vs. the dollar since mid-April, a consolidation was to be expected, triggered by profit-taking of market participants.

Nevertheless, the logic followed by markets changed noticeably. In the last few months, an improvement of economic data had usually been followed by a weakening of the dollar, but this has reversed in the recent past. In the beginning of the year, signs pointing to a foreseeable end of the economic crisis were interpreted as generating less safe haven flows into the dollar, thus weakening the currency. Now, the markets seem to have come back to a normal functioning, and the traditional linkage between economic data, interest rates and the exchange rate should gain importance again. Data for the last few weeks confirms that the US economy is slowly moving out of recession territory and there have even been isolated speculations on interest rate hikes. These are definitely premature in our view, which should be confirmed at the forthcoming FOMC meeting on June 23-24. We still think that the more expansive monetary and fiscal policy of the US as compared to the Eurozone will be the main influencing factor on the exchange rate. Consequences such as accelerated inflation rates should not materialize soon, but the uncertainty surrounding it should suffice to weaken the dollar further.

## Swiss franc

“The SNB adheres to the policy of easing of monetary conditions embarked on in March,” it was announced at the meeting today. Even though first signs for an improvement of the economic situation have emerged, a “renewed economic downturn is not to be ruled out”. Deflationary risks have diminished, thanks to the measures already taken, and inflation rates should be positive, but low, from 2010 on. The different measures taken by the national bank will be continued: provisioning of sufficient liquidity to the economy, purchase of bonds denoted in Swiss francs (in order to lower risk premia), and finally interventions on the FX markets. The phrasing chosen, that the bank will “resolutely counteract an appreciation of the franc vs. the euro” is quite explicit.

We think that the stress on money markets, which led to a significant appreciation of the franc, will not come to an end anytime soon. This is not a totally new situation from a historical perspective, as the franc has often served as a safe haven in times of crisis or fears of inflation. The SNB has thus already intervened in the past to counteract excessive strengthening of the franc. The accent is to be set on excessive, as interventions did not until now cause a weakening of the exchange rate, but merely a maintaining of the current levels, as well as a reduction of volatility. The SNB still refrains from setting an explicit border, the crossing of which would imply interventions, or the announcement of volumes of FX purchases. Even though the different measures taken lead to additional risks for the SNB’s balance sheet, the exchange rate, interest rate and credit risks are still very limited compared to the total balance sheet, and the SNB should have enough room for “unlimited” intervention in the future, too.

Our assessment is that the franc will be exposed to ongoing strengthening pressures that are counteracted by the SNB, leading on the whole to a sideways movement close to EURCHF 1.50. Indeed, the franc maintained this level after the meeting.

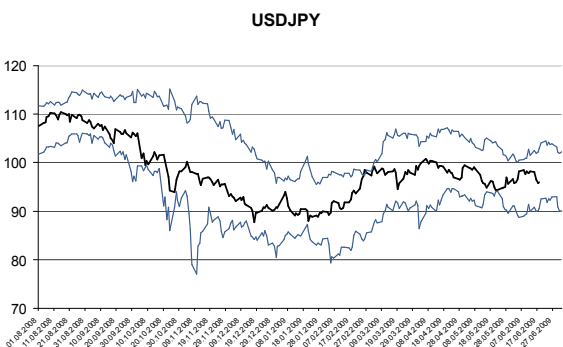
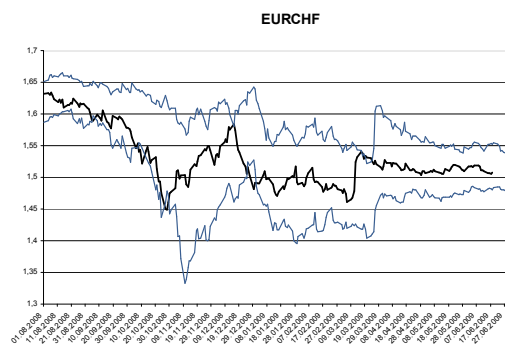
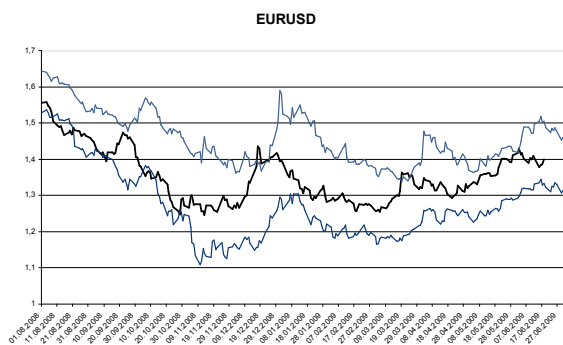
## Japanese yen

The BoJ did not undertake any new steps at their meeting. The outlook for the economy has improved again: “economic conditions have begun to stop worsening”, which should increasingly materialize during the next few months. Both the economic downturn and the decrease of prices should come to an end or moderate from the middle of the year on. One substantial condition for this is an improvement of the global economy. In our view, this assessment of a very moderate recovery – that is even conditional - is realistic and points to low interest rates for some time to come. Indeed, the bank should refrain from hindering a possible recovery. Governor Shirakawa mentioned in an interview following the meeting that the bank will prepare an exit strategy for the alternative measures taken (purchase of different assets) by September.

The yen strengthened from USDJPY 98 to 96 on the day of the meeting. Whether this was related to a possible disappointment of market participants related to asset purchases (these have not increased) or if the worse than expected industrial production of the US made a contribution is hard to distinguish. Another possible explanation is the renewed worsening of equity markets (S&P 500) since the beginning of the week. We expect the yen to strengthen in the case of negative sentiment on the financial markets in the future, too.

## Bandwidths for next two weeks

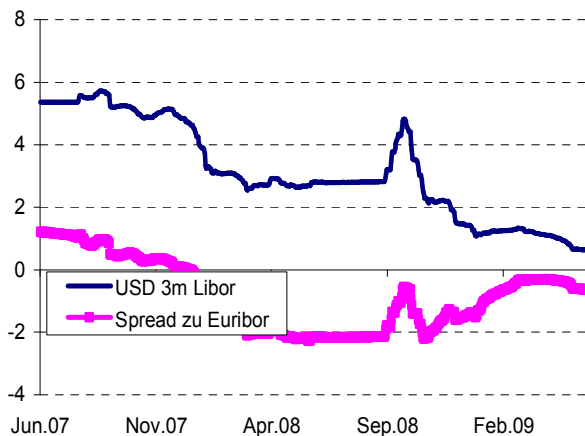
The bandwidths were prepared based on market estimates of future exchange rate risks. Starting with today's exchange rate, an upper and a lower limit can be estimated for the exchange rate in two weeks. This covers the most probable scenarios. We have compared the forecasted bandwidth with the actual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



**EURUSD**



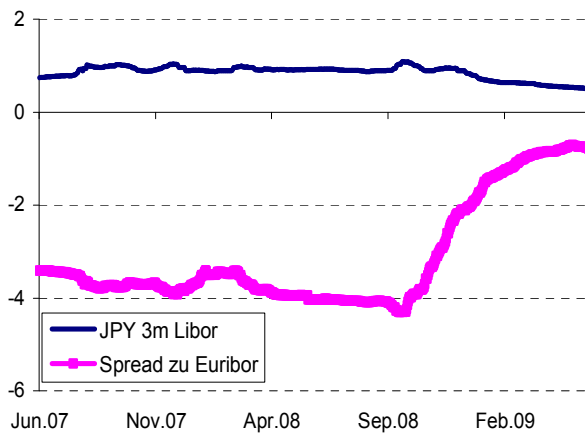
**3m US Libor and Spread to Euribor**



**EURJPY**



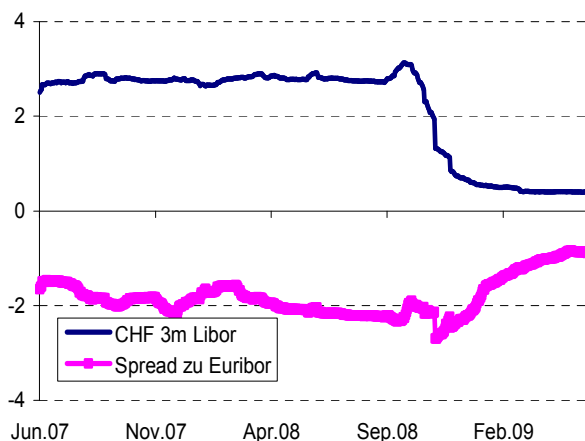
**3m JPY Libor and Spread to Euribor**



**EURCHF**



**3m CHF Libor and Spread to Euribor**



## Forecasts: Exchange Rates

End of Month	Current	Sep. 09	Dez. 09	Mär. 10	Jun. 10
EURUSD	1,3955	1,50	1,50	1,53	1,55
EURJPY	133,74	142,5	147,0	149,9	151,9
USDJPY	95,84	95,0	98,0	98,0	98,0
EURCHF	1,51	1,51	1,51	1,51	1,51

## Forecasts: 3m interest rates

End of Month	Current	Sep. 09	Dez. 09	Mär. 10	Jun. 10
EURO	1,24	1,20	1,40	1,50	1,90
Japan	0,49	0,50	0,50	0,50	0,50
USA	0,61	0,60	0,70	0,90	1,00
Switzerland	0,40	0,40	0,25	0,25	0,30
Spread vs Euribor	-0,84	-0,80	-1,15	-1,25	-1,60

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