

# FX Crossroads

01 October 2008

## Financial crisis – three scenarios for global markets

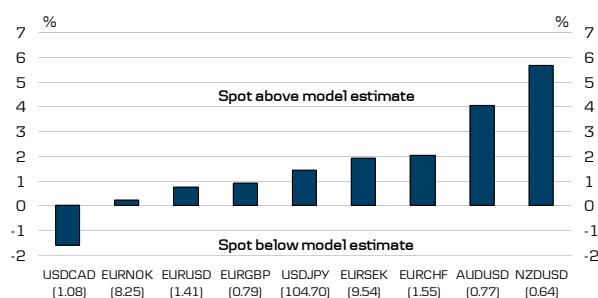
### Summary and conclusions

- On Monday we outlined possible implications of the Troubled Asset Relief Programme (TARP) in the US ([What does TARP mean for FX?](#)). We did not stop to consider the impact of a rejection in the US House of Representatives, which in hindsight was a glaring oversight. Judging from the market reaction, we were not alone in this mistake. It is very hard to predict what happens next. But in our first article we present three scenarios as a way of creating a framework for thinking about the next phase in what has become a once in a lifetime financial crisis.
- As a means of assessing the potential effect on the G10 currencies, of the three scenarios, we employ a partial analysis based on our short term financial model (STFM). The STFM is introduced in our second article, where we discuss what information can be extracted from the model, as well as evaluate current spot misalignments.
- Finally, we consider the likely implication for Sterling of our revised Bank of England forecast – we now expect a first cut already in November. Other things being equal, the FX implication will probably be upward pressure on EUR/GBP in the short term followed by downward pressure in the longer term, due to the ECB also cutting rates. Accordingly, we still see room for EUR/GBP up to 0.82 in the short term, before returning to around 0.78 or lower in the longer term. A further strengthening of USD in the near term will, however, drag down on EUR/GBP.
- FX Crossroads* is published every second Wednesday. Next publication date is 15 October.

*Three scenarios for global markets  
(A partial analysis considering equity and oil prices)*

	Scenario 1	Scenario 2	Scenario 3
EUR/USD	1.32	1.47	1.62
USD/JPY	103	106	109
EUR/GBP	n/a	n/a	n/a
EUR/CHF	1.51	1.60	1.70
EUR/SEK	9.81	9.77	9.72
EUR/NOK	8.61	8.20	7.77
AUD/USD	0.73	0.83	0.93
NZD/USD	0.62	0.70	0.79
USD/CAD	1.12	1.04	0.97

*Current spot deviations from short term  
financial models*



# G10: Three scenarios for global markets

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## Flabbergasted

On Monday we outlined possible implications of the Troubled Asset Relief Programme (TARP) in the US (please see [What does TARP mean for FX?](#)). We did not stop to consider the impact of a rejection in the US House of Representatives, which in hindsight was a glaring oversight. Judging from the market reaction, we were not alone in committing this mistake.

It is very hard to predict what happens next. But below we present three scenarios as a way of creating a framework for thinking about the next phase in what has become a once in a lifetime financial crisis. The framework is modelled on an array of scenarios developed by our equity strategy team (contact Morten Kongshaug, [mokon@danskebank.dk](mailto:mokon@danskebank.dk), +45 45128057 for equity specific details).

In scenario 1, the financial crisis will continue unabated at least through to year end. We assume that the TARP will not be passed into law. Recessions in the US, Euroland and probably also Japan seem unavoidable, and credit and money markets will remain in a deep freeze.

Scenario 2 is our base scenario, featuring a further slowing in both US and European economies, but also mild upturns in 2009. We expect US rates to be left on hold in this scenario, but look for the ECB to cut rates. We also assume that financial conditions will gradually improve and that the TARP package will pass into law in the US. The multi-year period of deleveraging that got underway in 2007 will continue, however.

Scenario 3 combines a swift and successful response to end the financial crisis. This should allow for increased risk taking overall, just as the US economy should recover early in 2009. Global growth should slow to trend, but then recover led by BRIC economies.

Scenario 1: Downside risk	
Business cycle	Financial meltdown reinforces global slowdown, resulting in US/European recession and global hard landing
Credit cycle	Full scale and long lasting credit crunch, in which even financially healthy corporates and individuals will experience significant funding problems
S&P500 target	919 (-17%) (prices from 30/09)
Scenario 2: Base	
Business cycle	Global slowdown reinforced by financial crisis, but attempts to soften the blow will see major economies recovering in 2009, led by the US. Global economy slows to trend growth but then recovers
Credit cycle	Liquidity conditions gradually easing towards year-end but multi-year period of deleveraging has further to run
S&P500 target	1192 (+7%) (prices from 30/09)
Scenario 3: Upside risk	
Business cycle	Financial crisis eases swiftly, helping the US economy to state an early recovery in 2009, with global growth remaining relatively robust
Credit cycle	The credit crisis eases swiftly, causing only modest upset to healthy corporates and individuals
S&P500 target	1558 (+41%) (prices from 30/09)

Source: Danske Markets Equity Strategy

The three scenarios do not lend themselves to easy modelling on outcomes for FX markets since the relative blows aren't specific. But by adding an assumed response for oil prices to the expected response for equity markets, we can use our short-term financial FX models (see next article for details) to suggest a path for major currencies. Spe-

cifically, we assume that oil prices will fall to \$75 per barrel in scenario one, rise to \$100 in scenario 2 and rise to \$125 in scenario 3.

	Scenario 1	Scenario 2	Scenario 3
EUR/USD	1.32	1.47	1.62
USD/JPY	103	106	109
EUR/GBP	n/a	n/a	n/a
EUR/CHF	1.51	1.60	1.70
EUR/SEK	9.81	9.77	9.72
EUR/NOK	8.61	8.20	7.77
AUD/USD	0.73	0.83	0.93
NZD/USD	0.62	0.70	0.79
USD/CAD	1.12	1.04	0.97

Source: Danske Bank. See next article for model description. EUR/GBP is not available since the model does not depend on absolute stock markets or oil prices. EUR/SEK is not specifically sensitive to either as well.

In the case of EUR/USD, our models suggest a decline to 1.32 in scenario 1, a rise to 1.47 in scenario 2 and a rise to 1.62 in scenario 3. The logic is straightforward: a further drop in financial markets and the subsequent economic slump will reverse the liquidity cycle further and cause a flow of funds back into USD. In scenario 3 the opposite happens and risk seeking rises everywhere. Scenario 2 sees us returning to levels in place just after the TARP was first presented in mid-September.

On top of this we want to add a relative shift in the two business cycles. We do that through the 3m rate 1-year forward by making assumptions about monetary policy. In scenario 1 we assume that the Fed cuts to 1.5% and the ECB to 2.5%. In scenario 2 we expect the Fed to stay at 2% and the ECB to cut by 50bp. And in scenario 3 we expect the ECB to cut to 3.5% but look for Fed to raise rates by 50bp. In all three scenarios we expect market rates to exaggerate policy moves. By doing this, fair value for EUR/USD changes to **1.29 in scenario 1, 1.44 in scenario 2 and 1.56 in scenario 3.**

We stress that this is all-other-things being equal and dependent on a simple statistical model. Nonetheless, in the current uncertain environment it may be helpful to consider the near-term range of outcomes. We continue to believe that in a real-life environment our base-line scenario will produce a stronger USD in the coming year as EUR overvaluation fades.

# G10: Short term financial FX models

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## A simple and transparent model

In this article, we introduce our short term financial exchange rate model (STFM). The purpose of STFM is not to be used as a forecasting tool or trading rule. But instead to offer an understanding of past exchange rate movements and a crude measure of current spot misalignments. The model's strength lies in its simplicity, which enables a more transparent analysis of exchange rate movements. Considering the main G10 crosses, we find that the biggest misalignments are currently found in AUD/USD and NZD/USD, which are both well above the model estimate. Due to recent USD buying, EUR/USD has fallen back towards the model prediction. Those readers, who are not interested in the more technical details of the model, can skip the first page and proceed to the section entitled "Model characteristics and current estimates" on page 5.

## A very general exchange rate model

Conventional theory on exchange rate determination aims at establishing a link between the exchange rate and a set of economic fundamentals. In its most simple form, an exchange rate model could therefore be given by equation (1) below, which states that the exchange rate at time  $t$ ,  $S_t$ , is a function of a set of fundamentals at time  $t$ ,  $X_t$ , plus some form of random noise  $\varepsilon_t$ .

$$(1) \quad S_t = f(X_t) + \varepsilon_t$$

Unfortunately there is no consensus in economic theory on which variables to include in the fundamental set,  $X_t$ . Among the suggestions are: relative prices, relative economic growth, and relative external balances. There are, however, two main problems with using standard macroeconomic variables in short-term exchange rate models: (i) most macroeconomic variables are "backwards looking", while exchange rates are found to depend on the expectation of future fundamentals, and (ii) most macroeconomic variables have too low a frequency to be of use in short-term models. Instead we can use information from the financial markets, such as relative interest rates, relative equity

prices, commodity prices etc. This is valid, since current market prices will contain all information about future fundamentals in an efficient market.

While model (1) is quite general, it does impose one very important assumption about causality. The model implies that shocks to the set of fundamentals affect the exchange rate, but that shocks to the exchange rate do not affect the set of fundamentals. This is likely too crude a restriction for most choices of fundamentals, but can be imposed under the assumption that the foreign exchange market is the last financial market to clear. In order to avoid making this "exogeneity assumption" one would need to employ a different model framework, such as the vector autoregressive model. In order to keep the model simple we will, however, only consider univariate models.

## Accounting for non-stationarity

Another problem with model (1) is that empirical evidence points to both exchange rates and its determinants being non-stationary, which potentially can lead to "nonsense" models (this is also known as spurious inference). In order to account for this we could estimate model (1) in first differences of the variables, such that the model becomes:

$$(1') \quad \Delta S_t = f(\Delta X_t) + \varepsilon_t$$

Model (1') is a feasible exchange rate model, but it is perhaps also too limited for most strategic purposes. While model (1') can be used to understand which factors have driven the exchange rate in the past, it is not a "fair value" model and should not be used to forecast future exchange rate movements. In order to derive a "fair value" model we either need to impose the assumption that the exchange rate converge towards the model over time, or we need to replace  $\Delta X_t$  by its lagged values. We do both and estimate model (1') as an error-correction model (ECM model) given by equation (2).

$$(2) \quad \Delta S_t = \beta_0 + \beta_1 \Delta X_t + \alpha(S_{t-1} - X_{t-1} \Gamma) + \varepsilon_t$$

This specification is valid if both the exchange rate and the fundamentals are non-stationary (inte-

grated of order one) and cointegrate, such that the term  $(S_{t-1} - X_{t-1}\Gamma)$  is stationary. In order for the model to be an error-correction model, such that the exchange rate does in fact move towards the model estimate, we furthermore have to require the estimate of  $\alpha$  to be negative and significantly different from zero.

### Extracting information from the model

The output from model (2) is an estimate of the change in the spot rate. This is, however, not of prime interest. Instead, the fair value exchange rate level  $FV_t$  at any time can be backed out by cumulating the model estimates  $\Delta S_t^*$  from the beginning of the sample until time  $T$ , and conditioning on  $FV_0$ .

$$(3) \quad FV_t = FV_0 + \sum_t \Delta S_t^*$$

This method does, however, inherit two problems: (i) it is assumed that the exchange rate was at fair value at time  $t=0$  (i.e.  $FV_0 = S_0$ ), and (ii) the model is designed to be, on average, at fair value at time  $T$ . The model therefore yields no information about whether the end-of-sample spot exchange rate is diverging from a notion of fair value, since the model-predicted level is, by construction, on average equal to the spot level.

We do, however, receive two very important pieces of information from the model. First, when the cointegration vector in (2) is tested stationary, then this indicates that the level model is not spurious. Secondly, when the estimate of  $\alpha$  in (2) is negative and significantly different from zero, then this indicates that the exchange rate does in fact converge to the level model estimate. That is, we can both test the validity of the level model and whether it does in fact represent the notion of a fair-value model.

While different techniques exist to solve the endpoint problem, we will keep things simple and instead focus on the level-part of the ECM model, which by the arguments above is a valid representation. In the graphs on page 7 we have therefore graphed the level-part  $(S_{t-1} - X_{t-1}\Gamma)$  of the ECM model. This represents the notion of a fair-value estimate and can be used to evaluate excess spot movements.

On page 8 we have furthermore shown the model drivers. That is, we have graphed the year-to-date

cumulated contribution to changes in the fair value estimate for each of the model inputs. That is, the graph shows the year-to-date accumulation of regression coefficient times the first difference of each model input.

### Model characteristics and current estimates

Considering the main crosses of the G10 currencies, we can observe the following:

- **EUR/USD** is currently trading around the model estimate of 1.41. The model estimate has fallen 13 big figures since early July, driven mainly by a fall in the oil price and a narrowing of the EUR-USD interest rate spread. The EUR/USD model relies positively on the 3M-1Y forward interest rate spread, the oil price, and a world equity market index, while negatively on relative equities.
- **USD/JPY** is currently trading slightly above the model prediction of 104.7 after having exceeded the model estimate for two months. The model estimate has been fairly stable around 105 since April, as the support to JPY from falling equity prices has been broadly neutralised by a widening of the USD-JPY interest rate spread. The USD/JPY model relies positively on the 3M-1Y forward interest rate spread, a carry-to-risk measure, and a world equity index.
- **EUR/GBP** is trading slightly above the model estimate of 0.786. Like spot, the model estimate has been broadly flat since April. During the past week, however, the model prediction has fallen below 0.78 from 0.80, as especially the short-end EUR-GBP interest rate spread has turned more negative. The EUR/GBP model relies positively on the 3M-1Y forward interest rate spread and a carry-to-risk measure.
- **EUR/CHF** has fallen further during the latest rout on the financial markets, but the model prediction has fallen even more and currently stands below 1.56. This latest drop in the model estimate has been driven both by a fall in global equity prices and a marked narrowing of the EUR-CHF interest rate spread, as the market has priced in more expected rate cuts from the ECB than from the SNB. The

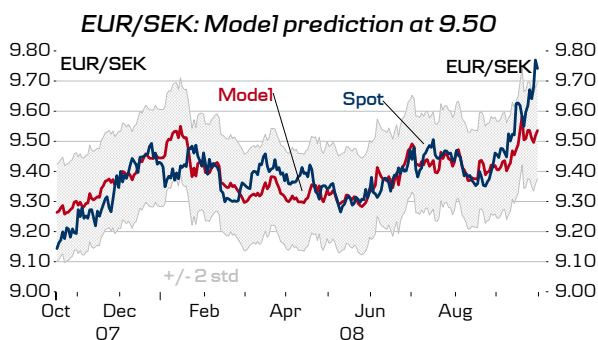
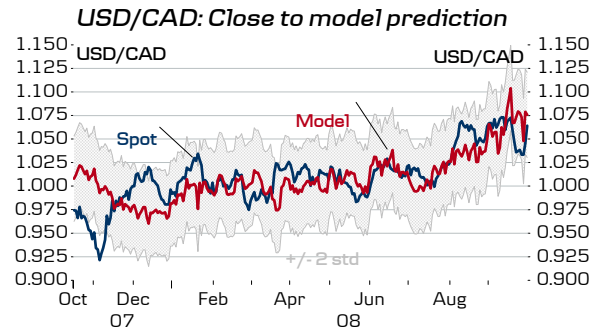
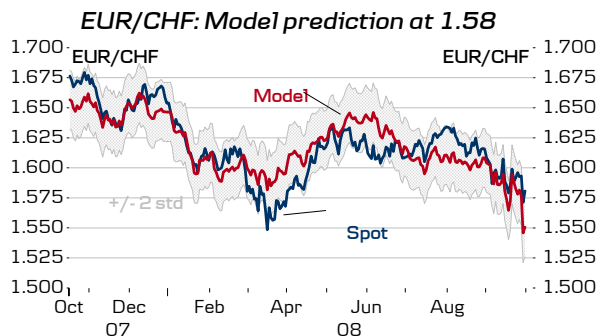
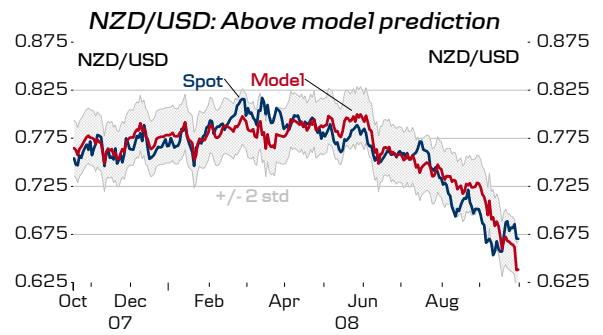
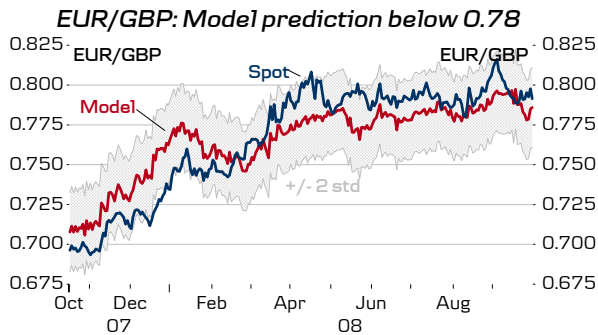
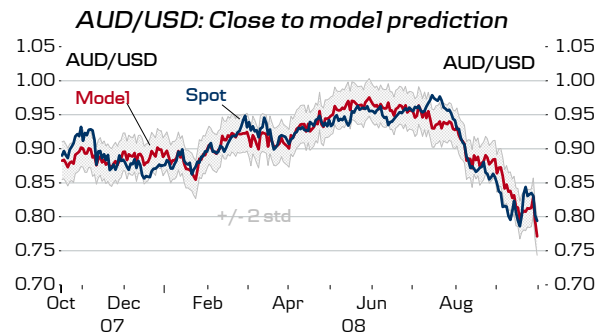
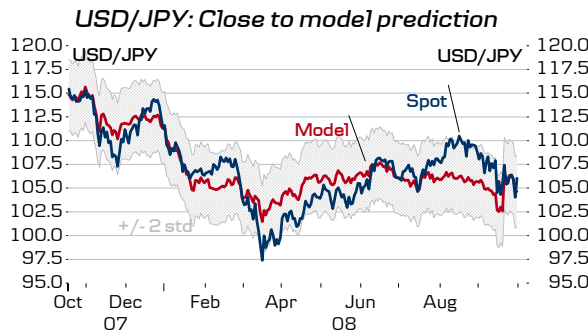
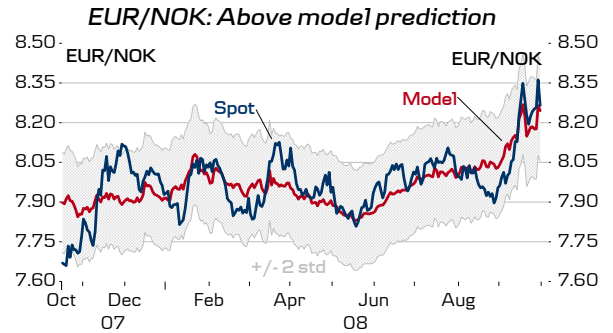
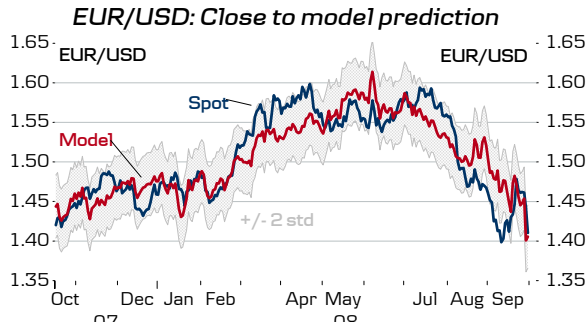
EUR/CHF model relies positively on the 3M-1Y forward interest rate spread, a carry-to-risk measure, and a world equity market index.

- **EUR/SEK** has moved well above the model estimate during the past week, as SEK has depreciated further against EUR taking EUR/SEK above 9.70, while a correction in the EUR-SEK interest spread and relative equities, has kept the model prediction around 9.50. In general, the EUR/SEK model, which relies positively on relative equities and the FRA-4 interest rate spread, and negatively on a world equity market index, appears less sensitive to spikes in risk appetite than the spot. The model thus indicates that we should expect EUR/SEK to trade considerably lower hadn't it been for the recent drop in risk appetite.
- **EUR/NOK** has moved sharply higher during September, as has the model estimate, on falling global equity prices, a fall in the oil price, and a narrowing of the EUR-NOK interest rate spread. EUR/NOK currently trades close to the model, which relies positively on the FRA-4 interest rate spread, and negatively on the oil price and a world equity market index.
- **AUD/USD** has seen a historical move during the past two months, as the pair has fallen close to 20% from the 0.98 high. The model estimate has fallen alongside the spot mainly on a reduction in carry-to-risk and weak global equity markets. The fall in the oil price (a proxy

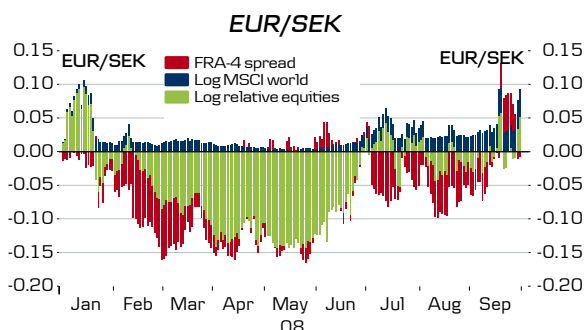
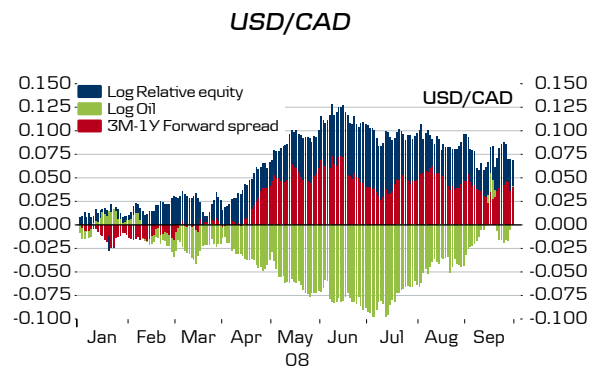
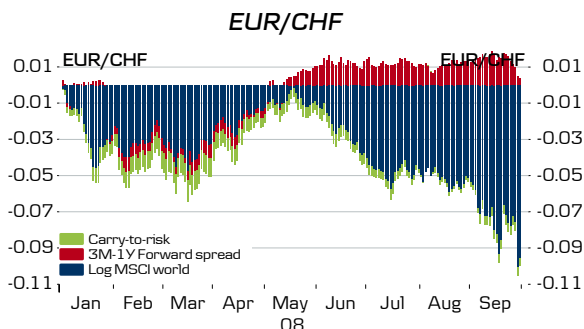
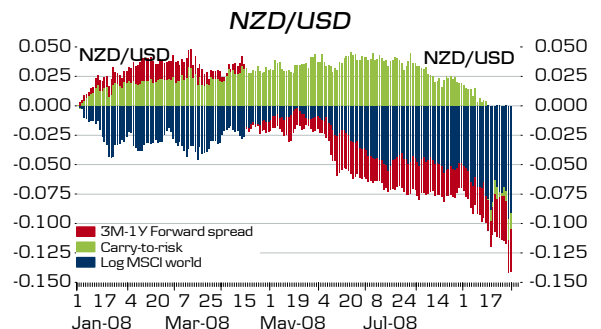
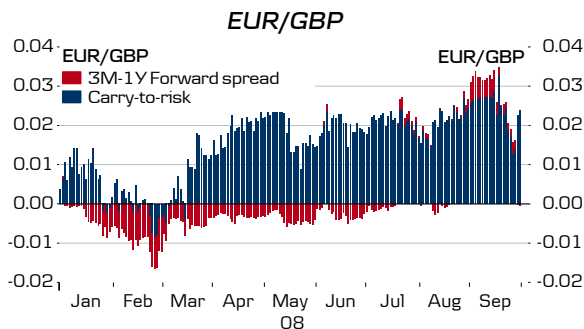
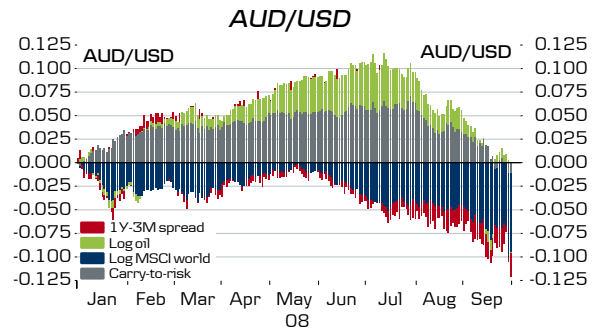
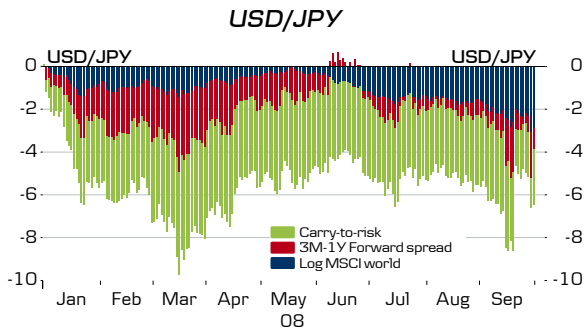
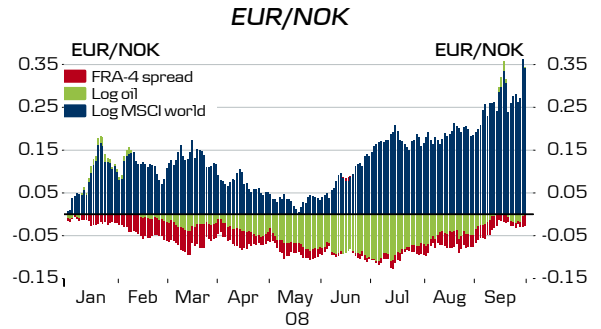
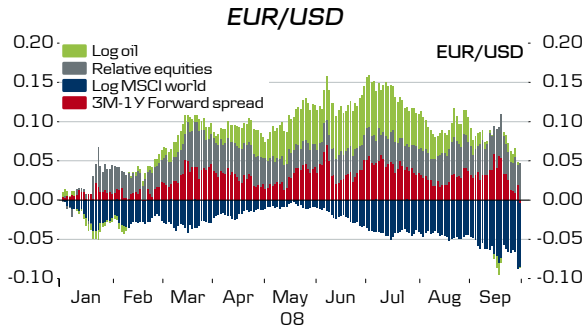
for commodity prices) has also worked in this direction, although to a lesser extent. AUD/USD is currently trading above the model, which relies positively on the 3M-1Y forward interest rate spread, a carry-to-risk measure, the oil price, and a world equity index.

- **NZD/USD** saw a correction during the past two weeks, as the pair shortly moved back above 0.68 after reaching a low of 0.64 on 11 September. The model estimate, however, stands at 0.64, well below spot, and has fallen a total of 16 big figures since June, as interest rates have come down in New Zealand, making NZD less attractive as a carry-target, and as global equity markets have been weak. The NZD/USD model relies positively on the 3M-1Y forward interest rate spread, a carry-to-risk measure, and a world equity index.
- **USD/CAD** fell to 1.03 during the past weeks, but has since corrected higher towards the model estimate of 1.08. The model estimate had, as spot, been fairly stable around unity during the first half of this year. During August and September, however, the model estimate edged higher on a fall in the oil price, which has more than neutralised the support to CAD from relative equity performance. The USD/CAD model relies positively on the 3M-1Y forward interest rate spread, and negatively on the oil price and relative equities.

Short-term financial models (ECM level part)



### Short-term financial model drivers (cumulated from 01/01/2008)



The graphs depict the year-to-date cumulated contribution to changes in the fair value estimate for each of the model inputs. That is, the graph shows the year-to-date accumulation of regression coefficient times the first difference of each model input.

# GBP: BoE rate cuts getting closer

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## Earlier-than-expected BoE rate cuts will keep sterling under pressure in short term

The Bank of England's (BoE) Monetary Policy Committee (MPC) now acknowledges that the toll from recent financial turmoil has intensified the dangers facing the economy. This paves the way for rate cuts earlier than previously expected. The growing financial convulsions, the bleak economic outlook combined with recent statements from MPC members convince us that the BoE will start to cut rates soon. We have therefore revised our BoE forecast (please see *Flash Comment: Revised BOE interest rate forecasts*) and now expect the BoE to cut rates by 25bp in November, followed by another 5 cuts into 2009 taking the Bank rate to 3.5% in the first half of 2009. With the recent very weak PMI numbers, there is a clear chance, though, that the MPC could choose to start the cut cycle already this month. While an October cut almost is fully priced in the OIS market, we think BoE will prefer to wait until November where also the *Inflation Report* is published. We furthermore think the MPC would prefer to lower the base rate in small, frequent steps in order tackle the economic downturn and subsequent downward pressure on prices.

Other things equal, the FX implication will probably be upward pressure on EUR/GBP in the short term followed by a larger downward pressure in the longer term due to the ECB also starting to cut rates. Accordingly, we still see room for EUR/GBP up to 0.82 in the short term, before returning to around 0.78 or lower in the longer term. A further strengthening of USD in the near term will however drag down on EUR/GBP.

### Why the MPC has been so split

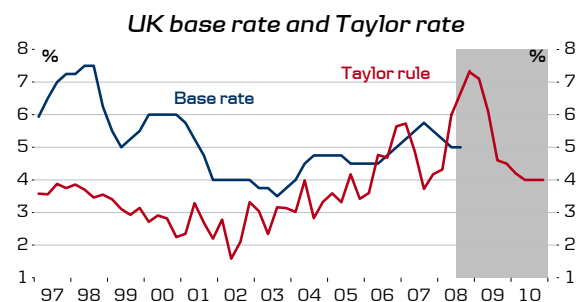
In its latest *Quarterly Bulletin* BoE said that "output [is expected] to be broadly flat over the next year or so, after which growth gradually recovers. But there is a risk that the slowdown may be more pronounced". Growth projection was revised downwards and risk was perceived to be on the downside. BoE attaches rather large possibilities -

44% and 48% - that growth will be negative in Q1 09 and Q2 09.

BoE still foresees higher inflation rates over the next few months, citing energy, food and import prices as the main drivers. CPI inflation is expected to fall back sharply to a little below the 2% target in the medium term, but considerable uncertainty surrounds this outlook. Overall, BoE thinks risks to the inflation outlook lie on the upside.

In general, BoE makes a virtue of the necessity to spell out the high degree of uncertainty surrounding both the CPI and especially the GDP outlook. It is however, its best projection and perhaps more importantly, it does not deviate that much from market forecasts in general. Accordingly, we will rely on these in the following.

When applying a standard Taylor approach we reach at least two conclusions. First, the current base rate is far too low to deal with the present level of inflation. The Taylor rule implies that the base rate should be raised 200bp immediately. Second, by the end of 2008 and throughout 2009, the base rate needs to be lowered around 300bp due to lower inflation and weaker growth ahead. Both scenarios are probably highly unrealistic, but it gives a feeling of the dilemma that BoE has faced during the year and why the committee has been so split on rate decisions.



Note: Taylor rule is derived as  $0.5 \cdot (\text{BoE GDP growth forecast} - \text{UK potential growth}) + 0.5 \cdot (\text{BoE CPI inflation forecast} - \text{BoE inflation target}) + \text{CPI inflation} + \text{inflation target}$   
Source: Reuters Ecowin, Bank of England, Danske Bank

### Swing member has swung

Kate Barker, an external member of the MPC, said in a speech last week that "the latest developments

in financial markets have now increased the downside risks” and added that “there are real dangers that the impact of these would be a downturn in the economy which is unnecessarily large and would therefore result in a large undershoot of the inflation target.”

Since she joined the MPC in 2001, Kate Barker has rarely been in a minority; that holds both when rates have been raised and lowered as she has voted in favour. Her preferred proposals have only been turned down four times – but on all four occasions the MPC has moved in her direction at one of the subsequent meetings. In other words, she can be seen as a ‘leading indicator’ for the remaining committee.

Other members prefer to cut rates as well. David Blanchflower, the committee's arch-dove, has stepped up his demands for swift action by the Bank to stave off a severe downturn and has recently renewed his plea for steep rate cuts. Blanchflower has called for lower rates in the past year and voted for a 50bp cut at the September meeting. Sir John Gieve, the Bank's Deputy Governor, has also become increasingly anxious about the deteriorating growth outlook and indicated that he foresees a sharp retreat by inflation into next year.

Hawkish comments are however still voiced in the MPC. Tim Besley voted for rate hikes over the summer and Andrew Sentence suggested last week that he remains in little hurry to back a cut in rates.

The remaining four members will therefore be decisive. Governor Mervyn King has been heavily criticised for his way of handling the financial crisis and he will probably clutch the straw that has given him at least some credibility, namely inflation, and prefer unchanged rates until the inflation peak is truly past. But the Governor has not minded being in the minority previously.

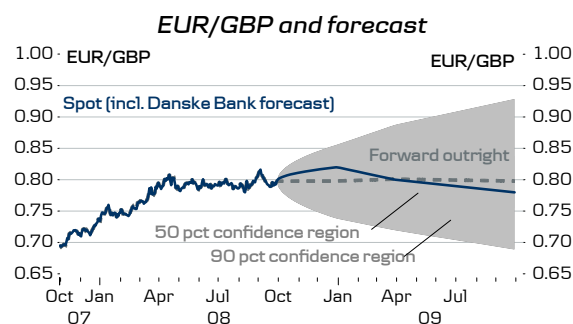
We think that Deputy Governor Charles Bean who also voted pre-emptively for rate cuts in 2001 and 2005 will soon vote for lower rates. Then we only need one more member to have a majority for lower rates. We can therefore hope that Paul Tucker, also executive director of markets and therefore with an excellent opportunity to spot the

grim financial conditions, or Spencer Dale, who has the US experiences in clear memory, will face realities and start voting for lower rates.

Whether the easing cycle starts in October or November is in our view less important. The key point is that BoE will cut rates this year and when it starts doing so, it will continue until the required amount of monetary stimulus is achieved. In our view, this will not be before the base rate is 100-150bp lower.

#### EUR/GBP: Little higher, then lower

The FX implication of the earlier-than-expected BoE rate cuts will also depend on the reactions from the ECB. In our main scenario the ECB initiates an easing cycle in December (see Flash Comment: *Euro-land to ease faster and more*). Accordingly, relative rates will potentially favour EUR relative to GBP in the very short run. We believe that this rate advantage will draw to a close by H1 09 and EUR/GBP most likely will see a turning point here too.



Source: Reuters Ecowin, Danske Bank

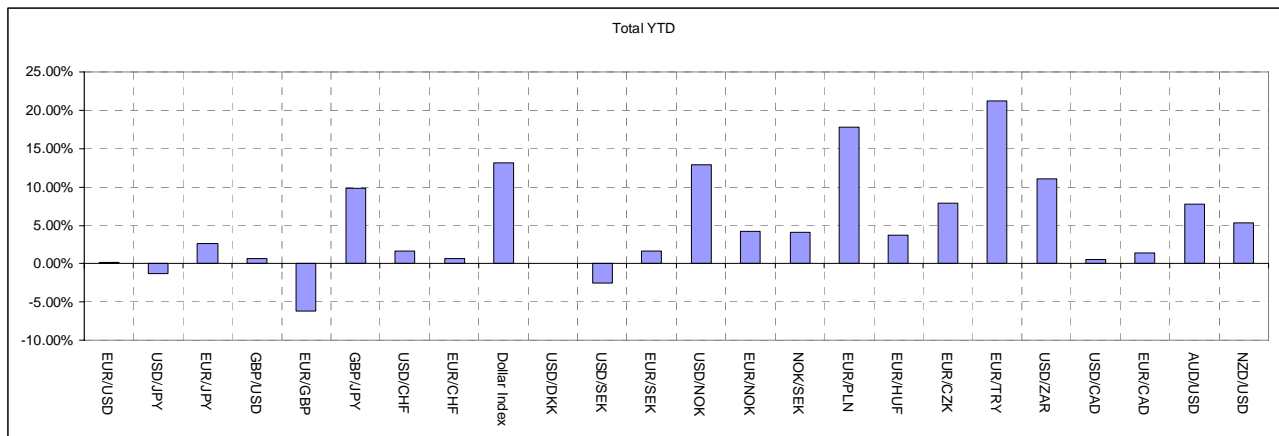
Our 3M EUR/GBP forecast implies potential up to 0.82. This might be far away but we can count some risk factors (collapse in spending, further defaults in financial markets, deepening of housing recession) that can push such a level. Our 6M forecast is 0.80. Here we acknowledge that risk is on the downside. Current tensions in money markets and equity prices falling are not sustainable in the medium term and any relief rally will eventually favour GBP relative to EUR. Our 12M forecast of 0.78 is perhaps easier to buy into; most agree that the EUR/GBP fair value estimate is lower than the current spot and a salvage of troubled financial institutions, perhaps in combination with a markedly bettering of market conditions, can spark a GBP appreciation. If anything, the risk to our 12M forecast lies on the downside.

# Trading Points

01/10/2008

10:19 (CET)

Strategy (Short-Medium Term)										
MARKET	LAST	Trend	5DCHG	Strategy	Stop/Entry	1st Target	2nd Target	Stop/Reverse	New Target	Total YTD
<b>CURRENCIES - Majors</b>										
EUR/USD	1.4116	📉	-3.45%	LONG		1.4280		1.3880	1.3695	0.19%
USD/JPY	106.24	📈	0.12%	Go Long>	107.02	108.26	Go Short<	103.53	102.19	-1.35%
EUR/JPY	149.96	📉	-3.35%	LONG		153.10		148.50	147.07	2.59%
GBP/USD	1.7776	📉	-3.74%	Go Long>	1.8120	1.8501	Go Short<	1.7445	1.7281	0.62%
EUR/GBP	0.7941	📈	0.28%	SHORT		0.7800		0.7998	0.8071	-6.15%
GBP/JPY	188.86	📉	-3.61%	LONG		194.85		186.40	183.20	9.80%
USD/CHF	1.1194	📉	2.54%	Go Long>	1.1280	1.1360	Go Short<	1.0885	1.0626	1.70%
EUR/CHF	1.5802	📉	-1.00%	LONG		1.5880		1.5664	1.5597	0.70%
Dollar Index	79.249	📈	0.03%	SHORT		78.237		79.695	80.145	13.10%
<b>CURRENCIES - Scandies</b>										
USD/DKK	5.2849	📈	3.58%	SHORT		5.2278		5.3710	5.4375	0.01%
USD/SEK	6.8850	📈	4.10%	SHORT		6.7790		6.9915	7.1305	-2.56%
EUR/SEK	9.7186	📈	0.52%	SHORT		9.6652		9.8130	9.8975	1.69%
USD/NOK	5.8508	📈	3.69%	LONG		5.9445		5.7660	5.7131	12.86%
EUR/NOK	8.2590	📉	0.10%	LONG		8.3282		8.2480	8.1964	4.26%
NOK/SEK	1.1767	📈	0.39%	SHORT		1.1693		1.1802	1.1827	4.13%
<b>CURRENCIES - Non Majors</b>										
EUR/PLN	3.3752	📈	1.17%	LONG		3.4286		3.3835	3.3454	17.76%
EUR/HUF	241.41	📈	0.07%	Go Long>	244.61	248.18	Go Short<	239.58	236.65	3.70%
EUR/CZK	24.572	📉	0.56%	Go Long>	24.967	25.384	Go Short<	24.319	23.823	7.85%
EUR/TRY	1.7883	📉	-1.80%	Go Long>	1.8620	1.8917	Go Short<	1.7845	1.7533	21.22%
USD/ZAR	8.2420	📈	0.84%	SHORT		8.1458		8.3750	8.5435	11.01%
USD/CAD	1.0574	📈	1.81%	SHORT		1.0525		1.0659	1.0688	0.59%
EUR/CAD	1.4925	📉	-1.71%	SHORT		1.4810		1.5135	1.5171	1.43%
AUD/USD	0.7987	📉	-4.27%	Go Long>	0.8355	0.8575	Go Short<	0.7865	0.7623	7.72%
NZD/USD	0.6763	📉	-0.98%	LONG		0.6834		0.6640	0.6560	5.34%



## Trading recommendations and G10 central bank overview

### Directional trades

Open	Start date	Level	Now	Target	Stop	P/L (incl carry)
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We currently have no open trade recommendations

Recently closed	Start date	Level	Exit date	Level	P/L (incl carry)
Sell AUD/USD	23/09/08	0.842	26/9/08	0.830	1.43
Sell USD/JPY	03/09/08	108.600	15/9/08	105.620	2.76
Sell EUR/NOK	19/09/08	8.27	1/10/08	8.21	0.71

P/L 2008	18.23%	Open	0.00%	Closed	18.23%
# of trades *	117	# of trades 2008	32		
- average net gain	0.43%	- average net gain	0.57%		
- batting average	0.54	- batting average	0.59		

\* Since 17 November 2005

### Central bank overview

Country	Official interest rate	Policy rate	Next decision*	Last change
United States	Federal funds rate	2.00	29 Oct (unch)	30 Apr (-25bp)
Euroland	Minimum bid rate	4.25	2 Oct (unch)	3 July (+25bp)
Japan	Overnight call rate	0.50	7 Oct (unch)	21 Feb 07 (+25bp)
United Kingdom	Base rate	5.00	9 Oct (unch)	10 Apr (-25bp)
Switzerland	3-month Libor	2.75	11 Dec (unch)	13 Sep 07 (+25bp)
Canada	Overnight rate	3.00	21 Oct (unch)	22 Apr (-50bp)
Australia	Cash rate	7.00	7 Oct (-25bp)	2 Sep (-25bp)
New Zealand	Cash rate	7.50	22 Oct (-50bp)	10 Sep (-50bp)
Sweden	Repo rate	4.75	23 Oct (unch)	4 Sep (+25bp)
Norway	Sight deposit rate	5.75	24 Sep (unch)	23 Apr (+25bp)

\* Expected decision in brackets

### G10 central bank forecast overview

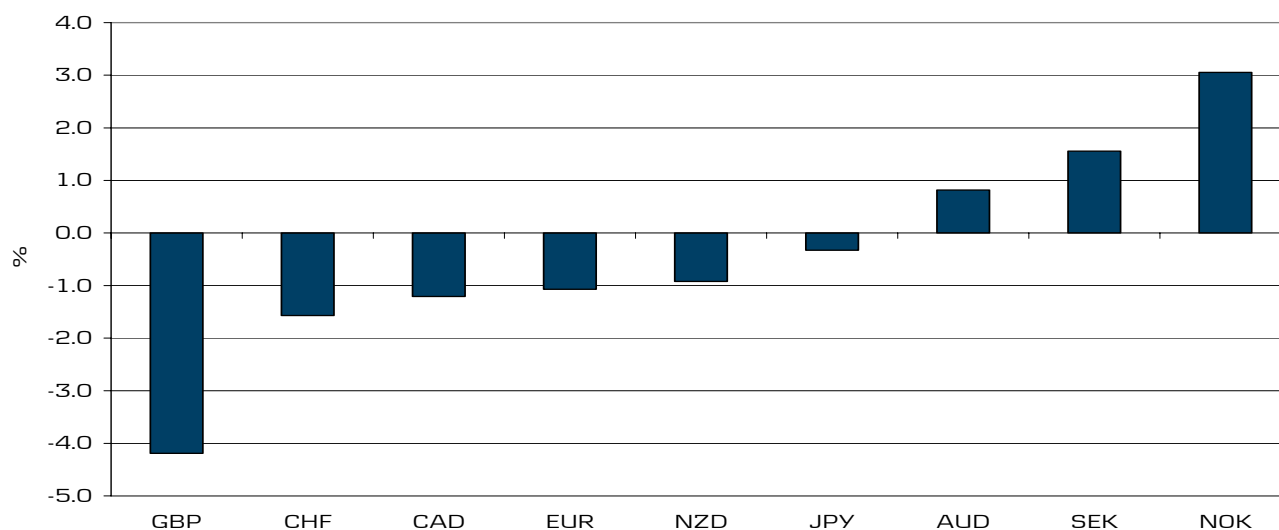
	FED	BOC	ECB	BOE	SNB	RB	NB	BOJ	RBA	RBNZ
Now	2.00	3.00	4.25	5.00	2.75	4.75	5.75	0.50	7.00	7.5
2008 Oct	29-Oct	21-Oct	02-Oct	09-Oct		23-Oct	29-Oct	7+31-Oct	07-Oct	23-Oct
Nov			06-Nov	06-Nov				21-Nov	04-Nov	
Dec	16-Dec	09-Dec	04-Dec	04-Dec	11-Dec	17-Dec	17-Dec	19-Dec	02-Dec	04-Dec
2009 Jan	28-Jan							22-Jan		
Feb							04-Feb	19-Feb	03-Feb	
Mar	17-Mar						25-Mar	17-Mar	03-Mar	
Apr	29-Apr							7+28-Apr	07-Apr	
May							06-May			
June	24-Jun						24-Jun			
July										
Aug										
12M	2.00	3.00	3.50	3.50	2.50	4.00	5.25	0.50	6.25	6.50
Rate cut	Rate hike									

## Exchange rate forecasts

	Spot	Forecast				Forecast vs forward outright, %			
		+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
<b>Exchange rates vs EUR</b>									
USD	1.412	1.41	1.40	1.35	1.35	-0.4	-1.1	-4.6	-4.0
JPY	149.70	148	147	142	142	-0.9	-0.8	-3.5	-2.0
GBP	0.792	0.800	0.82	0.80	0.78	0.9	3.4	0.6	-2.3
CHF	1.580	1.58	1.58	1.58	1.56	0.1	0.5	0.9	0.5
DKK	7.46	7.46	7.46	7.46	7.46	0.1	0.1	0.0	0.0
NOK	8.27	8.15	8.00	7.90	7.80	-2.0	-4.2	-6.1	-8.0
SEK	9.74	9.60	9.50	9.45	9.40	-1.7	-2.7	-3.5	-4.1
PLN	3.39		3.40	3.40	3.45	0.0	-0.2	-0.5	0.5
CZK	24.54		24.50	25.00	25.25	-0.2	-0.2	2.0	3.2
HUF	242		245	250	255	0.5	0.1	1.2	1.8
TRY	1.79		1.85	1.90	1.95	1.8	-0.4	-1.0	-5.0
<b>Exchange rates vs USD</b>									
DXY	79.2	79.1	79.8	81.0	80.8	0.2	1.2	2.8	2.4
JPY	106.1	105	105	105	105	-0.5	0.3	1.1	2.0
GBP	1.78	1.76	1.71	1.69	1.73	-1.3	-4.3	-5.1	-1.8
CHF	1.12	1.12	1.13	1.17	1.16	0.5	1.7	5.7	4.7
DKK	5.28	5.29	5.33	5.53	5.53	0.4	1.2	4.8	4.2
NOK	5.86	5.78	5.71	5.85	5.78	-1.5	-3.0	-1.5	-4.0
SEK	6.90	6.81	6.79	7.00	6.96	-1.3	-1.6	1.2	0.0
CAD	1.06	1.06	1.07	1.07	1.07	0.1	1.2	1.2	1.0
AUD	0.80	0.80	0.80	0.78	0.76	0.5	0.9	-0.9	-1.9
NZD	0.67	0.66	0.66	0.64	0.63	-1.6	-0.9	-3.0	-2.6
ZAR	8.27		8.30	8.50	8.70	-0.3	-1.7	-1.3	-3.0
BRL	1.90		1.85	1.90	1.90	-3.6	-4.9	-4.1	-8.1
MXN	10.93		10.80	10.90	11.00	-1.5	-2.3	-2.5	-4.0
CNY	6.85		6.81	6.76	6.60	-0.3	-1.7	-2.6	-3.9

Note: GBP, AUD and NZD are denominated in local currency rather than USD

## Expected change in USD vs forwards, 3m



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