

Markets remain nervous

Today's comment

Majors & Scandies

By the Majors & Scandis Team

Sentiment was mainly negative on Tuesday as investors seem to worry that Congress will stonewall negotiations on the historical 700 USD plan aimed at bailing out the distressed banking system. Thus the major stock indices slid for the second day in a row, and front Eurodollar futures dropped by around 13 ticks as credit conditions tightened anew.

This morning the Fed has announced that it has established a temporary swap line with the Reserve Bank of Australia (RBA), Danmarks Nationalbank, Norges Bank and Sveriges Riksbank in order to address the liquidity issues which are currently haunting the financial markets. The swap arrangement will provide the RBA and Sveriges Riksbank with 10 bn USD each while Norges Bank and Danmarks Nationalbank are assigned 5 bn USD each.

Today focus is likely to remain on Bernanke, who speaks again this afternoon. However, turning towards Scandinavia, Norges Bank is scheduled to announce interest rates this afternoon. From a macro economic point of view there is scope for another rate hike in Norway as inflation remains an issue. However as the crisis sweeps across the global financial markets we expect Norges Bank to leave the key rate unchanged at 5.75% this time around.

Emerging Markets

By the Emerging Markets Team

Financial markets continue to focus squarely on the eventual content of the US rescue package - and while the reaction late last week indicated that markets were sure to get the toy they have always wanted from Father Christmas - aka Mr. Paulson - fears are now increasing that there may just be a woollen jumper under the Christmas tree. Yesterday, Bernanke gave the expected warning on the risk of delaying the package (in rather stark terms), but politicians seem to want to include restrictions on the package itself - and on the banks who are helped out by it. Today, focus

continues with Bernanke slated to give two hearings: one on the economy and one on the financial crisis - but it should come as no surprise if the first touches mainly on the subject of the second. Hence, uncertainty remains high. The ZAR took a ride in the roller coaster yesterday, weakening on news that a number of ministers resigned but strengthening again on news that Finance Minister Manuel would be staying on board. Still, yesterday's news highlights the vulnerability of the ZAR, both from the political front and from the fundamental one (inflation once again ticked higher yesterday while retail sales fell 4.6% y/y). In Iceland, we will receive inflation figures today, but focus here remains on the state of the large Icelandic banks. With credit spreads remaining high, international credit market functioning remaining impaired and the ISK forward market still in disarray, the ISK remains in the firing line - not the least because the speculation of bank rescue packages elsewhere highlights the Icelandic problem of bank size relative to the economy. While we have reached our 140 target for EUR/ISK and we thus turn neutral on the cross for now, risks remain elevated for a further sell-off. The main event - besides Bernanke speaking again (and again) today for EM is the Polish rate decision - not so much for the outcome (unchanged) but for what they have to say on recent events in the financial markets.

Today's Key Events

- **N/A Rate announcement from Poland (PLN)**
- **10:00 Ifo (DEM)**
- **11:00 CPI (ISK)**
- **14:00 Rate announcement from Norges Bank (NOK)**
- **14:45 Press conference at Norges Bank (NOK)**
- **16:00 Bernanke testifies before Congress (USD)**
- **18:00 ECB's Stark speaks (EUR)**
- **20:30 Paulson and Bernanke testifies on the financial crisis before House Panel (USD)**

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Majors Short Term (0-1 Month) FX Recommendations						
Currency	Spot	Short Term	Entry Date	Entry Price	Target*	Stop Loss*
EURUSD	146,683	neutral	sep 05		140,90 - 148,60	-
USDDKK	508,717	neutral	sep 05		502,15 - 529,60	-
EURGBP	79,16	neutral	aug 28		77,95 - 82,00	-
GBPDKK	942,649	neutral	aug 28		910,00 - 957,28	-
EURJPY	155,262	neutral	sep 05		148,20 - 158,75	-
JPYDKK	4,80608	neutral	sep 05		4,70 - 5,04	-
EURCHF	159,6	neutral	jun 06		154,40 - 160,80	-
CHFDKK	467,544	neutral	jun 06		464,06 - 483,29	-
EURNOK	820,152	neutral	sep 01		815,00 - 854,70	-
NOKDKK	90,9833	neutral	sep 01		87,31 - 91,56	-
EURSEK	959,33	neutral	jun 04		953,00 - 974,00	-
SEKDKK	77,7836	neutral	jun 04		76,61 - 78,30	-
AUDUSD	83,57	neutral	aug 08		78,40 - 86,65	-
NZDUSD	68,08	neutral	aug 06		67,15 - 72,00	-
USDCAD	103,53	neutral	feb 19		103,00 - 106,55	-
USDJPY	105,85	neutral	maj 05		100,90 - 108,80	-

* Adjusted against DKK to daily EURDKK exchange rate

<< = Recommendation updated

Emerging Markets Short Term (0-1 Month) FX Recommendations						
Currency	Spot	Short Term	Entry Date	Entry Price	Target*	Stop Loss*
EURCZK	24,13	neutral	jul 07		23,50 - 25,50	-
CZKDKK	30,90	neutral	jul 07		29,24 - 31,73	-
EURPLN	3,30	neutral	jul 24		3,25 - 3,50	-
PLNDKK	226,16	neutral	jul 24		213,06 - 229,44	-
EURISK	139,20	neutral	sep 24		132,00 - 147,00	- <<
ISKDKK	5,36	neutral	sep 24		5,07 - 5,65	- <<
EURTRY	1,82	neutral	sep 19		1,74 - 1,90	-
TRYDKK	408,74	neutral	sep 19		392,47 - 428,56	-
EURZAR	11,93	neutral	sep 19		11,00 - 12,20	-
ZARDKK	62,50	neutral	sep 19		61,12 - 67,79	-

* Adjusted against DKK to daily EURDKK exchange rate

<< = Recommendation updated

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