

Fed Funds Unchanged at 2%

Today's comment

Majors & Scandies

By the Majors & Scandis Team

Some relief sentiment has entered the market as the U.S. Government agreed to rescue mortgage insurer American International Group (AIG) with a \$85 billion loan from the Federal Reserve of New York. The U.S. Government will in return receive an 80% stake equity interest in AIG and can veto any dividend payments to common and preferred shareholders. Barclays has announced that it has agreed to buy Lehman Brothers North American investment banking and capital markets divisions (including New York headquarters). Morgan Stanley's earnings were better than the market expected, but there is still some concerns in the market whether or not the bank is going to continue as an independent bank. The Federal Reserve kept the fed funds rate at 2% and gave thereby no gifts to the stressed financial markets. The statement acknowledged the elevated stress in financial markets and that the tight credit conditions could weigh on economic growth, but otherwise it was a relatively dull statement. There is no doubt that the financial markets have taken overnight developments positively. However, it is still way too soon say that everything is back to business as usual – well you could probably argue that we are back to business as usual as per the last 14 months. Overall, there are still a lot of uncertainties out there and volatility is likely to remain high for the time being. That said, relief sentiment is likely to dominate (unless other bad news are going to disturb the picture) today's session.

Emerging Markets

By the Emerging Markets Team

The FOMC disappointed some in the market by keeping rates on hold. Initially this was disappointing for the markets and equities were dropping. However during the night the US government agreed to lend as much as 85 billion dollar to AIG to save the biggest insurer in USA from collapse. By these two actions FED chairman Bernanke is betting he can use targeted emergency loans rather than another



key rate cut to fight the credit crisis. Looking at Emerging markets we keep our recommendations and have the following comments:

TRY: We look forward to the interest rate meeting tomorrow. We expect the central bank to be credible and keep the key rate unchanged at 16.75%. This should help supporting the TRY and therefore we keep our range.

PLN: Yesterday the Polish government opened talks about a timetable for euro adoption with central bankers for the first time. After the meeting Tusk told reporters that Poland should meet all euro adoption criteria in 2011 and expects a positive decision on the adoption from the European Commission. He added that a detailed timetable for the euro adoption will be ready in mid-October. This has been very positive for PLN with EURPLN dropping from 3.42 to 3.34. Of the 5 criteria, inflation is likely to be the most problematic for Poland and 2011 is in our view still very optimistic.

ISK: Locals are increasingly getting pro-Euro and pro-EU with the latest polls showing that 55% + of people want to adopt both. The question is also getting increasingly serious among politicians. However short term EURISK will still be trading around the 131 level because of the risk aversion in global markets.

Today's Key Events

- 11:00 Eurozone Trade Balance, EUR
- 12:00 CBI Industrial Trends, GBP
- 14:30 Housing Starts, USD
- 14:30 Building Permits, 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	141,7	neutral	sep 05		140,90 - 148,60	-
USDDKK	526,212	neutral	sep 05		501,78 - 529,20	-
EURGBP	79,3	neutral	aug 28		79,00 - 81,00	-
GBPDKK	940,281	neutral	aug 28		920,55 - 943,85	-
EURJPY	150,323	neutral	sep 05		148,00 - 153,00	-
JPYDKK	4,96027	neutral	sep 05		4,87 - 5,04	-
EURCHF	158,98	neutral	jun 06		157,70 - 161,20	-
CHFDKK	469,017	neutral	jun 06		462,56 - 472,82	-
EURNOK	827,5	neutral	sep 01		815,00 - 840,00	-
NOKDKK	90,1079	neutral	sep 01		88,77 - 91,49	-
EURSEK	961,59	neutral	jun 04		953,00 - 966,00	-
SEKDKK	77,5427	neutral	jun 04		77,19 - 78,24	-
AUDUSD	79,7	neutral	aug 08		76,70 - 82,60	- <<
NZDUSD	65,96	neutral	aug 06		63,00 - 68,90	-
USDCAD	106,94	neutral	feb 19		104,30 - 107,80	-
USDJPY	106,09	neutral	maj 05		104,20 - 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	23,84	neutral	jul 07		23,50 - 25,50	-
CZKDKK	31,28	neutral	jul 07		29,25 - 31,74	-
EURPLN	3,32	neutral	jul 24		3,42 - 3,18	- <<
PLNDKK	224,38	neutral	jul 24		234,53 - 218,08	- <<
EURISK	130,77	neutral	jul 28		120,00 - 133,00	-
ISKDKK	5,70	neutral	jul 28		5,61 - 6,22	-
EURTRY	1,78	neutral	sep 11		1,70 - 1,85	-
TRYDKK	418,48	neutral	sep 11		403,15 - 438,72	-
EURZAR	11,45	buy	aug 19	11,35	12,00	11,35
ZARDKK	65,13	sell	aug 19	65,69	62,15	65,69

* Adjusted against DKK to daily EURDKK exchange rate

<< = Recommendation updated

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