

From “It’s all going to H...” to “Euphoria” in an instant

Today’s comment

Majors & Scandies

By the Majors & Scandis Team

OMG what a week we just had. What we experienced last week will most likely be in the history books of the future. Everything was flying around in a market with extreme volatility. We saw flight to quality in a magnitude rarely seen; investors were fleeing into US Treasuries selling risky assets and an instant later the central banks or the US Government intervened and euphoria was all over the place. During the weekend, the Bush administration finalised the rescue package and sent it to Congress seeking authority to handle probably the worst crisis since the Great Depression. Details of the rescue plan are still uncertain, but we do know that the proposed package features an option to buy up to \$700 billion of home and commercial mortgages and related assets from US banks. This should enable the US Government to gather all the toxic securities in one government-controlled company removing them from the balance sheets of the stressed banks. Hopefully, this will improve the trust between banks and boost the credit markets. Short selling has been banned in the US and in the UK for financial companies and in Australia the Australian Securities and Investment Commission has banned ALL short selling. We still prefer to stay on the sideline with our short-term recommendations, which means that we have only updated a few ranges in our table. Today we are leaning towards a positive day, but as we all witnessed last week, positive sentiment can vanish in an instant. The financial markets will most likely be awaiting details of the rescue package and listening to central bankers who are on the wires during the day.

Emerging Markets

By the Emerging Markets Team

Whatever else you may think of Pres. Bush Junior, he does have a refreshing way of putting things simply and clearly: when addressing the proposed rescue package he said that "This is going to be a big package because it's a big problem"! You can say that again, mr.



President! While EM currencies also benefitted from Friday’s huge relief rally - and could do so further in the days to come - we think that uncertainty remains huge, not the least on the exact form of the rescue package. While Mr. Paulson was asking for full power to spend the 700bn USD (to begin with), including a guarantee that his decisions could not be challenged by the courts. Politicians who are in fact handing him a blank cheque will most likely require tight controls and accountability - not the least because the money will go to help the banks that the politicians are in fact blaming for the whole mess to begin with. Hence, the week ahead will only be about news and rumours on the rescue package, with local stories still more or less immaterial. Considering that EM currencies weathered the storm well last week, this should also leave upside limited. Hence, uncertainty rules! One position we do stick to is our short ISK position. While the credit spreads did come down slightly for two of the large Icelandic banks on Friday, one actually went higher, leaving the average higher on the day. Distrust of the Icelandic banking sector remains very high, leaving the ISK exposed.

Today’s Key Events

- 09:00 ECB’s Trichet speaks, EUR
- 10:00 BoE’s Gieve speaks, GBP
- 14:00 Core Inflation, PLN
- 14:30 Retail Sales, CAD
- 17:30 FED’s Fisher speaks, 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	145,01	neutral	sep 05		140,90 - 148,60	-
USDDKK	514,545	neutral	sep 05		502,11 - 529,55	-
EURGBP	79,21	neutral	aug 28		77,95 - 82,00	-
GBPDKK	941,98	neutral	aug 28		909,93 - 957,21	-
EURJPY	154,57	neutral	sep 05		148,20 - 158,75	- <<
JPYDKK	4,82721	neutral	sep 05		4,70 - 5,03	- <<
EURCHF	159,696	neutral	jun 06		154,40 - 160,80	-
CHFDKK	467,226	neutral	jun 06		464,02 - 483,25	-
EURNOK	822,8	neutral	sep 01		815,00 - 854,70	-
NOKDKK	90,6833	neutral	sep 01		87,30 - 91,55	-
EURSEK	958,49	neutral	jun 04		953,00 - 974,00	-
SEKDKK	77,8456	neutral	jun 04		76,61 - 78,29	-
AUDUSD	83,08	neutral	aug 08		78,40 - 86,65	- <<
NZDUSD	68,62	neutral	aug 06		63,00 - 68,90	-
USDCAD	104,8	neutral	feb 19		104,30 - 107,80	-
USDJPY	106,59	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	23,97	neutral	jul 07		23,50 - 25,50	-
CZKDKK	31,12	neutral	jul 07		29,25 - 31,74	-
EURPLN	3,28	neutral	jul 24		3,25 - 3,50	-
PLNDKK	227,46	neutral	jul 24		213,10 - 229,49	-
EURISK	131,53	buy	sep 18	134,48	140,00	131,00
ISKDKK	5,67	sell	sep 18	5,55	5,33	5,69
EURTRY	1,80	neutral	sep 19		1,74 - 1,90	-
TRYDKK	413,44	neutral	sep 19		392,55 - 428,65	-
EURZAR	11,61	neutral	sep 19		11,00 - 12,20	-
ZARDKK	64,26	neutral	sep 19		61,14 - 67,80	-

* Adjusted against DKK to daily EURDKK exchange rate

<< = Recommendation updated

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