

“MINE, YOURS, MINE, YOURS, YOURS...”

Today's comment

Majors & Scandies

By the Majors & Scandis Team

All weekend the Federal Reserve and the SEC have been working with a team of the largest banks in the world in an effort to resolve the Lehman Brothers situation. The two most likely bidders, Bank of America and Barclays, walked away this morning and Lehman has officially filed for Chapter 11 bankruptcy. Lots of sellers in the market but no buyers... However, Bank of America did not walk away without purchasing something as the bank bought Merrill Lynch for \$50 billion. In light of the recent developments in the US financial sector, the Federal Reserve has extended its existing liquidity facilities, PDCF and TSLF, to include among other things investment-grade corporate securities. Hmmm the Federal Reserve is now accepting equities as eligible collateral – that can't be good... But it does show how desperate the Federal Reserve is becoming as the financial crisis is escalating. In order to help preventing a meltdown of the financial system, ten of the largest banks (Bank of America, Barclays, Citibank, Credit Suisse, Deutsche Bank, Goldman Sachs, JP Morgan, Merrill Lynch, Morgan Stanley, and UBS) have committed to a \$70 billion borrowing facility (\$7 billion each).

The FX and short-term interest rate markets have been flying around all night. We are expecting a volatile session today with risk-aversion dominating the picture. This means that we will most likely see CHF and JPY strengthening (most versus USD) and AUD and NZD weaken (most versus EUR). The US dollar is expected to be under pressure versus the euro as it is currently the US financial sector that is the centre of attention. Short-term interest rates have fallen massively during the night with US rates being down more than 35bps(!) and European rates “just” 23-25bps. And ohh by the way, we have adjusted a few of our FX trading ranges...

Emerging Markets

By the Emerging Markets Team

Uncertainty regarding the future for Lehman

continued to dominate markets Friday. An increase in EURUSD and continued focus on the EU-convergence story provided support to the Central- and Eastern European currencies while USD-related currencies incurred losses. In South Africa there was news on the political front as the court declared the corruption charges against the (most likely) coming president Zuma invalid. This ruling should be positive for political stability in South Africa but new corruption charges against Zuma can not be eliminated. This morning continued worries for the US financial sector has led to a further rise in risk aversion. Markets are very nervous and all EM currencies are suffering and will still be very sensitive to news from the US financial sector. Today we will most likely not see the differentiation between EUR-related and USD-related currencies that have been present the past few months as the entire class of EM currencies will suffer.

On the data front this week kicks off with August CPI from Poland. Last week was quite turbulent for PLN as the currency at the start of the week continued its new declining path but then saw good support from a comment from PM Tusk that Euro adoption should be possible in 2011. We do not think this support will continue as PLN will be negatively influenced by a deteriorating growth outlook for the Eurozone, the interest rate soon having peaked, and stronger USD/weaker EUR.

Today's Key Events

- 09:00 Unemployment, TRY
- 10:00 Trade Balance, NOK
- 11:00 ECB's Trichet speaks, EUR
- 14:00 ECB's Tumpel-Gugerall speaks, EUR
- 14:00 Consumer Prices, PLN
- 14:30 Empire State Index, USD
- 15:15 Industrial Production, USD
- 03:30 RBA Minutes, AUD
- 07:00 Consumer Confidence, JPY

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Majors Short Term (0-1 Month) FX Recommendations						
Currency	Spot	Short Term	Entry Date	Entry Price	Target*	Stop Loss*
EURUSD	144,38	neutral	sep 05		140,90 - 148,60	- <<
USDDKK	516,377	neutral	sep 05		501,71 - 529,13	- <<
EURGBP	79,72	neutral	aug 28		79,00 - 81,00	-
GBPDKK	935,204	neutral	aug 28		920,43 - 943,73	-
EURJPY	152,559	neutral	sep 05		148,00 - 153,00	-
JPYDKK	4,88693	neutral	sep 05		4,87 - 5,04	-
EURCHF	160,11	neutral	jun 06		157,70 - 161,20	- <<
CHFDKK	465,645	neutral	jun 06		462,50 - 472,76	- <<
EURNOK	817,25	neutral	sep 01		800,00 - 820,00	-
NOKDKK	91,2261	neutral	sep 01		90,92 - 93,19	-
EURSEK	954,5	neutral	jun 04		945,00 - 955,00	-
SEKDKK	78,1084	neutral	jun 04		78,07 - 78,89	-
AUDUSD	82,55	neutral	aug 08		79,00 - 84,00	- <<
NZDUSD	67,12	neutral	aug 06		63,00 - 68,90	- <<
USDCAD	105,78	neutral	feb 19		104,30 - 107,80	-
USDJPY	105,67	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	24,26	neutral	jul 07		23,50 - 25,50	-
CZKDKK	30,74	neutral	jul 07		29,24 - 31,73	-
EURPLN	3,36	neutral	jul 24		3,32 - 3,55	-
PLNDKK	221,71	neutral	jul 24		210,06 - 224,61	-
EURISK	128,42	neutral	jul 28		120,00 - 133,00	-
ISKDKK	5,81	neutral	jul 28		5,61 - 6,21	-
EURTRY	1,81	neutral	sep 11		1,70 - 1,85	-
TRYDKK	413,14	neutral	sep 11		403,09 - 438,66	-
EURZAR	11,47	buy	aug 19	11,35	12,00	11,35
ZARDKK	65,01	sell	aug 19	65,69	62,14	65,68

* Adjusted against DKK to daily EURDKK exchange rate

<< = Recommendation updated

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