

FX - When the going gets tough

Today's comment

Majors & Scandies

By the Majors & Scandis Team

The tough get going. The fx market is for sure no kids game any more. The dollar keeps brushing all other currencies aside without looking in the rear view mirror. EUR/USD managed overnight to break through the psychological threshold at 140 triggering another bout of stop loss orders in the market. The next major support area will be coming in between 138.00 - 138.40. Risk aversion is therefore thriving in general. Consequently, EUR/JPY has been diving below the very important support at 150 thereby dragging EUR/CHF down as well. The area to watch in EUR/JPY will be 149.25 the low from last autumn when the credit crisis broke loose. The corresponding level in EUR/CHF will be 158.20 briefly touched last week.

The AUD and NZD keep getting hammered in the wake of the dropping commodity prices and not least the strengthening of the yen. RNBZ apparently felt the heat so much that they decided to lower interest rates by 50 bps at their monetary meeting overnight. Expect further losses for both currencies. In general hopes are high that the fx market soon will be bound for a major correction. Problem is from which levels. The knives keep falling all over the place and it is starting to get really bloody.

Emerging Markets

By the Emerging Markets Team

EM: Fleeting markets

Market focus continues to change quicker than Denmark can turn around a World Cup Qualifier: While the week started off with everything being about Freddie and Fannie, these were almost forgotten yesterday, with all focus turning to the premature publication of Lehman's results. While losses were double what analysts had expected (and reached 6.7bn USD over the last 6 months), market reaction was actually relatively subdued. Perhaps markets



had feared worse - or perhaps there is a feeling that, no matter what, the authorities will bail out what needs to be bailed out. In any event, focus will remain on whether Lehman manages to sell off selected tit-bits of its business to ensure continued survival. The publication of such a deal could lift financial markets - its absence will do the opposite. Positionwise, we have closed our short EUR/TRY position as the cross traded briefly above our stop of 1.75 yesterday, booking a solid profit of some 5% (carry included). This leaves us short ZAR, which we feel comfortable with as markets remain highly nervous. Today, focus will centre on the Sedlabanki rate decision. Despite inflation running some 10 percentage points above the target band, signals from the Sedlabanki have been somewhat mixed and some market participants are looking for an early start to the rate cut cycle today. We hope this does not materialise as it would, in our view, constitute a policy error and leave the ISK even more vulnerable. The decision illustrates the dilemma of many EM central banks at the moment - with the fear that they will let growth concerns overrule inflation targets. We hold our thumbs and pray for a bit of central bank prudence!

Today's Key Events

- 09:00 CPI, Hungary
- 11:00 Interest rate decision, Iceland
- 11:00 GDP, 2. quarter, Iceland.
- 14:30 Jobless claims, USA
- 20:00 ECB's Trichet speaks.

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Majors Short Term (0-1 Month) FX Recommendations						
Currency	Spot	Short Term	Entry Date	Entry Price	Target*	Stop Loss*
EURUSD	139,73	neutral	sep 05		139,00 - 143,00	-
USDDKK	533,608	neutral	sep 05		521,41 - 536,41	-
EURGBP	79,755	neutral	aug 28		79,00 - 81,00	-
GBPDKK	934,876	neutral	aug 28		920,51 - 943,81	-
EURJPY	150,09	neutral	sep 05		148,00 - 153,00	-
JPYDKK	4,96775	neutral	sep 05		4,87 - 5,04	-
EURCHF	158,85	neutral	jun 06		157,70 - 160,05	- <<
CHFDKK	469,38	neutral	jun 06		465,86 - 472,80	- <<
EURNOK	806,715	neutral	sep 01		800,00 - 820,00	- <<
NOKDKK	92,4255	neutral	sep 01		90,93 - 93,20	- <<
EURSEK	951,23	neutral	jun 04		945,00 - 955,00	-
SEKDKK	78,3838	neutral	jun 04		78,07 - 78,90	-
AUDUSD	79,8	neutral	aug 08		79,00 - 82,00	-
NZDUSD	65,13	neutral	aug 06		63,00 - 67,00	- <<
USDCAD	107,4	neutral	feb 19		104,30 - 107,80	-
USDJPY	107,41	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	24,41	neutral	jul 07		23,50 - 25,50	-
CZKDKK	30,54	neutral	jul 07		29,23 - 31,72	-
EURPLN	3,39	neutral	jul 24		3,32 - 3,55	-
PLNDKK	220,16	neutral	jul 24		209,99 - 224,53	-
EURISK	126,10	neutral	jul 28		120,00 - 133,00	-
ISKDKK	5,91	neutral	jul 28		5,60 - 6,21	-
EURTRY	1,74	neutral	sep 11		1,70 - 1,85	- <<
TRYDKK	428,03	neutral	sep 11		402,95 - 438,50	- <<
EURZAR	11,41	buy	aug 19	11,35	12,00	11,35
ZARDKK	65,31	sell	aug 19	65,69	62,12	65,66

* Adjusted against DKK to daily EURDKK exchange rate

<< = Recommendation updated

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