

# FX Crossroads

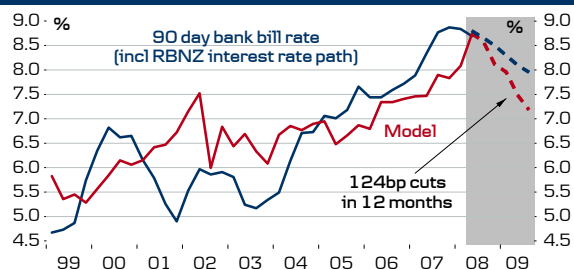
23 July 2008

## Why the kiwi cannot fly, and at what level NOK/SEK will break the range

### Summary and conclusions

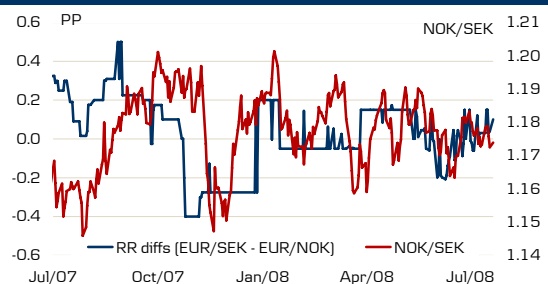
- In the first article we consider the outlook for the kiwi dollar and argue that the first rate cut by the RBNZ in an easing cycle could trigger a more prolonged sell-off in the kiwi – even though the market is already pricing significant monetary easing. This could have the potential to take NZD/USD below 0.70 going into 2009, as fundamental support generally continues to abate.
- In the second article we provide several insights into NOK/SEK. After a fundamental evaluation approach, we find that key indicators, relative interest rates and equity performance explain little variation in the pair, whereas other factors, such as oil and the global activity outlook are periodically of major importance. The most interesting findings stem from information from the options market which has tipped the balance for NOK/SEK several times. Combining current market information with our expectations on other factors, we conclude that NOK/SEK range-trading can continue in the short and perhaps medium term, but that a move beyond 1.20 seems slightly more likely than a dip below 1.15 (spot 1.17).
- In the third article we take a look at one of the drivers behind the rise in EUR/USD – the underperformance of US financials relative to euro area financials. We conclude that continued underperformance can delay the dollar strengthening and even contribute to further weakening.
- *FX Crossroads* is published every second Wednesday. Next publication date is 6 August 2008.

**Our model suggests that the RBNZ cash rate should be lowered by 124bp in 12 months**



Source: RBNZ and Danske Bank

**Information from the options markets should not be ignored when analysing NOK/SEK**



Source: Bloomberg and Danske Bank

# NZD: There is a reason why the kiwi cannot fly

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## Can the RBNZ trigger a more prolonged sell-off in NZD?

Tonight (23 July) at 23:00 CET, the Reserve Bank of New Zealand (RBNZ) will announce the outcome of its July policy meeting. The consensus expectation is for the cash rate to be left unchanged at 8.25%. However, the outcome is far from certain, and the market is pricing an implicit 50% chance of a 25bp rate cut. We expect the RBNZ to leave the cash rate unchanged, although it is a very close call. Unchanged rates could send NZD/USD temporarily higher, and we would consider this to be a good opportunity to enter a short position.

In this article we argue that there remains a large downside potential for NZD, and that the first rate cut by the RBNZ in an easing cycle could trigger a more prolonged sell-off in the kiwi - even though the market is already pricing significant monetary easing. This could have the potential to take NZD/USD below 0.70 going into 2009, as fundamental support continues to abate.

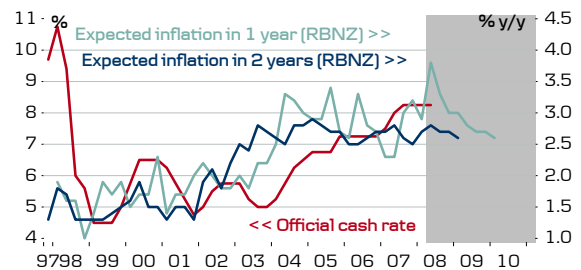
### Determinants of RBNZ's monetary policy

The economic situation continues to deteriorate in New Zealand, and while the inflation rate has taken a global cue and edged higher, price pressures are expected to remain well contained in the medium term. This combination has led the market to price an expected cyclical turn in monetary policy towards lower interest rates. Moreover, the RBNZ acknowledges the challenging economic outlook and indicated in its latest monetary policy statement that the first cut could come this year.

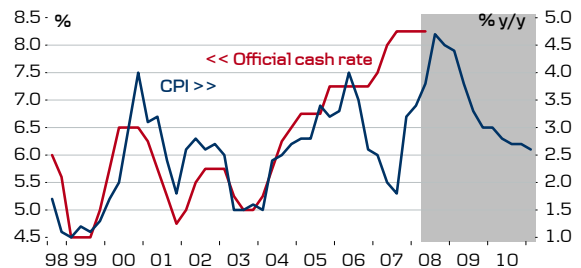
In order to estimate by how much the interest rate is likely to be lowered once the monetary cycle begins its expected turn we have looked at the factors that affected past monetary policy decisions. More specifically, we have looked at how the RBNZ has historically reacted to changes in the overall price level and economic growth. Since monetary policy works with a lag, the central bank could be assumed to react more to its expectations for future inflation than to the current level of inflation. To test whether this has indeed been the case, we have looked at the past 12 years of quarterly

monetary policy statements and compiled a dataset containing a log of RBNZ inflation expectations. In other words, for any given quarter we have recorded what the RBNZ at that time expected inflation to be in one and two years' time, respectively. These two data series are shown together with the cash rate in the top figure below. The lower two figures show, firstly, the current level of inflation at the time in each quarter and, secondly, the current output gap at the time - both series are non-revised. The grey areas show the RBNZ projections as stated in June's monetary policy statement.

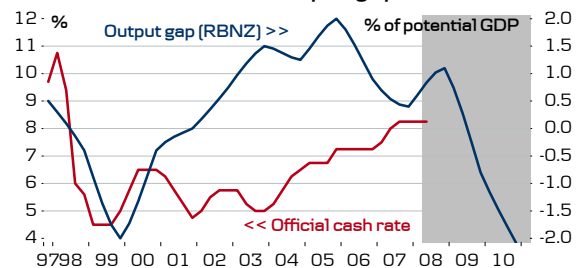
**Expected inflation does not appear to matter more than...**



**...current inflation...**



**...or the output gap**



Source: RBNZ and Danske Bank

From the graphs it appears that the current level of inflation matters at least as much as expected inflation. There furthermore appears to be only a loose relation to the output gap. This fits well with the empirical findings of Plantier and Scrimgeour (2002), who in an RBNZ discussion paper show that New Zealand’s monetary policy can be approximated by a simple Taylor rule which relies on current inflation and not expected inflation.

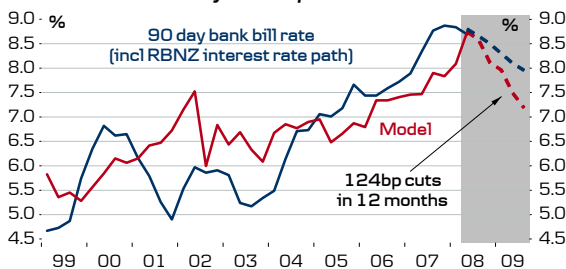
**The Taylor rule**

The Taylor rule is an economic result named after economist John B. Taylor which states that under certain assumptions a central bank can act optimally by letting monetary policy depend on the output gap and the level of inflation compared to the inflation target. If inflation is above the inflation target, then the central bank is, *ceteris paribus*, assumed to raise the policy rate. Equivalently, if economic growth is above potential growth (ie, the output gap is positive), then the central bank should, *ceteris paribus*, also raise the policy rate.

**Implications for future monetary policy**

Using the approach in Plantier and Scrimgeour (2002) and the RBNZ’s forecasts of inflation and the output gap we have modelled the reaction function of the RBNZ using the 90-day bank bill rate as the dependent variable. The model indicates that the RBNZ should commence an easing cycle in Q3, with a cumulative 124bp of rate cuts in 12 months. This is not far from the interest rate path presented by the RBNZ in the June monetary policy statement, which indicated a cumulative 70bp of rate cuts by March 2009. The market is currently pricing an expected 138bp of rate cuts in 12 months. The model is, however, only a crude approximation, and the results should only be considered as a directional indicator.

**Our model suggests that interest rates should be lowered by 124bp in 12 months**



Source: RBNZ and Danske Bank

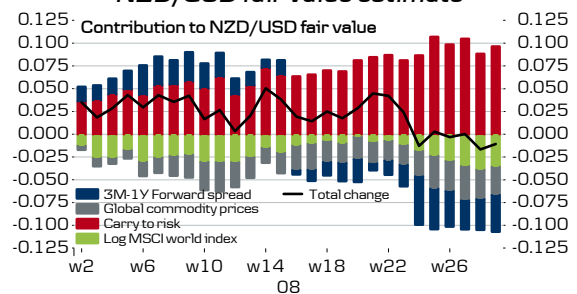
Nonetheless, the current economic outlook indicates that we should expect a rate cut from the RBNZ in this quarter, and that this will likely only be the first in a series of rate cuts. Once a monetary easing cycle is commenced we furthermore expect it to be quite aggressive.

The main risks to this scenario are inflation continuing to surprise on the upside or the NZD depreciating faster than expected, which, in itself, would tend to loosen monetary conditions and thus reduce the size of the necessary rate cuts. However, our baseline scenario is still that we will see two rate cuts this year beginning in September (if not on 23 July)

**Implications for the kiwi dollar**

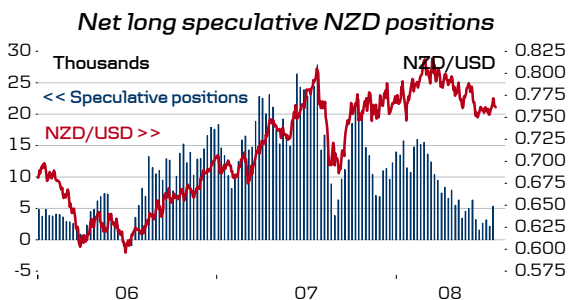
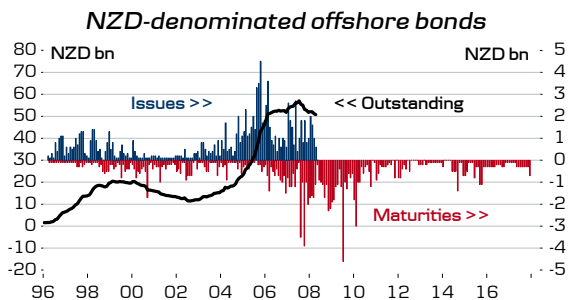
The kiwi dollar has lost close to two percent against the dollar since New Year, and more than eight percent to the euro in the same period. This weakening of the NZD has gone hand in hand with a narrowing of the interest rate spread since February, as the market has been pricing expected rate cuts. Despite a narrowing rate spread, NZD/USD is not much below levels seen around the beginning of the year. According to our short-term fair value model, this is due to an improvement in carry-to-risk measures, which acts to support the NZD as carry trades (targeting the NZD) have become more attractive on a risk-adjusted basis.

**Cumulated contribution to short-term NZD/USD fair value estimate**



Source: Reuters EcoWin and Danske Bank estimates

Simultaneously, however, long NZD positions have been unwound by speculative investors, and issues of new Uridashi and Eurokiwi bonds have begun to fall short of maturities. These trends may well continue for some time if the RBNZ begins lowering rates as expected, thereby adding to the downside potential of the NZD.



Source: RBNZ and Reuters EcoWin

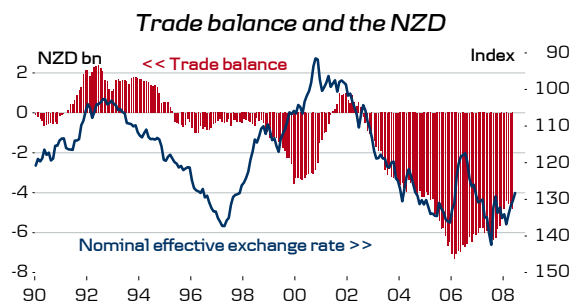
The fact that the market is already pricing 138bp worth of monetary easing should limit the impact of an interest rate cut, though. However, the market does tend to undershoot future monetary policy once an easing cycle has begun, and there are several other factors weighing on the NZD:

- The economic slowdown is only just beginning to unfold, and both the economy and the housing market could be in a recession.
- New Zealand remains one of the few G10 economies where expectations of significant monetary easing have any credibility.
- The New Zealand economy has to deal with large external imbalances, implying that the NZD appears overvalued with regard to both relative price levels and the size of the current account deficit relative to structural current account measures.
- The need for a move in the exchange rate to correct external imbalances is even increasing despite a weakening of the NZD, as the terms of trade is beginning to deteriorate.

**Movements in global commodity prices are no longer as favourable as earlier**

New Zealand is currently running a current account deficit of close to 8 percent of GDP, and, while the

trade balance has improved since mid-2006, a continued deterioration of the investment income balance has meant a less pronounced improvement of the current account. We do expect the current account to improve further, though, as slower domestic demand, catalyzed by a weaker currency, will reduce imports. However, the terms of trade have stabilised and are expected to deteriorate slowly, as especially dairy prices appear to be heading lower. This will put a cap on the improvement in the current account, leaving the NZD just as overvalued as before, despite an expected depreciation.



Source: Reuters EcoWin

**The RBNZ could be the next trigger**

The kiwi dollar has already seen periods of weakness this year, triggered, not least, by the publication of weak data on economic activity. And recently the NZD has come under renewed pressure prior to the 23 July RBNZ meeting. Nonetheless, **both short-term indicators and medium to long-term valuation measures are pointing to a current overvaluation of the NZD. We are therefore still forecasting a marked depreciation of the NZD against the USD over the coming year, and we believe the first rate cut by the RBNZ does have the potential to trigger a more pronounced sell-off in the NZD - even as the market is already pricing significant monetary easing.**

While the 23 July RBNZ Board meeting could bring a rate cut, we consider it more likely that the cash rate will be left unchanged and that the RBNZ will issue a dovish statement. Depending on the dovishness of the statement, this outcome could send NZD/USD temporarily higher, given that some market participants might be disappointed. **Regardless of the outcome of the July RBNZ meeting we would consider any spike higher in NZD/USD from current levels as a good opportunity to enter a short position.**

# NOK/SEK: Potential to move beyond 1.20?

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## Introduction

For outsiders, watching NOK/SEK movements must be like observing the way flies move; completely unpredictable and seemingly without any clear direction. As the pair to some extent is a residual (from EUR/NOK and EUR/SEK trading), this is somewhat true.

In this article, we provide several insights to NOK/SEK. After a fundamental evaluation approach, we find that key indicators, relative interest rates and equity performance, explain little variation in the pair, whereas other factors, such as oil and the outlook for global activity, are periodically of major importance. The most interesting findings stem from information from the options market which has tipped the balance for NOK/SEK several times. We end up by adding the information into a likely path for NOK/SEK going forward. Here we conclude that range-trading can continue at the short and medium term but that a move beyond 1.20 seems more likely than a dip below 1.15 (spot 1.17).

## More similarities than dissimilarities?

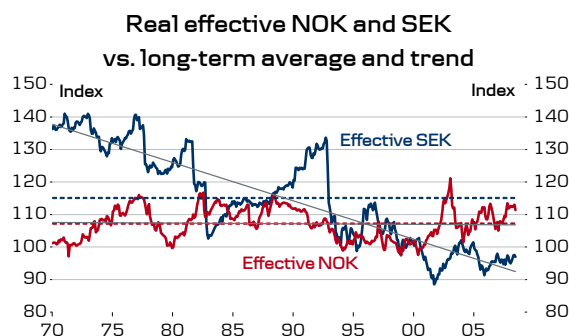
NOK and SEK have several similarities:

- 1) They are both free-floating Scandinavian currencies not pegged to the EUR (like DKK for example).
- 2) Their values are implicitly subject to independent central banks that seek to deliver price stability in the medium term.
- 3) They both constitute a rather small, but not negligible, share of the global FX turnover (2.8% of all FX transactions include SEK, 2.2% for NOK).

Due to these rather obvious similarities, many agents tend to treat NOK and SEK analogously. In fact, they are sometimes regarded as 'euro-satellites' as the Norwegian and Swedish monetary policies often seem to mirror the euro area's. A reason for that might be that the economies are hit by the same exogenous shocks, have approximately

the same monetary set-up, accordingly react similarly in their rate-setting behaviour, and their currencies are therefore affected in the same way.

But there are indeed differences. Empirical evidence for that is the performance of the Norwegian real effective exchange rate (REER) relative to the Swedish one in the past 40 years. The Norwegian REER has moved in a rather narrow range around its long-term average (107.2) and the trend has been flat. The Swedish REER has been more volatile, the long-term average has been higher than the Norwegian one and the trend has been declining. Currently the Norwegian REER is close to its long-term-average (4% above), whereas the Swedish REER is 15% lower. According to this definition, the NOK is firmly priced relative to its long-term fair value estimate while the SEK is somewhat undervalued.



Source: OECD, Reuters Ecowin

But since the Swedish REER has been downward sloping and perhaps still is, the story might be slightly different. Compared to trends in REERs, both the SEK and NOK are 4% above their long-term averages.

Also theoretically we are able to detect several dissimilarities:

- 1) Norway is backed by a substantial inflow due to oil exports - Sweden is a net oil importer. Accordingly, NOK is more influenced by oil price movements.
- 2) Sweden is a more open economy than Norway. The share of exports in GDP are 58% and 43%, for Sweden and Norway re-

spectively. Accordingly, Sweden is more exposed to movements in global activity.

- 3) Sweden is part of the EU - Norway is not. Accordingly, the Riksbank is closer to the ECB than Norges Bank and Sweden is more likely to adopt the euro than Norway at some - perhaps distant - point in the future.

Due to these dissimilarities, movements in NOK/SEK occur. In fact, movements in the pair are occasionally quite large and deviations from the long-term average or trend can be sizeable. Whether similarities outweigh dissimilarities can not be identified; that depends on the financial environment in general. NOK/SEK can, in a way, be compared with AUD/NZD, since the currencies of Australia and New Zealand are also often hit by the same economic shocks and therefore show some degree of co-variation, but they also experience independent shocks that affect their respective exchange rates.

The following analysis will focus on the deviations in NOK and SEK performance since 2007, quantify the factors likely to impact the currencies going forward and accordingly end up by laying out the way forward for NOK/SEK.

### What drives NOK/SEK? An empirical approach

Relative interest rates have generally been a poor predictor to NOK/SEK movements. That has especially been the case from mid-August to mid-October 2007, and since June 2008 until now. In the remaining periods, the link has been rather thin and no clear relationship can be detected. This suggests that other factors have dominated NOK/SEK movements.



Source: Reuters Ecowin

Relative stock market performance hasn't been able to explain much of the variation in NOK/SEK either; the Scandinavian stock markets performed equally well in H1 07 before the oil price rallied and caused a relatively better Norwegian equity performance. Most recently, the oil price has lost close to 10% and Norwegian stocks have underperformed. This has, however, only had a negligible impact on NOK/SEK.



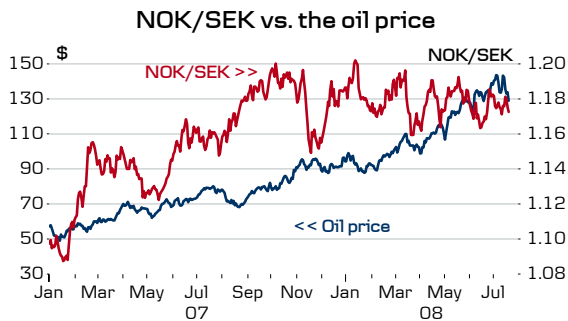
Source: Reuters Ecowin

Looking at correlations since 2007 between NOK/SEK versus relative interest rates and equities, one can see that relationships often are poor and in periods even counterintuitive. In H1 07, the link between relative rates deteriorated as the connection to equity markets increased, although with a rather perverse sign, as higher Norwegian equity prices meant lower NOK/SEK. In H2 07, the correlations decreased and the weak link has continued during 2008.



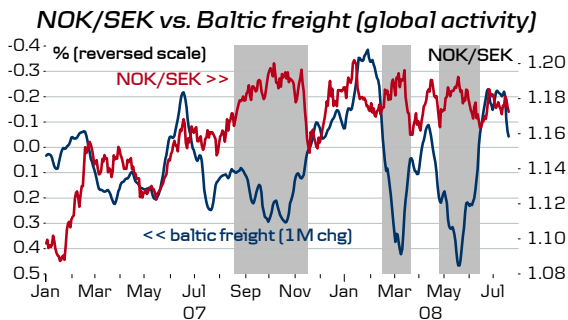
Note: Long-term average correlations (1978-2008) are different; 3M1Y forward spread vs. NOK/SEK is 21% whereas OBX/OMXS30 vs. NOK/SEK is 0%. Source: Reuters Ecowin

If relative rates and equity performance can't explain movements in NOK/SEK, what are the drivers then? The oil price offers little help; the more than doubled prices have not caused a substantial strengthening of the NOK relative to SEK, and the recent decline in the oil price hasn't led to a significant NOK depreciation.



Source: Reuters Ecowin

Since SEK is more exposed to the outlook for global activity, one should expect the SEK to appreciate when the outlook improves *and vice versa*. But this is only true to some extent. We can detect at least three periods in the past two years where the relationship has been upside down (see chart below). Accordingly, we cannot conclude that prospects for higher global activity unambiguously favour SEK relative to NOK.

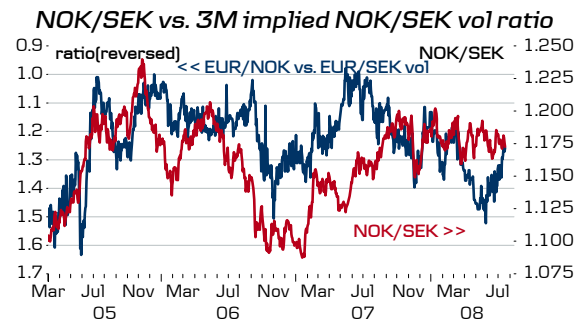


Note: Grey areas indicate correlation breakdowns, i.e. periods in which NOK/SEK has moved against expected change in global activity. Source: Reuters Ecowin, Danske Bank

So what is left? Well, in this rather peculiar currency pair, movements in the options market often tip the balance. It is therefore crucial to detect movements in the options market in order to do a proper analysis of NOK/SEK.

Currency markets in Norway and Sweden are often exposed to the market perception of risk. When risk aversion rises, investors tend to buy safe-haven currencies associated with less risk while small, illiquid currencies that are perceived as more risky are sold off. This market knee-jerk reaction is also consistent with the view of Norges Bank and Riksbanken.

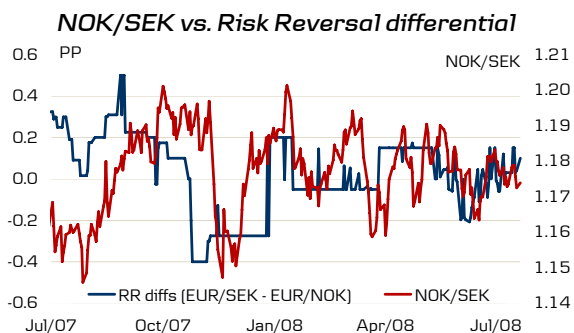
Here we are more interested in the relative comparison, i.e. does lower NOK/SEK volatility mean a higher NOK/SEK exchange rate? The first piece of evidence is found from looking at the volatility ratio. As seen from the chart, some relationship can be detected. The tendency is that when NOK volatility rises relative to SEK volatility, NOK/SEK drops *and vice versa*. The close link has, however, come off in 2008.



Source: Reuters Ecowin, Danske Bank

The second piece of evidence between movements in the options market and the FX market is found from the implied NOK/SEK risk reversal spread and NOK/SEK exchange rate. Although the spread is unchanged in rather large periods due to very low liquidity, some degree of co-variation can be detected; when the risk reversal differential between EUR/SEK and EUR/NOK rises (i.e. SEK is expected to depreciate more [appreciate less] than NOK relative to EUR), NOK/SEK seems to increase. The relationship is, however, by no means perfect as there are several large movements in NOK/SEK

that can't be explained by risk reversals. Nonetheless, the fit is quite good when looking at May 2008 until present – a period when other factors explain very little. Furthermore can extreme positioning serve as a possible predictor of turning points, e.g. in October 2007.



## NOK/SEK above 1.20?

The analysis presented above suggests both the effective NOK and SEK are slightly overvalued when looking at trend REERS, and that relative interest rate expectations and equity performance have little impact on NOK/SEK. The oil price and the outlook for global activity may explain some of the variation in NOK/SEK periodically although the relationship is not bullet proof. Information from the options market is fairly convincing and may therefore not be overlooked when analysing Scandinavian currencies relative to each other.

In our view, the relative monetary outlook does not favour either NOK as both central banks have approximately the same degree of tightening bias and have little willingness to accept weaker domestic currencies. Norges Bank seems opposed to a weakening of NOK (generates increased inflationary pressure) and will probably not hesitate to raise rates if NOK starts losing ground. Although unanimously raising rates at the latest meeting on monetary policy, Riskbanken was almost split over the future rate path. Our expectation is, however, still that the Swedish policy rate will be raised up to 5%. Summarily, monetary outlooks suggest continued NOK/SEK range trading.

The future relative equity performance is closely linked to the oil price. Although the focus has switched from supply disruptions towards waning global demand, we think that upside risks remain for the oil price. Norwegian stock markets could therefore outperform Swedish stocks. Furthermore, global activity is still on the way down, disfavours SEK vs. NOK.

Movements and positioning in the options market could be the crucial piece of evidence in order to identify the future direction in NOK/SEK. But here very little is certain. Currently, NOK volatility seems to be falling relative to SEK volatility – indicating increased NOK/SEK upside potential – but this can be a short-lived effect. NOK is still expected to depreciate more relative to EUR than SEK to EUR according to market expectations. But the risk reversal differential between EUR/SEK and EUR/NOK is moving in favour of NOK. All in all, slightly in favour of higher NOK/SEK, but again no strong signal.

Technically, NOK/SEK is left without any clear direction. The RSI(14) measure has been in the neutral range since mid-2007. In fact, relative strength analysis has only yielded four clear NOK/SEK trading signals in the past five years. A movement beyond 1.20 instead of a dip below 1.15 looks like the most likely but the call is not very strong. The pair has, so to speak, crouched itself around the current spot level in a narrow range and is now gathering momentum to break out. However, that may not be for a long time, perhaps not before the beginning of 2009.

**To sum up, we expect that NOK/SEK can continue to range trade as no obvious triggers are in the horizon. If anything, we regard it most likely that NOK/SEK will break the range on the upside rather than on the downside and with a positive carry (around 1.30% p.a.) that might be worth waiting for. Accordingly, we favour long NOK/SEK positions relative to short positions. Lower level than most long term fair value models would suggest. We continue to see upside risks for EUR/GBP (up to 0.82) and notice that this could occur even with flows into the UK.**

# EUR/USD: Earnings take centre stage in FX markets

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## Fontex required!

The earnings season has been heavy going for people with bad nerves. There hasn't been much to cheer about as the financial crisis has had a rampaging impact and left investors with much less than they had hoped for. Financial companies in particular have been hit hard as credit, the basis for earnings, has suffered more than in other sectors. Financials in both the euro area and US have lost ground and equity prices have reflected that. But is there a link to FX markets? We argue that the answer is 'yes' and identify the underperformance of US financials relative to euro area financials as one of the reasons why the EUR/USD has risen to a record-high level.

Down, down deeper and down

Q2 earnings for financial companies are on average lower than a year ago. That is true for both the euro area and US financials. But there is a difference – more US financials have disappointed relative to euro area financials. In the US, most notably Merrill Lynch (surprise: -24.8%), Bank of America (-10.4%), JP Morgan (-8.8%) and Citigroup (-7.5%) failed to live up to expectations, while in the euro area Credit Agricole (-18.6%) and Commerzbank (-4.5%) have performed worse than the market anticipated. In total, growth has been lower for US financials and there have been more negative surprises than in the euro area.

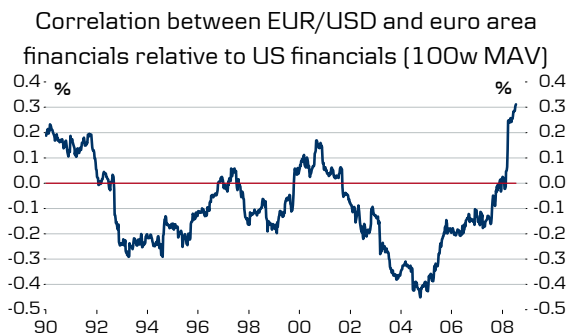
Earnings results, Q2, financial companies (billion local currency)

	Reported	Previous	Actual	Estimated	Growth (%)	Surprise (%)
S&P500	89	57.3	9.9	17.9	-82.6	-44.5
DAX	7	11.3	4.2	4.3	-63.2	-2.5
CAC	4	8.7	7.1	7.6	-18.2	-6.9
SMI	4	8.5	-10.8	-11.2	-226.7	-3.1
IBEX	9	0.1	0.1	0.1	10.1	7.4
MIB	12	7.4	6.9	7.4	-7.2	-7.1

Source: Bloomberg

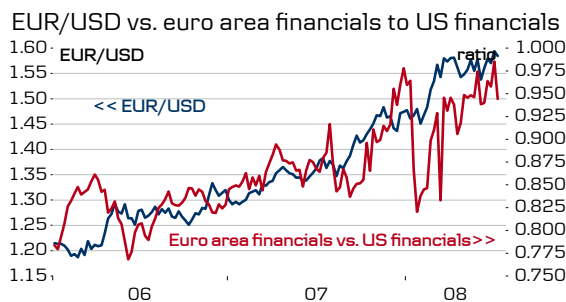
Reasons behind the rise in EUR/USD are numerous: a negative yield spread between the US and the euro area, a deteriorating US outlook, a meltdown in the US housing sector, a financial crisis with its epicentre in the US, rising energy prices with a subsequent hawkish European Central Bank, just to name a few. In addition - or perhaps as a consequence - we have an underperformance of US financials relative to euro

area financials not seen since the story was upside down in 2000-02.



Source: Reuters Ecowin, Danske Bank

Just as at the beginning of this millennium, the correlation between EUR/USD and euro area financials relative to US financials is very high. In fact, the correlation has never been higher and the trend is still up. The link is also very clear when looking at the most recent years – the USD has depreciated against EUR as American financials have underperformed euro area financials.

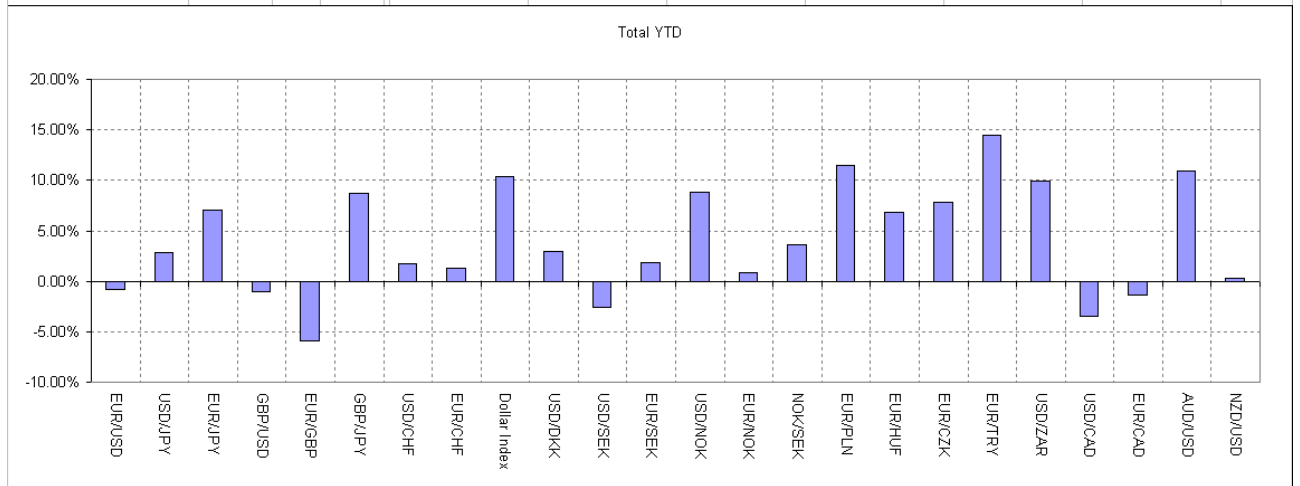


Source: Reuters Ecowin, Danske Bank

What to make from this? In our view, the underperformance of US financials could continue to weigh down on the USD relative to EUR. The US outlook is still dimmer, the financial crisis continues to be rooted in the US and credit conditions are worse for US financials (US Ted spread 1.36% – euro area Ted spread 0.59%). Other factors might be of greater importance, but we believe the underperformance of US financials will be one pillar to sustained dollar weakness.

# Trading Points

										23/07/2008	12:10	(CET)
										Strategy (Short-Medium Term)		
MARKET	LAST	Trend	5DCHG	Strategy	Stop/Entry	1st Target	2nd Target	Stop/Reverse	New Target	Total YTD		
<b>CURRENCIES - Majors</b>												
EUR/USD	1.5738	↓	-0.56%	SHORT		1.5683		1.5943	1.6033	-0.87%		
USD/JPY	107.77	↑	2.51%	Go Long>	107.67	108.40	Go Short<	105.80	104.57	2.88%		
EUR/JPY	169.63	↑	1.94%	Go Long>	169.92	170.62	Go Short<	168.24	166.98	7.08%		
GBP/USD	1.9959	↓	-0.16%	SHORT		1.9768		2.0076	2.0157	-1.02%		
EUR/GBP	0.7885	↓	-0.43%	LONG		0.7995	0.8034	0.7902	0.7872	-5.89%		
GBP/JPY	215.10	↑	2.34%	Go Long>	214.14	215.71	Go Short<	211.59	210.27	8.73%		
USD/CHF	1.0347	↓	1.71%	Go Long>	1.0353	1.0483	Go Short<	1.0134	1.0071	1.70%		
EUR/CHF	1.6285	↓	1.15%	Go Long>	1.6301	1.6377	Go Short<	1.6138	1.6083	1.25%		
Dollar Index	72.633	↑	0.008	Go Long>	73.1580	74.314	Go Short<	71.314	69.966	10.38%		
<b>CURRENCIES - Scandies</b>												
USD/DKK	4.7406	↑	0.59%	LONG		4.7620		4.6798	4.6524	2.98%		
USD/SEK	6.0139	↑	0.10%	Go Long>	6.0225	6.0764	Go Short<	5.9187	5.8789	-2.61%		
EUR/SEK	9.4652	↓	-0.46%	Go Long>	9.4927	9.5416	Go Short<	9.4318	9.4105	1.90%		
USD/NOK	5.1397	↑	0.81%	Go Long>	5.1284	5.1569	Go Short<	5.0490	5.0080	8.82%		
EUR/NOK	8.0900	↓	0.24%	SHORT		8.0367		8.0718	8.1073	0.81%		
NOK/SEK	1.1699	↑	-0.71%	Go Long>	1.1790	1.1825	Go Short<	1.1693	1.1637	3.61%		
<b>CURRENCIES - Non Majors</b>												
EUR/PLN	3.2633	↓	1.59%	Go Long>	3.2667	3.3072	Go Short<	3.2090	3.1536	11.50%		
EUR/HUF	232.57	↓	0.75%	Go Long>	231.55	233.33	Go Short<	228.00	226.05	6.87%		
EUR/CZK	23.826	↓	3.03%	Go Long>	23.671	23.855	Go Short<	22.894	22.643	7.87%		
EUR/TRY	1.8844	↓	-1.47%	Go Long>	1.9479	1.9720	Go Short<	1.8781	1.8635	14.48%		
USD/ZAR	7.5128	↓	-1.26%	Go Long>	7.5793	7.6172	Go Short<	7.4440	7.2884	9.92%		
USD/CAD	1.0101	↑	0.82%	LONG		1.0145		0.9974	0.9933	-3.50%		
EUR/CAD	1.5900	↓	0.26%	Go Long>	1.5992	1.6099	Go Short<	1.5830	1.5633	-1.39%		
AUD/USD	0.9648	↓	-1.03%	Go Long>	0.9793	0.9852	Go Short<	0.9678	0.9574	10.93%		
NZD/USD	0.7511	↓	-2.68%	SHORT		0.7521		0.7661	0.7721	0.31%		



## Trading recommendations and G10 central bank overview

### Directional trades

	Date	Start	Now	Target	Stop	P/L (incl carry)
<b>Open</b>						
We currently have no open trade recommendations						
<b>Recently closed</b>						
Sell NZD/NOK	16/06/08	3.9100	3.8650	3.7500	3.8650	1.07
Buy EUR/GBP	19/06/08	0.7860	0.8000	0.8000	0.7870	1.74
Buy EUR/GBP	11/07/08	0.7996	0.7890	0.8150	0.7890	-1.36
<b>P/L 2008</b>	<b>8.07%</b>	<b>Open</b>	<b>0.00%</b>	<b>Closed</b>	<b>8.07%</b>	
<b># of trades *</b>	<b>109</b>	<b># of trades 2008</b>	<b>24</b>			
- average net gain	0.37%	- average net gain	0.34%			
- batting average	0.51	- batting average	0.50			

\* Since 17 November 2005

### Central bank overview

Country	Official interest rate	Policy rate	Next decision*	Last change
United States	Federal funds rate	2.00	5 Aug (unch)	30 Apr (-25bp)
Euroland	Minimum bid rate	4.25	7 Aug (unch)	3 July (+25bp)
Japan	Overnight call rate	0.50	19 Aug (unch)	21 Feb 07 (+25bp)
United Kingdom	Base rate	5.00	7 Aug (unch)	10 Apr (-25bp)
Switzerland	3-month Libor	2.75	18 Sep (+25bp)	13 Sep 07 (+25bp)
Canada	Overnight rate	3.00	3 Sep (unch)	22 Apr (-50bp)
Australia	Cash rate	7.25	5 Aug (unch)	4 Mar (+25bp)
New Zealand	Cash rate	8.25	23 Jul (unch)	25 Jun 07 (+25bp)
Sweden	Repo rate	4.50	4 Sep (+25bp)	3 July (+25bp)
Norway	Sight deposit rate	5.75	13 Aug (+25bp)	23 Apr (+25bp)

\* Expected decision in brackets

### G10 central bank forecast overview

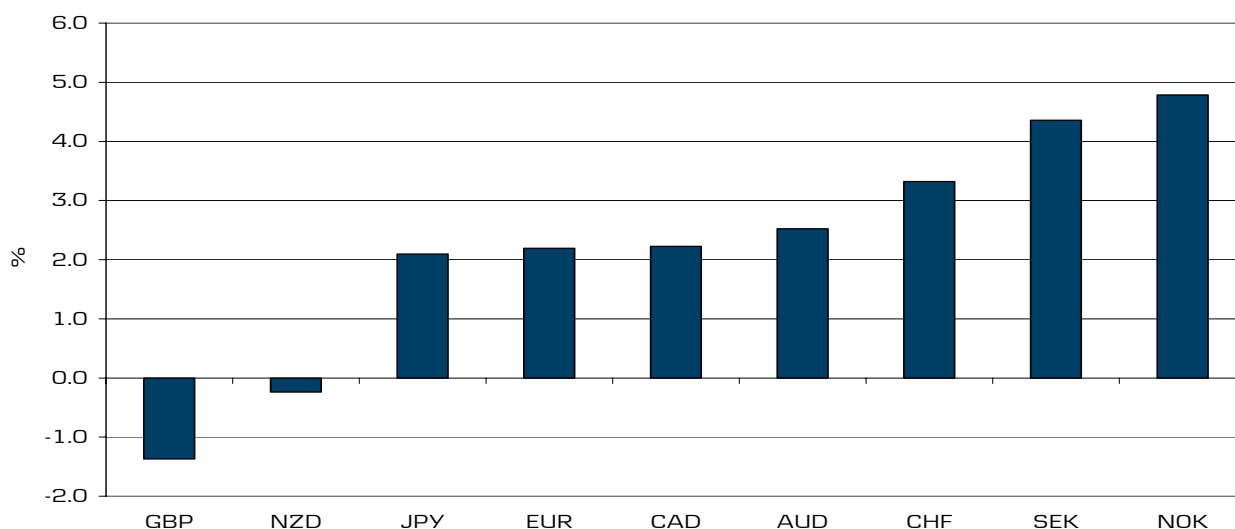
	FED	BOC	ECB	BOE	SNB	RB	NB	BOJ	RBA	RBNZ
<b>Now</b>	2.00	3.00	4.25	5.00	2.75	4.50	5.75	0.50	7.25	8.25
2008 Jul		15-Jul		10-Jul				15-Jul		23-Jul
Aug	05-Aug		07-Aug	07-Aug			13-Aug	19-Aug	05-Aug	
Sep	16-Sep	03-Sep	04-Sep	04-Sep	18-Sep	04-Sep	24-Sep	17-Sep	02-Sep	11-Sep
Oct	29-Oct	21-Oct	02-Oct	09-Oct		23-Oct	29-Oct	7+31-Oct	07-Oct	23-Oct
Nov			06-Nov	06-Nov				21-Nov	04-Nov	
Dec	16-Dec	09-Dec	04-Dec	04-Dec	11-Dec	17-Dec	17-Dec	19-Dec	02-Dec	04-Dec
2009 Jan	28-Jan							22-Jan		
Feb								19-Feb	03-Feb	
Mar								17-Mar	03-Mar	
Apr								7+28-Apr	07-Apr	
May										
12M	2.00	3.50	4.25	4.50	3.00	5.00	6.00	0.50	7.25	7.25
Rate cut	Rate hike									

## Exchange rate forecasts

	Spot	Forecast				Forecast vs forward outright, %			
		+1m	+3m	+6m	+12m	+1m	+3m	+6m	+12m
<b>Exchange rates vs EUR</b>									
USD	1.573	1.59	1.60	1.55	1.50	1.2	2.2	-0.5	-2.9
JPY	169.66	167	168	155	150	-1.3	0.1	-6.6	-7.5
GBP	0.790	0.800	0.820	0.800	0.780	1.2	3.6	0.9	-1.9
CHF	1.629	1.61	1.60	1.58	1.56	-1.0	-1.2	-1.9	-2.1
DKK	7.46	7.46	7.46	7.46	7.46	0.0	-0.1	-0.1	-0.2
NOK	8.08	8.00	7.90	7.75	7.75	-1.1	-2.7	-4.9	-5.7
SEK	9.46	9.40	9.25	9.20	9.20	-0.6	-2.2	-2.8	-3.0
PLN	3.26	3.40	3.40	3.40	3.45	4.1	3.9	3.7	4.7
CZK	23.82	24.00	24.00	24.25	24.50	0.8	1.0	2.3	4.0
HUF	232	240	240	245	250	3.0	2.5	3.9	4.6
TRY	1.88	2.05	2.05	2.12	2.25	7.8	5.7	6.1	6.3
<b>Exchange rates vs USD</b>									
DXY	72.6	71.7	71.3	71.9	72.9	-1.3	-1.9	-1.3	-0.1
JPY	107.8	105	105	100	100	-2.5	-2.1	-6.1	-4.9
GBP	1.99	1.99	1.95	1.94	1.92	0.0	-1.4	-1.4	-1.1
CHF	1.04	1.01	1.00	1.02	1.04	-2.2	-3.3	-1.3	0.8
DKK	4.74	4.69	4.66	4.81	4.97	-1.3	-2.2	0.5	3.0
NOK	5.14	5.03	4.94	5.00	5.17	-2.3	-4.8	-4.4	-2.8
SEK	6.01	5.91	5.78	5.94	6.13	-1.8	-4.4	-2.3	0.0
CAD	1.01	1.00	0.99	1.00	1.00	-1.2	-2.2	-1.3	-1.3
AUD	0.97	0.96	0.98	0.95	0.90	-0.3	2.5	0.5	-2.6
NZD	0.75	0.74	0.74	0.73	0.70	-1.2	-0.2	-0.4	-2.5
ZAR	7.50	7.85	7.85	8.10	8.40	4.0	2.3	3.3	2.8
BRL	1.58	1.62	1.62	1.67	1.70	1.8	0.3	1.1	-1.7
MXN	10.05	10.30	10.35	10.55	10.70	2.0	1.6	2.3	1.3
CNY	6.83	6.90	6.79	6.63	6.53	1.3	0.5	-0.4	0.7

Note: GBP, AUD and NZD are denominated in local currency rather than USD

## Expected change in USD vs forwards, 3m



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