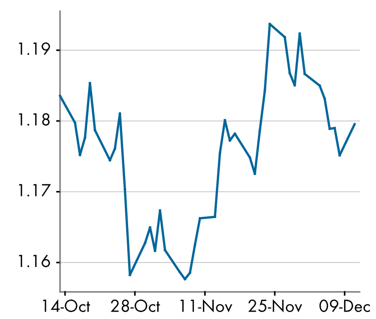
Focus FX

Issue 26/2017 biweekly

12 December 2017

Raiffeisen RESEARCH

EUR/USD daily



5y high: 1.393, 5y low: 1.038

Source: Thomson Reuters

EUR/USD weekly

5y high: 1.393, 5y low: 1.038

Source: Thomson Reuters

EUR/USD monthly

5y high: 1.393, 5y low: 1.038

Source: Thomson Reuters

Analysts

Jörg ANGELE, Marijana CIGIC, Wolfgang ERNST, Lydia KRANNER, Silvia ROSCA

Editor

Wolfgang ERNST

EUR/USD: 1.180→1.15 (March)

In line with our expectations, the euro failed to overcome the level of EUR/USD 1.20 also in the most recent attempt. The euro has meanwhile again lost 1.5 cents from its interim high at 1.194 seen at the end of November. Although we still see structural appreciation pressure at the euro, the yield differential has however operated strongly against the euro for some months. Since the end of August, the differential between two-year German and US government bonds has widened by a good 50 basis points in favour of the dollar, but the greenback has gained only around two cents. In 2015 and 2016, a corresponding extension of the yield differential would still have resulted in a dollar appreciation by around five cents. We continue to regard the dollar as well supported in the coming months. Following the 13 December interest rate hike, the Fed should hold out the prospect of three further interest rate hikes in the year 2018. We, instead, expect no support for the euro in the coming months from the ECB. In Q1 2018, we therefore see the EUR/USD at 1.15, but unalteredly anticipate a movement to levels above 1.20 for the further course of the year.

Financial analyst: Jörg ANGELE; joerg.angele@rbinternational.com

Exchange rate forecasts

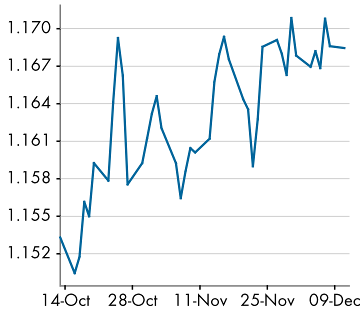
	current[1]	Mar-18	Jun-18	Sep-18	Dec-18
EUR/USD	1.180	1.15	1.20	1.22	1.24
EUR/CHF **	1.168	1.15	1.16	1.18	1.19
EUR/PLN **	4.206	4.15	4.15	4.10	4.15
EUR/HUF **	314.7	310	310	315	315
EUR/CZK **	25.62	25.2	25.0	24.8	25.0
EUR/RON **	4.632	4.60	4.60	4.65	4.65
EUR/HRK	7.541	7.45	7.40	7.45	7.50
EUR/RUB **	69.72	66.7	69.6	73.2	74.4
USD/RUB **	59.11	58.0	58.0	60.0	60.0
EUR/TRY **	4.506	4.02	4.32	4.45	4.59
USD/TRY **	3.820	3.50	3.60	3.65	3.70
EUR/CNY **	7.805	7.59	7.90	8.11	8.43
USD/CNY **	6.617	6.60	6.58	6.65	6.80

1 as of 11 December 2017 11:59 p.m (CET)
** under revision
Source: Reuters, Raiffeisen RESEARCH

Please note the risk notifications and explanations at the end of this document

Raiffeisen RESEARCH

EUR/CHF: 1.168→1.15 (March)



5y high: 1.261, 5y low: 0.981

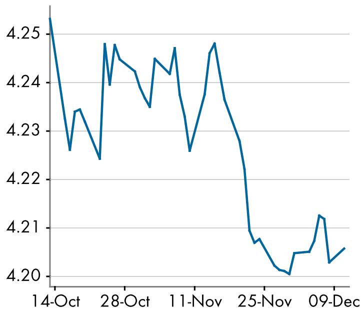
Source: Thomson Reuters

Forecasts under revision

Since early December, a volatility band of 1.15-1.17 has developed for EUR/CHF. Currently, there does not seem to be any trigger for an exceedance of the upper mark. On 14 December, the SNB (Swiss National Bank) will hold its quarterly monetary meeting. It seems clear that no monetary policy change of direction will be announced. Much more interesting is the question of whether or not monetary authorities regard the previous franc weakening as being sufficient. According to the latest statements by SNB Vice Chairman Zurbrügg, "... the situation remains fragile. We have negative interest rates and we are always ready to intervene on foreign exchange markets ..." The weak franc however supports the export economy. According to the most recent PMI survey, this index rose to 65.1 index points in November, the highest level since 2010. At the same time, the inflation rate is consolidating in positive territory. The predicted franc weakness in the coming year is likely to further support this economic environment. Interest rate discussions will therefore not stay away in Switzerland, either, and ensure again a stronger franc especially in the year 2019.

Financial analyst: Lydia KRANNER
lydia.kranner@rbinternational.com

EUR/PLN: 4.206→4.15 (March)



5y high: 4.499, 5y low: 3.987

Source: Thomson Reuters

Forecasts under revision

As expected, the Polish central bank did not make any monetary policy changes in the past week and left the key interest rate unchanged at 1.5%. At the current key interest rates, it sees the economy as being in balance while it expects a consumer price inflation by 2.5% yoy until 2019 and slight economic slowdown over the coming quarters. Although interest rate hike speculations should time and again occur over the coming months, we hold on to our forecast that the Polish central bank will not start with interest rate hikes until Q3 2018. We would not expect any noteworthy influence on the zloty from the political side, the upcoming replacement of Prime Minister Szydlo by the current finance minister Morawiecki as well as the restructuring of the cabinet. On the other hand, especially the conflict with the EU surrounding the reforms in the judiciary constitutes a persistently explosive issue. In the short term, this could ensure increased volatility at the zloty. We subject our zloty forecasts to revision, but overall anticipate moderate appreciation potential of the zloty against the euro towards 4.10-4.15 for 2018.

Financial analyst: Wolfgang ERNST
wolfgang.ernst@rbinternational.com

EUR/HUF: 314.7→310 (March)

5y high: 321.0, 5y low: 283.6

Source: Thomson Reuters

Forecasts under revision

Due to the Hungarian central bank's (MNB) loose monetary policy, the forint remains in its bandwidth of 310-315 against the euro and does not show any appreciation tendency like other currencies of the region (PLN and CZK). The MNB thereby openly communicates its wish to prevent a forint appreciation and controls its monetary policy accordingly. This overall picture should initially change little. The MNB will continue to press ahead with its ultra-expansionary monetary policy. Yet over the coming months in which more and more central banks will gradually start with interest rate normalization, this should increase the threat of HUF weakening. Overall, however, such a HUF weakening should prove moderate, especially since the strong performance of the economy, a solid current account surplus as well as the overall good framework conditions (locally and globally) should prevent a stronger volatility of the forint. In our models, this would imply depreciation at EUR/HUF towards 320 for the second half of the year 2018. We have therefore initially subjected our HUF forecast to revision.

Financial analyst: Wolfgang ERNST
wolfgang.ernst@rbinternational.com

EUR/CZK: 25.62→25.2 (March)

5y high: 28.35, 5y low: 25.07

Source: Thomson Reuters

Forecasts in revision

After the CZK had displayed a marked appreciation trend since the dissolution of the FX regime in April, we have lately observed how strongly the appreciation trend depends on further key interest rate hikes. After EUR/CZK had already fallen to 25.4, speculations about an absent interest rate hike in December resulted in a setback up to EUR/CZK 25.7. Not only due to the fall in inflation rates for November we do not assume a further key interest rate hike for the next interest rate meeting to be held on 21 December. For 2018, we would then overall forecast three further key interest rate hikes by 25bp in each case in the first three quarters. In return, this should support a persistent appreciation movement of the koruna against the euro. With a further appreciation towards a "fair" exchange rate of EUR/CZK 25.0, resistances for the koruna should then however become more apparent. Investors who entered the market under the FX regime in anticipation of a CZK appreciation could increasingly withdraw their funds with falling appreciation expectations. Coupled with an end to the interest rate cycle, this could ensure increased CZK volatility in H2 2018.

Financial analyst: Wolfgang ERNST
wolfgang.ernst@rbinternational.com

EUR/RON: 4.632→4.60 (March)

5y high: 4.654, 5y low: 4.303

Source: Thomson Reuters

Forecasts under revision

During the past two weeks, the EUR/RON exchange rate traded in a variation range of around 0.6%, whereas it declined slightly towards the level of 4.63. We think that the EUR/RON has good chances to end 2017 close to the level of 4.65, in line with our expectations. On the one hand, the tightening of the monetary policy stance expected by us as a response to increasing inflationary pressures, and which was already pointed at by the change of NBR's rhetoric at the latest monetary policy meeting, should offer some support to the domestic currency in 2018. Still, the deterioration of macroeconomic imbalances (current account deficit and public budget deficit) as well as the uncertainty related to the government policies, on the other hand, should weigh on the exchange rate next year. Given the recent change of NBR's strategy - which now aims to reduce the volatility of interest rates, while keeping the exchange rate more flexible - spikes of the EUR/RON above the level of 4.65 should not be excluded. Hence, our 2018 forecast which puts the EUR/RON exchange rate at 4.60-4.65 has chances of being too optimistic - we have put our forecast under revision.

Financial analyst: Silvia ROSCA
silvia.rosca@raiffeisen.ro

EUR/HRK: 7.541→7.45 (March)

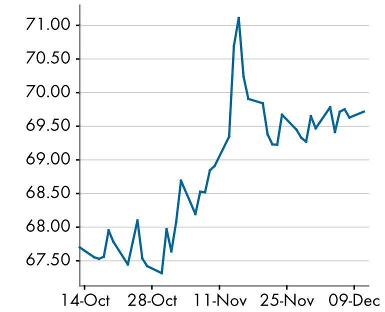
5y high: 7.725, 5y low: 7.392

Source: Thomson Reuters

Mostly calm two weeks with no significant changes in EUR/HRK movements are behind us. We saw only slight appreciation pressures on the domestic currency due to an increased EUR supply by the banking sector, which was then compensated by foreign currency demand shortly, causing EUR/HRK to turn back to the levels we had been used to seeing over the last couple of weeks. In the week ahead we expect a trading range between EUR/HRK 7.54 and 7.57. Further, until the end of the year, the usual seasonal movements that could bring pressures on the kuna will be mostly alleviated by the ample amount of foreign currency in the system. Current projections of the EUR/HRK movements next year do not imply significant deviations from the levels we saw this year. EUR/HRK will be guided by the usual seasonal trends, holding on to the average exchange rate levels as in 2017. Also, the continuation of the expected economic growth creates the possibility of continued appreciation pressures in 2018. Still, we expect the CNB to stay committed to maintaining the exchange rate stability as the main anchor of monetary policy.

Financial analyst: Marijana CIGIC
marijana.cigic@rba.hr

EUR/RUB: 69.72→66.7 (March) , USD/RUB: 59.11→58.0 (March)



5y high: 91.22, 5y low: 39.60

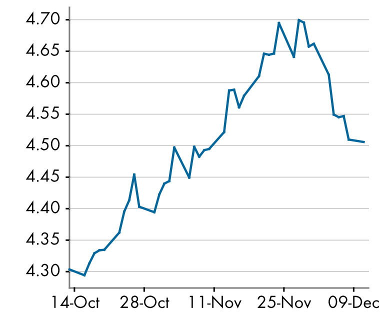
Source: Thomson Reuters

Forecasts under revision

Supported by the oil price and the still high carry, the Russian ruble in the past months remained around 58 against the USD. In this stable environment, the Russian central bank managed to further continue its interest rate cut cycle. The persistently low inflation rate (it stood at a mere 2.5% yoy in November) and the stable ruble should give the Russian central bank (CBR) further scope for an interest rate cut also for the upcoming interest rate meeting on Friday (15 December). Accordingly, we anticipate a reduction of the key interest rate by 25 basis points to 8%. With such a step, the CBR would have lowered the key interest rate by a total of 200 basis points over the course of the year 2017. We assume that the CBR will proceed with its cautious key interest rate cuts also in 2018. Simultaneously though, the gradually beginning global interest rate normalization as well as new budgetary rules that should reduce the correlation between the ruble and the oil price are likely to result in a slightly stronger depreciation trend at the ruble over the course of the year 2018. With this in mind, we have subjected our RUB forecasts to revision.

Financial analyst: Wolfgang ERNST
wolfgang.ernst@rbinternational.com

EUR/TRY: 4.506→4.02 (March) , USD/TRY: 3.820→3.50 (March)



5y high: 4.699, 5y low: 2.314

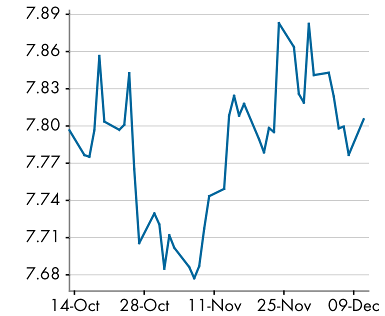
Source: Thomson Reuters

Forecasts under revision

Over the past few months, the Turkish lira experienced a sustained depreciation trend and reached a historical low close to USD/TRY 4.0 at the end of November. Since then, a stabilization back to levels of USD/TRY 3.80 has however been detected, which was primarily due to interest rate hike speculations. These speculations are not only driven by the continued decline in the lira, but also by the lately observed inflation increase to 13% in November. Investors' focus should thus be directed towards this coming Thursday (14 December), when the Turkish central bank will hold its monetary policy council meeting. Partly because of the lately ascertained TRY stabilization, we however do not assume an interest rate increase for this interest rate meeting and would correspondingly not exclude renewed lira weakening as a response. By implication, this could then increase the pressure on the central bank to still hike interest rates in the coming months. With the persistent uncertainties from the political side, we would not expect a more sustainable stabilization for the lira without an interest rate hike. We subject our TRY forecast to revision.

Financial analyst: Wolfgang ERNST
wolfgang.ernst@rbinternational.com

EUR/CNY: 7.805→7.59 (March) , USD/CNY: 6.617→6.60 (March)



5y high: 8.680, 5y low: 6.573

Source: Thomson Reuters

Forecasts under revision

In line with forecasts, the yuan has hovered around the 6.60 mark against the USD. We predict the same for the coming months for as long as the USD is not massively driven in one or the other direction. A USD weakening should cause the Chinese currency to appreciate against the greenback – in order to keep the CNY rate weighted to a currency basket stable. Apart from that, also the widened interest rate and yield differentials between China and the US currently speak for capital inflows and therefore for a stronger yuan: According to preliminary Chinese balance of payment data, net capital inflows are likely to have amounted to USD 46 bn in Q3. The opening up of the onshore bond market for foreign investors has contributed considerably to this data. In the medium term, uncertainties surrounding deregulation measures and the related concerns about a hard landing for the economy could however weaken the yuan against the USD again. Calculated over EUR/USD estimates, also a CNY weakening against the EUR results on an annual horizon.

Financial analyst: Lydia KRANNER
lydia.kranner@rbinternational.com

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Registered Office:
Am Stadtpark 9, 1030 Vienna
Postal address:
1010 Vienna, POB 50
Phone: +43-1-71707-0
Fax: + 43-1-71707-1848

Company Register Number:
FN 122119m at the Commercial Court of Vienna

VAT Identification Number:
UID ATU 57531200

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Stefan THEUßL	Martin STELZENEDER	Andreas SCHWABE	**Credit Company Research**
	Arno SUPPER	Gintaras SHLIZHYUS	Jörg BAYER
Retail Research Manager	Marion WANNENMACHER	Gottfried STEINDL	Ruslan GADEEV
Veronika LAMMER		Martin STELZENEDER	Eva-Maria GROSSE
Helge RECHBERGER			Michael HELLER
			Martin KUTNY
			Werner SCHMITZER
			Jürgen WALTER

AO Raiffeisenbank (RU)	RAIFFEISEN BANK S.A. (RO)	Raiffeisen Bank dd Bosna i Hercegovina	Raiffeisenbank Bulgaria (BG)
Anastasia BAYKOVA	Catalin DIACONU	Ivona ZAMETICA	Emil KALCHEV
Sergey GARAMITA	Ionut DUMITRU	Srebrenko FATUSIC	
Stanislav MURASHOV	Silvia ROSCA		**Raiffeisenbank a.s. (CZ)**
Anton PLETENEV	Nicolae COVRIG	**Raiffeisen POLBANK (PL)**	Jakub CERVENKA
Irina ALIZAROVSKAYA		Mateusz NAMYSL	Milan FRYDRYCH
Natalia KOLUPAEVA	**Raiffeisen Bank Aval (UA)**	Aleksandra PIKALA	Helena HORSKA
Fedor KORNACHEV	Sergii DROBOT	Pawel RADWANSKI	Lenka KALIVODOVA
Sergey LIBIN		Pawel RADWANSKI	Frantisek TABORSKY
Andrey POLISCHUK	**Raiffeisen Bank Kosovo (KS)**	Wojciech STEPIEN	
Denis PORYVAY	**Raiffeisen Bank Sh.A. (AL)**	Dorota STRAUCH	**Tatra banka, a.s. (SK)**
Rita TSOVYAN	Dritan BAHOLLI		Tibor LORINCZ
Konstantin YUMINOV	Valbona GJEKA	**Raiffeisen banka a.d. Beograd (RS)**	Robert PREGA
		Ljiljana GRUBIC	Boris FOJTIK
Priorbank (BY)	**Raiffeisen Bank Zrt. (HU)**		Juraj VALACHY
Natalya CHERNOGOROVA	Gergely PALFFY	**Raiffeisenbank Austria d.d. (HR)**	
Vasily PIROGOVSKY	Zoltán TÖRÖK	Marijana CIGIC	
	Levente BLAHÓ	Elizabeta SABOLEK-RESANOVIC	
		Ana TURUDIC	
		Zrinka ZIVKOVIC-MATIJEVIC	