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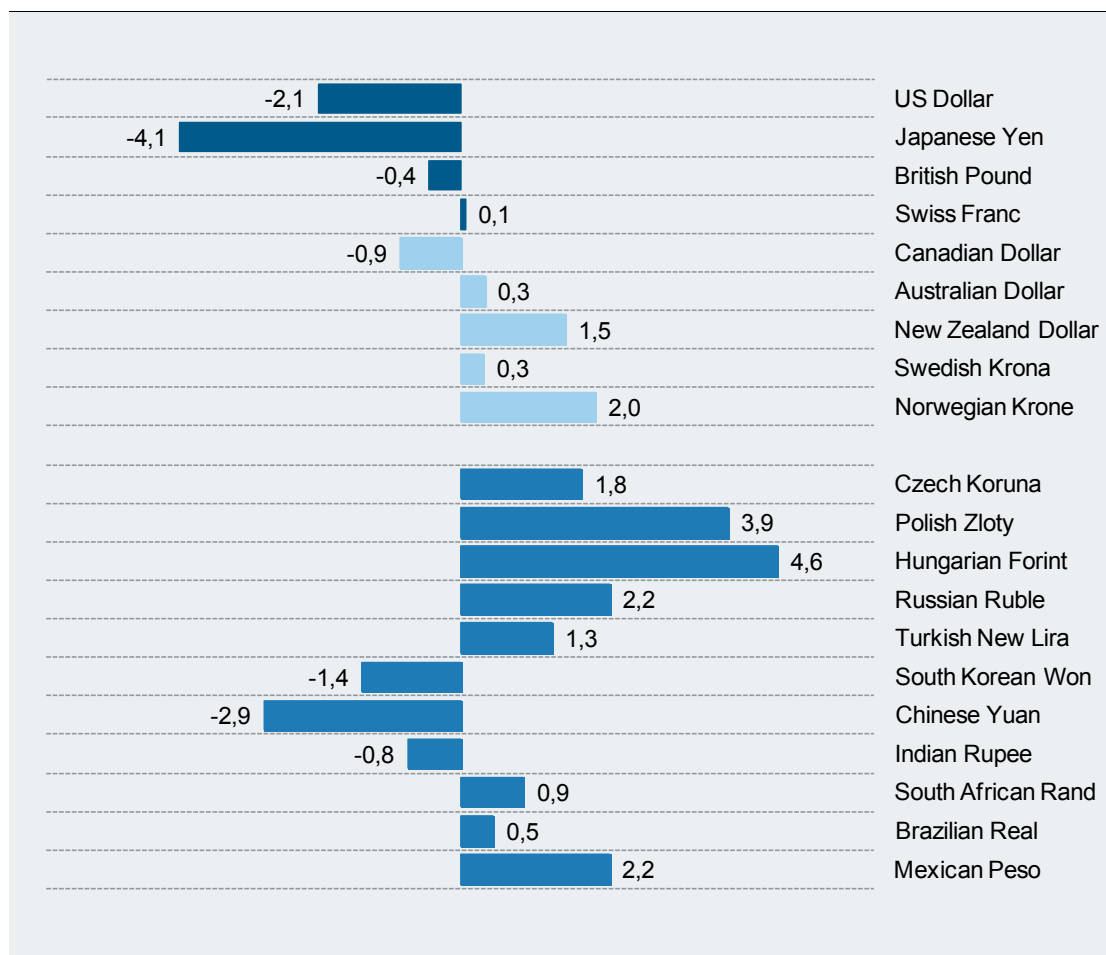
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1	In Focus	1
1.1	US dollar: no strength from inherent vigour	2
1.2	British pound: slight setback imminent	3
1.3	Swiss franc: exchange rate minimum not under threat	6
1.4	Japanese yen: battle against appreciation	7
2	In Brief: AUD, NOK and SEK	8
3	Helaba Currency Forecasts	9

1 In Focus

Euro performance on a month-over-month basis

% vs. euro compared to the previous month (from 01/18 to 02/14/12)



■ Core currencies ■ other G10 currencies ■ emerging markets currencies

Sources: Bloomberg, Helaba Research

This publication was very carefully researched and prepared. However, it contains analyses and forecasts regarding current and future market conditions that are for informational purposes only. The data is based on sources that we consider reliable, though we cannot assume any responsibility for the sources being accurate, complete, and up-to-date. All statements in this publication are for informational purposes. They must not be taken as an offer or recommendation for investment decisions.

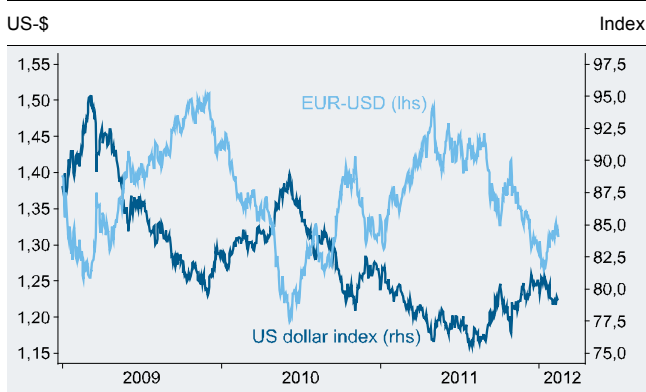
1.1 US dollar: no strength from inherent vigour

The euro has stabilized. After the euro-dollar exchange rate dropped down to 1.26 as recently as January, the exchange rate of the common currency recovered to 1.33 US dollars. The euro was helped by an easing in the European debt crisis, which was reflected in declining risk premiums on bonds from peripheral countries. In addition, some economic data from the euro zone were surprisingly positive. On the whole, the penchant for risk in the financial markets increased, with the result that emerging market and commodity currencies were able to rise even more than the euro. Only renewed uncertainties about Greece halted the rise in the euro-dollar exchange rate.

Fed shrugs off stronger
US economy

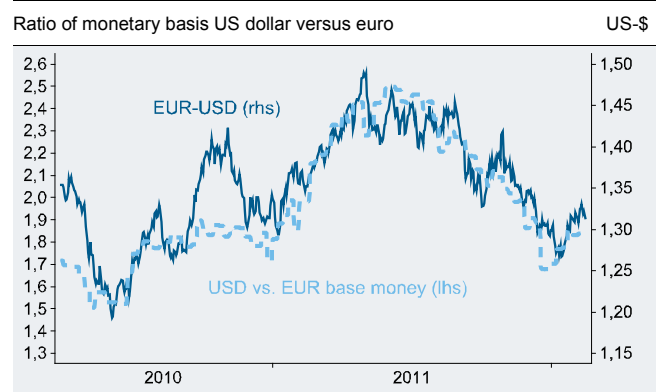
Economic data from the US during the last few weeks have been convincing. In the last quarter of 2011, GDP rose at an annualized rate of 2.8 %. Employment expanded markedly in January, and the unemployment rate dropped to the lowest level in nearly three years. The business sentiment also continued to improve. However, all of this helps the dollar only to a limited extent. Often the trend of a currency is determined not by how the economy is doing, but by how the central bank responds to this development. The Federal Reserve is not responding to this higher growth with a more restrictive monetary policy; on the contrary: it announced that it would maintain its low interest rate till late 2014. The friendlier US economy boosts the Greenback merely in that a revival of the Fed's purchasing program is becoming less likely. There is also no improvement in sight when it comes to the US budget deficit. The US dollar will hardly be able to appreciate through its own inherent strength.

US dollar back in a downtrend



Sources: Macrobond, Helaba Research

Monetary basis less of a burden on the euro



Sources: Macrobond, Helaba Research

Euro recovery will
continue after a short
pause

The situation of the euro is very different. Declining risks of a recession are putting the ECB under less pressure to take action. The central bank can presumably leave its key rate at the level of 1.0%. As it is, the ECB's liquidity policy is proving the more suitable instrument for managing the crisis. Although the liquidity from the first three-year tender initially weighed on the euro, it did strengthen the reeling peripheral bonds and the financial sector overall. As confidence grows, the commercial banks need fewer funds from the central bank, and this can cause the monetary basis to shrink again. The euro also benefits from this. Thanks to new governments, the important crisis countries – Italy and Spain – have successfully embarked upon the course in direction of reforms and budget consolidation. However, there are still political risks within the framework of the debt crisis. For example, Portugal will presumably need another rescue package in 2012, and in the short run Greece's debt restructuring has to be carried out. And since the ECB will issue another three-year tender at the end of February, the euro recovery will likely take a short pause. Thanks to the high liquidity and political progress, the crisis will likely continue to ease over the next few months. The euro will profit from this, especially since no small number of speculatively oriented investors still have to cover their short positions. The euro-dollar exchange rate should rise in the direction of 1.40 over the course of the year.

1.2 British pound: slight setback imminent

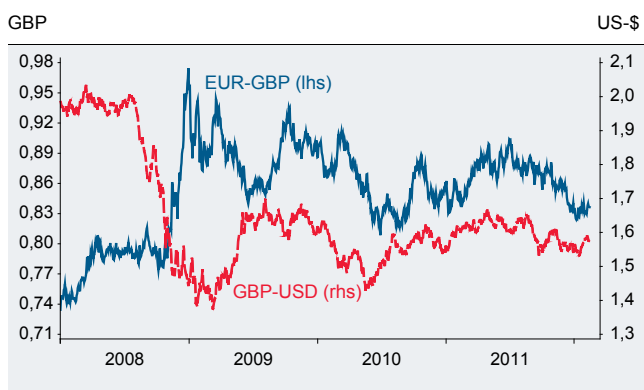
The environment in the UK did not exactly favour the pound sterling: weak growth against a backdrop of higher inflation, a very expansionary monetary policy, and a very high budget deficit. Still, last year was by no means bad for the British currency, as the pound appreciated just below 3 % against the euro. The pound suffered no significant losses against any important currency with the exception of the yen, which means that it dropped only marginally also against the US dollar. And the British pound is showing itself fairly stable at the beginning of 2012. The euro-pound exchange rate is moving within a sideways range of 0.82 to 0.84. The pound was able to partly make up the losses against the US dollar in the fall of 2011. Will 2012 be another positive year for the pound sterling?

GDP decline
in Q4

The British currency does not represent an ideal rescue anchor for those who wish to flee the euro, especially since Moody's is the first rating agency to question the UK's AAA rating. In view of the country's close interconnections with the euro zone through foreign trade and the financial sector, the pound cannot free itself from the development of the euro. And this is also not altered by the fact that the UK does not belong to the 25 EU countries that are participating in the fiscal pact. As a result, the development of the British economy almost parallels that of the euro zone. The economy is on the verge of a recession: in the final quarter of 2011, Britain's GDP shrank by around 0.2 %.

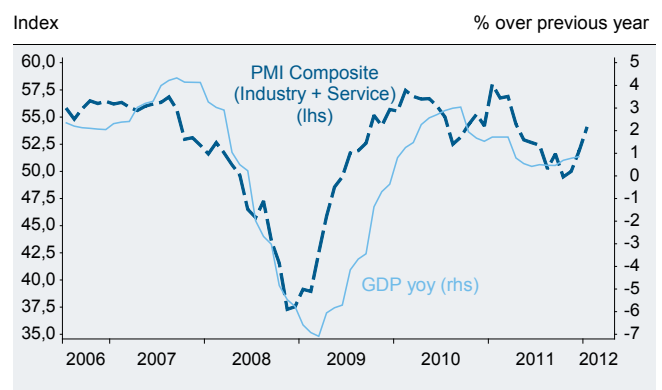
Concerns about the debt crisis in the euro zone affected the UK. Financing conditions have deteriorated somewhat, and banks are becoming more cautious in their lending. Because of the uncertainties, businesses also held back on investments. In addition, much like in several euro zone states, the government is making pronounced cuts in its spending. The British government is planning to take its budget from a deficit of 9.5 % of GDP in fiscal 2010/11 to largely balanced by 2016. The government's austerity policy is showing effects especially in the labour market. While employment did not shrink at least in the private sector, job cuts in the public sector are weighing on the economy. The unemployment rate rose most recently to 8.4 %. Since the rise in wages cannot make up for the rise in prices, the environment remains difficult for private consumer spending. Retail sales are likely to post only a slight increase. Hardly any impulses are coming from the stagnating housing market.

Euro-pound exchange rate in bottom-formation phase



Sources: EcoWin, Helaba Research

Ray of hope for the economy



Sources: EcoWin, Macrobond, Helaba Research

More positive
indicators for Q1

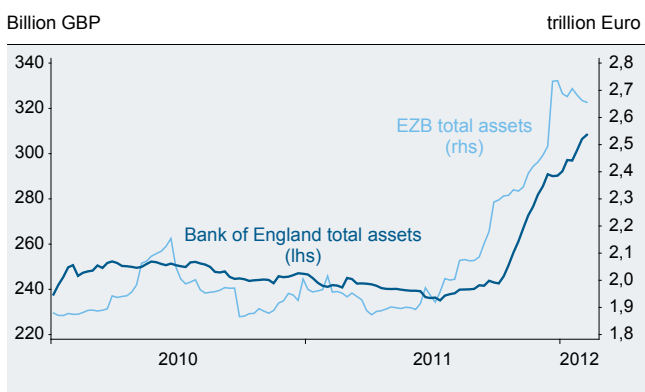
At least business sentiment brightened at the turn of the new year. Evidently the concerns about the euro zone and financial markets have eased both in manufacturing and in the services sector. Fundamentally, businesses have a certain leeway on their expenditures thanks to higher profits. Industrial production picked up again most recently. This indicates that the British economy will probably return into the growth zone in the first quarter and thus avoid a technical recession, which

is defined as two successive quarters of shrinking GDP. Positive impulses came from foreign trade, even though the data, because of their high volatility, cannot be simply projected forward. However, with stronger tailwind from the global economy, growth in Britain should consolidate over the course of the year. However, overall GDP will presumably expand at less than 1 % in 2012: just barely enough to keep things going.

BoE has expanded purchasing program by 50 billion pounds

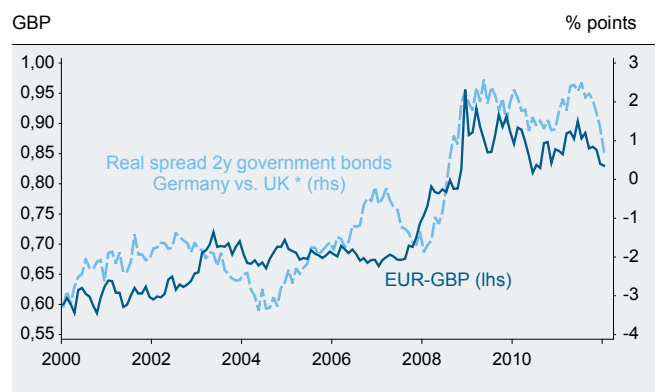
This level of growth is evidently too meagre for Britain's central bank. That is why the Bank of England (BoE) is trying to stimulate the economy with quantitative measures. At the beginning of February, it expanded its purchasing program for government bonds by 50 billion to a total of 325 billion pounds. The bank justified this move by arguing that in the face of weaker growth prospects, inflation was threatening to drop below the target level of 2.0 %. In January – the VAT increase was dropped from the year-over-year comparison – inflation declined to 3.6 %, down from no less than 5.2 % in September 2011. Basis effects of energy price increases at the beginning of 2011 argue for a further drop in inflation. Because of excess capacities in the economy overall, which should put a damper on the rise in prices, the BoE posits a marked decline in inflation. Whether these presumed excess capacities do in fact exist seems rather doubtful. At the least it should be noted that the BoE underestimated inflation in the last few years. This means that the rate of inflation is likely to remain above the target level.

BoE accelerates, ECB slows monetary impulse



Sources: EcoWin, Helaba Research

Real interest rate advantage of the euro remains intact



Deflated with HICP Eurozone or UK;
Sources: EcoWin, Helaba Research

Gilts only nominally safe

The purchases by the central bank are supporting at least British government bonds. Ten-year Gilts are yielding slightly above 2 %. In spite of the higher budget deficit, compared to some other countries in the euro zone the risk of a default in the UK is negligible. After all, the BoE holds around 30 % of the outstanding nominal government bonds. Given long-term inflation expectations in the capital market of 2.9 %, which is in line with the average of the last ten years, investors are receiving a negative return. Because of the very expansionary monetary policy, little will change in this regard for the time being. As a result, yet another expansion of the purchasing program is not unlikely. To be sure, if one subtracts inflation, German government bonds are currently also offering a negative return. However, there are indications that this trend will persist longer in the case of Gilts. After the rise in the euro-pound exchange rate during the financial crisis in 2008, the British currency was clearly undervalued on the basis of purchasing power parities. Because of the successively higher inflation in the UK as well as the appreciation of the pound, the British currency can now no longer be considered favourable against the euro. With that, a medium-term to long-term argument in favour of buying the pound disappears.

Over the short term the course of the euro debt crisis has a decisive influence on the pound exchange rate. To be sure, there are still some political risks, but the markets are signalling that especially in the crucial state of Italy and Spain, it is possible to get a handle on the problems. The eas-

ing that has begun should thus continue and boost the euro. After all, the ECB does not have to continue its expansionary measures, as it did recently. By contrast, the BoE tends to step on the gas if there is any doubt, which means that the euro-pound exchange rate will presumably rise to the range 0.87-0.88. Since the US central bank, much like the BoE, tends toward a very asymmetrical monetary policy, the exchange rate trend of the pound sterling can be very different against the US dollar. A growing penchant for risk will weigh more heavily on the safe-haven currency from the US. As a result, the pound-dollar exchange rate should rise to 1.65 over the course of the year. Overall, however, 2012 is likely to turn into a very difficult year for the pound sterling.

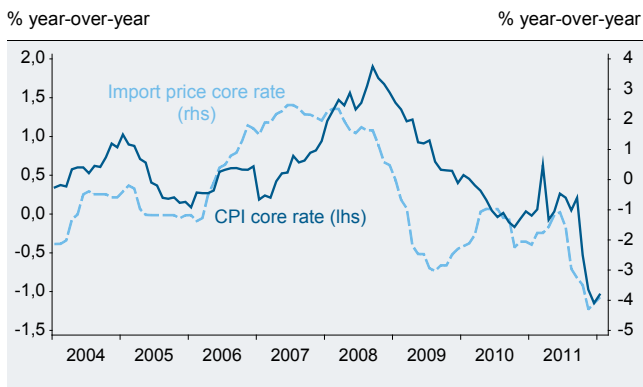
1.3 Swiss franc: exchange-rate limit not under threat

At 1.203, the euro-franc exchange rate got close to the exchange-rate limit set by the Swiss National Bank (SNB). By now the exchange rate has once again moved away a little from the critical level. SNB vice president Jordan – the position of president remains vacant – affirmed that the central bank would tolerate “no closing rate below the minimum”. Is the big test of the 1.20 level imminent, and would the SNB survive it?

Declining prices

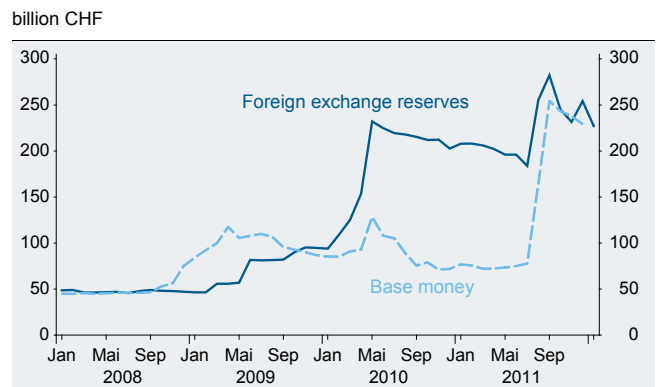
The Swiss interest in avoiding an appreciation of the franc remains intact. After all, prices in the country are falling. In January, Prices were 0.8 % lower over the previous year, and the core inflation rate even dropped by 1.0 %. Declining import prices resulting from the more expensive franc – not taking into account commodities and other volatile components, they declined by nearly 4 % over the previous year – are also depressing consumer prices. The development of the economy likewise does not point to rising prices. The KOF index slid into negative territory for the first time since 2009. This points to at least one shrinking GDP quarter. Still, a recession is not inescapable, since other leading indicators are signalling rather a bottom formation. In view of the problematic environment – exchange rate and the economy of the trading partners – the negative impulses from Switzerland’s foreign trade were comparatively moderate. On the whole, however, both the development of the economy and the price trend argue for a very expansionary monetary policy, that is to say, from this side the SNB will not relinquish its exchange-rate target.

Strong franc depresses inflation



Sources: EcoWin, Helaba Research

Currency reserves shrinking, monetary basis as well



Sources: EcoWin, Helaba Research

Currency reserves no longer growing

So far the SNB has not had to make major exertions, for example, buying up currencies. At least the official currency reserves over the last few months do not show a significant increase. Changes to the reserves are based in part on exchange-rate fluctuations and expiring swap transactions. However, it is not possible to complete reconstruct the data. Presumably the Swiss National Bank will intervene more strongly in the market again once the exchange rate gets close to the minimum target level. It is possible that the market could challenge the SNB and take aim at the 1.20 target. However, as long as the signs continue to point more toward easing in the euro debt crisis, a serious test will not occur. In theory, the SNB can make unlimited purchases. However, one problem is the monetary basis, which has more than doubled in the wake of the interventions last year. Most recently that basis has shrunk again. While this is not enough to banish the long-term inflation risk associated with the expansion of the monetary basis, over the short term the Swiss central bank has the opposite problem. At the moment there is little to suggest that the SNB will not maintain its exchange rate target. Since the franc continues to be overvalued, the target level could even be raised over the course of the year. However, for this to happen the European debt crisis would have to continue to ease.

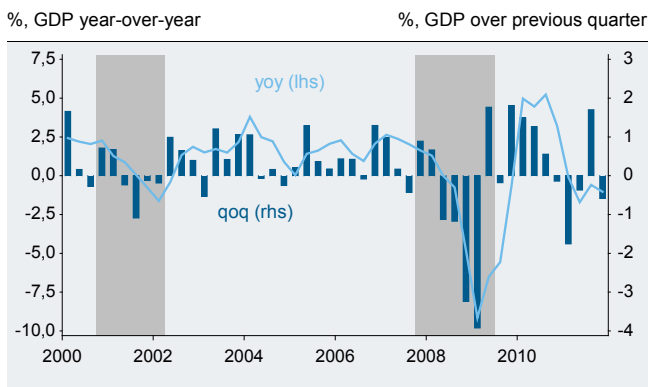
1.4 Japanese yen: battle against appreciation

The yen is losing a little ground against the recovering euro: the euro-yen exchange rate rose as high as 103. Against the US dollar, the Japanese currency is at the upper end of the sideways range of 76 - 78 yen which has been in place for half a year. As the penchant for risk grows, the safe-haven currency from Japan is less in demand overall. But the monetary policy and the economic development in Japan are also not helping the yen at this time.

GDP decline
in Q4

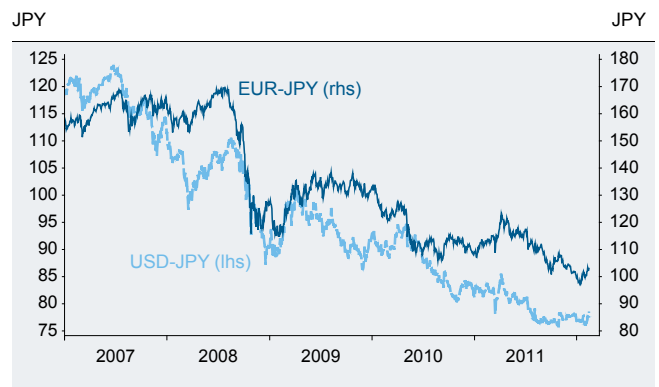
Japan's GDP shrank in the fourth quarter of 2011 by 0.6 % over the previous period. With that, four of the last five quarters were negative. This time foreign trade was responsible for the decline. One special negative factor was undoubtedly the flooding in Thailand, which resulted in production losses in Japan. However, industrial production in Japan already recovered markedly in December, which means that export, too should be boosted at the beginning of the year. Moreover, for some months the higher imports of energy raw materials have been weighing on foreign trade. Since electricity production by nuclear power plants will be reduced even further for the time being, no improvement can be expected in this regard in the near future. In addition, a yen that has been very expensive for some time now is also hurting exports. In 2011, Japan's foreign trade posted their first deficit in thirty years. Since domestic demand is relatively stable and is being supported by government reconstruction programs in the areas devastated by the natural disasters, we do not expect a relapse into recession. With the leading indicators are also pointing to a somewhat more positive economy, growth in 2012 should improve to more than 1.5 %.

Bumpy road out of recession



Sources: EcoWin, Helaba Research

Trend reversal against the euro?



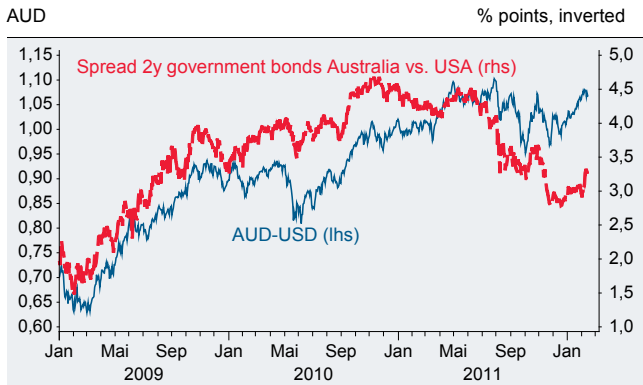
Sources: EcoWin, Helaba Research

BoJ stepping on
the gas again

Japan's central bank responded to the weaker growth numbers and the continuing deflation. Within the framework of its asset buying program, it will acquire government bonds in the additional amount of 10 trillion yen. With that, the program will total 65 trillion yen, 43 billion of which have been realized so far. In addition, for the first time it set a long-term inflation goal of 2% or lower and is currently aiming at a level of 1 %. In December, prices dropped by 0.2 %, minus energy and food by no less than 1.1 %. The Bank of Japan (BoJ) is thus trying to stimulate growth, probably also by weakening the yen. We have also learned that the directive from the Ministry of Finance on October 31, 2011, was issued when the exchange rate stood at 75.63 yen to the dollar. The BoJ intervened in the market also in the days that followed. However, this exchange rate should not be seen as an explicit intervention level. Still, the Japanese government will clearly want to prevent a yen appreciation or even weaken the currency. To a certain degree it should also succeed. The euro-yen exchange rate will presumably rise in the direction of 110 in the coming months, and the dollar-yen rate will increase slightly.

2 In Brief: AUD, NOK and SEK

Australian dollar very highly valued

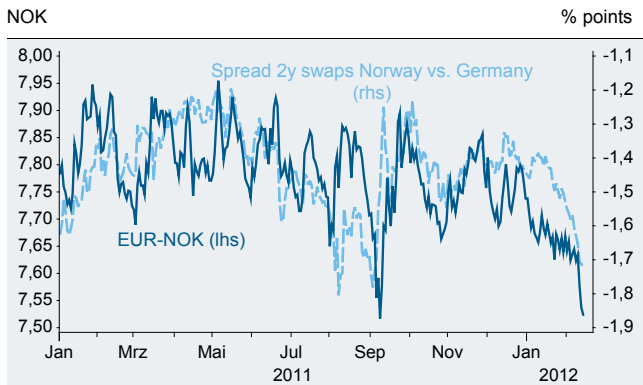


AUD

Trend: devaluation against the euro

The high-flying Australian dollar has reached its limit for now at 1.08 US dollars. Previously, the “Aussie” received a boost from the growing penchant for risk in the markets and the absence of an interest rate cut in Australia. Still, an easing in monetary policy cannot be ruled out going forward. The higher commodity prices also do not justify the appreciation. Even if the more positive global economic environment in 2012 fundamentally supports the Aussie, the exchange rate overreacted. Thus, there is a threat of losses, especially against the euro.

Higher yields favour the Norwegian krone

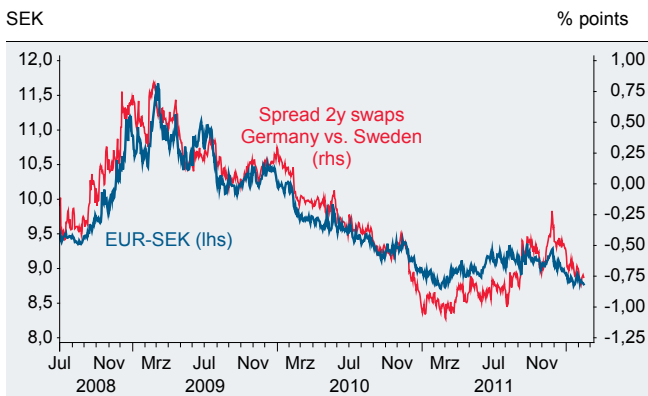


NOK

Trend: positive trend in spite of possible breathing pause

The Norwegian krone is seen, for one, as a commodity currency, and for another, a safe haven thanks to the solid public finances. The robust growth from the prior year will wane somewhat. But Norway’s central bank will not raise its key interest rate, also because of the appreciation of the krone. Still, the krone retains an interest rate advantage over the euro. The higher crude oil price also provides a boost. Over the short term a pullback by the krone, also politically desired, is certainly possible. Over the medium term the euro-krone rate should drop to at least 7.50.

Sweden’s interest rate advantage shrinks



SEK

Trend: appreciation potential exhausted

The Swedish krona started more solidly against the euro. As a cyclical currency the krona profits from a more robust global economy. Thus the growth slowdown in Sweden is moderate. But because of the lower inflation, the Swedish central bank will cut its key rate to 1.5%. With that the appreciation potential of the krona against the euro is largely exhausted. Waning concerns about the European debt crisis and thus weaker impulses from the ECB should favour the euro also against the krona over the course of the year.

3 Helaba Currency Forecasts

	Performance			Forecast horizon at end ...			
	year to date	1 month	current*	Q1/2012	Q2/2012	Q3/2012	Q4/2012
vs. Euro (vs. Euro, %)							
US Dollar	-1,3	-2,1	1,31	1,30	1,35	1,40	1,45
Japanese Yen	-3,3	-4,1	103	102	106	112	117
British Pound	-0,4	-0,4	0,84	0,85	0,87	0,88	0,88
Swiss Franc	0,8	0,1	1,21	1,20	1,25	1,25	1,25
Canadian Dollar	0,9	-0,9	1,31	1,30	1,35	1,37	1,38
Australian Dollar	3,3	0,3	1,23	1,26	1,31	1,35	1,38
New Zealand Dollar	5,8	1,5	1,58	1,63	1,69	1,73	1,77
Swedish Krona	1,6	0,3	8,77	8,80	8,90	9,00	9,00
Norwegian Krone	2,8	2,0	7,53	7,60	7,55	7,50	7,50
vs. US-Dollar (vs. USD, %)							
Japanese Yen	-2,0	-2,1	78	78	79	80	81
Swiss Franc	2,0	2,2	0,92	0,92	0,93	0,89	0,86
Canadian Dollar	2,2	1,2	1,00	1,00	1,00	0,98	0,95
Swedish Krona	3,1	2,4	6,68	6,77	6,59	6,43	6,21
Norwegian Krone	4,2	4,1	5,73	5,85	5,59	5,36	5,17
US-Dollar vs. ... (vs. USD, %)							
British Pound	1,0	1,6	1,57	1,53	1,55	1,59	1,65
Australian Dollar	4,7	2,4	1,07	1,03	1,03	1,04	1,05
New Zealand Dollar	7,3	3,6	0,83	0,80	0,80	0,81	0,82

*14.02.2012

Sources: Bloomberg, Helaba Research ■