



## Interest Rate & FX Strategy

# Daily Currency Briefing

## Yen set to weaken again this week

- **S&P lifts Japan's sovereign rating to AA from AA-**
- **Sec of Treas Paulson says he believes in a strong dollar**
- **IMM data per 17 April: euro longs at record highs (+106k)**

**The EUR view:** On the basis that expect continued weak economic data out of the US during the course of the week (durable goods, consumer confidence, Q1 GDP), the underlying USD downtrend is likely to remain intact. A test of the Dec 2004 high at 1.3665 is only a matter of time. Technical corrections - which should be limited to 1.3480-1.3520 - will be used as good buying opportunities to build euro longs. The German ifo index (Wednesday) could constitute a short breather for the dollar since it is expected to come in lower after having seen highs in Dec 2006. The current dollar negative sentiment won't change, though. In line with higher GBP/USD and higher EUR/JPY levels, EUR/USD should remain well supported.

**JPY:** After the brief interlude mid last week, when then yen managed to correct higher on speculation China could adopt a more aggressive monetary policy to dampen economic growth, the market quickly returned back to the carry trade. Due to elevated risk appetite, the low yielding yen and Swiss franc are under pressure again. However, last week's market reaction reflects underlying nervousness and leverage, which could quickly lead to renewed sharp position unwinding. On Friday, the BoJ will hold its interest rate meeting. No hike is expected, although counter rumours circulated last week. The BoJ will also publish its semi-annual economic outlook. Our Economics team expects a downward revision of the Board's growth and price projections for fiscal year 2007 (up to March 08), thus fuelling Japanese press stories that CPI forecasts would be lowered. This is likely to endorse the market's assessment that low interest rates will be sustained, thus re-invigorating the carry idea. Against this background, EUR/JPY could easily retest recent highs at 162.50, heading for 164/165. USD/JPY may well start another run to recent highs at 119.80.

### Today's events

Major Markets	Period	Market	CBCM	Previous	Impact
10:30 UK M4 Money supply	March, mom	12.5%		12.7%	Neutral
EUR: EU foreign exchange ministers meet in Luxembourg (10:00)					
UK: CML, BBA & BSA mortgage lending figures (10:30)					
EUR: EZB member Papademos presents annual report in Strasbourg (19:00)					
USA: US Sec of Treasury Paulson speaks (21:15)					

Local Markets	Period	Market	CBCM	Previous	Impact
14:00 PLN Core inflation	March, yoy	1.7%		1.3%	Positiv
HUN: Interest rate decision of the central bank, unchanged at 8.00% expected (14:00)					

**Local Markets** The Hungarian central bank is expected to keep interest rates unchanged at 8.00% today. Recent wage data came in below expectations, paving the way for the central bank to lower interest rates in May. Today's MPC meeting may lay the ground for this verbally. The forint may come under pressure as a result, pushing EUR/HUF back to last week's highs at 248 temporarily. But continued strong risk appetite and the fact that a 25 bp rate cut is already priced in should limit the upside and keep EUR/HUF in a range between 245-248 for now. We would therefore recommend using short-term forint weakness as an opportunity to sell EUR/HUF. Rapidly falling inflation will enable the central bank to cut interest rates more aggressively than expected this year. We see scope for rate cuts of total 200-250 bp in the next 9-12 months, which should help to push EUR/HUF back into the old range between 250-260 in H2.

Currencies		Percent
EUR/USD	1.3582	-0.37
EUR/CHF	1.6396	-0.11
EUR/GBP	0.6784	-0.16
EUR/JPY	160.76	-0.68
USD-Index	81.67	0.05

10-year yields		Basis points
USA	4.67	-0.4
Euroland	4.19	-1.1
UK	5.07	-0.2
Japan	1.69	-0.5

Stock markets		Points
DOW	12961.98	153.35
EuSTOXX50	4416.79	76.86
FTSE 100	6486.80	46.20
Nikkei	17455.37	2.75

Commodities		Dollar
Crude oil, Brent in \$	66.07	0.44
Gold, ounce in \$	691.95	6.80

### Event risk calendar

25 April	UK Q1 GDP
25 April	US durable goods orders
27 April	BoJ interest rate meeting
27 April	US Q1 GDP
30 April	US PCE index
30 April	US Chicago PMI
1 May	US ISM index
4 May	US employment report

### FX Strategy Team

**London**  
**Gavin Friend**  
 +44 20 7653 7910  
 gavin.friend@commerzbank.com

**Frankfurt**  
**Carsten Fritsch**  
 +49 69 136 21006  
 carsten.fritsch@commerzbank.com

**Antje Praefcke**  
 +49 69 136 43834  
 antje.praefcke@commerzbank.com

**Alexandra Bechtel**  
 +49 69 136 41250  
 alexandra.becht@commerzbank.com

[www.cbksec.com/rsh/economics.html](http://www.cbksec.com/rsh/economics.html)  
[Bloomberg page CBIR](#)