

Athens, July 10, 2007

## FX Outlook Weekly

### Risk appetite favours high yielders

- ◆ **EUR/USD: positive trend to persist:** US non-farm payrolls data last week confirmed that the labor market remains tight while the ISM activity indices for the manufacturing and the services sectors surprised to the upside boding well with the view for a rebound in Q2 economic growth. However, the USD has so far failed to capitalize on the above stronger than expected US economic indicators. Lingering market worries over the US subprime market and its potential spill over effects to the US economy weigh, while focus on interest rate differentials seems to be another negative influence for the USD. The FOMC's June statement suggested that the committee intends to remain on hold in the foreseeable future while a number of other G10 Central Banks, including the ECB, are expected to keep tightening. The EUR/USD was trading close to 1.3610/20 in early European trade on Tuesday, not far from two month highs of 1.3660 recorded mid-last week. We expect the pair to remain well supported multi-day on the back of investors' ongoing appetite for risk and lingering US credit jitters with the 1.3680 April 2007 high appearing likely to cap any fresh EUR/USD gains ahead of FOMC Governor Bernanke's H-H testimony next week. Looking at this week's US calendar, Fed Governor Bernanke speaks on "Inflation" before the NBER Monetary Economics Summer Institute on Tuesday but he is expected to stick to the script contained in the FOMC's June statement doing little to change the USD's bearish near-term outlook. US retail sales and UM consumer confidence are due on Friday.
- ◆ **JPY likely to remain under pressure in the short-term.** The BoJ meets this week and consensus is for stable interest rates in view of political uncertainty ahead of Upper House elections later this month and the recent bulk of weak economic releases (industrial production growth has slowed significantly, consumer spending remains weak while the problem of deflation persists). However, with markets assigning a high possibility for an August rate hike, focus will turn to Governor Fukui's press conference especially in light of recent comments by a top LDP official that under current economic conditions, a rate hike in August could not be accepted. Even if the BoJ Governor's comments support market expectations, short-term JPY downside risks remain in view of the latter's funding-currency status. Strong resistance lies at 124.50, a level that could be tested multi-day especially should the BoJ Governor water down expectations for a rate hike next month. On the EUR/JPY axis, short-term risks are for further upside provided that strong support at 166.00 holds.
- ◆ **BoC policy statement in focus:** Canada's June employment data surprised positively showing that non-farm payrolls rose well above expectations while the unemployment rate remained stable at 33-yr lows of 6.1%yoy. The above along with ongoing above-potential economic growth and persisting BoC inflation concerns –core CPI has been above the Bank's 2.0% threshold since July 2006- suggest that a 25bps rate hike from the BoC at this week's meeting is quite likely. However, with the money market currently pricing-in more than 50bps in rate tightening by year-end, market focus will be on the BoC policy statement. If the tone of the statement reinforces expectations for further BoC rate tightening ahead, the CADs' uptrend is expected to remain firmly in place short-term with the USD/CAD dropping to fresh multi-year lows on a multiday/week basis. On the flipside, we could witness a USD/CAD bound should the statement prove less hawkish than expected. However, any CAD downward correction is likely to prove limited on the back of high oil and commodity prices. USD/CAD rallies towards 1.07 could be seen as providing short-to-medium-term attractive CAD buying opportunities for a move to 1.04 amid expectations for further narrowing in USD/CAD interest rate differentials in coming months.
- ◆ **GBP supported by rate hike expectations:** The BoE delivered a 25bps rate hike last week taking the repo rate to 5.75%, the highest since April 2001. The MPC said that, although CPI inflation is expected to continue falling back towards its 2.00% target in the course of the year, inflation risks remain to the upside mainly due to the limited spare capacity in businesses, leaving the door open for further tightening ahead. Market expectations for higher interest rates in the UK in contrast to stable rates in the US, pushed the GBP/USD to 26-yr highs of 2.0207 before the pair pulled back to levels around 2.012/16 this week. Extreme long-GBP positions pose risks for some further retracement in the coming sessions but with US credit jitters still in the air, any GBP losses are likely to prove limited (the latest Commitment of Traders report from the CFTC showed that IMM speculators' net long-GBP

positions rose last week to new record highs). Retracements towards 1.9985 could be seen as providing short-term GBP-buying opportunities for a move to fresh multi-year highs in the coming sessions/weeks.

*(Important disclaimer on page 3)*

### Key market drivers

- ◆ **USD:** FOMC Chairman Bernanke speaks (Tuesday, July 10), trade balance, jobless claims, Fed's Yellen speaks (Thursday, July 12), retail sales, import prices, UM consumer confidence (Friday, July 13)
- ◆ **EUR:** France's industrial production (Tuesday, July 10), Eurozone industrial production, Eurozone Q1 GDP final, ECB monthly economic report (Thursday, July 12), France's CPI (Friday, July 13)
- ◆ **JPY:** BoJ monetary policy, BoJ Governor Fukui speaks (Thursday, July 12)
- ◆ **GBP:** Global trade (Tuesday, July 10), RICS housing survey (Wednesday, July 11), BoE's Bean speaks (Friday, July 13)
- ◆ **CAD:** BoC policy meeting (Tuesday, July 10), trade balance (Thursday, July 12)

### Weekly strategy

New Trade Recommendations	Currency Pair	Spot Reference	Strategy	Entry	Target	Stop Loss
	EURJPY	168.00	LONG	166.85	168.85	165.90

Macro indicators & Technicals									
	EUR/USD	USD/JPY	EUR/JPY	AUD/USD	NZD/USD	USD/CAD	EUR/GBP	EUR/SEK	EUR/NOK
<b>Spot reference</b>	1.3636	123.35	168.19	0.8589	0.7775	1.0496	0.6766	9.176	7.9549
1-2wk view	↔	↗	↗	↗	↗	↘	↗	↘	↘
<b>FX forecasts</b>									
Eurobank 1m (projections sent to Reuters FX Survey)	1.3740	123.90	170.24	0.8600	0.7900	1.0700	0.678	9.10	7.90
Eurobank 3m	1.3700	125.00	171.25	0.8700	0.8000	1.0500	0.685	9.05	7.85
Eurobank 6m	1.3600	126.00	171.36	0.8500	0.7800	1.0400	0.683	9.00	7.80
Eurobank 12m	1.3400	127.00	170.18	0.8300	0.7600	1.0300	0.680	9.00	7.80
Consensus 1m*	1.3590	122.00	165.8	0.8500	n.a.	1.0590	0.676	n.a.	n.a.
Consensus 3m*	1.3600	121.00	164.4	0.8500	0.6800	1.0600	0.679	9.16	8.00
Consensus 6m*	1.3500	119.00	161.0	0.8300	n.a.	1.0700	0.686	9.09	7.90
Consensus 12m*	1.3200	115.50	155.4	0.8100	0.6400	1.1000	0.689	9.00	7.80
3m outright fwd	1.3676	121.92	166.73	0.8567	0.7719	1.0477	0.68	9.16	7.97
6m outright fwd	1.3708	120.53	165.21	0.8541	0.7661	1.0465	0.68	9.16	7.98
12m outright fwd	1.3751	118.08	162.35	0.8479	0.7548	1.0448	0.69	9.15	8.02
Eurobank(vs.)consensus 12m	1.52%	9.96%	9.51%	2.47%	18.75%	-6.36%	-1.28%	0.00%	0.00%
Eurobank(vs.)fwrds 12m	-2.55%	7.56%	4.82%	-2.11%	0.68%	-1.41%	-1.10%	-1.59%	-2.75%
<b>Weekly technicals**</b>									
Bias	↔	↗	↗	↗	↗	↘	↗	↘	↘
2nd resistance	1.3674	124.14	169.50	0.8650	0.7841	1.0574	0.6800	9.2750	8.0000
1st resistance	1.3644	123.70	168.55	0.8615	0.7818	1.0542	0.6780	9.2170	7.9710
1st support	1.3568	122.86	167.20	0.8540	0.7727	1.0444	0.6744	9.1210	7.8730
2nd support	1.3538	122.33	166.78	0.8512	0.7690	1.0350	0.6723	9.0770	7.8360
<b>Positioning (vs. USD) &amp; signals</b>									
Spec. positioning (IMM data)	USD	EUR	JPY	AUD	NZD	CAD	GBP	SEK	NOK
	short	long	short	long	n.a.	long	long	n.a.	n.a.
<b>Macro indicators</b>									
	USD	EUR	JPY	AUD	NZD	CAD	GBP	SEK	NOK
GDP growth 2006***	3.3%	2.7%	2.2%	2.7%	1.5%	2.7%	2.7%	4.5%	2.9%
GDP growth 2007***	2.2%	2.6%	2.3%	2.6%	2.5%	2.4%	2.9%	3.5%	3.8%
Current interest rates	5.25%	4.00%	0.50%	6.25%	8.00%	4.25%	5.75%	3.50%	4.50%
Policy rate end 2006****	5.25%	2.50%	0.25%	6.25%	7.25%	4.25%	5.00%	3.00%	3.50%
Policy rate end 2007****	5.25%	4.50%	0.75%	6.25%	8.00%	4.50%	5.75%	4.00%	5.25%

(\*): latest Reuters FX poll (July 3, 2007) / survey for NZD/USD conducted in March while surveys for NOK, SEK crosses conducted between April 26-30, 2007

(\*\*): Source Reuters

(\*\*\*): Consensus, IMF forecasts

(\*\*\*\*): EFG Eurobank forecasts

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