

EM FX trading recommendation

Buy PLN/CZK

We recommend buying PLN/CZK spot at 6.23 for a target of 6.50, with a stop loss at 6.10.

Positive carry and technical support for uptrend in PLN/CZK

The strategy offers a positive carry and is a bet on the FX-cross now being entrenched in an uptrend following the large sell-off in the Polish zloty in the first part of 2009. PLN/CZK has broken through both 50- and 200-day moving averages confirming the uptrend.

Polish economy doing better than Czech

The Polish economy has shown strong resilience during this crisis – being the only country among all EU member states that produced positive year-on-year growth during H1 09 – see *Polish Macro Monitor* – supported by positive export developments on the back of the weak currency. Meanwhile the Czech economy suffered from a deep downturn. Revised GDP data showed that the economy contracted as much as 5.5% y/y during Q2.

Politics may weigh on Czech koruna

The Czech Republic was heading for early elections on 9-10 October after the centre-right minority government collapsed at the end of March. However, after the Czech constitutional court received complaints about the early elections, it seems very likely that the elections will be postponed. CZK has not reacted to the rising political uncertainty and continues to track the risk sentiment, but this might change and CZK could be less favoured compared to its regional peers, such as PLN.

Risk factors

PLN/CZK is slightly positively correlated with global risk appetite, and is thus anchored to our expectation of a continued economic recovery in the global economy in the coming months. However, if market sentiment turns more sour this would pose a risk for this trade.

Further Polish public budget worries in 2010 could pose a risk for the Polish zloty in the medium term. However, for now we do not think that this would be a dominant theme for the zloty.

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Indicative prices

Spot	6.23
Stop loss / take profit	6.10/6.50
Hist vol (ann.)	11.90%

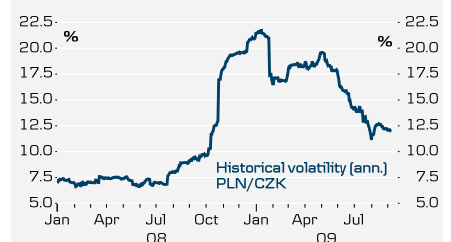
Source: Reuters Ecowin and Danske Markets

PLN/CZK in an uptrend



Source: Reuters Ecowin and Danske Markets

Historical volatility



Source: Reuters Ecowin and Danske Markets

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Disclosure

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