



Top FX Forecasters

The most accurate firm covering the biggest swings in global currency markets since at least 1992 was a regional German bank. **By BO NIELSEN**

DURING THE MOST volatile period for global foreign exchange in more than 15 years, a state-owned bank in southern Germany bested the currency forecasters at the biggest banks and trading firms.

Gernot Griebling, head of bond and economic

research at Stuttgart-based Landesbank Baden-Wuerttemberg, and his team of five currency strategists beat competitors at 46 firms to become the most-accurate forecasters for the six quarters ended on June 30, according to data compiled by Bloomberg. They outshone analysts at bigger firms by holding fast to such views as an early call for the dollar's decline against the euro in the first half of 2008, even when their predictions went against the mainstream.

"Your track record has nothing at all to do with the number of people working for you," says Griebling, 48, who navigates global currency markets from the glass-and-concrete headquarters of LBBW, a firm with less than a quarter of the employees and less than a third of the assets of its German rival Deutsche Bank AG, the world's biggest currency trader. "You have to have the courage to stick to your conviction, to deviate from the consensus view."

As of mid-September, Griebling predicted that the dollar will trade at about \$1.42 per euro until mid-2010 compared with \$1.4618 in mid-September, as investor concerns over rising U.S. deficits and debt offset optimism about the prospects for an economic recovery.

CURRENCY LEADERS

Avg. margin of error

1	Landesbank Baden-Wuerttemberg	5.62
2	Scotia Capital	5.88
3	BofA Merrill Lynch	6.21
4	TD Securities	6.22
5	Deutsche Bank	6.69
6	Credit Suisse	6.81
7	Calyon	6.97
8	Danske Bank	7.01
9	Alpha Bank	7.08
10	Australia & New Zealand Banking Group	7.13

Margin of error was calculated by subtracting a forecast rate from the recorded one and then dividing the result by the recorded rate. Based on currency forecasts for the six quarters ended on June 30. Source: Bloomberg

THE RANKING was based on quarterly predictions made at the beginning of both 2008 and 2009 for seven major exchange-rate pairs. Scotia Capital, part of Toronto-based Bank of Nova Scotia, Canada's third-biggest bank, was second overall, followed by BofA Merrill Lynch Research in New York and Toronto-Dominion Bank's TD Securities unit in Toronto. Frankfurt-based Deutsche Bank came in fifth, while Zurich-based UBS AG, the second-biggest currency trader, was No. 22.

LBBW prevailed at a time when financial turmoil and an economic slump sparked the most-violent swings for major currencies since at least 1992, as measured by JPMorgan Chase & Co.'s benchmark JPMorgan Volatility Index. The dollar plunged in the first half of 2008, only to rally later in the year as the collapse of Lehman Brothers Holdings Inc. in September froze credit markets and sent investors flocking to the safety of the greenback. The yen rallied in the second half of 2008 as traders reversed risky bets funded in the currency. In 2009, the dollar and yen started out strong against other major currencies and then weakened as central bank actions and \$2 trillion spent by governments around the world on fiscal stimulus efforts helped to stabilize the global economy.

The dollar weakened more than 4 percent to \$1.4618 per euro in 2009 through Sept. 14. The yen also fell more than 4 percent against the European currency to ¥132.94 in the period and was little changed against the dollar at ¥90.94.

The turbulence made even the top forecasters prone to missing the mark: The average margin of error of the 10 top-ranked firms was 6.6 percent compared with 3.5 percent when Bloomberg last ranked currency strategists in 2006, a year characterized by global growth and stable financial markets. "It was a very difficult time to be a forecaster," says Daniel Tenengauzer, head of global foreign exchange strategy at BofA Merrill Lynch in New York. "We had some spectacular successes and some spectacular misses."

Tenengauzer, 41, predicts that the dollar will weaken to \$1.50 per euro by year-end and then strengthen to \$1.28 by the end of 2010 as the Federal Reserve begins a series of rate increases to keep inflation in check.

While no one foresaw the scale of last year's

market moves, some forecasters, such as Griebing's team at LBBW, were able to correctly discern the broad trends that guided currencies.

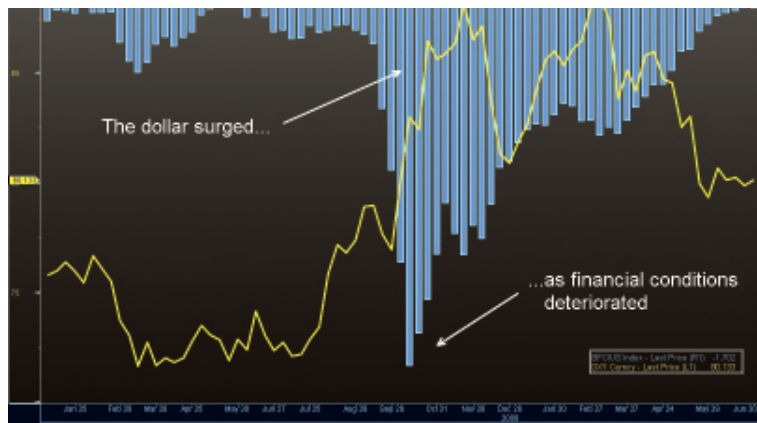
As 2008 began, the U.S. dollar was strengthening against the euro. The dollar was \$1.4592 per euro on Jan. 1, 2008, compared with \$1.4967 per euro on Nov. 23, 2007, its weakest ever. A Bloomberg survey of 43 forecasters published on Dec. 27, 2007, when the euro-dollar rate was \$1.4626, showed that analysts expected the dollar to continue strengthening through September 2008. The strategists cited a narrowing deficit in the U.S. current account, which is the broadest measure of trade, and predicted that the threat of inflation would keep the Fed from cutting benchmark rates.

GRIEBLING AND HIS TEAM didn't share that bullish view. The LBBW forecasters had been tracking the decline in the U.S. housing market. They predicted that the deepening slump's impact on consumer spending and growth would be bigger than most market participants expected and would curb the dollar. In 2007 the housing downturn had already triggered \$80 billion in writedowns at financial firms, a figure that would grow to more than \$1.3 trillion within two years.

"We had been big bears on the U.S. economy and the dollar for a long time," Griebing says. LBBW predicted that the dollar would strengthen against the euro in the second half of 2008 as the U.S. recession would drag down euro-zone economies.

LBBW's view was borne out: First, the dollar lost value against major currencies in the first half of 2008, with the greenback touching \$1.6038 per euro in mid-July. Then, the U.S. currency surged in the latter part of the year, reaching \$1.2330 per euro in October. The dollar ended 2008 at \$1.3971 per euro, not far from Griebing's year-end forecast of \$1.39 per euro.

What LBBW and most other currency forecasters failed to predict was the magnitude of the currency swings and the unprecedented financial turmoil that brought them about. No one foresaw the severity of the deterioration in the U.S. economy and credit markets in the first half of 2008 that would lead the Fed to cut rates four times between January and April and prompt the government-brokered takeover of Bear Stearns Cos. by



FLIGHT TO QUALITY
A custom chart illustrates the dollar's rally in late 2008 as a Bloomberg index tracking U.S. financial conditions declined.

JPMorgan. Nor did anyone foresee Lehman's September 2008 collapse, the U.S. bailout of insurer American International Group Inc. a month later and the rounds of global rate cuts soon afterward, all of which sent investors stampeding back into the dollar.

Some analysts were thrown off track by the roller-coaster market. Gerry Celaya, chief strategist at Redtower Asset Management, entered 2008 as the biggest dollar bull among strategists in the Bloomberg survey, forecasting a \$1.30 euro-dollar rate for June 2008. Celaya, who placed third overall in the 2006 ranking, slid to number 40 on this year's list after the U.S. economic rebound he was betting on in 2008 didn't materialize. "We were surprised by how consistently bearish people were about the dollar in the first half of 2008," Celaya, 44, says. "And when the dollar strength finally came, it was for all the wrong reasons."

CALLUM HENDERSON, Singapore-based global head of currency strategy at Standard Chartered Plc, came closest to predicting the dollar's swings against the euro. In January 2008, he forecast a euro-dollar rate of \$1.49 by March, making him among the biggest dollar bears in the Bloomberg survey. His \$1.38 prediction for where it would stand at the end of September was among the most bullish for the U.S. currency. In making his forecasts, Henderson says he studied the greenback's moves during similar periods: 1989 to 1992 and 2002 to 2004. Both times, the dollar weakened as the U.S. economy lost steam before surging against major currencies as recession damped

global growth, forcing central banks to cut rates. Those patterns told him the dollar would slump initially in 2008 and then rally.

"As soon as the global credit crisis happened, we knew there was going to be a dollar rally, but no one could have foreseen the speed with which it happened," says Henderson, who turns 45 in November. You can use the Foreign Exchange Forecasts (FXFC) function to track analysts' predictions for major currency pairs. Type FXFC <Go>. Click on a currency pair for a list of contributed forecasts.

Some market watchers searched for new ways to gauge currency relationships in late 2008 as the flight to quality sent investors pouring into the dollar. Henrik Gullberg, a strategist at Deutsche Bank in London, abandoned his standard forecasting measures and instead looked at weekly data on the amount of dollar reserves being held at the Fed by foreign central banks. Gullberg discovered that from late 2008 through the beginning of 2009, the dollar tended to gain against major currencies when foreign central bank accounts at the Fed rose and vice versa, even though that hadn't been the case historically.

"We followed safe-haven flows very carefully; there was nothing else driving currency markets,"



Sutton at Scotia Capital, which ranked second overall among currency strategists, predicts a weaker dollar through the end of next year.

JOHN HRYNIUK

says Gullberg, who turns 37 this month. “The only thing that mattered was risk aversion. All other models went out the window.”

THE FINANCIAL TURMOIL in late 2008 also prompted traders to get out of so-called carry-trade bets, in which they borrowed funds in yen and U.S. dollars at low rates and then invested them in currencies of countries such as Australia, where returns were higher. The Dollar Index, a gauge of the greenback’s performance against the euro, yen, pound, Canadian dollar, Swedish krona and Swiss franc, had its biggest weekly gain since 1992 in October 2008. “This was a huge structural change,” says Camilla Sutton, director of currency strategy at Scotia Capital in Toronto. “It became pretty clear that the de-leveraging was impacting currencies.”

The period of dollar and yen strength lasted from July 2008 to March 2009, when signs of stability in the global economy persuaded investors to venture back into stocks and bonds denominated in foreign currencies.

As of mid-September, most of the top forecasters predicted that the dollar would weaken at least through the middle of next year amid rising U.S. deficits and debt, and that investors would gravitate to more-attractive investment opportunities elsewhere.

Sutton, 38, sees the greenback losing value as the U.S. Treasury swamps the market with bonds to fund \$12.8 trillion in pledges to prop up the economy. The euro-dollar rate will return to \$1.60 and the dollar will fall to ¥85 by the end of 2010, she says. Standard Chartered forecasts the dollar at \$1.58 by the end of next year.

Deutsche Bank’s Gullberg says the correlation between central bank reserves and the dollar has been broken as stability returned. Now, using models that look at traditional gauges such as interest rates, he foresees declines in the dollar to as low as \$1.60 per euro by year-end as investors seek out higher-yielding assets in other currencies, and as the Fed resists raising rates anytime soon to ward off the threat of inflation.

“Dollar strength is dependent on an aggressive Fed, and so far there has been very little sign of that,” Gullberg says. **B**

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TOP FORECASTERS, BY CURRENCY PAIR

EURO/DOLLAR		€//\$
		Margin of error
1	Standard Chartered	3.35
2	MPS Capital Services	4.01
3	Credit Suisse	4.07
4	ING	4.59
	Landesbank Baden-Wuerttemberg	4.59
DOLLAR/YEN		\$/¥
1	Aletti Gestielle	3.61
2	Scotia Capital	4.59
3	UBS	5.04
4	TD Securities	5.19
5	Australia & New Zealand Banking Group	5.26
EURO/YEN		€/¥
1	Landesbank Baden-Wuerttemberg	4.62
2	Aletti Gestielle	5.45
3	BofA Merrill Lynch	5.53
4	RedTower	5.63
5	Saxo Bank	5.95
POUND/DOLLAR		£/\$
1	HSBC	7.35
2	National Australia Bank	8.09
3	ING	8.48
4	Rabobank	8.67
5	Banco Bilbao Vizcaya Argentaria	8.69
EURO/POUND		€/£
1	ING	5.99
2	BNP Paribas	6.86
3	Scotia Capital	6.87
4	Skandinaviska Enskilda Banken	7.00
5	CIBC	7.04
EURO/SWISS FRANC		€/SF
1	Scotia Capital	1.56
2	Lloyds	1.78
3	Saxo Bank	1.85
4	Banco Bilbao Vizcaya Argentaria	1.89
	Landesbank Baden-Wuerttemberg	1.89
DOLLAR/SWISS FRANC		\$/SF
1	Scotia Capital	4.10
2	Morgan Stanley	4.63
3	TD Securities	5.04
4	Skandinaviska Enskilda Banken	5.10
5	Societe Generale	5.28

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