



THE SPECIALIST IN TRADING AND INVESTMENT

Outrageous Predictions 2010

Saxo Bank's ten outrageous claims is a "Black Swan" exercise prepared for investors every year. The Black Swan theory is used to explain the existence and occurrence of high-impact, hard-to-predict, and rare events. That means the bank's outrageous claims are more of a thought exercise than a set of outright predictions. The chance that these claims turn out correct is no better than 50-50.

Saxo Bank's analysts tend to be somewhat more pessimistic than the average financial analyst and were quite pessimistic on the whole recovery since 2003. The Bank believed there never was a thorough clean up of the financial system back then and assumed that the low-rate environment would lead to speculative excesses worse than that of the dot-com bubble. Events during 2008, unfortunately, proved the thesis right. Although the Bank might have been too bearish during 2009, the notion that central banks would continue to lower rates throughout 2009, as economic activity and consumer prices reached new lows, seems to have followed the thesis.

Saxo Bank believes it is important for investors to always take into account the less-likely scenarios as perceived by the market and, compiled as part of the Saxo Bank's 2010 Financial Outlook to be released in January 2010, this year's outrageous claims intends to do no more than that.

Bunds yields to reach 2.25% (Bunds to 133.3, currently 122.6)

As a result of a combination of deflationary forces and excessive monetary policy, the yield on Bunds and other sovereign fixed income edges lower when government fixed income traders refuse to buy into the "growth story" that is being told by the stock market. One or more negative, macroeconomic triggers could force the German 10-Year Government Bond to 133.3 by year-end in a general flight to quality. That would imply a yield of 2.25%.

VIX to 14 (currently @ 22.32).

The VIX has been trending lower since late October 2008 and the market's assessment of risk more and more resembles the one that characterized markets in 2005-2006 when trading ranges generally narrowed and implied options volatility declined to completely unrealistic and unsustainable levels. The market is showing a tendency of exhibiting the same kind of complacency towards risk, which could bring the VIX down to 14.

CNY to be devalued by 5% vs. USD (now @ 6.8250)

The efforts of Chinese authorities to stem the credit growth to avoid bad loans and the creation of bubbles could ultimately reveal the Chinese investment-driven growth as being deficient. The massive, Chinese spare capacity and an economic backdrop could be a deciding factor in devaluing the CNY vs. the USD.

Gold falls to \$870 (currently @ \$1130)

A general strengthening of the USD could break the back of the speculative element in gold as of late. Although we are long-term bulls on gold (believing it could reach \$1,500 within 2014), this trade seems to have become too easy and too widespread to pay out in the shorter term. A serious correction towards the \$870 level could shake out the speculative community while keeping the metal in a longer-term uptrend.

COPENHAGEN. LONDON. SINGAPORE. DUBAI. PARIS. TOKYO. AND OTHER FINANCIAL CENTRES AROUND THE WORLD

WWW.SAXOBANK.COM SAXO BANK A/S Philip Heymans Allé 15 2900 Hellerup Denmark

Telephone: +45 3977 4000 Telefax: +45 3977 4200 Reuters Dealing Code: SAXO Cvr. nr. 15 73 12 49 info@saxobank.com



THE SPECIALIST IN TRADING AND INVESTMENT

USDJPY to 110 (currently @ 89.30)

Although the downtrend in the USD is rooted in irresponsible fiscal and monetary policies, we believe that the USD might snap back at some point in 2010, because the USD carry trade has been too easy and obvious for too long. At the same time, the JPY is not reflecting economic reality in Japan, which is struggling from a huge debt burden and an ageing population.

Angry American public to form third party in the US

The many bail-outs and the general disapproval with both of the big parties and the US political institutions could propel a third and new party to become a deciding factor in Congress following the 2010 mid-term elections. The US electoral system favours a two-party political structure, but a demand for real change could have large groups of the American public forming a new party as strong as Ross Perot's in 1992 - even though a vote for a third-party might mean wasting a vote.

US Social Security Trust Fund to go bust

Actually, this is not really an outrageous claim. It is an actuarial and mathematical certainty, but from a civic perspective, it might be outrageous that the social security taxes and contributions have been squandered away for decades and that there is no money in the trust fund. 2010 will most likely be the first year, where outlays from the non-existing trust fund will have to be financed in part by the Federal government's General Fund. In other words, the budget trick, in reality a "fund" without funds, will for the first time in many decades become observable on the Federal government budget. Thus, part of social security outlays will have to be financed by higher taxes, more borrowing or more printing.

Sugar to drop One third (currently @ \$23.33)

The price of sugar has been supported by a combination of Indian drought and over-normal Brazilian rain. The forward curve already indicates considerable downside beyond 2011, but we believe that a normalization of the weather will make sugar one of the less inspiring commodities in 2010. Furthermore, the high price of ethanol (a big demand for sugar) has made both Brazil and the US lower the ethanol share of gasoline by 5%-points. That means lower demand for sugar.

TSE small index to rise by 50% (currently @ 888.88)

Small-cap companies have been underperforming the Nikkei lately, but their fundamentals indicate a considerably better investment case than their big-cap peers. With a price/book ratio of only 0.77 and only about 12% of the index consisting of financials, we know no other index that is as cheap. At a continuation of the recovery (at least positive GDP figures) into 2010, this index could very well surprise to the upside.

US Trade balance to turn positive

Last time the US Trade Balance was positive was briefly in 1975 after a large drop in the USD in the aftermath of the oil crisis. The USD has become cheap enough to stimulate US exports and punish imports and the trade balance has already improved somewhat, but change takes time and has momentum, so we will not rule out that the trade balance could show a positive reading for one or more months of 2010.

COPENHAGEN. LONDON. SINGAPORE. DUBAI. PARIS. TOKYO. AND OTHER FINANCIAL CENTRES AROUND THE WORLD

WWW.SAXOBANK.COM SAXO BANK A/S Philip Heymans Allé 15 2900 Hellerup Denmark

Telephone: +45 3977 4000 Telefax: +45 3977 4200 Reuters Dealing Code: SAXO Cvr. nr. 15 73 12 49 info@saxobank.com