

Japan crisis: Erste Bank warns borrowers about false Yen speculation

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Protection against possible market trends using limit orders

Reducing the amount borrowed by paying instalments in the foreign currency

Austria's foreign currency borrowers owe a total of just under 2.2 billion Euros worth of Yen, which is 300 million Euros or 17% more than one year ago (source: Austrian National Bank). The Japan crisis is now prompting borrowers to draw new, often incorrect, conclusions; according to observations made by the Erste Bank, customers are speculating for a falling Yen rate. "Those who assume there will be an automatic drop in the Japanese currency may find themselves severely disappointed," says Peter Bosek, Member of the Private and Corporate Customer Board of the Erste Bank. Because the latest forecasts by the bank's analysts show that the Yen will get stronger against the Euro. 100 Euros currently buys 122 Yen, but this is set to drop to just 111 Yen (rounded) by June (see table), thereby increasing debt.

Erste Group Research currency forecasts

End of the month	Currently	June11	Sept. 11	Dec. 11	Mar. 12
EURUSD	1.451	1.35	1.30	1.30	1.25
EURJPY	122.1	110.7	106.6	110.5	108.8
USDJPY	84.12	82.0	82.0	85.0	87.0
EURCHF	1.302	1.1 - 1.35	1.1 - 1.4	1.1 - 1.4	1.1 - 1.4

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Checking and protecting lets you rest easy

The significant changes on the foreign exchange markets and capital markets have also seen a change in the situation for foreign currency borrowers compared to the boom years. On the one hand, the Euro has weakened – experts say for the long-term - against classically borrowed foreign currencies such as CHF and JPY. On the other hand, the development and profit opportunities for credit repayment vehicles have clearly decreased as a result of a generally lower interest rate. The Erste Bank is now offering its customers support webinars. On online seminar lasts 30 minutes, and provides information on possible spheres of activity for foreign currency borrowers. In order to absorb risks, Erste Bank und Sparkassen generally recommend the following:

1. Reduce the amounts borrowed by paying instalments in the foreign currency

Most foreign currency borrowers paid around 4% interest before the financial crisis; this is now only around 2%. However, losses resulting from currency fluctuations must be accepted. "That's why the released interest difference amount should, in any case, be included in a monthly payment, allowing borrowers to reduce their current loan debt and therefore also their risk", says Peter Bosek, Member of the Private and Corporate Customer Board of the Erste Bank.

2. Increase payments to the repayment vehicles

82% of the foreign currency loans in the household sector are payable at term, with investment certificates or insurance policies the main type of investment product. The savings plan should be reviewed once a year, based on developments and future prognoses. If this plan is going well, more should be paid in; if expectations are more negative, it should be abandoned, or another product considered. According to Bosek, "Having a well-thought-out savings plan for loans payable at term is immensely important, because this determines whether the loan can be repaid at maturity or not."

3. Protecting against currency fluctuations using rate limits

"The exchange in Euros should be well thought-out and calculated", Bosek advises. In order to minimise the risk of currency losses, borrowers should secure the right pull-out time now. Customers can use limit orders to protect themselves against downward (take-profit order) or upward (stop-loss order) market trends. In both variants, they establish a market value at which they will pull out of the foreign currency. This means that they keep the currency profit earned with the take-profit option, or prevent further losses with the stop-loss order.

Seek advice from financing experts

Private individuals in Austria owe about 38.6 billion Euros worth of foreign currencies. Over 36.3 billion of this is in Swiss Francs, and just under 2.2 billion in Japanese Yen (source: Austrian National Bank). "The risks associated with foreign currency loans result from fluctuations in interest and exchange rates, as well as from the repayment vehicle's performance," says Bosek. CHF borrowers have particularly started noticing exchange rate fluctuations in the last few months, because the strength of the currency increases the amount borrowed. According to Bosek, "There is no set advice for foreign currency borrowers; each case must be examined on an individual basis. However, I recommended that everyone check their loans and seek advice from financing experts."