

Saxo Bank has today released its annual "Outrageous Predictions", this year predicting devaluation of the CNY, the emergence of a third political party in the US, a massive fall in the price of sugar, a positive US trade balance for the first time since the 1975 oil crisis, and that the US Social Security Trust Fund will go bust.

The Copenhagen-headquartered online trading and investment specialist's ten predictions are an annual thought exercise to predict rare but high impact "black swan" events that are beyond the realm of normal market expectations. The exercise aims to challenge market conceptions. Compiled as part of the bank's 2010 Outlook, the claims this year paint a picture of a more positive year ahead but with a few tremors along the way.

Saxo Bank's Outrageous Predictions for 2010:

1. Bunds yields will fall to 2.25%

Deflationary forces and excessive monetary policy will lower the yield on Bunds and other sovereign fixed income when the government fixed income traders refuse to buy into the "growth story" that is being told by the stock market. We believe that the German 10-Year Government Bond could be forced from 122.6 to 133.3 by the end of 2010 in a general flight to quality.

2. VIX will fall to 14

The markets are showing the same kind of complacency towards risk as they were in 2005-06. Although the VIX has been trading lower since October 2008, this could bring the VIX down from 22.32 to 14 as trading ranges narrow and implied options volatility declines.

3. CNY (China Yuan Renminbi) will be devalued by 5% vs. USD

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

4. Gold will fall to \$870 in 2010 but will rise to \$1500 in 2014

A general strengthening of the USD could break the back of the recent speculative element in gold. Although we are long term bullish on gold (believing it will reach \$1500 within five years), 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.

5. USDJPY to reach 110

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

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6. Angry American public to form third party in the US

The anti-incumbent mood is approaching 1994 and 2006 levels as a result of bail-outs and general disapproval of both the big parties. A demand for real change among American voters could propel a third new party to become a deciding factor in the 2010 elections.

7. The US Social Security Trust Fund will go bust

This is not so much an outrageous claim as an actuarial and mathematical certainty. The outrageous part is that social security taxes and contributions have been squandered for so long. 2010 will be the first year where outlays for the non-existing trust fund will have to be part-financed by the federal government's General Fund. I.e. the budget trick, in reality a "fund" without funds, will be visible for the first time. Part of the social security outlays will have to be financed by higher taxes, more borrowing or more printing.

8. The price of sugar will drop one third

Despite a recent spike in prices caused by Indian drought and above average rainfall in Brazil, the forward curve already indicates considerable downside beyond 2011 so a return to more normal weather conditions in 2010 would make sugar one of the less inspiring commodities. Furthermore, the higher price of ethanol (which is correlated to the demand for sugar) has made both Brazil and the US lower the ethanol content of gasoline by five percentage points, consequently lowering the demand for sugar.

9. TSE Small Index will rise by 50%

Small cap firms have been underperforming the Nikkei, but their fundamentals indicate this is a "bargain index" compared with its large-cap peer. With a price/book ratio of only 0.77 and only about 12% of the index consisting of financials, we know no other index this cheap. Positive GDP figures in 2010 could very well make this index a surprise to the upside.

10. US trade balance will turn positive for first time in 34 years

Last time the US trade balance was positive was briefly in 1975 after a large drop in the USD following the aftermath of the oil crisis. The USD has now become cheap enough again to stimulate US exports and punish imports. The trade balance has already improved somewhat but change takes time and once it has momentum we would not rule out a positive US trade balance for one or more months of 2010.

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About Saxo Bank

Saxo Bank is an online trading and investment specialist, enabling clients to trade Forex, CFDs, Stocks, Futures, Options and other derivatives, as well as providing portfolio management via SaxoWebTrader and SaxoTrader, the leading online trading platforms. SaxoTrader is available directly through Saxo Bank or through one of the Bank's global partners. White label is a significant business area for Saxo Bank, and involves customised and branding the Bank's online trading platform for other financial institutions and brokers. Saxo Bank has more than 120 white label partners and boasts thousands of clients in over 180 countries. Saxo Bank is headquartered in Copenhagen with offices in Australia, China, the Czech Republic, France, Greece, Italy, Japan, the Netherlands, Singapore, Spain, Switzerland, UK, and the United Arab Emirates.