



DynexCorp
**Dynamic
 Currency
 Debt
 Management**

Positioning Indicators Confirm Sentiment Extremes

As muted in the two previous reports, we were waiting for extreme sentiment levels in euro cross rates for the last three calendar quarters. In our opinion we have now arrived at an entry opportunity. The EURUSD rate has fallen briefly below the magical 120 mark (roughly the place where it came into being 10 years ago), and is still at a level that we now consider a "bargain" (1.2375). Positioning Indicators published by Deutsche Bank for EUR and GBP remained stubbornly low throughout June, at -7.0 (EUR) and -8.5 (GBP) (see table below).

Therefore, as at the beginning of 3Q2010, we placed 50% of the EUR debt into USD, 25% into GBP and 25% into the good old JPY.

USD: 50%



GBP: 25%



JPY: 25%



Positioning Indicators at extremes

DBFX PI – Positioning Indices				
	Latest	3mma	Last week	Change
EUR	-7.0	-7.7	-7.7	0.7
JPY	0.5	0.0	0.7	-0.3
GBP	-8.5	-7.5	-7.6	-0.9
CHF	-4.5	-3.4	-2.2	-2.3
AUD	-5.4	-0.7	-5.4	0.0
CAD	-0.2	1.5	-0.5	0.3

+10 = max, -10 = min

Source: DB Global Markets Research, Bloomberg Financial LP

Current EUR-based loan portfolio

- 50% USD → entry rate: 1.2375
- 25% GBP → entry rate: 0.8555
- 25% JPY → entry rate: 110.20
- Performance YTD: 0.0%

Borrowing can become an advantageous business if loan balances can be reduced through a) interest rate reduction and/or b) dynamic switching to weaker currencies. Interest rates for different currencies vary greatly. Switching loan balances into low interest rate currencies can reduce the interest burden. Switching loan balances into currencies that fall against the original loan currency can also reduce the loan burden. DynexCorp uses a combination of both to achieve benefits for the borrower.

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