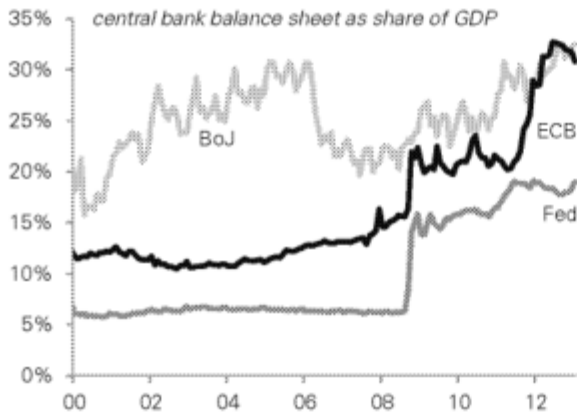
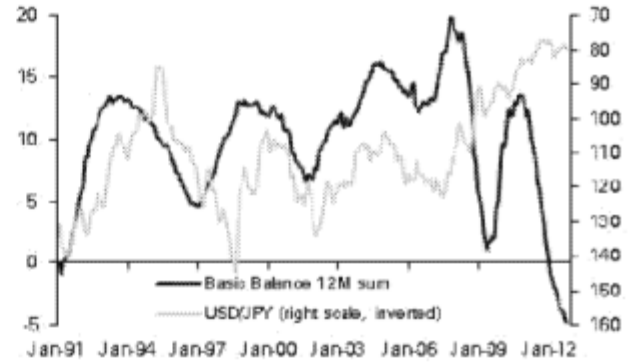


Figure 17: BoJ Balance Sheet Yet To Grow As Fast As Fed Or ECB



Source: Deutsche Bank, EcoWin

Figure 18: Japan's Narrow Basic Balance of Payments Very Negative



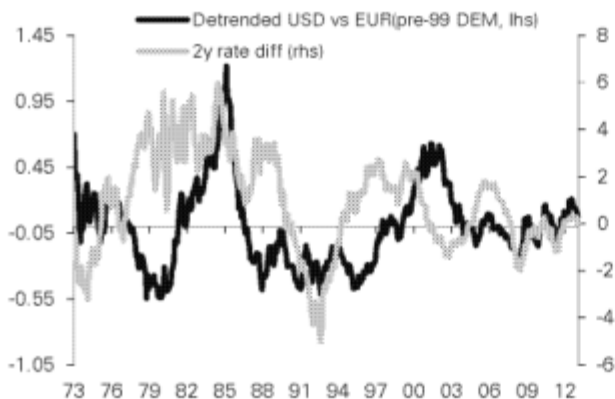
Source: Deutsche Bank, EcoWin

CNY, EUR, JPY and the rest: Where Next?

The case for yen weakness is straightforward. We expect "Abenomics" to see a more aggressive BoJ, perhaps using the 1930s as a template for recovery, when currency weakness was a clear support (see FX Strategy Weekly, 15 February, 2013). It should be noted that the BoJ has yet to expand its balance sheet as much as the Fed or the ECB since 2008 (see Figure 17). The Bank of England also appears to be itching to ease policy in part to weaken the pound, perhaps in response to Abenomics. Outside of BoJ policy, the narrow basic balance of payments (current account + FDI) points to clear yen weakness (see Figure 18). The surge in money market funds inflows should also reverse (see chart). We expect USD/JPY to eventually rise to 115 by 2015 (and 100 by year-end and 110 by end-2014). These are higher than our previous forecasts.

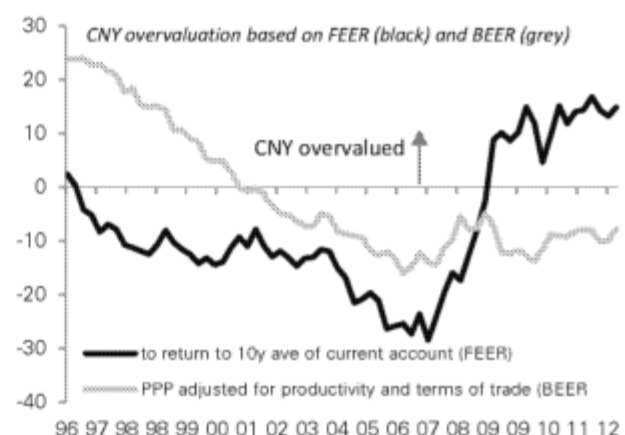
The negative growth gap with the US, similar interest rates (see Figure 19) and US investors buying less equities abroad should weigh on the euro. The ECB is unlikely to hike with Euro-area growth close to 0% and with BoJ and BoE actions leading to currency weakness. And of course, there are ongoing and well-known issues around the Euro-area crisis. We look for the euro to eventually head to 1.10 by 2015 (and 1.20 by year-end and 1.15 by end-2014).

Figure 19: US/Euro Rate Spreads Sideways



Source: Deutsche Bank, EcoWin

Figure 20: CNY Under- and Over-Valued



Source: Deutsche Bank