



differently. Our view that USD strength will broaden out to G10 low-yielders like EUR, and continue to gain ground against the JPY is thus an important tailwind for USD/SGD. SGD is also one of the most overvalued currencies globally, with consensus across a broad range of models. Moreover, domestic vulnerabilities have built up in Singapore over the QE years from high household debt to bubbly property prices that leave her exposed to inevitable short-end rates normalization. We are long USD/SGD looking for a move above 1.30 this year.

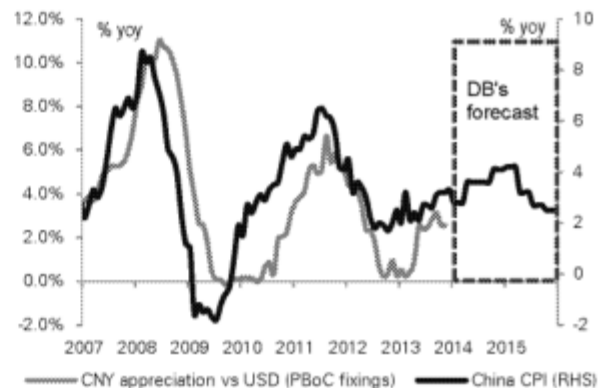
RMB appreciation remains in play

We expect RMB appreciation to persist in 2014 despite a strong USD environment. With global growth gradually recovering and Asian exports likely to catch up, we look for a healthy current account surplus for China (\$220bn, 2.2% GDP). In addition, expectations of further increases in offshore investment quotas (i.e. RQFII) on the back of capital account liberalization, should mean that portfolio inflows pick up, putting further appreciation pressure on RMB. With the appreciation trend intact, and carry potentially set to become more attractive as authorities push forward with interest rate liberalization; we are likely to see speculative flows into China persist. Inflation will be a key driver of the pace at which this appreciation is permitted by the authorities. The main risk to our view is from the sizeable nature of short USD positioning in this pair – both in the offshore and onshore markets. In the event of weaker economic data driven by tight monetary conditions and reforms, we could see a pickup in volatility. For now though, we stay short 12M USD/CNH with a target of 5.95.

JPY/KRW heading back to single-digits

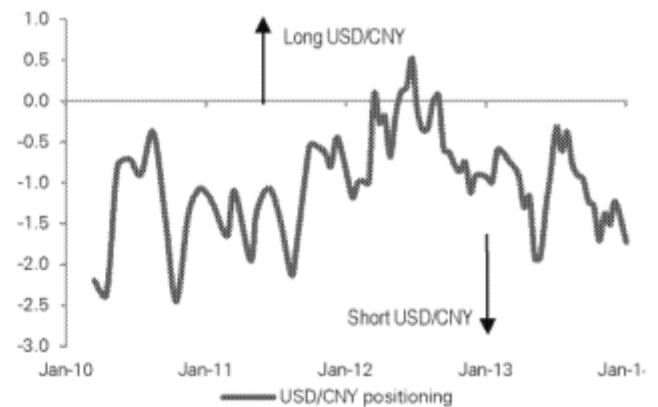
The won's fate in 2014 remains a struggle between strong underlying fundamentals, and the defensiveness of the central bank in the face of concerns about a weakening yen. The fundamental story is supported by 1) continuing improvement in the current account; 2) high leverage to the global growth/trade upturn; and 3) strength of the domestic financial system as a result of the macro prudential policies implemented post-2008. Given the strength in export orders in construction and shipping and the resulting hedging pressure, as well as the record levels of USD deposits held by Korean corporates, there is likely to be persistent pressure on the currency to appreciate. BoK on the other hand is unlikely to abandon its conservative stance on the won, given concerns about upside to exports being competed away by a cheapening yen. We have seen such concerns drive the policy response function in 2009, in mid-2012 and again last year. Given the expected strength in the broader dollar, and the BoK's reaction function, we see better risk reward to express the view of fundamental strength in KRW via JPY/KRW downside. We target a clean break of the psychological 10 level, with a near-term target of 9.75.

Inflation trajectory to guide USD/CNY fixings



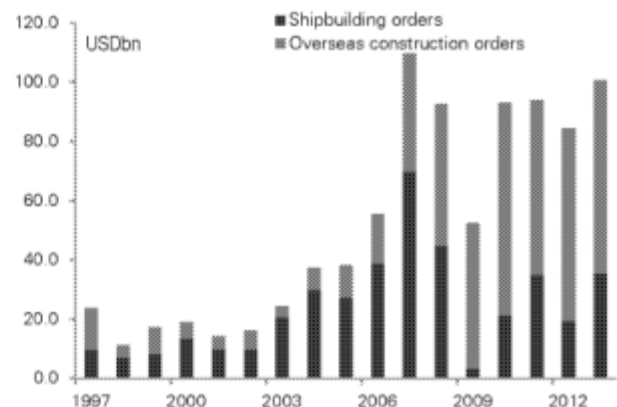
Source: Deutsche Bank, CEIC

Positioning is short USD/CNY and likely more in CNH



Source: Deutsche Bank, Reuters poll

Korean shipping and construction orders remain strong



Source: Deutsche Bank, CEIC

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