

## Q4 2011 FX Quarterly Outlook

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## Key FX takeaways from the third quarter of 2011

### **Impasse in the eurozone debt crisis has fed through into the FX market**

- Following remarkable resilience earlier this year, the euro has succumbed to the heightened jitters over the worsening eurozone sovereign debt crisis in Q3.
- EUR/USD has broken through the 1.40-1.45 range prevailing since May.
- The eurozone crisis has also spread through other risk assets, with EM currencies suffering substantially from the global deleveraging in late Q3.
- US dollar ultimate safe-haven status has returned in Q3. Yen still a winner in risk-off context.

### **Marked deterioration in global economic prospects add onto a defensive approach in FX**

- Renewed disappointment in the US economy in Q2/Q3 means that recession risks cannot be ignored. US recession is not our central scenario though. J.P. Morgan Securities LLC (JPMS LLC) now expects the US economy to grow by 1.6% in 2011 and 1.3% in 2012 (as per Sep. 30<sup>th</sup> 2011).
- The European economic landscape has also turned for the worse, with JPMS LLC now expecting the eurozone to fall into a mild recession into 2012, while the UK economy is now expected to grow by just 1.0% this year and 0.8% next year.
- EM economies remain in favourable shape but the peak in business cycles are behind us.

### **US S&P rating downgrade confirms a structurally bearish USD case**

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## **Main considerations and risks for the fourth quarter of 2011 and into 2012**

### **Eurozone debt crisis will stay in the limelight: eurozone is running out of time**

- Contained Greek restructuring (e.g 50% haircut) and strong ring-fencing for Italy and Spain (rise/leveraging in EFSF, recapitalisation of European banks), as well as a credible structural reform agenda would come as a major relief and help the euro into Q4. As it stands, we believe that this is the most likely scenario but implementation may be tedious.
- Further disappointment/delay in delivering a credible solution would have severe consequences at this point in the crisis – including contagion and/or a sharper fall in the euro/cyclical/EM currencies. Not our central scenario, but a risk worth mentioning.

### **US negative fiscal/monetary policy environment could return to haunt USD bulls**

- Q3 has been all about the eurozone, but the long-term bearish USD forces have not gone away:
  - The Fed 'Operation Twist' and dovish assessment of the economy/policy message highlights a cyclically bearish case, still. QE3 talks could return should the US economy disappoint.
- Structural environment remains bearish for the USD too. Worries over potential late November government shutdown is compelling evidence of a still very difficult structural environment. Lack of credible long-term fiscal strategy remains a central USD bearish argument.

### **Macro economic news to be of prime importance in Q4 and in early 2012**

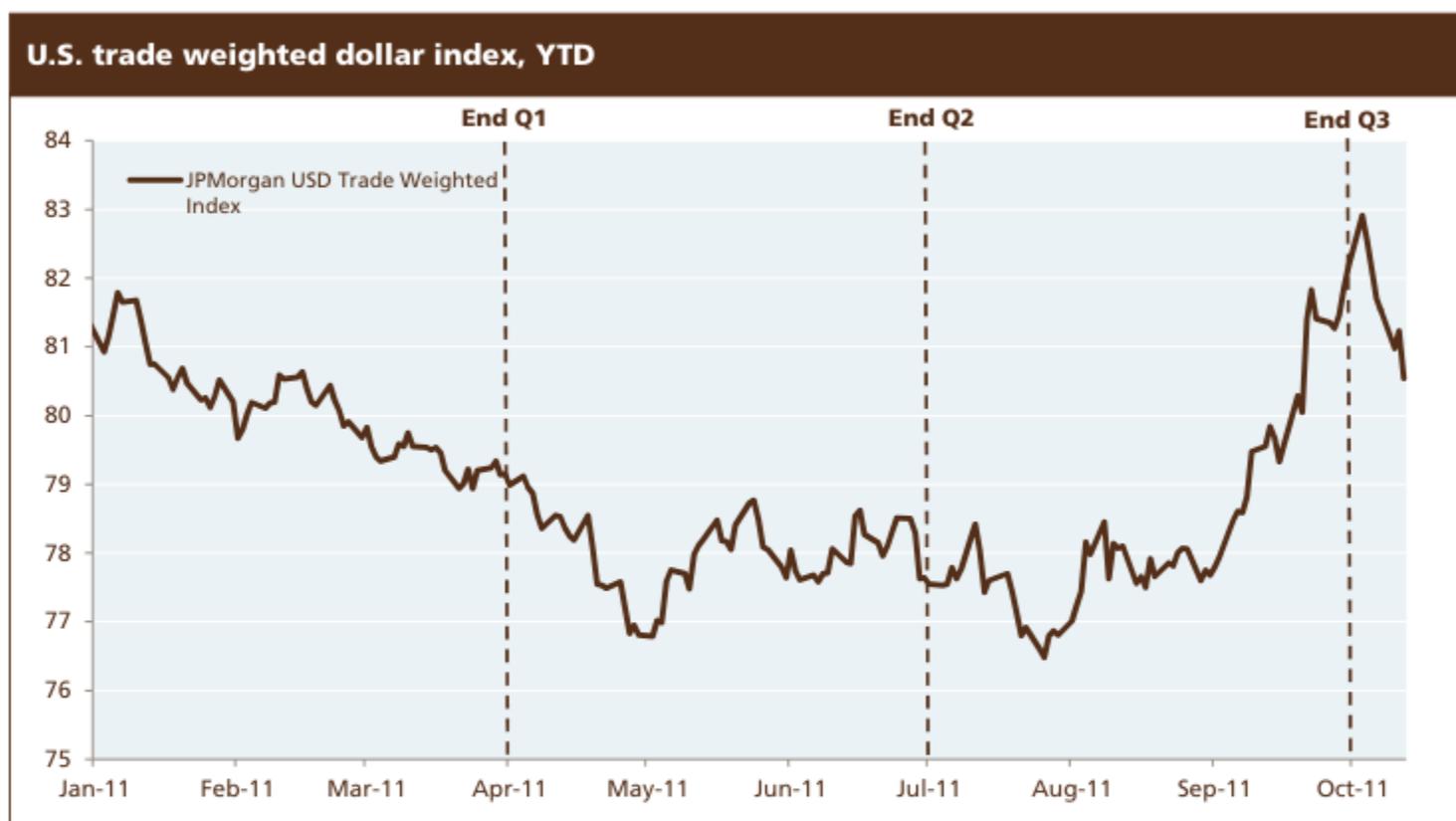
- US/Eurozone recession scenario and/or deterioration in the Asia/EM economic climate would hurt sentiment further. The USD and the yen would be the winners and EM/cyclical currencies, the biggest losers in this context. Not our central scenario.

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## USD is now roughly flat year-to date on a trade weighted index basis



Source: JPMS LLC, Bloomberg, data as of 12 October 2011

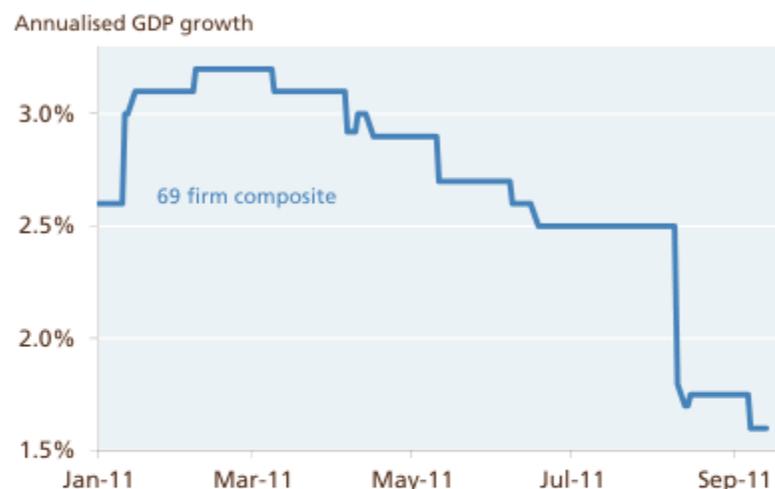
- The JPMS LLC USD trade weighted index is down 0.9% year-to-date. In Q3, the USD has actually gained 5.8% on a trade weighted index basis.
- The USD ultimate safe-haven status was confirmed by the September price action: when it comes to global deleveraging, the USD and the yen remain the most appealing currencies.
- The Swiss National Bank ceiling announcement was a further supportive force for the USD in a risk-off world.

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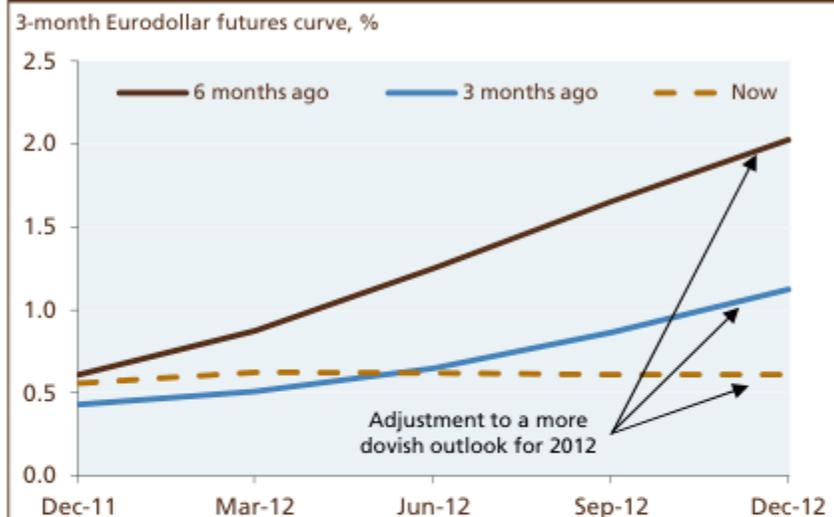
## US dollar: Nothing has changed on the cyclical front

### Expectations for FY 2011 growth continue to be revised lower



Source: Bloomberg, data as of 15 September 2011

### Fed policy outlook remains USD bearish



Source: JPMS LLC, Bloomberg, data as of 1 October 2011

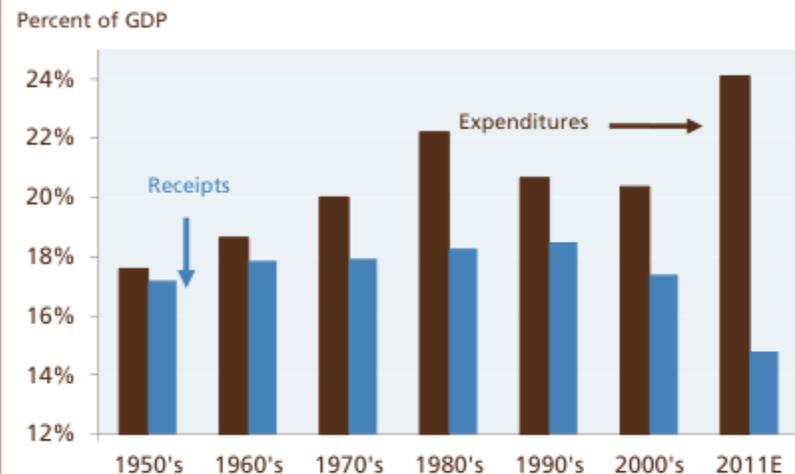
- The US economy has continued to disappoint over the past couple of quarters, leading many in the market to adjust to a more negative US GDP growth outlook.
- JPMS LLC now expects the US economy to grow by just 1.6% in 2011 and by 1.3% in 2012.
- In this context, it is obvious that Fed rate rises are off the agenda for the foreseeable future.
- We do not expect further monetary initiative besides 'Operation Twist', but QE3 talks may resurface. The monetary policy environment is still bearish for the USD.

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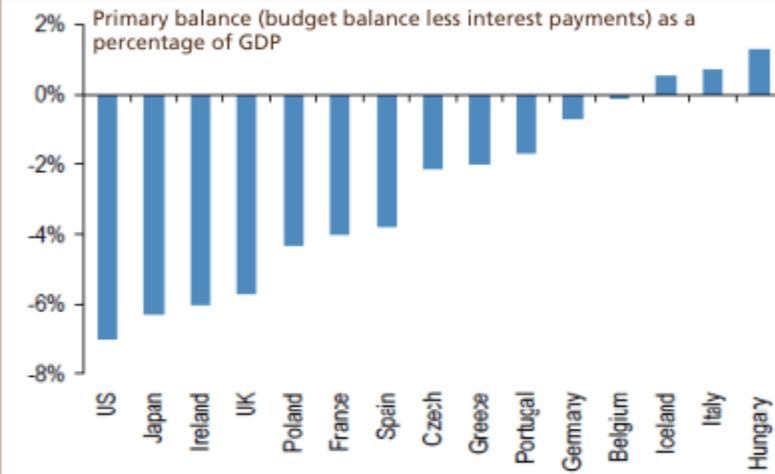
## US dollar: Nothing has changed on the structural front

### Large gap between expenditures and receipts



Source: Office of Management and Budget, Congressional Budget Office

### US primary balance



Source: JPMS LLC, FX Markets Weekly, 22 July 2011

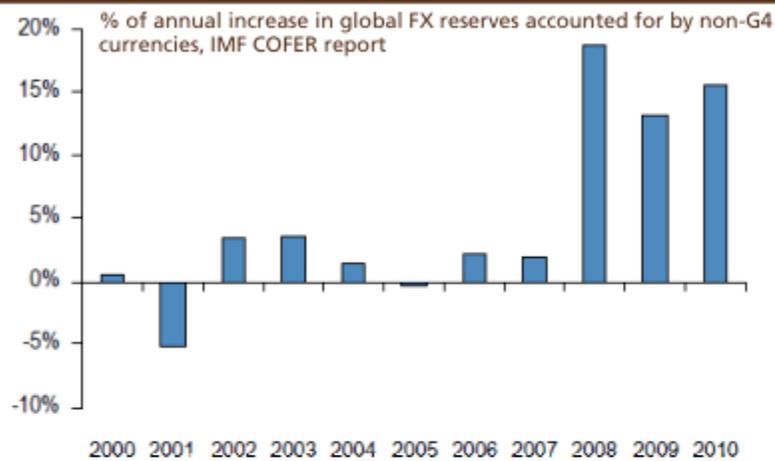
- The Budget Control Act mainly focused on cuts in spending and not new measures on the revenue front. Lack of credible medium-term fiscal strategy remains a USD bear.
- The primary balance is worse than that of Japan and/or Europe.
- JPMS LLC expects the US 2011 budget deficit to GDP ratio at a high 9% (2012 deficit to GDP ratio at 6.8%).
- Current account deficits to GDP ratio expected at 4.1% and 4.2% respectively for 2011 and 2012.

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## US dollar: Diversification theme has not gone away

### Foreign central banks continue to diversify away from the USD



Source: JPMS LLC, *FX Markets Weekly*, 8 July 2011

### Total foreign currency reserves (in USD bn)

	1 year % change	Current (USD bn)
China	30.3	3197.49
Japan	11.9	1135.19
Russia	11.8	484.02
Taiwan	7.6	400.29
Brazil	26.8	349.76
South Korea	9.4	312.19
India	4.7	276.93
Hong Kong	6.9	279.40
Singapore	20.7	249.18
Thailand	19.2	178.06
Malaysia	44.1	131.66
Mexico	26.3	136.45
Poland	13.4	98.23
Turkey	13.0	85.65

Source: Bloomberg, as of 4 October 2011

- Foreign central banks have continued accumulating foreign reserves over the past twelve months, with China's foreign reserves up 30%, Brazil up 28% and Saudi Arabia up nearly 23% year-to-date.
- While the ongoing eurozone debt crisis highlights the euro's many challenges, the reserve diversification theme has not gone away.
- Expect the USD diversification theme (out of the USD) to keep a bearish bias on the USD on a multi-year basis.

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# Summary page on G10/Emerging Market (EM) currency outlook

**Structurally bullish currencies long-term, but affected by the deleveraging environment**

- Emerging Asian FX: Still our favourite bloc in EM space but be selective (SGD, MYR, CNY)**  
Strong growth, reasonable current-account and fiscal balances, relatively attractive yields and central banks historically focused on limiting volatility.
- LATAM FX: Supportive outlook, more dependent on commodities for MXN (MXN, BRL)**  
Strong growth, appealing yields and ties to commodities for MXN. Careful on valuations and central bank policy choices for BRL.
- EMEA FX: (CZK, TRY, PLN)**  
PLN, CZK still vulnerable to euro crisis, but fundamentals are solid and political context stable. New benchmark in EMEA EM. TRY oversold, improving C/A position, positive rating outlook and appealing yields.
- Scandies: (SEK and NOK)**  
Current-account and fiscal balances are outstanding, favourable yields. Norway has commodity ties. High Beta currencies so at risk in euro crisis context.
- Commodity currencies: (AUD and CAD)**  
AUD monetary cycle less favourable but relative yield advantage remains, good proxy for bullish China story. Valuation factors remain more appealing on CAD but link to US economy is an important consideration should there be a recession in the US.

**EM currencies that we expect to outperform versus the rest of EM in the next few months**

- TRY**  
TRY has already lost 35% since the Nov 2010 high. Most of the bad news priced in.
- MXN**  
More 'appropriate' monetary policy management (vs BRL), still very robust fundamentals and reasonable valuations.
- CNY, SGD, MYR**  
Excellent track record in fiscal-monetary policy mix and a continuation in the gradual move towards a flexible exchange rate. We still believe in the strong China growth story long-term.

**Not quite safe-haven currencies yet...**

- GBP, NOK, SGD**  
In euro debt crisis context, GBP and NOK offer good alternative exposure to Europe. NOK fundamentals are much healthier. However, the UK market is larger and the UK is a step ahead on the fiscal management front (vs Euro & US).  
SGD has been referred to as the CHF of Asia. Relatively small market though.

**Structurally bearish, but will stay bid in risk-off world**

- USD, JPY**  
Find support as/when risk-off trades return and liquidity dries up. US rating downgrade, continuation in accommodative Fed policy and diversification story all consistent with continued USD weakness longer-term. Yen has poor demographics and is still structurally bearish.

**Special cases**

- Euro, CHF**  
**Euro:** will eventually come out stronger from the debt crisis but a difficult and bumpy way out. Cyclical environment has also turned more euro negative of late.  
**CHF and SNB:** so far so good, possible hike in the ceiling. Notwithstanding a bullish environment, SNB has successfully defended ceiling.

Source: J.P. Morgan Private Bank, October 2011



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## 2011 currency forecast summary

FX Pair	Current Spot	Dec 2011	Mar 2012	Jun 2012	Sep 2012
EURUSD	1.3657	1.38	1.38	1.40	1.42
GBPUSD	1.5591	1.59	1.58	1.58	1.60
USDJPY	76.67	75	74	73	72
USDCHF	0.909	0.93	0.94	0.94	0.95
USDCAD	1.0276	1.01	0.97	0.96	0.95
AUDUSD	0.9968	1.00	1.03	1.08	1.10
USDNOK	5.6879	5.80	5.60	5.43	5.35
USDSEK	6.6795	6.80	6.70	6.36	6.27
USDTRY	1.8348	1.83	1.77	1.75	1.73
USDPLN	3.1614	3.25	3.01	2.89	2.81
USDCZK	18.1232	18.70	18.60	17.80	17.40
USDHUF	216.6	220	215	198	196
USDZAR	7.8535	8.01	7.65	7.67	7.82
USDRUB	31.4007	32.00	30.50	29.14	29.14
USDCNY	6.3665	6.30	6.20	6.10	6.00
USDSGD	1.2834	1.25	1.20	1.16	1.15
USDKRW	1166.85	1150	1100	1051	1040
USDIDR	8960	9000	8750	8550	8500
USDINR	49.235	48.50	48.00	46.30	45.00
USDMYR	3.142	3.10	3.00	2.94	2.92
USDBRL	1.7759	1.85	1.80	1.75	1.75
USDMXN	13.3462	13.80	13.00	12.50	12.00
USDCLP	509.38	520	500	475	470

Source: J.P. Morgan Private Bank, 11 October 2011

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## 2011 currency forecast summary – EUR crosses

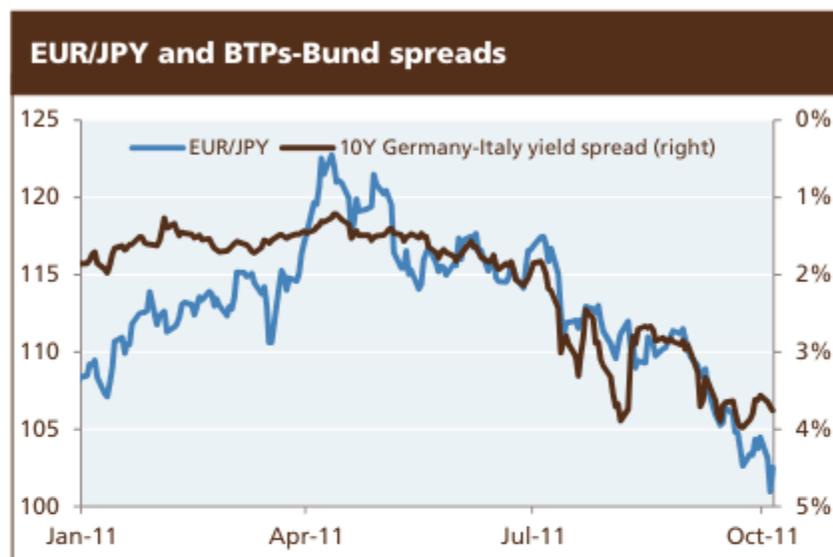
FX Pair	Current Spot	Dec 2011	Mar 2012	Jun 2012	Sep 2012
EURUSD	1.3657	1.38	1.38	1.40	1.42
EURGBP	0.8759	0.87	0.87	0.89	0.89
EURJPY	104.7	103.50	102.12	102.20	102.24
EURCHF	1.2415	1.28	1.30	1.32	1.35
EURCAD	1.40339	1.39	1.34	1.34	1.35
EURAUD	1.3701	1.38	1.34	1.30	1.29
EURNOK	7.7679	8.00	7.73	7.60	7.60
EURSEK	9.1222	9.38	9.25	8.90	8.90
EURTRY	2.506	2.53	2.44	2.45	2.46
EURPLN	4.3175	4.49	4.15	4.04	4.00
EURCZK	24.751	25.81	25.67	24.92	24.71
EURHUF	295.7900	303.60	296.70	277.83	278.82
EURZAR	10.7255	11.05	10.56	10.73	11.11
EURBRL	2.4084	2.55	2.48	2.45	2.49

Source: J.P. Morgan Private Bank, 11 October 2011

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## Euro: Impasse on sovereign debt crisis weighs increasingly



Source: JPMS LLC, Bloomberg, data as of 4 October 2011

**Key dates on the International calendar in Oct/Nov**

<b>Oct 23</b>	<b>Summit of EU heads of state and government in Brussels</b>
Oct 25	Large Greek coupon payment (EU1.05B)
Oct 26	EU/China summit
Oct 31	Trichet retires from the ECB
Nov 1	Draghi replaces Trichet as President of the ECB
Nov 2	FOMC decision / Bernanke press conference
Nov 3	ECB meeting
<b>Nov 3-4</b>	<b>G20 Annual Summit in Cannes, France</b>
Nov 7-8	Eurogroup/Ecofin meetings
<b>Nov 20</b>	<b>Spanish elections</b>
<b>Nov 23</b>	<b>Joint Committee of Congress debt reduction legislation</b>
Nov 29-30	Eurogroup/Ecofin meetings

Source: JPMS LLC

- The euro has finally succumbed to the deleveraging story, but considering the gravity of the eurozone situation, we note that the decline has been relatively contained.
- The eurozone seems to be running out of time: a contained Greek debt restructuring and strong ring-fencing for the rest of the periphery, including an increase/leveraging in the EFSF, has become the market's favoured outcome.
- Sovereign debt crisis is a key driver in FX again. That may leave a choppy environment in place for the euro in the near-term.

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## Euro: Business and monetary cycles have become less supportive

### Euro zone economy faces recession risks in 2012

#### Forecast Changes for the Euro zone

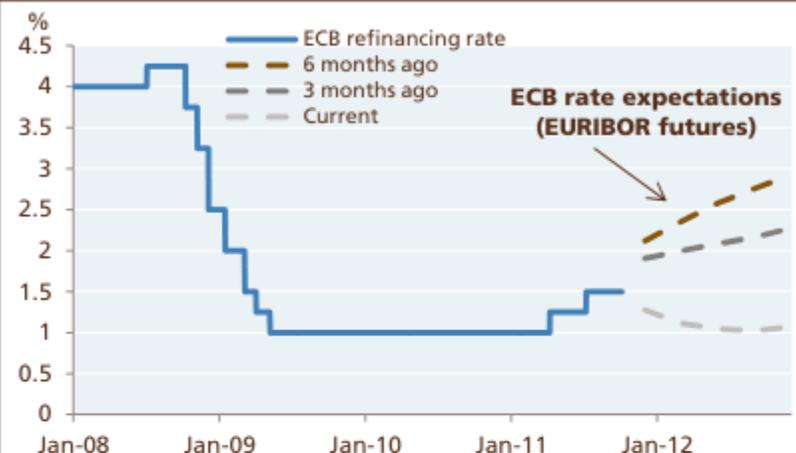
Real GDP, %oya

	Old forecast		New forecast	
	2011	2012	2011	2012
<b>Euro area</b>	1.6	0.9	1.6	-0.5
<b>Germany</b>	2.8	1.3	2.8	0.2
<b>France</b>	1.6	1.3	1.6	-0.1
<b>Italy</b>	0.6	0.6	0.5	-1.2
<b>Spain</b>	0.7	0.4	0.7	-0.6
<b>Greece</b>	-3.9	0.6	-6.3	-5.9
<b>Ireland</b>	0.4	1.1	2.1	0.3
<b>Portugal</b>	-1.4	-1.9	-1.6	-2.8

The new Irish forecast for 2011 is higher than the old one due to the strong GDP performance in 2Q and an upward revision to 1Q (released this week)

Source: JPMS LLC

### This has led to a U-turn in rate expectations



Source: JPMS LLC, Bloomberg, data as of 4 October 2011

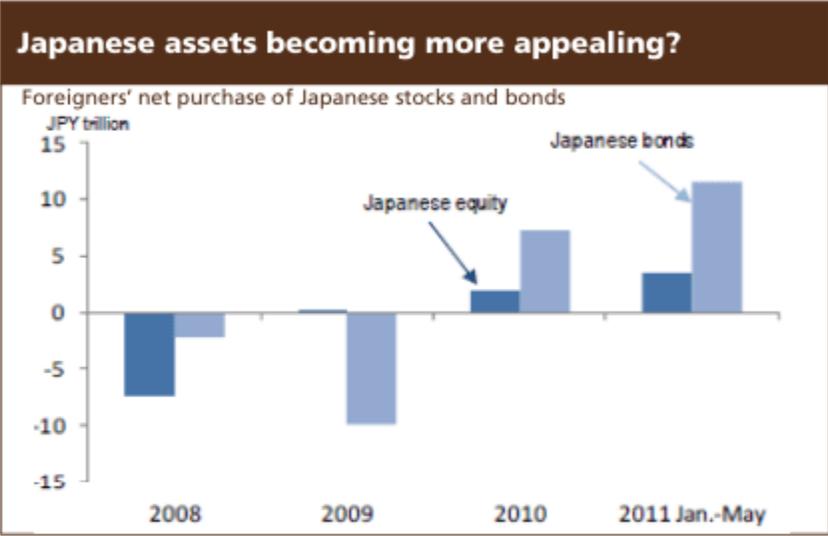
- The eurozone economy (including the core) has shown mounting signs of softness in Q3, with a combined tighter fiscal stance, deteriorating business and consumer confidence and weakening global economic context all weighing on real activity.
- JPMS LLC now expects the eurozone to experience a mild recession into 2012.
- This weaker growth profile is associated with lessened inflationary pressures and a significant downward adjustment in ECB rate expectations. A few economists are now expecting an ECB rate cut in the next few months.
- The U-turn in expected ECB rate outlook means that the yield factor is less supportive for the euro now and into 2012 than it was earlier this year.

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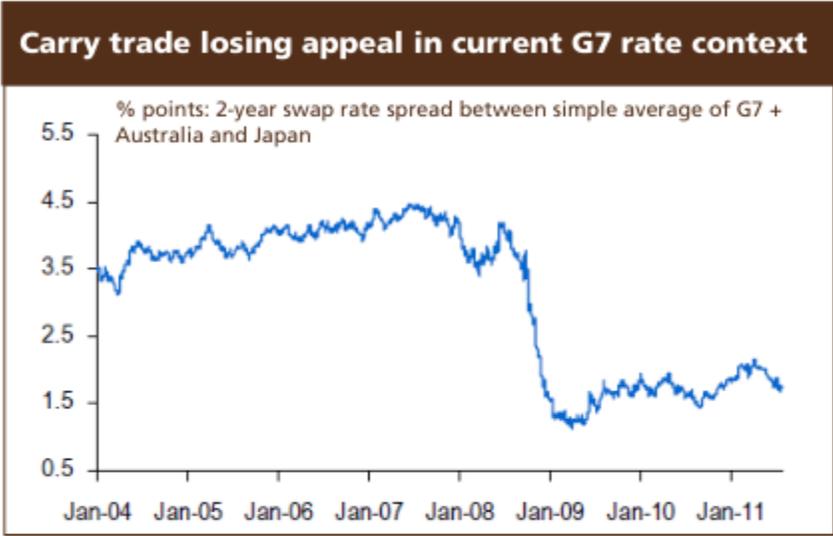
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## Japanese yen: Structurally bearish but favourable global context



Source: JPMS LLC, FX Markets Weekly, 29 July 2011



Source: JPMS LLC, FX Markets Weekly, 29 July 2011

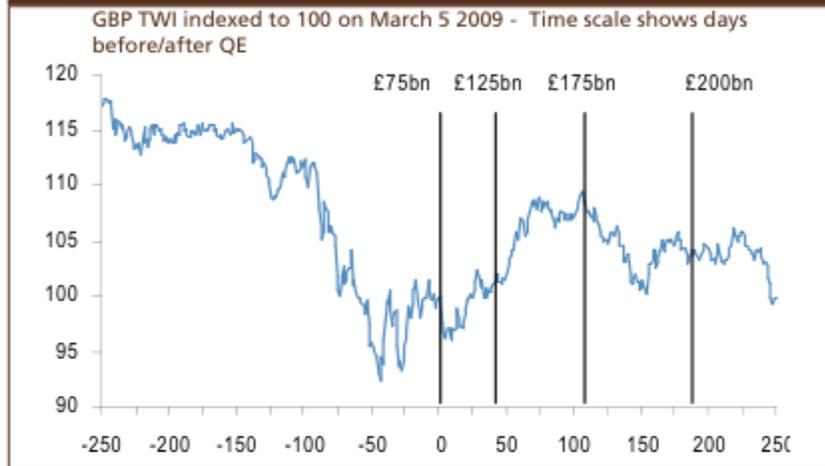
- The structurally bearish yen environment remains: 2011 budget deficit to GDP ratio expected at 8.9%, gross debt to GDP ratio seen at a high 225%, but not of market relevance for now.
- Japan's recovery continues but the BoJ monetary policy environment will remain extremely loose. At current levels and on a historical basis though, G7 interest rate levels are not overwhelmingly consistent with the short-JPY carry trade .
- In a still highly vulnerable overall market sentiment and with the world now short of one safe-haven currency (i.e the Swiss franc post SNB announcement), we believe that the yen is highly appealing. We have a year-end target at 75.00 on USD/JPY and 103.50 on EUR/JPY.
- BoJ intervention risks prevail but unilateral intervention is unlikely to change the trend.

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## Sterling: Near-term risks but do not lose faith longer-term

**GBP was weaker getting into QE1, so the negative impact was limited.**



Source: JPMS LLC, data as of September 2011

**..but GBP appealing in a world short of safe-haven currencies.**



Source: JPMS LLC, data as of September 2011

- BoE policy outlook (i.e latest round of QE) is bearish for the pound in the near-term, but a dovish monetary policy environment is not a UK specific story.
- We remain of the view that in the current global/domestic economic/market context, the UK loose monetary/tight fiscal policy mix is the only feasible policy mix.
- Notwithstanding near-term downside risks to growth, the UK is a step ahead on the fiscal management front, bullish for the pound longer-term.
- In a world short of safe-haven currencies and in a context of heightened euro jitters, the UK is relatively well positioned and sterling is a winner longer-term.

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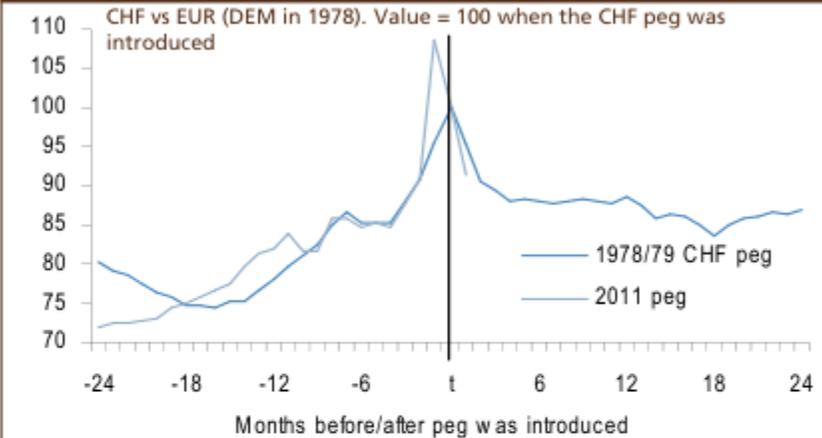
## Swiss franc: Respect the SNB this year

### SNB sets floor against the euro at 1.20



Source: JPMS LLC, Bloomberg, data as of 4 October 2011

### The 1978 DEM ceiling was a success



Source: JPMS LLC, data as of September 2011

- The SNB has stepped up its policy to contain additional currency strength by introducing a 1.20 ceiling on EUR/CHF. A similar measure was successfully introduced against the DM in 1978. Then, the SNB was successful on the currency front, but this came with a substantial inflation spike.
- So far so good for the SNB in spite of an environment that is theoretically still bullish for the Swiss franc. EUR/CHF has been stable above 1.20.
- At 1.20, the Swiss franc is still overvalued (roughly 20%) and a further increase in the ceiling (to 1.25/1.30) cannot be ruled out in the next few months.
- SNB's balance sheet position is not as supportive as in 1978, but the recent SNB policy language indicates that the monetary authorities are ready to sacrifice inflation in the near-term.
- Bearing this in mind, we prefer to play bullish USD or JPY instead of bullish CHF in risk-off times.

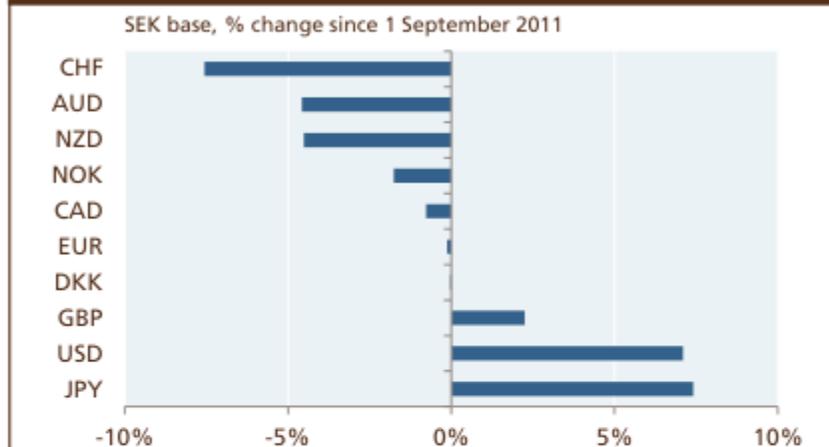
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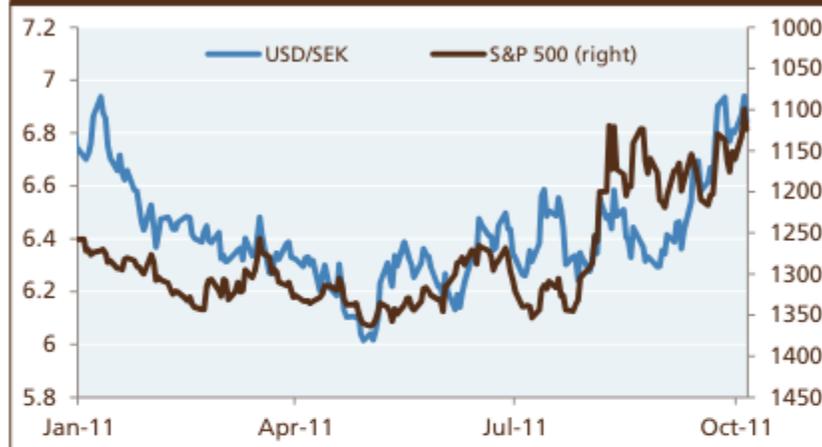
## Swedish krona: Has lost appeal in risk-off context, but we still like it longer-term

### SEK: Still a high beta currency



Source: JPMS LLC, Bloomberg, data as of 4 October 2011

### SEK and S&P 500: strong correlation



Source: JPMS LLC, Bloomberg, data as of 4 October 2011

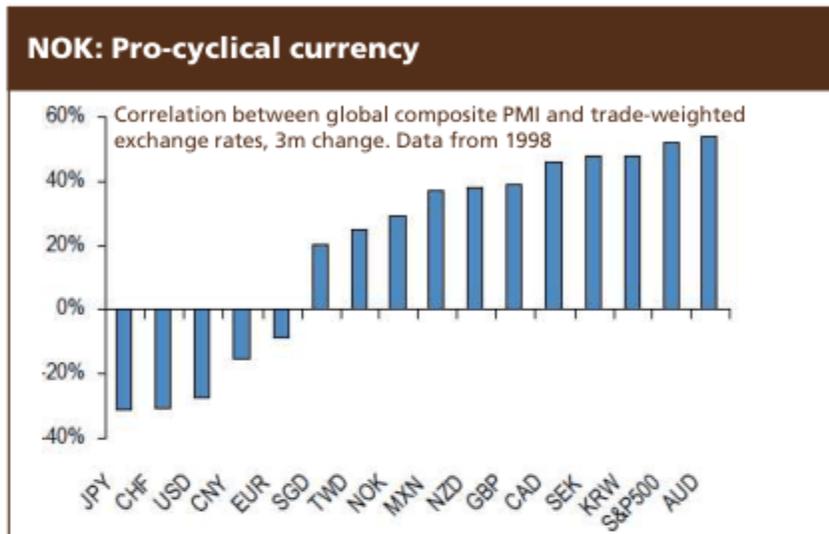
- Swedish krona remains a high beta\* currency (\*currency highly sensitive to the global economic cycle). A strong positive correlation with the equity market leaves it highly vulnerable in the current risk-off environment.
- The Swedish real economy has been holding remarkably well - see Q2 GDP reported at a strong 4.9% y/y. However, most recently, business and consumer confidence have been tilting significantly lower. The inflation context is relatively benign, giving leeway to the Riksbank.
- Riksbank policy language has adjusted to a less hawkish bias, with the tightening cycle going through a pause at this stage. Some are now betting on a rate cut scenario as the next move.
- Longer-term bullish call on the krona is intact. Near-term outlook is a little more uncertain, more so against the USD and the yen than versus the euro.

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## Norwegian krone: Not quite a safe-haven currency just yet



Source: JPMS LLC, *FX Markets Weekly*, 9 September 2011  
PMI: Purchasing Manager Index

**But we still love the fundamentals long-term**

	Real GDP (%yoy)	Current account balance (% of GDP)	Fiscal balance (% of GDP)
<b>2010</b>	0.33	12.83	10.52
<b>2011 Forecasts</b>	2.20	16.30	10.80
<b>2012 Forecasts</b>	2.25	16.00	11.05

Source: JPMS LLC, Bloomberg, data as of 4 October 2011

- Notwithstanding safe-haven appeal (in particular from a fiscal and a remarkably healthy fundamentals perspective), the recent price action has shown that the Norwegian krone still trades like a pro-cyclical currency, in particular against the USD.
- Should it persist, the deleveraging market environment and declining oil prices observed in late Q3 would keep a negative premium on the Norwegian krone.
- Structurally, the longer-term outlook remains overwhelmingly bullish but a sustainable return in risk appetite is central for this outlook to materialise.

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## Australian dollar: Not a one way trade anymore

### RBA outlook has turned dovish



Source: JPMS LLC, Bloomberg, data as of 4 October 2011

### China outlook solid, but loss in momentum



Source: JPMS LLC, Bloomberg, data as of 4 October 2011

- The RBA policy language has turned much more dovish and rate cuts cannot be ruled out altogether into 2012. On a relative basis, the yield factor has become significantly less supportive for the Australian dollar.
- However, record high terms of trade, a supportive structural environment (modest budget deficit and C/A deficit positions) and a still relatively constructive outlook for China are consistent with a bullish longer-term outlook for the Australian dollar.
- Recent price action has confirmed that there is no decoupling and that the AUD is at risk in a deleveraging world.
- JPMS LLC short-term value model estimates AUD/USD close to 0.97. Our year-end target has adjusted to 1.00 and 1.10 for end of 2012.

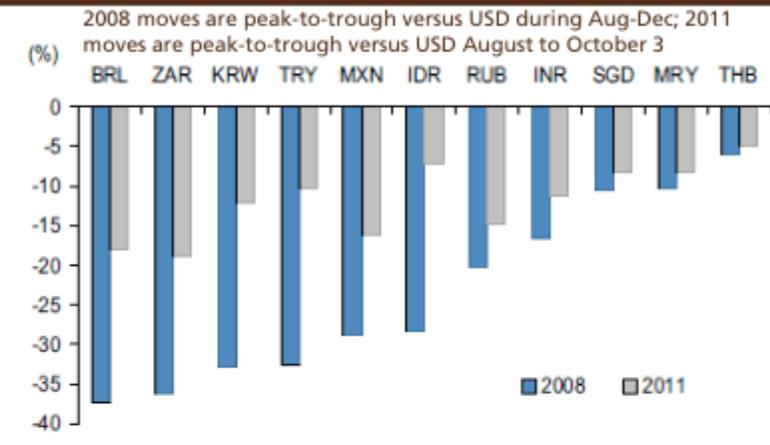
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## EM currencies: This is not 2008, but caution ahead

### EM currencies sold off sharply but remain resilient compared to 2008



Source: JPMS LLC, *Emerging Markets Outlook and Strategy*, 4 October 2011

### Volatility has increased sharply



Source: JPMS LLC, Bloomberg, data as of 4 October 2011

- Global deleveraging has translated into a sharp sell-off in EM currencies since the beginning of September. However, we are still a long way away from the 2008 type correction.
- We acknowledge that the EM world is entering into a softening phase of the cycle, but recession risks are very low for EM at this stage. Expect aggressive monetary-fiscal policy responses should the economic climate weaken faster than expected.
- Our longer-term constructive outlook for the EM currency world is intact, but we call for caution in the near-term considering the external risks. This should present opportunities for investors to enter longer-term bullish positions at better levels. Interventionist central banks should help contain the downside on currencies.

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## Emerging markets: Where do we stand on the macro front

	JPM forecast CPI for end '11, %	Current policy interest rate, %	JPM forecast policy interest rate Sep 12, %	JPM forecast Real GDP for '12, %	Budget forecast for end '11, % of GDP	Forecast CA/GDP ratio for end '11, %
Brazil	5.4	12	11	3.8	-2.4	-3.6
Chile	3.3	5.25	3.5	4.5	0.4	-1.9
Colombia	3	4.5	4.5	3.7	-3.9	-4
Mexico	3.6	4.5	4	2.5	-2.5	-1.1
Peru	3	4.25	3.75	4.5	-0.3	-1.5
<b>Average Americas</b>	<b>3.66</b>	<b>6.1</b>	<b>5.35</b>	<b>3.8</b>	<b>-1.74</b>	<b>-2.42</b>
Czech	2.7	0.75	0.75	1	-4.2	3.1
Hungary	4.6	6	5.75	0.5	1.5	-2.5
Poland	2.8	4.5	3.75	2.7	-5.55	-3.5
Russia	6.7	3.75	4	3	-0.65	3.8
South Africa	5.4	5.5	5	2.5	-5.4	-5.5
Turkey	6.2	5.75	5.75	2.7	-1.5	-2.6
<b>Average Europe/Africa</b>	<b>4.73</b>	<b>4.38</b>	<b>4.17</b>	<b>2.07</b>	<b>-2.63</b>	<b>-1.20</b>
China	4.2	6.56	6.56	8.5	-1.9	5.1
India	7.8	8.25	8.5	8.5	-5	-1.8
Indonesia	5.2	6.75	6.5	6.2	-1.6	0.6
Korea	3.1	3.25	3.75	4	0.5	0.4
Malaysia	3	3	3	3.3	-5.2	14.8
Philippines	3.5	4.5	4.5	4.8	-1.75	1.9
Thailand	3.6	3.5	3.75	3.3	-2.95	-3.1
<b>Average Asia/Pacific</b>	<b>4.34</b>	<b>5.12</b>	<b>5.22</b>	<b>5.51</b>	<b>-2.56</b>	<b>2.56</b>

Source: JPMS LLC, Bloomberg, data as of 4 October 2011 ("CA" stands for current account)

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## EMEA currency considerations and outlook

Currency	Key drivers and risks	Near-term risks* (1-3 months)	Longer-term risks *(12 months +)
PLN	<ul style="list-style-type: none"> <li>■ PLN continues to be vulnerable in the EMEA space at times of heightened euro concerns. Substantial funding needs, a large budget deficit and relatively high debt-to-GDP ratios (53%) all weigh on PLN.</li> <li>■ Relatively low export-to-GDP ratio (at just 41.6%) means the Polish economy would be well positioned should a more pronounced/longer slow-down in the global economy unfold. In 2009, Poland was the only economy not to contract. Interventionist central bank may help contain downside on currency.</li> </ul>	-2.0	+2.0
CZK	<ul style="list-style-type: none"> <li>■ The koruna continues to outperform the rest of EMEA in a global deleveraging context. It has sounder fundamentals compared to the rest of EMEA, in particular on the fiscal front. The debt-to-GDP ratio expected at just 38.7% in 2011.</li> <li>■ However, the export-to-GDP ratio currently stands at a very high 79.3%, meaning CZK is strongly at risk in a mild eurozone recession environment.</li> </ul>	-1.0	+2.0
HUF	<ul style="list-style-type: none"> <li>■ Current deleveraging context is very bearish for the forint. Large external funding needs and highly unappealing fiscal position (debt to GDP ratio expected at a high 80% in 2011) weighing on the forint in the near-term. High export to GDP ratio (86.5%) leave the forint more at risk should the world economy move towards a recession scenario.</li> <li>■ SNB ceiling announcement to weigh too: risk to see fresh capital outflows following early repayment proposal of CHF mortgages.</li> <li>■ Central bank likely to be interventionist in context of more currency weakness.</li> </ul>	-3.0	+1.0
RUB	<ul style="list-style-type: none"> <li>■ Near 17% ruble depreciation since early September is in line with a marked weakening in Brent prices and captures a high dependence on oil prices for Russia's economy.</li> <li>■ Uncertain political and fiscal outlook ahead of the 2012 parliamentary and presidential elections are a further risk. Interventionist approach from the CBR may help contain the downside medium-term.</li> </ul>	-2.0	+1.0
TRY	<ul style="list-style-type: none"> <li>■ TRY is vulnerable in a global deleveraging context. However, the lira is already well below the 2008/09 low against the USD and it has depreciated by over 35% since its November 2010 high. On valuation grounds, the lira is increasingly appealing.</li> <li>■ As/when risk appetite returns, we believe that the lira will outperform. We also believe that in intra-EMEA play, the lira should outperform even in a risk-off context. The rating outlook remains supportive and there has been some improvement in the current account position too. Low export to GDP ratio (sub-20%) is also helpful at a time when global recession jitters are resurfacing.</li> <li>■ Interventionist Central Bank to limit the downside.</li> </ul>	-1.0	+3.0
ZAR	<ul style="list-style-type: none"> <li>■ Rand is still the most vulnerable in EMEA EM currency bloc at times of strong deleveraging. Important external financing needs (foreign bonds ownership at 27%), dreadful fundamentals, including large current account deficit-to-GDP ratio and budget deficit-to-GDP all weigh on the ZAR.</li> </ul>	-3.0	0.0

\* -3 very bearish, +3 very bullish

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## Emerging Asian currency considerations and outlook

Currency	Key drivers and risks	Near-term risks* (1-3 months)	Longer-term risks* (12 months +)
CNY	<ul style="list-style-type: none"> <li>■ The central bank is maintaining a gradual currency appreciation approach and continues to use CNY as a tool to contain inflationary pressures and to support local purchasing power.</li> <li>■ The degree of CNY gains is a function of global risk appetite, but the long-term trend remains overwhelmingly bullish. A move towards a flexible exchange rate is feasible this decade.</li> </ul>	+1.0	+3.0
HKD	<ul style="list-style-type: none"> <li>■ Some are betting on a possible 'de-pegging' sooner than expected. We see limited advantage in HKD adjusting before CNY moves towards a fully flexible exchange rate system.</li> </ul>	0.0	+3.0
INR	<ul style="list-style-type: none"> <li>■ Persistent current account deficit (see current account deficit to GDP ratio expected near 3%) and budget deficit (expected just above 5%) leave INR highly vulnerable at times of deleveraging.</li> <li>■ The long-term structural outlook remains bullish. Highly favourable demographics, strong growth and appealing yields mean that long-term bullish case is still very much in place.</li> </ul>	-2.0	+2.0
IDR	<ul style="list-style-type: none"> <li>■ Due to the overcrowded trade and significant off-shore positioning (through bonds), IDR is more at risk during times of deleveraging. Strong external financing needs mean that the IDR has been a strong underperformer in a risk-off context.</li> <li>■ The longer-term bullish case (mainly of a structural nature) remains compelling and large scale pull-backs provide good opportunities to enter long positions. Interventionist Central Bank when it comes to currency weakness.</li> </ul>	-2.0	+3.0
KRW	<ul style="list-style-type: none"> <li>■ Relatively high export to GDP ratio (just above 55%) leaves KRW economy at risk as global recession fears mount – relative outperformance of Japan's economy (main trading partner) is helpful in the current context.</li> <li>■ The strong structural position (i.e. positive fiscal/current account positions) is consistent with a still bullish long-term outlook. Central Bank intervention risk is high at times of currency weakness.</li> </ul>	-1.0	+3.0
SGD	<ul style="list-style-type: none"> <li>■ Overcrowded trade and as a result, SGD has not been spared from the global deleveraging EM sell-off. MAS risks to adjust to a more 'growth orientated' approach, therefore the pace of currency appreciation likely to be contained near-term.</li> <li>■ The remarkably strong current account surplus (20.4% of GDP) and budget surplus (5% of GDP) are crucial in bullish long-term SGD call. It is a good proxy to bullish CNY view. Some call</li> </ul>	-1.0	+3.0

\* -3 very bearish, +3 very bullish

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## Latin American currency considerations and outlook

Currency	Key drivers and risks	Near-term risks* (1-3 months)	Longer-term risks* (12 months +)
<b>MXN</b>	<ul style="list-style-type: none"> <li>■ High beta currency, vulnerable in risk-off context. MXN is highly dependant on US GDP growth expectations. A prolonged sub-trend growth environment in the US would weigh on the Mexican economic growth outlook. An adjustment to a more dovish rate outlook adds on to bearish near-term outlook. A majority of market participants are now expecting a rate cut before year-end.</li> <li>■ Longer-term bullish forces remain in place: those include relatively small budget deficit-to-GDP ratio (2.5% expected in 2011) and current account deficit-to-GDP ratio (expected at 1% in 2011). Commodity currency, consistent with bullish long-term outlook on commodities.</li> <li>■ Credible central bank approach is providing additional support longer-term.</li> </ul>	-1.0	+3.0
<b>BRL</b>	<ul style="list-style-type: none"> <li>■ BRL is very expensive on valuation grounds and the overcrowded trade has translated into a pronounced underperformance in recent deleveraging phase. The highly unexpected SELIC rate cut (with scope for more to come) adds onto the short-term negative risks for the real.</li> <li>■ The longer-term bullish BRL forces have not disappeared though. Those include a relatively healthy fiscal and external position, as well as strong growth rates and appealing yields (rushed rate cuts in this cycle means that rates may have to stay higher and for longer at a later stage). Interventionist central bank should also contribute to containing the downside.</li> </ul>	-2.0	+2.0
<b>CLP</b>	<ul style="list-style-type: none"> <li>■ Highly export and commodity driven economy, therefore CLP is at risk in a deteriorating global growth environment. Copper is Chile's major export and our recent downward adjustment in copper prices expectations is consistent with a weaker than expected currency outlook (see new year-end target at \$8650, versus \$10,000 at the time of our previous FX quarterly publication).</li> <li>■ Longer-term, our still constructive outlook on China will help but in a deleveraging and recession fear world, CLP may struggle.</li> </ul>	-2.0	+2.0

\* -3 very bearish, +3 very bullish

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