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=0A2012 Outlook: Currencies during European recession & global stagnation (=
John Normand)=0D=0A2012 presents a unique tension between an unprecedented =
macro environment and very defensive investor positioning=2E The next 100 d=
ays will be critical in avoiding a sovereign credit event and global recess=
ion=2E Averting disaster and achieving stagnation should be sufficient to e=
ase the dollar lower next year, but expect only a 2% trade-weighted decline=
 and another year of above-average volatility (12%-15% on VXY)=2E Global re=
cession would probably deliver 8% strength in USD, so less than Lehman give=
n existing USD longs=2E=0D=0A=0D=0AFive global macro themes and top trades =
(Paul Meggyesi, John Normand, Matthias Bouquet)=0D=0ATop five trading theme=
s and recommendations: (1) implementation risks around Europe are huge (EUR=
/JPY put spreads , bullish USD/SEK fly); (2) desperate times demand despera=
te action (short USD/JPY 1x2 put spreads, short GBP/JPY through seagulls, s=
hort 6-mo EUR/CHF puts; (3) no winners in European cage match (3-mo range b=
inaries in EUR/GBP and EUR/NOK); (4) some safe havens are safer than others=
 (long NOK/SEK); and (5) valuation re-asserts itself (short NZD/CAD)=2E=0D=
=0A=0D=0APost-mortem on 2011 forecasts and trade recommendations (John Norm=
and, Sunil Kavuri)=0D=0AForecast accuracy was better than the consensus for=
 Q1 to Q3, but was poor in Q4 when the dollar turned=2E On trade recommenda=
tions, returns and success rates on options trades were the highest in four=
 years, whereas those on cash trades were average=2E=0D=0A=0D=0AFX Volatili=
ty: Here to stay (Arindam Sandilya, Matthias Bouquet)=0D=0AEuropean recessi=
on and G4 deficit consolidation will keep volatility and the vol-of-vol hig=
h again in 2012 (12%-15% on VXY Global)=2E Systematic short gamma strategie=
s should prove ineffective; overlay long vega hedges through calendar sprea=
ds=2E Risk reversals in high-beta currencies should outperform straddles as=
 defensive plays=2E Optionalised carry should provide positive but noisy re=
turns=2E=0D=0A=0D=0ALong-term Technical Strategy: Is resistance futile? (Ni=
all O'Connor, Thomas Anthonj)=0D=0AThe USD rally should continue into Q1 fo=
llowing reversal from key supports=2E Key resistance on DXY is 80=2E00/81=
=2E44=2E EUR/USD has downside but could stabilize in 1=2E26/1=2E28 region=
=2E Yen enters another solid year even with momentum slowing=2E Commodity c=
urrencies still look range-bound=2E Chart patterns for CEEMEA currencies ar=
e dire, whereas Latam and EM Asia should recover in Q2=2E=0D=0A=0D=0AFeatur=
e: ECB debt monetization-correcting a historic anomaly would lift euro (Ken=
 Landon)=0D=0AThe ECB's prohibition against debt monetisation is a historic=
al anomaly=2E Allowing Fed/Bank of England-like activity would strengthen t=
he euro by reducing sovereign default risk=2E=0D=0A=0D=0AYen: USD/JPY to co=
ntinue its downtrend, with risk of breaking 70 (Tohru Sasaki, Junya Tanase,=
 Anna Hibino)=0D=0AEven at all-time highs, the yen should benefit from a ye=
ar of low global rates, sovereign stress and reserve diversification=2E The=
 Bank of Japan cannot floor USD/JPY as the SNB did with the Swiss franc=2E=
=0D=0A=0D=0AEuro: the make-or-breakup year (John Normand)=0D=0A2012 will te=
st what remains of euro resilience=2E The pivotal issue isn't Europe's rece=
ssion, which is guaranteed and discounted=2E The question is whether 2012 d=
elivers a Lehman-like sovereign event=2E ECB and IMF funding will be requir=
ed to prevent this outcome=2E If combined with structural reform, EUR/USD c=
an remain in a 1=2E30s range, even during a European recession=2E=0D=0A=0D=
=0ASterling: Still dodging the limelight (Paul Meggyesi)=0D=0A2012 should m=
ark the fourth consecutive year of sterling consolidation, as the UK's slow=
-burning economic malaise cannot compete for attention with the Euro area's=
 rapidly-evolving fiscal and political drama=2E=0D=0A=0D=0ASwiss franc: Che=
ck the dam for cracks (Paul Meggyesi)=0D=0AThe fundamental forces which dro=
ve record appreciation in 2011 - sizable current account surplus, strong ec=
onomy, massive overseas borrowing in CHF - are still intact=2E The SNB has =
infinite capacity to peg EUR/CHF, but the cost in terms of inflation and ex=
cess credit growth will become more apparent next year=2E Expect the floor =
to hold at 1=2E20 before yielding in 2013=2E=0D=0A=0D=0ASwedish and Norwegi=

an kronas: Falling short of safe-haven status (Paul Meggyesi)=0D=0AAn asser=
tive SNB and BoJ are sending investors towards other, potential safe havens=
=2E NOK and SEK satisfy only about half the criteria for safe harbors, with=
 NOK preferred due to the Norwegian economy's lower correlation to global g=
rowth=2E=0D=0A=0D=0ACommodity currencies: Risks loom large for Q1 (Kevin He=
bner)=0D=0AStronger fiscal positions, soaring terms of trade and ongoing re=
serve diversification are no insulation from Europe=2E NZD/USD is the most =
vulnerable given its internal and external imbalances=2E=0D=0A=0D=0ALong-te=
rm valuation: USD fiscal premium is modest (Justin Kariya)=0D=0AFundamental=
 fair value models suggest that the most expensive currencies are JPY, NZD =
and BRL while the cheapest are TRY, MXN and PLN=2E The dollar is about 5% u=
ndervalued=2E=0D=0A=0D=0AModel-driven strategies in 2012 (Sunil Kavuri)=0D=
=0ACarry and price momentum will struggle again in 2011 if markets remain t=
rendless but volatile=2E Shorter-term rate momentum strategies like forward=
 carry have the highest odds of delivering positive returns=2E=0D=0A=0D=0AG=
lobal FX carry trade monitor (Anna Hibino)=0D=0ACurrency managers and globa=
l macro funds hold above-average shorts in G-10 and EM carry=2E Japanese re=
tail holds an estimated =A55=2E1 trillion ($66bn) in yen shorts, mostly ver=
sus USD ($24bn) and AUD (A$32bn)=2E=0D=0A=0D=0AJ=2EP=2E Morgan FX forecasts=
 vs=2E forwards & consensus=0D=0AQ1 should see USD strength followed by a r=
e-weakening=2E Baseline targets by Q4 on the benchmarks are DXY 76, JPMQUSD=
 80, USD/JPY 72, EUR/USD 1=2E38, GBP/USD 1=2E58 and AUD/USD 1=2E04=2E=0D=0A=
=0D=0ARisk scenarios to accompany 2012 FX forecasts=0D=0ARisks around the b=
aseline are asymmetric for some currencies=2E This section highlights biase=
s, targets under alternative scenarios and trigger events for a change in v=
iew=2E=0D=0A=0D=0A=0D=0A=0D=0AJohn Normand (AC)<http://www=2Emorganmarkets=
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