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FX Alpha

10 December 2013

Diverging central bank policies

Diverging central bank policies. It is general market consensus that the Fed will end its QE3 programme next year. This is priced into the USD exchange rates. A step of this nature is unlikely to lead to massively lower EUR-USD prices. However, EUR-USD prices will probably be moderately lower because the Fed will become more predictable again during 2014.

Majors. Safe Havens & GBP. 2014 is not going to an easy year for safe haven currencies. The euro zone left – with the help of ECB – the debt crisis behind an in the US the economy picks up even more steam. This will lower demand for safe havens in general. Due to home made problems the JPY is going to underperform the Swiss franc. Sterling is expected to benefit from disinflationary growth.

Dollar block. Kiwi the outperformer. The small but mighty New Zealand dollar will outdo its larger neighbour, the Australian dollar, next year. In view of continuous moderate economic growth the Canadian dollar will enjoy a stable, solid performance and will experience a comeback in the second half of 2014 once rate rise speculation takes off.

Scandies. Krona doing better than the krone. The Scandinavian countries are likely to experience quite a dynamic development in 2014. Next year, they should be able to benefit from their fundamental arguments, which means that the Swedish krona and the Norwegian krone should appreciate. The Swedish krona should outperform the Norwegian krone.

EMEA. You take the low road and I take the high road. The coming year will likely be another challenging one for EMEA currencies, particularly in the first half of the year. Concerns regarding a worsening in external financing conditions allied with relatively low growth will create a difficult environment for EMEA currencies. In this context TRY, ZAR and RUB will likely find the going rough, whereas PLN, CZK and HUF will fare somewhat better.

Asia. North Asian currencies to outperform. We suspect 2014 should be a continuation of price action in late 2013 – namely outperformance of North Asian currencies relative to South/Southeast Asian currencies. A number of themes should serve to differentiate the economies in the region. Ultimately we think USD-Asia will largely trade higher in the year ahead.

Latin America. Local factors to the fore. In the second half of the year 2013 US monetary policy dominated events in the FX markets. The Latin American currencies went on a roller coaster ride, trending weaker overall against the USD. Next year, the picture will probably stay as it is, initially, but when the Fed starts to taper its asset buying, local factors should return to the fore again. The main beneficiary of this development should be the Mexican peso, while the Brazilian real will continue to be burdened by the country's fundamental problems.

FX Metrics. We use correlation forecasts to construct optimized carry trades. Based on this we outline a trade idea on carry trades**.**

FX Portfolio Recommendation. We provide a series of thematic and tactical trade suggestions across G10 and EM.

Technical Analysis. Despite recent strength we look for EUR-USD to weaken next year.

Event Calendar. Data releases until the 20th of December.

Forecast Overview. Overview of G10 & EMEA forecasts as well as Asia & LatAm forecasts.

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Central banks in the liquidity trap

The time following the financial market crisis and the Great Recession was characterised by "unconventional monetary policy". As the interest rate tools had been largely exhausted by Fed, ECB and BoJ they had to come up with different measures to escape the "liquidity trap"; this was the generally perceived view amongst central banks. QE1 to QE3 with the Fed; the ECB's full allotment, LTROs, SMP and the OMT promise; and the Abenomics monetary policies on the part of the BoJ. So far the strategies applied by the major central banks are similar. They all tried to make their monetary policies more expansionary with other means rather than interest rates. Regardless of the differences as regards the implementation, the underlying principle was always the same: the central banks forced additional liquidity onto their commercial banks. In all three cases the effectiveness of this monetary policy has been limited though. This should not come as a surprise. If the commercial banks are not extending their lending at interest rates of zero percent then they will not do so if they have to hold more than the desired liquidity. This is the typical textbook situation of a liquidity trap.

There are a number of reasons why the banks are reluctant when it comes to lending. Uncertain growth prospects dampened demand for loans, new regulation and the requirement for higher capital ratios force commercial banks to be more restrictive when it comes to lending; and in the end the higher surplus liquidity held at disadvantageous interest rates is putting pressure on earnings. This leads to a vicious circle which in the end prevents the desired real economic effects of the expansionary monetary policy. And what is even worse, as the monetary transmission process is blocked the expansionary monetary policies do not create an inflationary effect. Despite expansionary monetary policies, rates of inflation are unsatisfactorily low. So far the central banks reacted to this development with more hectic activity.

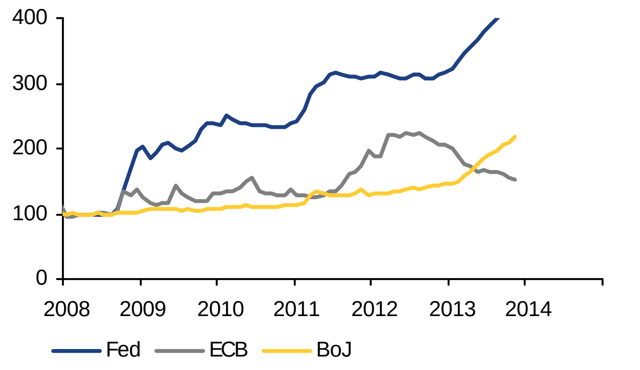
In many ways that is quite understandable, as they see asymmetrical risks. The central banks are pleased with their achievement of bringing inflation rates down since they peaked in the late seventies / early eighties. They are of the view that they can successfully fight inflation. There just does not seem to be a tool against deflation. The deflation at the end of the thirties in the US was finally only overcome with the help of the demand shock created by the 2nd World War. The second major period of deflation in the more recent past, the one in Japan, has not been overcome with any degree of certainty even after almost 20 years of fighting deflation. So unlimited central bank activity to fight the dangers of deflation seems to suggest itself.

On the other hand the central banks do not seem to accept that their possibilities are limited. Even in the original Keynesian model of the liquidity trap it is not monetary policy but fiscal policy that has to be applied to overcome this "trap". However, fiscal policy cannot be applied in many parts of the world. The high debt levels of the Japanese Treasury, the debt crisis in Europe and the political gambling in the US Congress largely prevent Keynesian fiscal policy. The central banks nonetheless feel obliged to act. The real economic and inflationary effects of their policies are likely to be limited. They nonetheless have considerable effects on the development of exchange rates.

The effect of unconventional central bank policies on exchange rates

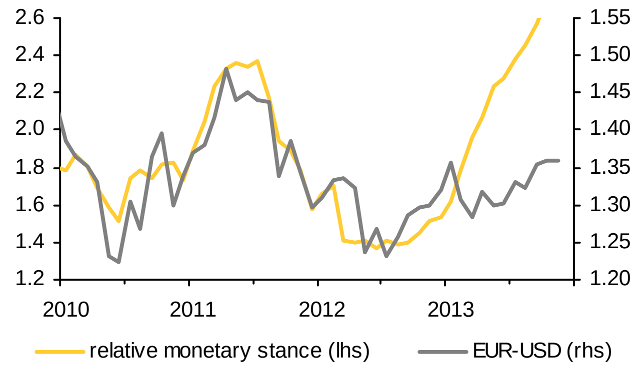
Experience teaches us: the increase of central bank money supply in a currency is detrimental for the currency on the FX market. With the exception of QE1 (which played an extraordinary role as it was a measure to fight the systemic financial market crisis of 2008/09) the cyclically motivated increase of the monetary base is bad for a currency (chart 1 to 3). There are two possible channels from the increase of a monetary base to the exchange rate.

CHART 1: **The monetary bases grew notably over the past years**
Monetary bases, indices (August 2008 = 100)



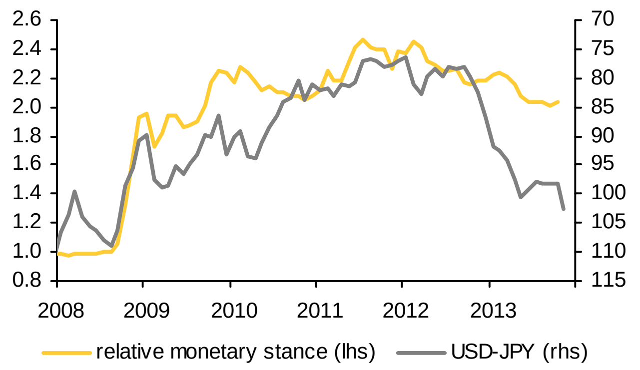
Sources: Federal Reserve System, EZB, BoJ

CHART 2: **Relative developments of monetary bases are an important driver in EUR-USD**
Relation of indexed monetary bases Fed vs. ECB; EUR-USD



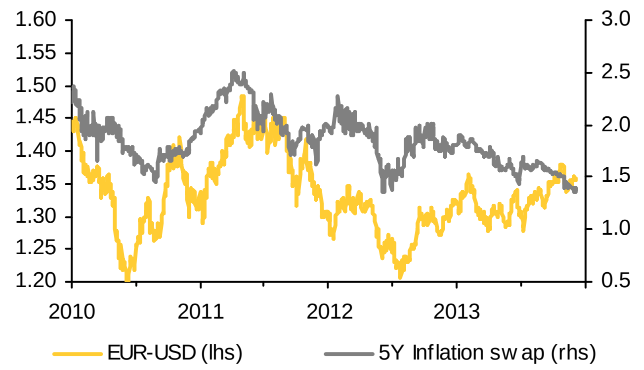
Source:Commerzbank Research

CHART 3: **Relative developments of monetary bases are an important driver in USD-JPY**
Relation of indexed monetary base Fed vs. BoJ; USD-JPY



Source: Commerzbank Research

CHART 4: **Since the end of the euro zone crisis EUR-USD no longer reacts to changes in inflation expectations**
EUR-USD and 5-year inflation expectations



Source:Commerzbank Research

1) First of all the expansion of central bank money supply might increase inflation expectations or at least increase the inflation premium of a currency thus weakening its exchange rate. Empirically this channel seems unconvincing as the inflation expectations implicitly traded on the financial markets hardly reacted at all to the expansion of monetary bases since the end of the euro zone crisis (chart 4). However, one could object that these inflation expectations which are priced under a risk neutral probability measure are likely to deviate particularly notably from real expectations particularly in the presence of deflation risks and are therefore not very suited to measuring inflation expectations. So we should not abandon this channel too readily.

(2) On the other hand it can be assumed that the surplus liquidity will have a direct effect. As the additional liquidity pushes interest rate and yield levels below the equilibrium level the investment into a currency, whose central bank is increasing the base money supply, is getting increasingly unattractive. To compensate for this effect the currency has to depreciate.

The market anticipates tapering

The connection between relative base money supply developments and exchange rate development seems to have collapsed for USD exchange rates recently. That is hardly surprising. The Fed communicated very clearly that it intends to end QE3 in the foreseeable future. An FX market that is sufficiently efficient at processing information should anticipate that development in the USD exchange rates. Changes in the timing of this expectation (tapering in December, in March or even later than that?) should lead to volatility in the USD exchange rates. As long as the market does not question the Fed's intention to end QE3 in the foreseeable future this is unlikely to affect the USD exchange rates massively. Our Fed analysts expect the Fed to start tapering in March, with QE3 coming to a complete end in the course of 2014. This development roughly corresponds to the median of analysts' expectations. Does that also mean that no USD positive effects were to be expected if this was going to happen?

Not necessarily. For just over a year now the Fed has made a big effort to improve its communication. That is important, as in times of unconventional monetary policy it is difficult for the market to develop an idea of monetary policy "rules". How should anyone know which rules a central bank will apply for the use of a tool that it is using for the first time? This is an uncomfortable position for all parties involved – including the Fed itself – as it is generally perceived that a central bank that acts based on rules which are publicly known can act more efficiently in the medium to long run than a central bank who acts in a discretionary manner. So the convincing communication of Fed policy increases its effectiveness in the medium to long run.

However, the Fed surprised markets with its decision not to taper in September. Its guidance regarding tapering, which had only been communicated to the public in March, had generally been understood to mean that tapering was going to start in September. The Fed did nothing to influence this market expectation, but instead deliberately surprised markets in September. As a result market confidence in Fed actions being based on rules is likely to be in tatters for the time being. No one can be 100% certain any longer that it really is the Fed's intention to taper QE3 in the foreseeable future only because it says so today. It does not require any bad intention to claim that the Fed does not even intend to normalise its monetary policy at all – regardless of economic conditions.

A belief in the opposite view requires confidence in the Fed's honest communication strategy. As it abused this confidence in September (to achieve the maximum short term result with the help of the surprise factor) the dollar exchange rates have to include a risk premium which reflects this unreliability on the part of the Fed. If it did not taper in the foreseeable future a significantly weaker dollar would have to be expected. In this respect a tapering start in March would be USD positive news. It means the Fed would prove that markets can trust its communication. This USD positive effect would continue if the Fed would then – as our Fed experts expect – reduce the QE3 volume and bring it back to zero quickly and without any interruptions during the course of 2014. Even if the monetary policy effects are likely to be already priced into the USD exchange rates, the regained trust into the Fed, which was destroyed this year, would no doubt entail at least a moderately USD positive effect, and as a result we expect to see moderate USD strength in 2014.

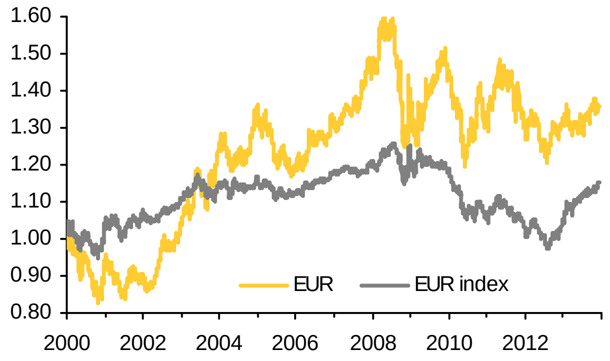
The ECB: prisoner of its own rescue plans or active fighter of deflation?

2013 was characterised by the ECB's success in fighting the euro zone crisis. The OMT promise of September 2012 has not just improved the situation short term, but – as became clear during the course of 2013 – ended the vicious circle of rising periphery yields, heavy debt burdens and increasing risk premiums for the foreseeable future. And seemingly without the ECB actually having to pay for it, as the OMT announcement was sufficient. It was not and will not be necessary to implement the measures as long as the market believes the OMT promise. It seems unlikely that the pending verdict of the German Constitutional Court will nullify the promise. So does that mean the future is bright for the euro zone and the euro? Perhaps.

If the ECB and the other relevant parties consider the ECB's step of September 2012 to be a one-off which reflected the singular conditions at the time, everything could be ok. However, if the ECB has mutated into a permanent supporter of the lame parts of the euro zone, a permanent expansionary bias of the European central bank has to be assumed. If the Fed were to normalise its monetary policy in a credible and sustainable manner at the same time a sustainable carry disadvantage would have to be assumed for the euro, which would put pressure on the euro exchange rates. So how to interpret the post-crisis ECB "correctly"?

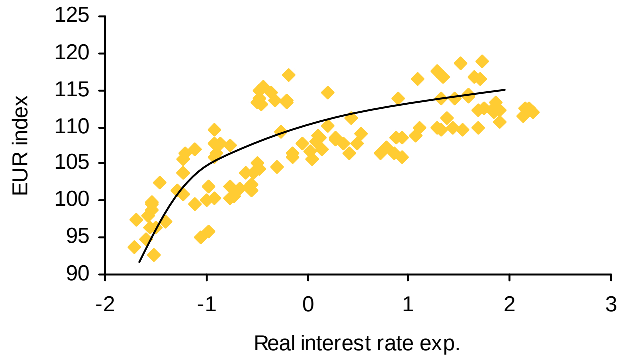
The surprise rate cut on the part of the ECB might have been the start of a litmus test in this respect. Officially the ECB justifies its rate cut with surprisingly low inflation and the risk of deflation. If that was the correct interpretation the step would not affect the EUR exchange rates in the long term, as the ECB's rate policy has been "passive" for some time. That means that the ECB can only under-proportionately adjust the rate level to inflation surprises. Of course negative interest rates are possible. But while cash constitutes an alternative form of storing money, rate levels cannot become arbitrarily negative. The storage costs for cash constitute a natural lower limit. As the ECB's rate tool has pretty much been used up it can only react under-proportionately to a surprise change of the inflation rate. So a surprisingly low inflation rate possibly still leads to lower interest rates, but the real interest rate (nominal key rate minus inflation rate) rises. The real interest rate is decisive for medium term exchange rate developments (chart 5 and 6) – in particular at the moment, as real interest rates are unusually low.

CHART 5: **An idiosyncratic EUR index …**
EUR idiosyncratic factors in our G10 exchange rate model compared with the EUR-USD exchange rate



Source: Commerzbank Research

CHART 6: **…reacts notably to changes to real interest rates in the euro zone**
EUR idiosyncratic factors and real 3m interest rates based on inflation swap implied inflation expectations



Source:Commerzbank Research

So if the ECB would really only pursue a more expansionary monetary policy if the risk of deflation was to rise further, that would not put any pressure on the euro medium term. However, if there was another motivation behind expansionary steps (i.e. if the official reason for the rate cut was merely an alibi) and if the ECB was to take further expansionary steps, these steps would indeed put pressure on the euro. However, our ECB observer does not expect much in this respect. If the ECB only issued conditional tenders, the effect would be moderate. After all a lot of things are being discussed – not least by ECB council members: negative interest rates, QE etc. If our house view regarding ECB activities next year turns out to be correct this would at worst create moderately EUR negative momentum.

Conclusion

If the Fed ends its QE programme over the course of next year – as our experts expect – this would constitute the first step towards a normalisation of its monetary policy. The ECB on the other hand – according to our experts' central scenario – continues to become more expansionary, albeit moderately so. That means that under these circumstances Fed and ECB would go down different routes for the first time in a while. Usually that would constitute an ideal environment for a notably weaker EUR-USD exchange rate. However, markets have already anticipated a considerable amount of monetary policy normalisation while at the same time some of the measures discussed are EUR negative to a considerably higher degree than the ones expected by our experts. So overall this does not result in any reasons for notably lower EUR-USD exchange rates in 2014. That leaves the possibility of the Fed regaining the confidence in its monetary policy rule with a timely tapering start and a rapid reduction of the QE programme. This point suggests lower, but not massively lower EUR-USD exchange rates for 2014 (see table 28 on page 29).

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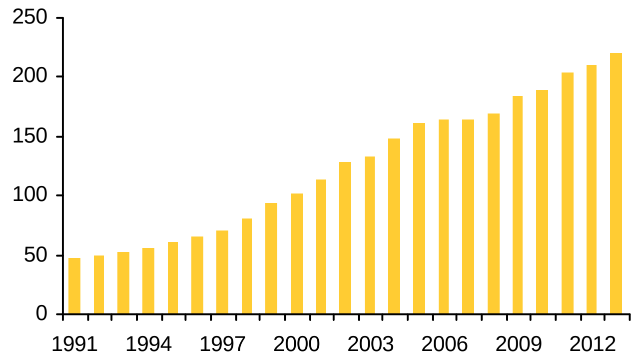
Safe Havens

2013 was not the year for the safe haven currencies. While the JPY depreciated notably, at least the franc was able to avoid major losses. To make one thing clear from the outset: 2014 is unlikely to be the year of the safe haven currencies either. After all the major economies are all back on a growth path. The central banks are also going to contribute their share as they are prepared to feed unlimited liquidity into the markets so as to prevent possible crises from arising in the first place. A strategy of this nature might not work for ever and ever, but there is some degree of certainty that this will still be the case in 2014. The beginning of the tapering process (reduction of bond sales) might create some concerns for the Emerging Markets. Rising US yields could rapidly create uncertainty as to the financing of current account deficits. However, these difficulties are unlikely to arise in all Emerging Markets. Individual areas of crisis are unlikely to fuel demand for safe haven currencies though.

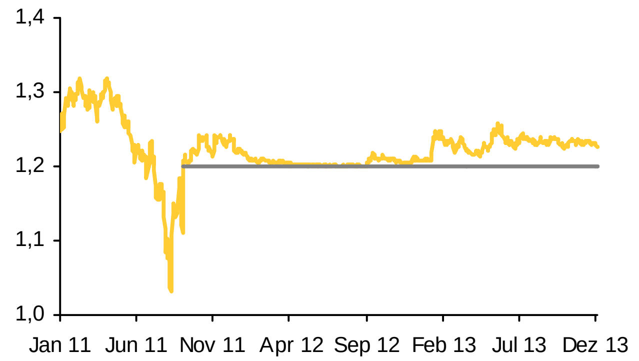
That means that the general environment for JPY and franc is likely to become difficult. In the absence of major crises country specific factors are likely to become relevant. For the JPY above all the question arises whether the country might have to provide a minimum degree of fundamental quality to maintain its status as a safe haven. A currency is initially referred to as a safe haven currency on the FX market if it usually appreciates in times of increasing risk aversion. Obviously this characteristic usually applied for currencies with solid fundamental data. However, over the course of time fundamental conditions in a country can change. That does not necessarily mean that traders on the FX market change their behaviour though.

CHART 7: **Japan: Debt is growing**
Government debt in percent of GDP



Source: Commerzbank Research

CHART 8: **SNB: 1.20-floor sacrosanct**
EUR-CHF, spot



Source: Commerzbank Research

The JPY is a good example for this phenomenon. Over the past 20 years the Japanese national finances have become quite unbalanced. National debt levels rose from approx. 60% of GDP in 1995 to over 220% today. Japan is the country with by far the highest debt levels amongst the industrialised nations. Out of some reflex traders rely on a stronger JPY as soon as news of a crisis hit the new tickers. In the past that was quite understandable as the high national debt was relatively easy to finance thanks to the extremely low interest rates. It is exactly this constellation that constitutes a danger for the Japanese Ministry of Finance, as interest rates (and as a result financing costs) might rise soon. The economic policies referred to as Abenomics (named after Prime Minister Shinzo Abe) mainly rely on fighting deflation. So as to achieve this aim the Bank of Japan has had to commit to an extremely expansionary monetary policy, which entails the purchase of JPY 60-70 trillion worth of bonds per annum –

so the printing presses are running at full pelt. Should inflation rise sustainably, higher interest rates could soon put major pressure on Japanese national finances.

Of course the Ministry of Finance also benefits from inflation, as that means its debt is also losing value. This is one of the most important reasons why almost all countries have legislation guaranteeing their central banks' sovereignty. While the independence of the central banks is one of the fundamental conditions for being allowed to join the European Single Currency the Bank of Japan has now turned into little more than a department of the almighty Japanese Ministry of Finance. Even if inflation causes a fall in national debt as a percentage of GDP that does not mean that servicing the debt will not initially become more expensive for the state. Due to the low current rate levels and the average duration of Japanese national debt of approx. 8.5 years that would be the case in Japan.

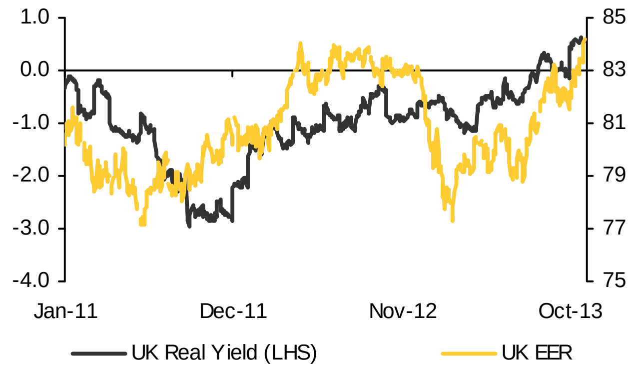
Should Japan's debt sustainability actually be put into question that would also put pressure on the JPY. In the end this would increasingly reduce its role as a safe haven. No doubt a development of this nature would take time and would at worst start in 2014. However, that does not change the fact that investors should keep a close eye on the critical developments in Japan.

The situation of the Swiss franc is far less critical, but no less interesting. Its role as a safe haven is also compromised to some extent, it certainly would be if EUR-CHF came under excessive pressure. In that case the minimum exchange rate of 1.20 in EUR-CHF introduced by the Swiss National Bank (SNB) would prevent further appreciation. The lower level of 1.200 is going to remain in place in 2014. The SNB has repeatedly made this clear and no doubt it is a good idea. If the SNB allowed the 1.2000 mark to be breached its reputation on the market would be in tatters. In that case it would be impossible to exclude a collapse in EUR-CHF. The SNB will not want to take the resulting risks of renewed deflation. At the same time the minimum exchange rate is not likely to be raised either. The SNB is not interested in manipulating the FX market to secure an exchange rate the economy would like to see. It was simply forced to react to an extremely critical situation in September 2011. That leaves the franc protected against a major appreciation with a central bank that would quite like to see it depreciate. The continuing improvement of the situation in the euro zone is likely to help in this respect. On the whole the franc is nonetheless likely to achieve a better performance compared with the JPY. In the long run a safe haven currency is unlikely to be able to exist without solid fundamental data, and this is where the franc is clearly at a strong advantage.

GBP – all change, all change

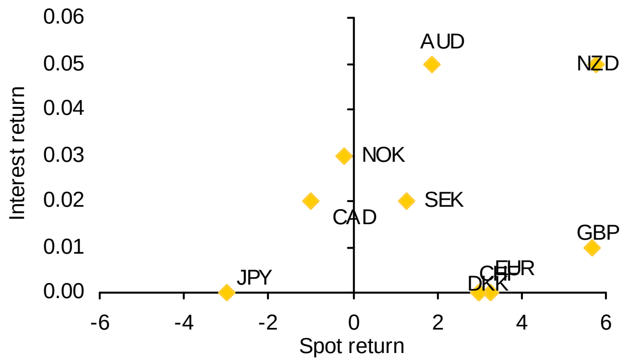
Since September of 2013 the pound has been amongst the best performing currencies against the USD within the G10 currency bloc. In some ways sterling's performance is a case of coming from zero to hero, given that it started 2013 in such a poor manner. At the time we viewed the outlook as being a poor one given the combination of low growth, relatively high inflation

CHART 9: **UK real yields lead the charge higher**
UK real yields in %



Source: Commerzbank Research, Bloomberg

CHART 10: **GBP impressive performance since September**
% Gain / Loss vs. USD since 1st September



Source: Commerzbank Research, Bloomberg and a sizeable current account deficit.

Fast forward one year and indeed it is a case of all change as far as the pound is concerned. For starters since the summer the UK has experienced a notable pickup in GDP growth which has been broad based across all sectors and not just focussed on the housing sector. This points towards the recovery as being self sustaining and not merely a flash in the pan. At the same time, CPI has declined from highs of 2.9% recorded in June to current levels of 2.2%. Thus, in some respects the UK is experiencing disinflationary growth, which is the perfect environment for currency appreciation.

In addition to this dynamic, gilt yields have steadily increased over the course of the year in line with developments in US treasury yields. Whether this continues as the Fed begins to taper its QE3 programme is another matter. Indeed, if UK unemployment data continue to fall UK yields may even outperform their US counterparts, at least in the short term. The upshot of this is that UK real yields, which have undergone an impressive turnaround over the last 18 months, should continue their upward trajectory. This is a strong argument for sterling appreciation as this dynamic continues, at least if historical performance is anything to go by.

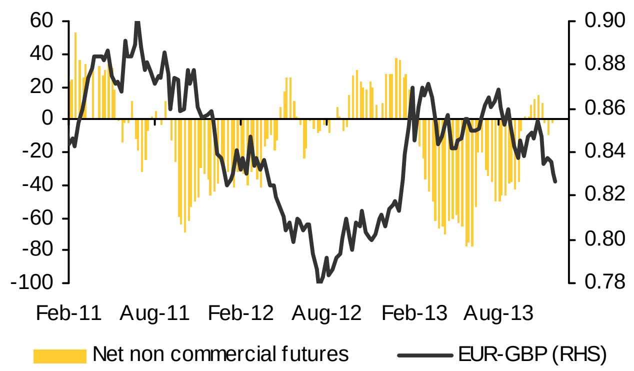
The question then turns to how much of the pound's improved fortune has already been priced in and how markets are positioned. Markets have steadily priced out an increase in the asset purchase programme since the summer, whilst gilt yields have increased in line with the general trend in bull steepening in advanced economy yield curves. Swap spreads still point to considerable downside in EUR-GBP and this is before one considers the possibility of the ECB implementing further non standard measures such as a more explicit form of forward guidance or alternatively an outright expansion of the ECB balance sheet via another LTRO. The BoE, on the other hand, already removed FLS funding for the UK mortgage market in late November, which if anything is the first step in proto-tightening by any advanced economy central bank. Positioning data still reveal a very neutral position by the speculative community (in line with most G10 currencies) so it is difficult to argue that the pound is significantly overbought. What this means is that there is little standing in the way of further sterling gains coming into 2014. By the mid point of the year however we have to assume that shorter term US 2 yr rates will begin to move higher as the market begins to price in Fed rate hikes in 2015. This means that significantly more upside in GBP-USD above 1.70 will be difficult to achieve and even more difficult to sustain.

The only fly in the ointment is with respect to the UK's sizeable current account deficit which at present stands at nearly 4% of GDP. Should the deficit increase this could potentially undermine confidence in the pound, hence investors will have to keep an eye on developments here.

CHART 11: **Markets price out an increase in asset purchases**
GBP swap (Vs. SONIA) 2 yr in %

Source: Commerzbank Research, Bloomberg

CHART 12: **No evidence of a large sterling long position**
EUR-GBP spot, IMM net non commercial futures



Source:Commerzbank Research, Bloomberg

Dollar block: Kiwi the outperformer

The small but mighty New Zealand dollar will outdo its larger neighbour, the Australian dollar, next year. In view of continuous moderate economic growth the Canadian dollar will enjoy a stable, solid performance and will experience a comeback in the second half of 2014 once rate rise speculation takes off.

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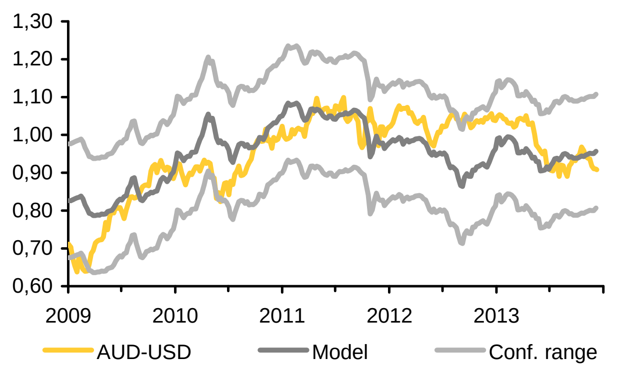
The economic recovery in **New Zealand** will continue and will gather momentum, mainly thanks to reconstruction work following the earth quake in Christchurch. However, higher population growth is also contributing. Export prospects remain positive thanks to still positive growth prospects in China, with the strong NZD obviously still creating some headwind. High private debt levels and rising house prices (chart 14) remain a problem, though, and are reasons why the RBNZ will begin its rate rise cycle in 2014. In particular as inflation has recently risen and returned to the RBNZ's target corridor of 1-3%. The increasing capacity utilisation is creating rising price pressure in some parts of the economy so that inflation will return to 2% in 2014. At the end of October the RBNZ confirmed its outlook of unchanged interest rates until year-end (2.50%) and gradual rate rises in 2014. It will stick to its stance this week. In view of the recently stronger leading indicators we even see a danger of the RBNZ sounding more optimistic in its new Monetary Policy Report, bringing possible rate rises forward. One thing is clear: the RBNZ will be leading the way as regards rate rises in the G10 universe. The first rate rise might come as early as summer 2014. This is a generally positive environment for NZD. However, NZD might come under pressure in early to mid-2014. First of all the RBNZ is of the view that the NZD is overvalued. In the summer it even stated that it was prepared to intervene against the NZD to take off its peaks. Since then NZD has eased slightly so that the upper end was limited successfully. The fact that the USD will gain ground once the Fed begins the tapering process even suggests that NZD will depreciate slightly in the first half of 2014. Once first rate hike speculation begins, the tables will turn in favour of the NZD again. So in the second half of 2014 NZD should be able to appreciate moderately.

On the whole the **aussie** will benefit from a relatively good performance next year, even if it will lag behind the kiwi. The transition from the mining sector to other sectors of the economy, in particular towards export, tourism and manufacturing, remains a major challenge for the Australian economy. However, we consider concerns about an actual collapse of the economy to be exaggerated as long as China grows within the framework of general expectations. In that case, which is our main scenario, Australia and New Zealand will continue to be able to sell their goods, recording solid incomes. However, the big boom in the Australian mining sector is over so that other sectors of the economy will have to close the gap, as mining will contribute less to the GDP in the future. This is where the AUD comes in. As it remains comparatively strong and often tries to push higher, which can be explained by high key commodity prices (chart 13), it is obstructing the structural changes, a fact that is reflected in the continued soft labour market. The RBA is aware of that (the Australian dollar is "uncomfortably high") and is counting on a weaker AUD to achieve a better balance between the components of GDP growth. In particular as the RBA wants to avoid even lower interest rates, as these support the formation of bubbles and as inflation has returned to the RBA's target corridor of 2-3% over the past few quarters, although it was close to the lower limit at 2.2% yoy in Q3. However, the RBA is now sceptical about direct FX market interventions, which it used as recently as in spring. It relies more on verbal interventions to limit the AUD's appreciation potential and to convince markets of lower quotations. After all the RBA is aware of the fact that FX interventions will only have a short term effect, if that, while at the same time being quite costly. Moreover it expects the AUD to come under downward pressure once the Fed begins to taper its asset purchases, which we also expect to see. All in all we do not expect the AUD to collapse, like some analysts do, but see moderate downward pressure in the first half of the year, which results from the moderate outlook for the Chinese and thus for the Australian economy, from the RBA's rhetoric and the appreciation of the USD. Moreover, on the backdrop of the structural changes in the economy bad news can emerge from time to time and put downside pressure on the AUD. The risks are therefore tilted to the downside. In the second half of 2014 the AUD will be able to appreciate again, similar to the NZD, due to first upcoming rate hike speculation. Risks for both currencies remain a deteriorating outlook for the Chinese economy and a rise in general risk aversion on the financial markets which they are still susceptible to.

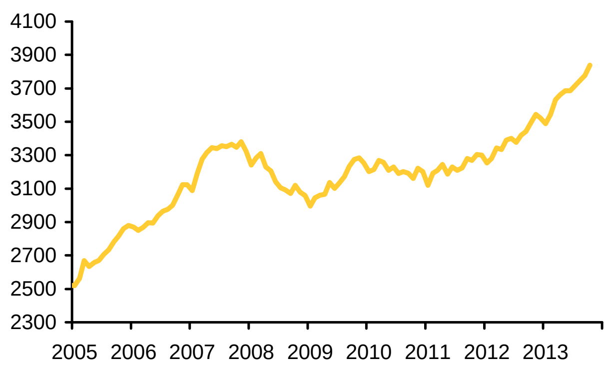
The **Canadian dollar** will remain a solid currency next year. Canada will continue to see moderate growth in 2014, we expect 2.3%. External demand will continue to constitute an important element of the Canadian economy, in particular that from its big neighbour, the US, where the recovery will gather momentum. The better the US economy does, the more the Canadian economy benefits. Moreover the financing conditions remain favourable for Corporates thanks to low interest rates, which in turn should support investment. Commodity prices have stabilised at relatively high levels despite some correction during 2013 so that they continue to form a good source of income for the commodity exporting nation Canada, albeit to a smaller extent than before. The Bank of Canada (BoC) is not under pressure to raise the key rate as inflation remains low. For about one year now inflation has been fluctuating around 1%, and at 1.5% inflation is likely to remain below the BoC's inflation target again next year. As the recovery is progressing more slowly than the BoC had expected it adjusted its growth and inflation outlook downwards in October, stressing the downward risks for inflation. At the same time, the BoC shifted to a neutral stance, which it confirmed in December. As a result a first rate hike is not expected before 2015, in particular as the Fed is also cautious about tapering its asset purchases thus taking the pressure off the BoC. The CAD will defend its position as a solid currency as the country has low national debt levels, enjoys an AAA rating, a solid banking system and the status of a commodity exporter. Even though the USD might appreciate against the CAD during the first half of the year 2014 as it will benefit from a reduction of the Fed's QE3 tapering, the CAD will not lose much ground. In the second half it will begin appreciating again, once it becomes clear that the BoC will raise rates in the foreseeable future. The CAD will remain quite stable against the euro and appreciate more notably in the second half of 2014, once rate rise speculation for Canada picks up, whereas the ECB will stick to its expansionary policy. Risks for the CAD are a notable deterioration of the economic outlook in the US and therefore Canada, a collapse of commodity prices or a strong rise in risk aversion on the financial markets.

CHART 13: **AUD roughly in line with commodity prices**
AUD-USD spot, model with iron ore and coal, confidence range



Source: Commerzbank Research

CHART 14: **Quickly rising house prices remain a challenge for the RBNZ**
REINZ house price index, Jan 1992 = 1000



Source: Commerzbank Research, Bloomberg

Scandies: Krona doing better than krone

The Scandinavian countries are likely to experience quite a dynamic development in 2014. Next year, they should be able to benefit from their fundamental arguments, which means that the Swedish krona and the Norwegian krone should appreciate. The Swedish krona should outperform the Norwegian krone.

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Following temporary periods of weakness the **Swedish economy** will get back into its stride over the coming quarters. The recovery in the important European buyer countries – at first place Germany - and the recently weaker krona will support export demand. Additional momentum is created by the more expansionary fiscal policy in the run-up to the parliamentary elections in 2014. The government is planning larger income tax cuts. Swedish companies are likely to step up investment, which in turn should support the labour market. Private consumption is likely to keep growing at a moderate pace as private households are weighed down by high debt – a fact that also worries Riksbank. Inflation is very low, it remained close to zero in 2013 – not least due to the weak krona between summer 2012 and early 2013 – and remains below Riksbank's expectations. As a result of rising demand in 2014 wage and price pressure is likely to go up slowly so that the inflation rate is likely to move towards the 2% target again.

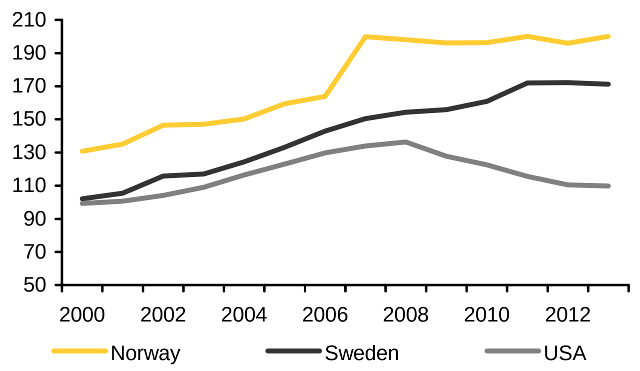
Principally the SEK has fundamentals on its side against the EUR: good growth, a comparatively solid budget and low national debt levels. On the other hand the export oriented Swedish economy continues to suffer as a result of the continued weak economic development in the euro zone. While the krona temporarily acted as a kind of safe haven last year, the ECB's announcement of unlimited asset purchases as well as weaker growth globally and in the euro zone put pressure on the SEK, pushing Riksbank to adopt a more cautious stance. However, the hurdle for a further rate cut is quite high amongst central bank members even if growth and inflation data disappointed recently. After all Riksbank is aware of the long term risks of high private debt levels. The banking sector also constitutes a problem due to its enormous size relative to GDP. Rate cut speculation continues and prevents an appreciation of the SEK, in particular as the euro has so far been able to shake off the ECB's expansionary monetary policy. However, medium term the SEK is likely to bring its fundamental advantages to bear against the euro, in particular if economic data improves and first rate hike speculation begins to emerge at the end of next year. The latter will then stand in clear contrast with the ECB's expansionary monetary policy and will provide notable support for SEK. Should Riksbank decide to cut rates again next week or should Fed tapering of asset purchases cause USD-SEK to shoot up pulling EUR-SEK with it, the krona might come under renewed depreciation pressure so that the appreciation will be postponed or start from higher EUR-SEK levels.

Just like the Swedish economy the **Norwegian economy** will also outdo the euro zone and remain on a moderate growth path. However, note that the Norwegian economy often moves in anti-cyclical manner, which means that the Swedish economy with its intermediate goods industries benefits quite quickly from the good performance especially in Germany, whereas the Norwegian economy will gain traction somewhat later. Therefore, the Swedish economy is likely to show a better performance than the Norwegian economy. We expect a rise of 2.3% for the overall economy in Norway. Depending on the affinity to the oil sector the momentum will vary though. The gradual recovery in the important buyer countries as well as the weak krone should ensure that investments and exports pick up slightly. Following the change in the government in autumn 2013 fiscal policies will also create some momentum. Falling house prices will probably lead to a further slowing of the housing market, which points towards a moderate rise in consumer spending and constitutes a risk in case prices should collapse suddenly. After all, high and rising private household debt constitutes a problem which could intensify in case of a significant fall in house prices, creating considerable financial problems for private households and the banking sector. Tighter rules on the equity requirements for banks are intended to counterbalance this. At the same time Norges Bank is understandably hesitant to cut the key rate further against this background.

However, in our view a rate cut is unlikely anyway, although Norges Bank lowered its projections and the rate path in December on the backdrop of a slightly weaker outlook for growth and inflation, signalling that first rate hikes won't come before summer 2015 (chart 16). The annual inflation rate surprised with a rise to 3% in the summer. It has recently eased a little again, but at 2.4% it is just below Norges Bank's inflation target of 2.5%. Low wage pressure will probably help to limit inflation, but Norwegian inflation is not as low as in other industrialised nations. As a result of the weak krone the risk of imported inflation rises. Should inflation record a surprisingly rapid rise Norges Bank might well bring first rate hikes forward, which in December have been signalled as beginning after the summer of 2015. However, for the time being globally low interest rates and the slow recovery suggest that the key rate will remain at 1.50% for a long time.

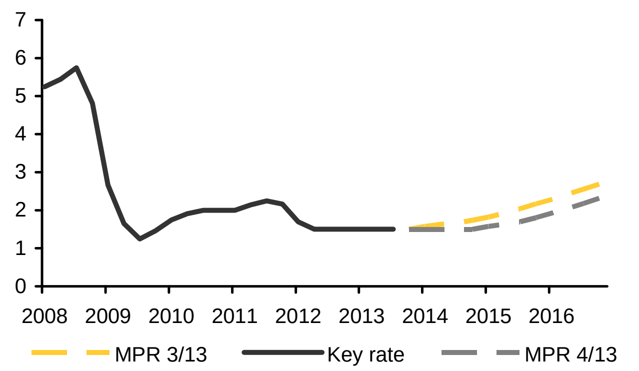
2013 was a bad year for the krone, it depreciated by just below 15% during the year. As was the case for SEK the ECB's announcement of unlimited asset purchases stopped the uptrend in NOK. Economic data has remained below market expectations recently, fuelling rate cut speculation. Even Norges Bank was surprised by the extent of the NOK's depreciation. In our view current levels do not reflect fundamental underlyings, in particular as the Brent oil price has stabilised and is likely to continue trading above US$ 106 over the coming year. We therefore expect to see a stronger krone over the coming year, in particular during the second half once the economy will gain traction and first rate hike speculation emerges. A massive collapse of house prises remain the main risk, and we recommend keeping a close eye on this sector.

CHART 15: **Household debt a major concern for Riksbank**
Private household debt in percent of disposable income



Sources: OECD, Norges Bank, Riksbank

CHART 16: **Norges postponed rate hikes into the far future by lowering the rate path in December**
Key rate, projections in MPR 3/13 and MPR 4/13, in percent



Source: Commerzbank Research, Norges Bank

EMEA: You take the low road and I'll take the high road

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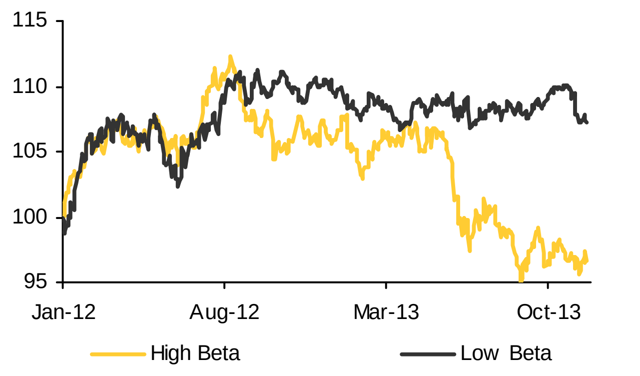
The coming year will likely be another challenging one for EMEA currencies, particularly in the first half of the year. Concerns regarding a worsening in external financing conditions allied with relatively low growth will create a difficult environment for EMEA currencies. The key for investors will be to distinguish between high and low beta EMEA currencies and focus on those currencies which will benefit from an increase in developed market growth metrics. In this context TRY, ZAR and RUB will likely find the going rough, whereas PLN, CZK and HUF will fare somewhat better.

The year that was, the year that will be

Events in 2013 conspired to reveal a variety of cyclical and structural weaknesses within the EMEA FX complex. Although EMEA currencies experienced an indiscriminating sell off in May following the Fed's indication that it would taper its QE3 programme, the truth of the matter is that higher beta EMEA currencies underperformed their lower beta peers for much of the year even prior to May's sell-off. Rather than understanding the taper debate as being the cause of generic EMEA weakness we tend to view it as the catalyst which took EMEA currencies from an already deteriorating fundamental macro picture towards explicit concerns regarding the funding of current account deficits.

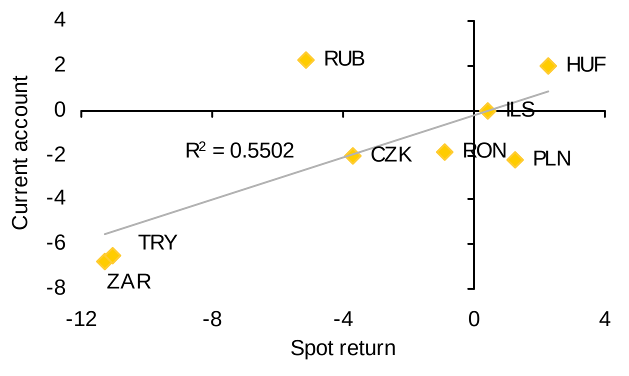
The period since May has been notable for two developments. The first being the idiosyncratic policy response by EM central banks which has varied from rate hikes in some instances to capital controls in others to currency interventions, all with greater or lesser degrees of success. The second is that following the September Fed meeting at which the Fed refrained from tapering, EMEA currencies illustrated an asymmetric reaction function; with no notable improvement following the decline in US yields whilst at the same time remaining highly sensitive to any upmove in external yields.

CHART 17: **High Beta EMEA underperforming already before May…**
Low beta EMFX (PLN, CZK, HUF) Vs. High beta (ZAR, TRY, RUB), Vs. short EUR, 100= January 1st 2012



Sources: Commerzbank Research, Bloomberg

CHART 18: **Current accounts key since May**
Current account as a % of GDP, % Gain / Loss Vs. USD since 1st May 2013



Sources: Commerzbank Research, Bloomberg

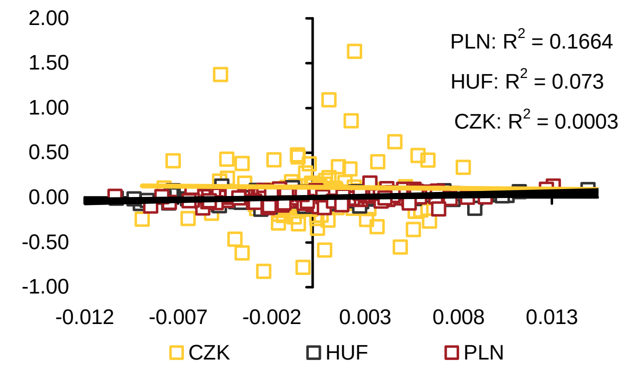
The question for investors is therefore twofold. Firstly how much will EMEA currencies suffer should US rates continue to rise and what will be the policy response on the part of EMEA central banks in the months ahead? It is from this point that we will then be able to speak of a potential decoupling, not along the EM – DM lines of the past, but rather of a potential decoupling between low beta and high beta EMEA currencies.

QE tapering effects - separating the wheat from the chaff

It is no secret that EM currencies recording high current account deficits together with a high dependency on capital imports have been by far the most vulnerable to the recent rises in global interest rates which have sparked the fear of current account crises in some countries.

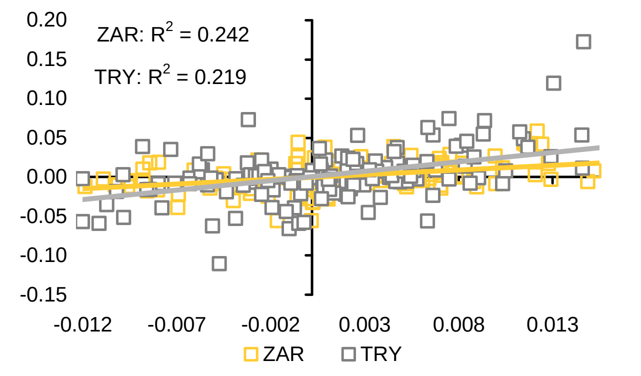
As shown in chart 19 and chart 20 respectively: CEE currencies which either run current account surpluses or very low current account deficits, were hardly affected by the rise in US yield spreads (a low R^2 corresponds to a low correlation and vice versa). On the other hand ZAR and TRY were much more sensitive to any moves in the yield spread, i.e. QE tapering speculations. As both South Africa as well as Turkey's current account deficits are structural by nature, it is highly unlikely that their capital flow vulnerability will simply disappear by the time the Fed starts to taper. Within the EMEA universe, ZAR and the TRY are the most at risk to setbacks.

CHART 19: **Low Beta Currencies' sensitivity to US yield spread**
changes in 10Y govt bond spread to 10Y UST on y-axis, changes in USD-spot on x-axis, in %, since May 1st 2013



Source: Bloomberg, Commerzbank Research

CHART 20: **High Beta Currencies' sensitivity to US yield spread**
changes in 10Y govt bond spread to 10Y UST on y-axis, changes in USD-spot on x-axis, in %, since May 1st 2013



Source: Bloomberg, Commerzbank Research

ZAR – Carry won't compensate

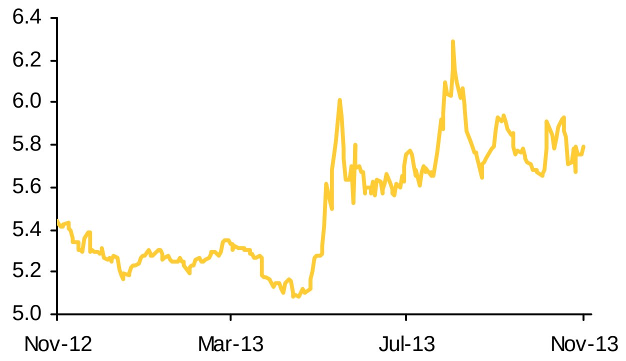
Over the course of 2013 ZAR was the worst performing currency within the EMEA universe. The reasons behind the underperformance are by this stage well known; a large and deteriorating current account deficit, relatively high levels of inflation and sluggish GDP growth. The question that investors will face over the coming year will be whether tapering will have a significant impact upon ZAR exchange rates, whether SARB can realistically tighten policy to arrest ZAR's slide and what effect this will have upon general growth levels.

The most recent data from an idiosyncratic point of view show some improvement in inflation dynamics. CPI levels have fallen consistently from levels around 6.5% in August towards current levels at 5.5%. Even more notable is that the pass through from the weakening ZAR exchange rate has been well below SARB's previously estimated 0.2% coefficient. On this point it's probably worth pointing out that although ZAR weakened considerably over the course of 2013, the majority of the move took place from January through June. Indeed, since June until the time of writing USD-ZAR has essentially traded in a relatively tight range (by ZAR's standards) of 9.70 – 10.40. USD-ZAR volatilities, which typically trade with a premium over EMEA currencies illustrate a notable decline with 3 month ATM volatilities now trading close to their pre sell-off lows at 13%. Thus, one might argue that from an idiosyncratic point of view markets have fully priced in ZAR weakening. Likewise market participants should take note that ZAR now trades at a cheaper level in REER terms, trading 10% below its 5 year average. Investors therefore have to be careful in not becoming overly bearish and have to take note of improvements where they occur.

The elephant in the room is what impact Fed tapering will have upon ZAR. As illustrated above both ZAR and TRY in the EMEA space remain the most vulnerable to a further increase in US yields and this is not likely to change significantly in the coming quarters, given the structural nature of current account deficits. The focus will then shift towards policy responses from national central banks and the impact this will likely have upon growth.

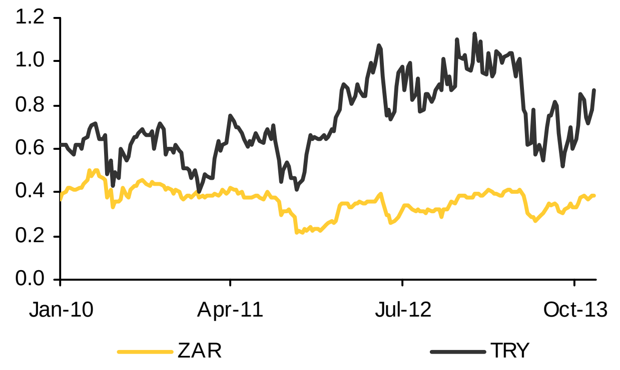
Of all the central banks within EMEA space SARB has the least room for manoeuvre when it comes to the scope of its policy choices. FX reserves are sufficient to cover barely 6 months of imports which effectively rules out any kind of a sustained intervention programme to strengthen ZAR if it was required. The authorities have acknowledged as much in their recent policy statements. Capital controls will not be likely to feature either given the importance of portfolio inflows for current account financing, which leaves rate hikes as the only realistic policy response. This is not an easy choice to implement when one looks at the improvement in inflation dynamics described above nor in the context of still high levels of unemployment (24.7%).

CHART 21: **Forward yields move higher**
USD-ZAR 9 Month Forward Implied Yield in %



Sources: Commerzbank Research, Bloomberg

CHART 22: **Carry to risk improvement to be short-lived?**
3 Month Carry to Risk Ratio



Sources: Commerzbank Research, Bloomberg

Recent SARB commentary has indicated a potential tightening of monetary policy but we remain sceptical about whether significant tightening can realistically occur. That said markets currently price in a removal of liquidity with longer dated forward implied yields showing an increase (chart 21). Shorter dated carry to risk ratios are also instructive. Although volatilities have fallen consistently (and considerably) from their summer highs, more substantial downside is difficult to envisage given that ZAR volatilities typically trade with a premium to their EMEA peers. In the absence of significant pickup in carry it means that any further improvement in the ZAR carry to risk ratio will be short-lived (chart 22). With growth already slowing and terms of trade worsening due to the decline in price and quantity of commodity exports this means that ZAR should trade rather weakly as low growth and relatively high inflation take their toll upon the currency. 2014 will take up where 2013 left off in more ways than one.

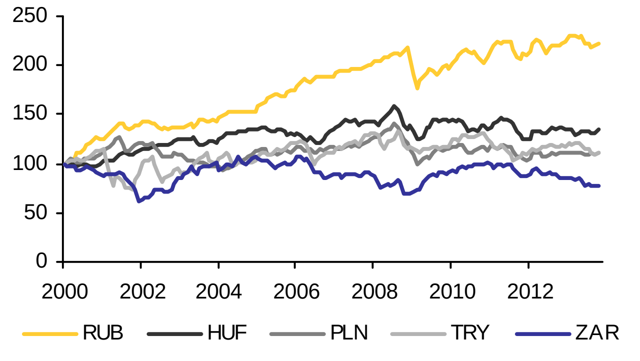
TRY – Fearing the sudden stop

Similarly to the SARB the Turkish central bank (CBT) faces the dilemma of weak growth on the one hand and high inflation on the other. During the recent QE tapering turmoil the CBT therefore rather reverted to putting its hands deep into its FX reserve pockets as a main tool to defend the lira rather than aggressively hiking its key rates as opposed to some Asian counterparts. After lifting the upper end of its rate corridor in August, CBT chief Erdem Basci made very clear that no further adjustment to interest rates will be made. By doing so the CBT chose interest rate stability over exchange rate stability. Despite the extensive FX sales on the market (roughly 25bn EUR since August 2013) and the hike of the O/N lending rate to 7.75%, the TRY came under significant pressure in late August and has not been able to recover since. The reason is Turkey's one big fundamental weakness: the structurally high current account deficit which makes the economy excessively dependent on foreign capital inflows. As mentioned above, as the deficit is structural (e.g. high dependency on energy imports), Turkey is going to remain vulnerable to capital flow volatility for the foreseeable future. As a consequence, we expect TRY to face further headwind in the coming year as the combination of a high current account deficit, inflationary risks as well the reluctance to raising interest rates on the part of the CBT make the TRY an unattractive investment. However, we feel confident that the CBT will eventually give in and hike interest rates in order to safeguard financial stability. Moreover, the Fed is likely to remain cautious when unwinding its easing measures in order for interest rates to not accelerate too rapidly (again). Therefore, we do not expect a full on crisis in Turkey but rather see some room for a recovery as soon as the market gains clarity on the path of US monetary policy and the CBT starts to tighten monetary policy.

RUB – Freer float, weaker ruble

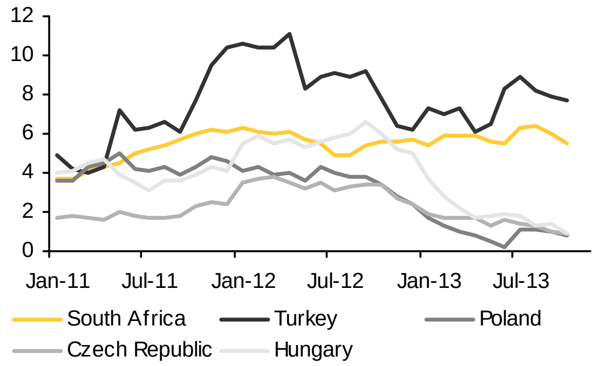
Over the course of 2013 RUB lost ground on a relative and absolute basis against its EMEA peer group. The losses come despite the fact that RUB enjoys a relatively healthy current account surplus, as distinct from its higher beta EMEA peers. The issues driving RUB weakness were twofold. The combination of rapidly slowing growth and moderately high inflation as always were a burden for the currency, however the reaction function of CBR was telling. Rather than cut rates CBR accepted a gradual weakening of the RUB as a means of loosening financial conditions. Second, the stated aim of transitioning towards a free floating RUB by 2015 was accompanied by upward shifts in the Bask-RUB trading corridor in tandem with lower daily intervention volumes conducted by CBR. As a consequence local investors began to disinvest from RUB denominated holdings such that by year end 2013 some 60 bln USD left Russia. Should the negative trend in net trade however continue then by 2016 Russia could potentially have a current account deficit.

CHART 23: **Russia has competitiveness issues**
REER rebased 100=01.01.2000



Source: Bloomberg

CHART 24: **Benign inflation trend in CEE provides easing room**
CPI in % yoy



Source: National central banks

Russian authorities have been quick to point out that the moves towards a freer floating RUB will not entail a weaker RUB. CBR retains significant FX reserves and this is a strong argument against significant increases in volatility as the transition takes place. However we doubt whether RUB can trade strongly given domestic and international headwinds. Historically EMEA currencies tend to underperform when domestic growth deteriorates and in this regard the omens are not benign for RUB. Likewise as US yields increase one has to assume that, initially at least, RUB will find it a difficult environment.

Over the medium to longer term we remain of the view that RUB will weaken. Since 2000 the RUB's REER has experienced a severe appreciation compared to peers which gives an idea of the severe loss of competitiveness. As such, with lower growth and a difficult international environment one must assume that RUB will trade weakly in any case. The transition towards a free floating RUB will therefore likely take place in the above context. Investors can therefore expect further upward shifts in the RUB trading corridor and lower intervention volumes from CBR over the coming year.

Central Eastern European currencies – the pros and cons of weak growth

Poland, Czech Republic and Hungary have taken a considerable hit on the growth front as their main trading partner, the euro zone, slipped into recession. Domestic demand remains particularly weak, which, on the positive side, has caused a considerable improvement of the countries' external balance over the past years. As markets moved on from the euro zone debt crisis to the prospect of QE tapering on the part of the Fed, this cyclical improvement came as a welcome development since the region was now much less vulnerable to capital outflows. It is thus no surprise that PLN, CZK and HUF have fared much better than their peers since last spring. This resilience is unlikely to change in our view. As we expect the Eastern European economies to only recover very gradually, they are unlikely to run into external balance issues as many of their EMEA peers will when the next QE tapering wave hits the market. This will mostly be reflected in a generally lower exchange rate volatility of CEE currencies compared to peers such as TRY and ZAR.

However, the downside of lacklustre growth is that a normalization of monetary policy in Eastern European economies is pushed far into the future. While the SARB and CBT are likely to be forced into hiking rates to defend their currencies and reign in inflation expectations, their Polish, Czech and Hungarian counterparts are in a much more comfortable situation as their currencies are relatively stable and with subdued domestic demand, there is currently no inflation pressure. Both the Czech (CNB) and the Hungarian central bank (MNB) have thus only recently even loosened monetary policy further in order to stimulate economic growth. In both cases, expansionary monetary policy is here to stay and thus will limit the currencies' appreciation potential significantly in the coming year.

As the Hungarian government is eager to push growth ahead of parliamentary elections next spring, pressure on the central bank to loosen its reins further remains high. So far, the collaboration of government and MNB has been working out well. The administered utility price cuts on the part of the government have given the MNB room for cutting its key rate continuously. There currently is a risk that it will cut the key rate to an all time low below 3% by early next year even which is a burden on the HUF. The next step will be the conversion of FX mortgage loans held by households which as well will give way for a weaker HUF. The measures taken so far to alleviate households of their FX mortgage burden have not been sufficiently effective. The government has therefore worked out a plan that will solve the problem permanently but most likely will come at the cost of the banking sector suffering massive losses. The implementation of the plan has been postponed though as the government seeks clarity on legal issues regarding its plan which it does not want to be challenged by lenders. The conversion of FX mortgage loans remains not only a major risk for the HUF but for financial stability in Hungary generally. Against this background we expect the HUF to trade weaker against the EUR in the run up to elections. It is quite likely that thereafter the pressure to push growth will alleviate and provide the MNB with room to start normalizing monetary policy in order to rein in inflation, which by then will start to rise again. After the short weakening phase in the first half of next year, we therefore expect the HUF to strengthen again moderately over the long term.

After hitting the zero-bound on interest rate policy, the Czech National Bank reverted to actively weakening its currency. On November 7th the CNB raised EUR-CZK from levels around 25.80 to 27.00 in one fell swoop. In the days following the introduction of its interventions it sold roughly CZK 200bn on the market and thus increased its reserves by roughly 20%. Clearly, the CNB means business. Indeed, the CNB's intervention strategy is as credible as the SNB's since both are trying to push inflation toward their target and thus are able to weaken their currencies via unsterilized, unlimited interventions. However, as opposed to the SNB, the CNB did not set a fixed exchange rate target but only gave an indication, saying that it will keep EUR-CZK close to 27.00. So far, it is unclear what it means by "close to 27" and the market has not tested its tolerance level on the downside in EUR-CZK yet. This is unlikely to change short term as inflation is expected to trend further downwards (from current levels of around 1% yoy) and provide no reason whatsoever for the CNB to loosen its target. Thus we expect EUR-CZK to continue hovering above the 27 mark over the next 3-6 months. There is a risk that EUR-CZK could even spike further to the upside, should economic data disappoint and therefore fuel speculation about a raise of the exchange rate target on the part of the CNB. Lubomir Lizal, one of the ultra doves in the rate setting council, already said that this would not be an unrealistic scenario. The economic picture would have to deteriorate considerably though for that to happen in our view. As soon as inflation hits the bottom and starts to rise in the course of next year, discussions surrounding an exit from interventions are rather going to put downside pressure on the currency pair. After all, the CNB has already signalled that the exit strategy would entail immediate rate hikes. In our view, it is most likely that the central bank will slowly start to ease its tolerance level to the downside in EUR-CZK towards the end of next year in order to allow for a market friendly exit from its interventions, i.e. preventing a rapid collapse of the exchange rate.

The Polish central bank meanwhile already reached the end of its easing cycle in September this year and has switched into neutral mode. In order to ensure a continued economic recovery it has however moved to anchoring interest rate expectations by explicitly stating that it will keep its interest rate unchanged at least until the middle of next year. Despite positive signals from the economy (e.g. a strong rise of the manufacturing PMI above the 50 mark), MPC members remain cautious. Their main concern is that so far, the economic rebound is mainly driven by the export sector. Domestic demand and with that inflationary pressures on the other hand remain subdued. Ultra-dove Elzbieta Chojna-Duch already said that the NBP might thus keep rates steady even beyond the middle of 2014. She received tailwind from her colleague Anna Zielinska who suggested that the NBP may remain neutral even through Q3 2014. The market has priced in a rate hike only in the second half of next year anyway and therefore currently reacts with benign neglect to such comments. As long as the economic recovery proceeds as projected, there is no question about it that the next step by the NBP will be a rate hike though. This prospect is providing support to the Polish zloty over the medium to long term as it will become clear in the course of 2014 that the NBP will normalise monetary policy much earlier than the ECB can (or is willing to). Naturally, we thus forecast a gradual downtrend in EUR-PLN next year.

Asia: North Asian currencies to outperform

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We suspect 2014 should be a continuation of price action in late 2013 – namely outperformance of North Asian currencies relative to South/Southeast Asian currencies. A number of themes should serve to differentiate the economies in the region. These include the impact of Fed policy, improved US economic performance, ongoing CNY reforms and domestic politics. Finally, geo-politics could prove to be a wild card. Ultimately we think USD-Asia will largely trade higher in the year ahead, and we see further upside in particular for USD-IDR and USD-INR. KRW and TWD should largely hold their ground and therefore short IDR and INR against KRW can be considered.

In 2013 we already got a taste of the impact of reduced Fed liquidity, with dramatic sell-offs in the INR and IDR. Both currencies are undermined by ongoing current account and budget deficits and even though interest rates have been adjusted higher, we suspect the pressure will be felt again as long-term US Treasury yields gradually head higher in the year ahead. The relatively low yielding TWD and SGD, which are backed by current account surpluses and sound public finances should be relatively insulated.

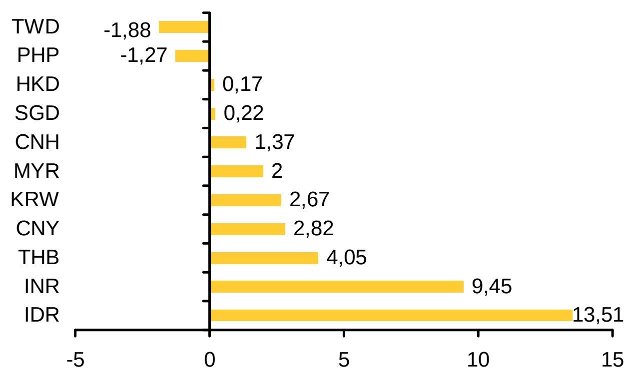
The US recovery and in particularly our expectations for an improvement in business investment in the US should be favourable for electronic exporters in Asia – namely Korea, Taiwan, Singapore, Malaysia and to a lesser extent the Philippines.

The CNY is in its own orbit given the reform agenda established at the Third Plenary in November. We expect band widening early in 2014 followed shortly by the introduction of a deposit insurance scheme, paving the way for deregulation of 12m deposit rates. Bond yields are rising as the PBoC holds back liquidity in an effort to slow the growth of credit in the economy. The CNY will continue to steadily appreciate so long as the daily fix remains, supporting the KRW and TWD.

Politics will be a differentiating feature in 2014. India heads to the elections in May but current polling does not suggest a decisive victory by either the Congress-lead coalition or the opposition BJP is likely. Indonesia also has an election in mid-July. It remains to be seen how reform minded the various candidates are but it is clear that Indonesia is crying out for more reforms and infrastructure investment. The political environment has clearly deteriorated in Thailand with the ongoing protests demanding that current Pheu Thai led coalition government stand down.

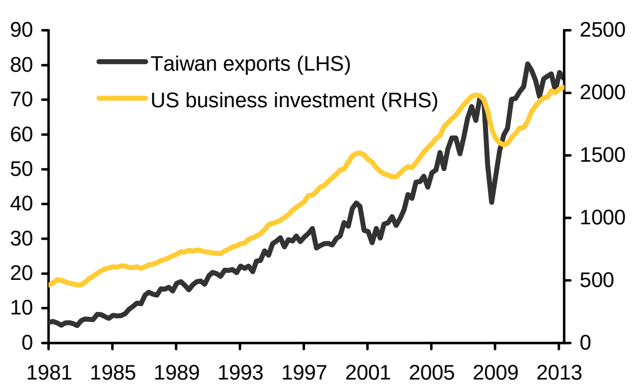
Geopolitics is a wild card in the year ahead, particularly among North Asian currencies as China exercises a more assertive foreign policy with regard to disputed territories in the East China Sea. In particular, a more assertive China could encourage pro-independent Taiwanese and further undermine an already unpopular pro-China Taiwan President Ma, whose term ends in 2016.

CHART 25: **High yielding INR and IDR at risk from Fed**
Implied yield from 3m NDF and Forwards



Sources: Commerzbank Research, Bloomberg

CHART 26: **US recovery to benefit electronic exports**
US business investment (US$bn) vs Taiwan exports (US$mn)



Sources: Commerzbank Research, Bloomberg

Latin America: Local factors to the fore

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In the second half of the year 2013 US monetary policy dominated events in the FX markets. The Latin American currencies went on a roller coaster ride, trending weaker overall against the USD. Next year, the picture will probably stay as it is, initially, but when the Fed starts to taper its asset buying, local factors should return to the fore again. The main beneficiary of this development should be the Mexican peso, while the Brazilian real will continue to be burdened by the country's fundamental problems.

Initially, 2014 is not likely to bring much in the way of change. In March the Fed can be expected to start to reduce its asset purchases, but until then, uncertainty will persist and the currencies of the region will remain under pressure. Although speculation on Fed tapering has rocked the markets pretty good, we doubt this will continue when the Fed actually does begin to taper. It will probably reduce its asset purchases only very gradually, and then only when there are clear signs of a solid recovery in the US economy. For the LatAm currencies this means that local factors will come more strongly to the fore again.

The Mexican peso should benefit from reforms and economic recovery

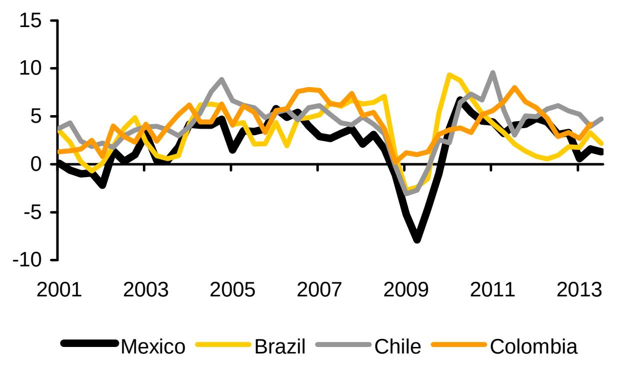
2013 was a turbulent year for the Mexican peso. Initially, supported by the Mexican government's reform announcements, the peso gained significant ground against the USD. But starting in May US monetary policy was theme number one in the markets – and the roller coaster ride began. Gone were the peso's gains achieved since the start of the year, and volatility increased sharply. Investors were additionally unsettled by the disappointing performance of the Mexican economy.

In our view, the peso's weakness won't last long. When the Fed starts to taper, this will signal that the US economy is on a solid recovery path. A recovering US economy is also good for the Mexican economy. After all, some 80% of Mexico's exports go to its neighbour to the north. Hence, as soon as the Fed starts to taper, thereby establishing more clarity regarding the US monetary policy on the markets, the peso is bound to benefit from the improved economic prospects.

There are more factors besides the US economy that suggest a speedy recovery of the Mexican economy. The reforms that were kicked off this year should boost investment. In the past, in contrast to other countries of the region, Mexico was not exactly a beacon of strong economic growth (Chart 27). But thanks to the reforms its growth should accelerate in the coming years. The government will provide positive impulses next year as well. All in all, we look for the Mexican economy to accelerate to a growth rate of 3.8% in 2014 after about 1% this year.

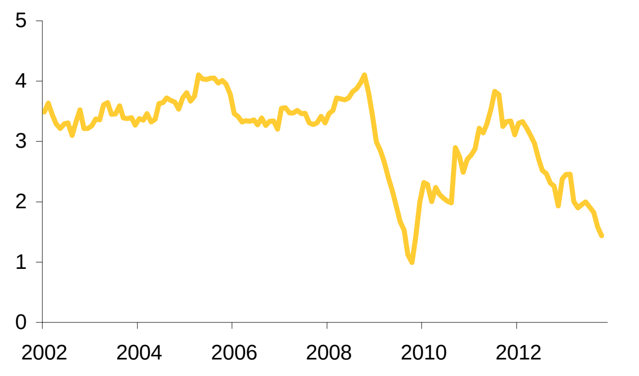
The government's reform measures together with the improving economic outlook make us

CHART 27: **Mexico's growth rates were comparatively low in the past**
GDP growth; yoy % changes



Source: Commerzbank Research, national statistics

CHART 28: **Brazil's fiscal discipline is rapidly deteriorating**
Primary balance as a % of GDP, 12 month moving average



Source: Commerzbank Research, Banco Central do Brasil optimistic for the peso. Additionally those reform efforts, after years of inaction, will be probably be rewarded by the rating agencies. Thus, we look for the peso to appreciate significantly against the USD next year.

Another tough year for the Brazilian real

A growing trade deficit, deteriorating budget data (Chart 28), weak growth and at the same time high inflation: these are problems that have prevailed in Brazil for quite some time now, although they were not really relevant for the currency market until the Fed signalled for the first time, in May, its intention to reduce its asset buying. The BRL plunged against the USD from just under 2.00 to a level of 2.45 at the peak, making it one of this year's biggest losers among emerging market currencies.

For the situation to improve, the Brazilian government would have to become active and begin to tackle overdue reforms. But this is highly unlikely to happen before the presidential elections in October of next year. The elections are also a reason for our scepticism towards the Brazilian budget situation. After all, current president Dilma Rousseff wants to be re-elected, so the government can hardly be expected to make spending cuts, especially with the economy so sluggish. Against this backdrop, there has been speculation in the market that Brazil's credit rating could be downgraded in the months ahead. This leaves precious little leeway for the government to support the anaemic Brazilian economy. And if it should do it anyway, the markets would probably not be amused. The central bank's hands are tied as well. The economy could certainly need a more accommodating monetary policy, but its stubbornly high inflation does not permit it. Instead, the central bank has tightened its monetary policy reins.

Consequently, the Brazilian real is probably in for a tough time next year once more. The country's fundamental problems make the real particularly vulnerable to a Fed policy shift. However, there has been a lot priced in this year already, therefore we expect the BRL to stay at current high levels against the USD while volatility should stay elevated.

FX Metrics

G10 carry trade indices

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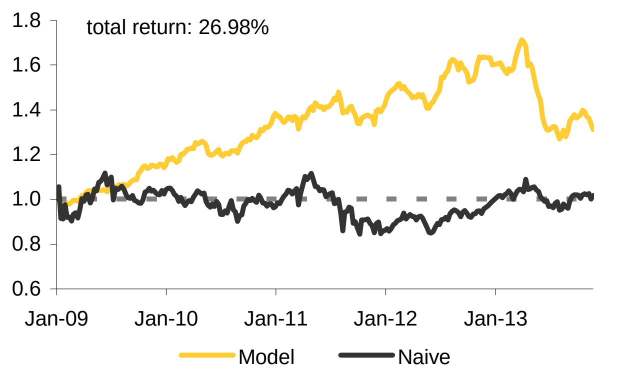
The portfolio weighting of a common carry trade strategy often simply corresponds to the ranking of the interest rate levels. Moreover the number of investment positions is usually fixed at the outset. However, such a strategy does not effectively exploit the benefits of diversifying across different investments. We therefore suggest a portfolio strategy that optimizes the diversification effect and significantly reduces the downside risk entailed in carry trades using "mean-variance" optimization.

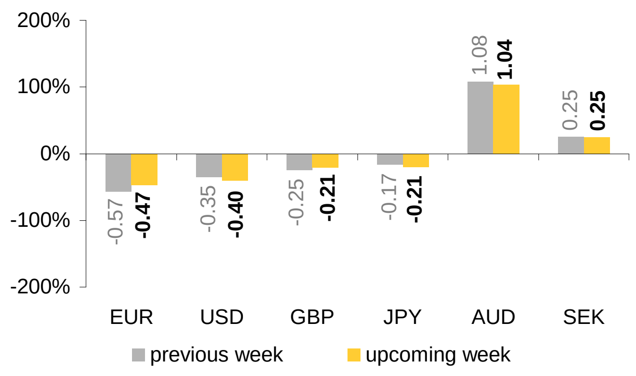
Below we illustrate an example of a mean-variance optimised carry trade portfolio on a selected currency basket with a pre-set risk level. For the optimization the variance has been chosen randomly and can be adjusted as required.

CHART 29: **Historic performance of optimized Carry Trade Portfolio**
Cumulative return[1] since 6 January 2009, weekly rebalancing, target variance: 6%; Naïve strategy: B&H strategy, 3 high yielders long, 3 low yielders short; Currency basket: EUR (base), USD, GBP, JPY, AUD, SEK, CHF (excluded after Sept 2011)



Source: Commerzbank Research

CHART 30: **Portfolio weights for week 10 Dec to 17 Dec**
Currency basket: EUR (base), USD, GBP, JPY, AUD, SEK; weights in %



Source: Commerzbank Research

Methodology

Our optimized strategy considers the correlation of the exchange rates in the portfolio weighing decision, i.e. the good old "mean-variance" optimisation according to Harry M. Markowitz. For the carry trade portfolio this means investing in carries in such a manner that an optimum relation between carry and the risk assumed is achieved. Needless to say, the more accurate the estimate of the correlation matrix the larger the advantage of the portfolio optimisation. For our portfolio we therefore use a trend model to forecast the relevant correlations on a weekly basis. In particular, the forecast is based on a linear trend over the weekly correlations of the last month. This trend is then extrapolated to the coming week to yield a forecast. Subsequently, the trend is rolled over on a weekly basis. This trend-based forecast therefore uses more timely input which ultimately increases forecast accuracy.

[1] Returns are based on Tuesdays' London opening

FX portfolio recommendation

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Core trading views:

- Short volatility in selected crosses (EUR-GBP, EUR-CHF)
- We retain low delta downside in USD-JPY as a tail hedge
- Short AUD via downside put spread

Tactical trading views:

- We close the long USD-TRY call with a small loss of 0.2%.
- We initiate a long downside put in USD-CHF, 0.87 strike

Over the course of the week our short volatility positions performed relatively well once again with EUR-GBP moving towards the middle of its recent range. The short EUR-CHF put slightly underperformed although we are content to hold the position given the positive time decay coming into year end.

The long USD-TRY 2.10 call underperformed despite the fact that US data was generally better than expected and consequently US yields pushed higher. This was more a case of generic EM outperformance rather than being an idiosyncratic TRY story but nonetheless we have to respect price action and we closed the position to show an overall loss of -0.2%.

The AUD-USD put spread continues to show a profit and we are content to maintain the position. Given the performance of US data over the week, December tapering by the Fed is by no means an impossible event. Markets have not priced this in and as such higher yielding G10 currencies remain vulnerable to a further correction.

Once again the one fly in the ointment is the underperformance of the 94.00 put in USD-JPY, but coming into year end with tapering concerns and still overwhelming bullish equity market sentiment we are happy to hold the position as a tail hedge for the portfolio.

TAB. 1: **Global FX Strategy Spot Portfolio**

Trade date	Strategy	Size (€ mln)	Entry level	Stop	% Gain / Loss	Take Profit	Open
15.10.2013	Short EUR-PLN	1	4.1850	4.22	**0.25%**	4.1750	T/P
21.10.2013	Long GBP-USD	1	1.6150	1.5960	-1.20%	1.6480	Stopped
29.10.2013	Long EUR-USD	1	1.3780	1.3680	-0.70%	1.3920	Stopped
12.11.2013	Long GBP-CHF	1	1.4620	1.4650	**1.70%**	1.4860	T/P

Source: Commerzbank Research, Bloomberg LP

TAB. 2: **Discretionary Option Trade Recommendations (base currency EUR)**

Trade date	Strategy	Expiry	Size (€ mln)	Premium	Value	P&L	Open / Closed
15.10.2013	Short EUR-GBP strangle 0.81 / 0.87	15.01.2013	1 x 1	+0.47%	-0.11%	0.36%	Open
22.10.2013	Long USD-JPY 94.00 put	21.01.2013	1	-0.42%	0.01%	-0.41%	Open
05.11.2013	Long AUD-USD put spread 0.92 / 0.88	04.02.2013	1 x 1	-0.48%	1.20%	0.72%	Open
26.11.2013	Short EURp-CHFc 1.22	25.02.2013	1	+0.60%	-0.43%	0.17%	Open
10.12.2013	Long USDp-CHFc 0.87	09.01.2014	1	-0.15%	0.10%	-0.05%	Open

Source: Commerzbank Research, Bloomberg LP

Tactical trading views:

- Price action following Friday's NFP print was unequivocally benign as far as EM currencies are concerned. We therefore close the 2.10 call in USD-TRY to show a small loss of -0.2%.
- For the year end period we are adding a downside put in USD-CHF, 0.87 strike, 1 month tenor. The position offers a decent hedge in case of more pronounced USD weakness and / or a return of negative equity sentiment. At a cost of only 0.15% of notional the position offers a decent risk reward in our view.

Portfolio Risk:

- The portfolio is negatively correlated with volatility.

CHART 31: **USD-CHF edging lower coming into year end**
USD-CHF spot

Sources: Commerzbank Research, Bloomberg LP

CHART 32: **EUR-GBP vols remain subdued**
EUR-GBP 3 Month At-The-Money volatility in % vol

Sources: Commerzbank Research, Bloomberg LP

Technical Analysis

Despite recent strength we look for EUR-USD to weaken next year.

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When thinking about our favourite trade for next year, it is clear that despite the fact that we consider the Australian Dollar the currency most likely to be the weakest in the G7 next year, the chart pattern which interests us the most is in fact the longer term chart for EUR-USD. There are a number of technical developments, which need to be highlighted on the longer term EUR-USD charts as they all suggest that the high at 1.3833 charted in October 2013 is likely to be a key intermediate turning point for the market (top).

The first point to mention is that the market has rallied to and seen emphatic rejection from the 61.8% retracement of the move down from 2011. This implies that the entire move higher from the 1.2042 July 2012 low to 1.3833 was nothing more than a correction. Secondly the Elliott wave count on the weekly chart is also implying that this is the end of the 4th wave and the next leg should be on the downside. Thirdly we have seen a complex divergence of the weekly RSI, price action represents a bearish weekly engulfing pattern and on the monthly chart we have an inverted hammer. Fourthly the market has failed just ahead of the 1.3958/1.4002 key resistance – this represents the 50% retracement of the move down from the 2008 peak and also the 2008-2013 resistance line.

Lastly we have a 13 count on the daily and on the weekly charts; we have not seen a 13 count on the weekly chart since 2008.

This all suggests that we will see EUR-USD fail somewhere in the 1.38-1.40 range and resume its longer term bear trend in 2014. We would expect to see the market drop towards its 200 MONTH moving average at 1.2082 by end of 2014.

What happens if we see a weekly close above 1.40? Clearly all of the above is negated and attention reverts to the 1.4940/1.5050 highs charted in 2009 and 2011. This is not our favoured scenario.

CHART 33: **EUR-USD – Monthly Chart**
Expecting failure 138-1.40

Source: CQG

Event Calendar

Date	Time	Region	Release	Unit	Period	Survey	Prior
11 December	07:00	GER	Consumer prices	mom	NOV F	0,2	0,2
				yoy	NOV F	1,3	1,3
	08:00	TRY	Current account balance	USD bn	OCT	-3,0	-3,3
	08:00	HUF	Consumer prices	mom	NOV	-0,1	-0,3
				yoy	NOV	0,9	0,9
	08:00	RON	Consumer prices	mom	NOV	0,3	0,3
				yoy	NOV	2,2	1,9
	08:00	ZAR	Consumer prices	mom	NOV	0,2	0,2
				yoy	NOV	5,4	5,5
	12:00	RUB	CPI weekly year to date	%	DEC 9	-	5,9
	12:00	USA	MBA Mortgage Applications	%	DEC 6	-	-12,80
	20:00	NZD	Interest rate decision	%	DEC 12	2,50	2,50
12 December		AUD	Employment change	K	NOV	10,0	1,1
			Unemployment rate	%	NOV	5,8	5,7
	08:30	SEK	Consumer prices	mom	NOV	0,0	-0,2
				yoy	NOV	0,2	-0,1
	08:30	SEK	Unemployment rate		NOV	7,3	7,3
	08:30	CHF	Interest rate decision	%	DEC 12	0,00	0,00
	10:00	EUR	Industrial production	mom	OCT	0,3	-0,5
				yoy	OCT	1,1	1,1
	11:00	RUB	FX and gold reserves	USD bn	DEC 6	-	514,9
	13:30	USA	Initial jobless claims	K	DEC 7	320	298
	13:30	USA	Import Prices	mom	NOV	-0,7	-0,7
				yoy	NOV	-1,7	-2,0
	13:30	USA	Retail sales	mom	NOV	0,6	0,4
			less vehicles	mom	NOV	0,2	0,2
13 December	04:30	JPY	Industrial production	mom	OCT F	-	0,5
				yoy	OCT F	-	4,7
	08:00	HUF	Industrial production	mom	OCT F	-	-0,5
				yoy	OCT F	5,8	6,0
		CHF	Producer and import prices	mom	NOV	0,1	-0,4
				yoy	NOV	-0,3	-0,3
		RON	Current account balance	EUR mn	OCT	-	-595
	13:00	PLN	Consumer prices	mom	NOV	0,1	0,2
				yoy	NOV	0,9	0,8
	13:00	PLN	Current account balance	yoy	OCT	-448	-1024
	13:30	USA	Producer price index	mom	NOV	0,0	-0,2
				yoy	NOV	0,8	0,3
			core rate	mom	NOV	0,1	0,2
				yoy	NOV	1,4	1,4
15 December	23:50	JPY	Tankan large manufacturing		4Q	15	12
			Tankan non manufacturing		4Q	16	14
16 December	00:01	GBP	Rightmove House Prices	mom	DEC	-	-2,4
				yoy	DEC	-	4,0
	08:00	CZK	Producer price index	mom	NOV	0,3	-0,4
				yoy	NOV	0,1	0,0
	08:30	GER	PMI (Markit)		DEC A	52,5	52,7
	08:30	GER	PMI Services (Markit)		DEC A	54,5	55,7
	09:00	EUR	PMI (Markit)		DEC A	51,5	51,6
	09:00	EUR	PMI Services (Markit)		DEC A	-	51,2
	13:00	PLN	Core rate	mom	NOV	0,1	0,4
				yoy	NOV	1,4	1,4
	13:30	USA	Empire State Index		DEC	4,75	-2,21
	14:00	USA	Tic data	USD bn	OCT	0,0	25,5
	14:15	USA	Industrial production	mom	NOV	0,5	-0,1
	14:15	USA	Capacity utilization	%	NOV	78,4	78,1

Date	Time	Region	Release	Unit	Period	Survey	Prior
17 December	08:30	SEK	Interest rate decision	%	DEC 17	-	1,00
	09:30	GBP	Consumer prices	mom	NOV	-	0,1
				yoy	NOV	-	2,2
			ex energy, food alcohol	yoy	NOV	-	1,7
	09:30	GBP	PPI Input	mom	NOV	-	-0,6
				yoy	NOV	-	-0,3
			PPI Output	mom	NOV	-	-0,3
				yoy	NOV	-	0,8
	10:00	EUR	ZEW business expectations		DEC	-	60,2
	10:00	GER	ZEW business expectations		DEC	-	54,6
	10:00	EUR	Consumer prices	mom	NOV	-	-0,1
				yoy	NOV F	-	0,9
			core rate	yoy	NOV F	0,9	1,0
	12:00	CZK	CNB interest rate decision	%	DEC 17	0,05	0,05
	12:00	TRY	Interest rate decision	%	DEC 17	-	4,50
	13:00	HUF	Interest rate decision	%	DEC 17	3,00	3,20
	13:00	PLN	Wages	mom	NOV	1,5	1,7
				yoy	NOV	2,9	3,1
	13:30	USA	Consumer prices	mom	NOV	0,1	-0,1
				yoy	NOV	1,3	1,0
			core rate	mom	NOV	0,1	0,1
				yoy	NOV	1,7	1,7
	15:00	USA	NAHB Housing Market Index		DEC	55	54
18 December	09:00	GER	ifo business climate		DEC	-	109,3
			Current assessment		DEC	-	112,2
			Business expectation		DEC	-	106,3
	09:30	GBP	Unemployment rate	%	OCT	-	7,6
	10:00	CHF	ZEW business expectations		DEC	-	31,6
	13:00	PLN	Producer price index	mom	NOV	-0,1	-0,5
				yoy	NOV	-1,1	-1,3
		PLN	Sold Industrial Output	mom	NOV	-7,2	6,0
				yoy	NOV	1,7	4,4
		USA	Housing Starts	K	NOV	950	883
			Housing Permits	K	NOV	978	1039
	19:00	USA	Interest rate decision	%	DEC 18	0,25	0,25
19 December	05:00	JPY	Leading Index CI		OCT F	109,7	109,9
			Coincident Index CI		OCT F	-	109,6
	09:30	GBP	Retail sales	mom	NOV	-	-0,7
				yoy	NOV	-	1,8
	15:00	USA	Philadelphia Fed Index		DEC	10,0	6,5
	15:00	USA	Leading indicator CB		NOV	0,7	0,2
	15:00	USA	Existing Home Sales	mn	NOV	5,01	5,12
				mom	NOV	-2,2	-3,2
20 December	00:05	GBP	GfK Consumer Confidence		DEC	-	-12
	07:00	GER	GfK Consumer Confidence		JAN	-	7,4
	07:00	GER	Producer price index	mom	NOV	-	-0,2
				yoy	NOV	-	-0,7
	08:00	CZK	Composite confidence indicator		DEC	-	4,5
	09:30	GBP	GDP	qoq	3Q F	-	0,8
				yoy	3Q F	1,5	1,5
	13:30	CAD	Consumer prices	mom	NOV	0,0	-0,2
				yoy	NOV	0,0	0,7
	13:30	USA	GDP annualized	qoq	3Q T	3,6	3,6
	15:00	EUR	Consumer confidence		DEC A	-15,4	-15,4

Forecast Overview

G10 & EMEA FX Forecasts (end of quarter)

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
G10								
EUR-USD	1.33	1.31	1.29	1.28	1.26	1.24	1.22	1.21
EUR-GBP	0.82	0.81	0.81	0.80	0.79	0.78	0.77	0.77
GBP-USD	1.62	1.62	1.59	1.60	1.59	1.59	1.58	1.57
EUR-JPY	140	140	142	147	149	149	149	151
USD-JPY	105	107	110	115	118	120	122	125
EUR-CHF	1.23	1.24	1.26	1.28	1.29	1.30	1.29	1.28
USD-CHF	0.92	0.95	0.98	1.00	1.02	1.05	1.06	1.06
EUR-AUD	1.43	1.44	1.43	1.38	1.40	1.41	1.36	1.32
AUD-USD	0.93	0.91	0.90	0.93	0.90	0.88	0.90	0.92
EUR-NZD	1.62	1.64	1.57	1.52	1.54	1.49	1.53	1.53
NZD-USD	0.82	0.80	0.82	0.84	0.82	0.83	0.80	0.79
EUR-CAD	1.40	1.40	1.34	1.31	1.30	1.30	1.29	1.29
USD-CAD	1.05	1.07	1.04	1.02	1.03	1.05	1.06	1.07
EUR-NOK	7.85	7.80	7.70	7.65	7.70	7.70	7.70	7.65
USD-NOK	5.90	5.95	5.97	5.98	6.11	6.21	6.31	6.32
EUR-SEK	8.55	8.50	8.40	8.35	8.40	8.40	8.40	8.40
USD-SEK	6.43	6.49	6.51	6.52	6.67	6.77	6.89	6.94
EUR-DKK	7.45	7.45	7.45	7.45	8.45	8.45	8.45	8.45
USD-DKK	5.60	5.69	5.78	5.82	6.71	6.81	6.93	6.98
EMEA								
EUR-PLN	4.10	4.05	4.00	3.95	3.85	3.80	3.75	3.70
USD-PLN	3.08	3.09	3.10	3.09	3.06	3.06	3.07	3.06
EUR-HUF	310	308	300	298	288	285	285	282
USD-HUF	233	235	233	233	229	230	234	233
EUR-CZK	27.00	27.00	26.80	26.50	26.50	25.50	25.20	25.00
USD-CZK	20.30	20.61	20.78	20.70	21.03	20.56	20.66	20.66
EUR-TRY	2.75	2.68	2.65	2.62	2.50	2.45	2.40	2.38
USD-TRY	2.07	2.05	2.05	2.05	1.98	1.98	1.97	1.97
EUR-ZAR	13.83	13.49	13.16	12.80	12.35	11.90	11.47	11.13
USD-ZAR	10.40	10.30	10.20	10.00	9.80	9.60	9.40	9.20
EUR-UAH	11.97	11.79	11.61	11.52	11.34	11.16	10.98	10.89
USD-UAH	9.00	9.00	9.00	9.00	9.00	9.00	9.00	9.00
EUR-RUB	44.6	44.5	44.2	44.3	44.3	44.2	43.5	43.1
USD-RUB	33.5	34.0	34.3	34.6	35.1	35.6	35.7	35.6
EUR-RON	4.42	4.40	4.38	4.35	4.32	4.30	4.28	4.25
USD-RON	3.32	3.36	3.40	3.40	3.43	3.47	3.51	3.51

Asia & LatAm FX Forecasts (end of quarter)

	2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Asia								
EUR-CNY	7.98	7.73	7.48	7.30	7.18	7.07	6.95	6.90
USD-CNY	6.00	5.90	5.80	5.70	5.70	5.70	5.70	5.70
EUR-HKD	10.32	10.17	10.01	9.93	9.78	9.62	9.47	9.39
USD-HKD	7.76	7.76	7.76	7.76	7.76	7.76	7.76	7.76
EUR-SGD	1.73	1.73	1.72	1.72	1.71	1.70	1.68	1.69
USD-SGD	1.30	1.32	1.33	1.34	1.36	1.37	1.38	1.40
EUR-KRW	1463	1441	1419	1402	1373	1352	1330	1319
USD-KRW	1100	1100	1100	1095	1090	1090	1090	1090
EUR-TWD	39.90	39.30	38.70	38.40	37.80	37.20	36.60	36.30
USD-TWD	30.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
EUR-MYR	4.42	4.40	4.39	4.45	4.38	4.34	4.32	4.36
USD-MYR	3.32	3.36	3.40	3.48	3.48	3.50	3.54	3.60
EUR-INR	82.46	81.22	78.69	78.08	75.60	74.40	73.20	72.60
USD-INR	62.00	62.00	61.00	61.00	60.00	60.00	60.00	60.00
EUR-THB	43.23	42.97	42.96	43.52	43.47	43.40	43.31	43.56
USD-THB	32.50	32.80	33.30	34.00	34.50	35.00	35.50	36.00
EUR-PHP	59.19	58.95	58.70	58.88	57.33	57.04	56.73	56.87
USD-PHP	44.50	45.00	45.50	46.00	45.50	46.00	46.50	47.00
EUR-IDR	15960	15720	16125	16000	15750	15500	15250	15125
USD-IDR	12000	12000	12500	12500	12500	12500	12500	12500
LatAm								
EUR-BRL	3.19	3.08	3.07	3.01	2.96	2.98	2.99	3.03
USD-BRL	2.40	2.35	2.38	2.35	2.35	2.40	2.45	2.50
EUR-MXN	17.56	17.03	16.13	15.36	15.50	15.50	14.64	14.28
USD-MXN	13.20	13.00	12.50	12.00	12.30	12.50	12.00	11.80
EUR-COP	2594	2528	2477	2445	2432	2418	2367	2335
USD-COP	1950	1930	1920	1910	1930	1950	1940	1930
EUR-CLP	698	694	697	704	706	707	708	702
USD-CLP	525	530	540	550	560	570	580	580

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