20 June 2014 │ 31 pages

Global

Foreign Exchange Forecasts

June 2014

- No significant change at the June FOMC gives at least a short term green light to carry trades, especially with volatility still suppressed by the same Central Bank largesse.
- In G10 we see broad USD stability over both 0-3m and 6-12m but crosses will likely be moving. For example, we still see USD/JPY at 108 over 6-12m as the BoJ eases again and asset allocation changes drive a shift from local bonds to foreign bonds and equities.
- EUR/USD could drift higher over 0-3m given favourable underlying flows from the BBOP and assuming June ECB measures are now priced in. Over 6-12m this may be reversed again as the ECB moves to outright asset purchases.
- Also within G10, countries that likely raise rates early (GBP and to a lesser degree AUD) or have already been tightening (NZD) should be relatively robust.
- In EM, the carry dynamic means that we expect broad stability in the USD vs. a basket of global EM currencies over 0-3m. This implies excess returns to EM FX given positive carry.
- Over 6-12m, however, we see USD gains as US yields rise and we get closer to outright Fed tightening. Our forecasts imply around 1% move higher in spot rates in Asia, and 4.5-5.5% in CEEMEA and Latam as EM fundamentals remain troublesome.

G10

Jeremy Hale
+44-20-7986-9465
jeremy.hale@citi.com

Maximilian Moldaschl
+44-20-7986-8753
maximilian.moldaschl@citi.com

EM

Guillermo Mondino
+1-212-816-6499
guillermo.mondino@citi.com

Alexander Demyanets
+44-20-7986-4061
alexander.demyanets@citi.com

Figure 1. DM & EM – Forecasts Paths

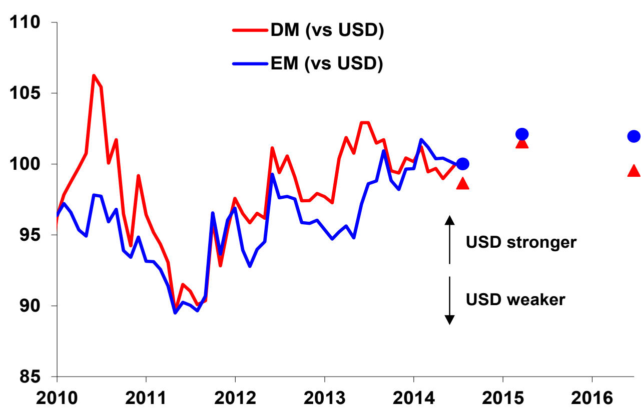


Chart shows GDP weighted baskets. Today = 100

Source: Citi Research and Bloomberg

Figure 2. EM Regions – Forecasts Paths

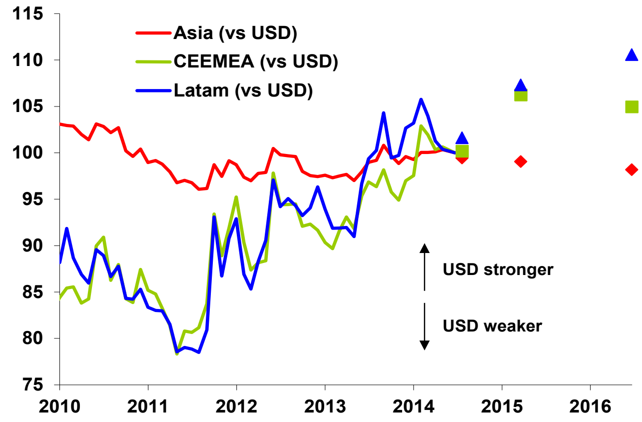


Chart shows GDP weighted baskets. Today = 100

Source: Citi Research and Bloomberg

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Foreign Exchange Forecasts

Figure 3. Citi Foreign Exchange Forecasts

		Market data			Forecasts			Returns***	
		spot*	3m Fwd	12m Fwd	0-3 mos	6-12 mos	long-term	3 mos rtn	12 mos rtn
G10									
Euro	EURUSD	1.36	1.36	1.36	1.39	1.35	1.41	2.4%	-1.1%
Japanese yen	USDJPY	102	102	102	104	108	111	1.9%	6.1%
British Pound	GBPUSD	1.70	1.70	1.69	1.76	1.77	1.76	3.5%	4.6%
Swiss Franc	USDCHF	0.90	0.90	0.89	0.88	0.93	0.91	-1.3%	4.0%
Australian Dollar	AUDUSD	0.94	0.93	0.92	0.95	0.96	0.93	1.9%	4.9%
New Zealand Dollar	NZDUSD	0.87	0.86	0.84	0.88	0.87	0.85	2.2%	3.9%
Canadian Dollar	USDCAD	1.08	1.08	1.09	1.07	1.12	1.10	-0.8%	3.1%
Dollar Index**	DXY	80.44	80.47	80.45	79.05	81.50	79.31	-1.8%	1.3%
G10 Crosses									
Japanese yen	EURJPY	139	139	138	145	145	157	4.4%	5.0%
Swiss Franc	EURCHF	1.22	1.22	1.21	1.23	1.25	1.29	1.1%	2.9%
British Pound	EURGBP	0.80	0.80	0.80	0.79	0.76	0.80	-1.0%	-5.4%
Swedish Krona	EURSEK	9.16	9.18	9.21	9.05	9.10	9.00	-1.4%	-1.2%
Norwegian Krone	EURNOK	8.34	8.37	8.46	8.40	8.10	7.75	0.4%	-4.2%
Norwegian Krone	NOKSEK	1.10	1.10	1.09	1.08	1.12	1.16	-1.7%	3.2%
Australian Dollar	AUDNZD	1.08	1.08	1.09	1.08	1.10	1.09	-0.3%	0.9%
Australian Dollar	AUDJPY	96	95	93	99	104	103	3.8%	11.3%
Asia									
Chinese Renminbi	USDCNY	6.23	6.19	6.24	6.18	6.04	6.00	-0.2%	-3.2%
Hong Kong Dollar	USDHKD	7.75	7.75	7.75	7.75	7.75	7.75	0.0%	0.0%
Indonesian Rupiah	USDIDR	11973	12152	12784	11600	12100	11800	-4.5%	-5.4%
Indian Rupee	USDINR	60.2	61.2	64.4	60.0	62.0	63.0	-2.0%	-3.8%
Korean Won	USDKRW	1021	1026	1038	1025	1025	970	-0.1%	-1.2%
Malaysian Ringgit	USDMYR	3.22	3.25	3.32	3.24	3.34	3.37	-0.2%	0.7%
Philippine Peso	USDPHP	43.8	44.0	44.3	44.0	45.0	43.0	0.0%	1.7%
Singapore Dollar	USDSGD	1.25	1.25	1.25	1.26	1.26	1.26	0.7%	0.8%
Thai Baht	USDTHB	32.5	32.6	33.1	32.5	33.0	33.0	-0.3%	-0.2%
Taiwan Dollar	USDTWD	30.0	30.0	29.8	30.0	30.0	29.8	0.0%	0.7%
EMEA									
Czech Koruna	EURCZK	27.4	27.4	27.4	27.4	27.7	26.5	-0.1%	1.2%
Hungarian Forint	EURHUF	306	308	311	310	315	325	0.8%	1.2%
Polish Zloty	EURPLN	4.17	4.20	4.26	4.18	4.30	4.00	-0.4%	0.8%
Israeli Shekel	USDILS	3.45	3.45	3.45	3.50	3.60	3.85	1.4%	4.2%
Russian Ruble	USDRUB	34.4	35.1	37.2	34.9	38.1	37.1	-0.7%	2.3%
Russian Ruble Basket		39.9	40.8	43.3	41.0	44.0	44.0	0.5%	1.7%
Turkish Lira	USDTRY	2.15	2.19	2.33	2.15	2.20	2.40	-1.9%	-5.4%
South African Rand	USDZAR	10.71	10.87	11.42	10.70	11.10	10.80	-1.6%	-2.8%
LATAM									
Brazilian Real	USDBRL	2.24	2.30	2.46	2.30	2.50	2.65	0.2%	1.6%
Chilean Peso	USDCLP	557	563	577	565	580	590	0.3%	0.5%
Mexican Peso	USDMXN	13.0	13.1	13.4	13.0	13.1	12.7	-0.7%	-2.0%
Colombian Peso	USDCOP	1887	1906	1965	1880	1960	2050	-1.4%	-0.3%

* market data including spot as of 3:34 PM London time on 20-Jun-2014
** The DXY forecasts are implied from the forecasts of the constituent crosses. *** Returns are relative to forwards

Source: Bloomberg and Citi Research

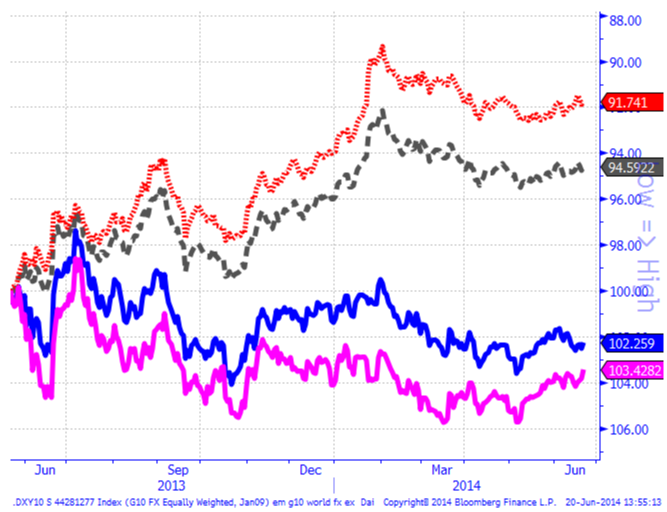
Overview: Fed Green Light For Carry?

The outcome of the June FOMC meeting was less hawkish than a significant minority of market participants feared. With little change in rhetoric, and markets continuing to price front end rates even below relaxed Fed guidance, it looks like Central Banks are giving the green light to continuing with carry based strategies for the time being and that generalized USD appreciation will not take place anytime soon (Figures 4 and 5).

In G10 space, we expect broad stability in the USD over the medium term. We see upside in USD/JPY prompted by further policy initiatives in Japan, including both additional QE and asset allocation changes that will promote foreign asset and equity ownership at the expense of domestic bonds. But we think that EUR/USD may continue to trade a broad range. The recent ECB June policy initiatives now seem priced in and we think the exchange rate drifts back up to 1.39 near term. This will likely trigger asset purchases and an outright expansion of the ECB balance sheet which could weaken EUR again. We expect GBP to remain robust against both other European currencies and the USD. Dollar bloc currencies, especially relatively high yielding (and early tighteners) NZD and AUD should remain relatively robust too.

EM FX fundamentals still feel less robust. We expect USD upside over 6-12m of around 1% vs. Asia on average and 4.5-5.5% vs. CEEMEA and Latam.

Figure 4. Global USD Index (Grey-Dash) vs. EM (Red), G10 (Blue) and G10 ex AUD, CAD, NZD (Pink). Higher = USD Up; 22 May 13 = 100



Source: Bloomberg and Citi Research

Figure 5. 3m Returns to Global Carry Trades Improve Since January

Source: Bloomberg and Citi Research

G10 Exchange Rates

EUR/USD — Flows vs. Policy

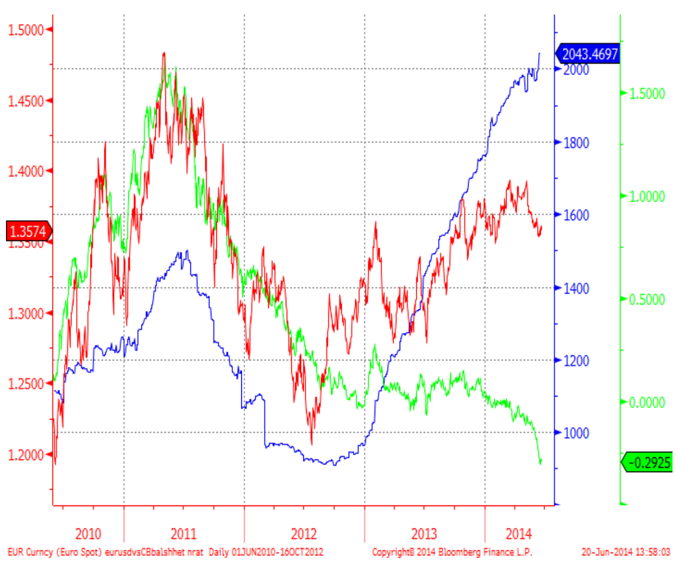
In our last *Forecasts,* we suggested that EUR/USD might weaken further around the time of the 5 June ECB meeting where additional easing was expected, not least because at the recent local highs near 1.39 the single currency was overbought. However, we also expected the correction to run out of steam in the 1.34-1.35 area.

Despite a more dovish ECB than expected earlier this month, this script is apparently playing out. The initial impact of the unexpected monetary easing (TLTROs and signals for further ease rather than the widely anticipated policy rate cuts) was to push EUR lower but in recent days it has been finding support around/above 1.35.

1m EONIA has dropped to near zero in response but traded around 8-10bp from mid-2012 until late 2013 so this is more a reversion to type than a dramatic new shift, especially with the ECB signaling that it is done with rate cuts now. Rate differentials to the US are lower but it will likely take a reversal of the relative balance sheet expansion by the Fed compared with the ECB for EUR to have significant downside as the single currency is trading somewhere between relative balance sheet and relative rate signals (Figure 6).

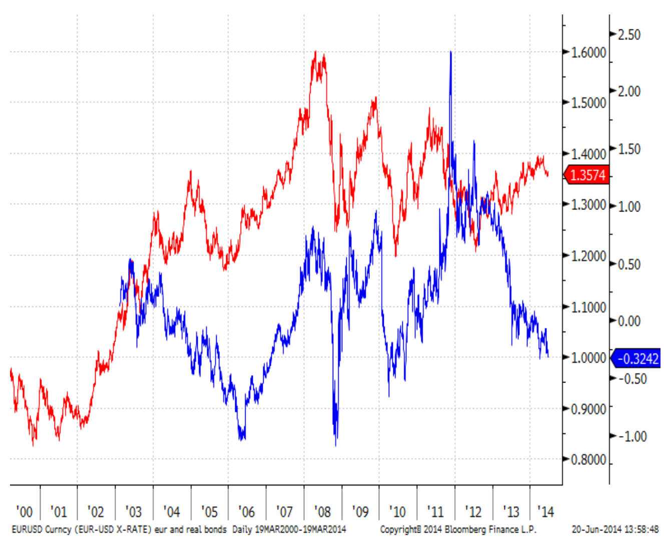
Right now, the US balance sheet is still rising as QE3 is ongoing, though winding down. The contraction in the ECB balance sheet may slow as the TLTROs provide attractive financing terms to banks though initially much of the new funding may replace existing LTRO or MRO financing at less favourable rates with a limited impact on the ECB balance sheet. For a significant balance sheet expansion, full scale QE will be needed and this to include government bond purchases not just a limited stock of ABS. This may well come over 6-12m, as Citi economists predict, but may also be forthcoming only after EUR/USD again tests the upper end of ranges.. In the meantime, real yield differentials are having a limited impact on the exchange rate (Figure 7).

Figure 6. EUR/USD (Red), EUR Less USD 2y Swap Rates (Green) and Ratio Fed to ECB Balance Sheet (Blue)



Source: Bloomberg and Citi Research

Figure 7. EUR/USD (Red) and French 10y Real Yields Less US TIPS 10y Real Yields



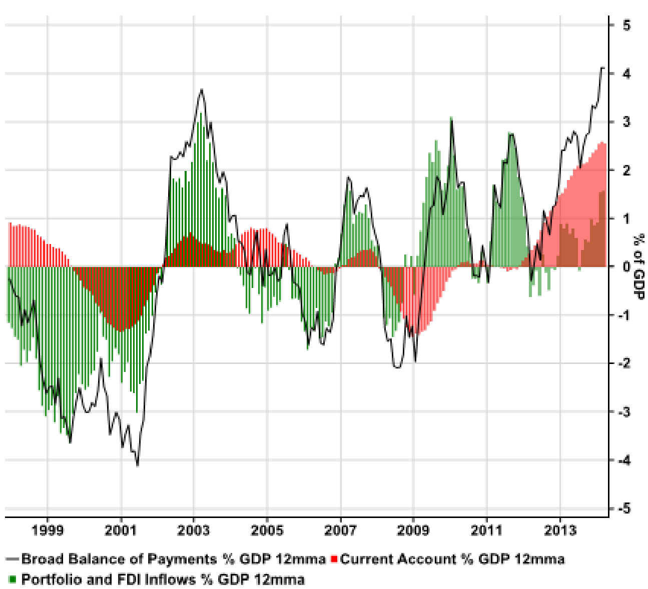
Source: Bloomberg and Citi Research

Part of the reason for this is that underlying fundamental flows are strongly positive for the single currency. The pro-cyclical fiscal tightening in the EA after 2010 has now generated a large and rising current account surplus, nearing 3% of GDP, while long term capital inflows are rising above 1% of GDP (Figure 8). This broad balance of payments surplus is, of course, offset elsewhere in the balance of payments by outflows, but these are likely short term banking hedges and speculative short EUR positions.

We expect the broad balance of payments surplus at least to persist around current levels and maybe to expand further reflecting further inflows to risk assets in Europe including both periphery debt and equities (Figure 9). To offset this, the stock of EUR speculative shorts may need to rise by an additional EUR100bn each year just to keep EUR stable. Meanwhile, the stronger external net asset position of the EA and low inflation raise the longer term equilibrium of the EUR. For example, Citi WERM estimates for the latter for 2014Q1 rose from 1.41 to 1.43.

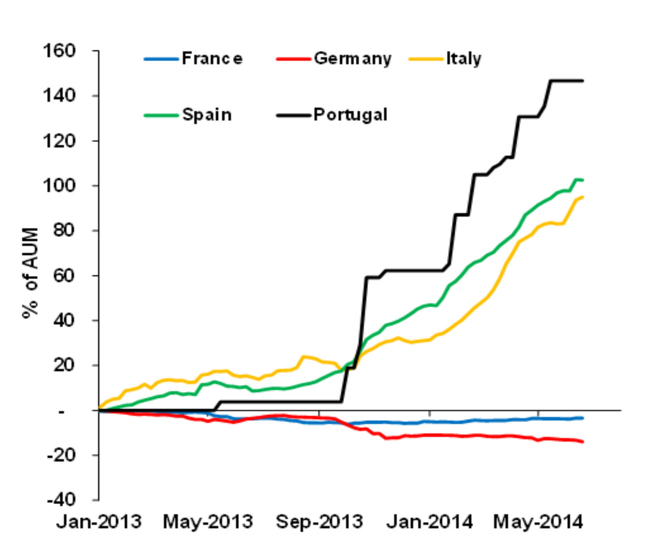
We therefore expect some complicated dynamics for EUR/USD. With the June ECB measures now priced in, underlying flows may yet again push EUR higher over the next few months. This could generate concerns at the ECB about low inflation, finally triggering wider asset purchases that will once again take the single currency to the lows of the range over a 12m horizon. With this in mind we expect 1.39 over 0-3m and 1.35 over 6-12m. Long term, we forecast a move towards WERM in a 1.40-1.45 range.

Figure 8. Broad Balance Of Payments Strong in EA



Source: Macrobond and Citi Research

Figure 9. Cumulative Flows to Equity Funds (% AUM)



Source: EPFR and Citi Research

USD/JPY — Policy Shifts to Weaken JPY

The USD/JPY upside trend continues to have little near term momentum, though, as Figure 10 highlights, the setback from recent highs in the exchange rate was less than on the correlated long equity movement. Also as shown in Figure 10, market based implied volatility measures add to anecdotal impressions that lack of action from BoJ policymakers is generating apathy in FX markets.

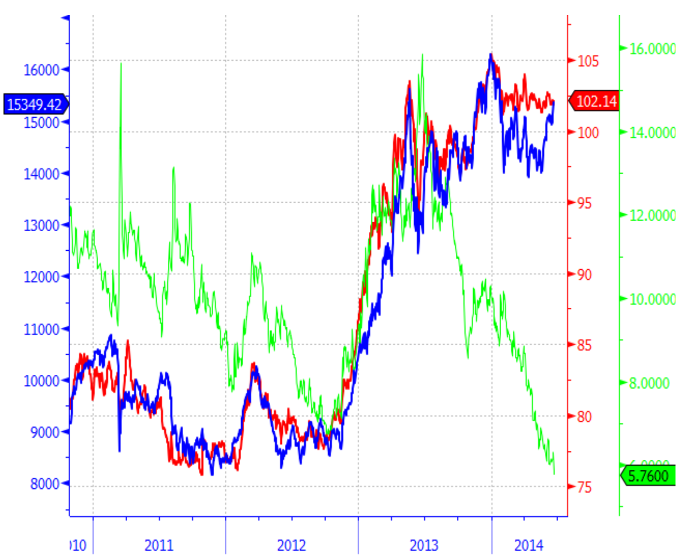
Ironically, we feel that pressures may begin to once again push USD/JPY higher in the rest of this year, assuming no major risk setback or other external shock that could increase JPY demand temporarily. We see two sources of potential policy support for USD/JPY.

First, Citi economists expect additional QE purchases to be announced in October generating a further surge in the BoJ balance sheet relative to that of the Fed. Figure 11 shows a rough and ready rule of thumb suggesting that end-2015 relative balance sheet size could point to USD/JPY above 110 (Figure 11). Given how far in advance the April 2013 BoJ policy announcements were priced in, we would not expect the exchange rate to wait for the end of next year to discount this and forecast 108 at 6-12m and 111 two years out. Over 0-3m, we forecast 104.

The second support comes from potential asset allocation changes by the GPIF and other relevant institutions. In a recent publication, our Japanese colleagues suggest we could see a decrease to 45% for domestic bonds (currently 60%), vs. an increase to 19.5% for domestic equities (12%), 14% for overseas bonds (11%), and 16.5% for overseas equities (12%). If current weightings were immediately changed to match the above figures, it would result in demand of ¥2.9trn for domestic equities, ¥4.4trn for overseas bonds, and ¥1.7bn for overseas equities – see Japan's GPIF reform – What may happen and what will the consequences be? This seems likely to be positive for USD/JPY both via the correlation with a rallying NKY and via the overseas capital outflows implied.

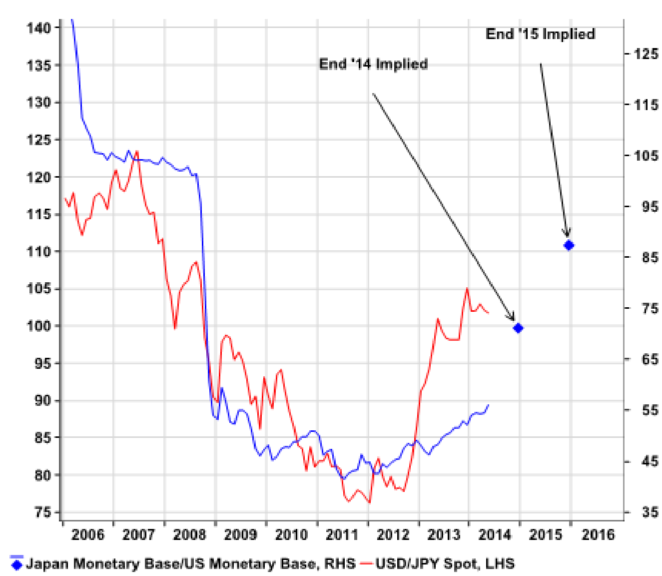
Also worth considering here are possible asset allocation adjustments by other Japanese investors – see Room for change in asset allocations of Japan Post Insurance, Japan Post Bank. Here too, the view of our local strategy teams is that these moves will be mainly bullish NKY and by implication bearish JPY.

Figure 10. USD/JPY (Red) vs. NKY (Blue) and 3m ATM JPY Vol (Green)



Sources: Bloomberg and Citi Research

Figure 11. USD/JPY (Red) vs. Ratio of Japan/ US Money Base (Blue)



Sources: Macrobond and Citi Research

Dollar Bloc — AUD Still The Medium Term Outperformer

The AUD continues to benefit from the resumption of carry trading in FX that came after the 3% peak in UST yields at the turn of the year. Since late January, AUD/USD is up 8-9% from the lows and AUD has also modestly outperformed NZD over this period.

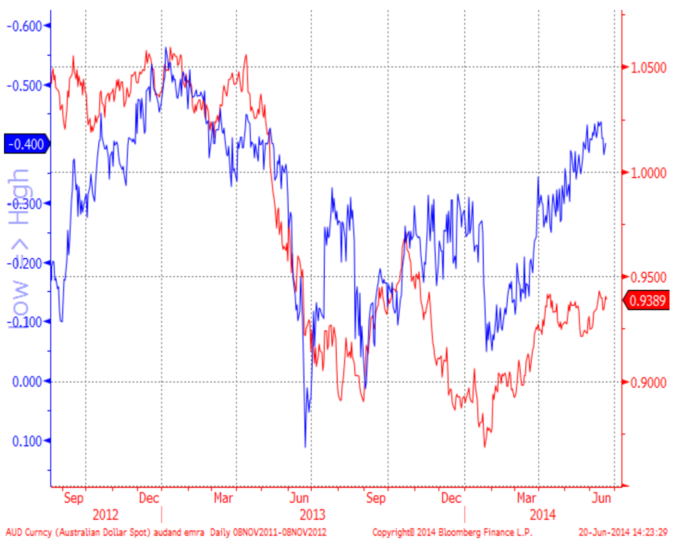
Fundamentals for Australia remain mixed. Citi economists have raised the real GDP growth for 2014 to 3.4% which is a tad above consensus. But they also point out that domestic demand growth will be much weaker due to terms of trade deterioration. Consumer confidence remains depressed, savings ratios high and income growth relatively weak. Wealth effects from rising house prices seem mainly absent. Against this background, Citi economists expect no RBA action on policy rates before mid-2015. That said, Citi forecasts still imply hikes somewhat ahead of market pricing over the next year, a likely marginal AUD support medium term.

With UST yields rising but not rapidly, and the Fed in no rush to signal tightening, we think AUD will stay relatively high despite weaker terms of trade. We forecast 95c over 0-3m, and 96c over 6-12m when the RBA could be hiking and the Fed still on hold. Thereafter as the Fed hiking cycle belatedly begins, we see AUD drifting lower again towards long term fair value estimated by Citi WERM at 92c.

Turning to NZD, here the cycle appears generally more robust with circa 4% real GDP growth in both 2014Q1 and over the past year boosted by Canterbury reconstruction efforts. Citi's forecast for 2014 is 3.5%, slightly above consensus and, in contrast to Australia, NZ terms of trade are also improving, giving very robust overall nominal GDP growth.

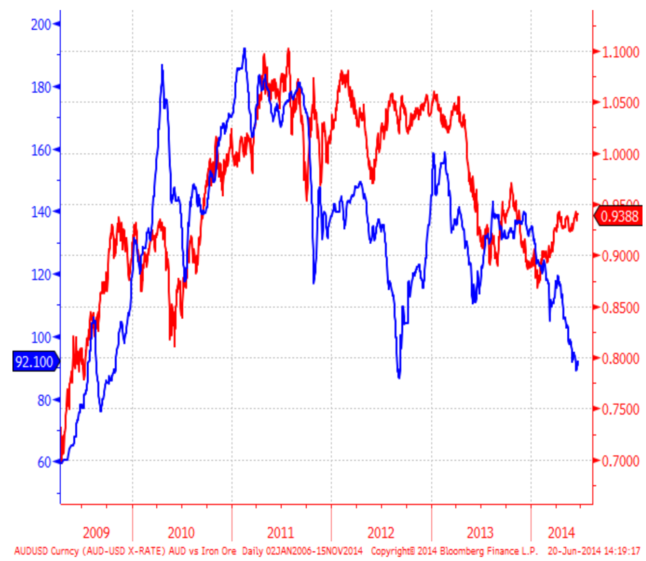
Given this robust background, Citi now expects a further RBNZ hike in July, the fourth this year, to take rates to 3.5%. By mid-2015, Citi expects 4% policy rates. With carry trades in vogue and rising rates, NZD is likely to stay robust given this background, and we forecast 88c at 0-3m and 87c at 6-12m.

Figure 12. AUD/USD (Red) and EMRA (Blue, Inverse Scale)



Source: Bloomberg and Citi Research

Figure 13. AUD/USD (Red) vs. Iron Ore Price (Blue)

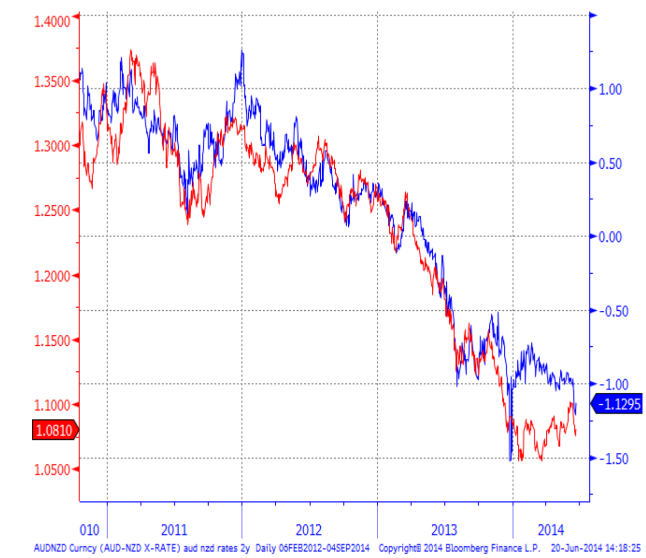


Source: Bloomberg and Citi Research

This set of AUD and NZD forecasts still implies AUD/NZD rises somewhat over 6-12m. While this may seem somewhat counter-intuitive given apparently faster tightening and more robust growth in NZ than Australia, Citi forecasts relative to consensus are actually neutral on growth between the two and for more upside compared to consensus in AUD rates than NZD equivalents.

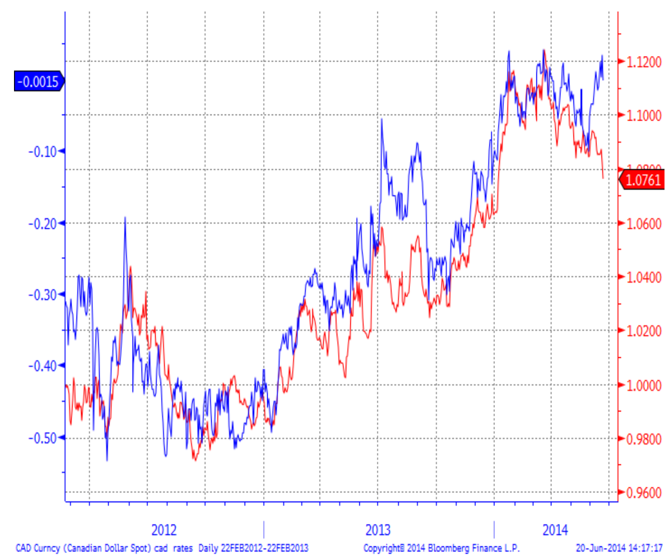
Furthermore, note RBNZ Governor Wheeler's comments around a month ago regarding the strong kiwi dollar: "…if the currency remains high in the face of worsening fundamentals…it would become more opportune for the Reserve Bank to intervene in the currency market to sell New Zealand dollars…" suggesting upside to NZD could also be capped. In fact, the NZD remains overvalued on a PPP basis, with Citi's WERM model near 70 cents. WERM estimates for AUD/NZD are 1.31 implying that there may be plenty of scope for AUD to retrace losses vs. NZD medium term.

Figure 14. AUD/NZD (Red) vs. 2y2y Rate Differentials (Blue)



Source: Bloomberg and Citi Research

Figure 15. USD/CAD (Red), USD Less CAD 10y Swap Rates (Blue)



Source: Bloomberg and Citi Research

Turning to Canada, USD/CAD has lost upside momentum in recent months having peaked at over 1.12 in late March. Softer US bond yields and downwards revisions to growth and inflation forecasts have played a part as with other crosses though with yield differentials now rising again, downside in USD/CAD from here may be limited.

That said, USD/ CAD feels like a bit of a sideshow in FX terms. Citi expects BoC tightening to begin in 2015Q3, not too far away from the time we also expect first Fed hikes to begin so CAD does not benefit as an early lightener like NZD and maybe GBP and AUD. Over the next 12 months, rate hikes priced in to USD and CAD curves are pretty much what Citi economists expect in both centres. Furthermore, policymakers in Canada seem less exercised by the currency these days compared with the sub parity days.

USD/CAD may therefore drift lower over 0-3m before moving gently higher again over 6-12m reflecting better economic performance in the US and higher long term yield differentials (Figure 15). Canada's real GDP and current account performance will likely fall short of US equivalents over the next couple of years

That said, long term fair value on USD/CAD according to Citi WERM is 0.94 so upwards pressure on the exchange rate is not driven by valuation forces in our view. We project 1.07 over 0-3m and 1.12 at 6-12m.

GBP — Early Tightening to Prolong GBP Rally

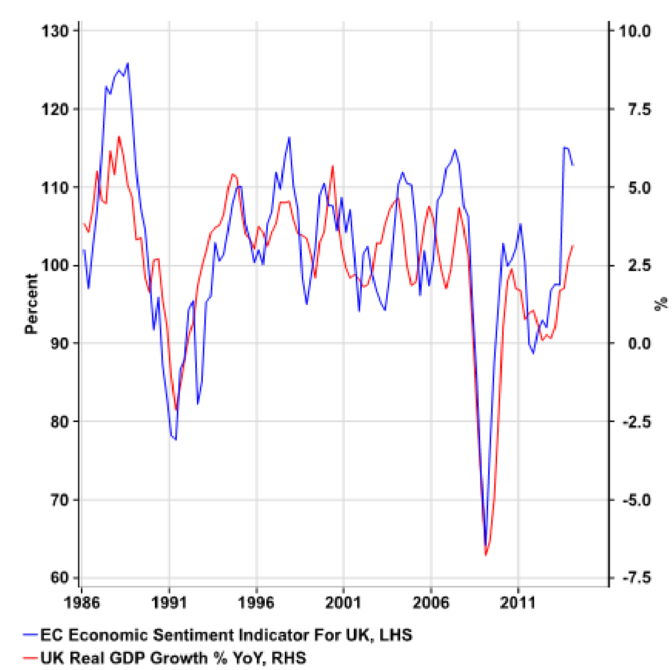
Sterling made additional gains vs. EUR and other European currencies and also vs. the USD since our last *Forecasts.* Strong economic momentum and rising rates at the front end of the UK yield curve in both absolute terms and relative to other countries are most likely behind GBP appreciation. Citi forecasts for real GDP remain above consensus. Since Governor Carney's Mansion House speech on 12 June, markets have moved to price in earlier BoE tightening. But Citi forecasts still also expect faster/ further tightening and believe the economy is robust enough to sustain this – see How Resilient Will The Economy Be To Rising Rates?

As such we expect further upside in GBP medium term with EUR/GBP 0.76 and GBP/USD 1.77 expected over 6-12m.

We see two separate risks around the GBP view. First, GBP appreciation expectations are now hugely consensus. Should MPC meetings fail to follow through with a least some members calling for tightening over the next 2-3 months then GBP may consolidate for a period.

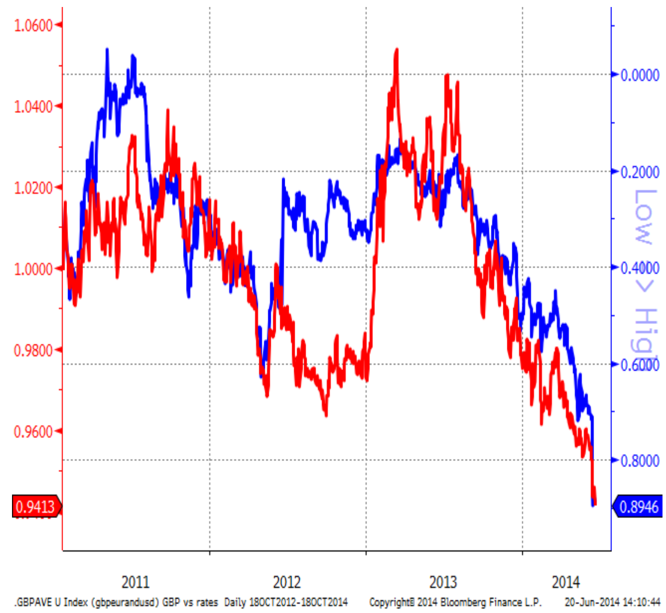
A second risk is more in the long term outlook. In September, the Scottish referendum on independence and the possible post-Election vote on Brexit could well increase volatility in UK rates and the currency. Furthermore, whoever wins the General Election next May, further fiscal tightening may be necessary, potentially slowing the outperformance of the UK economy over the second half of 2015 and into 2016. While these events are some way into the future, we tentatively reflect the risks in lower GBP forecasts at the long term horizon. A further potential long term drag on GBP is the widening UK current account deficit, recently running at more than 5% of GDP.

Figure 16. EC Economic Sentiment and UK Real GDP Growth



Source: Macrobond and Citi Research

Figure 17. GBP vs. EUR & USD (Red) and UK vs. EA/US 2y Rates (Blue)



Source: Bloomberg and Citi Research

Scandis — Medium Term Still View NOK/SEK Higher

After breaking multiyear downwards sloping channel resistance to the upside and trending higher for most of the year, NOK/SEK had a sharp set-back following the dovish surprise from the Norgesbank June meeting. At the time of writing, NOK/SEK has started pulling back slightly, and for what it's worth is trading back into the channel, and on short term RSI indicators actually looks oversold (Figure 18).

Nonetheless, we feel the squeeze could run a bit further in the short run given: i) positioning – NOK/SEK upside had been a strong anti-consensus view at the beginning of the year but recently Citi platform data had shown considerable NOK longs and SEK shorts ii) data surprises – as we have highlighted in previous month's editions of this publication, macro prints have been very strong out of Norway and weaker from Sweden in recent months – Citi's ESIs have thus been trending in opposite directions but since these tend to mean revert as economists adjust expectations, risks are starting to skew against NOK/SEK also iii) noises from the Norgesbank regarding unwanted NOK strength/allowable NOK weakness – in an interview post the recent CB meeting, Governor Olsen suggested that "the impact [of Krone weakness on inflation] would have to be very, very strong before we end up being concerned."

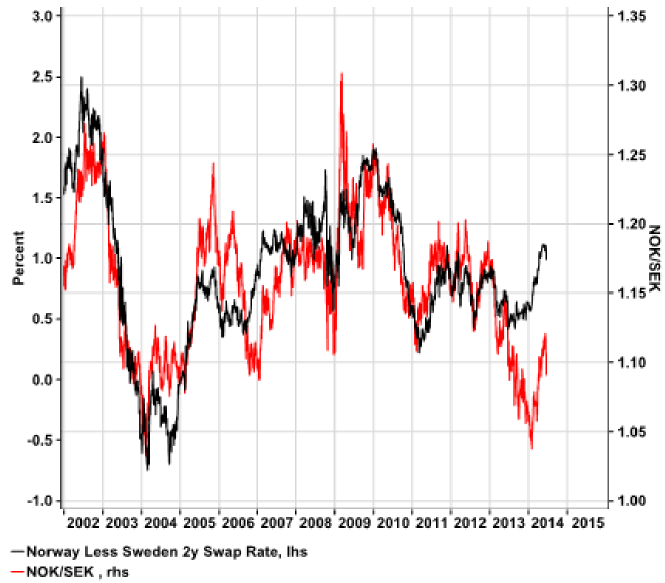
Further out however, the backdrop still suggests NOK outperformance over SEK and any positioning squeeze is thus likely to be short lived in other words. In terms of the medium term fundamentals, Citi's growth forecasts are slightly weaker than consensus for Sweden in 2014 and 2015 compared to in-line views for Norway. Policy rate expectations – a Riksbank cut in July and then on hold until late 2015 vs. an on hold Norgesbank until late 2015 – are now more or less matched by rates markets. That said, we were relatively surprised by the dovish tone of the Norgesbank, especially given their *de minimis* forecast changes – see Norway - NB Delays Rate Hike, Raises Prospects of Near-Term Rate Cut. And should inflation not subside, the Norgesbank could have a hard time pushing through with any rate cuts/dovishness. What's more, rate differentials still suggest upside to NOK/SEK to around 1.17 (Figure 19) and long term PPP type estimates (WERM model) point to 1.16 also.

In light of the above, we have revised forecast paths slightly this month, especially in the short term horizon. We pencil in 8.40 and 9.05 for EUR/NOK and EUR/SEK respectively in the 0-3m horizon, seeing implied NOK/SEK move lower to 1.08 before bottoming out. In the 6-12m horizon, we envisage NOK to regain ground again, and have point forecasts at 8.10 and 9.10 respectively. NOK/SEK is seen at 1.12 and in the long term at 1.16 in line with Citi's WERM model.

Figure 18. NOK/SEK Technicals

Source: Bloomberg and Citi Research

Figure 19. NOK/SEK (Red) vs. Rate Differentials (Black)



Source: Macrobond and Citi Research

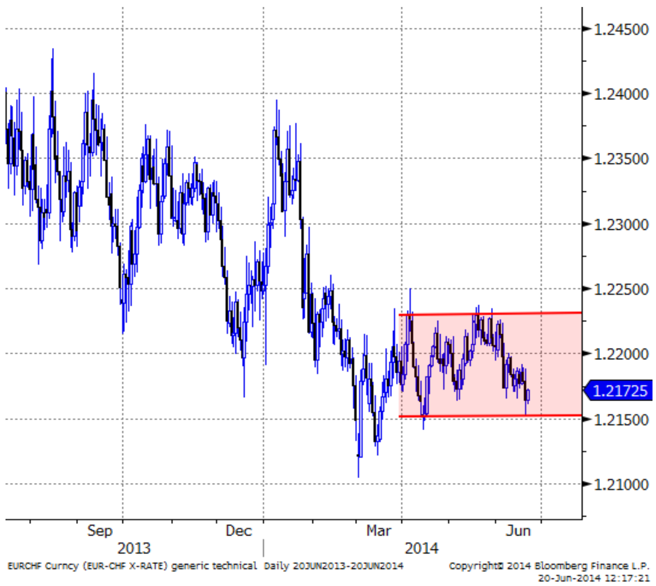
CHF — Floor Holds

Since our last *Forecasts,* EUR/CHF price action has continued to be relatively lethargic. The pair is currently trading at the lower end of a 1.2225 – 1.2150 channel since April (Figure 20). As discussed above, ECB events have kept the EUR softer recently, but our point forecasts remain unchanged this month, still pencilling in 1.23 as our 0-3m forecast and 1.25 as our 6-12m forecast. Moreover, we still expect the overvaluation of the CHF to fade against a stronger EUR in the long run. Citi's latest WERM model output is now a touch higher at 1.30. Our markets based fair value model points to EUR/CHF upside too (Figure 21).

As expected, the SNB maintained the franc ceiling of 1.20 vs. the EUR at this month's policy meeting. Inflation forecasts were adjusted again from 0.0%, 0.4% and 1.0% for 2013, 2014, 2015 respectively to 0.1%, 0.3% and 0.9%. Annual CPI for May did surprise to the upside, however, in light of their forecast revisions, the SNB FX policy seems set to hold.

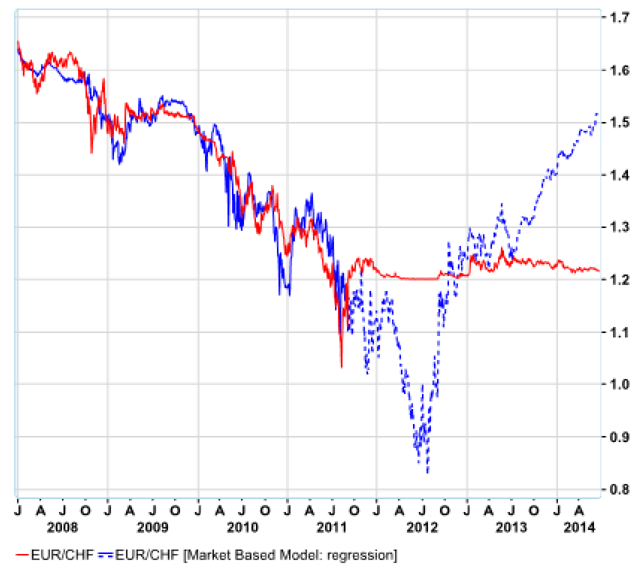
Elsewhere, the SNB have reiterated their stance towards negative rates, with Chairman Jordan saying "We are closely monitoring the impact of the recent interest rate reductions in the euro area on Switzerland," and "Should there be a need for action the SNB will take the necessary measures." If the central bank wanted to hold market interest rates below zero, it would need to start charging banks for holding their excess reserves, a policy the International Monetary Fund (IMF) floated last month. Whilst we feel deflationary pressures still exist in Switzerland, we still see the floor as the appropriate policy tool rather than the introduction of negative rates.

Figure 20. EUR/CHF Price Action



Source: Bloomberg and Citi Research

Figure 21. EUR/CHF Market Based Model (Blue) vs. Spot (Red)



Source: Macrobond and Citi Research

EM Currencies – Range Trading for Now

The Fed is expected to continue winding down the LSAP program and providing clarity over the exit strategy from zero rates. In the Eurozone, a fully-fledged QE late in Q42014 or early 2015 now appears an increasingly likely scenario. The divergent trajectories of monetary policy and long-term rates are set to shape global background for EM FX.

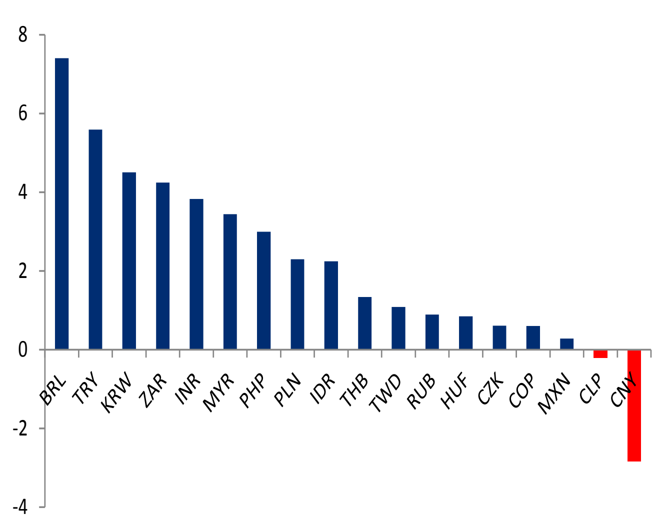
With the June Fed meeting producing no shocking news, we deem the September FOMC meeting as more relevant for the markets. Hence, 10y UST is likely to continue its gradual drift upwards. While flows may push the Euro to 1.39 over the next three months, the onset of ECB QE we expect it to return back to the 1.35 level. On the macroeconomic fundamentals side, EM continues to be broadly weak.

Against this, we do not see the build-up of significant anti-carry forces. We do not expect high-yielding currencies to perform as strongly as they did until recently. However, we do not see systematic risks either; if anything, the ECB loosening will be supportive of the carry environment. In all, EM FX is likely to be range trading, with a somewhat higher impact of idiosyncratic factors. Our revisions to our short-term, forecasts reflect these considerations. Over the 0-3m horizon, we show an equal-weighted basket of EM FX virtually flat.

Over the 6-12m, we keep our forecasts largely intact. Market expectations and Citi forecasts suggest that 10y UST will move higher over the medium term – to over 3%. As long-term rates converge to this higher level, EM FX will come under pressure. In the aggregate, over the medium-term horizon of 6-12 months, we show EM FX depreciating to the order of 3%.

In the short-term, total returns are expected to favour EM FX vs. the USD. Over the medium term, USD gains are positive even allowing for cost of carry.

Figure 22. EM Performance vs. USD since January 30, 2014 (%)



Source: Citi Research and Bloomberg

Figure 23. 10y UST: Still Range-Bound

Source: Citi Research and Bloomberg

EM Asia – Still Best for Carry This Summer Season

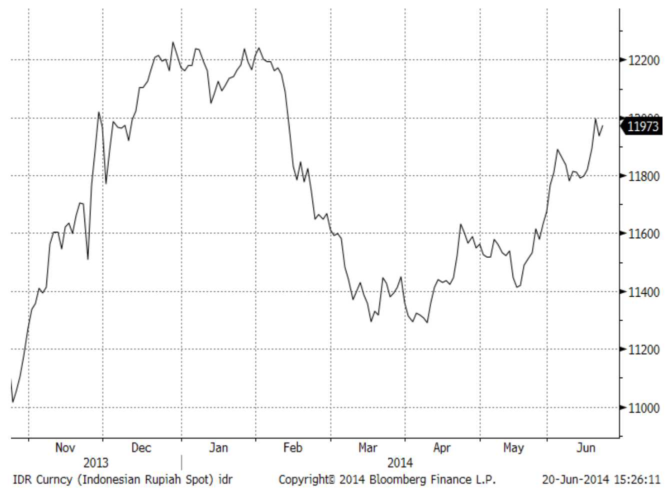
Since the end of January, when UST stabilized around the narrow range, Asian currencies have been in the vanguard. Our base case continues to see Asian bloc staying broadly flat over the 0-3m. Over the medium term, our equal-weighted portfolio of EM Asia is expected to weaken by about 1%.

Figure 24. CNY Turning Point?

Source: Citi Research and Bloomberg

Red – CNY Fixing, Blue – CNY Spot (Onshore), Green – CNH (Offshore)

Figure 25. USD/ IDR



Source: Citi Research and Bloomberg

An underperformer for much of the H1 2014, Chinese yuan, in our view, has reached a turning point (Figure 24). Although PBoC may continue using volatility to deter short-term capital inflows, we see the balance of forces favouring CNY strength. Export growth is recovering on better US economic outlook, and thanks to the sluggish domestic demand and weaker imports, trade surplus YoY is likely to further improve. More broadly, even though the property sector continues being a downside risk in the near term, the Chinese economy has shown additional signs of stabilization. In our short-term forecast, we therefore now show USD/CNY trading at 6.18. Over the medium term, we think that CNY may have room to appreciate further to 6.04.

IDR rallied from January to mid-April but has since given up ground (Figure 25).Nonetheless, we think that trend reversal would be unlikely as monetary conditions continue to tighten (see Policy rate held; monetary conditions have not eased) and pressures of the dividend season subside. A victory for Jokowi in the presidential elections next month (our base case) is also likely to be supportive in the short term, though recent gains for Prawobo create the risk of a more prolonged electoral process. All in, we expect USD/IDR to fluctuate around the 11600 mark over the 0-3m horizon. Our bearish IDR view 6-12m out remains unchanged.

INR showed moderate underperformance over the past month following sharp appreciation since January. Over the short-term, we think that geopolitical risk in the Middle East will weigh on the currency, given India's large net oil import bill (ca. US$100bn). Furthermore, the exhaustion of the government bond limits by foreign investors (nearly 98% of the foreign investors' quota have now been used up) will moderate the effect of the carry trade. The chance of sharp depreciation, however, looks rather remote as RBI will not tolerate the inflationary risk, and BoP dynamics and post-election sentiment remain broadly constructive. Overall, we show USD/INR at 60.0 vs. 59.0 in our May forecasts for the 0-3m horizon. Further out, we continue to expect INR weakness in line with other EM currencies, and see USD/INR in the neighborhood of 62.0.

USD/KRW has stayed below the multi-year support levels since our last *Forecast* (Figure 26) on the back of a widening current account surplus and foreign portfolio flows. Expectations of KRW falling below 1010 level, however, were dashed as the authorities intervened to bolster the recovery of exports (especially SME's) and geopolitical risks in the Middle East increased. In the near term, we think that USD/KRW may have hit the bottom and expect the Korean currency to depreciate mildly to 1,025. Over the medium term, however, the fall-out from higher UST will put pressure on KRW even as macroeconomic fundamentals continue to improve and BoK starts the hiking cycle. With this in mind, we adjust our 6-12m forecast from 1040 to 1025.

Figure 26. USD/KRW: Breaking the Multi-Year Support Level

Source: Citi Research and Bloomberg

Figure 27. USD/MYR: Rangebound Recently

Source: Citi Research and Bloomberg

Stronger YTD, MYR has recently been fluctuating in a tight range (Figure 27). Recent IP data delivered a positive surprise, and are supportive of our call for the first rate hike in July (Malaysia Macro Flash.) Malaysia's dependence on commodities and high foreign ownership of local FI assets, however, are countervailing forces. Over the short term, we show USD/MYR at 3.24. Over the 6-12m, while we have become somewhat more constructive, given an improving growth, CA balance, and BNM tightening bias, our bearish call is intact: USD/MYR at 3.34.

In line with other Asian EM, PHP has appreciated significantly since UST stabilized in January. Over the next three months, we see pricing to be driven by the interplay of factors. Higher oil prices due to geopolitical risk in the Middle East and tightening US policy are bound to weigh on the peso. However, we think that the pressures will be moderated by the potential Moody's rating update and the start of BSPs SDA rate tightening. Further out, higher long-term UST will erode interest rate differential supporting PHP (though our call for 50bp hikes over the 6-12m might provide some compensation), and we expect CA improvement to decelerate. In all, we keep our point forecasts for USD/PHP unchanged: 44.0 in the 0-3m horizon and 45.0 over 6-12 months.

Despite political risk, THB has been trading remarkably well, and even strengthened since our last *Forecasts,* on the back of stronger employment data and lower inflation expectations (Due to 1Q investment gains, labor slack eases to a 7% rate; Inflation expectations down to a low 6.1% in 2Q BSP Survey). In the short term, further macro upturns are likely, particularly on domestic spending indicators as

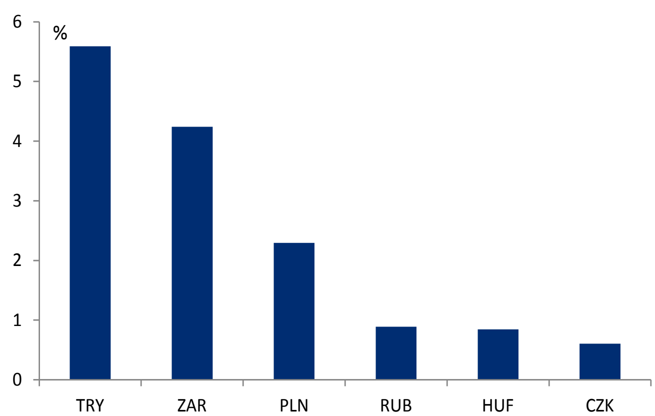
consumer sentiment improves. Further out, however, we think that capacity slack will continue to restrain real investment recovery. And with monetary policy staying accommodative and long-term rates in the US climbing higher, THB will come under pressure. Accordingly, our forecasts for the USD/THB 0-3m and 6-12m out are 32.5 and 33.0, unchanged from last month.

TWD has continued to appreciate through the month underpinned by the carry-induced flows, and we expect the broad trend to persist. In the short term, TWD is well-supported by foreign inflows. Over the medium term, widening trade surplus driven by more visible improvements in tech exports and stronger CNY call for a more optimistic outlook. With this in mind, we revised our forecasts from May and now show USD/TWD at 30.0 in the 3-12m horizon.

CEEMEA — Performance to Moderate Further

High-yielding CEEMEA currencies have outperformed YTD. While we do not see a case for a substantial re-pricing, our base case suggests that short-term performance is not going to be as strong. Over the medium term, we expect the CEEMEA FX to weaken by about 5%.

Figure 28. CEEMEA Performance vs. USD since January 30, 2014



Source: Citi Research and Bloomberg

Figure 29. ZAR Losing Ground

Source: Citi Research and Bloomberg

The rand has been a strong performer in CEEMEA, rising about 4% vs. USD. (Figure 28 and 29). However, May to date, the currency's advance has stalled, and USD/ZAR is now trading closer to the more subdued March levels. In our view, these dynamics are not inconsistent with the mixed data flow (higher CPI inflation vs. improving CA deficit) and ratings agencies downgrades. Looking ahead, however, ZAR continues to be buoyed by high carry, and our call for the July hike suggests additional incremental support. Over the 0-3m horizon, we now expect USD/ZAR to range trade around 10.7. Further out, structural headwinds and highly integrated capital markets (which increase ZAR vulnerability to the risk-off shocks) make us less optimistic. We show USD/ZAR at 11.10 in 6-12 months, unchanged from the May *Forecasts*.

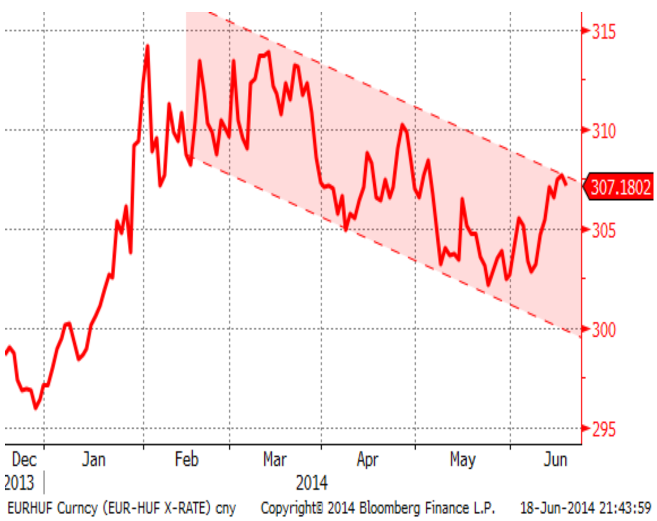
So far this year, Turkish lira has been a star performer (Figure 28) driven by high carry, decline in political noise, strong external adjustment, and recent growth surprises (Heading for a goldilocks scenario?). We think, however, that outperformance in the near term is likely to be clouded by geopolitical developments

in Iraq, which may undermine the process of CA adjustment through higher oil prices and lower exports (Iraq accounted for 8% of total exports in 2013). Additionally, we see increased likelihood of more CBT cuts. Against this, our forecast for USD/TRY is now 2.15 relative to 2.08 in May. Over the 6-12m horizon, we stay with our May level and show USD/TRY at 2.20.

Russian rouble has appreciated modestly over the past few months, nudging about 1% vs. the USD since the end of January (Figure 28). High carry on balance appears to have been a dominant force behind RUB, though the currency has also been significantly affected by political risk premia. In the near term, we find it difficult to see a substantial unwinding of political risk premia and thus see RUB basket trading around 41.0. Over the 6-12m horizon, our bearish view of macroeconomic fundamentals suggests forecast continuity, and we show RUB basket trading at 44.0.

The Polish zloty is clearly low carry, yet its performance YTD has been far from unimpressive. With a strong growth outlook, inflation surprising on the downside, and a recovering labour market, we think EUR/PLN is likely to appreciate further in the near term, though recently revealed recordings of the conversation between NBP Governor Belka and a government minister might increase political risk. Further out, we continue to view ECB easing as moderating, but not nullifying, the impact from higher UST yields and thus stay with our relatively bearish 6-12m PLN forecast of EUR/PLN at 4.30.

Figure 30. EUR/HUF: a Choppy Ride



Source: Citi Research and Bloomberg

Figure 31. EUR/CZK Trading in a Narrow Band

Source: Citi Research and Bloomberg

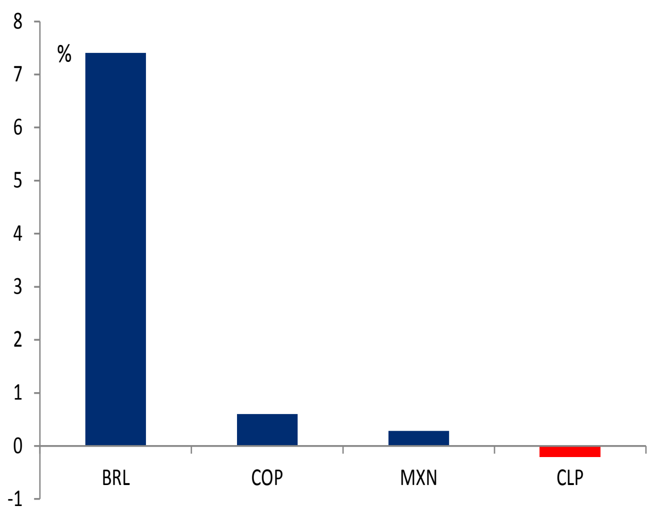
EUR/HUF has been on a downward trend, but with a lot of choppy price action (Figure 30). As before, our view is that some correction is likely to be in store for the cross in the near term. Recent comments from MPC members added conviction to our expectation that rate cuts may continue in the coming months. Furthermore, the new FX mortgage scheme, which may require partial or full conversion of the outstanding FX mortgages, is unlikely to be supportive either. Over the 0-3m, we keep our forecast for EUR/HUF at 310, implying a mild HUF depreciation relative to the current spot. In the medium term, our call continues to be that Fed tightening should offset any boost delivered by ECB QE and we show EUR/HUF at 315, unchanged from the May *Forecast*.

EUR/CZK, meanwhile, continues to trade in a narrow range (Figure 31). Recent producer prices print suggests that CPI inflation will come in lower (Czech Macro Flash), suggesting a longer period of CNB's desired floor of 27+ for EUR/CZK and reinforcing our previously held view. Medium term, we project EUR/CZK weakness on the back of our Fed-ECB call. In all, both our short-term and medium-term forecasts remain intact: EUR/CZK at 27.4 over the 0-3m horizon and 27.7 over the 6-12m horizon.

LATAM — Brazil at the Centre

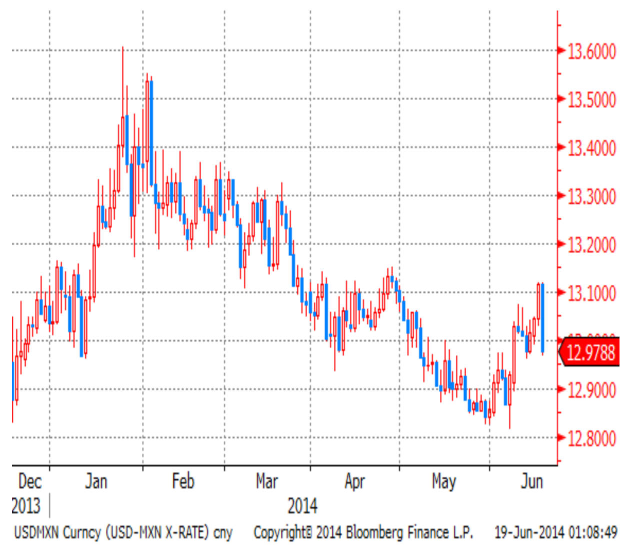
LatAm performance has been heavily dependent on Brazil and the latter in turn has been supported by carry. In the short term, we still see opportunities even as we find carry increasingly less attractive. Over the medium term, structural issues and tighter US policy portend weakness, and our baseline scenario shows LatAm FX 5% weaker.

Figure 32. LatAm Spot Performance vs. USD since January, 30 2014



Source: Citi Research and Bloomberg

Figure 33. USD/MXN



Source: Citi Research and Bloomberg

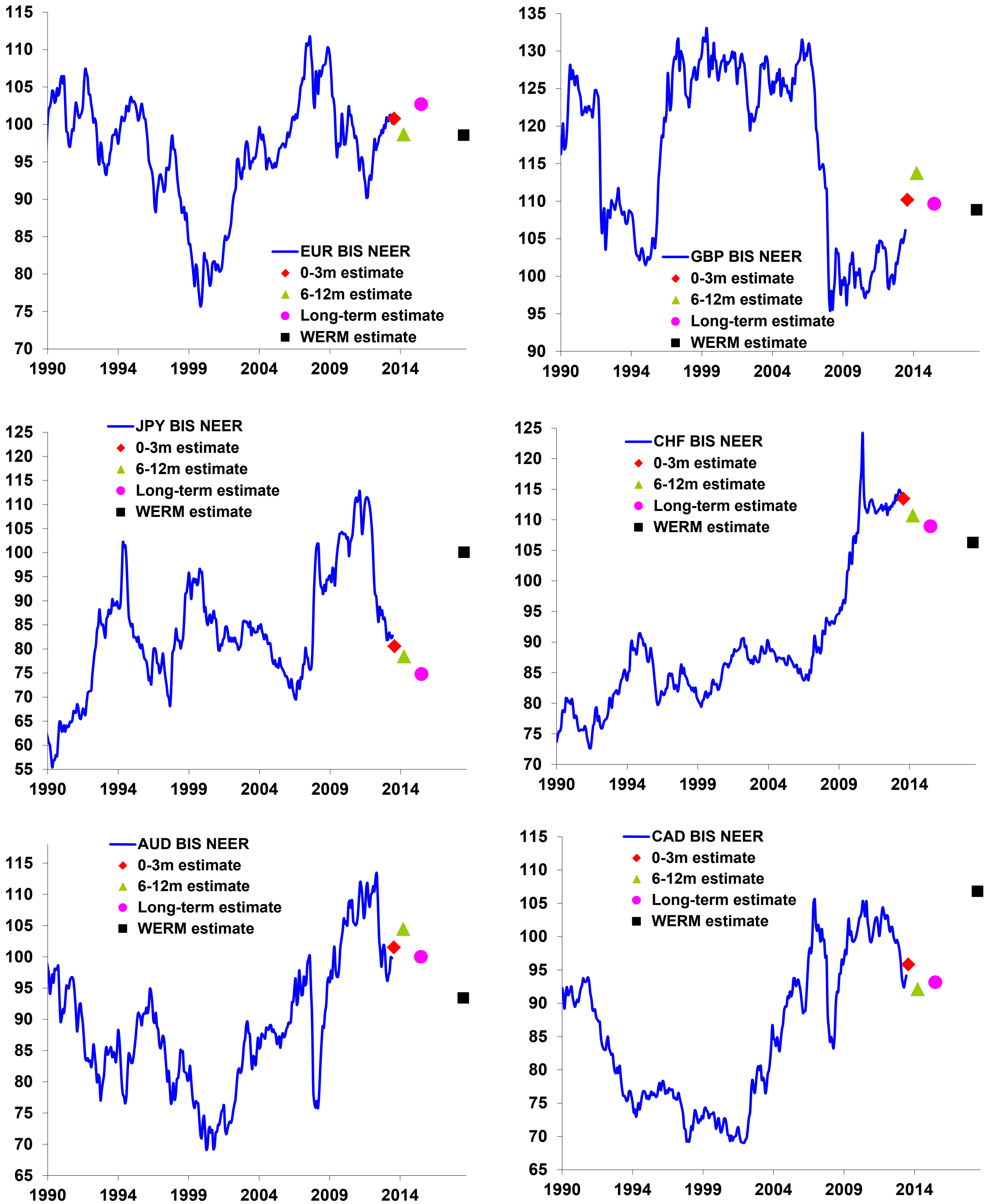
The Brazilian real has held the top spot in EM since the end of January, outperforming comfortably the LatAm bloc and other high-yielding EM (Figure 32 and Figure 22). While the outsized performance is not surprising, given that Brazil enjoys a prime carry status, we expect the rally to stall over the next 3 months amid signs of higher inflation expectations and decelerating growth (see Brazil Macro Flash). Over the 0-3m horizon, we now show USD/BRL at 2.30, relative to 2.25 in May. Our forecast for the cross in 6-12m remains unchanged at 2.50.

By contrast, the Mexican peso has been at the lower end of the performance ranking (Figure 32), constrained by the lowest carry in LatAm. Overlaying the lacklustre performance, Banxico's surprise 50bp cut following its June meeting further weakened the currency (Figure 33). Going forward, we think that the USD/MXN story will revolve around two opposing forces: higher UST yields, on the one hand, and more supportive idiosyncratic factors, on the other. Over the 0-3m, telecom and energy reform bills, on top of the expected acceleration in cyclical recovery, are likely to play into MXN strength. Further out, FDI-linked structural reforms will be supportive even as gradual normalization in US long-term rates will pull USD/MXN upwards. With this in mind, we forecast a relatively flat path for USD/MXN: 13.0 for the 0-3m and 13.1 for 6-12m horizons, respectively.

CLP has come in second after MXN in the performance league, on the back of weaker demand, a dovish central bank stance, and a broadly soft macroeconomic outlook. We expect the trend to persist as BCCh downgrades its growth outlook (Chile Macro Flash) and maintains an easing policy bias. In the near term, we now show USD/CLP at 565, a tad higher relative to May. Over the medium term, our bearish view still holds, and we show USD/CLP at 580.

In Colombia, portfolio flows are likely to continue supporting COP over the short-term, particularly in light of the expected hikes by Banrep. We think that the strength is likely to persist in the near term, revising our forecast for USD/COP to 1880, relative to 1900 in May *Forecast.* We are, however, still of the bearish view over the medium term, in line with our US rates call, and forecast COP depreciation to 1960 from current spot.

Figure 34. Implied Path – BIS Nominal Exchange Rates



Source: Citi Research, BIS and Bloomberg

Figure 35. Quarterly Interpolated Forecasts – USD Crosses

Quarterly Interpolated Forecasts
vs. USD

	Currency	Spot	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
G10											
Euro	EURUSD	1.36	1.37	1.38	1.36	1.35	1.36	1.37	1.39	1.40	1.41
Japanese yen	USDJPY	102	103	105	107	108	109	109	110	110	111
British Pound	GBPUSD	1.70	1.72	1.76	1.77	1.77	1.77	1.77	1.77	1.76	1.76
Swiss Franc	USDCHF	0.90	0.89	0.90	0.91	0.93	0.93	0.92	0.92	0.92	0.91
Australian Dollar	AUDUSD	0.94	0.94	0.95	0.96	0.96	0.95	0.95	0.94	0.94	0.93
New Zealand Dollar	NZDUSD	0.87	0.87	0.88	0.87	0.87	0.87	0.86	0.86	0.85	0.85
Canadian Dollar	USDCAD	1.08	1.07	1.08	1.10	1.12	1.12	1.11	1.11	1.10	1.10
Swedish Krona	USDSEK	6.75	6.67	6.58	6.68	6.75	6.68	6.60	6.52	6.45	6.38
Norwegian Krone	USDNOK	6.14	6.11	6.04	6.03	6.01	5.90	5.79	5.69	5.59	5.49
EM Asia											
Chinese Renminbi	USDCNY	6.23	6.21	6.14	6.09	6.04	6.03	6.02	6.02	6.01	6.00
Hong Kong Dollar	USDHKD	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Indonesian Rupiah	USDIDR	11973	11849	11748	11937	12093	12033	11973	11913	11853	11779
Indian Rupee	USDINR	60.2	60.1	60.6	61.3	62.0	62.2	62.4	62.6	62.8	62.9
Korean Won	USDKRW	1021	1022	1025	1025	1024	1013	1002	991	980	970
Malaysian Ringgit	USDMYR	3.22	3.23	3.27	3.31	3.34	3.35	3.35	3.36	3.36	3.37
Philippine Peso	USDPHP	43.8	43.9	44.3	44.7	45.0	44.6	44.2	43.8	43.4	43.0
Singapore Dollar	USDSGD	1.25	1.25	1.26	1.26	1.26	1.26	1.26	1.26	1.26	1.26
Thai Baht	USDTHB	32.5	32.5	32.6	32.8	33.0	33.0	33.0	33.0	33.0	33.0
Taiwan Dollar	USDTWD	30.0	30.0	30.0	30.0	30.0	30.0	29.9	29.9	29.8	29.8
EM Europe											
Czech Koruna	USDCZK	20.22	20.05	19.97	20.30	20.54	20.17	19.81	19.45	19.10	18.78
Hungarian Forint	USDHUF	226	225	226	230	234	233	233	232	231	230
Polish Zloty	USDPLN	3.07	3.05	3.06	3.13	3.19	3.11	3.04	2.97	2.90	2.84
Israeli Shekel	USDILS	3.45	3.47	3.53	3.57	3.61	3.66	3.71	3.76	3.81	3.85
Russian Ruble	USDRUB	34.4	34.6	35.8	37.0	38.1	37.9	37.7	37.5	37.3	37.1
Turkish Lira	USDTRY	2.15	2.15	2.16	2.18	2.20	2.24	2.28	2.32	2.36	2.40
South African Rand	USDZAR	10.71	10.71	10.82	10.97	11.09	11.03	10.97	10.91	10.85	10.80
EM Latam											
Brazilian Real	USDBRL	2.24	2.26	2.36	2.43	2.50	2.53	2.56	2.59	2.62	2.65
Chilean Peso	USDCLP	557	560	569	575	580	582	584	586	588	589
Mexican Peso	USDMXN	13.0	13.0	13.0	13.1	13.1	13.0	12.9	12.9	12.8	12.7
Colombian Peso	USDCOP	1887	1884	1904	1934	1962	1980	1998	2016	2034	2048

Source: Bloomberg and Citi Research

Figure 36. Quarterly Interpolated Forecasts – EUR Crosses

Quarterly Interpolated Forecasts
vs. EUR

	Currency	Spot	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
G10											
Euro	EURUSD	1.36	1.37	1.38	1.36	1.35	1.36	1.37	1.39	1.40	1.41
Japanese yen	EURJPY	139	141	145	145	146	148	150	152	155	157
British Pound	EURGBP	0.80	0.79	0.78	0.77	0.76	0.77	0.78	0.78	0.79	0.80
Swiss Franc	EURCHF	1.22	1.22	1.24	1.24	1.25	1.26	1.27	1.28	1.28	1.29
Australian Dollar	EURAUD	1.45	1.45	1.44	1.42	1.40	1.43	1.45	1.47	1.50	1.52
New Zealand Dollar	EURNZD	1.56	1.57	1.57	1.56	1.55	1.57	1.59	1.62	1.64	1.66
Canadian Dollar	EURCAD	1.46	1.47	1.49	1.50	1.51	1.52	1.53	1.53	1.54	1.55
Swedish Krona	EURSEK	9.16	9.12	9.06	9.08	9.10	9.08	9.06	9.04	9.02	9.00
Norwegian Krone	EURNOK	8.34	8.36	8.31	8.20	8.09	8.02	7.95	7.88	7.81	7.74
EM Asia											
Chinese Renminbi	EURCNY	8.45	8.50	8.45	8.28	8.14	8.20	8.27	8.34	8.40	8.46
Hong Kong Dollar	EURHKD	10.52	10.60	10.67	10.54	10.44	10.54	10.64	10.74	10.84	10.93
Indonesian Rupiah	EURIDR	16251	16211	16175	16235	16290	16364	16437	16509	16578	16611
Indian Rupee	EURINR	81.7	82.3	83.4	83.4	83.6	84.6	85.7	86.8	87.9	88.7
Korean Won	EURKRW	1385	1398	1411	1394	1379	1377	1375	1373	1370	1368
Malaysian Ringgit	EURMYR	4.38	4.42	4.50	4.50	4.50	4.55	4.60	4.65	4.71	4.75
Philippine Peso	EURPHP	59.5	60.0	61.0	60.8	60.6	60.6	60.6	60.6	60.6	60.6
Singapore Dollar	EURSGD	1.70	1.72	1.73	1.71	1.70	1.71	1.73	1.75	1.76	1.78
Thai Baht	EURTHB	44.1	44.4	45.0	44.7	44.5	44.9	45.3	45.7	46.2	46.5
Taiwan Dollar	EURTWD	40.8	41.1	41.3	40.8	40.4	40.7	41.1	41.4	41.7	42.0
EM Europe											
Czech Koruna	EURCZK	27.45	27.43	27.49	27.60	27.67	27.43	27.19	26.95	26.71	26.48
Hungarian Forint	EURHUF	306	307	311	313	315	317	319	321	323	325
Polish Zloty	EURPLN	4.17	4.17	4.22	4.26	4.29	4.23	4.17	4.11	4.05	4.00
Israeli Shekel	EURILS	4.68	4.74	4.86	4.85	4.86	4.97	5.09	5.21	5.32	5.42
Russian Ruble	EURRUB	46.7	47.3	49.3	50.4	51.3	51.5	51.7	52.0	52.2	52.4
Turkish Lira	EURTRY	2.91	2.94	2.98	2.97	2.97	3.05	3.14	3.22	3.31	3.38
South African Rand	EURZAR	14.54	14.65	14.90	14.92	14.94	15.00	15.06	15.12	15.18	15.23
EM Latam											
Brazilian Real	EURBRL	3.03	3.09	3.25	3.31	3.37	3.45	3.52	3.59	3.67	3.74
Chilean Peso	EURCLP	756	766	784	782	782	792	802	812	823	831
Mexican Peso	EURMXN	17.7	17.8	17.9	17.8	17.6	17.7	17.8	17.8	17.9	17.9
Colombian Peso	EURCOP	2561	2578	2621	2630	2643	2693	2743	2794	2845	2888

Source: Bloomberg and Citi Research

Figure 37. Quarterly Interpolated Forecasts – Other

Quarterly Interpolated Forecasts
Other

	Currency	Spot	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Others											
Dollar Index*	DXY	80.4	80.0	79.8	80.7	81.5	81.0	80.6	80.1	79.7	79.3
Norwegian Krone	NOKSEK	1.10	1.09	1.09	1.11	1.12	1.13	1.14	1.15	1.15	1.16
Australian Dollar	AUDNZD	1.08	1.08	1.09	1.10	1.10	1.10	1.10	1.10	1.10	1.10
Australian Dollar	AUDJPY	95.8	96.8	100.2	102.1	103.7	103.6	103.5	103.4	103.3	103.3
Russian Ruble Basket		39.9	40.3	41.9	43.0	44.0	44.0	44.0	44.0	44.0	44.0
Equally Weighted Regional Baskets vs. USD**											
World		100.00	99.84	100.32	101.36	102.23	102.05	101.88	101.71	101.55	101.37
G10		100.00	99.50	99.16	99.98	100.66	100.35	100.04	99.75	99.46	99.22
EM		100.00	99.98	100.82	101.95	102.91	102.78	102.67	102.55	102.44	102.29
EM Asia		100.00	99.93	100.16	100.62	100.99	100.76	100.54	100.32	100.09	99.83
CEEMEA		100.00	99.86	100.99	102.81	104.35	104.01	103.68	103.37	103.07	102.76
Latam		100.00	100.32	102.19	103.77	105.18	105.69	106.20	106.71	107.22	107.63
GDP Weighted Regional Baskets vs. USD**											
World		100.00	99.72	99.93	100.91	101.73	101.46	101.19	100.93	100.68	100.46
G10		100.00	99.54	99.49	100.58	101.49	101.07	100.66	100.26	99.87	99.53
EM		100.00	100.00	100.62	101.42	102.10	102.06	102.03	102.00	101.96	101.92
EM Asia		100.00	99.81	99.32	99.18	99.03	98.86	98.68	98.51	98.34	98.15
CEEMEA		100.00	100.05	101.94	104.23	106.17	105.90	105.64	105.39	105.14	104.90
Latam		100.00	100.54	103.30	105.45	107.38	108.03	108.69	109.34	109.99	110.62

* The DXY forecasts are implied from the forecasts of the constituent crosses.
** Weighted Index Forecasts (Higher = USD Higher)

Source: Bloomberg and Citi Research

Figure 38. Annual Interpolated Forecasts – USD Crosses

Annual Interpolated Forecasts
vs. USD

	Currency	Spot	2014*	2015*	2016*	2017*	2018*
G10							
Euro	EURUSD	1.36	1.37	1.37	1.41	1.42	1.43
Japanese yen	USDJPY	102	104	109	111	113	114
British Pound	GBPUSD	1.70	1.73	1.77	1.77	1.78	1.80
Swiss Franc	USDCHF	0.90	0.90	0.92	0.91	0.91	0.91
Australian Dollar	AUDUSD	0.94	0.94	0.95	0.93	0.93	0.92
New Zealand Dollar	NZDUSD	0.87	0.87	0.86	0.84	0.79	0.74
Canadian Dollar	USDCAD	1.08	1.09	1.11	1.10	1.10	1.10
Swedish Krona	USDSEK	6.75	6.60	6.64	6.37	6.21	6.06
Norwegian Krone	USDNOK	6.14	6.04	5.85	5.48	5.26	5.06
EM Asia							
Chinese Renminbi	USDCNY	6.23	6.16	6.03	6.01	6.02	6.04
Hong Kong Dollar	USDHKD	7.75	7.75	7.75	7.75	7.75	7.75
Indonesian Rupiah	USDIDR	11973	11724	12003	11653	10915	10149
Indian Rupee	USDINR	60.2	60.5	62.3	62.3	59.5	56.4
Korean Won	USDKRW	1021	1034	1007	973	976	981
Malaysian Ringgit	USDMYR	3.22	3.27	3.35	3.34	3.21	3.08
Philippine Peso	USDPHP	43.8	44.4	44.4	42.9	41.8	40.8
Singapore Dollar	USDSGD	1.25	1.26	1.26	1.26	1.23	1.21
Thai Baht	USDTHB	32.5	32.6	33.0	32.7	31.5	30.1
Taiwan Dollar	USDTWD	30.0	30.1	29.9	29.7	29.2	28.7
EM Europe							
Czech Koruna	USDCZK	20.22	20.06	19.99	18.74	18.08	17.48
Hungarian Forint	USDHUF	226	226	233	231	230	230
Polish Zloty	USDPLN	3.07	3.07	3.08	2.84	2.79	2.75
Israeli Shekel	USDILS	3.45	3.51	3.68	3.81	3.68	3.53
Russian Ruble	USDRUB	34.4	35.7	37.8	37.2	37.0	36.9
Turkish Lira	USDTRY	2.15	2.16	2.26	2.39	2.38	2.36
South African Rand	USDZAR	10.71	10.75	11.00	10.79	10.68	10.58
EM Latam							
Brazilian Real	USDBRL	2.24	2.33	2.55	2.67	2.78	2.90
Chilean Peso	USDCLP	557	563	583	583	552	518
Mexican Peso	USDMXN	13.0	13.0	13.0	12.7	12.5	12.4
Colombian Peso	USDCOP	1887	1923	1989	2029	1954	1870

* Averages of end-quarter data shown in quarterly interpolation table.

Source: Bloomberg and Citi Research

Figure 39. Annual Interpolated Forecasts – EUR Crosses

Annual Interpolated Forecasts
vs. EUR

	Currency	Spot	2014*	2015*	2016*	2017*	2018*
G10							
Euro	EURUSD	1.36	1.37	1.37	1.41	1.42	1.43
Japanese yen	EURJPY	139	143	149	157	160	162
British Pound	EURGBP	0.80	0.79	0.77	0.80	0.80	0.79
Swiss Franc	EURCHF	1.22	1.23	1.26	1.29	1.29	1.30
Australian Dollar	EURAUD	1.45	1.45	1.44	1.51	1.53	1.55
New Zealand Dollar	EURNZD	1.56	1.57	1.58	1.68	1.79	1.92
Canadian Dollar	EURCAD	1.46	1.50	1.52	1.55	1.56	1.57
Swedish Krona	EURSEK	9.16	9.05	9.07	8.97	8.81	8.64
Norwegian Krone	EURNOK	8.34	8.28	7.99	7.71	7.46	7.21
EM Asia							
Chinese Renminbi	EURCNY	8.45	8.45	8.24	8.46	8.54	8.62
Hong Kong Dollar	EURHKD	10.52	10.62	10.59	10.92	10.99	11.05
Indonesian Rupiah	EURIDR	16251	16067	16400	16414	15483	14471
Indian Rupee	EURINR	81.7	82.9	85.2	87.8	84.3	80.4
Korean Won	EURKRW	1385	1417	1376	1371	1384	1399
Malaysian Ringgit	EURMYR	4.38	4.48	4.58	4.70	4.56	4.39
Philippine Peso	EURPHP	59.5	60.9	60.6	60.4	59.4	58.2
Singapore Dollar	EURSGD	1.70	1.72	1.72	1.77	1.75	1.72
Thai Baht	EURTHB	44.1	44.7	45.1	46.1	44.6	43.0
Taiwan Dollar	EURTWD	40.8	41.3	40.9	41.8	41.4	40.9
EM Europe							
Czech Koruna	EURCZK	27.45	27.49	27.31	26.40	25.65	24.92
Hungarian Forint	EURHUF	306	310	318	325	327	329
Polish Zloty	EURPLN	4.17	4.20	4.20	4.01	3.96	3.93
Israeli Shekel	EURILS	4.68	4.81	5.03	5.36	5.22	5.03
Russian Ruble	EURRUB	46.7	48.9	51.6	52.4	52.5	52.7
Turkish Lira	EURTRY	2.91	2.96	3.10	3.36	3.38	3.37
South African Rand	EURZAR	14.54	14.74	15.03	15.20	15.16	15.09
EM Latam							
Brazilian Real	EURBRL	3.03	3.19	3.48	3.76	3.95	4.14
Chilean Peso	EURCLP	756	772	797	821	782	739
Mexican Peso	EURMXN	17.7	17.9	17.7	17.9	17.8	17.7
Colombian Peso	EURCOP	2561	2636	2718	2858	2772	2667

* Averages of end-quarter data shown in quarterly interpolation table.

Source: Bloomberg and Citi Research

Figure 40. Annual Interpolated Forecasts – Other

Annual Interpolated Forecasts

Other

	Currency	Spot	2014*	2015*	2016*	2017*	2018*
Others							
Dollar Index**	DXY	80.4	80.1	80.8	79.3	79.0	78.7
Norwegian Krone	NOKSEK	1.10	1.09	1.14	1.16	1.18	1.20
Australian Dollar	AUDNZD	1.08	1.08	1.10	1.11	1.18	1.25
Australian Dollar	AUDJPY	95.8	98.7	103.5	103.4	104.1	104.9
Russian Ruble Basket		39.9	41.6	44.0	44.0	44.0	44.0
Equally Weighted Regional Baskets vs. USD* **							
World		100.00	100.41	101.97	101.15	99.84	98.51
G10		100.00	99.58	100.20	99.29	99.34	99.56
EM		100.00	100.76	102.73	101.95	100.05	98.06
EM Asia		100.00	100.28	100.65	99.42	97.02	94.52
CEEMEA		100.00	100.81	103.85	102.55	101.05	99.53
Latam		100.00	101.88	105.95	107.23	105.88	104.33
GDP Weighted Regional Baskets vs. USD* **							
World		100.00	100.12	101.32	100.46	100.13	99.84
G10		100.00	99.82	100.86	99.59	99.40	99.30
EM		100.00	100.60	102.05	101.82	101.26	100.67
EM Asia		100.00	99.60	98.77	97.96	96.77	95.54
CEEMEA		100.00	101.64	105.78	104.77	103.78	102.78
Latam		100.00	102.64	108.36	110.81	112.73	114.60

* Averages of end-quarter data shown in quarterly interpolation table.
** The DXY forecasts are implied from the forecasts of the constituent crosses.
*** Weighted Index Forecasts (Higher = USD Higher)

Source: Bloomberg and Citi Research

Figure 41. Citi Foreign Exchange Forecasts Contributors *For informational purposes only*

Global Macro Economics Research			
Jeremy Hale[1]	(Head, Macro Strategy)	44-20-7986-9465	jeremy.hale@citi.com
Maximilian Moldaschl[1]	(Macro Strategy)	44-20-7986-8753	maximilian.moldaschl@citi.com
Amir Amin[1]	(Macro Strategy)	44-20-3569-4243	amir.amin@citi.com
Willem Buiter [1]	(Chief Economist)	1-212-816-2363	willem.buiter@citi.com
Michael Saunders [1]	(Head, G10 Economics)	44-20-7986-3299	michael.saunders@citi.com
Kiichi Murashima [3]	(Head, Japan Economics)	81-3-6270-4981	kiichi.murashima@citi.com
Guillaume Menuet[1]	(European Economics)	44-20-7986-1314	guillaume.menuet@citi.com
Tina Mortensen[1]	(European Economics)	44-20-7986-3284	tina.mortensen@citi.com
Dana Peterson[2]	(Canada Economics)	1-212-816-3549	dana.peterson@citi.com
Guillermo Mondino[2]	(Head, EM Research)	1-212-816-6499	guillermo.mondino@citi.com
David Lubin [1]	(Head, EM Economics)	44-20-7986-3302	david.p.lubin@citi.com
Johanna Chua [3]	(Head, EM Economics - Asia)	852-2501-2357	johanna.chua@citi.com
Alexander Demyanets [1]	(EM Economics)	44-20-7986-4061	alexander.demyanets@citi.com
Paul Brennan [4]	(Australian Economics)	61-8225-4899	paul.brennan@citi.com
Josh Williamson [4]	(Australian Economics)	61-8225-4904	josh.williamson@citi.com

1 Citigroup Global Markets Ltd.; 2 Citigroup Global Markets Inc.; 3 Citigroup Global Markets Asia; 4 Citigroup Pty Limited

NON-US RESEARCH ANALYST DISCLOSURES: The non-US research analysts listed above (i.e., the research analysts listed above other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. Unless indicated in Important Disclosures of this document or any of the referenced documents, the analysts listed above have not contributed to this document or any of the referenced documents.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Research product ("the Product"), please contact Citi Research, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance [E6WYB6412478]. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at https://www.citivelocity.com/cvr/eppublic/citi_research_disclosures. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

NON-US RESEARCH ANALYST DISCLOSURES

Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Ltd	Jeremy Hale; Maximilian Moldaschl; Alexander Demyanets
Citigroup Global Markets Inc	Guillermo Mondino

OTHER DISCLOSURES

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Research does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of Citi Research to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Bell Potter Customers: Bell Potter is making this Product available to its clients pursuant to an agreement with Citigroup Global Markets Australia Pty Limited. Neither Citigroup Global Markets Australia Pty Limited nor any of its affiliates has made any determination as to the suitability of the information provided herein and clients should consult with their Bell Potter financial advisor before making any investment decision.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citigroup Global Markets Australia Pty Limited. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. 1202, 12th Floor, FIFC, G Block, Bandra Kurla Complex, Bandra East, Mumbai - 400051 Corporate Identity Number: U99999MH2000PTC126657 Tel:+9102261759999 Fax:+9102261759961. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A, Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised by the PRA and regulated by the FCA and the PRA. Via dei Mercanti, 12, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Citi Velocity website. If you have questions regarding Citi Velocity, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02. The Product is made available in Korea by Citibank Korea Inc., which is regulated by the Financial Services Commission and the Financial Supervisory Service. Address is Citibank Building, 39 Da-dong, Jung-gu, Seoul 100-180, Korea. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd (Company No. 460819-D) ("CGMM") to its clients and CGMM takes responsibility for its contents. CGMM is regulated by the Securities Commission of Malaysia. Please contact CGMM at Level 43 Menara Citibank, 165 Jalan Ampang, 50450 Kuala Lumpur, Malaysia in respect of any matters arising from, or in connection with, the Product. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available to 'wholesale clients' only as defined by s5C(1) of the Financial Advisers Act 2008 ('FAA') through Citigroup Global Markets Australia Pty Ltd (ABN 64 003 114 832 and AFSL No. 240992), an overseas financial adviser as defined by the FAA, participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in the Philippines through Citibank NA Philippines branch, Citibank Tower, 8741 Paseo De Roxas, Makati City, Manila. Citibank NA Philippines NA is regulated by The Bangko Sentral ng Pilipinas. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. ("CGMSPL"), a capital markets services license holder, and regulated by Monetary