17 May 2013 │ 30 pages

Global

Foreign Exchange Forecasts

May 2013

- We continue to forecast more generalised US dollar strength, as underlying US growth accelerates and markets begin to price in tapering in, and then the end to, QE3.
- Relative monetary policies more generally may be powerful drivers. This implies a weak JPY, CHF, Scandis, GBP and AUD. But EUR could be stronger than expected, albeit still lower vs. the USD.
- USD/JPY is forecast in a 105-110 range but much higher levels are also possible.
- Sharp AUD/USD weakness will likely not reverse. A broadly stronger USD also weighs against others in the dollar bloc but NZD should outperform on a relative basis.
- Medium term, we expect further sterling weakness against the USD in response to an eventual increase in BoE accommodation. EUR/GBP is range bound, however.
- Norway is seen outperforming its Swedish peer over the entire forecast horizon. Both EUR/NOK and EUR/SEK grind towards WERM over the medium term.
- Broader USD strength is reflected across EM forecasts too, with EM FX overall expected weaker vs. the USD in the medium term.

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Figure 1. DM & EM – Forecasts Paths

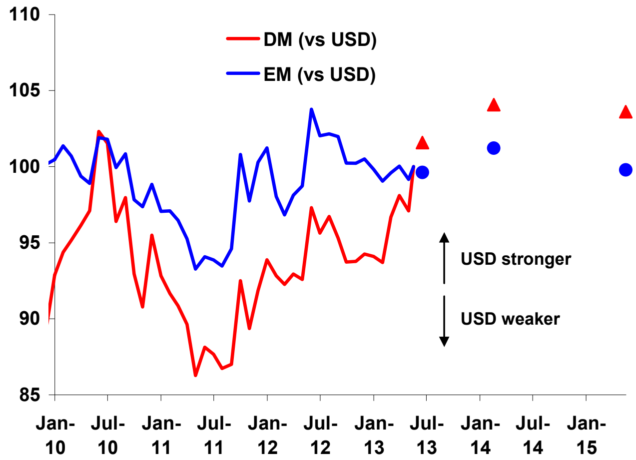


Chart shows GDP weighted baskets. Today = 100

Sources: Citi Research and Bloomberg

Figure 2. EM Regions – Forecasts Paths

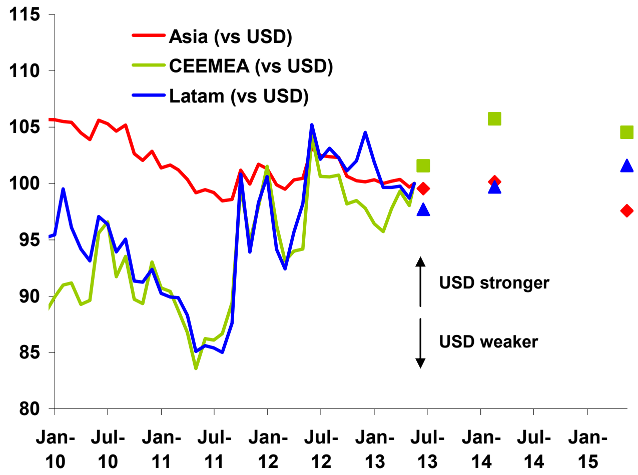


Chart shows GDP weighted baskets. Today = 100

Source: Citi Research and Bloomberg

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	1.29	1.29	1.29	1.28	1.25	1.25	-0.6%	-3.2%
Japanese yen	USDJPY	102	102	102	107	110	110	4.5%	7.7%
British Pound	GBPUSD	1.53	1.52	1.52	1.49	1.42	1.45	-2.4%	-6.7%
Swiss Franc	USDCHF	0.97	0.96	0.96	0.98	1.00	1.04	2.0%	4.1%
Australian Dollar	AUDUSD	0.98	0.97	0.95	0.97	0.96	0.95	0.0%	0.8%
New Zealand Dollar	NZDUSD	0.81	0.81	0.79	0.80	0.80	0.80	-0.7%	1.2%
Canadian Dollar	USDCAD	1.02	1.03	1.03	1.03	1.03	0.97	0.3%	-0.4%
Dollar Index**	DXY	83.92	83.91	83.81	85.03	87.12	86.51	1.3%	3.9%
G10 Crosses									
Japanese yen	EURJPY	132	132	132	137	138	138	4.0%	4.3%
Swiss Franc	EURCHF	1.24	1.24	1.24	1.26	1.25	1.30	1.5%	0.8%
British Pound	EURGBP	0.84	0.84	0.85	0.86	0.88	0.86	1.8%	3.8%
Swedish Krona	EURSEK	8.59	8.61	8.68	8.60	8.55	8.50	-0.1%	-1.5%
Norwegian Krone	EURNOK	7.53	7.56	7.66	7.50	7.40	7.25	-0.8%	-3.4%
Norwegian Krone	NOKSEK	1.14	1.14	1.13	1.15	1.16	1.17	0.7%	1.9%
Australian Dollar	AUDNZD	1.20	1.20	1.20	1.21	1.20	1.19	0.8%	-0.4%
Australian Dollar	AUDJPY	100	99	97	104	106	105	4.6%	8.6%
Asia									
Chinese Renminbi	USDCNY	6.14	6.21	6.24	6.10	6.08	6.00	-1.7%	-2.6%
Hong Kong Dollar	USDHKD	7.76	7.76	7.76	7.76	7.76	7.75	0.0%	0.1%
Indonesian Rupiah	USDIDR	9757	9895	10282	9800	9900	9660	-1.0%	-3.7%
Indian Rupee	USDINR	54.9	55.7	58.1	54.5	56.5	55.5	-2.1%	-2.7%
Korean Won	USDKRW	1117	1122	1130	1115	1130	995	-0.6%	0.0%
Malaysian Ringgit	USDMYR	3.02	3.04	3.10	3.05	3.10	3.05	0.2%	0.1%
Philippine Peso	USDPHP	41.2	41.2	41.2	41.5	41.2	40.8	0.7%	0.1%
Singapore Dollar	USDSGD	1.25	1.25	1.25	1.24	1.24	1.19	-1.2%	-1.2%
Thai Baht	USDTHB	29.8	30.0	30.4	30.0	30.5	29.9	0.1%	0.5%
Taiwan Dollar	USDTWD	30.0	30.1	29.9	29.8	30.0	29.0	-0.9%	0.4%
EMEA									
Czech Koruna	EURCZK	26.0	26.0	26.0	26.1	26.1	24.4	0.3%	0.2%
Hungarian Forint	EURHUF	291	294	300	295	303	290	0.5%	1.1%
Polish Zloty	EURPLN	4.18	4.20	4.27	4.20	4.25	3.90	-0.1%	-0.5%
Israeli Shekel	USDILS	3.65	3.67	3.69	3.70	3.75	4.20	1.0%	1.7%
Russian Ruble	USDRUB	31.4	31.9	33.2	32.2	34.2	33.7	1.1%	2.8%
Russian Ruble Basket		35.4	36.0	37.6	36.3	38.0	37.5	0.8%	1.2%
Turkish Lira	USDTRY	1.84	1.86	1.91	1.84	1.90	1.93	-0.8%	-0.5%
South African Rand	USDZAR	9.40	9.52	9.85	9.50	9.60	9.70	-0.2%	-2.6%
LATAM									
Brazilian Real	USDBRL	2.03	2.06	2.15	1.96	2.05	2.08	-4.7%	-4.8%
Chilean Peso	USDCLP	480	487	502	490	495	490	0.6%	-1.4%
Mexican Peso	USDMXN	12.3	12.4	12.7	12.0	11.8	12.3	-3.2%	-7.3%
Colombian Peso	USDCOP	1840	1857	1907	1880	1900	1850	1.3%	-0.4%

* market data including spot as of 12:07 PM London time on 17-May-2013
** The DXY forecasts are implied from the forecasts of the constituent crosses. *** Returns are relative to forwards

Source: Bloomberg and Citi Research

Overview: USD Upside

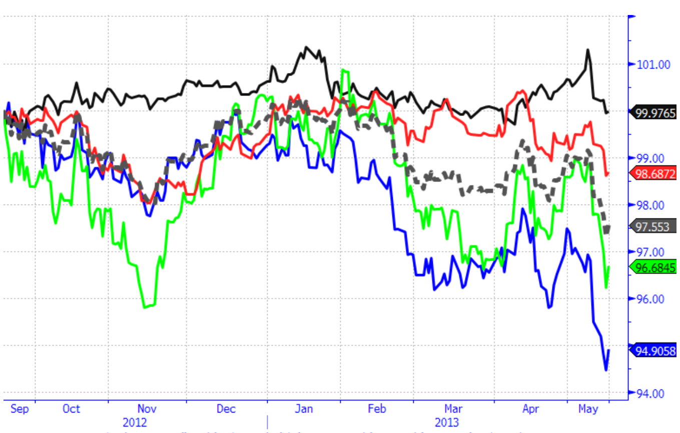
Our forecasts still envisage generalised USD strength medium term driven by a relatively strong cyclical performance in the US and the related likely tapering, and then ending, of QE3 over the 6-12m horizon. In recent weeks, there have been signs in FX markets (Figure 4), precious metals, US bond yields and sectoral performance in equities that this scenario is gathering strength, but we still expect it to ebb and flow short term before harnessing increased momentum later this year. As fundamentals begin to matter more in financial markets, and pure risk-on, risk-off considerations fade, it is worth noting that USD performance has decoupled from equities and commodities (Figure 5).

Within G10, we expect the USD to be stronger across the board but probably more so where monetary easing is still underway. This obviously includes Japan, may extend to the UK, and probably also encompasses some of the Scandis and $ bloc e.g. Australia. As for the EUR, we are less sure. With risk premia contained and the ECB now shrinking its balance sheet, there are supports in place for the EUR, at least relative to other European currencies and JPY. Furthermore, with fiscal policy potentially quite deflationary, the risks of Europe going down the Japanese “lost decade” road are quite high. But this was very positive for JPY. Is EUR the new JPY?

In the EM world too, USD appreciation is likely to be evident and helped by fresh EM monetary easing. We forecast more upside for the greenback in CEEMEA and less in Asia, where likely further CNY appreciation should suppress USD gains. Idiosyncratic factors will play a part in the various regions. In LATAM, we expect MXN outperformance to continue. In Asia, CNY seems likely to do best relative to spot. And in emerging Europe we expect quite widespread USD gains but less perhaps vs. CZK.

On a global basis, we expect 2-3% further USD upside over 6-12m.

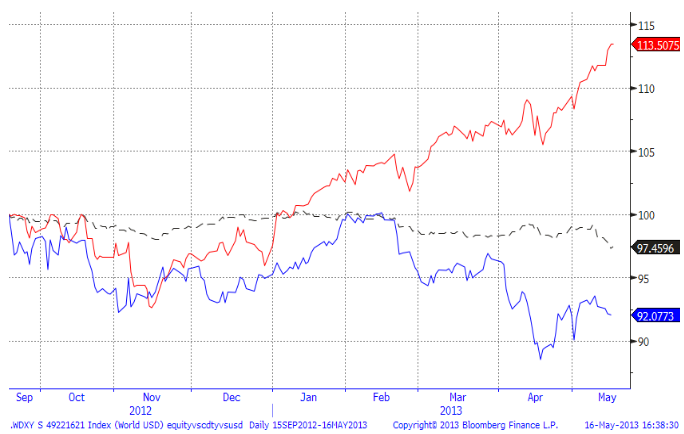
Figure 4. USD vs. Regions, Normalised to 15 September 2012=100



Sources: Bloomberg and Citi Research

Blue=G10, Green=CEEMEA, Red=LATAM, Black=Asia, Grey Dash=World Higher = Weaker USD. All indices evenly weighted

Figure 5. Global USD Index (Grey-Dash, Higher = Weaker USD) vs. SPX (Red) and SPGSCI (Blue)



Source: Bloomberg and Citi Research

G10 Exchange Rates

EUR/USD — Lower But Less So Than You Think?

EUR continues to disappoint the most bearish expectations that it should fall sharply based on a weak business cycle in Europe. In response, some investors are re-thinking the logic on EUR and considering the possibility that the EUR is the new JPY and will trade as JPY used to: i.e. strong.

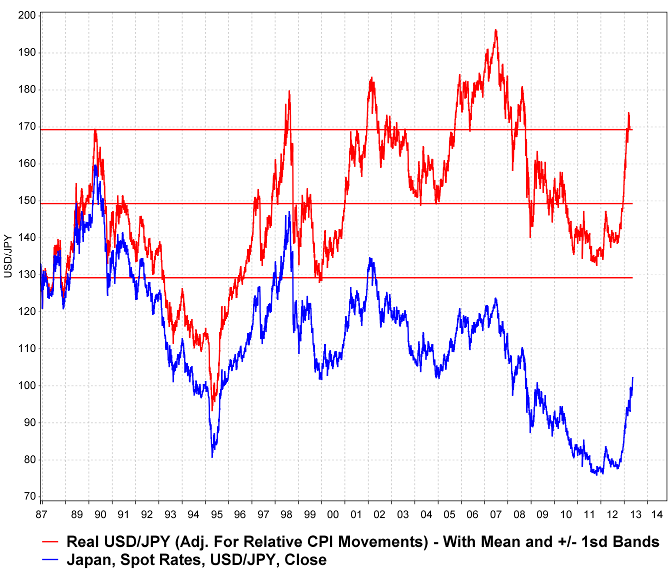
As Figure 6 shows, a long period of deflation in Japan (resulting from slow growth, lack of structural reform etc.) has manifested (until recently) not in currency weakness but strength as maintaining a broadly stable real exchange rate (red in the chart) required an ever stronger nominal one (blue). Thus far, this has not been an issue with regards to EUR/USD (Figure 7) with inflation trends in the US and Europe roughly similar. But if Europe now falls into deflation, that same divergence may emerge.

One aspect of this is the European policy model. Essentially, the European sovereign crisis has more or less forced non-core sovereigns into a choice between severe fiscal austerity programmes or leaving EMU. So far, they have opted for the former. Since this counter-cyclical fiscal policy clashes with desired private deleveraging, overall national savings are rising fast and the current account surplus of the periphery and non-core countries is improving rapidly.

This would not be so bad for the region if previously surplus countries like Germany were offering a counter-weight by expanding fiscal policy. But they are not. German fiscal policy tightened by about 1.5% of GDP pa over 2011 and 2012 and will be broadly neutral in 2013 and 2014 on current plans.

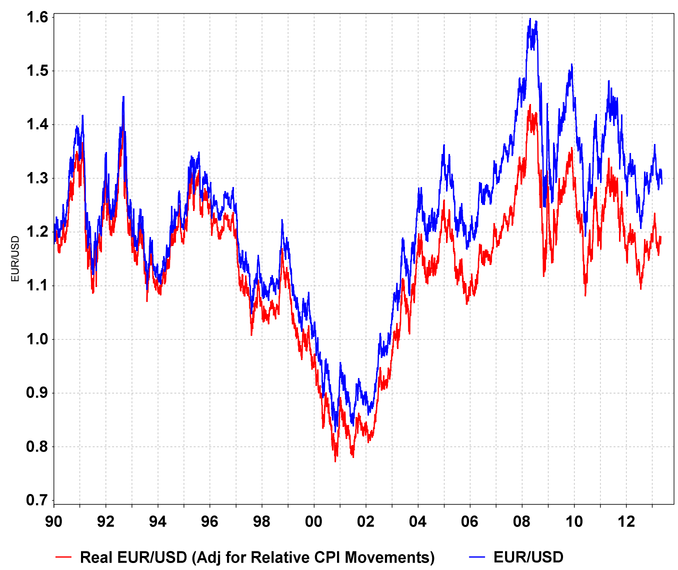
As a result, the region as a whole becomes low growth, potentially deflationary, but with improving fiscal and current account balances. Maybe not so bad for the EUR. Certainly, the EMU current account is tracking as strong as Japan's did post the 1990 bust in the latter, while the fiscal balance is significantly better.

Figure 6. USD/JPY: Real (CPI Adjusted) Exchange Rate (Red) and Nominal Spot (Blue)



Source: Reuters EcoWin and Citi Research

Figure 7. EUR/USD: Real (CPI Adjusted) Exchange Rate (Red) and Nominal Spot (Blue)



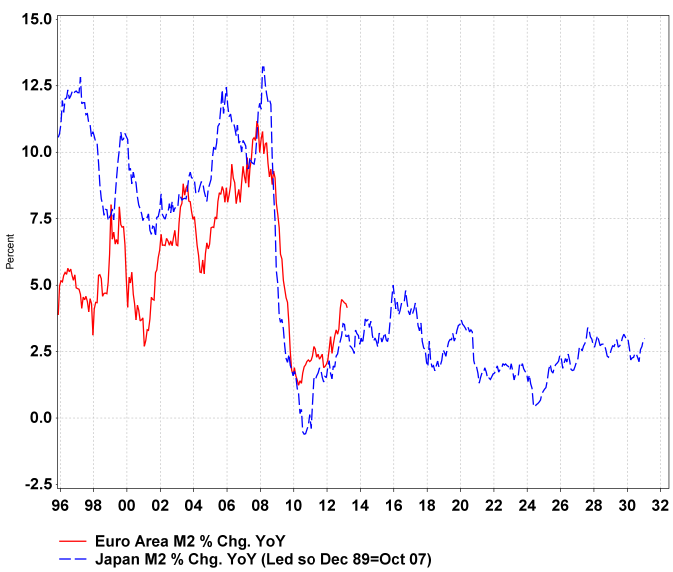
Source: Reuters EcoWin and Citi Research

And then there is the ECB. Figure 8 shows that post 2007, EMU M2 growth has slowed along a very similar trajectory to post 1990 Japanese M2. Credit extension has arguably slowed even more rapidly. In terms of base money/ balance sheet, the ECB has probably eased more and earlier than did the BoJ back in 1990 with money base growth noticeably picking up more. But the recent trend of a contracting ECB balance sheet (contrasting with the sharp expansion by the Fed and BoJ) is potentially now very EUR supportive (Figure 9).

In building our FX forecasts, we take this framework into consideration. With Fed tapering likely leading to generalised USD strength, EUR support arising medium term from low inflation/ deflation and tight ECB monetary policy likely shows up less in EUR/USD and more in EUR crosses against the likes of $ bloc currencies, Scandis, GBP and JPY.

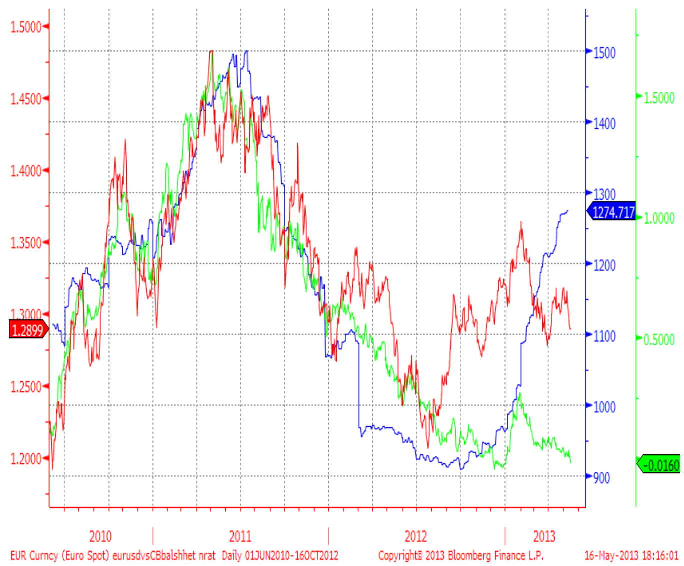
On EUR/USD itself, we forecast an unchanged 1.25 over 6-12m as this is the period when the Fed will be tapering and then ending QE3 according to Citi expectations. Over 0-3m, we lower our number from 1.32 to 1.28, partly reflecting the price action. In fact, EUR did rise to over 1.32 in the period since our last *Forecast* but has softened since in line with overall USD strength.

Figure 8. Broad Money M2 Growth Rates: Japan and Euro Area With 1989 Overlaid on 2007



Source: Reuters EcoWin and Citi Research

Figure 9. EUR/USD (Red), USD Less EUR 2y Swap Rate (Green), Fed/ECB Balance Sheet Ratio (Blue)



Source: Bloomberg and Citi Research

USD/JPY — Policy Continues to Support Weak JPY

USD/JPY spent much of the period since our last *Forecast* trading just below 100, failing three times to breach the key level before surging higher on 10 May. While the Japanese equity market and USD/JPY continue to rise in step, implied volatility in JPY seems to have peaked implying and expected slower depreciation in the currency going forward despite the technical break (Figure 10).

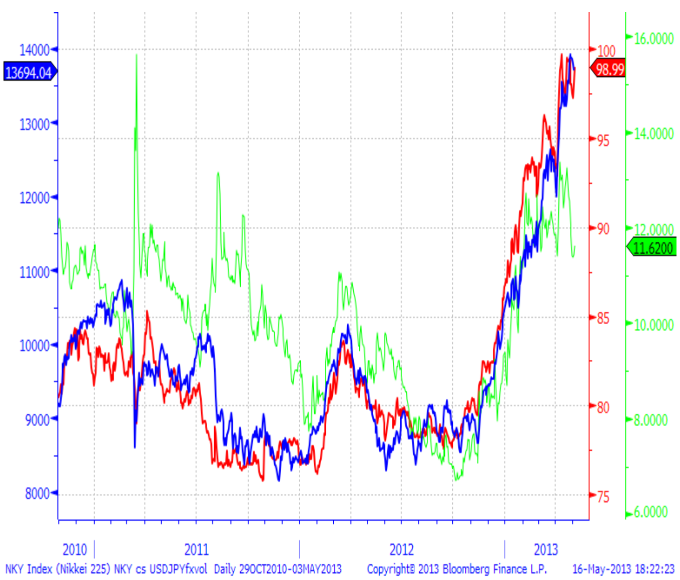
Our forecast continues to assume that the main driving factors will be balance sheet expansion by the BoJ, plus better data in the US leading to the expectation of less accommodation there. We think this points to still higher levels for USD/JPY. As a result we continue to expect a break into a 105-110 range over 0-3m (Figure 11).

Initially, the Abe/ Kuroda policy shift of fiscal and monetary stimulus is likely to be perceived as successful. USD/JPY is up 32% since late September, corporate earnings, especially for exporters are soaring, the Nikkei is much higher, leading to positive wealth effects, and housing and consumer spending will likely be front loaded ahead of the planned April 2014 consumption tax hike. All in all, GDP growth is likely to be quite strong. PM Abe's personal popularity is high and what's not to like near term?

Medium term, the economy may fail to grow strongly in real terms if structural reform is delayed.The Abe administration will publish its New Growth Strategy or structural reform programs in mid-June. However, there are increasing signs that the administration is backing away from painful reform programs mostly because of concerns over the negative impact on the upcoming Upper House Election in July (likely held on July 21st). We figure that the second round of structural reform after the Upper House Election is more important than the first round in June.

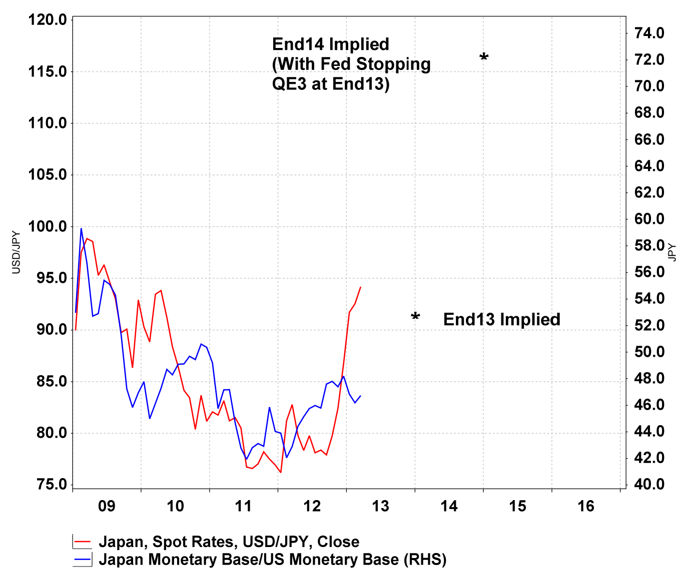
Having said that, in the upcoming Upper House Election, the LDP appears quite likely to get an absolute majority and this would provide PM Abe with freedom to implement difficult policy choices, including structural reforms, since no nationwide elections are slated for the following three years.

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



Sources: Bloomberg and Citi Research

Figure 11. USD/JPY (Red) vs. Relative Base Money Growth



Sources: Reuters EcoWin and Citi Research

The other consideration is clearly the sales tax and stance of fiscal policy from next April. Currently, the official view of the administration is that the government should stick to its current plan to implement the consumption tax hike in April 2014. However, some senior officials such as Koichi Hamada, a senior advisor to the Cabinet, referred to the possibility of delaying the consumption tax hike by one year to ensure that the economic recovery continues and deflation is eradicated.

The political debate on this issue (whether or not to implement the tax hike) is most likely to accelerate over the next 4-5 months until PM Abe makes a final decision on this issue in September or October (the deadline for the final decision is October, i.e. 6 months before the implementation of the tax hike). Citi economists attach a

significant albeit less than majority probability of the postponement of the tax hike. Meanwhile, even if the government decides to implement the tax hike as planned, the administration is most likely to introduce a large fiscal stimulus package in order to offset a negative impact from the consumption tax hike.

Clearly, this complicates the outlook over 6-12m but this time horizon is also one over which Citi expects the Fed to be scaling back QE3 to zero. With JPY recently positively correlated with other USD exchange rates (rather than the negative correlation of the past few years), we think generalised USD strength will likely drive another leg in USD/JPY to 110-115 over this time frame

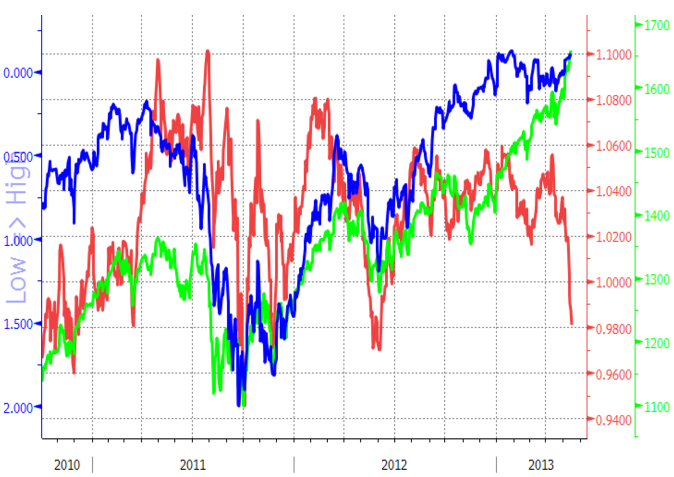
Dollar Bloc — USD Strong But NZD Better Than Others

After trading in a tight 1.02-1.06 sideways range for nearly a year, AUD/USD breached key technical resistance in recent trading sessions and has plummeted to below parity. Judging by post-GFC price action, such moves have tended to coincide with broader risk aversion. Interestingly however, this time round, equities are steaming ahead and our GRAMI cross asset risk aversion measure is at its lows (Figure 12).

Since our last *Forecasts*, the RBA delivered a further rate cut and AUD yields have continued their trend lower towards the low G4 floor. Citi's economists think the RBA may be done for now, although the SMP last week left growth forecasts unchanged but cut inflation projections materially. At a minimum, this suggests that the risk on AUD rates is still to the downside: a potential negative for AUD.

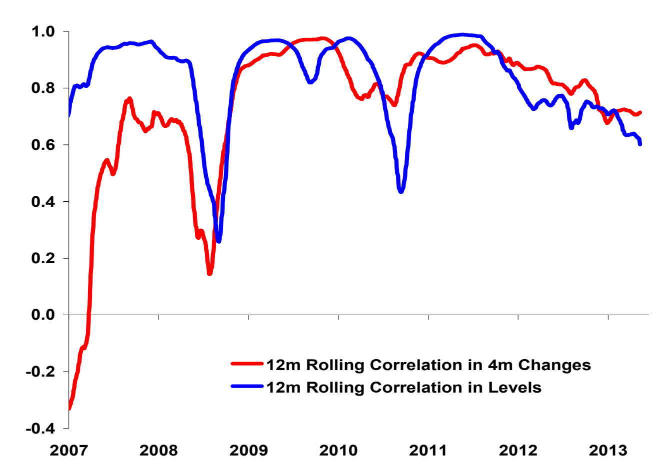
As we have noted previously, AUD had been supported by strong Asian FX and especially an appreciating CNY. Whilst both are still strong in the grand scheme of things, broad USD strength in recent weeks has also translated to weaker Asian currencies. Also noteworthy is the declining correlation – both in levels and changes – of the Aussie to both CNY and Asian FX baskets (Figure 13). This changing beta might also hint at a less supportive environment for the AUD going forward.

Figure 12. AUD/USD (Red) vs. GRAMI (Blue, Inverse) and SPX (Green)



Source: Bloomberg and Citi Research

Figure 13. AUD Correlations To Asian FX Receding



Source: Bloomberg and Citi Research

Finally, weak commodity prices are also still a medium term risk. We know that AUD/USD has been overvalued to terms of trade measures for some time and particularly versus Citi's augmented PPP model – the WERM – which puts fair value at 91c.

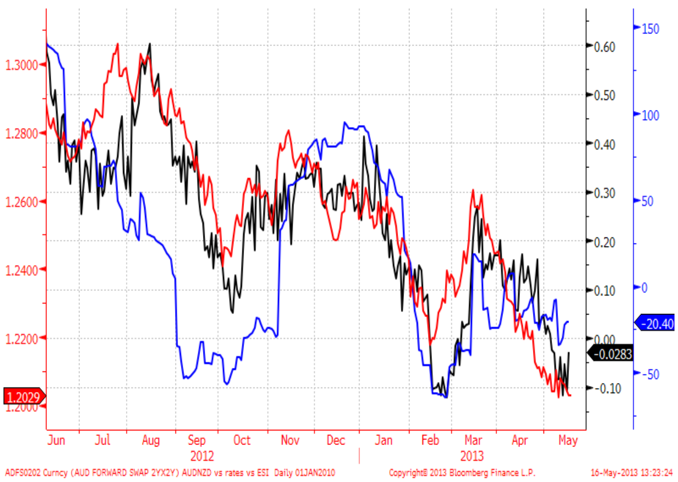
Overall, we forecast further AUD weakness across the horizon, especially against a strong USD. Our point forecasts are at 0.97 in 0-3m and at 0.96 in 6-12m. Further out, we assume a drift lower towards WERM long term fair value, and place our long term point forecast at 0.95.

In contrast, NZD has been relatively resilient since our last *Forecasts*. Economic data prints have come in stronger and Citi's ESI has surged to levels not seen since 2009. Relative rate differentials also turned more in NZD's favour and AUD/NZD has fallen further as a result (Figure 14).

New Zealand is of course less exposed to commodity weakness and we think there is less rates downside near term, and more upside medium term, even if the RBNZ is in no rush to hike policy rates.

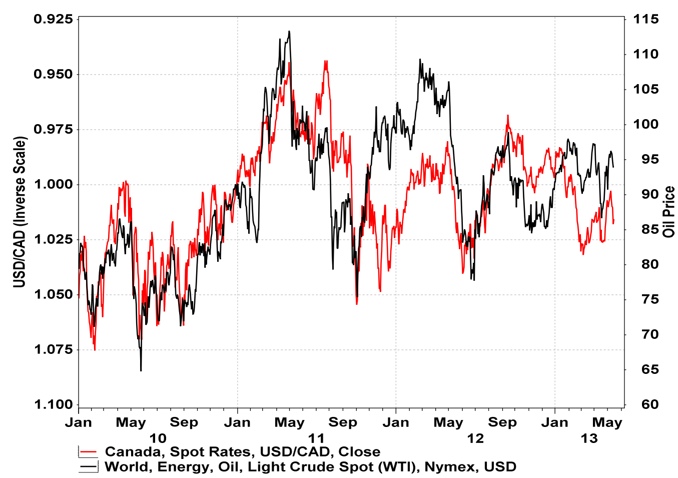
We expect NZD to outperform AUD, forecasting broad stability around 0.83 in both 0-3m and 6-12 months.

Figure 14. AUD/NZD (Red) vs. Relative ESI (Blue) and Relative 2yf2y Rates (Black)



Source: Bloomberg and Citi Research

Figure 15. USD/CAD (Red) vs. Oil Prices (Black)



Source: Reuters EcoWin and Citi Research

Broad US dollar strength also translated into a higher USD/CAD exchange rate in recent sessions, although the cross is more or less unchanged from where it was during our last *Forecasts*. The trend of higher highs and higher lows, prevalent since last September, persists in other words. Note that compared to crude oil prices, CAD still looks a touch cheap (Figure 15).

In the meantime, Canadian economic fundamentals look a bit better for the second half of 2013 and recent data prints have also started to surprise on the upside. However, with labour market slack continuing and headline and core CPI inflation below target, the probability of any change in policy rates in the next year is fairly low.

Against a strong greenback, we see USD/CAD tracking broadly sideways from here, trading near the high end of the range now bound by roughly 0.98-1.035. Our point forecasts are at 1.03 in both 0-3m and 6-12 moths. Further out, the cross may start drifting back to long term WERM fair value at 0.95.

GBP — Weak vs. USD But No New EUR/GBP Highs

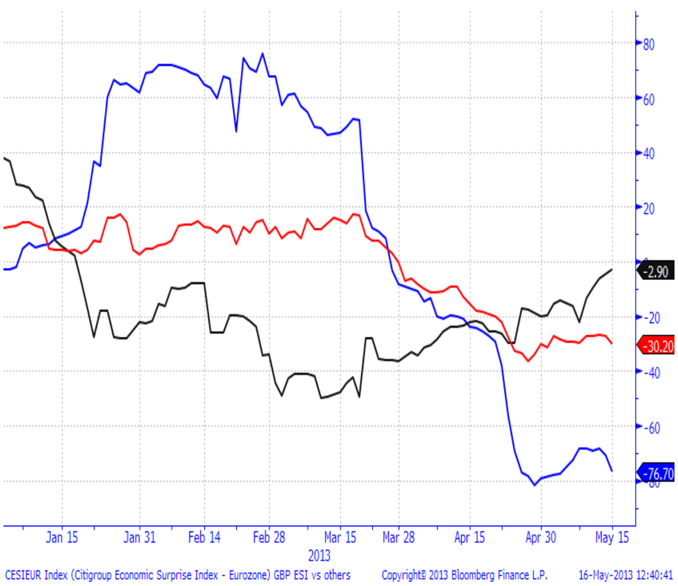
The story for sterling has not changed much since our last *Forecasts*. Cable rallied to 1.56 in recent session, but after renewed USD strength across the board, is trading more or less where it was this time last month.

Nonetheless, sterling continues to trade at a stronger level compared to March lows, both vs. the greenback and the single currency. In contrast to other G10 countries and especially versus the Eurozone, the recent improvement in macro data prints (Figure 16) is a support. As we highlighted last month, Governor King's comments that "We are moving to a properly valued exchange rate. I think we're probably there." and "We're certainly not looking to push sterling down" also helped sterling base. Finally, also note that rate differentials have been supportive of the recent drift lower in EUR/GBP (Figure 17).

However, medium term, fundamentals still look bearish for sterling. Citi economists forecast real GDP growth to remain below 1% for the next two years and are looking for further loosening to lift the UK economy out of stagflation. Loosening will likely come via an array of measures, consisting of further QE (Citi forecasts an above consensus £450 for the QE peak), credit easing and Fed-style forward guidance on rates and QE.

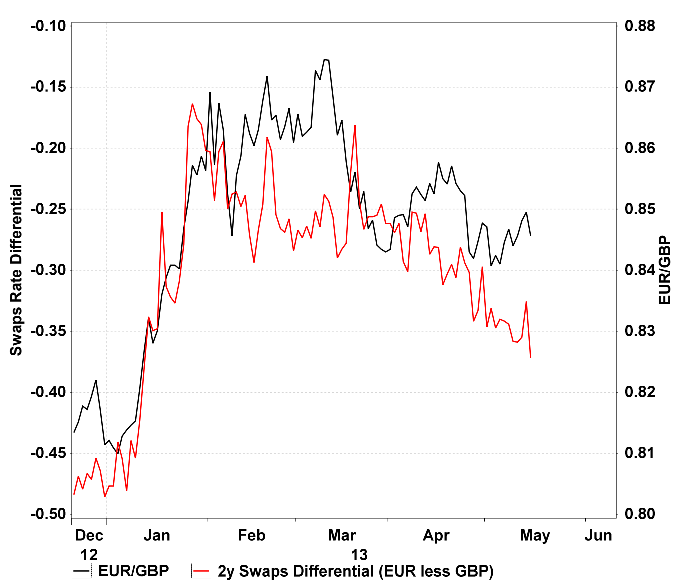
Whilst this should be a medium term negative for sterling, a large part of our forecast reflects an outperforming greenback. EUR/GBP is not seen to form a new high in other words and the cross should hold the recent 0.84-0.88 range in the foreseeable future. In terms of point forecasts, we see 0.86 and 0.88 over 0-3 and 6-12 months respectively. With EUR/USD at 1.25 in the medium term, implied GBP/USD levels show a pronounced fall, with sterling trading at 1.42 against the dollar in 6-12 months, roughly 18% below WERM fair value estimates.

Figure 16. ESIs – GBP (Black) vs. EUR (Blue) and G10 (Red)



Source: Bloomberg and Citi Research

Figure 17.EUR/GBP vs. 2y Swap Rate Differential



Source: Reuters EcoWin and Citi Research

Scandis — Norway Outperforms

In the first few months of 2013, in line with relative macro data prints and weaker crude oil markets, Scandi FX price action has been characterised by steady NOK

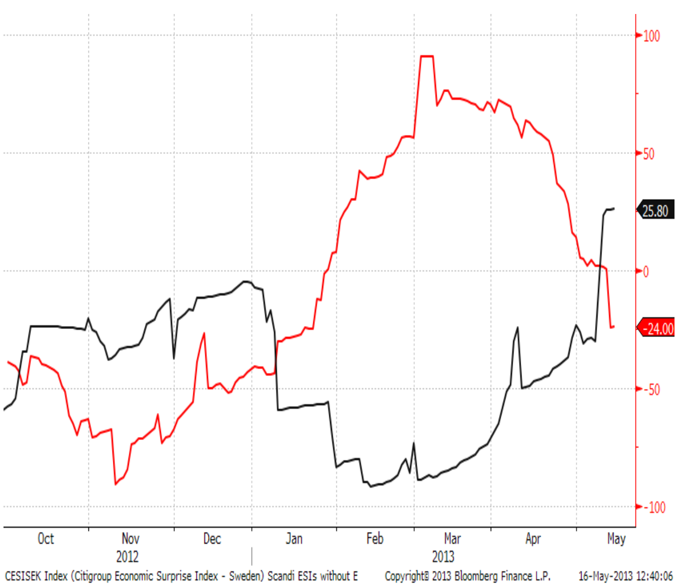
underperformance against its Swedish peer. However, since mid-March and especially since our last *Forecasts*, NOK/SEK has based and has rebounded to levels not seen in three months. In a reversal of fortunes, Norwegian data surprises are now in positive territory, whilst Citi's Sweden ESI moved sharply negative (Figure 18). Crude oil has also experienced a small bounce since this time last month and NOK/SEK has seemingly closed the gap to rate differentials we highlighted last month (Slide 19).

But perhaps most importantly, the recent Norges bank policy meeting provided the market with a slight hawkish stance and the much higher than expected April inflation print last week further reinforced this dynamic. Stacked against another expected ECB cut in Q4 this year, Citi's economists' base case still sees stable rates in Norway for the remainder of this year. Further out, the Norwegian economy is seen outperforming most other European countries in terms of GDP growth, eventually leading to a rate hike in mid-2014. This should all be supportive for the Norwegian krone, but note that the Norges bank pays close attention to NOK strength, self-limiting any sharp appreciation we think – we forecast a modest grind lower in EUR/NOK.

In contrast to its neighbour, weak export markets make growth prospects for the Swedish economy relatively weak and Citi economists expect the Riksbank to cut its policy rate one more time in Q3. Indeed, recent data prints have started coming in a bit softer, notably the lower than expected April inflation print. We hence expect the Swedish Krona to underperform NOK throughout the forecast horizon, although our EUR/SEK forecasts do see the cross slowly drifting towards WERM long term fair-value.

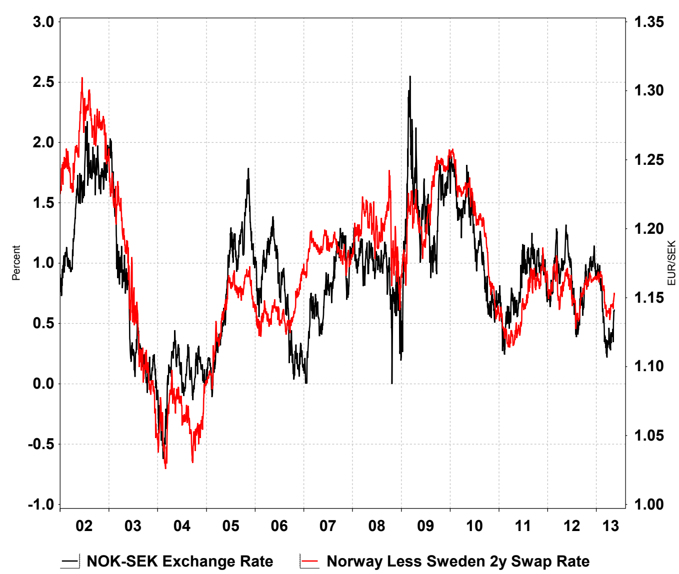
In terms of point forecasts, we see EUR/SEK at 8.60 and 8.55 and EUR/NOK at 7.50 and 7.40 in 0-3m and 6-12m respectively. This implies NOK/SEK at 1.15 and 1.16 over these time-frames. In the long term, a grind toward towards WERM implies further slight NOK outperformance. Our LT point forecasts are at 8.50 and 7.25, implying NOK/SEK at 1.17.

Figure 18. Swedish ESI (Red) vs. Norwegian ESI (Black)



Source: Bloomberg and Citi Research

Figure 19. NOK/SEK vs. 2y Swap Rate Differential



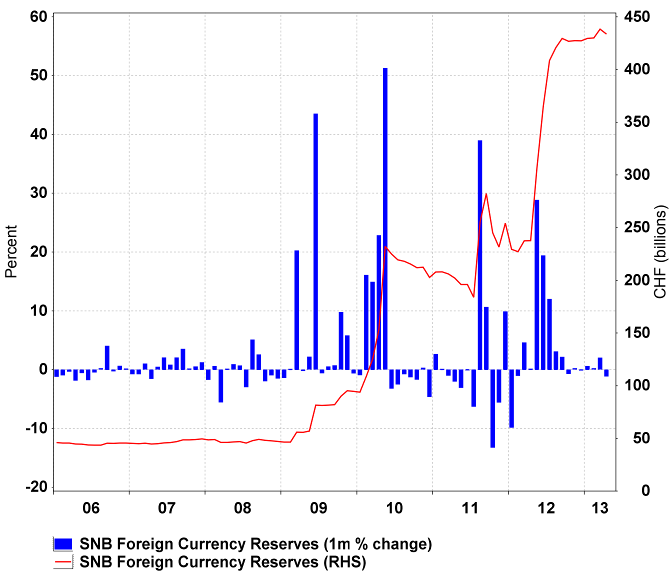
Source: Reuters EcoWin and Citi Research

CHF — Weak Absent A Risk Appetite Shock

As we have highlighted in recent months, the Swiss franc is showing renewed correlation to risk appetite/ EMU risk premia developments. After Cypriot related risk aversion pushed the cross closer to 1.21, better risk appetite since our last *Forecasts* caused EUR/CHF to rally again in recent sessions. Indeed, the latest FX reserve data from the SNB suggest that no further intervention took place in April, as Swiss foreign currency reserves actually receded from all time highs (Figure 20). Interestingly, due to the improvement in risk appetite, our markets-based model now estimates 'fair value' above 1.30 for the first time since early 2011 (Figure 21).

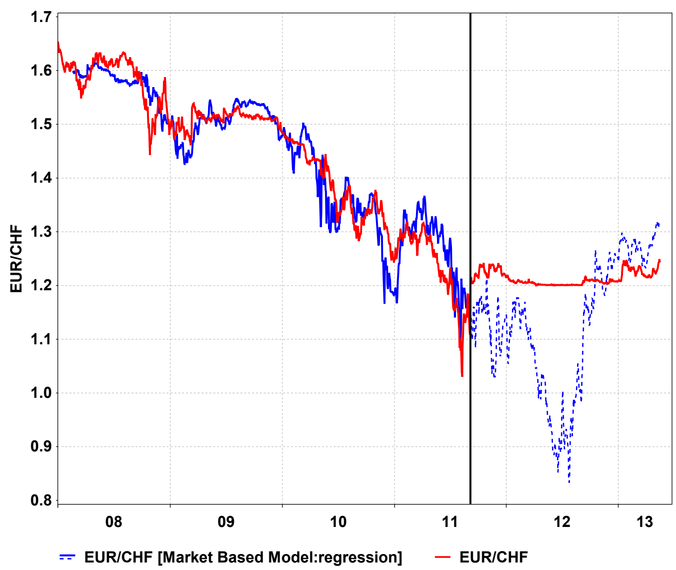
Further adding upside pressure to EUR/CHF, the latest inflation print for April undershot expectations, highlighting the continued deflationary forces at work in Switzerland. Whilst we do not see the SNB raising their peg in the near term, our forecasts do pencil in EUR/CHF testing recent highs near 1.26 in the short term. In 6-12 months, the Swiss franc will likely respond to the ebbs and flows of risk appetite developments (whilst trading above the 1.20 floor) and we place our medium term point forecast at 1.25. Over time, we see EUR/CHF edging back towards long term WERM fair value near 1.30.

Figure 20. SNB Foreign Currency Reserves Increasing Again?



Source: Reuters EcoWin and Citi Research

Figure 21. EUR/CHF Fair Value* Driven By 'EMU Risk Premia'



Source: Reuters EcoWin and Citi Research

* Market based model estimated from 2008 to August 2011 (when EUR/CHF floor was introduced). Fair-value since then is out of sample estimate.
Market drivers are 2y swap rate differentials, Spanish 5y CDS, EuroZone Bank stocks and VIX

EM Currencies – Can't Buck a Stronger USD

After a brief spate of weakness around the time of our last *Forecast*, the US dollar has reasserted its strength vs. all currency blocs in the last fortnight (Figure 22). Our forecasts are for this to continue, with EM currencies *in toto* weaker by 1-2% vs. the USD over the next six to twelve months.

CEEMEA currencies are expected to be weakest over this period, and Latam FX, propped up by a stronger Mexican peso, may be more resilient. Asia is wedged between a stronger CNY on the one hand and a weaker JPY (and a stronger USD) on the other, and stays basically flat over the short to medium run.

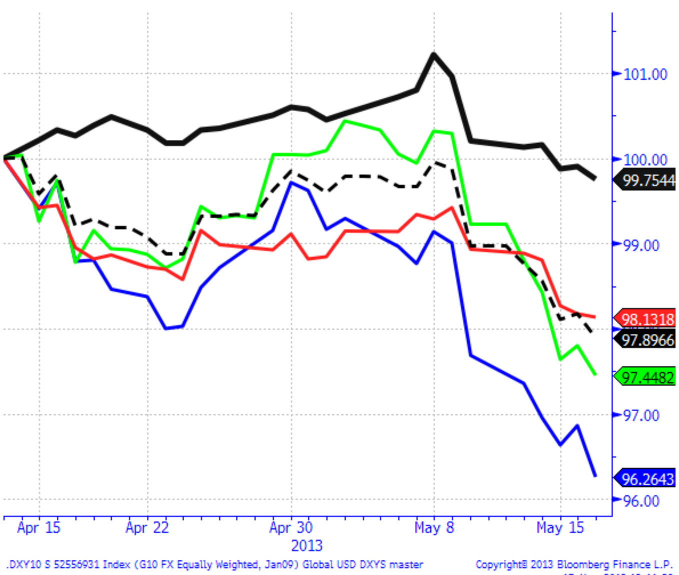
Several threads feed into our view that EM FX "can't buck a stronger USD" over the next twelve months or so.

The first is sharply narrowing relative interest rate differentials, as EM central banks grow more dovish and the Fed, at the margin, may turn less accommodative (Figure 23). This is positive for the dollar and negative for EM currencies.

The second and related factor is one we have discussed in previous *Forecasts*: EM macro is looking soggier and the US firmer. Citi economists' forecasts suggest a widening of these relative differentials over the medium term. This too should keep the dollar relatively well bid.

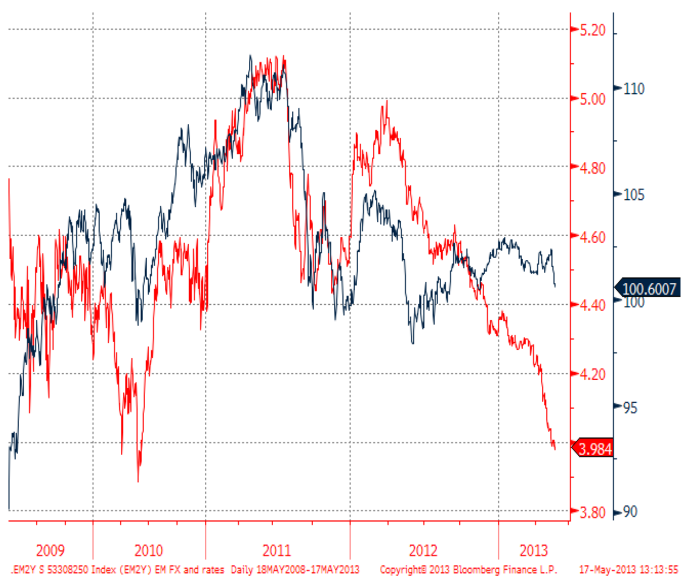
Finally, about 40% of the EM currencies covered here are backed by commodities, and most are trading stronger than historical relationships with underlying commodities would suggest. A key difference between the current QE and earlier global easing episodes is that commodities have decoupled from risky assets, and should commodity prices weaken further, several EM currencies should come under further pressure.

Figure 22. Dollar Strengthens…



Sources: Bloomberg and Citi Research
Green – CEEMEA; Red – Latam; Black – Asia; Black Dash – Global DXY. All Equally Weighted. Higher = USD Weaker. April 12, 2013 (i.e., Last FX Forecast) =100

Figure 23. …Helped By Easier Monetary Policies Across EM



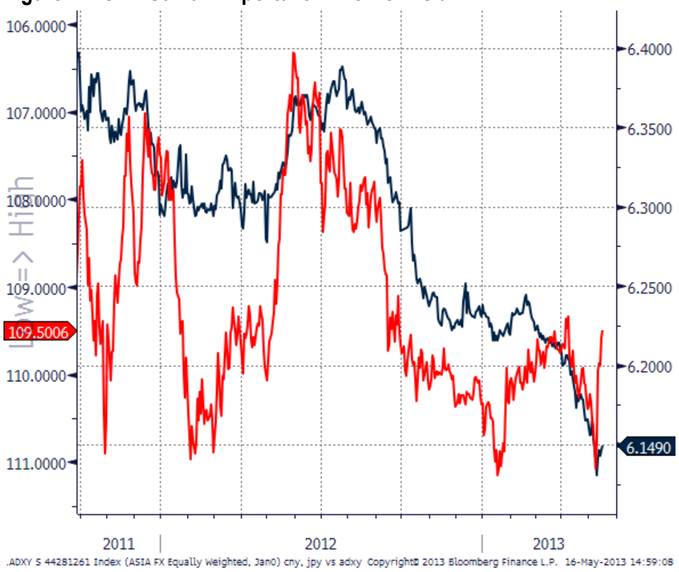
Sources: Bloomberg and Citi Research
Red – Average EM 2y Swap Rates Less 2y US Swap Rate ; Blue – Equally Weighted EM FX vs. USD

EM Asia – Between CNY Stronger & JPY Weaker

Asian currencies are wedged between two powerful and opposing forces: a stronger CNY on the one hand (Figure 24) and a weaker JPY/broadly stronger USD on the other (Figure 25). Already, the relative "outperformance" of EM Asian FX vis-à-vis other regional blocs reveals wide dispersion in the individual currencies.

Our May *Forecasts* are for these disparities to grow more pronounced in coming months. Overall, our forecasts suggest an equally weighted Asian FX basket modestly weaker vs. the dollar over the medium term, punctuated by some idiosyncratic strength in CNY, TWD and SGD. Over the short term, Asian currencies are expected flat vs. the USD, with MYR the notable underperformer.

Figure 24. CNY Still an Important Driver for Asian FX…



Sources: Bloomberg and Citi Research
Blue – CNY Spot; Red – Equally Weighted Asia FX

Figure 25. …JPY Relevant Too?

Sources: Bloomberg and Citi Research
Blue – JPY Spot; Red – Equally Weighted Asia FX

The sustained grind lower in USD/CNY fixings to fresh historical lows recently (Figure 26) is striking because the CNY has appreciated against a generally strengthening USD, and despite a clear softening in real Chinese activity. There are two chief drivers of the move, which we expect will see spot USD/CNY extending lower to 6.10 over the next three months and 6.00 over the longer run.

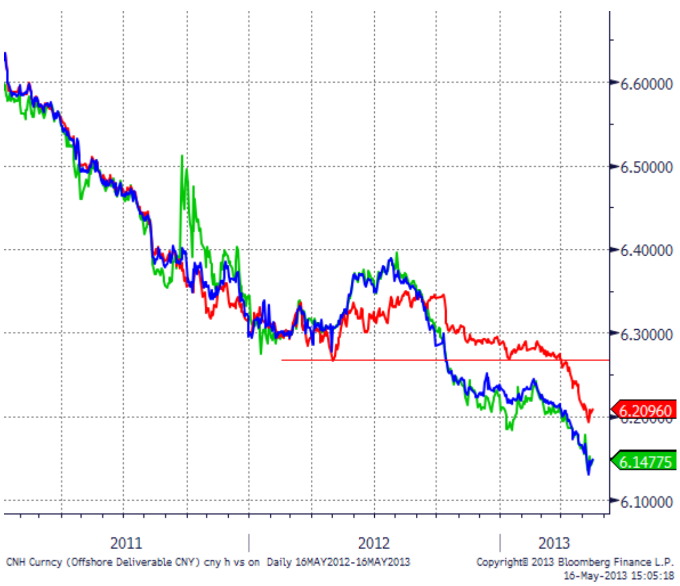
The first is that, in contrast to lagging data, *leading* data especially money and credit are exploding higher again and inflation expectations are ticking up too. M2 growth surged to 16.1% y/y in April, the fastest clip since August 2011 and well above the central bank's "target" of 13%. Total social financing is nearly 40% higher so far this year vs. the same period last year. The second driver of our forecasts is mounting evidence of policy-makers' desire to rebalance the Chinese growth model towards domestic demand and away from exports and investment. Citi economists expect the daily USD/CNY trading band to be widened (from 1% around the daily fixing now) within the next three months as part of this overall medium term rebalancing, a further support for stronger CNY in spot markets.

As we have argued for a couple of months now, monetary tightening in China is unlikely to be mirrored in the rest of Asia, with recent rate cuts from Korea and India being a case in point. Equally, the yuan remains an important anchor for the major Asian exporters over the medium term, particularly TWD, KRW and MYR that are all intensely export driven economies *and* highly sensitive to China/CNY (Figure 27).

Of these, KRW is the trickiest. It is very sensitive to China and the yuan (see Figure 27) and is also supported as one of the few "twin surplus" currencies around. The won is also very attractively valued in real effective terms. But Korea also has the greatest export overlap with Japan in EM Asia, of around 65%, and the KRW has recently outperformed vs. both CNY and JPY unlike other EM Asian currencies. Furthermore, data are weak and the central bank is still cutting interest rates, contrary to market expectations. Balancing these forces we forecast USD/KRW around current spot over the next three months, and at 1130 over 6-12 months.

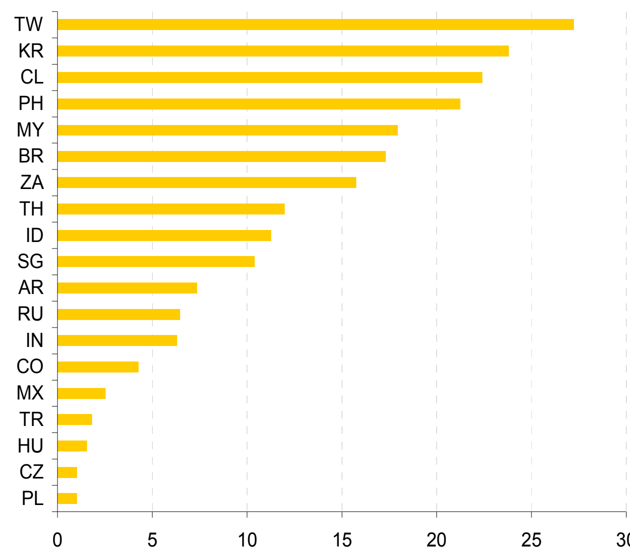
Taiwan is much less affected by the JPY, with less than 25% of its exports comparable to Japan's, and is instead more exposed to CNY. To be sure as the USD/CNY fixing has moved higher this week, USD/TWD has rallied strongly (and much more than other USD-Asia crosses) testing resistance at around 30 recently. As USD/CNY turns lower again, we expect TWD to be better supported. (Note also that Taiwan still has a huge current account surplus expected at 8.4% this year.) Our forecasts are for USD/TWD at 29.8 in the short term and 30 over 6-12 months.

Figure 26. CNY Fixing Grinds Lower



Sources: Bloomberg and Citi Research
Red – CNY Fix; Blue – CNY Spot; Green – CNH Spot

Figure 27. Exports to China as a Share of Total Exports (%)



Sources: Bloomberg and Citi Research

MYR, meanwhile, has been one of the better performing Asian currencies, helped especially by a smoother than expected election on May 5. This strength looks overdone, however, and we forecast MYR to be one of the worst performers in EM Asia over the course of the next year. Chief amongst the downside risks are commodity exports – Malaysia, together with Indonesia, is a large commodity exporter – which weigh one third of nominal Malaysian GDP. This may mean further softness in the data that have recently printed significantly below expectations. Our spot forecasts are 3.05 in the next three months at 3.10 over 6-12 months.

IDR is also forecast to underperform, continuing to bounce higher along the trend line in place since last July that suggests around 9800 for USD/IDR in the next three months. This is also our near term forecast, supported by generally weak macro including twin deficits on the current and fiscal accounts in a region flush with surpluses. We have lowered slightly our 6-12 month forecast from last month, to

9900, to reflect Citi economists' expectation of a fuel price hike which should both improve the current account position and also reduce the odds of a ratings downgrade.

In the next three months, both THB and PHP are expected to be driven more by a stronger dollar than local dynamics *per se*, and we have both currencies weaker by roughly the same magnitude over this period. Over the medium term, though, THB looks weaker and PHP relatively stronger.

Medium term pressures on THB include the risk of increasingly politicized MPC, an overvalued exchange rate and indeed a currency that, having been the top Asian performer over the last twelve months seems likely to give back some gains in a stronger USD setting. Citi economists forecast a current account deficit opening up over the course of the year, the first in Thailand since 2005. We forecast USD/THB at 30.0 in the near term and 30.5 over the medium term.

The Philippine peso, by contrast, seems likely to be more resilient than THB over the medium term. Supports include a firm macro backdrop and importantly, Citi economists' expectation of broader macro reforms from the recently elected Aquino government. We forecast USD/PHP at 41.2 over the 6-12 month period, which implies less weakness in PHP than other Asian/ EM crosses.

INR meanwhile is forecast to stay in the range over the next twelve months, between 54.5 and 56.5. As ever, our call balances various conflicting forces. On the one hand, lower twin deficits on the current and fiscal accounts from cheaper oil/recent curbs on gold imports, tamed inflation and improving underlying growth argue in favour of INR. On the other hand, fears of a particularly close election, which may be called early, and indeed a change at the helm of the central bank, are clear risks to a currency that has been very sensitive to both events in the past. Over the long run, USD/INR should settle around 55.

CEEMEA — Weak and Weaker

CEEMEA currencies have given back what they gained around the time of our last *FX Forecasts*. This was as expected. For the CEE portion, weakening macro, dovish central banks and intimate links with Europe create large vulnerabilities. Many of the MEA sub group meanwhile suffer from heavy commodity exposure.

We anticipate deeper underperformance ahead, with CEEMEA FX broadly weaker vs. the USD throughout the forecast horizon. Commodity currencies – ZAR, RUB, ILS – lead the move weaker in the short term.

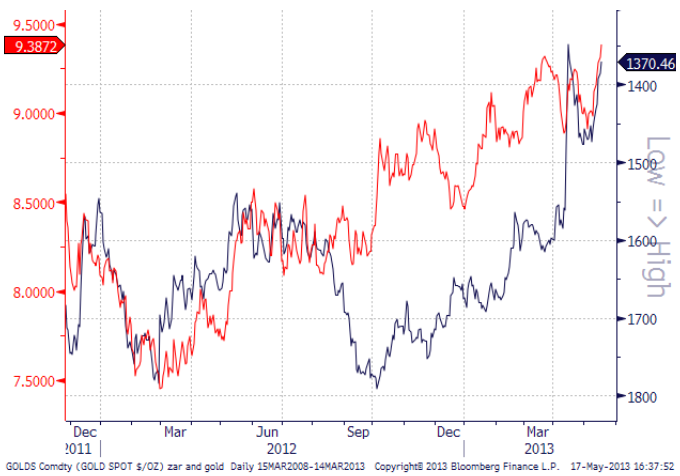
An unexpected rate cut from Poland's MPC earlier this month is expected to be followed by more – one in June and maybe also in July, according to Citi economists. A series of negative surprises in economic data (including flash Q1 GDP) recently, downside surprises in CPI/lower inflation expectations and drop in oil prices may reinforce dovishness at the central bank and argues for the zloty weaker. Acting in the opposite direction, however, may be increased foreign demand for local fixed income. Reflecting a more bearish tilt of these forces we have nudged higher our forecasts for EUR/PLN to 4.20 in the near term, slightly above current spot, and 4.25 in 6-12 months time.

We have also raised slightly our forecasts for EUR/CZK, to 26.1 over the short and medium runs. The larger than expected GDP contraction in the first quarter may persuade some members of the MPC board to consider more monetary easing, including re-opening the discussion on tools to keep the koruna weak and above 26 vs. the euro. In the long run, we continue to forecast EUR/CZK lower with a handle of 24.

The HUF has been one of the best performing currencies in its cohort in the last month, supported by a combination of too much bad news priced and relatedly, helpful investor positioning. To be sure, Hungarian GDP was stronger than most in CEE in Q1. Yet, Citi economists highlight two concerns. The first is that while the new leadership at the NBH may have so far been less radical than markets feared, the clip of monetary easing is still expected to be quick, with 75bps of rate cuts forecast in next three months. And second is that the recent bounce in activity may not be sustainable, with much of the quarterly improvement coming off a dismal base in Q4. With event risk running high ahead of next year's elections, we forecast EUR/HUF back above 300 in 6-12 months, and 290-295 in the short term.

South Africa's economic and political position remains weak, with continued labour unrest, rising inflation and a worsening current account and fiscal position. The rand has dropped by more than 12% against the dollar since last September when Moody's and S&P cut South Africa's ratings (Figure 28), and we think there is worse to come. Our forecasts are for USD/ZAR at 9.50 in the short term and 9.60 in the medium term, reflecting great political/mining uncertainty and the added headwind of weaker gold/platinum prices (see Figure 28). On balance, we also expect increased volatility for the rand.

Figure 28. USD/ZAR Trending Higher



Source: Bloomberg and Citi Research
Red – USD/ZAR; Blue – Gold Spot Price, Inverted

Figure 29. USD/ILS (Red) Vs. 2y Swap Differential vs. US (Blue)

Source: Bloomberg and Citi Research

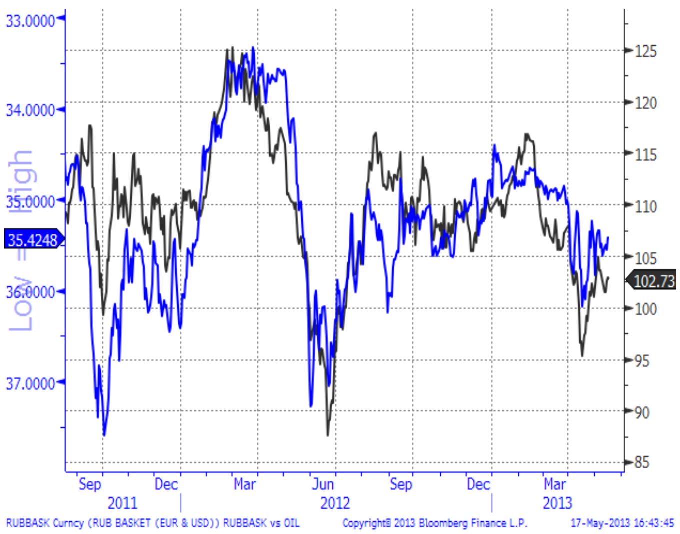
In the last six months the Israeli shekel has been one of the best performing currencies in the world, much to the chagrin of the Bank of Israel which has been battling to keep it competitive. Fisher's recent 25bp rate cut and intervention surprised the market (and us) and pushed the USD/ILS back from 3.54 to above 3.60. We think this move has "legs" and forecast USD/ILS at 3.70 short term and 3.75 over 6-12 months, helped by the CB's willingness to intervene and indeed, continued regional risks. Longer run, we continue to see USD/ILS back in the 4-4.20 range, as suggested by relative short end swap rates (Figure 29).

The chief negative for the Russian rouble, meanwhile, is lower Brent prices (Figure 30), particularly given softer domestic growth and an increasingly dovish sounding central bank. Growth is decelerating faster than consensus expectations and our economists highlight downside risks from slowing consumption and falling producer expectations. Citi forecasts for monetary ease in the second half of the year, which include a 50bp cut in interest rates, may even come sooner on the back of recent

dovish central bank statements. On balance, we forecast the basket to weaken to 36.3 over 0-3m and 38 medium term.

The Turkish lira's underperformance vis-à-vis its peers grew much more pronounced this week after the central bank eased monetary policy by more than expected, with USD/TRY breaking higher through the range that has prevailed since last July (Figure 31). Our forecasts are for this to continue. While the latest ratings upgrade may provide some short term support to TRY assets, the clear dovish bias of the central bank and focus on 120 as the "critical" REER level are likely to keep the lira relatively weak. Our forecasts are for USD/TRY at 1.84 short term and 1.90 over 6-12 months.

Figure 30. RUBBASK (Blue) and Brent (Black)



Source: Bloomberg and Citi Research

Figure 31. USD/TRY Moves Higher Through the Range

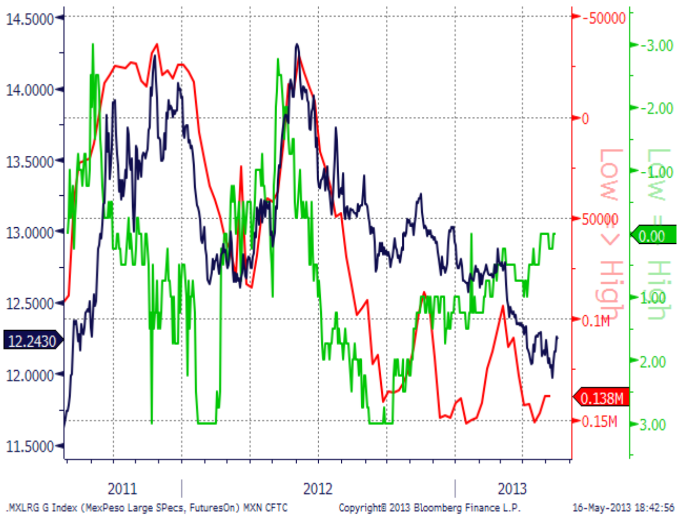
Source: Bloomberg and Citi Research

Latam — MXN vs. Commodity Currencies

Latam currencies have all weakened vs. the USD in the last four weeks. This is mostly as expected: the region overall is dominated by commodity currencies that are also facing mounting macro challenges at home. In the short term, we forecast a region of two halves with MXN and BRL outperforming the dollar and COP and CLP selling off further. In the medium term, MXN outperforms significantly with the rest all weaker.

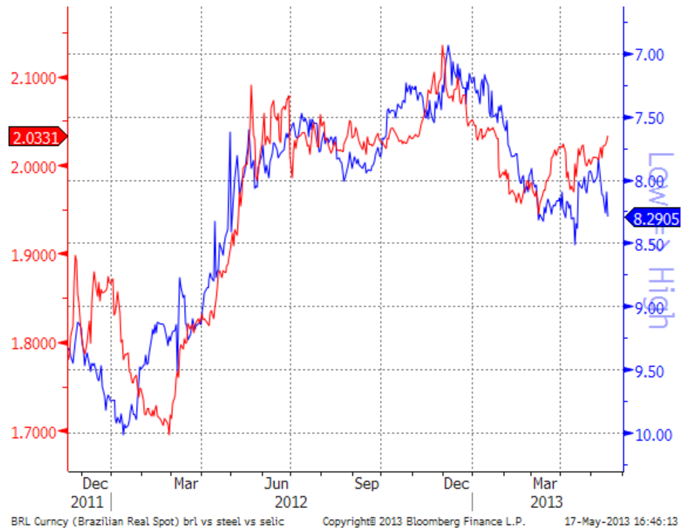
MXN remains the darling of EM investors, and, while we are cognisant of the short term risks of extended investor positioning, we note that both actual positioning indicators and their relationship with USD/MXN are pretty mixed (Figure 32). USD/MXN has struggled to stay below the 12 achieved earlier this month on a ratings upgrade, but we expect it to break lower to 11.8 over the medium term, almost fully retracing the May 11 to June 12 move. As before, fundamental supports to our bullish MXN forecast are twofold: better US *and* Mexican macro conditions. On the first point, MXN is often higher beta to US improvements than the dollar itself. On the domestic front, aside from the well documented reforms, Citi economists are bullish local growth, with YoY GDP growth forecast to more than double in the next few quarters, from 1.7% expected in Q1 to nearly 5% in Q1 2014. Notably, the Central Bank has also struck a less dovish tone recently.

Figure 32. USD/MXN Vs. Investor Positioning – Mixed



Source: Bloomberg and Citi Research
Blue – USD/MXN; Green – Citi Platform Indicator; Red – CFTC MXN Positioning

Figure 33. USD/BRL (Red) vs. Rel. 2y Swaps (Blue)



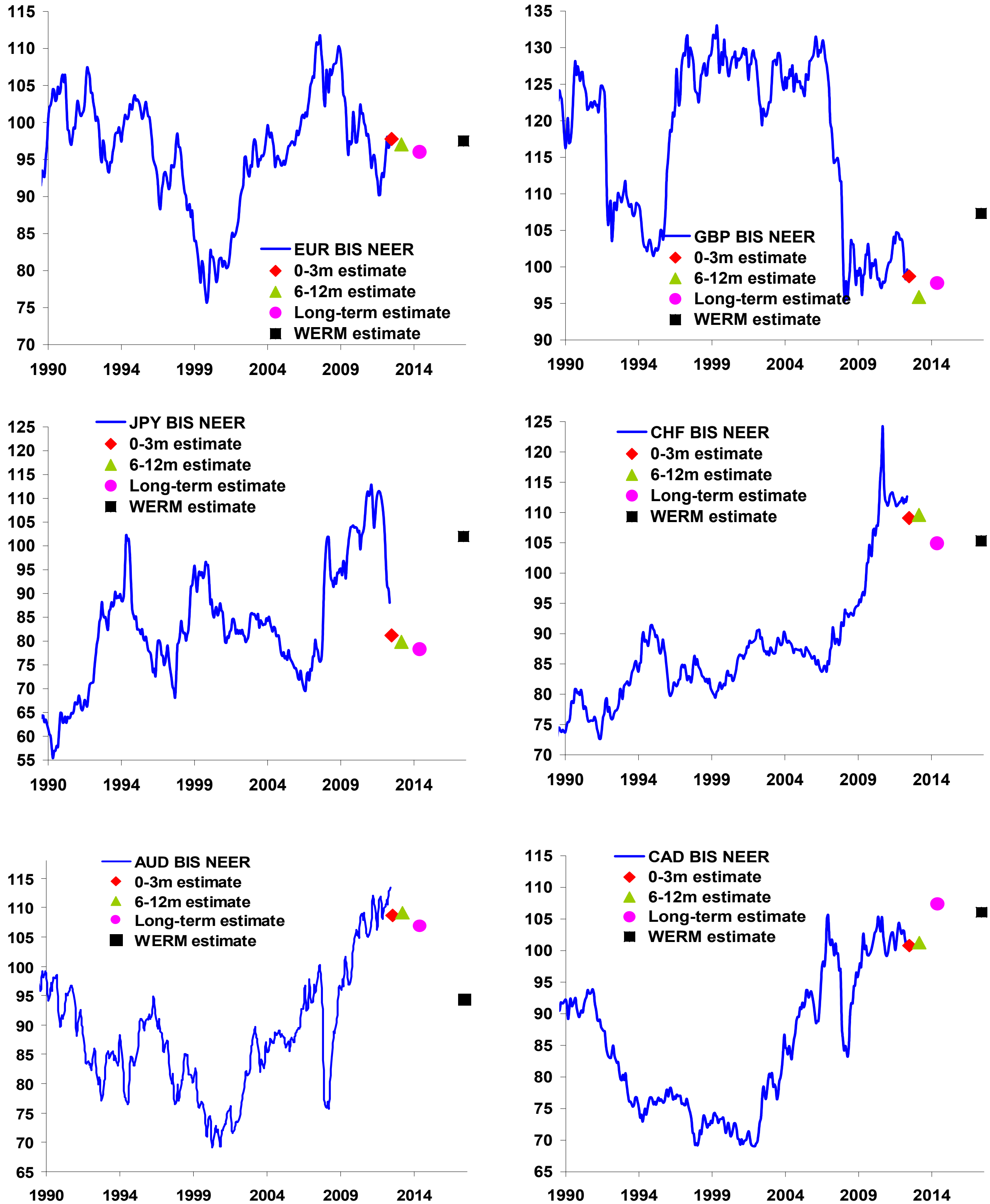
Source: Bloomberg and Citi Research

Our call on BRL, meanwhile, strikes a balance between lower commodity prices that point to USD/BRL higher and increasingly supportive swap rate differentials that point to USD/BRL lower (Figure 33). We see the latter as driving some near term real strength: as the central bank continues to hike and inflation stays elevated, USD/BRL should grind lower to around 1.96, i.e., around levels where the central bank has tended to intervene. Both the upper and lower boundaries of USD/BRL have been heavily managed for a year now, and we expect this to continue with the cross trading between 1.96 and 2.05 over the next twelve months.

Our forecasts for USD/CLP, by contrast, are driven more by lower copper prices. CLP is a “true commodity currency” with copper accounting for nearly a quarter of nominal GDP, and USD/CLP has already fallen far behind what historical relationships with copper prices might suggest. Furthermore, unlike Brazil, the central bank is sounding increasingly dovish, noting a series of negative macro developments: weaker growth, cooling housing, and tight credit conditions. Reflecting these factors, we have nudged higher our USD/CLP forecasts to 490 in the near term and 495 in 6-12 months time.

USD/COP continues to move higher within a steep upward sloping channel that has been in place since late last year, and our forecasts suggest that this continues. Indeed we have turned more bearish on COP too: on lower oil prices; a central bank that is actively “helping” USD/COP higher; recently proposed limits from the MoF on pension funds’ external investments; and generally cooling FDI flows. Reflecting these factors we forecast USD/COP at 1880 in the next three months and 1900 over the medium term.

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-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
G10											
Euro	EURUSD	1.29	1.28	1.27	1.26	1.25	1.25	1.25	1.25	1.25	1.25
Japanese yen	USDJPY	102	107	108	109	110	110	110	110	110	110
British Pound	GBPUSD	1.53	1.48	1.46	1.43	1.42	1.43	1.44	1.44	1.45	1.46
Swiss Franc	USDCHF	0.97	0.99	0.99	1.00	1.00	1.01	1.02	1.03	1.04	1.04
Australian Dollar	AUDUSD	0.98	0.97	0.97	0.96	0.96	0.96	0.96	0.95	0.95	0.95
New Zealand Dollar	NZDUSD	0.81	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
Canadian Dollar	USDCAD	1.02	1.03	1.03	1.03	1.02	1.01	1.00	0.99	0.98	0.97
Swedish Krona	USDSEK	6.68	6.73	6.77	6.82	6.84	6.83	6.82	6.81	6.80	6.79
Norwegian Krone	USDNOK	5.86	5.86	5.89	5.91	5.91	5.88	5.86	5.84	5.81	5.79
EM Asia											
Chinese Renminbi	USDCNY	6.14	6.10	6.09	6.08	6.07	6.06	6.04	6.02	6.01	6.00
Hong Kong Dollar	USDHKD	7.76	7.76	7.76	7.76	7.76	7.76	7.76	7.75	7.75	7.75
Indonesian Rupiah	USDIDR	9757	9805	9843	9880	9878	9830	9781	9732	9685	9654
Indian Rupee	USDINR	54.9	54.6	55.4	56.1	56.4	56.2	56.0	55.8	55.6	55.4
Korean Won	USDKRW	1117	1116	1121	1127	1118	1090	1063	1036	1009	995
Malaysian Ringgit	USDMYR	3.02	3.05	3.07	3.09	3.10	3.09	3.08	3.07	3.06	3.05
Philippine Peso	USDPHP	41.2	41.5	41.4	41.3	41.2	41.1	41.0	40.9	40.8	40.8
Singapore Dollar	USDSGD	1.25	1.24	1.24	1.24	1.24	1.23	1.22	1.21	1.20	1.19
Thai Baht	USDTHB	29.8	30.0	30.2	30.4	30.4	30.3	30.2	30.1	30.0	29.9
Taiwan Dollar	USDTWD	30.0	29.8	29.9	30.0	29.9	29.7	29.5	29.3	29.1	29.0
EM Europe											
Czech Koruna	USDCZK	20.21	20.42	20.60	20.78	20.75	20.48	20.21	19.93	19.66	19.45
Hungarian Forint	USDHUF	226	231	236	240	241	239	237	235	233	232
Polish Zloty	USDPLN	3.25	3.29	3.33	3.38	3.37	3.32	3.26	3.20	3.15	3.11
Israeli Shekel	USDILS	3.65	3.70	3.72	3.74	3.79	3.88	3.97	4.06	4.15	4.17
Russian Ruble	USDRUB	31.4	32.3	33.1	33.8	34.1	34.0	33.9	33.8	33.8	33.7
Turkish Lira	USDTRY	1.84	1.84	1.87	1.89	1.90	1.91	1.91	1.92	1.93	1.93
South African Rand	USDZAR	9.40	9.51	9.54	9.58	9.61	9.63	9.65	9.67	9.69	9.71
EM Latam											
Brazilian Real	USDBRL	2.03	1.96	2.00	2.03	2.05	2.06	2.06	2.07	2.08	2.09
Chilean Peso	USDCLP	480	490	492	494	495	494	493	492	491	490
Mexican Peso	USDMXN	12.3	12.0	11.9	11.8	11.8	11.9	12.0	12.1	12.2	12.3
Colombian Peso	USDCOP	1840	1881	1889	1896	1895	1885	1875	1865	1855	1848

Source: Bloomberg and Citi Research

Figure 36. Quarterly Interpolated Forecasts – EUR Crosses

Quarterly Interpolated Forecasts
vs. EUR

	Currency	Spot	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
G10											
Euro	EURUSD	1.29	1.28	1.27	1.26	1.25	1.25	1.25	1.25	1.25	1.25
Japanese yen	EURJPY	132	137	137	137	138	138	138	138	138	138
British Pound	EURGBP	0.84	0.86	0.87	0.88	0.88	0.87	0.87	0.87	0.86	0.86
Swiss Franc	EURCHF	1.24	1.26	1.26	1.25	1.25	1.26	1.27	1.28	1.29	1.30
Australian Dollar	EURAUD	1.32	1.32	1.31	1.31	1.30	1.31	1.31	1.31	1.31	1.32
New Zealand Dollar	EURNZD	1.59	1.60	1.58	1.57	1.56	1.56	1.56	1.56	1.56	1.57
Canadian Dollar	EURCAD	1.32	1.32	1.31	1.29	1.28	1.27	1.25	1.24	1.22	1.21
Swedish Krona	EURSEK	8.59	8.60	8.58	8.56	8.55	8.54	8.53	8.52	8.51	8.50
Norwegian Krone	EURNOK	7.53	7.49	7.46	7.42	7.39	7.36	7.33	7.30	7.27	7.25
EM Asia											
Chinese Renminbi	EURCNY	7.90	7.80	7.72	7.64	7.59	7.57	7.55	7.53	7.51	7.52
Hong Kong Dollar	EURHKD	9.99	9.92	9.83	9.75	9.70	9.70	9.69	9.69	9.69	9.70
Indonesian Rupiah	EURIDR	12551	12535	12472	12409	12347	12287	12226	12166	12106	12086
Indian Rupee	EURINR	70.6	69.8	70.1	70.5	70.5	70.3	70.0	69.8	69.5	69.4
Korean Won	EURKRW	1437	1426	1421	1415	1397	1363	1329	1295	1261	1245
Malaysian Ringgit	EURMYR	3.89	3.90	3.89	3.88	3.87	3.86	3.84	3.83	3.82	3.81
Philippine Peso	EURPHP	53.0	53.0	52.4	51.8	51.5	51.4	51.3	51.2	51.1	51.0
Singapore Dollar	EURSGD	1.61	1.59	1.57	1.56	1.54	1.53	1.52	1.51	1.49	1.49
Thai Baht	EURTHB	38.3	38.4	38.3	38.2	38.1	37.9	37.8	37.6	37.5	37.4
Taiwan Dollar	EURTWD	38.6	38.1	37.9	37.6	37.4	37.1	36.9	36.6	36.4	36.3
EM Europe											
Czech Koruna	EURCZK	26.00	26.10	26.10	26.10	25.94	25.60	25.26	24.91	24.58	24.35
Hungarian Forint	EURHUF	291	295	298	301	302	299	297	294	291	290
Polish Zloty	EURPLN	4.18	4.20	4.22	4.24	4.22	4.15	4.08	4.01	3.94	3.90
Israeli Shekel	EURILS	4.70	4.73	4.72	4.70	4.74	4.85	4.97	5.08	5.19	5.22
Russian Ruble	EURRUB	40.4	41.3	41.9	42.4	42.6	42.5	42.4	42.3	42.2	42.2
Turkish Lira	EURTRY	2.37	2.36	2.36	2.37	2.38	2.39	2.39	2.40	2.41	2.42
South African Rand	EURZAR	12.09	12.15	12.09	12.03	12.01	12.04	12.06	12.09	12.11	12.16
EM Latam											
Brazilian Real	EURBRL	2.61	2.51	2.53	2.55	2.57	2.57	2.58	2.59	2.60	2.61
Chilean Peso	EURCLP	618	627	624	620	618	617	616	614	613	613
Mexican Peso	EURMXN	15.8	15.3	15.1	14.8	14.8	14.9	15.0	15.2	15.3	15.4
Colombian Peso	EURCOP	2367	2405	2393	2381	2369	2357	2344	2331	2319	2314

Source: Bloomberg and Citi Research

Figure 37. Quarterly Interpolated Forecasts – Other

Quarterly Interpolated Forecasts
Other

	Currency	Spot	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15
Others											
Dollar Index*	DXY	83.9	85.1	85.9	86.7	87.1	86.9	86.8	86.7	86.6	86.4
Norwegian Krone	NOKSEK	1.14	1.15	1.15	1.15	1.16	1.16	1.16	1.17	1.17	1.17
Australian Dollar	AUDNZD	1.20	1.21	1.21	1.20	1.20	1.20	1.19	1.19	1.19	1.19
Australian Dollar	AUDJPY	99.9	103.9	104.6	105.2	105.5	105.3	105.1	104.8	104.6	104.3
Russian Ruble Basket		35.4	36.4	37.0	37.7	38.0	37.9	37.8	37.7	37.6	37.5
Equally Weighted Regional Baskets vs. USD**											
World		100.00	100.75	101.40	102.06	102.28	102.02	101.75	101.48	101.22	100.98
G10		100.00	101.48	102.13	102.79	103.08	102.95	102.83	102.70	102.57	102.41
EM		100.00	100.43	101.09	101.74	101.94	101.61	101.28	100.96	100.64	100.38
EM Asia		100.00	100.01	100.34	100.68	100.58	99.98	99.38	98.78	98.19	97.82
CEEMEA		100.00	101.47	102.71	103.95	104.52	104.34	104.16	103.97	103.79	103.48
Latam		100.00	99.67	100.10	100.52	100.80	100.91	101.02	101.13	101.24	101.33
GDP Weighted Regional Baskets vs. USD**											
World		100.00	100.93	101.73	102.54	102.89	102.72	102.55	102.38	102.21	102.03
G10		100.00	101.71	102.64	103.58	104.04	103.94	103.84	103.75	103.66	103.47
EM		100.00	99.70	100.30	100.91	101.09	100.80	100.51	100.22	99.94	99.78
EM Asia		100.00	99.59	99.81	100.04	99.92	99.40	98.88	98.36	97.85	97.57
CEEMEA		100.00	101.79	103.35	104.92	105.63	105.39	105.15	104.91	104.67	104.41
Latam		100.00	97.81	98.56	99.30	99.87	100.25	100.64	101.03	101.41	101.75

* 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	2013*	2014*	2015*	2016*	2017*
G10							
Euro	EURUSD	1.29	1.27	1.25	1.25	1.27	1.29
Japanese yen	USDJPY	102	105	110	110	110	110
British Pound	GBPUSD	1.53	1.47	1.43	1.47	1.53	1.59
Swiss Franc	USDCHF	0.97	0.98	1.02	1.04	1.02	1.01
Australian Dollar	AUDUSD	0.98	0.98	0.96	0.95	0.93	0.92
New Zealand Dollar	NZDUSD	0.81	0.81	0.80	0.80	0.78	0.76
Canadian Dollar	USDCAD	1.02	1.03	1.01	0.97	0.96	0.96
Swedish Krona	USDSEK	6.68	6.71	6.82	6.77	6.65	6.54
Norwegian Krone	USDNOK	5.86	5.88	5.87	5.78	5.69	5.60
EM Asia							
Chinese Renminbi	USDCNY	6.14	6.12	6.05	6.01	6.02	6.04
Hong Kong Dollar	USDHKD	7.76	7.76	7.76	7.75	7.75	7.75
Indonesian Rupiah	USDIDR	9757	9816	9805	9651	9593	9540
Indian Rupee	USDINR	54.9	55.1	56.1	55.4	54.8	54.2
Korean Won	USDKRW	1117	1119	1077	998	992	990
Malaysian Ringgit	USDMYR	3.02	3.08	3.08	3.04	3.01	2.98
Philippine Peso	USDPHP	41.2	41.2	41.0	40.7	40.5	40.2
Singapore Dollar	USDSGD	1.25	1.24	1.22	1.19	1.19	1.19
Thai Baht	USDTHB	29.8	30.0	30.3	29.8	29.5	29.2
Taiwan Dollar	USDTWD	30.0	29.9	29.6	29.0	28.7	28.4
EM Europe							
Czech Koruna	USDCZK	20.21	20.47	20.34	19.39	18.78	18.20
Hungarian Forint	USDHUF	226	236	238	232	231	231
Polish Zloty	USDPLN	3.25	3.31	3.29	3.11	3.04	2.97
Israeli Shekel	USDILS	3.65	3.70	3.93	4.11	3.87	3.60
Russian Ruble	USDRUB	31.4	32.6	34.0	33.7	33.4	33.2
Turkish Lira	USDTRY	1.84	1.85	1.91	1.93	1.92	1.92
South African Rand	USDZAR	9.40	9.47	9.64	9.72	9.80	9.89
EM Latam							
Brazilian Real	USDBRL	2.03	2.00	2.06	2.09	2.14	2.18
Chilean Peso	USDCLP	480	487	493	490	490	490
Mexican Peso	USDMXN	12.3	12.0	12.0	12.3	12.3	12.3
Colombian Peso	USDCOP	1840	1873	1880	1847	1829	1813

* 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	2013*	2014*	2015*	2016*	2017*
G10							
Euro	EURUSD	1.29	1.27	1.25	1.25	1.27	1.29
Japanese yen	EURJPY	132	133	138	138	140	142
British Pound	EURGBP	0.84	1.47	1.43	1.47	1.52	1.58
Swiss Franc	EURCHF	1.24	1.25	1.27	1.30	1.30	1.30
Australian Dollar	EURAUD	1.32	1.29	1.31	1.33	1.36	1.40
New Zealand Dollar	EURNZD	1.59	1.57	1.56	1.58	1.63	1.69
Canadian Dollar	EURCAD	1.32	1.30	1.26	1.22	1.22	1.23
Swedish Krona	EURSEK	8.59	8.53	8.53	8.49	8.46	8.42
Norwegian Krone	EURNOK	7.53	7.47	7.34	7.25	7.23	7.21
EM Asia							
Chinese Renminbi	EURCNY	7.90	7.78	7.56	7.54	7.66	7.78
Hong Kong Dollar	EURHKD	9.99	9.86	9.70	9.72	9.85	9.98
Indonesian Rupiah	EURIDR	12551	12474	12257	12109	12191	12282
Indian Rupee	EURINR	70.6	70.0	70.1	69.5	69.6	69.8
Korean Won	EURKRW	1437	1422	1346	1252	1261	1274
Malaysian Ringgit	EURMYR	3.89	3.91	3.85	3.82	3.83	3.84
Philippine Peso	EURPHP	53.0	52.4	51.3	51.1	51.4	51.8
Singapore Dollar	EURSGD	1.61	1.58	1.53	1.49	1.51	1.53
Thai Baht	EURTHB	38.3	38.1	37.8	37.4	37.5	37.6
Taiwan Dollar	EURTWD	38.6	38.0	37.0	36.3	36.4	36.6
EM Europe							
Czech Koruna	EURCZK	26.00	26.01	25.43	24.32	23.86	23.43
Hungarian Forint	EURHUF	291	300	298	291	294	297
Polish Zloty	EURPLN	4.18	4.21	4.11	3.90	3.86	3.83
Israeli Shekel	EURILS	4.70	4.71	4.91	5.16	4.91	4.64
Russian Ruble	EURRUB	40.4	41.4	42.5	42.2	42.5	42.8
Turkish Lira	EURTRY	2.37	2.35	2.39	2.42	2.44	2.47
South African Rand	EURZAR	12.09	12.03	12.05	12.20	12.46	12.73
EM Latam							
Brazilian Real	EURBRL	2.61	2.55	2.58	2.63	2.72	2.81
Chilean Peso	EURCLP	618	619	616	615	623	631
Mexican Peso	EURMXN	15.8	15.3	15.0	15.4	15.6	15.8
Colombian Peso	EURCOP	2367	2380	2350	2317	2325	2334

* 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	2013*	2014*	2015*	2016*	2017*
Others							
Dollar Index**	DXY	83.9	85.2	86.9	86.2	85.0	83.8
Norwegian Krone	NOKSEK	1.14	1.14	1.16	1.17	1.17	1.17
Australian Dollar	AUDNZD	1.20	1.22	1.20	1.19	1.20	1.21
Australian Dollar	AUDJPY	99.9	103.0	105.2	104.2	102.8	101.5
Russian Ruble Basket		35.4	36.5	37.8	37.5	37.5	37.5
Equally Weighted Regional Baskets vs. USD* **							
World		100.00	100.82	101.88	100.89	100.11	99.35
G10		100.00	100.98	102.89	102.29	101.52	100.79
EM		100.00	100.76	101.45	100.29	99.50	98.73
EM Asia		100.00	100.19	99.68	97.82	97.26	96.76
CEEMEA		100.00	102.04	104.25	103.21	101.43	99.64
Latam		100.00	99.91	100.96	101.38	101.73	102.08
GDP Weighted Regional Baskets vs. USD* **							
World		100.00	101.00	102.63	101.94	101.21	100.51
G10		100.00	101.49	103.89	103.29	102.18	101.09
EM		100.00	100.24	100.66	99.80	99.68	99.59
EM Asia		100.00	99.95	99.14	97.62	97.44	97.33
CEEMEA		100.00	102.34	105.27	104.24	103.03	101.83
Latam		100.00	98.86	100.45	101.89	103.10	104.30

* 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

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