



CURRENCY UPDATE

Brussels

March 2015



Currency Update March 2015



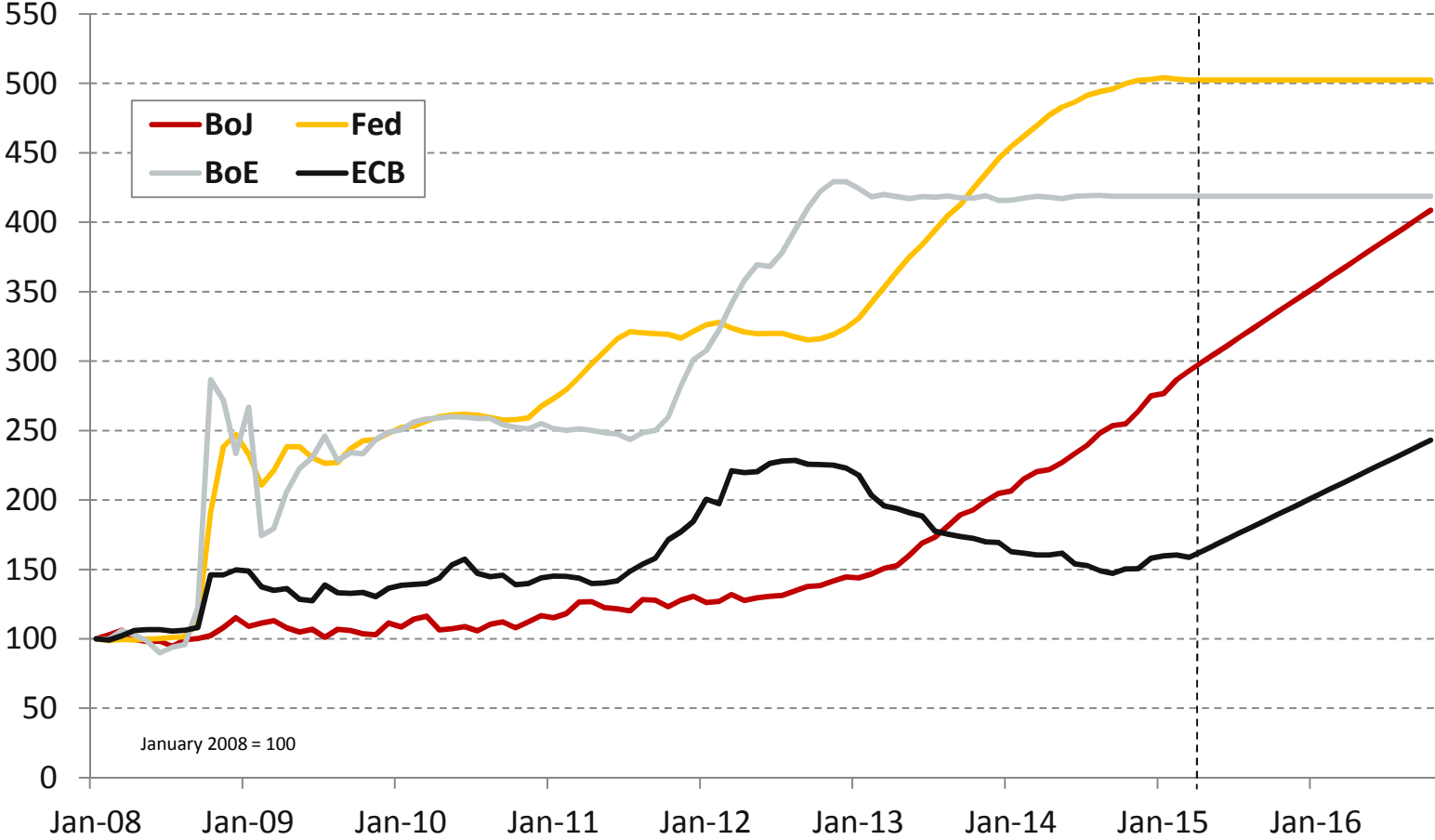


EUR

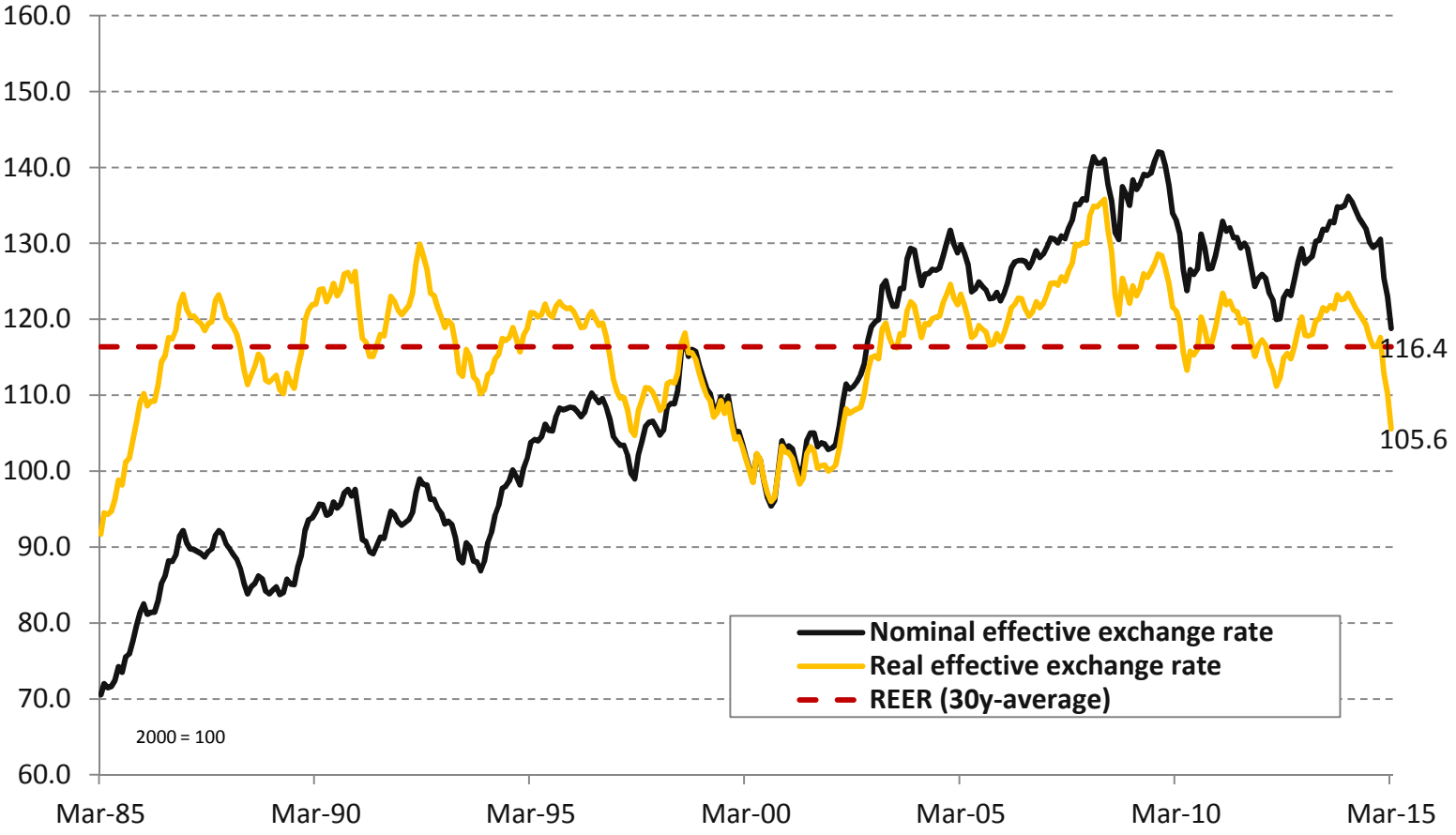
- ECB finally in QE mode
- EUR now significantly cheaper (too cheap?)
- Currencies tend to overshoot in the short-term (R. Dornbush et al)
- Eurozone economic activity set to accelerate
- Sizeable current account surplus
- DM and EM currency allocation

ECB finally in QE mode

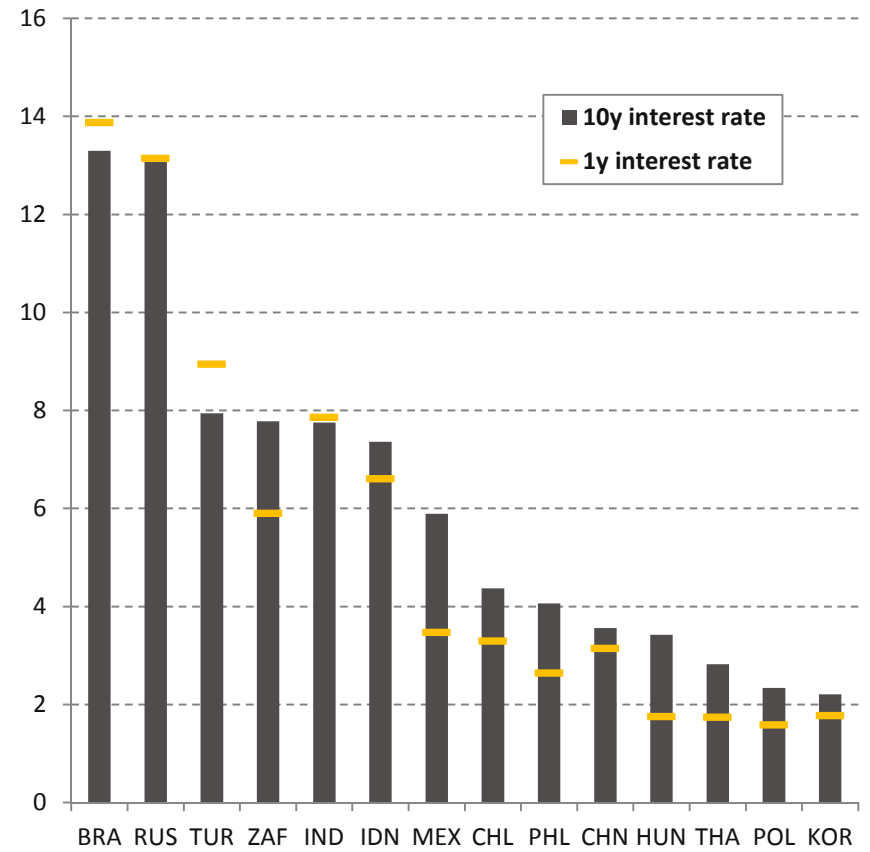
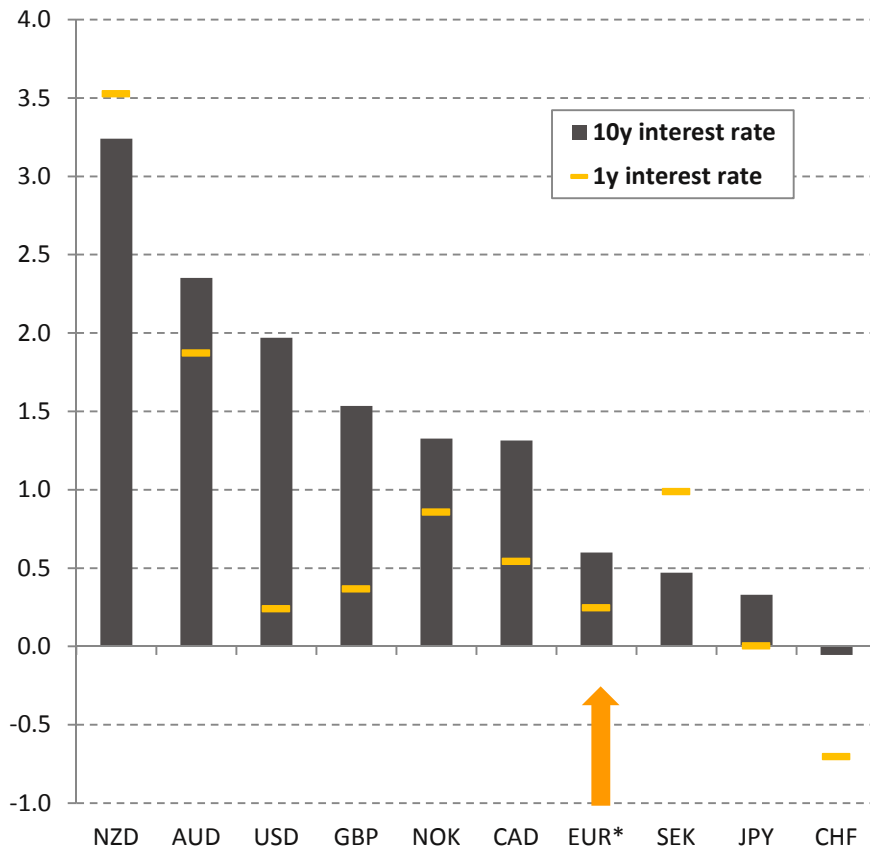
ECB balance sheet expansion



Euro now cheap in LT-perspective



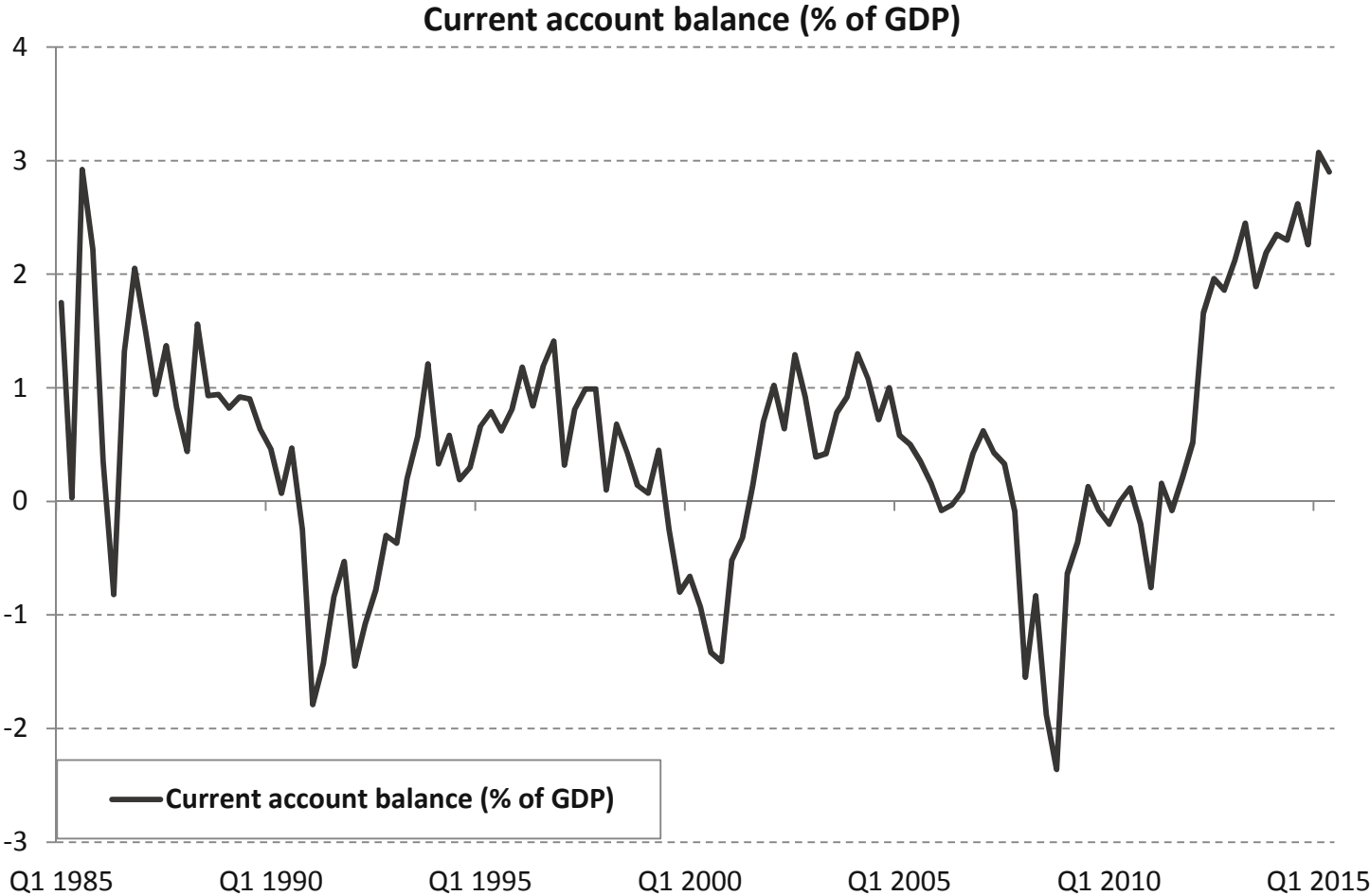
Low yielding currency



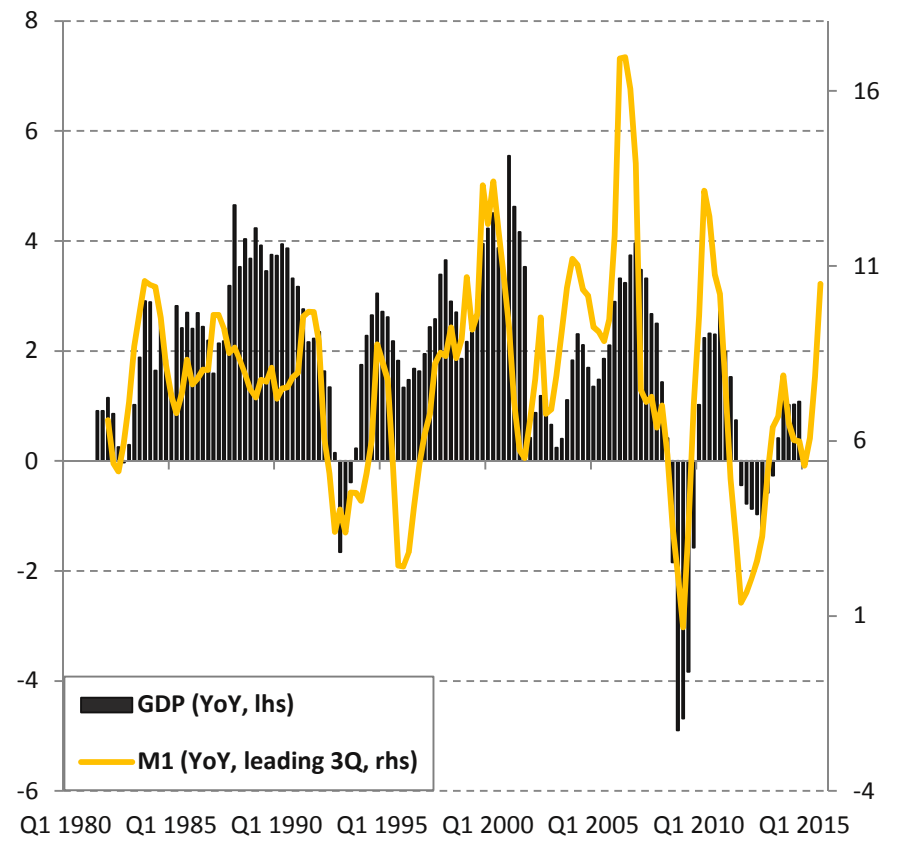
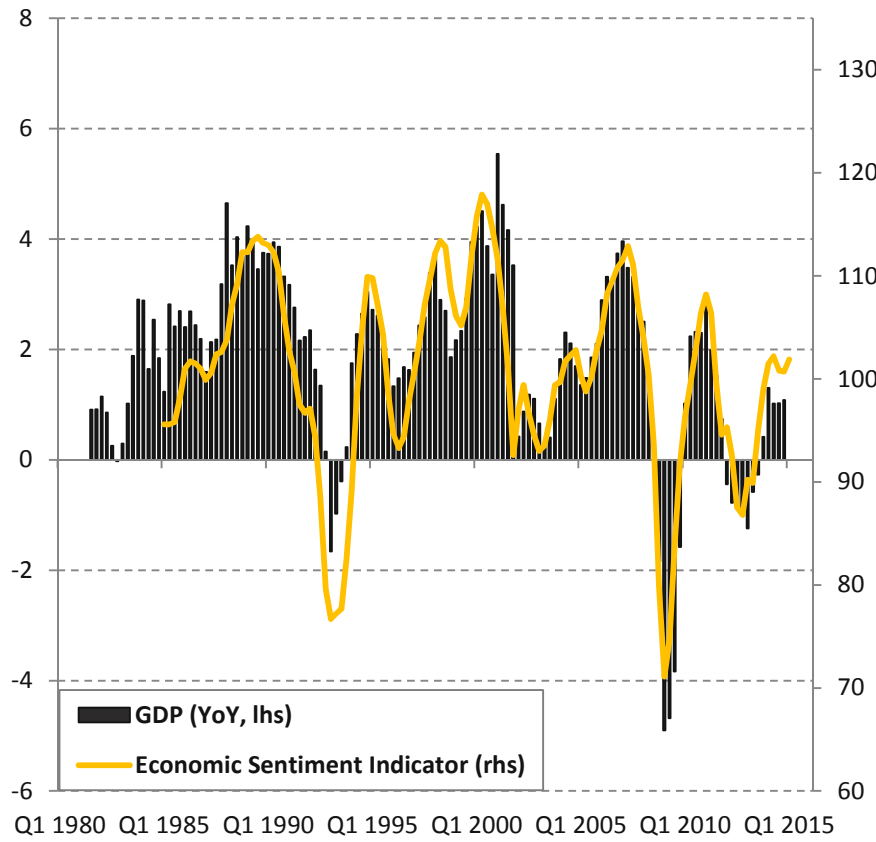
*1y deposit rate and 10y synthetic benchmark bond redemption yield (Thomson Reuters)



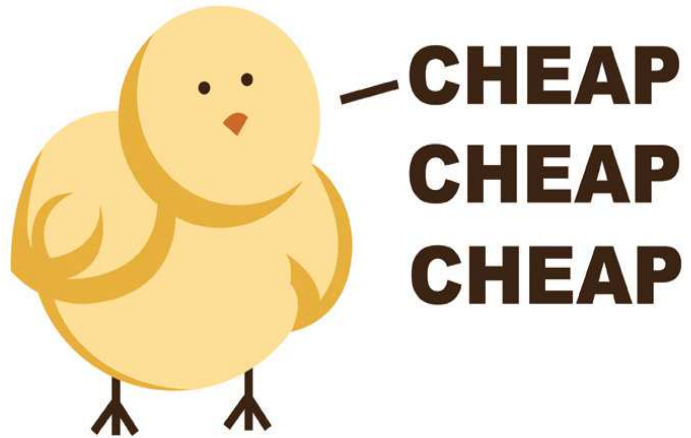
Sizeable current account surplus



Cyclical improvement in economic outlook



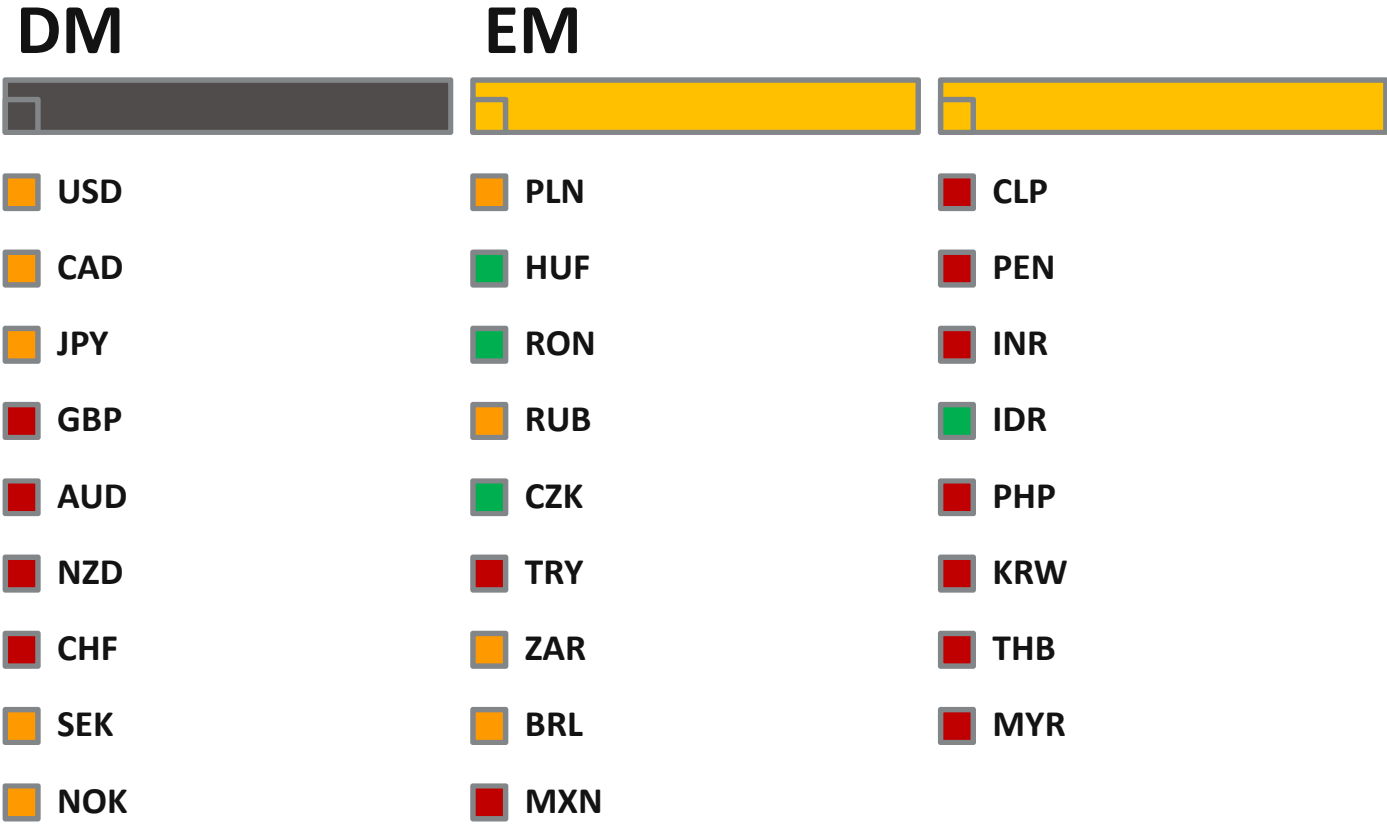
Has the EUR become too...



???



Currency Allocation Summary



■ Underweight
 ■ Neutral
 ■ Overweight



DM currencies



DM Currency Valuation

Underweight



- SWF
- GBP
- AUD
- NZD

Neutral



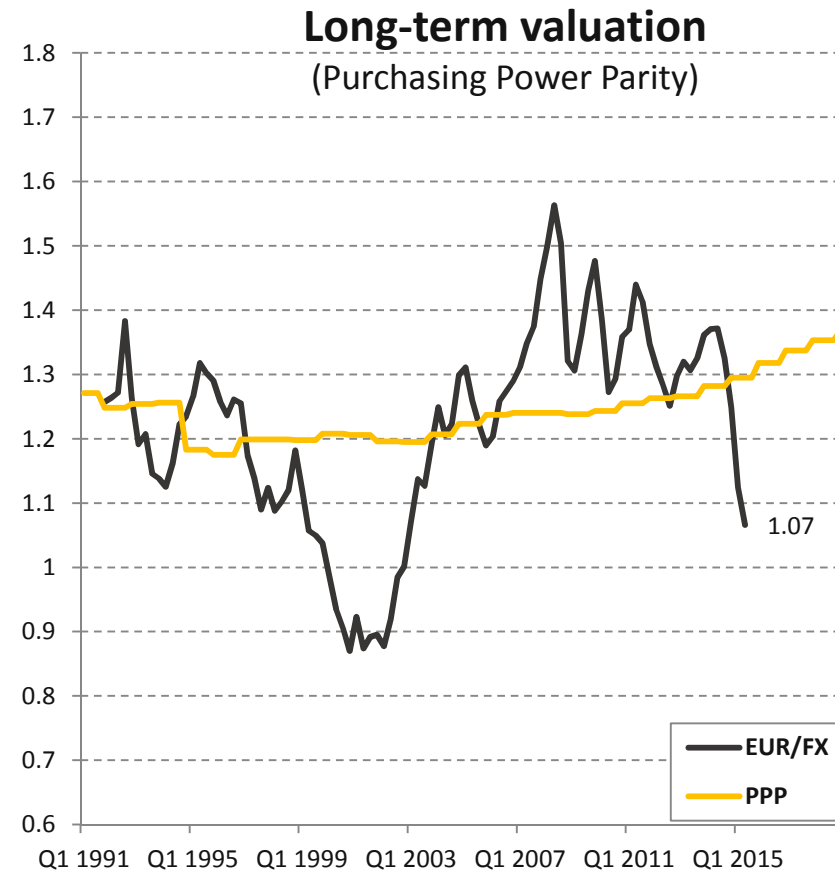
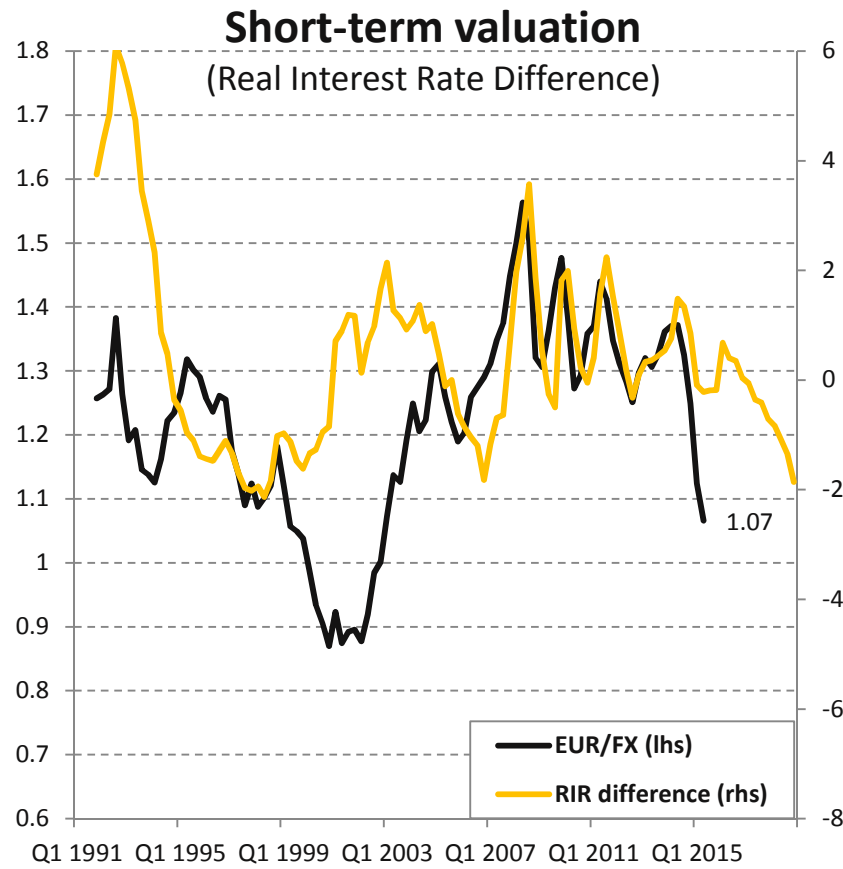
- USD
- JPY
- SEK
- NOK
- CAD

Overweight



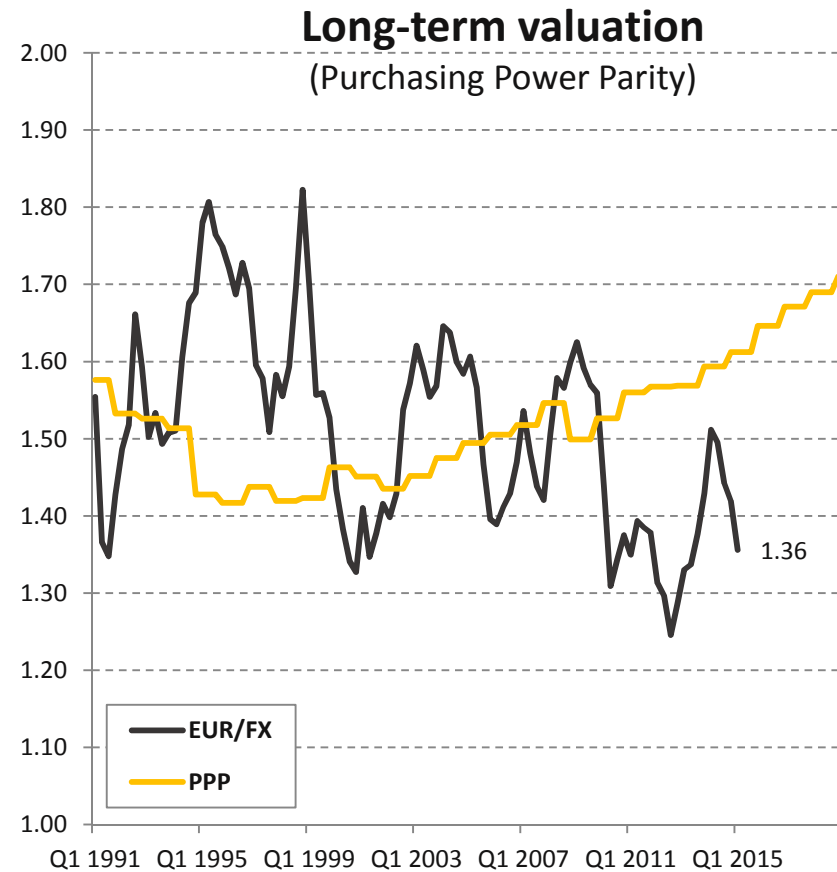
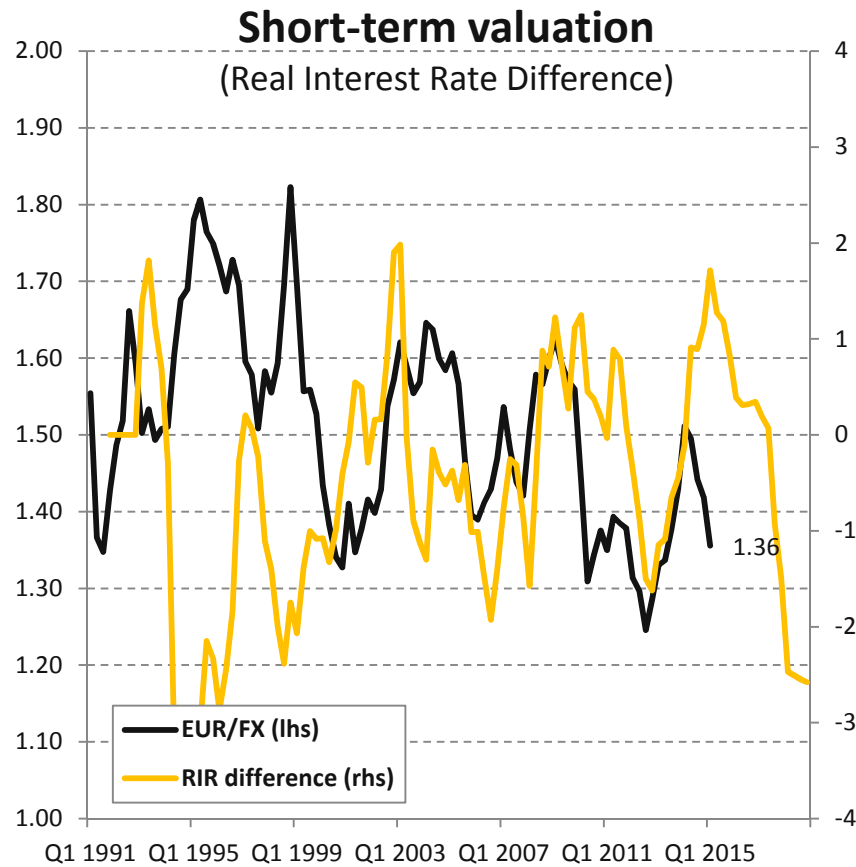
USD

No longer cheap

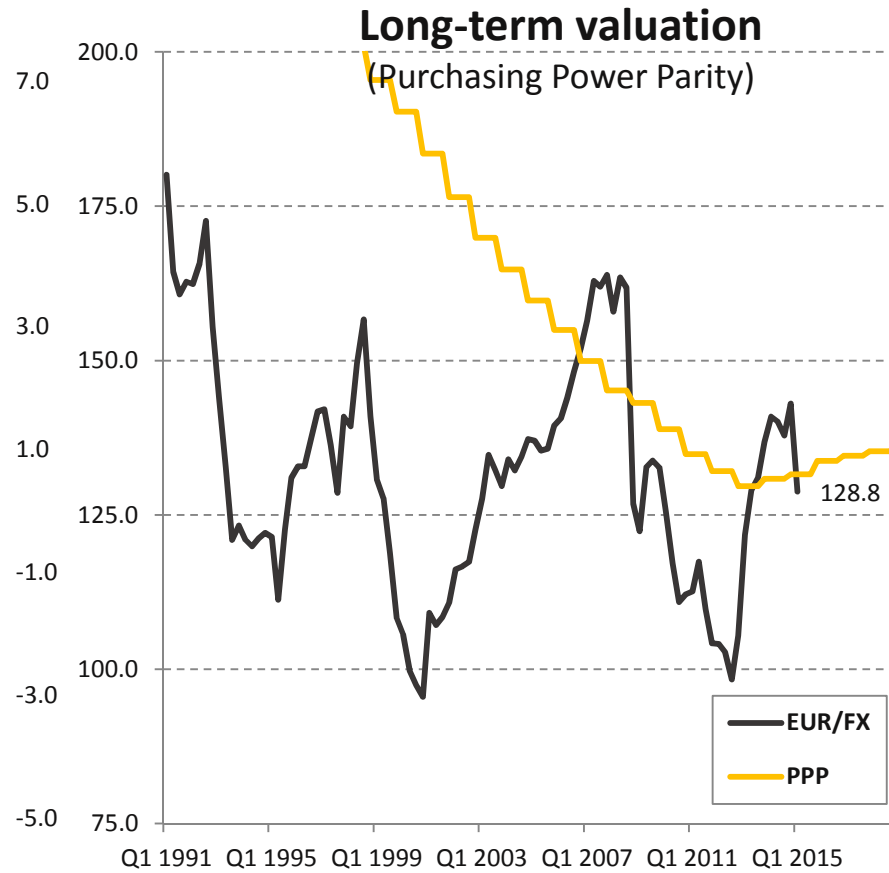
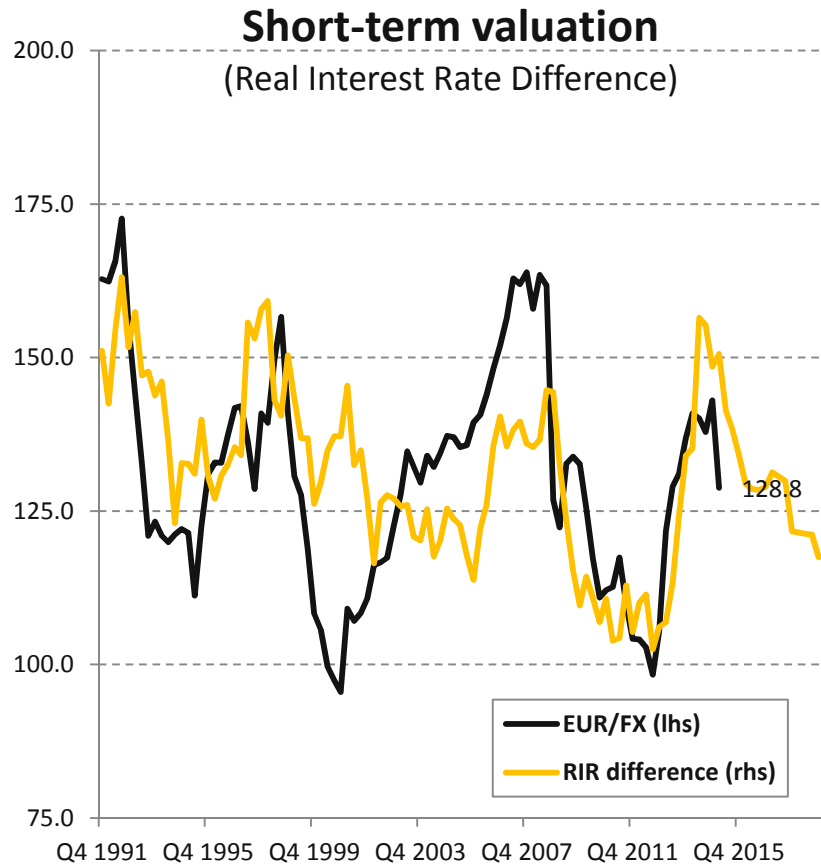


CAD

Expensive in LT-perspective, ST-potential held back by lower commodity prices

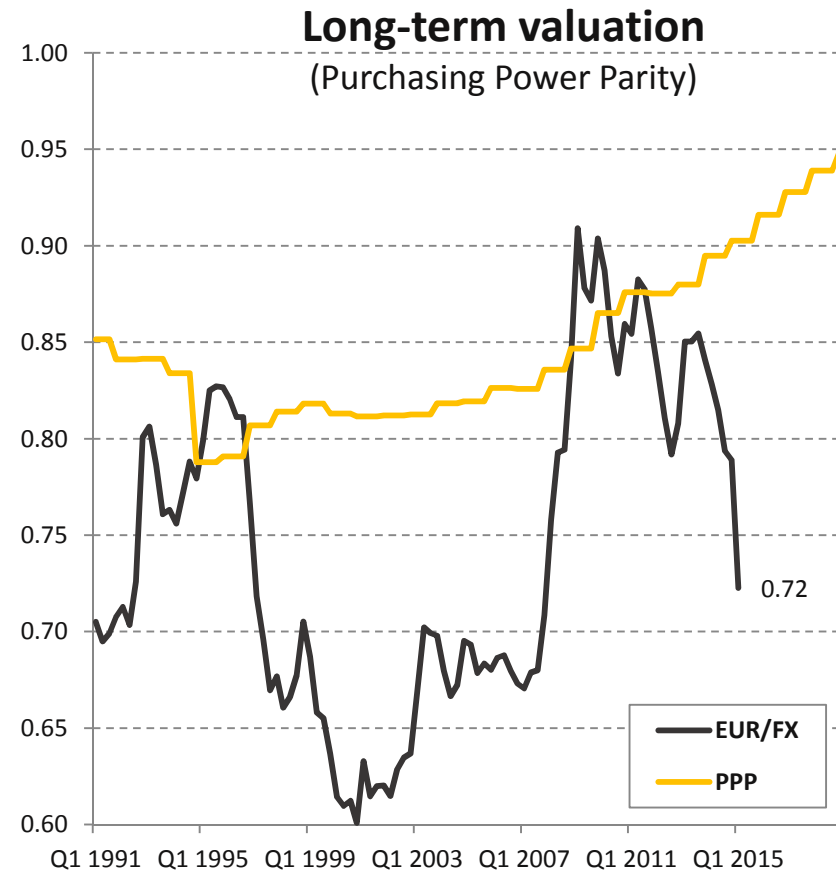
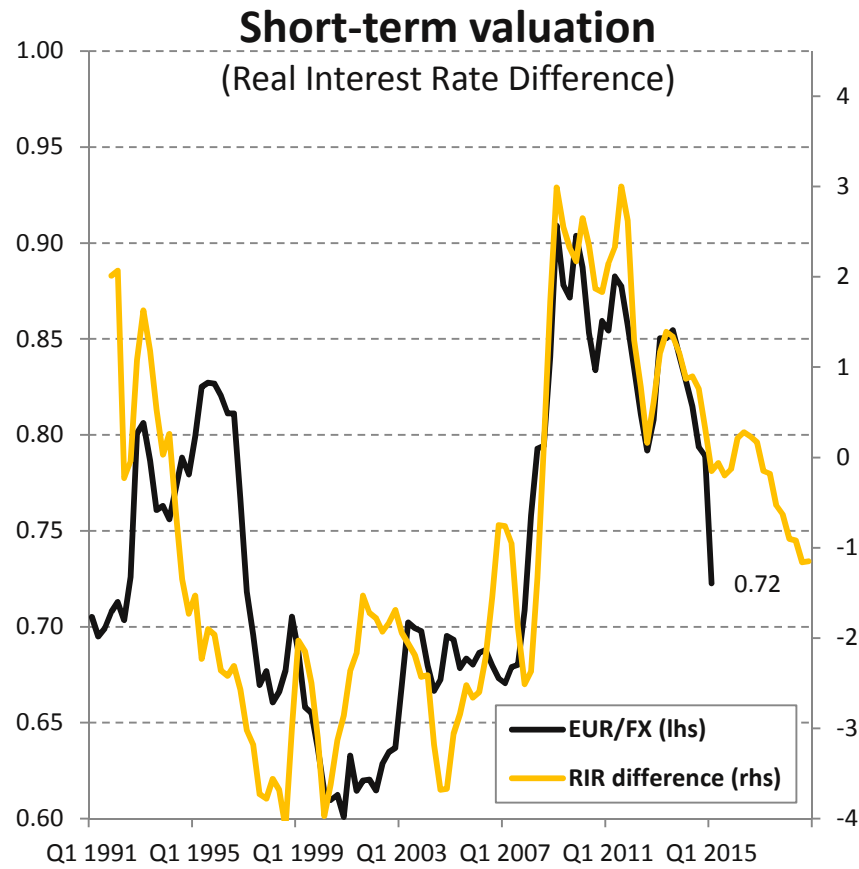


Upward potential without further BoJ QE



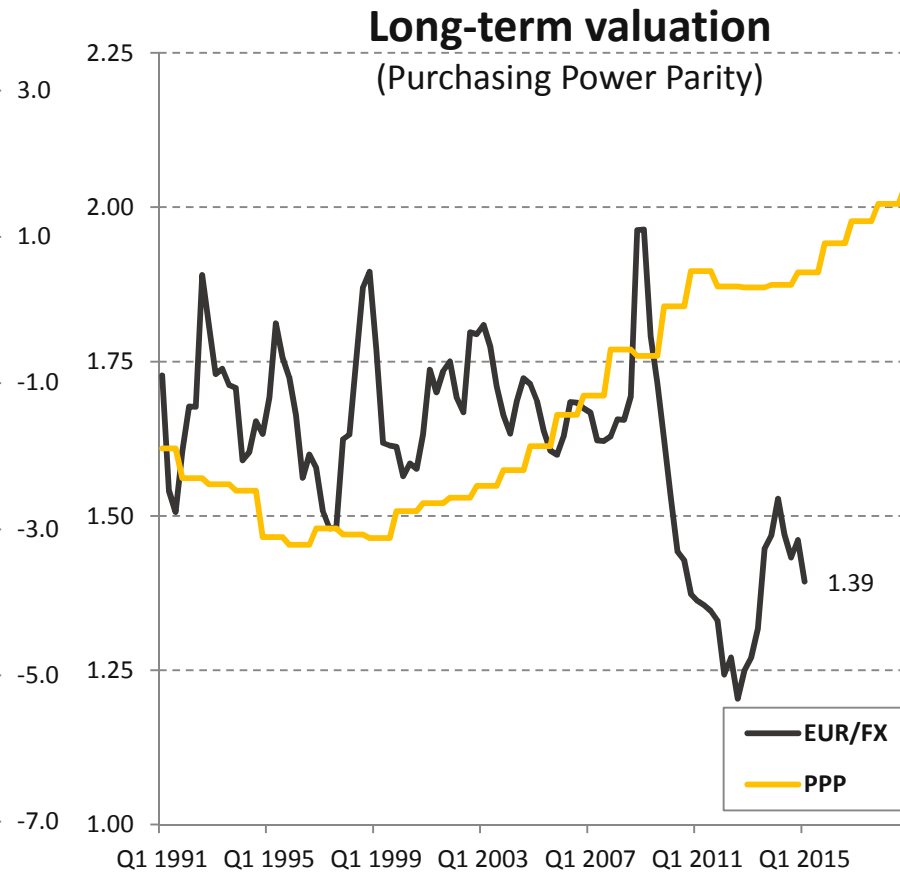
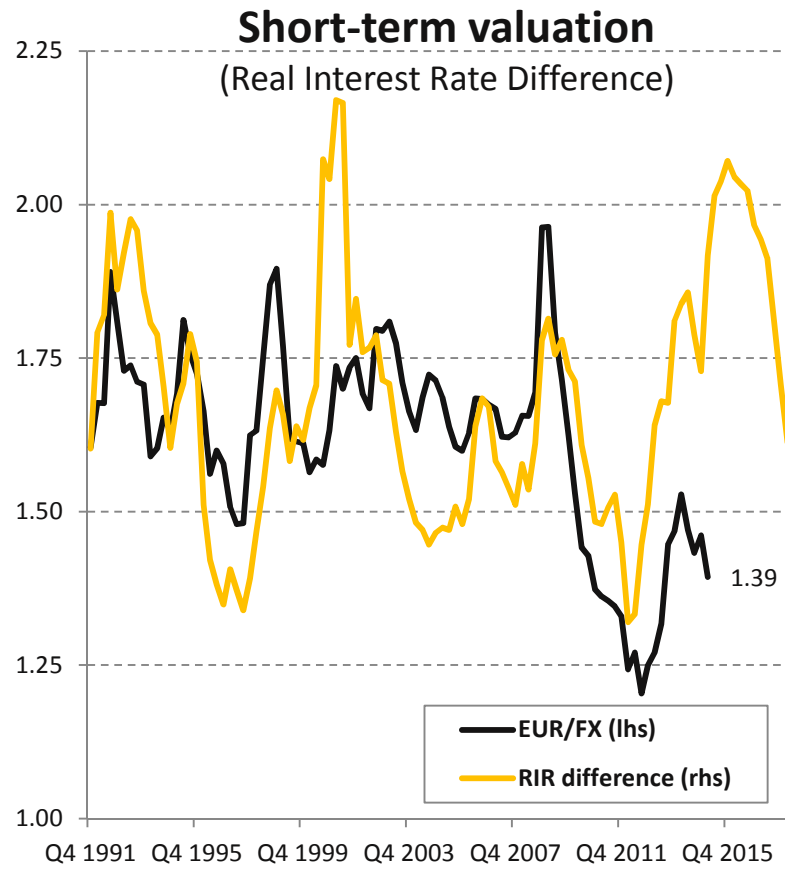
GBP

No longer cheap

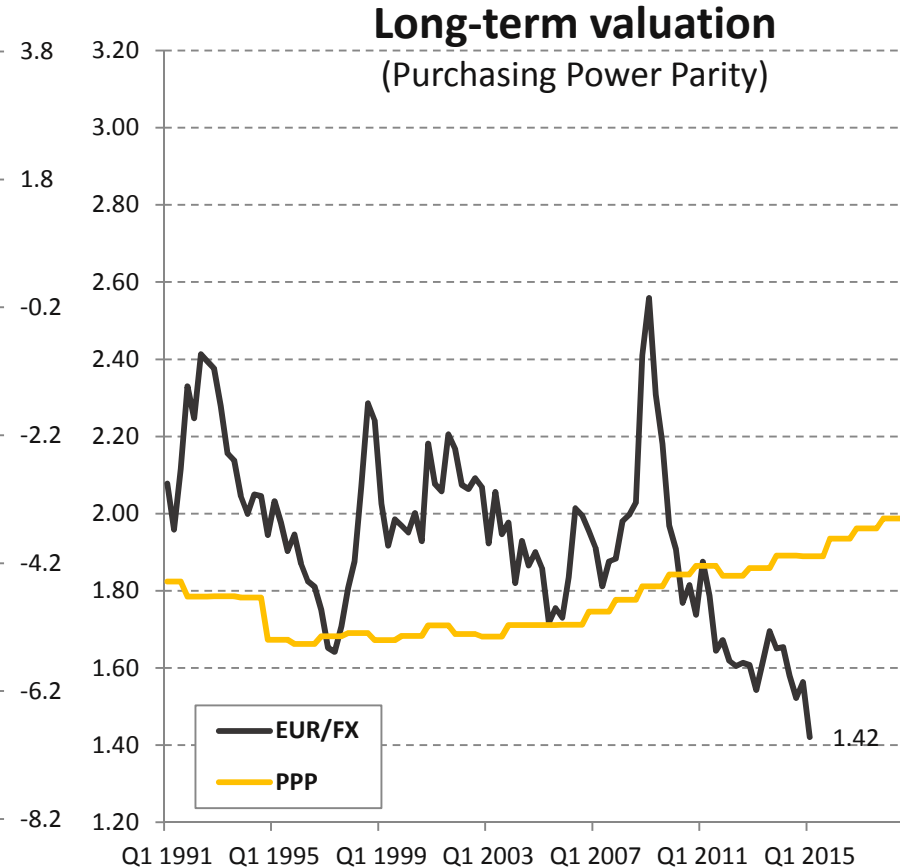
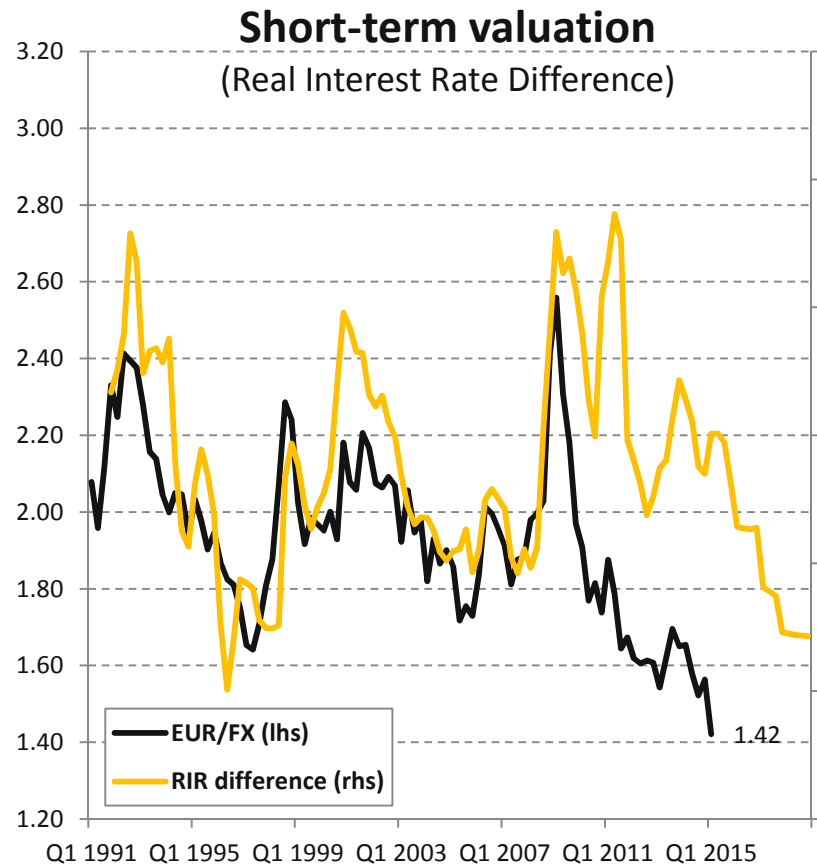


AUD

Looking very expensive

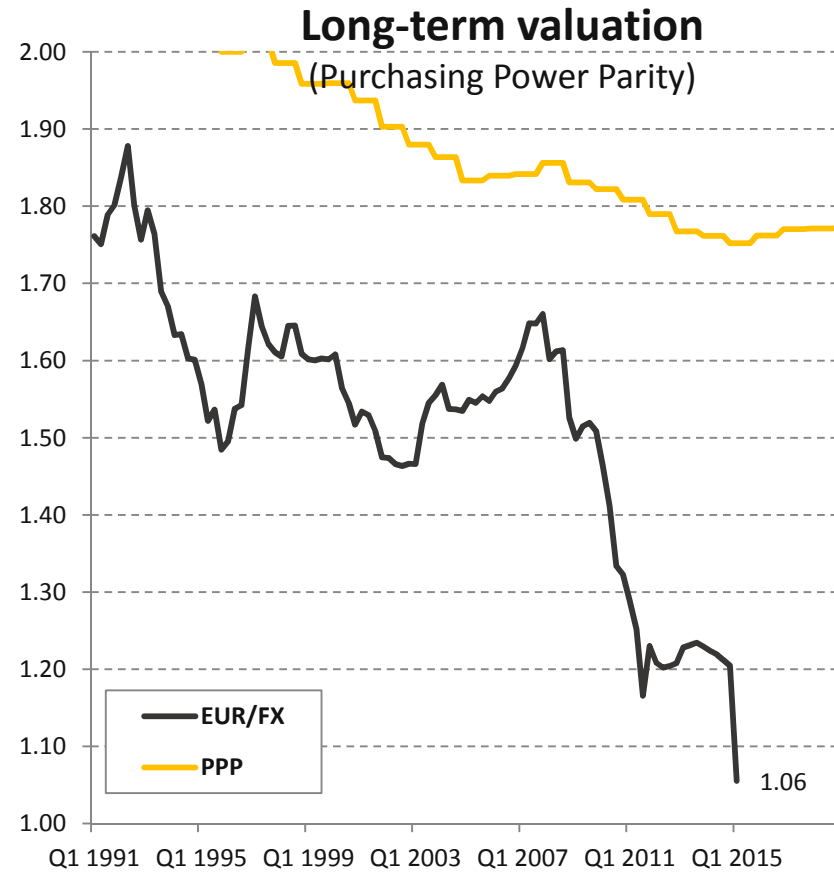
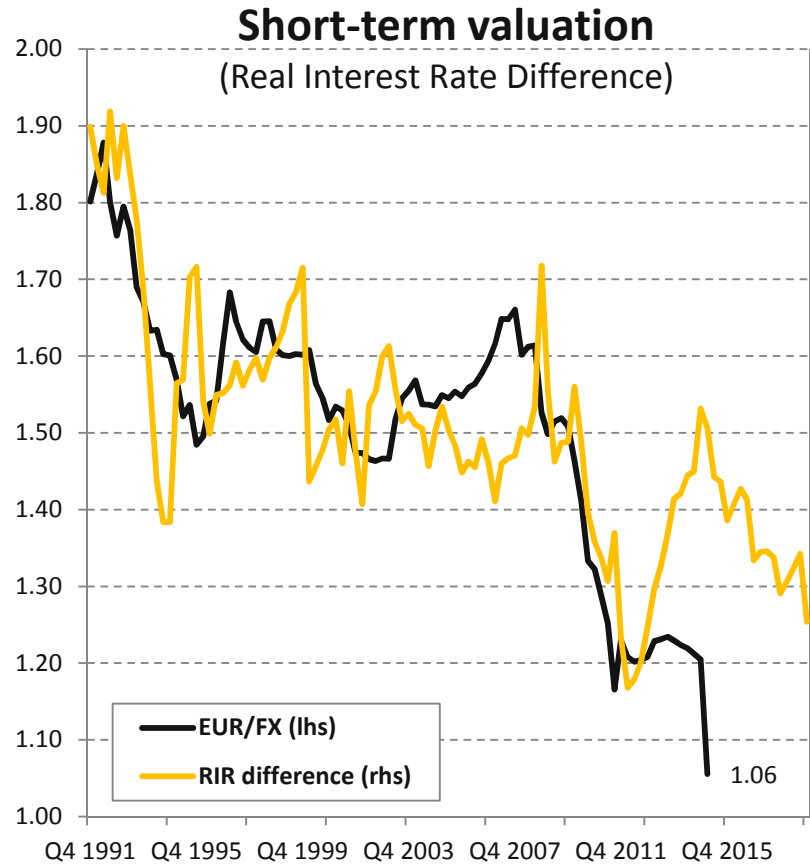


Looking expensive

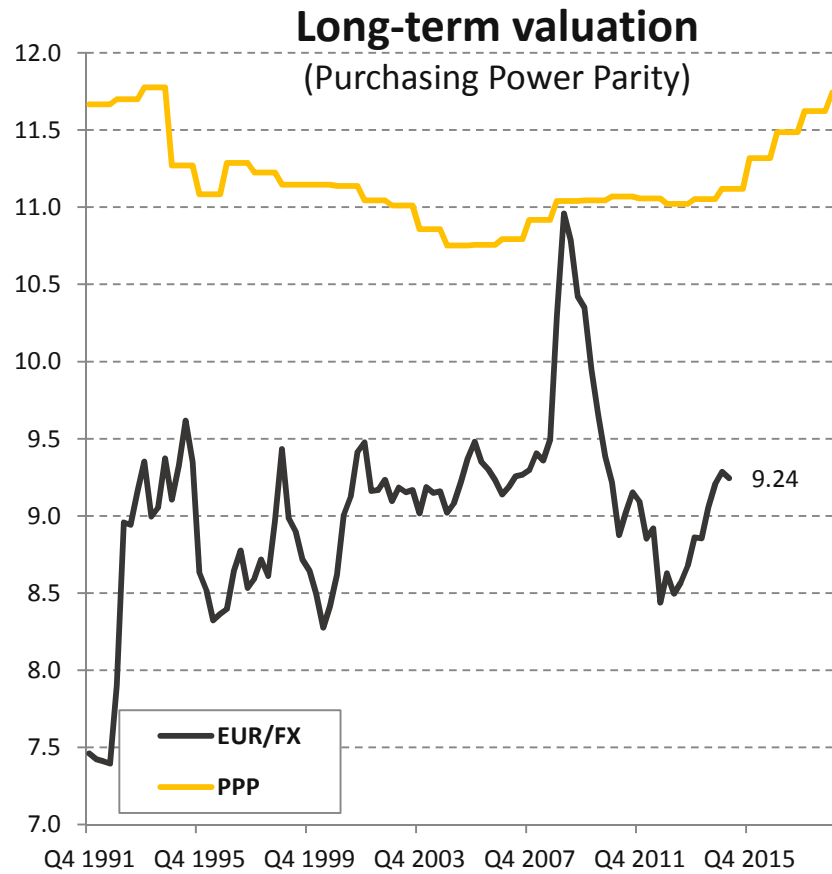
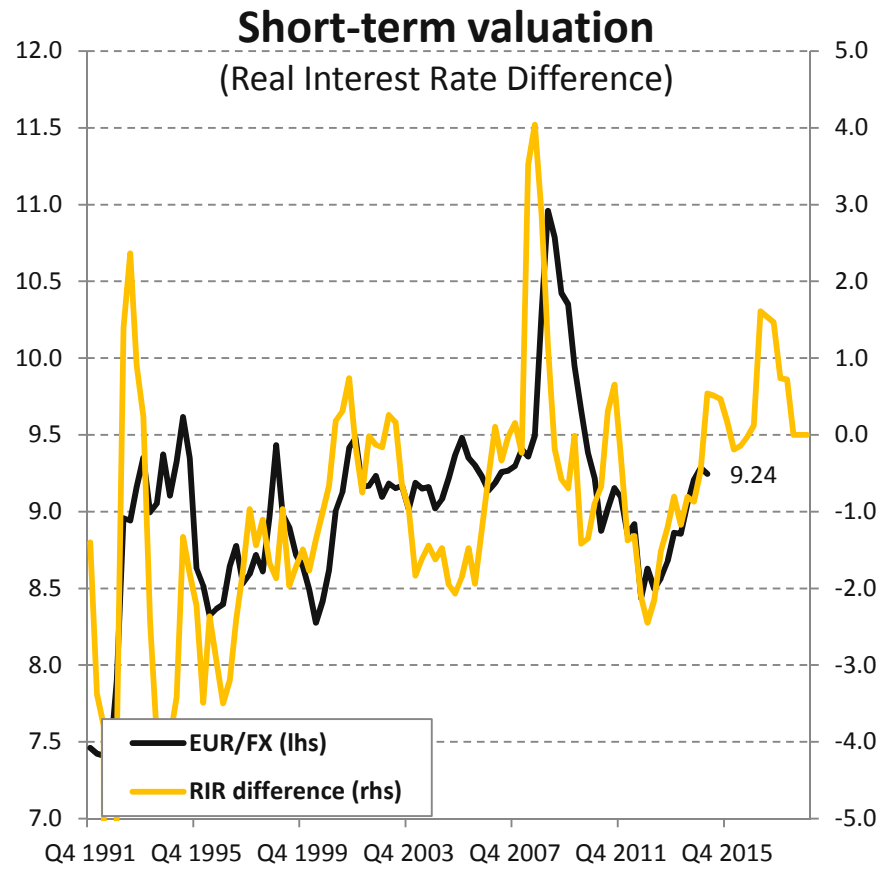


CHF

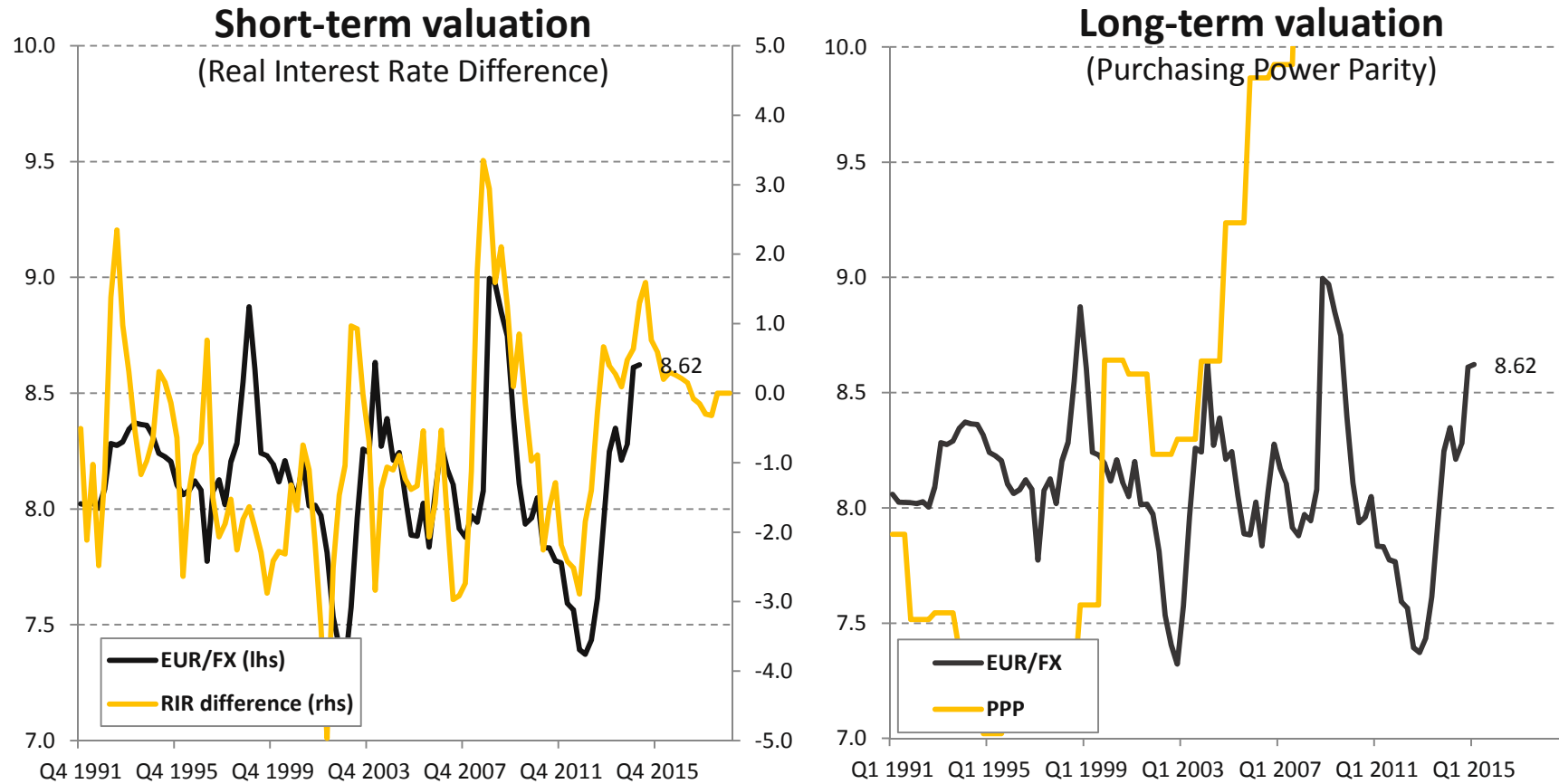
Looking very expensive



PPP provides no support, downward risk



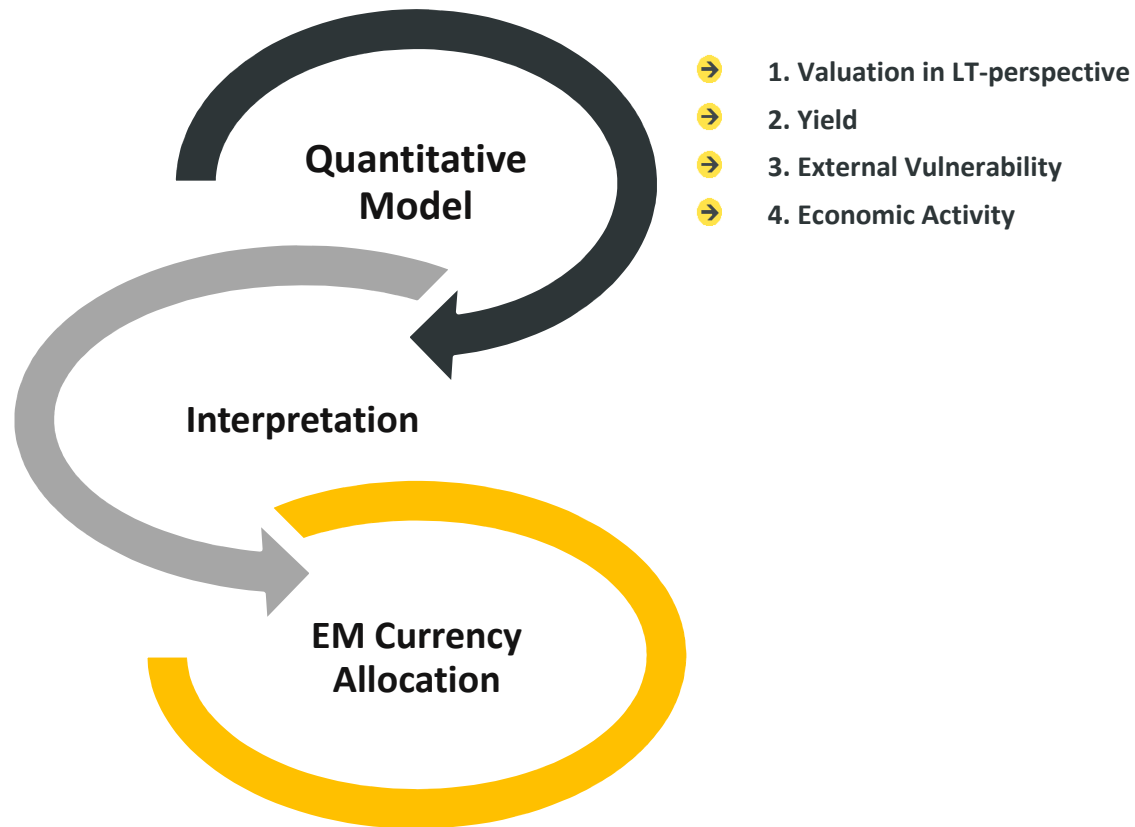
PPP provides no support, ST-potential held back by lower oil price



EM currencies

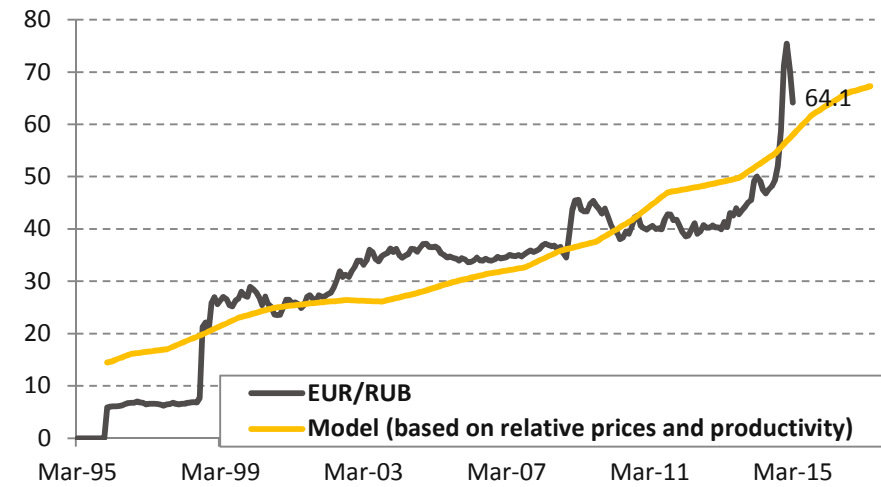
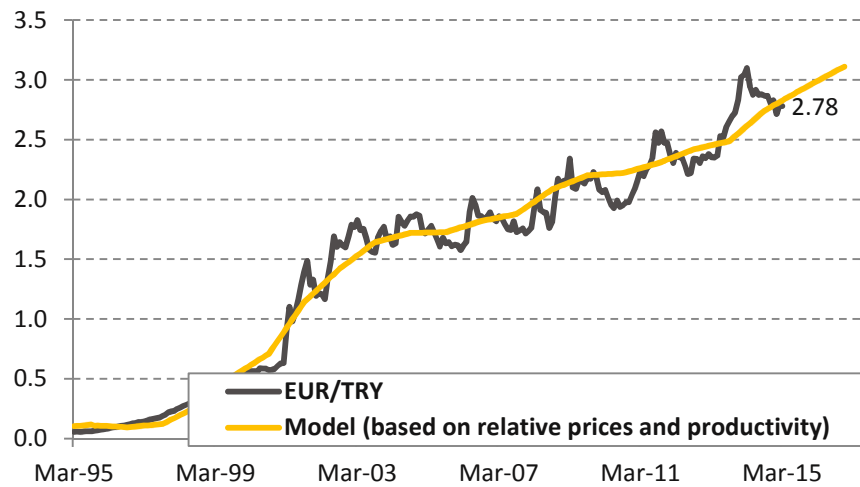
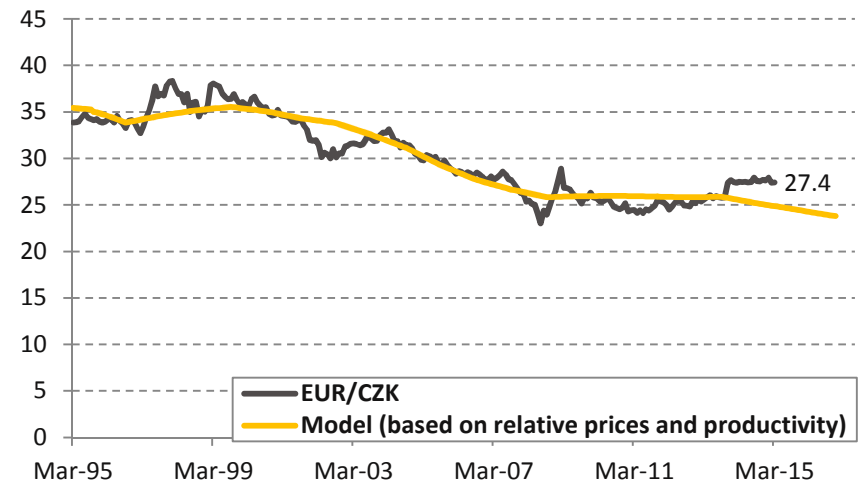
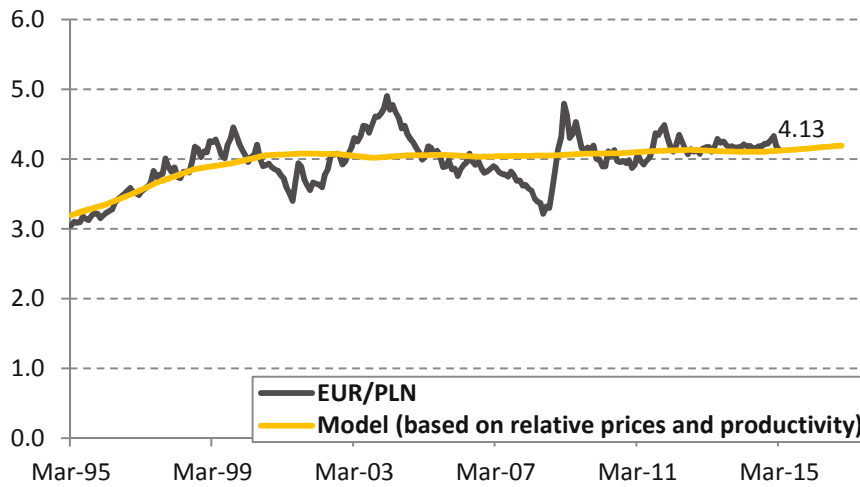


EM Currency Allocation



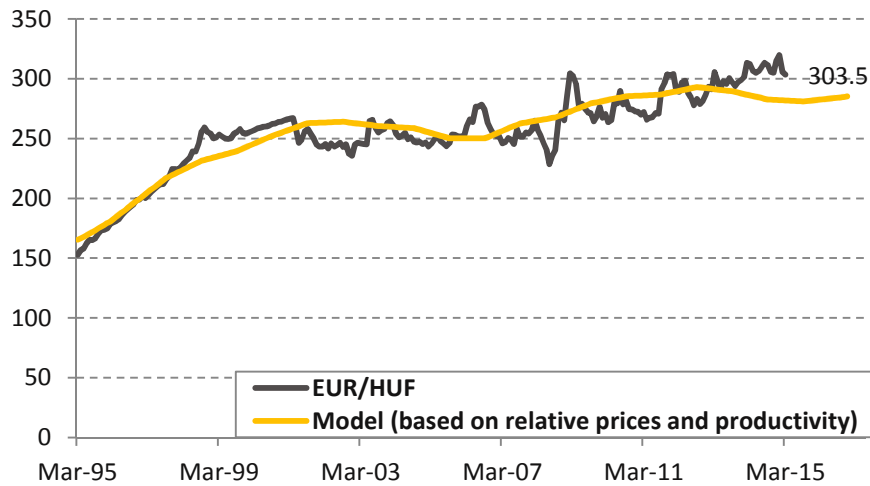
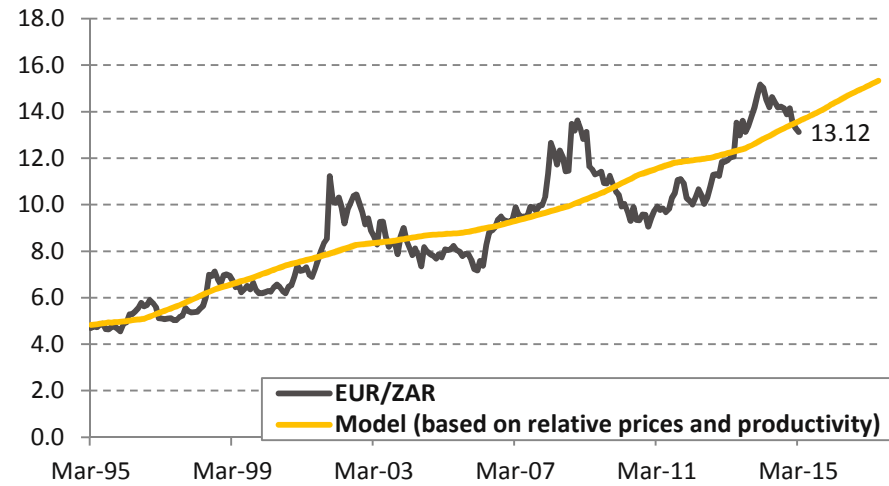
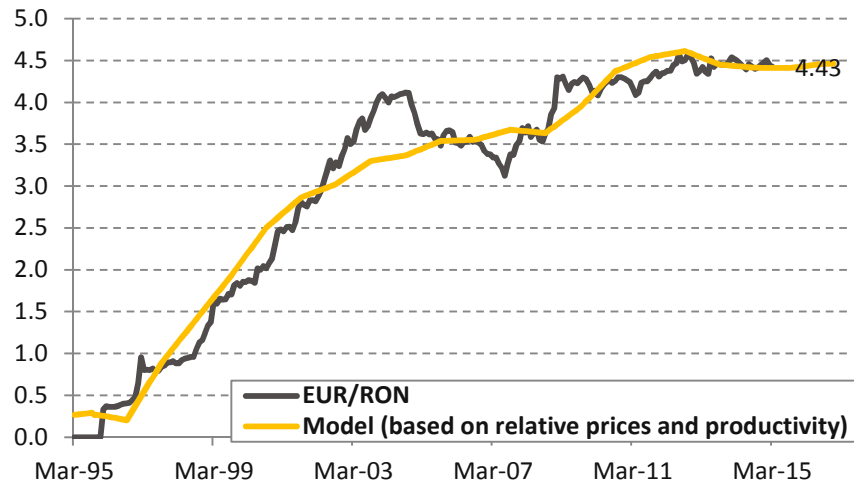
Central & Eastern Europe

Valuation in LT-perspective



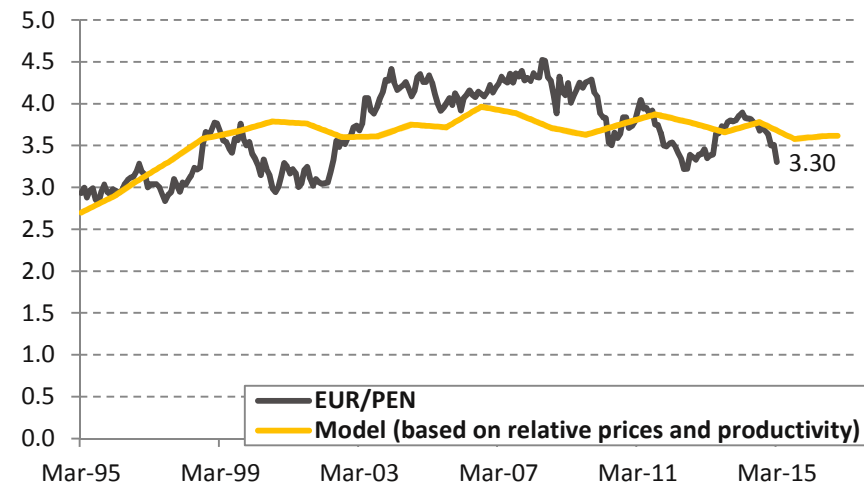
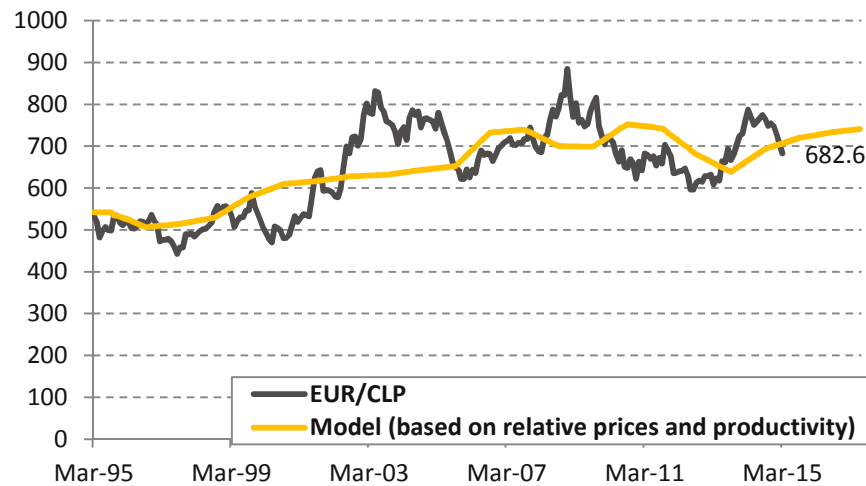
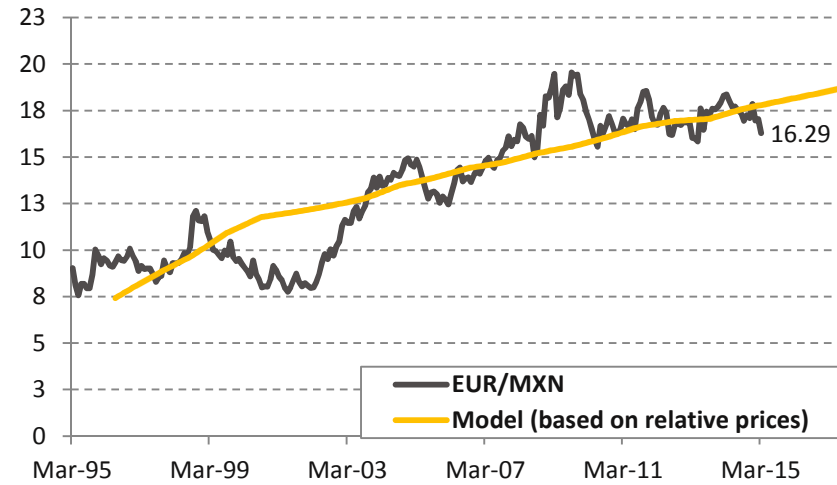
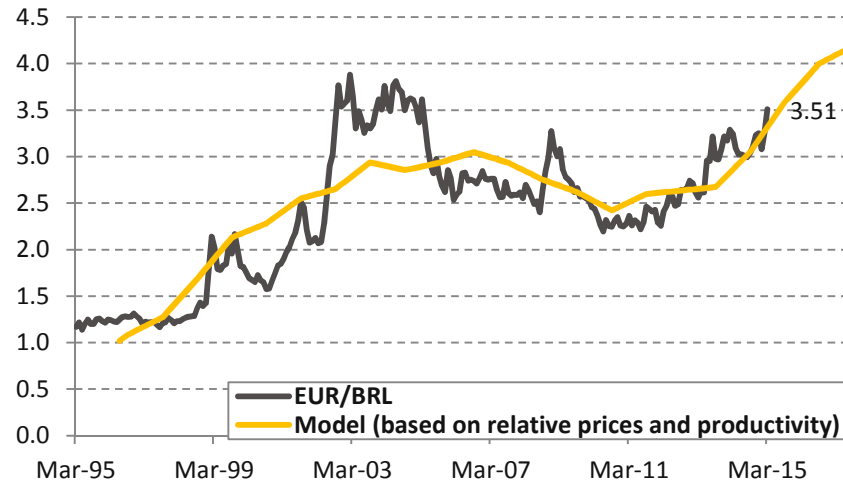
Central & Eastern Europe

Valuation in LT-perspective



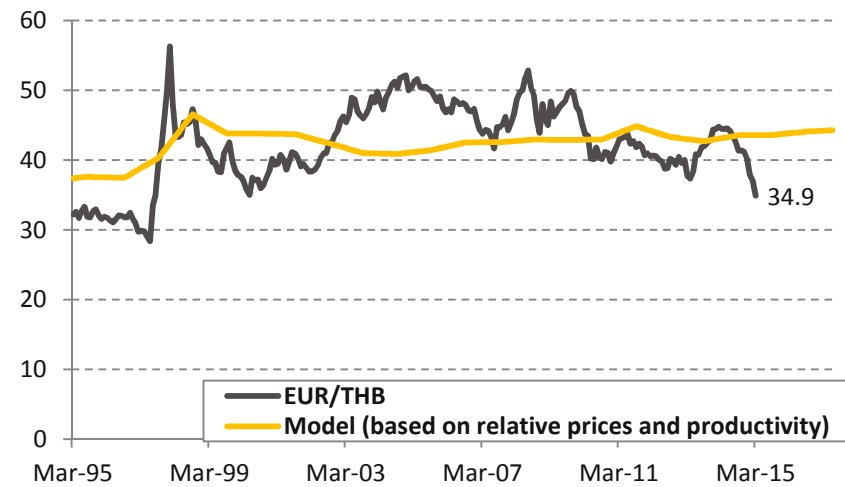
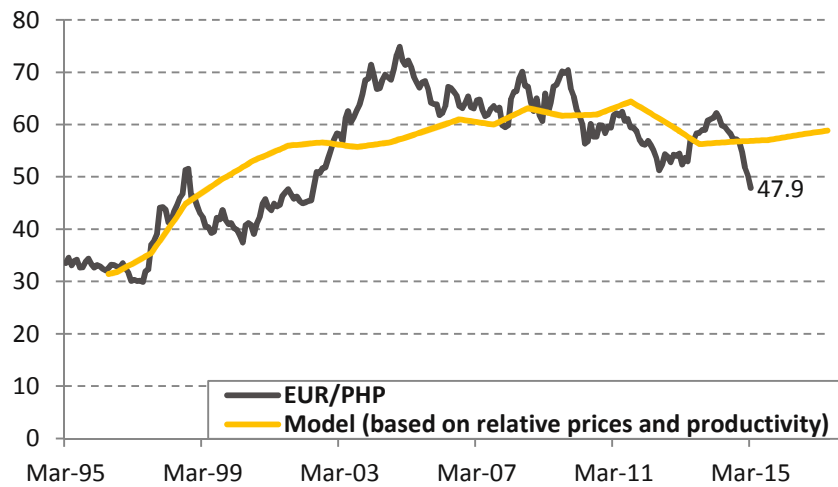
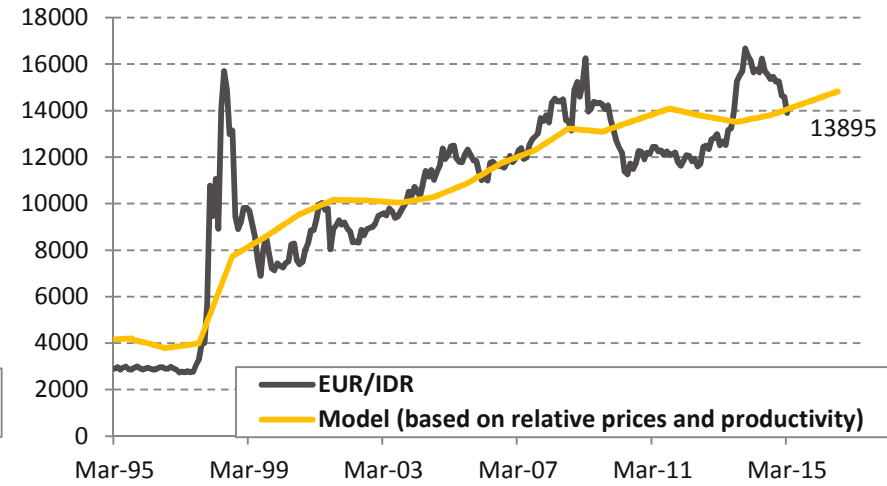
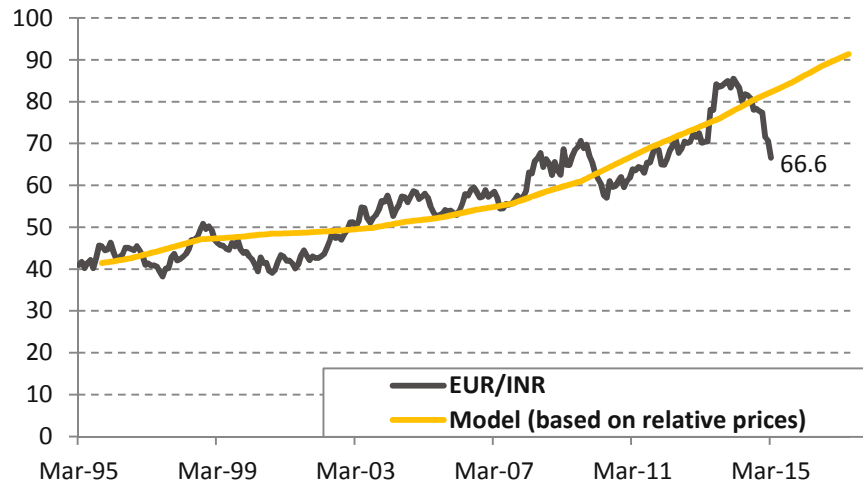
Latin America

Valuation in LT-perspective

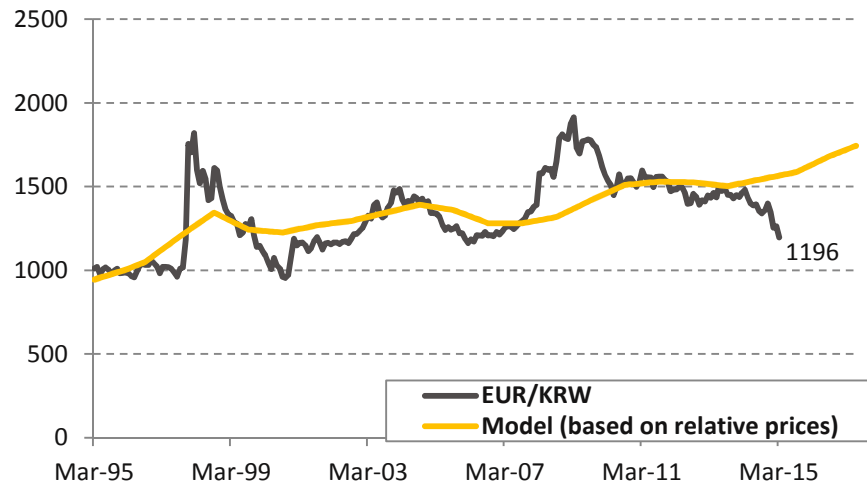


Asia

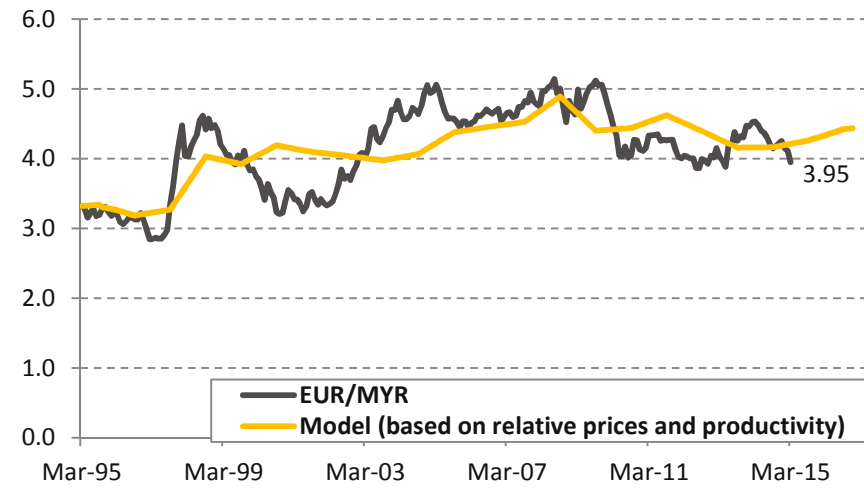
Valuation in LT-perspective



Asia



Valuation in LT-perspective

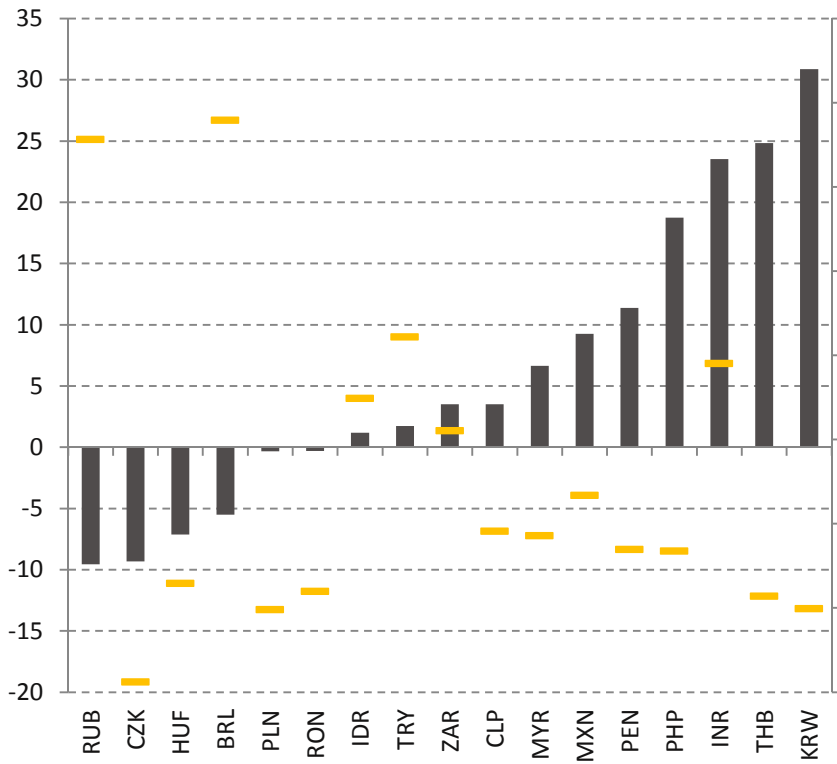


EM currencies



Yield and External Vulnerability

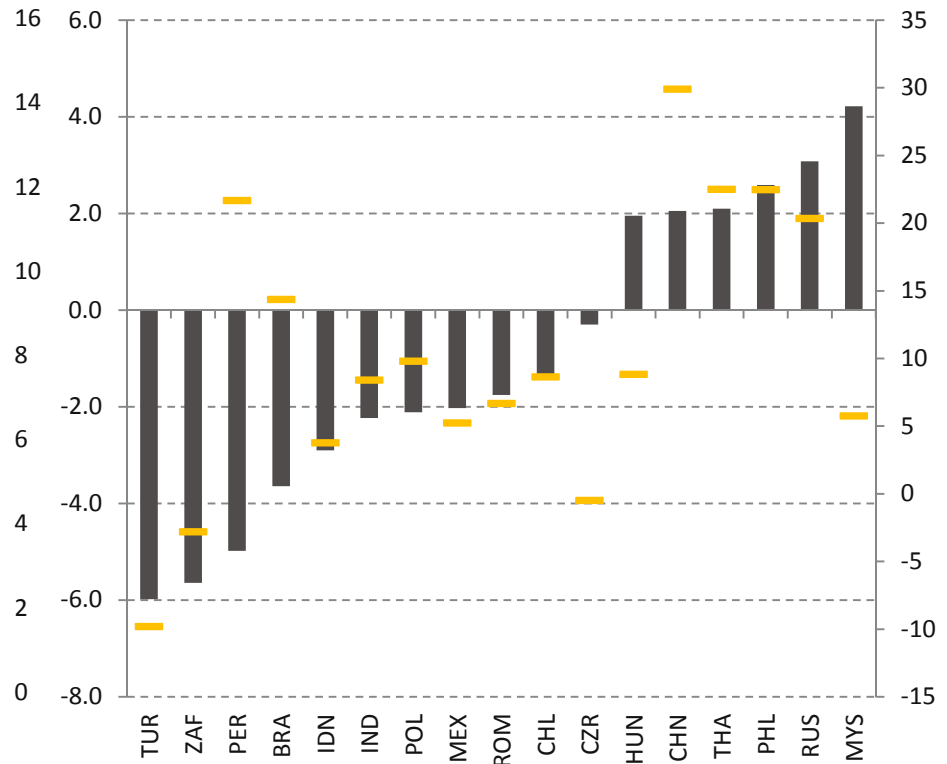
Valuation versus Yield



■ Theoretical valuation* (lhs)
 - Yield** (rhs)

*Based on relative price evolution and productivity
 **Average of short-term and long-term govt bond yield

External Vulnerability

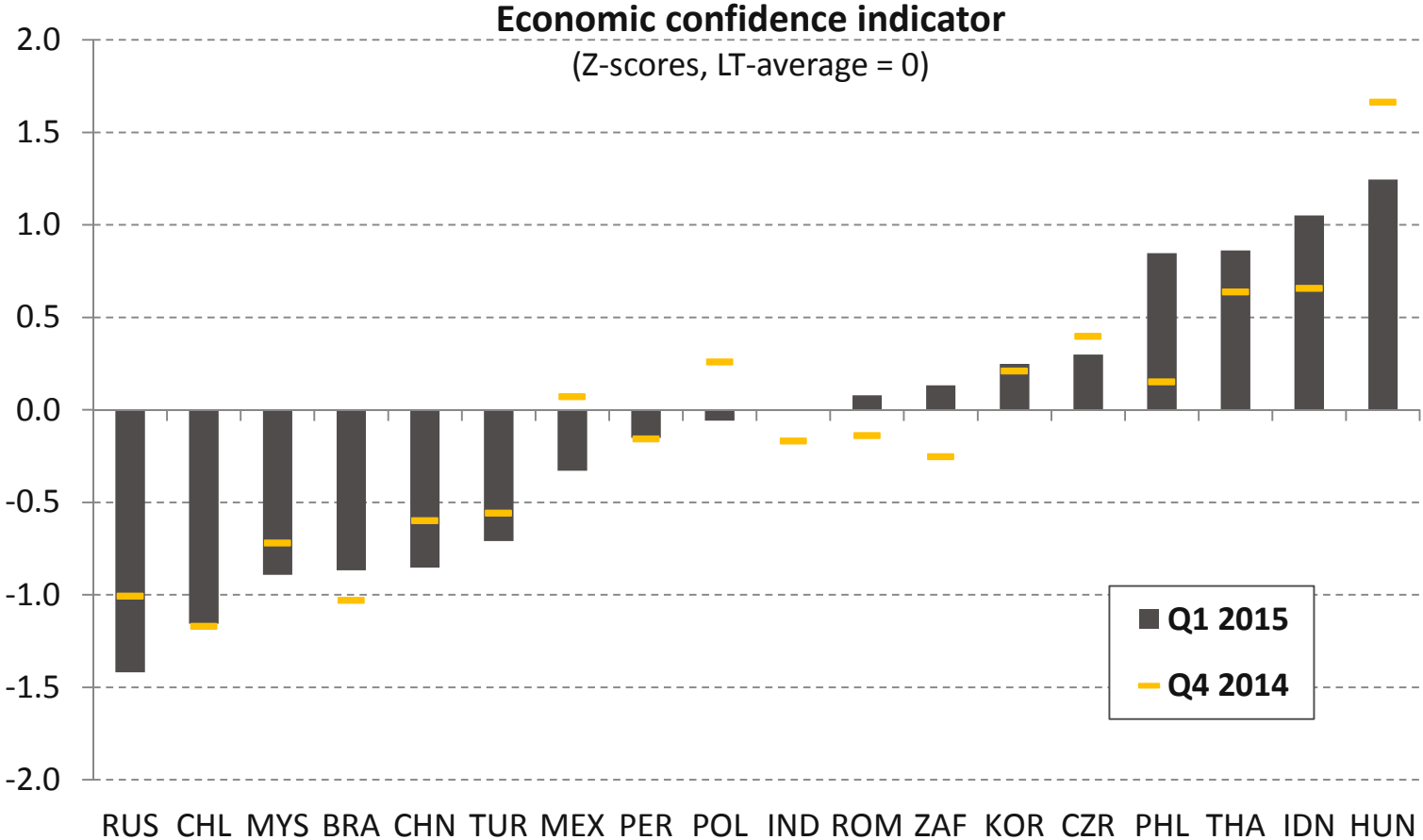


■ Current account balance (lhs)
 - FX reserves - ST external financing needs* (rhs)

*Current account deficit + short-term external debt



EM economic activity

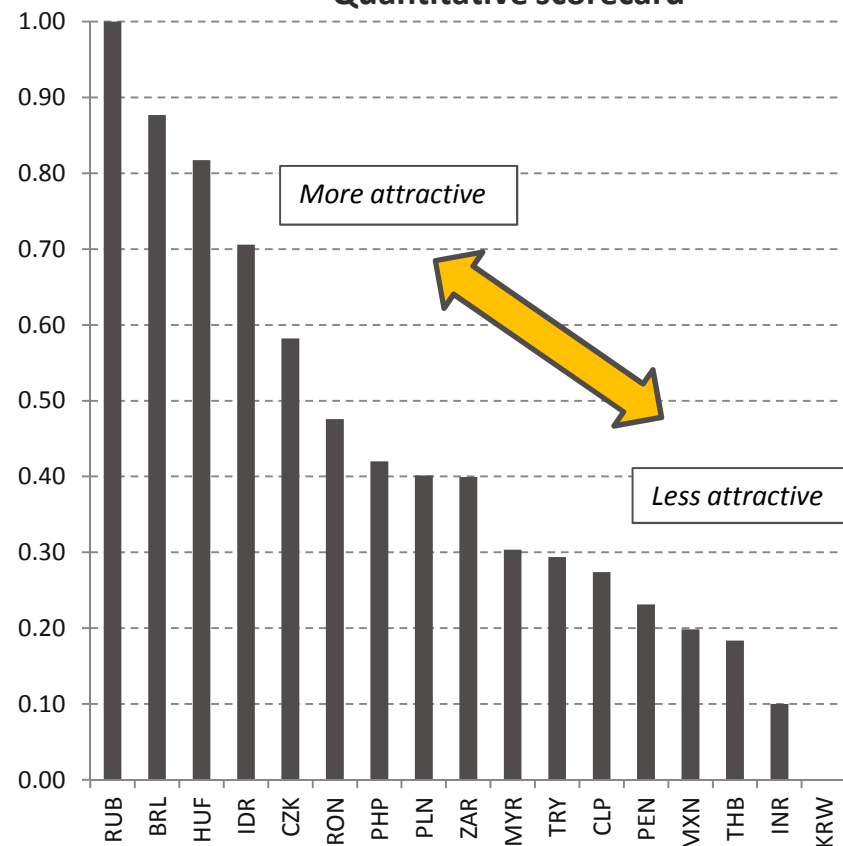


What do the numbers say?

	Valuation +/-	Yield %	External Vulnerability		Economic confidence	
			1 % of GDP	2 % of GDP	Q1 2015 Z-score	Evolution Since last Q
RUB	-9.6	13.1	3.1	20.3	-1.4	-0.4
CZK	-9.3	0.2	-0.3	-0.5	0.3	-0.1
HUF	-7.1	2.6	2.0	8.8	1.2	-0.4
BRL	-5.5	13.6	-3.6	14.4	-0.9	0.2
PLN	-0.3	2.0	-2.1	9.8	-0.1	-0.3
RON	-0.3	2.4	-1.8	6.7	0.1	0.2
IDR	1.2	7.0	-2.9	3.8	1.1	0.4
TRY	1.7	8.4	-6.0	-9.8	-0.7	-0.2
ZAR	3.5	6.2	-5.6	-2.8	0.1	0.4
CLP	3.5	3.8	-1.4	8.6	-1.2	0.0
MYR	6.7	3.7	4.2	5.7	-0.9	-0.2
MXN	9.3	4.7	-2.0	5.2	-0.3	-0.4
PEN	11.4	3.4	-5.0	21.7	-0.2	0.0
PHP	18.7	3.4	2.6	22.5	0.8	0.7
INR	23.5	7.8	-2.2	8.4	0.0	0.2
THB	24.8	2.3	2.1	22.5	0.9	0.2
KRW	30.9	2.0	5.8	21.7	0.2	0.0



Quantitative scorecard



1. Current Account Balance
2. FX Reserves – ST External Financing Needs

Standardized Composite Score taking into account theoretical valuation (weight 40%), yield (20%), external vulnerability (20%) and economic confidence (20%)



Our interpretation

Downgrade

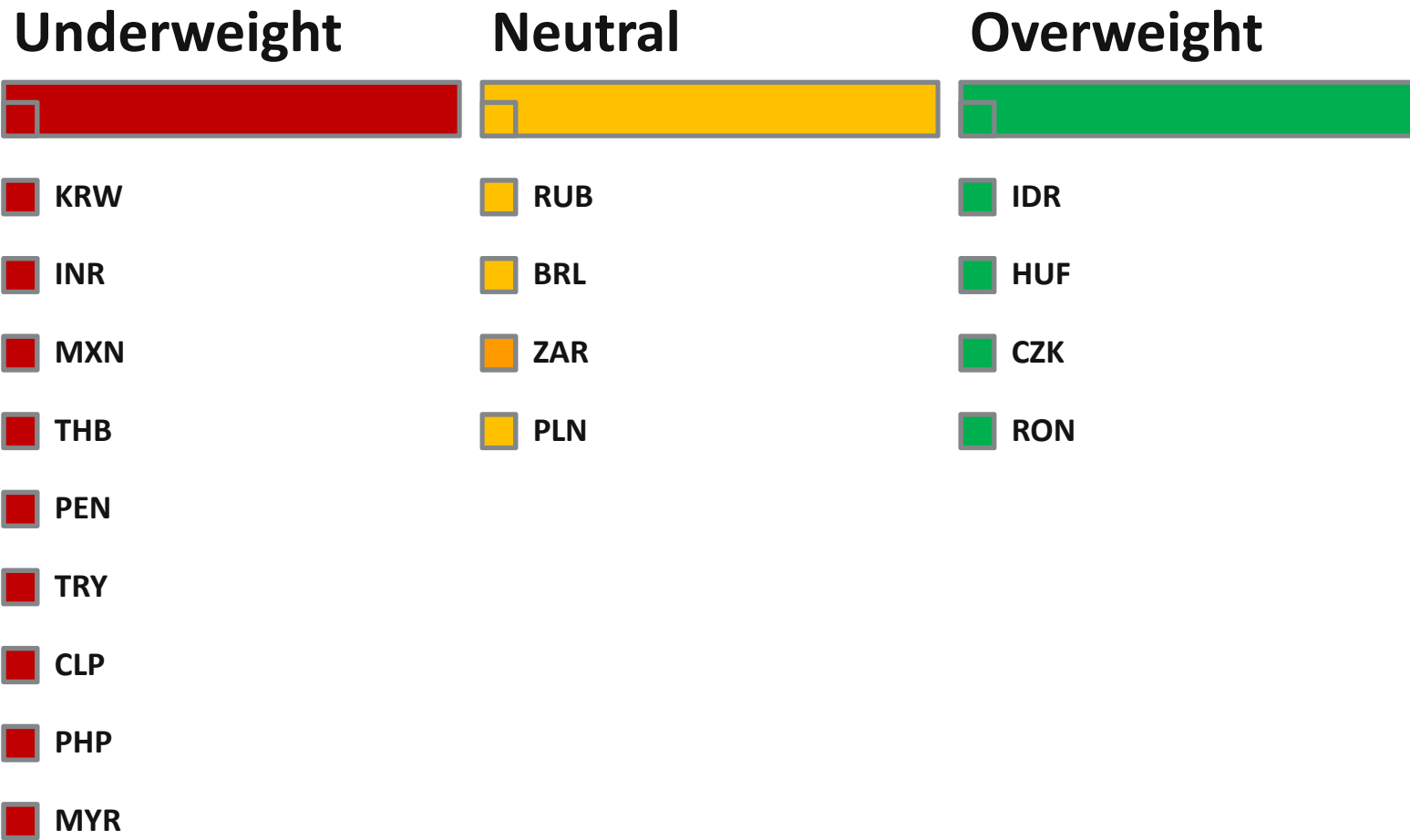
- RUB and BRL look significantly undervalued (9.6% and 5.5% respectively)
- Both currencies offer high interest rates
- Political and economic risks remain very high in BRA and RUS
- This is illustrated by CDS
- Therefore we reduce stance from overweight to neutral for BRL and RUB

Downgrade

- PHP looks significantly overvalued (+17%)
- This is offset by strong external position and strong economic momentum
- Following recent appreciation and theoretical overvaluation we reduce stance to underweight



EM Currency Allocation

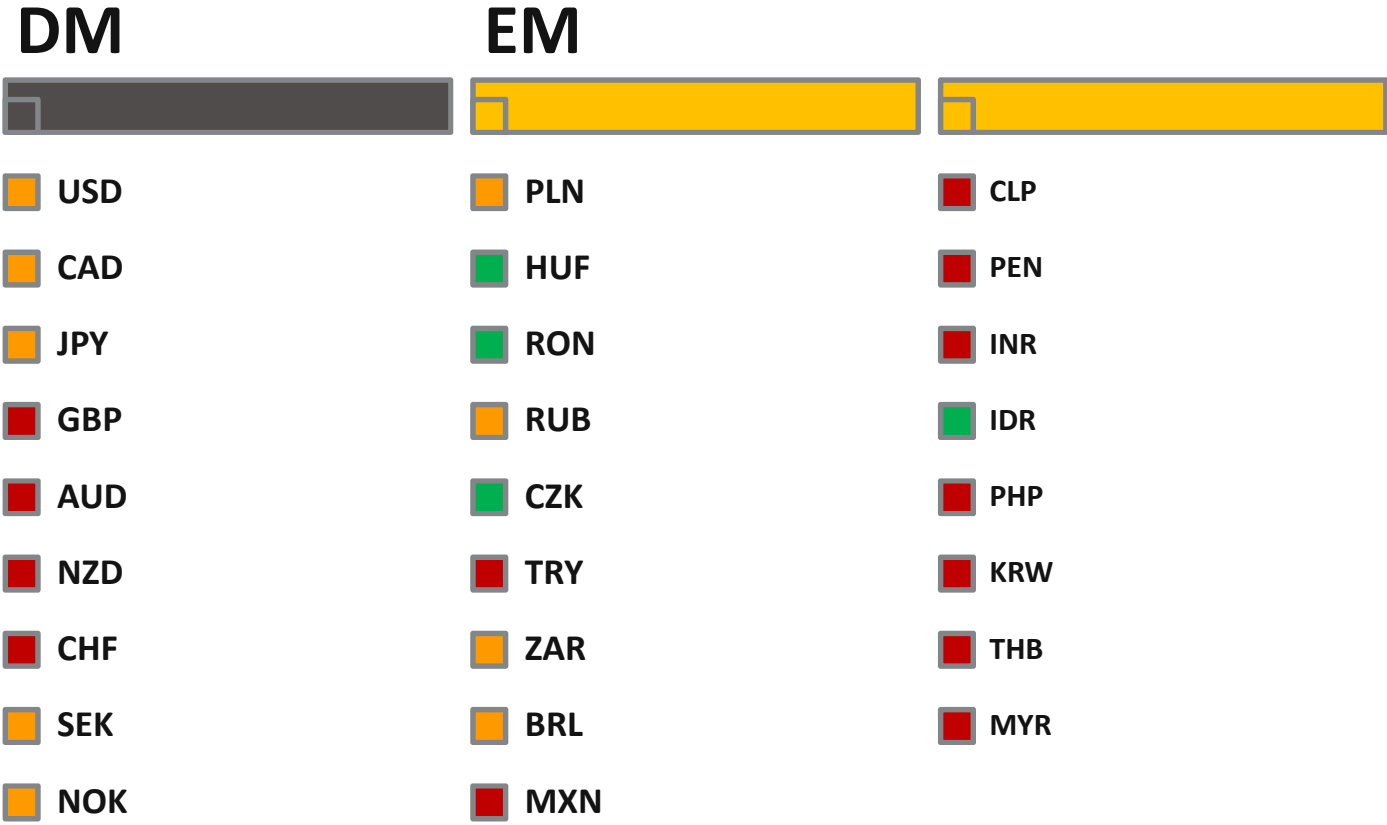


Conclusion

- Improving cyclical outlook in Eurozone and sizeable current account surplus
- ECB finally in QE mode and EUR now significantly cheaper in LT-perspective
- Has the EUR become too cheap?
- Few foreign currencies now look attractive vs EUR
- However, currencies tend to overshoot in the short-term
- DM and EM currency allocation



Currency Allocation Summary



■ Underweight
 ■ Neutral
 ■ Overweight



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