

## Executive Summary

### 2009: A Year That Will Be Remembered (or Hope to Forget)

As participants in the global financial markets, 2009 would be remembered (or hope to forget). Undeniably, veteran bankers would say it was the most difficult times in this profession. 'Banking' as financial intermediary almost came to a standstill post-Lehman, and we were on the edge of an abyss. But looking back, we were spared, whether it was aggressive policy responses – both fiscal and monetary, strong balance sheets of corporates and individuals in the region, or a stroke of luck. From maximum fear behind us, to the worst of the economy behind us, we are now seeing signs of recovery (at least statistically). Essentially, we have moved from risk of 'the end of the world' into a 'brand new world'. Outlook for 2010 appears to be mixed, with some participants at extreme ends. Our take is that it would be somewhere in the middle – a moderate environment. We doubt if it would be that positive, given the deep banking problem in the US and Europe. Neither would it be that negative, as it would take a lot to bring the system back to post-Lehman situation. In all, a less intense and acute operating environment. But, there are still a number of issues to grapple with.

### Issues to Contemplate With in 2010 Economic Recovery Path: W or U-Shape?

Seemingly, the system has rebounded, although we think it is still very much 'normalization', rather than 'real demand returning', or 'rebuilding of inventories', rather than 'actual demand'. Indeed, even as most Asian economies recorded positive y/y growth, we are only back at pre-Lehman in absolute terms. This means we have effectively lost one year of potential output. As highlighted before, the current episode is a banking crisis, and it would take time to resolve balance sheet issue – usually about 2-3 years, and may be even longer given the extent and spread of the damage this time. Indeed, estimation is that the US economy will post growth of 2.0-2.5% in 2010, as compared to average of 4-5% in previous post-crisis recovery. Essentially, it is a moderate economic environment, nothing to shout about.

### Dubai's Episode: Stark Reminder of The De-Leveraging Process

As of this writing, there appears to be some resolution to the Dubai debt problem. As said in our report (dated 30 Nov), Dubai is not another Lehman. To begin with, Lehman was a 'liquidity shock', while Dubai is more part of 'credit cycle', as the system de-leverages. Meanwhile, Dubai is about the 'willingness', and not 'ability to pay'. Also, the problem is more quantifiable than the US credit problem. Bulk of the exposures is loans, with clear collaterals. Unless these exposures are astronomical, and the losses threaten to hamper banks as financial intermediary, we are unlikely to return to the distressed environment of late 2008/early 2009. More importantly, Dubai is a stark reminder of the global de-leveraging process that is still playing out. Leverage that has been built over the last 20 years are still be pared back, which would be painful in the years ahead. After Dubai, there could be other troubled areas, especially those sitting on unsustainable debt levels – Greece, Spain, Latvia and other Eastern European states. Question is whether these losses will hamper the availability of credit, and de-rail the recovery process.

### Asian Asset Price Inflation: Reflecting the Availability of Liquidity and Credit in the System

Much has been discussed about asset price inflation, and now, perhaps is even more intense. This is especially apparent in Singapore, Hong Kong, China and Korea (please refer to our Asian Focus article in this report). To put in perspective, it reflects a proper functioning Asian banking system, where liquidity is translated to credit, as compared to the West where liquidity is not translated to credit activities. Also, it is about credit adjusted for capital usage, and mortgage related usage clearly stands out. While we should see normalization of interest rate policy in Asia to temper price increases, especially in 2H10, the risk is biased towards fiscal measures – although so far most authorities appear to be working through less aggressive, market mechanics such as increasing supply and tightening mortgage standards, among other policy measures. We continue to watch this closely.

Global GDP Forecast: Most Open Asian Economies has Started to Post Positive y/y Growth								
y/y % change	2008	2009F	2010F	4Q08	1Q09	2Q09	3Q09	4Q09F
US (Q/Q, Annual Rate)	0.4	-2.6	2.5	-5.4	-6.4	-0.7	2.8	1.8
Singapore	1.2	-2.0	4.5	-4.2	-9.5	-3.3	0.6	4.9
Malaysia	4.6	-2.2	4.9	0.1	-6.2	-3.9	-1.2	2.5
Indonesia	6.1	4.4	5.2	5.2	4.5	4.0	4.2	4.9
Thailand	2.6	-3.2	4.3	-4.2	-7.1	-4.9	-2.8	2.0
China	9.1	8.0	8.5	6.8	6.1	7.9	8.9	9.0
Hong Kong	2.5	-3.3	4.0	-2.6	-7.8	-3.6	-2.4	0.3
Taiwan	0.7	-2.8	4.1	-8.6	-9.1	-6.9	-1.3	5.7
South Korea	2.2	0.0	5.0	-3.4	-4.2	-2.2	0.9	6.6

Source: CEIC, UOB Forecast

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Rebound in Housing Prices From the Trough This Year			
	Trough	Rebound from Trough (%)	% from Recent Peak
Hong Kong	Dec 08	24.2% (Oct)	Surpassed Jun 08 peak by 2.8%
Singapore	Jun 09	15.8% (Sep)	15% below Jun 08 peak
South Korea (Gangnam-gu)	Jan 09	6.4% (Nov)	1.3% below May 08 peak
China*	Dec 08	22.5% (Oct)	Surpassed Feb 08 peak by 13.4%
*Based on average RMB/sqm price Source: CEIC, UOB			

Summary of Measures to Dampen Property Markets in Asia	
<u>South Korea</u>	
Jul 2009	Loan-To-Value ratios tightened to 50% in Seoul and metropolitan area.
Aug 2009	To accelerate public homes project and to provide 1.5mn homes for the next 10 years.
Sep 2009	Debt-to-income ratio regulation expanded to the Seoul metropolitan area (previously only Gangnam) for mortgage loans exceeding 50 million won, which requires that the total mortgage cannot exceed 50% of a borrower's annual income in Seoul and 60% of income in the Incheon and Gyeonggi Province.
<u>Hong Kong</u>	
Oct 2009	(1) Loan-to-value ratio for properties valued at more than HK\$20m lowered to 60% from 70%; (2) HKMC fixed tenure for mortgage rate increased to as long as 10 year fixed rate @ 3.8% for qualifying mortgages
Nov 2009	3 new policies governing developers' presale procedures aimed at improving the transparency of the primary property market.
<u>China</u>	
Apr 2009	CBRC reiterated second-home mortgage policy: requirement of minimum 40% down payment and mortgage rate at >1.1x PBoC benchmark lending rate.
May 2009	News on trial implementation of property tax in Shenzhen which was subsequently written into city's next 3-yr plan.
<u>Singapore</u>	
Sep 2009	(1) reinstating the Confirmed List for the 1H10 Government Land Sales Programme; (2) immediate removal of the Interest Absorption Scheme (IAS) and Interest-Only Housing loans; (3) Budget 2009 Budget assistance measures for the property market will not be extended
<u>Malaysia</u>	
Oct 2009	The government has proposed in its Budget to tax gains from the disposal of real property at 5% from 1 January 2010.
Source: Various Newswires	

### Next Leg of Normalization: Interest Rate Policy

After equities, properties, commodities, high-yielders, and real economies, the focus is now on interest rate normalization. Expectation is that the US Federal Reserve will move only towards end-2010, we should see some paring back of the extremely easy monetary policy in the region. However, beyond normalization, it is really a function of real demand, which is still very mixed.

### More USD Decline: May Not Be That Clear

So much has been spoken about further USD weakness, and how the greenback will weaken when risk appetite returns. However, it is important to note that once the market is convinced about prospects of rate hike in the US, we could see rather sharp pullback in USD weakness – especially given that many have used the USD as a funding currency in this latest

round of "carry trade". Also, note that unlike other countries, the US has proven to be fast and swift in its policy responses. Thus, as fast as rates were cut, cost of borrowing could also rise by the same pace.

This is exactly what we were experiencing as of writing, when EUR weakened more than 5.5% in a span of three weeks. Similarly, AUD declined 5% over the same period. Besides thin trading liquidity conditions, exaggerating price action, our take is that USD gains may not be convincing until there is clear indication of the expected Fed rate hike.

Into 2010, against the majors, we could see high yielders coming back. GBP and EUR could be lacking in direction. In the Asian space, respective currencies certainly look to appreciate, but contingent to the RMB. In all, it is far from clear that that

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Expectation of Monetary Normalization in Asia					
	Current Policy Rate (%)	Period of Monetary Easing	Total Rate Cuts (bps)	Expected Quarter to Begin Normalising Interest Rates	Policy Rate Expected End-2010 (%)
Malaysia	2.00	Nov 08 - Feb 09	150	3Q10	2.50
Indonesia	6.50	Dec 08 - Aug 09	300	2Q10	7.75
Thailand	1.25	Dec 08 - Apr 09	250	3Q10	1.75
Philippines	4.00	Dec 08 - Jul 09	200	2Q10	5.25
South Korea	2.00	Oct 08 - Feb 09	325	2Q10	3.25
China	5.31	Sep 08 - Dec 08	216	3Q10	5.85
Hong Kong	0.50	Oct 08 - Dec 08	300	3Q10	1.25
Taiwan	1.25	Sep 08 - Feb 09	237.5	3Q10	1.75
Source: CEIC, UOB Forecast					

Inflation Trend in Asia					
	Current Policy Rate (%)	CPI (Nov) (y/y % change)	4Q09 (y/y % change)	1H10 (y/y % change)	2010 (y/y % change)
Singapore	n.a.	-0.8*	-0.2	2.8	3.7
Malaysia	2.00	-1.5*	-0.1	2.1	2.3
Indonesia	6.50	2.4	2.7	5.0	5.5
Thailand	1.25	1.9	2.0	3.5	3.9
Philippines	4.00	2.8	3.0	3.9	4.5
South Korea	2.00	2.4	2.4	2.8	2.8
China	5.31	0.6	-0.7	2.3	3.1
Hong Kong	0.50	2.2	0.9	2.0	2.4
Taiwan	1.25	-1.6	-1.0	1.0	0.7
*Oct 2009 Source: CEIC, UOB Forecast					

the USD will weaken. If anything, it is likely to be more choppy and volatile.

### Singapore: MAS to Normalize Policy Next Meeting in April 2010

It is all about normalization across the region. After the recovery in broad asset markets (both equities and properties), the Singapore economy is also doing likewise. From a trough of 9.5%/y contraction in 1Q09, the economy turned slightly positive in 3Q09 (+0.6%/y), and is likely to hit 4.9%/y in the final quarter of 2009. SGD NEER is now about 1.7% higher as compared to the low in Jan 2009, reflecting the less dire situation. Already, SGD NEER is at the stronger half of the policy band, at 1.0-1.5% above the midpoint of the policy band. We see the SGD NEER continuing to stay at this level. Going forward, similar to other parts of Asia, we expect MAS to normalize in its monetary stance, shifting its policy band up at its next meeting in Apr 2010. Beyond that, we need to see more concrete signs of recovery, which at this point is still quite mixed. Note it is nothing but normalisation. Even as the economy records positive y/y growth, the country has effectively lost one year of potential output.

### SGD 3-Month SIBOR in 2010: To Rise Moderately, But Will be Choppy

Against earlier fears of 8-10% contraction, we now expect the economy to suffer a 2% contraction in 2009. After growth of 0.6%/y in 3Q09, we project the domestic economy to post growth of 4.9%/y in 4Q09. And, we forecast expansion of 4.5% in 2010, alongside official estimates of 3-5%. As such, expectation is that the MAS will unwind some of its easy monetary stance at its next monetary policy meeting in April 2010. However, because the main policy tool is FX, instead of the conventional interest rate, the impact on SGD cost of funds may be a little difficult to read.

### Key Factors that will Determine SGD Cost of Borrowing:

1. A strong SGD NEER may not result in higher SGD cost of borrowing. On the contrary, it could well be the opposite, as capital flows into the republic.
2. A clearer determinant is USD cost of borrowing. However, USD short-term rates are only expected to head higher in 2H10.

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3. Watch USD/SGD direction, which through the swap market could impact domestic cost of funds. Two forces at play here: Watch Asian currency movement, in particular the RMB. If the Chinese currency were to inch higher, the outcome is lower SGD cost of borrowing, through weaker USD/SGD. The other front is broad USD direction. Clearly, the outcome is far from certain. Survey results show that the market is expecting USD/SGD between 1.35-1.45 at end-2010. There is the broad consensus of more Asian FX appreciation, but there is also the perception that once the Fed starts to normalize, the initial moves could be quite aggressive. This means USD/SGD direction and SGD cost of funds could be quite volatile next year.
4. The two integrated resorts and the impact on overall domestic liquidity, as tourists swarm into the country. Our guesstimate is another 2-3mn tourist arrivals, on top of the yearly 8-9mn tourists arrivals, given the novelty factor. This should be especially prevalent in 2H10. How much additional inflows and the impact on the overall domestic liquidity this will have, is something to contemplate. As such, while we expect SGD 3-mth SIBOR to edge higher at end-2010, the process could be quite choppy.

### Vietnam: Struggling With Depreciating Currency

While most countries in the region are grappling to keep their currencies from appreciating too quickly against the weak dollar, Vietnam is encountering depreciating pressure. The Vietnamese dong has weakened 5.7% since the beginning of the year and is now trading at the bottom of the trading band. Interestingly, one key factor is global interests in gold. Note that Vietnamese purchases of big ticket items are still quoted in USD as well as gold. And, the surge in gold prices globally has resulted in massive interests to move into the precious metal from the VND. Also, trade deficit is becoming an issue again.

Late Nov 2009, the State Bank of Vietnam (SBV) devalued the dong by 5.4%, setting its USD/VND mid-point to 17,961 from 17,034. The central bank also narrowed the USD/VND trading band to +/-3% from the current +/-5%, bowing to market pressure on the currency to depreciate.

Into 2010, there are certainly external balance issues. However, the fact of the matter is that market forces cannot force a devaluation of the VND — given the limited capital account convertibility. While FX reserves have fallen from US\$23bn late 2008 to US\$16.5bn as of Aug-09, there are tools that SBV can still deploy — including mandatory conversion of USD receipts after certain period, or further documentary checks on USD purchases. Also, the recent measures should help narrow the trade gap in the months ahead, not to mention increasing exports demand from improving external environment.

One key factor to watch is the FX reserves levels. Further falls could force the CB to take further action on the FX front. For now, after the recent devaluation, the VND in the black market has stabilised around 19,400, firmer than 19,800 prior to the one-off move.

### Global Investment Strategy

*(Contributed by UOBAM)*

We have included an asset allocation piece from our colleagues at UOBAM. Essentially, the main theme for 2010 is recovery in corporate earnings to continue to drive equity markets. Consensus expectations are for global equity earnings to grow by about 25% in 2010.

Increase our Overweight position in Equities, reduce our overweight in Commodities and move further Underweight in Bonds. Within Equities, we prefer Emerging Markets and have an underweight position in the Developed Markets. In terms of sectors, we prefer the cyclicals over defensives — Technology, Consumer Discretionary, Industrials, Materials and Energy. In Bonds, we continue to prefer Investment Grade bonds. In Commodities, we have an overweight position in Gold and Energy.

Increase our underweight in Government Bonds. The recovery of the global economy and the heavy supply of government bonds ahead are headwinds for government bonds. Inflation expectations, while still modest, have also been creeping up. Even if official interest rates are slow to adjust to neutral levels, the bond markets will move to price these hikes ahead of official actions. We also see upside risk to inflation given the difficulty of accurately measuring the amount of slack in the economy.

Reduce our Overweight position in Commodities slightly so that we are able to add more exposure to Equities. We continue to maintain a small overweight position in Gold. Gold rallied strongly in the last quarter of 2009, firmly crossing the US\$1,000 level. The risk of a correction has risen with the potential near term strengthening of the US dollar. However new drivers have appeared, namely gold purchases by Emerging Market central banks and the continued growth in Exchange Traded Funds, which are backed by physical gold. The price of gold has furthermore been rising against other currencies aside from the US dollar.

### Asian FX

**RMB:** The scenario of a flat USD/RMB is likely to be extended into the next 1-2 quarters in 2010, given that China is in a situation of a “dollar trap” with its large forex reserve holdings. However, we should expect some gradual firming of the RMB starting from 2H2010 to coincide with normalization of PBoC policy as part of its “exit strategy”, with the pair moving to 6.77

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by end-2010, implying less than 1% gain for the year.

**MYR:** The currency has underperformed other Asian currencies on a trade-weighted basis as it tracked the flat USD/RMB in 2009. We expect the current account surplus to remain stable at around 15% of GDP in 2010 vs 2009, supported by some increase in palm prices which would boost the trade balance in the country. Unless we see more actions on the RMB, we are expecting more of the same sideways move in 1Q10 in terms of the domestic currency. Our end-quarter target for USD/MYR is at 3.37.

**IDR:** The best performing currency in Asia this year making gains of around 16% against USD YTD on the back of capital inflows due to the political stability and relatively resilient domestic economy. While we remain positive on Indonesia's growth prospects into the longer-term, further downside on USD/IDR from here will be limited in the coming months. Following the sharp strengthening in the IDR, the BI has recently said that it will try to keep the exchange rate near 9,500, on consideration for export competitiveness. The strong current account position will also ease in 2010 as imports recover at a faster rate given higher commodity prices and consumer demand. Lingering risks in the market such as the Greece debt issue could work against emerging market currencies including the IDR, should the concerns rise. While there could be more volatility, we are expecting USD/IDR to end slightly lower at around 9,350/USD by the end of the first quarter.

**THB:** The overall bearish sentiment on the USD (barring recent events such as the Dubai debt woes and credit ratings downgrade on Greece) has continued to give a boost to the THB. Apart from the very choppy and volatile movements of the Asian currencies during the second week of December where the market turned skittish and piled into the USD, we think Asian currencies, including the THB, should still be on an appreciating trend over the next year. The magnitude of appreciation, however, is unlikely to be hefty, with the state of the global economic recovery still fraught with uncertainty, and investor sentiments remaining fickle. In between, we should also continue to see interventions by the Thai central bank, which is likely to favour a more controlled rate of THB strengthening, without undermining exports. On the domestic front, political tension still has the potential to drag the baht down. For now, the USD/THB pair looks to be trending upwards, and we are projecting the THB to reach 32.6 at the end of 1Q10.

**KRW:** The stronger-than-expected recovery in South Korea's economy and record-high current account surpluses drove KRW's recovery from its low in March. After the significant downtrend from 1,570 in early-March, USD/KRW traded in a relatively narrow range of 1,140-1,190 in 4Q09 as the

bounce in stocks and currency ran out of steam without more significant impetus from the real economy. We expect USD/KRW to remain within ranges in 1Q10 as the BoK will become more cautious about letting the KRW appreciate faster without hurting exports recovery. Furthermore, recovering domestic demand and commodity prices will likely narrow the current account surplus in 2010. While we are expecting USD/KRW to end 1Q10 at around 1,150, a sooner interest rate normalisation in South Korea will likely put further upward pressure on the KRW.

### Asian Interest Rate

**China:** PBoC's monetary policy stance is expected to stay loose at least until mid-2010 but "fine tuning" has already begun, with regulation changes in property market. This suggests that banks' reserve requirements are likely to be the first to move up, possibly in early 2Q10, followed by normal policy rate hikes starting from 3Q10. We look for China's key 1Y lending rate to hold steady through mid-2010 at 5.31%, and to 5.85% by end-2010.

**Malaysia:** Bank Negara is expected to be a laggard in normalising interest rates among the Asian central banks as governor Zeti has repeatedly said current interest rate level is 'appropriate' while inflation risks remain manageable even as other central banks are already discussing plans for an exit from the loose monetary policy. This is partly due to more moderate asset price increase in Malaysia. The comments suggest that BNM is inclined to keep its Overnight Policy Rate (OPR) at 2.0% for most part of 2010 following the 125bps cut between November 2008 and February 2009. We are maintaining our expectation for BNM to begin normalising interest rates in 3Q10 (most likely on its fifth meeting on Sept 2). However, we have pared down our forecast for total rate hike quantum to 50bps from 75bps earlier. There are only three meetings scheduled in 2H10, the last being Nov 12.

**Indonesia:** Dovish comments and weaker-than-expected inflation rates in Indonesia in recent months have not changed our forecast for the BI to start to tighten interest rates in 2Q10 with total move of around 125bps for the whole of 2010. We are expecting inflation rates to rise above 5%/y in 2Q and low base effect could push the monthly CPI to above 6%/y in the later part of 2010. The 5-6%/y inflation rate in 2Q10 could prompt the BI to begin normalising its interest rates in order to maintain a spread of around 1-2ppt with its benchmark interest rate.

**Thailand:** We are keeping our expectations of a rate hike in 3Q10, since we think the economy will probably start on a sustainable path to growth in the later half of next year. Core inflation, which the Thai monetary policy committee targets, is also not likely to trigger any policy normalization in the form of

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tightening. Latest Nov figures show that inflation went up just 0.1% y/y, and will likely stay well within the 0-3.5% quarterly average range the BoT aims for. Also, in its latest inflation report for Oct 2009, the Thai central bank said that, risks of a property market bubble remained low. Unlike in other Asian regions such as South Korea, China and Hong Kong where their respective governments have concerns about asset price bubbles, and may have to move on monetary policy, for now, Thailand does not seem to have any immediate impetus for a monetary policy normalization.

**South Korea:** BoK governor Lee Seongtae dropped more hints for an earlier interest rate normalization after the December meeting as the economic outlook improved. If the positive growth momentum gets carried over to 4Q09, the BoK will probably have more reason to start hiking interest rates in 1Q10, especially if the property prices continue to move higher. We are maintaining our forecast for the rate normalisation to begin in early 2Q10 with total hikes of 125bps next year.

### Global Central Bank Policy

**ECB:** Interest rates were kept unchanged at the latest European Central Bank meeting held on December 3. The ECB had also made some announcements which amount to an incipient exit strategy from the unconventional policy measures taken. Apart from deciding to continue conducting its main refinancing operations (MROs) as fixed rate tender procedures with full allotment for as long as is needed, the Governing Council had also decided that the rate in the last 12-month longer-term refinancing operation, to be allotted on 16 December 2009, will be fixed at the average minimum bid rate of the MROs over the life of this operation. Cautiously optimistic, we maintain our view that the ECB's initial focus will be upon unwinding some of these liquidity measures rather than setting the stage for rate hikes. Nonetheless, we expect it to lead the G10 nations in increasing interest rates, probably around the third quarter of next year.

**BoE:** While other countries are considering scaling back emergency life measures, the Bank of England is still facing a tough call on whether to continue showering money on Britain's troubled economy. Even so, the BoE's decision on December 10 – to hold its key lending rate unchanged at 0.5% and maintain its programme of asset purchases totalling 200 billion pounds – was widely anticipated. The Bank said that it expects the programme will “take another two months to complete and that “the scale of the programme will be kept under review”. There seems to be nothing so far, to alter our expectations that the BoE would be the most dovish (out of the G10 nations), leaving rates on hold – in our view – until the fourth quarter next year.

**RBA:** The latest move by the Reserve Bank of Australia was a 25bps hike to 3.75% on December 1. It was also the first time

that the Bank had lifted interest rates for three continuous months since rates were first announced in 1990. A “material adjustment” was what the RBA had described the three rate hikes so far, from the much spoken-of “emergency level” of 3.00%. However, we did not seem to get any sense of urgency from the December post-meeting statement that the RBA is in any hurry to move rates upwards. In fact, the minutes of the December 1 meeting (released on December 15) hinted that there may be pauses in 2010. The next board meeting is scheduled for February 2, 2010. The break in January would mean that the RBA could take the time to access the impact of the three rate hikes on the economy. We have accelerated our forecast for the “normalization” process, expecting the cash rate to reach 4.0% by March rather than by July-August next year, and subsequently reaching 4.5% by mid 2010.

**RBNZ:** The Reserve Bank of New Zealand kept the official cash rate unchanged at 2.50% on December 10. It was not so much the rate decision itself but the tone of the statement which moved markets. The highlight was that the RBNZ said it will raise the benchmark interest rate sooner than it previously indicated, easing away from the October 29 pledge (to keep rates unchanged until the second half of 2010). We had expected that at some point, the RBNZ will probably indicate the need to “normalize” rates. And it seems that we were right to think that it was going to take a “gradual” approach in terms of setting up markets for a rate hike. We maintain our view that the RBNZ will start moving rates north in the second quarter of 2010.

### FX Outlook

**EUR & GBP:** The outlook for the Euro and Cable remains vague. We have seen (especially of late) how easily a dollar story could turn into a euro story or vice-versa. Whether or not the dollar's recent behavior is a real shift in the trend or just a correction is highly debatable (especially when thin liquidity in the market before the year-end tends to exaggerate fluctuations). Besides, we believe that gains in the US dollar may not be convincing until there is clear indication of the expected Fed rate hike. Nevertheless, going forward, the US dollar will continue to be a major catalyst and 2010 promises a fair bit of volatility. Needless to say, market strains globally would further complicate any near-term forecast. Peculiar knee-jerk reactions and abrupt position adjustments in other market segments (such as equities, bonds and commodities) could also impact currencies indirectly and unpredictably. In view of recent price movements and our outlook on the US dollar, we have revised our 3-month EUR/USD forecast to 1.500, 6-month forecast to 1.520, and 12-month forecast to 1.450. Similarly, we have revised our 3-month GBP/USD forecast to 1.650, 6-month forecast to 1.660, and 12-month forecast to 1.680.

**AUD & NZD:** The antipodean currencies have been driven

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by actual and expected interest rate differentials, as well as commodity prices. The use of the Australian currency as a proxy for China has also pulled the AUD higher. However, it does seem that the antipodean currencies are looking tired. NZD/USD has since lost steam; and there seems to be also very little net movement over the past month in the AUD/USD. The lack

of real price follow-through would mean that the antipodean currencies may need fresh catalyst to spur further gains. That said, we expect that sentiment should still remain positive for both these currency pairs. We are looking for AUD/USD and NZD/USD to trade comfortably around the 0.940- and 0.760-levels respectively by the middle of next year.