

## Currency Fact Sheets – March 2013

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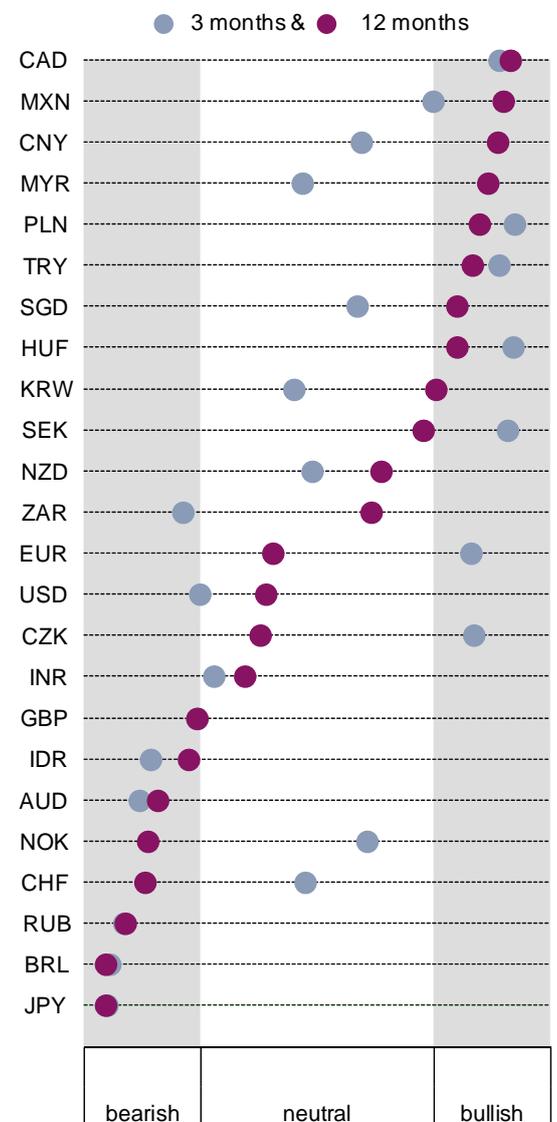
### G10 currencies

- US dollar outlook well balanced
- The euro with involuntary upside
- Policy keeps yen weak
- Swiss fundamentals justify an expensive CHF in the short-term
- The NOK's overvaluation is large and good fundamentals are priced in
- The case for a bullish stance on the SEK remains in place
- GBP surrounded by risks
- CAD in a position to profit from USD weakness
- AUD correction is underway
- Central bank tries to talk the NZD down

### Emerging market currencies

- Better growth in 2013 and low currency volatility bode well for the CNY
- INR: Election season around the corner
- SGD lull should remain temporary
- KRW is shrugging off the yen movements
- Fundamentals and valuation speak in favour of the MYR
- Inflation risks and trade deficit lead to downward bias on the IDR
- Slowing investment inflows are negative for the BRL
- We maintain our bullish view on the MXN, but with less conviction
- RUB exposed to the risk of lower crude prices
- Sluggish economic outlook justifies a neutral view on the CZK
- Better euro outlook supports the HUF
- The PLN is ready to profit from more risk appetite
- Improving TRY backdrop tops monetary easing
- Deteriorating fundamentals weigh on the ZAR short term

### JB currency strategy



12-month long-term and 3-month short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.  
 Source: Bloomberg Finance L.P., Julius Baer

## US dollar outlook well balanced

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- Quantitative easing (QE) efforts by the Bank of Japan have overtaken the Federal Reserve's (Fed) announcement regarding QE3.
- Market expectations that QE3 will last until 2014 could well be disappointed.
- Over the longer term, the discussion about an exit from QE3 could well support the US dollar.

**We have a neutral view on the USD and are more constructive than consensus especially against the JPY, GBP and AUD.**

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### Opportunities

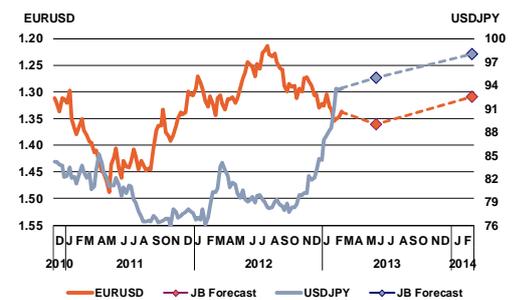
- Uncertainty and high risk aversion are supportive for the USD.
- Fundamentally, the USD is rather cheap.
- The Fed could start to push for an end of QE3 earlier than expected.

### Forecasts

	25.02.13	3 months	12 months
EURUSD	1.33	1.36	1.31
Consensus		1.32	1.29
USDJPY	94.0	95.0	98.0
Consensus		91.6	92.2
USDCHF	0.92	0.92	0.97
Consensus		0.93	0.96
GBPUSD	1.51	1.51	1.49
Consensus		1.58	1.57

Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook

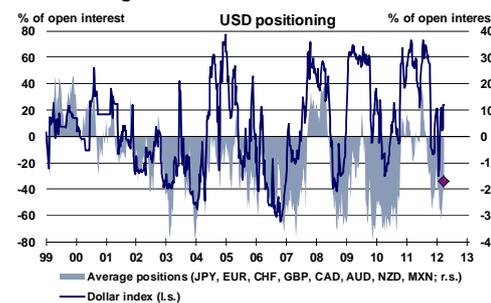


Source: Datastream, Julius Baer

### Risks

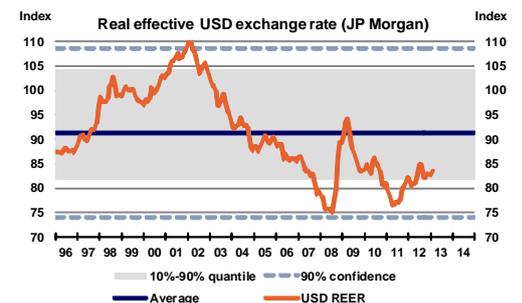
- Financing carry trades in the USD.
- Current account, basic balance and trade deficit are negative.
- Improvement in risk appetite promotes investments outside the USD.

### Positioning



Source: CFTC, Julius Baer

### Valuation



Source: JP Morgan, Datastream, Julius Baer

### Market backdrop

	spot	v. EUR	v. JPY
3M Rate	0.29%	8bp	13bp
10Y Yield	1.96%	18bp	122bp
3M Fwrd		1.309	91.88
12M Fwrd		1.312	91.56
3M Vola		9.37	12.40

Source: Datastream, Julius Baer

### Economic fundamentals United States

	2012	2013E	2014E
Real GDP (%)	2.2	1.7	2.5
CPI (%)	2.1	1.9	2.1
Fed Funds Target Rate* (%)	0.25	0.25	0.25
10y bond yields* (%)	1.72	2.50	3.00

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
CA balance (% of GDP)	-3.1	-2.8	-2.8
Budget balance (% of GDP)	-8.5	-6.9	-6.1
Gross public debt (% of GDP)	106.4	109.3	109.8
Gross external debt (% of GDP)	99.8	100.2	100.4

Monetary policy framework: inflation and growth

\* = end of period

## The euro's involuntary upside

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- Japan's policy initiatives to weaken the yen result in a stronger euro.
- Additional short-term euro support continues to come from the Fed's open-ended QE3 pledge.
- Possible (excessive) euro strength has demonstrably entered the ECB's agenda, but little action is expected.

The euro has the potential to strengthen over the coming three months as official attempts to keep up in the 'weaken-my-currency' race is rather lukewarm.

### Opportunities

- Imbalances within the eurozone are diminishing.
- The ECB's commitment to price stability protects the euro's value.
- Rising risk appetite supports the euro.

### Risks

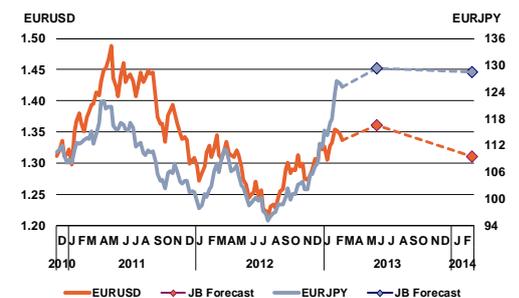
- Return of sovereign debt crisis and contagion risk.
- The ECB monetising-government debt would be negative for the EUR.
- Still attractive as a financing currency.

### Forecasts

	25.02.13	3 months	12 months
<b>EURUSD</b>	1.33	1.36	1.31
Consensus		1.32	1.29
<b>EURJPY</b>	125.0	129.2	128.4
Consensus		121.3	119.1
<b>EURCHF</b>	1.23	1.25	1.27
Consensus		1.23	1.24
<b>EURGBP</b>	0.88	0.90	0.88
Consensus		0.84	0.82

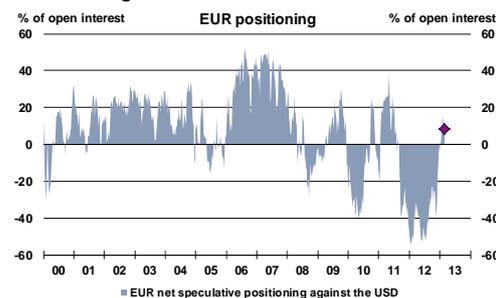
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



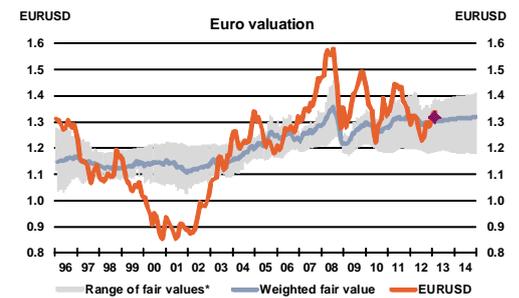
Source: Datastream, Julius Baer

### Positioning



Source: CFTC, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer

\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. JPY
<b>3M Rate</b>	0.21%	-8bp	5bp
<b>10Y Yield</b>	1.78%	-18bp	104bp
<b>3M Fwrd</b>		1.309	120.35
<b>12M Fwrd</b>		1.312	120.23
<b>3M Vola</b>		9.37	15.90

Source: BB, Datastream, Julius Baer

### Economic fundamentals eurozone

	2012	2013E	2014E
<b>Real GDP (%)</b>	-0.5	-0.5	0.9
<b>CPI (%)</b>	2.5	1.6	1.8
<b>ECB main refi rate* (%)</b>	0.75	0.75	0.75
<b>10y bond yields* (%)</b>	1.32	2.15	2.65

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	1.0	1.4	1.3
<b>Budget balance (% of GDP)</b>	-3.3	-2.6	-2.1
<b>Gross public debt (% of GDP)</b>	92.6	95.0	96.2
<b>Gross external debt (% of GDP as of: Q3/2011):</b>			195.5

Monetary policy framework: inflation targeting (close below 2%)

\* = end of period

## Policy keeps yen weak

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### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- Messing around with the Bank of Japan's (BoJ) independence and other regulatory sins create considerable downside risks for the currency.
- Incoming BoJ leadership in March is expected to ensure further yen devaluation.
- Unsustainable fiscal positions are a long-term threat for the currency.

**We hold a below-consensus bearish stance on the yen.**

### Opportunities

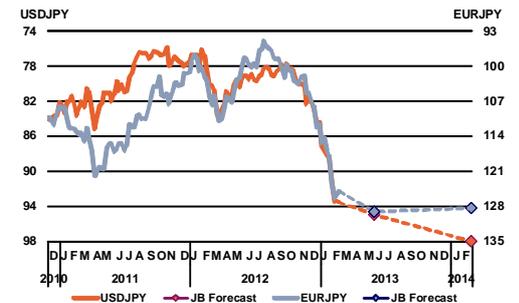
- Low inflation rates or still possible deflation risks imply a stronger JPY.
- The JPY is becoming increasingly undervalued.
- Extended expectations regarding dovish BoJ policy after leadership change in March.

### Forecasts

	25.02.13	3 months	12 months
<b>USDJPY</b>	94.0	95.0	98.0
Consensus		91.6	92.2
<b>EURJPY</b>	125.0	129.2	128.4
Consensus		121.3	119.1
<b>JPYCHF</b>	0.98	0.97	0.99
Consensus		1.02	1.04
<b>GBPJPY</b>	142.2	143.6	145.9
Consensus		144.5	144.7

Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook

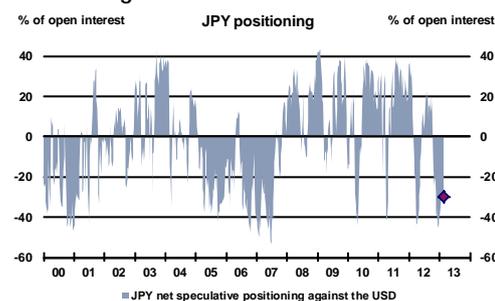


Source: Datastream, Julius Baer

### Risks

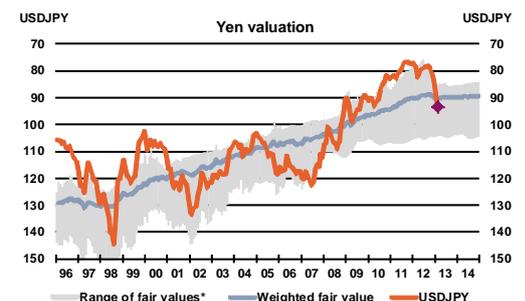
- Interest rate differential could turn more negative.
- Use of the JPY as a carry trade financing vehicle.
- Likelihood of additional policy initiatives to weaken the yen further is high until upper-house elections in July.

### Positioning



Source: CFTC, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	0.16%	-13bp	-5bp
<b>10Y Yield</b>	0.74%	-122bp	-104bp
<b>3M Fwrd</b>		91.88	120.35
<b>12M Fwrd</b>		91.56	120.23
<b>3M Vola</b>		12.40	15.90

Source: Datastream, Julius Baer

### Economic fundamentals Japan

	2012	2013E	2014E
<b>Real GDP (%)</b>	1.9	0.6	1.8
<b>CPI (%)</b>	0.0	0.5	0.9
<b>BoJ O/N Rate* (%)</b>	0.00	0.00	0.00
<b>10y bond yields* (%)</b>	0.74	0.90	1.30

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	1.1	0.8	1.2
<b>Budget balance (% of GDP)</b>	-10.0	-10.4	-7.1
<b>Gross public debt (% of GDP)</b>	209.6	219.9	219.7
<b>Gross external debt (% of GDP)</b>	50.2	48.1	46.7

Monetary policy framework: inflation targeting

\* = end of period

## GBP surrounded by risks

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Opportunities

- The UK has reached its cyclical bottom.
- Early-mover advantage thanks to proceeding structural adjustments.
- Ambitious fiscal consolidation offers long-term opportunities beyond our forecast horizon.

### Risks

- BoE not unhappy with a weaker GBP.
- Monetary policy shift after new BoE governor Carney comes into power in June.
- The recession is undermining the acceptance of the government's austerity programme.

### Market backdrop

	spot	v. USD	v. EUR
3M Rate	0.51%	22bp	30bp
10Y Yield	2.02%	6bp	24bp
3M Fwrd		1.516	1.158
12M Fwrd		1.515	1.155
3M Vola		9.23	9.69

Source: Datastream, Julius Baer

### Currency outlook

- Growth fell back into stagnation in Q4 2012 (0.3% q/q), as the fiscal drag remains large and structural adjustments proceed.
- BoE acknowledges that the inflation overshoot will persist in 2013.
- Uncertainties with regard to BoE policy and the stability of the inflation target have clearly risen.

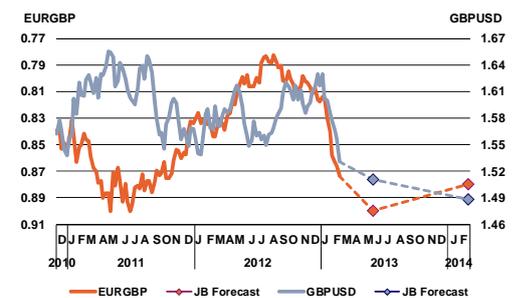
The pound sterling's valuation remains under pressure due to economic, fiscal and monetary policy risks.

### Forecasts

	25.02.13	3 months	12 months
GBPUSD	1.51	1.51	1.49
Consensus		1.58	1.57
EURGBP	0.88	0.90	0.88
Consensus		0.84	0.82
GBPCHF	1.40	1.39	1.44
Consensus		1.47	1.51
GBPJPY	142.2	143.6	145.9
Consensus		144.5	144.7

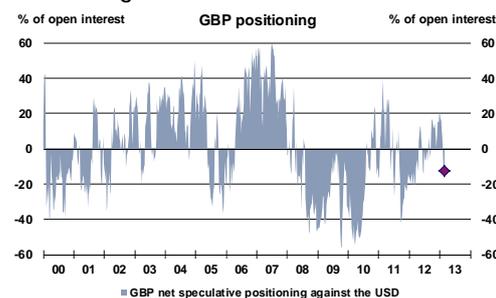
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



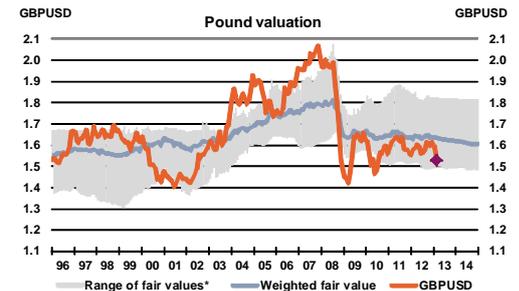
Source: Datastream, Julius Baer

### Positioning



Source: CFTC, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Economic fundamentals UK

	2012	2013E	2014E
Real GDP (%)	0.0	0.6	2.3
CPI (%)	2.8	2.7	1.7
BoE Base Rate* (%)	0.50	0.50	0.50
10y bond yields* (%)	1.85	2.80	3.40

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
CA balance (% of GDP)	-3.6	-3.3	-3.2
Budget balance (% of GDP)	-6.5	-5.8	-5.5
Gross public debt (% of GDP)	89.5	93.0	95.1
Gross external debt (% of GDP)	416.1	416.4	417.1

Monetary policy framework: inflation targeting (2%±1% y/y)

\* = end of period

## The SNB remains on its toes at the EUR/CHF front

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- The Swiss National Bank (SNB)'s defensive stance on the EUR/CHF floor at 1.20 has relaxed since the ECB's OMT announcement and even more with rising risk appetite and eurozone improvements.
- The currently passive and cautious SNB has not given up independence by shadowing the ECB, but its 'wait-and-see' stance remains warranted as long as the CHF is overvalued against the EUR.
- Resurging risk aversion potential prevents a sharp drop of the CHF.

Swiss fundamentals keep the CHF expensive vs. the EUR in the short to medium term. If the current EUR/CHF levels remain unchanged, they will match fair values by 2014.

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### Opportunities

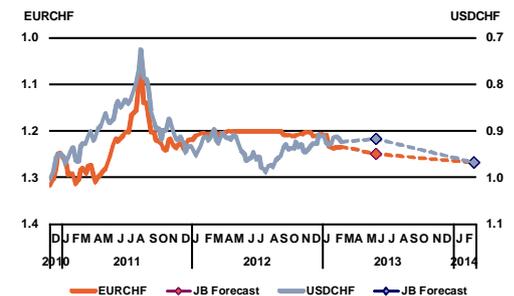
- The SNB alone is not able to weaken the CHF much further with ease.
- CHF is a safe haven like gold vs. weak currencies in times of heavy tension.
- International debt crises are not resolved and could escalate any time.

### Forecasts

	25.02.13	3 months	12 months
<b>USDCHF</b>	0.92	0.92	0.97
Consensus		0.93	0.96
<b>EURCHF</b>	1.23	1.25	1.27
Consensus		1.23	1.24
<b>JPYCHF</b>	0.98	0.97	0.99
Consensus		1.02	1.04
<b>GBPCHF</b>	1.40	1.39	1.44
Consensus		1.47	1.51

Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook

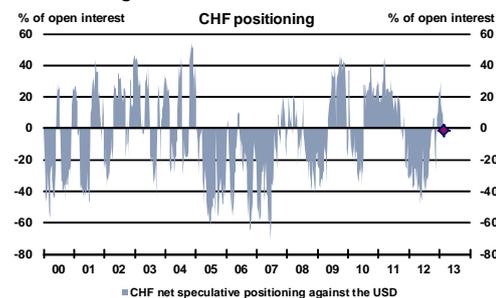


Source: Datastream, Julius Baer

### Risks

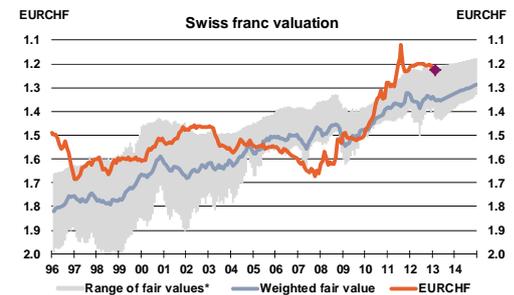
- The CHF is still too expensive while the Swiss economic backdrop is still too vulnerable to shocks.
- The SNB is determined to prevent lasting deflation on any EUR/CHF drop.
- Surging risk appetite may cause the CHF to dive.

### Positioning



Source: CFTC, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	0.02%	-27bp	-19bp
<b>10Y Yield</b>	1.16%	-80bp	-62bp
<b>3M Fwrd</b>		0.929	1.216
<b>12M Fwrd</b>		0.925	1.213
<b>3M Vola</b>		9.20	5.01

Source: Datastream, Julius Baer

### Economic fundamentals Switzerland

	2012	2013E	2014E
<b>Real GDP (%)</b>	1.0	0.5	1.2
<b>CPI (%)</b>	-0.7	-0.1	1.0
<b>SNB 3M Libor Target* (%)</b>	0.00	0.25	0.50
<b>10y bond yields* (%)</b>	0.44	1.15	1.60

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	12.6	12.1	11.6
<b>Budget balance (% of GDP)</b>	0.7	0.4	0.5
<b>Gross public debt (% of GDP)</b>	33.9	33.1	31.6
<b>Gross external debt (% of GDP)</b>	230.4	230.4	230.9

Monetary policy framework: inflation and growth

\* = end of period

## SEK to profit from a calm Riksbank

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- Remarkable price stability renders the SEK an attractive long-term investment.
- The SEK remains undervalued and backed by healthy fundamentals.
- Riksbank is comfortable with a stronger SEK and so far reluctant to join the group of central banks devaluing their currencies.

The case for a bullish stance on the SEK remains in place.

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### Opportunities

- Quick return to rate normalisation once global growth recovers.
- Healthy fundamentals such as a current account surplus and debt metrics.
- Undervaluation has been building up again.

### Risks

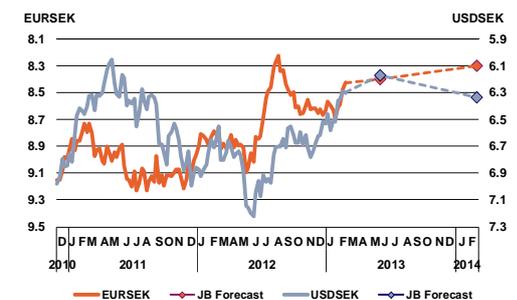
- Possibility of a further Riksbank rate cut.
- Volatility vs. the EUR in relation to the debt crisis.
- Vulnerability to swings in global growth optimism and risk aversion.

### Forecasts

	25.02.13	3 months	12 months
<b>USDSEK</b>	6.37	6.18	6.34
Consensus		6.45	6.49
<b>EURSEK</b>	8.47	8.40	8.30
Consensus		8.54	8.39
<b>GBPSEK</b>	9.64	9.33	9.43
Consensus		10.18	10.20
<b>CHFSEK</b>	6.89	6.72	6.54
Consensus		6.94	6.75

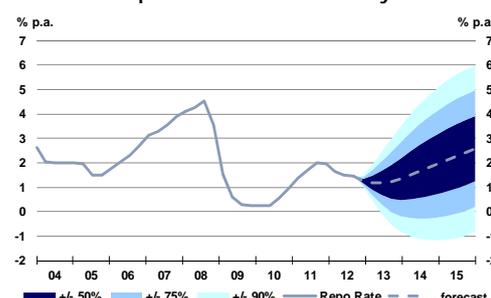
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



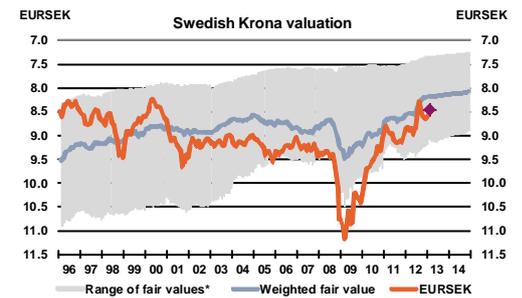
Source: Datastream, Julius Baer

### Riksbank repo rate with uncertainty bands



Source: Riksbank, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	1.21%	92bp	100bp
<b>10Y Yield</b>	2.36%	40bp	58bp
<b>3M Fwrd</b>		6.485	8.486
<b>12M Fwrd</b>		6.520	8.553
<b>3M Vola</b>		10.64	6.70

Source: Datastream, Julius Baer

### Economic fundamentals Sweden

	2012	2013E	2014E
<b>Real GDP (%)</b>	1.0	1.5	2.5
<b>CPI (%)</b>	0.9	1.0	3.0
<b>Riksbank Repo Rate* (%)</b>	1.00	1.00	1.25
<b>10y bond yields* (%)</b>	1.51	2.20	2.70

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	7.0	6.3	6.1
<b>Budget balance (% of GDP)</b>	-0.5	-1.4	-0.6
<b>Gross public debt (% of GDP)</b>	49.0	49.5	47.8
<b>Gross external debt (% of GDP)</b>	194.5	186.4	185.9

Monetary policy framework: inflation targeting (2%±1% y/y)

\* = end of period

## Strong NOK levels lack support

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- Norway's domestic cyclical backdrop is still comparably strong but remains endangered by weak eurozone demand.
- Uninspiring outlook for crude oil prices curbs potential.
- The NOK's heavy overvaluation motivates our longer-term bearish stance.

**The NOK's overvaluation remains substantial and positive fundamentals are fully priced in.**

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### Opportunities

- Resilience of the domestic economy to the eurozone recession.
- Support from terms-of-trade gains.
- Large current account surplus.

### Risks

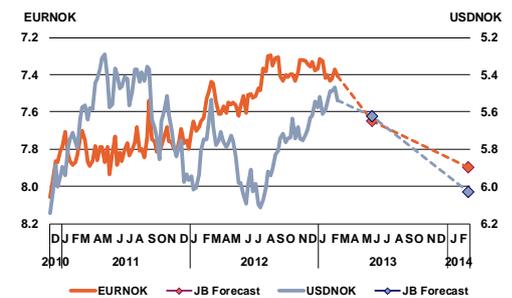
- Norges Bank to participate in 'currency war' with unexpected rate cuts.
- Vulnerability to swings in global risk appetite.
- Two-way dependency on the oil price: Spikes in oil price can trigger a return of global risk aversion.

### Forecasts

	25.02.13	3 months	12 months
<b>USDNOK</b>	5.61	5.63	6.03
Consensus		5.48	5.56
<b>EURNOK</b>	7.47	7.65	7.90
Consensus		7.26	7.18
<b>GBPNOK</b>	8.50	8.50	8.98
Consensus		8.64	8.72
<b>CHFNOK</b>	6.07	6.12	6.22
Consensus		5.89	5.77

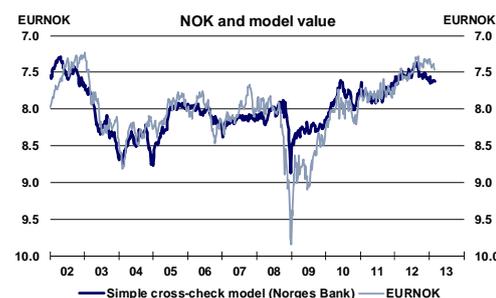
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



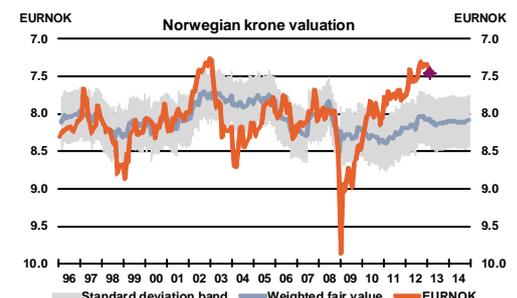
Source: Datastream, Julius Baer

### NOK and model value



Source: Norges Bank, Datastream, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	1.86%	157bp	165bp
<b>10Y Yield</b>	3.34%	138bp	156bp
<b>3M Fwrd</b>		5.729	7.497
<b>12M Fwrd</b>		5.790	7.596
<b>3M Vola</b>		9.86	6.12

Source: Datastream, Julius Baer

### Economic fundamentals Norway

	2012	2013E	2014E
<b>Real GDP (%)</b>	3.2	2.0	2.5
<b>CPI (%)</b>	0.4	2.0	2.5
<b>Repo Rate* (%)</b>	1.50	1.75	2.75
<b>10y bond yields* (%)</b>	2.08	2.45	3.00

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	14.3	12.2	14.6
<b>Budget balance (% of GDP)</b>	13.6	11.9	11.4
<b>Gross public debt (% of GDP)</b>	31.4	30.4	28.0
<b>Gross external debt (% of GDP)</b>	126.1	124.4	125.5

Monetary policy framework: inflation targeting (2.5% y/y)

\* = end of period

## CAD in a position to profit from USD weakness

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### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- The CAD receives cyclical support from improving US outlook.
- Recent weakness removes valuation concerns.
- Robust housing market raises question marks about delaying interest rate normalisation.

**We hold a bullish view on the CAD as it is in a unique position to profit from solid US growth and US dollar debasement.**

### Opportunities

- Support in times of rising commodity prices.
- The central bank's next step should be a hike.
- The CAD is a better store of value than the USD.

### Risks

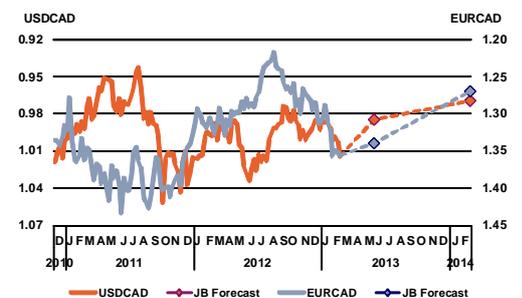
- Exposed to the US fiscal headwinds via strong trade links.
- High current account deficit.
- Central bank leadership change is a source of uncertainty.

### Forecasts

	25.02.13	3 months	12 months
<b>USDCAD</b>	1.02	0.99	0.97
Consensus		0.99	0.99
<b>EURCAD</b>	1.36	1.34	1.27
Consensus		1.31	1.28
<b>GBPCAD</b>	1.55	1.49	1.44
Consensus		1.56	1.55
<b>CHFCAD</b>	1.11	1.07	1.00
Consensus		1.07	1.03

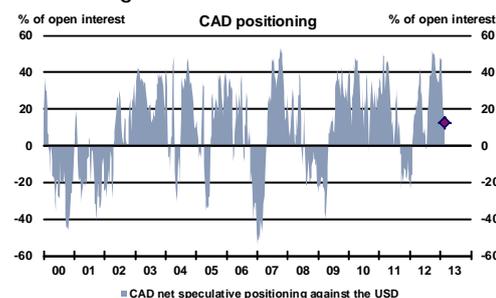
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



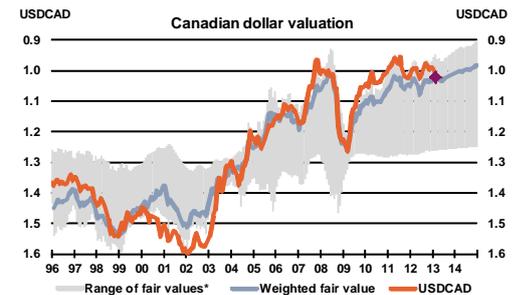
Source: Datastream, Julius Baer

### Positioning



Source: CFTC, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	1.29%	100bp	108bp
<b>10Y Yield</b>	2.31%	35bp	53bp
<b>3M Fwrd</b>		1.027	1.345
<b>12M Fwrd</b>		1.033	1.356
<b>3M Vola</b>		7.26	9.26

Source: Datastream, Julius Baer

### Economic fundamentals Canada

	2012	2013E	2014E
<b>Real GDP (%)</b>	2.0	1.5	2.5
<b>CPI (%)</b>	1.5	2.0	2.0
<b>BoC O/N Rate* (%)</b>	1.00	1.25	1.50
<b>10y bond yields* (%)</b>	1.77	2.85	3.85

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	-3.9	-4.1	-4.0
<b>Budget balance (% of GDP)</b>	-2.1	-1.8	-1.3
<b>Gross public debt (% of GDP)</b>	85.7	84.8	82.2
<b>Gross external debt (% of GDP)</b>	71.5	71.9	72.1

Monetary policy framework: inflation targeting (2%±1% y/y)

\* = end of period

## AUD correction is underway

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- Increasing risk appetite has led to some abatement of capital inflows into the bond market and triggered a weakening of the AUD.
- Strong expectations for another rate cut in H1 2013 further weigh on our currently most overvalued currency.
- Negative and widening external balance points to significant overvaluation.

Any AUD rebound should be made use of to reduce exposure to the currency. The overstretched valuation sends a warning signal.

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### Opportunities

- Nominal interest rates still offer an attractive carry.
- Demand for the AUD in the diversification of reserve currencies.
- Support from a cyclically recovering China.

### Risks

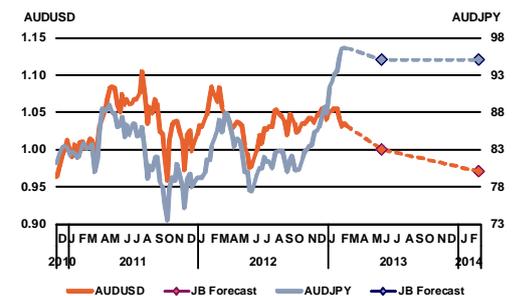
- The mining-led investment boom is coming to an end.
- Widening current account deficit.
- AUD is vulnerable to a AUD/JPY carry unwind in case of renewed JPY strength.

### Forecasts

	25.02.13	3 months	12 months
<b>AUDUSD</b>	1.03	1.00	0.97
Consensus		1.03	1.01
<b>EURAUD</b>	1.29	1.36	1.35
Consensus		1.28	1.28
<b>AUDJPY</b>	96.9	95.0	95.1
Consensus		98.2	98.9
<b>CHFAUD</b>	1.05	1.09	1.06
Consensus		1.04	1.03

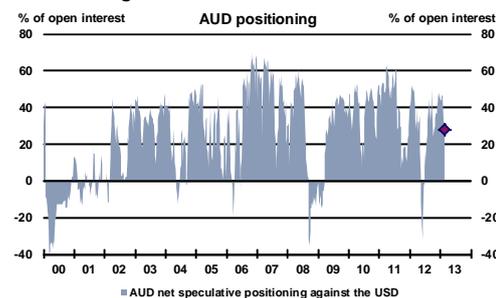
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



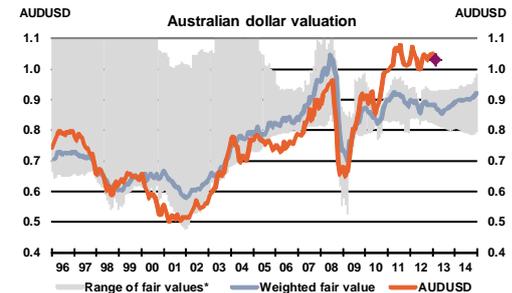
Source: Datastream, Julius Baer

### Positioning



Source: CFTC, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. JPY
<b>3M Rate</b>	2.94%	265bp	278bp
<b>10Y Yield</b>	3.97%	201bp	323bp
<b>3M Fwrd</b>	1.020	93.74	
<b>12M Fwrd</b>	1.001	91.69	
<b>3M Vola</b>	8.42	12.68	

Source: Datastream, Julius Baer

### Economic fundamentals Australia

	2012	2013E	2014E
<b>Real GDP (%)</b>	3.5	2.0	3.6
<b>CPI (%)</b>	1.8	2.2	2.5
<b>RBA Cash Rate* (%)</b>	3.00	3.00	3.25
<b>10y bond yields* (%)</b>	3.23	3.90	4.25
<b>CA balance (% of GDP)</b>	-4.1	-5.5	-5.2
<b>Budget balance (% of GDP)</b>	-2.3	-1.1	-0.5
<b>Gross public debt (% of GDP)</b>	32.2	32.0	30.6
<b>Gross external debt (% of GDP)</b>	88.2	89.0	88.4

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

Monetary policy framework: inflation targeting (2-3% y/y)

\* = end of period

## Central bank tries to talk down the NZD

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### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- The Reserve Bank of New Zealand (RBNZ) states that it is prepared to step in to prevent the NZD from strengthening.
- Current account and basic balance deteriorates as a result of the currency's overvaluation.
- NZD-related commodity prices support the currency, while rebuilding of the earthquake-hit Christchurch will support GDP growth in 2013.

**NZD fundamentals are solid and valuation is much healthier than that of the AUD.**

### Opportunities

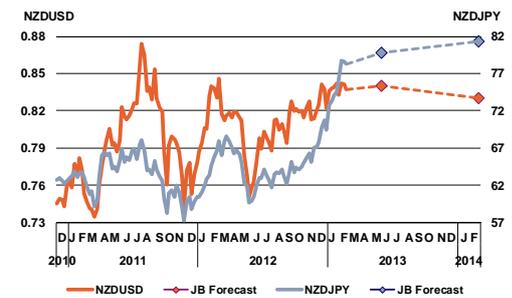
- Positive medium-term outlook for agricultural commodities.
- NZD appreciates with rising risk appetite.
- The hurdle for the central bank to cut rates is relatively high.

### Forecasts

	25.02.13	3 months	12 months
<b>NZDUSD</b>	0.84	0.84	0.83
Consensus		0.83	0.82
<b>EURNZD</b>	1.58	1.62	1.58
Consensus		1.59	1.59
<b>AUDNZD</b>	1.23	1.19	1.17
Consensus		1.24	1.24
<b>CHFNZD</b>	1.29	1.31	1.27
Consensus		1.29	1.27

Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook

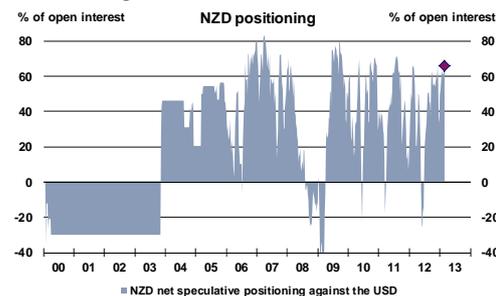


Source: Datastream, Julius Baer

### Risks

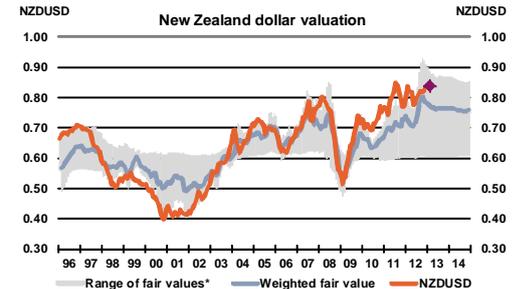
- Business cycle slowdown.
- Large and widening current account deficit.
- Actions by the RBNZ to weaken the currency.

### Positioning



Source: CFTC, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. JPY
<b>3M Rate</b>	2.66%	237bp	250bp
<b>10Y Yield</b>	4.05%	209bp	331bp
<b>3M Fwrd</b>		0.827	76.02
<b>12M Fwrd</b>		0.811	74.32
<b>3M Vola</b>		10.26	14.39

Source: Datastream, Julius Baer

### Economic fundamentals New Zealand

	2012	2013E	2014E
<b>Real GDP (%)</b>	2.3	2.8	2.7
<b>CPI (%)</b>	1.1	2.7	2.2
<b>RBNZ Cash Rate* (%)</b>	2.50	3.00	3.25
<b>10y bond yields* (%)</b>	3.56	4.65	4.95

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	-5.3	-5.0	-4.6
<b>Budget balance (% of GDP)</b>	-4.4	-2.6	-1.5
<b>Gross public debt (% of GDP)</b>	38.6	38.1	37.9
<b>Gross external debt (% of GDP)</b>	n.a.	n.a.	n.a.

Monetary policy framework: inflation targeting (1-3% y/y)

\* = end of period

## Neutral view on the CZK

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- A weaker CZK outlook, barring negative economic data surprises, reduces central bank rhetoric against the Czech koruna.
- The CZK offers solid fundamentals including price stability, trade surplus, low external debt and very limited reliance on foreign funding support stability.
- The absence of interest rate carry weighs on the longer-term outlook.

**A sluggish economic outlook for 2013 justifies a neutral view on the CZK.**

### Opportunities

- An economy with a strong track record of balance sheet and price stability.
- Low external debt level.
- Trade surplus and solid fiscal policy.

### Risks

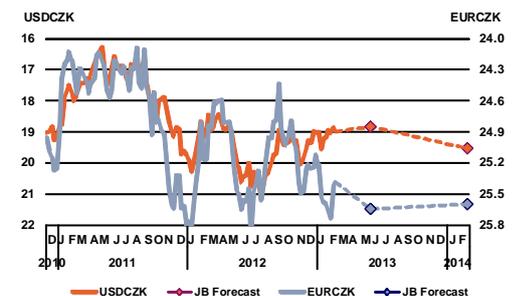
- Dovish bias of the Czech national bank.
- Resistance against appreciating exchange rate.
- High outflows due to the repatriation of profits from foreign direct investments.

### Forecasts

	25.02.13	3 months	12 months
<b>USDCZK</b>	19.18	18.86	19.54
Consensus		19.38	19.64
<b>EURCZK</b>	25.52	25.65	25.60
Consensus		25.66	25.38
<b>GBPCZK</b>	29.04	28.50	29.09
Consensus		30.56	30.84
<b>CHFCZK</b>	20.74	20.52	20.16
Consensus		20.83	20.40

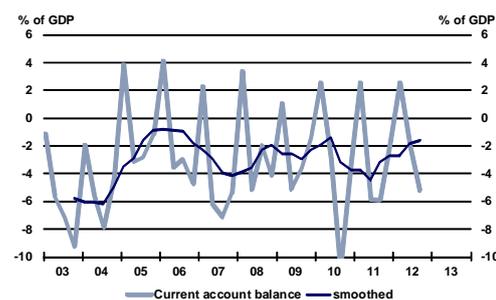
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



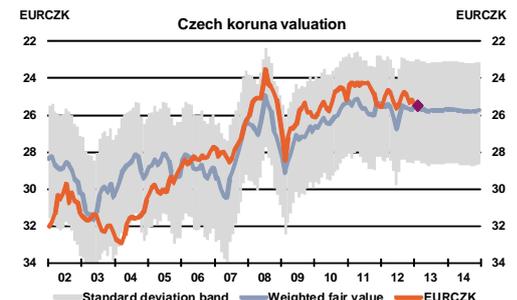
Source: Datastream, Julius Baer

### Czech current account balance



Source: Datastream, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	0.50%	21bp	29bp
<b>10Y Yield</b>	1.52%	-44bp	-26bp
<b>3M Fwd</b>		19.51	25.54
<b>12M Fwd</b>		19.46	25.53
<b>3M Vola</b>		10.77	5.40

Source: Datastream, Julius Baer

### Economic fundamentals Czech Republic

	2012	2013E	2014E
<b>Real GDP (%)</b>	-1.0	0.0	2.5
<b>CPI (%)</b>	3.3	2.5	2.0
<b>CNB Repo Rate* (%)</b>	0.05	n.a.	n.a.
<b>10y bond yields* (%)</b>	3.34	2.08	n.a.

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	-2.2	-2.3	-3.2
<b>Budget balance (% of GDP)</b>	-2.6	-3.0	-2.8
<b>Gross public debt (% of GDP)</b>	45.2	48.1	49.9
<b>Gross external debt (% of GDP)</b>	50.6	53.5	56.1

Monetary policy framework: inflation targeting

\* = end of period

## Better euro outlook supports the HUF

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- The improving outlook for the eurozone helps to also improve the growth backdrop in Hungary.
- The undervalued HUF with a positive current account balance offers a good chance to profit from rising risk appetite.
- The central bank's policy including more rate cuts and new management are the big risk factors going forward.

Over the short term we hold a bullish, above-consensus view as rising risk appetite and economic improvement outweigh the dovish central bank policy.

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### Opportunities

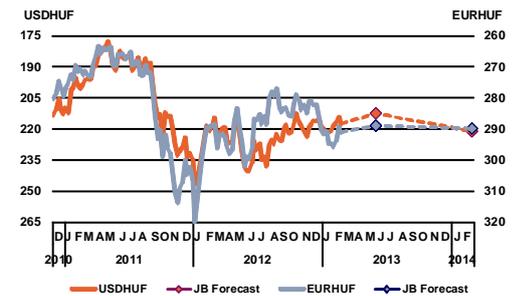
- Cheapness of the HUF suggests that a lot of bad news has been priced in.
- Current account surplus continues to improve.
- Respectable price stability record in the past three years.

### Forecasts

	25.02.13	3 months	12 months
USDHUF	220.6	212.5	221.4
Consensus		219.0	222.4
EURHUF	293.5	289.0	290.0
Consensus		290.0	287.4
GBPHUF	334.0	321.1	329.5
Consensus		345.4	349.2
CHFHUF	238.6	231.2	228.3
Consensus		235.4	231.0

Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook

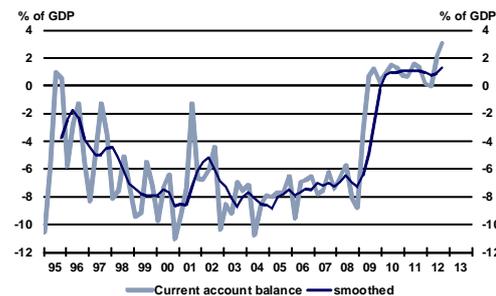


Source: Datastream, Julius Baer

### Risks

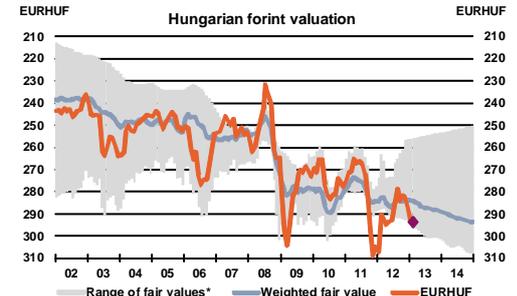
- Bailout talks with the IMF/EU remain difficult.
- Risks of slippage in an IMF/EU programme are high.
- Unorthodox monetary policy could be introduced with the new central bank management.

### Hungarian current account balance



Source: Datastream, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. EUR
3M Rate	5.42%	513bp	521bp
10Y Yield	5.29%	333bp	351bp
3M Fwrd		227.89	298.28
12M Fwrd		232.90	305.49
3M Vola		13.79	9.47

Source: Datastream, Julius Baer

### Economic fundamentals Hungary

	2012	2013E	2014E
Real GDP (%)	-1.7	0.0	1.5
CPI (%)	5.7	4.0	3.5
MNB Base Rate* (%)	5.75	n.a.	n.a.
10y bond yields* (%)	8.80	6.21	n.a.

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
CA balance (% of GDP)	1.4	2.0	1.8
Budget balance (% of GDP)	-2.3	-3.2	-3.2
Gross public debt (% of GDP)	82.0	83.9	84.7
Gross external debt (% of GDP)	131.3	123.3	124.1

Monetary policy framework: inflation targeting

\* = end of period

## PLN is ready to profit from more risk appetite

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### JB currency strategy



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### Currency outlook

- The PLN profits from demand for higher-yielding emerging market assets and improving situation in the eurozone and a stronger euro.
- The zloty offers a reasonable yield pickup.
- Rate cuts by the central bank and an economic slowdown create serious headwinds against a stronger PLN.

**We hold a bullish above-consensus stance as the PLN has good chances of attracting foreign inflows. Elevated volatility is the major concern.**

### Opportunities

- The PLN is reasonably priced.
- Further rate cuts are already priced in.
- Improving current account deficit.

### Risks

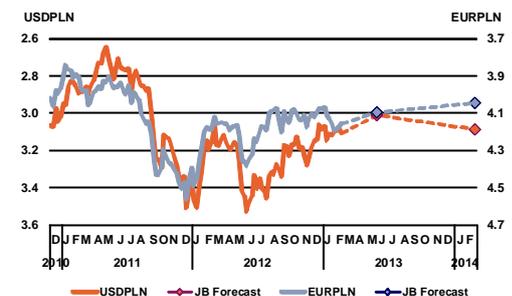
- Slowing economic growth.
- Further interest rate cuts are possible.
- Very high volatility reflects uncertain outlook.

### Forecasts

	25.02.13	3 months	12 months
<b>USDPLN</b>	3.12	3.01	3.09
Consensus		3.14	3.15
<b>EURPLN</b>	4.15	4.10	4.05
Consensus		4.16	4.07
<b>GBPPLN</b>	4.72	4.56	4.60
Consensus		4.95	4.94
<b>CHFPLN</b>	3.37	3.28	3.19
Consensus		3.37	3.27

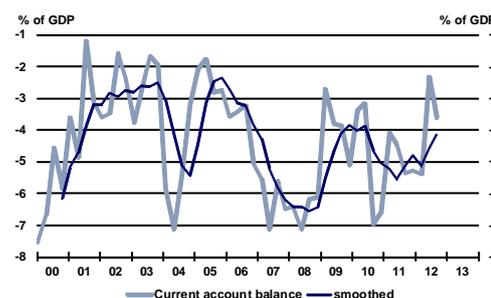
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



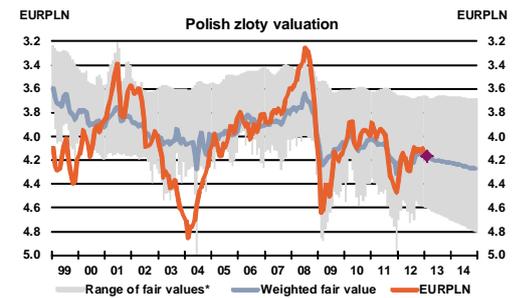
Source: Datastream, Julius Baer

### Polish current account balance



Source: Goldman Sachs, Datastream, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	3.65%	336bp	344bp
<b>10Y Yield</b>	3.87%	191bp	209bp
<b>3M Fwrd</b>		3.207	4.197
<b>12M Fwrd</b>		3.272	4.291
<b>3M Vola</b>		12.24	7.55

Source: Datastream, Julius Baer

### Economic fundamentals Poland

	2012	2013E	2014E
<b>Real GDP (%)</b>	2.0	1.5	3.0
<b>CPI (%)</b>	3.7	2.5	2.5
<b>NBP Repo Rate* (%)</b>	4.60	n.a.	n.a.
<b>10y bond yields* (%)</b>	5.00	n.a.	n.a.

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	-3.6	-2.9	-3.1
<b>Budget balance (% of GDP)</b>	-3.4	-3.6	-3.1
<b>Gross public debt (% of GDP)</b>	55.9	58.0	59.0
<b>Gross external debt (% of GDP)</b>	71.3	76.6	82.2

Monetary policy framework: inflation targeting (2.5%±1% y/y)

\* = end of period

## RUB exposed to the risk of lower crude prices

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### JB currency strategy



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### Currency outlook

- High inflation undermines the already overvalued currency.
- Capital flight remains a major negative, although a rising current account surplus reduces the negative currency impact.
- The Russian rouble offers an attractive carry even when adjusted for volatility.

**Strong capital flight and a bearish view on crude oil prices call for a bearish, below-consensus view.**

### Opportunities

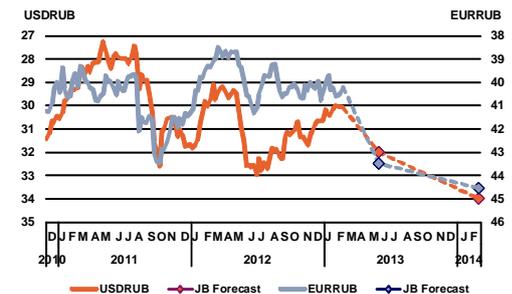
- Political will to ease access to the local financial market for foreigners.
- Attractive interest rate carry.
- Current account surplus.

### Forecasts

	25.02.13	3 months	12 months
<b>USDRUB</b>	30.24	32.00	34.00
Consensus		30.41	30.86
<b>EURRUB</b>	40.24	43.52	44.54
Consensus		40.26	39.87
<b>GBPRUB</b>	45.78	48.36	50.61
Consensus		47.96	48.45
<b>CHFRUB</b>	32.70	34.82	35.07
Consensus		32.68	32.05

Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook

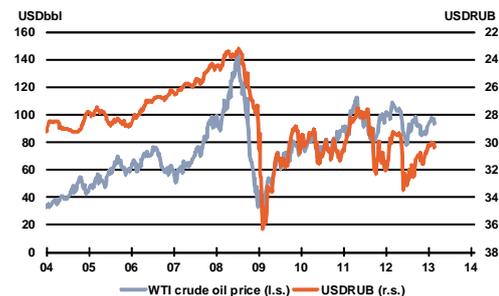


Source: Datastream, Julius Baer

### Risks

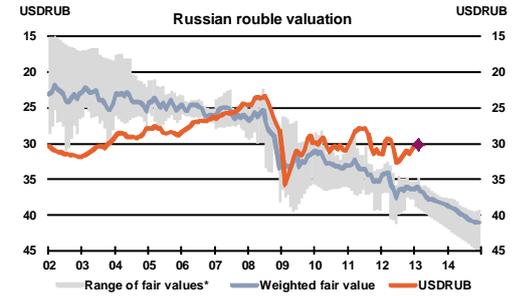
- Political uncertainty undermines domestic investment and triggers capital outflows.
- Overvalued currency.
- Possible correction in oil prices.

### Rouble and oil price



Source: Goldman Sachs, Datastream, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	7.04%	675bp	683bp
<b>10Y Yield</b>	7.52%	556bp	574bp
<b>3M Fwrd</b>		31.07	40.66
<b>12M Fwrd</b>		32.38	42.48
<b>3M Volatility</b>		8.36	8.59

Source: Datastream, Julius Baer

### Economic fundamentals Russia

	2012	2013E	2014E
<b>Real GDP (%)</b>	3.4	3.5	4.0
<b>CPI (%)</b>	5.1	6.5	6.0
<b>CBR Refi. Rate* (%)</b>	8.00	8.25	n.a.
<b>5y bond yields* (%)</b>	7.78	n.a.	n.a.

Exchange rate regime: fixed peg (composite)

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	4.3	2.2	1.4
<b>Budget balance (% of GDP)</b>	-0.6	-0.7	-0.9
<b>Gross public debt (% of GDP)</b>	8.7	8.7	8.8
<b>Gross external debt (% of GDP)</b>	30.7	32.1	34.3

Monetary policy framework: inflation (reduce to 5-7% in 2012)

\* = end of period

## Improving TRY backdrop tops monetary easing

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Opportunities

- The TRY offers an attractive interest rate carry.
- Fiscal policy appears relatively well-anchored.
- Rebounding growth will attract money inflows.

### Risks

- Current account deficit largely financed by volatile capital inflows.
- More aggressive monetary action to weaken the currency.
- Inflation erodes the value of the currency.

### Currency outlook

- Improving current account and basic balance signals progress in rebalancing the economy.
- Turkey is profiting strongly from an improvement in the eurozone.
- Central bank stands ready to weaken the currency via further policy easing.

**We have a bullish view on the TRY as improving fundamentals will overrule resistance from monetary authorities to weaken the lira.**

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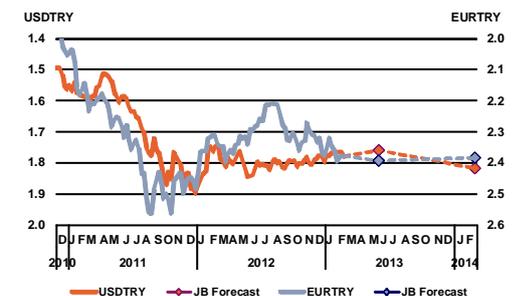
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### Forecasts

	25.02.13	3 months	12 months
<b>USDTRY</b>	1.79	1.76	1.82
Consensus		1.78	1.80
<b>EURTRY</b>	2.39	2.39	2.38
Consensus		2.36	2.33
<b>GBPTRY</b>	2.72	2.66	2.71
Consensus		2.81	2.83
<b>CHFTRY</b>	1.94	1.91	1.88
Consensus		1.91	1.87

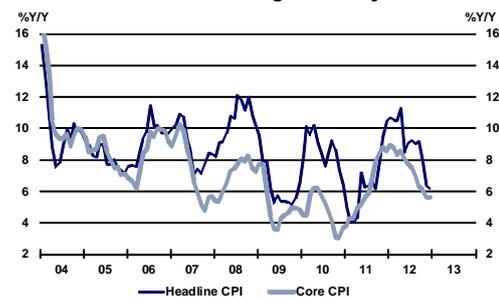
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



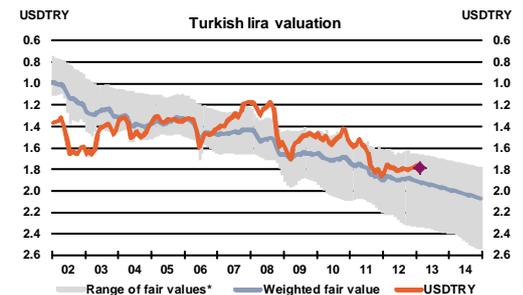
Source: Datastream, Julius Baer

### Inflation slowed down significantly



Source: Goldman Sachs, Datastream, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	5.64%	535bp	543bp
<b>10Y Yield</b>	7.88%	592bp	610bp
<b>3M Fwrd</b>		1.829	2.395
<b>12M Fwrd</b>		1.893	2.484
<b>3M Volatility</b>		7.17	7.96

Source: Datastream, Julius Baer

### Economic fundamentals Turkey

	2012	2013E	2014E
<b>Real GDP (%)</b>	2.5	4.0	5.0
<b>CPI (%)</b>	8.9	6.5	5.5
<b>CBRT O/N Rate* (%)</b>	2.90	5.00	n.a.
<b>10y bond yields* (%)</b>	12.26	n.a.	n.a.
<b>Exchange rate regime:</b>	independently free-floating		

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	-6.5	-6.7	-7.2
<b>Budget balance (% of GDP)</b>	-2.1	-1.6	-0.9
<b>Gross public debt (% of GDP)</b>	41.2	38.5	36.8
<b>Gross external debt (% of GDP)</b>	41.0	38.4	38.2
<b>Monetary policy framework:</b>	inflation targeting		

\* = end of period

## Deteriorating fundamentals weigh on the ZAR

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### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- Tensions in the mining industry result in deteriorating fundamentals, including a rising current account deficit.
- Deteriorating terms-of-trade developments increase pressure on the current account deficit.
- Valuation is attractive, but high uncertainty rendered it a short-term guidance.

ZAR offers only for long-term oriented investors some opportunities. No hurry.

### Opportunities

- The ZAR is attractively valued.
- Appealing nominal carry.
- Rising global risk appetite and search for yield could create support.

### Risks

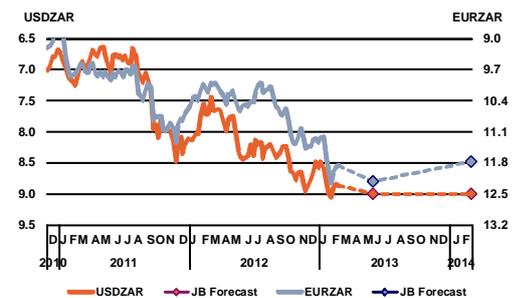
- External imbalance is increasing.
- Risk of sovereign rating downgrade.
- Domestic policy is becoming investor-unfriendly.

### Forecasts

	25.02.13	3 months	12 months
<b>USDZAR</b>	8.83	9.00	9.00
Consensus		8.71	8.68
<b>EURZAR</b>	11.74	12.24	11.79
Consensus		11.53	11.22
<b>GBPZAR</b>	13.36	13.60	13.40
Consensus		13.73	13.63
<b>CHFZAR</b>	9.54	9.79	9.28
Consensus		9.36	9.02

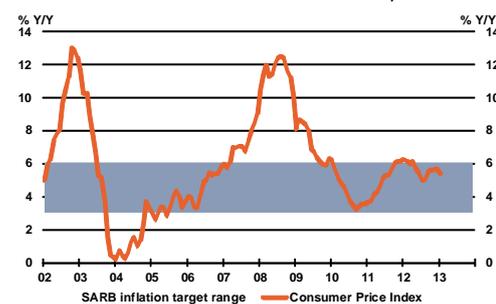
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



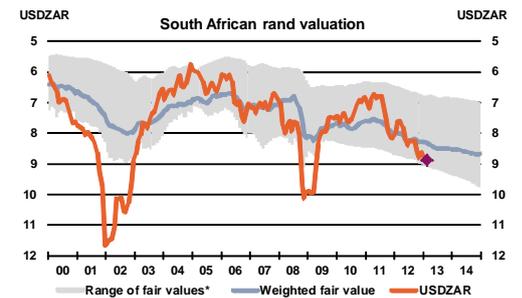
Source: Datastream, Julius Baer

### South African inflation within limits, for now



Source: Datastream, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	5.08%	479bp	487bp
<b>10Y Yield</b>	6.83%	487bp	505bp
<b>3M Fwrd</b>		8.955	11.660
<b>12M Fwrd</b>		9.275	12.109
<b>3M Vola</b>		12.27	12.27

Source: Datastream, Julius Baer

### Economic fundamentals South Africa

	2012	2013E	2014E
<b>Real GDP (%)</b>	2.5	3.0	4.0
<b>CPI (%)</b>	5.7	5.5	5.0
<b>SARB Repo Rate* (%)</b>	5.50	5.00	n.a.
<b>10y bond yields* (%)</b>	8.71	7.99	6.91

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	-6.0	-5.8	-4.8
<b>Budget balance (% of GDP)</b>	-5.4	-4.9	-3.9
<b>Gross public debt (% of GDP)</b>	38.4	38.9	39.2
<b>Gross external debt (% of GDP)</b>	32.9	38.0	38.3

Monetary policy framework: inflation targeting

\* = end of period

## BRL: Low rates for longer

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Opportunities

- The BRL offers still an attractive interest rate carry.
- Low levels of sovereign debt and high currency reserves allow the central bank to easily intervene in the currency market.

### Risks

- Strong government stimulus keeps inflation risks elevated for 2013.
- Wage concessions and persistent service inflation should persist.
- Trade balance is negative and continues to deteriorate.

### Currency outlook

- Direct investment inflows are slowing.
- Central bank keeps rates low despite rising inflation.
- The BRL is considerable overvalued.

**We expect the current strength of the BRL to be short-lived and hold a below consensus bearish stance.**

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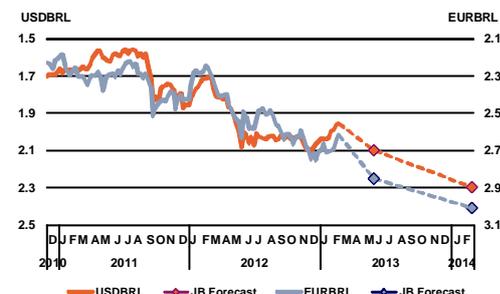
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### Forecasts

	25.02.13	3 months	12 months
<b>USDBRL</b>	1.96	2.10	2.30
Consensus		2.02	2.04
<b>EURBRL</b>	2.6	2.86	3.01
Consensus		2.67	2.63
<b>GBPBRL</b>	2.96	3.17	3.42
Consensus		3.18	3.19
<b>CHFBRL</b>	2.12	2.28	2.37
Consensus		2.17	2.11

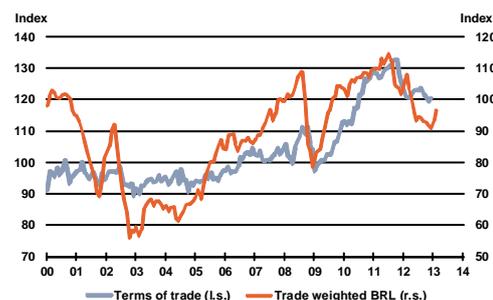
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



Source: Datastream, Julius Baer

### Terms of trade and BRL



Source: Datastream, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	5.39%	510bp	518bp
<b>10Y Yield</b>	9.44%	748bp	766bp
<b>3M Fwrd</b>		2.007	2.627
<b>12M Fwrd</b>		2.093	2.744
<b>3M Vola</b>		8.84	9.90

Source: Datastream, Julius Baer

### Economic fundamentals Brazil

	2012	2013E	2014E
<b>Real GDP (%)</b>	1.0	3.0	4.5
<b>CPI (%)</b>	5.4	5.5	5.0
<b>SELIC Target Rate* (%)</b>	11.25	10.50	7.25
<b>10y bond yields* (%)</b>	10.17	n.a.	n.a.

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	-2.4	-2.4	-2.3
<b>Budget balance (% of GDP)</b>	-2.5	-2.0	-1.9
<b>Gross public debt (% of GDP)</b>	58.2	54.4	51.7
<b>Gross external debt (% of GDP)</b>	13.4	13.1	13.2

Monetary policy framework: inflation targeting (4.5%±2% y/y)

\* = end of period

## Additional upside for the MXN

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- Strong domestic demand should support the Mexican economy.
- Banxico has been displaying a dovish bias as currency wars intensify.
- We expect a slight but consistent appreciation of the MXN.

**We maintain our bullish view on the MXN; nevertheless the appreciation potential should be less pronounced than that of the recent past.**

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### Opportunities

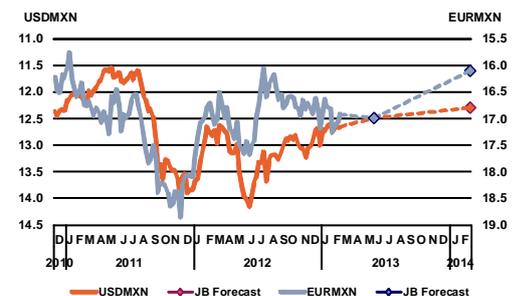
- The prudent monetary and fiscal framework is likely to persist.
- The recent labour reform should help stimulate growth in 2013.
- The MXN is not expensive.

### Forecasts

	25.02.13	3 months	12 months
<b>USDMXN</b>	12.62	12.50	12.30
Consensus		12.60	12.37
<b>EURMXN</b>	16.79	17.00	16.11
Consensus		16.68	15.98
<b>GBPMXN</b>	19.10	18.89	18.31
Consensus		19.87	19.42
<b>CHFMXN</b>	13.64	13.60	12.69
Consensus		13.54	12.85

Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook

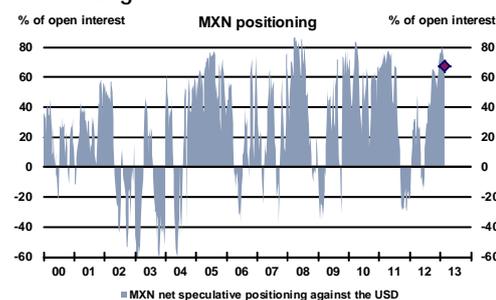


Source: Datastream, Julius Baer

### Risks

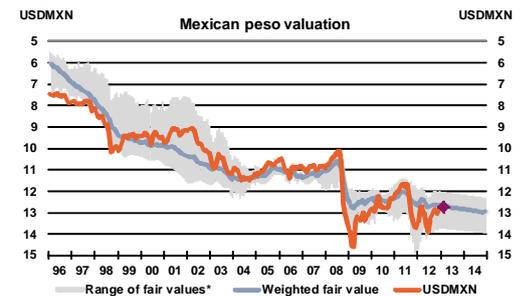
- Increasing foreign ownership of MXN assets links the Mexican economy to the global landscape.
- The currency is relatively volatile.

### Positioning



Source: CFTC, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	4.66%	437bp	445bp
<b>10Y Yield</b>	5.51%	355bp	373bp
<b>3M Fwd</b>	12.91	16.89	
<b>12M Fwd</b>	13.22	17.40	
<b>3M Vola</b>	10.11	9.41	

Source: Datastream, Julius Baer

### Economic fundamentals Mexico

	2012	2013E	2014E
<b>Real GDP (%)</b>	4.0	3.5	4.0
<b>CPI (%)</b>	4.1	3.5	3.0
<b>Banxico O/N Rate* (%)</b>	4.50	4.50	4.50
<b>10y bond yields* (%)</b>	8.04	n.a.	n.a.

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	-0.4	-0.6	-0.7
<b>Budget balance (% of GDP)</b>	-2.5	-2.7	-3.1
<b>Gross public debt (% of GDP)</b>	39.2	38.2	38.4
<b>Gross external debt (% of GDP)</b>	25.1	23.8	23.1

Monetary policy framework: inflation targeting (3%±1% y/y)

\* = end of period

## CNY: The path to higher quality growth

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- Policy discussions centre on improving the quality of economic growth, by bolstering domestic demand, lowering income inequality and enabling high urbanisation rates over the longer term.
- The CNY's low volatility offers portfolio benefits to investors.
- The CNY/CNH should maintain a longer-term appreciation trend.

Policy continuity and better growth in 2013 bode well for the CNY.

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### Opportunities

- Long-term potential.
- Capital account liberalisation.
- Managed peg limits losses in times of risk aversion.
- A stronger CNY is consistent with internal economic rebalancing.

### Risks

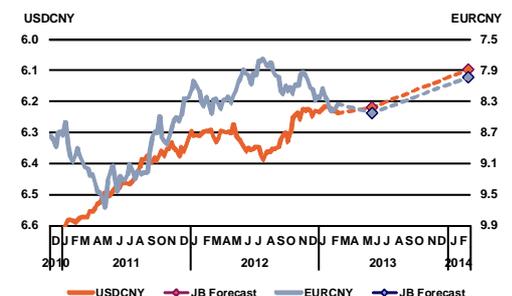
- Downside risk if trade balance shrinks again due to weak external demand.
- Increasing volatility of hot money inflows and outflows.

### Forecasts

	25.02.13	3 months	12 months
<b>USDCNY</b>	6.24	6.22	6.10
Consensus		6.25	6.17
<b>EURCNY</b>	8.30	8.46	7.99
Consensus		8.28	7.97
<b>CHFCNY</b>	6.74	6.77	6.29
Consensus		6.72	6.41
<b>JPYCNY</b>	6.64	6.55	6.22
Consensus		6.82	6.73

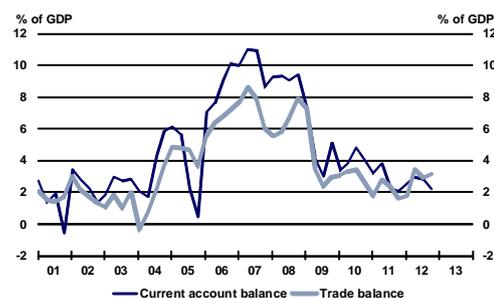
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



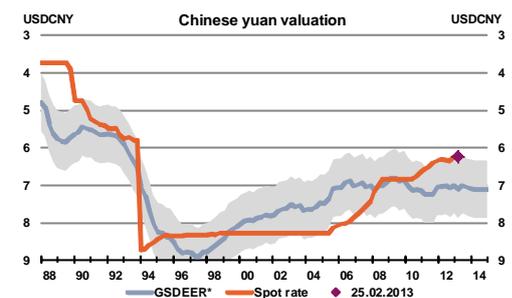
Source: Datastream, Julius Baer

### Chinese CA and trade balance



Source: Datastream, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* fair value based on PPP, relative productivity and terms of trade

### Market backdrop

	spot	v. USD	v. EUR
<b>12M Rate</b>	3.29%	300bp	308bp
<b>10Y Yield</b>	3.75%	179bp	197bp
<b>3M Fwrd</b>		6.295	8.239
<b>12M Fwrd</b>		6.326	8.298
<b>3M Vola</b>		1.42	9.55

Source: Datastream, Julius Baer

### Economic fundamentals China

	2012	2013E	2014E
<b>Real GDP (%)</b>	7.8	8.1	8.5
<b>CPI (%)</b>	2.7	2.9	3.0
<b>PBC Lending Rate* (%)</b>	6.56	6.00	n.a.
<b>10y bond yields* (%)</b>	4.20	n.a.	n.a.

Exchange rate regime: crawling peg (USD)

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	3.1	3.5	3.5
<b>Budget balance (% of GDP)</b>	-1.8	-1.8	-1.1
<b>Gross public debt (% of GDP)</b>	15.9	16.6	16.9
<b>Gross external debt (% of GDP)</b>	9.2	8.9	8.6

Monetary policy framework: inflation and growth

\* = end of period

## IDR: Credit expansion driving GDP growth

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- Rapid increase in consumer credit is keeping domestic demand growth at high levels, while higher government spending may yield a primary deficit in 2013.
- While the overall economic backdrop is sound, market worries over trade deficit and inflation risks are keeping the rupiah under pressure.

**Inflation risks and trade deficit lead to a downward bias on the rupiah.**

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### Opportunities

- Long-term growth potential.
- Government addresses long-term fiscal burden by lowering fuel subsidies.
- Very solid domestic demand growth.

### Risks

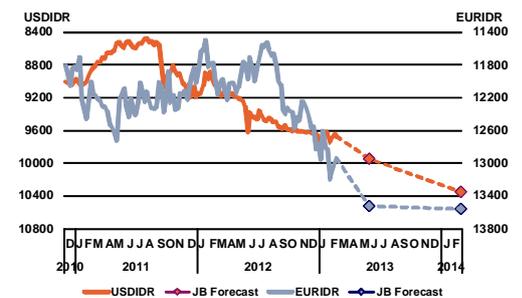
- The central bank chases credit and economic growth.
- Shorter-term inflation worries could spill over into higher core inflation.
- Overvaluation.

### Forecasts

	25.02.13	3 months	12 months
<b>USDIR</b>	9705	9950	10350
Consensus		9755	9630
<b>EURIDR</b>	12912	13532	13559
Consensus		12916	12442
<b>CHFIDR</b>	10493	10826	10676
Consensus		10483	10002
<b>JPYIDR</b>	10329	10474	10561
Consensus		10648	10512

Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



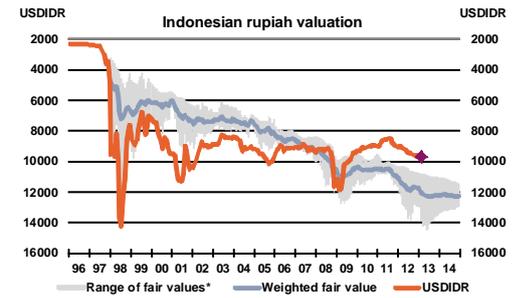
Source: Datastream, Julius Baer

### Indonesian CA balance



Source: Datastream, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	4.80%	451bp	459bp
<b>10Y Yield</b>	7.81%	585bp	603bp
<b>3M Fwrd</b>	9789.0	12806.9	
<b>12M Fwrd</b>	10136.5	13303.7	
<b>3M Vola</b>	6.84	n.a.	

Source: Datastream, Julius Baer

### Economic fundamentals Indonesia

	2012	2013E	2014E
<b>Real GDP (%)</b>	6.2	6.0	6.5
<b>CPI (%)</b>	4.3	5.0	5.0
<b>BI Reference Rate* (%)</b>	5.75	n.a.	n.a.
<b>10y bond yields* (%)</b>	8.95	n.a.	n.a.

Exchange rate regime: managed floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	-2.2	-2.2	-2.3
<b>Budget balance (% of GDP)</b>	-1.8	-1.8	-1.7
<b>Gross public debt (% of GDP)</b>	21.6	19.6	17.8
<b>Gross external debt (% of GDP)</b>	27.3	25.6	22.5

Monetary policy framework: inflation targeting (5%±1% y/y)

\* = end of period

## INR: Election season around the corner

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- The rupee may see increased volatility given the multitude of local elections in 2013 and the pressure to enact populist measures.
- Growth has most likely passed its low point, but the passage of major reforms is needed to put India on a high-growth path.

Government-sponsored reforms may deliver higher growth in the longer term.

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### Opportunities

- Reforms are paving the way for new optimism.
- Central bank credibility is likely to be bolstered by gradual easing only.

### Risks

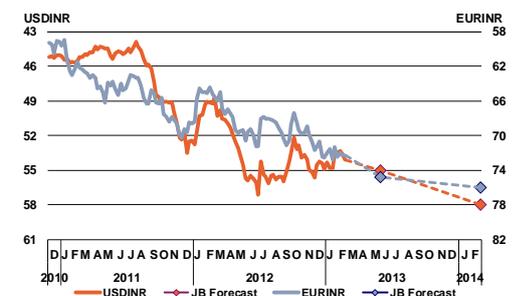
- Regressive governance.
- Expectations that India's national government will pass meaningful reforms are high – hence downside risk exists if reform efforts fail.

### Forecasts

	25.02.13	3 months	12 months
<b>USDINR</b>	53.53	55.00	58.00
Consensus		53.49	52.74
<b>EURINR</b>	71.21	74.80	75.98
Consensus		70.82	68.14
<b>CHFNR</b>	57.87	59.84	59.83
Consensus		57.48	54.77
<b>JPYINR</b>	56.97	57.89	59.18
Consensus		58.39	57.57

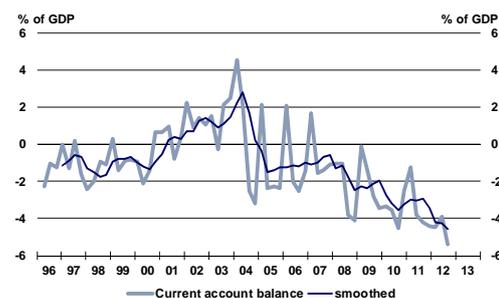
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



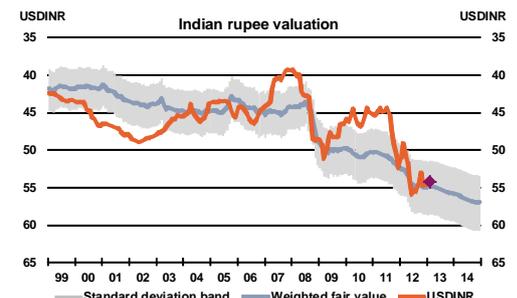
Source: Datastream, Julius Baer

### Indian CA balance



Source: Datastream, Julius Baer

### Valuation



Source: Datastream, Julius Baer

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	7.96%	767bp	775bp
<b>10Y Yield</b>	7.27%	531bp	549bp
<b>3M Fwrd</b>		55.14	72.18
<b>12M Fwrd</b>		57.61	75.59
<b>3M Vola</b>		9.68	10.44

Source: Datastream, Julius Baer

### Economic fundamentals India

	2012	2013E	2014E
<b>Real GDP (%)</b>	5.0	6.0	7.0
<b>CPI (%)</b>	7.5	8.5	6.5
<b>Official Prime Rate* (%)</b>	8.50	7.75	n.a.
<b>10y bond yields* (%)</b>	8.21	7.79	n.a.

Exchange rate regime: managed floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

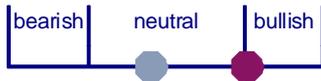
	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	-4.7	-3.8	-4.0
<b>Budget balance (% of GDP)</b>	-5.6	-5.5	-4.7
<b>Gross public debt (% of GDP)</b>	53.5	52.1	51.1
<b>Gross external debt (% of GDP)</b>	19.5	17.8	16.1

Monetary policy framework: inflation targeting

\* = end of period

## KRW: Shrugging off the yen's movements

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- Market concerns that the Korean won is losing competitiveness relative to the Japanese yen are mounting – and likely to overshadow all other more supportive factors in the shorter term.
- Bank of Korea has chosen not to engage or alter policy in light of the yen's development – for now.

Particularly in the long term, the KRW offers an excellent reward-to-risk ratio.

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### Opportunities

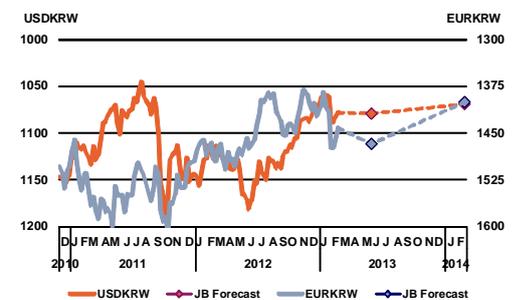
- Central bank eases its policy to defend growth in a proactive manner.
- Confidence in weathering the impact of China's slowdown.
- Solid fiscal balance.

### Forecasts

	25.02.13	3 months	12 months
<b>USDKRW</b>	1085	1080	1070
Consensus		1063	1039
<b>EURKRW</b>	1444	1469	1402
Consensus		1407	1342
<b>CHFKRW</b>	1173	1175	1104
Consensus		1142	1079
<b>JPYKRW</b>	11.55	11.37	10.92
Consensus		11.60	14.57

Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook

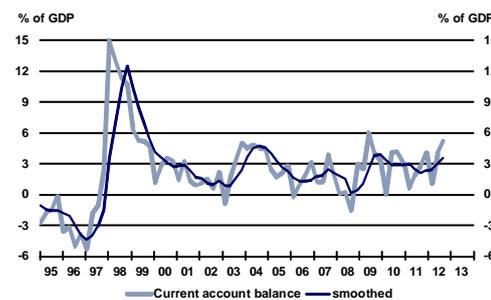


Source: Datastream, Julius Baer

### Risks

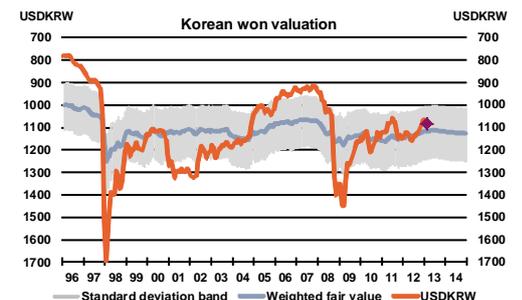
- Exposed to European woes.
- Sharp appreciation in the face of a weaker yen could damage economic prospects in the medium term.
- High-beta currency.

### Korean current account balance



Source: Goldman Sachs, Datastream, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	2.82%	253bp	261bp
<b>10Y Yield</b>	2.99%	103bp	121bp
<b>3M Fwrd</b>		1095.9	1433.7
<b>12M Fwrd</b>		1108.7	1453.7
<b>3M Vola</b>		7.74	9.43

Source: Datastream, Julius Baer

### Economic fundamentals Korea

	2012	2013E	2014E
<b>Real GDP (%)</b>	2.0	3.5	4.5
<b>CPI (%)</b>	2.2	2.5	3.0
<b>BoK Bank Rate* (%)</b>	3.25	2.75	n.a.
<b>10y bond yields* (%)</b>	4.82	3.83	3.08

Exchange rate regime: independently free-floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	3.9	2.7	1.8
<b>Budget balance (% of GDP)</b>	0.5	-0.5	-0.1
<b>Gross public debt (% of GDP)</b>	47.4	49.9	51.3
<b>Gross external debt (% of GDP)</b>	36.9	34.0	31.9

Monetary policy framework: inflation targeting (3%±1% y/y)

\* = end of period

## MYR: Election mode in full swing

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

- The next two months will be dominated by the upcoming general election, putting on hold any major policy developments.
- Fundamentally, the backdrop for growth and the currency are attractive, with the ringgit attractively valued. In the longer term the currency presents interesting value for investors.

**Short-term catalysts are missing for the MYR, despite solid economic fundamentals.**

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### Opportunities

- The MYR is acting as a proxy for the SGD.
- Credibility of the central bank.
- Competitive costs and prices versus Singapore.

### Risks

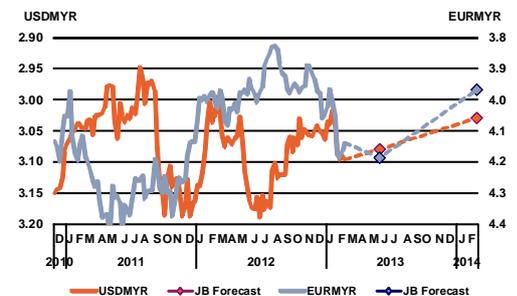
- Exposure to global headwinds.
- Further headwinds from commodity price correction and risk backdrop.

### Forecasts

	25.02.13	3 months	12 months
<b>USDMYR</b>	3.10	3.08	3.03
Consensus		3.05	2.99
<b>EURMYR</b>	4.12	4.19	3.97
Consensus		4.04	3.87
<b>CHFMYR</b>	3.35	3.35	3.13
Consensus		3.28	3.11
<b>JPYMYR</b>	3.30	3.24	3.09
Consensus		3.33	3.27

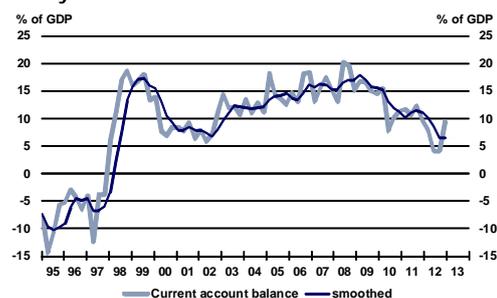
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



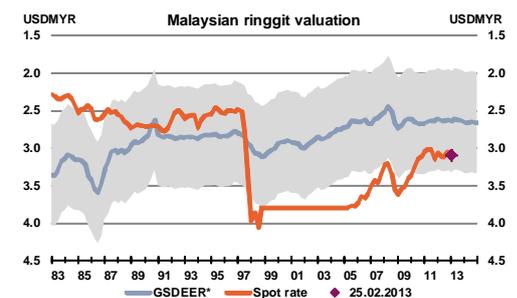
Source: Datastream, Julius Baer

### Malaysian CA balance



Source: Datastream, Julius Baer

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* fair value based on PPP, relative productivity and terms of trade

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	3.21%	292bp	300bp
<b>10Y Yield</b>	3.81%	185bp	203bp
<b>3M Fwrd</b>		3.119	4.083
<b>12M Fwrd</b>		3.161	4.148
<b>3M Vola</b>		7.74	n.a.

Source: Datastream, Julius Baer

### Economic fundamentals Malaysia

	2012	2013E	2014E
<b>Real GDP (%)</b>	5.0	4.5	5.0
<b>CPI (%)</b>	1.7	2.5	2.5
<b>BNMO/N Policy Rate* (%)</b>	3.00	n.a.	n.a.
<b>10y bond yields* (%)</b>	4.63	n.a.	n.a.

Exchange rate regime: managed floating

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	4.7	3.5	3.6
<b>Budget balance (% of GDP)</b>	-5.0	-5.1	-4.5
<b>Gross public debt (% of GDP)</b>	54.5	56.0	56.1
<b>Gross external debt (% of GDP)</b>	34.8	36.0	36.5

Monetary policy framework: price and financial stability

\* = end of period

## SGD lull should remain temporary

### JB currency strategy



12m long-term and 3m short-term ranking relative to 24 currencies covered by JB economic research. Based on expected return over forward.

### Currency outlook

- Returning risk appetite has likely driven outflows from the regional 'safe haven' Singapore into higher-yielding Asian emerging markets.
- The economic stabilisation in China and in the eurozone should provide support to the Singaporean economy later in 2013.
- The Monetary Authority of Singapore (MAS) is also likely to maintain its modest appreciation path at subsequent meetings, due to persistent underlying inflation pressures.

The SGD should keep appreciating moderately from Q2 2013 onwards.

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### Opportunities

- Major central banks are debasing currencies.
- Strong fundamentals make SGD a safe investment.
- High inflation pressures call for currency appreciation.

### Risks

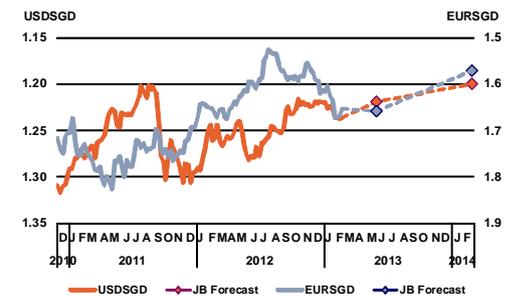
- The economy is flirting with stagflation.
- Real estate bubble.
- Low yields make SGD increasingly attractive as a regional carry-trade funder.

### Forecasts

	25.02.13	3 months	12 months
<b>USDSGD</b>	1.23	1.22	1.20
Consensus		1.22	1.20
<b>EURSGD</b>	1.64	1.66	1.57
Consensus		1.61	1.55
<b>CHFSGD</b>	1.33	1.33	1.24
Consensus		1.31	1.25
<b>JPYSGD</b>	1.31	1.28	1.22
Consensus		1.33	1.31

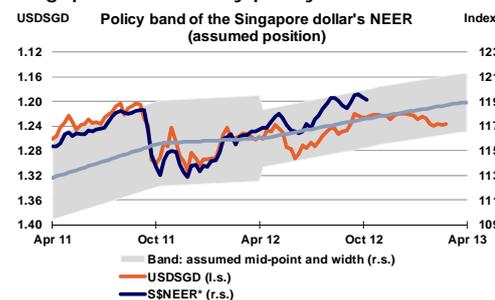
Source: ECB, Consensus Economics, Julius Baer

### Performance and outlook



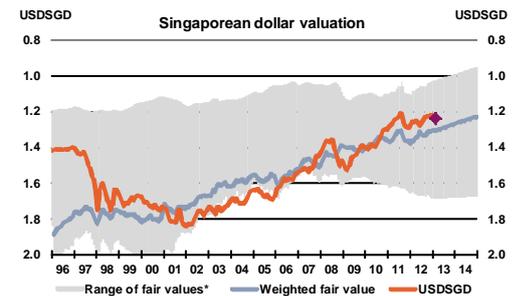
Source: Datastream, Julius Baer

### Singapore's monetary policy



Source: Goldman Sachs, Datastream, Julius Baer  
\* Updated semi-annually with the monetary statement. The (undisclosed) S\$NEER basket consists mainly of USD, to a lesser extent of JPY and EUR

### Valuation



Source: Goldman Sachs, Datastream, Julius Baer  
\* Goldman Sachs Dynamic Equilibrium Exchange Rate; various PPPs including terms-of-trade adjustments

### Market backdrop

	spot	v. USD	v. EUR
<b>3M Rate</b>	0.29%	0bp	8bp
<b>10Y Yield</b>	1.87%	-9bp	9bp
<b>3M Fwd</b>		1.239	1.622
<b>12M Fwd</b>		1.238	1.625
<b>3M Vola</b>		4.71	8.56

Source: Datastream, Julius Baer

### Economic fundamentals Singapore

	2012	2013E	2014E
<b>Real GDP (%)</b>	1.4	3.0	5.5
<b>CPI (%)</b>	4.6	3.5	3.0
<b>MAS Prime Rate* (%)</b>	5.38	n.a.	n.a.
<b>10y bond yields* (%)</b>	1.30	n.a.	n.a.
<b>Exchange rate regime:</b>	managed floating (composite)		

Source: Bloomberg Finance L.P., Datastream, IMF, Julius Baer

	2012	2013E	2014E
<b>CA balance (% of GDP)</b>	16.2	18.2	20.0
<b>Budget balance (% of GDP)</b>	1.6	0.8	0.7
<b>Gross public debt (% of GDP)</b>	116.7	117.1	115.9
<b>Gross external debt (% of GDP)</b>	257.0	253.5	244.9
<b>Monetary policy framework:</b>	currency regulation only		

\* = end of period

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