Currency

OUTLOOK

HSBC Global Research

Macro
Currency Strategy
July 2014

Scotland's loonie tunes

Current levels in GBP-USD are hard to reconcile with the series of political challenges which lie ahead. The first of these is the Scottish independence referendum on 18 September.

There are some reasonably close parallels between the Scottish vote and the two referenda held in 1980 and in 1995 in Québec over independence from the rest of Canada. These parallels are sufficiently strong to make an analysis of the CAD around the Québec referenda a useful indicator of how GBP might behave ahead of the September vote.

Long-term forecasts
We publish our long-term FX forecasts up to 2020.

Play Video with Daragh Maher

Summary

Current levels in GBP-USD are hard to reconcile with the series of political challenges which lie ahead. The first of these is the Scottish independence referendum on 18 September. The parallels between the Scottish and Québec case are sufficiently strong to make an analysis of the CAD around the Québec referenda a useful indicator of how GBP might behave ahead of the September vote.

Silver has traded in a relatively narrow range for much of the year and has been negatively impacted by ongoing tapering by the Federal Reserve and a stronger USD. We see silver prices falling faster than previously predicted, reaching USD 19.25/oz by year end 2015.

In our view, the economy's growth is not robust enough to generate the necessary upward pressure on prices to take inflation up over 2.0% in the near term. We believe that the FOMC will be in no hurry to speed up its planned exit from the current accommodative policy stance.

Given the problems of forecasting out even one year, many are understandably reluctant to venture a view for further out. However, we are aware that a number of our customers have a need for some indication of the likely FX market direction over a longer term horizon for planning purposes. So again, with some trepidation, we publish these longer term forecasts.

CAD: disturbance in the force: It is true that some domestic factors have worked more in favour of the CAD, particularly the higher inflation prints. But other Canadian developments have been mixed. Market dynamics have also been important as well, including the culling of short CAD positions and the CAD's gains against the EUR.

AUD: being talked lower: We believe the AUD will depreciate against the USD as the year progresses due to three main reasons: 1) The RBA jawboning the currency lower; 2) No RBA rate hike in 2014; 3) Strong US data.

NZD: in neutral: NZD-USD was sitting at 3-year high of 0.88 at the time of writing following news that Fitch upgraded NZ's credit outlook. There are many sound reasons for the currency being as high as it is. However, we think that these factors are all in the price and do not see much scope for further upside. We are now neutral on the NZD and are forecasting 0.87 by the end of 2014.

Key events

Date	Event
15 July	BoJ Monetary Policy statement
15 July	BoE's Carney appears before Treasury Committee on June Financial Stability meeting
16 July	Fed releases the Beige Book
18 July	BoJ publishes minutes of June meeting
18 July	BoC rate announcement
24 July	RBNZ rate announcement
30 July	FOMC rate announcement
7 August	BoE rate announcement
7 August	ECB rate announcement

Source: HSBC

Central Bank policy rate forecasts

	Last	Q4 2014(f)	Q2 2015(f)
USD	0-0.25	0-0.25	0-0.25
EUR	0.15	0.15	0.15
JPY	0-0.10	0-0.10	0-0.10
GBP	0.50	0.50	1.00

Source: HSBC forecasts for Fed funds, Refi rate, Overnight Call rate and Base rate

Consensus forecasts for key currencies vs USD

	3 months	12 months
EUR	1.348	1.301
JPY	104.5	108.0
GBP	1.666	1.638
CAD	1.114	1.126
AUD	0.898	0.871
NZD	0.836	0.805

Source: Consensus Economics Foreign Exchange Forecasts June 2014

Scotland's loonie tunes

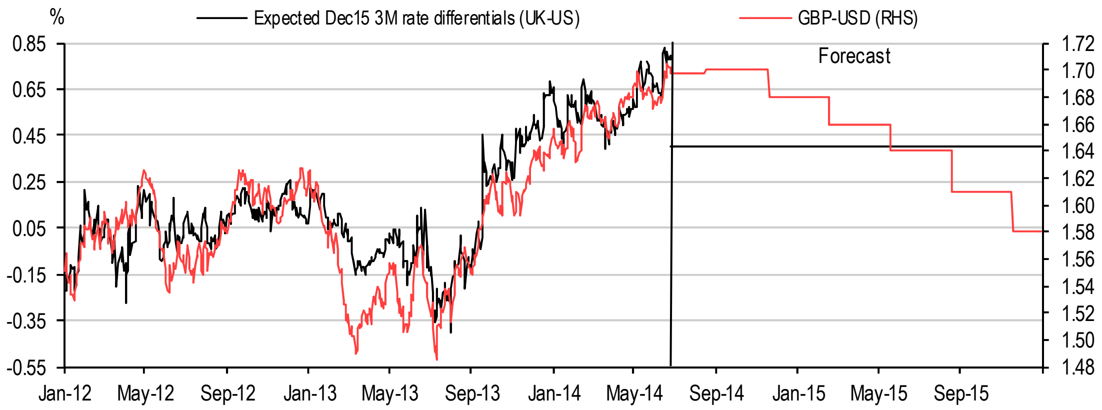
The "holey" trinity

We believe there are three principal "holes" in the market's argument for its increasing bullishness on GBP. The bulk of this report will concentrate on the lack of an appropriate political risk premium for GBP, while our concerns about the UK's current account deficit have been addressed in "*Currency Outlook: Our three core calls*", April 2014. Nonetheless, given the ever-changing nature of BoE forward guidance, it is appropriate to briefly revisit the remaining aspect of our view that GBP will weaken because UK rates will rise later than the market expects.

Our economics team recently revised their forecast of when the first hike would be delivered from Q3 15 to Q1 15 (see *'How early is sooner? Revising our UK interest rate view'*, 25 June 2014). Chart 1 shows the strong relationship between interest rate expectations and the exchange rate. Our revised interest rate profile for the UK now suggests a level closer to 1.64 is more appropriate (the solid black line in Chart 1).

Our new forecasts for the exchange rate can be found in table 2. They are less pessimistic than before, reflecting our new view of the likely path for UK interest rates. Nonetheless, they retain a downward trajectory, reflecting our stance on interest rates which is still more dovish than the market. In addition, we retain our view that the UK's worsening current account balance will get traction in FX during 2015. Finally, we believe GBP is not yet priced to reflect the series of political challenges which lie ahead, the first of which is the Scottish independence referendum.

1. The market remains too hawkish on UK rate expectations



Source: Bloomberg, HSBC

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2. HSBC GBP forecasts

		Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15
GBP-USD	Old	1.65	1.62	1.59	1.56	1.53	1.50
	New	**1.70**	**1.68**	**1.66**	**1.64**	**1.61**	**1.58**
EUR-GBP	Old	0.79	0.79	0.79	0.80	0.82	0.83
	New	**0.76**	**0.76**	**0.76**	**0.76**	**0.78**	**0.79**

Source: HSBC

Québec's lessons for GBP

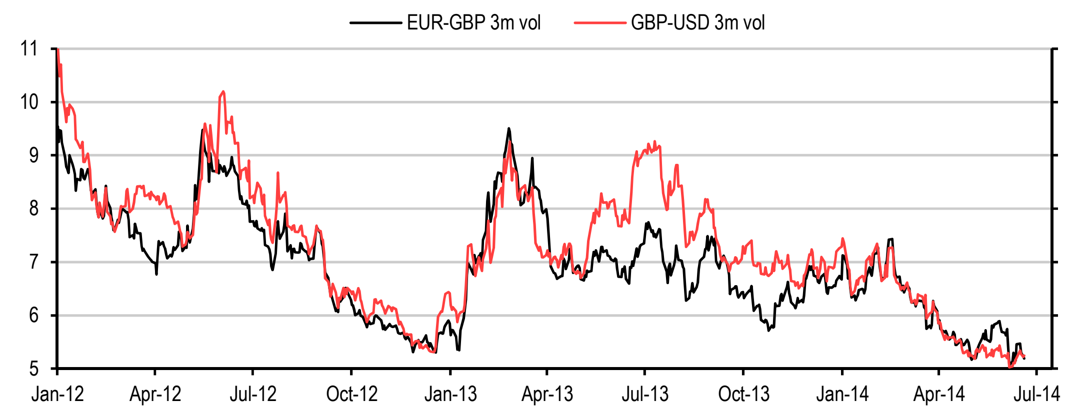
Since the lows of March 2013, GBP has risen by about 15% against the USD, 10% against the EUR, and by 13% on a trade-weighted basis. The rally has been driven by the increasing signs of recovery in the UK economy and by expectations that UK interest rates will move up well before those in other major economies. The rally was given a further boost on June 12th when Bank of England governor Carney commented that a rate increase "could happen sooner than the markets currently expect".

Not only has the GBP continued to rise, but it has done so with implied volatility that has continued to fall. Chart 3 shows 3-month implied volatility for GBP-USD and for EUR-GBP since the beginning of 2012. Both measures have fallen from over 9% in March 2013 to around 5% now. For GBP-USD, the 5% level is close to the record lows only seen briefly before in 1996 and 2007.

As we have already discussed ('GBP: Lower but Slower' Currency Outlook, June 2014), the continued rally in GBP is occurring despite a number of political and economic challenges that the UK is facing. The first of these is the referendum on Scottish independence that will take place on September 18th. Should the Scottish people vote for independence then there will be a high degree of uncertainty as to the fiscal and monetary arrangements that will be put in place afterwards. The pro-independence camp appears to be assuming a degree of cooperation from the UK government that seems far from guaranteed in terms of monetary union, fiscal independence and asset-liability sharing.

How will GBP behave in the run up to the referendum? Political events such as this are very rare, and it is obviously very difficult to assess how the currency might behave as the vote approaches. However, there are some reasonably close parallels between the Scottish vote and the

3. Implied volatilities for GBP are reaching new post-crisis lows



Source: Bloomberg, HSBC

two referenda held in 1980 and in 1995 in Québec over independence from the rest of Canada. We therefore analyse the performance of the CAD around those referenda and try to draw some conclusions as to how GBP might behave as the Scottish independence vote approaches.

Québec and Scotland – some parallels

The Canadian province of Québec has its roots in the former French colony of 'New France' which was ceded to Great Britain in the Treaty of Paris in 1763. Although its military and political history is very different from that of Scotland, the independence movements in both places have common elements:

A distinct cultural identity which is different from that of the wider nation to which it belongs. Scotland was obviously a separate nation before the Acts of Union in 1707, whereas Québec has not been an independent nation, but there is a strong and distinct cultural identity in both places.

A belief that the 'national' government fails to take into account the unique interests of the region. In Scotland, the Westminster government is seen as favouring the prosperous South East of England over Scotland. In Québec, it was concern over the marginalisation of French speakers in favour of the English-speaking majority that was the main driver of the independence movement.

A separatist party gained strong support in regional elections. In Scotland the SNP currently holds 65 of the 129 seats in the Scottish Parliament. In 1976, before the first referendum, the Parti Québécois (PQ) won 71 of the 110 seats in the Québec National Assembly.

These parallels are sufficiently strong to make an analysis of the CAD around the Québec referenda a useful indicator of how GBP might behave ahead of the September vote. However, it should be remembered that Québec accounts for about 18% of Canada's GDP whereas Scotland accounts for about 10% of UK GDP, so the effects on GBP may be more muted.

The 1980 referendum[1]

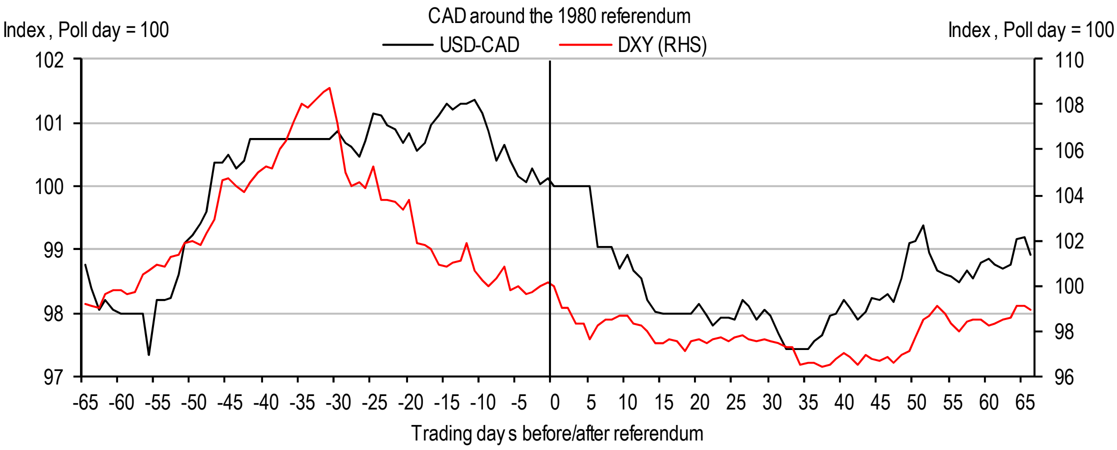
Having been elected to power in the Québec National Assembly in 1976 PQ began the process of arranging a referendum on a proposed 'Sovereignty-Association' with the rest of Canada. This would see Québec as a sovereign nation which would renegotiate its relations with the rest of Canada. The 'yes' campaign was based on the PQ New Deal White Paper which outlined all the ways in which Quebeckers had allegedly been mistreated by the English-speaking majority.

While support for the 'yes' campaign seemed strong initially, it was weakened by two factors. First, the election of Pierre Trudeau (who was popular in Québec) to federal power came with an offer of constitutional reform that would give more power to the Québec Assembly. Secondly, none of the other provinces would agree to monetary union with Québec should they vote for independence. Support for the 'yes' campaign began to wane and the result was a defeat for the 'yes' campaign by 59.5% to 40.5%.

Chart 4 shows the performance of the CAD in the period around the referendum. The chart shows USD-CAD in the three months before and three months after the vote, indexed to 100 on polling day. The CAD was clearly weaker in the run up to the poll (USD-CAD higher), and stronger afterwards. However, some of that simply reflects what was happening to the USD at the time. Also shown on the chart is the dollar index (DXY), similarly indexed. Dollar strength in the early part of the period might explain much of the rise in USD-CAD. However, the USD began to sell off sharply about

[1] For a more detailed analysis of the referenda, see 'The Québec Referendums' UK House of Commons Library research paper 13/47

4. CAD weakened against the USD ahead of the 1980 referendum and recovered after it



Source: Bloomberg, HSBC

six weeks before the Québec referendum and yet USD-CAD held steady. Only after the poll did USD-CAD really 'catch up' with overall USD weakness. This suggests that the uncertainty surrounding the vote weighed on the CAD despite the declining probability of a 'yes' vote.

The 1995 referendum

A renewed movement for Québec independence grew in the late 1980s and early 1990s. The Canadian constitution had until 1982 been established by votes in the UK parliament. After this, the Canadian constitution was to be decided entirely domestically. However, the Constitution Act of 1982 seemed to reduce the power of the provinces, and it was felt that Québec had lost important rights to be treated as having special status.

Protracted negotiations on the constitution between the federal government and the provinces followed, and separatist feeling in Québec grew. The so-called 'Charlottetown Accord' of 1992 proposed constitutional reforms to address the Québec issue, but it was rejected in referendums both federally and in Québec.

The 1994 elections saw PQ returned to power in Québec after campaigning on a promise of a referendum in the first year of office. The PQ government introduced a bill 'respecting the future of Québec' which it intended to pass after receiving a 'yes' vote in the referendum. The question asked was:

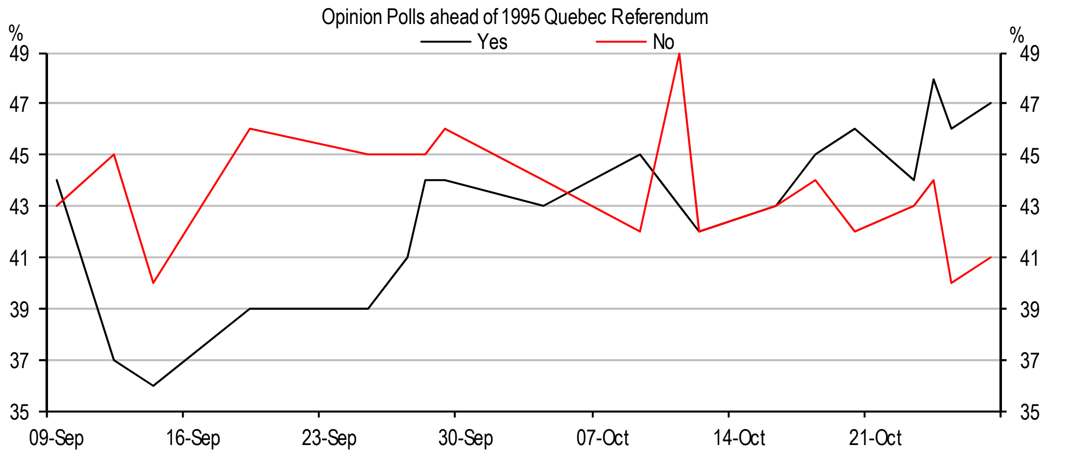
"Do you agree that Québec should become sovereign after having made a formal offer to Canada for a new economic and political partnership within the scope of the bill respecting the future of Québec and of the agreement signed on June 12, 1995?"

Opinion polls tended to move in favour of a 'yes' vote, though some of the electorate apparently thought they were only voting for a new partnership with the rest of Canada, rather than independence. Chart 5 shows the opinion polls in the six weeks before the vote. While the polls were fairly close throughout (and an average of 13% remained undecided), in the two weeks before the vote the polls suggested a good chance of a 'yes' vote. In the event, the 'yes' campaign was defeated by a very small margin (49.42% versus 50.58%) on an extremely high turnout of 93.5%.

CAD feels the effects

Chart 6 shows the performance of the CAD around the 1995 referendum, again along with the USD index. The impact of the referendum on CAD appears to have been clearer in 1995 than in 1980, probably because the chances of a 'yes' vote were seen as much higher in 1995 than in 1980.

5. Opinion polls moved in favour of a 'yes' vote in 1995



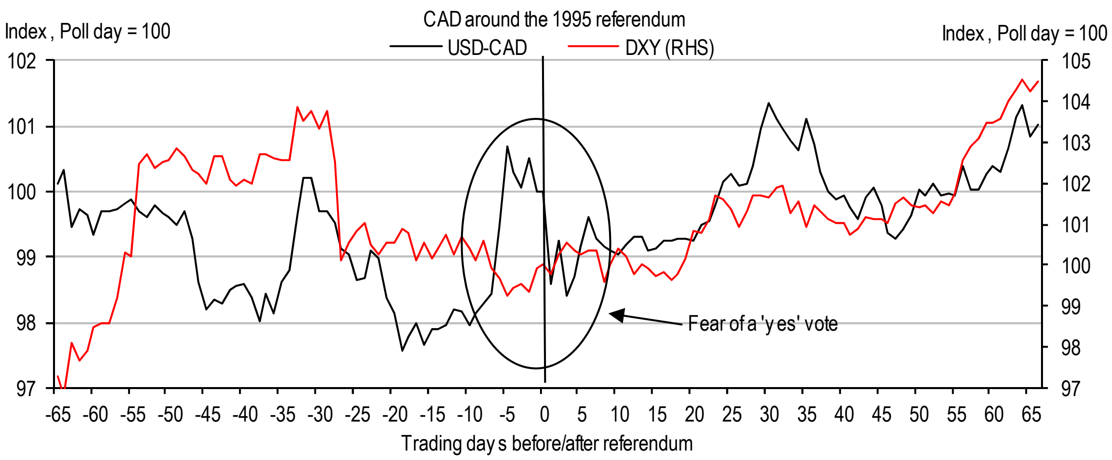
Source: McMaster University Ontario, HSBC

In particular, CAD weakened in the two weeks before the vote (with the USD overall fairly stable) as the opinion polls suggested a victory for the 'yes' campaign. Once the result was announced, CAD recovered all of its lost ground.

As in 1980, relative currency weakness ahead of the poll seems to reflect the uncertainty surrounding the relationship between Québec and the rest of Canada in the event of a 'yes' vote. While the PQ Bill had claimed that Québec would still use the CAD, that residents would have dual citizenship, and that Québec would join all the relevant international organisations (UN, NATO, WTO and NAFTA), it was far from clear whether this would be possible.

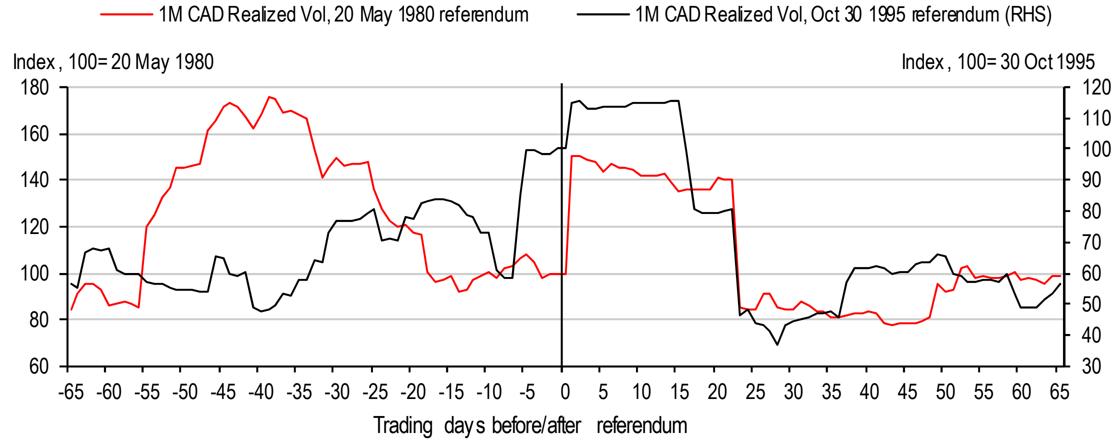
A similar contrast can be observed in terms of volatility of USD-CAD. Chart 7 shows realised 1M volatility around the two referenda. The red line shows the pattern ahead of the 1980 referendum, with volatility declining in the run-up to the vote, possibly as a "no" vote became the likely outcome. The black line shows volatility rising consistently ahead of the 1995 referendum, as the market became progressively more uncertain about the result.

6. CAD felt the effects of the referendum in 1995



Source: CML, HSBC

7. Volatility rose when a "yes" outcome became a possibility



Source: Bloomberg, HSBC

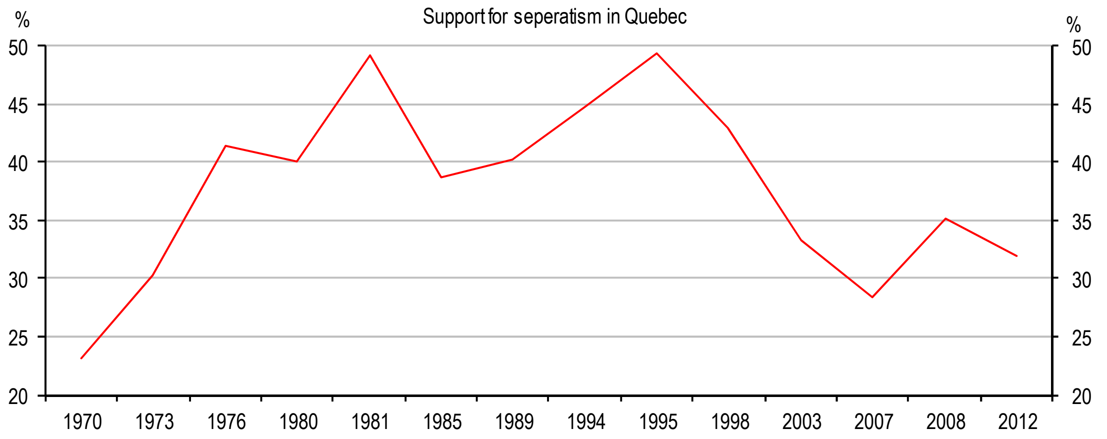
In the years after the referendum defeat, support for independence in Québec seems to have declined. Chart 8 shows support for independence either in Québec National Assembly elections or in referendums from 1970 to 2012. Having peaked at close to 50% in both 1980 and 1995, support seems to have declined to about 30%.

GBP and the Scottish referendum

The behaviour of CAD around the 1980 and 1995 referendums strongly suggests that the Scottish Independence vote has the potential to have a significant impact on GBP, at least in the weeks leading up to the vote. The more likely a 'yes' vote, then the more downward pressure there will probably be on GBP based on the uncertainty surrounding the monetary and fiscal arrangements that will be put in place between an independent Scotland and the rest of the UK. GBP volatility would also likely rise from its abnormally low current levels.

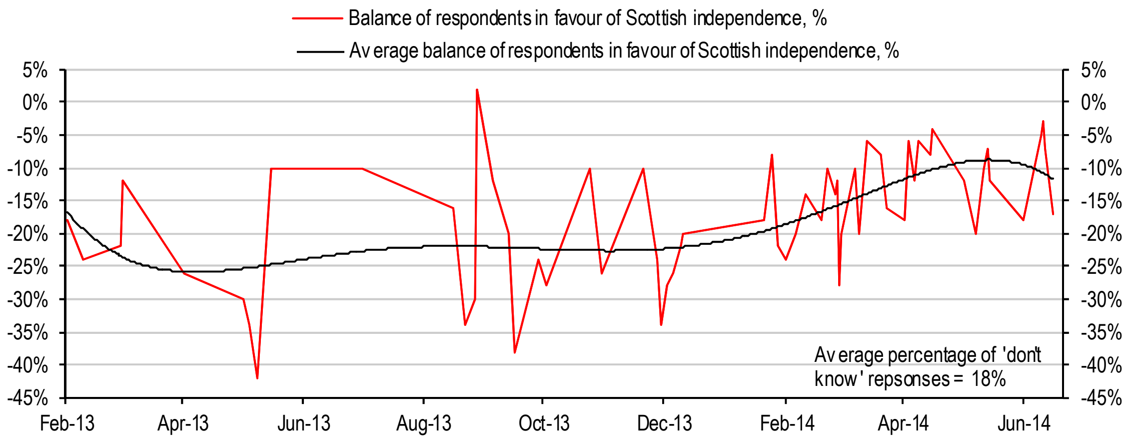
Chart 9 shows the balance of opinion in favour of independence amongst Scottish voters since February 2013. The polls have been very volatile, with still a high proportion of 'don't knows'. On average the more recent polls have tended to show growing support for independence, though with still a small majority against.

8. Support for Québec independence has declined since 1995



Source: National Assembly of Québec, HSBC

9. Opinion polls will need to be closely watched



Source: What Scotland Thinks, HSBC

As in the case of Québec, there are major uncertainties over the monetary and fiscal arrangements should Scotland vote 'yes'. The UK Chancellor and Bank of England Governor have both said that an independent Scotland would not be able to keep GBP as its currency, though the Scottish first minister seems to believe this is a bluff. The relationship between an independent Scotland and the EU is also not clear.

The debate will intensify in coming weeks with a televised debate between Scotland's first minister and the leader of the 'no' campaign (former UK chancellor Alistair Darling) due in August. The opinion polls will need to be watched very carefully.

Conclusion

GBP has enjoyed more than a year of steadily improving performance that has taken it to significant new post-crisis highs. At the same time, implied volatility has fallen close to record lows. This has taken place despite significant economic and political challenges that the UK faces. While it is impossible to say when the structural imbalances shown by the record current account deficit will start to impact on GBP, one political hurdle will be met in less than three months. The experience of the CAD through the two referenda on Quebec independence shows that political events such as this can have significant currency implications. The more it looks possible that the electorate of Scotland will vote for independence, the greater the downside risks to GBP, as there would then be very large uncertainties about future monetary and fiscal arrangements.

Silver Outlook

- Silver rallies will be capped by rising supply and limited investment demand
- As a result we slightly lower our 2014 and 2015 forecasts

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On the defensive

Silver, like its sister metal gold, has traded defensively for much of the year, in a relatively narrow range. Silver has been negatively impacted by ongoing tapering by the Federal Reserve, a stronger USD, and a rotational shift out of hard assets. Equity market strength, in particular, has encouraged investor interest in the stock market and away from bullion, including silver.

To assess the outlook for the rest of the year, we update our supply/demand model, which considers 10 components of the physical silver market including mine supply, recycling levels, industrial consumption, photographic and jewellery demand, and coin and exchange-traded fund purchases. Our model also incorporates newly available data from the Silver Institute's 2014 Silver Survey, which indicates the market was in a production/consumption deficit in 2013. Our model indicates that the deficit will narrow this year to 80moz from 128moz in 2013. A persistent deficit should limit further price declines. After leaving our silver forecasts unchanged in our previous *'Silver Outlook: Silver's star steadies (March 2014)'*, we are lowering our average price forecast for 2014 and 2015 and leaving our 2016, and long term price forecasts unchanged at USD21.50/oz, and USD25.00/oz, respectively. (See Chart 1)

Shifting factors drive silver

Silver prices will be determined largely by the interplay between currency levels, monetary and fiscal policies, geopolitics, and the price of other precious metals, notably gold and silver's underlying supply/demand fundamentals. In this regard, there are three drivers that we expect to be important going forward:

- **Supply is mixed** – despite prices near the upper costs of production for some producers, mine output remains strong. Output is slated to increase at least through 2015 but may soften thereafter, if base metals and gold output growth weaken. Scrap supplies have fallen as obstacles to recycling limit supplies.
- **Sluggish investor demand** – investor demand for silver Exchange Traded Funds (ETFs) is rising despite ongoing liquidation in

1. Precious metals forecasts (USD/oz)

	2014f		2015f		2016f		Long term	
	Old	New	Old	New	Old	New	Old	New
Silver	20.80	19.50	20.25	19.25	21.50	unch	25.00	unch

Source: HSBC

the gold-ETFs. Coin demand is flat and bar demand is weak. Comex positions show heavy gross short positions, which are weighing on prices and indicate negative investment sentiment.

- **A revival in physical demand** from industry and jewellery, due to increased industrial output and rising income is supporting these two key demand categories.

Mine adds while scrap subtracts from supply

Mine output continues to rise, due in part to investment made earlier in the mining cycle. Based on published production schedules and increased base metals output from which silver is derived as a by-product, we expect mine supply to grow this year and in 2015, but at a more moderate pace from the robust levels of the past couple of years. Beyond 2015, output may begin to flatten as high costs, a drop in growth in base metals and gold production and other obstacles, limit silver mine output. Difficulties surrounding recycling and reduced silver input in electronic consumer goods are limiting scrap supplies. Hedging is likely to contribute a little to supply and government sales should stay at low levels.

Investor sentiment

Investor sentiment in silver is often impacted by gold. In tandem with gold, investors appear to have turned negative on silver. Net long positions on the Comex have fallen as gross short positions have increased. Coin demand is steady but bar demand appears to be down. Silver–ETF demand however remains positive. The solid performance of the silver-ETFs lays the foundation for more stable prices this year, we believe. Geopolitical tensions in the Middle East may also lend some support to silver. These bullish factors will likely be offset by a strong USD, and a disinflationary climate and ongoing gradual Fed tapering.

An industrious metal

An important factor in our price calculations is our expectation of a recovery in industrial demand for silver. Around half of annual silver consumption is absorbed by industry and manufacturing. Based partly on HSBC macroeconomic forecasts of greater industrial production in key silver-consuming countries and new demand sources for silver, we expect manufacturers to increase consumption this year. This will be offset by the impact of greater efficiency in manufacturing which is reducing the demand for silver per unit of production.

Jewellery

Silver jewellery demand continues to increase after substantial gains made in 2013. Much will depend on the consumption patterns of two key markets, China and India. Silver imports continue to benefit from the increases in Indian gold import tariffs put in place last year. A possible reduction in these tariffs could lower India’s silver demand by making gold more competitive. US jewellery demand has bounced back and China’s silver imports jumped this year as silver jewellery purchases increased. We expect global jewellery demand to remain buoyant.

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US: Economic Outlook

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Inflation decline at an end?

Inflation as measured by the both the core CPI and the core PCE price index had been trending lower until the first quarter, with both measures well below the FOMC's medium-term target of 2.0%. At her press conference following the March FOMC meeting, Fed Chair Janet Yellen warned that "inflation running persistently below the FOMC's objective could pose risks to economic performance." However in May, the core PCE inflation rate jumped to 1.5%, up from the 1.1% rate posted in February.

Some of the increase in inflation can be traced to changes that might be temporary. For example, after a rough winter in which airlines lowered fares an average 3.3% in the first quarter, the carriers were able to recover some pricing power, lifting fares an average 4.2% in April and May.

Nevertheless, even if the rate of monthly increases in core prices slows a bit in coming months, it still appears likely to us that core inflation will continue to drift higher as the year goes on, with core CPI inflation reaching 2.1% by the end of this year (and the core PCE index up to about 1.8%). Nevertheless, getting closer to the 2% target by the end of this year will probably not be a reason, in our view, for the FOMC to change its forward guidance on monetary policy.

FOMC unlikely to overreact to changes in recent inflation data.

We still expect the Committee to scale back its large scale asset purchases in USD10bn increments at the July and September policy meetings before bringing the program to an end with a USD15bn reduction in October. After that, the FOMC has declared that "it likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends…" "Considerable time" is deliberately undefined. The Committee wants to keep its options open even as it signals that policy is likely to remain accommodative well into next year.

The FOMC has qualified its expectation about keeping the federal funds rate in its current range for a "considerable" period. It will maintain the range provided longer-term inflation expectations remain "well-anchored." So far that seems to be the case. Ten-year break-even inflation rates derived from the Treasury's inflation-adjusted securities have remained broadly stable over the past few months.

We anticipate that inflation expectations will stay in the relatively narrow ranges that have prevailed for the last few years. In our view, the economy's growth is not robust enough to generate enough upward pressure on prices to take inflation up over 2.0% in the near term. As long as core PCE inflation does not persistently exceed the 2.0% target, we expect that the FOMC will be in no hurry to speed up its planned exit from the current accommodative policy stance.

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Long term forecasts

Long term planning assumptions

We normally publish FX forecasts with about an 18-24 month time horizon. The purpose of these forecasts is to give customers a very short hand way of identifying where we see the principal risks in the FX market over the next year or so. As always, we would caution against taking our point forecasts too seriously. They are only designed to show whether we see the principal risk as being that a currency goes up or down, a little or a lot over the coming year. Long experience has shown us that when we are basically right on market direction, the market moves further and more quickly than we dare forecast, and one year targets can be reached very quickly. When we have the direction wrong, we can be wrong for a very long time.

Given the problems of forecasting out one year, many are understandably reluctant to venture a view for further out. However, we are aware that a number of our customers have a need for some indication of the likely FX market direction over a longer term horizon for planning purposes. So again, with some trepidation, we publish longer term forecasts. If our one year forecasts need to be treated with caution, it goes without saying that the longer term numbers are even less to be relied upon. Nevertheless, we are aware that decisions and plans have to be made, and that a defensible set of forecasts may be of some value.

Methodology

The forecasts presented on the following two pages are based on the following methodology:

1. Short-term forecasts to the end of 2015 are taken from our existing numbers

2. We estimate long term 'fair value' exchange rates based on a rate that would be consistent with long term external balance sustainability. These are essentially PPP values adjusted for some notion of sustained long term capital flows and are sometimes called fundamental equilibrium exchange rates (FEERs). For a discussion of these, and alternative estimates, see *Peterson Institute for International Economics, Policy Brief PB14-16,* May 2014.

3. We assume a gradual convergence to the long term 'equilibrium' levels over the five years beyond our short-term forecast horizon.

Compared with the last time we reviewed our long term forecasts (*'Currency Outlook: Why the JPY won't weaken'*, February 2014), there have been only modest changes. GBP and NZD are likely to be stronger for longer than we had previously thought, but we see both as currently being well above long term equilibrium levels.

On the EM front, we think the RMB is close to fair value now. The acceleration in FX reforms will pave the way for a more market-based exchange rate in 2016-20, rather than the continuation of a steady appreciation policy. Also, we lowered RUB forecast.

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Long term forecasts versus USD

Average year		2016f	2017f	2018f	2019f	2020f
Americas						
	Canada (CAD)	1.12	1.10	1.10	1.10	1.10
	Mexico (MXN)	12.90	13.00	13.10	13.20	13.30
	Brazil (BRL)	2.69	2.79	2.87	2.94	3.01
	Argentina (ARS)	15.40	19.00	21.09	23.50	26.20
	Venezuela (VEF)	22.50	30.00	30.00	45.00	60.00
	Chile (CLP)	580	590	600	610	620
	Colombia (COP)	2020	2040	2060	2080	2100
	Peru (PEN)	2.70	2.70	2.70	2.70	2.70
	Uruguay (UYU)	24.30	25.20	26.00	26.60	27.25
Western Europe						
	Eurozone (EUR*)	1.25	1.25	1.25	1.25	1.25
Other Western Europe						
	UK (GBP*)	1.55	1.50	1.50	1.50	1.50
	Sweden (SEK)	6.64	6.64	6.72	6.72	6.72
	Norway (NOK)	5.76	5.76	5.76	5.76	5.76
Emerging Europe	Russia (RUB)	49.2	50.7	52.2	53.7	55.3
	Hungary (HUF)	223	224	224	224	224
	Turkey (TRY)	2.15	2.15	2.20	2.25	2.25
Asia/Pacific						
	Japan (JPY)	95	90	90	90	90
	India (INR)	60.0	58.0	55.0	55.0	55.0
	Australia (AUD*)	0.83	0.80	0.75	0.75	0.75
	New Zealand (NZD*)	0.84	0.75	0.70	0.70	0.70
North Asia						
	China (CNY)	6.10	6.05	6.00	5.50	5.50
	Hong Kong (HKD)	7.80	7.80	7.80	7.80	7.80
	Taiwan (TWD)	29.5	30.0	30.0	30.0	30.0
	South Korea (KRW)	1070	1130	1200	1200	1200
ASEAN 5						
	Thailand (THB)	34.0	33.5	33.5	33.5	33.5
	Malaysia (MYR)	3.38	3.42	3.45	3.45	3.45
	Indonesia (IDR)	12000	11600	11200	11200	11200
	Philippines (PHP)	47.0	48.5	50.0	50.0	50.0
	Singapore (SGD)	1.24	1.22	1.20	1.20	1.20
Africa						
	South Africa (ZAR)	10.00	10.00	10.00	10.00	10.00

Source: HSBC

Long term forecasts versus EUR and GBP

Average year		2016f	2017f	2018f	2019f	2020f
Vs euro						
Americas						
	US (USD)	1.25	1.25	1.25	1.25	1.25
	Canada (CAD)	1.40	1.38	1.38	1.38	1.38
Europe						
	UK (GBP)	0.83	0.83	0.83	0.83	0.83
	Sweden (SEK)	8.50	8.45	8.40	8.40	8.40
	Norway (NOK)	7.35	7.20	7.20	7.20	7.20
	Switzerland (CHF)	1.30	1.35	1.40	1.40	1.40
	Russia (RUB)	47.3	48.8	50.1	51.6	53.3
	Poland (PLN)	3.80	3.70	3.60	3.60	3.60
	Hungary (HUF)	290	280	280	280	280
	Czech Republic (CZK)	26.0	25.0	24.5	24.0	24.0
Asia/Pacific						
	Japan (JPY)	119	113	113	113	113
	Australia (AUD)	1.47	1.56	1.67	1.67	1.67
	New Zealand (NZD)	1.56	1.67	1.79	1.79	1.79
Vs sterling						
Americas						
	US (USD)	1.50	1.50	1.50	1.50	1.50
	Canada (CAD)	1.68	1.65	1.65	1.65	1.65
Europe						
	Eurozone (EUR)	0.83	0.83	0.83	0.83	0.83
	Sweden (SEK)	10.0	10.0	10.1	10.1	10.1
	Norway (NOK)	8.6	8.6	8.6	8.6	8.6
	Switzerland (CHF)	1.56	1.62	1.68	1.68	1.68
Asia/Pacific						
	Japan (JPY)	143	135	135	135	135
	Australia (AUD)	1.76	1.88	2.00	2.00	2.00
	New Zealand (NZD)	1.88	2.00	2.14	2.14	2.14

Source: HSBC

Dollar Bloc

CAD: Disturbance in the force

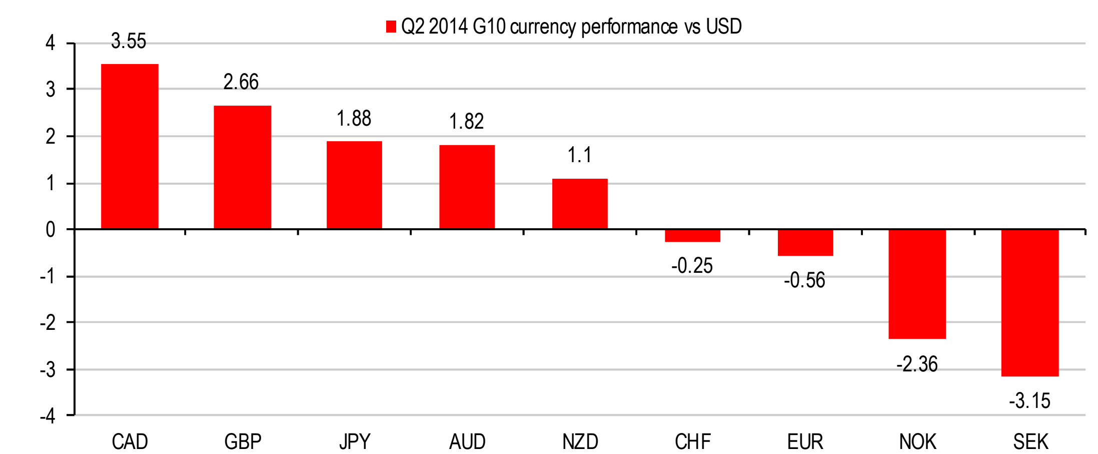
Far from being the underperformer that we and many others anticipated, the CAD was the best performing G10 currency against the USD in Q2 (up 3.5%). It is true that some domestic factors have worked more in favour of the CAD, particularly the higher inflation prints. But other Canadian developments have been more mixed. Market dynamics have also been important as well, including the culling of short CAD positions as well as the CAD's gains on the EUR. USD weakness has played a role as well, with the greenback underperforming in broad terms, including against the CAD.

Continued focus on inflation

After roughly 18 months of trend declines in the CAD right into this past March, the currency has rebounded smartly, recouping roughly one third of its losses versus the USD. A key fundamental issue remains the rise of Canadian inflation, which showed yet another higher-than-expected print in the May data (released June 20), putting the year-on-year gain at 2.3%, its first reading above the Bank of Canada's 2.0% in over two years. The rebound in inflation has come about more quickly than many expected, and stands in sharp contrast to readings well below 1% for much of 2013. Chart 2 shows the shift in the market's BoC policy expectations and while the changes are admittedly gradual, they nonetheless concur with movements in USD-CAD over the same period.

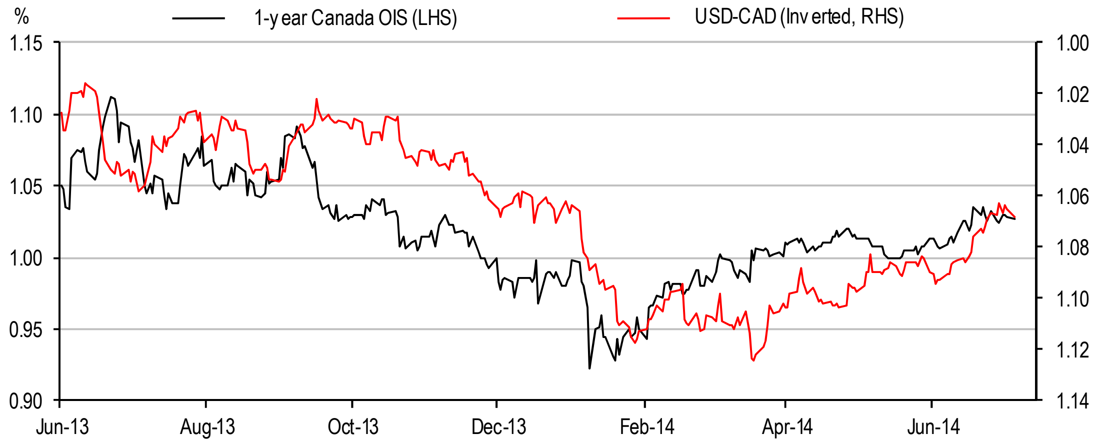
There are several factors to consider in how this will play out for the CAD. First, the rise in inflation is mostly a function of previous energy price gains and CAD declines. Hence, the base effects of those factors should be less pronounced going forward, suggesting stabilization and perhaps even a modest pullback in headline inflation. The Bank also uses core inflation as one indicator of future headline inflation. While core CPI has also risen, with the latest reading up to 1.7%, it remains lower than headline and below

1. An impressive second quarter for the CAD



Source: Bloomberg, HSBC

2. Shifts in BoC policy expectations



Source: Bloomberg, HSBC

the 2% target, another factor suggesting there should be less angst about a more sustained rise in headline prices.

Update from the Bank of Canada

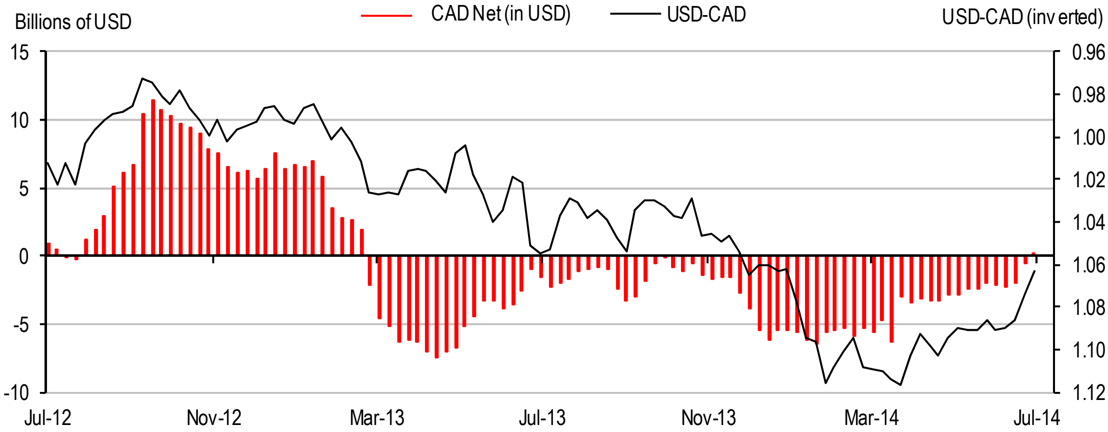
These developments will put more focus on the BoC's interest rate decision and quarterly Monetary Policy Report due July 16, where the characterization of inflation risks will be key. The rise in CPI might make it more difficult for the BoC to continue to highlight the downside risks to inflation, which it held to at its last interest rate decision and statement on June 4. But it is an open question. And to some considerable degree, we suspect that the CAD's appreciation, including the approximate 3% gains against the USD since the last policy announcement in early-June, already account for a possible shift in the emphasis away from downside risks to inflation. In other words, less dovishness should be priced in. If that is the case, it would take a more sizeable and hawkish shift in BoC rhetoric to drive the CAD even higher from here, and that seems unlikely. Moreover, if they credibly keep the low inflation emphasis, it would likely put renewed downward pressure on the CAD.

Our economists expect the BoC to remain on hold into late 2015 and in that scenario, shifting away from the neutral bias at this stage (and moving back to a tightening bias) would not seem logical or beneficial. The BoC's long sought after growth rotation towards trade and investment, and away from consumption, has yet to materialize. Moreover, signalling an earlier shift in the monetary policy stance at a time when the Fed is still easing would risk putting further upward pressure on the CAD, a development that would create more headwinds for the export sector and tighten monetary conditions. In sort, it would seemingly be at odds with the BoC's objectives. So while we recognize that the shift in BoC policy perceptions has played in the CAD's favour in recent months, we think most of those benefits should already be in the price. Note too that the next inflation print is due on July 18 and that too will be an obvious point of focus on the BoC outlook and for the CAD.

CAD shorts squared…

Market dynamics have also been important for CAD trading. There has already been an important shift in positioning, with speculators closing out what had been a persistent short-CAD position dating back to early-2013. Short covering in the CAD has clearly aided its rebound, but we do not see the basis for speculators to shift to more bullish, long

3. Speculators have closed out short CAD positions



Source: Bloomberg, HSBC

positioning in the currency. Lacking that, additional gains from that source will be lacking going forward. Moreover, with positions better balanced, it will leave opportunity for a new round of shorting the currency should conditions warrant. Activity in the crosses has likely played a role as well in the CAD's recovery. The CAD appreciated by roughly 7.5% against the EUR from its mid-March lows through early-July, double its gains against the USD. The outsized rise of the CAD versus the EUR most likely had some positive spillover effects on the loonie versus the USD.

…and the USD has struggled

The USD's performance needs to be considered in USD-CAD developments as well. Far from benefitting from Fed tapering, the approach of the end of Fed QE, and the presumed economic improvement that would accompany those developments, the USD has been flat and even struggled at times. On the Fed policy side, the path of tapering has not deviated much from the original expectation laid out by former Fed Chairman Bernanke last December. And that leaves the continuation of that process – a USD10bn reduction in monthly bond purchases announced at each FOMC meeting, likely to be completed in October – less impactful/supportive for the USD. The big downward revision to Q1 GDP (to -2.9% annualized) also weighed on USD sentiment, despite the weather-related issues that quarter. That reaction is not only evident in the USD's trading but also in US interest rate markets, where the 10-year Treasury yield, near 2.60%, is some 40 bp lower than it was at the beginning of this year when the Fed taper began. The market's smooth digestion of tapering, and the apparent credibility of the Fed's dovish forward guidance (i.e. rates will remain low well after QE ends) are, in our view, creating a more difficult backdrop for the USD. We do not think it will be sustained indefinitely, but it is a force to contend with while it persists.

Medium-term opportunity

With its decline since March, USD-CAD has moved down towards 1.0600, an area that had previously defined the upper bounds of the currency pair's range for most of the 2011-2013 period. Barring an unexpectedly hawkish turn from the BoC, or a more dramatic underperformance of the USD, we think that additional declines in the currency will be much more difficult. And on the contrary, we see scope for renewed CAD slippage as the year progresses and an eventual improvement in the USD, and view recent, lower levels of USD-CAD as an opportunity to express more bullish, medium-term views.

AUD: being talked lower

Despite a strong performance throughout June, we continue to believe that the AUD will depreciate as the year progresses. This view comes from three main factors:

1 The RBA jawboning the currency lower

2 No RBA rate hike in 2014

3 Strong US data

The RBA's response

RBA's Stevens said on 3 July that the AUD was "overvalued, and not by just a few cents". Markets responded to this, predicting that the RBA would keep interest rates lower for longer. This follows a similar response when AUD-USD was also at high levels back in 2013 (0.9709 on 22 October). At the time, the RBA was quoted as saying "a lower level of the exchange rate is likely to be needed to achieve balanced growth in the economy".
The attempts to jawbone the currency lower were successful: AUD fell around 9% against the USD over the next two months (See Chart 1).

On 3 July this year Governor Stevens said that the recent "investors are underestimating the likelihood of a significant fall in the Australian dollar." This will continue to weigh negatively on the currency and raises the risk of the repetition of the late-2013 scenario.

No rate hike in 2014

There has been a slowdown in growth since Q1. New building approvals have fallen, and growth in retail sales and housing price growth have slowed.

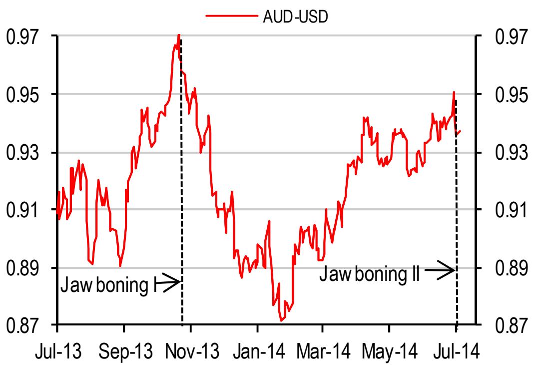
Consumer sentiment has deteriorated, reflecting the impact of the Federal budget cuts on confidence. Trade data also suggest that the strong growth in resources exports in Q1 is unlikely to be repeated in Q2.

With the labour market steadying since the beginning of the year and monetary policy still lifting the housing market, the RBA is unlikely to deliver any further rate cuts, in our view. However, we now see them on hold for longer than we previously expected. We now forecast the RBA to keep rates at 2.50% until Q1 2015.

US Data

An improvement in the fundamentals in the US, as illustrated by the upward trend of the US activity surprise index also suggests the AUD will depreciate against the USD. We see AUD-USD at 0.86 by the year end.

1. The recent AUD fall and rise



Source: Bloomberg, HSBC

2. The unemployment rate is still below its peak

Source: Bloomberg, HSBC

NZD: in neutral

NZD-USD was sitting at 3-year high of 0.88 at the time of writing following news that Fitch upgraded NZ's credit outlook. There are many sound reasons for the currency being as high as it is. New Zealand's growth outlook is relatively strong; terms of trade are extremely high; the fiscal path is sound as outlined in the latest budget; and, most importantly, comparatively high interest rates offer carry trade opportunities. However, we think that momentum will slow down. We are now neutral on the NZD and are forecasting 0.87 by the end of 2014.

There are three reasons why we believe the NZD is fairly valued:

1 Narrowing rate differentials

2 RBNZ talking down the NZD

3 Political uncertainty

Rate differentials should decrease from here

At their December 2013 Monetary Policy meeting the RBNZ noted that they hoped elevated US rate expectations in 2014 will help lower the value of NZD-USD. However, the unexpectedly severe US GDP contraction in Q1 and resulting dovishness from the Fed has held back the rate expectations. This has kept the USD subdued. Chart 1 shows that there is clear a link between NZD-USD and relative rate expectations using Dec 15 contracts. As we get closer to the end of tapering and as recent data from the US has started to improve, the original RBNZ's scenario is more likely to materialize.

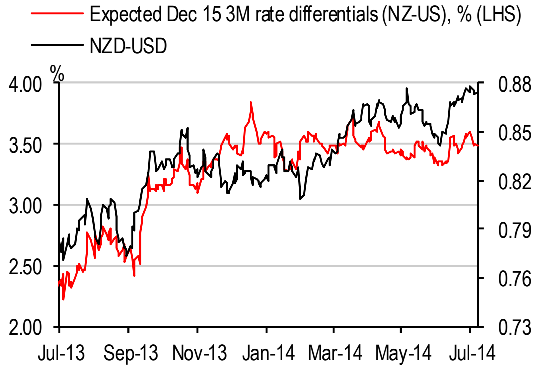
RBNZ doesn't want a strong NZD

Despite hiking rates by another 25bp at their 11 June meeting and projecting rates to rise by 125bp by end-2015, the RBNZ continued to insist that they expect the NZD to fall. Having threatened to intervene when the NZD-USD was trading around 0.8780, the NZD is back in the territory where the central bank is likely to talk the currency lower.

Political uncertainty is to become a greater focus

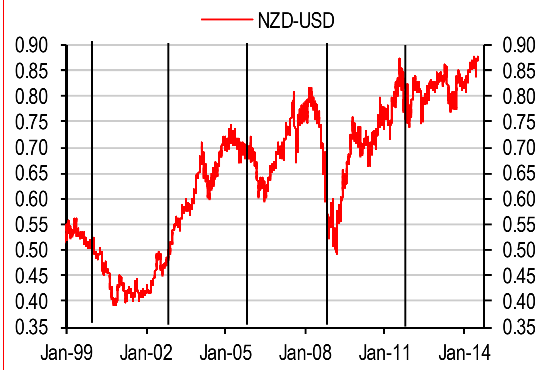
New Zealand holds its next General Election on 20 September. While currently a ruling centre-right National Party government is favoured in the polls, the attraction of policy reforms promised by the main opposition Labour party should not be overlooked. Whatever the outcome, political uncertainty is likely to become a greater focus with the election now just over two months away. Chart 2 shows the NZD-USD with black vertical lines indicating the dates of previous general elections. This shows that from previous experience, the NZD tends to weaken around the election period.

1. NZD-USD follows relative rate expectations closely



Source: Bloomberg, HSBC

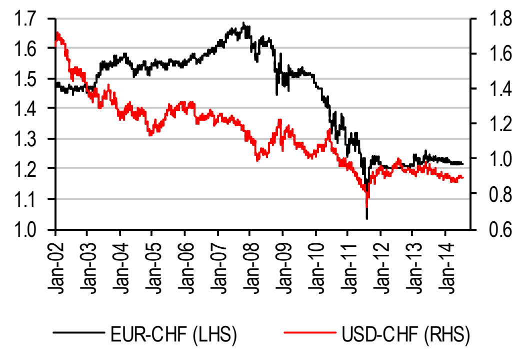
2. Electoral uncertainty tends to weigh on the NZD



Source: Bloomberg, HSBC

G10 at a glance

CHF

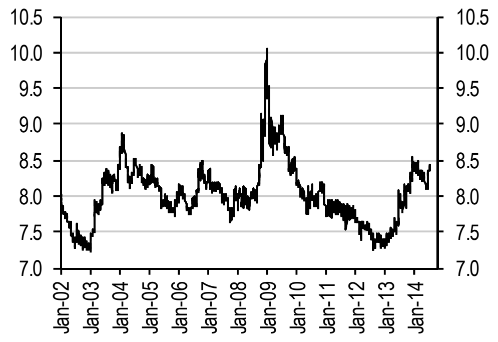


Source: Bloomberg

Switzerland: Negativity is infectious

- When the ECB cut rates into negative territory two questions arose regarding CHF monetary policy 1) would they move the EUR-CHF floor? 2) will the SNB follow the ECB and adopt negative rates?
- On the former it always seemed fanciful to us that the SNB would tinker with a policy that has worked well. To make it absolutely clear we are expecting no change to this policy.
- On the question regarding negative rates this is dependent on how much pressure is exerted on the EUR-CHF floor. On the 19th of June the SNB kept rates unchanged as expected however, the problem is that EUR-CHF continues to grind ever lower towards the floor. Meanwhile, the outright deflationary fears continue as CPI inflation on a harmonized basis slipped back into negative territory falling 0.1% from a year earlier. If these deflationary forces were to continue and the currency was to move very close to 1.20, then we would also expect the CHF to adopt negative rates.

EUR-NOK



Source: Bloomberg

Norway: Now also hinting at cuts

- First the ECB cut rates into negative territory; this was followed by the Riskbank surprising the market with a 50bp cut. Now Norway not wanting to be outdone, or more likely not wanting to have a stronger currency against its two of its most important trading partners has taken a distinctly dovish tone.
- This change of heart saw the NOK weaken substantially. "The analyses imply that the key policy rate be held lower longer than previously projected," Governor Oeystein Olsen said. Furthermore he went on to say "There are prospects that the key policy rate will remain at about today's level to the end of 2015, followed by a gradual rise."
- He then dropped the bombshell by saying "A further weakening of the outlook for the Norwegian economy may warrant a reduction in the key policy rate." This has completely shifted sentiment and given a very weak tone to the currency.

EUR-SEK

Source: Bloomberg

Sweden: when doves fly

- On 3 March the Riksbank was expected to cut rates from 75bp to 50bp, instead they surprised the market with a 50bp cut. This now takes interest rates to a mere 0.25bp.
- The following day this dovishness was vindicated when industrial production showed a fall of 2.2% from a year earlier against market median expectation for a +3.0% rise. The Riksbank's chief headache is to prevent Sweden falling into outright deflation and with headline inflation running at around zero any type of cyclical slowdown is likely to push them into outright deflation. With this type of environment what Sweden wants and perhaps even needs is a weak currency.
- The Riksbank must have been pleased when the rate cut saw the SEK weaken nearly 1.5% against the EUR. The problem is as the year progresses the ECB will have the exact same plan, weaken the EUR to stop inflation expectations in the Eurozone becoming unanchored. Ultimately we think the ECB will win out and the SEK will be forced to strengthen against the EUR.

Asia – regional overview

Asian currencies mostly appreciated versus the USD over the past month, against the backdrop of a less-hawkish-than-expected June FOMC, continued low market volatility, and more signs of bottoming out in the Chinese economy. The rise in oil prices in the first half of June did affect some currencies – namely the INR and IDR – but the impact has largely been reversed as supply fears recede and domestic themes emerge.

USD-IDR has been volatile due to the very close race for the 9 July Presidential elections. We will caution against turning too bullish even if Jokowi, widely perceived as the more reformist candidate, wins the election as his coalition is now in a minority position in parliament. Moreover, with the term for the new president starting only from 20 October, any reforms will only be implemented towards the end of the year at the earliest. Our more medium-term view for the IDR remains negative because of the twin deficits, large fuel subsidies and sticky inflation. Political developments have also been a driver for the INR. USD-INR has not fully retraced its earlier oil price induced rise, as the market awaits reform measures from the new government. Modi has to balance fiscal consolidation with raising investments to boost growth, amid a rising risk of a poor monsoon. A firm reform agenda could give INR strengthening momentum, particularly as there are signs the RBI is turning more neutral with regards its FX policy. We think the RBI may have completed its operation to neutralise longer-dated external liabilities with USD buying in the spot and short-dated forwards space.

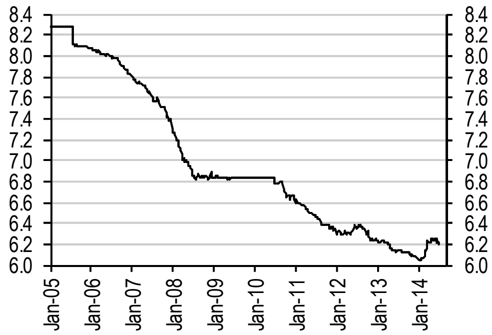
Monetary policy is coming into focus for the MYR, PHP and KRW. Rate hikes in H2 from Bank Negara Malaysia and Bangko Sentral ng Pilipinas are widely expected. But we think there is scope for disappointment in Malaysia – our discussions onshore suggest macropru measures may be deployed to temper the housing market and BNM may not hike rates as much, or as soon, as the market expects (see '*MYR: Glass half full or glass half empty?*', 23 June 2014).

In Korea, there is now a small chance of coordinated policy easing from the Finance Ministry and the Bank of Korea, given the alleged growth bias of the incoming finance minister and downside risks to growth. There are also concerns for more aggressive KRW smoothing operations. Apart from more verbal intervention, we note that the BoK's spot FX reserves rose USD5.6bn in June, a substantial amount similar to May. We still expect a lower USD-KRW by the end of the year, albeit at a more measured pace.

The Chinese authorities continued on the path of deregulation for the RMB market in June. It expanded banks' freedom to set FX deposits rates in Shanghai, allowed corporates to sell FX options onshore, lowered the barriers of entry to the derivatives markets, removed a regulation on banks' bid-offer spreads to clients, and promised more transparency around the fixing mechanism. There are limited directional implications for the RMB from these measures for now but more deregulation suggest to us that policymakers are getting more comfortable with the nature of flows – as one-way hot money inflows seen earlier start to reverse. This will pave the way for the RMB to recover moderately in line with economic fundamentals in H2.

Asia at a glance

USD-CNY

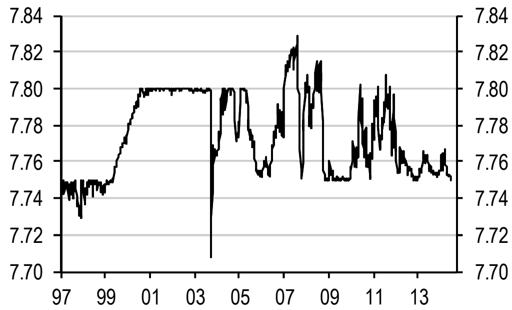


Source: Bloomberg

China (CNY): More deregulation announced

- June saw a raft of deregulation measures from Chinese authorities. While these will likely have limited directional impact on the CNY in the near term, we think they signal that policymakers have become more comfortable with the nature of flows as earlier hot money inflows have started to reverse. This will pave the way for the RMB to appreciate in line with economic fundamentals in H2, albeit in a more volatile manner.
- SAFE will allow corporates to sell FX options from 1 August, in an effort to develop the onshore FX options market. Overtime, we expect a greater convergence of onshore-offshore FX spot, forward and options market.
- On 2 July SAFE applied the +/-2% daily trading band to bank clients. This was previously only the band for the interbank market with the band for clients restricted to +/-1.5%. This could create a little more room for intraday FX volatility. SAFE also said it would make the USD-CNY fixing mechanisms and intraday movements in spot more transparent.

USD-HKD



Source: Bloomberg

Hong Kong: HKD in temporary demand

- The HKD touched the strong side of its convertibility zone versus the USD – 7.75 – on 1 July. The HKMA injected USD2.1bn of liquidity.
- The HKMA cited specific and temporary commercial activities, including M&A activities and dividend distribution, as the reasons behind the strong HKD. These factors are different from the reasons given for intervention in Q4 2012 – inflows of funds, conversion of proceeds from issuance of foreign currency bonds by Hong Kong firms, and strong equity IPO activities. We also note that these two episodes coincided with improving China data and a loosening of G3 FX liquidity.
- The initial tightness in liquidity led to a sharp steepening in FX forward curves, although these have now largely normalised after the injection of liquidity by the HKMA.

USD-INR

Source: Bloomberg

India: Signs of reform and a more relaxed FX policy

- The new government's first budget largely met expectations, although it did not deliver positive surprises. Even so, it still sends the right signals about the government's stance on reforms and medium-term fiscal consolidation.
- Meanwhile, there are signs that the RBI's FX policy, which has seen the central bank build nearly USD50bn of reserves in the last 12 months, is showing signs of relaxing. The RBI seems to have largely offset its longer-dated external liabilities (largely from the Foreign Currency Non-Resident swap operations last September) with recent USD purchases in the spot and shorter-dated FX forwards space.
- The retracement in the INR since the initial post-election euphoria suggests there is room for the currency to outperform again. We recommend selling EUR-INR 6m NDF, targeting a move to 81 and with a stop loss at 85. We chose the 6m tenor in order to take advantage of the higher carry (around 6.1% annualised) compared to the front-end of the curve.

Asia at a glance continued

USD-KRW

Source: Bloomberg

South Korea: More resistance in the near-term

- The nomination of Choi Kyung Hwan - who appears pro-growth in his outlook - as Finance Minister has led to a rising perception that we will see coordinated policy easing from the Finance Ministry and the BoK. BoK last cut rates in May 2013, to coordinate with the MoSF's supplementary budget.
- The incoming finance minister also signalled more intense KRW smoothing operations. The BoK appears to have already been intervening strongly in recent months as FX reserves rose by USD5.6bn in June and USD5.2bn in May. Moreover, if we include FX forward positions, the size of the BoK's total FX reserves rose by USD12.8bn in May. This could keep the pace of KRW appreciation slow for the near-term.
- However, policymakers also still appear to be in favour of medium-term rebalancing – i.e. narrowing the current account deficit. We still think the underlying flow fundamentals and the accumulation of large FX deposits by corporates are supportive of further KRW appreciation, albeit at a measured pace. Our forecast is for USD-KRW to finish the year at 1000.

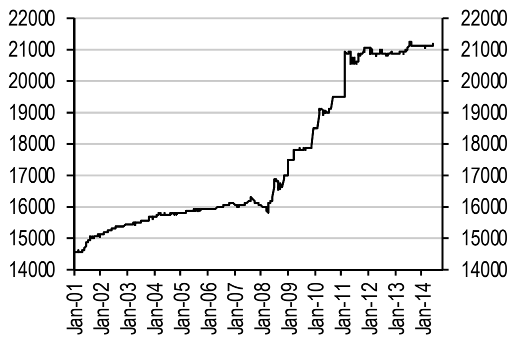
USD-IDR

Source: Bloomberg

Indonesia: Election volatility

- Unofficial results for the 9 July presidential elections indicate that Jokowi, the candidate widely regarded as more reformist, won the elections, and by a larger margin than recent polls suggested.
- USD-IDR NDFs have fallen sharply. But further USD-IDR downside may be limited. After all, even if Jokowi is confirmed as the victor, the political situation is still not as ideal as investors have hoped for going into the legislative elections on 9 April – Jokowi's coalition is in a minority position in parliament. In addition, we expect BI to smooth IDR volatility. Policy makers have suggested that their preferred range of USD-IDR is around 11500-12000.
- The scale of the economic challenges confronting the incoming president is large. Implementing reforms could be difficult for Jokowi, who would have to manage complicated coalition politics. In any case, any reforms would only be implemented towards the end of the year at the earliest, as the new president will only be inaugurated on 20 October. Until and unless we see reforms that could help balance the twin deficits, attract FDI and sustain lower inflation, we retain our forecast for USD-IDR at 12250 by year-end.

USD-VND



Source: Bloomberg

Vietnam: 1% depreciation – but not the start of a trend

- On 19 June, the SBV moved the daily USD-VND reference rate higher by 1% from 21036 to 21246. This is the first shift in the rate since 28 June 2013, when the currency was also weakened by around 1% versus the USD.
- The depreciation should not come as a major surprise given USD-VND had been trading on the top side of the daily band and given earlier comments from the SBV Governor.
- This one-off and small depreciation of the VND should not lead to aggressive weakness in the currency, in our view. FX flows have been better balanced in the last year. The trade balance has been relatively neutral while FDI inflows have picked up. Together, these flows have allowed the SBV to increase their FX reserves buffers by nearly USD10bn in the last year, by our estimates.
- Risks are still more skewed to the downside, however, especially with relatively loose monetary policy and the potential for inflation to pick up again later in the year.

Latin America – regional overview

LatAm FX continues to be driven by an environment of many lows: low volatility, low volumes, and low conviction. By default, the carry trade reigns supreme, and at least for the time being, we do not see any upside in fighting the trend. There is simply no clear catalyst in sight for global volatility to resume in the coming weeks as data in China has stabilized and monetary policy in the G3 remains comfortably loose. In the coming month, we see LatAm FX continuing to trade in tight ranges with low volatility, but also limited room for appreciation from current levels.

Our calls have not changed much in the last month as neither have the global backdrop nor valuations in LatAm FX. We still prefer to be long the PEN (see *'Buy PEN-CLP'*, 13 May) and BRL on account of their higher volatility-adjusted yields. We see USD-BRL trading tightly around 2.20-2.25 and USD-PEN around 2.78-2.80. We also like to sell USD-COP on spikes above 1865 on improving yields and pipeline of FX inflows in 3Q which we see prevailing over the government's ability to intervene more forcefully.

We have turned slightly less bearish on the CLP, taking into account its existing underperformance vis-à-vis its peers year-to-date, as well as signs of improvement in the current account. We have thus tempered our year-end forecast to 580/USD from 600/USD previously (see *'LatAm FX Focus: still cool on CLP'*, 7 July, 2014).

Room for FX appreciation across the region seems capped, however, by a continued deterioration of macro-economic fundamentals. While portfolio flows in Colombia and Brazil have continued to stream in at a robust pace, medium term the COP looks vulnerable to a rapid widening of the current account deficit (now running at 4.6% of GDP) and the BRL to further downgrades to the growth outlook. Similarly, consensus growth forecasts continue to be cut in Chile, Peru, Argentina, and Mexico.

While FX policy this year has tended to centre more on rising inflationary pressures – thus favouring "stronger" currencies – we believe that eventually growth concerns will again be prioritized by policymakers and the preference will be for weaker currencies. The consensus view remains that any potential return to more volatile conditions in global markets, including in LatAm FX, will most likely be triggered by the rate normalization in the US. Once the tapering phase is over in October and investors start focusing again on the timing of rate normalization by the Fed, we believe investors will demand higher risk premiums from LatAm FX, and some associated FX weakness would be consistent with the region's weak fundamentals.

Nevertheless, for the time being it appears we are still some time away from that scenario, and so for now, investors remain comfortable holding carry trades. We can't disagree.

Latin America at a glance

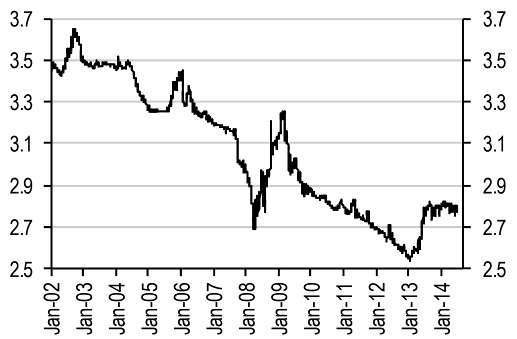
USD-CLP

Source: Bloomberg

Chile: Still cool on the CLP

- The CLP has recovered from its early 2014 weakness on the back of three factors: a) improved China data and stronger commodity prices, b) higher inflation readings that spurred CLP strength in early May, and c) a reduction in long USD positions vs the CLP. It is also true that some of the bearishness we previously held on the CLP may now be in the price (the CLP has underperformed its regional peers year-to-date, with the exception of the ARS).
- However, we still see moderate downside risks for the CLP based on: a) a poor mix of lower growth and high inflation, b) worsening terms of trade, c) more neutral FX positioning.
- Risks of weaker China growth and softer commodity prices also pose risks for the CLP. But the improvement in China's economic data, slightly firmer copper prices, and an improving current account have led us to revise our forecasts for the CLP to now be slightly less bearish. We have adjusted our year-end forecast for USD-CLP from 600.0 to 580.0.

USD-PEN

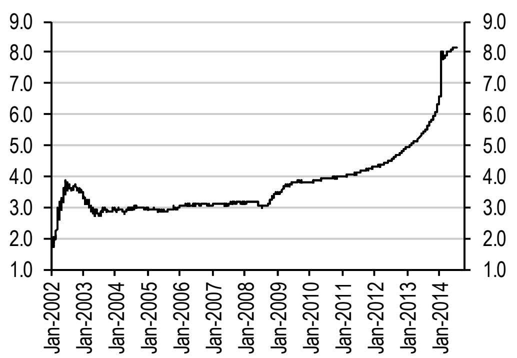


Source: Bloomberg

Peru: Still one of the best yield-to-vol. ratios

- We believe the PEN offers good yield with sound fundamentals despite the cyclical moderation in growth seen recently. Indeed, our economists believe that growth could accelerate in 2H as the fundamental story for an expansion for mining remains well-supported and via work related to the section 2 of the Lima metro expansion.
- The government's efforts to trim red tape and other barriers to investment should also provide a lift to growth. We remain long PEN as we see high financial dollarization and inflation pressures likely keeping the central bank vigilant against FX weakness via continued USD selling intervention.
- Moreover, the PEN offers an attractive risk-reward with a carry-to-volatility ratio above 1.0 (using 1-month yields and implied vols.). We like to express our long PEN trade recommendation against short CLP (see above).

USD-ARS



Source: Bloomberg

Argentina: Difficult negotiations begin

- The US Supreme Court's decision not to hear Argentina's appeal has put the authorities under pressure to find a negotiated solution with the bond 'holdouts' before the July 30 technical default deadline (on the due payments for the restructured debt).
- This is also a setback for the government's ambitions to regain access to external financing, which is key for the stabilization of FX flows. This will also likely work against the central bank's efforts to use FX reserves to defend the ARS, especially if reserves need to be tapped for debt payments. As of now the potential impact on the ARS is uncertain and likely dependent on the government's ability to avoid a full-scale default.
- Overall, however, the most recent developments do not alter our expectations for a faster pace of ARS depreciation during the second half of the year. We maintain our forecast that USD-ARS will end the year at 10.00.

EMEA – regional overview

Between geopolitics and uncertainties on monetary policies

The dominant variables for EMEA currencies are the geopolitical risks and the uncertainties surrounding the monetary policy outlooks.

Geopolitical issues put Russian rouble and Turkish lira on the front line. For the TRY, the situation in Iraq is crucial. Iraq is the second market for Turkish exports after the EU (about 8% of total exports). More importantly, the risk of disruption in oil production and higher oil prices could put the healthy reduction of the current account deficit at risk. For the RUB, the rise in oil prices is obviously a supportive factor. However, the lack of sustainable ceasefire in Ukraine continues to be a source of volatility for the RUB.

We are watching closely those risks but we have not changed our views on either the TRY or on the RUB. We retain our constructive view on the TRY because: a) the macro rebalancing (lower inflation and narrower current account deficit) is likely to continue, b) after having cut its policy rate by 125bp to 8.75%, the Turkish central bank is likely to be more prudent as a significant deceleration of inflation requires tight monetary conditions, c) we believe that the TRY does not suffer from a valuation issue despite the appreciation since end of March.

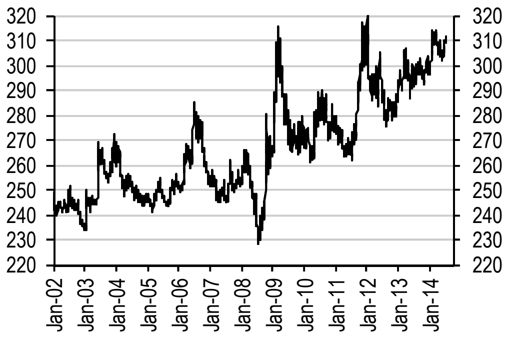
We remain cautious on the RUB. The market sentiment vis-à-vis Russian assets has improved but the Russian economy continues to face stagflation and is at the mercy of a vulnerable balance of payments. There are indeed some risks as regards to a weakening of the current account surplus over the summer months, whilst the recent improvement in capital flows looks fragile.

In CEE, the monetary policy perspectives play a dominant role for FX. In Hungary, the central bank cut its policy rate to a record low of 2.30% and has done interest rate swap operations at a discount rate for local banks. On 1st August the main monetary policy instrument (two week bill) will be modified to a 2-week deposit. All these technical measures are aiming at loosening monetary conditions and channelling more liquidity to government securities market. This policy has weighed on the HUF. However, we do not see a risk of a further substantial weakening of the HUF in the near-term. The monetary policy loosening is priced-in and the market is waiting for the details of the government's plan for FX mortgage due in the autumn.

In Poland, the monetary policy outlook has become more uncertain since the central bank has abandoned its forward guidance of stable policy rate till the end of Q3. Our central scenario assumes that the NBP will cut rates in September because of negative inflation readings in coming months. Nevertheless, we believe that the adjustment in rates will be too small to impact the PLN. The PLN is likely to appreciate in coming months thanks to the ECB easing and capital inflows to local market.

EMEA at a glance

EUR-HUF

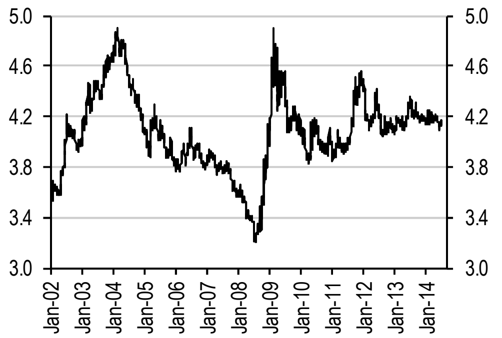


Source: Bloomberg

Hungary: the phase out of FX mortgage in focus

- The HUF has weakened in the recent period due to a further rate cut and the government's plans to phase out the households' debt denominated in foreign currency.
- On 4 July, the parliament passed the bill obliging banks to compensate borrowers for unfair FX margins but also for unilateral interest rate changes. The central bank estimate that the cost for banks could amount up to HUF900bn, i.e. close to 3% of GDP, but the form of settlement will only be decided in autumn. If it is in form of cash compensation, it would have a substantive positive impact on economic growth via stronger private consumption.
- In the autumn, the government will also present the reform converting FX loans to HUF. The head of the ruling party at the parliament said that the conversion may be done at a preferential exchange rate for borrowers. The cost for banks and potential consequences on the HUF are difficult to estimate at this juncture but this is an important risk factor for the HUF.

EUR-PLN



Source: Bloomberg

Poland: stronger on rising capital inflows

- On a pure valuation approach, the zloty is not an attractive currency. Our macro metrics indicate it is at best 'fairly valued'.
- Yet, we retain our PLN-constructive view. We believe that capital flows dynamics will be the predominant driving force for the currency in coming months. The monetary policy loosening in the Eurozone is likely to fuel capital inflows to Poland. This should support the PLN given the robust structure of the balance of payments. Poland enjoys a comfortable net external financing capacity.
- We do not think that a monetary policy easing in Poland will undermine the PLN. A cut from the Polish central bank is likely to be small (we expected 25bp cut to 2.25%) as inflation is unlikely to stay in negative territory beyond the third quarter. As a result, the real policy rate will stay at historically high levels and constitute a support for the currency.

EUR-CZK

Source: Bloomberg

Czech Republic: the EUR-CZK floor here to stay

- On 26 June, the Czech central bank said that the EUR-CZK floor of 27.00 will be maintained till at least the second quarter of 2015. Initially, the floor was supposed to be removed in Q1 2015. The absence of inflationary pressures is behind this decision.
- Although the economy has recovered from recession and grew strongly in Q1, inflation has stayed persistently low. The so-called 'monetary policy relevant inflation' remains very close to 0%. Admittedly, signs of improvement in household consumption and the labour market show that the economy as averted the outright deflation risk. But, the economy is still unable to generate any significant inflationary pressures.
- This panorama is unlikely to change in coming months, particularly in a context of generalised low inflation in Europe. With the ECB embarking in more easing, the EUR-CZK floor is here to stay and the possibility of a higher floor cannot be completely ruled out.

HSBC

HSBC Volume-Weighted REERs

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For full details of the construction methodology of the HSBC REERs, please see *"HSBC's New Volume-Weighted REERs"* Currency Outlook April 2009.

The value of a currency

Since FX prices are always given as the amount of one currency that can be bought with another, the inherent value of a currency is not defined. For example, if EUR-USD goes up, this could be because the EUR has increased in value, the USD has decreased in value, or a combination of both. One possible method for getting some insight into changes in the value of a currency is to look at movements in the value of a basket of other currencies against the currency of interest.
For example, if EUR-USD increased over some time period, one could see how EUR had performed against a range of other currencies to determine whether EUR has become generally more valuable or whether this was simply a USD-based move. An effective exchange rate is an attempt to do this and to represent the moves in index form.

There are two main approaches to building an effective exchange rate: Nominal Effective Exchange Rates (NEERs) and Real Effective Exchange Rates (REERs). NEERs simply track the weighted average returns of a basket of other currencies against the currency being investigated; REERs deflate the returns in an attempt to compensate for the differing rates of inflation in different countries. The reason for doing this is that, particularly over long time frames, inflation can have a large impact on the purchasing power of a currency.

How should we weight the basket?

If we are trying to create an index for the change in value of a currency against a basket of other currencies, we now need to decide on how to weight our basket. One possible solution would be to simply have an equally-weighted basket. The rationale for this would be that there is no *a priori* reason for choosing to put more emphasis on any one exchange rate. However, this could clearly lead to the situation where a large move in a relatively small currency can strongly influence the REERs and NEERs for all other currencies. To avoid this, the indices are generally weighted so that more "important" currencies get higher weighting. This, of course, begs the question of how "importance" is defined.

Trade Weights

Weighting the basket by bilateral trade-weights is the most common weighting procedure for creating an effective exchange rate index. This is because the indices are often used to measure the likely impact of exchange rate moves on a country's international trade performance.

Volume Weights

The daily volume traded in the FX market dwarves the global volume of physical trade. From this it is possible to make a convincing argument that the weighting which would be really important would be to weight the currency basket by financial market flows, rather than bilateral trade.

To do this properly would require us to have accurate FX volumes for all currency pairs considered in the index. However, these are not available. The BIS triennial survey of FX volumes only gives data for a small number of bilateral exchange rates. However, the volumes are split by currency for over 30 currencies. From these volumes we can estimate financial weightings for each currency. We believe that this gives another plausible definition for "importance", and one which may be more relevant for financial investors than trade weights. We call this procedure volume weighting and the indices produced through this procedure we call the HSBC volume-weighted REERs.

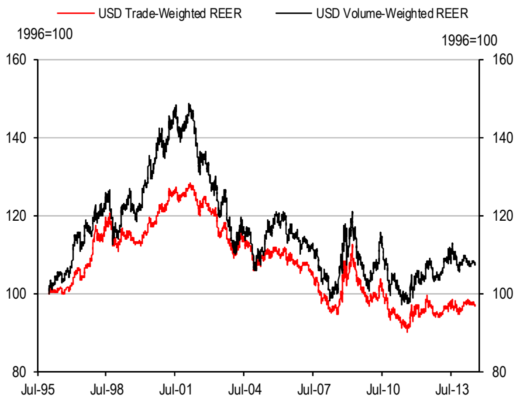
We would argue that if you are a financial market investor, the effective value of a currency you would be exposed to is more accurately represented by the HSBC volume-weighted index rather than the trade-weighted index.

Data Frequency

This is something which is rarely considered when constructing REERs – inflation data is generally released at monthly frequency at best so the usual procedure is to simply create monthly indices by default. However, some countries release their inflation data only quarterly. The usual procedure for these countries is to simply *pro-rata* the change over the period. Here there is an implicit assumption that the rate of inflation changes slowly. We take this assumption one step further and assume that it is valid to spread the inflation out equally over every day in the month.

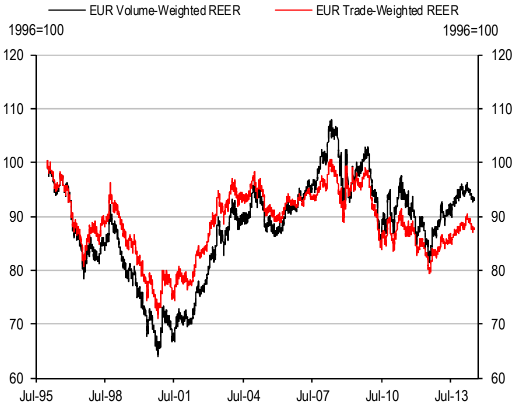
HSBC Volume – Weighted REERs

USD REER index



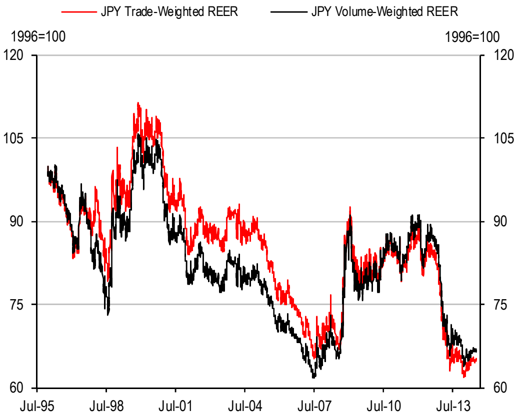
Source: HSBC

EUR REER index



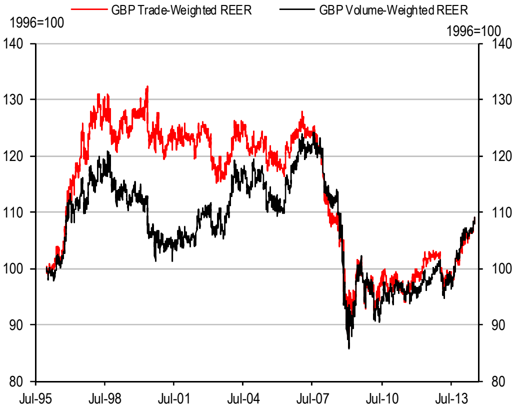
Source: HSBC

JPY REER index



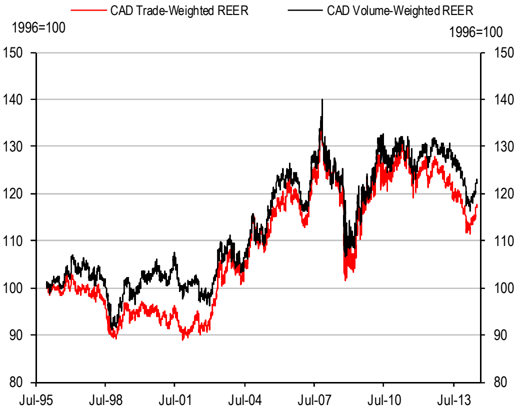
Source: HSBC

GBP REER index



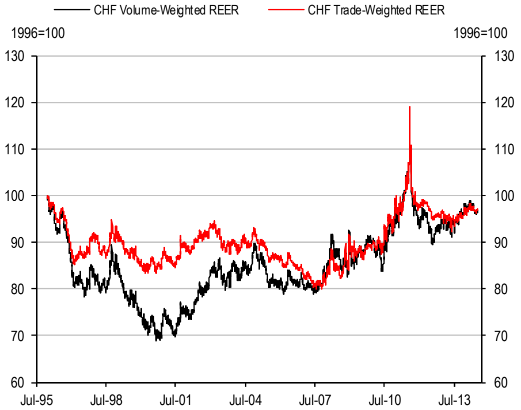
Source: HSBC

CAD REER index



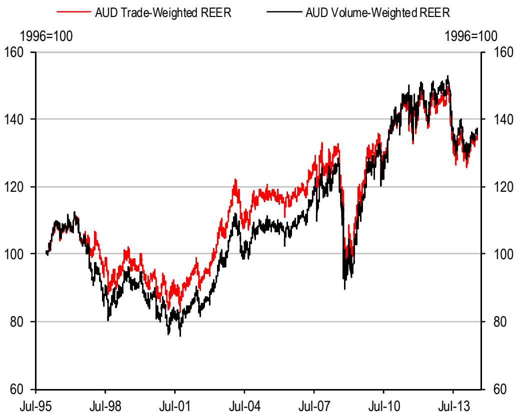
Source: HSBC

CHF REER index



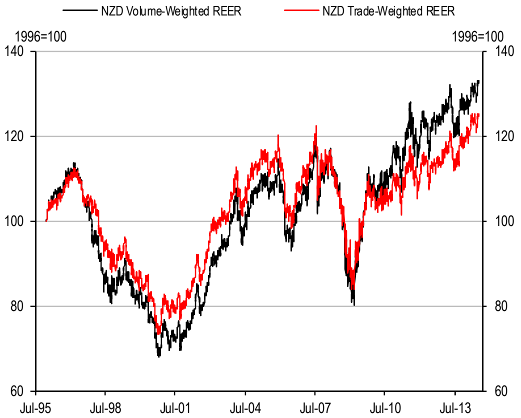
Source: HSBC

AUD REER index



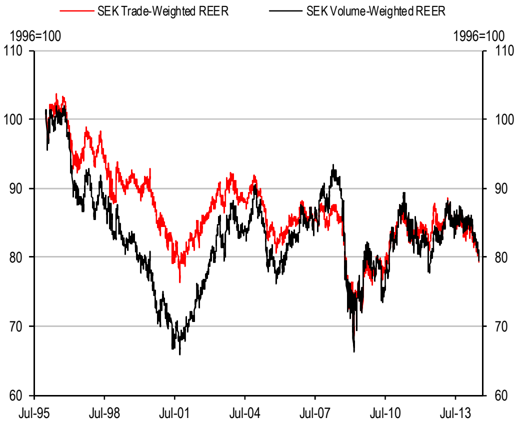
Source: HSBC

NZD REER index



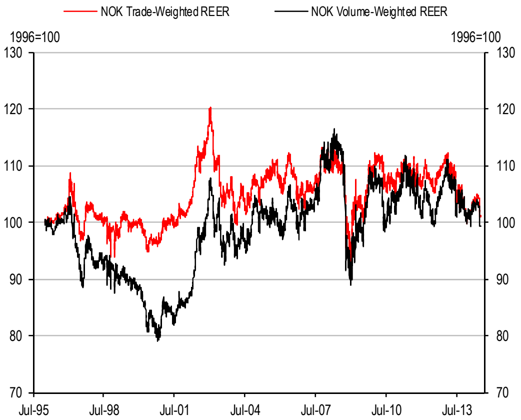
Source: HSBC

SEK REER index



Source: HSBC

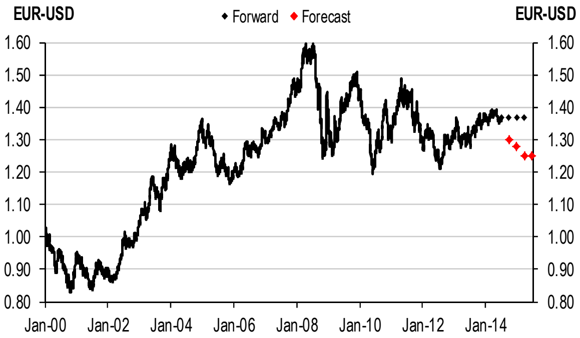
NOK REER index



Source: HSBC

HSBC forecasts vs forwards

EUR-USD vs forwards



Source: Thomson Financial Datastream, Reuters, HSBC

EUR-CHF vs forwards

Source: Thomson Financial Datastream, Reuters, HSBC

GBP-USD vs forwards

Source: Thomson Financial Datastream, Reuters, HSBC

EUR-GBP vs forwards

Source: Thomson Financial Datastream, Reuters, HSBC

USD-JPY vs forwards

Source: Thomson Financial Datastream, Reuters, HSBC

EUR-JPY vs forwards

Source: Thomson Financial Datastream, Reuters, HSBC

Short rates

3 Month Money

		2012	2013	2013		2014				2015	
end period		**Q4**	**Q4**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3f**	**Q4f**	**Q1f**	**Q2f**
North America											
	US (USD)	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.4
	Canada (CAD)	1.3	1.4	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Latin America											
	Mexico (MXN)	4.4	4.2	3.7	3.3	3.3	3.0	3.0	3.0	3.0	3.0
	Brazil (BRL)	7.1	7.1	9.4	10.1	10.8	10.8	11.0	11.3	11.8	12.3
	Chile (CLP)	4.9	4.9	4.8	4.3	3.8	3.8	3.8	3.8	3.8	3.8
Western Europe											
Eurozone		0.1	0.1	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Other Western Europe											
	UK (GBP)	0.5	0.9	0.5	0.5	0.5	0.6	0.7	0.8	0.9	1.3
	Norway (NOK)	1.9	1.9	1.7	1.7	1.7	1.7	1.8	1.9	1.9	2.0
	Sweden (SEK)	1.6	1.3	1.2	0.9	0.8	0.8	0.6	0.6	0.6	0.6
	Switzerland (CHF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EMEA											
	Hungary (HUF)	5.8	5.8	3.6	3.0	2.7	2.3	2.1	2.1	2.2	2.9
	Poland (PLN)	4.1	4.1	2.7	2.7	2.7	2.7	2.4	2.5	2.5	2.5
	Russia (RUB)*	7.5	7.5	6.8	7.2	9.1	9.6	9.5	9.5	9.1	8.8
	Turkey (TRY)	5.5	5.5	6.9	7.8	11.5	8.8	8.5	8.0	8.5	8.5
	South Africa (ZAR)	5.2	5.2	5.4	5.2	5.6	6.1	6.1	6.1	6.1	6.1
Asia/Pacific											
	Japan (JPY)	0.2	0.2	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2
	Australia (AUD)	3.0	3.0	2.6	2.6	2.7	2.7	2.7	2.9	3.1	3.3
	New Zealand (NZD)	2.6	2.6	2.7	2.9	3.2	3.6	3.6	3.8	4.0	4.2
North Asia											
	China (CNY)	5.5	3.9	5.6	5.0	5.5	4.8	4.7	4.4	3.7	3.7
	Hong Kong (HKD)	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.6	0.6	0.6
	Taiwan (TWD)	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.1
	South Korea (KRW)	2.9	2.9	2.7	2.7	2.6	2.7	2.9	3.1	3.3	3.5
South Asia											
	India (INR)	8.5	8.9	9.7	8.7	8.9	9.0	9.1	8.8	8.8	8.6
	Indonesia (IDR)	5.0	5.0	7.2	7.8	8.1	8.2	8.1	8.1	8.1	8.1
	Malaysia (MYR)	3.2	3.2	3.2	3.3	3.3	3.5	3.9	3.8	3.7	3.7
	Philippines (PHP)	1.4	0.3	0.5	0.3	1.0	0.5	0.5	0.5	0.5	0.5
	Singapore (SGD)	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4	0.4
	Thailand (THB)	2.9	2.9	2.6	2.4	2.2	2.2	2.0	2.1	2.1	2.4
	South Africa (ZAR)	5.2	5.2	5.4	5.2	5.6	6.1	6.1	6.1	6.1	6.1

*Notes: * 1-month money. Source: HSBC*

Important note

This table represents three month money rates. Due to the dislocation in the three month money markets, these rates may not give a good indication of policy rates.

Emerging markets forecast table

	10-Jul-14	2013		2014				2015			
	last	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Latin America vs USD											
Argentina (ARS)	8.14	5.79	6.52	8.00	8.13	9.25	10.00	10.75	11.50	12.20	12.90
Brazil (BRL)	2.21	2.23	2.34	2.26	2.20	2.45	2.50	2.52	2.55	2.58	2.60
Chile (CLP)	553	505	525	549	552	565	580	580	580	580	580
Mexico (MXN)	12.98	13.17	13.09	13.06	12.99	12.70	12.60	12.60	12.60	12.60	12.60
Colombia (COP)	1859	1828	1923	1969	1880	1950	1960	1970	1980	1990	2000
Peru (PEN)	2.78	2.79	2.80	2.81	2.80	2.75	2.75	2.75	2.75	2.75	2.75
Venezuala (VEF)	6.29	6.29	6.29	6.29	6.29	15.00	15.00	15.00	15.00	15.00	15.00
Eastern Europe vs EUR											
Czech Republic (CZK)	27.4	25.7	27.4	27.4	27.5	27.0	27.0	26.8	26.5	26.0	26.0
Hungary (HUF)	310	297	297	307	310	295	295	290	290	290	290
Russia vs USD (RUB)	34.0	32.3	32.7	35.7	33.6	37.0	37.5	37.3	38.5	38.5	39.2
Romanian (RON)	4.39	4.46	4.47	4.46	4.38	4.30	4.30	4.30	4.30	4.30	4.30
Turkey vs USD (TRY)	2.12	2.02	2.15	2.14	2.12	2.05	2.00	2.00	2.00	2.00	2.00
Poland (PLN)	4.13	4.23	4.16	4.16	4.16	4.00	3.90	3.90	3.90	3.90	3.90
Middle East vs USD											
Egypt (EGP)	7.15	7.00	6.95	6.97	7.15	7.20	7.50	7.70	8.00	8.00	8.00
Israel (ILS)	3.43	3.55	3.47	3.49	3.43	3.50	3.50	3.50	3.50	3.50	3.50
Africa vs USD											
South Africa (ZAR)	10.71	10.06	10.47	10.52	10.62	10.80	10.40	10.00	10.00	10.00	10.00

Source: HSBC

Exchange rates vs USD

end period		2010	2011	2012	2013		2014				2015			
		Q4	Q4	Q4	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Americas														
	Canada (CAD)	0.99	1.02	1.00	1.03	1.06	1.10	1.06	1.15	1.15	1.15	1.15	1.15	1.15
	Mexico (MXN)	12.36	13.97	12.87	13.17	13.09	13.06	12.99	12.70	12.60	12.60	12.60	12.60	12.60
	Brazil (BRL)	1.67	1.88	2.04	2.23	2.34	2.26	2.20	2.45	2.50	2.52	2.55	2.58	2.60
	Argentina (ARS)	3.97	4.30	4.92	5.79	6.52	8.00	8.13	9.25	10.00	10.75	11.50	12.20	12.90
Western Europe														
	Eurozone (EUR*)	1.34	1.30	1.32	1.35	1.38	1.38	1.37	1.30	1.28	1.25	1.25	1.25	1.25
Other Western Europe														
	UK (GBP*)	1.57	1.55	1.63	1.62	1.66	1.67	1.72	1.70	1.68	1.66	1.64	1.61	1.58
	Sweden (SEK)	6.72	6.86	6.51	6.42	6.42	6.48	6.69	6.92	6.95	7.11	6.95	6.87	6.79
	Norway (NOK)	5.81	5.97	5.57	6.01	6.07	5.99	6.13	6.08	6.09	6.07	6.07	5.99	5.99
	Switzerland (CHF)	0.93	0.94	0.92	0.90	0.89	0.88	0.89	0.94	0.95	1.00	1.00	1.00	1.00
Emerging Europe														
	Russia (RUB)	30.5	32.0	30.5	32.3	32.7	35.7	33.6	37.0	37.5	37.3	38.5	38.5	39.2
	Poland (PLN)	2.95	3.43	3.09	3.12	3.02	3.02	3.04	3.08	3.05	3.12	3.12	3.12	3.12
	Hungary (HUF)	207	242	221	220	216	223	226	227	230	232	232	232	232
	Czech Republic (CZK)	18.7	19.6	19.0	19.0	19.9	19.9	20.1	20.8	21.1	21.4	21.2	20.8	20.8
Asia/Pacific														
	Japan (JPY)	81	77	86	98	105	103	101	103	101	99	99	99	99
	Australia (AUD*)	1.03	1.03	1.04	0.94	0.89	0.93	0.94	0.87	0.86	0.86	0.86	0.86	0.86
	New Zealand (NZD*)	0.78	0.78	0.83	0.83	0.82	0.87	0.88	0.86	0.87	0.88	0.88	0.88	0.88
North Asia														
	China (CNY)	6.59	6.29	6.23	6.12	6.05	6.22	6.20	6.20	6.14	6.12	6.11	6.10	6.10
	Hong Kong (HKD)	7.77	7.77	7.75	7.76	7.75	7.76	7.75	7.80	7.80	7.80	7.80	7.80	7.80
	Taiwan (TWD)	30.4	30.3	29.0	29.6	29.8	30.5	29.9	30.0	29.8	29.7	29.6	29.5	29.4
	South Korea (KRW)	1121	1159	1064	1075	1056	1065	1012	1010	1000	995	990	985	980
South Asia														
	India (INR)	44.7	53.0	55.0	62.6	61.8	60.0	60.1	60.0	60.0	60.5	61.0	61.5	62.0
	Indonesia (IDR)	9010	9068	9638	11580	12170	11360	11855	12000	12250	12500	12500	12500	12500
	Malaysia (MYR)	3.08	3.17	3.06	3.26	3.28	3.26	3.21	3.32	3.33	3.35	3.35	3.35	3.35
	Philippines (PHP)	43.6	43.8	41.1	43.5	44.4	44.8	43.6	45.0	45.2	45.4	45.4	45.4	45.4
	Singapore (SGD)	1.28	1.30	1.22	1.26	1.26	1.26	1.25	1.28	1.28	1.28	1.28	1.28	1.28
	Thailand (THB)	30.1	31.6	30.6	31.3	32.8	32.4	32.4	33.4	34.0	34.3	34.5	34.5	34.5
	Vietnam (VND)	19498	21037	20835	21119	21080	21080	21329	21250	21250	21250	21500	21500	21500
Africa														
	South Africa (ZAR)	6.62	8.07	8.48	10.06	10.47	10.52	10.62	10.80	10.40	10.00	10.00	10.00	10.00

Source HSBC

Exchange rates vs EUR & GBP

end period		2010	2011	2012	2013		2014				2015			
		Q4	Q4	Q4	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
Vs euro														
Americas														
	US (USD)	1.34	1.30	1.32	1.35	1.38	1.38	1.37	1.30	1.28	1.25	1.25	1.25	1.25
	Canada (CAD)	1.33	1.32	1.31	1.39	1.46	1.52	1.45	1.50	1.47	1.44	1.44	1.44	1.44
Europe														
	UK (GBP)	0.86	0.84	0.81	0.84	0.83	0.83	0.80	0.76	0.76	0.76	0.76	0.78	0.79
	Sweden (SEK)	9.02	8.90	8.58	8.69	8.85	8.94	9.16	9.00	8.90	8.90	8.70	8.60	8.50
	Norway (NOK)	7.80	7.75	7.34	8.14	8.36	8.25	8.40	7.90	7.80	7.60	7.60	7.50	7.50
	Switzerland (CHF)	1.25	1.21	1.21	1.22	1.23	1.22	1.21	1.22	1.22	1.25	1.25	1.25	1.25
	Russia (RUB)	40.9	41.6	40.2	43.8	45.1	49.2	46.1	48.1	48.0	46.7	48.2	48.2	49.1
	Poland (PLN)	3.96	4.46	4.08	4.23	4.16	4.16	4.16	4.00	3.90	3.90	3.90	3.90	3.90
	Hungary (HUF)	278	315	291	297	297	307	310	295	295	290	290	290	290
	Czech Republic (CZK)	25.1	25.5	25.1	25.7	27.4	27.4	27.5	27.0	27.0	26.8	26.5	26.0	26.0
Asia/Pacific														
	Japan (JPY)	109	100	114	133	145	142	139	134	129	124	124	124	124
	Australia (AUD)	1.31	1.27	1.27	1.45	1.54	1.49	1.46	1.49	1.49	1.46	1.46	1.46	1.46
	New Zealand (NZD)	1.72	1.66	1.60	1.63	1.67	1.59	1.57	1.51	1.47	1.42	1.42	1.42	1.42
Vs sterling														
Americas														
	US (USD)	1.57	1.55	1.63	1.62	1.66	1.67	1.72	1.70	1.68	1.66	1.64	1.61	1.58
	Canada (CAD)	1.56	1.58	1.62	1.66	1.76	1.84	1.83	1.96	1.93	1.91	1.88	1.85	1.82
Europe														
	Eurozone (EUR)	0.86	0.84	0.81	0.84	0.83	0.83	0.80	0.76	0.76	0.76	0.76	0.78	0.79
	Sweden (SEK)	10.53	10.65	10.57	10.40	10.64	10.81	11.52	11.78	11.69	11.79	11.39	11.04	10.73
	Norway (NOK)	9.10	9.27	9.05	9.74	10.05	9.98	10.56	10.34	10.25	10.06	9.95	9.63	9.47
	Switzerland (CHF)	1.46	1.45	1.49	1.46	1.47	1.47	1.53	1.60	1.60	1.66	1.64	1.60	1.58
Asia/Pacific														
	Japan (JPY)	127	120	141	159	174	172	175	175	170	164	162	159	156
	Australia (AUD)	1.53	1.52	1.57	1.73	1.85	1.80	1.83	1.96	1.96	1.93	1.90	1.87	1.84
	New Zealand (NZD)	2.00	1.99	1.97	1.94	2.01	1.92	1.97	1.98	1.93	1.88	1.86	1.83	1.80

Source: HSBC

Notes

Disclosure appendix

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