

## Global Currency Research Team

For research analysts, please see contact list at the back of this material.

November 14, 2013

Currencies

Global

## FX Pulse

### Disinflationary Spillover

#### Trading FX Markets:

**Disinflation trends** Disinflationary pressures are starting to emerge in Europe, highlighted by weak/negative CPI prints this past week. Currencies where there is still significant policy flexibility to respond or where market rate expectations have room to adjust are most vulnerable to this trend, in our view.

**Still bullish USD/SEK** We continue to identify the SEK as the most likely to come under pressure from European disinflationary pressure given the increasing likelihood of Riksbank dovishness as a result. We maintain our bullish USD/SEK view, but given the extent of gains seen over the past week, we await a setback before considering entering long positions.

**Maintain EUR/GBP short** With repatriation flows still likely providing the EUR with some near-term support ahead of year-end, we refrain from fresh EUR bearish strategies for the time being despite the deteriorating fundamentals, although we maintain our EUR/GBP bearish strategy. GBP is gaining some near-term support from the change in the BoE's unemployment forecasts, but we believe this should be balanced with the significant decline in the inflation projections, suggesting GBP caution.

**Close short EUR/AUD** We look to close our short EUR/AUD position given that risks for the AUD are increasing again. The positive signs from the Australian economy are once again being overshadowed by Chinese reform policy.

#### In This Week's Edition:

We look at the medium-term drivers for the EUR and conclude that once the current year-end related repatriation flows are complete, there are few supportive factors. We believe EUR will be vulnerable in 2014. Our investor survey finds that optimism on Mexican local asset prices persists.

## Trade Recommendations

Closed Trades			
Long NOK/SEK	Closed at 1.0700 on 11-Nov-13		
Short EUR/AUD	Close at WMR on 15-Nov-13		
Active Trades	Entry	Stop	Target
Short USD/KRW 1MNDF	1063	1080	1000
Short EUR/GBP	0.8480	0.8480	0.8100
Long USD/JPY	97.50	<b>98.80</b>	105.00
Long EUR/JPY	133.30	<b>132.80</b>	139.00
Long USD/RUB	32.66	31.60	34.60
Limit Orders	Entry	Stop	Target
Buy USD/SEK	<b>6.5600</b>	<b>6.4600</b>	<b>6.9000</b>
Options Trades	Entry Date	Expiry Date	Strike
Long USD Put/CNH Call	31-Oct-13	10-Jan-14	6.1000

See page 14 for more details. Changes in stops/targets in bold italics.

## MS Major Currency Forecasts

	4Q13	1Q14	2Q14	3Q14
EUR/USD	1.30	1.27	1.25	1.24
USD/JPY	105	110	114	117
GBP/USD	1.58	1.57	1.55	1.53
USD/CHF	0.95	0.98	1.02	1.03
USD/CAD	1.05	1.08	1.10	1.12
AUD/USD	0.93	0.91	0.88	0.85
NZD/USD	0.83	0.82	0.80	0.78
EUR/JPY	137	140	143	145
EUR/GBP	0.82	0.81	0.81	0.81
EUR/CHF	1.24	1.25	1.27	1.28
EUR/SEK	8.60	8.60	8.50	8.40
EUR/NOK	7.70	7.60	7.50	7.55

Note: Forecasts for end-of-period. G10 forecasts updated September 26, 2013

<b>FX Market Overview</b>	<b>P2</b>
<b>Deflating EUR</b>	<b>P6</b>
<b>Mexico – What's Your Take? Survey Results</b>	<b>P10</b>
<b>Strategic FX Portfolio Trade Recommendations</b>	<b>P14</b>
<b>G10 &amp; EM Currency Summary</b>	<b>P17</b>
<b>Global Event Risk Calendar</b>	<b>P19</b>
<b>FX Volatility/Carry Grids, Tactical Indicators</b>	<b>P21</b>
<b>MS FX Positioning Tracker</b>	<b>P24</b>
<b>Macro Forecasts</b>	<b>P25</b>
<b>FX Bull and Bear Projections &amp; Forecasts</b>	<b>P26</b>

**For important disclosures, refer to the Disclosures Section, located at the end of this report.**

November 14, 2013  
FX Pulse

## FX Market Overview

Dara Blume, Hans Redeker, Meena Bassily

- We are seeing increasing signs of disinflation, and in some cases, deflation, particularly in Europe.
- In the G10 space, we think this will impact currencies most where central banks have room to react to falling prices.
- SEK is likely to come under pressure as deflation and macroprudential tools increase the likelihood of dovishness.
- Falling inflation in EMU, combined with soft growth, will keep pressure on the ECB, though the hurdle for further action is high, in our view.
- Lower inflation in the UK, as illustrated by the latest BoE forecasts, means that a rate hike may not come as early as markets expect.
- With rates low globally, growth will be key for currencies.
- We expect US growth to outperform, boosting USD.
- Rebalancing in China could hinder growth, weighing on AUD.
- Disinflation is feeding into CEE, but high real yield and growth differentials should allow for CEE gains versus EUR.
- Elsewhere in EM, we maintain a strategy of buying any dips in USD/EM, and specifically recommend buying USDRUB.

Over the past few weeks, inflation has fallen quickly in some countries. The first few October price prints out of Europe have largely surprised to the downside. Softer inflation in the euro area, which drove the ECB to cut, could also feed through to its trading partners (see Exhibit 1). It is not just in Europe that pricing pressures are low. Only one of the G10 countries currently has an inflation rate above its target, and only three countries have seen a meaningful pick-up in inflation since this time last year. Lack of pricing pressure is likely to keep the 'global monetary easing' theme in place, with rates lower for longer in many countries. This will likely have a variety of currency impacts.

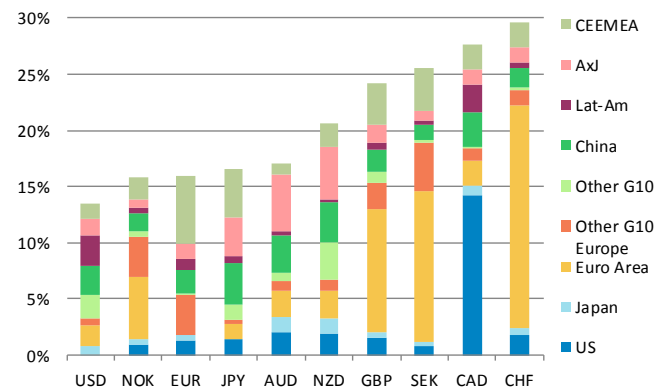
### SEK and EUR at Risk from Low Inflation

Disinflation or deflation is likely to have the largest impact on countries where it could feed through into central bank action. On this front, we believe that SEK is particularly at risk, as

inflation has dipped below zero and was well below the Riksbank and market expectations in October. With rates at 1.00%, the Riksbank is above the lower bound, and markets could begin to price in cuts, with signals that local investors may already be doing this.

Exhibit 1

### G10 Countries' Imports by Region (% of GDP)



Source: Haver Analytics, Morgan Stanley Research

Furthermore, the government is moving closer to taking decisions on additional macroprudential tools. The government proposed raising the risk weight floor to 25%, in the hope that this will address high levels of indebtedness in the economy, and it did not rule out further measures. While this would take time to have an impact, keeping household debt on the Riksbank's agenda, it should reduce the pressure on the central bank, allowing greater focus on growth and inflation. This will increase the probability of Riksbank dovishness, or even rate cuts. We keep our buy USDSEK recommendation, though we have put a low limit order to benefit from near term retracement.

In the euro area, although the recent ECB cut raises the hurdle for additional action, it certainly does not rule out further easing measures. EUR therefore could also be impacted by disinflation in so far as it drives further central bank easing. Indeed, the ECB's Asmussen, who is typically a hawk, highlighted that a negative deposit rate is a possibility in comments this week. Furthermore, the ECB's Praet said that he would not rule out QE as a possibility in the euro area. Though he is a known dove, this is still a strong statement that highlights that at least some ECB members are indeed considering all options.

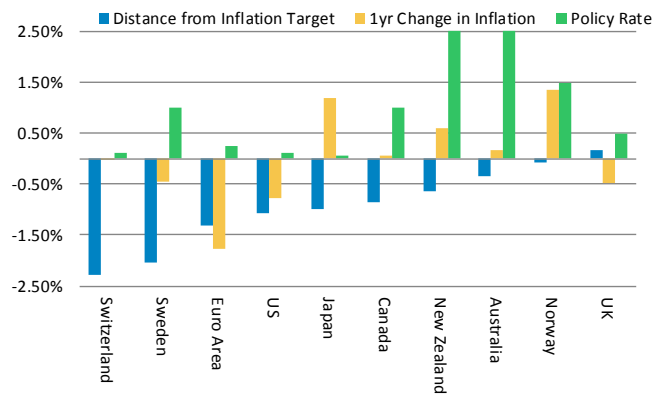
With the latest round of EMU GDP numbers showing a soft 0.1% increase over 3Q, and a surprise contraction in French growth, the ECB's easing bias is likely to remain (see [ECB Watch: Still an Easing Bias even after the Refi Rate Cut](#)).

November 14, 2013  
FX Pulse

November 7, 2013). We would be cautious about selling EUR against currencies where the hurdle for central bank action is lower, such as SEK, but we like selling it against currencies where growth has picked up and the central bank has been somewhat more optimistic. Hence, we keep our EURGBP short position.

## Exhibit 2

### G10 Countries' Imports by Region (% of GDP)



Source: Haver Analytics, Morgan Stanley Research

### Unemployment: Threshold, Not Trigger for the BoE

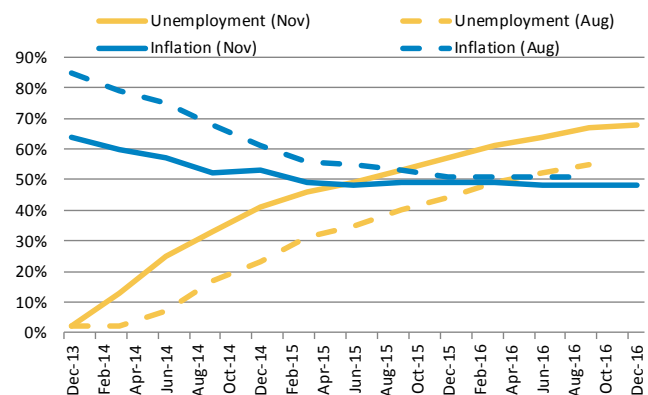
The next currencies at risk are those with scope for further action, and high exposure to countries with falling prices. We would put NOK and GBP in this camp. Though inflation has risen in Norway over the past year and is roughly in line with its target, it has fallen sharply over the past two months, and Norway's exposure to the eurozone and other European countries could lead to import disinflation. Furthermore, though the latest sell-off in NOK should take some pressure off the central bank to weaken the currency, a more dovish Riksbank and ECB could drive unwanted NOK strength, forcing Norges Bank to take a more dovish stance as well.

In the UK, the central bank has recognized falling inflation in its latest Inflation Report, pushing out the timing for reaching the inflation knockout of its forward guidance by one quarter. Indeed, we think that the market has not placed enough weight upon this fact, as it has instead focused on the higher probability of the unemployment threshold being hit earlier. Markets have taken this shift in timing as a signal that BoE tightening could come earlier than previously expected, but we are cautious on this interpretation. The BoE introduced forward guidance with an unemployment threshold as a way of signalling to markets that its policy would remain accommodative at a time when inflation was above target and

unemployment high. However, even if unemployment does fall to the 7% threshold, if inflation is not above target, as the BoE forecasts, the central bank may not exit forward guidance, and could keep rates lower for longer (see [UK Economics: BoE Inflation Report: Big Changes in Forecasts... But not Message](#), November 13, 2013).

## Exhibit 3

### BoE's Probability of Hitting Thresholds



Source: Bank of England

Moreover, we note that despite the substantial shift in the unemployment forecast, the growth forecast barely moved. Low productivity means that a stronger labour market may not translate into a pick-up in either growth or inflation and therefore is unlikely to spur central bank action. BoE Governor Carney reiterated that the 7% knockout is a threshold, not a trigger, highlighting that the central bank could keep its forward guidance policy and low rates in place even if unemployment does fall to this level. On this basis, we would expect GBPUSD to weaken, as Fed tapering is likely to boost US rates before BoE tightening bolsters UK rates. That said, the BoE's more optimistic tone and the fact that the next move is more likely to be a hike than a cut should offer support against EUR, where economic weakness and a dovish central bank will likely pressure the currency. Hence, we maintain our EURGBP short position.

### Growth Drives FX, and Supports USD

In her testimony to the Senate Banking Committee, FOMC Chair nominee Yellen was predictably uncontroversial. She stuck to the FOMC script that policy must remain accommodative to get employment and inflation back near the long-term targets. With little change in market expectations for the first fed funds rate hike (still 4Q15), it seems that rates will remain low globally for some time to come. With rates low

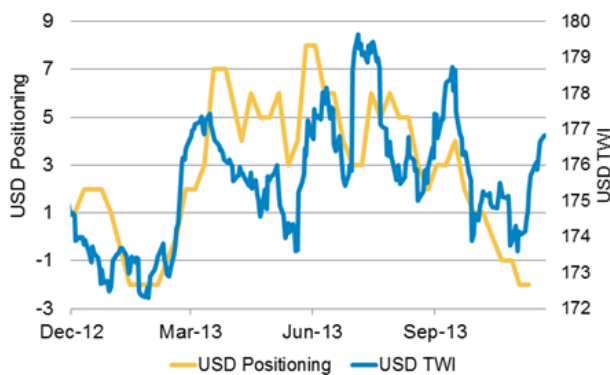
November 14, 2013  
FX Pulse

and relatively stable, growth differentials will become a key driver of FX, in our view.

It is for this reason that we think USD could outperform. As we have highlighted in the past, our bullish USD call hinges upon a pick-up in US growth. The government shutdown has delayed but not derailed a recovery, in our view. With growth soft elsewhere, as shown in the latest Japanese and European releases, the US will be even more attractive as an investment destination. Though USD has strengthened over recent days, the market is still neutral on the currency. This suggests that there is scope for further gains as investors look to extend long positioning. We play the potential for USD strength via our long USDJPY position.

Exhibit 4

#### USD Positioning Still Neutral



Source: Bank of England

#### Rebalancing Weighs on Chinese Growth

Another region where growth could fade somewhat is China, as the economy rebalances away from an investment-driven model towards consumption-driven growth. The extent of weakness will depend on the speed of reform and how financial market liberalization is balanced with structural reforms. However, lack of detail in the communiqué from the Third Plenary Session has offered little in the way of details about what is to come. The latest statement suggests that the focus will be on fiscal and land reform, as well as urbanization. More updates will be needed for us to determine the details on implementation and timing of reforms (see [China Economics: Macro Policy Update \(14-13\): A General Guideline in the Right Direction from the 3rd Plenary](#), November 12, 2013).

In the meantime, the RMB curve steepening in conjunction with the appreciation of RMB has continued. The appreciation of RMB illustrates that China is undergoing a substantial transformation as it rebalances. China has high leverage rates and the efficiency of credit is in decline. Authorities aim for sustainability, which requires a higher RMB. The amount of leverage is a function of funding costs relative to the nominal GDP expansion rate. So far, this constellation supported leverage and investment, subsidized by an undervalued FX and too low domestic yield levels. A higher RMB and yields operating near market-driven levels is a prerequisite for China to deregulate its capital account, in our view. The problem is the currently high discrepancy between China's actual yield and the market yield. The market yield, currently around 5%, should be near the nominal GDP expansion rate, which is currently 10% in China.

With bond yields and RMB rising, the outlook for China's PMI and other leading indicators weakens. We recommend trading this by selling the 'quasi-China' currencies. AUD shorts is the obvious trade, as Australian growth could be at risk from spillover from Chinese weakness, particularly as Australian exports to China are generally industrial commodities which will be less relevant in a consumption-driven economy. With risks to AUD rising as we see signs of financial tightening in China, we are becoming cautious on our short EURAUD position, and look to close this position. We put this position on in light of a stronger Australian housing market, which we believed could lead the RBA to tone down its dovish stance. However, with several central bank members commenting that AUD is overvalued over recent days, on top of the concerns about China, we are conscious that this trade is no longer as attractive.

#### CEE FX Can Benefit from European Disinflation

The disinflationary trend in developed Europe is feeding through into the CEE region more than any other EM region, with imports from the euro area at around 40% of GDP for the Czech Republic and Hungary, and around 20% of GDP for Poland and Romania. This week, October inflation readings in both Hungary and Poland were lower than expected at 0.9%Y and 0.8%Y, respectively. This trend has brought down the carry available on CEE currencies and resulted in more dovish policy, including intervention from the Czech National Bank, further cuts from the National Bank of Hungary and an extension of forward guidance from the National Bank of Poland.

November 14, 2013  
FX Pulse

However, with real FX-implied yields still high for PLN and HUF and euro area rates coming lower, dovish policy from CEE policy-makers is unlikely to impact performance against EUR, in our view. In addition, 3Q growth readings in both Poland and Hungary beat consensus expectations this week, in contrast to generally weak data in the euro area. As such, favourable growth and rate differentials in CEE relative to the rest of Europe may help to drive EURHUF and EURPLN lower over coming months amid disinflationary pressures. Of course, CZK is the exception in the region, given the heavy interventions seen over the past week which will likely keep EURCZK close to 27

## **Buy the Dip in USD/EM Crosses**

Outside the CEE region, European disinflation is less prominent a dynamic and we maintain our general preference to sell EM currencies on any strength against USD. Without a macro recovery, and preferably one led by a recovery in exports, it will be difficult for EM to sustain gains on the back of dovish Fed policy alone. Indeed, this week we have seen

current accounts in both Turkey and Indonesia continue to widen on an annual basis, supporting our currently bearish biases on both IDR and TRY.

In short, we recommend fading any rally inspired by a dovish Fed. In addition to those currencies held back by large external deficits, we are currently focused on long USDRUB positions and target a move towards 34.60 in the FX Portfolio.

## **EM Allocation Survey**

We have published an investor survey, focusing on the investment prospects in EM, which we invite all our clients to participate in. Do long-term prospects still make EM an attractive investment destination? Or are current cyclical and structural challenges facing EM so serious that investors will not, as we have argued in the past, continue to re-allocate away from DM and into EM? Click [here](#) to participate in our short survey. We look forward to sharing the results with you soon.



November 14, 2013

FX Pulse

## Deflating EUR

Ian Stannard

- The EUR has maintained a robust performance despite deteriorating fundamentals...
- ...including weak GDP data and the ECB rate cut...
- ...which has left the EUR overvalued against our valuation models
- However, we believe many supportive factors, most notably portfolio flows, are set to fade, leaving EUR vulnerable
- We see year-end repatriation flows as the last source of EUR support...
- ...implying a resumption of the EUR down trend once this process is complete

### EUR Losing Its Appeal

We maintain our bearish view of the EUR for the coming year. The sluggish growth environment within Europe is also now accompanied by increasing deflationary pressures, while following the November refi rate cut, the ECB appears to have set the bar high for further policy action. We note that sharp declines in the CPI triggered the last two ECB rate cuts, in May and November. With Eurozone CPI currently at 0.7%, a decline close to a zero inflation rate is probably now needed for the ECB to consider further action in our view.

While the EUR may take some initial comfort from this and it could well allow for the EUR to head into the year-end and begin next year on a relatively stable footing, especially on the crosses, the lack of additional monetary policy vigour is likely to leave the EUR exposed to the continued lacklustre economic performance, which means international investor appetite for Eurozone assets is likely to wane.

In last week's *FX Pulse*, we examined the potential impact of deflationary pressure on the EUR, drawing on the experience of Japan and concluded there is unlikely to be any significant support for the EUR, with the periods of JPY strength during deflationary episodes explained by other factors, namely the more traditional drivers of FX. Hence, rising real interest rates resulting from zero (or near zero) nominal rates and negative inflation does not necessarily suggest currency strength. Given these findings we reassess the more traditional drivers

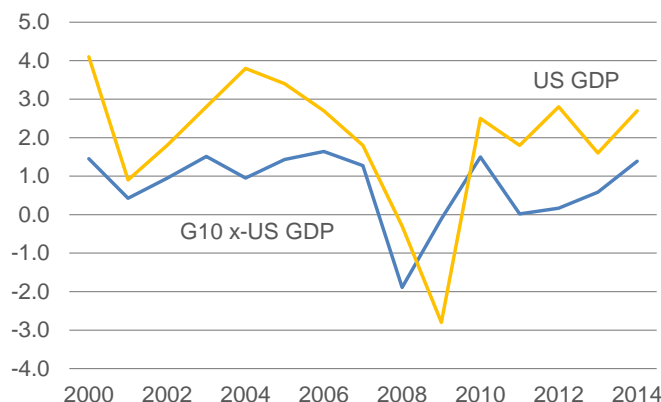
for the EUR and conclude there are few supportive factors on the horizon.

### Focus on Growth...

We have previously made the case that with interest rates at or close to zero in many of the G10 currencies (or at least at historically low levels), the relative growth outlook is likely to have an increasing influence on the performance of currencies over the coming year. While we have noted previously the divergence in global growth, in particular the divergence between DM and EM, it is also worthwhile examining the divergence within the DM economies. US growth prospects for the coming year continue to stand out, accelerating against the rest of the G10 (see Exhibit 1).

Exhibit 1

### US and G10 x-US Growth



Source: Bloomberg, Morgan Stanley

### ...Where EMU Is Weak

The EMU growth outlook, however, is noteworthy for entirely different reasons, likely only just scraping into positive territory after three years of contraction. In fact the Eurozone is still likely to produce the weakest growth among the G10 countries. This has been highlighted by the latest GDP prints for Q3. German growth was in line with market expectations for a significant slowdown in Q3, while French growth was much weaker than expected, contracting in Q3. Italian GDP also continued to contract in Q3. The composition of growth within the Eurozone is also likely to be important, with the signs of weakness in the core European countries likely to generate concerns, as any fledgling signs of improvement at the periphery will not be enough to offset a slowdown in the core countries. The continued weak growth momentum going

November 14, 2013  
FX Pulse

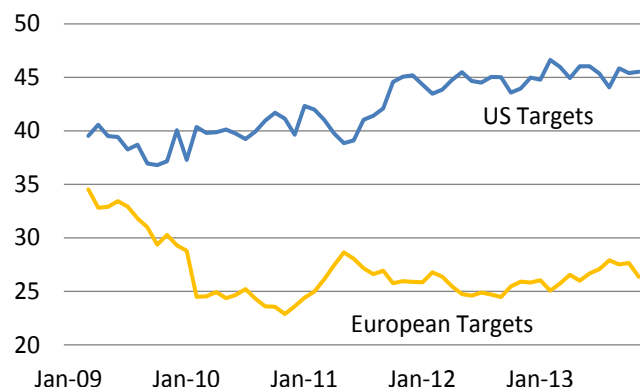
into the end of the year leaves the risks clearly on the downside for 2014. Our European economists forecast Eurozone growth next year at 0.9%, but cite downside risks. December's release of the ECB staff projections will likely gain increased attention as a result of the recent weakness of both growth and inflation, and have the potential to deliver some further negative news for the EUR.

## EUR Inflows Slowing

With the focus on relative growth dynamics, the sluggish outlook in the Eurozone is likely to make it difficult to maintain the pace of foreign investor inflows to EUR assets, especially as the valuation gap has been closed by the recent rise in European asset prices. The lack of earnings growth and higher valuations make European assets less appealing than those of other developed markets, especially the US, where earnings have been surprising to the upside. The developments in global M&A activity are also interesting, providing evidence that the Eurozone is already losing its appeal as an investment destination. Indeed, M&A activity targeted at Europe has been declining as a percent of global activity, while the US is continuing to attract an increasing share of activity (see Exhibit 2). This is also consistent with longer-term FDI inflows to the Eurozone, which have been on a declining trend throughout 2013 and suggest that this longer-term flow is becoming less supportive for the EUR.

Exhibit 2

### M&A Activity Targeted at US and EMU (% Share of Global Activity)



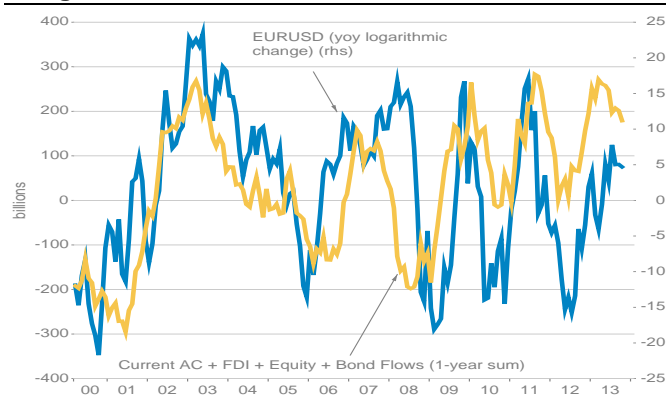
Source: Bloomberg, Morgan Stanley

Portfolio flows could also start to slow down and even develop into an outflow from the Eurozone, in our view, reversing the trend of inflows which we believe had been a strong contributing factor to EUR support over the course of the past year. In this regard, relative asset market performance is likely

to be an important guide for the EUR. Indeed, we note that overall longer-term investment inflows to the Eurozone had been EUR supportive through the first half of the year, but appear to have peaked mid-year and are now showing signs of slowing. This is consistent with the pace of EURUSD gains also peaking and now slowing down (see Exhibit 3).

Exhibit 3

### Long-Term EMU Inflows and EURUSD



Source: Reuters EcoWin, Morgan Stanley

## Relative Equity Market Performance

With the focus on growth, we currently place a greater weight on relative performance of equities. We have found that, after reaching historically low levels of correlation (even turning negative in some cases), the EUR is developing a renewed positive correlation to the performance of equities, suggesting increasing sensitivity of the currency to equity markets. However, it is interesting that compared to the relative performance of equity markets, EURUSD is now at its most over-stretched levels for two years (see Exhibit 4), implying that the EUR is vulnerable to any renewed negative shocks and renewed underperformance of European equities.

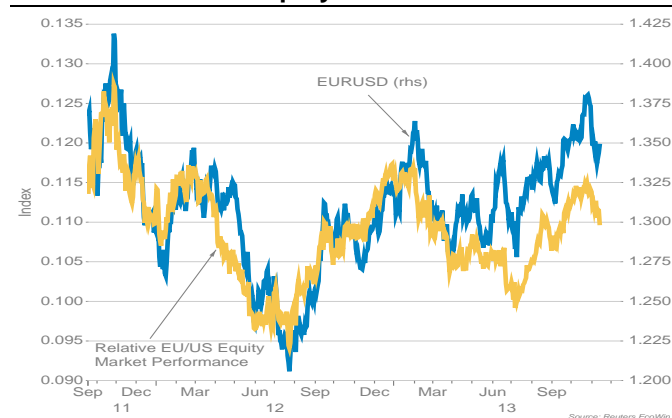
European equities played catch-up with US equities during a period of outperformance in the middle of the year. This now appears to have run its course and the renewed underperformance of European asset markets is likely to put the EUR back under pressure, in our view. Indeed, the valuation gap between European and US equity markets appears to have been closed, making European assets relative less attractive given the more constrained growth and earnings outlook in Europe. Moreover, the recent reallocation to Europe has taken portfolios back up to benchmark and even overweight European equities, to the highest levels since 2007 according to some recent surveys. This suggests

November 14, 2013  
FX Pulse

that scope for additional allocations to Europe are likely more limited.

Exhibit 4

#### Relative EUR-USD Equity Market Performance



Source: Reuters Ecowin, Morgan Stanley

#### Money Market Flows

Alongside the equity market related flows, the largest inflows to the Eurozone have been money market flows. With increasing constraints on equity market flows, we would expect the EUR to become increasingly more reliant on short-term money market flows for support, which by their very nature can be more volatile. But even these flows are facing increasing challenges following the ECB's cut in the refi rate. The ECB has also reiterated its forward guidance policy, stating that rates will remain at current or lower levels for an extended period of time. A stream of ECB members have also given speeches over the past week highlighting the policy options that the ECB still has available, with even the more hawkish members supporting the rate cut. Negative deposit rates and asset purchases are the measures ECB members have reminded the markets are still available if required. While the lack of lending activity by European banks suggests that the EUR is unlikely to fully take on the role of a funding currency at this stage despite rates approaching zero, we would still expect the EUR to come under pressure, given the volatility of short-term money market flows.

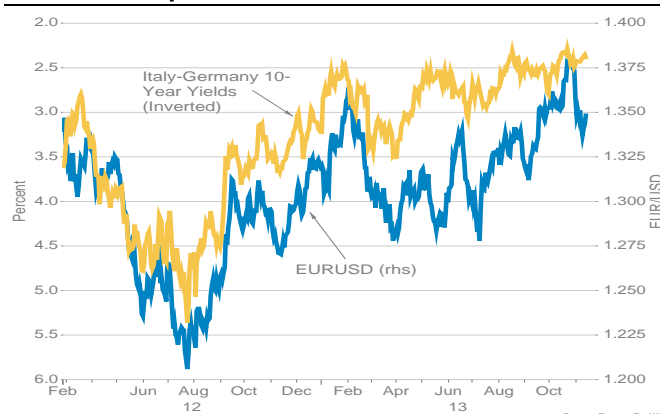
#### Bond Outflows

As far as bond markets are concerned, there has already been a foreign investor outflow from Europe over the course of the past year. Any rise in global yields, which could be led by the US especially as the tapering debate intensifies, could create upward pressure on European yields again. This could prove a negative for the EUR. Any rise in funding costs could

be a further challenge to the recovery prospects in many peripheral countries. In this regard, we also continue to monitor risk-adjusted yield differentials closely. This has been a particularly useful guide to the EUR since 2008, where risk premium was an important factor driving yield spreads. The correlation between risk-adjusted yield spreads and EUR performance has remained in place and this particular measure is once again pointing lower for EURUSD, suggesting that European bond markets are unlikely to attract EUR-supportive foreign investor inflows just yet.

Exhibit 5

#### EMU Bond Spreads and EURUSD



Source: Reuters Ecowin, Morgan Stanley

The ECB's apparent reluctance to carry out further LTROs at this stage could also leave European yields under upward pressure as the purchases by peripheral banks of local government bonds with LTRO funds is also likely to slow. A widening of EMU bond spreads, especially if accompanied by rising risk premiums, would likely be another negative EUR factor (see Exhibit 5). However, it must be noted that at this point peripheral yields have remained close to recent lows and spreads at relatively narrow levels.

#### Year-End Support

The consolidation of Europe bank balance sheets has the potential to provide some near-term support for the EUR ahead of year-end given the Asset Quality Review. As banks prepare for the AQR, which will be based on balance sheets at the end of 2013, there is potential for EUR-supportive repatriation flows. While our equity bank analysts suggest that much of the repatriation has already been done as far as selling overseas assets, there is still some potential for adjustments ahead of year-end. Indeed, our bank analysts suggest that EU bank deleveraging accelerated throughout 2013, with balance sheets shrinking by EU1trn in Q2,



November 14, 2013  
FX Pulse

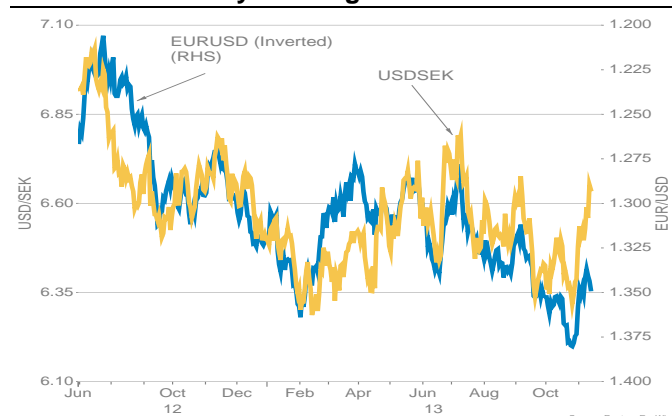
reducing assets by EUE3trn over the last 12 months. Another potential source of EUR support resulting from Eurozone bank balance sheet consolidation could be the selling of domestic non-performing assets to foreign investors. The AQR and the stress tests are expected to lead to a more consistent approach for valuing such assets, providing banks with greater scope to dispose of these assets, with foreign investor interest being expressed. But once these repatriation flows have run their course by year end, we would expect the EUR to be exposed to the more negative medium-term picture.

## SEK Leading

We see the SEK as a leading indicator of the EUR (see Exhibit 6). The SEK and EUR have been closely correlated over the past year. In the FX Overview (see page 2), we make the case that the deflationary pressure in the Eurozone could spill over into currencies closely connected to the Eurozone, with the SEK being one of the primary examples. Indeed, while the downward pressure of Eurozone inflation has resulted in an ECB rate cut, the EUR has remained relatively well supported so far. Meanwhile the decline of Swedish inflation into negative territory has led to a decline in Swedish interest rate expectations, putting the SEK under pressure.

Exhibit 6

### USDSEK Currently Leading EURUSD

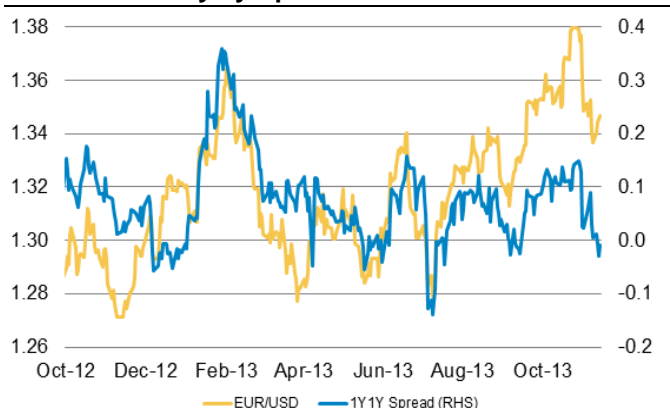


While the SEK has come under pressure, the EUR has held up relatively well. This is consistent with the market

perception that the SEK is a higher-beta EUR. However, while the SEK is more closely tracking our short-term valuation tools, we note that the EUR is getting pushed further away. Indeed, the EUR has now reached the most overvalued levels compared to our models since 2010. We would argue that the current stretched EUR valuation in an environment of deteriorating fundamentals is evidence of EUR-supportive repatriation flows, and hence once these have run their course, the EUR will more closely reflect valuation measures, suggesting that the EUR would come under renewed pressure.

Exhibit 7

### EURUSD and 1y/1y Spread



## Overextended EUR

Indeed, our 1y/1y forward indicators are pointing lower for both the EUR and SEK. While the SEK is now starting to respond and is weakening in line with this particular indicator, the EUR has remained relatively well supported (see Exhibit 7). We would expect this temporary support to evaporate by year-end, leaving the EUR vulnerable going into 2014. A closing of the valuation gap could result in relative EUR underperformance, not just against the USD, which is expected to be stronger, but also against its European peers.

## Mexico – What’s Your Take? Survey Results

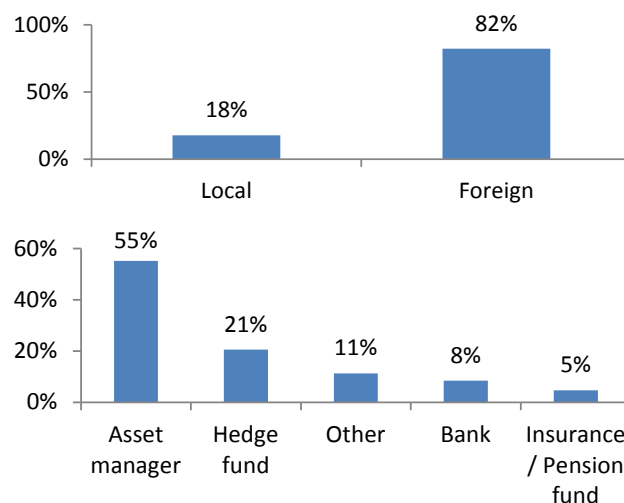
Robert Habib, Felipe Hernandez, Luis Arcentales, CFA

- Despite being caught in the EM-selloff wave since the summer, optimism on Mexican local asset prices and energy reform persists, and this underlies the long-side positioning on the part of offshore investors, based on our survey.
- We calculate that the market is currently assigning a probability of 60% that the energy reform succeeds in opening the energy sector...
- ... and although the majority of Mexico watchers have been disappointed recently, increased prospects for reforms and a rebound in growth are the market’s most important signals to become bullish once more.
- Overall positioning across Mexican assets tends to be long/overweight, particularly in MXN and Mbonos. We note, however, that while both foreign and local investors are bullish MXN on average, locals are more neutral/underweight Mbonos than foreign investors.
- On average, investors expect USD/MXN to trade between 12.50 and 13.0, and the benchmark Mbono '24 between 5.50% and 6.0%, assuming a US 10y Treasury between 2.50% and 3.0% in the next six months.

already begun (see [Mexico: In Search of the Recovery](#), October 11, 2013), as signs of an improving manufacturing sector and an increase in government spending have become more apparent. And while we share both concerns with investors, we remain hopeful about the passing of the energy reforms as well as Mexico’s outlook for 2014.

Exhibit 1

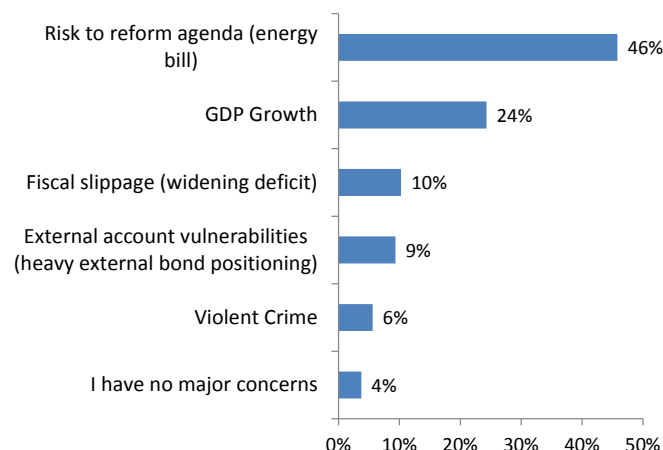
### Breakdown of Survey Results



Source: Morgan Stanley Research

Exhibit 2

### What Is Your Key Concern about the Mexican Economy in the Coming 12 Months?



Source: Morgan Stanley Research

### Mexico Survey Results

*We'd like to thank everyone for completing our Mexico survey last week.*

**We have received 107 answers to our survey**, nearly 20% of responders currently reside in Mexico. The large majority of answers are from asset managers, although more than a fifth come from hedge funds, and 5% from insurance funds and pension funds.

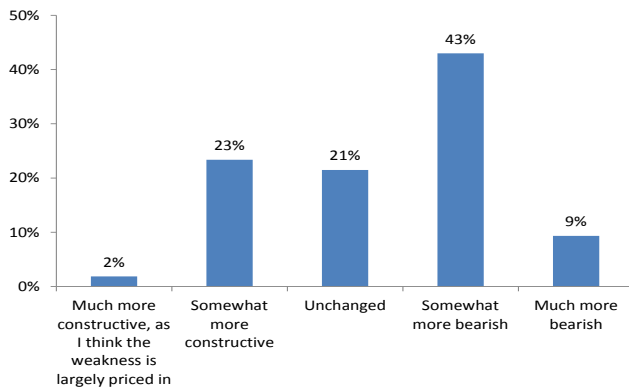
**The largest concern for investors, both locals and foreigners, is risks to the reform agenda**, and in particular to the energy reform bill. This is unsurprising, given the recent 'watered down' fiscal reform which disappointed many Mexico watchers. The second is also somewhat unsurprising: Mexico's growth outlook for 2014. Indeed, many Mexico watchers were disappointed this year by Mexico's near-recession in the second quarter, and the current perception on the Mexican economy has dropped since 3-6 months ago, as Exhibit 3 illustrates.

While the Mexican economy remains vulnerable to another relapse to soft external demand, our economist Luis Arcentales argues that the much-awaited 2H rebound has

November 14, 2013  
FX Pulse

Exhibit 3

## How Would You Describe Your Current Perception of the Mexican Economy Relative to 3-6 Months Ago?

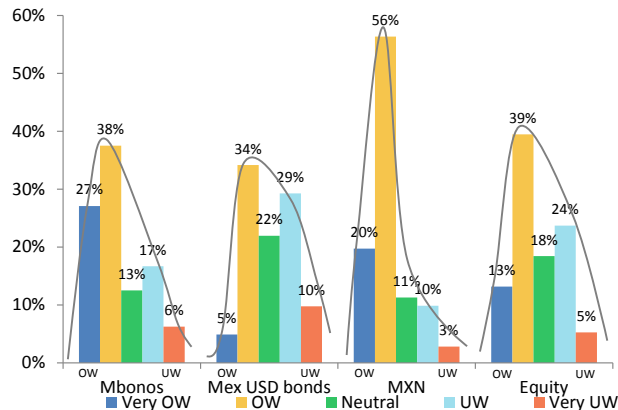


Source: Morgan Stanley Research

**Current positioning in Mexican assets does not fully reflect investors' recent disappointment on the reform agenda** and the poor price action of late. Indeed, the majority of the investors base is overweight the respective asset classes, although the picture is slightly mixed for equities and credit. Locals, especially, are positioned closer to neutral in equities and sovereign dollar bonds, in contrast to foreign investors. Furthermore, Exhibits 4 and 6 suggest that foreign investors are less constructive on the currency, although they remain overweight.

Exhibit 4

## Current Positioning in Mexican Assets (Total Sample)



Source: Morgan Stanley Research

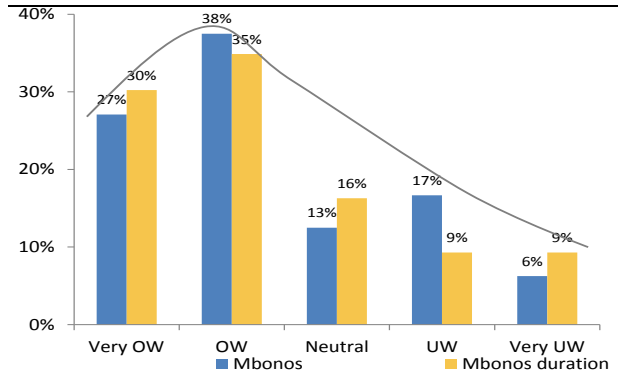
**Positioning in Mbonos is overweight by foreigners,** neutral/underweight by locals, both in terms of allocation relative to the index, as well as duration. (see Exhibit 7).

**Investors, both local and foreign, remain bullish MXN:** Positioning in the currency is currently overweight, both for

locals and foreign investors, although less so for hedge funds in general.

Exhibit 5

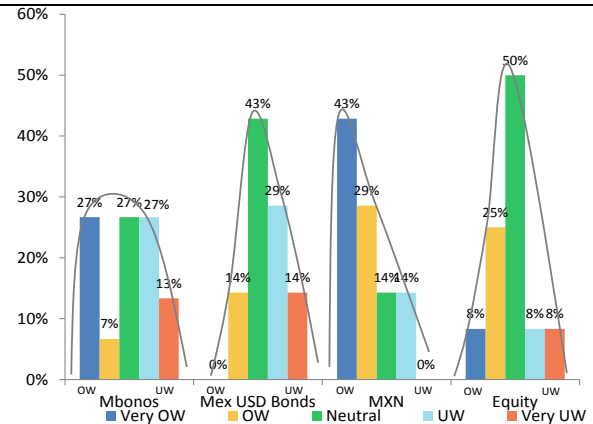
## Current Positioning in Mbonos (Total Sample)



Source: Morgan Stanley Research

Exhibit 6

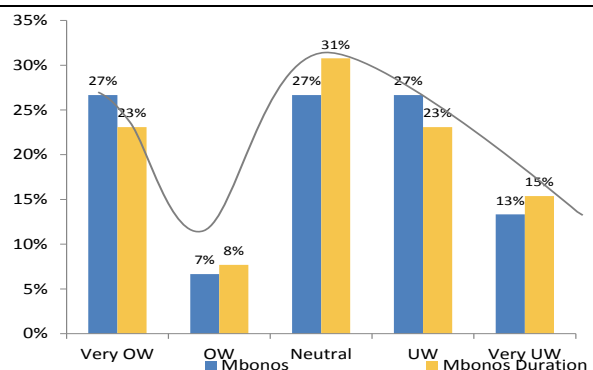
## Current Positioning in Mexican Assets (Locals Only)



Source: Morgan Stanley Research

Exhibit 7

## Current Positioning in Mbonos (Locals Only)



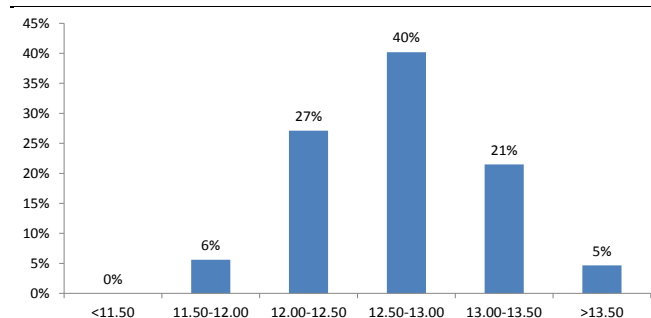
Source: Morgan Stanley Research

November 14, 2013  
FX Pulse

**The average forecast for USD/MXN is between 12.50 and 13.0 in six months:** In particular, we note the probability distribution's fatter left tail in Exhibit 8, signaling that investors allocate a higher probability to the event that USD/MXN will be lower than 12.50. We note also that the locals are particularly bullish on the currency – with 73% of them forecasting USD/MXN below 13.00 in six months.

Exhibit 8

## Where Will USD/MXN Trade in 6 Months?



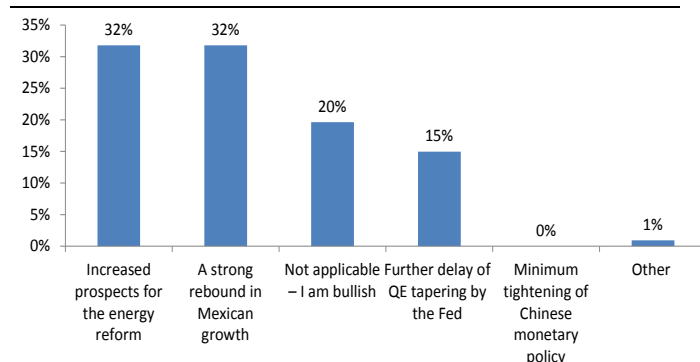
Source: Morgan Stanley Research

**To turn bullish on the currency,** in particular, most answers pointed towards (1) increased prospects for the passing of the energy reform, and (2) a strong rebound in Mexican growth. Interestingly, only 15% of the answers were for further postponing of QE tapering, and nearly all such answers were from (bearish) foreign investors.

**Investors expect Mbono'24 to rally by 50bp on average in the next six months...** This finding is consistent with investors' current overweight, and also with our [EM Strategy Update: Mexico: Seeking to Differentiate](#) (November 5, 2013), in which we make note of the excessive risk premium at the long end of the Mbono and TIIE curve.

Exhibit 9

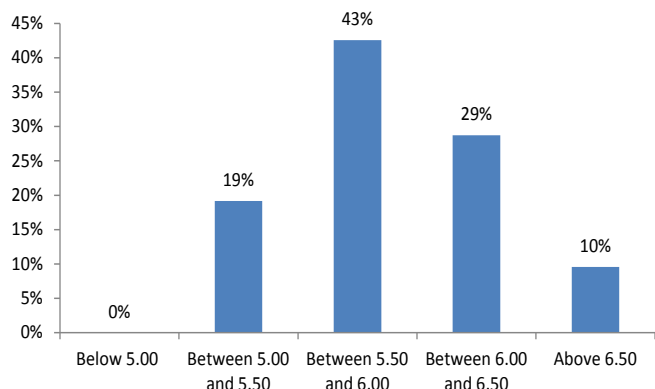
## Which of the Following Is Most Important to Turn Bullish MXN?



Source: Morgan Stanley Research

Exhibit 10

## Forecasts for the Benchmark Mbono'24 in 6 Months?

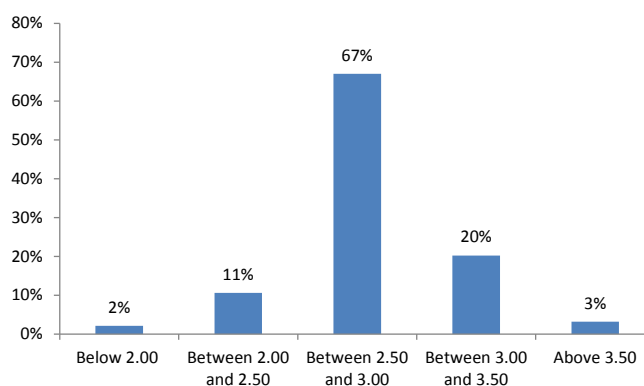


Source: Morgan Stanley Research

**...while investors surveyed expect US 10y Treasury yields to stay between 2.50% and 3.0%.**

Exhibit 11

## Forecasts for US 10y Treasury in 6 Months?



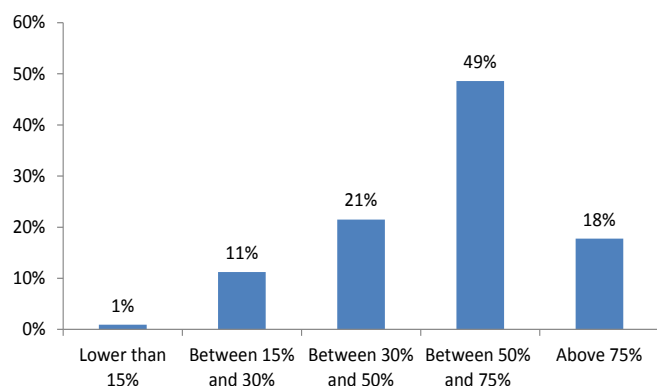
Source: Morgan Stanley Research

**The majority of answers point towards the energy reform succeeding at opening the energy sector at above 50%:** Surprisingly, the decrease in investors' confidence after the disappointing fiscal reform did not seem to dim their hopes of further reforms. In particular, locals tend to share this optimism with foreign investors generally.

November 14, 2013  
FX Pulse

Exhibit 12

## What Is Your Assessment of the Likelihood That the Current PRI Administration Succeeds in Opening Up the Energy Sector Thereby Boosting Output and Investment?

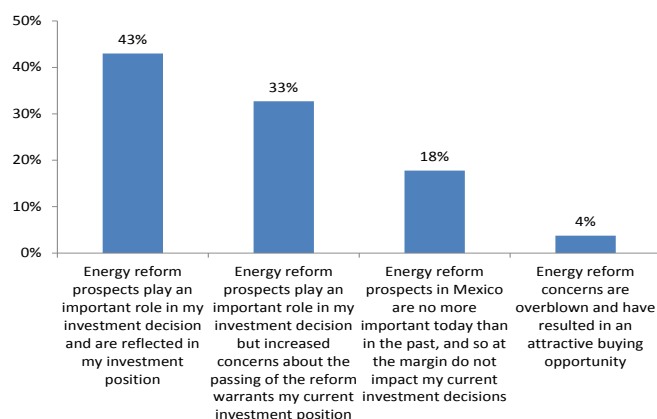


Source: Morgan Stanley Research

Exhibit 13 also suggests that the energy reform is a 'game-changer' for most investors, particularly locals. And while few tend to believe that the current energy reform concerns are overblown, the majority has already re-adjusted its portfolio to reflect those concerns.

Exhibit 13

## Which Statement Best Describes Your View on the Opening in the Energy Reform to Private/Foreign Capital?



Source: Morgan Stanley Research

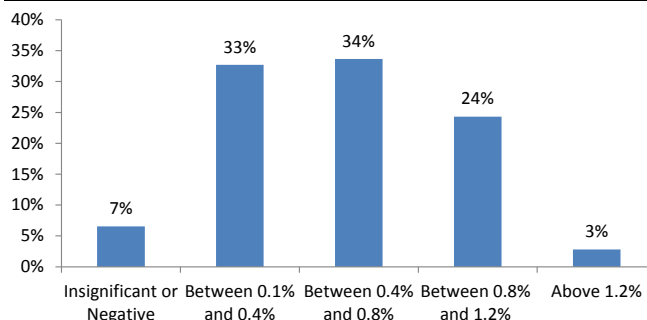
**Most investors surveyed believe that the energy reform's impact on potential GDP growth will be between 0.1% and 1.2%:** While admittedly it is difficult to gauge the impact of a reform that has not yet taken place, and for which we know

little detail except for its goal to open the sector to foreign investment, we are surprised by the broad scope of answers. And the large differences in opinion on the impact of the reform on the economy also exist within both foreign and local subsamples.

Economist Luis Arcentales has gone into large detail on the subject (see [Mexico: Energize it!](#), August 16, 2013), and calculates that the reform could have an increasing impact on the economy, starting with a 0.4% of GDP incremental investment by 2015 rising almost to 1.0% of GDP in 2019.

Exhibit 14

## What Impact Would the Energy Reform Have on Potential GDP Growth in the First Couple of Years?

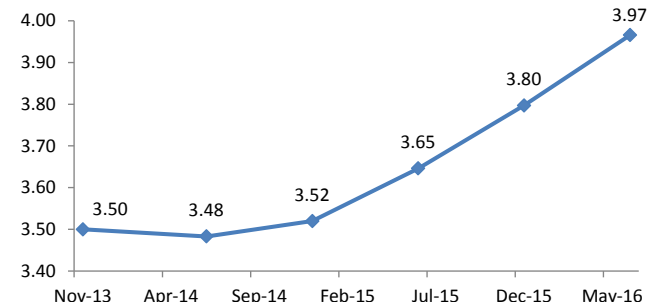


Source: Morgan Stanley Research

Banxico has chosen in its last policy meeting to close the door to further cuts in its policy rate. In consequence, it is no surprise to find that most investors surveyed see little scope for cuts this year, and instead expect **hikes starting in mid-2015**.

Exhibit 15

## Weighted Average\* of the Expected Path for Policy Rates



\* To build this weighted path, we assume 25bp hikes/cuts per quarters, and the changes of answer numbers per quarter to gauge the number of hikes/cuts. We also assume the Fed starts to normalize rates by 1H16.

Source: Morgan Stanley Research



November 14, 2013  
FX Pulse

## Strategic FX Portfolio Trade Recommendations

Evan Brown, Vandit D. Shah

**Enter: 6.5600, Target: 6.9000, Stop: 6.4600**

**Limit Order:  
Long  
USD/SEK**

We keep on our limit order but look for better entry levels as USD/SEK has rallied quite a bit since we initially made this recommendation last week. We remain bearish on SEK over the medium term as Sweden could import lower inflation from the Euro-Area, as suggested by the deflation print this week. The market has begun to price in cuts from the Riksbank and these moves may well have further to go. This would be the case if European economic data continue to disappoint, causing spillover effects for Swedish exports.

7 Nov 2013

**Enter: 1.4200, Close at 15 Nov 2013 WMR**

**Hold:  
Short  
EUR/AUD**

We look to close this trade at tomorrow's WMR Fix as we are cautious on being long AUD on the back of rising yields and renewed deleveraging in China. Furthermore, the RBA has been quite vocal against AUD strength despite better housing data, making us cautious on this trade.

29 Oct 2013

**Enter: 97.50, Target: 105.00, Stop: 98.80**

**Hold:  
Long  
USD/JPY**

We hold our long USD/JPY position as the three main drivers of the pair remain supportive. These are, (1) a widening rate differential between the US and Japan, (2) constructive global risk appetite, and (3) optimism on Japan's structural reforms. Meanwhile, we expect more action from the BoJ next spring as fiscal consolidation begins to take its toll. As real rate expectations fall, Japanese investors are likely to allocate more to risk assets, including those outside of Japan.

7 Nov 2013

**Enter: 1.0840, Stopped: 1.0700**

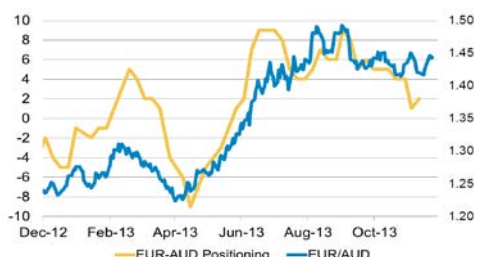
**Stopped:  
Long  
NOK/SEK**

While we were stopped on this trade, we look to revisit this at better entry levels as we remain bullish on NOK but bearish on SEK. The summer of weakness for NOK seems to be a residual of EUR, GBP, and CHF inflows primarily coming from the US and hence, we expect NOK to strengthen once these flows ease. Sweden, on the contrary, remains highly geared to EMU and the deflationary print out of there this week puts the Riksbank right back into focus.

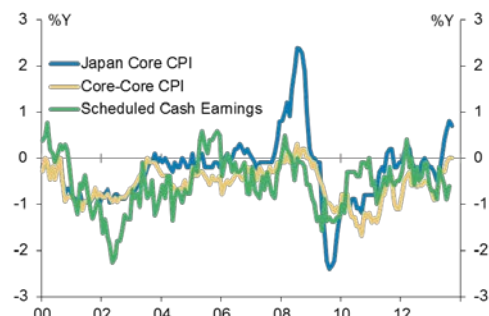
**USD/SEK 1y1y Rate Differential**



**EUR/AUD Relative Positioning**



**More Action from BoJ Necessary**



**NOK/SEK 1y1y Rate Differential**



November 14, 2013  
FX Pulse

17 Oct 2013 Enter: 0.8480, Stop: 0.8480, Target: 0.8100

Hold:  
Short  
EUR/GBP

We like this relative value trade as a way to express diverging economic outlooks in Europe. The UK is reaching escape velocity and the BoE is comfortable with GBP strength as a means to cool inflation. With the ECB cutting the refi rate earlier than expected, EUR could come under significant selling pressure in coming weeks. The key risk to our trade is if UK real economic activity fails to live up to optimistic expectations.

EUR/GBP 1y1y Rate Differential



1 Nov 2013 Enter: 133.30, Stop: 132.80, Target: 139.00

Hold:  
Long  
EUR/JPY

We hold our long EUR/JPY position but are cautious following the ECB refi rate cut last week. A main argument for EUR strength on the crosses is pre-AQR repatriation, which would support the common currency. We stay bearish JPY as risk remains supported and PM Abe moves ahead with reforms in the current extraordinary Diet session.

Locals Are Constructive on Reforms

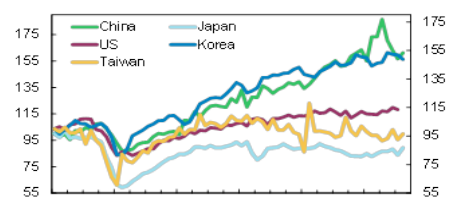


18 Oct 2013 Enter: 1063, Stop: 1080, Target: 1000

Hold:  
Short  
USD/KRW  
1M NDF

We maintain our short USD/KRW exposure given its emergence as a regional safe haven (See [USD/KRW 1000? October 18, 2013](#)). In a structural sense, we highlight the improved quality of inflows into the Korean bond market and note that Korean export growth remains strong. In addition, a ULC-based REER shows KRW is far from overvalued at current levels, although BoK intervention remains a risk.

APAC Export Volumes



31 Oct 2013 Spot Reference: 6.0850, Strike: 6.1000, Premium: 0.35%

Entered:  
Long  
USD/CNH  
Put

As Fed tapering is delayed, the global risk environment has turned more favorable for RMB appreciation. We think that a pick-up in FX inflows since September provides support for RMB strength. Moreover, the volatility-adjusted carry is still very attractive in light of limited near-term risk of currency depreciation. The key risk to our view is if Chinese policymakers become concerned about the global growth outlook and stem the pace of appreciation.

CNY Spot vs. Fixing

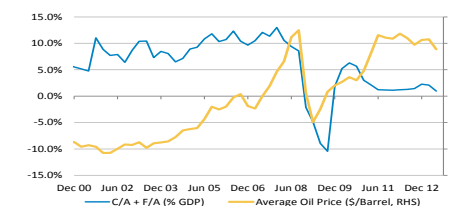


8 Nov 2013 Enter at WMR Fix (8 Nov 13) = 32.66, Stop 31.60, Target 34.60

Entered:  
Buy  
USD/RUB

There has been a structural deterioration in Russia's external position, leaving the RUB increasingly vulnerable to oil price declines. Meanwhile, the CBR is increasingly allowing the RUB to float freely, suggesting that further BoP deterioration will feed through into RUB weakness.

BoP Flows Near Balance, Even with High Oil



Sources: Reuters EcoWin, Haver Analytics, Bloomberg, Morgan Stanley Research, CEIC

November 14, 2013  
FX Pulse

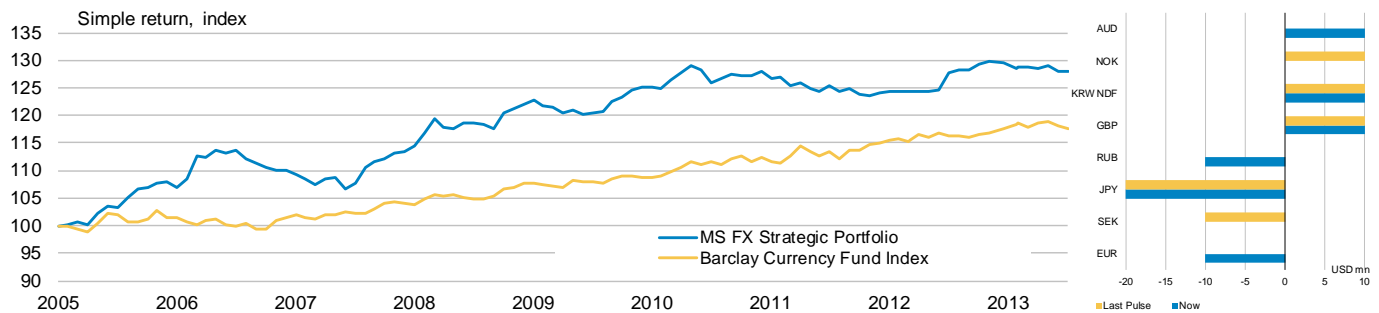
## Strategic FX Portfolio

Trade Recommendation	Notional	Nominal Weight	Entry Date	Entry Level	Current	Stop	Target	Spot P&L	Carry P&L	Portfolio Contribution
<b>Closed Trades</b>										
Long NOK/SEK	\$10.0mn	10.1%	07-Nov-13	1.0840	Closed at 1.0700 on 11-Nov-13			-\$128.9k	\$0.4k	-\$128.5k
Short EUR/AUD	\$10.0mn	10.1%	08-Nov-13	1.4200	Close at WMR on 15-Nov-13			-\$173.7k	\$6.8k	-\$166.9k
<b>Active Trades</b>										
Short USD/KRW 1M NDF	\$10.0mn	10.1%	18-Oct-13	1063	1070	1080	1000	-\$65.4k	\$23.4k	-\$42.0k
Short EUR/GBP	\$10.0mn	10.1%	22-Oct-13	0.8480	0.8376	0.8480	0.8100	\$121.4k	\$2.8k	\$124.2k
Long USD/JPY	\$10.0mn	10.1%	29-Oct-13	97.50	99.99	98.80	105.00	\$241.2k	\$0.5k	\$241.7k
Long EUR/JPY	\$10.0mn	10.1%	01-Nov-13	133.30	134.54	132.80	139.00	\$96.1k	\$0.1k	\$96.1k
Long USD/RUB	\$10.0mn	10.1%	08-Nov-13	32.66	32.65	31.60	34.60	-\$2.1k	-\$12.3k	-\$14.4k
<b>Limit Orders</b>										
Buy USD/SEK	\$10.0mn			6.5600	6.6575	6.4600	6.9000			
Cash	\$38.5mn	39.0%								
Portfolio Mark to Market	\$98.5mn									

Source: Morgan Stanley Research;

Notes: (1) Stops are based on the WMR fixing. (2) The portfolio represents hypothetical, not actual, investments. For more details regarding calculations, please see "Reading FX Tactical Trade Performance" at the back of FX Pulse. Our [FX Performance Data Package](#) contains complete performance statistics. (3) Reported returns are unleveraged. Reported returns do not take into account transaction fees and other costs; past performance is no guarantee of future results. (4) In the case that trade allocations are increased, entry levels are a weighted average. \* Global Risk Demand Index – US Pat. No. 7,617,143. We updated our methodology for our portfolio in 2011 ([FX Pulse: Watching Europe](#), October 13, 2011).

## Performance on Recommended Discretionary Currency Portfolio and Market Benchmark



Simulated Managed Account Monthly Gross Performance - %													
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year return
2005	0.28	0.11	0.68	-0.63	2.08	1.39	-0.20	1.84	1.62	0.15	0.85	0.17	<b>8.64%</b>
2006	-1.11	1.70	4.36	-0.37	1.24	-0.44	0.52	-1.47	-0.85	-0.84	-0.58	-0.01	<b>2.03%</b>
2007	-0.75	-0.77	-1.08	0.94	0.36	-2.02	1.07	2.75	1.26	0.45	1.16	0.18	<b>3.52%</b>
2008	1.07	2.25	2.72	-1.41	-0.53	1.28	-0.17	-0.24	-0.86	3.12	0.62	0.87	<b>8.96%</b>
2009	0.74	-0.97	-0.15	-1.09	0.50	-0.87	0.30	0.22	2.00	0.77	1.27	0.55	<b>3.27%</b>
2010	-0.01	-0.27	1.71	1.13	1.39	-0.86	-2.36	0.95	0.67	-0.30	0.13	0.66	<b>2.80%</b>
2011	-1.20	0.29	-1.71	0.51	-1.11	-0.33	0.84	-1.02	0.50	-1.03	-0.18	0.44	<b>-3.97%</b>
2012	0.34	0.46	-0.42	0.52	1.78	-0.43	0.39	0.56	0.43	0.53	0.96	0.47	<b>5.72%</b>
2013	-0.23	-0.77	0.19	0.06	-0.14	0.52	-0.78	-0.09	-0.62	0.40	0.01		<b>-1.44%</b>

## Options Trades

Trade Recommendation	Notional	Entry Date	Expiry Date	Strike	Entry Spot	Entry Vol	Entry Cost	Current Spot	Current Vol	Current Cost	P&L
Long USD put/CNH Call	\$10.0mn	31-Oct-13	10-Jan-14	6.1000	6.0850	2.00%	0.35%	6.0785	1.75%	0.36%	\$1.1k
<b>Total 2013 P&amp;L</b>											<b>\$1.7k</b>

Source: Morgan Stanley Research; see notes above.

November 14, 2013  
FX Pulse

## G10 Currency Summary

Dara Blume, Sheena Shah

**USD**

0.1%

**Yellen Led****Bullish**

Watch: Retail Sales, CPI, FOMC Minutes, Philadelphia Fed Outlook

With global rates remaining low, we believe USD should outperform on a growth differential basis. With growth soft elsewhere, the US is becoming an attractive investment destination. USD has strengthened recently but positioning has remained low so there is scope for further gains. The release of the FOMC minutes should provide the markets with some colour on what the committee is considering with regards to monetary accommodation and the tapering debate.

**EUR**

0.3%

**Dovish ECB****Bearish**

Watch: German ZEW, PMIs, Consumer Confidence, Draghi speech

We remain bearish on EUR since the ECB is expected to remain dovish. This week, Praet noted there are multiple policy tools still available at the ECB's disposal, such as negative rates or asset purchases, indicating further downside for EUR. Euro-area GDP came in line with market expectations but was still weak. This week we will be watching forward looking ZEW, PMI and IFO surveys for indications of future growth.

**JPY**

1.6%

**BoJ Prepared****Bearish**

Watch: Coincident Index, BoJ Rates Decision, Trade Balance

International investors have become skeptical about Abenomics, but given the central bank's monetary easing policy, we remain bearish on JPY. This week, the BoJ's Miyao said that the central bank could undertake extra easing if necessary. The market is expecting exports to pick up on a YoY basis so any surprises here will be a downside risk to our bearish view. The BoJ Rates Decision this week is not expected to result in any changes.

**GBP**

2.5%

**Inflation, not Unemployment, Key****Neutral**

Watch: BoE Minutes, PSNB

The BoE's inflation report was upbeat on the economy, and markets honed in on the improvement in the unemployment, outlook, bringing forward the timing of the first hike. However, we think the push back in the timing of hitting the inflation knockout is important, as the BoE is unlikely to tighten, even if unemployment reaches the threshold, if inflation is not above target. As such, we are cautious on recent gains in GBP. We like selling EURGBP but are cautious on GBPUSD.

**CHF**

-0.5%

**Trades In Line with EURUSD****Bearish**

Watch: ZEW, Trade, M3

We see no catalyst for large gains in EURCHF, though we do not expect large declines. Indeed, low inflation in EMU poses risks to Swiss CPI, which is already negative, and therefore the SNB should remain resolute in its currency floor. As such, we expect EURCHF to slowly head higher, with USDCHF trading in line with EURUSD. Given weak GDP data from EMU and some dovish comments from ECB members, we would expect USDCHF to head higher and EURUSD lower.

**CAD**

1.4%

**BoC Holding Bias****Bearish**

Watch: Existing Home Sales, CPI, Retail Sales

CAD could come under pressure, particularly if CPI declines, in line with the recent fall in European inflation. This would give the BoC an additional incentive to keep rates on hold for longer. High household debt levels are already keeping pressure on BoC rates, as the central bank wants to avoid hurting the consumer by raising rates too quickly and increasing the cost of mortgages. With rates likely to remain low in Canada as the US tapers, we believe USDCAD could head higher.

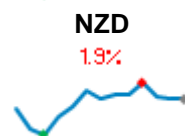
**AUD**

2.2%

**Strong AUD – RBA Concerns****Bearish**

Watch: RBA Minutes, Westpac Leading Index, RBA's Stevens Speech

AUD should experience some downward pressure as we have heard that several members of the RBA are concerned about the strength of AUD, with Ridout this week suggesting that it is putting stress on the economy. We are seeing mixed economic data from Australia with a divergence between deteriorating business confidence but with buoyant consumer confidence. Consumer inflation expectations have also fallen below the RBA's target band which may be bearish for AUD.

**NZD**

1.3%

**RBNZ Housing Concerns****Neutral**

Watch: PPI, Credit Card Spending

With little data out this week, NZD The RBNZ Financial Stability Report out this week stated that the overvalued housing market is a threat to the financial system and also repeated that NZD was still elevated. The Governor cited concerns that rate hikes next year may make the currency appreciate further. With little data out this week, NZD is expected to trade in line with risk appetite. Tightening

**SEK**

1.2%

**Weakness to Continue****Bearish**

Watch: Economic Tendency Survey

EURSEK could move even higher following the unexpected decline in inflation. Sweden's exposure to the Euro Area makes it vulnerable to spillover from disinflation in EMU. Furthermore, the recent ECB cut puts pressure on the Riksbank to send a similarly dovish message. While there is scope for markets to price in further Riksbank dovishness, weakening SEK, we would wait for some retracement before selling SEK in order to get better risk/reward.

**NOK**

3.7%

**Norges Bank Might Join Dovish Trend****Neutral**

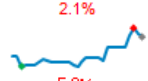
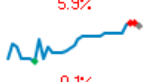

Watch: Trade, GDP

We have become more cautious on NOK following the latest ECB rate cut and disappointment in Swedish inflation. Though Norwegian inflation was in line with expectations, and the Norges Bank has said it would look through near term CPI prints, dovishness from two of Norway's key trading partners could pressure the Norges Bank to sound more dovish as well, weighing on NOK. That said, we believe SEK will weaken faster than NOK in the near term, boosting NOKSEK.

November 14, 2013  
FX Pulse

## EM Currency Summary

Kritika Kashyap (AXJ), Meena Bassily (CEEMEA), Felipe Hernandez (LatAm)

<b>CNY</b>	<b>Neutral</b>		CNY fix should remain stable at current levels given the significant REER adjustment that has taken place this year, as policymakers also focus on stabilizing GDP growth in 4Q. We will also be watching for any change in economic/FX policy discussed in the detailed transcript of the Third Plenum
<b>INR</b>	<b>Neutral</b>		Despite the improvement in India's balance of payments, INR remains vulnerable to global investor sentiment. While domestic problems of high inflation and low growth persist, in the near term, the direction for USD/INR will be influenced by the future of Fed policy, in our view.
<b>IDR</b>	<b>Bearish</b>		BI has hiked rates by a total of 175bps this year to help address funding concerns as current account deteriorated. While IDR has received some support from the rate hikes, we like buying the dip in USD/IDR as structural issues of high import growth and low export competitiveness remain a drag on the trade balance.
<b>KRW</b>	<b>Bullish</b>		We are positive on KRW given Korea's solid current account and continued 'quality' foreign inflows in its domestic markets, which we expect will continue into 4Q13 as the economy rebounds. BoK interventions are the main risk, but we see potential for political pushback on interventions given mounting FX losses for BoK.
<b>MYR</b>	<b>Neutral</b>		Post the 2014 budget risk event, USDMYR has been trading in line with the global risk sentiment. 3Q GDP and current account data due Nov 15 <sup>th</sup> may reaffirm Malaysia's strong fundamentals providing near term support for the ringgit.
<b>PHP</b>	<b>Neutral</b>		PHP did not see a significant sell-off following the devastating typhoon, partly given Philippines' solid economic fundamentals and fiscal leeway to fund reconstruction programs, while overseas workers remittances to support aid also backed the currency.
<b>THB</b>	<b>Neutral</b>		THB should see some relief as onshore Amnesty bill-related protests have eased. That said, THB remains exposed to Fed policy direction as funding risks have increased for Thailand amid a weakening current account balance and foreign capital outflows from local bonds and equity markets.
<b>CZK</b>	<b>Neutral</b>		EUR/CZK is trading higher than the stated target level of 27.0, suggesting the CNB has tolerance to an exchange rate higher than this level. We doubt they will have much tolerance to EUR/CZK going below this level, therefore we maintain a neutral stance and look to fade any significant moves either side of 27.
<b>HUF</b>	<b>Neutral</b>		Disinflation risks have picked up increasing the risk of further dovish policy. However, with the ECB having cut rates and real yields still high on HUF we doubt more cuts will have much of an impact on EUR/HUF. Also with growth beating expectations we see some scope for EUR/HUF to head lower in the near-term.
<b>ILS</b>	<b>Bullish</b>		USD/ILS continues to trade in sideways fashion as the positive balance of payment story (related to gas production) is neutralized by aggressive intervention from the Bank of Israel. We still expect modest ILS gains for next year, but in the near term wait for moves toward 3.60 before selling USD/ILS.
<b>PLN</b>	<b>Bullish</b>		We maintain a constructive view on the zloty as we expect the currency to benefit from a continued broad based improvement in data. In addition with the NBP's forward guidance suggesting rates will remain on hold for some time and the ECB having cut the refi rate, we expect rate differentials to keep downward pressure on EUR/PLN.
<b>RUB</b>	<b>Bearish</b>		We have become increasingly bearish on RUB and recommend added to long USD/RUB positions on any dip lower. Any further downside in oil prices will put depreciation pressure on the RUB as the BoP continues to slowly deteriorate. A dovish policy bias and reduced intervention also adds to the downside risks for RUB.
<b>TRY</b>	<b>Bearish</b>		Some indication of ad-hoc tightening have done little to turn lira performance around, and we think real yields are still too low to offer protection to the currency in light of the current account deficit which remains weak as indicated by recent data. We look for an eventual test of the all-time highs which are at around 2.0750.
<b>ZAR</b>	<b>Bearish</b>		USD/ZAR is back to the early highs and remains highly vulnerable to the external environment, with local data continuing to show signs of weakness and providing little reason to reduce bearish sentiment on the currency. From current levels we look for dips in USD/ZAR toward 10.25 before buying USD.
<b>BRL</b>	<b>Bearish</b>		Decelerating economic activity and worse than expected fiscal results keep weakening pressure on BRL, with central bank intervention and higher interest rates the main opposing forces. We remain bearish as structural problems remain unsolved and the probability for reforms ahead of the election next year is low.
<b>CLP</b>	<b>Neutral</b>		Political uncertainty ahead of the presidential election, concerns about China and expectations for additional interest rate cuts have kept weakening pressure on CLP. Valuations have improved but the trend could continue in the near term, until political noise settles down and despite still positive fundamentals.
<b>COP</b>	<b>Neutral</b>		The currency is back within the government's preferred range between 1900 and 1950. At current levels we expect to see higher public sector dollar inflows in the fourth quarter that should provide near term support. The central bank continues buying dollars, but at a more moderate pace than earlier in the year.
<b>MXN</b>	<b>Bullish</b>		We are bullish MXN, but acknowledge it remains a proxy hedge for broader EM risks and prefer reflecting our view through relative value trades or tactically buying the dips. Growth continues to disappoint, but news about plans for a broader than initially announced energy reform has reversed previous negative sentiment.
<b>PEN</b>	<b>Neutral</b>		The central bank has stepped up exchange rate intervention to limit volatility and weakening pressure after unexpectedly cutting interest rates earlier this month. Economic growth has decelerated but remains the highest in the region and together with solid fundamentals limit near term downside risks.

Charts show 3M performance against USD, as normally quoted



November 14, 2013  
FX Pulse

## Global Event Risk Calendar

Sheena Shah

Date	Day	Ccy	Time (GMT)	Event	Ref. Period	MS forecast	Market	Previous
15-Nov	Fri							
		CAD	14:00	Existing Home Sales (MoM)	Oct			0.80%
		EUR	08:00	<b>EU Finance Ministers mtg (Brussels)</b>				
		EUR	10:00	<b>CPI (YoY)</b>	<b>Oct F</b>		<b>0.70%</b>	<b>0.70%</b>
		NOK	09:00	Trade Balance	Oct			21.69B
		USD	13:30	Empire Manufacturing	Nov		5	1.52
		USD	14:15	Industrial Production (MoM)	Oct	0.00%	0.20%	0.57%
		USD	14:15	Capacity Utilization	Oct	78.10%	78.30%	78.30%
		USD	15:00	Wholesale Inventories (MoM)	Sep		0.40%	0.50%
18-Nov	Mon							
		CAD	13:30	Int'l Securities Transactions	Sep			2.08B
		EUR	10:00	Trade Balance	Sep			12295.8
		USD	14:00	Total Net TIC Flows	Sep			-2.9B
19-Nov	Tues							
		AUD	00:30	<b>RBA Minutes (Nov)</b>				
		CLP	21:00	<b>CBCH Rates Decision</b>		<b>4.50%</b>	<b>4.50%</b>	<b>4.75%</b>
		EUR	10:00	Construction Output (MoM)	Sep			0.50%
		EUR	10:00	German ZEW Survey Expectations	Nov			52.8
		JPY	05:00	Leading Index CI	Sep F			109.5
		JPY	23:50	Trade Balance	Oct			-934.3B
		TRY	12:00	<b>CBT Rates Decision</b>		<b>4.50%</b>		<b>4.50%</b>
20-Nov	Wed							
		CAD	21:15	<b>BoC's Poloz, Macklem spks (Senate, Ottawa)</b>				
		CNY	02:00	Leading Economic Index (Conf. Board China)	Oct			
		GBP	09:30	<b>BoE Minutes</b>	<b>07-Nov</b>			
		USD	13:30	Retail Sales Advance (MoM)	Oct	-0.10%	0.10%	-0.10%
		USD	13:30	<b>CPI (YoY)</b>	<b>Oct</b>		<b>1.10%</b>	<b>1.20%</b>
		USD	15:00	Existing Home Sales (MoM)	Oct		-1.70%	-1.86%
		USD	19:00	<b>FOMC Minutes</b>	<b>Oct</b>			
		USD	NA	<b>Fed's Bernanke spks (Washington, DC)</b>				
21-Nov	Thurs							
		AUD	09:05	<b>RBA's Stevens spks (Sydney)</b>				
		CHF	07:00	Trade Balance	Oct			2.49B
		CNY	01:45	HSBC Flash Manufacturing PMI	Nov		50.7	50.9
		EUR	08:30	German PMI Manufacturing	Nov A			51.7
		EUR	09:00	Euro-area PMI Manufacturing	Nov A			51.3
		EUR	10:00	<b>ECB's Draghi spks (Berlin)</b>				
		EUR	15:00	Consumer Confidence	Nov A			-14.50%
		GBP	09:30	PSNB ex Interventions	Oct		7.3B	11.07B
		JPY	NA	<b>BoJ's Rates Decision</b>		<b>0.10%</b>		<b>0.10%</b>
		USD	13:30	Initial Jobless Claims			330k	336k
		USD	15:00	Philadelphia Fed Business Outlook	Nov		15	19.8
		ZAR	NA	<b>SARB Rates Decision</b>		<b>5%</b>	<b>5%</b>	<b>5%</b>
22-Nov	Fri							
		CAD	13:30	<b>CPI (YoY)</b>	<b>Oct</b>			<b>1.10%</b>
		CAD	13:30	Retail Sales (MoM)	Sep			0.20%
		EUR	07:00	<b>German GDP (QoQ)</b>	<b>3Q F</b>		<b>0.30%</b>	<b>0.70%</b>
		EUR	09:00	IFO Expectations	Nov			103.6
		USD	16:00	Kansas City Fed Manufacturing Activity	Nov		5	6
25-Nov	Mon							
		ILS	15:30	<b>BoI's Rates Decision</b>		<b>1.00%</b>	<b>1.00%</b>	<b>1.00%</b>
		JPY	23:50	BoJ Minutes				
		USD	15:00	Pending Home Sales (MoM)	Oct			-5.58%
		USD	15:30	Dallas Fed Manufacturing Activity	Nov			3.6
26-Nov	Tues							
		HUF	13:00	<b>NBH Rates Decision</b>		<b>3.20%</b>	<b>3.20%</b>	<b>3.40%</b>
		NOK	NA	<b>Norges Bank's Olsen spks (Oslo)</b>				
		NZD	02:00	RBNZ Inflation Expectations	4Q			2.36%
		NZD	21:45	Trade Balance	Oct			-199.12m
		USD	13:30	Housing Starts	Oct			891k

November 14, 2013  
FX Pulse

Date	Day	Ccy	Time (GMT)	Event	Ref. Period	MS forecast	Market	Previous
26-Nov	Tues							
		USD	14:00	Case-Shiller Home Price Index (QoQ)	3Q			10.08%
		USD	15:00	Consumer Confidence Index	Nov			71.20%
		USD	15:00	Richmond Fed Manufacturing Index	Nov			1
27-Nov	Wed							
		CAD	13:30	Average Weekly Earnings (YoY)	Sep			1.30%
		EUR	09:00	German GfK Consumer Confidence	Dec			7
		GBP	09:30	<b>GDP (QoQ)</b>	<b>3Q P</b>			<b>0.80%</b>
		JPY	23:50	Retail Sales (MoM)	Oct			1.70%
		SEK	08:30	Trade Balance	Oct			5.6
		THB	07:30	<b>BoT Rates Decision</b>		<b>2.50%</b>		<b>2.50%</b>
		USD	13:30	Initial Jobless Claims			330k	336k
		USD	13:30	Durable Goods Orders	Oct			3.80%
		USD	14:45	Chicago PMI	Nov			65.9
		USD	14:55	Univ. of Michigan Confidence	Nov F			72
		USD	15:00	Leading Index	Oct			0.70%
28-Nov	Thurs							
		CAD	13:30	Current Account	3Q			-14.60B
		CHF	06:45	<b>Switzerland GDP QoQ</b>	<b>3Q</b>			<b>0.50%</b>
		EUR	08:00	<b>Spanish GDP (QoQ)</b>	<b>3Q F</b>			<b>0.10%</b>
		EUR	08:55	German Unemployment Rate	Nov			6.90%
		EUR	09:00	M3 (YoY)	Oct			2.10%
		EUR	10:00	Consumer Confidence	Nov F			-14.50%
		EUR	13:00	<b>German CPI (YoY)</b>	<b>Nov P</b>			<b>1.20%</b>
		GBP	10:30	BoE's Financial Stability Report				
		JPY	23:15	Manufacturing PMI	Nov			54.2
		JPY	23:30	Unemployment rate	Oct			4%
		JPY	23:30	<b>CPI (YoY)</b>	<b>Oct</b>			<b>1.10%</b>
		JPY	23:50	Industrial Production (MoM)	Oct P			1.50%
		NOK	NA	<b>Norges Bank's Olsen spks (Oslo)</b>				
		NZD	NA	ANZ Business Confidence	Nov			53.2
		SEK	08:30	Retail Sales (MoM)	Oct			0.19%
29-Nov	Fri							
		CHF	08:00	KOF Leading Indicator	Nov			1.72
		EUR	10:00	Italian CPI (MoM)	Nov P			-0.20%
		EUR	10:00	Unemployment Rate	Oct			12.2
		EUR	10:00	<b>CPI Estimate (YoY)</b>	<b>Nov</b>			<b>0.70%</b>
		GBP	00:05	GfK Consumer Confidence	Nov			-11
		JPY	05:00	Housing Starts (YoY)	Oct			19.40%
		JPY	05:00	Construction Orders (YoY)	Oct			89.80%
		NOK	09:00	Unemployment Rate	Nov			2.50%
		NOK	09:00	Retail Sales (MoM)	Oct			0.70%
		SEK	08:30	<b>GDP (QoQ)</b>	<b>3Q</b>			<b>-0.20%</b>
		SEK	08:30	Sweden CA Balance	3Q			46.90%
Upcoming Risk Events								
04-Dec		CAD	15:00	<b>BoC Rates Decision</b>	<b>Dec</b>	<b>1.00%</b>		<b>1.00%</b>
05-Dec		NOK	09:00	<b>Norges Bank Rates Decision</b>	<b>Dec</b>	<b>1.50%</b>		<b>1.50%</b>
05-Dec		GBP	12:00	<b>BoE Bank Rates Decision</b>	<b>Dec</b>	<b>0.50%</b>		<b>0.50%</b>
05-Dec		EUR	12:45	<b>ECB Bank Rates Decision</b>	<b>Dec</b>	<b>0.25%</b>		<b>0.25%</b>
12-Dec		NZD	20:00	<b>RBNZ Rates Decision</b>	<b>Dec</b>	<b>2.50%</b>		<b>2.50%</b>
12-Dec		CHF	08:30	<b>SNB Rates Decision</b>	<b>Dec</b>	<b>0.00%</b>		<b>0.00%</b>
17-Dec		SEK	08:30	<b>Riksbank Rates Decision</b>	<b>Dec</b>	<b>1.00%</b>		<b>1.00%</b>
18-Dec		USD	19:00	<b>FOMC Rates Decision</b>	<b>Dec</b>	<b>0.15%</b>		<b>0.15%</b>
20-Dec		JPY	NA	<b>BoJ Rates Decision</b>	<b>Dec</b>	<b>0.05%</b>		<b>0.05%</b>

Denotes timing approximate or not confirmed / All times and dates are GMT / Source: Morgan Stanley Research, Bloomberg

November 14, 2013  
FX Pulse

## Cross-Currency Carry and Vol Heat Map

		11/13/2013	Implied Vol Metric								RR Metric			Carry Metric						
			3M Im Vol	1w Chg	5-Year Perc.	Imp vs Real	5-Year Perc.	1Y/3M Imp Rat	5-Yer Perc.	5Y/1Y Imp Rat	5-Yer Perc.	3M 25d RR	RR/ Imp	Ratio Perc	3M Carry	1w Chg	5-Year Perc.	Vol-Adj Carry	5-Year Perc.	1Y/3M Carry Rat
G10 USD	USDCAD	5.7	-0.4	3%	1.04	34%	0.84	10%	1.19	90%	1.3	-23%	10%	USDCAD	0.9	0.0	1%	0.16	100%	1.02
	USDCHE	7.9	-0.6	6%	1.06	42%	1.19	90%	1.13	90%	0.6	-7%	44%	USDCHE	-0.3	0.0	80%	-0.04	51%	1.30
	USDJPY	9.9	0.7	25%	1.12	48%	1.12	85%	1.13	92%	0.2	-2%	20%	USDJPY	-0.2	0.0	76%	-0.02	65%	1.27
	USDNOK	10.0	0.3	17%	0.88	12%	1.12	49%	1.29	81%	0.8	-8%	69%	USDNOK	1.4	0.0	41%	0.14	71%	0.93
	USDSEK	10.0	0.1	12%	1.04	45%	1.00	22%	1.10	84%	0.8	-8%	73%	USDSEK	0.8	-0.1	47%	0.08	53%	0.92
	GBPUSD	7.0	-0.1	10%	1.02	24%	1.03	41%	1.10	86%	-0.7	-9%	83%	GBPUSD	-0.3	0.0	29%	-0.04	11%	1.07
	NZDUSD	11.0	0.4	18%	1.05	57%	1.09	46%	1.12	63%	-2.1	-19%	52%	NZDUSD	-2.5	0.0	41%	-0.23	20%	1.14
	AUDUSD	9.5	0.4	15%	1.02	43%	1.07	46%	1.06	77%	-2.3	-24%	34%	AUDUSD	-2.4	0.0	31%	-0.26	61%	1.00
G10 EUR	EURUSD	7.1	-0.4	1%	1.14	51%	1.10	55%	1.10	82%	-0.7	-10%	67%	EURUSD	0.1	0.0	55%	0.01	56%	1.85
	EURAUD	8.6	-0.1	14%	0.99	34%	1.12	78%	1.19	93%	1.1	13%	76%	EURAUD	2.6	0.0	10%	0.30	26%	1.02
	EURCAD	6.8	-0.4	3%	1.04	22%	1.10	54%	1.13	88%	-0.2	-3%	47%	EURCAD	1.0	0.0	63%	0.15	88%	1.06
	EURCHF	3.7	0.0	10%	1.26	62%	1.09	67%	1.17	99%	1.0	-27%	16%	EURCHF	-0.2	0.0	78%	-0.07	62%	1.16
	EURGBP	6.4	0.0	3%	1.03	21%	1.30	79%	1.46	75%	-0.4	-6%	23%	EURGBP	0.3	0.0	59%	0.05	65%	1.21
	EURJPY	9.8	-0.1	1%	1.11	60%	1.11	52%	1.18	76%	-0.9	9%	9%	EURJPY	-0.2	0.0	66%	-0.02	57%	1.06
	EURNOK	8.2	1.1	55%	0.86	13%	1.20	94%	1.32	97%	0.8	-10%	69%	EURNOK	1.5	0.0	33%	0.18	38%	0.97
	EURNZD	9.9	-0.1	19%	0.98	36%	0.96	16%	1.01	53%	1.0	10%	55%	EURNZD	2.6	0.0	47%	0.27	75%	1.17
G10 Crosses	EURSEK	7.2	0.6	27%	1.14	70%	1.09	55%	1.11	87%	0.8	-11%	68%	EURSEK	0.9	-0.1	39%	0.13	44%	0.98
	GBPAUD	8.9	0.2	21%	1.12	54%	0.99	22%	1.13	87%	1.1	-12%	42%	GBPAUD	2.2	0.0	5%	0.25	23%	0.99
	GBPCAD	6.7	-0.4	9%	0.99	17%	1.07	42%	1.11	81%	-0.1	1%	8%	GBPCAD	0.7	0.0	82%	0.10	89%	0.99
	GBPCHF	6.7	0.0	3%	1.02	33%	1.08	66%	1.17	95%	0.2	-3%	12%	GBPCHF	-0.6	0.0	72%	-0.09	27%	1.19
	GBPJPY	9.3	0.1	5%	1.12	62%	1.16	77%	1.19	68%	-0.6	6%	10%	GBPJPY	-0.5	0.0	53%	-0.06	18%	1.16
	CHFJPY	8.6	-0.1	1%	1.10	57%	1.19	85%	1.33	87%	-0.8	9%	34%	CHFJPY	0.1	0.0	40%	0.01	50%	1.41
	AUDCAD	7.5	0.3	20%	1.01	24%	1.19	94%	1.37	99%	-1.0	13%	52%	AUDCAD	-1.5	0.0	96%	-0.21	85%	0.97
	AUDCHF	9.2	-0.4	16%	0.90	23%	1.07	54%	1.10	84%	-1.5	16%	51%	AUDCHF	-2.7	0.0	97%	-0.30	69%	1.03
AXA BLOCK	AUDJPY	10.9	-0.5	5%	0.89	20%	1.11	62%	1.13	82%	-1.8	16%	10%	AUDJPY	-2.7	0.0	96%	-0.25	51%	1.02
	AUDNZD	6.6	0.0	21%	0.90	11%	1.17	80%	1.26	68%	-0.5	7%	88%	AUDNZD	0.1	0.0	89%	0.01	90%	7.59
	NOKSEK	7.1	0.8	46%	0.89	12%	1.03	61%	1.09	87%	-0.1	1%	39%	NOKSEK	-0.6	-0.1	45%	-0.08	50%	0.96
	USDCNY	1.8	0.1	34%	2.33	75%	1.03	44%	1.04	47%	0.1	-5%	52%	USDCNY	0.1	0.4	64%	0.08	64%	2.97
	USDHKD	0.4	0.0	0%	3.95	81%	1.32	22%	2.67	61%	-0.3	63%	26%	USDHKD	-0.1	0.0	84%	-0.25	68%	0.68
	USDIDR	14.5	1.0	79%	0.86	4%	2.19	99%	4.80	16%	4.0	-28%	83%	USDIDR	12.0	1.7	88%	0.83	91%	0.79
	USDINR	13.5	1.5	90%	0.76	2%	0.95	2%	1.15	11%	3.2	-24%	27%	USDINR	13.3	2.6	99%	0.99	100%	0.70
	USDKRW	7.8	1.0	12%	1.34	71%	1.03	22%	1.18	33%	2.7	-35%	22%	USDKRW	2.4	0.0	88%	0.31	95%	0.71
LATAM BLOCK	USDMYR	9.1	0.6	70%	0.96	17%	1.28	86%	1.42	78%	2.4	-26%	27%	USDMYR	1.9	0.1	53%	0.21	51%	0.99
	USDPHP	6.6	0.8	23%	1.00	13%	1.00	14%	1.34	79%	1.6	-24%	48%	USDPHP	-0.5	1.1	15%	-0.08	15%	0.71
	USDSGD	5.2	0.6	16%	1.19	48%	1.09	23%	1.40	75%	1.4	-27%	12%	USDSGD	0.0	0.0	46%	-0.01	41%	2.59
	USDTHB	6.1	0.0	41%	1.00	14%	1.15	71%	1.38	66%	1.2	-20%	35%	USDTHB	3.3	0.8	96%	0.54	98%	0.68
	USD TWD	3.8	0.5	8%	1.18	34%	1.10	10%	1.53	64%	0.9	-24%	16%	USD TWD	-1.3	0.4	64%	-0.35	52%	0.89
	USDARS	17.0	0.0	65%	10.43	74%	1.19	71%	1.62	85%	7.0	-41%	73%	USDARS	69.2	-10.7	95%	4.07	94%	0.73
	USDCLP	10.0	-0.8	17%	1.23	30%	1.62	24%	1.71	37%	2.5	-25%	66%	USDCLP	4.8	-0.2	67%	0.48	77%	0.84
	USDCOP	9.0	0.0	15%	1.47	42%	1.10	63%	1.30	76%	2.5	-28%	58%	USDCOP	3.1	-0.1	48%	0.35	69%	1.01
EMEA BLOCK	USDMXN	11.6	-0.7	30%	1.02	19%	1.04	31%	1.52	98%	3.1	-26%	74%	USDMXN	3.0	0.0	14%	0.26	33%	0.98
	USDBRL	12.5	-1.6	32%	0.79	1%	1.11	67%	1.16	60%	3.4	-27%	72%	USDBRL	9.0	0.5	92%	0.72	97%	1.05
	EURBRL	12.8	-1.5	48%	0.90	10%	1.08	44%	1.28	56%	2.9	-23%	88%	EURBRL	9.6	0.8	97%	0.75	100%	1.01
	EURMXN	11.9	-0.1	35%	1.22	52%	1.08	34%	1.17	27%	2.1	-17%	89%	EURMXN	3.1	0.0	24%	0.26	37%	1.00
	MXNJPY	15.2	-0.1	26%	1.13	50%	1.12	60%	1.28	65%	-3.8	25%	43%	EURMXN	-3.2	0.0	93%	-0.21	66%	1.01
	EURCZK	3.8	-2.1	0%	0.38	0%	1.09	57%	1.15	63%	0.6	-15%	89%	EURCZK	-0.7	-0.5	3%	-0.19	0%	0.68
	EURHUF	7.6	0.2	2%	1.34	95%	1.12	92%	1.61	100%	1.7	-22%	95%	EURHUF	2.4	-0.1	0%	0.31	19%	1.01
	EURILS	6.3	-0.4	0%	0.89	10%	1.22	96%	1.09	97%	0.5	-8%	16%	EURILS	0.6	-0.1	48%	0.10	57%	0.87
	EURPLN	6.8	0.2	6%	1.17	66%	1.11	81%	1.15	92%	1.7	-24%	57%	EURPLN	2.4	0.0	20%	0.35	71%	0.97
	EURRUB	8.3	0.5	15%	1.36	93%	1.21	94%	1.07	89%	1.5	-18%	65%	EURRUB	6.5	0.6	71%	0.78	79%	0.96
	EURTRY	10.6	0.9	42%	1.08	36%	1.13	40%	1.35	22%	2.9	-27%	31%	EURTRY	7.5	0.4	69%	0.71	76%	1.05
	EURZAR	13.0	0.0	37%	1.13	50%	1.12	34%	1.34	30%	2.8	-21%	47%	EURZAR	5.9	0.0	60%	0.45	78%	1.00
	USDCZK	8.3	-1.3	0%	0.63	0%	1.12	78%	1.12	28%	1.0	-12%	94%	USDCZK	-0.8	-0.6	0%	-0.10	0%	0.75
	USDHUF	11.7	0.2	2%	1.17	86%	1.05	39%	1.29	100%	2.2	-19%	85%	USDHUF	2.3	-0.1	1%	0.20	14%	0.99
	USDILS	6.3	-0.2	0%	0.94	12%	1.18	97%	1.07	97%	1.3	-20%	30%	USDILS	0.6	-0.1	38%	0.09	45%	0.76
	USDPLN	11.5	0.1	4%	1.13	78%	1.12	88%	1.18	98%	2.3	-20%	61%	USDPLN	2.3	0.0	13%	0.20	63%	0.95
	USD RUB	8.9	0.6	15%	1.28	70%	1.17	92%	1.05	85%	2.0	-22%	80%	USD RUB	6.4	0.7	76%	0.72	87%	0.95
	USDTRY	11.3	0.9	34%	1.04	24%	1.12	39%	1.33	31%	3.8	-34%	14%	USDTRY	7.4	0.4	70%	0.66	78%	1.04
	USDZAR	13.7	0.0	11%	1.03	29%	1.12	43%	1.33	46%	3.4	-24%	47%	USDZAR	5.8	0.0	62%	0.43	94%	0.99
	Gold	17.7	0.4	41%	0.9	11%	1.1	17%	1.2	56%	-3.0	-0.2	7%	Gold	-0.4	0.0	15%	0.0	12%	0.3
	Silver	28.3	0.5	16%	0.8	11%	1.0	37%	1.0	23%	-2.1	-0.1	30%	Silver	-0.8	0.2	24%	0.0	20%	0.7
	Platinum	18.3	-0.2	9%	1.1	49%	1.1	42%	1.2	28%	-0.9	-0.1	16%	Platinum	0.6	1.9	22%	0.0	7%	1.6

Volatility and Carry Global Heatmap

Note: Access is available to the carry metrics on an interactive basis at: <https://secure.ms.com/eqr/quotient/webapp/servlet/IRSHomeServlet>  
 Contact your Morgan Stanley sales representative if you do not have access. Source: Morgan Stanley Research

November 14, 2013  
FX Pulse

## What's New This Week?

- **Vols** were mixed this week as they rose in AXJ, fell in LatAM and traded sideways in G10 and EMEA. Standout gainers were USDJPY and USDTRY, while CZK vols fell after the CNB's intervention announcement.
- **Implied carry** rose in AXJ, BRL and RUB. Carry fell in CZK and SEK.

## User's Guide to the Heat Map

The heat map is designed to allow investors to quickly determine which currency pairs offer relatively high (or low) vol and carry both compared to other currencies and from a historical perspective. Our intent in this is to highlight extremes in vol and carry that provide attractive trading opportunities as well as allow investors who have a general interest in buying or selling vol and carry a quick way to isolate which currency pairs offer the best relative value at this juncture. We do this by indicating extreme highs in red and extreme lows in blue. Note that for outright indicators the colors are based on extreme levels across currencies and show which currency pairs are high (red is top 15th percentile and bold is top 10th) and low (blue is bottom 15th percentile and bold is bottom 10th) on a relative basis. For the percentiles the colors instead show whether vol or carry is extreme from a historical standpoint. A horizontal string of red entries indicates a currency pair with high vols on many measures while a string of blues indicates a currency pair where vol is cheap. Similarly, a horizontal string of red across the carry metrics indicates a currency pair that is offering relatively attractive return on a large number of indicators (note we do not filter for low return.)

Risk reversal extremes can occur independent of the levels of vol and carry but here too, when currencies are at extremes across currencies and on a historical basis this can indicate an attractive trading opportunity. In addition, the risk-reversals are an important component of a second purpose of the heat map, to indicate which trade structures take best advantage of the market prices. For instance, if an investor wants to go long EURUSD, they might first reference the first two vol metrics to determine whether vol is cheap or expensive. They might then reference the vol curve metrics and the carry metrics to determine whether it is attractive to push out duration to lock in carry and whether vol becomes significantly more expensive (or cheaper) at longer maturities. Finally, the risk reversal skew metrics can be used as an indicator of whether low-delta options are more or less attractive than at-the-money strikes. Another example is that if the vol curve metrics are indicating the curve is unusually flat or inverted then selling front end vol via window barriers might be advised.

## Some Key Concepts in the Heat Map:

**Percentiles** are calculated as the % of days that the market closed higher than the current level over the prior five years. So 94% would indicate that only 6% of the observations over the past five years were above the current level. The percentile extremes are similar to a z-score but are less sensitive to outliers.

**Implied vs realized vol:** There is no hard link between implied and realized vol so it is possible – and indeed often – that implied vol might be cheap from a historical basis but still be high vs where vol is realizing. We feel that to be truly cheap (or expensive) this metric should be consistent.

**1Y/3M and 5Y/1Y vol:** These are the ratios of the indicated maturities of implied vol and serve as an indicator of whether the implied vol curve is relatively flat or steep. This serves as an additional indicator if vols are at extremes and can also be helpful in determining the value part of the vol curve.

**RR/Imp:** This is the ratio of the 3M 25-delta risk reversal skew to 3M implied vol. We only do percentiles on the ratio because skew is highly covariant with vol – i.e., skew typically increase as vol rises – so it is important to adjust for the vol level when determining historical extreme of skew.

**Vol-Adj. Carry:** Higher carry currencies commonly have relatively high implied vol so metrics on this ratio can help determine whether carry is attractive relative to where vol is being priced. A high level for this metric also would suggest that options offer a viable way to capture carry.

**1Y/3M Carry Rat:** The ratio of 1Y to 3M net carry. To some degree a steep curve (red) would be another factor in indicating a good carry opportunity but the main use of this metric is a quick indication of whether carry is enhanced or compromised by moving to longer duration.

**1Y Carr /Call Sprd:** The numerator is 1Y net carry (i.e. 1Y forward vs spot spread) and the denominator is the cost (in % pts.) of a 1Y call spread going long the ATMF strike and selling the ATMS strike – i.e., the call spread return is capped at the forward discount. This ratio filters for the fact that currencies with high carry frequently have high skew for puts – i.e., favoring the lower yield currency. A high value here suggests that call spreads represent a relatively attractive way to capture carry with limited risk. In the current yield environment we believe when this ratio is above 2.0 that it is sensible to consider call spreads to capture carry.

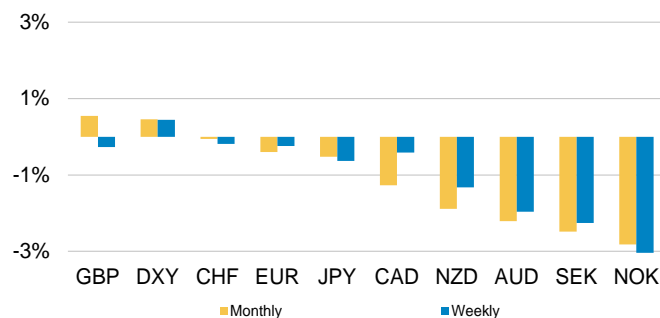
November 14, 2013  
FX Pulse

## G10 FX Tactical Indicators

Vandit D. Shah

Exhibit 1

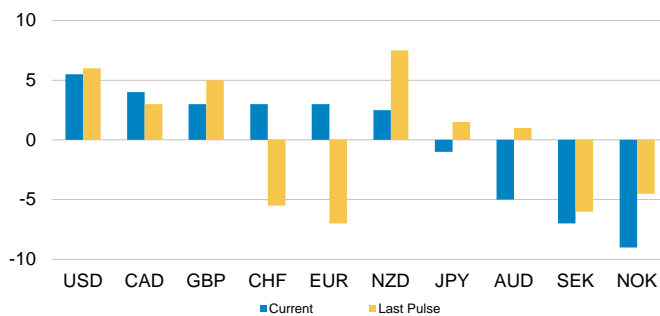
### Historical Currency Performance



Source: Company Data, Morgan Stanley Research

Exhibit 3

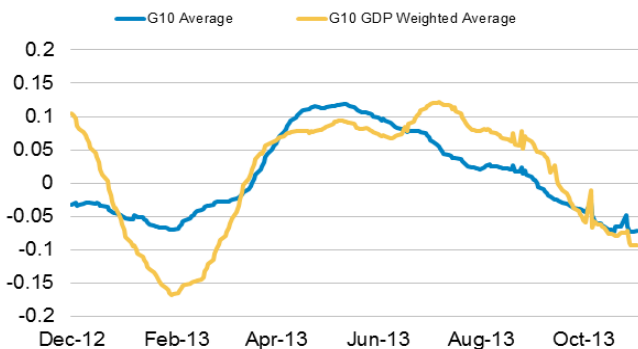
### Relative Momentum Indicator



Source: Morgan Stanley Research

Exhibit 5

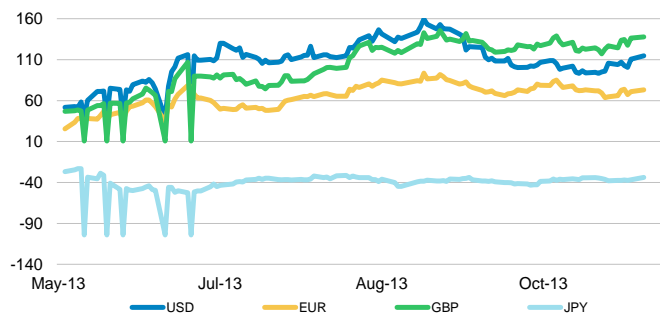
### G10 Surprise Index



Source: Morgan Stanley Research

Exhibit 2

### Risk-Adjusted Five-Year Yields



Source: Morgan Stanley Research

Exhibit 4

### MS GRDI – Standardized

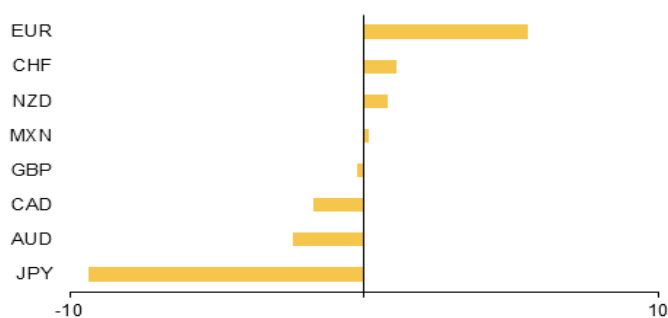


Global Risk Demand Index – US Pat. No. 7,617,143

Source: Morgan Stanley Research

Exhibit 6

### IMM Positions Summary (\$bn)



Note: Aggregate USD positioning in nominal terms, see following page for details.

Source: Bloomberg, Morgan Stanley Research



November 14, 2013  
FX Pulse

## Morgan Stanley FX Positioning Tracker

Dara Blume, Gabriel de Kock, Evan Brown

## Overall Score

	This Week	Last Week	Short										Neutral					Long									
	●	○	-10	-9	-8	-7	-6	-5	-4	-3	-2	-1	0	1	2	3	4	5	6	7	8	9	10				
USD	-3	-2									●	○															
EUR	3	3															●										
JPY	1	-2										○		●													
GBP	-1	-1										●															
CHF	5	4																○	●								
CAD	-2	-2										●															
AUD	1	1												●													
NZD	1	1												●													
NOK	-3	-3										●															
SEK	-8	-8		●																							

## Component Scores

	MS Flow	IMM	Toshin	TFX	Beta	Senti-ment	
USD	0	-3		-9	-5	2	USD
EUR	-5	8		4	8	0	EUR
JPY	1	-4	3	3	7	-5	JPY
GBP	-1	3		-1	-5	0	GBP
CHF	7	8				-1	CHF
CAD	5	-4				-6	CAD
AUD	5	-5		4		0	AUD
NZD	5	-2		-2		2	NZD
NOK	-3						NOK
SEK	-8						SEK

- Since the last positioning tracker update (November 11), positioning in the G10 currencies has shifted somewhat. We calculate the largest longs to be in CHF. The largest shorts are in SEK.
- USD positioning moved into short territory from neutral. This was driven primarily by Japanese retail and sentiment.
- CHF positioning moved further into long territory as sentiment towards the currency improved.
- We will provide a full updated report and refresh positioning scores for all of our underlying sub-indicators next Monday.

For Methodology see Appendix

## Morgan Stanley High-Frequency Misalignment Monitor

1Yr	13 Nov, 2013									
	EUR	JPY	GBP	CHF	AUD	CAD	NZD	NOK	SEK	
USD	0.2%	-0.9%	0.7%	0.4%	-0.8%	0.0%	0.7%	-0.7%	-0.8%	
EUR		-1.1%	0.5%	0.3%	-1.0%	-0.1%	0.5%	-0.8%	-1.0%	
JPY			1.6%	1.4%	0.1%	1.0%	1.6%	0.3%	0.1%	
GBP				-0.2%	-1.4%	-0.6%	0.0%	-1.3%	-1.5%	
CHF					-1.2%	-0.4%	0.2%	-1.1%	-1.2%	
AUD						0.8%	1.5%	0.1%	0.0%	
CAD	> +/- 1 sd						0.6%	-0.7%	-0.9%	
NZD	> +/- 2 sd							-1.3%	-1.5%	
NOK	> +/- 3 sd								-0.2%	
2Yr										
	EUR	JPY	GBP	CHF	AUD	CAD	NZD	NOK	SEK	
USD	-0.2%	0.2%	0.1%	0.2%	-1.1%	0.0%	2.2%	-2.6%	-2.5%	
EUR		0.4%	0.4%	0.4%	-0.8%	0.2%	2.4%	-2.4%	-2.2%	
JPY			-0.1%	0.0%	-1.2%	-0.2%	2.0%	-2.8%	-2.6%	
GBP				0.0%	-1.2%	-0.1%	2.1%	-2.7%	-2.6%	
CHF					-1.2%	-0.2%	2.0%	-2.8%	-2.6%	
AUD						1.1%	3.2%	-1.5%	-1.4%	
CAD	> +/- 1 sd						2.2%	-2.6%	-2.4%	
NZD	> +/- 2 sd							-4.8%	-4.6%	
NOK	> +/- 3 sd								0.2%	
3Yr										
	EUR	JPY	GBP	CHF	AUD	CAD	NZD	NOK	SEK	
USD	2.7%	0.7%	0.7%	1.2%	0.4%	-1.8%	1.0%	-3.5%	-2.5%	
EUR		-2.0%	-2.0%	-1.5%	-2.3%	-4.5%	-1.7%	-6.2%	-5.2%	
JPY			0.1%	0.6%	-0.3%	-2.5%	0.4%	-4.2%	-3.2%	
GBP				0.5%	-0.4%	-2.6%	0.3%	-4.2%	-3.3%	
CHF					-0.9%	-3.1%	-0.2%	-4.7%	-3.8%	
AUD						-2.2%	0.7%	-3.9%	-2.9%	
CAD	> +/- 1 sd						2.9%	-1.7%	-0.7%	
NZD	> +/- 2 sd							-4.5%	-3.6%	
NOK	> +/- 3 sd								1.0%	

Note: Misalignment measured as the overvaluation of the column currency versus the row currency

- The past week's price action has again significantly reduced both the size and statistical significance of G10 FX misalignments. SEK and NOK remain the cheapest G10 currencies and GBP and NZD the most expensive.
- The one-year model, which generates the most reliable trading signals, signals long SEK positions against NZD and CHF and a short GBP/JPY position, albeit with only 1σ misalignment.
- Over a two-year look-back window, the matrix suggests NZD shorts across the G10 except for JPY and long SEK and NOK positions across the G10 excluding AUD and also JPY for NOK. But the signal is strong (i.e., exceeding two standard deviations) only for the NZD/NOK and NZD/SEK crosses.
- The model estimated over a three-year look-back window highlights broad NOK, SEK and CAD undervaluation. However, the mispricing is most compelling against EUR, where it exceeds two standard deviations of the short-term fair value.
- Our one-, two- and three-year misalignment matrices do not provide strong trading signals this week. The overarching theme is SEK and NOK undervaluation and NZD overvaluation.

For Methodology see Appendix

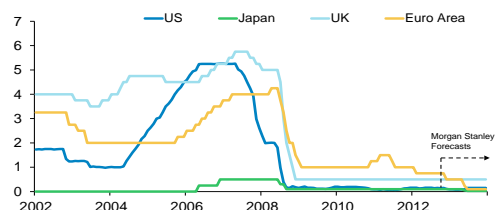
November 14, 2013  
FX Pulse

## Central Bank Watch

	Next rate decision	Market expects (bp)	MS expects (bp)	Current	Morgan Stanley Rates Forecasts				
					4Q13	1Q14	2Q14	3Q14	4Q14
US	18 Dec	-1.6	0	0.15	0.15	0.15	0.15	0.15	0.15
Euro Area	05 Dec	1.5	0	0.25	0.25	0.25	0.25	0.25	0.25
Japan	21 Nov	0	0	0.05	0.05	0.05	0.05	0.05	0.05
UK	05 Dec	-1	0	0.50	0.50	0.50	0.50	0.50	0.50
Canada	04 Dec	-0.6	0	1.00	1.00	1.00	1.00	1.00	1.00
Switzerland	12 Dec	-1.1	0	0.00	0.00	0.00	0.00	0.00	0.00
Sweden	17 Dec	-12	0	1.00	1.00	1.00	1.00	1.00	1.25
Norway	05 Dec	0.5	0	1.50	1.50	1.50	1.50	1.50	1.75
Australia	03 Dec	-1.9	0	2.50	2.50	2.25	2.25	2.25	2.25
New Zealand	12 Dec	0.3	0	2.50	2.50	2.75	3.00	3.25	3.50
Russia	13 Dec	-	0	5.50	5.50	5.25	5.00	4.75	4.75
Poland	04 Dec	0	-	2.50	2.50	2.50	2.75	3.00	3.25
Czech Rep	17 Dec	-3	0	0.05	0.05	0.05	0.05	0.25	0.50
Hungary	26 Nov	-7	-20	3.40	3.00	3.00	3.00	3.00	3.50
Romania	08 Jan	-	-	4.00	4.00	4.00	4.00	4.00	4.25
Turkey	19 Nov	-	-	4.50	4.50	4.50	4.50	5.00	5.50
Israel	25 Nov	-2	0	1.00	1.00	1.00	1.00	1.25	1.50
South Africa	21 Nov	1	0	5.00	5.00	5.00	5.00	5.00	5.00
Nigeria	19 Nov	-	-	12.00	12.00	12.00	12.00	12.00	12.00
Ghana	27 Nov	-	0	16.00	16.00	16.00	16.00	16.00	16.00
China	N/A	-	0	6.00	6.00	6.00	5.75	5.75	5.50
India	18 Dec	-	0	7.75	7.75	7.75	7.75	7.75	7.75
Hong Kong	N/A	-	0	0.50	0.50	0.50	0.50	0.50	0.50
S. Korea	12 Dec	1	0	2.50	2.50	2.50	2.50	2.75	3.00
Taiwan	19 Dec	12	13	1.88	2.00	2.13	2.25	2.38	2.38
Indonesia	12 Dec	-	-	7.50	7.75	7.75	7.75	7.75	7.75
Malaysia	09 Jan	0	0	3.00	3.00	3.00	3.00	3.00	3.00
Thailand	27 Nov	-1	0	2.50	2.50	2.50	2.50	3.00	3.50
Brazil	27 Nov	59	25	9.50	9.75	9.75	9.75	9.75	9.75
Mexico	06 Dec	2	0	3.50	3.50	3.50	3.50	3.50	3.50
Chile	19 Nov	-7	-25	4.75	4.50	4.50	4.50	4.50	4.50
Peru	12 Dec	-	0	4.25	4.25	4.25	4.25	4.25	4.25
Colombia	29 Nov	-9	-25	3.25	2.75	2.75	3.00	3.50	3.75

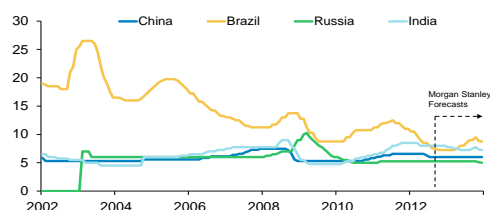
Source: National Central Banks, Morgan Stanley Research forecasts; Note: Japan policy rate takes a mid-range value. Market expects as of November 13, 2013.

### G4 Policy Rate Forecasts



Source: Morgan Stanley Research

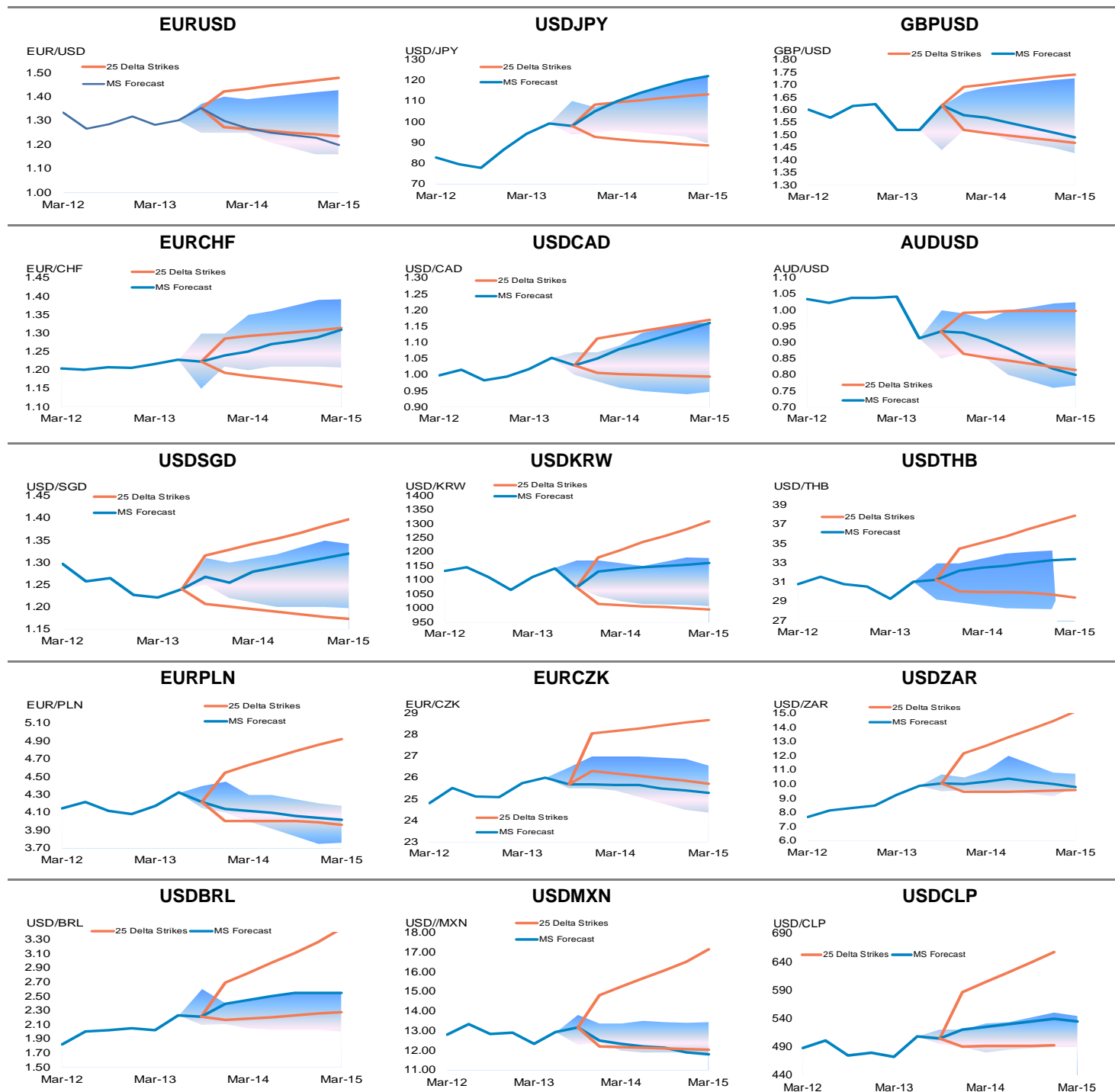
### BRICs Policy Rate Forecasts



Source: Morgan Stanley Research

November 14, 2013  
FX Pulse

## FX Bull/Bear Projections



Source for all charts: Morgan Stanley Research, Bloomberg; shaded area is the range of market forecasts. 25 delta strikes are derived from respective implied volatility.

November 14, 2013  
FX Pulse

## Morgan Stanley Global Currency Forecasts

- We [updated our EM forecasts](#) in the week of September 3.
- We [updated our G10 forecasts](#) in the week of September 26.

	Current	2013	2014				2015			4Q13 % change to:	
		4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	Consensus	Forward
EUR/USD	1.35	1.30	1.27	1.25	1.24	1.23	1.20	1.17	1.15	1.15	-3.0
USD/JPY	100	105	110	114	117	120	122	124	126	127	5.0
GBP/USD	1.60	1.58	1.57	1.55	1.53	1.51	1.49	1.48	1.46	1.44	-1.3
USD/CHF	0.92	0.95	0.98	1.02	1.03	1.05	1.09	1.15	1.16	1.16	2.6
USD/SEK	6.65	6.62	6.77	6.80	6.77	6.91	7.13	7.35	7.39	7.48	2.2
USD/NOK	6.17	5.92	5.98	6.00	6.09	6.18	6.42	6.62	6.78	6.87	-1.1
USD/CAD	1.05	1.05	1.08	1.10	1.12	1.14	1.16	1.17	1.18	1.19	1.0
AUD/USD	0.93	0.93	0.91	0.88	0.85	0.82	0.80	0.81	0.82	0.83	0.0
NZD/USD	0.83	0.83	0.82	0.80	0.78	0.76	0.70	0.71	0.72	0.73	1.2
EUR/JPY	134	137	140	143	145	148	146	145	145	146	1.9
EUR/GBP	0.84	0.82	0.81	0.81	0.81	0.81	0.81	0.79	0.79	0.80	-2.0
EUR/CHF	1.23	1.24	1.25	1.27	1.28	1.29	1.31	1.34	1.33	1.33	0.0
EUR/SEK	8.96	8.60	8.60	8.50	8.40	8.50	8.55	8.60	8.50	8.60	-0.9
EUR/NOK	8.31	7.70	7.60	7.50	7.55	7.60	7.70	7.75	7.80	7.90	-3.1
USD/CNY	6.09	6.15	6.18	6.13	6.10	6.10	6.12	6.04	6.00	5.95	0.8
USD/HKD	7.75	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	0.5
USD/IDR	11520	11400	11600	11800	12000	12200	12400	12500	12400	12300	1.3
USD/INR	63.1	67.0	67.5	68.0	68.5	69.0	68.0	67.0	66.5	66.0	8.1
USD/KRW	1068	1130	1140	1145	1150	1155	1160	1165	1170	1170	5.8
USD/MYR	3.20	3.33	3.35	3.37	3.39	3.40	3.42	3.43	3.44	3.44	4.1
USD/PHP	43.6	44.5	44.8	45.0	45.3	45.6	45.3	45.5	45.3	45.0	3.5
USD/SGD	1.25	1.28	1.29	1.30	1.31	1.32	1.33	1.33	1.34	1.35	2.4
USD/TWD	29.6	30.1	30.2	30.3	30.4	30.5	30.4	30.4	30.3	30.2	2.2
USD/THB	31.5	32.2	32.5	32.7	33.0	33.3	33.4	33.5	33.6	33.7	2.5
USD/BRL	2.33	2.40	2.45	2.50	2.55	2.55	2.55	2.55	2.55	2.55	6.7
USD/MXN	13.0	12.5	12.4	12.2	12.2	11.9	11.8	11.7	11.6	11.6	-3.1
USD/ARS	5.98	7.00	7.25	7.50	7.75	8.00	8.25	8.50	8.75	9.00	14.8
USD/VEF	6.29	6.30	6.30	6.30	6.30	6.30	14.00	14.00	14.00	14.00	0.0
USD/CLP	520	520	525	530	535	540	535	530	525	520	3.0
USD/COP	1934	1900	1875	1850	1840	1825	1800	1775	1750	1750	0.0
USD/PEN	2.80	2.85	2.85	2.85	2.85	2.85	2.83	2.80	2.77	2.75	2.9
USD/ZAR	10.30	10.00	10.20	10.40	10.20	10.00	9.80	10.00	10.20	10.30	-0.4
USD/TRY	2.04	2.00	1.98	1.98	1.95	1.95	1.96	1.97	1.98	1.99	0.0
USD/ILS	3.53	3.60	3.58	3.55	3.52	3.50	3.48	3.48	3.45	3.45	1.7
USD/RUB	32.7	32.6	32.7	33.0	33.5	34.0	34.0	35.3	35.3	35.0	0.2
RUB basket	37.8	37.0	36.7	36.7	37.1	37.5	37.1	38.0	37.7	37.4	-1.4
EUR/PLN	4.20	4.14	4.12	4.10	4.06	4.04	4.02	4.00	3.97	3.95	-1.0
EUR/CZK	27.08	25.70	25.65	25.65	25.50	25.40	25.30	25.10	25.00	24.90	-1.2
EUR/HUF	299	296	295	295	294	292	290	290	288	286	-0.7
EUR/RON	4.46	4.40	4.40	4.40	4.38	4.35	4.33	4.33	4.30	4.30	-0.7
MS Dollar Index	80.99	83.11	85.33	87.13	88.52	89.99	91.78	93.24	94.45	95.05	
MS AXJ Index	106.93	103.99	103.24	102.88	102.41	101.89	101.70	101.96	102.13		

G10 forecasts were updated Sept 26, 2013. EM Forecasts were updated Sept 3, 2013. Source: Morgan Stanley Research

November 14, 2013  
FX Pulse

## Appendix

The **Strategic FX Portfolio Trade Recommendations** page presents the portfolio of tactical trade ideas of the FX Strategy team and the performance of this portfolio over time.

- **Strategic FX Portfolio Trade Recommendations** (Note: The portfolios represent hypothetical not actual investments.)
  - ✓ On 10 June, 2010, we implemented changes to our portfolio to make it more robust and to better reflect our confidence levels and relative risk. A detailed explanation of this change can be found in "[Portfolio Methodology Update](#)" (10 June 2010).
  - ✓ In summary, the trades and the weightings are primarily reviewed weekly on Thursdays and published in the *Pulse*. However, if we think there has been a material change to the risk-reward, we will make intraweek changes. We monitor trades daily. We will continue to publish the portfolio as a list of trades where our strongest conviction ideas will be given the largest weightings. We will, however, also adjust the weights of trades in order to manage our risk exposure.
  - ✓ A table showing the trade, trade weight, trade entry date, risk allocation and levels for (average) entry, current, stop and target will be shown in the Strategic FX Portfolio Trade Recommendations section of the *FX Pulse*.
  - ✓ If we increase the weighting allocated to a trade, the entry level published in the table will be changed to reflect a proportionally weighted rate of the initial entry level and the entry level on the date the weight was increased.
- **Performance Statistics**
  - ✓ We rebalance our portfolio daily at the NY close to keep the weight of each trade consistent with the published weight.
  - ✓ We will primarily enter and exit trades using the bid or offer rate of the WMR fixing. If we make an intraday change to our portfolio, we will cite the closest Bloomberg half hourly fix in our published note and enter/exit at this rate.
  - ✓ Stops or targets will be triggered if the stated level is met at the WMR fix.
  - ✓ Returns shown include the cost of carry using the 1W interbank deposit rate if this is quoted liquidly but do not include any other expenses, slippage or fees and no interest on cash holdings are included. Reported returns are not levered.
  - ✓ We have re-estimated our returns from 22 June 2006 to 10 June 2010, when we re-launched the portfolio, to take into account our more robust calculation technique.
  - ✓ We provide a monthly breakdown of our historical portfolio performance back to Jan 2005 in the Strategic FX Portfolio section of the *Pulse*.

The **FX Tactical Indicators** table highlights the most recently updated indicators we, as a research team, use as inputs to generate both longer and more tactical forecasts. [Matrix](#) charting codes are given in brackets. Change the G10 currency in italics as required.

•**Historical Currency Performance:** Price changes in currency over the past week and past month. (*EURUSD*)

•**Risk Adjusted Yields:** Nominal five year yields adjusted for five year CDS (weighted average for EUR). (*MSRAUS5Y*)

•**Relative Momentum Indicator:** Measures the momentum of a currency relative to all other currencies; not indicative of historical performance. (*MSRMUS*)

•**MS GRDI\*:** An index to assess risk sentiment. It looks at ten different asset classes to gauge risk demand. The GRDI index seen in the graph is a standardized reading of the index based on the 365-day rolling average. (*GRDIIDX*)

•**G10 Surprise Index:** Measures the performance of actual economic data in G10 countries relative to expectations. G10 Average Index is a simple index; G10 GDP weighted average is based on GDP weights. (*MSSIUSD*)

•**IMM Commitment of Traders Report:** The "Aggregate USD Index" is the cumulative aggregate positioning of currencies we track on the IMM against the USD. We combine IMM positioning on the AUD, CAD, CHF, EUR, GBP, JPY, and MXN to calculate an aggregate USD index to measure overall net positioning. (*MSPIUS*)

### FX Positioning Tracker Methodology (*MSPIUS*)

•**MS Flow** - Our internal flow data track all spot and forward trades transacted by Morgan Stanley FX globally.

•**IMM** - We use the US Commodity Futures Trading Commission's IMM report to track positioning of non-commercial traders.

•**Toshin** - The Toshin accounts are Japanese foreign currency investment trusts that seek yield abroad. They typically cater to retail investors and offer a higher return by investing in foreign assets on a currency un-hedged basis.

•**TFX** - The Tokyo Financial Exchange (TFX) measures Japanese currency trading on margin accounts, and comprises an estimated 10% of the retail margin market.

•**Beta** - As an alternative proxy for positioning, our Beta-Tracker measures one-month rolling betas of currency managers' and global macro hedge funds' daily returns on major currency indices.

•**Sentiment** - The Daily Sentiment Index gathers opinions on all active US futures, eurozone interest rates, and eurozone equities futures markets.

Morgan Stanley FX High Frequency Misalignment Monitor Methodology: [See the full report](#) (*MSSTMEUR*)

Historical data for the FX Tactical Indicators and Positioning Tracker are available on the [Morgan Stanley Matrix Platform](#).

\* US Pat. No. 7,617,143.



November 14, 2013  
FX Pulse

## Global FX Strategy Team

---

Head of Global FX Strategy (London)	Hans Redeker, Managing Director	<a href="mailto:hans.redeker@morganstanley.com">hans.redeker@morganstanley.com</a>	(+44 20) 7425 2430
Head of EM Macro Strategy (New York)	Rashique Rahman, Managing Director	<a href="mailto:rashique.rahman@morganstanley.com">rashique.rahman@morganstanley.com</a>	(+1 212) 761 6533
Head of US FX Strategy Team	Gabriel de Kock, Executive Director	<a href="mailto:gabriel.de.kock@morganstanley.com">gabriel.de.kock@morganstanley.com</a>	(212) 761 5154
Currency Strategist (New York)	Evan Brown, CFA, Associate	<a href="mailto:evan.brown@morganstanley.com">evan.brown@morganstanley.com</a>	(212) 761 2786
Currency Strategist (New York)	Vandit D. Shah, Analyst	<a href="mailto:vandit.shah@morganstanley.com">vandit.shah@morganstanley.com</a>	(212) 761 1890
Head of European FX Strategy	Ian Stannard, Executive Director	<a href="mailto:ian.stannard@morganstanley.com">ian.stannard@morganstanley.com</a>	(44 20) 7677 2985
Currency Strategist (London)	Dara Blume, Associate	<a href="mailto:dara.blume@morganstanley.com">dara.blume@morganstanley.com</a>	(44 20) 7425 5749
Currency Strategist (London)	Sheena Shah, Analyst	<a href="mailto:sheena.shah@morganstanley.com">sheena.shah@morganstanley.com</a>	(44 20) 7677 6457
AXJ FX & Rates Strategy	Geoffrey Kendrick, Executive Director	<a href="mailto:geoffrey.kendrick@morganstanley.com">geoffrey.kendrick@morganstanley.com</a>	(852) 2239 7399
Rates/FX Strategist (Hong Kong)	Kewei Yang, Executive Director	<a href="mailto:kewei.yang@morganstanley.com">kewei.yang@morganstanley.com</a>	(852) 3963 0562
Currency Strategist (Hong Kong)	Calvin Tse, Associate	<a href="mailto:calvin.tse@morganstanley.com">calvin.tse@morganstanley.com</a>	(852) 3963 0551
AXJ Strategy (Hong Kong)	Kritika Kashyap, Associate	<a href="mailto:kritika.kashyap@morganstanley.com">kritika.kashyap@morganstanley.com</a>	(852) 2239 7179
Global FX/EM Quantitative Strategist (New York)	Juha Seppala, Vice President	<a href="mailto:juha.seppala@morganstanley.com">juha.seppala@morganstanley.com</a>	(212) 761 1949
LATAM Macro Strategy (New York)	Felipe Hernandez, Vice President	<a href="mailto:felipe.hernandez1@morganstanley.com">felipe.hernandez1@morganstanley.com</a>	(212) 296 4996
LATAM Macro Strategy (New York)	Robert Habib, Associate	<a href="mailto:robert.habib@morganstanley.com">robert.habib@morganstanley.com</a>	(212) 761 1875
Global EM Macro Strategy (London)	James Lord, Vice President	<a href="mailto:james.lord@morganstanley.com">james.lord@morganstanley.com</a>	(44 20) 7677 3254
CEEMEA Macro Strategy (London)	Meena Bassily, Associate	<a href="mailto:meena.bassily@morganstanley.com">meena.bassily@morganstanley.com</a>	(44 20) 7677 0031

Morgan Stanley entities: London – Morgan Stanley & Co. International plc; New York – Morgan Stanley & Co. LLC; Hong Kong – Morgan Stanley Asia Limited.

November 14, 2013  
FX Pulse

This material includes trade flow data that have been compiled by the Morgan Stanley Foreign Exchange trading desks from transactions executed by Morgan Stanley in the over-the-counter foreign exchange markets with its global institutional and high net worth individual customer base. The data have been aggregated and anonymized in a manner that does not identify the underlying transactions of any particular customer. In compiling, interpreting, and analyzing the data, Morgan Stanley makes certain assumptions, which may vary over time, relating to the classification of an account as a client. No representation is made that the aggregated data are reflective of trading patterns or trends in the markets included in this material for any particular type of customer.

## Disclosure Section

The information and opinions in Morgan Stanley Research were prepared or are disseminated by Morgan Stanley & Co. LLC and/or Morgan Stanley C.T.V.M. S.A. and/or Morgan Stanley Mexico, Casa de Bolsa, S.A. de C.V. and/or Morgan Stanley Canada Limited and/or Morgan Stanley & Co. International plc and/or RMB Morgan Stanley (Proprietary) Limited and/or Morgan Stanley MUFG Securities Co., Ltd. and/or Morgan Stanley Capital Group Japan Co., Ltd. and/or Morgan Stanley Asia Limited and/or Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research) and/or Morgan Stanley Taiwan Limited and/or Morgan Stanley & Co International plc, Seoul Branch, and/or Morgan Stanley Australia Limited (A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents), and/or Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents), and/or Morgan Stanley India Company Private Limited, and/or PT Morgan Stanley Asia Indonesia and their affiliates (collectively, "Morgan Stanley").

For important disclosures, stock price charts and equity rating histories regarding companies that are the subject of this report, please see the Morgan Stanley Research Disclosure Website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures), or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY, 10036 USA.

For valuation methodology and risks associated with any price targets referenced in this research report, please email [morganstanley.research@morganstanley.com](mailto:morganstanley.research@morganstanley.com) with a request for valuation methodology and risks on a particular stock or contact your investment representative or Morgan Stanley Research at 1585 Broadway, (Attention: Research Management), New York, NY 10036 USA.

### Global Research Conflict Management Policy

Morgan Stanley Research has been published in accordance with our conflict management policy, which is available at [www.morganstanley.com/institutional/research/conflictolicies](http://www.morganstanley.com/institutional/research/conflictolicies).

### Important Disclosures

Morgan Stanley is not acting as a municipal advisor and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of Section 975 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Morgan Stanley Research does not provide individually tailored investment advice. Morgan Stanley Research has been prepared without regard to the circumstances and objectives of those who receive it. Morgan Stanley recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. The appropriateness of an investment or strategy will depend on an investor's circumstances and objectives. The securities, instruments, or strategies discussed in Morgan Stanley Research may not be suitable for all investors, and certain investors may not be eligible to purchase or participate in some or all of them. Morgan Stanley Research is not an offer to buy or sell any security/instrument or to participate in any trading strategy. The value of and income from your investments may vary because of changes in interest rates, foreign exchange rates, default rates, prepayment rates, securities/instruments prices, market indexes, operational or financial conditions of companies or other factors. There may be time limitations on the exercise of options or other rights in securities/instruments transactions. Past performance is not necessarily a guide to future performance. Estimates of future performance are based on assumptions that may not be realized. If provided, and unless otherwise stated, the closing price on the cover page is that of the primary exchange for the subject company's securities/instruments.

The fixed income research analysts, strategists or economists principally responsible for the preparation of Morgan Stanley Research have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues (which include fixed income trading and capital markets profitability or revenues), client feedback and competitive factors. Fixed Income Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed by Morgan Stanley or the profitability or revenues of particular trading desks.

With the exception of information regarding Morgan Stanley, Morgan Stanley Research is based on public information. Morgan Stanley makes every effort to use reliable, comprehensive information, but we make no representation that it is accurate or complete. We have no obligation to tell you when opinions or information in Morgan Stanley Research change apart from when we intend to discontinue equity research coverage of a subject company. Facts and views presented in Morgan Stanley Research have not been reviewed by, and may not reflect information known to, professionals in other Morgan Stanley business areas, including investment banking personnel.

Morgan Stanley may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

To our readers in Taiwan: Information on securities/instruments that trade in Taiwan is distributed by Morgan Stanley Taiwan Limited ("MSTL"). Such information is for your reference only. The reader should independently evaluate the investment risks and is solely responsible for their investment decisions. Morgan Stanley Research may not be distributed to the public media or quoted or used by the public media without the express written consent of Morgan Stanley. Information on securities/instruments that do not trade in Taiwan is for informational purposes only and is not to be construed as a recommendation or a solicitation to trade in such securities/instruments. MSTL may not execute transactions for clients in these securities/instruments. To our readers in Hong Kong: Information is distributed in Hong Kong by and on behalf of, and is attributable to, Morgan Stanley Asia Limited as part of its regulated activities in Hong Kong. If you have any queries concerning Morgan Stanley Research, please contact our Hong Kong sales representatives.

Morgan Stanley is not incorporated under PRC law and the research in relation to this report is conducted outside the PRC. Morgan Stanley Research does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC. PRC investors shall have the relevant qualifications to invest in such securities and shall be responsible for obtaining all relevant approvals, licenses, verifications and/or registrations from the relevant governmental authorities themselves.

Morgan Stanley Research is disseminated in Brazil by Morgan Stanley C.T.V.M. S.A.; in Japan by Morgan Stanley MUFG Securities Co., Ltd. and, for Commodities related research reports only, Morgan Stanley Capital Group Japan Co., Ltd; in Hong Kong by Morgan Stanley Asia Limited (which accepts responsibility for its contents); in Singapore by Morgan Stanley Asia (Singapore) Pte. (Registration number 199206298Z) and/or Morgan Stanley Asia (Singapore) Securities Pte Ltd (Registration number 200008434H), regulated by the Monetary Authority of Singapore (which accepts legal responsibility for its contents and should be contacted with respect to any matters arising from, or in connection with, Morgan Stanley Research); in Australia to "wholesale clients" within the meaning of the Australian Corporations Act by Morgan Stanley Australia Limited A.B.N. 67 003 734 576, holder of Australian financial services license No. 233742, which accepts responsibility for its contents; in Australia to "wholesale clients" and "retail clients" within the meaning of the Australian Corporations Act by Morgan Stanley Wealth Management Australia Pty Ltd (A.B.N. 19 009 145 555, holder of Australian financial services license No. 240813, which accepts responsibility for its contents); in Korea by Morgan Stanley & Co International plc, Seoul Branch; in India by Morgan Stanley India Company Private Limited; in Vietnam this report is issued by Morgan Stanley Singapore Holdings; in Canada by Morgan Stanley Canada Limited, which has approved of and takes responsibility for its contents in Canada; in Germany by Morgan Stanley Bank AG, Frankfurt am Main and Morgan Stanley Private Wealth Management Limited, Niederlassung Deutschland, regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin); in Spain by Morgan Stanley, S.V., S.A., a Morgan Stanley group company, which is supervised by the Spanish Securities Markets Commission (CNMV) and states that Morgan Stanley Research has been written and distributed in accordance with the rules of conduct applicable to financial research as established under Spanish regulations; in the United States by Morgan Stanley & Co. LLC, which accepts responsibility for its contents. Morgan Stanley & Co. International plc, authorized by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and the Prudential Regulatory Authority, disseminates in the UK research that it has prepared, and approves solely for the purposes of section 21 of the Financial Services and Markets Act 2000, research which has been prepared by any of its affiliates. Morgan Stanley

November 14, 2013

FX Pulse

Private Wealth Management Limited, authorized and regulated by the Financial Conduct Authority, also disseminates Morgan Stanley Research in the UK. Private U.K. investors should obtain the advice of their Morgan Stanley & Co. International plc or Morgan Stanley Private Wealth Management representative about the investments concerned. RMB Morgan Stanley (Proprietary) Limited is a member of the JSE Limited and regulated by the Financial Services Board in South Africa. RMB Morgan Stanley (Proprietary) Limited is a joint venture owned equally by Morgan Stanley International Holdings Inc. and RMB Investment Advisory (Proprietary) Limited, which is wholly owned by FirstRand Limited.

The trademarks and service marks contained in Morgan Stanley Research are the property of their respective owners. Third-party data providers make no warranties or representations relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability for any damages relating to such data. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and S&P. Morgan Stanley bases projections, opinions, forecasts and trading strategies regarding the MSCI Country Index Series solely on public information. MSCI has not reviewed, approved or endorsed these projections, opinions, forecasts and trading strategies. Morgan Stanley has no influence on or control over MSCI's index compilation decisions. Morgan Stanley Research or portions of it may not be reprinted, sold or redistributed without the written consent of Morgan Stanley. Morgan Stanley research is disseminated and available primarily electronically, and, in some cases, in printed form. Additional information on recommended securities/instruments is available on request.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (DIFC Branch), regulated by the Dubai Financial Services Authority (the DFSA), and is directed at Professional Clients only, as defined by the DFSA. The financial products or financial services to which this research relates will only be made available to a customer who we are satisfied meets the regulatory criteria to be a Professional Client.

The information in Morgan Stanley Research is being communicated by Morgan Stanley & Co. International plc (QFC Branch), regulated by the Qatar Financial Centre Regulatory Authority (the QFCRA), and is directed at business customers and market counterparties only and is not intended for Retail Customers as defined by the QFCRA.

As required by the Capital Markets Board of Turkey, investment information, comments and recommendations stated here, are not within the scope of investment advisory activity. Investment advisory service is provided in accordance with a contract of engagement on investment advisory concluded between brokerage houses, portfolio management companies, non-deposit banks and clients. Comments and recommendations stated here rely on the individual opinions of the ones providing these comments and recommendations. These opinions may not fit to your financial status, risk and return preferences. For this reason, to make an investment decision by relying solely to this information stated here may not bring about outcomes that fit your expectations.

11-14-13 cc/po/sm/jf

**The Americas**

1585 Broadway  
New York, NY 10036-8293  
United States  
Tel: +1 (1)212 761 4000

**Europe**

20 Bank Street, Canary Wharf  
London E14 4AD  
United Kingdom  
Tel: +44 (0) 20 7 425 8000

**Japan**

4-20-3, Ebisu, Shibuya-ku,  
Tokyo 150-6008  
Japan  
Tel: +81 (0)3 5424 5000

**Asia/Pacific**

1 Austin Road West  
Kowloon  
Hong Kong  
Tel: +852 2848 5200