

City National Foreign Exchange Quarterly Forecast – Q1 2010

EURO (USD per EUR)		Key Drivers and Currency View	
 EUR Bullish	FORECAST	The euro continues to be seen as the surrogate for the USD and should continue to benefit in the near term as US budget deficits, debt obligations, and continued diversification away from the USD benefit the euro. While US interest rates have moved up sharply during December, it is still widely anticipated that any official changes in interest rates by the Fed are still many months away. The ECB continues to be more biased toward inflation which continues to support the euro. Once it becomes clear that the Federal Reserve will move official interest rates higher, the euro should begin to move lower.	
	Q1 '10		Q2 '10
	1.5000		1.4200
JAPANESE YEN (JPY per USD)		Key Drivers and Currency View	
 JPY Bearish	FORECAST	The Japanese economy continues to remain weak as it is heavily dependent on exports for growth. Japanese interest rates remain extremely low and as other central banks begin to raise interest rates, the yen should become the defacto low yielder again. With interest rates rising among the G7 countries, the potential exists for yen carry trades to once again be in vogue and cause the yen to weaken across the board. With the LDP no longer governing and the Democratic Party of Japan in charge, it appears that there is policy bias toward allowing the yen to weaken to help support exporters.	
	Q1 '10		Q2 '10
	96.00		102.00
BRITISH POUND (USD per GBP)		Key Drivers and Currency View	
 GBP Neutral	FORECAST	The UK economy remains soft but there are growing signs that it is bottoming. The Bank of England's aggressive quantitative easing policy and overly dovish comments regarding the pound continue to keep the currency weak against other G7 currencies. PM Brown has weathered a political storm for now but the Labour Party is still likely to bear the brunt of voter discontent. In the near term, the pound looks like it will continue to consolidate against the USD but will lose ground to the euro and other G7 currencies whose central bank monetary policies are not as dovish.	
	Q1 '10		Q2 '10
	1.6400		1.5200
SWISS FRANC (CHF per USD)		Key Drivers and Currency View	
 CHF Bullish	FORECAST	The Swiss economy is showing signs of bottoming and recovering faster than the Eurozone economy and Swiss employment has already exceeded its pre-crisis peak. Expectations are building for the Swiss National Bank to begin tightening interest rates in Q1 well ahead of the ECB and that action should continue to support the Swiss franc against the euro and the USD. However, changes in Swiss bank secrecy laws could hurt sentiment going forward and cause foreign investment flows to decline. We continue to look for the Swiss franc to broadly mirror movements in the euro.	
	Q1 '10		Q2 '10
	.9600		1.0200
AUSTRALIAN DOLLAR (USD per AUD)		Key Drivers and Currency View	
 AUD Bullish	FORECAST	Australia has some of the strongest economic fundamentals of the major G7 countries. With its abundant natural resources and close proximity to Asia, it is well-positioned for the global recovery. The Reserve Bank of Australia was the first major bank to raise interest rates and expectations are strong for further rate increases through 2010. Despite US interest rates having moved higher in December, the Australian dollar continued to appreciate. Continued strong growth from China will stimulate Australia's economy and the AUD's correlation with rising global stock markets should continue to support this currency.	
	Q1 '10		Q2 '10
	.9700		.9200
NEW ZEALAND DOLLAR (USD per NZD)		Key Drivers and Currency View	
 NZD Bullish	FORECAST	The New Zealand dollar continues to perform strongly but lags behind the stronger Australian dollar. Similar correlations that affect other commodity-linked currencies apply to the NZD and commodity price increases along with global equities rising will help propel the currency to higher levels in the near term. Domestic economic indicators demonstrated signs of an economic recovery over the past few months. One differentiating factor between Australia and New Zealand is that the Reserve bank of New Zealand remains more dovish in its language than the Reserve Bank of Australia.	
	Q1 '10		Q2 '10
	.7600		.7000
CANADIAN DOLLAR (CAD per USD)		Key Drivers and Currency View	
 CAD Bullish	FORECAST	The Canadian dollar has been consolidating over the past three months and has lagged behind other commodity-linked currencies. The financial landscape and bank health in Canada are better than in the United States, helping investment flows into the Canadian dollar. In light of the Bank of Canada's recent comments about the appreciating CAD, the market is looking for a continued dovish stance regarding interest rate increases. Canada's expanding current account deficit could leave the currency vulnerable over the medium term as well.	
	Q1 '10		Q2 '10
	1.0000		1.0400
MEXICAN PESO (MXN per USD)		Key Drivers and Currency View	
 MXN Bullish	FORECAST	The Mexican Peso continued to consolidate during Q4 as it did during Q3 and Mexico's economy has been dealing with the effects of a North American and global slowdown. Accordingly, the Banco de Mexico shifted gears and has been lowering interest rates. Also, domestic politics and drug violence are continuing to undermine investor flows into Mexico. The peso will largely mirror general trends in the emerging market sector but recently has shown an ability to out-perform other emerging market currencies. We continue to look for the peso to remain firm in the near term but remain range-bound.	
	Q1 '10		Q2 '10
	12.50		12.90
CHINESE YUAN (CNY per USD)		Key Drivers and Currency View	
 CNY Bullish	FORECAST	The Chinese yuan has been one of the most stable currencies against the USD since Q3 2008 despite mounting global political pressure. Recent US protectionist rhetoric and policies as well as increasing global political rhetoric will continue to exert pressure on the Chinese government to allow for a less-regulated currency. China is attempting to rebalance its domestic growth with exports and we anticipate the yuan will continue to appreciate as the global economy stabilizes. Expectations are building for interest rate increases in the first half of 2010 which might allow for some modest currency appreciation.	
	Q1 '10		Q2 '10
	6.7800		6.7000

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