

**FX Outlook – The Morning After**  
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Kuala Lumpur, 25 June 2010 – EZ and EU fiscal woes remain wildcards on the global markets front and we are potentially looking for summer doldrums to develop, confining markets to a wide choppy range. Background worries regarding the contagion from EZ fiscal/funding issues ultimately having a detrimental effect on global demand are expected to persist.

Previously, we had noted that by the end of 1H10, the flush of initial optimism regarding the global recovery will fade and this has come to pass as envisioned. Note that the RBA for example is currently in a wait-and-see mode with more and more global central banks explicitly mentioning potential drags on growth from the EZ front in their respective policy statements.

We still do not foresee a positive USD-specific dynamic in G10 (until the latter part of this year) except perhaps via the USD-JPY. However, it remains undeniable that the Fed remains in a better place compared to the ECB, and the USD is expected to eventually gain some traction against the majors if/when Fed rhetoric tightens. On a related note, growth/commodity linked currencies are expected to remain slightly more resilient to potential USD strength.

We expect the growth/recovery theme to remain largely intact despite the recent woes in the EU, and continue to see the EUR at a disadvantage relative to the commodity-linked G10 currencies as well as with respect to the Asian currencies.

China is granting renewed flexibility for the CNY, in line with our original projections (which were muddied by recent EZ concerns) and this may impart further appreciation pressure on Asian currencies.

We expect USD-Asia to continue to exhibit an inherent bias for the downside on investor appetite although we have flattened slightly our southward gradient for the regional pairs compared to last month. On this front, we expect the INR, IDR (buffered further by carry on a total return basis), KRW to remain out performers on a spot basis) in the next 6 months in the absence of another protracted global financial crisis.

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