The Global FX Monthly Analyst

May 2010

- We review the outlook for EUR/$ after the Eurozone fiscal stabilisation package.
- Growth, rate differentials, external balances and positioning suggest investors are overly negative on the Euro.
- We re-emphasise our unchanged EUR/$ forecasts at 1.35 flat.
- The recent market correction provides opportunities to add pro-cyclical exposure.

Contents

Recommended Top Trades

Our Top Trades for 2010

Trade	Entry Level	Target
1. Short S&P 500 Dec10/Dec11 Forward Starting Variance Swap	28.20	21.00
2. Long Russian Equities (RDXUSD)	1645.9	2050
3. Long GBP/NZD	2.29	2.60
4. Pay UK Rates vs. Receiving AUD Rates via 1-yr Forward 2-yr Swaps**	-268.5bp	-150bp
5. Pay 2y Rates in Turkey	8.77%	12.00%
6. Long Credit Protection on Spain, Short Credit Protection on Ireland*	70.2bp	20bp
7. Long 'Growth' FX Current	103.5	111.8
8. Long PLN/JPY	32.1	37.5
9. Long Chinese Equities (HSCEI)***	12616.01	15000

*Closed 29 Jan 2010; **Closed 11 Feb 2010; ***Opened on 01 Apr 2010.

Tactical FX Trade Performance Fiscal Year 2010

	Number	Cum Return	Avg Return	Avg Duration
All Trades	17	13.6%	0.80%	21 days
Profitable	10	27.8%	2.78%	27 days
Loss-Making	7	-14.2%	-2.03%	12 days

Please see our *Global Markets Daily Comment* and *Trade Updates* for changes in these live trading strategies, as they change in line with market developments and our views.

Major FX Forecasts

		3-Month Horizon		6-Month Horizon		12-Month Horizon	
	Current*	Forward	**Forecast**	Forward	**Forecast**	Forward	**Forecast**
EUR/$	**1.26**	1.26	**1.35**	1.26	**1.35**	1.27	**1.35**
$/¥	**93.2**	93.1	**92.0**	93.0	**94.0**	92.6	**98.0**
EUR/¥	**117.7**	117.7	**124.2**	117.6	**126.9**	117.3	**132.3**
EUR/CHF	**1.40**	1.40	**1.40**	1.40	**1.38**	1.39	**1.40**
CHF/¥	**84.0**	84.0	**88.7**	84.1	**92.0**	84.1	**94.5**
$/CHF	**1.11**	1.11	**1.04**	1.11	**1.02**	1.10	**1.04**
EUR/£	**0.85**	0.85	**0.84**	0.85	**0.84**	0.86	**0.84**
£/$	**1.48**	1.48	**1.61**	1.48	**1.61**	1.48	**1.61**
£/¥	**138.1**	138.0	**147.9**	137.7	**151.1**	137.1	**157.5**
£/CHF	**1.64**	1.64	**1.67**	1.64	**1.64**	1.63	**1.67**
EUR/NOK	**7.78**	7.82	**7.70**	7.86	**7.70**	7.93	**7.60**
EUR/SEK	**9.54**	9.54	**9.60**	9.54	**9.40**	9.56	**9.00**
A$/$	**0.89**	0.88	**0.95**	0.87	**0.95**	0.85	**0.90**
NZ$/$	**0.71**	0.71	**0.74**	0.70	**0.74**	0.69	**0.70**
$/C$	**1.02**	1.02	**0.98**	1.02	**0.98**	1.03	**1.03**
$/CNY	**6.83**	6.76	**6.74**	6.73	**6.66**	6.67	**6.49**

* Close 12 May 10

Feature

EUR/$ after the Stability Package

Last weekend, European policymakers finally moved decisively to contain increasing sovereign liquidity risks. However, the Euro remains under pressure as the focus shifts towards the FX implications of fiscal tightening and potential monetary expansion. After weighing up the growth and interest rate implications, as well as positioning, fair value and external balances, we decided to keep our EUR/$ forecasts at 1.35 flat in 3, 6 and 12 months. Beyond EUR/$ we discuss how to position in FX for continued strong cyclical activity across the world.

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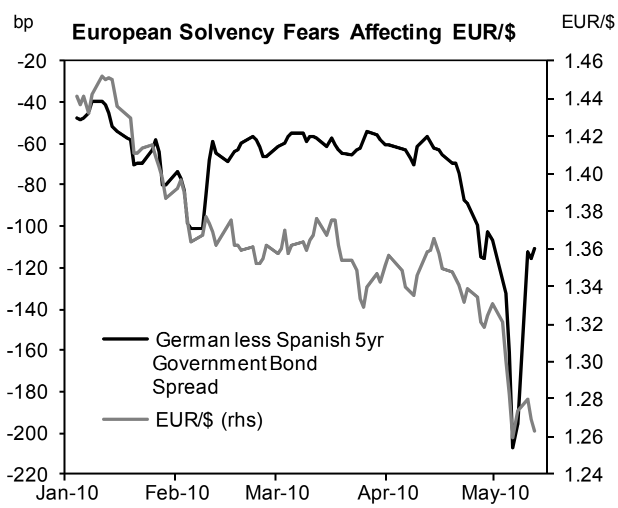
1. The Euro-zone Stabilisation Package

One of the most important economic and political developments in recent months has been last weekend's Euro-zone stabilisation package. After months of pressure on peripheral EMU member economies, prolonged by haggling over the Greek rescue, contagion risks intensified notably in early May.

Before the announcement over the weekend of May 8/9, markets increasingly focused on liquidity, funding costs and solvency risks. The resulting feedback loops and contagion lifted the risk premia across many exposed asset classes. Most alarming was the fact that funding costs rose to such an extent for some Euro-zone countries, notably Spain, that questions marks began to appear over their solvency. That happened despite the fact that Spain's fiscal situation is considered far less challenging than that of Greece's, for example, as Erik Nielsen and team have analysed in depth. At one stage, this dynamic even started to affect non-Euro-zone assets.

The European Stability Package largely defused this dynamic as witnessed by the rapid decline in many risk premia. Peripheral bond spreads over Bunds narrowed, equity indices with southern European exposure reversed some of their previous underperformance and even the Euro bounced initially.



Source: Goldman Sachs

However, as a first step, the Stabilisation Package (see box for details) really only provides a liquidity buffer, giving some much-needed room to accelerate fiscal consolidation.

Summary and Key Points

- We review the outlook for EUR/$ after the Euro-zone fiscal stabilisation package.
- After worries about sovereign default risk before the package, the focus now shifts to fiscal contraction.
- We analyse in some detail the transmission channels, including growth and rate differentials as well external balances
- The overall conclusion is that investors appear overly negative on the Euro, which is also reflected in positioning indicators.
- We re-emphasise our unchanged EUR/$ forecasts at 1.35 flat.
- Beyond the EUR we discuss opportunities to add pro-cyclical exposure during the current market correction.

EU Package at a Glance

This is a comprehensive package of measures aimed to reassure markets in the near term: (a) it will support government bond markets and give Greece and other peripheral countries a reasonable shot at making their fiscal austerity and re-structuring programmes work; b) limit market fears of contagion to other countries or banks, where problems are in any case less severe, and c) mitigate short-term funding stresses.

The centrepiece is a EUR 500bn conditional mutual financial support scheme for EU sovereign states, boosted by further assistance from the IMF. These conditional contingent liabilities binding EMU sovereigns will not appear under the Maastricht deficit and debt measures and require no additional fundraising, for now.

To ensure depth and liquidity in those debt markets, the ECB announced that it will conduct interventions in the Euro-area public and private debt securities markets. The ECB plans to sterilise these purchases so as to not alter the stance of monetary policy.

To support financial institutions and banks within the Euro-area, the ECB will conduct 3-mth and 6-mth fixed rate tenders, and global central banks have also reactivated temporary but unlimited US Dollar swap lines with the Federal Reserve to avert any acute funding stresses.

Finally, to prevent the aforementioned measures from causing slippage in the fiscal austerity programmes of the relevant nation states, the European Commission presented proposals on how to improve the governance of the Euro area, including 'strengthening' the Stability and Growth Pact (involving a discussion on the introduction of more effective sanctions).

Fixing sovereign solvency issues has to be seen as the critical second step in the longer-term process towards fiscal stability in the Euro-zone. Nevertheless, risks remain. Greece appeared to have converged towards a potentially unsustainable fiscal trajectory some time ago, and we continue to assume a larger-than-even chance that Greece will have to undertake a voluntary debt restructuring sometime in the future. The primary aim of the Euro-zone package is therefore to create a window that allows other countries to implement the necessary fiscal consolidation and signal effectively that a repeat of the Greek outcome can be avoided.

So far the news has been very encouraging. As part of the globally coordinated attempt to stabilise financial markets and limit contagion, Spain and Portugal have announced ambitious fiscal consolidation plans this week.

The third and final step in the long-term stabilisation of the Euro-zone is improved coordination, control and enforcement of fiscal policy across member states. Once again, the first proposals have been announced by the EU Commission this week. This policy area is clearly of less importance in the short-term when compared with the more immediate liquidity and solvency risks, but in some way it is the most important structural change that could help prevent a repeat of the recent episode. Tough choices will have to be made by national governments regarding the degree of fiscal sovereignty that has to be surrendered in exchange for improved coordination and enforcement. No doubt we are talking about a multi-year process, though the recent crisis has probably increased the sense of urgency to fix the related problems.

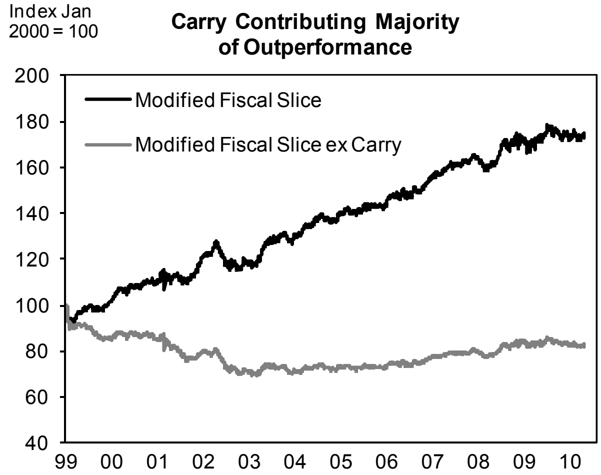
One of the most important questions currently faced by FX markets is how the sovereign crisis in Euroland and the measures taken in the meantime to address it will affect the Euro. Markets seem to have reached the conclusion that the transmission channels have changed but the direction for the Euro remains the same, i.e. further EUR/$ depreciation. In the following sections we discuss these issues in some detail. While we broadly agree with the transmission channels, the bear case may be a lot weaker than people realise. The main issues we see are that:

1) the implicitly-assumed negative growth impact of Euro-zone fiscal contraction is exaggerated. Detailed analysis suggests the growth impact of Greek, Spanish, Portuguese and Irish fiscal consolidation will be offset by a fiscal expansion in Germany;

2) many Euro bears frequently seem to overlook the US need for fiscal consolidation as well, which corresponds to a negative growth impact on USD and external imbalances and which will represent a drag on the Dollar.

This does not mean that there are no EUR/$ downside risks. The situation remains fluid, price action choppy and political risks linger. Macro data can change and while the EUR is now approximately fairly valued, it is far from being outright cheap.

Overall, however, EUR/$ downside risks seem more than fully priced at current levels, a view that is also consistent with evidence of extremely large speculative short EUR/$ positions.



Source: GS Global ECS Research

2. How the Euro-zone Stabilisation Package Affects FX

Over the last couple of months, we have analysed in several pieces the linkages between fiscal policy and FX. In particular, in the March FX Monthly and a related Global Viewpoint by Mark Tan and Roman Maranets, we identified two key transmission channels.

First, fiscal expansion typically generates positive currency returns, though much of this performance is the result of positive interest rate differentials, which suggests tighter monetary policy. By implication, fiscal contraction leads to lower currency returns mainly due to lower interest rates. Evidence of systematic moves in the spot rate is not particularly strong, as can be seen in the chart above. In fact, most of the returns are the result of interest rate differentials.

The second transmission mechanism is linked to risk premium in a broad sense. High debt levels and concerns about the solvency of a government lead to falling asset prices and a declining currency, which in turn reflect a higher default risk premium. When contagion kicks in and investors begin to worry about the probability of a default affecting a broader range of asset classes, the feedback loops can lead to a rapid increase in the risk premium.

The higher the debt levels, the more powerful this mechanism: even the otherwise positive effect from further fiscal expansion will at some stage be dominated by concerns over debt sustainability. For example, the performance of a fiscal FX strategy can be improved by excluding high-debt countries from the group of countries with notable fiscal deficits.

What is interesting about the Euro-zone stabilisation package is that it shifted the FX impact from one primary transmission mechanism to the other. The default risk has been largely backstopped but tighter fiscal policy, the next policy priority, is a marginal negative for the currency as well.

And finally, the fact that the ECB and Euro-zone central banks have intervened in bond markets is seen by many investors as an easing of monetary policy through the backdoor. The argument continues, that quantitative easing (QE) as an extension of traditional monetary policy, is likely to act as a marginal currency negative. While we do not disagree with the logic, the QE debate is largely irrelevant as we discuss below.

3. Cross-checking the EUR/$ bear case

Following the line of thought of the previous section, it is quite tempting to conclude that one negative Euro factor (solvency risks) is merely replaced by two new ones (fiscal tightening and QE), and as a result, EUR/$ will continue to go down in any scenario.

However, as we will explain in the following sections, we think this logic is an oversimplification.

The growth impact of fiscal tightening in the Euro-zone is tiny

Spain, Portugal, Greece and Ireland account for about 18% of Euro-zone GDP. Assuming a standard fiscal multiplier of about 1% and using the latest EU commission forecasts for reductions in the primary fiscal balances, we can get a very rough sense of the impact on growth. The fiscal tightening projected in 2010 relative to 2009 in these four countries will reduce Euro-zone GDP by about 0.49%. To put this into perspective, Germany's fiscal easing in 2010 will boost Euro-zone growth by about 0.48%. Taking all 16 countries together, the commission forecasts that cyclically-adjusted primary fiscal balances will translate into a net growth boost of 0.22%. To get a better sense for the sensitivity we could

Cyclically Adjusted Primary Balances and the Fiscal Multiplier

	Primary Balance (% of GDP)			Impact on
	2009	2010	Difference	Eurozone GDP*
Germany	0.8	-1.0	1.8	0.48
France	-3.9	-4.1	0.2	0.04
Italy	1.4	1.0	0.4	0.07
Spain	-7.8	-5.7	-2.1	-0.24
Netherlands	-1.4	-2.6	1.2	0.08
Belgium	-0.9	0.0	-0.9	-0.03
Austria	0.3	-0.8	1.1	0.03
Greece	-9.0	-2.8	-6.2	-0.17
Finland	1.5	-0.3	1.8	0.03
Ireland	-9.3	-5.9	-3.4	-0.06
Portugal	-5.4	-4.4	-1.0	-0.02
Slovakia	-4.9	-3.9	-1.0	-0.01
Luxembourg	1.7	-1.0	2.7	0.01
Slovenia	-2.3	-2.5	0.2	0.00
Cyprus	-3.3	-3.6	0.3	0.00
Malta	0.1	-0.5	0.6	0.00
GR+SP+PO+IR				**-0.49**
Total				**0.22**

*in %, assuming a fiscal multiplier of 1

Source: EU Commission Spring 2010 Forecast, GS Calculations assume that the four countries instead decide to push for a truly savage fiscal consolidation, posting a 1% primary balance surplus in 2010, while all other countries stick to their current plans. The net impact on Euro-zone GDP would still only be about -0.9% compared to current plans. Compare this to a Euro-zone trend growth rate of about 2.0-2.5% and it becomes clear that even very savage fiscal consolidations in those countries affected by rapidly rising funding costs would not depress GDP by more than the trend rate of growth.

Obviously, these calculations can only be a very rough guide and a more detailed scenario analysis may produce slightly different results. Indeed the fiscal multiplier is likely to be smaller than 1 given most empirical results in this area. Moreover, as Kevin Daly and Ben Broadbent have highlighted in a recent Global Paper (No.195, "Limiting the Fall-Out from Fiscal Adjustment"), fiscal consolidations based on expenditure-reduction have historically lead to growth acceleration.

Some of the additional measures announced by Spain and Portugal this week fall into this category, therefore suggesting that the net impact on growth from the additional measures may be small as well.

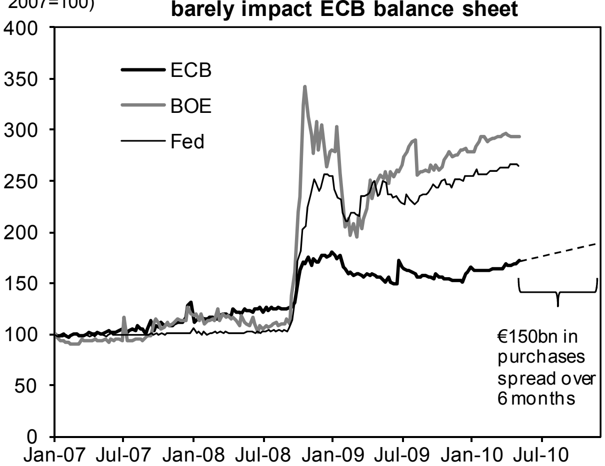
Overall, the main conclusion from a more detailed analysis of the direct growth implications of fiscal tightening is that these countries are pretty small relative to the overall Euro-zone. Claims of a massive Euro-zone growth slowdown therefore appear vastly overstated.

No QE by the ECB

Many market participants consider the ECB announcement to buy Euro-zone government bonds in the secondary market as a QE measure, and hence negative for EUR/$. We have some doubts. Firstly, QE is a rather theoretical concept when the financial sector already sits on large excess cash reserves – a point that can be made for the rest of the G3 and the UK as well.

Secondly, correlations between quantitative measures of QE and FX are very weak at best. But those who still insist on looking at quantitative measures should have a look at yesterday's *European Weekly Analyst.* In the feature piece, Erik Nielsen points out that even if the Eurosystem ends up buying ten times more than what the press has estimated they have done so far, i.e. about €150bn worth of assets, and that they will end up taking a 50% haircut on all these assets (in our view, a true tail end risk), this would imply a relatively modest loss of 3.8% of the Eurosystem's balance sheet. Moreover, the expansion of the balance sheets by the Fed or the BOE has been vastly greater (see chart), which undermines the argument that monetary easing in the Euro-zone may be main driver for a lower EUR/$.

Even €150bn in sovereign purchases would barely impact ECB balance sheet



Source: ECB, Bank of Englad, U.S. Federal Reserve

Thirdly and maybe most important, the ECB has re-confirmed that bond purchases in the secondary market will be fully sterilised. Taking these three factors together, it is extremely doubtful that ECB bond purchases have any relevance for EUR/$ beyond the undoubtedly positive effect of breaking the negative liquidity-solvency feedback loop which led to the crisis in early may.

On balance, we therefore consider the ECB bond purchases as a clear EUR positive that should help reduce the fiscal risk premium.

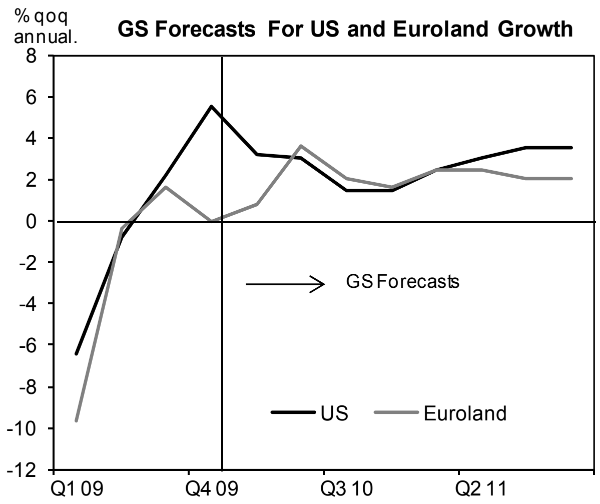
EUR/$ is as much about the US as about the Euro-zone

After many years where the primary focus was on the US side of EUR/$, and where the Euro often was simply defined as the 'non-Dollar', it is refreshing to see investors looking in detail at the Euro-zone. But with all the political developments in the Euro-zone, it is important not to forget about the USD leg.

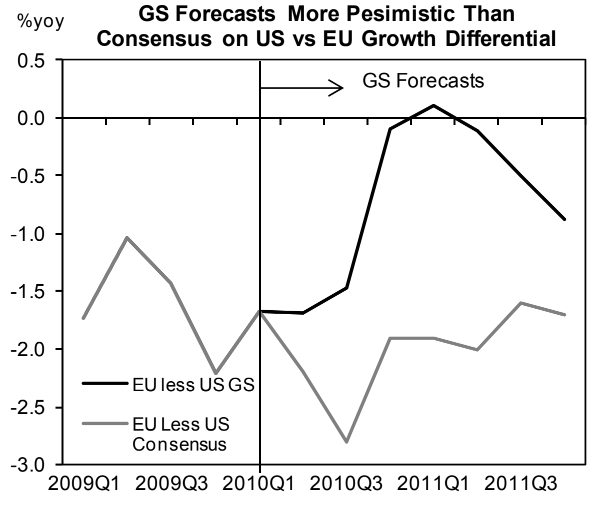
The chart in the previous section already highlights that the expected central bank balance sheet expansion in the Euro-zone is likely to remain substantially inferior to the comparable dynamics in the US. Moreover, comparing these non-conventional monetary policies across countries is a tricky and doubtful exercise anyway, as we highlighted above already.

With regards to comparing the impact of fiscal policy, it makes far more sense to look directly at growth forecasts. These should incorporate the net impact of anticipated fiscal policy changes and reflect all the other key driving forces. One of the reasons why our US growth forecast (see chart on the next page) shows a clear slowdown throughout 2010 is fiscal consolidation. From being net expansionary up until Q3 2010, fiscal policy will likely contribute negatively to growth for the rest of the forecasting horizon, i.e. in 2011.

By and large this is a similar profile, and of comparable magnitude, to that of the Euro-zone as a whole. But contrary to common perception there is little evidence of massive fiscal tightening affecting European growth relative to the US. At the margin, the risks seem skewed towards more fiscal contraction in the US than in the



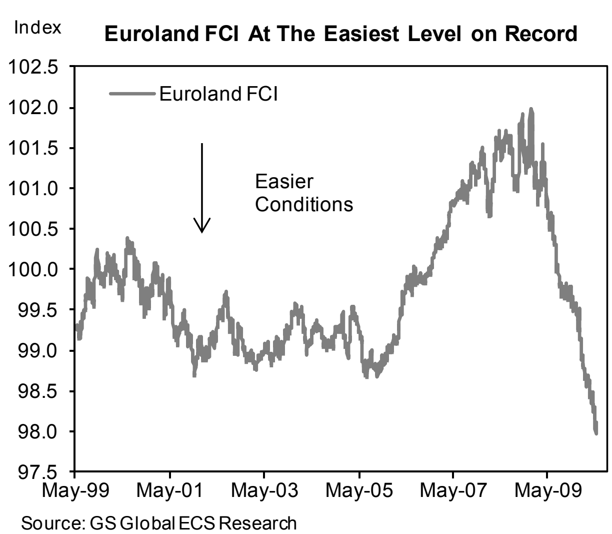
Source: GS Global ECS Research



Source: GS Global ECS Research

Euro-zone, mainly because the large Euro-zone countries (Germany, France and Italy) have run much smaller deficits than the US. The chart on the next page shows our current sequential growth forecasts with the interesting feature that the Euro-zone seems to be growing much faster relative to trend then the US. Said differently, our forecasts suggest that for much of 2010 and early 2011, the Euro-zone output gap will close while the US output gap will widen again.

Part of this dynamic seems to link to unsynchronized inventory cycles. While the growth boost is already in the process of fading in the US, it seems to be delayed by about two quarters in the Euro-zone, much of this likely to be due to the fact that European industry is more exposed to investment goods, which tend to lag activity in other sectors. The clear divergence in financial conditions recently is another reason to believe in strong European growth. If our forecasts are right, markets will be very much surprised by the strength of European growth relative to the US. Consensus estimates suggest that the Euro-zone will grow at about 1.5-2% below the US over much of the forecasting horizon.

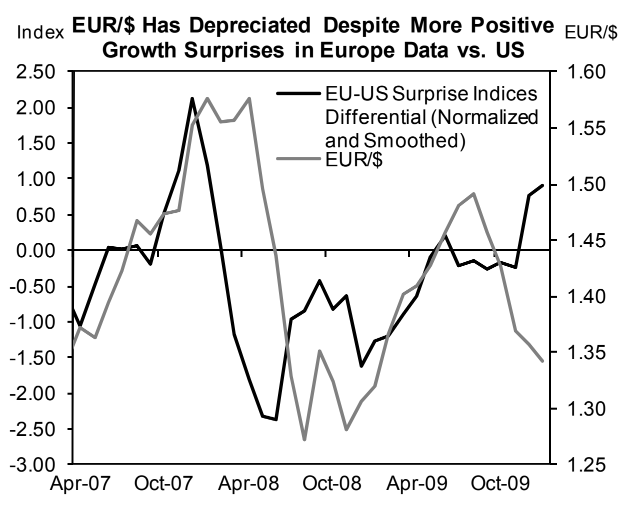


Source: GS Global ECS Research

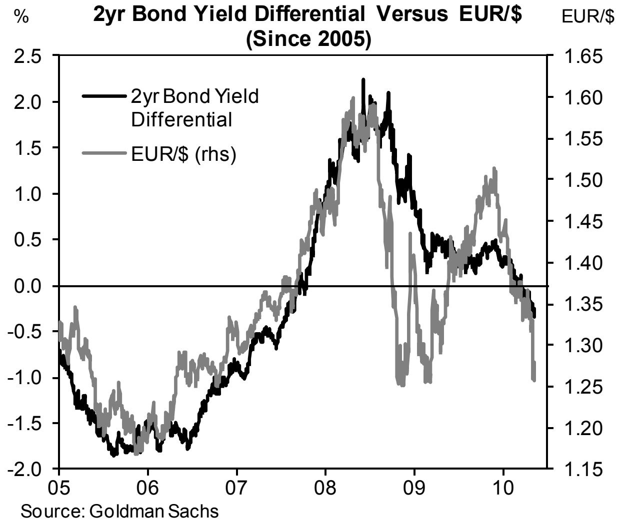
Given the bearish consensus forecasts on European growth, it is particularly interesting to note that the recent balance of positive surprises has come, to a much larger and stronger extent, from the European side than from the US. In the chart below we try to illustrate this point. We use our Europe and US GS Surprise Indices: we standardize them (subtract means and divide by vols) and then we subtract the US index from the European index to assess the relative strength of surprises. Finally we take the 3 month moving average of this differential to smooth the underlying volatility in the data. We juxtapose this to the EUR/$ exchange rate and see that data surprises have captured the broad shifts in EUR/$ trends over the last 3 years. Over the last 3 months however, while European data has surprised to the upside, EUR/$ has declined strongly.

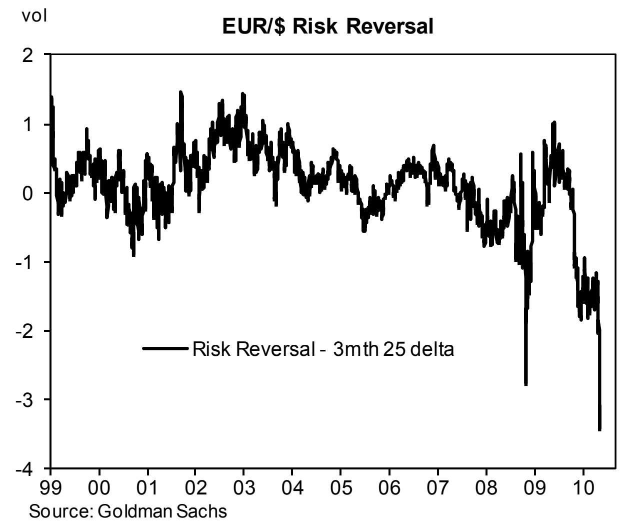
Rate differentials send conflicting messages

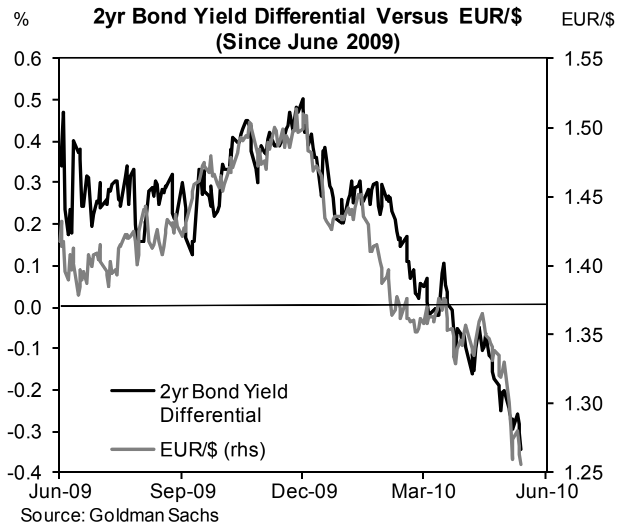
Much of the relative growth views will quite naturally be reflected in European less US rate differentials, which often display strong correlations with FX. This is indeed the case currently and as the chart over the page shows, movements in 2yr bond yield differentials over the last 12 months have closely tracked the EUR/$ spot. Linking this



Source: GS Global ECS Research





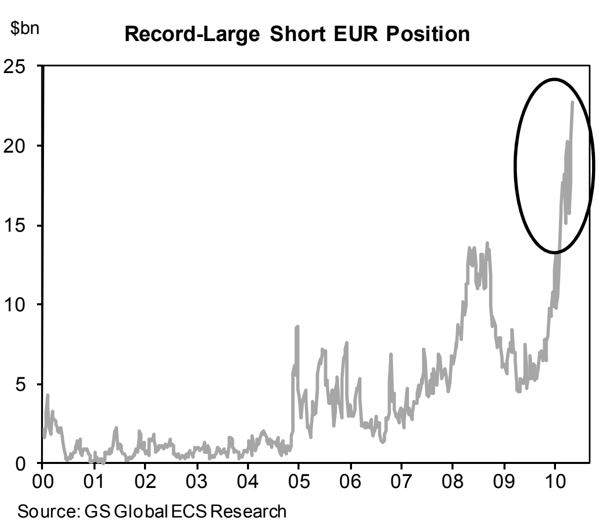


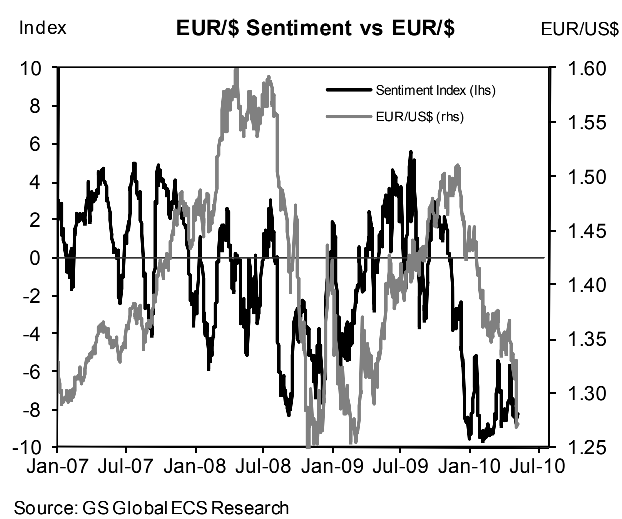
FX rate relationship to consensus growth expectations, one could conclude that EUR/$ should stay close to 1.25.

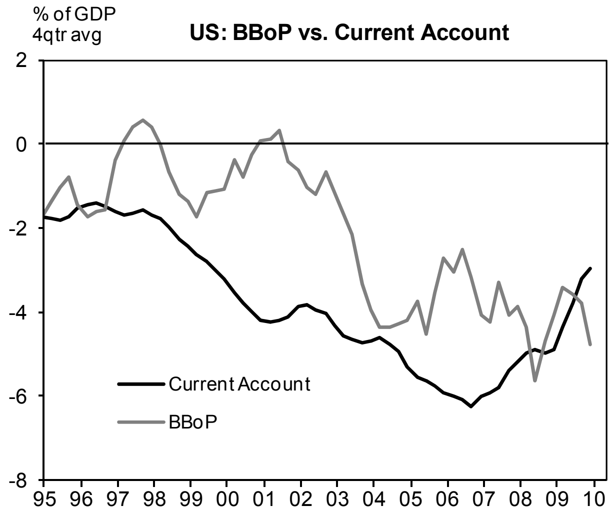
We have two issues with this conclusion. First, as already made clear above, we think that Euro-zone and US growth will track each other much more closely than the market anticipates. While inflation is not likely to be an issue on either side of the Atlantic, the ECB would likely prefer early normalisation of money market rates towards the 1% repo level, as long as such an action does not create additional sovereign stress in the Euro-zone. At the same time the Fed remains quite focused on the extent of spare capacity and hence believes there is no urgency in raising rates.

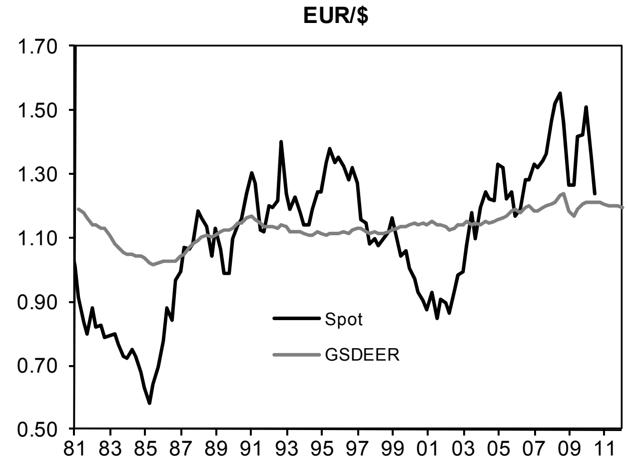
In fact we forecast that the ECB will normalise and then raise policy rates well before the Fed. On that basis, much of the recent EUR/$ move in interest rates could reverse.

But maybe more importantly, it is clear that the beta has been particularly high. Compared to longer-term averages, FX appeared to have reacted disproportionately strongly to relatively small changes in rate differentials. This becomes clearer when looking at the same chart over a much longer horizon, going back to early 2005. The FX-rate correlation has become a lot less stable since the financial crisis. Specifically, FX has frequently under or overshot the level indicated by rate differentials. In the short-term chart, the 80bp move in the rate spread since December explains a move from 1.52 to 1.26, some 26 "big-figures". But in the long-term chart, the rates move can only explain 8 "big-figure" changes in EUR/$.









Interestingly, the presumably more stable longer-term relationship suggests EUR/$ should be trading at about 1.35, therefore hinting at a clear undershooting.

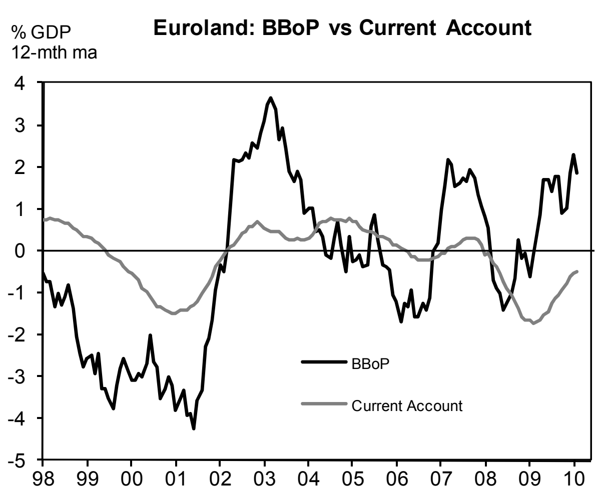
Speculative EUR/$ positioning at extremes

So far in this Euro move, positioning signals have not been a good guide. Our Sentiment Index, for example, has been at record stretched levels for close to 6 months now.

And the true extent of EUR bearish sentiment in the market only becomes clear when we look at some of the components, such as IMM positioning or option market risk reversals. In the past, we have looked at the information content of these indicators and found that extreme positioning has reverse indicator properties. However the signals seem to work better when sentiment indicators started to notably reverse from extremes.

The external positions remain EUR/$ favourable

Regular readers know the importance we attach to balance of payment developments as a key driver of FX. Here, the situation remains quite clear. The consolidation in the US current account has now clearly stalled and portfolio flows remain weak, apart from central bank purchases of USTs. Overall, the US continues to post very large BBoP deficits, which tend to be Dollar negative. Higher frequency data suggest not much has changed so far. On the Euro-zone side, a balanced current account and portfolio inflows are slightly EUR supportive. Finally, when looking at the bilateral balance of payment flows across the Atlantic, net Euro-zone inflows continue to dominate, starting with a persistent bilateral US trade deficit.



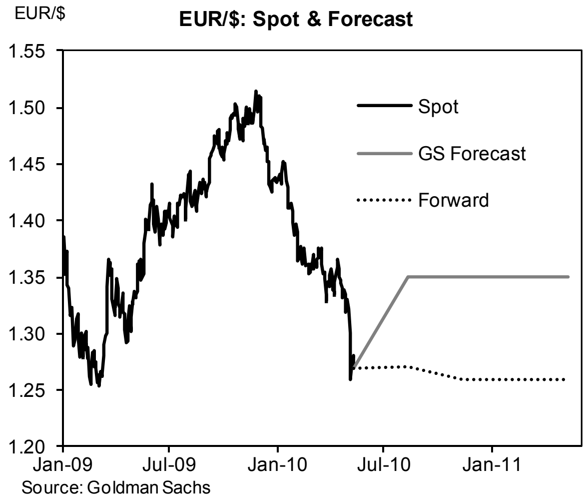
In the context of external imbalances, it is worth recognising the stated US policy target of doubling exports in five years. Jari Stehn from our US team calculates that the real trade-weighted Dollar would have to weaken by about 30%. Too much EUR/$ weakness would likely be incompatible with this policy target. These external balance considerations also strongly suggest the USD needs to remain undervalued in order to further correct external imbalances.

4. EUR/$ forecasts remain unchanged at 1.35

After having conducted a number of detailed reality checks in the previous sections it is important to recognise that there are alternative scenarios. One such scenario involves our monetary policy and growth forecasts across the Atlantic diverging substantially from consensus. This creates risks, though we believe our analysis is sound and hence remains a pillar of our EUR/$ base case. Risks also relate to political uncertainty. As we have seen with German regional elections, marginal political events can become disproportionally important for global financial markets. Moreover, a quick look at volatility levels across markets suggest that the resilience to adverse policy news is still not very high.

Keeping all this risks in mind we would emphasise the following points:

1) The size of the European package, when combined with sterilised ECB bond purchases, will likely contain any sovereign liquidity risk in the Euro-zone for the next



2-3 years. Default-related risk premia in the Euro should therefore notably decline.

2) Consensus and rate markets seem too pessimistic on the Euroland economy. Even ambitious fiscal contraction plans that are being implemented in Spain, Greece, Portugal and Ireland are unlikely to depress GDP growth by more than 0.5%. Moreover, this negative fiscal impulse can be expected to be fully offset by simultaneous fiscal expansion in Germany. Easy financial conditions, a strengthening inventory cycle and the global recovery will further boost Euro-zone growth. Our Surprise indices already strongly point towards accelerating Euroland growth.

3) Being ahead in the inventory cycle, the US faces the risk of seeing activity slow gradually throughout 2010. Fiscal consolidation will have a negative impact as well. At the margin, US consensus growth expectations and rate markets therefore seem too optimistic on the cyclical outlook.

4) Contrary to shorter-term correlations, more robust longer-term FX-rate relationships suggest EUR/$ may have undershot rate differentials, which themselves may reflect an overly pessimistic Euro-zone growth scenario. Positioning indicators also strongly suggest that markets have accumulated large short EUR/$ positions.

5) External balances and US policy targets suggest the EUR/$ has notably reduced scope to trade below fair value, which is very close to where spot currently trades.

All told, the combination of the factors above suggests that the main risks now appear skewed towards EUR/$ strength from current levels. We therefore decided to keep our EUR/$ forecasts unchanged at 1.35 flat.

Obviously, this view could change. The biggest threat to our view of a likely EUR/$ rebound is much stronger US growth and a continued escalation of European sovereign issues.

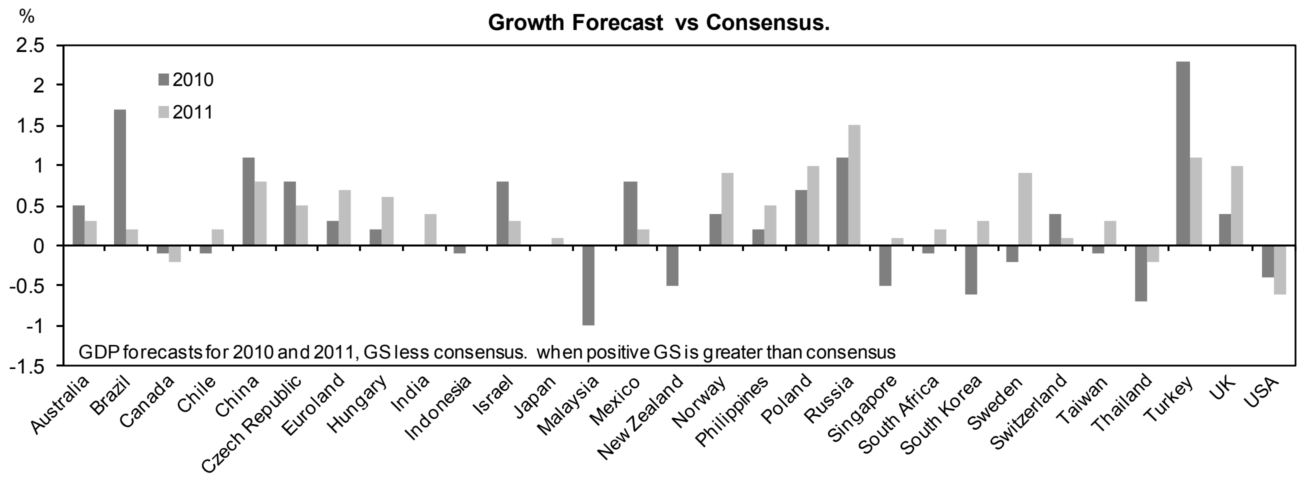
5. Strong Global Backdrop, supportive of cyclical currencies.

Fears over sovereign and banking risks in Euroland put a spanner in the performance of cyclical currencies in early May as investors worried about broader contagion risks and a more widespread crisis of confidence. While the package introduced by the European Heads of State was not meant to solve every problem in Euroland, what it has done is alleviate broader spillover fears. As more details regarding the actual implementation of the package are disseminated and further fiscal consolidation is announced in several of the European countries, markets are likely to start being driven by macro fundamentals. As we go on to detail, the macro backdrop is firm and leading indicators are supportive of continued global growth. This, in turn, is supportive of cyclical currencies, something we reflect on our recent tactical trading recommendations, which as we write are facing headwinds from continued jitters in Euroland. However the strong cyclical backdrop will not necessarily favour longs in all cyclical currencies. It is crucial to consider those that are lagging their fundamentals.

Our GLI remains the starting point for assessing our macro views. The final reading for April continued to point towards a solid global recovery with a headline year-on-year reading of 1.6% and monthly momentum up at 1%. Momentum has picked up in recent months and points to a solid improvement in industrial growth going forward. The strength of our GLI underpins our optimistic forecasts for global growth this year and next. Specifically, we expect the world economy to expand by 4.9% this year and 4.8% next year vs. consensus expectations of 4.5% in 2010 and 4.4% in 2011 for both years.

The strength of global activity at present marks a critical difference between the recent market jitters and the events of 2008. Back in 2008, the financial crisis caused world activity to slump. The crisis is isolated to Europe and thus the broader strength of global activity should help blunt the effects of market volatility. In addition, while inflation is starting to tick up, and central banks in many places have started or will soon start to remove policy accommodation, we do not expect monetary policy to become restrictive. Importantly we continue to expect the Fed to remain on hold this year and most likely next. Thus the recovery will still be backed by accommodative policy for the time being. This provides a supportive backdrop for risky assets and, in particular, cyclical currencies.

In order to assess which of the cyclical currencies may outperform in the more macro-driven FX markets, we have looked at where our GDP views stand vis à vis consensus, where our rates views stand relative to the market and also the condition of each country's external balance.



Source: GS Global ECS Research

Strong growth expectations in many cyclical currencies

The chart on the next page details our GDP forecasts vs. consensus for 2010 and 2011. Positive numbers recognise that our GDP growth view is stronger than that of the consensus. Indeed that is the case for most of the countries we cover. The strength of our growth views are influenced by the strength of activity we expect in China, continued easy financial conditions in many countries of the world, and signals from our GLI.

Our views are more notably above consensus in Turkey, Brazil, China, Russia, Poland and the UK. The possibility of strong growth surprises should be supportive of these currencies, not least because said surprises should encourage foreign buying of that country's assets.

On the other side of the coin, we are notably below consensus on US activity and only a fraction above it for Japan, which points to a core vs. periphery differentiation. Our views on the outlook for Euroland activity are stronger than consensus but how soon this translates into a stronger Euro is complicated by the fiscal challenges facing many of the Euroland countries as discussed in the previous section.

BBoP Trends

% GDP	Latest	Trend
Australia	-3.45	3.92
Brazil	2.29	6.8
Canada	4.2	2.4
Chile	-6.8	-1.3
Czech	6.9	3.45
Euroland	1.1	2.3
Hungary	-0.8	-4.15
India	-0.8	0.8
Indonesia	5	4.2
Japan	-1.9	-0.5
Korea	3.7	9.9
Malaysia	11.6	13.1
Mexico	2.4	1.6
New Zealand	4.97	1.49
Philippines	13.1	7.3
Poland	31.4	20.2
South Africa	1.1	1.25
Sweden	3	11.5
Taiwan	6.4	7.8
Thailand	2.9	5.1
Turkey	-7.24	-1.46
US	-4.5	-4.8

Source: GS Global ECS Research

Strong growth and rising inflation will require higher rates

The global tightening cycle kicked off in second half of last year with tightening moves from Australia, Israel and Norway. These countries have been joined by Malaysia, India and Brazil so far this year and by China through policy-related measures. In comparison to market pricing we are notably more hawkish on rates in the UK, Sweden, Turkey, Poland, Czech Republic, India and Taiwan. However, we remain less hawkish than the market on the US. Again, the interest rate differentials vs. what is priced by the market fits in with the core vs. periphery theme and is supportive of the cyclical currencies where the market is underestimating the degree of tightening likely to be delivered.

Cyclical currencies backed by strong external balances should perform well

External balances are another key metric in our tools for looking at potential currency strength. In particular, we look at the Broad Balance of Payments (BBoP) which is the sum of the current account plus net FDI flows plus net portfolio flows. Our basic theory runs that if a country runs a BBoP surplus it should be supportive of that currency. The latest BBoP positions and their trend are detailed in the table to the left.

Malaysia and Philippines have the strongest BBoP surpluses. In both cases they are driven by strong current account surpluses, meanwhile Turkey has the largest deficit. Those countries where the BBoP position is in surplus and improving, such as the Czech Republic, Phillppines, Canada and New Zealand, have external balances which are the most positive for the currencies. Whereas in the case of Australia, India and Chile where the BBoP positions have moved from surplus into deficit, the external balances point to being a drag on the currencies in question.

The distinction between the core and periphery continues to offer attractive opportunities

Looking at these three metrics indicates that the core vs. periphery theme remains attractive. We have similar or below consensus views for the US and Japan and in the case of Euroland, other headwinds are likely to weigh on the performance of the Euro. We are less hawkish than the market on rates in the US and Japan and the US continues to run a notable BBoP deficit. However not all the cyclical currencies warrant long positions, it is key to consider how far a currency has come already relative to its fundamentals and broader cyclical performance.

In Asia, where we stand vs. consensus on growth, rates and the region's BBoP positions are generally positive for the region's currencies. The least favoured currencies on these metrics on aggregate are India, Australia and New Zealand. We prefer being long MYR, PHP and IDR vs the Yen on the basis that the external balances of Malaysia, Philippines and Indonesia are all positive and the strong growth outlook. In addition, the authorities of these three countries have been less resistant to currency appreciation compared to other countries in the region. We also recommend being short USD/TWD for similar reasons and in addition, the Taiwan authorities are likely to allow TWD appreciation to help fight imported inflationary pressure. In addition, these four asian currencies are likely to appreciate alongside the CNY revaluation which we continue to expect to occur in the near future.

In the Americas, our favoured currencies are still CAD and MXN, as reflected in our near term forecasts for these currencies (3 month at 0.98 and 12.15 respectively). These currencies are underpinned by sound macro fundamentals--solid external balances and, in particular, strong cyclical recoveries that we expect to continue. The strong cyclical momentum that we are seeing in Canada also means that we could see the BoC being one of the next major central banks to kick-start its tightening cycle in June. Both Canada and Mexico could also continue to benefit from the stronger-than-expected near-term recovery that we are seeing in the 'core' US, given their close links there.

We have also expressed our preference via our recent tactical trade recommendation to be short $/MXN. The motivation for this trade (launched on the Friday before the weekend when the broad measures were announced by European policymakers) was driven by our broader focus on currencies with strong fundamentals that were hit perhaps too hard by the broader risk aversion linked to the European issues. The Mexican Peso has also been a relative laggard when compared to the rest of EM performance and we expect catch-up on the back of strong fundamentals.

Finally, turning to Europe, we have notably above-consensus growth views on Sweden, Norway and the UK and our views on monetary policy for these three countries are more hawkish than the market. Thus we continue to expect these three currencies to outperform the Euro. Norway and Sweden have already come a long way, however both are likely to have further to go, particularly SEK as it returns to its pre-crisis ranges. Sterling has been under pressure due to a still dovish BoE and sluggish GDP. However, the underlying strength of activity is far stronger and we expect this to be supportive for the pound, which is also one of the reasons why we have changed our near-term EUR/GBP forecast back to 0.84 after the election is out of the way.

G3
US Dollar

FX Forecasts: Our EUR/$ forecast remains at 1.35 flat in 3, 6 and 12 months. Our $/¥ path is at 92, 94 and 98. Current GSDEER: EUR/$ 1.21; $/¥ 105.9.

Motivation for Our FX View: In our view, the US will lag most others in both the pace at which it closes its output gap and relative monetary tightening. Combined with still large structural imbalances, the macro backdrop still points to broad Dollar weakness in the interim. We continue to expect most of the Dollar weakness to come from outside of the G3 though, especially against the EM and commodity currencies. Further out, the Fed will be ready to tighten policy and a self-sustainable recovery then will help attract investment inflows into the US. This in turn will provide a powerful anchor for a persistent strengthening in the Dollar. We expect that to happen, but we doubt it will take place in the near future.

Monetary Policy and FX Framework: The Fed has a dual growth and inflation target. As a result, monetary policy has generally been more volatile and reactive than in pure inflation-targeting countries. The exchange rate floats freely; however, the US Treasury and the Fed both occasionally comment on currency issues.

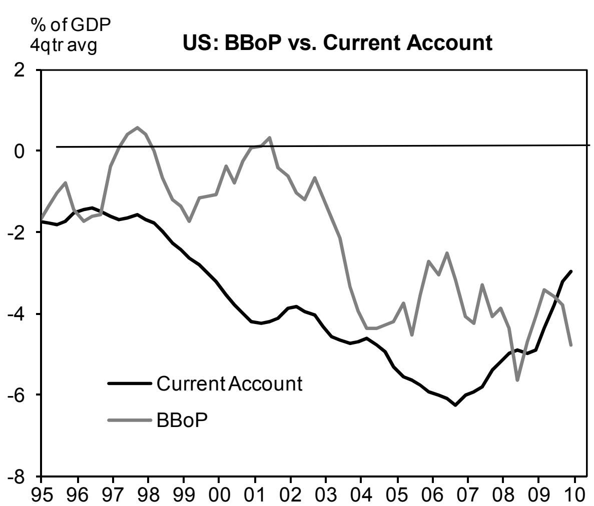
Growth/Inflation Outlook: We continue to think that growth will slow to a below trend pace in 2H this year as the inventory and fiscal stimulus boosts fade. The recent labour market data adds some upside risks to that forecast but there are some offsetting factors such as the recent tightening in financial conditions brought about by the market turmoil. The inflation outlook meanwhile continues to look benign, underpinned by the large degree of slack in the economy. We expect core CPI to ease to 0%yoy by late 2011.

Monetary Policy Forecast: We continue to expect the large output gap, high unemployment rate and disinflationary impetus to keep the Fed on hold in 2010 and more likely than not, in 2011 as well.

Balance of Payments Situation: We expect the current account deficit to stabilize at around 3%, much narrower than the pre-crisis levels of around 6%. The trend narrowing in the US trade deficit though has stalled in recent months. At the same time, we are not seeing strong capital inflows apart from US Treasuries, which are likely to be FX-hedged anyway given the steepness of the US yield curve. The overall BBoP picture thus still does not look supportive for the Dollar in the near term.

Things to Watch: We continue to monitor capital flow trends in the monthly TIC data for updates on the demand for US assets. The Dollar may also be sensitive to rate hike expectations in the near term, so we are closely watching US growth data, which has surprised to the upside in recent months. Overall risk sentiment also continues to be an important factor as return correlations between the Dollar and risk sentiment remain strong.

Mark Tan

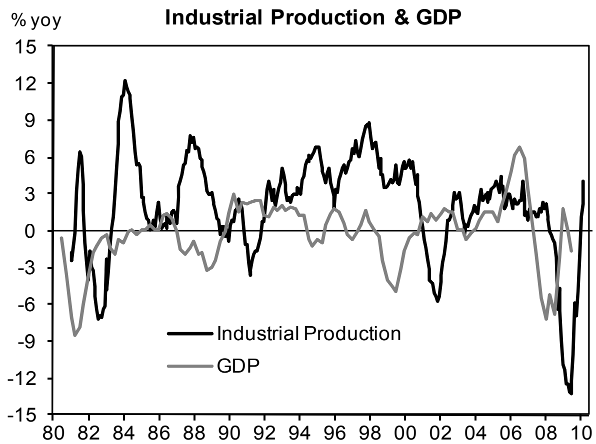


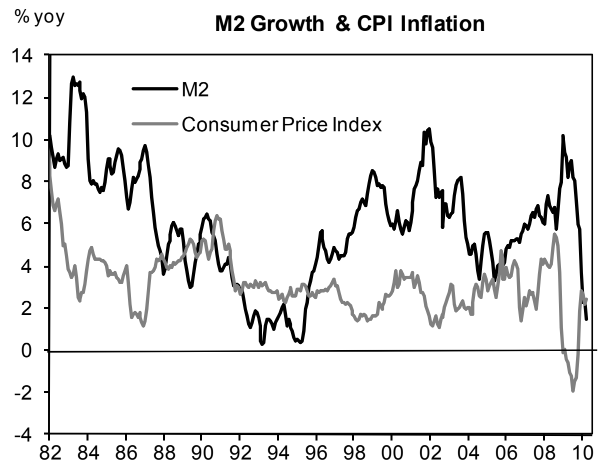
Source: Haver Analytics, National Source, Global ECS Research.

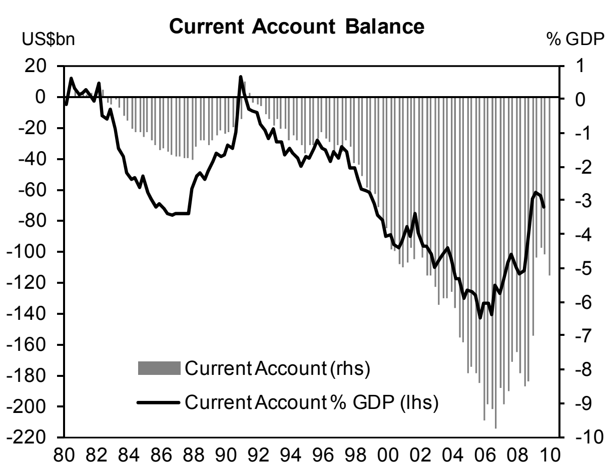
The Outlook for the US BBoP

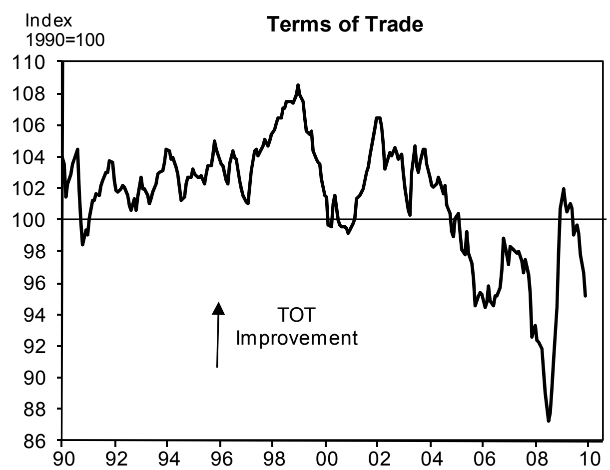
$bn	2004	2005	2006	2007	2008	2009
Current Account	**-631.1**	**-748.7**	**-803.5**	**-968.8**	**-706.1**	**-419.9**
Net UST Flows	93.6	132.3	-58.2	89.1	196.6	37.6
Other Net Bond Flows	236.2	297.6	315.7	208.5	-121.7	-289.7
Net Equity Flows	-25.2	-98.4	2.4	110.3	55.8	61.6
Net FDI Flows	-170.3	76.4	-1.8	-163.8	-12.3	-68.9
BBoP	**-496.8**	**-340.8**	**-545.4**	**-724.6**	**-587.7**	**-679.3**
% of GDP	-3.8	-2.6	-4.1	-5.2	-4.1	-4.8
Official Buying	314.9	213.3	310.8	269.9	543.5	333.3
Adjusted BBoP	**-181.9**	**-127.5**	**-234.6**	**-454.7**	**-44.2**	**-346.0**
% GDP	-1.3	-1.0	-1.6	-3.1	-0.3	-2.5

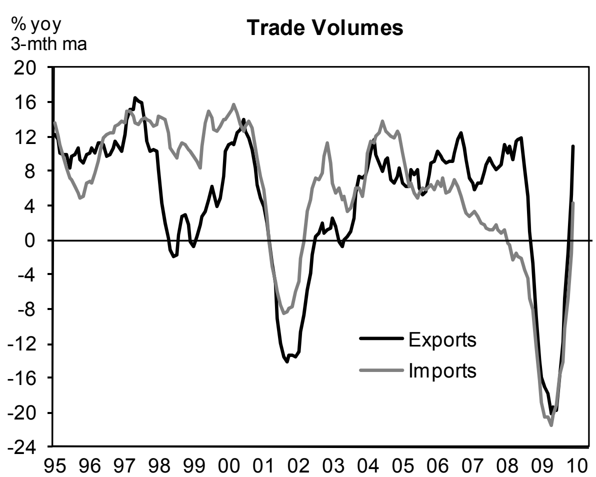
US Dollar

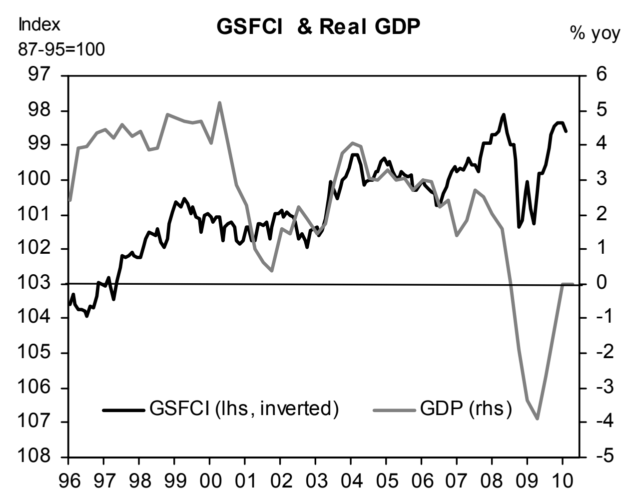

% yoy
Industrial Production & GDP
Industrial Production
GDP


% yoy
M2 Growth & CPI Inflation
M2
Consumer Price Index


Current Account Balance
US$bn
% GDP
Current Account (rhs)
Current Account % GDP (lhs)


Index
1990=100
Terms of Trade
TOT
Improvement


% yoy
3-mth ma
Trade Volumes
Exports
Imports


Index
87-95=100
GSFCI & Real GDP
% yoy
GSFCI (lhs, inverted)
GDP (rhs)

Euro

FX Forecasts: Our EUR/$ forecasts to 1.35 flat on a 3, 6 and 12 month horizon. EUR/¥ is at 124.2, 126.9 and 132.3 on a 3, 6 and 12 months basis. Current GSDEER for EUR/$ is at 1.21.

Motivation for Our FX View: There are several important considerations for the EUR/$ at the moment. First of all is the fiscal premium that had been building over recent months, which may now start to ease due the series of stability measures announced by the Euro-zone policymakers. Medium term uncertainty still persists though, linked to the various conditionality attached to loan disbursements and longer term sustainability issued. The growth outlook continues to improve though as indicated by the strength seen in the business surveys and activity data. External balances in the Euro-zone are also a supportive factor. The significant short EUR positions in the market presently also makes a move towards our 1.35 forecast plausible, especially if the fiscal risk premium declines. Overall, we think our current 1.35 forecast flat over 12 months adequately reflects all the various forces in play.

Monetary Policy and FX Framework: The ECB is a strict inflation targeter. As a Central Bank serving 16 countries, the ECB is arguably the most independent Central Bank in the world. The Euro is a freely floating currency. FX policy responsibility is not clearly defined, but in practice the ECB is unlikely to act in FX markets, without Eurogroup approval.

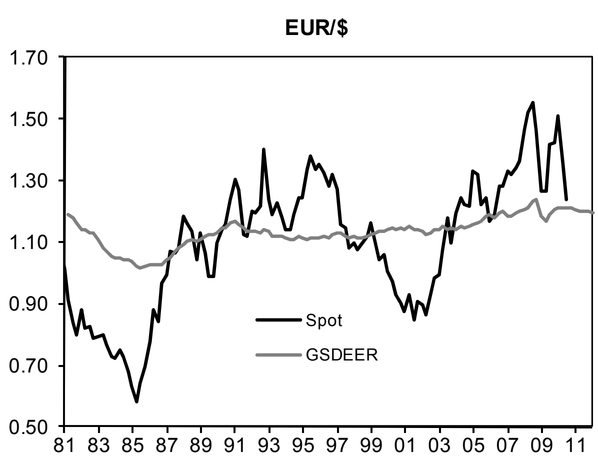
Growth/Inflation Outlook: We had recently upgraded our Euro-zone growth views on the back of the recent acceleration in activity data. The most recently reported Q12010 GDP data was slightly disappointing though, but this was partly weather-related while we also expect upward revisions later. Overall, we are still looking for above consensus real GDP growth at +1.4% for the full year 2010 and +2.2% for 2011. Significant output gaps still exist throughout Europe though and we expect core inflation in the Euro-zone to decline further, to about 0.7% this year, before gradually rising again next year. We forecast core CPI in the Euro-zone at 1.3% in 2011.

Monetary Policy Forecast: Overall, we expect a graudal exit strategy including allowing short term rates to drift back up to the 1.0% target gradually over time. We see the first official ECB rate hike in 2011Q1, with the policy rate at 2.0% at the end of 2011.

Balance of Payments Situation: The current account balance is now close to flat on a trend basis, recovering from around -2% of GDP in early 2009. Meanwhile, the Broad Balance of Payments (BBoP) should remain in healthy surplus due to strong net portfolio inflows and thus should still be EUR/$ supportive.

Things to Watch: Details and developments surrounding the Euro-zone stabilization package will continue to be important. The ongoing shifts in Europe vs US relative growth differentials are also key to watch. Reserve diversification trends and comments need to be closely monitored as well.

Mark Tan

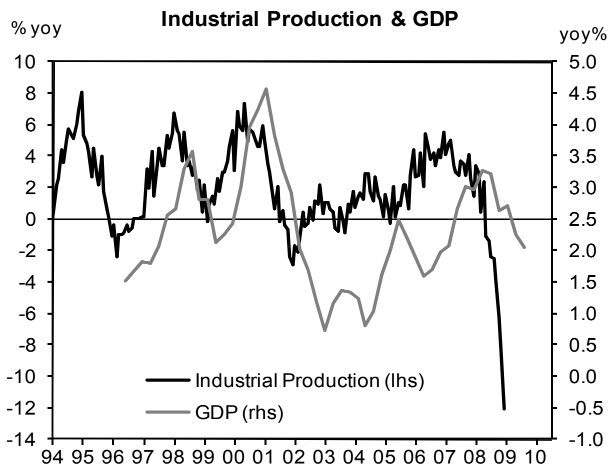


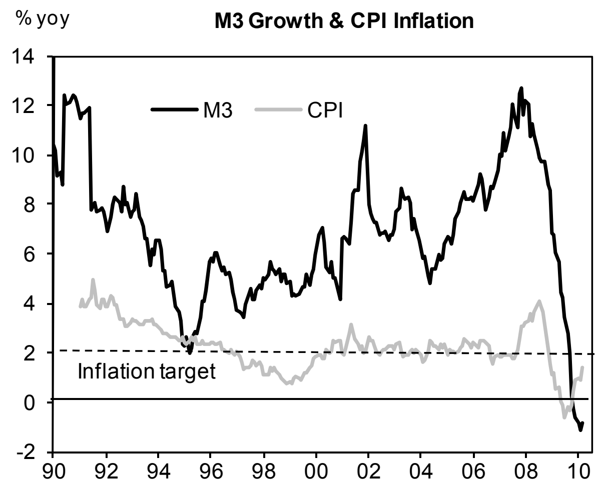
The Outlook for the Euroland BBoP

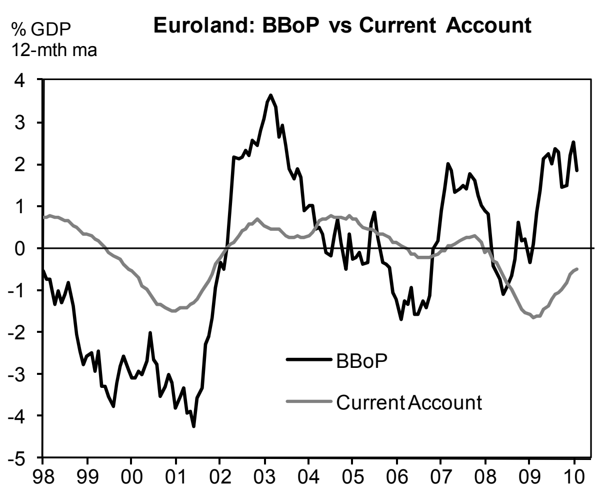
EURbn	2005	2006	2007	2008	2009	2010*
Current Account	**11.7**	**-10.0**	**13.6**	**-153.8**	**-55.9**	**-119.4**
Net Bond Flows	3.5	98.1	48.3	347.3	224.6	-75.0
Net Equity Flows	105.0	90.6	103.5	-3.0	93.3	135.0
Net FDI Flows	-205.7	-160.3	-73.8	-198.6	-95.7	-17.4
BBoP	**-85.5**	**18.4**	**91.6**	**-8.1**	**166.3**	**-76.8**
(% of GDP)	-1.1	0.2	1.0	-0.1	1.9	-0.8

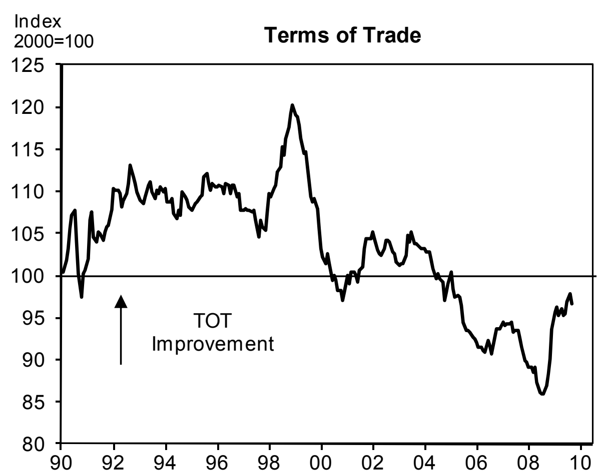
*First tw o months annualised

Euro


Industrial Production & GDP
% yoy
yoy%
Industrial Production (lhs)
GDP (rhs)
94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10


M3 Growth & CPI Inflation
% yoy
M3
CPI
Inflation target
90 92 94 96 98 00 02 04 06 08 10


Euroland: BBoP vs Current Account
% GDP
12-mth ma
BBoP
Current Account
98 99 00 01 02 03 04 05 06 07 08 09 10


Terms of Trade
Index
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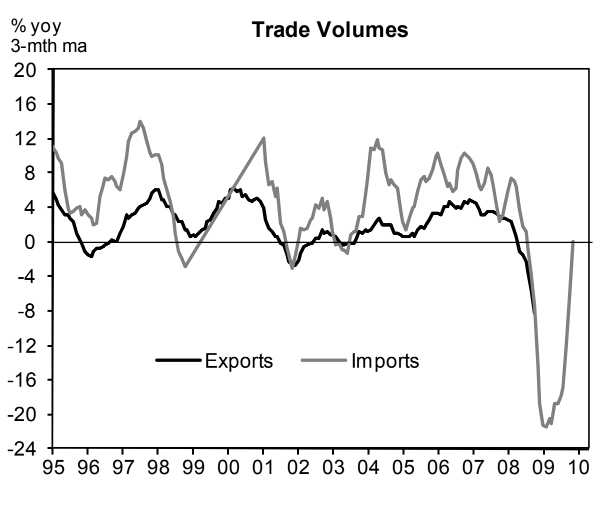
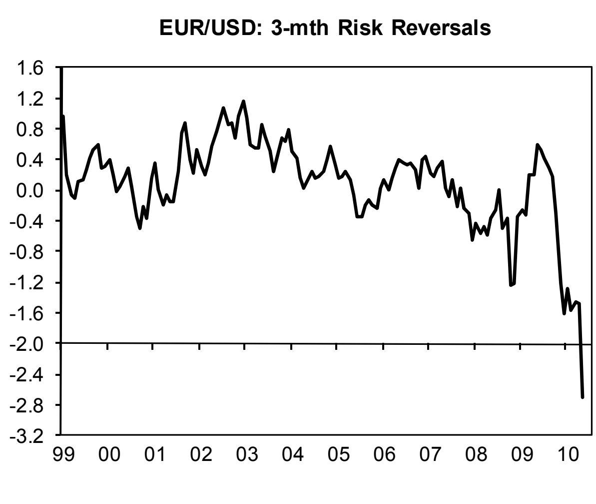
Improvement
90 92 94 96 98 00 02 04 06 08 10


Trade Volumes
% yoy
3-mth ma
Exports
Imports
95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10


EUR/USD: 3-mth Risk Reversals
99 00 01 02 03 04 05 06 07 08 09 10

Japanese Yen

FX Forecasts: Our $/JPY forecast remains at 92, 94 and 98 on a 3, 6 and 12 months horizon. Our EUR/¥ is at 124.2, 126.9 and 132.3 on a 3, 6 and 12 months basis. Current GSDEER is at $/¥ 105.9.

Motivation for Our FX View: The Bank of Japan's lack of willingness to ease monetary policy aggressively in the near term has tied the Yen into a very tight correlation with the front end of the US yield curve. The JPY has thus defied our original expectations and has not weakened substantially despite notable overvaluation. That said, we still think the tightening in Japanese financial conditions linked to the excessive strength in the JPY is a drag on growth, which in turn suggests the JPY should weaken at some stage. This also links to our view that the Bank of Japan will be the last major central bank to hike rates. Relative rate differentials will therefore become an increasingly Yen negative factor over time.

Monetary Policy and FX Framework: The Bank of Japan has effectively shifted back to a zero interest rate policy (with the overnight target now at 0.10%). The Yen is formally a freely floating currency, but the Ministry of Finance is in charge of FX policy and has often intervened in the past. The last period of actual intervention was in 2003-2004.

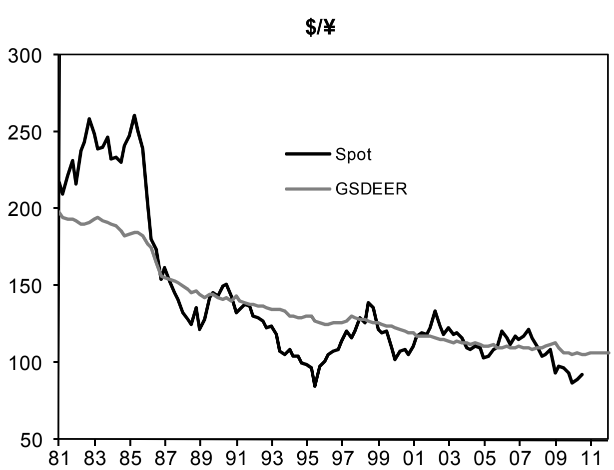
Growth/Inflation Outlook: We have recently revised slightly our GDP growth forecasts, now looking for real GDP growth at +2.4% for 2010 and +1.8% for 2011. Exports will likely remain the main driver of growth, while we see a modest recovery in domestic demand, assisted by the fiscal stimulus efforts. Meanwhile, deflationary pressures still persist though and we expect consumer prices to continue declining through next year. We are expecing CPI forecast to decline -1.4% for 2010 and -0.4% for the following year on the core index.

Monetary Policy Forecast: We do not foresee rate hikes by the Bank of Japan through the end of our forecast horizon (end of 2011). In terms of quantitative easing measures, the pressure is for additional moderate easing from the central bank by June.

Balance of Payments Situation: Japan continues to report trade and current account surpluses, which support JPY strength. In terms of capital flows, hedging considerations by Japanese fixed income investors play an important role and contaminate the FX relevance of cross border investment flows. Contrary to the US experience, bond outflows in recent years typically coincided with Yen strength.

Things to Watch: The US-Japan rate differential remains key for $/JPY direction in the near term. Also, there has been increased hedging activity by exporters and institutional investors over the past year. This is due to lower hedging costs from low US interest rates. Any turn in the trend has to be monitored and could potentially be key for $/JPY upside.

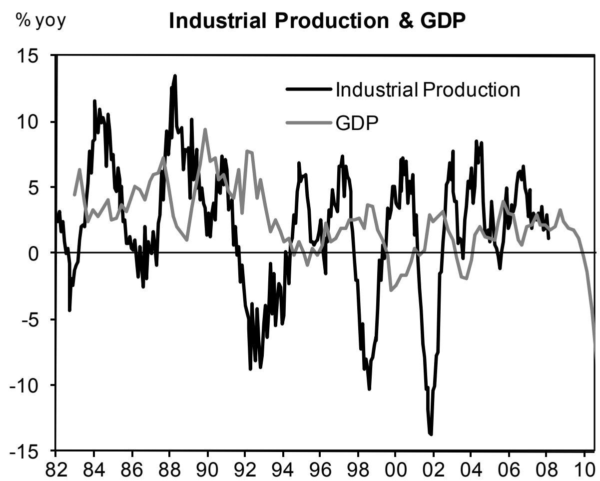
Mark Tan

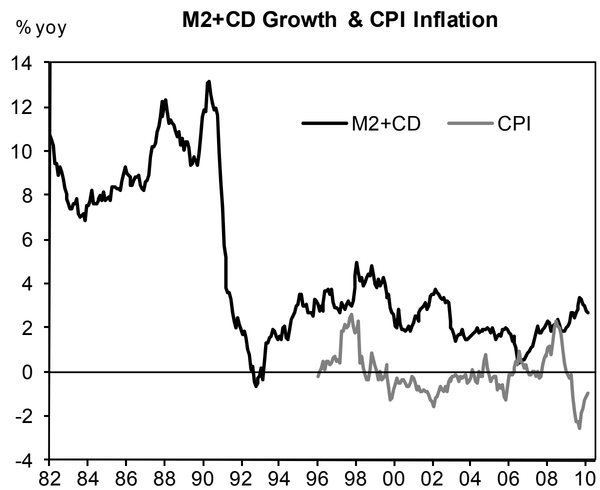


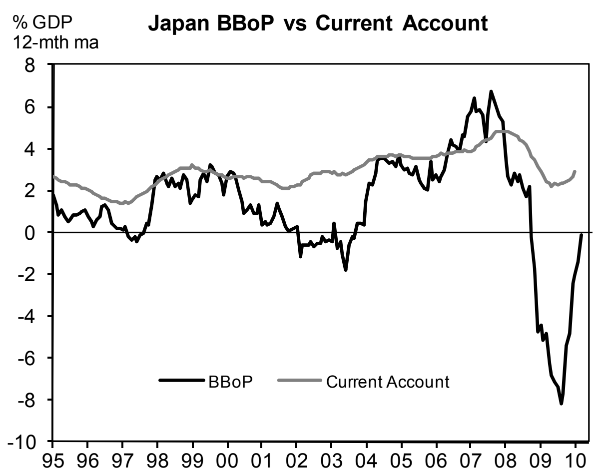
The Outlook for the Japanese BBoP

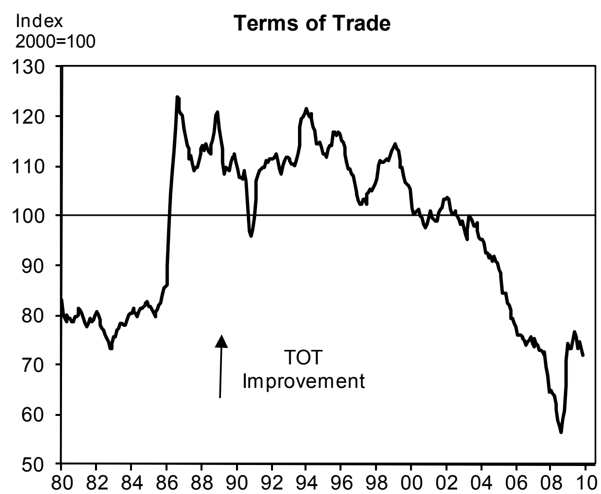
¥trn	2004	2005	2006	2007	2008	2009
Current Account	**18.6**	**18.3**	**19.8**	**24.8**	**16.4**	**13.3**
Net Bond Flows	-4.8	-13.4	9.4	5.9	-15.3	-18.7
Net Equity Flows	7.1	12.3	5.4	2.3	-13.9	-1.6
Net FDI Flows	-2.5	-4.7	-6.6	-6.0	-10.7	-5.9
BBoP	**18.5**	**12.4**	**28.0**	**27.0**	**-23.5**	**-13.0**
(% of GDP)	3.7	2.5	5.5	5.2	-4.6	-2.7

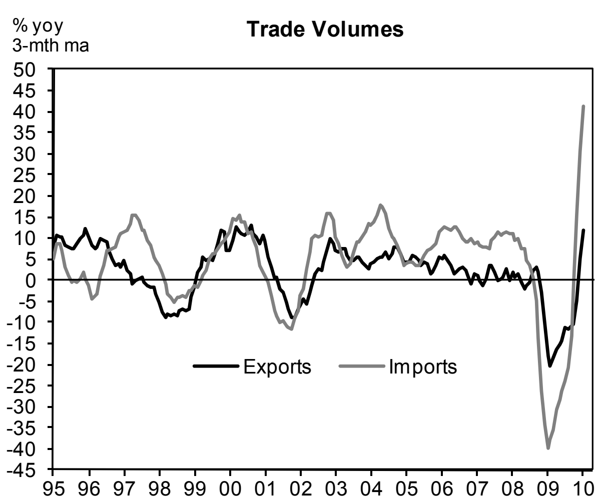
Japanese Yen

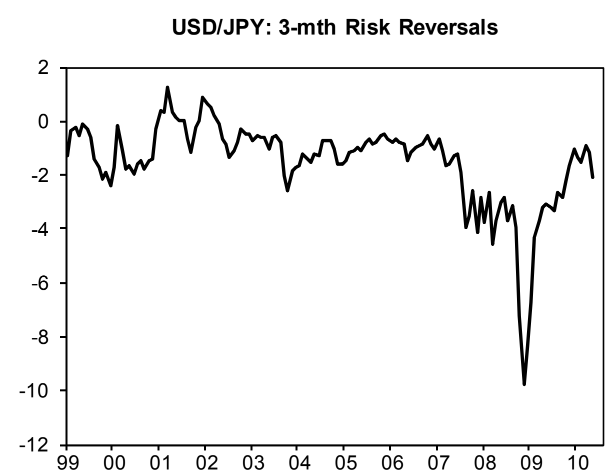












Europe
British Pound

FX Forecasts: We have slightly modified our EUR/GBP forecasts to 0.84 flat in 3, 6 and 12 months, from 0.87, 0.84 and 0.84 previously. This translates into a GBP/$ forecasts of 1.61 flat over the same horizon. Current GSDEER for EUR/GBP is 0.77 and for GBP/$ 1.58.

Motivation for Our FX View: Fears of the prospect of a hung parliament and its implications for the pace of fiscal consolidation had weighed on Sterling ahead of the UK general election on May 6. With the uncertainty related to election out of the way, the fundamentals are likely to play a role in the currency movement. We maintain our bullish stand on the Pound due to our bullish view on UK growth and our more hawkish stance on UK monetary policy. The downward risk to our view is that the likelihood of further cuts in government spending may keep Sterling cheap for some time.

Monetary Policy and FX Framework: The Bank of England is tasked with price stability, defined as CPI at 2% over time. If inflation falls below 1% or rises above 3%, the BoE must write a letter of explanation to the Chancellor of the Exchequer. Sterling operates under a free float but the BoE regularly comments on currency moves in the context of growth and inflation.

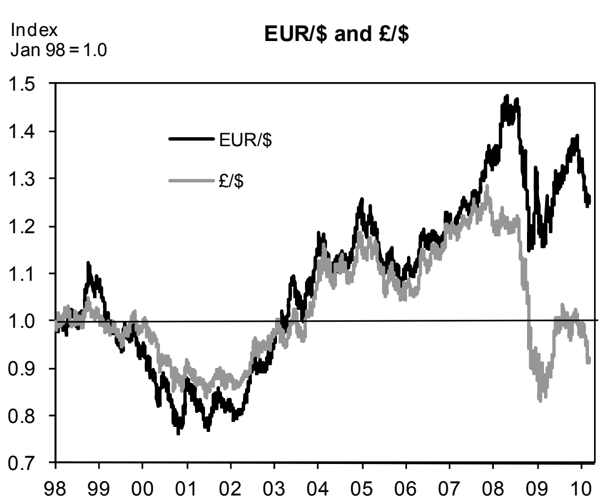
Growth/Inflation Outlook: We are above consensus on UK activity. We expect the economy to grow by 1.7% vs a consensus view of 1.3% in 2010 and by 3.3% in 2011 versus a consensus of 2.3%. The improvement in PMIs, labour market and housing-related data supports the view of improving activity. Although tax revenues have improved recently, worries about the fiscal outlook pose notable downside risks to UK activity. Inflation data has consistently surprised on the upside in recent months and is likely to increase the pressure on the MPC to shift away from the current dovish stance.

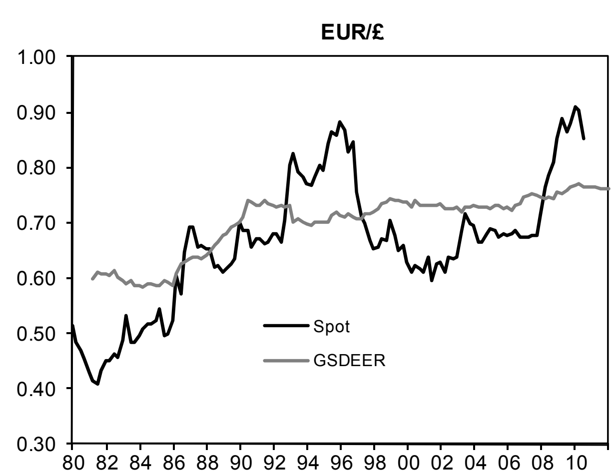
Monetary Policy Forecast: The BoE cut rates to 0.5% at its March 2009 meeting and announced the start of quantitative easing. We do not expect an extension of bond purchases beyond the current £200bn. We expect the BoE to start hiking rates in August of this year. However, BOE concerns about the continued fallout from the financial crisis could trigger a delay.

Balance of Payments Situation: We expect further gradual improvements in the current account balance. Our forecast is for an improvement to -0.3% of GDP in 2010 and +0.6% in 2011 after -1.3% in 2009. Meanwhile, portfolio flows remain notoriously difficult to assess in the UK given large gross cross-border flows linked to London as a banking hub for all of Europe.

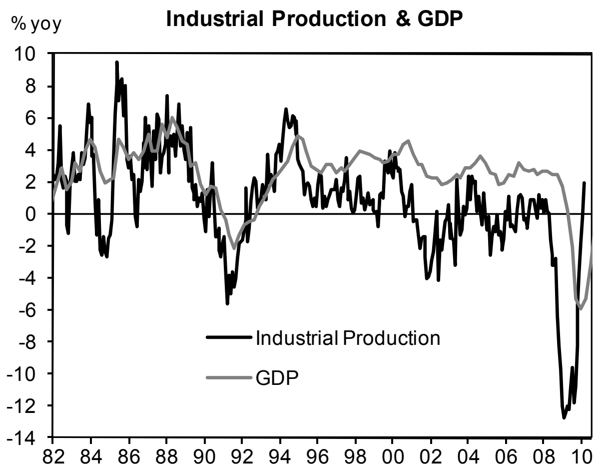
Things to Watch: If the hard data rapidly catches up with the survey data, the Bank of England could switch gears quickly, causing Sterling to strengthen notably. Speculative Sterling positioning remains skewed towards shorts, and as a reverse indicator this points to potential strength in the short term.

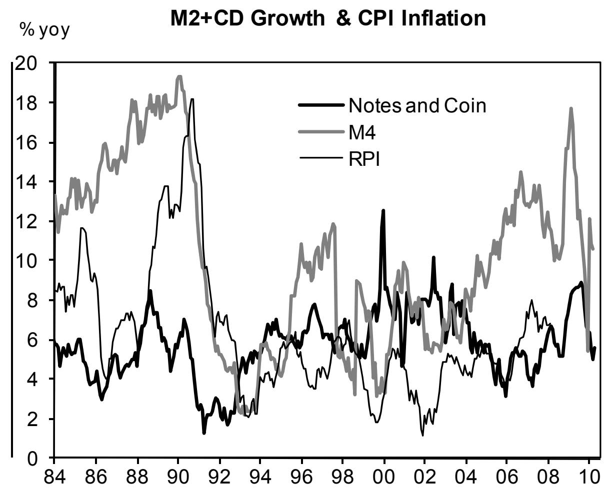
Thomas Stolper

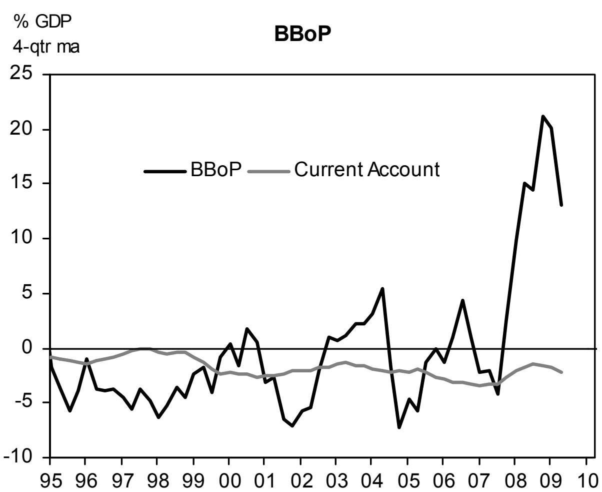


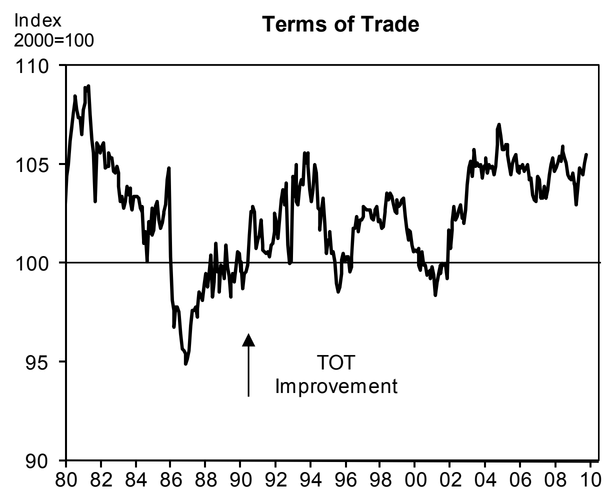


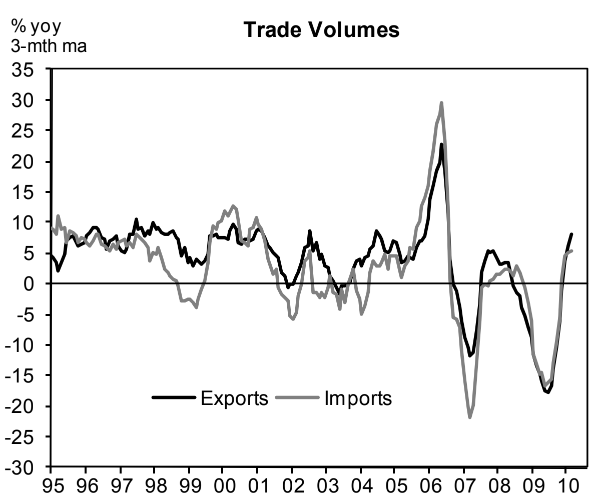
British Pound

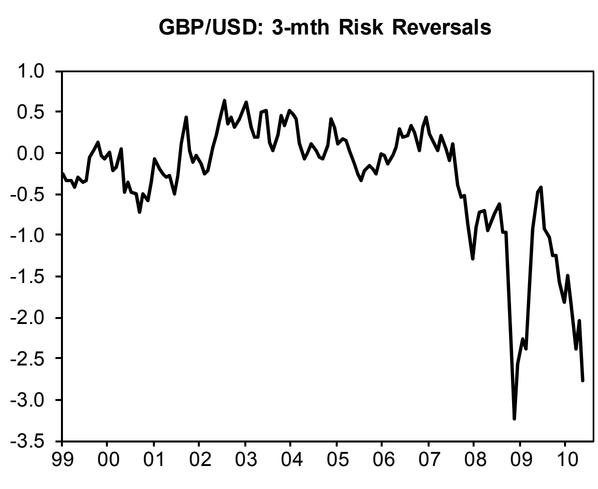












Norwegian Kroner

FX Forecasts: We have changed our EUR/NOK forecasts and expect the cross to trade at 7.70, 7.70 and 7.60 in 3, 6 and 12 months from 8.00, 7.90 and 7.80 previously. This equates to 5.70, 5.70 and 5.63 on USD/NOK. The NOK looks 'cheap' vs the Euro at current levels, according to a GSDEER of 6.30, reflecting Norway's terms-of-trade gains. However, because Norway keeps the bulk of its oil revenues offshore, the Norwegian Kroner is unlikely to erode this undervaluation fully.

Motivation for Our FX View: The NOK has continued to grind lower over the past month, notwithstanding brief weakness during the Greece-related jitters and managing to shake off the very sharp drop in oil prices. The NOK has appreciated more rapidly to our 12-month forecast and thus we expect further appreciation from here on the back of the strength of Norwegian activity and higher oil prices. Key to the extent of further appreciation is whether or not Norges Bank will hike rates if the NOK strengthens materially from here. As it is, the bank hiked rates when EUR/NOK was 7.80.

Monetary Policy and FX Framework: Norges Bank is a flexible inflation targeter, balancing inflation and growth. The target is consumer price inflation close to 2.5% over time. The FX regime is a free float. The fiscal spending rule aims to limit the use of oil revenues to the return on the Government Pension Fund-Global.

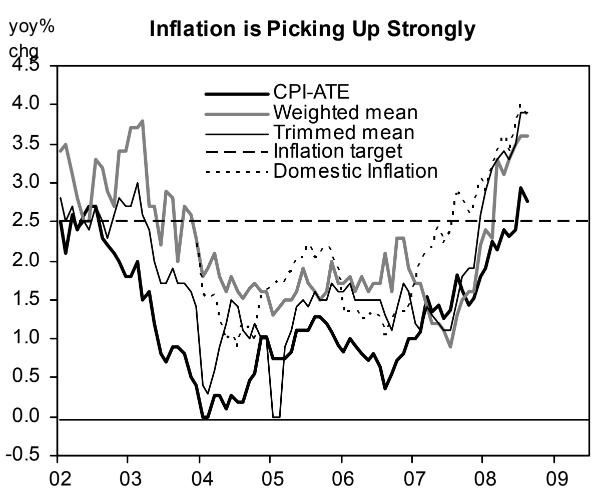
Growth/Inflation Outlook: Norwegian Q4 GDP disappointed expectations, rising by just 0.3%qoq, with the main source of weakness in private investment. Other components showed stronger growth and momentum has been maintained in Q1 - consumption remains robust according to the monthly data. In addition, house prices are back at their all-time highs. The mainland economy contracted by 1.4% in 2009 and we expect an expansion of 1.5% in 2010 and 2.3% in 2011. CPI-ATE has softened since the turn of the year and base effects suggest it will soften to around 1.5% over the summer.

Monetary Policy Forecast: Norges Bank has hiked rates by 75bp since last October, with the most recent hike at the May meeting. The fact that the bank considered leaving rates on hold instead was probably influenced by the strength of the currency and developments in mainland Europe. We rates to reach 2.75% by year-end and 4% by end-2011.

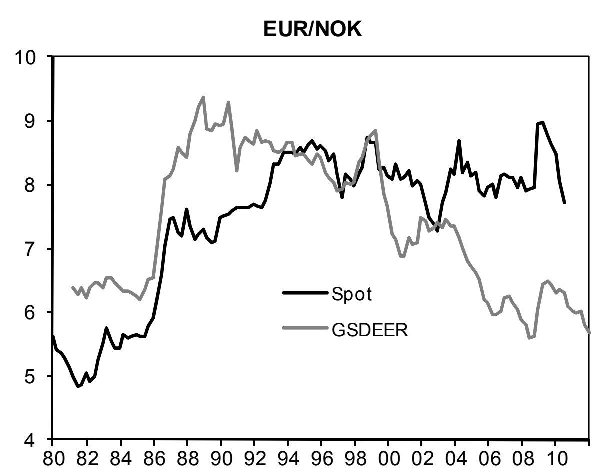
Balance of Payments Situation: As the world's fifth-largest oil exporter, Norway enjoys a healthy current account surplus; however, the fall in oil prices has reduced this to 13% of GDP from 22% in the final quarter of 2008. Norway runs only a small BBoP surplus due to FDI and portfolio outflows.

Things to Watch: We expect oil prices to climb higher, reaching US$95/bbl by end-2010, which should be supportive for Norwegian growth and the NOK. In particular, higher oil prices tend to spur offshore investment, which has positive spillovers to the mainland economy. Watch also for Norges Bank concern about NOK strength.

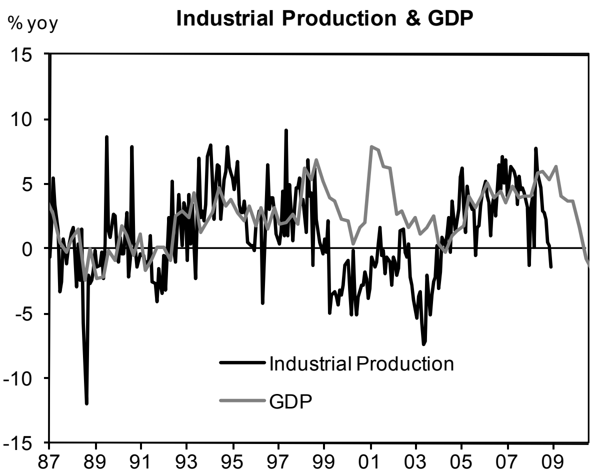
Fiona Lake

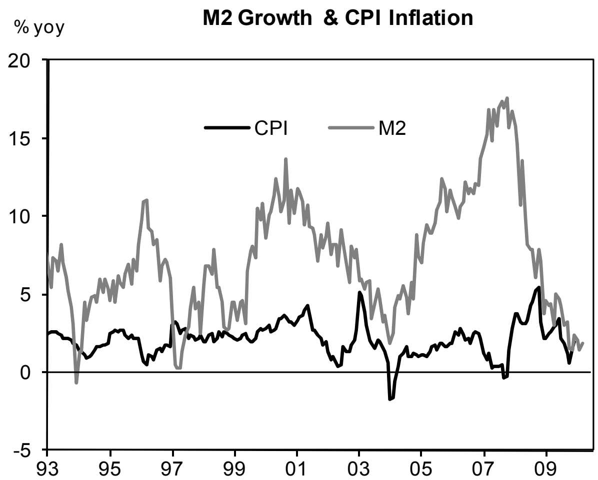


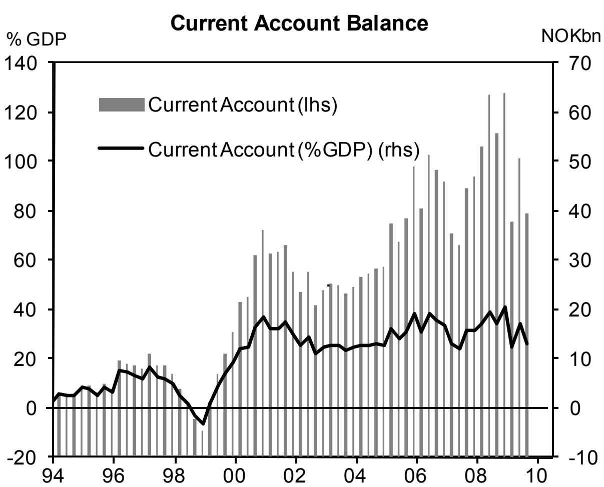
Source: Statistics Norway, GS Calculations

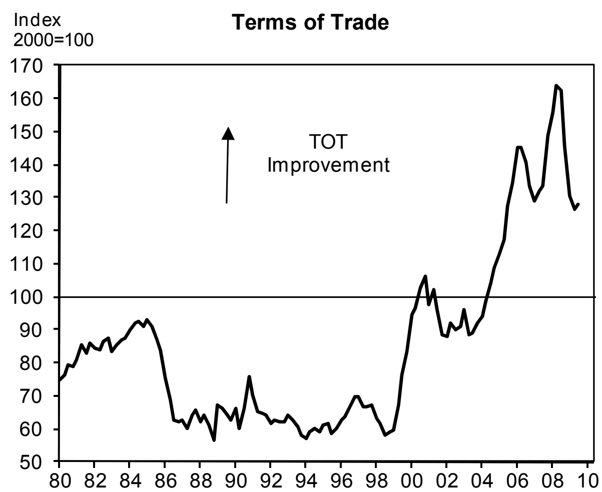


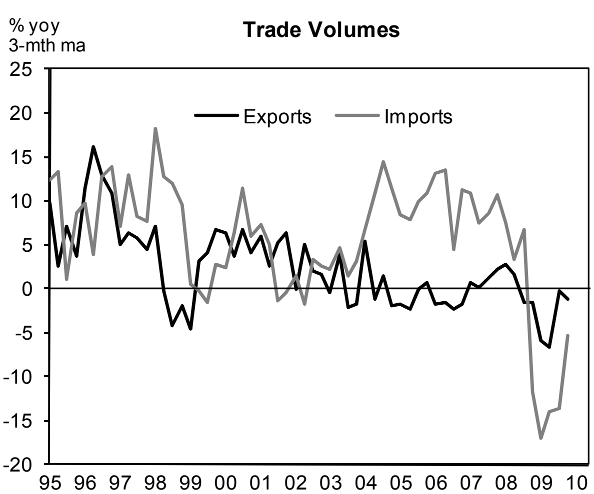
Norwegian Kroner

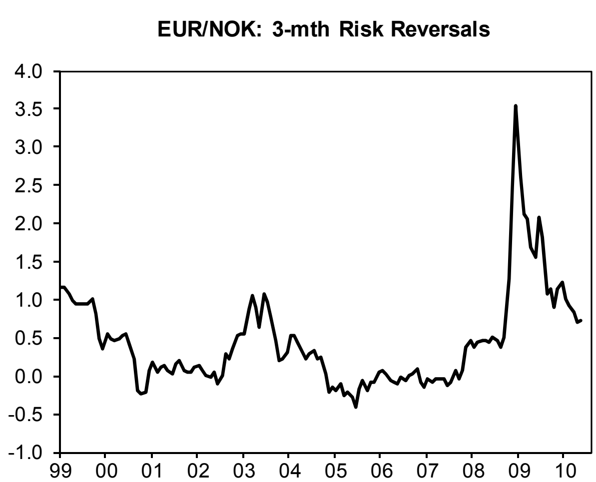












Polish Zloty

FX Forecasts: We maintain our PLN forecast at 3.83, 3.73 and 3.70 in 3, 6 and 12 months. This implies USD/PLN at 2.84, 2.76 and 2.74 in 3, 6 and 12 months. Current GSDEER for EUR/PLN 3.58, indicating a 7.4% undervaluation in trade-weighted terms. Our strategists currently recommend a short USD/PLN position.

Motivation for Our FX View: Recent PLN weakness reflects the market's reaction to negative news rather than fundamental factors. We maintain our fundamentally strong view on the economy and the currency, and expect the PLN to appreciate on sustained high PLN demand due to capital inflows attracted by the good growth outlook, privatisation, issuance of government debt and the carry trade. That said, re-emergence of risk aversion could lead to another bout of PLN weakening.

Monetary Policy and FX Framework: The PLN is a freely-floating currency, and the capital market is fully liberalised. The National Bank of Poland has a headline CPI inflation target of 2.5%+/-1. The April 9 FX intervention was the only one since the PLN was floated in 2000.

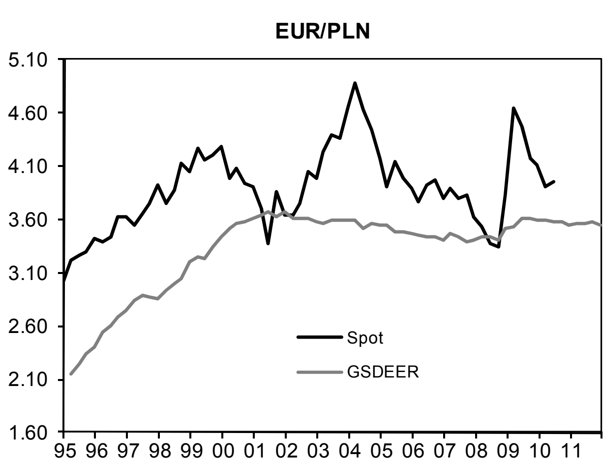
Growth/Inflation Outlook: Still easy financial conditions, strong domestic and external demand strengthened by the increased competitiveness that followed PLN depreciation and a recovery in the rest of Europe have been growth-supportive. We forecast 3.5% and 4.6% growth in 2010 and 2011. Inflation is falling, after peaking in December and January, and should bottom out around 2010Q3.

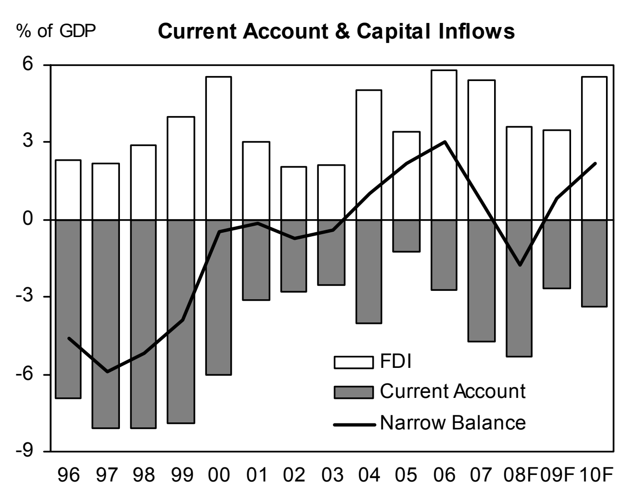
Monetary Policy Forecast: The MPC has reached the floor in this cutting cycle at 3.50%, and has recognised the risk of inflationary pressures appearing in 2011 and 2012, as the recovery accelerates. We continue to expect the MPC to start hiking rates in late 2010, lifting the base rate to 4.00% by year-end. However, the unease with PLN appreciation (if the risk aversion related to the Greek crisis subsides) or continuously record-low rates in the Eurozone create a risk to our call by pushing the potential start of the hiking cycle towards a later date, despite some risk of inflation arising from the recent PLN depreciation. The yet-unknown successor of the late NBP governor may also tip the MPC towards a more dovish or hawkish stance, further obscuring the MPC reaction function.

Balance of Payments Situation: The current account deficit has narrowed dramatically from over 5% of GDP in 2008 to a small deficit in 2009 as capital flows reversed and exporters responded to the sharp PLN depreciation. Portfolio flows rebounded in late 2009 in line with the higher risk appetite of external investors and the search for yield; the current account adjustment has now stabilised, and the trade deficit has widened slightly.

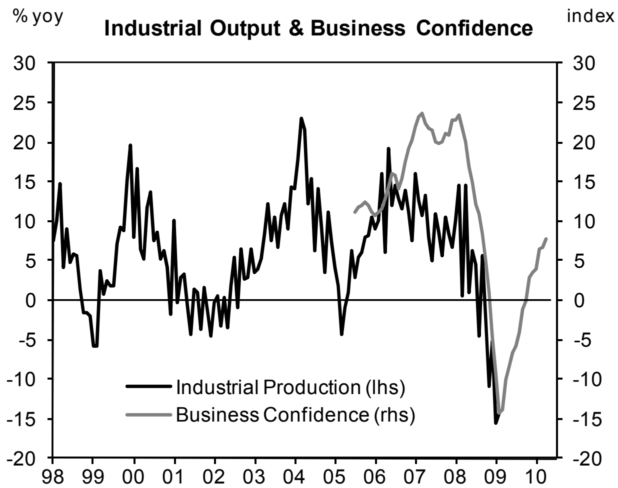
Things to Watch: After the tragic deaths of both the NBP Governor and the President, the acting (or a newly elected) President will name a new governor. This will likely shift the MPC balance towards the views of government-supported members and should reduce the risk of new conflicts within the MPC itself or between the NBP and the Ministry of Finance (like the ongoing disagreement over the FCL extension or the recently resolved conflict over the size of the NBP profit transfer to the government).

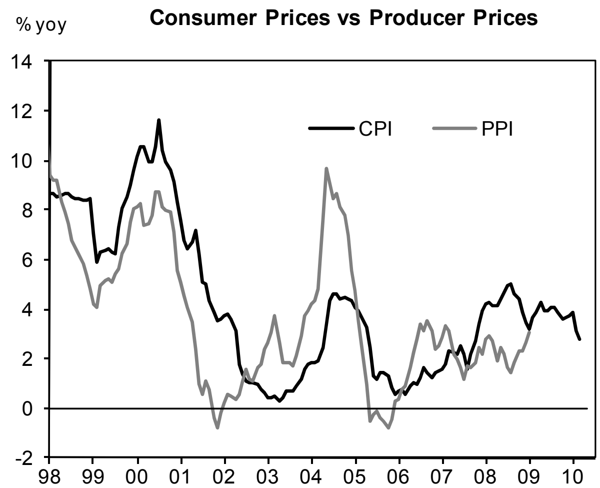
Magdalena Polan

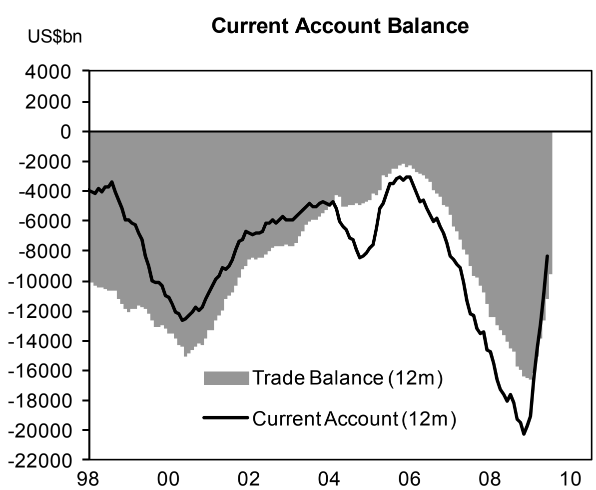


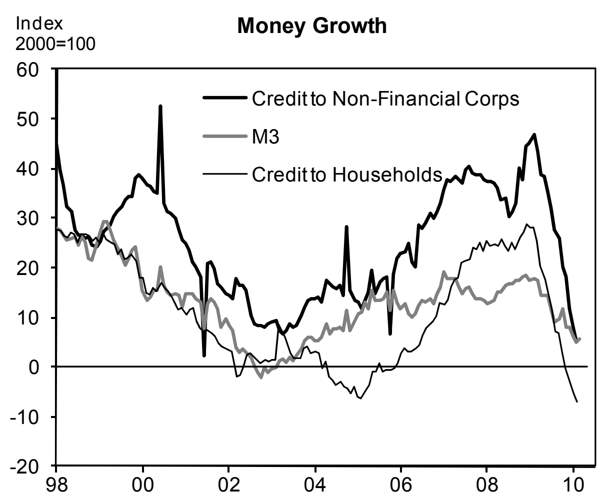


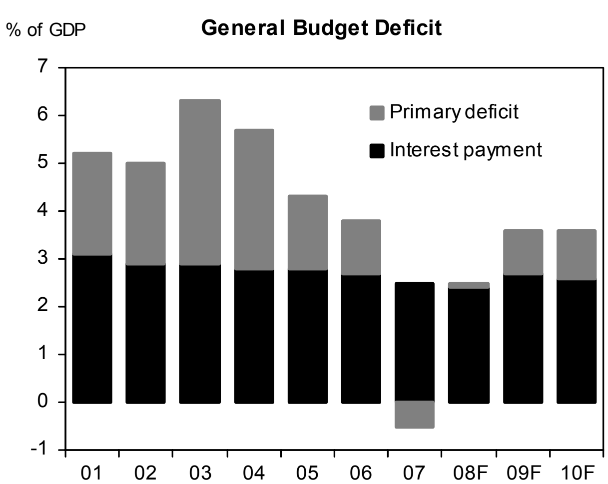
Polish Zloty

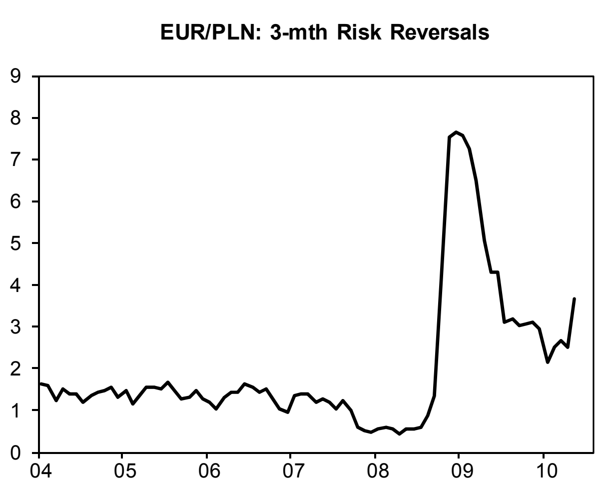












Swedish Krona

FX Forecasts: We have not changed our view. We expect EUR/SEK to trade at 9.60, 9.40 and 9.00 in 3, 6 and 12 months. This equates to a USD/SEK rate of 7.11, 6.96 and 6.67. Current GSDEER for EUR/SEK is 8.33.

Motivation for Our FX View: The SEK finally responded to the improving Swedish data with a strong appreciation through February, and those gains have been maintained as expected since. Our forecasts look for further SEK strength as the data continues to improve. The survey data has recovered strongly, with the manufacturing PMI back pretty much at all-time highs, and we expect the hard data to recover alongside. Underpinning the recovery lies the rapid easing in financial conditions in Sweden in response to the crisis; financial conditions remain easy in comparison to history. A shift in tone from the Riksbank contributed to the SEK appreciation in February and we continue to expect the commencement of the tightening cycle over the summer. Our forecasts expect a return to pre-crisis ranges for EUR/SEK.

Monetary Policy and FX Framework: A flexible inflation targeter, responding to output fluctuations over and above what they imply for future inflation. The Riksbank's objective is to keep CPI inflation at around 2%. CPIX has been the Riksbank's effective target, but it has announced that this measure will be phased out and CPI will become the key focus of attention. A flexible FX regime.

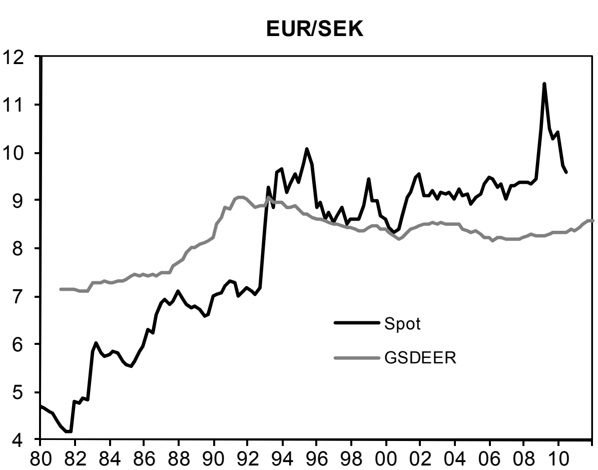
Growth/Inflation Outlook: The Swedish economy contracted by 4.7% in 2009 and we expect an expansion of 2.0% in 2010 and 3.6% in 2011. Our view is above consensus for 2011 and implies a significant outperformance relative to the European average for both years. Swedish business survey data has recovered and the PMI is now back at all time highs. The hard data is beginning to firm up more notably. Industrial production is starting to recover, but remains a laggard relative to many other small open economies. Retail sales data is also picking up. As global investment normalises, Sweden is likely to be a strong beneficiary, given the make-up of its production base.

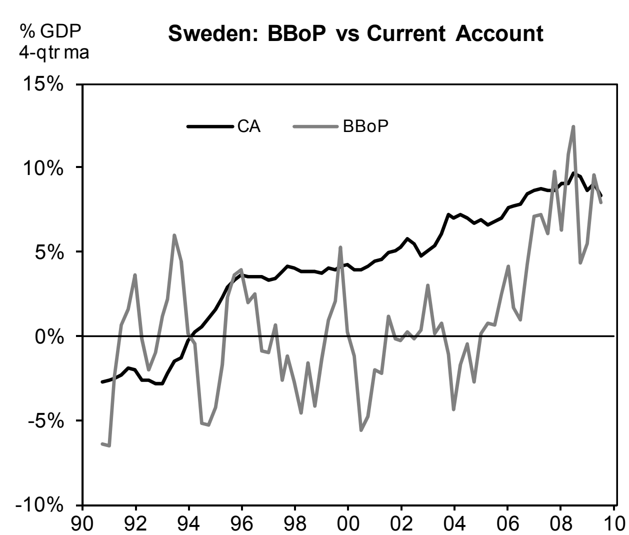
Monetary Policy Forecast: The Riksbank shifted to a more hawkish stance at the February meeting, noting that the recovery is on more solid ground and that the labour market is not as weak as previously estimated. We continue to expect the Riksbank to hike rates to 1.5% by the end of 2010, starting in Q3, which is sooner than the Riksbank envisages. We expect rates to be hiked to 150bp by end-2010.

Balance of Payments Situation: Sweden's current account surplus remained relatively robust through the crisis but has shrunk notably in the past two quarters. On a trend basis, it stands at 7.4% of GDP. The BBoP surplus is in a much better position and is in surplus to the tune of 11.5% of GDP. Other things equal, this is positive for the SEK.

Things to Watch: It will be interesting to see if the Riksbank expresses any concern about the rapidity of the SEK appreciation and the resulting tightening of financial conditions.

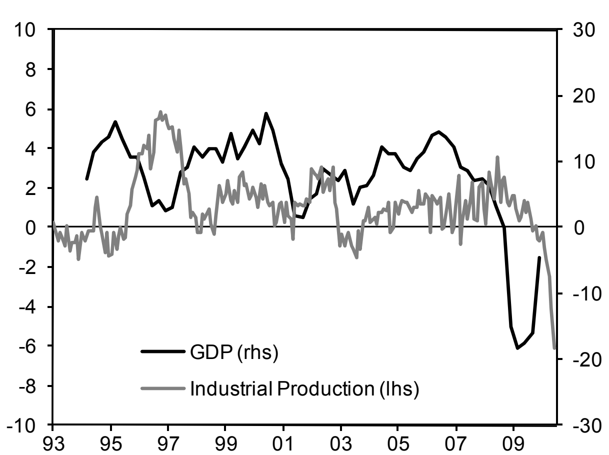
Fiona Lake



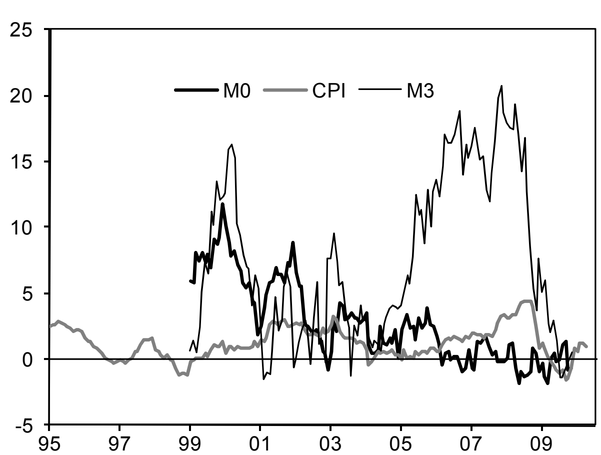


Swedish Krona

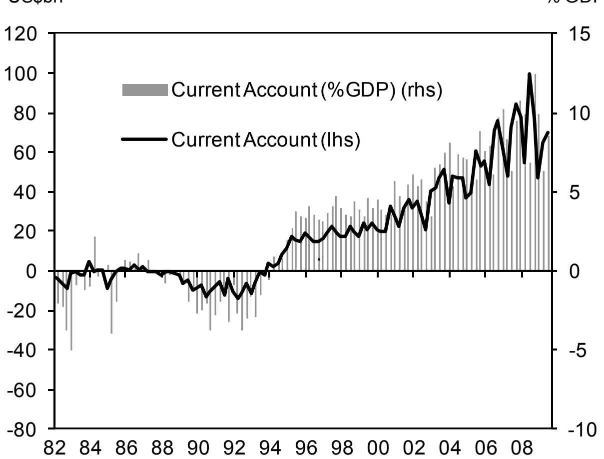
Industrial Production & GDP



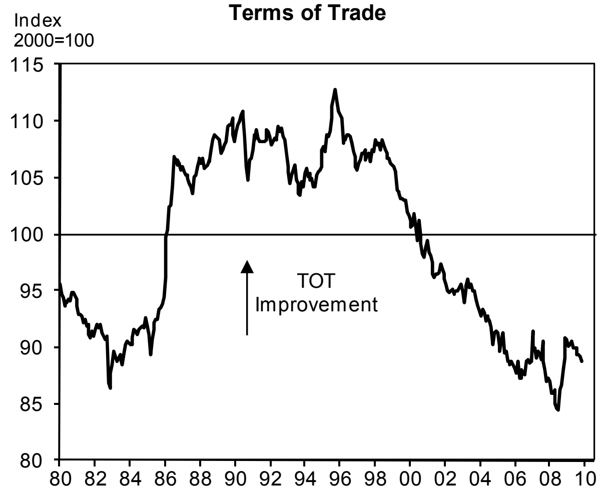
M0 and M3 Growth & CPI Inflation



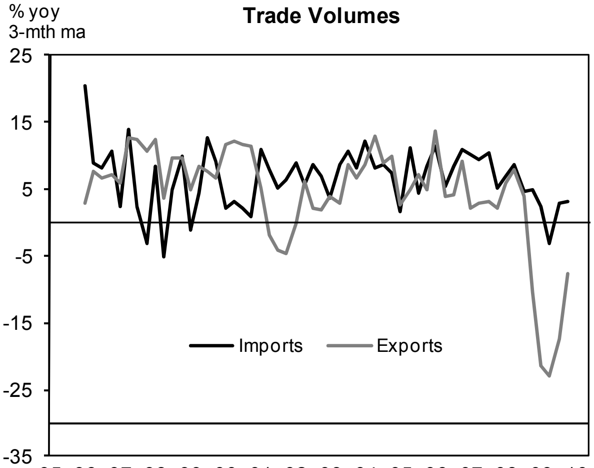
Current Account Balance



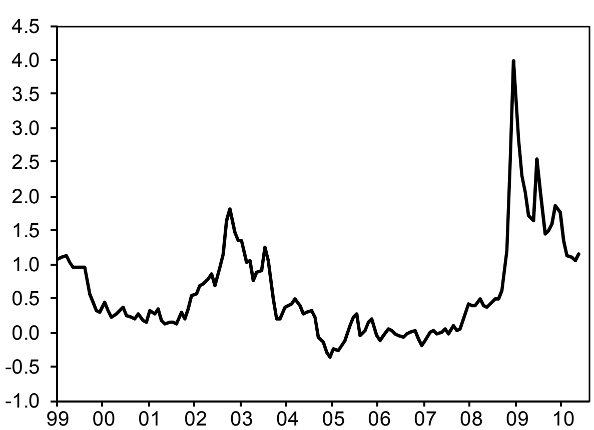
Terms of Trade



Trade Volumes



EUR/SEK: 3-mth Risk Reversals



Swiss Franc

FX Forecasts: We have now expect EUR/CHF to trade at 1.40, 1.38 and 1.40 in 3, 6 and 12 months from 1.44, 1.42 and 1.40 previously. This equates to USD/CHF at 1.04, 1.02 and 1.04. EUR/CHF GSDEER is 1.47.

Motivation for Our FX View: The Swiss Franc continues to trade firmly on the back of strong Swiss data and spillover effects from the recent woes in Euroland. While the recent policy initiatives from the Eurozone heads of state may help alleviate Soverign and financial risks and thus removing one support for the CHF, the strength of Swiss activity remains firmly in favour of the CHF; hence our expectation of further appreciation. We also expect the SNB to hike rates ahead of the ECB and that will add to CHF strength.

Monetary Policy and FX Framework: The SNB targets inflation, with a ceiling on CPI set at less than 2% pa. The SNB uses 3-month libor as its policy instrument. At each meeting, the Bank sets a band, usually 1%, for libor. The Bank then manages libor so that it trades at the centre of the band. The CHF is fully flexible in normal times; however, the SNB occasionally directly influences the value of the currency when it poses a threat to inflation stability.

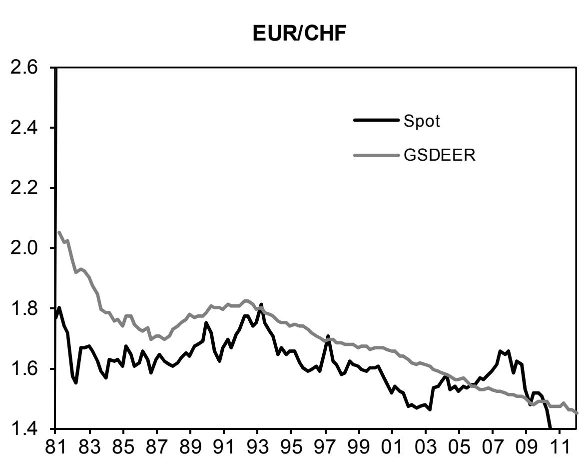
Growth/Inflation Outlook: The Swiss PMI has accelerated rapidly in recent months and is now back pretty much at all-time highs, indicating that the recovery is very much on track despite the strength of the Swiss Franc and thus still very tight financial conditions. Domestic demand is driving the recovery and retail sales remain strong; exports are now starting to show signs of life with the latest reading showing a strong increase. We expect the Swiss economy to expand by 2.3% this year and by 2.0% next. Headline inflation has picked up to 1.4% in recent months; however, core inflation continues to soften and is now around 0.2-0.4%.

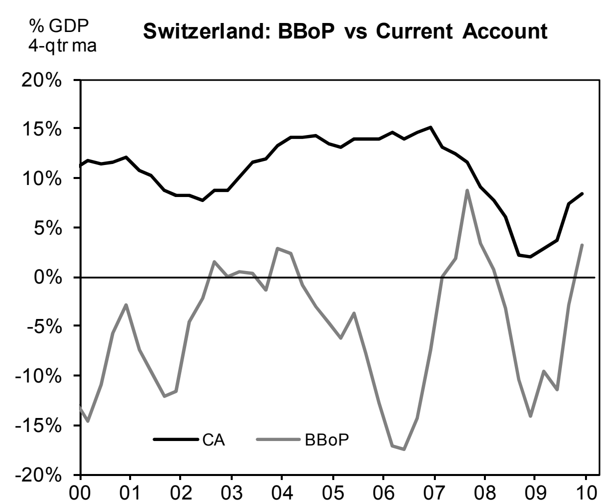
Monetary Policy Forecast: The SNB has been more tolerant of CHF appreciation and we expect this to remain the case against the backdrop of strong Swiss data. Indeed, we now expect the SNB to 'allow' EUR/CHF to move beyond 1.40. We expect the SNB to start tightening policy from Q3 of 2010, in 25bp clips to end-2011.

Balance of Payments Situation: The Swiss current account position has staged a sharp recovery in the latest data owing to a sharp recovery in investment income. However, Switzerland reported large FDI outflows in the same period, pushing the narrow basic balance into deficit. Switzerland's portfolio flow data is complicated by its position as an international financial centre.

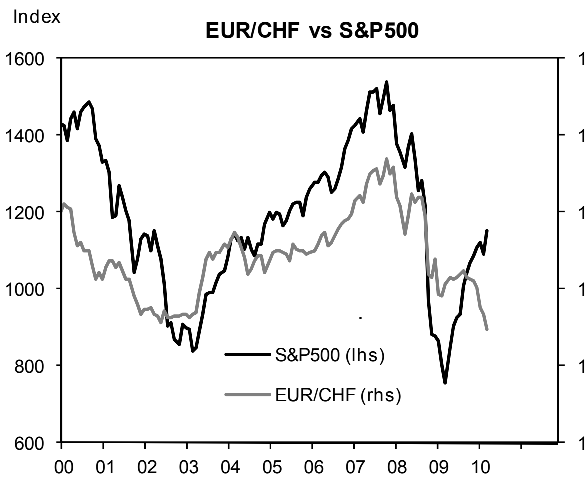
Things to Watch: The SNB continues to signal limits to the extent of appreciation the Bank is prepared to tolerate, even though they are lowering thier 'lines in the sand' probably in response to strong Swiss data thus their rhetoric remains key to watch.

Fiona Lake





Swiss Franc


EUR/CHF vs S&P500
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1400
1200
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S&P500 (lhs)
EUR/CHF (rhs)
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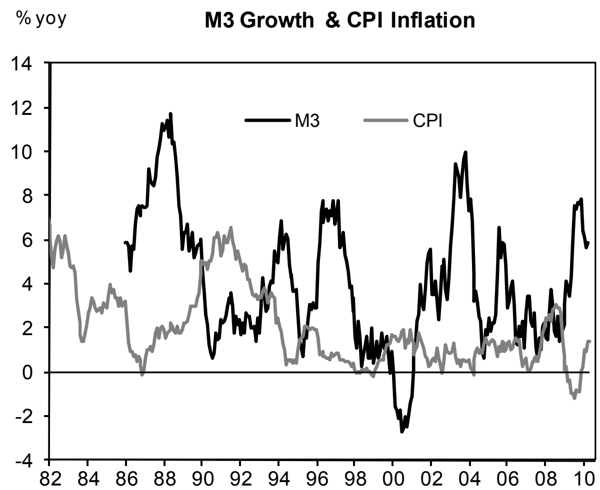
M3 Growth & CPI Inflation
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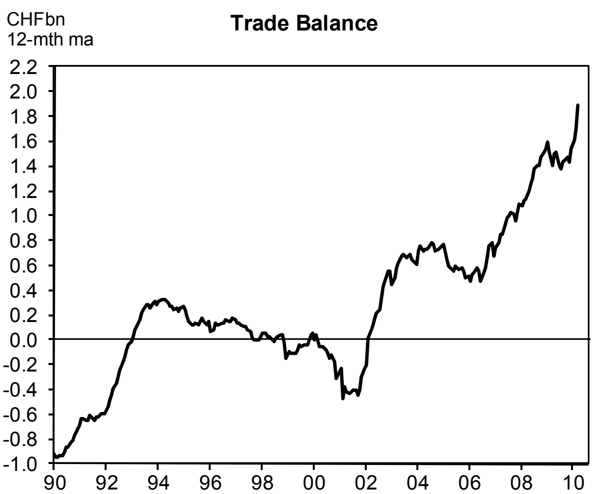
Trade Balance
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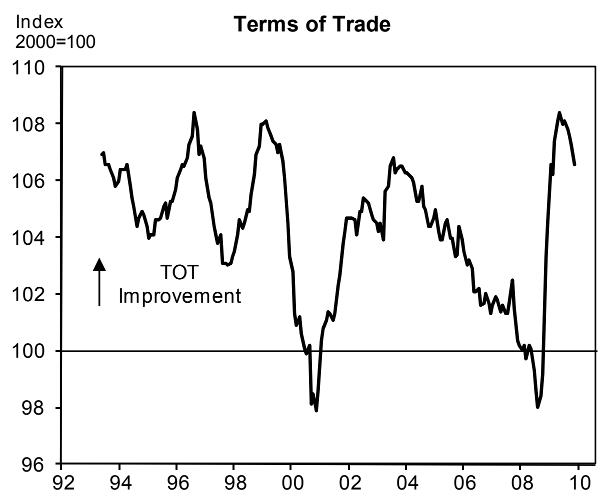
Terms of Trade
Index
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102
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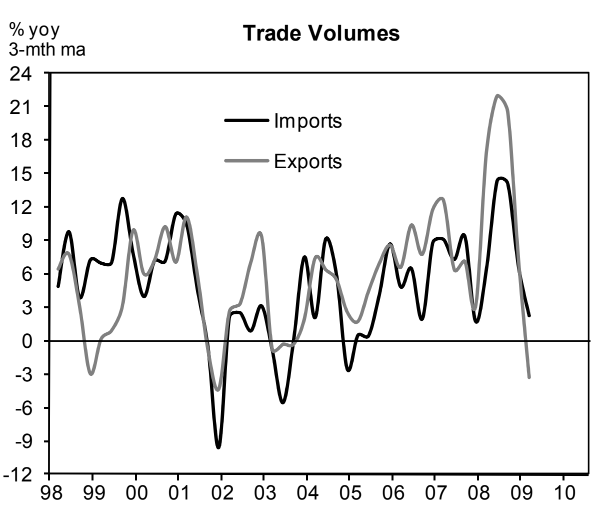
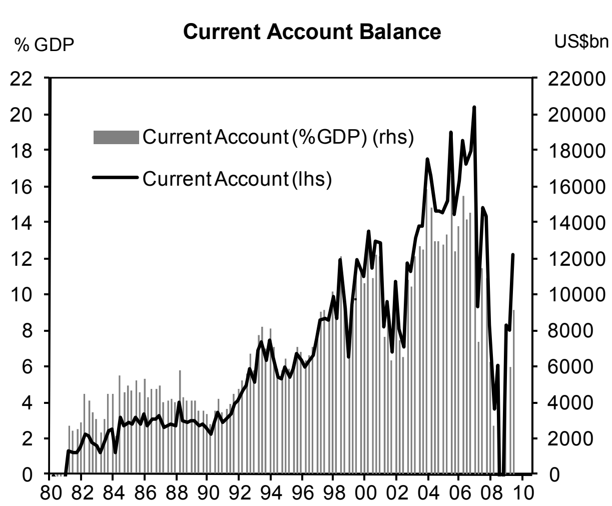
96
TOT
Improvement
92 94 96 98 00 02 04 06 08 10


Trade Volumes
% yoy
3-mth ma
Imports
Exports
24
21
18
15
12
9
6
3
0
-3
-6
-9
-12
98 99 00 01 02 03 04 05 06 07 08 09 10


Current Account Balance
% GDP
US$bn
Current Account (%GDP) (rhs)
Current Account (lhs)
22
20
18
16
14
12
10
8
6
4
2
0
22000
20000
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
80 82 84 86 88 90 92 94 96 98 00 02 04 06 08 10

South African Rand

FX Forecasts: We expect USD/ZAR to appreciate to ZAR7.0 in 3/6 months, depreciating to ZAR7.5 on a 12-month horizon. We see EUR/ZAR at 9.45, 9.45 and 10.13 over 3, 6 and 12 months. The current GSDEER for USD/ZAR is 6.5.

Motivation for Our FX View: This reflects our view that the Rand should strengthen further on the back of sustained risk appetite, bullish views on gold prices and a smaller current account deficit. In addition, markets have taken in their stride the sharp deterioration of the fiscal accounts driven by the government's counter-cyclical fiscal policy. The moderate depreciation six months from now reflects the expectation of a mild pull-back in equity markets (S and P 500).

Monetary Policy and FX Framework: The South African Reserve Bank is operationally independent and sets its policy interest rate to keep CPI inflation within the official target of 3%-6%yoy and, secondarily, support growth and promote financial stability. The repo rate is its policy rate and is the rate at which banks can borrow from the Reserve Bank for two weeks.

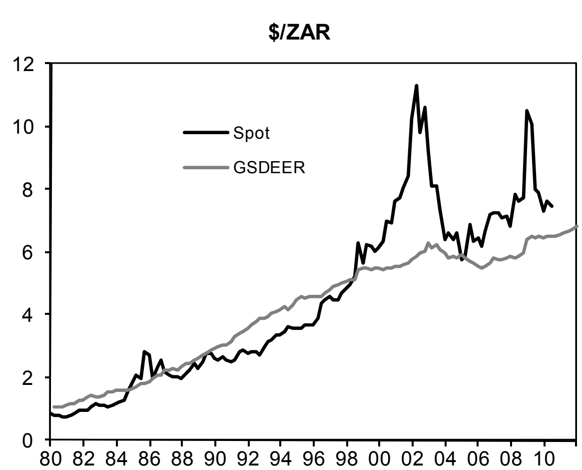
Growth/Inflation Outlook: The economy emerged from a year-long recession in 3Q2009, and we expect it to grow by 2.9%yoy in 2010 and 4.0% in 2011. The manufacturing PMI, at 55.2 in April, has been catching up with the improvement observed in other emerging economies. Exports remain the main driver of the recovery, with a rising contribution from capital spending, held up by relatively buoyant public-sector investment. Private consumption, which has slowed sharply on the back of tighter domestic credit conditions and rising unemployment, should join the recovery only in 2H2010.

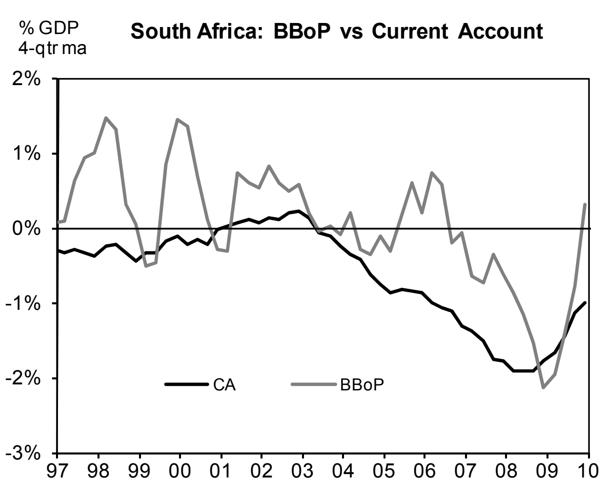
Monetary Policy Forecast: The SARB cut interest rates by 50bp to 6.5% in March 2010 on the back of a strengthening Rand and the energy regulator's decision to limit the electricity tariff hike to 25% (from 35% initially). The next policy move should be up, back to 7% in November, followed through by an additional 100bp in 2011. The risks to this forecast are on the downside in the short term - especially since we see CPI inflation falling below 5% in the next few months (it was 5.1% in March) - and on the upside in 2011: we expect a vigorous recovery to continue, allowing the MPC to focus on inflation outlook at the long end.

Balance of Payments Situation: The current account deficit, at 6.8% of GDP in 2008, has more than halved, with the latest, Q4 print showing a 3.8% deficit. The process is driven by a faster contraction of imports than exports, reflecting a sharp contraction in final demand. FDI and portfolio inflows are holding up well.

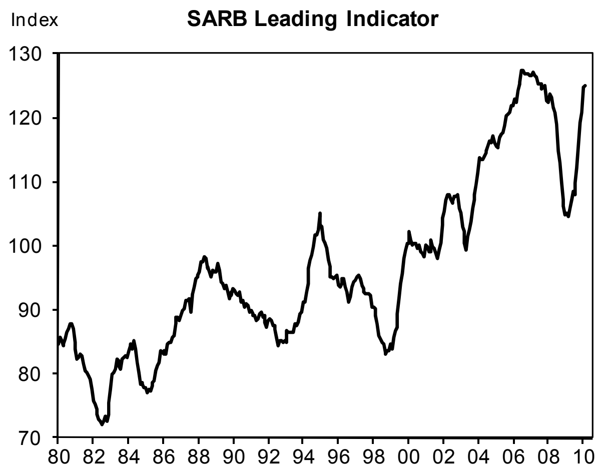
Things to Watch: The rally in the Rand throughout most of 2009, driven by the bounce in global risk appetite and the associated rally in global equity markets, has continued in 2010. The improvement in global growth fundamentals over recent quarters looks genuine and makes us structurally bullish on the ZAR. A return of risk aversion and deleveraging, perhaps in the context of a relapse in global growth or renewed financial instability, remains the key risk to monitor.

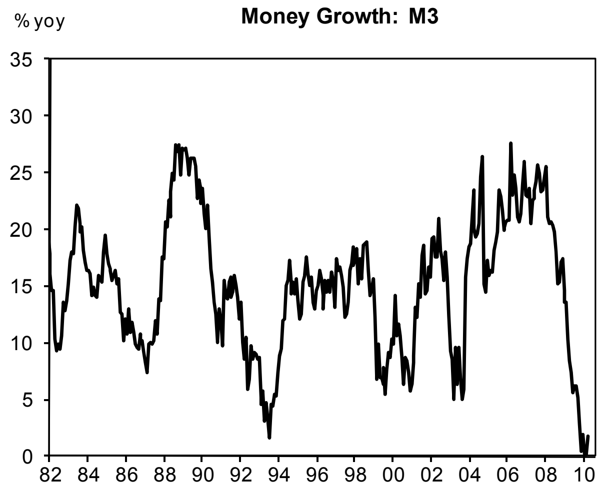
Javier Pérez de Azpillaga

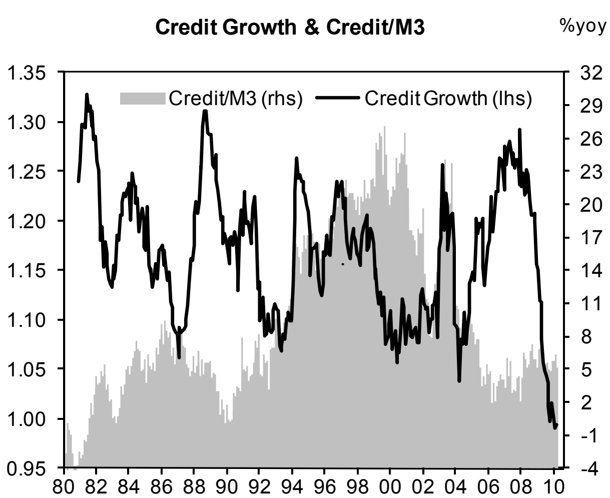


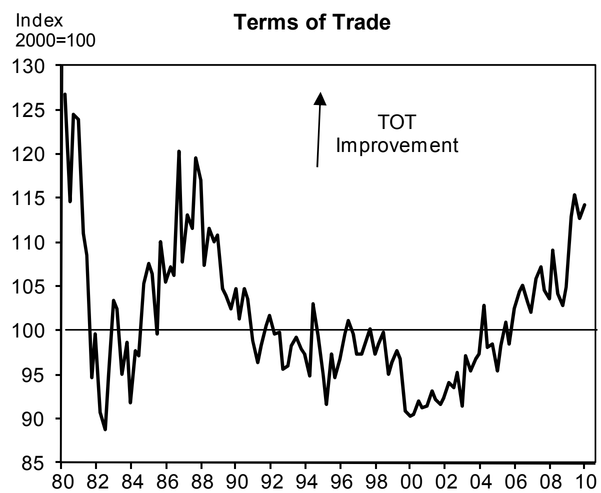


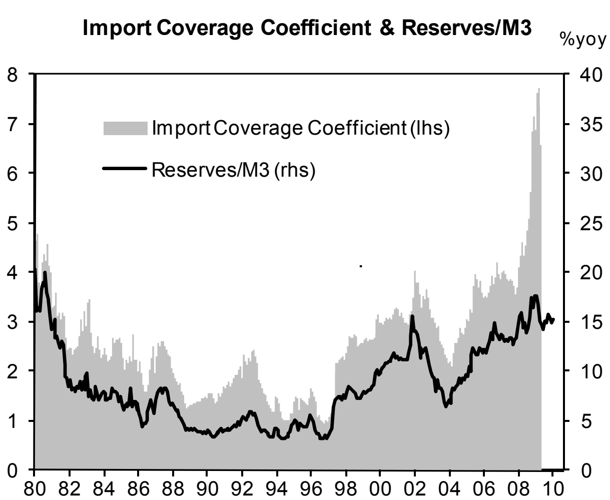
South African Rand

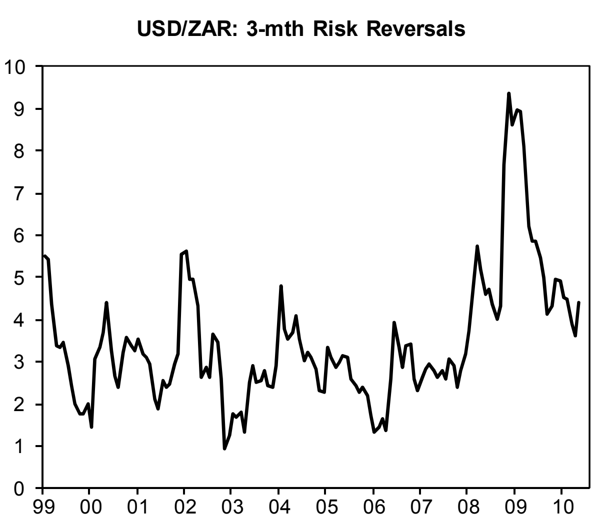












Czech Koruna

FX Forecasts: We forecast EUR/CZK at 25.5, 25.0 and 24.5 in 3, 6 and 12 months, respectively, implying a USD/CZK forecast of 18.9, 18.5 and 18.1 in 3, 6 and 12 months. GSDEER for EUR/CZK: 23.14.

Motivation for Our FX View: The CZK has reversed some of the Q1 gains, as it weakened alongside the other CE-3 currencies during the recent bout of risk aversion. We continue to expect the currency to benefit from a large trade surplus (as data from key export markets continues to come in strong), since imports are unlikely to match the growth in exports due to still weak domestic demand; that said, appreciation may be delayed until 2010H2 on seasonally higher income outflows in Q2 and a more cautious attitude to risk globally. In the longer term, relatively sound balance sheets and the global recovery should support a gradual return to trend growth in 2011, putting the currency back on a real appreciation trend due to the ongoing productivity catch-up with the Euro-zone. Against this, the absence of fiscal reform after the May elections could increase the country's risk premium.

Monetary Policy and FX Framework: The CZK is a freely-floating currency. However, since the economy is very open, the CNB monitors FX movements when setting interest rates. The inflation target is 2%.

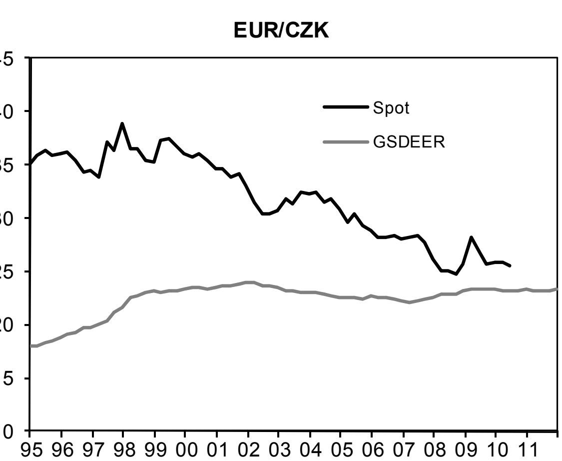
Growth/Inflation Outlook: GDP growth picked up to +0.7%qoq in Q4. After some deceleration in Q1, we expect growth to stay robust in the next couple of quarters on better external demand and the end of de-stocking, although some fiscal headwinds and a stronger currency may slow the recovery late in 2010. At +1.1%yoy in April, inflation is driven by the effects of taxes, regulated prices and a rise in fuel prices. We expect inflation to rise more visibly towards the 2% target only in 2010Q3.

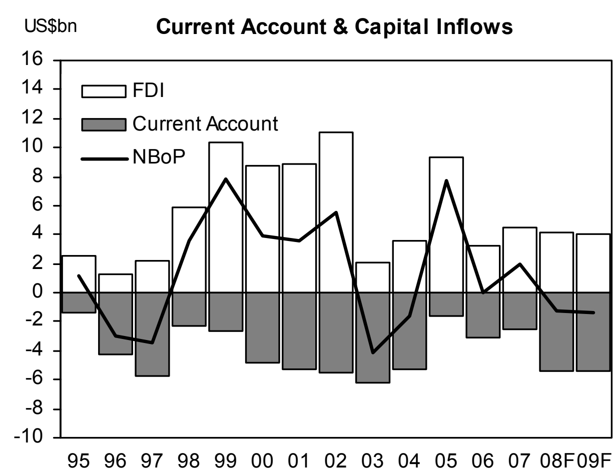
Monetary Policy Forecast: The CNB surprised the markets with a 25bp cut in May, taking the cumulative easing to 300bp. We believe that the absence of core inflation pressures will allow the CNB to keep rates at 0.75% at least until September 2010. However, we are more upbeat on domestic recovery prospects, and thus expect the CNB to start tightening in late 2010, adding 50bp in 2010 and 100bp more in 2011. The risk that European interest rates may stay low for longer poses a downside risk to our view.

Balance of Payments Situation: The trade surplus in 2009 was boosted by lower fuel prices, the car scrappage subsidy in Germany, lower domestic demand and, early in the year, a weaker currency. This, together with a smaller net income deficit and higher EU funds inflows, reduced the CA deficit to around 1% of GDP in 2009, and should bring it close to balance this year.

Things to Watch: The parliamentary elections due on May 28-29 will likely result in a coalition government, led by the centre-left Social Democrats; a weaker minority cabinet is also possible. We expect the next cabinet to pursue reasonable fiscal policies, but we are sceptical about the possibility of substantial fiscal and welfare reforms without a strong government.

Anna Zadornova





Hungarian Forint

FX Forecasts: We leave our forecast for EUR/HUF unchanged at 265, 265 and 255 in 3, 6 and 12 months. Consistent with our EUR/USD forecast, this implies USD/HUF at 196 in 3, 6 months and 189 in 12 months. Current GSDEER for for EUR/HUF is 278.73.

Motivation for Our FX View: The recent HUF sell-off was driven by a negative market reaction to news rather than fundamental factors. We maintain our constructive view on the economy and continue to expect the new government to pursue policies broadly in line with those of the outgoing government, with the chances of it implementing more populist, pre-election promises limited by the scrutiny of the markets and a willingness to negotiate a new IMF-led program. This should be HUF-supportive by reducing the risk premium on Hungarian assets and facilitating economic recovery and capital inflows. The end of the rate-cutting cycle near term should also attract additional inflows. In the medium term, continued repayment of FX debt should dampen appreciation pressures. Nevertheless, a re-emergence of risk aversion could lead to another HUF sell-off.

Monetary Policy and FX Framework: The NBH targets inflation at 3% in the medium term (18 months-2 years). The Bank holds rate-setting meetings every fourth Monday of the month.

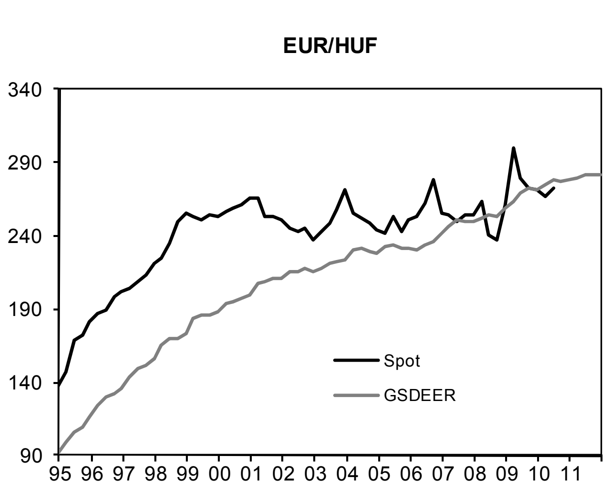
Growth/Inflation Outlook: We expect the recession to end in mid-2010. Our new forecasts see slightly positive growth in 2010 and a strong recovery in 2011, with growth reaching 3.2%. Inflation should continue to fall until inflationary pressures re-emerge in 2011.

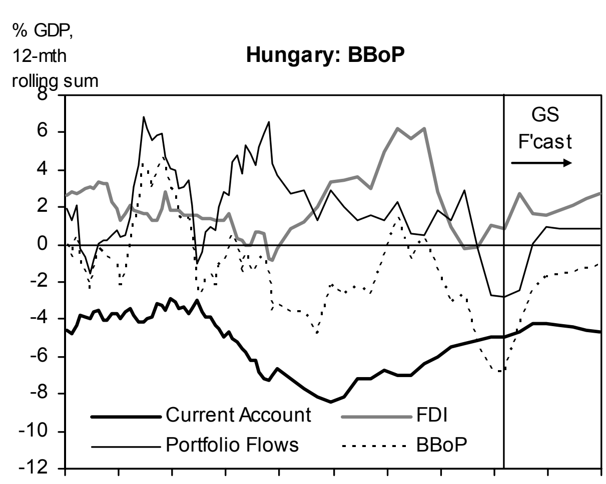
Monetary Policy Forecast: A benign inflation outlook, an improvement in external balances, and stabilisation of the HUF and CDS spreads resulted in another rate cut in late April, bringing the policy rate to 5.25%. Although we see scope for one more 25bp rate cut, recent FX volatility and elevated CDS spreads introduce the risk of an end to the cutting cycle. A narrowing of the output gap and a fall in unemployment should result in small rate hikes in 2011.

Balance of Payments Situation: The current account deficit registered a large adjustment in 2009, as income and especially trade balances improved; we expect the surplus to be maintained in 2010. International reserves reached an all-time high of EUR34.2bn, which, together with the rest of the IMF-led package, are large enough to cover any potential financing gaps in 2010 and reduce the risk of another severe capital outflow. This risk should be reduced even further by a new IMF-led program even if the financial support takes a precautionary form.

Things to Watch: The main opposition party, Fidesz, won a qualified majority in the recent parliamentary elections allowing it to push for deep-reaching reforms without the support of other parties. Candidates for the key posts have been announced already, as were the plans to reshuffle the government structure, especially in the area of economic policy. The forthcoming local elections and the renegotiations of the IMF deal may cause some volatility in the market, especially if the new government attempts to test the patience of investors, the IMF and the European Commission, or returns to the idea of replacing the NBH Governor.

Magdalena Polan





Egyptian Pound

FX Forecasts: We retain our 3-, 6- and 12-month $/EGP forecast at 5.55, 5.50 and 5.65. This implies a EUR/EGP rate at 7.49, 7.43 and 7.63. Note that our forecasts imply a modest EGP appreciation in trade-weighted terms on a 6- and 12-month basis.

Motivation for Our FX View: The current account balance posted a US$4.5bn deficit in 2009, owing to lower energy prices, lower income from the Suez Canal and lower remittances from overseas Egyptian workers. Portfolio outflows were particularly strong during the crisis and exerted considerable depreciation pressure on the EGP. But FDI inflows proved surprisingly resilient and helped ease the pressure on the currency through the year. In 2010, the current account will probably remain in modest deficit, but Egypt should continue to attract capital inflows both through the portfolio and FDI accounts, which should allow the EGP to stabilise in trade-weighted terms.

Monetary Policy and FX Framework: The monetary policy framework is characterised by a managed float. However, the authorities have stated that they intend to move to an inflation targeting framework and, consistent with this, we have seen a greater degree of EGP flexibility. At the heart of the monetary framework is a monetary policy committee that aims to keep inflation in single digits, and that looks at an eclectic set of data to gauge inflationary pressures.

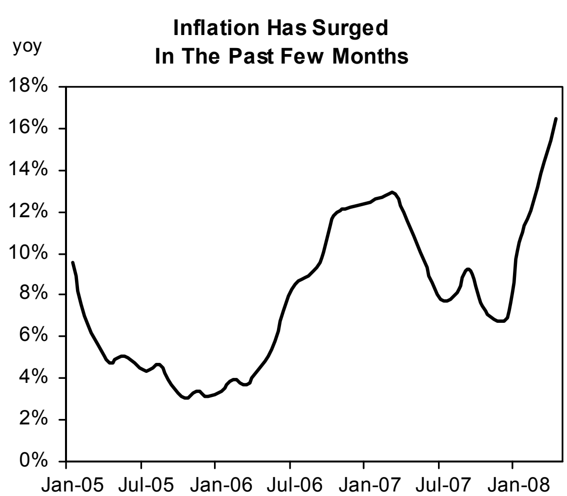
Growth/Inflation Outlook: Growth probably slowed further to around 4% in 2009, on the back of a deceleration in global growth and weakening domestic demand. But this year, it should once again accelerate towards 5%. Inflation troughed at 8.5% in mid-2009 but has since then accelerated and is currently running at 11.8%. By end-year CPI is likely to stabilise at around 10%-12%.

Monetary Policy Forecast: Urban inflation has fallen on the back of declines in food prices and slowing domestic demand. This has prompted the CBE to cut rates by a cumulative 325bp to 8.25% since February 2009. However, inflation remains high and sticky, and the Bank is likely to keep rates on hold at current levels for a while longer, given the slack in the economy. Towards the end of 2010, however, a modest 275bp of rate hikes to 10% is likely - which would bring the ex-ante real rate close to zero.

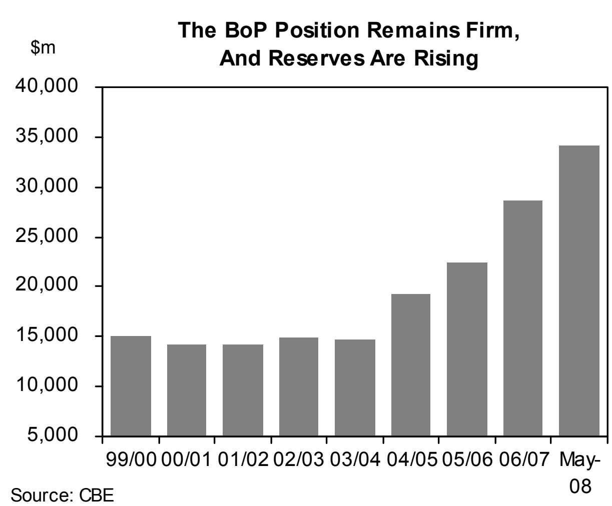
Balance of Payments Situation: The current account recorded a modest deficit of about -2% of GDP in 2009 and is likely to post a modest -1.5% in 2010. However, with risk appetite recovering globally, FDI and portfolio inflows are likely to recover and ease BoP pressures resulting from the global financial crisis.

Things to Watch: Reform momentum has waned, and requires the government to push ahead with new initiatives to boost growth and buttress investor confidence. Also, the uncertainty surrounding the presidential succession continues. Gamal Mubarak stands out as the only likely candidate to take over from President Mubarak but this continues to be a key risk factor, potentially leading to a prolonged period of political tension in Egypt.

Ahmet Akarli



Source: CAPMAS



Source: CBE

Israeli Shekel

FX Forecasts: We maintain our 3-, 6- and 12-month $/ILS forecasts at 3.65, 3.62 and 3.57. Consistent with our EUR/$ forecasts, this implies a EUR/ILS forecast of 4.93, 4.89 and 4.82. Note that our GSDEER metrics show ILS overvaluation against the Dollar, putting 'fair value' at 4.01.

Motivation for Our FX View: The Bank of Israel has started removing the excess stimulus it provided during the crisis. We expect the Bank to pull rates to 2.5% by end-2010, a lot more quickly than Israel's main trading partners. This, combined with widening growth differentials and a solid external position, should allow for further ILS appreciation.

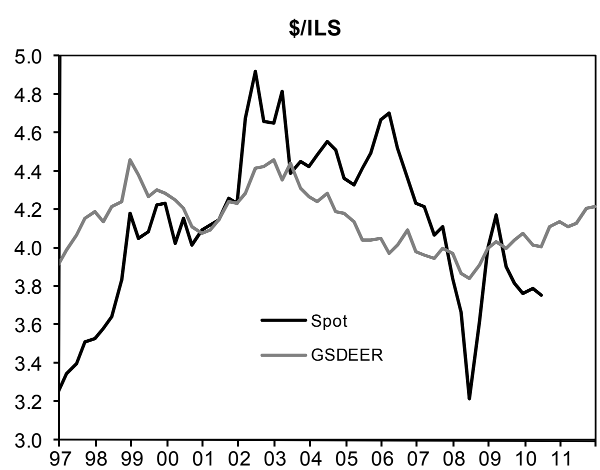
Monetary Policy and FX Framework: The Bank of Israel enjoys operational independence and targets inflation of 1%-3%yoy. The Governor, on the MPC's recommendation, sets the policy interest rate with a view to keeping inflation within the target band. The new BoI law, which will be effective from July, gives full authority to the MPC, however. Policy rates are historically low at 1.50%.

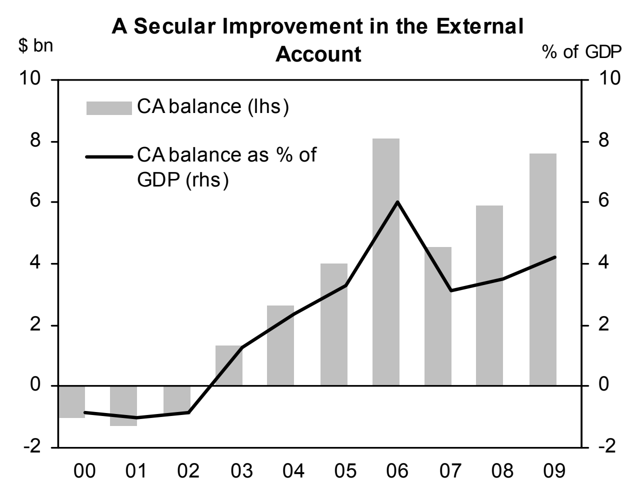
Growth/Inflation Outlook: The economy slowed significantly during the last quarter of 2008 and early 2009. The decline in activity was broad-based, but was most visible in exports, investment and consumption of durable goods. But in 2Q2009, growth turned positive, on the back of aggregate demand stabilisation and inventory build-up, and in 2009Q4 GDP was already back to pre-crisis levels. Exports and IP continue to show strong recovery, both annually and on a sequential basis, and the service sector seems to be growing briskly, once again.

Monetary Policy Forecast: The BoI has been aggressive in cutting policy rates. But now it is reversing course; it has ceased its purchase of Treasury Bills, scaled down FX interventions and delivered surprise 25bp hikes in August, November, January and in March, aimed primarily at anchoring inflation expectations. We believe that the BoI will continue to hike rates, albeit at a measured pace, ensuring that it does not prematurely arrest Israel's economic recovery. In the meantime, the BoI will continue to intervene in the FX market to check ILS appreciation. But pushing rates and FX in opposite directions runs the risk of undermining the credibility of the inflation targeting framework and is therefore unsustainable over the medium run. We expect the BoI to let go of FX eventually, and focus on formal inflation targeting and bringing rates gradually to a more neutral level. This should in turn result in a stronger currency.

Balance of Payments Situation: The current account balance is likely to post a small surplus for the next few years. High frequency trade data now show a sequential rebound in Israel's exports, and while bills for imported commodities should rise as well, net exports are likely to improve over the coming quarters. However, the capital account remains strong, and continuing portfolio and FDI flows should continue to provide fundamental support to the ILS. Central Bank intervention is the only factor capping the upside on the ILS.

Ahmet Akarli





Turkish Lira

FX Forecasts: Our $/TRY forecasts remain at 1.48, 1.43 and 1.42 in 3, 6 and 12 months. Together with our EUR/USD forecasts, this implies a EUR/TRY rate of 2.00, 1.93 and 1.92 in 3, 6 and 12 months. Note that our forecasts imply a roughly flat trade-weighted TRY in 3 months and a cumulative 9% appreciation thereafter. The current GSDEER $/TRY 'fair value' estimate is 1.97.

Motivation for Our FX View: Monetary Policy: we think the TRY is likely to appreciate markedly once the CBRT begins its hiking cycle; as we explain below, our baseline expectation is for the hiking cycle to start in 2010H2. The CBRT has already started removing the unconventional policy instruments introduced during the crisis, which will result in a tightening of TRY liquidity conditions and offer more support for the currency. Accordingly, we recommend long TRL/BRL positions, giving exposure to the likely convergence between Brazilian and Turkish real rates.

Monetary Policy and FX Framework: The CBRT formally adopted inflation targeting in 2006, and missed its 4% target by a wide margin in both 2006 and 2007, due to a series of nasty supply shocks. The Bank has revised its medium-term targets upwards to 7.5% for 2009, 6.5% for 2010 and 5.5% for 2011. Recently the Bank announced the 2012 target at 5%.

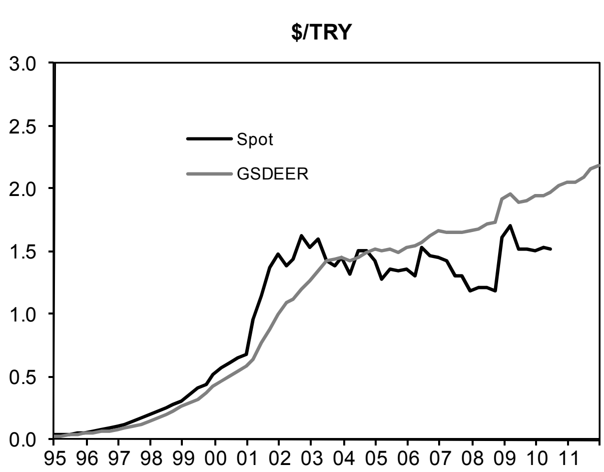
Growth/Inflation Outlook: In 1Q2009, the economy contracted by a record 14.7%yoy. But the recovery since then has been remarkably strong. In Q2 GDP bounced back by about 5%qoq (not annualised), in Q3 by 3% and in Q4 by another 2%. For 2010, we forecast 7.2% GDP growth, stronger than Turkey's main trading partners and most of its peers in the broader EMEA region.

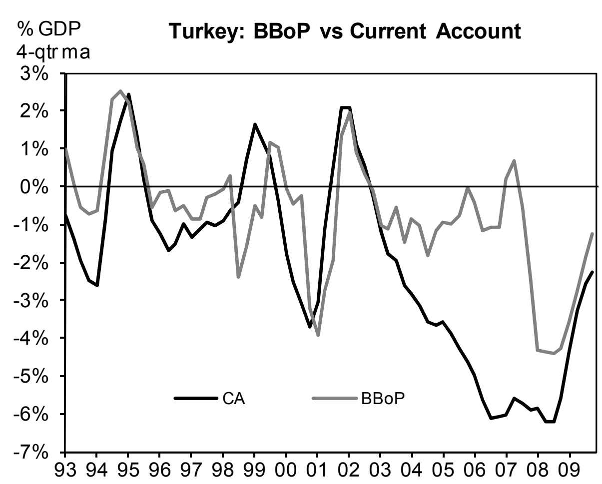
Monetary Policy Forecast: After a cumulative 1,025bp cut, the CBRT put rates on hold and dropped its easing bias. Inflation is currently at 10%, and while some of this is due to the temporary base effect, inflation should stabilise in the 7.0%-7.5.0% region, above target. Accordingly, we expect the Bank to hike rates by 250bp in 2H2010 and by another 100bp in 2011, to anchor inflation expectations. The key risk to this view is if the currency strengthens by more than we expect, in response to a later path of monetary policy tightening elsewhere.

Balance of Payments Situation: The current account deficit was around US$15bn, or 2% of GDP, in 2009 but it should widen to reach 4.5% of GDP in 2010, which, combined with intensifying inflation pressures, would call for further monetary tightening.

Things to Watch: We believe that fundamental political risks are relatively limited - the AKP continues to consolidate its domestic powers at the expense of the secularist/nationalist establishment. The domestic political noise can intensify in the run-up to the 2011 elections. But we see no immediate threat to overall political stability.

Ahmet Akarli





Russian Ruble

FX Forecasts: We have revised our forecast stronger to USD/RUB 28.0, 28.0 and 27.5 in 3, 6 and 12 months. This, given the EUR/USD forecast at 1.35 flat, implies EUR/RUB at 37.8, 37.8 and 37.1, and the CBR's basket at 32.4, 32.4 and 31.8, respectively. The current GSDEER value for USD/RUB is 34.70.

Motivation for Our FX View: Our forecast of RUB appreciation is based on the house view of rising oil prices, which is not only increasing export revenues but also encouraging renewed capital inflows. The re-acceleration in growth we expect in mid-2010 should also be currency-supportive.

Monetary Policy and FX Framework: The monetary policy framework has evolved rapidly over the past year towards greater FX flexibility and a greater focus on inflation. Since January 2009, the CBR has had a 26-41 band against the US$0.55 + EUR 0.45 basket; within that, it has defended a RUB3-wide band, which it shifts by RUB0.05 each time it spends US$700mn defending either edge (as of May 13, that band appeared to be 33.40-36.40). In addition, the CBR has stepped up interventions within the band, to make the exchange rate less predictable. The CBR is attempting to shift towards interest rates as its primary monetary policy tool, and the new framework does allow more flexibility than the CBR's pre-crisis peg; but the CBR's tolerance for FX volatility is still limited. The monetary transmission mechanism has been impeded by banks' concerns about the quality of their assets, though signs are emerging that increased money supply has started to translate into a pick-up in credit extension, at least to households. The CBR has wound down its emergency loans to banks, and increased the issuance of bonds, hence partially sterilising the monetary impact of its monetisation of the budget deficit.

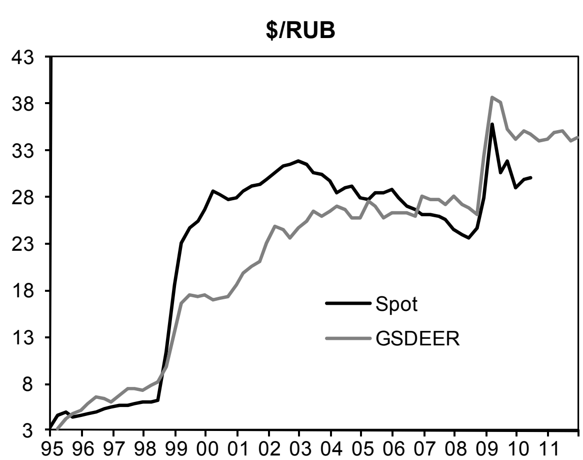
Growth/Inflation Outlook: GDP contracted by -7.9% in 2009, but net exports and inventories led the recovery from 2009Q3. Domestic demand is still sluggish, but we expect it to gain strength in the coming quarters as consumption recovers. We forecast a +5.8% rebound in GDP in 2010, accelerating to +6.1% in 2011. Inflation fell sharply to 6.5% in March, and we expect it to dip as low as 5% mid-year before edging back up above 6% by end-2010.

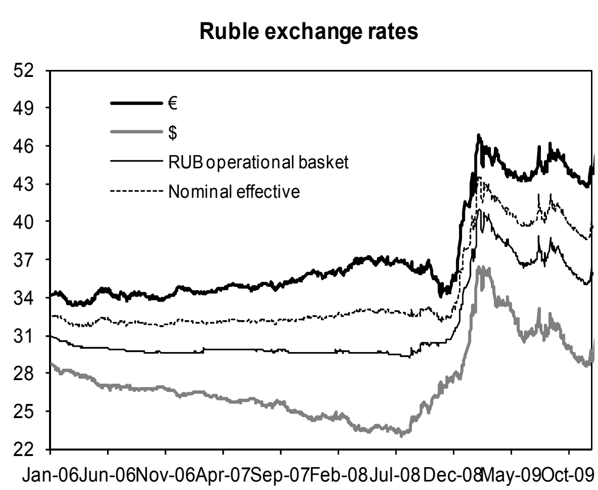
Monetary Policy Forecast: There is no inflation target, or publicised meeting dates, although the CBR now announces the month of the next rate decision. The CBR has cut its policy rates by 500bp since last April, and is now close to ending the easing cycle. We expect two more 25bp cuts as inflation continues to fall until late summer.

Balance of Payments Situation: Based on our commodities strategists' positive view on oil prices, we expect the current account to accumulate a surplus of 5.6% of GDP in 2010, falling below 4% in 2011 as imports recover.

Things to Watch: We have an above-consensus call on 2010 GDP, expecting the economic recovery to pick up pace from Q2, so we are closely watching high-frequency activity indicators (unemployment, the manufacturing PMI, industrial production and retail sales, and credit growth).

Anna Zadornova





Americas
Argentine Peso

FX Forecasts: We are maintaining our 3-, 6- and 12-month $/ARS forecasts at 3.90, 4.05 and 4.25, respectively. Current GSDEER is 2.9; our valuation model uses the official inflation index, which is thought to significantly underestimate actual inflation over the past three years. If the higher non-government inflation estimates are used, the undervaluation of the ARS virtually disappears.

Motivation for Our FX View: We expect the authorities to promote a gradual ARS depreciation starting sometime during 2H2010 on the back of the deteriorating fiscal outlook and accelerating inflation. We expect the Central Bank to buy part of the Dollar inflow expected over the next few months as agricultural exports peak, but to validate a weaker ARS later in 2010 in order to support the competitiveness of the tradable sectors and buttress the budget, as a significant share of the tax base is dollarised (e.g., export taxes).

Monetary Policy and FX Framework: The Central Bank conducts monetary policy by setting quantitative targets on M2. For 2010, the Central Bank set an expansion target band for M2 of 11.9% to 18.9%, with a point estimate for December at 14.3%. In addition, the Central Bank intervenes heavily in the FX market to mute FX volatility. Whenever the money supply exceeds the M2 target the Central Bank mops up the excess liquidity by issuing short-term bonds (Lebacs/Nobacs).

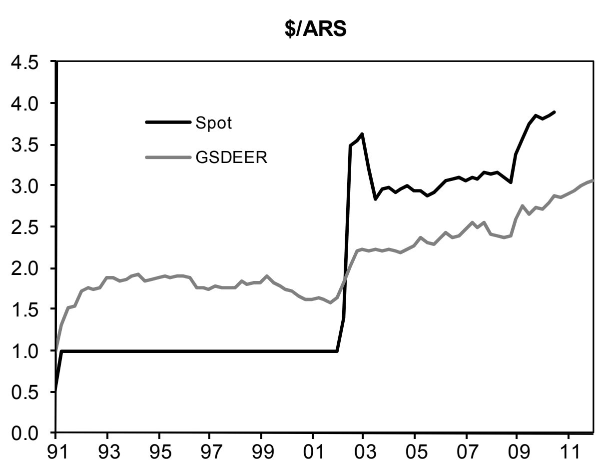
Growth/Inflation Outlook: The discredited official statistics show that the economy expanded 0.9%yoy during 2009 (non-government estimates show a 2%-3% contraction of activity in 2009). We expect real GDP to grow at least 5.3% in 2010 on the back of supportive terms of trade and the normalisation of agricultural production. After peaking at close to 30% earlier in 2008, inflation moderated to around 12%-13% by 3Q2009 (on the back of declining demand and lower commodity prices) but has accelerated again in recent months to around 17%. The government is thought to continue to severely under-report inflation: official figures put headline inflation at 9.7% yoy in March.

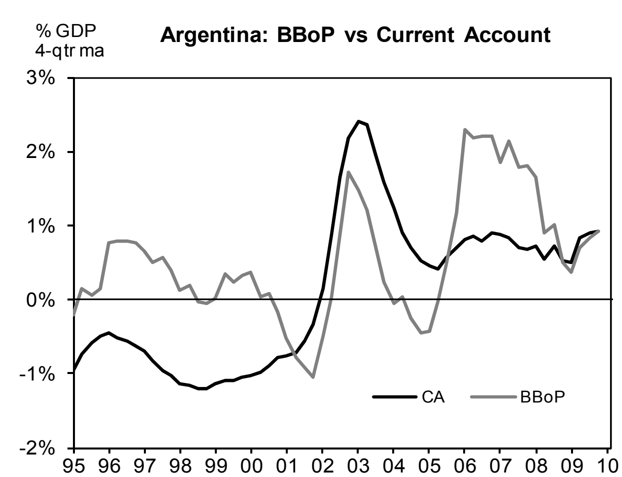
Monetary Policy Forecast: The Central Bank's track-record on inflation control is weak and monetary policy remains subordinated to fiscal imperatives and the policy priorities of the government. Pressure for the ARS to appreciate on the back of stronger terms of trade and higher agricultural exports during 2Q2010 is likely to be met by Central Bank intervention to increase the level of international reserves.

Balance of Payments Situation: The current account has been well anchored by a growing trade surplus; private-sector capital outflows have moderated significantly since 1H2009. During 2009 exports declined 20%yoy (driven by a 14%yoy decline in unit export prices), which was more than offset by the large 32%yoy decline in imports (driven by a 23%yoy decline in imported quantities, which attests to the very depressed domestic demand conditions). As such, the trade surplus widened to US$17.0bn in 2009 from US$12.6bn during 2008.

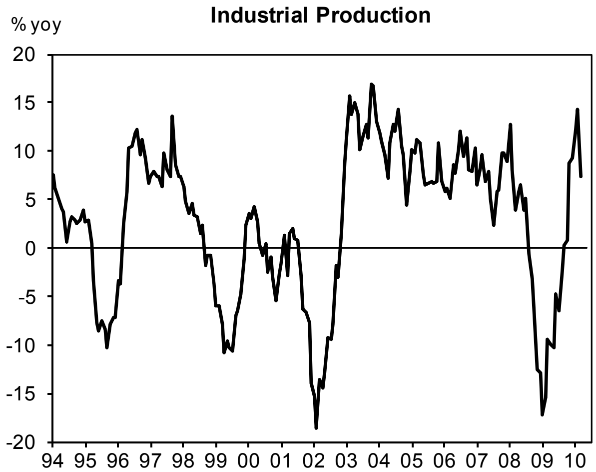
Things to Watch: The participation rate in the swap offer to holders of defaulted debt (closes June 7) and the very rapid expansion in public spending. Challenging cohabitation between the opposition-dominated Congress and the government.

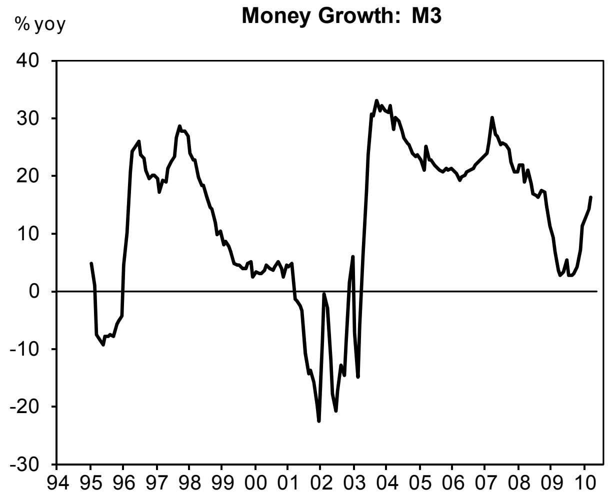
Alberto M. Ramos

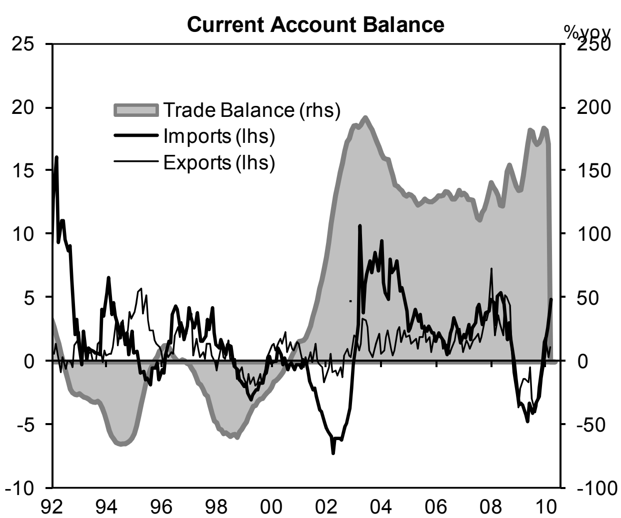


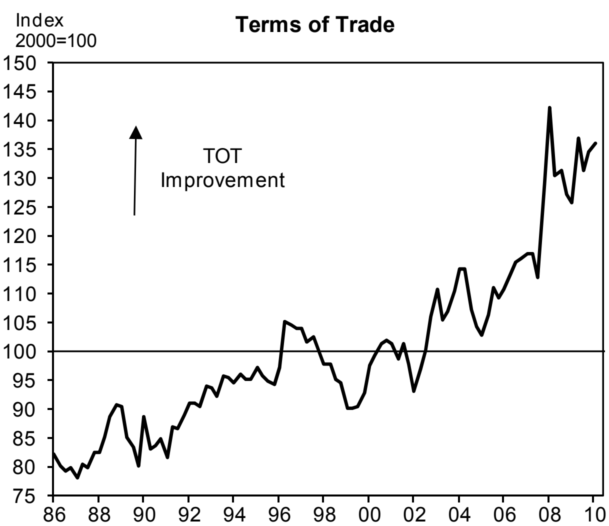


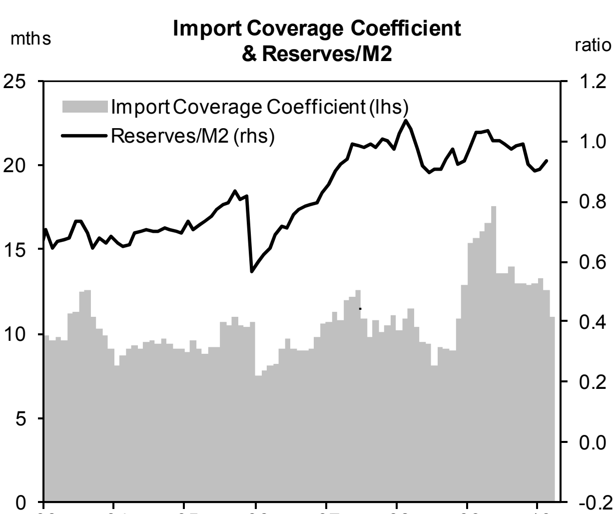
Argentine Peso

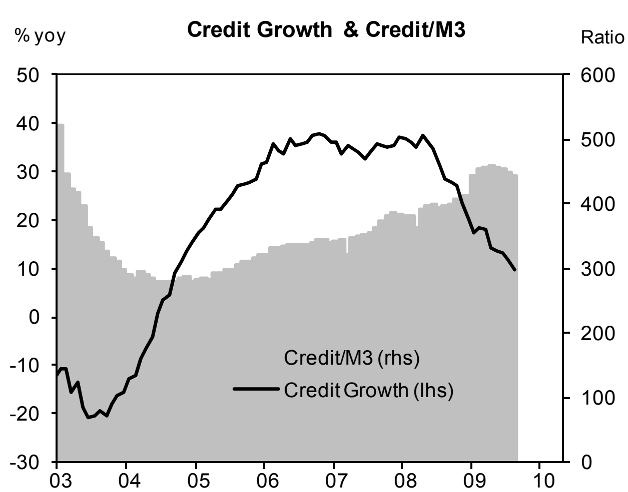












Brazilian Real

FX Forecast: We are maintaining our 3-, 6- and 12-month forecasts for the BRL at R$1.70, R$1.80 and R$1.90 to the USD. Our forecasts are more bullish than the forwards. Our forecast range for the BRL over the next 3 months remains R$1.65-R$1.90.

Motivation for Our FX View: For the next three months, we expect the BRL to appreciate to R$1.70 on the back of higher portfolio inflows, driven by higher interest rates in Brazil and a recovery in risk appetite worldwide. Thereafter, we see three reasons why the BRL will depreciate: (1) the current account deficit will double in one year; (2) investors will worry about potential changes in the macroeconomic policy framework ahead of the presidential elections (October 2010), and (3) uncertainties related to the implementation of exit strategies in advanced economies and fiscal headwinds in Europe.

Monetary Policy and FX Framework: Since 1999, BACEN has pursued an inflation targeting regime. For 2008, 2009 and 2010, the IPCA inflation target is 4.5% +/- 2.0%. To this end, COPOM targets the interest rate, SELIC. Brazil has a managed floating FX regime, marked by large, frequent and discretionary interventions in the spot and derivatives FX markets.

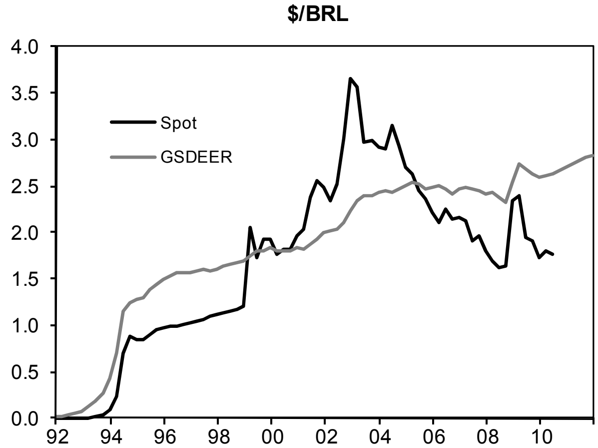
Growth/Inflation Outlook: After expanding 2.0% (qoq, sa) in 4Q2009, we forecast that real GDP growth accelerated to 2.2% in 1Q2010 (qoq, sa). Expansionary domestic demand management policies will boost domestic demand growth to 9.6% in 2010, raising real GDP growth to 7.5% in 2010 from -0.2% in 2009. We expect IPCA inflation (yoy) to rise to 6.2% by end-2010 from 4.3% in December 2009. IPCA inflation should moderate to 5.5% in 2011.

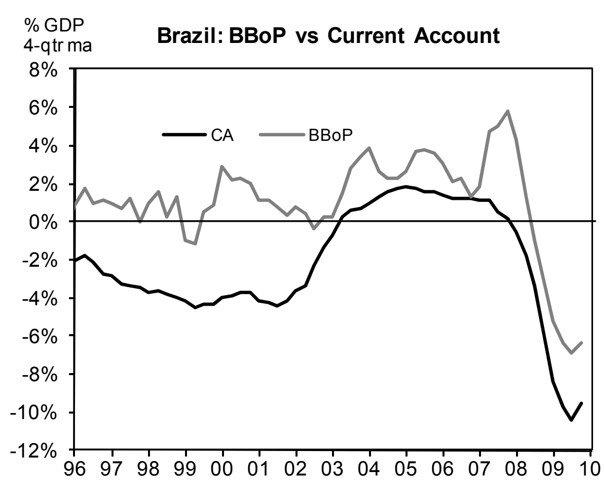
Monetary Policy Forecast: After hiking SELIC by 75bp on April 28, we forecast that COPOM will raise SELIC three more times by 75bp per meeting, followed by three increases of 50bp per meeting, raising SELIC to 13.25% by January 2011. If growth and inflation surprise to the upside, COPOM will have to raise SELIC more and faster; persistent external financial shocks from the European fiscal crisis could reduce the cumulative increase in SELIC.

Balance of Payments Situation: We forecast that the current account deficit will more than double to US$62bn in 2010, driven by a decline in the trade surplus (to US$8bn from US$25.3bn in 2009), a larger deficit in services and higher dividend remittances. We expect that in 2010 capital inflows will rise to US$78.5bn, boosted by larger FDI and debt issuance inflows. We forecast that the BoP surplus will decline to US$16.5bn in 2010 from US$44.7bn in 2009, shifting to a deficit of US$20.0bn in 2011.

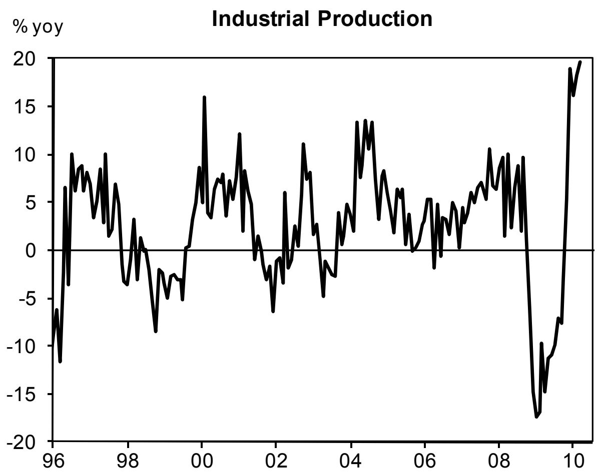
Things to Watch: The main risks to our call are renewed bouts of de-risking in global markets, and new measures to discourage capital inflows and avert an appreciation of the BRL. Uncertainties with elections, concerns with fiscal fundamentals in Europe and the implementation of exit strategies in developed countries could potentially add volatility to the exchange rate in 2H2010.

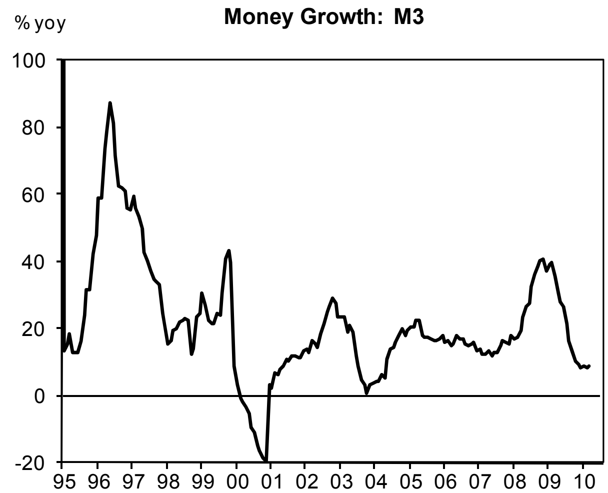
Paulo Leme

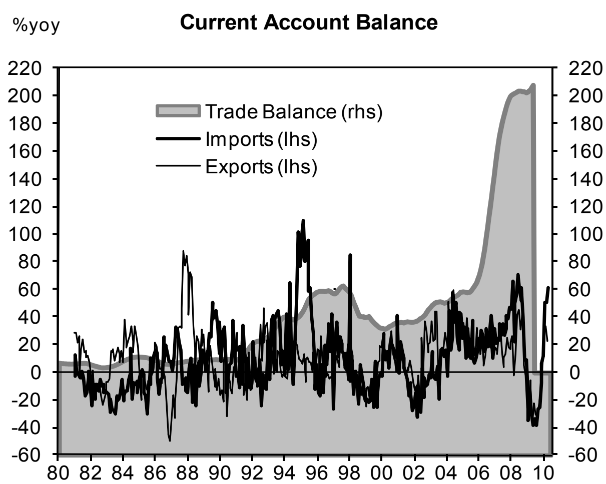


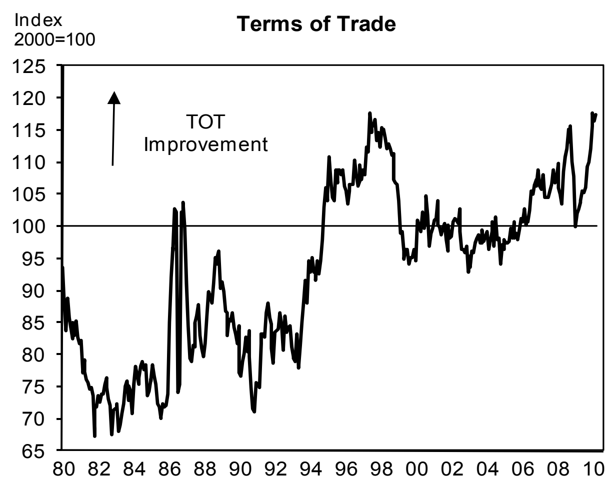


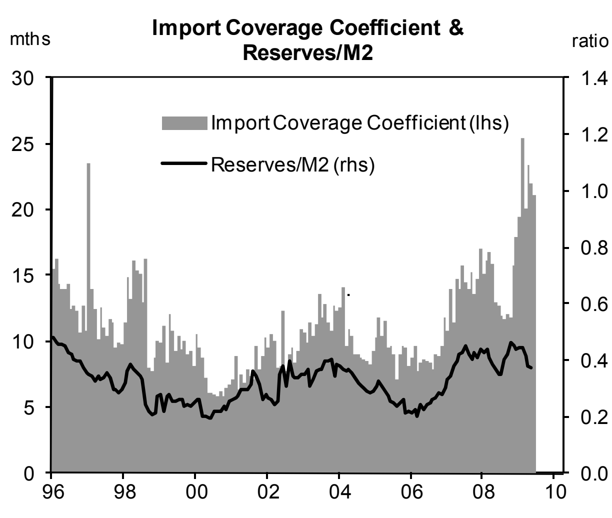
Brazilian Real

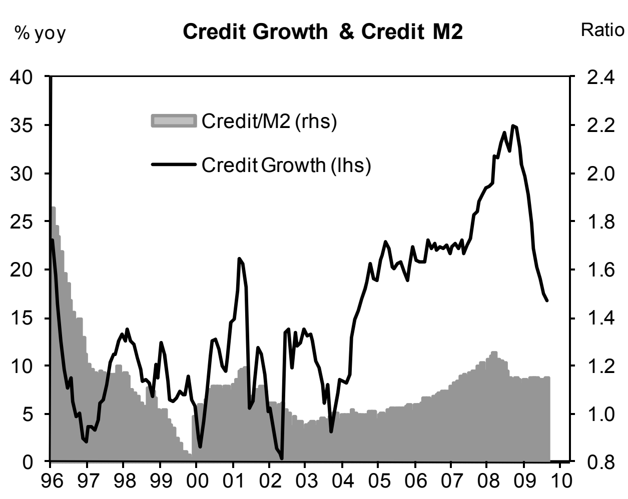












Canadian Dollar

FX Forecasts: Our recently revised $/CAD forecasts remains at 0.98, 0,98 and 1.03 on a 3-, 6- and 12-month horizon. Our EUR/CAD forecast is at 1.32, 1.32 and 1.39 in 3, 6 and 12 months respectively. The current GSDEER for USD/CAD is at 1.14.

Motivation for Our FX View: $/CAD remains closely tied to overall risk sentiment and commodity prices, both of which we remain fairly constructive over the medium term, near-term pullbacks notwithstanding. Together with the backdrop of supportive cyclical strength and impending rate hikes, we think $/CAD can extend beyond parity in the near term. Also, judging from the most recent commentary, Canadian officials have been increasingly less hostile to CAD strength, encouraged in part by the strength of the cyclical recovery and commodity prices. Further out, we still see the possibility of a broad US Dollar recovery, as we have penciled in on our 12-month forecasts: based on a more sustainable US growth model and USD supportive capital flows, which will affect the CAD given Canada is the largest trading partner of the US.

Monetary Policy and FX Framework: The Bank of Canada (BoC) operates an inflation targeting regime, with a generally very flexible stance on the currency. However, officials have recently commented on the currency, expressing their concern over CAD strength.

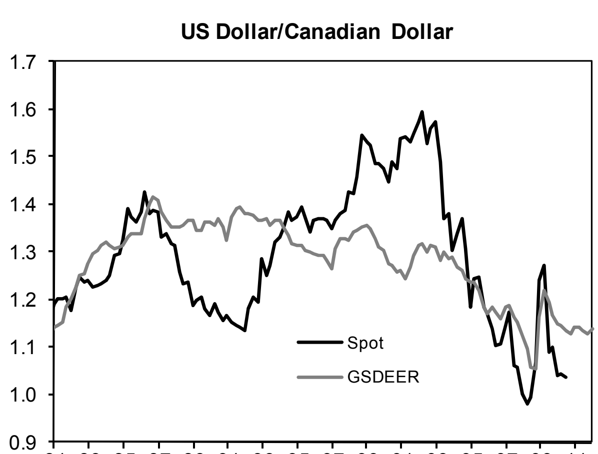
Growth/Inflation Outlook: We recently upgraded our GDP forecasts, now looking at +3.2% for 2010 and +2.8% for 2011. Canada is coming through with a stronger than expected cyclical recovery, benefitting from the global industrial upswing, rising commodity prices and a firmer near-term US recovery. Inflation too has surprised on the upside, although still significant spare capacity and the strength of the CAD continues to exert strong disinflationary forces. We expect core inflation to remain ont he low side of the BOC's 2% target through 2011.

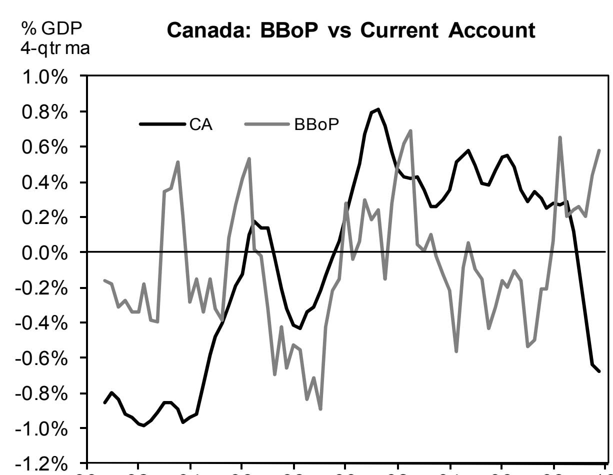
Monetary Policy Forecast: We now expect the Bank of Canada to raise rates in June from the current 0.25%. We are forecasting a total of 125bps in rate hikes by the end of the year. Given our views for moderate inflationa nd a slower pace of growth in late 2010 and early 2011, we expect the BOC to pause at 2.25% in mid 2011.

Balance of Payments Situation: The trade balance has shown improvement, consistent with the global cyclical recovery and commodity price gains. The strong portfolio and net FDI inflows has also contributed to overall BBoP surpluses, which is supportive for the currency.

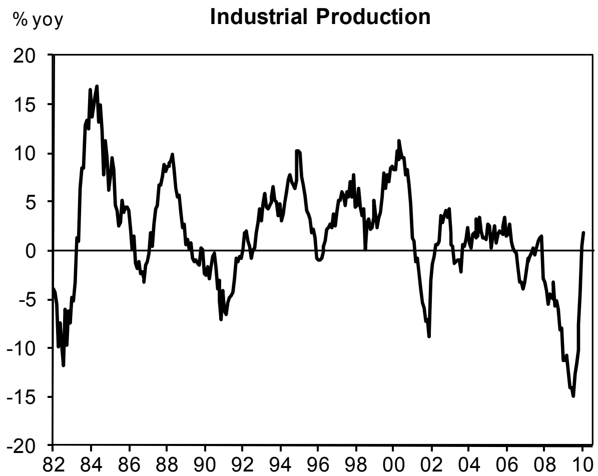
Things to Watch: We are watching the main drivers of CAD, including risk sentiment and the oil outlook, which we remain broadly constructive on. Comments on the currency by officials also need to be watched - the authorities have displayed their relative comfort with CAD strength in their most recent commentary, against the backdrop of a strong cyclical upswing. The cyclical growth momentum and rake hike expectations also continue to be important factors.

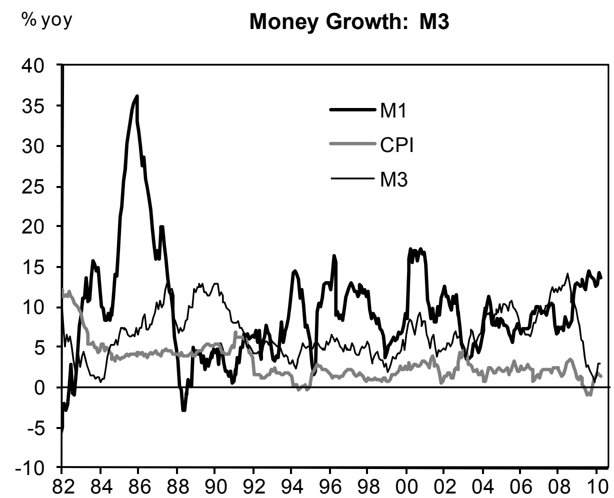
Mark Tan

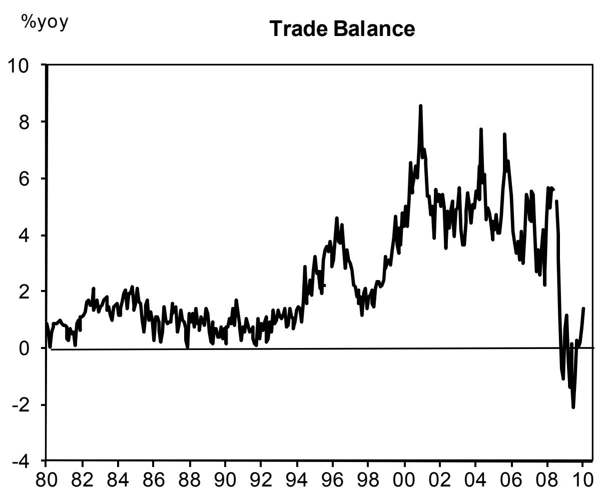


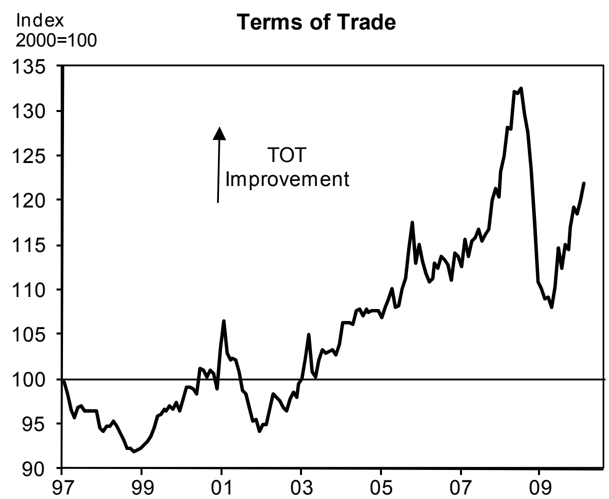


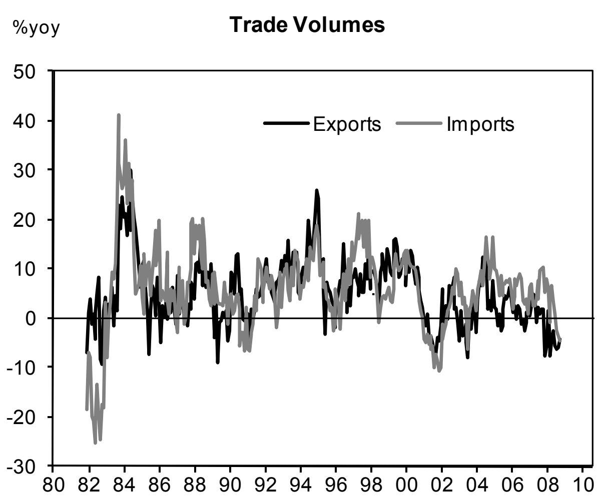
Canadian Dollar

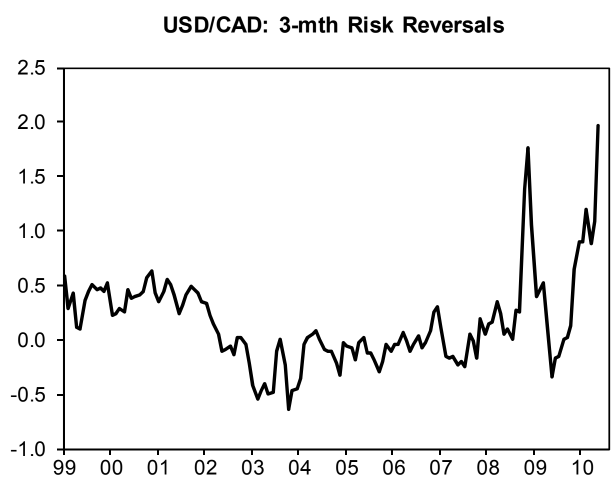












Chilean Peso

FX Forecasts: We are maintaining our 3-, 6- and 12-month forecasts at $520, $510 and $510 to the Dollar, respectively. EUR/CLP becomes 702.0, 688.5 and 688.5. Current GSDEER for $/CLP is 419, leaving the CLP 'cheap' to fair value.

Motivation for Our FX View: Favourable terms of trade and the expected acceleration of real activity during 2H2010 should support the CLP. Reconstruction-driven capital inflows could also impart a slight CLP appreciation bias. The February 27 destruction of the economy's capital stock is likely to have reduced potential GDP to below 5% over the next couple of years.

Monetary Policy and FX Framework: The Central Bank targets inflation (3.0%±1.0%) and pursues a free-floating FX regime; in addition, in recent years it has refrained from intervening in the market. Disciplined fiscal execution provides the Bank with an extra degree of freedom to set the monetary stance. The government follows a structural counter-cyclical fiscal rule that calls for a 0.5% of GDP structural surplus (temporarily reduced to 0% in 2009). This has led to surpluses in excess of 7% of GDP on average during 2006-08 as the government saved most of the copper revenue windfall.

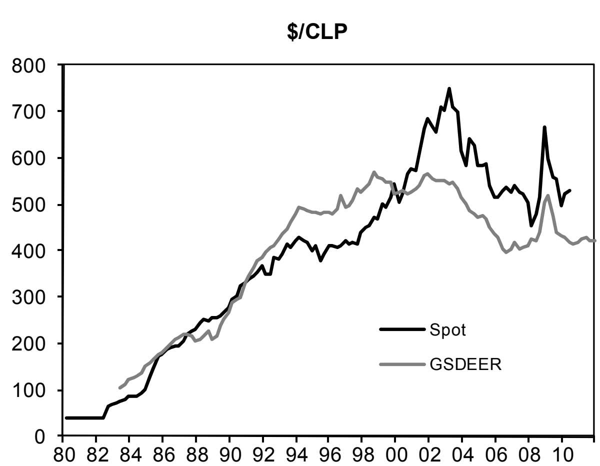
Growth/Inflation Outlook: The real business cycle reached an inflexion point during 2Q2009 and the economy was on a clear and firming recovery path before the earthquake. Real GDP declined -1.5% in 2009 on the back of the significant double-digit retrenchment of investment spending. Real GDP is likely to experience a V-shaped recovery this year: a decline in 2Q2010 due to the disruptions caused by the earthquake should be followed by a vigorous reconstruction investment drive. The inflation outlook is benign, with both headline (0.9%yoy) and core (-0.65%yoy) still below the lower bound of the inflation target band. The disruptions created by the earthquake seem to have generated lower than expected short-term pressures on prices.

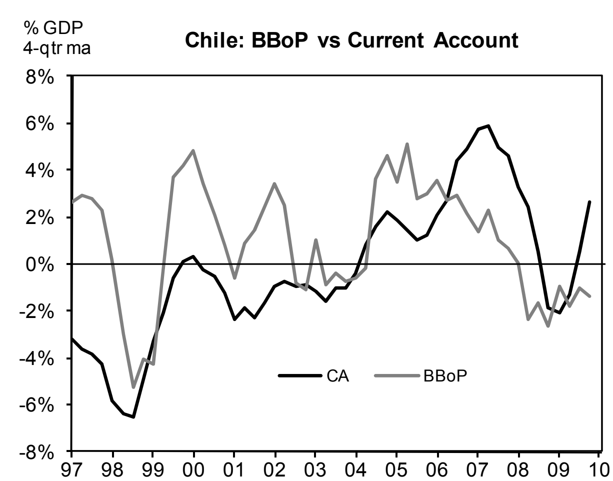
Monetary Policy Forecast: The next Central Bank meeting is on May 13. The benign April inflation report and the weaker than expected March real activity print (-2.81%yoy) should encourage the Bank to keep the policy rate unchanged at the current highly stimulative level of 0.50% until at least June/July. The impact of the massive February 27 earthquake on inflation has been milder than initially expected, while the impact on activity was deeper than originally estimated. Irrespective of the exact month in which the Central Bank starts to withdraw some of the current monetary accommodation, we still see the policy rate at end-2010 at or below 2.50% (a level that is still quite stimulative).

Balance of Payments Situation: The trade balance posted a solid 8.5% of GDP surplus in 2009. The current account posted a 2.6% of GDP surplus in 2009, up from a 1.5% of GDP deficit in 2008, supported by a widening trade surplus and a significant decline in the outward remittances of profits and dividends.

Things to Watch: The impact on the economy of the massive February 27 earthquake will change significantly the balance of risks between inflation and growth.

Alberto M. Ramos





Colombian Peso

FX Forecasts: We are maintaining our 3-, 6- and 12-month forecasts at $2,000, $2,050 and $2,150 to the Dollar, respectively. EUR/COP is $2,700, $2768 and $2,903.

Motivation for Our FX View: The Central Bank increased the level of monetary stimulus in April and moved to ease domestic financial conditions further in order to offer additional support to the real economy. The real business cycle has entered an expansion stage but momentum remains weak. Uncertainty regarding the political transition (presidential elections are scheduled for May 30) and governability conditions after the Uribe administration could impact the COP.

Monetary Policy and FX Framework: The Central Bank capitalised on the disinflation trend witnessed throughout 2009 to lower the inflation target for 2010 to an ambitious 3.0% ± 1.0% medium-term target (from 5.0% ± 0.5% in 2009). The Bank pursues a managed-float foreign exchange rate regime and has sporadically intervened in the spot FX market to prevent excessive COP volatility. The Bank suspended in November 2009 the automatic rules-based intervention mechanism that called for the sale of US$180mn in Dollar calls/puts whenever the spot $/COP rate is 5% or more weaker/stronger than the previous 20-day average.

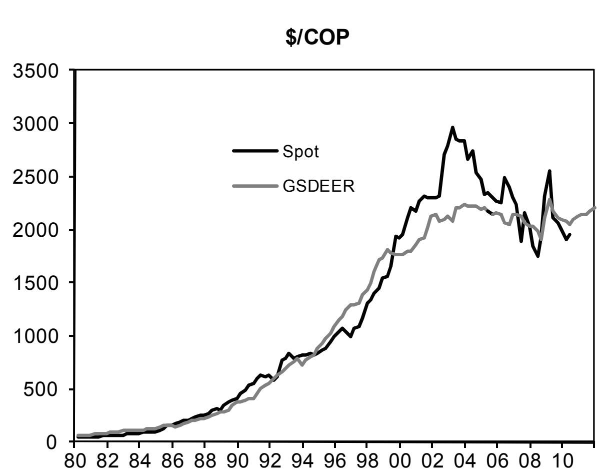
Growth/Inflation Outlook: Real GDP grew 2.5%yoy during 4Q2009 and by 0.4% on average during 2009. We expect real economic activity to recover to a moderate and still below trend 3.2% rate of expansion in 2010. At end-April headline inflation was at a benign and below-target 1.98%yoy.

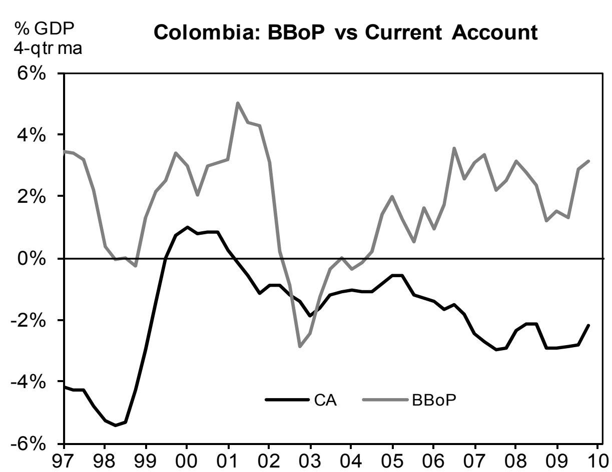
Monetary Policy Forecast: The next Central Bank meeting is on May 27. The policy rate is currently at a stimulative 3.0%. In a very surprising development, the MPC cut the policy rate by 50bp to 3.0% at the April 30 meeting and decided to suspend the monthly sale of government bonds to sterilise the impact of the US$20mn daily Dollar purchases in the spot market. We expect the Bank to leave the policy rate unchanged at the current level (3.00%) for the foreseeable future, but since monetary policy affects aggregate demand with a lag, April's rate cut leads us to think that the Central Bank might have to hike rates before the end of the year in order to shore up the 2011 inflation target.

Balance of Payments Situation: The current account deficit has improved from 2.8% of GDP in 2008 to 2.3% of GDP in 2009 on the back of the significant contraction in imports, which supported the trade balance. FDI flows remain solid (US$7.2bn), which is a reflection of the market-friendly policy approach. We expect the current account to improve further in 2010 as the expected below trend growth anchors imports and exports benefit from the improved terms of trade.

Things to Watch: The presidential race. The centrist independent candidate for the Green Party, Antanas Mockus, has gained significant momentum and is now leading the May 30 presidential race. Second-round poll projections (June 20) show Mockus beating former defence minister Santos to capture the presidency.

Alberto M. Ramos





Mexican Peso

FX Forecast: We are maintaining our forecast for the MXN forecasts for the next 3, 6 and 12 months at $12.15, $12.40, and $12.70. We are changing our 3-month MXN forecast range to $12.00-12.75 from $12.00-12.45.

Motivation for Our FX View: We are more bullish than the forwards because of prospects for a larger BoP surplus and improved sentiment towards Mexico. Additional positive drivers include the projected increase in manufacturing and oil exports, and a significant and sustained increase in capital inflows since December.

Monetary Policy and FX Framework: Banxico pursues an inflation-targeting regime. The target is headline INPC inflation, aimed at keeping inflation at 3.0%, with the band width at +/- 1.0%. To this end, Banxico targets the TdF interest rate. Banxico expects INPC inflation to increase to 4.75% -5.25% by end-2010 because of higher public prices and the tax package. Mexico has a managed floating FX regime. Banxico can intervene in the FX markets to dampen volatility or reduce dislocations. Banxico can buy FX through USD put options (US$600mn/month) or by selling FX in the event the MXN weakens by more than 2% in one day.

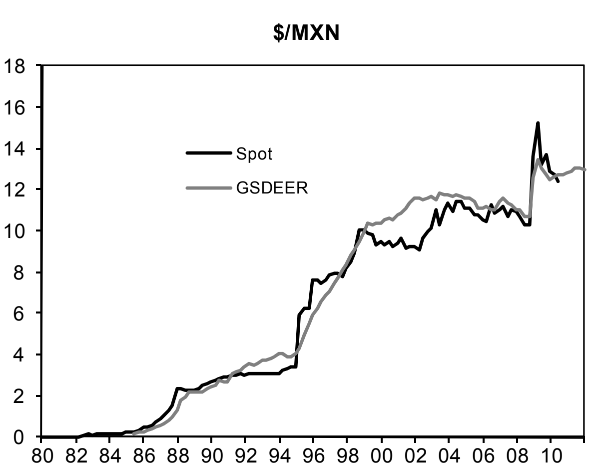
Growth/Inflation Outlook: We forecast that real GDP growth will rebound vigorously to 5.0% in 2010, after contracting 6.5% in 2009. The recovery has been primarily driven by a rebound in manufacturing exports (chiefly autos and consumer durables), which is slowly spreading to services and stimulating domestic consumption. The other reason for the rebound is the large positive statistical carry from 2009 to 2010 and a depressed base of comparison for growth. We expect INPC inflation headline to rise to 5.00% in 2010, from 3.57% in 2009, reflecting the one-off effects of the tax package and higher public utility prices.

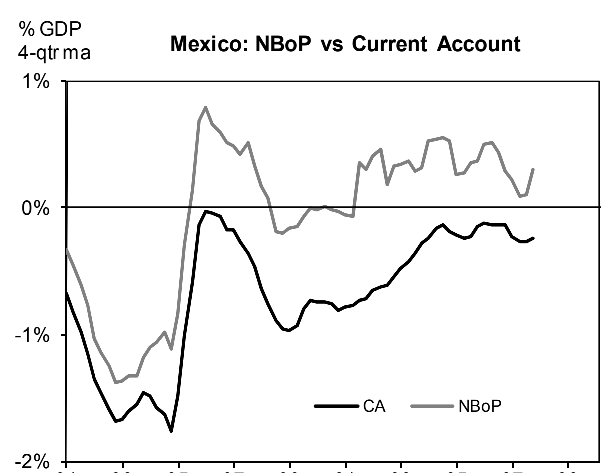
Monetary Policy Forecast: Banxico paused the easing cycle in July 2009, adopting a neutral but vigilant stance on monetary policy since then. Our forecast is for Banxico to keep the Tasa de Fondeo unchanged at 4.50% throughout 2010. However, there is a small probability (20%) that Banxico may have to raise the TdF in 4Q2010 if the price shock from the fiscal package raises expected inflation and wages.

Balance of Payments Situation: The BoP shifted to a surplus in late 4Q2009, thanks to the repatriation of flight capital. For 2010, we forecast that the trade and current account deficits will more than double to US$13.0bn and US$12.0bn. However, we forecast that capital inflows will double to US$28.1bn in 2010 from US$14bn in 2009. As a result, we forecast that net international reserves will rise by US$15bn in 2010, to US$105.8bn.

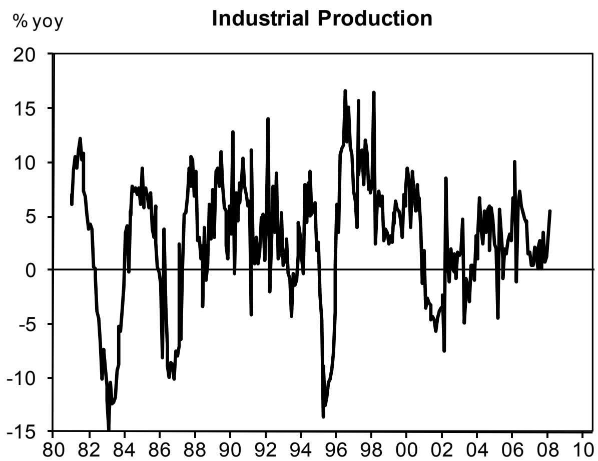
Things to Watch: The main downside risks to our forecasts are a weaker-than-projected recovery in US manufacturing growth and a sudden reduction in global risk appetite, reducing capital inflows and weakening the MXN relative to our forecast. In the past, the use of USD options to buy FX has not impeded the MXN appreciating if macro fundamentals so warranted.

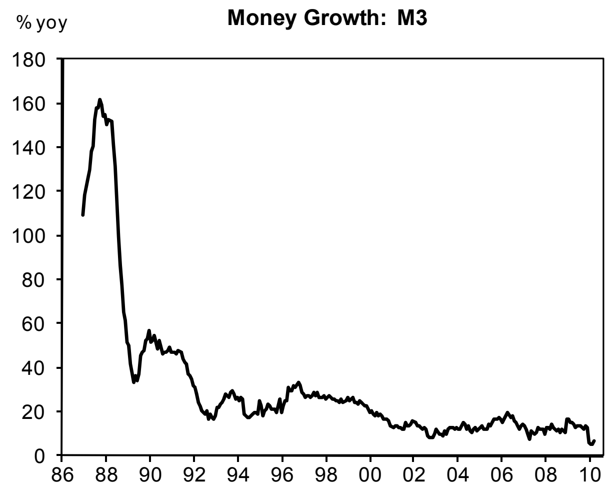
Paulo Leme

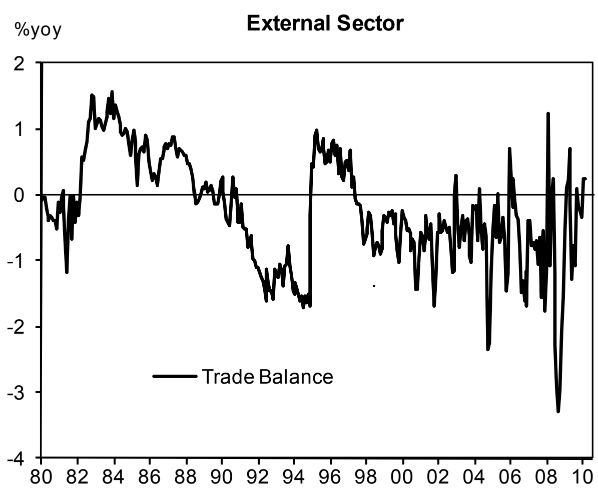


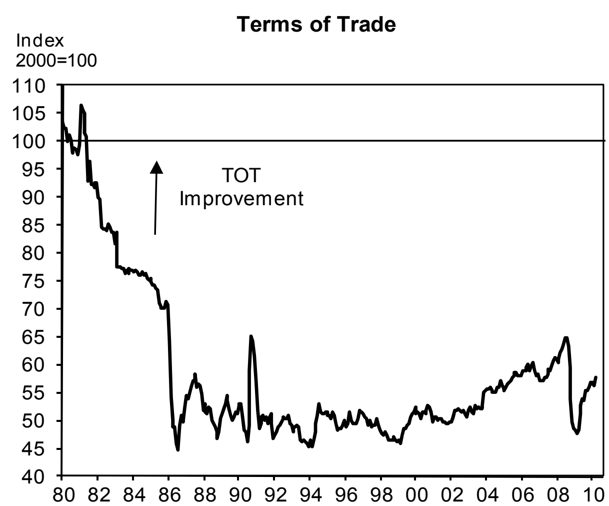


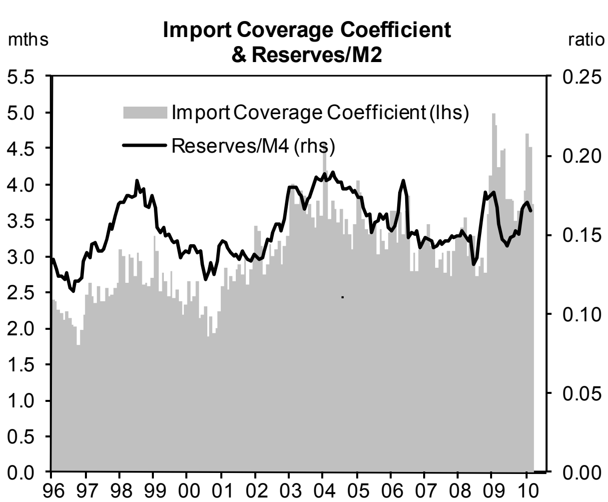
Mexican Peso

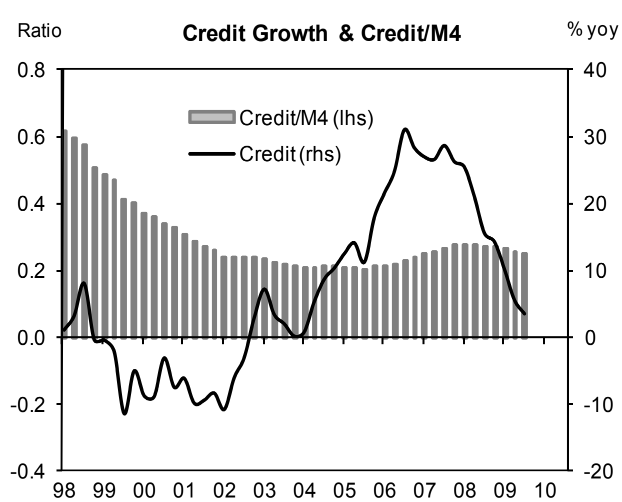












Peruvian New Sol

FX Forecasts: We are maintaining our 3-, 6- and 12-month $/PEN forecasts at 2.90, 2.95 and 2.95, respectively. Current GSDEER 'fair value' is 3.28.

Motivation for Our FX View: With the policy rate still below neutral and some political/social noise ahead of the 2010 presidential elections, we could see a mild weakening bias to the currency. The risk to our forecast is that capital inflows (including FDI) will continue to support the PEN.

Monetary Policy and FX Framework: The Central Bank pursues an inflation targeting regime and meets monthly to set the financial system's benchmark interest rate. The inflation target is at a challenging 2% +/- 1%. The Central Bank holds monetary policy meetings once a month. On the FX policy front, the Central Bank pursues a managed floating regime.

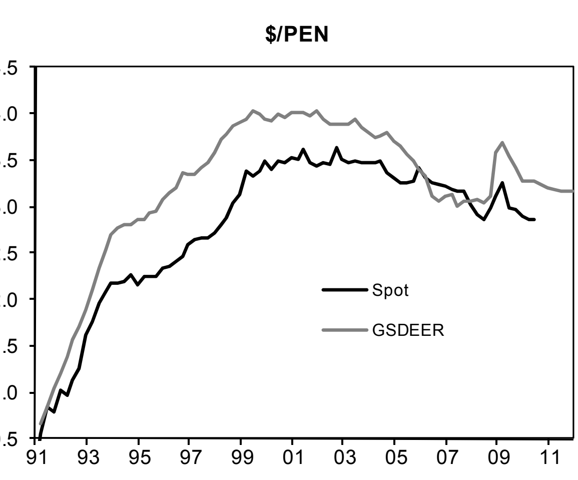
Growth/Inflation Outlook: Real GDP growth slowed to +0.9% in 2009, pushed down by a sharp drop in industrial production, which was partly offset by a positive contribution from net exports and fiscal spending. However, real activity is now showing significant upward momentum and we expect real GDP to expand at least 5.5% in 2010 on the back of lagged policy stimulus and a more favourable external backdrop. Headline inflation reached 6.65% in 2008 but collapsed to a below-target 0.25% in 2009 (still below the target at 0.8% in April).

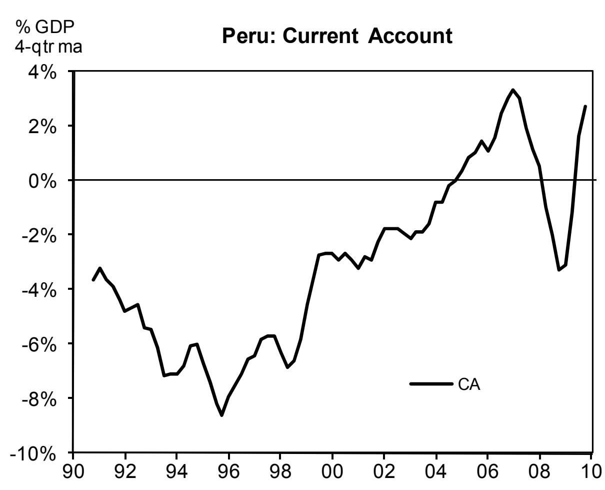
Monetary Policy Forecast: The Central Bank is still facing a constructive outlook for inflation but the economy is now expanding at a vigorous rate and no longer needs all of the current exceptional level of monetary accommodation. The MPC hiked the policy rate by 25bp (1.50%) in the May meeting. We think the Bank will soon also raise reserve requirements to complement the rate hikes and, given our bullish view on real activity, we now expect to see the policy rate at around 3.00%-3.25% by end- 2010 and 5.0% by July 2011.

Balance of Payments Situation: The current account improved from a deficit of 3.7% of GDP in 2008 to broad balance in 2009 (US$246mn surplus) on the back of a larger trade surplus (driven by the significant retrenchment of imports) and a decline in outward remittances of profits and dividends (correlated with lower unit export prices). The capital account posted a sizeable US$1.7bn surplus during 4Q2009 (excluding errors and omissions) and a US$1.0bn total in 2009 (down from US$8.7bn during 2008). Despite a challenging domestic and external environment, FDI reached a sound US$4.4bn in 2009, down from US$6.2bn during 2008. The recovery in metal prices should contribute to a strong pipeline of FDI flows. Overall, the balance of payments posted a solid US$5.2bn surplus during 2009; up from the US$839mn in 2008. We expect the current account to record a small deficit (around 1% of GDP) in 2010 as the acceleration in imports more than offsets the impact of higher unit export prices.

Things to Watch: The set of instruments the Central Bank uses to normalise monetary conditions (and the speed of implementation), and political dynamics ahead of the 2010 presidential election.

Alberto M. Ramos





Venezuelan Bolivar

FX Forecasts: The government adjusted the VEF/USD peg on January 8, 2010 and created a dual exchange rate regime. We forecast an unchanged VEF/USD parity at 4.30 over the next 12 months; EUR/VEF is 5.8 in 3, 6 and 12 months. However, the risk of another devaluation sometime in 2011 is increasing.

Motivation for Our FX View: The VEF/USD has depreciated significantly in the parallel market over the last couple of months. The VEF now trades at a premium of 87% over the more depreciated of the two official parities (VEF/USD 4.3) and a notable 210% over the subsidised parity (VEF/USD 2.6). The USD has gained about 35% so far this year against the VEF. The Central Bank intervention has been timid, erratic and ineffective (it auctioned just US$540mn in 90-day zero-coupon Dollar-denominated notes). Pressure is growing on the authorities (the Treasury and/or PdVSA) to issue more Dollar-denominated debt to satisfy the large pent-up demand for USD and arrest the rapid depreciation of the VEF.

Monetary Policy and FX Framework: In early January 2010 the government devalued the VEF/USD to 3.40 and created a dual exchange rate system as "essential imports" (e.g., food, medicines, capital goods) would benefit from a preferential 2.60 USD rate. Monetary policy has been subordinated to fiscal priorities (i.e., pervasive fiscal dominance). Central Bank independence has been severely compromised in recent years and the Bank has been recurrently ordered to transfer/give a large amount of "excess reserves" to the government. The Bank sets a floor/ceiling on bank deposit/loan rates and has established mandatory lending requirements to specific sectors (e.g., agriculture, mortgages, small businesses and tourism), which account for about half of total credit in the economy.

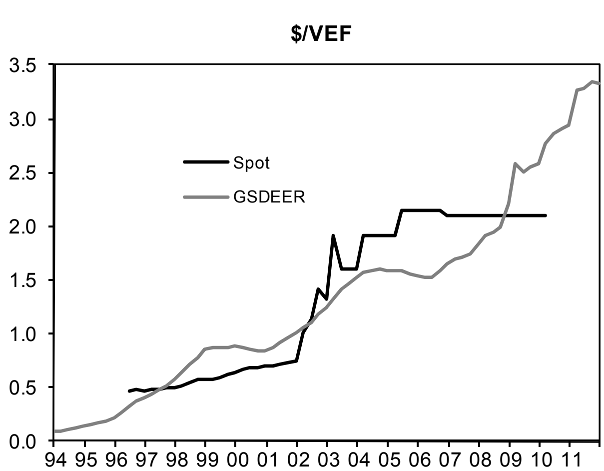
Growth/Inflation Outlook: Inflation is now endemic: headline inflation printed at 28.2%yoy in March (core; 33.9%; now 27 consecutive months above 30%). The economy contracted a large 5.8%yoy during 4Q2009 on the back of negative export growth (-6.6%yoy), and a noticeable contraction in private consumption (-6.7%yoy) and investment spending (-19.6%yoy). It contracted 3.3% in 2009 and is likely to grow by less than 1% in 2010 on the back of power shortages and a private-sector-unfriendly policy environment.

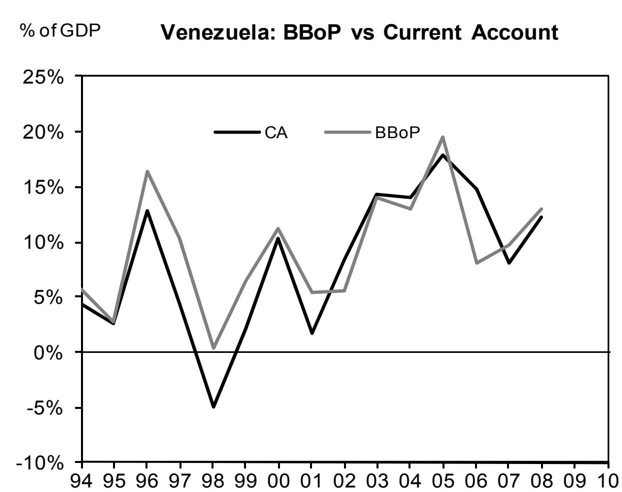
Monetary Policy Forecast: Monetary policy has been extraordinarily lax, as evidenced by the persistence of significantly negative domestic real rates. Domestic financial conditions have been exceptionally expansionary over the last few years, undermining the effectiveness of the fixed-exchange rate as the economy's nominal anchor.

Balance of Payments Situation: Lower oil prices led to a significant erosion of the current account to a 2.3% of GDP surplus in 2009 (from +11.7% of GDP in 2008), with the trade balance shifting from a large 14.3% of GDP surplus in 2008 to a smaller 5.2% of GDP surplus in 2009.

Things to Watch: The economy is developing symptoms of Dutch Disease (atrophy of non-commodity tradable sectors) and stagflation. Sizeable private-sector capital flight is likely to persist given the country's deteriorating performance, legal insecurity, weak enforcement of the sanctity of contracts and growing macro imbalances.

Alberto M. Ramos





Asia

Australian Dollar

FX Forecasts: A$/US$ forecast: 0.95, 0.95 and 0.90 in 3, 6 and 12 months. A$/EUR: 0.70, 0.70 and 0.67 in 3, 6 and 12 months. Current GSDEER: 0.81

Motivation for Our FX View: Despite the recent sell-off in risk-based assets, we believe fundamentals continue to support the Australian Dollar and the risk to our 0.95 cent forecast is to the upside. We highlight: i) our forecasts are for already high interest rate spreads to widen further; ii) after recording the mildest downturn in the developed world, we expect the strongest growth among the major developed nations in 2010; iii) the AUD correlates strongly with the improving global industrial cycle and Australia's terms of trade are set to rise significantly in 2010, reflecting price increases for coal and iron ore exports; iv) Australia has been a recipient of quality capital inflow in recent quarters; and, v) as volatility in FX markets declines, carry could become an independent source of AUD strength.

Monetary Policy and FX Framework: Inflation targeting: The RBA aims to keep CPI inflation between 2% and 3% on average over the cycle. Operationally, this is implemented by attempting to keep underlying inflation within this target band, but allows sufficient flexibility for policy to take account of short-run developments in employment and economic growth. The FX regime is free-float, although the RBA intervenes if market moves are disorderly.

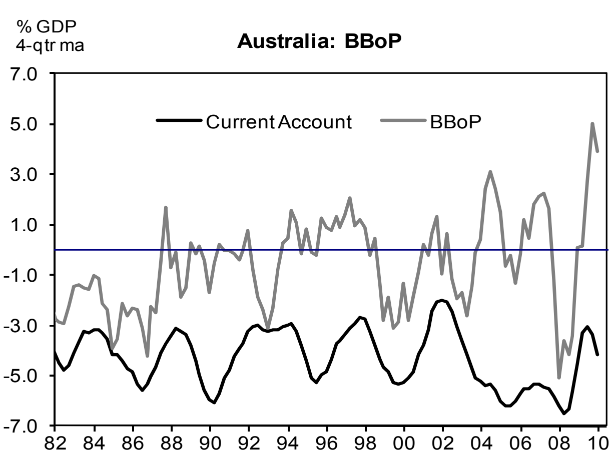
Growth/Inflation Outlook: Recent activity data has confirmed Australia as the most resilient economy in the developed world. After expanding by 1.3% in 2009, we expect the economy to grow by 3.75% in both 2010 and 2011. This remains above consensus, and above the RBA's and the Treasury's revised growth forecasts. Inflation is forecast to rise by 3.3% in 2010 and 2011.

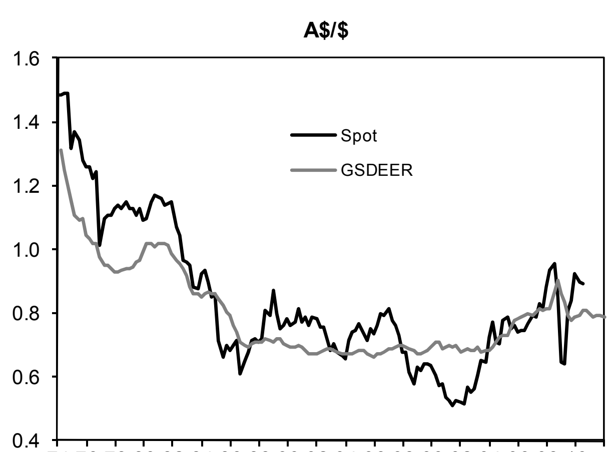
Monetary Policy Forecast: Reflecting the resilience of the Australian economy and the initial low level of rates, the RBA has already delivered 150bp of tightening since September 2009. Given the solid growth outlook and that the economy is beginning an expansion with a limited amount of spare capacity, we expect further normalisation of rates in 2010 with 25bp rate hikes expected in August and November, taking the cash rate to 4.75% by year-end 2010. We expect a further 75bp of hikes in 2011.

Balance of Payments Situation: Australia's trade accounts suffered a significant deterioration in 2009 as the terms of trade fell on the back of bulk commodity price falls. Looking into 2010, prices for hard coking coal and iron look set to increase by 82% and 66% respectively in 2010/11, implying Australia's trade shortfall is set to narrow once again quite quickly.

Things to Watch: With a number of downside tail risks previously facing the Australian economy now receding, the key point to watch is the lack of spare capacity in the Australian economy, and the rate at which aggressive policy accommodation (both monetary and fiscal) is unwound and the impact on confidence. A key upside risk is if evidence emerges that the recent fall in the unemployment rate delivers upside pressure to wage rates, and the degree of reflation in asset prices.

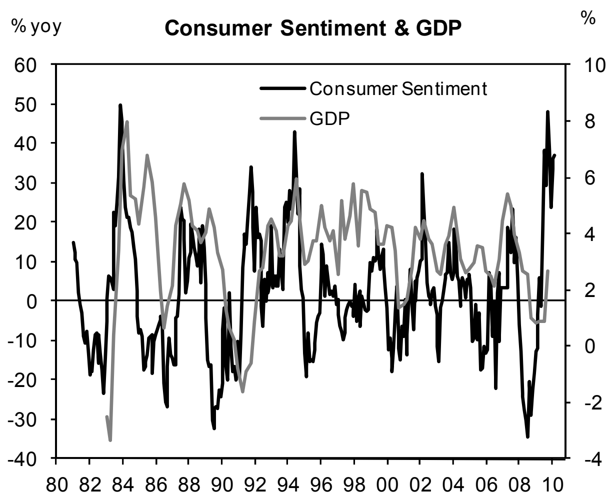
Tim Toohey

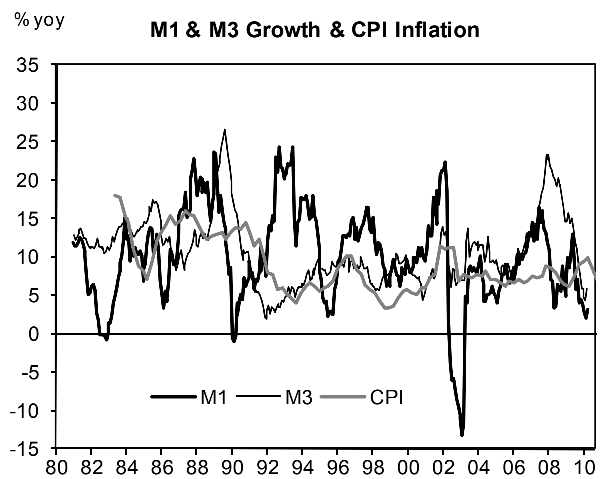


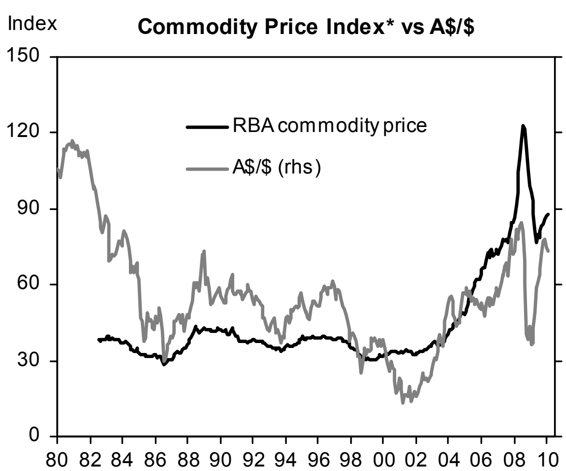


Economist: **Tim Toohey** tim.toohey@gsjbw.com

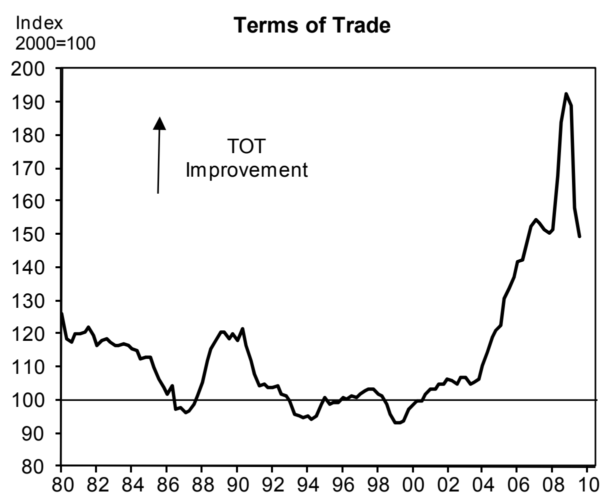
Australian Dollar

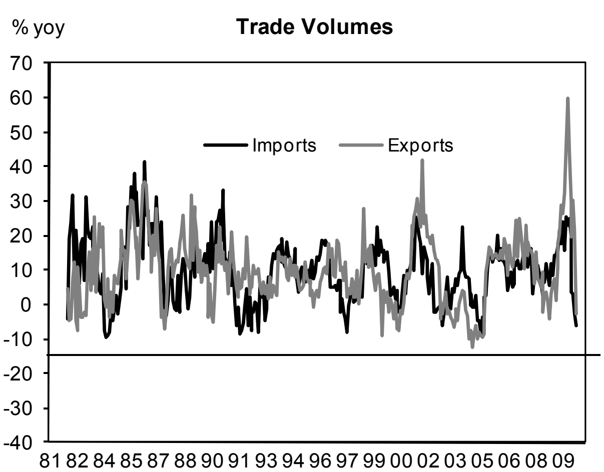


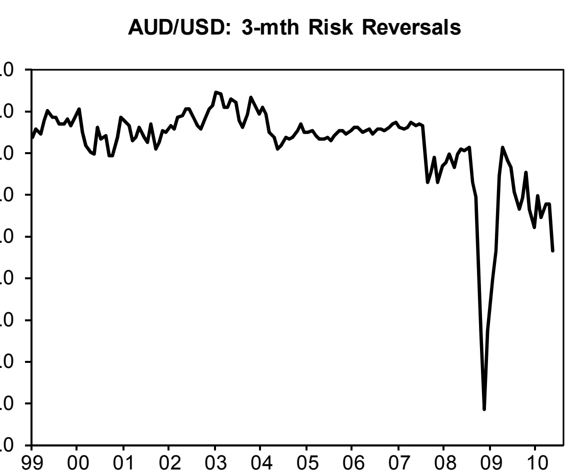




* Source: RBA.







Chinese Yuan

FX Forecasts: We maintain our 3-, 6- and 12-month USD/CNY forecasts at 6.74, 6.66 and 6.49 on 3-, 6- and 12-month horizons. EUR/CNY: 9.10, 8.99 and 8.76 in 3, 6 and 12 months. GSDEER of USD/CNY: 6.93.

Motivation for Our FX View: The return of a trade surplus in April confirmed our view that the trade deficit seen in March was a one-off event. Given the overheating pressures from aggregate demand growth, we believe the government will continue to use tools such as credit controls to curb investments, as they have done in recent years, which is in turn likely to lead to a widening trade surplus again. Therefore, we maintain our view that the CNY will start to move over a 3-month horizon.

Monetary Policy and FX Framework: The People's Bank of China (PBoC) is not independent from the central government and has multiple targets of maintaining price stability and high growth. It does not hold regular policy meetings and policy changes are typically released after the close of the local market without advanced notice. The Monetary Policy Committee of the PBoC is an advisory body, which does not determine policy direction. The FX regime has been a managed float since July 2005 after a decade-long peg to the USD.

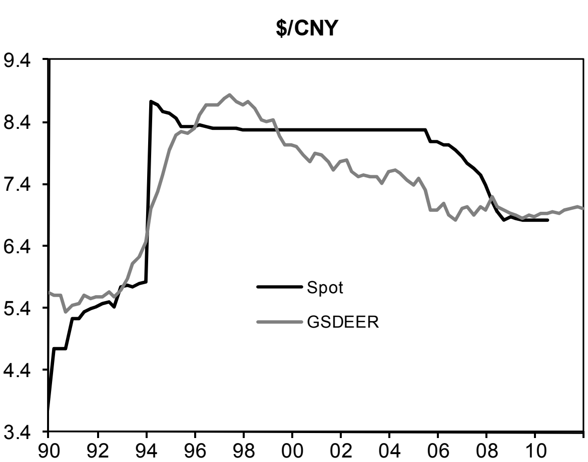
Growth/Inflation Outlook: April IP grew by 17.8%yoy, from 18.1%yoy in March. Sequentially, IP grew by 5.5%mom; seasonally-adjusted; annualised, down from 18.0% in March. Although below expectations, IP growth still stands at a very healthy level of around 18%yoy. We suspect the sharp sequential slowdown could partly be the result of the public holiday adjustment as Qing Ming was introduced in 2008 as an official holiday. April CPI inflation edged up to 2.8%yoy, from 2.4%yoy in March. Month-on-month CPI accelerated to 3.9%mom s.a. ann., from 1.6% mom s.a. ann. in March. Both food and non-food inflation accelerated in April. We continue to expect both the CPI and PPI to trend up in the coming months and to peak in 3Q2010.

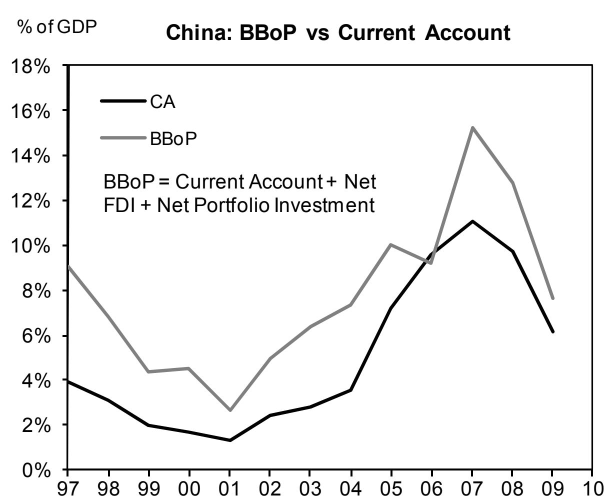
Monetary Policy Forecast: The PBoC hiked the reserve requirement ratio (RRR) by 50bp on May 2. We see this adjustment as a positive move because the negative output gap has disappeared, with sequential activity and monetary data remaining above trend. We believe further tightening measures will be needed to keep the economy from overheating. Window guidance is likely to do most of the heavy lifting but the RRR is likely to be used repeatedly as well. Besides, we continue to expect interest rate hikes in the middle of the year, when the level of yoy CPI has moved above the 3%-4% level for two months or more.

Balance of Payments Situation: The much smaller trade surpluses we've been seeing this year compared with previous years highlight that the economy is more balanced than it was. A likely CNY appreciation this year will help further alleviate the trade imbalance between China and the world.

Things to Watch: We believe it is critical for the government to stay highly vigilant on inflation and to tighten policy further to prevent overheating.

Yu Song, Helen Qiao and William Yang





Source: Haver Analytics

Hong Kong Dollar

FX Forecasts: Our USD/HKD forecast is unchanged at 7.80, 7.80 and 7.80 in 3, 6 and 12 months. EUR/HKD is 10.53, 10.53 and 10.53.

Motivation for Our FX View: In our view, the political incentive to abandon (or modify) the HKD peg system is still low, especially given that the uncertainties of the near-term global growth outlook may hold the authorities back from making changes to the current HKD peg system. Furthermore, we believe the Hong Kong Monetary Authority (HKMA) does not have any resource constraints in maintaining the peg, so long as the pressure on the HKD remains on the strong side.

Monetary Policy and FX Framework: The HKMA pursues just one goal: maintaining the USD/HKD peg. The HKD exchange rate follows a currency board regime, with a fixed USD/HKD 'Convertibility Zone' of 7.75-7.85.

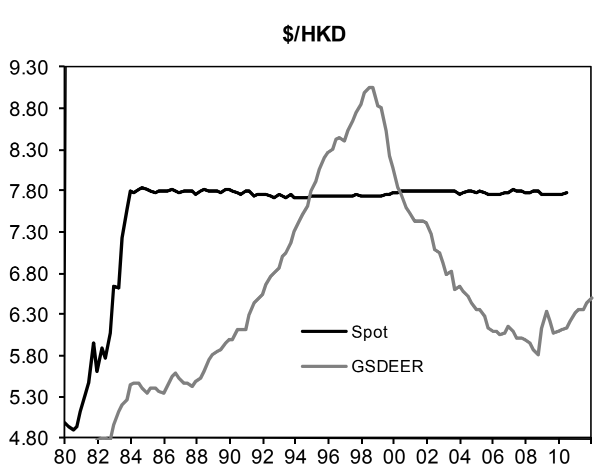
Growth/Inflation Outlook: We currently forecast GDP growth of 5.8% for 2010 and 5.3% for 2011, which is above consensus expectations of 4.9% for 2010. In addition to the impact of faster domestic growth in China, Hong Kong should benefit from the easing in financial conditions, clearer signs of improvement in the labour market and the uptick in consumer sentiment surveys. 4Q2009 GDP growth increased 2.6%yoy, having declined 2.2%yoy in 3Q2009. Private consumption, investment and exports all picked up in sequential growth in 4Q2009. We believe the risks of an inflation overshoot (both CPI and asset price inflation) are low. The latest CPI print, after netting out the effects of various one-off fiscal measures, came in at 0.8%yoy, after increasing 1.6%yoy in February.

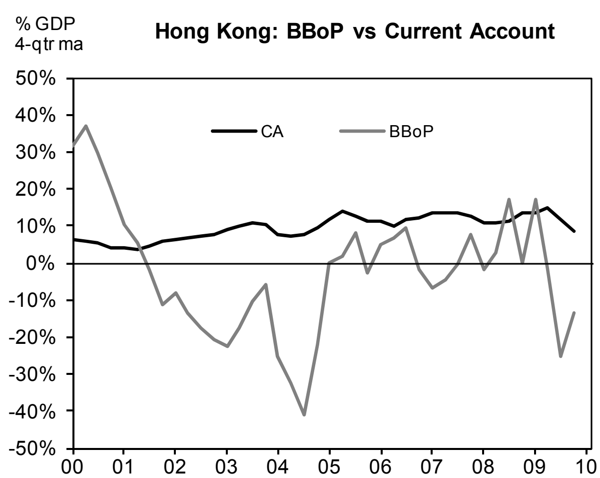
Monetary Policy Forecast: We expect the USD/HKD to return to the strong side of the convertibility undertaking band later this year. Fund-raising activities in the local stock market are poised to resume gradually, attracting investment inflows while warranting more FX interventions by the HKMA and additional HKD liquidity in the system. Furthermore, a lack of interest rate arbitrage activities points to a lagged response in the HKD interest rates even under the unlikely scenario where USD interest rates rise. We believe steady fund inflows, abundant HKD liquidity and low interest rates are likely to create loose financial conditions that would lend support to the ongoing growth recovery and the asset reflation cycle.

Balance of Payments Situation: We expect the current account surplus to widen to 11.9% of GDP in 2010 from 8.4% of GDP in 2009. Given the fixed exchange rate system in Hong Kong, the BBoP has not been a determining factor for its monetary policy system, or for the HKD exchange rate specifically. As Hong Kong is an entrepot trade centre for the mainland and an offshore hub for investment in China, the relevance of the BBoP position to the currency relates primarily to portfolio capital flows.

Things to Watch: We would continue to watch for 1) the further developments in soft and hard infrastructures to enhance the integration with the mainland economy, including the expansion of CNY businesses; 2) the debate on Hong Kong's competition with Shanghai, which will likely intensify as the World Expo gains further momentum this year.

Enoch Fung and Shirla Sum





Indian Rupee

FX Forecasts: Our 3-, 6- and 12-month USD/INR targets are unchanged at 44, 43.4 and 43 respectively. EUR/INR: 59.4, 58.6 and 58.1 in 3, 6 and 12 months. Current GSDEER for $/INR: 49.40.

Motivation for Our FX View: Several factors are likely to support INR strength. With higher growth in 2010 and inflation trending up, we expect an effective 300bp of tightening in policy rates in 2010. We expect high and sticky inflation to allow the RBI to be more tolerant of INR appreciation. Strong capital inflows due to both growth and rate differentials are expected to easily finance the current account deficit. India may well become a hot spot for foreign direct investment (FDI) and other growth-related capital flows. And, lastly, the aim to reduce the fiscal deficit in FY2011 and over the medium term may remove a big hangover from the currency.

Monetary Policy and FX Framework: The RBI targets the interest rate corridor, with the reverse-repo rate as floor and the repo rate as ceiling, in order to fulfil the twin objectives of maintaining price stability and providing adequate liquidity to meet the genuine credit needs of the economy. It also manages the exchange rate to avoid excess volatility.

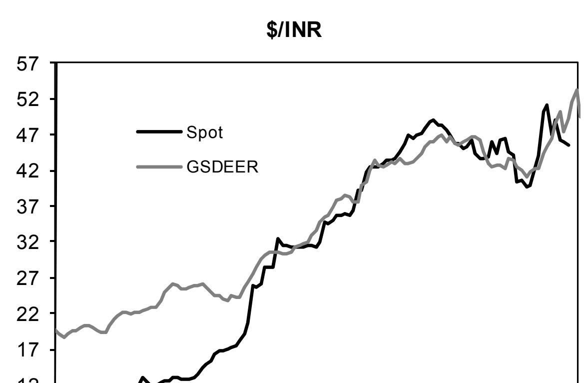
Growth/Inflation Outlook: We forecast real GDP to grow by 8.2% in FY2011 and 8.7% in FY2012 on the back of an acceleration in domestic demand. On the price front, we think inflation will remain high and sticky through FY2011 for several reasons: consumer prices (which include services) are running higher than WPI inflation, inflationary pressures are broad-based, commodity prices are on the rise and there are nascent signs that inflationary expectations are building. We expect WPI inflation to average 7.5% in 2010 from 3.8% in 2009.

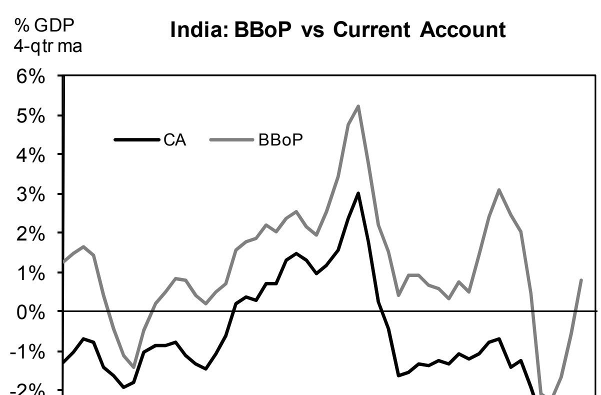
Monetary Policy Forecast: The RBI hiked the repo and reverse repo rates by 25bp and the cash reserve ratio (CRR) of banks by 25bp on April 20. We think the policy statement has correctly analysed inflationary risks, which we have been flagging for some time now. The RBI pointed to both demand- and supply-side causes of high inflation. We continue to think the RBI will deliver a total of 150bp of *policy rate hikes* in 2010, implying a further 100bp by the end of the year. We also think that liquidity will gradually tighten, moving the effective policy rate from the floor of the corridor (reverse repo) to the ceiling (repo). Thus, we continue to hold our long-standing call of an effective tightening of 300bp in 2010.

Balance of Payments Situation: The current account deficit came in at 3.4% of GDP in the October-December quarter, lower than 3.9% of GDP in the previous quarter, as exports grew stronger. In the capital account, there was a come-back in trade credit, while FDI and FII gave back some of the big gains of the previous quarter. The capital account balance came in at US$14.7bn, lower than the US$22.6bn in the last quarter, but was able to finance the current account deficit.

Things to Watch: Disinvestment, IPOs and reforms in corporate bond market.

Pranjul Bhandari and Tushar Poddar





Indonesian Rupiah

FX Forecasts: We are keeping our 3-, 6- and 12-month USD/IDR targets at 8,800, 8,600 and 8,500 respectively. EUR/IDR is 11,880, 11,610 and 11,475. $/IDR GSDEER is 9,542.65.

Motivation for Our FX View: The growth recovery has been robust, and is evident in GDP growth as well as the balance of payments position. The monetary authorities have also delivered a credible response throughout the latest global slowdown and management of inflation expectations. We believe the underlying strength in growth fundamentals will remain a positive catalyst for the IDR, as the Central Bank will likely view the stronger IDR as helpful in anchoring inflation expectations.

Monetary Policy and FX Framework: The BI operates on an Inflation Targeting Framework, which aims to improve effectiveness and governance in monetary policy, in order to achieve the ultimate goal of price stability in support of sustainable economic growth and public prosperity. The IDR operates as a managed float with the aim of preventing excessive exchange rate volatility.

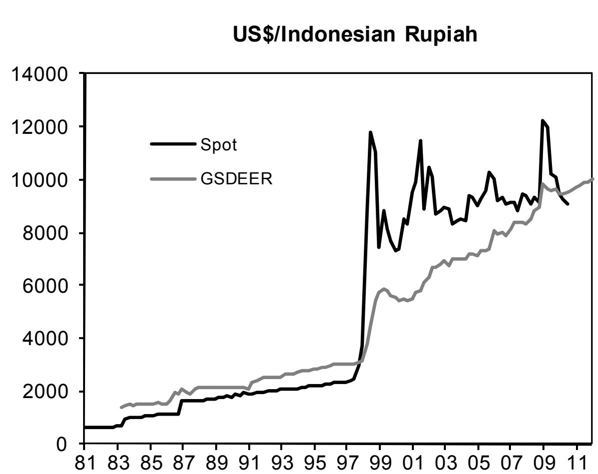
Growth/Inflation Outlook: Our 2010 and 2011 GDP forecasts of 5.8% and 6.0% respectively imply an overshoot in trend growth of 5.5%. The 1Q growth number of 5.7% was very telling. Despite government consumption falling sharply, GDP growth was robust as the private sector more than made up for it, suggesting a strong recovery process. We continue to believe the resilience in domestic demand has proven to be the bedrock for the growth recovery. April headline CPI inflation rose 3.9%yoy, after rising 3.4%yoy in March, well within the Central Bank's target range.

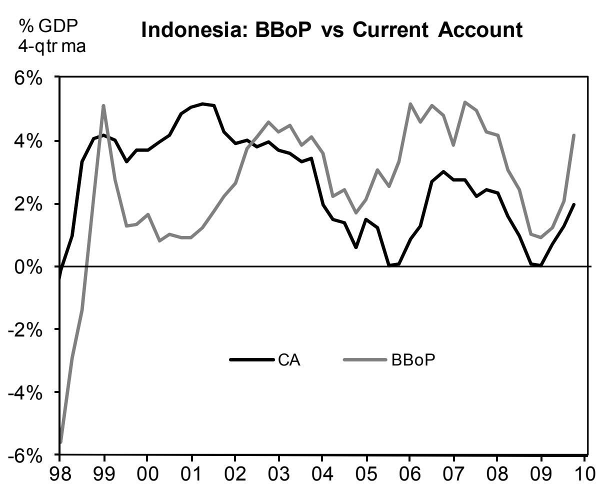
Monetary Policy Forecast: The BI kept the policy rate unchanged at 6.50% at its May policy meeting, in line with the market's and our expectations. The Bank reiterated its dovish assessment on the inflation outlook. On the other hand, it remains confident of the sustainability of the ongoing growth recovery. We believe the Central Bank will likely begin its tightening cycle in 4Q2010, with the amount of rate hikes likely totalling 50bp this year. We expect 2H2010 CPI inflation to reach 5%, which is well within the BI's inflation target range. Although the Central Bank had highlighted that the gradual rise in inflation has not exerted pressure to normalise policy rates yet, we believe the Bank would still need to be pre-emptive in anchoring inflation expectations as growth and inflation picks up later this year.

Balance of Payments Situation: The current account balance came in at 1.9% of GDP in 2009. We expect the current account surplus to be 2.3% of GDP in 2010.

Things to Watch: Given the departure of the Finance Minister, Sri Mulyani Indrawati, to become the managing director of the World Bank Group, the markets will now focus on who the replacement will be, how they will be chosen and whether other changes within the administration are likely.

Pranjul Bhandari and Enoch Fung





Korean Won

FX Forecasts: Our USD/KRW forecasts remain at 1,100, 1,100 and 1,050 over 3, 6 and 12 months. The current EUR/KRW forecast is 1,485, 1,485 and 1,418 on a 3-, 6- and 12-month horizon. The GSDEER for KRW is 1,302.

Motivation for Our FX View: We recently rolled over our 3-month USD/KRW forecast to 1,100 from 1,150 on the prospects of an improving balance of payments and rate hikes in 2H2010. Beyond the near term, however, we expect the KRW to be supported by a positive outlook for capital inflows (such as policy rate hikes in 2H2010 and the likely inclusion of Korean government bonds in the World Government Bond Index), and a recovery in ship and construction orders from overseas.

Monetary Policy and FX Framework: Korea has a formal inflation targeting regime that targets annual headline inflation of 2%-4%, which has been set for 2010-2012. The Central Bank is mandated to contribute to the sound development of the national economy by pursuing price stability. The exchange rate policy is traditionally undertaken by the government. The foreign exchange rate regime is a free float, but the recent currency volatility has prompted smoothing interventions from the government.

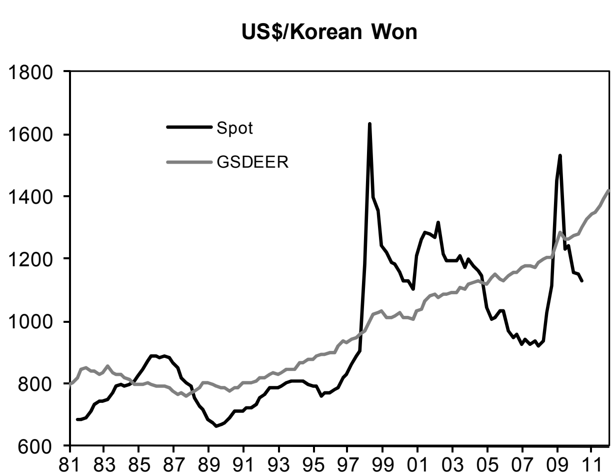
Growth/Inflation Outlook: We are maintaining our GDP forecasts for 2010 and 2011 at 4.8% and 4.6%, respectively. Sustained global economic growth, which our Global economics team estimates will be 4.9% in 2010, should help boost demand for Korean exports to nearly double-digits, especially given Korea's high emerging market exposure (some 70% of exports). We believe private investment will rebound in 2010 on rising capacity utilisation and an improving business outlook. Consumption will likely continue to lag behind headline GDP growth due to high household debts, worsening terms of trade, rising interest rates and waning fiscal stimulus.

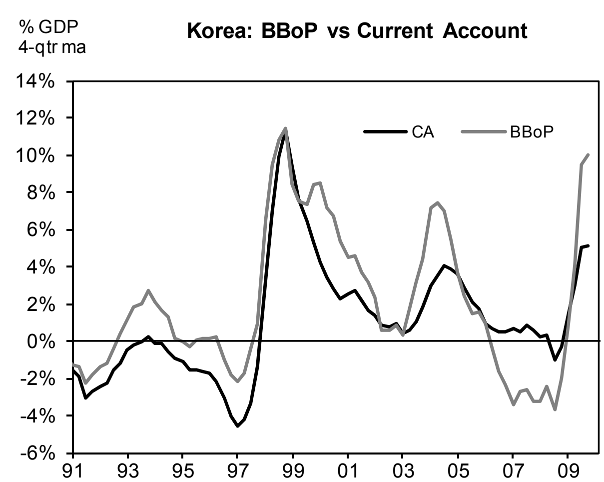
Monetary Policy Forecast: We reiterate our view of no rate hike in 1H2010 and our long-held view of a gradual and moderate tightening in 2H2010. Our baseline continues to be no rate hike in 1H2010, reflecting changes in the MPC's composition (the chairman and two other MPC members), and the benign inflation outlook and weak job markets. We expect the first rate hike to take place in 3Q2010, most likely by 25bp, followed by another 25bp in 4Q2010.

Balance of Payments Situation: We expect the current account to weaken sharply in 2010 due to a recovery in commodity prices, in particular oil prices, a strong economic recovery and KRW appreciation. That said, we expect strong capital inflows to bring the overall BoP position to a sizeable surplus in 2010.

Things to Watch: Government intervention and oil prices will likely continue to play an important role for USDKRW. Financial flows, in particular equity and bond flows, which in turn are affected by US rate policies, will likely be a swing factor in the short term. Property prices will need to be monitored also, given their impact on rate policies.

Goohoon Kwon





Malaysian Ringgit

FX Forecasts: We are keeping our 3-, 6- and 12-month USD/MYR targets at 3.1, 3.05 and 3.05 respectively. EUR/MYR is 4.2, 4.1 and 4.1.

Motivation for Our FX View: We continue to see multiple factors supporting a stronger MYR. A more sustainable growth recovery path, a higher rate differential due to continuous increases in interest rates, an improving balance of payments position due to the appreciation of the terms of trade on the back of higher commodity prices, and a better growth risk premium following the effective fiscal deficit reductions proposed in the 2010 budget are all likely to bode well for the fundamentals of the currency. In addition, the Ringgit may benefit from CNY appreciation given past correlations. We believe all of this offers an opportunity for currency appreciation to play a part in the tightening of overall financial conditions going forward.

Monetary Policy and FX Framework: Monetary policy is set by the Board of Directors of Bank Negara Malaysia (BNM). The policy instrument is the Overnight Policy Rate, which is 2% currently. The Ringgit has operated in a managed float framework since its USD peg was lifted in July 2005.

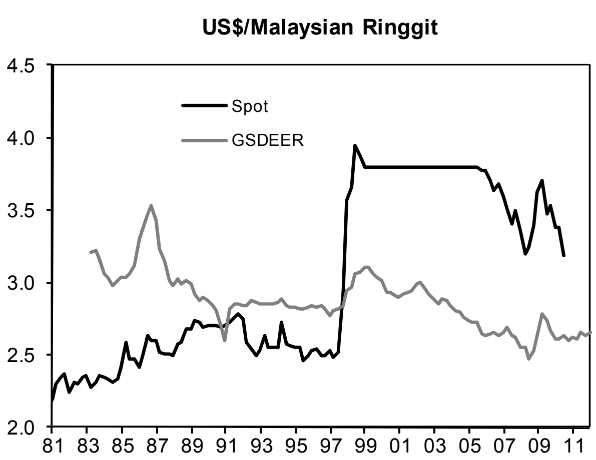
Growth/Inflation Outlook: We believe the recent sequential uptick in credit growth, particularly in household credit growth, is the prime factor in the BNM's belief that the domestic recovery is "firmly established". 4Q2009 GDP grew at a strong 14.6%qoq ann. rate. Exports have picked up and also showed signs of spilling over into industrial production (IP) growth, which grew by a strong 11%yoy in March. Capacity utilisation, at 74% in December, is a big improvement from the crisis low of 59%. March CPI inflation came in at 1.3%yoy, from 1.2%yoy in February. Sequentially, CPI showed some moderation in inflation pressure in recent months.

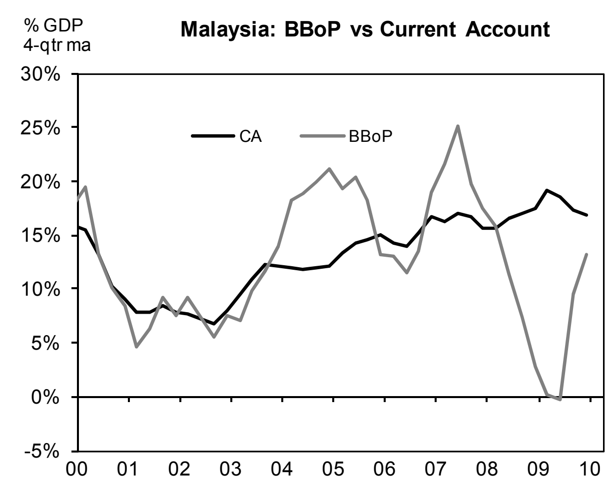
Monetary Policy Forecast: The BNM increased the Overnight Policy Rate by 25bp to 2.25% in March. On the domestic economy, the BNM noted that the current economic recovery is "firmly established". On inflation, the Bank believes that global commodity prices will likely exert pressure on domestic prices; "inflation is expected to remain moderate in 2010". Our core view remains that a broad range of indicators suggests that a recovery is underway. Therefore, although the 25bp hike in the policy rates in March came in one meeting earlier than our expectation, we do not believe this would provide any major dampening effect on the growth recovery. We think that the Central Bank will raise the OPR by 25bp at its May meeting. Looking forward, we maintain our core view that the stronger activity on the horizon suggests that the BNM will continue with the normalisation of its accommodative monetary policy.

Balance of Payments Situation: The current account should remain in hefty surplus, especially with the uptick in oil prices.

Things to Watch: Developments in the liberalisation of service industries.

Pranjul Bhandari and Enoch Fung





New Zealand Dollar

FX Forecasts: We are retaining our forecasts for NZD/$ at 0.74, 0.74 and 0.70 in 3, 6 and 12 months. GSDEER is 0.61.

Motivation for Our FX View: Our NZD forecasts remain unchanged. Despite a very strong 1Q2010 employment report, which showed the unemployment rate falling from 7.1% to 6.0% and cemented expectations of a June start to the RBNZ's tightening cycle (now also our view), jittery global risk appetites have capped the NZD for the time being. While ongoing risk aversion could weigh on the NZD, carry appeal on the back of pending interest rate increases and still elevated soft commodity prices should remain key support factors.

Monetary Policy and FX Framework: The Reserve Bank of New Zealand is a flexible inflation targeter. The RBNZ Governor is sole decision maker on the Official Cash Rate (OCR), and contracted to achieve "future CPI inflation outcomes between 1 per cent and 3 per cent on average over the medium term." The FX regime is a free float.

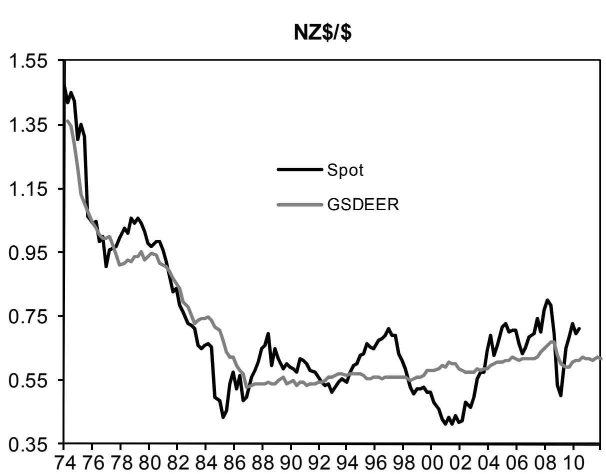
Growth/Inflation Outlook: Restocking helped to underpin GDP growth in 2009Q4, which expanded 0.8%qoq. The impetus from restocking is likely to be less in 2010Q1 and, on top of waning housing market momentum and mixed retail spending news, growth is expected to be closer to 0.5%qoq. Nevertheless, a stronger global backdrop and a reasonably low NZD/AUD should eventually assist in an export-led recovery - a positive medium-term development. Inflation was subdued in Q1, particularly underlying and core measures. Recent administrative charges and a potential hike in GST are likely to push headline inflation above 5%. While we believe underlying (core) inflation pressures will be contained, inflation expectations will need to be watched closely to ensure they remain anchored.

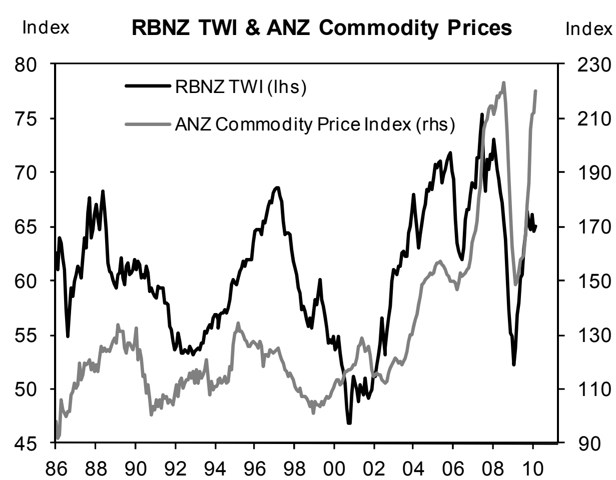
Monetary Policy Forecast: The OCR is at 2.50%, but we believe the RBNZ will begin lifting it from June. While pockets of the domestic economy remain patchy and there is also some uncertainty ahead of the May Budget surrounding potential tax changes, a strong 1Q2010 employment report suggests the economic recovery is becoming more entrenched. However, we believe the tightening cycle will be gradual (at least initially). This is due to new liquidity requirements for registered banks, a steep mortgage curve and the likelihood of a more contractionary fiscal policy stance assisting the RBNZ's stabilisation role.

Balance of Payments Situation: The annual current account balance improved to -3.0% of GDP in 2009Q4. This continues a remarkable turnaround from -8.6% of GDP 12 months prior. However, it now appears likely that the deficit improvement has ended. A combination of the IRD tax windfall rolling off and the cyclical improvement in the economy sucking in imports should see the deficit revert to around 5% of GDP by the end of 2010. However, terms of trade gains should ensure the deficit does not deteriorate to the levels experienced between 2005 and 2008.

Things to Watch: As always, global risk appetites will be important. However, we believe any news flow with implications for how aggressive the RBNZ's tightening cycle proves to be will be most important for the NZD. In this regard, the Budget on May 20 will be critical.

Philip Borkin





Economist: **Philip Borkin** philip.borkin@gsjbw.com

Philippine Peso

FX Forecasts: We are keeping our 3-, 6- and 12-month USD/PHP targets at 43.6, 42.5 and 42 respectively. EUR/PHP: 58.9, 57.4 and 56.7. $/PHP GSDEER is 54.16.

Motivation for Our FX View: Several factors are likely to support Peso strength. The presidential elections went off more smoothly than expected. Early counts show Benigno Aquino on course to become the next president. Meanwhile, the recovery process is firmly underway, supported by two engines of flows: stable remittances and growing IT service exports. With the growth recovery underway and inflation pressures (especially food inflation) building, we expect the Central Bank to embark on a rate tightening cycle starting in mid-2010. In addition to the above, a stronger current account surplus, despite higher oil prices, and partly due to strong remittances, is also likely to be supportive of the PHP.

Monetary Policy and FX Framework: The BSP has an inflation targeting framework (CPI at 3.5%-5.5% in 2010) and aims to promote price stability to facilitate balanced and sustainable growth. The BSP uses the overnight reverse repo rate (lending rate) and repo rate (borrowing rate) as its key policy instruments. The PHP operates in a freely-floating exchange rate environment, where the BSP intervenes to manage excess volatility through open-market operations.

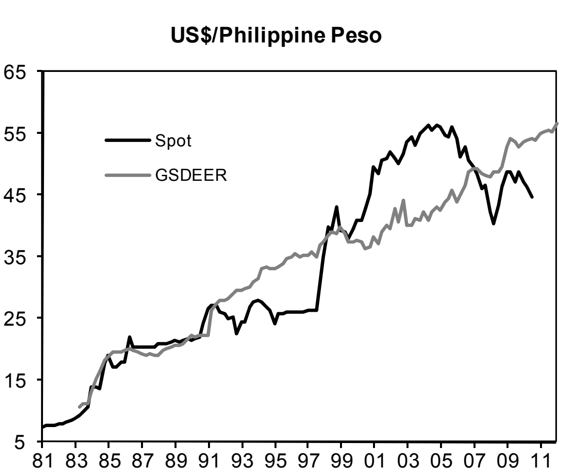
Growth/Inflation Outlook: We expect GDP to grow 4.2%yoy in 2010, higher than the 0.9%yoy recorded in 2009. Exports have ticked up and are likely to lead to further increases in manufacturing, investments and employment. At 11% of GDP, remittances are supporting private consumption. Past cycles in remittances suggest an uptick from May and our outlook remains robust. IT service exports from the Philippines are rapidly gaining in prominence. They have grown at a CAGR of over 40% since 2004 and could potentially outpace remittance inflows in a few years. Robust flows and strong business sentiment receiving a boost from a likely decisive election result are likely to support growth in 2010, despite a weak, El Nino-affected agricultural crop. April headline CPI inflation remained at 4.4%yoy, the same as in March. Food prices eased further, balancing out the increase in energy and core. Broadly speaking, inflation is well contained in the BSP's target range.

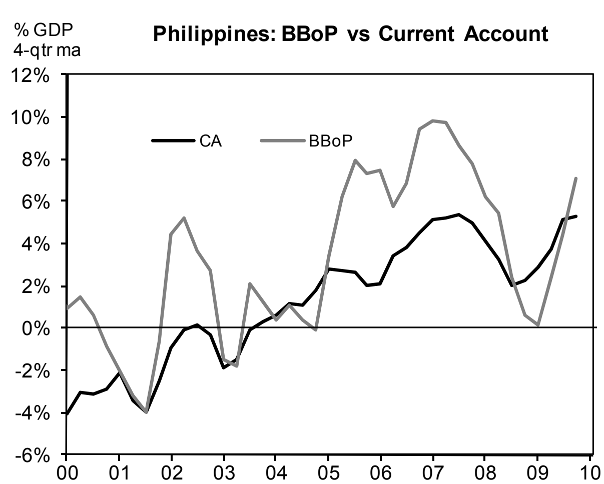
Monetary Policy Forecast: Given that the ongoing demand for higher wages and continued growth recovery are likely to add to inflation, we expect BSP to be pre-emptive and start raising rates in its July monetary policy meeting. We expect 75bp in rate hikes in 2010 followed by another 75bp in 2011. Favourable flows and our expectation that the Central Bank will raise rates are likely to be supportive of the PHP.

Balance of Payments Situation: Strong remittances and a growing service export sector are likely to support the current account, despite stronger imports and higher oil prices. We expect the current account surplus to come in at 3.7% in 2010.

Things to Watch: The new President's commitment to lower the fiscal deficit. The formation of the new cabinet and the dynamics with other members of the Congress, which would be critical for pushing reforms.

Pranjul Bhandari and Enoch Fung





Singapore Dollar

FX Forecasts: Our current USD/SGD forecasts are 1.36, 1.35 and 1.33 on 3, 6 and 12-month horizons, respectively. This implies a EUR/SGD path of 1.84, 1.82 and 1.80.

Motivation for Our FX View: We remain bullish on the currency. Our current forecasts are based on the expectation that the Monetary Authority of Singapore (MAS) will embark on a modest appreciation path of the SGD NEER after the shift to a tightening stance on April 14. Since neither the gradient nor the width of the policy band is disclosed, we will make final adjustments as we gain more clarity on the actual gradient of the appreciation path in the coming weeks.

Monetary Policy and FX Framework: The MAS conducts monetary policy by targeting an undisclosed appreciation path of the SGD NEER within a policy band, with the goal of maintaining stable inflation and growth. We are currently on an appreciation path and an assumed policy band width of +/- 1.5%.

Growth/Inflation Outlook: We currently forecast GDP growth of 8.0% for 2010, and 5.2% for 2011. Our core view remains that as the exports recovery and the growth in the services sectors gain a firmer footing, we expect to see more signs of a recovery in the labour market, and, coupled with the easing in financial conditions, this should lend further support to growth improvement. The latest exports data continue to point to a solid recovery in the exports cycle. March non-oil domestic exports (NODX) increased by 26.6%yoy, after a 23.3%yoy increase in February.

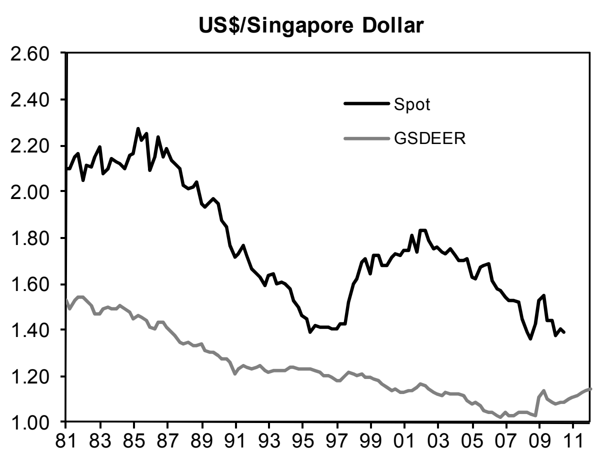
On the inflation front, March CPI rose 1.6%yoy after increasing 1.0%yoy in February. We expect more inflationary pressures from both import and domestic sources to build.

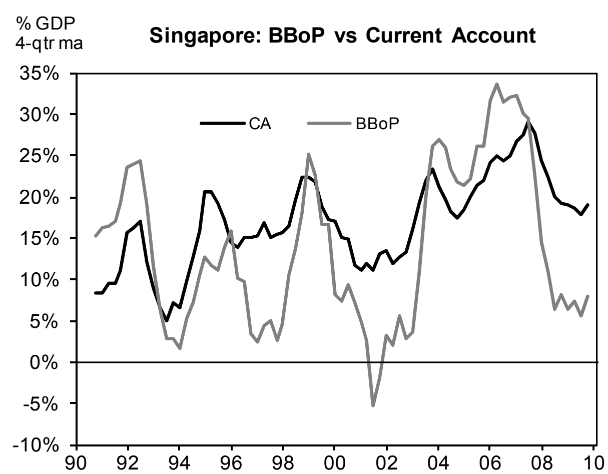
Monetary Policy Forecast: The Monetary Authority of Singapore (MAS) announced on April 14 that it would 1) re-centre the exchange rate policy band at the prevailing level of the SGD NEER; and 2) shift the policy band to modest and gradual appreciation. We view this move as a pre-emptive signal towards policy normalisation. We believe the MAS's view on the growth and inflation mix outlined in the policy statement is consistent with our view on growth and inflation. As the growth recovery gains momentum, this serves to anchor inflation expectations. We expect the MAS to maintain this tightening stance in the policy meeting in October.

Balance of Payments Situation: The current account surplus is expected to remain in a healthy surplus of 18.3% of GDP and 18.8% of GDP in 2010 and 2011 respectively, one of the highest in the region.

Things to Watch: We would pay attention to the building out of the integrated resorts and the tourism sector. Also, we would look out for developments in the closer economic ties between ASEAN and China. The Free Trade Agreement between China and ASEAN came into effect in January 2010.

Enoch Fung and Shirla Sum





Taiwan Dollar

FX Forecasts: Our USD/TWD forecasts are 31.00, 30.50 and 30.00 on 3-, 6- and 12-month horizons. Correspondingly, our EUR/TWD forecasts are 41.85, 41.18 and 40.50 on a 3-, 6- and 12-month horizon.

Motivation for Our FX View: We maintain our positive stance on the TWD. We expect the Central Bank to tolerate more TWD strength, as imported inflationary pressure from higher global commodity prices builds in 2010, given our expectations of a gradual export recovery and a strong balance of payments position.

Monetary Policy and FX Framework: The CBC manages inflation and growth expectations simultaneously; it adopts an intermediate monetary policy target for M2 growth (between 2%yoy and 6%yoy). The IMF defines the TWD exchange rate regime as a managed float, and we believe the weightings for the KRW, JPY and CNY are the highest in the trade-weighted basket of currencies that it monitors.

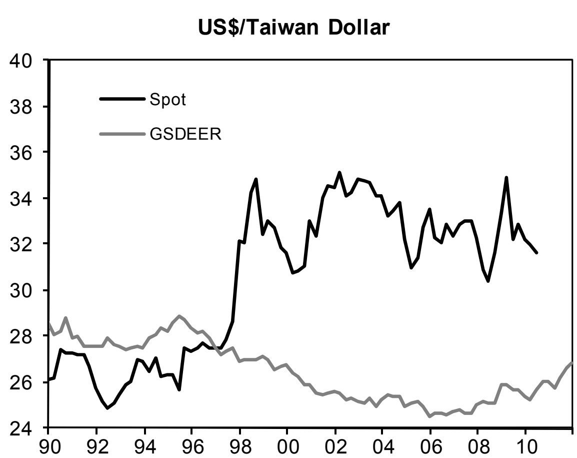
Growth/Inflation Outlook: Our core growth view is that the inventory and industrial cycles in the US and the continued strength in export demand from China will reinforce the export recovery in Taiwan. Taking into account the better-than-expected trade and industrial production data in hand, we now expect 1Q2010 GDP growth to reach 11.5%. Our full year forecast stands at 7.2% for 2010, from the previous forecast of 5.5%, although we also expect the consensus forecast to begin trending up again. The latest exports data reaffirms our view that the growth recovery is well on track. Exports increased by 47.8%yoy in April, after increasing 50.1%yoy in March. April CPI increased 1.34%yoy, after a rise of 1.26% in March. WPI inflation, which represents upstream inflation, remained high. April WPI was up 9.09%yoy, after increasing 6.83%yoy in March.

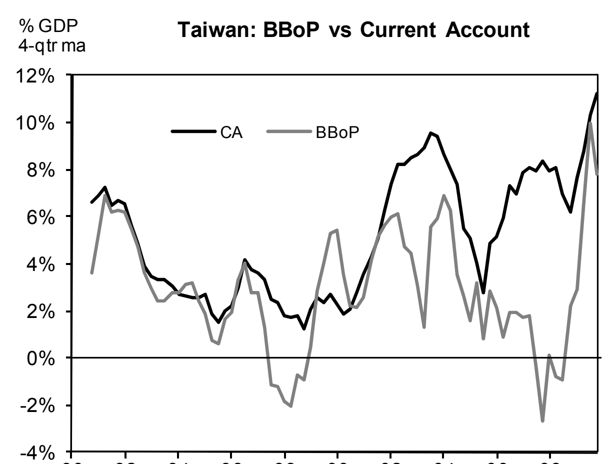
Monetary Policy Forecast: We currently expect CPI inflation to rise from -0.9% to 1.6% in 2010, and to 1.9% in 2011. We expect the Central Bank to tighten by hiking its policy rate in its June policy meeting, amounting to 75bp for the remainder of the year. We expect the growth recovery to gain further momentum, leading to stronger inflationary pressures from the demand side, implying greater need for preemptive monetary tightening by the Central Bank. As for 2011, we see another 100bp increase in the policy rate, taking it to 3.00% by end-2011. However, we expect the Central Bank to be more watchful of the external risk factors in 2011, as the tightening cycle progresses.

Balance of Payments Situation: The broad balance of payments (BBoP) totalled US$6.8bn in 4Q2009 (6.5% of GDP), a larger surplus than the US$3.4bn in 3Q2009 (3.5% of GDP). The increase in the BBoP in 4Q2009 from 3Q2009 was mostly driven by the increased current account surplus (to US$11.8bn in 4Q2009 from US$8.0bn in 3Q2009). Net portfolio investments registered outflows of US$4.1bn in 4Q2009, from a slightly smaller outflow of US$3.9bn in 3Q2009.

Things to Watch: We would pay attention to forthcoming political and cross-straits policy developments. We expect more of these discussions to occur before the 5th SEF-ARATS meeting in June.

Enoch Fung and Shirla Sum





Thai Baht

FX Forecasts: We are keeping our 3-, 6- and 12-month USD/THB targets at 32, 31.3 and 31.0. EUR/THB is 43.2, 42.3 and 41.9. $/THB GSDEER stands at 34.06.

Motivation for Our FX View: We believe there are still uncertainties relating to the delivery of the fiscal stimulus package outlined last year, especially in the context of the recent political instability. While we believe the external demand recovery will likely mitigate the downside risks to growth and public investments, we think the private-sector investment cycle will remain subdued in 2010, until the external demand recovery continues for a while longer. Furthermore, Thailand is one of the most vulnerable to higher oil prices in the region, and expectations of oil price increases in the near term are also likely to weigh on the capex cycle.

Monetary Policy and FX Framework: The Bank of Thailand (BoT) sets the direction of monetary policy with price stability as the overriding objective, and also refines the inflation targeting framework (core CPI at 0.5% to 3.0%) to suit the Thai economy. The Baht operates on a managed float regime, in which the BoT intervenes to prevent excess volatility.

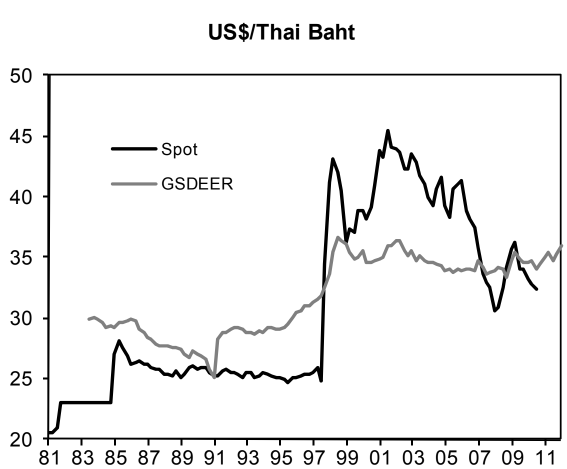
Growth/Inflation Outlook: We forecast that GDP growth will improve to 4.2% in 2010, from -2.3% in 2009, mainly assisted by improved external conditions. April headline CPI inflation came in at 3%yoy, lower than the previous month's 3.4%yoy. On a sequential, seasonally-adjusted basis, our calculations show that headline inflation fell 0.2%mom compared with a flat reading in March. Food prices fell while core inflation (which the Central Bank targets) was broadly contained.

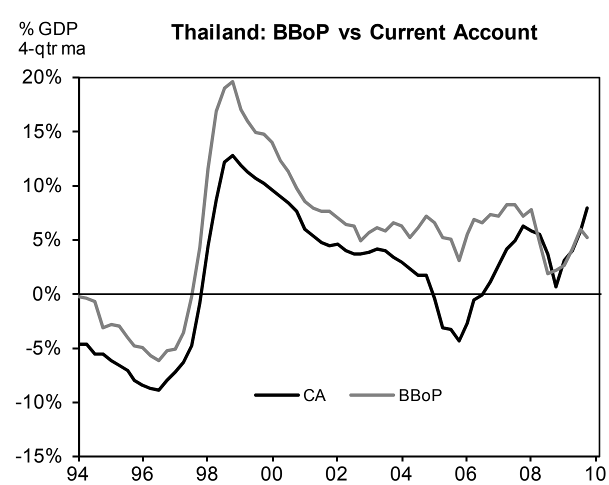
Monetary Policy Forecast: With core inflation within target range, we expect the BoT to embark on a rate hiking path starting only in 3Q2010. Looking ahead, we forecast that core inflation will rise from an average of 0.3% in 2009, to an average of 1.5% in 2010, ending 2010 at 2.5%. This would imply that by 2H2010, core inflation would be closer to the upper end of the BoT's target range. Note that the BoT has a strict mandate in targeting core inflation. Therefore, on balance, we believe the Central Bank would still need to be more pre-emptive in starting to gradually normalise policy in August in order to allow time for transmission through the system. In all, we expect 75bp of total rate hikes in 2010.

Balance of Payments Situation: The current account balance is expected to remain strongly positive, at 4.5% in 2010 and 4.6% in 2011, although slightly lower than the 7.7% of GDP in 2009, as imports begin to pick up as the economy improves.

Things to Watch: Political developments are the key risk factor, in our view. We will watch for any decision on the timeline of a general election and any further activities of anti-government protesters.

Pranjul Bhandari and Enoch Fung and William Yang





Vietnamese Dong

FX Forecast: We are keeping our USD/VND forecasts unchanged at 18,500, 18,850 and 19,750 on 3-, 6- and 12-month horizons, implying a gradual downward crawl of the VND after the recent devaluation on February 11.

Motivation for Our FX View: The State Bank of Vietnam (SBV) announced a devaluation of the Vietnamese Dong (VND) by lowering its mid-point exchange rate to 18,544 from 17,941 previously on February 10. This 3.4% adjustment in the value of the VND is the second in the last 3 months, and smaller than the 5.4% depreciation on November 25, 2009. In our view, the devaluation is another attempt by the SBV to narrow the gap between the quoted exchange rate and the prevailing rate in the black market and relieve the pressure on balance of payment imbalances. However, our concern is that the gap could widen again soon on the back of the expectations of a weaker VND trend. Before the Central Bank demonstrates a strong willingness and capability to defend and stabilise the exchange rate, we believe the public will find it more difficult to regain confidence in the VND.

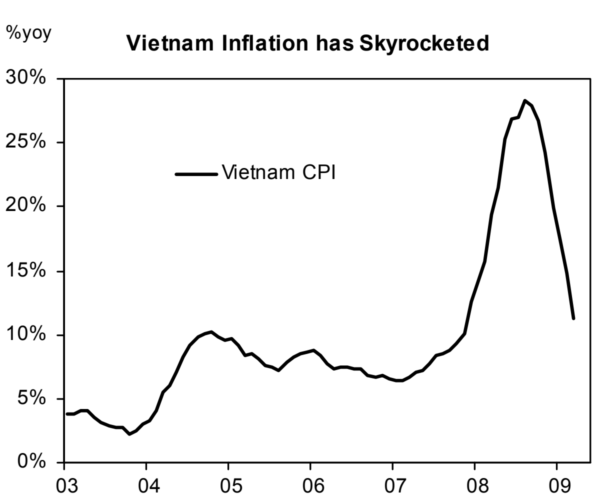
Monetary Policy and FX Framework: The SBV intervenes through the prime rate, the rediscount rate and the refinance rate. It also absorbs or injects liquidity into the banking system via open market operations and reserve requirement ratio adjustment. The SBV officially maintains a managed floating exchange rate, but this regime is classified by the IMF as a conventional de facto fixed peg because of the daily trading band.

Growth/Inflation Outlook: GDP grew 5.8%yoy in the first quarter of 2010, implying a 5.9% decline from 4Q2009 on a qoq, s.a. ann basis. While growth momentum weakened, CPI inflation edged down to 9.2%yoy in April from 9.5% in March. In particular, food price eased sequentially (-9.3%mom s.a. ann. in April) for the first time since May 2009. Given that non-food CPI inflation remained high at 9% in mom seasonally adjusted, annualised terms, the Central Bank may need to see further improvement of CPI inflation readings before cutting interest rates.

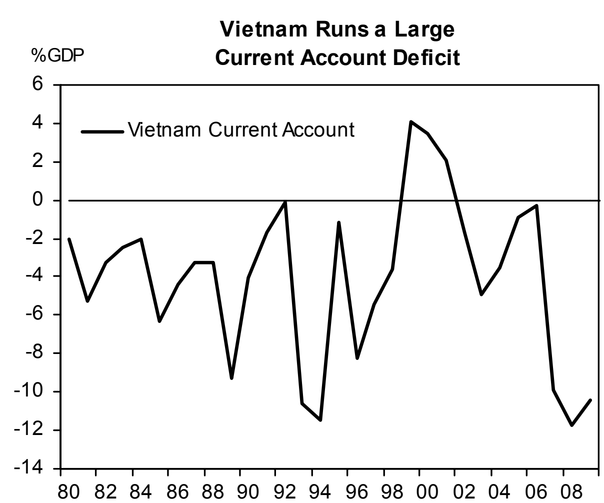
Monetary Policy Forecast: We think the trade deficit we've been seeing will put further downside pressure on the Dong. In our view, the impact of the last two devaluations was at least partly offset by high inflation. If inflation continues to decline while domestic demand growth softens, it may allow some room for monetary policy easing without undermining the currency strength.

Balance of Payments Situation: Vietnam's external position has weakened on the back of a widening current account deficit and capital outflows. In the first four months of 2010, Vietnam has seen an average trade deficit of US$1.2bn a month, partly due to terms of trade deterioration. In addition, foreign direct investment shrank to US$ 21.48bn in 2009, a 66% drop from last year. At a time when Vietnam's official FX reserves are estimated to be between US$17bn and US$19bn, and public willingness to hold cash in VND or assets is low, the macro instability risk from balance of payment difficulties could increase again. However, we believe the government should be able to contain this risk even if it requires more restrictive capital controls and wider involuntary export receipt conversions.

Helen Qiao and William Yang



Source: General Statistics Office of Vietnam

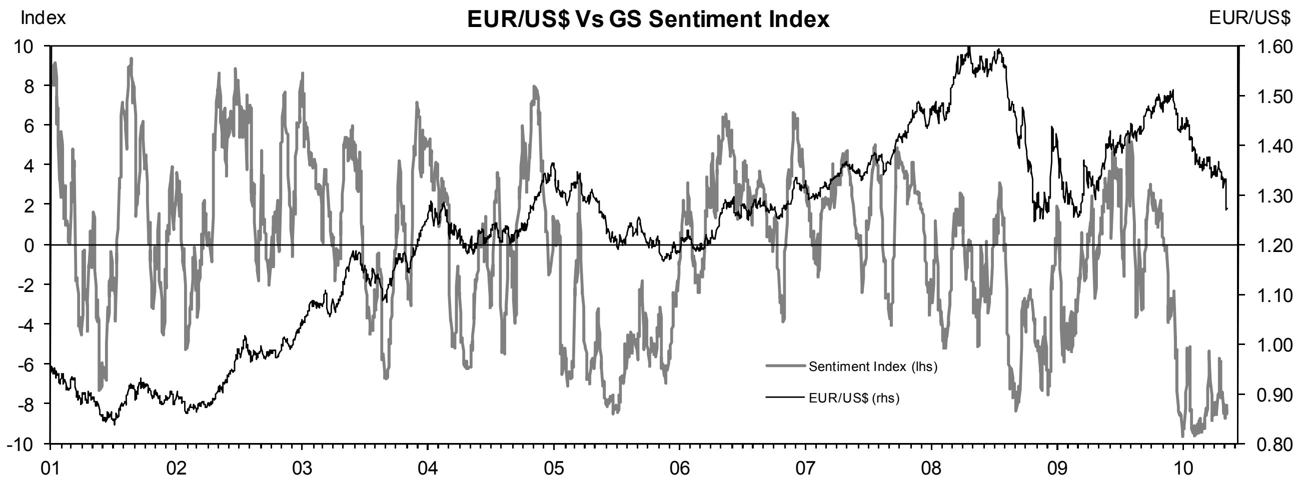


Source: IMF

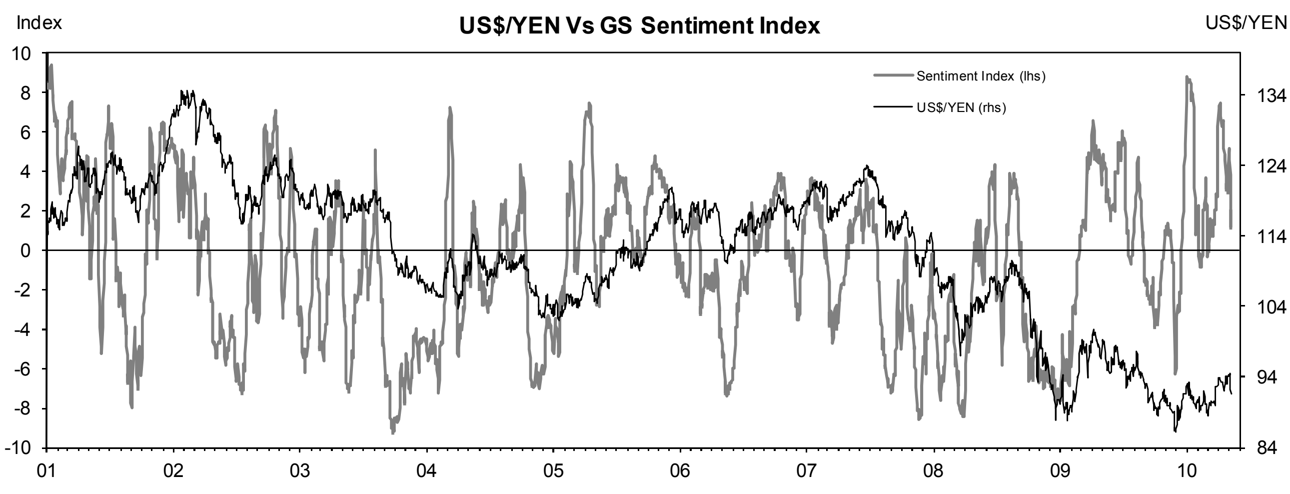
GS Sentiment Index

	Risk Reversals		Bull/Bear Comments		IMM Positioning		Average	
	Current	Last Week	Current	Last Week	Current	Last Week	Current	Last Week
EUR/$	-10.0	-8.0	-4.9	-6.1	-10.0	-9.9	-8.3	-8.0
$/Yen	-8.7	2.7	4.8	-1.1	9.9	9.9	2.0	3.9

The possible range is +/-10. A value of +10 suggests bullish sentiment for the first currency of the pair (i.e., bullish EUR in EUR/$ and bullish $ in $/Yen). We would generally regard the index as a reverse indicator, i.e., high numbers are indicative of excessive positive sentiment and vice versa.

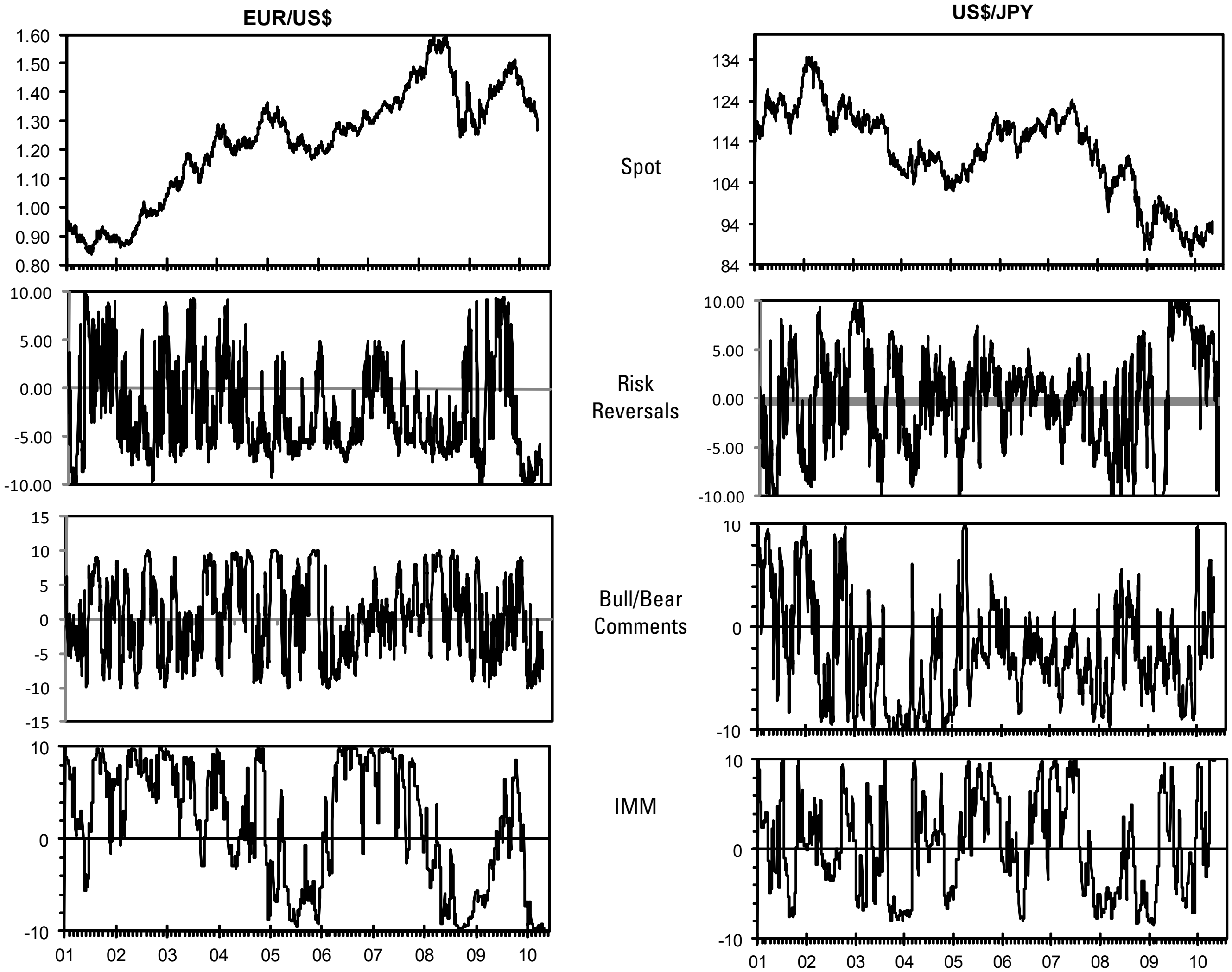


EUR/$ – EUR/$ sentiment has declined since mid-October and is currently in a Euro-bearish zone.



US$/Yen – $/¥ sentiment moved in a wide range through last year from Yen-bearish to Yen-Bullish. The index has fallen recently.

GS Sentiment Index Cont'd



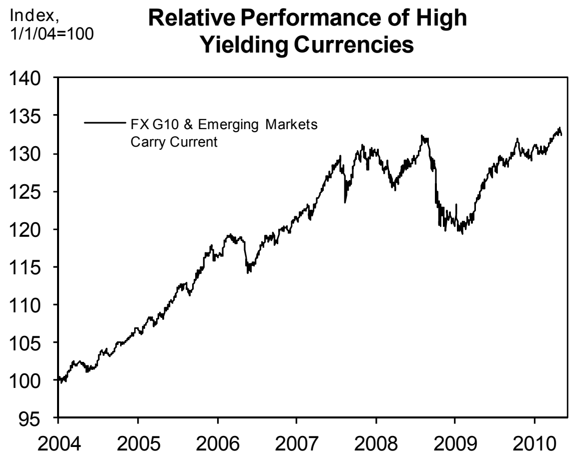
Technical Notes:

Risk Reversals: The sentiment indicator using Risk Reversals takes the deviation between the current level of risk reversals versus the 'norm' as indicated by the 200-day moving average. Risk reversals reflect the difference in volatility terms between a call and a put with the same delta. We have used 1-month 25 delta risk reversals. In other words, the risk reversal is the difference between a 1-month 25 delta call and a 25 delta put expressed in volatility. We index the deviation of the actual risk reversal and fair value using an interval of +/-10. For example, for US$/Yen, a positive reading indicates the risk reversal favours US$ calls over US$ puts relative to the norm with +10 indicating that US$ calls are very expensive.

Bull/Bear Comments: We base this indicator on the number of bullish and bearish sentences in news wire stories. The data generation is automated with proprietary software. For instance, our program identifies the following sentence as EUR/$ bearish:"…there is a strong risk of the Euro hitting new lows for the year against the Dollar.…" We generate a time series based on the difference between Dollar-bullish and Dollar-bearish commentary, which is then regressed against exchange rate changes. The residuals from this regression, representing bull/bear comments that go beyond regular reporting of market movements, are used in our bull/bear index. Values are normalised to range from most bearish (-10) to most bullish (+10).

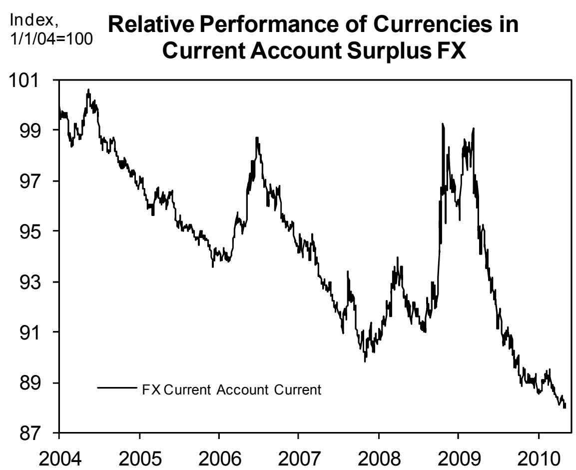
IMM Positioning: Indices are computed using the Commitment of Traders' report compiled by the Commodity Futures Trading Commission. The indices are based on the difference between long and short positions for IMM non-commercial traders, expressed as a percentage of the open interest and controlling for the level of rates. Historical values are normalised by the frequency distribution of the data between January 2000 and present to generate an index ranging between -10 (most short) and +10 (most long).

FX Currents



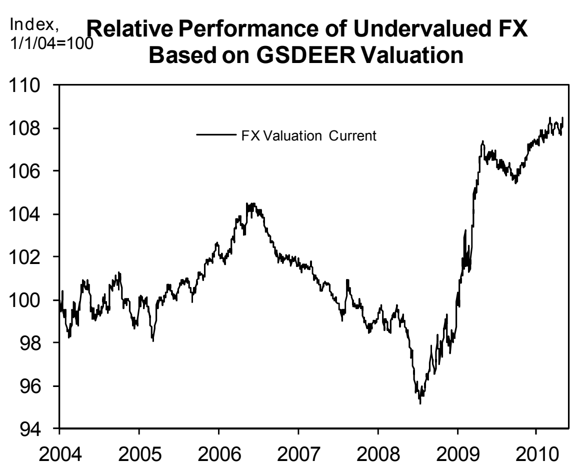
The **Carry FX Current** (Bloomberg: GSCUEMCC Index) is built to capture the performance of carry-based trading strategies in FX. In the long run, the return on holding high carry currencies tends to outperform low carry currencies. However, at times of high risk aversion, carry trades tend to post heavy losses. After a large decline in late 2008 (together with other risk assets), the Carry Current has increased by 10.0% since the beginning of 2009. We expect carry to continue to outperform.

Composition of the Carry Current	
Short	Long
CHF	PHP
CNY	HUF
JPY	BRL
TWD	IDR
SEK	TRY
EUR	ZAR



The **Current Account FX Current** (Bloomberg: GSCUCACC Index) aims to capture the performance of current account geared trading strategies in FX. In an environment of slower global capital flows, one would expect current account surplus currencies to outperform current account deficit currencies. Owing to an improvement in global risk sentiment, the Current Account Current fell by 10.6% from its peak March 2009 through end-2009, and has fallen slightly since the start of 2010.

Composition of Current Account Current	
Short	Long
AUD	CHF
INR	SEK
NZD	CNY
USD	MYR
ZAR	NOK
CAD	TWD



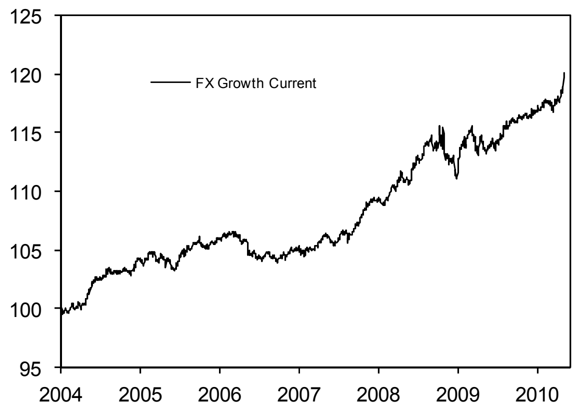
The **Valuation Current** (Bloomberg: GSCUVALU Index) is our FX Current built to capture the performance of undervalued currencies relative to overvalued currencies, using our GSDEER model as a valuation anchor. The Valuation Current is up 14.0% since the last major trough in July 2008. After declining since May 2009, the Current has rebounded 2.8% since October, bringing it near new cyclical highs.

Composition of Valuation Current	
Short	Long
BRL	PLN
KRW	CZK
PHP	CLP
TRY	MYR
RUB	SGD
NZD	TWD

Methodology: Our FX Currents, formerly 'FX Slices', are portfolios of currencies adjusted for carry and are designed to capture and identify themes that the market is trading. For some, the composition is adjusted once a month according to the evolution of the ranking in the macro variables. A ranking schedule is applied to the currencies, placing a 20% weight on the four top/bottom-ranked currencies, 15% for the fifth rank and 5% for the sixth-ranked currency. The BRICs/N-11 FX Current has a static, equally-weighted composition. See our *Global Viewpoint* from July 20, 2009, and our 2005 and 2006 issues of *The Foreign Exchange Market* for details.

FX Currents cont'd

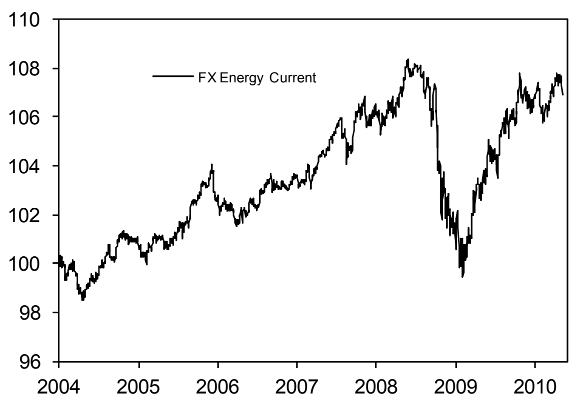
Index, 1/1/04=100 **Relative Performance of High Growth FX**



The **GDP FX Current** (Bloomberg: GSCUGROW Index) is built to capture the performance of currencies from high cyclical growth economies relative to currencies from low cyclical growth economies. In theory, strong cyclical growth should lead to FX outperformance. Growth has been one of the best-performing themes since the beginning of the turmoil in July 2007—it is up 13.5% since then.

Composition of GDP Current	
Short	Long
CZK	MYR
HUF	TRY
RUB	BRL
ZAR	IDR
GBP	KRW
MXN	TWD

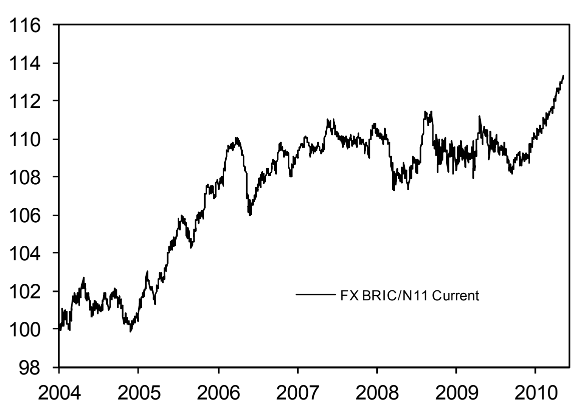
Index, 1/1/04=100 **Relative Performance of Selected Energy-Exporting to Importing Currencies**



This **Energy FX Current** (Bloomberg: GSCUENER Index) is created to take advantage of terms-of-trade gains and losses from shifts in energy prices between commodity producers and commodity consumers. Basically, this Current is long a list of currencies from energy-exporting countries and short a portfolio of currencies that are heavy importers of energy products. Energy prices have been rising and we have already seen a decent rebound in the Energy Current of 7.5% from the 2009 lows and is about flat since the start of 2010. We expect this Current to continue appreciating over the long term, given our commodities strategists' forecasts for higher energy prices in the long run.

Composition of the Energy Current	
Short	Long
CNY	CAD
INR	MXN
JPY	MYR
KRW	NOK
SGD	NZD
TWD	RUB

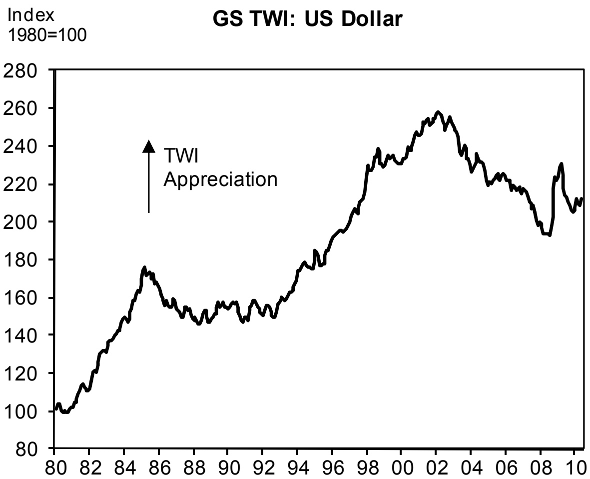
Index, 1/1/04=100 **Relative Performance of BRIC/N11 Currencies to G10 Currencies**

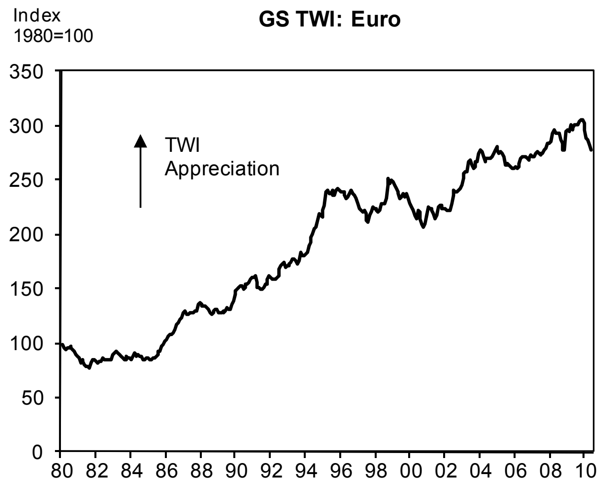


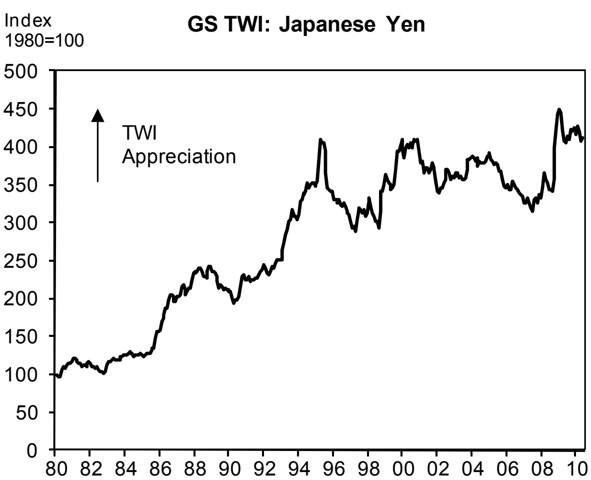
The **BRICs/N-11 FX Current** (Bloomberg: GSCUBRIC Index) measures the outperformance of the BRICs and N-11 currencies against the G10 currencies. As the BRICs and N-11 are the emerging markets with the most substantial long-term growth potential, we would generally be inclined to trade this Current from the long side. In the short term, we have observed that the BRICs and N-11 trade can come under pressure during times of global growth softness. Recently, the BRICs/N-11 Current has climbed 2.9% since the start of 2010, making new historical highs.

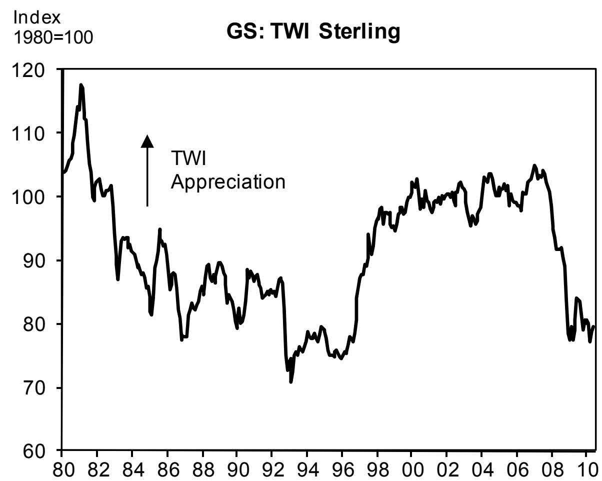
Composition of the BRIC/N11 Current	
Short	Long
AUD	BRL
CAD	CNY
CHF	IDR
EUR	INR
GBP	KRW
JPY	MXN
NOK	PHP
NZD	RUB
SEK	TRY
USD	

GS Trade Weighted Indices





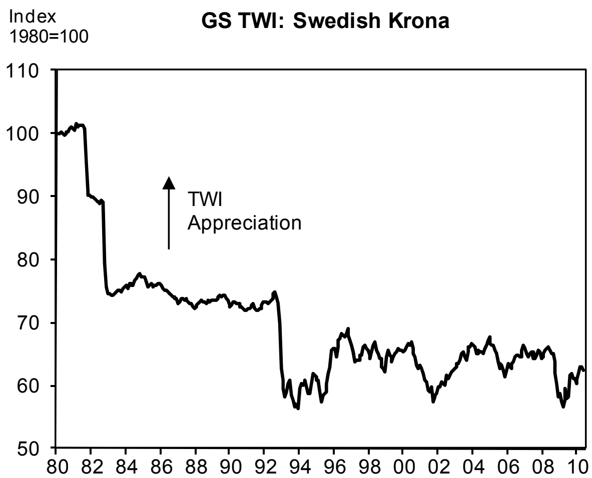


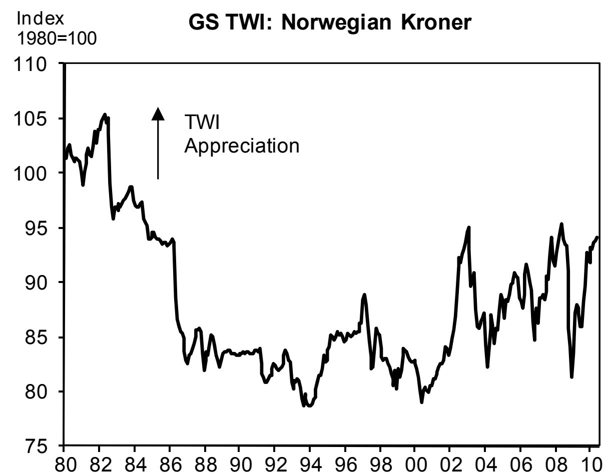


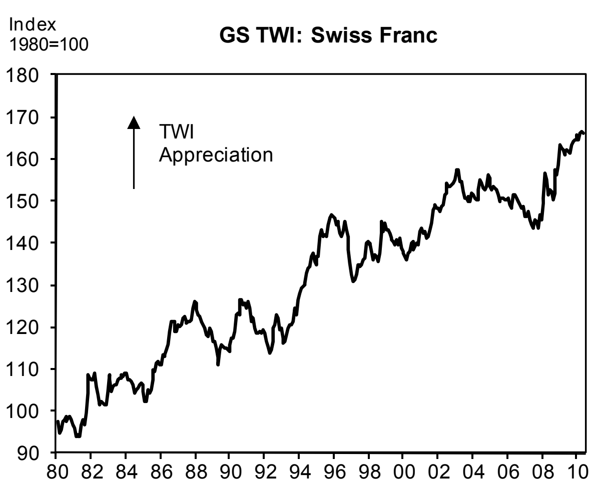
Nominal GS TWI

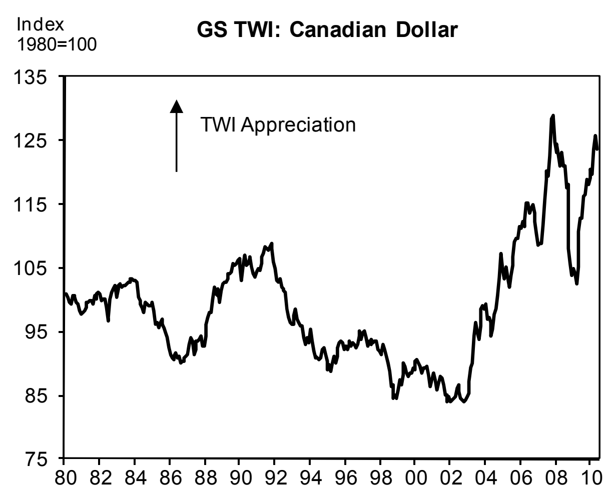
Jan 1980=100	Year Averages							Latest	Forecasts		
	2003	2004	2005	2006	2007	2008	2009	11-May-10	3m	6m	12m
US Dollar	239.55	229.01	222.99	218.66	208.50	202.22	215.47	212.4	210.1	205.8	208.1
Japanese Yen	367.35	382.24	369.95	343.72	326.40	367.75	420.75	414.9	410.0	400.1	382.8
Euro	262.47	272.79	267.76	267.73	276.16	288.19	300.46	273.8	279.3	278.2	277.1
Sw iss Franc	153.07	152.93	151.58	149.51	145.25	153.53	162.74	167.2	169.6	171.9	169.5
British Pound	97.30	102.04	100.29	100.78	102.69	90.12	80.54	79.7	82.3	82.2	82.1
Sw edish Krona	64.76	65.91	64.12	64.31	65.02	63.90	59.32	62.3	62.3	63.5	66.1
Norw egian Kroner	88.73	85.85	89.26	88.58	90.06	90.99	88.33	93.9	95.7	95.4	96.3
Canadian Dollar	93.62	99.38	106.24	113.12	118.11	117.44	111.85	124.9	128.3	128.5	122.4
Australian Dollar	65.88	71.07	72.85	71.81	76.68	75.17	71.76	80.2	82.9	82.7	78.7
New Zealand Dollar	70.25	75.42	79.01	72.69	78.23	73.42	67.65	74.5	74.1	74.0	71.9

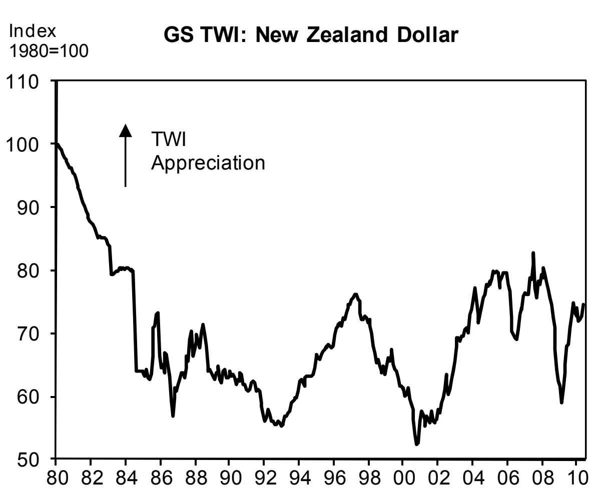
GS Trade Weighted Indices Cont'd

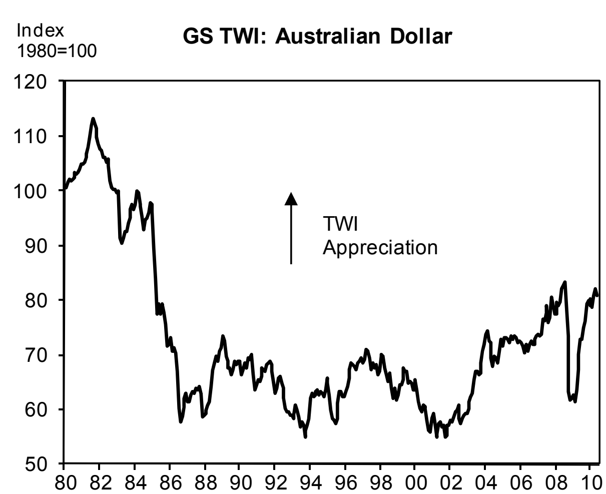












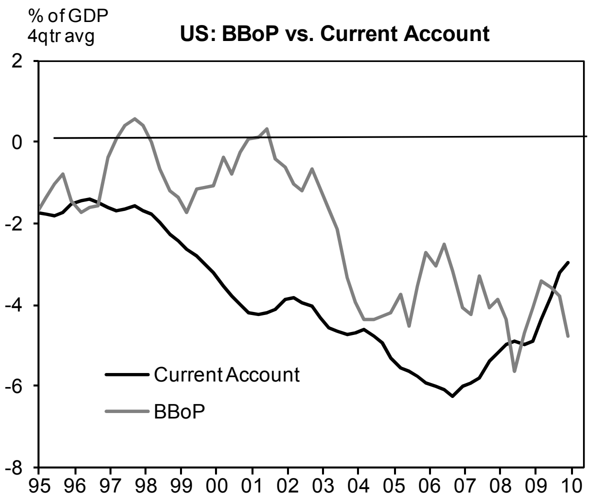
Risk Adjusted Returns

	Year-to-date (since 01-Jan-10)				Last 4 weeks (since 14-Apr-10)			
Rank**	Currency	Total Return	Return Volatility	Risk Adjusted Return	Currency	Total Return	Return Volatility	Risk Adjusted Return
1	EUR/$	14.06%	7.90	1.78	$/CNY	-0.46%	0.17	-2.63
2	EUR/CHF	5.68%	3.58	1.58	EUR/$	8.10%	4.39	1.85
3	$/HKD	-0.43%	0.29	-1.48	$/HKD	-0.28%	0.17	-1.68
4	$/CNY	-0.43%	0.30	-1.44	$/CHF	-5.27%	3.73	-1.41
5	EUR/NOK	6.42%	4.68	1.37	£/$	4.39%	3.99	1.10
6	$/THB	2.78%	2.05	1.36	EUR/¥	7.99%	7.27	1.10
7	EUR/SEK	6.69%	5.31	1.26	EUR/GBP	3.55%	3.24	1.10
8	EUR/¥	13.21%	11.03	1.20	A$/$	4.44%	4.08	1.09
9	£/$	8.49%	7.39	1.15	EUR/NOK	2.98%	2.78	1.07
10	$/CHF	-7.35%	7.25	-1.01	EUR/CHF	2.40%	2.67	0.90
11	$/IDR	3.48%	4.52	0.77	$/RUB	-3.11%	3.57	-0.87
12	EUR/GBP	5.13%	6.81	0.75	$/TWD	-1.18%	1.37	-0.86
13	$/CLP	-5.31%	7.68	-0.69	EUR/SEK	2.08%	2.41	0.86
14	$/TWD	-1.65%	2.40	-0.69	$/CLP	-2.27%	2.76	-0.82
15	$/MXN	5.77%	8.69	0.66	EUR/HUF	-3.77%	5.52	-0.68
16	$/INR	3.27%	5.15	0.64	EUR/CZK	-1.42%	2.47	-0.57
17	EUR/CZK	3.20%	5.21	0.61	$/INR	-1.54%	2.98	-0.52
18	$/PHP	3.12%	5.47	0.57	$/KRW	-2.14%	4.25	-0.50
19	$/COP	3.37%	7.09	0.48	$/IDR	-1.10%	2.26	-0.49
20	$/ARS	1.55%	3.76	0.41	$/CAD	-1.99%	4.51	-0.44
21	$/SGD	1.34%	3.41	0.39	$/TRL	-2.81%	6.39	-0.44
22	EUR/PLN	3.53%	10.16	0.35	EUR/PLN	-2.70%	7.04	-0.38
23	$/CAD	2.21%	7.85	0.28	$/ZAR	-2.07%	5.43	-0.38
24	$/RUB	1.91%	7.31	0.26	$/PHP	-1.01%	3.24	-0.31
25	$/KRW	1.68%	7.35	0.23	$/SGD	-0.53%	2.41	-0.22
26	NZ$/$	2.07%	9.42	0.22	$/MXN	-1.13%	5.76	-0.20
27	$/TRL	-1.04%	8.97	-0.12	$/COP	-0.78%	4.13	-0.19
28	A$/$	0.75%	8.23	0.09	$/ARS	-0.12%	0.65	-0.18
29	$/¥	-0.74%	8.26	-0.09	$/BRL	-0.98%	7.04	-0.14
30	$/PEN	1.45%	18.77	0.08	$/THB	-0.04%	1.23	-0.03
31	EUR/HUF	-0.27%	8.30	-0.03	$/¥	-0.10%	4.23	-0.02
32	$/BRL	-0.33%	10.35	-0.03	NZ$/$	0.08%	3.71	0.02
33	$/ZAR	-0.11%	10.57	-0.01	$/PEN	-0.12%	16.31	-0.01
34	$/VEF	16.38%	53.71	na	$/VEF	1.39%	0.43	na

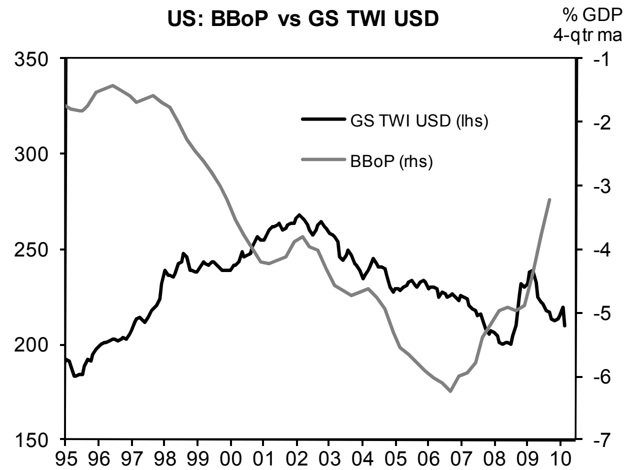
* Last Update: 12-May-10 ** Based on absolute risk adjusted returns.

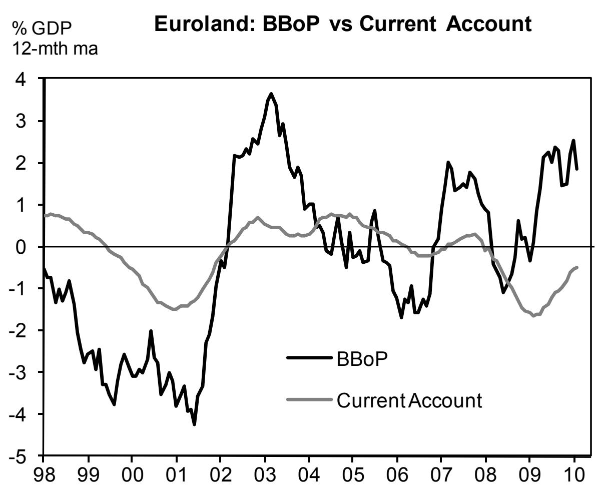
Note: To calculate the returns, we have assumed long positions in the right hand currency of the pair. Return Volatility is calculated as STDEV x SQRT(n), where STDEV is the volatility of daily currency returns and SQRT(n) is the square root of the number of business days since the beginning of the relevant period.

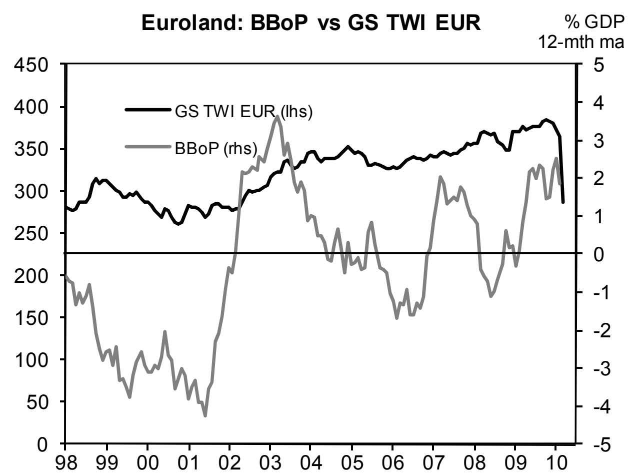
G3 BBoP

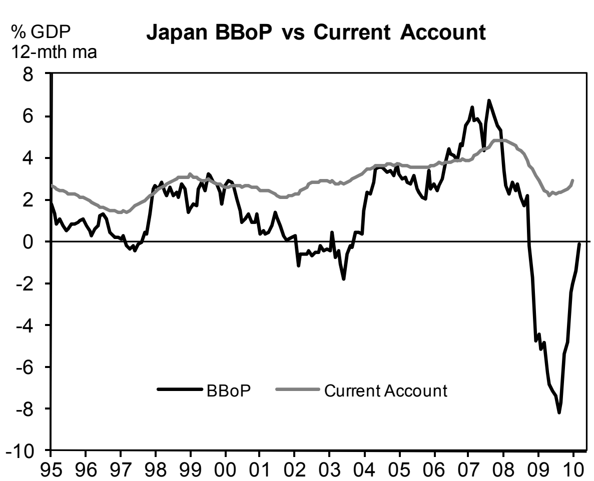


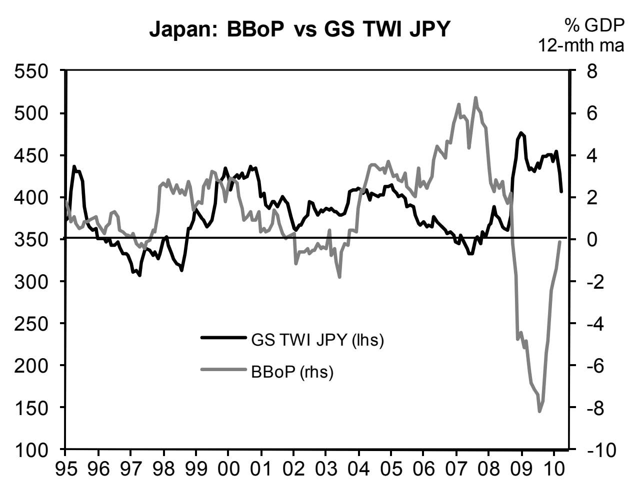
Source: Haver Analytics, National Source, Global ECS Research.





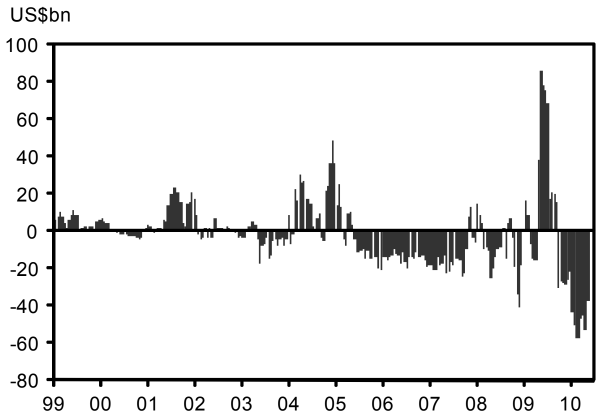






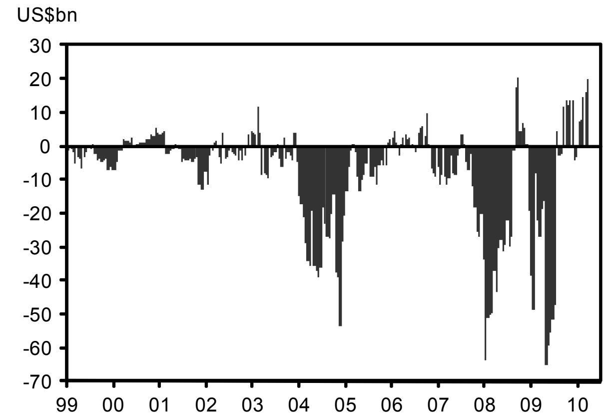
GS Anecdotal Flows
M&A Pipelines

Cash M&A Pipeline:
Net bilateral: United States & REST OF WORLD *



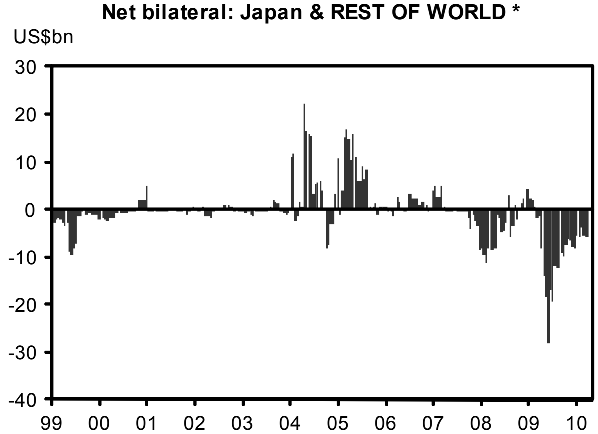
* Pending United States outflow = -ve; Latest: US$ 16.8bn

Cash M&A Pipeline:
Net bilateral: Euroland & REST OF WORLD *



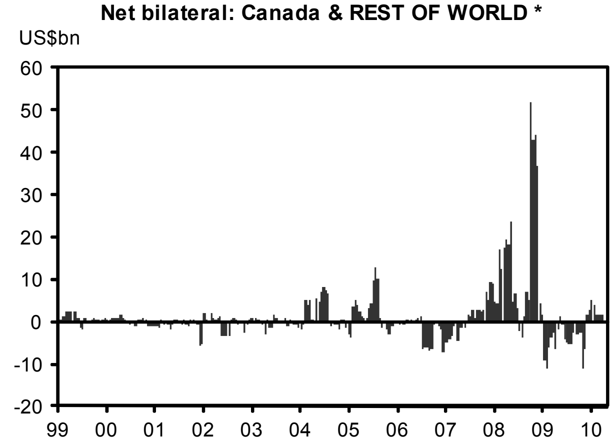
* Pending Euroland outflow = -ve; Latest: US$ -48.8bn

Cash M&A Pipeline:
Net bilateral: Japan & REST OF WORLD *



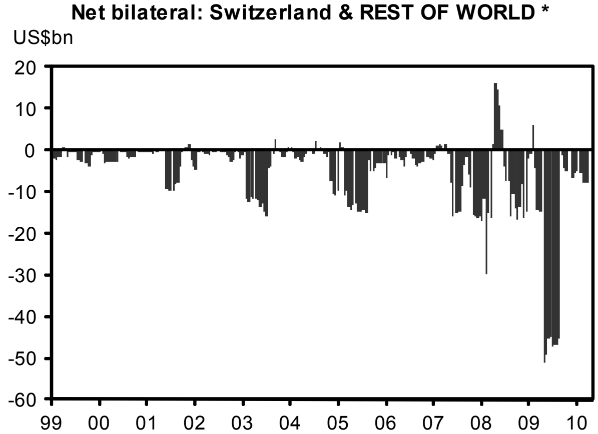
* Pending Japan outflow = -ve; Latest: US$ 4.2bn

Cash M&A Pipeline:
Net bilateral: Canada & REST OF WORLD *



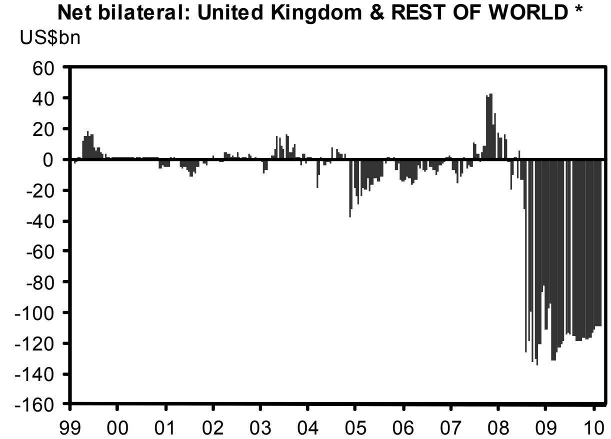
* Pending Canada outflow = -ve; Latest: US$ 1.6bn

Cash M&A Pipeline:
Net bilateral: Switzerland & REST OF WORLD *



* Pending Switzerland outflow = -ve; Latest: US$ -2.1bn

Cash M&A Pipeline:
Net bilateral: United Kingdom & REST OF WORLD *



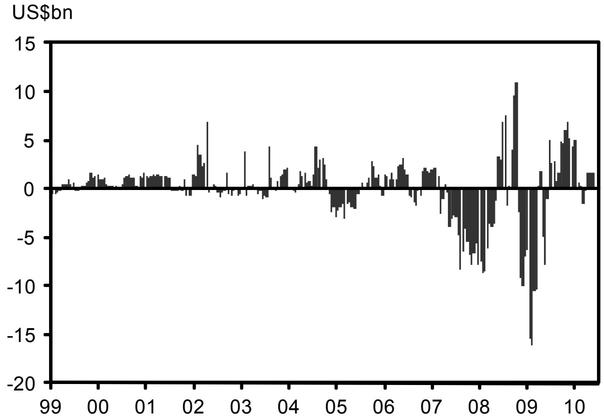
* Pending United Kingdom outflow = -ve; Latest: US$ -82.5bn

Source: Thomson Financial SDC, GS.

M&A Cash Pipelines show the value of the cash parts in all pending cross-border acquisitions. They represent potential flows, not actual flows. If a deal is withdrawn, it will be removed from the pipeline. The pipeline provides no information on the timing of foreign exchange flows.

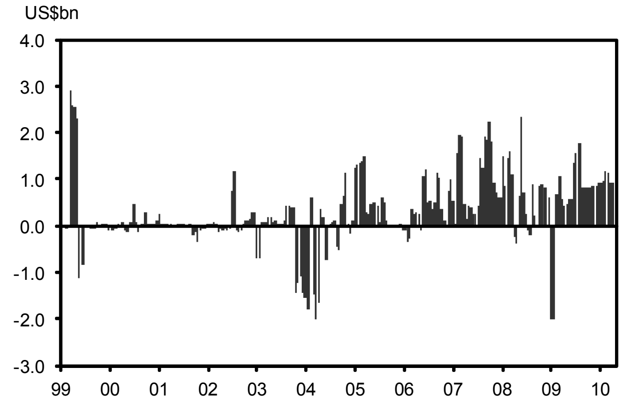
GS Anecdotal Flows
M&A Pipelines

Cash M&A Pipeline:
Net bilateral: Australia & REST OF WORLD *



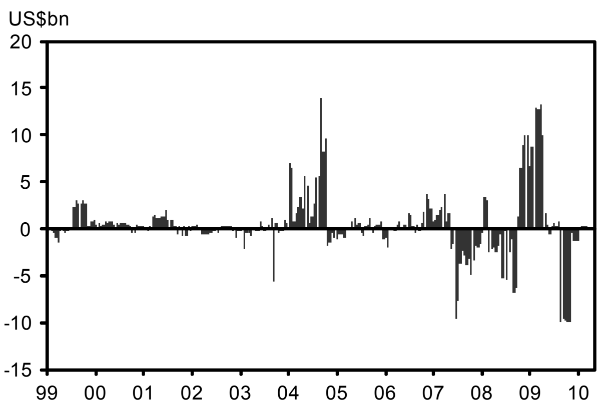
* Pending Australia outflow = -ve; Latest: US$ -15.5bn

Cash M&A Pipeline:
Net bilateral: New Zealand & REST OF WORLD *



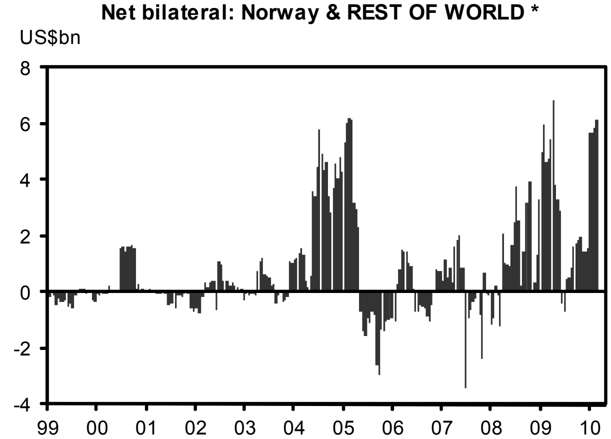
* Pending New Zealand outflow = -ve; Latest: US$ -2.0bn

Cash M&A Pipeline:
Net bilateral: Sweden & REST OF WORLD *



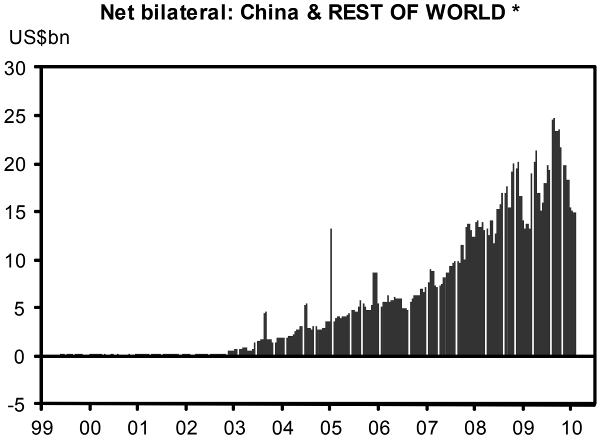
* Pending Sweden outflow = -ve; Latest: US$ 6.7bn

Cash M&A Pipeline:
Net bilateral: Norway & REST OF WORLD *



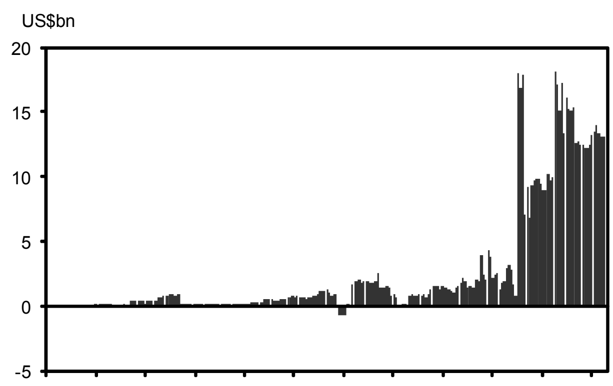
* Pending Norway outflow = -ve; Latest: US$ 3.3bn

Cash M&A Pipeline:
Net bilateral: China & REST OF WORLD *



* Pending China outflow = -ve; Latest: US$ 13.3bn

Cash M&A Pipeline:
Net bilateral: India & REST OF WORLD *



* Pending India outflow = -ve; Latest: US$ 9.5bn

Source: Thomson Financial SDC, GS

M&A Cash Pipelines show the value of the cash parts in all pending cross-border acquisitions. They represent potential flows, not actual flows. If a deal is withdrawn it will be removed from the pipeline. The pipeline provides no information on the timing of foreign exchange flows.

GSDEER

GSDEER Values and Misalignment for USD Crosses

	Spot	GSDEER				Misalignment	
	11-May-10	1Q10*	Current (2Q10)*	4Q10	4Q11	Bilateral[1]	Trade-Weighted[1]
G3							
EUR/$	1.27	1.21	1.21	1.21	1.19	4.9%	11.2%
$/JPY	92.79	106.50	105.89	105.98	106.63	14.1%	14.0%
Europe							
£/$	1.50	1.57	1.58	1.58	1.57	-5.3%	-5.4%
$/NOK	6.18	5.27	5.21	4.98	4.75	-15.7%	-15.2%
$/SEK	7.59	6.88	6.89	6.95	7.18	-9.2%	-10.3%
$/CHF	1.11	1.23	1.22	1.22	1.21	9.7%	5.3%
$/CZK	20.06	19.17	19.13	19.32	19.60	-4.6%	-6.8%
$/HUF	216.68	227.19	230.43	230.70	236.46	6.3%	3.6%
$/PLN	3.17	2.97	2.96	2.94	2.97	-6.6%	-7.4%
$/RUB	30.16	35.07	34.70	34.23	34.33	15.1%	1.2%
$/TRY	1.53	1.94	1.97	2.05	2.18	28.9%	13.7%
$/ILS	3.75	4.02	4.01	4.14	4.22	6.8%	0.4%
$/ZAR	7.51	6.49	6.50	6.57	6.82	-13.4%	-19.0%
Americas							
$/ARS	3.89	2.79	2.88	2.90	3.07	-26.1%	-37.2%
$/BRL	1.78	2.61	2.62	2.70	2.84	47.2%	46.9%
$/CAD	1.02	1.15	1.14	1.14	1.14	11.5%	8.0%
$/MXN	12.50	12.67	12.73	12.78	13.00	1.8%	-6.6%
$/CLP	527.50	427.99	418.69	418.71	422.98	-20.6%	-21.1%
$/PEN	2.84	3.28	3.28	3.21	3.16	15.3%	6.4%
$/COP	1971	2082.00	2056.09	2134.45	2203.00	4.3%	-2.9%
$/VEF	4.29	2.77	2.87	2.94	3.33	-33.2%	15.6%
Asia							
AUD/$	0.90	0.79	0.81	0.80	0.79	11.0%	10.4%
$/CNY	6.83	6.93	6.93	6.92	7.01	1.4%	-0.1%
$/HKD	7.78	6.13	6.15	6.32	6.50	-21.0%	-21.1%
$/INR	45.05	47.33	49.40	53.17	52.51	9.7%	6.3%
$/KRW	1133.40	1281.25	1302.08	1343.17	1417.64	14.9%	7.6%
$/MYR	3.21	2.61	2.63	2.63	2.66	-17.8%	-21.8%
NZD/$	0.72	0.61	0.61	0.62	0.62	17.2%	13.4%
$/SGD	1.38	1.09	1.09	1.11	1.15	-21.0%	-20.1%
$/TWD	31.59	25.26	25.66	26.02	26.85	-18.8%	-21.2%
$/THB	32.32	34.77	34.06	35.03	35.94	5.4%	3.7%
$/IDR	9100	9452.94	9542.65	9695.10	9996.17	4.9%	3.0%
$/PHP	45.02	53.94	54.16	55.01	56.59	20.3%	19.2%
USD TWI	212.41						-10.1%

[1] Bilateral misalignments are reported for the second currency in the pair w ith the exception of EUR/$, GBP/$, AUD/$, and NZD/$. A negative misalignment indicates that a currency is undervalued relative to its anchor currency. A negative trade-w eighted misalignment indicates that a currency is undervalued on a broad basis. That is, the $/JPY biateral misalignment show s the misalignment of the JPY against the USD, w ith a negative figure indicating undervaluation of the JPY.

* "Current" represents the current quarter, the column left of current represents the last quarter to be updated w ith over 75% of actual data.

GSDEER

GSDEER Values and Misalignment for Euro Crosses

	Spot	GSDEER				Misalignment	
	11-May-10	1Q10*	Current (2Q10)*	4Q10	4Q11	Bilateral[1]	Trade-Weighted[1]
G3							
EUR/$	1.27	1.21	1.21	1.21	1.19	4.9%	11.2%
EUR/JPY	117.79	128.77	128.08	127.81	127.27	8.7%	14.0%
Europe							
EUR/GBP	0.85	0.77	0.77	0.76	0.76	-9.8%	-5.4%
EUR/NOK	7.85	6.37	6.30	6.01	5.67	-19.7%	-15.2%
EUR/SEK	9.64	8.32	8.33	8.38	8.57	-13.5%	-10.3%
EUR/CHF	1.41	1.49	1.47	1.47	1.45	4.5%	5.3%
EUR/CZK	25.47	23.18	23.14	23.30	23.39	-9.1%	-6.8%
EUR/HUF	275.05	274.71	278.73	278.21	282.24	1.3%	3.6%
EUR/PLN	4.02	3.59	3.58	3.55	3.55	-11.0%	-7.4%
EUR/RUB	38.28	42.40	41.97	41.28	40.98	9.6%	1.2%
EUR/TRY	1.94	2.35	2.38	2.47	2.60	22.8%	13.7%
EUR/ILS	4.76	4.86	4.85	4.99	5.04	1.8%	0.4%
EUR/ZAR	9.53	7.84	7.86	7.92	8.14	-17.5%	-19.0%
Americas							
EUR/ARS	4.94	3.38	3.48	3.50	3.66	-29.6%	-37.2%
EUR/BRL	2.26	3.15	3.17	3.25	3.38	40.3%	46.9%
EUR/CAD	1.29	1.39	1.37	1.38	1.36	6.2%	8.0%
EUR/MXN	15.86	15.33	15.39	15.41	15.52	-3.0%	-6.6%
EUR/CLP	669.61	517.50	506.43	504.94	504.86	-24.4%	-21.1%
EUR/PEN	3.61	3.97	3.97	3.87	3.77	9.9%	6.4%
EUR/COP	2502	2517.46	2486.99	2574.03	2629.50	-0.6%	-2.9%
EUR/VEF	5.45	3.35	3.47	3.55	3.97	-36.4%	15.6%
Asia							
EUR/AUD	1.41	1.52	1.50	1.51	1.51	5.8%	10.4%
EUR/CNY	8.67	8.38	8.38	8.35	8.36	-3.4%	-0.1%
EUR/HKD	9.88	7.41	7.43	7.62	7.76	-24.7%	-21.1%
EUR/INR	57.18	57.22	59.76	64.12	62.68	4.5%	6.3%
EUR/KRW	1438.74	1549.23	1574.97	1619.80	1692.09	9.5%	7.6%
EUR/MYR	4.07	3.15	3.19	3.17	3.17	-21.7%	-21.8%
EUR/NZD	1.77	1.98	1.97	1.96	1.94	11.7%	13.4%
EUR/SGD	1.75	1.31	1.32	1.34	1.37	-24.8%	-20.1%
EUR/TWD	40.10	30.54	31.04	31.38	32.05	-22.6%	-21.2%
EUR/THB	41.03	42.05	41.20	42.25	42.90	0.4%	3.7%
EUR/IDR	11552	11430.07	11542.54	11691.77	11931.40	-0.1%	3.0%
EUR/PHP	57.15	65.22	65.51	66.34	67.55	14.6%	19.2%
USD TWI	212.41						-10.1%

[1] Bilateral misalignments are reported for the second currency in the pair w ith the exception of EUR/$, GBP/$, AUD/$, and NZD/$. A negative misalignment indicates that a currency is undervalued relative to its anchor currency. A negative trade-w eighted misalignment indicates that a currency is undervalued on a broad basis. That is, the $/JPY biateral misalignment show s the misalignment of the JPY against the USD, w ith a negative figure indicating undervaluation of the JPY.

* "Current" represents the current quarter, the column left of current represents the last quarter to be updated w ith over 75% of actual data.

Key Economic Data
GDP Growth (% ch yoy)

% ch yoy	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09 (f)	10 (f)	11(f)
G3																		
United States	4.10	2.50	3.70	4.50	4.40	4.80	4.10	1.10	1.80	2.50	3.60	3.10	2.70	2.10	0.40	-2.40	2.60	2.40
Euroland	2.50	2.40	1.50	2.60	2.70	2.90	4.00	1.90	0.90	0.80	2.00	1.80	3.10	2.80	0.50	-4.00	1.20	1.90
Japan	1.10	1.90	2.60	1.60	-2.00	-0.10	2.90	0.20	0.30	1.40	2.70	1.90	2.00	2.40	-1.20	-5.00	1.90	1.60
EUROPE																		
Euroland	2.50	2.40	2.90	2.60	2.70	2.90	4.00	1.90	0.90	0.80	2.00	1.80	3.10	2.80	0.50	-4.00	1.20	1.90
Switzerland	–	–	–	–	2.60	1.30	3.60	1.20	0.40	-0.20	2.50	2.60	3.60	3.60	1.80	-1.50	1.20	1.90
UK	4.30	3.10	2.90	3.30	3.60	3.50	3.90	2.50	2.10	2.80	3.00	2.20	2.90	2.60	0.50	-4.80	1.70	3.40
Sweden	3.80	4.20	1.50	2.70	3.70	4.30	4.50	1.20	2.40	2.00	3.50	3.30	4.50	2.70	-0.50	-4.70	2.00	3.60
Norway	6.10	4.40	5.10	5.20	1.20	0.90	6.60	1.80	1.40	0.80	3.30	1.70	1.70	2.70	1.70	-1.40	1.50	2.30
Czech Republic	–	5.90	4.00	-0.70	-0.70	1.20	3.90	2.40	1.80	3.60	4.30	6.40	7.00	6.10	2.30	-4.30	1.10	3.00
Hungary	2.90	1.50	1.30	4.60	4.90	4.20	5.20	3.80	3.50	4.30	4.90	3.50	4.00	1.00	0.60	-6.40	-0.40	2.80
Poland	5.20	7.00	6.00	6.80	4.90	4.10	4.00	1.00	1.40	3.80	5.40	3.60	6.20	6.80	5.00	1.70	3.00	4.50
Russia	-11.70	-4.50	-3.60	1.40	-5.30	6.40	10.00	5.10	4.70	7.30	7.20	6.40	7.70	8.10	5.60	-7.90	4.50	5.50
Turkey	-4.70	7.90	7.40	7.60	2.30	-3.70	7.20	-5.40	5.60	5.30	9.00	8.80	7.20	4.40	0.70	-5.00	5.50	4.50
South Africa	3.20	3.10	4.30	2.60	0.50	2.40	4.20	2.70	3.70	2.90	4.60	5.30	5.60	5.50	3.70	-1.80	2.90	3.90
AMERICAS																		
United States	4.10	2.50	3.70	3.70	4.40	4.80	4.10	1.10	1.80	2.50	3.60	3.10	2.70	2.10	0.40	-2.40	2.60	2.40
Canada	4.80	2.80	1.60	4.20	4.10	5.50	5.20	1.80	2.90	1.90	3.10	3.00	2.90	2.50	0.40	-2.60	2.50	2.70
Mexico	4.50	-6.20	5.10	6.80	4.90	3.90	6.60	-0.20	0.80	1.70	4.00	3.20	5.10	3.30	1.30	-6.50	5.00	3.70
Argentina	5.80	-2.90	5.50	8.10	3.90	-3.40	-0.80	-4.40	-10.90	8.8	9.0	9.20	8.50	8.70	6.80	0.40	4.00	3.50
Brazil	5.90	4.20	2.10	3.40	0.00	0.30	4.30	1.30	2.70	1.10	5.70	3.20	4.00	6.10	5.10	-0.10	6.40	5.00
Chile	5.70	10.60	7.20	7.60	3.40	-1.10	4.50	3.30	2.20	4.00	6.00	5.60	4.60	4.70	3.20	-1.70	5.20	5.00
Colombia	5.70	5.80	2.10	3.40	0.60	-4.20	2.90	2.20	2.50	4.60	4.70	5.70	6.90	7.50	2.40	0.00	3.10	4.00
Ecuador	4.30	2.30	2.00	3.40	0.40	-7.30	2.80	5.30	4.20	3.60	8.00	6.00	3.90	2.50	6.50	0.20	2.60	2.30
Peru	12.80	8.60	2.50	6.80	-0.70	0.90	3.00	0.20	5.20	3.90	5.20	6.40	7.90	8.90	9.80	0.90	5.50	5.00
Venezuela	-2.90	3.70	-0.20	6.40	0.20	-6.10	3.70	3.40	-8.90	-7.80	18.30	10.30	9.90	8.20	4.80	-3.30	0.70	2.40
ASIA																		
Japan	1.10	1.90	2.60	1.60	-2.00	-0.10	2.90	0.20	0.30	1.40	2.70	1.90	2.00	2.40	-1.20	-5.00	1.90	1.60
China	13.10	10.90	10.00	9.30	7.80	7.60	8.40	8.30	9.10	10.00	10.10	10.40	11.70	13.00	9.60	8.70	11.40	10.00
Hong Kong	5.40	3.90	4.50	5.00	-5.00	3.40	10.00	0.60	1.80	3.20	8.60	7.50	7.00	6.30	2.10	-2.70	5.80	5.30
India	–	–	–	–	6.70	6.40	4.40	5.80	3.80	8.50	7.50	9.50	9.70	9.00	6.70	6.60	8.20	8.70
Indonesia	7.50	8.20	7.80	4.70	-13.10	0.8	4.8	3.40	4.30	4.90	5.00	5.60	5.50	6.30	6.00	4.50	5.80	6.00
Korea	8.30	8.90	6.80	5.00	-6.70	10.90	9.30	3.10	7.00	3.10	4.70	4.20	5.10	5.10	2.20	0.20	4.80	4.60
Malaysia	9.20	9.80	10.00	7.30	-7.40	6.10	8.30	0.30	4.40	5.30	7.20	5.00	5.80	6.20	4.60	-1.70	5.00	5.20
Philippines	4.40	4.80	5.80	5.20	-0.60	3.30	3.90	4.50	4.40	4.70	6.00	5.10	5.40	7.10	3.80	0.90	4.20	5.00
Singapore	11.60	8.10	7.80	8.30	-1.40	7.20	10.00	-2.30	4.00	2.90	8.70	6.60	8.20	7.80	1.40	-2.00	6.20	5.20
Thailand	8.90	8.90	5.90	5.90	-10.80	4.2	4.6	1.90	5.40	6.90	6.20	4.50	5.10	4.90	2.50	-2.30	4.20	4.50
Taiwan	7.10	6.40	6.10	6.10	4.60	5.40	5.90	-2.20	3.60	3.30	6.10	4.10	4.90	5.70	0.70	-1.90	5.50	4.80
Australia	5.00	3.50	4.30	4.00	5.10	4.40	3.40	2.10	4.20	3.00	3.80	2.80	2.80	4.00	2.40	1.00	3.50	3.50
New Zealand	5.80	4.40	4.00	2.10	0.00	4.30	3.80	2.50	4.90	4.20	4.40	3.20	1.00	2.80	-0.10	-1.50	2.40	3.50

Consumer Prices (% ch yoy)

Period Avg. yoy% Change	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09(f)	10(f)	11(f)
G3																		
United States	2.60	2.80	2.90	2.30	1.50	2.20	3.40	2.80	1.60	2.30	2.70	3.40	3.20	2.90	3.80	-0.30	1.90	0.50
Euroland	2.70	2.40	2.20	1.60	1.10	1.10	2.10	2.30	2.20	2.10	2.10	2.20	2.20	2.10	3.30	0.30	1.00	1.60
Japan	0.70	-0.10	0.10	1.80	0.70	-0.30	-0.70	-0.80	-0.90	-0.20	0.00	-0.30	0.20	0.10	1.40	-1.30	-1.00	-0.40
EUROPE																		
Euroland	2.70	2.40	2.20	1.60	1.10	1.10	2.10	2.30	2.20	2.10	2.10	2.20	2.20	2.10	3.30	0.30	1.00	1.60
Switzerland	0.90	1.80	0.80	0.70	0.00	0.80	1.60	1.00	0.60	0.60	0.80	1.20	1.10	0.70	2.40	-0.50	0.80	1.20
UK	2.00	2.70	2.50	84.50	1.60	1.30	0.80	1.20	1.30	1.40	1.30	2.00	2.30	2.30	3.60	2.20	2.50	1.40
Sweden	2.20	2.50	0.00	1.90	-0.30	0.50	0.90	2.40	2.20	1.90	0.40	0.50	1.40	2.20	3.40	-0.30	1.40	2.70
Norway	1.40	2.40	1.20	2.60	2.30	2.30	3.10	3.00	1.30	2.50	0.50	1.50	2.30	0.70	3.80	2.20	1.60	2.30
Czech Republic	10.10	9.20	8.80	8.50	10.70	2.10	3.90	4.70	1.80	0.10	2.80	1.90	2.50	2.80	6.40	1.00	1.50	2.50
Hungary	18.90	28.30	23.50	18.30	14.20	10.00	9.80	9.10	5.20	4.70	6.80	3.60	3.90	8.00	6.10	4.20	4.40	2.50
Poland	33.30	28.40	19.80	15.00	11.90	7.20	10.10	5.50	2.00	0.90	3.50	2.10	1.00	2.50	4.20	3.50	2.20	2.60
Russia	307.5	197.60	47.70	14.70	27.70	85.70	20.80	21.50	15.90	14.80	10.90	12.50	9.70	9.00	14.10	11.70	5.30	6.60
Turkey	–	–	80.20	84.50	86.60	64.80	56.40	53.50	47.20	25.50	8.60	8.20	9.60	8.80	10.40	6.30	9.20	7.70
South Africa	8.90	8.70	7.30	8.60	6.70	5.10	5.20	5.50	9.30	5.60	-0.90	2.10	3.20	6.10	9.90	7.10	4.50	5.40
AMERICAS																		
United States	2.60	2.80	2.90	2.30	1.50	2.20	3.40	2.80	1.60	2.30	2.70	3.40	3.20	2.90	3.80	-0.30	1.90	0.50
Canada	0.20	2.10	1.60	1.60	1.00	1.70	2.70	2.50	2.30	2.80	1.90	2.20	2.00	2.10	2.40	0.30	2.00	1.90
Mexico	7.00	35.00	34.40	20.60	15.90	16.60	9.50	6.40	5.00	4.50	4.70	4.00	3.60	4.00	5.10	5.30	4.80	3.80
Argentina	3.90	1.60	0.10	0.30	0.70	-1.80	-0.90	-1.10	25.90	13.40	4.40	9.60	10.90	8.80	8.60	6.30	9.30	9.80
Brazil	2076	66	16	7	3	4.90	7.00	6.80	8.40	14.70	6.60	7.30	4.20	3.60	5.70	4.90	5.10	5.40
Chile	11.40	8.20	7.40	6.30	5.30	3.30	3.80	3.60	2.50	2.80	1.10	3.10	3.40	4.40	8.70	1.50	1.40	3.00
Colombia	22.90	20.90	20.80	18.50	18.70	9.20	8.90	7.80	6.80	6.40	5.70	5.10	4.30	5.40	7.80	2.40	3.70	3.50
Ecuador	27.50	23.00	24.40	30.60	36.20	52.40	97.30	24.10	9.90	6.50	1.90	3.00	3.10	2.80	9.30	3.90	5.30	4.50
Peru	23.70	11.10	11.60	8.50	7.30	3.50	3.70	-0.10	1.50	2.50	3.50	1.50	-17.50	3.90	6.70	0.20	2.40	2.40
Venezuela	60.80	59.90	99.90	2.30	36.50	23.50	14.20	12.40	30.60	26.30	19.50	15.20	16.10	20.20	33.40	28.10	31.10	24.50
ASIA																		
Japan	0.70	-0.10	0.10	1.80	0.70	-0.30	-0.70	-0.80	-0.90	-0.20	0.00	-0.30	0.20	0.10	1.40	-1.30	-1.00	-0.40
China	24.10	17.10	8.30	2.80	-0.80	-1.40	0.40	0.70	-0.80	1.20	3.90	1.80	1.50	4.80	5.90	-0.70	3.50	2.80
Hong Kong	8.80	9.00	6.30	5.90	2.80	-4.00	-3.70	-1.60	-3.10	-2.50	-0.50	1.10	2.00	2.00	4.30	0.60	3.40	4.60
India*	12.40	7.80	4.70	4.30	6.00	3.40	7.10	3.40	3.60	5.40	6.50	4.40	5.50	4.60	8.40	3.40	5.00	5.50
Indonesia	8.50	9.40	8.00	6.70	57.60	20.70	3.80	11.50	11.90	6.80	6.10	10.50	13.10	6.70	9.80	4.80	5.00	5.00
Korea	6.20	4.50	4.90	4.50	7.50	0.90	2.30	4.10	2.70	3.60	3.60	2.70	2.20	2.50	4.70	2.80	3.20	3.40
Malaysia	3.70	3.40	3.50	2.70	5.30	2.80	1.50	1.40	1.80	1.20	1.40	3.00	3.60	2.00	5.40	0.60	2.80	3.00
Philippines	9.10	8.10	8.40	4.70	9.70	6.70	4.30	6.10	3.10	3.50	6.00	7.70	6.30	2.80	9.30	3.30	3.90	4.20
Singapore	3.20	1.60	1.40	2.00	-0.30	0.50	1.30	1.00	-0.40	0.50	1.70	0.50	1.00	2.10	6.50	0.20	2.00	2.50
Thailand	5.10	5.80	5.80	0.90	8.10	0.30	1.60	1.70	0.60	1.80	2.80	4.50	4.60	2.20	5.50	-0.70	2.30	2.90
Taiwan	4.10	3.70	3.10	0.50	1.70	0.20	1.30	0.00	-0.20	-0.30	1.60	2.30	0.60	1.80	3.50	-0.90	1.00	1.80
Australia	1.90	4.60	2.60	0.30	0.90	1.50	4.50	4.40	3.00	2.80	2.30	2.70	3.50	2.30	4.40	1.80	2.80	3.30
New Zealand	2.90	2.80	2.60	0.90	0.40	0.50	3.90	1.80	2.70	1.50	2.70	3.20	2.70	3.20	3.40	2.70	0.90	2.00

* Wholesale Prices used.

Current Account Balance (% of GDP)

% of GDP	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09(f)	10(f)	11(f)
G3																		
United States	-1.70	-1.50	-1.60	-1.70	-2.40	-3.20	-4.20	-3.90	-4.30	-4.70	-5.30	-5.90	-6.00	-5.20	-4.90	-3.00	-3.10	-2.40
Euroland	–	–	–	–	0.30	-0.50	-1.60	-0.40	0.60	0.30	0.80	0.20	-0.10	0.20	-1.50	-0.60	-0.40	-0.30
Japan	2.70	2.10	1.40	2.30	3.10	2.60	2.60	2.10	2.90	3.20	3.70	3.60	3.90	4.80	3.20	2.80	2.40	1.70
EUROPE																		
Euroland	–	–	–	–	0.30	-0.50	-1.60	2.30	0.60	0.30	0.80	0.20	-0.10	0.20	-1.50	-0.60	-0.40	-0.30
Switzerland	–	–	7.00	-3.30	9.20	10.80	12.00	7.70	8.30	12.80	12.90	13.60	14.90	9.90	2.10	7.30	6.40	6.90
UK	-1.00	-1.20	-0.80	-0.10	-0.40	-2.40	-2.60	-2.10	-1.70	-1.60	-2.10	-2.60	-3.30	-2.70	-1.50	-1.20	-0.20	0.70
Sweden	1.10	3.40	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10	8.80	-0.10	-0.10	-0.10	-0.10
Norway	–	3.60	6.90	6.30	-0.30	5.60	15.00	16.10	12.60	12.30	12.70	16.30	17.20	15.40	18.10	12.30	15.30	15.90
Czech Republic	-1.90	-2.50	-7.00	-5.70	-2.30	-2.60	-4.80	-5.30	-5.50	-6.20	-5.20	-1.30	-2.40	-3.20	-3.10	-0.70	-0.10	-1.00
Hungary	–	–	–	–	–	–	-8.40	-6.00	-7.00	-8.60	-8.50	-7.40	-7.50	-6.80	-7.20	2.10	1.50	-2.10
Poland	-3.80	-1.90	-6.90	-8.10	-8.10	-7.90	-6.00	-3.20	-2.80	-2.50	-4.00	-1.20	-2.70	-4.70	-5.10	-1.30	-3.40	-4.00
Russia	2.80	2.20	2.80	0.00	0.20	12.60	18.00	11.10	8.40	8.20	10.10	11.10	9.50	6.00	6.10	3.90	5.20	4.70
Turkey	–	–	–	–	0.70	-0.40	-3.70	1.90	-0.30	-2.50	-3.70	-4.60	-6.10	-5.90	-5.70	-2.20	-4.40	-5.50
South Africa	0.40	-1.30	-0.80	-1.10	-1.30	0.00	0.40	0.70	1.20	-0.60	-2.50	-2.70	-4.60	-6.60	-6.70	-4.30	-4.30	-6.40
AMERICAS																		
United States	-1.70	-1.50	-1.60	-1.70	-2.40	-3.20	-4.20	-3.90	-4.30	-4.70	-5.30	-5.90	-6.00	-5.20	-4.90	-3.00	-3.10	-2.40
Canada	-2.30	-0.80	0.50	-1.30	-1.20	0.30	2.70	2.30	1.70	1.20	2.30	1.90	1.40	1.00	0.50	-2.70	-2.70	0.00
Mexico	-7.00	-0.50	-0.80	-1.90	-3.80	-2.90	-3.20	-2.80	-2.20	-1.00	-0.70	-0.60	-0.20	-0.80	-1.50	-0.90	-1.30	-1.60
Argentina	-4.30	-2.00	-2.50	-4.20	-4.90	-4.20	-3.20	-1.40	8.60	6.40	2.10	2.90	3.60	2.70	2.20	2.90	1.50	0.50
Brazil	-0.30	-2.60	-3.00	-3.80	-4.20	-4.70	-3.80	-4.20	-1.50	0.80	1.80	1.60	1.30	0.10	-1.70	-1.50	-3.00	-4.10
Chile	-3.10	-2.10	-5.50	-4.90	-5.70	-0.10	-1.20	-1.60	-0.90	-1.10	2.20	1.20	4.90	4.40	-2.00	2.20	2.80	2.30
Colombia	-4.40	-5.20	-4.90	-5.60	-5.30	0.40	0.80	-1.20	-1.40	-1.10	-0.80	-1.30	-1.80	-2.80	-2.80	-2.10	-1.90	-2.20
Ecuador	-4.00	-5.60	-0.20	-2.30	-10.60	6.40	5.80	-3.10	-5.10	-1.50	-1.70	0.90	3.90	3.60	2.00	-0.30	-0.10	-0.70
Peru	-6.00	-8.60	-6.50	-5.70	-5.90	-2.90	-2.90	-2.20	-2.00	-1.50	0.00	1.40	3.10	1.30	-3.70	0.20	-1.60	-3.30
Venezuela	4.40	2.70	12.90	3.90	-3.40	3.40	10.10	1.60	8.20	14.10	13.80	17.60	14.40	7.90	11.70	2.30	4.10	2.40
ASIA																		
Japan	2.70	2.10	1.40	2.30	3.10	2.60	2.60	2.10	2.90	3.20	3.70	3.60	3.90	4.80	3.20	2.80	2.40	1.70
China	1.40	0.20	0.80	3.10	2.90	1.90	1.70	1.30	2.40	2.80	3.50	7.10	9.40	11.00	9.40	6.30	5.50	5.20
Hong Kong	1.20	-4.30	-1.40	-3.60	1.40	7.20	5.40	7.50	7.60	10.40	9.50	11.40	12.10	12.30	14.20	13.30	15.80	17.50
India	-1.00	-1.70	-1.20	-1.30	-1.00	-1.00	-0.60	0.70	1.20	2.30	-0.40	-1.20	-1.10	-1.40	-2.10	-2.00	-2.50	-3.00
Indonesia	-1.70	-3.30	-3.40	-2.30	4.40	4.10	5.30	4.90	4.50	3.40	0.60	0.30	3.00	2.40	0.00	0.80	1.40	1.30
Korea	-1.00	-1.70	-4.40	-1.70	12.50	6.20	2.70	1.90	1.00	2.00	4.10	2.10	0.60	0.60	-0.70	5.10	0.70	0.50
Malaysia	-7.60	-9.70	-4.40	-5.90	13.20	15.90	9.40	8.30	8.50	12.90	12.60	15.20	16.30	15.70	17.60	15.60	19.90	21.00
Philippines	-4.60	-2.70	-4.80	-5.30	2.40	10.30	12.30	1.80	5.40	1.80	1.90	2.40	4.50	4.80	2.40	4.20	3.50	3.10
Singapore	15.40	17.00	14.90	17.40	22.00	17.10	11.60	14.20	12.70	23.30	17.00	19.00	21.80	23.40	14.90	13.30	15.80	16.10
Thailand	-5.40	-7.90	-7.90	-2.00	12.70	10.20	7.50	5.40	5.50	5.60	4.30	-2.10	1.10	5.70	0.60	7.40	5.80	5.40
Taiwan	2.70	2.10	3.90	2.40	1.30	2.90	2.90	6.40	9.10	10.20	5.70	4.60	7.20	8.60	6.40	12.50	11.40	12.00
Australia	-4.40	-4.80	-3.40	-2.80	-4.60	-5.30	-3.80	-2.00	-3.60	-5.20	-6.00	-5.70	-5.20	-6.00	-4.40	-4.20	-5.00	-3.70
New Zealand	-3.90	-5.00	-5.70	-6.30	-3.90	-6.20	-5.20	-2.80	-3.80	-4.20	-6.20	-8.30	-8.50	-8.00	-8.70	-2.20	-5.10	-3.50

Foreign Exchange Reserves (US$bn)

Pd end; US$bn	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	Latest	
G3																	
United States	41.5	41.2	49.1	38.3	30.8	36.0	32.2	31.2	29.0	33.8	39.7	42.7	37.8	40.9	45.8	53.5	*Nov-09*
Eurosystem	-	-	-	-	-	-	228.0	218.6	207.8	215.8	188.2	181.2	167.2	184.0	203.2	195.1	*Dec-09*
Japan	88.7	115.1	172.4	207.3	207.9	203.2	277.7	347.2	387.7	451.5	652.8	824.3	828.8	874.9	948.4	997.0	*Dec-09*
EUROPE																	
Eurosystem	-	-	-	-	-	-	228.0	218.6	207.8	215.8	188.2	181.2	167.2	184.0	203.2	195.1	*Dec-09*
Switzerland	31.7	33.6	34.7	36.8	36.9	38.3	34.2	30.9	30.1	38.2	45.6	53.6	35.4	37.4	43.9	91.3	*Nov-09*
UK	34.6	38.5	39.2	37.1	28.9	27.4	27.5	34.2	28.8	31.0	28.6	34.1	35.9	38.9	47.5	50.5	*Jan-00*
Sweden	18.4	22.5	22.9	18.2	9.7	12.4	13.5	13.8	12.7	15.5	18.0	20.6	21.4	24.1	26.4	38.5	*Dec-09*
Denmark	9.8	8.4	10.3	13.4	18.2	13.8	21.1	14.5	16.1	25.9	36.0	38.2	32.5	29.2	32.0	73.1	*Nov-09*
Norway	18.6	18.0	21.1	25.2	22.1	17.4	22.5	26.7	22.2	30.7	35.9	43.1	46.4	56.2	60.3	45.9	*Dec-09*
Czech Republic	3.8	6.1	13.8	12.4	9.7	12.5	12.8	13.0	14.2	23.3	26.3	27.8	29.1	31.1	34.4	41.1	*Jan-10*
Hungary	6.6	6.7	11.9	9.6	8.3	9.2	10.7	10.9	10.3	9.7	12.0	15.3	18.3	21.3	23.8	42.5	*Dec-09*
Poland	4.0	5.7	14.7	17.7	20.3	27.2	26.1	26.3	25.2	28.0	31.7	34.6	40.5	46.1	62.7	73.4	*Dec-09*
Israel	6.4	6.8	8.1	11.4	20.3	22.7	22.5	23.2	23.2	23.7	25.8	26.6	27.8	29.0	28.4	59.1	*Dec-09*
Russia	-	-	14.3	11.3	12.8	7.8	8.5	24.3	32.5	44.1	73.2	120.8	175.7	295.3	466.4	413.7	*Nov-09*
Turkey	6.2	7.1	12.4	16.4	18.6	19.4	23.2	22.3	18.7	26.9	33.8	35.5	50.4	60.7	73.2	69.2	*Dec-09*
South Africa	1.0	1.7	2.8	0.9	4.8	4.2	6.1	5.8	5.8	5.6	6.2	12.8	18.3	22.7	29.2	32.7	*Oct-09*
AMERICAS																	
United States	41.5	41.2	49.1	38.3	30.8	36.0	32.2	31.2	29.0	33.8	39.7	42.7	37.8	40.9	45.8	53.5	*Nov-09*
Canada	10.5	10.2	12.6	18.0	15.1	19.9	24.4	29.0	30.5	32.7	31.5	30.2	30.7	33.2	39.3	45.3	*Jan-10*
Mexico	24.9	6.1	15.3	19.2	28.1	31.5	31.0	35.1	44.4	49.9	57.7	62.8	73.0	75.4	86.3	94.1	*Dec-09*
Argentina	13.3	13.8	13.7	17.7	22.2	24.5	26.1	24.4	14.5	10.4	13.1	18.0	22.7	30.4	44.2	42.9	*Dec-09*
Brazil	30.6	37.1	49.7	58.3	50.8	42.6	35.3	32.4	35.6	37.2	48.8	52.5	53.2	85.1	179.4	230.1	*Nov-09*
Chile	9.6	13.1	14.1	14.9	17.3	15.3	14.2	14.7	14.0	14.8	15.2	15.5	16.7	19.2	16.7	24.5	*Nov-09*
Colombia	7.7	7.7	8.0	9.4	9.3	7.9	7.5	8.4	9.7	10.2	10.2	12.8	14.2	14.7	20.1	23.2	*Dec-09*
Ecuador	1.4	1.8	1.6	1.8	2.1	1.6	1.6	0.9	0.8	0.7	0.8	1.0	1.7	1.5	2.8	2.8	*Dec-09*
Peru	3.4	7.0	8.2	10.6	11.0	9.6	8.7	8.4	8.7	9.3	9.8	12.2	13.6	16.7	26.9	31.1	*Nov-09*
Venezuela	8.5	7.4	5.7	11.1	14.0	11.6	11.7	12.6	8.8	8.0	15.5	17.9	23.5	28.9	23.7	16.6	*Nov-09*
ASIA																	
Japan	88.7	115.1	172.4	207.3	207.9	203.2	277.7	347.2	387.7	451.5	652.8	824.3	828.8	874.9	948.4	997.0	*Dec-09*
China	21.2	51.6	73.6	105.0	139.9	145.0	154.7	165.6	212.2	286.4	403.3	609.9	818.9	1066.3	1528.3	2272.6	*Sep-09*
Hong Kong	-	-	-	-	92.8	89.6	96.2	107.5	111.2	111.9	118.4	123.5	124.2	133.2	152.6	257.1	*Jan-10*
Indonesia	11.0	11.8	13.3	17.8	16.1	22.4	26.2	28.3	27.0	30.8	34.7	34.7	32.9	40.9	54.7	60.0	*Nov-09*
India	9.8	19.4	17.5	19.7	24.3	27.0	32.0	37.3	45.3	67.0	97.6	125.2	131.0	170.2	266.6	258.6	*Dec-09*
Korea	19.7	25.0	31.9	32.4	19.7	52.0	73.7	95.9	102.5	120.8	154.5	198.2	210.0	238.4	261.8	268.9	*Jan-10*
Malaysia	26.8	24.9	22.9	26.2	20.0	24.7	29.7	27.4	28.6	32.4	42.8	64.9	69.4	81.7	100.6	92.9	*Dec-09*
Philippines	4.5	5.9	6.3	9.9	7.2	9.2	13.1	13.0	13.4	13.2	13.5	13.0	15.8	19.9	30.1	37.2	*Nov-09*
Singapore	48.1	58.0	68.5	76.6	71.0	74.6	76.5	79.7	75.2	81.6	95.5	111.8	115.7	135.8	162.5	187.1	*Nov-09*
Thailand	25.4	30.3	37.0	38.7	27.0	29.5	34.8	32.7	33.0	38.9	42.1	49.8	52.1	67.0	87.5	142.4	*Jan-10*
Taiwan	83.6	92.5	90.3	88.0	83.5	90.3	106.2	106.7	122.2	161.7	206.6	241.7	253.3	266.1	270.3	350.7	*Jan-10*
Australia	10.5	10.7	11.3	14.0	16.1	13.4	19.5	16.8	16.4	18.6	30.0	33.9	41.0	52.8	24.2	33.0	*Dec-09*
New Zealand	3.2	3.6	4.2	5.8	4.3	3.8	4.0	3.6	3.2	4.5	5.4	6.4	8.7	13.9	17.1	14.2	*Nov-09*

Interest Rate Forecasts
G3 & Europe

G3 & Key Spreads

%			3-Month Horizon		6-Month Horizon		12-Month Horizon	
		Current*	Forward	Forecast	Forward	Forecast	Forward	Forecast
US	3M	**0.4**	0.6	**0.3**	0.7	**0.3**	1.2	**0.3**
	10Y	**3.6**	3.7	**3.5**	3.9	**3.3**	4.1	**3.5**
Japan-US	10Y	**-227**	-236	**-200**	-244	**-175**	-260	**-170**
Euroland-US	10Y	**-70**	-79	**-23**	-88	**2**	-105	**-13**

Close 12 May 10, mid-rates for major markets. We are currently using June 2010, September 2010 and March 2011 contracts for 3-month forward rates.

Europe

%			3-Month Horizon		6-Month Horizon		12-Month Horizon	
		Current*	Forward	Forecast	Forward	Forecast	Forward	Forecast
Euroland	3M	**0.7**	0.8	**1.2**	0.9	**1.3**	1.0	**1.5**
	10Y	**2.9**	2.9	**3.3**	3.0	**3.3**	3.1	**3.4**
UK	3M	**0.7**	0.8	**0.7**	1.0	**1.3**	1.3	**2.3**
	10Y	**3.8**	3.9	**4.0**	4.0	**4.0**	4.3	**4.3**
Sweden	3M	**0.6**	0.7	**0.5**	0.9	**1.0**	1.4	**2.5**
	10Y	**2.7**	2.8	**3.3**	2.9	**3.4**	3.0	**3.8**
Norway	3M	**2.5**	2.5	**2.6**	2.9	**2.9**	2.8	**3.6**
	10Y	**4.4**	4.5	**4.7**	4.5	**4.7**	4.7	**5.5**
Switzerland	3M	**0.2**	0.2	**0.3**	0.3	**0.5**	1.6	**1.0**
	10Y	**1.6**	1.7	**2.0**	1.7	**2.1**	1.9	**2.3**
Poland	3M	**3.9**	4.1	**4.3**	4.5	**4.5**	4.4	**5.1**
	5Y	**5.2**	5.3	**6.1**	5.4	**6.3**	5.6	**6.3**
Czech Republic	3M	**1.3**	1.8	**1.4**	1.9	**1.7**	1.6	**2.1**
	5Y	**2.8**	3.0	**3.8**	3.1	**4.0**	3.5	**4.4**
Hungary	3M	**5.2**	5.1	**5.3**	5.0	**5.1**	5.2	**5.1**
	5Y	**5.9**	5.9	**6.0**	6.0	**6.1**	6.2	**6.2**
Russia	3M	**4.7**	4.8	**5.5**	5.4	**5.5**	5.5	**5.5**
Turkey	3M	**7.8**	9.1	**7.2**	9.9	**8.4**	9.5	**10.1**

Close 12 May 10, mid-rates for major markets. We are currently using June 2010, September 2010 and March 2011 contracts for 3-month forward rates.

South Africa	3M	**6.6**	7.0	**7.0**	7.3	**6.6**	7.1	**7.2**
	5Y	**8.2**	8.4	**8.7**	8.5	**9.0**	8.9	**9.2**

Close 12 May 10, mid-rates for major markets. We are currently using June 2010, September 2010 and March 2011 contracts for 3-month forward rates.

Americas

%		Current*	3-Month Horizon		6-Month Horizon		12-Month Horizon	
			Forward	Forecast	Forward	Forecast	Forward	Forecast
US	3M	**0.4**	0.6	**0.3**	0.7	**0.3**	1.2	**0.3**
	10Y	**3.6**	3.7	**3.5**	3.9	**3.3**	4.1	**3.5**
Canada	3M	**0.7**	1.2	**0.6**	1.7	**1.2**	2.4	**2.2**
	10Y	**3.6**	3.7	**3.5**	3.8	**3.5**	4.0	**3.8**
Argentina	3M	**9.7**	na	**10.0**	na	**12.0**	na	**14.0**
Brazil	3M	**8.8**	na	**9.3**	na	**10.8**	na	**12.5**
Chile	3M	**0.5**	na	**0.5**	na	**1.0**	na	**3.0**
Mexico	3M	**4.9**	na	**4.5**	na	**4.5**	na	**4.5**

Close 12 May 10, mid-rates for major markets. We are currently using June 2010, September 2010 and March 2011 contracts for 3-month forward rates.

Asia

%		Current*	3-Month Horizon		6-Month Horizon		12-Month Horizon	
			Forward	Forecast	Forward	Forecast	Forward	Forecast
Japan	3M	**0.4**	0.3	**0.4**	0.3	**0.4**	0.6	**0.4**
	10Y	**1.3**	1.4	**1.5**	1.4	**1.5**	1.5	**1.8**
Australia	3M	**4.9**	4.9	**4.9**	5.1	**5.1**	5.4	**5.6**
	10Y	**5.5**	5.6	**5.3**	5.6	**5.5**	5.7	**6.0**
New Zealand	3M	**2.9**	3.0	**2.7**	2.9	**3.1**	3.2	**4.1**
	10Y	**5.8**	na	**5.4**	na	**5.4**	na	**5.9**
Hong Kong	3M	**0.2**	0.4	**0.5**	0.8	**0.5**	0.9	**0.5**
Indonesia	3M	**6.6**	12.1	**7.0**	4.9	**7.0**	8.1	**8.0**
India	3M	**4.2**	4.7	**4.0**	4.9	**4.8**	5.7	**6.3**
Taiwan	3M	**0.5**	0.7	**0.8**	0.7	**1.3**	1.1	**1.5**
Korea	3M	**2.5**	2.8	**2.7**	3.1	**2.9**	3.6	**3.4**
Philippines	3M	**4.1**	4.1	**3.9**	4.3	**4.3**	4.6	**4.8**
Singapore	3M	**0.5**	0.8	**0.7**	1.2	**0.7**	1.2	**0.7**
Thailand	3M	**1.4**	1.7	**1.4**	1.8	**1.7**	2.1	**2.2**

Close 12 May 10, mid-rates for major markets. We are currently using June 2010, September 2010 and March 2011 contracts for 3-month forward rates.

Exchange Rate Forecasts
Dollar Crosses

		3-Month Horizon		6-Month Horizon		12-Month Horizon		
	Current*	Forward	Forecast	Forward	Forecast	Forward	Forecast	5-Yr Forecast**
G3								
EUR/$	1.26	1.26	1.35	1.26	1.35	1.27	1.35	1.20
$/JPY	93.21	93.11	92.00	92.98	94.00	92.59	98.00	108.12
Europe								
£/$	1.48	1.48	1.61	1.48	1.61	1.48	1.61	1.55
$/NOK	6.16	6.19	5.70	6.21	5.70	6.26	5.63	6.25
$/SEK	7.55	7.55	7.11	7.55	6.96	7.55	6.67	7.12
$/CHF	1.11	1.11	1.04	1.11	1.02	1.10	1.04	1.23
$/CZK	20.14	20.15	18.89	20.15	18.52	20.15	18.15	19.54
$/HUF	216.63	218.89	196.30	220.39	196.30	223.35	188.89	233.30
$/PLN	3.15	3.17	2.84	3.18	2.76	3.21	2.74	2.96
$/RUB	29.96	30.22	28.00	30.52	28.00	31.16	27.50	30.00
$/TRY	1.52	1.55	1.48	1.57	1.43	1.63	1.42	1.80
$/ILS	3.76	3.76	3.65	3.76	3.62	3.77	3.57	4.07
$/ZAR	7.49	7.61	7.00	7.72	7.00	7.95	7.50	7.60
$/EGP	5.60	5.59	5.55	5.59	5.50	5.60	5.65	na
Americas								
$/ARS	3.89	4.00	3.90	4.13	4.05	4.41	4.25	4.50
$/BRL	1.77	1.81	1.70	1.85	1.80	1.94	1.90	2.71
$/C$	1.02	1.02	0.98	1.02	0.98	1.03	1.03	1.16
$/MXN	12.37	12.50	12.15	12.63	12.40	12.92	12.70	13.15
$/CLP	530	530	520	531	510	533	510	433
$/PEN	2.84	2.84	2.90	2.85	2.95	2.86	2.95	3.55
$/COP	1965	1976	2000	1990	2050	2031	2150	2173
$/VEF	4.30	na	4.30	na	4.30	na	4.30	5.00
Asia								
A$/$	0.89	0.88	0.95	0.87	0.95	0.85	0.90	0.79
$/CNY	6.83	6.76	6.74	6.73	6.66	6.67	6.49	5.85
$/HKD	7.78	7.77	7.80	7.76	7.80	7.75	7.80	7.80
$/INR	44.98	45.23	44.00	45.49	43.40	46.02	43.00	38.00
$/KRW	1144	1138	1100	1139	1100	1141	1050	975
$/MYR	3.20	3.22	3.10	3.23	3.05	3.25	3.05	2.73
NZ$/$	0.71	0.71	0.74	0.70	0.74	0.69	0.70	0.61
$/SGD	1.38	1.38	1.36	1.38	1.35	1.38	1.33	1.21
$/TWD	31.64	31.30	31.00	31.06	30.50	30.66	30.00	27.05
$/THB	32.29	32.32	32.00	32.36	31.30	32.45	31.00	34.89
$/IDR	9100	9230	8800	9330	8600	9570	8500	9569
$/PHP	44.94	45.32	43.60	45.69	42.50	46.27	42.00	40.00

* Close 12 May 10

**5Yr Forecasts have been discussed in Global Viewpoint 09/17 "The Rate Hike - Risk Sentiment Nexus".

Euro

		3-Month Horizon		6-Month Horizon		12-Month Horizon		
	Current*	**Forward**	**Forecast**	**Forward**	**Forecast**	**Forward**	**Forecast**	**5-Yr Forecast****
G3								
EUR/$	1.26	1.26	1.35	1.26	1.35	1.27	1.35	1.20
EUR/JPY	117.74	117.68	124.20	117.57	126.90	117.27	132.30	129.7
Europe								
EUR/£	0.85	0.85	0.84	0.85	0.84	0.86	0.84	0.77
EUR/NOK	7.78	7.82	7.70	7.86	7.70	7.93	7.60	7.50
EUR/SEK	9.54	9.54	9.60	9.54	9.40	9.56	9.00	8.54
EUR/CHF	1.40	1.40	1.40	1.40	1.38	1.39	1.40	1.48
EUR/CZK	25.44	25.47	25.50	25.48	25.00	25.52	24.50	23.45
EUR/HUF	273.65	276.63	265.00	278.68	265.00	282.88	255.00	279.96
EUR/PLN	3.98	4.00	3.83	4.02	3.73	4.06	3.70	3.55
EUR/RUB	37.85	38.19	37.80	38.59	37.80	39.46	37.13	36.00
EUR/TRY	1.92	1.96	2.00	1.99	1.93	2.06	1.92	2.16
EUR/ILS	4.74	4.75	4.93	4.76	4.89	4.77	4.82	4.88
EUR/ZAR	9.46	9.62	9.45	9.77	9.45	10.07	10.13	9.12
EUR/EGP	7.08	7.07	7.49	7.07	7.43	7.09	7.63	na
Americas								
EUR/ARS	4.92	5.05	5.27	5.22	5.47	5.59	5.74	5.40
EUR/BRL	2.24	2.29	2.30	2.34	2.43	2.46	2.57	3.25
EUR/C$	1.29	1.29	1.32	1.29	1.32	1.30	1.39	1.39
EUR/MXN	15.63	15.80	16.40	15.98	16.74	16.36	17.15	15.78
EUR/CLP	669.50	669.81	702.00	671.31	688.50	675.31	688.50	520.16
EUR/PEN	3.59	3.59	3.92	3.60	3.98	3.62	3.98	4.26
EUR/COP	2482	2497	2700	2516	2768	2572	2903	2608
EUR/VEF	10.90	na	5.81	na	5.81	na	5.81	6.00
Asia								
EUR/A$	1.42	1.43	1.42	1.45	1.42	1.48	1.50	1.52
EUR/CNY	8.62	8.55	9.10	8.51	8.99	8.45	8.76	7.02
EUR/HKD	9.83	9.82	10.53	9.82	10.53	9.81	10.53	9.36
EUR/INR	56.81	57.16	59.40	57.52	58.59	58.29	58.05	45.60
EUR/KRW	1445	1438	1485	1440	1485	1445	1418	1170
EUR/MYR	4.05	4.07	4.19	4.08	4.12	4.11	4.12	3.28
EUR/NZD	1.77	1.79	1.82	1.80	1.82	1.84	1.93	1.97
EUR/SGD	1.74	1.75	1.84	1.75	1.82	1.75	1.80	1.45
EUR/TWD	39.97	39.56	41.85	39.27	41.18	38.83	40.50	32.46
EUR/THB	40.79	40.85	43.20	40.91	42.26	41.09	41.85	41.87
EUR/IDR	11495	11665	11880	11797	11610	12121	11475	11483
EUR/PHP	56.77	57.28	58.86	57.77	57.38	58.60	56.70	48.00

* Close 12 May 10

**5Yr Forecasts have been discussed in Global View point 09/17 "The Rate Hike - Risk Sentiment Nexus".

GS FX Forecasts versus Consensus and Forwards

			Forecast			Scores Rel. to Consensus*			Scores Rel. to Forwards*		
Region	**Cross**	**Spot**	**3m**	**6m**	**12m**	**3m**	**6m**	**12m**	**3m**	**6m**	**12m**
Americas	**$/C$**	1.02	0.98	0.98	1.03	-4.5	-0.5	4.7	-4.2	-2.6	1.9
	$/CLP	528.13	520	510	510	1.7	0.1	1.5	-0.3	-1.7	-0.8
	$/COP	1981.45	2000	2050	2150	4.7	6.1	***7.1***	3.1	4.4	5.2
	$/VEF	4.29	4.3	4.3	4.3	0.4	0.7	-1.6	***-10.0***	***-10.0***	***-10.0***
	$/MXN	12.51	12.15	12.4	12.7	1.6	4.3	5.4	-3.1	-0.5	0.5
	$/PEN	2.87	2.9	2.95	2.95	5.7	6.4	6.0	4.1	4.7	3.4
	$/ARS	3.89	3.9	4.05	4.25	0.8	3.0	4.7	-3.0	1.1	1.3
	$/BRL	1.79	1.7	1.8	1.9	-0.3	6.0	***7.4***	-6.1	-0.2	1.1
Asia	**$/TWD**	31.59	31	30.5	30	-1.0	-2.8	-2.5	-2.2	-3.4	-3.1
	$/INR	45.12	44	43.4	43	0.8	-0.5	1.2	-3.7	-4.8	-4.6
	$/¥	92.84	92	94	98	-5.1	-3.1	-0.5	-1.8	0.6	3.3
	$/IDR	9107.00	8800	8600	8500	-1.5	-2.9	-1.8	-4.7	-6.3	-6.4
	$/KRW	1133.40	1100	1100	1050	1.4	3.5	0.3	-2.1	-0.8	-3.6
	$/THB	32.32	32	31.3	31	-1.0	-6.0	-5.0	-2.3	-5.6	-4.4
	$/PHP	45.00	43.6	42.5	42	-1.6	-3.3	-1.5	-6.6	***-7.8***	***-7.3***
	$/CNY	6.83	6.74	6.66	6.49	-5.3	-5.6	-6.0	-3.3	-4.1	-4.9
	$/MYR	3.21	3.1	3.05	3.05	-3.4	-3.7	-0.3	-5.7	-6.3	-4.7
	A$/$	0.90	0.95	0.95	0.9	5.0	0.8	-4.4	***7.2***	5.9	1.6
	$/SGD	1.38	1.36	1.35	1.33	0.8	0.8	0.8	-2.2	-2.5	-3.4
	NZ$/$	0.72	0.74	0.74	0.7	4.8	0.2	-4.1	3.4	2.6	-0.8
Europe	**EUR/PLN**	4.04	3.83	3.73	3.7	-2.4	-3.7	-3.3	-5.7	-6.7	-5.4
	$/ZAR	7.51	7	7	7.5	-6.2	-5.0	1.1	***-7.1***	-5.9	-0.8
	EUR/SEK	9.65	9.6	9.4	9	-1.0	-0.2	-2.4	0.4	-2.5	-5.8
	EUR/CZK	25.50	25.5	25	24.5	1.4	-3.0	-3.7	2.0	-1.1	-2.4
	$/RUB	30.16	28	28	27.5	-5.4	-3.9	-3.8	***-8.7***	***-7.3***	-6.8
	EUR/HUF	275.51	265	265	255	-0.8	-0.6	-3.0	-4.6	-3.2	-5.1
	$/CHF	1.11	1.04	1.02	1.04	-4.2	-6.2	-3.8	***-7.6***	***-7.1***	-3.6
	$/NOK	6.15	5.93	5.85	5.78	1.4	0.5	0.3	-4.2	-4.2	-3.8
	EUR/$	1.27	1.35	1.35	1.35	0.9	2.4	2.6	6.9	5.3	3.8
	EUR/NOK	7.78	7.7	7.7	7.6	-5.1	-0.1	0.7	-2.6	-2.3	-3.8
	$/HUF	216.68	196	196	189	-1.0	-1.8	-3.2	-6.9	-5.3	-5.3
	EUR/CHF	1.41	1.4	1.38	1.4	-5.9	-6.6	-3.4	-1.9	-3.9	-0.8
	£/$	1.50	1.55	1.61	1.61	-0.2	4.1	4.3	3.7	5.9	4.4
	$/PLN	3.17	2.84	2.76	2.74	-1.3	-3.0	-2.9	***-7.0***	-6.6	-5.0
	$/TRY	1.53	1.48	1.43	1.42	-1.0	-5.2	-5.4	-4.9	***-7.3***	***-7.4***
	$/SEK	7.59	7.11	6.96	6.67	-1.2	-2.0	-3.2	-6.1	-5.7	-5.9
	$/CZK	20.05	18.89	18.52	18.15	0.0	-3.3	-3.6	-5.0	-4.7	-4.0
	EUR/£	0.85	0.84	0.84	0.84	-3.6	-1.2	-1.2	-0.8	-0.3	0.1

Source: GS Global ECS Research

*A reading of +10 means our forecasts is substantially above consensus or forw ards, w hen taking option market probabilities into account. A reading of 0 is in line, and –10 substantially below . consensus or forw ards. Large divergences from consensus or forw ard are highlighted in grey.

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