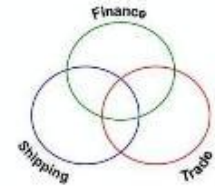




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The Costas Grammenos Center for Shipping, Trade & Finance

Seventh City of London Biennial Meeting 2013

Looking Ahead with Optimism and Realism





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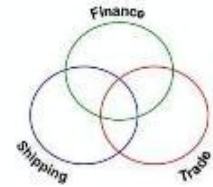
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The World in Recovery: Global Currency Trends

George Athanasopoulos
Group Managing Director
Co-Head of Global Foreign Exchange and
Precious Metals, UBS AG

Mr Athanasopoulos is not a member of the UBS Research Department and does not represent UBS Research.





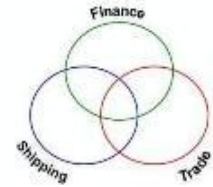
UBS Macro Research - Global Economic Outlook 2014-2015

- UBS Research expect global growth to accelerate modestly next year as activity in the US picks up and as recovery in the Eurozone continues. Overall, UBS Research expect global growth to rise from 2.5% this year to 3.4% in 2014 and 2015.
- UBS Research forecast US GDP growth of 3.0% for 2014 and 2015 after 1.7% in 2013. The US recovery should gain traction as fiscal policy drag recedes and as consumption and capital spending accelerate.
- UBS Research forecast Eurozone GDP growth of 1.1% in 2014 and 1.5% in 2015. The recovery will be supported by accommodative ECB policy, low inflation, and higher consumption against a backdrop of less stringent fiscal consolidation.





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UBS Macro Research - Global Economic Outlook 2014-2015

- Japan's economy is unlikely to achieve stronger growth over the next two years primarily because of higher consumption taxes in both 2014 and 2015. UBS Research expect GDP growth of 1.5% in 2014 slowing to 1.1% in 2015, following 1.7% this year.
- Most emerging economies will benefit from strengthening exports to the advanced economies. But growth in the bloc as a whole is unlikely to strengthen much in 2014 and is expected to slow as we move into 2015. A key reason is weaker domestic demand as credit growth slows.
- Ample spare capacity in the world economy suggests that inflation will remain subdued. Some commodity prices (e.g., oil) could fall further.





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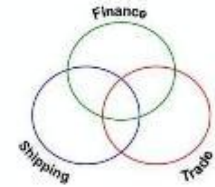


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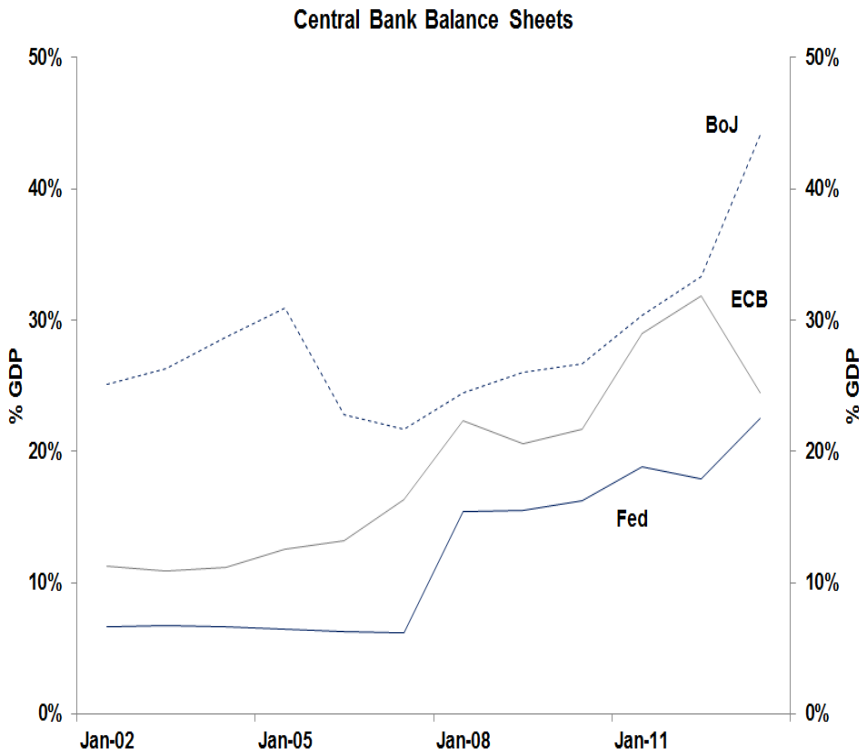
UBS Macro Research - Global Economic Outlook 2014-2015

- UBS Research expect the Fed will slowly scale back its asset purchases and keep the Fed funds rate unchanged until the latter half of 2015. Every other major central bank is likely to continue to keep policy rates near zero.
- Do not discount event risk: Tapering, a new Fed chair, Debt Ceiling extension, European Parliament elections, additional credit needs in the European periphery and Japan sales tax to name a few





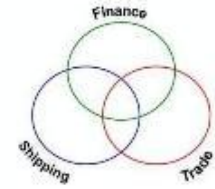
G3 Currencies: Watch the Central Bank Balance Sheets



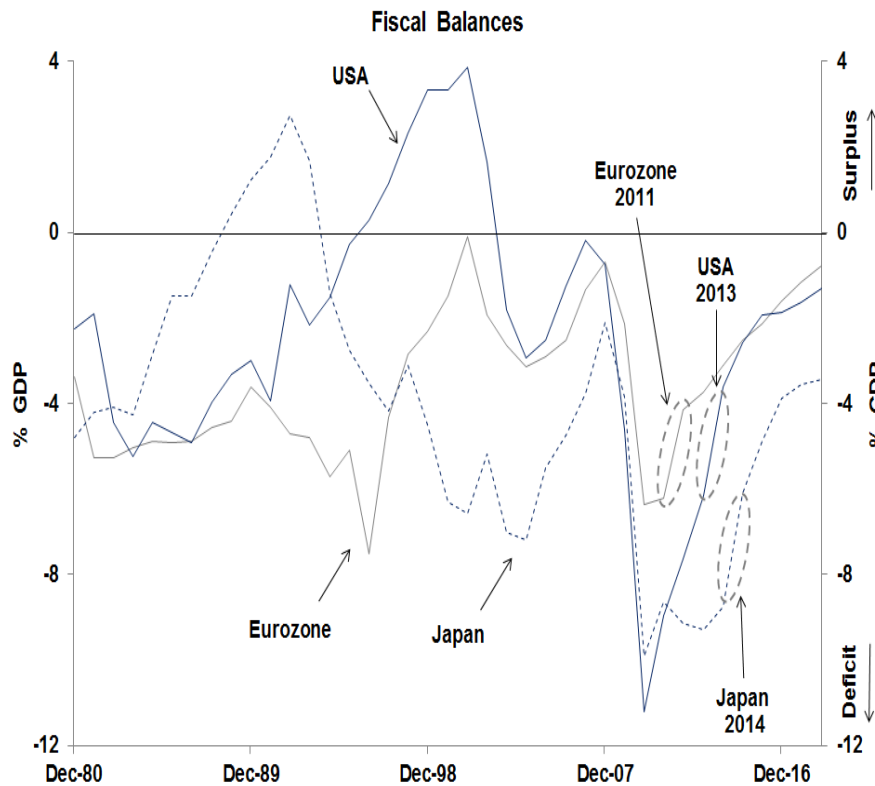
Source: Bloomberg, UBS FX Strategy

- Dollar to recover in 2014 as Fed tapers and ends its third round of quantitative easing. Falling oil prices and lack of opportunities in EM will help that process.
- ECB appears to be "behind the curve" given recent CPI releases.
- Yen will be the weakest G3 currency. The BoJ's already aggressive easing is likely to be stepped up in 2014





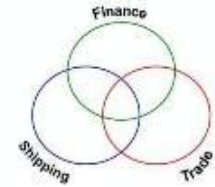
G3 Currencies: The Fiscal Picture Matters



Source: Bloomberg, UBS FX Strategy

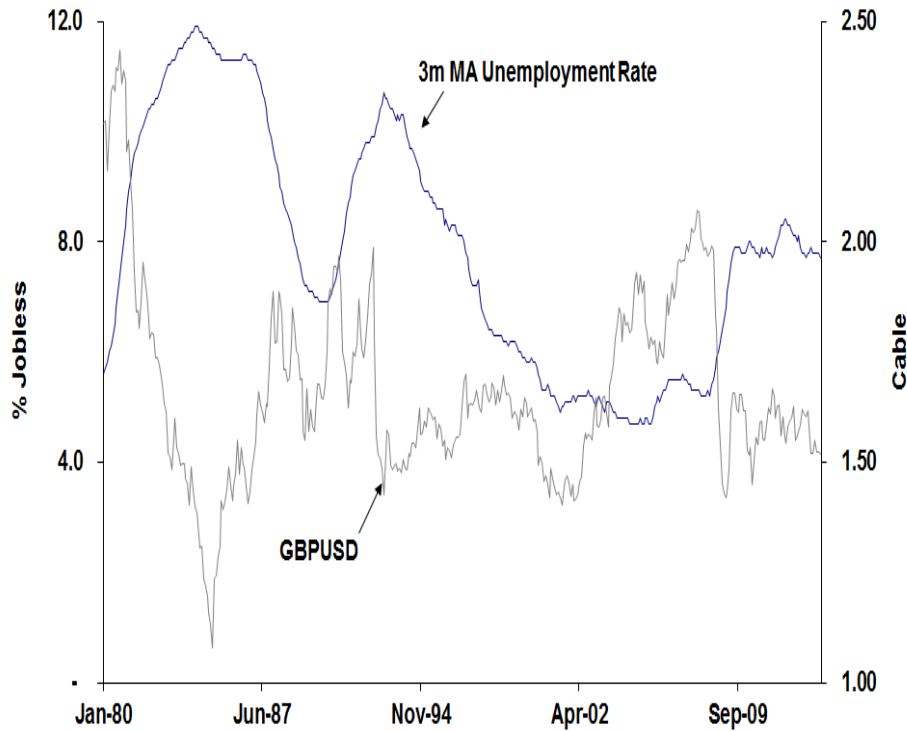
- Dollar and US growth were undermined by sharp budget cuts in 2013. In 2014 fiscal tightening will slow, enabling US economy to outperform
- Eurozone fiscal austerity also slowing in 2014.
- Japan faces fiscal tightening of approx. 2% of GDP in 2014 as sales tax will be raised from 5% to 8%





G7 Currencies - Sterling

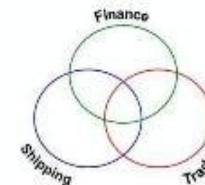
UK Labour Market



Source: Bloomberg, UBS FX Strategy

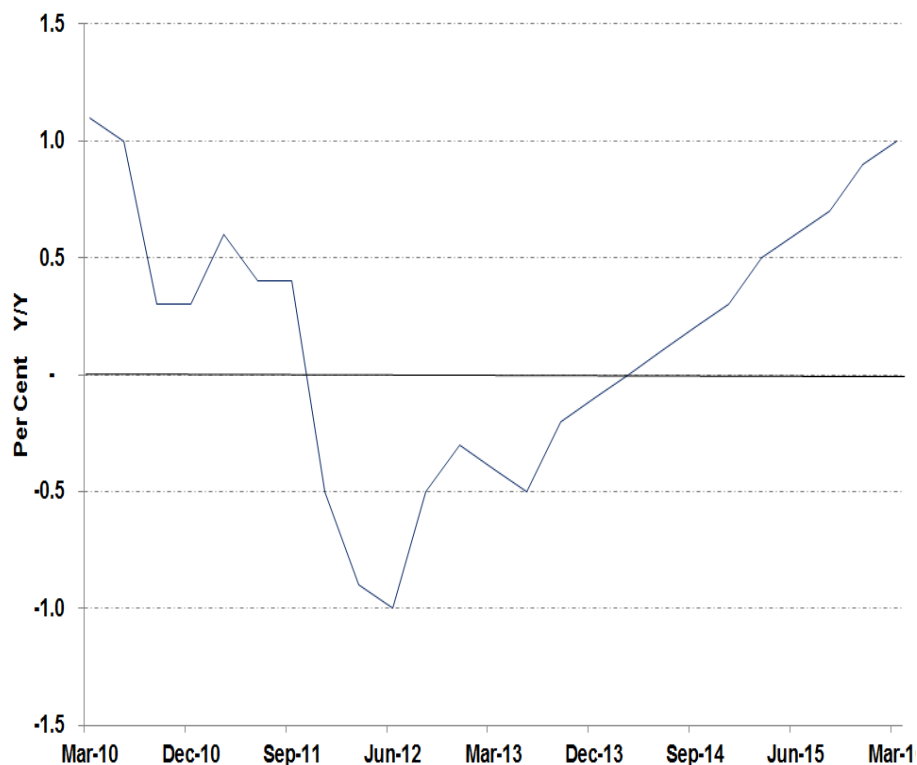
- Sterling to outperform euro but be wary of GBP/USD strength.
- BoE now targeting unemployment - currently at 7.7% over last three months - to fall to 7.0% before it considers raising interest rates.
- Financial markets are pricing in UK rate hikes from next year. The drop in unemployment might take longer





G7 Currencies – Swiss Franc

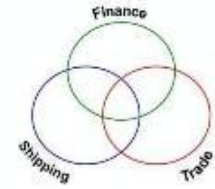
Inflation, Switzerland



Source: Bloomberg, UBS FX Strategy

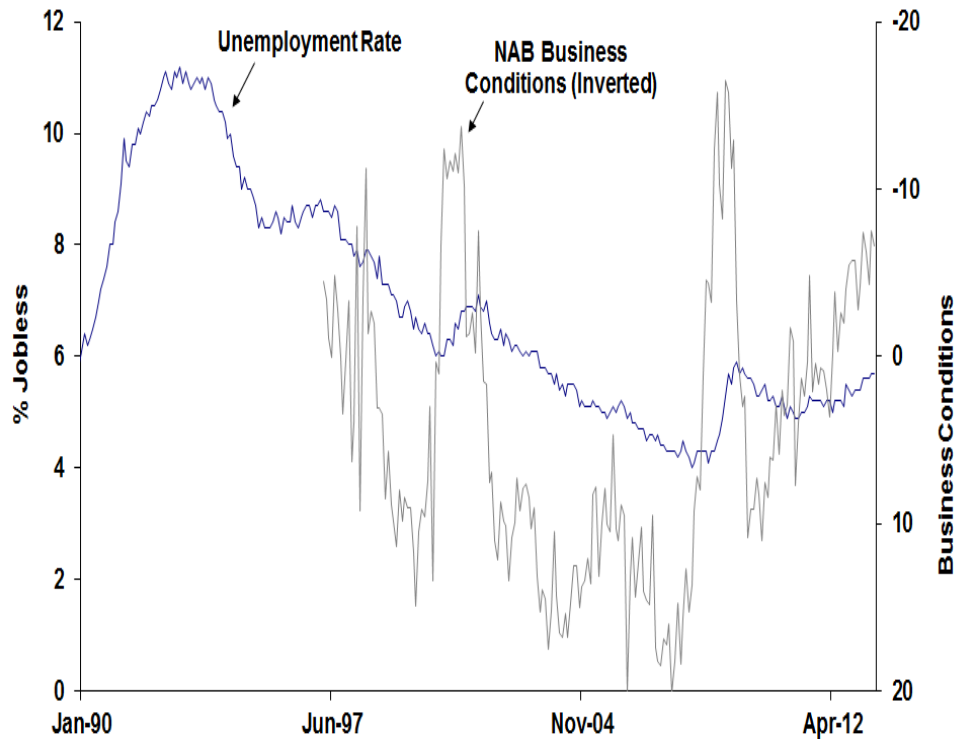
- SNB to keep EURCHF floor at 1.20 throughout 2014 as it forecasts inflation to remain below its 2% target for the next three years
- Swiss franc likely to underperform Euro as SNB caps CHF upside and the global recovery reduces demand for safe haven assets
- Watch Capital Account vs Current Account for signs of change in the currency trend





G7 Currencies – Australian Dollar

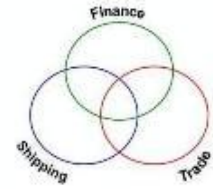
Labour, Business Conditions



Source: Bloomberg, UBS FX Strategy

- RBA neutral on interest rates now after cutting from 4.75% in 2011 to 2.50% in 2013
- Australian dollar will underperform US dollar as Fed tapers asset purchases
- Main domestic threat is rising unemployment. If it breaches 6%, RBA may cut rates again

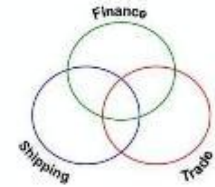




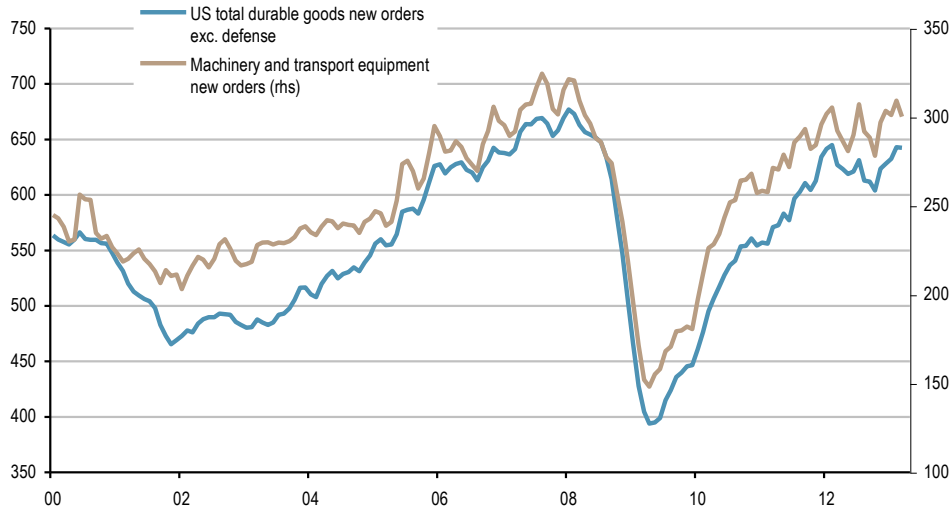
Why do we see continued weakness in EMFX?

- The EM appreciation of the 2000s was largely a function of USD weakness, not EM strength
- Over the past 5 years EM growth has shifted from export growth to domestic credit growth;
- Recent EM Currency depreciation has had limited impact on EM current account
- Export growth remains lacklustre
- Are we in a new growth paradigm? EM exports less needed?
- To improve trend growth EM must now reform aggressively.





A different cycle in the US?

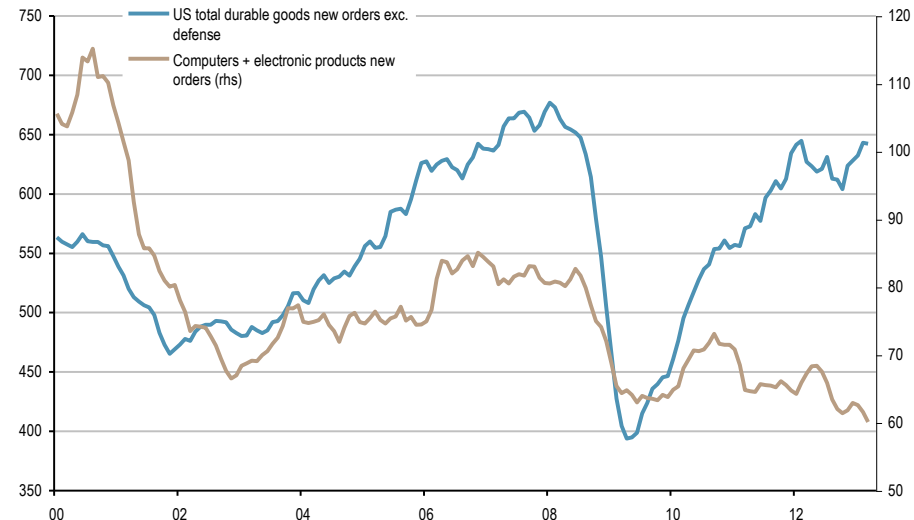


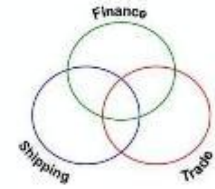
Source: Bloomberg, UBS EM SStrategy

So far this cycle the US doesn't seem to need the goods that EM builds and exports

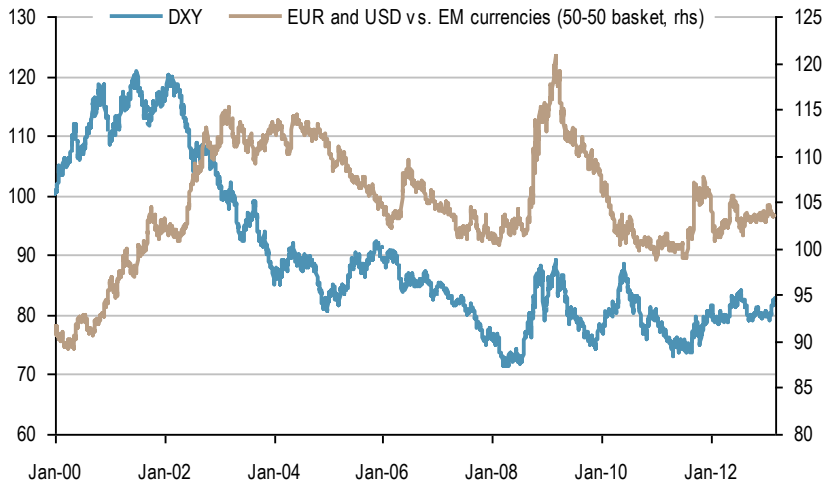
Who builds the products that are in demand in the US presently ?

Answer: the US.

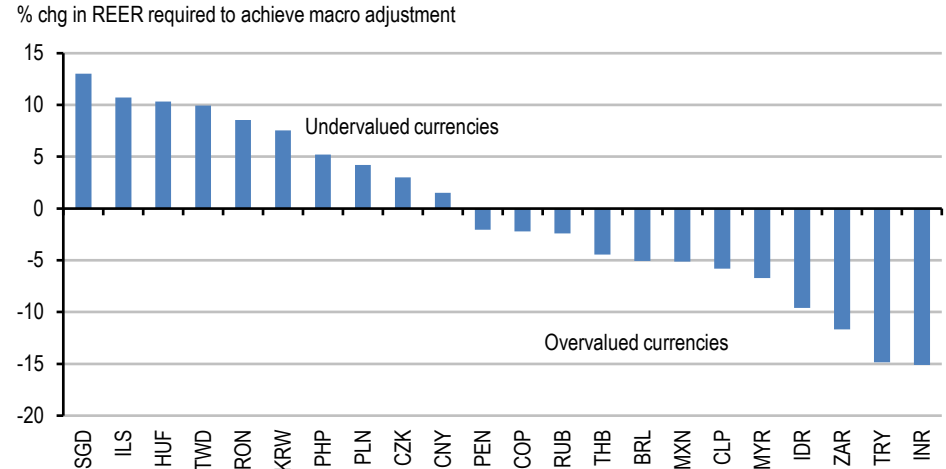




Assessing return drivers – EM currencies

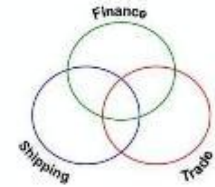


Source: Bloomberg, UBS. Basket of 18 EM currencies, equally-weighted



How undervalued are EM currencies? And how much of their historic appreciation has been their own?





Precious Metals - Gold

Gold:S&P500 Index Ratio
2008-2013



- Global Macroeconomic improvements a headwind for Gold
- Strong competition from growth assets like equities
- 2013 correction has damaged sentiment

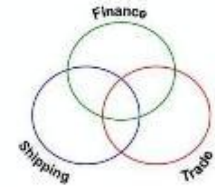
Source: Bloomberg, UBS PM Strategy

Gold and US, Global Growth Surprise Indices
2005-2013



- Physical demand offers relief, but generally lacks the strength to support a sustained rally
- UBS Macro Research 2014 average forecast: \$1325





UBS Research FX Forecasts

	Dec-14	Dec-15
EUR/USD	1.25	1.20
USD/JPY	110.00	115.00
EUR/JPY	137.50	138.00
USD/RMB	6.10	6.10
GBP/USD	1.55	1.60
EUR/GBP	0.81	0.75
USD/CHF	1.01	1.05
EUR/CHF	1.26	1.26
USD/CAD	1.05	1.10
AUD/USD	0.85	0.85
NZD/USD	0.79	0.76

Source: UBS estimates





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