Foreign Exchange

- We expect the USD to recover broadly over the next few months, following its recent correction
- The recent bounce in SGD, AUD and NZD offers an opportunity to reduce exposure to these currencies

USD: We expect medium-term appreciation: We expect the USD to strengthen as a Fed rate hiking cycle remains on the horizon, though we recognise that upside may become limited once rate hikes are fully priced in. As mentioned previously, we believe the first Fed rate hike is likely to be delayed into 2016 while the cycle itself is likely to be gradual, compared to previous instances. Nonetheless, we believe Fed interest rate hikes are not fully priced into two-year Treasury yields and, hence, believe there is further room for upside, at least over the next few months.

In our view, the recent pullback in the USD was the result of a scale back in US interest rate expectations and unwinding of excessive long positions against EM and commodity currencies. We do not believe the current level of short-term yields accurately reflects our anticipated path of Fed rate hikes. Hence, we see the recent pullback as an opportunity to add to USD positions. From a technical perspective, the USD index (see adjacent chart) is in a key support region, from where it has bounced previously.

EUR and JPY: We expect medium-term depreciation: We believe the EUR and the JPY are likely to weaken in the immediate term, mainly as interest rate differentials move in favour of the USD.

In the case of Japan, while the JPY is now significantly undervalued relative to history, we do not see immediate catalysts for an adjustment. In our view, markets are likely to remain focused on the probability of additional BOJ easing. We believe either consistent inflation or a peaking of the US economic cycle would be required for JPY appreciation to begin. In Europe, we believe policy is likely to keep yields capped, which is likely to support the continued use of the EUR as a funding currency and support capital outflows from Europe. In addition, we do not rule out an extension of additional measures to add further support should the economy begin to sputter.

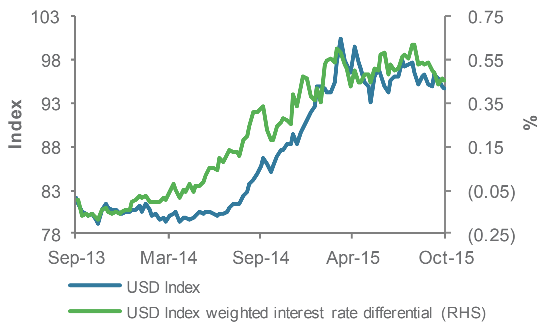
GBP: We remain medium-term neutral: We expect the GBP to trade sideways to the USD in the interim, but outperform G10 and Asia ex-Japan currencies. In our view, the UK recovery remains broadly on track, particularly with respect to a continued pick-up in wages, consumer confidence and a fall in unemployment. In our view, the Bank of England (BoE) is likely to act sooner than the markets anticipate, even as the central bank pushed back rate-hike expectations. However, dampening of sentiment amid issues surrounding Euro area membership and current account deficit funding concerns are key risks to our view.

AUD: We expect medium-term depreciation: We expect recent strength in the AUD to have ended and see the rebound as an opportunity to reduce exposure. In our view, the pick-up in the pair may have been a result of improvement in risk sentiment following a scaling back of Fed rate-hike expectations. However, since the supply-demand situation in iron ore, Australia's largest export, continues to argue for further price weakness, we do not see significant fundamental support behind the AUD. In addition to this, the Reserve Bank of Australia (RBA) remains cautious and is likely to ease further, in our opinion, should economic data worsen.

NZD: Rebound unlikely to last: We do not see the recent rally in the NZD being sustained and view this as an opportunity to reduce exposure. We believe part of the recent rise may have been explained

Slight narrowing of interest rate differentials have resulted in USD weakness recently

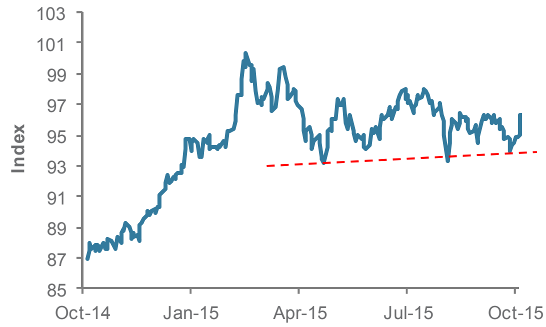
USD index-weighted interest rate differentials and USD index



Source: Bloomberg, Standard Chartered

USD index at levels from where it has rebounded previously

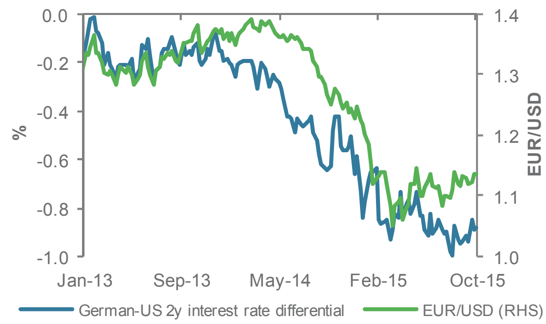
USD index



Source: Bloomberg, Standard Chartered

Interest rate differentials to remain the main case for bearish view on the EUR

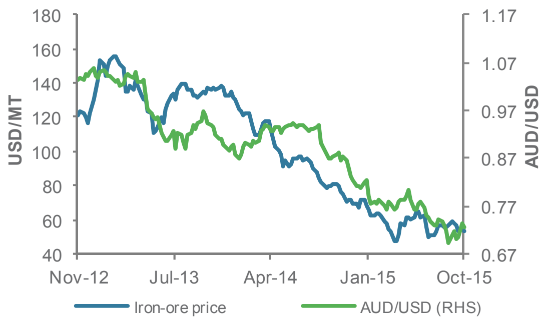
German-US 2-year interest rate differentials and EUR/USD



Source: Bloomberg, Standard Chartered

AUD continues to follow the decline in iron ore prices

Iron-ore prices and AU/USD



Source: Bloomberg, Standard Chartered

by the recent sharp bounce in dairy prices, New Zealand's largest export. However, given that we see a large supply-demand imbalance persisting, we do not expect recent NZD strength to be sustainable. Moreover, we also expect more policy rate cuts by the Reserve Bank of New Zealand (RBNZ), beyond what markets expect, amid weak domestic fundamentals.

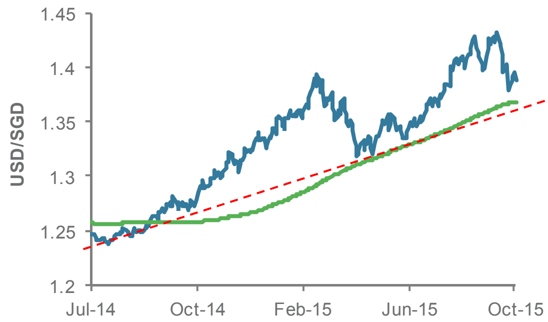
SGD: We expect depreciation to resume: We believe recent SGD strength following slight policy easing by the Monetary Authority of Singapore (MAS) is likely to be temporary. In our view, the SGD strengthened as GDP growth in Singapore was slightly higher than expected, while the MAS move was smaller than the markets anticipated. Going forward, however, we believe a stronger USD is likely to be the main catalyst for a weaker SGD.

Other Asia ex-Japan: We remain medium-term bearish: We remain bearish on the Asia-ex Japan currencies as a whole. Hence, we believe the recent bounce is an opportunity to increase allocation to the USD. The region's currencies may have been adjusting from technically oversold levels following the sharp correction in August. On a relative basis, we expect continued outperformance in the INR and PHP and expect the KRW, TWD, MYR and SGD to underperform. We expect the CNY, IDR and THB to perform in-line with peers.

For both INR and PHP, a strong external balance of payments position remains a key supporting factor. However, in the case of PHP, highly stretched currency valuations are risks to our view. For TWD and KRW, exposure to China trade and easing bias in monetary policy remain key negatives. For MYR, exposure to commodity prices and general outflow of capital from EMs remains major negatives. We believe the CNH is likely to continue its broad range-bound movement. In our view, the policy of maintaining a stable exchange rate is likely to remain unchanged.

Bounce in the SGD from technically significant levels suggests a continuation in the rally

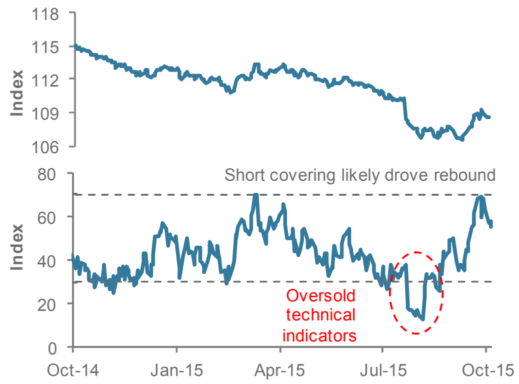
USD/SGD spot



Source: Bloomberg, Standard Chartered

Rally in Asia ex-Japan currencies likely due to technically oversold indicators

ADXY and RSI (14)



Source: Bloomberg, Standard Chartered

Short term

refers to a horizon of less than 3 months

Medium term

refers to a time horizon of 6 to12 months

Disclosure Appendix

This document is not research material and it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. This document does not necessarily represent the views of every function within the Standard Chartered Bank, particularly those of the Global Research function.

Standard Chartered Bank is incorporated in England with limited liability by Royal Charter 1853 Reference Number ZC18. The Principal Office of the Company is situated in England at 1 Basinghall Avenue, London, EC2V 5DD Standard Chartered Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

In Dubai International Financial Centre (“DIFC”), the attached material is circulated by Standard Chartered Bank DIFC on behalf of the product and/or Issuer. Standard Chartered Bank DIFC is regulated by the Dubai Financial Services Authority (DFSA) and is authorised to provide financial products and services to persons who meet the qualifying criteria of a Professional Client under the DFSA rules. The protection and compensation rights that may generally be available to retail customers in the DIFC or other jurisdictions will not be afforded to Professional Clients in the DIFC.

Banking activities may be carried out internationally by different Standard Chartered Bank branches, subsidiaries and affiliates (collectively “SCB”) according to local regulatory requirements. With respect to any jurisdiction in which there is a SCB entity, this document is distributed in such jurisdiction by, and is attributable to, such local SCB entity. Recipients in any jurisdiction should contact the local SCB entity in relation to any matters arising from, or in connection with, this document. Not all products and services are provided by all SCB entities.

This document is being distributed for general information only and it does not constitute an offer, recommendation, solicitation to enter into any transaction or adopt any hedging, trading or investment strategy, in relation to any securities or other financial instruments. This document is for general evaluation only, it does not take into account the specific investment objectives, financial situation, particular needs of any particular person or class of persons and it has not been prepared for any particular person or class of persons.

Opinions, projections and estimates are solely those of SCB at the date of this document and subject to change without notice. Past performance is not indicative of future results and no representation or warranty is made regarding future performance. Any forecast contained herein as to likely future movements in rates or prices or likely future events or occurrences constitutes an opinion only and is not indicative of actual future movements in rates or prices or actual future events or occurrences (as the case may be).

This document has not and will not be registered as a prospectus in any jurisdiction and it is not authorised by any regulatory authority under any regulations.

SCB makes no representation or warranty of any kind, express, implied or statutory regarding, but not limited to, the accuracy of this document or the completeness of any information contained or referred to in this document. This document is distributed on the express understanding that, whilst the information in it is believed to be reliable, it has not been independently verified by us. SCB accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental or consequential loss or damage) from your use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents.

SCB, and/or a connected company, may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities, currencies or financial instruments referred to on this document or have a material interest in any such securities or related investment, or may be the only market maker in relation to such investments, or provide, or have provided advice, investment banking or other services, to issuers of such investments. Accordingly, SCB, its affiliates and/or subsidiaries may have a conflict of interest that could affect the objectivity of this document.

This document must not be forwarded or otherwise made available to any other person without the express written consent of SCB.

THIS IS NOT A RESEARCH REPORT AND HAS NOT BEEN PRODUCED BY A RESEARCH UNIT.