

Short-term views on exchange rate direction

- We expect further consolidation in the EUR and JPY crosses in the near-term. Nonetheless, our medium-term outlook for the EUR and JPY remains unchanged. We still expect the collapse in Japan's current account surplus to weigh on the JPY. In addition, the reduction in broader Eurozone tail risks should support inflows back into the Eurozone, while the relative reduction in the ECB's balance sheet should boost the EUR.
- We have closed our long EUR/GBP trade. While we think EUR/GBP should trade higher over coming months, the near-term outlook suggests high risks of a further correction in EUR/GBP. Political concerns in the Eurozone periphery, specifically Italy, have risen, ECB President Draghi's cautious tone about the outlook for Eurozone inflation have reduced the EUR's monetary policy tailwinds, and participants appear to have adjusted their expectations about the UK economy. Hence, negative UK data surprises may be hard to come by.

Majors

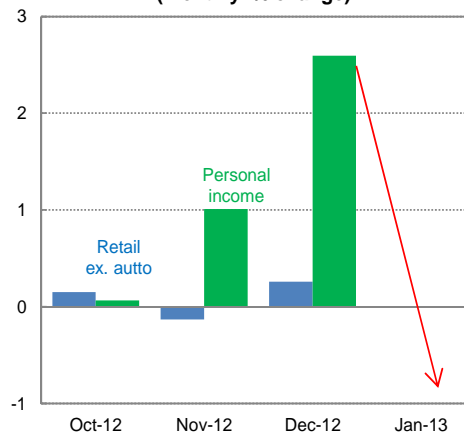
One Week Bias

USD

Neutral

Federal Reserve speakers and the first piece of hard US economic data illustrating the effect of the New Year's day "mini fiscal cliff" agreement dominate the landscape. The various tax increases agreed suggest to us that January US retail sales (Wednesday) should be soft. In our view, a fall in retail sales of up 0.5% (MoM) should reinforce expectations that the Fed will continue with its monetary policy stimulus for an extended period. FOMC member Fed Vice Chair Yellen, a noted "dove", is also set to speak on Tuesday. While these factors should exert some downward pressure on the USD, the concerns about political stability in Italy and Spain, combined with speeches by a number of slightly "hawkish" FOMC voting members (George on Tuesday, and Bullard on Wednesday and Thursday) could keep the USD range bound over the coming week. Over the medium-term, however, we expect the USD to soften. Expansionary Fed monetary policy and negative real US bond yields, combined with the US' current account deficit (3% of US GDP), and ongoing stabilisation in the broader Eurozone should weigh on the USD.

US RETAIL AND INCOME
(monthly % change)

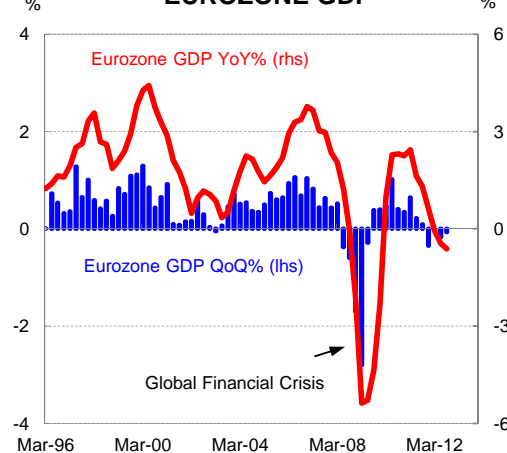


EUR/USD

Mildly Bearish

Comments by ECB President Draghi regarding the impact sustained EUR strength could have on inflation and the political concerns in Italy and Spain have seen EUR consolidate. Given its close proximity and uncertain outcome, the 24-25 February Italian election is increasingly becoming a market focus. Anxiety stems from the fact former PM Berlusconi, who is pushing for a reversal of recent economic reforms and fiscal austerity, could return to a position of power. Wednesday's Italian bond auction could prove to be a litmus test for investor confidence. The incoming dataflow may also weigh on the EUR. The first estimate of Eurozone Q4 GDP (Thursday) is expected to show a contraction of 0.4% (its 3rd consecutive quarterly contraction). A contraction greater than 0.3% would mark the largest decline since the Eurozone crisis erupted. Ultimately however, we continue to anticipate EUR/USD to trade higher over 2013. The policy framework now in place in the Eurozone has reduced the tail risks and it is hard to make a case for a significantly stronger USD. In addition, the Eurozone continues to run a current account surplus (1% of Eurozone GDP), and the forward looking business surveys point to a gradual move out of recession in 2013.

EUROZONE GDP



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AUD/USD

Neutral

Relatively soft Australian economic data, the retention by the RBA of its easing bias and the downgrade by the RBA of its 2013 Australian GDP forecasts have weighed on the AUD. This week there is no scheduled domestic factors that could influence the AUD, while most of Asia is away for a large part of the week celebrating the Lunar New Year. As such, offshore factors should have a greater bearing on AUD direction. Given we expect the USD to remain range bound over the week; we are anticipating the AUD to trade in a 1.0220-1.0410 range. Despite the recent pressure, we retain our positive medium-term outlook for the AUD. The Asian economic outlook continues to improve, vol. remains low, Australia retains a substantial yield advantage over its G10 peers, and net inflows into AUD denominated assets should remain firm.

NZD/USD

Neutral

Softer than expected Q4 New Zealand labour market data has exerted modest downward pressure on the NZD. This week there is a risk of a reversal. The various leading indicators suggest that the Q4 New Zealand retail sales volumes for Q4 should recover, but the risk is it is not as strong as the market consensus expects (Friday). Nonetheless, we do not anticipate a large lift in the NZD. Political concerns in the Eurozone and an expected sideways drift in the USD should keep the NZD contained. Nonetheless, we think that over coming months the NZD should appreciate. Reinsurance inflows associated with the Christchurch earthquake are continuing, Asian economies are improving, dairy prices remain firm, and the positive economic impacts from the Christchurch rebuild and buoyant New Zealand property market reinforce our view that the RBNZ will not cut rates from a record low 2.5%.

GBP/USD

Neutral

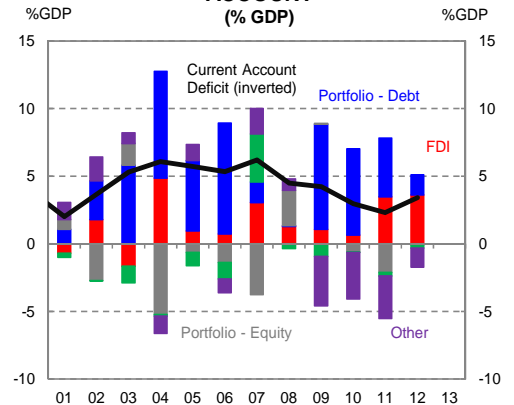
GBP/USD has rebounded off of its recent lows, driven by more "neutral" than expected comments by BoE Governor-designate Carney in his first UK parliamentary testimony. In our view, this lift should prove to only be a temporary respite. Given Carney does not commence his role until July; it was unlikely he would spell out his intentions in this particular forum. The risk of more policy stimulus by the BoE remains real. In the background to Carney's testimony, the statement to the BoE MPC's February policy meeting retained its dovish undertones. We think that the BoE MPC is likely to reiterate its easing bias in this week's *Inflation Report* (Wednesday). Given the weaker than expected Q4 UK GDP outturn, there is also a strong possibility that the BoE downgrades its near-term UK economic outlook. However, this is also likely to be the outlook of most participants. Hence, the market impact may be limited. Over the coming weeks the UK's ongoing relative economic underperformance, the rising probability of further BoE policy easing, and risk of a UK sovereign credit rating downgrade should see GBP reverse some of its recent gains.

USD/JPY

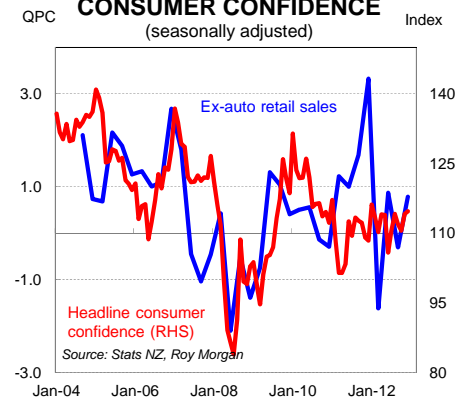
Mildly Bearish

JPY strengthened modestly after Japanese Finance Minister Aso noted that the recent JPY depreciation had been faster than expected. The timing of these comments is unsurprising given the upcoming G20 Finance Ministers' meeting (14-17 February). One-week USD/JPY currency market vol. has spiked higher in anticipating of a possible G20 announcement, given the recent moves in in the currency market, particularly the JPY. However, we don't anticipate the G20 communique to single out any particular nation nor for it to have any lasting impact on markets. More important factors that should continue to guide JPY direction are the deteriorating Japanese macro backdrop and the collapse in Japan's current account surplus. We would use the recent consolidation in USD/JPY as an opportunity to enter a tactical medium-term long USD/JPY position. The structural collapse in Japan's current account surplus remains the key factor behind our weaker medium-term

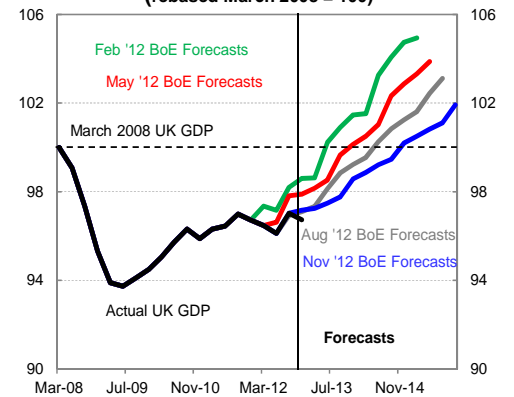
FINANCING AUSTRALIA'S CURRENT ACCOUNT



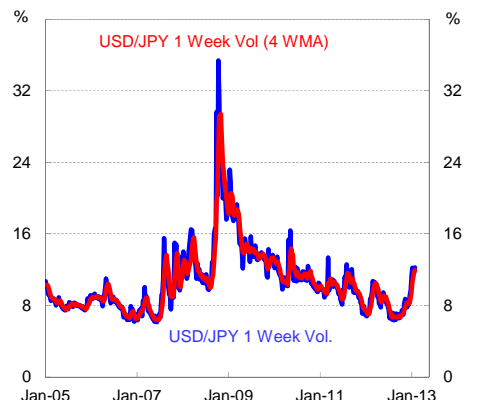
NZ RETAIL SALES & CONSUMER CONFIDENCE
(seasonally adjusted)



BoE GDP FORECASTS
(rebased March 2008 = 100)



USD/JPY 1 WEEK VOL.





JPY outlook. In the near-term, we think the risk is the Japanese economy contracted by 0.3% in contrast to consensus expectations of +0.1% in Q4 2012 (released Thursday). A contraction could raise expectations of more aggressive BoJ policy stimulus once current BoJ Governor Shirakawa steps down in late March 2013. This may cap any substantial JPY strength later in the week. Given the recent policy announcements by the Japanese government and the BoJ, no change is expected from the BoJ this week (Thursday).

USD/CAD **Mildly Bullish**

A softer than expected January Canadian labour force report has added to perceptions that the Bank of Canada (BoC) will remain on the sidelines for an extended period. Increased uncertainty about when the BoC will raise interest rates has weighed on Canadian short-end bond yields. The BoC's recently watered down tightening bias is likely to be highlighted once again this week in BoC Governor Carney's parliamentary testimony (Wednesday). Given our expectation of a soft US retail report (Wednesday) and with CAD's high sensitivity to the US economic data, the near-term outlook suggests that a further rise in USD/CAD is likely. Nonetheless, we continue to expect USD/CAD to ease lower over the coming months. The global economy is improving, the Canadian economic outlook remains relatively positive, flows into CAD remain strong and the medium-term outlook continues to point to a weaker USD.

Asian Currencies **One Week Bias**

USD/KRW **Mildly Bearish**

USD/KRW has moved up to around 1,090. The Bank of Korea (BoK) is scheduled to meet on Thursday. While we and the consensus expect the BoK to keep its key policy rates unchanged, it is likely that the monetary policy statement could adopt a more upbeat outlook relative to recent meetings. As such, we think USD/KRW could reverse some of its recent moves and grind lower this week.

USD/IDR **Neutral**

USD/IDR has eased lower in recent sessions, but the spot market continues to show tentative signs of stabilization. In particular, foreign holdings of Indonesian government securities have risen in the past few months despite larger Indonesian government issuances. Therefore, it appears that redemption flows have slowed. As such, we expect the USD/IDR to stay around recent levels in the near-term. No change is expected by the Bank of Indonesia at this week's policy meeting (Tuesday).

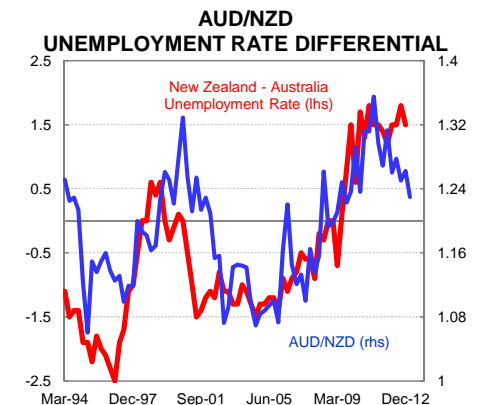
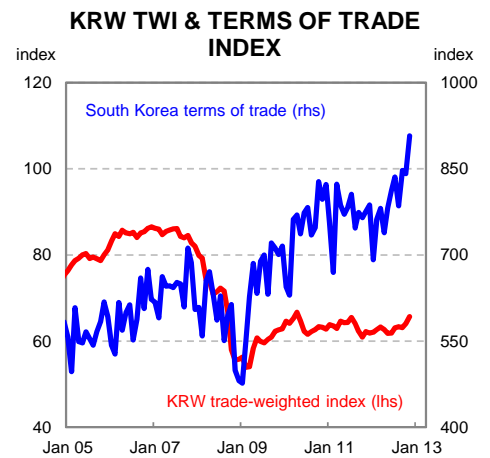
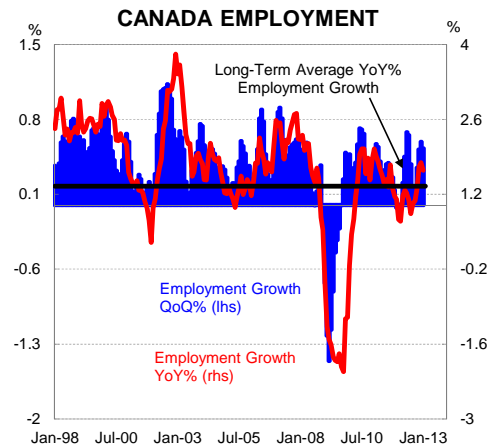
AUD Crosses **One Week Bias**

AUD/NZD **Neutral**

We think AUD/NZD is likely to spend the week trading within the 1.2250-1.2400 range it has respected over most of February. The key influence on the AUD/NZD cross rate in terms of local data is Friday's New Zealand Quarterly Retail Trade Survey. Both our forecast and the consensus of expectations suggest retail sales volumes lifted over Q4 2012. A rebound should exert some modest downward pressure on AUD/NZD. Nonetheless, our below consensus expectation for the lift in Q4 retail volumes, combined with weakness in other recent New Zealand reports (particularly the Q4 labour market report last week) should limit any NZD gains, and AUD/NZD declines.

AUD/EUR **Mildly Bullish**

We expect AUD/EUR to lift modestly this week, mainly reflecting a weaker EUR (see EUR section). The return of political instability in Italy and Spain has tilted the risks to a lift in AUD/EUR. Low volatility, a





recovery in the Chinese economy and rising commodity prices are supportive for the AUD/EUR cross rate in the medium-term.

AUD/GBP Neutral

We expect AUD/GBP to trade sideways this week. There is very little Australian or no major Chinese economic data (because of the Lunar New Year holiday) scheduled for release this week. Any flare up in political risks in the Eurozone is likely to affect both currencies in equal measure. By contrast, the implied volatility for 1 week AUD/GBP ATM options has spiked higher in the past few weeks, though remains below its long run average. In the medium-term we see risks for a modest lift in AUD/GBP because the UK economy is in a weaker position than Australia's economy.

AUD/JPY Mildly Bearish

After a large run-up since October 2012, we expect AUD/JPY to continue to consolidate this week. In particular, we see downside risks to USD/JPY, dragging down AUD/JPY (see JPY section). Comments by Japanese Finance Minister Aso that the pace of the yen's recent weakening has been too fast is likely to provide some short-term yen strength ahead of this week's G-20 meeting. A period of consolidation may provide an entry point for long AUD/JPY positions. Our fundamental view that the yen will weaken because Japan's current account has collapsed is behind our expectation AUD/JPY will eventually trend higher to 100.00.

AUD/CAD Mildly Bullish

AUD/CAD increased on Friday because of disappointing Canadian labour data. Given CAD's sensitivity to US economic data, a weaker than expected US retail sales for January could provide further support for AUD/CAD. But we do not expect AUD/CAD to lift much given the heavy AUD and the absence of any important Chinese economic data this week.

European Crosses One Week Bias

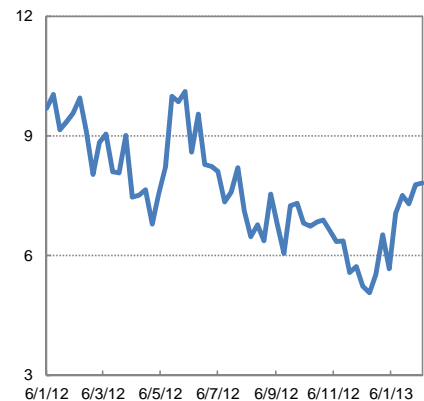
EUR/GBP Mildly Bearish

The factors that have helped guide EUR/GBP higher over 2013 appear to be dissipated temporarily. Consequently, we think EUR/GBP should consolidate further in the near-term. Political concerns in the Eurozone (i.e. Italy and Spain) are a benefit for GBP. A switch of funds from EUR into AAA-rated GBP denominated assets was a key theme during the heights of the Eurozone crisis. In our view, the near-term economic events may have more impact on EUR than GBP. Q4 Eurozone GDP should show a contraction (Thursday), with the risk that it is greater than market expectations. By contrast, the BoE should as expected retain its easing bias in its *Inflation Report* (Wednesday). Nonetheless, over coming months we think EUR/GBP will rebound and once again push higher. The greater relative change is still expected to occur in the Eurozone economy, the enhanced policy framework should support fund flows into the Eurozone periphery, there is an ongoing risk of a UK sovereign rating downgrade and the risks of further BoE policy stimulus are rising.

EUR/JPY Mildly Bearish

The mix of political concerns in the Eurozone periphery and further reaction to comments by Japanese Finance Minister Aso about the recent rate of JPY depreciation may see EUR/JPY consolidate further this week. However, later in the week, a softer than expected Q4 2012 Japanese GDP print (Thursday) may raise expectations of more aggressive BoJ policy action once current Governor Shirakawa steps aside. This may temper some of the anticipated EUR/JPY declines. Over coming months, we retain our view that EUR/JPY should grind higher. The fall in Japan's current account surplus implies a structurally

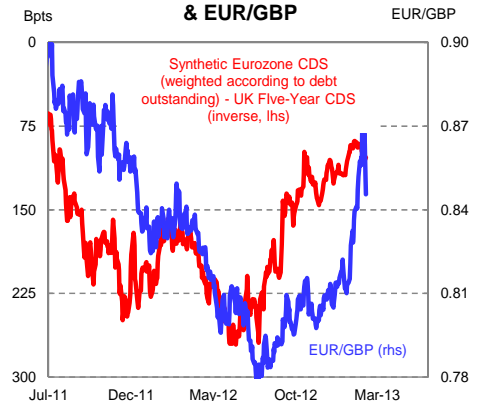
AUD/GBP 1 WEEK VOL.



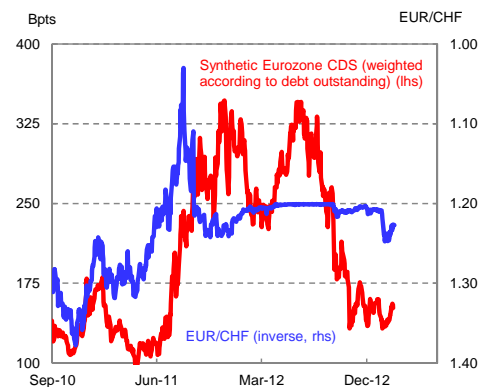
AUD/JPY EXCHANGE RATE (last three months)



SYNTHETIC EUROZONE - UK CDS SPREAD & EUR/GBP



SYNTHETIC EUROZONE CDS & EUR/CHF





lower JPY, while capital inflows into the Eurozone periphery and a relative reduction in the size of the ECB's balance sheet are EUR supportive.

EUR/CHF and USD/CHF Mildly Bearish & Mildly Bearish

The recent consolidation in EUR has naturally weighed on EUR/CHF. Given our near-term expectations for the EUR (see EUR section), particularly the unresolved political concerns in the Eurozone periphery, we are anticipating further near-term consolidation in EUR/CHF. A key focus for the CHF will be a speech by SNB President Jordan (Tuesday). The reduction in the broader Eurozone tail risks has raised expectations in some quarters that the SNB may look to alter its minimum EUR/CHF exchange rate floor, particularly given the ongoing deflation in Switzerland. In our view, President Jordan is likely to repeat the SNB's recent mantra and not indicate a policy shift is imminent. This may prove to be CHF supportive. Over a longer time horizon, our core view continues to be that EUR/CHF will rise over 2013, driven by the stabilisation in the Eurozone economy and improved sentiment regarding the Eurozone financial system.

With regards to USD/CHF, consolidation is expected over the coming week. The expected sideways drift in the USD (see USD section), combined with Eurozone political concerns and a reiteration by SNB President Jordan that the SNB is unlikely to alter its policy in the near-term CHF supportive.

NZD Crosses One Week Bias

NZD/AUD Neutral

We think NZD/AUD is likely to spend the week trading within the 0.8060-0.8160 range it has respected over most of February. The key influence on the cross rate in terms of local data is Friday's New Zealand Quarterly Retail Trade Survey. Both our forecast and the consensus of expectations suggest retail sales volumes lifted over the final quarter of 2012. A rebound in New Zealand sales volumes should exert some modest upward pressure on NZD/AUD. Nonetheless, our below consensus expectations for the lift in Q4 retail volumes, combined with weakness in other recent New Zealand reports (particularly the Q4 labour market report last week) should limit any NZD/AUD gains.

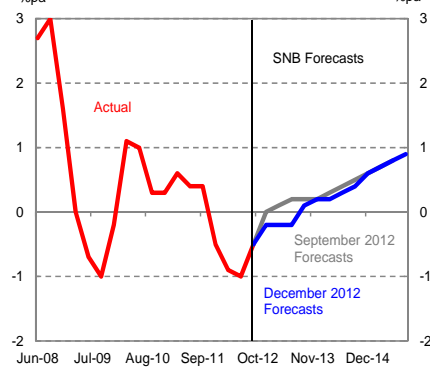
NZD/EUR Mildly Bullish

EUR consolidation has helped NZD/EUR to grind higher over February, and the cross may receive some further modest support by the end of the week if New Zealand Q4 retail sales volumes lift in line with market expectations, volatility stays low and the Eurozone data disappoints. Nonetheless, our below consensus expectation for the lift in Q4 New Zealand retail volumes, combined with weakness in other recent New Zealand reports (particularly the Q4 labour market report last week) should limit any substantial NZD/EUR gains. We expect resistance in NZD/EUR around 0.6300, where rallies in the cross rate stalled in late January.

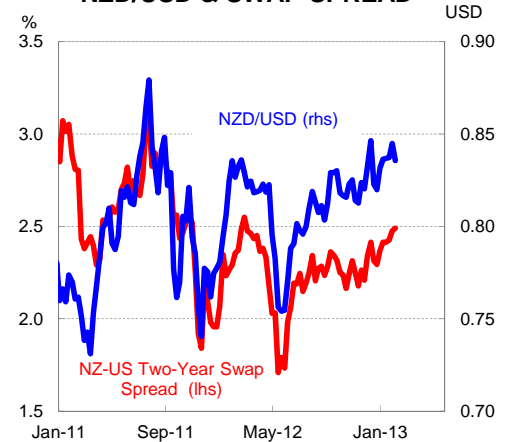
NZD/GBP Neutral

NZD/GBP has eased off its record high of 0.5413 set last week, but remains very high. Participants appear to have priced in a lot of negativity for the UK economy, based on GBP movements over January. Hence, negative UK data surprises may be hard to come by in the near-term. We expect GBP consolidation over the week ahead to limit any NZD/GBP gains stemming from the expected bounce back in New Zealand retail volumes over Q4. Accordingly, our outlook for NZD/GBP is neutral for the week ahead, and we expect the cross rate may continue to retreat from the recent peak towards our end-March forecast of 0.5185.

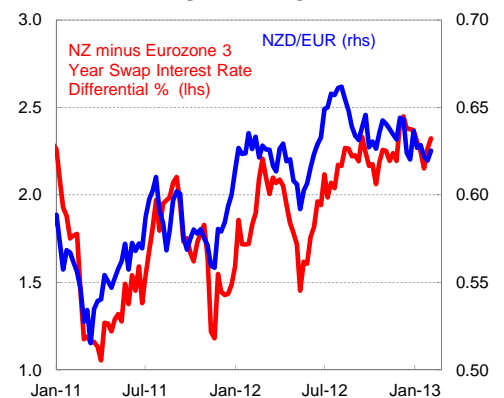
SNB SWISS INFLATION FORECASTS
(based on LIBOR at 0%)



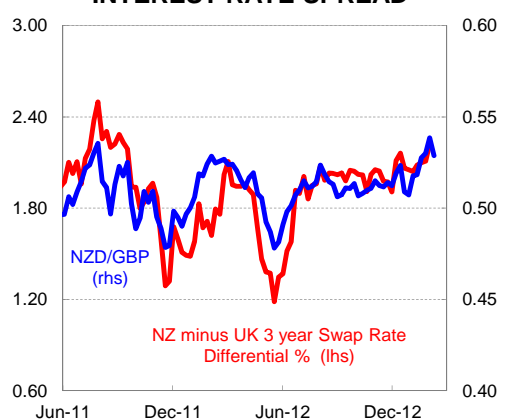
NZD/USD & SWAP SPREAD



NZD/EUR INTEREST RATE SPREAD

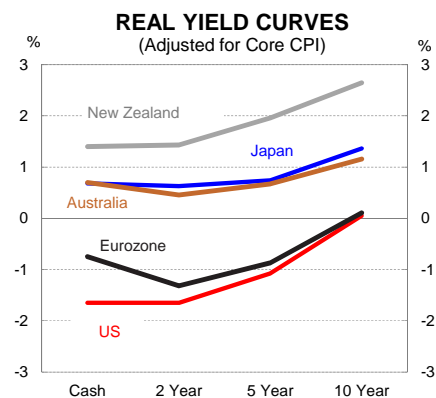


NZD/GBP INTEREST RATE SPREAD



**NZD/JPY****Mildly Bearish**

NZD/JPY has eased over recent sessions, having traded at the highest level since 2008 early last week. We expect this consolidation to continue over the week ahead. Comments by Japan's Finance Minister Aso that the pace of the yen's recent weakening has been too fast in the lead up to the G20 meeting is one reason for some near-term JPY consolidation. However, our fundamental view is for the JPY to continue to weaken over the medium-term because of the collapse of Japan's current account surplus. We maintain our forecasts of a significantly firmer NZD/JPY.





FX Trade Recommendations

CBA Foreign Exchange Research - Spot Trade Recommendations (Major Currencies) 2013

Returns are Adjusted for the Cost of Carry

TRADE	ENTRY DATE	ENTRY SPOT	TARGET	STOP	EXIT (CURRENT SPOT)	RETURN (%)	CUMULATIVE RETURN (%)	STATUS	
19 December 2012 - Large Downward Revisions to JPY Forecasts (USD/JPY spot at time of publication 84.31)									
Buy EUR/USD	11-Jan-13	1.3250	1.3800	1.2900	1.3376	11-Feb-13	0.9	0.9	Open
Buy EUR/GBP	14-Jan-13	0.8291	0.8800	0.8320	0.8527	8-Feb-13	2.7	3.7	Closed
31 January 2013 - EUR/GBP trade parameters were updated. Our target was raised from 0.8706 to 0.8800, and our stop was lifted from 0.8125 to 0.8320.									
Buy EUR/CHF	16-Jan-13	1.2379	1.3170	1.2010	1.2271	11-Feb-13	-0.9	2.8	Open
Buy NZD/CHF	16-Jan-13	0.7835	0.8250	0.7680	0.7680	28-Jan-13	-1.9	0.9	Closed
16 January 2013 - Change of Foreign Exchange Forecasts (Upward Revisions to EUR, AUD, NZD, CAD. Downward Revisions to CHF)									
Sell GBP/CAD	21-Jan-13	1.5744	1.5470	1.5900	1.5900	25-Jan-13	-1.0	-0.1	Closed
Sell USD/CAD	24-Jan-13	1.0002	0.9800	1.0070	1.0070	26-Jan-13	-0.7	-0.8	Closed
17 January 2013 - Buy USD/JPY, EUR/JPY and AUD/JPY. Entry levels not yet triggered (87.80, 116.75, 92.50).									
Buy AUD/CHF	31-Jan-13	0.9485	0.9731	0.9391	0.9391	1-Feb-13	-1.0	-1.8	Closed
Sell USD/MXN	1-Feb-13	12.7176	12.8448	12.6540	12.6880	2-Feb-13	0.2	-1.6	Closed
Buy EUR/AUD	4-Feb-13	1.307	1.3462	1.2939	1.2939	5-Feb-13	-1.0	-2.6	Closed



Foreign Exchange Forecasts

	End Period			
	Mar-13	Jun-13	Sep-13	Dec-13
Majors				
EUR/USD	1.3500	1.3900	1.4000	1.4200
USD/JPY	91.00	94.00	98.00	100.00
GBP/USD	1.6200	1.6400	1.6400	1.6500
AUD/USD	1.0600	1.0700	1.0800	1.0800
NZD/USD	0.8400	0.8400	0.8600	0.8700
USD/CAD	0.9800	0.9800	0.9700	0.9700
USD/CHF	0.9259	0.9101	0.9143	0.9085
USD/CNY	6.2000	6.1600	6.1200	6.0000
AUD cross rates				
AUD/EUR	0.7852	0.7698	0.7714	0.7606
AUD/GBP	0.6543	0.6524	0.6585	0.6545
AUD/JPY	96.46	100.58	105.84	108.00
AUD/NZD	1.2619	1.2738	1.2558	1.2414
AUD/CAD	1.0388	1.0486	1.0476	1.0476
AUD/CHF	0.9815	0.9738	0.9874	0.9811
AUD/CNY	6.5720	6.5912	6.6096	6.4800
AUD/SGD	1.2826	1.2733	1.2744	1.2636
NZD cross rates				
NZD/EUR	0.6222	0.6043	0.6143	0.6127
NZD/GBP	0.5185	0.5122	0.5244	0.5273
NZD/JPY	76.44	78.96	84.28	87.00
NZD/AUD	0.7925	0.7850	0.7963	0.8056
NZD/CAD	0.8232	0.8232	0.8342	0.8439
NZD/CHF	0.7778	0.7645	0.7863	0.7904
NZD/CNY	5.2080	5.1744	5.2632	5.2200

	End Period			
	Mar-13	Jun-13	Sep-13	Dec-13
European cross rates				
EUR/JPY	122.85	130.66	137.20	142.00
EUR/GBP	0.8333	0.8476	0.8537	0.8606
EUR/CHF	1.2500	1.2650	1.2800	1.2900
EUR/AUD	1.2736	1.2991	1.2963	1.3148
EUR/NZD	1.6071	1.6548	1.6279	1.6322
GBP/JPY	147.42	154.16	160.72	165.00
GBP/CHF	1.5000	1.4925	1.4994	1.4989
GBP/AUD	1.5283	1.5327	1.5185	1.5278
GBP/NZD	1.9286	1.9524	1.9070	1.8966
Non-Japan Asia				
USD/SGD	1.2100	1.1900	1.1800	1.1700
USD/HKD	7.7500	7.7500	7.7500	7.7500
USD/THB	29.80	29.40	29.20	28.90
USD/IDR	9700	9500	9200	9000
USD/TWD	28.75	28.50	28.10	28.00
USD/KRW	1050	1025	1000	1000
USD/MYR	3.00	2.95	2.90	2.85
USD/VND	22000	22000	22000	22000
USD/PHP	40.50	40.00	39.50	39.00
USD/INR	53.50	51.50	49.50	49.00

* Forecasts were adjusted on 16 January 2013

* JPY forecasts were originally lowered on 19 December 2012



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