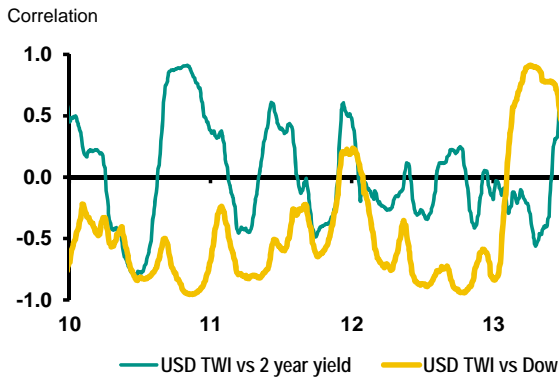


European FX

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Correlation USD with 2-year yield and Dow

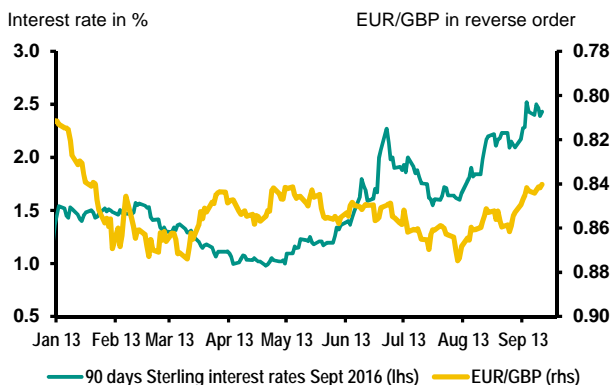


Source: Thomson Reuters Datastream

EUR/USD

Last week, sentiment in financial markets further improved. The USD fell under pressure for several reasons. Safe haven flows that supported the USD before were easing. In addition US yields moved sideways failing to provide support to the USD. Moreover, the USD has lost some cyclical recently reflected by a lower (even negative now) correlation with the Dow Jones. This is merely a reflection of market expectations of a gradual reduction in monetary stimulus by the Fed this week. So in a way the market is now positioned for a dovish sounding Fed announcing a small decrease in bond purchases and an adjustment in the unemployment threshold downwards. This USD reaction is similar to those we have seen in the past when the USD was out of favour in a risk seeking environment because of a dovish Fed. We expect US economic data to start to surprise on the upside again, which will make the USD more cyclical again. We therefore keep our forecast for 1.20 in EUR/USD at the end of this year in place.

EUR/GBP, interest rate expectations



Source: Bloomberg

EUR/GBP

Last week, the UK labour market numbers came in stronger than expected and this pushed sterling and UK rates higher. Claimant unemployment fell by 32.6K in August (consensus: -21K) following a revised 36.3K drop in July (revised from -29.2K). This took the claimant unemployment rate down to 4.2% from 4.3% previously. The favourable trends are also becoming increasingly visible in the ILO numbers, which lag. Employment rose by 80K in the 3-months to July, while the ILO unemployment rate fell to 7.7% from 7.8%. Indeed, the ILO unemployment rate may well reach the BoE's 7% threshold sooner than our current expectation of the end of next year. In turn, this points to upside risks to our view that the central bank will hike rates for the first time in 2015Q1. It also suggests that sterling may have even more upside against the euro (our current expectation for EUR/GBP is 0.83 at the end of this year and 0.80 at end-2014).

EUR/SEK



Source: Bloomberg

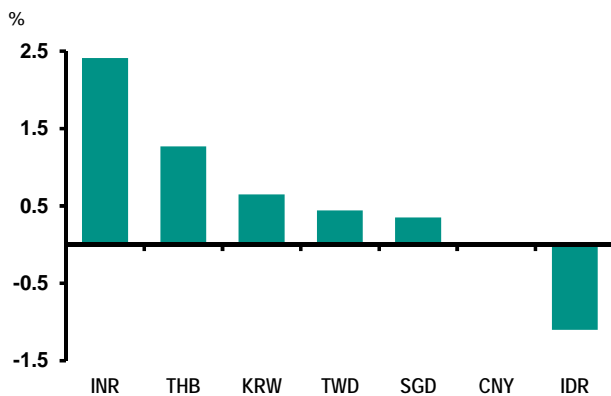
NOK/SEK

Last week, Swedish economic data came in weaker than expected but they only had a temporary impact. Riksbank Governor Ingves said that the central bank needs to keep an eye on household debt when deciding on interest rates. This provided a boost to the SEK. The improvement in sentiment was also supportive. In Norway, the result of the elections held on 9 September is a shift to the right from the current centre-left coalition. Investors are worried that the new government may abolish the rule under which the government can spend only a maximum of 4% of the oil fund's assets annually. The conservatives said that the promised tax cuts will be well within this 4% rule and that they will stick to this 4% rule. So far investors have not sold the NOK following the election result. In fact it rallied following the higher than expected inflation numbers resulting in expectations of higher rates. This week, the Norges bank will decide on interest rates; market consensus is for no change at 1.5%. We expect a dovish tone from the Norges bank, which will push the NOK towards 8.0 versus the EUR again.

Asia FX

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Asian currencies' spot returns last week

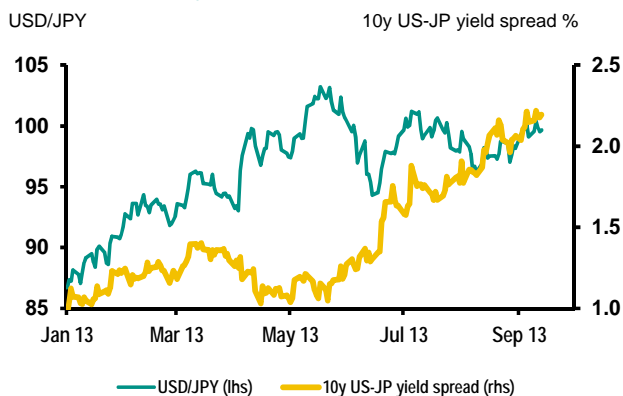


Source: Bloomberg

INR, IDR

Asian currencies benefited due to improvement in global risk appetite and a weaker USD. Better than expected domestic data releases and expectations that more funds will be made available for infrastructure projects supported the Indian rupee (INR), which strengthened for the second consecutive week. Further measures to address the current account deficit and elevated inflation are likely to be announced later this week. On the other hand, gains in the Indonesian rupiah (IDR) after the central bank hiked interest rates by 25bp to defend the currency weakness and cool inflationary pressures were short-lived as growth expectations this year were lowered. The central bank of Indonesia is seeking to boost its ammunition to defend potential currency weakness via extending currency swap arrangements with various central banks. Overall, we expect Asian currencies to benefit as global growth pick up later this year.

USD/JPY and 10y spread between US and Japan



Source: Bloomberg

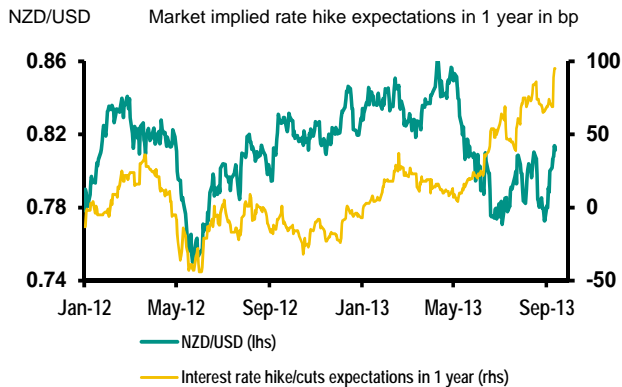
JPY

Declining geopolitical risk and improvement in global growth outlook pushed the JPY past the 100 mark against the USD early last week. Declining real yields domestically also supported the weakness in the yen. This is in response to increased market expectations that both the government and the central bank will make policy adjustments to minimize downside risks to economic recovery and inflation target when the sales tax will be hiked in April as scheduled. Inflation expectations edged higher as the market anticipates that the government will implement economic stimulus package and that minimum wages will increase in October. Meanwhile, long term yields declined as it is increasingly likely that the BoJ will increase its monetary stimulus to support the economy. The JPY strengthened to below 100 later in the week due to lower yields in the US. We remain bearish on the JPY and expect it to ease towards 110 against the USD later this year due to the divergence in monetary policies in the US and Japan.

Commodity FX

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NZD/USD and market implied rate hike expectations

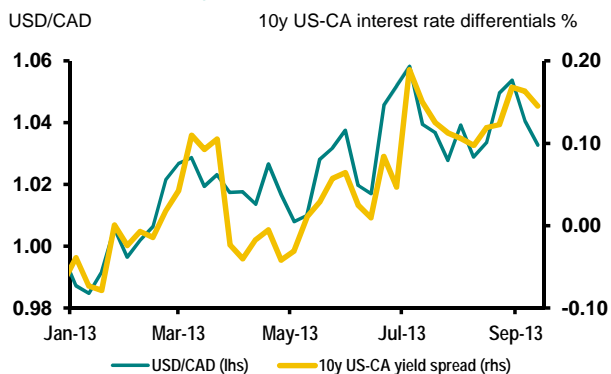


Source: Bloomberg, ABN AMRO Group Economics

AUD/NZD

Early last week, the AUD rose to 0.9350 due to better than expected domestic and China data releases. However, the rally fizzled out after employment figures disappointed. We continue to expect the RBA to cut the cash rate by another 25bp later this year in November due to slower than desired rebalancing of the economy. As this is not fully priced in by the market, the AUD should decline towards 0.86 in the coming months. The NZD surged to above 0.81 after the RBNZ was more hawkish on their monetary outlook next year. In addition, it has softened its tone on the currency's strength from 'overvalued' to 'remains high'. We think that inflation will only reach the midpoint of the RBNZ 1-3% target in 2015 Q2 as the relative strength of the NZD will reduce inflationary pressures. We therefore stick to our scenario of 50bp of rate hikes in the second half of 2014. We expect the NZD to decline towards 0.76 and 0.74 in 2013 and 2014 as the market is pricing more rate hikes than what we envisage.

USD/CAD and 10y spread between US and Canada

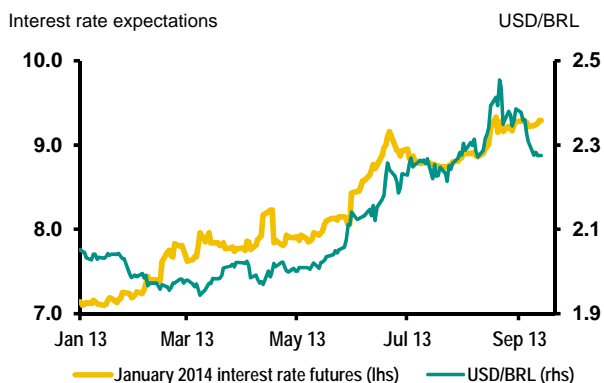


Source: Bloomberg

CAD

Despite lower oil prices and mixed domestic data releases, an improvement in risk appetite and expectations that monetary stimulus in the US will be scaled back on a gradual basis were the dominant drivers for the CAD last week. The CAD outperformed the USD as Canada's yield discount to the US narrowed. Though the CAD has strengthened and volatility expectations have declined, option market expectations of further strength in the CAD have not increased. This is consistent with our view that further strength in the CAD is unlikely as growth in Canada will continue to underperform that of the US this year. Due to continued slack in the economy, this week's inflation data is unlikely to change our view that monetary policy will remain accommodative until 2014 Q4 when the overnight rate is expected to be raised by 25bp to 1.25%. This is priced in by the market. We stick to our 2013 and 2014 year end USD/CAD forecast of 1.06 and 1.08.

USD/BRL



Source: Bloomberg

BRL

Last week, USD/BRL closed around the same level as the week before. Overall investor sentiment was supportive for emerging markets. On Monday, the BRL recovery continued in line with the week before. But the move came to a halt on Tuesday when inflation data surprised on the upside. On Wednesday, the BRL remained under some pressure, but the positive surprise in retail sales on Thursday provided support. Moreover, interventions by the central bank continue to support the BRL as well. As a result, the BRL regained some of the ground lost. This week the market will continue to closely watch inflation data especially the IBGE IPCA inflation, which is used by the central bank in its inflation target. The BRL could fall towards 2.35 versus the USD again if investor worries about inflation increase. We keep our forecast in USD/BRL for the end of this quarter at 2.35.

WEEKLY ECONOMIC CALENDAR

Day	Date	Time	Country	Market indicator	Period	Latest outcome	ABN AMRO	Expectation consensus
Monday	16/09/2013	00:00:00	NZ	Consumer confidence - index	3Q	116.6		
Monday	16/09/2013	00:30:00	NZ	Performance services index	Aug	58.1		
Monday	16/09/2013	08:30:00	IN	Wholesale price index - % yoy	Aug	5.8		5.7
Monday	16/09/2013	11:00:00	EC	Core inflation - % yoy	Aug F	1.1	1.1	1.1
Monday	16/09/2013	13:59:00	RU	Industrial production - % yoy	Aug	-0.7		0.0
Monday	16/09/2013	14:30:00	US	Empire State PMI - Manuf. general business conditions - index	Sep	8.2	9.0	8.6
Monday	16/09/2013	15:15:00	US	Industrial production - % mom	Aug	0.0	0.5	0.4
Monday	16/09/2013	23:00:00	KR	Producer prices index - % yoy	Aug	-0.9		
Tuesday	17/09/2013	02:30:00	SG	Non oil domestic exports - % yoy	Aug	-0.7		2.3
Tuesday	17/09/2013	10:30:00	GB	CPI - % yoy	Aug	2.8	2.8	2.7
Tuesday	17/09/2013	10:30:00	HK	Unemployment - %	Aug	3.3		3.3
Tuesday	17/09/2013	11:00:00	DE	ZEW index (expectation economic growth)	Sep	42	47	45
Tuesday	17/09/2013	11:00:00	EC	Trade balance external EU - EUR bn	Jul	14.9		
Tuesday	17/09/2013	14:30:00	US	Inflation excl food and energy - % mom	Aug	0.2	0.2	0.1
Tuesday	17/09/2013	14:30:00	US	Inflation excl food and energy - % yoy	Aug	1.7	1.9	1.8
Tuesday	17/09/2013	14:30:00	US	Inflation (CPI) - % mom	Aug	0.2	0.2	0.2
Tuesday	17/09/2013	14:30:00	US	Inflation (CPI) - % yoy	Aug	2.0	1.7	1.6
Tuesday	17/09/2013	16:00:00	US	NAHB home builders' confidence index	Sep	59.0	59.0	59.0
Wednesday	18/09/2013	10:00:00	ZA	CPI - % yoy	Aug	6.3		
Wednesday	18/09/2013	13:00:00	ZA	Retail sales - % mom	Jul	0.0		
Wednesday	18/09/2013	13:59:00	RU	Retail sales - % yoy	Aug	4.3		4.2
Wednesday	18/09/2013	13:59:00	RU	Unemployment - %	Aug	5.3		5.2
Wednesday	18/09/2013	14:30:00	US	Housing starts - % mom	Aug	5.9		2.9
Wednesday	18/09/2013	20:00:00	US	Policy rate - %	Sep 18	0.25	0.25	0.25
Wednesday	18/09/2013	20:00:00	US	Fed pace of MBS Purchases \$bn	Sep 18	40	35	40
Wednesday	18/09/2013	20:00:00	US	Fed pace of Treasuries \$bn	Sep 18	45	35	35
Thursday	19/09/2013	01:50:00	JP	Merchandise trade exports - % yoy	Aug	12.2		15.1
Thursday	19/09/2013	08:00:00	CH	Trade balance - CHF bn	Aug	2.4		
Thursday	19/09/2013	09:30:00	CH	Policy rate - %	Sep 19	0.0		0.0
Thursday	19/09/2013	09:30:00	NL	Consumer confidence - index	Sep	-33	-29	
Thursday	19/09/2013	09:30:00	NL	Unemployment - %	Aug	8.7	8.8	
Thursday	19/09/2013	10:00:00	NO	Policy rate - %	Sep 19	1.5		
Thursday	19/09/2013	10:30:00	GB	Retail sales - % mom	Aug	1.1	0.5	0.3
Thursday	19/09/2013	12:00:00	GB	CBI industrial orders - balance (%)	Sep	0.0	5.0	
Thursday	19/09/2013	12:59:00	ZA	Policy rate - %	Sep 19	5.0		
Thursday	19/09/2013	13:59:00	HK	Composite interest rate - %	Aug	0.3		
Thursday	19/09/2013	14:30:00	US	Initial jobless claims	Sep-13	292	320	
Thursday	19/09/2013	16:00:00	US	Philadelphia Fed - business confidence - index	Sep	9.3	10.5	10.8
Thursday	19/09/2013	16:00:00	US	Existing home sales - % mom	Aug	6.5	-2.5	-2.3
Friday	20/09/2013	07:30:00	IN	Repo rate - %	Sep 20	7		
Friday	20/09/2013	10:30:00	GB	Public sector net borrowing - GBP mln	Aug	-1.6		
Friday	20/09/2013	14:30:00	CA	CPI core - % yoy	Aug	1.4		
Friday	20/09/2013	14:30:00	CA	CPI - % yoy	Aug	1.3		
Friday	20/09/2013	16:00:00	EC	Consumer confidence - index	Sep A	-15.6	-14.5	-14.3

Source: Bloomberg, Reuters, ABN Amro Group Economics

If you would like to receive this calendar by email on Friday, please send a message to

abn.amro.group.economics@nl.abnamro.com.

Find out more about Group Economics at: abnamro.nl/groupeconomics

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