Eurozone - FX

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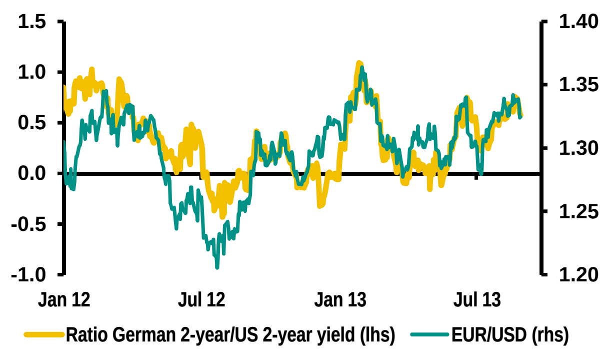
EUR/USD

Since the risk of a US involvement in the Syria crisis increased, investor risk appetite has deteriorated. The move can be characterized as a classic risk off move with the USD, CHF and the JPY profiting. As a result, EUR/USD topped out and started to move lower. During the week, US GDP and initial jobless claims came in above expectations. This also supported the USD versus the EUR. This week will be a make-or-break week. First there will be more clarity on possible western military action in Syria. Moreover, important US data such the US employment report on Friday will set the tone for the September FOMC meeting. In addition, the ECB will decide on monetary policy. We expect US data to come in above market consensus making a September FOMC tapering very likely. This should provide strong support to the USD. We expect the ECB to sound dovish with the aim of easing interest rates expectations. This combination should push EUR/USD below 1.30, bringing it closer to our end of September target of 1.25.

EUR/USD and interest rate differentials

Ratio Germany/US 2-Y government bond yield — level



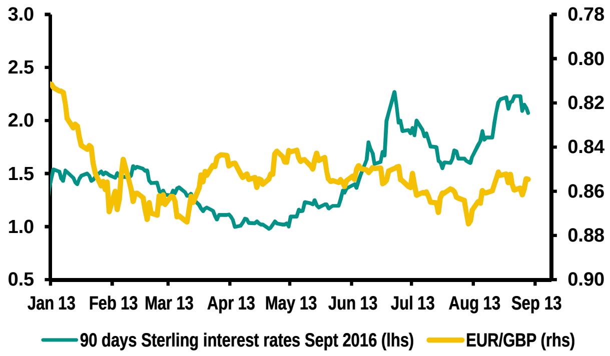
Source: Thomson Reuters Datastream

EUR/GBP

The euro kicked-off last week on a strong note versus sterling. Dovish comments from BoE governor Carney helped the move. But once the fall in EUR/USD started to gain pace, EUR/GBP was also dragged lower. The fact that the government was outvoted on Syria also provided some support to GBP. Meanwhile, later in the week housing market data beat expectations. Mr. Carney said that the MPC was "watching it (housing market) closely and we will as appropriate make our views known in terms of the degree of this risk and the potential action that should be taken to address it". Our scenario remains that the UK economy is improving at a stronger pace than the Bank assumes and this will challenge the view that rates can stay on hold well into 2016. This week the BoE will decide on monetary policy, with no change expected. But it will release a statement. Although data have been generally bullish, the BoE has been trying to dampen market rate hike expectations. We keep our EUR/GBP for the end of September at 0.84.

EUR/GBP, interest rate expectations

Interest rate, % — EUR/GBP in reverse order



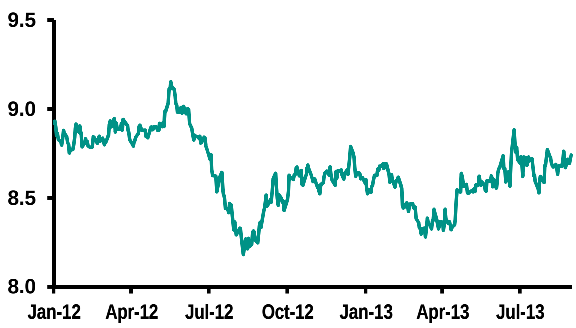
Source: Bloomberg

SEK/NOK/CHF

The euro crosses are being held hostage by overall market sentiment. Weakness in emerging market currencies at the start of the week hit the less liquid and more cyclical currencies, including the SEK and NOK, while it gave support to the traditional safe haven currencies, including of course the CHF. When sentiment improved somewhat during the week, the CHF came under pressure, while the NOK and SEK firmed. All-in-all there was enough intraday volatility but an overall direction was missing. The global growth outlook (for SEK), behaviour of oil prices (for NOK) and risk sentiment (for NOK, SEK and CHF) will be the crucial drivers going forward. We expect improvement in the global growth picture, lower oil prices and better investor sentiment. In such an environment, the CHF will strongly underperform, the NOK will be held back by lower oil prices, and the SEK will perform well. We have adjusted our forecasts of SEK and NOK to reflect lower likelihood of rate hikes this year. Our new September forecasts for EUR/SEK and EUR/NOK are 8.5 and 8.0, respectively.

EUR/SEK

level



Source: Bloomberg

%yoy

Asia - FX

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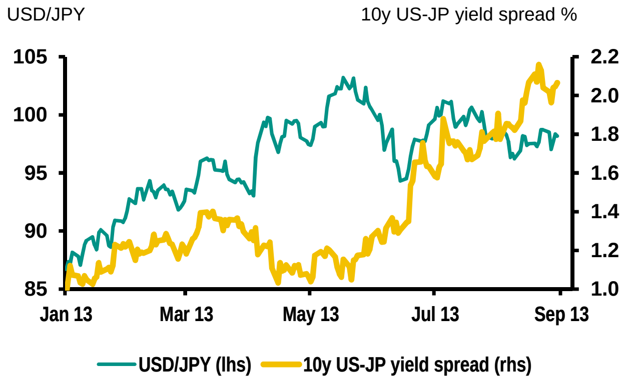
JPY

The yen strengthened to 97 against the USD early last week due to safe haven flows following increased market uncertainty surrounding Syria. However, later in the week the yen declined with USD//JPY moving back above 98 as sentiment improved. On the data front, local investors continue to be net sellers of foreign bonds for the second consecutive week ending 23 August. However, as volatility in global bond yields has subsided, the pace of net sales also declined from the previous week. Looking ahead, we expect local investors to resume their outward investment in foreign assets as real returns in Japan decline and risk sentiment improves. This, in addition to the divergence in monetary policies in the US and Japan, should support a higher USD/JPY towards 110 later this year. This week, the BoJ is widely expected to leave monetary policy unchanged. Private sector capital spending in the second quarter will also be closely watched as that is a key target of Abenomics. A weaker print could increase the pressure on the BoJ to further stimulate the economy and exert more pressure on the JPY.

USD/JPY

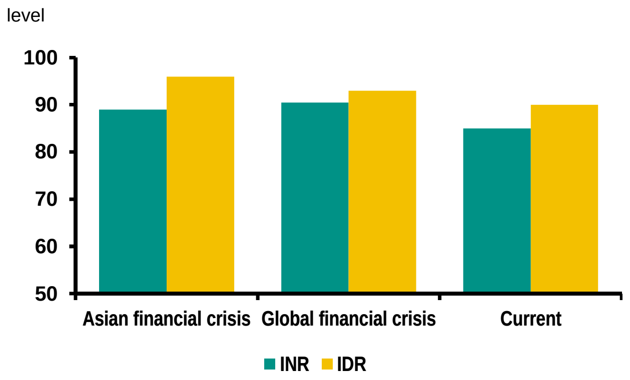


Source: Bloomberg

INR and IDR

Last week, losses in both the Indian rupee (INR) and Indonesian rupiah (IDR) were minimized after both central banks took action. Bank Indonesia (BI) hiked interest rates by 50bp in an unscheduled meeting and signed an extended bilateral swap arrangement with the BoJ, enabling more ammunition for BI to defend potential weakness in the IDR. The INR strengthened after the Reserve Bank of India (RBI) was suspected to have defended the currency when USD/INR was near 69. In addition, the RBI also announced other measures (see above) to reduce the market demand for USD. Oil imports from Iran which will be paid in local currency will also be resumed. As we expect current market fears due to Fed tapering to be transitory and a pick-up in global growth later this year to benefit the current account imbalances in both countries, the INR and IDR should rebound in the coming months given their oversold technicals.

Oversold technical indicator



Source: Bloomberg, ABN AMRO Group Economics

Commodity exporters - FX

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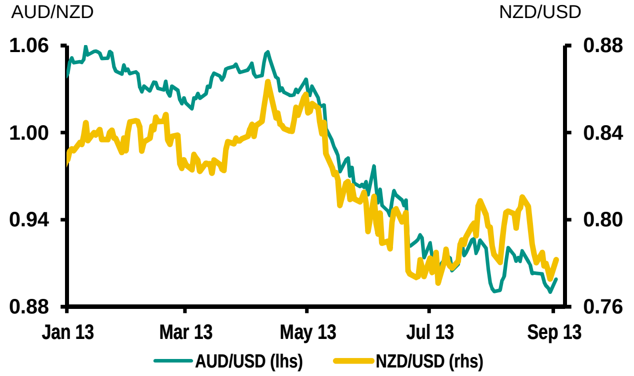
AUD/NZD

AUD/USD and NZD/USD

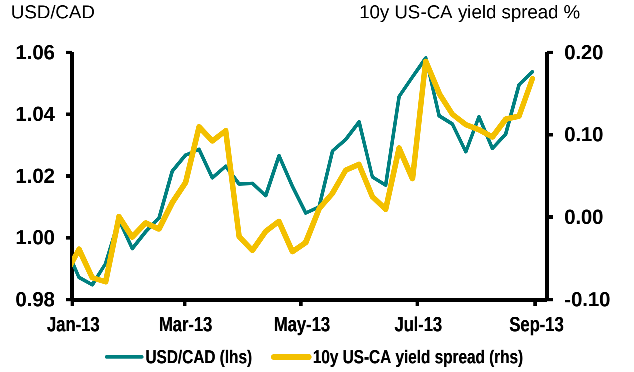


Source: Bloomberg, ABN AMRO Group Economics

Both the AUD and NZD underperformed the USD last week due to lower risk appetite in financial markets and better than expected US data releases. In Australia, even though total new capital expenditure in Q2 came in better than expected, it does not change our view that further rate cuts are needed to stimulate the non-mining sectors given that the rebalancing in the economy remains lower than desired. We stick to our expectation of a 25bp rate cut in November, which is not fully priced in by the market. As such the AUD/USD is expected to head lower towards 0.86 at the end of this year. This week, the RBA is widely expected to leave the cash rate unchanged, while GDP data should show slower growth in Q2. In New Zealand, data releases last week generally came in weaker than expected and reinforce our view that the RBNZ is likely to delay any rate hikes till 2014 Q2, one quarter later than what the market is pricing in. Our 2013 and 2014 year end forecasts for NZD/USD are 0.76 and 0.74 respectively.

CAD

USD/CAD

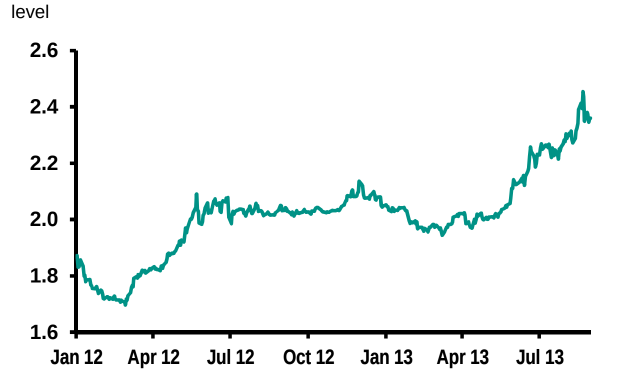


Source: Bloomberg

Higher oil prices supported the CAD early last week with the CAD trading below 1.05 against the USD. However, a combination of a wider current account deficit in Q2, stronger US GDP release and lower oil prices supported the USD and pushed USD/CAD back above the 1.05 level. This week, the Bank of Canada is widely expected to leave monetary policy unchanged. Moreover, important data released are scheduled for Canada as well such as employment data and Ivey PMI. The market consensus is for an improvement in economic data and we expect data to come in in line with expectations. We remain comfortable with our view that economic activity will gradually pick up later this year, though at a slower pace than in the US. As such the CAD is expected to underperform the USD this year, though at a slow gradual pace as a stronger US economy will benefit the Canadian economy given their strong trade relationship. We stick to our 2013 and 2014 year end USD/CAD forecasts of 1.06 and 1.08 respectively.

BRL

USD/BRL



Source: Bloomberg

Last week, weakness in emerging market currencies continued until authorities stepped up the fight to arrest currency weakness and overall sentiment improved somewhat. The Brazilian real was already on a recovery mode following the USD 60bn intervention package released the week before. The budget draft for 2014 was not that well received as the market feels that not enough action is being taken to improve the budget and some believe that it relies on very optimistic forecasts. The central bank in Brazil hiked interest rates by 50bp to 9% and signaled that it will continue to hike interest rates at this pace to fight inflation and indirectly currency weakness. As the market has more confidence in the central bank than in the government in fighting inflation, expectations for rate hikes have increased this year. Brazil's GDP surprised on the upside driven by the agricultural sector and this may be a first sign that the growth outlook is improving somewhat. If the central bank is able to tame inflationary pressures, the BRL should be able to recover further.

WEEKLY ECONOMIC CALENDAR

Day	Date	Time	Country	Market indicator	Period	Latest outcome	ABN AMRO	Expectation consensus
Sunday	01/09/2013	03:00:00	CN	PMI manufacturing - index (official)	Aug	50.3		50.7
Monday	02/09/2013	00:00:00	RU	PMI manufacturing - index	Jul	49.2		49.2
Monday	02/09/2013	01:50:00	JP	Capital investment excl software - % yoy	2Q	-5.2		-2.5
Monday	02/09/2013	03:45:00	CN	PMI manufacturing - index (HSBC)	Aug	47.7		50.2
Monday	02/09/2013	09:30:00	NL	PMI manufacturing - index	Jul	50.8	51.4	50.8
Monday	02/09/2013	10:00:00	EC	PMI manufacturing - index	Aug F	51.3	51.3	51.3
Monday	02/09/2013	10:30:00	GB	PMI manufacturing - index	Aug	54.6	54.6	55.0
Monday	02/09/2013	13:59:00	GB	Halifax house price index - % mom	Aug	0.9	0.4	0.9
Tuesday	03/09/2013	01:01:00	GB	BRC Retail sales - % yoy	Aug	2.2	2.8	
Tuesday	03/09/2013	03:00:00	CN	PMI services - index (official)	Aug	54.1		
Tuesday	03/09/2013	03:30:00	AU	Retail sales - % yoy	Jul	0.0		0.3
Tuesday	03/09/2013	06:30:00	AU	Policy rate - %	Sep 3	2.5	2.5	2.5
Tuesday	03/09/2013	07:45:00	CH	GDP - % qoq	2Q	0.6		0.3
Tuesday	03/09/2013	14:58:00	US	Markit - Flash PMI - final	Aug	53.7	54.0	
Tuesday	03/09/2013	16:00:00	US	Construction spending - % mom	Jul	-0.6	0.2	0.2
Tuesday	03/09/2013	16:00:00	US	ISM manufacturing - index	Aug	55.4	55.0	54.0
Wednesday	04/09/2013	03:30:00	AU	GDP - % qoq	2Q	0.6		0.5
Wednesday	04/09/2013	03:45:00	CN	PMI services - index (HSBC)	Aug	51.3		
Wednesday	04/09/2013	07:00:00	RU	PMI services - index	Aug	48.7		
Wednesday	04/09/2013	10:00:00	EC	Composite PMI output	Aug F	51.7	51.7	51.7
Wednesday	04/09/2013	10:00:00	EC	PMI services - index	Aug F	51.0	51.0	51.1
Wednesday	04/09/2013	10:30:00	GB	PMI services - index	Aug	60.2	60.2	59.8
Wednesday	04/09/2013	11:00:00	EC	GDP - % qoq	2Q P	0.3	0.3	0.3
Wednesday	04/09/2013	11:00:00	EC	Retail sales - % mom	Jul	-0.5	0.0	0.3
Wednesday	04/09/2013	14:30:00	CA	Trade balance - CAD bn	Jul	-0.5		-0.4
Wednesday	04/09/2013	14:30:00	US	Trade balance - USD bn	Jul	-34.2	-38.0	-38.3
Wednesday	04/09/2013	16:00:00	CA	Policy rate - %	Sep 4	1.0	1.0	1.0
Wednesday	04/09/2013	23:00:00	US	Auto sales total - millions annualised	Aug	15.7	15.8	15.8
Thursday	05/09/2013	09:30:00	NL	CPI - % yoy	Aug	3.1	3.0	
Thursday	05/09/2013	09:30:00	SE	Policy rate - %	Sep 5	1.0	1.0	1.0
Thursday	05/09/2013	12:00:00	DE	Manufacturing orders - % mom	Jul	3.6	-1.5	-0.9
Thursday	05/09/2013	13:00:00	GB	BoE size of asset purchase programme - GBP bn	Sep	375	375.0	375
Thursday	05/09/2013	13:00:00	GB	Policy rate - %	Sep 5	0.5	0.5	0.5
Thursday	05/09/2013	13:45:00	EC	ECB Deposit rate - %	Sep 5	0.0	0.0	0.0
Thursday	05/09/2013	13:45:00	EC	Policy rate - %	Sep 5	0.5	0.5	0.5
Thursday	05/09/2013	13:59:00	JP	Policy rate - %	Sep 5	0.1	0.1	0.1
Thursday	05/09/2013	14:15:00	US	ADP nat. employment report - thousands	Aug	200	200	176
Thursday	05/09/2013	14:30:00	US	Initial jobless claims - thousands	Aug 31	331	330	331
Thursday	05/09/2013	14:30:00	US	Output per hour nonfarm business sector - % qoq saar	2Q F	0.9	1.4	1.4
Thursday	05/09/2013	16:00:00	US	ISM non-manufacturing, index	Aug	56.0	55.5	55.0
Friday	06/09/2013	09:00:00	CH	Foreign currency reserves - CHF mln	Aug	434319		
Friday	06/09/2013	09:15:00	CH	CPI - % yoy	Aug	0.0		0.0
Friday	06/09/2013	10:30:00	GB	Manufacturing production - % mom	Jul	1.9	-0.2	0.2
Friday	06/09/2013	10:30:00	GB	Trade balance - GDP mln	Jul	-1548.0		-1707.1
Friday	06/09/2013	12:00:00	DE	Industrial production - % mom	Jul	2.4	-1.0	-0.5
Friday	06/09/2013	13:59:00	RU	GDP - % yoy	2Q P	1.2	1.2	1.2
Friday	06/09/2013	14:00:00	BR	CPI - % yoy	Aug	6.3		6.1
Friday	06/09/2013	14:30:00	CA	Unemployment - %	Aug	7.2		7.2
Friday	06/09/2013	14:30:00	US	Change in employment total - thousands	Aug	162	200	180
Friday	06/09/2013	14:30:00	US	Change in employment private employment - thousands	Aug	161	180	175
Friday	06/09/2013	14:30:00	US	Unemployment - %	Aug	7.4	7.4	7.4
Friday	06/09/2013	15:00:00	BE	GDP - % qoq	2Q F	0.1		
Friday	06/09/2013	16:00:00	CA	PMI manufacturing - index	Aug	48.4		55.0
Friday	06/09/2013	16:00:00	GB	NIESR GDP estimate - % qoq	Aug	0.7		
Friday	06/09/2013	16:00:00	MX	Policy rate - %	Sep 6	4.0		4.0
Sunday	08/09/2013	12:59:00	CN	Trade balance - USD bn	Aug	17.8		

Source: Bloomberg, Reuters, ABN Amro Group Economics