The Global FX Monthly Analyst

August 2008

- We have changed our view and think the Dollar has bottomed.
- Valuation, recoupling and a technical break have improved the Dollar fundamentals.
- Near-term outlook remains bumpy due to various risks, primarily related to growth and oil.
- We forecast EUR/$ 1.45, 1.50 and 1.40 in 3, 6 and 12 months.

Contents

Top 10 Trades and Current Trading Strategy

Top 10 Trades for 2008

Trade	Current Spot	Spot on Entry	Target	Total Return Including Carry
1. Close Long baskets of MYR, SGD and TWD, funded in US. [1, 5]	105.17	100.00	5%	2.0%
2. Close Short GBP/JPY. [1, 2]	210.94	228.26	7%	8.0%
3. Short Gold (in US$). [1]	831.5	835.1	15-20%	0.4%
4. Long a basket of BRL, RUB and CZK funded in CAD, GBP and US$, in equal parts. [1]	113.11	100.00	7%	13.3%
5. Short 10-yr C$ bond futures vs. receiving CHF 10-yr swaps. [1]	6bp	87.2bp	127.2bp	-81.2bp
6. Long CNY versus the PBoC reference basket of basket of 90% USD and 10% EUR via 2yr NDFs. [3]	93.01	100.00	10%	-6.99%
7. Short NZD/BRL [4.]	1.14	1.34	7.5%	16.10%

1. Opened 28 November 2007. 2. Closed 24 January 2008. 3. Opened 22 February 2008. 4. Opened on 15 April 2008. 5. Closed August 11 2008.

Tactical Trading Strategy

Trade	Opened	Spot on Entry	Current Return
Long RUB in 12-month NDF versus a basket of 55% USD and 45% EUR	28/11/2007	99.9	1.07%
Long $/CAD	05/08/2008	1.0419	2.29%
Long INR against a basket of USD, EUR, AUD and JPY	05/08/2008	100	2.00%

Tactical FX Trade Perfomance Fiscal Year-To-Date 2008

	Number	Cum Return	Avg Return	Avg Duration
All Trades	28	29.5%	1.05%	47 days
Profitable	15	49.4%	3.29%	69 days
Loss-Making	13	-19.9%	-1.53%	21 days

Please see our *Global Markets Daily Comment* and *Trade Updates* for changes in these live trading strategies, as they change in line with market developments and our views.

Major FX Forecasts

Major FX Forecasts

		3-Month Horizon		6-Month Horizon		12-Month Horizon	
	Current*	Forward	**Forecast**	Forward	**Forecast**	Forward	**Forecast**
EUR/$	**1.49**	1.48	**1.45**	1.48	**1.50**	1.47	**1.40**
$/¥	**108.7**	108.1	**112.0**	107.5	**108.0**	106.2	**114.0**
EUR/¥	**161.9**	160.2	**162.4**	158.5	**162.0**	155.6	**159.6**
EUR/CHF	**1.62**	1.61	**1.60**	1.60	**1.60**	1.58	**1.62**
CHF/¥	**100.2**	99.7	**101.5**	99.2	**101.3**	98.3	**98.5**
$/CHF	**1.09**	1.08	**1.10**	1.08	**1.07**	1.08	**1.16**
EUR/£	**0.80**	0.80	**0.81**	0.80	**0.81**	0.80	**0.78**
£/$	**1.87**	1.85	**1.79**	1.84	**1.85**	1.83	**1.79**
£/¥	**203.1**	200.5	**200.5**	198.1	**200.0**	193.9	**204.6**
£/CHF	**2.03**	2.01	**1.98**	2.00	**1.98**	1.97	**2.08**
EUR/NOK	**8.03**	8.06	**7.80**	8.10	**7.80**	8.17	**7.80**
EUR/SEK	**9.37**	9.37	**9.40**	9.38	**9.40**	9.40	**9.10**
A$/$	**0.87**	0.86	**0.86**	0.85	**0.87**	0.83	**0.80**
NZ$/$	**0.70**	0.69	**0.68**	0.68	**0.69**	0.66	**0.61**
$/C$	**1.07**	1.07	**1.10**	1.07	**1.06**	1.07	**1.14**
$/CNY	**6.86**	6.83	**6.76**	6.75	**6.60**	6.62	**6.30**

* Close 13 August 08

Feature

The Dollar Has Bottomed!

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The fundamental picture for the Dollar has improved substantially in recent weeks. The rapid weakening of OECD growth outside the US, a clear technical break in many Dollar crosses and much lower oil prices are powerful signs of improving Dollar fundamentals. Given that the Dollar's undervaluation is now likely to lead to a substantial improvement of the US BBoP through continued strong export performance and rising US capital inflows, structural appreciation pressure should also increasingly support the Dollar. Until the end of the year the road may remain bumpy, given risks for US demand, oil price volatility and the potential unwinding of currently stretched long USD positions, but the underlying picture has turned much more Dollar-positive. Our new 3-, 6- and 12-month G3 forecasts are: 1.45, 1.50 and 1.40 in EUR/$, and 112, 108 and 114 in $/JPY.

1. New Factors That have Changed the Dollar Outlook

Last month, we moved towards a broadly Dollar-neutral stance in our feature entitled "Timing the Dollar Bottom". But we also highlighted the remaining downside risks for the Dollar from slowing US consumption after the tax rebates have been spent and rising oil prices.

Since then the following factors have changed:

Recoupling: The growth picture outside the US has deteriorated substantially. Large parts of the OECD, including Euroland, the UK, much of Scandinavia, Australia New Zealand and Canada have shown signs of rapidly slowing activity.

Stabilising US Growth: The growth picture in the US has remained mixed, with stabilising—and even slightly rising—business and consumer sentiment surveys, and continued strong export performance. But this has been partly offset by signs of further weakness in the labour market and further tightening of credit conditions.

Growth Outside of the US is Slowing Fast

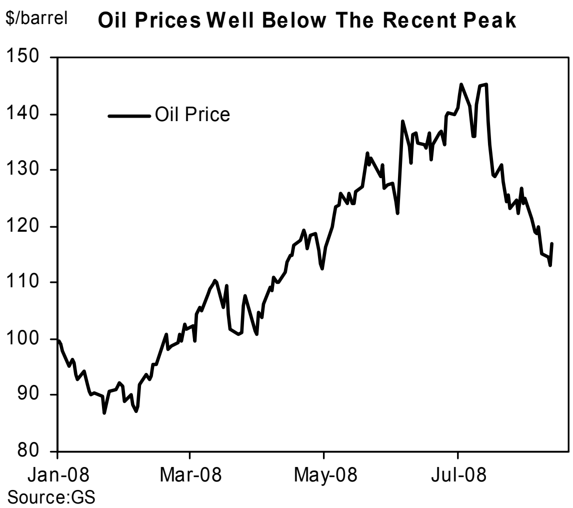
Country	avg qtly growth rate Q1:07-Q1:08	Q2*
USA	2.08	1.9
Euroland	2.34	-0.8
Japan	1.96	-2.4
Canada	2.16	1.5
Sweden	2.06	-0.1
Switzerland	3.12	1.6
UK	2.46	0.8

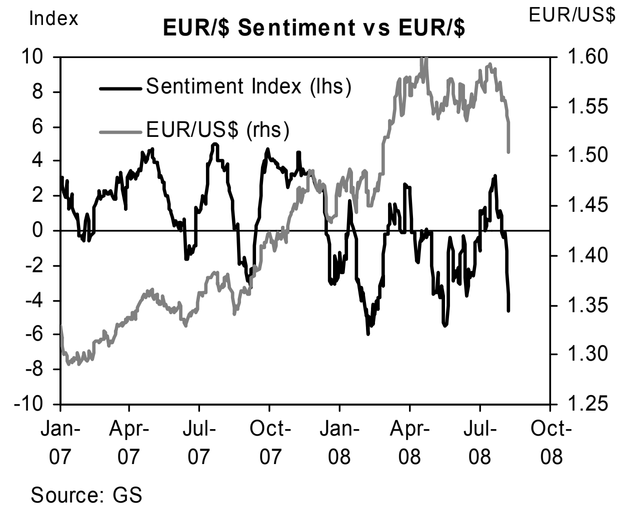
*Preliminary releases except for Canada and Sw itzerland w here data point is GS forecast

Real Economy Adjustments to Undervalued Dollar: More and more signs are emerging that the long-lasting undervaluation of the Dollar is finally affecting the real economy. This is a slow process

Summary and Key Points

- We have changed our view on the Dollar.
- Recoupling in the form of weaker growth in major non-US countries provides relative Dollar support through rate differentials and expected changes in capital flows.
- Valuation has now clearly led to substantial improvements in the real trade balance of the US, and reduces the challenges of funding the current account deficit.
- Lower oil prices also remove pressure from the current account.
- M&A flows seem to be picking up into the US and portfolio flows could follow.
- Although a clear technical break suggests further Dollar strength, the near-term outlook remains uncertain.
- Consumer-led renewed weakness in the US, renewed increases in energy prices are among the main factors that could result in renewed but temporary Dollar weakness.
- Our new forecasts are 1.45, 1.50 and 1.40 in EUR/$.





and we were happy to dismiss early tentative signs as insufficient to matter much for the Dollar. But now the impact of valuation has become much clearer and more powerful—increasing our confidence that a strong underlying forces will lead to continued improvement in Dollar fundamentals in the next couple of years. Continued strong US export performance and evidence of accelerating M&A inflows into the US clearly form part of this development.

Falling Oil Prices: Oil and other commodity prices have declined substantially. While the linkages between oil and FX remain complex, there is little doubt that higher oil prices were a bigger drag on the Dollar than on other currencies. The reverse is obviously also true: falling oil prices should give the Dollar a boost, all other things being equal.

Technical Break: The DXY, EUR/$, $/JPY and many other Dollar crosses have very clearly broken out of their previous ranges—systematically signalling a turning point for the Dollar. The moves have been sizable, with the DXY gaining 6% since the recent low on July 15th. The fact that these signals have appeared at a time of rising volatility—and hence have the potential to extend further—suggests something fundamental has changed, and this is consistent with the other factors mentioned above.

2. Implications For Our Key FX Tools

In order to have a better sense of the impact of these new factors on the Dollar outlook, it is useful to discuss them in the context of the usual tools we use to analyse FX markets.

Positioning: Even the most significant change in fundamentals can become amplified by a related shift in speculative positioning, which in turn raises the risk of a pull-back. A careful look at this factor is therefore needed to gain a better idea of possible dynamics in the near future.

This risk of a temporary pull-back has indeed grown. The move lower in the Dollar has been accompanied by a very substantial shift in a number of positioning indicators. For example, our EUR/$ Sentiment Index has shifted from –0.2 to –4.6 over the course of only one week, and the next reading will likely be even lower, given the usual delayed release of IMM data.

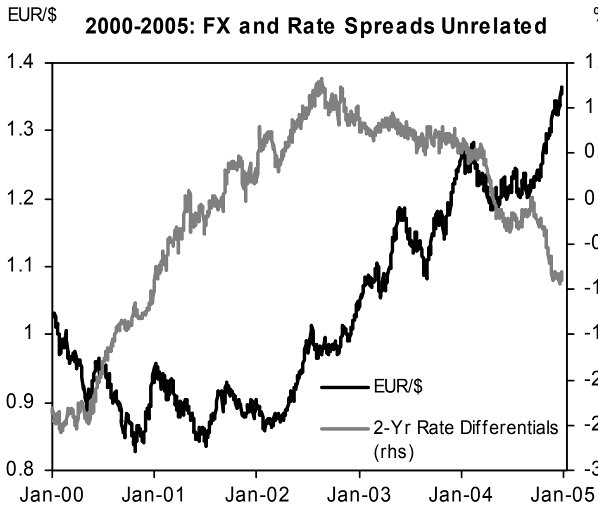
However, we are much less concerned about a sizable pull-back now than, say, at the beginning of the year, when a similar shift in positioning was NOT accompanied by the broad change in fundamentals described above. On the other hand, it is fairly typical for speculative positioning to remain skewed for some time during strong trends. It would therefore be misleading to dismiss the price action as purely speculative.

FX-Rate Correlations: The evidence of stabilising US growth (at weak levels) and strong recoupling outside the US has led to sizable moves in rate differentials in favour of the Dollar. Depending on the exact specification of the relationship between rates and FX, the moves have generally been in line with the price action observed. That said, they may have overshot slightly, as also suggested by positioning indicators.

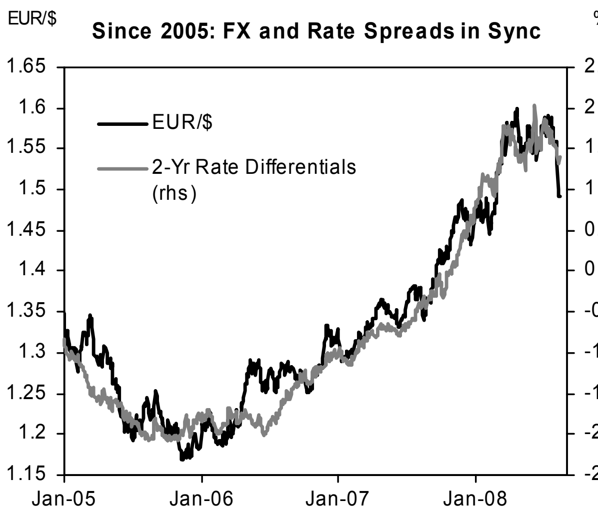
For example, a number of differently specified models based on 2yr rate differentials suggest that EUR/$ should still be trading a few big figures above 1.50—and not below, as it is at the time of writing.

Further Dollar gains will therefore depend on one of two possible conditions. The correlations shift, change or break down. Or, alternatively, markets price substantially more policy easing in Euroland and/or more Fed hikes in the US.

Relative to our baseline forecasts, even when taking risks into account, a big move in the rate differential from current levels looks unlikely. OIS markets already price more than four Fed hikes and a one to two ECB cuts by late-2009. However, in a very strong recoupling scenario,



Source:GS

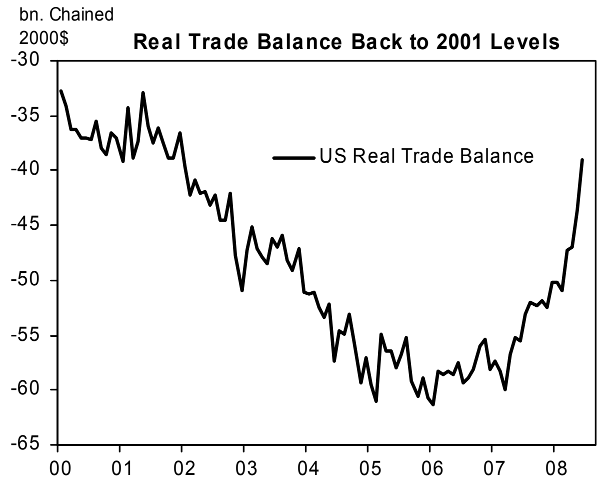


Source:GS

with strong export-driven US growth (boosted by relative prices rather than foreign demand) and further marked weakness in the rest of the OECD, the expected policy gap could move further in favour of the Dollar.

Moreover, there is indeed a possibility of a level adjustment. The relationship between FX and rates is complex and notoriously unstable. Without going too much into the details, we can illustrate this fact simply by plotting the 2yr rate differential against EUR/$ for two distinct periods: back to 2005 and for the period from 2000 to 2005. While tracking each other very closely in recent years, the two lines moved in a perfectly unrelated way in the earlier period. And such a break in correlation may well be triggered by a shift in underlying capital flows.

BBoP Likely to Improve Notably: As our readers will be aware, we have used the BBoP as one of the most powerful tools to analyse the Dollar. In Q1, for example, it showed one of the largest deficits ever observed (5.8% of GDP), and the Dollar reacted with one of the fastest quarterly declines seen so far. But now a number of facts



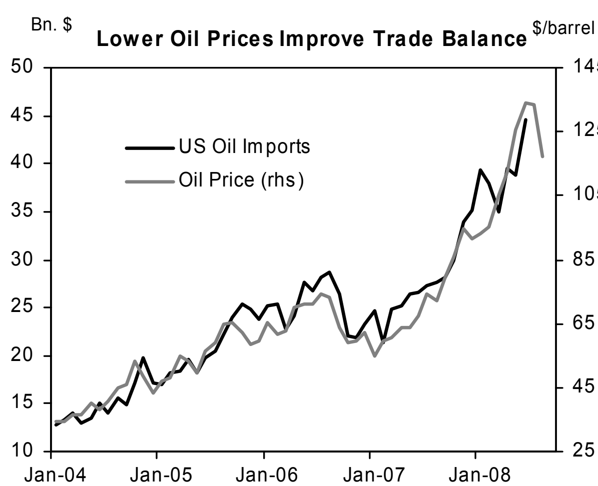
Source: Bureau of the Census, USA

hint at an accelerating improvement in the BBoP.

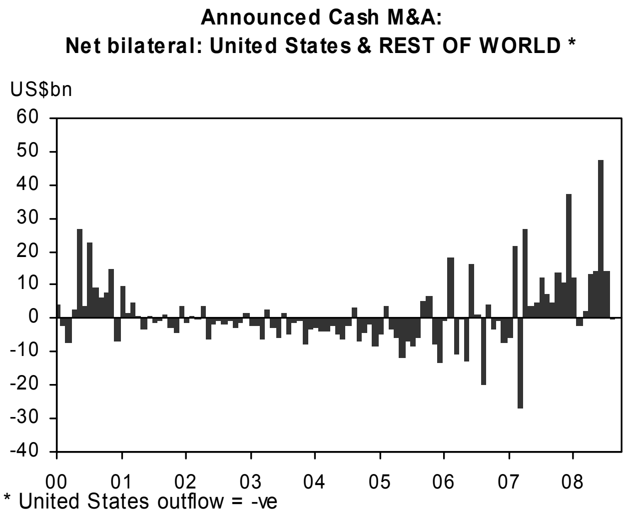
First, the real **US trade balance** continues to narrow substantially. Part of this is simply due to declining import demand linked to weaker US growth. But more important is the steady growth of real exports. The latter has been very resilient even in the light of slowing global demand and suggests the US is now strongly benefiting from BRICs-related export demand and, indeed, valuation. Export growth into places such as India and Latin America has been extremely solid over the past 12 months and the US has also exported more to Europe, where Dollar undervaluation has been most notable.

Second, the continued nominal deterioration of the US trade balance due to rising crude **oil prices** has been partly reversed. And this week's release of the June figures suggests that the August trade balance could fall well below US$50bn at current oil prices. The chart below allows to gauge the likely improvement in the US oil import bill for different oil price scenarios.

Third, there are signs of a significant improvement in cross-border **M&A flows** targeting the US. Again, the undervalued Dollar appears to have created an incentive



Source: US Census Bureau, GS



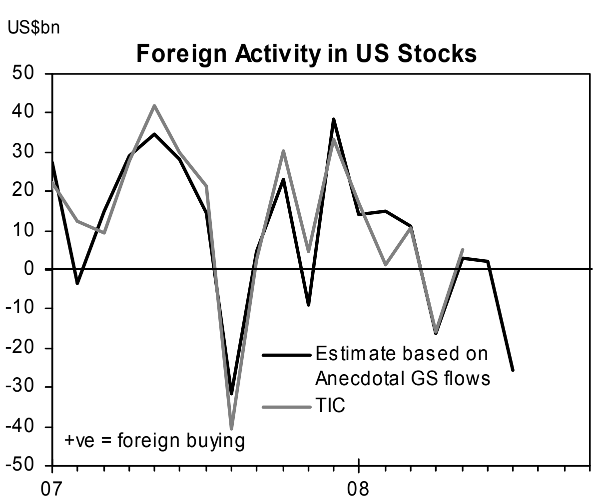
Source: Thomson Financial SDC, GS

for many to snap up 'cheap' US firms. In particular, US exporters have benefited from the currency situation.

Fourth, many international investors have been waiting for the opportunity to buy cheap US assets but were concerned about the risk of further Dollar weakness. The strong technical break discussed above may act as a wake-up call and lead to steadily growing **portfolio inflows** into the US. We have seen little sign of this yet (see chart) but will track this very carefully.

Valuation: Our GSDEER model has shown the USD as clearly undervalued for some time, in particular versus the European currencies. But as we have argued in the past, we need to see signs that the real economy is adjusting to the relative price signal. Moreover, this adjustment has to be big enough to create a genuinely Dollar-supportive situation. The evidence discussed above suggests we may be getting very close to this point.

FX Policy: This is an area that turned Dollar-positive a few months ago and we think most policymakers in G7 countries are very happy about the combined rally in the Dollar and declining commodity prices. Any evidence that these improvements reverse will likely lead to renewed verbal intervention.



Source: US Treasury, GS

3. Challenges and Forecasts

Given that we are right at the beginning of a major directional change in the Dollar, a number of challenges still suggest a rather bumpy road ahead. The following factors in particular could temporarily interrupt a strengthening Dollar:

- Substantially weaker demand globally, but in particular in Europe and Latin America, could lead to a renewed deterioration in export performance and delay further consolidation of the US trade balance.
- Oil prices could rise again, undermining the already expected nominal improvements.
- A powerful unwinding of long USD positions could lead to renewed weakness and undermine the strong technical breaks in the event we return to the old ranges. Holding large long USD positions is costly against most currencies due to a negative carry. Similarly, US investors trying to hedge overseas exposure face penalising forward points.
- FX and rate correlations could stay strong, with major central banks and the FED on hold at the same time. In that case, it would be hard to see much further Dollar strength until the Fed actually starts to hike again.
- Renewed weakness in US data, particularly linked to slowing consumption after the end of tax rebates, could undermine the optimism of foreign equity and M&A investors. Moreover, corporate bond flows have also remained very weak as illustrated by the TIC data in recent months and continued sluggish issuance.
- Portfolio rebalancing of central banks will likely act as a drag on any fast Dollar move. The more it rallies, the more some central banks will be forced to buy other currencies, mainly Euros, to offset valuation losses relative to the Dollar. Note, however, that this widely observed behaviour would not lead to an outright change in the underlying direction of markets. It would merely result in lower volatility and hence slow an otherwise faster move.

Not all of these risks have to materialise, but some could. So it is also important to signal in our new forecasts that Dollar strength will not be a straight line. We are particularly concerned about the outlook for the US economy after the end of tax rebates, which could affect activity on the 3-6 month horizon.

Nevertheless, the Dollar lows are almost certainly behind us. Too many underlying factors have started to work in favour of the Dollar to dismiss the recent bounce as temporary.

Our new 3-, 6- and 12-month forecasts for G3 currencies are 1.45, 1.50 and 1.40 in EUR/$, and 112, 108 and 114 in $/JPY. Other forecasts have been changed accordingly.

New FX Forecasts

Reflecting our new Dollar views, we have changed the profile of our forecasts elsewhere. Our updated projections for $/C$, A$/$ and NZ$/$ all envisage near-term Dollar strength, followed by a Dollar pull-back before the Dollar is able to appreciate once again. However, these three currencies also face challenges on the domestic front from slowing activity, particularly the Antipodean pair. As with the broader risks to our Dollar view, if commodity prices rebound, the AUD and CAD may well trade firmer than these projections.

In Latin America, we have become a little more optimistic on the outlook for BRL and MXN. Certainly the growth story in Brazil and a firm BBoP surplus should allow the currency to shrug off broader Dollar strength.

In Asia our forecast changes mainly reflect the move in spot in recent weeks. We remain constructive on the MYR, but continue to see weakness elsewhere in the region. If oil prices rise as our baseline forecast foresees, it will put many currencies in the region under pressure.

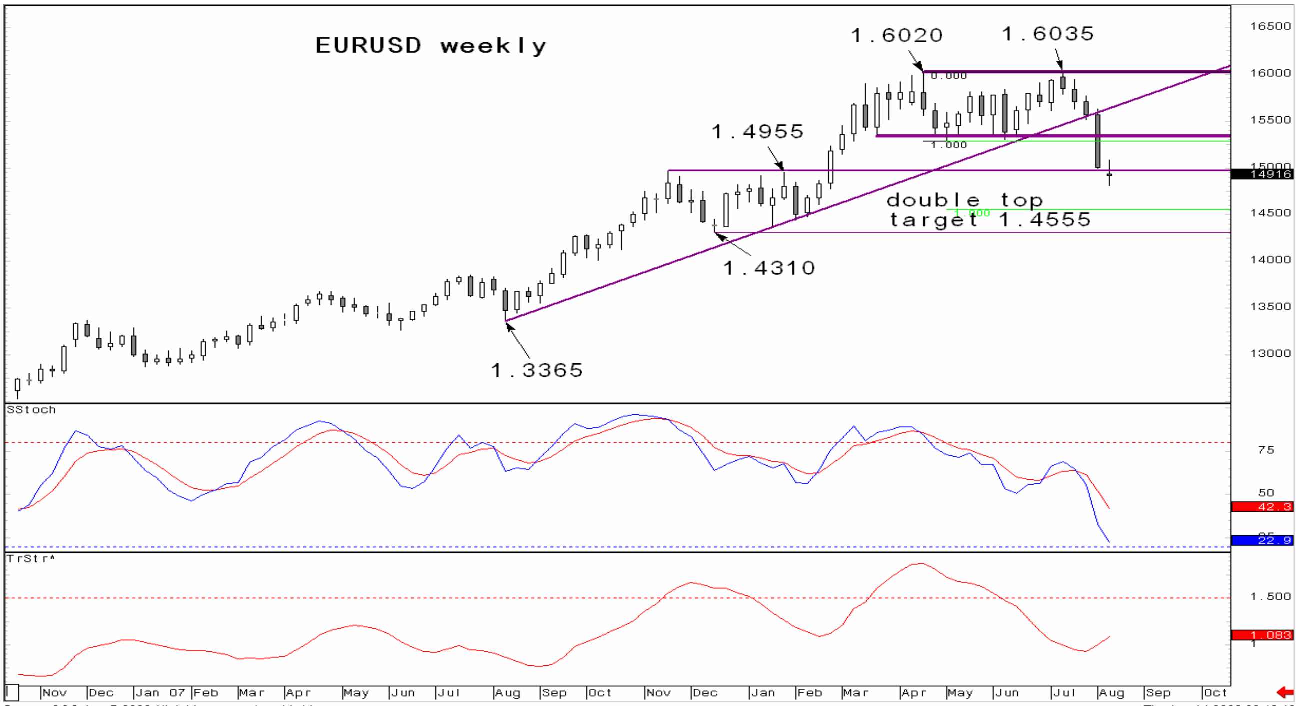
The specifics of the changes we have made can be found in the accompanying table or on the individual country pages for more detail.

New FX Forecasts

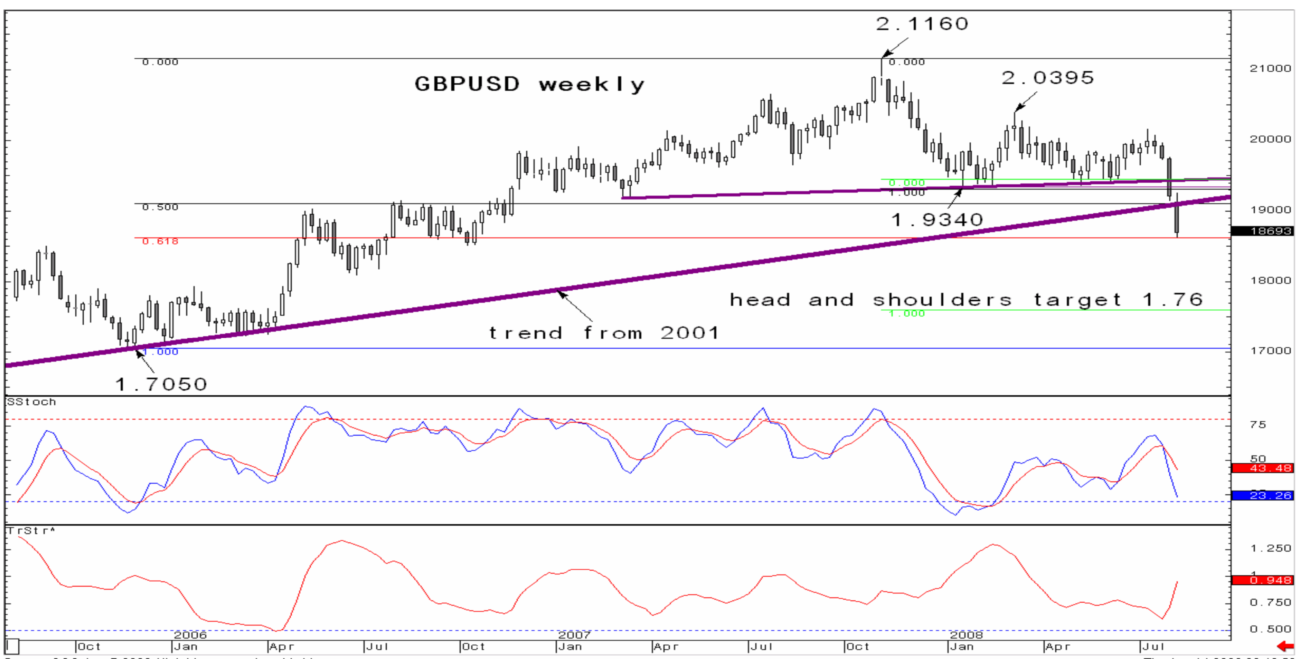
	New Forecasts			Old Forecasts		
	3m	6m	12m	3m	6m	12m
EUR/$	1.45	1.50	1.40	1.56	1.60	1.45
$/JPY	112	108	114	106	102	110
EUR/JPY	162	162	160	165	163	160
£/$	1.79	1.85	1.79	1.93	1.98	1.86
$/C$	1.10	1.06	1.14	1.02	1.00	1.10
A$/$	0.86	0.87	0.80	0.96	0.96	0.89
NZ$/$	0.68	0.69	0.61	0.73	0.70	0.63
$/RUB	24.20	23.50	23.80	23.20	22.60	23.30
$/TRY	1.23	1.25	1.34	1.20	1.20	1.30
$/ZAR	7.50	8.00	8.50	7.80	8.00	8.50
$/MXN	10.00	10.20	10.70	10.20	10.00	10.70
$/BRL	1.55	1.60	1.70	1.56	1.62	1.72
USD/IDR	9200	9250	9300	9300	9400	9500
USD/MYR	3.32	3.30	3.25	3.15	3.10	3.08
USD/PHP	45.0	45.5	46.0	47.0	48.0	49.0
USD/SGD	1.40	1.40	1.45	1.35	1.35	1.32
USD/TWD	31.0	30.5	30.8	29.5	28.5	28.5

Technical Analysis

This section has been prepared by Kevin Edgeley, Senior Technical Analyst.

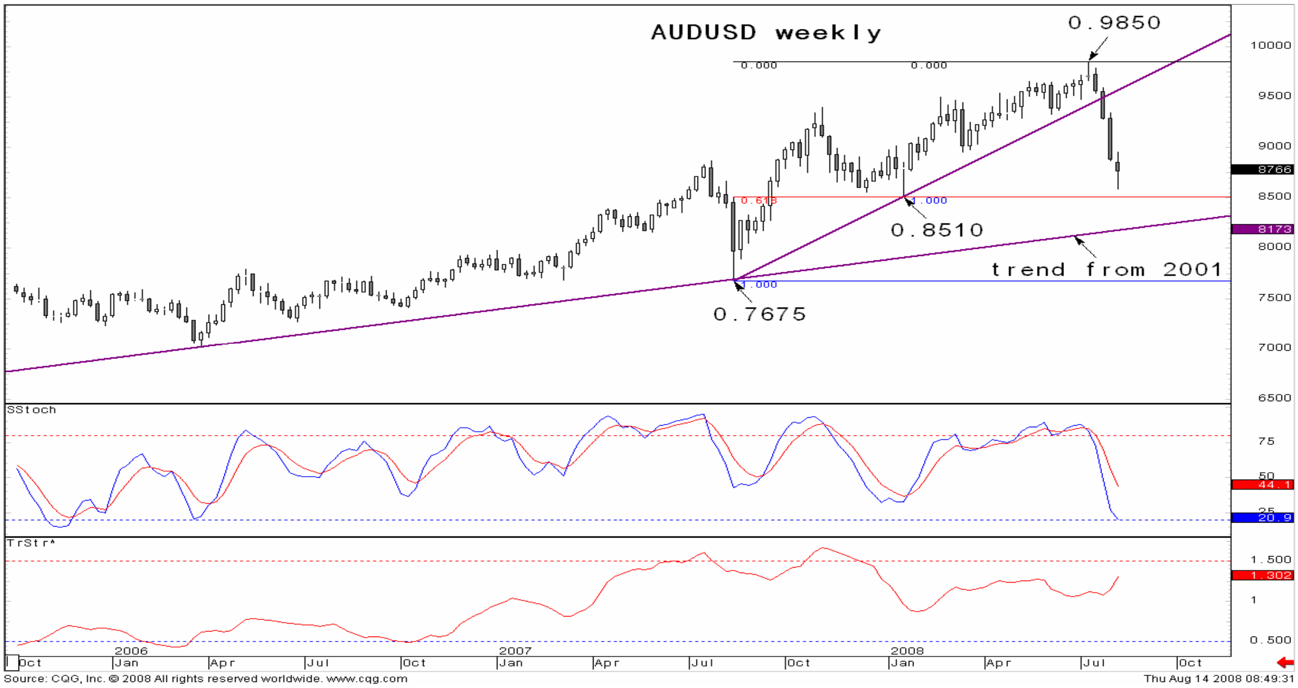


EURUSD – We have highlighted the sequence of impulse rallies and corrective waves from the late 2005 lows in recent *Techview* reports. This pattern has now been broken with the sharp extension below the 3-month range base at 1.53. We believe this has marked a significant change in phase for the Dollar. We see the next target at the measured move from the rectangle range and 1.60 double top at 1.4555; there is further support at the December '07 lows at 1.4310. This should provide major support and, if tested, we would expect to see a consolidation phase develop between 1.43 and 1.50 lasting 3-4 months. Any subsequent break below 1.43 would set up a longer-term move towards 1.26. Our current GSDEER fair value is 1.22.



GBPUSD – A clear head and shoulders reversal pattern has been forming over the past five months. The break below 1.9340 wave support confirmed the pattern and prices quickly extended through the bull trend line from 2001 at 1.91 to test the 61.8% Fibonacci retracement level of the rally from late 2005 at 1.8620. This should give some interim support, but a close below would open up a move to the measured target from the head and shoulders pattern at 1.76. The bearish bias is reinforced by the weekly and monthly momentum oscillators and the rising Trend Strength Indicator.

Technical Analysis Continued



AUDUSD – Longer-term momentum and Trend Strength Indicators still support a bearish bias after the reversal from the mid-July highs and break of the bull trend line from August '07, but the move has all but reached our initial target at the 61.8% retracement level of the bull wave and coincident low from January at 0.8510. We see scope for some consolidation at this level. Given the impulsive and leading moves in AUD and NZD, these two are now likely to recover relative to EUR and GBP.

NZDUSD – We have a bearish bias in NZD since the double top breakout in early April but recent acceleration through trend and retracement support at 0.7240 has become over-stretched. While longer-term momentum and Trend Strength Indicators are still bearish, the short term has turned higher with the recovery from the bull trend line from 2001 at 0.68. There is further support below at the August '07 lows at 0.6640 to limit the downside in the short term. Recent bearish key day reversals in EURNZD and GBPNZD suggest that the Euro and Sterling are now bearing the brunt of the Dollar strength.

Technical Analysis of GS Trade-Weighted Indices

Here we examine the trending characteristics of our GS Trade-Weighted Indices (TWIs). In recent years, we have outlined the benefits of looking at these measures to gauge a currency's overall performance in our annual publication *The Foreign Exchange Market*. While the TWIs are not currently tradable, it is not unreasonable to use a technical approach to analyse these indices, as they reflect a weighted consensus of their component bilateral exchange rates.

Defining the trend

We use three indicators – Bollinger Bands, Moving Averages and Slow Stochastic – to define price action with respect to trend strength and direction.

In past publications we have used **Bollinger Bands** as a measure of trend strength. This indicator plots a volatility envelope of 2 standard deviations around a 20-day moving average. A narrowing of the bands (decreasing volatility) suggests that the market is entering a range phase, while band widening infers that a trend is developing. We use the Bollinger Band Width (BBW) to signal whether the market is in a trend (BBW pointing up) or in a low momentum trend or range (BBW pointing down).

Moving Averages are the basis for most trending models; we use the widely followed 50-, 100- and 200-day averages for trend direction. If the TWI is above the band created by the moving averages, the trend is up; if below, the trend is down.

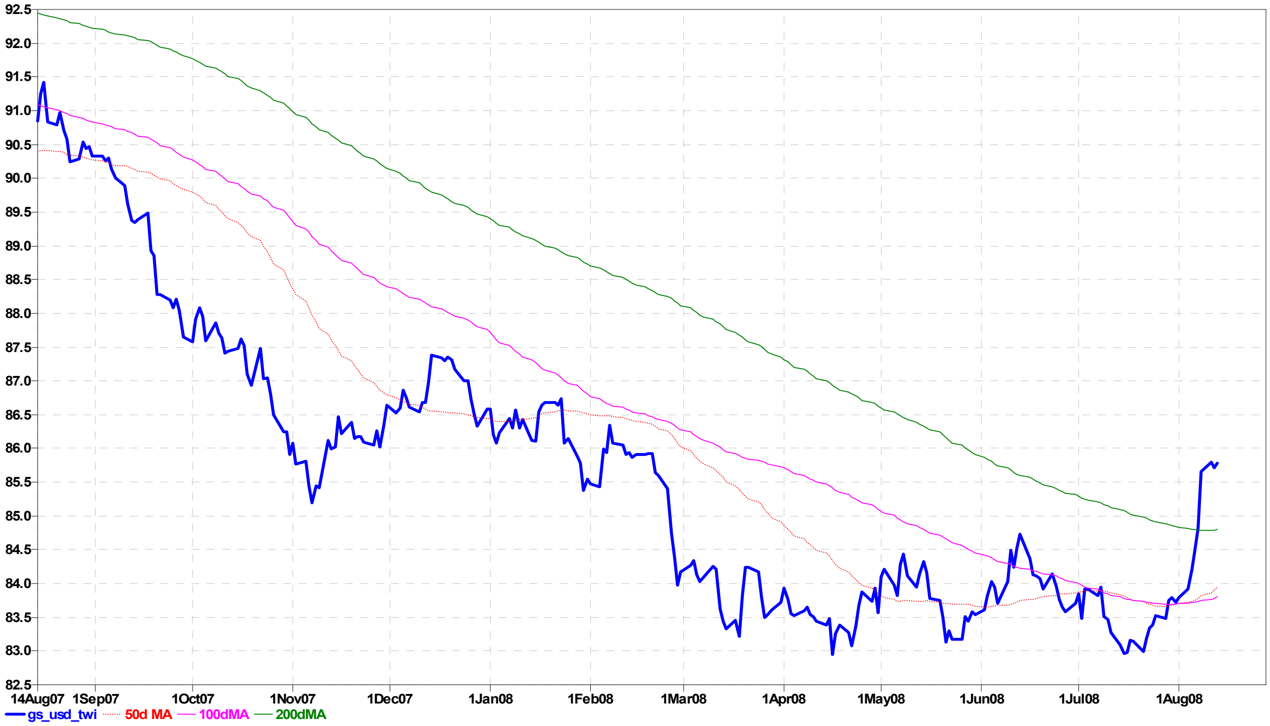
The **Slow Stochastic** oscillator (13-day) is a momentum indicator that can signal the direction of price action within a range, but can also define the strength, or corrective nature of price action within a trend.

By combining these three indicators, we are able to categorise price action into one of 12 different phases (see table below). The strongest trend is when the Bollinger Bands are widening, the TWI is above its moving averages and the stochastic oscillator is pointing higher (denoted Strong Bull Trend), or when the TWI is below the MAs and the oscillator is pointing lower (Strong Bear Trend).

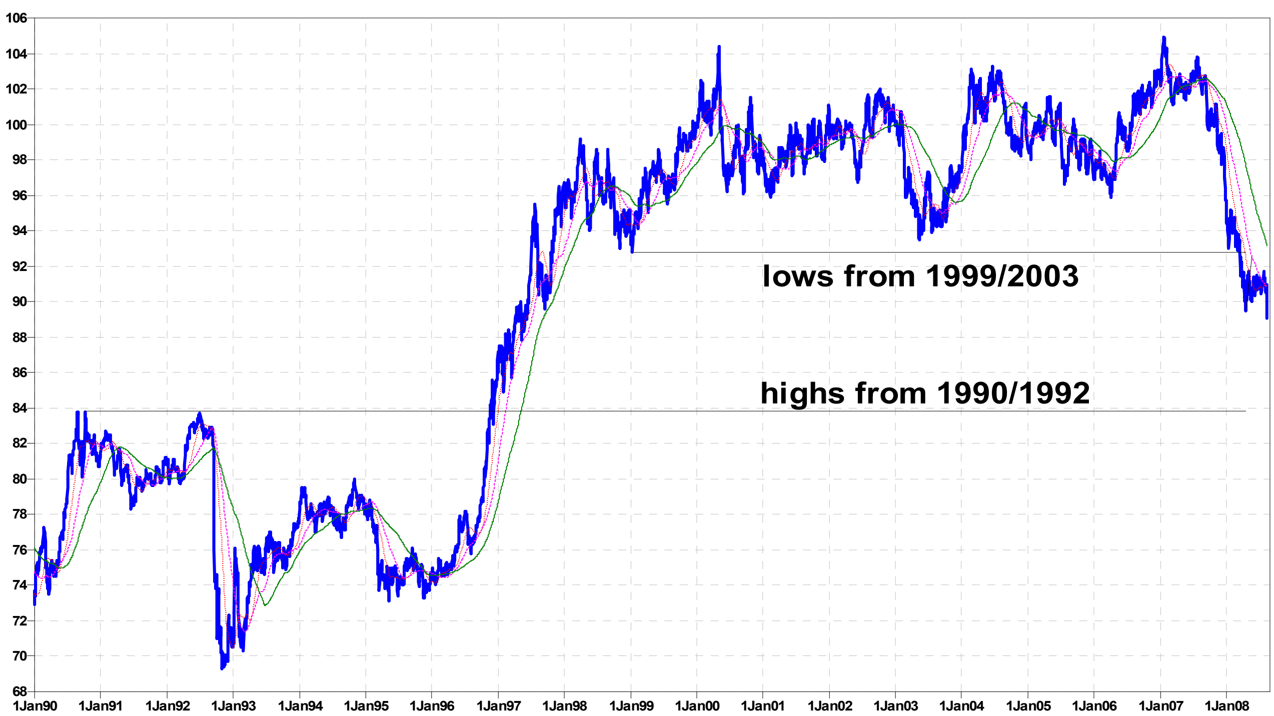
FX Trade Weighted Indices

		Trend	MA	Osc.
Strong Bull Trend	ARS, CNY, HKD	↑	↑	↑
Bull Trend Correction	USD	↑	↑	↓
Early/Unconfirmed Bull	THB	↑	→	↑
Low Momentum Bull	MXN, RUB	→	↑	↑
Low Momentum Bull Correction	BRL, IDR, TRY	→	↑	↓
Range Strength	CZK, ILS, SGD, SKK	→	→	↑
Range Weakness	INR, PHP, ZAR	→	→	↓
Low Momentum Bear Correction	CHF, CLP, JPY, MYR, NZD, SEK	→	↓	↑
Low Momentum Bear	NOK	→	↓	↓
Early/Unconfirmed Bear	COP, HUF, KRW, PLN	↓	→	↓
Bear Trend Correction	AUD, CAD, EUR	↓	↓	↑
Strong Bear Trend	GBP, PEN	↓	↓	↓

Trend – based on Bollinger Band Width. (↑) indicates bullish trend strength. (↓) - bearish trend strength. (→) - potential low momentum trend or range.
MA – TWI in relation to band formed by 50, 100 and 200 day moving averages. If ↑ then above all three averages, if ↓ below, if → within the band.
Osc. – direction of 13 day slow stochastic.



USD TWI (bull trend correction) – The index has rallied to the highest levels since February, breaking above the recent congestion range and indicating a significant change in phase for the Dollar. USD strengthened on all major crosses; many of the other major TWIs have been trending lower. We have highlighted breakouts and strong trending activity against AUD, NZD and CAD, but last week's break of the range support in EURUSD at 1.53 confirms a new trend there and a target below 1.46. Euro and Sterling have now taken the lead on major USD crosses, with the commodity currencies now showing signs of correction.



GBP TWI (strong bear trend) – The index broke below the recent lows, renewing the longer-term bear trend and giving scope for a further 6% drop in the TWI to the next major support from the highs in 1990/92. The initial signs of Dollar strength were led by NZD and AUD crosses but these trends are now looking short term over-extended and with the sharp move lower in UK 2 year yields, we see Sterling and Euro now leading the trend in the non-Dollar majors. GBPUSD has significant retracement support at 1.8620, but a close below would open up a move to the 1.76 area.

G3
US Dollar

FX Forecasts: We now think that the Dollar has bottomed and have changed our broad Dollar views. We now see EUR/$ at 1.45, 1.50 and 1.40 in 3, 6 and 12 months from 1.56, 1.60 and 1.45 previously. Our new $/¥ path is 110, 108 and 114 from 106, 102 and 110 previously. Current GSDEER: EUR/$ 1.22; $/¥ 116.06.

Motivation for Our FX View: The Dollar has appreciated by 3.4% since July 21 on a broad basis, breaking key technical levels on many crosses. The Dollar's fundamentals are now more supportive and we think the Dollar has bottomed. Growth outside the US has deteriorated notably, the depreciation of the Dollar has led to a rapid improvement in the real trade balance and the US is set to benefit from net M and A inflows. However, we do not think the path to fair value will be smooth given that as we look into 2009 the US is likely to disappoint consensus growth expectations and the Fed is unlikely to tighten rates as aggressively as the market expects.

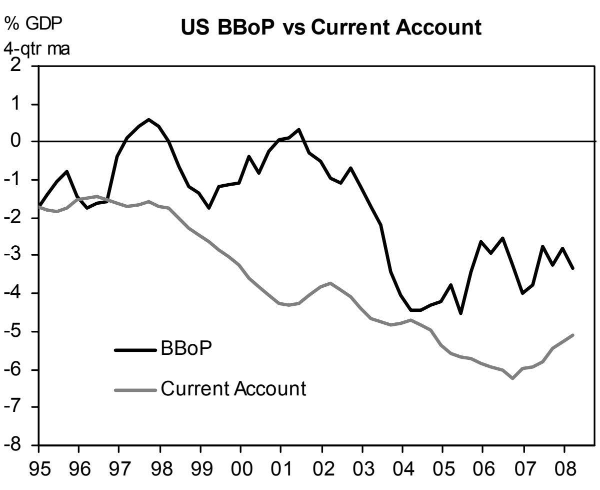
Monetary Policy and FX Framework: The Fed has a dual growth/inflation target. As a result, monetary policy has generally been more volatile and reactive than in pure inflation-targeting countries. The exchange rate floats freely; however, in early June, the US Treasury and the Fed both commented on Dollar weakness in a way that can be seen as an 'anti-weak-Dollar policy'.

Growth/Inflation Outlook: Q2 GDP is likely to be revised up from the advanced print of 1.8%qoq after the very sharp narrowing of the trade deficit in. We expect a 'W' pattern for growth, with renewed sluggish activity around the turn of the year as the effects of fiscal and monetary stimulus wear off. Inflation is also likely to ease and we do not expect material second-round effects from high commodity prices.

Monetary Policy Forecast: We continue to expect the Fed to keep rates on hold at 2% despite their more hawkish rhetoric over the past 1-2 months. Continued below-trend growth is likely to keep inflation expectations anchored. The market continues to expect the Fed to start hiking at the beginning of 2009, although that looks challenging given a likely backdrop of very sluggish growth.

Balance of Payments Situation: The current account currently shows a 5.3% deficit of GDP on a four-quarter trend basis. We expect this to narrow to about 4.5% by the end of 2008. The BBoP stands in deficit of -3.3% of GDP on a trend basis. Partially due to the improvement in the current account, we expect the BBoP deficit to remain around this level through 2008. However, portfolio flows can be subject to larger swings in the current uncertain growth environment.

Things to Watch: A sharp rise in oil prices is likely to stem Dollar strength through a higher import bill and the strong correlation between Dollar performance and the oil price this year. The market appears to be rather long Dollars after this recent move and a correction could produce a notable Dollar weakness.

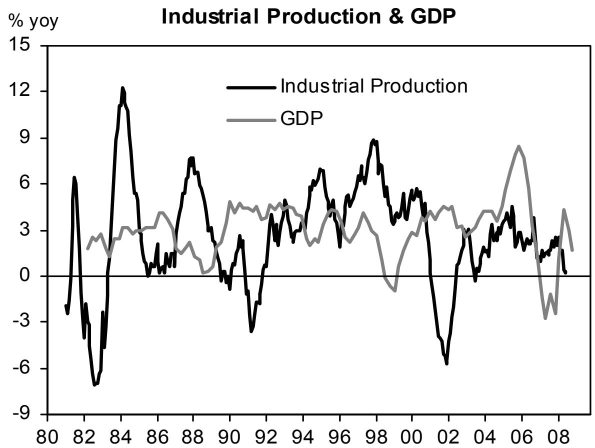


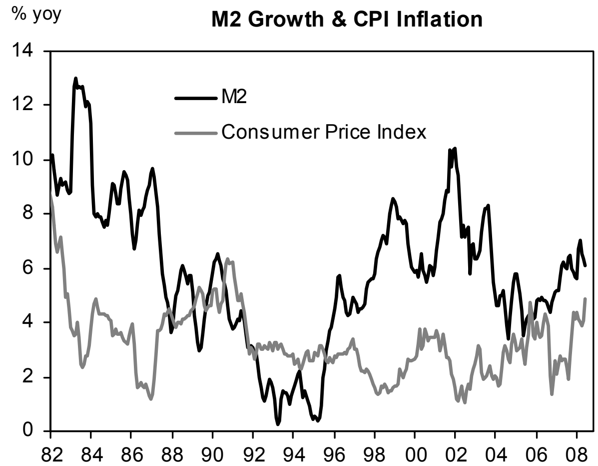
The Outlook for the US BBoP

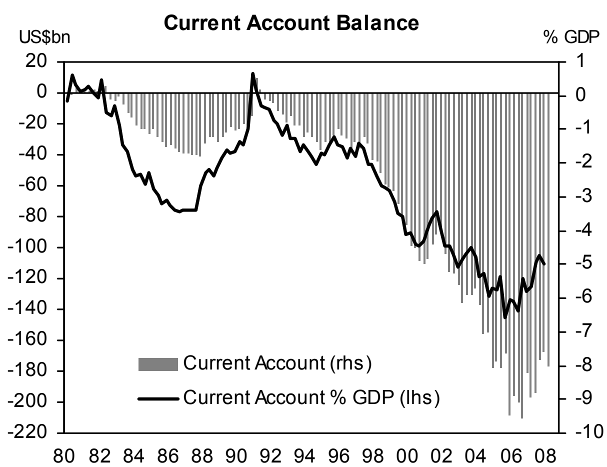
$bn	2004	2005	2006	2007	2008 *	2008f
Current Account	**-625.0**	**-729.0**	**-788.1**	**-975.0**	**-705.5**	**-646.7**
Net UST Flows	93.6	132.3	-58.2	209.1	275.7	75.0
Other Net Bond Flows	236.2	297.6	315.8	294.3	-158.7	150.0
Net Equity Flows	-25.2	-98.4	2.4	85.8	-77.0	20.0
Net FDI Flows	-170.3	76.4	0.7	-127.6	-155.9	-75.0
BBoP	**-490.7**	**-321.1**	**-527.4**	**-513.3**	**-821.5**	**-476.7**
% of GDP	-3.7	-2.4	-4.0	-3.7	-5.7	-3.2
Official Buying	314.9	213.3	310.8	230.3	670.7	100.0
Adjusted BBoP	**-175.8**	**-107.8**	**-216.7**	**-283.0**	**-150.7**	**-376.7**
% GDP	-1.3	-0.8	-1.5	-1.9	-1.0	-2.6

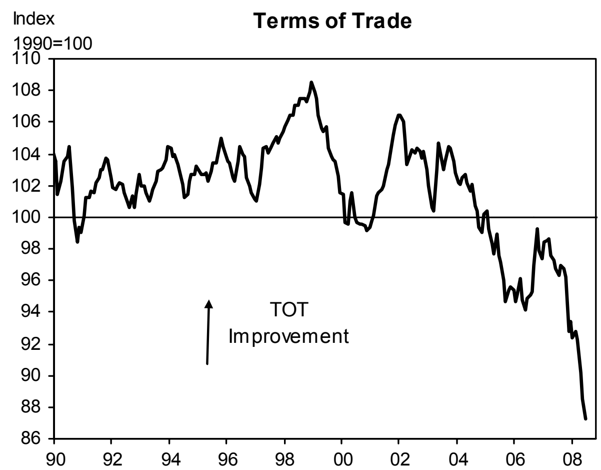
*Q1 annualised

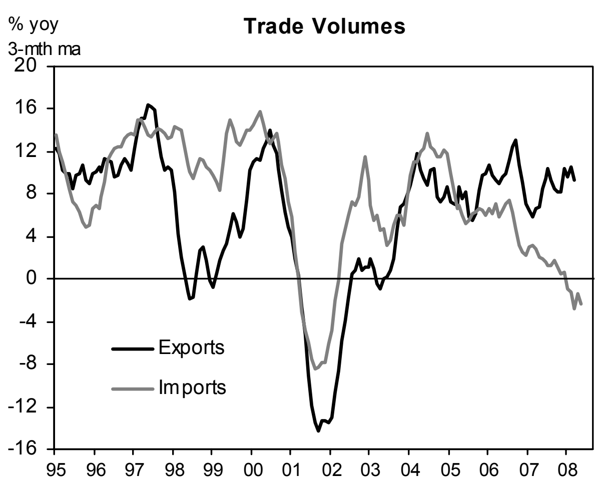
US Dollar

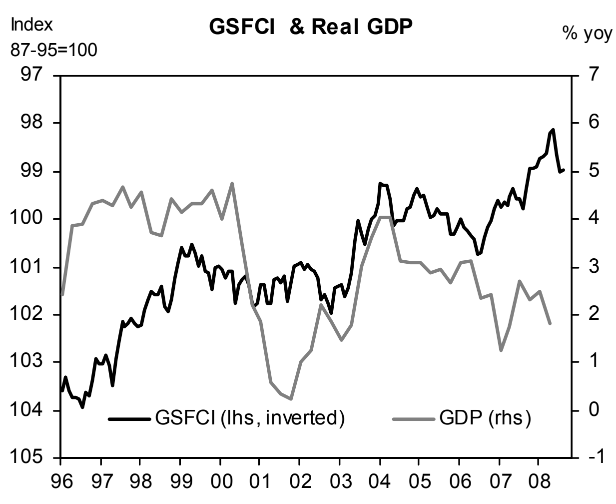

Industrial Production & GDP
% yoy
Industrial Production
GDP


M2 Growth & CPI Inflation
% yoy
M2
Consumer Price Index


Current Account Balance
US$bn
% GDP
Current Account (rhs)
Current Account % GDP (lhs)


Terms of Trade
Index
1990=100
TOT
Improvement


Trade Volumes
% yoy
3-mth ma
Exports
Imports


GSFCI & Real GDP
Index
87-95=100
% yoy
GSFCI (lhs, inverted)
GDP (rhs)

Euro

FX Forecasts: We have changed our forecast. We now project EUR/$ at: 1.45, 1.50 and 1.40 in 3, 6 and 12 months. EUR/¥: 162.4, 162.0 and 159.6 in 3, 6 and 12 months. Current GSDEER: EUR/$: 1.22.

Motivation for Our FX View: Given the improvement in the Dollar's fundamentals and its broad recovery over the past three weeks, we now think the Dollar has turned as reflected in our forecast change. The recent Euro weakness has also been stimulated by a sharp drop in sentiment in July and Trichet's focus on growth risks at the August ECB meeting. The market is now clearly focused on weak Euroland activity and has repriced its rate expectations lower. Euroland's external position is also less supportive given that the BBoP has fallen into deficit. We do not expect the path for Dollar recovery to be a straight line, largely because our base scenario envisages a downside surprise on US growth next year relative to consensus.

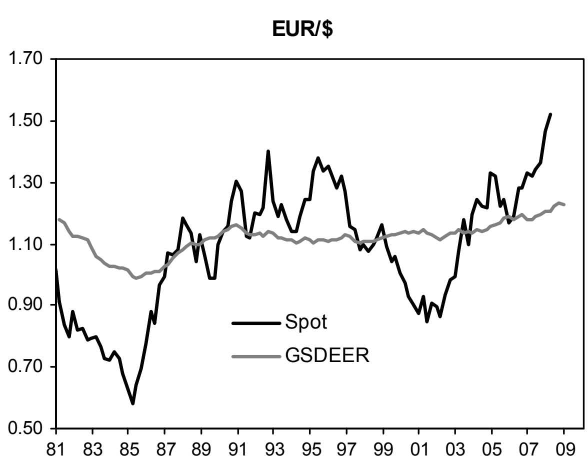
Monetary Policy and FX Framework: The ECB is a strict inflation targeter. As a Central Bank serving 15 countries, the ECB is arguably the most independent Central Bank in the world. The Euro is a freely floating currency. FX policy responsibility is not clearly defined, but in practice the ECB is unlikely to act in FX markets, verbally or through intervention, without Eurogroup approval.

Growth/Inflation Outlook: After a stellar Q1 (+1.5% qoq), German GDP has contracted in Q2. French GDP was weak also, pushing Euroland growth down to -0.2% qoq in the second quarter. Given the deterioration in sentiment over the past six months, growth could remain sluggish into H2. Tighter financial conditions and still high oil prices are likely to contribute to slower activity also. External demand remains robust given that the Eurozone has large exports to the Middle East and to Eastern Europe, where growth is still strong. Spot inflation is clearly an issue for the ECB at 4.0%, as are rising inflation expectations. We expect inflation to moderate in H2 as growth slows and commodity prices stabilise.

Monetary Policy Forecast: The ECB kept rates on hold at 4.25% in August and suggested that the decision to hike in July was correct. However, Trichet's focus on downside growth risks caused the market to reprice its rate expectations to include at least one rate cut in 2H2009. Our base line scenario is that rates will remain on hold at 4.25%; however, if oil prices stabilise at current levels, the ECB could ease rates early next year.

Balance of Payments Situation: The current account balance has been close to flat over the past ten years and remains so. Exports to Asia and OPEC have been strong. Euroland's BBoP is now in deficit on a trend basis as net FDI outflows have eroded a previously healthy surplus.

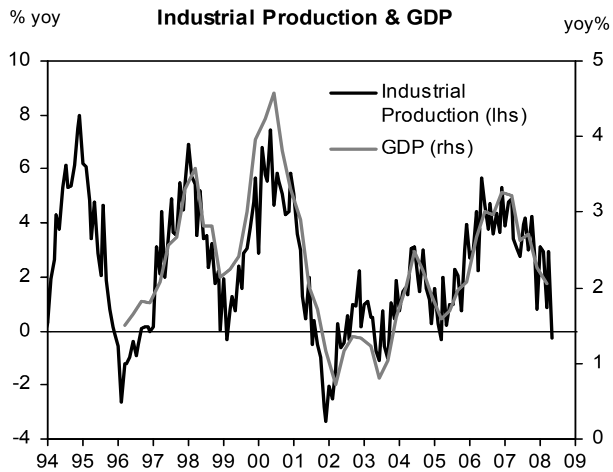
Things to Watch: The Euro's use as reserve currency has been stable since 2003. Further US weakness could lead to a further shift, maybe in conjunction with a wider use of the Euro in commodity markets. Clear evidence of cyclical recoupling with the US, and associated shifts in capital flows, would be EUR/$ negative.

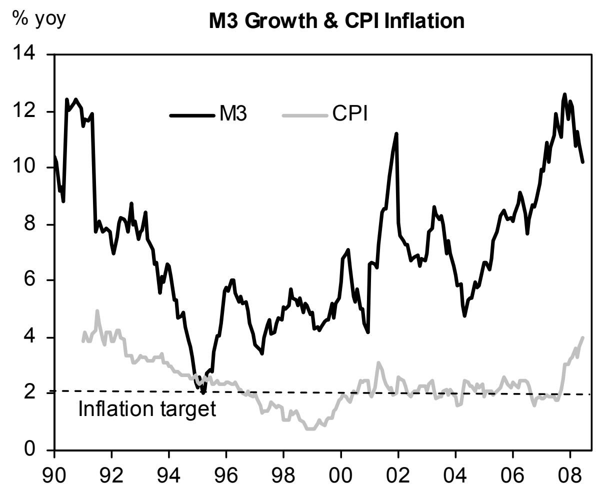


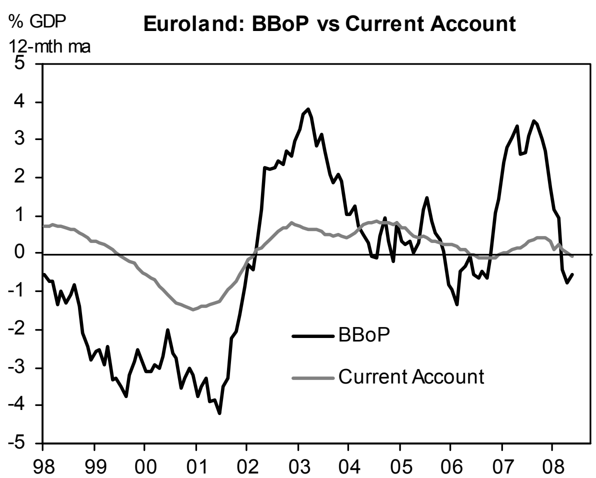
The Outlook for the Euroland BBoP

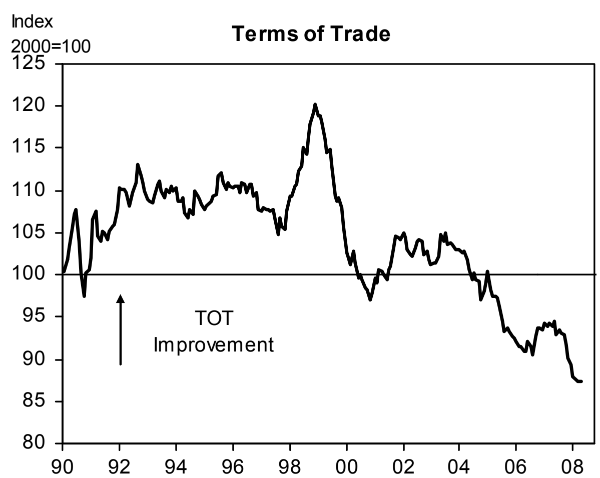
EURbn	2004	2005	2006	2007	2008*	2008f
Current Account	**62.2**	**18.2**	**-1.2**	**26.5**	**-105.6**	**-0.6**
Net Bond Flows	47.9	10.2	117.1	100.2	36.5	50.0
Net Equity Flows	23.1	121.0	149.5	135.4	186.0	150.0
Net FDI Flows	-67.6	-216.3	-144.5	-117.2	-330.2	0.0
BBoP	**65.6**	**-66.9**	**120.9**	**144.9**	**-213.4**	**199.4**
(% of GDP)	0.8	-0.9	1.5	1.6	-2.3	2.1

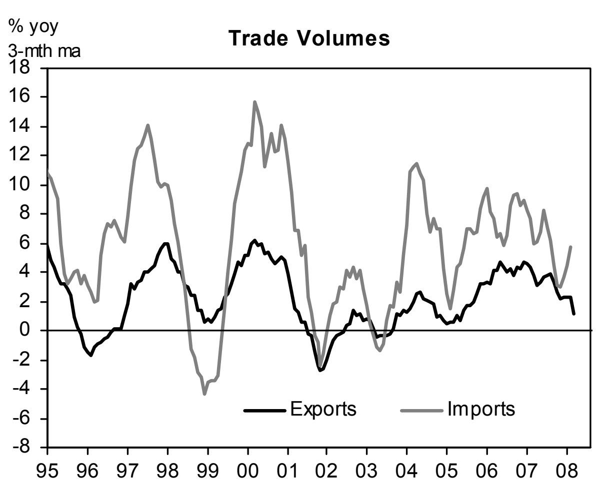
Euro

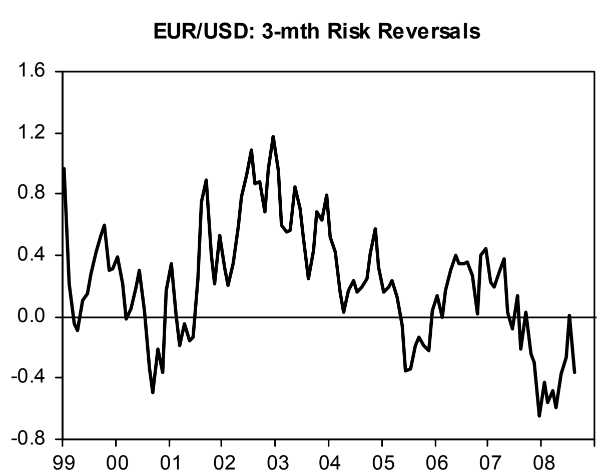

% yoy
Industrial Production & GDP
yoy%
Industrial Production (lhs)
GDP (rhs)


% yoy
M3 Growth & CPI Inflation
M3
CPI
Inflation target


% GDP
12-mth ma
Euroland: BBoP vs Current Account
BBoP
Current Account


Index
2000=100
Terms of Trade
TOT
Improvement


% yoy
3-mth ma
Trade Volumes
Exports
Imports


EUR/USD: 3-mth Risk Reversals

Japanese Yen

FX Forecasts: We have changed our Yen forecast. We now project $/¥: 112, 108 and 114 in 3, 6 and 12 months. EUR/¥: 162, 162 and 160 in 3, 6 and 12 months. Current GSDEER: $/¥ 113.18.

Motivation for Our FX View: Our new Yen path reflects our view that the Dollar has now likely turned against the backdrop of improving fundamentals for the greenback. However, the path to broader recovery is unlikely to be smooth. From the Japanese angle, Japan has a very strong external position, with a large BBoP surplus, but this has not been sufficient to support the Yen, even though risk aversion remains quite elevated. Yen dynamics over the last year have been driven largely by the global US$ trend and swings in risk aversion. That said, the recent leg lower in global equity markets has not supported the Yen. The likely explanation is that underlying carry exposure (Yen funding) is now much smaller than in the past.

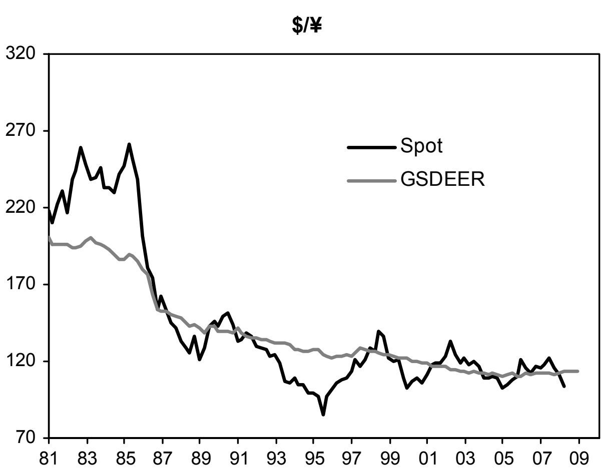
Monetary Policy and FX Framework: The BoJ is still in transition from a deflation fighter to a formal inflation targeter. Nominal rates remain very low (0.50%). The Yen is formally a freely floating currency, but the Ministry of Finance is in charge of FX policy and has often intervened in the past. These Yen-weakening operations have led to the build-up of the second-largest FX reserves globally, worth US$1trn. In the past, the MoF has tried to defend the $/¥ 100 level; the last time in 2003/2004. But, given that the Yen is still fairly weak in crosses such as EUR/JPY, intervention does not seem likely, at least not on a sustained basis.

Growth/Inflation Outlook: Q2 GDP posted a large correction on the strong Q1 print, declining by 2.4%qoqann. Consumption was a notable drag on growth and the contribution from net trade was flat. The outlook for the Japanese economy looks bleak given the declines in sentiment, deterioration in the labour market and slowing global demand. Using the official definition, Japan is in recession. However, core inflation ex food and energy appears to have moved into positive territory for good.

Monetary Policy Forecast: We expect the BoJ to keep rates on hold at 0.50% for the rest of the year. Stronger activity in 2009 could prompt renewed tightening, but a weakening global growth outlook is likely to make the BoJ very cautious about moving too quickly.

Balance of Payments Situation: Japan's current account shows a surplus of about 5% of GDP (12-month trend), largely due to a massive income account surplus, which accounts for about two-thirds of the current account. The BBoP surplus has shrunk to 3% of GDP.

Things to Watch: Since last summer, portfolio flows have been pretty much neutral due to the simultaneous slowing of equity inflows and outflows. Any change in this pattern could affect the JPY outlook. While rising volatility has led to slowing carry outflows, we have also seen that Yen buying (for portfolio hedge purposes) has slowed in recent months. The most striking aspect of Yen trading in recent months is the break-down in correlations to the S&P. The logical interpretation is that the overhang of carry-type positions is now very limited.

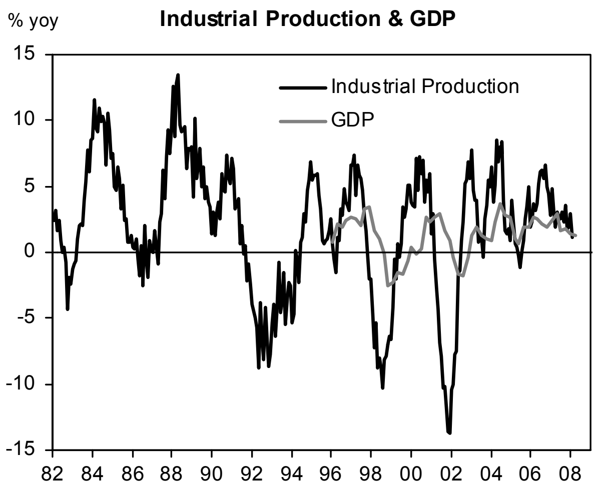


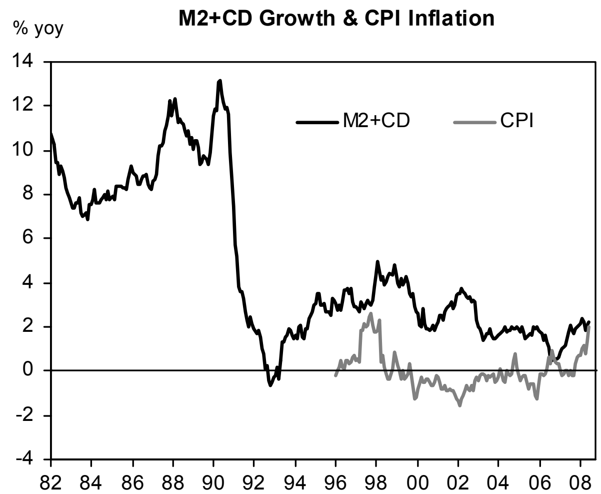
The Outlook for the Japanese BBoP

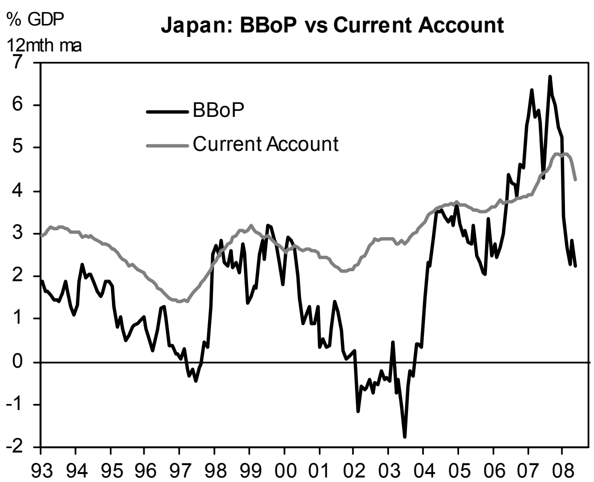
¥trn	2004	2005	2006	2007	2008*	2008f
Current Account	**18.6**	**18.3**	**19.8**	**24.8**	**23.9**	**17.3**
Net Bond Flows	-4.8	-13.4	9.4	5.9	-8.0	2.0
Net Equity Flows	7.1	12.3	5.4	2.3	-7.5	7.0
Net FDI Flows	-2.5	-4.7	-6.6	-6.0	-6.7	2.0
BBoP	**18.5**	**12.4**	**28.0**	**27.0**	**1.7**	**28.3**
(% of GDP)	3.7	2.5	5.5	5.2	0.3	5.4

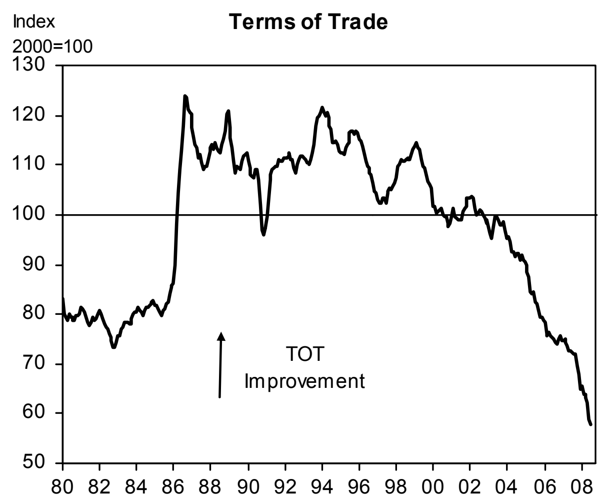
*ytd

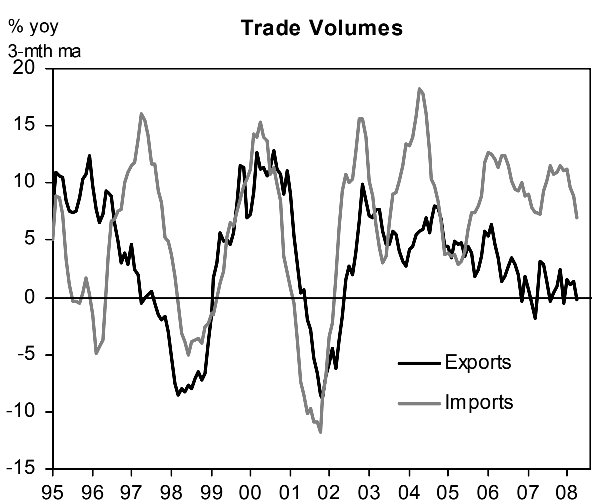
Japanese Yen

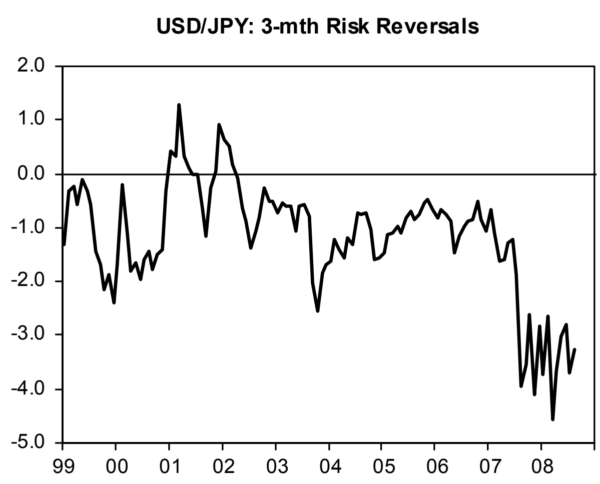












Europe
British Pound

FX Forecasts: We have not changed our forecasts. We continue to expect EUR/GBP to trade at 0.81, 0.81 and 0.78 in 3, 6 and 12 months. $/GBP: 1.79, 1.85 and 1.79 over the same horizons. Current GSDEER for EUR/GBP is 0.74; hence, Sterling is trading weak to fair value.

Motivation for Our FX View: Sterling was stable on a trade-weighted basis until the more dovish than expected BoE Inflation Report precipitated broad-based Sterling weakness. This proved to be the trigger for the market to eventually react to the plethora of bad news on the macro front. Evidence that the UK economy is slowing materially points to monetary easing in the first half of next year and this view is now discounted by the market.

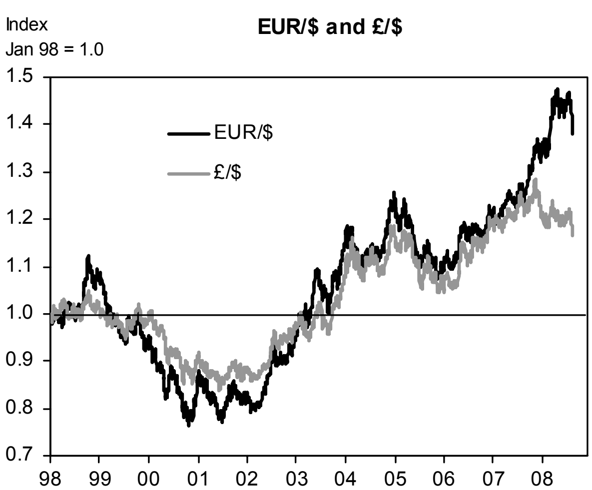
Monetary Policy and FX Framework: The Bank of England is tasked with price stability, defined as CPI at 2% over time. If inflation falls below 1% or rises above 3%, the BoE must write a letter of explanation to the Chancellor of the Exchequer. Sterling operates under a free float.

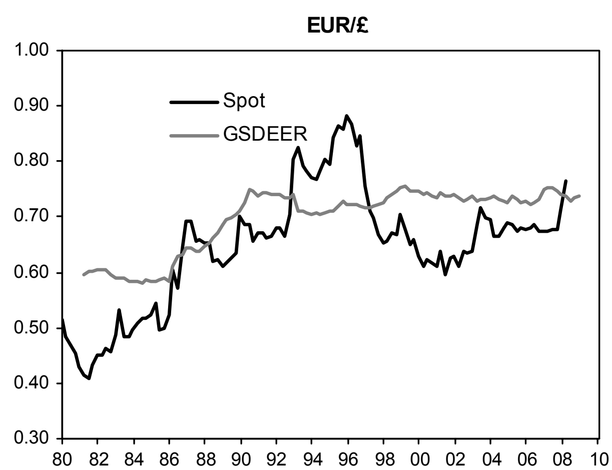
Growth/Inflation Outlook: While non-oil GDP was stronger than expected in Q1, recent data have taken a material turn for the worse. The composite PMI fell from 46.8 to 45.8 in July, consistent with non-energy, market sector GDP falling at a 1.5%-2% annualised pace. While Q2 GDP rose by 0.2%qoq, this was partly due to an incongruous 3.6%mom jump in retail sales in May, which has since been reversed. We now expect the UK to record two quarters of negative growth in the second half of the year. Inflation has panned out higher than expected, rising to 4.4%yoy in July due to higher food and energy prices. The 20% rise in domestic energy tariffs is likely to keep headline inflation elevated through the Autumn.

Monetary Policy Forecast: The Bank of England left rates on hold at 5% in August, and we expect rates to remain on hold until year-end. Thereafter, we expect 50bp of easing in H1 of next year. The rates market is moving closer to our view on rates.

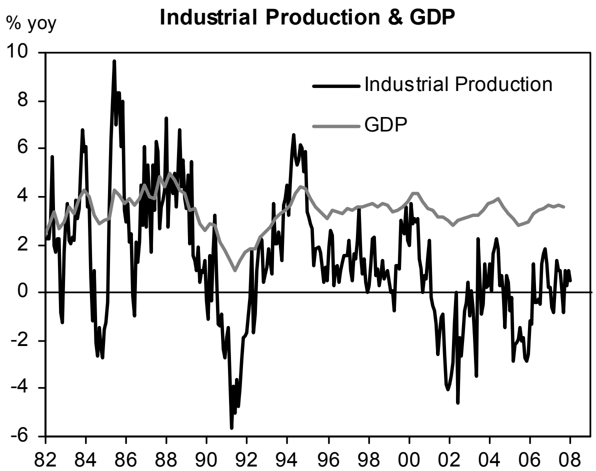
Balance of Payments Situation: The UK's current account deficit improved further in Q1. The deficit is now only 2.4% of GDP from 5.2% in Q3 last year. Very large income inflows are behind the improvement. The BBoP surplus is now a very healthy 14.4% of GDP due to large portfolio inflows. The swings in the BBoP reflect London's position as a financial centre.

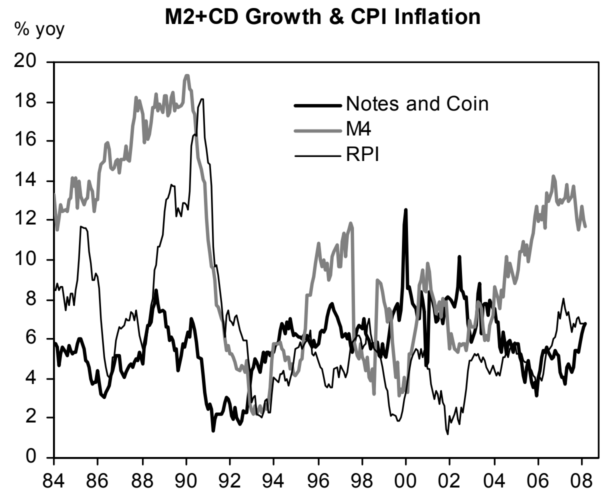
Things to Watch: After a long period of stability, the Pound has started to react to negative news on the growth front. Given that a lot of bad news is now priced, the question is how far the move can extend. Our new Dollar profile suggests that the Pound has scope to weaken further vs the Greenback. One bright spot is the UK trade deficit, which has stopped deteriorating, helped by the weakness of the Pound.

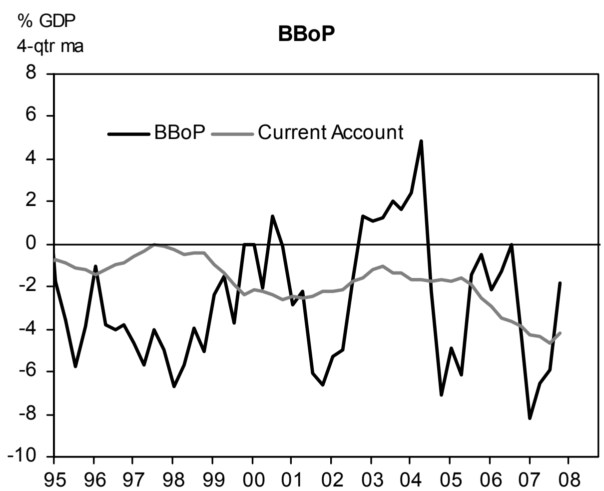


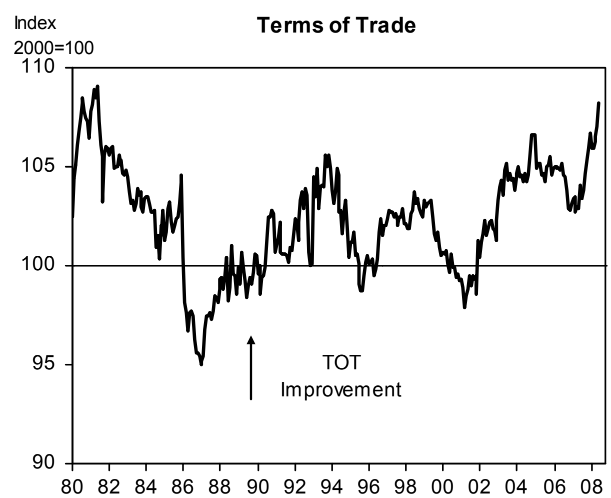


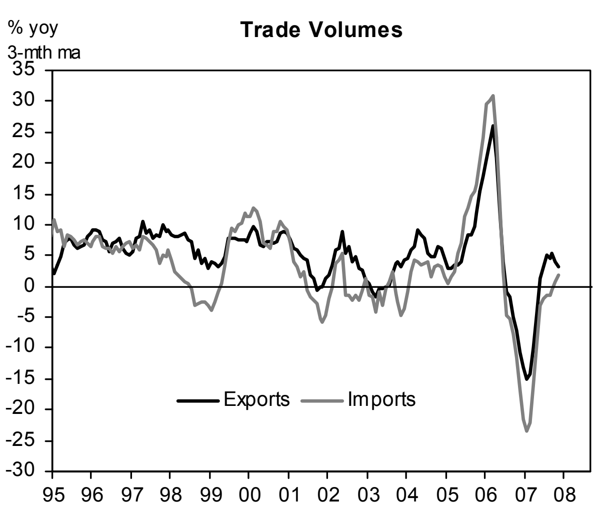
British Pound

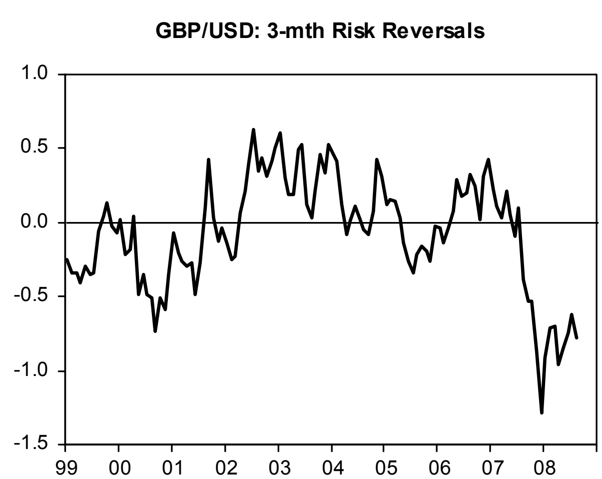












Norwegian Kroner

FX Forecasts: Our view has not changed. We continue to forecast EUR/NOK at 7.80 flat over the next 12 months; however, there are risks that the NOK trades weaker than this projection. Current EUR/NOK GSDEER: 4.94. $/NOK is 5.38, 5.20 and 5.57. The NOK looks cheap at current levels according to GSDEER, reflecting Norway's terms of trade gains. However, because Norway keeps the bulk of its oil revenues offshore, the NOK is unlikely to erode this undervaluation significantly.

Motivation for Our FX View: Over the past few months the NOK has shrugged off the gyrations in oil prices, a hawkish Central Bank and relatively resilient domestic growth. Ultimately, the backdrop for the NOK is positive even with oil at these levels, as reflected in the strength of investment intentions. Norway's external balance is also in a healthy position and the currency is overvalued given that the non-oil terms of trade have also improved. We continue to expect these factors to exert some influence on the NOK and ultimately lead to some appreciation from here.

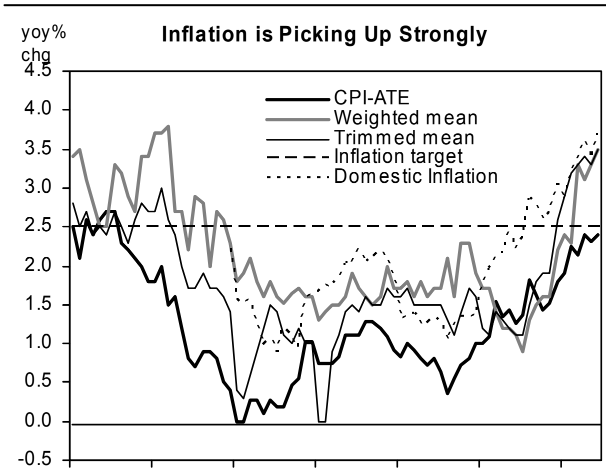
Monetary Policy and FX Framework: Norges Bank is a flexible inflation targeter, balancing inflation and growth. The target is consumer price inflation close to 2.5% over time. The FX regime is a free float. The fiscal spending rule aims to limit the use of oil revenues to the return on the Government Pension Fund-Global.

Growth/Inflation Outlook: After the much weaker than expected 0.2%qoq expansion in Q1, data have been mixed. Consumption remains on a weakish footing, largely due to sluggish demand for cars and commodities. Industrial production has picked up very strongly after being sluggish around the turn of the year. This reflects a large amount of outstanding orders. Overall growth appears to be tracking stronger than in Q1. Given the deterioration in business and consumer sentiment, we do expect activity to soften going into the Autumn.

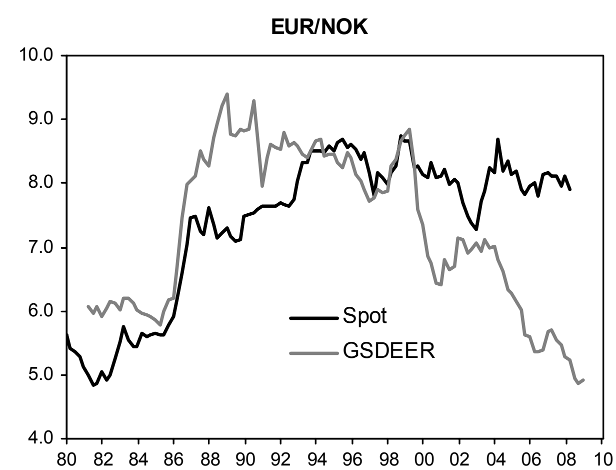
Monetary Policy Forecast: Norges Bank kept rates on hold at 5.75% in August as expected. The statement left the door open for further hikes, given the emphasis on inflation risks, and despite slower growth in Norway and globally. In our view, rates will remain unchanged against the backdrop of slower global growth and a notable repricing lower of global rate expectations, which will give Norges Bank much less room to hike rates.

Balance of Payments Situation: Norway, as the world's fifth-largest oil exporter, enjoys a very healthy current account surplus, which is currently running at 18.5% of GDP. However, this surplus is cancelled out by large portfolio outflows related to the oil fund. Norway currently runs a small broad balance of payments surplus, which is also positive for the NOK.

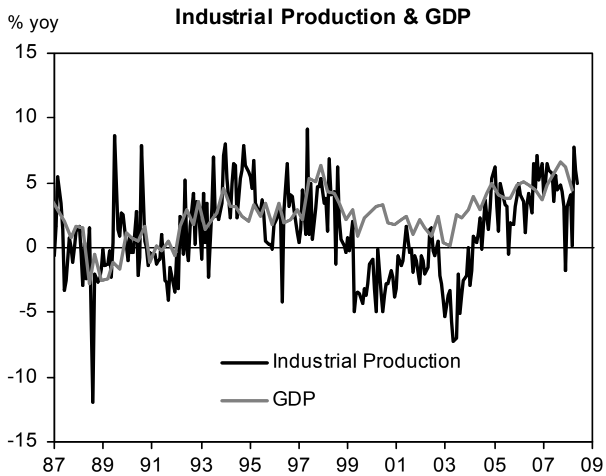
Things to Watch: The NOK has shrugged off the gyrations in oil prices - failing to benefit when oil was high and not selling off as oil prices fell. If the link with oil is reinstated, the NOK could become more vulnerable. The NOK has more closely followed rate differentials recently and is also exposed to a repricing of policy expectations, particularly if continued disappointing Euroland data cause Euroland rates to rally.

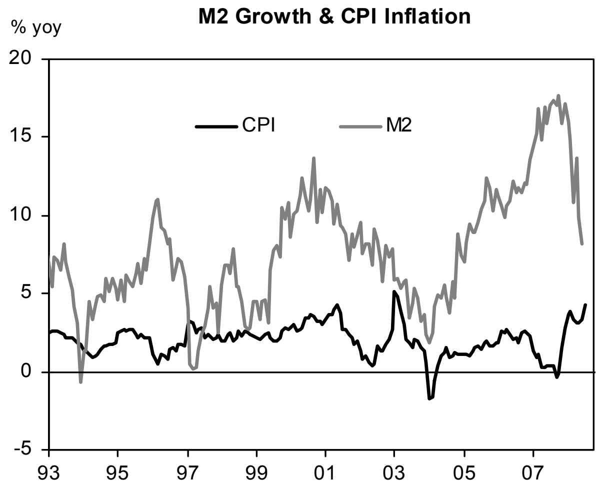


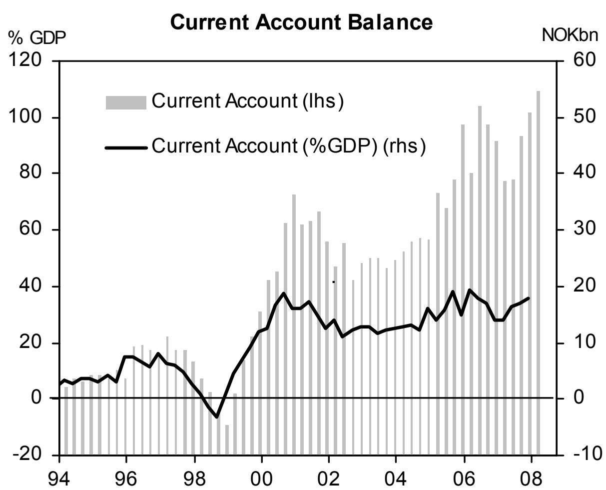
Source: Statistics Norway, GS Calculations

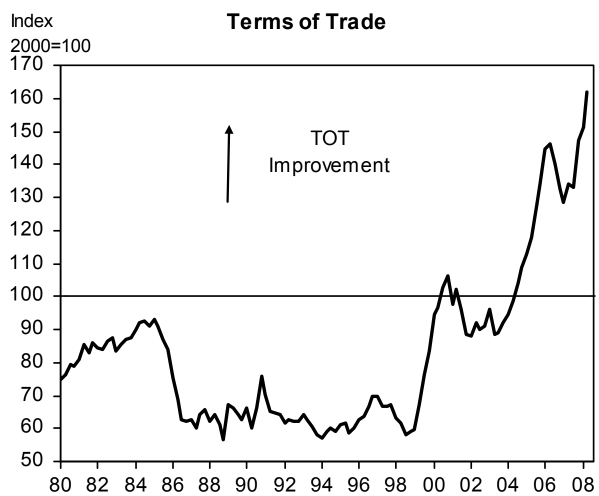


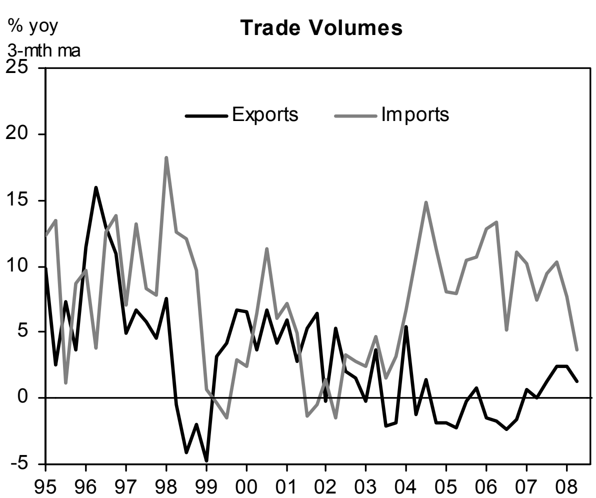
Norwegian Kroner

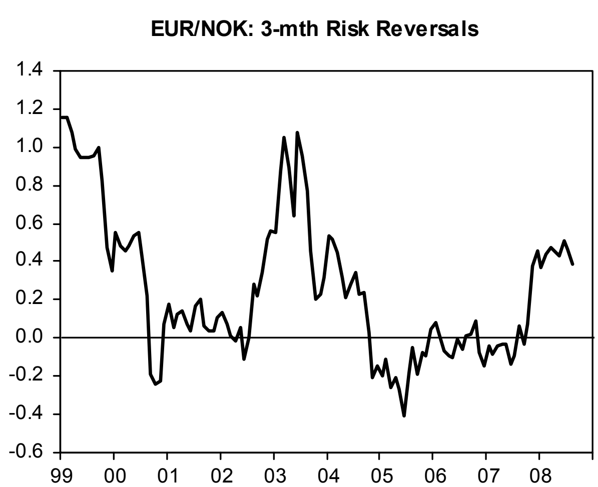












Polish Zloty

FX Forecasts: Our EUR/PLN forecast is 3.32, 3.32 and 3.25 in 3, 6 and 12 months, respectively. The current GSDEER for EUR/PLN is 4.02. US$/PLN: 2.29, 2.21 and 2.32 in 3, 6 and 12 months.

Motivation for Our FX View: The combination of tightening monetary policy and relatively loose fiscal policy will be supportive of the currency. The economy is facing inflationary pressure on the back of a tightening labour market, together with higher food and energy price increases. To counterbalance this, policymakers will have to allow further PLN appreciation in the longer term, but we think they are increasingly concerned about the speed of the move in the short term. The currency still looks competitive on a unit labour cost basis, and increased privatisation flows and structural reforms should also support it.

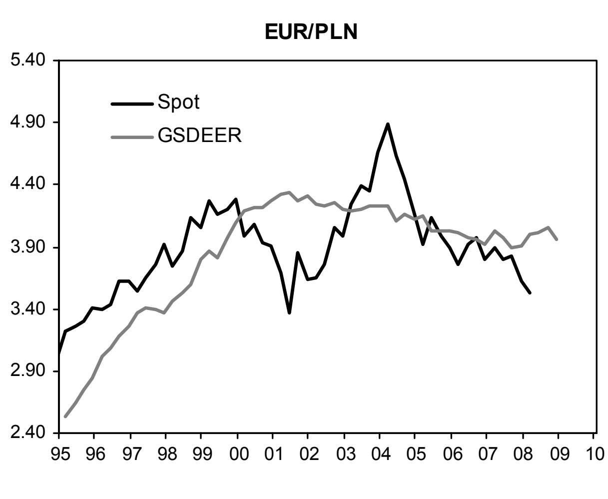
Monetary Policy and FX Framework: The PLN is a freely floating currency, and the capital market is fully liberalised. The National Bank of Poland (NBP) has an inflation target of 2.5%+/-1% in terms of the headline CPI inflation. According to the relevant act, "The National Bank is responsible for the national currency keeping its value. The basic objective of NBP activity shall be to maintain price stability, and it shall at the same time act in support of Government economic policies, insofar as this does not constrain pursuit of the basic objective of the NBP".

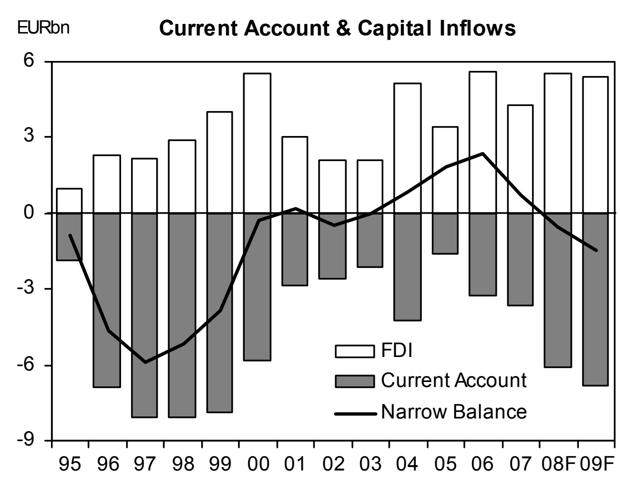
Growth/Inflation Outlook: Growth, and especially investment growth, has accelerated since EU accession in 2004. The economy started from a negative output gap, but above-potential growth has moved it into positive territory recently. We think the sustainable growth rate is around 5.5%. 2007 GDP growth was 6.5%, and for 2008 we expect 5.1%. High output growth, a tightening labour market and strong household demand increase the upside risk to inflation. Inflation in July was 4.8%yoy**,** and core inflation indices are also creeping up. Headline inflation is likely to increase further to its August peak.

Monetary Policy Forecast: The next meeting is on August 27. We expect rates to stay at 6%, then remain on hold for a couple of months. After that we expect the MPC to re-start hiking based on the unfavourable inflation outlook, but the strong currency has introduced some downside risk to that.

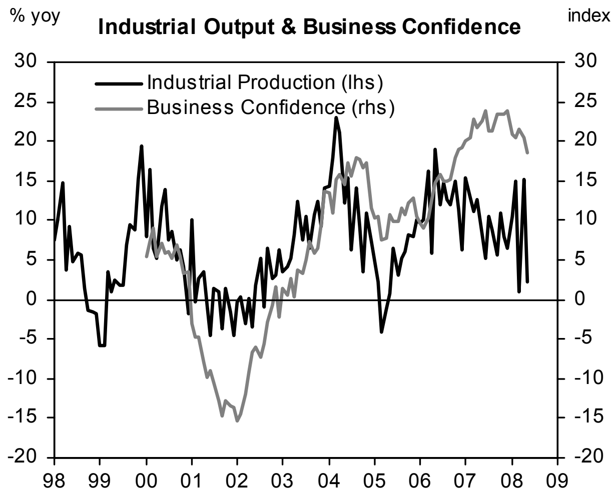
Balance of Payments Situation: The current account deficit is gradually widening, but from low levels. We expect the deficit to reach about 6% in 2008, from 3.6% in 2007. We expect FDI flows to continue to broadly cover the current account gap this year. At the same time, capital inflows generated by the rise in banks' borrowing abroad should be supportive of the PLN in the short term.

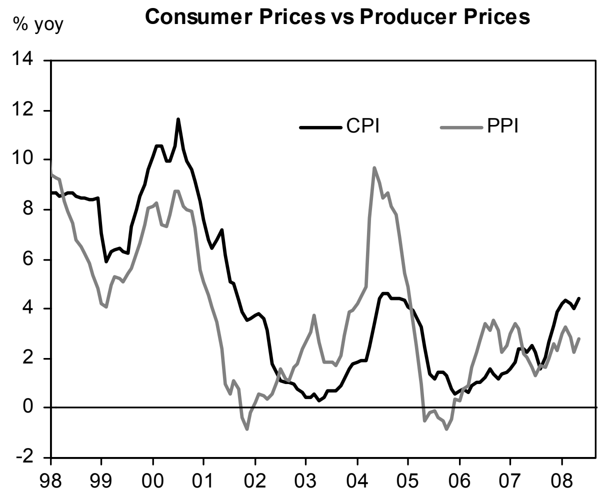
Things to Watch: The government may indicate a more definite timeline about Euro introduction (recently it has started to talk about 2012 as a "likely" date), and might start preparations, but we do not expect it to commit to a firm date before the Autumn at the earliest, and likely later. We think high inflation will delay ERM-2 membership to 2H2009 at the earliest.

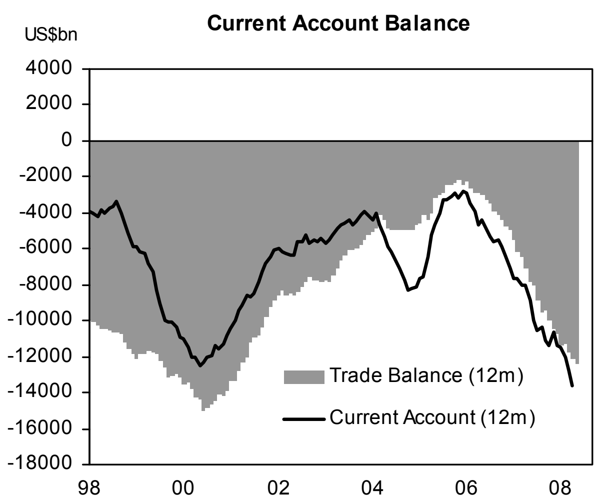


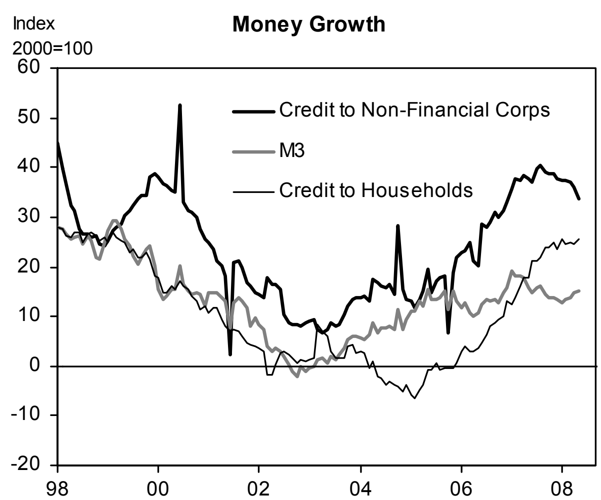


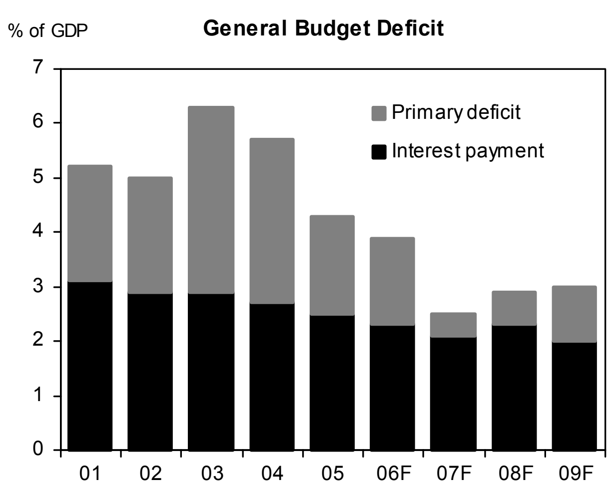
Polish Zloty

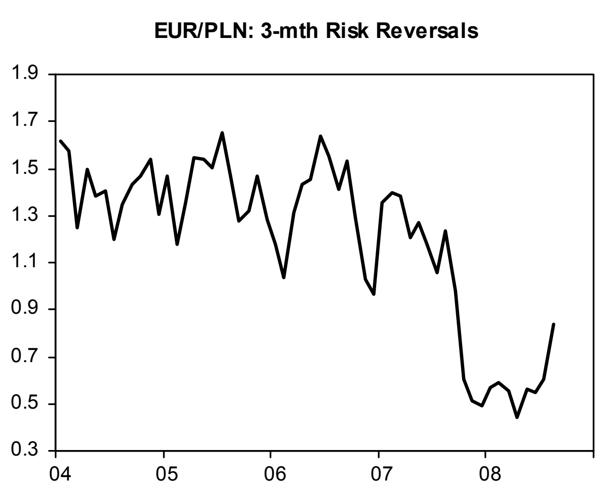












Swedish Krona

FX Forecasts: Our views are unchanged. We expect EUR/SEK to trade at 9.40, 9.40 and 9.10 in 3, 6 and 12 months. $/SEK is now 6.48, 6.27 and 6.50. Current GSDEER: 8.21.

Motivation for Our FX View: EUR/SEK has been hostage to developments in equity markets since the start of the credit crunch. In part this reflects the composition of the Swedish equity market, which is skewed towards cyclicals and financials, and these have suffered in recent months. The EUR/SEK continues to ignore rate differentials, which would suggest that the SEK should have been stronger than it has been. Finally, Swedish growth has materially undershot expectations and this also leaves the SEK vulnerable, and the risk is that it trades weaker than our current path in the near term.

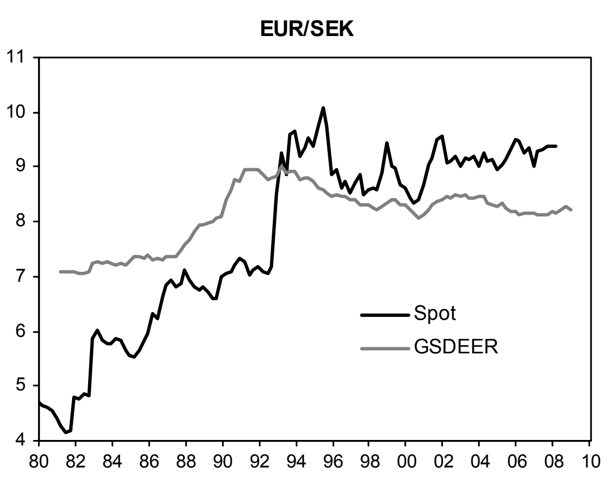
Monetary Policy and FX Framework: Flexible inflation targeter, responding to output fluctuations over and above what they imply for future inflation. The Riksbank's objective is to keep CPI inflation around 2%. CPIX has been the Riksbank's effective target but it has announced that this measure will be phased out and CPI will become the key focus of attention. Flexible FX regime.

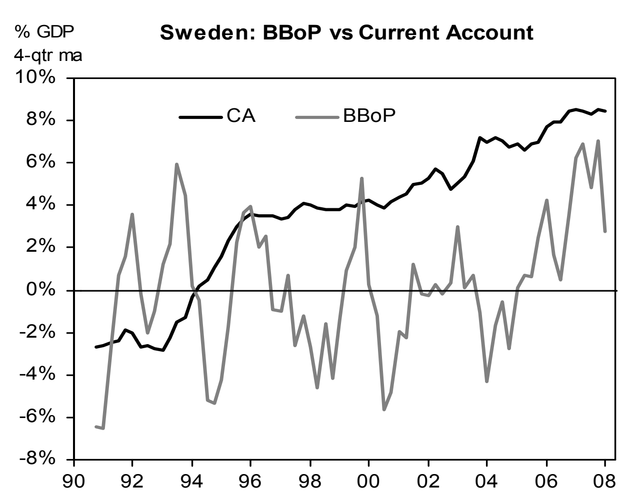
Growth/Inflation Outlook: Q2 GDP was far weaker than expectations with a flat reading on Q1. The latter quarter was revised down from 0.4% to 0.1%qoq. The main source of the surprise in Q2 was a big drag from net exports; however, consumption, investment and government spending were all weaker. Sentiment data suggest that activity is likely to be just as weak in Q3, with sharp falls in the business tendency survey and PMI readings in July.

Monetary Policy Forecast: The Riksbank hiked rates to 4.5% in July and signalled that rates probably need to be raised a couple more times to contain inflation. However, the Q2 GDP report is sufficiently weak to keep the Riksbank on hold despite still elevated short-run inflationary pressures.

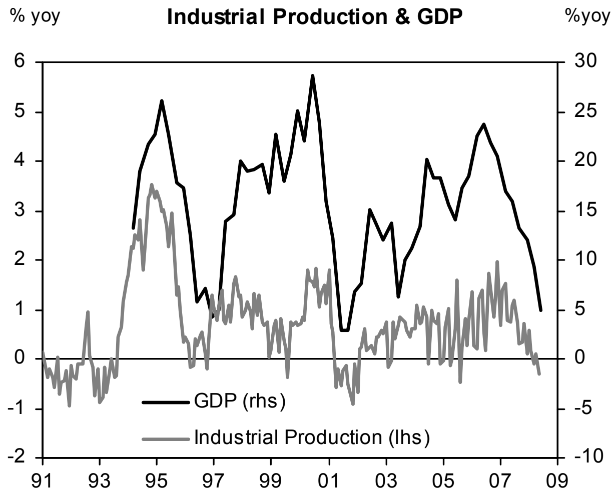
Balance of Payments Situation: Sweden's trade surplus has recovered after a sharp deterioration in the middle of 2007 due to a drop in exports, which have now since recovered. Imports, however, remain sluggish. The current account was in surplus to the tune of 10.5% of GDP in Q1 of this year, helped by a strong surplus on the services and income balances. The BBoP surplus amounted to 5.7% of GDP as strong Swedish buying of foreign bonds and equities offset the current account surplus. Anecdotal evidence suggests that Sweden recorded small net portfolio inflows in Q2.

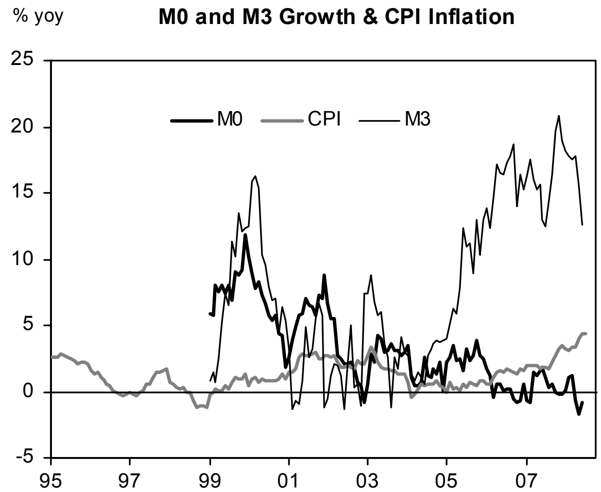
Things to Watch: The deterioration in Swedish domestic growth and the international environment leaves the SEK in a rather vulnerable position. This has not been reflected in the SEK price action because it remains tied to the equity market and that has performed well due to the fall in oil prices. Consequently, if the SEK decouples from the equity market, it could well weaken beyond our current forecasts. A further deterioration in activity in the Baltic states is likely to weigh on the SEK given Swedish banking sector exposure to the region.

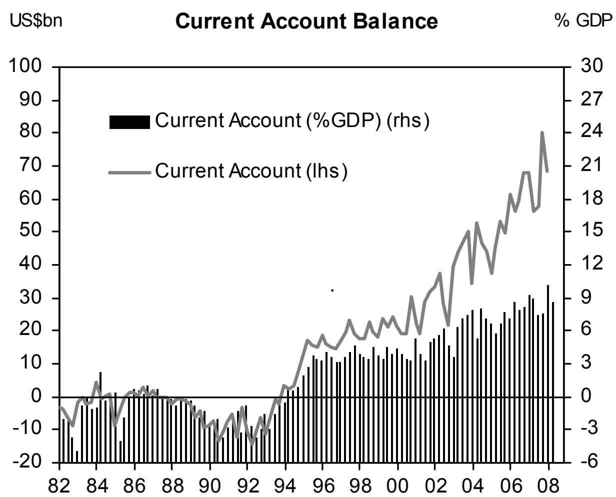


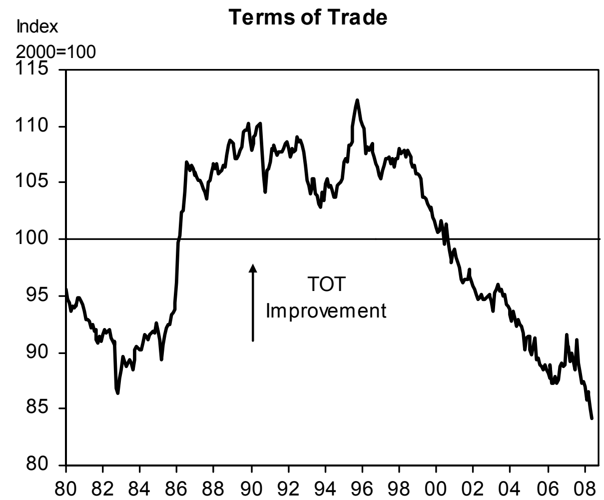


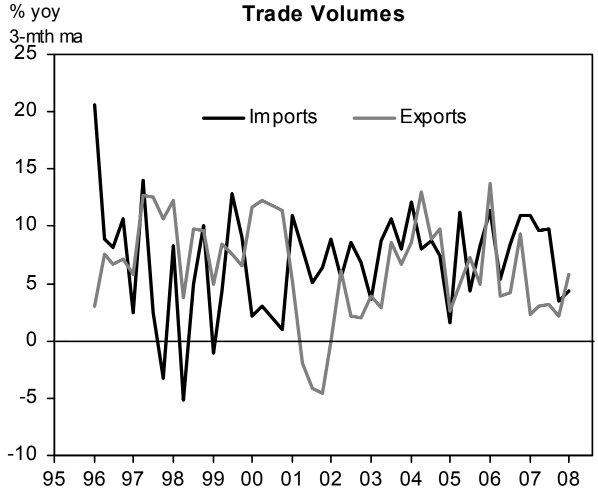
Swedish Krona

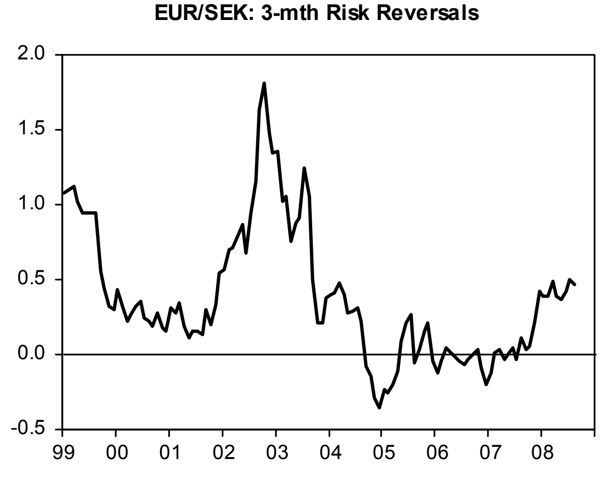












Swiss Franc

FX Forecasts: We have not changed our view. EUR/CHF: 1.60, 1.60 and 1.62. $/CHF 1.10, 1.07 and 1.16 in 3, 6 and 12 months. Current GSDEER: EUR/CHF1.50. The Swiss Franc remains cheap to fair value vs the Euro.

Motivation for Our FX View: The view reflects the potential for another bout of risk aversion and the fact that EUR/CHF remains decoupled from the equity market. The historical relationship would imply a notably stronger CHF. The growth outlook also looks favourable for the CHF, given that Swiss growth has proven resilient to the global slowdown. Survey data, while softer, suggest that growth is tracking at 0.5%qoq, notably stronger than that in Euroland.

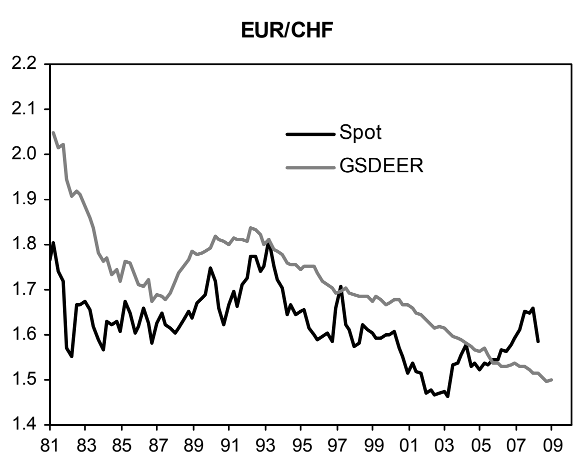
Monetary Policy and FX Framework: The SNB targets inflation, with a ceiling on CPI set at less than 2% per annum. The SNB uses 3-month libor as its policy instrument. At each meeting, the Bank sets a band, usually 1%, for libor. The Bank then manages libor so that it trades at the centre of the band. The CHF is fully flexible; however, the SNB has used rates to influence the value of the currency when it poses a threat to inflation stability.

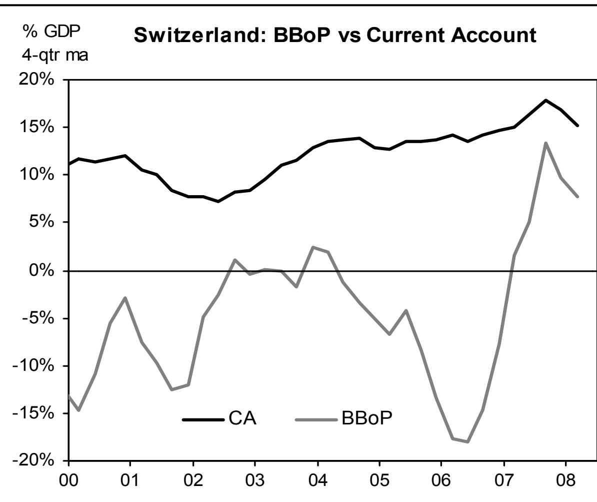
Growth/Inflation Outlook: Swiss GDP grew by 0.3%qoq in Q1, stronger than implied by the SNB's forecasts. The expenditure breakdown for growth estimated that consumption picked up to +0.4%qoq, investment growth rose an impressive 1.2%qoq, net exports were positive, and GDP as a whole was only dragged down by a large fall in inventories. Sentiment data has softened, so we do expect some moderation in growth going forward. Inflation has panned out stronger than expected, rising to 3.1% in July. Rising food prices were the key driver of the surprise.

Monetary Policy Forecast: The SNB kept rates on hold at the June meeting and arguably sounded more dovish than anticipated. While the bank's near-term inflation expectations were revised up, the medium-term inflation forecast was revised down, indicating that the bank is happy to keep rates on hold. We expect rates to be kept on hold at 2.75% going forward.

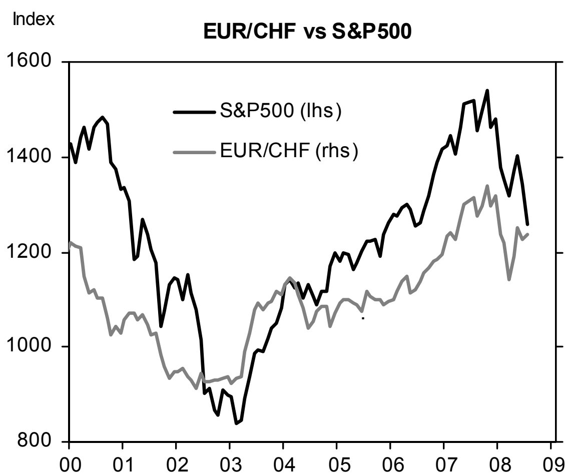
Balance of Payments Situation: Switzerland runs a strong current account surplus of 17% of GDP. The BBoP is in surplus to the tune of 23% of GDP, reflecting firm FDI inflows and notable portfolio inflows. Given Switzerland's position as an international financial centre, the usefulness of portfolio flows from an FX point of view is limited. Nevertheless, the current account surplus and net FDI inflows are supportive for the CHF.

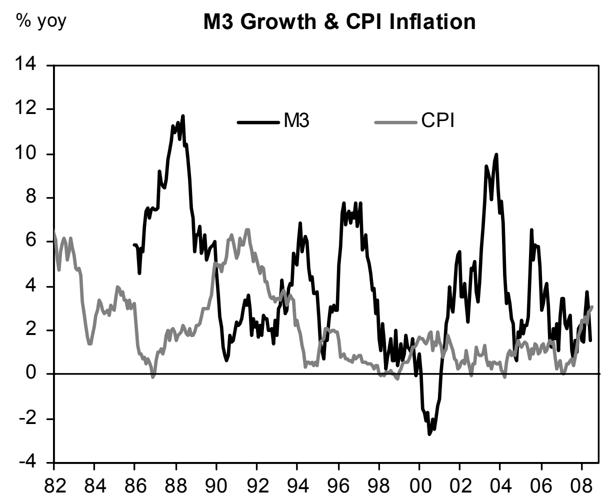
Things to Watch: The relationship between the Swiss Franc and equity market developments has loosened in recent months; however, if this link is re-established, the CHF is likely to strengthen given the current risk averse environment and deteriorating equity market performance. Our rate view is more dovish than that of the market and this will not support the CHF if rate differentials begin to drive the currency once more.

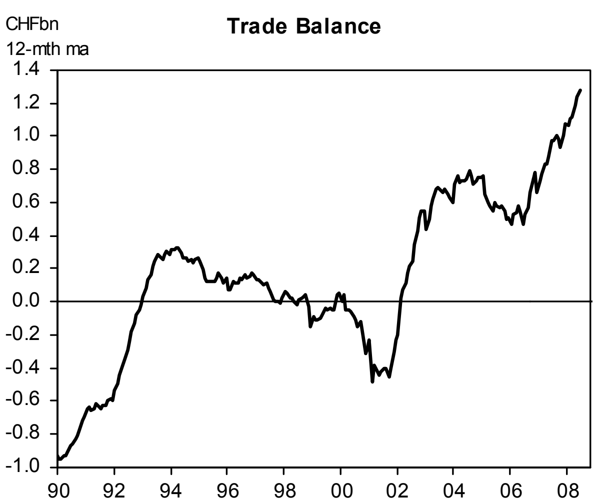




Swiss Franc


Index
EUR/CHF vs S&P500
S&P500 (lhs)
EUR/CHF (rhs)
1600
1400
1200
1000
800
1.8
1.7
1.6
1.5
1.4
00 01 02 03 04 05 06 07 08 09


% yoy
M3 Growth & CPI Inflation
M3
CPI
14
12
10
8
6
4
2
0
-2
-4
82 84 86 88 90 92 94 96 98 00 02 04 06 08


CHFbn
12-mth ma
Trade Balance
1.4
1.2
1.0
0.8
0.6
0.4
0.2
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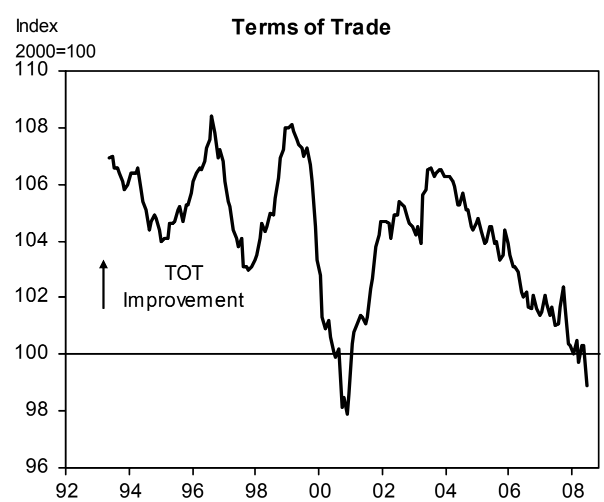
Index
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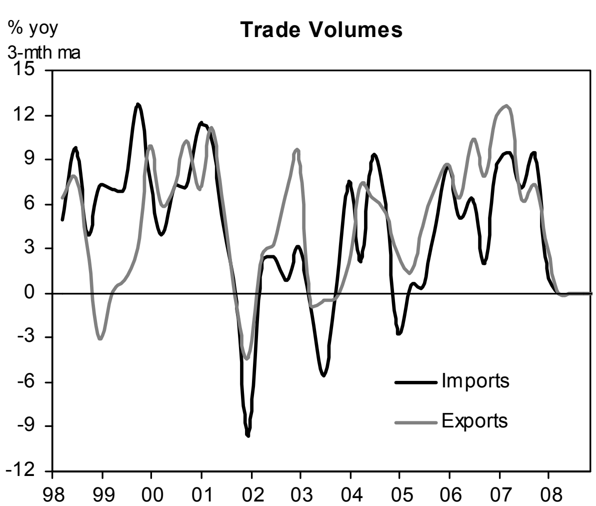
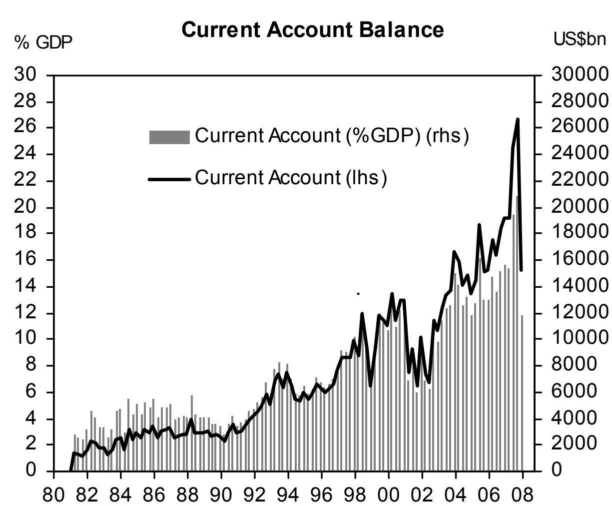
Terms of Trade
TOT
Improvement
110
108
106
104
102
100
98
96
92 94 96 98 00 02 04 06 08


% yoy
3-mth ma
Trade Volumes
Imports
Exports
15
12
9
6
3
0
-3
-6
-9
-12
98 99 00 01 02 03 04 05 06 07 08


% GDP
Current Account Balance
US$bn
Current Account (%GDP) (rhs)
Current Account (lhs)
30
28
26
24
22
20
18
16
14
12
10
8
6
4
2
0
30000
28000
26000
24000
22000
20000
18000
16000
14000
12000
10000
8000
6000
4000
2000
0
80 82 84 86 88 90 92 94 96 98 00 02 04 06 08

South African Rand

FX Forecasts: We forecast $/ZAR at 7.50, 8.00 and 8.50 in 3, 6 and 12 months, with risks skewed towards a weaker Rand over a 6- to 12-month timeframe. EUR/ZAR: 10.88, 12.00 and 11.90 in 3, 6 and 12 months. $/ZAR GSDEER is 5.91.

Motivation for Our FX View: A large current account deficit, financed mostly from equity portfolio inflows, makes the Rand vulnerable to the recent weakness in global equity markets. Year to date, foreign net purchases of South African equities have been negative, interrupted by a temporary bounce into positive territory during some weeks.

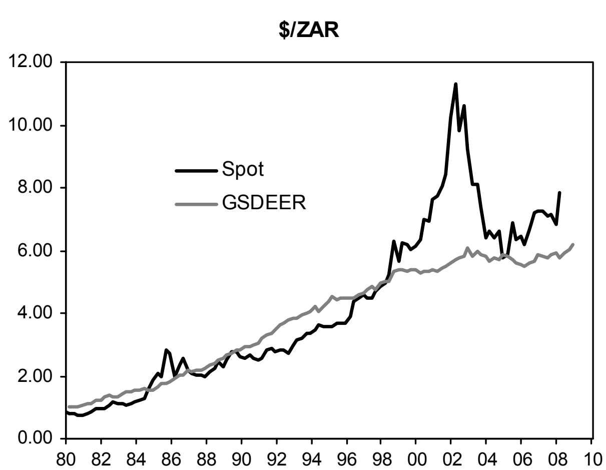
Monetary Policy and FX Framework: The South African Reserve Bank is operationally independent and sets its policy interest rate to keep CPIX inflation within the official target of 3%-6%yoy. The repo rate is its policy rate and is the rate at which banks can borrow from the Reserve Bank for two weeks.

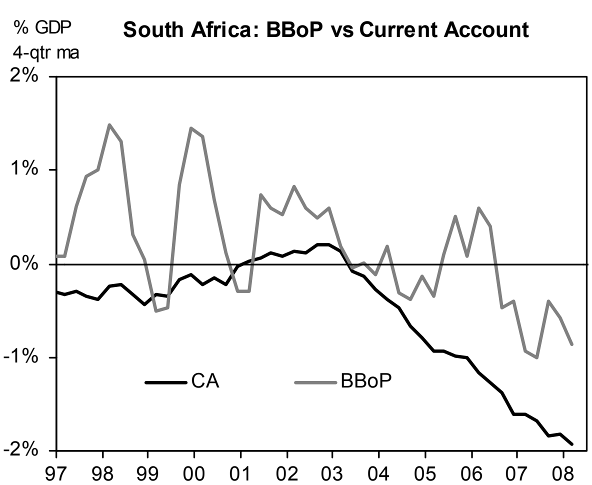
Growth/Inflation Outlook: Growth reached 5.1%yoy in 2007, but is forecast to slow to 3.0%yoy in 2008, before rebounding moderately to about 3.5%yoy in 2009. Private consumption is slowing quite sharply on the back of higher interest rates and inflation, both of which are eating into disposable income. The sharp decline in business confidence in 1Q2008 puts private fixed investment in 2008 at risk, even as public-sector investment should remain strong. This means that risks to our growth forecast are skewed to the downside.

Monetary Policy Forecast: The MPC has raised its repo rate by a cumulative 500bp since June 2006. We expect the SARB to keep rates on hold on August 14 and for the remainder of the year, as the MPC focuses on the prospects for declining inflation next year on the back of moderating food and oil inflation, and strong base effects.

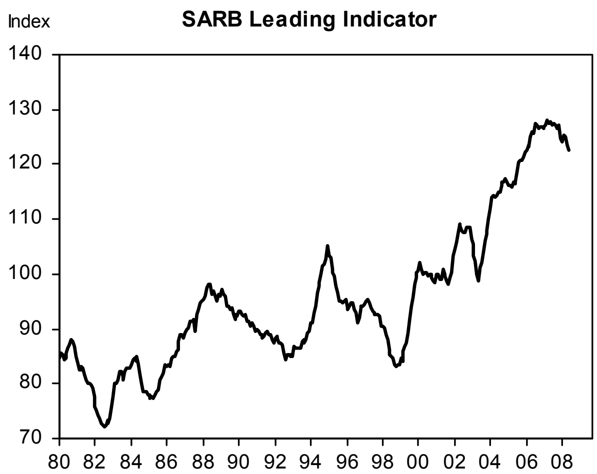
Balance of Payments Situation: The current account deficit widened to 7.3% of GDP in 2007, and 9% of GDP in 1Q2008. Imports of consumer goods have moderated, but capital imports remain generally firm on the back of strong fixed investment, and high oil prices continue to increase the oil import bill. We expect the current account to remain broadly flat at about 8% of GDP in 2008, with some downside risk should fixed investment - and therefore imports of capital goods - decline more sharply in 2008. The income and services deficit should continue to expand, but the trade deficit should stabilise at about 2.0%-2.5% of GDP, as the economy, and therefore imports, slow. While South Africa benefited from net FDI inflows in Q1, these inflows failed to offset the large CA deficit and strong portfolio outflows.

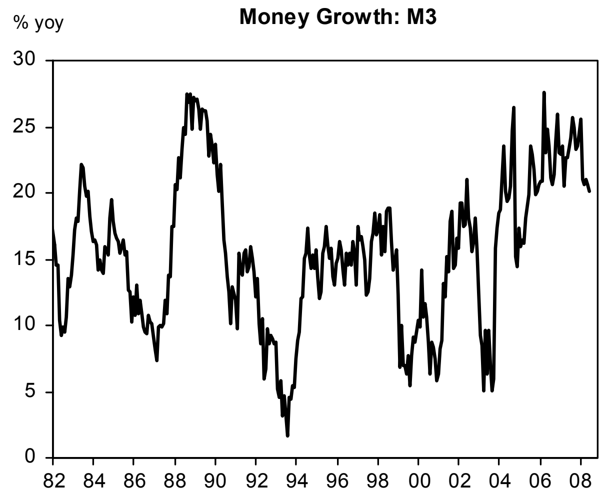
Things to Watch: Private fixed investment will be vulnerable to declining business confidence. A sharp slowing in growth would put investor appetite for South African equities at risk in the current global environment, making it more difficult to finance the current account deficit and leading us to revise our Rand forecast weaker.

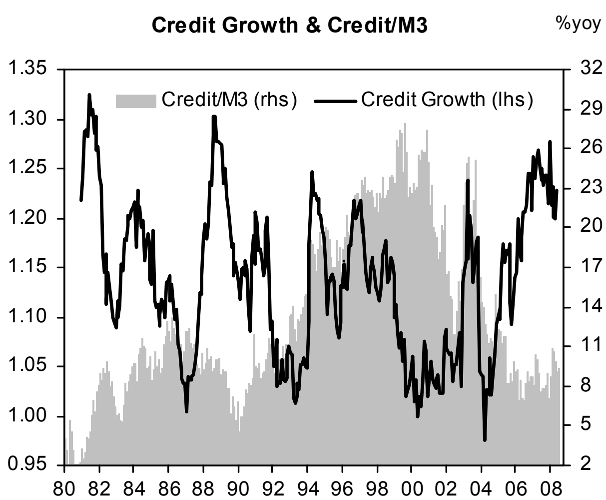


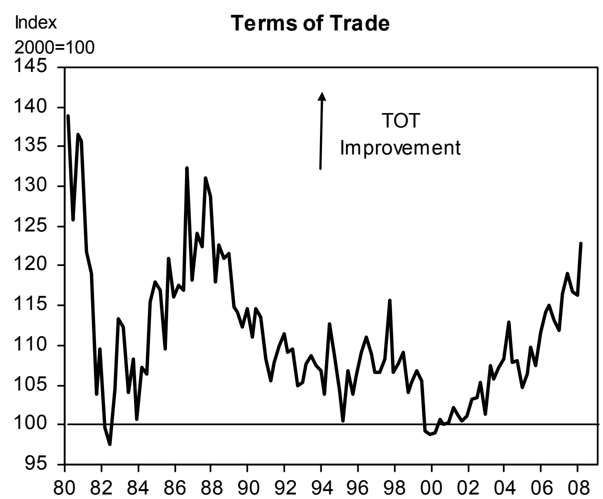


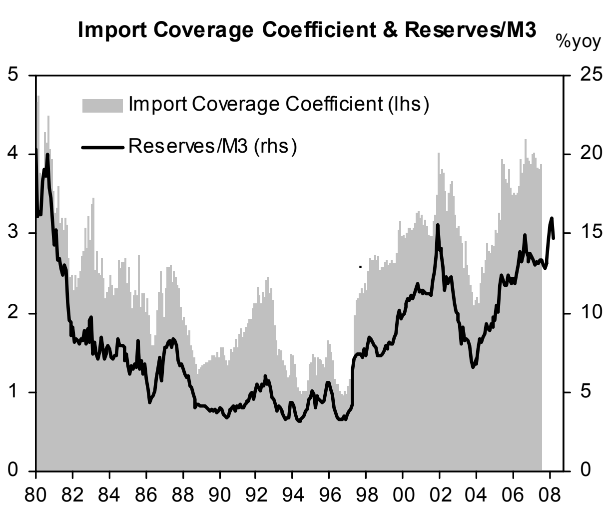
South African Rand

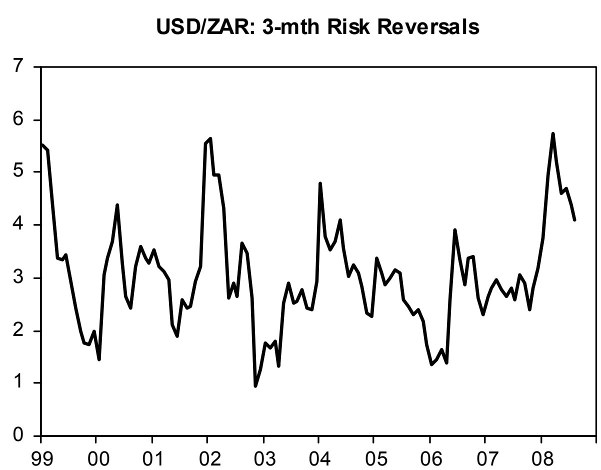












Czech Koruna

FX Forecasts: Our forecasts are EUR/CZK 24.0, 24.0 and 23.5 in 3, 6 and 12 months. The current GSDEER is EUR/CZK 31.90. We have changed our US$/CZK forecast on the back of the new EUR/USD path: 16.55, 16.00 and 16.79 in 3, 6 and 12 months.

Motivation for Our FX View: The long-standing real appreciation trend requires a gradual nominal appreciation in order to achieve low inflation domestically. The Central Bank and the government have made clear that they are unhappy about the recent pace of appreciation and will try to slow it. We expect the low carry to limit any further appreciation potential of the currency.

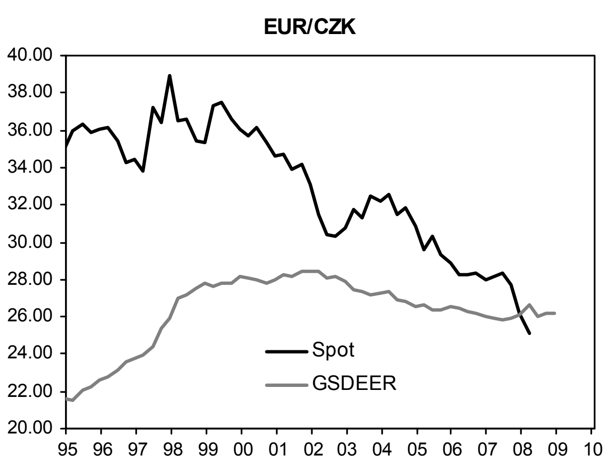
Monetary Policy and FX Framework: The CZK is a freely floating currency, in the sense that the Central Bank (the CNB) does not intervene on the FX market. However, given that the economy is very open, interest rate policy is in practice geared towards guiding the currency along a gradual appreciation path that ensures low inflation. The inflation target is 3% at the moment, and it will be lowered to 2% by 2010. The target is set in terms of headline inflation but, in the short run, the CNB looks at "monetary policy inflation" (which excludes the effect of direct tax changes) to judge the appropriateness of policy.

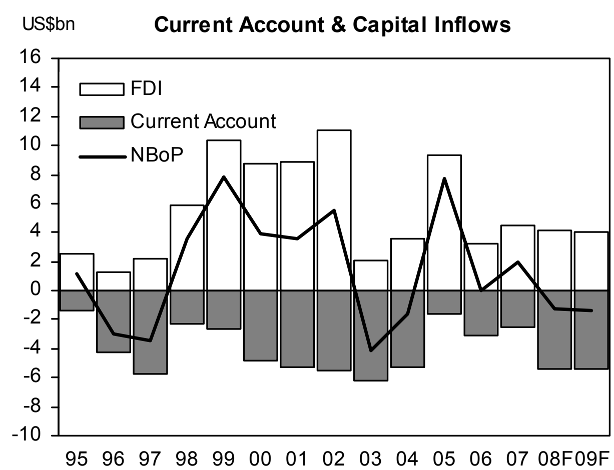
Growth/Inflation Outlook: Growth has surprised on the upside since EU accession, at above 6% since 2005 and only slowing recently. We think the longer-term potential growth rate is around 4%; for 2008 we expect 4.5%. Growth is increasingly driven by domestic demand, which results in a tightening labour market. The government increased VAT and other direct taxes at the beginning of 2008. This means that headline inflation will spend most of the year above 6%, in our view, and even "monetary policy inflation" will be above the 3% target.

Monetary Policy Forecast: The next meeting is on September 25. We expect one more 25bp rate cut to 3.25% between now and the end of the year, followed by stable rates for the next 12 months, but this forecast depends on exchange rate developments.

Balance of Payments Situation: We expect a gradual widening of the current account deficit, but starting from low levels. The 2007 figure was 2.5% of GDP, which is more than fully covered by FDI. For 2008, we expect this to increase to above 4% of GDP, still comfortably financed by FDI. Profit repatriation flows are the main driver of the current account balance.

Things to Watch: The government has only a minimal majority in the parliament and thus remains fragile, in our view. It pushed through a comprehensive and controversial tax reform, which included a flat 15% personal income tax on a wide base. Polls suggest that the government is losing popularity and early elections may take place if MPs withdraw their support. Political events typically do not have a huge market influence in the Czech Republic, and we would expect this to be the case this time as well.





Hungarian Forint

FX Forecasts: Our EUR/HUF forecast is 230, 230 and 225 in 3, 6 and 12 months. US$/HUF: 158.6, 153.3, 160.7 over the same period. Current GSDEER: EUR/HUF 305.10.

Motivation for Our FX View: The NBH will need to maintain a relatively strong currency to counter inflation pressures, and therefore we expect the carry to remain high. The NBH recently eliminated the FX band, and the road to longer-term appreciation is open. The currency has moved strongly in recent weeks and remains sensitive to global risk appetite despite an improvement in the fundamentals. We expect this sensitivity to diminish over time as the Central Bank builds up credibility.

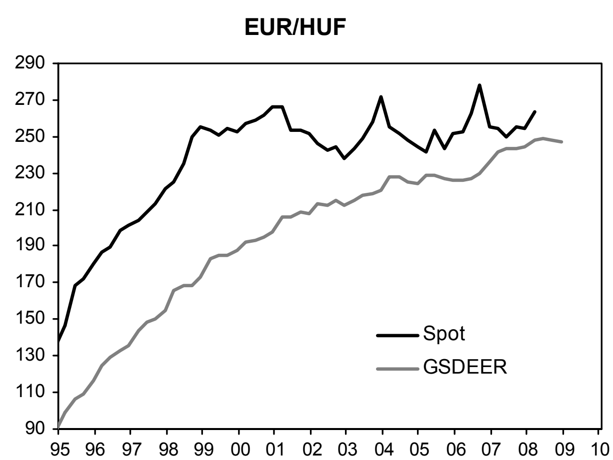
Monetary Policy and FX Framework: The NBH targets inflation at 3% in the medium run (1.5-2 years), but allows for temporary deviation in the meantime. It recently eliminated a +/-15% fluctuation band around EUR/HUF 282.36, which had been in place since 2003. The NBH holds monthly rate-setting meetings, normally every fourth Monday of the month.

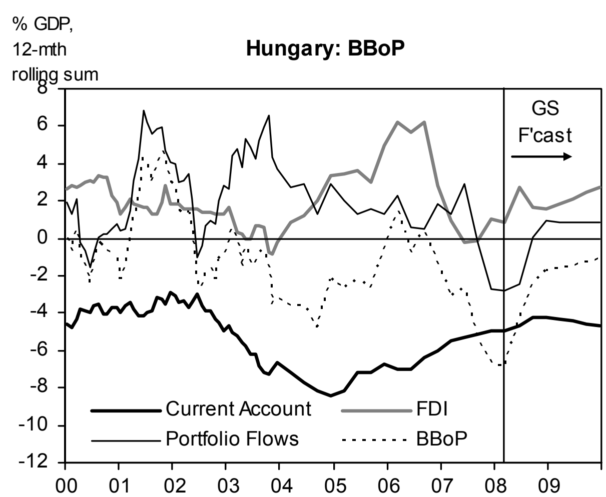
Growth/Inflation Outlook: The government introduced a severe fiscal tightening programme, which reduced the budget deficit to an estimated 4% in 2008 from around 10% in 2006. Growth slowed to just 0.9% (working day adjusted) in 1Q2008 as a consequence, from 3.9% in 2006. We expect growth to accelerate slowly from here, to around 2.5% in 2008 as a whole; this is still below potential, which is around 3.5%. The fiscal tightening has increased headline inflation substantially, which in turn has increased the risk of second-round effects. CPI inflation was 6.7% in July and we expect it to stay significantly above the target this year and next.

Monetary Policy Forecast: The next meeting is on August 25 and we expect rates to remain unchanged. Our baseline scenario is that the NBH will start a cautious easing cycle in early 2009, although rapid HUF appreciation (to EURHUF 225) would bring the cuts forward. Expected weakening in Euroland growth in H2 and USD appreciation mean that the probability of an early rate cut has lessened recently.

Balance of Payments Situation: There has been a parallel improvement in both external and internal deficits since 2006. The current account will be a manageable 4% of GDP in 2008 (down from 7.3% in 2005), and FDI- and EU-related inflows should cover this fully. The trade balance has turned into a surplus of around 1% of GDP. At the beginning of the year, short-term capital flows were not helpful, as domestic pension funds diversified away from HUF-denominated bonds towards foreign equities.

Things to Watch: The opposition recently won a referendum against some of the government's reform measures. Subsequently, the PM promised slower reforms and a change to health-care legislation. As a reaction to this, the junior coalition party, the Free Democrats, left the coalition, and so far have supported the Socialist government from the outside. It remains unclear how viable a minority government will prove (we expect it to survive until the scheduled election in 2010, but to be ineffective). It is also unclear whether the Socialists will replace Gyurcsany as PM; but in any case we would expect economic policy to remain broadly similar.





Egyptian Pound

FX Forecasts: Our view for $/EGP stands at 5.25, 5.10 and 5.10 in 3, 6 and 12 months. This implies a EUR/EGP rate of 7.61, 7.65 and 7.14.

Motivation for Our FX View: A modest current account deficit, which is more than financed by strong inflows of capital in the form of FDI, should help support the EGP. However, recent global equity market volatility and the authorities' willingness to allow greater exchange rate flexibility mean that the EGP has exhibited increased volatility during the past six months. Nevertheless, the economic fundamentals should support the currency in the medium term. In particular, we expect the CBE to accommodate further appreciation as it battles to contain rising inflationary pressures.

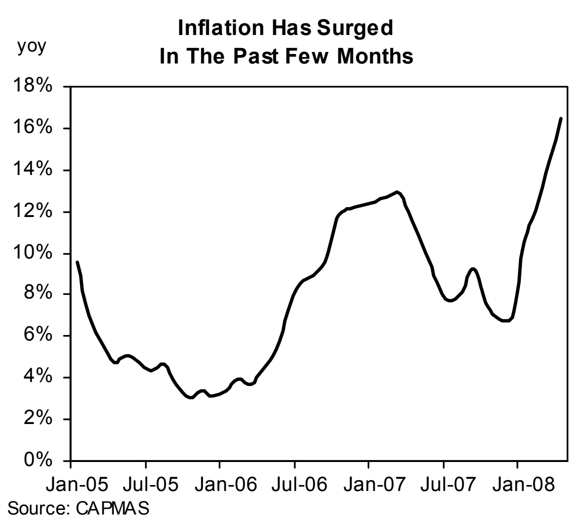
Monetary Policy and FX Framework: The monetary policy framework is characterised by a managed float, which remains the main nominal anchor. However, the authorities have stated that they intend to move to an inflation targeting framework and, consistent with this, we have seen a greater degree of EGP flexibility in recent months. At the heart of the monetary framework is a monetary policy committee that aims to keep inflation in single digits, and one that looks at an eclectic set of data to gauge inflationary pressures.

Growth/Inflation Outlook: The economy grew by 7.1%yoy in 2007. We expect growth to slow to 6.0%yoy in 2008 on the back of a deceleration in global growth, tighter monetary conditions on the back of higher domestic interest rates, and real appreciation of the EGP, as well as some weakness in non-oil/gas exports. However, as the global economy recovers, we expect growth to rebound to 6.5% in 2009.

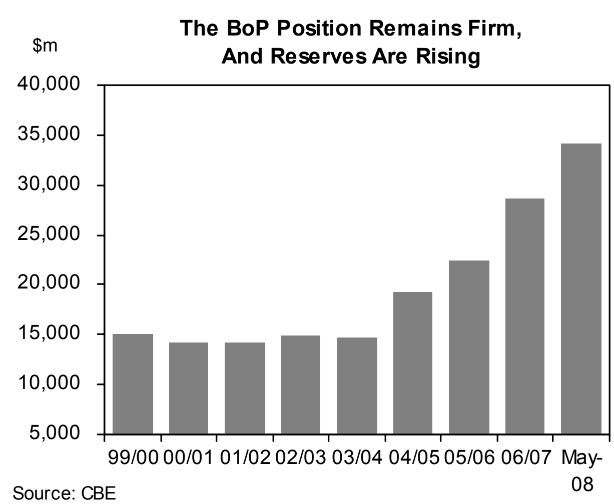
Monetary Policy Forecast: The CBE hiked rates by 50bps on August 7, brining the overnight deposit rate to 11% and the overnight lending rate to 13%. The hike was predicated on the worry that food inflation would spill over into non-food inflation. The risk of further hikes is high given the rise in nonfood inflation, which suggests that inflationary pressures are becoming more generalised against a backdrop of some capacity constraints following a period of strong growth. Inflation reached 19.7%yoy in May. The exchange rate will remain an important operational tool for monetary policy.

Balance of Payments Situation: The current account recorded a modest surplus in 2007 and we are forecasting a modest deficit of about -0.5% of GDP in 2008, on the back of strong global energy prices, even as import growth accelerates. Strong FDI inflows from the Gulf region are likely to keep the BBoP in strong positive territory for at least the next few years.

Things to Watch: Domestic inflationary pressures are rising sharply. For now, the government is implementing ad hoc administrative measures, such as waiving import duties on some food items, to try and contain price rises. This will probably be ineffective. Ultimately, the CBE will use further EGP appreciation to contain inflationary pressures.



Source: CAPMAS



Source: CBE

Israeli Shekel

FX Forecasts: We have not changed our view. We expect $/ILS to trade at 3.40, 3.50 and 3.65 on a 3-, 6- and 12-month horizon. EUR/ILS at 4.93, 5.25, 5.11. $/ILS GSDEER is 3.53.

Motivation for Our FX View: We remain comfortable with our $/ILS forecast and think the BoI is in its comfort zone at a level around 3.50, where the Shekel is neither likely to prove a significant drag on net exports or a source of inflation. Therefore, recent US Dollar purchases by the BoI should slow if the Shekel remains at current levels. We have already seen the BoI step up its daily purchases of US Dollars in the local FX market when $/ILS has touched 3.20, a level they see as too strong.

Monetary Policy and FX Framework: The Bank of Israel enjoys operational independence and targets inflation of

1%-3%yoy. The MPC sets the policy interest rate with a view to keeping inflation within the target band.

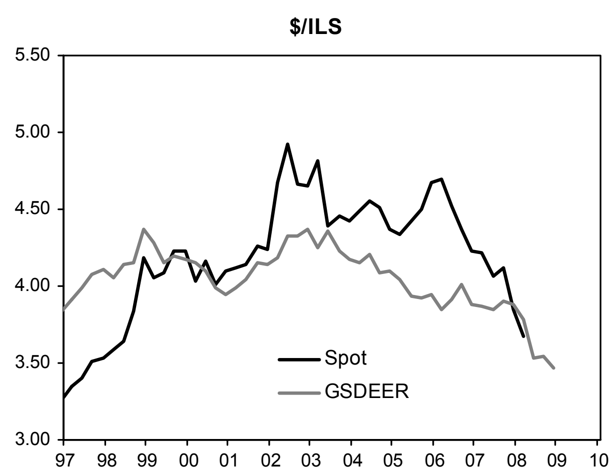
Growth/Inflation Outlook: After many quarters of spectacular growth, economic moderation is becoming increasingly more visible, based on high frequency data. The most recent export numbers have been relatively weak, particularly with respect to European destinations, and as portrayed by the volume of chain-store sales and wholesale trade, have hinted at growth moderating in domestic demand as well. This moderation in economic activity is not all that surprising, and we expect it to moderate from 5.5% in the first quarter of this year to around 3.5% in the remaining three quarters of 2008.

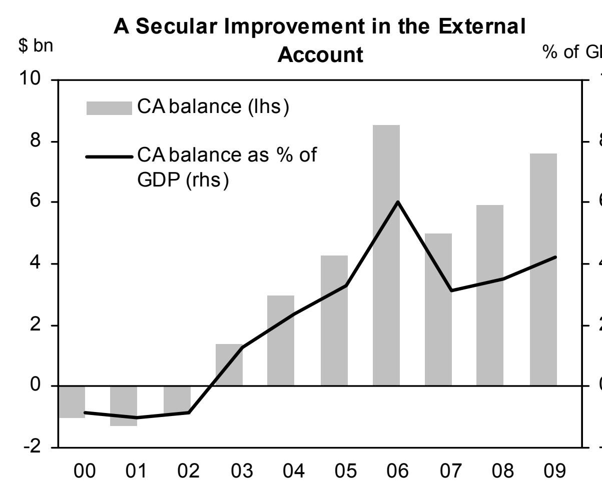
Monetary Policy Forecast: Inflation will remain at the forefront of the policy agenda for the time being. The upcoming inflation readings will continue to show very sticky inflation dynamics and, given the credibility problem faced by the Bank of Israel, the risks to interest rates remain to the upside relative to our call that the BoI will leave rates on hold at 4% for the rest of this year, after hiking by a cumulative 75bp since May.

Balance of Payments Situation: The current account balance is likely to remain in surplus for the next few years, but a cyclical deterioration on that front is to be expected, particularly in the context of a very strong Shekel and a gradual deterioration in global demand. Capital inflows should remain strong. Ongoing structural improvements in the economy, including the fiscal position, should help investor sentiment towards the economy.

Things to Watch: The Shekel has been trading very strong relative to other emerging markets, but as economic moderation finally attracts more attention, we would expect the Shekel to trade on the weak side. Trading the high frequency data from here will be instrumental, particularly fiscal receipts and trade activity.

In rates space we would be looking for some stabilisation in the shape of yield curve. 2s-5s steepeners are becoming increasingly attractive at the current juncture.





Russian Ruble

FX Forecasts: We maintain our view that the CBR will lower the bottom end of the Ruble band against the US$0.55 + EUR 0.45 basket to 29.1 in 3 months, 28.8 in 6 months and 28.1 in 12 months, with the Ruble remaining close to the bottom edge. From the August 13 level, this implies a 1.45% revaluation in 3 months, a further 1.25% between 3 and 6 months, and 2.5% between 6 and 12 months from now, as the CBR expands its efforts to grapple with soaring inflation. This implies EUR/RUB at 35.1, 35.2 and 33.3, and US$/RUB at 24.2, 23.5 and 23.8. The current GSDEER value for US$/RUB stands at 24.7.

Motivation for Our FX View: Inflation fell back below 15% in July, and is likely to fall further by end-2008, thanks to lower food price inflation, though not to the government's still over-optimistic forecast (11.8%). But credit growth has only declined slightly and the economy continues to show signs of overheating, suggesting that further disinflation is unlikely. CBR officials have said that they plan to widen the RUB's trading band gradually, while injecting volatility to ward off speculation; we believe that for the next year, the RUB will remain close to the strong end of this widening band, despite higher volatility than in the past.

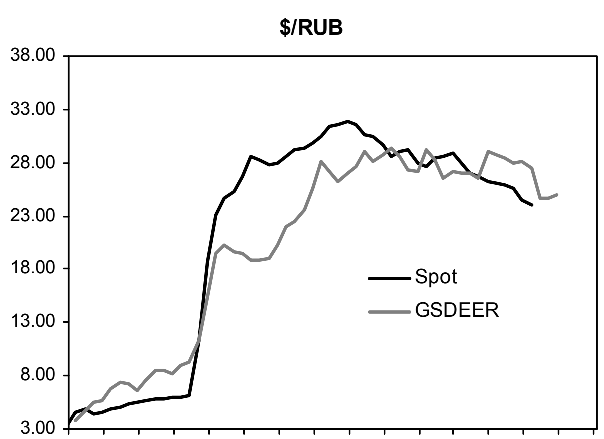
Monetary Policy and FX Framework: The CBR theoretically targets a December-on-December CPI range, but in practice its policy is to use unsterilised FX interventions to hold the RUB in a widening band against a basket composed (since early 2007) of US$0.55 + EUR 0.45. The CBR has also raised rates by 100bp and tightened bank reserve requirements by 150bp. The government sterilises revenues from the oil and gas sector in funds held in foreign currency at the CBR.

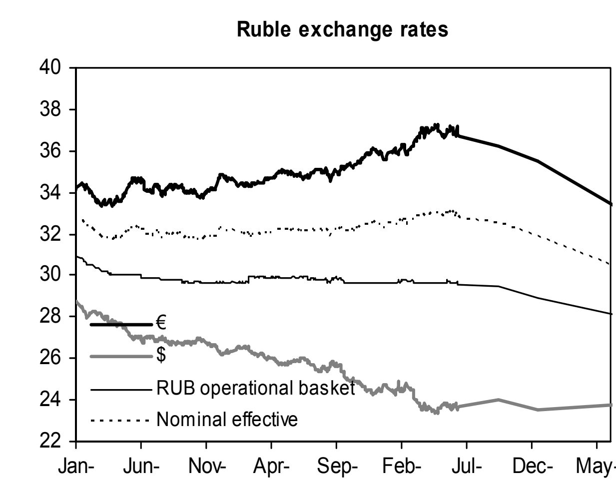
Growth/Inflation Outlook: We expect growth to slow from its overheated 9.5% peak in 4Q2007 to a more sustainable 7.0% in 2H2008 and 2009, due in part to slowing credit growth. High capacity utilisation and low unemployment are likely to maintain inflation at around 14% in 2009, despite ongoing tightening moves by the CBR.

Monetary Policy Forecast: There is no formal monetary policy committee or publicised meeting dates; instead, decisions on rates and the Ruble are taken internally by a small group of bank officials. We expect 100bp of further rate increases this year.

Balance of Payments Situation: Given our oil price forecasts, we expect the current account to run a surplus of over 9% of GDP in 2008, despite surging imports. Private capital inflows revived in Q2 and Q3, before a series of political shocks caused declines in equity prices and then a weakening of the RUB in early August.

Things to Watch: The RUB volatility in August has been due to an abrupt deterioration in sentiment; investors are likely to pay close attention to political risks, with equity investors watching measures taken by the anti-monopoly authorities and fixed-income investors paying more attention to geopolitical developments. It will also be important to track official comments for any signs of discontent with the magnitude of the real appreciation.





Turkish Lira

FX Forecasts: The TRY remains well-supported by the high carry on offer. But fundamental, BoP vulnerability continues to threaten TRY stability and we continue to see some TWI TRY weakness going forward. Incorporating our new EUR/USD forecasts, we also revise our 3-, 6- and 12-month $/TRY to 1.23, 1.25 and 1.34, from the previous 1.20, 1.20 and 1.30. Accordingly, we see EUR/TRY at 1.78, 1.88 and 1.88. Note that the current GSDEER $/TRY fair value estimate is 2.11.

Motivation for Our FX View: There has been a sharp deterioration in Turkey's BBoP position since August 2007, due to the global credit crunch. The BBoP might improve somewhat in the coming months on the back of the recent correction in commodity prices. However, tight credit conditions and the challenging growth environment will allow for relatively limited improvement in FDI and portfolio inflows, and the TRY will remain under fundamental depreciation pressure and vulnerable to external shocks, despite the high carry on offer.

Monetary Policy and FX Framework: The CBRT formally adopted inflation targeting in 2006, and missed its 4% target by a wide margin in both 2006 and 2007, due to a series of nasty relative price shocks. The Bank has recently revised its medium-term targets upwards to 7.5% for 2009 and 6.5% for 2010.

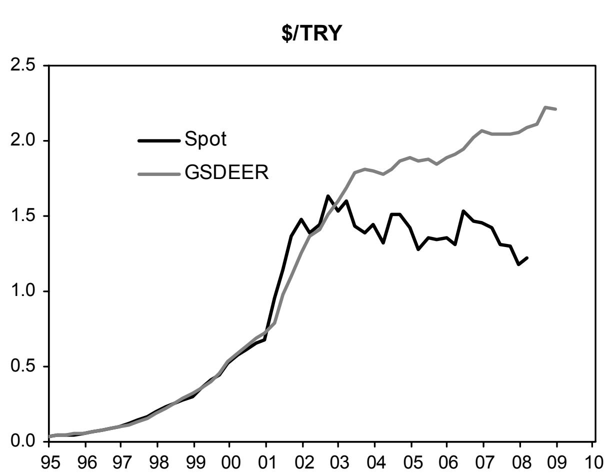
Growth/Inflation Outlook: The CBRT's aggressive monetary tightening after the May/June 2006 turbulence has helped rebalance the economy away from domestic demand and towards net exports. However, domestic demand is still growing (albeit moderately) and external demand is slackening; we expect aggregate demand growth to remain controlled until the end of the year, and to pick up more visibly in 2009. We see GDP growth at below trend, around 3% this year and the next.

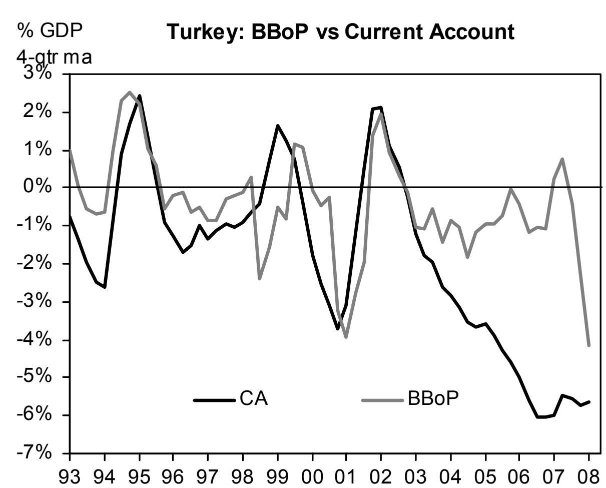
In the short term, controlled aggregate demand will continue to lend support to the CBRT's disinflation efforts and the correction in commodity prices will help pull inflation to around 9.5% by end-2008 from current 12.5%. But disinflation will be gradual, and headline CPI will retreat to 8% at end-2009 and further to 7.5% in 2010, and remain slightly above the CBRT's targets at 7.5% and 6%, respectively.

Monetary Policy Forecast: In response to intensifying inflation pressures, the CBRT delivered three 50bp hikes at the May, June and July MPC meetings, and pulled rates to 16.75%. We expect the Bank to put rates on hold in the August MPC meeting and stay on hold going into 2009. Barring a major shock to the TRY, we expect the CBRT to start easing from mid-2009.

Balance of Payments Situation: This year we forecast Turkey's external borrowing requirement at 22% of GDP, which is one of the highest in the EM universe. In the current global environment, this is clearly a risk to TRY stability, especially in view of the sharp deterioration in Turkey's overall BBoP position.

Things to Watch: Domestic political uncertainty has been reduced after the Constitutional Court's decision not to ban the ruling AKP and its leadership from politics. However, the tension between the AKP and the secularist elite remains in place, risking intermittent political crisis and volatility over the longer run.





Americas

Argentine Peso

FX Forecasts: Our view is unchanged. $/ARS: 3.05, 3.10 and 3.15 in 3, 6 and 12 months versus spot of 3.03 at the time of writing. EUR/ARS: 4.42, 4.65 and 4.41 in 3, 6 and 12 months. Current GSDEER: 2.05. The ARS is about 40% undervalued at its current level according to GSDEER. This is due to the FX depreciation overshooting of 2002, heavy Central Bank intervention ever since, a relatively low level of reported inflation and substantial terms of trade gains in recent years (48% since 2002). However, actual inflation is currently estimated to be about three times the level of inflation reported by the government (25% versus 9%). Factoring in actual inflation levels, the undervaluation of the ARS declines to around 25%.

Motivation for Our FX View: Our view on the ARS is based on the government's strong commitment to maintaining a competitive (undervalued) currency. To achieve this, we expect the Central Bank to intervene, buying dollars again, depreciating the ARS (in nominal terms) in order to partially compensate for the large inflation differential Argentina currently has vis-à-vis its main trading partners. Over time, we expect the ARS to converge to its real equilibrium level through a positive inflation differential vis-à-vis its main trading partners, rather than through nominal appreciation.

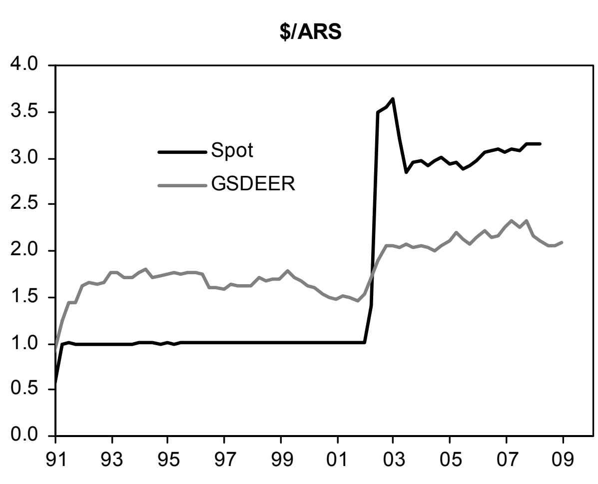
Monetary Policy and FX Framework: The Central Bank conducts monetary policy by setting quantitative targets on M2. For 2008, the Central Bank has set an expansion target band for M2 of 13.8% to 23.9%, which it claims is consistent with an inflation range of 7%-11%. Whenever the money supply exceeds the M2 target, the Central Bank sterilises (i.e., re-absorbs) the excess of money supply, primarily through the issuance of short-term bonds (Lebacs and Nobacs).

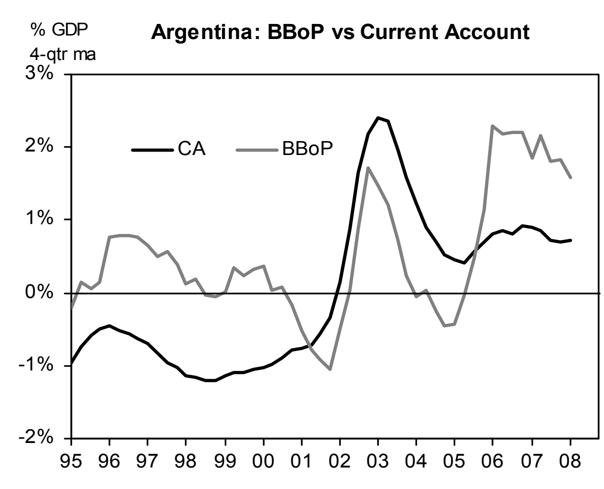
Growth/Inflation Outlook: We expect real GDP growth to slow to 6.2% in 2008, from 8.7% in 2007. We forecast actual inflation to hover at 25% in 2008, up from around 20% in 2007. We expect the government to continue under-reporting inflation (as has occurred since 2007). The official inflation print will likely hover at 8%-9%.

Monetary Policy Forecast: Financial conditions have tightened significantly in recent months as banks raised interest rates to retain deposits, which fell due to the turmoil generated by the March-July farming crisis. Despite this increase, real interest rates remain at negative levels. The benchmark Badlar nominal rate stands currently at 12.5%, leading to a real rate of about -16% approximately, given inflation expectations at around 30%.

Balance of Payments Situation: We expect the current account to remain in surplus, at around 2.5% of GDP (versus 3.1% in 2007), on the back of high agricultural commodity prices.

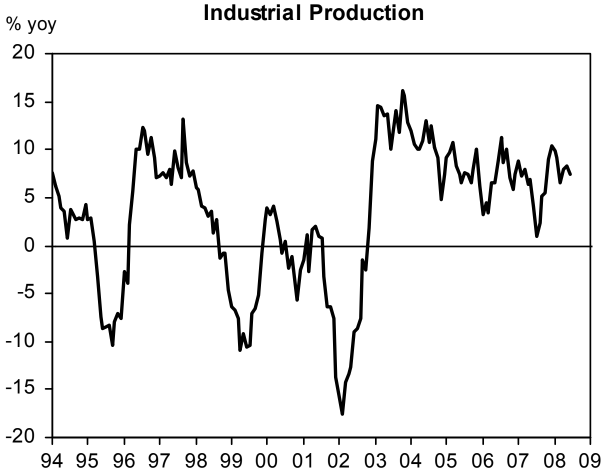
Things to Watch: The Central Bank has sold Dollars in the past few months, losing US$3bn in reserves, to rein in an incipient run against the ARS triggered by the farming conflict. The Central Bank's intervention led to the ARS appreciating 5% to its strongest level since late 2005. We believe that, as farming exports normalise following the resolution of the farming crisis, the Central Bank will likely buy Dollars to rebuild its reserve level, gradually depreciating the ARS.



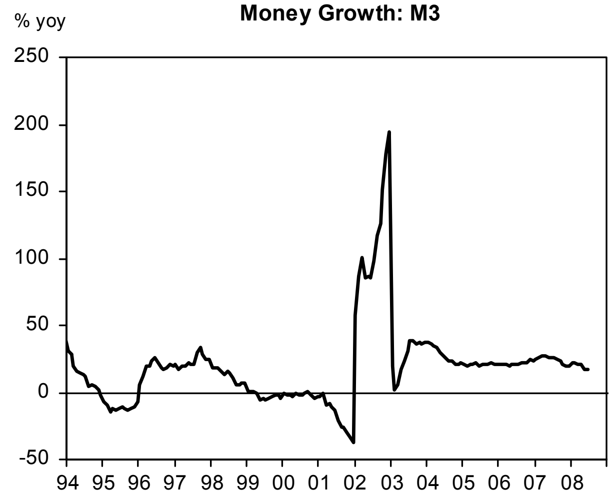


Argentine Peso

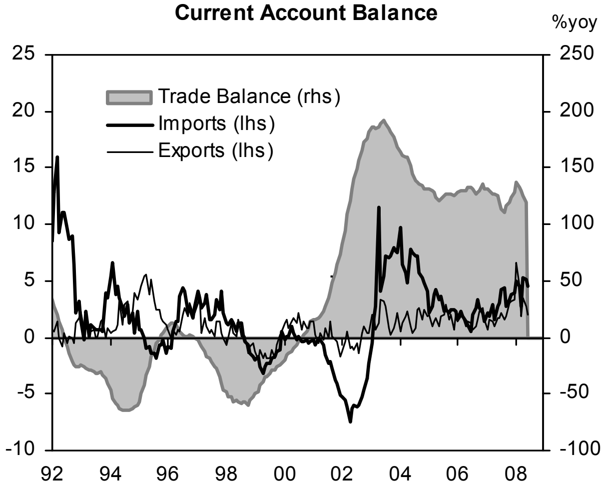
Industrial Production



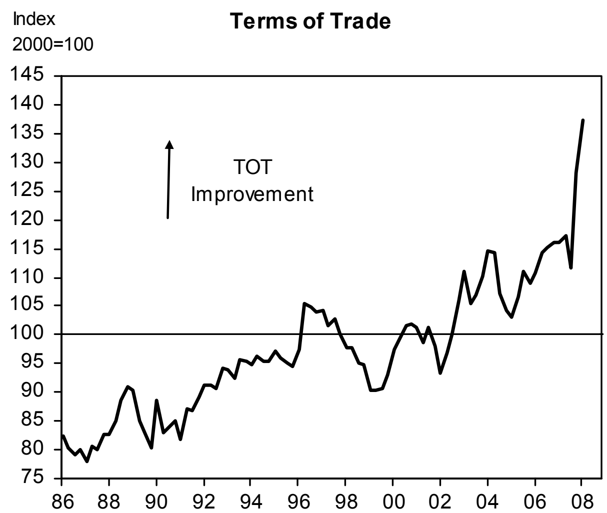
Money Growth: M3



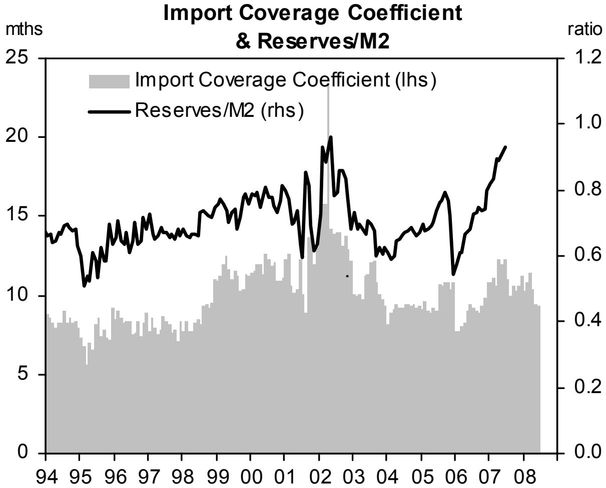
Current Account Balance



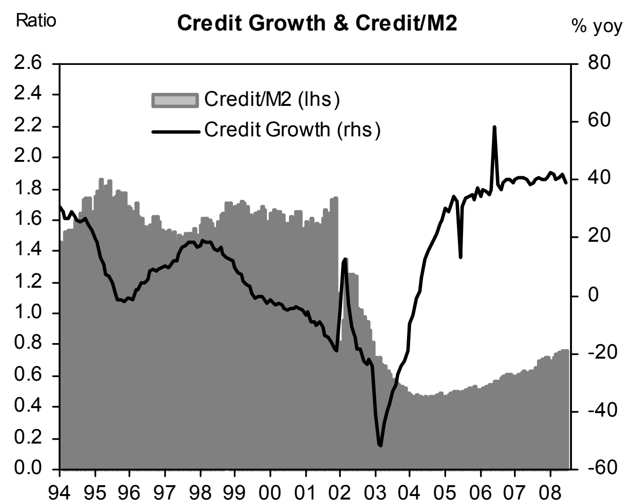
Terms of Trade



Import Coverage Coefficient & Reserves/M2



Credit Growth & Credit/M2



Brazilian Real

FX Forecast: We are marginally upgrading our 3-, 6- and 12-month forecasts for the BRL to R$1.55, R$1.60 and R$1.70 to the US Dollar, from a previous R$1.56, R$1.62 and R$1.72. $/BRL is likely to trade within a wide range between R$1.50-R$1.70. We forecast EUR/BRL at 2.25, 2.40 and 2.41 in 3, 6 and 12 months. $/BRL GSDEER is 2.22.

Motivation for Our FX View: For the next three months, higher interest rate differentials between Brazil and the US (as COPOM tightens) will likely continue to raise fixed income inflows into Brazil, helping the BRL to appreciate. For the next 6 and 12 months, we forecast that the BRL will reverse course, gradually depreciating toward R$1.70 as the current account deficit widens faster than capital inflows rise in response to higher rates.

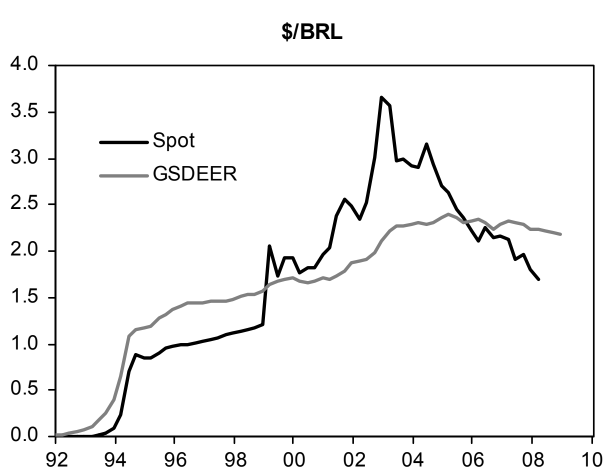
Monetary Policy and FX Framework: Since 1999, BACEN has pursued an inflation targeting regime. For 2008, 2009 and 2010, the IPCA inflation target amounts to 4.5% +/- 2.0%. To this end, COPOM targets the SELIC interest rate. Brazil has a managed floating FX regime, marked by large, frequent and discretionary intervention in the spot and derivatives FX markets.

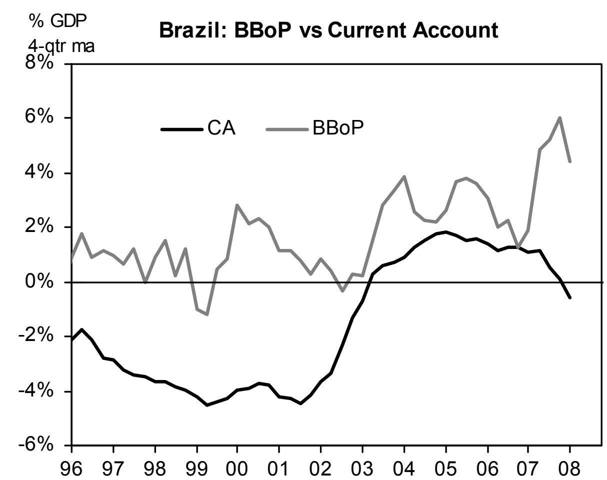
Growth/Inflation Outlook: Thanks to the expansionary demand management policies pursued by the government and a favourable global economic environment, real GDP growth is likely to have accelerated to 6.0%yoy in 1H2008, slowing in 2H2008 to average 5.2% for 2008 as a whole. Domestic demand is growing by almost 9%yoy, which is twice as fast as potential real GDP growth. As a result, the output gap is tightening, while IPCA inflation will likely rise to 7.0% in 2008, versus a target of 4.5%. Inflation expectations have become unanchored, because expected IPCA inflation for 2009 rose to 5.20%.

Monetary Policy Forecast: The next monetary policy meeting is scheduled for September 10. We expect COPOM to raise SELIC by 75bp. Thereafter, we forecast that COPOM will raise SELIC by 75bp in October, followed by two more hikes of 50bp in December and January, raising SELIC to 15.00% by December 2008 and 15.50% by January 2009. We expect COPOM to start easing monetary policy in 4Q2009, and to complete the easing cycle by June 2010, to 12.50%.

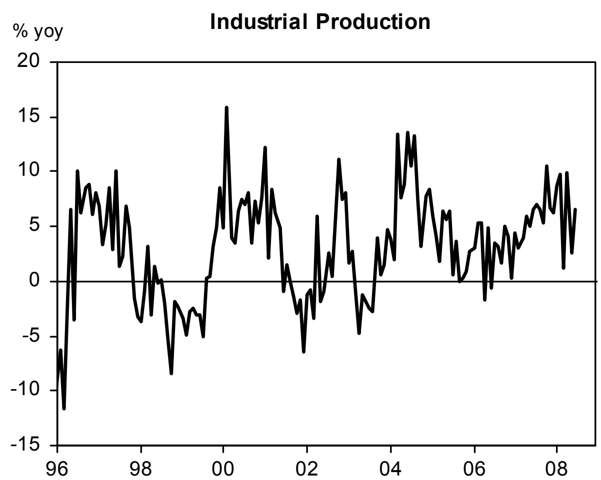
Balance of Payments Situation: We forecast that the BoP surplus will decline to US$32bn in 2008, from US$92.2bn in 2007. This assumes a shift in the current account to a deficit of US$29bn in 2008 from a surplus of US$3.2bn in 2007. Such deterioration reflects import growth rates close to 40% and a drop in national savings. We forecast that the surplus in the capital account will decline by one-third to US$61bn in 2008. We assume that the investment grade rating will boost capital inflows by US$10bn.

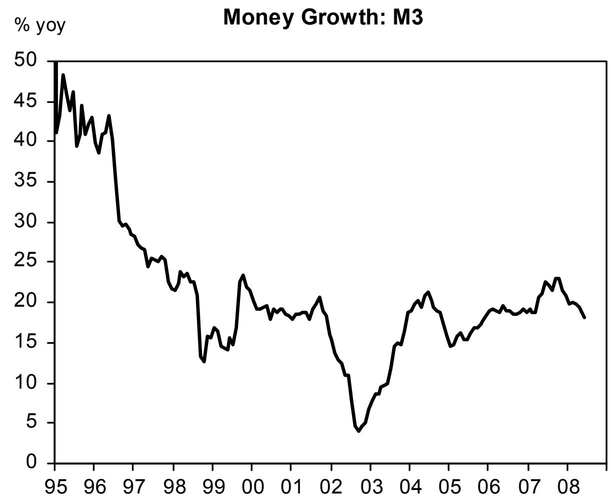
Things to Watch: Our forecasts for the BRL hinge on the stabilisation and recovery of commodity prices. In addition, the forecasts are vulnerable to the recovery of the USD. The main upside risk to our BRL forecasts would stem from higher capital inflows resulting from higher interest rates.

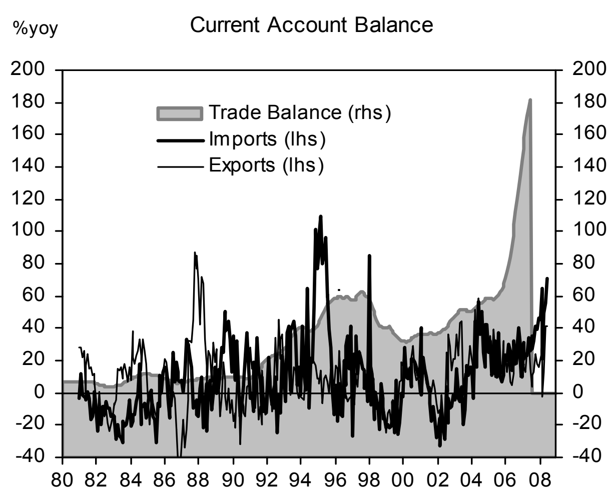


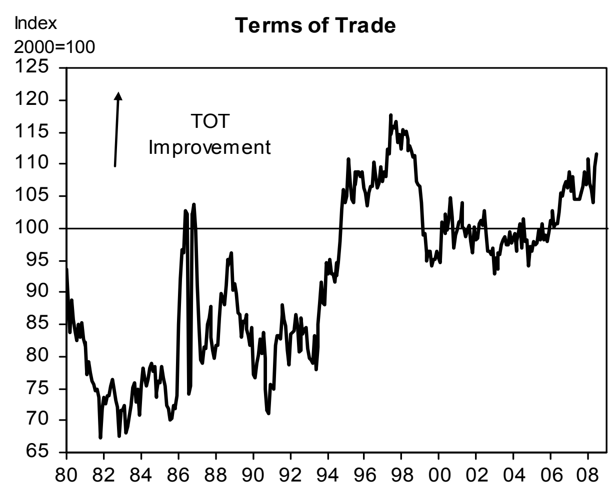


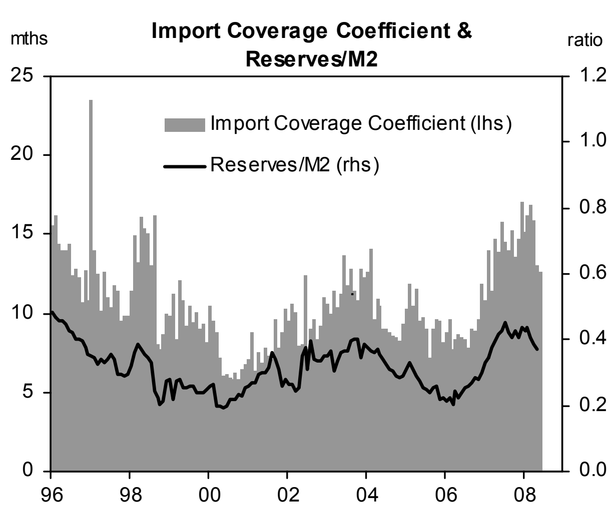
Brazilian Real

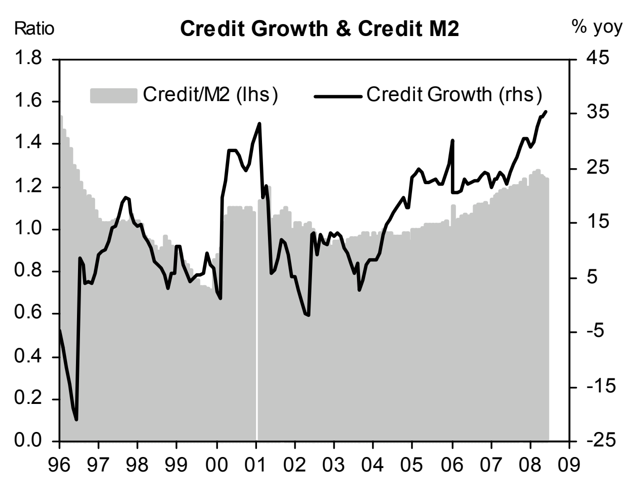












Canadian Dollar

FX Forecasts: We have changed our view after the recent Dollar move. We now see $/C$ at 1.10, 1.06 and 1.14 in 3, 6 and 12 months. The profile embeds our view that the Dollar is now on a path to recovery but that the path will not be a smooth one. EUR/CAD is now 1.60, 1.59 and 1.60 in 3, 6 and 12 months. The sharp weakness of the CAD in recent trading has pushed the currency weak to fair value. GSDEER puts fair value at 1.01.

Motivation for Our FX View: We have changed our broad view on the Dollar and now feel that the greenback is on the road to recovery given an improvement in its fundamentals: weaker growth outside the US, M and A inflows into the US, and the positive effect on the economy from the weakness in the Dollar. However, we do not think the recovery will be smooth sailing. Our new $/C$ path reflects this. On the Canadian side, we have revised down our Canadian outlook and the large drop in energy prices, if sustained, is C$-negative.

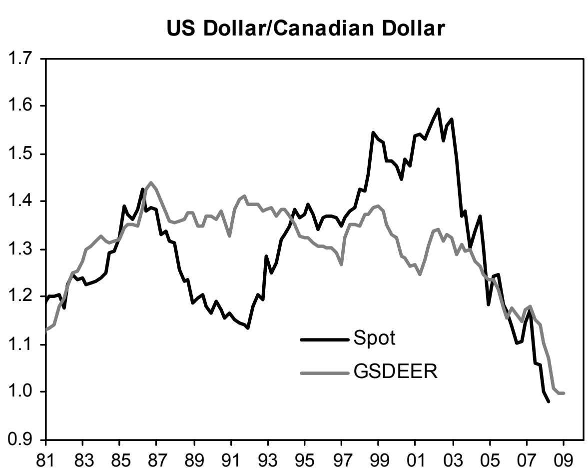
Monetary Policy and FX Framework: The Bank of Canada operates an inflation targeting regime, with a generally very flexible stance on the currency. The Bank of Canada has not commented on the currency in any noteworthy fashion since the Autumn.

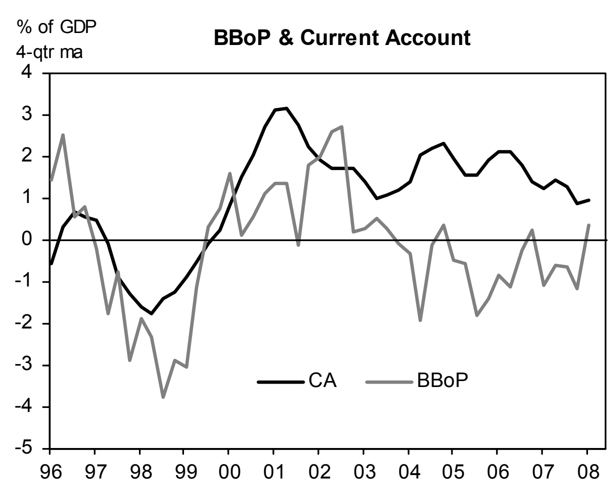
Growth/Inflation Outlook: We have revised down our Canadian growth outlook, reflecting the downward revisions in our US outlook. At present tracking calculations for Q2 suggest barely any growth. Q1 GDP already surprised to the downside with a contraction of 0.3%qoq. On the inflation front, core inflation remains below the target mid-point of 2%, with a reading of 1.5%yoy in June. Headline remains elevated on the back of higher energy costs.

Monetary Policy Forecast: The Bank of Canada kept rates on hold at 3% in July and suggested that the risks to its outlook were balanced. Interest rates are judged 'appropriate' given the balance of risks. We expect rates to remain on hold through end-2009.

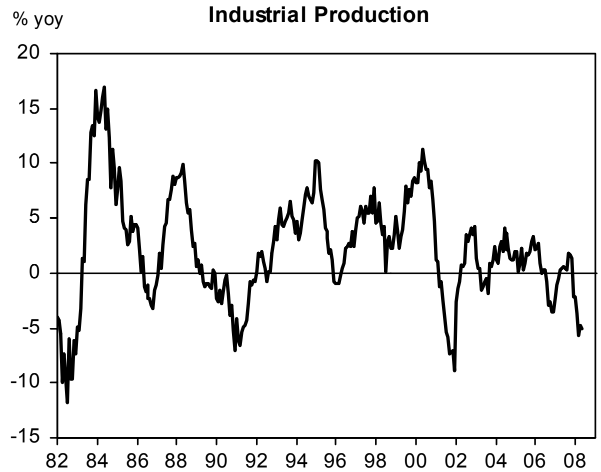
Balance of Payments Situation: Canada has enjoyed consistent current account surpluses for the past ten years. Faltering non-energy exports and accelerating imports caused the trade surplus to narrow sharply in late 2007; however, this situation has since improved to a trade surplus of more normal levels, around C$5bn per month. The BBoP is now in surplus due to strong portfolio inflows.

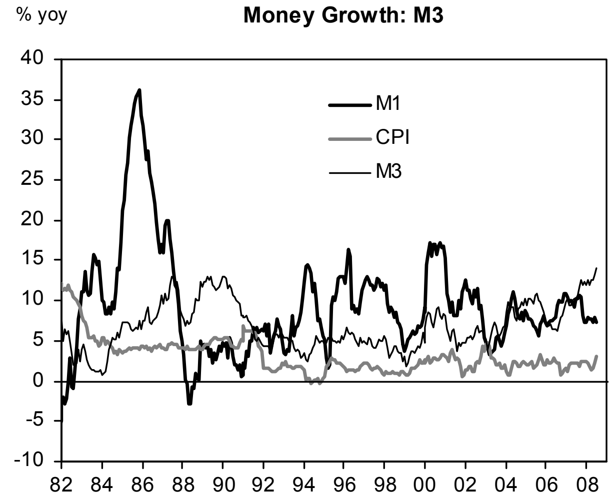
Things to Watch: The degree to which the Canadian economy can weather a US recession: the data suggest that Canada experienced a very sluggish patch of growth in the first half of this year and it will be key to watch activity as the US slows into the turn of the year. A second issue is energy prices. Commodity prices have fallen sharply over the past month and the C$ has weakened as a result. If commodity prices pick up again, the C$ may trade stronger than we currently anticipate.

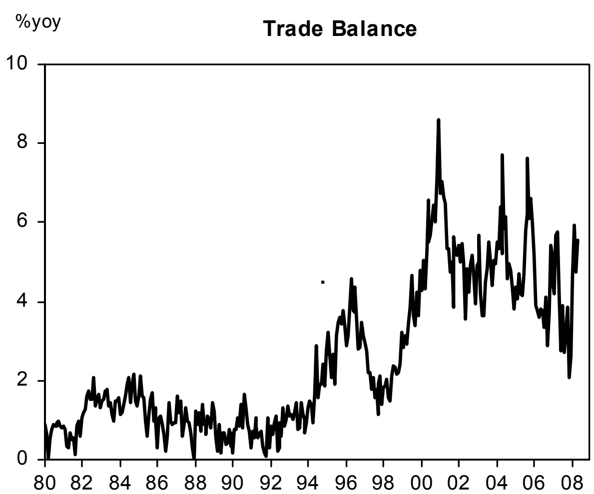


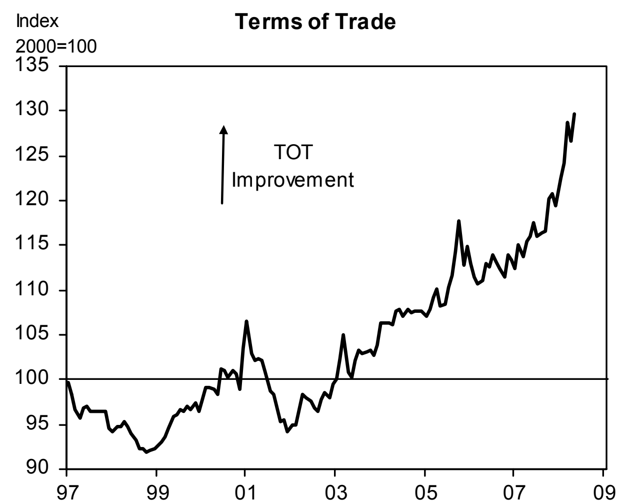


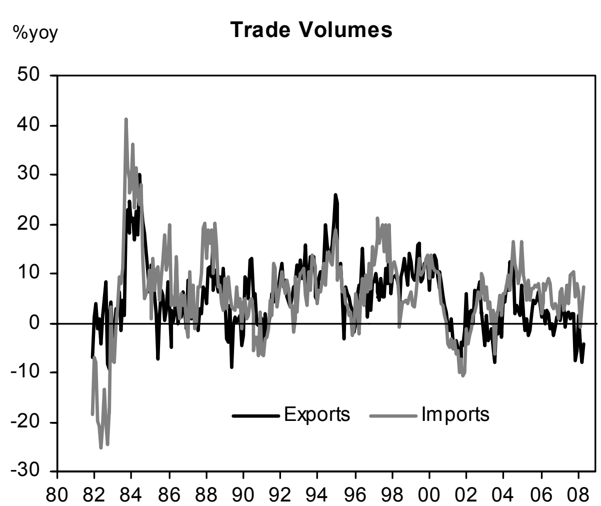
Canadian Dollar

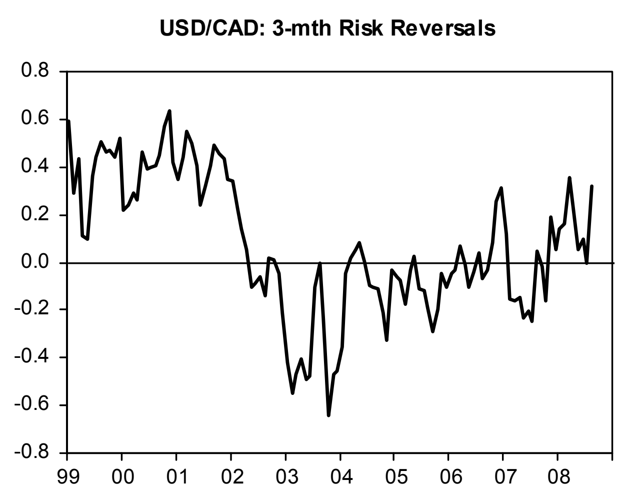












Chilean Peso

FX Forecasts: We are maintaining our 3-, 6- and 12-month forecasts at $490, $500 and $510 to the Dollar, respectively, on the back of a likely tightening of monetary policy and widening of the domestic-foreign interest rate differential. EUR/CLP becomes 7.11, 7.50, 7.14. Current GSDEER for $/CLP is 357.95, leaving CLP cheap to fair value. This reflects Chile's recent large terms of trade gains; but, since most of Chile's copper revenue windfall is saved off-shore, the CLP is likely to remain weak to fair value.

Motivation for Our FX View: The Central Bank will buy US$8.0bn from the market between April 14 and December 12 (the intervention in the FX market has been fully sterilised). Inflation surprised again on the upside in July (1.1%mom; 9.6%yoy), with core (9.0%yoy) and tradable goods (8.1%yoy) inflation accelerating to new multiyear highs; this should lead the Central Bank to tighten monetary policy again in August. Activity indicators for June were substantially stronger than expected.

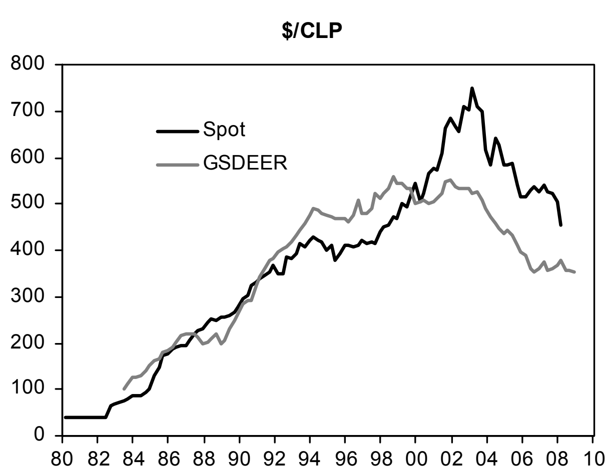
Monetary Policy and FX Framework: The Central Bank pursues an inflation target (3.0% ± 1.0%) and a free-floating FX regime, and has in recent years refrained from intervening in the market. Disciplined fiscal execution provides the Central Bank with extra degrees of freedom to set the monetary stance. The government has been implementing a structural counter-cyclical fiscal rule that calls for a 0.5% of GDP structural surplus. This has led to fiscal surpluses in excess of 7% of GDP in recent years as the government has been saving the entire copper revenue windfall abroad.

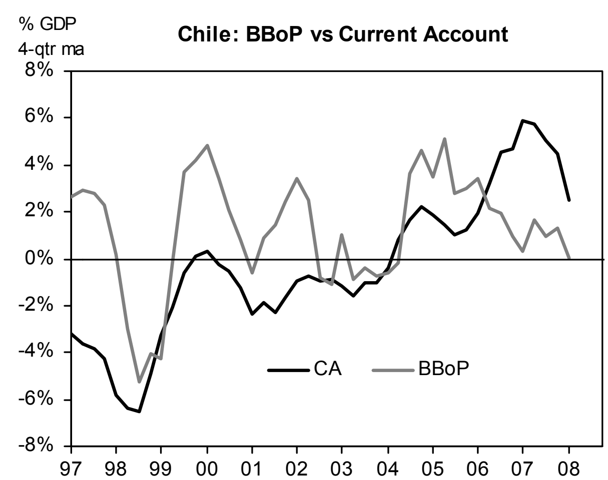
Growth/Inflation Outlook: Real GDP growth (IMACEC) surprised on the high side in June (+5.0%yoy). We expect growth to moderate from 5.1% in 2007 to 4.0% in 2008, with risk to the downside. Inflation surged to a 17-year high of 9.5%yoy in July, exceeding the inflation target by a large margin (core is at 9.0%yoy). The initial food/fuel supply driven surge in inflation has already contaminated other prices in the economy, particularly within the services sector, which could entrench the inflation dynamics by increasing inflationary inertia.

Monetary Policy Forecast: The next Central Bank meeting is on August 14. Given the large inflation surprises in June-July and depreciation of the CLP since the announced daily FX market intervention, we expect the Central Bank to hike the policy rate by another 50bp to 7.75%. Additional rate hikes before the end of the year are likely.

Balance of Payments Situation: We expect the trade surplus to decline from 14.4% of GDP in 2007 to a still extremely robust 8.5% of GDP in 2008. As such, the current account surplus is forecast to decline from 4.4% of GDP in 2007 to about 1.0% of GDP in 2008.

Things to Watch: Inflation pressures are now quite widespread and non-tradable inflation has accelerated to a very high 10.8%yoy. The Central Bank has now adopted a distinctively hawkish stance in order to get a grip on the very challenging inflation dynamics. The 2009 budget needs to be relatively austere in order to help the Central Bank guide inflation back to the target without undue delay.





Colombian Peso

FX Forecasts: We are maintaining our 3-, 6- and 12-month forecasts at $1,750, $1,780 and $1,880 to the Dollar, respectively. EUR/COP is $2538, $2670 and $2632.

Motivation for Our FX View: The current account picture is holding up better than expected on the back of the strong export performance. Booming FDI flows should keep the COP well bid in the short term, despite the Central Bank's stepped-up US$20mn daily intervention.

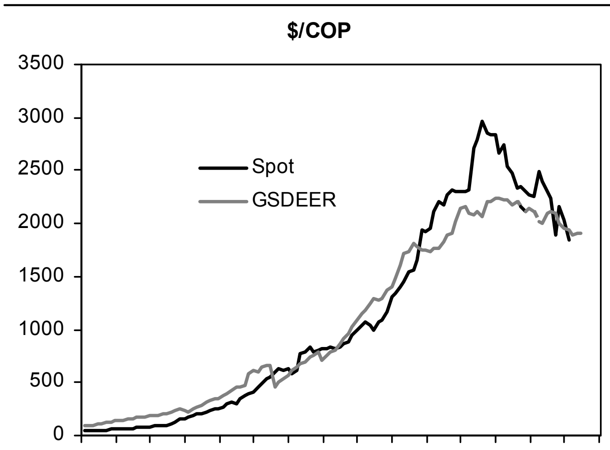
Monetary Policy and FX Framework: The Central Bank pursues an inflation target: 4.0% ± 0.5%. Over the long term, it intends to pursue a 3.0% ± 1.0% inflation target. The Central Bank pursues a managed float foreign exchange rate regime and has in recent years intervened in the spot FX market to prevent excessive COP appreciation. There is also an automatic rules-based intervention mechanism that calls for the sale of US$180mn in Dollar calls/puts whenever the spot $/COP rate is 5% or more weaker/stronger than the previous 20-day average. In May 2007 the Central Bank implemented mild capital controls on portfolio inflows (with selected exceptions) and foreign borrowing.

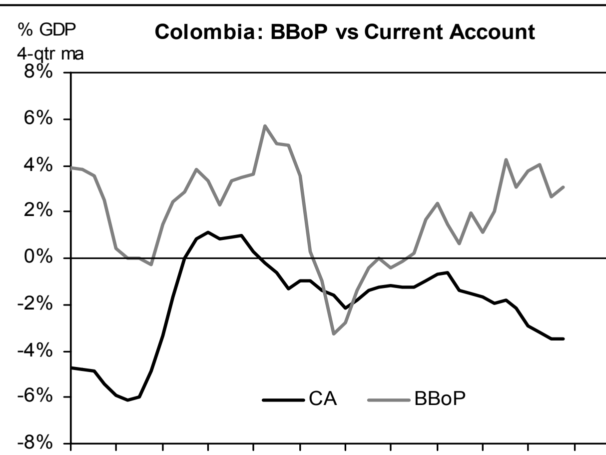
Growth/Inflation Outlook: The economy grew at an above-trend 8.2% pace in 2007, driven by a major capital deepening drive (investment +23%yoy in 2007) and solid private consumption spending (+6.8%yoy). However, real GDP growth declined to just 4.1%yoy during 1Q2008, with domestic demand decelerating from 10.0%yoy during 4Q to just 5.4%yoy in 1Q2008. Inflation accelerated to 7.5%yoy in July and is considerably above the upper limit of the 4.0% ± 0.5% inflation target. The inflation dynamics are still very challenging (core inflation continues to accelerate and inflation expectations to deteriorate).

Monetary Policy Forecast: The next Central Bank meeting is on August 15. The policy rate is currently already at a restrictive 10.0% and activity is decelerating, possibly at a much faster pace than expected. Furthermore, credit to the private sector, particularly consumer credit, has entered a clear deceleration trend. Hence, the odds favour the Central Bank leaving the policy rate unchanged at 10.0%, although we do not rule out additional hikes before year-end if the inflation outlook does not improve.

Balance of Payments Situation: Higher oil production/exports and well-bid commodity prices are supporting the trade balance and the current account, notwithstanding the still solid pace of domestic demand and the lagged effects of COP appreciation. We expect the current account deficit to improve from 3.4% of GDP in 2007 (US$5.9bn) to 3.0% of GDP in 2008 (US$6.1bn).

Things to Watch: The Central Bank has increased the level of intervention in the FX market for the remainder of 2008: from US$150mn/month via the sale of Dollar put-options to US$20mn/day through competitive auctions. The MPC said the move would reinforce the policy of accumulating reserves to deal with an eventual deterioration of the external outlook and capitalises on COP levels below what is sustainable. Local market operators have been pressing the government to lift the current set of capital controls on portfolio inflows in order to increase the bid for local asset prices.





Mexican Peso

FX Forecast: We are re-profiling our 3-, 6- and 12-month forecasts for the MXN to $10.00, $10.20 and $10.70 from $10.20, $10.00 and $10.70 to the US Dollar, respectively. Our forecasts are more bullish than the forwards. For the next three months, we think the MXN will be trading in a range of $9.95-$10.30, from a previous range of $10.15-$10.45. EUR/MXN is now 14.50, 15.30 and 14.98 in 3, 6 and 12 months. $/MXN GSDEER is 10.17.

Motivation for Our FX View: There are two reasons why we are more bullish about the MXN than the forwards. First, the interest rate differential will likely continue to rise, as Banxico will likely continue to raise interest rates while the Federal Reserve should keep Fed Funds at 2.0%, increasing the volume of fixed income flows into local bond markets. Second, manufacturing exports have continued to grow, albeit at a softened pace since May.

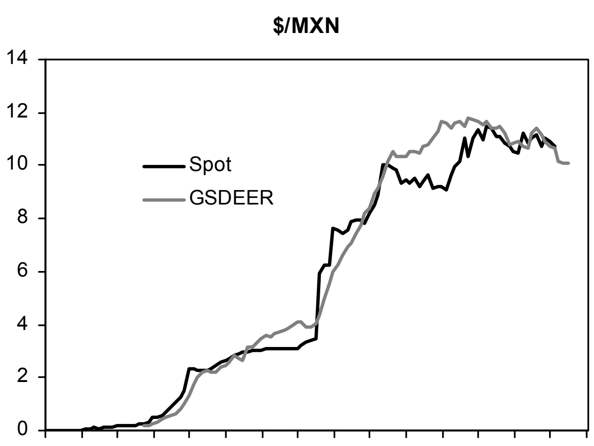
Monetary Policy and FX Framework: Banxico pursues an inflation targeting regime. The target is headline INPC inflation, aimed at keeping inflation at 3.0%, with the band width at +/- 1.0%. To this end, Banxico targets the Tasa de Fondeo (TdF) interest rate. Banxico expects INPC inflation to converge to the 3.0% target by end-2009. Mexico has a reasonably clean floating FX regime, but Banxico has a pre-announced programme for the daily sale of FX aimed at limiting the accumulation of reserves.

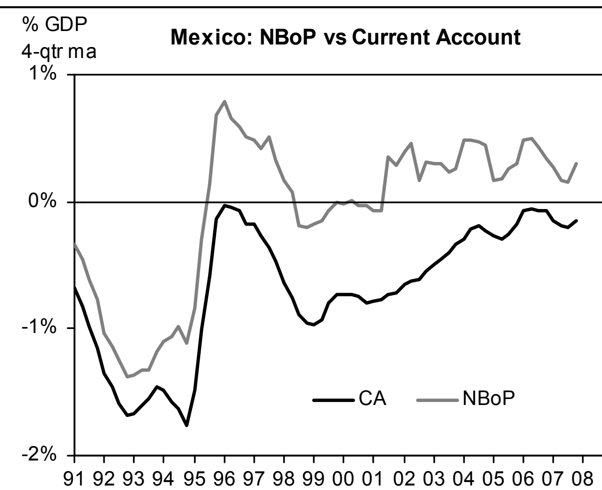
Growth/Inflation Outlook: We forecast that in 2008, real GDP growth will slow to 2.4% from 3.3% in 2007. This assumes that the anti-cyclical fiscal spending measures and credit expansion by development banks will help the government to mitigate the effects of the US recession in Mexico. We forecast that INPC inflation (headline) will continue to rise to 5.5% from 5.4% in July, reflecting higher food and energy prices. Core inflation will likely ease to 5.0% in December, from 5.1% in July.

Monetary Policy Forecast: We forecast that on August 15 and September 19, Banxico will raise the TdF by 25bp per meeting, to 8.50%. Thereafter, Banxico is likely to keep the TdF unchanged at 8.50%. Provided that inflation declines in line with the revised inflation path, then Banxico may cut the TdF by 4Q2009.

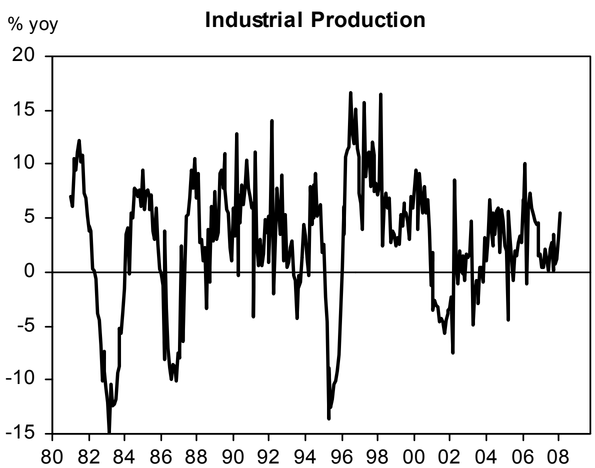
Balance of Payments Situation: We continue to forecast that the BoP surplus for 2008 will amount to US$10bn. We expect the stock of net international reserves to rise to US$88bn by December 2008 from US$83bn previously. This would result from a current account deficit of US$11.0bn (from a previous forecast of US$13.8bn) and a surplus in the capital account of US$21bn (US$18.8bn previously). We are maintaining our forecast for FDI at US$22bn for 2008. The net effect of higher oil prices on the trade and fiscal accounts is small, because of a 12% drop in oil export volume and a doubling in fuel and natural gas imports.

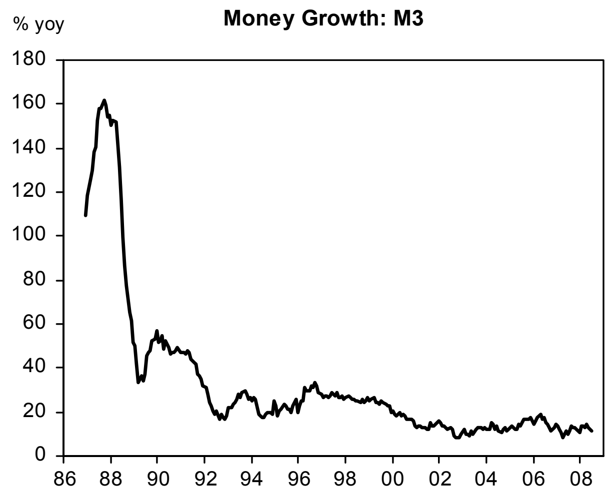
Things to Watch: The main risks for our MXN forecasts are US industrial production; lower oil prices and a stronger USD. The main risks to our TdF forecast are higher domestic fuel prices and a strong slowdown in growth.

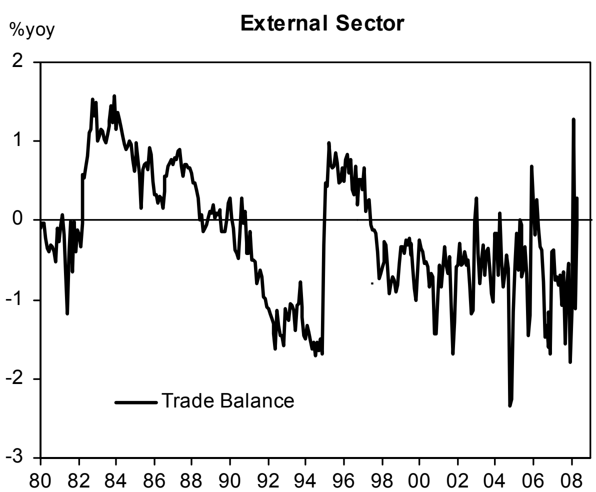


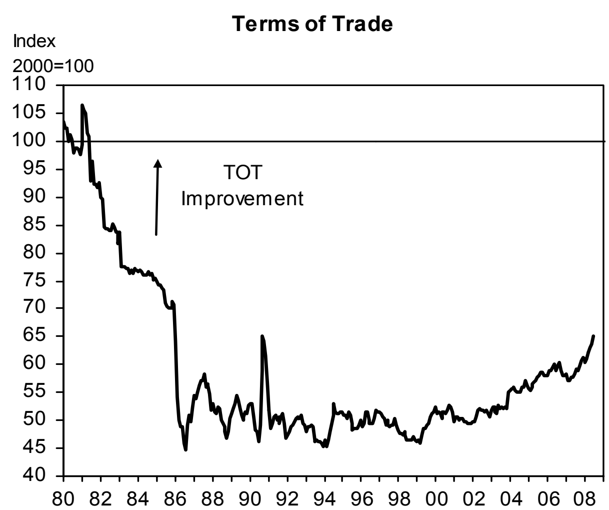


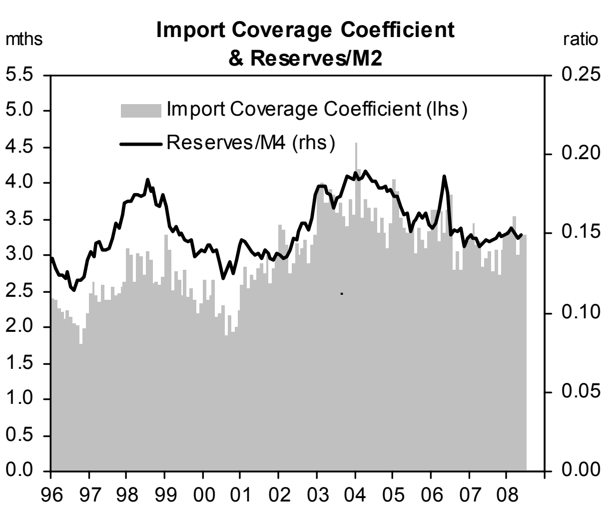
Mexican Peso

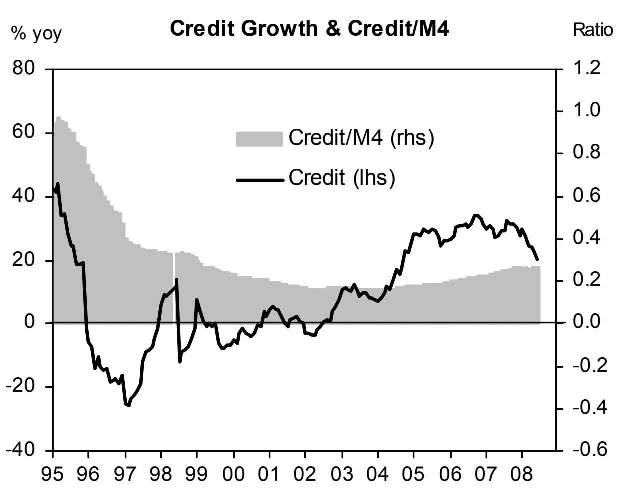












Peruvian New Sol

FX Forecasts: Our views are unchanged. $/PEN: 2.85, 2.80 and 2.75 in 3, 6 and 12 months versus a spot of 2.92 at the time of writing. EUR/PEN: 4.13, 4.20 and 3.85 in 3, 6 and 12 months. Current GSDEER: 2.46. The PEN remains cheap (19% undervalued) at its current level according to GSDEER. This is due to substantial terms of trade gains (54% since 2002), low inflation and little nominal appreciation in recent years.

Motivation for Our FX View: After experiencing a sharp depreciation and significant volatility since April due to the introduction of a 120% reserve requirement on deposits by non-resident financial institutions, we believe the PEN will resume an appreciating trend driven by rising foreign direct investment inflows and a steady process of financial de-dollarisation. The pace of appreciation of the PEN, however, is likely to be slow due to restrictions on foreign portfolio inflows and Central Bank FX intervention.

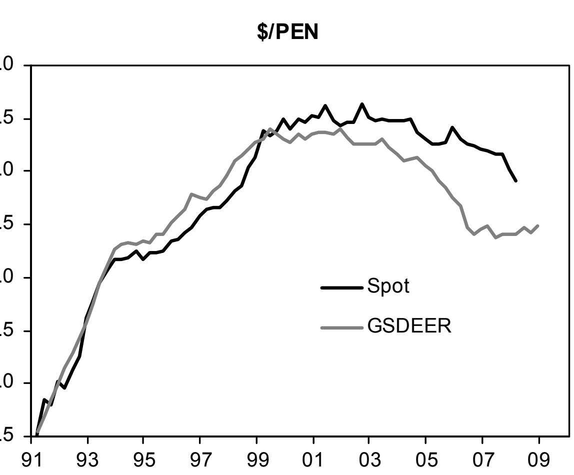
Monetary Policy and FX Framework: The Central Bank pursues an inflation targeting regime and meets monthly to set the financial system's benchmark interest rate. The inflation target is 2% +/- 1% (target band of 1%-3%) and the monetary policy's reference interest rate stands currently at 6.25%. The next monetary policy meeting is scheduled for September 11. On the FX policy front, the Central Bank pursues a managed floating regime.

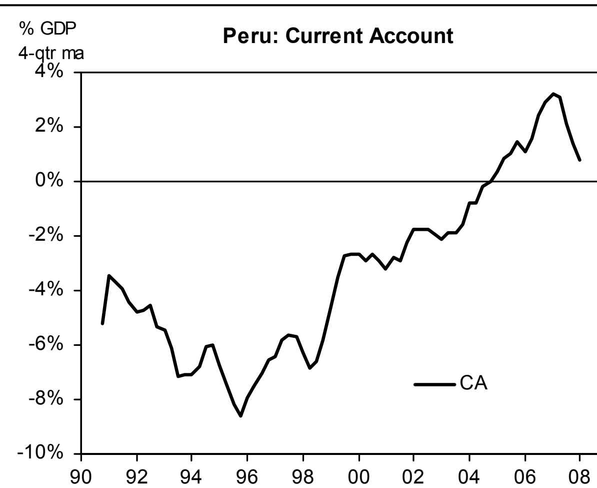
Growth/Inflation Outlook: The economy is experiencing a remarkable virtuous cycle. After growing by 9.0% in 2007, we forecast real GDP to slow only slightly to 8.3% in 2008. Inflation has risen sharply to 5.8%yoy in the 12 months to July. Most of the inflationary pressure stemmed from higher international prices of food and energy. Thus far, there are no visible demand-pull pressures on prices. However, the inflationary outlook poses significant challenges given continued fast domestic demand growth (despite policy tightening measures taken over the past year) and rising inflation expectations. We forecast inflation to hover at 6.0% in 2008, with risks on the upside.

Monetary Policy Forecast: The Central Bank has tightened monetary policy significantly, by increasing the reference rate by 175bp since July of 2007 and raising the banks' reserve requirements on four occasions this year. At present, the Central Bank is vigilant on inflation and inflation expectations dynamics. We believe the Central Bank will likely raise the reference interest rate by at least 25bp before the end of the year.

Balance of Payments Situation: In 2007, the balance of payments (BoP) posted a surplus of 8.8% of GDP. We expect the BoP surplus to narrow to a still sizable 4.4% of GDP in 2008 due to a lower trade surplus and lower portfolio inflows. Still, persistent large BoP surpluses should place continued appreciating pressures on the PEN.

Things to Watch: The expiration of Central Bank Certificates of Deposits held by foreign investors poses an outlook of potential FX volatility and depreciating pressures on the PEN in the coming months. We expect the Central Bank to intervene to prevent the PEN from weakening beyond 3.00 to the Dollar. In turn, we remain bullish on the medium- and long-term outlook for the PEN on the back of strong macro fundamentals.





Venezuelan Bolivar

FX Forecasts: We are forecasting a significant step devaluation of the VEF fixed-parity during 1Q2009, with risk that the devaluation could take place in 4Q2008. We are maintaining our 3-, 6- and 12-month forecast at 2.15, 2.15 and 2.70 to the Dollar, respectively. EUR/VEF is now 3.12, 3.23 and 3.78. $/VEF GSDEER is now 1.53.

Motivation for Our FX View: The Bolivar/USD parity has now been fixed for over three years at 2.15. However, since the last official devaluation (March 2005), inflation has reached 87.4%, generating significant VEF appreciation in real effective terms. Despite the large increase in imports and significant depreciation of the VEF in the non-official market, the government is not contemplating a devaluation of the official USD parity in 2008, as it is under no pressure to raise additional devaluation-driven revenue and the government is already struggling with ingrained double-digit inflation. However, a large devaluation within 12 months looks increasingly likely.

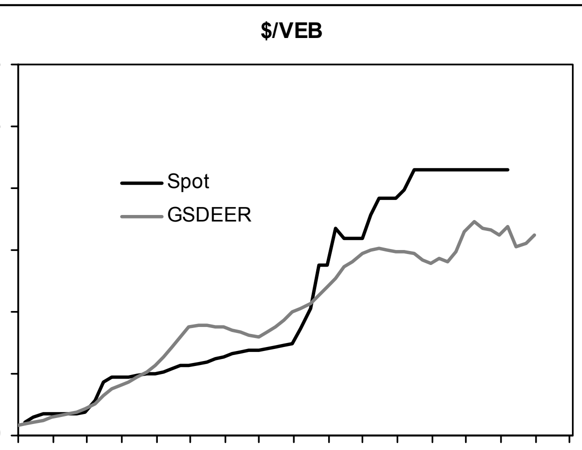
Monetary Policy and FX Framework: The VEF is pegged to the US Dollar. The current parity has been unchanged since April 2005 at VEF2.15. The Central Bank sets a floor/ceiling on bank deposit/loan rates and established mandatory lending requirements to specific sectors (e.g., agriculture, mortgages, small enterprises, and tourism), which account for about one-third of total credit in the economy.

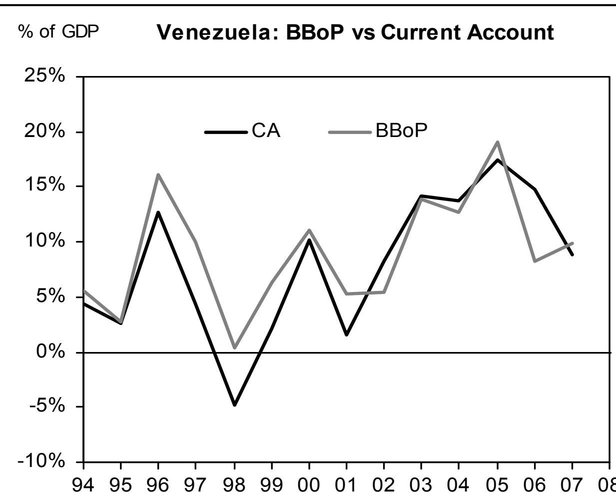
Growth/Inflation Outlook: Inflation continues to accelerate despite the widespread price controls that affect almost half of the items in the CPI. Headline inflation accelerated to 33.7%yoy in July, with core jumping to a very high 37.9% (up from 20.3% in July 2007). The economy decelerated significantly during 1Q2008 (to 4.8%yoy) on the back of negative investment growth and a significant slowdown in private consumption.

Monetary Policy Forecast: Although monetary policy remains exceedingly lax (negative real rates), the Central Bank is unlikely to raise interest rates in the near term to the extent needed to deal with testing inflation dynamics.

Balance of Payments Situation: Last year the credit posted an extraordinary 10.4% of GDP trade surplus and 8.8% of GDP current account surplus. For 2008, given higher oil prices, we forecast a large 11.0% of GDP trade surplus and a 10.2% of GDP current account surplus, with the risk on the upside given current oil prices. Although the external accounts remain exceptionally solid, fiscal policy is not sterilising the large inflows of external income to the extent necessary. Paradoxically, despite the significant oil revenue boom, the economy continues to be managed as if in a state of economic emergency, given the plethora of economic, financial and other controls.

Things to Watch: The government continues to rely on the sale of Dollar-denominated debt (purchased in local currency) to satisfy the large pent-up demand for Dollar assets and in this way arrest the deteriorating inflation dynamics and the VEF premia in the non-official market. Since the Currency Control Board (CADIVI) is limiting the supply of USD to the market at the official 2.15 rate, corporates that access Dollars via the purchase of Dollar bonds are facing an implicit devaluation of the VEF. The government could announce soon an external debt buyback.





Asia

Australian Dollar

FX Forecasts: We have changed our view. A$/US$: 0.86, 0.87 and 0.80 in 3, 6 and 12 months (previously 0.96, 0.96, 0.89). EUR/A$: 1.69, 1.72 and 1.75 in 3, 6 and 12 months. Current GSDEER: 0.93. The A$ is currently undervalued relative to GSDEER.

Motivation for Our FX View: Our new A$/$ view reflects our new broad Dollar view; however, the domestic Australian news is also bearish for the A$. Although the economy has slowed in line with our more bearish expectations, the RBA has become increasingly concerned about the outlook for credit growth. In essence, the Australian economy is set to endure a period of convergence in economic growth rates and interest rates with the US and UK. As a consequence we have not only brought forward our forecast for A$ weakness but extended the expected depreciation on a 12-month view.

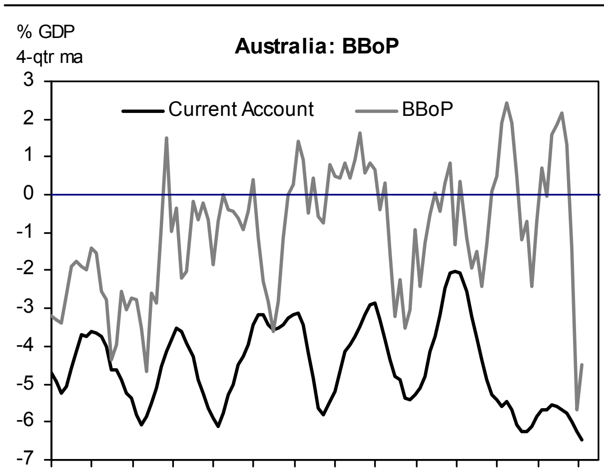
Monetary Policy and FX Framework: Inflation targeting. The RBA aims to keep CPI inflation between 2% and 3% on average over the cycle. Operationally, this is implemented by attempting to keep underlying inflation within this target band, but allows sufficient flexibility for policy to take account of short-run developments in employment and economic growth. The FX regime is free-float, although the RBA intervenes if market moves are disorderly.

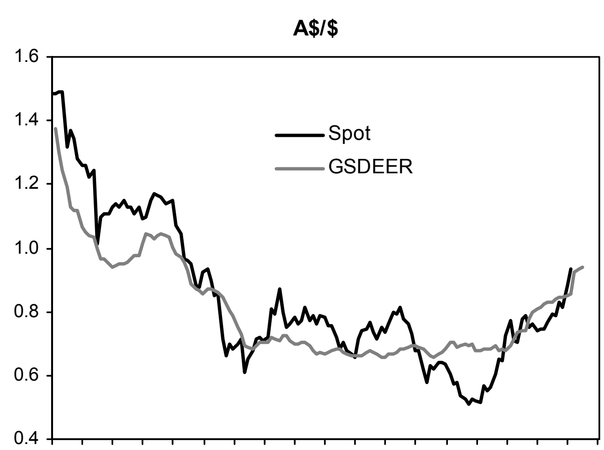
Growth/Inflation Outlook: After growing at 4.3% in 2007, our GDP growth forecast of 2.5% and 2.7% for 2008 and 2009 respectively is below both consensus and trend for both years, as financial conditions reach their tightest level in a decade. Despite this, we retain an above-consensus inflation forecast of 4.4% in 2008, although the peak in the inflation cycle is at hand, aided by lower commodity prices and evidence of profit margin compression and discounting.

Monetary Policy Forecast: We now expect the RBA to ease rates 25bp in September and a further 25bp in November. We expect a further 75bp of easing through 2009, taking the cash rate to 6.0%. Our views are more dovish than those of the market.

Balance of Payments Situation: A 20% boost to the terms of trade from bulk commodity price increases in the June quarter has been sufficient to push the trade balance into surplus. The improvement in the current account deficit (from near record highs) will be more muted, however, and it should remain around 4%-5% of GDP as a significant share of mining income flows to foreign owners.

Things to Watch: Credit growth, profitability and employment trends. Our bottom of consensus view for economic growth in Australia in 2008 has now been adopted as the base case by the RBA. The key to the extent and pace of interest rate reductions hinges on the pace of deceleration in credit growth and profit growth, and the extent of any rise in the unemployment rate. Watch for the federal government to shift fiscal policy from a restrictive setting to a stimulative setting in 2009.





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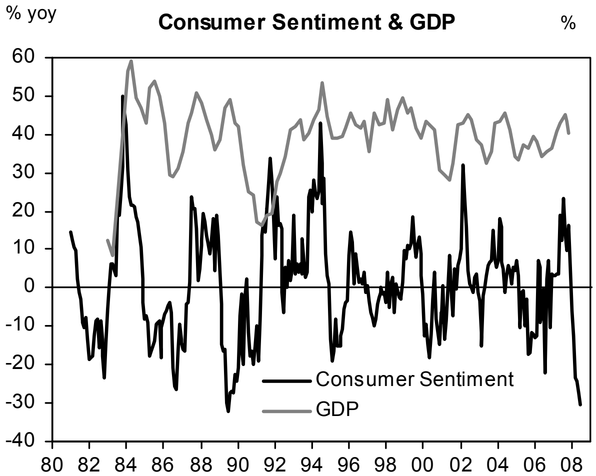
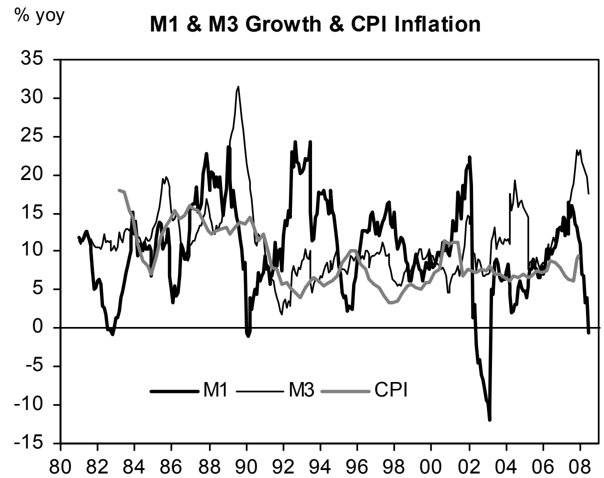
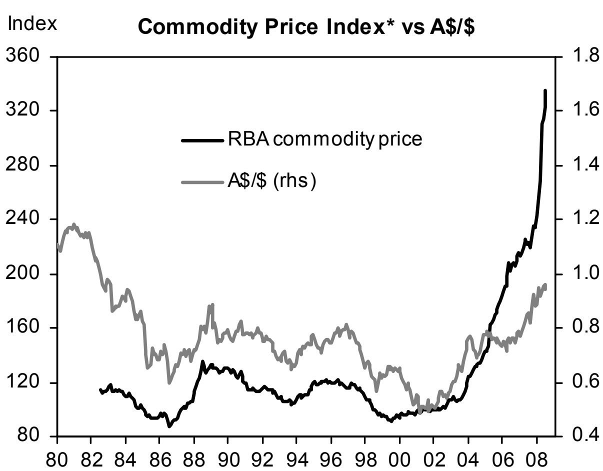
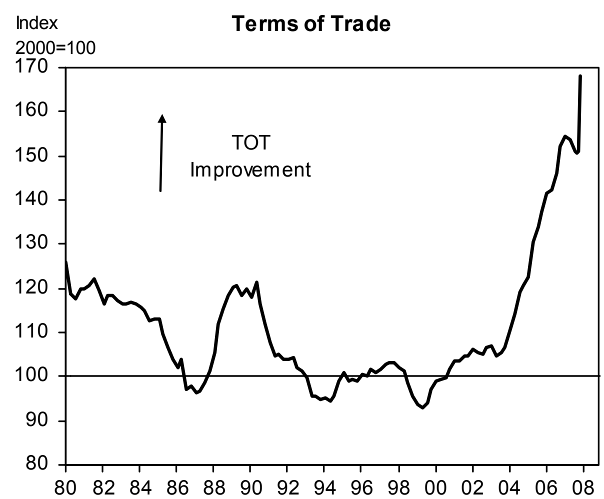
Australian Dollar

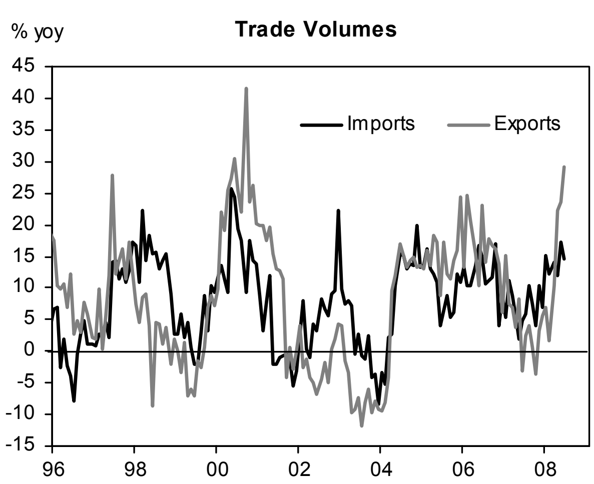


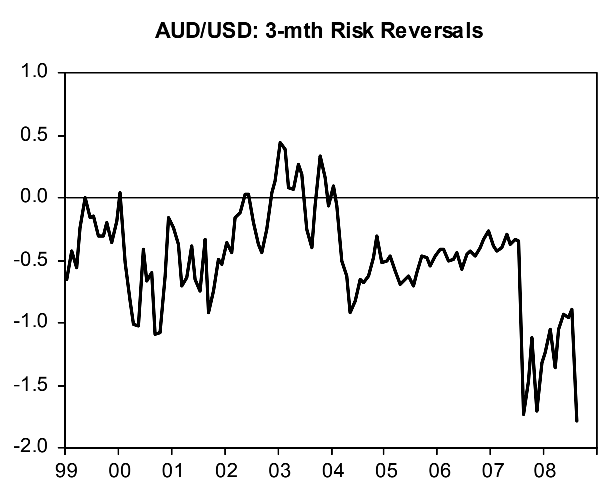




* Source: RBA.







Chinese Yuan

FX Forecasts: We maintain our USD/CNY forecasts at 6.76, 6.60 and 6.30 on 3-, 6- and 12-month horizons. EUR/CNY: 9.80, 9.89 and 8.81 in 3, 6 and 12 months. $/CNY GSDEER 7.38.

Motivation for Our FX View: We reiterate our view that currency appreciation remains a viable (and the optimal) policy tool for China to cure its inflation problems without generating a hard landing for the overall economy.

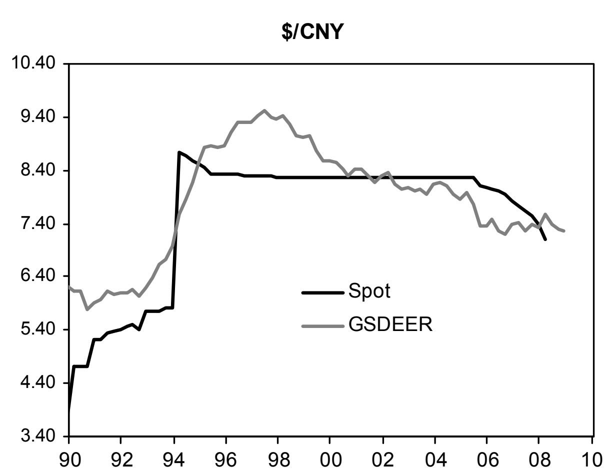
Monetary Policy and FX Framework: The People's Bank of China (PBoC) is not independent from the central government and has multiple targets of maintaining price stability and strong growth. It does not hold regular policy meetings, and policy changes are typically released after the close of the local market without advanced notice. The Monetary Policy Committee of the PBoC is an advisory body, which does not determine policy direction. The FX regime has been a managed float since July 2005 after a decade-long peg to the USD.

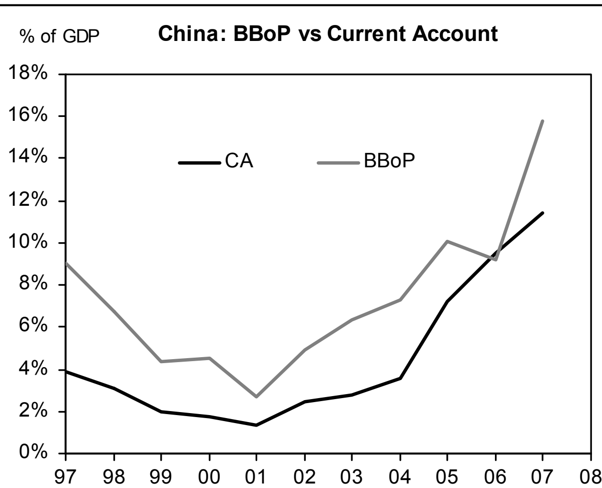
Growth/Inflation Outlook: We have revised down our real GDP growth forecasts to 10.1% for 2008, from 10.5% previously, and to 9.5% for 2009 from 10.0% previously. Lower GDP growth forecasts mainly reflect lower-than-expected contributions from net exports and fixed investment growth. On the other hand, we expect the strength in consumption to be maintained. Under our new forecasts, GDP growth will likely trough in 1H2009 and gradually trend up towards the end of 2009. On the inflation front, we see little room for policy easing at this juncture. Not only does headline inflation remain elevated at above 6%, but also headline inflation readings were helped by strenuous price controls. We expect the government to stick with its monetary tightening programmes in the near term by keeping broad money supply growth (as measured by M3) under control. Overall, we maintain our 2008 CPI forecast at 6.8% but have raised our 2009 CPI inflation forecast to 3.8%, from 3.0% previously.

Monetary Policy Forecast: Monetary policy will likely entail further hikes to the reserve requirement ratio, continued quantitative controls on commercial banks' lending, and further appreciation of the CNY. However, we no longer expect any hikes to benchmark interest rates this year, and believe the pressures on interest rates will mostly transpire into currency appreciation pressures, given the concerns about capital inflows.

Balance of Payments Situation: The current account surplus reached 11.3% of GDP in 2007 and is likely to grow further this year. The merchandise trade surplus reached almost US$100bn in 1H2008, or around 5.4% of GDP.

Things to Watch: We believe China's CPI and PPI inflation trajectories are dependent on the policy stance of the Chinese government. If the Central Bank can keep its control on broad money supply growth, we would expect CPI inflation to continue to trend down and the PPI to reverse its accelerating trend in the coming months. On the other hand, any premature loosening of monetary policy will raise questions about whether inflation has peaked in China.





Hong Kong Dollar

FX Forecasts: Our USD/HKD forecast is unchanged at 7.80, 7.80 and 7.80 in 3, 6 and 12 months. EUR/HKD is 11.31, 11.70 and 10.92. $/HJD GSDEER is 6.65.

Motivation for Our FX View: In our view, the political incentive to change (or modify) the HKD peg system is still low, especially given that the uncertainties of the near-term global growth outlook may hold the authorities back from making changes in the current HKD peg system.

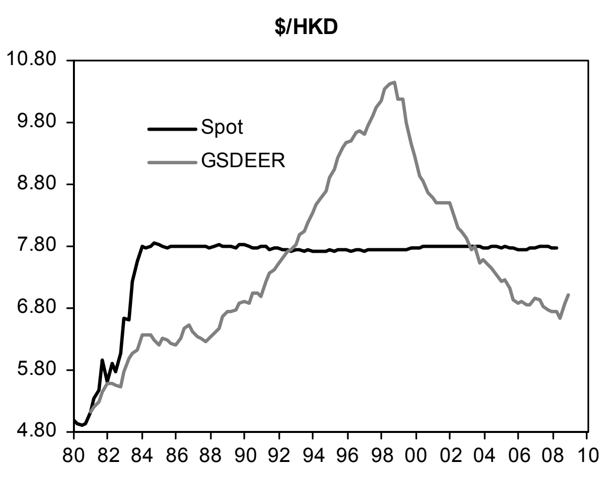
Monetary Policy and FX Framework: The Hong Kong Monetary Authority (HKMA) only pursues one goal; to maintain the USD/HKD peg. The HKD exchange rate follows a currency board regime, with a fixed USD/HKD 'Convertibility Zone' of 7.75-7.85.

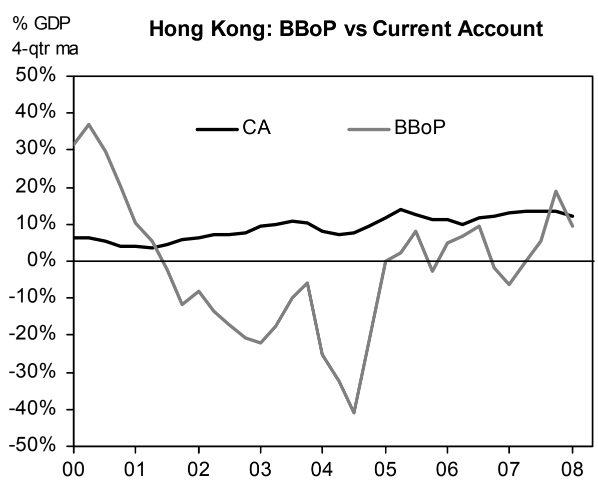
Growth/Inflation Outlook: For 2008, we maintain our GDP growth forecast of 5.2%, compared with 6.3% in 2007. We expect slower trade growth to be the main drag to headline GDP growth, on the back of a weakening external environment. This in turn could weigh on the labour market and dampen the ongoing consumption boom. However, we continue to expect timely policy offsets to domestic demand, including: 1) the fiscal stimuli; 2) a decline in real rates on higher inflation expectations; and 3) the competitiveness gain through the depreciation of the HKD against the CNY. On the inflation front, we believe the prime driver for inflation this year will be rising imported inflation, on the back of rising global commodity prices and further HKD depreciation against major regional currencies (especially the CNY). We continue to forecast CPI inflation to average 8% for 2008.

Monetary Policy Forecast: We do not expect a change in the HKD exchange rate regime in the near future, which means the trend in HKD interest rates should follow that of the USD. We forecast 3M HIBOR at 2.0% p.a. by end-2008.

Balance of Payments Situation: We expect the current account surplus to narrow to 9.0% of GDP in 2008 from 13.3% of GDP in 2007. Given the fixed exchange rate system in Hong Kong, the balance of payments has not been a determining factor for its monetary policy system, or for the HKD exchange rate specifically. With Hong Kong being an entrepot trade centre for the mainland and an offshore hub for investment in China, the relevance of the BBoP position to the currency is primarily on portfolio capital flows. We have not noticed any persistent trends in capital outflows. The HIBOR-LIBOR (USD) spread, an indicator of capital flows, remains fairly stable.

Things to Watch: Although a peg to the CNY will not happen soon, various developments in Hong Kong and the mainland point to such a peg in the distant future. We will continue to monitor the developments on the expansion of CNY-related businesses in HK, as we expect more policies to further enhance the cross-border capital flows between HK and the mainland, and to increase CNY circulation in HK, paving the way for a natural transition towards a HKD-CNY peg. Note, however, a HKD-CNY peg is only likely after the CNY becomes convertible and capital liberalisation matures, but the timing there is still uncertain.





Indian Rupee

FX Forecasts: Our USD/INR is unchanged at 43.9, 44.1 and 42.2 on 3-, 6- and 12-month horizons. EUR/INR: 63.7, 66.2 and 59.1 in 3, 6 and 12 months. Current GSDEER for $/INR: 45.9.

Motivation for Our FX View: Our views on the INR are intimately linked to our Commodities Team's forecast of oil at US$138/barrel on average for FY2009. We believe this will worsen the current account deficit and put depreciating pressure on the INR in the near term. Over a 12-month period, however, we expect the INR to appreciate as inflation begins to come off and becomes a catalyst for more sustained inflows. The risks to our view are towards more INR strength in the short term, primarily driven by the recent cooling off of oil prices, the RBI's decision to tighten financial conditions above market expectations, and the unexpectedly large 'victory' achieved by the UPA government in the no-confidence vote. This could potentially entail further divestment of government stakes in public-sector companies, easier overseas borrowing norms, and pension, insurance and banking reforms, which could lead to more inflows and be INR-bullish.

Monetary Policy and FX Framework: The RBI targets the interest rate corridor, with the reverse-repo rate as floor and the repo rate as ceiling, in order to fulfil the twin objectives of maintaining price stability and providing adequate liquidity to meet the genuine credit needs of the economy. It also manages the exchange rate to avoid excess volatility.

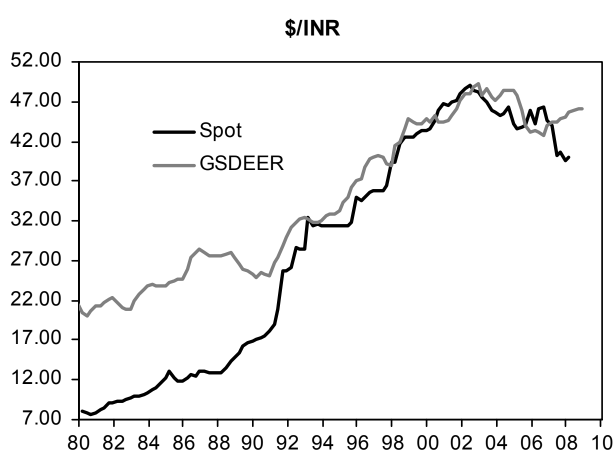
Growth/Inflation Outlook: Our FY2009 GDP growth forecast is unchanged at 7.8% from 9% in FY2008, as we expect activity to moderate rather than slow sharply, with a large fiscal stimulus holding up demand.

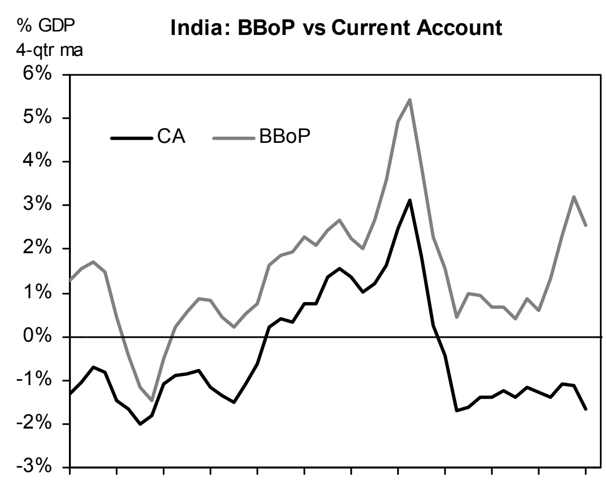
On inflation, we have raised our already above-consensus FY2009 inflation forecast of 10% to 11.5%, reflecting higher outturns. We have remained above consensus on inflation through the year.

Monetary Policy Forecast: The RBI adopted a hawkish stance on July 29 when it raised the repo rate by 50bp and the CRR by 25bp. We expect a tightening bias to remain in policy in the near term and now expect a hike of 25bp in the repo rate and the CRR respectively by end-October, and then flat thereafter, taking the repo rate and the CRR to 9.25% each respectively at the end of the year. We think, however, that rates will start easing from 1Q2009 as inflation begins to come off.

Balance of Payments Situation: Although the current account in 4QFY2008 is generally in surplus due to increased year-end transfers, the current account balance for 4QFY2008 came in at -0.3% of GDP, as the oil bill grew 88.9%yoy. Capital inflows at 7.7% of GDP, mostly due to foreign direct investment inflows, external commercial borrowings and overseas borrowings by banks, were able to finance the current account deficit despite net portfolio outflows. However, the basic balance of payments fell to 0.5% of GDP from 4.2% of GDP in 3QFY2008.

Things to Watch: Weekly inflation, GDP growth, industrial production and exports growth.





Indonesian Rupiah

FX Forecasts: We have adjusted our USD/IDR forecast to 9,200, 9,250 and 9,300 from 9,300, 9,400 and 9,500 on 3-, 6- and 12-month horizons. EUR/IDR is 13,340, 13875 and 13020 over the same period. $/IDR GSDEER is 8474.4.

Motivation for Our FX View: We continue to expect only gradual weakness in the IDR, given that Bank Indonesia (BI) has done much to avert the credibility issues it faced previously with the 100bp increase in rates delivered over the past three months. The BI has also been actively intervening to support the currency. However, we have been cautious on the IDR given our view that it was more sensitive than its regional peers to swings in global risk appetite. The Central Bank also still faces the challenge of strengthening policy credibility, in an economy that is highly sensitive to global commodity prices and exchange rate moves.

Monetary Policy and FX Framework: Bank Indonesia operates on an Inflation Targeting Framework, which aims to improve effectiveness and governance in monetary policy, in order to achieve the ultimate goal of price stability in support of sustainable economic growth and public prosperity. The IDR operates as a managed float with the aim of preventing excessive exchange rate volatility.

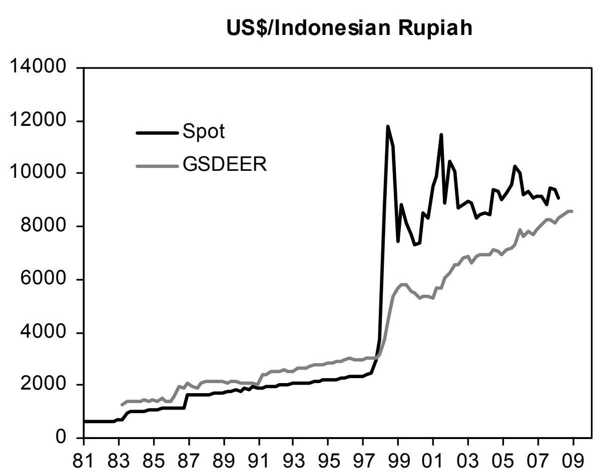
Growth/Inflation Outlook: Activity indicators remain robust, as reflected in our Indonesia Surprise index, which has been in positive or neutral territory over the past six months, indicating that domestic activity is outstripping consensus expectations. Domestic demand remained strong in 1Q2008, underpinned by higher growth in consumption and investment. Domestic demand contributed 5.4 percentage points to the headline Q1 GDP growth of 6.3%. Within domestic demand, private consumption growth of 5.5%yoy was in line with 5.6%yoy growth in the previous quarter, while fixed asset investment growth advanced 13.3%yoy from 12.1%yoy.

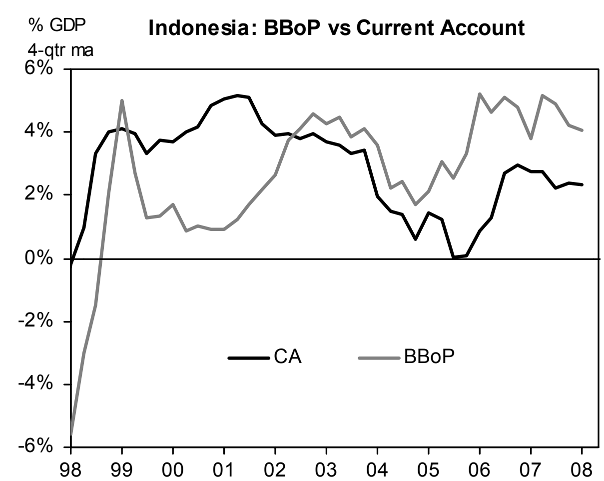
Meanwhile, July headline CPI inflation in Indonesia rose 11.9%yoy, a 22-month high, more than the 11.0%yoy in June, and also above the market's expectation of 11.15%yoy, despite the rebasing exercise last month, which reduced the weight of food and increased the weight of health, education and transportation. The full impact of the 29% domestic fuel price hike announced on May 22 has been incorporated in the inflation print. However, inflationary pressures remain and liquidity is loose, with credit growth at around 30%yoy in 1H2008. Our 2008 average CPI forecast is currently 10.5%yoy.

Monetary Policy Forecast: We expect the Central Bank to maintain its tightening bias and expect another 25bp to be delivered at the next meeting, on top of the 100bp delivered in this tightening cycle so far. This could also be coupled with future increases in the reserve requirement ratio to tackle the excess liquidity in the system.

Balance of Payments Situation: The current account has been boosted by high energy prices given Indonesia's status as a net energy exporter. The surplus should narrow slightly this year but should still remain in surplus. We expect the current account balance to stay at around 2% of GDP in 2008.

Things to Watch: Political developments in the lead-up to parliamentary elections in April next year.





Korean Won

FX Forecasts: We maintain our view for USDKRW of 1,040, 1,050 and 1,070 on 3-, 6- and 12-month horizons. EUR/KRW is now 1,508, 1,575, 1,498. Following the KRW's recent weakening, the gap between the USDKRW and the rate implied by GSDEER (1,280) has narrowed. We expect the KRW to weaken gradually in the coming months, implying a weakening of about 13% in real terms against a trade-weighted currency basket.

Motivation for Our FX View: The KRW has weakened primarily due to a sustained deterioration in external environments, in particular rising oil prices. Hedging demands from Korean shipbuilders and investment trust companies are likely to moderate due to easing order flows and changes in rate expectations. Capital flows, including carry trade, are likely to remain volatile due to continued risk re-pricing and a reduction in leverage.

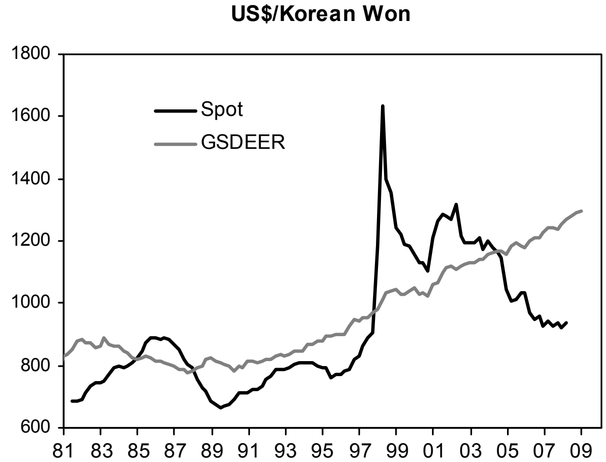
Monetary Policy and FX Framework: Korea has a formal inflation targeting regime, which targets headline consumer price inflation of 2.5%-3.5% over a three-year period. Inflation in 2007, the first year of the target period, was 2.5% but current inflation is nearly 6%. The Central Bank is mandated to contribute to the sound development of the national economy by pursuing price stability but is not in charge of exchange rate policy. The foreign exchange rate regime is a free float.

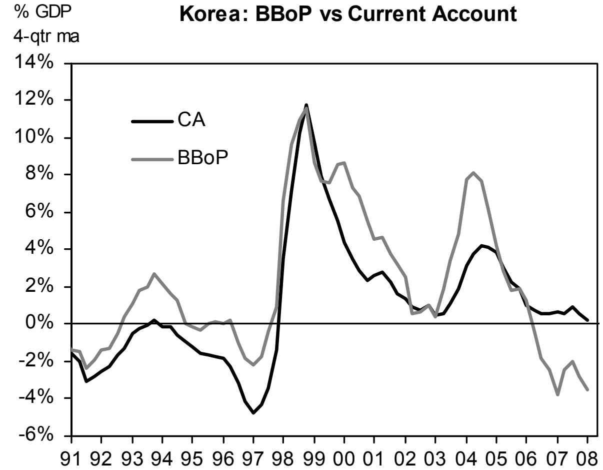
Growth/Inflation Outlook: The economy is projected to grow at 4.8% this year, somewhat weaker than last year, with weak private consumption in part offset by strong exports and a pick-up in investment. Headline inflation is expected to exceed the upper limit of the target considerably due to higher import prices and the recent depreciation of the KRW.

Monetary Policy Forecast: In May, we changed our rate view from a cut in the second half to on-hold, in light of rising commodity prices, the recent KRW depreciation and the six-year-high surge in core inflation in May. The 25bp hike in August, which we saw as a low probability event, is most likely a one-off given weak domestic demand and rising concerns about credit quality, likely followed by a cut in early 2009. The next meeting is on September 11.

Balance of Payments Situation: With high oil prices, we expect the current account to be in deficit of about 1% of GDP despite the KRW weakening. The capital account will likely be largely in balance, with moderation in short-term borrowings offset by decelerating net portfolio outflows. The BBoP position is heavily influenced by volatility in the US equity markets, which tends to reduce portfolio inflows to Korea, as well as the pace and focus of deregulation of capital account restrictions.

Things to Watch: There are both upside and downside risks to our revised KRW view. Further increases in oil prices and signs of a prolonged US recession or a global spillover, in particular to China, would weaken the KRW further, while evidence of resilient US growth would bolster the KRW. The success of the new government in revitalising investment-driven growth could strengthen the KRW, while a rapid deterioration in the credit quality of bank loans could lead to a spike in USDKRW.





Malaysian Ringgit

FX Forecasts: We have adjusted our USD/MYR forecast to 3.32, 3.30 and 3.25 from 3.15, 3.10 and 3.08 on 3-, 6- and 12-month horizons. This implies a EUR/MYR path of 4.81, 4.95 and 4.55. $/MYR GSDEER is 2.78.

Motivation for Our FX View: The current account is expected to remain in hefty surplus, buoyed by oil exports. We have been highlighting that sound fundamentals, in terms of a huge current account surplus and currency undervaluation, argue for a stronger currency in the medium term, as the authorities allow fundamental appreciation pressure to come through to fight inflation. However, the ongoing political uncertainty and Bank Negara's (BNM) surprising decision to leave rates unchanged at the last meeting could weigh on MYR sentiment in the near term. That said, the MYR is relatively more protected from sharp downside moves, given its undervaluation and the huge current account surplus.

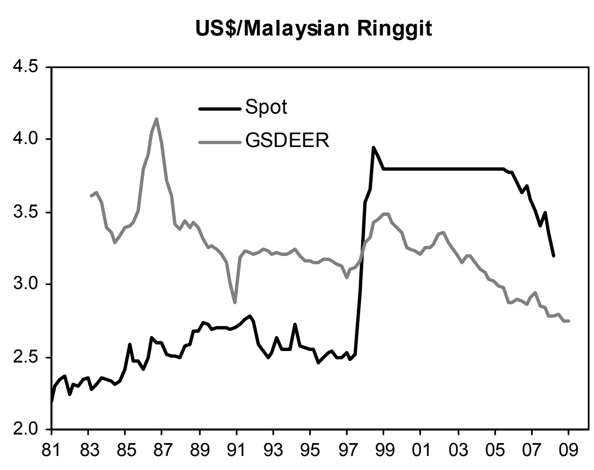
Monetary Policy and FX Framework: Monetary policy is set by the Board of Directors of Bank Negara Malaysia. The policy instrument is the Overnight Policy rate, which is at 3.5% currently. The Ringgit has operated in a managed float framework since its USD peg was lifted in July 2005.

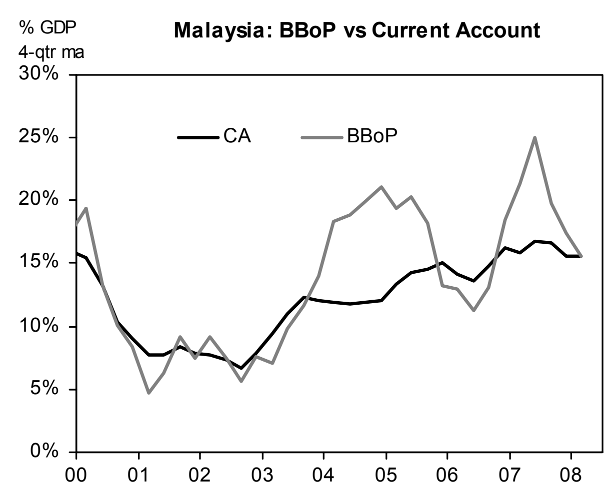
Growth/Inflation Outlook: June CPI jumped to a 27-year high of 7.7%yoy versus 3.8%yoy in May. The transport component spiked 19.6%yoy in June from 0.9%yoy in May on the fuel price hikes. Meanwhile, the food component continued to accelerate to 10%yoy versus 8.2%yoy in May. Our 2008 average CPI forecast is at 6%. We also see downside risks to growth, as higher inflation is eating into consumers' spending power (albeit partially offset by the cash rebates) and acts as a drag on corporates' capex. On the basis of this loss in real income and a minimal adjustment in savings (given Malaysia's relatively high household debt to income ratio), we are below consensus on the 2008 GDP growth forecast at 5.0%.

Monetary Policy Forecast: The BNM left the overnight policy rate unchanged at 3.5% at its last meeting. The decision to leave rates unchanged came as a disappointing surprise to us. Our view was that BNM was likely to hike rates by a moderate 25bp in response to the higher inflation path brought on by the recent domestic fuel price hikes. Despite the Central Bank's perception that the inflation spike was largely due to one-off supply-side factors, we felt that a move by BNM (even if small) was warranted to convey its intention of keeping inflation expectations well-anchored. While our base case is still for 50bp in rate hikes this year, the risk is that the BNM continues to delay monetary tightening for as long as it can.

Balance of Payments Situation: The current account should remain in hefty surplus, supported by oil exports. We are expecting the surplus to be around 15.7% of GDP in 2008, compared with 15.5% in 2007, still one of the highest surpluses in the region.

Things to Watch: The political overhang has hit sentiment hard and presents obstacles for fundamental appreciation pressures. The budget speech on August 29 also deserves close monitoring.





New Zealand Dollar

FX Forecasts: We have changed our view. Our new path for NZ$/$ is 0.68, 0.69 and 0.61 in 3, 6 and 12 months, from 0.73, 0.70 and 0.63. Our new path reflects our view that the Dollar has now turned, as well as broad domestic weakness. NZ$/$ GSDEER is 0.71. EUR/NZD is now 2.13, 2.17 and 2.30 in 3, 6 and 12 months

Motivation for Our FX View: The NZD has depreciated relatively quickly in recent weeks. This has been partly in response to global developments, but local news flow remains overwhelmingly bearish. The New Zealand economy is now likely in the third quarter of recession and the RBNZ only started its easing campaign in July. With long lags in monetary policy transmission and still very high interest rates, we think a further 200bp of easing will be forthcoming over the year ahead. 'Carry'-related capital flows (e.g. Uridashi) have reversed to net maturities (vs net injections) over the calendar year to date. With large external imbalances and poor domestic savings, the exchange rate is likely to play an important role in the economic correction and could overshoot.

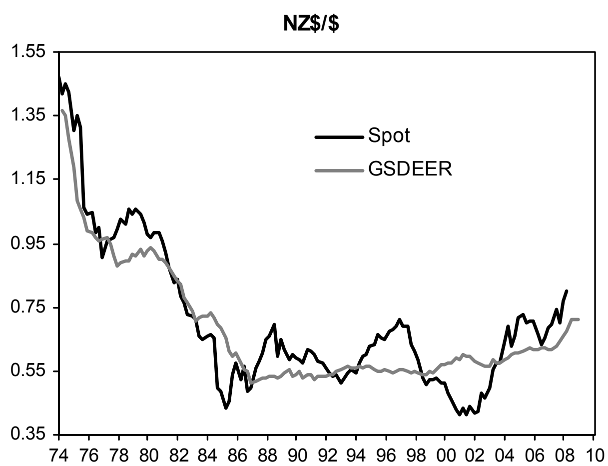
Monetary Policy and FX Framework: The Reserve Bank of New Zealand is a flexible inflation targeter. The RBNZ Governor is sole decision maker on the Official Cash Rate (OCR), and contracted to achieve "future CPI inflation outcomes between 1% - 3% per cent on average over the medium term." The FX regime is a free float.

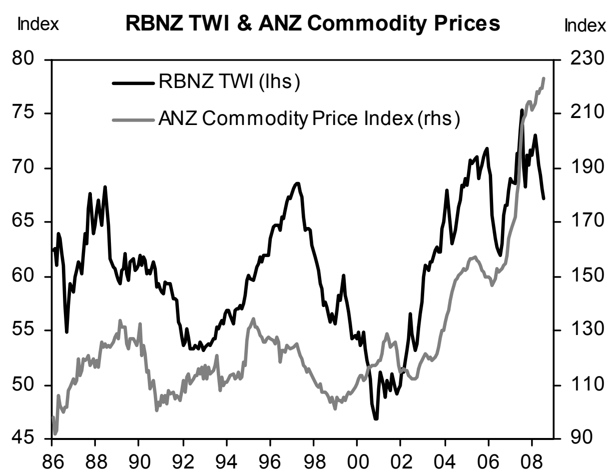
Growth/Inflation Outlook: We expect the domestic economy to undergo a correction over the year ahead, resulting in economic growth slowing from 3.1% in CY2007 to 0.6% in CY2008 (consensus 0.8% from 2.2% in Jan-08). The deterioration in the housing market is the main driver of the slowdown also reflected in deteriorating consumer and business sentiment, activity and job shedding. Rising food and fuel prices have pushed inflation above the RBNZ's 1%-3% target band and inflation expectations are accelerating. However, underlying inflation was just 1.9% in 1Q2008, suggesting that a slowing economy and labour market should ease medium-term inflation risks.

Monetary Policy Forecast: The RBNZ delivered it first cut in the current easing cycle in July. This was in reaction to an accumulating body of evidence showing an abrupt deterioration in activity. Still rising inflation and elevated inflationary expectations mean that very aggressive easing is unlikely, but nascent signs of financial fragility may require a more aggressive response. We expect 25bp cuts per meeting for a total 200bp cut in the OCR to 6%. Forthcoming meetings: Sep 11; Oct 23; and Dec 4.

Balance of Payments Situation: The current account deficit sits at 7.8% of GDP. We expect this imbalance to remain above 8% through most of 2008. This is due largely to the net income deficit, which is a function of NZ's large net foreign liability position (90% of GDP, of which 88% is debt).

Things to Watch: The RBNZ's intense focus on the household sector means fortnightly consumer confidence (Roy Morgan), monthly house sales figures (released mid-month by the REINZ), and monthly business confidence (released end month by National Bank of New Zealand) are key indicators to watch.





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Philippine Peso

FX Forecasts: We are tweaking our USD/PHP forecasts to 45.0, 45.5 and 46.0 on a 3-, 6- and 12-month horizon, from 47, 48 and 49 previously. This implies a EUR/PHP of 65.3, 68.3 and 64.4. $/PHP GSDEER of 49.2.

Motivation for Our FX View: Our view of a weakening PHP remains unchanged; however, the weakness will be less severe given that the PHP has been one of the biggest beneficiaries of the retracement in global oil prices. We maintain our cautious view on the Peso based on deteriorating fundamentals. Growth appears to have peaked and is likely to weaken in the coming quarters as higher inflation eats into consumer spending. In addition, the BoP outlook, although still supported by remittance flows, will deteriorate due to a widening trade deficit on a higher import bill and weakening exports.

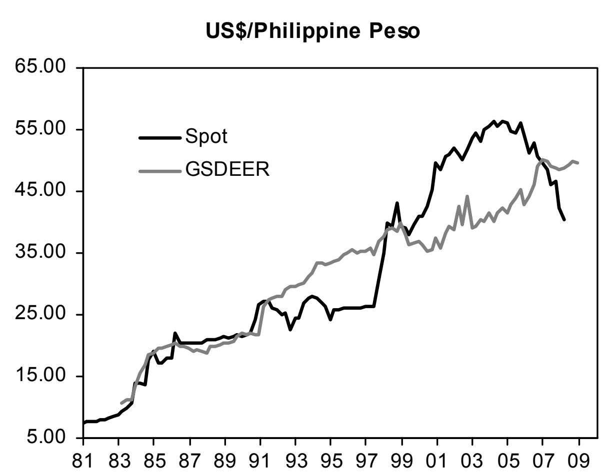
Monetary Policy and FX Framework: The Bangko Sentral ng Pilipinas (BSP) has an inflation targeting framework (2008 headline CPI at 3%-5%) and aims to promote price stability to facilitate balanced and sustainable growth. The BSP uses the overnight reverse repo rate (lending rate) and repo rate (borrowing rate) as its key policy instruments, currently at 5.75% and 7.75% respectively. The PHP operates in a freely-floating exchange rate environment, where the BSP intervenes to manage excess volatility through open-market operations.

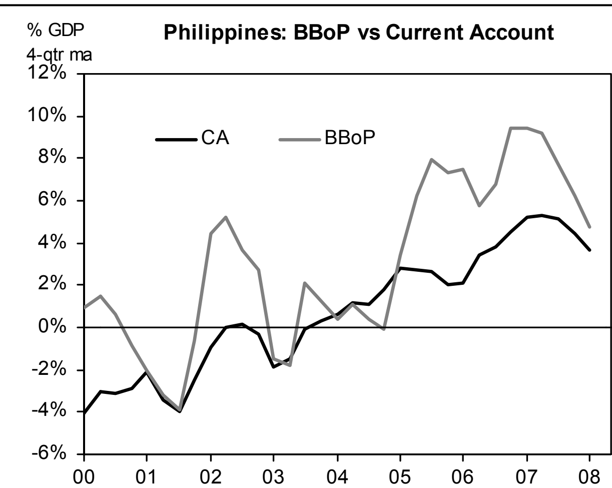
Growth/Inflation Outlook: Headline CPI accelerated to a 16-year high of 12.2%yoy in July, from 11.4%yoy in June, and above consensus expectations of 11.9%yoy. Core CPI (which strips out selected food and energy items), however, moderated to 6.3%yoy in July, from 6.6%yoy in June. It is too early though to draw comfort from the slight easing in core CPI as all the major core CPI components accelerated. The services component (16%) accelerated to 12.4%yoy in July versus 9.9% in June, while housing (17%) rose 4.6% versus 4.3% in June. As inflation heads higher, policymakers are also grappling with slowing growth, on weakening external demand, and the negative terms-of-trade shock, given its status as a net food and energy importer. These factors have already started to affect growth, as seen in the 1Q2008 GDP release.

Monetary Policy Forecast: We expect the BSP to maintain its tightening bias, with a 25bp hike at the August 28 meeting and a further 25bp by the end of this year. However, the risk of bigger rate hikes would increase if oil prices were to head back up, as tackling inflation remains the priority. Overall, the extent of tightening is likely to be measured, as the BSP will likely grow increasingly cognizant of slowing growth in the coming quarters.

Balance of Payments Situation: The current account surplus should narrow from around 4.4% of GDP in 2007 to 1.2% of GDP in 2008, on the back of slowing exports, a rising import bill and moderating remittances growth.

Things to Watch: The pace of remittances growth will be key to watch. The inflows (at around 30% of exports and around double the size of estimated broad basic balance of payment flows) are one of the main drivers still supporting the BoP given deteriorating trade balances.





Singapore Dollar

FX Forecasts: We are shifting our USD/SGD forecast to 1.40, 1.40 and 1.45 on 3-, 6- and 12-month horizons, from 1.35, 1.33 and 1.32 previously. This implies a EUR/SGD path of 2.03, 2.10 and 2.03. $/SGD GSDEER 1.57.

Motivation for Our FX View: The SGD NEER has traded towards the weak side of the policy band, having been on the strong side over the past year or so, partly due to the USD rebound, but also because growth fears have now shifted back into the spotlight, and the MAS looks much less likely to tighten policy further. We think the Central Bank will keep the current rate of SGD NEER appreciation unchanged at their October meeting on persistent inflation fears, but could look to easing at the April 2009 meeting.

Monetary Policy and FX Framework: The MAS conducts monetary policy by targeting an undisclosed appreciation path of the SGD NEER within a policy band, with the goal of maintaining stable inflation and growth. We are currently assuming a 2.75% per annum appreciation path and a policy band width of +/- 1.5%.

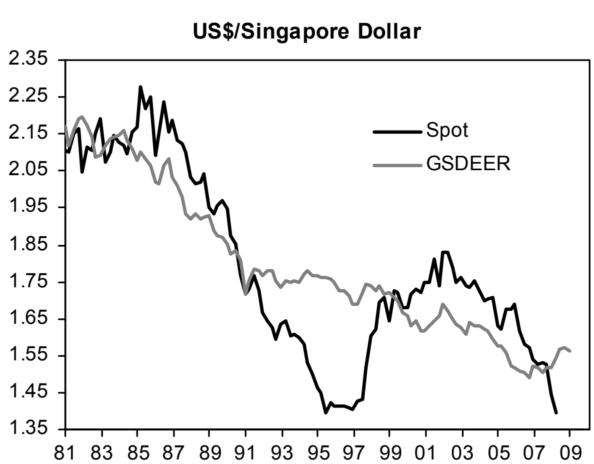
Growth/Inflation Outlook: The recent weakness in activity has been exaggerated by the slump in the volatile biomedical sector and we should see a moderate rebound in 3Q GDP, on an anticipated bounce back in pharmaceuticals. Going forward, we expect the economy to slow, as the US-consumer-led weakening continues to weigh on the external sector; this is the main reason why we have shaved our GDP forecasts for this year and next. We are now at 4.8% and 4.6% for 2008 and 2009, versus consensus of 4.7% and 5.3% respectively.

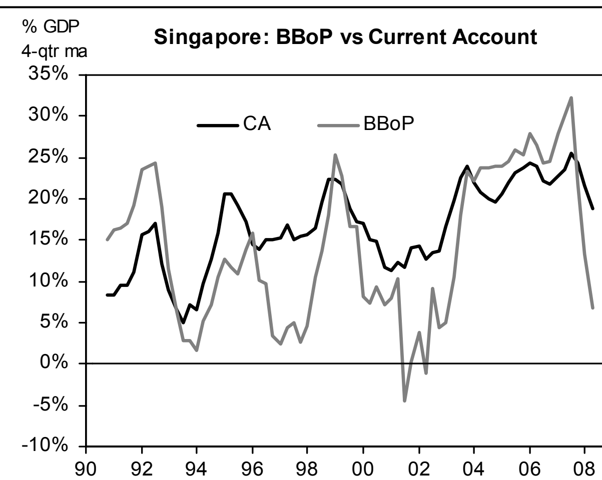
June CPI inflation held at 7.5%yoy, still at 26-year highs. Among components, food prices and housing continued to accelerate. The rise in the housing component this year has been mainly driven by revisions to the annual values of public housing, an adjustment that occurs around once every four years. We expect to see some moderation in the July reading when the GST base effects fall off. However, cost pressures are still high and these are not confined to just food and energy prices. Capacity constraints and rising unit labour costs suggest that underlying price pressures will be sustained in the medium term, and inflation may not tail off as quickly as the authorities hope.

Monetary Policy Forecast: Policy wise, it does look much more likely that the MAS will not tighten policy further at its October meeting on the back of slowing growth fears. At the same time, CPI will likely stay at an elevated level even as the GST base effects fall off, and this should prompt the Central Bank to keep policy tight. On balance, MAS will probably maintain the SGD NEER policy band at the current rate of appreciation.

Balance of Payments Situation: The current account surplus is expected to narrow on the back of weakening exports, but nonetheless remains in a healthy surplus at around 17% of GDP in 2008, the highest in the region.

Things to Watch: Signs of a rebound in the volatile pharmaceutical sector in coming months, which would allay fears of a sharp slowdown.





Taiwan Dollar

FX Forecasts: Given the revisions to the forecasts for the major currencies made by our global markets team, we are revising our USD/TWD forecast accordingly. Our new USD/TWD forecasts are: 31.0, 30.5 and 30.75 on 3-, 6- and 12-month horizons, compared with our previous forecasts of 29.5, 28.5 and 28.5. Correspondingly, our EUR/TWD forecasts are 45.0, 45.8 and 43.05 on a 3-, 6- and 12-month horizon. $/TWD GSDEER: 27.86.

Motivation for Our FX View: Given that imported inflation is the main source of inflationary pressure, TWD appreciation could be an extra policy channel for the Central Bank to mitigate imported inflationary pressures. However, the weaker export outlook could hamper the Central Bank's willingness to see too much TWD strength. On balance, we are factoring in less TWD appreciation against the USD in our new TWD forecasts, on the back of the revisions made to other major currency forecasts.

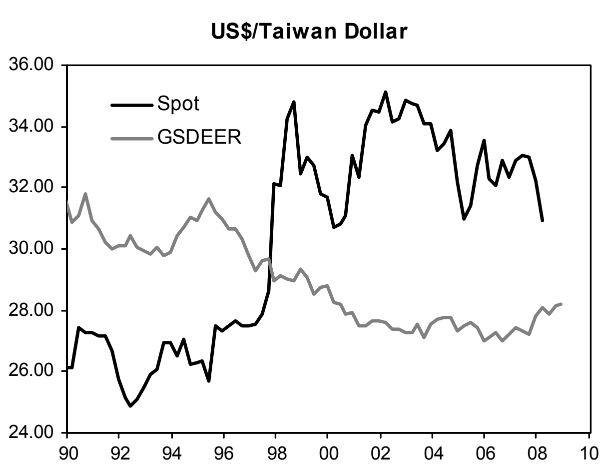
Monetary Policy and FX Framework: The Central Bank of China (CBC) manages inflation and growth expectations simultaneously, and it adopts an intermediate monetary policy target of M2 growth (between 2%yoy and 6%yoy). The IMF defines the TWD exchange rate regime as a managed float.

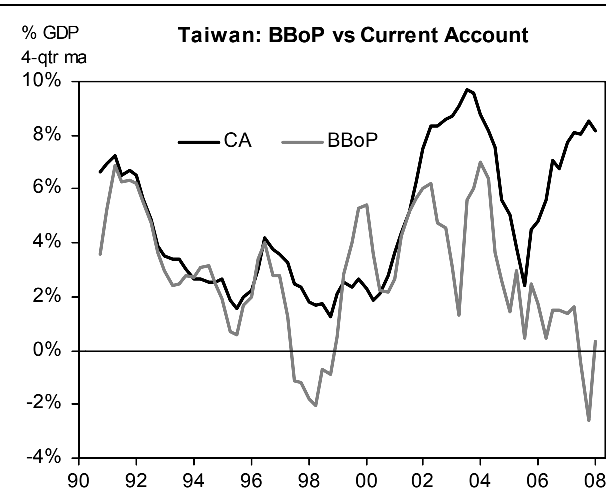
Growth/Inflation Outlook: With a weaker global industrial cycle ahead, we believe the exports momentum should begin to ease in 2H2008. Therefore, we currently forecast GDP growth to slow to 4.5% in 2008, from 5.7% in 2007. As for 2009, we expect a modest cyclical recovery in GDP growth to 4.8%, as the economic impact from the progress on cross-strait policies comes to fruition. Our 2008 CPI inflation forecast stands at 4.3%. We forecast CPI inflation to remain elevated at 5.5% in 3Q2008. However, we expect 4Q2008 CPI inflation to drop to 4.0%, because of the high base effect as a result of the unusual number of typhoons, which pushed up food prices during 4Q2007.

Monetary Policy Forecast: We expect further monetary policy tightening. We believe that the increased inflation pressure will prompt the Central Bank to keep a tight grip on policy, and that the Central Bank will likely raise interest rates by 25bp for the remainder of this year (possibly 12.5bp at each of the September and December policy meetings).

Balance of Payments Situation: The current account surplus is still hefty, although it narrowed to US$8.6bn in 1Q2008 from US$11.2bn in 4Q2007. We expect export growth to ease and the current account surplus to narrow further in the year, given a moderation in external demand growth. The increase in the current account surplus had been offset by domestic portfolio outflows throughout 2007, on the back of political uncertainties. In 2008, we expect the fall in the current account surplus to weigh on the overall BBoP position, while the portfolio flows will likely improve, given the apparent stabilisation in the political environment.

Things to Watch: We would closely monitor the trend in CPI inflation, which could remain elevated under intensified pressure from both upstream energy price and downstream food price inflation. We would also continue to monitor closely any development on the political front in the near term and beyond.





Thai Baht

FX Forecasts: We are maintaining our forecast at 34.5, 35.5 and 36.5 on a 3-, 6- and 12-month horizon. This implies a EUR/THB path of 50.00, 53.25 and 51.10. $/THB GSDEER is 35.22.

Motivation for Our FX View: We maintain our cautious view on the currency. Specifically, we had been concerned about politics being an unsettling force for domestic policies, and especially for the crucial investment decisions that would prove to be a stumbling block for sustained domestic demand recovery. The political noise has gained momentum in recent weeks with street protests and the recent court rulings.

Monetary Policy and FX Framework: The Bank of Thailand (BoT) sets the direction of monetary policy with price stability as the overriding objective, and also refines the inflation targeting framework (core CPI at 0% to 3.5%) to suit the Thai economy. The Baht operates on a managed float regime, in which the BoT intervenes to prevent excess volatility.

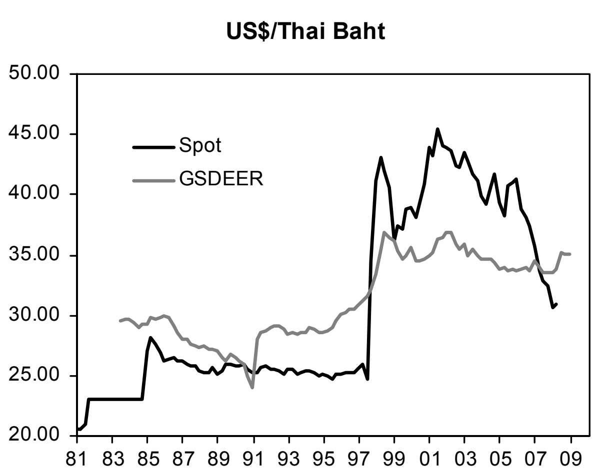
Growth/Inflation Outlook: Thailand's 1Q2008 real GDP growth came in at 6.0%yoy, faster than the 5.7%yoy in 4Q2007 and in line with the consensus expectation of 6.0%yoy. On a sequential basis, the growth momentum eased to 1.4%qoq, seasonally-adjusted, from 1.7%qoq in the previous quarter. The growth momentum (qoq sa) appears to have peaked and we expect continued moderation over the coming quarters. We believe the domestic demand recovery is still at a fragile stage, and we should start to see some downward pressure from the deteriorating consumer sentiment and spending, on the back of rising inflationary pressures. Net exports should also deteriorate going forward, on the back of the US-led global softening and the rising oil import bill. We maintain our below consensus GDP growth forecast at 4.3% in 2008, versus consensus of 4.8%.

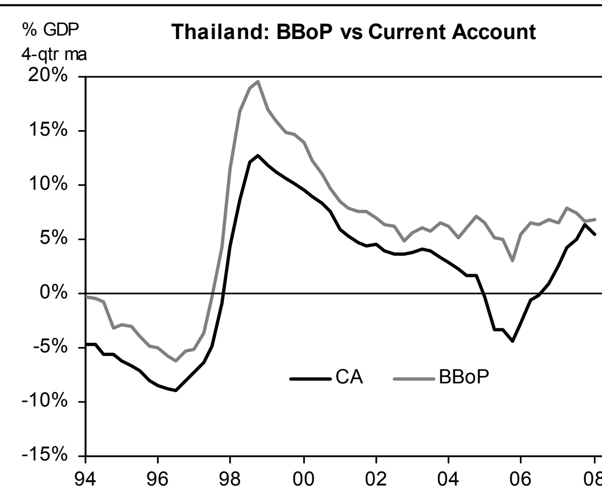
In the meantime, July headline CPI inflation accelerated to a 10-year high of 9.2%yoy versus 8.9%yoy in June. This was just slightly lower than the consensus of 9.3%yoy. Core CPI inflation also ticked up to 3.7%yoy versus 3.6%yoy in June, higher than the Central Bank's core target of 3.5%. The energy component continued to pick up 32.3%yoy in July, versus 30.8%yoy in June. Meanwhile, the food component increased 11.8%yoy in July versus 11.4% in June.

Monetary Policy Forecast: We expect further tightening by the Bank of Thailand, with a minimum of one more 25bp hike this year. However, the overall extent of tightening is likely to be modest; growth concerns and the murky political landscape will add to downside risks, and the Bank of Thailand will likely refrain from tightening aggressively.

Balance of Payments Situation: The current account balance is expected to narrow from its healthy surplus at 6.1% of GDP, to around 2.2% in 2008 on slowing exports and a higher oil import bill.

Things to Watch: Political developments are still the key risk factor. Signs of volatility on the political front would put the still-fragile domestic demand growth momentum at risk.





Vietnamese Dong

FX Forecast: We maintain our USD/VND forecasts at 16,870, 17,280 and 18,100 on 3-, 6- and 12-month horizons. EUR/VND is now 24,461.5, 25,920.0 and 25,340.0 in 3, 6 and 12 months.

Motivation for Our FX View: The State Bank of Vietnam (SBV) announced an expansion of the daily USD/VND trading band from +/-1% to +/-2% around an official mid-rate announced by the Central Bank, effective on June 27. In addition, the monetary authority has also banned USD/VND trading through a third currency. We do not expect significant downward pressures on the VND from this move, since the official USD/VND rate will still be controlled within the band and the offshore market will likely take into account the slightly more favourable recent data.

Monetary Policy and FX Framework: The SBV intervenes through the prime rate, rediscount rate and the refinance rate. It also absorbs or injects liquidity into the banking system via open market operations and reserve requirement ratio adjustment. The SBV officially maintains a managed floating exchange rate, but this regime is classified by the IMF as a conventional de facto fixed peg because of the very narrow daily trading band.

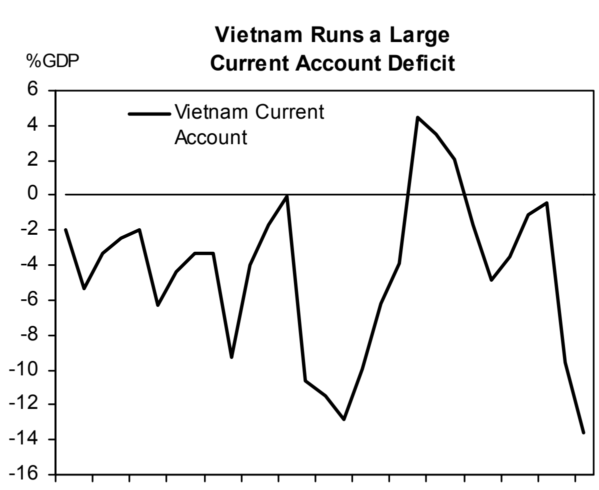
Growth/Inflation Outlook: Although market sentiment has improved recently, we believe it is too early to dismiss the macro instability risks and conclude that Vietnam is heading for a soft landing this year. CPI inflation is likely to remain elevated on the back of high food prices in the near term. Meanwhile, growth has slowed and could moderate further on the back of monetary tightening, and the cutting of fiscal expenditure and public investment. In view of such risks, we adjust our forecasts for real GDP growth to 6.9%yoy for 2008 and 7.2%yoy for 2009, down from 7.3%yoy and 7.8%yoy, respectively. Our new annual average CPI inflation forecasts are 22.0%yoy and 14.0%yoy for 2008 and 2009, respectively, compared with 19%yoy and 10.0%yoy previously.

Monetary Policy Forecast: To address the current economic challenges in the economy and restore macro stability, the Vietnamese government will likely have to tighten monetary policy further to rein in inflation. Among the policy options, we believe the Central Bank will rely more on higher interest rates and credit controls to reduce domestic overheating pressures, while maintaining the fixed exchange rate with a downward crawl against the USD in 2008-2009.

Balance of Payments Situation: The total trade imbalance of US$14.2bn in 1H2008 continues to highlight the risks to Vietnam's external account stability. However, we see some mitigating factors that could help reduce the probability of an imminent BoP crisis. Given current and potential future FDI and portfolio investment inflows, limited short-term overseas borrowing and onshore USD demand, mainly driven by imports, we still believe that the probability of a BoP crisis is not large enough to make it our baseline scenario.

Things to Watch: In our view, the recently released macro data brought encouraging signs, although it is still too early to dismiss the risks to macro stability. We will continue to monitor CPI inflation and import growth closely, as well as policymakers' rhetoric on future policy directions.

Source: General Statistics Office of Vietnam

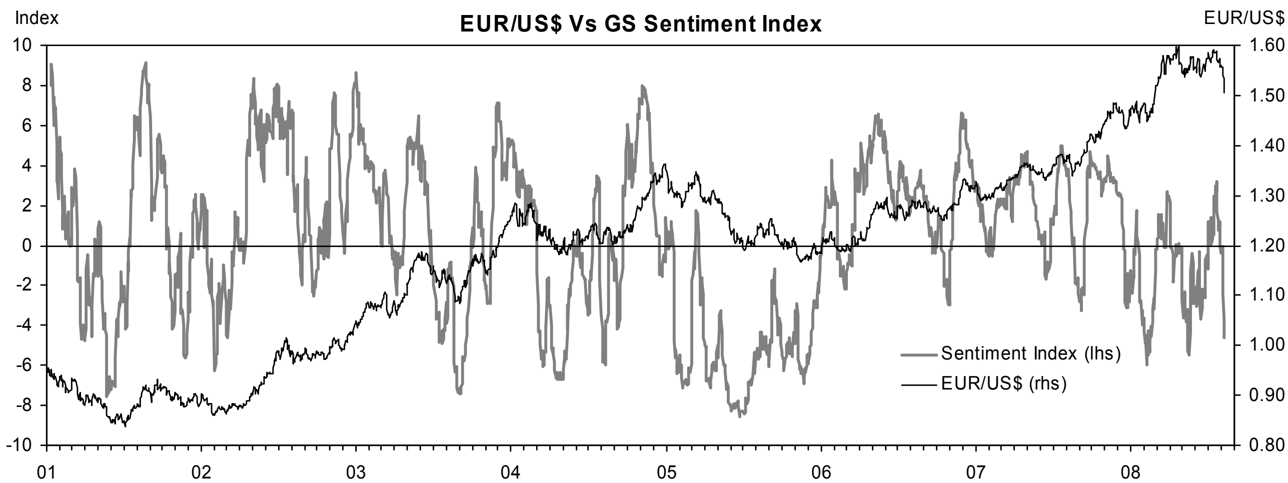


Source: IMF

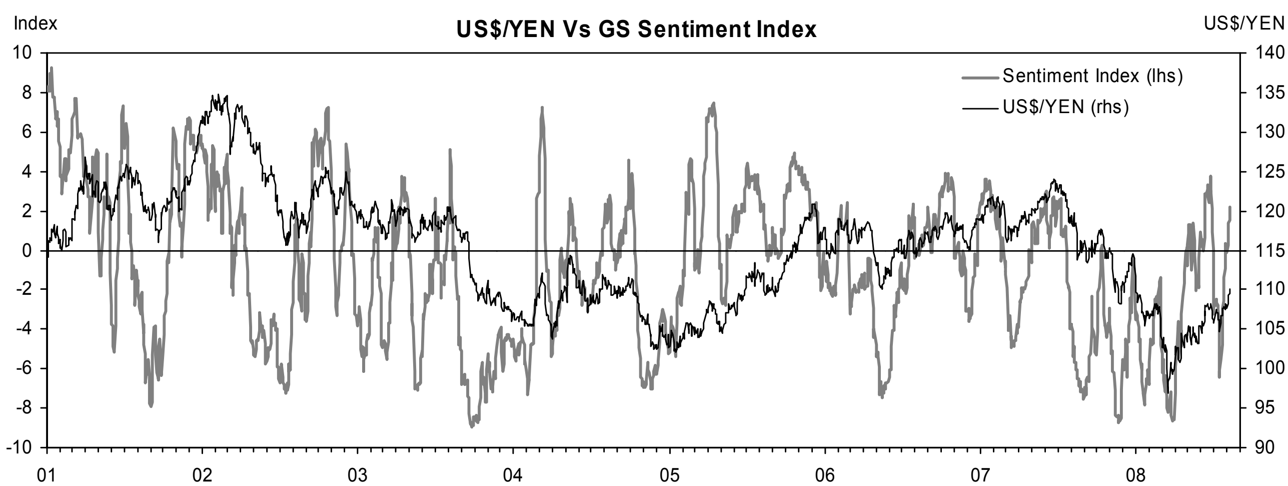
GS Sentiment Index

	Risk Reversals		Bull/Bear Comments		IMM Positioning		Average	
	Current	Last Week	Current	Last Week	Current	Last Week	Current	Last Week
EUR/$	-7.1	3.3	1.8	5.6	-8.5	-9.5	-4.6	-0.2
$/Yen	5.6	-1.7	3.1	2.1	-2.2	-0.9	2.2	-0.1

The possible range is +/-10. A value of +10 suggests bullish sentiment for the first currency of the pair (i.e., bullish EUR in EUR/$ and bullish $ in $/Yen). We would generally regard the index as a reverse indicator, i.e., high numbers are indicative of excessive positive sentiment and vice versa.

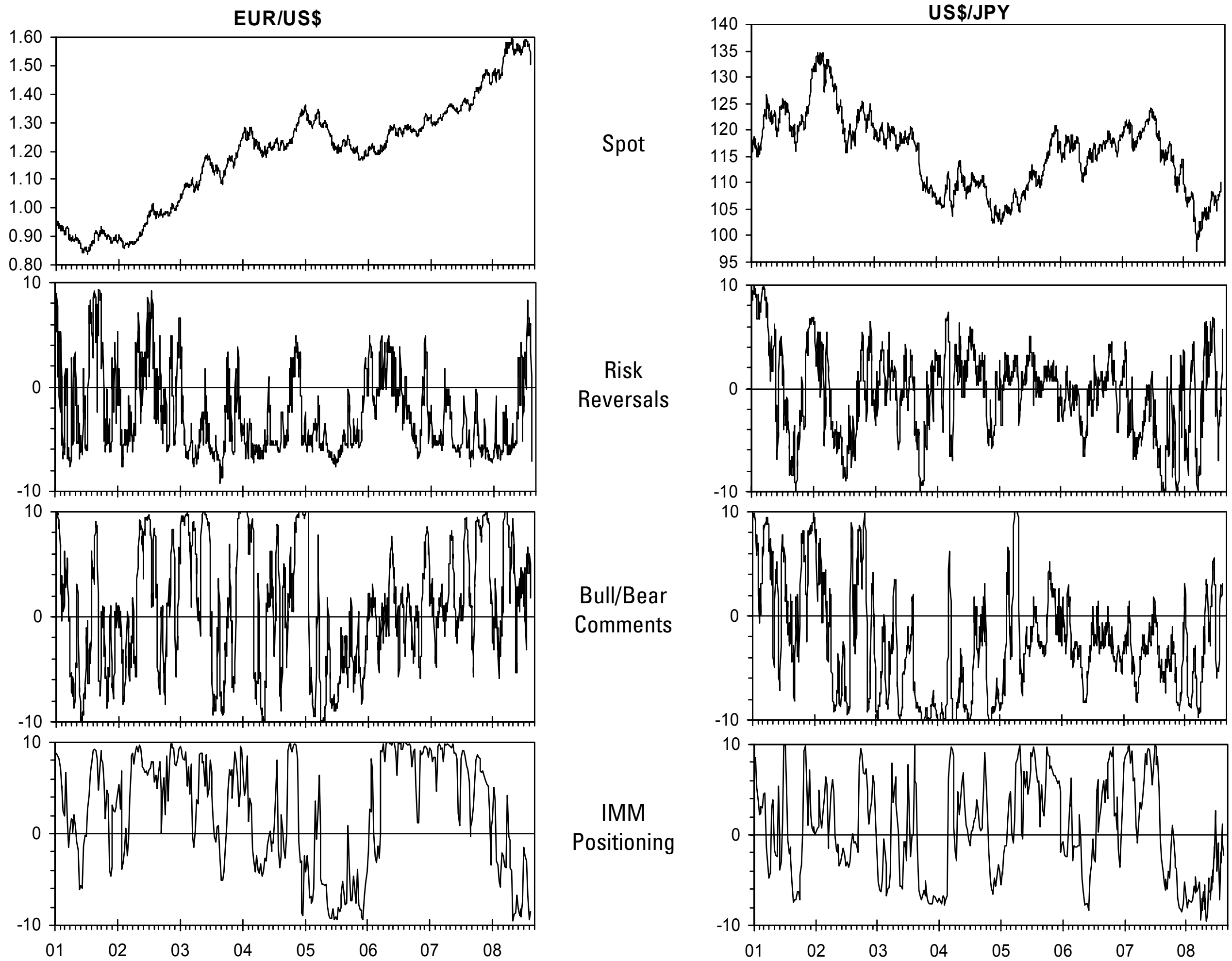


**EUR/$** – The EUR/$ Sentiment Index has moved firmly into Dollar-supportive territory . The IMM positioning is now net short EUR.



US$/Yen – The $/¥ index has moved sharply higher into Dollar-bullish territory. However, the index is still below its highs earlier this year.

GS Sentiment Index Cont'd



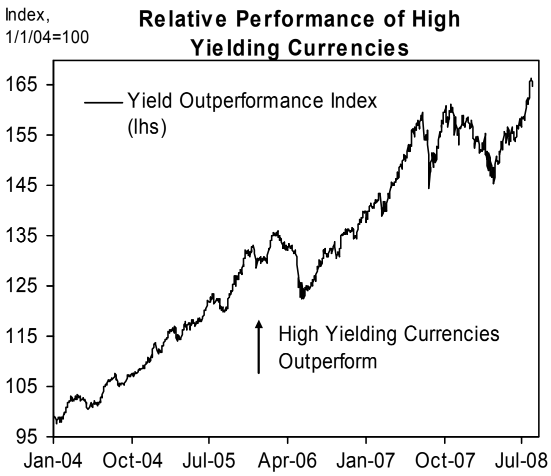
Technical Notes:

Risk Reversals: The sentiment indicator using Risk Reversals takes the deviation between the current level of risk reversals versus the 'norm' as indicated by the 200-day moving average. Risk reversals reflect the difference in volatility terms between a call and a put with the same delta. We have used 1-month 25 delta risk reversals. In other words, the risk reversal is the difference between a 1-month 25 delta call and a 25 delta put expressed in volatility. We index the deviation of the actual risk reversal and fair value using an interval of +/-10. For example, for US$/Yen, a positive reading indicates the risk reversal favours US$ calls over US$ puts relative to the norm with +10 indicating that US$ calls are very expensive.

Bull/Bear Comments: We base this indicator on the number of bullish and bearish sentences in news wire stories. The data generation is automated with proprietary software. For instance, our program identifies the following sentence as EUR/$ bearish:"… there is a strong risk of the Euro hitting new lows for the year against the Dollar.…" We generate a time series based on the difference between Dollar-bullish and Dollar-bearish commentary, which is then regressed against exchange rate changes. The residuals from this regression, representing bull/bear comments that go beyond regular reporting of market movements, are used in our bull/bear index. Values are normalised to range from most bearish (-10) to most bullish (+10).

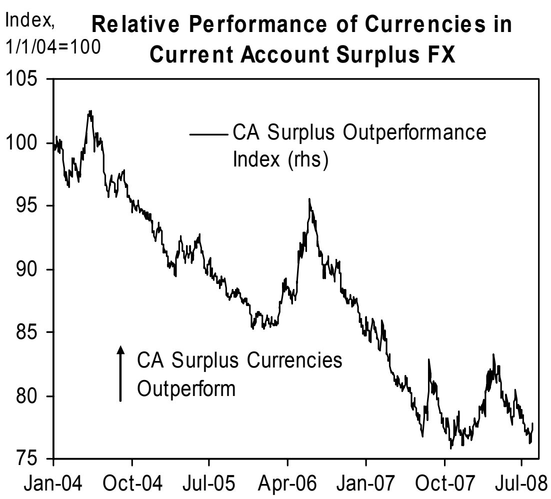
IMM Positioning: Indices are computed using the Commitment of Traders' report compiled by the Commodity Futures Trading Commission. The indices are based on the difference between long and short positions for IMM non-commercial traders, expressed as a percentage of the open interest and controlling for the level of rates. Historical values are normalised by the frequency distribution of the data between January 2000 and present to generate an index ranging between -10 (most short) and +10 (most long).

FX Slices



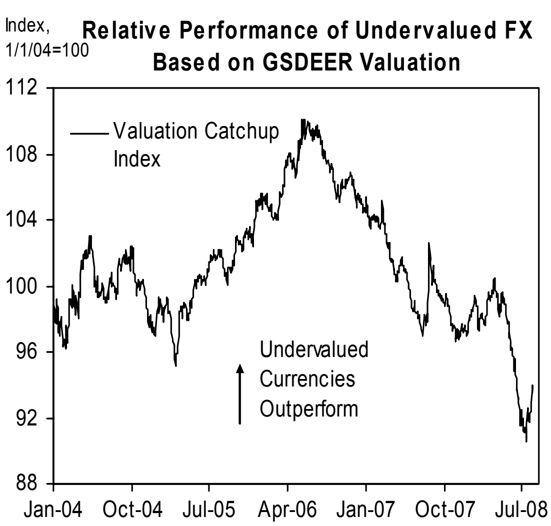
The **Yield Outperformance Index** is our FX slice that is built to capture the performance of carry-based trading strategies in FX. Despite the broadly negative sentiment for risk assets, carry trading strategies continued to perform very strongly until last week. Since its trough in early April, the yield outperformance index has gained a total of more than 12%. On a year-over-year basis, the carry index is up 7.6%.

Composition of the Carry Slice	
Short	Long
CNY	INR
SGD	HUF
JPY	NZD
CHF	ZAR
CAD	BRL
SKK	TRY



The **CA Outperformance Index** is our FX slice that is built to capture the performance of current account geared trading strategies in FX. After a multi-year declining trend, current account strategies started to gain strong momentum in early 2008. The increase in risk appetite in FX space that started in April and benefited carry trades also hurt the performance of the current account slice. That said, since the end of May, the slice has been trading broadly flat. On a year-over-year basis, the current account index is down a bit more than 2%.

Composition of Current Account Slice	
Short	Long
ZAR	TWD
NZD	RUB
AUD	SEK
TRY	CHF
SKK	SGD
PLN	NOK

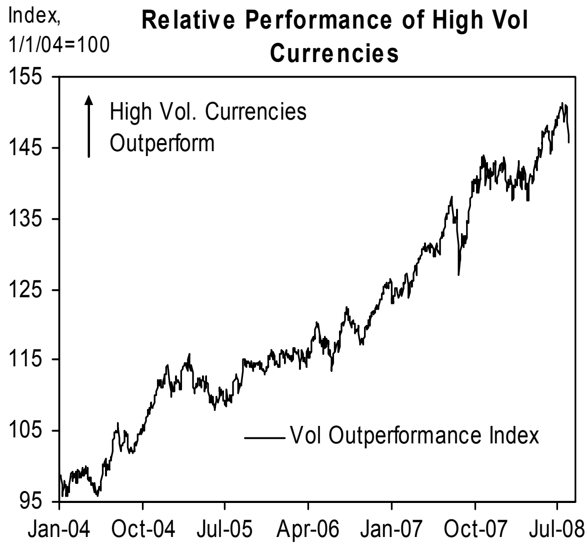


The **Valuation Outperformance Index** is our FX slice that is built to capture the performance of undervalued currencies relative to overvalued currencies, using our GSDEER model as a valuation anchor. The index has been declining strongly since early May but more recently it gained back some of its earlier losses. The index is currently down by about 5.5% on a yoy basis.

Composition of Valuation Slice	
Short	Long
SKK	CLP
HUF	NOK
CZK	ZAR
BRL	TWD
PLN	IDR
TRL	CAD

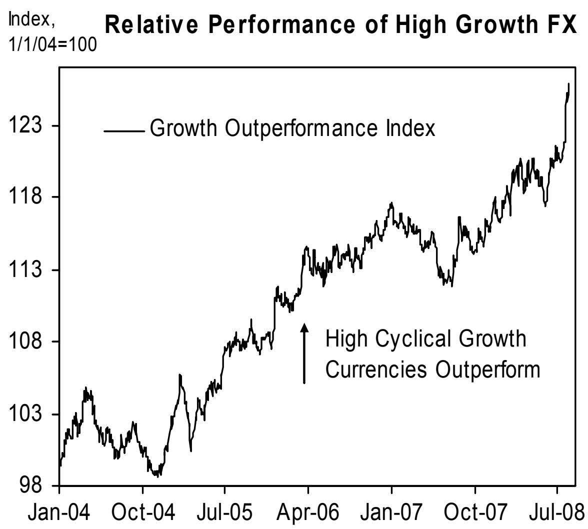
Methodology: Our FX Slices are equally-weighted portfolios of currencies adjusted for carry and are designed to capture and identify themes that the market is trading. Using the Yield Outperformance Slice as an example, we take 26 liquid currencies and rank them according to their 1-mth interest rate. We create 2 equally-weighted portfolios of the top 6 and bottom 6 currencies that account for carry, based against the Dollar. Then, we create Dollar-neutral indices by going long the 6 currencies with the highest rates and short the currencies with the lowest rates. See our 2005 and 2006 issues of *The Foreign Exchange Market* for details.

FX Slices Cont'd



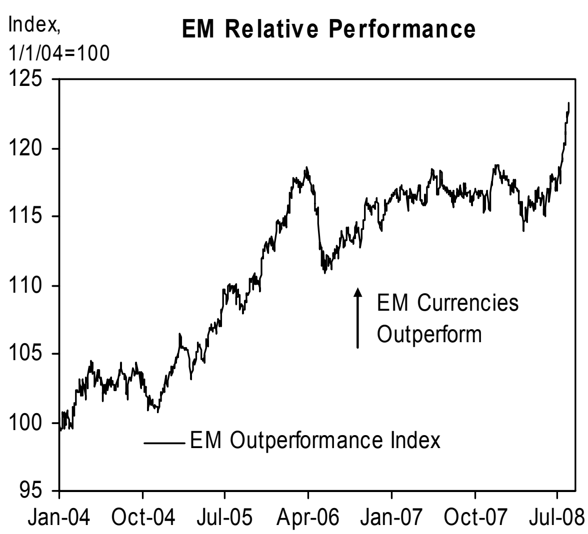
The **Volatility Outperformance Index** is our FX slice that is built to capture the performance of high-vol currencies relative to low-vol currencies using 1yr standard deviations of the exchange rates versus the USD as a volatility proxy. By default, the slice has some short Dollar bias, as low-vol currencies tend to follow the Dollar closely. It is therefore interesting to observe that, after a strong rally this year, it has posted negative returns recently. Compared with last year, the slice is up about 9.5%.

Composition of the Volatility Slice	
Short	Long
CNY	BRL
SGD	HUF
TWD	AUD
RUB	NZD
MXN	TRY
INR	ZAR



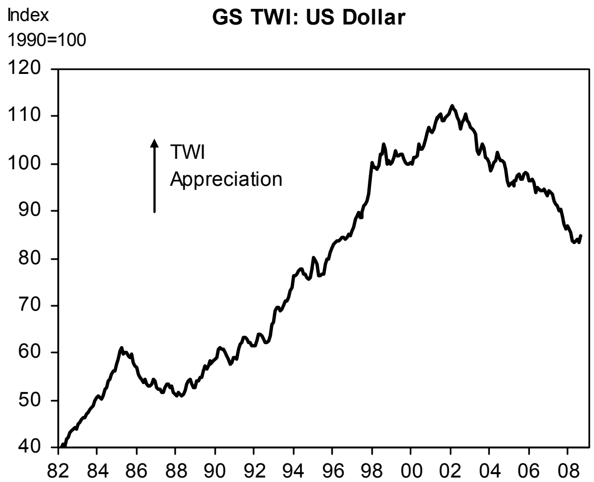
The **Growth Outperformance Index** is our FX slice that is built to capture the performance of currencies from high cyclical growth economies relative to currencies from low cyclical growth economies. Growth has been the one of the best-performing themes since the beginning of the turmoil in July 2007 (and it is up about 10%yoy). At times when global growth risks are rising, the market is showing preference for investment destinations with strong growth dynamics. The slice's performance has picked up quite dramatically over the last few days.

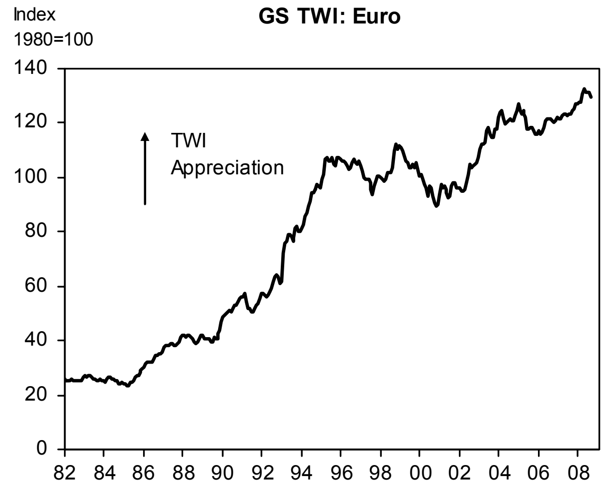
Composition of Growth Slice	
Short	Long
HUF	SKK
NZD	IDR
SEK	BRL
CAD	TRY
CLP	RUB
GBP	PLN

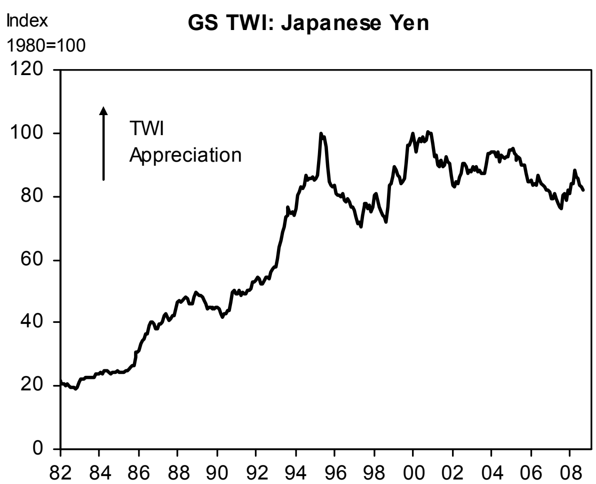


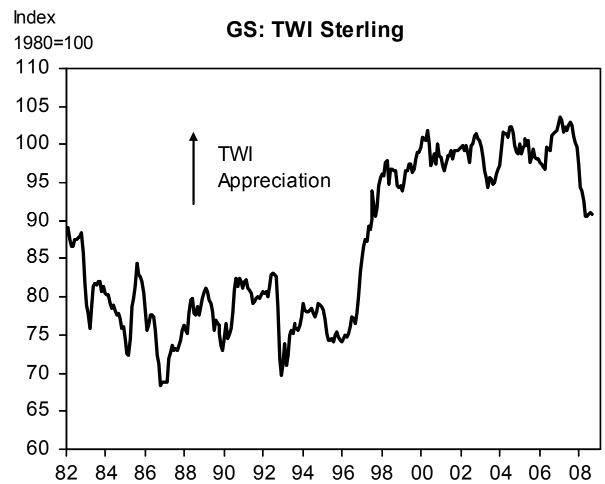
The **EM Outperformance Index** is our FX slice that is built to capture the performance of Emerging Market currencies versus non-USD majors. For most of 2007 the index has traded flat. Up until July, emerging market currencies have traded in line with G10 on average. As a result the index has been trading range-bound through that phase. However, as of late, weak data out of non-US majors have put pressure on G10 currencies versus the Dollar. With EM economies still resilient and the FX market rewarding high growth currencies, EM FX has de-coupled from non-US majors. The index has spiked since early July and is currently up by 5.2% .

GS Trade Weighted Indices





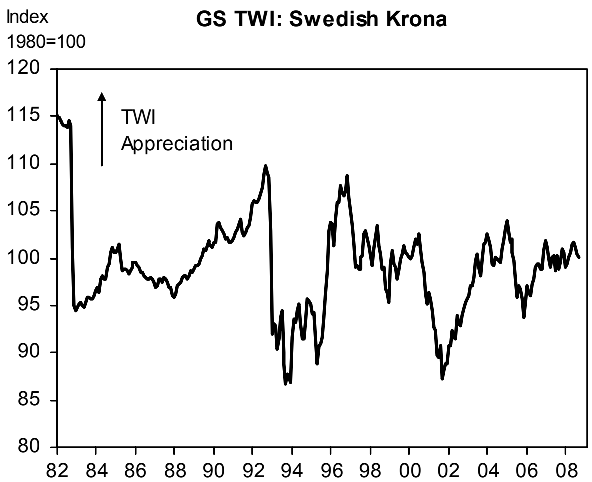


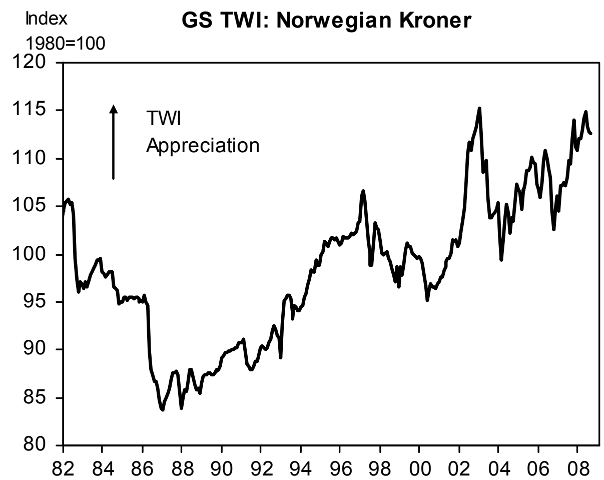


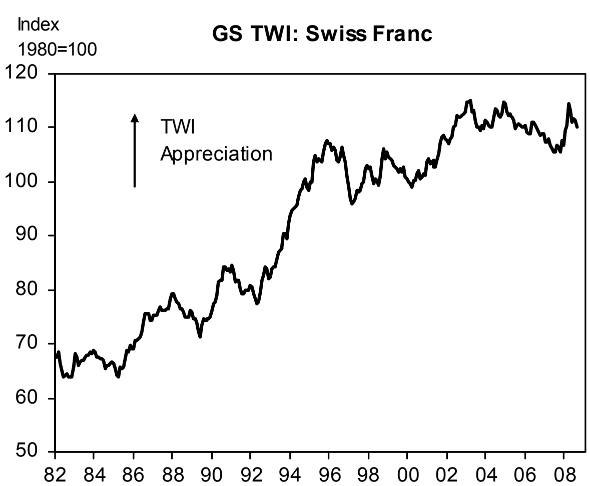
Nominal GS Broad TWI

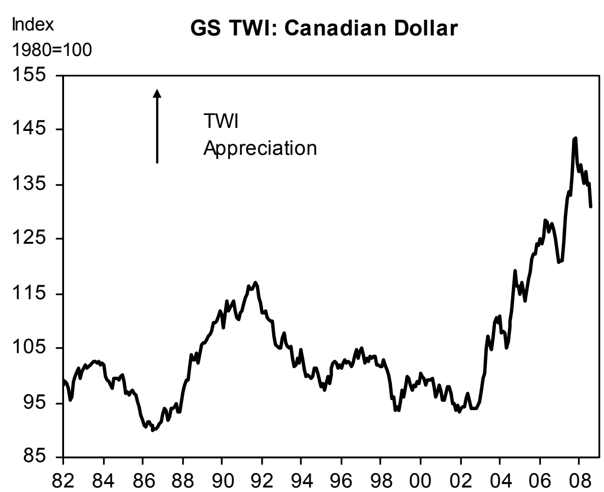
Jan 1980=100	Year Averages					Latest	Forecasts		
	2003	2004	2005	2006	2007	13-Aug-08	3m	6m	12m
US Dollar	103.8	99.5	96.8	95.0	91.0	85.8	85.8	85.4	88.9
Japanese Yen	89.6	93.0	90.1	83.6	79.2	82.5	81.9	82.8	79.3
Euro	115.1	119.6	117.3	117.1	120.9	128.6	126.6	129.0	123.6
Sw iss Franc	112.0	112.2	111.1	109.4	106.5	110.1	110.4	111.5	107.6
British Pound	95.7	100.2	98.8	99.6	101.7	89.1	86.7	87.8	88.9
Sw edish Krona	99.8	101.3	98.8	99.3	100.4	100.4	99.2	100.0	101.3
Norw egian Kroner	106.9	103.3	107.9	107.6	109.2	112.1	114.8	115.6	112.8
Canadian Dollar	104.1	110.5	118.0	125.6	131.1	129.9	126.4	130.5	122.8
Australian Dollar	101.4	109.4	112.2	110.7	118.1	120.0	120.1	120.2	113.1
New Zealand Dollar	112.2	120.5	126.2	116.1	124.8	115.0	114.3	114.0	108.5

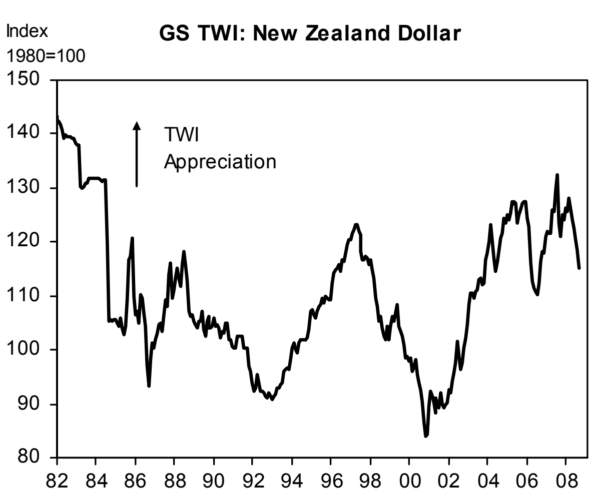
GS Trade Weighted Indices Cont'd

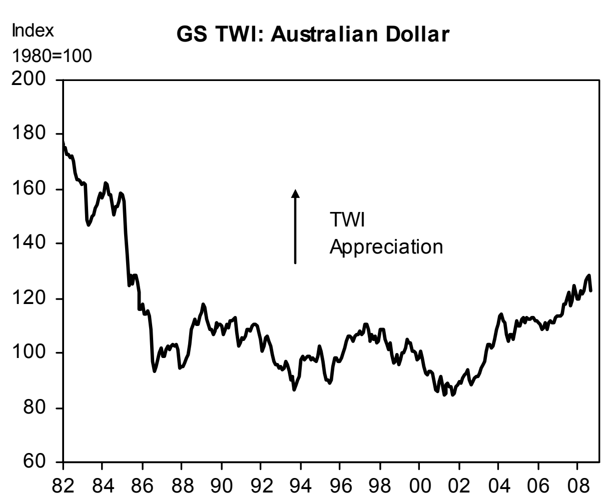












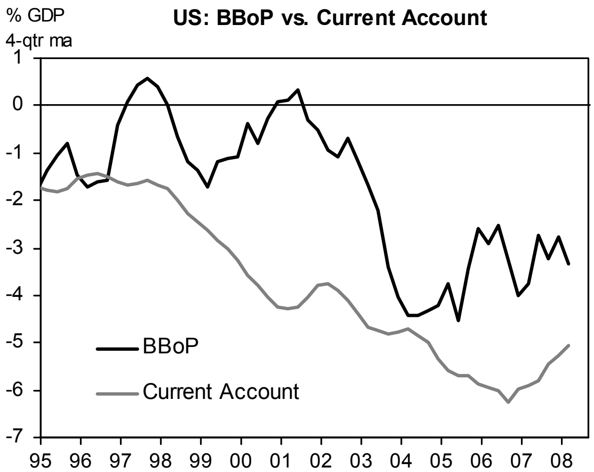
Risk Adjusted Returns

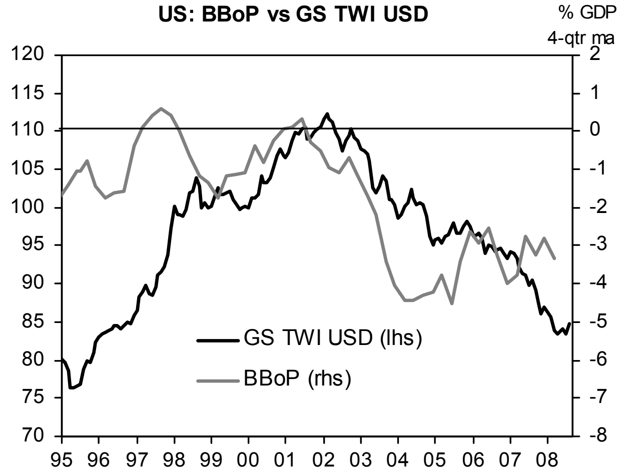
	Year-to-date (since 01-Jan-08)				Last 4 weeks (since 16-Jul-08)			
Rank**	Currency	Total Return	Return Volatility	Risk Adjusted Return	Currency	Total Return	Return Volatility	Risk Adjusted Return
1	$/ARS	7.05%	2.66	2.65	$/TWD	-3.15%	1.04	-3.02
2	$/MXN	9.59%	5.41	1.77	A$/$	10.63%	3.99	2.67
3	EUR/PLN	10.07%	7.49	1.34	$/SGD	-4.11%	1.71	-2.41
4	EUR/CZK	9.21%	6.88	1.34	NZ$/$	8.92%	3.72	2.40
5	$/INR	-7.06%	5.80	-1.22	£/$	6.54%	2.97	2.20
6	$/KRW	-10.47%	9.34	-1.12	$/CAD	-5.68%	2.68	-2.12
7	$/BRL	13.62%	12.78	1.07	$/CHF	-6.26%	3.03	-2.07
8	$/THB	-9.10%	9.23	-0.99	EUR/$	5.72%	2.80	2.04
9	EUR/HUF	8.40%	8.95	0.94	$/¥	-4.34%	3.14	-1.38
10	$/HKD	-0.60%	0.64	-0.93	EUR/SEK	1.52%	1.18	1.29
11	$/COP	12.65%	13.80	0.92	$/RUB	-3.88%	3.17	-1.23
12	$/PHP	-8.11%	8.97	-0.90	$/CNY	-0.97%	0.83	-1.17
13	EUR/GBP	-6.16%	7.70	-0.80	EUR/CZK	-3.89%	3.81	-1.02
14	$/IDR	2.93%	3.99	0.73	$/CLP	-4.52%	4.45	-1.02
15	$/CAD	-6.78%	10.30	-0.66	$/HKD	-0.17%	0.17	-0.96
16	£/$	4.98%	8.29	0.60	$/ARS	0.98%	1.11	0.88
17	$/ZAR	-9.25%	17.14	-0.54	EUR/PLN	-2.72%	3.24	-0.84
18	NZ$/$	6.91%	12.85	0.54	$/TRL	3.08%	3.77	0.82
19	$/CNY	0.87%	1.95	0.45	$/PEN	-3.47%	4.81	-0.72
20	$/TWD	1.66%	4.05	0.41	$/KRW	-2.83%	4.32	-0.66
21	$/TRL	5.76%	15.15	0.38	EUR/CHF	-0.90%	1.42	-0.63
22	EUR/¥	-3.60%	11.18	-0.32	EUR/HUF	-2.50%	4.10	-0.61
23	$/SGD	1.20%	4.72	0.25	$/COP	-3.51%	6.39	-0.55
24	$/CLP	-2.89%	11.59	-0.25	$/MXN	1.31%	2.71	0.48
25	$/RUB	1.23%	5.70	0.22	$/ZAR	-2.45%	6.00	-0.41
26	$/¥	-2.15%	11.06	-0.19	$/INR	0.89%	2.24	0.40
27	$/CHF	2.01%	10.80	0.19	$/PHP	1.32%	3.44	0.38
28	EUR/$	-1.49%	8.74	-0.17	$/THB	-0.49%	1.34	-0.37
29	$/PEN	1.43%	10.50	0.14	EUR/¥	1.13%	3.29	0.34
30	EUR/SEK	0.48%	3.88	0.12	EUR/NOK	0.59%	1.79	0.33
31	EUR/CHF	0.49%	5.50	0.09	$/IDR	-0.39%	1.30	-0.30
32	A$/$	-0.98%	12.47	-0.08	EUR/GBP	-0.77%	2.63	-0.29
33	EUR/NOK	-0.30%	6.28	-0.05	$/BRL	-0.47%	2.81	-0.17
34	$/VEF	25.74%	0.00	na	$/VEF	1.42%	0.05	na

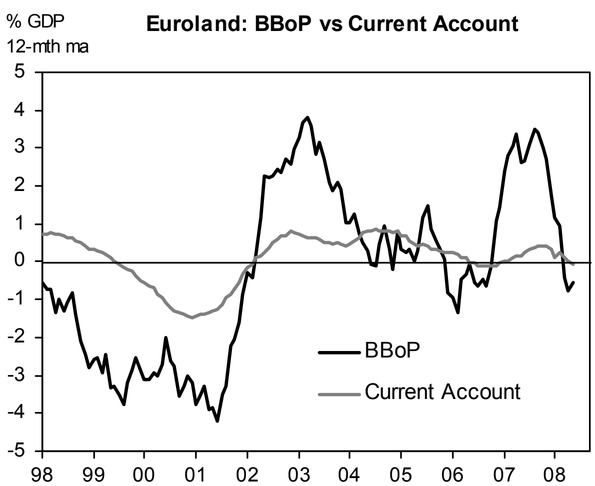
* Last Update: 13-Aug-08 ** Based on absolute risk adjusted returns.

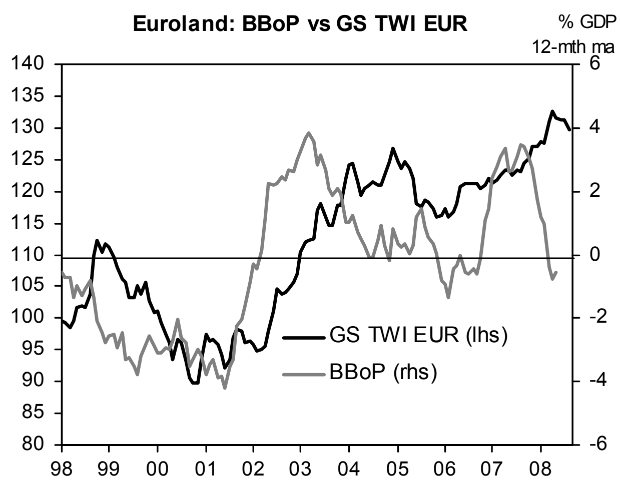
Note: To calculate the returns, w e have assumed long positions in the right hand currency of the pair. Return Volatility is calculated as STDEV x SQRT(n), w here STDEV is the volatility of daily currency returns and SQRT(n) is the square root of the number of business days since the beginning of the relevant period.

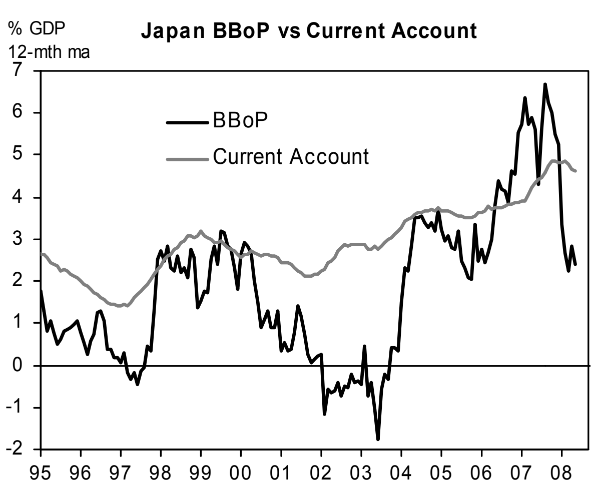
G3 BBoP

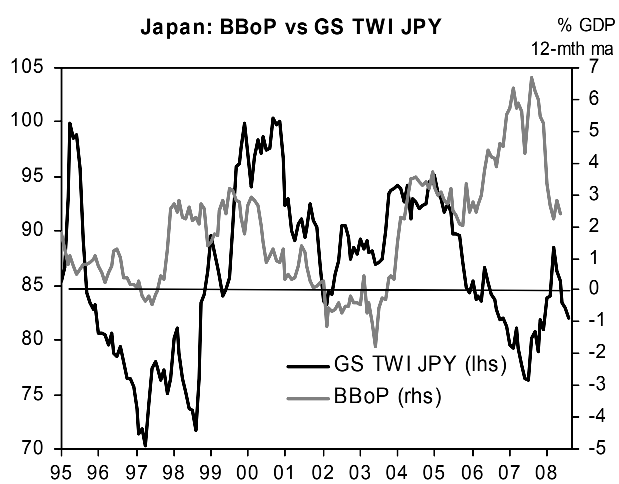

US: BBoP vs. Current Account
% GDP
4-qtr ma
1
0
-1
-2
-3
-4
-5
-6
-7
BBoP
Current Account
95 96 97 98 99 00 01 02 03 04 05 06 07 08


US: BBoP vs GS TWI USD
% GDP
4-qtr ma
120
115
110
105
100
95
90
85
80
75
70
2
1
0
-1
-2
-3
-4
-5
-6
-7
-8
GS TWI USD (lhs)
BBoP (rhs)
95 96 97 98 99 00 01 02 03 04 05 06 07 08


Euroland: BBoP vs Current Account
% GDP
12-mth ma
5
4
3
2
1
0
-1
-2
-3
-4
-5
BBoP
Current Account
98 99 00 01 02 03 04 05 06 07 08

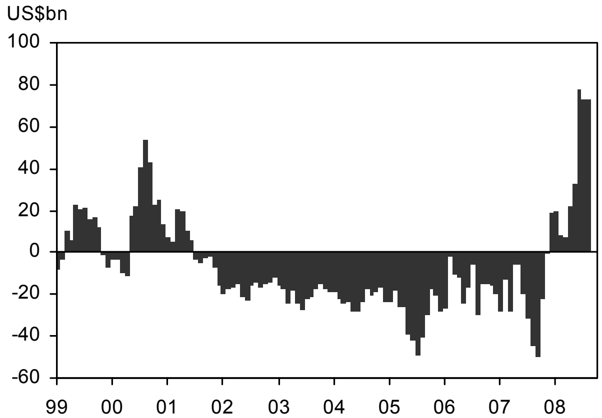

Euroland: BBoP vs GS TWI EUR
% GDP
12-mth ma
140
135
130
125
120
115
110
105
100
95
90
85
80
6
4
2
0
-2
-4
-6
GS TWI EUR (lhs)
BBoP (rhs)
98 99 00 01 02 03 04 05 06 07 08


Japan BBoP vs Current Account
% GDP
12-mth ma
7
6
5
4
3
2
1
0
-1
-2
BBoP
Current Account
95 96 97 98 99 00 01 02 03 04 05 06 07 08


Japan: BBoP vs GS TWI JPY
% GDP
12-mth ma
105
100
95
90
85
80
75
70
7
6
5
4
3
2
1
0
-1
-2
-3
-4
-5
GS TWI JPY (lhs)
BBoP (rhs)
95 96 97 98 99 00 01 02 03 04 05 06 07 08

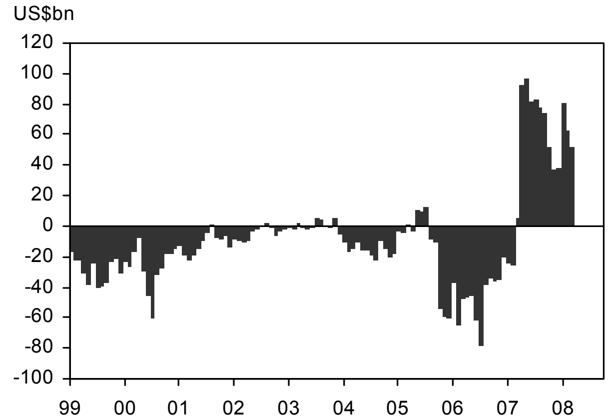
GS Anecdotal Flows
M&A Pipelines

Cash M&A Pipeline:
Net bilateral: United States & REST OF WORLD *



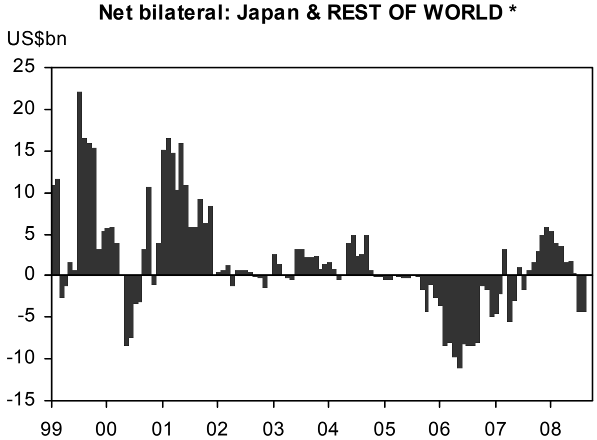
* Pending United States outflow = -ve; Latest: US$ 18.7bn

Cash M&A Pipeline:
Net bilateral: Euroland & REST OF WORLD *



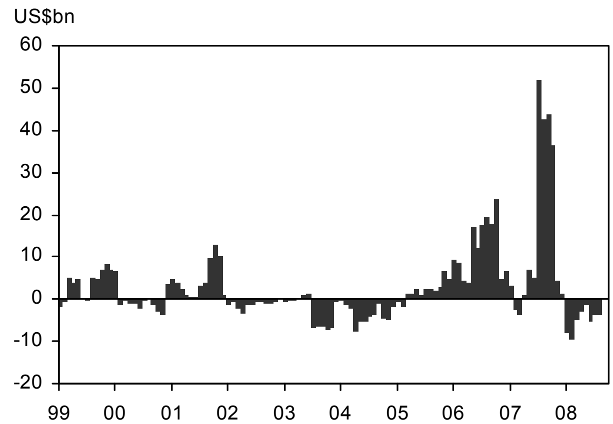
* Pending Euroland outflow = -ve; Latest: US$ 37.8bn

Cash M&A Pipeline:
Net bilateral: Japan & REST OF WORLD *



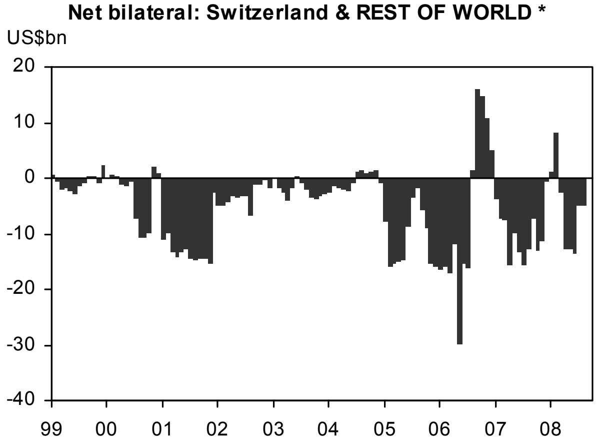
* Pending Japan outflow = -ve; Latest: US$ 5.9bn

Cash M&A Pipeline:
Net bilateral: Canada & REST OF WORLD *



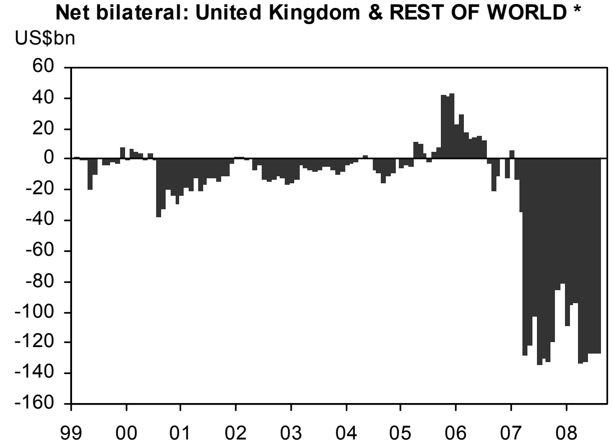
* Pending Canada outflow = -ve; Latest: US$ 1.4bn

Cash M&A Pipeline:
Net bilateral: Switzerland & REST OF WORLD *



* Pending Switzerland outflow = -ve; Latest: US$ -0.5bn

Cash M&A Pipeline:
Net bilateral: United Kingdom & REST OF WORLD *



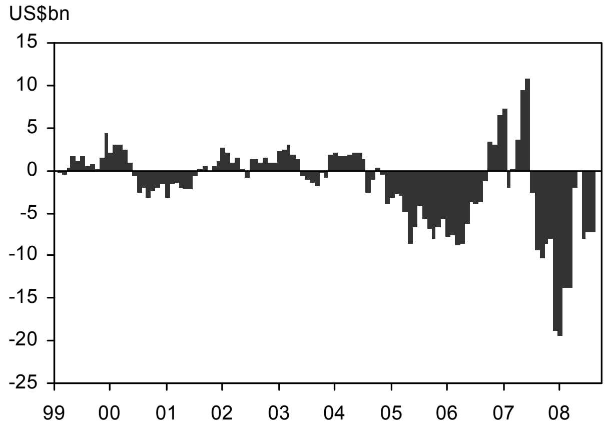
* Pending United Kingdom outflow = -ve; Latest: US$ -80.9bn

Source: Thomson Financial SDC, GS.

M&A Cash Pipelines show the value of the cash parts in all pending cross-border acquisitions. They represent potential flows, not actual flows. If a deal is withdrawn, it will be removed from the pipeline. The pipeline provides no information on the timing of foreign exchange flows.

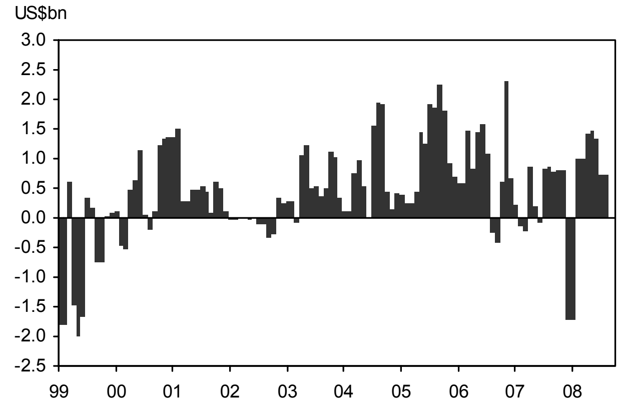
GS Anecdotal Flows
M&A Pipelines

Cash M&A Pipeline:
Net bilateral: Australia & REST OF WORLD *



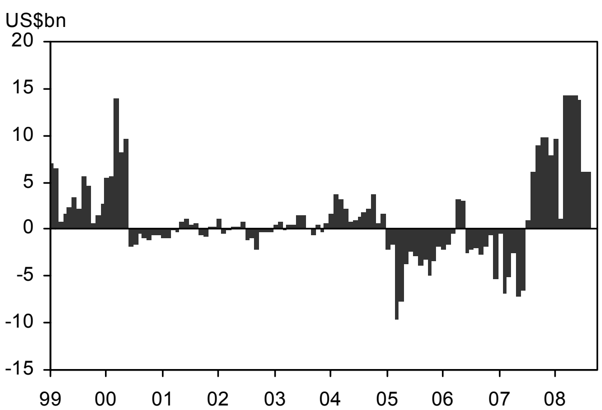
* Pending Australia outflow = -ve; Latest: US$ -18.8bn

Cash M&A Pipeline:
Net bilateral: New Zealand & REST OF WORLD *



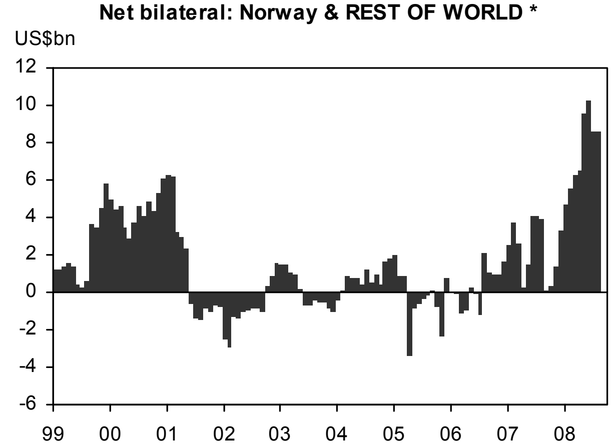
* Pending New Zealand outflow = -ve; Latest: US$ -1.7bn

Cash M&A Pipeline:
Net bilateral: Sweden & REST OF WORLD *



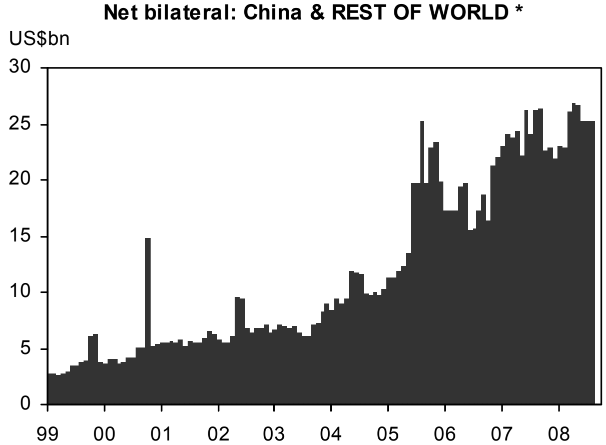
* Pending Sweden outflow = -ve; Latest: US$ 7.8bn

Cash M&A Pipeline:
Net bilateral: Norway & REST OF WORLD *



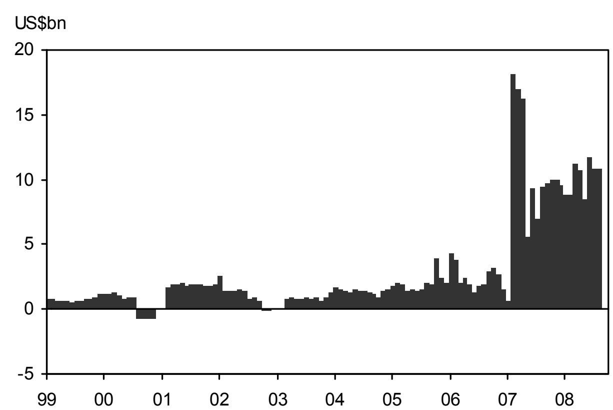
* Pending Norway outflow = -ve; Latest: US$ 3.3bn

Cash M&A Pipeline:
Net bilateral: China & REST OF WORLD *



* Pending China outflow = -ve; Latest: US$ 21.9bn

Cash M&A Pipeline:
Net bilateral: India & REST OF WORLD *



* Pending India outflow = -ve; Latest: US$ 9.6bn

Source: Thomson Financial SDC, GS

M&A Cash Pipelines show the value of the cash parts in all pending cross-border acquisitions. They represent potential flows, not actual flows. If a deal is withdrawn it will be removed from the pipeline. The pipeline provides no information on the timing of foreign exchange flows.

GSDEER

GSDEER Values and Misalignment

	Spot	GSDEER				Misalignment	
	13-Aug-08	4Q07*	Current (3Q08)*	4Q08	4Q09	Bilateral[1]	Trade-Weighted[1]
G3							
EUR/$	1.49	1.21	1.23	1.23	1.23	21.1%	13.8%
$/JPY	109.78	113.08	113.17	113.11	111.54	3.1%	7.1%
Europe							
£/$	1.90	1.63	1.68	1.67	1.69	13.4%	6.4%
EUR/GBP	0.78	0.74	0.73	0.74	0.73	-6.4%	6.4%
EUR/NOK	8.00	5.23	4.86	4.93	4.98	-39.3%	-27.9%
EUR/SEK	9.39	8.17	8.27	8.23	8.25	-11.9%	-0.1%
EUR/CHF	1.62	1.51	1.50	1.50	1.49	-7.6%	3.5%
EUR/CZK	23.91	26.60	26.16	26.21	26.38	9.4%	5.6%
EUR/HUF	236.27	247.61	247.54	247.26	250.80	4.8%	-1.8%
EUR/PLN	3.26	4.00	4.05	3.96	4.00	24.1%	12.6%
EUR/SKK	30.42	33.01	32.48	32.47	32.85	6.8%	2.0%
$/RUB	24.25	27.43	24.60	25.03	27.92	1.4%	-4.0%
$/TRY	1.18	2.09	2.22	2.21	2.31	88.2%	27.9%
$/ILS	3.59	3.78	3.54	3.46	3.38	-1.3%	-3.2%
$/ZAR	7.81	5.77	6.03	6.20	6.58	-22.8%	-37.9%
Americas							
$/ARS	3.04	2.11	2.06	2.10	2.21	-32.1%	-40.1%
$/BRL	1.62	2.24	2.19	2.19	2.12	35.0%	25.2%
$/CAD	1.07	1.07	1.00	1.00	0.99	-6.5%	2.3%
$/MXN	10.16	10.68	10.09	10.08	9.84	-0.7%	-3.5%
$/CLP	519.55	377.95	355.68	354.65	353.85	-31.5%	-20.9%
$/PEN	2.94	2.41	2.42	2.48	2.55	-17.8%	-18.8%
$/COP	1834	1946.09	1907.10	1906.69	1915.88	4.0%	3.7%
$/VEF	2.15	1.69	1.56	1.62	2.05	-27.4%	-24.7%
Asia							
AUD/$	0.88	0.85	0.94	0.94	0.94	-6.4%	-2.0%
$/CNY	6.86	7.57	7.30	7.26	7.16	6.3%	1.3%
$/HKD	7.81	6.75	6.88	7.01	7.24	-11.9%	-19.9%
$/INR	42.37	45.67	46.19	46.05	46.34	9.0%	5.7%
$/KRW	1033.77	1269.15	1291.19	1295.96	1290.25	24.9%	19.2%
$/MYR	3.33	2.78	2.75	2.75	2.74	-17.2%	-19.5%
NZD/$	0.70	0.68	0.71	0.71	0.71	-1.9%	7.9%
$/SGD	1.41	1.54	1.57	1.56	1.56	11.4%	8.4%
$/TWD	31.18	28.11	28.17	28.17	28.10	-9.7%	-13.0%
$/THB	33.62	33.86	35.09	35.09	35.37	4.4%	1.1%
$/IDR	9170	8338.65	8594.14	8576.76	9033.49	-6.3%	-17.2%
$/PHP	44.60	48.66	49.82	49.59	50.28	11.7%	10.0%
USD TWI	85.78						-14.2%

[1] Bilateral misalignments are reported for the second currency in the pair with the exception of EUR/$, GBP/$, AUD/$, and NZD/$. A negative misalignment indicates that a currency is undervalued relative to its anchor currency. A negative trade-weighted misalignment indicates that a currency is undervalued on a broad basis. That is, the $/JPY biateral misalignment shows the misalignment of the JPY against the USD, with a negative figure indicating undervaluation of the JPY.

* "Current" represents the current quarter, the column left of current represents the last quarter to be updated with over 75% of actual data.

Key Economic Data
GDP Growth (% ch yoy)

% of GDP	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08 (f)	09 (f)
G3																		
United States	3.30	2.70	4.00	2.50	3.70	4.50	4.20	4.40	3.70	0.80	1.60	2.50	3.60	3.10	2.90	2.20	1.50	1.10
Euroland	1.40	0.80	2.00	3.10	1.50	2.60	2.70	2.80	4.00	1.90	0.90	0.80	1.90	1.70	2.90	2.60	1.70	1.60
Japan	1.00	0.30	1.10	2.00	2.70	1.60	-2.00	-0.10	2.90	0.20	0.30	1.40	2.70	1.90	2.40	2.10	1.50	1.40
EUROPE																		
Euroland	1.40	0.80	2.00	3.10	1.50	2.60	2.70	2.80	4.00	1.90	0.90	0.80	1.90	1.70	2.90	2.60	1.70	1.60
Switzerland	0.10	-0.20	1.20	0.40	0.60	2.10	2.60	1.30	3.60	1.20	0.40	-0.20	2.50	2.40	3.20	3.10	2.20	1.50
UK	0.20	2.30	4.30	2.90	2.80	3.10	3.40	3.00	3.80	2.40	2.10	2.80	3.30	1.80	2.90	3.10	1.40	0.90
Sweden	–	–	3.80	4.20	1.50	2.70	3.70	4.30	4.50	1.20	2.40	2.10	3.50	3.30	4.50	2.90	2.50	2.20
Norway	4.00	2.90	5.60	4.50	5.10	5.30	1.50	1.50	3.50	1.70	1.40	1.50	3.40	2.10	2.50	3.70	3.30	3.10
Czech Republic	–	–	–	5.90	4.00	-0.70	-0.80	1.30	3.60	2.50	1.90	3.60	4.50	6.30	6.70	6.60	4.50	4.20
Hungary	-3.10	-0.60	2.90	1.50	1.30	4.60	4.90	4.20	5.20	3.80	3.50	4.20	4.80	4.10	3.90	1.30	2.50	4.10
Poland	2.60	3.80	5.20	7.00	6.00	6.80	4.90	4.10	4.00	1.00	1.40	3.80	5.40	3.60	6.30	6.70	5.40	5.00
Russia	–	-7.60	-11.70	-4.50	-3.60	1.40	-5.30	6.40	10.00	5.10	4.70	7.30	7.20	6.40	7.40	8.10	7.50	7.00
Turkey	5.00	7.70	-4.70	7.90	7.40	7.60	2.30	-3.40	6.80	-5.70	6.20	5.30	9.40	8.40	6.90	4.50	3.00	4.00
South Africa	-2.10	1.20	3.20	3.10	4.30	2.60	0.50	2.40	4.20	2.70	3.70	3.10	4.90	5.00	5.40	5.10	3.00	3.50
AMERICAS																		
United States	3.30	2.70	4.00	2.50	3.70	4.50	4.20	4.40	3.70	0.80	1.60	2.50	3.60	3.10	2.90	2.20	1.50	1.10
Canada	0.90	2.30	4.80	2.80	1.60	4.20	4.10	5.50	5.20	1.80	2.90	1.90	3.10	2.90	3.10	2.70	1.10	2.30
Mexico	3.50	1.90	4.50	-6.20	5.10	6.80	4.90	3.90	6.60	-0.20	0.80	1.40	4.20	2.80	4.80	3.30	2.40	3.40
Argentina	9.40	5.90	5.80	-2.90	5.50	8.10	3.90	-3.40	-0.80	-4.40	-10.9	8.80	9.00	9.20	8.50	8.70	6.20	4.30
Brazil	-0.60	4.90	5.90	4.20	2.10	3.40	0.00	0.30	4.30	1.30	2.70	1.10	5.70	3.20	3.80	5.40	5.20	3.20
Chile	12.30	7.00	5.70	10.60	7.20	7.60	3.40	-1.10	4.50	3.30	2.20	4.00	6.00	5.60	4.30	5.10	4.10	4.70
Colombia	4.00	5.20	5.70	5.80	2.10	3.40	0.60	-4.20	2.90	1.50	1.90	3.90	4.90	4.70	6.80	7.50	5.10	4.50
Ecuador	3.60	2.00	4.30	2.30	2.00	3.40	0.40	-7.30	2.80	5.30	4.20	3.60	8.00	6.00	3.90	2.10	2.80	2.90
Peru	-1.70	4.80	12.80	8.60	2.50	6.80	-0.70	0.90	3.00	0.20	5.20	3.90	5.20	6.40	7.70	9.00	8.30	6.70
Venezuela	6.10	0.30	-2.90	3.70	-0.20	6.40	0.20	-6.10	3.70	3.40	-8.90	-7.80	18.30	10.30	10.30	8.40	5.10	3.70
ASIA																		
Japan	1.00	0.30	1.10	2.00	2.70	1.60	-2.00	-0.10	2.90	0.20	0.30	1.40	2.70	1.90	2.40	2.10	1.50	1.40
China	14.20	13.90	13.10	10.90	10.00	9.30	7.80	7.60	8.40	8.30	9.10	10.00	10.10	10.40	11.60	11.90	10.50	10.00
Hong Kong	6.30	6.10	5.40	3.90	4.50	5.00	-5.00	3.40	10.00	0.60	1.80	3.20	8.60	7.50	7.00	6.40	5.20	5.80
India	4.50	6.00	7.30	7.30	7.80	4.80	6.60	6.80	4.40	5.80	3.80	8.50	7.50	9.00	9.60	9.00	7.80	8.20
Indonesia	6.50	6.50	7.50	8.20	7.80	4.70	-13.1	0.80	4.80	3.40	4.30	4.90	5.00	5.60	5.50	6.30	5.50	5.80
Korea	5.40	5.50	8.30	8.90	6.80	5.00	-6.70	10.90	9.30	3.10	7.00	3.10	4.70	4.20	5.10	5.00	4.80	5.30
Malaysia	8.90	9.90	9.20	9.80	10.00	7.30	-7.40	6.10	8.30	0.30	4.40	5.30	7.20	5.00	5.80	6.30	5.00	5.30
Philippines	0.30	2.10	4.40	4.80	5.80	5.20	-0.60	3.30	3.90	4.50	4.40	4.70	6.00	5.10	5.40	7.20	5.50	5.70
Singapore	6.50	12.70	11.60	8.10	7.80	8.30	-1.40	7.20	10.00	-2.30	4.00	2.90	8.70	6.60	8.20	7.70	5.50	6.10
Thailand	8.10	8.40	8.90	8.90	5.90	-1.10	-10.8	4.20	4.60	1.90	5.40	6.90	6.20	4.50	5.10	4.80	4.00	4.50
Taiwan	7.50	7.00	7.10	6.40	6.10	6.70	4.60	5.40	5.90	-2.20	3.60	3.30	6.10	4.10	4.90	5.70	4.50	4.80
Australia	2.10	3.90	5.20	3.50	4.30	4.00	5.10	4.30	3.50	2.10	4.20	3.00	3.90	2.90	2.70	4.30	2.50	2.70
New Zealand	0.80	5.20	5.90	4.30	4.10	2.10	-0.10	4.30	3.90	2.70	5.10	3.70	4.40	2.70	1.50	3.10	0.80	1.80

Consumer Prices (% ch yoy)

Period Avg. yoy% Change	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08 (f)	09 (f)
G3																		
United States	3.00	3.00	2.60	2.80	2.90	2.30	1.50	2.20	3.40	2.80	1.60	2.30	2.70	3.40	3.20	2.90	4.30	3.20
Euroland	2.80	4.10	2.70	-13.30	2.20	1.60	1.10	1.10	2.10	2.30	2.20	2.10	2.10	2.20	2.20	2.10	3.50	2.40
Japan	1.70	1.30	0.70	-0.10	0.10	1.80	0.70	-0.30	-0.70	-0.80	-0.90	-0.20	0.00	-0.30	0.20	0.10	1.60	1.50
EUROPE																		
Euroland	2.80	4.10	2.70	-13.30	2.20	1.60	1.10	1.10	2.10	2.30	2.20	2.10	2.10	2.20	2.20	2.10	3.50	2.40
Switzerland	4.00	3.30	0.90	1.80	0.80	0.50	0.00	0.80	1.60	1.00	0.60	0.60	0.80	1.20	1.10	0.70	2.20	1.60
UK	4.30	2.50	2.00	2.70	2.50	1.80	1.60	1.30	0.80	1.20	1.30	1.40	1.30	2.10	2.30	2.40	3.60	2.00
Sweden	2.30	4.60	2.20	2.50	0.50	0.50	-0.10	0.50	1.00	2.40	2.20	1.90	0.40	0.50	1.40	2.20	3.60	2.70
Norway	2.30	2.30	1.40	2.40	1.20	2.60	2.30	2.30	3.10	3.00	1.30	2.50	0.50	1.50	2.30	0.70	2.50	2.40
Czech Republic	11.10	20.80	10.10	9.20	8.80	8.50	10.70	2.10	3.90	4.70	1.80	0.10	2.80	1.90	2.50	2.80	6.90	4.00
Hungary	22.90	22.50	18.90	28.30	23.50	18.30	14.20	10.00	9.80	9.10	5.20	4.70	6.80	3.60	3.90	8.00	6.50	4.60
Poland	45.40	37.10	33.30	28.40	19.80	15.00	11.90	7.20	10.10	5.50	2.00	0.90	3.50	2.10	1.00	2.50	4.40	4.40
Russia	–	839.20	307.50	197.60	47.70	14.70	27.70	85.70	20.80	21.50	15.90	14.80	10.90	12.50	9.70	9.00	14.00	14.20
Turkey	–	–	102.60	89.00	80.40	85.70	84.60	64.90	54.90	54.40	45.00	8.80	8.60	8.20	9.60	8.80	11.50	8.20
South Africa	–	–	–	–	–	–	7.10	6.90	7.70	6.60	9.30	6.80	4.30	3.90	4.60	6.50	10.70	10.20
AMERICAS																		
United States	3.00	3.00	2.60	2.80	2.90	2.30	1.50	2.20	3.40	2.80	1.60	2.30	2.70	3.40	3.20	2.90	4.30	3.20
Canada	1.50	1.90	0.20	2.10	1.60	1.60	1.00	1.70	2.70	2.50	2.30	2.80	1.90	2.20	2.00	2.10	1.30	1.70
Mexico	15.50	9.80	7.00	35.00	34.40	20.60	15.90	16.60	9.50	6.40	5.00	4.50	4.70	4.00	3.60	4.00	4.70	4.40
Argentina	17.60	7.40	3.90	1.60	0.10	0.30	0.70	-1.80	-0.90	-1.10	25.90	13.40	4.40	9.60	10.90	8.80	9.00	8.50
Brazil	952	1927	2076	66	16	6.90	3.20	4.90	7.00	6.80	8.40	14.70	6.60	6.60	4.20	3.60	5.90	5.90
Chile	15.40	12.70	11.40	8.20	7.40	6.30	5.30	3.30	3.80	3.60	2.50	2.80	1.10	3.10	3.40	4.40	7.50	4.60
Colombia	27.00	22.50	22.90	20.90	20.80	18.50	18.70	9.20	8.90	7.80	6.80	6.40	5.70	5.10	4.30	5.40	6.70	3.80
Ecuador	54.30	45.00	27.50	23.00	24.40	30.60	36.20	52.40	97.30	24.10	9.90	6.50	1.90	3.00	3.10	2.80	8.40	3.20
Peru	73.50	48.60	23.70	11.10	11.60	8.50	7.30	3.50	3.70	-0.10	1.50	2.50	3.50	1.50	1.10	3.90	5.60	3.90
Venezuela	31.40	38.10	60.80	59.90	99.90	50.00	36.50	23.50	14.20	12.40	30.60	26.30	19.50	15.20	16.10	20.20	28.00	20.10
ASIA																		
Japan	1.70	1.30	0.70	-0.10	0.10	1.80	0.70	-0.30	-0.70	-0.80	-0.90	-0.20	0.00	-0.30	0.20	0.10	1.60	1.50
China	6.40	14.70	24.10	17.10	8.30	2.80	-0.80	-1.40	0.40	0.70	-0.80	1.20	3.90	1.80	1.50	4.80	6.80	3.00
Hong Kong	9.60	8.90	8.80	9.00	6.30	5.90	2.80	-4.00	-3.70	-1.60	-3.10	-2.50	-0.50	1.10	2.00	2.00	8.00	7.20
India*	10.10	8.30	12.40	7.80	4.70	4.30	6.00	3.40	7.10	3.40	3.60	5.40	6.50	4.40	5.50	4.50	4.40	4.40
Indonesia	7.50	9.70	8.50	9.40	8.00	6.70	57.60	20.70	3.80	11.50	11.90	6.80	6.10	10.50	13.10	6.40	10.50	8.20
Korea	6.20	4.90	6.20	4.50	4.90	4.50	7.50	0.90	2.30	4.10	2.70	3.60	3.60	2.70	2.20	2.60	4.40	3.80
Malaysia	4.80	3.50	3.70	3.40	3.50	2.70	5.30	2.80	1.50	1.40	1.80	1.20	1.40	3.00	3.60	2.00	6.00	4.10
Philippines	8.90	7.60	9.10	8.10	8.40	4.70	9.70	6.70	4.30	6.10	3.10	3.50	6.00	7.70	6.30	2.80	7.00	5.10
Singapore	2.30	2.20	3.20	1.60	1.40	2.00	-0.30	0.50	1.30	1.00	-0.40	0.50	1.70	0.50	1.00	2.10	6.00	3.30
Thailand	4.10	3.30	5.10	5.80	5.80	5.60	8.10	0.30	1.60	1.70	0.60	1.80	2.80	4.50	4.60	2.20	5.50	3.70
Taiwan	4.50	2.90	4.10	3.70	3.10	0.90	1.70	0.20	1.30	0.00	-0.20	-0.30	1.60	2.30	0.60	1.80	4.30	3.20
Australia	1.00	1.80	1.90	4.60	2.60	0.30	0.90	1.50	4.50	4.40	3.00	2.80	2.30	2.70	3.50	2.30	4.20	3.40
New Zealand	1.40	1.30	2.90	2.80	2.60	0.90	0.40	0.50	3.90	1.80	2.70	1.50	2.70	3.20	2.70	3.20	3.10	2.60

* Wholesale Prices used.

Current Account Balance (% of GDP)

% of GDP	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08 (f)	09 (f)
G3																		
United States	-0.80	-1.30	-1.70	-1.50	-1.60	-1.70	-2.50	-3.30	-4.30	-3.80	-4.40	-4.80	-5.30	-5.90	-6.00	-5.30	-4.90	-3.80
Euroland	–	–	–	–	–	–	0.30	-0.50	-1.50	-0.30	0.80	0.40	0.80	0.20	0.00	0.30	-0.10	0.00
Japan	3.00	3.00	2.70	2.10	1.40	2.30	3.10	2.60	2.60	2.10	2.90	3.20	3.70	3.60	3.90	4.80	3.90	3.80
EUROPE																		
Euroland	–	–	–	–	–	–	0.30	0.30	-1.50	-0.30	0.80	0.40	0.80	0.20	0.00	0.30	-0.10	0.00
Switzerland	–	–	–	6.50	7.00	9.30	9.20	10.80	12.00	7.70	8.30	12.80	12.90	13.70	14.80	17.00	16.40	16.10
UK	-2.10	-1.80	-1.00	-1.20	-0.90	-0.10	-0.40	-2.40	-2.60	-2.20	-1.60	-1.30	-1.60	-2.50	-3.90	-4.30	-2.60	-1.50
Sweden	-2.80	-1.30	1.10	3.30	3.50	4.10	3.80	4.10	4.00	4.40	5.00	7.20	6.80	6.80	8.50	8.50	8.50	8.90
Norway	–	–	–	3.60	6.90	6.30	-0.30	5.60	15.00	16.10	12.50	12.30	12.70	16.30	17.30	15.80	19.00	20.10
Czech Republic	–	1.30	-1.90	-2.50	-7.00	-5.70	-2.30	-2.60	-4.80	-5.30	-5.50	-6.20	-5.20	-1.60	-3.10	-2.50	-4.80	-5.20
Hungary	–	–	–	–	–	–	–	–	-8.40	-6.00	-7.00	-8.50	-8.50	-7.30	-6.00	-5.00	-4.00	-4.30
Poland	–	-8.60	-3.80	-1.90	-6.90	-8.10	-8.10	-7.90	-5.80	-2.80	-2.60	-2.10	-4.30	-1.20	-2.70	-3.70	-5.90	-6.50
Russia	–	2.90	2.80	2.20	2.80	0.00	0.20	12.70	18.00	11.10	8.40	8.20	10.10	11.10	9.50	6.00	8.50	5.40
Turkey	-0.60	-3.60	2.00	-1.40	-1.40	-1.40	1.00	-0.50	-3.70	1.70	-0.60	-2.20	-4.00	-4.70	-6.10	-5.70	-7.70	-8.00
South Africa	1.50	1.10	0.10	-1.50	-1.30	-1.50	-1.70	-0.40	-0.20	0.00	0.60	-1.40	-3.30	-3.80	-6.30	-7.30	-7.80	-8.30
AMERICAS																		
United States	-0.80	-1.30	-1.70	-1.50	-1.60	-1.70	-2.50	-3.30	-4.30	-3.80	-4.40	-4.80	-5.30	-5.90	-6.00	-5.30	-4.90	-3.80
Canada	-3.60	-3.90	-2.30	-0.80	0.50	-1.30	-1.20	0.30	2.70	2.30	1.70	1.20	2.30	1.90	1.40	0.90	-0.10	-0.90
Mexico	-6.70	-5.80	-7.00	-0.50	-0.80	-1.90	-3.80	-2.90	-3.20	-2.80	-2.20	-1.30	-1.00	-0.70	-0.30	-0.60	-1.10	-1.10
Argentina	-2.60	-3.40	-4.30	-2.00	-2.50	-4.20	-4.90	-4.20	-3.20	-1.40	8.60	6.40	2.10	3.10	3.80	2.70	1.70	0.90
Brazil	1.60	-0.20	-0.30	-2.60	-3.00	-3.80	-4.20	-4.70	-3.80	-4.20	-1.50	0.80	1.80	1.60	1.30	0.10	-1.70	-2.50
Chile	-2.20	-5.60	-3.10	-2.10	-5.50	-4.90	-5.70	-0.10	-1.20	-1.60	-0.90	-1.10	2.20	1.20	4.70	4.40	1.10	2.60
Colombia	1.80	-4.20	-4.40	-5.20	-4.90	-5.60	-5.30	0.40	1.00	-1.30	-1.60	-1.20	-0.90	-1.50	-2.20	-3.40	-3.60	-3.00
Ecuador	-1.70	-4.70	-4.00	-5.60	-0.20	-2.30	-10.60	6.40	5.80	-3.10	-5.10	-1.50	-1.70	0.90	3.90	2.40	4.90	1.20
Peru	-5.00	-7.40	-6.00	-8.60	-6.50	-5.70	-5.90	-2.90	-2.90	-2.30	-2.00	-1.60	0.00	1.40	2.50	1.40	-0.70	-3.30
Venezuela	-6.20	-3.30	4.40	2.70	12.90	3.90	-3.40	3.40	10.10	1.60	8.20	14.10	13.80	17.60	14.70	8.80	10.20	3.70
ASIA																		
Japan	3.00	3.00	2.70	2.10	1.40	2.30	3.10	2.60	2.60	2.10	2.90	3.20	3.70	3.60	3.90	4.80	3.90	3.80
China	1.30	-1.90	1.40	0.20	0.80	3.10	2.90	1.90	1.70	1.30	2.40	2.80	3.50	7.10	9.40	11.30	12.00	9.20
Hong Kong	5.30	7.00	1.20	-4.30	-1.40	-3.60	1.40	7.20	5.40	7.50	7.60	10.40	9.50	11.40	12.10	13.30	9.00	9.20
India	-1.20	-0.40	-1.00	-1.70	-1.20	-1.30	-1.00	-1.00	-0.60	0.70	1.20	2.30	-0.40	-1.20	-1.10	-1.50	-4.70	-3.50
Indonesia	-2.20	-1.50	-1.70	-3.30	-3.40	-2.30	4.40	4.10	5.30	4.90	4.50	3.40	0.60	0.30	3.00	2.50	2.00	2.30
Korea	-1.30	0.30	-1.00	-1.70	-4.40	-1.70	12.50	6.20	2.70	1.90	1.00	2.00	4.10	2.10	0.60	0.60	-1.20	-1.00
Malaysia	-3.70	-4.60	-7.60	-9.70	-4.40	-5.90	13.20	15.90	9.40	8.30	8.50	12.90	12.60	15.20	16.30	15.50	15.40	15.40
Philippines	-1.90	-5.50	-4.60	-2.70	-4.80	-5.30	2.40	10.30	12.30	1.80	5.40	1.80	1.90	2.40	4.50	4.40	1.20	1.40
Singapore	12.20	7.30	15.40	17.00	14.90	17.40	22.00	17.10	11.60	14.20	12.70	23.30	17.00	19.00	21.80	24.30	20.90	20.40
Thailand	-5.50	-4.90	-5.40	-7.90	-7.90	-2.00	12.70	10.20	7.50	5.40	5.50	5.60	4.30	-2.10	1.10	6.10	2.20	2.40
Taiwan	4.00	3.10	2.70	2.10	3.90	2.40	1.30	2.90	2.90	6.40	9.10	10.20	5.70	4.60	6.70	8.60	5.00	4.50
Australia	-3.50	-3.10	-4.80	-5.20	-3.70	-2.90	-4.80	-5.30	-3.80	-2.00	-3.80	-5.40	-6.00	-5.80	-5.50	-6.10	-4.20	-4.70
New Zealand	-4.10	-3.80	-3.90	-5.10	-5.70	-6.40	-4.00	-6.30	-5.30	-2.80	-3.80	-4.20	-6.40	-8.60	-8.60	-7.90	-9.60	-9.40

Foreign Exchange Reserves (US$bn)

Pd end; US$bn	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07	Latest	
G3																	
United States	41.5	41.2	49.1	38.3	30.8	36.0	32.2	31.2	29.0	33.8	39.7	42.7	37.8	40.9	45.8	49.2	*May-08*
Eurosystem	-	-	-	-	-	-	228.0	218.6	207.8	215.8	188.2	181.2	167.2	184.0	203.5	216.4	*May-08*
Japan	88.7	115.1	172.4	207.3	207.9	203.2	277.7	347.2	387.7	451.5	652.8	824.3	828.8	874.9	948.4	977.9	*Apr-08*
EUROPE																	
Eurosystem	-	-	-	-	-	-	228.0	218.6	207.8	215.8	188.2	181.2	167.2	184.0	203.5	216.4	*May-08*
Switzerland	31.7	33.6	34.7	36.8	36.9	38.3	34.2	30.9	30.1	38.2	45.6	53.6	35.4	37.4	43.9	46.5	*May-08*
UK	34.6	38.5	39.2	37.1	28.9	27.4	27.5	34.2	28.8	31.0	28.6	34.1	35.9	38.9	47.5	47.4	*May-08*
Sweden	18.4	22.5	22.9	18.2	9.7	12.4	13.5	13.8	12.7	15.5	18.0	20.6	21.4	24.1	26.4	27.3	*May-08*
Denmark	9.8	8.4	10.3	13.4	18.2	13.8	21.1	14.5	16.1	25.9	36.0	38.2	32.5	29.2	32.0	34.2	*Apr-08*
Norway	18.6	18.0	21.1	25.2	22.1	17.4	22.5	26.7	22.2	30.7	35.9	43.1	46.4	56.2	60.3	56.2	*May-08*
Czech Republic	3.8	6.1	13.8	12.4	9.7	12.5	12.8	13.0	14.2	23.3	26.3	27.8	29.1	31.1	34.4	38.2	*Jun-08*
Hungary	6.6	6.7	11.9	9.6	8.3	9.2	10.7	10.9	10.3	9.7	12.0	15.3	18.3	21.3	23.8	25.8	*May-08*
Poland	4.0	5.7	14.7	17.7	20.3	27.2	26.1	26.3	25.2	28.0	31.7	34.6	40.5	46.1	62.7	73.6	*Mar-08*
Israel	6.4	6.8	8.1	11.4	20.3	22.7	22.5	23.2	23.2	23.7	25.8	26.6	27.8	29.0	28.4	29.8	*May-08*
Russia	-	-	14.3	11.3	12.8	7.8	8.5	24.3	32.5	44.1	73.2	120.8	175.7	295.3	464.0	534.1	*May-08*
Turkey	6.2	7.1	12.4	16.4	18.6	19.4	23.2	22.3	18.7	26.9	33.8	35.5	50.4	60.7	73.2	73.6	*May-08*
South Africa	1.0	1.7	2.8	0.9	4.8	4.2	6.1	5.8	5.8	5.6	6.2	12.8	18.3	22.7	29.2	30.2	*Mar-08*
AMERICAS																	
United States	41.5	41.2	49.1	38.3	30.8	36.0	32.2	31.2	29.0	33.8	39.7	42.7	37.8	40.9	45.8	49.2	*May-08*
Canada	10.5	10.2	12.6	18.0	15.1	19.9	24.4	29.0	30.5	32.7	31.5	30.2	30.7	33.2	39.3	41.9	*Jun-08*
Mexico	24.9	6.1	15.3	19.2	28.1	31.5	31.0	35.1	44.4	49.9	57.7	62.8	73.0	75.4	86.3	92.9	*May-08*
Argentina	13.3	13.8	13.7	17.7	22.2	24.5	26.1	24.4	14.5	10.4	13.1	18.0	22.7	30.4	44.2	46.5	*May-08*
Brazil	30.6	37.1	49.7	58.3	50.8	42.6	35.3	32.4	35.6	37.2	48.8	52.5	53.2	85.1	179.4	196.9	*May-08*
Chile	9.6	13.1	14.1	14.9	17.3	15.3	14.2	14.7	14.0	14.8	15.2	15.5	16.7	19.2	16.7	18.9	*May-08*
Colombia	7.7	7.7	8.0	9.4	9.3	7.9	7.5	8.4	9.7	10.2	10.2	12.8	14.2	14.7	20.1	21.5	*May-08*
Ecuador	1.4	1.8	1.6	1.8	2.1	1.6	1.6	0.9	0.8	0.7	0.8	1.0	1.7	1.5	2.8	5.1	*May-08*
Peru	3.4	7.0	8.2	10.6	11.0	9.6	8.7	8.4	8.7	9.3	9.8	12.2	13.6	16.7	26.9	34.9	*Apr-08*
Venezuela	8.5	7.4	5.7	11.1	14.0	11.6	11.7	12.6	8.8	8.0	15.5	17.9	23.5	28.9	23.7	19.0	*Apr-08*
ASIA																	
Japan	88.7	115.1	172.4	207.3	207.9	203.2	277.7	347.2	387.7	451.5	652.8	824.3	828.8	874.9	948.4	977.9	*Apr-08*
China	21.2	51.6	73.6	105.0	139.9	145.0	154.7	165.6	212.2	286.4	403.3	609.9	818.9	1066.3	1528.3	1756.7	*Apr-08*
Hong Kong	-	-	-	-	92.8	89.6	96.2	107.5	111.2	111.9	118.4	123.5	124.2	133.2	152.6	157.6	*Jun-08*
Indonesia	11.0	11.8	13.3	17.8	16.1	22.4	26.2	28.3	27.0	30.8	34.7	34.7	32.9	40.9	54.7	58.8	*Apr-08*
India	9.8	19.4	17.5	19.7	24.3	27.0	32.0	37.3	45.3	67.0	97.6	125.2	131.0	170.2	266.6	304.9	*May-08*
Korea	19.7	25.0	31.9	32.4	19.7	52.0	73.7	95.9	102.5	120.8	154.5	198.2	210.0	238.4	261.8	257.6	*Jun-08*
Malaysia	26.8	24.9	22.9	26.2	20.0	24.7	29.7	27.4	28.6	32.4	42.8	64.9	69.4	81.7	100.6	123.4	*Apr-08*
Philippines	4.5	5.9	6.3	9.9	7.2	9.2	13.1	13.0	13.4	13.2	13.5	13.0	15.8	19.9	30.1	32.3	*May-08*
Singapore	48.1	58.0	68.5	76.6	71.0	74.6	76.5	79.7	75.2	81.6	95.5	111.8	115.7	135.8	162.5	175.3	*Apr-08*
Thailand	25.4	30.3	37.0	38.7	27.0	29.5	34.8	32.7	33.0	38.9	42.1	49.8	52.1	67.0	87.5	106.0	*Jun-08*
Taiwan	83.6	92.5	90.3	88.0	83.5	90.3	106.2	106.7	122.2	161.7	206.6	241.7	253.3	266.1	270.3	291.4	*Jun-08*
Australia	10.5	10.7	11.3	14.0	16.1	13.4	19.5	16.8	16.4	18.6	30.0	33.9	41.0	52.8	24.2	30.9	*May-08*
New Zealand	3.2	3.6	4.2	5.8	4.3	3.8	4.0	3.6	3.2	4.5	5.4	6.4	8.7	13.9	17.1	17.9	*Feb-08*

Interest Rate Forecasts
G3 & Europe

G3 & Key Spreads

%			3-Month Horizon		6-Month Horizon		12-Month Horizon	
		Current*	Forward	Forecast	Forward	Forecast	Forward	Forecast
US	3M	**2.8**	2.8	**2.8**	3.0	**2.8**	3.2	**2.5**
	10Y	**3.9**	4.0	**3.9**	4.1	**4.0**	4.3	**4.1**
Japan-US	10Y	**-248**	-251	**-220**	-254	**-220**	-258	**-220**
Euroland-US	10Y	**32**	28	**35**	23	**16**	20	**6**

Close 13 August 08, mid-rates for major markets. We are currently using September 2008, December 2008 and June 2009 contracts for 3-month forward rates.

Europe

%			3-Month Horizon		6-Month Horizon		12-Month Horizon	
		Current*	Forward	Forecast	Forward	Forecast	Forward	Forecast
Euroland	3M	**5.0**	5.0	**4.9**	4.9	**4.8**	4.5	**4.6**
	10Y	**4.3**	4.3	**4.3**	4.4	**4.2**	4.5	**4.2**
UK	3M	**5.8**	5.8	**5.7**	5.6	**5.5**	5.0	**5.0**
	10Y	**4.6**	4.6	**4.9**	5.6	**4.8**	4.7	**4.6**
Denmark	3M	**5.4**	5.1	**5.1**	5.0	**5.0**	4.6	**4.8**
	10Y	**4.5**	4.5	**4.6**	4.5	**4.3**	4.6	**4.3**
Sweden	3M	**5.1**	5.2	**4.9**	5.3	**4.8**	5.0	**4.7**
	10Y	**4.1**	4.1	**4.3**	4.1	**4.3**	4.1	**4.4**
Norway	3M	**6.6**	6.6	**6.7**	6.6	**6.7**	5.9	**6.5**
	10Y	**4.4**	4.4	**4.9**	4.3	**4.8**	4.2	**4.8**
Switzerland	3M	**2.5**	2.7	**2.8**	2.7	**2.8**	2.7	**2.8**
	10Y	**2.9**	3.0	**3.0**	3.0	**3.0**	3.1	**3.1**
Poland	3M	**6.3**	6.5	**6.8**	6.4	**6.9**	6.0	**6.9**
	5Y	**6.0**	6.0	**6.4**	6.0	**6.4**	5.9	**6.4**
Czech	3M	**4.1**	4.3	**3.3**	4.2	**3.3**	4.0	**3.3**
Republic	5Y	**4.4**	4.4	**4.2**	4.5	**4.2**	4.6	**4.2**
Hungary	3M	**8.5**	8.7	**8.5**	8.8	**8.5**	8.2	**7.3**
	5Y	**8.5**	8.5	**7.5**	8.4	**7.5**	8.2	**7.2**
Slovakia	3M	**4.5**	4.4	**4.2**	4.4	**4.2**	4.3	**4.2**
	5Y	**4.3**	4.3	**4.4**	4.3	**4.4**	4.4	**4.4**
Russia	3M	**4.7**	4.8	**5.5**	5.4	**5.5**	5.5	**5.5**
Turkey	3M	**17.5**	18.3	**16.8**	19.1	**16.8**	17.2	**15.8**

Close 13 August 08, mid-rates for major markets. We are currently using September 2008, December 2008 and June 2009 contracts for 3-month forward rates.

South Africa	3M	**11.9**	12.6	**11.9**	12.9	**11.9**	11.6	**11.3**
	5Y	**9.6**	9.5	**9.8**	9.4	**9.8**	9.4	**9.7**

Close 13 August 08, mid-rates for major markets. We are currently using September 2008, December 2008 and June 2009 contracts for 3-month forward rates.

Americas & Asia

Americas

%		Current*	3-Month Horizon Forward	3-Month Horizon Forecast	6-Month Horizon Forward	6-Month Horizon Forecast	12-Month Horizon Forward	12-Month Horizon Forecast
US	3M	**2.8**	2.8	**2.8**	3.0	**2.8**	3.2	**2.5**
	10Y	**3.9**	4.0	**3.9**	4.1	**4.0**	4.3	**4.1**
Canada	3M	**3.3**	3.1	**2.9**	2.8	**3.0**	2.8	**3.0**
	10Y	**3.6**	3.7	**3.8**	3.7	**3.9**	3.8	**4.0**
Argentina	3M	**14.8**	na	**10.0**	na	**12.0**	na	**12.0**
Brazil	3M	**9.1**	na	**12.8**	na	**13.8**	na	**14.3**
Chile	3M	**5.4**	na	**6.3**	na	**6.3**	na	**6.3**
Mexico	3M	**8.0**	na	**7.5**	na	**7.5**	na	**7.5**

Close 13 August 08, mid-rates for major markets. We are currently using September 2008, December 2008 and June 2009 contracts for 3-month forw ard rates.

Asia

%		Current*	3-Month Horizon Forward	3-Month Horizon Forecast	6-Month Horizon Forward	6-Month Horizon Forecast	12-Month Horizon Forward	12-Month Horizon Forecast
Japan	3M	**0.9**	0.8	**0.9**	0.8	**0.9**	0.8	**1.2**
	10Y	**1.4**	1.5	**1.7**	1.6	**1.8**	1.7	**1.9**
Australia	3M	**7.3**	7.2	**7.2**	6.9	**7.0**	6.6	**6.6**
	10Y	**5.8**	5.8	**6.3**	5.8	**6.2**	5.9	**6.2**
New	3M	**8.2**	8.1	**8.2**	7.6	**7.3**	7.0	**6.3**
Zealand	10Y	**6.2**	na	**6.0**	na	**5.7**	na	**5.5**
Hong Kong	3M	**1.9**	2.4	**2.0**	2.7	**2.0**	2.8	**2.0**
Indonesia	3M	**10.7**	10.5	**10.0**	10.2	**10.5**	9.7	**10.5**
Taiwan	3M	**2.2**	2.4	**2.4**	2.4	**2.4**	2.4	**2.4**
Korea	3M	**5.4**	5.1	**5.8**	4.9	**5.8**	4.9	**5.5**
Philippines	3M	**6.5**	6.1	**6.5**	6.5	**6.8**	7.2	**7.0**
Singapore	3M	**1.3**	1.9	**1.5**	2.0	**1.5**	2.1	**2.0**
Thailand	3M	**3.3**	3.3	**4.0**	3.4	**4.3**	4.1	**4.3**

Close 13 August 08, mid-rates for major markets. We are currently using September 2008, December 2008 and June 2009 contracts for 3-month forw ard rates.

Exchange Rate Forecasts
Dollar Crosses

	Current*	3-Month Horizon		6-Month Horizon		12-Month Horizon		5-Yr Forecast**
		Forward	Forecast	Forward	Forecast	Forward	Forecast	
G3								
EUR/$	1.49	1.48	**1.45**	1.48	**1.50**	1.47	**1.40**	1.18
$/JPY	108.72	108.11	**112.00**	107.45	**108.00**	106.18	**114.00**	105.93
Europe								
£/$	1.87	1.85	**1.79**	1.84	**1.85**	1.83	**1.79**	1.57
$/NOK	5.39	5.44	**5.38**	5.49	**5.20**	5.57	**5.57**	6.35
$/SEK	6.29	6.32	**6.48**	6.36	**6.27**	6.41	**6.50**	6.95
$/CHF	1.09	1.08	**1.10**	1.08	**1.07**	1.08	**1.16**	1.25
$/CZK	16.15	16.07	**16.55**	16.09	**16.00**	16.11	**16.79**	22.44
$/HUF	159.68	160.93	**158.62**	162.90	**153.33**	166.31	**160.71**	214.48
$/PLN	2.22	2.22	**2.29**	2.23	**2.21**	2.26	**2.32**	3.42
$/RUB	24.19	24.32	**24.20**	24.44	**23.50**	24.80	**23.80**	27.00
$/TRY	1.19	1.23	**1.23**	1.27	**1.25**	1.36	**1.34**	1.80
$/ILS	3.60	3.61	**3.40**	3.62	**3.50**	3.65	**3.65**	3.89
$/ZAR	7.86	8.06	**7.50**	8.24	**8.00**	8.59	**8.50**	6.68
$/EGP	5.33	na	**5.25**	na	**5.10**	na	**5.10**	na
Americas								
$/ARS	3.03	3.14	**3.05**	3.26	**3.10**	3.51	**3.15**	3.00
$/BRL	1.61	1.65	**1.55**	1.69	**1.60**	1.77	**1.72**	2.58
$/C$	1.07	1.07	**1.10**	1.07	**1.06**	1.07	**1.14**	1.16
$/MXN	10.15	10.31	**10.00**	10.45	**10.20**	10.71	**10.70**	12.27
$/CLP	515	519	**490**	522	**500**	532	**510**	540
$/PEN	2.93	2.93	**2.85**	2.93	**2.80**	2.93	**2.75**	2.61
$/COP	1847	1883	**1750**	1917	**1780**	1975	**1880**	2261
$/VEF	2.15	na	**2.15**	na	**2.15**	na	**2.70**	3.84
Asia								
A$/$	0.87	0.86	**0.86**	0.85	**0.87**	0.83	**0.80**	0.77
$/CNY	6.86	6.83	**6.76**	6.75	**6.60**	6.62	**6.30**	5.85
$/HKD	7.81	7.79	**7.80**	7.78	**7.80**	7.77	**7.80**	7.80
$/INR	42.84	43.42	**43.90**	43.83	**44.10**	44.45	**42.20**	38.00
$/KRW	1033	1036	**1040**	1038	**1050**	1041	**1070**	975
$/MYR	3.32	3.32	**3.32**	3.32	**3.30**	3.31	**3.25**	2.93
NZ$/$	0.70	0.69	**0.68**	0.68	**0.69**	0.66	**0.61**	0.61
$/SGD	1.41	1.40	**1.40**	1.39	**1.40**	1.39	**1.45**	1.35
$/TWD	31.15	31.04	**31.00**	30.88	**30.50**	30.57	**30.75**	28.62
$/THB	33.68	33.72	**34.50**	33.77	**35.50**	33.85	**36.50**	35.96
$/IDR	9205	9325	**9200**	9420	**9250**	9745	**9300**	9765
$/PHP	44.88	45.21	**45.00**	45.51	**45.50**	46.21	**46.00**	40.00
$/VND	16850.00	1845.00	**16870.00**	19150.00	**17280.00**	20300.00	**18100.00**	na
Commodities								
WTI Crude Oil ($/bbl)	116.00	116.27	**145.30**	116.89	**148.10**	116.43	**147.00**	148.00
Gold($/oz)	825.00	835.80	**745.00**	835.80	**810.00**	848.10	**740.00**	na

* Close 13 August 08

**Forecasts have been discussed in Global View point 07/18 "New 5-Year Forecasts".

Euro Crosses

		3-Month Horizon		6-Month Horizon		12-Month Horizon		
	Current*	Forward	Forecast	Forward	Forecast	Forward	Forecast	5-Yr Forecast**
G3								
EUR/$	1.49	1.48	**1.45**	1.48	**1.50**	1.47	**1.40**	1.18
EUR/JPY	161.9	160.2	**162.4**	158.5	**162.0**	155.6	**159.6**	125.1
Europe								
EUR/£	0.80	0.80	**0.81**	0.80	**0.81**	0.80	**0.78**	0.75
EUR/NOK	8.03	8.06	**7.80**	8.10	**7.80**	8.17	**7.80**	7.50
EUR/SEK	9.37	9.37	**9.40**	9.38	**9.40**	9.40	**9.10**	8.21
EUR/CHF	1.62	1.61	**1.60**	1.60	**1.60**	1.58	**1.62**	1.47
EUR/CZK	24.05	23.82	**24.00**	23.74	**24.00**	23.61	**23.50**	26.50
EUR/HUF	237.85	238.53	**230.00**	240.37	**230.00**	243.76	**225.00**	253.30
EUR/PLN	3.31	3.28	**3.32**	3.29	**3.32**	3.31	**3.25**	4.03
EUR/RUB	36.03	36.05	**35.09**	36.06	**35.25**	36.35	**33.32**	31.89
EUR/TRY	1.77	1.82	**1.78**	1.88	**1.88**	1.99	**1.88**	2.13
EUR/ILS	5.36	5.35	**4.93**	5.34	**5.25**	5.34	**5.11**	4.59
EUR/ZAR	11.71	11.94	**10.88**	12.16	**12.00**	12.59	**11.90**	7.89
EUR/EGP	7.94	na	**7.61**	na	**7.65**	na	**7.14**	na
Americas								
EUR/ARS	4.51	4.65	**4.42**	4.81	**4.65**	5.15	**4.41**	3.54
EUR/BRL	2.40	2.45	**2.25**	2.50	**2.40**	2.59	**2.41**	3.05
EUR/C$	1.59	1.58	**1.60**	1.58	**1.59**	1.56	**1.60**	1.37
EUR/MXN	15.12	15.27	**14.50**	15.41	**15.30**	15.70	**14.98**	14.49
EUR/CLP	767.09	768.87	**711**	770.23	**750**	780.21	**714**	637.72
EUR/PEN	4.36	4.34	**4.13**	4.32	**4.20**	4.30	**3.85**	3.08
EUR/COP	2751	2791	**2538**	2829	**2670**	2894	**2632**	2670
EUR/VEB	3.20	na	**3.12**	na	**3.23**	na	**3.78**	4.53
Asia								
EUR/A$	1.72	1.73	**1.69**	1.74	**1.72**	1.76	**1.75**	1.54
EUR/CNY	10.22	10.12	**9.80**	9.97	**9.89**	9.71	**8.81**	6.91
EUR/HKD	11.63	11.55	**11.31**	11.48	**11.70**	11.39	**10.92**	9.21
EUR/INR	63.81	64.36	**63.66**	64.67	**66.15**	65.15	**59.08**	44.88
EUR/KRW	1538	1536	**1508**	1532	**1575**	1526	**1498**	1151
EUR/MYR	4.95	4.92	**4.81**	4.89	**4.95**	4.85	**4.55**	3.46
EUR/NZD	2.14	2.16	**2.13**	2.18	**2.17**	2.21	**2.30**	1.94
EUR/SGD	2.09	2.07	**2.03**	2.06	**2.10**	2.03	**2.03**	1.59
EUR/TWD	46.40	46.00	**44.95**	45.56	**45.75**	44.80	**43.05**	33.80
EUR/THB	50.17	49.98	**50.03**	49.83	**53.25**	49.61	**51.10**	42.46
EUR/IDR	13711	13821	**13340**	13900	**13875**	14284	**13020**	11532
EUR/PHP	66.85	67.01	**65.3**	67.14	**68.3**	67.72	**64.4**	47.24
EUR/VND	25098.08	2734.60	**24461.5**	28256.69	**25920.0**	29754.32	**25340.0**	na
Commodities								
WTI Crude Oil (EUR/bbl)	77.88	78.45	**100.21**	79.22	**98.73**	79.43	**105.00**	125.32
Gold(EUR/oz)	553.88	563.90	**513.79**	566.43	**540.00**	578.62	**528.57**	na

* Close 13 August 08

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