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Post QE2 – The Dollar to rally? --- The verdict

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3 camps with 3 different views

Gradual exit - Doves

Drain reserves from the system

Raising interest rates the Fed pays on excess reserves held by banks at the Fed

Asset sales after policy tightening has occurred and economy is
on sustainable recovery

The balance sheet kept steady approach - Centrist

Fed stops new bond purchases but use proceeds from
maturing securities to replace its inventory (this keeps the Fed's balance sheet steady)

Between the period of QE2 ending in June and the next assessment of economic
trajectory, the Fed should continue its reinvestments for a number of months

The balance sheet to be kept steady at least until August

Essentialy this is what the Fed intends to do in the short term !

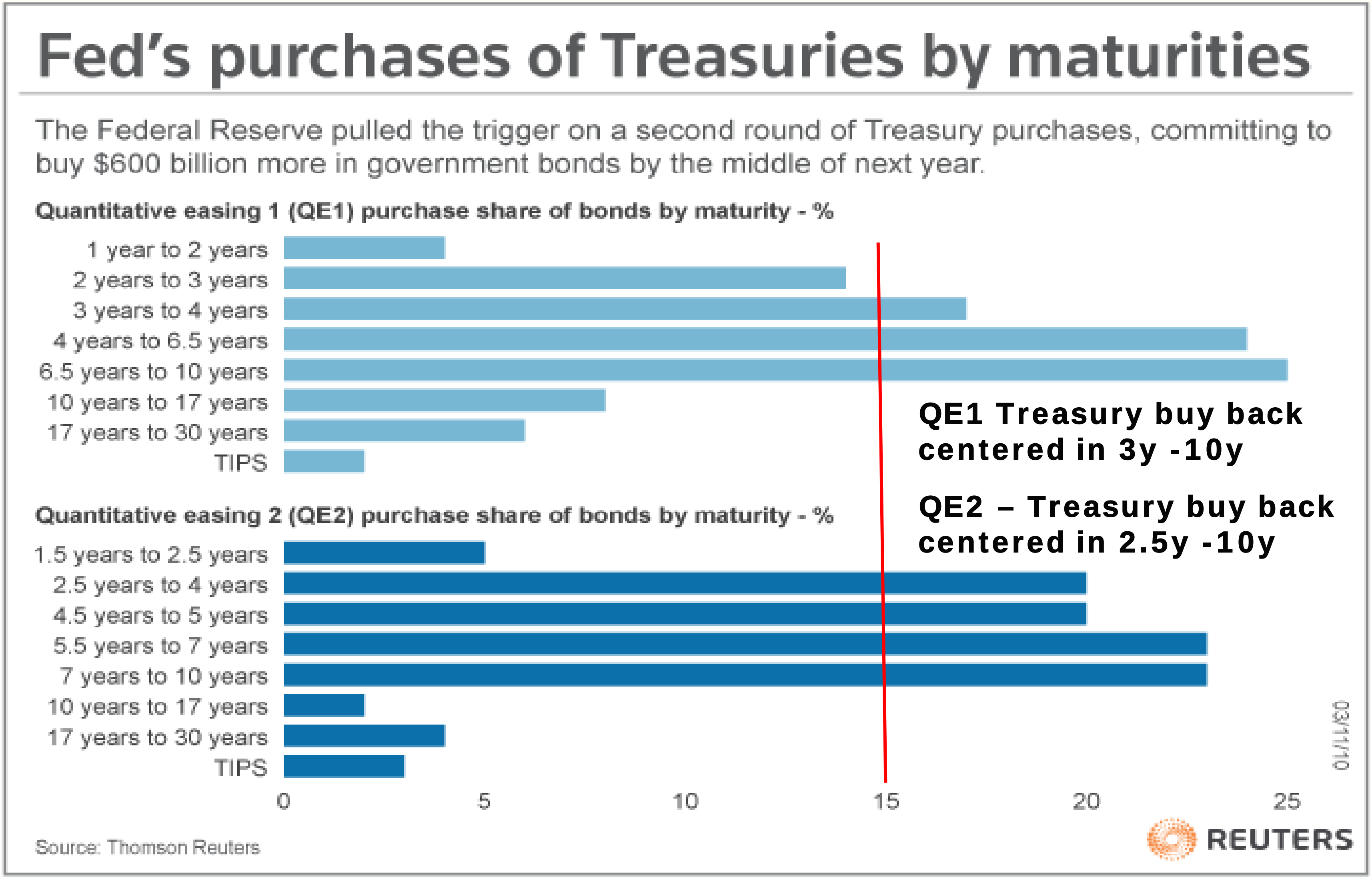
Aggressive exit - Hawks

Raise interest rates and then reduce the balance sheet

Tying sales of assets to interest rate decision, it allows process of selling
assets conditional to economy's performance - a very market oriented approach

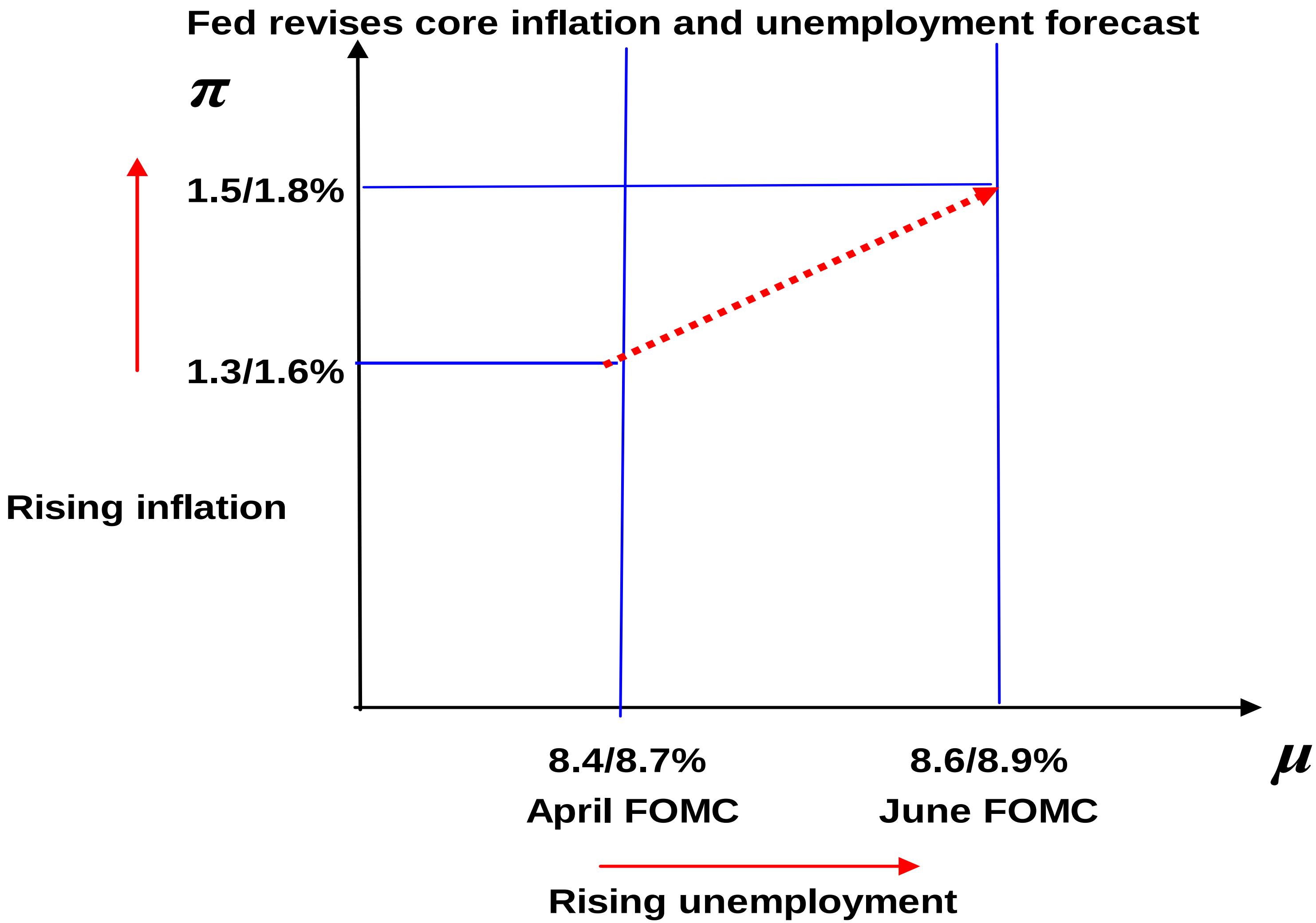
Change the language of its policy statement

Treasury buy backs – where has it been centered in the curve ?



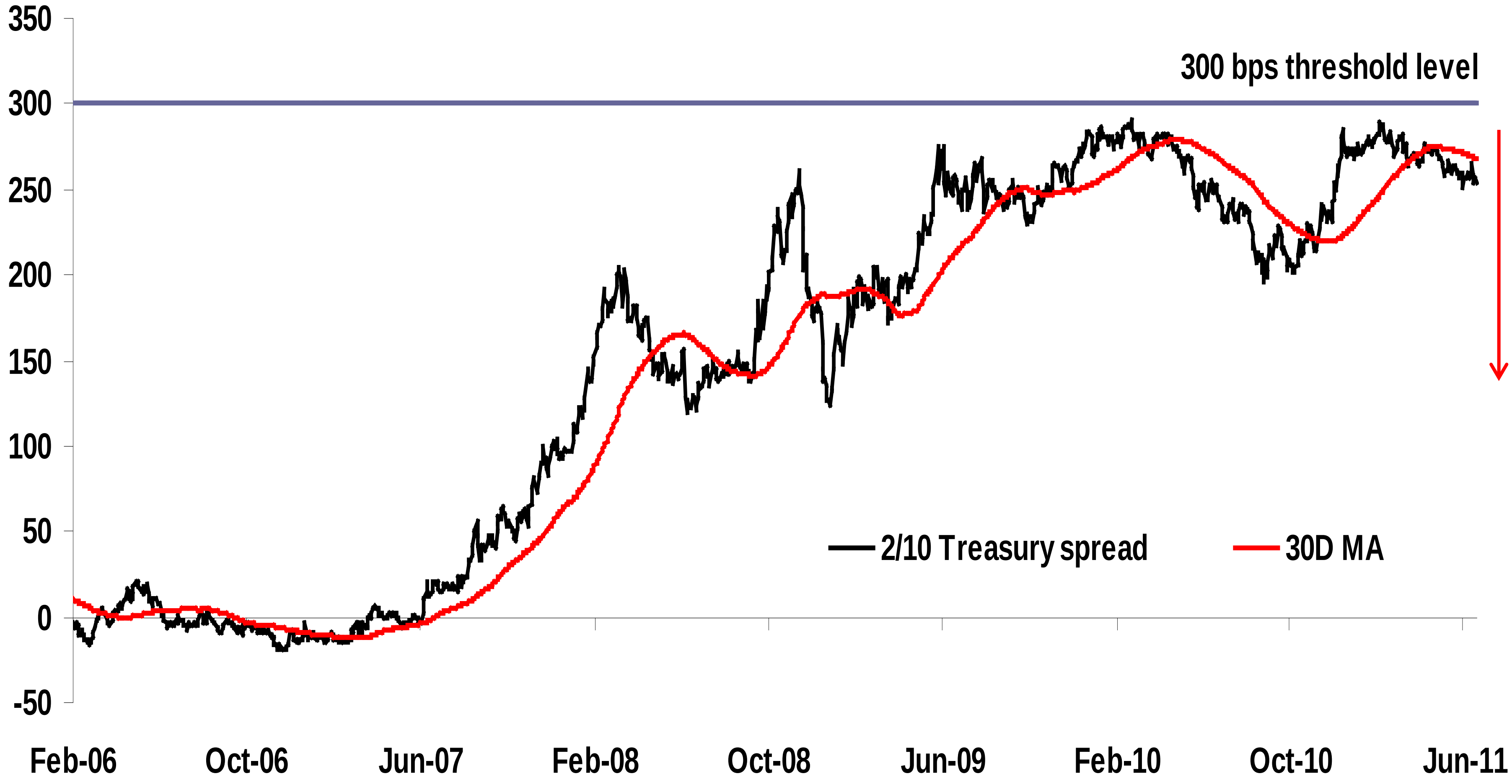
Reuters graphic/Van Tsui

Fed's dual mandate in a fix !- Stagflation in the works



What is happening to the Treasury yield spread – re - 2/10 - curve is flattening

Spreads are flattening- the risk of a hike is being priced in



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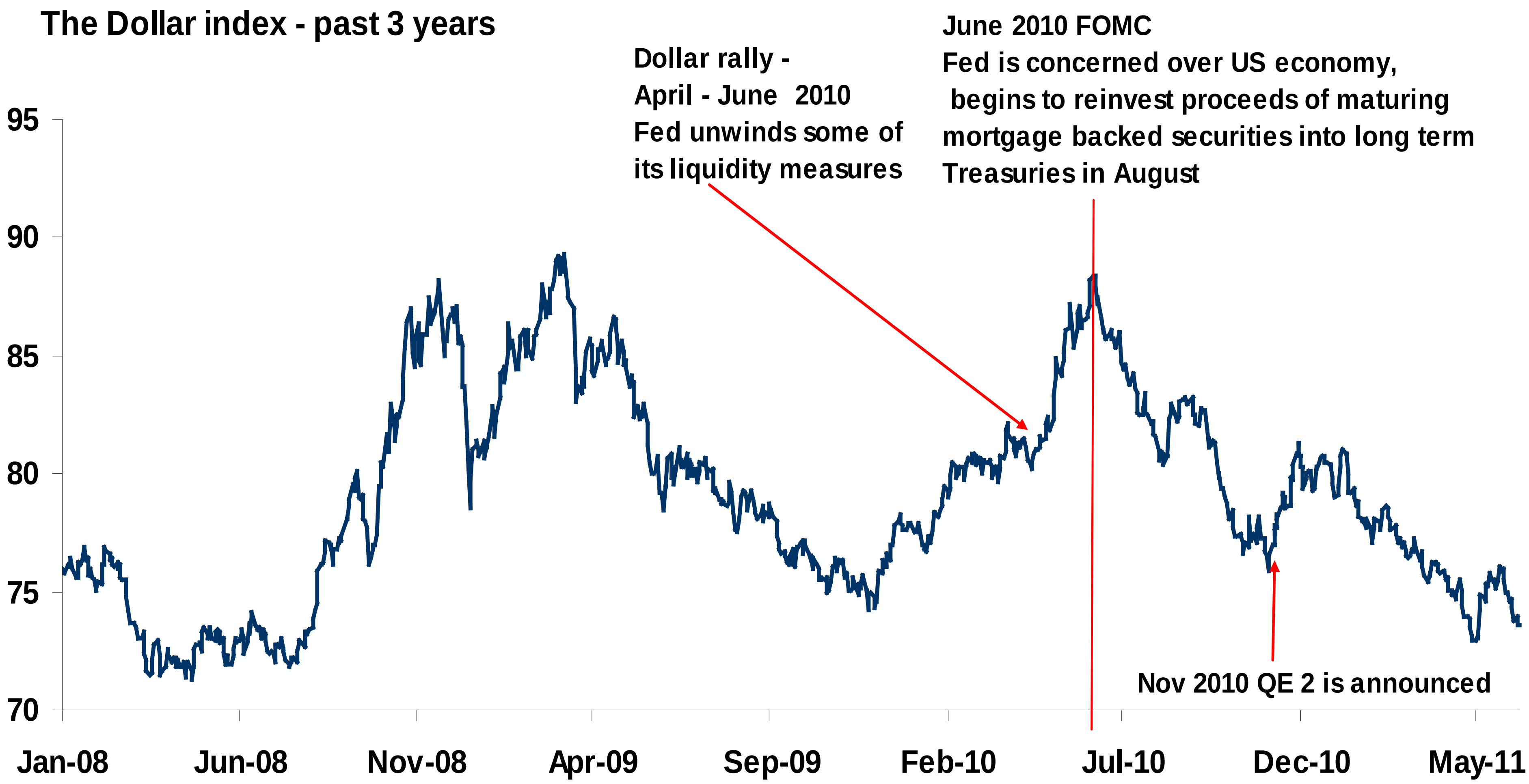
The Dollar – to regain ground as QE2 comes to a closure



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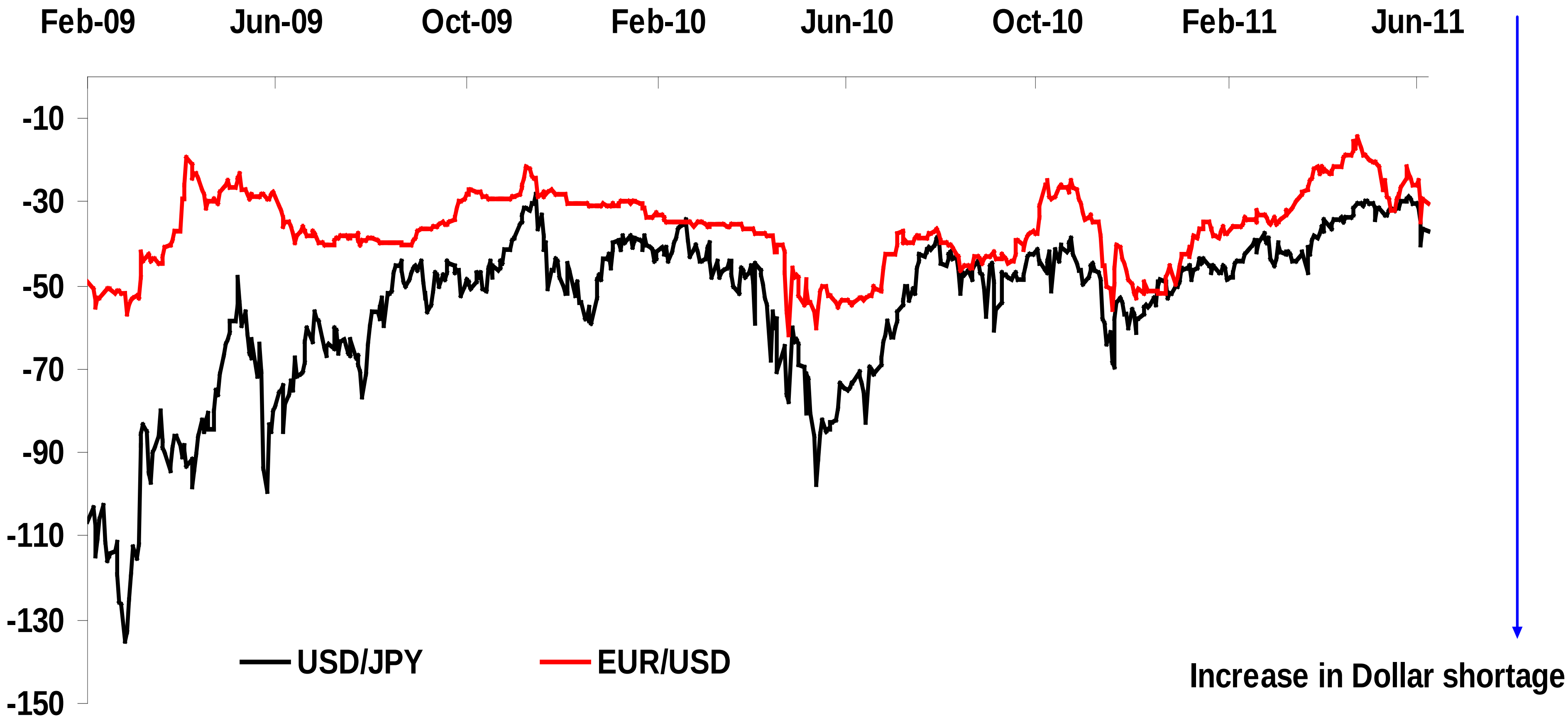
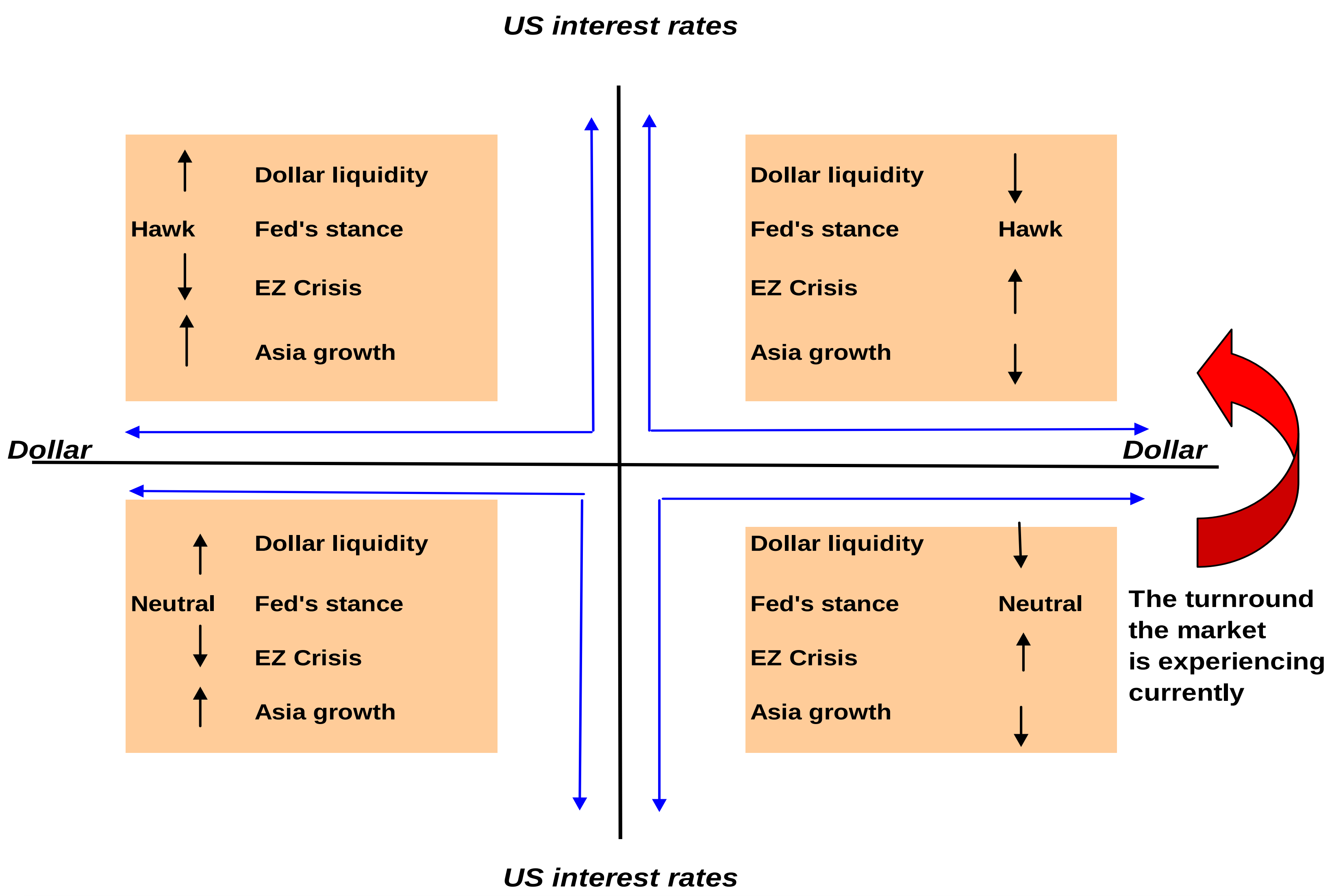
------ as signs of Dollar shortage emancipates itself in markets

1y Cross currency swaps for EURO & JPY

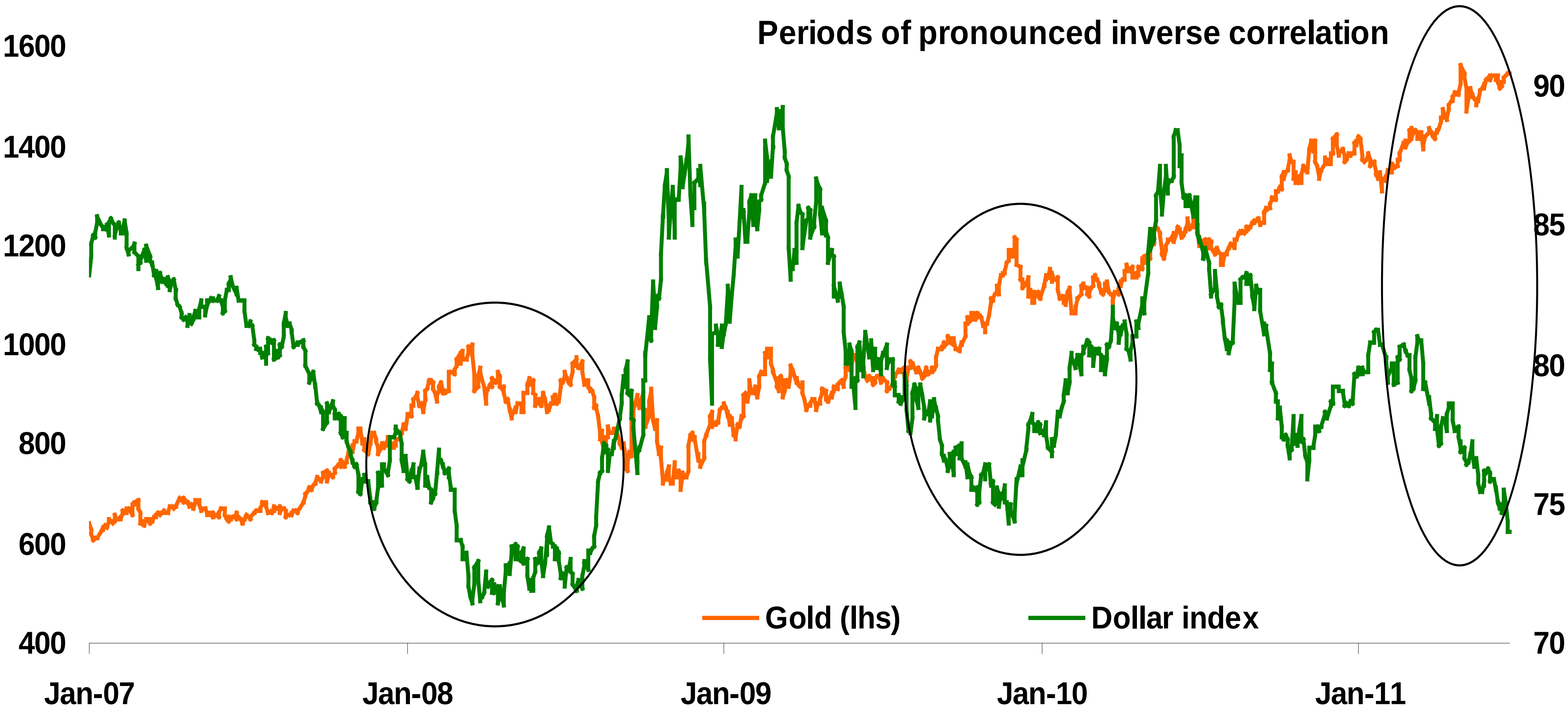


Scenario matrix for Dollar and US interest rates



Gold vs Dollar – Time for re-visit

Gold to move up at measured pace as Dollar rebound will take the wind out of Gold as the yellow metals looks to inflation for catalyst



Global FX	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
EUR	1.3800	1.3800	1.3700	1.3600	1.3500	1.3700
JPY	82.00	84.00	84.00	85.00	86.00	84.00
GBP	1.6500	1.6100	1.6000	1.5900	1.5800	1.6000
CHF	0.9200	0.9400	0.9500	0.9600	0.9700	0.9500
AUD	1.0300	1.0000	0.9900	0.9800	0.9700	0.9900
NZD	0.7500	0.7200	0.7100	0.7000	0.6900	0.7100
CAD	0.9600	0.9900	1.0000	1.0100	1.0200	1.0000

How would G10 currencies perform ?

•Apart from measured rate hike, growth expectations still crucial

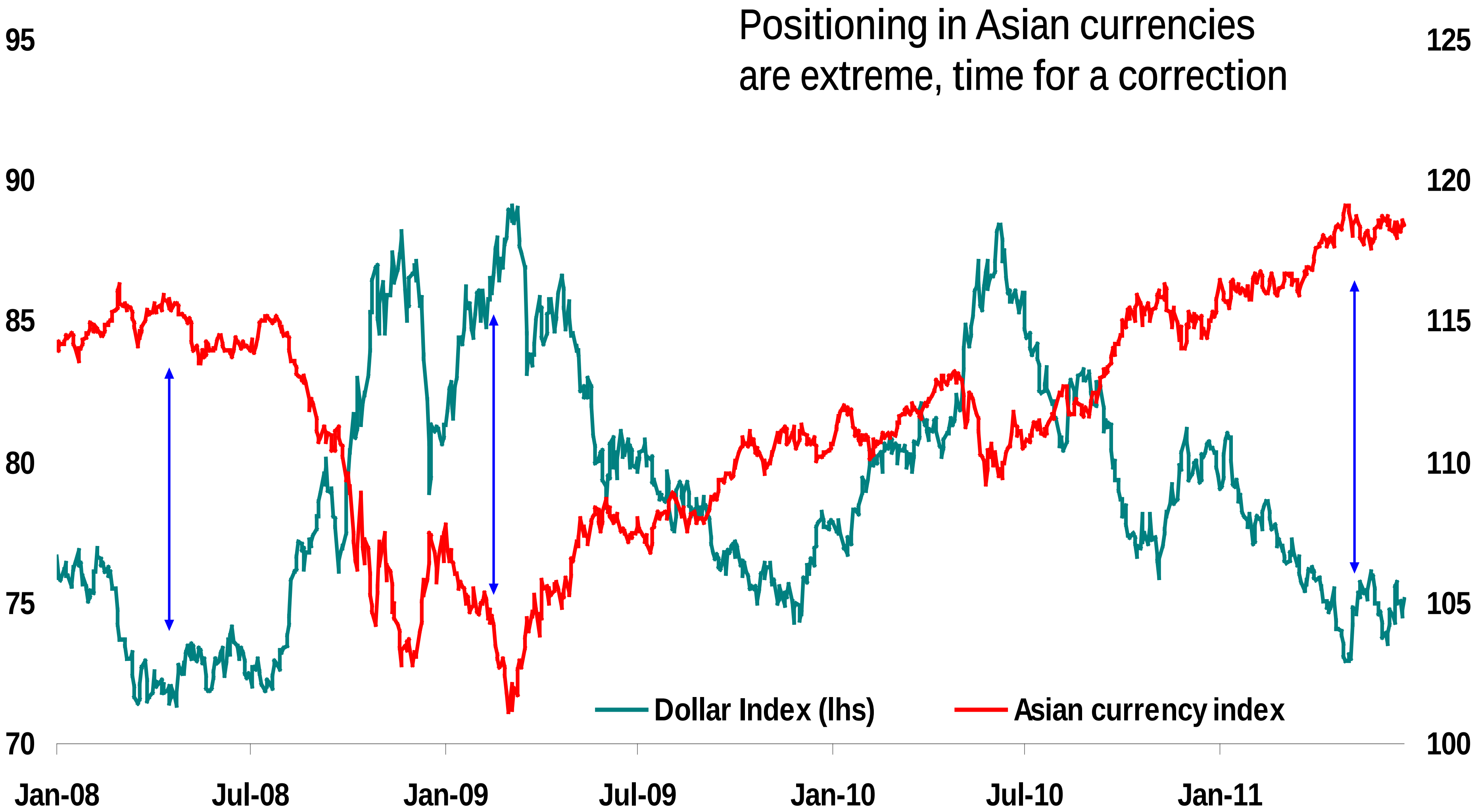
•Dollar rebound post QE 2 expiry in June, would impact G10 FX, even if the ECB raises rates

•G10 FX to gradually come off, reflection of Dollar rebound

•Tightening conditions in EZ to derail growth with debt financing cost increasing in peripheral economies

•Bottom-line – it may not be a one way trend of Dollar weakness going forward.

Given the transition towards a firmer Dollar and higher US rates – AXJ FX ?



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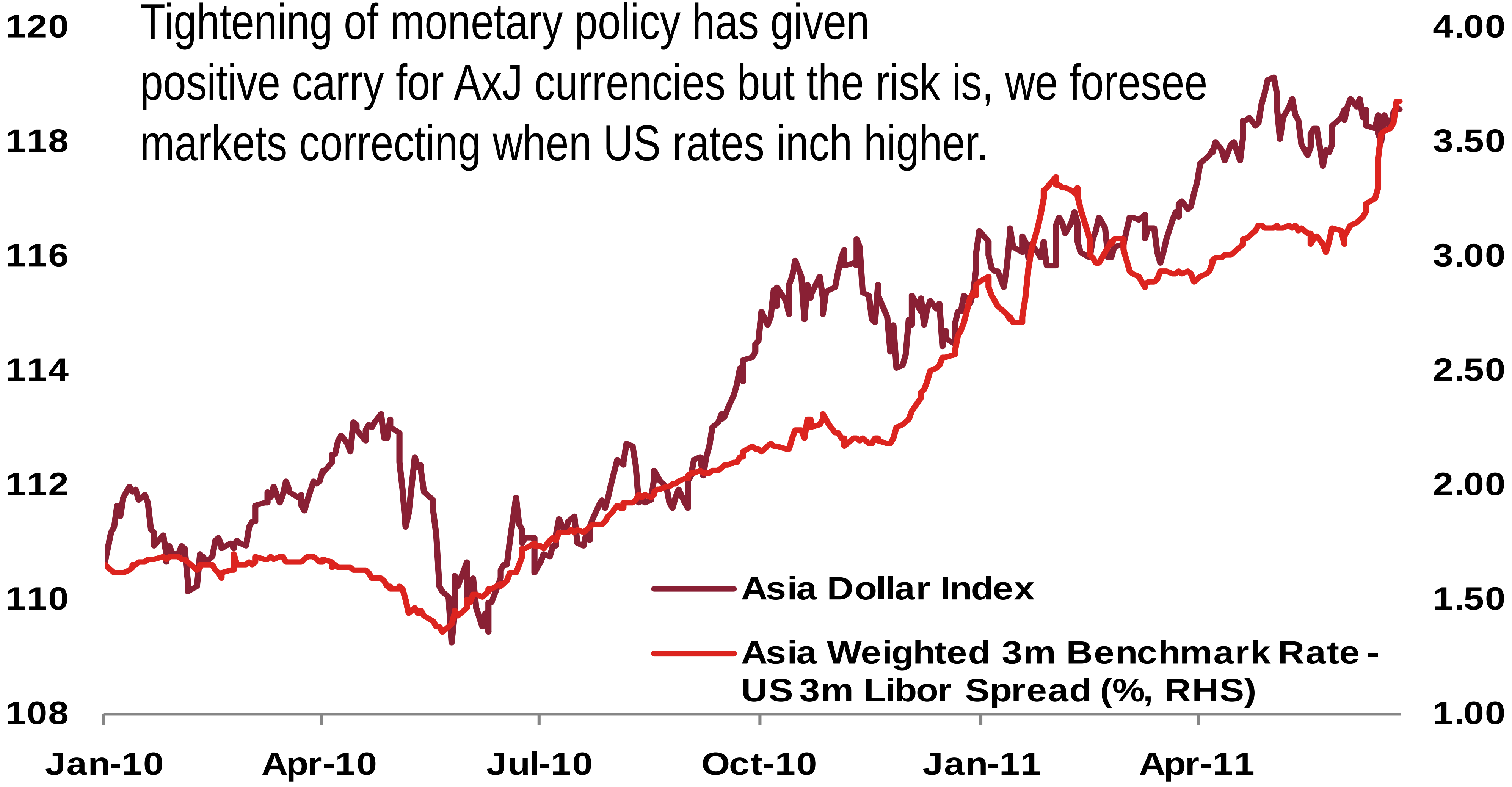
Low USD Libor rates vs Tightening rates in AXJ = Wider spreads & AXJ FX gains

Tightening of monetary policy has given positive carry for AxJ currencies but the risk is, we foresee markets correcting when US rates inch higher.



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AxJ currencies valuation matrix- signs pointing towards weaker AxJ FX

AxJ	Differentials against US - Inflation	10y Bmk Yields	2y IRS	Ytd Chg vs USD
CNY	1.90%	1.06%	4.12%	2.22%
INR	5.46%	5.32%	4.87%	-0.42%
KRW	0.50%	1.29%	3.16%	4.61%
TWD	-1.94%	-1.45%	0.41%	1.60%
PHP	0.90%	3.53%	2.65%	0.73%
SGD	0.90%	-0.69%	0.01%	4.03%
MYR	-0.40%	0.97%	2.98%	1.16%
IDR	2.38%	4.47%	6.27%	4.69%
THB	0.59%	0.99%	2.76%	-1.35%

Differential vs Dollar rates to narrow as Asia slows faster than curve flattening in US, exerting pressure on Asian currencies to come off

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Which leads to pricing in less appreciation possibility for Asian currencies

Asia FX	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
MYR	3.0600	3.0800	3.1100	3.1300	3.1400	3.0900
SGD	1.2800	1.2900	1.3000	1.3100	1.3100	1.2900
IDR	8900	8900	9000	9100	9100	9000
THB	31.00	31.00	31.00	31.00	32.00	31.00
PHP	44.00	44.00	44.00	45.00	45.00	44.00
CNY	6.6100	6.6700	6.7300	6.7800	6.8100	6.7000
TWD	30.00	30.00	31.0000	30.00	30.50	30.00
KRW	1130.00	1136.00	1146.00	1155.00	1160.00	1141.00
HKD	7.8500	7.8500	7.8500	7.8500	7.8500	7.7500
INR	46.00	46.00	46.00	47.00	47.00	46.00

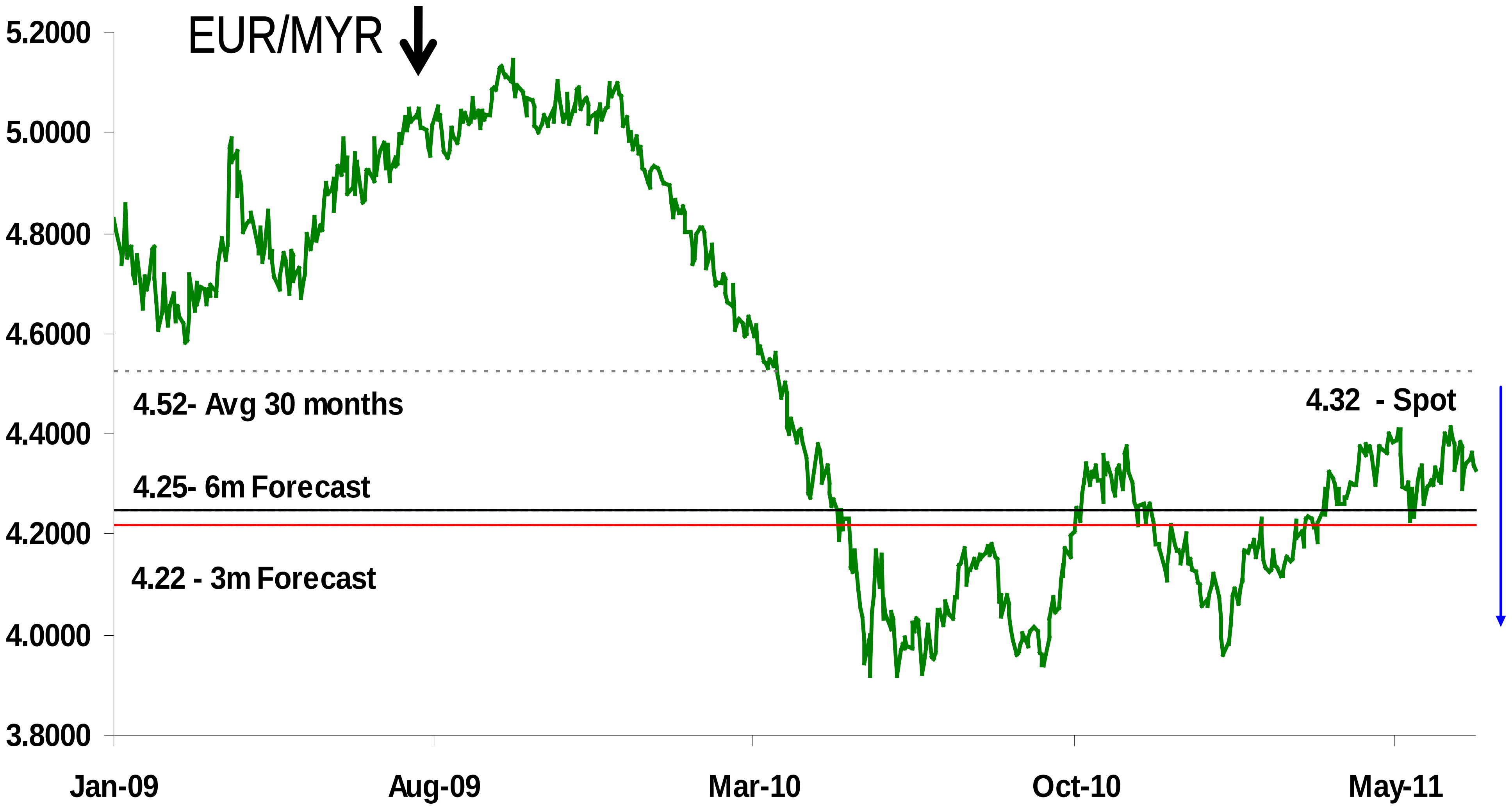
•Lagged effects from monetary conditions tightening (via rates and FX) to impact growth in a number of Asian economies.

•The risk of cheap Dollar funding coming to an end as QE2 expires in June.

•Asia's growth momentum too fixated on China, tightening monetary conditions expected to take a toll on growth, as reflected by recent softness in PMI numbers.

Positioning via firmer Dollar – and arbitraging in cross currencies – AUD/MYR

Positioning via firmer Dollar – and arbitraging in cross currencies – EUR/MYR



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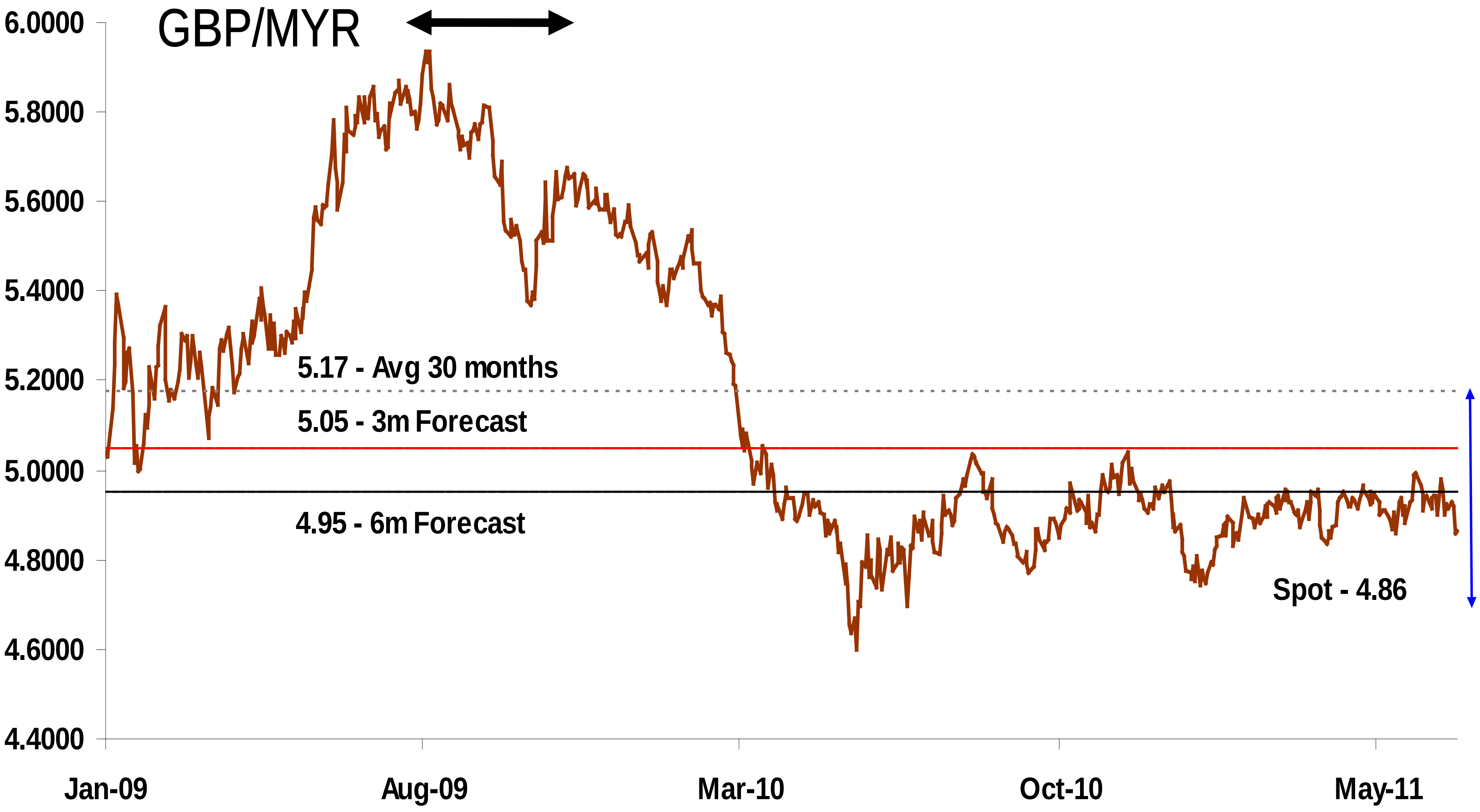
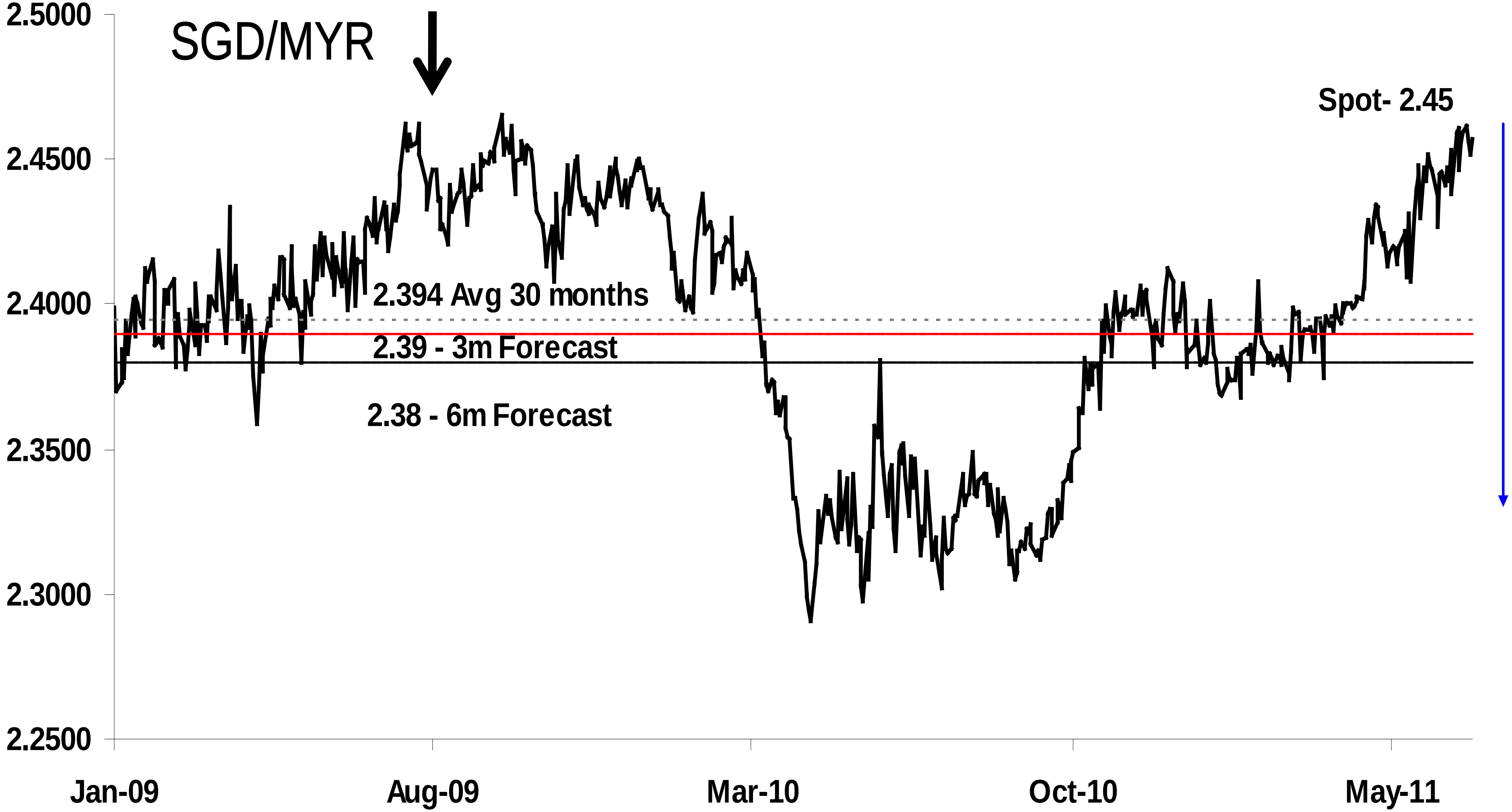
Positioning via firmer Dollar – and arbitraging in cross currencies –GBP/MYR



Positioning via firmer Dollar – and arbitraging in cross currencies –SGD/MYR



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Thank you