J.P.Morgan

FX Markets Weekly

Front-loading the Fed -- where the dollar should trade if the FOMC delivers 3.75%

Global FX Strategy

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Outlook:

Big, broad and deep sums up the dollar's move so far this month, as the currency lifts versus all currencies but CNY and does so on extraordinary volumes. The causes are mainly carry-overs from early August: a US economic upturn during non-US weakness; widening front-end rate spreads between the US and almost every major country; and still-large current account imbalances in most of last year's most vulnerable emerging markets. The dollar is overshooting on standard fair value models, but this is common at turning points in the policy cycle; hence the long USD and long vol trades but tamer FX forecasts. With the dollar behaving as if Fed policy were on autopilot, we run the numbers on where the index should trade if Fed funds reaches 3.75% by 2017 while only a handful of other central banks follow. The result: 96 on JPM's USD index, or 12% higher than current levels. That is well shy of the 1999 rally fueled by an equity/M&A bubble, but it is still decent given the unprecedented confluence of the BoJ and ECB running zero interest rate policies.

Macro Trade Recommendations:

The dollar is overshooting but excessively low front-end rates remain a bullish force. Stay short EUR/USD and re-enter USD longs vs. SEK and GBP. Reduce EM longs, now only in CNY. As relative value trades, buy AUD/NZD and NOK/SEK. Stay short EUR/CHF in options.

Emerging Markets FX:

Move underweight EM FX across regions. In Asia, focus USD longs in SGD, TWD, THB, but remain more positive on CNH. In Latin America FX, turn more negative COP vs CLP, enter short NZD/CLP. In EMEA EM FX, favour HUF over RON and PLN, favour TRY over ZAR, enter long TRY/ZAR.

FX Derivatives:

Scottish referendum risk-premium in GBP-options has quickly dissipated. Sell 3M GBP/CAD straddles to milk the last residual pocket of vol richness. GBP vs. JPY correlations are worth selling, since GBP is the most likely currency to de-correlate sustainably from the yen on monetary policy divergence. USD/BRL risk-reversals in the 3M – 6M sector of the curve look cheap on a carry-adjusted basis, and also relative to USD/MXN risk-reversals; buy/sell 6M 25D USD calls, delta-hedged.

Technical Strategy:

The downtrend in EUR/USD is incomplete, and cable looks set to trade down to 1.5374. Stay long USD/JPY, USD/NOK, USD/SEK, USD/TRY, USD/CZK, USD/RON, USD/CLP, EUR/NZD, TRY/ZAR & short CAD/MXN, AUD/USD and PLN/HUF.

Research note:

RUB: More is needed from the CBR to stabilise the ruble (George Christou, Saad Siddiqui, Jonny Goulden and Anatoliy Shal)

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See page 46 for analyst certification and important disclosures.

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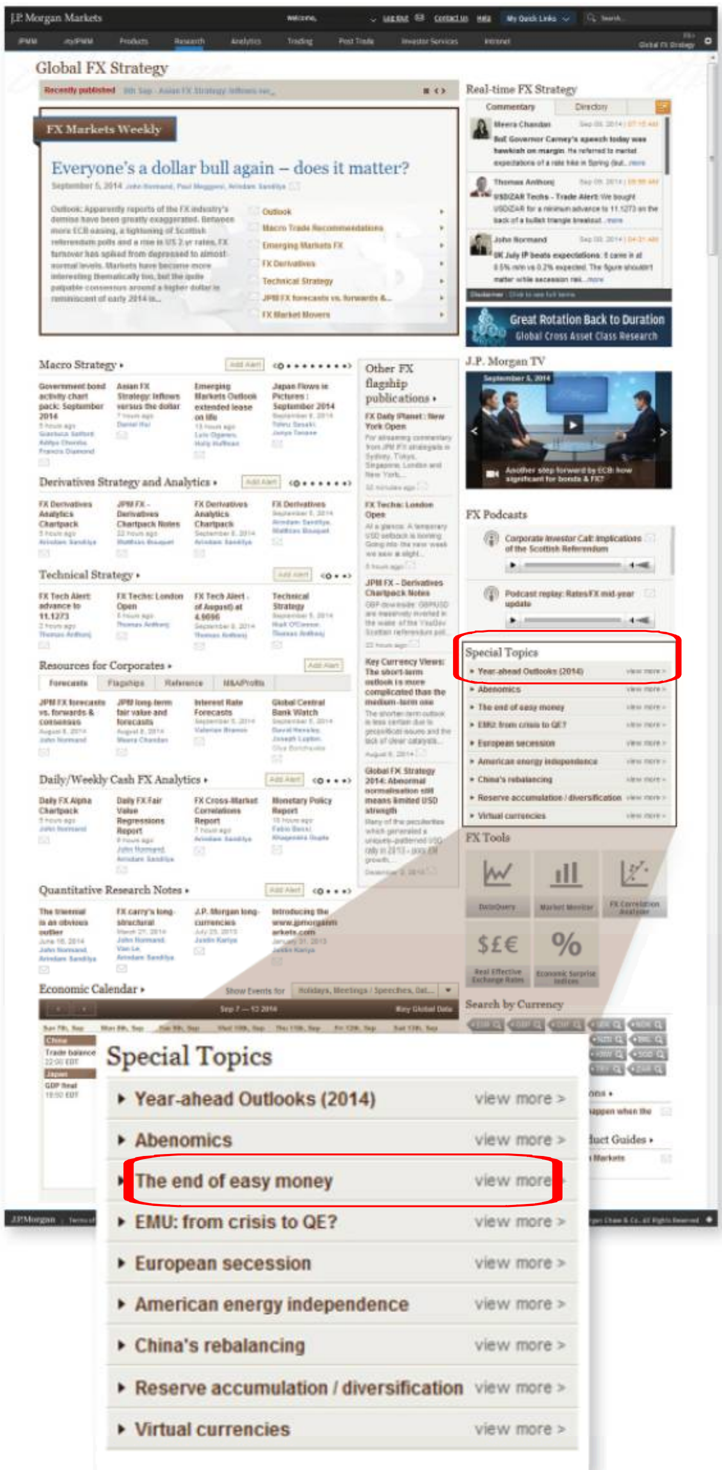
The End of Easy Money on J.P. Morgan Markets (www.jpmm.com)

*Since last year's taper tantrum, we've been compiling several medium-term research notes and presentations on US and UK rate normalisation on the Global FX Strategy website. For an archive of these longer shelf life reports, go to the **Special Topics** area of the Global FX Strategy page and then click the heading **The end of easy money**.*



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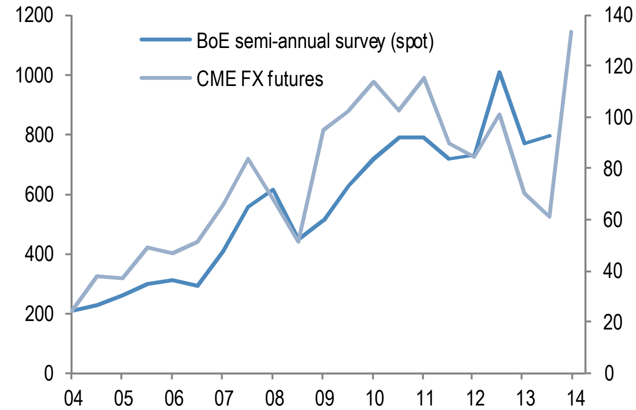
Outlook: Front-loading the Fed -- where the dollar should trade if FOMC delivers 3.75%

- **Big, broad and deep sums up the dollar's move so far this month, as the currency lifts versus all currencies but CNY and does so on extraordinary volumes.**
- **The causes are the same ones that have been in play since early August: a US economic upturn in the context of non-US disappointment; widening front-end rate spreads between the US and almost every major country; and still-large current account imbalances in most of last year's most vulnerable emerging markets.**
- **The dollar is overshooting on standard fair value models, which is common at turning points in the business/policy cycle. So trade recommendations are overall long dollars and long volatility, but forecasts show more limited USD gains over the next year.**
- **With the dollar behaving as if Fed policy were on autopilot, we run the numbers on where the index should trade if Fed funds reaches 3.75% by 2017 while only a handful of other central banks follow. The result: 96 on JPM's USD index, or 12% higher than current levels.**
- **Trades: In the Macro portfolio, stay short EUR/USD and re-sell GBP and SEK vs USD. In the Derivatives portfolio, stay long USD calls vs AUD and ZAR but short the 6M6M FVAs; buy USD/BRL vs USD/MXN calls; and sell GBP/CAD straddles. In the Technical portfolio, stay long USD vs JPY, SEK, NOK, AUD, TRY, CZK and CLP.**
- **Next week: flash PMIs, NZ elections, EM trade, EMEA EM central banks**

Big, broad and deep sums up the dollar's move so far this month. The USD index is up 2% in September, with gains versus all currencies but CNY and on extraordinary volumes by some measures (chart 1). The causes are mostly the same ones that have been in play since early August – a US economic upturn in the context of non-US disappointment (notably China, Japan and Euro area); widening front-end rate spreads between USD and every major currency but GBP and AUD; and still-large current account imbalances in most of last year's most vulnerable emerging markets like Brazil, South Africa, Turkey and Indonesia (chart 2).

Chart 1: High-frequency volume data suggest that FX activity has more than recouped the collapse reported in central banks' semi-annual surveys

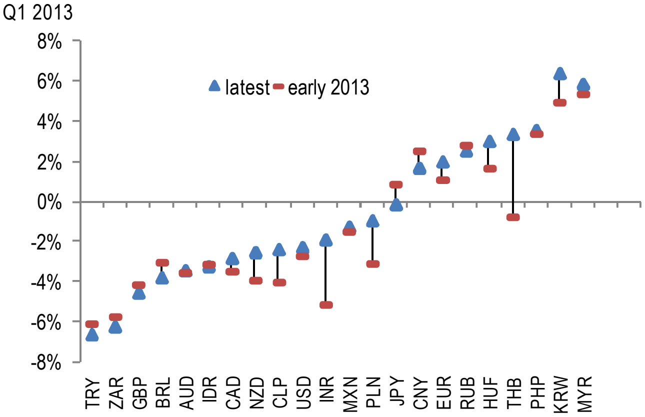
Average daily volume CME FX futures (all currencies) versus daily London spot volumes reported in Bank of England FX Committee's semi-annual survey. All figures in USD billions.



Source: J.P. Morgan

Chart 2: What adjustment? Current account deficits have not improved meaningfully for many of 2013'2 vulnerable countries

Current account balances across countries as % of GDP; latest figure versus Q1 2013



Source: J.P. Morgan

Still, the dollar is overshooting on standard fair value models, as if front-loading a Fed cycle which will play out over three years and dismissing the prospects of rate normalisation elsewhere. These sorts of extensions are common at turning points in the business/policy cycle even if they eventually fade, which is why the trade recommendations are long dollars and long volatility but the forecasts show more limited gains over the next near. As a thought exercise, however, we run the numbers on how high the dollar could climb once the Fed's neutral rate projections of 3.75% are discounted, viewed in tandem with how much a few other central banks are likely to tighten too over the next three years. The result: 96 on JPM's USD index, so 3% annually and 12% cumulative. That's less than the dollar scored in the mid-to-late 1990s when it benefitted from bubble-driven equity and M&A flows, but it's still a

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decent showing driven by the unprecedented coincidence of the BoJ and ECB running zero interest-rate policies simultaneously.

Like 1999, but without the bubbles and the miracles

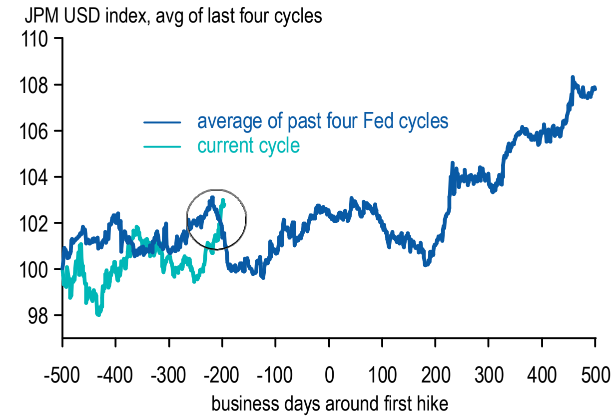
We've been anticipating and positioning for this USD rally since early August, but the speed of its gains are well outside our 2014 target (see *The window is closing—neutralise USD shorts* in *FX Markets Weekly*, August 1). Two parts of the story we've gotten correct are that US front-end rates would move up towards the Fed dots as the US economy accelerated, and that FX volatility was so mispriced that rising US rates would undermine FX carry by year-end (see *Great Moderation 2.0 is leaving the building* published September 9). One part we've missed this summer is the extent of growth disappointment outside the US, which with Europe has meant more ECB easing and with China has meant unusually steep commodity price declines for a time when the global economy is expanding near trend.

Like every Fed normalisation cycle, this one too will have some unique properties. Charts 3 and 4, however, are a reminder of the historical record based on Fed tightenings that began in 1987, 1994, 1999 and 2004. As we've highlighted several times over the past year as markets approach the end of easy money, the dollar index's path is erratic on average in the two years before the Fed moves because the currency remains a low-yielder until the Fed actually tightens (see *The beginning of the end of easy money* published May 24, 2013). As the dollar become a higher yielder within the G10 and less of a low-yielder relative to many emerging markets, USD gains broaden and accelerate such that the index typically rallies about 6% in the two years after the first Fed hike (chart 3). This average obscures huge variance across the past four Fed cycles, however. Judging from the index's performance from two years before the first hike to two year after, the index gained about 30% around the 1994 episode and 20% around 1999, but lost 5% around 1987 cycle and 10% around 2004 (chart 4).

The international context is always key. The 1994 cycle generated significant stress in emerging markets (Mexican Peso Crisis), while the 1999 one occurred alongside a bubble in US stocks and cross-border M&A activity, both of which amplified the dollar's standard gains from widening rate differentials. The 1987 and 2004 cycles occurred with historically-wide US current account deficits, which mitigated the benefits from rising US rates. In addition during the 2004 cycle, the EM (and particularly Chinese) growth surge was so transformative for commodity prices and DM-to-EM capital flows that the Fed's 25bp per meeting rate hikes soon became a sideshow.

Chart 3: The dollar is trading only slightly ahead of what the average Fed cycle delivers

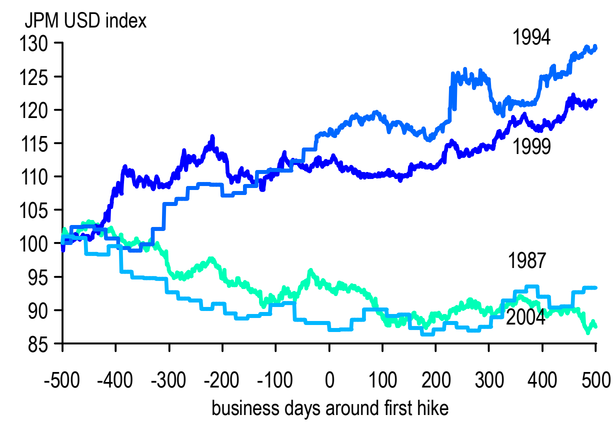
JPM USD nominal effective index in the two years before and after the first Fed hike. Average (blue line) based on Fed hikes in 1987, 1994, 1999 and 2004. Current cycle (green line) assumes first hike in June 2015.



Source: J.P. Morgan

Chart 4: The 2015 cycle will probably look like 1999 (minus the bubbles in equities and cross-border M&A)

JPM USD nominal effective index in the two years before and after the first Fed hikes in 1987, 1994, 1999 and 2004.



Source: J.P. Morgan

If we had to guess which of the four Fed/USD cycles in chart 4 the current one would most resemble, it would probably be 1999 – but without the massive asset bubbles in public markets (housing in some countries is another question). So as in 1999, the dollar will continue to benefit from widening rate differentials versus most G10 currencies and some EM ones with low yields (SGD, TWD) or large imbalances (BRL, ZAR, TRY), but without the external funding crises which attended the 1994 Fed cycle. Some allege that the current USD cycle will have a unique structural edge to it too because the US current account deficit will continue to shrink due to rising energy production and corporate on-shoring. There's lots of evidence that the US current account deficit is declining due to rising energy production – just scan the line items of the quarterly balance of payments report – but little proof that this balance of payments trend is a significant FX issue. This week's US current account release confirmed two long-standing reasons why energy production is still a red herring for the dollar outlook: (1) the fall in the US's energy deficit is coming at the expense of OPEC countries with USD pegs (chart 5) rather than against Canada and Mexico with floating currencies; and (2) the US remains a huge net exporter of corporate investment (about $200bn annually) despite the competitive advantage that cheaper domestic energy is supposed to convey (see also *Energy independence & the dollar in pictures* published March 19, 2014). Thus we're comfy in the company of other dollar bulls as long as the conversation is about business cycle rotations rather than about productivity miracles.

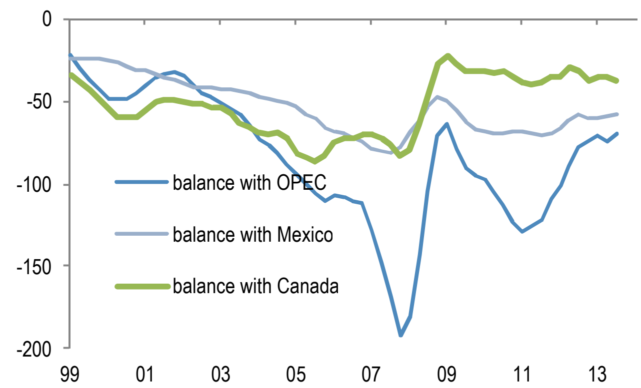
Front-loading the Fed delivers USD index near 96 (+12%)

As compelling as the current USD narrative is, there are two wrinkles: USD longs are at multi-year highs on some measures like the IMM (chart 6), and the dollar is trading well ahead of what would be justified by recent moves in interest rate spreads this year (chart 7). The obvious explanation for such extreme positioning and stretched valuations is that the **currency market is front-loading in 2014 a Fed cycle which requires three years to complete** as the funds rate moves to the FOMC's projected 3.75% neutral rate in 2017. Perhaps currency investors are more comfortable discounting this event than bond market investors are (despite negative carry in both the bond and FX trade) because non-US economies are delivering enough easing (ECB, BoJ) or mediocre growth/large imbalances (several emerging markets) to support declines in non-dollar currencies.

This overshoot isn't terribly problematic for strategy or forecasts because it is quite familiar. Recall that the dollar overshot in spring 2013 because many did not distinguish between Fed tapering and Fed tightening, just as it undershot during the years of Fed QE and US fiscal drama (debt ceiling debate, government shutdown). Our usual approach in these circumstances is to focus the trade recommendations around exploiting momentum as long as some fundamental driver remains in motion (right now, that's the US economic upturn and the still-too-low level of US front-end rates versus the dots). Hence the long USD and long volatility positions we continue to run in *Macro*, *Technical* and *Derivatives Portfolios* (see pages 8, 26 and 30, respectively). But the forecasts assume more rationale pricing will prevail medium-term, either because the US economy stabilises , non-US economies revive or non-US economies start lifting rates too (next year should see at least these five lifting -- BoE, RBNZ, BoC, SARB and Banxico).

Chart 5: US energy production continues to come at the expense of countries on USD pegs (OPEC) rather than Canada and Mexico

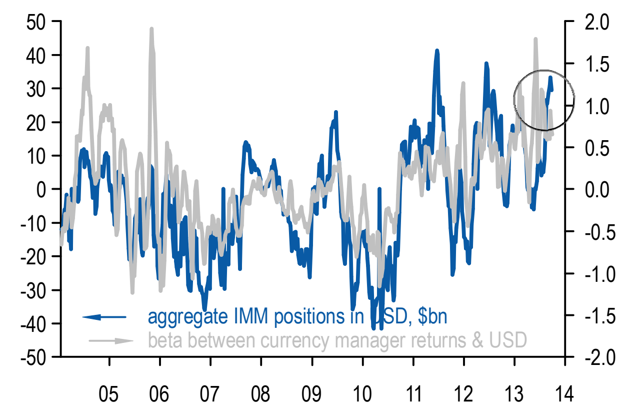
US trade deficit against Canada, Mexico and OPEC, 4-quarter rolling sum, $ billion



Source: J.P. Morgan

Chart 6: USD longs by CTAs are approaching record levels, and currency managers hold above-average length

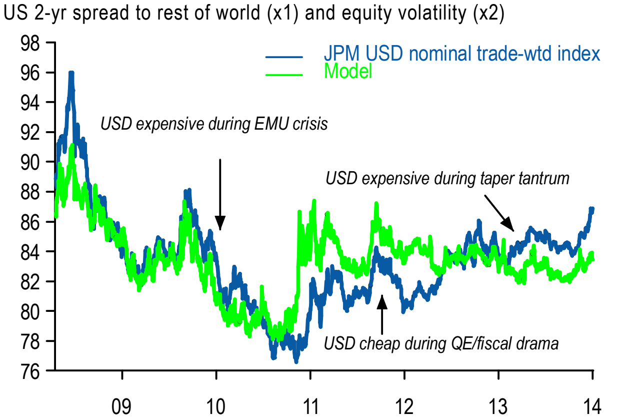
Aggregate IMM positions in USD (in billions) and currency manager return beta versus trade-weighted USD (positive value indicates long USD position)



Source: J.P. Morgan

Chart 7: USD under and overreactions are common

Actual versus predicted level of JPM USD index from regressing on average US 2-yr spread to rest of world (x1) and equity volatility (x2)



Source: J.P. Morgan

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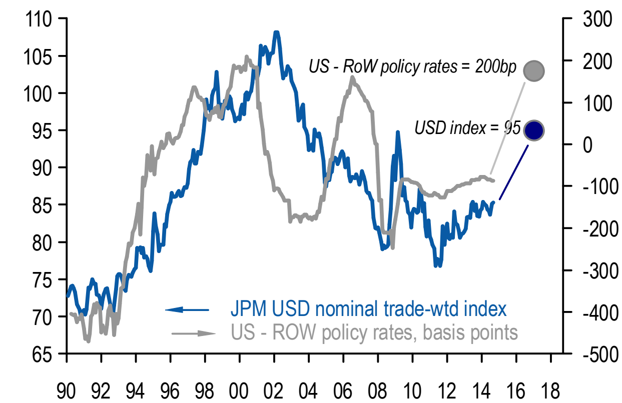
As a thought exercise, chart 8 shows where JPM's USD index (JPMQUSD) should trade over the duration of this Fed cycle, if the FOMC delivers on its 2017 projection of a 3.75% neutral rate, and assuming non-US central banks deliver J.P. Morgan's (unofficial) projections of foreign policy rates by that time of 4% for the RBNZ, 3.5% for the BoE, BoC and RBA and 0% for the ECB and BoJ. (These projections are unofficial from our Economics team since JPM forecasts generally cover a rolling 12-month horison). True, this framework omits the emerging markets pairs which are also part of the trade-weighted index, but simply including the G10 delivers a decent fit between the dollar and policy rate differentials (chart 8) that the approach is reasonable shorthand. By 2017 the US rate advantage versus the rest of the world should be about 200bp, which maps to a level on the JPM index of about 96, or 3% annually and 12% cumulative. That performance would be less than the dollar scored in the mid-to-late 1990s when it benefitted from bubble-driven equity flows (4.25% annual USD index gains then), but it is a still a decent showing driven by the unprecedented coincidence of the BoJ and ECB running zero interest-rate policies simultaneously.

Chart 8: A 200bp policy rate spread by 2017 is worth another 12% on the USD index

JPM USD index versus Fed funds rate spread versus rest of the world (weighted)



Source: J.P. Morgan

Next week: flash PMIs, NZ elections, EM trade, EMEA EM central banks

The **Flash PMIs** from the US, Japan, Euro area and China will be among the most important releases next week.

In the **US**, durable good (Thursday) and 2Q final GDP (Friday) will be quite important. Other notable releases include existing and new home sales (Monday and Wednesday), FHFA HPI (Tuesday) and consumer sentiment (Friday). Fed speak will be heave and more interesting: Dudley (noting, slight dove; Monday), Bullard and George (both nonvoting slight hawks; Tuesday), Mester (voting, slight hawk) and Evans (nonvoting, dove; both Wednesday) and Lockhart (nonvoting, center; Thursday). **Canada** only has retail sales (Tuesday). BoC's senior Deputy Governor Wilkins will speak on Monday.

Tier one releases are light in **Euro area** as well with the exception of the Flash PMIs. Consumer confidence (Monday, Wednesday), the German IFO (Wednesday) and German retail sales and GfK consumer confidence (Friday) will be of interest. In **UK**, nationwide HPI is released 25th-30th. In **Sweden**, consumer confidence and the economic tendency survey (Wednesday) will be important, as will be trade (Friday).

Japan's calendar is light with only the core CPI on Friday. The Antipodean calendar is quite sparse with only New Zealand releasing trade on Wednesday. **New Zealand** elections (20th) will be quite important. Incumbent, centre-right National Party expected to retain power in this Saturday's Election, with the usual reliance on minor party support (*NZ 2014 Election Preview*). There are two risks associated with the event. First, that an election result takes sometime to emerge (for example, it took over 2 weeks for a result to be decided in the 2005 general election, and a week for the National Party's governing alliance to be decided in 2008). Second, a surprise Labour/Greens victory would be bullish for NZD vol and bearish for NZD, given the considerable uncertainty it would introduce around New Zealand's fiscal and monetary policy frameworks (*NZ General Election - A surprise outcome would be strongly positive for NZD vol and negative for the NZD*). **China** has no releases aside from the Flash PMI.

In **EM Asia ex-China**, Taiwan has export orders (Monday) and IP (Tuesday) and Hong Kong trade (Thursday).
In **EMEA EM**, Hungary releases its current account (Tuesday) and unemployment (Friday), Poland releases retail sales (Tuesday) and South Africa releases employment (Tuesday). **Latam's** calendar includes Mexico's retail sales (Tuesday), Brazil's current account, FDI and consumer confidence, and Mexico's economic activity index (Wednesday) and Mexico's trade (Friday).

Six central banks meet next week: Israel (Monday), Hungary (Tuesday), Czech Republic, Taiwan and Turkey (Thursday) and Colombia (Friday). We are looking for no change in any of these meetings.

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Table 1: Main Trade Recommendations

Trade type	Position
Macro Portfolio	
Cash (new)	— Long **USD/SEK**. — Short **GBP/USD**.
Cash (existing)	— Stop out of **GBP/AUD** (-2.01%). — Stop out of **EUR/BRL** (-2.18%). — Stay long **EUR/GBP** (-1.58%).
Options (new)	— Initiate long a 6-month 1.27-1.24 **EUR/USD** put spread partially funded by selling a 1.3350 call RKI 1.3750. — Initiate long a 2-month 1.13-1.15 **NOK/SEK** call spread 1x2 notional. — Buy 2-month 1.1150 **AUD/NZD** call, selling a 1.12 call, RKI 1.14.
Options (existing)	— Unwind long a 6-month 1.33-1.30 **EUR/USD** put spread partially funded by selling a 1.39 call RKI 1.41 (+1.3%). — Unwind short **USD/KRW** via a 3-m 1020/1000 put spread (-0.43%). — Stay short 3-m **USD/CNY** NDF. — Hold longs in 1Y **EUR/CHF** ATMF put for 1.8125%.
Derivatives Portfolio (relative value)	
RV (new)	— Buy 6M 25D **USD call / BRL put** vs. **USD call / MXN put**, delta-hedged — Sell 3M **GBP/CAD** straddle
RV (existing)	— Buy 2Y **AUD/JPY** ATM put, sell 5Y ATM put, equal notionals. — Buy 6M **silver** 17% OTMS puts vs. **gold** 10% OTMS puts, equal USD notional, not delta-hedged — Buy 1Y **USD put / IDR call** vs. sell 3M **USD put / IDR call**, 11300 strike on both legs, 1.5:1 notional — Sell 2M **EUR put / RUB call** vs. buy 6M **EUR put / RUB call** struck at 46.50 on both legs — Buy 6M 35D **AUD put / JPY call** vs. **USD put / JPY call**, equal JPY notional — Buy **SEK/JPY** 6M 25D risk-reversal, delta-hedged — Sell 3M **EUR/MXN** 25D risk-reversal, delta-hedged — Sell **USD/ZAR** 6M6M FVA vs. buy 6M 50D **USD call/ZAR put**, 100K USD vega vs. $7mio notionals — Sell **AUD/USD** 6M6M FVA vs. buy 6M 50D **AUD put/USD call**, 100K USD vega vs. $5mio notionals — Close long 2Y **GBP/USD** vs. sell 2Y **GBP/CAD** DNS spread, equal vega at a loss (-0.7vol PNL). — Close long **EUR/USD** and **GBP/USD**, sell **EUR/GBP** 1Y straddles, in 0.6:0.55:1.3 USD vega ratios(-1.7vol). — Close long 6M **AUD/USD** vs short 6M **AUD/CAD straddles**, 1:1.2 vega (PNL -1.0vol) — Close long 3M **NZD/USD** vs. **USD/MXN** ATM straddles, in 1:0.7 vega at +0.2vol profit — Close long 1M **GBP/CHF** vol swap vs. sell 2M1M **GBP/CHF** FVA (PNL +1.2vol)
Technical Portfolio	
Cash (new)	— Buy **USD/SEK, USD/ZAR** and sell **AUD/USD**
Cash (existing)	— Stay long **USD/JPY**, **USD/CLP** and short **CAD/MXN** — Outlook trades: stay long **USD/CZK** — Elliott Model Portfolio: Long **USD/SEK**, **TRY/ZAR**, **USD/RON**, **USD/NOK, USD/TRY, EUR/NZD** and short **PLN/HUF.** Took profit in **GBP/CAD**

Source: J.P. Morgan.

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Macro Trade Recommendations

- **The FOMC did not take out the "considerable period" language but revised its "dots" higher. Look for USD strength to continue as the Fed becomes incrementally less dovish.**
- **Re-enter USD longs vs. SEK and GBP (both in cash). The existing USD long vs. EUR has been restructured to reflect the recent decline in EUR/USD.**
- **The inability of sterling to rally after the 'No' win in the Scottish referendum is also supportive of a bearish cable view.**
- **Pare down EM longs. Be long EM only via CNY vs. USD. Short EUR/BRL was stopped out and USD/KRW was unwound.**
- **Forecast revisions by Norges Bank open the way for a limited upgrading in NOK, while Riksbank's stance deserves a bearish view on SEK. Turn long NOK/SEK.**
- **Turn long AUD/NZD given the recent underperformance of AUD combined with the divergence vs. NZ in housing and relative commodity prices.**
- **Closed trades: Restructure existing EUR/USD bearish seagull. Short GBP/AUD and EUR/BRL and long EUR/GBP were all stopped out. Unwind long USD/KRW put spread.**
- **New trades: Long USD/SEK and USD/GBP in cash. Short EUR/USD via long 6-month 1.27-1.24 EUR/USD put spread partially funded by selling a 1.3350 call RKI 1.41. Long AUD/NZD via long 2-mo 1.1150 call vs. selling a 1.12 call, RKI 1.14. Buy a 1.13-1.15 NOK/SEK call spread in 1x2 notional.**
- **Existing trades: Short 3-mo USD/CNY NDF. Long a 1Y EUR/CHF ATMF put.**

FX trade recommendations

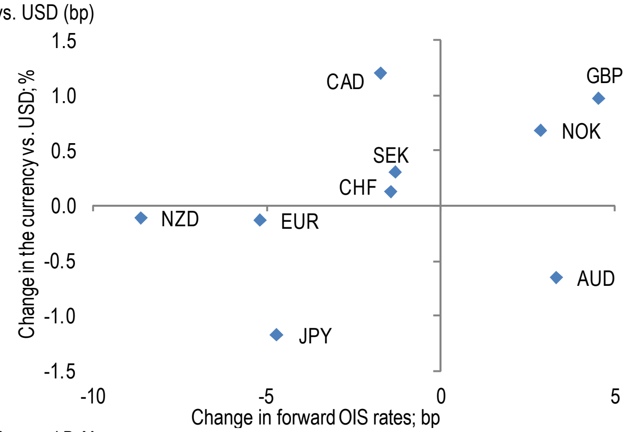
Trade recommendations in this section are mostly spot, for easier incorporation into the monthly *Global Markets Outlook & Strategy* (*GMOS*), which outlines J.P. Morgan's flagship model portfolio across bonds, credit, equities, fx and commodities. Some directional option trades are included here as alternatives to cash position, and as a complement to relative value trades discussed in *FX Derivatives* section of this publication (p.26).

Current recommendations are marked to market at Friday afternoon London time. A complete inventory of closed trades is presented at the end of this section along with performance statistics such as success rates and average returns per trades.

The past week was an action-packed one, with the FOMC, the Scottish referendum, ECB's first-ever TLTRO, Swedish elections, SNB and Norges Bank all on the calendar. The FOMC did not take out the "considerable period" language as anticipated, but it did raise the forecast for the target rate for the end of 2015 and 2016 by 20-25bp. The US rate markets responded in kind, pushing front-end US yields and yield spreads to the rest of DM to a new local high, giving a boost to the USD as well. The trade-weighted USD index reached its highest since May 2010 intra-week. In G10, the underperformance of JPY and AUD stood out—JPY because it reached its weakest level vs. USD since August 2008, and AUD because it is the only G10 currency which weakened despite a widening in interest rate differentials vs. the US (chart 1; more on this below).

Chart 1: AUD/USD weakened in the past week despite higher interest rates vs. the US

1-week change in currencies vs. USD (%) vs. 1-week change in 2Yx3M OIS rates vs. USD (bp)



Source: J.P. Morgan

Chart 2 shows the evolution of the Fed dots representing their forecast for the target rate for the end of 2015, 2016 and 2017. While the rate market did adjust higher to the release, it is notable that the gap between the Fed's forecast for the target rate and market expectations has been now stretched to more than 100bp. Since the end of last year, the Fed's forecast for the target rate has gone up nearly 75bp, and by contrast, US rates for that period have increased by a mere 14bp. With the Fed turning incrementally less dovish and the data continuing to indicate recovery, we think that front-end rates should gradually head higher, strengthening the USD alongside. As a result, we add to our current USD longs this week by re-entering USD longs vs. SEK and GBP. In addition, we restructure our outstanding EUR/USD short via a bearish seagull given the recent decline in the pair.

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We also find value in select relative value trades and in particular, recommend long AUD/NZD and long NOK/SEK this week (details below).

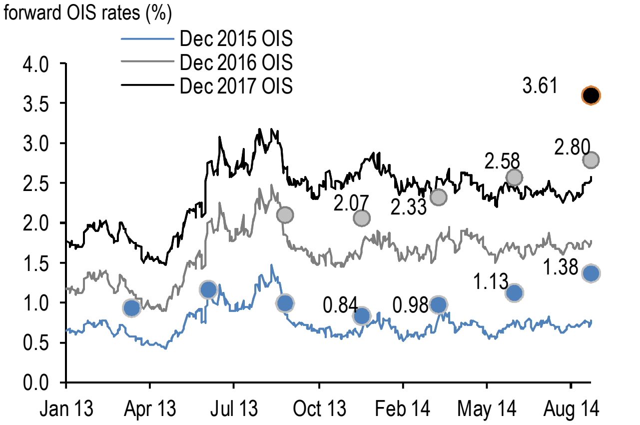
Trades

- **Re-enter long USD/SEK**
  The motivation for this trade is the ongoing divergence between Risksbank and Fed monetary policies, which is only going to widen further. As noted above, US rates are look low relative to the Fed's own targets and warrant additional term premium. As this gets priced into markets, it will be supportive of the USD. On the other hand, SEK should continue to be weighed down by Riksbank's dovish stance, which was also reiterated in the minutes this week. Some members believed that monetary policy should react asymmetrically to inflation (i.e. that higher than expected inflation does not necessarily have to lead to a less expansionary monetary policy). Even Governor Ingves said he did not think it was a problem in inflation was slightly above target for sometime. And even though Sweden's 2Q GDP was stronger than expected at 0.7%q/q, the data for 3Q has been mixed thus far (the ETI survey improved, while the PMI data were down both in the manufacturing and the services sector; hard data such as IP and retail sales were down in July), thus suggesting some slowing in growth (***Sweden: making sense of the GDP numbers***). Finally, the weekend elections resulted in victory for the opposition but with a minority as expected (43.7% of the votes).The incumbent Alliance coalition garnered 39.3% of the votes and the far-right Sweden Democrats gathered 12.9% of the votes. Formation of the government will take some time and the key question now is whether the Alliance would be happy to form a government with tacit support of the Sweden Democrats, or whether the opposition is able to form a government. The developments over the weekend could not have been less decisive, which leaves investors facing a period of uncertainty.

  — **Initiate long USD/SEK in cash at 7.139. Stop at 6.960.**

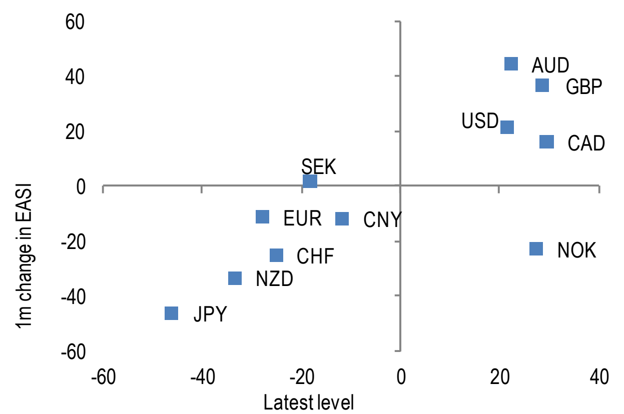
- **Initiate long AUD/NZD**
  This week we recommend going long AUD/NZD. The underperformance of AUD is notable since it is one of the three G10 countries where interest rates actually increased relative to the US. The weakening in AUD likely reflects the rich valuations from a couple of weeks ago—at that time, it was screening as one of the richest currencies on our short-term fair value models, particularly vs. NZD.

Chart 2: Front-end US rates continue to be too low vs. Fed forecasts
Fed dots (trimmed mean of FOMC members forecast for the target rate) vs. forward OIS rates (%)



Source: J.P. Morgan

Chart 3: Data momentum has been the strongest in Australia, and the weakest in Japan and New Zealand
1-month change vs. latest level in J.P. Morgan Economic Activity Surprise Index



Source: J.P. Morgan

However the recent weakening has brought AUD/NZD to near fair value, presenting a better entry level to go long. Within the Antipodes, our strategy for most of the year was to be bearish on AUD/NZD given the divergence in central bank policies. However, going forward we think that AUD is likely to be the outperformer given the divergence in housing and relative commodity prices (***Position for a reversal of fortunes in the Antipodes***). We now expect the cross to trade in 1.09-1.15 range, likely with more upside in 2015. Moreover, data momentum has been quite strong in Australia (chart 3), something that the currency has ignored so far, and weak in New Zealand. Specifically, we recommend buying a 2-month 1.1150 AUD/NZD call (35 delta) vs. selling a 1.12 call, RKI 1.14. This trade gives maximum leverage of 8.5:1 if the RKI is not triggered and leverage of 1.75:1 if the RKI is triggered.

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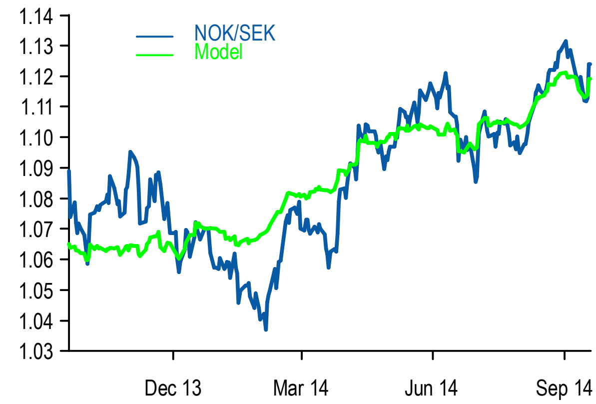
— **Buy 2-month 1.1150 AUD/NZD call (35 delta) vs. selling a 1.12 call, RKI 1.14 at 22.6bp.**

- **Position for limited upside in NOK/SEK with a 2-mo 1x2 call spread**
  The revisions to the Norges Bank's conditional rate profile this week were moderately positive for NOK insofar as the Norges Bank dropped the 30% bias to cut rates that it had instigated at the June MPR. The Norges Bank heeded both the better-than-forecast performance of the economy, higher-than-expected CPI and a weaker currency in a way that is reassuring for foreign investors. But at the same time the Norges Bank also pushed back the timing of the first rate hike until late 2016 in response to the lower level of global interest rates compared to June. In cutting the longer-term rate profile in this way the Norges Bank is signaling its continued opposition to a sustained, substantial appreciation in the currency. Taken as a whole the forecast revisions open the way for a limited upgrading in NOK, hence our preference to position for renewed upside in NOK/SEK through a 1x2 call spread. In contrast to the Norges Bank the Riksbank retains a bias to ease should either the recovery slow in response to European developments or inflation fail to lift in line with its still relatively aggressive forecasts. The indecisive outcome of the Swedish election was a slight disappointment for SEK, both because of the potentially lengthy process of forming a workable government capable of passing a budget bill by mid-November, but also because the Social Democrats seem more willing to court the centre-right parties than the Left Party. The less influence the Left Party has, the less chance of a material loosening in fiscal policy that would have hawkish implications for Riskbank policy.

— **Buy a 1.13-1.15 NOK/SEK call spread in 1x2 notional. Cost 25bp.**

- **Re-initiate sterling shorts vs. USD**
  The much-awaited Scottish referendum resulted in a win for the 'No' vote by a 10%pt margin (***UK: Scotland votes "no"***). Our strategy heading into this key event risk was to hold a mixture of sterling shorts in options (1.63 cable one-touch) and cash (vs EUR and AUD), since we expected the currency to command a concession entering the event. The cable one-touch was triggered two weeks ago with sizable profits, but longs in EUR/GBP and shorts in GBP/AUD were stopped out just before the referendum date. At current levels, we still find value in being short cable. The motivation is primarily the massive mispricing in the US rate market which should keep Treasuries under pressure as the Fed gradually changes it stance. Moreover, the inability of sterling to maintain its strength post the referendum also suggests an overhang of positions that could prevent outperformance in the near-term, especially given the lack of major events next week.

Chart 4: NOK/SEK is 75% explained by rate spreads. These favour NOK once more as the Norges Bank has abandoned its bias to ease
NOK/SEK = 1.0274 + 0.075 (2Y NOK-SEK swap spread). R2 = 73%, SE = 0.0115



Source: J.P. Morgan

— **Initiate short GBP/USD in cash at 1.634. Stop out at 1.666.**

— **Short GBP/AUD in cash was stopped out on September 11. Marked at -2.01%.**

— **Long EUR/GBP was stopped out on September 19. Marked at -1.58%.**

- **Shorts in EUR/BRL were stopped out**
  We had recommended adding this trade since we thought that a so-so payrolls, a more accommodative ECB shift and a general improvement in the risk backdrop would moderate USD gains. BRL also provided a good idiosyncratic story gain, under the assumption of the opposition consolidating its lead in the polls. That did not transpire, as the incumbent bounced back in the polls and the recent runoff simulations showing a very tight race. Moreover, the continued rise in US rates and the latest FOMC have been unsupportive of carry currencies including BRL. We were stopped out of this intra-week.

— **Short EUR/BRL in cash was stopped out on September 12. Marked at -2.18%.**

- **Stay short EUR/USD exposure but restructure the trade**
  The ECB's first-ever TLTRO disappointed this week with a take-up of only €83bn vs. our own expectation of €150bn. The softer demand for funds was driven due to a combination of uncertainty around AQR/ stress tests and

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banks still coming up to speed with the new facility. However, the results do not change our longer-term bearish view for EUR/USD though, as the ECB will stay dovish and look to increase its balance sheet size through a combination of TLROs and private QE. The allotment for September and December TLTROs needs to be looked at in aggregate and we expect uptake of €175-200bn in December (*Putting the TLTRO disappointment in perspective: keep receiving 2Yx2Y EONIA*). More importantly, the bigger driver of our bearish view is the large mispricing in US rates as discussed above, which should continue to keep pushing US rates and thus the USD higher. We thus stay bearish EUR/USD, but just restructure the trade to reflect the recent decline in the pair.

- **Take profits on long 6-month 1.33-1.30 EUR/USD put spread partially funded by selling a 1.39 call RKI 1.41 at 26.7bp. Marked at 155.8bp.**
- **Initiate long 6-month 1.27-1.24 EUR/USD put spread partially funded by selling a 1.3350 call RKI 1.3750 at 13.7bp.**

- **Cut USD short vs. KRW but maintain it vs. CNY**
The recent change in FOMC's stance and the substantial weakness in JPY have increased the risk of further KRW underperformance. Hence, we recommend unwinding exposure to this trade. CNY meanwhile continues to be better insulated to USD strength. The improvement in China's trade balance should keep the PBoC from engineering depreciation in the currency, despite softness in other data. This should keep the carry attractive from risk-adjusted standpoint.

- **Unwind long 3-m USD/KRW put spread at 1020/1000 at 53.6bp. Marked at 10.5bp.**
- **Stay short 3-mo USD/CNY NDF expiring on 27 October at 6.1670. Marked at +0.50%.**

- **Hold 1Y ATMF EUR/CHF put**
The SNB yet again disappointed CHF bears this week, failing to cut the depo rate for the second time despite ECB action. As we wrote in a preview of the meeting, failure to cut would most likely be with a likely test of the 1.20 floor, and we stick to this view. In targeting the currency the SNB of necessity relinquishes the freedom to pursue an independent monetary policy. In failing to match ECB easing for the second consecutive meeting, the SNB is not only allowing EUR-CHF rate differentials to narrow in a wait that further impedes capital outflows from Switzerland, it sends a signal that it is unwilling, or is at least highly reluctant, to do whatever it takes on interest rate policy to maintain the currency floor. Failing to impose negative depo rates on Switzerland may make sense from the perspective of domestic financial stability (an over-heating housing market), but it starts to erode the credibility of the currency floor on the margin, irrespective of the SNB's commitment to intervention. That commitment to intervene could well be tested in the coming month or two, even though the SNB is sensitive to how the market could interpret this week's inaction and changed its commentary to include the possibility of immediate further action should this be necessary as a way of keeping the market on a high level of alert and hence slowing the decline in EUR/CHF. But in our opinion, the SNB is losing its ability to sustain EUR/CHF materially above the floor with policy threats alone. Hence, we hold on to this trade.

- **Bought a 1Y ATMF EUR/CHF put (strike 1.2088) for 1.81% on March 14. Marked at 1.08%.**

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Table 1.Current FX spot recommendations and P&L

Active trades are marked to market on Friday afternoon London time.

Long	Short	Entry date	Entry level	Current level	Stop loss	P&L since entry	Comments
USD	**SEK**	19/09/14	7.139	7.139	6.960	0.00%	New trade
USD	**GBP**	19/09/14	1.634	1.634	1.666	-0.01%	New trade
AUD	**GBP**	05/09/14	1.740	1.823	1.775	-2.01%	Stopped out on Sep 11
BRL	**EUR**	05/09/14	2.912	3.035	2.975	-2.18%	Stopped out on Sep 12
EUR	**GBP**	01/08/14	0.797	0.787	0.785	-1.58%	Stopped out on Sep 19

Table 2. Current FX derivatives (directional/non-RV) recommendations and P&L

Active trades are marked to market on Friday afternoon London time.

Description	Entry date	Expiry date	Days to expiry	Entry level	Current level	P&L since entry*	Comments
Buy 2-month 1.1150 AUD/NZD call (35 delta) vs. selling a 1.12 call, RKI 1.14	19/09/14	25/11/14	67	0.226%	0.226%	0.00%	New trade
Buy a 1.13-1.15 NOK/SEK call spread in 1x2 notional	19/09/14	25/11/14	67	0.250%	0.250%	0.0%	New trade
Buy a 6-month 1.27-1.24 EUR/USD put spread, sell a 1.3350 call RKI 1.3750	19/09/14	20/03/15	182	0.137%	0.137%	0.00%	New trade
Buy a 6-month 1.33-1.30 EUR/USD put spread; sell a 1.39 call RKI 1.41	15/08/14	17/02/15	151	0.267%	1.558%	1.3%	Unwind
Short 3-m USD/CNY NDF	25/07/14	27/10/14	38	6.187	6.156	0.50%	Hold
Buy 1-y EUR/CHF 1.2088 Put	14/03/14	16/03/15	178	1.81%	1.08%	-0.7%	Hold
Buy a 3-m USD/KRW put spread at 1020/1000	25/07/14	23/10/14	34	0.54%	0.11%	-0.43%	Unwind

* P&L in % of asset unless otherwise specified

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I. Performance statistics 2008 – 2014

	2014	2013	2012	2011	2010	2009	2008	2008-2013 avg
***I. Macro Trade Recommendations* portfolio**								
Cash								
# of trades	31	54	28	42	89	61	85	56
Success rate	52%	56%	61%	60%	53%	64%	59%	58%
Average return per trade (%, unweighted)	-0.1%	0.5%	0.2%	0.0%	0.0%	1.0%	2.0%	0.7%
Average holding period (calendar days)	27	20	26	25	23	20	31	24
Derivatives (non-digital)								
# of trades	27	32	33	27	27	21	3	24
Success rate	48%	31%	61%	74%	62%	62%	0.0%	55%
Average return per trade (%, unweighted)	-0.2%	-0.1%	0.1%	0.9%	0.3%	0.5%	-0.6%	0.2%
Average holding period (calendar days)	50	65	58	71	54	59	66	60
Derivatives (digital)								
# of trades	3	3	5	10	4	21	5	7
Success rate	100%	67%	80%	50%	25%	38%	20%	47%
Average return per trade (%, unweighted)	32.6	24.5	11.9	-0.9	-6.7	4.7	-3.6	5.4
Average holding period (calendar days)	78	60	38	87	60	55	54	62
***II. FX Derivatives* portfolio (relative value)**								
Vol r.v								
# of trades	37	36	41	37	45	32	13	34
Success rate	49%	58%	54%	62%	69%	63%	77%	60%
Average return per trade (unweighted)*	-0.2	0.3	0.1	0.1	0.7	0.1	0.3	0.2
Average holding period (calendar days)	97	73	81	47	99	73	53	78
Vol plus directional r.v								
# of trades	1	3	11	14	4	-	-	7
Success rate	100%	33%	91%	79%	50%	-	-	76%
Average return per trade (bp, unweighted)	54.1	-182	37	16	-8	-	-	3.3
Average holding period (calendar days)	54	138	81	27	50	-	-	59
Digital								
# of trades	1	6	6	2	-	-	3	4
Success rate	0%	33%	50%	50%	-	-	33%	39%
Average return per trade (%, unweighted)	-26.0	-6.5	-7.5	-12.5	-	-	7.6	-6.2
Average holding period (calendar days)	93	92	51	25	-	-	33	61
***III. Technical Strategy* portfolio**								
# of trades	48	34	20	33	52	46	87	46
Success rate	42%	56%	40%	58%	46%	57%	43%	48%
Average return per trade (%, unweighted)	0.5%	0.6%	0.4%	0.1%	0.0%	0.1%	0.2%	0.2%
Average holding period (calendar days)	74	148	114	54	36	10	9	49

*P&L in vol points

Chart 1: 2008-2014 performance summary: Average returns per trade

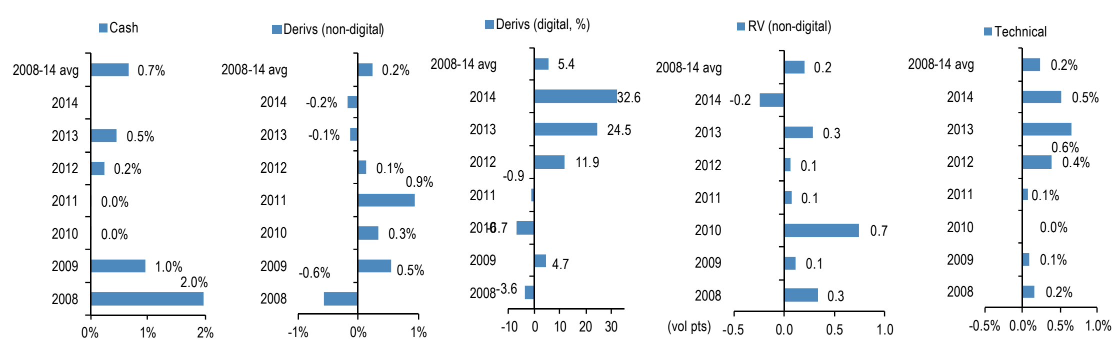
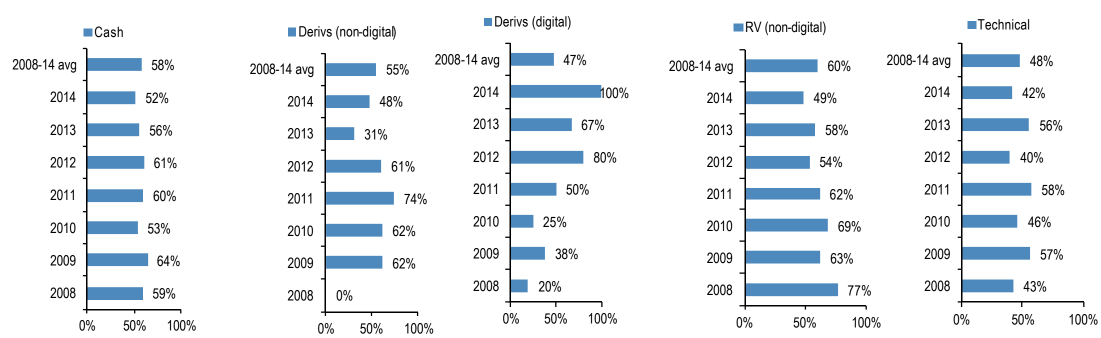


Chart 2: 2008-2014 Performance summary: Success rate by type of trades



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II. Closed trades 2014

Macro Trade Recommendations portfolio

Cash

Long	Short	Entry date	Entry level	Exit date	Exit level	P&L
MXN	AUD	26/11/13	11.96	17/01/14	11.68	2.4%
GBP	NOK	31/01/14	10.36	10/02/14	10.14	-2.1%
USD	NOK	31/01/14	6.29	07/02/14	6.19	-1.7%
GBP	CAD	17/01/14	1.80	04/02/14	1.80	0.1%
CHF	SEK	24/01/14	7.20	14/02/14	7.23	0.3%
GBP	EUR	14/02/14	0.82	28/02/14	0.82	-0.5%
NOK	SEK	14/02/14	1.06	14/03/14	1.07	1.5%
USD	AUD	17/01/14	0.88	28/03/14	0.92	-3.9%
CAD	SEK	28/03/14	5.88	04/04/14	5.96	1.5%
INR	EUR	04/04/14	82.13	22/04/14	84.05	-1.6%
USD	SEK	04/04/14	6.55	25/04/14	6.57	0.3%
AUD	NZD	04/04/14	1.08	25/04/14	1.08	0.0%
BRL	CLP	04/04/14	247.75	25/04/14	251.51	1.9%
USD	CAD	25/04/14	1.10	16/05/14	1.09	-1.6%
NOK	GBP	04/04/14	9.95	20/05/14	10.01	-0.6%
NOK	SEK	04/04/14	1.09	04/06/14	1.11	1.9%
NOK	EUR	04/04/14	8.21	05/06/14	8.13	1.2%
JPY	NZD	30/05/14	86.40	19/06/14	88.80	-2.1%
JPY	GBP	04/04/14	170.80	19/06/14	173.28	-1.7%
GBP	SEK	03/07/14	11.73	10/07/14	11.66	-1.4%
EUR	NOK	27/06/14	8.38	03/07/14	8.36	1.0%
EUR	SEK	27/06/14	9.19	10/07/14	9.23	0.3%
GBP	NOK	27/06/14	10.46	18/07/14	10.55	0.8%
NZD	AUD	18/07/14	1.08	24/07/14	1.10	-1.3%
USD	NOK	03/07/14	6.21	01/08/14	6.27	0.8%
PLN	RON	27/06/14	1.06	01/08/14	1.06	0.5%
USD	JPY	01/08/14	102.53	05/09/14	104.90	2.3%
USD	SEK	01/08/14	6.87	05/09/14	7.09	3.2%
AUD	GBP	05/09/14	1.74	11/09/14	1.79	-2.0%
BRL	EUR	05/09/14	2.91	12/09/14	2.99	-2.2%
EUR	GBP	01/08/14	0.80	19/09/14	0.79	-1.6%

Derivatives (non-digital)

Non-Digital Options	Entry date	Entry level	Exit date	Exit level	P&L (%)
Buy 2-mo NOK/SEK 1.11-1.13 1x2 ratio call spread	01/11/13	0.15%	02/01/14	0.00%	-0.15%
Buy 6-mo AUD/NZD 1.10-1.06-1.02 put fly	26/11/13	0.60%	17/01/14	1.27%	0.67%
Buy 6-mo USD/TRY 2.10 call RKO 2.25	26/11/13	0.37%	23/01/14	0.00%	-0.37%
Buy 4-mo USD/JPY 104-108 call spread RKI 110	26/11/13	0.76%	31/01/14	0.91%	0.15%
Covered call in USD/CAD: buy cash at 1.0950 vs sell 2-mo 1.1250 Call	17/01/14	-0.42%	14/02/14	-0.03%	0.40%
Buy 2-mo Worst of GBP/USD call, USD/CAD call, ATMS	24/01/14	0.36%	21/02/14	0.57%	0.21%
Buy 1-mo NZD/USD 0.79 Put, sell 0.8250 Call RKI 0.8450	31/01/14	0.28%	28/02/14	0.00%	-0.28%
Buy 1-mo NZD/USD 0.79 Put, sell 0.8250 Call RKI 0.8450	31/01/14	0.28%	28/02/14	0.00%	-0.28%
Buy 1-mo GBP/USD 1.69 Call, sell 2-mo 1.39 EUR/USD Call	14/02/14	-0.06%	14/03/14	0.00%	0.06%
Sell AUD/USD 2-mo 0.85 (as part of covered put)	17/01/14	-0.56%	21/03/14	0.00%	0.56%
Buy 2-mo EUR/PLN 4.30 Call, sell 4.35 Call RKI 4.45	24/01/14	0.45%	21/03/14	0.05%	-0.40%
Buy 6-mo USD/IDR 12000-13000 call spread	26/11/13	2.51%	26/03/14	0.60%	-1.91%
Sell a 2m GBP/CAD vol swap (units are vega)	21/03/14	7.70%	04/04/14	6.91%	0.79%
Sold 2-mo 1.39 EUR/USD Call	14/02/14	-0.06%	14/04/14	0.00%	0.06%
Buy 3-mo USD/MYR NDF at 3.3130	17/01/14	0.00%	24/04/14	-2.22%	-2.15%
Buy 3-mo USD/PHP NDF at 45.10	17/01/14	0.00%	24/04/14	-1.33%	-1.33%
Buy 1-mo NZD/USD risk reversal (0.8750 call, 0.8400 put)	25/04/14	0.10%	30/05/14	0.00%	-0.10%
Buy 6-mo USD/CZK 20.75 call, sell 21.50 call RKI 21.75	26/11/13	0.72%	30/05/14	0.00%	-0.72%
Long 1-mo 0.89/0.88 USD/CHF put spread vs. short 1-mo 0.915 call	30/05/14	0.12%	06/06/14	0.26%	0.14%
Sell a 1-mo 1.120 NOK/SEK call	16/05/14	0.26%	19/06/14	0.00%	0.26%
Buy a 2-mo EUR/NOK 8.10-7.95 put spread vs selling the 8.25 call	06/06/14	-0.08%	19/06/14	-1.17%	-1.09%
Sell a 1-mo 9.07 EUR/SEK straddle	06/06/14	-1.37%	19/06/14	-1.04%	0.34%
Buy 1-mo NZD/USD risk reversal (0.8700 call, 0.8350 put)	27/05/14	0.13%	27/06/14	-0.69%	-0.82%
Unwind 3-m USD/CNY NDF to roll forward	06/06/14	6.20	25/07/14	6.17	0.38%
Sell 3-m USD/PHP NDF	20/06/14	43.85	06/08/14	43.95	-0.10%
Buy a 6-month 1.33-1.30 EUR/USD put spread; sell a 1.39 call RKI 1.41	15/08/14	0.27%	19/09/14	1.56%	1.29%
Buy a 3-m USD/KRW put spread at 1020/1000	25/07/14	0.01	19/09/14	0.00	-0.43%

Derivatives (digital)

Digital Options	Entry date	Entry level	Exit date	Exit level	P&L (%)
Buy 4-mo GBP/JPY 175 at-expiry digital call	26/11/13	13.5%	24/01/14	31.5%	18.0%
Sell 3-mo USD/CNH fwd at 6.0980	26/11/13	0.0%	27/01/14	0.8%	0.8%
Buy a 4-mo 1.63 GBP/USD one-touch put	16/05/14	21.0%	05/09/14	100.0%	79.0%

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FX Derivatives portfolio (relative value)

Vol r.v

Trade	Entry date	Entry level	Exit date	Exit level	P&L (vol)
Buy 6M6M EUR/SEK FVA	28/06/13	7.8	17/01/14	7.3	-0.5
Buy 6M6M USD/CHF FVA	28/06/13	10.7	17/01/14	9.0	-1.7
Sell 1Y USD/MXN vol swap, buy 1Y AUD/USD vol swap, eq. USD vega	05/09/13	-2.4	17/01/14	-1.4	1.0
Sell 6M6M FVA in USD/RUB	25/09/13	10.1	17/01/14	9.1	0.9
Sell 2M 25D MXN/JPY (long MXN call) risk-reversal	25/10/13	-1.9	22/11/13	-1.1	0.8
Sell 1Y EUR/JPY DNS	08/11/13	11.3	24/01/14	10.7	0.6
Sell 6M6M USD/PLN FVA	04/11/13	14.1	24/01/14	12.4	1.7
Sell 3M3M USD/MXN FVA	15/11/13	11.9	31/01/14	12.8	-0.9
Sell 6M6M USD/MXN FVA	13/01/14	12.0	31/01/14	13.2	-1.2
Buy GBP/USD and AUD/USD, sell GBP/AUD 3M vol swaps	13/12/13	0.3	14/03/14	-1.2	-1.5
Buy USD/NOK, vs sell GBP/NOK 3M vol swaps, equal vega	13/02/14	0.4	28/03/14	1.3	0.9
Buy USD/NOK, sell USD/CAD 3M vol swaps, 1:1.25 USD vega	11/02/14	1.3	28/03/14	-1.2	-2.4
Sell 6M6M FVA vs. buy 1Y6M FVA (1:2 vega ratio) in EUR/USD	09/10/13	10.2	14/04/14	8.7	-1.5
Sell 2M USD/COP 30D call	19/03/14	8.0	25/04/14	7.2	0.7
Sell 1Y1Y USD/TRY FVA, buy 1Y1Y USD/RUB FVA, eql. USD vegas	31/01/14	3.5	02/05/14	0.5	3.0
Buy NZD/USD, vs sell EUR/NZD 3M vol swaps, equal vega	13/02/14	-0.1	02/05/14	0.1	0.2
Sell USD/INR 2M1M FVA	28/02/14	11.8	28/04/14	12.5	-0.7
1Y1Y USD/TRY FVA vs long 1Y1Y USDRUB FVA, USD vega neutral	31/01/14	3.5	02/05/14	0.5	3.0
3M NZD/USD vol swap vs short 3M EUR/NZD vol swap, equal USD vega	13/02/14	-0.1	02/05/14	0.1	0.2
Buy AUD/USD and AUD/CAD, vs sell USD/CAD 3M vol swaps, 1:0.45:1.7 USD vegas	11/02/14	1.4	02/05/14	-1.1	-2.5
Buy BRL/MXN and sell USD/MXN 6M straddle spreads, vega-neutral	28/03/14	1.5	05/06/14	2.8	1.3
Buy 1Y ATM USD/RUB call and sell 3M in 2:1 notional	25/04/14	7.8	30/05/14	5.7	-2.0
Buy 1Y ATM USD/RUB call vs 1Y ATM USD/PLN in 1.5:1 notional	25/04/14	3.3	30/05/14	0.6	-2.7
Buy USD/MXN 1Y1Y FVA	14/03/14	14.1	06/06/14	10.7	-3.4
Sell 6M6M FVA vs. buy 1Y6M FVA (1:2 vega ratio) in	16/01/14	14.9	16/07/14	12.2	-2.7
Buy 2Y USD/BRL 25D put, sell 1Y 25D put, delta-hedged	13/12/13	1.2	18/07/14	3.5	2.3
Sell 2M USD puts/INR calls 30D, delta-hedged	20/06/14	7.7	01/08/14	4.0	3.7
Buy 2M1M USD/CHF FVA vs. sell GBP/CHF FVA, 1.3:0.7 CHF vega	06/06/14	4.1	15/08/14	3.0	-1.1
Buy 3M GBP/USD vs sell EUR/GBP vol swap	29/05/14	-0.1	01/09/14	-1.2	-1.1
Buy 9M ATM AUD/JPY vs GBP/AUD D/N straddle spreads, 1:1.2 vega	15/05/14	0.0	05/09/14	-1.8	-1.8
Sell 1Y CHF/JPY 25D call, delta-hedged	15/11/13	10.3	24/01/14	9.7	0.6
Sell 1Y GBP/JPY 25D call, delta-hedged	15/11/13	10.9	24/01/14	10.8	0.1
Buy GBP/USD and sell GBP/CAD 2Y straddle spreads	04/03/14	-1.3	19/09/14	-2.0	-0.7
Buy EUR/USD and GBP/USD, sell EUR/GBP 1Y DNS, 0.6:0.55:1.3	21/03/14	-0.2	19/09/14	-1.9	-1.7
Buy AUD/USD and sell AUD/CAD 6M straddle spreads	28/03/14	-0.3	19/09/14	-1.3	-1.0
Buy 3M NZD/USD vs. USD/MXN ATM straddles, in 1:0.7 vega	20/06/14	2.5	19/09/14	2.7	0.2
Buy 1M GBP/CHF vol swap vs. sell 2M1M GBP/CHF FVA, equal vega	15/08/14	-1.4	19/09/14	-0.2	1.2

Vol plus directional r.v

Trade	Entry date	Entry level	Exit date	Exit level	P&L	Units
Buy 6M USD/CLP call spreads vs 6M USD/BRL call spreads	25/07/14	-21.0	05/09/14	33.1	54.1	bps USD

Digital r.v

Digital Options	Entry date	Entry level	Exit date	Exit level	P&L (%)
Buy 3M USD/TWD 30.60 At Exp Digital Call	29/01/14	26.0%	02/05/14	0.0%	-26.0%

Technical Strategy portfolio

Trade	Entry Date	Entry level	Exit date	Exit level	P&L
Long RUB vs CZK	13/08/13	0.5882	13/01/14	0.6048	2.8%
Long CHF vs SEK	08/01/14	7.1796	17/01/14	7.0995	-1.1%
Short EUR vs MXN	04/09/13	17.450	24/01/14	18.403	-5.2%
Long TRY vs RUB	22/01/14	14.9233	27/01/14	14.627	-2.0%
Long HUF vs CZK	27/08/13	8.5320	29/01/14	8.9150	4.5%
Short PLN vs HUF	13/12/13	72.4511	29/01/14	73.3300	-1.2%
Long EUR vs HUF	23/01/14	304.6400	30/01/14	312.0000	2.4%
Long CAD vs JPY	21/11/12	82.22	31/01/14	91.13	10.8%
Long USD vs PLN	17/01/14	3.1030	06/02/14	3.0740	-0.9%
Long USD vs NOK	13/01/14	6.2632	07/02/14	6.1835	-1.3%
Short PLN vs HUF	31/01/14	73.182	10/02/14	74.250	-1.5%
Long EUR vs PLN	24/01/14	4.1980	14/02/14	4.1495	-1.2%
Long USD vs PLN	13/02/14	3.044	28/02/14	3.010	-1.1%
Long CHF vs SEK	28/01/14	7.1703	05/03/14	7.2590	1.2%
Short EUR vs USD	19/02/14	1.376	07/03/14	1.390	-1.0%
Long USD vs ILS	23/07/13	3.5720	07/03/14	3.4590	-3.2%
Short EUR vs GBP	13/12/13	0.843	12/03/14	0.836	0.8%
Long USD vs SEK	18/12/13	6.4843	13/03/14	6.3547	-2.0%
Short EUR vs JPY	27/03/14	140.380	02/04/14	143.320	-2.1%
Long USD vs TRY	27/03/14	2.1700	04/04/14	2.1100	-2.8%
Long NOK vs SEK	21/03/14	1.059	04/04/14	1.092	3.2%
Long TRY vs ZAR	27/02/14	4.8295	07/04/14	4.9747	3.0%
Long USD vs HUF	21/01/14	223.430	08/04/14	226.565	1.4%
Long EUR vs KRW	09/04/14	1435.3000	29/04/14	1424.5000	-0.8%
Short EUR vs USD	27/03/14	1.374	08/05/14	1.395	-1.5%
Long USD vs CAD	26/11/13	1.0553	08/05/14	1.0856	2.9%
Long NZD vs CAD	20/02/14	0.920	28/05/14	0.926	0.7%
Short AUD vs NZD	26/11/13	1.1140	29/05/14	1.0953	1.7%
Long EUR vs PLN	26/03/14	4.173	02/06/14	4.135	-0.9%
Short EUR vs CAD	08/05/14	1.4990	05/06/14	1.4864	0.9%
Long EUR vs TRY	07/04/14	2.893	10/06/14	2.825	-2.3%
Short AUD vs SEK	22/04/14	6.1898	10/06/14	6.2650	-1.2%
Short AUD vs NOK	15/04/14	5.612	19/06/14	5.685	-1.3%
Short GBP vs JPY	15/05/14	170.4000	20/06/14	173.8700	-2.0%
Long USD vs CAD	06/06/14	1.089	23/06/14	1.073	-1.5%
Long USD vs RUB	26/03/14	35.1675	24/06/14	33.9950	-3.3%
Long EUR vs RUB	24/06/14	46.335	24/06/14	45.795	-1.2%
Long USD vs ILS	17/06/14	3.4530	26/06/14	3.4295	-0.7%
Long AUD vs NZD	30/05/14	1.090	26/06/14	1.073	-1.6%
Short GBP vs USD	14/05/14	1.6851	30/06/14	1.7082	-1.4%
Short GBP vs CAD	08/05/14	1.834	30/06/14	1.823	0.6%
Short NZD vs USD	24/06/14	0.8725	23/07/14	0.8695	0.4%
Long USD vs SEK	14/04/14	6.5755	30/07/14	6.9000	4.9%
Long EUR vs AUD	17/06/14	1.4432	25/08/14	1.4198	-1.6%
Long USD vs SEK	20/03/14	6.4250	26/08/14	6.928	7.8%
Long MXN vs CLP	26/11/13	39.9750	05/09/14	45.1575	15.3%
Long USD vs NOK	16/04/14	5.97	11/09/14	6.37	6.8%
Short GBP vs CAD	14/08/14	1.8185	19/09/14	1.1812	0.4%

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Emerging Markets FX

- **In EM Asia FX, move net long USD-Asia and UW Asia FX in GBI-EM. Core USD longs are vs SGD, TWD, and THB. Only hold Asian FX longs where the idiosyncratic factors are strongest: CNH/CNY and KRW (via JPY put spreads)**
- **Move Latin America FX to UW from MW in the GBI-EM Model Portfolio, by moving UW COP; move OW CLP, but the very low weighting of CLP in the index keeps us long USD overall. For outright trades, play the relative cheapness of CLP by going short NZD/CLP.**
- **In GBI-EM model portfolio continue to focus on relative value allocations. Favor HUF vs RON and PLN; favor TRY over ZAR; move NGN back to neutral from overweight. Tactical trades: Enter long tactical TRY/ZAR (4.83, 5.20), take profits in long HUF/RON and long EUR/CZK 1x2 put spread, take losses in long TRY/PLN.**

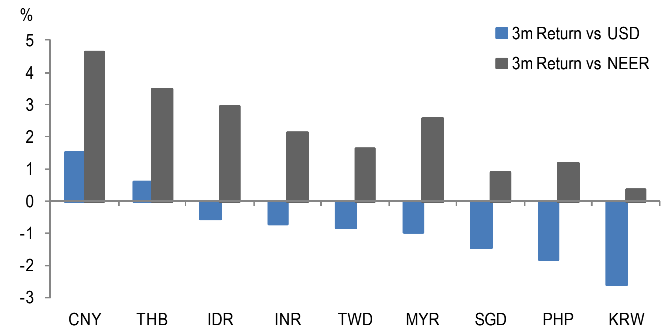
EM Asia FX: Shifting to UW on the stronger dollar

In recent weeks, the stronger dollar has more meaningfully fed through into Asian currencies. While remaining relatively resilient at the end of summer, broad dollar strength has spilled over to Asia more meaningfully in the past two weeks particularly as the dollar strength became more directly driven by dollar specific developments, as focused turned to forthcoming Fed tightening. In the past week, most USD-Asia pairs have broken out above their summer ranges.

Figure 1: Asia FX being dragged down by the broad dollar move

Source: Bloomberg, JPMorgan

Figure 2: Asia FX outperforming their TWI baskets, underperforming the USD

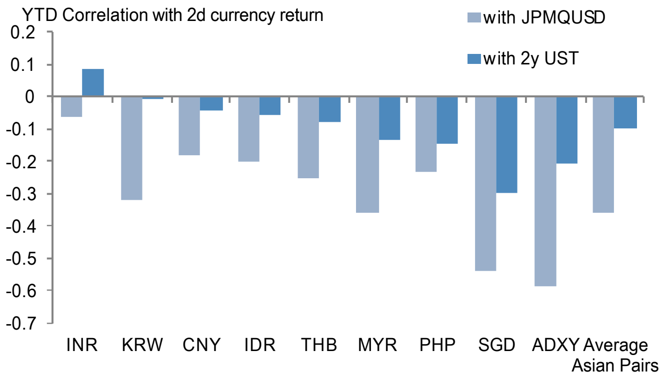


Source: Bloomberg, JPMorgan

The risk is that earlier strong portfolio inflows turn from an indication of resilience to a vulnerability worry. Earlier we had flagged some of the strongest portfolio inflows yet into Asia as a signal of strength. However, not all portfolio flows are created equal, and while some have very structural underpinnings (e.g. election related equity flows in INR and IDR), others are likely far more beta and cyclical, and therefore could be more sensitive to renewed concerns about fed tightening, fading outperformance versus EM peers (to the extent that recent inflows were rotations out of other EM), and increased FX volatility (e.g. recent inflows into short-dated MYR fixed income).

Positioning considerations aside, the medium-term underperformers will still be those currencies where yields are the lowest. Some currencies are less well situated for a more meaningful repricing of Fed expectations in the short-end of USD rates. We are least worried about IDR and INR, the two Asian members of the erstwhile “fragile five” grouping that took the brunt of EM FX weakening in Asia during the taper tantrum last year: Both currencies have undergone more adjustments (in policy settings and currency price) than other peers, offer vastly different political and policy regimes, have seen substantial capital inflows, and even larger rebuild of FX reserves, not to mention offering much larger carry buffers. Instead, for the next phase of Fed normalization, the most fragile will be those with the lowest yields (most vulnerable to a dollar driven shift in carry) and those traditionally most correlated with the USD. These are largely the same subset, and include SGD, TWD, PHP, and THB.

Figure 3: Low yielders more sensitive to UST and DXY risks



Source: Bloomberg, JPMorgan

Only hold Asian FX longs where the idiosyncratic factors are strongest. There are some sufficiently strong and idiosyncratic currencies in Asia worth positioning for, despite the strong-dollar trend. We remain long both CNY and CNH, where PBoC has recently sent a strong signal rejecting the influence of the strong dollar. IDR yields remain attractive to us, a critical fuel price hike is forthcoming, and we expect the authorities to protect against further spot depreciation. And while JPY weakness is shifting KRW TWI appreciation away from being expressed via the dollar, JPY-KRW grind-lower trades are working well.

Now net long USD-Asia, and UW Asia FX in GBI-EM. With a disappointing pause by BNM, we now close our MYR long (in GBI-EM and RV trade vs THB in NDFs). We also close our USD-KRW put spread in favor of keeping the JPY-KRW put spread. This shifts our GBI-EM Asia FX stance to underweight from neutral, and our leveraged portfolio to being net outright long USD. Our core USD longs are vs SGD, TWD, and THB.

- **RMB will remain stable even if the broad USD strengthens.** Although DXY strength is a driver for weakness in Asian FX recently, USD-CNY should be immune similar to last year during the taper tantrum. Latest record trade surplus data reinforce the fundamental case for a stronger RMB. At the same time, recently released financial data for August suggests that mainland corporates net-bought USD16bn, continuing their strategy to unwind long-standing USD short positions. But these corporate dollar buying flows, even if large, have been fully mitigated by the trade surplus inflows, which will only widen out seasonally into the end of the year. This combination keeps CNY conditions in a sweet spot where it is gradually strengthening due to fundamentals, but in a way that keeps PBoC from worrying about excessive speculation. Indeed, the bigger worry seems to be sudden capital outflows, and this is probably one reason PBoC has rejected the influence of DXY strength in the recent CNY fixings, instead pushing it back to the bottom of the recent range. We hold short 3m USD-CNY NDF for positive carry and minimal upside risk in fixing, and also long USD-CNH 6.19 put funded by a 6.35-6.50 call spread.

- **INR will continue to trade in a narrow range guided by RBI intervention.** There are some new positive dynamics developing in the background for INR in terms of better than expected monsoon, low crude prices, continuation of import curbs on gold and pick up in FDI inflows. However, RBI continues to believe that the fair value for INR is close to 60 and hence, in the past several months has intervened aggressively to preclude any meaningful appreciation, despite large sustained inflows. Since March the RBI has bought over $60bn in reserves, thus fully absorbing not just portfolio inflows but also other long term inflows like FDI during this period. Recent intervention behavior suggests the RBI wants to keep USDINR in a tight 60.50-61.50 range with strong intervention on both sides. We expect USDINR to remain within this narrow range as long as the backdrop for global EM carry remains benign, and we stay neutral INR.

- **Unwind short USDMYR as BNM does not raise rates.** During 2Q and 3Q, the ringgit benefited relative to other currencies from BNM hawkishness and a rate hike (in its July MPC meeting). We (together with 50% of the market) were expecting a second BNM hikes earlier this week, but this did not happen. What was even more surprising to us is that the MPC statement this month read notably less hawkish than last month. As such, the higher carry driver for MYR outperformance has been substantially undermined, and this leaves the currency even more vulnerable to the stronger broader dollar. Risks are that outright short USD-MYR positions as well as relative value long ringgit positions are now unwound in the aftermath.

- **KRW, struggling (to keep up) with JPY weakness - only hold JPY-KRW downside now.** The market has been trading USD-KRW closely in-line with USD-JPY though such correlations do not often persist for more than a month or two. As expected large stockpiled corporate dollars have been exerting resistance as USD-KRW has approach corporate budget levels above 1040, but the risk is that recent momentum drives these dollar offers to temporary pull-back and for the pair to temporarily spike higher, so we close our USD-KRW 1020/1000 put spread. We now prefer to express fundamental KRW strength only versus the JPY through the 2m JPY-KRW 9.7/9.5 put spread bought on 9 September.

Open Recommendations

	Target	Current	Pnl
Outright			
Short USD-CNY 3m NDF	6.15	6.2	0.5%
Long USD-SGD 3m DF (rolled & upsized)		1.267	0.5%
Short USD-IDR 3m NDF	11600	12140	-1.5%
Options			
Short USD-CNH 6m Call seagull (Buy $ put k=6.19, sell $ call spread k=6.35/6.50)		0.45	0.42
Long JPY-KRW 2m Put Spread (k=9.7/9.5)		1.19	0.44
Long USD-TWD 3m digital call (k=30.1)		50.24	23.49

Recently Closed recommendations

	Closed	Entry	Pnl
Position (Reason)			
Long USD-KRW 3m Put Spread(Exited)	0.1521	0.52	-0.37
Long MYR-THB 3m NDF(Exited)	9.98	10.02	-0.36%
Long USD-SGD 3m DF(Rolled)	44.02	1.25	1.11%

GBI-EM	FX Comment	Recommendation
MYR FX	Tightening has steopped, and C/A remains narrowed	N
IDR FX	Inflows fund narrower C/A	N
THB FX	USD sensitivity, positioning no longer extreme	UW
PHP FX	Yields too low, and uncertain CB response	N

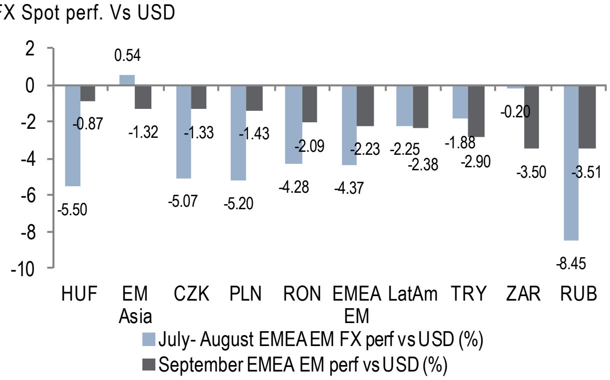
EMEA EM FX: Move UW FX in the region with keep focus on relative value, and take profits on tactical trades.

The driver of USD strength matters for the relative performance in EMEA EM FX

EMEA EM FX performance vs USD has been more mixed this month after several months of underperformance. While the dollar has continued to strength this month vs. the euro (for the 3rd consecutive month), the relative FX performance within the region has shifted, with higher yielders underperforming this month, led by ZAR, RUB and TRY. This is in contrast to previous months when CEE FX underperformed (Figure 4). We think this change in relative performance can be explained by looking at the drivers of EUR/USD over the period. In June and July, we think that EUR weakness vs USD was more related to ECB dovishness (rather than Fed hawkishness), coupled with increasing geopolitical risks. In that environment, $/CEE underperformed given their close proximity to the region's geopolitical risks, low yield and higher beta to EUR/USD performance. Higher yielders outperformed over this period. However the acceleration in USD strength this month was driven by expectations of a more hawkish Fed in our view, re-triggering fears over EM deleveraging and leading to underperformance in the large C/A deficit countries (TRY and ZAR).

Figure 4: EMEA EM FX underperformers switched from low yielders to higher yielders this month

FX Spot perf. Vs USD



Source: Bloomberg, J.P. Morgan

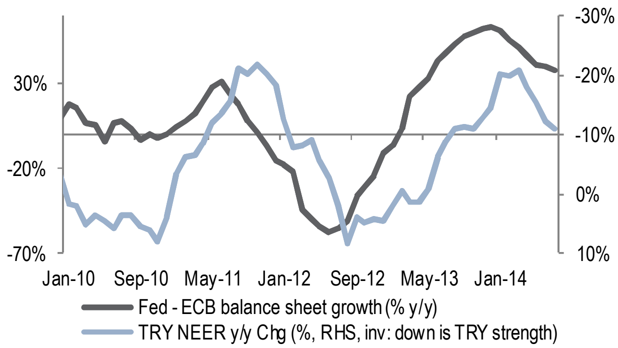
Move UW EMEA EM FX by moving NGN back to MW from OW; add OW TRY vs UW ZAR; take profits in select tactical trades.

Move UW EMEA EM FX in the GBI-EM Model Portfolio; stay OW HUF vs. UW RON and PLN; add OW TRY vs. UW ZAR; move NGN from OW back to MW; take off select tactical trades. The outlook for the region's FX market continues to look challenging given poor growth, continued geopolitics risks, more rate cuts, still large external imbalances in some countries and volatile portfolio flows. We therefore move UW EMEA EM FX mainly though taking profits on our NGN OW. However, we still have a focus on relative value allocations as the Fed and ECB outlooks remain fluid. On the Fed side, lower CPI in the coming months coupled with the risks of a slow down in upside data surprises may challenge the market's perception on the hawkishness of the Fed. On the ECB side, the disappointing take up of the TLTRO this week raises questions as to what might drive ECB balance sheet expansion in the short run. We must also acknowledge that FX positioning in the region is already significantly underweight. We remain OW HUF vs UW PLN and RON, we move NGN from OW to MW, and we add OW TRY vs UW ZAR in our model portfolio. Overall this leaves us UW EMEA EM FX. We also take profits on our long tactical HUF/RON trade (1:2 notional, entry 1.3969, exit 1.4153, 3.15% profit), our long 148d EUR/CZK 1x2 put spread (entry 40bp, exit 75bp) and our short USD/NGN NDF trade (entry 163.8, exit 163.3, PNL 4.9%). We take 3.2% losses on our long TRY/PLN trade.

Add OW TRY, UW ZAR in GBI-EM Model Portfolio and a tactical long TRY/ZAR trade (stop 4.8750, target 5.20)

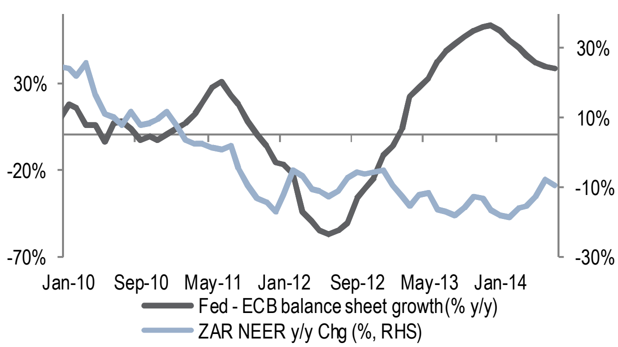
Add OW TRY, UW ZAR in GBI-EM Model Portfolio and a tactical long TRY/ZAR trade (stop 4.83, target 5.20). The CBRT's defense of the currency relative to South Africa's coupled with TRY's sensitivity to ECB balance sheet expansion should help it outperform ZAR, with some uncertainties over the new SARB governor. While we think both ZAR and TRY remain vulnerable to a more hawkish Fed and higher US treasury yields given their still large C/A deficits, we think TRY FX should still outperform ZAR FX in the medium run. Probabilities have increased that the CBRT will begin to squeeze effective funding rates towards the upper corridor (at 11.25%) as USD/TRY now settles above 2.20. In contrast, we think the SARB's defense of the currency will be weaker and slower to materialize, as the growth outlook limits quick and sizeable rate hikes. In addition, there is likely to be some uncertainty over who will be appointed the new central bank governor, as well as any further changes to the MPC post Governor Markus's departure. This will likely add to investor uncertainty surrounding monetary policy at a time when risks are skewed to higher market volatility. Moreover, our analysis also shows that TRY FX should be one of the main beneficiaries in EMEA EM from the potential expansion of the ECB's balance sheet relative to the Fed's, further supporting the trade vs ZAR where the relationship is much weaker (Figure 5 and Figure 6). The main risk to this allocation is positioning, with investors holding a large UW in ZAR vs only a small UW in TRY according to our latest Client Survey (Figure 18).

Figure 5: Historically, ECB balance sheet expansion relative to the FED has been a leading indicator for TRY appreciation in trade weighted terms



Source: Haver Analytics, J.P. Morgan

Figure 6: There is a much weaker relationship between ZAR NEER and relative Fed-ECB balance sheet expansion.



Source: Haver Analytics, J.P. Morgan

Taking off select tactical FX trades in EMEA EM

We take profit on our long NGN via 3-month NDFs recommendation and move the naira to MW from OW in our GBI-EM Model Portfolio (Giulia Pellegrini). We take profits on our long NGN via 3-month NDFs position (entry at USDNGN 163.8, exit 163.3, PNL 4.9%), initiated on 7 April. We also move NGN to MW from OW in our GBI-EM Model Portfolio (4.4bp profit out of total GBI-EM Model Portfolio allocation profit of 25.3bp YTD). We take profit on our long naira recommendation mainly on poorer tecnicals and valuation risks, on the expectation that upcoming elections will prompt international foreign investors to reduce naira risk exposure, despite still positive fundamentals and CBN policy continuity. Foreign investors positioning is seemingly large in both the fixed income and equities market, which the CBN estimating the latter to be especially sizeable. USDNGN has weakened by about 1% since mid-July. With investors likely to begin re-assessing their naira exposure as Nigeria moves into full election mode, this will put pressure on FX reserves, which have risen to US$39.6bn since the spring largely on portfolio inflows. In our view, the balance of risks is tilted towards a weaker naira into year-end. We maintain our USD/NGN168 projection for the end-2014 and we do not see a large devaluation as our base case. Political noise is also likely to rise going forward. While we have a relatively constructive outlook on the elections – with a likely PDP victory amid sporadic violence but no country-wide instability – we expect political risk perceptions to worsen among investors as we move closer to February 2015. Lower oil prices and below-target production are not the largest concerns for our long naira trade but are likely to add to negative naira risk perceptions. Yet the CBN policy stance remains unchanged. Today's MPC meeting delivered no change, in line with market expectations. The CBN has indicated that it will not hesitate to act to support the naira, if need be, but we expect its resolve to be tested as some naira risk reduction likely takes place going forward, despite relatively solid economic fundamentals (single digit inflation; 2014 fiscal deficit below 2% of GDP; and real GDP growth of 6%). *See Nigeria: we take profits on our long NGN trade and close our OW NGN position, 19-Sep-14, G.Pellegrini.*

Take profits on tactical long HUF/RON (1:2 notional) and long EUR/CZK 1x2 put spread, take losses on long TRY/PLN. While we still think HUF will outperform RON over the coming months, we take 3.15% profits on our tactical trade given the significant reduction in RON positioning over the month (Figure 18), though we remain OW HUF vs both RON and PLN in our GBI-EM Model Portfolio. We also lock in 35bp profits in our short EUR/CZK option structure given increasing concerns that the consequences of European/Russian tensions may weigh on Czech's external balances. We take 3.2% losses on our long TRY/PLN trade (2:1) notional. The market's perception of a more hawkish Fed has weighed significantly on TRY and was the main driver of the losses in the trade particularly given our higher notional weight of TRY relative to PLN in order to hedge Russia related risks. At the same time, the correlation of PLN FX (and CEE FX more generally) with USD/RUB broke down and therefore did not provide the offset to the TRY leg that we thought it would.

RUB update: Stay neutral RUB FX despite risks still skewed towards an intensification of geopolitical risks

Stay neutral RUB FX despite ongoing geopolitical tensions, as risks of a retracement remain high given short RUB positioning and a more reactive CBR. While considerable uncertainty remains regarding the outlook for the RUB we think that short RUB positions are at risk in the short run. While geo-political risks remain, in our view,

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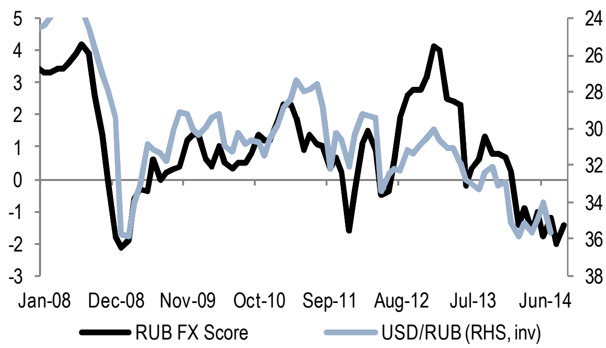
these must be weighed against the already significant short RUB positions of the foreign investor community (Figure 19) as well as the CBR's potential policy response to further RUB weakness. The CBR, with the introduction of the new FX swap facility, have already put in place the basis of a mechanism which if expanded in size could significantly satisfy onshore USD demand. In addition, we may see more measures introduced as the RUB baskets breach the upper bound of the FX corridor (44.40). The fact that deposit dollarization has not picked up again is also encouraging. Moreover, leaving geopolitical risks to one side, it is not obvious that the RUB is overvalued at these levels on a macro fundamental basis, with medium term real effective exchange rate models giving mixed messages on the currency. All these factors leave us neutral RUB FX at these levels (*see Russia: More is needed from the CBR to stabilize RUB, 17-Sep-14*).

Figure 7: Real money are still UW RUB FX



Source: JPMorgan Client Survey

Table 1: EMEA EM FX Trades

Trades	Entry Date	Entry	Current	Stop
Long TRY/ZAR	19-Sep-14	4.9511	4.9511	4.83
Closed Trades	**Exit Date**	**Entry**	**Exit**	**Stop**
Long TRY/PLN (2:1 weight)	29-Aug-14	1.4814	1.4631	1.45
Long HUF/RON (1:2 weight)	29-Aug-14	1.3969	1.4153	1.36
Buy 6M EUR/CZK 1x2 put spread (27.65, 27.0)	13-Aug-14	40bp	75bp	-
Short USD/NGN via 3m NDFs	7-Apr-14	163.8	163.3	-

Note: HUF/RON FX rates multiplied by 100. Source: J.P. Morgan

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Latin America FX: We move Latin America FX to UW from MW in the GBI-EM Model Portfolio, by moving UW COP; we also go OW CLP. Enter short NZD/CLP.

We move Latin America FX to UW from MW in the GBI-EM Model Portfolio, by moving UW COP; we also go OW CLP, but the very low weighting of CLP in the index keeps us long USD overall. For outright trades, we recommend playing the relative cheapness of CLP going short NZD/CLP. We move Latin America FX to UW despite the recent selloff. With the US dollar trending higher, the usual currencies to short would be BRL and MXN. However, the former in the short term is likely to respond primarily to idiosyncratic drivers (elections), while the latter has proved more resilient than expected on the back of positive fundamentals and lighter positioning. Thus, we move COP to UW, as portfolio inflows triggered by the J.P. Morgan rebalance of benchmark portfolio indices are mostly behind us and the currency looks fairly valued to coincidental risk metrics. We also add a tactical OW of CLP, as the currency is looking very cheap on our models. That said, we keep the aggregate exposure long USD given the very small weight of CLP in the GBI-EM Index.

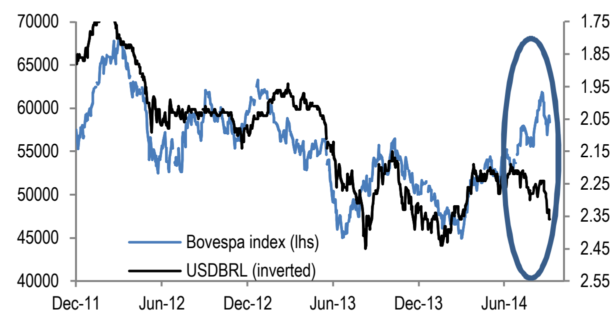
Latin American currencies were mixed on the week, with COP outperforming peers, +1.37% versus USD, while BRL underperformed (-0.91%). The MXN and PEN were unchanged (+0.39% and -0.1%, respectively), while the CLP slipped 0.82%. There are no relevant changes in our views after the FOMC. The dollar is likely to continue its strengthening phase (DXY up +0.5% on the week), while 3-month EM FX implied volatility was up another 4bp to 7.24%, after visiting intraweek the highest level since May. We draw some conclusions from the recent price action. First, The MXN is poised to be more resilient than expected which beyond the macro fundamentals, could be explained by lighter positioning than in recent periods of US dollar strength. Second, the BRL continues to be driven by the election outcome, but BCB intervention policy seems to be adding noise right now. Last but not least, the CLP is the cheapest currency to coincidental indicators in our region, and we recommend entering short NZD/CLP, mainly as dairy to copper prices have not translated into the cross, as of yet.

Elsewhere, we remain neutral. In Argentina, reserves are again under pressure (around $0.8bn down since Argentina entered in technical default) and the parallel FX is hitting new highs as the negotiations with the holdouts seem to be stacked, and the (expected) collapse in soy prices raise doubts on the 2015 dollar supply. Meanwhile, in Peru, the Central Bank (BCRP) announced the introduction of a new instrument, a Foreign Exchange Swap. Points collapsed after the new policy instrument was unveiled, by 192pips in the 12-month tenor.

BRL: Looking cheap to coincidental risk metrics, but BCB remains on the sidelines

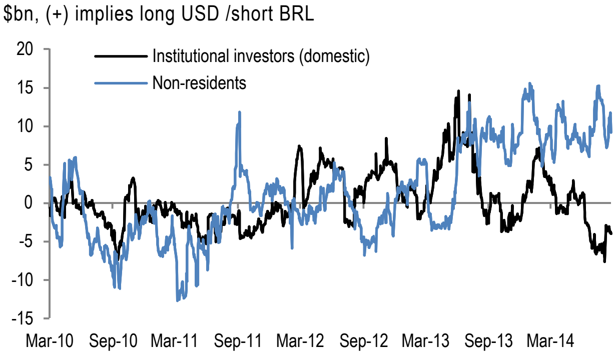
We expect BCB to accelerate the pace of FX swap rollover if USDBRL keeps trading above 2.35. The BRL short term drivers remain the same as those we have discussed in the recent weeks: the political cycle (election polls); international investors positioning; and BCB intervention policy. On the first front, the latest polls keep suggesting a tight race, but the fact that opposition leader Marina Silva is still running ahead of incumbent President Rousseff has provided room for equities to recover 3.3% on the week, a move that BRL failed to mimic (Figure 8). However, international investors are not sharing the same distribution probability for the election outcome as locals, as seen by their positioning in US futures. Internationals have a long US dollar position for $9.2bn as of September 17, compared with a recent min of $7.2bn by September 3 (Figure 9). Finally, in relation to BCB intervention policy, we think BCB is likely to accelerate the pace of FX swap rollover if USD/BRL keeps trading above 2.35. We are surprised that the authority still has not stepped up its intervention. At the current rollover pace (around $0.3bn per day), BCB would allow around $1.6bn to expire, compared to $1.1bn in the previous month.

Figure 8: Political cycle, stock prices and BRL
Bovespa index and USDBRL



Source: J.P. Morgan

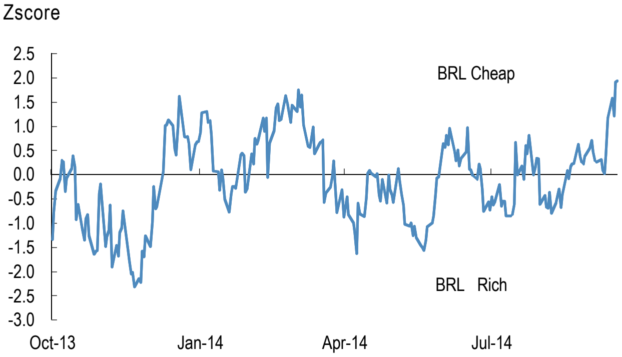
Figure 9: BM&F positioning in USD futures
$bn, (+) implies long USD /short BRL



Source: BM&F and J.P. Morgan

Our short-term model suggests USD/BRL at 2.30 as a fair level to coincidental risk indicators. Of note, the 4.1% decline in a relevant commodity price index stands behind the 3.3% increase in the fair USD/BRL level MTD. But even taking into account the collapse in key commodity prices (e.g. soy and iron ore), the BRL is looking 3.1% cheap (1.8 sigma). We note that for sigma above 1, the average period of mean reversion has been 8 trading days in the last year (Figure 10).

Figure 10: USD/BRL short term valuation models screams cheap BRL (1.8 sigma)



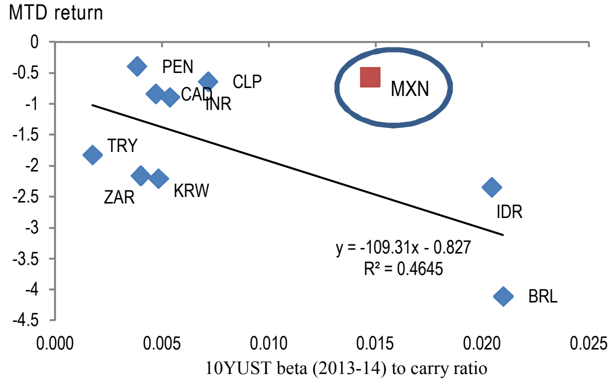
Source: BM&F and J.P. Morgan

MXN: Looking more resilient than expected

We are now calling for Banxico to deliver a first hike by July 2015. The minutes of the last monetary policy came in line with our expectations, with the board emphasizing that the risks balance on growth has improved, while risks to inflation has deteriorated in the short term due to transitory factors (i.e. raw-food prices). Our economist now see a first hike by July 2015 (+25bp), followed by another hike in September (+25bp), driving the 3Q15 policy rate to 3.5%. On the FX side, we are now calling for USD/MXN at 13.20 by December 2014 (12.90, previously), and 12.60 for end-2015 (12.50, previously).

In the last two weeks, the MXN has proved more resilient than expected, in particular given the low risk remuneration it offers. We have been wary of recommending a long MXN exposure despite positive fundamentals, on the basis that the currency was poised to significantly undershoot coincidental risk metrics during EM selloffs (which we explained by the role the MXN plays as an EM hedge vehicle). Moreover, from a carry-to-risk perspective, the MXN remains one of the most vulnerable currencies in the EM space. Without minimizing the relevance of these factors, is worth noting that the MXN has performed better than expected recently. Indeed, as seen in Figure 11, the MXN has outperformed peers conditional on risk-to-carry (as a metric for risk we use the 10Yr UST yield beta calculated for 2013-14). Note that the MXN is an outlier, slipping only 0.56% against the US dollar, while the fit would suggest something in the range of 1.7 to 3.5% for the MXN downside, with the usual caveat about imprecision given that the regression explains about 47% of the variation.

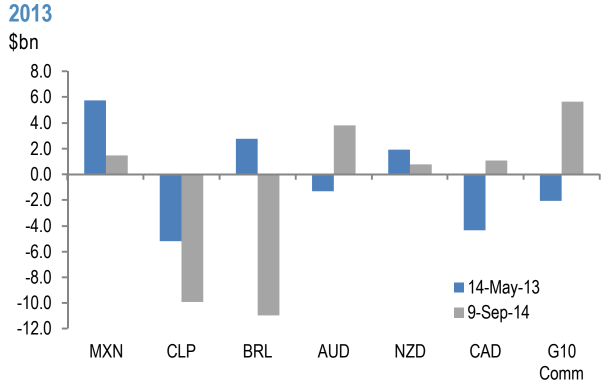
Figure 11: Risk-carry and MTD performance: the MXN stands out



Source: J.P. Morgan

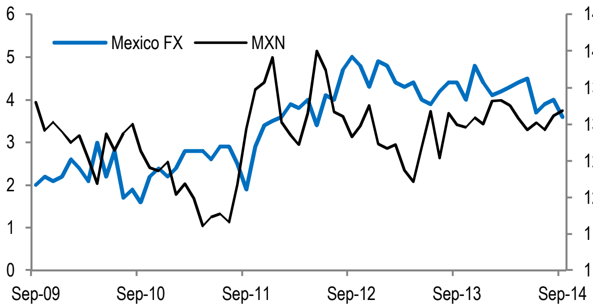
Beyond the macro story, the better-than-expected MXN performance could be explained by lighter positioning than in recent periods of US dollar strength. First, specs positioning, while still long MXN, remains well below the levels as of May 2013 (see Figure 12). Second, our Client Survey shows a lighter MXN positioning. Indeed, the MXN OW exposure declined 0.4 points in September, to a score of 3.6 the lowest level since May 2012. As seen in Figure 13 positioning remains well below the 4.4 level as of April 2013 (pre-taper tantrum) and 4.8 level as of November 2013 (pre-Fed taper announcement). Of note, despite the reduction, the MXN OW continues to top the Latin America FX exposure, coming second only to INR in the EM space. Importantly, the exposure to Mexico rates also suffered a hefty cut, 0.6-pt, to a 3.4 level. This was the strongest monthly cut in the history of the MX survey, leaving the score at same levels as of June 2013**.** We remain neutral MXN but look forward to playing the currency on the long side

Figure 12: Specs positioning in MXN is much lighter than in May 2013



Source: IMM and J.P. Morgan

Figure 13: J.P. Morgan Client Survey shows lighter MXN positioning
Score



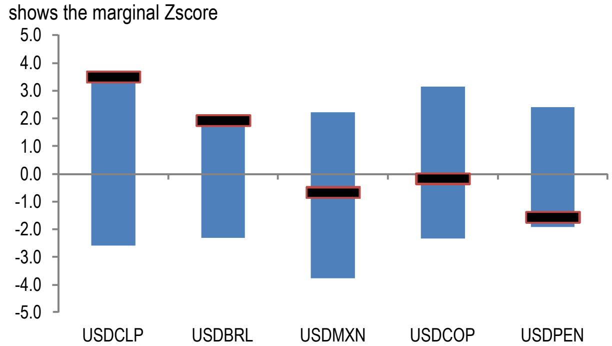
Source: J.P. Morgan

CLP: The cheapest currency after the selloff; moving CLP to OW in the GBI-EM Model Portfolio and enter short NZD/CLP

We see CLP as oversold in the recent days, in sync with our short term model, which suggests that USD/CLP is 3.5% above its fair level (3.7 sigmas). The 2-year interest rate differential, which has explained the bulk of the USDCLP upside movement YTD, has recovered 27bp since the beginning of September, as BCCh has signaled the end of the easing cycle approaching. Admittedly, our economists are still expecting a 25bp cut next month, but we believe the call is data dependent and expected by the market. Also, we note that international investors positioning remains rather stable at $9.9bn long USD (12 month range: min $5.9, max $15.8bn). Importantly, liquidity has not been at its best in the last days, as the local market was closed due to the National Festivities.

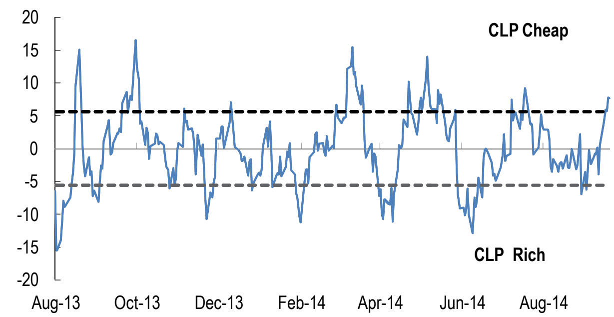
We favor short NZD/CLP at the current juncture. While the short term valuation model advocates for a tactical short USDCLP, we see potentially higher risk reward in the medium term in funding a long CLP position with NZD. First, our short term valuation model (includes 2Y interest rate differential, copper and dairy prices, inflation differential, stock prices, 10Y UST yields and EM FX 3M implied vol; adj Rsq=0.97) suggests NZDCLP stands 1.9 sigmas rich (Figure 15). From a medium term perspective, as both currencies are commodity based, we note that dairy prices have been collapsing since March 2014, dropping around 37% with respect to copper prices (Figure 16). The relative commodity performance hasn't yet affected the cross. On the funding currency side, our NZD strategists have a bearish medium term view on NZD. Moreover, they note that while NZD/USD has had a decent retracement MTD (around 3.2%), the NZD on a trade weighted basis is only off 1% in the month. Also, it is worth noting that we have general elections in New Zealand on Saturday, and that the risks for NZD are pretty asymmetric (see note). Polls are suggesting that the incumbent government would remain in office and this should be neutral/smalls positive for NZD. Otherwise, the NZD is likely to be sold. Enter short NZD/CLP (Target 468, Stop 496)

Figure 14: CLP is the cheapest currency in Latin America according to our short term valuation models
The blue bar shows that the last 12-month Zscore range, while the black marker shows the marginal Zscore



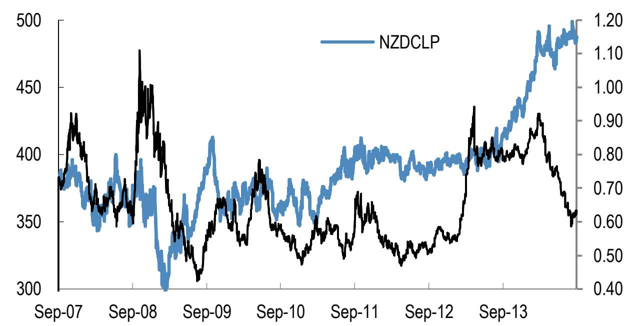
Source: J.P. Morgan

Figure 15: NZD/CLP is looking more than 1.9 sigma rich



Source: J.P. Morgan

Figure 16: Dairy-to-copper price has collapsed, but the relative commodity price performance has not affected the currency cross, as of yet.



Source: J.P. Morgan

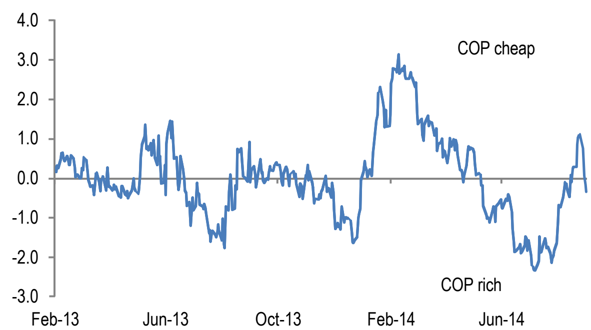
COP: Move COP to UW in the GBI-EM Model Portfolio while waiting for the tax reform draft and BanRep decision on the US dollar purchases for 4Q14

We move COP to UW in the GBI-EM Model Portfolio. We moved our COP recommendation from OW to MW by mid-August on the idea that the sizable portfolio inflows unraveled by the J.P. Morgan rebalance of benchmark portfolio indices was mostly behind us, or at least it would not be the determinant driver for the currency going forward. Moreover, in the recent days we have been wary of recommending a long USD/COP as short term valuation has been indicating an overshooting in USD/COP. At the current levels, however, USD/COP seems back to fair, as seen in Figure 17, so we move COP to UW in the GBI-EM Model Portfolio.

We now wait for BanRep decision on the dollar purchase program for 4Q14 and the tax bill. We have been of the idea that BanRep would continue to buy USD in 4Q14, up to $1bn, on the back of BanRep Board member Maiguashca's comments a couple of weeks ago. However, this week Governor Uribe suggested the opposite, which now tilts our belief to BanRep ending the dollar purchases. Maybe as important as BanRep intervention policy, FinMin Cardenas announced that the fiscal bill draft will be published in the coming days. The market keeps watching for details on the wealth tax (for example, if fixed income will be taxed, and the likes).

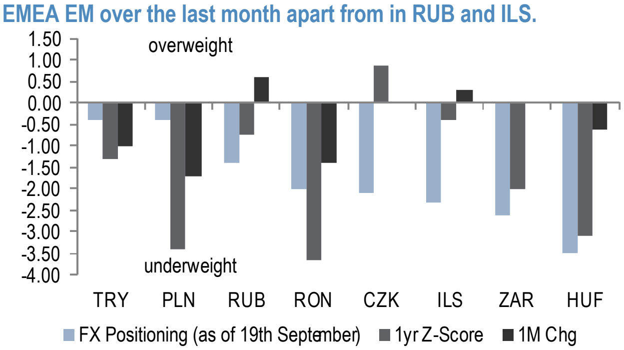
Figure 17: USDCOP short term valuation model suggests COP back to fair levels

US$ million



Source: J.P. Morgan

Figure 18: Real money positions were reduced across the board in EMEA EM over the last month apart from in RUB and ILS.



Source: J.P. Morgan Client Survey

Stay neutral RUB FX despite ongoing geopolitical tensions, as risks of a retracement remain high given short RUB positioning and a more reactive CBR. While considerable uncertainty remains regarding the outlook for the RUB we think that short RUB positions are at risk in the short run. While geo-political risks remain, in our view, these must be weighed against the already significant short RUB positions of the foreign investor community (Figure 19) as well as the CBR's potential policy response to further RUB weakness. The CBR, with the introduction of the new FX swap facility, have already put in place the basis of a mechanism which if expanded in size could significantly satisfy onshore USD demand. In addition, we may see more measures introduced as the RUB baskets breach the upper bound of the FX corridor (44.40). The fact that deposit dollarization has not picked up again is also encouraging. Moreover, leaving geopolitical risks to one side, it is not obvious that the RUB is overvalued at these levels on a macro fundamental basis, with medium term real effective exchange rate models giving mixed messages on the currency. All these factors leave us neutral RUB FX at these levels (*see Russia: More is needed from the CBR to stabilize RUB, 17-Sep-14*).

Figure 19: Real money are still UW RUB FX

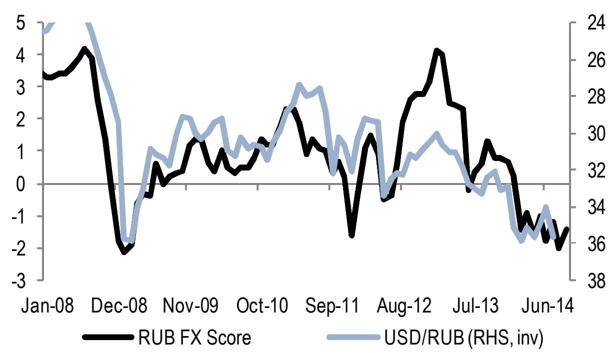


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Table 2: EMEA EM FX Trades

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Note: HUF/RON FX rates multiplied by 100. Source: J.P. Morgan

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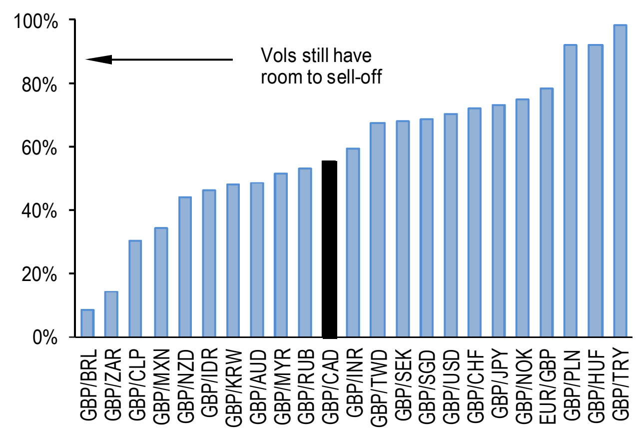
FX Derivatives

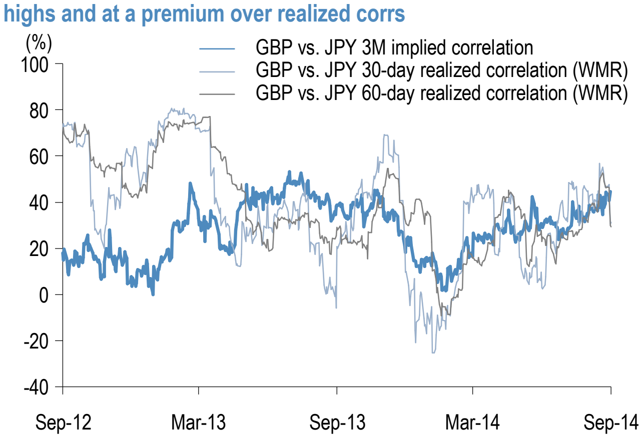
- **Scottish referendum risk-premium in GBP-options has mostly disappeared. Sell 3M GBP/CAD straddles to milk the last residual pocket of vol richness.**
- **GBP vs. JPY correlations are worth selling, since GBP is the most likely currency to de-correlate sustainably from the yen on monetary policy divergence. Consider directional decoupling between GBP and other currencies dual-asset structures**
- **USD/BRL risk-reversals in the 3M – 6M sector of the curve look cheap on a carry-adjusted basis, and also relative to USD/MXN risk-reversals. Buy/sell 6M 25D USD calls, delta-hedged.**

Chart 1. Most mainstream GBP-cross vols have almost completely unwound their referendum risk premium, with only a few exceptions
Retracement of 3M ATM GBP-cross vols from their MTD highs as a fraction of the trough-to-peak rally in September. As of 19 Sep 2014.



Source: J.P.Morgan

Chart 2. GBP vs. JPY implied correlations are trading at multi-year highs and at a premium over realized corrs



Source: J.P.Morgan

GBP-options in the aftermath of referendum

Markets have moved on swiftly from the Scottish referendum and front-end GBP- and GBP-cross vols have unwound most of their event risk premium. It is almost tautological that implied vols will come off after a major event, especially one with as much uncertainty of a binary outcome as the Scottish polls. That process only accelerates when the eventual result turns out to be as benign as it did -- chart1 shows the GBP options have retraced the bulk of the rise in prices in the run-up to the vote, and the only laggards are illiquid GBP/EM crosses that are likely untradeable. Of the more mainstream crosses, **GBP/CAD** is one where there still seems to exist some room for additional normalization; it also doesn't hurt that (a) realized vols there haven't exactly been on fire even in the middle of poll hysteria (1M ATM 7.2 vs. 1-mo realized 6.7), (b) GBP/CAD is a non-dollar cross-vol that is liable to remain muted in a high USD correlation environment, and (c) CAD- and CAD-crosses have been some of the more reliable short vol alpha generators in our experience. We initiate 3M straddle shorts in GBP/CAD this week.

The richness of certain GBP-cross correlations is the other noticeable dislocation to exploit in vols. GBP vs. JPY is the most obvious culprit, since all yen-cross implied corrs have been hovering near multi-year highs for the better part of the year. This week presented even better levels to enter that correlation short, since GBP/JPY vols received a pummeling alongside every other GBP-bloc vol once the direction of Scottish vote became clear (lower GBP/JPY vols equates with higher GBP vs. JPY corrs). Chart 2 shows that at around 50% (mid), 3M implieds represent a 10-20 %-point premium over trailing realizeds – a substantial relative value edge that justifies taking a shot at fading the highs. Of course, GBP/JPY cannot completely escape the broader 'bloc-effect' of cross-yen corrs elsewhere remaining stubbornly elevated for structural reasons (supply of cross-yen vol from Uridashis etc), and the risk is that GBP quickly becomes a dollar story and weakens in lockstep with the yen like the rest of G10. That said, sterling seems the most likely candidate of all to de-link from the yen as referendum concession in the currency dissipates. Even if one argues that much of that risk premium re-pricing is already behind us, the fact remains that BoE is the only other G4 central bank alongside the Fed to mull rate normalization next year; absent a sharp decline in UK activity data in Q4 that materially pushes back the time table for hikes, monetary policy divergence vis-à-vis BoJ alone should cap the degree to which GBP and JPY can correlate.

For directional investors, the same correlation stance can be assumed through **[GBP stronger, JPY weaker] dual digital options**. Chart 3 ranks the universe of such dual currency structures in order of leverage, and allows one to

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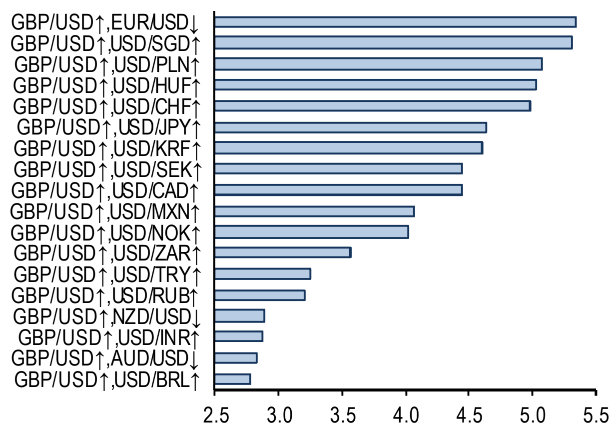
Chart 3. De-correlation plays involving GBP can offer significant leverage even with conservative strike selections

Max gearing of 3M ATMS strike [GBP stronger, CCY weaker] dual digitals. Includes 3% charge from mid.



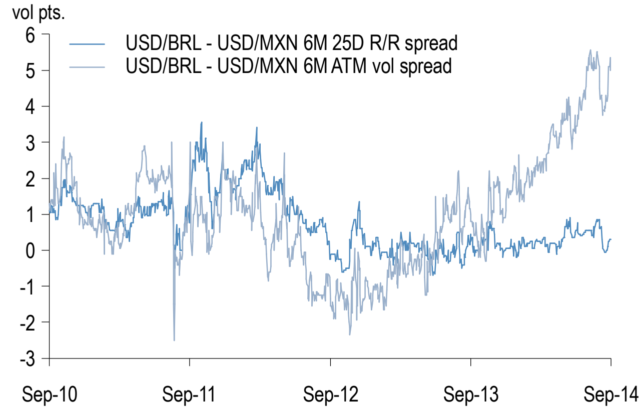
Source: J.P.Morgan

zero in on currency combinations that offer the most correlation savings. (GBP, JPY) ranks in the top half of the table, but does not finish on the podium – that feat belongs to **EUR** and highly EUR-correlated currencies such as **SGD** and **CEE3**. Even if the strangely poor price action in GBP post-referendum puts one off from buying into a multi-asset structure that needs each individual leg to work out, one could still consider GBP upside on crosses vs. EUR,SGD, PLN and HUF via GBP calls or call spreads that are less levered but offer better winning odds.

Relative value: BRL vs. MXN risk-reversals

Risk-reversals in USD/BRL screen cheap, while those in USD/MXN are expensive. This valuation divergence is curious, since the well-established good EM vs. bad EM narrative that gained traction after last year's taper scare should have been fully priced into options by now. This divide is well-reflected in BRL – MXN ATM vol spreads that have been on a secular uptrend for the best part of the last two years, but their risk-reversals have managed to buck the trend and trade nearly flat in 3M - 6M tenors (chart 4). The cheapness of USD/BRL skews is not just a relative story but an absolute one too: BRL- and BRL-crosses are some of the cheapest in EM on a carry-adjusted basis – cheaper than MXN at any rate – and this cheapness is still near historical extremes despite the correction higher over the last two weeks (chart 5). We think current levels are attractive for hedgers of BRL risk – for instance, corporates with Brazilian *real* exposure – to buy risk-reversals outright. For more alpha-oriented investors, we advocate **buying USD calls/BRL puts and selling USD calls/MXN puts on a delta-hedged basis**. The latter is a parsimonious expression of the skew dislocation; we prefer it to the pure four-legged risk-reversal spread since the bulk of R/R P/Ls stems from USD calls, while USD puts are actually a drag

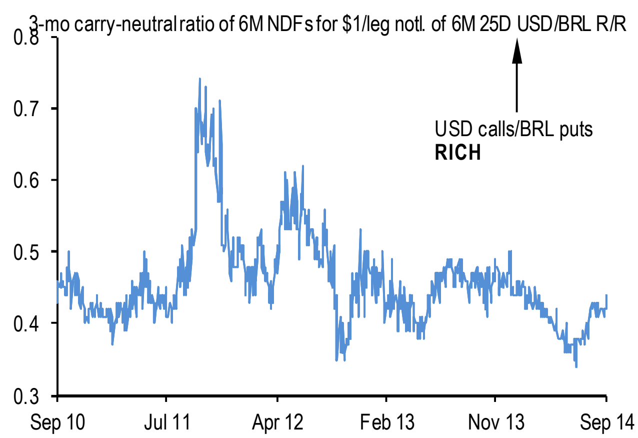
Chart 4. USD/BRL risk-reversals trade almost flat to USD/MXN risk-reversals, in sharp contrast to the premium for ATM vols



Source: J.P.Morgan

Chart 5. The carry-adjusted cheapness of USD/BRL risk-reversals is near historical extremes

Notional of 6M USD/BRL 6M NDFs that need to be sold to earn enough carry over a 3-month period to completely offset the time decay of long 6M 25D risk-reversals. Smaller the NDF hedge notional, cheaper the options relative to interest rate carry.



Source: J.P.Morgan

on returns (chart 6). The delta-hedge is a crucial component of the relative value argument, not only because it removes unwanted spot directionality, but also because BRL's extremely high carry/vol ratio means that the positive carry on the delta-hedge (short USD/BRL NDF) offsets a significant portion of the option decay and makes warehousing the spread relatively painless. Mexico does not suffer from Brazil's toxic mix poor growth, high inflation and susceptibility to higher US rates, nor is the carry/vol in the currency high enough to make holding short option positions particularly onerous – hence MXN is a decent choice to fund vol longs elsewhere.

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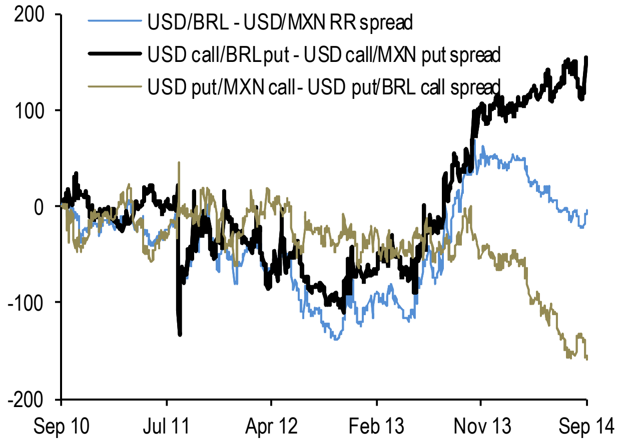
Chart 6. BRL vs. MXN USD call spreads are better expressions of the risk-reversal spread trade than the full four-legged package, since the USD put legs are a drag on returns

Cumulative P/Ls (bp USD) from (a) $1/leg of long USD/BRL 6M 25D risk-reversal vs. $1/leg of short USD/MXN 6M 25D risk-reversal; (b) $1/leg of long USD calls/BRL puts vs. short USD calls/MXN puts; and (c) $1/leg of short USD puts/BRL calls vs. long USD puts/MXN calls. All options delta-hedged once-a-day using smile forward deltas and option maturity matched forwards/NDFs at LatAm market close (~4pm NY) and rolled into fresh strikes monthly. No transaction costs.



Source: J.P.Morgan

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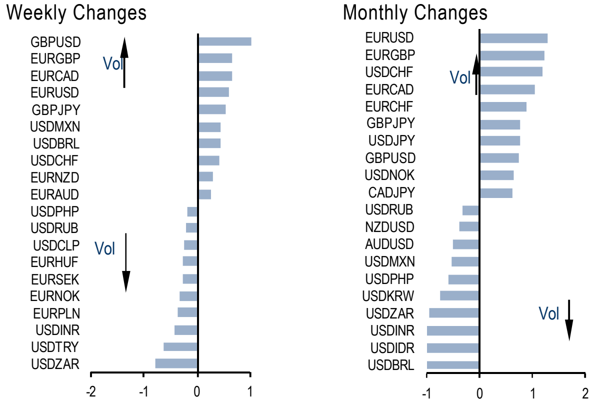
Implied Volatilities

	Current Implied Vols			Avg. Implied Vols			Z-Score Implied Vols		
	1M	3M	1Y	1M	3M	1Y	1M	3M	1Y
AUDJPY	5.9	7.0	9.0	10.8	11.1	12.2	-1.9	-1.9	-2.0
AUDUSD	5.8	6.5	8.2	8.6	8.8	9.7	-1.3	-1.3	-14
CADJPY	6.1	6.8	8.3	9.8	10.2	11.2	-1.4	-1.5	-18
CHFJPY	5.7	6.2	7.8	9.5	9.8	10.8	-1.4	-1.6	-18
EURAUD	6.5	7.0	7.9	8.6	8.7	9.1	-1.2	-1.1	-14
EURCAD	6.5	6.7	7.6	7.2	7.4	8.0	-0.7	-0.8	-0.7
EURCHF	2.7	2.7	3.1	3.7	3.9	4.7	-0.7	-1.0	-18
EURGBP	6.8	6.7	7.1	6.3	6.5	7.1	0.4	0.3	-0.1
EURJPY	5.9	6.6	8.4	10.5	10.8	11.8	-1.5	-1.6	-19
EURNOK	6.0	6.0	6.3	6.7	6.6	6.7	-0.5	-0.5	-0.6
EURNZD	7.3	7.6	8.5	9.4	9.5	9.9	-1.1	-1.2	-14
EURSEK	5.2	5.6	5.9	6.6	6.6	6.7	-1.7	-1.6	-17
EURUSD	6.7	6.6	7.3	7.1	7.3	8.2	-0.3	-0.6	-10
GBPJPY	6.8	7.2	8.7	9.8	10.1	11.0	-1.2	-1.4	-17
GBPUSD	6.5	6.3	6.9	6.5	6.8	7.5	0.0	-0.4	-0.9
NZDUSD	7.3	7.6	9.1	9.5	9.8	10.7	-1.1	-1.3	-16
USDCAD	5.7	5.8	6.8	6.2	6.4	7.2	-0.5	-0.7	-0.7
USDCHF	7.0	7.0	7.9	7.8	8.0	8.8	-0.5	-0.8	-1.1
USDJPY	6.3	6.7	8.1	9.6	9.7	10.3	-1.1	-1.2	-14
USDNOK	7.9	8.1	8.9	9.0	9.2	10.0	-0.7	-0.9	-12
USDSEK	7.9	8.0	8.9	9.3	9.5	10.3	-1.0	-1.2	-14
USDARS	4.0	8.0	19.0	10.5	14.4	25.0	-1.6	-1.5	-12
USDBRL	10.8	11.7	12.9	10.9	11.4	12.6	0.0	0.1	0.1
USDCLP	8.2	8.5	9.5	8.9	9.4	10.5	-0.4	-0.6	-1.1
USDMXN	7.2	7.5	8.8	9.9	10.3	11.5	-1.1	-1.3	-17
EURCZK	3.8	3.9	4.1	4.5	4.8	5.5	-0.5	-0.7	-1.1
EURHUF	6.6	7.1	8.4	8.1	8.5	9.5	-1.0	-1.0	-12
EURPLN	5.2	5.7	6.7	6.5	6.9	8.0	-1.0	-1.1	-14
EURRUB	10.9	10.9	12.1	8.6	8.9	10.1	1.3	1.4	1.9
USDRUB	10.8	10.9	12.2	9.1	9.3	10.4	1.2	1.3	1.9
USDTRY	9.9	9.9	12.4	9.3	9.7	11.2	-0.2	0.1	0.6
USDZAR	8.9	9.7	12.1	13.1	13.7	15.5	-1.8	-2.0	-2.3
USDIDR	8.4	9.1	10.8	10.1	10.6	11.7	-0.4	-0.4	-0.4
USDINR	6.0	6.7	8.5	10.1	10.6	11.3	-1.5	-1.6	-16
USDKRW	6.0	6.5	8.0	6.7	7.5	9.2	-0.5	-0.7	-10
USDPHP	4.6	4.8	5.4	4.7	5.0	5.8	-0.2	-0.2	-0.5
USDSGD	3.2	3.6	4.2	4.3	4.6	5.4	-1.0	-1.0	-14
USDTWD	2.5	2.8	3.4	3.6	3.8	4.3	-1.5	-1.6	-19

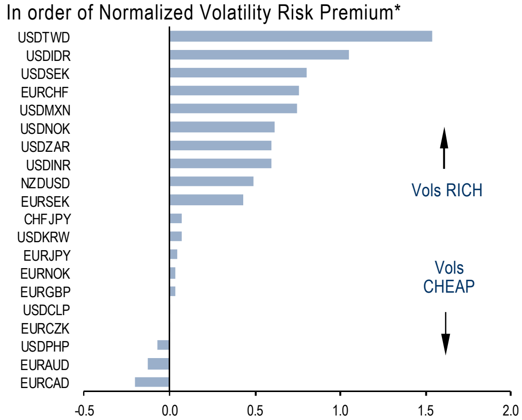
Biggest 3M Implied Volatility Movers



Source: J.P. Morgan

Front-End Vol Rankings

In order of Normalized Volatility Risk Premium*



Source: J.P. Morgan

Current trade recommendations and P/L

	Analyst	Description	Entry date	Entry	Current mid	P/L	P/L units	Remarks
	Sandilya/Bouquet	Buy GBP/USD and sell GBP/CAD 2Y straddle spreads	04-Mar-14	-1.3	-2.0	-0.7	vol pts	Proxy for the long correlation trade
	Sandilya/Bouquet	Buy 2Y ATM AUD/JPY put and sell 5Y ATM put, equal AUD notional	14-Mar-14	-2.6	-3.6	-1.0	% AUD	5Y-2Y vol curve overly steep, outperformance during vol spikes
	Sandilya/Bouquet	Buy EUR/USD and GBP/USD, sell EUR/GBP 1Y DNS, 0.6:0.55:1.3	21-Mar-14	-0.2	-1.9	-1.7	vol pts	Proxy for long EUR vs GBP correlation
	Sandilya/Bouquet	Buy AUD/USD and sell AUD/CAD 6M straddle spreads	28-Mar-14	-0.3	-1.3	-1.0	vol pts	Proxy for the long correlation trade
	Sandilya/Bouquet	Buy 3M NZD/USD vs. USD/MXN ATM straddles, in 1:0.7 vega	20-Jun-14	2.5	2.7	0.2	vol pts	Expired in-the-money
	Sandilya/Bouquet	Buy 6M silver 17% OTMS puts vs. gold 10% OTMS puts, equal USD notional, not delta-hedged	20-Jun-14	0.0	-0.2	-0.2	% USD	Deep OTM put vols are underestimating the jump potential of silver relative to gold
	Sandilya/Bouquet	Buy 1Y USD put / IDR call vs. sell 3M USD put / IDR call, 1.5:1 notional	25-Jul-14	1.0	0.7	-0.3	% USD	Attractive premium, positive carry/bleed and optionality on IDR rally
	Sandilya/Bouquet	Sell 2M EUR put / RUB call vs buy 6M EUR put / RUB call	25-Jul-14	0.2	0.2	0.0	% EUR	Positive carry, near-term sanctions risks with better medium-term prospects. We've bought back the short leg, which was worthless.
	Sandilya/Bouquet	Buy 6M 35D AUD put / JPY call vs. USD put / JPY call, equal JPY notional	01-Aug-14	0.4	0.5	0.1	% JPY	Low premium, defensive, USD bullish exposure
	Sandilya/Bouquet	Buy 1M GBP/CHF vol swap vs. sell 2M1M GBP/CHF FVA, equal vega	15-Aug-14	-1.4	-0.2	1.2	vol pts	Fade elevated risk premia around Scottish referendum. Vol swap has expired. Will hold FVA to expiry.
	Sandilya/Bouquet	Buy SEK/JPY 6M 25D risk-reversal, delta-hedged	15-Aug-14	-1.1	-1.2	-0.1	vol pts	SEK/JPY downside skew is overly rich
	Sandilya/Bouquet	Sell 3M EUR/MXN 25D risk-reversal, delta-hedged	05-Sep-14	1.7	1.4	0.2	vol pts	Fade rich EUR/EM riskies with some smile decay and vega remark
	Sandilya/Bouquet	Sell USD/ZAR 6M6M FVA vs. buy 6M 50D USD call/ZAR put, 100K USD vega vs. $7mio notionals	05-Sep-14			0.4	vol pts	Fading steep vol curves amid low realized vols; these trades have net positive vol carry and net long vega exposure
	Sandilya/Bouquet	Sell AUD/USD 6M6M FVA vs. buy 6M 50D AUD put/USD call, 100K USD vega vs. $5mio notionals	05-Sep-14			0.4	vol pts	Fading steep vol curves amid low realized vols; these trades have net positive vol carry and net long vega exposure
NEW	Sandilya/Bouquet	Buy 6M 25D USD/BRL calls vs. USD/MXN calls, delta hedged	19-Sep-14	5.9	5.6	-0.3	vol pts	USD/BRL skews register as cheap relative to that of USD/MXN
NEW	Sandilya/Bouquet	Sell 3M GBP/CAD straddles	19-Sep-14	7.0	7.3	-0.3	vol pts	Further pricing out of event risk premium

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Technical Strategy

- **EUR – The downtrend is losing momentum, but appears to be incomplete.**
- **Scandies – The latest recovery is not denting the broader downtrends, but could extend a bit further**
- **GBP – Shown chart pictures support a positive performance over the course of the next 4-6 weeks**
- **CEEMEA FX – The downtrends against the USD are far from being complete**
- **Stay long USD/JPY, USD/SEK, USD/NOK, USD/TRY, USD/RON, TRY/ZAR, EUR/NZD, USD/CZK, USD/CLP, USD/ZAR & short PLN/HUF, AUD/USD and CAD/MXN**

The downtrend of the EUR opened additional downside before a bounce looks to be due

Having decisively broken the potential base for a temporary 4th wave recovery at 1.2908 (wave 1 x 1.618) in **EUR/USD** the market opened additional downside to the next potential base at 1.2769/55/46 (monthly trend/pivots). A straight extension to the latter is favored unless a break above 1.2996 (pivot) indicates that the 3rd wave low is in place and wave 4 up to 1.3165 (minor 38.2 %) already on its way.

Chart 1: EUR/USD – Daily Chart: The bears remain in full control, shooting for 1.2769/55/46 and potentially even for 1.2502

The latter would provide a good risk-reward to bet on the missing 5th wave decline whereas breaks above 1.3165 and above 1.3274 (daily trend) would constitute a scale jump in favor of a broader 2nd or b-wave rebound to 1.3413 (int. 50 %) and to 1.3701/19 (pivot/int. 76.4 %) at a later stage. As for **EUR/JPY** and given the breaks above 138.70 and 139.60 (minor 38.2 %/daily trend) we now see room to at least challenge the key-T-zone at 143.34/143.82 (int. 76.4 %/pivot) where the bulls and bears will have to fight it out. In **EUR/CHF** we are waiting for a range breakout between 1.2063/28 (minor 76.4 %/pivot) and 1.2121/42 (minor 38.2 %/pivot) to either challenge the 1.2000 floor or to challenge the upper T-junction at 1.2206/18 (int. 38. %/pivot). Keep watching the key-T-junctions (minor 38.2 %) at 1.5937 in **EUR/NZD** and at 1.4464 in **EUR/AUD** as decisive breaks above would call for much broader recoveries.

The latest recovery in Scandies can extend, but is far from threatening the prevailing downtrends

Triggered by the Norges bank's more hesitant stance towards further rate cuts the broader downtrends in **NOK** and **SEK** lost momentum lately. That said an extension of the latest recovery is likely, but looking at the bigger pictures it would take breaks below the last low at 6.1305 in **USD/NOK** and below minor 38.2 % retracements at 8.0619 in **EUR/NOK**, at 6.9052 in **USD/SEK** and between 9.0378 to 8.9363 in **EUR/SEK** to really dent the up-trends in these currency pairs. Above, we see plenty of upside potential for USD/SEK and USD/NOK where we foresee a potential replication of the bull-swings from 2008-2009 (wave A) in a huge C-wave up. The next crucial resistance barriers however cut in at 6.7285 to 6.8193 (2010 high/int. 76.4 % on higher scale) in USD/NOK and at 7.2717 to 7.3286 (Fib.-projection/2012 high) in USD/SEK where we intend

Chart 2: USD/NOK – Weekly Chart: A decisive close above 6.3719 is needed to confirm another scale jump in favor of a broader up-trend

to at least take partial profit. Given the generally weaker EUR though, tests of key-Fib.-supports between 9.0378 and 8.9363 in EUR/SEK and at 8.0619 in EUR/NOK remain likely. Below, much broader 2nd wave setbacks to 8.5145 (EUR/SEK) and to 7.5560 (EUR/NOK) would be indicated.

The British Pound has room to extend its latest gains as the Scotland uncertainty dissolves

Following the path of the green No-vote scenario as described in last week's chart special on **Cable** (Please read: https://jpmm.com/research/content/GPS-1492645-0) we now see room to perform a zigzag countertrend rally (wave B) to 1.6622 (int. 50 %), which is the classical wave a

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target, whereas wave could potentially stretch out to 1.6923 (minor 76.4 %) at a later stage. This however only applies as long as key-support between 1.6248 and 1.6164/62 (minor 76.4 % on 2 scales/pivot) is defended, as breaks below would call for a straight test of lower supports at 1.6002 (50 % on big scale) and at 1.5852/1.5752 (pivots).

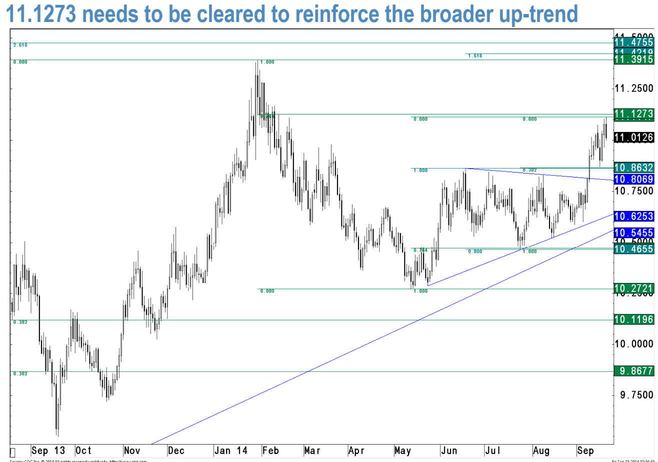
Chart 3: GBP/USD– Daily Chart: Below 1.6738, the odds remain in favor of a straight extension to 1.6394

As for **GBP Crosses,** we see additional upside to 183.98 (50 %) in **GBP/JPY** as long as key-support between 176.38 and 175.38 (minor 38.2 %/pivot) is defended. The mirror image is displayed in **EUR/GBP** where the downside looks to be open for an extension to 0.7755/44 (2012 low/50 %) as long as key-resistance between 0.7886/97 and 0.7940 (minor 38.2 %/daily trend/pivot) is not taken out. Above the latter though, we'd expect a stronger recovery to 0.8036 if not to 0.8177 (int. 38.2 % on 2 scales), which would have to be cleared to reverse the broader downtrend. **GBP/CHF** remains vulnerable to a stronger setback to at least 1.4917 (minor 38.2 %) as long as 1.5486 (2012 high) is not broken.

The Ukraine crisis is not loosening its grip on Eastern Europe, which remains in a downtrend

While **EUR/CEEMEA FX** looks to be rather range bound in the coming weeks we still see intact and incomplete up-trends in **USD/CEEMEA FX**. That said **USD/RUB** offers additional upside potential to a projected Fib.- targets at 39.25/40.05 and at 41.29 with the option to extend to 43.905/44.141. Holding strategic long positions in **USD/CZK,** in **USD/TRY**, in **USD/RON** and in **USD/ZAR** we are now looking for breaks above the next line of resistance at 21.875 (2010 high in USD/CZK), at 2.2365 to 2.2585 (Fib.-projection/pivot in USD/TRY), at 3.4828 (2013 high in USD/RON) and at 11.1273 (minor 76.4 %) to confirm the resumption of the broader up-trends.

Chart 4: USD/ZAR – Daily Chart: Still looking constructive but 11.1273 needs to be cleared to reinforce the broader up-trend



On the downside we keep watching key-supports mainly in form of minor 38.2 % retracements at 20.949/20.779 in USD/CZK, at 236.65 in **USD/HUF**, at 3.1731 in **USD/PLN**, at 2.1784 in USD/TRY, at 36.920 in USD/RUB, at 3.3512 in USD/RON and at 10.8667 in USD/ZAR as breaks below would provide first evidence that tops are in place and deeper setbacks are due.

Technical Trades — Average % return = 2.89%

Trade	Entry date	Entry level	Current level	Stop loss	Units	Target (1)	Target (2)	P&L since entry %	Comments
Long USD/JPY	29/10/13	97.98	108.73	106.45	1	112.50		10.97%	Tech Alert - MT triangle pattern nearly complete
Long USD/TRY	30/07/14	2.1416	2.2227	2.1420	2	2.3100	2.3850	3.79%	Elliott Model - anticipating a 5th wave advance
Long USD/SEK	01/09/14	6.9971	7.1200	6.9750	2	7.2700	7.6200	1.76%	Elliott Model - anticipating a 3rd wave impulse on higher scale
Long USD/NOK	17/04/14	6.2036	6.3331	6.1100	2	6.8150	7.3100	2.09%	Elliott Model - anticipating a C-wave; took partial profits Sept 11th
Long EUR/NZD	07/05/14	1.5834	1.5763	1.5530	2	1.7000	1.9000	-0.45%	Elliott Model - C-wave up; added at 1.5650 Jun12th
Short PLN/HUF	27/08/14	74.5207	74.2500	75.4000	2	72.3000	70.0000	0.36%	Elliott Model - anticipating a broad C-wave down
Long TRY/ZAR	18/08/14	4.9176	4.9511	4.7900	2	5.2600	5.4635	0.68%	Elliott Model - anticipating a 5th wave advance
Short GBP/CAD	14/08/14	1.8185	1.8112	1.8110				0.40%	Elliott Model - Taken profit of 0.40 % on stop
Short CAD/MXN	28/01/14	12.0175	12.0949	12.2900	2	11.0000		-0.64%	Tech Alert - Breaking down from long term range/support
Long USD/CLP	03/04/14	551.15	597.20	582.00	2	610.00	630.00	8.36%	Tech Alert - ST base against key support; added at 546
Short AUD/USD	09/09/14	0.9207	0.8987	0.9500	1	0.8800		2.45%	Tech Alert - Medium term topping pattern confirmed.
Long USD/RON	29/08/14	3.3495	3.4207	3.3000	1	3.6850	3.8400	2.13%	Elliott Model - anticipating a 5th wave advance
Long USD/ZAR	09/09/14	10.8830	11.0051	10.7400	2	11.1250	11.3900	1.12%	Elliott Model - anticipating a 5th wave advance
Long USD/CZK	26/11/13	20.4840	21.4287	20.3000	2	24.4300	25.3500	4.61%	Outlook 2014 - anticipating a broad C-wave up

The trade recommendations for the Tech Alerts (inclusive the Elliott Model Portfolio) can be found on Morgan Markets or can be received simultaneously via e-mail if desired

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Research Note

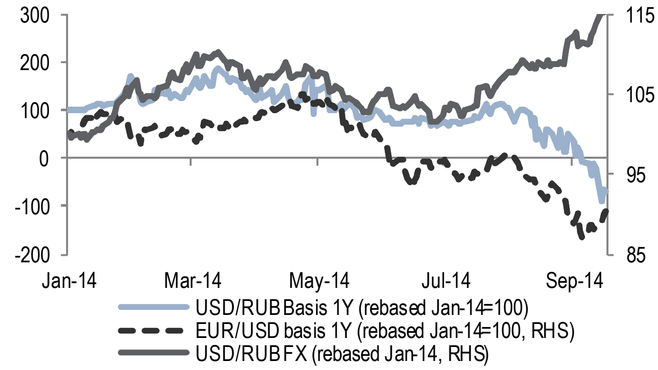
RUB: More is needed from the CBR to stabilise the ruble

- **The ruble has underperformed EM peers MTD. However, leveraged foreign investors have not added to RUB shorts according to CFTC data, while foreign real money investors are already comfortably FX hedged; this suggests locals have driven RUB FX performance.**
- **The significant widening in USD/RUB cross currency basis since August in part reflects a general widening in USD basis markets globally, but the scale of the move in Russia suggests that recent restrictions imposed on Russian banks and corporates are increasing demand for the USD significantly.**
- **There are no signs that deposit dollarization has picked up pace again, although we believe this remains a key risk should RUB depreciation continue.**
- **The CBR has introduced a 1-day FX swap facility in order to help ease onshore USD shortages, though the scale of the facility will likely have to be expanded in order to meet the demand for FX in coming months.**
- **RUB FX: Stay neutral RUB FX despite ongoing geopolitical tensions, as risks of a retracement remain high given short RUB positioning and a more reactive CBR.**

On September 17 the CBR introduced a new 1 day FX swap facility as a first step to ease onshore USD shortage pressures. The amount of USD offered in the facility is small compared to daily market turnover and overall private sector FX redemptions, and we note that the rate is not favourable relative to market rates. However we think it is a positive first step. It should help to alleviate some of the RUB's underperformance relative to peers as well ease widening pressure on USD/RUB basis in the coming days. That said, geopolitical tensions remain, potentially forcing the CBR to expand the size and effectiveness of this facility in the coming months in order to meet the full scope of the demand for FX in coming months. We stay neutral RUB FX for now despite ongoing geopolitical tensions, as risks of a retracement remain high given short RUB positioning and a more reactive CBR.

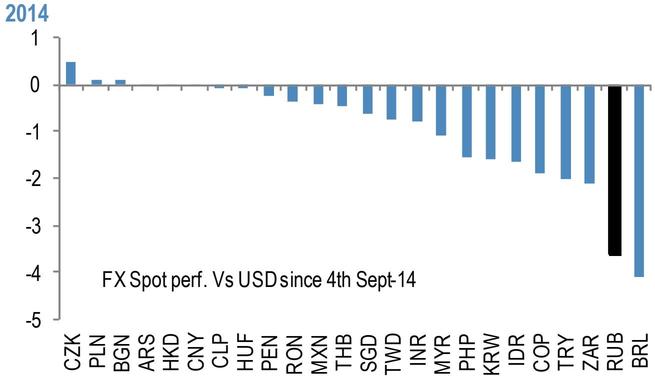
The Ruble has underperformed EM peers MTD; this can mostly be explained by onshore demand for USD in our view. EM FX has weakened this month triggered by higher US treasury yields given the prospect of a more hawkish shift in Fed phrasing at this week's FOMC meeting. RUB FX, alongside BRL, ZAR and TRY, has underperformed EM peers, depreciating by -3.4% vs USD since 4th September-14 (Figure 2). However a regression of RUB FX performance on oil (to capture the recent fall in Brent prices), Russia CDS (to proxy for regional geopolitical tensions) and EUR/USD performance (to capture shifts in core market sentiment) suggests that the RUB's recent underperformance has overshot by around 2%

Figure 1: USD/RUB basis has widened significantly while RUB has weakened



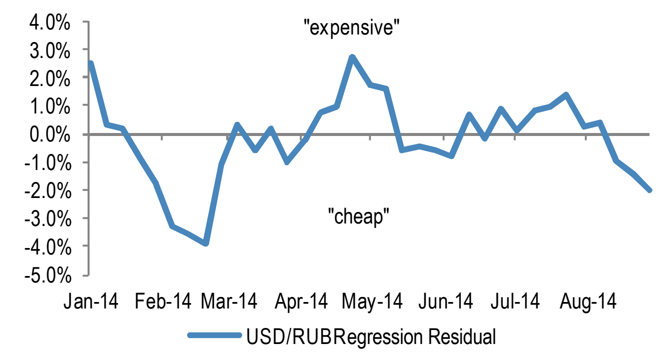
Source: Bloomberg, JPMorgan

Figure 2: RUB has underperformed EM peers since 4th September 2014



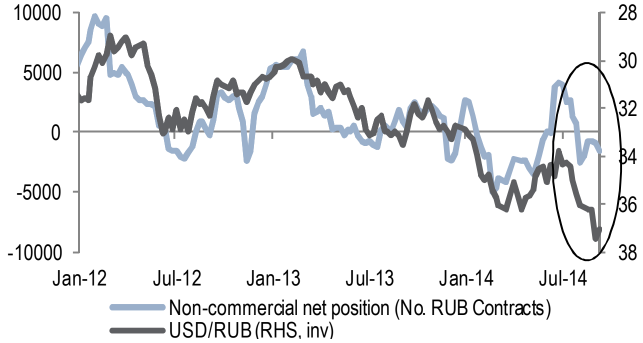
Source: JPMorgan

Figure 3: A simple regression of RUB on oil, Russia CDS and EUR/USD would suggest that RUB depreciation has overshot



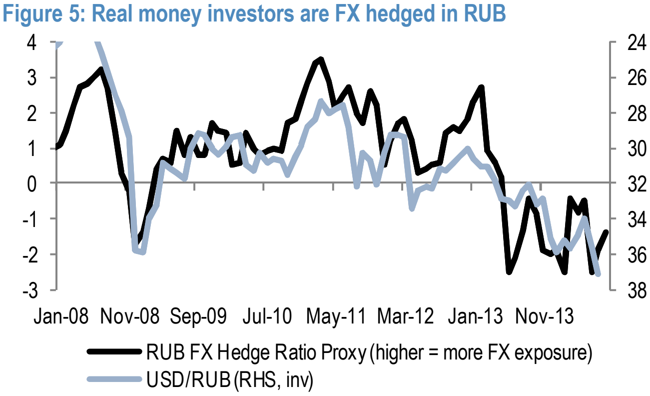
Note: RUB FX regressed on Brent oil, Russia 5yr CDS and EUR/USD.
Source: JPMorgan

Figure 4: CFTC data suggests that shorter term foreign investors have not increased RUB short positions as USD/RUB has moved higher in recent weeks



Source: CFTC, JPMorgan

Figure 5: Real money investors are FX hedged in RUB

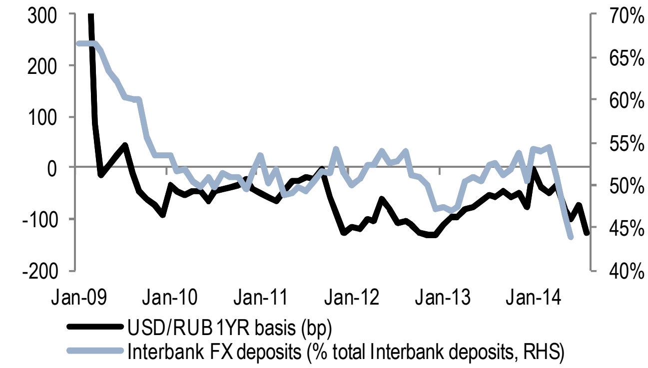


Source: JPMorgan Client Survey

vs USD (Figure 3). We think the residual RUB depreciation can be explained by onshore demand for USD rather than an increase in offshore short RUB positions. The USD/RUB basis market supports this view given the significant widening over recent weeks, while foreign positioning data suggests that foreign investors did not add to short RUB positions in recent weeks (see below).

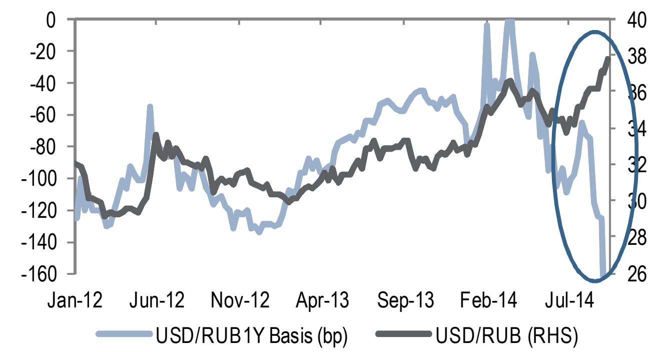
Short-term foreign investors have not chased USD/RUB higher while foreign real money investors have already comfortably FX-hedged their bond positions according to our data, suggesting that local players have contributed more to recent RUB weakness. CFTC RUB FX positioning data has historically co-moved closely with USD/RUB performance (Figure 4); however in recent weeks, as the currency has weakened shorter-term foreign investors have not increased their RUB short positions suggesting that they have not participated in the RUB sell-off. We also do not think that real money investors have increased their RUB shorts as they are already comfortably FX hedged (Figure 5). The fact that RUB has also de-correlated from Russia 5yr CDS, Russian equity markets and CEE FX so far this month also suggests to us that foreign investors have had little to do with RUB's recent underperformance.

Figure 6: USD/RUB basis has widened as local banks find it harder to borrow USD in the interbank market



Source: Haver Analytics, JPMorgan

Figure 7: The historical correlation between USD/RUB basis and USD/RUB FX has reversed in recent months



Source: Bloomberg, JPMorgan

The significant widening in USD/RUB cross currency basis since August in part reflects a general widening in USD basis markets globally, but the scale of the move in Russia suggests that recent restrictions imposed on Russian banks and corporates is increasing demand for USD significantly, particularly ahead of Q4 redemptions. RUB 1y x-ccy basis swaps moved from an average of -50bp in 1H-14 to around -250bp currently. In part this may reflect a general re-pricing of USD basis markets globally, perhaps due to worries over scarcer USD as US data continues to improve and the Fed ends its quantitative easing program. However, the scale of the move in Russia suggests idiosyncratic factors have been more important. The move in RUB basis was driven by the collapse in FX implied yields, with RUB ON FX implied yields falling from 8% at the beginning of this month to 6.3%, placing them below the CBR's 7% deposit facility (lower bound of the interest rate corridor). In normal circumstances, such a move in basis would not last long given the arbitrage opportunity for an international bank to lend USD/borrow RUB in the FX swap market and place the RUB at the CBR's deposit facility. However, we note that two main factors are keeping the basis negative. First, more aggressive restrictions on Russian companies' ability to raise FX financing is increasing the

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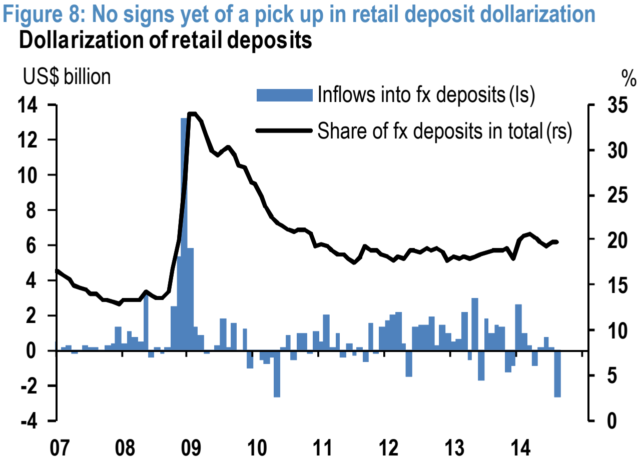
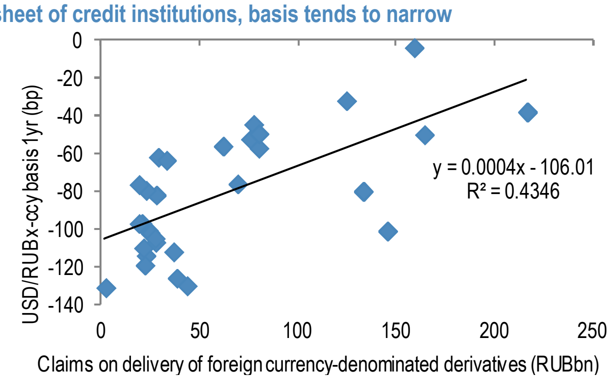
demand for FX within Russian banks and corporates, particularly as USD47bn[1] in FX redemption come due in Q4 for Russian companies. At the same time, international banks are cutting credit lines to Russian banks, making it harder for local banks/corporates to borrow USD from the FX swap market (Figure 6). This has resulted in heightened demand for USD by local banks and corporates by whatever means are viable: those who still have international FX swap lines are borrowing USD from the FX swap market while those who do not are selling RUB and buying FX in the spot market. This has driven RUB FX spot weaker while pushing FX implied yields and basis lower, breaking the historical correlation in Russia of weaker FX, higher FX implied yields and narrower basis (Figure 7). In addition, the absence of exporter USD selling and CBR intervention (given the recent changes in the FX corridor mechanism) has meant the RUB has had no backstop against these dynamics.

Figure 8: No signs yet of a pick up in retail deposit dollarization



Source: CBR, J.P. Morgan estimates

Figure 9: As the FX assets (via derivatives) increases on the balance sheet of credit institutions, basis tends to narrow

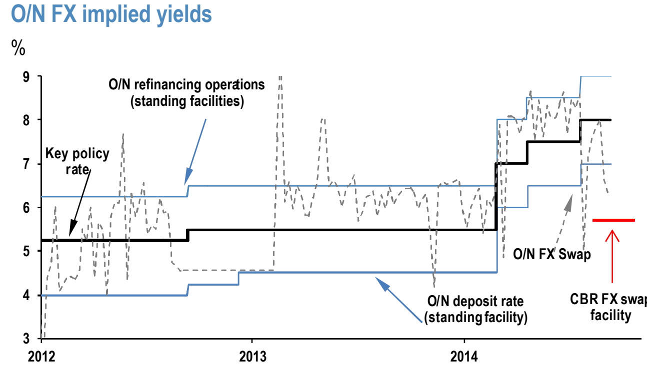


Source: CBR, JPMorgan

There are no signs that deposit dollarization has picked up pace again, though this remains a key risk should RUB depreciation continue. The available data suggests that dollarization of both retail and corporate deposits stabilized since spring. In August, retail depositors reduced their FX deposits by around $2.6 billion, on our estimates, while inflows into RUB deposits strengthened (Figure 8). Corporate FX deposits also continued to decline last month. Thus, at least through August there was no apparent trend for renewed dollarization of deposits. The widening in USD/RUB basis to some extent also supports this view as typically any increase in deposit dollarization has coincided with a weaker RUB and a narrowing in USD/RUB basis. This is because local banks look to match any increase in FX liabilities (due to deposit dollarization) with an increase in FX assets by for example buying USD/RUB in the FX spot market and lending USD/borrowing RUB in the FX forward market. This weakens RUB but narrows USD/RUB basis (Figure 9).

The CBR has introduced a 1 day FX swap facility in order to help ease onshore USD shortage pressures, though the scale of the facility will likely have to be expanded in order to stabilise RUB markets. Yesterday the CBR introduced a 1 day FX swap facility aimed at "improving the capabilities of short-term FX liquidity management at credit institutions". Exchange-traded USD/RUB sell/buy one-day FX swaps will be conducted by the Bank of Russia on terms of today/tomorrow (USD1bn maximum daily allotment) and tomorrow/spot settlements (USD2bn maximum allotment). The interest rate on the ruble leg will be 7% vs 1.5% on the USD leg. Overall we think the facility is an important first step in imposing a floor on FX implied yields and easing the onshore USD shortage pressures. However, the CBR may have to scale up the facility from its current form given ongoing geopolitical risks and foreign debt redemptions both which would likely deepen the deficit of dollar liquidity with time. In its current form we estimate that the USD3bn offered only represents 10% of the total O/N FX swap turnover traded, while market FX implied rates are trading above the rate implied by the facility, suggesting there is still some room for FX implied yields to move lower before reaching the facility's implied rate (Figure 10).

Figure 10: The FX implied yield of the CBR's facility is below current O/N FX implied yields



Source: CBR, JPMorgan

[1] The CBR numbers likely overestimate the redemptions coming due to the fact that they include related party debt balances.

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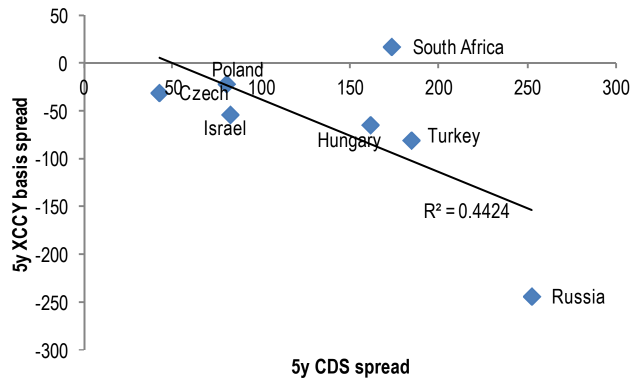
RUB FX implications: Stay neutral RUB FX despite ongoing geopolitical tensions, as risks of a retracement remain high given short RUB positioning and a more reactive CBR. While considerable uncertainty remains regarding the outlook for the RUB we think that short RUB positions are at risk in the short run for several reasons. First, geopolitical escalation momentum is not increasing since the ceasefire and while we think risks are skewed towards momentum picking up again, this must be weighed against the already significant short RUB positions of the foreign investor community as well as the CBR's potential policy response to further RUB weakness. The CBR, with the introduction of the new FX swap facility, have already put in place the basis of a mechanism which if expanded in size could significantly satisfy onshore USD demand. In addition, we may see more measures introduced as the RUB baskets breaches the upper bound of the FX corridor (44.40). The fact that deposit dollarization has not picked up again is also encouraging. Moreover, leaving geopolitical risks to one side, it is not obvious that the RUB is overvalued at these levels on a macro fundamental basis, with medium term real effective exchange rate models giving mixed messages on the currency. All these factors leave us neutral RUB FX at these levels.

Rates and basis: Hold on to 1s5s xccy flatteners despite hitting our stop; We believe the modest scale and scope of the CBR's facility, alongside the flatness of the cross-currency basis curve, make it unattractive to position for a sharp narrowing of basis in the near-term. One of the most enduring relationships we have found for xccy basis both on a cross-section and time-series is the relationship with CDS spreads. This reflects the large credit-risk component inherent in local interbank fixings. Figure 11 shows that on a scatter plot of xccy basis against CDS spreads for EMEA EM countries, Russia xccy basis stands out as being around 75bp too wide relative to CDS spreads. In our view this reflects the specificity of the sanctions against Russian banks and corporates (as opposed to against the sovereign), and is a gap which is unlikely to narrow in the near term. Second, the flatness of the RUB xccy basis curve (Figure 12) past the 1-year point, and the steepness between 3m and 1y, leaves it unattractive to position for a sharp narrowing of basis in the near term, in our view. In rates we hold on to our 1s5s xccy flatteners despite going through our stop of -70bp in recent days. First, we think the large movements in basis have resulted in a dislocated xccy curve (Figure 13), with 5y xccy rates in 6-months time only 5-6bp below spot 5y rates. Second, with a rising risk of rate hikes in the near term on the back of currency-weakness, we think the curve could invert significantly from current levels. The prospect for a sharp fall of short-dated FX implied yields from current levels is limited due to the CBR's new FX swap facility, and a tightening of RUB liquidity conditions on account of tighter monetary policy may well put upward pressure in FX-implied rates in coming weeks, which should help facilitate a flattening of the xccy yield curve (Figure 13).

Figure 11: Russia xccy basis looks around 75bp too wide on a cross-country comparison

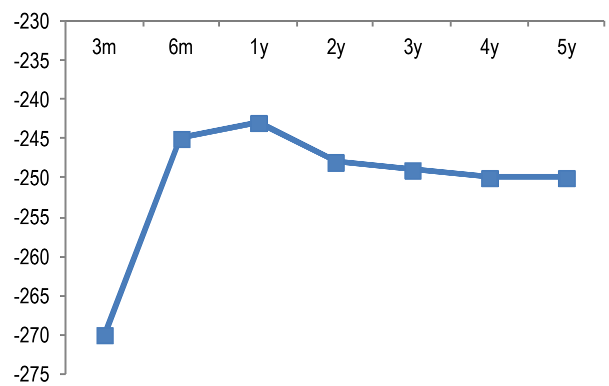
5y xccy basis spreads against 5y CDS spreads (both in bp)



Source: J.P. Morgan

Figure 12: Basis curve shape makes it unattractive to position for a narrowing of basis spreads

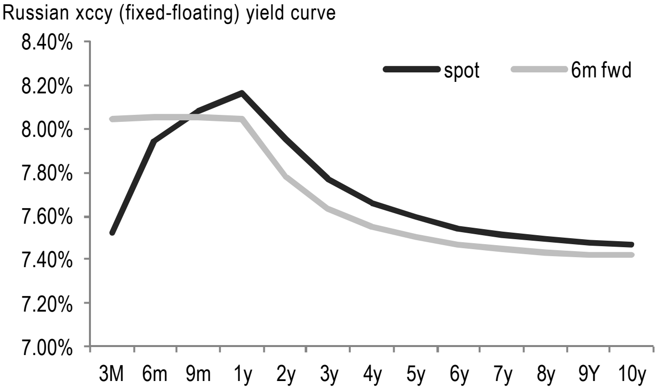
xccy basis curve, bp



Source: J.P. Morgan

Figure 13: We think the Russian xccy curve could be flatter from current levels

Russian xccy (fixed-floating) yield curve



Source: J.P. Morgan

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Market movers

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Date	Country	Time	Data/Event		Forecast		Previous	
					JPM	Consensus		
Sep 22 (Mon)	**Euro area**	11:00	ECB's Praet speaks in Berlin					
		14:00	ECB's Draghi speaks to EU					
	Israel	**14:00**	**BoI rate announcement**	**na**	**0.25**	**0.25**	**na**	**0.25**
	US	13:30	Chicago Fed nat. activity index	Aug	na	na	(Jul)	0.4
		15:00	Existing home sales (mn, saar)	Aug	na	5.2	(Jul)	5.2
		15:05	Fed's Dudley speaks in New York					
Sep 23 (Tue)	**Euro area**	07:45	France GDP (%q/q, sa)	2Q F	na	0.0	(2Q P)	0.0
		08:00	France PMI mfg (index, sa)	Sep P	na	na	(Aug F)	46.9
		08:00	France PMI services (index, sa)	Sep P	na	na	(Aug F)	50.3
		08:30	Germany PMI mfg. (index, sa)	Sep P	na	51.3	(Aug F)	51.4
		08:30	Germany PMI services (index, sa)	Sep P	na	54.5	(Aug F)	54.9
		09:00	PMI mfg. index (sa)	Sep P	na	50.8	(Aug F)	50.7
		09:00	PMI services (index, sa)	Sep P	na	53.0	(Aug F)	53.1
		09:00	PMI composite (index, sa)	Sep P	na	52.5	(Aug F)	52.5
	UK	09:30	Public sector finances (GBP bn)	Aug	na	na	(Jul)	-9.7
	Hungary	07:30	Current account (EUR mn)	2Q	na	1000.0	(1Q)	984.0
		13:00	**NBH rate announcement**	**na**	**2.10**	**2.10**	**na**	**2.10**
	US	00:30	Fed's Kocherlakota speaks in Michigan					
		14:00	FHFA house price index (%m/m)	Jul	na	0.5	(Jun)	0.4
		14:00	Fed's Bullard gives welcome in St. Louis					
		14:20	Fed's Powell speaks in St. Louis					
		14:30	Fed's George speaks in St. Louis					
		14:45	Markit Flash mfg PMI (index)	Sep P	na	58.0	(Aug F)	57.9
		15:00	Richmond Fed mfg index	Sep	na	10.0	(Aug)	12.0
		18:00	US sells $29bn of 2-year notes					
		19:00	Fed's Kocherlakota holds town hall					
			Bed Bath & Beyond Inc	na	1.16	1.14	na	0.93
	Canada	13:30	Retail sales (%m/m, sa)	Jul	na	0.4	(Jun)	1.1
	New Zealand	23:45	Trade balance (NZD mn)	Aug	-900.0	-1125.0	(Jul)	-692.3
Sep 24 (Wed)	**Japan**	02:35	PMI mfg. (index, sa)	Sep P	na	na	(Aug F)	52.2
	Euro area	09:00	Germany IFO business survey (index, sa)	Sep	na	105.8	(Aug)	106.3
	Sweden	08:00	Consumer confidence (index)	Sep	na	98.0	(Aug)	96.9
	Norway	09:00	Unemployment rate (%, sa)	Jul	na	3.3	(Jun)	3.3
	Russia	13:00	Weekly CPI (%ytd)	na	na	na	na	5.9

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Date	Country	Time	Data/Event		Forecast		Previous	
					JPM	Consensus		
Sep 24 (Wed)	**US**	BMO	Accenture earnings	na	1.08	1.10	na	1.26
		02:15	Fed's George speaks in Cheyenne, Wyoming					
		15:00	New home sales (000s, saar)	Aug	na	430.0	(Jul)	412.0
		17:05	Fed's Mester speaks in Cleveland					
		18:00	Fed's Evans speaks in Washington					
		18:00	US sells $35bn 5-year notes					
	Brazil	14:30	Current account ($ mn)	Aug	na	na	(Jul)	-6017.6
Sep 25-30	**UK**		Nationwide HPI (%m/m, sa)	Sep	na	na	(Aug)	0.8
Sep 25 (Thu)	**Japan**	00:50	Corporate service prices (%oya)	Aug	3.8	3.7	(Jul)	3.7
	Taiwan	**09:00**	**CBC rate announcement**	**na**	**1.875**	**1.875**	**na**	**1.875**
	Euro area	09:00	M3 (%oya)	Aug	na	1.9	(Jul)	1.8
		10:00	Italy retail sales (%m/m, sa)	Jul	na	na	(Jun)	0.0
	Sweden	08:30	PPI (%oya)	Aug	na	na	(Jul)	1.4
	Turkey	**12:00**	**CBRT rate announcement**	**na**	**8.25**	**8.25**	**na**	**8.25**
	Czech Republic	**12:00**	**CNB rate announcement**	**na**	**0.05**	**0.05**	**na**	**0.05**
	US	13:30	Initial jobless claims (000s, sa)	na	na	305.0	na	280.0
		13:30	Durable goods orders (%m/m, sa)	Aug	na	-17.0	(Jul)	22.6
		18:00	US sells $29bn 7-year notes					
		18:20	Fed's Lockhart speaks in Jackson, Mississippi					
		21:15	NIKE Inc earnings	na	0.87	0.88	na	0.78
Sep 26 (Fri)	**Japan**	00:30	Nationwide CPI (%oya)	Aug	3.3	3.3	(Jul)	3.4
		00:30	Nationwide core CPI (%oya)	Aug	2.4	2.3	(Jul)	2.3
		00:30	Tokyo CPI (%oya)	Sep	2.7	2.7	(Aug)	2.8
	Euro area	07:00	Germany GfK consumer confidence (index, sa)	Oct	na	8.5	(Sep)	8.6
	Sweden	08:30	Trade balance (SEK bn)	Aug	na	na	(Jul)	1.9
	US	13:30	Personal consumption (%q/q, saar)	2Q T	na	3.0	(2Q S)	2.5
		13:30	GDP (%q/q, saar)	2Q T	na	4.6	(2Q S)	4.2
		13:30	GDP price index (%q/q, saar)	2Q T	na	2.1	(2Q S)	2.1
		13:30	PCE core (%q/q, saar)	2Q T	na	na	(2Q S)	2.0
		14:55	U. Michigan consumer confidence (index)	Sep F	na	85.0	(Sep P)	84.6
	Mexico	14:00	Trade balance ($ mn)	Aug P	na	na	(Jul F)	-979.9
	Colombia		**Banrep rate announcement**	**na**	**4.50**	**4.50**	**na**	**4.50**

Event risk calendar

Month	Date	Country	Event
Sep 2014	20	New Zealand	House of representatives elections
	20-21	G20	G20 Finance Ministers and Central Bank meeting
	21	France	Senate elections
	25	Turkey	CBRT rate announcement
	26	UK	BoE FPC policy meeting
Oct 2014	1	New Zealand	GDT dairy auction
	2	Euro area	ECB rate announcement
	5	Brazil	Presidential and congressional election
	6-7	Indonesia	BI rate announcement
	7	Japan	BoJ rate announcement
	7	Australia	RBA rate announcement
	8	US	Fed releases minutes from Sep 16-17 FOMC
	9	UK	BoE rate announcement
	10	UK	Minutes from 26 Sep FPC meeting
	10	Italy	Moody's and DBRS rating actions
	15	US	Fed releases Beige Book
	15	New Zealand	GDT dairy auction
	23	Norway	Norges Bank rate announcement
	23	Turkey	CBRT rate announcement
	24	Germany	Moody's rating action
	24	Italy	Fitch rating action
	28	Sweden	Riksbank rate announcement
	29	New Zealand	RBNZ rate announcement
	29	US	Fed rate announcement
	29	Brazil	BCB rate announcement
	31	Japan	BoJ rate announcement
	31	Mexico	Banxico rate announcement

Month	Date	Country	Event
Nov 2014	na	Euro area	AQR/stress test published
	1	Euro area	New Commission assumes office
	2	Romania	Presidential elections
	4	Australia	RBA rate announcement
	4	Euro area	ECB becomes regulator within Single Supervisory Mechanism
	4	US	Congressional mid term elections
	4	New Zealand	GDT dairy auction
	6	Euro area	ECB rate announcement
	6	UK	BoE rate announcement
	7	Portugal	S&P rating action
	9	Spain	Catalonia referendum (tentative)
	12	UK	Quarterly Inflation Report
	12-13	Indonesia	BI rate announcement
	15-16	G20	G20 Leaders Summit
	16	Romania	Presidential elections
	18	New Zealand	GDT dairy auction
	19	US	Fed releases minutes from Oct 28-29 FOMC
	19	Japan	BoJ rate announcement
	20	Turkey	CBRT rate announcement
	20	South Africa	SARB rate announcement
	23	Tunisia	Presidential elections
Dec 2014	1	Euro area	New president of the European Council takes office
	2	Australia	RBA rate announcement
	2	New Zealand	GDT dairy auction
	3	US	Fed releases Beige Book
	3	Brazil	BCB rate announcement
	4	Euro area	ECB rate announcement
	4	UK	BoE rate announcement
	5	Italy	S&P rating action
	5	Mexico	Banxico rate announcement
	8	UK	BoE FPC policy meeting
	10	New Zealand	RBNZ rate announcement
	10-11	Indonesia	BI rate announcement
	11	Euro area	TLTRO 2nd tender
	11	Norway	Norges Bank rate announcement
	11	Switzerland	SNB rate announcement
	16	UK	BoE Financial Stability Report
	16	Sweden	Riksbank rate announcement
	16	New Zealand	GDT dairy auction
	17	US	Fed rate announcement
	19	Japan	BoJ rate announcement
	24	Turkey	CBRT rate announcement

Central bank announcement dates in 2014

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Australia		4	4	1	6	3	1	5	2	7	4	2
Brazil	15	26		2	28		16		3	29		3
Canada	22		5	16		4	16		3	22		3
Chile	16	18	13	17	15	12	15	14				
Colombia	31	28	21	25	30	20	31	29	26	31	28	19
Czech Republic		6	27		7	26	31		25		6	17
Euro area	9	6	6	3	8	5	3	7	4	2	6	4
Hungary	21	18	25	29	27	24	22	26	23	28	25	16
India	28			1		3		5	30			
Indonesia	9	12-13	13	8	7-8	11-12	9-10	13-14	10-11	6-7	12-13	10-11
Israel	27	24	24	28	26	23	28	25	22	27	24	29
Japan	22	18	11	8, 30	20	13	15	8	4	7,31	19	19
Korea	9	13	13	10	9	12	10	14	12	8	13	11
Malaysia	29		6		8		10		18		6	
Mexico	31		21	25		6	11		5	31		5
New Zealand	29		12	23		11	23		10	29		10
Norway			27		8	19			18	23		11
Philippines	23		20	30		19	31		18	30		11
Poland	8	5	5	9	7	4	2		3	8	5	3
South Africa	29		27		22		17		18		20	
Sweden		13		9			3		4	28		16
Switzerland			20			19			18			11
Thailand	22		12	23		18		6	17		5	17
Turkey	21,28	18	18	24	22	24	17	27	25	23	20	24
United Kingdom	9	6	6	10	8	5	10	7	4	9	6	4
United States	29		19	30		18	30		17	29		17

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Global central bank forecasts

	Official rate	Current rate (%pa)	Change since (bp) 05-07 avg	Trough[1]	Jul 11	Last change	Next mtg	Forecast next change	Forecast (%pa) Sep 14	Dec 14	Mar 15	Jun 15	Sep 15
Global		2.31	-201	52	-37				2.30	2.29	2.31	2.42	2.49
excluding US		3.08	-117	65	-40				3.05	3.04	3.06	3.08	3.09
Developed		0.26	-323	0	-58				0.27	0.27	0.29	0.46	0.59
Emerging		6.03	-98	114	-23				6.12	6.11	6.12	6.12	6.08
Latin America		7.40	-335	159	-162				7.39	7.39	7.42	7.42	7.42
EMEA EM		6.09	-15	212	176				6.58	6.52	6.39	6.29	6.06
EM Asia		5.59	-21	111	-39				5.59	5.59	5.64	5.66	5.67
The Americas		1.59	-350	49	-41				1.51	1.51	1.52	1.80	1.97
United States	Fed funds	0.125	-438	0	0	16 Dec 08 (-87.5bp)	16 Dec 14	Jun 15 (+25bp)	0.125	0.125	0.125	0.500	0.750
Canada	O/N rate	1.00	-273	75	0	8 Sep 10 (+25bp)	22 Oct 14	2Q 15 (+25bp)	1.00	1.00	1.00	1.25	1.25
Brazil	SELIC O/N	11.00	-425	375	-150	2 Apr 14 (+25bp)	29 Oct 14	On hold	11.00	11.00	11.00	11.00	11.00
Mexico	Repo rate	3.00	-487	0	-150	6 Jun 14 (-50bp)	31 Oct 14	4Q 15 (+25bp)	3.00	3.00	3.00	3.00	3.00
Chile	Disc rate	3.50	-119	300	-175	14 Aug 14 (-25bp)	16 Oct 14	16 Oct 14 (-25bp)	3.25	3.00	**2.75**	2.75	2.75
Colombia	Repo rate	4.50	-281	150	0	29 Aug 14 (+25bp)	26 Sep 14	4Q 14 (+25bp)	4.50	4.75	5.00	5.00	5.00
Peru	Reference	3.50	-56	225	-75	11 Sep 14 (-25bp)	9 Oct 14	1Q 15 (+25bp)	3.50	3.50	4.00	4.00	4.00
Europe/Africa		1.51	-223	18	-45				1.47	1.46	1.47	1.48	1.46
Euro area	Refi rate	0.05	-293	0	-145	4 Sep 14 (-10bp)	2 Oct 14	3Q 18 (+20bp)	0.05	0.05	0.05	0.05	0.05
United Kingdom	Bank rate	0.50	-444	0	0	5 Mar 09 (-50bp)	9 Oct 14	1Q 15 (+25bp)	0.50	0.50	0.75	1.00	1.25
Norway	Dep rate	1.50	-169	25	-75	14 Mar 12 (-25bp)	23 Oct 14	On hold	1.50	1.50	1.50	1.50	1.50
Sweden	Repo rate	0.25	-231	0	-175	3 Jul 14 (-50bp)	28 Oct 14	On hold	0.25	0.25	0.25	0.25	0.25
Czech Republic	2-wk repo	0.05	-235	0	-70	1 Nov 12 (-20bp)	25 Sep 14	On hold	0.05	0.05	0.05	0.05	0.05
Hungary	2-wk dep	2.10	-503	0	-390	22 Jul 14 (-20bp)	23 Sep 14	4Q 15 (+20bp)	2.10	2.10	2.10	2.10	2.10
Israel	Base rate	0.25	-400	0	-300	25 Aug 14 (-25bp)	22 Sep 14	2Q 15 (+25bp)	0.25	0.25	0.25	0.75	1.00
Poland	7-day interv	2.50	-202	0	-200	3 Jul 13 (-25bp)	8 Oct 14	8 Oct 14 (-50bp)	2.50	1.75	1.75	1.75	1.75
Romania	Base rate	3.25	-494	25	-300	4 Aug 14 (-25bp)	30 Sep 14	30 Sep 14 (-25bp)	3.00	2.75	2.75	2.75	2.75
Russia	Key pol rate	8.00	N/A	N/A	N/A	25 Jul 14 (+50bp)	31 Oct 14	1Q 15 (-25bp)	8.00	8.00	7.75	7.50	7.00
South Africa	Repo rate	5.75	-254	75	25	17 Jul 14 (+25bp)	20 Nov 14	**20 Nov 14 (+25bp)**	5.75	**6.00**	6.00	6.25	6.50
Turkey	1-wk repo	8.25	-741	324	200	17 Jul 14 (-50bp)	25 Sep 14	On hold	8.25	8.25	8.25	8.25	8.25
Asia/Pacific		3.80	13	90	-32				3.80	3.81	3.84	3.85	3.88
Australia	Cash rate	2.50	-344	0	-225	6 Aug 13 (-25bp)	7 Oct 14	3Q 15 (+25bp)	2.50	2.50	2.50	2.50	2.75
New Zealand	Cash rate	3.50	-388	100	100	24 Jul 14 (+25bp)	30 Oct 14	1Q 15 (+25bp)	3.50	3.50	3.75	4.00	4.25
Japan	O/N call rate[3]	0.05	-17	0	0	5 Oct 10 (-5bp)	7 Oct 14	On hold	0.05	0.05	0.05	0.05	0.05
Hong Kong	Disc. wndw	0.50	-548	0	0	17 Dec 08 (-100bp)		Jun 15 (+25bp)	0.50	0.50	0.50	**0.75**	**1.00**
China	1-yr working	6.00	-14	69	-56	7 Jul 12 (-31bp)	-	On hold	6.00	6.00	6.00	6.00	6.00
Korea	Base rate	2.25	-190	25	-100	14 Aug 14 (-25bp)	15 Oct 14	On hold	2.25	2.25	2.25	2.25	2.25
Indonesia	BI rate	7.50	-237	175	75	12 Nov 13 (+25bp)	7 Oct 14	On hold	7.50	7.50	7.50	7.50	7.50
India	Repo rate	8.00	113	325	0	28 Jan 14 (+25bp)	30 Sep 14	1Q 15 (+25bp)	8.00	8.00	8.25	8.25	8.25
Malaysia	O/N rate	3.25	1	125	25	10 Jul 14 (+25bp)	6 Nov 14	**3Q 15 (+25bp)**	**3.25**	**3.25**	**3.25**	**3.25**	3.50
Philippines	Rev repo	4.00	-306	50	-50	11 Sep 14 (+25bp)	23 Oct 14	23 Oct 14 (+25bp)	4.00	4.25	4.50	4.75	4.75
Thailand	1-day repo	2.00	-183	75	-125	12 Mar 14 (-25bp)	5 Nov 14	1Q 15 (+25bp)	2.00	2.00	2.25	2.50	2.50
Taiwan	Official disc.	1.875	-71	62.5	0	30 Jun 11 (+12.5bp)	25 Sep 14	1Q 15 (+12.5bp)	1.875	1.875	2.00	2.00	2.00

1 Refers to trough end-quarter rate from 2009-present ² Effective rate adjusted on daily basis 3 BoJ targets ¥50-60tn/year expansion in monetary base
Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week. Aggregates are GDP-weighted averages.

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J.P. Morgan FX forecasts vs. forwards & consensus

Exchange rates vs. U.S dollar		Current					JPM forecast gain/loss vs Sep 15*			Actual change in local FX vs USD			
Majors		Sep 19	Dec 14	Mar 15	Jun 15	Sep 15	Spot	Forwards	Consensus**	Past 1mo	Past 3mo	YTD	Past 12mos
	EUR	1.29	1.30	1.28	1.26	1.24	-4.1%	-4.5%	-0.8%	-5.7%	-5.7%	-5.9%	-4.5%
	JPY	109.2	109	107	109	110	-0.7%	-1.3%	0.0%	-6.8%	-6.8%	-3.6%	-9.0%
	GBP	1.65	1.67	1.65	1.64	1.63	-1.1%	-0.6%	0.1%	-1.3%	-1.3%	-0.4%	2.9%
	AUD	0.90	0.90	0.90	0.91	0.91	1.6%	4.2%	4.6%	-0.8%	-0.8%	0.5%	-5.1%
	CAD	1.10	1.12	1.12	1.15	1.15	-4.8%	-4.0%	-1.7%	0.0%	0.0%	-3.0%	-6.3%
	NZD	0.81	0.80	0.80	0.79	0.77	-5.4%	-1.9%	-4.9%	-2.8%	-2.8%	-0.9%	-2.8%
JPM USD index		87.0	86.8	87.0	87.8	87.9	1.1%	0.4%	0.1%	2.6%	2.6%	2.9%	4.5%
DXY		84.3	84.1	84.8	86.1	87.1	3.4%	3.5%	0.6%	5.2%	5.2%	5.3%	4.8%
Europe, Middle East & Africa													
	CHF	0.93	0.93	0.94	0.96	0.97	-3.9%	-4.5%	2.1%	-4.5%	-4.5%	-4.4%	-2.5%
	ILS	3.64	3.60	3.65	3.65	3.60	1.2%	0.6%	1.4%	-3.7%	-3.7%	-4.7%	-4.0%
	SEK	7.08	7.15	7.23	7.26	7.34	-3.5%	-3.5%	-2.4%	-8.9%	-8.9%	-9.1%	-10.5%
	NOK	6.32	6.38	6.45	6.51	6.57	-3.8%	-2.7%	-3.2%	-3.5%	-3.5%	-3.9%	-7.8%
	CZK	21.29	21.15	21.33	21.43	21.77	-2.2%	-2.9%	-0.1%	-6.0%	-6.0%	-6.6%	-10.5%
	PLN	3.25	3.23	3.24	3.29	3.31	-1.7%	-0.4%	-1.3%	-6.8%	-6.8%	-6.9%	-4.4%
	HUF	241	240	246	246	250	-3.6%	-2.7%	-2.4%	-6.5%	-6.5%	-10.3%	-9.0%
	RUB	38.47	36.78	36.86	37.15	37.45	2.7%	11.0%	0.0%	-8.9%	-8.9%	-14.6%	-17.7%
	TRY	2.23	2.15	2.15	2.15	2.15	3.7%	13.0%	2.8%	-2.1%	-2.1%	-3.6%	-12.1%
	ZAR	11.09	11.00	10.75	10.75	10.75	3.2%	10.1%	1.4%	-1.6%	-1.6%	-5.4%	-12.5%
Americas	ARS	8.42	9.50	9.80	10.20	10.50	-19.9%	19.0%	7.0%	-7.4%	-7.4%	-22.5%	-31.6%
	BRL	2.36	2.35	2.45	2.50	2.55	-7.3%	2.5%	-5.5%	-4.4%	-5.7%	-0.1%	-6.9%
	CLP	597	585	585	590	595	0.4%	3.4%	-1.8%	-8.5%	3.1%	-12.0%	-16.9%
	COP	1970	1950	1950	1975	1975	-0.2%	4.0%	0.2%	3.1%	3.1%	-2.1%	-4.4%
	MXN	13.25	12.90	13.10	12.90	12.60	5.1%	7.8%	1.6%	-0.1%	-0.1%	-1.6%	-4.1%
	PEN	2.86	2.87	2.89	2.91	2.93	-2.3%	1.3%	-1.0%	-1.6%	-1.6%	-2.3%	-4.5%
	VEF†		50.00	55.00	55.00	55.00	na	na	na	0.0%	0.0%	0.0%	0.0%
LACI		89.8	90.1	88.1	87.4	87.2	-2.9%	6.0%	-0.8%	-1.6%	-1.6%	-4.9%	-10.3%
Asia	CNY	6.14	6.15	6.15	6.15	6.12	0.3%	1.9%	-0.5%	-1.2%	-1.2%	-1.4%	-0.3%
	HKD	7.75	7.75	7.75	7.75	7.75	0.0%	0.0%	0.1%	0.1%	0.1%	0.0%	0.0%
	IDR	11988	11900	12000	12100	12150	-1.3%	5.6%	-0.7%	-1.3%	-1.3%	1.5%	-9.5%
	INR	60.8	60.0	60.5	60.5	61.0	-0.4%	6.2%	1.2%	1.9%	1.9%	1.7%	1.7%
	KRW	1047	1000	995	985	970	7.9%	9.2%	5.2%	1.6%	1.6%	0.3%	2.3%
	MYR	3.24	3.20	3.23	3.25	3.27	-1.0%	1.3%	-0.6%	2.2%	2.2%	1.2%	-2.7%
	PHP	44.59	44.00	44.25	44.50	44.75	-0.4%	0.5%	-1.8%	0.3%	0.3%	-0.4%	-3.4%
	SGD	1.27	1.27	1.27	1.27	1.27	-0.2%	-0.2%	0.0%	-0.6%	-0.6%	-0.4%	-1.7%
	TWD	30.25	30.80	30.80	30.80	30.80	-1.8%	-2.5%	-1.9%	0.2%	0.2%	-1.5%	-2.4%
	THB	32.25	32.50	33.00	33.00	33.00	-2.3%	-0.5%	-0.3%	0.2%	0.2%	1.4%	-3.7%
ADXY		115.7	116.4	116.3	116.3	116.7	0.8%	2.4%	0.4%	-0.2%	-1.6%	-0.2%	-0.5%
EMCI		84.9	85.8	85.2	85.0	84.8	-0.2%	5.0%	-0.4%	-1.4%	-1.4%	-4.0%	-7.2%
Exchange rates vs Euro										Actual change in local FX vs EUR			
	JPY	141	142	137	137	136	3.5%	3.4%	0.8%	-1.2%	-1.2%	2.5%	-4.7%
	GBP	0.784	0.780	0.775	0.770	0.760	3.1%	4.1%	0.9%	4.7%	4.7%	5.9%	7.7%
	CHF	1.21	1.208	1.205	1.205	1.205	0.2%	0.0%	2.9%	1.3%	1.3%	1.7%	2.1%
	SEK	9.16	9.30	9.25	9.15	9.10	0.6%	1.0%	-1.6%	-3.5%	-3.5%	-3.4%	-6.4%
	NOK	8.17	8.30	8.25	8.20	8.15	0.2%	1.9%	-2.5%	2.3%	2.3%	2.1%	-3.5%
	CZK	27.52	27.50	27.30	27.00	27.00	1.9%	1.7%	0.7%	-0.3%	-0.3%	-0.7%	-6.4%
	PLN	4.20	4.20	4.15	4.15	4.10	2.4%	4.3%	-0.5%	-1.2%	-1.2%	-1.1%	0.1%
	HUF	312	312	315	310	310	0.5%	1.9%	-1.6%	-0.9%	-0.9%	-4.6%	-4.7%
	RON	4.41	4.50	4.45	4.40	4.40	0.2%	2.6%	-1.6%	1.7%	1.7%	1.2%	1.3%
	TRY	2.88	2.80	2.75	2.71	2.67	8.1%	18.3%	3.6%	3.8%	3.8%	2.4%	-7.9%
	RUB	49.73	47.82	47.18	46.81	46.44	7.1%	16.2%	0.8%	-3.4%	-3.4%	-8.9%	-13.9%
	BRL	3.06	3.06	3.14	3.15	3.16	-3.3%	7.4%	-4.7%	7.1%	7.1%	6.1%	-2.6%
	MXN	17.13	16.77	16.77	16.25	15.62	9.6%	12.8%	2.4%	5.9%	5.9%	4.6%	0.3%

↑ indicates a revision resulting in a stronger currency forecast, ↓ indicates a revision resulting in a weaker currency forecast. Source: J.P.Morgan

* Positive indicates JPM more bullish on local currency than spot, consensus or forward rates. ** Bloomberg *FX Consensus Forecasts*. † *SICAD-2 rate*

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J.P. Morgan forecasts: rates, credit, equities & commodities

Interest rates		Current	Dec-14	Mar-15	Jun-15	Sep-15
United States	Fed funds rate	0.125	0.125	0.125	0.500	0.750
	10-year yields	2.60	2.70	2.85	3.00	3.10
Euro area	Refi rate	0.05	0.05	0.05	0.05	0.05
	10-year yields	1.06	1.20	1.30	1.40	1.50
United Kingdom	Repo rate	0.50	0.50	0.75	1.00	1.25
	10-year yields	2.55	2.75	3.00	3.20	3.40
Japan	Overnight call rate	0.05	0.05	0.05	0.05	0.05
	10-year yields	0.56	0.55	0.55	0.65	0.70
Emerging markets	GBI-EM - Yield	6.66	6.60			
Credit Markets						
US high grade (bp over UST)		135	110			
Euro high grade (asset swap sprd)		82	75			
USD high yield (bp vs. UST)		452	375			
Euro high yield (bp over Bunds)		370	315			
EMBIG (bp vs. UST)		317	275			
EM Corporates (bp vs. UST)		320	300			
Foreign Exchange						
EUR/USD		1.29	1.30	1.28	1.26	1.24
USD/JPY		109	109	107	109	110
GBP/USD		1.63	1.67	1.65	1.64	1.63
AUD/USD		0.90	0.9	0.90	0.91	0.91
USD/BRL		2.36	2.35	2.45	2.50	2.55
USD/CNY		6.15	6.15	6.15	6.15	6.12
USD/KRW		1041	1000	995	985	970
USD/TRY		2.23	2.15	2.15	2.15	2.15

Commodities	Current	14Q4	15Q1	15Q2	15Q3
Brent ($/bbl)	98	112	105	110	120
Gold ($/oz)	1223	1300	1300	1275	1250
Copper ($/metric ton)	6865	7050	7000	6800	7100

YTD Equity Sector Performance*	US	Europe		Japan		EM$	
Energy	6.9%	6.3%	UW	5.3%	UW	4.0%	UW
Materials	10.9%	3.8%	OW	0.0%	UW	-1.8%	UW
Industrials	5.5%	-0.1%	OW	6.6%	OW	5.0%	OW
Discretionary	3.5%	0.7%	OW	-0.6%	OW	5.3%	N
Staples	7.7%	6.5%	UW	7.5%	OW	2.9%	UW
Healthcare	18.3%	19.3%	N	11.9%	UW	22.3%	N
Financials	10.0%	6.2%	OW	-13.1%	OW	9.8%	N
Information Tech.	16.0%	5.8%	OW	9.7%	UW	12.6%	OW
Telecommunications	7.0%	1.6%	UW	5.7%	OW	11.0%	UW
Utilities	14.1%	18.2%	UW	-1.7%	UW	13.6%	N
Overall	**10.4%**	**7.1%**		**2.4%**		**7.9%**	

*Levels/returns as of Sep 18, 2014

Source: J.P. Morgan

Investment themes and impacts

It's still a weak growth world.
H2 should grow above 3%, but we still find that 2014 projections have been downgraded so far this year by 0.4% to just below trend at 2.6%, and follows steady, annual downgrades since 2010. We would need upgrades to start trading growth.

Fed hikes remain a year away, and uncertain.
In the meanwhile, we stay long risk and in yield seeking mode. In FI, OW Brazil, Spain, Australia, New Zealand, HY credit, EM external debt. In FX, be long EM selectively.

It's a much lower return world now. The 5-year rally in equities, bonds and credit has lowered IRRs and thus future long-term returns. This means we can no longer be just long risk and must become more selective and active in making choices across countries and asset types. Cut equity OW from 15% to 10%.

Macro risk remains subdued but local risks are higher, creating opportunities.
The 5-year point of the expansion, low growth and still easy money are keeping macro economic and market risks subdued. But there are much greater local economic and political risks that should drive relative performance.

Selective longs in risk and yield assets.
These themes keep us long yield and risk, but highly selectively so, based on value, ownership, cyclicality, liquidity, and local risks.

Source: J.P. Morgan, *GMOS*, Aug 6, 2014

Tactical overview

	Direction	Country	Sector
Asset allocation	Bullish risk	EM	OW Equities, HY, energy
Equities	Long, but reduce	Brazil, India, Japan	Tech; J-REITs;
Bonds	Flat Duration in DM; long in EM	EU vs. US; Spain vs. GE; Long, AU, NZ, Brazil.	Higher-yielding, FX hedged
Credit	Small OW	EM, UK vs. US	HY, FINs
FX	Long EM; bullish USD vs. G10	EM Asia: THB, CNY, KRW, NGN	Short JPY, SEK, EUR, GBP
Comd's	Long		Energy; short base metals

Source: J.P. Morgan

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Global growth and inflation forecasts

	Real GDP % over a year ago			Real GDP % over previous period, saar						Consumer prices % over a year ago			
	2013	2014	2015	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	4Q13	2Q14	4Q14	4Q15
United States	2.2	2.1	3.0	-2.1	4.2	3.0	3.0	3.0	3.0	1.2	2.1	**2.0** ↓	1.9
Canada	2.0	2.3	2.7	0.9	3.1	2.5	2.7	2.8	2.6	0.9	2.2	2.0	2.1
Latin America	2.5	1.1	2.7	-0.1	-0.1	1.3	2.9	2.7	3.2	4.5	5.1	5.1	4.8
Argentina	2.9	-1.5	3.0	-3.2	-0.1	-4.6	-1.4	5.0	7.0	10.7	36.0	35.0	40.0
Brazil	2.5	0.2	1.5	-0.6	-2.3	0.1	2.6	1.1	1.4	5.8	6.4	6.3	6.3
Chile	4.1	1.9	3.1	2.5	0.6	0.4	4.5	2.9	3.9	2.3	5.1	4.2	3.0
Colombia	4.7	5.0	4.5	9.7	2.0	4.0	4.0	5.0	5.5	1.8	2.8	3.3	3.0
Ecuador	4.6	3.3	4.0	2.0	1.5	2.0	2.5	3.5	4.5	2.3	3.4	3.5	4.0
Mexico	1.1	2.7	3.8	1.8	4.2	3.9	3.7	3.6	4.0	3.7	3.6	4.1	3.1
Peru	5.8	3.3	5.5	-0.6	-1.8	6.5	9.5	5.5	5.0	3.0	3.5	3.1	2.8
Uruguay	4.7	2.7	3.0	-1.8	3.5	5.0	3.5	3.0	2.0	8.6	8.1	7.8	7.3
Venezuela	1.3	-2.0	2.0	-10.0	-3.0	2.0	2.0	2.0	2.5	52.9	56.2	57.0	44.9
Asia/Pacific	4.6	4.4	4.7	5.3	**2.3** ↓	4.8	4.9	4.8	5.0	3.2	3.3	3.1	3.3
Japan	1.5	**0.8** ↓	1.4	**6.0** ↓	**-7.1** ↓	2.0	2.5	2.0	2.2	1.4	3.6	3.1	2.5
Australia	2.3	3.1	3.3	4.3	2.0	2.3	2.9	3.0	3.7	2.7	3.0	2.1	2.6
New Zealand	2.8	3.2	2.8	4.0	0.8	1.9	4.7	4.8	0.5	1.6	1.8	1.6	2.0
EM Asia	6.2	6.1	6.4	5.1	6.4	6.3	6.2	6.2	6.5	3.9	3.3	3.3	3.7
China	7.7	7.3	7.3	6.3	7.7	7.6	7.4	7.1	7.2	2.9	2.2	2.3	3.1
India	4.7	5.3	6.5	5.4	6.8	4.0	4.7	5.9	7.5	10.4	8.1	8.2	7.0
EM Asia ex China/India	4.0	3.9	4.4	2.5	3.5	4.5	4.4	4.4	4.5	3.3	3.4	3.1	3.5
Hong Kong	2.9	2.0	2.1	1.2	-0.4	3.0	3.0	2.0	2.0	4.3	3.6	4.3	3.6
Indonesia	5.8	4.9	5.3	4.2	4.9	5.0	4.5	5.2	5.5	8.4	7.1	6.0	4.6
Korea	3.0	3.6	4.0	3.8	2.0	4.7	4.0	4.0	4.0	1.1	1.6	1.7	3.0
Malaysia	4.7	5.8	4.7	3.4	7.5	4.0	5.5	5.0	4.0	3.0	3.3	2.4	5.0
Philippines	7.2	6.0	6.4	5.9	7.7	5.7	5.7	6.6	6.6	3.5	4.4	3.6	3.8
Singapore	3.9	3.3	4.1	1.8	0.1	4.1	6.1	4.9	5.7	2.0	2.4	1.1	2.4
Taiwan	2.1	3.8	3.7	2.5	3.9	4.0	4.2	3.8	3.6	0.6	1.6	1.7	1.7
Thailand	2.9	1.1	4.2	-7.3	3.5	4.0	4.0	4.2	4.2	1.7	2.5	2.9	3.8
Western Europe	0.1	1.3	2.0	1.3	0.8	1.4	1.8	2.2	2.4	1.0	0.8	0.9	1.3
Euro area	-0.4	0.8	1.8	0.9	0.1	1.0	1.5	2.0	2.3	0.8	0.6	0.7	1.1
Germany	0.6	1.5	2.1	2.7	-0.6	1.5	2.0	2.5	2.5	1.3	0.9	1.0	1.7
France	0.4	0.4	1.5	0.1	-0.1	0.5	1.0	2.0	2.0	0.8	0.8	0.8	1.1
Italy	-1.8	-0.1	1.2	-0.3	-0.7	0.5	1.5	1.5	1.5	0.7	0.4	0.1	0.9
Spain	-1.2	1.2	2.1	1.5	2.3	1.5	2.0	2.0	2.5	0.2	0.2	0.0	0.0
Norway	2.0	2.5	2.4	2.0	4.9	1.9	2.1	2.3	2.5	2.3	1.8	2.2	2.4
Sweden	1.6	1.8	2.4	-0.4	1.0	2.0	2.5	2.5	2.5	0.1	0.0	0.3	1.5
United Kingdom	1.7	3.1	3.0	3.3	3.4	3.0	3.0	3.0	3.0	2.1	1.7	1.5	2.1
EMEA EM	2.0	1.7	2.3	0.5	**0.7** ↓	1.3	1.8	2.1	2.5	5.1	5.8	5.5	4.7
Czech Republic	-0.9	2.8	2.8	3.3	-0.1	3.1	3.0	4.3	2.4	1.1	0.2	1.0	1.9
Hungary	1.1	3.3	2.6	4.5	3.2	2.0	2.5	3.0	2.5	0.7	-0.2	0.5	2.8
Israel	3.4	2.2	2.8	2.8	1.7	-0.4	5.3	2.0	2.6	1.9	0.8	0.3	0.9
Poland	1.6	3.0	3.2	4.5	2.4	2.0	2.8	3.5	3.5	0.7	0.3	0.1	1.9
Romania	3.5	2.2	3.5	-0.7	-3.8	4.5	3.0	3.6	2.4	1.8	0.9	1.8	2.6
Russia	1.3	0.5	1.0	-3.6	1.4	0.8	1.0	0.5	0.8	6.4	7.6	6.9	5.4
South Africa	1.9	1.4	3.0	-0.6	0.6	2.3	3.3	2.9	3.3	5.4	6.5	6.1	5.7
Turkey	**4.1** ↑	3.0	4.0	**7.4** ↑	**-1.8** ↓	1.2	0.8	4.1	6.1	7.5	9.4	9.4	6.9
Global	2.5	2.6	3.2	1.6	**2.1** ↓	2.9	3.3	3.3	3.5	2.3	2.6	2.6	2.6
Developed markets	1.3	1.7	2.4	0.7	**1.1** ↓	2.2	2.5	2.5	2.7	1.2	1.8	**1.7** ↓	1.8
Emerging markets	4.6	4.1	4.8	3.1	**3.9** ↓	4.2	4.7	4.6	5.0	4.3	4.1	4.1	4.1
Global — PPP weighted	3.0	3.0	3.7	1.8	2.9	3.3	3.6	3.7	3.9	2.8	2.9	2.9	2.9

Source: J.P. Morgan estimates.
Note: For some emerging economies, 2010-2012 quarterly forecasts are not available and/or seasonally adjusted GDP data are estimated by J.P. Morgan.
Bold denotes changes from last edition of Global Data Watch, with arrows showing the direction of changes. Underline indicates beginning of J.P. Morgan forecasts.

Sovereign credit ratings and actions

	S&P		Moody's		Fitch		Recent S&P Action		Recent Moody's Action		Recent Fitch Action	
	Rating	View	Rating	View	Rating	View	Rating	Outlook	Rating	Outlook	Rating	Outlook
Argentina	SD		Ca	(-)	C		30-Jul-14	0-Jan-00	30-Apr-13	31-Jul-14	31-Jul-14	0-Jan-00
Australia	AAA		Aaa		AAA		25-Feb-11	17-Sep-07	21-Oct-02	13-Nov-03	28-Nov-11	28-Nov-11
Austria	AA+		Aaa		AAA		13-Jan-12	29-Jan-13	26-Jun-77	28-Feb-14	10-Aug-94	15-Feb-08
Belgium	AA		Aa3		AA		13-Jan-12	28-Feb-14	16-Dec-11	16-Dec-11	27-Jan-12	23-Jan-13
Brazil	BBB-		Baa2	(-)	BBB		24-Mar-14	24-Mar-14	20-Jun-11	9-Sep-14	4-Apr-11	4-Apr-11
Canada	AAA		Aaa		AAA		29-Jul-02	18-May-07	3-May-02	24-May-06	12-Aug-04	22-May-07
Chile	AA-		Aa3		A+		26-Dec-12	26-Dec-12	16-Jun-10	16-Jun-10	1-Feb-11	1-Feb-11
China	AA-		Aa3		A+	(-)	16-Dec-10	16-Dec-10	11-Nov-10	16-Apr-13	6-Nov-07	11-Apr-12
Colombia	BBB		Baa2		BBB		24-Apr-13	24-Apr-13	28-Jul-14	28-Jul-14	10-Dec-13	10-Dec-13
Cyprus	B	(-)	Caa3	(-)	B-		25-Apr-14	25-Apr-14	10-Jan-13	10-Jan-13	3-Jun-13	3-Jun-13
Czech Republic	AA-		A1		A+		24-Aug-11	24-Aug-11	12-Nov-02	8-Dec-08	4-Mar-08	13-Dec-11
Denmark	AAA		Aaa		AAA		27-Feb-01	26-Sep-07	23-Aug-99	24-May-06	10-Nov-03	18-Dec-07
Finland	AAA	(-)	Aaa		AAA		13-Jan-12	11-Apr-14	4-May-98	24-May-06	5-Aug-98	11-Dec-07
France	AA		Aa1	(-)	AA+		8-Nov-13	8-Nov-13	19-Nov-12	19-Nov-12	12-Jul-13	12-Jul-13
Germany	AAA		Aaa		AAA		13-Jan-12	13-Jan-12	29-Apr-93	28-Feb-14	10-Aug-94	6-Nov-07
Greece	B		Caa1	WR	B		12-Sep-14	12-Sep-14	1-Aug-14	1-Aug-14	23-May-14	23-May-14
Hong Kong	AAA		Aa1		AA+		16-Dec-10	16-Dec-10	10-Nov-10	16-Apr-13	25-Nov-10	25-Nov-10
Hungary	BB		Ba1	(-)	BB+		23-Nov-12	28-Mar-14	24-Nov-11	6-Dec-10	6-Jan-12	20-Dec-12
India	BBB-	(-)	Baa3		BBB-		25-Feb-11	25-Apr-12	22-Jan-04	20-Dec-11	1-Aug-06	12-Jun-13
Indonesia	BB+		Baa3		BBB-		8-Apr-11	2-May-13	18-Jan-12	18-Jan-12	15-Dec-11	15-Dec-11
Ireland	A-	(+)	Baa1		A-		6-Jun-14	6-Jun-14	16-May-14	16-May-14	15-Aug-14	15-Aug-14
Israel	A+		A1		A		9-Sep-11	2-May-13	17-Apr-08	17-Apr-08	11-Feb-08	0-Jan-00
Italy	BBB	(-)	Baa2		BBB+		9-Jul-13	9-Jul-13	13-Jul-12	14-Feb-14	8-Mar-13	25-Apr-14
Japan	AA-	(-)	Aa3		A+	(-)	25-Feb-11	26-Apr-11	24-Aug-11	24-Aug-11	22-May-12	22-May-12
Malaysia	A-		A3	(+)	A-	(-)	8-Oct-03	27-Jul-11	16-Dec-04	20-Nov-13	8-Nov-04	30-Jul-13
Mexico	BBB+		A3		BBB+		19-Dec-13	19-Dec-13	5-Feb-14	5-Feb-14	8-May-13	8-May-13
Netherlands	AA+		Aaa		AAA		29-Nov-13	29-Nov-13	5-May-98	7-Mar-14	10-Aug-94	11-Jul-14
New Zealand	AA		Aaa		AA	(+)	29-Sep-11	29-Sep-11	21-Oct-02	13-May-99	29-Sep-11	8-Jul-14
Norway	AAA		Aaa		AAA		9-Jul-75	28-May-09	30-Sep-97	13-May-99	13-Mar-95	18-Dec-07
Peru	BBB+		A3		BBB+		19-Aug-13	19-Aug-13	2-Jul-14	2-Jul-14	23-Oct-13	23-Oct-13
Poland	A-		A2		A-		29-Mar-07	27-Oct-08	12-Nov-02	24-May-06	18-Jan-07	23-Aug-13
Portugal	BB		Ba1		BB+	(+)	5-Feb-14	9-May-14	25-Jul-14	25-Jul-14	8-Jul-14	11-Apr-14
Romania	BBB-		Baa3		BBB-		16-May-14	16-May-14	6-Oct-06	25-Apr-14	4-Jul-11	4-Jul-11
Russia	BBB-	(-)	Baa1	(-)	BBB	(-)	25-Apr-14	25-Apr-14	27-Jun-14	27-Jun-14	4-Feb-09	21-Mar-14
Singapore	AAA		Aaa		AAA		25-Feb-11	2-May-08	14-Jun-02	14-May-03	14-May-03	7-Mar-08
Slovakia	A	(+)	A2		A+		13-Jan-12	1-Aug-14	13-Feb-12	4-Oct-13	8-Jul-08	8-Jul-08
Slovenia	A-	(-)	Ba1		BBB+		12-Feb-13	12-Feb-13	30-Apr-13	24-Jan-14	17-May-13	2-May-14
South Africa	BBB-		Baa1	(-)	BBB	(-)	13-Jun-14	13-Jun-14	27-Sep-12	9-Nov-11	10-Jan-13	13-Jun-14
South Korea	A+		Aa3		AA-		14-Sep-12	14-Sep-12	27-Aug-12	27-Aug-12	6-Sep-12	6-Sep-12
Spain	BBB		Baa2	(-)	BBB+		23-May-14	23-May-14	21-Feb-14	21-Feb-14	25-Apr-14	25-Apr-14
Sweden	AAA		Aaa		AAA		23-Jan-14	23-Jan-14	4-Apr-02	15-Nov-03	8-Mar-04	18-Dec-07
Switzerland	AAA		Aaa		AAA		17-Feb-11	1-Dec-03	29-Jan-82	15-Nov-03	10-Aug-94	11-Jun-07
Taiwan	AA-		Aa3		A+		25-Feb-11	11-Jun-10	20-Jul-99	24-May-06	20-Nov-01	26-Jan-11
Thailand	BBB+		Baa1		BBB+		31-Oct-06	9-Dec-10	26-Nov-03	28-Oct-10	8-Mar-13	8-Mar-13
Turkey	BB+	(-)	Baa3	(-)	BBB-		27-Mar-13	7-Feb-14	16-May-13	11-Apr-14	5-Nov-12	5-Nov-12
United Kingdom	AAA		Aa1		AA+		17-Feb-11	13-Jun-14	22-Feb-13	22-Feb-13	19-Apr-13	19-Apr-13
United States	AA+		Aaa		AAA		5-Aug-11	10-Jun-13	2-Aug-11	18-Jul-13	21-Mar-14	21-Mar-14
Venezuela	CCC+	(-)	Caa1	(-)	B	(-)	16-Sep-14	16-Sep-14	16-Dec-13	15-Jan-09	25-Mar-14	25-Mar-14

Source: Ratings agencies via Bloomberg

RATING SCALE	S&P	MOODY's	Fitch
Upper Investment Grade	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
	A+	A1	A+
	A	A2	A
	A-	A3	A-
Lower Investment Grade	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
Non-Investment Grade	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-

RATING SCALE	S&P	MOODY's	Fitch
Lower Non-Investment Grade	B+	B1	B+
	B	B2	B
	B-	B3	B-
	CCC+	Caa1	CCC+
	CCC	Caa2	CCC
	CCC-	Caa3	CCC-
	CC	Ca	CC
	C	C	C
Default	SD		RD
	D		D

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