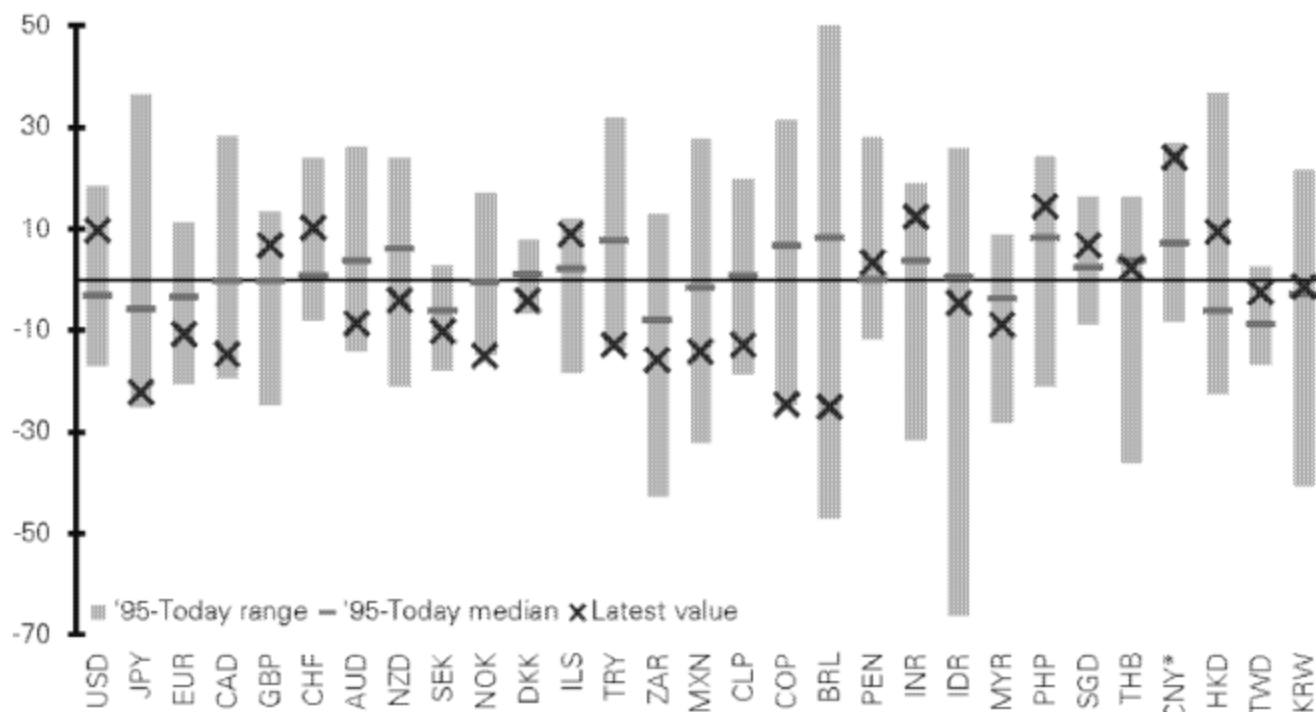




Figure 2: Real TWI deviation from 10 year averages: latest versus the range of values in the last 20yrs.  
Non- Japan Asia real FX is still not cheap.



\*Data available from December 1999 onwards

Source: Deutsche Bank, Datastream

Our forecasts:

1. We have scaled back our year-end EUR/USD forecast from parity to 1.05 for end-2015 and left 2016 -2019 unchanged. We are reluctant to pull back on the strong USD views, which have been about global currency rotation and much more than a simple EUR/USD story. We will hold to our core forecasts, at least while we still expect a gradual Fed tightening starting this year and taking fed funds to a 2 handle on a multi-year view. **In the big USD picture, we still believe there is another 10% to run on the broad real USD TWI (see Figure 3).**

2. We have accelerated our forecasts for commodity currencies modestly. Our longstanding forecast lows on AUD at 0.60, Kiwi 0.50 and CAD at 1.40 have been left in place, but we recognize that these forecasts do not encompass any sharp feedback from their terms of trade shock to housing and their financial sectors, and that the risk is these targets are hit earlier than we presumed, in keeping with the theme of **a bigger super cycle commodity currency bust.**

3. Similarly, we are carefully weighing evidence as to whether State 2 rather than State 1 will define the state of risk appetite for a longer period than envisaged. In that case, it would add to prospective USD overshooting versus commodity and EM FX and reduce prospective USD strength versus the other G4 currencies. Although, much of the coming risk appetite environment rests with the progression of China's policies, we are not ready to make the assumption of a more sustained shift in the state of the world to 'risk off' yet, which would also raise questions as to whether we are descending to State 3, where the ECB and BOJ ease, which is more USD friendly versus the majors.