City National Foreign Exchange
Quarterly Forecast – Q4 2010

EURO (USD per EUR)

EUR
Neutral

FORECAST	
Q4 '10	Q1 '11
1.4200	1.3200

Key Drivers and Currency View

The euro has strengthened 12% from its June lows on the back of continued soft U.S. economic data combined with interest rate differentials that continue to widen in Europe's favor as the Federal Reserve continues its very dovish monetary policy. While sovereign debt risks within Europe remain problematic in the short and medium term, investors have looked past these concerns for now. Strong seasonal flows in Q4 have tended to favor the euro and with continued uncertainty regarding U.S. fiscal and monetary policy, we anticipate near- term euro strength before a potential correction takes hold.

JAPANESE YEN (JPY per USD)

JPY
Bearish

FORECAST	
Q4 '10	Q1 '11
80.00	88.00

Key Drivers and Currency View

Although, the Japanese economy remains weak, the yen has continued to advance, resulting in currency intervention by the Japanese authorities. Sporadic intervention by the Bank of Japan will slow the yen's advance but continued declines in U.S. interest rates will keep upward pressure on the yen. Japanese fiscal and budgetary deficits remain long-term negatives for the currency. Additionally, the revolving door of political leadership is also not beneficial for the currency. Japan's trade surplus is the one key positive for the currency but competition from other Asian countries will slowly cause the trade surplus to shrink.

BRITISH POUND (USD per GBP)

GBP
Neutral

FORECAST	
Q4 '10	Q1 '11
1.6100	1.5100

Key Drivers and Currency View

The pound has benefited over the past few months from the new Tory government and its presentation of an initial budget overview, which seems to have satisfied investors and rating agencies for the time being. The new government's first steps have been positive and allowed the pound to appreciate against the U.S. dollar. Balancing fiscal consolidation with growth will be tricky as the U.K. begins its first round of fiscal belt tightening in October with weaker growth on the horizon. The pound has gained against the U.S. dollar but lost ground against the euro. We anticipate more euro gains vs. pound but consolidation against the dollar.

SWISS FRANC (CHF per USD)

CHF
Neutral

FORECAST	
Q4 '10	Q1 '11
.9400	1.0000

Key Drivers and Currency View

The Swiss economy has outperformed the broader European economies and the Swiss franc continues to be a safe haven during these risk-averse and uncertain times. The Swiss National Bank (SNB) has aggressively sold Swiss francs to curb franc strength and help exports but has been overwhelmed by the inflows. Swiss trade surpluses and a strong fiscal balance sheet relative to other G7 countries will continue to allow for strong inflows, forcing the SNB to keep interest rates at very low levels for now. Even with all the positives in favor of the Swiss franc, we still anticipate the Swiss franc to mirror movements in the euro.

AUSTRALIAN DOLLAR (USD per AUD)

AUD
Neutral

FORECAST	
Q4 '10	Q1 '11
.9500	1.0000

Key Drivers and Currency View

As the best performing currency by far in 2010, the Australian dollar has enjoyed an impressive rally on the back of strong economic growth. The Reserve Bank of Australia is the only central bank in the developed world to aggresively hike interest rates. However, as the Australian dollar approaches its historic high of 0.98 reached in 2008 before the financial crisis, that level will prove to be a strong resistance barrier. We feel the currency is due for a consolidative phase before pushing higher in early 2011. We are confident that the long-term fundamentals of the Australian dollar more than justify parity with the U.S. dollar.

NEW ZEALAND DOLLAR (USD per NZD)

NZD
Neutral

FORECAST	
Q4 '10	Q1 '11
.7300	.7800

Key Drivers and Currency View

The New Zealand dollar continues to outperform other G7 currencies but lags behind its cousin across the Tasman Sea. Unlike Australia, New Zealand does not benefit from the rally in hard commodities like precious and industrial metals. Instead, New Zealand's economy is based on commodities like agriculture and livestock. The RBNZ has signaled its reluctance to further raise interest rates for the year but we forecast the NZ dollar to continue riding on Australia's coattails and push higher against the U.S. dollar.

CANADIAN DOLLAR (CAD per USD)

CAD
Neutral

FORECAST	
Q4 '10	Q1 '11
1.0000	1.0000

Key Drivers and Currency View

The Canadian dollar has fluctuated within a fairly tight range over the past three months as the market seems unsure whether to classify the loonie as a emerging market-linked commodity currency or a G7 currency that is particularly vulnerable to U.S. economic weakness. We believe the Canadian dollar will soon rejoin the rally enjoyed by the Australian dollar and others given that the Bank of Canada is turning increasingly hawkish and raising rates. The yield differential will also help convince traders that the fundamentals justify that the loonie should be trading at parity with the U.S. dollar.

MEXICAN PESO (MXN per USD)

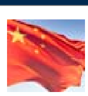
MXN
Neutral

FORECAST	
Q4 '10	Q1 '11
12.35	12.60

Key Drivers and Currency View

The Mexican peso has been strenthening over the past three months reflective of a weaker U.S. dollar and a dovish Federal Reserve. Despite continuing drug-related violence, investors have looked past these issues to a more positive investment climate allowing the peso to mirror other Latin American currencies. El Banco de Mexico continues to hold real interest rates at higher levels, keeping investment flows strong. The peso will continue to reflect general trends in the emerging market sector but will also mirror expectations surrounding the U.S. economy as trade flows are significant between these two countries.

CHINESE YUAN (CNY per USD)



CNY
Bullish

FORECAST	
Q4 '10	Q1 '11
6.6500	6.6000

Key Drivers and Currency View

In the past few months, the pace of yuan appreciation has accelerated as Chinese authorities respond to pressures from the U.S. Given increased Congressional scrutiny and punitive trade legislations before the November elections, China has little incentive to be excessively defiant on yuan valuation. Additionally, the euro's rally against the dollar lately has given the Chinese more confidence that a stronger yuan will not cause as much disruption in its trade with Europe, as it would have during the height of the Eurozone crisis in May.