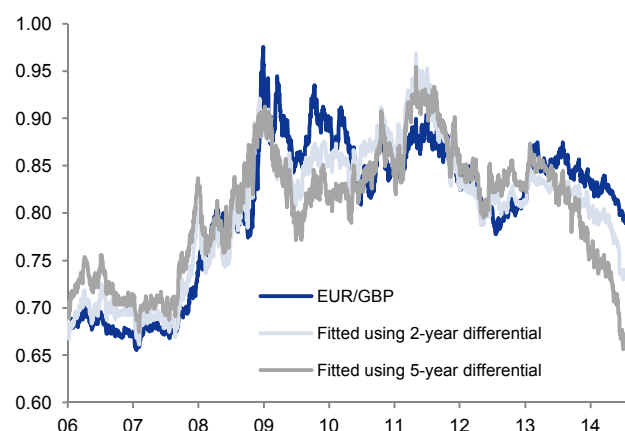


Exhibit 31: EUR/GBP has plenty of room to catch up with rate differentials, which put this cross much lower.


Source: Goldman Sachs Global Investment Research.

To be short the AUD in anticipation that the currency will weaken and therefore reflect its underlying fundamentals has been a frustrating trade so far this year. One argument for the AUD's resilience is strong foreign buying of Australian assets and reserve diversification into the AUD. Certainly Japanese buying of Australian assets has picked up since March and with total Japanese bond outflows remaining firm, it is likely that Japanese buying of Australian assets has remained strong. The 1Q14 IMF data

on FX reserves did reveal an increase in central bank allocation to AUD. While these flows are supportive of the AUD, they need to be put into context of a deteriorating trade and current account balance and therefore Australia's external balance is likely less healthy than generally perceived. A further hamper to a weaker AUD is the fact that a short AUD trade has negative carry. This is likely unpalatable given tough market conditions and that a low volatility environment favours carry trades. Consequently the RBA easing we expect in September may well be the kicker to cause the AUD to 'catch-down' to its deteriorating fundamentals.

In the past month or so, the CNY fix has become more volatile, in particular showing notable strength around the release of the bumper May trade surplus and more recently ahead of the US-China strategic economic dialogue. Interestingly the volatility has tended to follow the volatility of the DXY since the band widening in mid-March. Given the Chinese authorities desire to curb speculative inflows into the CNY, a more volatile fix is an ideal policy tool, particularly given that the ongoing solid trade surplus limits the scope of further CNY weakness. However, implied volatility at the 3-month tenor is currently at the bottom of its range since early February, suggesting that the market is not yet pricing a more volatile fix.

Exhibit 32: Our FX forecasts

	Current	Forecasts				Current	Forecasts		
		3 months	6 months	12 months			3 months	6 months	12 months
EUR/\$	1.35	1.35	1.34	1.30	A\$/	0.94	0.90	0.88	0.86
\$/JPY	101.84	103.00	107.00	110.00	\$/C\$	1.07	1.10	1.12	1.14
£/\$	1.70	1.73	1.74	1.73	\$/KRW	1030	1030	1050	1070
EUR/£	0.79	0.78	0.77	0.75	\$/BRL	2.22	2.30	2.40	2.55
EUR/CHF	1.22	1.25	1.28	1.28	\$/MXN	12.96	13.00	13.00	13.00

Source: Goldman Sachs Global Investment Research.