

*Y85/US\$ in June!
6 more months*

Global FX Forecast: Dollar strong, Yen stronger; everyone is multilateral.

	11-Dec 2008	Dec 2008e	Mar 2009e	Jun 2009e	Sep 2009e	Dec 2009e	Mar 2010e	Jun 2010e
EUR/USD	1.32	1.15	1.13	1.10	1.15	1.20	1.25	1.30
USD/JPY	91	90	87	85	95	100	110	112
EUR/JPY	121	104	98	94	109	120	138	146
USD/CNY	1.49	1.40	1.40	1.38	1.46	1.52	1.56	1.63
Yen/GBP	1.23	1.32	1.40	1.40	1.30	1.25	1.20	1.15
Yen/CAD	0.67	0.57	0.52	0.47	0.50	0.55	0.60	0.65
Yen/AUD	6.85	6.80	6.80	6.75	6.70	6.65	6.60	6.55
Yen/CNY	13.28	13.24	12.79	12.59	14.18	15.04	16.67	17.10

e = Morgan Stanley Research estimates Source : Morgan Stanley Research

Global deleveraging will unwind dollar shorts. The same deleveraging strengthens the yen, and brings funds away from EM and euro assets. Moreover, some SWFs may SELL equities, due to needs at home.

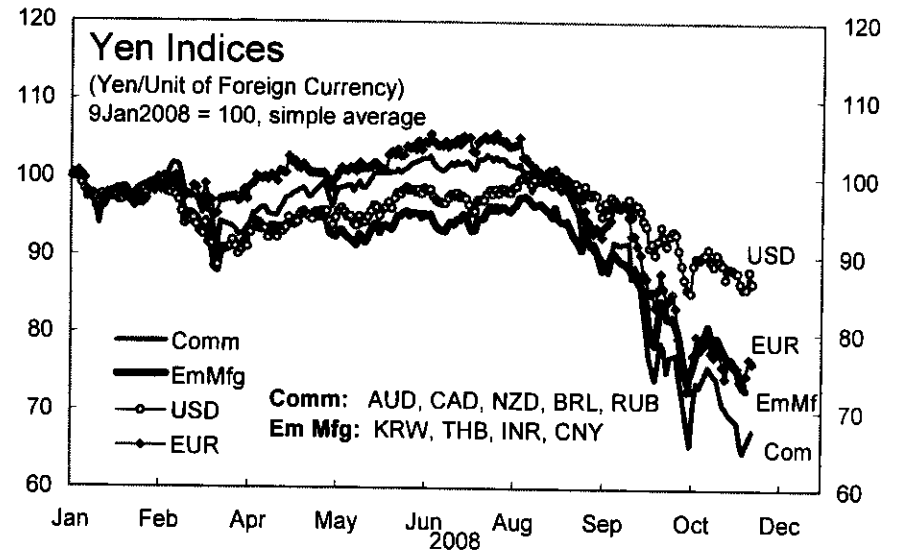
Recession also means lower oil and commodity prices, which reduce the US current deficits.

The gaps between policy rates are gone, interest rate differential movements will likely be small, and unimportant for exchange rates.

December 4, 2008
Currencies

FX Pulse

The Amazing Rates



Source: IMF, Morgan Stanley Research

Example: The yen has strengthened against all, but at very different paces.