Foreign Exchange Outlook

Renewed USD strength, escalating geo-political tensions in the Middle East, increasing metal and energy prices, deepening credit risk differentiation amongst emerging-market economies and persistent uncertainties regarding the withdrawal of multifaceted US monetary stimulus are key factors dominating investor sentiment in foreign exchange markets.

Investor demand for the USD will accelerate through the remainder of the year triggering broad-based weakness within the major-currency group. The EUR and the GBP will resume a weakening trend whereas the bearish tone in the JPY may be temporarily curbed by safe-haven flows. Commodity-linked currencies such as the CAD, AUD and CLP will also retain a near-term fragile tone.

Rigorous credit differentiation within the emerging-market universe will continue to run its course. The MXN in the Americas and the KRW in Asia/Pacific have become market-favourite investment alternatives. Meanwhile, the BRL and INR have been earmarked as problem currencies prompting large-scale interventionist measures.

Forecast Highlights

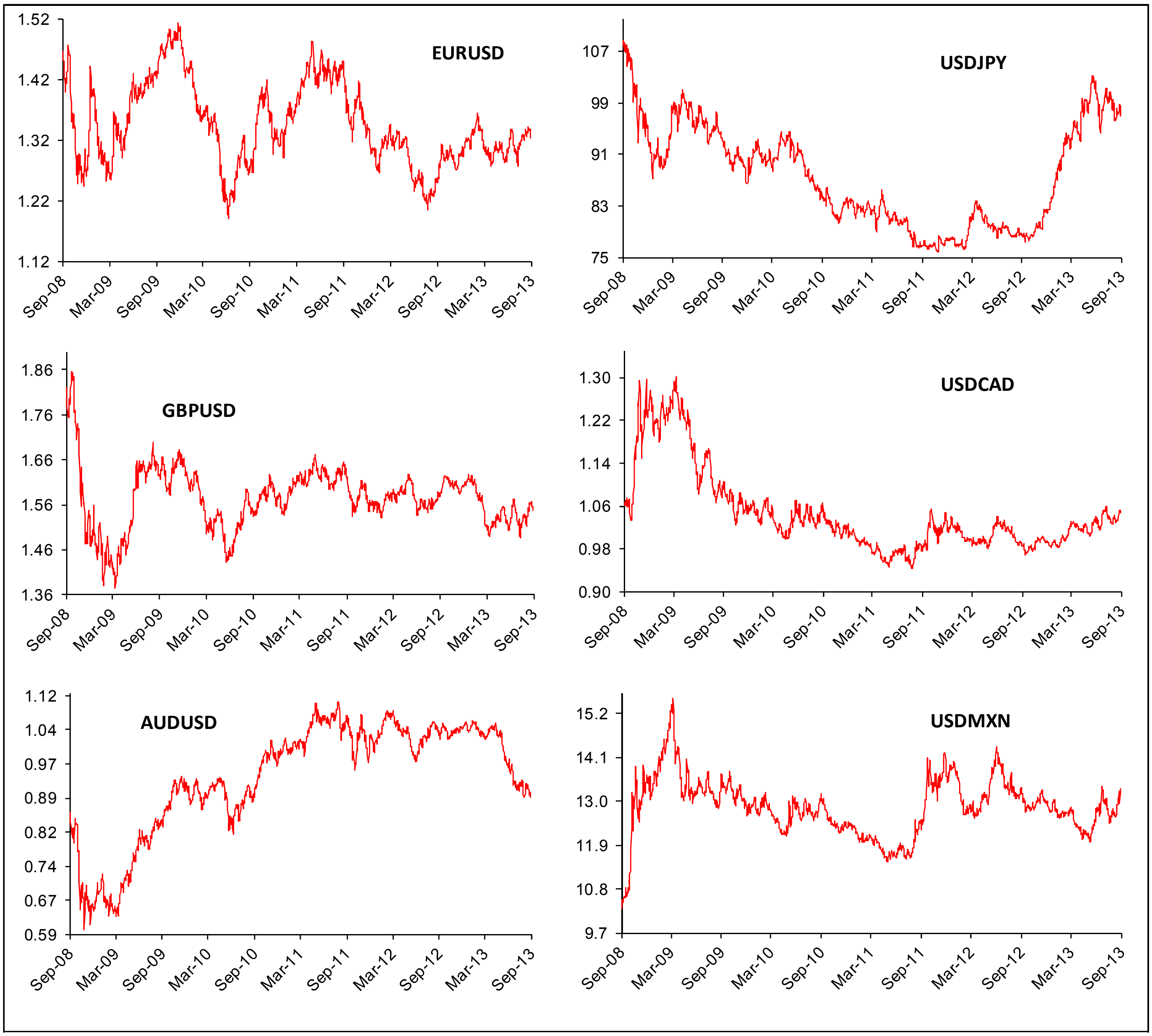
Americas	USD	Broad strength into year-end driven by Fed policy and global spillovers.
	CAD	We expect near-term weakness to be followed by medium-term stability.
	MXN	The Mexican peso will recover some ground by year-end.
Asia / Pacific	CNY	Having already rallied 2% ytd, we expect a more muted pace of appreciation into year-end.
	JPY	Stability likely to turn to weakness as diverging monetary policy paths weigh on JPY.
	INR	The rupee will weaken in the near-term on capital outflows but will stabilize in 2014.
	AUD	Near-term depreciation is likely followed by stabilization.
Europe	EUR	Temporarily supported by EM outflows we expect fundamentals to drive Q4 weakness.
	GBP	We continue to expect weakness into year-end but recognize that the fundamentals are shifting.

Table of Contents

CORE EXCHANGE RATES

Global Foreign Exchange Outlook

August 29, 2013		Spot	Q1a 13	Q2a 13	Q3f 13	Q4f 13	Q1f 14	Q2f 14	Q3f 14	Q4f 14
EURUSD	Scotiabank	1.32	1.28	1.30	1.30	1.25	1.25	1.24	1.24	1.23
	Consensus*				1.30	1.28	1.27	1.27	1.26	1.26
USDJPY	Scotiabank	98.4	94	99	103	105	106	107	109	110
	Consensus*				100	103	104	105	106	106
GBPUSD	Scotiabank	1.55	1.52	1.52	1.50	1.45	1.45	1.45	1.44	1.44
	Consensus*				1.50	1.48	1.48	1.48	1.48	1.49
USDCAD	Scotiabank	1.05	1.02	1.05	1.07	1.08	1.07	1.07	1.06	1.06
	Consensus*				1.04	1.04	1.04	1.05	1.05	1.05
AUDUSD	Scotiabank	0.89	1.04	0.91	0.88	0.90	0.90	0.91	0.92	0.92
	Consensus*				0.90	0.89	0.88	0.87	0.87	0.87
USDMXN	Scotiabank	13.31	12.33	12.93	12.89	13.08	13.04	12.85	12.78	12.82
	Consensus*				12.70	12.53	12.45	12.38	12.32	12.32



(*) Source: Consensus Economics Inc. August 2013
f: forecast a: actual e: estimate of actual

Market Tone & Fundamental Focus

Pablo F.G. Bréard +1 416 862-3876

Camilla Sutton +1 416 866-5470

Shifting market views regarding the unwinding of monetary stimulus in the United States, persistent currency strength in the distressed euro zone, ongoing portfolio investment rebalancing away from emerging-market assets, renewed commodity price gains, escalating Syria-related military tensions in the Middle East and swift official intervention in top-tier emerging-market economies emerged as the key factors driving near-term capital flows in foreign exchange markets.

The NAFTA zone will be shaped by global dynamics. Persistent evidence of improved economic conditions in the US will continue to drive capital flows into US$-denominated assets. Housing and labour market trends offer an improving business landscape despite the adverse implications of fiscal restraint throughout the year. The timing and shape of the gradual unwinding (so-called tapering) of active US intervention in treasury debt and mortgage-backed securities markets will continue to dominate investor attention in the near term. Meanwhile, yield-curve steepening dynamics and relevant derivatives contracts are anticipating further increases in mid and long-term interest rates. Widening interest rate and growth differentials continue to make the US dollar (USD) a more attractive investment alternative. Both the Canadian dollar (CAD) and the Mexican peso (MXN) have been adjusting accordingly. USDCAD traded as high as 1.0568 during late August whereas USDMXN edged above the 13.30 mark. We expect the USD to regain strength against all major currencies in the months to come: USDCAD is expected to close the year at 1.08. The CAD is falling victim to its pro-cyclical and risk sensitive nature and has depreciated. We anticipate further weakness from here.

Latin American currencies remain on the defensive. The sustained weakness of the Brazilian real (BRL), which depreciated by 16% against the USD over the past six months, prompted the central bank to announce a large-scale support intervention mechanism at the end of August. The other floating currencies in South America (CLP, COP, PEN and UYU) have also depreciated but not to the same extent as the BRL.

The euro's (EUR) recent strength will be short lived. Entering September, the EUR has proven to be the best-performing primary currency year-to-date, mainly on the back of positive flows. However, on a relative growth and monetary policy basis, the EUR looks poised to weaken; add-in a lack of progress on the banking union and ongoing issues in Greece and the fundamentals for the EUR deteriorate further. We maintain our view that the European economic situation will remain fragile for a prolonged period and that the recovery of the USD will lead to weaker top-tier currencies such as the euro and the British pound (GBP) in the coming months. Market participants have welcomed the timid signs of recovery in euro zone's economic activity during the second quarter of the year; however, the region is far from being on a solid path to faster and sustainable economic growth. Growth fundamentals are unlikely to fuel a EUR recovery, although value-investment decisions may opt for depreciated assets of better developed equity markets as investors reduce their exposure to overvalued emerging-market assets.

We also are of the view that GBP strength will be soon reversed and that Sterling will initiate a weakening phase as markets reassess central bank policy shifts under the leadership of a new governor. The GBP has been moving in tandem with the EUR; however, by the end of August Bank of England members had tried repeatedly to remind markets of the importance of forward guidance and that policy between Europe and the US was beginning to diverge. Elsewhere in the non-euro zone currencies, the EURCHF floor remains a key policy initiative that will remain in place.

The Asia/Pacific region offers a divergent trend for its core group of regional currencies. The currencies of countries with strong current account balances (South Korea, China, Taiwan) have typically fared better than those with large deficits (India and Indonesia); however, some of the currencies associated with surplus countries have also come under pressure on the back of disappointing growth and vulnerable capital accounts (Malaysia and Thailand). The Japanese yen (JPY) was relatively stable in August; however, it has lost 20% versus the USD over the past 12 months. We expect that weaker fundamentals, namely BoJ policy will weigh on the currency into year-end, driving USDJPY towards 105. The Chinese yuan (CNY) has resumed a very gradual appreciating trend (vs. the USD), but stabilized in August. Authorities continue to show preference for a measured pace of currency strength. Renewed evidence of improving economic conditions in China may help sustain the CNY appreciation towards our estimated end-year rate of 6.10 per USD.

The Indian rupee (INR) has been – and remains – one of the major casualties of the concerted emerging-market sell-off momentum, reminding global market participants that weaker fiscal, debt and policy fundamentals will not be easily tolerated as interest rate normalization runs its course within the universe of high-income advanced economies. The INR lost 16.7% against the USD over the past four months. We have adjusted our USDINR profile accordingly to reflect ongoing weakness; we now anticipate end-year rates of 68 and 65 for 2013 and 2014, respectively. Finally, the Australian dollar (AUD) is experiencing timid signs of stabilization following four consecutive months of devaluation, supported by a recovery in metals prices and stabilizing growth outlook in China; we expect AUDUSD to close the year at 0.90.

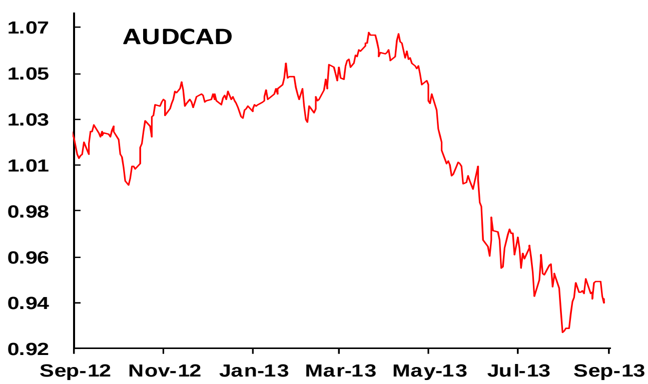
CANADA
Currency Outlook

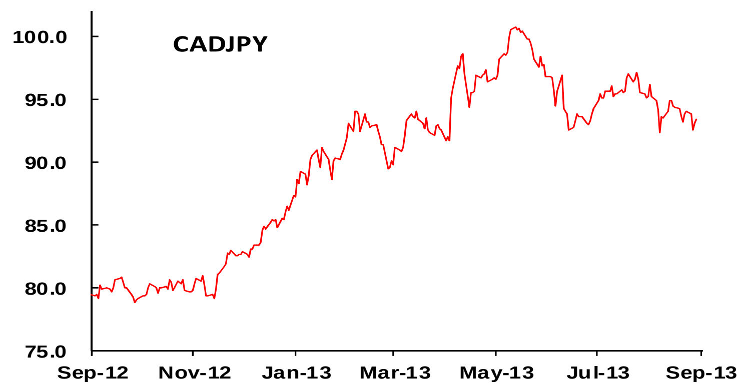
Camilla Sutton +1 416 866-5470

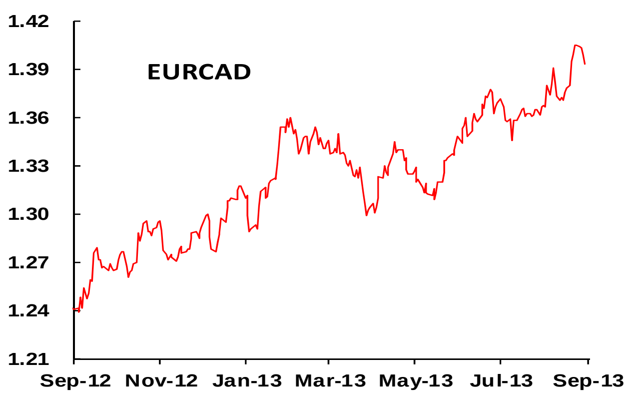
The near term outlook for the CAD has weakened. As the US Fed turns towards tapering its bond buying program we expect several FX market impacts; including 1) the re-introduction of volatility; 2) a broadly stronger USD and 3) a return to fundamental valuations. For the CAD it is likely to prove a challenging environment. As the Fed initiated its QE bond buying program volatility dropped as the market began to rely on central bank action to soothe markets; as the Fed moves away from unconventional monetary policy we are likely to see the reverse and therefore a reintroduction of volatility. The CAD is a risk sensitive currency that typical underperforms in volatile periods. In addition, as central bank policy around the world begins to diverge, we expect the USD to strengthen broadly. Finally, as markets shift back towards fundamental valuation the CAD is likely at risk. Canada maintains a twin current and fiscal deficit; growth is expected to underperform the US in 2014 (2.3 vs 2.6%); employment growth has slowed and the housing market is moderating. In addition some of the themes that supported the CAD over the last several years have also eased. CAD positive foreign inflows into our bond market have slowed, with the six month moving average of monthly international transactions having dropped to just US$2.6 billion (after averaging over $8 billion over the last 4 years). The outlook for oil markets and the impact for Canada has also shifted. With an August supply side oil price spike driving fears over its impact on global growth instead of a demand side spike which is typically quite positive for the CAD. In addition, there are outstanding transportation and refining issues, not least of which is the US decision on Keystone. CAD sentiment remains stubbornly bearish, with the CFTC reporting a net short position of $1 billion as of August 23rd. However, our medium term outlook is that the CAD stabilizes in 2014. The ongoing recovery in the US is likely to create demand for Canada's forestry, energy and auto exports, which in turn will help support the Canadian economic backdrop. In addition as we move towards 2015 the Bank of Canada is likely to begin to signal an eventual hike in interest rates. Finally, by 2014 we expect the market to view the oil sector's impact on the Canadian economy as far more favourable, recognizing that even as US domestic production rises there is a home for Canadian oil. Accordingly we hold a CADUSD year-end forecast of 0.93 and a 2014 target of 0.94.

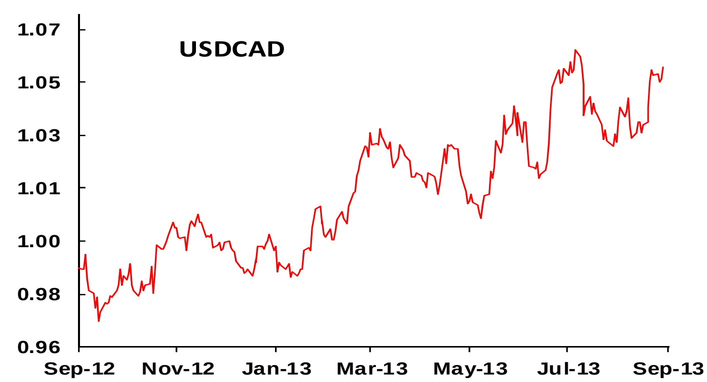
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 29-Aug	13Q1a	13Q2a	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
AUDCAD	0.94	1.06	0.96	0.94	0.97	0.96	0.97	0.98	0.98
CADJPY	93.5	92.6	94.2	96.3	97.2	99.1	100.0	102.8	103.8
EURCAD	1.39	1.30	1.37	1.39	1.35	1.34	1.33	1.31	1.30
USDCAD	1.05	1.02	1.05	1.07	1.08	1.07	1.07	1.06	1.06









CANADA AND UNITED STATES

Fundamental Commentary

Erika Cain +1 416 866-4205

UNITED STATES - US real GDP growth in the second quarter was revised materially higher to 2.5% q/q SAAR, from an initial estimate of 1.7%. Much of the increase reflects better-than-expected trade data in June and revisions in May that wipe out the initial net drag of 0.8 percentage points on Q2 growth. In real terms, the US Q2 trade deficit fell to $422 billion, alongside a 8.6% q/q SAAR surge in exports, which outpaced the 7.0% gain in imports. Growth in business investment on structures was also revised significantly higher to 16.2% q/q SAAR and business inventories edged up. However, some offset came from a slightly larger fiscal drag. Following tepid growth in consumer spending in Q2, retail sales started Q3 on a stronger footing, with broad-based gains in services and nondurable goods sales, offsetting weakness in durable goods. Meanwhile, despite the recent slowdown in new home sales, mortgage purchase applications and refinancing activity, rebounding housing starts and permits data in July were encouraging. Perspective home buyer traffic also held up and NAHB homebuilder's sentiment index remained strong. Other developments have been mixed early in the third quarter, with the US Philly Fed index weakening, which bodes poorly for industrial activity in Q3. New vehicle sales also took a step back in July off the prior month's five-year high, while business equipment spending contracted sharply and inflation ticked up, but remained well below the 2% target. Looking forward to later this year and into 2014, with household finances in the best shape of the past decade and consumer confidence near a six-year high, consumer spending should gain momentum and drive growth, reinforcing gains in employment, residential construction and business investment. As a result, despite the recent dampening effect from higher interest rates on the housing market's momentum, we expect pent-up housing demand, rising incomes and near-record affordability to continue to support the housing recovery into 2014.

CANADA - Canadian real GDP slowed in Q2 of 2013, following a 2.5% gain in Q1. Growth in consumer spending bounced back in Q2, with retail sales volumes tracking a healthy 5.8% q/q SAAR gain – the strongest advance since Q4 2011. The rise in sales was largely attributable to motor vehicle and parts, general merchandise stores and health & personal care products. Canada's housing market has also proven resilient, with the recent string of housing starts coming in above a 190,000 annual rate, while existing home sales in July remained near a 14-month high and prices continue to advance. Notwithstanding these positive developments, Q2 growth was held back by weakness in exports, industrial production and employment, while the flooding in Alberta and construction strike in Quebec imposed a temporary drag on output. Following two quarters of improvement, Canada's trade deficit widened in Q2, alongside weaker export growth. Meanwhile, manufacturing activity experienced widespread weakness, with real shipments down 3.2% and inventories near a five-year high. Although, forward-looking new and unfilled orders remain encouraging. Canada's labour market also softened in July, bringing this year's trend pace of employment growth to a modest 6,000 per month. Looking forward, despite recent gains in consumer spending and housing activity, with household debt at elevated levels and the recent rise in bond yields translating into higher borrowing costs, consumers will likely become more cautious spenders, while deteriorating housing affordability and modest growth in employment and incomes should temper residential investment. In an environment of softer domestic demand and cautious business capital expenditures, Canadian exports and overall economic activity is forecast to gain modest momentum later this year and into 2014, as it piggybacks off ongoing improvements in US consumer demand, residential construction and business investment. Given ongoing economic slack and fierce retail competition, inflation will remain well anchored over our forecast horizon.

MONETARY POLICY COMMENTARY

Derek Holt +1 416 863-7707
Dov Zigler +1 416 862-3080

UNITED STATES - With US macroeconomic data showing some deterioration as the early returns for Q3 come in (housing and durable goods orders have both looked weak) and with U.S. 10's trading at markedly higher yields than during Q1, the framing of the debate surrounding FOMC tapering of asset purchases looks different than it did one month ago. Will the Fed taper in September, October, December… or next year? For the 'data dependent' FOMC, all will depend upon the economic numbers – which all of the sudden are not looking so hot. Between the higher risk premia in fixed income markets and the softer economic outcomes, we're sticking with our December tapering call, and expect market chatter to begin to include the possibility of 2014 tapering (i.e. for the first cut in asset purchases not to happen until next year).

CANADA - With the Bank of Canada (BoC) now aligning its forward guidance with the Fed's (the BoC sees the economy functioning with spare capacity through mid-2015; the Fed's guidance for the initial increase in the Fed funds rate is mid-2015 as well), the main question is really how markets will discount that guidance – and what volatility Canadian OIS markets will experience in the meantime. We expect some near-term noise to come from Canadian macroeconomic data as Q2 growth figures show underperformance due to temporary factors related to flooding and a construction strike, while Q3 has Canada bouncing back. That will leave the BoC focusing on cleaner numbers in Q4, when inflation is likely to look more robust as base effects that have caused CPI to appear depressed shake out as well.

EUROPE
Currency Outlook

Camilla Sutton +1 416 866-5470

EURO ZONE - EUR's resilience has been the surprise of the year, with the currency closing out August as the only primary currency to outperform the USD. Improving fundamentals, flows out of emerging markets and into the liquid G4 currencies as well as rising oil prices have all helped to put a floor in EUR. However, the fundamentals continue to call for a weaker currency. On a relative growth and monetary policy basis, the EUR looks poised to weaken; add-in a lack of progress on the banking union, ongoing issues in Greece, a broadly stronger USD and the fundamentals for EUR deteriorate further. We hold a year-end forecast of 1.25.

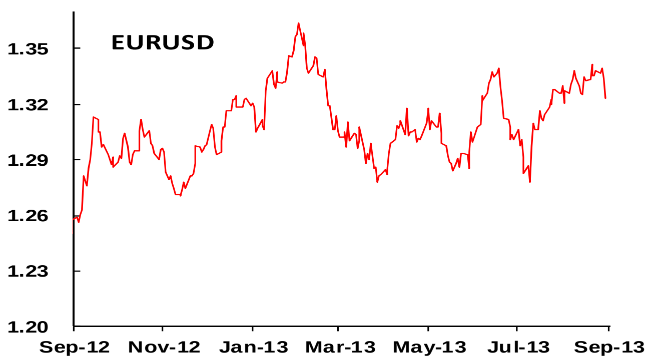
UNITED KINGDOM - The UK is entering a stronger recovery than many had expected; however the Bank of England continues to reiterate that it likely to be at least three years before interest rates are raised and that they have access to macro prudential tools should they need to cool the housing market. We expect that relative growth outlooks, diverging monetary policy and negative sentiment push GBP back towards and ultimately through its year-to-date low. We hold a year-end GBPUSD target of 1.45.

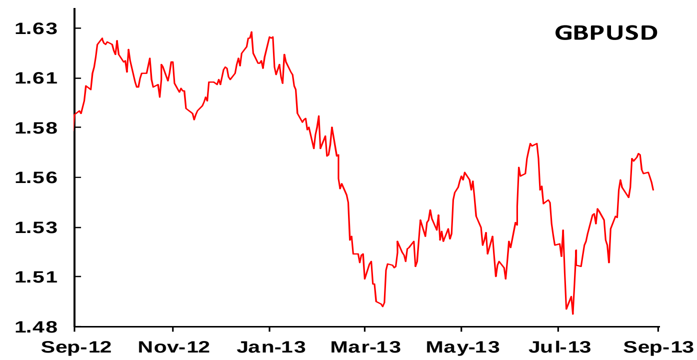
SWITZERLAND - EURCHF continues to trade just above its 1.20 floor. With the Swiss economy still teetering on the edge of deflation, the Swiss National Bank remains committed to maintaining its FX policy. One of the ramifications of the Fed moving towards tapering is the potential re-introduction of volatility into markets. In this context EURCHF could come under renewed pressure if the SNB lifted the floor too early. We hold a year-end EURCHF forecast of 1.22.

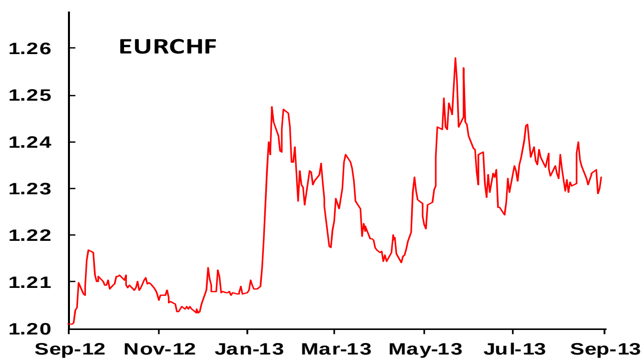
SWEDEN - SEK has traded within a relatively narrow range in August as its drivers shift in opposing directions. Technicals suggest there is no defined trend. The introduction of a financial stability council is an important development for a country that faces high household debt and rising house prices. We expect EURSEK to trend lower, mainly on the back of a weakening EUR and accordingly hold a year-end forecast of 8.50.

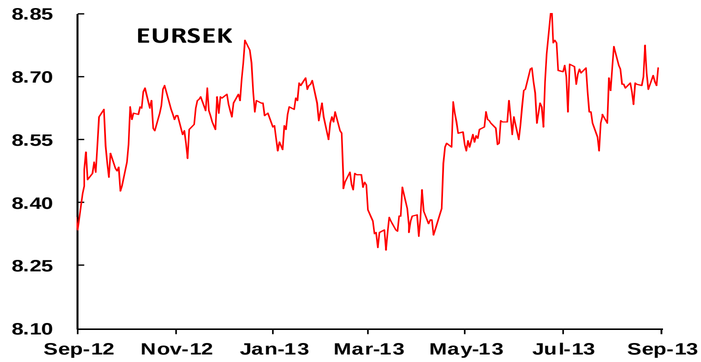
Currency Trends

FX Rate	Spot 29-Aug	13Q1a	13Q2a	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
EURUSD	1.32	1.28	1.30	1.30	1.25	1.25	1.24	1.24	1.23
GBPUSD	1.55	1.52	1.52	1.50	1.45	1.45	1.45	1.44	1.44
EURCHF	1.23	1.22	1.23	1.21	1.22	1.23	1.24	1.25	1.25
EURSEK	8.72	8.37	8.72	8.60	8.50	8.40	8.30	8.30	8.20









EUROPE
Fundamental Commentary

Sarah Howcroft +1 416 862-3174

EURO ZONE - The preliminary second-quarter real GDP report for the euro zone showed that output expanded by 0.3% q/q following six consecutive quarters of declines. The pick-up is attributable to robust performances by Germany (0.7% q/q) and France (0.5% q/q), while the unexpectedly strong 1.1% q/q expansion in Portugal is also worth noting. Italy, Spain, the Netherlands and Greece continued to see output contract, albeit at a moderated pace. Germany's relatively robust gain was driven mainly by domestic demand strength (though net trade also made a modest contribution), which in theory should translate to improved prospects elsewhere in Europe, as many neighbouring economies rely on the nation as a top export market. We now expect the regional output contraction to measure 0.5% in 2013. We note however, that the gradual recovery foreseen through next year - we expect a modest gain of 0.6% in 2014 - remains subject to downside risks. Higher energy prices (should the recent spike in oil prices be sustained), a more sluggish recovery in emerging-market economies and confidence shocks stemming from US monetary policy shifts, political instability within certain members states or the need for additional financial assistance packages for peripheral countries could tip the region back into recession. Inflation likely moderated in August due to base effects, with the recent increase in oil prices yet to impact the CPI. Loans to households maintained a modest pace of expansion in July, while the contraction in business lending accelerated. The ECB is unlikely to change its policy stance for the time being.

UNITED KINGDOM - The growth trajectory for the UK economy over the near term has strengthened. The upward revision to second-quarter real GDP (from 0.6% q/q to 0.7%) suggested that the recovery is becoming increasingly broad-based, with both investment and exports showing sizeable gains. This bodes well for the growth profile next year, once the boost to construction and household spending from the government's 'Help to Buy' scheme starts to dissipate. Survey indicators also point to sustained momentum in the coming quarters, including the PMIs, which have shown continuous improvement since early this year and are now at multi-year highs. Most notably, the services PMI (services accounts for three-quarters of GDP) has broken above the 60-mark and is currently at its highest level since December 2006. The UK's outperformance compared to its continental peers can be attributed to stronger confidence, less fiscal pressure and a resilient labour market, in addition to the success of the government's housing loan initiative. We have adjusted our growth forecasts for this year and next, from 1.0% to 1.3% in 2013, and from 1.5% to 1.8% in 2014. Nevertheless, the Bank of England (BoE) has stated that it is unlikely that the unemployment rate (currently 7.8%) will reach the 7% line - set as the threshold for triggering interest rates hikes - before 2016. BoE officials wish to underscore through the use of forward guidance that UK monetary policy is independent and will remain accommodative for longer than in the US. The bank has left open the

SWITZERLAND - The Swiss franc (CHF) remains range-bound, with a slight strengthening bias in place since early July. Upside pressure from the ongoing flow of capital from emerging-market to developed-market assets is for now being checked by the strong commitment of the Swiss authorities to the minimum exchange rate policy, which has now been in place for two years. In July the Swiss National Bank (SNB) was not required to defend through heavy foreign currency buying, as foreign reserves were unchanged around CHF435 billion (down from a peak of 444 billion in May). However, with heightened volatility expected over the coming months and a continued trend of global portfolio rebalancing in favour of the US dollar and other advanced-economy assets, we anticipate that investor demand for the CHF will remain strong. This would entail continued intervention by the SNB to keep the currency above 1.20 per euro in the near term. The consumer price index was flat in July, ending 21 consecutive months of deflation. According to UBS – Switzerland's largest bank – the risk of a housing market bubble has subsided; the Real Estate Bubble Index increased in the second quarter but at a much milder pace than in previous quarters. Nevertheless, with housing prices up 5.4% y/y and mortgage volumes 4.3% higher in the quarter against household income growth of only 1.4%, there remains the possibility for a destabilizing correction once interest rates increase. The manufacturing PMI reached 57.4 in July, its highest level since May 2011.

SWEDEN - The Swedish economy faltered in the second quarter, with output slipping 0.1% q/q after the previous quarter's 0.6% gain, bringing the yearly pace from 1.6% to 0.6%. The disruption was due to a sharp deceleration in household spending and a continued decline in exports (particularly to the euro zone). Despite a marginal increase in investment spending in Q2, the near-term outlook remains weak in view of still subdued external prospects. Nonetheless, Sweden's economic performance is expected improve over the coming quarters on the back supportive fiscal policy, gradually recuperating employment and rising real wages. The unemployment rate edged down to 7.8% in July, a 13-month low. The 2013 budget includes a reduction in the corporate tax rate (from 26.3% to 22%), infrastructure investment plans and measures to strengthen the labour market. Deflationary risks remain, although they have moderated in recent months alongside a weaker krona. The headline CPI grew 0.1% y/y in July, while the underlying inflation measure (excluding mortgage rate effects) picked up to 1.2%, its highest level since September 2011. Inflation is not expected to reach the 2% target before 2015. While there have repeatedly been two dissenters on the Riksbank's (the central bank) executive board pressing for rate cuts, no further policy easing is anticipated given that an economic recovery is in sight, household debt continues to rise (increasing the vulnerability of the economy to shocks) and the currency outlook is somewhat weaker.

ASIA / PACIFIC
Currency Outlook

Camilla Sutton +1 416 866-5470
Sacha Tihanyi + 852-2861-4770

JAPAN - Bearish investor sentiment and fundamentals continue to suggest that the JPY is trading above its fair value; however, flows into the JPY, particularly from the EM, have helped support the currency in August. The combination of the Bank of Japan's (BoJ) aggressive monetary policy, relative interest rates and investor sentiment should continue to pressure the JPY lower. We hold a year-end USDJPY forecast of 105.

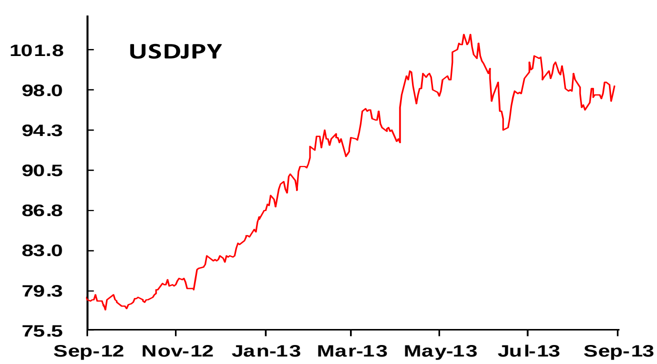
CHINA - Chinese policymakers remain fixated on maintaining macro-financial stability onshore, which is borne out by the extremely stable USDCNY fix, particularly since late May when Fed tapering concerns hit emerging markets. This will help restrain so-called hot money outflows, as will the recent stabilization in Chinese economic data. This dynamic has also anchored the NDF curve, which although trading at a significant premium to onshore spot, is tracking rate differentials implied by the offshore curve, rather than risk aversion. We continue to target USDCNY at 6.10 by Q4.

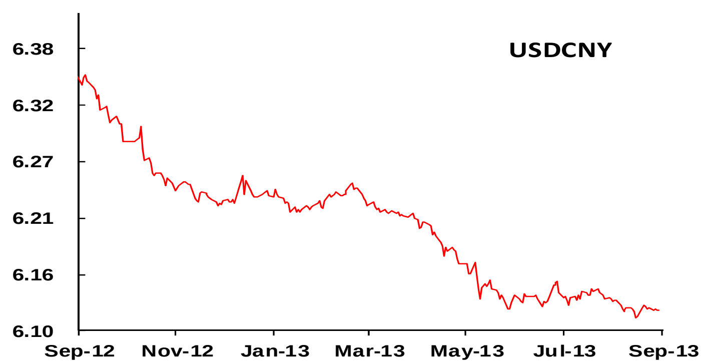
AUSTRALIA - The AUD reached its monthly low in early August and subsequently stabilized as the market's focus shifted to the emerging markets. The Reserve Bank of Australia continues to highlight the importance of the FX rate in monetary policy while investors have maintained a large short AUD position. We expect the AUD to bottom in Q3, subsequently stabilizing in Q4 at a level that allows the central bank to maintain current policy rates. We hold a year-end AUDUSD forecast of 0.90.

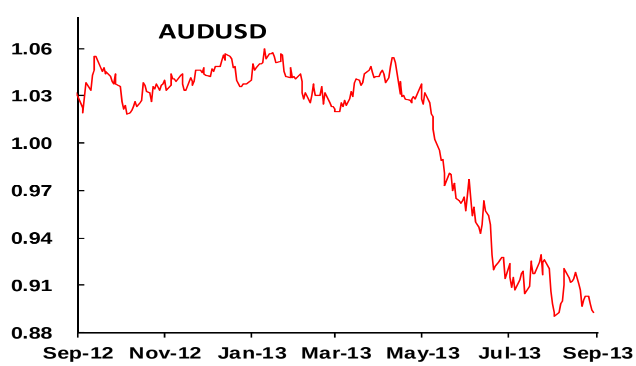
NEW ZEALAND - On a relative basis, the outlook for the NZD is strong; however, in the near-term the currency is likely to be pressured by a broadly stronger USD. In addition, as the Reserve Bank of New Zealand introduces macro prudential policy (limits on high LVR mortgage lending) it eases the need to raise interest rates to protect against financial stability risk. Technicals suggest that the NZD is range-bound and the CFTC reports an almost flat position, suggesting that most investors are looking elsewhere. We expect the NZD to weaken in Q4, closing the year at 0.75.

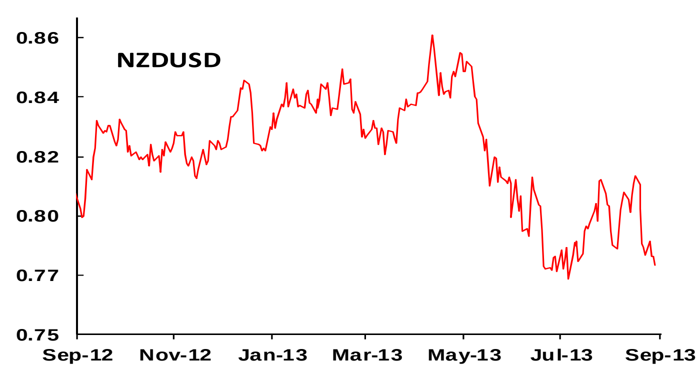
Currency Trends

FX Rate	Spot 29-Aug	13Q1a	13Q2a	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDJPY	98.4	94.2	99.1	103.0	105.0	106.0	107.0	109.0	110.0
USDCNY	6.12	6.21	6.14	6.12	6.10	6.09	6.07	6.06	6.04
AUDUSD	0.89	1.04	0.91	0.88	0.90	0.90	0.91	0.92	0.92
NZDUSD	0.78	0.84	0.77	0.76	0.75	0.75	0.77	0.80	0.82









ASIA / PACIFIC

Fundamental Commentary

Tuuli McCully +1 416 863-2859

JAPAN - Japanese policymakers are expected to make important decisions over the next month. Prime Minister Shinzo Abe's third "arrow" of the country's economic revival plan, which focuses on long-term structural reforms to complement the already announced fiscal and monetary measures, is expected to be unveiled in September. It will play a key role in transforming the ongoing economic recovery from a short-term phenomenon to a sustainable one. Meanwhile, policymakers will likely decide by early October whether to move ahead with the planned sales tax increase in April 2014 from 5% to 8% (and further to 10% in October 2015). Slower output growth in the second quarter of the year triggered an intense debate over whether the economy is ready for the tax hike. At the same time, however, given the nation's weak public finances, a failure to signal commitment to long-term fiscal discipline would put pressure on Japan's sovereign credit ratings (two of the three major rating agencies hold a "negative" outlook on Japan's ratings). The economy expanded by 0.6% q/q (0.9% y/y) in the second quarter, compared with a 0.9% q/q (0.1% y/y) gain in the January-March period. As domestic demand growth remained solid, the modest deceleration was attributable to a lesser contribution from net exports. We expect Japan's real GDP growth to average 1.7% in 2014-15. The period of deflation in Japan is technically over; consumer price inflation will likely reach 0.7% y/y by year-end and to creep gradually higher towards 1.2% y/y by the end of 2014, remaining below the 2% inflation target.

AUSTRALIA - Australia will hold parliamentary elections on September 7th. After Kevin Rudd took over the prime minister's post (he defeated Julia Gillard in a leadership vote at the end of June), the Labour Party has increased its popularity. Nevertheless, according to recent surveys of voting intentions, the opposition Liberal-National Coalition, led by Tony Abbot, will likely win the ballot. The Reserve Bank of Australia (RBA) provided further monetary stimulus in early August by lowering the benchmark cash rate by 25 basis points (bps) to 2.50%; the policy rate has been reduced by 225 bps since end-2011.Three key factors support Australia's loose monetary policy stance. First, the RBA assesses that domestic economic activity is growing at a below-trend pace, with the investment outlook remaining uncertain and labour market conditions soft (we expect real GDP to increase by 2.4% in 2013, followed by a 2¾% gain in 2014 that reflects gradually improving consumer spending and strengthening global demand for Australian exports). Second, monetary authorities maintain their view that the exchange rate of the Australian dollar remains "at a high level" despite its recent depreciation bias. Third, inflation remains manageable with consumer prices increasing by 2.4% y/y in the second quarter of the year; the annual inflation rate will likely remain consistent with the RBA's 2-3% target through 2014. Barring a significant deterioration in domestic conditions, we assess that the easing cycle has now reached its bottom, with monetary conditions remaining loose through 2014.

CHINA - China's administration is focused on limiting excessive credit growth—particularly in the shadow banking sector—in order to reach a more structurally balanced financial environment, while ensuring that economic growth does not decelerate too drastically (to below the official 7% "bottom line"). A substantial slowdown in lending growth is evident; total social financing in China increased by 24% y/y in the first seven months of the year, while the corresponding figure for the first four months of the year was 63% y/y. Nevertheless, as credit expansion still remains rapid, controlling traditional banks' lending practices has become an increasingly ineffective tool for monetary policy. Accordingly, the People's Bank of China now directs all financial institutions to follow its policy guidelines by alternative methods. Periods of tight interbank liquidity conditions may thus occur at the end of the third quarter, similar to the episode at the end of June. Credit dynamics will likely translate into slower growth in investment, causing China's economic expansion to ease; nevertheless, momentum will remain relatively healthy (averaging 7⅓% in 2013-14) as the country's administration has the means to provide short-term support to the economy if need be. High-frequency indicators (such as industrial production, PMI's, retail sales, industrial profits) point to a stabilization in current conditions. The inflation outlook remains manageable. The consumer price index recorded a 2.7% y/y gain in July, maintaining the pace of the previous month. Meanwhile, producer price inflation remains in deflationary territory due to industrial overcapacity.

NEW ZEALAND - New Zealand's economy is showing signs of improvement. Recuperating confidence and employment gains are translating into stronger retail sales, indicating that household spending was a significant source of growth in the second quarter of the year. We expect real GDP to advance by 2¾% this year, followed by a 3% gain next year as global demand picks up. Real estate momentum will continue to underpin consumer sentiment. House price gains have accelerated in recent months, prompting discomfort among monetary authorities regarding developments in household debt levels and the housing market; the central bank assesses that house prices are currently overvalued. Accordingly, the Reserve Bank of New Zealand will implement lending restrictions to banks (as of October 1st) in order to promote financial stability and allow monetary policy to remain growth-supportive in the coming months. The next monetary policy meeting is scheduled for September 11th; at the most recent meeting in July, authorities maintained the benchmark rate at 2.50%, noting that they expect to keep it at the current level through the end of the year. Inflation remains muted. Consumer price gains eased to 0.7% y/y in the second quarter of the year from 0.9% in the January-March period, remaining below the Reserve Bank of New Zealand's 1-3% target range. We expect headline inflation to begin to creep higher through the latter part of the year, reaching the 2% mark in early 2014, and remaining near that level throughout the year.

DEVELOPING ASIA

Currency Outlook

Sacha Tihanyi + 852-2861-4770

INDIA - Rising US yields have strained India's external funding position further, which combined with little chance for meaningful structural reform before the next election, has led to a loss of confidence in Indian financial markets and extreme strain on the INR. The central bank attempts to tighten monetary conditions and support government bonds have been ineffective at stemming volatility thus far, leading to a further worsening in Indian financial markets and further outflows. Expect INR pressure to continue until further significant steps to shore up support are evident. We target USDINR at 68 by Q4 2013.

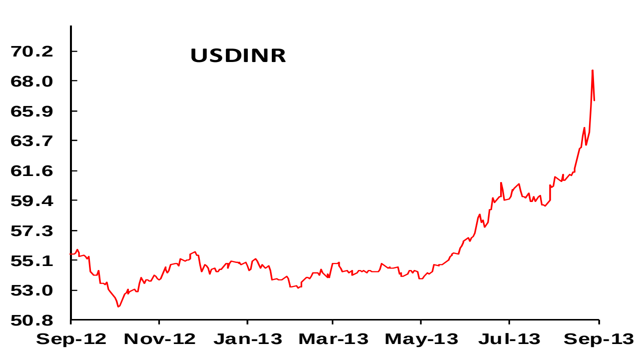
KOREA - Korea's current account surplus improvement has insulated the KRW from the significant portfolio outflows that have hammered other emerging-market (EM) Asian countries. The positive external fundamentals have also meant less "contagion" impact from rising US yields, and led the won to play a role as one of the Asian safe-haven currencies. USDKRW is consolidating around our long standing end-of-year target. So long as the current account dynamic holds, we continue to look for USDKRW at 1120 by Q4, indicating significant won outperformance vs. EM Asia.

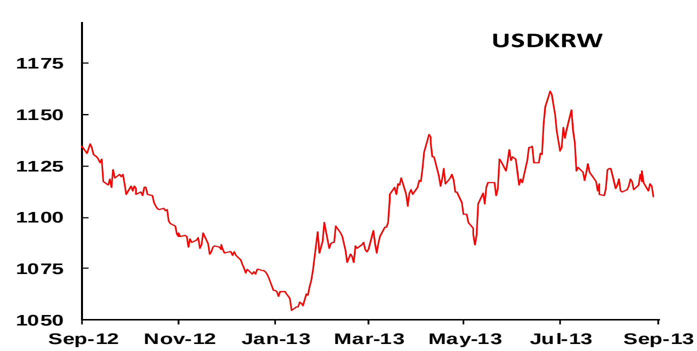
THAILAND - Thailand's weaker current account position has exposed it to greater pressure as US yields rise on the back of Fed taper expectations. The THB still remains in a better position than other Asian countries that possess large external deficits, though the baht will be pressured more than its neighbours with current account surpluses. We expect continued, controlled depreciation as the monetary authorities smooth the move in the THB to more fundamentally attractive levels. So long as strong domestic demand outweighs export growth, the THB will likely see weakness until the Fed taper is fully priced in. We target USDTHB at 34 by Q4.

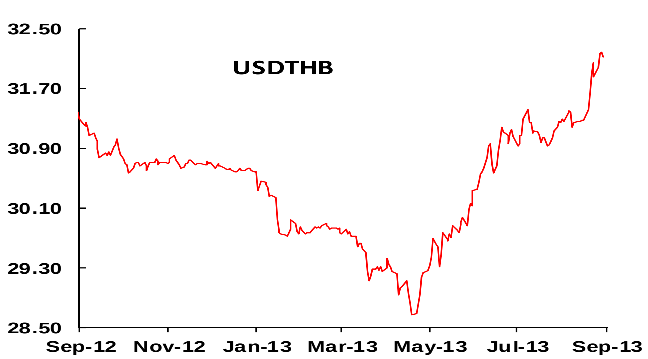
MALAYSIA - Malaysia's high volatility capital account, combined with a much deteriorated current account surplus, has led to significant MYR depreciation under rising US yields. Pressure is likely to continue as the Fed taper begins later this year; we expect an "overshoot" in USDMYR to push the pair to 3.40 by the end of Q4. However, a fiscally sound budget (late October release) combined with eventually attractive bond yields and a sufficient risk premium priced in to the MYR should eventually provide an incentive for portfolio flows to return to Malaysia and stabilize the ringgit.

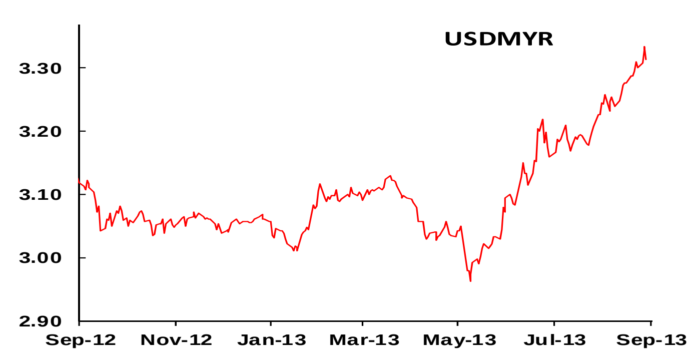
Currency Trends

FX Rate	Spot 29-Aug	13Q1a	13Q2a	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDINR	66.6	54.3	59.4	67.0	68.0	67.3	66.5	65.8	65.0
USDKRW	1110	1111	1142	1120	1120	1115	1110	1105	1100
USDTHB	32.13	29.26	31.05	32.65	34.00	33.63	33.25	32.88	32.50
USDMYR	3.31	3.09	3.16	3.34	3.40	3.39	3.38	3.36	3.35









DEVELOPING ASIA

Fundamental Commentary

Tuuli McCully +1 416 863-2859

INDIA - India is experiencing severe financial market turbulence due to its weak fundamentals (twin deficits, a negative sovereign credit rating outlook, slow economic growth combined with high inflation, and political instability). Public finances will be under pressure following the newly approved Food Security Bill, and as the cost of fuel subsidies rises and the economy underperforms. The central government's budget for Fiscal Year 2013-14 targets a deficit of 4.8% of GDP, while the general government level fiscal shortfall will be substantially larger, above 8% of GDP. The current account deficit remains wide, at around 5% of GDP in 2013. Indian policymakers have implemented various measures (e.g. tighter domestic liquidity, higher reserve ratios and overnight lending rates, restrictions on gold imports and on investments abroad by Indian firms) to stabilize the rupee and limit the deterioration of the external position. Nevertheless, the currency remains under pressure, being among the world's worst-performing currencies year-to-date. Economic growth remains subdued, challenged by a high cost of financing, a difficult business environment, and still-weak global demand conditions. We have lowered our Indian real GDP growth forecasts to 5% for 2013 (from 5½%) and to 5¾% for 2014 (from 6.0%). Investment will be a key factor for boosting growth; nevertheless, progress on structural reforms to encourage investment will be muted due to political instability, as emphasized by limited achievements of the monsoon session in parliament. With general elections due by May 2014, political uncertainty is on the rise.

KOREA - South Korea is weathering the ongoing regional sell-off well, thanks to its improving growth outlook, healthy government finances, solid external position, and favourable inflation environment. Accordingly, the Korean won is among the best-performing regional currencies. The nation's economic momentum is relatively robust and broadly-based (real GDP growth accelerated to 1.1% q/q in the second quarter from 0.8% in the January-March period) with household consumption, government spending, and net exports recording solid advances. We expect output to grow by 2½% this year as a whole before picking up to 3¼% in 2014 on the back of an improvement in private consumption and stronger global demand conditions. The inflation outlook remains manageable; at 1.4% y/y in July, consumer price inflation remains below the central bank's 2½-3½% target range. Inflation will likely accelerate somewhat in the coming months due to a pick-up in agricultural goods prices, approaching the 2% y/y mark by the end of 2013, and remaining under 3% at the end of 2014. South Korean monetary conditions will likely remain unchanged in the near term as the country's authorities will allow previous monetary and fiscal stimulus measures to filter through the economy. The most recent benchmark interest rate cut of 25 basis points in May took the policy rate to 2.50%. The monetary authorities maintain their view that the negative output gap will persist in the domestic economy "for a considerable time going forward"; therefore, we do not expect any tightening in monetary conditions before the second half of 2014.

THAILAND - The Thai economy is experiencing a period of weakness, though pockets of strength remain. Real GDP contracted for a second consecutive quarter in the April-June period (by 0.3% q/q after a 1.7% q/q drop in the first quarter). In y/y terms, growth slowed to 2.8% from 5.4% in the first quarter; it is worth noting, however, that the first quarter figure was boosted somewhat by a base effect from flooding in the final months of 2011. We have revised our real GDP forecasts lower, and now expect output to advance by 3¾% this year (compared with 4½% earlier), followed by a 4% gain in 2014 (compared with 4.2%) as global demand picks up. Domestic demand will continue to be the economy's cornerstone in the coming quarters, on the back of solid gains in private credit, supportive labour market conditions, and rising incomes. Furthermore, accommodative monetary policy bodes well for the domestic outlook. Weak external sector performance is putting pressure on the current account, and translating into currency weakness as sentiment towards emerging markets deteriorates. Thailand's authorities will assess alternatives for stimulating economic performance. Despite low inflation (2.0% y/y in July), further monetary stimulus is unlikely in the near term as authorities remain concerned about a rising household debt burden. The benchmark interest rate was reduced by 25 bps to 2.50% at the end of May. As such, fiscal policy, particularly infrastructure spending, will likely be the method of choice for supporting the economy in the near term.

MALAYSIA - Malaysia's economic performance remains healthy. Output expanded by 4.3% y/y in the second quarter, compared with the 4.1% gain in the January-March period. Real GDP is set to grow by 4⅓% this year and 5% in 2014. Activity continues to be driven by domestic demand, particularly household spending and investment that counterbalance some of the adverse export sector impacts stemming from still-weak global demand conditions. While the country continues to enjoy a solid external position, the current account surplus is narrowing on the back of weak exports and strong imports; we expect the surplus to average 4% of GDP in 2013-14 compared with over 6% in 2012. At 2.0% y/y in July, inflation is the lowest among Asian developing economies. It will likely accelerate moderately in the coming quarters reflecting a weaker currency, reaching around 3% y/y by end-2014. Despite the favourable inflation context, policymakers will likely refrain from loosening monetary conditions in the coming months, keeping the benchmark interest rate at 3.0%, as they consider the current policy stance to be appropriate in the context of firm domestic demand. The sovereign credit rating outlook has deteriorated recently, with Fitch assigning a "negative" outlook for Malaysia's long-term foreign currency rating of "A-" in July. Government finances are Malaysia's weakest link, with the fiscal deficit likely to hover around 4% of GDP through 2014; the outlook for budgetary reforms and fiscal consolidation has deteriorated following the May general elections.

DEVELOPING AMERICAS
Currency Outlook

Eduardo Suárez +1 416 945-4538

BRAZIL - A combination of rising yield differentials, improved sentiment towards China's growth following the trade balance release and intervention from the central bank has helped the real stabilize, and to recover some of its previous losses (the BCB announced US$500 mn swaps auctions Monday-Thursdays, and US$1bn "credit line" auctions for Fridays heading into year-end). However, in our view the size of the intervention is not enough to reverse the real's decline if a "risk off" trend returns to global markets. We expect the BRL to close the year near current levels, but to remain volatile.

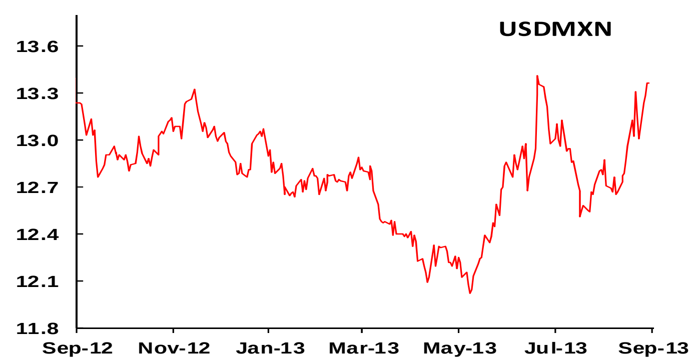
MEXICO - The Mexican peso (MXN) remains hostage to the broad moves in the greenback, although recent weak country specific data may also be contributing to MXN's weak performance. During the weeks heading into mid-November, when the economic package is set to be approved, political volatility may rise, but we are ultimately constructive on reform prospects which should prove peso supportive.

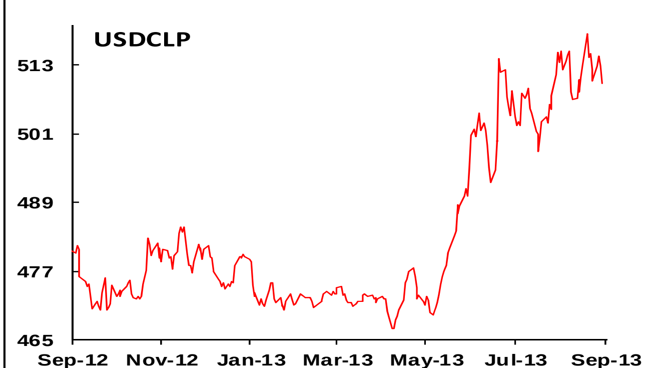
CHILE - The Chilean peso has been hit by a combination of a deterioration in the country's current account and trade balances, and the slowdown of the Chinese economy we saw earlier in the year, which weighed on base metal prices (and contributed to the weakening of Chile's trade balance). However, these headwinds have eased. This week's data releases somewhat altered the reading of the "monetary policy tea leaves", as strong data on both the manufacturing and retail sales side likely reduced the risk of rate cuts. As the presidential elections approach, we expect markets to look more closely at candidates' economic platforms, with an increased risk of uncertainty to financial markets.

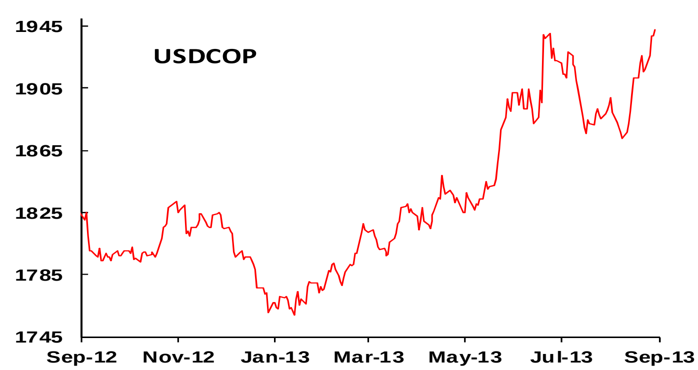
COLOMBIA - With the Colombian peso (COP) now trading near 1950 against the US dollar, the debate within Banco de la Republica on whether to extend its USD purchase program or not has suddenly become more interesting. At various times government officials have suggested different levels of comfort over the peso's valuations, but our sense is that current valuations are within their comfort range, which reduces the risk that the program is extended.

Currency Trends

FX Rate	Spot 29-Aug	13Q1a	13Q2a	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDBRL	2.36	2.02	2.23	2.35	2.30	2.32	2.35	2.38	2.40
USDMXN	13.3	12.3	12.9	12.9	13.1	13.0	12.9	12.8	12.8
USDCLP	510	472	508	505	500	500	500	505	510
USDCOP	1943	1825	1923	1910	1900	1900	1900	1910	1920







DEVELOPING AMERICAS
Fundamental Commentary

Daniela Blancas +1 416 862-3908

BRAZIL - The Brazilian economy maintains a modest pace of recovery. Industrial production for the first half of the year expanded by 2% y/y on average, the strongest first-half performance since 2010, on the account of government stimulus and a weaker currency. However, recent social discontent, low government approval ratings, a poorly-executed public sector investment program and higher inflationary pressures weigh on the country's 18-month outlook. We are revising downwards our real GDP growth forecasts from 2.5% to 2.3% for 2013 and from 3.5% to 2.8% for 2014. Although inflation decelerated from 6.7% y/y in June to 6.3% in July (returning to the central bank's 4.5-6.5% range) we maintain our view that consumer prices will grow at close to or above the 6.5% y/y mark for the remainder of the year. In addition, recent Brazilian real (BRL) depreciation (13% against the US dollar year-to-date) will likely fuel inflationary pressures in the coming months. Monetary authorities maintain a tightening stance, raising the reference rate for the fourth the consecutive time in August to 9.0% (+175 basis points so far this year). In our view, the central bank will likely raise the reference rate by at least 75 bps in the remainder of the year. In addition, the authorities continue to move towards a highly interventionist currency policy, triggering significant losses on the USDBRL rate. The currency leads the charts of worst performers of the region against the USD, losing around 12% in the last three months. We are revising the BRL forecast from 2.20 per US dollar to 2.30 for year-end 2013 and to 2.40 for 2014.

MEXICO - Mexican real GDP growth accelerated to 1.5% y/y, significantly lower than our initial expectation. The construction and mining sectors were the main contributors to the poor performance, while the services sector outperformed. As a result of this, we are revising downwards our real GDP growth forecast from 2.9% to 1.9% for 2013 and from 4.2% to 3.7% for 2014. Additionally, on account of the shift in US monetary policy expectations and increasing concerns over global growth dynamics, we are revising our Mexican peso year-end forecast from 12.60 to 13.10 vis-à-vis the US dollar. Nonetheless, the Mexican outlook is still positive as we anticipate that US growth will accelerate next year to about 2.6%, the local environment remains promising – particularly with respect to the structural reforms (the energy reform proposal will start being discussed in September while a fiscal reform could be proposed in the coming months) – and two out of the three major rating agencies have suggested an upgrade depending on the reform process. In addition, headline inflation returned to within the central bank's target range (2-4%) in July, decelerating from 4.1% in June to 3.5% y/y, giving authorities more room to adjust monetary conditions if needed. On a regional level, Mexico looks better positioned to attract foreign investment due to a stronger institutional framework and higher credibility, particularly compared with its main regional competitor, Brazil. All these factors support our view that the Mexican peso will modestly strengthen against the US dollar in 2014.

CHILE - The Chilean economy's growth rate slowed in the second quarter, with output expanding by 4.1% y/y. This performance came slightly below the 4.5% registered in the January-March period but significantly lower than the previous three years. Nevertheless, government spending, investment and consumption accelerated somewhat, supporting our view that the Chilean economy will regain momentum in the second half of the year. Consumption has been supported by a solid labour market, while inflation remains well contained. Headline inflation accelerated to 2.2% y/y in July, within the official target range (2-4%), after seven months below. With economic activity moderating and price pressures absent, the central bank maintains open the possibility of a looser monetary policy stance; however, we do not anticipate any interest rate reductions this year. In line with the US dollar's (USD) strength caused by the Fed's monetary policy shift, China's growth concerns and recent geopolitical conflicts, the Chilean peso (CLP) lost 1.1% against the USD in the last month, one of the smallest losses among major Latin American currencies. Copper prices increased close to 5% in the last month, preventing the CLP from losing further ground. The presidential election campaign is in full swing. The ballot will take place on November 17th and although we do not expect material changes to the policy framework, higher volatility could weigh on the CLP as the date approaches. Investors' attention will remain on candidates' positions on taxes and mining royalties.

COLOMBIA - The Colombian economy has shown mixed signs of recovery with retail sales stabilizing as the industrial sector continues to underperform. Nonetheless, exports posted the best yearly performance in June (5.6% y/y) and second positive rate of growth in the year. We maintain our view that second-quarter real GDP growth accelerated to around 3.6% y/y, close to one percentage point above the first quarter's yearly rate. As a result of the government's stimulus plan and looser monetary conditions, we expect the momentum to pick up somewhat by year-end. Although headline inflation has been rising since February (reaching 2.2% y/y in July) it remains close to the lower limit of the central bank's tolerance range (2-4%), allowing the authorities to maintain the policy accommodation bias that have been in place since mid-2012. Additionally, inflation expectations remain close to the 3% mark. The Colombian peso (COP) has been facing higher volatility in recent months in line with the rest of the region's currencies; however, the COP is still one of the best performers among its regional peers vis-à-vis the US dollar (USD), losing only 2.1% in the last three months and 8.9% year-to-date. Authorities have signaled that they are not considering any policies to intervene or moderate the depreciation of the currency and have maintained the USD purchase program. So far this year, the central bank has bought US$4.7 billion in reserves.

DEVELOPING EUROPE & AFRICA

Currency Outlook

Sarah Howcroft +1 416 862-3174

RUSSIA - The Russian ruble (RUB) remains under pressure due to strained relations with the US, a softer domestic growth outlook, and the global flight to safety in financial markets. Although the escalating conflict in Syria (through which Russia has been pitted against the US) has increased risk aversion and capital outflows, the potential upward impact on oil prices may provide some offsetting support for the currency in the weeks and months ahead. We hold a year-end target for the RUB of 32.8 per US dollar.

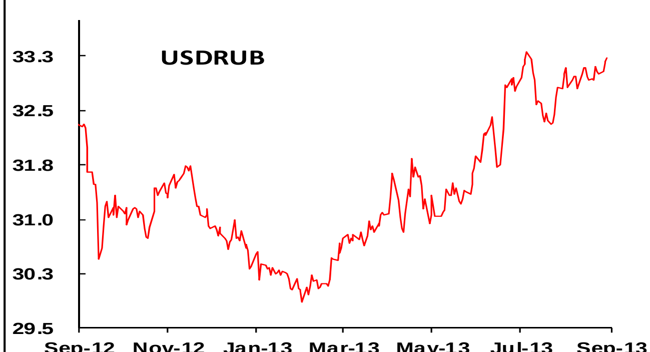
TURKEY - Due to its large current account deficit, substantial external financing and energy importing needs and ongoing political instability (both internally and in the context of the conflicts in Syria and Egypt), the Turkish lira (TRY) has become one of the worst-performing emerging-market currencies since the US Fed tapering discussion began in May. The currency is currently down over 12% year-to-date versus the US dollar (USD), and we anticipate it to remain weak through year-end as recent attempts by the central bank to contain the lira have met with little success.

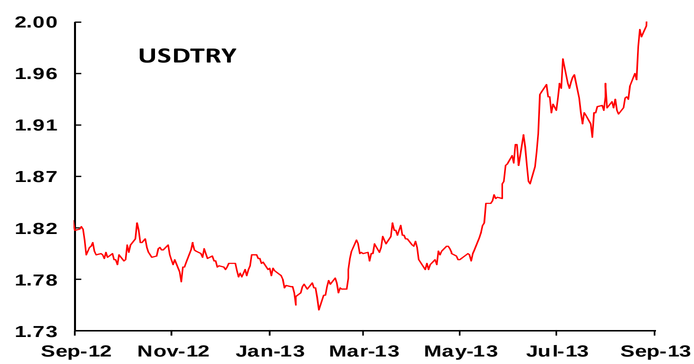
POLAND - Movements in the Polish zloty (PLN) so far this year have tended to correspond with global trends in financial market sentiment and capital flows, and this will persist over the near term as investors continue to act in favour of developed-market assets. Nevertheless, in light of Poland's sound macroeconomic, policy and banking sector environment, future PLN weakness should be relatively less pronounced within the emerging-market currency universe. We expect the PLN to close the year around 4.20 per euro.

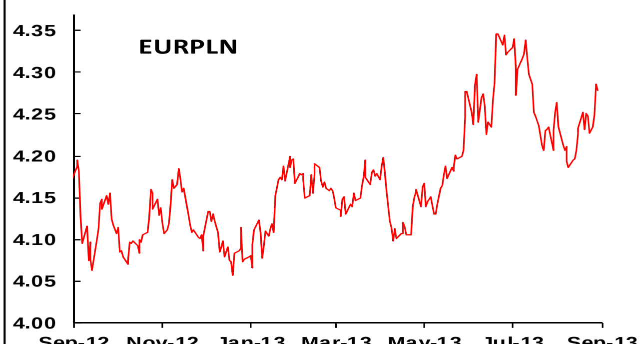
SOUTH AFRICA - After a brief respite in June-July, the South African rand (ZAR) returned to a firm weakening trend in August and continues to trade at multi-year lows. The currency has suffered the largest losses among emerging-market currencies this year, 18% against the USD. South Africa's unique underlying vulnerabilities – ongoing labour disputes, electricity supply disruptions and current account deficit – are reflected in proportionally greater capital outflows as investors shift from emerging to developed markets. We expect USDZAR to close the year around 10.40.

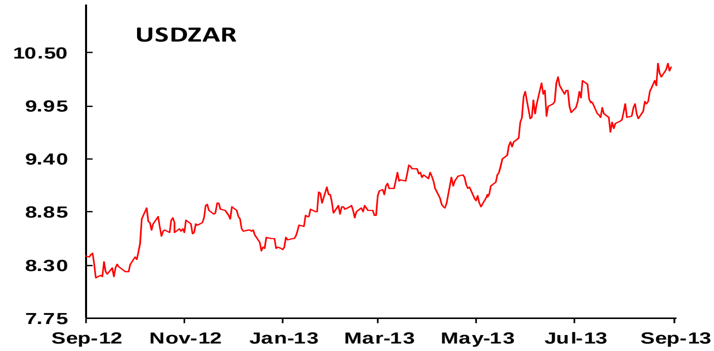
Currency Trends

FX Rate	Spot 29-Aug	13Q1a	13Q2a	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDRUB	33.2	31.1	32.8	33.1	32.8	32.6	32.6	32.7	32.7
USDTRY	2.03	1.81	1.93	2.05	2.04	2.03	2.02	2.01	2.00
EURPLN	4.28	4.18	4.32	4.25	4.20	4.15	4.10	4.05	4.00
USDZAR	10.35	9.24	9.88	10.50	10.30	10.30	10.40	10.30	10.20









DEVELOPING EUROPE & AFRICA

Fundamental Commentary

Sarah Howcroft +1 416 862-3174

RUSSIA - The Russian authorities maintain fiscal and monetary space to maneuver should economic indicators continue to point lower. The growth performance in the second quarter was weaker than initially estimated by the government, with output advancing only 1.2% y/y (down from 1.6% in the prior three months). In fact, the yearly numbers suggest that output may have contracted on a quarter-over-quarter basis in both the first and second quarters; however, the official data is not available to confirm a technical recession. The central bank assesses that output is currently below its potential level, and subdued investment activity and weak external demand could risk a further slowdown in the GDP growth rate over the coming quarters. The government cut its GDP growth forecast for 2013 to 1.8% from 2.4%. Growth should accelerate to around 3.0% in 2014 as the Sochi Winter Olympics provide a modest boost. Industrial production remains especially weak at present, dipping 0.7% y/y in July. Nevertheless, a sustained period of higher commodity prices – Brent crude oil reached a six-month high in anticipation of US-led intervention in Syria – would benefit the nation's terms of trade, as the world's largest energy exporter. Meanwhile, inflation eased from 6.9% y/y to 6.5% in July and further moderation is likely. If and when the headline rate falls close enough to the 5-6% target range, the central bank will become more willing to lower key interest rates. The benchmark policy rate has been kept at 8.25% since last September. Foreign exchange reserves have declined, but remain high, at US$470 billion.

TURKEY - The trajectory of the Turkish lira (TRY) has deteriorated drastically this year, as underlying domestic fragilities have compounded the negative effects of global capital outflows from emerging market asset classes as well as rising military tensions in the region. Specifically, Turkey's large current account deficit (roughly equivalent to 7% of GDP), combined with its dependence on unstable foreign portfolio inflows to finance this gap, and higher energy costs have made its currency particularly vulnerable to the recent global shift to less risky, more liquid assets. The lira has breached the 2 per USD line for the first time on record, while local fixed income and equity markets have also suffered heavy losses. Lira weakness has amplified price stability concerns; the headline inflation rate picked up to 8.9% y/y in July (a 10-month high). Monetary and government authorities are opposed to benchmark interest rate increases while the economy is running at a rate below the official 4% GDP growth target, and have instead opted for alternative methods to support the currency. Over the past two months the central bank has raised the overnight lending rate by 125 basis points so as to limit the amount of liquidity provided to the banking system. Seeing little effect from these decisions, the central bank governor has also recently stated that it will use up to US$40 billion in foreign exchange reserves to defend the currency (it has already sold around $8 billion since June). However, it is doubtful that this amount can offset further anticipated sell-off pressure in the absence of higher interest rates.

POLAND - After reductions in the benchmark policy rate totaling 225 basis points since last November (which brought the rate to a record low of 2.50%), the monetary easing cycle in Poland has reached a bottom. The National Bank of Poland will nevertheless maintain a cautious bias, as the nascent turnaround in growth and inflation conditions is in the early stages and subject to significant external risks. Headline inflation accelerated in July, picking up to 1.1% y/y from a record-low 0.2% in the prior month. Producer prices continued to decline however, while wage growth remains muted amid still high unemployment, indicating that largely absent cost pressures will keep inflation below the 2.5% target level well into 2014. Meanwhile, GDP growth also appears to have turned the corner, with output expanding 0.4% q/q in the second quarter, bringing the year-over-year pace to 0.8% from a cyclical low of 0.5% in the first quarter. The jobless rate has edged lower over the last few months (at 13.2% in June), and the manufacturing PMI rose above the neutral 50-mark in July for the first time in over a year. The outlook is for a gradual economic recovery over the next 18 months (we anticipate annual advances of roughly 1% and 2½% this year and next), though the export-dependent economy (and the currency) will remain vulnerable to renewed weakness in global demand and/or any confidence shocks emanating from the euro crisis. The current account moved into a surplus position for the duration of the second quarter.

SOUTH AFRICA - Persistent domestic and external challenges have kept the South African rand (ZAR) on a downward course throughout 2013, including most notably, ongoing labour unrest (first in the mining sector and now also in the automobile and construction industries) which has damaged foreign investor confidence, and weak external demand amid the euro crisis and softening momentum in China which has weighed on commodity prices and manufacturing activity. The South African Reserve Bank (SARB) is concerned with the potential impact of continued currency weakness on price stability, as inflation is already running at the top end of the 3-6% tolerance range (at 6.3% y/y in July). However, the central bank faces a dilemma in that the growth outlook has weakened (with industrial strikes expected to extend through the coming weeks, GDP growth in 2013 could end up below 2%) and the unemployment rate continues to edge up (at 25.6% in the second quarter, and over 50% for youth). Economic activity accelerated in the second quarter; however, the performance disappointed market expectations, with the yearly growth pace barely improving from 1.9% to 2.0%. The 0.8% q/q output gain (up from 0.2% in January-March) was driven by a rebound in manufacturing production and continued strength in the wholesale and retail and finance sectors. Meanwhile, mining production fell back into negative territory and agriculture posted a second straight decline. We continue to expect a current account deficit of near 6% of GDP in 2013-14.

GLOBAL CURRENCY FORECAST (end of period)

			2011	2012	2013f	2014f	2013f Q1a	2013f Q2a	2013f Q3	2013f Q4	2014f Q1	2014f Q2	2014f Q3	2014f Q4
MAJOR CURRENCIES														
	Japan	USDJPY	77	87	105	110	94	99	103	105	106	107	109	110
	Euro zone	EURUSD	1.30	1.32	1.25	1.23	1.28	1.30	1.30	1.25	1.25	1.24	1.24	1.23
		EURJPY	100	114	131	135	121	129	134	131	133	133	135	135
	UK	GBPUSD	1.55	1.63	1.45	1.44	1.52	1.52	1.50	1.45	1.45	1.45	1.44	1.44
		EURGBP	0.83	0.81	0.86	0.85	0.84	0.86	0.87	0.86	0.86	0.86	0.86	0.85
	Switzerland	USDCHF	0.94	0.92	0.98	1.02	0.95	0.95	0.93	0.98	0.98	1.00	1.01	1.02
		EURCHF	1.22	1.21	1.22	1.25	1.22	1.23	1.21	1.22	1.23	1.24	1.25	1.25
AMERICAS														
North	Canada	USDCAD	1.02	0.99	1.08	1.06	1.02	1.05	1.07	1.08	1.07	1.07	1.06	1.06
North		CADUSD	0.98	1.01	0.93	0.94	0.98	0.95	0.93	0.93	0.93	0.93	0.94	0.94
North	Mexico	USDMXN	13.94	12.85	13.08	12.82	12.33	12.93	12.89	13.08	13.04	12.85	12.78	12.82
North		CADMXN	13.65	12.96	12.11	12.09	12.10	12.31	12.05	12.11	12.19	12.01	12.06	12.09
South	Argentina	USDARS	4.30	4.92	6.00	7.00	5.12	5.39	5.85	6.00	6.25	6.50	6.75	7.00
South	Brazil	USDBRL	1.87	2.05	2.30	2.40	2.02	2.23	2.35	2.30	2.32	2.35	2.38	2.40
South	Chile	USDCLP	520	479	500	510	472	508	505	500	500	500	505	510
South	Colombia	USDCOP	1939	1767	1900	1920	1825	1923	1910	1900	1900	1900	1910	1920
South	Peru	USDPEN	2.70	2.55	2.69	2.65	2.59	2.78	2.70	2.69	2.69	2.65	2.65	2.65
South	Venezuela	USDVEF	4.29	4.29	6.30	7.90	6.29	6.29	6.30	6.30	7.90	7.90	7.90	7.90
ASIA / PACIFIC														
	Australia	AUDUSD	1.02	1.04	0.90	0.92	1.04	0.91	0.88	0.90	0.90	0.91	0.92	0.92
	China	USDCNY	6.30	6.23	6.10	6.04	6.21	6.14	6.12	6.10	6.09	6.07	6.06	6.04
	Hong Kong	USDHKD	7.77	7.75	7.80	7.80	7.76	7.76	7.80	7.80	7.80	7.80	7.80	7.80
	India	USDINR	53.1	55.0	68.0	65.0	54.3	59.4	67.0	68.0	67.3	66.5	65.8	65.0
	Indonesia	USDIDR	9069	9793	11500	11300	9735	10004	11100	11500	11450	11400	11350	11300
	Malaysia	USDMYR	3.17	3.06	3.40	3.35	3.09	3.16	3.34	3.40	3.39	3.38	3.36	3.35
	New Zealand	NZDUSD	0.78	0.83	0.75	0.82	0.84	0.77	0.76	0.75	0.75	0.77	0.80	0.82
	Philippines	USDPHP	43.8	41.0	46.0	44.0	40.8	43.1	45.0	46.0	45.5	45.0	44.5	44.0
	Singapore	USDSGD	1.30	1.22	1.27	1.26	1.24	1.27	1.27	1.27	1.27	1.27	1.26	1.26
	South Korea	USDKRW	1152	1064	1120	1100	1111	1142	1120	1120	1115	1110	1105	1100
	Taiwan	USDTWD	30.3	29.0	30.3	30.5	29.8	30.0	30.0	30.3	30.3	30.4	30.4	30.5
	Thailand	USDTHB	31.6	30.6	34.0	32.5	29.3	31.1	32.7	34.0	33.6	33.3	32.9	32.5
EUROPE / AFRICA														
	Czech Rep.	EURCZK	25.6	25.1	25.8	25.0	25.7	26.0	25.9	25.8	25.6	25.4	25.2	25.0
	Iceland	USDISK	123	128	122	120	124	124	122	122	122	121	121	120
	Hungary	EURHUF	315	291	300	290	304	295	300	300	298	295	293	290
	Norway	USDNOK	5.98	5.56	5.75	5.40	5.85	6.07	5.80	5.75	5.70	5.60	5.50	5.40
	Poland	EURPLN	4.47	4.08	4.20	4.00	4.18	4.32	4.25	4.20	4.15	4.10	4.05	4.00
	Russia	USDRUB	32.1	30.5	32.8	32.7	31.1	32.8	33.1	32.8	32.6	32.6	32.7	32.7
	South Africa	USDZAR	8.09	8.47	10.30	10.20	9.24	9.88	10.50	10.30	10.30	10.40	10.30	10.20
	Sweden	EURSEK	8.92	8.58	8.50	8.20	8.37	8.72	8.60	8.50	8.40	8.30	8.30	8.20
	Turkey	USDTRY	1.89	1.78	2.04	2.00	1.81	1.93	2.05	2.04	2.03	2.02	2.01	2.00

f: forecast a: actual

International Economics Group

Daniela Blancas
daniela.blancas@scotiabank.com

Pablo F.G. Bréard
pablo.breard@scotiabank.com

Sarah Howcroft
sarah.howcroft@scotiabank.com

Tuuli McCully
tuuli.mccully@scotiabank.com

Estela Ramírez
estela.ramirez@scotiabank.com

Canadian & U.S. Economics

Erika Cain
erika.cain@scotiabank.com

Derek Holt
derek.holt@scotiabank.com

Dov Zigler
dov.zigler@scotiabank.com

Foreign Exchange Strategy

Eduardo Suárez
eduardo.suarez@scotiabank.com

Camilla Sutton
camilla.sutton@scotiabank.com

Eric Theoret
eric.theoret@scotiabank.com

Sacha Tihanyi
sacha.tihanyi@scotiabank.com