Global Economic Research

December 2012

Foreign Exchange Outlook

The outlook for world growth, developments in Europe, global central bank policy, fiscal consolidation plans, shifting sovereign credit ratings, political change, and decade-low volatility are the key themes driving foreign exchange flows into 2013. Central bank policy, low volatility and bouts of uncertainty will provide the most interest to currency markets.

In North America, the near-term focus is on the fiscal cliff, which could have significant implications for economic growth dynamics in 2013. The lack of a credible medium term fiscal plan in the US, aggressive Fed policy and building momentum in the US and Chinese economies will likely support the CAD and the MXN. BRL stability will respond to policy shifts and progress on reviving growth in Brazil.

In Europe, slow progress is being made, but is likely to be interrupted by periods of extreme uncertainty and swinging market confidence. In this environment, the EUR is expected to trend lower in 2013 while the GBP should continue to outperform.

In Asia, the outlook for the JPY has deteriorated materially as political uncertainty and rising concerns about the Bank of Japan’s independence weigh on what was already a difficult currency outlook. The CNY continues to gradually appreciate; however, with a narrowed current account surplus and slower pace of FX reserve accumulation, we expect only moderate strength in 2013.

Index

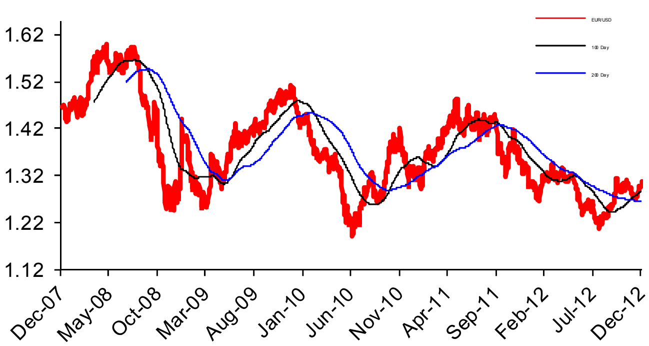
Foreign Exchange Outlook **is available on: www.scotiabank.com and Bloomberg at SCOE**

Global Foreign Exchange Outlook

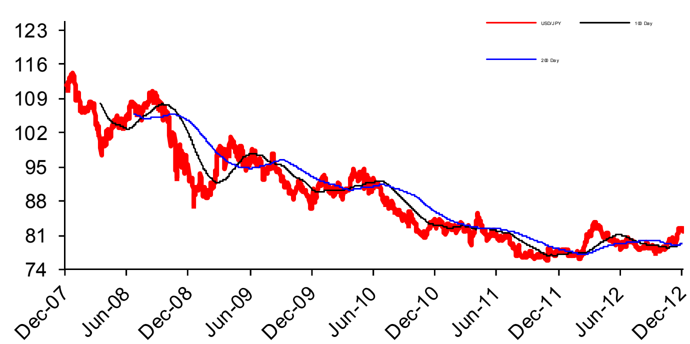
December 4, 2012		Actual	Q1a 12	Q2a 12	Q3a 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Euro	EURUSD	1.31	1.33	1.27	1.29	1.29	1.27	1.26	1.25	1.25
	Consensus*					1.29	1.27	1.27	1.26	1.25
Yen	USDJPY	81.9	83	80	78	80	82	84	85	87
	Consensus*					79	80	81	81	82
Sterling	GBPUSD	1.61	1.60	1.57	1.62	1.62	1.62	1.63	1.64	1.64
	Consensus*					1.60	1.59	1.59	1.58	1.58
Canadian Dollar	USDCAD	0.99	1.00	1.02	0.98	0.97	0.97	0.97	0.96	0.96
	Consensus*					0.98	0.99	0.99	0.99	0.99
Australian Dollar	AUDUSD	1.05	1.03	1.02	1.04	1.04	1.05	1.05	1.06	1.06
	Consensus*					1.03	1.01	1.01	1.00	0.99
Mexican Peso	USDMXN	12.95	12.81	13.36	12.86	12.80	12.91	12.83	12.94	13.17
	Consensus*					12.81	12.75	12.72	12.70	12.70

Spot Price vs. 100 Day Moving Average vs. 200 Day Moving Average - (5yr Trend)

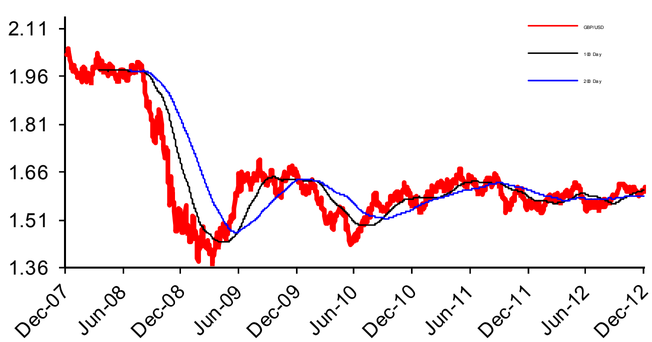
EURUSD



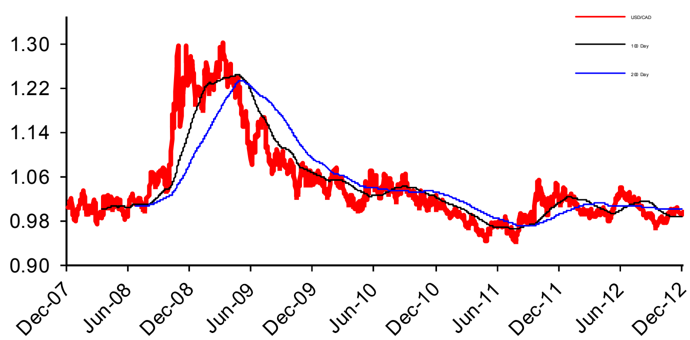
USDJPY



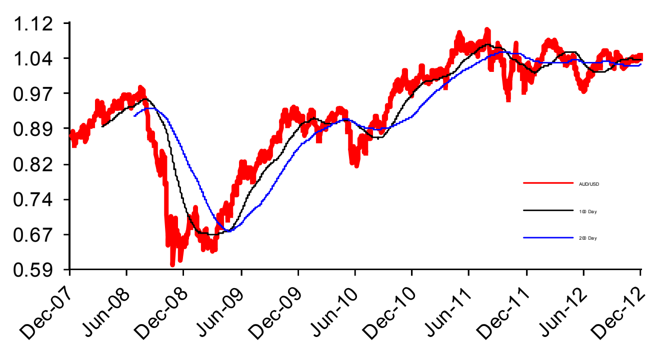
GBPUSD



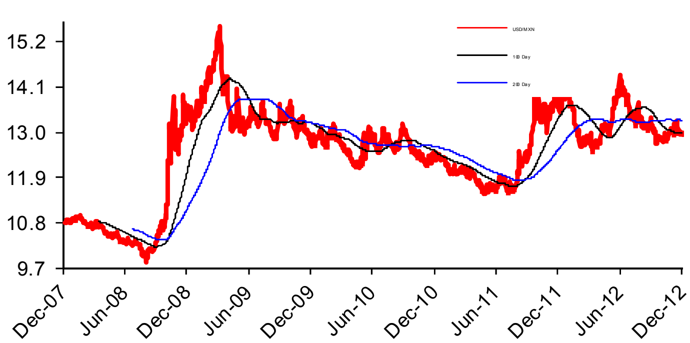
USDCAD



AUDUSD



USDMXN



(*) Source: Consensus Economics Inc. November 2012

Market Tone & Fundamental Focus

Pablo F.G. Bréard +1 416 862-3876 Camilla Sutton +1 416 866-5470

The outlook for global economic growth, developments in Europe to restore debt sustainability, uneven shifts in central bank policy, fiscal policy adjustments, leadership change in systemically relevant economies, and decade low volatility are the key themes driving investor sentiment in foreign exchange markets into 2013.

We expect the significance of European developments to decrease, provided ongoing progress is maintained. Central bank policy continues to be the primary driver of capital flows, while geopolitical risk will increase in importance with slated elections in Japan, Italy, Iran and Germany. FX markets in November were marked by narrow ranges, low volatility and limited returns. Of the 33 currencies that Scotiabank forecasts, only three had returns that exceeded +/- 1.5% over the month (JPY -3.3%, BRL -3.6%, and ZAR -2.3%). Accordingly, even as global currency markets feel risky, traders are not pricing them as such.

In the US, strengthening housing and export sectors are encouraging. Negotiations to address the 'fiscal cliff' will become the most important driver of economic growth in 2013. Fiscal drag is likely to prove a challenging force, but monetary policy, through Federal Reserve (Fed) balance sheet expansion, is expected to ease some of the financing cost burden. Fed rhetoric notes that a US economy gaining momentum does not equate to an imminent hike in policy interest rates, as there is a difference between how long the economy will be weak and how long monetary policy needs to be accommodative. As long as the Fed is engaging in asset purchases, the US dollar (USD) is expected to weaken against currencies like the Canadian and Australian dollars (CAD and AUD), whose central banks have failed to adopt aggressive alternative policy.

As for Canada, a strong triple-A rating, an established fiscal plan, strong external inflows, commodity abundance and strong trade ties with the US should all be factors supporting the currency in 2013. Dampening these positive drivers are recurring spikes in risk aversion and the domestic growth trajectory, which is likely to be lower than that in the US. The near-term outlook for the Mexican peso (MXN) is less encouraging and remains subject to significant uncertainty due to its high beta status, although the prospects of structural reforms may inject longer-term stability in 2013.

Beyond Mexico, the universe of floating currencies in the developing Americas has been quite active, with the Brazilian central bank stepping into markets to support the Brazilian real (BRL), leaving the impression that going forward the currency will trade within a relatively narrow band. Brazil has sharply disappointed in reviving a weak industrial sector, refueling inner political pressures to weaken the BRL by traditionally protectionist industry groups. The Colombian growth outlook has been challenged by soft industrial production and weak exports, which factored into the central bank's decision to cut rates. The Peruvian sol (PEN) is expected to make just modest gains into 2013, while the Chilean peso (CLP) is expected to weaken.

There has been mild progress in Europe, yet long-term investor sentiment remains fragile. Plans for a banking union combined with the European Central Bank's (ECB) bond buying program have decreased tail risk. This, combined with the Fed's monetary expansion, has eased downward pressure on the euro (EUR). Moving into December, EUR is flat to where it closed 2011, quite an accomplishment, especially during a month where France fell victim to credit rating downgrades. We anticipate that low growth, uncertainty and negative sentiment will begin to weigh more heavily on the EUR, expecting it to weaken into 2013.

The British pound (GBP) is expected to continue retracing losses sustained in 2008, supported by its triple-A rating, established fiscal plan and monetary policy, with the Bank of England likely to cease balance sheet expansion ahead of the Fed. The outlook for the Scandies is bright, particularly as their central banks are unlikely to move towards alternative policies. The Swiss central bank is expected to maintain the 1.20 EURCHF floor throughout 2013. The Turkish lira (TRY) may receive a boost from massive bond issuance activity, targeted mainly to foreign investors, and a renewal of the privatization programme in the next year.

The Asian block of currencies has underperformed the majors, as official intervention continues and growth dynamics prove uneven. The outlook for the Japanese yen (JPY) has deteriorated as political uncertainty, a high debt burden and expectations of an increasingly aggressive Bank of Japan weigh on the outlook. The Chinese yuan (CNY) continues to appreciate; however, with a narrower current account surplus and slower pace of international reserve accumulation we expect only moderate strength in 2013. The India rupee (INR) has suffered on the back of lower growth, current account and fiscal deficits and poor investor sentiment; however, moving into December the outlook began to shift as Moody's maintained its stable outlook and investors' appetite for Indian assets increased.

The Reserve Bank of Australia has cut rates to record lows, as investors raise concerns over the economic impact of slowing investments on the mining front. This has dampened gains made by the AUD in 2012; however, with China poised for a gradual and the US Fed still undertaking balance sheet expansion, the outlook for the AUD in 2013 remains strong.

CANADA

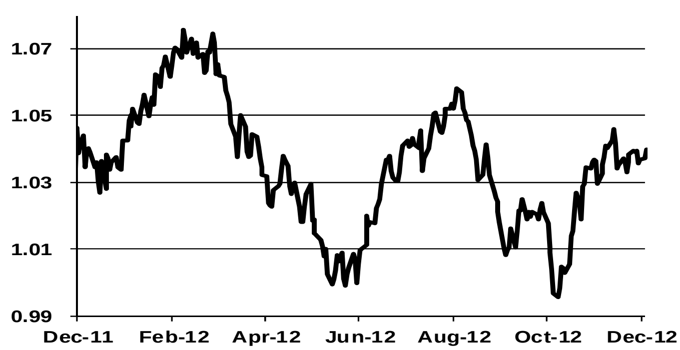
Camilla Sutton +1 416 866-5470
Eric Theoret +1 416 863-7030

Entering December, the Canadian dollar (CAD) is up 3% year-to-date, outperforming the euro, Japanese yen and Australian dollar, but underperforming the Mexican peso, and British pound. November was a quiet month, with below average daily ranges, and falling volatility. The outlook for the Canadian dollar in 2013 and 2014 is strong; we expect it to close both years above parity and with an appreciating trend. The single most important factor driving our view is relative monetary policy. Entering 2013, the US Federal Reserve is expected to expand its (QE) program again; this balance sheet expansion, juxtaposed against the Bank of Canada's neutral to hawkish stance, is likely to prove a significant support for the CAD. The lack of a US fiscal plan is expected to create waves of uncertainty, but on balance should weigh on the USD over time. The US fiscal plan will also be the most important ingredient in the US growth outlook. From the Canadian perspective the domestic fundamentals have deteriorated. Weakness in exports and business investment weighed on third quarter growth, which came in at a disappointing 0.6% q/q annualized. The housing sector has softened, this combined with high levels of household debt, remains a concern. However, as the US recovery gains momentum and China looks poised to achieve 7.7% growth this year and 8.0% next, the outlook for Canada should brighten. On the commodity side, Scotiabank forecasts WTI to average US$94 in 2013; however, the positives associated with elevated oil prices are offset by a still wide Brent-WTI spread and the market's focus on the potential for US domestic energy production growth. On a more positive note for the CAD, the established Canadian fiscal plan, low net debt levels, triple-A rating and stable government serve to drive investment flows into Canada. Sentiment is also encouraging, as at the beginning of December, traders held a still elevated US$6 billion net long position. A sudden jump in risk aversion, driven by US fiscal cliff negotiations, a deterioration in the European environment or geopolitical risks would weigh temporarily but heavily on the CAD. However, with most volatility measures at or close to multi-year lows the market appears unconcerned with potential pitfalls. On balance, the positive CAD drivers continue to outweigh the negatives, leading to an environment ripe for CAD strength. We expect the CAD to close 2013 at 1.04 (or in USDCAD terms, 0.96).

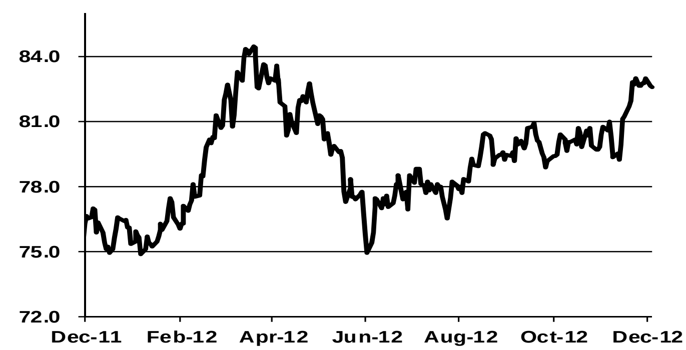
Currency Trends

FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	4-Dec	3 m	6 m	12 m	
AUDCAD	1.04	1.01	1.01	1.040	1.02	1.02	1.02	AUDCAD
CADJPY	76.50	75.37	79.55	82.57	83.85	85.91	89.93	CADJPY
EURCAD	1.37	1.30	1.24	1.300	1.24	1.23	1.20	EURCAD
USDCAD	1.02	1.04	0.99	0.993	0.97	0.97	0.96	USDCAD

AUDCAD

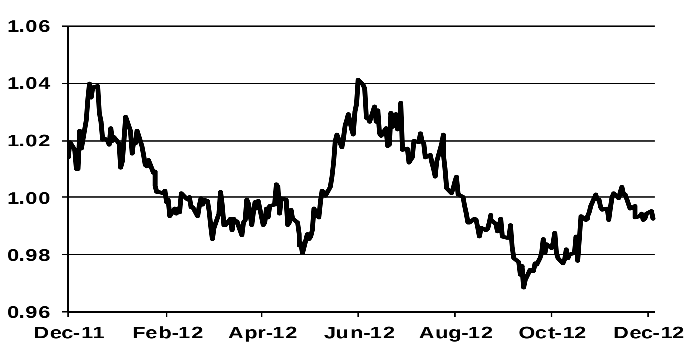


CADJPY



EURCAD

USDCAD



Canada and United States
Fundamental Commentary

Adrienne Warren +1 416 866-4315
Devin Kinasz +1 416 866-4214

UNITED STATES - US GDP growth remains constrained by the uncertainty surrounding the 'fiscal cliff' negotiations in Congress, in combination with the negative short-term effects of Hurricane Sandy. Durable goods orders were flat in October, while industrial production contracted by 0.4% m/m, and the ISM Manufacturing Index fell below 50 again in November. However, some areas of the economy continue to show positive momentum, with Q3 GDP revised up to 2.7% q/q annualized, after Q2 GDP grew by only 1.3%. Consumer confidence is rising on the back of strengthening household balance sheets, as well as gains in the jobs and housing markets. Non-farm payrolls have added almost 700,000 jobs in the past four months, and the unemployment rate is now 7.9%, down from a high of 10% in October 2009. The housing market continues to turnaround from depressed levels, with housing starts heading towards 900K (from a low of 523K in 2009), Q3 residential investment grew by 14.3% annualized. Business investment has slowed, contracting by 2.2% annualized in Q3, but should benefit from eventual clarity on the fiscal issues improving business confidence. Furthermore, the growth outlook is reinforced by the Fed's aggressively accommodative monetary policy. However, even though the US will outperform most other advanced economies, the rebound remains weak in comparison to previous post-recession recoveries. This is largely because of the ongoing fiscal drag, consumer deleveraging, and weak global demand which prohibits any major improvements in the net trade balance, restraining potential US economic growth. US GDP growth is expected to reach 2.2% in 2012, 2.0% in 2013, and increase to 2.5% in 2014 on strengthening consumption, housing and business investment.

CANADA - The Canadian economy has lost momentum in recent quarters. The slow pace of the US and global recovery, the persistent strength in the Canadian dollar and softer commodity prices are weighing on manufacturing production and export earnings. Despite a continued large surplus in commodities trade, growing deficits in manufactured goods and services have pushed Canada's overall current account shortfall to around $70 billion, or 4% of GDP. Business confidence and investment intentions remain reasonably positive, but the volatile and uncertain global economic and financial environment is tempering capital spending and hiring plans, and has led to the scaling back of some longer-term resource expansion plans. The slower pace of hiring combined with high household debt burdens is contributing to a more moderate pace of consumer spending and household borrowing. Home sales, though still reasonably buoyant, have slowed as high home prices and tighter mortgage rules begin to erode affordability, notwithstanding generationally low borrowing costs. This in turn should begin to moderate the pace of new homebuilding. Federal and provincial public sector restraint also is expected to remain a drag on growth this year and next, though to a smaller degree than in many other advanced nations. Overall, the Canadian economy is expected to experience moderate growth averaging under 2% in 2012-13. Growth is expected to pick up to around 2¼% in 2014 as improving global economic conditions support higher commodity prices, stronger exports and corporate earnings, and rising business capital investment. Headline and core inflation have moved back toward the lower end of the Bank of Canada's 1-3% target range. Underlying price trends are being restrained by modest wage growth, limited retail pricing power and Canadian dollar strength.

Monetary Policy Commentary

Derek Holt +1 416 863-7707

UNITED STATES - We continue to expect the FOMC to add Treasury purchases into 2013 and see high probability that it will introduce changes to its communications strategy in light of comments by FOMC Vice-Chair Yellen and the minutes from the October meeting at its next interest rate policy announcement. Whether the FOMC will transition to quantitative or qualitative economic thresholds to govern the duration of its effective zero fed funds rate policy remains an open question. We expect that uncertainties surrounding the outcome of US fiscal policy negotiations and a desire to keep Treasury rates anchored as the Fed conducts its MBS purchases could lead to additional Treasury buying at a rate of US$20 billion per month possibly as early as the next FOMC meeting. We are well below consensus in this estimate because the QE1 case for pushing Treasury yields lower yet, and the QE2 case concerning deflation risk are both weaker motivators to Treasury purchases this time around.

CANADA - We continue to expect the Bank of Canada (BoC) to remain on hold into 2014 with risks of a longer pause contingent on the trajectory of the economy and global monetary policy conditions. The BoC has flagged the 'two sided' risks (upside and downside concerns) emanating from the Canadian household sector, but in signalling that it expects the debt-to-income ratio to stabilize within its forecast horizon it is leaning more toward downside risks through a further deceleration in credit growth. Downside risks are already evident through Q3 GDP that came in at 0.6% q/q annualized (below the BoC's already low 1% forecast) as consumer strength offset weakness in other components like housing markets and business investment. We expect that the transition from Governor Carney to a new Governor will be smooth over approximately a 4-6 month time horizon, but that market opportunity through a further rally at the front end of the curve is typical of changes in leadership at the BoC over the past quarter century.

EUROPE
Currency Outlook

Camilla Sutton +1 416 866-5470
Eric Theoret +1 416 863-7030

EURO ZONE - Progress in Europe and frustration from EUR shorts helped to support the EUR in November. Entering December, the EUR is trading flat to where it closed 2011, quite an accomplishment considering the negative headlines. The options market is positioned for EUR upside, whereas we feel the risk reward on the EUR has become skewed. Going forward periods of significant uncertainty are likely to weigh on the EUR, even as relative central bank policy would favour EUR upside. We expect the EUR to trend lower in 2013, closing at 1.25.

UNITED KINGDOM - Investor sentiment is increasingly bullish GBP. As of the end of November, CFTC traders held a US$1 billion net long position, while risk reversals suggest that the options market was positioned for GBP upside. We expect the GBP to appreciate in 2013, driven by investor inflows, a BoE that proves less aggressive than the Fed and improving data; however, on December 5th the Treasury will release the autumn budget, which will be a key determinant of the UK's credit outlook. If the sovereign debt rating comes under threat, the GBP is likely to follow. We expect the GBP to rally in 2013, closing at 1.64.

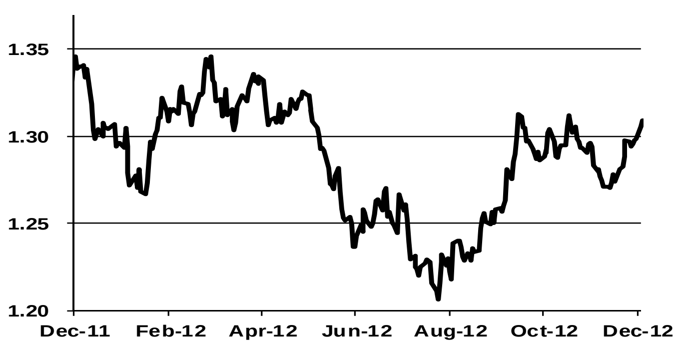
SWITZERLAND - The Swiss National Bank (SNB) has maintained the EURCHF 1.20 floor since September 2011. We view this as a credible floor and expect it to be maintained over our forecast horizon. Early in December the CHF came under pressure as fears over negative interest rate charges intensified. CHF is overvalued by most measures and the SNB is likely to remain vigilant. We expect EURCHF to close 2013 at 1.22.

NORWAY - The Norwegian krone (NOK) is entering December having gained 6.0% year-to-date. Domestic fundaments have held up well and investor sentiment is positive. We expect ongoing NOK gains as investors continue to allocate holdings to currencies that are linked to central banks who are not undertaking alternative forms of monetary policy. We expect USDNOK to close 2013 at 5.30.

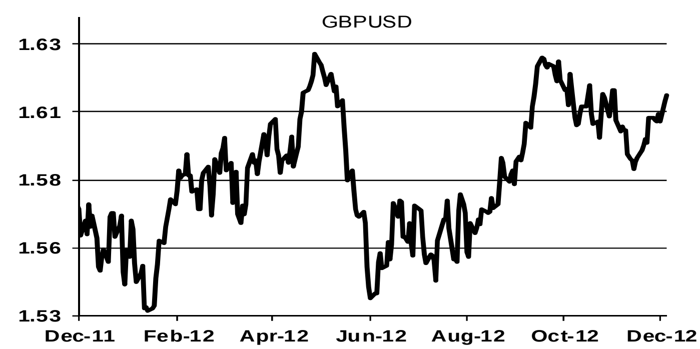
Currency Trends

FX Rate	Going Back 12 m	Going Back 6 m	Going Back 3 m	Spot 4-Dec	Outlook 3 m	Outlook 6 m	Outlook 12 m	FX Rate
EURUSD	1.34	1.25	1.26	1.31	1.28	1.26	1.25	EURUSD
GBPUSD	1.56	1.54	1.59	1.61	1.62	1.63	1.64	GBPUSD
EURCHF	1.23	1.20	1.20	1.21	1.20	1.21	1.22	EURCHF
USDNOK	5.79	6.07	5.80	5.62	5.62	5.53	5.33	USDNOK

EURUSD

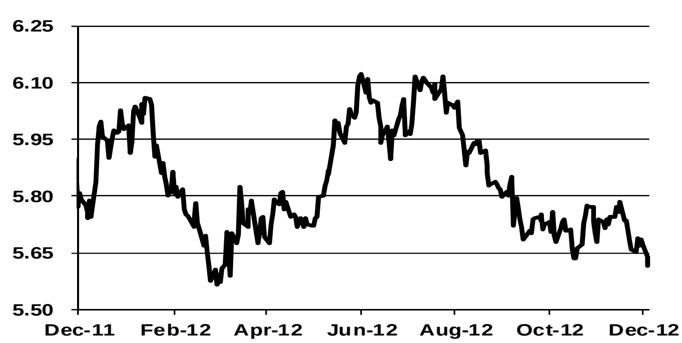


GBPUSD



EURCHF

USDNOK



EUROPE

Fundamental Commentary

Sarah Howcroft +1 416 862-3174

EURO ZONE - Our base case for the euro area envisions a continuance of the current uncertain environment over the medium term, marked by elevated financial volatility and unemployment, political risk, credit differentiation, fiscal tightening, and, eventually, a timid recovery to a trend growth rate of around 1-1.5% y/y for the region as a whole by 2014. The third quarter turned out slightly better than expected, with net exports partially offsetting the ongoing retrenchment by consumers, businesses and governments. Nationally, performances remain varied, with the core countries of Germany and France posting growth rates of +0.2% q/q, while most of the periphery remain in recession. The latest agreement between Greece, the Eurogroup and the IMF will restore official funding to Greece in the short-term, alleviating the near-term threat of a currency union exit. The better-than-anticipated GDP results, the Greek deal and the approval of Spain's official request for bank aid (worth €39.5 billion) helped bring peripheral bond yields down in November, with the euro also gaining lost ground. Critical risks remain, however, such as a sharper recession in the program states (rendering them unable to meet the terms of their bailout agreements), a more prolonged global slowdown (removing the sole growth driver for much of the euro area), and upcoming elections in Italy and Germany (which could see a rollback in fiscal consolidation and support for regional integration, respectively). Possible further monetary accommodation is contingent on these downside risks.

UNITED KINGDOM - The UK may have exited recession in the third quarter (with a 1.0% q/q expansion backed by a 1.3% advance in the services sector), but a sustainable broad-based recovery is by no means guaranteed. The fourth quarter will likely see a sharp drop in the quarterly growth pace (with a negative print possible), as indicated by the fall in industrial output in September (-1.7% m/m) and further weakness in the PMIs (the services index reached its lowest mark in nearly two years in October, while the construction index fell back into contractionary territory in November, where the manufacturing index has remained since April). Consumers are also feeling the post-Olympics hangover; the labour market has begun to cool, with the claimant count rising in October for the first time in three months, while retail sales slid 0.8% m/m in the same month. The Bank of England's (BoE) November Inflation Report showed the two-year ahead CPI projection at 1.9% y/y (up from 1.7% in August). Given that inflation measured 2.7% y/y in October and should rise above 3% in the coming months, we consider the bank's profile to be artificially low, and although the latest meeting minutes left all policy options on the table, we do not expect any further easing over the next six months. The UK's public finances have disappointed in 2012, with full year borrowing on track to exceed initial targets by almost 8%. Nonetheless, the fiscal plan remains credible and the deficit should begin to narrow appreciably in 2013.

SWITZERLAND - The Swiss National Bank (SNB) is expected to leave the minimum exchange rate policy in place and unchanged, at 1.20 per euro, over the coming months. Although the pace of foreign reserve accumulation has slowed – currency reserves fell in October for the first time in six months – the transformation of the SNB's balance sheet has created an exposure to currency fluctuations. As demonstrated by the currency's path since the September announcement of the European Central Bank's bond purchase plan, the franc's value remains closely linked to developments on global financial markets, particularly with respect to the euro crisis. The economy fared better than expected in the third quarter, with output growing 0.6% q/q, more than reversing a 0.1% contraction in the previous quarter. On a yearly basis, the expansion rate accelerated from a revised 0.3% y/y in the second quarter to 1.4% owing to a strong export performance (foreign shipments advanced 1.2% in unadjusted terms after declining by 0.7% in the first and second quarters). Some payback is expected in the fourth quarter, as signaled by the 16.5% m/m (seasonally adjusted) dive in exports in October, the largest drop in the history of the data series. We look for an overall GDP advance of close to 1% in 2012, with growth accelerating gradually over the medium term. On the inflation front, the picture is improving; October saw the CPI dip just 0.2% y/y, marking the slowest pace of deflation in a year, though the monthly rate decelerated from +0.3% m/m to 0.1%.

NORWAY - Notwithstanding a hiccup in the third quarter, the Norwegian economy maintains a comparatively robust growth profile. A 7.7% q/q drop in oil and gas production in the July-September period (owing to labour strikes and plant and pipeline maintenance) pushed total growth down 0.8% in the quarter. The offshore production stoppages, combined with weaker demand from Europe and a strong krone, caused exports to fall 3.1% q/q. However, an earlier surge in energy-sector investments has filtered through the rest of the economy, fuelling activity in the labour and housing markets. In the context of buoyant domestic demand and shipments of machinery and equipment, mainland GDP (excluding oil, gas and shipping) advanced 0.7% q/q in the third quarter, slowing only modestly compared to the prior two quarters. We continue to expect overall gains this year of over 3% in both total and mainland real GDP, with a likely deceleration in 2013 on the back a milder pace in investment and exports and a revival in imports. Inflation rose from 0.5% y/y to 1.1% in October, the biggest yearly gain since February. Faced with low inflation, persistent krone strength and global economic uncertainties on the one hand, and strong wage growth and rising household debt on the other, the Norges Bank has opted to leave the reference rate unchanged at 1.50% since March. However, the bank recently lowered the trajectory of the policy rate over the forecast horizon, delaying the start of the tightening cycle until mid-2013.

Foreign Exchange Outlook

ASIA/OCEANIA
Currency Outlook

Camilla Sutton +1 416 866-5470
Eric Theoret +1 416 863-7030

JAPAN - Entering December, JPY is the worst performing major, having lost 6.5% year-to-date. An upcoming election on December 16th has driven uncertainty, particularly as deflation becomes politically intolerable. When Bank of Japan governor Shirakawa completes his term in April 2013 he is likely to be replaced with an aggressive head, who will be more closely tied to the government. Based on these developments, sentiment has soured dramatically against the yen. At the end of November, the CFTC net short JPY position had reached a new multi year record of US$12 billion. We expect USDJPY to resume its depreciating trend in 2013, closing at 87.

CHINA - After significant appreciation in both September and October (+1.0% and +0.75%, respectively) the Chinese yuan gained just 0.2% in November. We expect the pace to slow further in December, but resume in 2013. China's current account has narrowed to just 2.6% of GDP, reserve accumulation has slowed and the yuan has appreciated on both a real and nominal basis. Looking out to 2013, we expect a moderate yuan appreciation of 2.4%, even as forward markets are pricing in some modest depreciation. We hold a year-end 2013 forecast of 6.10.

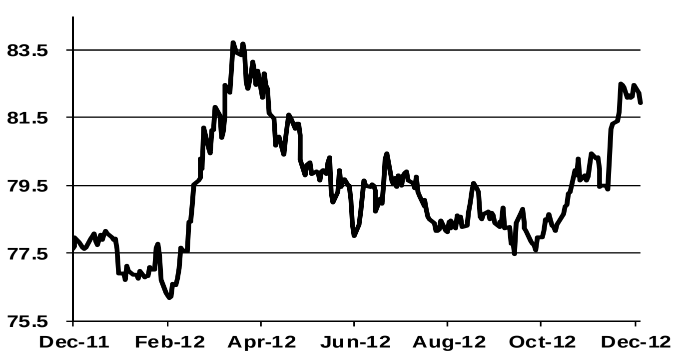
AUSTRALIA - Investors are bullish the Australian dollar (AUD) but the outlook is for only modest gains as record low interest rates and concerns over a peak in mining investment are offset by a gradual recovery in China and improving risk sentiment. By the end of November, AUD's CFTC net long position had increased to US$8 billion and was the largest held against the USD. We expect modest gains in 2013, with AUDUSD closing the year at 1.06.

NEW ZEALAND - Investors hold a bullish outlook on the New Zealand dollar (NZD), with CFTC reporting a net long position of US$1.5 billion as of the end of November. However, technically USDNZD has struggled to make it back to its year-to-date highs of 0.8470. We expect a modest year in 2013, with NZDUSD closing the year at 0.83.

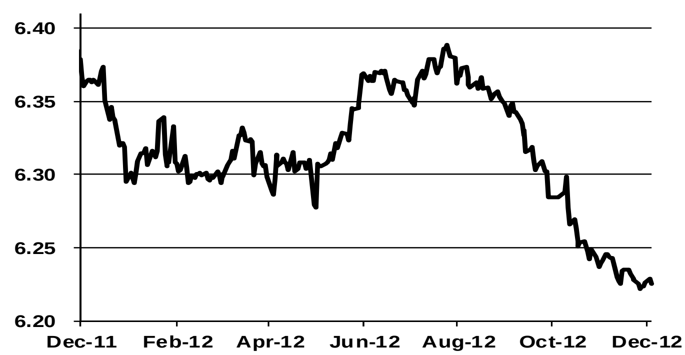
Currency Trends

FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	4-Dec	3 m	6 m	12 m	
USDJPY	77.99	78.34	78.43	81.9	81.33	83.33	85.00	USDJPY
USDCNY	6.36	6.36	6.35	6.23	6.25	6.22	6.12	USDCNY
AUDUSD	1.02	0.97	1.02	1.05	1.05	1.05	1.06	AUDUSD
NZDUSD	0.78	0.76	0.79	0.82	0.81	0.82	0.83	NZDUSD

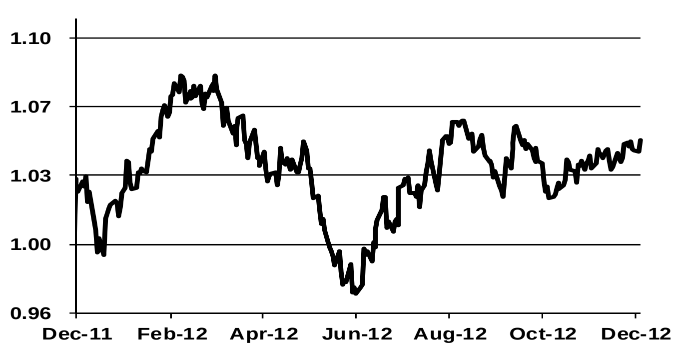
USDJPY



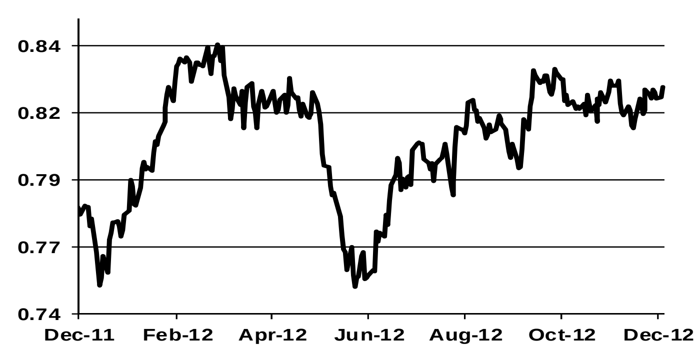
USDCNY



AUDUSD



NZDUSD



ASIA/OCEANIA
Fundamental Commentary

Tuuli McCully + 1 416 863-2859

JAPAN - The Japanese economy is weakening. Real GDP contracted by 0.9% q/q (+0.2% y/y) in the third quarter, as the export sector continues to suffer from the combined effect of recessionary conditions in Europe and the diplomatic tensions between China and Japan over disputed territories. Meanwhile, domestic demand is being adversely impacted by deflationary pressures that make borrowing unappealing and encourage consumers and companies to postpone spending. Accordingly, we have revised Japan's 2012 output growth forecast downwards to 1.7%, and expect the economy to record only a modest average gain of 1.1% in 2013-14 as the impact of the tsunami-related reconstruction boom wanes. General elections will be held on December 16th as a result of the passage of a deficit financing bill; the promise for early election was a condition for the bill's approval in the upper house. Consequently, the outgoing government will implement additional fiscal stimulus measures to prop up the weak economy before its term comes to an end. Given the deteriorating economic outlook, the Bank of Japan is under pressure to loosen monetary conditions further; while the current asset purchase program's total size of ¥91 trillion is not expected to be reached before end-2013, further increases to the program will likely be announced in the coming months. Deflationary pressures persist, with consumer prices dropping by 0.4**%** y/y in October, following a -0.3% reading a month earlier.

CHINA - Evidence is emerging regarding the Chinese economy's gradual recovery as recent supportive monetary and fiscal actions filter through the system. Gains in the purchasing managers' indices for both non-manufacturing and manufacturing industries are accompanied by a pickup in industrial production, exports and retail sales, indicating that a revival, albeit modest, is imminent. We expect China's output growth to reach 8% in 2013 from 7.7% in 2012. Inflation will likely accelerate moderately in the coming months from the October level of 1.7% y/y. Nevertheless, persistent deflationary pressures further up the distribution chain alleviate any concerns regarding significant upside pressures on prices. China's once-in-a-decade leadership transition commenced in November as Xi Jinping became the leader of the Chinese Communist Party and the first member of the party's Politpuro Standing Committee (PSC, China's main decision-making entity), and Li Keqiang the second ranked member of the PSC. Following the meeting of the National people's Congress in March 2013, Mr. Xi is expected to take over the country's presidency, while Mr. Li is set to become the premier. Once the new leaders have settled in, the likelihood of economic reforms will increase, particularly in the areas of foreign exchange, interest rates, and capital account-liberalizations, though any progress will likely be gradual. The policymakers have recognized the need for a more balanced approach to economic development that prioritizes consumption over investment.

AUSTRALIA - The Australian dollar continues to be supported by strong economic fundamentals, wide interest rate differentials between Australia and other advanced economies, and portfolio investment inflows. Inflation will likely continue to gradually climb higher in the near future (partly reflecting the introduction of a carbon tax in July 2012) from the Q3 level of 2.0% y/y; nevertheless, we expect it to remain within the Reserve Bank of Australia's (RBA) target range of 2-3% through 2014. In the context of still-weak global economic conditions and manageable inflation prospects, the RBA cut the benchmark interest rate by 25 basis points to 3.0% on December 3rd, assessing that as the peak in resource investment is approaching, further stimulus would help other areas of demand to strengthen. In our view, the current monetary easing cycle has now reached its bottom, with the central bank beginning to normalize monetary conditions in the final quarter of 2013. Australia is one of the fastest growing economies among the developed world, with the resources sector continuing to be the key economic motor; we expect the nations' real GDP to advance by 3.4% this year, followed by around 3% annual gains in 2013-14. In addition, Australia's public finances are healthy, with public debt at a modest level and the administration aiming to reach a budget surplus in the current fiscal year (July-June). Nevertheless, the economy is vulnerable to external shocks due to its large current account imbalances and high household debt.

NEW ZEALAND - Initial signs are emerging that New Zealand's economic momentum will be picking up in the near term, with recent consumer confidence and business indicators improving, the services sector recording advancements in both sales and new orders, and the housing market strengthening. Domestic demand continues to be the main economic driver, driven by earthquake-related reconstruction investment; meanwhile, subdued external conditions will continue to weigh on the overall economic outlook as the country's exporters battle with still-weak global demand and an elevated currency. We expect New Zealand's real GDP to expand by around 1⅔% this year, followed by a modest acceleration to 2⅓% in 2013. Despite a large – and widening – current account deficit (averaging 5½% of GDP in 2012-13), the New Zealand dollar remains at a historically high level vis-à-vis the US dollar as market uncertainty persists and the country continues to offer more attractive rates of return than most other advanced economies. The Reserve Bank of New Zealand will likely maintain an accommodative monetary stance in the coming quarters, keeping the Cash Rate unchanged at a record low of 2.5% for the 20th consecutive month following the next policy meeting on December 6th. The central bank has additional monetary space for providing further stimulus to the economy if need be, though we do not expect this scenario to materialize. Consumer price inflation has dipped below the central bank's 1-3% medium-term target.

Developing Asia

Currency Outlook

Sacha Tihanyi + 852-2861-4770

INDIA - INR continues to suffer via its current account, as India realized a record nominal trade deficit in October. However, portfolio flows (particularly strong inflows at the outset of December) show the continued sensitivity of INR to swings in economic sentiment evident in the performance of Indian equities. Though we are marginally constructive on the INR vs. the USD, it will be difficult to maintain significant and sustained INR strength until we see an easing in monetary policy, and a rationalization of the fiscal deficit which would take pressure off of the current account. We target 52.30 for USDINR by the end of Q4 of 2013.

KOREA - Korea has upped the rhetoric and instituted measures aimed at stemming the country's region-beating FX performance. The persistent strength in the CNY has provided a definite support for the won; however, the potential negative political impact on the JPY (from upcoming elections) will increase the pressure on Korean policymakers to prevent too rapid a strengthening in the KRW for the time being. With Korea's external environment on the mend, evident in a stabilization in exports and production, we are more constructive on the sustainability of KRW gains, but still feel we have come rather far rather quickly in the near term. We target USDKRW at 1075 by the end of Q4 of 2013.

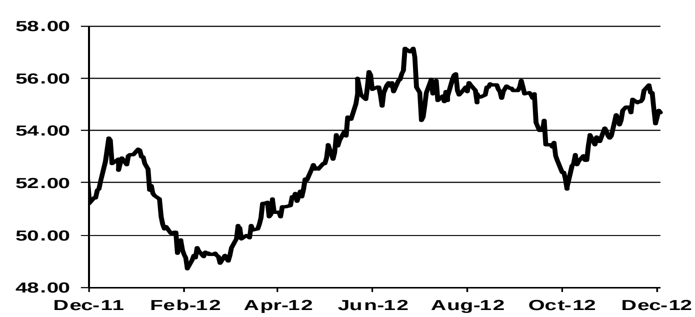
THAILAND - Though political tensions are building once again and foreign equity interest has been lower in recent weeks, the Thai baht (THB) remained reasonably stable in November. The economy has shown a propensity to outperform the expectations of policymakers, with a solid Q3 GDP taking the risk of further precautionary rate cuts off the table and engendering a more neutral tone from the Bank of Thailand. The shift in tone should help stem any undue pressure on the THB during selloffs, and perhaps provide a disincentive for short-sellers due to a still relatively high negative carry. We target USDTHB at 30.00 by the end of Q4 of 2013.

SINGAPORE - Despite Singapore's decision to retain a hawkish exchange rate stance, the economic data generally disappointed expectations in November, save for the better than expected October exports data (though the electronics sector continued to weigh). However, currency strength in Singapore's main trade partners, and the EUR's rebound, have allowed for broad SGD appreciation to continue, supporting the currency at its strongest level vs. the USD in over a year. We maintain a bullish SGD view and target USDSGD at 1.20 at the end of Q4 of 2013.

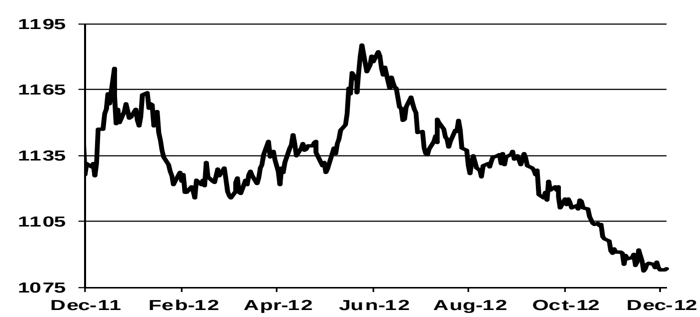
Currency Trends

FX Rate	Going Back 12 m	6 m	3 m	Spot 4-Dec	Outlook 3 m	6 m	12 m	FX Rate
USDINR	51.21	55.67	55.66	54.69	53.29	52.98	52.35	USDINR
USDKRW	1131	1182	1133	1083	1100	1093	1078	USDKRW
USDTHB	30.82	31.49	31.20	30.69	30.67	30.47	30.07	USDTHB
USDSGD	1.29	1.29	1.25	1.22	1.22	1.21	1.20	USDSGD

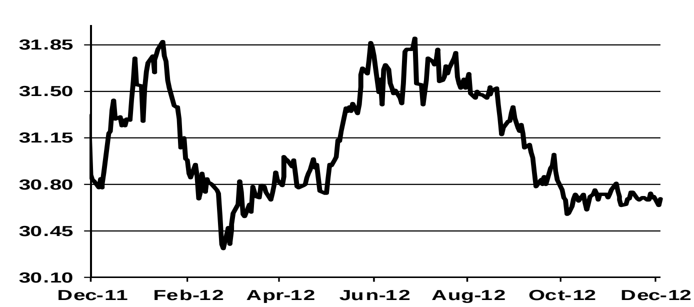
USDINR



USDKRW



USDTHB



USDSGD

DEVELOPING ASIA

Fundamental Commentary

Tuuli McCully + 1 416 863-2859

INDIA - Weak economic fundamentals, such as large current account and fiscal deficits and a muted economic performance are weighing on the Indian rupee. Inflation dynamics will be the cornerstone of the Reserve Bank of India's monetary policy decisions in the coming months. Wholesale price inflation eased to 7.5% y/y in October from 7.8% y/y the month before; we expect the rate to close the year at the current level. High inflation combined with India's twin deficits has restricted the central bank's ability to implement considerable monetary policy measures to counter subdued economic conditions. Nevertheless, with some promising economic reforms underway the authorities may be able to loosen monetary conditions in early 2013. Real GDP grew by 5.3% y/y in the third quarter of 2012 following a 5.5% gain in the April-June period. Consumer spending growth continues to be muted by historical standards while investment prospects are limited by tight monetary policy. While the administration is aiming to speed up the implementation of large projects, structural limitations curb the potential for investment. Public spending will be held back due to the need to consolidate government finances. Net exports will continue to be a drag on growth as import demand surpasses India's shipments abroad. Nevertheless, the manufacturing and infrastructure industries are showing signs of gradual improvement. India's output will likely advance by 5½% in 2012, followed by a modest acceleration to 6¼% in 2013-14.

KOREA - The Korean won (KRW) has been the best performer since mid-2012 among the most-traded Asian currencies, as it continues to be supported by the country's solid sovereign creditworthiness, a current account surplus and healthy government finances. In fact, South Korea's sovereign credit rating has increased the most among the OECD countries in the last five years. At end-November, the country's financial regulators implemented tighter rules on currency forward positions at domestic and foreign banks in order to limit the KRW's appreciation. Tentative signs of approaching economic revival are emerging in South Korea with industrial production, exports, consumer confidence, and the labour market recording modest gains following a relatively weak performance in the third quarter of the year. We expect South Korean real GDP to advance by 2.3% in 2012, followed by a modest pickup to around 3.0-3.5% in 2013-14. Inflationary pressures remain manageable; consumer price inflation decelerated to 1.6% y/y in November, dipping below the Bank of Korea's 2-4% target range. We are of the view that the monetary easing cycle in South Korea has reached its bottom following the most recent benchmark interest rate reduction to 2.75% in October; in November, the Monetary Policy Committee unanimously agreed to keep the rate unchanged. A gradual process of interest rate normalization will likely commence in the third quarter of 2013. A presidential election will be held on December 19th.

THAILAND - A favourable domestic economic outlook will continue to support the Thai baht (THB) through 2014. The currency environment is stable, consolidating after a four-month strengthening phase. High, yet decelerating growth, manageable inflation (headline and core inflation at 2.7% y/y and 1.9% y/y in November, respectively), foreign capital inflows and stable monetary conditions support the THB in the near term. The monetary easing cycle has likely reached its bottom following a benchmark interest rate cut to 2.75% in mid-October aimed at protecting domestic demand from elevated external risks. We assess that this rate cut may need to be reversed more promptly than in other regional countries due to strong domestic demand conditions, should global downside risks not materialize. Strong momentum in consumption and investment is counterbalancing the adverse economic impact of weaker global demand for Thai exports. Nevertheless, a turnaround in export sector performance will likely be evident in the near term on the back of a modest pickup in China's economic momentum – Thailand's main export destination – and the base effects from extensive flooding in late-2011 that caused disruptions to Thailand's manufacturing supply chains. Thai output increased by 3.0% y/y (1.2% q/q) in the third quarter; we expect the economy to advance by 5½% this year as a whole reflecting a strong expansion in the final quarter of 2012 (due to the flooding a year earlier).

SINGAPORE - Singapore possesses robust public finances, a strong net external creditor position, and a solid track record of political stability and macroeconomic management. The outlook for the trade-dependent economy will gradually improve as the global economy recuperates, with real GDP growth picking up from 1⅔% this year to 3% in 2013-14. Output grew by only 0.3% y/y in the third quarter following a 2.5% y/y gain in the April-June period. Household consumption continues to be lifted by negative real interest rates, wage growth and supportive employment. Investment will remain underpinned by public sector infrastructure development until yet-to-improve business confidence translates into faster gains in private sector investment. Inflation eased to 4.0% y/y in October from 4.7% the month before; weakness in the global economy combined with a relatively strong currency will help moderate imported price gains, while tight labour market conditions domestically combined with continuing increases in accommodation and transport costs will feed modest domestic inflationary pressures. Singapore relies directly on its exchange rate rather than interest rates to manage inflation and growth prospects. Following the most recent semi-annual central bank meeting in mid-October, authorities surprised markets by failing to provide monetary stimulus to the weakening economy and instead maintaining the policy stance of a modest, gradual appreciation of the (not published) nominal effective exchange rate.

DEVELOPING AMERICAS

Currency Outlook

Eduardo Suárez +1 416 945-4538

BRAZIL - A poor third-quarter GDP print helped weaken sentiment towards the Brazilian real (BRL), as softer than expected activity led the market to pare back expectations for both inflationary pressures and appetite for currency strength from the government. We continue to expect the Bank of Brazil to curb both the real's appreciation (to boost manufacturing) and weakness (to contain inflationary pressures) as it uses the real as nominal anchor. USDBRL has broken free of its 4-month trading range of 2.01 to 2.06, with a new potential range being 2.05 to 2.15.

MEXICO - The statement from Banxico's latest monetary policy meeting led to reduced expectations of rate hikes priced into the TIIE curve, as the central bank signaled a moderation in its "hawkish bias". Sentiment towards the government of incoming president Peña Nieto remains strong, signaled by the continued rise in foreign holdings of domestic securities, and the Mexican peso's outperformance of the S&P500.

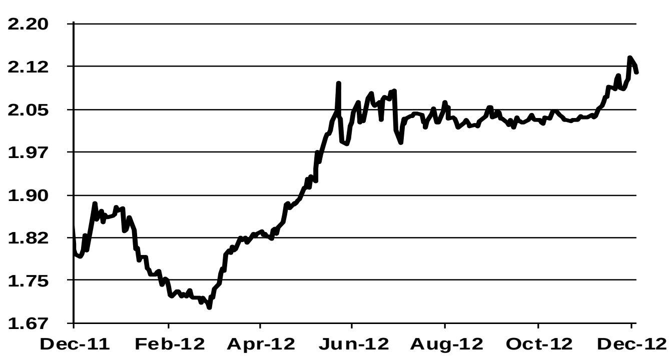
CHILE - The latest central bank minutes show a neutrally biased central bank that sees inflation risks as evenly skewed. We believe that the variables currently making the central bank most uncomfortable are the trade balance and the current account, which have deteriorated markedly over recent months as domestic activity outpaces external demand. A deteriorating trade balance could be a headwind for the CLP. We anticipate the currency to close the year at 483 per USD.

COLOMBIA - The Colombian peso continues to hover in the 1807 - 1830 range, even as the Finance Minister Cardenas steps up "currency war" rhetoric, by suggesting the government could purchase up to US$3 billion in the currency market and stating that the central bank's rate cut should stem, currency appreciation. However, the planned cut in taxes for foreign investors in domestic fixed income could serve as an offset to the government's potential intervention, capping USDCOP's upside.

Currency Trends

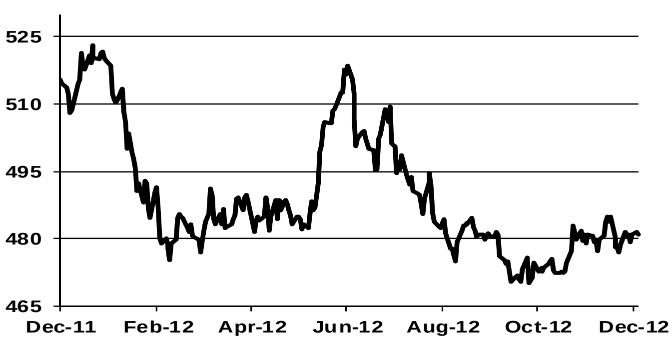
FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	4-Dec	3 m	6 m	12 m	
USDBRL	1.79	2.06	2.04	2.11	2.11	2.12	2.15	USDBRL
USDMXN	13.64	14.22	13.18	12.95	12.88	12.86	13.10	USDMXN
USDCLP	514	515	481	481	490	494	496	USDCLP
USDCOP	1941	1817	1825	1814	1807	1817	1847	USDCOP

USDBRL

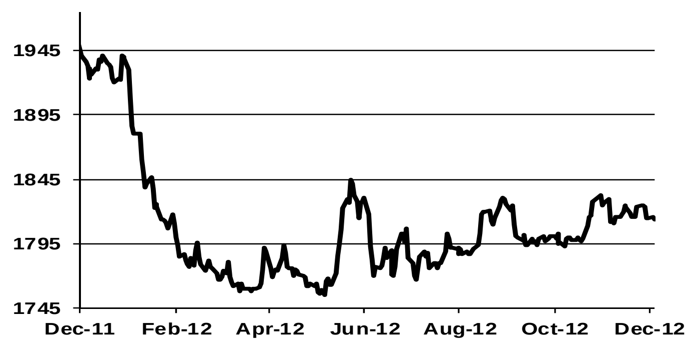


USDMXN

USDCLP



USDCOP



DEVELOPING AMERICAS

Fundamental Commentary

Daniela Blancas +1 416 862-3908

BRAZIL - The Brazilian real (BRL) has been subject to strong official intervention and negative local economic data, making it an outlier among its Latin American peers. After almost four months of stable trading around the 2.02 mark, the Brazilian real's (BRL) depreciation vis-à-vis the US dollar accelerated, losing around 3.5% in the last 10 days and reaching its weakest level since May 2009. Despite efforts by the local authorities to boost economic activity, third-quarter GDP expanded by only 0.9% y/y, averaging an expansion of 0.7% y/y in the first nine months of the year. On a quarterly basis, output accelerated to 0.8% q/q from the first and second quarter gains of 0.1% and 0.2% q/q, respectively, confirming that the economy is rebounding gradually. Household and government consumption remain as the biggest contributors to growth, while investment and the external sector continue to lag. In the context of recent data we are revising down our Brazilian 2012 and 2013 GDP growth forecasts from 1.7% to 1.0% and from 3.8% to 3.5%, respectively. Additionally, we now expect the BRL to close the year at 2.10 per USD as authorities seem to be committed to improve export competitiveness by maintaining a weak currency. On the monetary front, the central bank confirmed the end of the easing cycle, leaving the reference rate unchanged at 7.25% while inflationary pressures slowly emerge, reaching 5.5% y/y in October.

MEXICO - The Mexican peso (MXN) has been affected by international sentiment swings. Fiscal concerns in the US, together with rising pressures in Europe pushed the MXN to reach its weakest level in three months in mid-November. Economic fundamentals remain strong; however, sings of a deceleration have emerged. Real GDP expanded by 3.3% y/y in the third quarter of the year, slightly below our initial expectation and 1.1 percentage points below the 2011 third-quarter rate of 4.4% y/y; nonetheless, the effect was offset by significant revisions to the first and second quarter data. As a result, we maintain our view that the Mexican economy will grow by 3.4% y/y in the fourth quarter and by 4.0% in 2012 overall. The industrial sector, which expanded by 4.4% y/y on average during the first eight months of the year, slowed to 2.4% y/y in September, with the manufacturing sector expanding at its lowest rate in 17 months. Headline inflation remains above the central bank's tolerance range; however, it slowed from its 4.8% y/y peak in September to 4.6% in October, as the central bank anticipated. At the last monetary policy meeting, Banxico left the reference rate unchanged at 4.50%, being less hawkish as inflation decelerated as projected. Nonetheless, the authorities highlighted that if price pressures emerge, albeit as a transitory effect, they will be forced to raise the reference rate to anchor inflation expectations. We expect the currency to close the year at 12.80 per USD.

CHILE - The Chilean peso has not been immune to external financial market volatility; however, it ranks as the top performer vis-à-vis the US dollar in the emerging-markets universe in the last 12 months and remains as the strongest currency among its Latin American peers in year-to-date terms, despite the European debt situation and higher uncertainty regarding the US fiscal outlook. The Chilean economy remains solid with real GDP expanding by 5.7% y/y in the third quarter of the year (the same rate observed in the second quarter and significantly above the 3.7% rate registered in the same period a year ago). Local demand, particularly household consumption, continues to lead the expansion, while exports and the industrial sector have been dwindling due to weak external demand. We now anticipate that the Chilean economy will expand by 5.4% in 2012 overall from a previous forecast of 5.2%. With strong economic performance and inflation within the central bank's tolerance range (despite a recent acceleration), we anticipate that the authorities will remain on the sidelines throughout the first quarter of 2013, leaving the reference unchanged at 5.0%. Unlike the intervention policies on FX markets in other countries such as Colombia, Peru or Brazil, the central bank has ruled out any pre-determined mechanism to influence the currency; however, the authorities' intervention bias increases as the USDCLP gets closer to the 470 level.

COLOMBIA - The US post-election fiscal debate, continued uncertainty over the European debt crisis, lower oil prices at the beginning of November, central bank USD purchases and temporary constraints in market liquidity due to the Interbolsa intervention have been weighing on the Colombian peso (COP). The COP remained close to its 2-month highs in November, trading around the 1,818 mark. The economic outlook continues to decelerate as anticipated. Industrial output rebounded slightly in September, maintaining negative rates of growth for the second consecutive month. Signs of a recovery in the industrial sector continue to be weak, with the automotive sector declining significantly against the levels observed a year ago. Nonetheless, retail sales have avoided the contraction zone in the past five months, which signals that domestic local consumption remains stronger than the sectors closely linked to external demand. With headline inflation remaining close to the midpoint of the official target range (2-4%) and growth moderating, the central bank decided to cut the reference rate by 25 basis points in November for the third time in the last four months. Following the decision, the authorities announced that the inflation target for next year will remain unchanged at 3% +/- 1 percentage point, with an expected real GDP growth for 2013 around 4-5%. We maintain our view that the central bank's easing cycle has come to an end and that they will maintain "wait-and-see" rhetoric.

DEVELOPING EUROPE/AFRICA

Currency Outlook

Sarah Howcroft +1 416 862-3174

RUSSIA - A number of factors are currently affecting the course of the Russian ruble (RUB), including demand from foreign investors due to the opening up of the local bond market and from extracting and exporting firms for local tax payments, in addition to government decrees of implicit support for certain industries and, as always, global risk sentiment and the international oil market. We expect a year-end USDRUB rate of 31.1.

TURKEY - Though the Turkish lira (TRY) remains susceptible to geopolitical and global financial market shocks, improving investor sentiment, economic rebalancing, and disinflation provide room for the central bank to respond to any sharp deviations in either direction. The lira has trended around 1.80 per US dollar for the last few months and is expected remain around this level through the turn of the year before strengthening modestly into end-2013.

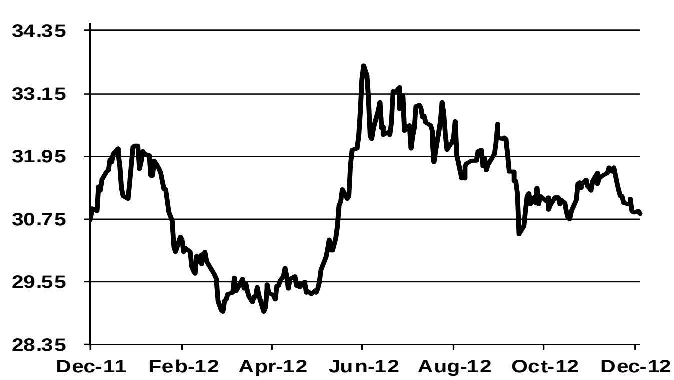
CZECH REPUBLIC - The central bank will act to prevent undue appreciation of the Czech koruna (CZK) in order to facilitate a gradual export-led recovery. Nevertheless, an improving current account position, demonstrated fiscal prudence (allowing low financing costs) and a resilient and profitable banking sector will continue to support a strengthening bias in the currency. We expect EURCZK to close the year around 25.

SOUTH AFRICA - The South African rand (ZAR), having decoupled from the global risk factors driving other emerging market currencies, continued to depreciate in November. The rand shed another 2% against the US dollar on the back of ongoing labour strife and corresponding industrial weakness. Looking ahead, the currency is expected to remain weak, though some modest recovery is anticipated in 2013. We look for a year-end USDZAR rate around 8.7.

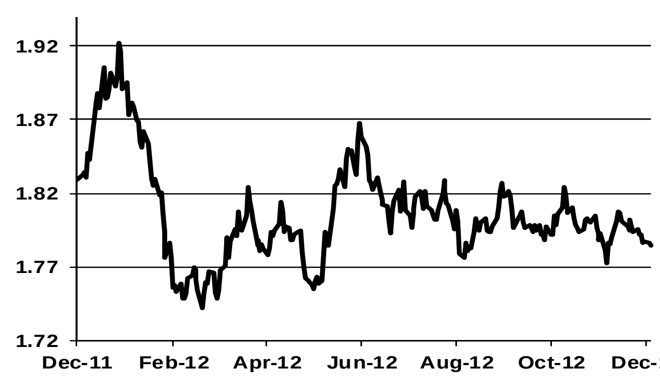
Currency Trends

FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	4-Dec	3 m	6 m	12 m	
USDRUB	30.95	33.51	32.32	30.85	31.22	31.39	31.74	USDRUB
USDTRY	1.83	1.85	1.82	1.78	1.79	1.78	1.75	USDTRY
EURCZK	25.17	25.72	24.89	25.27	24.92	24.79	24.54	EURCZK
USDZAR	8.04	8.50	8.41	8.82	8.65	8.58	8.43	USDZAR

USDRUB

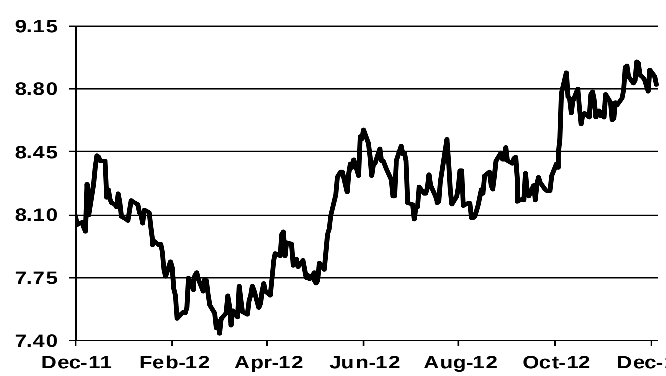


USDTRY



EURCZK

USDZAR



DEVELOPING EUROPE/AFRICA

Fundamental Commentary

Sarah Howcroft +1 416 862-3174

RUSSIA - The economic slowdown in Russia was confirmed by the third-quarter real GDP report, which showed growth decelerating from 4.9% y/y and 4.0% in the first and second quarters, respectively, to 2.9% in the three months to September. This marks the weakest performance since the recession in 2009. Nevertheless, certain country-specific factors have provided support to the ruble in recent months, such as the September interest rate hike and foreign buying in anticipation of the liberalization of the ruble-denominated local bond market (foreigners will be able to trade Treasury bonds through the two of the world's biggest settlement systems by year-end). The ruble is the second top performing emerging market currency versus the US dollar over the last three months, having gained 4.5%. The temporary foreign demand boost, which has also pushed sovereign yields down to record lows (2.8% for the 10-year), should persist into the New Year. However, we continue to foresee depreciation pressures taking hold later in 2013, as concerns related to the nation's high dependence on commodity exports, shrinking current account surplus, political uncertainty (domestic strife and external tensions) and unfriendly business climate offset the support from still high oil prices (we expect the price of Brent oil to average US$112/bbl over the next 12 months). Russia's fiscal position remains enviable; the government will record a nearly balanced budget this year, while the public debt level will average around 11% of GDP through 2014.

TURKEY - Turkey has seen a marked improvement in creditworthiness in recent years and, so long as it is not subject to any destabilizing shock, will likely achieve full investment-grade status in the next year or so. On November 5th, Fitch Ratings upgraded Turkey's sovereign rating one notch to "BBB-", giving the nation its first investment grade rating since 1994. The agency cited Turkey's sound banking system, healthy public finances and robust growth prospects underscored by favourable demographics and local capital market development. Conversely, later in the month Moody's left its assessment unchanged (at "Ba1", the highest speculative-grade level, with a "positive" outlook), noting persistent concerns regarding Turkey's still large external imbalances (the current account deficit will top 7% of GDP in 2012-13) and reliance on volatile external financing. Investors have largely already accepted Turkey as an investment-grade credit; the yields on the country's 2- and 10-year bonds are trading at record lows, with the 2-year rate now below that of Russia, which has full investment grade status. This improved sentiment has also helped to remove depreciation pressure off the lira, allowing the currency to stabilize around the 1.80-mark versus the US dollar. In fact, the Turkish central bank has begun to voice discomfort with the currency's trend of real appreciation, and has stated that corrective measures could be taken. The bank has also hinted at a policy rate cut in the coming months if disinflation continues and credit growth remains contained.

CZECH REPUBLIC - The economic outlook for the Czech Republic has deteriorated on account of determined fiscal consolidation efforts, higher household savings and weaker external demand, particularly from Germany. The July-September period marked the fifth straight quarter without growth; real GDP contracted 0.3% q/q according to a preliminary estimate and further losses are in sight. In November the Czech National Bank (CNB) lowered its output projections, citing household consumption growth at its slowest pace in two decades. The bank now expects a GDP contraction of 0.9% this year and growth of just 0.2% in 2013. Monetary policy relevant inflation is set to remain subdued (in the lower half of the CNB's 1-3% tolerance range) over the forecast horizon. Correspondingly, the benchmark two-week repo rate was lowered by 20 basis points to 0.05%, with a commitment to leave it at "technical zero" over a longer period and an implication that market interest rates would somehow be lowered further. The CNB is keen to prevent excessive koruna appreciation, as this would further jeopardize net exports (the only positive contribution to GDP), and appears willing to intervene in foreign exchange markets should the need arise. Meanwhile, the embattled coalition government remains staunchly committed to bringing the fiscal deficit below 3.0% of GDP by 2013. A draft budget approved in late November envisions a deficit of 2.9% of GDP (excluding church restitution payments), though the targets for 2014-15 have been relaxed.

SOUTH AFRICA - Faced with the dilemma of fast deteriorating domestic growth conditions and rising inflationary pressures, the South African Reserve Bank (SARB) will maintain an accommodative policy stance over the near term. The SARB left the reference rate unchanged at the last two meetings after reducing it by 50 basis points to a post-apartheid low of 5.0% in July. Real GDP growth slowed more than expected in the third quarter, from 3.1% y/y in April-June to 2.3%. The deceleration was underpinned by a 1.2% y/y contraction in the mining sector, where production fell for a fifth consecutive quarter due to a resurgence in striking activity. However, output also suffered elsewhere in the economy as industrial strife spread to other sectors and slowing activity in Europe and key emerging markets weighed on export demand, bringing ex-mining growth down to 2.5% y/y from 3.3% in the prior quarter. Ongoing labour disruptions have taken a toll on the rand, with the currency now down 8.4% vis-à-vis the US dollar in the year to date (the second worst performing major after the Brazilian real). Ahead of the November 22nd SARB meeting, USDZAR touched 8.95 – its weakest level since early 2009 – though has since recovered somewhat after the bank failed to ease policy further. Rand depreciation, commodity price pressures and possible imminent wage settlement increases are fuelling inflationary concerns. The inflation rate edged up to 5.6% y/y in October, near the top end of the SARB's target range.

GLOBAL CURRENCY FORECAST (end of period)

			2011	2012f	2013f	2014f	2012f		2013f				2014f			
							Q3a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
MAJOR CURRENCIES																
	Japan	USDJPY	77	80	87	90	78	80	82	84	85	87	88	89	89	90
	Euro zone	EURUSD	1.30	1.29	1.25	1.21	1.29	1.29	1.27	1.26	1.25	1.25	1.24	1.23	1.22	1.21
		EURJPY	100	103	109	109	100	103	104	106	106	109	109	109	109	109
	UK	GBPUSD	1.55	1.62	1.64	1.66	1.62	1.62	1.62	1.63	1.64	1.64	1.65	1.65	1.66	1.66
		EURGBP	0.83	0.80	0.76	0.73	0.80	0.80	0.78	0.77	0.76	0.76	0.75	0.75	0.73	0.73
	Switzerland	USDCHF	0.94	0.94	0.98	1.03	0.94	0.94	0.95	0.96	0.97	0.98	0.99	1.01	1.02	1.03
		EURCHF	1.22	1.21	1.22	1.25	1.21	1.21	1.21	1.21	1.21	1.22	1.23	1.24	1.25	1.25
AMERICAS																
North	**Canada**	USDCAD	1.02	0.97	0.96	0.94	0.98	0.97	0.97	0.97	0.96	0.96	0.95	0.95	0.94	0.94
		CADUSD	0.98	1.03	1.04	1.06	1.02	1.03	1.03	1.03	1.04	1.04	1.05	1.05	1.06	1.06
	Mexico	USDMXN	13.94	12.80	13.17	13.28	12.86	12.80	12.91	12.83	12.94	13.17	13.23	13.06	13.11	13.28
		CADMXN	13.65	13.20	13.72	14.13	13.07	13.20	13.31	13.23	13.48	13.72	13.93	13.75	13.95	14.13
South	**Argentina**	USDARS	4.30	6.00	6.50	7.50	4.70	6.00	6.13	6.25	6.38	6.50	6.75	7.00	7.25	7.50
	Brazil	USDBRL	1.87	2.10	2.15	2.20	2.03	2.10	2.11	2.12	2.15	2.15	2.15	2.18	2.20	2.20
	Chile	USDCLP	520	483	497	505	475	483	493	494	495	497	498	500	503	505
	Colombia	USDCOP	1939	1800	1850	1890	1801	1800	1810	1820	1840	1850	1860	1870	1880	1890
	Peru	USDPEN	2.70	2.57	2.49	2.45	2.60	2.57	2.55	2.53	2.51	2.49	2.49	2.48	2.45	2.45
	Venezuela	USDVEF	4.29	5.15	5.15	6.70	4.29	5.15	5.15	5.15	5.15	5.15	6.70	6.70	6.70	6.70
ASIA / OCEANIA																
	Australia	AUDUSD	1.02	1.04	1.06	1.09	1.04	1.04	1.05	1.05	1.06	1.06	1.07	1.07	1.08	1.09
	China	USDCNY	6.30	6.25	6.10	6.04	6.28	6.25	6.25	6.20	6.15	6.10	6.09	6.07	6.06	6.04
	Hong Kong	USDHKD	7.77	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
	India	USDINR	53.1	53.5	52.3	51.8	52.9	53.5	53.2	52.9	52.6	52.3	52.1	52.0	51.9	51.8
	Indonesia	USDIDR	9069	9700	9600	9400	9591	9700	9675	9650	9625	9600	9550	9500	9450	9400
	Malaysia	USDMYR	3.17	3.05	2.98	2.95	3.06	3.05	3.03	3.02	3.00	2.98	2.97	2.97	2.96	2.95
	New Zealand	NZDUSD	0.78	0.81	0.83	0.84	0.83	0.81	0.81	0.82	0.82	0.83	0.83	0.84	0.84	0.84
	Philippines	USDPHP	43.8	41.5	41.0	40.5	41.7	41.5	41.4	41.3	41.1	41.0	40.9	40.8	40.6	40.5
	Singapore	USDSGD	1.30	1.23	1.20	1.19	1.23	1.23	1.22	1.21	1.20	1.20	1.19	1.19	1.19	1.19
	South Korea	USDKRW	1152	1105	1075	1050	1111	1105	1098	1090	1083	1075	1069	1063	1056	1050
	Thailand	USDTHB	31.6	30.8	30.0	29.8	30.8	30.8	30.6	30.4	30.2	30.0	29.9	29.9	29.8	29.8
	Taiwan	USDTWD	30.3	29.3	28.8	28.4	29.3	29.3	29.1	29.0	28.9	28.8	28.7	28.6	28.5	28.4
EUROPE / AFRICA																
	Czech Rep.	EURCZK	25.6	25.0	24.5	24.0	25.1	25.0	24.9	24.8	24.6	24.5	24.4	24.3	24.1	24.0
	Iceland	USDISK	123	124	122	120	124	124	124	123	123	122	122	121	121	120
	Hungary	EURHUF	315	285	280	278	285	285	284	283	281	280	280	279	279	278
	Norway	USDNOK	5.98	5.65	5.30	5.20	5.73	5.65	5.60	5.50	5.40	5.30	5.28	5.25	5.22	5.20
	Poland	EURPLN	4.47	4.20	4.00	3.92	4.12	4.20	4.15	4.10	4.05	4.00	3.98	3.96	3.94	3.92
	Russia	USDRUB	32.1	31.1	31.8	32.2	31.2	31.1	31.3	31.5	31.6	31.8	31.9	32.0	32.1	32.2
	South Africa	USDZAR	8.09	8.70	8.40	8.50	8.31	8.70	8.63	8.55	8.48	8.40	8.43	8.45	8.48	8.50
	Sweden	EURSEK	8.92	8.50	8.30	8.10	8.44	8.50	8.45	8.40	8.40	8.30	8.25	8.20	8.15	8.10
	Turkey	USDTRY	1.89	1.80	1.75	1.73	1.80	1.80	1.79	1.78	1.76	1.75	1.75	1.74	1.74	1.73

f: forecast a: actual

International Research 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. Economic Research

Derek Holt
derek.holt@scotiabank.com

Devin Kinasz
devin.kinasz@scotiabank.com

Dov Zigler
dov.zigler@scotiabank.com

Adrienne Warren
Adrienne.warren@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

Scotiabank Economics

Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: (416) 866-6253 Fax: (416) 866-2829
Email: scotia.economics@scotiabank.com