Foreign Exchange Outlook

Global growth dynamics, renewed Italy-centered volatility in Europe, persistent risk re-pricing within the universe of major currencies, ongoing intervention by central banks around the world and credit differentiation amongst emerging-market economies are some of the key drivers of capital flows in foreign exchange markets.

The USD regained an appreciating bias against all peers supported by improving domestic demand, industrial production impetus and encouraging housing market activity. Major commodity-linked currencies such as the CAD and AUD adopted a defensive stance. The JPY remains fragile aided by government action. The prolonged GBP weakening phase may be somewhat tempered by renewed EUR weakness. Within the core emerging-market world, the CNY, BRL and the MXN retain a stable to appreciating bias in the near-term.

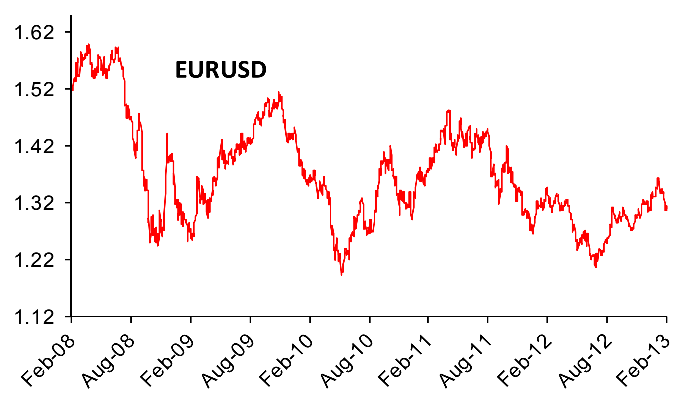
Forecast Changes

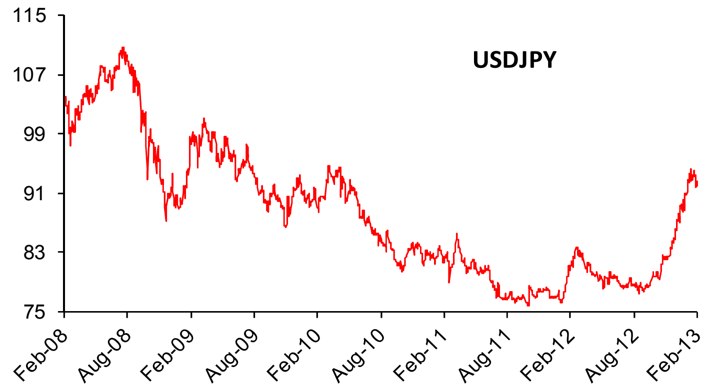
Americas	• **USD** – We expect the USD to bear the brunt of G4 currency re-pricing; and accordingly see the USD strengthening against EUR, GBP and JPY. • **CAD** – On the back of a deterioration in the domestic outlook, rising concerns over the Canadian housing sector, ongoing complexities in North American oil pricing as well as a less hawkish Bank of Canada, we have revised our CAD profile lower . • **MXN** – We expect a slightly weaker profile for the MXN, as a result of more dovish central bank rhetoric and our expectation that the authorities may cut the reference rate by mid-year.
Asia / Pacific	• **AUD** – We have softened the near-term AUD outlook; but made no change to an appreciating trend.
Europe	• **GBP** – Market sentiment has shifted quickly against GBP on the back of a fundamentally dovish shift at the Bank of England, namely to tolerate above-target inflation for longer. Accordingly, we have weakened our GBP outlook. • **TRY** – We have incorporated a slightly weaker end-of-year rate for 2013.

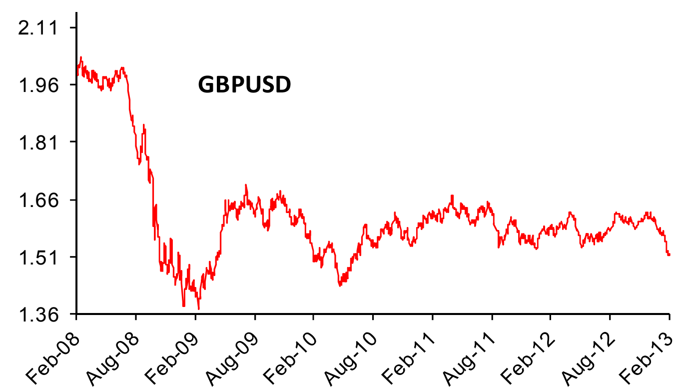
Table of Contens

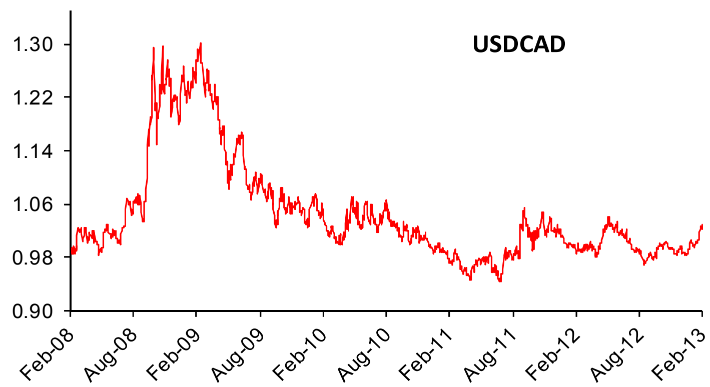
Core Exchange Rates

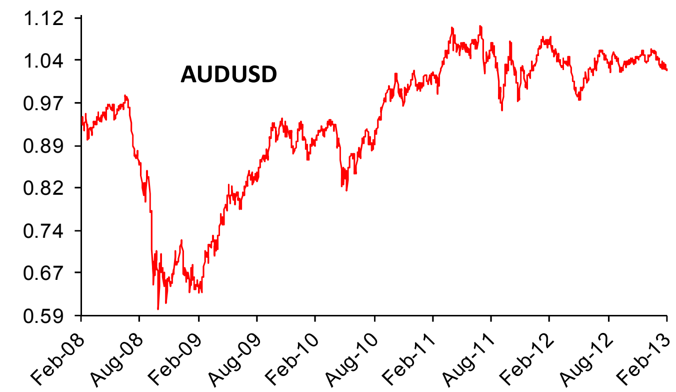
February 28, 2013		Spot	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
EURUSD	Scotiabank	1.31	1.30	1.29	1.28	1.27	1.26	1.26	1.25	1.25
	Consensus*		1.34	1.32	1.31	1.30	1.29	1.29	1.29	1.28
USDJPY	Scotiabank	92.6	92	93	94	95	95	96	97	98
	Consensus*		92	92	92	92	92	92	92	92
GBPUSD	Scotiabank	1.52	1.51	1.49	1.47	1.45	1.45	1.45	1.44	1.44
	Consensus*		1.58	1.58	1.57	1.57	1.57	1.57	1.57	1.57
USDCAD	Scotiabank	1.03	1.04	1.04	1.02	1.01	1.01	1.00	1.00	0.99
	Consensus*		0.99	0.99	0.99	0.99	0.99	1.00	1.00	1.01
AUDUSD	Scotiabank	1.02	1.02	1.02	1.04	1.04	1.06	1.06	1.08	1.08
	Consensus*		1.04	1.03	1.02	1.01	1.01	0.99	0.98	0.97
USDMXN	Scotiabank	12.78	12.87	12.73	12.77	12.93	12.80	12.87	12.95	13.14
	Consensus*		12.67	12.58	12.50	12.42	12.40	12.49	12.58	12.67

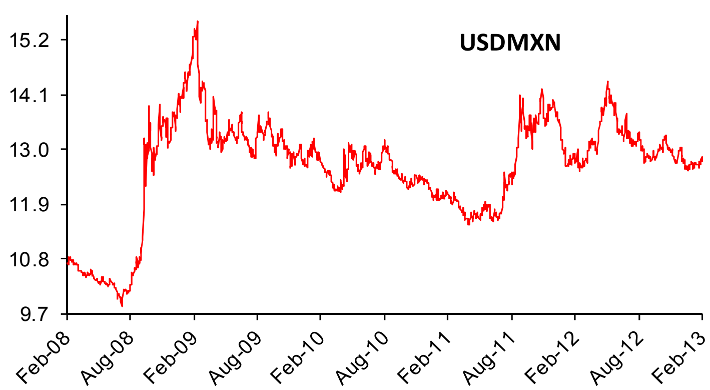












(*) Source: Consensus Economics Inc. February 2013

MARKET TONE & FUNDAMENTAL FOCUS

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

Global growth dynamics remain a key driver of capital flows in currency markets; indeed, signs of more broad-based global economic recovery will likely become more evident in the second half of the year. Meanwhile, Italian country risk has resurfaced on the back of fragile governance issues and debt-sustainability concerns. North America is, once again, the center of attention amongst global market participants. The US dollar (USD) has regained strength as the euro (EUR) resumes a weakening trend, the Japanese yen (JPY) continues on an officially guided depreciation path and the British pound (GBP) reflects a renewed softening of macroeconomic fundamentals. Central bank intervention through large-scale asset purchases or outright trading in local currency markets remains as active as ever. The relentless pursuit of high yielding investment options remains a constant, yet not every emerging-market currency enjoys a bright outlook.

The USD is in demand. Improved US economic conditions, coupled with a bullish trend in equity markets amidst prolonged weakness in the Eurozone, is a major driver of flows to the USD. Government-related fiscal retrenchment will weigh on growth prospects moderately throughout the year, yet improving housing market conditions and auto industry activity will partly offset some of this restraint, pushing economic growth higher from the later part of the year well into 2014. Improving industrial production prospects coupled with a competitive exchange rate will also reinforce this US recovery phase. The US still needs to address serious structural fiscal issues, yet on a relative basis, the Federal Reserve (Fed) is likely to lead both the Japanese and UK central banks in the next tightening cycle. This, combined with a shifting trade balance and sentiment, should spur USD gains in 2013.

The Canadian dollar (CAD) adopted a defensive stance of late, particularly influenced by investor attention on the housing market, softness in sales data and adjustments to energy prices and bilateral trade prospects. In addition, the Bank of Canada has softened its hawkish stance. Together this has forced a downward re-pricing of CAD. We expect a moderate deceleration in the housing market, which will weigh on growth; however we do expect pricing in North American oil to turn more favourable for Canada. In addition, an improving US growth profile is encouraging. Still we are introducing a lower CAD profile into our forecast, reflecting deterioration in the overall fundamentals.

As for the Mexican peso (MXN), the more substantial recent development is the widespread belief that the central bank is ready to execute a one-off downward adjustment to its monetary policy rate from the current level of 4.50% by the end of the second quarter of the year. While this move is somewhat discounted by investors, the MXN may temporarily receive a higher dose of volatility until investors' expectations of further policy shifts are stabilized.

Italy's February election, which clouded the austerity-led reform agenda, suggests that Europe is entering a more volatile period, which will complicate the recovery and the trading of EUR. In addition, deterioration in the outlook for France is a concern to rating agencies and market participants. The combination of politics, uncertainty and sentiment are likely to weigh on EUR in 2013, pushing the currency off its highs. In the UK, GBP has taken over leadership of year-to-date losses, outpacing even JPY, as Bank of England policy enters a new phase, tolerating above-target inflation for longer and entertaining increasingly aggressive measures. We have are now bearish on the outlook for sterling. The UK credit outlook maintains a weakening tone as reflected by Moody's recent downgrade of the country's rating by one notch to "Aa1" on February 22nd. Moreover, both Standard and Poor's and Fitch maintain a "negative" outlook on UK's long-term foreign-currency credit ratings.

The JPY remains on the defensive. Japanese economic recovery prospects will be influenced by persistence of tensions in bilateral relations with China, a swift policy shift to generate inflation and a competitiveness boost from a prolonged phase of currency weakness. Aggressive pro-growth fiscal and monetary stimulus from the Japanese authorities will inject a dose of mild inflation and faster growth by the end of the year. As market participants await the beginning of Bank of Japan's new leadership, USDJPY has entered a period of rest; however, we expect USDJPY to trade higher into year-end. As for the Chinese Renminbi (CNY), we maintain a positive view for Chinese growth prospects which will translate into sustainable capital flows to be partly offset by a moderate pace of currency appreciation resulting from heavy central bank intervention. Thailand offers a promising growth outlook on the back of a surprisingly strong rebound in economic activity during the last months of 2012. We estimate that the easing cycle in Australia has been completed, while GDP growth in China is expected to reach 8.1% in 2013, in turn supporting Australian exports and the Australian dollar (AUD).

The emerging-market universe presents a mixed outlook. Both China and Brazil are committed to *high pro-growth* policies which will have a positive impact on the currency value. Commodity market strength and attractive high yields are no longer a guarantee of currency performance, as demonstrated by the recent weakness affecting the South African rand (ZAR) and the Turkish lira (TRY). Nevertheless, financially integrated economies with manageable countrywide leverage positions and balanced growth policies continue to benefit from the unprecedented longevity of extremely low global interest rates and stable currency trends. In this category are: the Chilean (CLP) peso, the Peruvian Sol (PEN) and the Brazilian real (BRL) in the Americas; and, for the time being, the Russian ruble (RUB) in Europe.

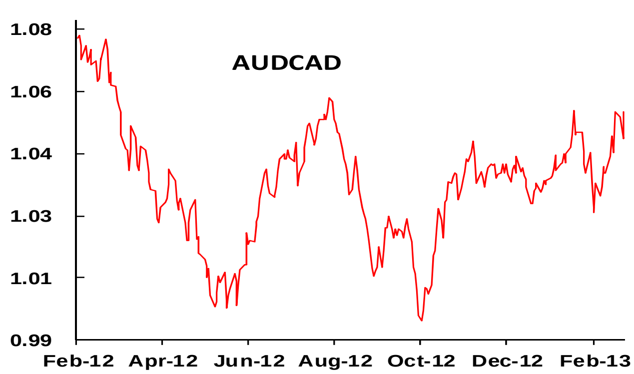
CANADA
Currency Outlook

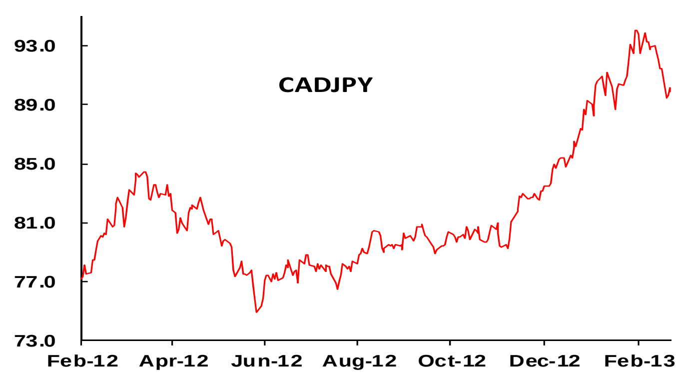
Camilla Sutton +1 416 866-5470
Eric Theoret +1 416 863-7030

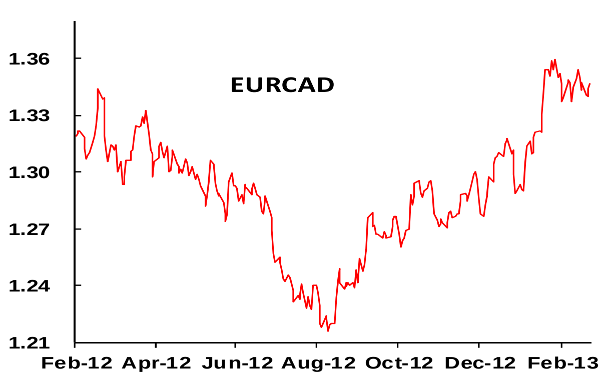
CANADA – The Canadian dollar (CAD) struggled in February, losing almost 3% during the month. For Canada the domestic picture has deteriorated as the housing market cools, a strong currency restricts export gains and the government undergoes fiscal retrenchment; all while US sequestration threatened the outlook for US growth. Domestically, the Canadian housing market is on course to moderate, what should be viewed as a welcome shift; however the moderation will also weigh on GDP growth in 2013. We do not expect a housing collapse, but do recognize that high household leverage poses a risk to financial stability during a period of moderate real estate contraction. The risks around housing have been incorporated into our lowered CAD profile. The second major issue for Canada is the energy sector. Canadian oil prices have suffered under infrastructure (pipeline and refining limitations), which is weighing on the perception of Canadian oil dynamics. The spread between Brent oil (where Canada imports) and Western Canadian Select (where Canada exports) is at US$45; off its December $65 peak, but still elevated on a historical basis. Capacity constraints into Cushing are expected to ease, which should improve pricing; however the real challenge for Canada is securing trade routes globally that balance economic and environmental concerns. Accordingly, the dynamics around Canada's large oil reserves are no longer seen as a substantial CAD positive. Looking out to 2013, Canadian GDP growth is expected to come from business investment and consumption, with the drag from net exports decreasing. However, Canada is expected to generate GDP growth of just 1.6% in 2013, under the US' 2.0%. Based on shifting fundamentals and some signs of stabilization in household debt, the Bank of Canada has softened its hawkish stance and the market has gone from pricing in the potential of interest rate hikes this year to a small probability of a cut. Together this has forced the repricing of CAD, which we have now embedded into our forecast through a weaker CAD profile. Foreign flows that sought out Canada's triple A rating were an important driver of CAD strength in 2012; however as the crisis in Europe is viewed as having peaked, these have dissipated; removing a pillar of CAD strength. Taken together, the outlook for the Canadian economic backdrop and CAD has dampened. Accordingly we have lowered our forecast to a year-end target of 0.99 (or in USDCAD terms 1.01).

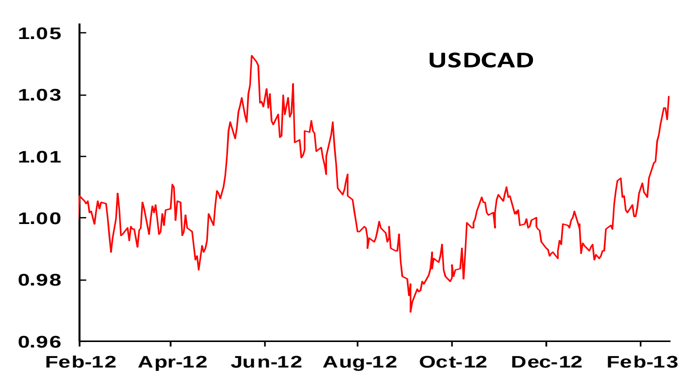
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 28-Feb	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
AUDCAD	1.05	1.06	1.06	1.06	1.05	1.07	1.06	1.08	1.07
CADJPY	89.91	95.7	96.7	95.9	96.0	96.0	96.0	97.0	97.0
EURCAD	1.35	1.35	1.34	1.31	1.28	1.27	1.26	1.25	1.24
USDCAD	1.03	1.04	1.04	1.02	1.01	1.01	1.00	1.00	0.99









Canada and United States

Fundamental Commentary — Adrienne Warren +1 416 866-4315

UNITED STATES - The US economy is showing some renewed signs of pickup after stalling out in the final quarter of 2012, the latter due in part to temporary factors related to defense spending cuts and Hurricane Sandy production disruptions. Retailers and home sellers reported moderate sales gains in January, suggesting the improving momentum in household spending and housing activity can be maintained even in the face of the dampening effect of the January 1 increases in taxes on payrolls and high-income earners. Indeed, consumer confidence rebounded sharply in February on improved optimism over labour market conditions. Businesses also appear more confident despite the approaching sequestration deadline, with capital goods orders continuing to trend higher last month. A revival in manufacturing and oil & gas output are supporting industrial production gains. At the same time, US exporters remain constrained by weak demand in their major foreign markets, most notably Europe. Inventory adjustments and the timing and impact of federal spending reductions could add considerable output volatility in the near-term. However, as fiscal uncertainty dissipates, the US recovery is expected to gather strength by the second half of 2013 and into next year, with consumers continuing to unleash pent-up demand for consumer durables, autos and housing and businesses continuing to ramp up productivity-enhancing investments and adding cautiously to payrolls. Exporters also should benefit from moderately stronger global growth alongside improved US manufacturing competitiveness, though rising US import demand suggests that net trade is unlikely to add significantly to growth in 2013-2014. Overall, US GDP is expected to average around 2% this year and 2¾% in 2013. Significant excess capacity in labour and product markets will continue to restrain inflation and wage pressures.

CANADA - The Canadian economy has lost considerable momentum, with real GDP advancing at below a 1% annualized rate in the second half of 2012. Overall activity is being held back by a more cautious consumer, a softening housing market and ongoing fiscal restraint. Indebted households have scaled back their spending, punctuated by a sharp decline in retail sales in December. Home sales and residential construction also have weakened as high prices and tighter mortgage rules erode affordability, notwithstanding continued low borrowing costs. A weakening in both labour market conditions and consumer sentiment in early 2013 suggests consumers will stay on the sidelines for now. Meanwhile, businesses are scaling back their capital spending plans, despite strong corporate balance sheets and ongoing competitive pressures. The pullback is most notable in the mining and oil & gas sector where softer prices have slowed drilling and expansion plans. In contrast, the investment outlook remains relatively solid in a number of other industries, including manufacturing and transportation. Exports and manufacturing shipments overall remain weak, constrained by the strong Canadian dollar and the sluggish pace of global growth, though a number of sectors, including autos, machinery and forestry, are benefiting from the recovery in US domestic demand. We continue to expect a firmer recovery to take hold later in the year and into 2014, with strengthening US and global growth supporting a stronger trajectory for exports and business investment, while household demand should remain relatively subdued. Modest wage growth and intensifying retail competition will continue to constrain inflation pressures. Headline inflation has broken below the lower bound of the BoC's 1-3% target range, while core inflation is testing historic lows at just 1.0% in January.

Monetary Policy Commentary

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

UNITED STATES - Scotiabank expects the Fed to continue with its current pace of asset purchases (US$85/bn per month) through 2013 – in spite of commentary from some regional Fed presidents to the contrary. We think that Chairman Bernanke's recent semi-annual testimony before Congress made clear that the Fed leadership intends to continue with monetary policy stimulus until substantial progress is seen in labor markets and that it believes that it has the necessary tools to withdraw said stimulus at the appropriate time. We expect markets will view the Fed's interest rate thresholds based on employment and inflation criteria as consistent with its earlier date-based guidance over the coming months (i.e. not implying rate hikes until mid-2015). We see risk that the size of the Fed's monthly purchases could begin to impact market liquidity if the current pace of buying continues into 2014.

CANADA - The Bank of Canada (BoC) currently guides that "the timing (of rate hikes)… is less imminent than previously anticipated." It attributes its more dovish stance to "constructive" developments with respect to household imbalances, very low inflation, and therefore a widened forecast for the output gap, which it now expects will reflect spare capacity through mid-2014 – all trends that we think may persist for longer than the BoC currently anticipates, and which could be elaborated upon further in upcoming BoC communications, causing markets to view the BoC as even less likely to hike rates. As a result, Scotiabank's forecast is for the BoC to hold the overnight rate at 1% throughout our full forecast horizon spanning 2013 and 2014 because we think that even its moderated economic forecasts are too optimistic. Moreover, we think that loose monetary policy on a global basis will condition the BoC's flexibility.

EUROPE
Currency Outlook

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

EURO ZONE - EUR had a strong start to 2013; however this has faded, and the currency is entering March down 1% year-to-date. Europeans appear to be moving towards a phase of rejecting reforms in favour of uncertainty; budgetary deficits are making slow progress and there has been an easing in EUR supportive flows. In addition, the technical outlook for EUR is bearish, as the strong upward July to January trend line has been broken. We expect EUR to trend lower in 2013; closing Q113 at 1.30.

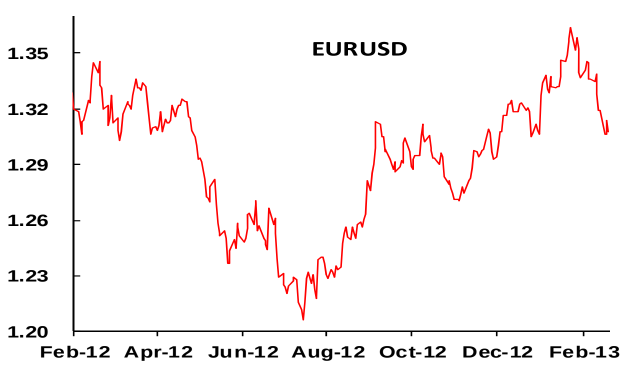
UNITED KINGDOM - Leading into March, GBP was the worst performing major currency, having lost almost 7% and underperforming even JPY. The Bank of England's decision to tolerate above target inflation for longer has been the main culprit behind GBP weakness. Technically, the outlook for GBPUSD is bearish, however at the end of February, it had struggled to break below 1.50. Sentiment is bearish, with the CFTC reporting in late February, a US$2.2 billion short position. We hold a Q113 GBPUSD forecast of 1.51.

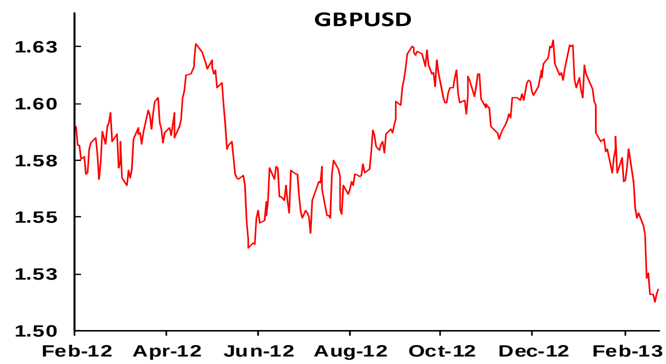
SWITZERLAND - As the market adopted the view that the European crisis had peaked, pressure on the Swiss franc (CHF) eased, sending the currency to multi year lows against EUR in early 2013. The Swiss National Bank (SNB) has not wavered with the economic need for the EURCHF floor or the level, leaving it as a credible policy. To date, the SNB has also successfully deflected significant criticism from those looking for culprits in the 'currency wars'. We expect EURCHF to close Q113 at 1.23.

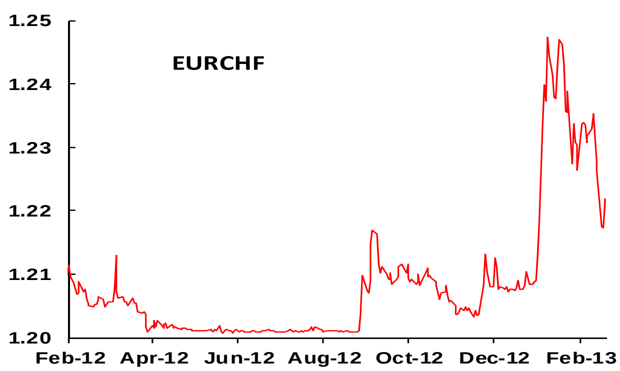
SWEDEN - High unemployment and no inflationary pressures is a dangerous combination for a currency. Still, entering March, SEK was up 1.0% year-to-date and outperforming all the other primary currencies. Technically, SEK is trending higher and sentiment remains bullish. We hold a Q113 EURSEK target of 8.60.

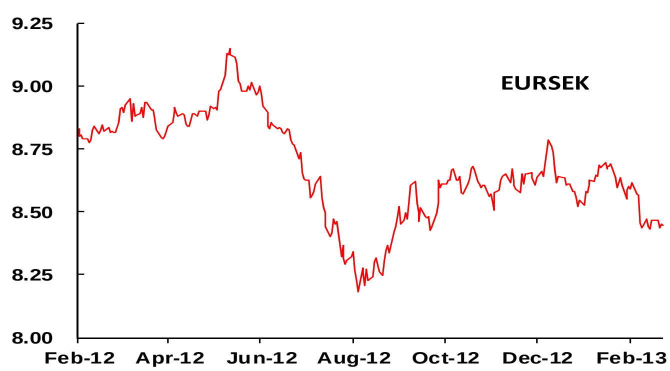
Currency Trends

FX Rate	Spot 28-Feb	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
EURUSD	1.31	1.30	1.29	1.28	1.27	1.26	1.26	1.25	1.25
GBPUSD	1.52	1.51	1.49	1.47	1.45	1.45	1.45	1.44	1.44
EURCHF	1.22	1.23	1.21	1.21	1.22	1.23	1.24	1.25	1.25
EURSEK	8.45	8.60	8.50	8.40	8.30	8.25	8.20	8.15	8.10









EUROPE
Fundamental Commentary

Sarah Howcroft +1 416 862-3174

EURO ZONE - Fourth-quarter GDP results in the euro area were slightly worse-than-expected (real output dropped 0.6% q/q), however, the underlying story remains intact. Economic weakness will persist into the first quarter – though relative national performances appear to have again diverged – followed by a slow return to growth over the medium term. We expect an overall contraction of 0.3% for the year, while we maintain our forecast for 1.0% growth in 2014. Consumer and business sentiment surveys were more varied this month after a widespread improvement in January. Most confidence and expectations surveys continued an upward trend, while the PMIs stalled (although, the Germany manufacturing PMI saw further improvement, breaking through into expansionary territory for the first time since September 2011). Of note, the region-wide jobless rate appears to be peaking, and youth unemployment has moderated in some of the most distressed countries (Spain and Greece are the exceptions). Meanwhile, credit demand remains muted, with private sector lending falling 0.9% y/y in January (non-financial corporate loans dropped 2.5%). The muddy election results in Italy have weighed on the bond yields and intensified the risk of structural reform inertia in that country. Inflation has slowed, with price pressures being dampened by recent euro strength (although February saw a partial correction), and further moderation is expected on account of the recent plunge in oil prices. We expect limited revisions to the European Central Bank's macroeconomic projections in early March.

UNITED KINGDOM - A number of developments have weighed heavily on the pound sterling (GBP) over the last several weeks, pushing the currency down 6.7% year-to-date versus the USD. Among the factors undermining the GBP are i) the improvement in global risk sentiment following the US fiscal cliff agreement, ii) relatively less dovish signals from the Federal Reserve, iii) market speculation of an impending move toward nominal GDP targeting at, and hence more stimulus from, the Bank of England (BoE), iv) sticky inflation (the headline rate remained at 2.7% y/y for a fourth month in January), v) the risk of a triple dip recession, vi) a shift in voting at the latest BoE meeting, with more Monetary Policy Committee (MPC) members favouring additional quantitative easing, and finally, vii) the loss of the UK's triple-A credit rating from Moody's. The downgrade – based on poor medium-term growth prospects and fiscal uncertainty in the context of prolonged austerity - came as no real surprise, though with the precedent now set, it will likely be followed by corresponding moves by S&P and Fitch. With respect to the MPC vote, while the shift may simply be a strategic move to guide market expectations without actually having to act, the BoE does have a tendency to surprise and we would not rule out further QE sometime in the coming months. An appearance by future governor Mark Carney before a UK treasury committee partly assuaged fears of a BoE regime shift, with Carney declaring his faith in flexible inflation targeting. Upcoming event risk will surround the release of the 2013 budget on March 20th.

SWITZERLAND - Recent indicators for the Swiss economy are mixed. Real exports, a series which has been fairly volatile over the last year, bounced back 3.7% m/m in January (after a 1.8% fall in December), helped by Swiss franc weakening in the early part of the year. Furthermore, the January manufacturing PMI jumped up 3 points to record its first print above 50 (implying net expansionary conditions) since August 2011, with firms in many industries anticipating a modest increase in sales over the next six months. The ZEW economic sentiment survey for February reached its highest level since June 2010. On the other hand, the unemployment rate was revised up a tick to 3.1% in December, staying at that level in January, and the KOF leading indicator dropped again in February to its lowest since last May. We assess that the Swiss economy will follow the European and global recovery trends, with growth picking up modestly as the year progresses after an initial period of fragility. Nevertheless, the annual growth rate will remain below potential over the medium term; we anticipate an average expansion rate of around 1% in 2013-14. Consumer prices continued to drop in January with deflation of 0.3% y/y. However, persistent signs of overheating in the property market will likely keep the Swiss National Bank from raising the minimum exchange rate floor from EURCHF 1.20. The UBS Real Estate Bubble Index reached a nearly 22-year high of 1.11 in the fourth quarter, up from 1.02 in the prior three months (readings of 1-2 indicate a risk of a bubble).

SWEDEN - Though downside growth risks remain prevalent, the Swedish central bank appears to have reached the bottom of its monetary easing cycle. The rate-cutting campaign has seen a full percentage point shaved off the benchmark repo rate since December 2011. At the most recent meeting on February 13th, the rate was left unchanged given increasing optimism for a stabilization on the growth side, as well as continued concerns of ever-rising household debt levels in a low interest rate environment. The krona leapt sharply following the decision (with divided expectations for another rate cut), appreciating by 1.5% against the euro. After a likely contraction in real output in the fourth quarter of 2012 (in q/q terms), signs of improving economic conditions have emerged in early 2013. These include increasing confidence as measured by the Economic Tendency Survey and a recuperation in the trade surplus after a steep fall in December. Nevertheless, external uncertainties remain high, particularly those related to the euro crisis, but also with respect to the US fiscal situation and emerging market growth. The Riksbank expects the unemployment rate (at 8.0% in January) to rise slightly this year, with the labour market lagging the output cycle. Real GDP growth will likely stay subdued around 1¼% in 2013. A pickup in investment spending will push the overall growth rate up to the 2½-3% range in 2014. Inflation was flat in January, up from -0.1% y/y in the prior two months, but lower than the Riksbank's projection for a 0.3% gain.

ASIA / PACIFIC
Currency Outlook

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

JAPAN - JPY has undergone a re-pricing on the back of Prime Minister Abe's policies, specifically with regards to his nomination for Governor and Deputy Governor to the BoJ. The new board is bound to implement more aggressive easing policy, which should ultimately weigh on JPY. February was a period of rest for the currency, whose depreciation halted in tandem with the G7 statement on FX. We are bearish JPY over the medium-term; but expect it to close the quarter where it entered March (USDJPY at 92).

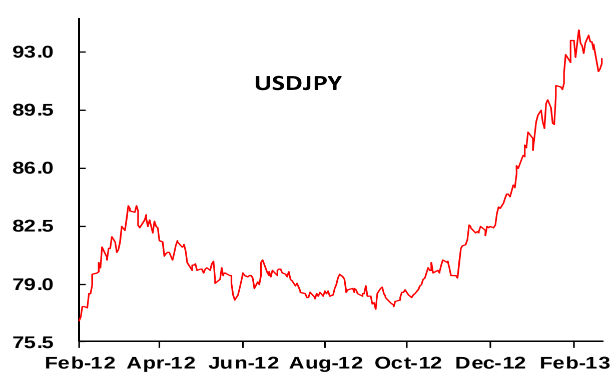
CHINA - The Chinese renminbi is strong leading into March; however it has yet to reach its November 2012 highs. As the outlook for the USD turns more favourable, the outlook for CNY shifts as well. Forwards are pricing in the risk of CNY depreciation in 2013; however we have made no change to our view that CNY will continue on a slow pace of appreciation. We hold a USDCNY Q1 2013 target of 6.10.

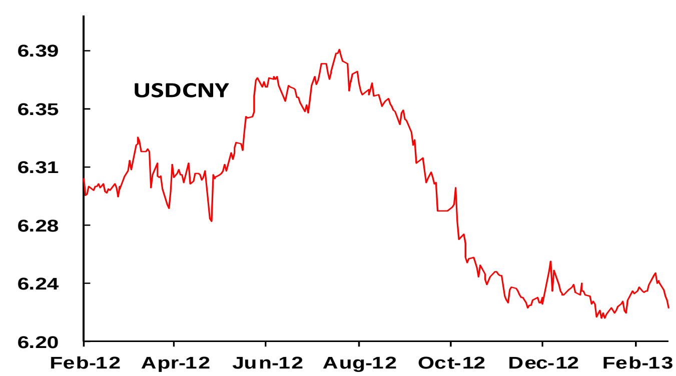
AUSTRALIA - AUD has weakened on fears that the RBA will cut rates in response to a soft domestic backdrop and the peaking in mining boom, combined with the easing in foreign flows into Australia (seeking its strong triple-A rating). Sentiment remains bullish, with the CFTC reporting in late February a net long position of US$4.6 billion. Technically, AUD is in a broad range, trading at is two-year mid-point at the end of February. We hold a relatively bullish view of AUD, expecting it to close Q1 2013 at 1.02.

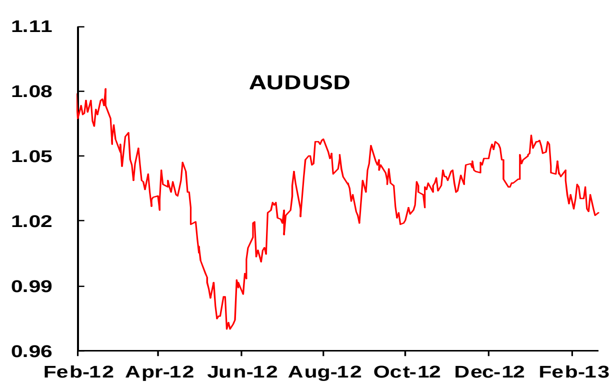
NEW ZEALAND - Market participants are bullish NZD, holding a net long position of US$2.1 billion (CFTC) at the end of February. Positions this large are a warning. In the last 3-years, net long NZD positions over $2 billion have been followed by periods of NZD weakness. Technically, the outlook for NZD has also softened as it broke below its multi-month upward trend in February. Accordingly, NZD is at risk of a brief period of correction before it climbs higher again. We hold a Q1 2013 target of 0.82.

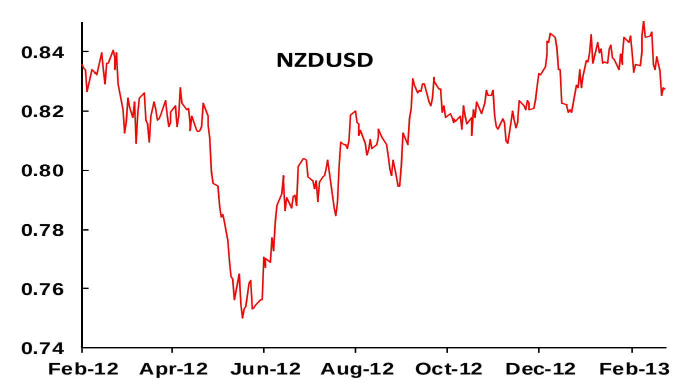
Currency Trends

FX Rate	Spot 28-Feb	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDJPY	92.56	92.0	93.0	94.0	95.0	95.0	96.0	97.0	98.0
USDCNY	6.22	6.22	6.20	6.15	6.10	6.09	6.07	6.06	6.04
AUDUSD	1.02	1.02	1.02	1.04	1.04	1.06	1.06	1.08	1.08
NZDUSD	0.83	0.82	0.84	0.85	0.85	0.85	0.86	0.86	0.86









ASIA / PACIFIC

Fundamental Commentary

Tuuli McCully +1 416 863-2859

JAPAN - Japan's economy remains anemic. Real GDP contracted by 0.1% q/q in the final quarter of 2012, following a 1.0% q/q drop in the July-September period and limiting the economic expansion to 1.9% for 2012 overall. We expect output growth to average slightly over 1% in 2013-14, with recent yen depreciation providing support to the export sector. The Bank of Japan (BoJ) continues its decisive fight against deflation (inflation has remained in negative territory since June 2012), and stays committed to bringing the economy back to a positive growth trajectory. In early February, the BoJ governor Masaaki Shirakawa announced his decision to step down on March 19th, a few weeks before schedule. Key central bank posts have since been filled with policymakers assenting to Prime Minister Shinzo Abe's growth-enhancing economic views. We believe that no new monetary measures will be introduced before the new policymakers have taken office; therefore, the BoJ's March 7th meeting will likely prove uneventful. Early signs indicate that the revitalization efforts are starting to bear some fruit: confidence indicators and the Nikkei stock index have reached multi-year highs. Because overall sentiment and expectations will play a key role in the success of the government's agenda, the recent developments should not go unnoticed. In the context of the significant yen depreciation and very accommodative monetary policy, we have revised our inflation forecasts upwards for Japan, and now assess that consumer price gains will be close to 1% y/y by the end of 2014.

CHINA - China's economic growth prospects are promising; data released early in 2013 confirm that the increased momentum seen at the end of 2012 is carrying over to the current year. In terms of domestic demand, investment continues to be a key driver of economic growth, though rising incomes, robust job creation, and manageable inflation are boosting the economic contribution of household spending; indeed, vehicle and retail sales as well as loan growth point to increasing momentum in private consumption. Meanwhile, export growth has been accelerating in recent months, though strong January data is subject to Lunar New Year distortions. We expect China's real GDP to increase by 8.1% in 2013 and by 8⅓% in 2014, an improvement from the 7.8% gain recorded in 2012. Nevertheless, economic growth will fall short of the 9.7% average rate over the past 10 years. Inflation will likely accelerate moderately from the January level of 2.0% y/y, reaching 3.3% y/y by the end of the year. Nonetheless, still-persisting deflationary pressures further up the distribution chain (producer prices dropped 1.6% y/y in January) alleviate any concerns regarding significant upside pressures on prices. The People's Bank of China's benchmark 1-year lending rate has reached its cyclical bottom at the current level of 6.0%. In fact, a monetary normalization phase is gradually approaching; in February, the central bank drained liquidity from the market for the first time since June as precautionary measures to curb future inflationary pressures and limit excess increases in home prices.

AUSTRALIA - Australian monetary policy is set to remain accommodative in the coming quarters as evidence of an economic pick-up in the non-mining sector remains muted. While resource exports are performing well, household spending prospects are limited by the soft labour market. Monetary authorities highlight that previous interest rate reductions (the benchmark interest rate was cut by 175 basis points between October 2011 and December 2012 to the current level of 3.0%) will continue to work their way through the economy. We maintain our view that the monetary easing cycle has now reached its bottom. In addition, inflation will likely continue to climb moderately higher in the near future from the end-2012 level of 2.2% y/y, though we expect the annual headline rate to remain within the Reserve Bank of Australia's target range of 2-3% through 2014. Nonetheless, with the policy rate being the highest among major advanced economies, monetary policy space continues to represent a tool for the Australian authorities to address any persistence in economic underperformance. Despite the fact that the approaching peak in resource investment will slow Australian economic growth prospects, the nation will maintain relatively fast rates of economic expansion in comparison to many other advanced economies, growing on average by close to 3% through 2014 (after expanding by an estimated 3.5% in 2012). The country is moving into election mode; the next parliamentary election will take place on September 14th, 2013.

NEW ZEALAND - New Zealand's outlook is gradually brightening. The country's real GDP expansion will likely average 2½% in 2013-14 following an estimated gain of 2.1% in 2012. The housing market is recovering along with improving consumer and business confidence. Domestic demand continues to be the main economic driver, driven by earthquake-related reconstruction investment, while government spending will be constrained by fiscal consolidation efforts. Meanwhile, subdued external conditions will weigh on the overall performance as exporters battle with still-weak global demand and a strong currency. The Reserve Bank of New Zealand (RBNZ) will likely maintain an accommodative monetary stance in the coming quarters, keeping the Cash Rate unchanged at a record low of 2.5% through 2013, before a gradual monetary normalization phase commences. An economic revival has yet to be reflected in inflationary pressures, with consumer price inflation at end-2012 staying below the lower end of the RBNZ's 1-3% target range. The country will likely continue to record modest trade surpluses through 2014, though a wide deficit on the income account (reflecting profit outflows of foreign-owned companies as well as private sector external debt servicing payments) will maintain a shortfall in the current account, averaging 5¾% of GDP in 2013-14. Regardless, the New Zealand dollar remains strong vis-à-vis the US dollar as the country continues to offer more attractive rates of return than most other advanced economies.

DEVELOPING ASIA
Currency Outlook

Sacha Tihanyi + 852-2861-4770

INDIA - Positive sentiment regarding the monetary easing cycle has essentially been priced in to INR. We look towards credible fiscal consolidation to help build further confidence in INR, and minimize the risk of sharp portfolio outflows that would result from the loss of India's investment grade rating. The challenge posed by the external accounts remains significant and remains the key medium term risk. Any event that interrupts financial account inflows will be exacerbated by the trade deficit and hinder INR's ability to sustain stronger levels. We target 53.80 by the end of Q2.

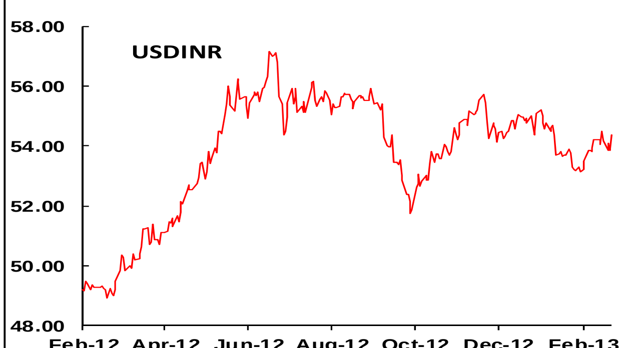
KOREA - The weakening in the yen continues to hamper the won, despite the fact that Korean equities have not seen the severe foreign selling pressure that was experienced in January. As a result, USDKRW has managed to consolidate in a 1075 through 1100 range. Further sustained and rapid near term yen depreciation could hinder the won, and lead us to revisit our still constructive fundamental view on the currency. We target 1063 by the end of Q2.

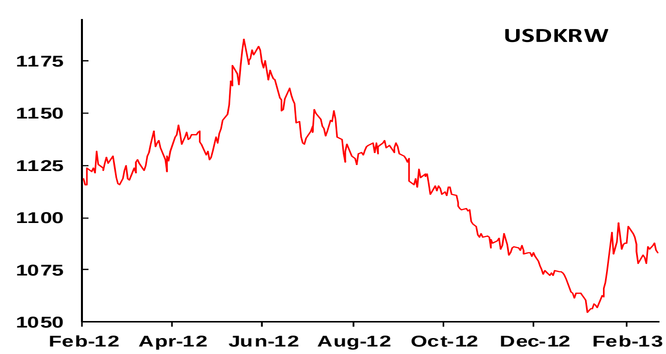
THAILAND - The baht continues to be one of the most stable Asian currencies over the month of January, bolstered by capital inflows on equity market outperformance, and efforts to stabilize the currency after a rather volatile month. Indeed, foreign reserves have fallen by a bit more than 1% through the first half of February, as the trade-weighted USD has strengthened. We think that THB levels are a bit too rich relative to broad FX market dynamics, and we target 30.40 by the end of Q2.

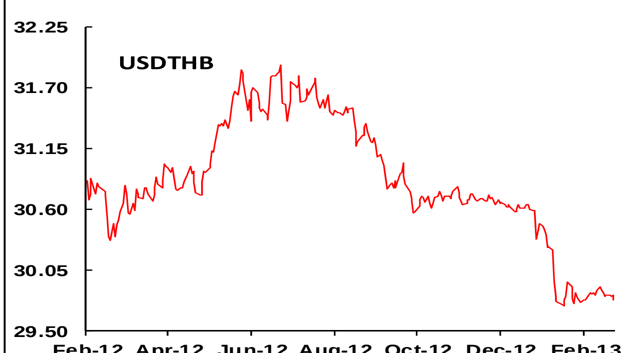
MALAYSIA - Political uncertainty continues to weigh on MYR as the currency has been hurt in line with the underperformance of domestic equities, overwhelming MYR-positive trade flows. Malaysia will continue to be a play on politics as the currency has failed to reflect very supportive economic results such as low inflation and strong GDP growth. We expect concern over the structure of the next government to potentially continue to undermine a fundamentally strong currency, until greater political clarity is achieved. We target USDMYR at 3.03 by the end of Q2.

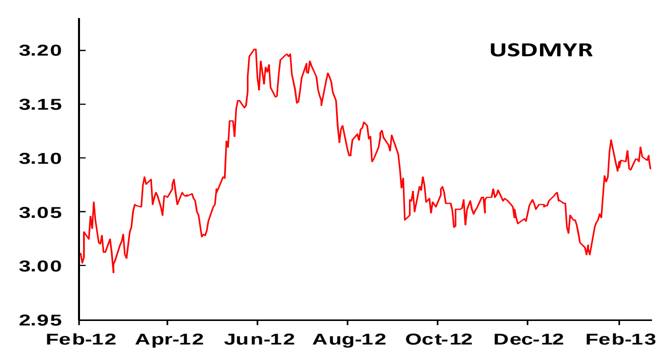
Currency Trends

FX Rate	Spot 28-Feb	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDINR	54.4	54.2	53.8	53.4	53.0	52.7	52.4	52.1	51.8
USDKRW	1082.90	1078	1063	1056	1050	1044	1038	1031	1025
USDTHB	29.8	30.0	30.4	30.3	30.3	30.1	30.0	29.9	29.8
USDMYR	3.09	3.08	3.03	3.01	3.00	2.99	2.98	2.96	2.95









DEVELOPING ASIA

Fundamental Commentary

Tuuli McCully +1 416 863-2859

INDIA - India's economic performance remains subdued, challenged by tight monetary policy, constrained fiscal room and subdued global demand conditions. Real GDP expanded by 4.5% y/y in the final quarter of 2012 compared with a 5.3% gain in the July-September period, limiting overall economic growth to 5.1% in 2012. Performance was mainly supported by private consumption and investment, while net exports continued to be a drag on growth. We expect the country's output to expand by around 6% this year, followed by an acceleration to 6½% in 2014. On February 28th, India unveiled a temperate budget for fiscal year 2013-14 (April-March), which aims to bring public finances onto a more sustainable path while promoting economic growth. The budget targets a fiscal deficit of 4.8% of GDP, down from an estimated 5.2% of GDP in the current fiscal year. While improving government finances to some extent, it can simultaneously be classified as a pro-growth budget as expenditure will remain elevated in order to provide support to the economy. Nevertheless, the budget is fairly prudent considering the fact that general elections are due by May 2014. Inflation has remained on a favourable trajectory, with whole sale price inflation easing to 6.6% y/y in January from 8.1% in September 2012. In the context of a reasonable budget and favourable inflation dynamics, the Reserve Bank of India will likely continue to loosen monetary conditions to encourage investment and thereby support economic growth, reducing the benchmark repo rate by 25 basis points to 7.5% in March.

KOREA - South Korea has a new president; the five year-term of Park Geun-hye from the New Frontier party commenced on February 25th. Her agenda focuses mainly on revising the nation's welfare system, and targeting domestic demand-driven economic growth with an emphasis on services, while moving away from export-dependence that is characterized by the dominance of the country's large conglomerates. For the time being, however, external sector prospects are highly significant for South Korea as exports are equivalent to over 50% of GDP. Economic performance remains subdued with both exports and domestic demand indicators showing mixed signals recently. Nevertheless, with China being Korea's main export destination - purchasing nearly a quarter of all Korean shipments abroad - its economic revival will soon have a more pronounced positive impact on Korean exporters. We expect the nation's output to advance by 2.8% and 3.0% in 2013 and 2014, respectively. Inflationary pressures remain manageable; at 1.5% y/y in January, consumer price inflation remains below the Bank of Korea's 2-4% target range. We expect inflation to remain under the 3% mark through 2014. Monetary conditions will likely remain accommodative in the coming months, with the benchmark interest rate staying at the current level of 2.75%. The Korean won continues to be supported by solid sovereign creditworthiness, a current account surplus (averaging 3⅓% of GDP in 2013-14) and healthy government finances (the country has recorded budget surpluses since 2010).

THAILAND - Thailand's economy continues to perform robustly: real GDP increased by 3.6% q/q (seasonally adjusted, non-annualized) in the final quarter of 2012, taking the overall economic expansion to 6.5% last year. We expect growth momentum to moderate this year as the flood-related re-construction boom wanes, with output gains averaging 4⅓% in 2013-14. While strong household consumption is the main growth driver, Thai exports are showing signs of a broad-based recovery across different sectors. Indeed, a turnaround in export sector performance reflects a pickup in economic momentum in China. Solid growth in private credit indicates that domestic demand will continue to be the economy's cornerstone in the coming quarters. Furthermore, government fiscal stimulus measures, increasing household incomes, supportive labour market, improving consumer confidence, and an accommodative monetary policy stance bode well for the domestic economic outlook. While the Bank of Thailand (BoT) has highlighted that oil prices may cause some inflationary pressures, inflation will likely remain manageable through 2014, near the current rate of 3.4% y/y. Core inflation, at 1.6% y/y, remains comfortably within the BoT's 0.5-3.0% target range. In the context of strong economic growth momentum, the monetary easing cycle has likely reached its bottom. While monetary conditions will likely remain on hold in the coming months, we expect the BoT to start normalizing interest rates in the second half of the year.

MALAYSIA - Malaysia's economic performance remains strong. The economy grew by 6.4% y/y in the final quarter of 2012, taking output gains to 5.6% for 2012 as a whole. Real GDP growth will likely decelerate somewhat in 2013-14, averaging 4¾%. Economic growth is being driven by surging domestic demand that counterbalances some of the adverse export sector impacts stemming from still-weak growth conditions in the advanced economies. Income gains, favourable employment conditions, low interest rates, and government subsidies to several socioeconomic groups point to sustained positive momentum in household spending. Outlays in infrastructure and the oil & gas industry will underpin investment growth. A sizable current account surplus and an investment-grade credit rating add to the nation's macroeconomic strength, though public finances remain in deficit. The inflation outlook is favourable, with the CPI registering an increase of 1.3% y/y in January, the lowest rate among Asian developing economies. The central bank assesses that its current monetary policy stance is accommodative; we expect the overnight policy rate to remain unchanged at 3.0% in the coming months. The political environment is focused on forthcoming general elections to be held by June 2013. While support for the ruling 13-party Barisan Nasional coalition has been slipping, it will likely stay in power. However, whether it will win a two-thirds majority that would allow it to pass legislation relatively painlessly is highly uncertain.

Developing Americas

Currency Outlook

Eduardo Suárez +1 416 945-4538

BRAZIL - Renewed focus on the inflation front from both President Rousseff and the central bank Governor Tombini, after IPCA inflation moved above 6% y/y, has acted as a supportive factor for the Brazilian real (BRL), leading its US dollar-cross to establish a range below 2.0. In addition, an apparent shift in focus of the sector seen as a "growth engine", away from manufacturing and into infrastructure appears to have increased tolerance for FX appreciation.

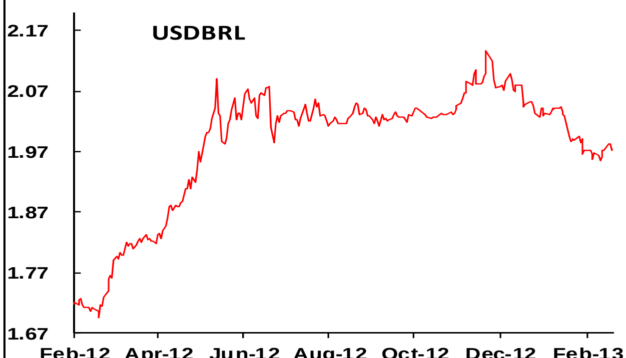
MEXICO - Although we perceive positive sentiment towards the "Mexico story", right now, global assets appear to be trading on "beta", rather than "alpha", leaving the peso (MXN) at the mercy of global risk appetite. Accordingly, USDMXN has finally broken free of its multi-month 12.55-12.80 range, trading north of 12.80 on the aftermath of Italy's electoral result. One MXN positive aspect of the recent risk-off move, has been the lightening of MXN's crowded positioning (both in cetes and the IMM), which has somewhat opened the way for a potential move lower in the USDMXN cross once sentiment settles.

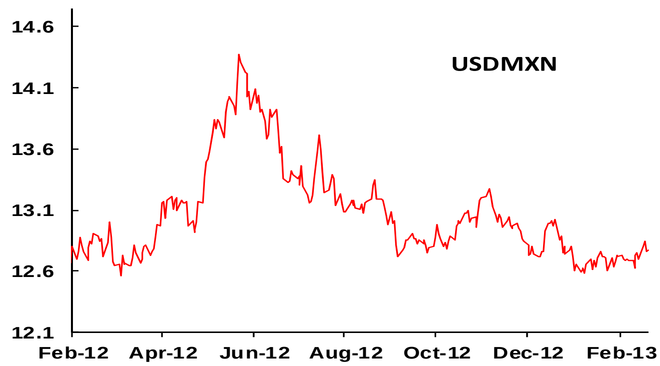
CHILE - Although a shift in global sentiment has weighed on risk proxies over recent days, the Chilean peso (CLP) has managed to avoid material losses, with USDCLP hovering in a relatively narrow 470-475 range since January 2013. We see a hands-off central bank, sound fundamentals and a Chinese recovery as supportive factors.

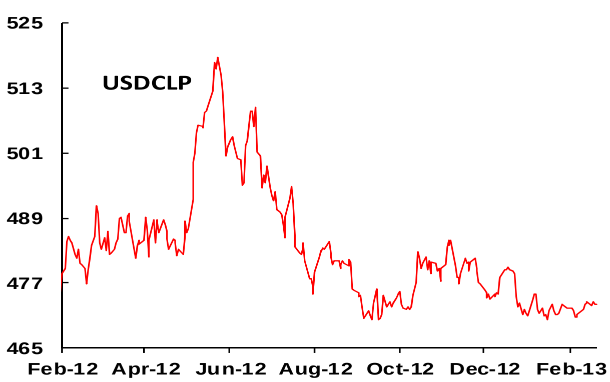
COLOMBIA - The combination of global sentiment deterioration and much more aggressive intervention by the central bank and Finance Ministry has pushed the Colombian peso (COP) to trade above 1800 against the US dollar (USD). Over the past two-months, the Finance Ministry has continued with its USD purchases and has adjusted its financing strategy, while the central bank increased its daily USD purchases and has continued to cut rates – which may not be directly aimed at curbing FX gains, but likely contributed to COP's weakness. Our sense is that there are at least 3-BanRep members who are likely to argue for further rate cuts.

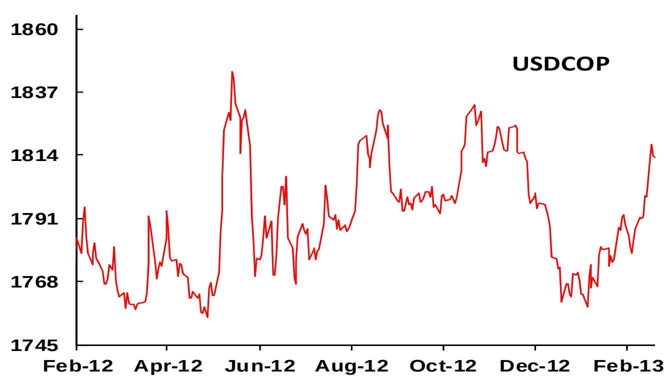
Currency Trends

FX Rate	Spot 28-Feb	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDBRL	1.97	1.96	1.98	2.01	2.00	2.00	1.98	1.98	1.96
USDMXN	12.8	12.9	12.7	12.8	12.9	13.0	12.9	12.9	13.1
USDCLP	473.04	482	490	497	503	506	509	512	516
USDCOP	1813	1810	1820	1840	1850	1860	1870	1880	1890









DEVELOPING AMERICAS
Fundamental Commentary

Pablo F.G. Bréard +1 416 862-3876
Daniela Blancas +1 416 862-3908

BRAZIL - The Brazilian real has regained favourite-currency status in the emerging-market world, aided by continuous additional liquidity injected by major central banks, renewed optimism that the combined fiscal and monetary impulse will lead to accelerating growth, and persistently supportive agricultural and energy commodity prices. Without pursuing a formal exchange-rate targeting policy, official rhetoric hints at a higher degree of government acceptance of current levels, which hover around USDBRL 2.0. The Brazilian central bank's inflation-targeting regime contemplates a "wide" target band of 4.5% +/- 2%, allowing the authorities to comfortably adjust their policy stance to support the pro-growth strategy currently in place. We estimate that real GDP will expand by 3% in 2013. The fiscal and debt front continues to improve providing the government enough room to maneuver with more stimulus initiatives. The external front, however, may incite a cautious attitude amongst investors as the current account deficit continues to widen. Overall, external financial market conditions remain very supportive for the local currency environment, yet the country is not immune to sudden shifts in global risk appetite, as was observed last year when both the BRL and local equity securities experienced a sharp fall. On the monetary front, we do not expect any near-term adjustment to the benchmark SELIC rate, currently set at 7.25%. Nevertheless, persistent inflationary pressures (headline inflation at 6.1% y/y in January 2013) keep market participants in watch mode.

MEXICO - Local monetary policy expectations and advances in the political arena captured headlines in the Mexican economy during the first two months of the year. The central bank has been adopting a more dovish rhetoric, signaling that a rate cut could come in response to the lower inflation risk premia and slower economic growth under price stability. With inflation decelerating since the end of 2012 (currently at 3.25% y/y) and the economy moderating, particularly in the second half of last year, the central bank has more room to ease monetary conditions. We anticipate that the authorities will reduce the reference rate by 50 basis points to 4.0% by mid-year without entering into an extensive easing cycle. In our view, both the local fixed-income market and the exchange rate are already pricing in a reduction in rates; however, we anticipate that once the cut materializes, temporary volatility could be observed. Real GDP expanded by 3.2% y/y in the fourth quarter – the same rate observed in the previous quarter– taking the overall annual expansion to 4%, in line with our expectations. The solid gains in the service sector offset the slowdown in the industrial and construction sectors. On the other hand, positive developments on the political agenda point to a more fluent advance of the pending reforms, particularly the fiscal (possible tax hikes), energy and telecommunication sectors. With the recent detention of the leader of the teachers union, the president's administration signaled its will to keep advancing on political changes in the country.

CHILE - Exchange rate stability remains the norm in Chile. The peso is very well-supported by relatively favourable metal commodity prices, improving economic conditions in the United States, prolonged strong Asian demand for Chilean exports and a very benign global interest rate environment. Copper prices, currently trading at US$3.55 per pound, together with stronger China-led Asian demand, remain key drivers of currency strength. Moreover, renewed appreciating forces in Brazil have also reinforced positive momentum for the Chilean currency. The central bank has maintained a gradual accumulation of foreign exchange reserves totaling US$41.7 billion as of December. Local market consensus points towards monetary policy stability (reference rate set at 5%) over the next six months, manageable inflation (at 3% y/y) and a stable local currency in the near-term (475-485 per USD trading range). Inflation is not an issue of concern at present; the headline rate reached 1.6% y/y in January, well below the official 3% target. Although economic activity remains strong and energy prices high, inflationary expectations remain well-anchored. In their latest monetary policy statement, the authorities highlighted tight labour markets as a source of potential supply-side pressures in the months to come; however, the unemployment rate has been relatively stable at 6.1%. The housing market remains very strong, yet the pace of mortgage financing is quite manageable with annual growth rates of 9%.

COLOMBIA - Intense central bank intervention, a less promising economic environment and looser monetary conditions have weighed on the Colombian peso, which lost 2.8% against the US dollar in the first two months of the year. The Colombian economy continues to show signs of a modest deceleration that may continue through the first quarter of the year. Industrial production fell by 3.0% y/y in December–no growth in 2012 overall–with a still high degree of uncertainty surrounding the construction sector (the main contributor to the poor GDP performance in Q3). Additionally, consumption has been weakening with retail sales declining by 2.5% y/y in December, resulting in a mild 0.3% expansion for the year as a whole. We maintain our view that the Colombian economy expanded by 3% in Q4, taking the 2012 annual growth rate to 3.7%. The central bank maintains a loose monetary stance, cutting the reference rate for the fourth consecutive time in February to 3.75%. In our view, based on the post-meeting communiqué, the authorities have left the door open for further interest rate cuts as the economy will remain subdued in the first quarter and no price pressures have emerged (headline inflation decelerated from the 3% y/y average in Q3 to 2% in January). However, we anticipate that the easing cycle could moderate in the coming months. Regarding the two newly-announced members of the board, we do not anticipate any major changes to the monetary policy stance stemming from these appointments.

DEVELOPING EUROPE & AFRICA
Currency Outlook

Sarah Howcroft +1 416 862-3174
Pablo F.G. Bréard +1 416 862-3876

RUSSIA - The Russian ruble (RUB) maintained an appreciating bias into the start of 2013; however, weakening pressures are expected to emerge in the coming quarters. RUB gains reflected the mid-2012 recovery in oil prices, stabilization of euro crisis-related tensions, and the opening up of the domestic bond market to foreign investors, but a heavy reliance on oil exports and stagnation in economic reforms will weigh on the currency over the longer term. We expect the RUB to close 2013 around 31.3 per USD.

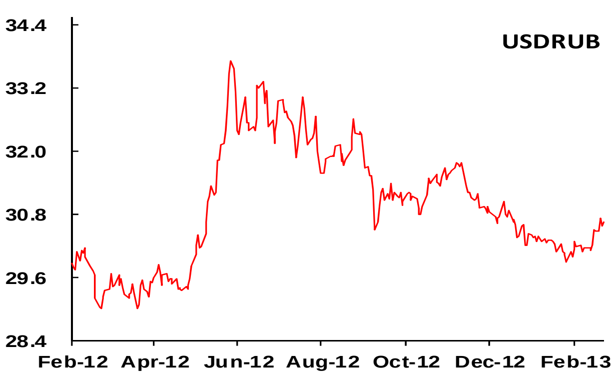
TURKEY - The Turkish lira (TRY) is being negatively affected by softer trade data, recent delays in the privatization program and increased risk aversion towards high-deficit economies. We have revised slightly our end-year USDTRY forecast to reflect this renewed phase of weakness. The persistence of an ultra-low global interest rate environment still supports high yielding emerging-markets such as Turkey. We expect USDTRY to close the year at 1.80.

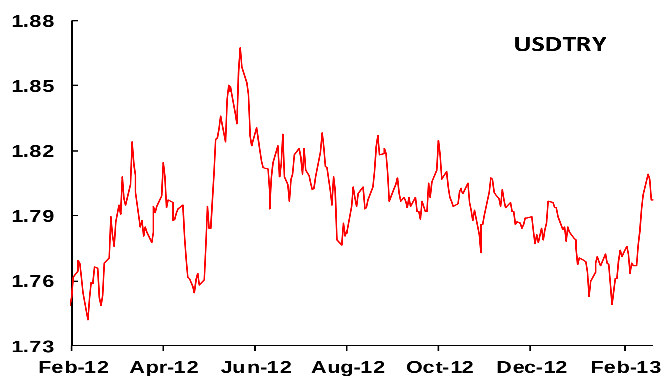
POLAND - The Polish zloty (PLN) remains supported by the country's strong economic and fiscal foundations, investment-grade sovereign credit rating and precautionary credit line with the International Monetary Fund (IMF). We envision an underlying trend of appreciation for the PLN, though it will remain vulnerable to adverse developments in the euro crisis, the global economy and major central bank policy. We expect a year-end EURPLN rate of around 4.02.

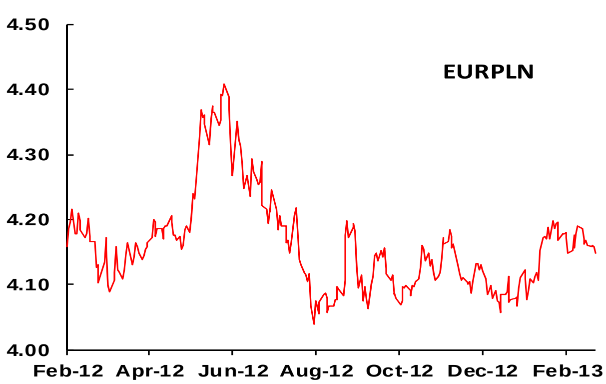
SOUTH AFRICA - The South African rand (ZAR) remains weak, trading in the 8.78-8.92 range per US dollar after reaching above the 9.0-mark at the end of January for the first time in almost four years. The rand lost 4.5% versus the USD in 2012 and is down another 4.6% so far this year. Though we anticipate a modest correction, the currency will remain susceptible to external and domestic shocks, particularly industrial strikes and political developments. We hold a year-end USDZAR target of 8.50.

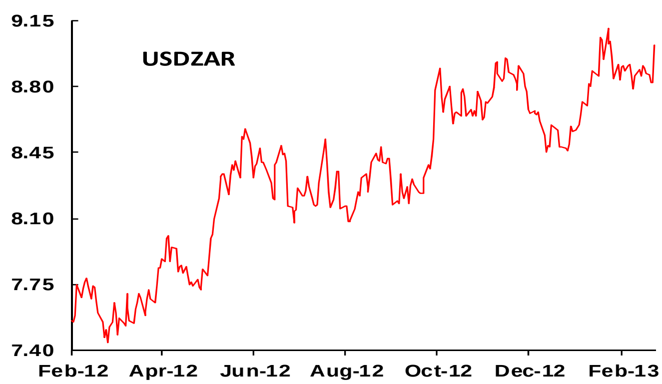
Currency Trends

FX Rate	Spot 28-Feb	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDRUB	30.60	30.7	30.9	31.1	31.3	31.5	31.7	31.8	32.0
USDTRY	1.80	1.79	1.79	1.80	1.80	1.79	1.78	1.76	1.75
EURPLN	4.15	4.06	4.05	4.03	4.02	4.00	3.97	3.95	3.92
USDZAR	9.02	8.48	8.49	8.49	8.50	8.49	8.48	8.46	8.45









DEVELOPING EUROPE & AFRICA

Fundamental Commentary

Sarah Howcroft +1 416 862-3174
Pablo F.G. Bréard +1 416 862-3876

RUSSIA - Russia's real GDP growth is expected to average around 3⅔% in 2013-14, with buoyant domestic demand, the gradual recovery in global growth and relatively high oil prices fuelling the expansion. In line with the global trend and as a result of a severe summer drought, Russia's output pace slid sharply to 3.4% in 2012, down from 4.3% in 2011. Signs point to continued moderation in the beginning of this year on the back of still weak - though improving - conditions in the advanced economies. In January, industrial production growth recorded the first negative print (-0.8% y/y) since October 2009, while investment in productive capacity remained subdued (1.1% y/y) following a lackluster pace in the fourth quarter. Over the longer-term, Russia will struggle to attract the investment needed to maintain current oil production levels, address infrastructure deficiencies and diversify the economy away from a dependence on natural resources; oil and gas shipments account for roughly two-thirds of exports. The headline inflation rate jumped to 7.1% y/y in January from 6.6% in the prior month and is expected to remain elevated for much of 2013. Though the central bank has voiced concern about high inflation potentially compromising expectations, we do not anticipate further monetary tightening in the near term. The bank will look through the latest (likely temporary) surge in prices, opting to wait for firm signs of improving economic conditions before raising rates further. After reporting a roughly balanced government budget for 2012, the fiscal account is expected to fall back into deficit in 2013 (less than 1% of GDP).

TURKEY - The Turkish lira adopted a weakening tone in February, interrupting four months of consecutive currency gains versus the USD. The inflation outlook has worsened moderately by elevated international energy prices, upward adjustments in selected agricultural commodities and renewed stress in the (now Italy-focused) European debt-sustainability context. Following a 1.6% month-to-month increase, the headline inflation rate accelerated to 7.3% y/y in January, prompting investors' heightened awareness of potentially building price pressures. Nevertheless, the authorities indicated that core-inflation readings suggest that the process of disinflation will resume in the coming months. On the monetary front, the central bank remains flexible to move in both directions to ensure price stability, yet forward guidance hints at further monetary accommodation following the recent cut in the benchmark repo rate to 4.5%. Economic activity presents mixed signals: while industrial production showed renewed softness at end-2012, domestic demand will remain buoyant in the first quarter of the year on the back of robust consumption and investment dynamics. Employment growth has resumed despite a slight uptick in the non-farm unemployment rate resulting from higher joblessness in the services sector. Strong capital inflows due to excess global liquidity are exerting appreciating currency pressures and expanding credit activity. Finally, on the fiscal front, the government remains embarked on its Medium-Term Program; however, recent setbacks in the privatization plan triggered a negative investor reaction.

POLAND - Despite a sharp deceleration in the pace of growth last year (to 2.0% from 4.3% in 2011), Poland's real GDP continues to expand, unlike many of its European Union peers. We anticipate that the growth rate will dip slightly lower to around 1⅔% in 2013, but that the nation's large domestic base and stable macroeconomic policy framework, combined with the gradual recovery in the global economy, will then support a re-acceleration. We expect to see a 2½% advance in 2014, guided by an improvement in labour market conditions (the unemployment rate is currently elevated at 10.6%) and growth-enhancing structural reforms. In view of potential external shocks, the Polish authorities obtained a new two-year Flexible Credit Line (FCL) arrangement with the IMF early this year, worth US$33.8 billion. The FCL is intended as a precautionary buffer only (and is not expected to be drawn upon). Given the improving external environment, the central bank is likely approaching the bottom of the easing cycle initiated late last year. The bank has lowered interest rates by a cumulative 100 basis points (to 3.75%) since November in light of markedly diminished inflationary pressures. Nevertheless, a sharp drop in the headline inflation rate in January (from 2.4% y/y to 1.7%) affords the monetary authorities additional room for easing, and they will likely elect to reduce the reference rate by another 25 basis points at the next policy-setting meeting on March 5th-6th. The central bank's updated growth and inflation projections will also be available at this time.

SOUTH AFRICA - South Africa will grow at a below-trend pace of around 2⅔% this year before picking up to near 4% in 2014, supported by the accommodative monetary and fiscal stance, expected recovery in external demand and ongoing expansion of the middle class. Last year, facing strong headwinds from the weakened global growth environment and widespread strike activity in the domestic industrial sector, the pace of real GDP growth slowed sharply relative to 2011, from 3.5% to an estimated 2⅓%. The vitally important mining industry was particularly hard hit by worker unrest, in addition to increased regulatory uncertainty and reduced global demand, with production dropping 3.1% y/y. This weakness in turn weighed on related manufacturing industries and external trade (the mining sector accounts for roughly half of total exports). The merchandise trade balance widened sharply in 2012 to a record-high US$14 billion. Announced mine closures and layoffs will further constrain the sector's output going forward as companies struggle with rising costs. High unemployment (hovering around 25%) and low investment rates will constrain growth prospects over the longer term in the absence of meaningful structural reform. Inflation remains close to the top of the South African Reserve Bank's (SARB) 3-6% target range, with price pressures stemming from food and electricity prices and rand depreciation, partly offset by weak domestic demand. The SARB will likely leave the reference rate at a record-low 5.0% for the foreseeable future.

GLOBAL CURRENCY FORECAST (end of period)

			2011	2012	2013f	2014f	2013f Q1	2013f Q2	2013f Q3	2013f Q4	2014f Q1	2014f Q2	2014f Q3	2014f Q4
MAJOR CURRENCIES														
	Japan	USDJPY	77	87	95	98	92	93	94	95	95	96	97	98
	Euro zone	EURUSD	1.30	1.32	1.27	1.25	1.30	1.29	1.28	1.27	1.26	1.26	1.25	1.25
		EURJPY	100	114	121	123	120	120	120	121	120	121	121	123
	UK	GBPUSD	1.55	1.63	1.45	1.44	1.51	1.49	1.47	1.45	1.45	1.45	1.44	1.44
		EURGBP	0.83	0.81	0.88	0.87	0.86	0.87	0.87	0.88	0.87	0.87	0.87	0.87
	Switzerland	USDCHF	0.94	0.92	0.96	1.00	0.95	0.94	0.95	0.96	0.98	0.98	1.00	1.00
		EURCHF	1.22	1.21	1.22	1.25	1.23	1.21	1.21	1.22	1.23	1.24	1.25	1.25
AMERICAS														
North	**Canada**	USDCAD	1.02	0.99	1.01	0.99	1.04	1.04	1.02	1.01	1.01	1.00	1.00	0.99
North		CADUSD	0.98	1.01	0.99	1.01	0.96	0.96	0.98	0.99	0.99	1.00	1.00	1.01
North	**Mexico**	USDMXN	13.94	12.85	12.93	13.14	12.87	12.73	12.77	12.93	13.00	12.87	12.95	13.14
North		CADMXN	13.65	12.96	12.80	13.28	12.38	12.24	12.52	12.80	12.87	12.87	12.95	13.28
South	**Argentina**	USDARS	4.30	4.92	6.50	7.50	5.31	5.71	6.10	6.50	6.75	7.00	7.25	7.50
South	**Brazil**	USDBRL	1.87	2.05	2.00	1.96	1.96	1.98	2.01	2.00	2.00	1.98	1.98	1.96
South	**Chile**	USDCLP	520	479	503	516	482	490	497	503	506	509	512	516
South	**Colombia**	USDCOP	1939	1767	1850	1890	1810	1820	1840	1850	1860	1870	1880	1890
South	**Peru**	USDPEN	2.70	2.55	2.49	2.45	2.55	2.53	2.51	2.49	2.49	2.48	2.45	2.45
South	**Venezuela**	USDVEF	4.29	4.29	6.30	7.50	6.30	6.30	6.30	6.30	7.50	7.50	7.50	7.50
ASIA / PACIFIC														
	Australia	AUDUSD	1.02	1.04	1.04	1.08	1.02	1.02	1.04	1.04	1.06	1.06	1.08	1.08
	China	USDCNY	6.30	6.23	6.10	6.04	6.22	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
	India	USDINR	53.1	55.0	53.0	51.8	54.2	53.8	53.4	53.0	52.7	52.4	52.1	51.8
	Indonesia	USDIDR	9069	9793	10100	9800	9740	9950	10025	10100	10025	9950	9875	9800
	Malaysia	USDMYR	3.17	3.06	3.00	2.95	3.08	3.03	3.01	3.00	2.99	2.98	2.96	2.95
	New Zealand	NZDUSD	0.78	0.83	0.85	0.86	0.82	0.84	0.85	0.85	0.85	0.86	0.86	0.86
	Philippines	USDPHP	43.8	41.0	40.8	40.5	40.7	40.9	40.8	40.8	40.7	40.6	40.6	40.5
	Singapore	USDSGD	1.30	1.22	1.21	1.19	1.23	1.22	1.21	1.21	1.21	1.20	1.20	1.19
	South Korea	USDKRW	1152	1064	1050	1025	1078	1063	1056	1050	1044	1038	1031	1025
	Thailand	USDTHB	31.6	30.6	30.3	29.8	30.0	30.4	30.3	30.3	30.1	30.0	29.9	29.8
	Taiwan	USDTWD	30.3	29.0	28.8	28.5	29.5	28.9	28.8	28.8	28.7	28.6	28.6	28.5
EUROPE / AFRICA														
	Czech Rep.	EURCZK	25.6	25.1	24.8	24.2	25.0	24.9	24.9	24.8	24.7	24.5	24.4	24.2
	Iceland	USDISK	123	128	122	120	127	125	124	122	122	121	121	120
	Hungary	EURHUF	315	291	288	283	291	290	289	288	287	286	284	283
	Norway	USDNOK	5.98	5.56	5.30	5.20	5.75	5.65	5.40	5.30	5.28	5.25	5.22	5.20
	Poland	EURPLN	4.47	4.08	4.02	3.92	4.06	4.05	4.03	4.02	4.00	3.97	3.95	3.92
	Russia	USDRUB	32.1	30.5	31.3	32.0	30.7	30.9	31.1	31.3	31.5	31.7	31.8	32.0
	South Africa	USDZAR	8.09	8.47	8.50	8.45	8.48	8.49	8.49	8.50	8.49	8.48	8.46	8.45
	Sweden	EURSEK	8.92	8.58	8.30	8.10	8.60	8.50	8.40	8.30	8.25	8.20	8.15	8.10
	Turkey	USDTRY	1.89	1.78	1.80	1.75	1.79	1.79	1.80	1.80	1.79	1.78	1.76	1.75

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

Adrienne Warren
adrienne.warren@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

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