Foreign Exchange Outlook

An uneven global economic recovery, prolonged official intervention in currency and credit markets, leadership changes in the US and China, commodity price swings and persistent demand for high-yielding emerging-market assets will shape near-term investor sentiment in foreign exchange markets.

The USD remains selectively in demand despite the ultra-low interest rate environment guided by Fed policy. The CAD continues as a market favorite on the grounds of its triple-A credit rating status, supportive commodity prices and relatively hawkish monetary stance. The BRL retains a stable trading pattern while other Latin currencies face temporary headwinds.

The EUR is immersed in a relatively stable trading range on the back of improved financial market conditions. However, a weak sovereign debt and employment outlook will trigger a moderate depreciating trend through the end of the year. The GBP regained strength as the UK exits from recession, while the RUB and TRY enjoy favorable risk momentum.

The JPY is on the defensive due to rapid economic deceleration, technical corrective forces, and intensifying monetary stimulus and credit easing activity. The CNY resumed a sustainable appreciation trend, yet at a more modest pace. Fragile fundamentals in India will weigh on the INR. The AUD remains attractive due to growth and interest rate differentials.

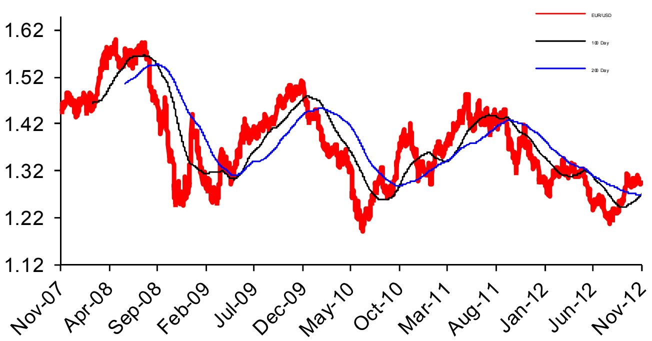
Index

Global Foreign Exchange Outlook

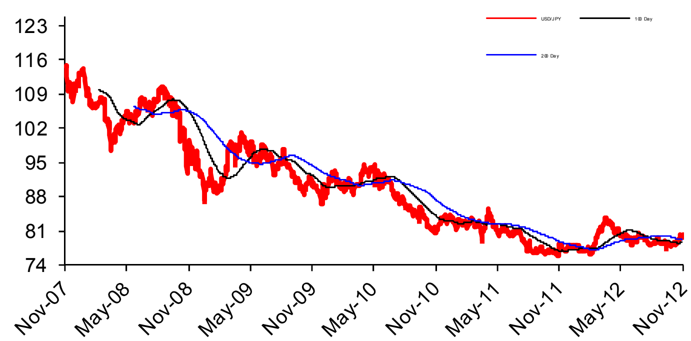
November 1, 2012		Actual	Q1a 12	Q2a 12	Q3a 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Euro	EURUSD	1.29	1.33	1.27	1.29	1.27	1.27	1.26	1.25	1.25
	Consensus*					1.27	1.26	1.25	1.24	1.24
Yen	USDJPY	80.2	83	80	78	80	82	84	85	87
	Consensus*					79	80	81	81	82
Sterling	GBPUSD	1.61	1.60	1.57	1.62	1.62	1.62	1.63	1.64	1.64
	Consensus*					1.60	1.59	1.58	1.57	1.57
Canadian Dollar	USDCAD	1.00	1.00	1.02	0.98	0.97	0.97	0.97	0.96	0.96
	Consensus*					0.98	0.98	0.99	0.99	0.99
Australian Dollar	AUDUSD	1.04	1.03	1.02	1.04	1.04	1.05	1.05	1.06	1.06
	Consensus*					1.02	1.01	1.01	1.00	0.99
Mexican Peso	USDMXN	13.03	12.81	13.36	12.86	12.81	12.93	12.84	12.96	13.19
	Consensus*					12.89	12.85	12.83	12.82	12.84

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

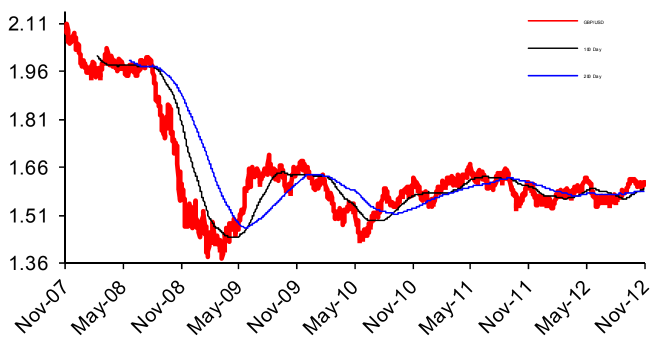
EURUSD



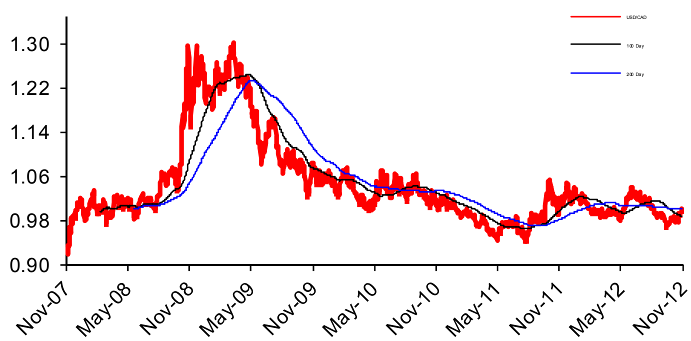
USDJPY



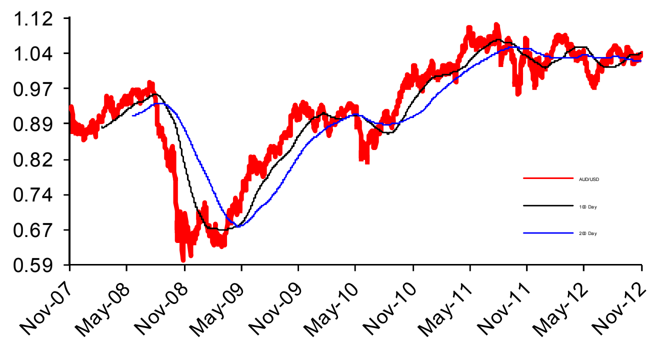
GBPUSD



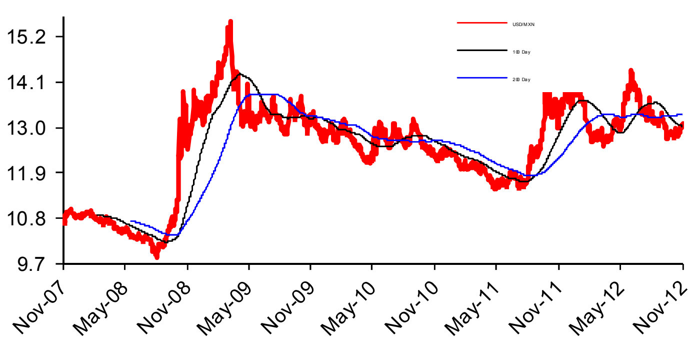
USDCAD



AUDUSD



USDMXN



(*) Source: Consensus Economics Inc. October 2012

Market Tone & Fundamental Focus

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The outlook for global growth remains on investors' radar screens. The imminent leadership changes in China and the United States (US) will also have a material impact, as the effectiveness of China's multiple stimulus mechanisms and the fiscal consolidation needs and efforts in the US are assessed. The recently unveiled World Economic Outlook report by the International Monetary Fund (IMF) is broadly in line with our view that the European economic distress will extend through the next two years and that a lasting and comprehensive solution to Europe's structural employment weakness and debt sustainability concerns is not firmly in prospect in the near term. Official intervention in systemically relevant currency and fixed-income markets remains the norm through traditional and unconventional means (i.e., large-scale asset purchase programs). Foreign exchange market participants will remain alert to shifts in the currently aggressive and coordinated accommodative monetary policy in place in the world's major central banks.

The outlook for core emerging-market economies, particularly China, will remain a key factor driving commodity prices over the coming months with relatively positive effects on commodity-influenced currencies. Uneven shifts in commodity price directions are materializing: while base metals show relatively stable prices, crude oil remains sensitive to changes in global demand patterns and geo-political concerns in core energy exporting nations. Meanwhile, credit differentiation has resurfaced within the top-tier emerging markets, as large economies such as India and Brazil have experienced substantial declines in economic activity over the past 12 months.

The economic outlook for the Americas remains promising, instilling market optimism into key currencies within the Western Hemisphere. Recent data portrayed better than anticipated economic activity in the US, reinforced by a gradual improvement in employment indicators. Canada remains in growth mode, as depicted in the Bank of Canada's latest Monetary Policy Report. Steady demand for the Canadian dollar (CAD) and triple-A rated Canadian securities is reinforced by a relatively hawkish monetary stance and accompanying commodity price strength. Following the elections and increasing optimism regarding structural reforms, Mexico presents a brightening outlook, reinforced by an attractive high-yield local-currency market environment. The Mexican peso (MXN) retains an appreciating bias. The Brazil real (BRL) remains in a stable trading range, firmly guided by central bank intervention and the government's reluctance to let the currency further erode export competitiveness. Elsewhere in the Americas, Chile, Colombia and Peru will continue to receive the benefits of higher growth differentials, still-supportive commodity prices, and persistent demand for high yield options in domestic capital markets.

The economic situation in Europe remains precarious despite the apparent stability in the euro (EUR) versus the USD. Financial market conditions have stabilized following the European Central Bank (ECB) strategy to support government debt markets in countries in distress, yet investor sentiment remains fragile. Following a two-month recovery phase which edged the 1.20 mark last July, EURUSD has been trading within a wide 1.28-1.32 range since mid-September. Debt sustainability concerns remain centered on the ability of Spain and Greece to refinance their debt obligations. The euro zone will close the year in recession with the prospects of a timid recovery beginning in 2013, although the growth risks are to the downside. As a result of persistent debt distress, weak growth prospects and significant uncertainty, we are calling for renewed weakness for the EUR, expecting it to close at 1.27 and 1.25 in 2012 and 2013, respectively. Meanwhile, better than expected GDP growth in the UK (up 1% q/q in Q3) instilled a positive impact on the British pound (GBP) given that the prospects of deeper monetary stimulus in the months ahead virtually vanished. Against the EUR, the GBP rally is showing signs of fatigue and modest consolidation. However, we do expect GBPUSD to close the year stronger at 1.62. The outlook for the Scandies is bright, particularly as their central banks are unlikely to move towards alternative policies. Top-tier emerging-market currencies such as the Russian ruble (RUB) and the Turkish lira (TRY) have entered a period of relative trading calm strongly influenced by risk-aversion dynamics. So far, military tensions with Syria have not translated into adverse currency pressures for the TRY.

Japan's monetary policy decision confirmed that further easing is in prospect, weighing on the outlook for the Japanese yen (JPY) which weakened from 77 to 80 per USD over the past month. The Bank of Japan boosted its asset purchases by an additional 11 trillion yen (US$138 billion), initiated a new program to stimulate borrowing and made a joint commitment with the government to fight deflation, all with the broader goal of injecting further monetary stimulus to the Japanese economy and weighing down the yen. Global market participants have welcomed the resurgence of currency appreciation in China. Changes to China's currency regime are not imminent, though the authorities can guide the exchange rate in both directions. We anticipate further CNY strength for this year and next, though at a more moderate pace. The universe of floating Asian currencies followed the yuan's strengthening bias, with the exception of the Indian rupee (INR) which retained a fragile position due to deteriorating macroeconomic imbalances and persistently high inflation. The outlook for the AUD is tied to the prospects for China, relative monetary policy and domestic fundamentals; in the current environment AUD should remain well supported.

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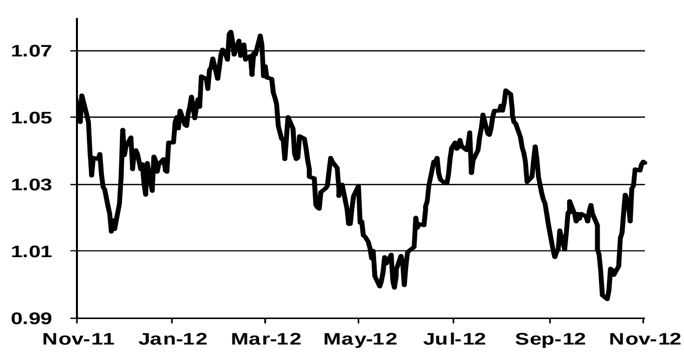
Entering November, the Canadian dollar (CAD) is up just 2% against the USD in 2012, outperforming EUR, JPY and AUD, but underperforming NOK, SEK and GBP. In October CAD was the second worst performing primary currency, losing 2% (outperforming only JPY). During the month the near-term CAD drivers shifted against the currency. Global economic measures showed some signs of stabilization; however, global earnings and forward guidance were weak, putting downward pressure on growth sensitive currencies like CAD. A softening in oil prices combined with a widening in the Brent-Western select spread (the difference between where Canada imports and exports) also weighed on CAD's outlook. In addition, after the government's decision on Progress/Petronas, there has been some scaling back of what had been CAD positive M&A expectations. Furthermore, the USD has been broadly stronger, in part due to the narrowing in the polls for the upcoming US election; the chance of a Republican win are now viewed as 50/50 and that has increased the risk of a USD rally. Finally, an important shift in tone at the Bank of Canada (from hawkish to less hawkish) has caught the attention of investors globally. None of these factors bode well for CAD and forced the currency to weaken against the USD; however, stepping back, we view most of these developments as temporary. In the medium-term, we have made no change to our view that CAD is likely to remain stronger than parity. The drivers are the same as those mentioned above but viewed from a longer term basis still support CAD. From our perspective, the most important driver is central bank policy. The BoC is unlikely to increase interest rates in 2013 and freely admits that the case for higher rates in Canada is less imminent than it was in the summer; however, judged on a relative basis, as long as the US Fed is expanding QE3, it will be a struggle for the USD to rally materially and sustainably. Sovereign status still matters, and on this front Canada's triple-A rating shines. Domestic fundamentals in Canada have softened but remain relatively strong on a global advanced economies basis. In addition, the strong resource base is a further positive, particularly as China appears poised for a soft landing. Finally, investor sentiment is bullish CAD. The first few weeks of November could be bumpy as the November 6th election and subsequent fiscal cliff negotiations take center stage; however, beyond that we expect CAD to close this year having appreciated year-over-year and stronger than the USD.

Currency Trends

FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	1-Nov	3 m	6 m	12 m	
AUDCAD	1.05	1.02	1.05	1.037	1.01	1.02	1.02	AUDCAD
CADJPY	76.81	81.26	78.00	80.42	83.16	85.22	89.24	CADJPY
EURCAD	1.40	1.30	1.23	1.289	1.23	1.23	1.20	EURCAD
USDCAD	1.02	0.99	1.01	0.997	0.97	0.97	0.96	USDCAD

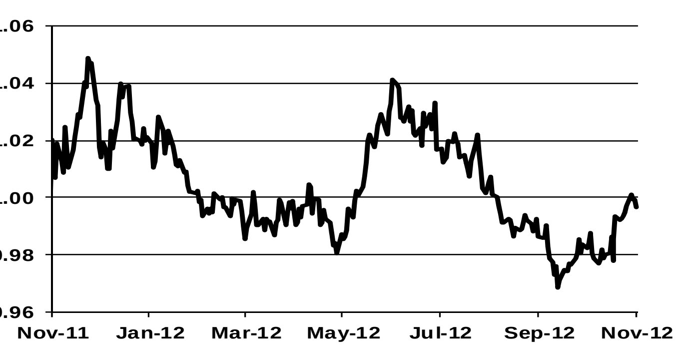
AUDCAD



CADJPY

EURCAD

USDCAD



Canada and United States

Fundamental Commentary

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UNITED STATES - The US economy continues its slow expansion with Q3 annualized GDP coming in at 2% q/q – slightly above expectations, mostly due to a temporary pick-up in government spending and military outlays. Consumption was robust, increasing by 2% q/q annualized, despite higher inflation and gas prices. Going forward, consumption and retail sales may come under pressure with the effects of Hurricane Sandy and shop closures across the northeast. The Hurricane will also have an impact on industries such as utilities, refineries and transportation, helping to moderate GDP growth to about 1.5% q/q annualized in Q4, before clean-up and reconstruction provides a boost to GDP going into next year. Consumption is expected to be the main force behind GDP growth over the next few years as the labour and housing markets slowly improve, while residential investment will also make a contribution. Residential investment should continue its rebound from very depressed levels with housing starts now above 870,000 units per month annualized. The main issue for the US economy, alongside weak external demand, continues to be the uncertainties surrounding the extent of spending cuts and tax increases to hit the economy in the New Year. This uncertainty is negatively impacting hiring and business investment – business investment contracted in Q3 by 1.3% q/q annualized, after averaging an increase of 8.4% q/q annualized over the last ten quarters. This trend is expected to continue as businesses remain cautious, and weak demand holds back production. The recovery in 2011 was driven by business investment, exports and manufacturing, but these aspects of the economy have now stalled, and momentum is now coming from consumption and residential investment, plus a boost from hurricane reconstruction spending next year. With the US economy unable to fire on all cylinders, economic growth rates will remain muted – a growth rate of 2.1% is expected for 2012 and 1.9% for 2013.

CANADA - Canadian growth for Q3 is expected to be weak, with the economy unable to gain momentum in the difficult global environment, and affected by the impact of a modest slowdown in domestic housing and consumption. August GDP figures disappointed with growth contracting by 0.1% m/m, largely due to mining and oil and gas, which has declined for four months consecutively. Temporary shutdowns and maintenance played a role, but the figures clearly show that exports are being impacted by sluggish external demand, softer commodity prices, and a strong Canadian dollar. However, the weakness was not limited to the resource sectors, with over half of the total sectors reporting a decline, implying a broad-based slowing of the economy. Domestically the economy is being impacted by the cooling housing market and slower consumption gains. Consumers remain healthy, but are cautious, and continue to slowly rein in spending. Retail sales were up in both July and August, but the y/y rate of increase has slowed to below 3%, whereas in 2011 it averaged more than 4%. These consumption trends mirror the softening in the housing market – home resale volumes have come down, though residential prices have so far remained firmer. Canadian housing starts were 225,200 units annualized in September, down from a peak of 251,800 units earlier this year, and further weakening is expected. Business investment – which has been a key driver of the economy – remains robust, however, some surveys suggest this trend may be moderating as a result of softening retail spending, construction, and exports. Until the external environment picks up, giving consumers and businesses more confidence, the Canadian economy will remain sluggish. Growth in Canada is expected to average 2.1% in 2012, and 1.8% next year.

Monetary Policy Commentary

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UNITED STATES - We expect the FOMC to add Treasury security purchases to its asset purchase program at the December meeting in order to maintain an elevated pace of long term security purchases even as the maturity extension program ('Operation Twist') expires. While the FOMC's most recent statement was essentially a maintenance statement (it was nearly identical to its September release) there is a possibility of changes to its formulation of its forward interest rate guidance in the December statement. While the statement currently guides that rates will stay low "at least through mid-2015" which it describes as "a considerable time after the economic recovery strengthens," there is pressure within the Fed to add guidance as to desired inflation, job-growth, and possibly GDP growth targets. Even should such guidance be added (which is not our base case), we do not expect the date guidance to be removed.

CANADA - We continue to expect the BoC to remain on hold for an extended period and do not forecast rate hikes until 2014. Our view is premised on: a) the soft domestic economic outlook, b) the fact that the Fed's quantitative easing policy and ultra-low rates globally limit the flexibility of Canadian monetary policy, c) slowing household credit growth and a need to maintain easy conditions to cushion that sector, d) soft housing markets. The BoC signalled its dovish bias in the October MPR, which downgraded the BoC's expectations for Q3 2012 GDP and pushed out its projection for the closure of the output gap to the end of 2013. At the press conference following the release of the MPR, BoC Governor Carney said that "the case for adjustment of [interest] rates has become less imminent."

EUROPE
Currency Outlook

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EURO ZONE - It is an accomplishment that EUR is entering November flat to where it began the year. Typically, recessions across much the euro zone, a dovish ECB and bearish sentiment (the CFTC reports a net short EUR position of US$-9 billion) would be associated with EUR depreciation. However, plans for a banking union and the ECB's OMT (bond buying program) have removed some tail risks. In addition, Fed policy is weighing heavily on the USD. The options market is not pricing in the risk of a sudden USD spike and technicals suggest EUR is comfortable close to 1.30. We are not as convinced and expect EUR to close the year at 1.27.

UNITED KINGDOM - The fundamentals and ties into Europe are concerning for GBP; however, as the UK exits recession, the BoE appears likely to end its asset purchase program and the country's triple-A rating attracts foreign inflows – all of which support the pound. As of late October, investors were comfortable with long GBP positions, with the CFTC reporting the net long at US$1.8 billion. Technicals suggest that it will take a significant catalyst to push GBP sustainably above 1.63, a view we share. We hold a year end forecast of 1.62.

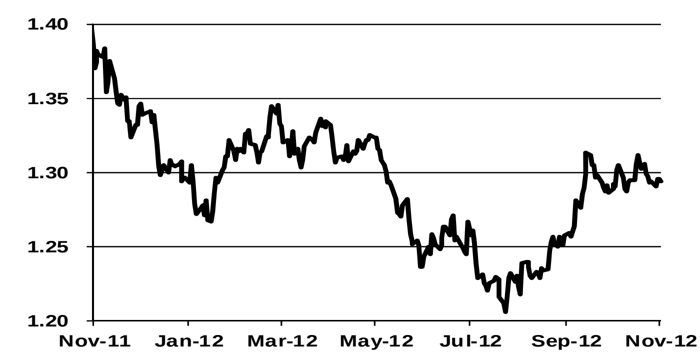
SWITZERLAND - The Swiss National Bank (SNB) has maintained its EURCHF 1.20 floor, providing relief from the franc's appreciating bias and attempting to halt deflationary pressures. Growth and inflation data have been disappointing, opening the door to periodic rumours that the SNB is preparing to raise the floor. We expect EURCHF to close the year at 1.21, with the 1.20 floor still in place.

SWEDEN - The pace of appreciation in SEK against the USD has slowed, trading within a range throughout September and October, in line with the US-Swedish 10 year bond yield spread. We do not expect a major change into year-end as Sweden's triple-A rating and relatively strong fundamentals help to offset the dovish Riksbank stance. The outlook versus EUR is similar, with slight SEK appreciation expected into year-end, targeting 8.50.

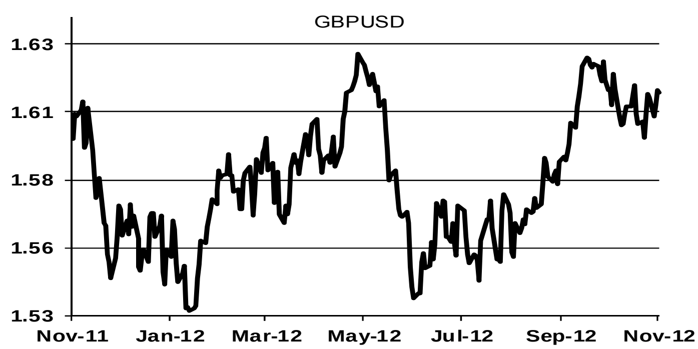
Currency Trends

FX Rate	Going Back 12 m	Going Back 6 m	Going Back 3 m	Spot 1-Nov	Outlook 3 m	Outlook 6 m	Outlook 12 m	FX Rate
EURUSD	1.37	1.32	1.22	1.29	1.27	1.27	1.25	EURUSD
GBPUSD	1.59	1.62	1.55	1.61	1.62	1.62	1.64	GBPUSD
EURCHF	1.22	1.20	1.20	1.21	1.20	1.21	1.21	EURCHF
EURSEK	9.06	8.90	8.32	8.61	8.48	8.43	8.37	EURSEK

EURUSD



GBPUSD



EURCHF

EURSEK

EUROPE

Fundamental Commentary

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EURO ZONE - Available data for the second half of the year suggest that the recession in the euro zone in 2012 will be slightly milder than previously expected, though the downturn will likely be more protracted, implying a lower growth profile through 2013-14. Although survey indicators still portray pronounced weakness, and unemployment continues to rise (11.6% in September), a deterioration in the real economy of the magnitude that was earlier anticipated has not materialized, and we have made a minor upward revision to our GDP forecast for this year, to -0.6% from -0.7%. Serious downside risks remain in relation to the still unresolved euro crisis and lacklustre progress on the region-wide banking union and fiscal pact. We now project minimal growth of +0.2% in 2013, with the prospect of a meaningful recovery appearing even further off as the crisis increasingly affects the global economy, including key emerging markets. A very modest recovery will take hold in 2014; growth will average around +1%, as global trade picks up and the pain of fiscal consolidation begins to ease. Within the currency union, national performances will continue to vary widely, with Germany maintaining the lead. Nevertheless, the medium term will see virtually every member state performing at a sub-trend pace. Inflation will end 2012 above the European Central Bank's target, but should fall below 2% next year and remain subdued through 2014, keeping the bank's refinancing rate on hold through the end of the forecast horizon.

UNITED KINGDOM - The combination of a better than expected third quarter GDP result, a sticky inflation outlook, and questions as to the ultimate effectiveness of further policy easing will likely persuade the Bank of England's (BoE) Monetary Policy Committee (MPC) to refrain from expanding the quantitative easing program at the November policy-setting meeting. The bank will release new macroeconomic projections around the same time, and the 2-year ahead inflation forecast should be lifted to around target (2%), providing another reason for a pause in bond purchases. Consumer price inflation declined to 2.2% y/y in September, a 34-month low, but will revert to an upward trend from October through mid-2013. The BoE's rhetoric will likely leave open the door for further QE down the road, so as to avoid provoking a sharp sell-off in bonds and/or GBP appreciation (particularly in light of recent expansionary measures by other global central banks). Given the upward revision to second-quarter GDP, a surprisingly solid 1.0% q/q advance in the third quarter, and early signs of improvements in consumer lending and housing activity as a result of the BoE's Funding for Lending Scheme, we have revised our growth outlook. We now foresee flat growth in 2012 overall, followed by expansions near the trend rate of growth in 2013 and 2014, of 1.4% and 1.6%, respectively. Most encouraging has been the performance of the labour market, with another 4,000 fewer jobless claims in September, accompanying a fall in the ILO unemployment rate to 7.9%.

SWITZERLAND - Macroeconomic and financial conditions in Switzerland remain comparatively stable. The Swiss National Bank's (SNB) currency floor, set at 1.20 per euro, continues to be viewed as credible, and foreign buying pressure has eased somewhat in recent months, with CHF 8.5 billion in foreign currency being purchased in defense of the floor in September (bringing total reserves to roughly three-quarters of annual output). Although generally looser monetary policy globally implies appreciation pressure for CHF, recent central bank measures have succeeded in soothing risk aversion, which had earlier elicited vast safe haven flows into the currency. Nonetheless, the SNB adamantly maintains that the franc is overvalued and deleterious for exporters, as evidenced by the 1.5% y/y fall in exports in the third quarter. Domestically, the situation looks somewhat brighter. Unemployment remains very low, at 2.9%, supporting a decent pace in retail sales (which advanced 5.9% y/y in August). The ZEW survey of economic expectations continues to improve, although it still portrays negative sentiment among investors on balance. Overall, the macro picture appears far from dire. It is thus not obvious why the SNB would attempt to raise the exchange floor in the current environment, especially as CHF looks set to weaken gradually with the euro against most other major currencies over the medium term (as long as the floor holds). The minimum exchange policy will likely be maintained until the risk of a prolonged deflationary phase has subsided.

SWEDEN - Additional monetary and fiscal accommodation is forthcoming in Sweden over the coming months as economic activity begins to slow. In September, the central bank –the Riksbank– unexpectedly reduced the benchmark repo rate by 25 basis points, citing a lower inflation profile due to krona appreciation and weaker growth dynamics. Annual inflation is now expected to average less than 1% in 2012-13. The bank's Executive Board left policy unchanged in October, but lowered the medium-term repo rate path (softening previous reservations with respect to the high level of household debt), implying that interest rates will again be cut. We anticipate a further quarter-point reduction in December or early 2013. Complementing the monetary stimulus will be new accommodation on the fiscal front. Given the weaker growth outlook – second-quarter GDP growth was revised lower to 1.3% y/y from an earlier estimate of 2.3% – the Finance Minister proposed roughly US$3.5 billion worth of investment and infrastructure measures in the fall budget. Rising unemployment is particularly concerning; though employment has risen, the increase has been outpaced by new entrants to the labour market, and the jobless rate is approaching 8%. The government's stimulus plans mean that the fiscal balance will remain in the red next year, with a deficit amounting to slightly less than 1% of GDP, versus earlier projections for a small surplus. Nevertheless, Sweden enjoys one of the soundest fiscal positions in Europe, with a public debt ratio of around 37% of GDP.

ASIA/OCEANIA
Currency Outlook

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JAPAN - JPY weakened in late October, as a result of the expectations for – and the delivery of – accommodative monetary policy from the Bank of Japan (BoJ). Uncertainty over Japanese politics and leadership at the BoJ after the spring of 2013 added a further weight to JPY and US-JN bond yield support fell away. Investors have shifted to a bearish stance, with the CFTC reporting a net short position of $2.9 billion as of October 23rd. We are neutral USDJPY into year-end, targeting 80.

CHINA - CNY strengthened in October, trading near record highs. Additional flexibility, with the yuan more regularly testing the extremes of its daily band, is a positive development. Recent appreciation is likely due to a combination of forces, including the US political cycle. Forward markets appear unconvinced that the recent gains will be sustained and are pricing some weakness into October 2013; we expect stabilization in November and for USDCNY to close the year at 6.25.

AUSTRALIA - AUD drivers are mixed as inflows driven by demand for high-yielding triple-A rated assets are offset by uncertainty over domestic growth, moderation in the price of iron ore and a dovish RBA. However, investor sentiment is bullish AUD, given the net long US$4.7 billion CFTC position as of October 23rd, and risk reversals suggest that option market investors are not currently seeking protection from USD strength. We expect AUDUSD to end 2012 at 1.04.

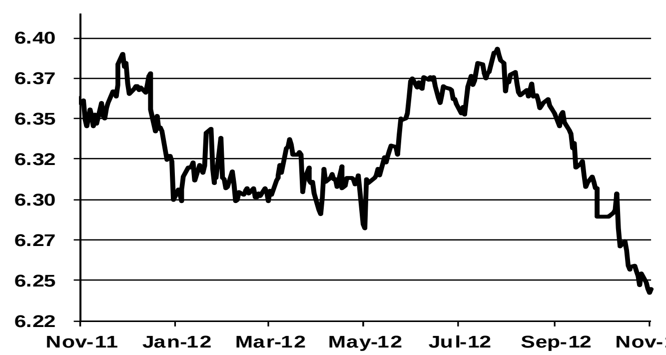
NEW ZEALAND - Entering November, NZD is the strongest primary currency in 2012, having gained 5.6% against the USD. Sentiment remains bullish, with the CFTC reporting a net long position of US$1.3 billion in late October. Foreign flows play a smaller role in NZD than a currency like AUD due to the small size of its bond and equity markets and more moderate AA S&P rating. Technicals suggest it has entered a narrow range with a catalyst needed for NZDUSD to break sustainably above 84. We expect the currency to remain somewhat range-bound into year, forecasting it to close at 0.81.

Currency Trends

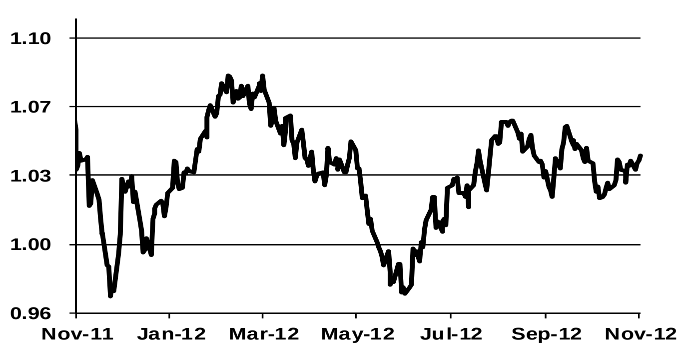
FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	1-Nov	3 m	6 m	12 m	
USDJPY	78.37	80.09	78.44	80.2	80.67	82.67	85.00	USDJPY
USDCNY	6.36	6.28	6.37	6.24	6.25	6.23	6.13	USDCNY
AUDUSD	1.03	1.03	1.05	1.04	1.04	1.05	1.06	AUDUSD
NZDUSD	0.80	0.82	0.81	0.83	0.81	0.81	0.82	NZDUSD

USDJPY

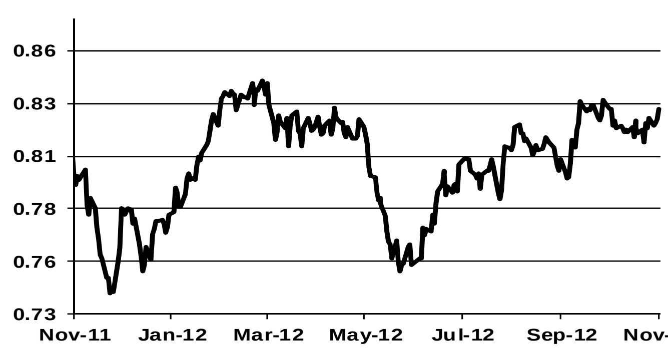
USDCNY



AUDUSD



NZDUSD



ASIA/OCEANIA

Fundamental Commentary

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JAPAN - Further monetary easing is underway in Japan as economic conditions are weakening and deflationary pressures linger. On October 30th, the Bank of Japan (BoJ) added around ¥11 trillion (US$138 billion) to its asset purchase program raising its total size to ¥91 trillion; the BoJ intends to complete the purchases by end-2013. Furthermore, the authorities opted to provide financial institutions with unlimited long-term funds at a low interest rate, mimicking recent moves by the European Central Bank. Through these measures, policymakers are seeking to encourage a decline in longer-term interest rates, to ward off deflation and to provide a boost to private spending, as well as to dampen the Japanese yen's appreciating pressures. As the impact of the tsunami-related reconstruction boom wanes, Japanese economic growth is poised to slow to around 1% in 2013 from 2.2% this year. While the nation's trade deficit is widening - reflecting weak export demand and reconstruction-related imports - a large surplus on the income account - resulting from earnings from overseas direct and portfolio investments - maintains a positive balance on the overall current account. Deflationary pressures have re-emerged, with consumer prices dropping by 0.3% y/y in September, following a -0.4% reading a month earlier. Prices will likely remain flat in 2012 as a whole, with inflation being dormant in 2013 as well. While Japanese public finances remain extremely weak, the administration has no difficulties in refinancing itself at very low rates.

CHINA - China's economy is on the verge of a gradual recovery despite the fact that the nation's real GDP grew by only 7.4% y/y in the third quarter of 2012, below the government's official growth target of 7.5% for the first time since the global financial crisis. The currency market has reacted favourably to this trend since July, interrupting two consecutive months of depreciation versus the USD. On a quarter-over-quarter basis, China's output grew by 2.2% in the Q3, following a 2.0% advancement in the second quarter. This trend should translate into a slight acceleration in the year-over-year growth rate in the final quarter of 2012 as recent supportive monetary and fiscal actions filter through the economy. The performance of industrial production, investment in urban fixed assets, and retail sales in September also indicated that a revival, albeit modest, is imminent. Inflation will accelerate moderately, with the CPI rate likely reaching 2.4% y/y by the end of the year from the September level of 1.8%. Nevertheless, persistent deflationary pressures further up the distribution chain alleviate any concerns regarding significant upside pressures on prices. In recent months, the People's Bank of China (PBoC) has taken a break from easing monetary conditions. The authorities will likely be able to stimulate demand in the economy by loosening monetary policy further, as well as by pushing ahead with infrastructure projects. We expect that the PBoC's lending rate will be lowered to its cyclical bottom of 5.75% in the next few months.

AUSTRALIA - The Australian dollar is supported by strong economic fundamentals, wide interest rate differentials between Australia and other advanced economies, a AAA credit rating, and portfolio investment inflows. Consumer prices increased by 1.4% q/q in the July-September period, taking annual inflation to 2.0%. The uptick is partly explained by the introduction of a carbon tax in July 2012. While inflation will likely rise to 2.5% y/y by year-end, it will still remain within the Reserve Bank of Australia's (RBA) target range of 2-3%. Responding to a softer growth outlook and manageable inflation prospects, the RBA cut the policy interest rate by 25 basis points to 3.25% in early October. We expect policymakers to hold monetary conditions unchanged after their early-November meeting in order to better assess the effects of earlier reductions; nevertheless, ample monetary policy space allows the RBA to provide additional stimulus to the economy in the near term. Australia is one of the fastest growing economies in the developed world, with the resources sector continuing to be the economic motor; we expect the nations' real GDP to advance by 3.4% this year. 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 sudden shifts in investor sentiment due to its large current account imbalances and high household debt, as well as to repatriation of foreign investors' holdings.

NEW ZEALAND - Despite a large – and widening – current account deficit, 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 (RBNZ) assesses that a lower exchange rate would be desirable; it will monitor the currency developments closely, being prepared to intervene if all of its criteria for doing so are met. Policymakers will likely maintain an accommodative monetary stance in the coming quarters. Following the October 25th monetary policy meeting, the authorities kept the cash rate unchanged at a record low of 2.50% for the 19th consecutive month. According to Governor Graeme Wheeler, the RBNZ has monetary space to reduce interest rates if needed, while the nation's economic conditions do not warrant quantitative easing. Inflation, at 0.8% y/y in September, has dipped below the central bank's 1-3% medium-term target, as prices rose by only 0.3% q/q in the third quarter of the year. Domestic demand continues to be the main economic motor, driven by earthquake-related reconstruction investment; meanwhile, subdued external conditions weigh on the overall economic outlook as the country's exporters battle with weak demand and an elevated currency. Nevertheless, agricultural exports will benefit from adverse weather conditions in the US. We expect New Zealand's real GDP to expand by around 2⅓% in 2012-13 .

DEVELOPING ASIA

Currency Outlook

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INDIA - The short term sentiment driven rally from previously announced economic reforms, aimed at encouraging better financing of the current account deficit, has waned as INR retraced more than half of its appreciation since mid September. The Finance Minister has announced the intention to reduce the fiscal deficit to 3% by the 2016-17 fiscal year, a potential structural bright spot for INR if well executed. We remain cautious, however, and note that the related structural external deficit remains a key impediment to sustained INR gains. For USDINR we target 53.50 in Q4 of 2012 and 52.25 in Q4 of 2013.

KOREA - USDKRW fell to new 1-year lows at the end of October, as a break of 1100 emboldened speculative selling. The trend strengthening Asian FX (most notably in CNY) has also made appreciation more palatable for Korean policymakers, though FX reserves data show a stepped up pace of intervention. Korea is likely to remain favouring a dovish monetary stance as an offset to tightening monetary conditions via won strength, though we don't expect this to impact KRW significantly as the monetary easing from the Federal Reserve trumps domestic easing. We target USDKRW at 1105 for Q4 of 2012 and 1075 for Q4 of 2013.

THAILAND - The Bank of Thailand's surprise rate cut did suggest policymaker's concern regarding THB strength vis-à-vis the external environment, and likely contributed to some degree to THB underperformance in October (relative to Asia). Nevertheless, it is unlikely that THB suffers on a dovish policy stance shift, as monetary dovishness in other Asian nations and the prospect for eventual future monetary tightening (due to still well present domestic inflation risks) outweigh any short term carry loss. We target 30.80 by the end of this year in USDTHB and 30.0 in Q4 of 2013.

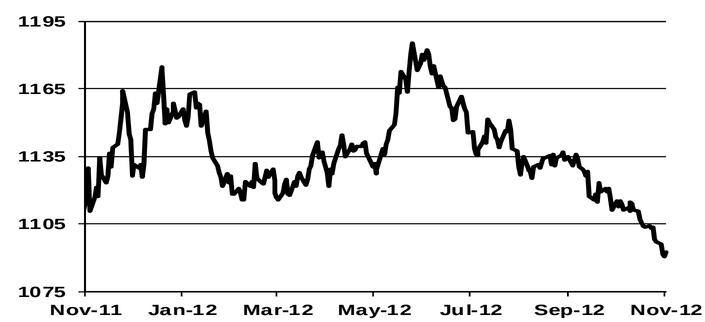
MALAYSIA - MYR has settled into a post-QE3 announcement range trade, but is still performing rather well on the back of the Fed monetary easing dynamic. Indeed, foreign exchange intervention in September spiked as reserves increased by their most in nearly one year. This suggests that MYR appreciation will be resisted, however, not impeded completely. As such we are shifting a more bullish trajectory for MYR and forecast USDMYR at 3.05 in Q4 of 2012 and 2.98 in Q4 of 2013.

Currency Trends

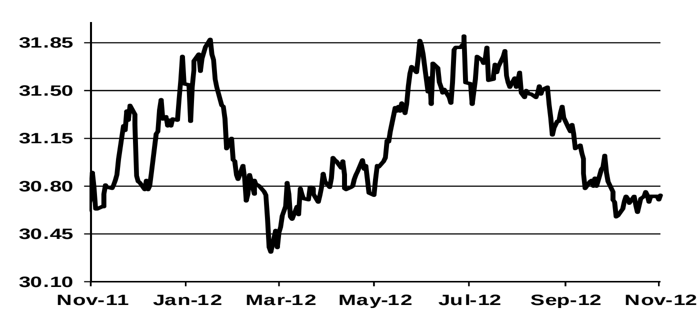
FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	1-Nov	3 m	6 m	12 m	
USDINR	49.27	52.74	55.47	53.71	53.40	53.08	52.46	USDINR
USDKRW	1114	1132	1127	1092	1103	1095	1080	USDKRW
USDTHB	30.90	30.73	31.58	30.73	30.73	30.53	30.13	USDTHB
USDMYR	3.12	3.03	3.11	3.05	3.04	3.03	2.99	USDMYR

USDINR

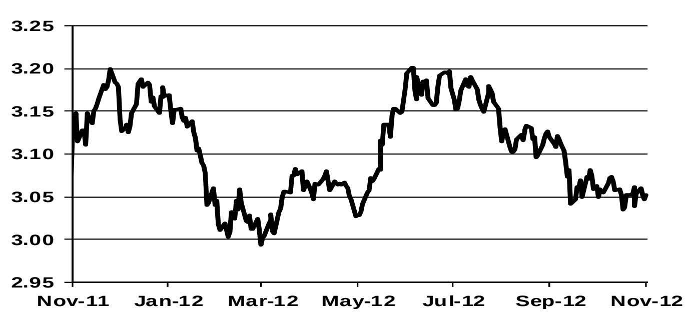
USDKRW



USDTHB



USDMYR



DEVELOPING ASIA

Fundamental Commentary

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INDIA - Weak economic fundamentals, including as large current account and fiscal deficits, a muted economic performance, and a negative credit rating outlook by two agencies are weighing on the Indian rupee. Inflation dynamics will be the cornerstone of the Reserve Bank of India's (RBI) monetary policy decisions in the coming months. Wholesale price inflation accelerated to 7.8% y/y in September from 7.6% y/y the month before. Price pressures will likely continue to buildup, reflecting the inflationary impacts of the delayed monsoon and increased fuel prices following recent cuts in subsidies. High inflation combined with India's twin deficits has restricted the central bank's ability to implement considerable monetary measures in recent months to counter subdued economic conditions. Nevertheless, with some promising economic reforms underway the monetary authorities may be able to start entertaining the idea of a modest rate reduction in early 2013. India's economic conditions remain muted; a late monsoon is suppressing the agricultural sector's performance, adversely impacting rural incomes. Furthermore, elevated inflation, high interest rates and low consumer confidence further dampen consumer spending prospects. Accordingly, investment plays a key role in India's growth outlook. While the administration is aiming to help speed up the implementation of large projects, structural limitations curb prospects for fixed capital formation. We expect that the Indian economy will expand by 5.5% this year and accelerate modestly in 2013.

KOREA - The Korean won continues to be supported by the country's improved sovereign creditworthiness, accumulating foreign reserves and solid fiscal and current account surpluses. Nevertheless, economic momentum in South Korea is weakening; real GDP growth decelerated to 0.2% q/q in the third quarter of 2012 from 0.3% in the April-June period, posting the slowest growth since end-2009. In year-over-year terms, output advanced by 1.6% in the third quarter, compared with 2.4% y/y in the previous period. A significant drop in investment was the major cause of the subdued outcome, while household and government spending as well as net exports posted solid increases. We have revised our South Korean output growth forecast downwards, now expecting the economy to advance by 2.3% in 2013, followed by a modest pickup to around 3.0-3.5% in 2013-14 as the country receives a boost from recovering Chinese and US economies. Inflationary pressures remain manageable; the headline consumer price index increased by 2.1% y/y in October, remaining comfortably within the Bank of Korea's 2-4% target range. Given the weaker growth outlook and benign inflationary pressures, the country's monetary authorities lowered the benchmark interest rate by 25 basis points to 2.75% following the bank of Korea's policy meeting on October 10th. We believe that the monetary easing cycle has reached its bottom, with policymakers expected to start a gradual process of interest rate normalization in the third quarter of 2013.

THAILAND - A favourable domestic economic outlook will continue to support the Thai baht through 2013. On October 17th, the Bank of Thailand eased monetary conditions to protect domestic demand from elevated external risks, lowering the policy rate by 25 basis points to 2.75%. 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 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 regional manufacturing supply chains. 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 conditions, and an accommodative monetary policy stance bode well for the domestic economic outlook. With a strong y/y output expansion expected in the final quarter of 2012 (reflecting the flooding a year earlier), we expect the nation's real GDP growth to reach 5½% in 2012, followed by a deceleration to 4% in 2013-14 as the flood-related boost wanes. While consumer price inflation measured 3.3% y/y in September, core inflation, at 1.8% y/y, hovers comfortably within the Bank of Thailand's 0.5-3.0% target range.

MALAYSIA - The Malaysian ringgit will continue to be supported by the country's favourable macroeconomic outlook. Malaysia's economic performance is one of the strongest in the region, supported by solid domestic demand that counterbalances some of the adverse export sector impacts stemming from weaker growth conditions in advanced economies. Income growth and low unemployment point to sustained positive momentum in household spending, while investment activity continues to be boosted by ongoing infrastructure projects. Meanwhile, industrial production and exports will likely remain sluggish for an extended period of time. We expect Malaysian real GDP growth to average 4½-5% in 2012-13. A sizable current account surplus and an investment-grade credit rating add to the nation's macroeconomic strength, though public finances remain in deficit (we expect a budget shortfall of close to 5.0% of GDP in 2012). Inflationary pressures continue to be muted with the consumer price index registering an increase of 1.3% y/y in September, the lowest level since early 2010. The Bank Negara Malaysia, the central bank, assesses that its current monetary policy stance is accommodative; we expect the authorities to maintain the overnight policy rate at 3.0% at least through the first quarter of 2013. The benchmark interest rate has remained unchanged since May 2011. The next general elections will be held by early 2013; we do not foresee any major changes in the political landscape.

Foreign Exchange Outlook

DEVELOPING AMERICAS
Currency Outlook

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BRAZIL - Despite recent USD strength and movements in risk appetite in global financial markets, the Brazilian Real continues to trade in a tight range around the 2.02 mark, where it has fluctuated since July. The weak recovery in the Brazilian economy and the central bank's intervention policy set a hard path for the real to appreciate in the coming quarters.

MEXICO - Solid local economic dynamics, a more hawkish central bank, less optimistic sentiment across global financial markets and domestic political reforms have been the key drivers of the Mexican peso (MXN) in October. The USDMXN surpassed for the first time in one month the 13 pesos mark. We maintain our view that the MXN will close the year at 12.80 despite recent USD strength.

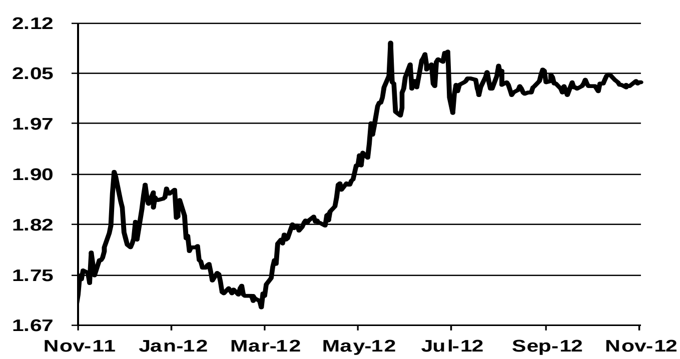
CHILE - Commodity prices, US dollar (USD) strength and concerns over global growth, particularly in Asia, have affected the Chilean peso (CLP) in recent months. The CLP lost around 1.5% vis-à-vis the USD in October, lessening expectations for a possible central bank intervention. We expect the USDCLP to close the year near the 500 mark per USD.

COLOMBIA - After trading in a tight range for almost two months, the Colombian peso (COP) reached its weakest level vis-à-vis the US dollar (USD) since August, responding to lower oil prices, less risk appetite in international markets, a decelerated economy and the intervention policy implemented by monetary authorities, as well as broad-based USD strength . We anticipate the currency will close the year at 1,800 per USD.

Currency Trends

FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	1-Nov	3 m	6 m	12 m	
USDBRL	1.74	1.91	2.04	2.03	1.99	1.97	1.89	USDBRL
USDMXN	13.61	12.92	13.38	13.03	12.85	12.90	13.04	USDMXN
USDCLP	490	485	483	479	494	496	501	USDCLP
USDCOP	1892	1764	1787	1825	1803	1813	1843	USDCOP

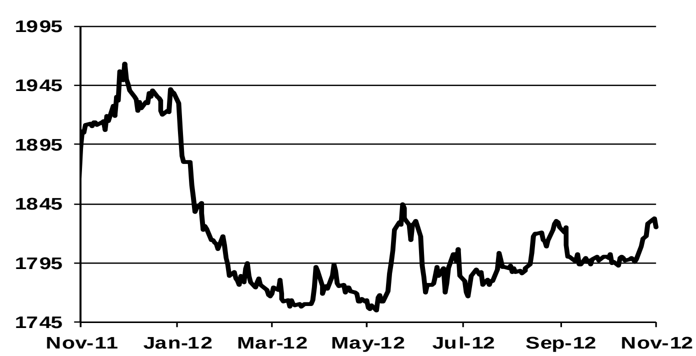
USDBRL



USDMXN

USDCLP

USDCOP



DEVELOPING AMERICAS
Fundamental Commentary

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BRAZIL - The Brazilian economic context remains weak; industrial production will contract by 2% in 2012, before recovering to +4% in 2013 on the back of aggressive public spending. Brazil is facing severe competiveness challenges due to a stronger currency in real effective terms, persistently high tax pressures and a very rigid labour market environment. We maintain a cautious view for next year's recovery, calling for a GDP growth rate below the 4% mark. Addressing infrastructure development needs remains a top priority. The external sector continues to suffer from softening global demand; indeed, the trade surplus continues to shrink pushing the 12-billion current account deficit to US$50 billion (fully covered by foreign direct investment). The inflation scenario is showing signs of modest gradual improvement driven by lower demand-side pressures, allowing for the current monetary accommodation to remain in place for a longer period. Recent surveys conducted by the Brazilian central bank point towards a decline in inflationary expectations; the IPCA-based headline inflation rate will reach 5.5% in the next 12 months. The Brazilian banking sector remains systemically sound, yet the non-performing consumer loan ratio remains high. The combination of lower interest rates and pro-growth stimulus measures continues to fuel a healthy expansion of domestic credit (up 15.8% in the 12 months to September 2012). It is worth noting the sharp increase in mortgage finance activity which expanded by 39% y/y in September.

MEXICO - Mexican economic activity remains strong; nonetheless, signs of slowing growth have emerged. Industrial production expanded by a solid 3.6% y/y in August, but contracted on a monthly basis, while retail sales accelerated to 4.8% y/y in the same month. Inflation and monetary policy have attracted significant attention in recent weeks. In September, headline inflation pick up to its highest level in more than two-and-a-half years to 4.8% y/y, significantly above the central bank's tolerance range of 2-4%. Core inflation remains within the official range, particularly the non-tradable component. The central bank has highlighted that the non-core component has been feeding temporary price pressures. In its latest monetary policy statement, the central bank's rhetoric was perceived as more hawkish, suggesting that there could be a tightening of monetary policy in order to anchor inflation expectations despite the fact that "there is no evidence of higher general prices". Accordingly, short-term interest rates rose slightly after the announcement; however, the currency continued to lose ground against the US dollar. We expect the central bank to hike rates in the first quarter of 2013. The international risk on/risk off environment has weighed on the Mexican peso probably more than the local environment, a trend that we expect to continue, especially in relation to the political cycle in the US. Foreign investor appetite for Mexican-peso denominated assets remains high; nevertheless, foreign holdings have eased somewhat based on recent statistics.

CHILE - The Chilean economic outlook remains sound, yet subject to the risk of modest deceleration in 2013. We estimate real GDP to expand at or slightly above 5% this year and next, subject to developments in the country's major export markets and key commodity prices. Sensitivities to global external demand remain high. Nevertheless, relatively strong domestic consumption and investment activity continues to support growth dynamics; indeed, domestic demand will expand by 5.5% in 2012-13. Moreover, tight labour markets improved household income pushing consumption even higher. The Chilean peso is also influenced by global market sentiment vis-à-vis the US dollar. The central bank is of the view that in real effective terms, the exchange rate has not been subject to unmanageable appreciation as the Chilean export base is more diversified than other peer countries in the developing Americas. On a negative note, increasing spending activity has led to a wider current account deficit (which will exceed 4% of GDP in 2013) in the context of eroding terms of trade. The central bank has opted to maintain monetary conditions for now, keeping the reference rate unchanged at 5% in line with market participants' expectations in the near term; however, the authorities have stressed that the increase in core services inflation pose mid-term risks. For now, our base case scenario calls for a headline inflation rate at or slightly below the 3% for 2012-13.

COLOMBIA - The Colombian Peso (COP), ranked as the worst performer among its Latin American peers in the last month, lost around 1.6% against the US dollar (USD) in October, breaking the stable range displayed since September. The currency has been affected by the swing in risk appetite in international markets, the fall in oil prices and central bank intervention policies. The economy remains in a moderation phase, particularly the sectors more exposed to international demand. Manufacturing production has slowed down since mid-year, while the pace of retail sales has moderated. Although local demand continues to be the main driver of the Colombian economy, household consumption, and consequently credit have lost steam. Additionally, inflation remains near the mid-point of the central bank's tolerance range, giving the central bank a wider margin to maneuver. After cutting the reference rate in July and August (25 basis points at each meeting), the central bank has since left the rate unchanged at 4.75%. However, the board decisions have not been unanimous, leaving the door open for another possible cut by the end of the year. The central bank has stated that the spillovers effects from weak external demand continue to be of concern, while local demand remains solid. Additionally, authorities continue to increase the amount of daily USD purchases in the market, slowing down the COP appreciation pattern followed since the beginning of the year.

DEVELOPING EUROPE/AFRICA

Currency Outlook

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RUSSIA - After gaining nearly 7% in early September – around the time when the Russian central bank raised interest rates while other global central banks were easing monetary conditions – the Russian ruble (RUB) saw a slight correction, and now sits in a range around 31-31.5 per US dollar. Despite the favourable interest rate differential, the ruble will remain contained by oil prices. We hold a year-end USDRUB target of 32.

TURKEY - The Turkish lira (TRY) is positioned to remain within its recent trading range around 1.80 per US dollar, barring any major flare-up in geopolitical tensions in the Middle East. Gradual disinflation and economic rebalancing, combined with improving risk appetite spurred by central bank action in the advanced economies, offer room for the Turkish monetary authorities to provide stimulus without risking sharp lira depreciation. We expect a year-end USDTRY rate of 1.81.

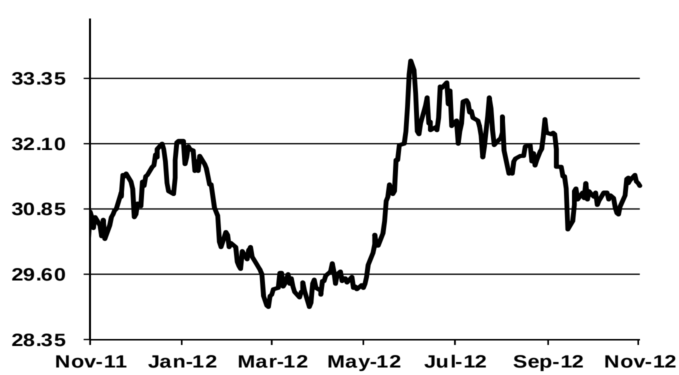
POLAND - The Polish zloty (PLN) has tracked the movements in global market sentiment, undulating in a band between 4.05 and 4.20 per euro over the last two months after a period of strengthening in the summer. We anticipate that EURPLN will weaken slightly following a likely rate cut at the next central bank meeting in early November, closing the year around 4.20. Thereafter, the currency should initiate a gradual upward trend.

SOUTH AFRICA - The South African rand (ZAR) deviated sharply in October from the range maintained since May, weakening by roughly 5% as intensifying domestic labour strife added to external debt fears, prompting investors to back off the currency. We anticipate that adverse local conditions, along with the nation's twin current account and fiscal deficits, will continue to weigh on the currency into 2013, and we have revised our end-2012 USDZAR forecast to 8.5.

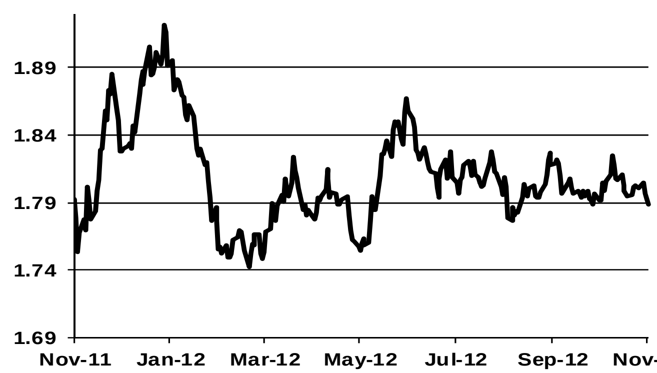
Currency Trends

FX Rate	Going Back 12 m	6 m	3 m	Spot 1-Nov	Outlook 3 m	6 m	12 m	FX Rate
USDRUB	30.80	29.35	32.30	31.29	32.02	32.07	32.17	USDRUB
USDTRY	1.79	1.75	1.81	1.79	1.81	1.79	1.76	USDTRY
EURPLN	4.43	4.15	4.11	4.12	4.18	4.13	4.03	EURPLN
USDZAR	8.10	7.74	8.35	8.65	8.49	8.47	8.42	USDZAR

USDRUB

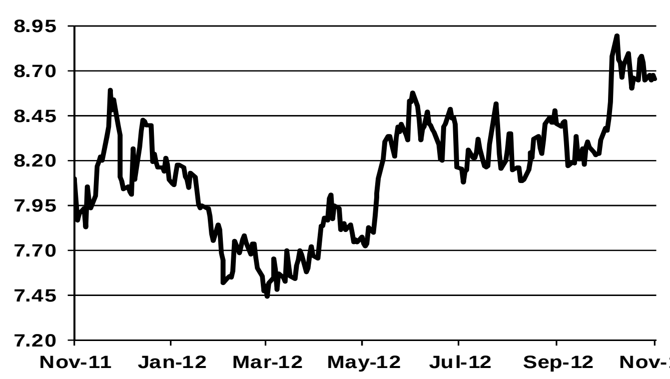


USDTRY



EURPLN

USDZAR



DEVELOPING EUROPE/AFRICA
Fundamental Commentary

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RUSSIA - The Russian ruble (RUB) may see some near-term support as elevated inflation encourages tighter domestic monetary conditions into 2013, while slightly improved global risk sentiment eases pressure on capital outflows. Private sector net outflows picked up to US$13.6 billion in the third quarter, bringing the total for the first nine months of the year to $57.9 billion. The central bank expects outflows to reach between $60 and 65 billion this year, with the net position returning to positive territory by 2015. In support of this trend, Russia rose eight spots in the World Bank's latest ease of doing business ranking, to 112th out of 185 countries. Nevertheless, the longer-term outlook remains unpromising, with little determined action on reforms to improve the domestic business climate and reduce the dependence on oil exports. Meanwhile, economic activity has begun to slow demonstrably. The pace of industrial production decreased to 2.0% y/y in September, while yearly retail sales grew just 4.4% (a 0.4% monthly contraction) and business investment sunk 1.3% y/y. Exports fell for a third straight month, shedding 5.6% y/y, though the trade surplus actually expanded over the prior month given a drop in imports. Inflation, however, continues to rise on the back of food and regulated price increases, as well as still solid labour market conditions. Inflation reached 6.6% y/y in September, breaching the central bank's 5-6% target for the year, while strong producer price growth of 11.6% signals further near-term cost pressures.

TURKEY - Turkish economic activity continues to moderate, while the medium-term outlook remains sound. Industrial production fell into negative territory in August for the first time since November 2009, dropping 1.5% y/y, with machinery and consumer durables especially hard hit. Manufacturing output is being dampened by weak confidence and external demand – although exports are currently running at a strong pace, this is being driven by a surge in shipments to the Middle East and North Africa while exports to the EU have plummeted. In this light, the government recently lowered its GDP growth expectation for 2012, from 4% to 3.2% (still above our own projection of around 2¾%), and conceded that fiscal targets for 2012-13 will be missed. The IMF recently concluded that current Turkish fiscal policy is pro-cyclical, with the budget plan overly reliant on revenues from domestic demand. The IMF lauded the nation's banking system, while cautioning that looser monetary conditions in the advanced economies could boost volatile short-term capital inflows, causing instability. The current account adjustment proceeds; the shortfall measured US$1.2 billion in August, the lowest deficit since the last time a surplus was recorded in October 2009. Inflation edged back higher in September, to 9.2% y/y, though the central bank assesses that core pressures are easing and the headline rate will fall in the coming months, leaving the door open for further policy easing (the overnight lending rate was cut by 1.5% at each of the last two meetings).

POLAND - Having succumbed to the effects of the euro crisis and lower global growth trajectory, the Polish economy will remain relatively restrained through mid-2013. The annual growth rate slowed sharply in the second quarter, sliding from 3.5% y/y in January-March to 2.4% on a collapse in investment spending after the conclusion of the Euro 2012 football tournament. As the weak external environment weighs increasingly on industrial activity, domestic demand is also being hampered by falling real wages and climbing unemployment. We now expect the economy to continue to decelerate into next year, with growth falling from 4.3% on average in 2011 to 2½% this year and little more than 2% in 2013, before picking up again in 2014. The euro crisis poses significant risks for the growth outlook and the currency; though Poland is less dependent on exports to the euro area, the economy retains other crucial links to the region, with many foreign-owned banks (carrying exposures to the periphery) and large external financing needs (the current account deficit measured 5% of GDP in 2011). Minutes from the October rate-setting meeting of the central bank showed a divided Monetary Policy Council, with disagreements about the likely impacts of recent global slowing and central bank easing on the medium-term outlook. The majority decision was to leave the reference rate at 4.75% (surprising expectations for a cut) and wait for the next macroeconomic projections, which will be available at the November meeting. Policy will likely be eased at that time.

SOUTH AFRICA - Like many other emerging currencies, the South Africa rand has been exposed to swings in international sentiment; however, domestic conditions have also weighed on the currency, causing it to rank as the worst-performing emerging currency against the US dollar, losing 4.15% in October alone. Unrest in the mining sector has worsened in recent months, affecting gold and platinum production. Both the government and the central bank have revised lower their 2012 GDP forecasts, anticipating that besides weak external demand and the uncertainty around the euro crisis, labour unrest will add to pressure on industrial output, exports and investment. In September, the business confidence index decreased to its second lowest level in the year as some firms had fired illegal striking workers, while doubts about the government's ability to resolve the crisis are increasing. S&P lowered the nation's sovereign debt rating by one notch in mid-October, following a similar move by Moody's in September. Both rating agencies have expressed concern over the less friendly investment environment cause by the mining conflicts. After cutting the repo rate by 50 basis points in July, the central bank has left the rate unchanged at 5.0%, stating that inflation will remain close to the upper limit of the tolerance range (3-6%) this year. The bank also cautioned that currency depreciation as well as any shock to oil and food prices could compromise the inflation outlook. Labour problems will likely continue to affect the currency over the coming quarters.

GLOBAL CURRENCY FORECAST (end of period)

		2011	2012f	2013f	2014f	2012f Q3a	2012f Q4	2013f Q1	2013f Q2	2013f Q3	2013f Q4	2014f Q1	2014f Q2	2014f Q3	2014f Q4
MAJOR CURRENCIES															
Japan	USDJPY	77	80	87	90	78	80	82	84	85	87	88	89	89	90
Euro zone	EURUSD	1.30	1.27	1.25	1.21	1.29	1.27	1.27	1.26	1.25	1.25	1.24	1.23	1.22	1.21
	EURJPY	100	102	109	109	100	102	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	0.78	0.76	0.73	0.80	0.78	0.78	0.77	0.76	0.76	0.75	0.75	0.73	0.73
Switzerland	USDCHF	0.94	0.95	0.98	1.03	0.94	0.95	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	12.81	13.19	13.31	12.86	12.81	12.93	12.84	12.96	13.19	13.22	13.11	13.18	13.31
	CADMXN	13.65	13.21	13.74	14.16	13.07	13.21	13.33	13.24	13.50	13.74	13.92	13.80	14.02	14.16
South															
Argentina	USDARS	4.30	6.00	6.50	7.50	4.70	6.00	6.13	6.25	6.38	6.50	8.83	9.83	10.83	7.50
Brazil	USDBRL	1.87	1.99	1.86	1.83	2.03	1.99	1.98	1.95	1.90	1.86	1.86	1.85	1.84	1.83
Chile	USDCLP	520	494	502	510	475	494	495	497	500	502	502	505	505	510
Colombia	USDCOP	1939	1800	1850	1890	1801	1800	1810	1820	1840	1850	1860	1870	1880	1890
Peru	USDPEN	2.70	2.61	2.55	2.52	2.60	2.61	2.62	2.58	2.58	2.55	2.55	2.55	2.54	2.52
Venezuela	USDVEF	4.29	5.15	5.15	6.70	4.29	5.15	5.15	5.15	5.15	5.15	8.77	10.32	11.87	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	24.3	23.8	25.1	25.0	24.8	24.7	24.5	24.3	23.1	22.6	22.1	23.8
Iceland	USDISK	123	124	122	0	124	124	124	123	123	122	-163	-285	-407	0
Hungary	EURHUF	315	285	280	278	285	285	284	283	281	280	275	273	271	278
Norway	USDNOK	5.98	5.75	5.30	5.20	5.73	5.75	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	3.81	3.73	3.65	3.92
Russia	USDRUB	32.1	32.0	32.2	32.8	31.2	32.0	32.1	32.1	32.2	32.2	33.6	34.2	34.8	32.8
South Africa	USDZAR	8.09	8.50	8.40	8.50	8.31	8.50	8.48	8.45	8.43	8.40	8.63	8.73	8.83	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	1.81	1.75	1.73	1.80	1.81	1.80	1.78	1.77	1.75	1.70	1.68	1.66	1.73

f: forecast a: actual

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