Foreign Exchange Outlook

The European crisis, global growth and the central bank responses are the key themes that are driving markets into the fourth quarter. Volatility remains artificially suppressed and market sentiment lacks conviction, moving markets rapidly from risk-on to risk-off.

The outlook for the USD is complicated. Loose, non-traditional monetary policy at the Fed, combined with the lack of a fiscal plan, is not typically associated with a strong currency. However, currency valuations are relative, leaving a mixed outlook for the USD. Into year-end we expect modest strength in CAD and MXN, a neutral stance for NOK, SEK and AUD, and weakness in JPY and EUR against the USD. Most developing nations' currencies are poised for strength; however, intervention (in various forms) is likely to offset this pressure.

Progress has been made in Europe, but with each step forward, the growth outlook appears to deteriorate further, weighing on the outlook for EUR into year-end and 2013. GBP has a brighter outlook, boasting a relatively strong sovereign status, but limited gains are expected against the USD as its economic outlook is closely linked with Europe.

Emerging Latin America, Europe and Asia are vulnerable to intervention at the government and/or central bank level, limiting near-term strength in the associated currencies.

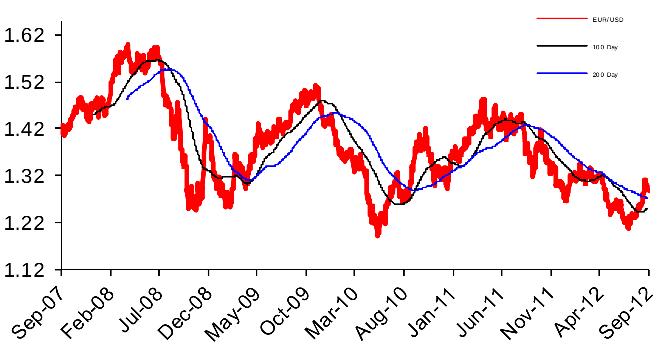
Index

Global Foreign Exchange Outlook

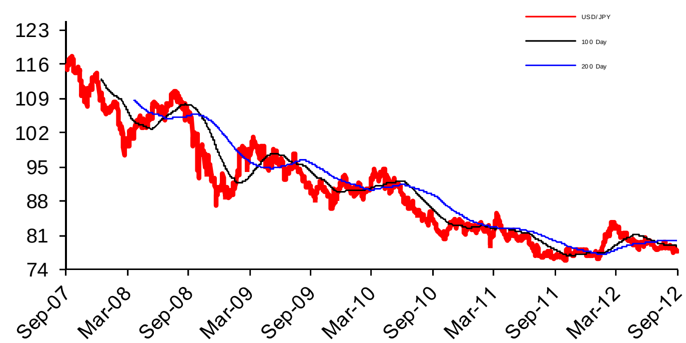
September 27, 2012		Actual	Q1a 12	Q2a 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Euro	EURUSD	1.29	1.33	1.27	1.29	1.26	1.24	1.23	1.22	1.21
	Consensus*				1.27	1.23	1.23	1.23	1.23	1.23
Yen	USDJPY	77.7	83	80	78	80	84	85	86	87
	Consensus*				79	79	80	81	82	83
Sterling	GBPUSD	1.62	1.60	1.57	1.62	1.62	1.62	1.63	1.64	1.64
	Consensus*				1.59	1.56	1.56	1.55	1.55	1.56
Canadian Dollar	USDCAD	0.98	1.00	1.02	0.98	0.96	0.96	0.96	0.97	0.97
	Consensus*				0.98	1.00	1.00	1.00	1.00	1.00
Australian Dollar	AUDUSD	1.04	1.03	1.02	1.04	1.04	1.05	1.05	1.06	1.06
	Consensus*				1.03	1.01	1.01	1.00	1.00	0.99
Mexican Peso	USDMXN	12.83	12.81	13.36	12.92	12.81	12.92	12.83	12.94	13.17
	Consensus*				13.05	13.04	12.99	12.94	12.89	12.92

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

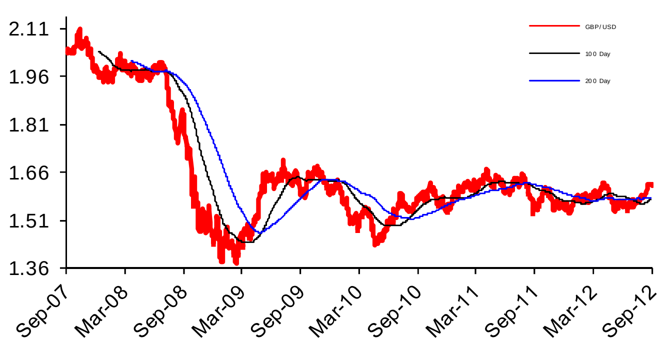
EURUSD



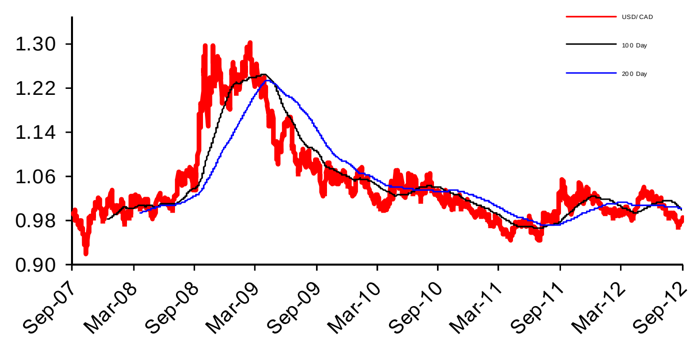
USDJPY



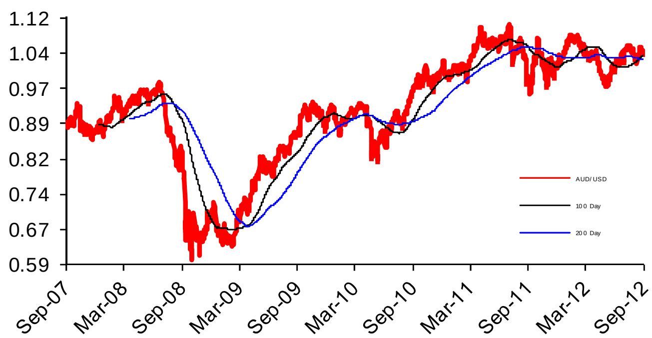
GBPUSD



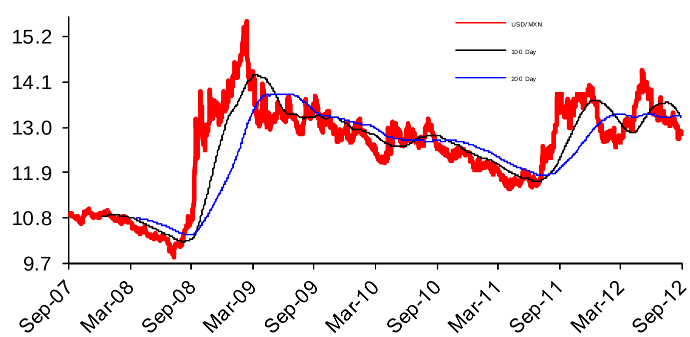
USDCAD



AUDUSD



USDMXN



(*) Source: Consensus Economics Inc. September 2012

Market Tone & Fundamental Focus

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A deceleration in global growth, progress but uncertainty in Europe and diverging central bank policy paths are the key themes that are driving markets. Artificially low volatility suggests that tail risks are low; however, rapidly shifting sentiment is fueling uneven patterns in financial markets. The outlook is for slow progress in Europe, a soft landing in China, loose G4 central bank policy and modest global growth. The most significant concerns from here are: 1) a further deceleration in the global growth outlook; 2) an escalation in the European crisis; 3) a drop in investor and business confidence; and 4) interventionary and reactive central bank policy. Our base case is more encouraging than these risks suggest.

The USD impact resulting from the Federal Reserve's (Fed) third round of quantitative easing in an uncertain fiscal environment, while complicated by low and slowing global growth, lays the foundation for an interesting debate. On a relative basis the US economy is encouraging; however, it continues to be marked by a weak labour market, fragile consumption, only a stabilization (as opposed to a recovery) in housing, and soft business confidence. Meanwhile, progress on the fiscal side has halted pending the November election, while another debt ceiling limit looms later in the fall. The lack of a credible fiscal plan and the expansion of already loose monetary policy are not conducive to a sustainably strong USD, outside of temporary spikes in risk aversion. However in currency markets, it is the relative story that matters. In this context, the USD is likely to strengthen against the euro (EUR) and Japanese yen (JPY), but weaken against the Canadian dollar (CAD), the Mexican peso (MXN), the Australian dollar (AUD) as well as a host of others.

CAD is expected to remain historically strong. Slowing global growth is not typically the environment for a strong CAD; however, this is offset by relative central bank policy, with the Bank of Canada maintaining a far more hawkish stance than its US counterpart. In addition to a strong natural resource sector, Canada's triple-A rating, and bullish investor sentiment are all supporting CAD through parity.

In Latin America, appreciating pressure on the MXN is likely building in a response to global central bank policy and Mexico's hesitation to move towards intervention. Much of the fundamental outlook is similar to CAD's and the two currencies should move in tandem. Brazil, through FX swap auctions, is keeping the real (BRL) close to 2.00 per USD. Colombia is fighting strong inflows through USD purchases while Peru, which faces similar inflows, has warned that intervention might become unpredictable. Finally, the outlook for the Chilean peso is more uncertain with slowing copper exports pushing the trade balance into deficit. Intervention remains a significant threat.

For Europe, material progress has been made, providing the foundation for a slight increase in our year-end EUR target to 1.26, but no change to our 2013 year-end forecast of 1.21. The ECB's bond-buying program has decreased the risk of a monetary union breakup, while developments on the banking union front have relieved some fears over bank solvency. The major concerns from here are the political ability to build a framework for a fiscal union and how a decelerating growth profile will impact stabilization in the EMU. The EUR and the associated economies are likely to struggle. The Scandinavian currencies are well positioned, which should help to support the Norwegian krone (NOK) and Swedish krona (SEK); however, strength from here is likely to come in 2013. The EURCHF floor is credible and the only shift we anticipate is for it to rise later this year. Fundamentally weak, the British pound (GBP) benefits from its triple-A status and positive sentiment; nonetheless, we do not expect material gains from levels achieved in late September. The UK's ties to Europe are a notable risk for GBP.

The Asian backdrop is diverse. JPY has benefitted from the depth of its bond market and an ongoing demand for safe haven assets; US – Japanese two-year spreads suggest a clear catalyst for yen weakness. Japanese policymakers are concerned about appreciation, but have yet to move towards intervention. Japanese fundamentals, including loose Bank of Japan policy, are a weight. We expect yen strength to be limited and a weakening trend to develop into year-end. The Chinese yuan (CNY) has recently reverted to a strengthening trend, in line with our forecasts. A narrowing current account balance, slower reserve accumulation and appreciation to date have taken some of the pressure off the yuan; however, we continue to expect modest appreciation into year-end.

The majority of currencies in the emerging Asian FX space have overshot fundamental valuations, as central banks are moving towards looser policies and the region's economies are under pressure from a deceleration in trade. Accordingly, we expect some modest weakening into year-end for INR, MYR, SGD, PHP and THB, with most returning to an appreciation trend in 2013. Australia's enviable sovereign position and interest rate differentials have buoyed investor demand for AUD; however, the outlook is more subdued than it otherwise would be, considering fears over loosening RBA policy and the outlook for the mining sector.

CANADA

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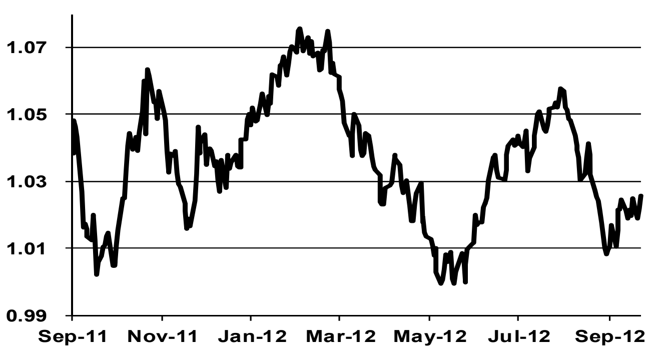
CAD is expected to remain historically strong; however, it appears increasingly comfortable just above parity, with only limited gains expected into year-end. The most important piece of CAD valuation out to year-end is whether the deceleration in global growth is significant enough to offset the impact of global central bank policy. Both themes are important; however, even a less hawkish tone from the Bank of Canada will leave it as the most hawkish of the developed market central banks. Also important is that the Bank of Canada's stance juxtaposed against Federal Reserve policy, including the third round of quantitative easing, is clearly supportive of a strengthening currency. Finally, one of the most important consequences of global central bank policy has been artificially low volatility. Low volatility environments are typically positive for CAD. Following this theme, Canada's strong sovereign status, including a credible fiscal plan, a triple-A rating, and an investible bond market make its financial and real assets attractive investment vehicles for global investors. Flows on the back of this as well as building global FX reserves are also important and supportive of CAD. Sentiment towards CAD is historically bullish, even more so than when the currency was at record highs in November 2007. Reflecting this, the CFTC reported a record net long position of $12bn in mid-September, highlighting how aggressive investors are becoming as they build exposure to CAD. The flip side of the CAD outlook is the USD outlook. The US fiscal situation, with a looming fiscal cliff and lack of a credible plan, highlights an important risk and weight against the USD; as does Fed policy. However, global growth is a significant concern. An environment of low global growth is not typically associated with a strong CAD. What becomes important on this front is how much is already priced in. The summer months saw forecasters scale back expectations, but much of this has now been priced in. Still we would suggest that global growth remains the biggest weight against CAD, limiting what would otherwise be a notably bullish CAD forecast. Scotiabank expects a soft landing in China, which would support commodity prices and CAD. Oil prices are expected to average $100 in 2013 and the spread between Brent and WTI is forecasted to narrow. CAD is expected to close 2012 at stronger levels than it did in 2011; however, as global growth concerns fail to subside, the outlook for 2013 is more modest. We hold a year-end 2012 target of 1.04 (or 0.96 in USDCAD) and a 2013 forecast of 1.03 (or 0.97 in USDCAD).

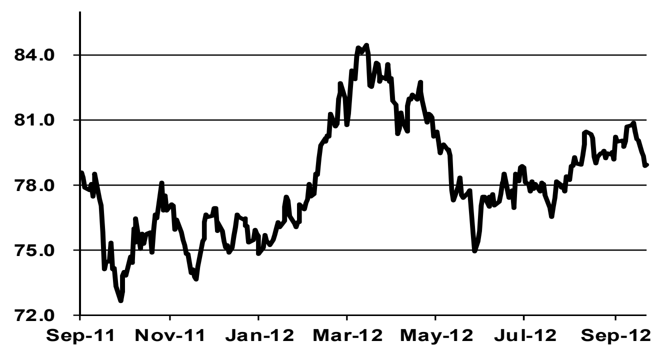
Currency Trends

FX Rate	Going Back 12 m	Going Back 6 m	Going Back 3 m	Spot 27-Sep	Outlook 3 m	Outlook 6 m	Outlook 12 m	FX Rate
AUDCAD	1.01	1.04	1.03	1.026	1.00	1.01	1.03	AUDCAD
CADJPY	75.35	83.60	77.78	78.92	76.80	80.64	83.42	CADJPY
EURCAD	1.39	1.32	1.28	1.266	1.21	1.19	1.18	EURCAD
USDCAD	1.02	0.99	1.02	0.984	0.96	0.96	0.97	USDCAD

AUDCAD

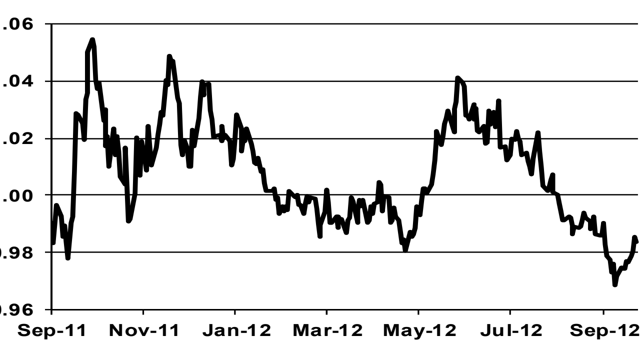


CADJPY



EURCAD

USDCAD



Canada and United States

Fundamental Commentary

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UNITED STATES - The US economy continues to be impacted by the recession in Europe, drought in the Midwest and uncertainty surrounding the 'fiscal cliff'. Consumption has been stronger as retail sales increased 0.9% in August, following a 0.6% increase in July, buoyed by auto sales and pent-up demand. However, the strength of the consumer could wane going forward as rising gasoline prices dent disposable income and the labour market remains soft. Non-farm payrolls have improved since Q2 and the unemployment rate ticked-down to 8.1%, but job creation remains well below desired levels for this phase of the recovery. The housing market continues to improve, but from very depressed levels. Housing starts were 750,000 in August, well above the low of 478,000 reached in April of 2009, but significantly below the pre-crisis average of 1.7 million from 2000-2007. House prices have begun to move up in some regions, but the pipeline of foreclosures, unwillingness of banks to lend and affordability issues imply that it will be a slow revival, which could suffer setbacks. Improvements in housing will provide some support for building materials, manufacturing and construction heading into next year. Industrial production contracted by 1.2% m/m in August, for the first time since March, as Hurricane Isaac restrained output and shut down oil and gas rigs in the Gulf of Mexico. Manufacturing has been particularly weak due to softness in global and domestic demand, with the ISM manufacturing index remaining below 50 for the third consecutive month. Businesses continue to delay capital outlays and hiring due to the uncertainty surrounding the Presidential election and fiscal policy, which will have an impact on spending and taxation next year.

CANADA - As domestic economic conditions temper in Canada, the external environment and international trade remain weak affecting exports and confidence levels. Consumption has moderated amid record household debt burdens, and the housing and job markets remain soft. Retail sales for July increased by 0.7% m/m, led by motor vehicle and parts (up by 1.7%) and general merchandise (1.5%), while electronics and appliance stores (-1.7%) continue to underperform. However, retail sales have been volatile, down by 1.8% annualized in Q2, and consumers will be affected by rising gasoline prices and slower job growth. The labour market added 35,000 jobs in August, mostly offsetting losses in July, and momentum has stalled with the unemployment rate stuck at 7.2%. The housing market is also showing signs of deceleration with a decline in existing homes sales of 5.8% m/m in August, as average MLS prices fell slightly nationwide. Despite some softening in the housing market, residential investment will continue to make a positive contribution to GDP through 2012 – housing starts were a robust 224,900 units in August. Business investment, which has been a driver of Canadian economic growth, remains cautious due to weak external demand and heightened uncertainty. Canada's merchandise exports fell by 3.4% m/m in July, while imports declined by 2.2%, widening the trade deficit to an all-time high of $2.3 billion, causing a net drag on GDP. Exports fell due to declines in energy exports and shipments to the US, which were down by 5%. GDP growth for Q3 is expected to reach only 1.5% annualized, down from 1.8% in Q2, with net exports and government consumption acting as a drag, while other components soften.

Monetary Policy Commentary

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UNITED STATES - The Federal Reserve announced that it would undertake an open-ended program whereby it purchases US$40 billion of mortgage-backed (MBS) securities monthly. Communications by Fed regional Presidents and members of the Board of Governors in the wake of the FOMC's announcement have reinforced the sense that the asset purchase program will continue for some time yet. Whether the MBS purchases will need to be matched with further Treasury purchases will depend on the strength of the US economy and markets at year-end when the Maturity Extension Program ('Operation Twist') concludes. We expect the FOMC to maintain the Fed Funds Rate at 0-0.25% through mid-2015 in light of the FOMC's statement that it will maintain an accommodative monetary policy stance even once the economy strengthens.

CANADA - Scotiabank expects the Bank of Canada (BoC) to hold its overnight rate at 1% through our published forecast horizon. We think that a) weak incoming economic data, b) a slowing housing market, and c) the strong easing measures undertaken by the Fed, cumulatively imply that the BoC will need to remain on hold for an extended period and will cause the BoC to moderate the hawkish bias in its recent communications. The BoC's emphasis on Canada's export competitiveness is an additional reason to expect an extended rate pause, particularly in light of the BoC's recent statement that it "does take the exchange rate into account in setting policy."

EUROPE
Currency Outlook

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EURO ZONE - Material progress has been made in Europe. The ECB's bond-buying program decreased the risk of a monetary union breakup, while developments on the banking union front have relieved some fears over bank solvency. Accordingly, the valuation for EUR has shifted, leading to ongoing EUR short covering. The CFTC net short position has narrowed to –US$12 billion (as of September 18th), while risk reversals suggest that the desire to protect against USD upside has faded and technicals have stabilized. We expect EURUSD to trend lower into year-end, closing at 1.26.

UNITED KINGDOM - In late September, GBP was flirting with 13-month highs vs the USD. Risk reversals and a shift in the GBP position from net short to long (CFTC), suggest that sentiment is favourable. Fundamentals are weak, but these are offset by other factors, including the UK's "AAA" rating and its destination for inter-European flows. In addition on a relative basis, the currency foundation for GBP is stronger than it is for the USD, which faces loose monetary policy and uncertain fiscal policy. We expect GBPUSD to remain strong into year-end, holding a target of 1.62.

SWITZERLAND - The burden of intervention by the Swiss National Bank (used to maintain the 1.20 EURCHF floor) eased in September, as EURUSD rallied, taking the pressure off EURCHF. However, domestic headwinds persist and lacking any evidence of inflation, the SNB is likely to consider raising the floor to 1.25. We hold a year-end EURCHF floor of 1.25.

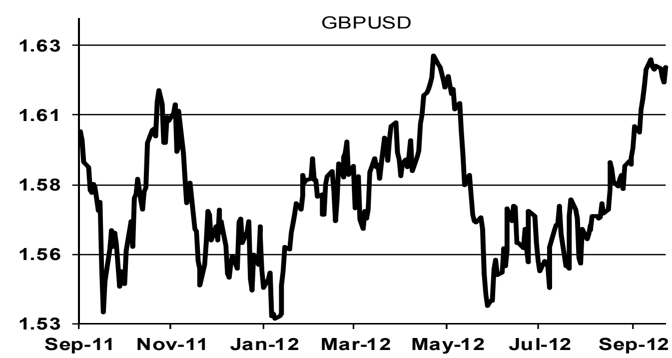
NORWAY - Elevated oil prices, strong domestic fundamentals, and a strong "AAA" credit rating are key long term supports for NOK. In the near-term, technicals have turned more favourable for NOK and sentiment indicators, such as risk reversals, suggest building bullish sentiment. We expect USDNOK to trend lower (NOK strength) but most of the appreciation is expected to come in 2013. We hold a year-end forecast of 5.75.

Currency Trends

FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	27-Sep	3 m	6 m	12 m	
EURUSD	1.36	1.33	1.25	1.29	1.26	1.24	1.22	EURUSD
GBPUSD	1.56	1.60	1.56	1.62	1.62	1.62	1.64	GBPUSD
EURCHF	1.22	1.21	1.20	1.21	1.20	1.25	1.25	EURCHF
USDNOK	5.76	5.70	6.04	5.74	5.75	5.60	5.40	USDNOK

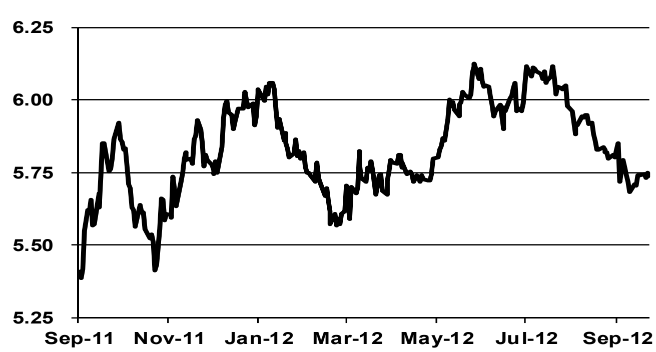
EURUSD

GBPUSD



EURCHF

USDNOK



EUROPE

Fundamental Commentary

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EURO ZONE - September saw some progress in the euro zone crisis, though significant risks remain. The European Central Bank's (ECB) announcement that it will buy sovereign debt in unlimited amounts in order to ease financing pressures and preserve the euro, followed by the German constitutional court's ruling in favour of the European Stability Mechanism and first steps in the establishment of a banking union, have helped to reduce tail risks, including an imminent breakup of the currency union. However, lingering uncertainties related to the political will of governments, renewed social unrest caused by austerity and climbing unemployment, slowing global growth and, following from these factors, the capacity for meaningful fiscal repair and structural reform, will keep financial markets on alert through the turn of the year. On the economic outlook, there has been little let-up to the spreading weakness. The composite EU PMI dropped again in September, reaching its lowest point since June 2009 on service sector weakness, while the German IFO expectations index touched a 40-month low in the same month. Meanwhile, inflation remains above the ECB's "below, but close to, 2%" inflation target across the major euro zone economies, meaning that another rate cut is likely out of prospect. Indeed, President Draghi has indicated that the ECB has done all it can to accommodate its price stability mandate, and now it is up to governments to implement reforms and build the necessary cross-border institutions to resolve the crisis.

UNITED KINGDOM - A buoyant labour market, rising real incomes, a moderating pace of disinflation, and a comparatively favourable standing in global financial markets (thanks to the nation's Triple-A credit rating and partial disconnect from the euro crisis) mean that the argument for more monetary stimulus from the Bank of England (BoE) is more marginal than it was. Though the growth outlook remains fundamentally weak, the first half of 2012 proved less downbeat than originally reported; second-quarter GDP was again revised higher in the final reading, to -0.4% q/q from an initial estimate of -0.7%, due to milder declines in construction and industrial production. This implies a smaller contraction for the year overall (-0.3%, versus -0.4% previously), further supporting the relative strength of the GBP. Employment data has been remarkably solid; the economy added 236,000 jobs in the three months to July, the most in two years, while the level of jobless claims has seen steep declines in recent months. This has sustained a robust pace in domestic demand, evidenced by average retail sales growth of almost 3% y/y in May-August. The external sector, however, is an increasing drag on the economy. Currency strength, combined with the recession on the continent and slower growth internationally, has pushed the UK's trade and current account deficits to record levels. The CA deficit reached GBP 20.8 billion in the second quarter, 5.4% of GDP. Inflation, though trending lower, will likely remain above the BoE's 2% target through 2013.

SWITZERLAND - The case for increasing the minimum exchange rate continues to be contentious, as the Swiss National Bank (SNB) has seen some relief from safe haven pressures on the franc, a slightly lower growth and inflation outlook, new monetary support measures from other major central banks and rising concerns globally as to how SNB reserves are impacting bond and currency markets. Although the pace of foreign currency accumulation, in support of the EURCHF 1.20 floor, slowed drastically in August, with the SNB buying less than CHF 10 billion, compared to an average of 57 billion over the prior three months, total reserves are likely to equal GDP by year-end, which could prove politically complicated. On the economic front prospects remain subdued. Although exports rebounded in August, advancing 0.9% m/m after falling in both July and June, a stronger pickup in imports (2.4%) resulted in a drop in the monthly trade surplus, a trend which we consider likely to continue. After output was reported to have contracted by 0.1% q/q in April-June (led by a 0.7% decline in exports) alongside a downward revision to the first-quarter estimate, the SNB cut its 2012 growth forecast to from 1.5% to 1%. The inflation trajectory was also lowered, with expected deflation of 0.6% on average this year. Without signs of improved prospects for domestic prices and output, or evidence of reduced external risks related to the euro crisis and US fiscal cliff, the SNB will likely consider raising the currency floor at its next meeting in December.

NORWAY - The prospect of renewed monetary easing by the Norges Bank has increased with a slew of lacklustre data releases since the last policy-setting meeting. The benchmark deposit rate, unchanged at 1.50% since March, may be lowered in the near term in view of continued krone strength, negligible inflation and looser monetary conditions globally. The krone (NOK) gained 2% versus the US dollar over the last month, and after falling sharply against the euro following the ECB's sovereign bond purchase announcement in early September, it has already regained an appreciating trend. Exports have shown some softness as a result; the trade surplus averaged NOK 32.3 billion in July-August, down from 40.1 billion in January-June, with non-energy goods at a particular disadvantage. The effects of external uncertainties are starting to be felt elsewhere in the economy; industrial production dropped 4.5% m/m in July and retail sales contracted for the third time in four months, dipping 0.1% m/m. Nonetheless, domestic growth remains generally well-supported by robust activity in the oil and construction sectors. Despite the persistent climb in house prices and strong employment and credit growth, inflation remains subdued, at 0.5% y/y in August. The central bank is not only concerned with price stability around the 2.5% target, however, also taking into account potential financial imbalances. It is on this point that the bank remains cautious, with household indebtedness at a historical high near 200% of disposable income.

ASIA/OCEANIA
Currency Outlook

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JAPAN - Persistent strength in JPY is an ongoing concern for the Ministry of Finance; however, intervention is unlikely to be the favoured FX tool. Over the last two-weeks of September, US-Japanese two-year bond yield spreads rose from their lows as the surprise ¥10trn expansion of the BoJ asset purchase program served to counteract previous Fed easing. USDJPY appears poised to rally back towards our year-end forecast of 80.

CHINA - CNY rallied against the USD during September, aided by progress in Europe and Fed action that has weighed on the USD. Forward markets are pricing a weaker CNY into year-end. We would suggest that a narrowed current account balance, slowing reserve accumulation, and a shifting currency regime have removed some but not all of the appreciation pressure. We hold a year-end USDCNY target of 6.25.

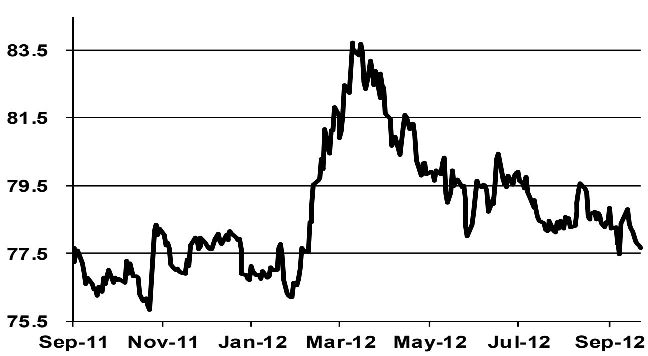
AUSTRALIA - AUD remains a favoured destination for central bank reserve diversification flows, helping to offset fears over the potential toping in the mining sector and the risk of interest rate cuts. However, Australia's "AAA" rating and relatively high bond yields support strong flows. In addition, sentiment indicators are bullish, the net long AUD position reported by the CFTC has dipped but remains elevated at $9bn. We hold a modest Q4 target of 1.04 for AUDUSD.

NEW ZEALAND - NZD has rallied from its spring lows as risk aversion has subsided and global central banks have unleashed a risk rally. Investors are mildly bullish NZD, holding a modest US$1.4 billion net long position (CFTC). Risk reversals have also rallied with the currency, confirming the shift in sentiment. Concerns for NZD are its dependence on dairy and unbalanced domestic economy as well as the new leadership at the RBNZ. Accordingly, we hold a modest year-end NZDUSD forecast of 0.78.

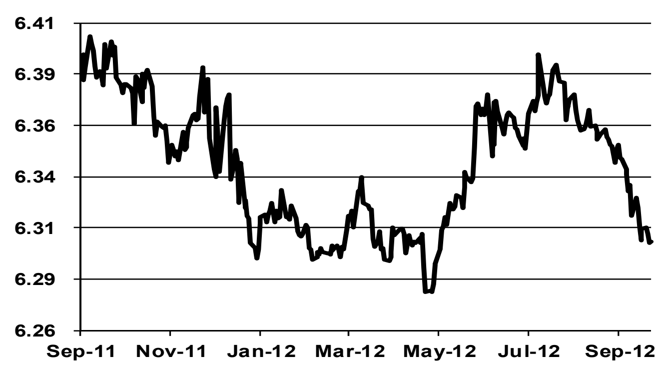
Currency Trends

FX Rate	Going Back 12 m	Going Back 6 m	Going Back 3 m	Spot 27-Sep	Outlook 3 m	Outlook 6 m	Outlook 12 m	FX Rate
USDJPY	76.81	83.18	79.72	77.7	80.00	84.00	85.00	USDJPY
USDCNY	6.40	6.31	6.36	6.30	6.25	6.25	6.15	USDCNY
AUDUSD	0.99	1.05	1.01	1.04	1.04	1.05	1.06	AUDUSD
NZDUSD	0.79	0.82	0.79	0.83	0.78	0.78	0.80	NZDUSD

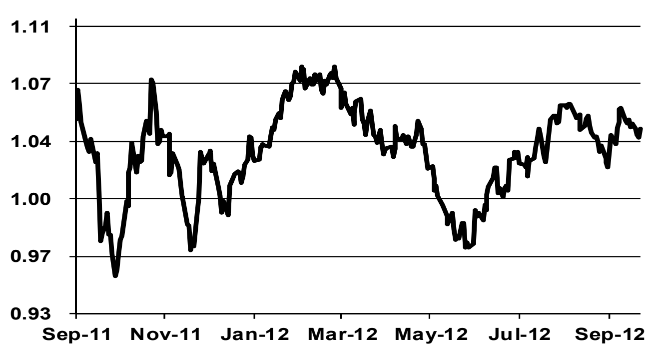
USDJPY



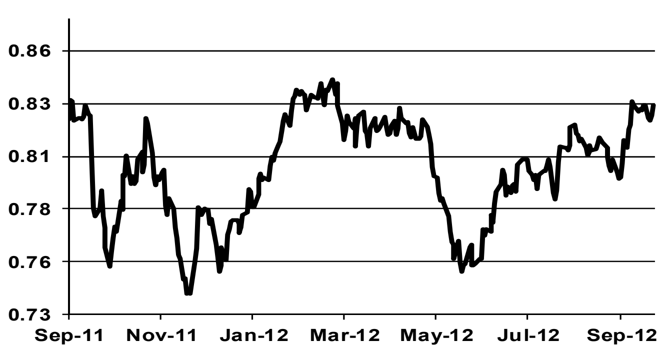
USDCNY



AUDUSD



NZDUSD



ASIA/OCEANIA
Fundamental Commentary

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JAPAN - Further monetary easing is underway in Japan. On September 19th, the Bank of Japan (BoJ) joined the US Federal Reserve and the European Central Bank in providing additional stimulus to the sluggish economy. The BoJ added ¥10 trillion to its asset purchase program that raised its total size to ¥80 trillion, while extending the program by six months until the end of 2013. The central bank also opted to remove the minimum bidding yield of 0.1% altogether to ensure smoother purchases of government and corporate bonds. By these actions, Japanese policymakers are seeking to ward off deflation and to provide a boost to private spending, as well as to dampen the Japanese yen's (JPY) appreciating pressures stemming from further rounds of monetary easing by global central banks. Nevertheless, persistent investor risk aversion continues to support the JPY, keeping the currency stronger that the country's economic fundamentals would warrant, while hurting the nation's exporters. As the impact of the tsunami-related reconstruction boom wanes, Japanese economic growth is poised to move to a slower trajectory. We expect real GDP growth to ease to 1.5% in 2012 from 2.3% this year. Furthermore, deflationary developments adversely impact the growth outlook by making borrowing unappealing (by increasing real value of debt) and by inciting consumers to postpone spending. While Japanese public finances remain extremely weak, the administration has no difficulties in refinancing itself at very low rates.

CHINA - Weak economic conditions in most advanced economies continue to be reflected in Chinese industrial production and export figures, suggesting that Chinese real GDP growth will decelerate for the seventh consecutive quarter in the July-September period. Output expanded by 7.6% y/y in the three months through June; we expect the economy to advance by 7.8% this year as a whole compared with 9.3% in 2011. Consumer price pressures intensified in August for the first time in five months, rising 0.6% m/m (and 2.0% y/y). Nevertheless, accelerating deflationary pressures further up the distribution chain (producer prices declined by 0.5% m/m and 3.5% y/y) alleviate any concerns regarding significant upside pressures on prices. In the past couple of months Chinese policymakers have taken a break from easing monetary conditions following two reductions in interest rates in June and July that took the benchmark 1-year lending rate to its current level of 6.0%. Reserve requirements were lowered three times between November 2011 and May 2012. We assess that the authorities have amble room to provide further stimulus to the slowing economy by loosening monetary conditions further in the coming months, as well as by pushing ahead with infrastructure projects. We expect the Chinese yuan to regain an appreciating trend once stimulus measures are unveiled.

AUSTRALIA - The Australian dollar continues to be supported by strong economic fundamentals, wide interest rate differentials within other advanced economies, and portfolio investment inflows. Furthermore, the International Monetary Fund assesses Australia's financial system to be sound, resilient and well-managed, adding another favourable element to the country's overall outlook. Australia is one of the fastest growing economies among the developed world, with the resources sector continuing to be the key economic motor. Real GDP advanced by 0.6% q/q (and 3.7% y/y) in the second quarter of the year, underpinned by temporarily elevated household spending that reflected one-off cash injections from the government. The nation'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). With inflation comfortably within the Reserve Bank of Australia's target range of 2-3% and the benchmark interest rate being the highest among major advanced economies, monetary policy space adds another tool to the Australian authorities' kit for dealing with any potential external shocks (i.e. a major slowdown in China and/or a significant drop in commodity prices) to which the economy is vulnerable, given its large current account imbalances and high household debt. We anticipate a modest reduction in the benchmark interest rate towards the end of the year from the current level of 3.5%.

NEW ZEALAND - A stronger than anticipated second-quarter GDP report in New Zealand (NZ), new liquidity injections announced by major central banks, a relatively weaker US dollar and strong commodity prices supported the New Zealand dollar's (NZD) appreciation in September. The economy expanded by 2.6% y/y in the second quarter, the fastest pace since the final quarter of 2007. Both the agricultural –mainly dairy output– and the construction sector –predominantly related to earthquake reconstruction efforts– lead the country's expansion, increasing by 4.5% y/y and 3.3% y/y, respectively. Conversely, consumption remained subdued, with fiscal austerity measures also weighing on local demand; however, recent retail sales data signaled that local demand may be starting to rebound, which is yet to be confirmed. Exports have been negatively affected by the currency strength and the weaker demand coming from the nation's main trade partners (China and Australia). In August, for the first time since the beginning of the year, NZ posted a monthly trade deficit, with exports decreasing by 3.6% y/y and imports falling by less than 0.5% y/y. In the September monetary policy statement, the central bank left the official cash rate unchanged at 2.5% for the sixth consecutive quarterly announcement. We do not anticipate any change in the monetary stance in the near term, given that inflation decelerated to less than 1.0% y/y in the second quarter and growth is expected to expand modestly in the coming quarters.

DEVELOPING ASIA

Currency Outlook

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INDIA - INR is in the midst of a short term rally, as market sentiment has shifted significantly on the back of the government's recently announced reforms. The goodwill engendered by reforms has brought in significant portfolio flows, benefitting equities as reforms create "space" for the RBI to eventually ease rates. The seeming re-engagement of the government in a reform program, along with signs of growth stabilization, may be helping to finally ameliorate the negative fundamental INR picture. We target USDINR at 53.50 for Q4'12.

KOREA - KRW has benefitted highly from the Fed's QE impetus, helping to push gains in Korean risk assets. The central bank remains tilted to the dovish side, and though relatively greater euro zone calm is helping to ease downside economic risks for Korea, the likelihood of further easing remains significant as economic data has yet to show a positive momentum shift (particularly the external sector). QE should help to reinvigourate the loss of momentum in Korean portfolio inflows and stabilize Korea's external accounts. We target USDKRW at 1135 for Q4'12.

THAILAND - THB was generally a middling performer in September, as FX reserves rose significantly through the month, suggesting the most rapid, sustained rate of official FX intervention since early 2011 (on a rolling monthly basis). Exports in Thailand have been pressured of late, explaining the apparent official vigour in resisting against currency appreciation. However, strong domestic demand conditions, and inherent potential future inflation threats, have left the Bank of Thailand one of the least dovishly positioned Asian central banks. Further weakness in the external account could change this and pose a risk to THB. We target USDTHB at 31.25 for Q4'12.

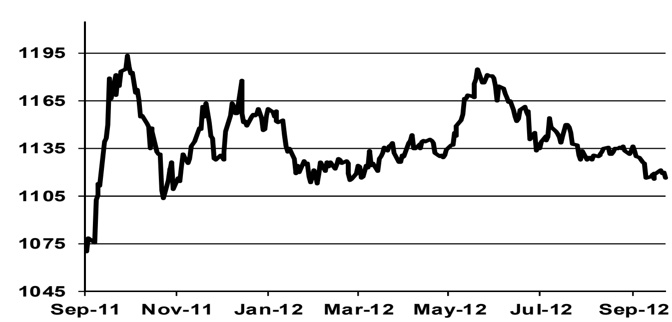
MALAYSIA - Weakness in external demand in the context of strong domestic demand has not been MYR-supportive across Malaysia's current account. Nevertheless, the initial degree of QE-driven speculative appreciation in MYR, in the aftermath of the FOMC, has been impressive; an easing in the degree of MYR strength as September comes to an end is much welcomed. However, as Malaysia is unlikely to provide monetary accommodation due to robust domestic demand conditions, and the coincident strength in SGD, MYR should maintain a stronger than average level than has persisted over the past year as we move into the end of 2012. We target USDMYR at 3.08 for Q4'12.

Currency Trends

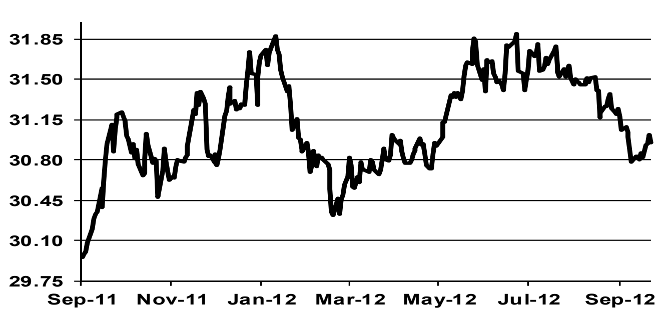
FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	27-Sep	3 m	6 m	12 m	
USDINR	49.08	50.87	56.85	52.97	53.50	53.50	52.50	USDINR
USDKRW	1168	1137	1156	1116	1135	1120	1105	USDKRW
USDTHB	30.87	30.72	31.84	30.95	31.25	30.80	30.30	USDTHB
USDMYR	3.15	3.06	3.19	3.07	3.08	3.05	3.02	USDMYR

USDINR

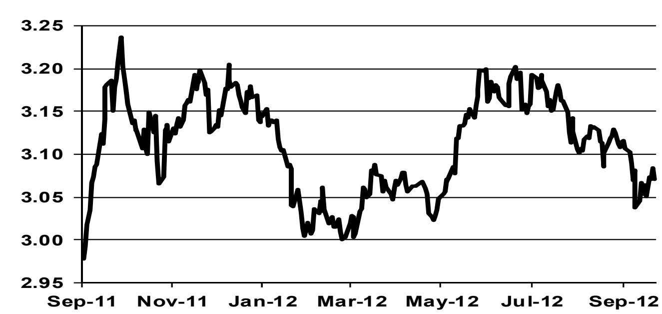
USDKRW



USDTHB



USDMYR



DEVELOPING ASIA
Fundamental Commentary

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INDIA - The monetary stimulus measures implemented by global central banks in September have provided support to the Indian rupee (INR) through improved investor sentiment. In addition, the Indian government announced pro-growth reforms that ease foreign investment rules, and lowered fuel subsidies that will ease the burden on public finances. Accordingly, the INR has gained 3.4% vis-à-vis the US dollar since the end of August. Nevertheless, we do not expect the rally to be sustained. Alleviating persistent inflationary pressures continue to be the Reserve Bank of India's (RBI) main monetary policy focus, as wholesale price inflation increased to 7.6% y/y in August from 6.9% the month before. On September 17th, the RBI maintained the benchmark interest rate at 8.0% but lowered banks' reserve requirements, thereby injecting rupees into the banking system. High inflation combined with India's current account and fiscal deficits has restricted the central bank's ability to implement more aggressive monetary policy measures in recent months to counter subdued economic conditions. Nevertheless, with the reforms underway the monetary authorities may be able to start entertaining an idea of a modest rate reduction towards the end of this year. India's output expanded by 5.5% y/y in the second quarter of the year; we have revised the country's real GDP growth forecast for 2012, and now expect the economy to advance by around 5⅔%.

KOREA - The perception of South Korea's sovereign creditworthiness continues to improve. In September, both Fitch Ratings and Standard & Poor's upgraded the nations' long-term foreign currency credit rating by one notch to "AA-" and "A+", respectively, on the back of the country's continued economic and financial stability amidst uncertain global conditions, combined with a less negative appraisal of the geopolitical risks regarding North Korea. The upgrades follow the rating change by Moody's a few weeks earlier, providing further support to South Korea's safe-haven status. Indeed, in mid-September the Korean won (KRW) reached its strongest (end-of-day) level vis-à-vis the US dollar in more than 10 months. Economic momentum in South Korea is weakening as domestic demand and export sector prospects continue to deteriorate. Accordingly, the Ministry of Strategy and Finance delayed its earlier plan to attain a balanced budget in 2013; the stimulus-focused draft budget, which will be presented to parliament in early October, targets a deficit of 0.3% of GDP. South Korean inflationary pressures remain low; the headline consumer price index increased by 1.3% y/y in August, below the Bank of Korea's 2-4% target range. Therefore, we expect that the country's monetary authorities will ease monetary conditions following the next policy meeting on October 10th, lowering the benchmark interest rate by 25 basis points to 2.75%. We expect the KRW to be exposed to a near-term correction before regaining an appreciating bias in 2013.

THAILAND - Strong momentum in consumption and investment in Thailand is counterbalancing the adverse economic impact of weaker global demand for Thai exports. The distress in Europe caused Thai shipments abroad to contract (in y/y terms) in August for the third consecutive month. Solid expansion in private credit and improving consumer confidence indicate that domestic demand will continue to be the cornerstone for real GDP growth 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. We expect Thai output to expand by 5% this year. With the headline consumer price index (CPI) increasing by 2.7% y/y in August, inflationary pressures remain moderate. The core CPI, at 1.8% y/y in August, continues to hover near the midpoint of the Bank of Thailand's 0.5-3.0% target range. Against this backdrop, we assess that the central bank will maintain the benchmark repo rate at the current level of 3.0% in the coming months, as looser monetary policy would do little to improve conditions in the external sector. Nevertheless, should the global economy deteriorate further the Thai authorities would have the needed monetary policy space to shore up economic activity. The favourable domestic economic outlook will continue to support the baht through 2013, though the currency remains vulnerable to sudden changes in investor risk aversion.

MALAYSIA - Malaysia's economic performance will continue to be one of the strongest in the region, supported by solid domestic demand that counterbalances some of the adverse export sector impacts stemming from sluggish growth conditions in advanced economies. Income growth and low unemployment (the jobless rate has returned to its pre-financial crisis level of 3.0%) point to sustained positive momentum in household spending, while investment activity continues to be boosted by ongoing infrastructure projects. Nevertheless, exports will likely remain sluggish for an extended period of time. We expect Malaysian real GDP growth to average 4½-5.0% 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 5.0% of GDP in 2012). Inflationary pressures continue to be muted with the consumer price index registering an increase of 1.4% y/y in August, 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; at this point, we do not foresee any major changes in the political landscape.

DEVELOPING AMERICAS

Currency Outlook

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BRAZIL - The pooled firepower of the central bank and the finance minister has left the Brazilian real (BRL) trading in a narrow 2.01 – 2.05 range against the US dollar in recent weeks, as the government's "currency war" rhetoric resurfaced. Given the still lackluster recovery of the manufacturing sector, intervention is likely to remain a drag on BRL appreciation, but its narrow band, combined with a 5.4% carry make the real a compelling carry currency. We look for USDBRL to end the year at 1.99.

MEXICO - The Mexican peso (MXN) had a strong run heading into the week of September 14, when the peso stabilized as QE3 and the ECB's announcement was largely expected. Since then, strong local corporate USD demand was only offset by foreign investors on upward spikes that boosted appetite for local fixed income, leaving USDMXN range trading in a 12.80-12.95 band. Going forward, loose central bank monetary policy and potential structural reform progress remain tailwinds, but heavy positioning presents a latent risk. We look for USDMXN to close the year at 12.81.

CHILE - The Chilean peso (CLP) continued its strong run, posting a 1.1% gain on the greenback during the month of September. However, more recently, intervention concerns are starting to weigh on the peso as a consensus appears to be forming that the central bank's intervention threshold stands somewhere in the neighborhood of 460. Going forward, we look for the combination of a deteriorating trade deficit, sluggish Chinese growth and low AFP (pension funds) foreign positioning to drive USDCLP upwards to 494 by year-end.

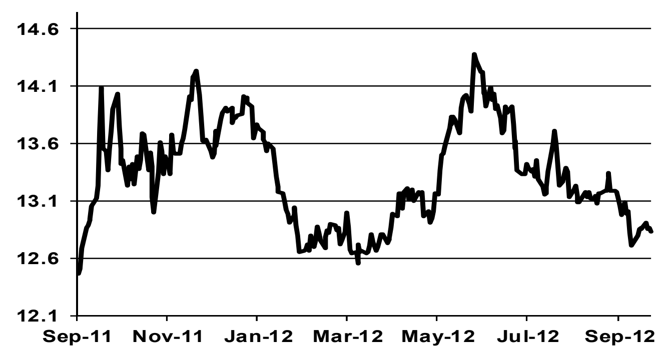
COLOMBIA - Official intervention in the spot market, uncertainty over future rate cuts and a Colombian peso (COP) linked USD bond sale by the Treasury helped stabilize COP around 1800, but have failed to materially push the currency higher. Going forward, we look for intervention to materially slow the peso's appreciation, but strong appetite for Colombian exposure should keep upward moves moderate. We forecast an end-of-year close at 1800.

Currency Trends

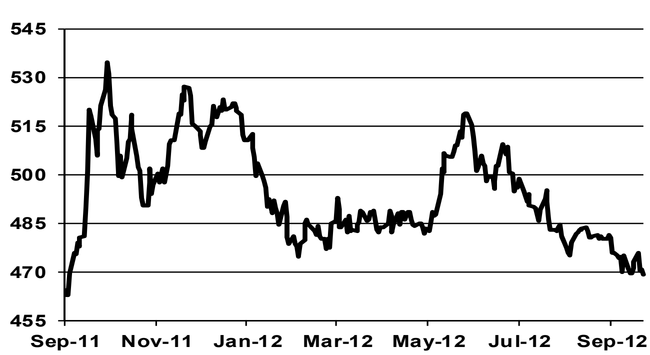
FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	27-Sep	3 m	6 m	12 m	
USDBRL	1.81	1.82	2.08	2.03	1.99	1.98	1.90	USDBRL
USDMXN	13.37	12.70	13.56	12.83	12.81	12.92	12.94	USDMXN
USDCLP	506	486	506	469	494	495	500	USDCLP
USDCOP	1892	1764	1793	1797	1800	1810	1840	USDCOP

USDBRL

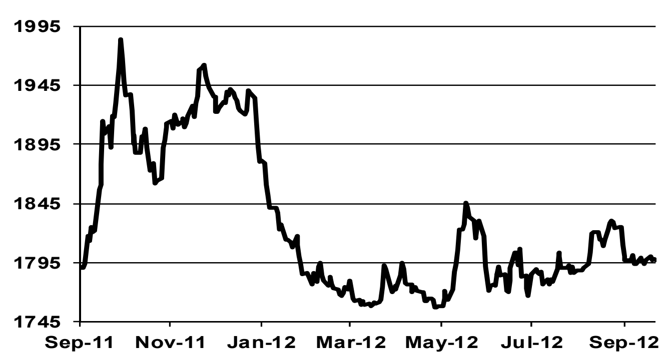
USDMXN



USDCLP



USDCOP



Developing Americas

Fundamental Commentary

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BRAZIL - The Brazilian economy has shown some signs of revival since the end of the second quarter which continued in the beginning of the third quarter. The economy expanded by a feeble 0.5% y/y in the second quarter. Although we anticipate a rebound in the second half (which has been supported by the recent recovery in industrial production, economic activity indicators and retail sales), we are lowering our GDP growth forecast from 2.0% to 1.7% in 2012 and from 4.0% to 3.8% in 2013. The authorities continue to implement measures that aim to boost the economy, such as new cuts to electricity tariffs and a continued loose monetary policy stance. Additionally, the central bank continues to sell reverse swaps to maintain the exchange rate close to the 2.0 mark vis-à-vis the US dollar, where it has been since July. Recently, as a response to the US Fed's new liquidity measures, together with other major central bank monetary injections, the finance minister again adopted the "currency war" tone. He stated that the Brazilian government could reintroduce capital controls to avoid short-term inflows that create currency market imbalances. We maintain our view that the central bank will retain its presence in the FX market and, increase it, if necessary. Based on the latest monetary policy committee statement, we anticipate another cut in the reference rate of 25 basis points to end the easing cycle with the key rate at 7.25%. Inflation has risen in the last two months, accelerating to 5.2% y/y in August and economic rebound is expected.

MEXICO - A solid local economic outlook, the new injection of liquidity from major central banks, a still high appetite for Mexican peso-denominated assets and a "no intervention" policy from the central bank in the FX market have set an optimistic tone for the Mexican peso (MXN). The global economic activity indicator unexpectedly expanded by 4.7% y/y in July, with all of the components showing rates of expansion close to 5% y/y. The services sector, which accounts for more than 60% of the Mexican economy, remains solid, reflecting the fact that local demand has been one of the major contributors to economic growth at the beginning of the third quarter. Additionally, the construction and the manufacturing sectors, particularly the auto sector, have maintained strength. This supports the view that the Mexican economy could grow faster than anticipated by our forecasts. The central bank maintains a neutral monetary policy stance, despite the fact that inflation accelerated to 4.6% y/y in August, 0.6 percentage points above the tolerance range. However, the central bank has stated that the cost shocks, some on the supply side, are expected to be temporary, and therefore no clear signs of a tighter monetary policy are evident. As a result of the recent MXN appreciation against the USD, higher liquidity across global financial markets and the outperforming local economy, we are revising our year-end forecast for the peso from 13.10 to 12.80.

CHILE - The Chilean peso (CLP) continued to outperform its Latin American peers in the third quarter, posting gains close to 9.0% year-to-date. The currency decoupled from copper prices in recent months (while copper prices were stabilizing, the currency continued its appreciation trend); however, with the new monetary measures implemented by the major central banks, temporary relief in financial markets and a weaker USD, close correlation was re-established. The CLP has been supported by a still solid local economic performance, while slowing international trade and China's downgraded outlook have lowered the expectation for copper prices in recent months. In the monetary policy report, the central bank increased the 2012 GDP projection from a 4-5% range to 4.75-5.25%. Economic output grew by 5.3% y/y in July, slightly below the rate of the last two months, but still indicative of a robust economic position as we entered the third quarter. The monetary policy stance remains unchanged. Inflation and inflation expectations continued to be well-anchored close to the 2.5% y/y and 2.1% marks, respectively. We do not anticipate any changes to the reference rate in the remainder of the year. Despite the CLP appreciation, authorities have not intervened in any way in the FX market; however, the central bank governor has stated that some concerns exist regarding the currency's strength. The chances of intervention would increase if the USDCLP reaches levels close to the 470 mark.

COLOMBIA - The Colombian economy expanded by 4.9% y/y in the second quarter of the year, mainly driven by the 18.4% y/y and 8.5% y/y expansion rates in the construction and mining sectors, respectively. Conversely, the manufacturing industry continued to lose momentum, decreasing by 0.6% y/y in the same period. In July, retail sales and industrial production suggested that the Colombian economy continued its deceleration phase as we entered the third quarter, challenging the outlook for the coming months. In late July, the central bank started an easing cycle, cutting the reference rate for the first time since mid-2010, as a result of the local economic deceleration due to lower growth in international demand. We anticipate that the central bank could cut rates by at most 50 basis points (bps) by year-end, in an aim to mitigate the economic slowdown. Headline inflation combined with inflation expectations for the end of the year remain close to the mid-point of the central bank tolerance range (3.0%), which may support the easing cycle. With the ECB's bond purchase program announced at the beginning of September and the Fed's liquidity measures, the Colombian peso (COP), following the rest of the major currencies in Latin America, gained ground against the USD. However, the authorities' intervention in the currency market stabilized the COP around the 1,800 mark. We do not discount the possibility of further measures to counter currency appreciation, especially if COP again reaches levels close to 1,750.

DEVELOPING EUROPE/AFRICA

Currency Outlook **Sarah Howcroft +1 416 862-3174**

RUSSIA - The Russian ruble (RUB) will likely return to a more contained trading range after breaking away from trend in September. The announcement of the European Central Bank's unlimited sovereign bond purchases, followed by the US Fed's decision to embark on QE3, prompted a sharp 5% appreciation of the RUB versus the US dollar. The currency then reversed course in line with a moderation in oil prices. We look for an end-year USDRUB rate of 32.5.

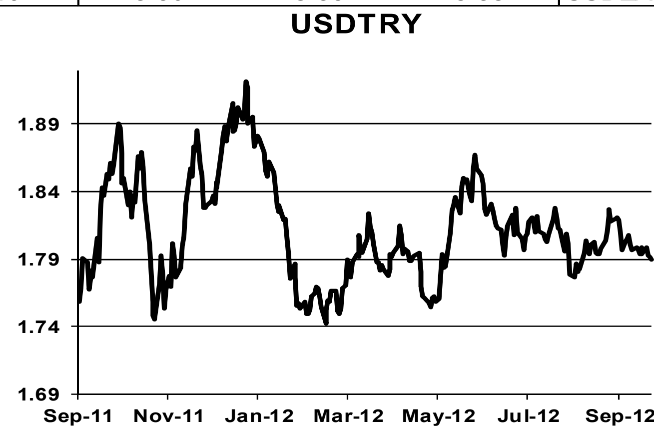
TURKEY - The Turkish lira (TRY) should remain relatively stable through year-end, as appreciating pressure from capital inflows and equity gains incited by major central bank policy accommodation and a slight improvement in global risk sentiment are offset by domestic monetary easing and a still high current account deficit. We now expect USDTRY to close the year around 1.81, before strengthening modestly in 2013.

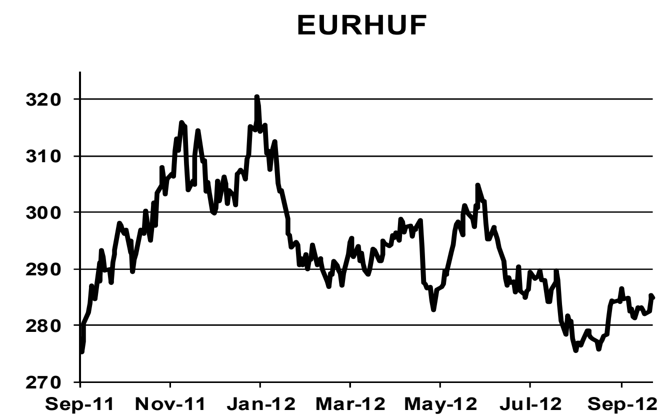
HUNGARY - Movements in the Hungarian forint (HUF) are being driven primarily by international developments, particularly the loosening of global monetary conditions and progress on the euro crisis, and to a lesser extent, domestic central bank policy. The forint is the strongest performing currency versus both the euro and the US dollar year-to-date (largely reflecting a sharp depreciation in late-2011). We hold a year-end EURHUF target of 287.

SOUTH AFRICA - The South African rand (ZAR) is expected to remain within its current 8.1-8.5 per US dollar range, in which it has traded since mid-May, through the end of 2012. Domestic factors including renewed mining sector labour strife and a growing current account deficit are weighing negatively on the rand while external financial market conditions have shown signs of improvement, providing some offsetting support. We look for a year-end USDZAR rate of 8.3.

Currency Trends

FX Rate	Going Back 12 m	6 m	3 m	Spot 27-Sep	Outlook 3 m	6 m	12 m	FX Rate
USDRUB	31.75	29.05	32.98	31.10	32.50	32.75	33.25	USDRUB
USDTRY	1.85	1.79	1.81	1.79	1.81	1.80	1.77	USDTRY
EURHUF	287.55	291.45	286.65	284.97	287.00	285.25	281.75	EURHUF
USDZAR	7.87	7.60	8.44	8.19	8.30	8.33	8.38	USDZAR





DEVELOPING EUROPE/AFRICA

Fundamental Commentary

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RUSSIA - The outlook for the ruble will continue to be determined by oil price factors, including geopolitical tensions in the Middle East and speculation of increased supply from Saudi Arabia, as well as by developments in global growth dynamics and the euro crisis, which affect risk perceptions more generally. On the same day as the US Federal Reserve announced a further expansion of its quantitative easing program, the Bank of Russia opted to tighten monetary conditions with a 25 basis point increase in the reference rate to 8.25%. The surprise decision was precipitated by concerns of rising inflationary pressures, and especially, inflation expectations. The headline rate rose to 5.9% y/y in August - just shy of the upper end of the bank's 5-6% target for 2012 - largely as a result of temporary, non-fundamental factors, including a weak grain harvest and regulated price increases. However, the core rate also picked up, to 5.5% y/y from 5.3%. With evidence of slowing economic activity, particularly in the external sector, further tightening is unlikely before 2013. The draft budget for 2013-15 envisages a more stringent fiscal consolidation path, with a projected deficit of 0.8% of GDP in 2013 (down from an earlier estimate of 1.5%). However, President Putin's election promises were largely excluded from the government's spending plans, meaning that the trajectory of the deficit could be altered if Putin prevails. The flow of capital out of the economy remains concerning; the central bank estimates that outflows could reach US$65 billion by end-2012.

TURKEY - The second-quarter Turkish GDP report confirmed that the pace of overall economic growth is slowing, and that the desired rebalancing from domestic to external demand is ongoing. Thanks to a strong export performance (particularly to the Middle East and North Africa), which offset declines in domestic consumption and investment, seasonally adjusted output growth rebounded from -0.1% q/q in the first quarter to 1.8% in April-June. On a yearly basis, however, the pace slowed from 3.3% y/y to 2.9%. Evidence suggests that growth will continue to moderate through the remainder of the year. Exports advanced 8.5% y/y in July, a slowdown from the average rate of 14.4% registered in the second quarter which caused the trade deficit to widen slightly. Meanwhile, the ongoing deterioration in both consumer and industrial confidence implies that the underlying trend in domestic demand remains weak. Encouraged by the considerable decline in the current account deficit over the last nine months, as well as substantial new easing by the major global central banks which has boosted capital inflows and the lira, the Turkish central bank has begun to counteract some of this private sector fragility by loosening monetary conditions. The overnight lending rate (the upper bound of the interest rate corridor) was reduced by 1.5% to 10% at the last rate-setting meeting as the bank continued to soften its stance on lira liquidity. An additional narrowing of the corridor is anticipated in the coming months, while the benchmark one-week repo rate will be left at 5.75%.

HUNGARY - With an official assistance deal still unsettled, the economic situation in Hungary remains challenging. In September, Prime Minister Orban rejected a EUR 15 billion loan package from the EU/IMF, objecting to the terms of the deal, which included cutting pensions and abandoning a tax on lenders. The administration remains confident that an agreement can be reached before year-end, while the persistent strength of the forint suggests that investors are also optimistic. The central bank has downgraded its growth forecasts in consideration of the recent deterioration in the domestic economy. Following an anticipated GDP contraction of 1.4% this year, exports will lead a muted recovery in 2013 (of 0.7%), conditional on a gradual improvement in the situation in Europe. Domestic consumption and investment will remain subdued, weighed down by ongoing private sector deleveraging, a weak job market, elevated inflation and restrictive lending conditions. Meanwhile, the inflation projection was revised upward as food cost shocks and indirect tax increases filter through to expectations and underlying price trends in a more meaningful way. The 3% target is not expected to be met until the second half of 2014. Nevertheless, the bank reduced the policy rate by 25 basis points at each of its last two meetings, judging that the recent improvement in international sentiment implies a lower risk of domestic financial instability (i.e., debt financing stress), and that considerable excess capacity in the economy will limit the inflationary impact of temporary cost shocks.

SOUTH AFRICA - Notwithstanding the acceleration in the growth rate in the second quarter, driven by a rebound in the resource sector following production disruptions earlier in the year, the economic outlook in South Africa remains subdued. Indeed, the non-mining sector advanced just 1.7% q/q (annualized) in April-June, compared to 3.6% in the first quarter. New strikes and stoppages at major platinum and gold mines in recent months, combined with the recession in the euro zone and slowing activity in other crucial export markets, will erode output in the second half of the year, limiting growth to around 2½% for 2012 overall. Consumer demand remains the primary growth support, yet even household spending has begun to moderate in the face of poor employment prospects and rising debt levels; retail sales growth slowed from 8.6% y/y in June to 4.2% in July. Of particular concern to investors is the marked widening of the current account deficit in the second quarter, from 4.9% of GDP to a four-year high of 6.4%. Though the shortfall has so far been adequately financed by portfolio inflows into domestic bonds, the shortage of foreign direct investment in the economy has generated a growing dependency on volatile bond flows, placing the rand at risk of a sudden reversal in market sentiment. The South African Reserve Bank held rates steady at its September meeting, following a half-point cut in July. With a lower growth projection and roughly balanced inflation risks, it is possible that the bank will ease further in November or early 2013.

GLOBAL CURRENCY FORECAST (end of period)

		2010	2011	2012f	2013f	2012f Q1a	2012f Q2a	2012f Q3	2012f Q4	2013f Q1	2013f Q2	2013f Q3	2013f Q4
MAJOR CURRENCIES													
Japan	USDJPY	81	77	80	87	83	80	78	80	84	85	86	87
Euro zone	EURUSD	1.34	1.30	1.26	1.21	1.33	1.27	1.29	1.26	1.24	1.23	1.22	1.21
	EURJPY	108	100	101	105	111	101	100	101	104	105	105	105
UK	GBPUSD	1.56	1.55	1.62	1.64	1.60	1.57	1.62	1.62	1.62	1.63	1.64	1.64
	EURGBP	0.86	0.83	0.78	0.74	0.83	0.81	0.80	0.78	0.77	0.75	0.74	0.74
Switzerland	USDCHF	0.94	0.94	0.99	1.03	0.90	0.95	0.94	0.99	1.01	1.02	1.02	1.03
	EURCHF	1.25	1.22	1.25	1.25	1.20	1.20	1.21	1.25	1.25	1.25	1.25	1.25
AMERICAS													
North													
Canada	USDCAD	1.00	1.02	0.96	0.97	1.00	1.02	0.98	0.96	0.96	0.96	0.97	0.97
	CADUSD	1.00	0.98	1.04	1.03	1.00	0.98	1.02	1.04	1.04	1.04	1.03	1.03
Mexico	USDMXN	12.34	13.94	12.81	13.17	12.81	13.36	12.92	12.81	12.92	12.83	12.94	13.17
	CADMXN	12.37	13.65	13.34	13.58	12.83	13.14	13.13	13.34	13.46	13.36	13.34	13.58
South													
Argentina	USDARS	3.98	4.30	6.00	6.50	4.38	4.53	4.69	6.00	6.13	6.25	6.38	6.50
Brazil	USDBRL	1.66	1.87	1.99	1.86	1.83	2.01	2.03	1.99	1.98	1.95	1.90	1.86
Chile	USDCLP	468	520	494	502	488	501	471	494	495	497	500	502
Colombia	USDCOP	1908	1939	1800	1850	1789	1784	1799	1800	1810	1820	1840	1850
Peru	USDPEN	2.81	2.70	2.57	2.49	2.67	2.67	2.60	2.57	2.58	2.54	2.51	2.49
Venezuela	USDVEF	4.29	4.29	5.15	5.15	4.29	4.29	4.29	5.15	5.15	5.15	5.15	5.15
ASIA / OCEANIA													
Australia	AUDUSD	1.02	1.02	1.04	1.06	1.03	1.02	1.04	1.04	1.05	1.05	1.06	1.06
China	USDCNY	6.61	6.30	6.25	6.10	6.30	6.35	6.30	6.25	6.25	6.20	6.15	6.10
Hong Kong	USDHKD	7.77	7.77	7.75	7.75	7.77	7.76	7.75	7.75	7.75	7.75	7.75	7.75
India	USDINR	44.7	53.1	53.5	52.0	50.9	55.6	53.5	53.5	53.5	53.0	52.5	52.0
Indonesia	USDIDR	8996	9069	9650	9500	9146	9433	9624	9650	9650	9600	9550	9500
Malaysia	USDMYR	3.06	3.17	3.08	3.02	3.06	3.18	3.08	3.08	3.05	3.05	3.02	3.02
New Zealand	NZDUSD	0.78	0.78	0.78	0.82	0.82	0.80	0.82	0.78	0.78	0.78	0.80	0.82
Philippines	USDPHP	43.8	43.8	42.0	41.0	42.9	42.1	41.9	42.0	42.0	41.5	41.0	41.0
Singapore	USDSGD	1.28	1.30	1.24	1.21	1.26	1.27	1.23	1.24	1.24	1.23	1.22	1.21
South Korea	USDKRW	1126	1152	1135	1100	1133	1145	1121	1135	1120	1110	1105	1100
Thailand	USDTHB	30.1	31.6	31.3	30.2	30.8	31.6	31.0	31.3	30.8	30.5	30.3	30.2
Taiwan	USDTWD	29.3	30.3	29.5	29.0	29.5	29.9	29.4	29.5	29.4	29.1	29.0	29.0
EUROPE / AFRICA													
Czech Rep.	EURCZK	25.0	25.6	25.0	24.2	24.8	25.5	25.0	25.0	24.8	24.6	24.4	24.2
Iceland	USDISK	115	123	118	116	127	125	125	118	118	117	117	116
Hungary	EURHUF	279	315	287	280	294	286	286	287	285	284	282	280
Norway	USDNOK	5.82	5.98	5.75	5.30	5.69	5.96	5.76	5.75	5.60	5.50	5.40	5.30
Poland	EURPLN	3.96	4.47	4.20	4.00	4.15	4.22	4.15	4.20	4.15	4.10	4.05	4.00
Russia	USDRUB	30.54	32.1	32.5	33.5	29.3	32.4	31.4	32.5	32.8	33.0	33.3	33.5
South Africa	USDZAR	6.63	8.09	8.30	8.40	7.67	8.16	8.24	8.30	8.33	8.35	8.38	8.40
Sweden	EURSEK	8.99	8.92	8.45	8.30	8.83	8.77	8.50	8.45	8.45	8.40	8.40	8.30
Turkey	USDTRY	1.54	1.89	1.81	1.75	1.78	1.81	1.79	1.81	1.80	1.78	1.77	1.75

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