Foreign Exchange Outlook

AMERICAS

We anticipate USD strength associated with the increased attractiveness of interest rate differentials following recent guidance provided by the US Federal Reserve. The CAD has been subject to stronger headwinds and we have revised our forecast accordingly. The core Latin American currencies are in a modest relief rally, which have prompted mild revisions to our regional currency forecasts.

EUROPE

The European currency landscape is affected by persistent EUR strength and intensified geo-political stress triggered by the Russia-Ukraine crisis. EUR will regain a weakening bias in the second half of the year on the back of relative central bank policy, the outlook for growth, and easing in EUR bullish capital flows. Adverse developments in the RUB and TRY placed emerging-market investors on alert.

ASIA / PACIFIC

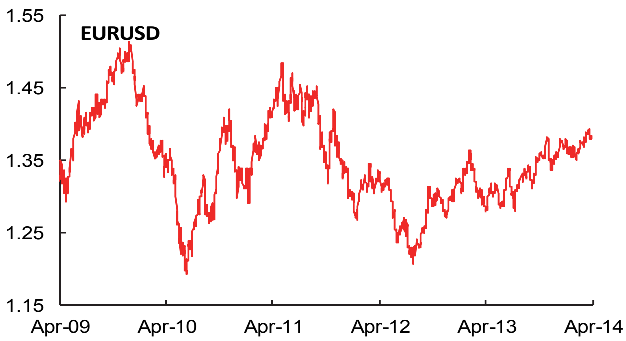
The introduction of more flexibility to China's currency policies has resulted in CNY weakness. Yet, strong growth and reform fundamentals will gradually place the CNY back in an appreciating trend. The JPY, benefitted from temporary safe-haven flows, once these subside depreciation is likely to resume in the second half of the year. The INR has been the region's outperformer, while both the THB and the MYR retain a weak tone.

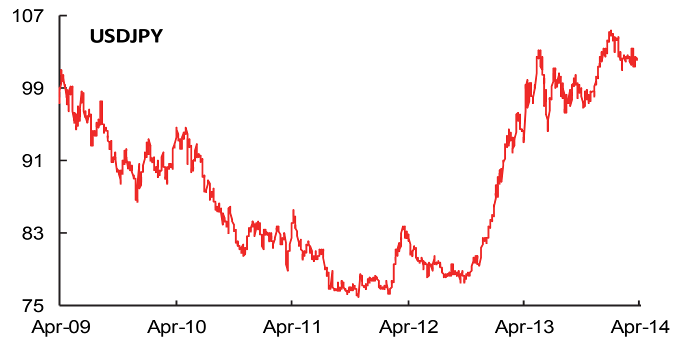
Contents

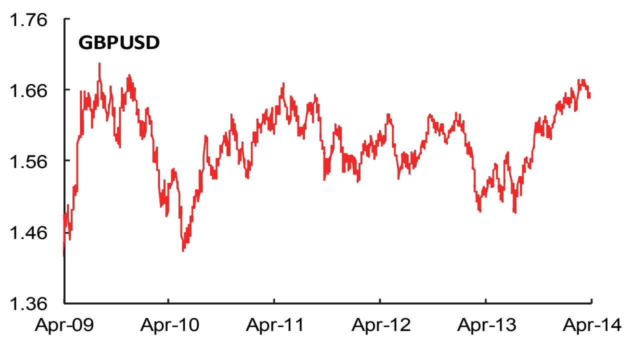
Core Exchange Rates

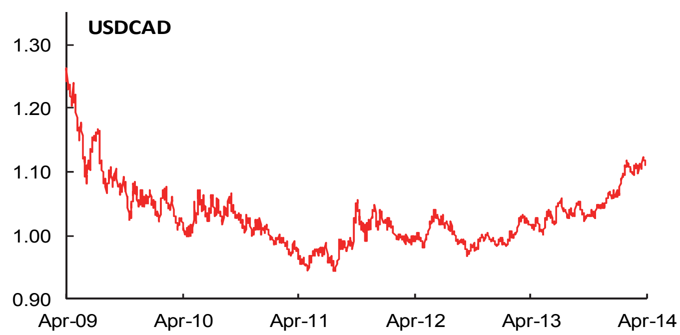
Global Foreign Exchange Outlook

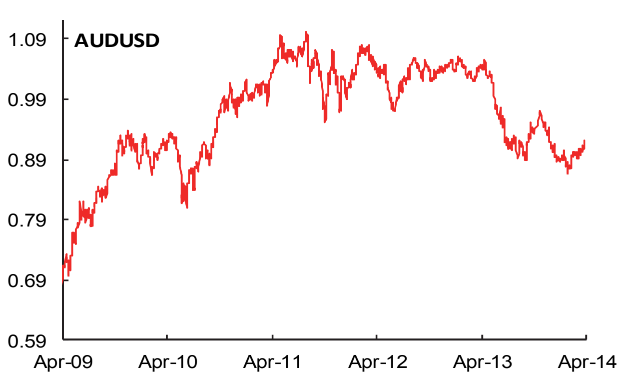
March 26, 2014		Spot	2014f Q1	2014f Q2	2014f Q3	2014f Q4	2015f Q1	2015f Q2	2015f Q3	2015f Q4
EURUSD	Scotiabank	1.38	1.40	1.37	1.33	1.30	1.28	1.26	1.25	1.24
	Consensus*		1.38	1.34	1.33	1.31	1.30	1.30	1.31	1.31
USDJPY	Scotiabank	102.1	102	104	107	109	110	111	112	113
	Consensus*		103	105	106	107	108	108	109	109
GBPUSD	Scotiabank	1.66	1.65	1.66	1.65	1.64	1.64	1.63	1.61	1.59
	Consensus*		1.66	1.64	1.63	1.63	1.62	1.62	1.62	1.62
USDCAD	Scotiabank	1.11	1.13	1.16	1.15	1.12	1.12	1.13	1.13	1.13
	Consensus*		1.11	1.11	1.11	1.11	1.11	1.11	1.10	1.09
AUDUSD	Scotiabank	0.92	0.87	0.86	0.88	0.88	0.89	0.89	0.89	0.89
	Consensus*		0.90	0.88	0.87	0.87	0.86	0.86	0.85	0.85
USDMXN	Scotiabank	13.13	13.15	13.10	13.20	13.35	13.45	13.45	13.50	13.52
	Consensus*		13.26	13.23	13.11	12.98	12.85	12.80	12.75	12.69











(*) Source: Consensus Economics Inc. March 2014

Market Tone & Fundamental Focus

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Ongoing normalization of monetary policy in the United States, heightened geo-political tension linked to Russia's annexation of the Crimean peninsula, swift policy adjustments to China's exchange rate regime, relative growth differentials and consolidation of price adjustments in emerging-market asset classes are some of the key drivers shaping capital flows in global currency markets.

The US dollar (USD) has been depreciating on a trade-weighted basis over the past two months, yet the weakening trend does not present a uniform pattern across the universe of major global currencies. Looking ahead, we anticipate a promising outlook for the USD associated with the increased attractiveness of interest rate differentials following recent guidance provided by the US Federal Reserve. Additionally, we maintain a relatively bullish view for the US growth outlook. The dynamics for the Canadian dollar (CAD) have deteriorated and we have revised our forecast accordingly. The CAD has been subject to stronger headwinds on the back of revised views on US/Canada growth and interest rate differentials, softening commodity prices and monetary policy uncertainties. We expect the CAD to weaken over the next six months before showing signs of stabilization.

In line with the trend established in most emerging-market currencies, the core Latin American currencies are engaged in a modest relief rally, which have prompted mild revisions to our regional currency forecasts. Nevertheless, we maintain a directionally bearish view for the Brazilian real (BRL) and for the Mexican (MXN), Chilean (CLP) and Colombian (COP) pesos. The recovery pattern for Colombia may be stronger due to anticipated capital inflows linked to re-weighting of emerging-market bond indices.

The European currency landscape is being shaped by the dual forces of persistent euro (EUR) strength and intensified geo-political stress triggered by the Russia-Ukraine conflict. Continuing to defy macroeconomic fundamental forces, the EUR has maintained a strengthening bias over the past two months, shrugging off Russia-inspired volatility. We estimate that the EURUSD rate, which hit as high as 1.3967 in intra-day trading in mid-March, will regain a weakening bias over the coming months and close the calendar year at 1.30 on the back of relative central bank policy, a subdued outlook for growth, and an easing in EUR bullish capital flows.

The British pound (GBP) has encountered technical resistance to strengthen further. The Bank of England is widely expected to be the first of the G4 central banks to hike rates; we expect the tightening cycle to begin by the first quarter of 2015. Switzerland's battle to fight deflationary pressures continue; this combined with recurring bouts of risk aversion have the Swiss National Bank fully committed to the EURCHF 1.20 floor. We do not expect any policy changes this year.

The Russian ruble (RUB), which has been a major casualty of the heightened military and political tensions in Crimea depreciating by 13% over the past 12 months, is showing modest signs of stabilization following aggressive central bank intervention in response to sharp capital outflows. The Turkish lira (TRY) has been in stabilization mode since early February following a sharp devaluation in the last year (down 18% in 12 months).

China is back at the forefront of Asian currency developments. China's growth outlook has come under pressure; however with small stimulus plans expected to be announced and a materially weaker yuan (CNY), some of the pressure has eased. The introduction of more flexibility to China's currency policies has resulted in CNY weakness. China has widened the trading band of the USDCNY to +/-2%, while retaining control of the mid-rate setting – thereby allowing further day-to-day volatility but maintaining control of the direction of the currency. Moreover, the well-entrenched softening momentum affecting Chinese equity securities is reinforcing a temporary bearish view on the CNY, which is reflected in increasing values for the USDCNY rate in non-deliverable forward markets. Nevertheless, we still maintain our view that relatively strong growth and reform fundamentals will gradually take over the negative market mood and place the CNY back on an appreciating trend. Overall, we welcome the Chinese authorities' efforts to introduce a more flexible managed floating currency arrangement. The reversal of the weak tone in the Hong Kong dollar (HKD) supports our view.

The Japanese yen (JPY), which may benefit from temporary safe-haven flows, will maintain a soft outlook through the rest of the year. We expect the second half of 2015 to be marked by JPY weakness as the Bank of Japan increases the size of its large-scale asset purchase program. The outlook for the Australian dollar (AUD) is based on its domestic fundamentals, China's outlook, commodity prices and investor sentiment; most indicators suggest some uncertainty but not enough to drive a substantial weakening in the AUD. Elsewhere in the developing Asian region, there are clear signs of intra-region differentiation forces: both the Thai baht (THB) and the Malaysian ringgit (MYR) retain a weak tone while there are clear signs of market preference for currencies such as the Indian rupee (INR) and the South Korean won (KRW).

Canada

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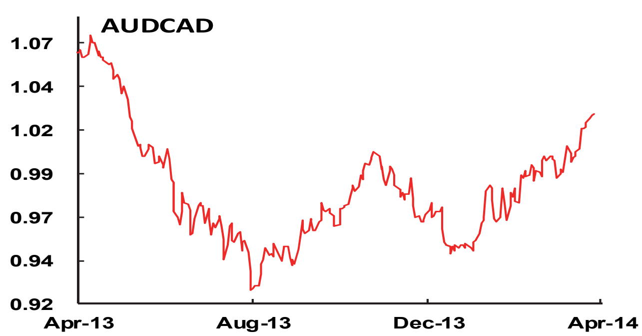
Currency Outlook

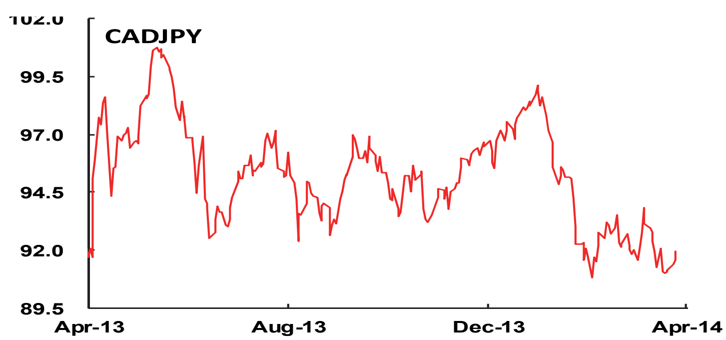
The dynamics for the Canadian dollar (CAD) have deteriorated and we have revised our forecast accordingly, expecting the CAD to weaken through mid-year before stabilizing in the final quarter. The Canadian domestic backdrop is uneven, with expectations of an improvement in net exports and business investment slow to materialize, adding to well established concerns over general economic slack. In addition, after releasing a neutral statement at its March 5th meeting, Bank of Canada (BoC) Governor Poloz took a decisively dovish turn in March, noting that he could not yet rule out interest rate cuts. This backdrop has been further complicated by a more hawkish turn at the Federal Reserve (Fed), one that has pulled forward expectations for the first interest rate hike to the second quarter of 2015, two full quarters before the BoC. Leading into these central bank shifts the market was already bearish CAD; however, the diverging paths of policy and an uneven set of data releases from China have provided new incentive for speculative traders to short the CAD, driving an increasing net short position. Net foreign flows into Canada remain positive, but have faded since the height of the financial crisis leaving them as a neutral driver of the currency. Finally, to date in 2014, currency returns have not been on the back of a broad USD theme but instead on the underlying domestic stories, which explains a strong NZD, AUD, JPY and BRL, with flat EUR, CHF, GBP, and weak CAD and CNY. Accordingly, there has been no broad USD weakening pressure helping to support the CAD. Together, these developments will drive ongoing downward pressure on the CAD over the next six months.

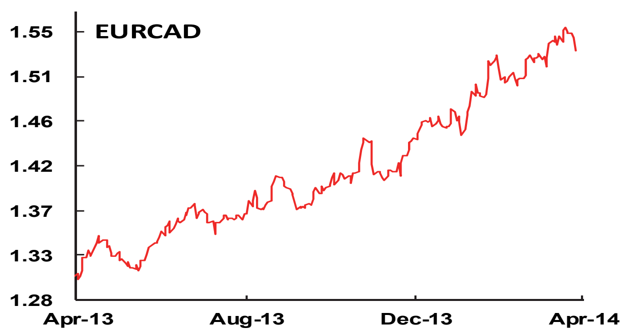
Late in the second half of the year, the CAD is expected to stabilize as a building US economic recovery combined with a sustained depreciation in the currency flow into the Canadian fundamental backdrop. An improved domestic outlook should see the BoC embrace its neutral tone. In addition, by the second half of 2014 there should be improved clarity on the future pipeline infrastructure in Canada and oil exports into the US are likely to continue their steady upward trend. These factors provide some reassurance but not enough to support a strong CAD. We hold a 2014 year-end target of 0.89 and a 2015 year-end target of 0.88 (in USDCAD terms this equates to 1.12 and 1.13).

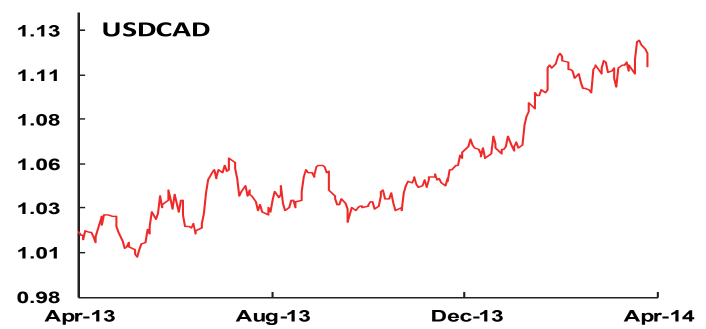
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 26-Mar	14Q1f	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
AUDCAD	1.02	0.98	1.00	1.01	0.99	1.00	1.01	1.01	1.01
CADJPY	92.0	90.3	89.7	93.0	97.3	98.2	98.2	99.1	100.0
EURCAD	1.53	1.58	1.59	1.53	1.46	1.43	1.42	1.41	1.40
USDCAD	1.11	1.13	1.16	1.15	1.12	1.12	1.13	1.13	1.13









United States and Canada

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Fundamental Commentary

UNITED STATES — US real GDP growth is expected to moderate to around an annualized 2% rate in Q1, with economic activity held back by adverse weather conditions, at a time when inventory accumulation has slowed following a build-up in H2 2013 and higher mortgage rates have tempered the US housing recovery. So far in Q1, residential construction continued its recent soft patch, with existing home sales and housing starts trending significantly lower. US manufacturing activity and business investment also started the year off weak, although incoming data on capital goods shipments and imports point to a greater willingness to invest by US firms. Meanwhile, the rebound in the ISM manufacturing index in February suggests manufacturing production will accelerated. US consumption is also tracking reasonably strong in Q1, while consumer confidence reached a post-crisis high in March. February's better-than-expected growth in retail sales and employment signals the US economic recovery remains intact and pent-up demand should lead to a rebound in consumer spending as the weather improves. Furthermore, despite the recent disruptions, a spring thaw will likely boost existing homes sales, foot traffic and listings, while the rebound in building permits suggest the slowdown in construction is likely temporary. January's trade deficit also improved in real terms, which is expected to continue in the months ahead, as warmer weather and ongoing growth in domestic oil and gas production offset the drag from the sharp run-up in petroleum imports since December. Our annual US real GDP forecast is unchanged at 2.8% this year — with Q1's weaker performance offset by accelerating growth in Q2 and Q3 – and 3% in 2015, as fiscal restraint subsides, businesses increase investment, and Americans continue to unleash pent-up demand for housing and consumer durables.US inflation is forecast to gradually rise to roughly 2% over the next two years.

CANADA — Canada's economic performance remains mixed, with output growth at the turn of the year tracking around 2¼% y/y. Extreme winter weather appears to be at least partially responsible for recent disappointing data reports. Domestic demand is relatively buoyant, though more moderate job growth suggests consumers will be cautious borrowers and spenders in the year ahead. Employment gains have slowed notably alongside a reduced pace of private and public sector hiring, while the unemployment rate is holding steady at 7%. Housing activity remains supported by historically low borrowing costs, but sales and construction have slowed as high home prices and higher mortgage rates pressure affordability. Limited pent-up demand and high household debt burdens suggest Canadian consumer and housing activity will lag the US trend over the forecast horizon. Economic uncertainty, excess production capacity and softer commodity prices have dampened business investment, notwithstanding healthy corporate balance sheets and favourable financing costs. We expect business confidence and capital outlays will gradually firm up over the coming year, piggybacking on a stronger trend in commodity and non-commodity exports as the global recovery gathers momentum. Exports have lagged prior recovery cycles, held back by the slow pace of global growth and domestic competitiveness challenges. Even so, manufacturing shipment are slowly beginning to pick up, with producers of motor vehicles and building materials benefitting from strengthening US auto sales and residential construction. Exporters should get a further lift from a weaker Canadian dollar. Meanwhile, non-residential construction remains supported by industrial, commercial and infrastructure spending. Resource-related activity has moderated, reflecting less buoyant commodity prices as well as temporary production disruptions and supply bottlenecks, but remains a source of ongoing support. Heightened retail competition, muted wage gains, and softer food and energy costs have depressed price trends. Core and headline inflation are trending near the lower bound of the Bank of Canada's 1-3% target range.

Monetary Policy Commentary

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UNITED STATES — Fed Chair Yellen's first FOMC meeting and statement on March 19 caused a major shift in the market's expectations for Fed interest rate hikes. Yellen's implication that interest rate hikes could come as soon as the spring of 2015 was different from the FOMC's prior guidance and its statement that its guidance using economic thresholds was "consistent with its earlier date-based guidance." Forecasts from meeting participants implying higher levels of rates in 2015 and 2016 increased the extent of expected rate hikes. The Fed sounded more upbeat regarding the economy, with the statement reading "The Committee currently judges that there is sufficient underlying strength in the broader economy to support ongoing improvement in labor market conditions." Our sense, given the better economic outlook and the overall balance of guidance is that the Fed has changed course, and we have revised our base case to anticipate rate hikes starting in Q2 2015.

CANADA — In contrast to the Fed, the BoC is sounding more dovish than it previously had, with Governor Poloz implying that Canada could be functioning with more spare capacity than expected for longer than anticipated in a speech on March 18. Higher-than-anticipated CPI during the first two months of Q1 will put a small damper on the BoC's dovishness, and the changes in FOMC policy mentioned in the adjacent column will limit the extent to which rate cuts are priced in to the Canadian curve. We none-the-less continue to anticipate that the BoC will lag the Fed when it comes to interest rate hikes, and, given the fact that BoC's target overnight rate is higher than the Fed's by close to 100bps, monetary policy normalization in Canada is also likely to be more gradual when it arrives. We continue not to expect a hike in the target overnight rate until Q4 2015.

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Europe

Currency Outlook

EURO ZONE — Monetary policy in Europe and the US is beginning to diverge, as the Fed turns increasingly hawkish and the ECB dovish; it is this that should begin to offset the support provided to the EUR by large capital inflows in the first two months of 2014. Near-term sentiment remains strong (the CFTC reported on March 21st that the EUR net long was almost $10bn) yet longer term consensus forecasts are overwhelmingly bearish. We expect the EUR to depreciate into year-end; closing 2014 at 1.30.

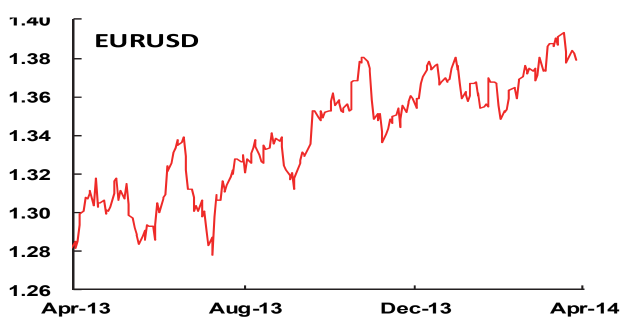
UNITED KINGDOM — March proved a month of rest for the GBP after an improved fundamental backdrop and a relatively hawkish central bank supported the currency over the last eight months. Technically the upward trend is intact, while investors are quietly building out long positions (in mid-March the CFTC reported a net long GBP position of $2.6bn). The GBP is priced to perfection, which is likely to limit material gains against the USD from here, but the outlook against the EUR is strong. We hold a year-end GBPUSD target of 1.64.

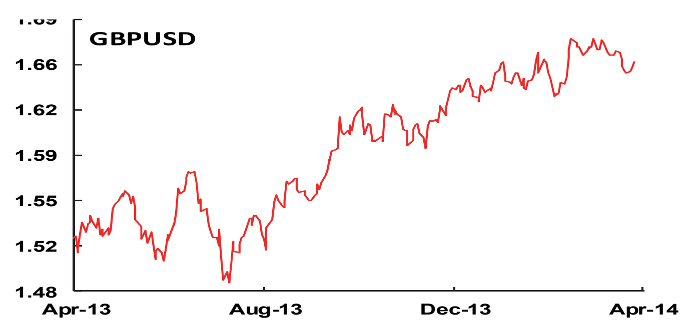
SWITZERLAND — Recurring bouts of risk aversion to start 2014 have put renewed downward pressure on EURCHF as investors look to shift assets back to the perceived safety of CHF. This combined with non-existent inflationary pressures are likely to leave the Swiss National Bank fully committed to their EURCHF 1.20 floor. We hold a year-end EURCHF target of 1.25.

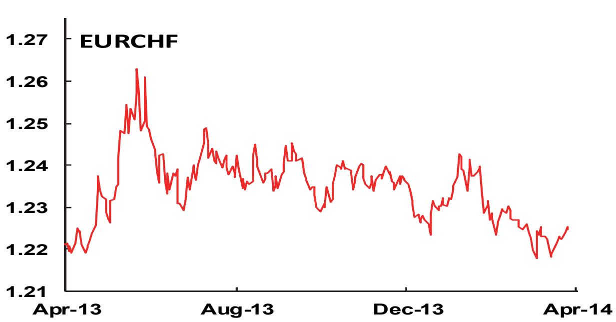
NORWAY — The NOK had a volatile March but is entering April essentially where it closed 2013. Sentiment is mixed but favours a small appreciation in the NOK by year-end, even as the Norges Bank is now expected to lag the Fed in the timing of its interest rate hiking cycle. Considering the fundamental backdrop we see the outlook as favourable and accordingly hold a year-end USDNOK target of 5.80.

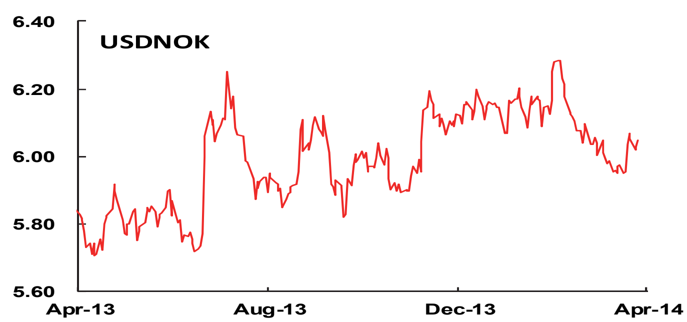
Currency Trends

FX Rate	Spot 26-Mar	14Q1f	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
EURUSD	1.38	1.40	1.37	1.33	1.30	1.28	1.26	1.25	1.24
GBPUSD	1.66	1.65	1.66	1.65	1.64	1.64	1.63	1.61	1.59
EURCHF	1.22	1.23	1.24	1.25	1.25	1.25	1.26	1.26	1.27
USDNOK	6.05	6.00	5.90	5.80	5.80	5.70	5.65	5.65	5.60









Europe

Fundamental Commentary

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EURO ZONE — Available data depict a relatively solid growth performance in the euro area during the first quarter led by Germany. However, we anticipate a subsequent slowing in the second quarter given persistent euro strength and heightened geopolitical concerns which have begun to sap confidence in the fragile recovery. We maintain our real GDP growth projections of 1.0% in 2014 and 1.3% in 2015. Deflations concerns remain prominent in view of the strong euro and still abundant excess capacity; euro area consumer price growth slipped to 0.7% y/y in February, marking the fifth consecutive month of sub-1% inflation. The European Central Bank (ECB) will maintain a distinctly dovish bias in contrast to the central banks of other advanced economies including the US Federal Reserve, which now looks poised to start raising interest rates in the first half of 2015. Although we do not currently expect any changes to the ECB's policy interest rates in the near term, the risks remain heavily tilted toward additional monetary easing by both conventional and unconventional means, with several bank officials discussing the possibility of looser policy in recent weeks. After months of negotiations, EU lawmakers agreed to a framework for a single resolution mechanism for the region's banks. Ultimately, the common resolution fund will not have adequate access to a large EU-level backstop to jointly cover the costs of individual bank closures. Government changes in Italy and France will likely produce a shift in focus from austerity to growth-stimulating policy measures in the coming months.

UNITED KINGDOM — The UK economy continues to benefit from strong momentum in domestic consumption backed by steady improvements in the housing and labour markets. In addition, there is some evidence that the recovery is becoming more broad-based, with both net trade and private investment contributing to the 0.7% q/q output gain recorded in the fourth quarter of 2013. We note, however, that much of the net trade improvement is expected to be reversed in the current quarter, and the strong currency and fading sentiment in the euro area imply headwinds for the export sector going forward. We look for real GDP growth of 2.5% this year and 2% in 2015. The housing market is on fire; mortgage approvals reached a six-and-a-half year high in January and house prices continue to accelerate. The ONS house price index advanced 6.8% y/y in January, the largest annual gain since August 2010. The latest labour report saw a 105,000 increase in employment over the three months through January; currently at 7.2%, the unemployment rate may reach as low as 6.5% by the end of this year. Perhaps more importantly, wage growth is picking up and this, combined with the recent slowdown in consumer price inflation, should provide increasingly durable support for household incomes. We maintain our view that the Bank of England will initiate a gradual interest rate hiking cycle by the first quarter of 2015. The government's 2014 Budget contains a few fiscally neutral measures alongside an improved growth outlook and lower borrowing trajectory.

SWITZERLAND — The Swiss National Bank (SNB) remains committed to the minimum exchange rate as its primary policy tool to ward off the risks of continued appreciation pressure from safe haven-seeking capital flows. At its latest policy-setting meeting, the SNB lowered its inflation forecasts for this year and next (to 0% and 0.4%, respectively), highlighting the exchange rate risks related to monetary policy uncertainty in advanced economies, emerging market growth fears and heightened geopolitical tensions. The franc has strengthened against both the euro (0.7%) and US dollar (1.4%) since the start of the year. As such, we assess that the minimum exchange rate policy – set at 1.20 francs per euro – will likely remain in place through the remainder of 2014. After advancing only 0.2% q/q in the fourth quarter of 2013, the economy is poised for a stronger performance at the beginning of this year fuelled by a rebound in exports. The gain in exports in February was only 0.4% m/m, but this marked the fourth straight monthly expansion; such a streak has not occurred since early 2011. The merchandise trade surplus is now sitting at an eight-month high. Both the KOF leading indicator and the manufacturing PMI are likewise reflective of improved conditions, with each index recently reaching its highest level since mid-2011. The general government budget remained roughly balanced in 2013; due to expected recapitalization of a number of cantonal pension funds, the fiscal account is expected to deteriorate slightly to around -0.2% of GDP before recouping a surplus position in 2015.

NORWAY — Heading into the first policy-setting meeting of 2014, the Norwegian central bank will have little cause to alter monetary conditions. For now, headline and underlying inflation remain roughly in line with the 2.5% target – at 2.1% y/y and 2.4% in February, respectively – though renewing broad-based USD strength due to shifting US Federal Reserve policy expectations may pose upside price risk over the medium term. The krone sank by nearly 2% versus the US dollar following the Fed's March 19th meeting, but remains up 0.25% on the year. Barring any significant change in the inflation outlook, we expect interest rate hikes to start around mid-2015. Real GDP contracted by 0.2% q/q in the fourth quarter of 2013, though the less volatile mainland output measure (excluding oil and gas production, which accounts for more than a fifth of GDP) expanded by 0.6%. For the year as a whole, mainland output expanded by 2.0%, while a 3.5% drop in petroleum and shipping activities left the overall gain at just 0.6%. Looking ahead, exports are expected to recover this year on the back of strengthening external demand (particularly in Europe) after falling 3.9% in 2013, while consumer spending may lose some momentum thanks to labour market softening. The current account surplus remains large, though it shrank to 10.6% of GDP last year, the smallest since 1999, again due to lower oil and gas export earnings. A somewhat weaker krone will support export prospects in 2014.

Asia / Pacific
Currency Outlook

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JAPAN — USDJPY has traded in a relatively narrow range since mid-January. The market remains bearish yen, but the net short position narrowed in March as risk aversion proved an offsetting driver of the more bearish fundamental backdrop. We expect the economic and monetary outlook to support a further weakening of yen and accordingly hold a year-end USDJPY forecast of 109.

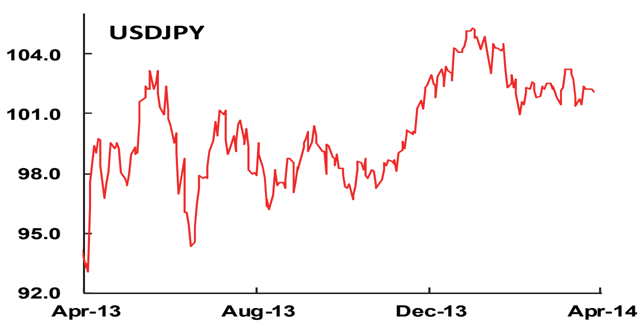
CHINA — The increased volatility in CNY has reflected a lighter official touch following the initial squeeze in February. Hedging flows on the part of importers have likely become a more prominent a driver of USDCNY on increased uncertainty in near term direction, potentially driving additional weakness in the renminbi. However, concern over the potential to trigger destabilizing hot money outflows, and the management of an economy in transition, are unlikely to imply a currency valuation shift on the part of policymakers, underscoring positive currency fundamentals. We target USDCNY at 5.98 by Q4'14.

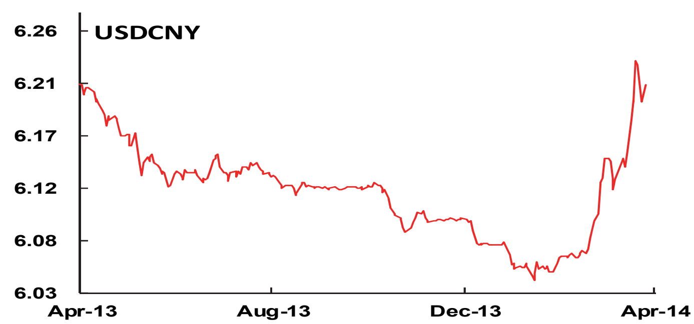
AUSTRALIA — As the economic backdrop has improved the RBA has shifted to a neutral stance and appears to be more comfortable with AUD above 0.90. Technicals have turned increasingly bullish; however investors have been slow to follow suit, with the CFTC reporting a net short $2bn AUD position as of mid-March and consensus calling for AUD to close the year at 0.86. We are more bullish than consensus but still see risks stemming from China as well as an RBA who is unlikely to be comfortable with further AUD appreciate. We hold a year-end target of 0.88.

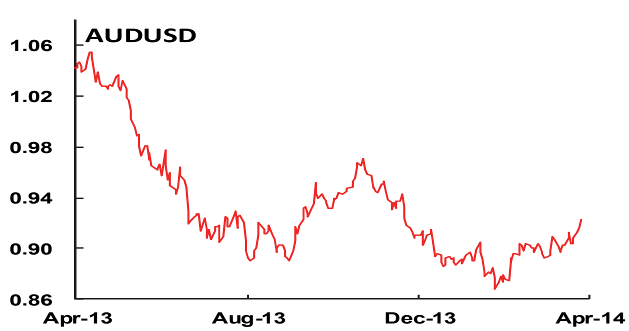
NEW ZEALAND — Entering April the New Zealand dollar (NZD) is the best performing primary currency year-to-date. Sentiment, an encouraging fundamental backdrop and an interest rate hike by the RBNZ have all supported NZD. Technically, NZD faces significant resistance as it approaches its multi-decade highs of 0.8843; however on a relative basis the outlook remains bright. We hold a year end NZDUSD target of 0.85.

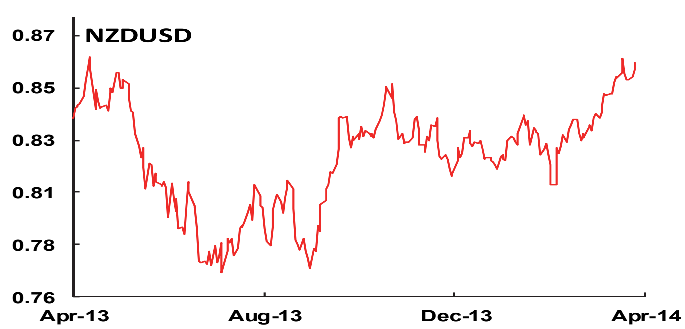
Currency Trends

FX Rate	Spot 26-Mar	14Q1f	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDJPY	102	102	104	107	109	110	111	112	113
USDCNY	6.21	6.10	6.06	6.02	5.98	5.94	5.90	5.86	5.86
AUDUSD	0.92	0.87	0.86	0.88	0.88	0.89	0.89	0.89	0.89
NZDUSD	0.86	0.83	0.84	0.85	0.85	0.86	0.86	0.87	0.87









Asia / Pacific

Fundamental Commentary

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JAPAN — The Japanese consumption tax rate will be increased from 5% to 8% on April 1st, reflecting the government's pledge to resume fiscal discipline in the medium term amidst continuing fiscal and monetary stimulus. The tax rate hike will likely have an adverse impact on household spending in the second quarter of the year, which the government aims to offset by supplementary public infrastructure spending. We expect the Japanese economy to expand by 1.4% this year, following a 1.5% gain in 2013. The Bank of Japan (BoJ) will continue its quantitative and qualitative monetary easing scheme in the coming quarters, expanding the nation's monetary base at an annual pace of ¥60-70 trillion (by 30-35% in 2014 as a whole). In our view, however, there is an increasing potential for additional monetary easing measures in the second quarter of 2014 if the tax hike leads to a stalling of ongoing economic momentum. Inflation is slowly approaching the BoJ's 2% inflation target. The consumer price index (of all items less fresh food) increased by 1.3% y/y in January, after emerging from deflationary territory in mid-2013. The consumption tax rate increase will temporarily bring inflation to the BoJ's target in mid-2014. Apart from this, significant yen depreciation combined with the central bank's monetary stimulus efforts should translate into modest price gains in the coming quarters, though the inflation rate will likely hover around 1½% y/y at the end of 2014.

CHINA — Exchange rate liberalization is high on China's policy agenda. The Chinese yuan's (CNY) official trading band was widened in mid-March; the currency is now allowed to fluctuate ±2% (instead of ±1%) around the People's Bank of China's (PBoC) central parity for USDCNY. The ongoing period of elevated volatility will likely be followed by a return to a gradual appreciating bias as the currency remains somewhat undervalued and capital flow dynamics continue to provide support. The decision to widen the exchange rate trading band confirms the authorities' commitment to increasing the role of market forces in the economy, as was promised by the economic reform plan unveiled last November. Given the number and complexity of simultaneous reforms, effective management of implementation risk is critical for maintaining domestic economic stability. Market participants are increasingly focused on Chinese economic data as the nation's importance as a global growth driver continues to increase. Despite recent mixed signals given by high frequency indicators, China continues to post sustained economic growth. We estimate that the economy will advance by 7⅓% this year — slightly less than the official real GDP growth target of 7½% — followed by a 7% gain in 2015. Chinese policymakers have the means to provide support through fiscal or monetary measures if output growth slows more than the authorities envision, which markets increasingly expect. The inflation outlook is manageable, with consumer prices increasing by 2.0% y/y in February. Headline inflation will likely remain below the 3½% mark through 2015. In recent weeks the PBoC has been withdrawing liquidity from the banking system through open market operations in order to limit credit growth.

AUSTRALIA — Australia is maintaining a relatively fast rate of economic growth in comparison to many other advanced economies. We estimate that real GDP gains will pick up to an average of 2.8% in 2014-15. The economy expanded by 0.8% q/q (2.8% y/y) in the final quarter of 2013 following a 0.6% (2.4%) gain in the prior three months. In 2013 as a whole, output grew by 2.4%. Economic momentum has lately been adversely impacted by weakening mining investment activity. Though recovering, household spending continues to be held back by labour market softness; at 6% in February, the jobless rate has climbed to its highest level since 2003. Nevertheless, as the housing market continues to improve, and the effect of monetary stimulus measures filter through the economy, consumer confidence and household spending growth should pick up, thereby increasingly offsetting the lower investment activity. Meanwhile, the resource sector continues to be the key economic motor with net exports supporting real GDP growth. Inflation remains manageable, likely hovering within the central bank's 2-3% target through 2015. Inflation closed 2013 at 2.7% y/y; as price gains have shown signs of modest acceleration as of late, the Reserve Bank of Australia's monetary easing cycle has reached an end with the benchmark cash rate at 2.50%.

NEW ZEALAND — Monetary conditions are tightening in New Zealand in response to a recent pick-up in inflation combined with solid economic growth momentum. The Reserve Bank of New Zealand (RBNZ) raised the official cash rate by 25 basis points to 2.75% on March 13th, becoming the first central bank within the developed economies universe to hike rates in recent years. The RBNZ assessed that the move was necessary in order to maintain inflation (which stood at 1.6% y/y at end-2013) near the central bank's 2% target mid-point. We expect inflation to close 2014 slightly above 2%. The RBNZ foresees upside pressure on prices stemming from firms' higher pricing intentions and increasing construction costs. Nevertheless, the disinflationary impact of the strong currency will allow monetary conditions to be tightened only gradually through 2014. While the New Zealand Dollar is set to face a modest appreciating bias in the coming quarters due to the favourable economic framework and monetary tightening bias, the RBNZ assesses that such a strong currency is not sustainable in the long run. Real GDP expanded by 0.6% q/q (2.3% y/y) in the final quarter of 2013 compared with a 1.0% q/q (2.8% y/y) gain in the prior three months, taking output growth to 2.5% for 2013 as a whole. The economy is underpinned by robust household spending growth. Buoyant consumer confidence (being at the highest level since early 2005) and improving labour market conditions indicate sustained momentum in the near term. We expect the nation's real GDP growth to average close to 3% through 2015.

Asia / Pacific
Currency Outlook

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INDIA — INR maintains an appreciating stance, underpinned by solid positive carry and improved external liquidity conditions. Portfolio flows remain supportive as foreign investors bring equity and bond allocations back to market weight. The upcoming election promises to bring potential volatility as an assumed strong BJP business friendly mandate, which could pose a risk to INR if the electoral outcome fails to live up to consensus expectations. We target USDINR at 65 in Q4.

KOREA — Weakness in Chinese economic data has weighed on KRW, however strong exporter demand for KRW continues to contain USDKRW risk to below 1100 on spikes in risk aversion. The current account trend supports the trade account for KRW; however the pace of gain may moderate on any slowdown from Chinese demand, or an improvement in Korean import demand which seems to be underway. We target USDKRW at 1060 by Q4.

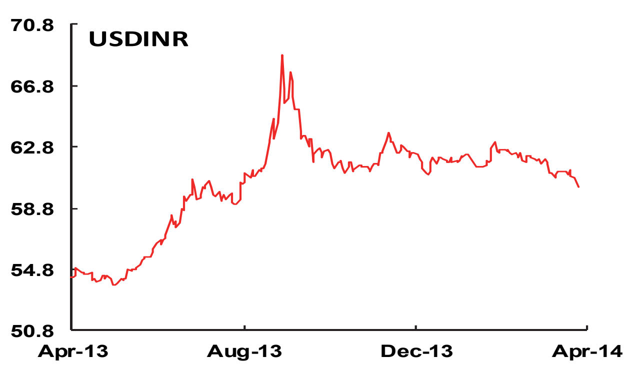
THAILAND — THB has weathered the ongoing political turmoil and knock-on economic decline relatively well. The Bank of Thailand acknowledged the continued weakness by easing policy, which has hindered THB to some degree. Crumbling imports have provided a support across the current account as domestic demand suffers, however this poses some degree of risk going forward. We target USDTHB at 34 in Q4.

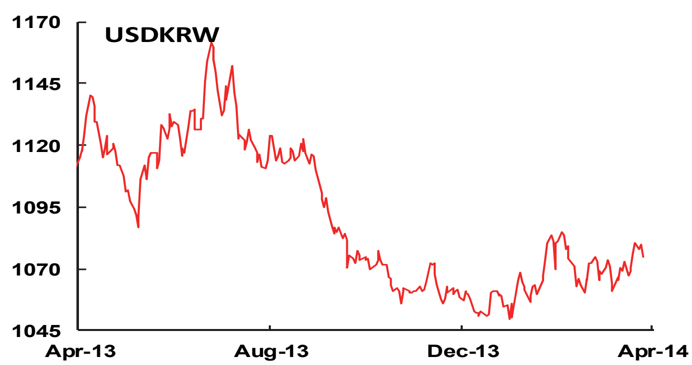
INDONESIA — IDR stabilized in March following its strong appreciation in February. Bond investors continue to add to Indonesian holdings supporting IDR. Current account risk remains if the ban on ore exports is not met with continued softness in import demand, needed to rebalancing of Indonesia's external accounts. IDR remains reasonably stable under further tapering from the Fed, though higher short term US rates remain a threat. We target USDIDR at 12500 in Q4.

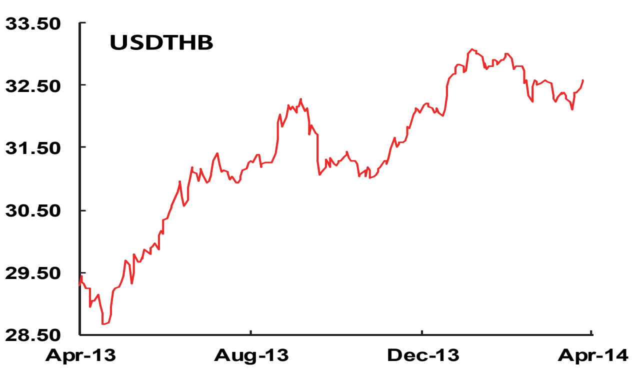
FOR FUNDAMENTAL COMMENTARY PLEASE REFER TO OUR ASIA/PACIFIC REGIONAL OUTLOOK — MARCH 2014 at Scotiabank.com

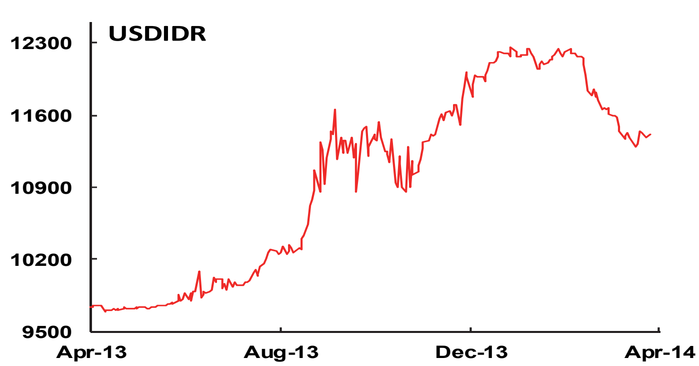
Currency Trends

FX Rate	Spot 26-Mar	14Q1f	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDINR	60.17	62.10	63.00	64.00	65.00	65.00	65.25	65.50	66.00
USDKRW	1075	1067	1065	1062	1060	1050	1045	1040	1040
USDTHB	32.58	32.80	33.20	33.60	34.00	34.10	34.20	34.30	34.30
USDIDR	11413	11700	12000	12200	12500	12400	12300	12200	12200









Developing Americas
Currency Outlook

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BRAZIL — USDBRL cross has been trading sideways since the start of December 2013, although its range has been fairly wide (2.30 – 2.45). However, we find it interesting to note, that despite the significant carry that exposure to the Brazilian currency offers (3-month NDF's implied yield is 10.6%), it has not been able to make sustained gains against the USD. Our sense is this lack of traction for the BRL is explained by market players' belief that further downwards adjustments in the real are necessary in order to restore the economy's competitiveness.

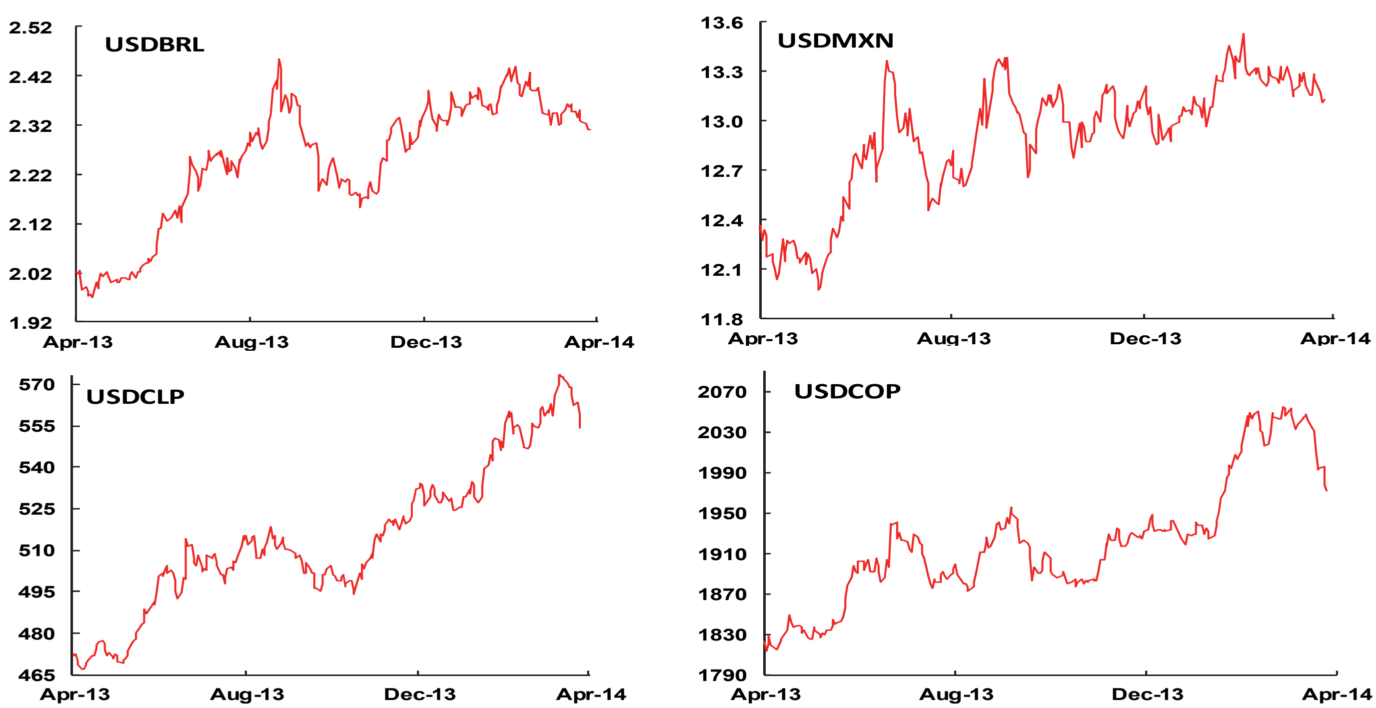
MEXICO — Since the start of the Fed's tapering in December, USDMXN has been trading sideways, although seemingly with a downwards drift as expectations of FDI inflows derived from the 2013 reforms, along with credit rating upgrades have served as important supports for the peso, despite its usually high beta nature. On this front, it has been interesting to see that despite the shift in Fed policy, there have been negligible outflows from local bond markets, which we see as an important vote of confidence from investors.

CHILE — The Chilean peso has underperformed several of its regional peers since last October, as it is widely seen as the currency with the most direct exposure to a slowing China, while there are also questions over whether FDI inflows are set to taper now that base metal price gains are seen either flattening out, or potentially even giving up some ground. In addition, there are some lingering concerns on how much of an impact on investment the planned corporate tax changes will have. The above adverse factors are compounded by the BCCh's easing bias.

COLOMBIA — After a steep drop in COP to jump-start 2014 (>5%), the announcement that Colombia's weighting in a prominent EM local currency bond benchmark (the GBI-EM) will likely rise more than two-fold (from 3.2% to 8%) spurred a rally in local securities (TES) and the Colombian peso. Our sense is that consensus anticipates the changes to drive inflows in the neighborhood of US$6bn – US$10bn, which would be an important support for the peso in an environment where the Fed's policy shift is seeing weighing on the broader EM FX basket.

Currency Trends

FX Rate	Spot 26-Mar	14Q1f	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDBRL	2.31	2.34	2.38	2.40	2.45	2.48	2.48	2.50	2.52
USDMXN	13.1	13.2	13.1	13.2	13.4	13.5	13.5	13.5	13.5
USDCLP	554	560	550	555	565	570	575	575	580
USDCOP	1972	1980	1960	1970	1975	1990	2000	2000	2010



Developing Americas

Fundamental Commentary

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BRAZIL — The Brazilian real (BRL) has been immersed in a relief-rally trading environment since early February, following an acute asset price adjustment phase affecting all emerging markets. Aggressive pre-emptive monetary policy tightening has helped Brazil be a leader in anticipating the adverse outcome from capital outflows linked to the normalization of US monetary policy (i.e., likelihood of increasing administered interest rates from the second quarter of 2015 onwards). For the first time after six weak months, Brazilian local equity securities show a timid upward trajectory; however, sensitivity to Chinese financial market conditions and policy changes remain high. As anticipated by market participants and priced accordingly, Standard and Poor's opted to downgrade Brazil's long-term foreign-currency rating by one notch to "BBB–" on March 24th, switching the rating's outlook from "negative" to "stable". Investors do not anticipate further rating actions at present. Despite the rating action, market prices of Brazilian debt securities have been improving since early February. On the monetary policy front, we anticipate that the central bank will hike the reference rate by 25 basis points to 11% at the meeting scheduled on April 2nd. On a positive note, cash-based foreign exchange reserves have resumed an increasing trend, reaching US$363 billion in February. The central bank will not hesitate to deploy some of its assets to stabilize ill-wanted volatility. Looking ahead, the October presidential elections will remain a sensitive local event to monitor.

MEXICO — Following the lackluster economic performance last year, high frequency data confirm that Mexican economic weakness continued through the beginning of this year. Based on the economic activity index, output expanded by only 0.8% y/y in January, slightly lower than the 1.1% gain observed in December. In our view, in addition to the deceleration in construction, economic activity has been dampened by lower local consumption due to higher taxes approved at the end of 2013 as part of the fiscal reform. We do not anticipate that the effect will last more than one quarter and expect the economy to regain strength in Q2, returning to rates of growth above 3% y/y by year-end. Nevertheless, the risks to our forecast are on the downside, particularly if local consumption continues to recover at a subdued pace. Inflation has eased somewhat since peaking in January, to 4.2% y/y in February, which is still above the official target range. The central bank has stated that inflation is transitory and has preserved a neutral policy stance. We do not anticipate any changes to the reference rate until the last quarter of the year. Despite the shifts in US Fed monetary policy and the adjustments observed in other emerging-market currencies, the Mexican peso (MXN) continued to trade within a 13.10-13.36 range vis-à-vis the US dollar in March. Optimism over the implementation of structural reforms (particularly in telecommunications and the energy sector) continues to set a positive tone to foreign investor expectations.

CHILE — The Chilean peso (CLP) enters the second quarter of the year on a positive note. Orchestrated or not, there seems to be a concerted appreciating tone in most emerging-market currencies which suffered a sharp adjustment over the past 12 months. Developments in US monetary and Chinese currency policies are exogenous factors affecting economies like Chile. Particularly, the downward adjustment in copper prices was a key factor causing a negative effect in the CLP. In fact, copper prices, influenced primarily by shifting economic conditions in both China and the US, have been subject to sharp volatility, ranging between US 292 and 347 cents per pound. Looking ahead, we expect the country's terms of trade to continue to be affected by declining copper prices (our revised forecast includes an average price of 308 for 2014 versus the 325 level over the past 12 months). We estimate that the USDCLP rate will edge towards the 565 rate by the end of the year. Renewed bouts of financial stress in emerging markets or any adverse development affecting Chinese economic activity will be directly translated into a weaker currency profile. The central bank has expressed a less optimistic tone for 2014 growth rate yet inflationary expectations remain within the official target range. With the administration of President Bachelet already in office (since early March), the fiscal reform proposal will take the center of investor attention in the coming months.

COLOMBIA — The Colombian economy continues to grow at a solid pace, with fourth-quarter real GDP expanding by 4.9% y/y and by 0.8% q/q, taking the annual average growth rate to 4.3%. Fixed capital formation and total consumption were the major contributors to growth. On the supply side, construction played a major role in economic activity while the manufacturing sector remains subdued. We maintain our view that the Colombian economy will accelerate to 4½% in 2014. Headline inflation has accelerated somewhat in recent months from 1.8% y/y in November to 2.3% in February; however, it remains close to the lower limit of the central bank's tolerance range. We anticipate that inflation will continue to accelerate in the coming months but will remain below the 3% mark. Monetary authorities kept the reference rate unchanged at 3.25% for the 12th consecutive time in March, maintaining a neutral tone. Additionally, the central bank informed that they will continue to purchase USD as part of the foreign reserves accumulation process. Recently, JP Morgan announced that they will increase the weighting of local Colombian bonds in two of their emerging market indexes, which will act to boost foreign participation in the local market. Although the process will be gradual starting in May, currency and the bond yields rallied significantly already last week, decoupling from other Latin American asset movements. The Colombian peso (COP) has appreciated by 3.4% against the US dollar since the announcement, reaching levels below the 2,000 mark.

Global Currency Forecast (end of period)

		2012	2013	2014f	2015f	2014f Q1	2014f Q2	2014f Q3	2014f Q4	2015f Q1	2015f Q2	2015f Q3	2015f Q4
Major Currencies													
Japan	USDJPY	87	105	109	113	102	104	107	109	110	111	112	113
Euro zone	EURUSD	1.32	1.37	1.30	1.24	1.40	1.37	1.33	1.30	1.28	1.26	1.25	1.24
	EURJPY	114	145	142	140	143	142	142	142	141	140	140	140
UK	GBPUSD	1.63	1.66	1.64	1.59	1.65	1.66	1.65	1.64	1.64	1.63	1.61	1.59
	EURGBP	0.81	0.83	0.79	0.78	0.85	0.83	0.81	0.79	0.78	0.77	0.78	0.78
Switzerland	USDCHF	0.92	0.89	0.96	1.02	0.88	0.91	0.94	0.96	0.98	1.00	1.01	1.02
	EURCHF	1.21	1.23	1.25	1.27	1.23	1.24	1.25	1.25	1.25	1.26	1.26	1.27
Americas													
Canada	USDCAD	0.99	1.06	1.12	1.13	1.13	1.16	1.15	1.12	1.12	1.13	1.13	1.13
	CADUSD	1.01	0.94	0.89	0.88	0.88	0.86	0.87	0.89	0.89	0.88	0.88	0.88
Mexico	USDMXN	12.85	13.04	13.35	13.52	13.15	13.10	13.20	13.35	13.45	13.45	13.50	13.52
	CADMXN	12.96	12.27	11.92	11.96	11.64	11.29	11.48	11.92	12.01	11.90	11.95	11.96
Argentina	USDARS	4.92	6.52	12.00	14.50	8.30	8.90	9.50	12.00	13.00	13.50	14.00	14.50
Brazil	USDBRL	2.05	2.36	2.45	2.52	2.34	2.38	2.40	2.45	2.48	2.48	2.50	2.52
Chile	USDCLP	479	525	565	580	560	550	555	565	570	575	575	580
Colombia	USDCOP	1767	1930	1975	2010	1980	1960	1970	1975	1990	2000	2000	2010
Peru	USDPEN	2.55	2.80	2.81	2.85	2.81	2.80	2.81	2.81	2.83	2.84	2.84	2.85
Venezuela	USDVEF	4.30	6.30	8.50	11.10	8.51	8.50	8.50	8.50	9.50	11.10	11.10	11.10
Asia / Pacific													
Australia	AUDUSD	1.04	0.89	0.88	0.89	0.87	0.86	0.88	0.88	0.89	0.89	0.89	0.89
China	USDCNY	6.23	6.05	5.98	5.86	6.10	6.06	6.02	5.98	5.94	5.90	5.86	5.86
Hong Kong	USDHKD	7.75	7.75	7.78	7.78	7.76	7.76	7.77	7.78	7.78	7.78	7.78	7.78
India	USDINR	55.0	61.8	65.0	66.0	62.1	63.0	64.0	65.0	65.0	65.3	65.5	66.0
Indonesia	USDIDR	9793	12171	12500	12200	11700	12000	12200	12500	12400	12300	12200	12200
Malaysia	USDMYR	3.06	3.28	3.40	3.35	3.29	3.32	3.36	3.40	3.40	3.38	3.36	3.35
New Zealand	NZDUSD	0.83	0.82	0.85	0.87	0.83	0.84	0.85	0.85	0.86	0.86	0.87	0.87
Philippines	USDPHP	41.0	44.4	46.0	46.6	44.8	45.2	45.6	46.0	46.2	46.4	46.5	46.6
Singapore	USDSGD	1.22	1.26	1.30	1.27	1.27	1.28	1.29	1.30	1.30	1.28	1.27	1.27
South Korea	USDKRW	1064	1050	1060	1040	1067	1065	1062	1060	1050	1045	1040	1040
Taiwan	USDTWD	29.0	29.8	30.6	30.2	30.4	30.4	30.5	30.6	30.5	30.4	30.3	30.2
Thailand	USDTHB	30.6	32.7	34.0	34.3	32.8	33.2	33.6	34.0	34.1	34.2	34.3	34.3
Europe / Africa													
Czech Rep.	EURCZK	25.1	27.3	27.0	25.8	27.5	27.3	27.2	27.0	26.6	26.3	26.0	25.8
Iceland	USDISK	128	115	120	118	115	116	118	120	119	119	118	118
Hungary	EURHUF	291	297	303	296	312	310	306	303	301	299	297	296
Norway	USDNOK	5.56	6.07	5.80	5.60	6.00	5.90	5.80	5.80	5.70	5.65	5.65	5.60
Poland	EURPLN	4.08	4.15	4.00	3.90	4.20	4.14	4.07	4.00	4.00	3.96	3.93	3.90
Russia	USDRUB	30.5	32.9	36.5	37.4	35.9	36.1	36.3	36.5	36.7	37.0	37.2	37.4
South Africa	USDZAR	8.47	10.49	10.90	10.70	10.80	10.75	10.80	10.90	10.85	10.80	10.75	10.70
Sweden	EURSEK	8.58	8.85	8.50	8.25	8.65	8.60	8.55	8.50	8.45	8.40	8.30	8.25
Turkey	USDTRY	1.78	2.15	2.35	2.40	2.24	2.28	2.32	2.35	2.37	2.38	2.39	2.40

f: forecast a: actual

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