Foreign Exchange Outlook

AMERICAS

The USD is poised to regain positive traction on the back of supportive capital inflows and growth differentials. The CAD and the MXN will adopt a more stable trading mood following a phase of steady gains over the past few months. We maintain a bearish view on the BRL as the country suffers from policy instability ahead of the year-end presidential elections.

EUROPE

The EUR enters a negative path against both the USD and the GBP. Subdued economic conditions (despite an equity market boost), persistently high structural unemployment, a bias towards monetary policy easing by the ECB and somewhat lingering concerns regarding the impact of the Ukraine/Russia conflict will place the EUR on a negative trend. We maintain a positive outlook for the GBP on signs of growth and currency-supportive tightening expectations.

ASIA / PACIFIC

The JPY remains in range-trading mode, temporarily supported by its safe-haven status. The CNY has yet to recover from the gradual softness caused by the liberalization of FX policies. We expect that the Chinese yuan will resume an appreciating bias through the remainder of the year. The THB remains extremely sensitive to the institutional crisis in Thailand while the INR has received a positive boost from a transition to a more market-friendly pro-reform leadership.

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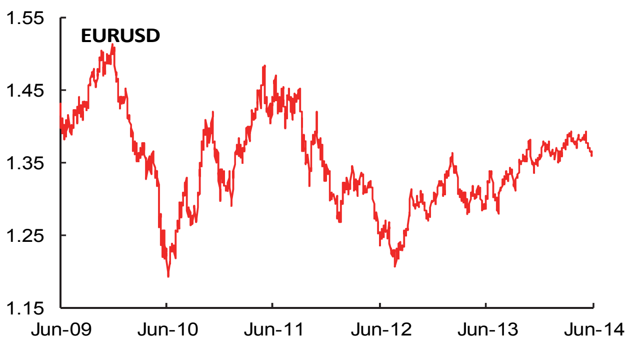
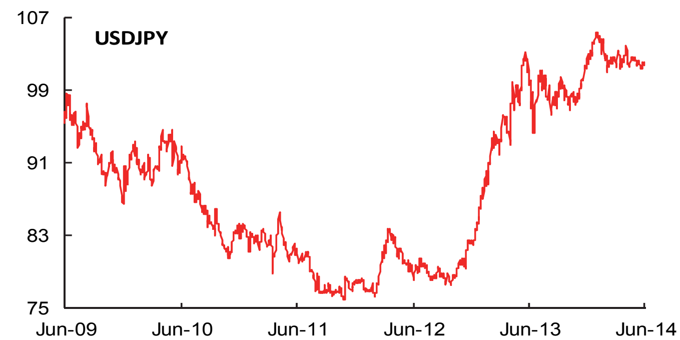
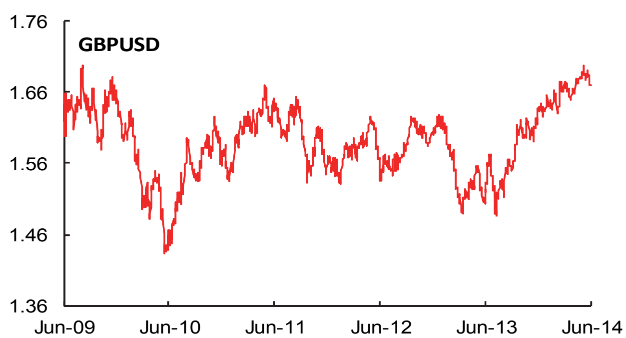
Core Exchange Rates

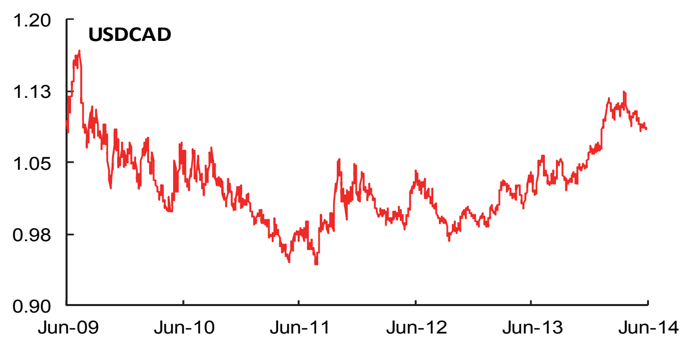
Global Foreign Exchange Outlook

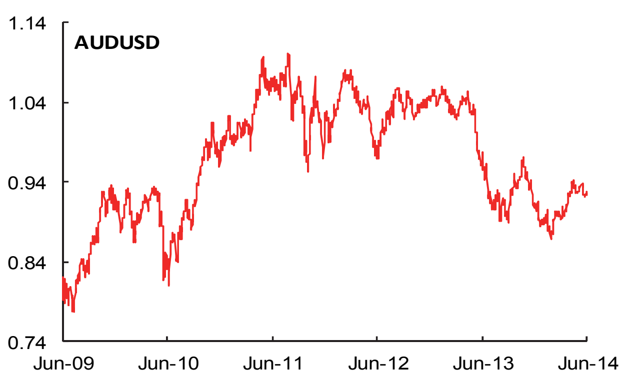
May 29, 2014		Spot	2014f Q1a	2014f Q2	2014f Q3	2014f Q4	2015f Q1	2015f Q2	2015f Q3	2015f Q4
EURUSD	Scotiabank	1.36	1.38	1.37	1.33	1.30	1.28	1.26	1.25	1.24
	Consensus*			1.37	1.35	1.33	1.31	1.30	1.30	1.29
USDJPY	Scotiabank	101.7	103	104	107	109	110	111	112	113
	Consensus*			104	105	106	107	108	108	108
GBPUSD	Scotiabank	1.67	1.67	1.70	1.68	1.67	1.65	1.63	1.61	1.59
	Consensus*			1.67	1.65	1.64	1.63	1.63	1.62	1.62
USDCAD	Scotiabank	1.08	1.11	1.10	1.11	1.12	1.14	1.14	1.12	1.11
	Consensus*			1.11	1.12	1.12	1.12	1.12	1.12	1.11
AUDUSD	Scotiabank	0.93	0.93	0.93	0.94	0.92	0.89	0.89	0.89	0.89
	Consensus*			0.90	0.89	0.88	0.88	0.87	0.87	0.86
USDMXN	Scotiabank	12.85	13.06	12.97	13.10	13.22	13.32	13.18	13.23	13.40
	Consensus*			13.10	13.10	13.07	13.05	13.01	12.93	12.85











(*) Source: Consensus Economics Inc. May 2014

Market Tone & Fundamental Focus

Pablo F.G. Bréard (416) 862-3876
pablo.breard@scotiabank.com

Camilla Sutton (416) 866-5470
camilla.sutton@scotiabank.com

Uneven growth and recovery dynamics, divergent monetary policy direction amongst high-income countries, bullish trends in global equity securities markets, a strengthening tone in emerging-market currencies and heightened socio-political instability in Thailand and Ukraine are the primary factors swaying capital flows in global foreign-exchange markets. China's leverage and growth dynamics together with the gradual unwinding of monetary stimulus by the US remain the most sensitive external factors affecting market sentiment within the core group of emerging-market economies. Leadership transition in India is a positive development for emerging-market assets.

The US dollar (USD) has regained traction and begun to appreciate on a trade-weighted basis in a timid attempt to align to the US economic outlook relative to its global peers. Early signals from the second quarter suggest an accelerating economy, which adds to an encouraging trend in formal job recovery dynamics; however, market pricing in fixed-income market indicate that long-term interest rates will not rebound as fast or high as originally anticipated as the US Federal Reserve (Fed) gradually unwinds its monetary stimulus. Falling yields, with US 10-year yields below 2.5% and the shifting shape of the yield curve, all suggest a re-pricing of the economic and monetary outlook is underway. Within the NAFTA zone currencies, both the Canadian dollar (CAD) and the Mexican peso (MXN) have recovered some of the lost value earlier in the year. For the CAD, the combination of a US recovery, oil prices above the US$100 per barrel mark and the already sustained weakness in the CAD are powerful; however, the Bank of Canada is likely to remind markets of the uneven fundamental backdrop that is at least partially reliant on the level of the CAD. Accordingly, we would expect a somewhat range bound CAD.

The MXN is expected to maintain a strong bias in the near-term, but we are of the view that it may face resistance later in the year as market participants price in the beginning of the US tightening cycle. The MXN is receiving the benefits from ample global liquidity (courtesy of relatively low interest rates in the US), renewed demand for high-yielding emerging-market financial assets and residual technical overvaluation (not fully recovered) from the 2008/09 shock to the global financial system. The Brazilian real (BRL) has benefitted from a three-month phase of favourable global liquidity conditions and appreciated considerably against the USD. Nevertheless, in the absence of strong evidence of economic recovery, the BRL may be subject to adverse headwinds through the later part of the year; we still maintain a relatively weak end-of-year rate. The Chilean peso (CLP) has been the underperformer within the universe of floating currencies in Latin America over the past two months. Nevertheless, the key factors affecting near-term trends in the Chilean currency market seem to be more connected with developments in other high-income commodity-sensitive countries such as Canada, Australia and New Zealand. The exchange rate environment in Colombia remains stable despite the uncertainty provoked by the outcome of the presidential elections.

The euro (EUR) will likely depreciate, driven by unattractive growth and interest rate differentials and an expected deceleration of flows into Europe. The European Central Bank (ECB) is expected to cut interest rates in early June, in an effort to revive a more leveraged recovery phase. We anticipate EURUSD to trend lower from here, closing the year at 1.30. The Bank of England is expected to be the first major central bank to begin hiking interest rates, the British pound (GBP) has been well supported, but upward momentum has faded. As for Scandinavian currencies, the correlation between the Norwegian krone (NOK) and Swedish krona (SEK) has collapsed as NOK has rallied since April and the SEK has depreciated; we continue to expect the NOK to outperform the SEK based on the fundamental backdrops.

The Chinese yuan (CNY) has maintained a weakening trend against the USD as the Chinese authorities temporarily test the forces of a market-driven exchange rate adjustment. Nevertheless, with almost US$4 trillion in FX reserves, China has the ability to establish its exchange rate at leisure. We are of the view that growth and investment dynamics still favour a fundamental-driven currency appreciation. The CNY has traded as weak as 6.27 per USD, before closing the month at 6.25. We still hold our end-year forecast of 6.10. The Japanese yen (JPY) is likely to regain a weaker tone in the coming months; we estimate a USDJPY 109 rate by the end of the year. USDJPY has traded in a relatively tight 100.76 to 104.13 range for several months, confined by Bank of Japan policy, a shifting macro outlook and investor positioning. Nevertheless, global investors are keenly monitoring the outcome of structural reforms implemented by the Shinzo Abe administration to address an unsustainable government finance situation. Distressed political developments in Thailand resulted in a coup d'état on May 22nd instilling a negative tone into the Thai Baht (THB). On a positive note, it is worth noting the positive trend present in both the Indian rupee (INR) following the election of a pro-reformist leader and the South Korean won (KRW), a market-favourite with solid macroeconomic foundations. However, there are growing concerns that both India and Korea will turn towards intervention to avoid excessive currency appreciation from current levels. Based on the fundamental backdrop as well as yields, the MYR, CNY and KRW all appear poised for further upside this year.

Canada

Currency Outlook

Camilla Sutton (416) 866-5470
camilla.sutton@scotiabank.com

Following on from its year-end trend, the Canadian dollar (CAD) weakened materially in January, but since then it has stabilized and traded in a range either side of 0.90. Entering June the CAD is trading at the stronger end of this range, supported by the powerful combination of a US recovery, oil above US$100 and the already sustained weakness in the currency. Even as the fundamental outlook has improved it remains unbalanced, a situation that could be aggravated by a stronger CAD. Accordingly we do not expect a material and sustainable shift outside of this range within our forecast period.

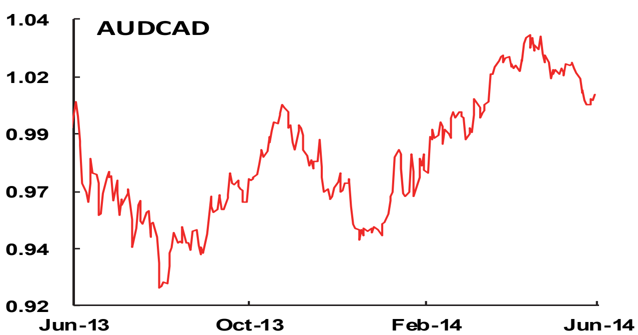
The US economy is recovering, but after a difficult first quarter, GDP is expected to reach only 2.4% in 2014. However from Canada's perspective this is still strong enough to provide support for oil prices as well as the domestic oil export market; but likely not strong enough to offset the risk of the unbalanced economic backdrop. The longer term FX fundamentals, like the current account deficit, combined with PPP valuation warn of downside risks to the CAD. However, the near-term fundamentals have improved. This leaves the Bank of Canada with a fine balancing act where it will need to acknowledge the improved outlook — noting inflation moving back to target — but not sound so optimistic as to drive CAD strength.

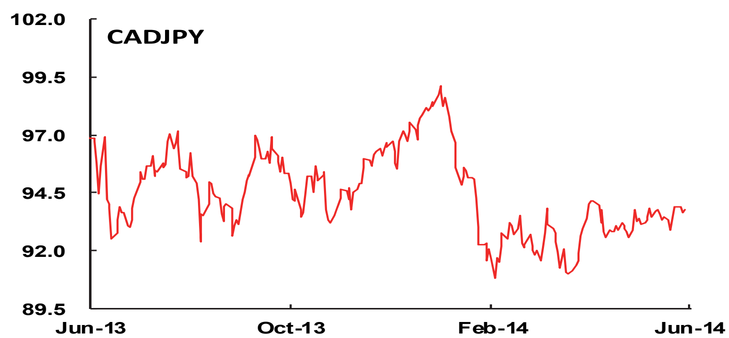
The correlation between the CAD and WTI oil prices has been relatively weak in 2014; however the Canadian energy backdrop is actually quite positive for the domestic fundamentals. WTI above US$100 (we forecast it to average between $98 and $100 in 2014), combined with a year-to-date narrowing in the underlying oil pricing spreads, is supportive of the Canadian energy sector as well as the terms of trade.

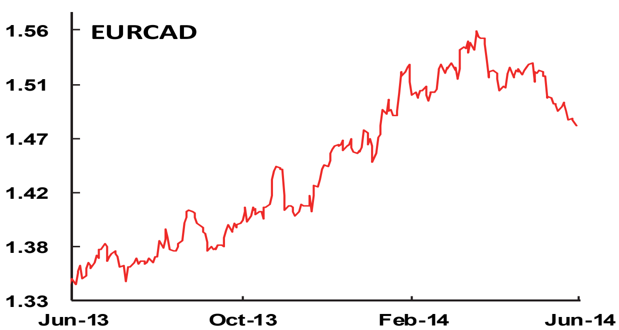
Flows into Canada have trended lower and will likely be challenged in June due to large sovereign and provincial coupon payments; however the broader trend is one where Canada is seen as an attractive home for capital, but demand is not as large as it was during the financial crisis. By the end of May, the investor community had cut its short CAD position in half, but continued to cling to a near-term bearish outlook. We see the CAD backdrop as uneven and mixed, which is likely to keep the currency somewhat range bound. We hold a Q214 CADUSD target of 0.91 (1.10 in USDCAD) and a year-end forecast of 0.89 (1.12).

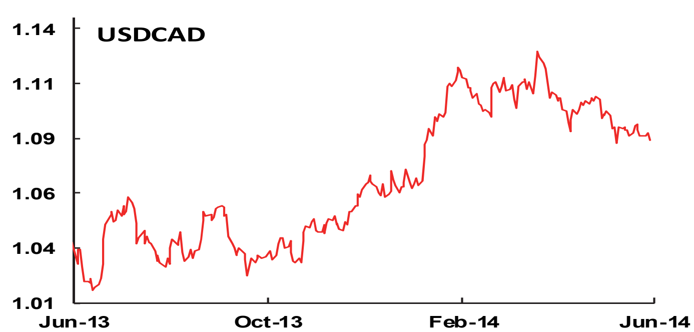
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 29-May	14Q1a	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
AUDCAD	1.01	1.02	1.02	1.04	1.03	1.01	1.01	1.00	0.99
CADJPY	93.8	93.4	94.5	96.4	97.3	96.5	97.4	100.0	101.8
EURCAD	1.48	1.52	1.51	1.48	1.46	1.46	1.44	1.40	1.38
USDCAD	1.08	1.11	1.10	1.11	1.12	1.14	1.14	1.12	1.11









United States and Canada

Adrienne Warren (416) 866-4315
adrienne.warren@scotiabank.com

Fundamental Commentary

UNITED STATES — Recent indicators point to a solid rebound in US economic activity in the second quarter following weather-related disruptions over the winter. Retail sales faltered in April, but this followed two months of strong gains. Improving labour market conditions, wealth gains from rising home and equity prices, and the unleashing of pent-up demand for motor vehicles and other consumer durables are expected to drive strong consumer spending growth over the coming year. Nonfarm payrolls rose by 288,000 in April, bringing the three-month average gain to 238,000, its best performance in two years. The US economy has now fully recouped the nearly 9 million jobs lost during the recession. Consumer confidence has recovered toward its highest levels in six years. The US housing sector has been slower to regain momentum. Home sales and construction are grinding higher, but remain well below normal levels, with affordability pressured by rising home prices, higher mortgage rates – the 30-year fixed rate has increased close to a percentage point over the past year – and still tight credit conditions. Industrial activity is also recovering from its winter slump. US producers are benefitting from rising domestic and foreign sales, improved cost competitiveness and a well-diversified export base. Production gains are being led by motor vehicles & parts and energy products. The ramping up of US oil and gas production in recent years has steadily trimmed oil imports and contributed to a notable improvement in US external accounts. Meanwhile, strong capital goods orders through April, alongside healthy corporate balance sheets and reduced political uncertainty, point to an acceleration in business investment in the coming months. The recovery in 2014-15 also will get a boost from a sharply reduced pace of fiscal restraint. While higher food and housing costs have lifted overall inflation off its recent lows, excess capacity and still modest wage growth are keeping core price trends firmly in check.

CANADA — Canada's economic performance remains mixed, with output growth in early 2014 tracking around 2¼% y/y. Consumer spending and confidence remain reasonably buoyant, though limited pent-up demand, increased household debt aversion and moderate job and wage gains suggest Canadian consumers will remain relatively cautious borrowers and spenders in the year ahead. Employment growth has slowed alongside a reduced pace of private and public sector hiring, while the unemployment rate is holding steady around 7%. Housing activity through the spring has been fairly steady, with aggressive mortgage rate discounting helping to maintain affordability in the face of record high home prices. Recent surveys point to improving business sentiment, though excess capacity and sluggish sales growth continue to weigh on hiring and capital spending plans. Business investment should gradually firm up over the coming year as strengthening global demand boosts commodity and non-commodity exports. Exports have lagged prior recovery cycles, held back by the slow pace of global growth and domestic competitiveness challenges. Even so, manufacturing shipments are 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 the recent depreciation in the Canadian dollar. Meanwhile, higher energy prices are supporting a modest improvement in Canada's merchandise trade balance, which moved back into a small surplus in the first quarter. Resource-related activity remains relatively buoyant, while earlier transportation bottlenecks hampering the energy sector have eased. Higher energy costs and a weaker Canadian dollar have nudged inflation higher in recent months, though core price trends remain near the lower bound of the Bank of Canada's 1-3% target range. Downside inflation risks appear to have diminished, but persistent excess capacity, ongoing retail competition and soft wage gains will continue to cap price pressures.

Monetary Policy Commentary

Derek Holt (416) 863-7707
derek.holt@scotiabank.com

Dov Zigler (416) 862-3080
dov.zigler@scotiabank.com

UNITED STATES — The monetary policy equation in the US hasn't changed very much in recent months, and in fact, has reinforced the Fed's inching towards policy normalization. Non-farm payrolls are on their strongest run in years (713k net payrolls were added in the past three months, the best outcome since Q1 2012). Yes, the economy was weak in Q1 2014 (-1% q/q annualized GDP growth), but things are looking up for Q2 and there are structural reasons to expect solid outcomes for the year as a whole. In this environment, it stands to reason that the Fed will continue with its policy normalization with respect to tapering, and the timing of rate hikes during 2015 will be contingent on the extent to which what we think will be a strong Q2 for the economy can carry over for the rest of the year.

CANADA — We expect that the Bank of Canada (BoC) will continue to maintain its policy rate at 1% throughout 2014 and most of 2015, with our first BoC rate hike not forecast until Q4 2015. The issue for the BoC at present, however, is not whether it will stay on hold indefinitely — there is plenty of spare capacity in the economy justifying a long policy pause. Rather, the question is how the BoC will communicate to markets about the fact that inflation is coming in at 2% on headline and 1.4% on core, well within the target band, in contrast to the BoC's messaging that inflation is 'undershooting.' We expect over time that the BoC may face rising pressure to take out or soften persistent references to downside risks to inflation and, along with that, move away from its ambiguity over the direction of the next rate move in favour of emphasizing long pause arguments.

Camilla Sutton (416) 866-5470
camilla.sutton@scotiabank.com

Europe
Currency Outlook

EURO ZONE — The fundamental outlook for the EUR is bearish; however, the first four months of 2014 were marked by strong EUR inflows that supported the currency. Entering June, flows and technicals are warning of a more bearish shift. Traders have flipped from being long to short EUR - as of May 20th the CFTC reported a $1.5bn net short position a significant change from the average net long position of $3.2bn held so far in 2014. In addition the flows into the European periphery market appeared to be slowing. On the fundamental side, concerns over low inflation, a softening in the growth outlook, constraints in credit markets and a relatively strong EUR are likely to bring ECB policy action. We expect ongoing depreciation in the EUR, with a below consensus year-end target of 1.30.

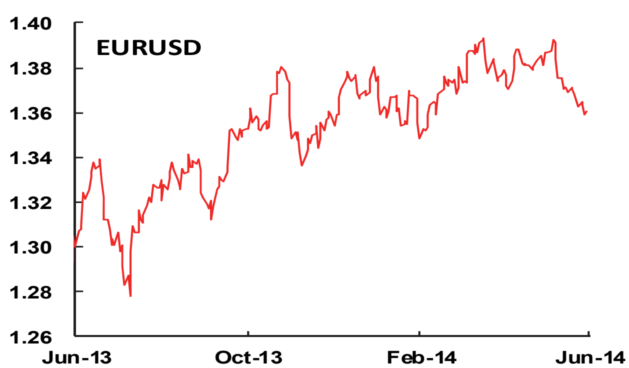
UNITED KINGDOM — The GBP rallied to a new high of 1.6996 in early May but failed to break above 1.70. The fundamental outlook for the GBP is relatively strong, as the BoE is poised to be the first of the G4 to hike interest rates and GDP is set to outperform in the advanced economies. Flows into GBP are also favourable, with the CFTC reporting a net long position of $3.5bn. However in many ways the GBP is priced for perfection leaving it vulnerable to downside. We hold an above consensus year-end forecast of 1.67.

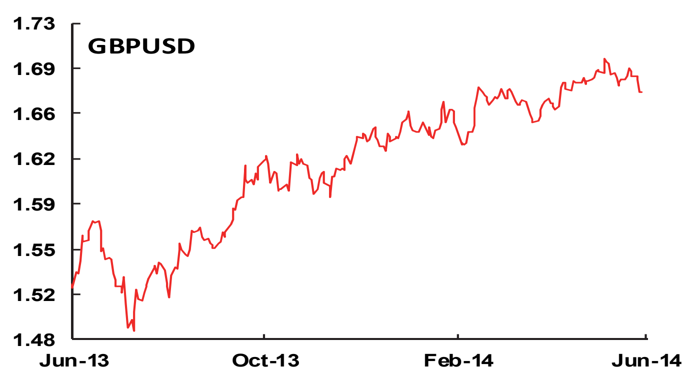
SWITZERLAND — The EURCHF floor of 1.20 continues to anchor the currency; leaving the CHF somewhat tied to the EUR. As the ECB explores policy options we expect the SNB to maintain its floor leaving EURCHF firmly within its recent 1.21 to 1.23 range into year-end. Bullish CHF sentiment is fading, and this is reflected in the narrowing of the net long position to just $0.7bn as of May 20 (CFTC). We hold a year-end EURCHF target of 1.25.

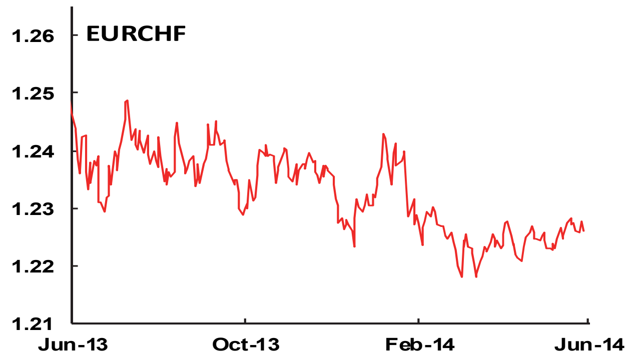
NORWAY — A fundamentally encouraging story, the NOK is closing May flat to where it began the year. Technically it has an erratic downward trend, where the currency takes a leg higher only to retrace some of its gains. Sentiment is bearish with consensus calling for depreciation; however, we would expect the NOK to outperform into year-end and hold a 5.80 target.

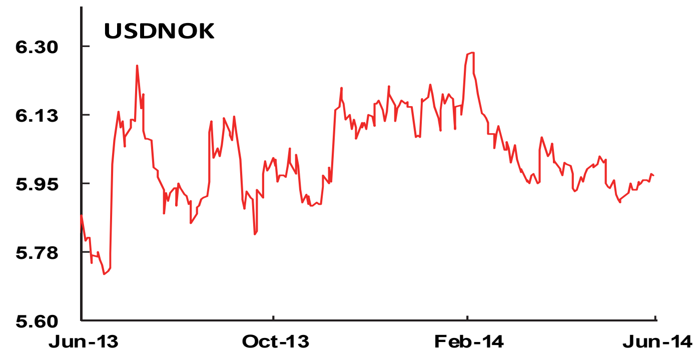
Currency Trends

FX Rate	Spot 29-May	14Q1a	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
EURUSD	1.36	1.38	1.37	1.33	1.30	1.28	1.26	1.25	1.24
GBPUSD	1.67	1.67	1.70	1.68	1.67	1.65	1.63	1.61	1.59
EURCHF	1.22	1.22	1.24	1.25	1.25	1.25	1.26	1.26	1.27
USDNOK	5.97	5.99	5.90	5.80	5.80	5.70	5.65	5.65	5.60









Europe

Sarah Howcroft (416) 862-3174
sarah.howcroft@scotiabank.com

Fundamental Commentary

EURO ZONE — Growth was generally very weak in the first quarter (+0.2% q/q), with the exception of both Germany (+0.8%) and to a lesser extent Spain (+0.4%), where the unusually mild winter prompted a temporary surge in construction activity. Italy, Portugal and the Netherlands each posted quarterly contractions, while output in France was flat. The results were on balance worse than suggested by survey indicators including the PMIs, which pointed to growth of around 0.4% q/q in the region. Of particular concern are the renewed softness in external demand and persistent sluggishness in the labour market. We are therefore revising our 2014 real GDP growth forecast for the euro area slightly downward to 1.0% from 1.1%. The growth projection for 2015 is unchanged at 1.4%. The European Central Bank is expected to reduce interest rates at the next policy-setting meeting on June 5th in response to concerns about protracted low inflation stemming from the strong currency. New ECB staff macroeconomic projections will be available by this time, and we expect to see a reduction in the 2014 average inflation forecast from 1.0% y/y to around 0.8%. Further unconventional stimulus is also likely forthcoming in the near term in the form of a long-term bank loan initiative targeted at boosting private sector credit in the distressed peripheral countries. The contraction in loans to the private sector continued in April, though at a somewhat reduced pace (-1.5% y/y from -2.0% in the prior two months). Meanwhile, both the M3 and M1 measures of money supply growth continued to decelerate in April.

UNITED KINGDOM — The breakdown of the UK's solid 0.8% q/q real GDP gain in the first quarter showed that the impetus came primarily from the spendthrift consumer and sustained, albeit somewhat softer, investment momentum. On an annual basis, the pace of business investment was unchanged from the prior quarter at 8.7% y/y. The Bank of England (BoE) expects double-digit investment gains in 2014-15, underpinning real GDP growth of 3.4% this year and 2.9% next year. Our output forecasts are slightly less optimistic (2.8% this year and 2.1% next) in view of muted productivity and earnings growth, with wages continuing to trail the CPI, as well as the effect of the strong currency on exports. Inflation rose to 1.8% y/y in April reflecting petrol price base effects and the impact of Easter on airfares. An ongoing supermarket food price war and, possibly, lower imported inflation will contain price gains over the coming months. However, we maintain our view that the risks are balanced in favour of monetary tightening by the BoE earlier than envisioned under our base case (first hike in 2015 Q1). Following the European Parliament elections in May, in which the anti-European UK Independence Party garnered the largest share of the local vote, the next 12 months will remain busy on the political front with a Scottish independence referendum in September and a general election next May. The Scottish vote has become a closer call of late; we expect the 'no' camp to win, but there is likely to be considerable media hype and financial market volatility leading up to this ballot.

SWITZERLAND — The Swiss economy maintained a solid growth track in the first quarter of 2014, though momentum shifted from the domestic side to the external sector. Real GDP picked up to 0.5% q/q (2.0% y/y) from 0.2% (1.7% y/y) in the prior quarter. Household consumption and business investment slowed and government spending contracted. Construction activity remained robust. Overall, domestic demand fell 1.6% q/q, the worst performance since the second quarter of 2009. On the other hand, exports accelerated from 1.0% q/q to 2.2%, underpinned by the SNB's minimum exchange rate policy and improving conditions in certain trade partners such as Germany and China, while imports dropped 1.6% following a 3.1% expansion in the fourth quarter. Moreover, exports maintained positive trend at the start of the second quarter, advancing again in April as imports posted another fall. Looking ahead, domestic demand will continue to be supported by a strong labour market (the jobless rate has been stable at 3.2% for a year), rising incomes, low interest rates and a neutral fiscal stance. We expect real GDP growth to remain in the 2-2½% range in 2014-15. Switzerland has been battling deflation since 2011. Most of the downward price pressure has been imported, owing to substantial currency appreciation and lower energy prices as of late. Domestic goods prices have been rising since late 2012, albeit at a subdued pace given remaining economic slack. A positive inflation trend will likely resume later this year, though price gains will average less than 0.5% y/y through end-2015.

NORWAY — Norwegian total real GDP expanded by 0.3% q/q in the first quarter, a modest rebound compared to the 0.2% contraction recorded in the prior three months, while mainland output (which excludes oil, gas and shipping) advanced 0.5% (the same pace as the prior two quarters). Private consumption, government spending and exports all improved in the January-March period, but gross fixed capital formation sunk for a third straight quarter, dropping 1.8% q/q. Although business investment in general should pick up in the remainder of the year, the pace will likely remain subdued due to high domestic costs and still subdued external demand conditions. We anticipate overall GDP gains of 1⅔% in 2014 and 2% in 2015. Looking ahead, the outlook for petroleum investment in particular is negative over the longer term. According to the Norwegian Oil and Gas Association, this year will mark the peak of investment in the sector (at an expected US$36 billion), meaning that this subcomponent of GDP will likely take a back seat to other sectors in the coming years. On a positive note, the unemployment rate declined to 3.3% in March, down from 3.7% at the end of 2013. Inflation moved lower in April; although the headline rate is now at a 13-month low, the underlying measure continues to hover around the Norge Bank's 2.5% y/y target. The reference interest rate has been kept at 1.50% since March 2012; we expect interest rate hikes to start in mid-2015.

Asia / Pacific
Currency Outlook

Camilla Sutton (416) 866-5470 camilla.sutton@scotiabank.com
Eric Theoret (416) 863-7030 eric.theoret@scotiabank.com
Sacha Tihanyi (852) 6117-6070 sacha.tihanyi@scotiabank.com

JAPAN — The offsetting impacts of low FX market volatility, falling global yields and moderating geopolitical risk are limiting movement in the JPY as technical signals provide for no clear trend. Frustrated JPY bears have pared back their positions, narrowing the CFTC net short position to $6.6bn as of May 20th – its narrowest level in 18 months. We are JPY bears, expecting the 2% inflation goal to prove a substantial challenge, forcing the Bank of Japan to consider more aggressive policy stimulus. Accordingly, we hold a year-end USDJPY forecast of 109.

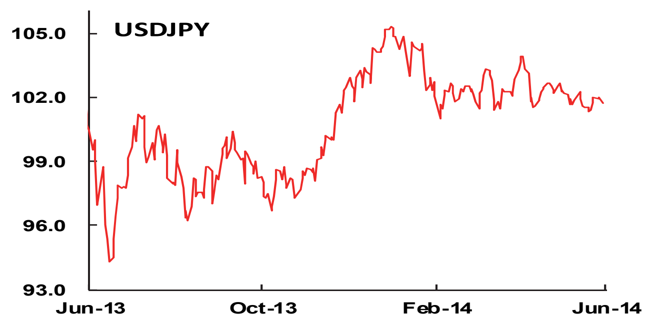
CHINA — The renminbi has been fairly volatile through May, though generally set to end this month relatively unchanged despite the wider trading range. The correlation between the fixing and spot has broken down, with policymakers slowly edging the USDCNY fixing higher regardless of the lack of trend in spot trading through the month. The appearance of an improvement in Chinese data should help investor sentiment, reinforcing the relatively stable trade trend. We expect USDCNY at 6.10 in Q4.

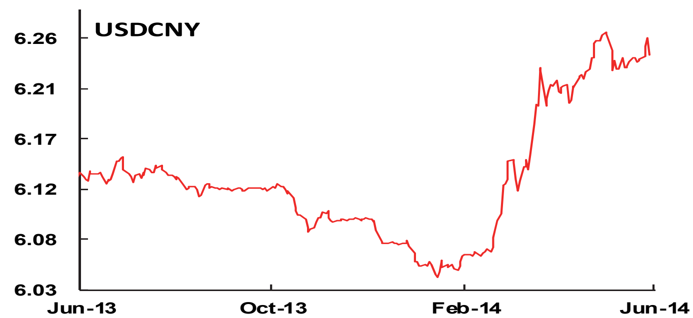
AUSTRALIA — The AUD was range-bound in May as a heightened focus on Australia's credit rating, less supportive yield spreads, and a deteriorated outlook for commodities with iron ore prices breaking $100/t were offset by an improvement in employment, an RBA that has eased up on its currency rhetoric and positive flows and building bullish sentiment (the CFTC reported a $1.8bn net long position as of late May). We expect the AUD to continue to be plagued by a mixed outlook, leaving the currency range-bound. We hold a year-end target of 0.92.

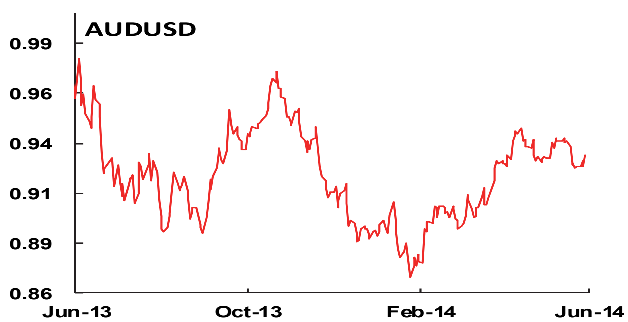
NEW ZEALAND — The NZD, the darling of FX markets in the first quarter, depreciated in May, with losses aggravated by an increasingly bearish technical outlook as the upward trend was reversed. Sentiment is mixed. Near-term traders are bullish – the CFTC reported a US$1.5 billion net long as of late May; however, longer term forecasts are more bearish, with consensus looking for NZD losses into year-end. We are more optimistic but expect the NZD to prove somewhat range-bound, closing the year at 0.85.

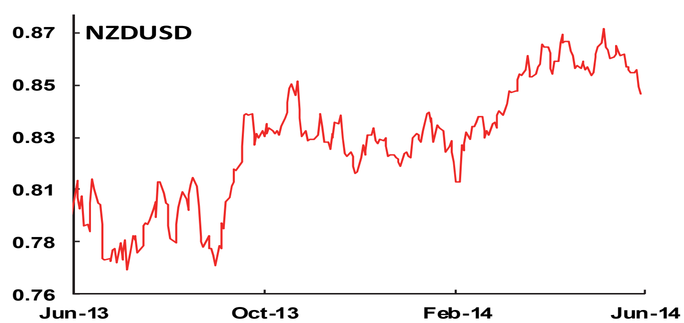
Currency Trends

FX Rate	Spot 29-May	14Q1a	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDJPY	102	103	104	107	109	110	111	112	113
USDCNY	6.24	6.22	6.22	6.16	6.10	6.06	6.01	5.97	5.92
AUDUSD	0.93	0.93	0.93	0.94	0.92	0.89	0.89	0.89	0.89
NZDUSD	0.85	0.87	0.86	0.85	0.85	0.86	0.86	0.87	0.87









Asia / Pacific

Fundamental Commentary

Tuuli McCully (416) 863-2859
tuuli.mccully@scotiabank.com

JAPAN — The April 1st increase in the consumption tax rate is reflected in Japan's current economic momentum. In anticipation of the raise, the retail sales indicator jumped (6.4% m/m) in March, followed by a sharp contraction of 13.7% m/m in April. The government aims to offset the tax hike's adverse impact on household spending in the current quarter by supplementary public infrastructure spending. Nevertheless, we expect real GDP growth to contract in quarter-over-quarter terms in the second quarter (after a 1.5% q/q gain in Q1), with an output expansion of 1.4% for this year as a whole. At the May 21st monetary policy meeting, the members of the Policy Board of the Bank of Japan (BoJ) unanimously agreed to maintain the current policy stance of expanding the nation's monetary base by ¥60-70 trillion annually (by 30-35% in 2014 as a whole). We assess that the central bank will likely provide additional monetary stimulus (by potentially extending and increasing the asset purchase program) in the coming months if the tax hike leads to a prolonged stalling of economic momentum. The headline inflation rate will likely hover above 3% y/y in the next couple of months before closing the year at 2.3% y/y. The BoJ estimates that the inflation rate excluding the direct effect of the tax rate hike will likely be around 1¼% y/y in the near term, thereby failing to reach the official target of 2.0%.

CHINA — Recent high-frequency indicators continue to support our view that China's economic growth profile is structurally shifting lower due to the country's transition to a new stage of economic development that relies more on productivity improvements than investment momentum. Simultaneously, the services sector is increasing in importance as an economic motor; it now exceeds the industrial sector in size and pace of growth. We maintain our assessment that the nation's real GDP will likely expand by 7⅓% this year — slightly less than the official growth target of 7½% — and gradually decelerate toward the 7% mark thereafter. A housing market correction poses the largest downside risk to economic momentum, though the country's administration has the means to provide support through fiscal and monetary measures if output growth slows more than envisioned. To bring the real estate sector to a more balanced footing, the authorities are aiming to limit speculative buying while promoting lending to first-time home buyers. While continuing to curb shadow banking activities, the People's Bank of China has recently injected liquidity into the formal financial system, making interbank market conditions looser. The inflation outlook is manageable; the consumer price index increased by 1.8% y/y in April compared with a 2.4% advance the month before, reflecting lower gains in food costs. Persistent producer price deflation due to industrial overcapacity should alleviate any concerns regarding significant upside pressure on prices. Headline inflation will likely gradually accelerate towards the 3% y/y mark by the end of 2015.

AUSTRALIA — Monetary conditions in Australia are set to remain accommodative in the coming months with the benchmark cash target rate likely to be kept unchanged at 2.50%. Indeed, the Reserve Bank of Australia considers the current policy stance to be appropriate for fostering sustainable output growth and keeping inflation consistent with the 2-3% target. Consumer price inflation has continued to pick up gradually; price gains reached 2.9% y/y in the first quarter of 2014 compared with a 2.7% advance at the end of 2013. We expect the headline rate to close the year near the current level. Solid economic momentum in Australia is underpinned by rising exports that reflect increased mining capacity following investment project completions. Indeed, exports rose by close to 17% y/y (in Australian dollar terms) in the first quarter of the year. Simultaneously, mining investment has surpassed its peak while public spending remains muted. An improving housing market (house prices were up by 10.9% y/y in the first quarter) has translated into a pick-up in dwelling investment. This will likely have a favourable impact on consumer confidence and household spending. The Australian labour market has shown signs of modest improvement though demand for labour remains soft for the time being. The unemployment rate remained at 5.8% in April. We expect Australia's real GDP growth to average 2.8% in 2014-15.

NEW ZEALAND — New Zealand's monetary conditions will likely continue to tighten gradually in the coming months as the nation's authorities aim to limit general inflation pressure in the robustly growing economy while directing the housing market to a more sustainable footing. The most recent hike in the benchmark cash rate took place at the end of April, bringing it to 3.0%. The next monetary policy meeting of the Reserve Bank of New Zealand (RBNZ) is scheduled for June 11th, and we expect to see a third consecutive rate increase of 25 basis points. Nevertheless, the disinflationary impact of the strong New Zealand dollar will allow the policy adjustment to be gradual, likely taking the key rate to 3.75% by the end of the year. The RBNZ maintains its view that the current level of the exchange rate is not sustainable in the longer term. The monetary policymakers assess that housing market pressures are easing, thanks to the implementation of loan-to-value restrictions on mortgage lending in October 2013 combined with recent monetary tightening. Indeed, the number of property sales transactions continues to decline from last year's levels while house price gains show further moderation. The New Zealand economy has considerable momentum, underpinned by robust household spending growth and favourable terms of trade; we expect the country's real GDP growth to average slightly above 3% through 2015.

Developing Asia
Currency Outlook

Sacha Tihanyi (852) 6117-6070
sacha.tihanyi@scotiabank.com

INDIA — The INR has been bolstered by surging equity inflows following the majority BJP win in the recent election, though these stalled at the end of May. Debt purchases picked up pace to keep net portfolio flows buoyant and INR supportive. The suppressed current account deficit coupled with capital inflows has resulted in robust reserves accumulation by the Reserve Bank of India, which appears to be restraining INR strength. We see USDINR trading of 63.00 by Q4.

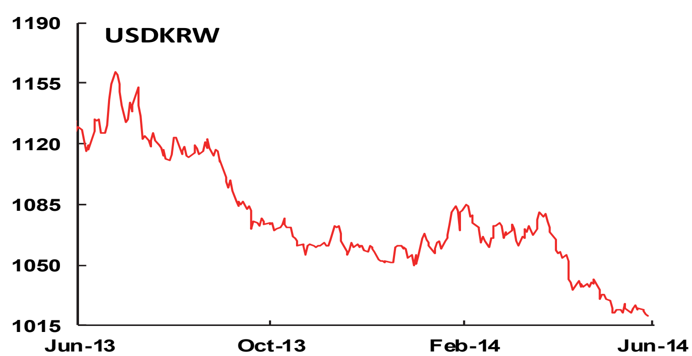
KOREA — South Korea's trade accounts continue to be the prime support for the KRW, as exporter buying consistently pressures USDKRW lower. The Bank of Korea made its presence felt much more prominently in the market during the month of May, restraining the pace of won appreciation and subduing speculative positioning. However, policymakers have remained generally quiet insofar as KRW strength is concerned, as is likely to continue to be the case so long as the robust trade surplus development persists. We target USDKRW at 1040 by Q4.

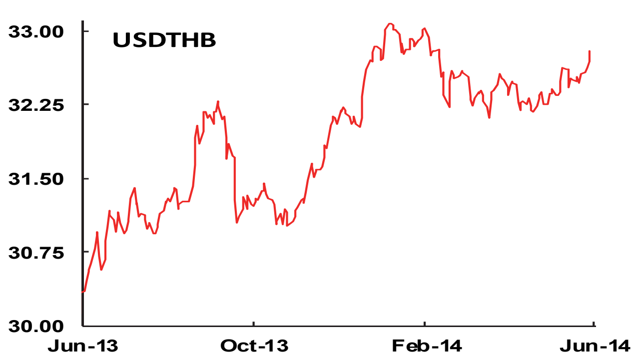
THAILAND — The THB has continued to trade in a restrained manner — despite depreciating through May — as central bank intervention has stemmed volatility in the face of sustained political tension. The military coup has remained THB-negative for foreign portfolio investment that continues to flee the country, despite relatively buoyant net FDI flows. Thailand's trade surplus risks deteriorating as the clearing of political deadlock may restart domestic demand and cause a surge in pent up import demand. We target USDTHB at 33.50 by Q4.

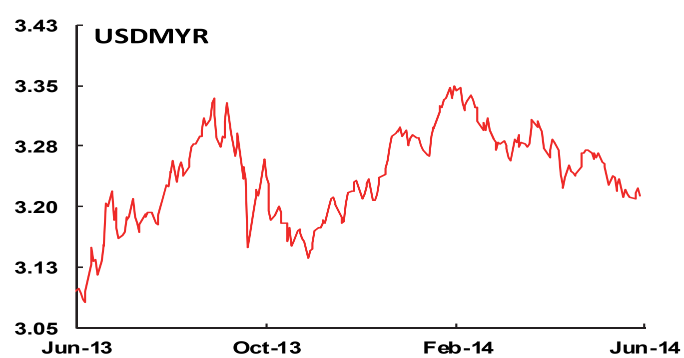
MALAYSIA — An improving trade position has offset weaker portfolio flows and bolstered the MYR, with the currency an outperformer in the Asian space for May. The hawkish shift in central bank rhetoric plays well against other less hawkish monetary policy dynamics in the region, and suggests rate support in the coming months vis-à-vis the USD. We target USDMYR at 3.30 in Q4.

Currency Trends

FX Rate	Spot 29-May	14Q1a	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDINR	59.04	59.89	61.00	62.00	63.00	63.25	63.50	63.75	64.00
USDKRW	1021	1065	1020	1030	1040	1038	1035	1033	1030
USDTHB	32.80	32.42	32.50	33.00	33.50	33.63	33.75	33.88	34.00
USDMYR	3.21	3.26	3.26	3.28	3.30	3.28	3.25	3.23	3.20







Developing Asia
Fundamental Commentary

Tuuli McCully (416) 863-2859
tuuli.mccully@scotiabank.com

INDIA — Indian general elections concluded on May 12th; the Indian National Congress party's long-time reign came to an end after a landslide defeat by the Bharatiya Janata Party (BJP) led by Narendra Modi. The BJP will now control a majority government with 282 of the 545 seats in the Lok Sabha, the Parliament of India. There is renewed optimism that the new administration will take affirmative steps to place India back onto a fast-growth trajectory, as the BJP has pledged to prioritize economic reforms to improve India's policy credibility and business environment. The economy is set to start recovering in the near term, with an expected real GDP expansion of 5.2% this year (up from 4.6% in 2013) and 5.7% in 2015. A pick-up in investment that reflects improving sentiment combined with the authorities' efforts to clear structural bottlenecks delaying large industrial projects, and a recuperating export sector will underpin activity through 2015 and beyond. Inflation containment is taking priority over promoting economic growth in guiding the direction of monetary policy. Consumer price inflation measured 8.6% y/y in April, down from the November peak of 11.2%, while wholesale price inflation (which has a smaller food component) recorded a 5.2% y/y increase. We expect the pace of price gains to close the year near current levels. The Reserve Bank of India has noted that conditional on enduring disinflation monetary tightening is not anticipated in the near term; the policy repo rate has been at 8.0% since January.

KOREA — South Korean economic momentum remains firmly intact; the country's exports continue to pick up partly reflecting stronger demand from the US, which purchases 11% of South Korean shipments abroad. Meanwhile, improving employment conditions and sound consumer confidence underpin household spending prospects. Investment is buttressed by public sector works and private sector outlays stimulated by recuperating momentum both domestically and externally. We expect South Korean real GDP to expand by 3.6% this year, followed by a 3.2% gain in 2015. The country's inflation remains low with consumer prices increasing by 1.5% y/y in April, recording a modest pick-up from the 1.3% gain a month earlier. A negative output gap plays a key role in the inflation and monetary policy outlook: the Bank of Korea's policymakers assess that while the gap is narrowing, it will be maintained "for the time being". We expect prices to climb gradually in the coming months, with inflation closing the year slightly above 2% y/y, and further accelerating to around 2.5% by the end of 2015. The central bank's monetary policy stance will likely remain accommodative in the very near term, with the benchmark rate set at 2.50%; we anticipate a gradual normalization of monetary conditions to begin in the final months of 2014.

THAILAND — Thailand's political turmoil, which initially flared up in November 2013, triggered a coup-d'état on May 22nd — following a declaration of a martial law two days earlier — as negotiations between the caretaker government and the opposition failed. The military aims to restore order and push through political reforms, though details are yet to be announced. Regardless, the overturning of representative democracy will not ease underlying discontent as the nation remains deeply split; accordingly, we expect the political and social unrest to continue for an extended period of time. Thailand's economic outlook has continued to weaken given the turmoil that has eroded consumer and business confidence and adversely affected the vital tourism industry. Weaker sentiment translates into lower economic growth through more sluggish household spending as well as delayed private sector investment. Moreover, the political crisis is postponing the implementation of large public sector infrastructure projects. Real GDP declined by 0.6% y/y in the first quarter of the year following a 0.6% y/y gain in the final quarter of 2013. While net exports supported economic activity, private consumption and investment contracted substantially. Accordingly, we have revised Thailand's 2014 output growth forecast downwards to 2.0% (from 2.5%). We expect momentum to rebuild in the coming months as the military administration prioritizes an economic revival. Inflation remains manageable despite the fact that the headline rate has picked in recent months, reaching 2.4% y/y in April. We expect inflation to hover near 2½% y/y through 2015.

MALAYSIA — The Malaysian economy is performing strongly. Real GDP expanded by 6.2% y/y in the first quarter of the year, following a 5.1% gain in the final three months of 2013. Activity was broadly-based; while domestic demand remained firm, net exports continued to improve reflecting a pick-up in global demand conditions, particularly in advanced economies. Private consumption is underpinned by rising incomes and supportive labour market conditions, whereas investment activity is bolstered by private sector outlays mainly in the services and manufacturing sectors. We expect the nation's output expansion to average around 5% in 2014-15. Inflation remains elevated by historical standards with the consumer price index rising by 3.4% y/y in April, reflecting domestic cost factors such as higher energy and utilities prices. The planned implementation of a goods and services tax in 2015 will lead to another temporary pick-up in inflation. Given the robust growth momentum combined with persistent inflationary pressures, the Malaysian central bank has indicated that a monetary tightening cycle is approaching. Indeed, the monetary authorities assess that the current accommodative policy stance — the overnight policy rate has been kept at 3.0% since May 2011 — is leading to a continued build-up of financial imbalances, such as household indebtedness. We expect the first benchmark interest rate hike to take place in the third quarter of the year; nevertheless, the central bank will likely adopt a gradual approach to monetary tightening.

Developing Americas
Currency Outlook

Eduardo Suárez (416) 945-4538
eduardo.suarez@scotiabank.com

BRAZIL — A very attractive carry of +10.5% (the implied yield) on 3m NDFs, and a close to 12% yield on local currency 5yr government debt, has boosted the BRL to post a +6.0% spot return so far in 2014 (top among the majors). Although consensus calls for a relatively strong correction back to 2.40 (which is broadly in line with our call), we believe a global "risk-off" trigger will be necessary as the cost of holding onto USD-longs is too steep for a gradual correction to take place.

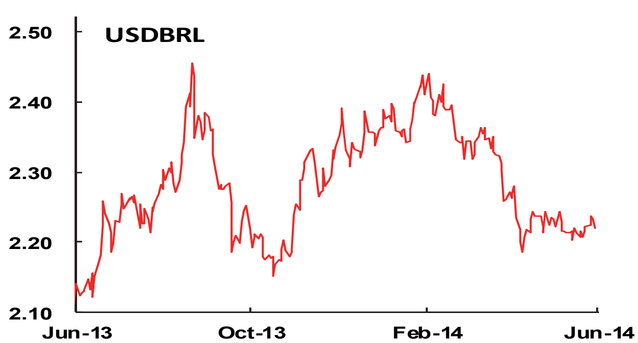
MEXICO — The MXN has been on a relatively stable appreciation trend since the January sell-off, moving from a high of 13.60, down to 12.85. Like in other markets, volatility has been extremely low, pushing its way back to pre-crisis levels (3-month implied volatility. approaching 7%, and 3-month historical vol. at 5.5%), and justifying a carry-trade revival. On top of the carry-trade's boost, relatively positive expectations, despite lingering sluggish growth, are supported by economic reforms undertaken since 2012 (hence CDS trading practically flat to Chile / China).

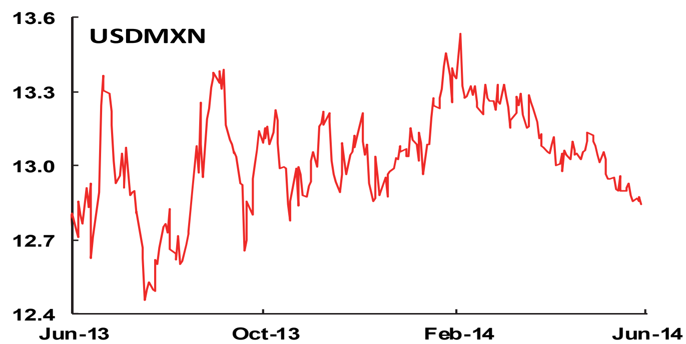
CHILE — The Chilean peso was among the worst performing currencies in the early months of the year, based on the BCCh's easing cycle eroding yields, a wide current account deficit, and concerns over FDI inflows due to proposed increases in corporate taxes and a loss of cost competitiveness in the mining sector. However, last month an unexpected rise in inflation boosted the peso due to paired back rate cut expectations, giving some support for the CLP. Going forward, we still see the Chilean peso as the one least supported among the LATAM FX5.

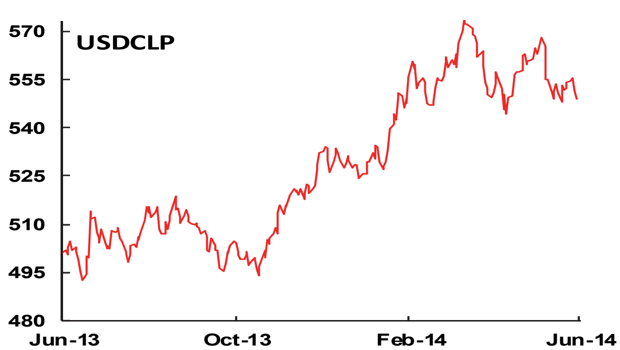
COLOMBIA — USDCOP has found a relatively resilient floor at 1900, as revamped intervention from both the finance ministry and central bank helped offset the rally triggered by the re-weighting of Colombian bonds in the GBI-EM index. However, if the global carry-trade environment continues, it is likely that the support will eventually be broken. This month it will be interesting to monitor what BanRep decides to do with its FX intervention program, which we believe could potentially be extended / expanded.

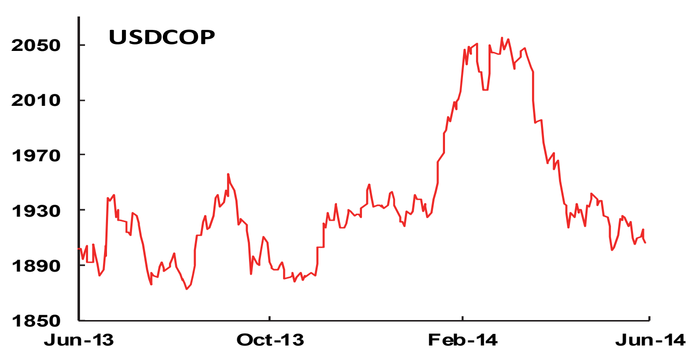
Currency Trends

FX Rate	Spot 29-May	14Q1a	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDBRL	2.22	2.27	2.38	2.40	2.45	2.48	2.48	2.50	2.52
USDMXN	12.8	13.1	13.0	13.1	13.2	13.3	13.2	13.2	13.4
USDCLP	549	549	550	555	565	570	572	575	580
USDCOP	1906	1971	1950	1955	1960	1965	1970	1985	1990









Developing Americas

Fundamental Commentary

Pablo F.G. Bréard (416) 862-3876
pablo.breard@scotiabank.com

BRAZIL — The Brazilian real (BRL) has enjoyed a major rebound over the past four months following the heightened volatility at the end of 2013; indeed, the real traded at USDBRL 2.18 (early April) from 2.44 (early February). The trading range has widened of late, opening the gates for a period of higher volatility. So far, like in Mexico, economicgrowth is disappointing in Brazil. But unlike Mexico, the growth potential is associated to policy mismatches and investment delays connected with the election cycle. Structural reforms should be at the top of the agenda for the yet-to-be-elected new administration. Brazil has the potential to unite forces between the government and private sector leaders once election-related uncertainties dissipate. The World Cup will provide a period of temporary distraction while exogenous factors drive market sentiment in the near term. China's leverage and growth dynamics together with the gradual unwinding of monetary stimulus by the US remain the most sensitive external factors affecting market sentiment within the core group of emerging-market economies. Meanwhile, the recent central bank survey points toward softer economic activity this year before an acceleration in 2015 and higher price pressures. With an inflation rate at around 6% y/y and the short-term monetary policy rate set at 11%, relatively higher lending rates may remain a growth deterrent in the near term, something that we are monitoring carefully (while maintaining our 2014 real GDP growth projection at 2%) .

MEXICO — Mexico's economic activity continues to disappoint. Most global economic analysts expect a major inflow of foreign capital to be triggered by structural reforms to the energy, utility and telecommunication sectors, yet the final approval of secondary legislation to guarantee those flows is not yet secured . Meanwhile, the Mexican peso (MXN) is benefitting from ample global liquidity (courtesy of relatively low interest rates in the US), renewed demand for high-yielding emerging-market financial assets and residual technical overvaluation (not fully recovered) from the 2008/09 shock to the global financial system. Beyond the eventual positive effect from the implementation of structural micro-economic changes, we are of the view that the MXN, which has been in appreciating mode against the USD since late January, will continue to receive a boost from highly attractive interest rate differentials, in particular from liquidity-rich US-based institutional investors. Indeed, the 10-year bond yield spread between Mexican and US Treasury bonds, currently at 335 bps, remains very attractive to USD-based global fixed-income investors. We note that the Mexico-USA spread reached as high as 406 bps at the end of January, hinting at a strong correlation between local-currency bond market sentiment and MXN valuations. Looking ahead, a new wave of market volatility will likely unfold once market participants begin pricing in the inevitable increase in the administered short-term US monetary policy rate to take effect some time in 2015.

CHILE — The Chilean peso (CLP) has been the underperformer within the universe of floating currencies in Latin America over the past two months. Nevertheless, the key factors affecting near-term trends in the Chilean currency market seems to be more connected with developments in other high-income commodity-sensitive countries such as Canada, Australia and New Zealand. The volatile and somewhat adverse trading dynamics affecting precious and base metal prices were at the core of such negative market sentiment. This negative situation has been compounded by relatively soft economic data caused by a sharp decline in investment activity and, to a lesser degree, the near-term impact from tax adjustments introduced by the newly elected administration of President Bachelet. Moreover, the steady increase in energy prices eroded the country's terms of trade given the persisting structural weakness associated with its net energy importer status. In the context of these unfavourable domestic and external market conditions, the central bank maintained a bias towards easing monetary conditions by lowering its reference short-term rate twice this year to the current level of 4%. It is worth highlighting that the monetary easing bias has been in place while inflation has been trending higher, reaching 4.3% y/y at the end of April. Nevertheless, we are of the view that the Chilean economy will regain faster momentum next year from a projected expansion rate of 3.6% in 2014.

COLOMBIA — The exchange rate environment in Colombia remains stable despite the uncertainty provoked by the first round of presidential elections that occurred on May 26th, in which the candidate from the official opposition, Mr. Oscar-Ivan Zuluaga, received the largest number of votes. The runoff vote will take place on June 15th. The Colombian peso (COP) was relatively unfazed by the news related to the political cycle. In fact, the economy is showing encouraging signs of activity, with real GDP estimated to expand by 4.5% y/y in 2014-15. On the monetary front, the central bank of Colombia opted to increase its administered policy-setting interest rate by 25 basis points (bps) to 3.5% at the end of April, stressing that the headline inflation rate (and inflationary expectations) are gradually converging towards the 3% target and that capacity utilization will reach its potential this year. Foreign capital inflows have been strong over the past few months in the context of favourable conditions present in the financially integrated economies in Latin America. The monetary authorities also anticipate that the country's terms of trade will remain positive, reinforcing a strengthening position reflected in domestic demand indicators. In fact, crude oil prices (a major source of foreign exchange earnings) have maintained a stable, if not appreciating, trajectory over the last month. In brief, we maintain a positive view for the Colombian economy irrespective of the electoral outcome.

Developing Europe & Africa
Currency Outlook

Sarah Howcroft (416) 862-3174
sarah.howcroft@scotiabank.com

RUSSIA — The Russian ruble (RUB) rallied strongly against the US dollar (USD) through most of May on hopes for a scaling back of tensions with Ukraine, reduced fears of heavier sanction by the US and EU, and depressed asset valuations that spurred demand for local currency. However, this trend was halted as violent conflict in eastern Ukraine continued in the aftermath of the presidential election. Although the pace of capital outflows from Russia slowed in April, this may prove only a temporary respite, leading to further material downward pressure on the RUB. We forecast a year-end USDRUB rate of 36.5.

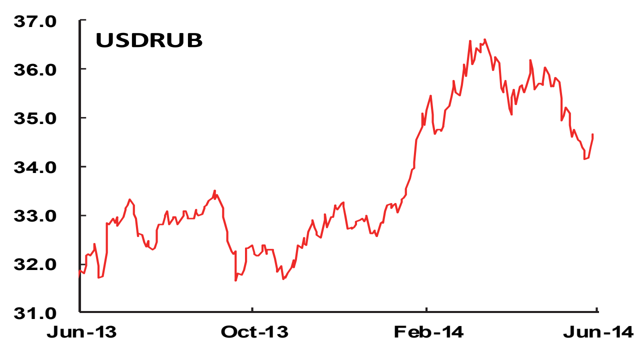
TURKEY — After having recovered 13% from its all-time low versus the US dollar (USD) recorded four months ago, the Turkish lira (TRY) now sits in a vulnerable position once more. A recent unexpected cut in the benchmark interest rate that has again called into question the credibility of the central bank, combined with probable social and political unrest surrounding the upcoming presidential election in August, will likely inject a dose of increased volatility in the currency over the coming months. We expect the TRY to weaken from its current level to around 2.20 by the end of the year.

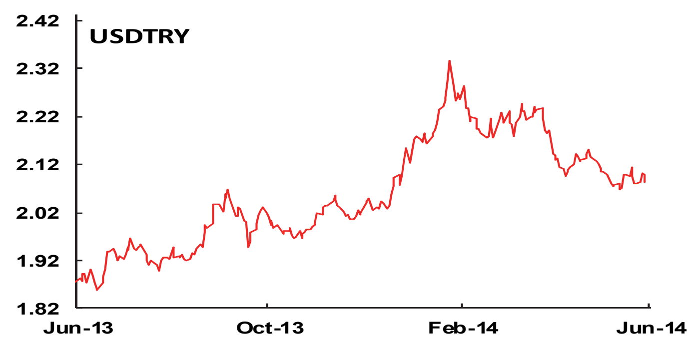
CZECH REPUBLIC — Underpinned by the central bank's commitment to the exchange rate target introduced last November, the Czech koruna (CZK) has traded in a tight range just under 27.5 per euro (EUR) since mid-March. The authorities have recently indicated that in view of the reduced inflation trajectory, it is increasingly likely that the policy will remain in place for longer than earlier envisioned (i.e., until early 2015). We continue to expect the CZK to end the year at 27.0 before turning to an appreciating path against the euro.

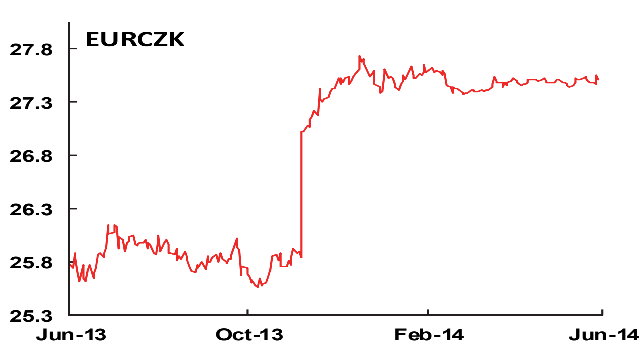
SOUTH AFRICA — The South African rand (ZAR) was largely unaffected by the uneventful general election on May 7th in which the ruling African National Congress party easily secured its fifth straight majority. The currency continued to rally, gaining 1% versus the USD over the last month, with the support of a central bank that appears committed to fending off undue exchange rate-related inflationary pressure even in the context of material economic deterioration. We expect the USDZAR rate to close the year at 10.60.

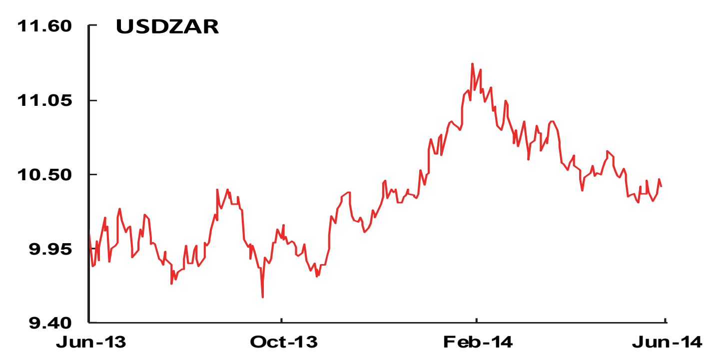
Currency Trends

FX Rate	Spot 29-May	14Q1a	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDRUB	34.7	35.2	35.8	36.2	36.5	36.7	37.0	37.2	37.4
USDTRY	2.08	2.14	2.14	2.17	2.20	2.21	2.23	2.24	2.25
EURCZK	27.5	27.5	27.4	27.2	27.0	26.6	26.3	26.0	25.8
USDZAR	10.4	10.5	10.5	10.7	10.6	10.6	10.5	10.5	10.4









Developing Europe & Africa

Fundamental Commentary

Sarah Howcroft (416) 862-3174
sarah.howcroft@scotiabank.com

RUSSIA — According to the advanced official estimate, the Russian economy did not fare as poorly in the first quarter as initially indicated by the government. Real GDP grew by 0.9% y/y versus the median expectation of 0.7% (still implying a contraction in quarterly terms). With growth likely to decelerate further, however, we expect an expansion of only 0.7% for 2014 as a whole. Inflation rose again in April, reaching 7.3% y/y from 6.9% the prior month, while the core rate also received a boost of half a percentage point to 6.5%. Russia recently signed a 30-year gas deal with China, the largest-ever contract awarded to the state-controlled gas firm Gazprom estimated to be worth US$400 billion. This represents a strategic move by Russia to shift its capital and trade links away from Europe in favour of fast-growing Asian markets, particularly as Europe looks to lessen its dependence on Russian natural gas supplies. Meanwhile, Gazprom has demanded prepayment of natural gas supplies to Ukraine after having raised the price by some 80% and threatened to halt supplies if Ukraine does not comply, underscoring the continued instability of gas imports that transit through Ukraine on the way to other countries in Europe. Notwithstanding, and likely rather because of, the ongoing tensions with Ukraine and the US/EU, polls indicate that domestic support for President Putin has strengthened to a multi-year high. Nevertheless, capital continues to flow out of Russia. According to the central bank, net capital outflows measured US$4.6 billion in April, adding to the $63.7 billion recorded in the first three months of the year.

TURKEY — The stance of Turkey's monetary authorities has shifted in favour of providing increased support for economic growth over taming inflation. The benchmark one-week repo rate was lowered by 50 basis points to 9.50% at the latest policy-setting meeting on May 22nd in the context of improved risk perceptions and lower market interest rates. Inflation picked up to 9.4% y/y in April and will likely reach double-digit territory in May, twice the current official target of 5% for 2014, before moderating to around 7¾% by year-end. Despite the assertion in the accompanying statement that conditions will remain tight until the inflation outlook improves, it is likely that further rate reductions are forthcoming in the months ahead, particularly as Prime Minister Erdogan – who has been quite vocal about his desire for lower rates – has already criticized the central bank for not going far enough to reverse the sizeable rate hikes implemented in January to contain the lira. The financial market reaction to this unexpected and unorthodox policy move was nevertheless relatively benign. The rate of consumer loan growth has been reduced by half since late last year, dropping from 28% y/y in late 2013 to 14% in recent weeks in accordance with tighter monetary conditions. This has supported the narrowing in the current account deficit, which shrunk to its smallest level in five quarters in the January-March period. We expect real GDP growth of slightly below 2½% this year, picking up to 3½% in 2015.

CZECH REPUBLIC — Despite narrowly avoiding a contraction in the first quarter, the Czech economic recovery remains intact, bolstered by improving external conditions and a supportive monetary stance. Real GDP was flat in quarter-over-quarter terms in the January-March period, though this was due in part to a base effect caused by unusual stockpiling in the fourth quarter (when output surged 1.8%). On an annual basis, the economy expanded 2.0%, its fastest pace since the second quarter of 2011. Industrial activity was quite strong in Q1, up 7.0% y/y on average, while construction output (+8.0%) and retail sales (+6.6%) also showed improvement. Accordingly, we have raised our 2014 growth expectation to 2¼%. Alongside the expected revival in export demand from the euro zone, higher public spending and a rebound in investment will be the main sources of growth this year, as private consumption is set to trail the overall pace of expansion due to persisting slack in the labour market and lackluster wage growth. Headline inflation slid to 0.1% y/y in April, its lowest level in four-and-a-half years, and the central bank has lowered its inflation projections for 2014 and 2015 by 0.4 percentage points in each year to 0.8% and 2.2%, respectively. The expected pick-up in inflation is conditional on second-round effects of the weakened exchange rate, which has already boosted import prices, but has yet to translate into domestic price pressures. Following a strong outperformance on the fiscal deficit in 2013 (1.4% of GDP from 4.2% in 2012), the government has trimmed its target for the current year to 1.8%.

SOUTH AFRICA — Notwithstanding the current weakened state of the economy, South Africa's monetary authorities stand ready to implement additional interest rate hikes if needed to address renewed exchange-rate pressure and inflationary concerns. At its latest policy-setting meeting, the South African Reserve Bank (SARB) left the benchmark interest rate unchanged at 5.50% for a second consecutive meeting, while downgrading its growth forecast for this year materially to 2.1% from 2.6%. The economy contracted by -0.6% q/q in the first quarter, its worst performance since the 2009 recession reflecting the ongoing platinum mine strike, low confidence and softer consumer credit activity following the surprise interest rate hike in January. As a result, the unemployment rate rose by over a percentage point to 25.2% in the first three months of the year after declining in the previous two quarters. The SARB also made a minor revision to its 2014 inflation forecast from 6.3% y/y to 6.2% (still above the 3-6% tolerance range). The central bank's statement recognized that global risk aversion had improved and that capital inflows to emerging markets had resumed (with the exception of Russia); however, it also reiterated the heightened vulnerability of the rand (ZAR) to shifts in global investor sentiment as well as domestic factors. As expected, the ruling African National Congress party was re-elected on May 7th, obtaining roughly 62% of the votes, down from 66% at the last election. Jacob Zuma was subsequently chosen by parliament for a second term as president.

Global Currency Forecast (end of period)

		2012	2013	2014f	2015f	2014f				2015f			
Major Currencies						Q1a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	87	105	109	113	103	104	107	109	110	111	112	113
Euro zone	EURUSD	1.32	1.37	1.30	1.24	1.38	1.37	1.33	1.30	1.28	1.26	1.25	1.24
	EURJPY	114	145	142	140	142	142	142	142	141	140	140	140
UK	GBPUSD	1.63	1.66	1.67	1.59	1.67	1.70	1.68	1.67	1.65	1.63	1.61	1.59
	EURGBP	0.81	0.83	0.78	0.78	0.83	0.81	0.79	0.78	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	1.22	1.24	1.25	1.25	1.25	1.26	1.26	1.27
Americas													
Canada	USDCAD	0.99	1.06	1.12	1.11	1.11	1.10	1.11	1.12	1.14	1.14	1.12	1.11
	CADUSD	1.01	0.94	0.89	0.90	0.91	0.91	0.90	0.89	0.88	0.88	0.89	0.90
Mexico	USDMXN	12.85	13.04	13.22	13.40	13.06	12.97	13.10	13.22	13.32	13.18	13.23	13.40
	CADMXN	12.96	12.27	11.80	12.07	11.82	11.79	11.80	11.80	11.68	11.56	11.81	12.07
Argentina	USDARS	4.92	6.52	12.00	14.50	8.00	8.90	9.50	12.00	13.00	13.50	14.00	14.50
Brazil	USDBRL	2.05	2.36	2.45	2.52	2.27	2.38	2.40	2.45	2.48	2.48	2.50	2.52
Chile	USDCLP	479	525	565	580	549	550	555	565	570	572	575	580
Colombia	USDCOP	1767	1930	1960	1990	1971	1950	1955	1960	1965	1970	1985	1990
Peru	USDPEN	2.55	2.80	2.76	2.72	2.81	2.81	2.78	2.76	2.78	2.80	2.75	2.72
Venezuela	USDVEF	4.30	6.30	8.50	11.10	6.30	8.50	8.50	8.50	9.50	11.10	11.10	11.10
Asia / Pacific													
Australia	AUDUSD	1.04	0.89	0.92	0.89	0.93	0.93	0.94	0.92	0.89	0.89	0.89	0.89
China	USDCNY	6.23	6.05	6.10	5.92	6.22	6.22	6.16	6.10	6.06	6.01	5.97	5.92
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	63.0	64.0	59.9	61.0	62.0	63.0	63.3	63.5	63.8	64.0
Indonesia	USDIDR	9793	12171	12000	11600	11361	11700	11850	12000	11900	11800	11700	11600
Malaysia	USDMYR	3.06	3.28	3.30	3.20	3.26	3.26	3.28	3.30	3.28	3.25	3.23	3.20
New Zealand	NZDUSD	0.83	0.82	0.85	0.87	0.87	0.86	0.85	0.85	0.86	0.86	0.87	0.87
Philippines	USDPHP	41.0	44.4	44.5	43.0	44.8	44.0	44.3	44.5	44.1	43.8	43.4	43.0
Singapore	USDSGD	1.22	1.26	1.28	1.29	1.26	1.26	1.27	1.28	1.28	1.29	1.29	1.29
South Korea	USDKRW	1064	1050	1040	1030	1065	1020	1030	1040	1038	1035	1033	1030
Taiwan	USDTWD	29.0	29.8	30.6	30.2	30.5	30.2	30.4	30.6	30.5	30.4	30.3	30.2
Thailand	USDTHB	30.6	32.7	33.5	34.0	32.4	32.5	33.0	33.5	33.6	33.8	33.9	34.0
Europe / Africa													
Czech Rep.	EURCZK	25.1	27.3	27.0	25.8	27.5	27.4	27.2	27.0	26.6	26.3	26.0	25.8
Iceland	USDISK	128	115	115	118	113	112	113	115	116	117	117	118
Hungary	EURHUF	291	297	303	296	307	305	304	303	301	299	297	296
Norway	USDNOK	5.56	6.07	5.80	5.60	5.99	5.90	5.80	5.80	5.70	5.65	5.65	5.60
Poland	EURPLN	4.08	4.15	4.00	3.90	4.17	4.14	4.07	4.00	4.00	3.96	3.93	3.90
Russia	USDRUB	30.5	32.9	36.5	37.4	35.2	35.8	36.2	36.5	36.7	37.0	37.2	37.4
South Africa	USDZAR	8.47	10.49	10.60	10.40	10.53	10.50	10.70	10.60	10.55	10.50	10.45	10.40
Sweden	EURSEK	8.58	8.85	8.50	8.25	8.91	8.85	8.70	8.50	8.45	8.40	8.30	8.25
Turkey	USDTRY	1.78	2.15	2.20	2.25	2.14	2.14	2.17	2.20	2.21	2.23	2.24	2.25

f: forecast a: actual

International Economics Group

Pablo F.G. Bréard
pablo.breard@scotiabank.com

Sarah Howcroft
sarah.howcroft@scotiabank.com

Rory Johnston
rory.johnston@scotiabank.com

Tuuli McCully
tuuli.mccully@scotiabank.com

Estela Ramírez
estela.ramirez@scotiabank.com

Neil Shankar
neil.shankar@scotiabank.com

Canadian & U.S. Economics

Derek Holt
derek.holt@scotiabank.com

Adrienne Warren
adrienne.warren@scotiabank.com

Dov Zigler
dov.zigler@scotiabank.com

Foreign Exchange Strategy

Eduardo Suárez
eduardo.suarez@scotiabank.com

Camilla Sutton
camilla.sutton@scotiabank.com

Eric Theoret
eric.theoret@scotiabank.com

Sacha Tihanyi
sacha.tihanyi@scotiabank.com