Foreign Exchange Outlook

AMERICAS

The US economic outlook remains promising, and monetary policy normalization continues to run its course, increasing the attractiveness of US assets. The CAD is expected to weaken further in the near term; the MXN and BRL may stabilize while the CLP and COP will retain a vulnerable tone. Commodity shifts and growth differentials will compound repatriation and US dollarization moves.

EUROPE / AFRICA

The EUR is benefitting from persistent asset allocation shifts in favour of its capital markets and more stabilized systemic conditions in the region's banking sectors. Both the GBP and CHF remain attractive while the RUB and TRY have become major casualties in Europe. Timid recovery dynamics and unattractive rate differentials should weigh on the EUR in the months to come.

ASIA / PACIFIC

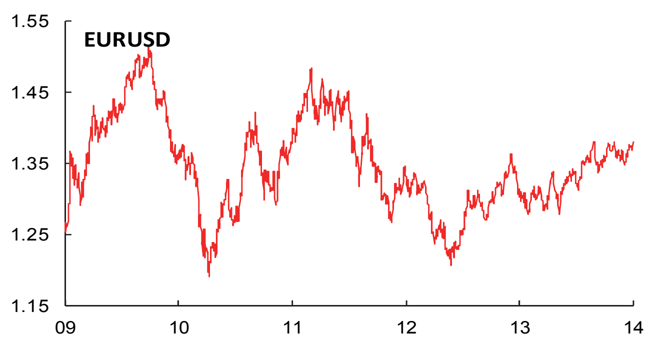
China is at the centre of financial market sentiment in Asia as the CNY (and to some extent HKD) have entered a sudden period of weakness against the USD. Speculative interest in the CNY has softened as markets look to potential FX framework shifts in the months ahead. Once again, China-led uncertainties prompted appreciating waves in both the JPY and KRW. Following months of weakening trading dynamics, the THB is showing signs of incipient stabilization.

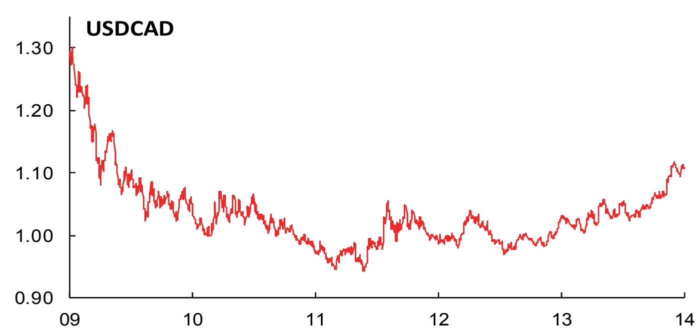
Contents

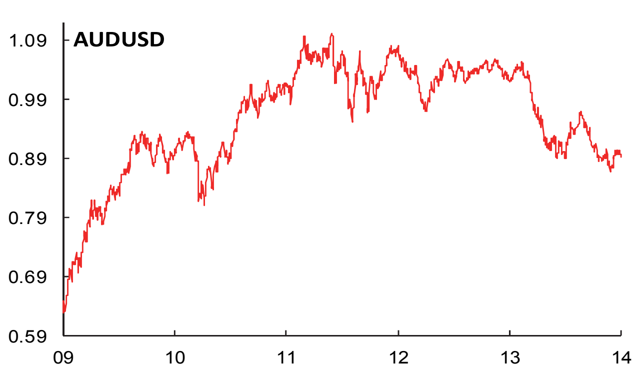
Core Exchange Rates

Global Foreign Exchange Outlook

February 28, 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*		1.34	1.34	1.31	1.30	1.29	1.29	1.28	1.28
USDJPY	Scotiabank	102.1	102	104	107	109	110	111	112	113
	Consensus*		104	105	107	108	108	109	109	109
GBPUSD	Scotiabank	1.67	1.65	1.66	1.65	1.64	1.64	1.63	1.61	1.59
	Consensus*		1.62	1.61	1.60	1.59	1.58	1.59	1.59	1.59
USDCAD	Scotiabank	1.11	1.13	1.15	1.12	1.11	1.10	1.10	1.10	1.10
	Consensus*		1.09	1.10	1.10	1.10	1.10	1.10	1.09	1.09
AUDUSD	Scotiabank	0.89	0.87	0.86	0.88	0.88	0.89	0.89	0.89	0.89
	Consensus*		0.89	0.87	0.87	0.86	0.86	0.86	0.85	0.85
USDMXN	Scotiabank	13.25	13.45	13.10	13.20	13.35	13.40	13.40	13.50	13.52
	Consensus*		13.21	13.04	12.91	12.78	12.66	12.58	12.50	12.42







(*) Source: Consensus Economics Inc. February 2014

Market Tone & Fundamental Focus

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Improving growth dynamics in advanced economies coupled with the projected normalization of monetary policy by many of the world's major central banks is at the core of investor sentiment in global currency markets. Recurring bouts of emerging market volatility leave capital flows inclined to favouring the more established developed markets. Central bank policies are beginning to diverge dramatically; with some in the midst of policy tightening and others still in easing mode. Repercussions of these shifts are playing out dramatically in foreign exchange markets. Meanwhile, adverse geo-political developments in both Ukraine and Venezuela have exacerbated a negative market tone in selected developing countries.

We maintain a positive view for the US economic outlook despite the downward revisions to fourth-quarter GDP data due to weather and government shutdown related factors. Domestic consumption remains strong and the adverse effect from the fiscal imbalance is receding. Recent statements by the Federal Reserve Chair confirm a relatively bullish view for recovery dynamics in the US as well as a higher dose of acceptance of the heightened volatility recently evidenced in emerging-market economies. We do not anticipate any radical change to the process of gradual normalization of monetary policy under way. We maintain a bullish view of the US dollar (USD) versus major peer currencies for the rest of the year.

In the first half of 2014, the Canadian dollar (CAD) is expected to be weighed down by uneven data prints, a dovish central bank and negative investor sentiment; however, some of this weakness will likely be retraced in the second half of the year when a building US recovery and recent 10% CAD depreciation prove a powerful combination for the Canadian fundamental backdrop. The Brazilian real (BRL) and the Mexican peso (MXN) will remain quite sensitive to developments in US financial markets and asset allocation shifts in favour of well-developed financial markets. Both the Colombian (COP) and Chilean pesos (CLP) will remain subject to depreciation pressures.

Europe is gradually recovering. The euro (EUR) is trading near the high end of its six-month range, supported by capital flows and the fundamental backdrop. As disinflationary pressures wane, the pressure on the ECB to shift to more aggressive policy is also easing. However, over the medium term, the EUR is likely to face a weakening bias as positive sentiment fades and the Fed moves away from unconventional policy instruments. Intra-regional patterns favour the British pound (GBP), as investors react to the fundamental improvement and the pulling forward of the interest rate cycle by the Bank of England. The Swiss franc (CHF) has also been an attractive choice for FX traders of late; this year is likely to be marked by rolling periods of risk aversion, which will pressure safe haven currencies higher. Accordingly, we expect the Swiss National Bank to maintain the 1.20 EURCHF floor. For the Norwegian krone (NOK) and Swedish krona (SEK), it is the domestic stories that are likely to drive returns; this positions the NOK well ahead of the other European currencies. We highlight the sharp erosion in value suffered by many emerging-market currencies and in particular the Russian ruble (RUB) and the Turkish lira (TRY), as well as the abandonment of the Ukrainian hryvnia (UAH) peg as they have become casualties of the sharp asset price adjustment and credit differentiation taking place in emerging markets. The negative sentiment toward the RUB is also compounded by declining energy prices and a still soft European economic recovery.

The Asian currency environment has been shaped by recent policy developments and market shifts in China. Indeed, the Chinese yuan (CNY) has sharply changed direction, weakening violently against the USD at the end of February as the central bank re-introduced two-way risk, shaking the financial market community and increasing speculation over a potential shift in the exchange rate mechanism in place. We are of the view that the authorities remain committed to slow and steady market-based interest rate and foreign exchange reforms. Although 12-month NDF contracts imply an exchange rate similar to current levels we retain a cautious view that CNY is likely to appreciate as additional flexibility is introduced into the currency regime. USDCNY traded to a high of 6.1760 in late February, a sharp move from 6.0391 in mid-January.

Elsewhere in the Asia/Pacific currency landscape, the Japanese yen (JPY) is the most susceptible to risk aversion and entering March it is the best-performing developed-country currency in 2014; however, we expect the Bank of Japan to turn to more aggressive policy measures in the late spring and that the JPY will resume a weakening profile. At the end of February, the Australian dollar (AUD) was flat to its 2013 close as the market priced in no risk of a central bank interest rate adjustment and fears over China and as risk aversion and an attempted 0.90 AUD ceiling were offset by building expectations for global growth and domestic inflationary pressures.

Canada

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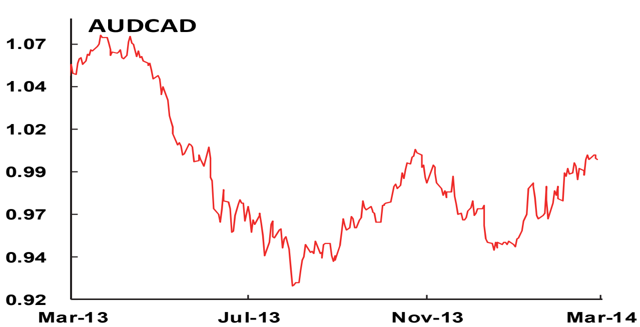
Currency Outlook

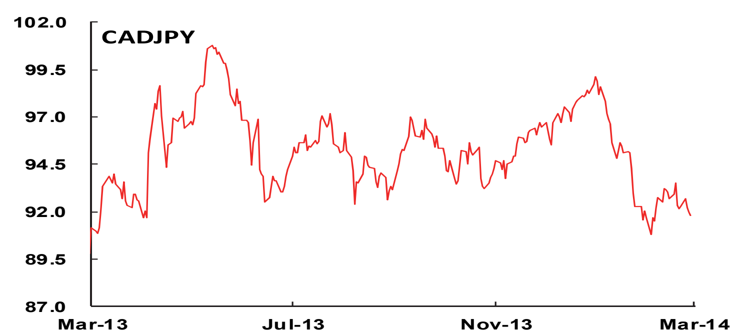
The Canadian dollar (CAD) is expected to weaken in the first half of the year, but then retrace some of the more exaggerated losses into year-end. After depreciating by almost 10% between September 2013 and February 2014, valuations have shifted to a more neutral territory; even on a purchasing power parity basis, the CAD is now just 6% overvalued and is the closest to fair value of any of the primary currencies. The first half of 2014 is likely to be marked by a weak CAD. The Canadian economy is expected to grow at 2.4% in 2014, well below our outlook for the US economy at 3.0%. In addition, the data have been uneven and disrupted by weather, adding more confusion to an already vulnerable outlook that has been plagued by a failure for exports to meet expected growth rates and a limited shift towards business investment. In addition, there is growing concern over what rising US domestic oil production means for Canada's oil sector and outlook. On the back of all of these developments, and subdued inflationary pressures, the Bank of Canada (BoC) has officially shifted from a hawkish to neutral tone, and maintained its view, even with CADUSD trading at 0.91, that "the dollar remains strong and will continue to pose competitive challenges for Canada's non-commodity exports". This relative to the Fed's stance has been an important driver behind CAD weakness. News from China has also proven a concern, with manufacturing PMIs suggesting a slowing growth profile and data disrupted by the Lunar New Year celebrations. Accordingly, negative sentiment has been building globally against the CAD, driving a rising short position.

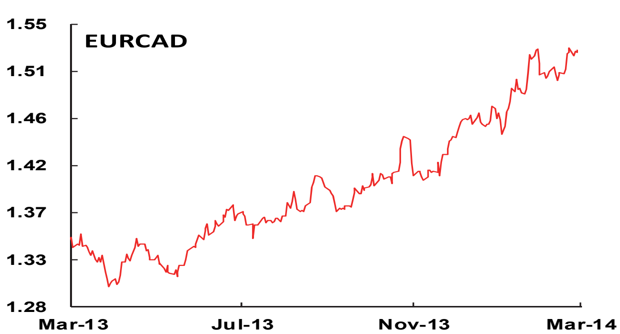
As of February 27th, the CAD has lost 5% on a year-to-date basis, more than either the Turkish lira or South African rand. These losses are likely to accelerate in the near-term; however, the second half of 2015 is expected to see a more encouraging shift. Stated simply, the combination of a building US recovery and a 10% plus depreciation in the CAD is a powerful one. As the US recovery builds and weather disruptions fade from the data, we expect the Canadian economy to make its long awaited shift towards improving exports and business investment. 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. On the back of all of this, bearish Canadian sentiment should ease, allowing the CAD to stabilize and eventually retrace some of its more extreme losses. We hold a Q2 2014 USDCAD target of 1.15 and a year-end target of 1.11.

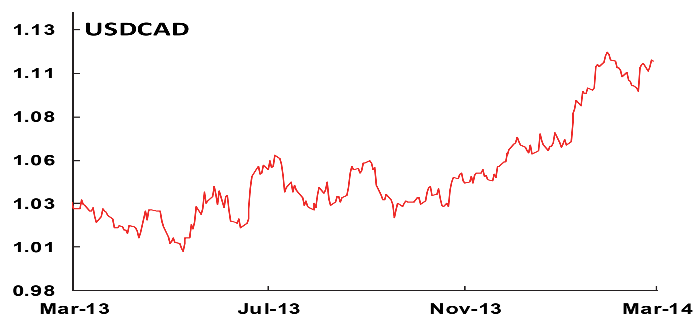
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 28-Feb	14Q1f	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
AUDCAD	0.99	0.98	0.99	0.99	0.98	0.98	0.98	0.98	0.98
CADJPY	92.2	90.3	90.4	95.5	98.2	100.0	100.9	101.8	102.7
EURCAD	1.53	1.58	1.58	1.49	1.44	1.41	1.39	1.38	1.36
USDCAD	1.11	1.13	1.15	1.12	1.11	1.10	1.10	1.10	1.10









United States and Canada

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Fundamental Commentary

UNITED STATES — US real GDP is expected to moderate in Q1, advancing around an annualized 2% rate from a 3.3% increase in the second half of 2013. Incoming US economic data in early 2014 have been largely disappointing. The weaker performance mainly reflects the impact of unseasonably cold weather on consumer spending, industrial activity and construction, at a time when higher mortgage rates have put a damper on the US housing recovery. In January, retail sales came in well below expectations, led by declines in auto sales, while residential construction continued its recent soft patch, with existing home sales and housing starts trending significantly lower. Following last year's robust performance and strong private restocking of depleted inventories, US manufacturing activity also appears to be decelerating. Industrial production started the year lower, durable goods orders continued to contract and the ISM manufacturing index fell to an eight month low. Meanwhile, the spillover from the federal government's 16-day partial shutdown in October continues to temper growth and business investment. This notwithstanding, we believe the factors at play are temporary and the US economic recovery remains intact. US real GDP is expected to advance 2.8% this year and 3% in 2015, roughly a percentage point above 2013. Looking ahead, pent-up demand should support a rebound in consumer spending – alongside healthy household balance sheets and rising wealth from elevated equity markets and home prices – likely offsetting near-term weather related weakness in retail and auto sales. Nondefense capital goods ex-air orders started the year surprisingly strong, also pointing to an upturn in business investment in the months ahead. Further support will come from less fiscal restraint through 2015, while favourable housing affordability, limited supply and rising demand – underpinned by stronger employment and income growth – bodes well for a pick-up in residential construction. 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 — We continue to expect the Fed to proceed with tapering at a US$10 billon-per-meeting pace. Recent remarks from Fed Chair Yellen have reinforced the view that there is a 'high bar' to changing the pace of tapering one way or the other. The key challenge for the Fed moving forward will be the communication of its policy thresholds: with the unemployment rate at 6.6%, the Fed has to change its 6.5% unemployment rate threshold. The options include: sticking to the existing framework of quantitative thresholds (perhaps at a different level of the unemployment rate); replacing that with qualitative guidance; and; relying on the Summary of Economic Projections as a communications tool.

CANADA — Recent optimistic remarks from Bank of Canada (BoC) Governor Poloz to the effect that Canadian growth is picking up, inflation is rising, and housing sector imbalances are still a concern have put a lid on Canadian dollar bears in recent days, and pushed around (if moderately) short term interest rates. Poloz's nod to financial stability concerns surrounding housing, a subject that is a favourite of interest rate hawks, fit in with the general economic optimism in that it pointed to less of a need to appear dovish on interest rates. We think that the BoC will change its tune as inflation likely falls back to the 1% y/y area for February, housing levels off this spring, and economic momentum is seen to have waned in late Q4 2013 and into Q1 2014.

Europe

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Currency Outlook

EURO ZONE — Entering March, EUR is flat to where it closed 2013, trading comfortably near the higher end of its recent 1.35 to 1.39 range, supported by capital flows into Europe and ECB policy. Technically, there are no clear patterns and sentiment is relatively neutral. By the end of February short-term rolling correlations between EUR and the German – US two-year bond yield spread had risen to 0.6; while the correlation with Brent oil remained strong at 0.8. This highlights the importance of inflation and interest rate policy on EUR. As disinflation pressure appears to have stabilized EUR is likely to remain supported in the near-term before falling victim to a neutral ECB juxtaposed against a Fed that is looking towards a tightening cycle. We hold a Q1 2014 target of 1.40.

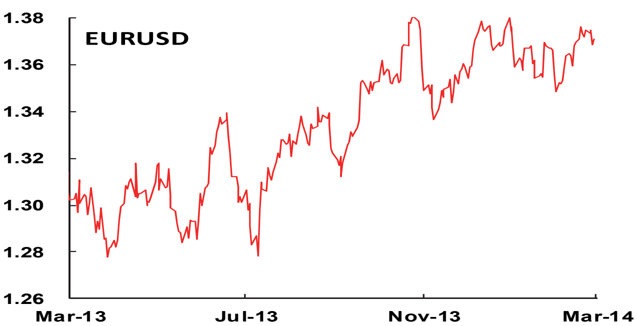
UNITED KINGDOM — As the fundamental backdrop in the UK has improved; GBP has been well supported and has trended higher since the summer of 2013. At the end of February, the strong GBP uptrend was unwavering; while sentiment, which had initially been slow to embrace a stronger GBP, was increasingly bullish (on February 18th, the CFTC reported a net long US$2.3 billion GBP position). The UK is expected to be the first of the G4 to enter its rate hiking cycle; which has supported GBP's rise. From here we expect the upward trend to slow, targeting GBP to 1.66 at the end of Q1 2014.

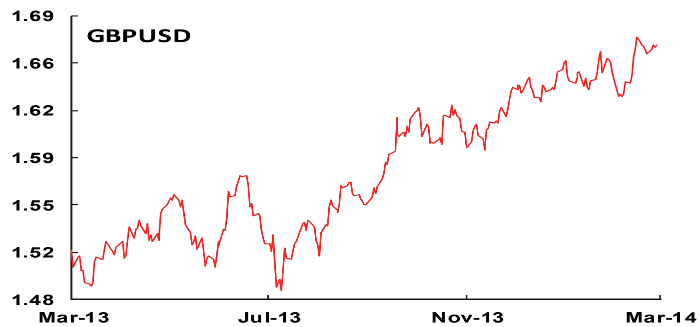
SWITZERLAND — EURCHF entered March trading close to its six-month lows but adhering to the Swiss National Bank's 1.20 floor. This year is likely to be marked by rolling bouts of risk aversion and market volatility; it is these periods of safe haven buying that are likely to keep the SNB committed to its EURCHF floor. We hold a Q1 2014 target of 1.23.

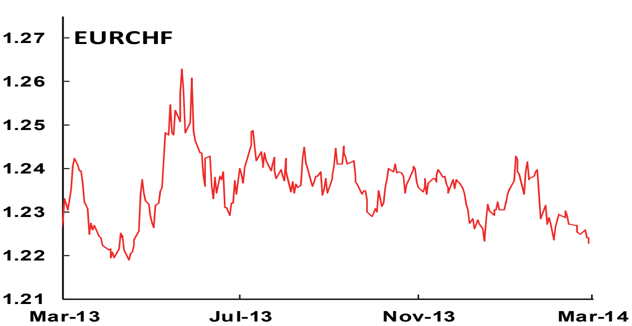
SWEDEN — By the end of February, USDSEK had spent 2014 trading in a relatively narrow 6.4047 to 6.5888 range, which had pushed volatility towards its one year low of 8.3. Without a clear trend, sentiment has faded and investors have shifted positions elsewhere. The Riksbank is expected to enter its hiking cycle in 2015; but has warned that should inflationary pressures ease a monetary response would follow. We expect SEK to rally against EUR but weaken against the USD on the relative outlook for monetary policy, growth and shifting sentiment. We hold a Q1 2014 USDSEK target of 6.50.

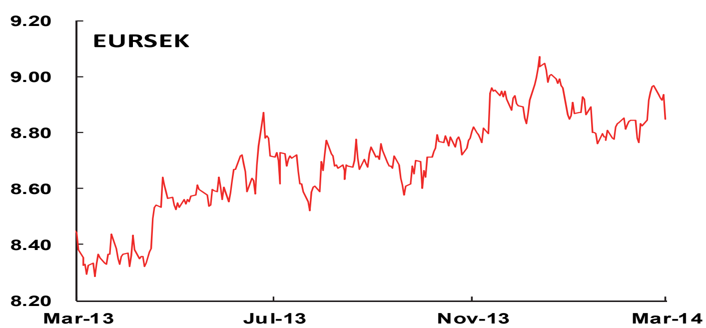
Currency Trends

FX Rate	Spot 28-Feb	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	1.67	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
EURSEK	8.85	8.65	8.60	8.55	8.50	8.45	8.40	8.30	8.25









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Europe

Fundamental Commentary

EURO ZONE — The strength of the ongoing economic recovery in the euro area at the end of 2013 was somewhat greater than anticipated; real GDP expanded 0.3% q/q in the October-December period. Almost all of the major economies in the region surpassed growth expectations, with the exception of Italy where the economy finally exited recession as expected with only a modest 0.1% q/q gain. Export activity continues to fuel the recovery in most countries, while sustained momentum on the domestic side, particularly in consumption, still appears some way off with private sector credit conditions still tight and unemployment high. Nevertheless, given the carry-over from the end of 2013 we have raised our 2014 growth figure to 1.0% (from 0.9%). The 2015 forecast is unchanged at 1.3%. At the European Central Bank's (ECB) last meeting, President Draghi clearly indicated that the bank would be in stand-by mode until the March meeting (when new macroeconomic projections will be released). Over the ensuing weeks, aside from the satisfactory GDP results, a few other items are of note. On the monetary analysis front, private sector lending continued to fall at the start of 2014, while M3 growth picked up slightly in January. Business sentiment surveys were generally mixed, and inflation remained steady at 0.8% y/y in February for a third straight month. The updated ECB projections will likely show a softer inflation outlook and unchanged GDP profile. On balance, we do not believe that these developments will sway the ECB one way or another at this time, and the bank will continue to closely monitor incoming data over the months ahead.

UNITED KINGDOM — Growth in the UK economy in 2013 was confirmed at 1.9%, the strongest performance since 2003 and among the best results of the developed economies. Although the impetus for growth came primarily from consumer spending, buoyed by accommodative monetary policy and the government's housing loan initiative, there is evidence that the recovery is becoming more balanced. In particular, the fourth quarter saw a firming in investment activity (to 2.4% q/q) and a contribution from net exports (largely due to lower imports). We maintain our 2014 and 2015 forecasts at 2.5% and 1.8%, respectively, though with more broad-based improvements in the economy, the risks are tilted to the upside. The Bank of England (BoE) has adjusted its forward guidance in light of the unexpected strength in the labour market. The bank now pledges to take into account multiple economic criteria rather than just the jobless rate, giving the authorities room to leave policy on hold even after the hitherto 7% unemployment threshold has been reached. Inflation has slowed considerably since mid-2013, dropping below 2% y/y in January for the first time in over four years. In the latest inflation report, a scenario of low productivity growth (i.e., with GDP continuing to lag employment gains) implies a higher inflation trajectory, which could be accompanied by rates hikes as early as later this year. Our base case, however, envisions the start of the tightening cycle in early 2015.

SWITZERLAND — The minimum exchange rate policy continues to provide a support for the Swiss economy and the Swiss National Bank (SNB) will likely uphold the currency floor for the duration of the current phase of US Fed tapering and associated volatility in foreign exchange markets, as removing it during a time of global uncertainty would likely generate a sharp strengthening of the franc to the detriment of the export sector and price stability. Notwithstanding the modest uptick in the CHF value of foreign exchange reserves in January, the SNB claims that it has not directly intervened in currency markets to defend the currency floor since September 2012. However, external pressures may start to mount amid recurring bouts of volatility resulting from other major central banks' policy normalization. Real GDP advanced by 0.2% q/q in the fourth quarter of 2013, bringing growth for the year as a whole to 2%. Although the October-December period marked a slowdown from the pace of first three quarters due to weaker net exports, overall conditions remain robust, mainly on the domestic demand side, and we expect continued growth in the 2-2.5% range in 2014-15. Moreover, exports have started 2014 on a good footing, posting a 2.5% m/m gain in January. Swiss voters voted in favour of new immigration restrictions in February, which may trigger a review of the broader bilateral agreement with the EU and could sap some of the momentum in domestic demand in the coming years.

SWEDEN — Swedish monetary authorities are unlikely to loosen policy further for fear of exacerbating the upward trend in the household debt burden, unless consumer price readings continue to undershoot the central bank's projections. The Riksbank lowered the policy rate by 25 basis points to 0.75% in December in response to an unexpected slump in inflation, and then left conditions unchanged in February (and in fact, adjusted very slightly higher the forecasted repo rate pate). Although inflation dropped back into negative territory in January (-0.2% y/y), showing the biggest monthly contraction (-1.2% m/m) since 2008, the bank maintains its view that economic prospects are good. Investment and employment are set to strengthen considerably this year, which should allow the underlying monetary policy-relevant measure of inflation (the CPIF) to return to the 2% target by the end of 2015. Currently the CPIF is sitting at 0.4% y/y, the lowest level since the late 1990s. Sentiment indicators remain above their long-term averages, notwithstanding a dip in the February assessment. After a year of contracting exports, improved growth conditions in the US and euro area will generate increased demand for Swedish products, boosting real GDP growth to close to 2½% in 2014 from an estimated 1% last year. The government recently reported updated fiscal deficit projections for 2013 and 2014 showing shortfalls of 1.5% and 1.9%, respectively. Sweden hasn't seen since a deficit as wide as 2% since 1996. General elections will take place in September.

Asia / Pacific
Currency Outlook

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JAPAN — The market is bearish JPY, with the CFTC reporting a net short position of -$10 billion (as of February 18th) and with 58 out of 64 forecasters expecting a weaker JPY by year-end than the level at the end of February. However, the JPY was relatively stable in February and on a year-to-date basis it is the best performing primary currency, up 3%. The contrast highlights the JPY bullish impact of risk aversion well. We expect the JPY to weaken further this spring, as the Bank of Japan moves towards the introduction of more aggressive policy, and that this weakness is periodically interrupted by periods of risk aversion. We hold a Q1 2014 forecast of 102.

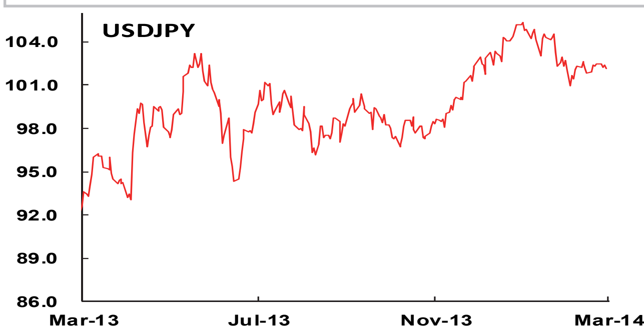
CHINA — In February, Chinese authorities engineered a significant squeeze in the renminbi, pushing a highly position-skewed market to cover USDCNY shorts. Fixing interest in the month was only modestly higher, thus re-aligning spot and the fix for the first time in nearly 1.5 years. This is likely a precursor to the intended 2014 exchange rate reform that the People Bank's of China announced in February, likely to bring a change in market volatility, the fixing mechanism, and the trading band. However, CNY fundamentals have not changed and we continue to target 5.98 by Q4 in USDCNY.

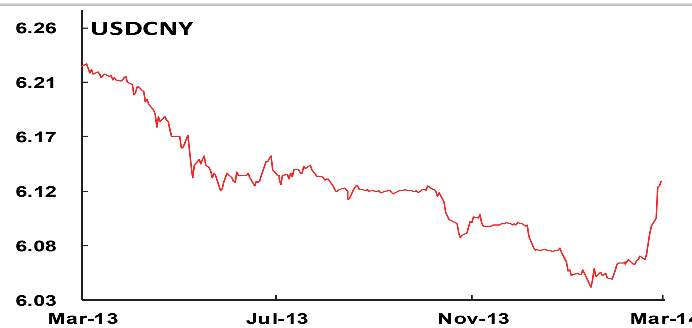
AUSTRALIA — As inflationary pressures have increased, the expectation for benchmark interest rate cuts in 2014 have been priced out of the market; however, FX traders and forecasters maintain a bearish stance, holding a US$4 billion net short position (CFTC data as of February 18th) and a median year-end forecast of 0.86 for the AUD (Bloomberg). We are more optimistic mainly based on the improving global outlook; but believe that any upside pressure on the AUD will be met with strong comments from the central bank and therefore limit gains above 0.90. Accordingly, we hold a Q1 2014 target of 0.87.

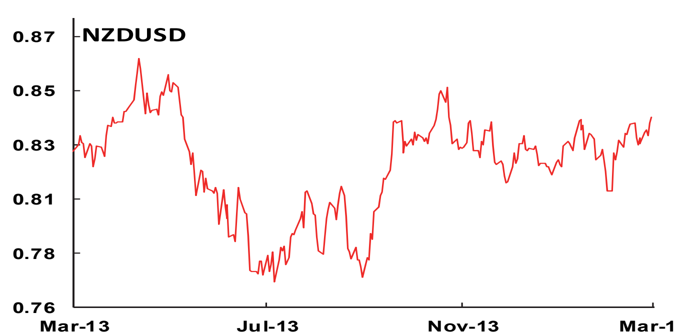
NEW ZEALAND — Next to the JPY, the NZD is the second best performing primary currency in the first two months of 2014, but unlike the JPY the rally is not a reflection of risk aversion but the improving domestic story and a hawkish central bank which together has supported the building of a net long NZD position. Technically, the long-term NZDUSD uptrend has settled into a near-term range, trading between 0.8050 and 0.8550 over the last six months. We are more bullish than consensus, expecting the NZD to close Q1 2014 at 0.83 and the year at 0.85.

Currency Trends

FX Rate	Spot 28-Feb	14Q1f	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDJPY	102	102	104	107	109	110	111	112	113
USDCNY	6.15	6.10	6.06	6.02	5.98	5.94	5.90	5.86	5.86
AUDUSD	0.89	0.87	0.86	0.88	0.88	0.89	0.89	0.89	0.89
NZDUSD	0.84	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 — Japan's economic performance in the final quarter of 2013 was disappointing, with output expanding by 0.3% q/q (non-annualized), in line with the gain in the prior three months. In 2013 as a whole, the country's real GDP grew by 1.6%. We anticipate a marked improvement in the current quarter, reflecting higher household spending growth in the run-up to the April 2014 increase in the consumption tax rate (from 5% to 8%), followed by a quarter of contraction due to the tax hike's subsequent squeeze on domestic demand. On the back of the softer momentum, we have revised our 2014 real GDP growth forecast from 1.8% to 1.4%. Inflation is slowly approaching the Bank of Japan's (BoJ) 2% inflation target. The consumer price index (of all items less fresh food) was 1.3% y/y in February; the April tax rate increase will temporarily bring it to the 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 remain around 1½% y/y at the end of 2014. Accordingly, the BoJ will continue its quantitative and qualitative monetary easing scheme in the coming quarters; following the February 18th meeting the central bank extended and increased its bank lending facilities to support the economy. There is potential for further quantitative easing measures in the near term if the tax rate hike leads to a stalling of ongoing economic momentum.

CHINA — Efforts by Chinese policymakers to rein in credit growth continued in February with the People's Bank of China withdrawing liquidity from money markets by issuing repurchase agreements. So far, there has not been a material upward impact on the 7-day repo rate; accordingly, a bias toward tighter monetary conditions will likely be sustained in the coming months. As credit growth is curbed, the re-alignment of the Chinese economy will continue on the back of slowing investment gains. Accordingly, we assess that Chinese real GDP will grow by 7⅓% this year compared with a 7.7% expansion in 2013. High-frequency indicators portray a somewhat mixed picture of the nation's economic performance, with purchasing managers' indices implying slower momentum while commodity imports continue to reach record highs. Recent heightened yuan volatility may suggest that Chinese policymakers are preparing for the widening of the currency's trading band vis-à-vis the US dollar, which is currently set at ±1% around the central parity set by the People's Bank of China. Progress on the exchange rate reform may take place following the annual session of the National People's Congress that will begin on March 5th. At 2.5% y/y in January, inflation remains manageable; given persisting producer price deflation (the producer price index decreased by 1.6% y/y in January), headline inflation will likely remain below the 3½% mark through 2015.

AUSTRALIA — The Australian economy is adversely impacted by declining investment activity, particularly in the mining sector, as indicated by contracting private capital expenditure (-5.2% y/y) in the final quarter of 2013. Simultaneously, however, a pick-up in demand conditions in other advanced economies together with a weaker Australian dollar should provide support to the country's exporters. Household spending remains muted due to labour market softness with the jobless rate climbing to 6.0% in January, the highest level since mid-2003. Nevertheless, as the housing market continues to improve (house prices increased by 9.3% y/y in the October-December period), and the effect of monetary stimulus measures filter through the economy, consumer confidence and household spending growth should pick up, thereby offsetting some of the adverse impacts of subdued investment momentum. We expect real GDP to expand by 2.7% this year and 2.9% in 2015, following an estimated advance of 2.4% last year. The Reserve Bank of Australia will likely keep the benchmark cash rate unchanged at 2.5% in the coming quarters; the minutes of the February 4th policy meeting indicate that the central bank is no longer considering further monetary easing and that it now deems the exchange rate to be at appropriate levels. The inflation outlook is manageable despite a recent acceleration in price gains. At 2.6% y/y in December, core price inflation remains within the central bank's 2-3% target.

NEW ZEALAND — A monetary tightening cycle is approaching in New Zealand. We expect the Reserve Bank of New Zealand (RBNZ) to increase the official cash rate by 25 basis points to 2.75% at the March 12th policy meeting, becoming the first central bank within the developed economies universe to hike rates. Indeed, following the most recent monetary policy meeting at end-January, the RBNZ implied that a higher interest rate environment is needed and that it "expects to start this adjustment soon" in order to maintain inflation near the central bank's 2% target mid-point. A recent pick-up in inflation (to 1.6% y/y at end-2013) together with solid economic growth momentum justify a tighter monetary policy stance. Following an estimated expansion of around 2¾% in 2013, New Zealand's real GDP growth will likely average 3% y/y through 2015, underpinned by robust household spending and investment growth. Buoyant consumer and business confidence together with improving labour market conditions indicate maintained momentum in the near term. Moreover, the commodity-producing economy will benefit from an upturn in the global growth and trade cycles. While we expect the New Zealand dollar to face a modest appreciating bias in the coming quarters due to the favourable economic framework and forthcoming monetary tightening, the RBNZ assesses that such a strong level is not sustainable in the long run.

Developing Asia
Currency Outlook

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INDIA — The stability in the INR during February reflects a much improved external balance, thanks to government-imposed measures to temporarily reduce the current account deficit. Financing flows across the portfolio account during February have been mainly debt based, though equity sentiment has been fairly constructive, particularly with expectations regarding the 2014 election. The financing strain temporarily removed from the current account has bought time for the Reserve Bank of India to bring inflation down, so long as external conditions remain tame. However, we still look for longer term adjustment requiring INR weakness, and target USDINR at 65.00 by Q4.

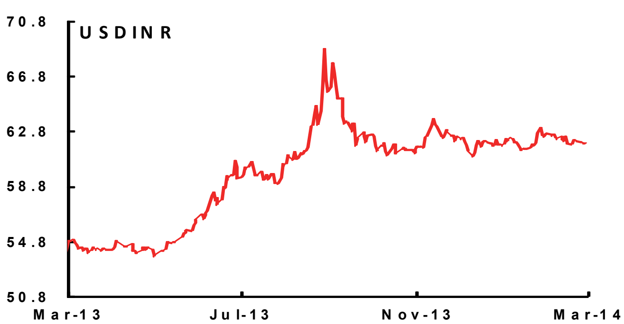
KOREA — The won remains heavily supported by still very strong current account inflows and exporter buying, which continue to offset the less robust capital account developments in recent months. The safe-haven status has come off of the won, due to a less tenuous external environment, which leaves the KRW more vulnerable to swings in global risk sentiment, evidenced by portfolio outflows since November. The risk of a weaker yen also remains on the horizon, and though we remain bullish KRW on strong currency fundamentals, near term strength should be restrained somewhat, implying consolidation around 1080 before 1060 in USDKRW by Q4.

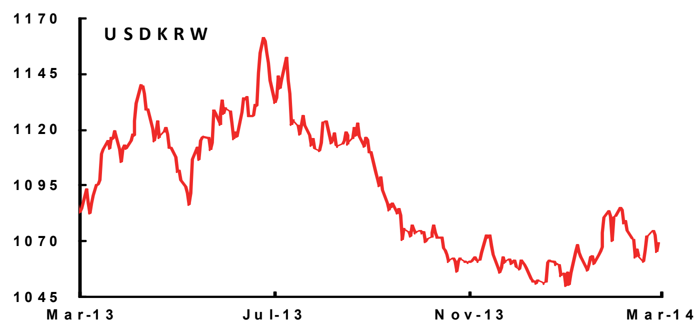
THAILAND — Political deadlock has hampered Thailand's domestic economic performance, and risks bringing further monetary easing from the central bank. Foreign flows into Thai assets have improved from late January and early February, though flows are still net negative despite the value represented in underperforming Thai equities. We think the political situation currently remains too unconstructive to justify a strong THB-boosting resumption in inflows. We target USDTHB at 34.00 by the end of Q4.

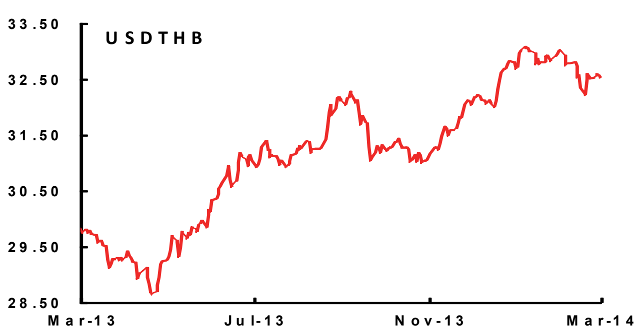
HONG KONG — USDHKD has been volatile in February, with a rebound in the Hang Seng helping to push the pair back down towards its lower end of the trading band. However, USDHKD has been biased higher towards the latter stages of February, reflecting a better broad USD bid, a correlation that is typically quite relevant for the pair. US rates biased higher and a broadly bullish USD outlook against global currencies should keep upwards pressure on USDHKD, as we target a move to 7.78 in USDHKD by Q4.

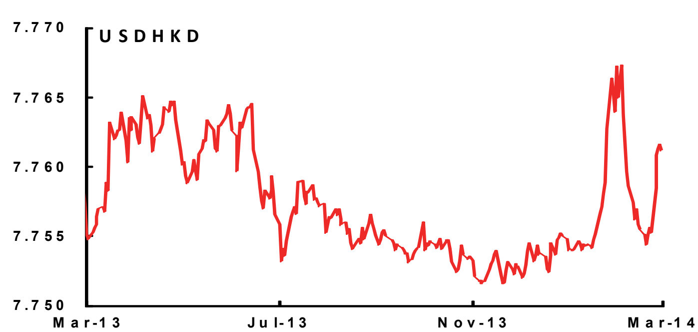
Currency Trends

FX Rate	Spot 28-Feb	14Q1f	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDINR	61.76	62.10	63.00	64.00	65.00	65.00	65.25	65.50	66.00
USDKRW	1068	1067	1065	1062	1060	1050	1045	1040	1040
USDTHB	32.54	32.80	33.20	33.60	34.00	34.10	34.20	34.30	34.30
USDHKD	7.76	7.76	7.76	7.77	7.78	7.78	7.78	7.78	7.78









Developing Asia

Fundamental Commentary

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INDIA — Sustainable inflation containment is taking monetary policy priority over promoting economic growth; the Reserve Bank of India (RBI) plans to move toward an inflation-targeting monetary policy framework. Even though it does not have a formalized mandate for this as of yet, the central bank aims to guide consumer price inflation to below 8% by January 2015, and gradually to 4% over a three year horizon. As inflation expectations and the central bank's credibility play a key role in achieving the target, the RBI tightened monetary policy in January despite recent disinflation. The policy repo rate was increased by 25 basis points to 8.0%, taking cumulative rate hikes to 75 bps since September; at present, we do not anticipate any further rate increases in the coming months. The drop in the consumer price index from 11.2% y/y in November to 8.8% in January was due to the favourable monsoon that is limiting food cost gains. India's economic performance remains muted for the time being, restrained by a high cost of financing and a difficult business environment that reflects heavy bureaucracy and weak infrastructure, particularly in terms of transport, energy and information technology. Output growth slowed slightly to 4.7% y/y in the fourth quarter from 4.8% in the July-September period, taking real GDP expansion to 4.7% in 2013 as a whole. We expect a modest turnaround to take place in the coming quarters, with real GDP growth reaching 5.2% this year and 5.7% in 2015 on the back of an improving agricultural performance, a recuperating export sector, and a pick-up in investment.

KOREA — South Korea's economy is performing well with momentum remaining broadly-based; household consumption, investment, and net exports are underpinning activity, taking real GDP growth to 2.8% in 2013 as a whole. The nation's output increased by 0.9% q/q (4.0% y/y) in the final three months of 2013 compared with a 1.1% gain (3.3% y/y) in the prior quarter. We expect the economy to expand by 3½% on average in 2014-15 on the back of an improvement in private consumption and stronger global demand conditions as growth in advanced economies accelerates. Sound consumer confidence is translating into solid household spending, while industrial production has recently started to show stronger momentum. Inflation remains low with consumer prices increasing by 1.1% y/y in January. Persistent — though gradually easing — deflationary pressures further up the distribution chain together with a relatively stable energy price outlook indicate that significant upside pressure on consumer prices will remain absent in the medium term. Moreover, the Bank of Korea assesses that while the nation's output gap is narrowing, it will be maintained in the domestic economy "for the time being". We expect headline inflation to climb gradually towards 2½% y/y by the end of 2015 along with the strengthening of the South Korean economy. The central bank's monetary policy stance will likely remain accommodative in the coming quarters, with the benchmark rate set at 2.50%.

THAILAND — Thailand's economic outlook is weakening given persisting social and political unrest that is eroding consumer and business confidence. Real GDP growth slowed to 0.6% y/y in the final quarter of 2013 from 2.7% in the July-September period, taking the output expansion to 2.8% in 2013 as a whole. While net exports supported economic performance, private consumption and investment contracted substantially. We expect Thailand's economic gains to average 4% in 2014-15. Inflation remains relatively low despite the fact that the headline rate picked up to 1.9% y/y in January from 1.7% the month before. Given the muted inflationary pressure in the economy, combined with persisting political uncertainty that is a major risk factor for economic momentum, we expect that the Bank of Thailand will provide further monetary stimulus following the next policy meeting on March12th, cutting the benchmark interest rate by 25 basis points to 2.0%. At the most recent meeting in January three out of seven policymakers voted for a reduction in the policy rate. The previous rate cut took place at end-November. A general election was held on February 2nd; as voting was disrupted by protesters in some polling stations, the ballot did not reach a required quorum. The opposition's request to null the election was turned down by the Constitutional Court; accordingly, by-elections continue to fill the required seats in the lower house of parliament. Allegations of negligence by Prime Minister Yingluck Shinawatra regarding the country's rice-subsidy scheme may lead to her removal from office.

HONG KONG — Hong Kong's economic outlook remains favourable. Output grew by 3.0% y/y in the final quarter of the 2013, following a 2.8% y/y expansion in the July-September period. Real GDP advanced by 2.9% in 2013 as a whole. While net exports were a drag on growth, domestic demand maintained solid momentum. Private consumption is the main growth engine, as tight labour supply supports household income gains; at 3.1%, the unemployment rate is at a 16-year low. We expect Hong Kong's real GDP growth to pick up to around 3½% in 2014-15, reflecting an improvement in external sector conditions and maintained domestic demand. Hong Kong enjoys a strong sovereign credit profile, supported by large fiscal reserves, a solid external position, and low public gross debt (of around 30% of GDP). Sizable foreign reserves of US$312 billion will continue to support the fixed exchange rate regime. Due to the currency peg, loose monetary conditions in the US largely determine the local interest rate environment. The timing of the Lunar New Year caused the inflation rate to pick up to 4.6% y/y in January from 4.3% the month before. We expect consumer price gains to ease slightly in the coming months, with the headline inflation rate hovering within the 3-3.5% y/y range in 2014-15. The government continues its efforts to curb speculative property market transactions. Territory-wide private property price inflation eased to 7.7% y/y in December, from around 30% in early 2013.

Developing Americas
Currency Outlook

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BRAZIL — After a weak start to the year, the Brazilian real (BRL) has stabilized and regained some of its initial losses against the US dollar. With the central bank signaling that the monetary tightening cycle could be getting to an end (by slowing the pace of hikes at the last meeting), alongside a deceleration in inflation, initial government efforts to return public finances to a more sustainable path, and the better-than-expected fourth-quarter GDP growth, the currency has received some support as of late. Nevertheless, the BRL will remain subject to shifts in investor risk perceptions. We expect the USDBRL rate to close the year at 2.50.

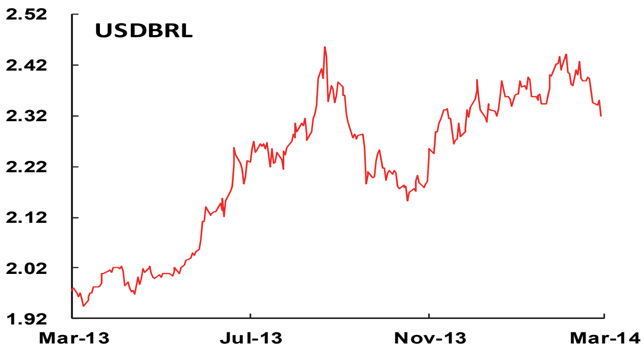
MEXICO — Following the significant adjustment observed in January, the Mexican peso (MXN) seems to be holding up around the 13.20-13.40 range vis-à-vis the US dollar. We maintain our view that the currency will remain the outperformer of the region in yearly terms, as both local and external conditions, particularly in the US, will continue to improve, while the structural reform story will support a more optimistic scenario for investor sentiment.

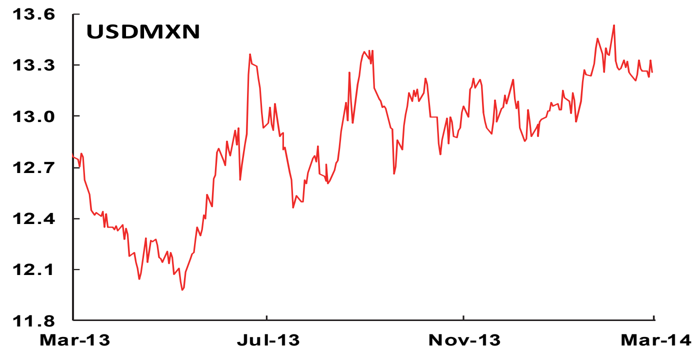
CHILE — The Chilean peso has been subject to investor concerns regarding emerging-market assets, US dollar swings against hard currencies, and a close to 4% decrease in copper prices since the beginning of the year. Additionally, the Chilean central bank has turned more dovish, easing monetary conditions in mid-February in the context of a substantial economic deceleration in the final months of 2013. We maintain our view that the Chilean peso will likely remain close to the 560 mark in the coming months.

COLOMBIA — The Colombian peso ranked as one of the worst performers of the emerging-market currency universe against the US dollar in February. The authorities have not shown significant concerns regarding the currency's performance, as inflation remains close to the lower limit of the official tolerance range, the economy seems to be regaining some speed, and since the moves have not reflected significantly higher volatility. We maintain our view that COP losses could continue in the coming months, before stabilizing around the 2,000 mark for the remainder of the year.

Currency Trends

FX Rate	Spot 28-Feb	14Q1f	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDBRL	2.33	2.55	2.40	2.45	2.50	2.52	2.55	2.55	2.60
USDMXN	13.2	13.5	13.1	13.2	13.4	13.4	13.4	13.5	13.5
USDCLP	559	560	530	540	545	550	555	560	560
USDCOP	2048	2010	1940	1950	1980	1985	1990	2000	2000





Developing Americas

Fundamental Commentary

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BRAZIL — The Brazilian real (BRL) will be affected by policy decisions adopted by the authorities to address deteriorating fiscal and economic conditions as well as by exogenous factors driving capital flows to emerging-market economies. The Brazilian economy is not running at full speed; yet, the authorities seem committed — in the midst of a sensitive year shaped by the FIFA World Cup and the October presidential election — to consolidate the fiscal accounts, promote economic growth and contain inflationary pressures. We estimate that real GDP will expand by 2% and 2.5% this year and next, respectively. Investors welcomed the announcement of a public spending cut of BRL 44 billion for this year's budget. The aggressive, yet pre-emptive, monetary tightening cycle will soon reach its end with a likely policy-setting rate of 11.25% (according to our latest forecast revision). At its latest monetary policy decision, the Brazilian monetary policy committee increased the benchmark SELIC rate by just 25 basis points to 10.75%, signalling that the end of the hawkish cycle (which has accumulated an increase of 350 bps in 10 months) is near. The BRL will remain sensitive to asset allocation shifts in favour of developed markets and retain a fragile tone in the near term; however, we estimate that the BRL may experience temporary consolidation before resuming a weakening trend (as election-related policy uncertainties resurface) towards the 2.50 per USD mark.

MEXICO — After the high volatility observed in January, the Mexican peso (MXN) has stabilized within the 13.20-13.40 range vis-à-vis the US dollar (USD). The currency remains subject to the US economic cycle, the ongoing monetary policy adjustment undertaken by the Federal Reserve, and shifts in investor risk perceptions over emerging-market economies. Nevertheless, the MXN remained as one of the most stable currencies in the region in February. Locally, fourth-quarter GDP expanded by a mild 0.7% y/y, the lowest advance since the end of 2009, taking growth to 1.1% for 2013 as a whole. Accordingly, we have revised our 2014 growth projection downward from 3.3% to 2.7%, as the economy will take more time to gain traction. Inflationary pressures have been mounting in the first months of the year, with the headline rate rising from 4% y/y in December to 4.5% in January, reflecting the tax increase approved last year under the fiscal reform. Despite the fact that central bank authorities continue to state that these effects are temporary, the official rhetoric has shifted to a more "hawkish" tone; nevertheless, we do not anticipate any reference rate hikes in the first half of the year. On the political front, secondary legislation on the structural reforms approved last year could be unveiled in the coming months with the energy laws taking the center of attention. Recently, based on the advances achieved on the reform front, Moody's upgraded the country's sovereign rating to the first notch of the "A" category ("A3" with stable outlook), supporting a relatively optimistic story for Mexico.

CHILE — The Chilean peso (CLP) is influenced by major adjustments in commodity markets sensitive to the country's export sector as well as by the more aggressive pro-growth monetary policy stance adopted by the central bank of late. As anticipated by market participants, the Central Bank of Chile reduced its policy-setting rate by 25 bps to 4.25% in February in a clear effort to spur credit-intensive economic activity. Moreover, the official statement hints at further rate cuts in the months to come. Real GDP expanded at a sharply decelerated rate during the fourth quarter of 2013, pushing overall yearly growth to 4.1%. The country's terms of trade were adversely affected by the decline in copper prices over the past 12 months while energy prices still maintain a relatively high trading range. We expect economic growth to maintain a similar trend this year and then accelerate toward 4.5% in 2015. In stark contrast with Brazil, Chilean policymakers have adopted an easing bias in response to weak economic conditions. Inflation is not an issue of concern; 12-month consumer price inflation posted a rate of 2.8% in January 2014, and we expect prices to remain confined within the official target range. A new administration led by President Michelle Bachelet takes office in March. Investors eagerly await news regarding changes to the income tax regime which were previously anticipated during the campaign.

COLOMBIA — The Colombian peso (COP) continues to underperform its Latin American peers, losing almost 3% vis-à-vis the US dollar (USD) in February and accumulating a loss of 6.1% since the beginning of the year. So far this year, the central bank has purchased only US$200 million in the foreign exchange market, a significant slowdown compared with last year's activity. In our view, the authorities do not seem concerned about the recent depreciation of the currency, maintaining a neutral rhetoric regarding the peso's losses, which has helped the export sector's performance and therefore spurred output activity. Economic growth accelerated in the last quarters of the year, with industrial activity — which has lagged the recovery — registering its highest advance in eight months in December, while consumption maintains solid momentum. Additionally, the unemployment rate continues to decrease, supporting household consumption. We anticipate that fourth-quarter GDP expanded by 4.7% y/y, taking the 2013 annual rate to 4.1%. Inflation remains well contained and returned to the central bank's tolerance range of 2-4% y/y in January, after three consecutive months of quoting below this mark. With inflation remaining low and output recovering, the central bank has left the reference rate unchanged at 3.25% since March 2013 without signaling any changes to the monetary policy stance. So far, we do not foresee any significant pass-through effect on inflation stemming from the currency's depreciation that could prompt the policymakers to change their current position in the coming months.

Developing Europe & Africa

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Currency Outlook

RUSSIA — The Russian ruble (RUB) continued to weaken over the last month in the absence of any monetary policy tightening of the sort implemented in other emerging markets facing strong depreciation forces. The currency was further weighed down by escalating unrest in Ukraine, which pitted Russia against the Western states of NATO. While we expect some correction from current low levels by mid-year, the RUB will generally remain in weakening mode versus the US dollar (USD) over the forecast horizon. We hold a year-end USDRUB target of 35.0.

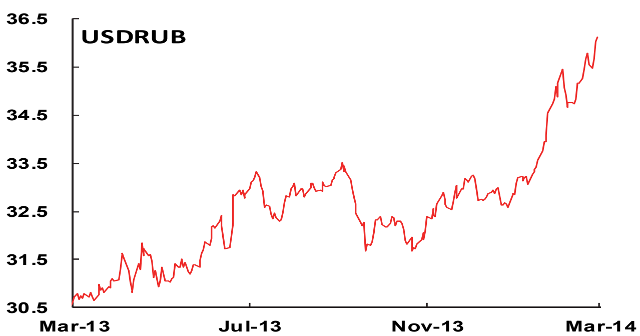
TURKEY — Following aggressive tightening by the central bank at the end of January to stabilize the Turkish lira (TRY), the currency recovered about 7% against the US dollar (USD), but has since weakened off slightly again on political instability. Although the monetary authorities will remain vigilant to combat excessive lira volatility, we anticipate a continued trend of nominal depreciation over the forecast horizon driven by investor discomfort with Turkey's large external imbalances and uneven policymaking. We expect the TRY to close this year at 2.35 and drift higher to 2.40 by end-2015.

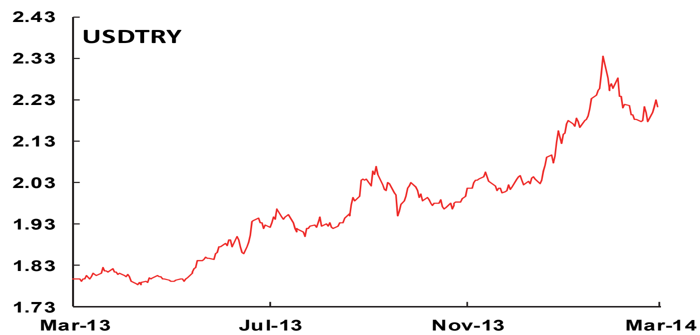
HUNGARY — After drifting down to levels not seen for two years in February, the Hungarian forint (HUF) will likely remain under pressure in the near term. The central bank's protracted monetary easing bias in the face of widespread emerging-market repricing activity will likely keep the currency trading above the 300 per euro (EUR) mark in the coming months. Relative weakness will be tempered, however, by Hungary's robust external surpluses and sizeable stock of foreign reserves. We forecast a year-end EURHUF rate of 298.

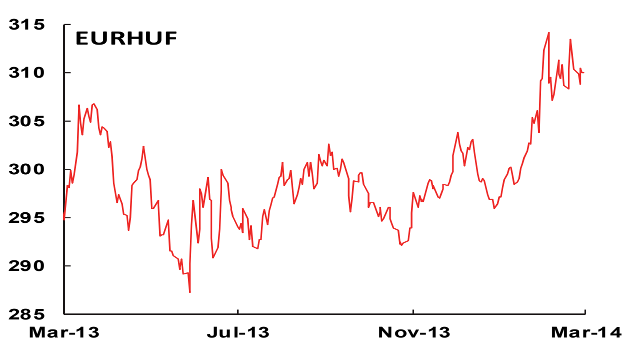
SOUTH AFRICA — Helped by central bank policy tightening, the South African rand (ZAR) has come off its late-January low by 5% in USD terms. However, the currency will remain subject to increased volatility affecting emerging-market currencies, given the country's large current account deficit, approaching general election, and softer growth outlook. We anticipate further rand weakening towards year-end in view of ongoing labour disruptions at large platinum mines as well as the modest outlook for key commodity prices. We expect the ZAR to close 2014 at 11.50 per USD, implying a 6% depreciation from current levels.

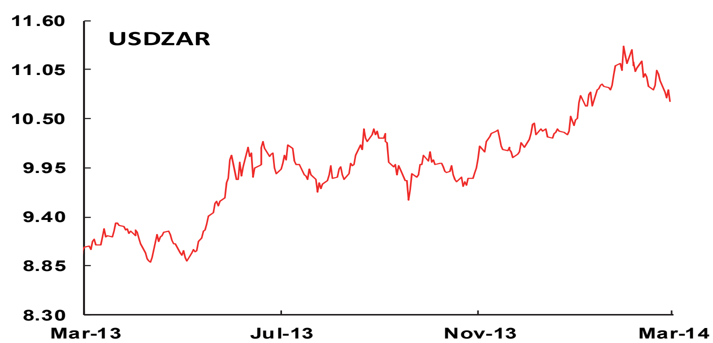
Currency Trends

FX Rate	Spot 28-Feb	14Q1f	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDRUB	35.9	35.2	34.5	34.8	35.0	35.1	35.2	35.3	35.4
USDTRY	2.21	2.28	2.30	2.33	2.35	2.37	2.38	2.39	2.40
EURHUF	309.9	305.0	302.0	300.0	298.0	297.0	296.0	295.0	294.0
USDZAR	10.7	11.4	11.3	11.4	11.5	11.6	11.6	11.7	11.7









Developing Europe & Africa

Fundamental Commentary

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RUSSIA — The Russian ruble (RUB) is currently the second worst-performing currency in the emerging-market universe (after the Argentine peso), having sunk 9% vis-à-vis the US dollar (USD) in the year so far. The political crisis in Ukraine has sparked renewed tensions between Russia, who backed the ousted regime of President Viktor Yanukovych, and the West, which is seen as sympathetic to the concerns of the pro-EU protestors. Russian officials — concerned with preserving economic ties with countries in the Commonwealth of Independent States, many of whom are increasingly looking toward integration with the EU — have already questioned the legitimacy of the acting government, and President Putin has ordered a military combat drill in the western part of the country. Economic growth slowed to 1.3% in 2013, with exports falling in USD terms for the first time since 2009 on the back of lower energy prices (70% of Russian exports made up of oil, natural gas and petroleum products). With the euro area in recovery after two years of recession, exports should pick up in 2014; over half of Russia's total shipments abroad are sent to the EU, with the state-owned firm Gazprom claiming a nearly one-third share of the European gas market. We expect firmer, though still below trend growth of 2¼% this year, accelerating to 2⅔% in 2015. Inflation remains elevated, at 6.1% in January; however, the central bank expects the headline rate to converge to the 5% official target by the end of the year. Nevertheless, upside risks stemming from the RUB will keep the bank in hawkish mode over the near term.

TURKEY — Turkey's economic growth prospects have weakened in view of recent monetary policy tightening, investor wariness leading to more restrictive external financing conditions, and persistent above-target inflation. After an estimated expansion of 4% in 2013 fuelled by strong private domestic consumption, we expect real GDP growth to slow to 2½% this year before recovering somewhat to 3½% in 2015 on the back of accelerating global growth — particularly in the euro area. The improvement in Turkey's sovereign credit profile was set back in February by a revision to the outlook on Standard & Poor's (S&P) long-term foreign-currency rating from "stable" to "negative". S&P remains the only major rating agency to withhold an investment-grade rating on Turkey. The country's fiscal position compares relatively favourably with those of other emerging markets highly exposed to ongoing global portfolio shifts; last year's general government budget shortfall is estimated at around 1⅔% of GDP. We expect the gap to widen this year to 2½%, with softer domestic activity weighing on revenues while pre-election spending undermines expenditure restraint. Turkey's large external imbalances remain the key concern for investors; after declining to 6.2% of GDP in 2012, the current account deficit re-widened to 8.1% in 2013 on the back of a deteriorating merchandise trade balance. Notwithstanding heightened political friction, the ruling Justice and Development Party (AKP) is expected to prevail at the upcoming local and presidential elections.

HUNGARY — Monetary policy easing continues in Hungary, despite a recent sharp weakening in the local currency amid broader emerging-market financial turbulence and indications that an economic improvement is underway. At its February meeting, the central bank reduced the reference base rate for a 19th consecutive time, shaving off 15 basis points to bring the rate to 2.7%, and indicated that there remains scope for further easing. Although the headline inflation rate dropped to 0% y/y in January (a four-decade low), the impetus behind the recent observed disinflation is a cumulative 20% reduction in household energy prices in 2013, and the core rate remains above the official 3% target. The economy's fourth-quarter performance was better than expected, with real GDP rising 0.6% q/q. At 2.7% y/y, the annual expansion pace was the fastest since 2006 and brought the overall 2013 growth rate to just over 1%. However, the strong outturn was largely the result of one-off factors, including base effects in agricultural and industrial production and a resumption in EU funding for construction and infrastructure. Nevertheless, economic conditions do appear to be improving more broadly, with the economic sentiment index at its highest level in over a decade and the unemployment rate reaching its lowest level in almost five years in December. On the back of gradually recuperating private consumption, stepped up government spending ahead of the parliamentary elections on April 6th, and strengthening export demand from the euro area, growth is expected to pick up to 1⅔% in 2014.

SOUTH AFRICA — Following a relatively weak performance in 2013 when output advanced by 1.9%, the South African economic growth is expected to accelerate to 3% on average in 2014-15. However, the pace will remain below what is necessary to achieve the government's medium-term development objectives given pronounced infrastructure constraints, particular in electricity and transport, and labour market impediments. The ongoing strike at major platinum mines — now into its fifth week — has the potential to dent economic activity considerably; some producers are already considering terminating operations or shifting them abroad. The affected mines account for roughly half of global platinum output and estimated revenue losses to date amount to ZAR5 billion alongside ZAR2 billion in wages foregone. Increased investor unease resulting from frequent bouts of labour unrest (both the mining and manufacturing sectors suffered significant losses last year), combined with the country's twin deficits and modest stock of foreign reserves, puts South Africa at high risk of capital flow and exchange rate volatility. The current account shortfall measured well above 6% of GDP in 2013 while the fiscal deficit is above 4%. The upcoming general election in May will likely see the ruling African National Congress (ANC) remain in power, though the margin of victory could be the smallest since the end of apartheid, limiting the ANC's scope for policy changes in the coming years.

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	1.11	1.10	1.13	1.15	1.12	1.11	1.10	1.10	1.10	1.10
	CADUSD	1.01	0.94	0.90	0.91	0.88	0.87	0.89	0.90	0.91	0.91	0.91	0.91
Mexico	USDMXN	12.85	13.04	13.35	13.52	13.45	13.10	13.20	13.35	13.40	13.40	13.50	13.52
	CADMXN	12.96	12.27	12.03	12.29	11.90	11.39	11.79	12.03	12.18	12.18	12.27	12.29
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	2.50	2.60	2.55	2.40	2.45	2.50	2.52	2.55	2.55	2.60
Chile	USDCLP	479	525	545	560	560	530	540	545	550	555	560	560
Colombia	USDCOP	1767	1930	1980	2000	2010	1940	1950	1980	1985	1990	2000	2000
Peru	USDPEN	2.55	2.80	2.81	2.85	2.84	2.76	2.78	2.81	2.82	2.83	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	117	118	119	120	119	119	118	118
Hungary	EURHUF	291	297	298	294	305	302	300	298	297	296	295	294
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	35.0	35.4	35.2	34.5	34.8	35.0	35.1	35.2	35.3	35.4
South Africa	USDZAR	8.47	10.49	11.50	11.70	11.40	11.30	11.40	11.50	11.55	11.60	11.65	11.70
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	2.28	2.30	2.33	2.35	2.37	2.38	2.39	2.40

f: forecast a: actual

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