Foreign Exchange Outlook

AMERICAS

The USD is expected to retain a broad-based appreciating bias against the major currencies on the back of an improved economic outlook and the beginning of the Fed's tightening cycle. Moderate growth, softer commodity prices and a delayed domestic monetary tightening will place the CAD on the defensive. Repatriation risk and slow economic recovery weighs on the MXN in anticipation of higher US interest rates. Brazil's increased pressures to address a weakened economic environment injects a negative tone into the BRL while deflating commodity prices weigh on the COP, CLP and PEN outlook.

EUROPE

The EUR is poised to maintain a prolonged weakening bias driven by unattractive growth and interest rate differentials and renewed disinflationary dynamics. The GBP, relative to the EUR, should gradually receive the support of a still recovering economy, increasing interest rates and structurally liquid securities markets. The RUB remains vulnerable to ongoing depreciating risk, which may be partially offset by decisive central bank intervention in currency and interest rate markets.

ASIA/PACIFIC

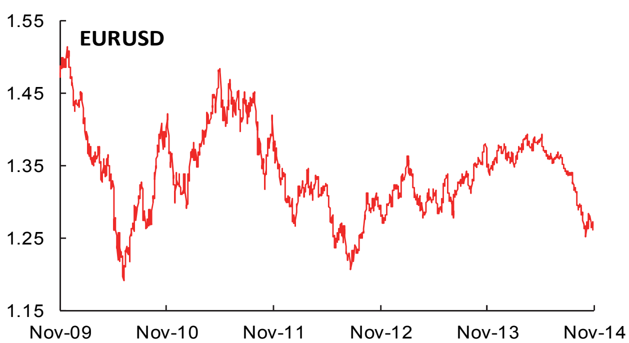
The JPY is expected to weaken through the end of 2016. The CNY is poised to appreciate versus the US dollar as China receives large foreign capital inflows despite gradual economic deceleration and lingering uncertainties regarding the quality of banking sector assets. The AUD may face a volatile phase due to the adverse effects of deflating commodity prices and decelerating Chinese growth, to be tempered by supportive interest rate differentials. New leadership and expectations of structural reforms injected a positive tone into the INR and IDR.

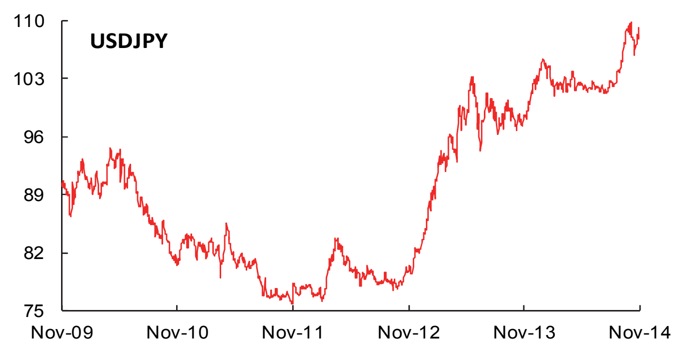
Contents

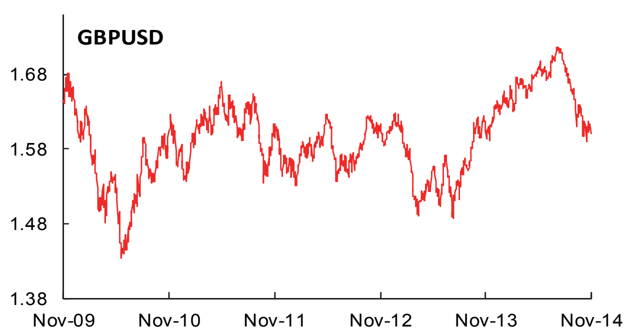
Core Exchange Rates

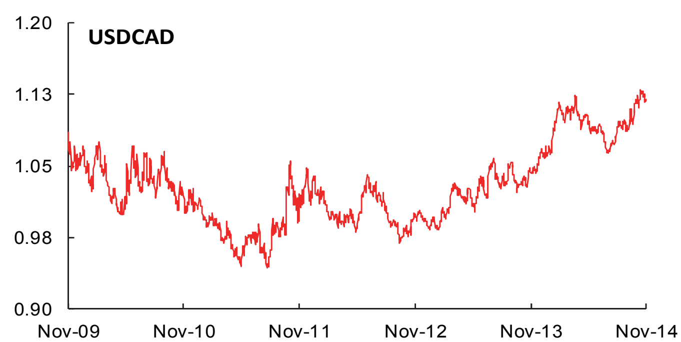
Global Foreign Exchange Outlook

October 30, 2014		Spot	2014f Q1a	2014f Q2a	2014f Q3a	2014f Q4	2015f Q1	2015f Q2	2015f Q3	2015f Q4
EURUSD	Scotiabank	1.26	1.38	1.37	1.26	1.25	1.24	1.23	1.22	1.21
	Consensus*					1.26	1.25	1.23	1.22	1.22
USDJPY	Scotiabank	109.2	103	101	110	109	110	111	112	113
	Consensus*					109	110	111	112	112
GBPUSD	Scotiabank	1.60	1.67	1.71	1.62	1.60	1.60	1.59	1.58	1.58
	Consensus*					1.63	1.62	1.61	1.60	1.60
USDCAD	Scotiabank	1.12	1.11	1.07	1.12	1.11	1.12	1.12	1.13	1.13
	Consensus*					1.12	1.12	1.13	1.13	1.13
AUDUSD	Scotiabank	0.88	0.93	0.94	0.87	0.87	0.86	0.86	0.87	0.88
	Consensus*					0.87	0.87	0.86	0.85	0.85
USDMXN	Scotiabank	13.43	13.06	12.97	13.43	13.40	13.53	13.42	13.50	13.71
	Consensus*					13.26	13.20	13.18	13.16	13.11









(*) Source: Consensus Economics Inc. October 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

The US dollar (USD) is expected to retain an appreciating bias against major currencies. Steady improvement in labour market conditions in the context of contained inflation, declining energy prices, and export sector gains will contribute to boost consumption activity and lead to a real GDP growth rate of 3.2% in 2015. The USD is expected to receive massive inflows ahead of the beginning of the monetary tightening cycle projected for the second quarter of next year. Moderate growth in Canada due to cautious consumer activity coupled with limited pent-up demand, low commodity prices, and monetary status quo (relative to the US) will have the Canadian dollar (CAD) on a modestly defensive path in 2015-16; we project USDCAD at 1.13 at the end of 2015. Repatriation risk from shifts in holdings of Mexican debt securities weigh on the Mexican peso (MXN) in anticipation of higher US interest rates.

The completion of the presidential election in Brazil opens a period of heightened volatility for the Brazilian real (BRL) as a new economic team unveils a badly needed change in the policy framework for the coming years. Elsewhere in the Americas, the exchange rate environment will remain volatile in the near term, primarily affected by exogenous factors beyond national control such as the speed of interest rate hikes in the US, adjustments in energy and metal prices, the evolution of the geopolitical risk factors in Eastern Europe and the Middle East, and investors' perception of the quality of the Chinese property market and shadow banking practices. Additionally, a sharp fall in crude oil prices injects a negative tone into the Colombian (COP) peso and the MXN while exacerbating debt sustainability risks in the Venezuelan bolivar (VEB). The Chilean peso (CLP) and to a lesser degree the Peruvian sol (PEN) may also suffer from deflating metal prices and regain a weakening bias in the coming months.

The euro (EUR) is poised to maintain a prolonged weakening bias driven by unattractive growth and interest rate differentials and renewed disinflationary dynamics; we project EURUSD to decline to 1.21 and 1.17 by the end of 2015 and 2016, respectively. The recently conducted stress tests in European banks have put systemic risk factors back on global investors' radar screens. The fundamental EUR outlook is negative, plagued by low growth, falling inflation and aggressive policy by the European Central Bank, including negative interest rates and an asset purchase program. Accordingly, flows are also turning away from EUR, leaving the currency vulnerable to ongoing downside.

The British pound (GBP) will receive the support of a still recovering economy, increasing interest rates and well-developed securities markets. UK fundamentals are relatively strong against the euro zone; however, building downward pressure on inflation has pushed out expectations for action out of the Bank of England, and warns of significant slack in the economy. Accordingly, we expect the GBP to outperform the EUR in both 2015 and 2016, but to trend lower against the USD. Intensifying tensions in Eastern Europe in relation to the Ukraine-Russia conflict will keep the Russian ruble (RUB) vulnerable to ongoing depreciating risk, which may be partially offset by decisive intervention by the central bank through higher interest rates and international reserves usage.

We maintain a bearish view for the Japanese yen (JPY) through the end of 2016, to be temporarily offset by safe-haven flows during periods of unforeseen heightened financial market volatility and higher risk aversion. The JPY faces significant overvaluation on a purchasing power parity basis; however, this is offset by the Bank of Japan's struggle to achieve a sustainable 2% level of inflation, while it faces a slowing growth profile. We foresee building pressures for a weaker JPY. Accordingly, we expect USDJPY to close 2015 at 113 and 2016 at 118.The Chinese renminbi (CNY) should continue to appreciate versus the USD as China is expected to receive large foreign capital inflows despite the gradual deceleration in the pace of economic expansion and lingering uncertainties regarding the quality of banking sector assets. However, the strengthening pace is relatively slow as China adjusts to a slower growth profile, relative interest rate differentials and the impact of EUR and JPY weakness. Accordingly, we expect USDCNY to close 2015 at 5.98 and 2016 at 5.90.

The Australian dollar (AUD)'s outlook is mixed, weighed down by bouts of market volatility, declining mining investment and deceleration in China's economic growth; however, it is also supported by yield differentials, a relatively strong growth trajectory and a central bank that enters its hiking cycle in the third quarter of 2015. New leadership in Indonesia has injected a positive tone into the rupiah (IDR) while structural reforms to be implemented in India also support an improved outlook for the Indian rupee (INR).

Canada

Currency Outlook

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

Entering November, the Canadian dollar (CAD) has lost 5% year-to-date, in an environment of broad based USD strength. The US outlook is strong but the global one has deteriorated; oil prices have dropped, global inflationary pressures have failed to materialize and the Canadian domestic backdrop remains uneven, all of which have worked against the CAD. Looking out to the future, there are important factors that are likely to mitigate CAD weakness but the risk is still weighted towards a softening trend.

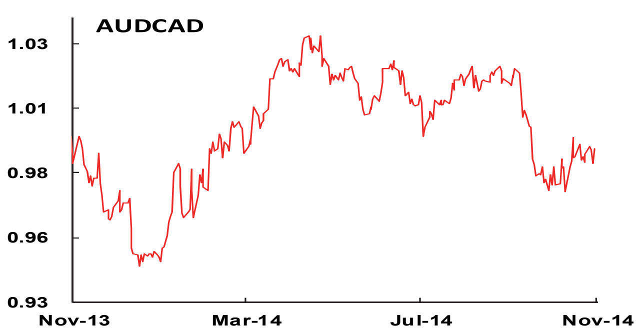
The USD is strong, and is expected to remain so. The US economic environment is expected to produce a real GDP growth rate of 3.2% in 2015 and 3.0% in 2016; surpassing the pace in most of the advanced economies. On the back of this, the Fed has ended its QE program and is moving towards tighter monetary policy, driving diverging yield spreads. In addition, lower oil prices and restrained yields are supporting growth and helping to offset the impact of the appreciation in the USD already sustained. Accordingly, on a broad basis, the USD is positioned to outperform most currencies including the CAD.

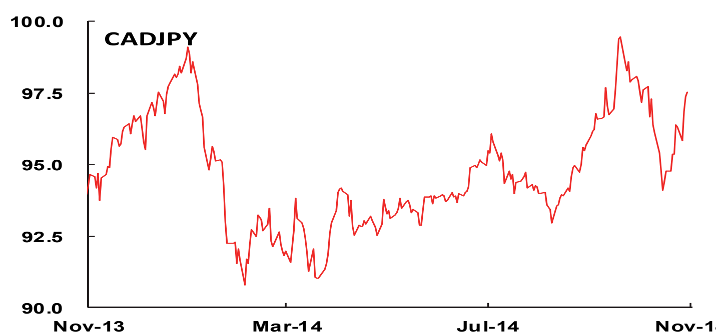
In Canada, exports are showing signs of acceleration and business investment is expected to follow; however, the recent decline in oil prices and the broader global growth outlook have weighed on the economic outlook. Complicating the outlook is a highly leveraged consumer and elevated housing prices, leaving both consumption and residential investment at risk of moderation. The backdrop has left inflation at 2.0% y/y but with little threat of sudden surge. Accordingly, the Bank of Canada (BoC) is likely to tighten policy only cautiously, with our internal forecasts calling for the BoC to lag the Fed by three quarters.

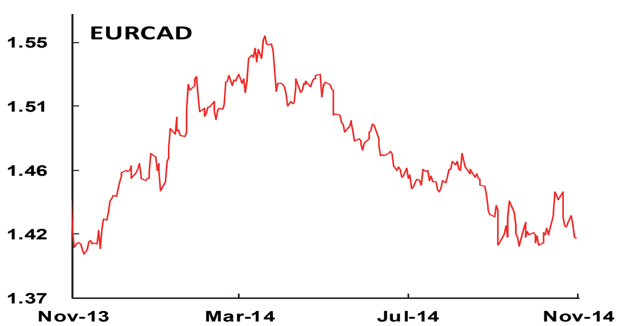
There are important mitigating factors that help to offset the depreciating forces on the CAD. A strong US economy combined with the CAD depreciation sustained to date, will help to support the recovery, particularly in the export sector. Accordingly, there is likely to be upside economic surprises that will be encouraging. In addition, at a time of global uncertainty, particularly in Europe, there is still solid demand for strong sovereign credits like Canada. Accordingly, we would expect CAD positive flows to continue. Accordingly, though we see the risks as tilted to the downside we recognize that the CAD story also has bright spots. We expect CADUSD to close 2015 at 0.88 (or in USDCAD terms at 1.13).

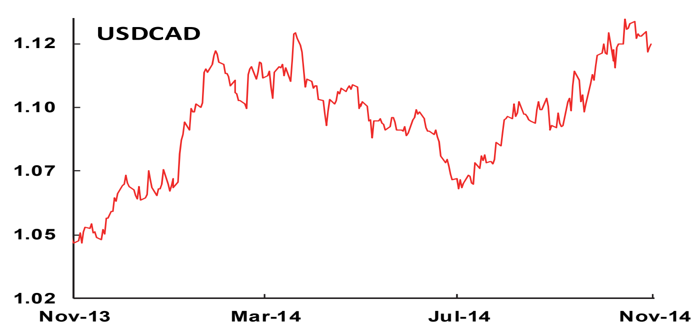
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 30-Oct	14Q1a	14Q2a	14Q3a	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
AUDCAD	0.99	1.02	1.01	0.98	0.97	0.96	0.96	0.98	0.99
CADJPY	97.5	93.4	95.0	97.9	98.2	98.2	99.1	99.1	100.0
EURCAD	1.41	1.52	1.46	1.41	1.39	1.39	1.38	1.38	1.37
USDCAD	1.12	1.11	1.07	1.12	1.11	1.12	1.12	1.13	1.13









United States and Canada

Fundamental Commentary

Neil Tisdall (416) 866-6252
neil.tisdall@scotiabank.com

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

UNITED STATES — The US economy continues to show broad-based momentum, with underlying growth trending around a 3% annualized rate through the third quarter. Notwithstanding a few disappointing data reports, most recent indicators point to a sustainable recovery, supported by rising industrial activity and investment, strengthening household demand and reduced fiscal restraint. Industrial production has shown steady gains through September, led by motor vehicles & parts, business equipment and energy products. US producers are benefitting from solid domestic and foreign sales, improved cost competitiveness despite a stronger currency and a well-diversified export base. Rising capacity utilization alongside healthy corporate balance sheets is fuelling strong growth in capital equipment investment and non-residential construction. Meanwhile, the surge in US oil and gas production in recent years has steadily trimmed oil imports and contributed to a notable improvement in US external accounts. Strong employment growth, improved household balance sheets, and the unleashing of pent-up demand for motor vehicles and other consumer durables are underpinning consumer confidence and spending. Monthly job gains averaged 237,000 from February through September, helping to drive the unemployment rate toward a six-year low just under 6%. Broader measures of unemployment also have improved, though alongside still weak wage gains averaging about 2% y/y are consistent with continued labour market slack. Consumer confidence in October hit a new cycle high. US home sales and construction are gradually, if slowly, regaining momentum, supported by improving labour markets, lower borrowing costs – the 30-year fixed mortgage rate has dropped roughly 60 bps this year – and a modest easing in lending conditions. The recovery also is getting a lift from a pickup in local and state government spending, and a reduced pace of federal fiscal restraint. Headline and core inflation trends remain restrained at below 2% y/y, reflecting ongoing excess capacity, still modest wage growth and the recent easing in pump prices.

CANADA — The Canadian economy continues to post moderate growth with GDP tracking around 2¼% y/y. Consumer spending remains reasonably buoyant. Vehicle sales continue to break records and remain one of the strongest retail sectors, supported by attractive pricing and discounts. Housing activity remains robust, with low mortgage rates maintaining affordability despite record high prices. However, the recent softening in consumer confidence – the Conference Board's index has declined in five of the last six months – could temper sales. Employment in 2014 is set to post its weakest growth since 2009. Hours worked on the year are essentially flat, and real wage growth is sluggish. Combined with limited pent-up demand (car sales and homeownership rates are at record levels), consumers are expected to be relatively cautious spenders in the year ahead. Manufacturing and exports remain strong with producers benefitting from strengthening US auto sales, residential construction and a more competitive currency. The pickup in exports has been broad-based, with solid increases in both energy and non-energy goods. Business investment has been a weak spot in the economy as excess capacity combined with moderate sales growth continue to weigh on business hiring and capital spending plans, despite improving business sentiment, healthy corporate finances and favourable financing costs. The investment outlook should gradually firm up over the coming year as strengthening global demand underpins a stronger export recovery. However, if commodity price weakness persists, business spending may be hampered by limited investment in the resource sector. Inflation trends have drifted higher this year, reflecting rising food and energy costs, and the passthrough of a weaker Canadian dollar to a range of imported goods prices. However, persistent excess capacity, ongoing retail competition, soft wage gains and recent gasoline price declines are expected to contain both headline and underlying inflation around the mid-point of the Bank of Canada's 1-3% target range into next year.

Monetary Policy Commentary

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

Dov Zigler (212) 225-6631
dov.zigler@scotiabank.com

UNITED STATES — We continue to expect the Fed to raise its policy rate in Q2 2015. The statement following the most recent FOMC meeting (at which the FOMC ended QE) reflects a move in that direction, with the Fed: a) optimistic about the labor market, b) unconcerned about the recent low bias of inflation (and low market inflation expectations), c) testing its tools for raising interest rates via a brief and temporary increase in its ON RRP rate, d) muting the significance of its 'considerable time' guidance by adding caveats, and e) not flagging any risks from global economic weakness. Also, the hawks on the FOMC are no longer dissenting – now only the most dovish committee member wants to see the statement changed.

CANADA — We no longer expect the Bank of Canada (BoC) to hike the overnight rate at all in 2015, anticipating the first hike to come in Q1 2016 as the BoC seeks to support the economy's return to operating at full capacity. We think that the reorientation of economic growth towards being driven by investment in and exports of non-commodity goods will be gradual, while investment in commodity production will slow (even if output is stable to rising). We also think that over-stretched household finances necessitate maintaining an accommodative policy to help with a gradual deleveraging, although the financial stability issues emanating from these very same household imbalances are one of the major risks that could cause rate hikes to come sooner than we anticipate.

Europe

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

Currency Outlook

EURO ZONE — For the EUR, the positive impact of a large and growing current account surplus is offset by low growth, disinflation, aggressive monetary policy and slow structural reforms. The ECB's shift to negative interest rates has accelerated outflows. Technicals warn of building downside pressure with significant support only materializing below 1.20. Sentiment is bearish with the CFTC reporting a large net short position of -$25 billion as of late October and consensus estimates looking for the EUR to trend lower. We hold a bearish outlook, expecting the EUR to close 2014 at 1.25 and 2015 at 1.21.

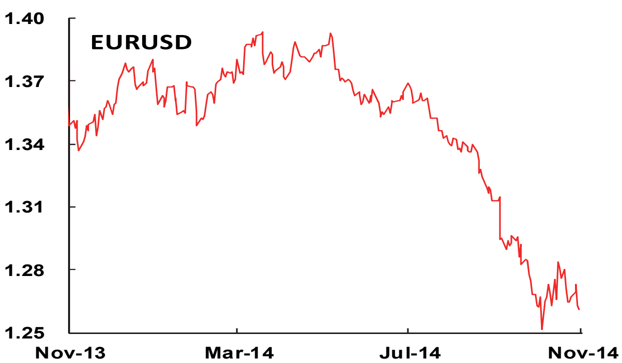
UNITED KINGDOM — Broad USD strength, low domestic inflation, a pushing out of BoE expectations and a shift away from bullish sentiment weighed on the GBP during the third quarter. Technically, the GBP has entered a period of rest, but medium term technicals are bearish with an established downward trend and the 100-day moving average having crossed below the 200 -day. Sentiment is mixed with the CFTC reporting in late October that there was a small net short position, while consensus forecasts look for a flat GBP profile in 2015. We see the risks tilted towards depreciation against the USD and appreciation against the EUR. Accordingly, we hold a year-end forecast of 1.60.

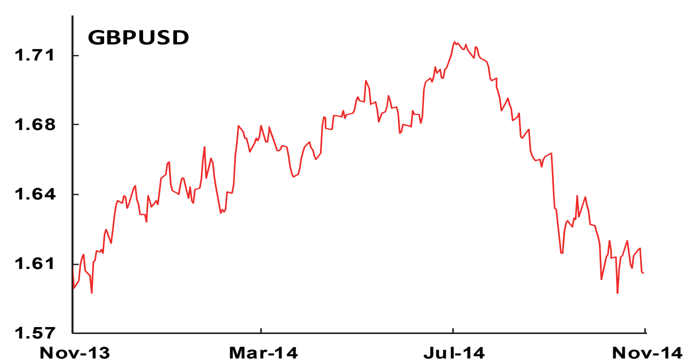
SWITZERLAND — Faced with spikes in risk aversion, the threat of deflation and vulnerable fundamentals, we expect the Swiss National Bank to retain its EURCHF 1.20 floor throughout 2015. Accordingly USDCHF is vulnerable to the path of EURUSD. We expect USDCHF to trend higher, closing 2014 at 0.97 and next at 1.02 .

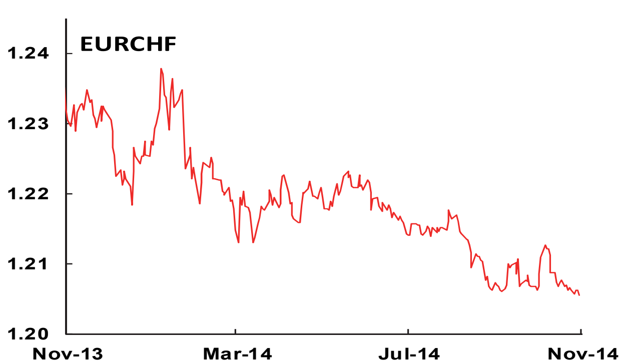
NORWAY — Entering November, the NOK has lost 10% year-to-date, losses which are only outpaced by the Swedish krona. Fundamentally Norway is better positioned than a country like Sweden, but also reliant on oil prices. Technically, the outlook for the NOK is bearish, with a strong and established downtrend. Sentiment and fundamentals are favourable, with most forecasters expecting the NOK to appreciate from its late October levels. We hold a year end USDNOK target of 6.35.

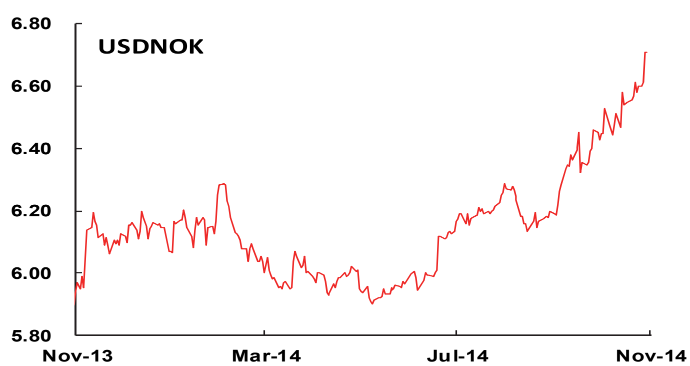
Currency Trends

FX Rate	Spot 30-Oct	14Q1a	14Q2a	14Q3a	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
EURUSD	1.26	1.38	1.37	1.26	1.25	1.24	1.23	1.22	1.21
GBPUSD	1.60	1.67	1.71	1.62	1.60	1.60	1.59	1.58	1.58
EURCHF	1.21	1.22	1.21	1.21	1.21	1.22	1.22	1.22	1.23
USDNOK	6.71	5.99	6.13	6.43	6.35	6.30	6.20	6.10	6.00









Europe

Fundamental Commentary

Erika Cain (416) 866-4205
erika.cain@scotiabank.com

Rory Johnston (416) 862-3908
rory.johnston@scotiabank.com

Alan Clarke (44 207) 826-5986
alan.clarke@scotiabank.com

EURO ZONE — in the first half of October, a run of poor economic data continued to fuel concerns that the euro zone's anemic recovery could be faltering. Deflation fears remained high after consumer prices edged lower to 0.3% y/y in September, while industrial production contracted and investor sentiment weakened. Third-quarter GDP will be released on Nov 14, and could show a slight decline; however, recent indicators for Q4 have become more upbeat and suggest that any downturn will likely be short lived. In October, euro area business confidence edged higher, with improving sentiment in Germany, France, Italy and the Netherlands. Consumer confidence also increased, while PMIs slightly strengthened and unemployment in Germany declined. Meanwhile, the annual CPI fell less sharply in Spain, while returning to modest growth in Belgium and held steady in Germany. This follows the largely positive results from the European Central Bank's (ECB) comprehensive assessment, which concluded that most of the 130 banks reviewed were healthy and more than half of the 25 banks that failed the test have already taken the steps to mitigate capital shortfalls. The ECB's third-quarter bank lending survey also reported that banks continued to eased loan standards to credit-starved consumers and firms. We expected euro zone real GDP to advance 0.7% this year, 1.2% in 2015 and 1.4% in 2016, with year-end annual inflation at 0.5%, 1.0% and 1.1%, respectively.

UNITED KINGDOM — UK economic growth is showing signs of cooling off, but continues to outpace most major economies. We expect GDP growth to decelerate from around 3% y/y during 2014, down to 2.5% and 2.0% in 2015 and 2016, respectively. That is still a very respectable pace of expansion, albeit modestly less impressive than we have seen up until now. In the early portion of the forecast, the slowdown is likely to reflect some unfavourable tailwinds; in particular, the sugar rush from the housing boom that has supported consumer spending growth should lose steam from here onward. Similarly, the boost to disposable income growth from near-record increases in hiring is not going to last forever. Even further ahead, when the Bank of England (BoE) eventually begins to hike interest rates, it will subtract from household free cash flow and dampen growth. The disappointing performance of the euro zone in recent months is a dampener on the outlook for UK exports, although we hadn't been expecting much of a boost from this department. The biggest development in the last month has been the substantial downward surprise in inflation with considerable scope for more to come. In particular, the drop in oil prices and the latest round of the supermarket price war now threatens to push CPI inflation below the crucial 1% y/y threshold. This, coupled with a continued lack of wage inflation has postponed the likely timing of the first Bank of England interest rate hike. We now expect the first rate hike in May, though there are risks of an even later start to the hiking cycle if wage inflation fails to accelerate.

SWITZERLAND — The economic outlook in Switzerland has grown more uncertain alongside weaker growth prospects in the euro zone and heightened geopolitical uncertainty. Swiss real GDP growth stagnated in Q2, while inflationary pressures remain weak, with CPI contracting by 0.1% y/y in September underpinned by lower import costs and oil prices. The outlook for the third-quarter remains subdued, with forward-looking manufacturing indicators pointing to continued moderation in new orders and job losses. In its latest quarterly monetary policy assessment, the Swiss National Bank (SNB) reaffirmed its pledge to enforce a minimum exchange rate of CHF1.20 per euro and noted that deflation risks have risen. We continue to believe the SNB will maintain its exchange-rate cap throughout 2014 and 2015; however, the Swiss franc could come under pressure leading up to the November 30th referendum on gold reserves. While it is unlikely, a "yes" outcome would force the SNB to hold at least 20% of its assets in gold, more than double its current holding of less than 8%, which would threaten its three-year franc ceiling against the euro. Swiss real GDP growth is forecast to advance around 1.3% this year and 1.6% in 2015. We anticipate inflation to be marginally positive in 2014-15 on the back of franc strength, relatively subdued euro zone activity and lower energy prices. The current-account surplus is expected to remain high, but narrow from 15% of GDP in 2013 to 11½% in 2014 and 10% in 2015, alongside lower trade and primary income surpluses.

NORWAY — The Norwegian economy is supported by a host of strong fundamentals, but recent global oil market shifts have highlighted risks to the country's energy-centric model. Real GDP expanded by 1.8% y/y in the second quarter of 2014, weighed down by sluggish energy sector growth. The unemployment rate remains very low, particularly when compared to regional peers, coming in at 2.7% in September. Norway also benefits from strong fiscal discipline: the government has reported a budgetary surplus every year since the end of 2003 and boasts an enviable debt-to-GDP ratio of only 30%. Price growth remains strong despite more general euro zone deflationary fears, and came in at 2.1% y/y in September. Furthermore, the country's external sector is robust, with a healthy current account surplus amounting to 11% of GDP in the April-June period, primarily due to energy exports. Risks remain, though, and the country's energy sector is a particular area of concern — oil production peaked in 2001 and has fallen to its lowest level since 1990. Furthermore, costs of extraction are rising at the very time global oil prices are falling; Statoil SA, in which the Norwegian government owns a 67% stake, posted its first quarterly loss since it was publically listed in 2001 due investment write-downs amidst falling oil prices. The future of the economy depends on a rational diversification away from depleting petroleum reserves, which stood at just less than 9 years of production at current levels. The country's US$893 billion sovereign wealth fund, which normally reports solid returns, ran up against market turbulence and eked out a mere 0.1% return in the third quarter of 2014, down from 3.3% in the April-June period.

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 — Market participants are shifting their focus away from the recent spike in risk aversion and back towards negative yen fundamentals, including a softening growth profile, aggressive central bank policy, and expected asset allocation changes at the Government Pension Investment Fund that are likely to drive significant JPY outflows. Market sentiment is bearish, with the CFTC reporting in late October an $8 billion net short position and consensus forecasts pointing to a depreciating trend. We too expect USDJPY to trend higher, interrupted by periods of risk aversion; accordingly, we hold a year-end forecast of 109, trending towards 113 by the end of 2015.

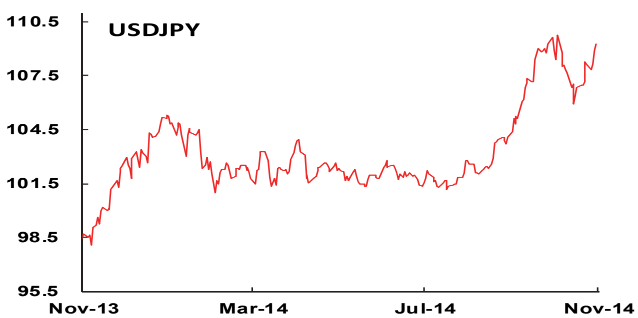
CHINA — The CNY appreciated in October, helped by multi-month lows in daily fixings for USDCNY which followed September data depicting the continuation of the record nominal 2014 trade surplus trend. Despite concerns regarding hot money outflows, the external surplus remains a key driver of slow, steady CNY appreciation. Intermittent, rapid USD appreciation against the EUR, JPY, and other Chinese trading partners may tempt authorities towards greater intervention. We target USDCNY at 6.10 by the end of Q4.

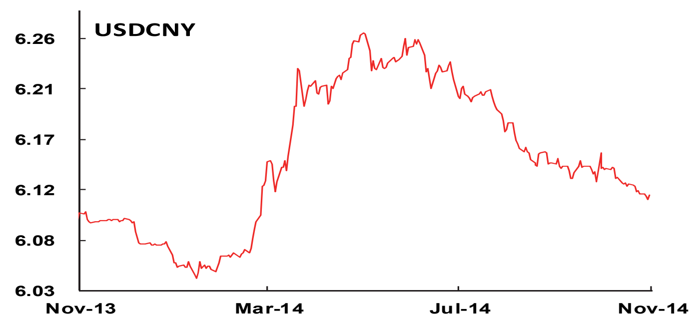
AUSTRALIA — The AUD's consolidation through October highlights market participants' uncertainty over the near term outlook in an environment shifting volatility risks and interest rate differentials. Measures of sentiment are conflicted, as options prices suggest diminishing demand for downside protection while bearish CFTC positioning continues to build – there was a $2.8 billion net short as of October 21st. Technicals underscore the lack of a bias. The AUD is expected to remain around current levels with a year-end target of 0.87.

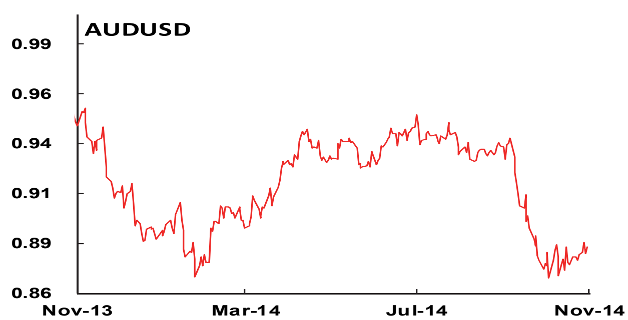
NEW ZEALAND — The NZD appears increasingly vulnerable to narrowed interest rate differentials and shifting volatility. Technicals warn that the recent consolidation in the NZD is giving way to further declines as October marked the bearish crossing of the 100-day moving average below the 200-day and spot broke below the multi-year trend line. Sentiment is vaguely bearish, with the CFTC reporting a small net short and consensus forecasts looking for a slight depreciating trend. Part of the hesitation could be strong technical support at 0.7680 (the lows from mid-2013). We hold a modest year-end target of 0.81.

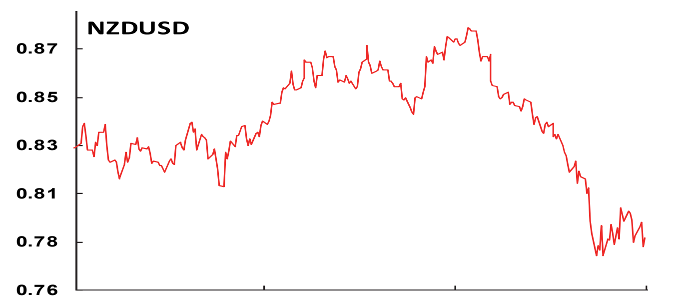
Currency Trends

FX Rate	Spot 30-Oct	14Q1a	14Q2a	14Q3a	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDJPY	109	103	101	110	109	110	111	112	113
USDCNY	6.12	6.22	6.20	6.14	6.10	6.07	6.04	6.01	5.98
AUDUSD	0.88	0.93	0.94	0.87	0.87	0.86	0.86	0.87	0.88
NZDUSD	0.78	0.87	0.88	0.78	0.81	0.80	0.79	0.78	0.77









Asia / Pacific

Fundamental Commentary

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

Neil Shankar (416) 866-6781
neil.shankar@scotiabank.com

JAPAN — Japan's economic outlook remains challenging through 2016 as domestic demand is adversely impacted by the two-stage increase in the consumption tax rate. The recovery of the Japanese economy in the third quarter of 2014 — following the April tax rate hike from 5% to 8% that slashed domestic consumption in the second quarter — will play a key role in the debate among policymakers whether the economy can sustain the second increase. The final decision can be expected in December; the second hike that would lift the tax rate from 8% to 10% is scheduled to take place in October 2015 should the authorities' conclusion be affirmative. Japan's real GDP gains in 2015-16 will likely remain relatively low but close to the economy's potential growth, with output expansion averaging slightly less that 1%. Successful productivity-boosting structural reforms are vital for improving the economy's longer-term outlook. The Bank of Japan expects underlying inflation, which excludes the impact of the April tax hike as well as fresh food costs, to remain relatively stable in the near term at around 1¼% y/y, thereby failing to meet the authorities' target, before approaching the 2% mark in 2015. Japan's headline inflation remains temporarily elevated: consumer prices rose by 3.3% y/y in August and we expect annual inflation to decelerate to 2½% by the end of the year. We maintain our view that the BoJ may provide additional stimulus by potentially extending or increasing its asset purchase program in the coming months, resulting in a further weakening bias for the yen.

CHINA — Chinese output growth remains on a path of gradual deceleration as investment gains slow and the economy transitions toward a more consumer-based system. The economy expanded by 7.3% in the third quarter of 2014 following a 7.5% growth in the prior three months. In line with the process of economic transformation, the country's services sector continues to increase in importance as a growth engine, exceeding the industrial sector in size and pace of momentum. We expect China's real GDP growth to reach 7.4% this year — in line with the government's target of around 7½% — followed by an average expansion of 7.2% and 6.8% in 2015 and 2016, respectively. The property market poses the largest risk to China's outlook as a deeper price correction would have multidimensional impacts on various parts of the economy. As a favourable economic environment is required to successfully implement the nation's complex structural reform agenda, we assess that the likelihood of further targeted fiscal and monetary stimulus measures remains high in the near term. China's inflation outlook is manageable; consumer prices rose by 1.6% y/y in September, decelerating from the 2.0% gain a month earlier primarily on the back of lower commodity prices and slower food inflation. Persistent producer price deflation due to industrial overcapacity should alleviate any concerns regarding significant upside pressure on prices. Accordingly, we expect headline inflation to remain relatively low, below 3% y/y through 2016 .

AUSTRALIA — Australia's monetary conditions are set to remain stable for an extended period of time as the Reserve Bank of Australia's (RBA) authorities assess that the current accommodative policy stance is appropriate for supporting sustainable demand growth and keeping inflation consistent with the RBA's 2-3% y/y target. The benchmark cash rate has been kept at 2.50% since August 2013, and we do not anticipate any changes to it until the third quarter of 2015. Australia's economic growth is driven by net exports that reflect increased mining capacity following investment project completions. The combined effect of recent house price gains and accommodative monetary policy should support consumer confidence and household spending, thereby offsetting lower investment gains and subdued public spending. Nevertheless, labour market conditions continue to be fairly subdued for the time being with wage growth remaining slow. We expect the nation's real GDP growth to reach 3.0% this year and to average 2.8% in 2015-16. Headline consumer price inflation eased to 2.3% y/y in the third quarter from 3.0% in the April-June period, reflecting lower electricity prices after the carbon tax was removed. We expect inflation to close the year at the current level and to remain below 3% y/y through 2016.

NEW ZEALAND — New Zealand will continue to enjoy solid economic growth momentum. Following an expansion of 3.3% y/y in the second quarter of 2014, the country's real GDP growth is expected to pick up further in the second half of the year, averaging 3.5% in 2014 as a whole. Consumer spending momentum will likely be sustained in the medium term, driven by strong confidence and continued labour market strengthening. Construction, strong immigration and accommodative monetary policy will also continue to support activity. We expect the economy to record average annual real GDP gains of 2¾% in 2015-16. Exports will likely be largely unaffected by China's gradual growth deceleration – the largest export market for New Zealand – on the back of solid demand from China's growing middle class for New Zealand's goods, such as dairy products. Strong economic momentum prompted the Reserve Bank of New Zealand (RBNZ) to tighten monetary conditions earlier this year, with the benchmark interest rate raised by 100 basis points to the current level of 3.25%. Price stabilizing effects from these policy measures have materialized; house price gains have eased and consumer price inflation decelerated to 1.0% y/y in the third quarter of 2014 from 1.6% in the April-June period. Nonetheless, robust economic activity will likely translate to moderate inflationary up-tick, with inflation hovering slightly above 2% in 2015-16. Despite the recent weakening of the New Zealand dollar, the authorities of the RBNZ maintain their view that the currency strength "remains unjustified and unsustainable". The NZD has accumulated an 11% loss since mid-July.

Developing Asia
Currency Outlook

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

INDIA — The BJP's ability to effect reform has been a sentiment builder for India, as has RBI efforts to adopt a proper inflation targeting regime. Lower inflation and global commodity prices have been bullish for Indian bonds, incenting further inflows into the country, even as foreign equity buying has relented. We expect India to perform better under rising US yields, than during last year, however, still high inflation and a current account deficit should serve to pressure INR to push USDINR to 62.50 by end of Q4 2014.

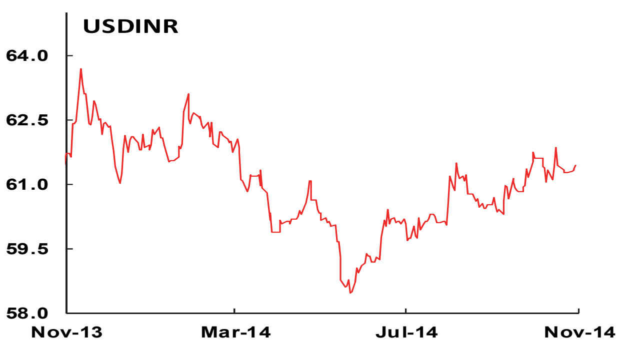
KOREA — KRW volatility remained elevated in October, as the won retraced losses towards the end of the month. The won remains under pressure thanks to a less dovish Federal Reserve, and a weakening yen that has meant more interest in smoothing periods of KRW strength from the central bank. While Korea's current account surplus remains strong, it looks to have peaked on a trend basis, a risk as domestic demand is expected to pick up and boost imports. We forecast USDKRW at 1070 by end of Q4.

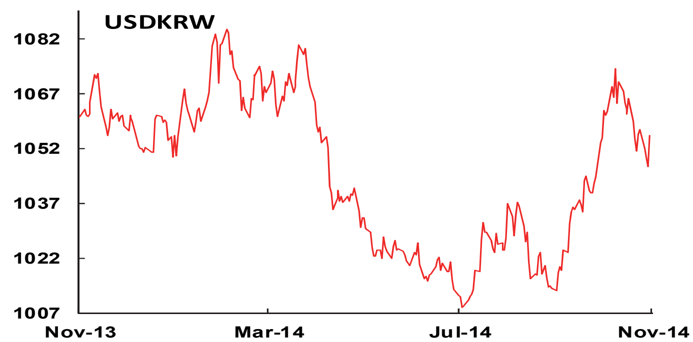
THAILAND — THB remained range bound in October, though favoured a depreciatory bias since late summer, with evidence that the central bank has been smoothing the pace of depreciation. Domestic demand is expected to pick up in Q4 thanks to investment and fiscal spending, which should serve to boost imports. The trade balance deteriorated in September as import growth surged, a trend likely to continue going forward. Rising US yields and import pressure are expected to keep USDTHB on an upwards trajectory to 33.00 by end of year.

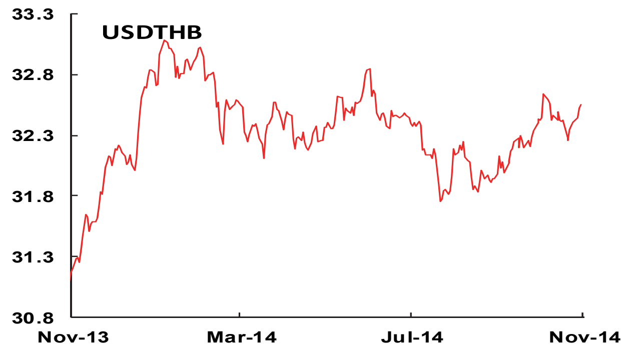
INDONESIA — IDR has resumed a weakening stance, following brief appreciation upon the inauguration of President Widodo. Indications of potential reforms to energy subsidies are constructive, but unsure at this point in terms of scope. While financial inflows picked up in through Q3, helping to offset weaker trade dynamics, the degree to which these can be sustained without significant subsidy reform is in question. We continue to see a challenging external environment and higher US yields pushing USDIDR to 12500 by the end of Q4 2014.

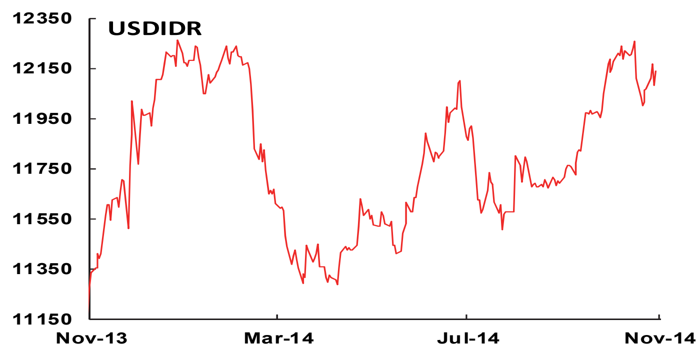
Currency Trends

FX Rate	Spot 30-Oct	14Q1a	14Q2a	14Q3a	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDINR	61.5	59.9	60.2	61.8	62.5	62.8	63.0	63.3	63.5
USDKRW	1056	1065	1012	1055	1070	1073	1075	1078	1080
USDTHB	32.6	32.4	32.4	32.4	33.0	33.3	33.5	33.8	34.0
USDIDR	12139	11361	11875	12188	12500	12575	12650	12725	12800









Developing Asia

Fundamental Commentary

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

INDIA — India's economic outlook is recuperating as the new government prioritizes economic reforms to improve the country's policy credibility and business environment. This combined with a period of relative political stability and improving infrastructure should be reflected in stronger investment activity and faster real GDP growth through 2016. Nevertheless, strong commitment to reform implementation by the administration of Prime Minister Narendra Modi is necessary in order to place India back onto a fast-growth trajectory in a sustainable manner. Business expectations have improved recently while exports and industrial production are showing signs of more cautious gains for the time being. We expect real GDP growth to pick up from 5.5% in 2014 to an average expansion of 6% annually in 2015-16. The Reserve Bank of India will likely maintain monetary conditions unchanged in the near term as authorities focus on prioritizing inflation containment over supporting economic growth. The benchmark policy rate has been kept at 8.0% since January 2014. Lower inflationary pressures may lead to cautious monetary easing in early 2015. The consumer price index advanced by 6.5% y/y in September (down from 7.7% y/y in August), thereby staying below the RBI's 8% inflation target for January 2015. Meanwhile, whole-sale price inflation decelerated to 2.4%y/y in September. While low global energy prices bode well for India, potential subsidy cuts create a major upside risk for the inflation outlook.

KOREA — South Korean economic momentum remains intact. Real GDP increased by 0.9% q/q (3.2% y/y) in the third quarter of 2014 compared with a 0.5% q/q gain (3.5% y/y) in the prior three months. Nevertheless, the country's policymakers assess that amidst current financial market volatility and its potential adverse impact on sentiment, South Korean domestic demand requires further support. Accordingly, the Bank of Korea (BoK) lowered the benchmark interest rate by 25 basis points to 2.0% in mid-October, adding to the equivalent reduction in August. We expect the BoK to hold off from further monetary easing due to relatively high household debt, and as the economy is set to strengthen in the near term; moreover, the authorities assess that while price pressures are currently low, the upside risks to inflation outweigh downside risks. The consumer price index increased by 1.1% y/y in September, a 7-month low. The continued decline in petroleum product prices and near-zero producer price inflation will contribute to negligible upside pressure on headline inflation over the medium term. We expect inflation to close the year at 1½% y/y, before accelerating gradually to 3% — the mid-point of the BoK's 2½-3½% target range — by the end of 2016. Monetary stimulus, the fiscal measures announced in July, and a recovering export sector will likely lead to a pick-up in real GDP growth from 3½% in 2014 to an average gain of 3¾% in 2015-16.

THAILAND — Thailand's economic growth outlook is brightening as the military administration prioritizes an economic revival. The base effect from weak performance in 2014 — the country's output will likely expand by 1½% this year — will bring economic gains in 2015 to around 3¾%. Furthermore, the prolonged uncertain economic environment resulting from political events in 2013-14 has caused consumers and businesses to hold off on spending; reflecting gradually improving confidence, pent-up demand together with an export sector pick-up will underpin Thailand's growth prospects over the next two years, taking the nation's real GDP growth to 4.0% in 2016. Prime Minister Prayuth Chan-ocha has indicated that democracy in Thailand will be restored by the end of 2015, yet he has recently implied that a delay is possible should the military administration's reform program, which includes such elements as the drafting of a new constitution, still be incomplete by that time. Inflation remains manageable; the headline consumer price index increased by 1.8% y/y in September, recording a deceleration from prior months on the back of price controls implemented by the military rule as well as lower food costs. We expect inflation to close the year near the current level and to hover in the 2-3% range through 2016. The Bank of Thailand will likely keep the benchmark interest rate unchanged at 2% until the final months of 2015. We do not foresee any monetary easing as the central bank continues to highlight its independence and the military administration uses fiscal stimulus as a means to boost economic activity.

INDONESIA — President Joko Widodo began his five-year term on October 20th. An improvement of the quality of governance and subsidy rationalization are the key elements of his agenda, thereby contributing positively to investor sentiment towards Indonesia. Nevertheless, with parliament controlled by the opposition, we expect reform progress to be gradual. Tight monetary conditions will be maintained due to persistent inflationary pressure and the need to attract capital inflows to finance the country's current account deficit (of around 3% of GDP in 2014). We expect the central bank's reference rate to remain at the current level of 7.5% in the near term, yet a tightening bias may become evident in 2015-16 depending on the progress on the fuel subsidy reform and its inflationary impacts. The consumer price index increased by 4.5% y/y in September, up from the 4.0% y/y pace the month before; headline inflation will likely remain near the current level through the end of the year before picking up in 2015. The Indonesian economy continues to perform relatively well on the back of solid household spending gains, with real GDP expansion averaging 5.2% in the first half of 2014. We expect output growth to accelerate to 5.7% y/y in 2015-16 — reaching the average pace over the past 10 years — underpinned by improving consumer and business confidence, and a pick-up in investment activity and exports.

Developing Americas
Currency Outlook

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

BRAZIL — The real (BRL) has been extremely volatile for 2 months, trading as high as 2.55 against the USD, and as low as 2.22 since August. Among the drivers of this sharp volatility has been uncertainty over the policy objectives of the new government, and key cabinet members. Both these topics still have important aspects that remain undefined, and which will be key for determining Brazil's credit ratings. S&P signaled the country's investment grade is not at risk in the near term, but downgrades by Fitch and Moody's (within investment grade) are possible over the next few months if a path for restoring growth and fiscal performance is not clearly laid out.

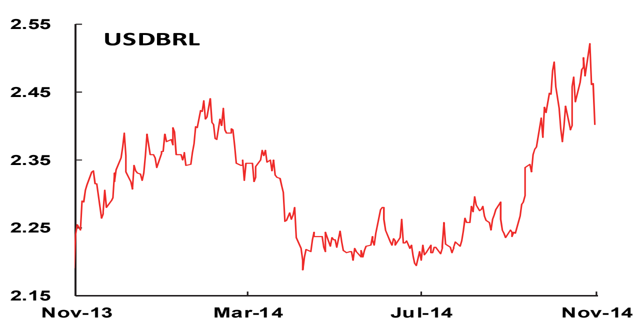
MEXICO — The Mexican peso (MXN) has been relatively stable if we take its traditional high beta into consideration, given its range since the end of August has been 6% wide, as opposed to 15% for the BRL, and 13% for the COP. This more subdued volatility is also consistent with the relatively stable pattern we have seen in foreign holdings of local-currency government bonds (m-bonos), which have not departed from a 54.0% - 57.2% range all year. More volatile have been the foreign holdings of cetes, which have risen as high as 69% and fallen to as low as 55%, and are likely to have some less stable hands in them. We expect the resistance at USDMXN 13.60 to be fairly robust.

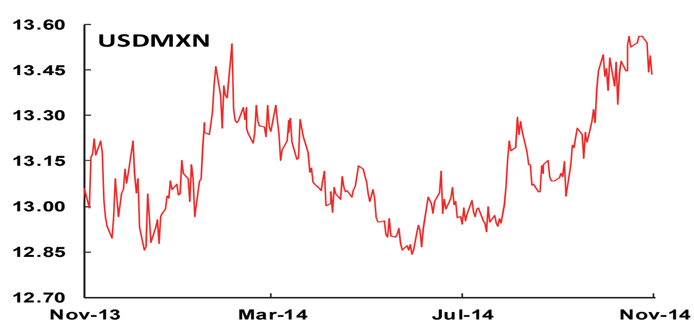
CHILE — After suffering relatively sharp losses in the first half of 2014, the Chilean peso (CLP) recovered some lost ground as copper prices stabilized towards the end of the summer. An additional source of support came from a cautious central bank, which despite lingering growth concerns, has now turned neutral because it sees risks that domestic inflation could temporarily approach 5%, which would be 200 bps above the center of its inflation target. However, we believe the CLP will remain vulnerable to Chinese data, as well as to an eventual strengthening of the USD, and the impact it has on copper prices which stand at the core of Chile's exports.

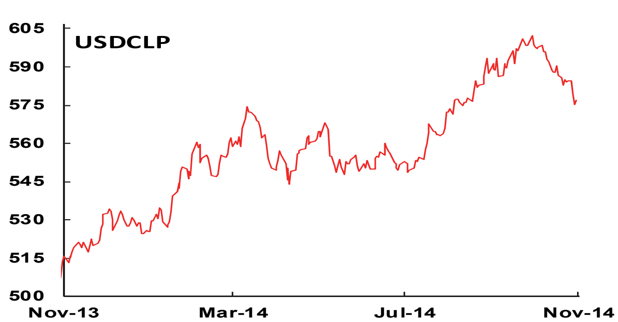
COLOMBIA — The sharp decline in oil prices, combined with a bout of global risk aversion sent USDCOP back above levels at which the central bank and the government have signaled they believe the currency is fairly valued (implying the currency may now be seen as marginally on the cheaper side). After failing to break above 2085, USDCOP has been hovering in a narrower 2040 – 2075 range, but remains vulnerable to oil price direction.

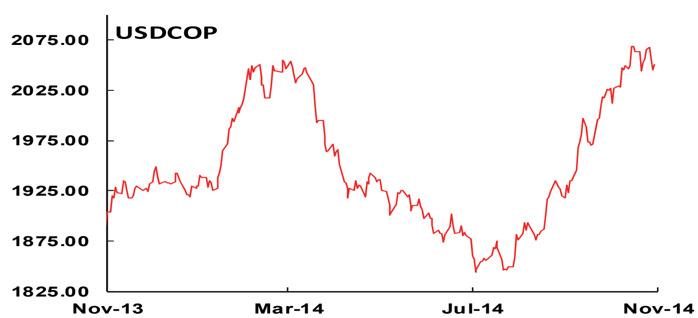
Currency Trends

FX Rate	Spot 30-Oct	14Q1a	14Q2a	14Q3a	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDBRL	2.40	549.47	552.95	598.31	587.00	585.00	586.00	590.00	595.00
USDMXN	13.43	13.06	12.97	13.43	13.40	13.53	13.42	13.50	13.71
USDCLP	577	549	553	598	587	585	586	590	595
USDCOP	2050	1971	1877	2025	2045	2055	2060	2075	2100









Developing Americas
Fundamental Commentary

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

BRAZIL — Ms. Dilma Rousseff was re-elected as President of Brazil for a four-year term commencing January 2015. We anticipate a period of currency weakness. Persistent inflationary pressures will prompt an increase in the SELIC rate to moderate the impact of currency weakness while acting as a buffer against the anticipated normalization of interest rates in the United States. We project an end-year inflation rate of 6.5% and 6.2% for 2014 and 2015, respectively. We are of the view that the Brazilian real (BRL) will maintain a weakening bias over the next 12 months trading between 2.50 and 2.60 per USD. A challenging economic environment and volatile external markets will require major policy adjustments. A new policy framework will require the appointment of a new economic team to boost consumer, electorate and investor confidence. The domestic economic outlook will be shaped by a year of subdued growth (up 1% in 2015) with persistently high consumer price inflation. The widening fiscal and current account deficits will require both policy adjustments and market-driven asset price corrections. Foreign direct investment, while it will be large relative to other emerging-market economies, will be insufficient to fully cover the current account deficit estimated at US$82 billion in 2014 (3.7% of GDP). Increased external indebtedness in the context of soft growth and a fiscal deficit of 4% of GDP may place international rating agencies on alert in the coming months.

MEXICO — The Mexican peso (MXN) has been weakening against the US dollar (USD) since early October. Exogenous factors beyond local control are the key determining issues shaping a volatile and bearish phase in emerging-market currencies. A broad-based preference for the USD fuelled by attractive growth and interest rate differentials in the United States, coupled with “flight-to-liquidity” corrective forces, has placed the peso on the defensive. The MXN, highly sensitive to US economic and monetary developments, will likely trade within a 13.50–14.00 range over the next six months. Inflationary pressures will persist throughout 2015, fuelled mainly by wage adjustments, agricultural price pressures and pass-through currency effects. Headline inflation will remain near 4% through the end of 2015. In light of persistent price pressures and in anticipation of a faster growth trajectory, the central bank will begin normalizing monetary conditions during the second quarter of 2015. The growth outlook is promising supported by strengthening domestic demand, declining fiscal drag and growing investment; even the construction sector is showing signs of modest recovery following six weak quarters. The Mexican central bank projects that the economy will grow between 3.2% and 4.2% in 2015. The economic impact of investments linked to reforms in energy, telecommunications and utility sectors will become apparent during the first half of 2015. The US economy, estimated to expand by 3.2% in 2015, remains a major driver of export sector revenue.

CHILE — The Central Bank of Chile reduced its monetary policy interest rate by 25 basis points to 3% on October 16, 2014. The Chilean monetary authorities maintain a pro-growth policy stance. Following the reduction of the policy-setting reference rate by 200 basis points over the past 12 months in eight policy actions, there is a high probability that the easing cycle may have reached its end. The latest survey conducted by the central bank hints at the maintenance of the 3% monetary policy rate through the first months of 2015, before beginning an upward adjustment cycle. The Chilean economy continues to show persistent weakness. The official communiqué by the central bank highlights that real GDP growth may average 1.9% y/y this year before accelerating to 3% in 2015 as a whole. Both consumer and business confidence surveys point towards a pessimistic outlook. Retail and manufacturing sectors present weak activity indicators. Labour market conditions are deteriorating; employment growth is decelerating while unemployment (currently at 6.7%) will continue to increase in the months ahead. The Chilean peso (CLP), which has been appreciating against the US dollar (USD) since late September after trading above the 600 mark, seems to be rather indifferent to the central bank action. Looking ahead, however, the CLP will be influenced by the broad-based strengthening trend in favour of the USD and heightened volatility in commodity prices and emerging-market assets.

COLOMBIA — The Colombian peso (COP) has been weakening against the US dollar (USD) since early July. The key factors affecting the value of the COP are the monetary policy direction at home and in the United States (US), the declining value of the crude oil price and the asset allocation shifts in emerging-market assets as a result of risk aversion dynamics and the expected increase in short-term interest rates in the US. The Colombian consumer price inflation rate remains relatively stable, reaching 2.9% y/y in September in line with the central bank’s long-term target range of 2% +/- 1%. We project that the headline rate will remain contained within the target range through the end of 2015; however, the potential currency effect from declining oil prices may inject some pass-through effects during this period. The central bank opted to keep its policy rate unchanged at 4.5% on October 30th. Foreign capital (portfolio and direct) flows will remain relatively COP supportive in the context of an orderly transition towards higher US interest rates. The Colombian economy will close the year on a high note, with real GDP estimated to expand by close to 5% before somewhat decelerating to an average annual growth rate of 4.8% in 2015-16. The central bank, sensitive to damaging effects of currency market volatility will not hesitate to use its foreign reserve management to respond to sharp currency moves.

Developing Europe & Africa

Currency Outlook

Erika Cain (416) 866-4205
erika.cain@scotiabank.com

RUSSIA — The Russian ruble (RUB) continued to extend its losses in October, depreciating by nearly 5% against the US dollar (USD) alongside broad risk aversion, falling oil prices and rising foreign currency demand by Russian firms shut out of international capital markets. After reaching a record low of USDRUB 42.85 on October 29th, the Russian central bank intervened by selling US$2.5 billion in an attempt to prop up the currency. We continue to hold a bearish outlook, expecting the RUB to close the year at around 41.5 in 2014 and 39.5 in 2015.

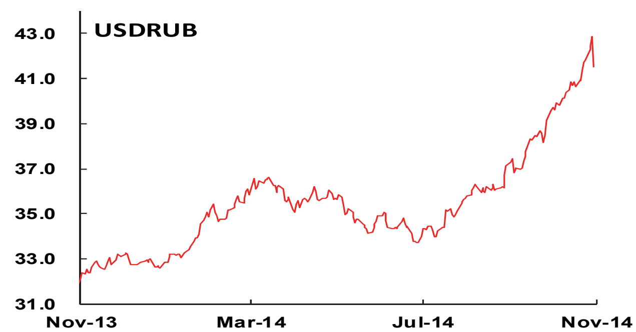
TURKEY — In October, the Turkish lira (TRY) witnessed its biggest rally in six months, appreciating almost 3½% against the USD on the back of weaker oil prices, which should help narrow its large current-account deficit. However, the outlook for the TRY remains very bearish, tempered by prospects for monetary tightening in the US and UK, as well as Turkey's high inflation, weak external accounts and dovish central bank. We expect the TRY to end the year at 2.27 in 2014 and 2.38 in 2015.

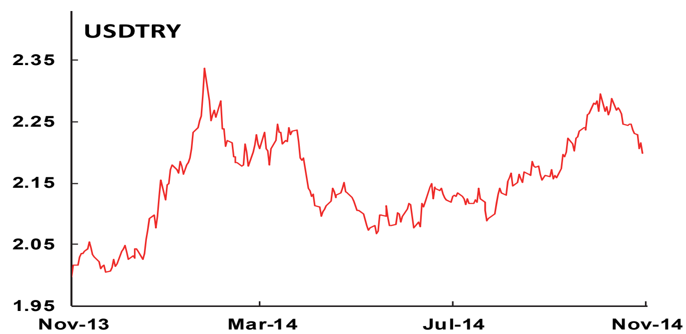
HUNGARY — In the first half of October, the Hungarian forint (HUF) continued to rally against EUR on expectations of more monetary stimulus by the ECB and comments by the government welcoming a stronger HUF given its high foreign debt levels. After reaching a nearly four-month high in mid-October, the HUF has since depreciated against the EUR as ongoing deflationary pressures and moderating economic growth have bolsters speculation that the National Bank of Hungary will resume monetary easing next year. We expect the HUF will close the year at 312 per EUR in 2014 and 314.5 in 2015.

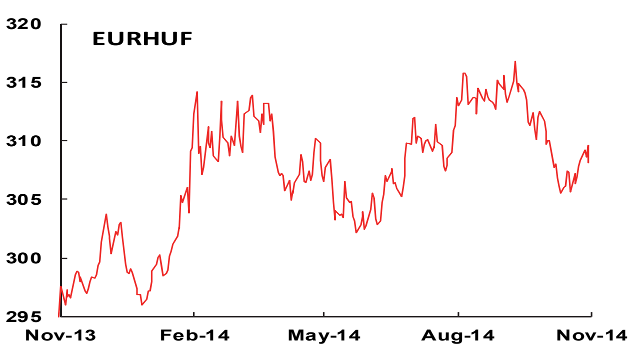
SOUTH AFRICA — After the rand (ZAR) fell below 11.3 per USD in early October, the ZAR has since firmed by over 4% vis-à-vis the USD. Against a backdrop of elevated inflation and weak economic fundamentals, markets were pleased by the announcement that Lesetja Kganyago will become the new central bank governor. Under his leadership the SARB is expected to resume monetary tightening at its next meeting in November. At 10.87 against the USD at the time of writing, the ZAR is likely slightly overvalued. We expect ZAR to close the year at roughly 11.0 in 2014 and 10.7 in 2015.

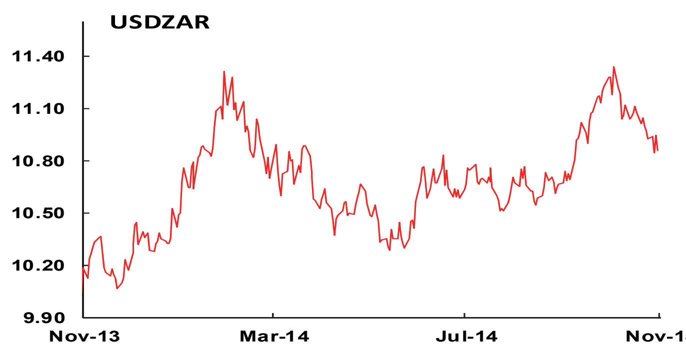
Currency Trends

FX Rate	Spot 30-Oct	14Q1a	14Q2a	14Q3a	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDRUB	41.5	35.2	34.0	39.6	41.5	41.0	41.0	40.0	39.5
USDTRY	2.20	2.14	2.12	2.28	2.27	2.30	2.34	2.36	2.38
EURHUF	308.15	307.30	309.76	310.83	312.00	313.20	313.40	313.50	314.50
USDZAR	10.86	10.53	10.64	11.29	11.00	10.90	10.80	10.75	10.70









Developing Europe & Africa

Fundamental Commentary

Erika Cain (416) 866-4205
erika.cain@scotiabank.com

RUSSIA — Heightened geopolitical tension and Western sanctions continue to weigh heavily on economic activity and sentiment in Russia. Rapid capital flight and declining oil prices have also put pressure on external accounts and the ruble, which has in turn bolstered inflation to 8% y/y in September – well above the Russian central bank's 5% target. This, combined with monetary tightening and modest real wage growth, has dampened consumer spending, while business confidence and investment have been hit hard by the sharp rise in financing costs and the threat of harsher international sanctions. The ceasefire agreement between Ukraine, Russia and pro-Russian separatists, which took effect on September 5th, remains fragile and there have been many violations. Meanwhile, Russia continues to coerce its way into Ukrainian policy and has threatened to increase tariffs on Ukrainian imports if the country implements its association agreement with the EU. Ongoing negotiations to end the long-running gas dispute have also yet to be reached. As a result, uncertainty and sanctions will likely remain in place for the foreseeable future. We expect Russian economic growth to advance by a meager 0.1% in 2014 and 0.7% in 2015, and estimate year-end inflation rate of 8% y/y in 2014 and 6.5% y/y in 2015. This, combined with the government's rising defence expenditure, growing pension liabilities and pledge to create a bail-out fund to support companies affected by EU and US sanctions should also put increasing strain on government finances. Alongside improving export competitiveness and depressed imports, Russia's current account surplus is expected to rise from 3% of GDP in 2014 to 3½% in 2015.

TURKEY — Economic growth in Turkey is expected to moderate this year on the back of weaker domestic demand. Private consumption has been dampened by high interest rates and elevated inflation, while geopolitical uncertainty — particularly the escalating conflict in Iraq and the Russia-Ukraine crisis — has weighed on business investment. However, net exports and growth in government spending should provide some offset. Despite these challenges, the central bank of Turkey will likely keep its key interest rate unchanged at 8.75%, as the weaker Turkish lira and elevated inflation (at 8.9% y/y in September) support a tighter monetary policy stance. The bank's Monetary Policy Committee has warned that higher food prices have delayed the expected deceleration in inflation; however, weaker global commodity prices should limit upward risks. We believe consumer price inflation will remain elevated at a year-end rate of roughly 9% y/y (well above the central bank's target of 5%) before decelerating to 7% in 2015. As a result, we expect the Turkish central bank to keep its one-week repurchase rate unchanged through the end of 2014, before gradually easing rates as inflation subsides in 2015. Our real GDP growth forecast for Turkey is 3% in 2014, 3.5% in 2015 and 4% in 2016. We expect Turkey's current-account deficit will narrow from roughly 8% of GDP in 2013 to an estimated 6% through 2016.

HUNGARY — The economic recovery continued to gain momentum in the first half of 2014, with real GDP growth advancing at an average rate of 3.8% y/y – the strongest performance since 2006. The improvement has been driven by stronger investment growth on the back of EU-funded public infrastructure projects. Net exports have also been supportive, yet are being increasingly squeezed by stronger import growth as household consumption continues to moderately improve. Nevertheless, deflationary pressures persist, with consumer prices dropping by 0.1% y/y so far this year and 0.5% y/y in September due to subdued international food and energy prices, and the 10% cut last November in regulated energy prices. At its meeting in July, the National Bank of Hungary (NBH) ended its aggressive two-year easing cycle, which brought its key benchmark interest rate from 7% to 2.1%, and announced that it plans to keep policy rates on hold until at least end-2015. We expect the NBH will stick to its pledge at least in the short-term, with annual inflation forecast to gradually rise to a year-end rate of about 0.2% y/y in 2014 and just below the NBH's 3% target in 2015, supported by base effects, improving consumer demand and a weaker forint. Real GDP growth is expected to accelerate from 1.1% in 2013 to 3% in 2014, before moderating to 2½% in 2015 as slower growth in Europe and reduced EU funds weigh on exports and investment. Distortionary taxes and regulatory uncertainty will likely also continue to temper growth; however, strengthening domestic demand should provide some offset. As a result, we expect Hungary's current-account surplus to narrow from 2.5% of GDP in 2014 to 2% in 2015 – down from 3% in 2013.

SOUTH AFRICA — South Africa's economic environment remains challenging alongside lackluster job creation, a waning fiscal outlook and persistent current-account deficit. Successive waves of labour unrest and strikes as well as electricity outages have also dragged down growth in the mining, manufacturing and utilities sectors. Meanwhile, debt-burdened consumers remain squeezed by high interest rates, elevated unemployment at roughly 25% and rising food and fuel prices. Inflationary pressures persist, with CPI gains in September at the top end of the South African Reserve Bank's (SARB) 3% to 6% target. Market participants welcomed the announcement that Lesetja Kganyago will take over as the new governor of the SARB on November 9th. Recent comments from Mr. Kganyago have been quite hawkish; therefore, we expect the SARB will hike rates by 25 basis points (bps) at its next meeting November (bringing its repo rate to 6%), with an additional 100 bps of hikes through end-2015. Real GDP growth is forecast to advance 1½% in 2014 and 2½% in 2015, while annual inflation should ease from a year-end rate of 6.3% in 2014 to 5.8% in 2015, underpinned by weaker world oil prices and monetary policy tightening. However, rising real wages and electricity tariffs (increase by 12.7% in April 2015) will be a source of price pressure. The current-account deficit should narrow from 5.2% of GDP this year to 4½% in 2015 as stronger global growth and rand weakness boosts exports.

Global Currency Forecast (end of period)

		2013	2014f	2015f	2016f	2014f	2015f				2016f			
Major Currencies						Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	105	109	113	118	109	110	111	112	113	114	115	116	118
Euro zone	EURUSD	1.37	1.25	1.21	1.17	1.25	1.24	1.23	1.22	1.21	1.20	1.19	1.18	1.17
	EURJPY	145	136	137	138	136	136	137	137	137	137	137	137	138
UK	GBPUSD	1.66	1.60	1.58	1.55	1.60	1.60	1.59	1.58	1.58	1.57	1.56	1.55	1.55
	EURGBP	0.83	0.78	0.77	0.75	0.78	0.78	0.77	0.77	0.77	0.76	0.76	0.76	0.75
Switzerland	USDCHF	0.89	0.97	1.02	1.05	0.97	0.98	0.99	1.00	1.02	1.03	1.03	1.04	1.05
	EURCHF	1.23	1.21	1.23	1.23	1.21	1.22	1.22	1.22	1.23	1.23	1.23	1.23	1.23
Americas														
Canada	USDCAD	1.06	1.11	1.13	1.15	1.11	1.12	1.12	1.13	1.13	1.14	1.14	1.15	1.15
	CADUSD	0.94	0.90	0.88	0.87	0.90	0.89	0.89	0.88	0.88	0.88	0.88	0.87	0.87
Mexico	USDMXN	13.04	13.40	13.71	13.49	13.40	13.53	13.42	13.50	13.71	13.45	13.28	13.31	13.49
	CADMXN	12.27	12.07	12.13	11.73	12.07	12.08	11.98	11.95	12.13	11.80	11.65	11.57	11.73
Brazil	USDBRL	2.36	2.45	2.60	2.80	2.45	2.50	2.55	2.55	2.60	2.70	2.70	2.80	2.80
Chile	USDCLP	525	587	595	600	587	585	586	590	595	600	600	600	600
Colombia	USDCOP	1930	2045	2100	2150	2045	2055	2060	2075	2100	2100	2100	2125	2150
Peru	USDPEN	2.80	2.88	2.95	3.00	2.88	2.95	3.00	2.97	2.95	3.00	3.00	3.00	3.00
Uruguay	USDUYU	21.50	24.80	27.00	29.00	24.80	25.35	25.90	26.45	27.00	27.50	28.00	28.50	29.00
Asia / Pacific														
Australia	AUDUSD	0.89	0.87	0.88	0.90	0.87	0.86	0.86	0.87	0.88	0.89	0.89	0.90	0.90
China	USDCNY	6.05	6.10	5.98	5.90	6.10	6.07	6.04	6.01	5.98	5.96	5.94	5.92	5.90
Hong Kong	USDHKD	7.75	7.78	7.78	7.78	7.78	7.78	7.78	7.78	7.78	7.78	7.78	7.78	7.78
India	USDINR	61.8	62.5	63.5	63.0	62.5	62.8	63.0	63.3	63.5	63.4	63.3	63.1	63.0
Indonesia	USDIDR	12171	12500	12800	12500	12500	12575	12650	12725	12800	12725	12650	12575	12500
Malaysia	USDMYR	3.28	3.30	3.35	3.40	3.30	3.31	3.33	3.34	3.35	3.36	3.38	3.39	3.40
New Zealand	NZDUSD	0.82	0.81	0.77	0.77	0.81	0.80	0.79	0.78	0.77	0.77	0.77	0.77	0.77
Philippines	USDPHP	44.4	45.0	46.0	46.3	45.0	45.3	45.5	45.8	46.0	46.1	46.1	46.2	46.3
Singapore	USDSGD	1.26	1.27	1.29	1.30	1.27	1.28	1.28	1.29	1.29	1.29	1.30	1.30	1.30
South Korea	USDKRW	1050	1070	1080	1060	1070	1073	1075	1078	1080	1075	1070	1065	1060
Taiwan	USDTWD	29.8	30.6	31.0	31.5	30.6	30.7	30.8	30.9	31.0	31.1	31.3	31.4	31.5
Thailand	USDTHB	32.7	33.0	34.0	33.5	33.0	33.3	33.5	33.8	34.0	33.9	33.8	33.6	33.5
Europe / Africa														
Czech Rep.	EURCZK	27.3	27.4	27.0	26.4	27.4	27.3	27.3	27.2	27.0	26.9	26.6	26.5	26.4
Hungary	EURHUF	297	312	315	317	312	313	313	314	315	315	316	316	317
Norway	USDNOK	6.07	6.35	6.00	5.60	6.35	6.30	6.20	6.10	6.00	5.90	5.80	5.70	5.60
Poland	EURPLN	4.15	4.16	4.08	3.95	4.16	4.15	4.13	4.11	4.08	4.05	4.02	4.00	3.95
Russia	USDRUB	32.9	41.5	39.5	42.0	41.5	41.0	41.0	40.0	39.5	40.0	41.0	41.5	42.0
South Africa	USDZAR	10.49	11.00	10.70	11.30	11.00	10.90	10.80	10.75	10.70	10.80	10.90	11.00	11.30
Sweden	EURSEK	8.85	9.13	9.20	9.18	9.13	9.18	9.23	9.21	9.20	9.18	9.22	9.20	9.18
Turkey	USDTRY	2.15	2.27	2.38	2.40	2.27	2.30	2.34	2.36	2.38	2.40	2.40	2.40	2.40

f: forecast a: actual

International Economics Group

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

Erika Cain
erika.cain@scotiabank.com

Rory Johnston
rory.johnston@scotiabank.com

Tuuli McCully
tuuli.mccully@scotiabank.com

Estela Molina
estela.molina@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

Scotiabank Economics

Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: (416) 866-6253 Fax: (416) 866-2829
Email: scotia.economics@scotiabank.com