Foreign Exchange Outlook

AMERICAS

The USD is in high demand, outperforming most major peer currencies around the world. Convergence of solid macroeconomic developments and bullish dynamics in US debt and equity securities support a continuous appreciating path for the US currency. Both Canada and the US will benefit from a robust US economic cycle. The CAD is expected to stabilize, whereas the MXN may be subject to adjustments linked to shifts in US monetary policy direction.

EUROPE

The EUR is directionally weakening against all currencies on the back of persistently fragile economic conditions, unattractive interest rate differentials, and escalating geo-political risk factors. The GBP has adopted a defensive tone after a prolonged phase of fundamentally-inspired currency strength; however, growth and interest rate differentials in the UK support a positive currency outlook. The RUB should continue to weaken, prompting loss of international reserves assets and central bank intervention.

ASIA / PACIFIC

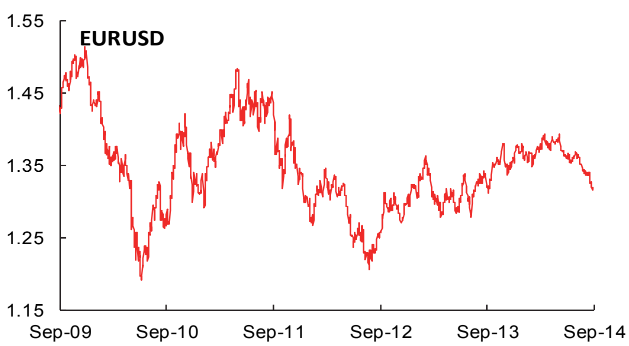
The JPY is expected to retain a soft tone driven by damaging economic effects related to fiscal consolidation efforts under way and from a broad-based market move in favour of the USD. The CNY continues in its relentless multi-month appreciation in line with the authorities' commitment to structural reforms and capital account liberalization. The KRW remains an outperformer within the Asia/Pacific region. AUD faces a range bound environment where an attractive yield and neutral central bank is offset by uncertainty over it fundamental economic outlook.

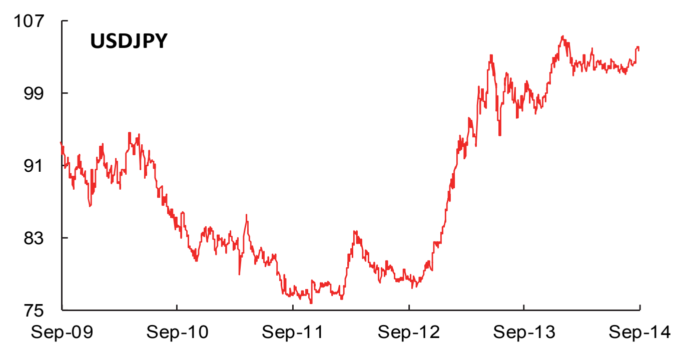
Contents

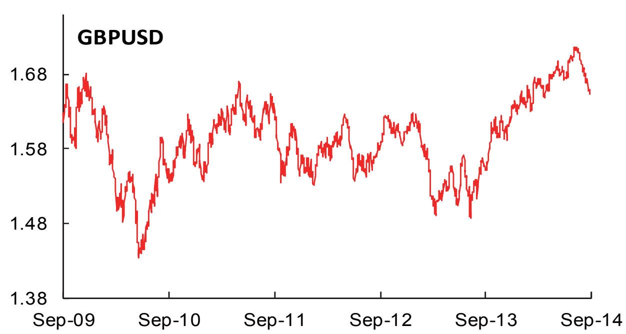
Core Exchange Rates

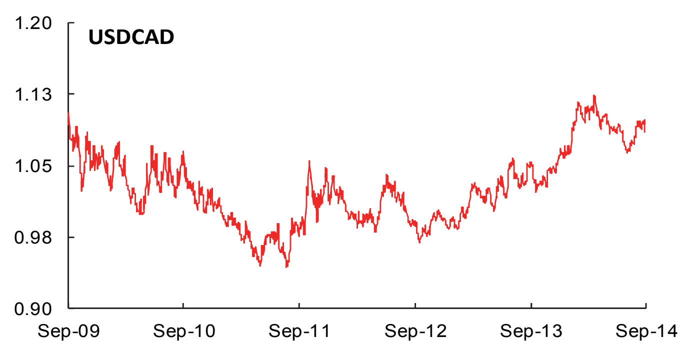
Global Foreign Exchange Outlook

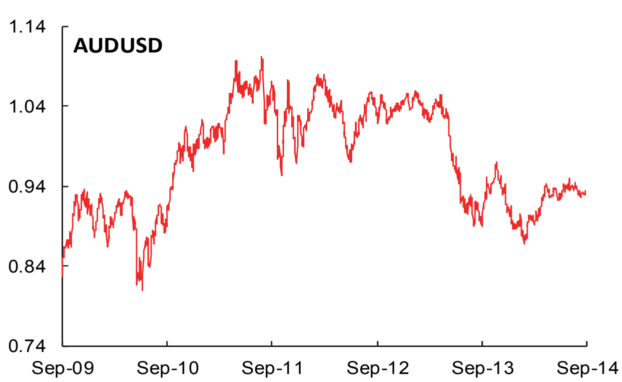
August 28, 2014		Spot	2014f Q1a	2014f Q2a	2014f Q3	2014f Q4	2015f Q1	2015f Q2	2015f Q3	2015f Q4
EURUSD	Scotiabank	1.32	1.38	1.37	1.34	1.30	1.28	1.26	1.25	1.24
	Consensus*				1.34	1.32	1.31	1.30	1.29	1.29
USDJPY	Scotiabank	103.7	103	101	104	109	110	111	112	113
	Consensus*				103	105	107	108	108	108
GBPUSD	Scotiabank	1.66	1.67	1.71	1.67	1.70	1.70	1.69	1.68	1.68
	Consensus*				0.92	0.91	0.90	0.88	0.88	0.87
USDCAD	Scotiabank	1.08	1.11	1.07	1.08	1.10	1.12	1.12	1.11	1.11
	Consensus*				1.10	1.11	1.11	1.12	1.12	1.12
AUDUSD	Scotiabank	0.94	0.93	0.94	0.94	0.92	0.91	0.90	0.90	0.89
	Consensus*				0.92	0.91	0.90	0.88	0.88	0.87
USDMXN	Scotiabank	13.08	13.06	12.97	13.05	13.22	13.28	13.14	13.19	13.36
	Consensus*				12.87	12.84	12.84	12.83	12.81	12.75











(*) Source: Consensus Economics Inc. August 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 steady improvement in the US macroeconomic outlook is at the core of the sustained outperformance of the US dollar (USD) against major peer currencies, compounded by the bullish directional trend in US$-denominated securities markets. Following a strong second quarter (expanding at an annualized rate of 4.2%), the US economy is well positioned to grow by 2.1% this year before accelerating to a 3.2% growth rate in 2015. Heightened geopolitical tension in both Europe and the Middle East has not, thus far, had any material impact on our currency market view, but remains the core risk. Divergent monetary policies amongst major central banks in developed economies remain a core factor swaying capital flows in foreign exchange markets.

Within North America, both Canada and Mexico will benefit from increased interdependence with the US cyclical economic rebound, as manifested in robust activity in the tradable sectors of the economy. The Canadian dollar (CAD) will continue to hover around the 1.10 (+/-) per USD mark, strongly influenced by growth and interest rate differentials as well as the direction of export-sensitive commodity prices. The Canadian domestic backdrop has improved, in part on the back of a firming U.S. recovery; however, the Bank of Canada is expected to lag the Federal Reserve's interest rate hiking cycle by two full quarters, driving a divergence in monetary policy that will offset the positive impact on CAD from the improving fundamental outlook. The Mexican peso (MXN) is likely to consolidate into a relatively stable trading range following the US-induced sharp moves last month, but remains extremely sensitive to monetary policy developments affecting the US Treasury yield curve.

Elsewhere in the Americas, the Brazilian real (BRL) has found a stable trading range over the past six months, although a weakening growth outlook together with persistent inflationary pressures inject a higher risk of depreciation ahead of the October presidential elections. Additionally, it is worth stressing the negative momentum affecting the Chilean peso (CLP) and Peruvian sol (PEN) triggered by the combination of decelerating growth dynamics, softer mining investment activity and a generalized bias towards investing in the USD. Finally, the Argentine distressed credit event has not had any adverse contagion effect on Latin American floating currencies.

The directional shift towards a depreciating euro (EUR) should remain in place throughout the latter part of the year and well into the early months of 2015. Persistent structural weakness affecting a recovery in employment and domestic activity within the euro zone will keep the European Central Bank (ECB) on the defensive, prolonging a near-zero interest rate environment. The EUR is expected to trend lower this year and next as the alignment of both macroeconomic fundamentals and flows work against the currency. The European outlook for growth and inflation has deteriorated, suggesting that the monetary policy divergence between the US (Fed) and Euro zone (ECB) will persist. The broad-based move in favour of USD assets as well as a slightly less hawkish Bank of England (BoE) has also reversed the appreciating dynamics of the British pound (GBP), which materialized in the 12 months ending in June. We are of the view that the BoE will be the first major advanced economy to enter a monetary hiking cycle. Accordingly, GBP is expected to stabilize in September before slowly retracing some of its most recent losses. Entering September, EURCHF is moving towards a test of its 1.20 floor for the first time in over a year; we expect the Swiss central bank to successfully defend the target floor and, accordingly, have not made any change to our forecasts.

Foreign exchange market developments in the Asia/Pacific region offer a mixed landscape. Within the established advanced-economy currencies, the deepening weakness affecting the Japanese yen (JPY) remains the primary issue as market participants reassess adverse economic effects of the structural fiscal adjustment under way as well as the authorities' efforts to reflate the economy. On the other hand, the steady strengthening trend supporting the Chinese Renminbi (CNY) implies a higher degree of investor comfort regarding the asset quality of the financial sector and growth dynamics in China. Another key development of relevance in the Asia/Pacific region is the decoupling of the South Korean won (KRW) from the JPY lead (and influence) and its growing alignment to the trend set by the CNY. The KRW remains one of the best-performing currencies within the top-tier group of developing economies.

Correction waves in core emerging-market currencies associated with escalating geopolitical risk factors as well as shifting growth differentials between advanced and developing economies have somewhat settled over the past month. However, the eventual increase in long-term interest rates linked to the renewed economic cycle in the US will likely trigger further rounds of volatility within the debt-sensitive economies of Latin America and other developing regions. The Russian ruble (RUB) retains a weakening tone on the back of a deteriorating economic outlook (compounded by sanctions imposed by both the US and core European countries) as well as persistent geopolitical risk factors connected with the armed conflict in Ukraine. It is worth highlighting the gradual recovery of the Thai Baht (THB), which contrasts with persistent policy and political uncertainties linked to the current military rule.

Canada
Currency Outlook

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

Entering September the Canadian dollar (CAD) is down 2% year-to-date against the USD, underperforming AUD, NZD, JPY and GBP but outperforming EUR, SEK and CHF. Over the final days of August, CAD strengthened dramatically on positive flows (M&A developments, a building corporate inversion trend, short EURCAD flows, month-end flows and technicals). These did not reflect a shift in the fundamentals but they did highlight the importance of flows as temporary FX drivers.

The fundamentals for Canada are mixed; the economic outlook is improving but vulnerable to an increasingly uneven domestic backdrop (mainly through the oil industry), which leaves it potentially exposed in the future. The U.S. recovery is gaining traction, which on one hand is supportive of the Canadian backdrop (exports, oil, tourism) but there is likely to be a delay in this impact on the currency.

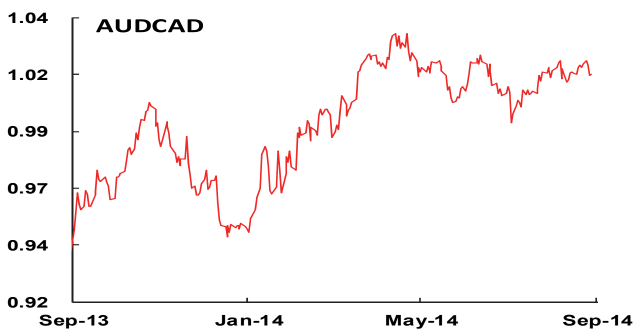
A firming in U.S. labour markets, inflation back at 2%, and indications that the Fed is preparing for its tightening cycle all suggest that the first interest rate hike will come in the second quarter of 2015 and will likely support the USD broadly. Juxtaposed against this, the Bank of Canada (BoC) is more neutral, contemplating an uneven economic backdrop and sensitivity to the currency. The most likely course is that the BoC lags the Fed by two quarters, which should weigh on the near-term outlook for CAD. In addition, the global economy is concerning; the outlook for Europe has deteriorated, while those for China and Japan remain vulnerable to disappointment. However, oil prices and spreads remain supportive of the Canadian economic backdrop. Accordingly, the near-term outlook is one where we expect CAD to trade within a broad range, proving comfortable either side of 0.91 (in USDCAD terms, either side of 1.10).

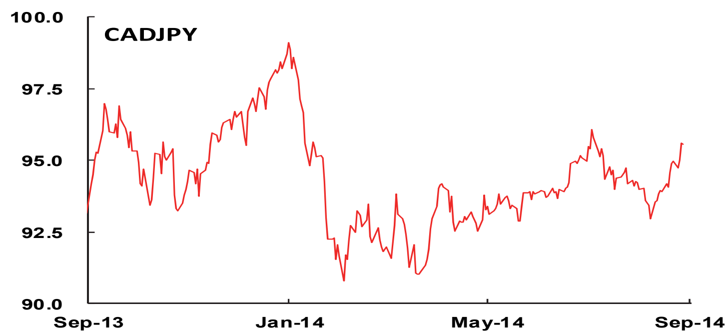
By mid-2015, we expect CAD to begin retracing its weakness as market participants look to an improving domestic and global growth environment, a narrowing current account balance, a growing trade surplus and a federal government budget surplus, all combined with rising demand for Canadian oil and a central bank that is raising rates; but this is the longer term outlook.

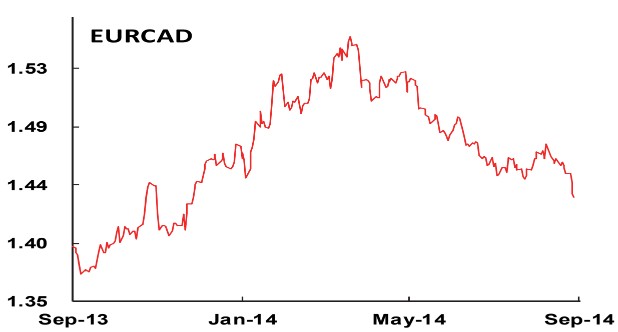
We have made no change to our forecast, expecting CAD to close Q314 at 0.9260 (1.08 in USDCAD terms) and the year at 0.91 (1.10 in USDCAD terms).

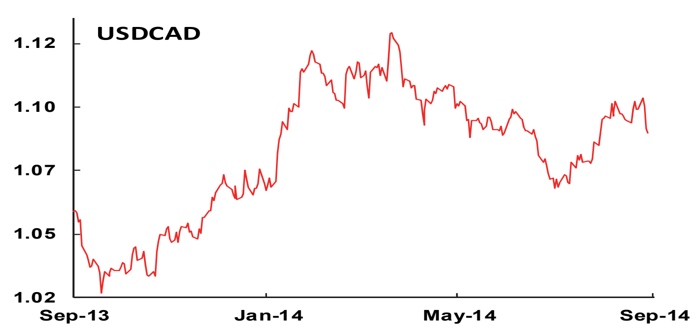
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 28-Aug	14Q1a	14Q2a	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
AUDCAD	1.02	1.02	1.01	1.02	1.01	1.02	1.01	1.00	0.99
CADJPY	95.6	93.4	95.0	96.3	99.1	98.2	99.1	100.9	101.8
EURCAD	1.43	1.52	1.46	1.45	1.43	1.43	1.41	1.39	1.38
USDCAD	1.08	1.11	1.07	1.08	1.10	1.12	1.12	1.11	1.11









United States and Canada

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

Fundamental Commentary

UNITED STATES — The US economy has rebounded strongly from weather-related disruptions at the turn of the year. Real GDP increased an annualized 4% q/q in Q2, with broad-based gains across sectors. Early indicators suggest solid momentum is carrying over to the second half of the year. Improving labour market conditions, wealth gains from rising home and equity prices, and the unleashing of pent-up demand for motor vehicles and other consumer durables are underpinning consumer confidence and spending. Motor vehicle sales in July reached their highest level for the month in eight years. Monthly job gains consistently topped 200,000 from February through July, helping to drive the unemployment rate toward a six-year low just over 6%. However, broader measures of unemployment and weak wage gains are consistent with ongoing labour market slack. Consumer confidence in turn has trended higher to cycle highs. US home sales and construction are regaining momentum, supported by improving labour markets, a partial retracement of last year's mortgage rate rise, and a gradual easing in lending conditions. Industrial activity also posted solid growth through July, led by motor vehicles & parts, business equipment and energy products. US producers are benefitting from rising domestic and foreign sales, improved cost competitiveness and a well -diversified export base. The ramping up in US oil and gas production in recent years has steadily trimmed oil imports and contributed to a notable improvement in US external accounts. Meanwhile, strong capital goods orders, alongside healthy corporate balance sheets, point to a further acceleration in business investment in the coming months. The recovery in 2014-15 also will get a boost from a sharply reduced pace of fiscal restraint. Inflation has moved up alongside higher food, energy and housing costs, though excess capacity, still modest wage growth and the recent easing back in pump prices should keep overall price pressures in check.

CANADA — The Canadian economy continues to post moderate growth averaging around 2¼% y/y. Consumer spending remains reasonably buoyant. Supported by heavy discounting, motor vehicle sales soared to a new record in July. Housing activity also is fairly robust, with low mortgage rates maintaining affordability in the face of high home prices. However, consumer confidence and buying intentions have recently softened amid growing pessimism over labour market conditions. Monthly employment growth this year has averaged just 13,500, less than half the growth in the labour force population. 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. At the same time, exports and manufacturing shipments are showing signs of improvement, with producers benefitting from strengthening US auto sales and residential construction and a more competitive currency. Export volumes as of mid-2014 had finally returned to their pre-recession peak. Meanwhile, higher energy prices have contributed to a modest improvement in Canada's terms of trade and overall merchandise trade balance. Resource-related activity remains relatively buoyant, and earlier transportation bottlenecks hampering the energy sector have eased. At the same time, excess capacity combined with moderate sales growth continue to weigh on business hiring and capital spending plans, notwithstanding 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. Headline and core inflation trends have drifted steadily 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 and soft wage gains should limit further price pressures, holding 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 — Monetary policy officials are increasingly communicating an openness to policy rate lift-off. The question to us is not 'if' but 'when', with the market looking for a move mid-year next year and our forecast for a rate hike in Q2 with the risks tilted to sooner. Fed Chair Yellen said at Jackson Hole that "If progress in the labor market continues to be more rapid than anticipated by the Committee or if inflation moves up more rapidly than anticipated, resulting in faster convergence toward our dual objectives, then increases in the federal funds rate target could come sooner than the Committee currently expects and could be more rapid thereafter." We think that this long sentence is the key to following U.S. monetary policy in the months ahead. Revised Federal Reserve 'exit principles' could well be released at the FOMC meeting on September 17.

CANADA — The Bank of Canada is articulating a willingness to increase its policy interest rate later than the Fed, much as we have projected for some time. At the Fed's Jackson Hole conference, BoC Governor Poloz noted to the press that a) Canada can exercise monetary policy independence (i.e. raise rates after the Fed) if economic conditions merit such a course, and b) Canadian interest rates are much higher than those in the U.S. and elsewhere, with the overnight rate sitting at 1%, meaning that less 'normalization' would be required in Canada to get policy rates up to neutral levels (which in any event are likely lower than prior to the crisis). This jibes with our view that: a) a Canadian economy whose two main growth drivers during the recovery – commodities and housing – seem to be tapped out might require an accommodative policy for some time, and b) Canada will likely lag the Fed in its interest rate moves and in the extent of such eventual moves.

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

Europe

Currency Outlook

EURO ZONE — EUR rallied from 1.2043 to 1.3993 between July 2012 and May 2014; since hitting this high the currency has collapsed lower. Fundamentals have long been bearish but deteriorated further in August, with disappointing growth and disinflationary pressures picking up and likely forcing the ECB into more aggressive policy, driving further divergence in G4 outlooks. Flows are weighing on the currency, with both technicals and sentiment turning bearish. Technically, the multi-year uptrend has broken and longer term studies warn of downside. Sentiment has also deteriorated as buy-Europe recommendations have shifted to sell and CFTC traders, as of late August, have built large short positions. We expect the EUR to trend lower, closing this year at 1.30.

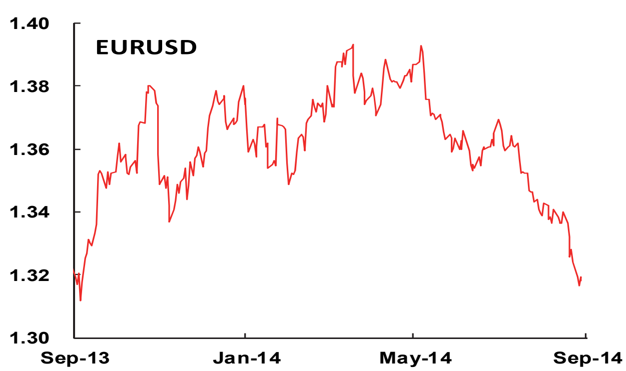
UNITED KINGDOM — The GBP rallied over 16% from July 2013 to its July 2014 high of 1.7192; however, as the outlook for monetary policy has shifted profit-taking has taken hold, driving GBP back down to 1.65 by the end of August. Technicals are bearish; bullish sentiment has faded, with the CFTC reporting in late August a relatively small $1.3bn net long position. However, the GBP is better positioned fundamentally than many and — once the Scottish independence vote passes — we expect a retracement and accordingly hold a year-end target of 1.70.

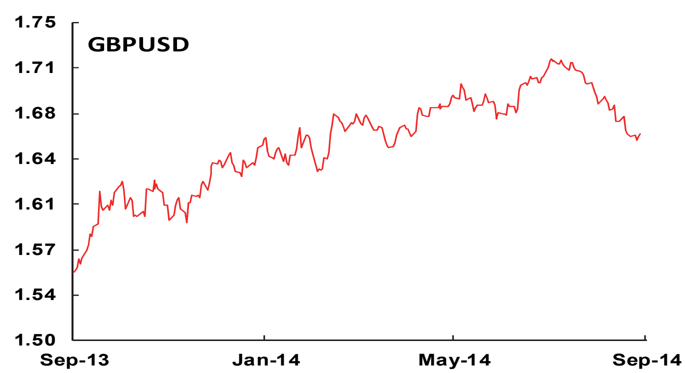
SWITZERLAND — The EURCHF fell below 1.21 in late August; speculation is rising over when the central bank (SNB) will step in to protect the 1.20 floor. We expect the SNB to enforce the floor and expect no change in policy this year, particularly as inflationary pressures have failed to emerge and the currency remains pressured. We hold a year-end EURCHF target of 1.24.

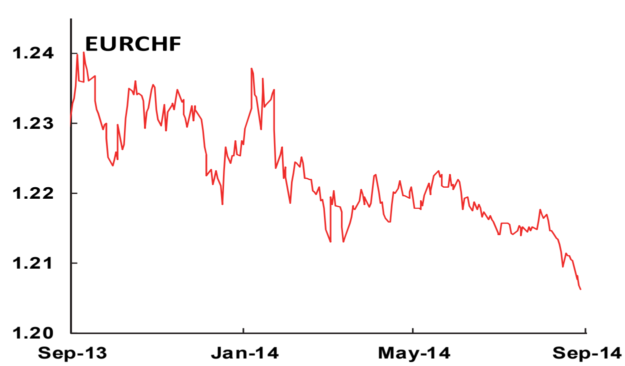
NORWAY — The late June dovish shift at the Norges Bank continues to be a weight on NOK. Technical trading patterns warn of further near-term weakness; however on a relative basis the fundamentals are strong. Headline inflation is back above 2% y/y and financial stability risks are rising with house prices shifting higher. We hold an off-consensus bullish view, expecting the NOK to gain. We anticipate the USDNOK to close the year at 6.00.

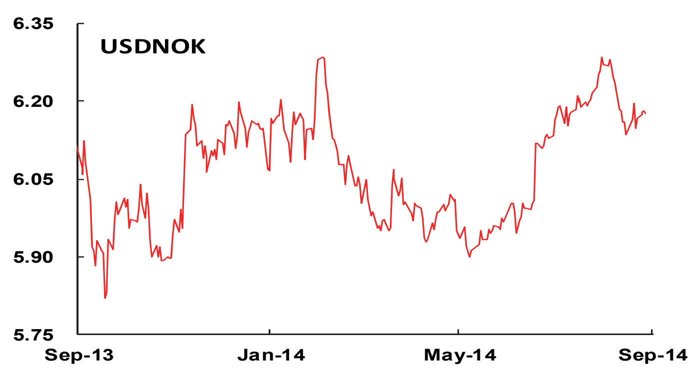
Currency Trends

FX Rate	Spot 28-Aug	14Q1a	14Q2a	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
EURUSD	1.32	1.38	1.37	1.34	1.30	1.28	1.26	1.25	1.24
GBPUSD	1.66	1.67	1.71	1.67	1.70	1.70	1.69	1.68	1.68
EURCHF	1.21	1.22	1.21	1.22	1.24	1.25	1.26	1.26	1.27
USDNOK	6.18	5.99	6.13	6.10	6.00	5.80	5.70	5.70	5.60









Europe

Fundamental Commentary

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

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

EURO ZONE — Incoming economic data for euro zone continues to prove largely disappointing. Following a lackluster start to the year, the already meager economic recovery came to a halt during the second quarter, held back by the region's three largest economies. Germany saw output slip 0.2% q/q in Q2 on the back of weaker construction activity, while France continued to stagnate and Italy posted its second consecutive contraction, pushing the country into a triple-dip recession. This notwithstanding, there were some positive developments, with growth in Spain accelerating to 0.6% q/q in Q2, and the Portuguese and Dutch economies strengthening off a first quarter contraction. Nevertheless, the 18-member single-currency club has managed to register negligible grow of 0.8% y/y during the first half of 2014. With leading indicators, heightened geopolitical tension between Europe and Russia over Ukraine, and the resulting sanctions pointing to little payback in the second half of the year, we have edged down our real GDP growth forecast to 0.8% y/y in 2014. This comes amid extraordinarily low inflation, with euro area HICP in August forecast to advance around a mere 0.4%, the weakest performance since February 2010 and far below the European Central Bank's (ECB) target of 2%. With CPI already negative in Spain, Portugal, Greece, and Cyprus, consistently low euro zone inflation continues to arouse deflationary fears. Despite the ECB's pro-growth policy initiatives announced in June, the region's poor GDP figures will intensify pressure on the ECB to do more in the form of more aggressive monetary accommodation. ECB President, Mario Dragi, acknowledged that inflation expectations have significantly declined and that the bank will use all available tools to ensure price stability over the medium term. With expectations for quantitative easing rising, the next ECB's meeting on September 4th will be closely watched for new policy developments.

UNITED KINGDOM — Economic conditions in the UK remain positive, with real GDP growth set to outpace its G7 peers and inflationary pressure gradually easing. Consumer spending has been the main driving force, underpinned by robust employment growth and a drawdown in household savings. The recovery is looking increasingly resilient, with business optimism at the highest level since 1973, and business investment marking a comeback. Consumer price inflation continues to edge lower at 1.6% y/y in July — the lowest level in five years and half the rate of last year's peak — helping to reduce pressure on consumer spending power. Net exports, however, have proved sluggish on the back of limited import demand from the euro zone — the UK's main trading partner. Looking ahead to the second half of this year, economic momentum will remain intact, with real GDP forecast to advance 2.9% y/y, while inflation is expected to remain on a sideways drift ending the year at 1.6% y/y. Economic growth is expected to moderate in 2015 to 2.5% y/y on the back of monetary normalization and efforts to curb excesses in the property market. Amid buoyant economic activity, the Bank of England (BoE) has sounded more hawkish over the past few months; however, policymakers continue to struggle with reconciling weak wage growth with record employment and rapidly falling unemployment. The minutes from August's MPC meeting marked the first split vote under Governor Mark Carney, with two policymakers voting to increase the Bank Rate by 25 basis points. The likelihood of a rate hike in 2014 has, however, ebbed, following disappointing wage data and cautious comments by Carney. We continue to expect the BoE will begin its tightening cycle on February 15th 2015.

SWITZERLAND — The economic outlook in Switzerland has grown more uncertain alongside a faltering euro zone recovery and lingering fears of a housing bubble as expansionary monetary policy by the Swiss National Bank (SNB) has led to robust growth in property prices. Inflationary pressures also remain subdued, with annual growth in consumer prices remaining flat in July, while the forward-looking KOF indicator of economic performance dipped below its long-term average of 100 for the first time in two years. Strong trade data for July and upward revisions to June bolstered support for the franc, with gains complemented by escalating tensions between Russia and Ukraine. At the time of writing, the euro hit a 21-month low against the Swiss franc, which has triggered speculation that the SNB will intervene to honour its pledge to keep the EUR/CHF exchange rate above its 1.20 floor and ward off the threat of deflation.

NORWAY — The Norwegian economy has a solid outlook supported by a host of strong fundamentals. Real GDP expanded by 1.8% y/y in the second quarter of 2014, weighed down by sluggish energy sector. The unemployment rate remains very low, particularly when compared to regional peers, coming in at 3% in July. 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 Eurozone deflationary fears, surprising on the upside at 2.2% y/y in July. Furthermore, the country's external sector is robust, with a healthy current account surplus amounting to 12% of GDP in the first three months of 2014, 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. 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. This risk is mitigated, however, by arguably the best resource wealth management in the world; Norway has invested its energy returns into its sovereign wealth fund since 1990, which is the world's largest such fund with almost US$900 billion in assets.

Asia / Pacific
Currency Outlook

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

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

JAPAN — Entering September, JPY has rallied 1% year-to-date but broke out of its multi-month range and weakened during August, driving technical selling. CFTC traders have maintained a relatively stable short position this year, while option markets have protected against further yen weakness; consensus forecasts call for USDJPY to close the year at 107 and to trend towards 110 by the end of 2015. We are more aggressive, expecting USDJPY to close the year at 109 as Japan strains to fully recover from the consumption tax; the BoJ's policy stance remains aggressive as it struggles to meet its 2% inflation goal and sentiment remains bearish yen.

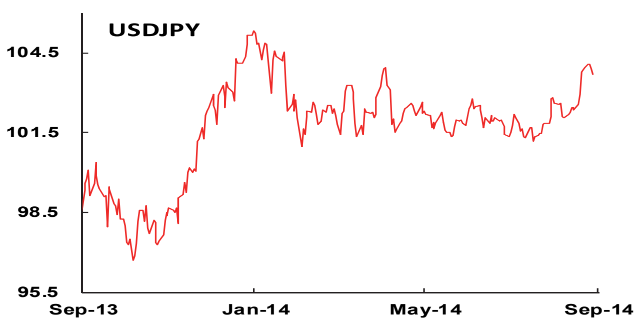
CHINA — CNY continued to trade toward our end of year 6.10 target through August, with spot converging to the daily fixing for the first time since Q1 on a sustained basis. CNY has remained trading at a premium to the fix into the end of the month, denoting a policy intention of mild and stable appreciation. China's external balance continues to support a bullish renminbi stance, as the July trade balance reached a nominal record on surging exports and weak imports, offsetting negative sentiment engendered by surprisingly weak June Chinese lending data.

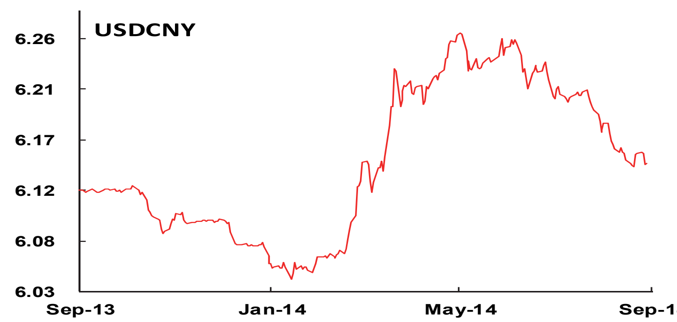
AUSTRALIA — AUD was range bound during August, but it remains the best performing primary currency entering September, up 4.4% on a year-to-date basis. However, the outlook is one of low volatility and a fairly range bound environment — an atypical pattern for the currency. CFTC reports that AUD is held net long but that the position has been relatively stable since early June. Technically, there are few clear long-term signals being generated. We expect AUD to be driven by fundamentals and should maintain its year-to-date gains into year-end accordingly, where we expect it to close at 0.92.

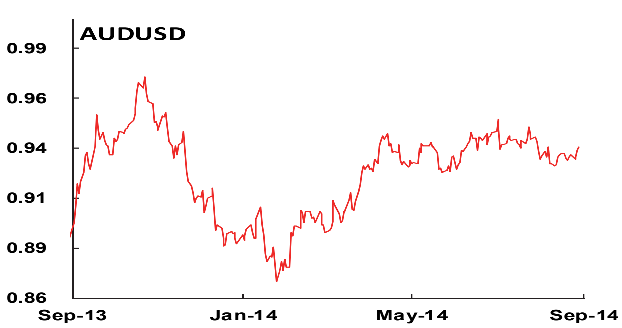
NEW ZEALAND — After rallying almost 8% in the first seven months of the year, NZD struggled through August and is entering September up just 1% year-to-date. The shift has been on the back of softening fundamentals, as the RBNZ steps away from its interest rate hiking cycle, dairy prices fall, exports weaken, and the housing market succumbs to higher rates. Sentiment has shifted from bullish to bearish; while profit-taking on long NZDUSD and short AUDNZD positions also weighed on NZD. We hold a year-end forecast of 0.85, expecting NZD to retrace some of its recent weakness.

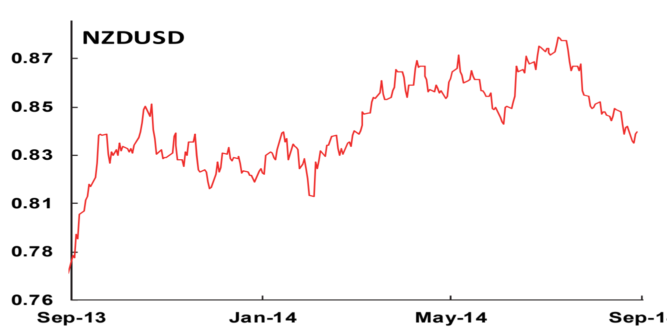
Currency Trends

FX Rate	Spot 28-Aug	14Q1a	14Q2a	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDJPY	104	103	101	104	109	110	111	112	113
USDCNY	6.14	6.22	6.20	6.16	6.10	6.06	6.01	5.97	5.92
AUDUSD	0.94	0.93	0.94	0.94	0.92	0.91	0.90	0.90	0.89
NZDUSD	0.84	0.87	0.88	0.85	0.85	0.86	0.86	0.87	0.87









Asia / Pacific

Fundamental Commentary

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

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

JAPAN — Japan's headline inflation remains temporarily elevated due to last April's consumption tax rate increase. In June, consumer prices increased by 3.6% y/y; we expect annual inflation to decelerate to 2⅓% by the end of the year. Nevertheless, the Bank of Japan (BoJ) expects underlying inflation, which excludes the impact of the 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 authorities' 2% target. Reflecting significant yen depreciation and monetary stimulus efforts, the policymakers assess that inflation expectations are on the rise. Regardless, we maintain our view that the BoJ may provide additional stimulus by potentially extending and increasing its asset purchase program in the coming months if the tax hike leads to a prolonged economic downturn. Japan's growth outlook remains challenging. Strong gains in household spending and private investment ahead of the April 1st consumption tax rate increase resulted in robust real GDP growth of 1.5% q/q (2.7% y/y) in the first quarter of 2014. Nevertheless, a reversal took place in the April-June period with output declining by 1.7% q/q (0.0% y/y). We expect the Japanese economy to advance by 1.6% in 2014 as a whole. While the government's recently unveiled structural reform plans are encouraging, successful productivity-boosting reforms take time to be reflected in stronger economic activity; therefore, growth momentum will likely decelerate to 1.2% in 2015.

CHINA — The property market poses the largest risk to China's economic outlook; the average price of new homes continued to fall in July, with 64 out of 70 major cities recording month-over-month price declines. A deeper housing market correction would have adverse impacts on the construction sector and related industries, as well as on household wealth and local government finances through decreased land sales to developers. Furthermore, property developers' potential financial difficulties would negatively affect banking industry asset quality. Nevertheless, we assess that the Chinese government has the means to provide support to the economy through additional fiscal and monetary stimulus measures if output growth slows down more than authorities envision. Accordingly, we expect China's real GDP to expand by 7.4% in 2014 followed by a 7.2% advance in 2015; only gradual growth deceleration will likely be allowed in order to support the leadership's mandate and the ongoing economic reform process. Recent data indicate that the Chinese export sector continues to recuperate, driven by stronger demand conditions in advanced economies. The inflation outlook is manageable, with consumer prices rising by 2.3% y/y in July. Persistent producer price deflation due to industrial overcapacity should alleviate any concerns regarding significant upside pressure on prices. Headline inflation will likely gradually accelerate towards 3% y/y by the end of 2015 .

AUSTRALIA — Economic growth in Australia posted a very strong advance in the first quarter of 2014, with real GDP expanding by 3.5% y/y. Growth was underpinned by rapidly rising resource exports that reflect increased mining capacity following investment project completions. Nevertheless, such a strong pace will likely prove to be a temporary phenomenon with economic momentum being dampened by weakening mining investment activity. The Australian labour market is showing some signs of improvement; however the unemployment rate still remains relatively high at 6.4% in July. We expect the country's output growth to reach 3.0% in 2014, followed by a 2.8% advance in 2015. Monetary conditions in Australia are set to remain accommodative in the coming months with the benchmark cash target rate likely to be kept unchanged at 2.50%. Indeed, the Reserve Bank of Australia considers the current policy stance to be "appropriately configured" for supporting domestic demand; nevertheless, the central bank has emphasized that there is considerable uncertainty about the outlook given the number of forces working in different directions, such as the extent to which low interest rates can offset the decline in mining investment combined with the government's plans for fiscal consolidation. Consumer price inflation will likely remain consistent with the RBA's 2-3% target through 2015; we expect the headline rate to close the year at around 2¾% y/y, easing slightly from the 3.0% y/y advance in the second quarter.

NEW ZEALAND — New Zealand continues to enjoy solid growth momentum. Following an expansion of 3.1% y/y in the first quarter of 2014, the country's real GDP growth is expected to pick up, likely averaging 3.5% through 2014. Consumer spending momentum will likely be sustained in the near term, driven by strong confidence and continued labour market strengthening. Solid demand for the country's exports (mainly dairy, meat and wood products), rise in construction and net immigration will also support the pace of growth over the medium term. Inflation continues to accelerate gradually, reaching 1.6%y/y in the second quarter of 2014. Although inflation remains above its recent low of 0.7% exactly one year ago, it has picked up less than the central bank anticipated. As a result, the Reserve Bank of New Zealand will likely take a break from the monetary tightening cycle that was initiated in March 2014, which has resulted in an increase of 100 basis points to the benchmark interest rate over the past five months. Increasing construction costs, net immigration and robust growth in household demand will continue to place moderate upward pressure on prices. We expect inflation to hover near the central bank's mid-point target of 2% towards the end of 2014, at which time the RBNZ will likely resume its monetary tightening cycle.

Developing Asia
Currency Outlook

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

INDIA — INR has traded in a relatively more weakly correlated pattern relative to USD/Asia as strong portfolio inflows, focused predominantly on debt exposure, had pushed USDINR away from a test of 62.00. This comes despite weaker than expected economic data and still significant price pressures. Evidence of strengthening domestic demand and gold imports may also exert pressure on the external accounts, a potential threat to INR towards the end of the year when we expect significant upside pressure on US yields. We target USDINR at 63.00 in Q4'14.

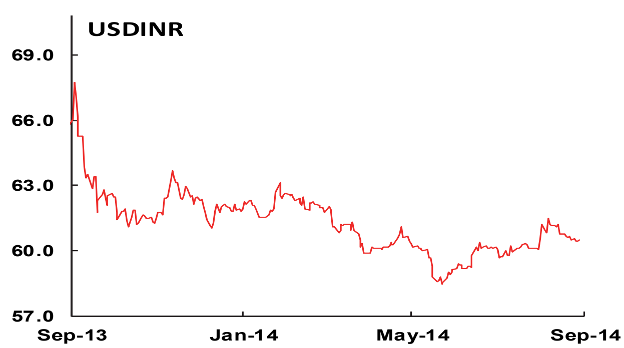
KOREA — Korea's current account balance remains the key driver of KRW and its ability to rebound following periods of global market volatility, to which the country's relatively open capital account leaves the currency vulnerable. Exporter demand for KRW remains the key fundamental driving force as the external trade surplus is on track for a record year. Still, early August volatility shows USDKRW's susceptibility to negative volatility and spiking US yields as USDKRW temporarily traded to our Q4'14 target of 1140.

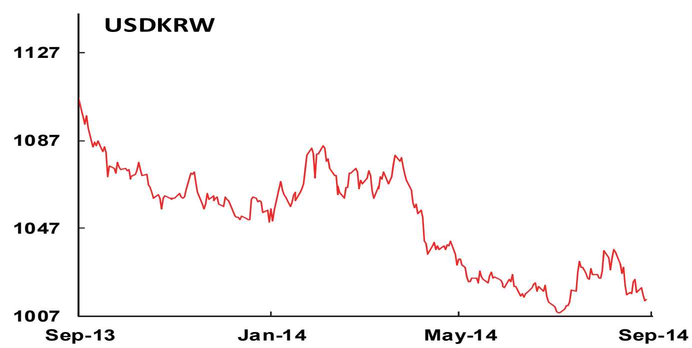
THAILAND — With inflation tame and growth in an attempted "restart" supported by accommodative monetary policies, THB-relevant monetary variables are in a holding pattern. Consumption and investment are showing signs of rebound, and capital goods imports are surging as of the July data, indicative of risk to THB across the external accounts, so long as portfolio flows remain restrained. Monetary policy looks anchored for the time being, which should also restrain foreign thirst for exposure to Thai duration. We target USDTHB at 33.50 at Q4.

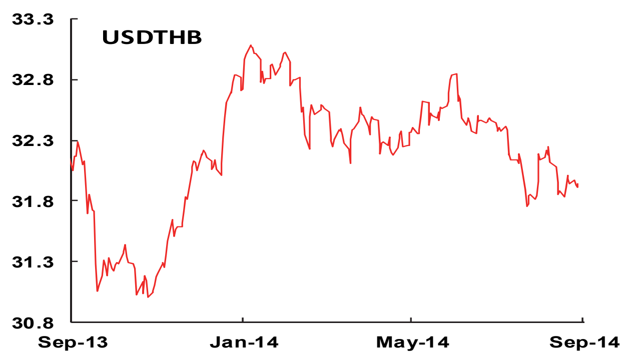
MALAYSIA — MYR continued to make strong gains in August, bolstered by solid industrial production and growth data, despite a moderation in inflation which had kept the central bank sounding a hawkish note. Balance of payments data for Q2 also underscored the improvement in the trade accounts, a feature that has been bolstering MYR flows of late. However, early August weakness on surging US yields continues to remind of the susceptibility of MYR to the US policy outlook. We target USDMYR at 3.30 by Q4'14.

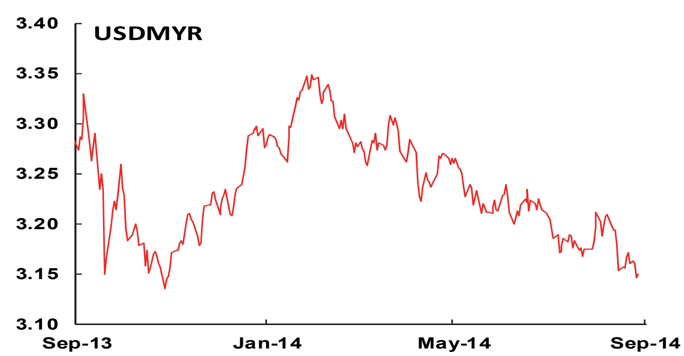
Currency Trends

FX Rate	Spot 28-Aug	14Q1a	14Q2a	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDINR	60.5	59.9	60.2	62.0	63.0	63.3	63.5	63.8	64.0
USDKRW	1014	1065	1012	1030	1040	1038	1035	1033	1030
USDTHB	32.0	32.4	32.4	33.0	33.5	33.6	33.8	33.9	34.0
USDMYR	3.15	3.26	3.21	3.28	3.30	3.28	3.25	3.23	3.20









Developing Asia
Fundamental Commentary

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

INDIA — The Indian economy continues to show signs of gradual improvement with business expectations, exports and industrial production recuperating. The more favourable outlook reflects stronger sentiment resulting from the new government's promise to prioritize economic reforms and enhance the country's business environment. We expect the country's real GDP growth to reach 5.2% this year (up from 4.6% in 2013) and 5.7% in 2015. The Reserve Bank of India (RBI) 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 8.0% y/y in July, while whole-sale prices rose by 5.2%; we expect price gains to close the year near the current levels, virtually meeting the RBI's near term target. The potential adverse impact on food prices resulting from drought-like conditions caused by the El Niño weather phenomenon together with potential administered price increases are major risk factors for the inflation outlook. The government's first budget, unveiled in July, aims to narrow the central government fiscal deficit to 4.1% of GDP in the 2014/15 Fiscal Year (April-March) from 4.5%, focusing on simplifying the tax system, rationalizing subsidies, attracting higher foreign direct investment, and boosting infrastructure spending. However, general government budget shortfalls remain larger at around 7% of GDP.

KOREA — The Bank of Korea (BoK) provided additional monetary stimulus to the economy on August 14th by lowering the benchmark interest rate by 25 basis points to 2.25%, bringing the key rate to the lowest level since November 2010. The decision to cut rates highlights authorities' concerns regarding the sustainability of the country's economic recovery. The added monetary stimulus complements the government's fiscal package that was announced in July. The policymakers assessed that recent improvements in domestic demand have been "insufficient" and that consumption and investment sentiment implies continued sluggishness, yet export momentum has held strong. Real GDP expansion slowed to 3.6% y/y in the second quarter of 2014 from 4.0% in the prior three months. The growth downturn was attributed to weaker domestic demand gains due mainly to the adverse impacts on sentiment following the Sewol ferry accident in April. The BoK's monetary policy statement appeared to be less dovish than what is typically observed during monetary easing, highlighting gradually rising inflation and improving growth outlook. Accordingly, we see the rate cut as a one-time action and expect monetary conditions to remain unchanged in the coming months. Consumer prices increased by 1.7% y/y in July; we expect inflation to accelerate slightly in the coming months, closing the year at 2% y/y and picking up to 2.5% by the end of 2015, thereby reaching the lower boundary of the BoK's 2.5-3.5% target range.

THAILAND — Thailand's economic outlook remains challenging, though early signs of improvement are emerging as the military administration prioritizes an economic revival. The country's real GDP increased by 0.9% q/q (seasonally adjusted, non-annualized) in the second quarter, following a 1.9% q/q contraction in the prior three months. Nevertheless, gains remain weak on year-over-year terms (output grew by 0.4% y/y in Q2 compared with -0.5% in Q1). Accordingly, we have downgraded Thailand's real GDP growth forecast to 1.6% for 2014 (from 2.0%) and to 3.8% for 2015 (from 4.0%). The recovery will be driven by public outlays, while private consumption and investment will recuperate gradually. Furthermore, the growth contribution of exports of goods and services will likely become more evident once the vital tourism sector recuperates. On August 21st, the military administration appointed General Prayuth Chan-ocha as prime minister; an interim government will likely be place by October when the 2014-15 fiscal year begins. Inflation remains manageable; the headline consumer price index increased by 2.2% y/y in July, recording a modest deceleration from prior months. We expect inflation to hover near 2½% y/y through 2015. The Bank of Thailand will likely maintain a loose monetary policy stance, keeping the benchmark interest rate at 2.0% for an extended period of time. We do not foresee any monetary easing as the central bank continues to highlight its independence and the military administration uses fiscal stimulus, particularly infrastructure spending, as a means to boost economic activity .

MALAYSIA — The Malaysian economy is performing strongly. Real GDP expanded by 6.4% y/y in the second quarter, following a 6.1% gain in the first three months of 2014. Activity is broadly-based; while domestic demand remains firm, net exports continued to improve reflecting a pick-up in global demand conditions. We expect Malaysia's output growth to average close to 6% this year, and to ease somewhat to 5% in 2015 on the back of tighter monetary conditions. Inflation remains elevated by historical standards with the consumer price index rising by 3.2% y/y in July, reflecting domestic cost factors such as higher tobacco, energy and utilities prices. The planned implementation of a goods and services tax in 2015 will lead to another temporary pick-up in inflation. Given the robust growth momentum combined with persistent inflationary pressures, the Malaysian central bank initiated a monetary tightening cycle in July, raising the overnight policy rate by 25 basis points to 3.25% after the rate had been kept unchanged for over three years. The authorities assessed that the normalization of monetary conditions mitigates the risk of a continued build-up of broader economic and financial imbalances, such as household indebtedness that reached 87% of GDP at end-2013. Despite gradual tightening, we expect the policy stance to remain accommodative for an extensive period of time, with the benchmark interest rate reaching 4.0% by the end of 2015.

Developing Americas
Currency Outlook

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

BRAZIL — A combination of intervention by the central bank in the FX market (it now has a swaps position of nearly US$90 billion), high carry (5-yr local rates of around 11.5%) and expectations that the elections could lead to positive shifts in economic policy have thus far helped keep the USDBRL trading sideways in a wide 2.20 – 2.30 range. However, mounting concerns over growth could begin weighing more heavily on the real as authorities' policy actions start to shift from BRL positive inflation fighting, into growth boosting policy. For now, electoral polls remain the major driver.

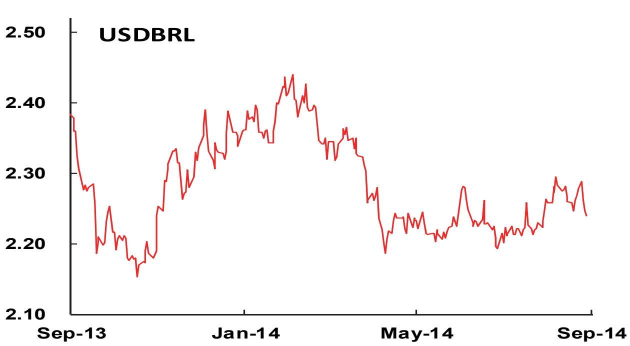
MEXICO — On the data front, the story of a slowly recovering economy seems to remain in place, if spotty, and recent data suggest laggard sectors are rebounding (i.e. construction). However, despite slightly better data, there has not been enough information to suggest a shift in Banxico's policy towards a more MXN supportive one. On the reform front, the good news is that the energy reform is finally a reality, and the "round 0" presentation suggests authorities have made more progress in implementation than we expected — which signals potential investment inflows in coming months.

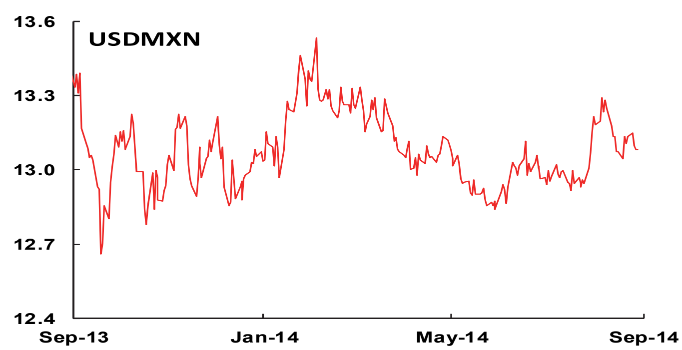
CHILE — CLP trails only ARS as the worst performing major LATAM FX, having lost -7.2% since the beginning of the month. Behind the loss are a combination of factors including a dovish leaning central bank (50 bps in additional cuts priced into local IRS), concerns over FDI prospects due to a cloudier outlook for copper prices, a loss of mining cost competitiveness, and uncertainty over the impact of fiscal changes. However, some metrics are starting to suggest the CLP is returning to its fair value, so the peso's losses could slow.

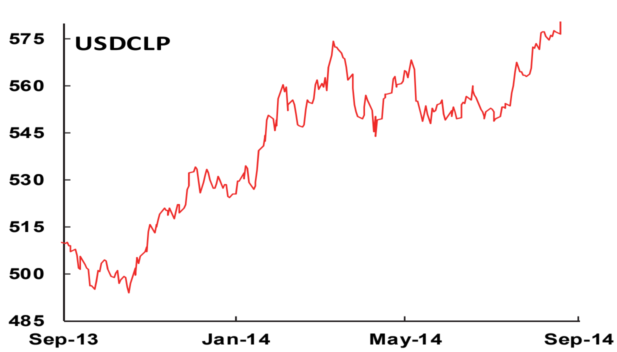
COLOMBIA — The Colombian peso is the second best performing LATAM currency during the month of August, boosted by BanRep's rising interest rates, region leading economic dynamism, and lingering inflows from the GBI-EM rebalancing. The GBI -EM rebalancing is expected to conclude in September, which could undermine one of COP's supports. Authorities remain uncomfortable with USDCOP below 1950, but policy impact is so far remains contained to "appreciation reduction, rather than reversal".

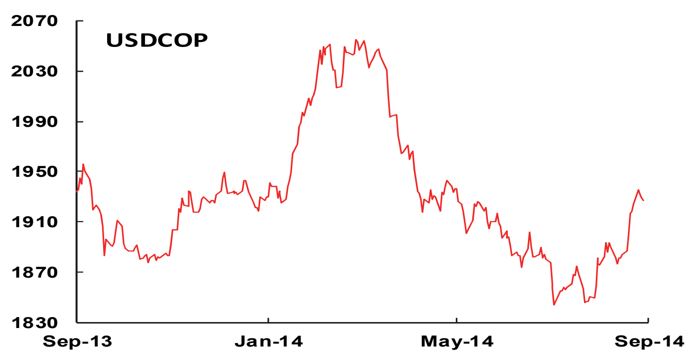
Currency Trends

FX Rate	Spot 28-Aug	14Q1a	14Q2a	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDBRL	2.24	2.27	2.21	2.35	2.40	2.45	2.45	2.50	2.50
USDMXN	13.1	13.1	13.0	13.1	13.2	13.3	13.1	13.2	13.4
USDCLP	594	549	553	568	577	580	582	584	586
USDCOP	1927	1971	1877	1955	1950	1965	1970	1985	1990









Developing Americas
Fundamental Commentary

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

BRAZIL — The Brazilian real (BRL) is consolidating a stabilization phase despite softening economic conditions. Market participants have already incorporated the adverse effects of a sharp deceleration in economic activity over the past 12 months. We estimate that real GDP will expand by a mere 0.8% this year before modestly accelerating to 1.6% in 2015 driven by the beginning of a fiscal stimulus to be executed by the new administration. The domestic political and investment environment will be shaped by the political campaign (and associated policy shifts) leading to the general elections to be held in October 2014. Major job-creating investment decisions seem to be awaiting signs of policy adjustments and structural reforms needed to be implemented by the new administration in 2015. Meanwhile, recent economic data confirm that unemployment remains at historic levels exerting supply-side pressures in the highly unionized and highly indexed Brazilian economy. The headline inflation rate has been subject to persistent upside pressures (6.5% y/y) in July despite weakened economic activity and an aggressive policy of monetary tightening (the benchmark SELIC rate increased by 375 bps since April 2013 to the current level of 11%). We do not anticipate any change to the current monetary policy rate for the remainder of the year. The BRL will retain a defensive tone on the back of weak economic conditions and a synchronized move in favour of the USD.

MEXICO — The Mexican peso (MXN) is vulnerable to renewed bouts of volatility likely to be triggered by shifting expectations regarding the scope of monetary policy normalization in the United States. Irrespective of erratic exchange rate moves, the Mexican economy is positioned to accelerate its pace of growth. External demand conditions, driven by a consistent improvement in the US growth outlook coupled with robust demand conditions in China and Asia/Pacific bode well for Mexico over the next 18 months. Domestically, the potential injection of long-term equity investments as a result of gradual advances in the process of structural reforms to key sectors of the economy such as telecommunications, oil and gas and utilities will likely boost investment flows from currently depressed levels. On a high note, the automotive industry continues to experiment with a phase of solid activity, something that will likely continue next year on the grounds of persistently strong demand from the US and, to a lesser extent, new export markets beyond the NAFTA zone. The inflation outlook remains in manageable territory; however, the headline rate (at 4.1% y/y in July) has been in ascendancy over the past three months. We estimate that the central bank will begin to adjust its policy rate in line with the direction of the US Federal Reserve and close next year at 4%. We estimate the MXN to close the year at 13.22 per USD.

CHILE — The Chilean peso (CLP) resumed a directionally bearish trend following a stable trading environment materialized between March and June. The synchronized worldwide move towards increasing USD holdings, persistent expectations of monetary easing at home, softening domestic investment and consumption activity and relatively unsupportive commodity price dynamics weigh on the near-term outlook of the Chilean currency. The USD/CLP exchange rate will likely remain between 550 and 600 through the remainder of the year. In order to revive economic activity, the central bank has reduced its policy-setting benchmark monetary policy rate by 150 bps to 3.50% over the past 12 months; market participants are positioning for further rate cuts in the coming months in line with forward guidance rhetoric provided by the monetary authorities. Headline consumer price inflation remains above the official target range (4.5% y/y in July) although the central bank believes that 24-month inflationary expectations are still anchored at the 3% mark. Looking ahead, the administration of President Michelle Bachelet seeks to attract massive foreign direct investment inflows into the base metals sector by the state-owned firm CODELCO. Copper prices have experienced a volatile trading pattern with a bias towards downward adjustments over the past 9 months; we estimate that copper prices will average US$3.10 per pound in 2015, down from US$3.20 experienced over the past 12 months. We expect the CLP to close the year at 587 per USD.

COLOMBIA — Colombia offers a promising economic outlook, with real GDP estimated to grow — at a minimum — by 5% per year with inflation under control through 2015. After recording a robust first half of the year, the economy seems to be well positioned to expand at higher than anticipated growth rates (without even discounting the successful completion of the peace process under way). Household spending will remain very dynamic, adding to the already strong construction and consumption activity boosting domestic demand prospects. Improving employment conditions are also helping sustain momentum in retail sales activity and a re-acceleration of domestic credit demand. The headline inflation rate is edging toward the 3% mark, prompting the Colombian central bank to adopt a cautious pre-emptive strategy through the increase of its reference rate by 100 basis points over the past four months; even so, further rate adjustments may be in store. Abundant global liquidity will not vanish any time soon despite the beginning of the US monetary tightening cycle next year. However, a continuous move towards US dollarization in the coming months may lead to increasing volatility in Latin American floating currencies. The central bank opted to increase the pace of international reserves accumulation and purchase up to US$2 billion during the third quarter of the year. The COP has resumed a slightly weakening trend last July after four months of consecutive gains versus the USD.

Developing Europe & Africa
Currency Outlook

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

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

RUSSIA — The rouble slid to a six month low against the US dollar as the Ukrainian President Petro Poroshenko canceled a state visit to Turkey and called an emergency meeting to coordinate a military response to what it deemed a Russian invasion. This comes a day after the Russian and Ukrainian president met in Minsk, hailing their discussion as a step towards political resolutions. Things appear to have taken a turn for the worse, with investors piling into safe-haven assets and likely anticipating to another round of sanctions. In light of this, downside risks to our rouble forecast of 36.5 per USD at end-2014 exist.

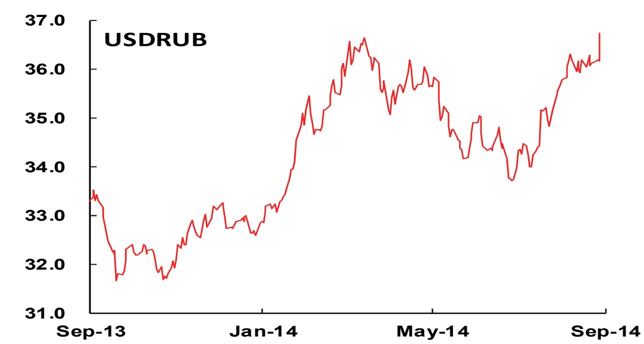
TURKEY — The Turkish lira broke from its recent stable trend and depreciated to 2.16 against the US dollar at the time of writing as security issues and fears of a Russian invasion in Ukraine undermined investor sentiment. With the Turkish central bank deemed a fundamentally dovish institution and monetary normalization expected by the US Federal Reserve and the BoE in H1 of 2015, the lira will likely face a modest depreciation bias over our forecast horizon.

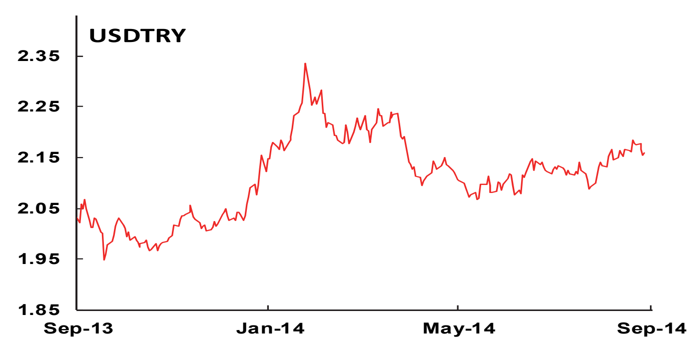
CZECH REPUBLIC — Since the EU imposed sanctions on Russia in late July, the koruna has depreciated sharply against the euro. The Czech National Bank (CNB) also reaffirmed its commitment to preventing excessive strengthening in the Koruna, by pledging to keep the exchange rate ceiling of EUR/CZK 27.0 until 2016 amid slowing inflation. If risks of disinflation persists, the CNB has indicated it will lower its Koruna cap.

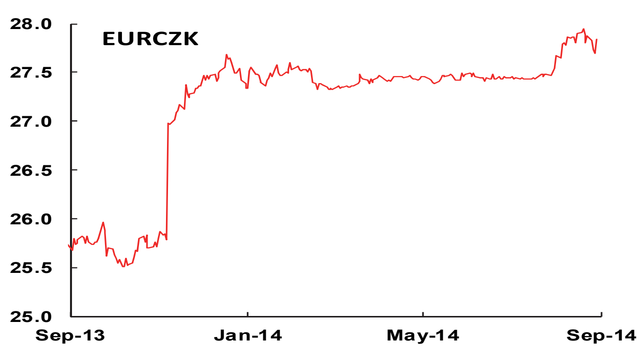
SOUTH AFRICA — The rand (ZAR) continues to stabilize and trade within a narrower range against the USD. Recent support has come from improving second quarter growth figures, the end of some strikes and wage disputes, monetary tightening by the South African Reserve bank (SARB), and S&P's decision not to follow Moody's lead in downgrading the country's largest banks. At 10.62 per USD at the time of writing, the ZAR has appreciated by over 6% since its low of 11.32 per USD in January. However, with inflation above target and the government's fiscal deficit reduction target for 2014 likely out of reach, downside risks persist.

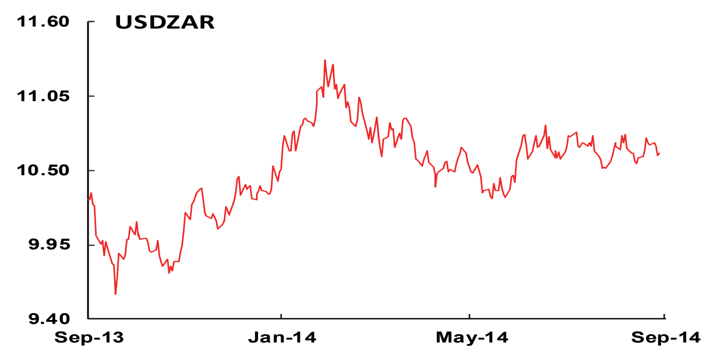
Currency Trends

FX Rate	Spot 28-Aug	14Q1a	14Q2a	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDRUB	36.7	35.2	34.0	36.3	36.5	36.5	37.0	37.1	37.1
USDTRY	2.16	2.14	2.12	2.16	2.18	2.20	2.21	2.21	2.22
EURCZK	28	27	27	28	27	27	27	27	27
USDZAR	10.6	10.5	10.6	10.7	10.8	10.8	10.8	10.8	10.8









Developing Europe & Africa

Fundamental Commentary

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

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

RUSSIA — High-frequency indicators and second quarter real GDP suggest continued weakness in the Russian economy. The ongoing slowdown comes amid declining industrial production and retail sales, with the deceleration in real wages likely weighing on consumer demand. Meanwhile, pressure on the rouble resumed earlier this month on the back of escalating geopolitical tension and sanctions. In response to the harsher sanctions imposed by the EU and US on Russia's finance, oil and defence sectors in July, Russian authorities retaliated by banning most western food imports on August 8th. While inflation in Russia did slow in July, the wide -ranging ban on food imports will likely increase short-term inflationary pressure and put the central bank's 2014 inflation target further out of reach. Face-to-face talks in late August between the Russian president Vladimir Putin, his Ukrainian counterpart Petro Poroshenko also failed to result in a breakthrough, as reports of Russian military incursions into Ukraine dented hopes for a resolution to the 5-month Ukraine crisis. As a result, debt insurance costs for Russia and Ukraine have risen to multi-week highs, while the rouble weakened against the dollar to its lowest level since March and the Russia's MICEX stock index fell to a two-week low. After the central bank unexpectedly increased interest rates by 50 basis points at their last meeting in July, bringing the repurchase rate to 8%, and warned of further monetary tightening if inflationary pressures persist, the authorities are scheduled to meet on September 14th, but will likely remain on hold until the impact of the latest round of sanctions can be assessed.

TURKEY — The economic environment in Turkey remains challenging amid relatively high interest rates, heightened geopolitical tensions, and external imbalances. Industrial production decelerated to a 10-month low in June, with leading economic indicators suggesting little support in the months ahead amid continued weakness in manufacturing and subdued business fixed investment. Meanwhile, credit growth and imports point to limited momentum in private consumption, at a time when prevailing interest rates are high and consumer prices continue to accelerate – with core inflation rising to the highest reading since October 2008 at 10% y/y in July. Despite the rather negative economic landscape suggested by recent data, real GDP growth in Turkey is tracking stronger-than-expect so far this year, underpinned by stronger foreign demand, which has led us to increase our growth forecast to 2.8% y/y in 2014. The weaker lira will continue to bolster net exports contribution to second quarter real GDP growth, with exports up 5%, supported by robust gains in motor vehicles, knitted apparel and machinery, while imports have declined by over 7%. The Turkish economy continues to exhibit re-balancing toward external demand, with the 12-month trailing current account deficit narrowing further to US$52.2 billion in June, representing approximately 7.0% of GDP from a high of 9.7% in 2012. Following warnings from markets that further monetary easing would be unsettling at a time of high inflation, Turkey's central bank decided to keep its key interest rate steady on August 27th. With the central bank's independence in question amid ongoing government influence, markets appeared heartened by this discussion, with the lira strengthening to a two-week high. However, the lira has since been dragged down by fears of escalating tension along the Russia-Ukraine border.

CZECH REPUBLIC — The Czech Republic's economic outlook has improved recently but risks remain. Real GDP expanded by 2.6% y/y (seasonally adjusted) in the second quarter of 2014 on the back of accelerating industrial production growth, which pushed the Czech finance ministry to revise its annual forecast upward from 1.7% to 2.7%. Business and consumer confidence indices have shown marked improvements since the beginning of the year. Price growth continues to accelerate slowly, reaching a 7-month high of 0.5% y/y in July. Meanwhile, the jobless rate remains stubbornly high, coming in at 7.4% in July and has remained above 7% since 2012. The external sector maintains a neutral stance, recording a negligible current account surplus in the first three months of the year. Czech debt-to-GDP remains favourable by regional comparison at around 50%. The country's export outlook has weakened on slower growth in Germany, which consumes almost one-third of Czech exports; however, this effect is mitigated somewhat by the weaker koruna. Further escalation in the ongoing crisis between Russia and Ukraine continues to pose the most acute short-term threat to the country's economic outlook.

SOUTH AFRICA — The South African economy avoided slipping into a recession during the second quarter, with real GDP advancing 0.6% q/q off a 0.6% q/q contraction in Q1, buoyed by solid gains in agriculture, and finance and real estate. Second quarter growth, however, came in below consensus expectations of 0.9% q/q, as successive waves of labour unrest continue to impact business confidence and domestic demand, prompting companies to scale back output — particularly in mining and manufacturing. Meanwhile, consumers remain squeezed by high unemployment at roughly 25% and rising food and fuel prices. Sluggish economic growth (at 1.7% this year the slowest pace since the global financial crisis in 2009) is also putting the government's tax-collection targets at risk and straining the country's ability to meet its budget-deficit target of 4% of GDP this year. Rating agencies have warned of further downgrades if fiscal targets come under pressure. In June, Standard & Poor's lowered South Africa's foreign-currency rating to one level above junk and Fitch assigned its country rating a negative outlook. Most recently, Moody's decided to downgrade the country's four largest banks following the collapse of African Bank and its $1.6 billion bailout from the SARB (a rescue plan that included a 10% loss for senior bondholders). This initially elevated fears that the other rating agencies would follow suit. However, S&P maintained its stable outlook on the country's banks, citing the failure of African Bank does not pose a systemic risk. The rand and government bond yields are expected to continue to stabilize to 10.8 per USD and 8.5%, respectively, at end-2014.

Global Currency Forecast (end of period)

		2012	2013	2014f	2015f	2014f				2015f			
Major Currencies						Q1a	Q2a	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	87	105	109	113	103	101	104	109	110	111	112	113
Euro zone	EURUSD	1.32	1.37	1.30	1.24	1.38	1.37	1.34	1.30	1.28	1.26	1.25	1.24
	EURJPY	114	145	142	140	142	139	139	142	141	140	140	140
UK	GBPUSD	1.63	1.66	1.70	1.68	1.67	1.71	1.67	1.70	1.70	1.69	1.68	1.68
	EURGBP	0.81	0.83	0.76	0.74	0.83	0.80	0.80	0.76	0.75	0.75	0.74	0.74
Switzerland	USDCHF	0.92	0.89	0.95	1.02	0.88	0.89	0.91	0.95	0.98	1.00	1.01	1.02
	EURCHF	1.21	1.23	1.24	1.27	1.22	1.21	1.22	1.24	1.25	1.26	1.26	1.27
Americas													
Canada	USDCAD	0.99	1.06	1.10	1.11	1.11	1.07	1.08	1.10	1.12	1.12	1.11	1.11
	CADUSD	1.01	0.94	0.91	0.90	0.91	0.94	0.93	0.91	0.89	0.89	0.90	0.90
Mexico	USDMXN	12.85	13.04	13.22	13.36	13.06	12.97	13.05	13.22	13.28	13.14	13.19	13.36
	CADMXN	12.96	12.27	12.02	12.04	11.82	12.15	12.08	12.02	11.86	11.73	11.88	12.04
Argentina	USDARS	4.92	6.52	12.00	14.50	8.00	8.13	9.50	12.00	13.00	13.50	14.00	14.50
Brazil	USDBRL	2.05	2.36	2.40	2.50	2.27	2.21	2.35	2.40	2.45	2.45	2.50	2.50
Chile	USDCLP	479	525	577	586	549	553	568	577	580	582	584	586
Colombia	USDCOP	1767	1930	1950	1990	1971	1877	1955	1950	1965	1970	1985	1990
Peru	USDPEN	2.55	2.80	2.80	2.80	2.81	2.80	2.82	2.80	2.79	2.78	2.80	2.80
Venezuela	USDVEF	4.30	6.30	8.50	11.10	6.30	6.30	8.50	8.50	9.50	11.10	11.10	11.10
Asia / Pacific													
Australia	AUDUSD	1.04	0.89	0.92	0.89	0.93	0.94	0.94	0.92	0.91	0.90	0.90	0.89
China	USDCNY	6.23	6.05	6.10	5.92	6.22	6.20	6.16	6.10	6.06	6.01	5.97	5.92
Hong Kong	USDHKD	7.75	7.75	7.78	7.78	7.76	7.75	7.76	7.78	7.78	7.78	7.78	7.78
India	USDINR	55.0	61.8	63.0	64.0	59.9	60.2	62.0	63.0	63.3	63.5	63.8	64.0
Indonesia	USDIDR	9793	12171	12000	11600	11361	11875	12000	12000	11900	11800	11700	11600
Malaysia	USDMYR	3.06	3.28	3.30	3.20	3.26	3.21	3.28	3.30	3.28	3.25	3.23	3.20
New Zealand	NZDUSD	0.83	0.82	0.85	0.87	0.87	0.88	0.85	0.85	0.86	0.86	0.87	0.87
Philippines	USDPHP	41.0	44.4	44.5	43.0	44.8	43.7	44.3	44.5	44.1	43.8	43.4	43.0
Singapore	USDSGD	1.22	1.26	1.27	1.26	1.26	1.25	1.26	1.27	1.27	1.27	1.26	1.26
South Korea	USDKRW	1064	1050	1040	1030	1065	1012	1030	1040	1038	1035	1033	1030
Taiwan	USDTWD	29.0	29.8	30.6	30.2	30.5	29.9	30.4	30.6	30.5	30.4	30.3	30.2
Thailand	USDTHB	30.6	32.7	33.5	34.0	32.4	32.4	33.0	33.5	33.6	33.8	33.9	34.0
Europe / Africa													
Czech Rep.	EURCZK	25.1	27.3	27.3	27.0	27.5	27.5	27.5	27.3	27.2	27.1	27.0	27.0
Iceland	USDISK	128	115	115	118	113	113	113	115	116	117	117	118
Hungary	EURHUF	291	297	304	307	307	310	305	304	303	302	305	307
Norway	USDNOK	5.56	6.07	6.00	5.60	5.99	6.13	6.10	6.00	5.80	5.70	5.70	5.60
Poland	EURPLN	4.08	4.15	4.13	4.04	4.17	4.16	4.07	4.13	4.11	4.08	4.06	4.04
Russia	USDRUB	30.5	32.9	36.5	37.1	35.2	34.0	36.3	36.5	36.5	37.0	37.1	37.1
South Africa	USDZAR	8.47	10.49	10.80	10.77	10.53	10.64	10.70	10.80	10.80	10.79	10.78	10.77
Sweden	EURSEK	8.58	8.85	9.36	8.56	8.91	9.15	9.18	9.36	8.96	8.82	8.63	8.56
Turkey	USDTRY	1.78	2.15	2.18	2.22	2.14	2.12	2.16	2.18	2.20	2.21	2.21	2.22

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

Foreign Exchange Strategy

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