Foreign Exchange Outlook

AMERICAS

The collapse in oil prices has had a significant impact on global economic and financial market conditions. The USD is expected to appreciate with support from both fundamentals and flows. The financial market implications of the oil price shock will likely be a near-term stimulant for the USD. Both the CAD and MXN have been severely affected by the combined effect of USD strength and declining oil prices, yet both economies will benefit from US economic strength. The BRL is expected to depreciate in the coming months.

EUROPE

Disappointment in the economic outlook coupled with aggressive central bank action and large outflows are likely to drive a downward trend in EUR. The outlook for GBP is weak in the near-term, as the economic fundamentals have turned and pushed inflation lower, and the timing of the BoE interest rate hike is pushed out; however, GBP is likely to outperform against the EUR. Once oil prices stabilize we would expect NOK to stabilize. The RUB remains vulnerable to further weakness.

ASIA/PACIFIC

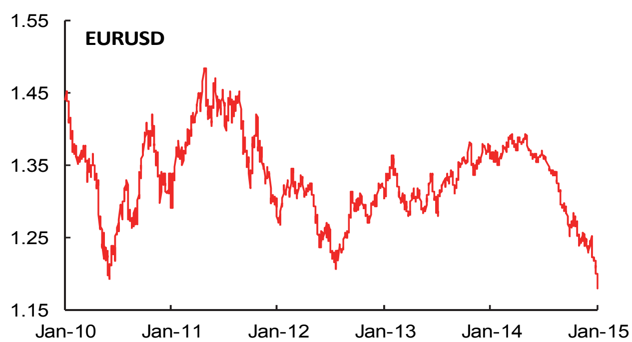
The outlook for JPY continues to be a broad weakening in the currency interrupted by brief periods of risk aversion, when JPY adopts safe-haven status. Lower oil prices will eventually prove economically supportive but the BoJ's drive towards 2% inflation risks making slow progress and forcing more aggressive central bank action. Additional volatility continues to be a major theme for CNY; however beyond this there appears to be little change in official currency policy.

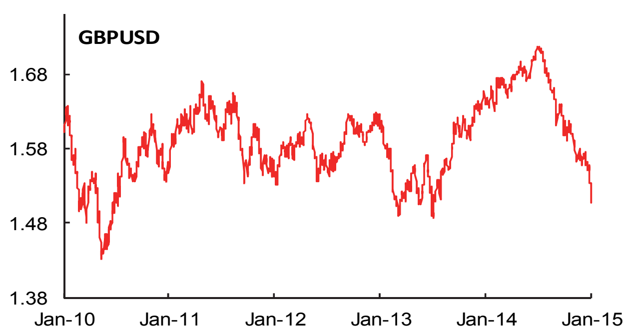
Contents

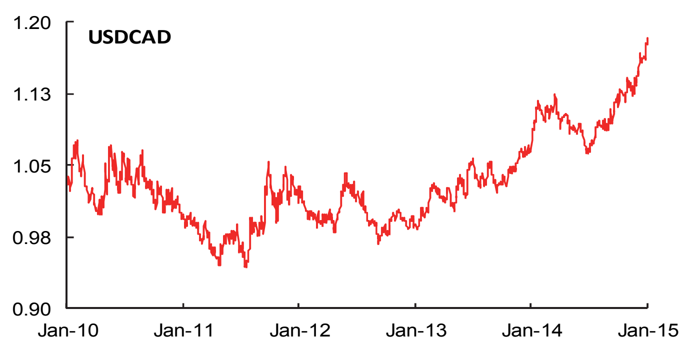
Core Exchange Rates

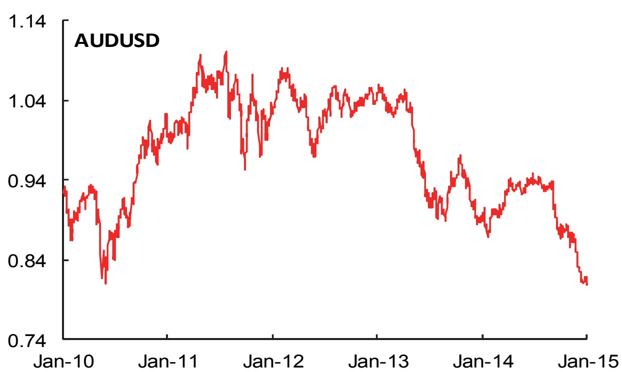
Global Foreign Exchange Outlook

January 8, 2015		Spot	2015f Q1a	2015f Q2a	2015f Q3a	2015f Q4	2016f Q1	2016f Q2	2016f Q3	2016f Q4
EURUSD	Scotiabank	1.18	1.17	1.15	1.14	1.13	1.13	1.13	1.12	1.12
	Consensus*		1.22	1.21	1.20	1.19	1.18	1.18	1.18	1.17
USDJPY	Scotiabank	119.6	122	124	125	126	128	129	130	131
	Consensus*		120	120	121	122	122	123	123	123
GBPUSD	Scotiabank	1.51	1.50	1.50	1.51	1.51	1.51	1.51	1.51	1.51
	Consensus*		1.57	1.56	1.55	1.55	1.54	1.54	1.54	1.53
USDCAD	Scotiabank	1.18	1.20	1.22	1.21	1.20	1.20	1.19	1.19	1.18
	Consensus*		1.14	1.15	1.15	1.15	1.15	1.15	1.14	1.14
AUDUSD	Scotiabank	0.81	0.79	0.79	0.78	0.78	0.77	0.78	0.78	0.78
	Consensus*		0.84	0.83	0.82	0.81	0.81	0.81	0.81	0.80
USDMXN	Scotiabank	14.68	15.00	14.50	13.88	14.09	14.23	14.09	14.17	14.40
	Consensus*		13.67	13.69	13.70	13.72	13.66	13.59	13.53	13.47









(*) Source: Consensus Economics Inc. December 2014

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Market Tone & Fundamental Focus

The oil price shock continues to dominate investor attention in global financial markets. Directly or indirectly, most relevant advanced and developing economies will be affected by the acute collapse in crude oil prices (WTI falling from $107.73 on June 20th 2014 to $46.83 on January 7th, 2015). The benefits to petroleum importers as well as the drawbacks to petroleum exporters will be uneven in every economic region, but as a whole should support global growth once prices stabilize.

Beyond energy price gyrations, the magnitude and timing of monetary policy normalization in the United States (U.S.) will remain a critical factor swaying capital flows in foreign exchange markets. Another major issue on global radar screens remains the ability for China to engineer a soft landing, now that the Asian giant has become the world's largest economy as measured in purchasing power parity terms. Finally, persistent excess global liquidity as a result of prolonged monetary accommodation implemented by the systemically relevant central banks will continue to influence capital flows, particularly to higher yielding emerging-market asset classes.

The US dollar (USD) is a major beneficiary during this phase of sharp oil price correction. Measured on a trade-weighted basis and/or against major global peer currencies, the USD is well positioned to extend its upward momentum. We have adjusted our forecast accordingly.

The Canadian dollar (CAD) and the Mexican peso (MXN) have weakened due to the combined effect of USD strength and declining oil prices. The CAD depreciated by 9% in 2014 and is expected to trend lower in 2015. The major weights against the currency include the substantially lower oil price — which has dampened the economic and inflation outlook for the country and results in a delay in interest rate hikes by the Bank of Canada — and economic underperformance relative to the U.S., as well as negative CAD sentiment. It is worth highlighting that both the Mexican and Canadian economies will reap benefits from the underlying strength present in the US economy. We estimate real GDP will expand by 3.3% and 3.1% in the US in 2015 and 2016, respectively. The anticipated start of the US tightening cycle will also exacerbate upward USD momentum , fundamentally reinforced by improved employment and activity conditions.

The Brazilian real (BRL) will accelerate its fragile path in the coming months. The imperative need to implement a major fiscal adjustment to avoid a rating downgrade and contain rising inflationary pressures will place the Brazilian economy in a very low growth trajectory this year, a trend that is likely to be accompanied by a depreciating currency. Elsewhere in the developing Americas, the Colombian peso (COP) will suffer more in relative terms in the first half of the year due to its higher dependence on oil-related capital inflows. Meanwhile, both the Peruvian sol (PEN) and the Chilean peso (CLP) will be subjected to heightened volatility resulting from still fragile conditions in metal prices.

The economic recovery in the euro zone remains soft at best, and the euro (EUR) has reacted accordingly. The EUR lost 12% in 2014 and is expected to depreciate by a further 6.6% in 2015. Disappointment in the economic outlook coupled with aggressive central bank action and large outflows are likely to drive a downward trend in EUR. Lingering geopolitical and military stress in connection with the Ukraine-Russia conflict, US-led sanctions imposed, and collapsing oil prices have placed Russia in a deep recessionary economic scenario. The Russian ruble (RUB), which declined by over 43% in a six-month period (even edging the 80 vs USD mark temporarily in intra-day trading on December 16, 2014), will retain a weakening bias through the first half of the year. The likelihood of second-round effects in terms of capital outflows may lead to an even more devalued RUB in the year ahead. In the United Kingdom (UK) we have revised our view incorporating a delay in the tightening cycle, leading to an adjustment to our view for the British pound (GBP) in the next two years. Downward pressure on NOK has proven unrelenting as the economic fundamentals have shifted on the back of rapidly falling oil prices.

The Chinese yuan (CNY) is likely to remain the world's best performing currency within the universe of top ten economies. Nevertheless, China's commitment to financial market liberalization may pave the way for periods of heightened volatility and temporary currency weakness. For the year as a whole, we estimate a small appreciation of the CNY against the USD in nominal terms. The Japanese yen (JPY) will maintain a depreciating bias throughout most of the year; we are calling for an end-year USDJPY 126 rate. The combined effect of falling energy costs and persistent devaluation will inject a positive boost into the Japanese export sector at a time when the economy is flirting with technical recession. With few exceptions, most regional currencies in Asia will weather the headwinds caused by USD strengthening fairly well. Overall, Asia/Pacific will likely remain the world's fastest growing economic region in 2015-16. Once the fog from oil price volatility subsides, investors will reward emerging-market economies with better macroeconomic fundamentals in the Asia/Pacific region.

Canada

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Currency Outlook

The Canadian dollar (CAD) depreciated 9% in 2014 and is expected to depreciate a further 3% in 2015, closing the year at 0.83 (or in USDCAD terms at 1.20). The outlook has deteriorated, in tandem with falling oil prices, with commodity prices remaining the key risk to our currency forecast.

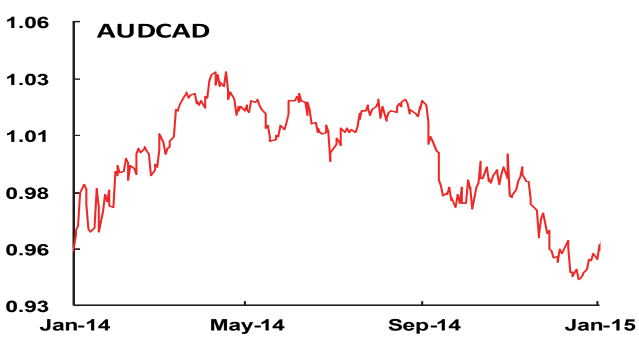
As WTI oil prices have fallen from $107.73 on June 20th 2015 to $46.83 on January 7th, 2015, the weight on the Canadian dollar has accelerated as the ramifications in both the economic and financial markets have increased. The dampening of our expectations for the energy sector and investment combined with the weight oil will provide for inflation pressures, implies a later entry to the Bank of Canada's interest rate hiking cycle, accordingly, we now look for the first hike to be pushed out to the second quarter of 2016. However the Federal Reserve (Fed), facing strong growth and contained inflation risk, is expected to enter its period of policy normalization in the second quarter of 2015. Accordingly the BoC will lag the Fed's first interest rate hike by well over a year, having a material impact on short term interest rate spreads and proving a weight for CAD. In addition, Canada's growth profile was already expected to underperform the U.S. but this divergence has also widened, providing more fuel for CAD bears. Sentiment remained relatively stable in late 2014; however the broad view is one of USD strength, supported by both fundamentals and flows and accordingly the investor bias is to be short CAD.

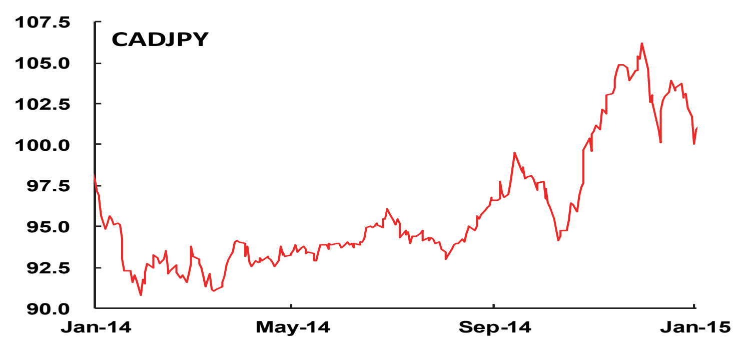
There are encouraging factors that will support CAD strength against EUR and JPY and mitigate downside against the USD. Most importantly, is that a strong U.S. recovery combined with a weak CAD should support an improvement in the Canadian export market and help to rebalance the economy over the medium-term. In addition, the weaker currency will also provide a partial offset to the downward pressure on inflation from falling oil prices. While the boost to global growth on the back of lower oil prices should also help to mitigate the weakness in the growth sensitive CAD currency.

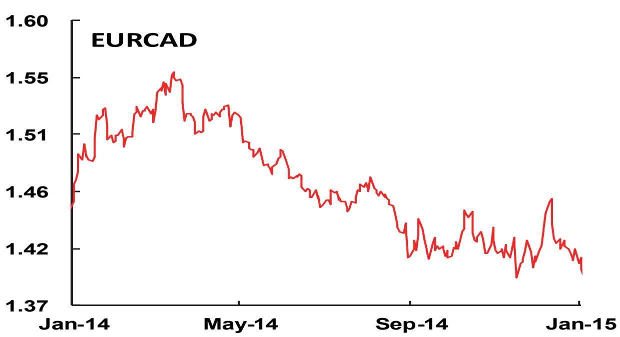
The major downside risks to our CAD forecast lie with risk aversion, driven by geopolitics, economic deceleration or a financial crisis as well as the path of oil prices from here; the major upside risks include a stronger Canadian economic backdrop than forecasted, a more hawkish BoC path or a sudden shift in the Fed which could lead to a major retracement of USD strength.

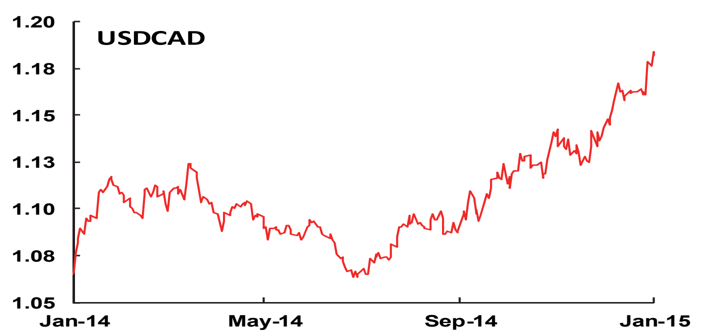
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 8-Jan	15Q1f	15Q2f	15Q3f	15Q4f	16Q1f	16Q2f	16Q3f	16Q4f
AUDCAD	0.96	0.95	0.96	0.94	0.94	0.92	0.93	0.93	0.92
CADJPY	101.1	101.7	101.6	103.3	105.0	106.7	108.4	109.2	111.0
EURCAD	1.39	1.40	1.40	1.38	1.36	1.36	1.34	1.33	1.32
USDCAD	1.18	1.20	1.22	1.21	1.20	1.20	1.19	1.19	1.18









United States and Canada

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Fundamental Commentary

UNITED STATES — The US economy appears to be gaining momentum, with underlying growth accelerating to around 3% in late-2014. Consumer confidence and spending are benefitting from the sharp drop in gasoline prices to a five-year low and a steady improvement in labour market conditions. The strongest pace of job growth in eight years has pushed the unemployment rate to a six-year low of 5.8%. Broader measures of unemployment also have improved, though still soft wage gains averaging about 2% y/y suggest some continued labour market slack. Vehicle buying intentions are at their highest level since 2005. The US housing recovery is ongoing, albeit gradual, with housing starts back above the 1 million mark. Notwithstanding still good affordability, relatively tight lending conditions, high student debt loads and a limited inventory of lower-priced homes are restraining first-time buyer activity, while less favourable valuations have cooled investor demand. Industrial production has ramped up, led by motor vehicles & parts, industrial equipment and technology goods. US producers are benefitting from solid domestic sales and a well diversified export base. Rising capacity utilization alongside healthy corporate balance sheets has fuelled strong growth in capital equipment investment and non-residential construction. Even so, the recent softening in capital goods orders suggest the combination of a stronger US dollar and more moderate global growth could temper output and investment gains this year. While low oil prices have prompted a slowing in shale drilling activity, the burgeoning sector represents a relatively small share of overall GDP. Meanwhile, the US recovery is getting a lift from a pickup in local and state government spending, and a reduced pace of federal fiscal restraint. Lower energy prices have pushed headline inflation back below 1½% y/y, though core inflation remains steady at just under 2% y/y.

CANADA — The Canadian economy continues to post moderate growth with GDP tracking around 2½% y/y. Consumer spending remains reasonably buoyant. Vehicle sales remain one of the strongest retail sectors, and have continued to set record highs in 2014. Housing activity remains robust, with low mortgage rates maintaining affordability despite record-high prices. However, employment grew less than 1% in 2014, the lowest in five years, and wage growth has been 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 auto sales and residential construction in the US, and a more competitive currency. The pickup in exports has been broad-based, with solid increases in both energy and non-energy goods. Energy export receipts will be weaker in 2015 due to weak crude oil and natural gas prices, but will be largely offset by gains in manufacturing exports to the United States. Business investment has been a weak spot in the economy as excess capacity combined with moderate sales growth continue to weigh on capital spending plans, despite improving business sentiment, healthy corporate finances and favourable financing costs. Capital investment plans among manufacturers and other non-energy producers should gradually firm up over the coming year as strengthening US demand underpins a stronger export recovery. However, the persistence of weak commodity prices will limit investment in the resource sector. Headline and core inflation has picked up to around 2% y/y, reflecting rising food costs and the passthrough of a weaker Canadian dollar to a range of imported goods. Persistent excess capacity, ongoing retail competition and soft wage gains are expected to contain core inflation around the mid-point of the Bank of Canada's 1-3% target range in 2015, while headline inflation is likely to recede alongside falling gasoline prices.

Monetary Policy Commentary

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UNITED STATES — We continue to expect the Federal Reserve to raise the Federal Funds rate in Q2 2015. Recent guidance from the Federal Reserve combined with strong fundamental economic data have reinforced this view. In particular, the FOMC communicated at its December meeting that it will not raise rates during the subsequent two meetings but could raise rates thereafter, albeit gradually (it called this 'patience'). The minutes from the meeting implied that the Fed would feel comfortable raising rates with core inflation near current levels. Recent economic data, including GDP growth of 5% q/q SAAR in Q3 and job gains of 321k in November should only strengthen the case for raising rates within the Fed. Risks to this outlook emanate from the soft international growth configuration, but so far the Fed has not emphasized these risks in its communications.

CANADA — We have revised our expectations for the Bank of Canada's first rate hike and now expect the BoC not to raise rates until mid-2016. Although Scotiabank forecasts that energy prices will bottom in 2015 and improve into next year, we expect that the price slump and introduction of volatile pricing expectations will result in lower capital expenditures in the energy space and less contribution to growth and employment from the energy channel. This will result in more spare capacity appearing in the Canadian economy, less underlying inflationary pressure (even if a weaker C$ fuels temporary increases in CPI), and ultimately a more dovish BoC. We think that a weaker C$ will help various sectors including manufacturing and support a recovery in exports, but the effects will be gradual while the impact from the energy channel will be more immediate. We expect the BoC to begin to introduce this type of guidance as soon as its January MPR.

Europe

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Currency Outlook

EURO ZONE — The EUR lost 12% in 2014 and is expected to depreciate by a further 7% in 2015. Disappointment in the economic outlook coupled with aggressive ECB action and large outflows are likely to drive a downward trend in EUR. Technical studies are bearish with the next level of support lies at the 2005 low of 1.1640, which we expected to hold in Q1. Sentiment remains bearish but is no longer at extremes, with some easing seen in the option's market desire to protect against EUR downside and the CFTC reporting at year-end, a large $23bn short position (well below the $28bn short held in early November). We expect EUR to trend lower and hold a Q115 forecast of 1.17.

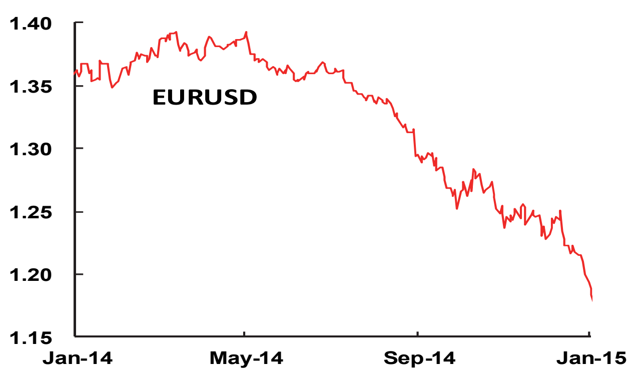
UNITED KINGDOM — The outlook for GBP is negative in the near-term but then stabilizes. The economic fundamentals have turned and pushed inflation lower, forcing a revision to the expected timing of the BoE interest rate hike, while both technicals and flows have turned more bearish. At the end of the year, the CFTC reported a GBP net short position of $2bn; while options markets were increasingly protecting against GBP downside risks and consensus forecasts for GBP were being revised lower. However the UK growth profile remains strong and there has been a lot of bad news priced in. Accordingly we expect GBP to bottom in Q2 and then stabilize; our Q115 target is 1.50.

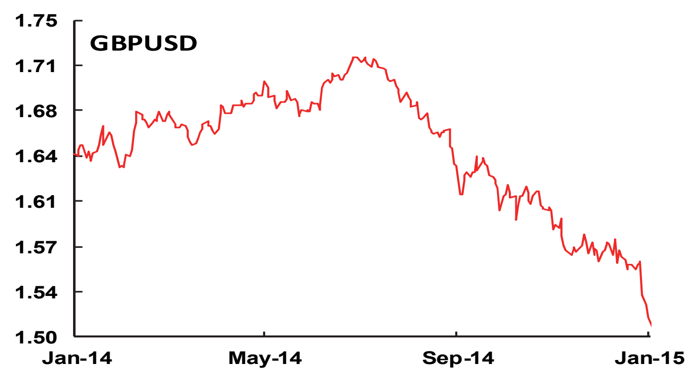
SWITZERLAND — EURCHF continues to hover close to its 1.20 floor, with safe haven flows forcing additional FX intervention by the SNB and the introduction of negative interest rates. We expect the SNB to maintain its floor and therefore see USDCHF as a reflection of EURUSD. We hold a Q115 USDCHF forecast of 1.03.

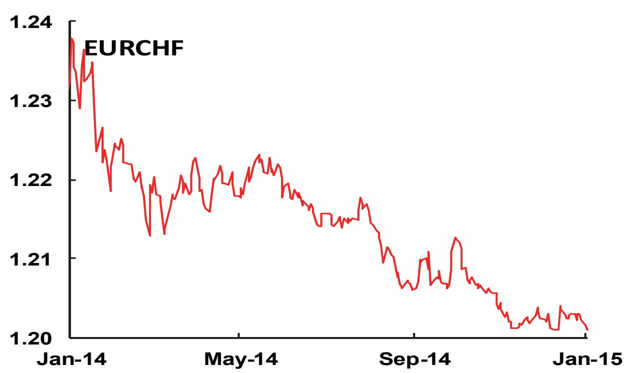
NORWAY — NOK was the worst performing primary currency in 2014 and entered 2015 on weak footings. The collapse in oil prices and the depreciation in EUR have weighed heavily on the NOK outlook, pushing sentiment and technicals into bearish territory. However, the fundamentals are still relatively strong and should help to support a more range bound NOK once oil prices stabilize. We have revised our forecasts, and expect USDNOK to close Q115 close to current levels at 7.65.

Currency Trends

FX Rate	Spot 8-Jan	15Q1f	15Q2f	15Q3f	15Q4f	16Q1f	16Q2f	16Q3f	16Q4f
EURUSD	1.18	1.17	1.15	1.14	1.13	1.13	1.13	1.12	1.12
GBPUSD	1.51	1.50	1.50	1.51	1.51	1.51	1.51	1.51	1.51
EURCHF	1.20	1.20	1.21	1.21	1.22	1.23	1.23	1.23	1.23
USDNOK	7.66	7.65	7.65	7.70	7.70	7.70	7.75	7.75	7.75







Europe
Fundamental Commentary

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EURO ZONE — The euro zone economic environment remains challenging, amid deflationary pressures, political turmoil in Greece and the Russian economy on the verge of recession. German inflation moderated to its slowest rate in 5 years, at 0.1% y/y in December, while consumer prices in the 19-member currency union declined by -0.2% — down from 0.5% and 0.3%, respectively, in November. Euro zone manufacturing activity also ended 2014 on a soft note alongside sluggish output and new orders. This, combined with the region's muted service sector performance suggests that Q4 real GDP will likely advance by a mere 0.1% q/q. In this context, pressure on the European Central Bank (ECB) to do more to boost growth and inflation continues to escalate. In a recent interview, ECB President Mario Draghi said the risk of not fulfilling its mandate of price stability — achieving close to, but below, 2% inflation — has risen and confirmed that staff have stepped up preparations for a larger-scale quantitative easing (QE) program early this year. Market participants are increasingly anticipating that the ECB will announce a program of sovereign bond-purchases at the governing council's next meeting on January 22nd. This comes just days before Greece's snap parliamentary election on January 25th — with opinion polls suggesting that the Syriza party, who might renege on troika bailout terms and cancel a portion of national debt, will likely win. Market volatility will likely remain high over the coming weeks amid uncertainty regarding the outcome of these two events, with key question being: Will the ECB's asset-purchasing be bold enough to appease investors? Or will a compromise struck by a divided central bank disappoint? And will a Syriza party victory open new cracks in the euro project? Looking ahead, the weaker euro, lower energy prices, and improving economic momentum in the periphery should support a modest pick-up in growth to 1% this year from 0.8% in 2014. Headline inflation is forecast to remain in negative territory through most of 2015 before ending the year at 0.3% y/y.

UNITED KINGDOM — Substantial downward revisions to GDP data in the early part of the year have meant that full-year 2014 growth is now likely to be closer to 2.5% y/y rather than the 3% y/y that had been the consensus view not so long ago. However, the outlook for 2015 has improved on the back of the continued slump in inflation - we have nudged up our forecast for next year to 2¾% with risks skewed to the upside. Our view is that the slump in inflation, in particular the fall in fuel and food costs, will provide a significant boost to household real disposable income growth. With wages grudgingly grinding higher and employment growth still solid, this should help to maintain household consumption growth and remain the main driving force behind overall GDP. The recent Budget statement also provided a cushion for the housing market which could also help to support consumer sentiment. Meanwhile inflation has slumped and is likely to fall further — holding at around 0.5% y/y until mid-summer. While the bulk of the slowdown has reflected lower energy and food prices, the most recent months have also seen softer core inflation. There are likely to be powerful base effects that push inflation back towards target in early 2016. Nonetheless, the close proximity of inflation to zero is likely to represent a hurdle to the first Bank of England rate hike. As such we have pushed our expectation for the timing of the first hike from mid-2015 back to around year-end.

SWITZERLAND — Despite weaker demand in Europe and in other key emerging markets, third-quarter real GDP growth in Switzerland surprised to the upside, advancing 0.6% q/q — its strongest reading in over a year — underpinned by the country's strong export performance. However, recent economic momentum is likely unsustainable, with forward-looking indicators, such as the Swiss manufacturing PMI and KOF leading indicator, showing some signs of moderation in recent months. Alongside safe-haven inflows due to global economic uncertainty and mounting concern at home about deflation, the Swiss National Bank (SNB) reaffirmed its pledge to enforce a minimum exchange rate of CHF1.20 per euro in its latest quarterly monetary policy assessment on December 11th. Roughly a week later, persistent upward currency pressure, largely due to the Russian crisis, prompted further monetary easing. On December 18th, the SNB imposed its first negative deposit rate at –0.25% since the 1970s and lowered the Libor target range (-0.75%-0.25%) to deter capital inflows and an unwanted appreciation in the franc. Looking ahead, Swiss real GDP growth is forecast to modestly improve from 1.6% in 2015 to 1.8% in 2016. Inflationary pressures will remain markedly subdued, with CPI holding roughly flat through 2016.

NORWAY— While the Norwegian economy boasts a host of strong fundamentals, the oil rout is sure to have a pronounced impact on the oil exporting nation. Real GDP expanded by a healthy 2.1% y/y in the third quarter of 2014, but remains 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 December. Norway also benefits from strong fiscal discipline: the government has reported a budgetary surplus every year since the end of 2003 and holds an enviable debt-to-GDP ratio of only 30%. Price growth remains strong despite more general euro zone deflationary fears, and came in at 1.9% y/y in November. Furthermore, the country's external sector is robust, with a healthy current account surplus amounting to 9.5% of GDP in the July-September period, primarily due to energy exports, although this figure is likely to fall alongside the price of oil. 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. 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.

Asia / Pacific
Currency Outlook

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JAPAN — As we go to print, JPY has been range-bound since mid-November, constrained by the offsetting impact of weak fundamentals, rising risk aversion, and safe haven flows. Measures of sentiment are conflicted, with investors' CFTC positioning hinting at expectations of weakness as options prices highlight a desire for protection against JPY strength. Once risk aversion fades, JPY is likely to depreciate on the back of relative economic, monetary and financial fundamentals combined with flows away from Japan. Accordingly we hold a Q115 USDJPY forecast of 122.00.

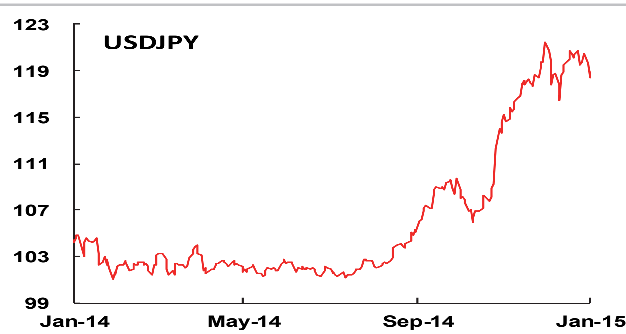
CHINA — The renminbi remained weak in December but stabilized below 6.24. CNY fixings have diverged and constitute a restraining force on the degree of CNY weakness in the short term, thanks to the upper bound of the USDCNY trading band. We continue to see the fundamental picture unchanged as record monthly trade surpluses counteract so called hot money outflows. The fixing will remain the key indication for USDCNY direction as it relates to the Chinese authorities stance. We target USDCNY at 5.98 in Q4'15.

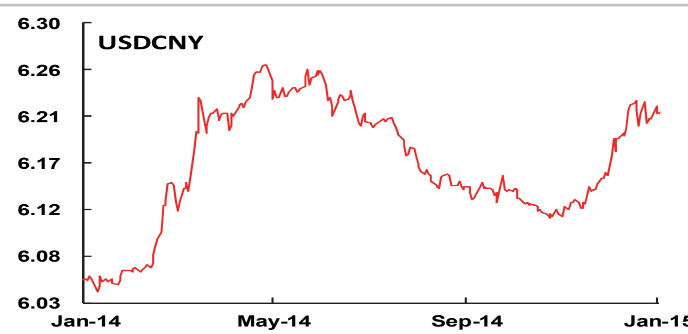
AUSTRALIA — AUD has entered 2015 breaking to fresh multi-year lows, pressured by flows in an environment of broad-based USD strength and elevated risk aversion. The steady erosion in yield differentials continues to reduce support for AUD, with technicals and sentiment biased to further downside. We expect continued weakness in AUD and see it falling to 0.79 by the end of Q1 2015.

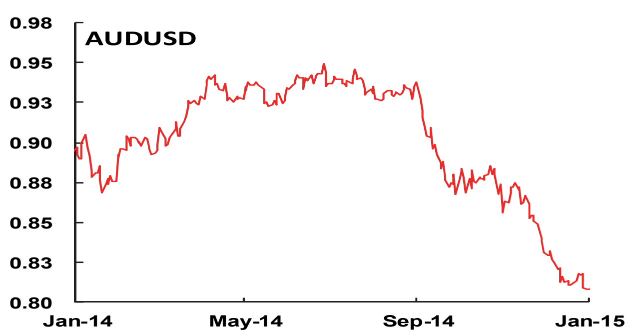
NEW ZEALAND — During the fourth quarter of 2014 and early January, NZD was remarkably stable, outperforming all of its G10 peers. We expect a similar level of stability in Q115, with the outlook balanced by expectations of broad-based gains in the USD, bearish technicals, with the next major level of support at 0.7460, and measures of NZD investor sentiment that hint at further weakness, offset by domestic fundamentals. Accordingly, we hold a year-end 2015 target of 0.77.

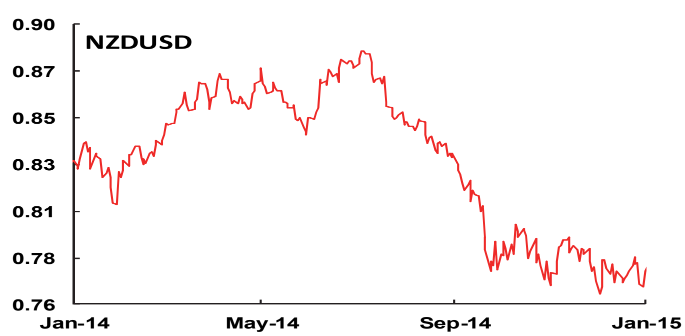
Currency Trends

FX Rate	Spot 8-Jan	15Q1f	15Q2f	15Q3f	15Q4f	16Q1f	16Q2f	16Q3f	16Q4f
USDJPY	120	122	124	125	126	128	129	130	131
USDCNY	6.21	6.15	6.09	6.04	5.98	5.96	5.94	5.92	5.90
AUDUSD	0.81	0.79	0.79	0.78	0.78	0.77	0.78	0.78	0.78
NZDUSD	0.78	0.76	0.76	0.77	0.77	0.77	0.77	0.77	0.77









Asia / Pacific

Fundamental Commentary

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JAPAN — Japan's Liberal Democratic Party (LDP) will remain in office following a victory in the December 14th general election; the LDP together with its junior partner, the New Komeito party, won a two-thirds majority in the lower house of parliament. The victory grants re-elected Prime Minister Shinzo Abe a mandate to govern until 2018, allowing him to proceed with further economic revival strategies intended to bring Japan back to a sustainable economic growth trajectory and to end the decades-long deflationary environment. Prime Minister Abe aims to postpone the second hike in the consumption tax rate (from 8% to 10%), scheduled for October 2015, until April 2017. The first increase in the tax rate from 5% to 8% — which took place in April — was ruled by the previous government, led by the Democratic Party of Japan. While the higher rate has a significant positive impact on the government's tax revenues, it is considered to be the main culprit for the renewed economic woes, as the economy has fallen into recession following the tax rate increase. Despite fragile public finances, the government will likely announce further fiscal stimulus measures in early 2015, permitted by increased tax revenues; this will complement the Bank of Japan's aggressive asset purchase program, which intends to bring core inflation to 2% y/y (from the current level of around 1%). The central bank assesses that lower oil prices combined with weak economic performance may keep inflation low longer than previously anticipated.

CHINA — The ongoing trend of China's real GDP growth deceleration will remain in place in 2015 as the country transitions to a more sustainable economic framework that relies more on consumers as sources of growth and less on investment and exports. Indeed, the government has lowered China's 2015 export growth target to 6% y/y from 7.5% in 2014, aiming to place greater emphasis on exporting higher value-added manufactured goods. Meanwhile, the Chinese economy benefits from lower global oil prices as it is an oil-intensive economy and a net oil importer, purchasing 56% of its 2013 oil needs from abroad. Nonetheless, we estimate that the boost on consumers' and businesses' purchasing power will not result in a directional shift to China's generally slowing growth trajectory, with real GDP expansion reaching our revised forecast of 7.0% and 6.5% in 2015 and 2016, respectively, compared with an estimated advance of 7.4% in 2014. Easing inflation, which reflects lower international oil prices and persistent producer price deflation due to domestic industrial overcapacity, will allow the People's Bank of China to maintain a monetary easing bias in the coming months, which will support the economy and the implementation of the government's complex structural reform agenda in 2015. We expect another reduction in the benchmark interest rates to take place in the first quarter of 2015; in November 2014, the central bank lowered the key lending and deposit rates by 40 and 25 basis points, respectively, to 5.6% and 2.75%. A cautious process of interest rate liberalization will likely proceed in 2015.

AUSTRALIA — The Australian economy lost steam in the third quarter of 2014 with real GDP expanding by only 0.3% q/q following a 0.5% gain in the prior three months. The loss of momentum was attributable to slightly weaker household spending gains and contracting investment. Accordingly, we have revised our estimate for Australia's output growth in 2014 to 2.7% (from 3.0%). The economy will likely expand by 2¾% annually in the next two years; while lower global commodity prices will have an adverse impact on Australia's economic prospects, rising resource export volumes together with increasing spending power of consumers and businesses due to lower oil prices will underpin activity. Weaker inflationary pressures will allow Australian monetary conditions to remain accommodative in the coming months with the benchmark cash target rate likely to be kept at 2.50%. We expect cautious monetary normalization to begin in the second half of 2015. The Reserve Bank of Australia (RBA) considers the current policy stance to be appropriate for supporting domestic demand. Consumer price inflation will likely remain consistent with the RBA's 2-3% target through 2016; we estimate that the headline rate closed the year at around 2% y/y, down from the 2.3% rate recorded in the third quarter.

NEW ZEALAND — New Zealand continues to enjoy solid growth momentum with expenditure-based real GDP expanding by 3.1% y/y in the third quarter of 2014 following an increase of 2.7% in the April-June period. We expect New Zealand's real GDP growth to moderate slightly to 2.7% y/y in 2015-16 from an estimated expansion of 3.0% in 2014. The economy's performance continues to be supported by solid demand for the country's exports, sustained accommodative monetary policy, and robust net immigration. Further, domestic demand buttressed by ongoing growth in consumption and construction activity continues to remain a primary driving factor in the economy; indeed, strong net positive immigration underpins both factors contributing to stronger domestic demand growth. Moreover, real estate prices have faced a monthly average gain of 6.7% y/y in the 12 months leading up to December. The export sector as a whole will likely be largely unaffected by China's gradual growth deceleration (China is the largest export market for New Zealand) on the back of solid demand from China's growing middle class for New Zealand's goods, particularly dairy and meat products. Nonetheless, the rapid decline in dairy prices, which have slid by roughly 35% since the beginning of this year, pose downside risks to New Zealand's growth outlook. However, lower oil prices will somewhat offset this effect as the country is a large net energy importer, meeting more than 70% of its petroleum needs through imports.

Developing Asia
Currency Outlook

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INDIA — India's carry-to-volatility ratio remains very attractive, which has supported fixed income buying despite weakness in equity flows during December. The supportive macro environment continues as disinflation has also helped support fixed income interest, though it remains to be see if the RBI feels comfortable cutting rates in the near term given the widening non-oil trade deficit and broad USD strength. INR will likely remain better performing this year compared with 2013 when US yields were rising, however we still see USDINR moving higher to 65.00 in Q4'15.

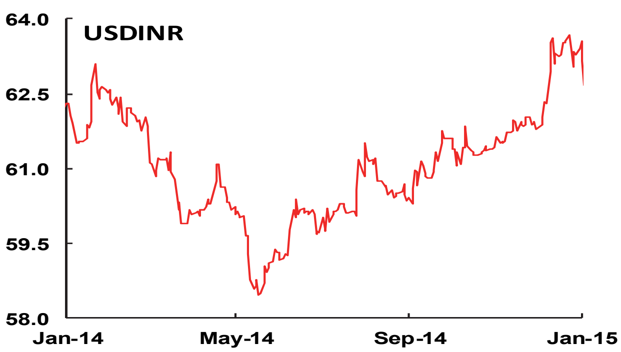
KOREA — KRW continues to trade with elevated volatility, and it is unlikely that depreciatory pressure will relent in a weakening yen environment. Korea's trade surplus is likely to remain robust, but also see some degree of moderation this year should domestic demand firm. There is still risk that the central bank could ease again, a factor that would pressure KRW in the projected rising US yield environment. We target USDKRW at 1170 by Q4'15.

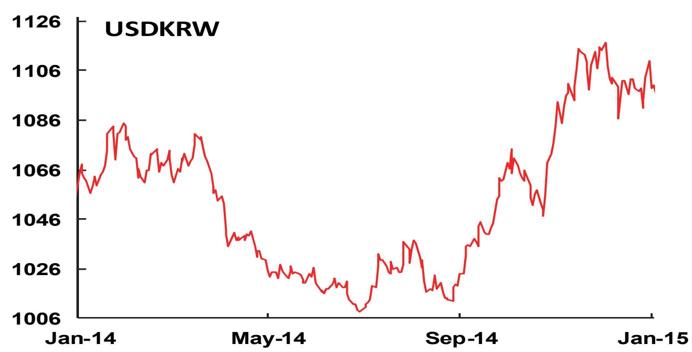
THAILAND — Thailand's economic stall continues to bolster Thailand's trade balance, though deterioration is highly likely if the government is successful at achieving its goal of restarting growth momentum. A sustained rebound in portfolio inflows has faltered, dragging on THB into Q4 of last year, a feature that we see as unlikely to change given the political environment. Lower policy rates continue to be a threat, but any cuts will be contingent on the government's economic efforts. We target USDTHB at 34.00 by the end of Q4'15.

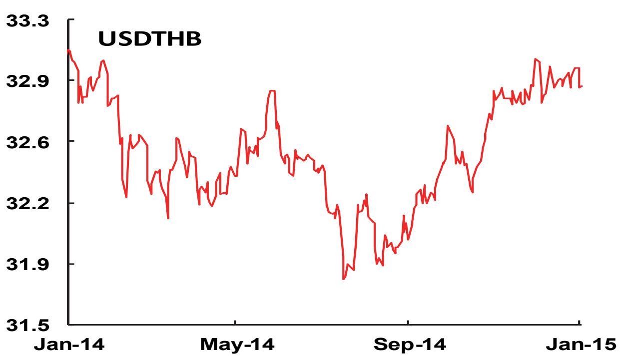
MALAYSIA — The deterioration in Malaysia's external accounts continues to expose MYR to the negative impact of capital outflows. Official action in the market remains focused on volatility smoothing, as MYR is allowed to naturally find a level more consistent with the new reality of deterioration in both terms of trade and the external surplus. The rapid reduction in FX reserves, of around 8% since mid-September, indicates the degree to which outflows are pressuring MYR. We target USDMYR at 3.62 in Q4'15.

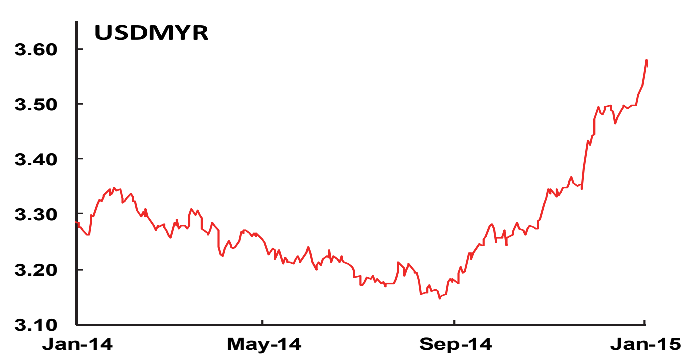
Currency Trends

FX Rate	Spot 8-Jan	15Q1f	15Q2f	15Q3f	15Q4f	16Q1f	16Q2f	16Q3f	16Q4f
USDINR	62.7	63.5	64.0	64.5	65.0	64.8	64.5	64.3	64.0
USDKRW	1097	1133	1145	1158	1170	1165	1160	1155	1150
USDTHB	32.9	33.2	33.5	33.7	34.0	33.9	33.8	33.6	33.5
USDMYR	3.57	3.53	3.56	3.59	3.62	3.63	3.64	3.64	3.65









Developing Asia
Fundamental Commentary

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INDIA — India will benefit from lower global oil prices as it is a large net energy importer, meeting 72% of its petroleum needs through imports in 2013. The lower oil import bill will reduce India's external vulnerability; we estimate that the country's current account deficit narrowed to 1¾% of GDP in 2014 from 2.9% of GDP in 2013. India will further benefit from the oil price decline as it helps the country's authorities proceed with their fuel subsidy rationalization plan, reducing the nation's fiscal weakness significantly. India's fuel subsidies amounted to around 1% of GDP in 2013, and were a significant contributor to the general government's fiscal deficit of 7.2% of GDP. Moreover, the Reserve Bank of India's (RBI) aim to move toward an inflation targeting framework is supported by easing inflationary pressures (price gains slowed to 4.4% y/y in November from 8.0% in July), as energy directly accounts for 14% of India's consumer price index. Lower inflation will likely allow the RBI to initiate cautious monetary easing in early 2015; the benchmark repo rate was raised by 75 basis points to 8.0% between September 2013 and January 2014 in order to set the economy on a disinflationary path. The RBI is aiming to maintain consumer price inflation under 6% in January 2016. We expect Indian real GDP growth to pick up to around 6.0% y/y in 2015-16 from an estimated expansion of 5.4% in 2014.

KOREA — South Korea imports virtually all of its oil needs and is therefore a net beneficiary of reduced global oil prices; higher spending power of consumers and businesses will buttress confidence and economic activity. We expect the country's real GDP growth to pick up to 3¾% in 2015-16 from an estimated expansion of 3½% in 2014. South Korean inflation remains low with consumer prices rising by 0.8% y/y in December — well below the Bank of Korea's (BoK) target corridor of 2½-3½%. Due to negative producer price inflation together with low international oil prices, headline inflation will remain below the central bank's target range for an extended period of time. We expect price gains to pick up gradually towards 2½% y/y by the end of 2016 as the economy's output gap diminishes. The BoK has lowered the benchmark interest rate by 50 basis points since August to the current level of 2.0% in order to support domestic demand. The substantial depreciation of the Japanese yen has increased the likelihood of further monetary easing in South Korea, yet a relatively high household debt burden (equivalent to around 160% of average annual disposable income) and a gradually rising inflation trajectory will restrain the central bank's room for maneuver in the coming months. A smaller oil import bill and improving global demand for South Korean goods will result in a larger current account surplus, averaging 6½ % of GDP in 2015-16.

THAILAND — With Thailand's economy failing to gather any substantial momentum in recent quarters, lower oil prices will play a role in spurring stronger domestic demand growth in the near term. Thailand depends on imports for 53% of its oil demand (as of 2013), and the value of its petroleum imports relative to the size of its economy is substantial. Accordingly, we expect the country's real GDP growth to pick up to 4% in 2015 (compared with our earlier projection of 3.8%) as lower oil prices increase the spending power of consumers and businesses. Easing inflationary developments due to the drop in international oil prices are providing Thailand's monetary authorities with room to maneuver should the economy fail to regain traction as expected. Nevertheless, the Bank of Thailand will likely keep the benchmark interest rate unchanged at 2% in the coming months as the authorities consider the current policy stance to be sufficiently accommodative and the military administration uses fiscal stimulus as a means to boost economic activity. Inflation remains low; the headline consumer price index increased by 0.6% y/y in December, recording a deceleration from prior months on the back of muted demand-side pressures as well as lower energy prices. Thailand's current account returned to a surplus position in 2014 on the back of a lower oil import bill and suppressed import demand that reflects the challenging domestic economic situation, combined with improving goods and services exports. We expect the current account surplus to average around 2¾% of GDP in 2014-16 compared with a deficit of 0.6% of GDP in 2013.

MALAYSIA — As Malaysia is an energy exporter, lower global oil prices will cause the country's terms of trade to deteriorate with its current account surplus set to shrink. However, the economy will benefit from a demand pickup in China, Singapore, and Japan — net beneficiaries of lower oil prices — which purchase 35% of Malaysia's total exports. The government's oil and gas revenues (which account for 30% of the total revenue) will be suppressed by lower oil prices, yet the price drop allowed Prime Minister Razak to announce a fuel subsidy reform in November, which will offer counterbalancing support to public finances and sovereign creditworthiness. The fuel subsidy bill (2.5% of GDP in 2013) has been one of the highest in the region alongside that of Indonesia. Weaker inflation due to lower energy costs will allow the central bank to adopt a more-gradual approach to monetary normalization. Nevertheless, the implementation of a goods and services tax in April 2015 will lead to a temporary pick-up in price gains, with inflation hovering around 4% y/y at the end of the year, compared with the current level of 3%. The Malaysian economy continues to perform strongly despite a moderation in momentum in the third quarter of 2014 when real GDP increased by 5.6% y/y following an average gain of 6.3% y/y in the first half of the year. Activity remains broadly-based with domestic demand being the key driving force. Output growth will likely average 5% y/y in the next two years following an estimated expansion of 6% in 2014.

Developing Americas

Currency Outlook

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BRAZIL — The country's new economic policy team seems committed to taking the necessary steps to begin healing the country's stretched balance sheet (both public and private), which could help gradually improve sentiment. However, BRL still looks "expensive" by many metrics, and the drop in commodity prices, as well as broad USD look set to continue to push further real weakness.

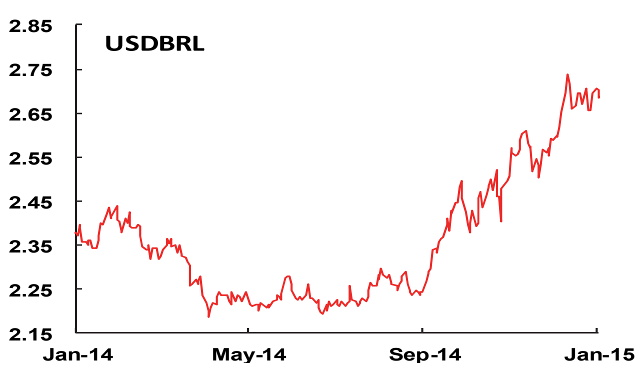
MEXICO — Despite the steady climb of foreign holdings of domestic currency government, USD/MXN continues to push higher, leaving the cross trading in the 14.50 – 15.00 area. Although many of the major external macro factors (i.e. the strength of the US economy & auto-sales) remain positive, the combination of global uncertainty, USD strength, lower oil prices, and domestic political upheaval are acting as headwinds for the peso. However, we still see MXN as arguably the most fundamentally robust LATAM FX.

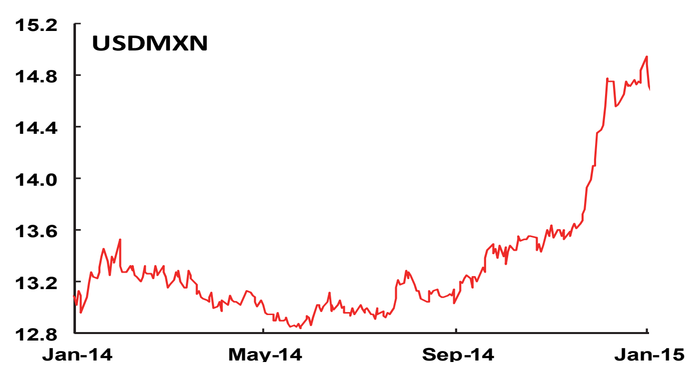
CHILE — The CLP has had a relatively gradual slide vs the USD over the past quarter, which likely reflects that the Chilean peso had an important part of its correction to the softer terms of trade outlook earlier than other regional FX, as well as the relative resilience of copper prices over recent months. In addition, relatively low foreign participation in domestic markets by foreigners, and domestic pension funds net creditor status also helped. However, the corporate sector's relatively high external debt is a risk for CLP.

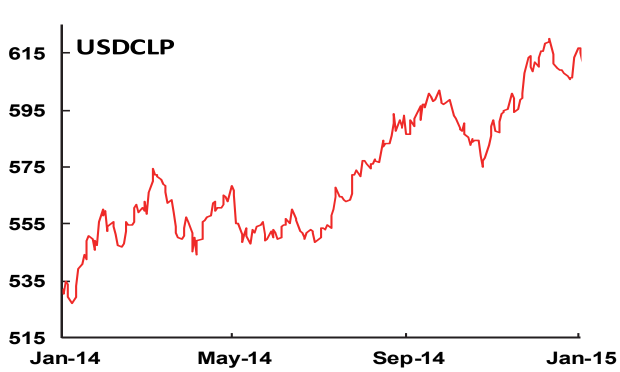
COLOMBIA — The steep drop in the price of oil (WTI now sub-US$50/bl) has pushed USD/COP above 2400, triggering some concern within BanRep about potential FX-inflation pass-through. In addition, the deterioration of the country's terms of trade outlook also darkens trade prospects (oil accounts for 50% of exports). Although inflation concerns does yet seem severe (there is no clear sign of upward momentum in inflationary pressures yet), we may be nearing the point where we could see BanRep move to shore up COP.

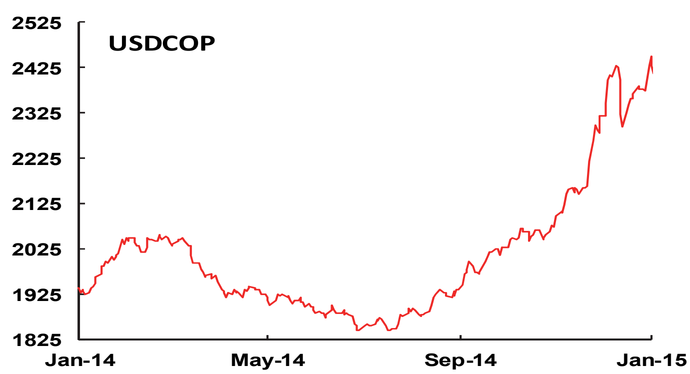
Currency Trends

FX Rate	Spot 8-Jan	15Q1f	15Q2f	15Q3f	15Q4f	16Q1f	16Q2f	16Q3f	16Q4f
USDBRL	2.69	2.75	2.80	2.82	2.85	2.85	2.90	2.95	3.00
USDMXN	14.68	15.00	14.50	13.88	14.09	14.23	14.09	14.17	14.40
USDCLP	612	625	620	615	620	620	618	615	615
USDCOP	2413	2500	2475	2500	2525	2550	2525	2500	2450









Developing Americas

Fundamental Commentary

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BRAZIL — The second term of President Dilma Rousseff commences on a sour note. The economy, which has been flirting with recession over the past few months, will barely expand in the year ahead; we project that real GDP will grow by 0.5% in 2015 before gradually accelerating to 1.5% in 2016. The appointment of a fiscal hawk to lead the Brazilian Finance team through the coming years is indicative of a change in the government's policy agenda. Regrettably, the imperative need to contain inflation and balance the Federal budget in the context of a more volatile external market environment will place the Brazilian economy in very low-to-flat growth context in the year ahead. The consolidated public sector deficit at 4% of GDP is no longer sustainable. To make this worse, the emerging-market asset class is under fire due to the prospect of higher interest rates in the US, decelerating growth dynamics in China, and adverse financial market conditions in Russia, all of which exacerbate a fragile tone in core emerging-market economies. In light of these developments, Brazilian monetary authorities will maintain a very tight stance to counteract potential disruptive capital outflows; the market-benchmark policy interest rate will likely reach as high as 12.75% at the end of the cycle. We have adjusted our exchange rate forecast, now estimating the BRL to close the year at 2.85 per USD.

MEXICO — Mexico will not be immune to the oil price collapse. However, the structural transformation under way makes the Mexican economy less vulnerable to developments in one single industry. Moreover, the US business and monetary cycle is, without any doubt, the most important factor shaping investor sentiment at present. The bright economic outlook enjoyed by the US economy, coupled with broad-based demand for USD-denominated financial assets, will shape the Mexican business outlook in the year ahead. Our forecast assumes a real GDP expansion of 3.3% and 3.7% for 2015 and 2016, respectively, with an inflation estimate above the official target. Additionally, we do expect Banco de Mexico to resume a monetary tightening cycle once the US Federal Reserve makes the first move in this regard. The MXN will remain sensitive to three major factors in the near term: the crude oil price direction, investor expectations for the Fed funds rate hike, and developments in the US labour market and auto industry. Mexico has transformed itself into a highly attractive high-yield North American investment option. Provided the administration of President Enrique Pena Nieto maintains the course of the structural reform programme, we believe that the MXN may be well positioned to weather the heightened financial market volatility associated with energy price gyrations and Fed funds moves. However, the MXN will retain a defensive tone during the first quarter of the year.

CHILE — The Chilean peso (CLP), which has been steadily depreciating over the past six months, will remain influenced by commodity price — particularly copper — trends in the first half of the year. The Chilean economy, which has been battered by declining mining investment and lower terms of trade, will somewhat benefit from the sharp downward adjustment in crude oil prices. Nevertheless, copper prices resumed a declining trend last July, trading as low as US$2.74 per pound in early January. We project that, following a yearly depreciation of 15.5% in 2014, the CLP may begin to stabilize and regain some momentum in the second half of the year. The major factors shaping the Chilean exchange rate will be linked to foreign trade dynamics, mainly from China. We assume that the central bank will maintain a stimulus bias by keeping the administered short-term interest rate relatively low. Consumer Price Inflation reached 5.5% y/y in November, slightly down from 5.7% y/y in October. The depreciating trend affecting the Chilean peso is at the core of such high rate of inflation. The Central Bank, which maintains an inflation target range of 3% +/- 1%, believes that the headline rate will remain above the upper band of range in the near term. However, it will begin to converge towards the target range throughout the next year and close between 3 and 3.5% in the next 12 months.

COLOMBIA — Colombia remains a growth and structural reform story. The administration of President Juan Manuel Santos will continue to implement a decisive structural reform agenda during his second term in office with a view to modernizing the country's economic structures. However, the economic environment will remain strongly influenced by the ripple effects of the oil price shock. We estimate that both energy-related exports and investments will be negatively affected by the collapse of crude oil prices, and that the Federal government will be tempted to stimulate economic activity through a more aggressive infrastructure development programme and a weaker domestic currency. We do not foresee that the inflation targets will be compromised, but the fiscal gap will tend to be wider than originally expected. We believe that real GDP will average between 4 and 4.5% in 2015/16 with downside risks linked to the evolution of energy prices and oil-linked foreign direct investment flows. The COP will be adversely hit by lower growth, a widening current account deficit, delayed investment plans, and by potential repatriation of foreign portfolio investment currently parked in local fixed income markets. Additionally, domestic credit conditions may also be influenced by the resumption of a tightening cycle, likely to be triggered by the US Federal Reserve monetary cycle in the year ahead. Under our revised economic scenario, we project a 6% nominal currency depreciation for the COP in 2015.

Developing Europe & Africa
Currency Outlook

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RUSSIA — The Russian ruble (RUB) has experienced extreme volatility over the past month. Since December 16th's record low and largest one-day decline since 1998, the RUB has been supported by policymakers' array of initiatives to calm sentiment, aid the banking sector and restore currency stability. However, further declines in global oil prices have threatened to unwind government efforts to defend the RUB, which has slid roughly 15% to 60.6 against the US dollar (USD) since its near-term high on December 25. Looking ahead, the RUB's outlook remains bearish, with risks firmly tilted to the downside. The USDRUB is forecast to average roughly 64.0 this year.

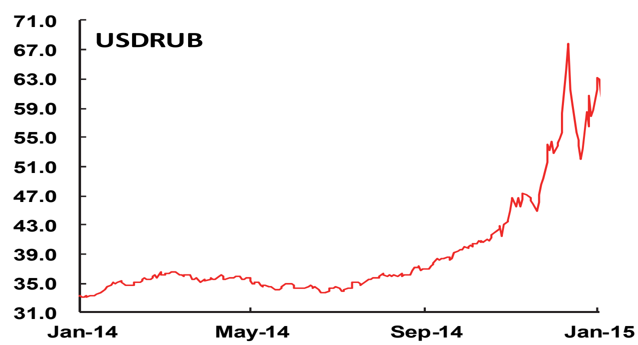
TURKEY — The Turkish lira (TRY) has come under heavy pressure over the past month, depreciating by around 5% against the USD to 2.31 at the time of writing. While lower oil prices bode well for an improvement in Turkey's elevated current account deficit and inflation rate this year. Prospects for Fed monetary tightening will continue to drive capital flows out of emerging markets, with Turkey being particularly susceptible given its dovish central bank, and economic, political and geopolitical vulnerabilities. We expect the TRY to end the year at around 2.40 in 2015 and 2.45 in 2016 against the USD.

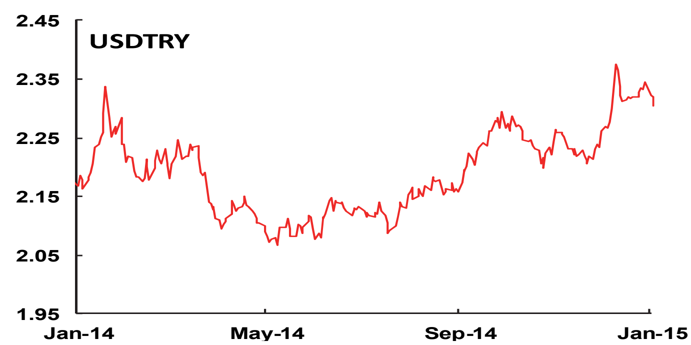
CZECH REPUBLIC — The Czech National Bank (CNB) remains committed to maintaining the exchange rate ceiling of EUR/CZK 27.0 until 2016 as stated following the most recent monetary policy meeting in December. Lower oil prices present further downside risks to the already low headline inflation rate. Nevertheless, the CNB will likely hold off from further weakening the level of the currency unless long-term increases in deflationary pressure capable of causing a slump in domestic demand arise.

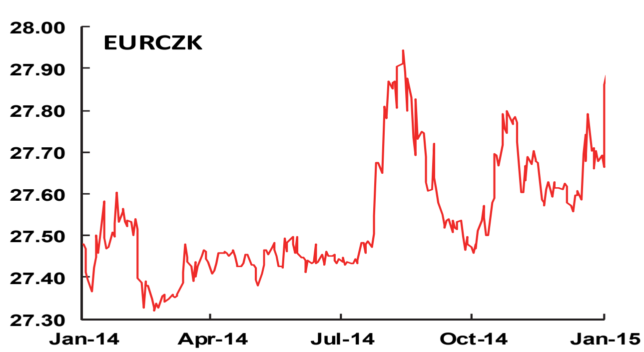
SOUTH AFRICA — The South African rand (ZAR) will likely face a mild depreciating bias through 2015 amidst a backdrop of elevated inflation and weak economic fundamentals. We believe that South African monetary authorities will begin normalizing the benchmark repurchase rate in the third quarter of 2015 following the initialization of US interest rate normalization in the second quarter of 2015 to limit further depreciation of the currency vis-à-vis the USD. Accordingly, we expect the ZAR to average roughly 11.8 against the USD in 2015-16.

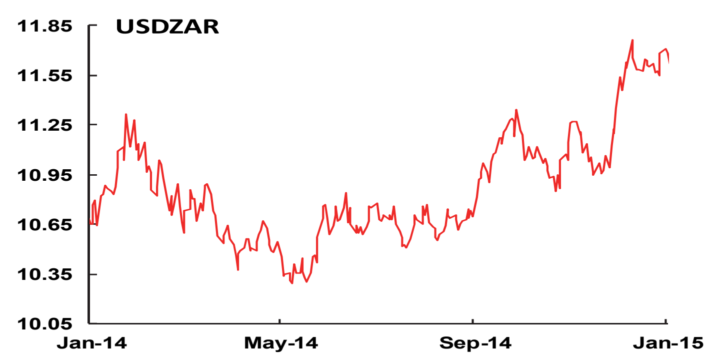
Currency Trends

FX Rate	Spot 8-Jan	15Q1f	15Q2f	15Q3f	15Q4f	16Q1f	16Q2f	16Q3f	16Q4f
USDRUB	60.5	62.0	63.5	64.5	65.0	65.0	62.0	60.0	58.0
USDTRY	2.30	2.33	2.35	2.37	2.40	2.42	2.43	2.44	2.45
EURCZK	27.9	27.7	27.8	28.0	28.1	27.9	27.7	27.3	27.1
USDZAR	11.62	11.80	12.10	11.90	11.80	11.70	11.75	11.80	11.85









Developing Europe & Africa

Fundamental Commentary

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RUSSIA — Russia has experienced severe market turmoil over the past month fuelled by plummeting oil prices, intensifying capital flight, and economic stress from Western sanctions. Russia is in crisis mode, with the economy teetering on the edge of recession, banking sector stability questionable and annual inflation at a worryingly high 11.4%. Since the rubles record low and extreme gyration on December 16th, policymakers' attempts to calm sentiment and restore currency stability has been threatened by further declines in global oil prices. Looking ahead, interest rates will likely remain at emergency levels (17%) for most of 2015, which will undoubtedly have a negative knock-on effect to household spending at a time of declining real wages and tighter lending conditions. Business confidence and investment will also remain depressed by the sharp rise in financing costs, heightened uncertainty and the threat of harsher sanctions. Meanwhile, government finances will become increasingly strained by less revenue from oil and gas taxes, rising defense expenditure, and growing support for companies affected by sanctions. The weaker ruble, however, will lend some support to exports, though at a moderating pace due to lower oil prices tempering its main export revenue. As a result, Russia's current account surplus should narrow from roughly 3% of GDP in 2014 to an average of 2½% in the 2015-16 period. Inflationary pressures will likely persist as the weaker ruble drives up import costs, while structural factors, such as tight labour market conditions, low investment and meager productivity gains keep inflation near double-digits through 2016. In this environment, the Russian economy is set for a sharp contraction of roughly 5% next year, off a 0.5% gain in 2014, with rapid growth in the agricultural sector offsetting weakness in manufacturing and mining.

TURKEY — Market volatility in Turkey has escalated over the past month, amid ongoing domestic political uncertainty and emerging-market jitters triggered by the Russian crisis. The country's large current-account deficit and high external financing requirements continue to be Turkey's main source of weakness and vulnerability to shifts in global sentiment. Meanwhile, despite the recent deceleration in headline inflation to 8.2% y/y in December, down from 9.2% in November — largely due to lower energy prices — inflationary pressures in Turkey remain elevated, with core inflation holding broadly unchanged at just below 9½% y/y over the past few months. While the base effects from lower oil prices will be broadly favorable for Turkish inflation in 2015 (given its energy import dependence) and should help bring down the country's large current-account deficit. Bouts of currency weakness, however, could impede the improvement. This combined with prospects of tighter US monetary policy could prove highly problematic for Turkish policymakers. Looking ahead, while risks are tilted to the downside, Turkish inflation should ease from a year-end rate of 8.2% in 2014 to 6.7% in 2015, while the current-account deficit will likely narrow from –5.5% of GDP to –5%, respectively. Meanwhile, Turkish real GDP growth is forecast to accelerate to 3.5% in 2015 and 4% in 2016.

CZECH REPUBLIC — Despite price levels growing well below the central bank's target of 2%, coming in at 0.6% y/y in November, the economic recovery in the Czech Republic remains well intact. We expect real GDP growth to remain steady, averaging 2.5% y/y in 2015-16 up slightly from an estimated expansion of 2.2% in 2014. Going forward, momentum will be largely supported by strong gains in domestic demand as consumer confidence begins to rise, increasing by1.3% and 2.8%y/y in November and December, respectively; the first positive gains to consumer confidence since early-2008. Accelerating industrial production growth (estimated at 5.0% y/y in 2014) and a supportive monetary policy stance will also act to further drive economic growth. Although the recovery was triggered in the external sector by robust export growth in 2014 gaining roughly 14% y/y, gains in the export sector will likely normalize somewhat through 2016, while growth in imports will likely outpace that of exports by 2016. Nevertheless, lower oil prices will allow the Czech Republic to maintain a negligible current account deficit, hovering around -0.5% of GDP. Indeed, the country is a net beneficiary of lower oil prices, relying on imports for roughly 95% of its petroleum needs. Nonetheless, lower oil prices pose further risks in the form of downside pressure on the already low headline inflation rate. However, the central bank remains committed to intervene on the foreign exchange market if needed to maintain the Czech koruna close to 27 per euro as an alternative for easing monetary conditions.

SOUTH AFRICA — The South African growth outlook remains concerning. Lackluster job creation, a waning fiscal outlook and a persistent current account deficit continue to strain the economy. Successive waves of labour unrest and strikes have dragged down growth in the mining, manufacturing and utilities sectors, causing the South African Reserve Bank (SARB) to lower their projected 2014 growth forecast to 1.4% y/y from 3.0%. Meanwhile, debt-burdened consumers are squeezed by high interest rates and an elevated unemployment rate at roughly 25%. Inflationary pressures remain stubbornly elevated, with price levels rising 5.8%y/y in November, near the top end of the SARB's 3% to 6% target. Nonetheless, lower oil prices should likely feed into a drop in current levels of both food and fuel prices over the 2015-16 forecast horizon. The country is a large net energy importer, meeting roughly 70% of its petroleum needs by imports. Moreover, hawkish comments made by Lesetija Kganyago, the South African Reserve Bank's new governor, will likely materialize in the form of several rate hikes over the medium term. Accordingly, we expect real GDP growth to advance 1½% in 2014 and average 2½% in 2015-16, while inflation should ease from a year end rate of roughly 6% y/y in 2014 to roughly 5¼% in 2015-16, underpinned by weaker oil prices, moderating food prices and subdued consumer spending.

Global Currency Forecast (end of period)

		2014	2015f	2016f	2015f Q1	2015f Q2	2015f Q3	2015f Q4	2016f Q1	2016f Q2	2016f Q3	2016f Q4
Major Currencies												
Japan	USDJPY	120	126	131	122	124	125	126	128	129	130	131
Euro zone	EURUSD	1.21	1.13	1.12	1.17	1.15	1.14	1.13	1.13	1.13	1.12	1.12
	EURJPY	145	142	147	143	143	143	142	145	146	146	147
UK	GBPUSD	1.56	1.51	1.51	1.50	1.50	1.51	1.51	1.51	1.51	1.51	1.51
	EURGBP	0.78	0.75	0.74	0.78	0.77	0.75	0.75	0.75	0.75	0.74	0.74
Switzerland	USDCHF	0.99	1.08	1.10	1.03	1.05	1.06	1.08	1.09	1.09	1.10	1.10
	EURCHF	1.20	1.22	1.23	1.20	1.21	1.21	1.22	1.23	1.23	1.23	1.23
Americas												
Canada	USDCAD	1.16	1.20	1.18	1.20	1.22	1.21	1.20	1.20	1.19	1.19	1.18
	CADUSD	0.86	0.83	0.85	0.83	0.82	0.83	0.83	0.83	0.84	0.84	0.85
Mexico	USDMXN	14.75	14.09	14.40	15.00	14.50	13.88	14.09	14.23	14.09	14.17	14.40
	CADMXN	12.69	11.74	12.21	12.50	11.89	11.47	11.74	11.86	11.84	11.91	12.21
Brazil	USDBRL	2.66	2.85	3.00	2.75	2.80	2.82	2.85	2.85	2.90	2.95	3.00
Chile	USDCLP	606	620	615	625	620	615	620	620	618	615	615
Colombia	USDCOP	2377	2525	2450	2500	2475	2500	2525	2550	2525	2500	2450
Peru	USDPEN	2.98	3.10	3.00	3.05	3.10	3.15	3.10	3.07	3.05	3.03	3.00
Uruguay	USDUYU	24.32	25.50	26.50	24.61	24.91	25.20	25.50	25.75	26.00	26.25	26.50
Asia / Pacific												
Australia	AUDUSD	0.82	0.78	0.78	0.79	0.79	0.78	0.78	0.77	0.78	0.78	0.78
China	USDCNY	6.21	5.98	5.90	6.15	6.09	6.04	5.98	5.96	5.94	5.92	5.90
Hong Kong	USDHKD	7.76	7.78	7.78	7.76	7.77	7.77	7.78	7.78	7.78	7.78	7.78
India	USDINR	63.0	65.0	64.0	63.5	64.0	64.5	65.0	64.8	64.5	64.3	64.0
Indonesia	USDIDR	12388	13200	13000	12591	12794	12997	13200	13150	13100	13050	13000
Malaysia	USDMYR	3.50	3.62	3.65	3.53	3.56	3.59	3.62	3.63	3.64	3.64	3.65
New Zealand	NZDUSD	0.78	0.77	0.77	0.76	0.76	0.77	0.77	0.77	0.77	0.77	0.77
Philippines	USDPHP	44.7	46.0	45.8	45.0	45.4	45.7	46.0	45.9	45.9	45.8	45.8
Singapore	USDSGD	1.33	1.36	1.35	1.33	1.34	1.35	1.36	1.36	1.36	1.35	1.35
South Korea	USDKRW	1091	1170	1150	1133	1145	1158	1170	1165	1160	1155	1150
Taiwan	USDTWD	31.7	32.7	32.3	31.9	32.2	32.4	32.7	32.6	32.5	32.4	32.3
Thailand	USDTHB	32.9	34.0	33.5	33.2	33.5	33.7	34.0	33.9	33.8	33.6	33.5
Europe / Africa												
Czech Rep.	EURCZK	27.7	28.1	27.1	27.7	27.8	28.0	28.1	27.9	27.7	27.3	27.1
Hungary	EURHUF	317	314	317	311	313	314	314	315	316	316	317
Norway	USDNOK	7.45	7.70	7.75	7.65	7.65	7.70	7.70	7.70	7.75	7.75	7.75
Poland	EURPLN	4.29	4.08	3.95	4.15	4.13	4.11	4.08	4.05	4.02	4.00	3.95
Russia	USDRUB	60.7	65.0	58.0	62.0	63.5	64.5	65.0	65.0	62.0	60.0	58.0
South Africa	USDZAR	11.57	11.80	11.85	11.80	12.10	11.90	11.80	11.70	11.75	11.80	11.85
Sweden	EURSEK	9.44	9.21	9.18	9.44	9.32	9.23	9.21	9.21	9.27	9.18	9.18
Turkey	USDTRY	2.34	2.40	2.45	2.33	2.35	2.37	2.40	2.42	2.43	2.44	2.45

f: forecast a: actual

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