Foreign Exchange Outlook

An improved US economic outlook, persistent structural weakness in Europe, aggressive central bank intervention, credit risk differentiation within the emerging-market universe, and excess global liquidity are key drivers of capital flows in foreign exchange markets. The Cyprus systemic shock heightened financial stress in European markets and placed the EUR and the GBP back on the defensive.

The USD has regained strength against all major currencies supported by an improved growth and fiscal consolidation outlook combined with rising European risk. The CAD is poised to continue to range trade close to parity as it is limited by conflicting forces. The MXN is in steady appreciation mode due to attractive interest rate differentials and improved reform-driven growth prospects. Gradual weakness emerged in both the BRL and COP.

The JPY and KRW adopted a fragile tone whereas the CNY and THB enjoy appreciating momentum. The INR is showing signs of stabilization, yet fundamentals remain weak. The AUD and NZD are supported by improving regional economic trends and favourable commodity prices but are sensitive to risk aversion.

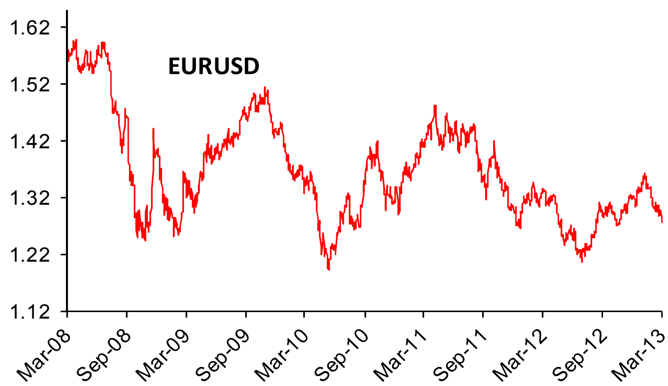
Forecast Highlights

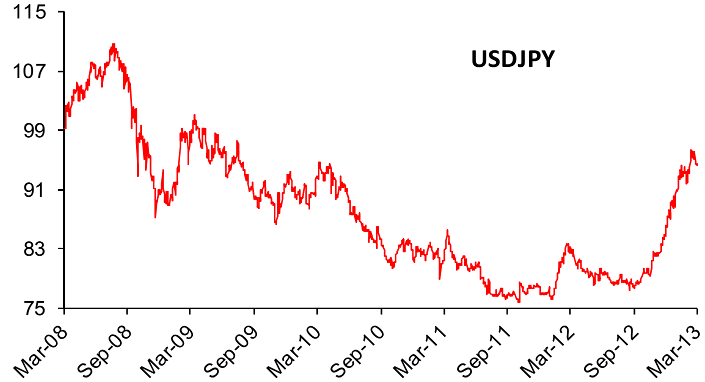
Americas	USD	G4 currency re-pricing is underway; the USD is poised to strengthen vs. EUR, GBP & JPY.
	CAD	Softened CAD profile, but close to parity with the USD.
	MXN	End-year MXN forecast adjusted to reflect improved economic growth & reform outlook.
	COP	Central bank intervention, weak economic profile to weigh on the COP by year-end.
Asia / Pacific	CNY	Steady appreciation underway, USDCNY to reach 6.10 by year-end.
	JPY	JPY weakness to intensify in the second quarter but close the year at 95 per USD.
	AUD	Easing tensions in Europe to keep the AUD attractive.
Europe / Africa	EUR	EUR profile has been lowered given developments in Cyprus and renewed uncertainty.
	RUB	RUB entering weakening phase on energy price adjustments and high inflation.
	ZAR	Persistent labour unrest and weak external demand weighing heavily on ZAR.

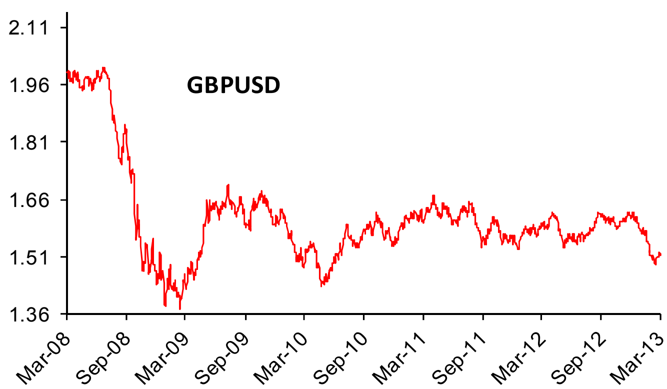
Table of Contents

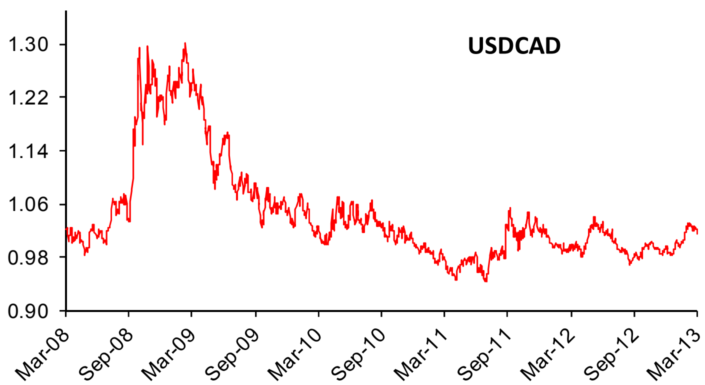
CORE EXCHANGE RATES

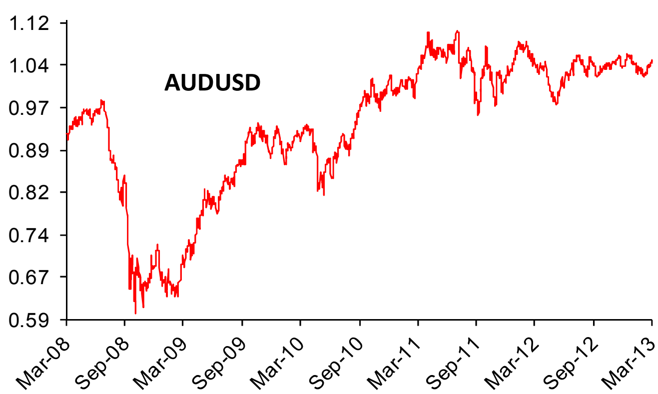
March 27, 2013		Spot	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14	Q2 14	Q3 14	Q4 14
EURUSD	Scotiabank	1.28	1.28	1.27	1.26	1.25	1.25	1.24	1.24	1.23
	Consensus*		1.31	1.32	1.31	1.30	1.29	1.29	1.29	1.28
USDJPY	Scotiabank	94.5	94	98	97	95	95	96	97	98
	Consensus*		95	94	94	94	94	94	94	94
GBPUSD	Scotiabank	1.51	1.51	1.49	1.47	1.45	1.45	1.45	1.44	1.44
	Consensus*		1.51	1.53	1.53	1.53	1.53	1.53	1.54	1.54
USDCAD	Scotiabank	1.02	1.02	1.04	1.02	1.02	1.01	1.00	1.00	1.00
	Consensus*		1.02	1.01	1.00	1.00	1.00	1.00	1.00	1.01
AUDUSD	Scotiabank	1.04	1.04	1.02	1.04	1.04	1.06	1.06	1.08	1.08
	Consensus*		1.03	1.03	1.02	1.01	1.00	1.00	0.99	0.98
USDMXN	Scotiabank	12.33	12.33	12.48	12.53	12.69	13.16	12.60	12.66	12.83
	Consensus*		12.58	12.57	12.53	12.48	12.44	12.49	12.55	12.60

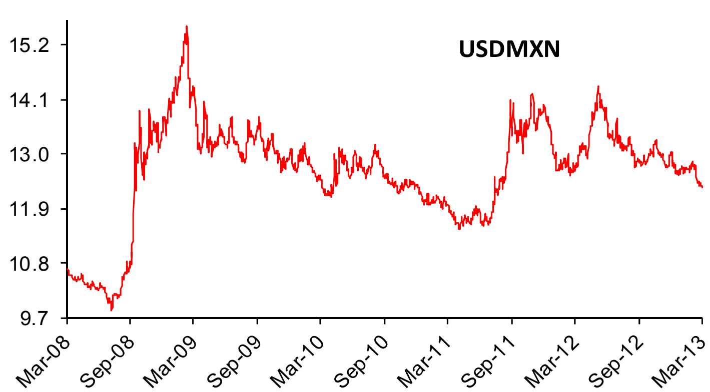












(*) Source: Consensus Economics Inc. March 2013

MARKET TONE & FUNDAMENTAL FOCUS

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The process of global economic and credit rebalancing remains uninterrupted. A growing sense of cautious optimism regarding the scope and sustainability of the global recovery is developing. Official intervention through traditional and unconventional monetary mechanisms continues to guide the transition towards a balanced global economic recovery in an increasingly interdependent world. There are no visible signs of imminent shifts in monetary policy direction in the United States and other systemically relevant high-income economies. A prolonged ultra-low interest rate environment continues to fuel interest on and demand for high-yielding investment assets throughout the world, with a bias towards higher risk appetite. However, financial market metrics indicate a growing distinction within the core group of emerging-market economies. Risk aversion continues to be a major factor driving flows in currency markets; indeed, small spikes in risk aversion, such as the Cyprus shock, may revive the triple-A theme from 2012, where flows rushed into triple-A-rated sovereign debt assets. Meanwhile, commodity price adjustments present a mixed outlook with deteriorating price trends in both base and precious metals groups.

North America enjoys a positive outlook despite country-specific structural challenges within the NAFTA zone. Notwithstanding growth-sensitive fiscal consolidation efforts, the US is showing an improved economic outlook with positive consequences for both Canada and Mexico. The nascent alignment of the US dollar (USD) to a positive US equity market trend is supporting investors' view of a steady improvement of economic conditions in the United States. The trade-weighted DXY index, in ascendancy since early February, shows a clear preference for the USD versus major peer currencies. The USD appears poised to bear the brunt of appreciation, as the Federal Reserve is likely to taper asset purchases in the fall of 2013, growth is expected to outperform Europe, the UK and Japan; and investor sentiment continues to favour long USD positions.

The Canadian dollar (CAD), sensitive to interest rate differentials with the US and commodity price shifts, remains a favourite currency within the small 11-member group of fully AAA-rated economies, despite persistent investor concerns related to housing market developments. The CAD has suffered under a less hawkish central bank, a broadly stronger USD, a slight deterioration in fundamental data and bearish sentiment; leaving its outlook fairly range bound and close to parity into year-end. Finally, the Mexican peso (MXN) has shown robust performance over the past four months as market participants – indifferent to the recent one-off reduction in monetary policy rates – incorporate increasing evidence of pro-growth structural reforms.

The currency market context within Latin America presents mixed, somewhat divergent, performance trends. Within South America, the Brazilian real (BRL) and the Colombian peso (COP) have weakened, triggered by shifts in central bank policy direction (tightening in Brazil versus easing in Colombia). Meanwhile the commodity-and-trade sensitive Chilean peso (CLP) remains in steadfast stability mode.

Europe is, once again, on the defensive. The unfolding of systemic risk in the Cyprus banking sector triggered a new phase of heightened financial market volatility and increased investor caution within the euro zone. Accordingly, the euro (EUR) regained a weakening profile over the past two months, which should extend through the remainder of the year. Therefore, we have incorporated a higher degree of downside risk for the single currency and now expect EURUSD to close the year at 1.25. We expect the ECB to prove slow to turn dovish, but that ultimately the combination of the European growth outlook, the complicated road to the next stage in the EMU and relative ECB/Fed policy supports a weakening EUR trend. On the back of prolonged economic softness, weakening lending activity and persistent systemic weakness in the banking sector, the British pound (GBP) extended a weakening profile throughout the first quarter of the year. Our view for Sterling incorporates a fragile outlook, with an end-year GBPUSD set at 1.45. Even with a spike in euro-related risk aversion the Swiss Franc has been relatively steady. We view the EURCHF floor as credible and accordingly expect EURCHF to close the year at 1.22. Finally, the Russian ruble (RUB) has been hit by the Cyprus effect and has yet to feel the benefits of persistently high energy prices.

The Asia/Pacific region offers a mixed outlook with a substantial difference between the performance of the appreciating Chinese renminbi (CNY) and the depreciating Japanese yen (JPY). The JPY strengthened in the later part of March as risk aversion and fiscal year-end flows supported the currency; however as Bank of Japan Governor Kuroda commits to achieving a 2% inflation target within two-years, monetary accommodation is likely to increase, ultimately driving a weaker JPY. The CNY rose to a fresh record at the end of March, a trend we expect to continue in 2013, with USDCNY closing the year at 6.10. The steady erosion in the value of the JPY has triggered competitive currency re-alignments in trade-intensive economies such as South Korea and Taiwan, while the Thailand adopted a directional bullish trend in alignment to the CNY momentum. Meanwhile, the Indian rupee (INR) remains in stabilization mode, consolidating a trading range following the deep adjustments occurred during the first half of 2012.

CANADA
Currency Outlook

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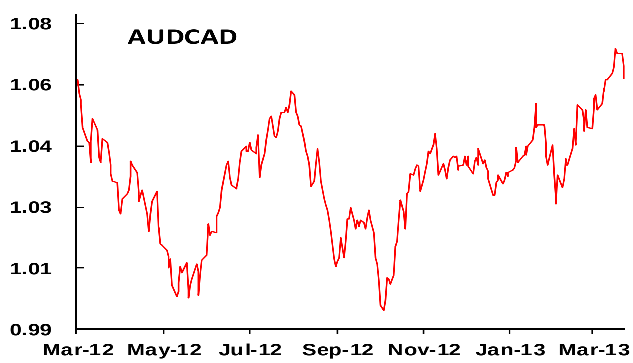
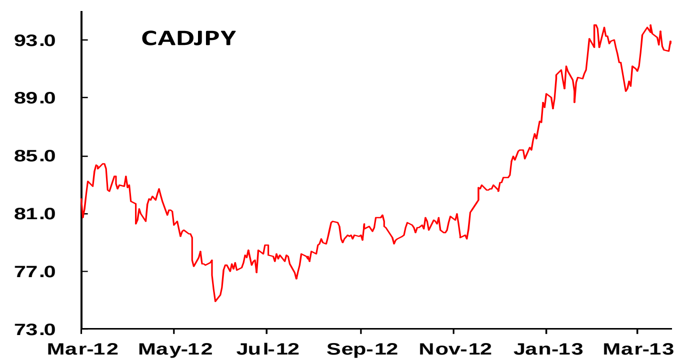
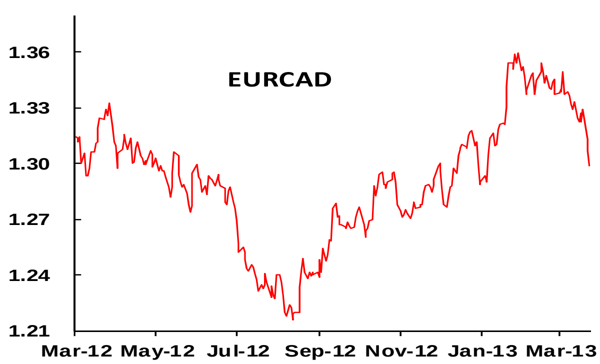
Entering April, the Canadian dollar (CAD) has lost 2.4% on a year-to-date basis as global investors react to a less hawkish Bank of Canada, challenging oil pricing dynamics, a broadly stronger USD and a deterioration in the domestic outlook. These challenges have combined to drive bearish CAD sentiment to build to levels not seen since 2007. As of March 19th, the CFTC was reporting a net short CAD position of US$6.4 billion. The outlook for CAD is more balanced than the first quarter would suggest, below we lay out the conflicting CAD forces. The improving outlook for the US recovery combined with the Federal Reserve inching closer to a time when it will begin to taper its asset purchases is likely to continue supporting a broadly stronger USD. However, the combination of improving US growth and China 's growth profile (GDP of 8.1% in 2013), will also trickle into Canada and help offset what has been a deterioration in the Canadian domestic outlook. Looking out to growth in 2013, housing, government and net exports are all expected to prove a weight against GDP; however, consumption and business investment are expected to make up the shortfall but the combination leaves Canada's GDP underperforming the US. With regards to central bank policy, the Bank of Canada (BoC) has softened its hawkish tone; as of the end of March the market was pricing in no risk of an interest rate hike in Canada during 2013. Scotiabank expect the first hike in 2015. Interest rates on hold and low for an extended period of time would typically be currency negative, however relative to the Federal Reserve outlook we view BoC policy to be FX neutral in the current environment. On a more upbeat note, the mid-March Canadian budget reiterated the government's promise for a small fiscal surplus by FY15/16 and net debt to peak next year at 34% of GDP, falling to 28% by FY16/17; an enviable position and one that has maintained Canada as a strong AAA and supported CAD. In terms of Canada's oil assets, the Brent – Western Canadian Select oil price spread (the proxy for the difference between the price where Canada exports and imports oil) has narrowed materially, entering April at just $30, having fallen from its December $65 peak and well below the 2012 average of $40. This is positive for the Canadian economic backdrop and should help to strengthen CAD's correlation with oil prices. As detailed above, there are several factors supporting a stronger CAD but several others that weigh on its outlook. Accordingly, we do not expect the currency to deviate too far from parity and have it closing the fourth quarter at 0.98 (or in USDCAD terms 1.02).

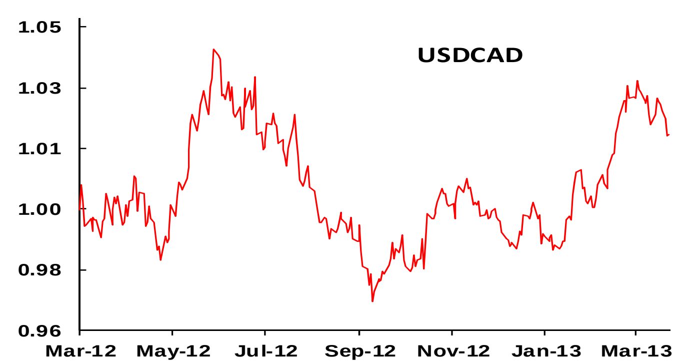
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 27-Mar	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
AUDCAD	1.06	1.06	1.06	1.06	1.06	1.07	1.06	1.08	1.08
CADJPY	92.8	96.0	101.9	98.9	96.9	96.0	96.0	97.0	98.0
EURCAD	1.30	1.30	1.32	1.29	1.28	1.26	1.24	1.24	1.23
USDCAD	1.02	1.02	1.04	1.02	1.02	1.01	1.00	1.00	1.00









CANADA AND UNITED STATES
Fundamental Commentary

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UNITED STATES - The US economy continues to show signs of improving momentum. The nascent revival in housing activity is gaining traction, with existing home sales rising to their highest level in over three years in February. The pickup in sales alongside tight inventories is in turn supporting rising home prices and new construction. Consumer spending has held up well in the face of the January 1 increase in payroll taxes, as well as higher gasoline prices. Retailers reported strong sales growth in February, with confidence and spending power underpinned by strengthening job markets and wealth gains from rising home and stock prices. Non-farm payrolls have increased in excess of 200,000 in three of the past four months, and jobless claims point to another solid hiring gain for March. The improvement in business optimism despite ongoing fiscal uncertainty is also evident in a strengthening trend in capital investment, new orders and industrial production. At the same time, US exporters remain constrained by weak demand in their major international markets, most notably Europe. Inventory adjustments and the timing and impact of federal spending reductions could add considerable output volatility in the near-term. However, as fiscal uncertainty dissipates, the US recovery is expected to gather further momentum later in the year and into 2014, with consumers continuing to unleash pent-up demand for consumer durables, autos and housing, and businesses continuing to ramp up investments and expand payrolls. Exporters also should benefit from moderately stronger global growth alongside improved US manufacturing competitiveness, though rising US import demand suggests that net trade is unlikely to add significantly to growth in 2013-14. Significant excess capacity in labour and product markets will continue to restrain inflation and wage pressures.

CANADA - Canadian economic data continue to disappoint. Real GDP growth appears stuck firmly below a 2% annual rate for the time being. Despite still healthy job growth (employment jumped by 51K in February) and low borrowing costs, consumers have become much more cautious spenders. Retail sales volumes were flat in January, and a decline in auto sales in February points to another weak report in the month. The softening in household spending mirrors rising concern over employment prospects and a cooling in housing market conditions. Home sales, homebuyer intentions and housing starts moderated further in the opening months of 2013, while prices have leveled off. Household deleveraging is expected to dampen domestic growth through 2014. Businesses also have scaled back their spending plans, notwithstanding strong corporate balance sheets and ongoing competitive pressures. The pullback is most notable in the mining and oil & gas sector where softer domestic energy prices have slowed drilling and expansion plans. In contrast, the investment outlook remains solid in a number of other industries, including transportation and utilities. Export volumes are showing some recent signs of improvement, piggybacking on strengthening demand from the United States, the destination of almost 75% of Canadian shipments. While the recent easing back in the Canadian dollar should provide some relief to Canadian exporters this year, the pace of recovery will likely continue to be restrained by competitive pressures and moderate global growth. Meanwhile, federal and provincial fiscal spending restraint will dampen overall activity into next year. Modest wage growth and intensifying retail competition will continue to constrain inflation pressures. Core and headline inflation are both hovering around the lower bound of the Bank of Canada's 1-3% target range.

MONETARY POLICY COMMENTARY

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UNITED STATES - The FOMC continues to purchase US$85 billion of securities per month and to state that the Fed Funds Rate will remain at its current low level until labor markets improve "substantially" (we take this to mean in mid-2015). We expect the Fed's asset purchases will continue essentially at the current pace through 2013, bringing the Fed's balance sheet above USD3.5tn in size. While various Fed officials and aspects of FOMC meeting minutes have raised the possibility of an early 'exit' from stimulus measures, the Fed's leadership (including the Chairman) has emphasized that they would like monetary policy to support an acceleration in growth. We estimate that if the Fed were to continue its current pace of purchases through 2014 there could be adverse consequences for market liquidity in some sectors of the Treasury market (i.e. 10 year and long bonds) leading us to think that FOMC bond buying will have to tail off in 2014.

CANADA - We continue to expect the Bank of Canada (BoC) to remain on hold through our 2014 forecast horizon. The impetus for our forecast is largely weak economic fundamentals: a) economic growth has been fairly weak (sub-1% q/q in Q3 & Q4 2012), b) This is resulting in rising spare capacity in the Canadian economy such that the output gap will only close in the back-half of 2014 according to the BoC (and will persist for longer in our view), and c) inflation remains subdued - in the 1% y/y neighborhood. Two key risks are: a) concerns that the Canadian housing market might soften sooner than anticipated and at a faster than expected pace, and b) concerns that weakness in Canadian energy prices could persist for longer than expected with negative ramifications for the broader economy. The evolution of these risks will go a long way towards determining pricing at the front end of the Canada curve.

EUROPE
Currency Outlook

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EURO ZONE - EUR is entering April having lost 7% from its February 1st high of 1.3711 with building downside pressure. Technicals highlight a bearish outlook as traders continue to build short positions (the CFTC reported a net short EUR position of -$7.2 billion as of March 19th). A revaluation of the risks associated with euro zone deposits, softening economic fundamentals and little progress on the banking union and other EMU reforms, leaves EUR vulnerable to further downside. We hold a year-end target of 1.25.

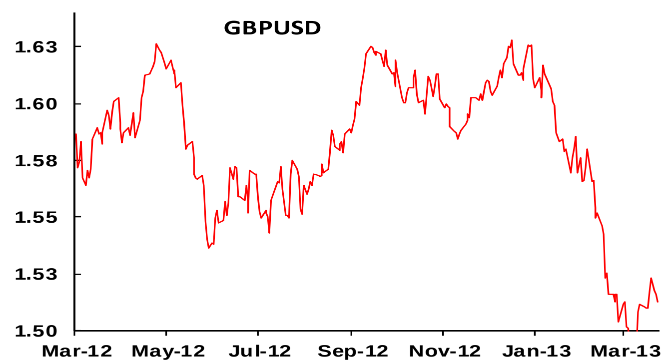
UNITED KINGDOM - The softening European growth outlook is weighing on the UKs and the Bank of England is expected to expand already aggressive monetary policy; the combination of which is weighing heavily on GBP's outlook. Technicals are notably weak and sentiment is negative, with the CFTC reporting a building net short position, already at US$5.8 billion as of March 19th. GBP is likely to see some positive flows leaving Europe in search of non-euro denominated deposits; however we are bearish GBP, expecting it to close the year at 1.45.

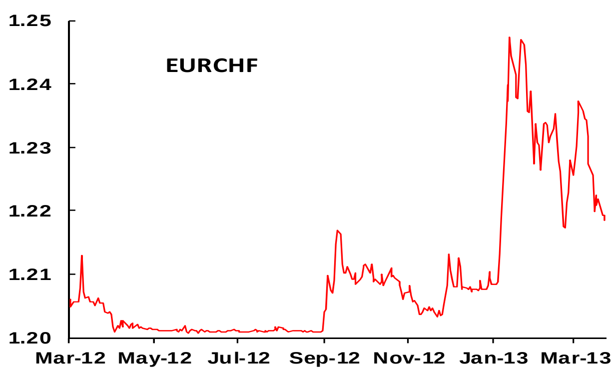
SWITZERLAND - We view the Swiss National Bank's EURCHF 1.20 floor as credible and expect it to be maintained throughout 2013. The developments in the Cyprus banking sector are likely to increase flows away from core-Europe and towards non-euro denominated assets, like CHF. However, we do not expect EURCHF to break its floor.

NORWAY - Leading into April, the Norwegian Krone had depreciated a staggering 8% since its February 1st high due to a broadly stronger USD and an increasingly dovish Norges Bank, who pushed out expectations for the first interest rate hike to the spring of 2014. The building negative sentiment against NOK fails to build in its strong sovereign status, oil reserves and an encouraging economic backdrop. Accordingly, we have maintained our bullish NOK outlook; targeting USDNOK to close the year at 5.30.

Currency Trends

FX Rate	Spot 27-Mar	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
EURUSD	1.28	1.28	1.27	1.26	1.25	1.25	1.24	1.24	1.23
GBPUSD	1.51	1.51	1.49	1.47	1.45	1.45	1.45	1.44	1.44
EURCHF	1.22	1.22	1.21	1.21	1.22	1.23	1.24	1.25	1.25
USDNOK	5.86	5.86	5.65	5.40	5.30	5.28	5.25	5.22	5.20





EUROPE

Fundamental Commentary Sarah Howcroft +1 416 862-3174

EURO ZONE - Growth prospects in the euro area have deteriorated anew as the previous momentum in confidence has faded amid ongoing institutional uncertainty, political gridlock in Italy and rising unemployment and anti-austerity sentiment. Notably, the preliminary PMIs recorded declines in both manufacturing and services in March, as did the ZEW and Ifo surveys. The market reaction to the recent events in Cyprus, including the eleventh-hour agreement on a bailout and banking sector restructuring, was rather nonchalant; however, the ordeal shines a light on other existing banking system fragilities in the region, and will keep investors on high alert in the months ahead. The disparity among the growth outlooks within the euro area has also widened, with signs of recovery in German domestic demand contrasting with worsening conditions in the peripheral states. We have revised lower our growth expectations for most economies in the euro zone (with the exception of Germany), with the likelihood of a negative second-quarter GDP print for the region increasing accordingly. We now expect an output contraction of 0.5% in 2013, followed by growth of 0.9% in 2014. Inflation eased in February to 1.8% y/y from 2.0% in January, helped by lower oil prices and a partial recovery of previous euro depreciation. The ECB narrowed its projection range for inflation this year (leaving the midpoint at 1.6% y/y), while lowering slightly the expectation for 2014 to 1.3% on average. If business and sentiment surveys do not recover in the coming month or two, the central bank may reconsider an interest rate cut.

UNITED KINGDOM - The UK looks increasingly likely to register its third technical recession since 2008 with a second quarterly GDP contraction in the January-March period. Available data from the manufacturing, construction and industrial sectors sharply disappointed at the start of the year; however, a turnaround in the services sector (services account for three-quarters of GDP) could preclude another output loss for the quarter. We have reduced our growth forecast for 2013 to 0.5% from 0.9%, and we continue to expect a return to around trend growth in 2014, with an overall expansion of 1.4%. The pronounced weakening of the GBP from the start of the year through March (8% versus the US dollar) should provide some support to exports, and the trade deficit already showed some improvement in January. However, consumption will remain subdued, despite the ongoing positive trend in the labour market, given low wage growth, weak confidence and continued deleveraging. Government spending will contribute nothing to GDP growth this year, following a boost of roughly 0.6 percentage point in 2012. Though inflation is still elevated, ticking up from 2.7% y/y to 2.8% in February, there remains a possibility that the Bank of England could add to its asset purchase program (i.e., quantitative easing) at some point this year, and/or employ alternative measures to stimulate economic activity. The UK is expected to lose its triple-A sovereign credit rating from S&P and Fitch (following last month's downgrade by Moody's), but the market reaction should be muted.

SWITZERLAND - Following the sharp weakening in the Swiss franc (CHF) on the back of a softening in risk aversion at the start of 2013, optimism has faded once again following the inconclusive Italian elections and Cypriot bailout, and EURCHF has returned to around the 1.22-mark. Given that investor demand for safe-haven assets will remain high over the next year (Switzerland is one of a dwindling group of triple-A rated sovereigns with a "stable" outlook), and as the Swiss National Bank (SNB) has demonstrated its willingness to purchase unlimited quantities of foreign currency in defence of the policy, the official exchange rate floor will likely remain in place for the foreseeable future. Foreign reserves have remained stable around CHF 430 billion since the fall. Signs of overheating in the mortgage and real estate markets in the context of prolonged low interest rates have raised the risk of banking sector destabilization. With mortgage debt topping 105% of GDP, the SNB proposed an activation of the countercyclical capital buffer, which requires banks to hold 1% of risk-weighted against residential mortgage loans. Economic prospects are modest; we expect average GDP growth of 1⅓% in 2013-14. Export growth will remain subdued on account of CHF strength and the recession in the euro area, however, with low unemployment (hovering around 3%) and interest rates supporting domestic spending (in spite of ongoing deflation), in addition to a relatively accommodative fiscal stance, the economy is managing to keep growth positive.

NORWAY - In light of lower-than-anticipated growth and inflation outcomes, Norwegian monetary authorities will maintain an easy policy stance for longer than previously envisioned. With inflation remaining subdued in the start of 2013 (at 1.0% y/y in February, down from 1.3% in the prior month), the Norges Bank now expects a longer recovery period before the rate returns to the 2.5% target. In its analysis, the bank noted that interest rates abroad are set to remain low for longer, recovery prospects in key European trading partners look increasingly bleak, and the domestic economy is losing momentum, with employment growth dwindling and capacity utilization estimated to be lower than previously assumed (though still above normal) as many firms are facing reduced external demand. The krone (NOK) has depreciated swiftly since early-February, losing roughly 8% versus the US dollar and reaching its weakest level since last September. A weaker krone may help to boost lagging exports (particularly in the manufacturing sector); large drops in oil and gas shipments have resulted in an 11.8% year-to-date contraction in exports, while imports have gained 3.5%. The unemployment rate remains low, though it has crept up in recent months, measuring 3.6% in December. Increasing financial market vulnerabilities related to high growth in house prices and household debt remain of primary concern to the Norges Bank, and it has advised the government to introduce a countercyclical capital buffer for banks.

ASIA / PACIFIC
Currency Outlook

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JAPAN - Sentiment towards JPY is negative as the market reacts to PM Abe's three prong strategy, including the new 2% inflation target for the BoJ. We expect the central bank to prove aggressive and on a relative basis to far outpace the Fed in terms of policy and asset purchases into 2014. We expect JPY to weaken further in the second quarter with depreciation pressures fading into year-end. Accordingly, we hold a year-end of 95 target.

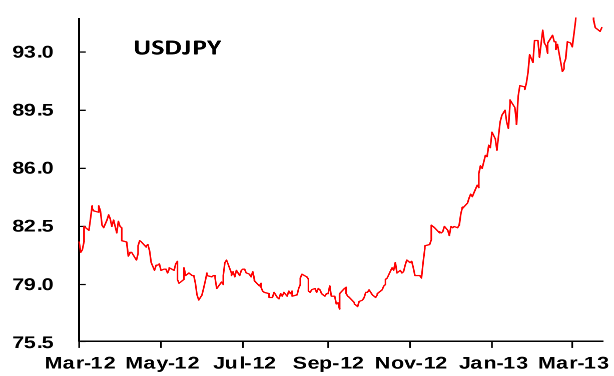
CHINA - The Chinese yuan (CNY) reached a fresh high in late March, entering April having gained 0.3% year-to-date. We expect CNY to face a slow measured pace of appreciation in 2013, however as the outlook for the USD turns more favourable, the outlook for CNY shifts as well, partially explaining why forwards are pricing in the risk of CNY depreciation in 2013. We hold a year-end target of 6.10.

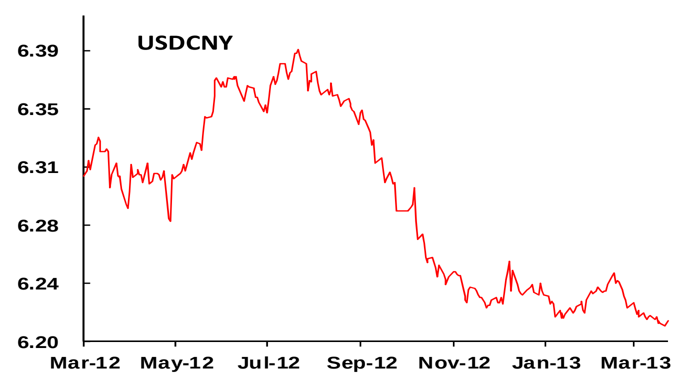
AUSTRALIA - Traders are bullish AUD, with the CFTC reporting a net long AUD position of US$5.6 billion as of March 19th. Acceptance that the upcoming peak in the mining boom does not equate to a mining collapse, combined with an improving outlook for China and building expectations that the RBA will not cut interest rates further supported AUD in March. It is vulnerable to changing risk aversion; however, we expect the currency to trade within a range, closing the year at 1.04.

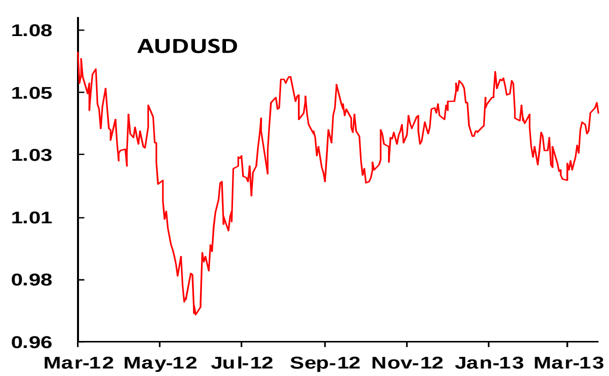
NEW ZEALAND - Leading into April, NZD has traded in a relatively tight 0.8053 to 0.8534 range over the previous six months; a range we expect to be maintained in April as conflicting forces keep the currency in a box. Traders are bullish NZD, but positioning is small with the CFTC reporting a net long NZD position of US$1.1 billion as of March 19th. We hold a year-end NZD target of 0.85.

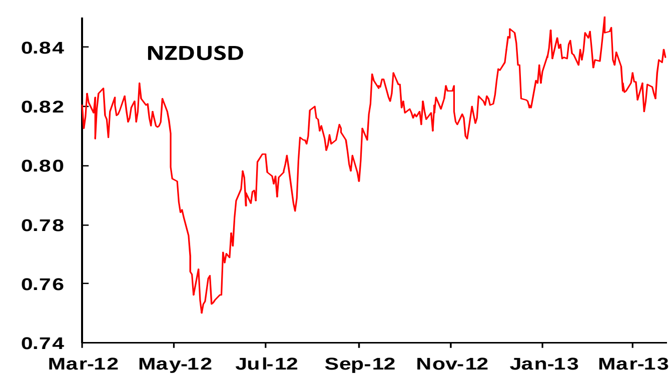
Currency Trends

FX Rate	Spot 27-Mar	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDJPY	94.5	94.5	98.0	97.0	95.0	95.0	96.0	97.0	98.0
USDCNY	6.21	6.21	6.18	6.14	6.10	6.09	6.07	6.06	6.04
AUDUSD	1.04	1.04	1.02	1.04	1.04	1.06	1.06	1.08	1.08
NZDUSD	0.84	0.84	0.84	0.85	0.85	0.85	0.86	0.86	0.86









ASIA / PACIFIC
Fundamental Commentary

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JAPAN - Japan's feeble economic fundamentals, aggressive monetary easing, improving global growth prospects and investor sentiment are driving a correction in the Japanese yen's value. Deflationary pressures persist in Japan with consumer prices declining in year-over-year terms since mid-2012. Japanese authorities remain firmly committed to ending deflation and bringing the economy back to positive growth trajectory, relying on fiscal stimulus and large-scale asset purchases to influence the cost of long-term funding. We believe that further monetary measures will be introduced in the near term; new central bank authorities—who are committed to the Bank of Japan's new annual inflation target of 2% and who assent to Prime Minister Shinzo Abe's pro-growth economic views more broadly—took office in March. The significant recent yen depreciation combined with the policymakers' efforts should eventually translate into modest price increases; we assess that the period of deflation will come to an end around mid-year, with inflation creeping gradually higher towards 0.7% y/y by the end of the year. While Japan's economy remains anemic for the time being, early signs indicate that the revitalization efforts are starting to bear some fruit: improvements in business and consumer confidence are reflected in a gradual pickup in credit growth, while leading indicators point to increasing economic momentum activity in the coming months. We expect Japan's output growth to average 1.2% in 2013-14, with the weaker yen supporting the export sector.

CHINA - Home price developments and credit growth dynamics—both showing strong growth—will be key factors influencing the Chinese monetary policy stance in the coming quarters. While the country's authorities have recently announced further measures to cool down the property market, the People's Bank of China (PBoC) has maintained the benchmark 1-year lending rate at 6.0% since July 2012. Nonetheless, a monetary normalization phase is gradually approaching; the central bank has recently been draining liquidity from the market as a precautionary measure to curb future inflationary pressures and limit excessive increases in home prices. We expect the PBoC to begin to raise policy interest rates in the final months of 2013. A significant jump in consumer prices in February (3.2% y/y compared with 2.0% y/y in January) will likely prove temporary due to the timing of the Spring Festival in February this year (it was in January in 2012). Nevertheless, price pressures will likely build up moderately over the forecast period, reaching 3⅓% y/y by the end of 2013 and around 4% by end-2014. China's economic growth prospects continue to improve gradually; data released early in 2013 confirm that the increased momentum seen at the end of 2012 is carrying over to the current year. Real GDP will likely advance by 8.1% this year with growth picking up modestly to 8.3% in 2014.

AUSTRALIA - Monetary status quo remains the norm. The Reserve Bank of Australia (RBA) opted to keep monetary conditions by leaving the policy-setting repo rate unchanged at the current level of 3% at its last meeting conducted on March 5th. We do not anticipate any imminent change in monetary policy during the first half of the year. The AUD has received favourable tailwinds from recent developments in distressed European countries, particularly from news regarding a multilateral assistance package for Cyprus from the Troika members (IMF/ECB/EC). The Australian central bank has indicated that the economy seems to be operating at a trend-growth level on the basis of recent macroeconomic data. It also believes that there are signs of a gradual improvement in global economic conditions, and particularly activity in China and the US. We project that the Australian economy will grow by 2.6% and further accelerate to 3.1% in 2014 on the back of a more consolidated global economic rebound and improving labour market conditions at home. Following the news on Cyprus, the AUD benefitted from a surge of capital flows to higher yielding currencies, somewhat offsetting the adverse effects from declining commodity prices. Indeed, the 10-year Australian government bond trading at a yield of 3.6% continues to be an attractive investment option. Australia is the largest economy in the Asia/Pacific region fully rated as an investment-grade sovereign credit.

NEW ZEALAND - The small, trade-intensive New Zealand economy continues to benefit from a steady improvement in intra-regional trading flows in the Asia/Pacific region led by Chinese economic activity. The central bank has stressed that consumer confidence and residential investment is increasing, yet the labour market remains weak. Real GDP growth will expand by 2.5% on average in 2013/14 amidst the government's commitment to fiscal consolidation and steady currency overvaluation. The New Zealand dollar (NZD) is not immune to financial market volatility caused by Europe-centric risk aversion or agricultural commodity price adjustments. For now, the easing of market pressures connected to the Cyprus banking sector crisis has helped regional currencies such as the NZD regain investor attention. The correlation with high yielding Australian assets remains in place. Looking ahead, a widening current account deficit (estimated now at 5% of GDP) as a result of accelerating economic activity may weigh on the value of the NZD. On the monetary front, the administered central bank cash rate has remained unchanged at 2.5% since March 2011 on the back of a successfully implemented inflation containment strategy: consumer price inflation closed last year at 0.9%. A potential acceleration of price pressures as the economy regains strength may prompt the authorities to execute a pre-emptive tightening move by year-end. The next Official Cash Rate review will be conducted on April 24th, 2013.

DEVELOPING ASIA

Currency Outlook

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INDIA - The market's disappointment with the relatively hawkish March policy statement has created doubts as to the likelihood that Indian risk assets are boosted further, as the future policy easing path is thrown into question. This will restrain foreign inflows, crucial for financing India's large current account deficit and for insulating INR from downside volatility. The government's reform efforts will be key in supporting sentiment and encouraging inflows; until further current account measures are secured, INR will remain vulnerable. We look for USDINR at 53.00 by Q4.

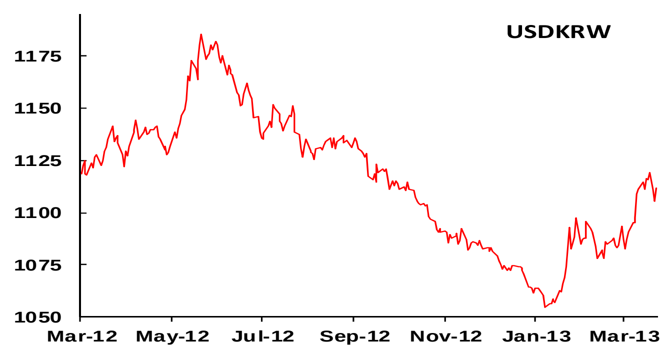
KOREA - The won continues to exhibit downside volatility as weaker JPY levels keep the market focused on communications from policymakers regarding their comfort with the direction of the yen. Korean external accounts had been holding in well enough on a trend basis, though capital account outflows have weighed on KRW in March, suggesting that a turn in risk sentiment amongst foreign equity players would stand to benefit KRW. We target 1050 by the end of Q4.

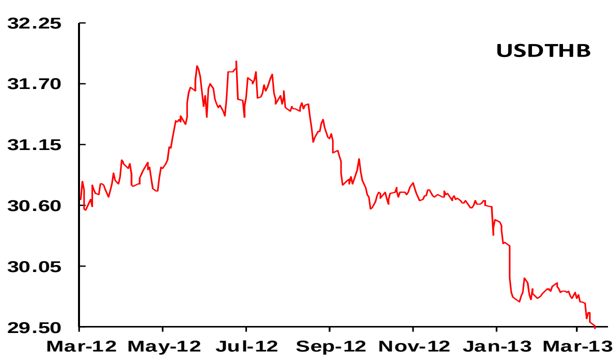
THAILAND - The THB has continued to benefit from portfolio flows over the month of March, helped by a sovereign ratings upgrade, pushing the currency to its strongest level against the USD since July 1997. While portfolio flows are robust, the current account continues to be under pressure and an easing in portfolio flows would expose THB to a sharp reversal. We target 30.25 in USDTHB by the end of Q4.

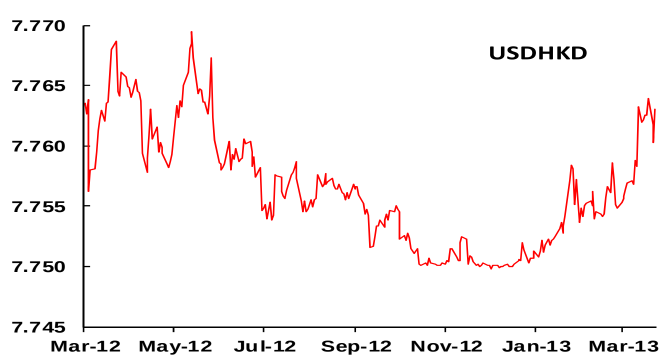
HONG KONG - Since early January, USDHKD has drifted higher away from the strong end of its convertibility band. This essentially coincides with a softening in HK equities, as QE-driven flows have eased to some degree. However, unless we can see sustained indications that US monetary policy will shift in a less dovish fashion, we are unlikely to see sustained USDHKD upside. We forecast USDHKD at 7.75 by Q4.

Currency Trends

FX Rate	Spot 27-Mar	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDINR	54.4	54.4	53.9	53.5	53.0	52.7	52.4	52.1	51.8
USDKRW	1112	1112	1091	1071	1050	1044	1038	1031	1025
USDTHB	29.3	29.3	30.4	30.3	30.3	30.1	30.0	29.9	29.8
USDHKD	7.76	7.76	7.75	7.75	7.75	7.75	7.75	7.75	7.75







Developing Asia

Fundamental Commentary

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INDIA - Monetary conditions continue to ease in India. Following the March 19th monetary policy meeting, the Reserve Bank of India (RBI) reduced the benchmark repo rate by 25 basis points (bps) to 7.5%, taking the cumulative cuts to 50 bps since the beginning of the easing cycle in January. Until recently, high inflation combined with India's fiscal and current account deficits had restricted the central bank's ability to implement meaningful monetary policy accommodation to counter subdued economic conditions and to encourage investment. Now, easing seems more viable on the back of a modest disinflationary trend (wholesale price inflation measured 6.8% y/y in February compared with 8.1% in September, though it increased from the 6.6% mark in January), some promising economic reforms are underway, combined with a reasonably prudent budget for the 2013-14 fiscal year. We assess that the RBI will continue to loosen monetary conditions cautiously in the coming quarters. India's economic performance remains subdued, challenged by still-tight monetary policy, constrained fiscal room and subdued global demand conditions. Growth is mainly supported by private consumption and investment, though they remain low by historical standards due to weak confidence and structural limitations that create a challenging business environment. While the Indian economy is more domestically driven than many of its regional peers, net exports will continue to be a drag on growth as import demand surpasses India's shipments abroad.

KOREA - The improvement of the South Korean outlook is only gradual; signs of an economic revival are slowly emerging with consumer confidence and leading business indicators recording modest advancements. Nevertheless, the country's vitally important export sector continues to show mixed signals. Following a 2.0% gain in 2012, output will likely advance annually by close to 3% in 2013-14, reflecting a pickup in private consumption and improving global demand conditions. External sector prospects are highly significant for South Korea as exports of goods and services are equivalent to over 50% of GDP. The inflation outlook remains manageable; at 1.4% y/y in February, consumer price inflation remains below the Bank of Korea's 2-4% target range. While price pressures will likely build up gradually over the forecast horizon, we expect inflation to remain under the 3% mark through 2014. Monetary conditions are set to remain accommodative in the coming months. The most recent benchmark interest rate reduction took place in October 2012, taking the key rate to the current level of 2.75%. While we assess that the monetary easing cycle has reached its bottom, we acknowledge the fact that the possibility of a further small interest rate cut has increased recently along with the relatively slow pickup in the domestic economy. South Korea boasts solid sovereign creditworthiness, a current account surplus (averaging 3⅓% in 2013-14) and healthy government finances (it has recorded budget surpluses since 2010).

THAILAND - Perceptions of Thailand's creditworthiness are improving. In March, Fitch Ratings upgraded Thailand's long-term foreign currency rating to "BBB+", highlighting the nation's resilient economy, low government debt, a net external creditor position, and improved policy predictability. Now all three major rating agencies have a consistent rating for Thailand. The economy continues to perform robustly. While strong household consumption will continue to be the main growth driver—as indicated by solid increases in private credit and household incomes, a supportive labour market, and improving consumer confidence—exports are showing signs of a broad-based recovery across different sectors. Real GDP expanded by 6½% last year; we expect growth momentum to moderate somewhat this year as the flood-related re-construction boom wanes, with output gains averaging 4⅓% in 2013-14. In the context of a manageable inflation outlook (consumer prices increased by 3.2% y/y in February; at 1.6% y/y, core inflation remains comfortably within the central bank's 0.5-3.0% target range), monetary policy is set to remain accommodative in the coming quarters. Government officials and monetary authorities differ in their views regarding the necessary path of the benchmark interest rate in the context of the strong currency, with the former preferring a looser policy stance to provide relief to the country's exporters. Nevertheless, we expect the repo rate to be maintained at the current level of 2.75% in the coming months.

HONG KONG - Hong Kong enjoys a strong sovereign credit profile, supported by large fiscal reserves, a solid external position, and low public gross debt (of around 30% of GDP). Sizable foreign reserves of US$305 billion will continue to support the fixed exchange rate regime. Hong Kong's steady domestic demand conditions will underpin economic activity together with recovering foreign sales. We expect real GDP growth to average 3¾% in 2013-14, following the 1.4% expansion recorded in 2012. Tight labour supply supports household income gains, which in turn portrays a favourable outlook for consumer spending. Public spending remains growth-supportive, while positive business investment prospects are supported by a favourable tax regime and strong links to mainland China. Recovering Asian trade flows will partially compensate for the challenges created by the persistently weak conditions in Europe. Loose monetary conditions in the US (which essentially determine the local interest rate environment) and a pro-growth local fiscal stance point to inflationary persistence, with negative real interest rates underpinning asset price gains and further supporting domestic spending. The jump in the headline inflation rate to 4.4% y/y in February from 3.0% in January will likely prove temporary, reflecting the timing of the Spring Festival. Government statistics show that the housing market boom continues; annual gains in residential property prices have accelerated in recent months to above 25% y/y.

DEVELOPING AMERICAS
Currency Outlook

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BRAZIL - The Brazilian real (BRL) has broken back above 2.0 against the US dollar, but we see little upside to the cross as the authorities' focus on price stability has increased after persistent inflation near the 6.5% top of the central bank's target range. Accordingly, we believe that the central bank would likely step in to avoid BRL weakness contaminating inflation expectations if the real weakens much further. Our sense is that the authorities' comfort level to the downside stretches to at least 1.95.

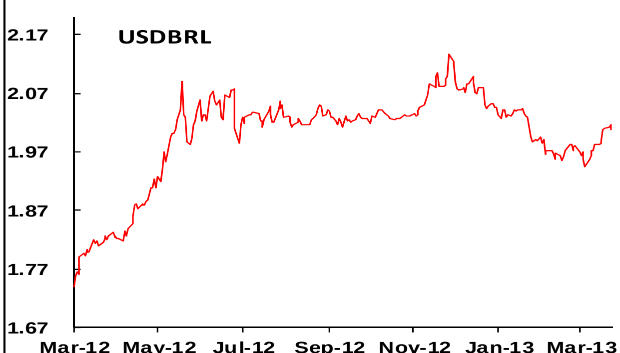
MEXICO - A steady advance on political reform, particularly in the telecommunications sector, an improved view in the US economy and solid local economic fundamentals under a price stability environment have helped the Mexican peso (MXN) to maintain its positive momentum against the US dollar (USD) in the last month, reaching its strongest levels since mid-2011. We are revising our year-end USDMXN rate from 12.90 to 12.70, with the risk towards further currency appreciation.

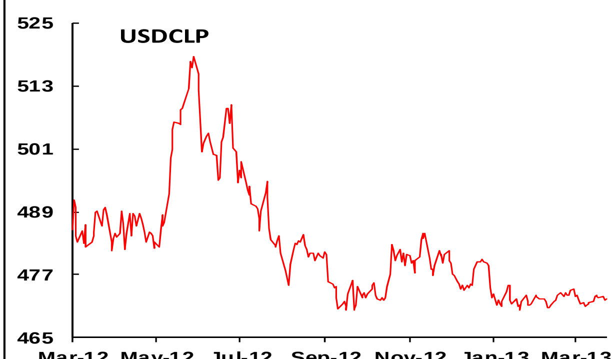
CHILE - With domestic outperforming external demand, the labour market very tight, and the central bank showing signs of discomfort with a potentially overheating economy, while inflation remains below the lower bound of its target, two major policy paths appear to be in the cards: 1) hiking rates and introducing a USD purchase program or 2) "talking hawkish" and leaving rates unchanged while introducing macro-prudential measures. We see the second as more likely option, which could be a moderate headwind for CLP over coming months, as we believe some still expect the central bank to deliver hikes.

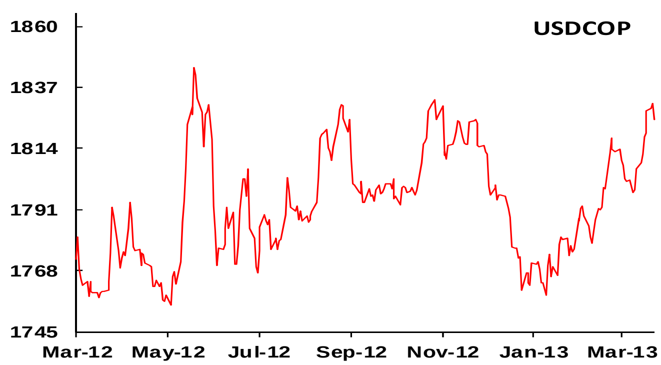
COLOMBIA - Central bank's aggressive monetary policy easing (a 50bps surprise cut on March 22), and the specter of potentially more aggressive FX intervention as the Finance Minister called for "more creative" measures to weaken the currency, should erode support for the peso once April's anticipated tax related inflows fade. We believe that BanRep will at least extend the current US dollar purchase program once it expires at the end of May, but we believe the risk of more aggressive intervention is non-negligible.

Currency Trends

FX Rate	Spot 27-Mar	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDBRL	2.01	2.01	1.98	1.97	1.95	1.95	1.95	1.90	1.90
USDMXN	12.3	12.3	12.5	12.5	12.7	12.7	12.6	12.7	12.8
USDCLP	473	473	473	480	485	485	489	490	495
USDCOP	1825	1825	1850	1880	1900	1910	1900	1900	1890







DEVELOPING AMERICAS
Fundamental Commentary

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BRAZIL - The Brazilian real (BRL) is still in the process of consolidating the steady gains (up 10% versus the USD) achieved between December 2012 and February 2013. The BRL has been in modest depreciation since early March, strongly influenced by the clear intention of the central bank to intervene to moderate currency market volatility. As indicated in equity market trends and year-end economic data, the Brazilian economic outlook has been disappointing at best. Following the 1.4% y/y gain the fourth quarter of 2012, Brazilian real GDP expanded by a mere 0.9% last year. Nevertheless, we are of the view that the economy is now picking up steam and that it may see average growth of 3% or slightly higher this year. In a clear effort to stimulate (somewhat depressed) economic activity and stem the appreciation of the currency, the Brazilian central bank has maintained its policy-setting SELIC rate at 7.25% since October 2012. However, market participants have already incorporated a tightening of 100 basis points by the end of 2013, primarily influenced by expected shifts in market conditions in favour of USD-denominated assets. Inflationary expectations are also trending higher to some extent with an estimated IPCA-based consumer price inflation rate of 5.75-6.00% in 2013/14. Finally, it is worth mentioning that the country's current account deficit, at US$60 billion remains an issue of concern which may weigh on the currency in the months to come.

MEXICO - The Mexican economy, supported by local and external factors – particularly in the US – maintains its positive momentum, despite the moderation registered at the end of last year. The industrial sector, mainly the automotive segment continues to gain momentum, which is expected to remain in place throughout 2013. Both retail sales and the unemployment rate have improved, suggesting a rebound in the first months of the year. After more than three years of monetary policy stability, the central bank reduced the reference rate by 50 basis points to 4% in early March, stating that this was not the start of an easing cycle, but a one-off move to adjust to reduced inflation risks and that the move opens the possibility of an easier adjustment to the expected high liquidity in international markets. Headline inflation remains within the official target range of 2-4% but accelerated from 3.3% y/y in January to 3.6% in February. However, as already highlighted by the central bank, consumer prices could reach the upper limit of the tolerance band in the coming months, temporarily and without threatening price stability due to a lower base in the previous year. The currency performance has been driven by an improved perception of the Mexican political reforms, Standard and Poor's positive revision to the sovereign debt outlook and still elevated foreign inflows under a price stability environment. We are revising our year-end Mexican peso (MXN) forecast, from 12.9 to 12.7 vis-à-vis the USD, with the risk to our forecast towards further MXN appreciation.

CHILE - The Chilean peso (CLP) has been in a defined trading range since the beginning of the year. Despite downward adjustments in both precious and base metal prices, the CLP maintained a relatively stable and strong position averaging 472 per USD in the first quarter. The inflation context remains very favourable with 12-month inflationary expectations well anchored at 3% y/y, in line with the official targets. It is worth highlighting that there has not been worrisome supply-side pressures from tight labour market conditions (unemployment rate at 6%) or through steady (yet somewhat decelerating) domestic credit growth. Monetary policy status quo has been the norm over the past 15 months with the administered policy rate stable at 5%. Looking ahead, the central bank may opt to tighten slightly monetary conditions in late 2013 or early 2014 in preparation for a more vibrant global economy as well as potentially higher long-term interest rates in the US, although all of the components of inflation show a decelerating trend in recent months. The macroeconomic outlook remains robust: after growing by 5.6% last year, we estimate that the Chilean economy will expand by 5% this year and next, strongly influenced by robust domestic demand (up 7.1% in 2012). The monetary authorities have indicated that the widening of the current account deficit, fuelled by strong local investment ad consumption activity, may become a source of external vulnerability.

COLOMBIA - Strong central bank intervention combined with an easy monetary policy and modest local economic performance have been weighing on the Colombian peso (COP) in recent months, driving the currency a loss of 4.2% year-to-date. The GDP expanded by 3.1% y/y in the fourth-quarter of 2012, taking the annual rate to 4.0% a pace significantly lower than the revised 2011 growth of 6.6%. We anticipate that the economy will remain subdued in the first half of the year, speeding up in the third and fourth quarters. In response to lower economic activity (below its potential), inflation below the mid-point of the target range and slower-than-anticipated filtering effect from monetary policy into the economy, the central bank accelerated its reference rate cuts by reducing the rate in 50 basis points (bps), at the last policy meeting. The central bank has cut the policy rate by 200 bps since August and maintains a dovish tone. Simultaneously, authorities continue to intervene in the foreign exchange market to avoid further appreciation of the currency. The central bank has purchased US$1.3 billion, close to 30% of the total amount purchased in 2012. Additionally, the central bank governor has stated that the flexible exchange rate regime will remain in place; however, accumulation of international reserves may accelerate. Under this scenario, we are revising our year-end rate forecast from 1,820 to 1,900.

Developing Europe & Africa
Currency Outlook

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RUSSIA - After an extended appreciation phase, the Russian ruble (RUB) began to reverse course over the last month, losing more than 2% versus the US dollar since mid-February alongside a slide in oil prices. With accelerating inflation and continued concerns about Russia's investment climate and over-reliance on energy exports, we foresee further downward pressure on the currency over the medium term. We expect the RUB to close this year around 31.3 per USD.

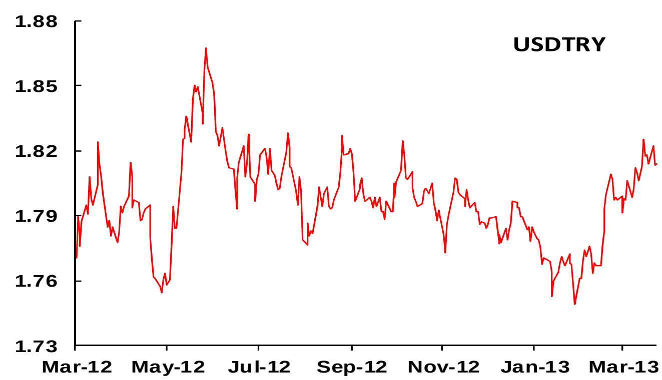
TURKEY - The Turkish lira (TRY) retains a weakening trend on the back of a resurgence of euro-centric risk aversion following the systemic shocks to the banking sector in Cyprus. Despite this bearish momentum, Turkey's ongoing economic rebalancing, narrowing of the current account deficit and fiscal consolidation were rewarded by a credit rating upgrade by Standard and Poor's on March 27th. We expect the USDTRY to close the year at 1.80.

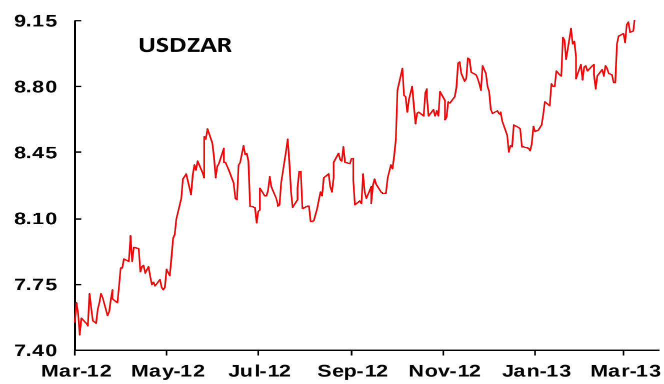
CZECH REPUBLIC - The Czech koruna (CZK) resumed a downward trend in the last two months, bringing the year-to-date loss to 2.7% versus the euro. Persistent domestic political tensions (particularly following the recent election of the new president), combined with spillover from renewed euro-related stress, are adding to pressure on the CZK. We have revised our end-2013 EURCZK target to 25.3.

SOUTH AFRICA - The South African rand (ZAR) witnessed further sharp losses in March and is now down almost 9% against the US dollar year-to-date. With few signs of improving prospects – strike activity continues to disrupt mining and now electricity output, while exports suffer from dampened global demand – we have revised our year-end USDZAR forecasts for 2013 and 2014 to 8.80 and 8.70, respectively.

Currency Trends

FX Rate	Spot 27-Mar	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDRUB	31.1	31.1	31.1	31.2	31.3	31.5	31.7	31.8	32.0
USDTRY	1.81	1.81	1.81	1.80	1.80	1.79	1.78	1.76	1.75
EURPLN	4.18	4.18	4.14	4.09	4.05	4.02	3.99	3.95	3.92
USDZAR	9.27	9.27	9.12	8.96	8.80	8.78	8.75	8.73	8.70





DEVELOPING EUROPE & AFRICA

Fundamental Commentary

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RUSSIA - Economic conditions in Russia remain on balance subdued. A second consecutive decline in industrial output in February (the annual pace of decline accelerated to 2.1% y/y), combined with another weak print in fixed-capital investment and a month-over-month contraction in retail sales (bringing the yearly pace to its slowest since February 2010) point to a further possible deceleration in output growth in the first quarter. The estimated 2.4% y/y GDP gain in the fourth quarter was the weakest since the recession in 2009. We have lowered our growth projections for Russia in 2013 and 2014, with expected expansions of 3.3% and 3.8%, respectively, supported by still buoyant domestic demand, the gradual recovery in global demand and relatively favourable oil and natural gas prices. The Cypriot subsidiary of VTB, the large state-controlled Russian bank, unlikely to be significantly affected by the island's bailout and banking sector restructuring; however, Russian accounts make up the majority of non-resident, non-EU deposits in Cypriot banks (with holdings worth over US$30 billion), implying substantial haircuts for many large offshore investors. President Putin has suggested that his administration will re-negotiate the $3.2 billion bilateral loan extended to Cyprus in late 2011. Inflation picked up again in February to 7.3% y/y, from 7.1% in the prior month. The headline rate is expected to remain above the 5-6% target range through the first half of 2013 on the back of food and certain regulated prices. We do not expect any changes to monetary policy during this period.

TURKEY - The Turkish lira (TRY) adopted a weakening tone in February, interrupting four months of consecutive currency gains versus the US dollar (USD). The TRY has averaged a rate of 1.80 per USD over the past six months. The prospect of massive bond issuance in the context of gradually improving credit fundamentals coupled with accelerating growth will support a stabilizing exchange rate environment. The central bank will intervene when needed to moderate exchange rate volatility. Nevertheless, the country remains structurally vulnerable to sudden swings in foreign capital flows, shifts in energy prices and changing market sentiment caused by heightened intervention by the worlds' major central banks. Economic activity presents mixed signals: while industrial production showed renewed softness at the end of last year, domestic demand will remain buoyant in the first quarter of the year on the back of robust consumption and investment dynamics. Employment growth has resumed despite a slight uptick in the non-farm unemployment rate resulting from higher joblessness in the services sector. The external sector will continue to be adversely affected by depressed European import demand and a structurally high energy import bill. The Turkish economy will grow by 4¼% in 2013/14. The central bank hints at further monetary accommodation following the recent cut in the benchmark repo rate to 5.5%. The one-week policy repo rate has been lowered by 150 bps over the past two years.

CZECH REPUBLIC - Following a weak performance in 2013, the Czech economy should return to a stable growth trajectory by next year. We expect a real GDP contraction this year of approximately ¼% largely attributable to the confidence and trade effects of the crisis in the euro zone (two-thirds of exports are destined to the region). This will likely be followed by a rebound of 1¾% in 2014, underpinned by a pick-up in household and investment spending in the context of an accommodative monetary environment, a more relaxed fiscal consolidation campaign, accelerating global growth and continued domestic banking sector stability. Inflation has eased considerably since the fall, reaching 1.7% y/y in February and the rate is expected to stay within the central bank's 1-3% tolerance range throughout 2013-14. With the policy rate already at the zero lower bound, the authorities' options for stimulus are limited to non-standard measures, such as currency market interventions to weaken the koruna. Exports fell 3.2% y/y in January, but a larger decline in imports (4.1%) allowed the trade surplus to rebound after reaching a 12-month low in December. The Czech Republic maintains a sturdy fiscal profile. Notwithstanding a spike in the fiscal deficit to 5% of GDP in 2012—due to one off factors, including a church restitution settlement and the temporary suspension of a portion of EU funding—the shortfall is set to narrow to below 3% by next year. Political uncertainty and anti-austerity sentiment are mounting ahead of the next year's general elections.

SOUTH AFRICA - South Africa faces several headwinds to growth in 2013, which are increasingly reflected in a depreciating bias in the rand (ZAR). The ZAR remains the worst-performing emerging-market currency vis-à-vis the USD in the year so far, as domestic challenges compound the effects of softer global demand and heightened risk aversion. The merchandise trade balance posted a record deficit in January (ZAR 24.5 billion) on a sharp fall in mining exports and sizeable gain in machinery imports. Meanwhile, with accelerating inflation eating into households' purchasing power, retail sales contracted 1.2% m/m in the month, erasing the small gains of the prior two months. On the other hand, mining production expanded in yearly terms for the first time since August, and the leading indicator edged up to a nineteen-month high. Moreover, the Kagiso PMI for February reached an 11-month high, moving back above the neutral 50-mark. The current account recorded a deficit of 6.3% of GDP in 2012, double the 2011 level in ZAR terms and treasury officials have revised upward their medium-term current account projections, now expecting an average deficit of above 6% of GDP. The widening of this imbalance is weighing on the currency, leading the South African Reserve Bank (SARB) to boost its inflation forecasts for 2013-14. With the inflation rate (at 5.9% y/y in February, its fastest pace since April) expected to temporarily exceed the 3-6% target range later this year, there is little scope for monetary for policy easing in the near term.

GLOBAL CURRENCY FORECAST (end of period)

			2011	2012	2013f	2014f	2013f				2014f			
							Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
MAJOR CURRENCIES														
	Japan	USDJPY	77	87	95	98	94	98	97	95	95	96	97	98
	Euro zone	EURUSD	1.30	1.32	1.25	1.23	1.28	1.27	1.26	1.25	1.25	1.24	1.24	1.23
		EURJPY	100	114	119	121	121	124	122	119	119	119	120	121
	UK	GBPUSD	1.55	1.63	1.45	1.44	1.51	1.49	1.47	1.45	1.45	1.45	1.44	1.44
		EURGBP	0.83	0.81	0.86	0.85	0.84	0.85	0.86	0.86	0.86	0.86	0.86	0.85
	Switzerland	USDCHF	0.94	0.92	0.98	1.02	0.95	0.95	0.96	0.98	0.98	1.00	1.01	1.02
		EURCHF	1.22	1.21	1.22	1.25	1.22	1.21	1.21	1.22	1.23	1.24	1.25	1.25
AMERICAS														
North	**Canada**	USDCAD	1.02	0.99	1.02	1.00	1.02	1.04	1.02	1.02	1.01	1.00	1.00	1.00
North		CADUSD	0.98	1.01	0.98	1.00	0.98	0.96	0.98	0.98	0.99	1.00	1.00	1.00
North	**Mexico**	USDMXN	13.94	12.85	12.69	12.83	12.33	12.48	12.53	12.69	12.74	12.60	12.66	12.83
North		CADMXN	13.65	12.96	12.44	12.83	12.13	12.00	12.28	12.44	12.61	12.60	12.66	12.83
South	**Argentina**	USDARS	4.30	4.92	6.50	7.50	5.12	5.44	5.97	6.50	6.75	7.00	7.25	7.50
South	**Brazil**	USDBRL	1.87	2.05	1.95	1.90	2.01	1.98	1.97	1.95	1.95	1.95	1.90	1.90
South	**Chile**	USDCLP	520	479	485	495	473	473	480	485	485	489	490	495
South	**Colombia**	USDCOP	1939	1767	1900	1890	1825	1850	1880	1900	1910	1900	1900	1890
South	**Peru**	USDPEN	2.70	2.55	2.49	2.45	2.59	2.53	2.51	2.49	2.49	2.48	2.45	2.45
South	**Venezuela**	USDVEF	4.29	4.29	6.30	7.50	6.29	6.30	6.30	6.30	7.50	7.50	7.50	7.50
ASIA / PACIFIC														
	Australia	AUDUSD	1.02	1.04	1.04	1.08	1.04	1.02	1.04	1.04	1.06	1.06	1.08	1.08
	China	USDCNY	6.30	6.23	6.10	6.04	6.21	6.18	6.14	6.10	6.09	6.07	6.06	6.04
	Hong Kong	USDHKD	7.77	7.75	7.75	7.75	7.76	7.75	7.75	7.75	7.75	7.75	7.75	7.75
	India	USDINR	53.1	55.0	53.0	51.8	54.4	53.9	53.5	53.0	52.7	52.4	52.1	51.8
	Indonesia	USDIDR	9069	9793	10100	9800	9725	9850	9975	10100	10025	9950	9875	9800
	Malaysia	USDMYR	3.17	3.06	3.00	2.95	3.10	3.06	3.03	3.00	2.99	2.98	2.96	2.95
	New Zealand	NZDUSD	0.78	0.83	0.85	0.86	0.84	0.84	0.85	0.85	0.85	0.86	0.86	0.86
	Philippines	USDPHP	43.8	41.0	40.8	40.5	40.8	40.8	40.8	40.8	40.7	40.6	40.6	40.5
	Singapore	USDSGD	1.30	1.22	1.21	1.19	1.24	1.23	1.22	1.21	1.21	1.20	1.20	1.19
	South Korea	USDKRW	1152	1064	1050	1025	1112	1091	1071	1050	1044	1038	1031	1025
	Thailand	USDTHB	31.6	30.6	30.3	29.8	29.3	30.4	30.3	30.3	30.1	30.0	29.9	29.8
	Taiwan	USDTWD	30.3	29.0	28.8	28.5	29.9	29.5	29.1	28.8	28.7	28.6	28.6	28.5
EUROPE / AFRICA														
	Czech Rep.	EURCZK	25.6	25.1	25.3	24.2	25.8	25.2	25.2	25.3	25.0	24.8	24.5	24.2
	Iceland	USDISK	123	128	122	120	124	123	123	122	122	121	121	120
	Hungary	EURHUF	315	291	295	285	304	301	298	295	293	290	288	285
	Norway	USDNOK	5.98	5.56	5.30	5.20	5.86	5.65	5.40	5.30	5.28	5.25	5.22	5.20
	Poland	EURPLN	4.47	4.08	4.05	3.92	4.18	4.14	4.09	4.05	4.02	3.99	3.95	3.92
	Russia	USDRUB	32.1	30.5	31.3	32.0	31.1	31.1	31.2	31.3	31.5	31.7	31.8	32.0
	South Africa	USDZAR	8.09	8.47	8.80	8.70	9.27	9.12	8.96	8.80	8.78	8.75	8.73	8.70
	Sweden	EURSEK	8.92	8.58	8.20	8.10	8.32	8.35	8.30	8.20	8.20	8.15	8.15	8.10
	Turkey	USDTRY	1.89	1.78	1.80	1.75	1.81	1.81	1.80	1.80	1.79	1.78	1.76	1.75

f: forecast a: actual

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