Foreign Exchange Outlook

The USD will regain strength in the coming months versus all major currencies. Improving macroeconomic conditions and shifting monetary policy direction in the US, Europe and Japan will support the USD. Commodity-linked currencies (CAD, AUD, CLP, & ZAR) remain subject to downside risks.

The near-term European currency outlook is negative. Both the EUR and the GBP are vulnerable to a new weakening phase as the USD regains strength and structural change in Europe remains absent. High-yielding RUB & TRY currencies continue in acute sell-off mode as credit risk differentiation persists.

Core emerging-market currencies will be on the defensive on the grounds of capital repatriation outflows, asset allocation dynamics and subdued growth. The CNY will remain artificially weak due to export-sensitive official intervention. The BRL retains a weakening bias as growth softens.

Forecast Highlights

Americas	USD	We made limited changes expecting a broadly stronger USD into year-end.
	CAD	Range bound by conflicting forces of a strong USD, monetary policy and oil.
	MXN	Our revised USDMXN forecast reflects emerging-market corrective forces & USD strength.
Asia / Pacific	CNY	Expected to remain relatively stable into year end.
	JPY	Relative monetary policy still supports further weakness into year-end.
	THB	Forecast changed to incorporate further moderate weakness.
	AUD	Near-term depreciation is likely to be followed by stabilization.
Europe	EUR	We have made no change, expecting EUR to trend lower into year-end.
	GBP	Expected to weaken on a strong USD, relative monetary policy & divergence growth.

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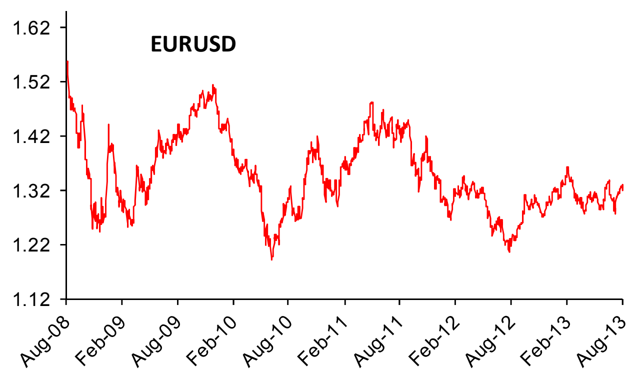
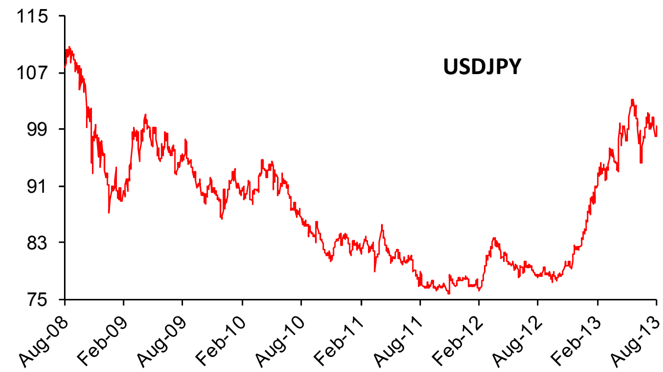
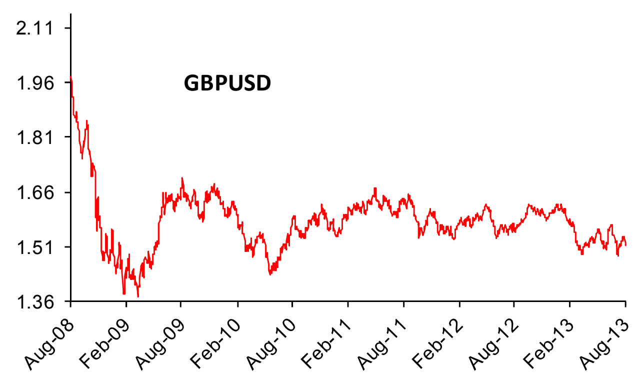
Core Exchange Rates

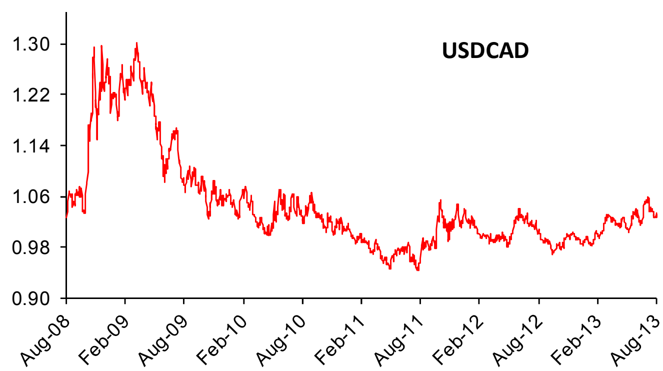
Global Foreign Exchange Outlook

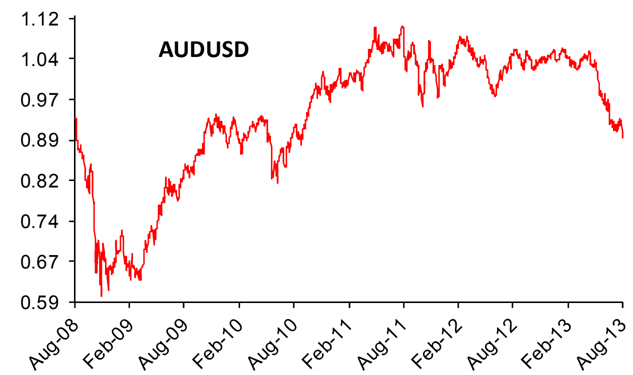
August 1, 2013		Spot	Q1a 13	Q2a 13	Q3f 13	Q4f 13	Q1f 14	Q2f 14	Q3f 14	Q4f 14
EURUSD	Scotiabank	1.32	1.28	1.30	1.26	1.25	1.25	1.24	1.24	1.23
	Consensus*				1.29	1.28	1.28	1.27	1.27	1.27
USDJPY	Scotiabank	99.5	94	99	104	105	106	107	109	110
	Consensus*				102	103	105	106	106	106
GBPUSD	Scotiabank	1.51	1.52	1.52	1.47	1.45	1.45	1.45	1.44	1.44
	Consensus*				1.51	1.50	1.50	1.49	1.50	1.50
USDCAD	Scotiabank	1.03	1.02	1.05	1.04	1.05	1.05	1.05	1.04	1.04
	Consensus*				1.03	1.03	1.04	1.04	1.04	1.03
AUDUSD	Scotiabank	0.89	1.04	0.91	0.92	0.90	0.90	0.91	0.92	0.93
	Consensus*				0.93	0.92	0.91	0.90	0.90	0.89
USDMXN	Scotiabank	12.84	12.33	12.93	12.57	12.59	12.66	12.54	12.59	12.74
	Consensus*				12.70	12.56	12.46	12.36	12.33	12.34

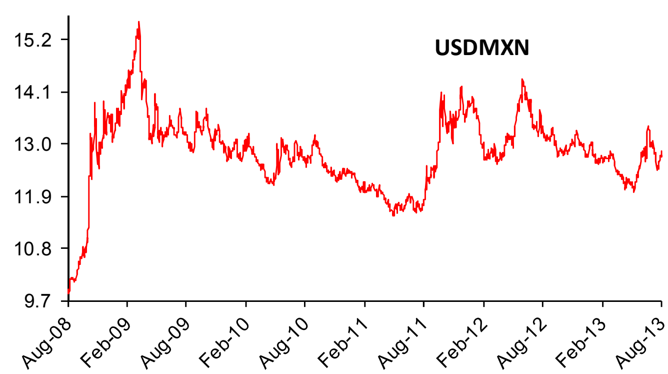












(*) Source: Consensus Economics Inc. July 2013
f: forecast a: actual e: estimate of actual

MARKET TONE & FUNDAMENTAL FOCUS

Pablo F.G. Bréard +1 416 862-3876

The United States is back at the center of global investors' radar screens. US equity securities remain in ascendancy accompanied by increasing long-term interest rates as the process of global risk re-pricing and asset (re)allocation away from emerging-market assets runs its course. Ironically, the US dollar (USD) was unable to extend its appreciating trend against the euro (EUR) on the grounds of market participants' reassessment of near-term economic conditions in the US as well as imprecise forward guidance regarding the unwinding of monetary stimulus (i.e., reduction of US treasury and mortgage-backed securities holdings) by the US Federal Reserve (Fed). Nevertheless, we are of the view that the USD will regain an appreciating trajectory through the remainder of the year.

The NAFTA zone as a whole offers a promising economic outlook for 2014 despite decelerating trends in the three economies this year. Employment, housing, inflation and energy market conditions are all positive factors underpinning a brighter growth outlook for the United States. We estimate that the US real GDP growth rate will accelerate to 2.6% in 2014, up from a modest 1.5% growth rate in 2013. Securities markets are already discounting such an improved economic context. Both Canada and Mexico will benefit from better US economic conditions over the next 18 months, yet financial market metrics indicate a preference for increased US dollarization.

The Canadian dollar (CAD) is entering August having lost 3% year to date during a period of broad USD strength. It is being subjected to conflicting forces. Relative growth differentials vis-à-vis the United States, declining metal markets, unsupportive monetary policy direction and a generalized global move in favour of the USD are expected to be partially offset by the energy complex and flow of funds. We are of the view that USDCAD will trade in a relatively narrow range through the end of 2014, interrupted only briefly with periods of volatility. The risk to our view is that the CAD will undergo some modest depreciation in the next quarter.

Europe remains in economic distress, though with tentative signs of a fragile recovery. We maintain our bearish view for the EUR for year end; our forecast implies a EURUSD rate of 1.25 and 1.23 by the end of 2013 and 2014, respectively. The recent strength of the EUR versus the USD will be short-lived as improved economic prospects in the United States coupled with the upward adjustment in long-term interest rates redirect capital flows towards USD-denominated assets. The 10-year US Treasury (UST) bond yield traded at 2.75% at the end of July whereas end-December metrics implied in futures markets indicate further a upward trajectory towards 3.11%.

The British pound is behaving in an erratic way, mainly influenced by global central bank policy shifts, recovery dynamics in the European continent and, to a lesser extent, uncertainties related to the systemic improvement of the still fragile banking sector and new central bank forward guidance policy. We expect the GBPUSD rate to weaken further to close the year at 1.45. Finally, both the Russian ruble (RUB) and the Turkish lira (TRY) retain a bearish tone in line with core emerging-market currencies as the sell-off momentum in high-yield investment portfolios remains in place.

The Asia/Pacific currency outlook presents a mixed picture as heavy intervention coupled with divergent growth dynamics have caused intra-regional differentiation forces. The Australian dollar (AUD) regained a steep weakening bias as investors anticipate a potential easing of monetary conditions to spur growth in the context of contained inflation. The Japanese yen (JPY) has not abandoned a weakening path against the USD despite a recent pause in the depreciation trend, strongly guided by government intervention in support of its export sector.

The emerging market asset class remains in vulnerable territory influenced by the triple adverse effect of decelerating endogenous economic growth, declining equity securities valuations and expected shifts in US monetary policy direction implied by forward guidance rhetoric. Of utmost relevance to regional currency dynamics, China has temporarily interrupted its guided gradual appreciation strategy; indeed, USDCNY has been trapped in a narrow trading range over the past three months amidst ongoing stress in equity markets. It is worth noting the acute devaluation of the Indian rupee (INR) and the Malaysian Ringgit (MYR) since early May on the back of steady foreign capital outflows (Malaysia may step up intervention to curb ill-justified sell-off pressures).

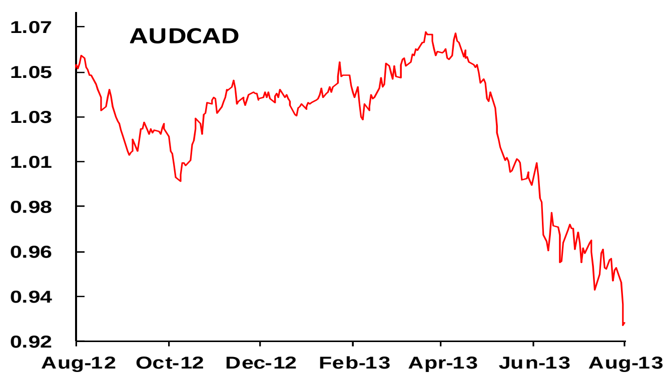
We expect that the dollarization of investment portfolios will increase in Latin America as the US economy recovers, underpinning stock markets and higher interest rates and increasing the attractiveness of USD holdings. The Brazilian real (BRL) has experienced material weakness due to a sharp economic slowdown, intensifying inflation and deteriorating socio-political dynamics. Mexico offers the best potential within the Latin American currency landscape, yet it is not immune to sporadic bouts of financial market volatility affecting developing-market trends. The combined effect of the structural reform process underway and improving demand conditions in the US will support a relatively better performance for the Mexican peso (MXN) in the coming months. The commodity-sensitive currencies, the Chilean peso (CLP) and the Peruvian sol (PEN) will retain a soft bias due to the combined effect of strengthening USD and declining metal prices.

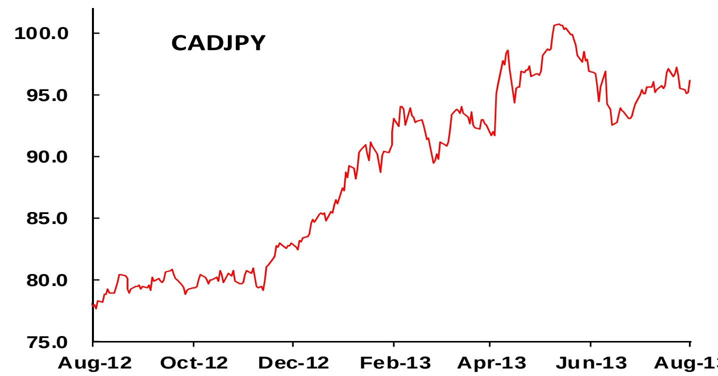
CANADA
Currency Outlook

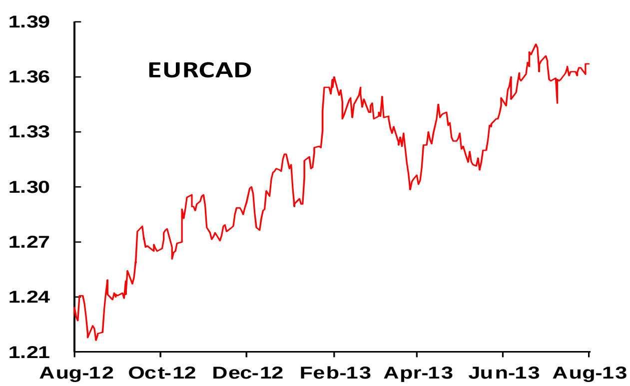
Entering August, CAD has lost almost 4% on a year-to-date basis. The drivers have been broad based USD strength, relative monetary policy, concerns over the domestic outlook and negative sentiment. Looking out to the end of year, CAD is likely to be pinned between offsetting positive and negative developments. In terms of the broad USD outlook, it is likely to be strong. Growth in the US is expected to outperform Canada's in both 2013 and 2014; the Fed is expected to begin tapering in the fall; the US should undergo positive developments in terms of its trade balance and USD flows are expected to remain large. In Canada, the domestic landscape has proven firmer than expected; however, data releases are uneven and housing remains a drag on growth and a risk to the outlook. In terms of monetary policy, Scotiabank Economics no longer expects a Bank of Canada (BoC) interest rate hike in early 2015; this combined with Fed tapering and a likely interest rate hike in mid-2015 likely proves a neutral driver for the currency. However, we note that to date BoC Governor Poloz has proven far less CAD bearish than many had expected, even removing the reference to the challenges posed by the persistent strength in the CAD in the July BoC statement. Oil prices have been strong in 2013, with WTI averaging US$96; but even more important for the Canadian backdrop is the spread between Brent oil and Western Canadian Select. This has narrowed considerably and in Canada's favour, having fallen from $65 in December 2012 to July month-end levels of $24. However, with uncertainty over the US decision on the Keystone pipeline and risks of new bottlenecks emerging there is unlikely to be further favourable oil price developments in the near-term. Flows into Canada's bond market have held up well, with anecdotal evidence suggesting that foreign central banks continue to diversify into the CAD. Finally, sentiment suggest that the market holds a slightly bearish outlook for CAD, with the consensus of forecasters expecting the currency to weaken into year-end and the CFTC reporting on July 23rd a net short CAD position of $1.6 billion. All in all, the outlook for the CAD is somewhat range bound, with positive developments offset by negative ones. We suggest the three key drivers for the CAD's outlook are: relative monetary policy, the broad USD movement and domestic fundamentals in Canada.

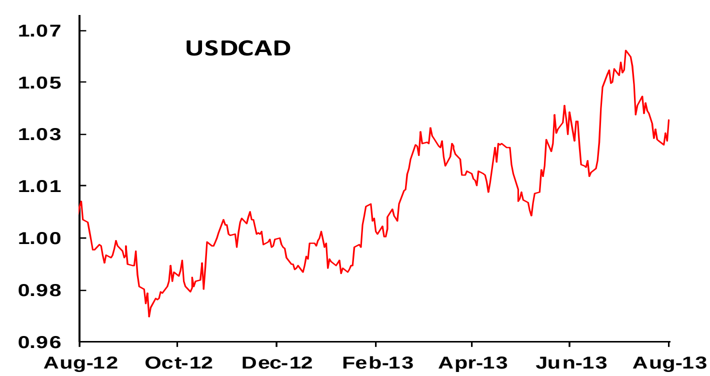
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 1-Aug	13Q1a	13Q2a	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
AUDCAD	0.92	1.06	0.96	0.96	0.95	0.95	0.96	0.96	0.97
CADJPY	96.2	92.6	94.2	100.0	100.0	101.0	101.9	104.8	105.8
EURCAD	1.37	1.30	1.37	1.31	1.31	1.31	1.30	1.29	1.28
USDCAD	1.03	1.02	1.05	1.04	1.05	1.05	1.05	1.04	1.04









CANADA AND UNITED STATES

Fundamental Commentary

Erika Cain +1 416 866-4205

UNITED STATES - US real GDP growth picked up in Q2 to 1.7% q/q SAAR, from a downwardly revised 1.1% in Q1. Growth in business investment on structures led the way, rising 6.8% from a downward revised 25.7% contraction in Q1. Further support came from investment in business inventories, while the drag from government spending did not materialize as anticipated, knocking off only 0.1% from headline growth. However, the main source of weakness and largest drag came from net exports. The widening trade deficit subtracted 0.8 percentage points off Q2 GDP, a result of a nearly double-digit surge in imports, while export growth missed expectations. Despite the strength in auto sales, real consumer spending growth also lost momentum, as Americans rebuild their savings. Housing starts also moderated, falling in June to the lowest level this year, while building permits eased and existing home sales decelerated – the latter likely a result of the sharp run-up in mortgage rates over the last two months. However, distressed sales continued to improve and home prices extended their longest string of uninterrupted gains since April of 2006. Homebuilders' confidence also rose to the highest level since January 2006, suggesting the pullback should be short lived. In addition, industrial production finished the second quarter on a stronger footing, supported by increased mining output and motor vehicle and parts manufacturing, while the ISM manufacturing index edged back into expansion territory. Despite the recent slowdown in private sector demand, household finances are in the best shape of the past decade and consumer confidence is near a six-year high. Looking ahead to the second half of this year and 2014, household spending will likely drive growth, reinforcing gains in employment, new residential construction and business investment. Inflation and wage pressures will remain well anchored, due to excess labour and industrial capacity.

CANADA - Canadian Real GDP picked-up in May, posting a modest 0.2% m/m gain that was held back by weaker activity in the natural resource sector. Economic growth will be choppy over the next few months, as the flooding in Alberta and construction strike in Quebec pose significant downside risks to GDP in June, keeping Q2 growth below an annualized 2%. However, healthy gains in retail sales volumes during April and May, led by new motor vehicle sales, bode well for consumer spending. Further support will come from solid wholesale trade, as well as net exports. New housing construction remained strong, with roughly 200,000 new starts in May and June, while existing home sales increased to a 14-month high in June and prices advanced at the strongest rate since October 2011. Real manufacturing shipments also rose 0.7% m/m in May, driven by strength in durable goods. Forward-looking indicators are encouraging, with gains in unfilled and new orders, while inventories edged down for the first time this year. Notwithstanding some encouraging progress, the year-to-date growth trend in employment is a modest 14K per month and consumer spending is still relatively sluggish. Meanwhile, manufacturing activity remains nearly 9% below the pre-recession peak in July 2008, and the pick-up in residential construction will likely be tempered in the coming months by affordability issues. In addition, despite Canada's narrowing trade deficit, the details were less encouraging, as both imports and exports declined. Nevertheless, in an environment of softer domestic demand and cautious business capital expenditures, the recent depreciation of the Canadian dollar should help support export growth. Canada's overall economic activity is forecast to gain modest momentum later this year and into 2014, as it piggybacks off ongoing improvements in US private-sector demand, residential construction and business investment. Inflationary pressures will remain subdued.

MONETARY POLICY COMMENTARY

Derek Holt +1 416 863-7707

Dov Zigler +1 416 862-3080

UNITED STATES - How does the FOMC propose to wind down its asset purchase program? We think that tapering will likely occur in December (vs. a consensus September call) as the Fed tried to temper the run-up in mortgage rates amidst a 'modest' economic expansion (the FOMC's term). The bigger emphasis should be on: i) the ultimate size of QE3, which we expect to exceed USD 1.3tn and ii) the fact that Treasury issuance will likely fall substantially in 2014 due to lower federal deficits. Both factors ought to prevent extreme disorder during the unwinding of asset purchases. The unwind of QE3 could be overshadowed by the debate over the next Fed Chairman. The press has reported that the President recently named current Vice-Chair Yellen, former Vice-Chair Kohn, and ex-Treasury Secretary Summers as candidates, although reports also suggest that they are three candidates amongst others. Let the speculation begin.

CANADA - Governor Stephen Poloz's initial statement and Monetary Policy Report at the Bank of Canada (BoC) helm served to align the BoC's forward guidance with the Fed's. The BoC now sees the economy functioning with spare capacity through mid-2015, in line with the Fed's guidance for the initial increase in the Fed funds rate. The statement and the MPR gave markets what Gov. Poloz's initial policy speeches had led them to expect: an emphasis on soft CPI, the output gap, and guidance that the BoC will maintain an accommodative monetary policy for long enough hopefully to address both issues. The housing sector and its threats to macro-prudential stability get less ink under Gov. Poloz – instead there is an emphasis on export weakness. To the extent that BoC policy is now closely aligned with the Fed's, it will be interesting to see if it begins to follow the tone of FOMC guidance on the margin.

EUROPE
Currency Outlook

Camilla Sutton +1 416 866-5470

EURO ZONE - The surprise in FX this year is the resilience of the EUR. As we enter August it is flat year-to-date and trading close to its year-to-date average – quite an accomplishment for a currency that represents an economic region that is in recession, a dovish central bank, negative sentiment and has to fight the depreciating forces of a broadly stronger USD. We have made no change to our outlook that the EUR trends lower into year-end as monetary policy, the growth outlooks and sentiment diverge. We hold a year-end EURUSD target of 1.25.

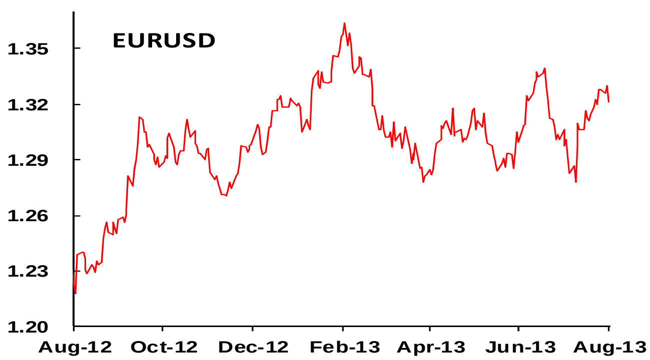
UNITED KINGDOM - From early May until late July the EUR and the GBP traded in tandem, either up or down against the USD, we expect this to continue in the near-term as GBP is impacted by similar drivers. A broad based USD rally is expected to materialize in the fall and this combined with our expectation that the Bank of England, under the leadership of Governor Carney, leans towards forward guidance and thresholds should weigh on the GBP. We hold a year-end GBPUSD target of 1.45.

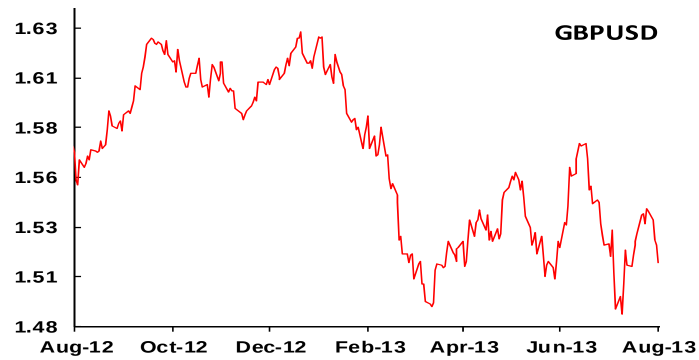
SWITZERLAND - The Swiss National Bank (SNB) remains committed to its EURCHF 1.20 floor; while the spot rate has failed to test this level in 2013. The currency has been moving in tandem with the EUR, with technicals patterns warning of a near-term downward bias. We expect the SNB's floor to remain in place and hold a year-end EURCHF target of 1.22.

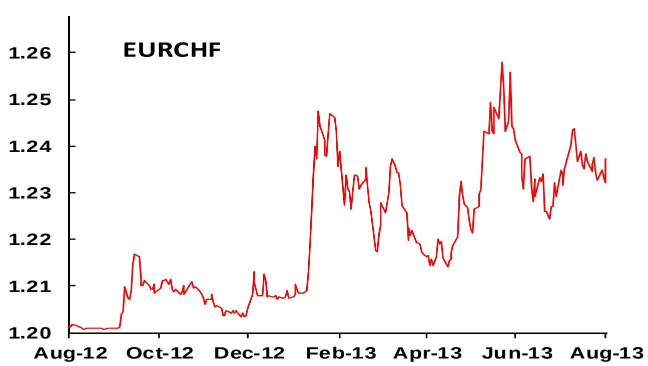
NORWAY - The NOK has been volatile, first weakening in June in tandem with a dovish Norges Bank and subsequently retracing higher in July as fundamentals performed relatively in line with expectations and the USD softened temporarily. We hold a year-end USDNOK target of 5.75 expecting the currency to close the year within its recent range.

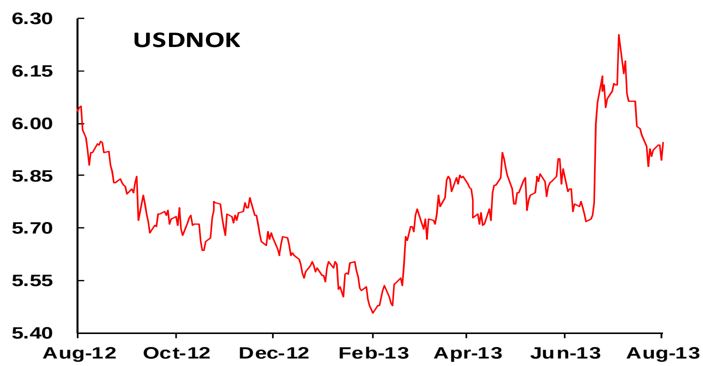
Currency Trends

FX Rate	Spot 1-Aug	13Q1a	13Q2a	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
EURUSD	1.32	1.28	1.30	1.26	1.25	1.25	1.24	1.24	1.23
GBPUSD	1.51	1.52	1.52	1.47	1.45	1.45	1.45	1.44	1.44
EURCHF	1.24	1.22	1.23	1.21	1.22	1.23	1.24	1.25	1.25
USDNOK	5.94	5.85	6.07	5.80	5.75	5.70	5.60	5.50	5.40









EUROPE

Fundamental Commentary — Sarah Howcroft +1 416 862-3174

EURO ZONE - Survey and real economic data continue to paint a picture of stabilizing conditions in the euro area, and there is a possibility that the second-quarter real GDP print for the region will be positive (to be released on August 14th). Nevertheless, several individual economies continue to contract and downside growth risks abound in the form of political, institutional (i.e., banking and fiscal union), and external financial market and growth uncertainties. The PMIs improved once again in July, with the composite and manufacturing indexes moving above the 50-point threshold dividing expansion from contraction for the first time in well over a year. The unemployment rates in some of the most debt-distressed member states, including Italy and Spain, have begun to ease (though, on aggregate the jobless rate remained flat in June at 12.1%). Of note, the same is true for the youth unemployment rates (with the exception of Spain). Consumer confidence has also improved across much of the region. Although banks' interest rates on loans to small and medium-sized business have tentatively begun to decline in the periphery, aggregate private sector credit growth remains negative (-1.6% y/y in June). For its part, the European Central Bank has adopted a strategy of 'forward guidance', pledging to keep monetary policy accommodative, with interest rates at present rates or lower, for as long as needed (though without providing a specific timeline). Inflation is expected to dip temporarily in the month ahead (from its current level of 1.6% y/y) due to base effects in energy prices.

UNITED KINGDOM - After a substantial improvement over the last few months, the UK economy now looks poised to record decent output growth in 2013, helped by a government housing loan initiative, a robust labour market and still accommodative monetary conditions. We have revised our growth forecasts to 1% in 2013 and 1.5% in 2014 (from 0.8% and 1.1%, respectively). The budget's GBP3.5 billion 'Help to Buy' scheme has interrupted an otherwise meager recovery marked by household and government deleveraging and subdued external demand, providing a strong boost to the housing and construction sectors, with house prices also getting a lift. We note that this program has resulted in a rate of household spending in excess of real income growth, a situation which cannot persist over the longer term, particularly if higher house prices filter through the economy further fuelling already high inflation. Nevertheless, the program seems to be working, with both the services and manufacturing PMIs looking better than they have in more than two years. Real GDP growth measured 0.6% q/q in the second quarter according to the first estimate, marking the first time since 2011 that the economy has grown in two consecutive quarters. The labour market continued to steam ahead in July, with jobless claims falling for an eighth straight month (and at the fastest pace in three years). Optimistic data have lessened the pressure on the Bank of England to expand the asset-purchase program, and the market will now focus on the bank's use of 'forward guidance' on interest rates.

SWITZERLAND - Economic growth prospects remain modest in the context of recessionary conditions in the euro area; we expect real GDP expansions of 1.2% in 2013 and 1.5% in 2014. Although the Swiss National Bank expects a slight deceleration in the second quarter (following a rather strong 0.6% q/q real output gain in the first three months of the year), leading indicators suggest that conditions will continue to improve in the latter half of 2013. The UBS consumption indicator, a forward-looking gauge of domestic spending, dipped slightly in June, but the average for the second quarter remains at its highest level since mid-2011. Moreover, the KOF leading indicator, which tracks future GDP growth through business surveys, picked up to its highest level since December in July. Deflationary pressures persist; however, there are signs of easing, with the headline CPI losing just 0.1% y/y in June (versus -1.1% a year ago). The monetary authorities have indicated that they will maintain the minimum exchange rate policy for as long as needed, and may consider a shift in the level of the floor (currently 1.20 francs per euro) and/or negative interest rates if the inflation outlook doesn't continue to improve. Foreign currency reserves fell in June, by nearly CHF10 billion, to 434.9 billion. Switzerland recently signed a free trade agreement with China (becoming the first in continental Europe to do so), which will support the expansion of export markets for high-value, luxury Swiss goods (such as watches and pharmaceuticals).

NORWAY - The domestic Norwegian economy has been relatively resilient to the worsening external environment. Mainland GDP expanded by 0.7% q/q in the first quarter (seasonally adjusted), and low unemployment and interest rates and a modestly expansionary pre-election budget will remain supportive of domestic demand. Nevertheless, at the last policy-setting meeting, the central bank signaled an increased willingness to loosen monetary conditions later in the year should the challenging export environment translate to material softness in local conditions. Year-to-date through June, exports have contracted 9.8%, though only 1.5% excluding oil and gas. According to the Norges Bank's latest assessment, economic activity has been somewhat weaker than anticipated, while inflation has been slightly higher, justifying an unchanged policy rate (at 1.50%) for the time being. We expect mainland GDP to expand by 2.5% in 2013. Inflation in June reached its highest level (2.1% y/y) since December 2010, though the underlying measure remained unchanged (at 1.4%) and well below the official 2.5% target. Although the central bank foresees a longer period before inflation returns to target, the risk of a build-up of financial sector imbalances may preclude any monetary easing, particularly if the recent period of lower pressure on the currency persists. The krone weakened 8.5% versus the US dollar between mid-June and early July, weighed down by shifting relative monetary policy, however, it has already recovered more than half of those losses.

ASIA / PACIFIC
Currency Outlook

Camilla Sutton +1 416 866-5470
Sacha Tihanyi + 852-2861-4770

JAPAN - The JPY was relatively stable during July, continuing to trade in tandem with equities and impacted by developments in the relative policy outlook between the BoJ and Fed. Technical patterns are providing no clear direction, while market sentiment is bearish JPY, with the CFTC reporting on July 23rd a net short JPY position of US$11 billion. We expect the JPY to weaken into year-end as it is weighed down by ongoing aggressive BoJ policy at a time when the Fed begins to taper its bond purchases. We hold a year-end 105 target.

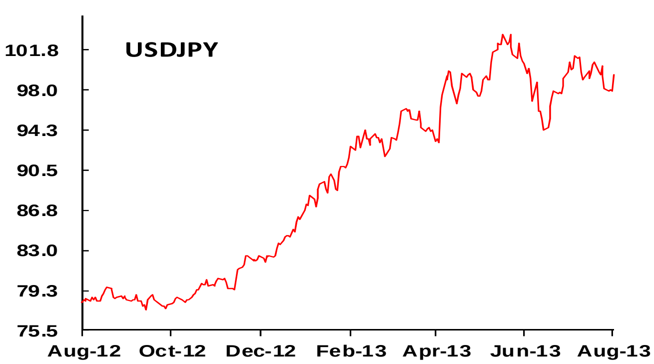
CHINA - CNY stability has been impressive of late, with the currency essentially flat since late May. This reflects some concern Chinese policymakers hold over the domestic impact of increased financial volatility in emerging markets. While interest rate liberalization has moved forward, we do not expect further near-term exchange rate reform, at least until the external environment stabilizes.

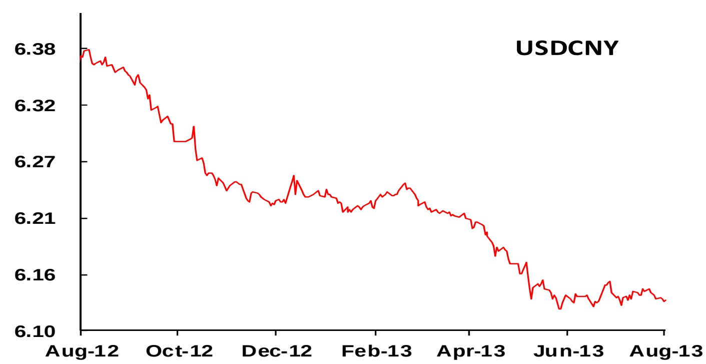
AUSTRALIA - The AUD closed July at a fresh multi-year low of 0.8982, impacted by negative sentiment (as of July 23rd, the CFTC was reporting a US$6 billion net short position), bearish technical patterns, a deterioration in the outlook for China and a dovish Reserve Bank of Australia. These themes have yet to complete and accordingly could drive further near-term AUD weakness; however into year-end we do expect the AUD to stabilize and hold an AUDUSD year-end target of 0.90.

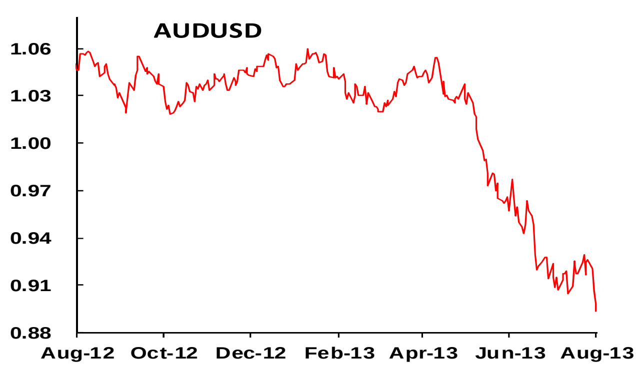
NEW ZEALAND - The NZD rallied in July as the Reserve Bank of New Zealand shifted to a more hawkish stance, the USD was broadly weaker and NZD benefited from significant AUDNZD selling. Technically, NZDUSD has entered a fairly wide range trading environment and is currently trading close to its two-year average level of 0.81. Sentiment is modestly bullish, with the CFTC reporting a modest net long position as of July 23rd. We expect the NZD to fall victim to the broader USD strengthening trend and accordingly hold a year-end NZDUSD target of 0.75.

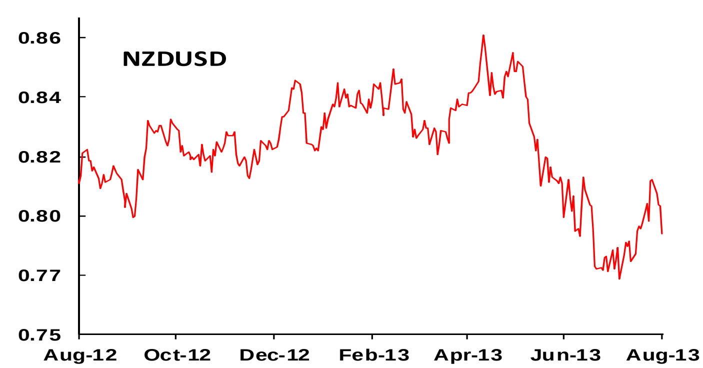
Currency Trends

FX Rate	Spot 1-Aug	13Q1a	13Q2a	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDJPY	99.5	94.2	99.1	104.0	105.0	106.0	107.0	109.0	110.0
USDCNY	6.13	6.21	6.14	6.12	6.10	6.09	6.07	6.06	6.04
AUDUSD	0.89	1.04	0.91	0.92	0.90	0.90	0.91	0.92	0.93
NZDUSD	0.79	0.84	0.77	0.76	0.75	0.75	0.77	0.80	0.82









ASIA / PACIFIC

Fundamental Commentary

Tuuli McCully +1 416 863-2859

JAPAN - The period of deflation in Japan is technically over with inflation returning to positive territory in June when prices increased by 0.2% y/y. Nevertheless, the administration of Prime Minister Shinzo Abe has a substantial amount of work left to do in order to achieve its 2% inflation target; price gains were primarily driven by energy costs with other categories remaining in deflationary territory. We expect consumer price inflation to reach 0.7% y/y by year-end and to creep gradually higher towards 1.2% y/y by the end of 2014. On the economic growth front, Mr. Abe's revival plan is yielding results with various industry and consumer–related indicators improving. We anticipate that the country's real GDP growth will average 1.7% in 2013-14. Nevertheless, for the recovery to be more than a short-term phenomenon, strong political will is required to deliver on promised structural reforms. Japan's upper house of parliament faced an election for half of its 242 seats on July 21st; thanks to a popularity boost from recent promising economic news, the Liberal Democratic Party with its junior partner, the New Komeito party, secured 76 seats, thereby granting the coalition 135 seats in the upper house in total. This gives it a majority in both houses of parliament and will help policymakers push ahead with the third "arrow" of the country's economic revival plan, which focuses on long-term structural reforms to complement the already announced fiscal and monetary measures. More details regarding the reform plan are expected to be unveiled in September.

CHINA - China's administration is unwilling to tolerate excessive credit growth, particularly in the shadow banking sector. The authorities will likely continue their efforts to limit lending expansion in the coming months in pursuit of reaching a more structurally balanced financial environment and bringing the economy to a sustainable growth trajectory. Therefore, we will likely see a slowdown in non-public investment growth, causing China's economic expansion to decelerate. Meanwhile however, China's administration has the means to provide support to the economy if needed. We now expect the nation's output to advance by 7⅓% in 2013 and 2014, compared with 7¾% previously. China's second quarter real GDP increased by 7.5% y/y following a 7.7% gain in the January-March period; while growth in the industrial sector slowed slightly to 7.6%, the services sector maintained its robust momentum of 8.3% indicating that the economic contribution of household spending continues to increase. China's financial sector structure is moving toward a more market-oriented framework. In July, the floor of lending rates was scrapped at once, which is an important step in the process of interest rate liberalization – which in turn is a prerequisite for capital account liberalization – and will help allocate capital more effectively. The inflation outlook remains manageable. The consumer price index recorded a 2.7% y/y gain in June, accelerating from the 2.1% pace in the previous month on the back of increases in food prices. Meanwhile, producer price inflation remains in deflationary territory due to industrial overcapacity.

AUSTRALIA - Three key factors shape the outlook for Australia's monetary policy stance. First, the Reserve Bank of Australia (RBA) assesses that domestic economic activity is growing at a below-trend pace, with the investment outlook remaining uncertain (we expect real GDP to increase by 2½% in 2013). Second, monetary authorities maintain their view that the exchange rate of the Australian dollar remains "at a high level" despite its recent depreciation bias. Third, inflation remains low with consumer prices increasing by 2.4% y/y in the second quarter of the year (compared with a 2.5% y/y gain in the January-March period), and will likely remain near the current level through the end of the year. Against this backdrop, we anticipate that the RBA will act according to its view of there being "some scope for further easing" if needed, and lower the benchmark cash rate by an additional 25 basis points to 2.50% before the easing cycle reaches its bottom. The ruling Labour Party has a new leader, Kevin Rudd, who defeated Julia Gillard in a leadership vote at the end of June. Along with the replacement of the prime minister, the date for next parliamentary elections – earlier targeted to be held on September 14th – will change as well; a new date has yet to be confirmed. Since Mr. Rudd took over the premier's post, the Labour Party has increased its popularity. Nevertheless, according to recent surveys of voting intentions, the opposition Liberal-National Coalition, led by Tony Abbot, will likely win the ballot.

NEW ZEALAND - New Zealand's monetary conditions are set to remain unchanged in the coming months on the back of muted inflationary pressures and a stable real GDP growth outlook. CPI inflation eased to 0.7% y/y in the first quarter of the year from 0.9% in the previous quarter, remaining below the Reserve Bank of New Zealand's 1-3% target range. We expect headline inflation to begin to creep higher in the latter part of the year, reaching the 2% mark in early 2014, and remaining near that level throughout the year. Following the July 25th policy meeting, monetary authorities maintained the benchmark interest rate at 2.50% noting that they expect to keep it at the current level through the end of the year. We expect New Zealand's real GDP to grow by 2.7% in 2013, equivalent to last year's gain, before picking up to 2.9% next year, reflecting an improvement in global momentum. The performance of the small commodity -producing economy will greatly depend on the global growth and trade cycles. For the time being, subdued external conditions will continue to weigh on the overall economic outlook as the country's exporters battle with still-weak global demand and a strong currency. Domestic demand continues to be the main economic motor, driven by earthquake-related reconstruction investment, though government spending will be constrained by fiscal consolidation efforts. Household spending is supported by developments in the labour and housing markets with improving momentum carrying into the second quarter.

DEVELOPING ASIA
Currency Outlook

Sacha Tihanyi + 852-2861-4770

INDIA - The RBI has been forced to tighten liquidity conditions and halt its monetary easing efforts as the need to stabilize the rupee has taken priority. Fixed income outflows were particularly debilitating for the INR and exacerbated the INR-negative impact of weak funding conditions for India's current account deficit. The external accounts are certain to remain the key constraint to the RBI going forward, as further domestic liquidity tightening cannot be ruled out to support the INR. We now target USDINR at 62.00 by year-end.

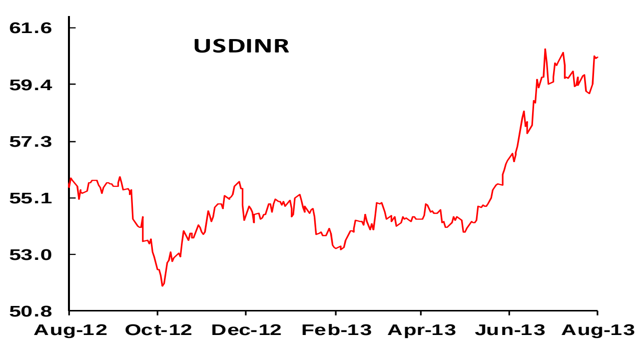
KOREA - Korea's strong current account evolution has insulated it from some of the most severe capital account outflows since the global financial crisis in 2007. This fundamental strength has helped the KRW outperform the rest of Asia by a wide margin since the emerging market meltdown, and certainly over the month of July. We remain constructive on KRW and look towards a normalization in portfolio flows to contribute to the currency's regional outperformance. We target USDKRW at 1120 by the end of the year.

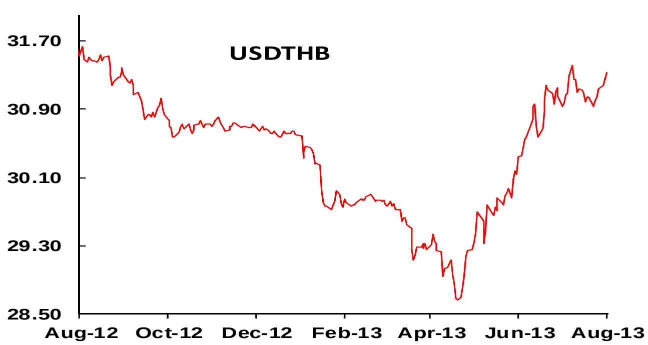
THAILAND - Thailand's external accounts have continued to be weak, with the current account showing the worst first half-year performance in nearly a decade. Capital flows appear to have been less of a drag on the THB over the month of July, though the June balance of payments deficit was the largest since the financial crisis, thanks to US Federal Reserve asset purchase taper expectations. We expect negative current account dynamics and capital account challenges to keep the THB on its back foot and forecast USDTHB to be at 32.00 in Q4 2013.

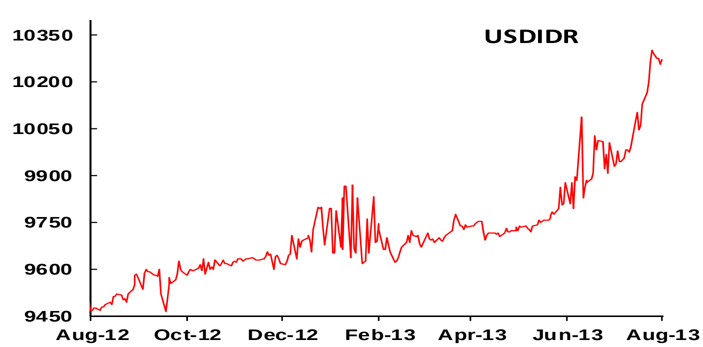
INDONESIA - Despite aggressive monetary tightening in July, the rupiah continued to suffer from severe pressure and has depreciated past our previous end of year target. Bank Indonesia burned through nearly 9% of its foreign exchange reserves in May and June, clearly an unsustainable rate. With trade accounts still deteriorating, Bank Indonesia will continue to pursue a depreciatory stance in the IDR in order to achieve external balance, a dynamic that will be challenged by rising US market rates. We now target USDIDR at 10500 by Q4 2013.

Currency Trends

FX Rate	Spot 1-Aug	13Q1a	13Q2a	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDINR	60.4	54.3	59.4	61.0	62.0	61.8	61.5	61.3	61.0
USDKRW	1124	1111	1142	1120	1120	1115	1110	1105	1100
USDTHB	31.33	29.26	31.05	31.60	32.00	32.13	32.25	32.38	32.50
USDIDR	10271	9735	10004	10400	10500	10525	10550	10575	10600







DEVELOPING ASIA
Fundamental Commentary

Tuuli McCully +1 416 863-2859

INDIA - India's monetary policy easing cycle has likely come to an end as the Reserve Bank of India (RBI) is increasingly concerned about the depreciating bias of the Indian rupee. The benchmark repo rate was lowered by 75 basis points between January and May to 7.25% in order to boost economic activity and particularly investment, which plays a vital role in improving India's growth profile. With India having a large current account deficit (equivalent to around 5% of GDP in 2013), sudden shifts in investors' risk perceptions and their impact on capital flows prompted the RBI in mid-July to implement measures to tighten liquidity conditions domestically. As higher financing costs are considered unconstructive from the economic revival point of view, the country's authorities simultaneously liberalized foreign direct investment rules in various sectors in order to promote economic growth. Inflation has been on a favourable path in recent months, with the whole sale price index (WPI) increasing by 4.9% y/y in June (compared with over 7% in early 2013). Nevertheless, consumer price inflation remains high at 9.9% y/y in June, up from 9.3% a month before. We expect annual WPI inflation to close the year around 5½% y/y, before picking up to 6½% by the end of 2014. India's economic performance remains subdued, challenged by a high cost of financing, a difficult business environment, and still-subdued global demand conditions. We expect India's real GDP to advance by 5½% this year as a whole, followed by a modest pick-up to 6% in 2014.

KOREA - South Korea's economic performance is improving. According to preliminary estimates, real GDP expanded by 1.1% q/q (non-annualized) in the second quarter of the year following a 0.9% q/q gain in the January-March period. In year-over-year terms, output growth accelerated from 1.5% in the first quarter to 2.3% in the second quarter. The momentum was relatively broadly-based with household consumption, government stimulus spending, and net exports recording solid advances. We expect the economy to grow by 2½% this year as a whole before picking up to 3¼% in 2014 as demand in advanced economies strengthens. The inflation outlook remains manageable. Consumer price inflation accelerated to 1.4% y/y in July from 1.0% in the previous month, remaining below the central bank's 2-4% target range. Inflation will likely continue to pick up gradually in the coming months, approaching the 2% y/y mark by the end of 2013, and remaining under 3% at the end of 2014. South Korean monetary conditions will remain unchanged in the near term as the country's authorities will allow previous monetary and fiscal stimulus measures to filter through the economy. The most recent benchmark interest rate cut took place in May; accordingly, the policy rate was kept unchanged at 2.50% following the July 11th policy meeting. The monetary authorities assess that a negative output gap will be maintained in the domestic economy "for a considerable time going forward"; therefore, we do not expect any tightening in monetary conditions before the second half of 2014.

THAILAND - Bouts of investor risk aversion will continue to be reflected in the value of the Thai baht; however, the country's monetary authorities are prepared to continue intervening in the foreign exchange market to limit excessive volatility. Thailand's inflation outlook is manageable, with the consumer price index increasing by 2.0% y/y in July. We expect the headline inflation rate to close the year near the current level before picking up to around 3% by the end of 2014. Core inflation, at 0.9% y/y in July, remains comfortably within the central bank's 0.5-3.0% target range. Following the July 9th-10th monetary policy meeting, the Bank of Thailand left the benchmark interest rate on hold at 2.50%. The previous cut of 25 basis points took place in May. We expect the policy rate to remain unchanged through the end of the year. Thailand's economy will likely be losing some momentum as the government's earlier stimulus measures fade and China (Thailand's main export destination) moves onto a slower growth trajectory; we expect real GDP to increase by around 4½% this year as a whole, followed by a 4.2% gain in 2014. Nevertheless, economic growth remains broadly-based with household spending being the largest contributor, underpinned by rising incomes. Solid growth in private credit indicates that domestic demand will continue to be the economy's cornerstone in the coming quarters. Furthermore, supportive labour market conditions and an accommodative monetary policy stance bode well for the domestic economic outlook.

INDONESIA - Indonesia continues to tighten monetary conditions aggressively. Following the July 11th policy meeting, the country's monetary authorities opted to raise the benchmark interest rate by 50 basis points (bps) to 6.50% following a 25 bps hike in June. According to Bank Indonesia (BI), monetary tightening is necessary for guiding annual inflation back towards its target range of 3½-5½%. Moreover, it will help stabilize the Indonesian rupiah, which has faced persistent weakening pressures in recent months reflecting changing US Federal Reserve policy expectations and the country's large current account deficit financing needs (the estimated shortfall is equivalent to around 2½% of GDP in 2013). Price pressures are intensifying. Consumer price inflation jumped to 8.6% y/y in July from 5.9% the month before, reflecting the administration's decision in June to cut fuel subsidies substantially. We expect annual inflation to close the year near the 10% mark, significantly surpassing the central bank's target. Therefore, BI will likely continue to raise interest rates gradually through the remainder of the year, taking the reference interest rate to 7.0% by the end of the year. Tighter monetary conditions will be adversely reflected in private consumption and investment growth, which are the country's main engines of economic expansion as the external sector continues to suffer from weak global demand conditions. We expect the country's output to advance by 5.9% in 2013 as a whole, representing a modest slowdown from the 6.2% pace recorded in 2012.

DEVELOPING AMERICAS

Currency Outlook

Eduardo Suárez +1 416 945-4538

BRAZIL - The central bank continues to intervene to prop up the Brazilian real, while continued rate hikes could also be supportive (the latest data on foreign holdings of local bonds suggested they rose). Nevertheless, ultimately we see the real's capacity to sustainably appreciate to be capped by what is still-weak sentiment based on a combination of sub-par growth and eroding confidence on economic policy-making. In addition, terms of trade are likely to be less supportive going forward than they have been in recent years.

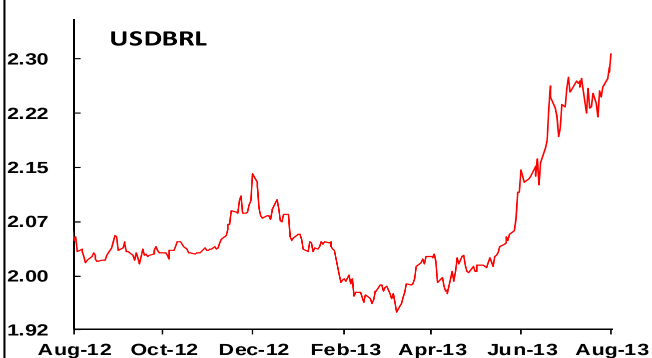
MEXICO - Reform talk is heating up as Mexico's fall/winter legislative session approaches, with indications from major political parties suggesting that although there are some risks (i.e. major opposition parties could make support for "economic reforms" contingent on the approval of their "political reform"), we believe the final package is still likely to be positive. Near term, we expect the peso to remain subject to global market swings, but reform expectations will rise in relevance as September approaches.

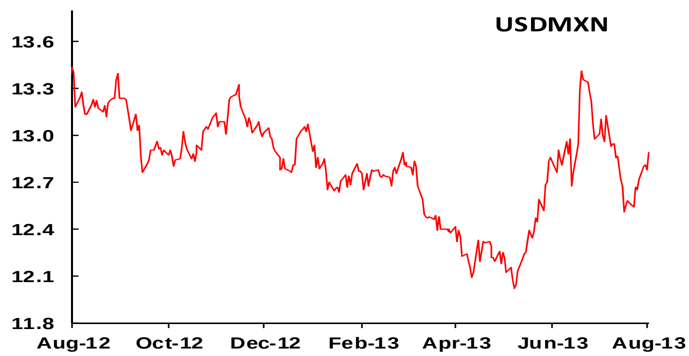
CHILE - The Chilean peso continues to feel pressure from a combination of weak base metal prices (particularly copper), concerns over Chinese growth and a "dovish shift" by the Central Bank of Chile. In particular, the latest minutes suggest that the risks of rate cuts materializing are "non-negligible", as on one hand external demand slows, while on the other the central bank sees sliding confidence as a potential risk for domestic demand.

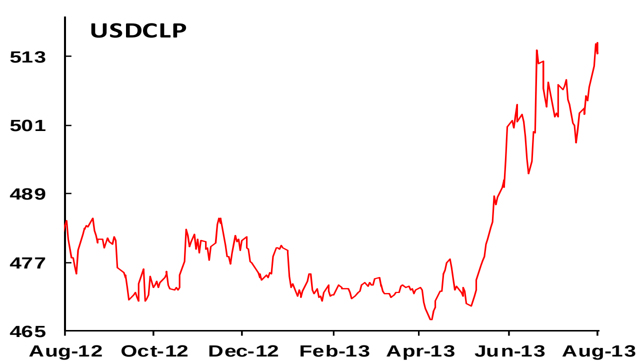
COLOMBIA - The Colombian peso faces offsetting drivers as on the positive side; oil continues to outperform other commodities, while on the other the potential acquisition of a stake in ISAGEN by foreign players represents a potential inflow. However, these positive factors are somewhat tempered by BanRep's USD purchase program which is set to run until September, and the government's stated intent of keeping the USD/COP cross near the 1900 mark. We believe these offsetting forces are likely to leave the cross near current levels.

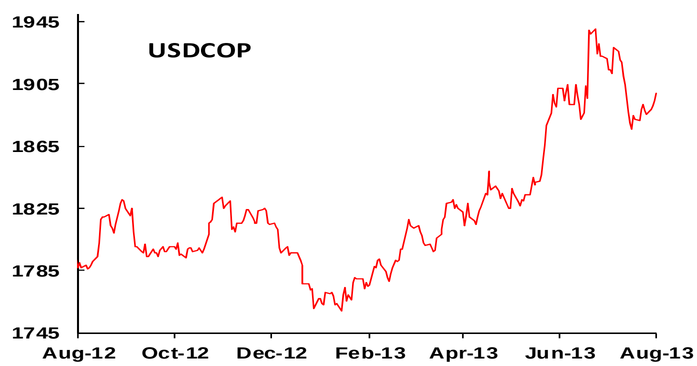
Currency Trends

FX Rate	Spot 1-Aug	13Q1a	13Q2a	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDBRL	2.30	2.02	2.23	2.15	2.20	2.20	2.20	2.30	2.30
USDMXN	12.8	12.3	12.9	12.6	12.6	12.7	12.5	12.6	12.7
USDCLP	515	472	508	505	500	500	500	505	510
USDCOP	1899	1825	1923	1910	1900	1900	1900	1910	1920









DEVELOPING AMERICAS

Fundamental Commentary

Pablo F.G. Bréard +1 416 862-3876

BRAZIL - The Brazilian authorities are focused on inflation containment. The Central Bank of Brazil increased its policy-setting SELIC rate by 50 basis points (bps) to 8.5% at the end of its two-day Monetary Policy Committee (COPOM) meeting on July 10th. Further monetary tightening is in prospect; the next COPOM meeting is scheduled for August 28th. The sharp currency devaluation and ensuing volatility has eroded the government's inflation containment strategy. Sell-off pressure on emerging-market asset classes driven by the Fed forward-guidance shock is poised to continue. Consumer price inflation reached 6.7% y/y last month, slightly above the officially established 4.5-6.5% target range. Government officials and central bank leaders are united in an effort to control growth-damaging price pressures. The ongoing sell-off pressure in the emerging-market asset class coupled with deteriorating growth and inflation conditions at home has intensified official intervention by the Brazilian authorities to restore exchange rate stability and contain rising inflationary expectations. Economic activity remains weak. Real GDP expanded by just 1.9% y/y in the first quarter of the year, yet there seems to be a soft growing trend for the second half of the year, which will close the year at around or slightly above the 2.5% mark. The political landscape has sharply deteriorated as portrayed by recent and persistent waves of violence and public protest throughout the country.

MEXICO - The Mexican peso (MXN) has benefitted from a welcome recovery after the sell-off in May-June which catapulted the USDMXN rate to 13.46. Nevertheless, the MXN remains sensitive to the confirmation of an upward directional trend of long-term US interest rates which reduces the attractiveness of holding Latin American fixed-income assets. Moreover, the bearish sentiment affecting emerging-market equity securities compounds a negative market tone. Deteriorating growth conditions in the top-tier (so-called BRIC) emerging-market economies are also weighing on the regional currencies. The concerted global move in favour of holding USD-denominated assets is exacerbating a risk-repricing trend that places the MXN on the defensive in the near term. MXN-denominated bonds have taken a major negative turn, with the yield on the 10-year government bond edging the 6% mark, thereby increasing by 150 bps since mid-May. The Mexican economy has been showing signs of deceleration with downward revisions for 2013 growth. However, Mexico is well positioned to benefit from a recovering US economy from 2014 onwards given the structurally entrenched trade interdependence and the potential for foreign direct equity investment inflows emanating from structural reforms executed by the Peña-Nieto administration, particularly in the telecom and energy sectors. We do not anticipate any changes to the monetary policy stance in the near term as inflation trends are reinforcing an improving outlook for price stability. We expect consumer price inflation to close the year at around 4% y/y.

CHILE - The Chilean peso (CLP) is influenced by the emerging-market selloff. The outlook for Chinese economic growth (which is subject to potential downside risks) is a major factor of CLP fragility given its direct influence on metal prices. The country's terms of trade (high energy costs and declining copper prices) have been deteriorating as the global growth outlook faces increasingly adverse headwinds. Moreover, the steady profit-taking activity affecting the core universe of emerging-market economies as a result of new forward-guidance rhetoric by the US Federal Reserve has also exacerbated a negative market sentiment. The pace of economic growth has been subject to mild deceleration forces, influenced by lower investment activity accentuated during the first half of the year. Nevertheless, domestic consumption fuelled by still robust employment conditions (unemployment rate at 6.4%) and strong retail and construction activity is offsetting the negative implications from a less dynamic external sector. Tight labour market conditions remain the norm, and consumer confidence metrics and auto industry activity still portray an expansionary phase. On July 11th, the central bank opted to maintain its policy-setting reference rate unchanged at 5%, stressing the generalized impact of US dollar strength, more restrictive external financial market conditions and downward adjustments to Chinese growth expectations. The political landscape will be dominated by presidential and congressional elections scheduled for November 2013.

COLOMBIA - The Colombian peso (COP) has been in recovery mode since early July after six months of steady depreciation (6.3% against the USD). The central bank reaffirmed its goal to purchase US$2.5 billion in the third quarter of the year; FX reserves total US$40.8 billion at present. In the context of an increasingly volatile financial market environment and modest deceleration, the central bank opted to keep its policy-setting monetary policy rate unchanged at 3.25% on July 26th. The authorities stressed that the terms of trade this year will be lower than in 2012 due to softer global economic activity, and that the manufacturing sector contraction remains worrisome. At the same time, however, there are signs of acceleration in domestic private consumption. The economy is projected to expand by 3.4% in the second quarter, pushing the overall 2013 year GDP growth rate to 4% (down from 4.3%) according to official estimates. Lending activity is stabilizing at current rates amidst lower real interest rates. The Colombian government remains committed to stimulating the low and mid-tier segments of the real estate sector and it is not of the view that a real estate bubble is developing in the economy. The monetary policymakers highlighted that the inflation rate implied by bond markets and consensus forecast is convergent with the official long-term target of 3%. The rate of consumer price inflation reached 2.2% y/y in June.

DEVELOPING EUROPE & AFRICA

Currency Outlook

Sarah Howcroft +1 416 862-3174

RUSSIA - The Russian ruble (RUB) reached a 13-month low vis-à-vis the US dollar (USD) in early July, and although it has failed to weaken further, the currency will remain under pressure over the coming months on account of strained investor sentiment (leading to strong capital outflows), weaker growth prospects and expectations for looser monetary policy. The RUB has lost 7.6% year-to-date in USD terms, and will likely close the year around the 32.5 per USD mark.

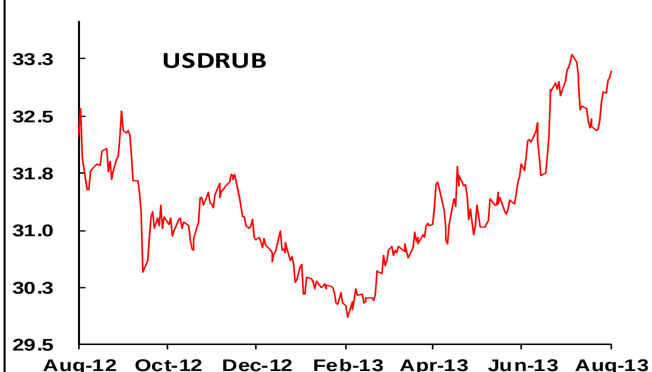
TURKEY - In the context of higher long-term US Treasury yields and the ongoing investor bias toward developed-market assets, the Turkish lira (TRY) will remain highly vulnerable to capital outflows. The TRY rallied briefly early last month against the US dollar, but has reversed course since the last central bank meeting. The authorities will continue to act to limit currency volatility, while trying to contain domestic inflationary pressures and rapid credit growth in a weak economic environment. We expect USDTRY to close the year around 1.92.

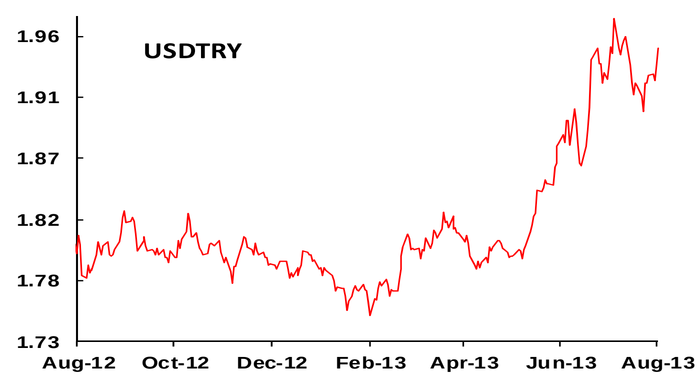
HUNGARY - The Hungarian forint (HUF) showed less of a recovery over last month than some of its peers due to comments from the central bank which signaled that additional monetary easing is forthcoming, though possibly at a more cautious pace. Modest weakening toward year-end is implied by still weak economic conditions, high vulnerability to shifts in external investor sentiment and fiscal targets which do not appear viable. We maintain our end-2013 EURHUF forecast of 300.

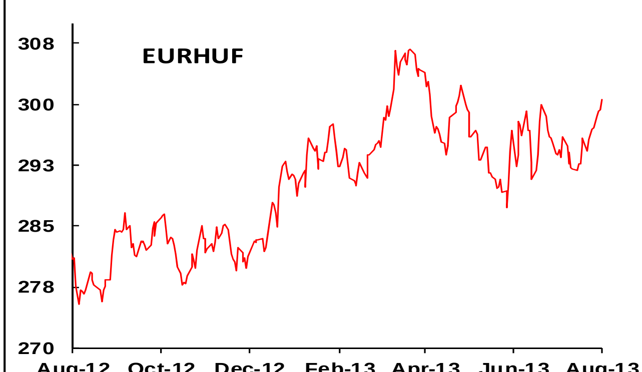
SOUTH AFRICA - In the aftermath of the broad sell-off across emerging-market assets in May/June, the South African rand (ZAR) showed a decent correction in July, gaining over 3% against the US dollar (USD) from July 5th. Nevertheless, ongoing domestic labour strife, a still wide current account gap and lower commodity prices will limit any upside potential for the currency in the months ahead. We hold a year-end USDZAR target of 9.80.

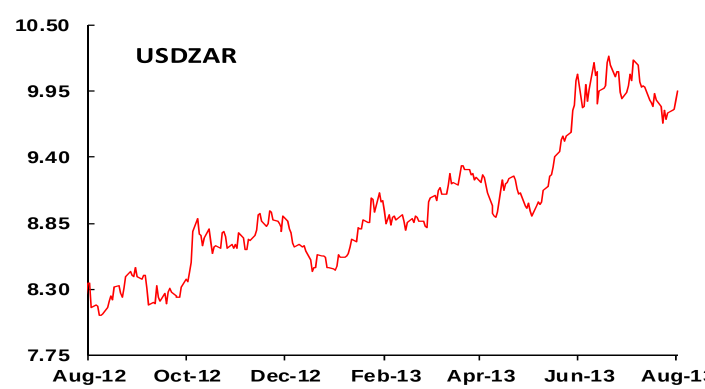
Currency Trends

FX Rate	Spot 1-Aug	13Q1a	13Q2a	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDRUB	33.1	31.1	32.8	32.6	32.5	32.6	32.7	32.9	33.0
USDTRY	1.95	1.81	1.93	1.93	1.92	1.92	1.93	1.93	1.94
EURHUF	301	304	295	297	300	298	295	293	290
USDZAR	9.95	9.24	9.88	9.90	9.80	9.90	9.90	10.00	10.00









Developing Europe & Africa

Fundamental Commentary

Sarah Howcroft +1 416 862-3174

RUSSIA - The growth outlook in Russia has weakened on account of external and investment constraints. According to the Ministry of Economic Development, real GDP expanded 1.9% y/y in the second quarter, a slight pick-up from the prior three months, but still below expectations. Export demand continues to be depressed by the recession in Europe and slower growth in China. Fixed capital investment has been particularly soft, slipping from 0.2% y/y on average in the first quarter to -1.3% in April-June. Although the output pace should accelerate in the second half of the year (thanks to favourable base effects), the economy's current fragility has triggered policy responses by both the fiscal and monetary authorities. In July, the government approved a stimulus plan which will direct funds from the US$87 billion National Welfare Fund to infrastructure spending and also includes measures targeted at small and medium-sized businesses. At the latest meeting of the Russian central bank (the first under the leadership of the new governor), key policy rates were left unchanged, but a new lending facility was introduced aimed at lowering banks' funding costs and in turn improving credit conditions in the broader economy. Russian authorities have demonstrated a willingness to accept a weaker ruble, notwithstanding concerns of prolonged above-target inflation, in order to support the flagging economy. Headline inflation eased from a 21-month high of 7.4% y/y in May to 6.9% in June, and it is expected to drift lower toward the 6% mark by the end of the year (the target for 2013 is 5-6%).

TURKEY - The Turkish lira has been subject to particular volatility over the last few months, and this looks set to continue in the near term. The main domestic factors adversely affecting the currency include monetary policy and the conflicting biases of the government and the central bank with respect to interest rates, excessive private sector credit growth and a current account deficit which has once again begun to widen, renewed inflationary pressures, and heightened investor uncertainty caused by recent political demonstrations and the government's response to them. These elements amplify the lira's vulnerability to the global market re-pricing of emerging-market assets related to US central bank policy. After failing to contain the currency's downward slide with foreign exchange sales (the central bank sold more than US$6 billion in June/July), the central bank changed tactics at its last meeting, opting to raise the overnight lending rate in the name of financial stability. The authorities have indicated that further tightening is likely forthcoming, although the benchmark policy rate (the one-week repo rate) will be kept at 4.50% in large part because the government is adverse to raising interest rates when the economy is underperforming relative to the official growth target. Real GDP grew 3.0% y/y in the first quarter and the 2013 target is 4%. Inflation picked up to 8.3% y/y in June (a nine-month high) on food and oil prices, while loan growth continues to exceed the central bank's preferred limit of 15% y/y. EU accession negotiations were postponed from June to October on account of recent social unrest.

HUNGARY - With a muted inflation outlook and an expected return to growth by year-end (real GDP contracted 0.9% y/y in the first quarter but grew 0.7% on a q/q basis), the monetary authorities of Hungary will continue to deliver gradual interest rate cuts over the coming months. The July 23rd policy-setting meeting resulted in the 12th consecutive 25 basis-point cut, bringing the benchmark base rate to 4.0%. In his first post-meeting news conference since taking office in March, Governor Matolcsy suggested a target for the base rate of 3-3.5% in this cycle. The pace of easing may be softened, however, in light of the significant easing undertaken to date (300 basis points) as well as the economy's continued susceptibility to financial market volatility. Joining the trend of other central banks, the governor also outlined a policy of forward guidance for future rate decisions that will be based upon three factors: the medium-term inflation projection, financial stability considerations (including public finances, exchange rates and banking sector metrics), and real economic conditions. Inflation has begun to creep higher after touching 1.7% y/y in April, but is expected to average below the official 3% target this year. Unemployment has receded slightly, but remains high (above 10%), while credit conditions are still restrictive. The government's year-to-date fiscal deficit (January-June) already measures 82% of its full-year target. Though new tax measures were recently announced, we do not anticipate that the official deficit target of 2.7% of GDP will be met.

SOUTH AFRICA - Notwithstanding a softer growth profile, South African monetary authorities will likely maintain the current policy stance over the near term, unless the recent moderation in inflation proves to be more than temporary. The headline inflation rate eased unexpectedly in May, falling from 5.9% y/y to 5.6%, and then dipped further to 5.5% in June. The South African Reserve Bank (SARB) anticipates that the rate will bounce higher again before ending the year close to the upper end of the 3-6% target range, with upside risks related to currency volatility and the current round of wage negotiations. Although the rand was actually a mid-performer among emerging-market currencies over the last month, having briefly gained on the USD as financial markets stabilized following the global bond sell-off, it remains the worst-performer on a year-to-date basis (down 15%). Growth prospects are inhibited by external factors, namely the recession in Europe and softer commodity prices, as well as ongoing domestic issues, including strikes in the mining sector, political maneuvering ahead of the April 2014 general elections (fuelling investor uncertainty) and feeble labour market dynamics. According to the SARB, the majority of the jobs created over the last year were in the public sector, and many on a temporary basis only. Meanwhile, the unemployment rate rose to 25.6% in the second quarter. The SARB has lowered its growth forecasts to 2.0% in 2013 and 3.3% in 2014, and does not expect the negative output gap to narrow before 2015.

GLOBAL CURRENCY FORECAST (end of period)

			2011	2012	2013f	2014f	2013f				2014f			
							Q1a	Q2a	Q3	Q4	Q1	Q2	Q3	Q4
MAJOR CURRENCIES														
	Japan	USDJPY	77	87	105	110	94	99	104	105	106	107	109	110
	Euro zone	EURUSD	1.30	1.32	1.25	1.23	1.28	1.30	1.26	1.25	1.25	1.24	1.24	1.23
		EURJPY	100	114	131	135	121	129	131	131	133	133	135	135
	UK	GBPUSD	1.55	1.63	1.45	1.44	1.52	1.52	1.47	1.45	1.45	1.45	1.44	1.44
		EURGBP	0.83	0.81	0.86	0.85	0.84	0.86	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	1.23	1.21	1.22	1.23	1.24	1.25	1.25
AMERICAS														
North	**Canada**	USDCAD	1.02	0.99	1.05	1.04	1.02	1.05	1.04	1.05	1.05	1.05	1.04	1.04
North		CADUSD	0.98	1.01	0.95	0.96	0.98	0.95	0.96	0.95	0.95	0.95	0.96	0.96
North	**Mexico**	USDMXN	13.94	12.85	12.59	12.74	12.33	12.93	12.57	12.59	12.66	12.54	12.59	12.74
North		CADMXN	13.65	12.96	11.99	12.25	12.10	12.31	12.09	11.99	12.05	11.94	12.11	12.25
South	**Argentina**	USDARS	4.30	4.92	5.80	7.00	5.12	5.39	5.36	5.80	6.10	6.40	6.70	7.00
South	**Brazil**	USDBRL	1.87	2.05	2.20	2.30	2.02	2.23	2.15	2.20	2.20	2.20	2.30	2.30
South	**Chile**	USDCLP	520	479	500	510	472	508	505	500	500	500	505	510
South	**Colombia**	USDCOP	1939	1767	1900	1920	1825	1923	1910	1900	1900	1900	1910	1920
South	**Peru**	USDPEN	2.70	2.55	2.66	2.60	2.59	2.78	2.70	2.66	2.65	2.65	2.60	2.60
South	**Venezuela**	USDVEF	4.29	4.29	6.30	7.90	6.29	6.29	6.30	6.30	7.90	7.90	7.90	7.90
ASIA / PACIFIC														
	Australia	AUDUSD	1.02	1.04	0.90	0.93	1.04	0.91	0.92	0.90	0.90	0.91	0.92	0.93
	China	USDCNY	6.30	6.23	6.10	6.04	6.21	6.14	6.12	6.10	6.09	6.07	6.06	6.04
	Hong Kong	USDHKD	7.77	7.75	7.80	7.80	7.76	7.76	7.80	7.80	7.80	7.80	7.80	7.80
	India	USDINR	53.1	55.0	62.0	61.0	54.3	59.4	61.0	62.0	61.8	61.5	61.3	61.0
	Indonesia	USDIDR	9069	9793	10500	10600	9735	10004	10400	10500	10525	10550	10575	10600
	Malaysia	USDMYR	3.17	3.06	3.25	3.30	3.09	3.16	3.25	3.25	3.26	3.28	3.29	3.30
	New Zealand	NZDUSD	0.78	0.83	0.75	0.82	0.84	0.77	0.76	0.75	0.75	0.77	0.80	0.82
	Philippines	USDPHP	43.8	41.0	43.0	42.0	40.8	43.1	43.3	43.0	42.8	42.5	42.3	42.0
	Singapore	USDSGD	1.30	1.22	1.27	1.26	1.24	1.27	1.27	1.27	1.27	1.27	1.26	1.26
	South Korea	USDKRW	1152	1064	1120	1100	1111	1142	1120	1120	1115	1110	1105	1100
	Taiwan	USDTWD	30.3	29.0	30.3	30.5	29.8	30.0	30.2	30.3	30.3	30.4	30.4	30.5
	Thailand	USDTHB	31.6	30.6	32.0	32.5	29.3	31.1	31.6	32.0	32.1	32.3	32.4	32.5
EUROPE / AFRICA														
	Czech Rep.	EURCZK	25.6	25.1	25.8	25.0	25.7	26.0	25.9	25.8	25.6	25.4	25.2	25.0
	Iceland	USDISK	123	128	122	120	124	124	122	122	122	121	121	120
	Hungary	EURHUF	315	291	300	290	304	295	297	300	298	295	293	290
	Norway	USDNOK	5.98	5.56	5.75	5.40	5.85	6.07	5.80	5.75	5.70	5.60	5.50	5.40
	Poland	EURPLN	4.47	4.08	4.20	4.00	4.18	4.32	4.25	4.20	4.15	4.10	4.05	4.00
	Russia	USDRUB	32.1	30.5	32.5	33.0	31.1	32.8	32.6	32.5	32.6	32.7	32.9	33.0
	South Africa	USDZAR	8.09	8.47	9.80	10.00	9.24	9.88	9.90	9.80	9.90	9.90	10.00	10.00
	Sweden	EURSEK	8.92	8.58	8.50	8.20	8.37	8.72	8.60	8.50	8.40	8.30	8.30	8.20
	Turkey	USDTRY	1.89	1.78	1.92	1.94	1.81	1.93	1.93	1.92	1.92	1.93	1.93	1.94

f: forecast a: actual

International Economics Group

Daniela Blancas
daniela.blancas@scotiabank.com

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

Sarah Howcroft
sarah.howcroft@scotiabank.com

Tuuli McCully
tuuli.mccully@scotiabank.com

Estela Ramírez
estela.ramirez@scotiabank.com

Canadian & U.S. Economics

Erika Cain
erika.cain@scotiabank.com

Derek Holt
derek.holt@scotiabank.com

Dov Zigler
dov.zigler@scotiabank.com

Foreign Exchange Strategy

Eduardo Suárez
eduardo.suarez@scotiabank.com

Camilla Sutton
camilla.sutton@scotiabank.com

Eric Theoret
eric.theoret@scotiabank.com

Sacha Tihanyi
sacha.tihanyi@scotiabank.com