Foreign Exchange Outlook

Foreign exchange markets are being driven by three core themes: global central bank policy, the outlook for relative growth, and politics.

World growth is expected to rise from 2.9% in 2013 to 3.5% in 2014 reflecting a strengthening North American, Latin American, European and emerging Asian ex-China profile; however, global growth remains fragile and an important risk going forward.

The Fed is moving towards tapering or slowing its bond buying program, while the ECB and BoJ are in the midst of taking more dovish turns. In addition, US growth is expected to lead the advanced economies, which should also support a broadly stronger USD.

Globally the pressures of disinflation have opened the door to a more dovish turn at many central banks, while others are forced to remain hawkish based on financial stability risks. These policy divergences will be important drivers in 2014.

Forecast Highlights

Americas	USD	Expected to strengthen broadly on relative central bank policy & growth.
	CAD	Near-term weakness followed by stabilization late in 2014.
	MXN	To remain close to current levels by year-end.
Asia / Pacific	CNY	A slow measured pace of appreciation in 2014, closing at 5.98.
	JPY	Vulnerable to weakness on a more aggressive BoJ and risks to growth.
	NZD	Financial stability risk is likely to drive the RBNZ to hike rates in 2014, in turn supporting NZD.
Europe / Africa	EUR	The resilience continues to surprise; but the dovish turn at the ECB & growth should weigh heavily.
	GBP	The currency has been priced to perfection, leaving it vulnerable to downside risk in 2014.
	RUB	Sluggish growth, increased exchange rate flexibility & capital outflows will keep RUB under pressure.

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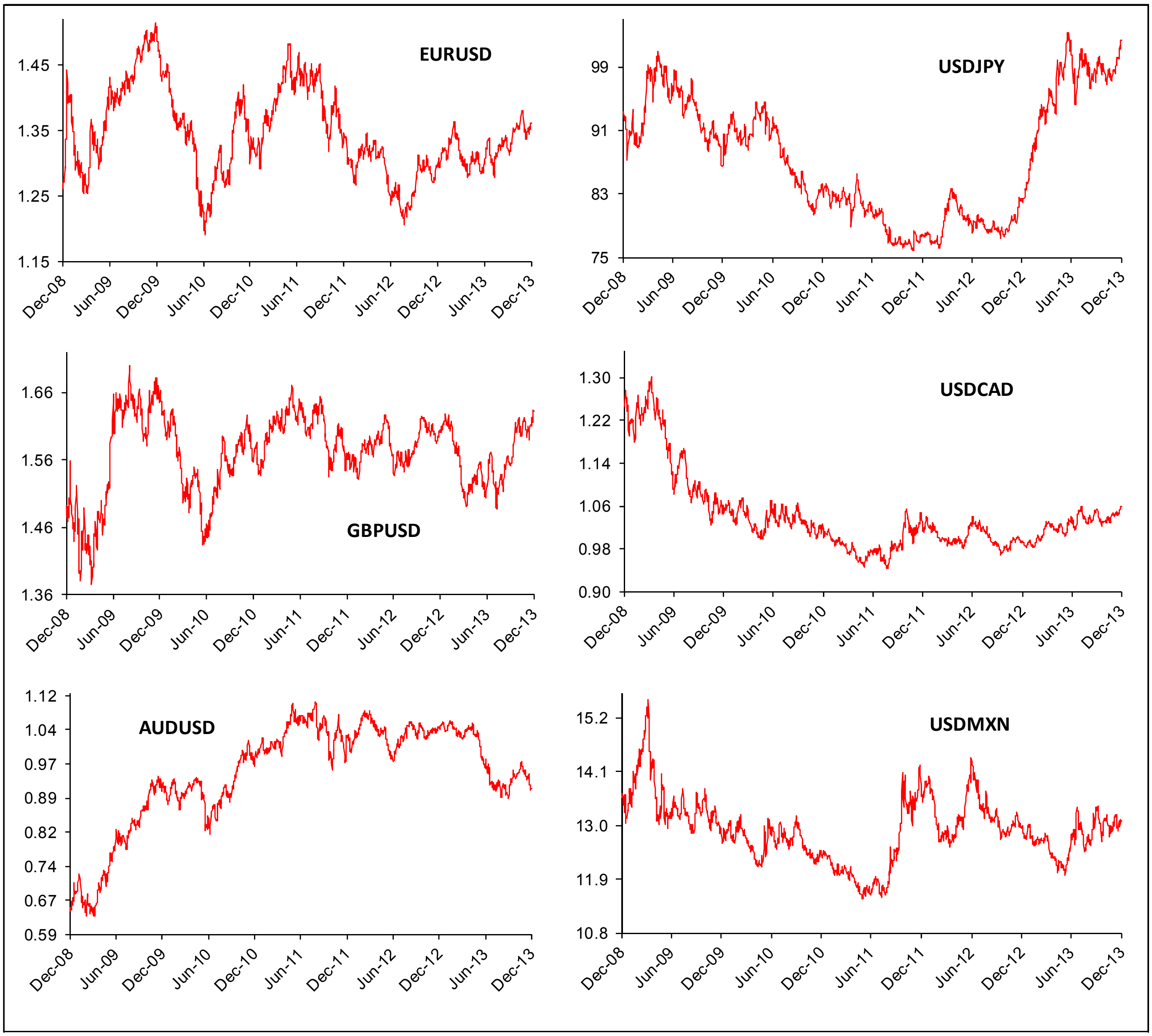
Foreign Exchange Outlook is available on: www.scotiabank.com, www.scotiafx.com & Bloomberg at SCOT

CORE EXCHANGE RATES

Global Foreign Exchange Outlook

November 29, 2013		Spot	Q1a 13	Q2a 13	Q3a 13	Q4f 13	Q1f 14	Q2f 14	Q3f 14	Q4f 14
EURUSD	Scotiabank	1.36	1.28	1.30	1.35	1.31	1.30	1.29	1.27	1.25
	Consensus*					1.33	1.32	1.30	1.29	1.28
USDJPY	Scotiabank	102.3	94	99	98	101	102	104	107	109
	Consensus*					100	101	103	104	105
GBPUSD	Scotiabank	1.63	1.52	1.52	1.62	1.60	1.60	1.59	1.58	1.57
	Consensus*					1.59	1.58	1.57	1.56	1.56
USDCAD	Scotiabank	1.06	1.02	1.05	1.03	1.06	1.07	1.08	1.07	1.06
	Consensus*					1.03	1.04	1.04	1.05	1.05
AUDUSD	Scotiabank	0.91	1.04	0.91	0.93	0.89	0.87	0.90	0.90	0.93
	Consensus*					0.93	0.91	0.90	0.89	0.88
USDMXN	Scotiabank	13.10	12.33	12.93	13.09	13.15	13.23	13.13	13.21	13.39
	Consensus*					12.81	12.58	12.52	12.46	12.43



(*) Source: Consensus Economics Inc. November 2013

MARKET TONE & FUNDAMENTAL FOCUS

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Entering December, the euro (EUR) and Chinese yuan (CNY) are the year-to-date outperformers, being up 3% and 2% respectively. Most other currencies have lost ground against the USD, with the worst performers being the Indonesian rupiah (IDR) and Japanese yen (JPY), down 19% and 15%. In 2014, we expect broad-based USD strength, with the EUR and the JPY underperforming materially, the AUD, CAD and GBP undergoing modest weakening and the NZD and NOK outperforming both the USD and other primary currencies. The core drivers of FX remain relative central bank policy, the global growth outlook and politics.

Themes that are supporting a stronger USD include: 1) a strengthening US growth profile based on an easing in fiscal drag, a recovering real estate sector and improving consumption; 2) the nearing of a Fed decision to decrease (taper) its monthly bond purchases and eventually move towards completion; 3) bullish USD market sentiment and 4) the relative position of the US against the other major economies in terms of both central bank policy and the growth outlook. However, there are several offsetting factors, which are likely to limit USD strength: 1) as the Fed turns to tapering they are likely to push out the expectations for higher interest rates, helping to offset the impact of slowing monthly purchases; 2) a stronger USD is likely to weigh on US growth, placing a ceiling on appreciation; and 3) an anticipated slowing in Chinese FX reserve and USD accumulation as it embraces capital market reforms is likely to shift the buying pattern of US based assets.

At the same time, the global forces of disinflation have liberated global central banks to maintain current loose policy for longer and in some cases increase the aggressiveness. This is likely to have significant FX implications. However, there are several central banks that continue to worry about the financial stability risk of low interest rates, high household leverage and elevated housing prices. These are the central banks that are likely to hike rates sooner than the majors, with the most notable example being New Zealand.

For Canada, sentiment has shifted to a more negative currency outlook, a trend which is likely to continue into mid-2014. Low inflation combined with modest growth leaves the Bank of Canada in a position to sound increasingly dovish; however, lower interest rates in Canada are unlikely as record-high household debt is likely to limit any potential turn at the BoC.

Across Latin America, the core theme is likely to be a broadly stronger USD, driven by shifts at the Fed, the outlook for growth and sentiment. Domestically, a strengthening growth profile in Peru should support the PEN relative to the other Latin American currencies. Meanwhile the dovish turn at Chile's central bank is likely now over-priced by markets, allowing the CLP to gain against the USD but underperform the PEN. The Brazilian and Colombian elections will also remain important themes in 2014. We expect the PEN to outperform on a regional basis.

In Europe, the European Central Bank is expected to cut interest rates and increase its dovish tone, driving relative policy divergence between Europe and the US and a lower EUR. This is further complicated by regional politics, which are expected to include difficult negotiations around the banking union. In the UK, the outlook has materially brightened as data have improved more rapidly than expected. However, there is a lot of positive news priced in; and the risk is that the BoE remains dovish for long and that the UK's growth profile remains relatively fragile. The Swiss National Bank is expected to maintain the 1.20 EURCHF floor, in turn making USDCHF a play on the EUR. The NOK and SEK are both expected to outperform as the central banks shift to more hawkish tones late in 2014 and the fundamental backdrop continues to suggest the underlying economies are relatively strong.

The outlook for the Chinese yuan (CNY) has not shifted; we expect a slow measured pace of appreciation. However, the pace of reforms is increasing, a widening of the CNY trading band is likely approaching and importantly for the USD, the approach towards FX reserve accumulation is shifting as Chinese authorities move away from FX intervention; the combination of rising US yields and a stronger CNY make a politically challenging combination. In Japan, we expect the Bank of Japan to struggle to meet its 2% inflation goal and to turn to more aggressive policy in 2014, driving USDJPY sustainably above 100 and closing the year at 109.

Developing Asian currencies face similar drivers as the global foreign exchange markets including the FX impact of Fed policy, global growth dynamics and politics. However, on the domestic side the regional and competitive shifts of a weaker JPY profile and ongoing reforms in China are also likely to be important market dynamics in 2014 and 2015. As the Fed contemplates a slowing in its monthly bond purchases, emerging Asia is likely to react with relative outperformance by those currencies who are less vulnerable to capital outflows, even the more vulnerable (notably, the IDR and INR) are unlikely to react as violently as they did in the summer months. In 2014, we expect the Korean won (KRW), Philippine peso (PHP) and Taiwanese dollar (TWD) to appreciate versus the USD and much of the Asian block, while the Indian rupee (INR), the Indonesian rupiah (IDR) and the Singaporean dollar (SGD) are expected to weaken.

CANADA
Currency Outlook

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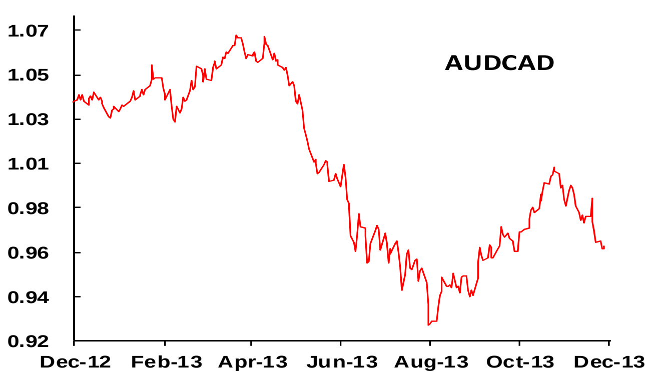
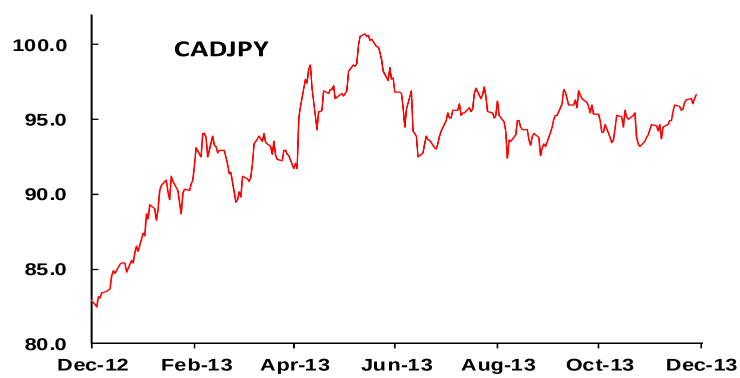
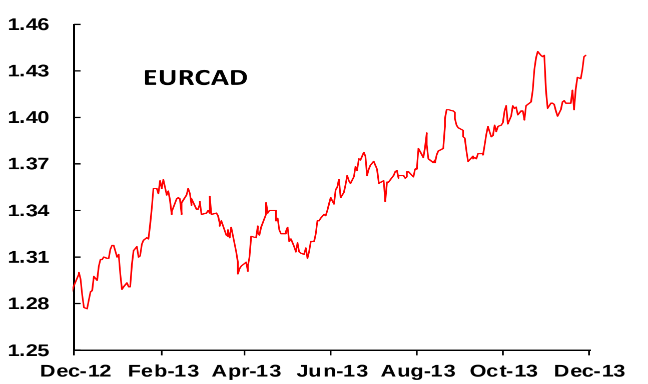
CAD – Entering December CAD has lost 6% against the USD and is a mid-performer year-to-date, having lost ground against EUR and GBP; but gained against AUD and JPY. CAD is likely to weaken until mid-next year and then slowly retrace these losses. The drivers for CAD remain: relative central bank policy, global growth, the domestic economic landscape, oil and commodity prices as well as sentiment and flows. In 2014, the Fed is likely to turn towards tapering (and eventually terminating) its bond-buying program; while pushing out the expectations for interest rate hikes farther into the future – these have opposite USD impacts (tapering is USD positive; while pushing out interest rate expectations is USD negative); however we expect the net result is a stronger USD. In Canada, a disinflationary environment, below potential GDP growth and comfort with financial stability risk are likely to leave the tone from the BoC as relatively dovish. Accordingly the combination of near-term US and Canadian central bank policy is likely to support a weakening of CAD. In terms of growth, Canada's exports have been slow to recover, while housing is likely to moderate further in the year ahead; however business investment and consumption are expected to increase, generating a 2014 growth rate of 2.2%, slightly below our expectation for US growth at 2.5%. Accordingly, a slight underperformance in Canadian growth should also help support a stronger USD and weaker CAD. Over the longer term, strong US growth is typically good for Canada and accordingly, domestic GDP should be supported by a strengthening US economy. China's growth rate is also important for CAD and commodity prices; in 2014 this is expected to come in at 7.3%, below the more robust +9% average posted between 2000 and 2012, but under a more sustainable and still energy intensive model. Oil prices are important for Canada's domestic backdrop and hence CAD but there is also a psychological impact as it relates into CAD's perception as a petrol currency. Scotiabank Economics expects WTI priced oil to average $92 in 2014, which is neutral for CAD as it is close to current levels. Finally, in terms of sentiment, the market is positioned modestly bearish CAD, with the CFTC reporting a small $1.6bn net short position as of November 19th. This leaves significant room for the position to be built and in our view likely towards larger short positions and therefore weighing further on CAD in the near term. Accordingly, we expect CAD weakness over the next six to eight months, closing Q214 at 0.9250 (or in USDCAD terms 1.08).

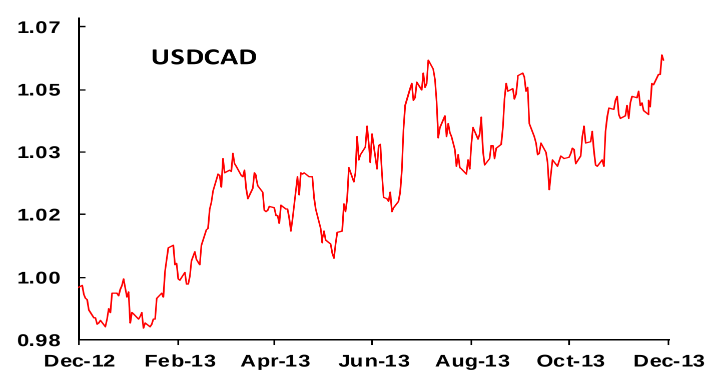
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 29-Nov	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
AUDCAD	0.96	1.06	0.96	0.96	0.94	0.93	0.97	0.96	0.99
CADJPY	96.7	92.6	94.2	95.3	95.3	95.3	96.3	100.0	102.8
EURCAD	1.44	1.30	1.37	1.39	1.39	1.39	1.39	1.36	1.33
USDCAD	1.06	1.02	1.05	1.03	1.06	1.07	1.08	1.07	1.06









CANADA AND UNITED STATES
Fundamental Commentary

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UNITED STATES - Following the better than expected 2.8% advance in US Q3 real GDP, the recent string of incoming economic data suggests downside revision risk to Q3 growth is high – mainly due to September's wider than expected trade deficit – and the US recovery has lost some momentum heading into the final quarter of 2013. While the stalemate in Washington has been temporarily resolved until early next year, uncertainty will continue to temper growth in Q4, with US real GDP forecast to rise less than 2%. Economic activity will be held back by softer consumer and business confidence, housing market activity and exports, while the drag from the 16-day shutdown of nonessential government services will exert downward pressure on growth. Americans will likely continue to spend cautiously in Q4, alongside soft income growth, tax hikes earlier this year and furloughs related to the sequestration and partial government shutdown. Meanwhile, growth in business investment should edge-up, but remain in the slow lane until next year after uncertainty fades. Despite near-record affordability, the housing recovery continues to be dampened by higher mortgage rates, while inflationary pressures remain well below target – exacerbated by lower gasoline prices. In addition, after contributing to Q3 growth, excess inventories will likely be worked off and sluggish global demand could continue to weigh on export growth in Q4. This notwithstanding, manufacturing activity and industrial production remain reasonably firm, while upward employment revisions and robust growth in hiring during October suggest that the recovery is becoming more resilient. Going forward, the US economy is expected to gain momentum, rising 2½% in 2014 and 3% in 2015, as the global economy gains traction, US fiscal restraint subsides and Americans continue to unleash pent-up demand for housing and consumer durables. Business investment should also benefit from stronger demand and solid corporate balance sheets. Nevertheless, given ongoing economic slack, inflation is expected to remain muted.

CANADA - The Canadian economy continues to post moderate growth averaging around 2%. Consumers have become more cautious borrowers and spenders, constrained by moderate income gains and job growth. Monthly employment gains have averaged 13,000 through October, half the 2012 pace, alongside a reduced pace of private and public sector hiring. Housing activity remains relatively buoyant, supported by historically low borrowing costs. However, sales and construction are expected to soften in 2014 as high home prices and moderately higher mortgage rates pressure affordability. Limited pent-up demand and high household debt burdens suggest Canadian consumer and housing activity will lag the US trend over the forecast horizon. Economic uncertainty and softer corporate profits have contributed to a weakening in business capital investment, notwithstanding healthy corporate balance sheets and favourable financing costs. However, non-residential construction remains supported by industrial, commercial and infrastructure spending. Exports continue to lag prior recovery cycles, held back by slower global growth, competitiveness challenges and capacity constraints in some sectors. Export volumes as of September were still roughly 7% below their pre-recession peak. Canadian producers, including motor vehicles, business equipment, metals and forest products, will eventually piggyback on a stronger pace of US growth, the destination of roughly 75% of foreign shipments, as well as a gradual upturn in EU activity. Resource-related activity has moderated, reflecting the growth slowdown in emerging markets and less buoyant commodity price outlook, though remains a source of ongoing support. With federal and provincial fiscal restraint also weighing on overall activity, real GDP growth is expected to advance by just 1.6% this year, before picking up to 2.2% in 2014 and 2.5% in 2015. Retail discounting, muted wage gains, and softer food and energy prices have depressed price trends, with both core and headline inflation falling to the lower bound of the Bank of Canada's 1-3% target range.

MONETARY POLICY COMMENTARY

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UNITED STATES - We expect the Federal Reserve (Fed) to continue its US$85 billion/month asset purchase program until the March FOMC meeting with a possibility that the purchase program will maintain its current pace for even longer (will current Fed Chair nominee Yellen reduce asset purchases at what will likely be her first meeting?). Aside from the asset purchases, prominent members of the Fed including the Fed Chair and Chair nominee Yellen have discussed using forward guidance and other communications tools to provide incremental accommodation. Recent FOMC minutes also implied that a cut to IOER is being considered. We see the Fed as being quite dovish. We next hear from the FOMC on December 18th.

CANADA - What is the threshold for CPI that will cause the Bank of Canada (BoC) to try to address soft inflation? Have we already passed that threshold? With CPI having averaged 0.9% y/y thus far through 2013, it might be time to ask these questions – after all, the BoC's target band is 1-3%. The BoC is increasingly emphasizing weak inflation as a major concern, and with household credit growth running below GDP and the housing market seemingly having topped, we think that the BoC is justifiably more concerned about weak economic outcomes than upside risks. While our base case is not for the BoC to cut rates, we think that there should be a higher probability of a rate cut priced into the front end of the Canada curve than is evident at the moment.

EUROPE
Currency Outlook
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EURO ZONE – Entering December, the EUR is up 3% on a year-to-date basis, and has recovered all of the losses endured after the ECB's unexpected interest rate cut on November 7th. The central bank's toolkit is limited, but we still expect central bank policy divergence, and relative growth to drive a weaker EUR in 2014. Sentiment and technicals both warn of near-term upside, as the CFTC was reporting a net long position of $1.5bn as of November 19th and the EUR spot rate maintains an upward trend. We hold a Q1 2014 target of 1.30.

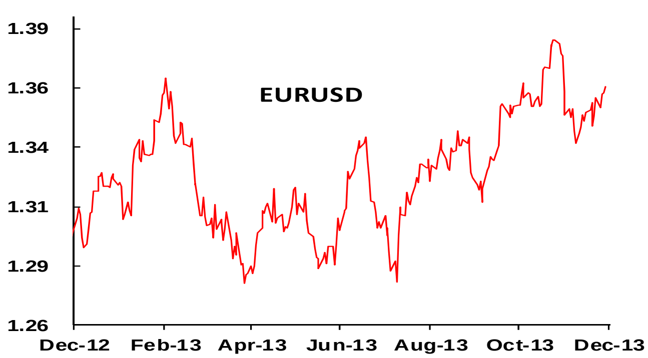
UNITED KINGDOM – The GBP has rallied 10% from its weakest level in 2013 (1.4814 on July 9th) but is flat year-to-date as we enter December. There is a lot of optimism priced into the GBP and we think the market has likely gotten ahead of itself. Technically, the outlook is bullish but sentiment is relatively neutral, with the CFTC reporting a flat GBP position (as of November 19th). We hold a Q1 2014 target of 1.60.

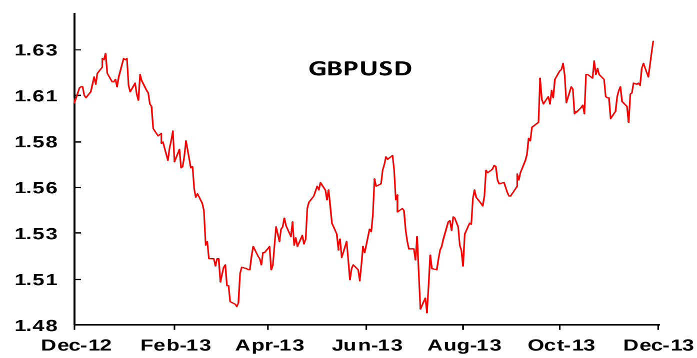
SWITZERLAND – The fundamental Swiss backdrop has improved, but the country continues to struggle with deflation and global financial markets remain fragile. In addition, commentary from the Swiss National Bank (SNB) suggests that there is unlikely to be any change in the EURCHF 1.20 floor, leaving the outlook for USDCHF really a play on the EUR. We hold a Q1 2014 target of 1.23 in EURCHF.

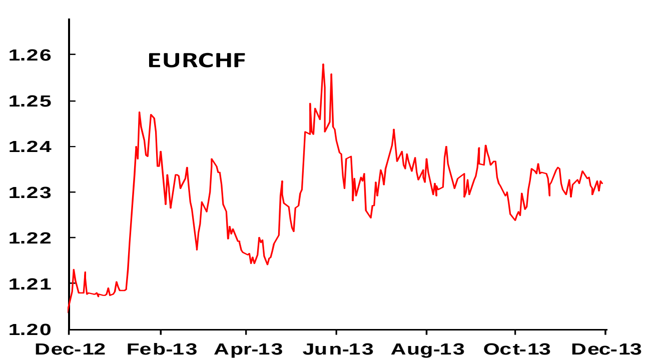
NORWAY – The NOK has struggled in 2013, entering December it has lost 9% against the USD. However, the market has likely been too harsh; accordingly, we expect some of this year's losses to be retraced. Norway's relatively strong fundamental backdrop, a central bank that is likely to enter a hiking cycle in late 2014 – well before the Fed or ECB – and the stability that the country's oil fund provides should all support the NOK. Technically, the upward trend in USDNOK has yet to shift lower and accordingly still warns of near-term USDNOK upside (NOK weakness). We hold a Q1 2014 USDNOK target of 5.85.

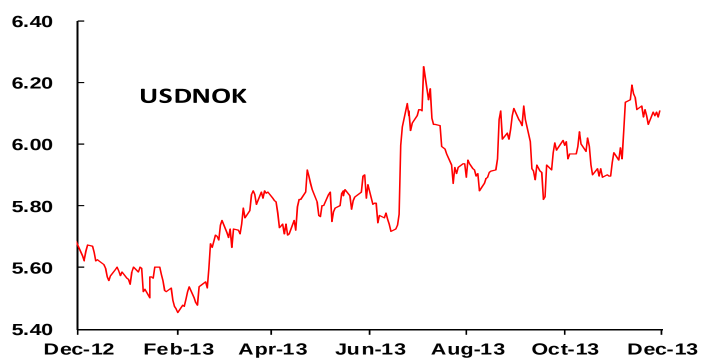
Currency Trends

FX Rate	Spot 29-Nov	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
EURUSD	1.36	1.28	1.30	1.35	1.31	1.30	1.29	1.27	1.25
GBPUSD	1.63	1.52	1.52	1.62	1.60	1.60	1.59	1.58	1.57
EURCHF	1.23	1.22	1.23	1.22	1.22	1.23	1.24	1.25	1.25
USDNOK	6.11	5.85	6.07	6.01	5.90	5.85	5.80	5.80	5.75









EUROPE

Fundamental Commentary

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EURO ZONE - The euro area recovery softened as expected in the third quarter, with output expanding by 0.1% q/q (down from 0.3% q/q in the prior three months). Nevertheless, the outlook has improved for some of the peripheral economies relative to prior expectations – particularly Spain and Portugal – notwithstanding still rigorous fiscal tightening, high unemployment and an elevated currency. At the same time, medium-term inflation dynamics have softened on the back of persistent euro strength and increased economic slack. Although the flash November CPI estimate ticked up to 0.9% y/y from 0.7%, the headline inflation rate is expected to average around 1% y/y over the next 18 months, implying a heightened risk of deflation. As such, we now anticipate additional monetary easing by the European Central Bank (ECB) in the coming months, with possibilities including reductions in the main refinancing and deposit rates (to effectively zero and below zero, respectively), and a new program targeted at business lending. An agreement has finally been reached between the major political parties in Germany for a grand coalition government. Key points of the deal include a nationwide minimum wage, a lower retirement age for some workers and no new taxes. Chancellor Merkel will maintain a strong opposition to any form of debt mutualization in the currency union. The ECB's latest Financial Stability Review noted that in the last six months the composite indicator of systemic stress has returned to near its pre-global crisis levels; however, excessive bank deleveraging will likely remain a threat over the near term.

UNITED KINGDOM - Forward-looking surveys and labour market indicators suggest that the UK economy will sustain solid momentum through the first half of 2014, helped by lower inflation and less fiscal drag than earlier projected. The unemployment rate fell to 7.6% in the three months to September, the second drop in three months, while the claimant count rate – at 3.9% in October – is now down 0.7 percentage points since the beginning of the year. The PMIs remain at or near multi-year highs, levels typically associated with output growth rates in the 1-1.5% q/q range. We have revised our GDP growth forecasts to 2.5% for 2014 and 1.7% for 2015. However, persistent currency strength continues to challenge exports, which posted a 2.4% q/q drop in the third quarter. Labour market developments – in particular, the forward shift in the timeframe for the decline in the unemployment rate to 7% – have altered market expectations for the beginning of the Bank of England's monetary stimulus withdrawal. Despite the lower inflation trajectory, we now expect the central bank's first interest rate hike to come around the third quarter of 2015. This is turn has reinforced the appreciation bias in the pound; the GBP has been the best-performing major currency over the last month, gaining 1.2% against the US dollar (and 8.7% over the last six months). Inflation surprised on the downside in October, dipping to 2.2% y/y from 2.7%, the result of lower petrol prices and a permanent, technical impact from university tuition fees. Core inflation slid to 1.7% y/y, its slowest pace since September 2009.

SWITZERLAND - Switzerland's economy continues to outperform its European counterparts. Real GDP advanced by 0.5% q/q in the third quarter (1.9% y/y), matching the expansion of the prior three months. Growth has averaged a solid 1.9% y/y through the first nine months of 2013, and we expect this pace to continue in the final quarter. Domestic activity is being supported by ultra-loose monetary conditions (including the central bank's credible minimum exchange rate policy), low unemployment and recuperating confidence. The ZEW expectations survey picked up to its highest level since May 2010 in November, while the KOF leading indicator surged to 1.72 in October, a 13-month high. Notwithstanding a setback in the latest reading, exports are holding up relatively well; the year-to-date trade surplus (January-October) is 7.8% y/y higher than in the same period of 2012. Like in many other advanced economies, disinflation intensified in October, with the consumer price index accelerating its pace of decline from 0.1% y/y to 0.3%. This is unlikely to change the monetary stance at the Swiss National Bank (SNB). The SNB has not had to defend the currency floor (set at EURCHF 1.20) through aggressive foreign reserve buying for several months as the policy is still viewed as highly credible even amid shifting expectations regarding the monetary policies of other major central banks. Money supply growth continues to slow, easing to 9.1% y/y in October from a peak of 11.3% in June. Nevertheless, concerns of real estate overheating linger.

NORWAY - Supported by broadly accommodative fiscal and monetary conditions and gradually recuperating exports, the Norwegian economy is stabilizing following a downturn in the beginning of the year. Real GDP growth narrowly beat expectations in the third quarter, with total output advancing 0.7% q/q (down from an upwardly revised 1.2% in the second quarter) and mainland GDP picking up to 0.5% from 0.3% (also upwardly revised). The details of the report were not strong, however, with much of the headline gain coming from government spending and inventory rebuilding. Meanwhile, the central bank assesses that previously robust household demand seems to have softened and house prices are stabilizing. Total exports were down 5.6% y/y in the January-October period, but have improved from mid-year levels. The substantial weakening of the krone this year (-8.4% ytd vs. the USD and -11.1% vs. the EUR) should continue to support export prospects in the medium term. The manufacturing PMI has ticked up, reaching its highest level since May 2012 in October. We expect an overall output gain of around ¾% in 2013 and 1¾% for mainland GDP. Growth will accelerate in 2014 as the new centre-right coalition government implements cuts to personal income and wealth taxes (afforded by a high fiscal surplus and vast oil wealth fund) and the global economy, particularly the euro area, progressively gains momentum. The inflation outlook remains manageable, and no policy changes are anticipated before mid-2014 at the earliest.

ASIA / PACIFIC
Currency Outlook

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JAPAN – Leading into December, USDJPY had broken above its multi-month consolidation pattern and was trading at a six month high (JPY low). We expect ongoing JPY weakness (USDJPY upside) as the Bank of Japan turns increasingly aggressive in 2014, juxtaposed against Fed policy which will support the USD. The market has already begun to position for the JPY turn, with the CFTC reporting a large $14bn net short position as of November 19th. We hold a Q1 2014 USDJPY target of 102.

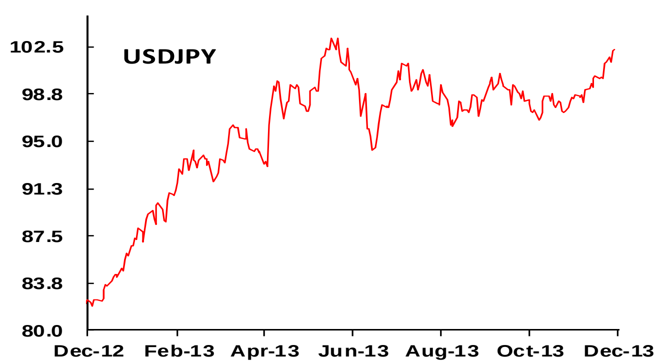
CHINA – Intraday volatility in the CNY decreased in November, as trading ranges compressed, and the spot rate held in a trendless range. Net fixing interest was close to flat on the month, but remained biased towards appreciation. China's trade surplus indicates that the external accounts remain CNY-supportive, while there looks to be no political indication of a shift from the status quo for gradual renminbi appreciation. We target USDCNY to close Q1 2014 at 6.08.

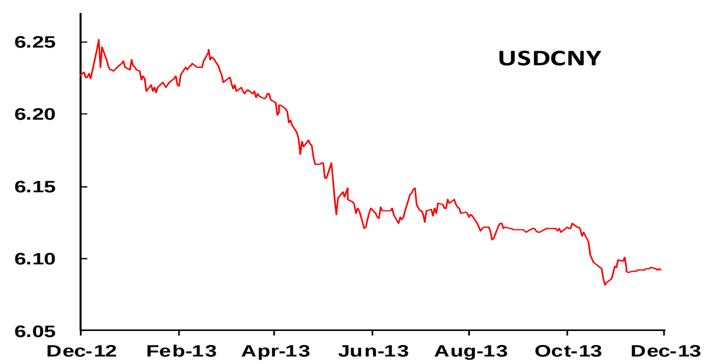
AUSTRALIA – The AUD has been the worst performing primary currency in November, losing almost 4%. Regardless, the RBA remains concerned with the level of the AUD, even reminding markets that intervention is part of its toolkit. Accordingly, the RBA has essentially put a ceiling on the AUD; combine this with fundamentals that are uneven and a modest net short market position of just $3.4bn (reported by the CFTC as of November 19th), and the near-term outlook is vulnerable to downside. We hold a Q1 2014 AUDUSD target of 0.87.

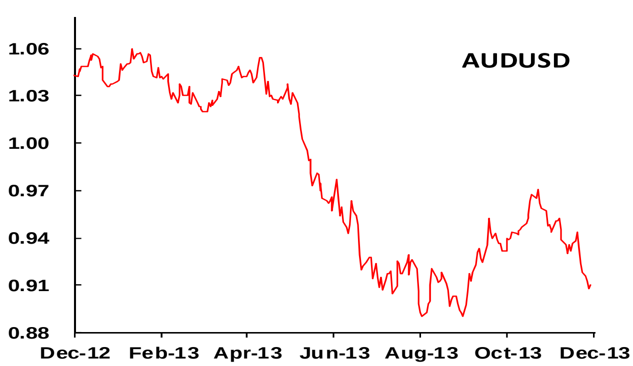
NEW ZEALAND – The NZD is entering December at the mid-point of its year-to-date trading range and technicals are providing little in terms of clues to the future medium-term outlook. We expect the NZD to outperform in 2014 as the RBNZ, struggling with financial stability risks, is likely to enter its hiking cycle well before the other advanced economies. Accordingly, we hold a Q1 2014 target of 0.84.

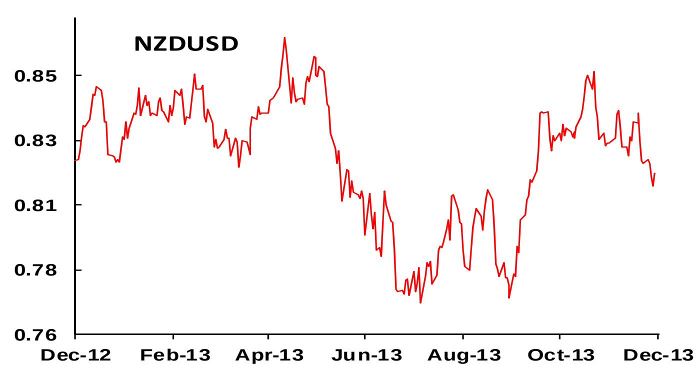
Currency Trends

FX Rate	Spot 29-Nov	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDJPY	102.3	94.2	99.1	98.3	101.0	102.0	104.0	107.0	109.0
USDCNY	6.09	6.21	6.14	6.12	6.08	6.08	6.07	6.05	5.98
AUDUSD	0.91	1.04	0.91	0.93	0.89	0.87	0.90	0.90	0.93
NZDUSD	0.82	0.84	0.77	0.83	0.82	0.84	0.85	0.86	0.86









Asia / Pacific
Fundamental Commentary

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JAPAN - Japanese real GDP expanded by 0.5% q/q in the third quarter, following a 0.9% gain in the previous three months. We assess that the slowdown will prove temporary as the economy will likely see a substantial pick-up in household spending and residential investment in the coming months as consumers make pre-emptive purchases before the forthcoming sales tax increase in April 2014. Encouragingly, investment continued to pick up in the third quarter (expanding by 2.1% q/q and 5.6% y/y), indicating that companies may be changing their inflation expectations and are no longer postponing investment spending in anticipation of lower prices. The country's real GDP growth will likely reach 1.9% this year, followed by an average gain of 1½% in 2014-15. Even though Japan's inflation has reached 1.1% y/y, it is far from being demand driven – i.e. a result of higher wages and stronger spending – but instead primarily reflects elevated energy costs. We expect that the sales tax increase will temporarily take the headline inflation rate to the Bank of Japan's (BoJ) 2% target in mid-2014. Monetary policymakers at the BoJ will likely remain in wait-and see mode in the coming months in order to continue to assess the effectiveness of the monetary base targeting implemented earlier this year. In our view, there is potential for further monetary easing by the BoJ in the first half of 2014 if the tax hike leads to a stalling of the ongoing economic momentum. Implementation of long-term structural reforms will remain a key issue in order to make the recovery sustainable.

CHINA - The Chinese Communist Party's Third Plenary Session was held in November with discussion centered on economic reforms. While the proposed plan lacks details and timelines, it emphasizes the new leadership's commitment to transfer the economy towards a more market-oriented structure. Accordingly, it was well-received by market participants. The official communique stated that the market will play a "decisive" role in allocating resources in the economy by 2020. The reform agenda includes such items as changes to the one child policy, the *hukou*-household registration system, and property rights. The planned fiscal reform will improve local government finances as the central government will assume more social spending responsibilities, while state-owned enterprises will be made more efficient by altering their dividend policies. In terms of the financial sector, greater emphasis will be placed on the convertibility of the Chinese yuan, as well as on increasing foreign investor quotas, while the interest rate liberalization process will move ahead with an eventual removal of the ceiling on deposit rates. In terms of the current economic context, inflation is picking up in China, reaching 3.2% y/y in October. Economic momentum seems reasonably sound, with real GDP set to grow by 7.7% this year. Monetary authorities will continue their efforts to limit lending expansion in pursuit of reaching a more structurally balanced financial environment; indeed, after expanding by 63% y/y in the first four months of the year, aggregate financing contracted by 16% y/y between May and October.

AUSTRALIA - Accommodative monetary conditions are set to remain in place in Australia in the coming quarters. Following the November 5th policy meeting, the Reserve Bank of Australia (RBA) stated that it would not close off the possibility of reducing rates further should the economic recovery require further support. At the same time, however, the RBA highlighted that a "substantial degree of policy stimulus" had been implemented, and its potential effects on the economy require continued vigilance. The cash rate is at 2.50%, with the most recent reduction having taken place in August. Barring a significant deterioration in domestic conditions, we assess that the easing cycle has now reached its bottom. The inflation outlook remains manageable, with consumer price inflation remaining within the central bank's 2-3% target range. We expect inflation to close the year at 2.5% y/y. The Australian economy is impacted by various opposing forces: mining investment is declining substantially, yet business conditions and confidence are improving, though this has yet to be reflected in payroll gains and investment. While the RBA assesses that the Australian dollar remains "uncomfortably high", exports are performing strongly due to increasing mining capacity following project completions. Softness in the labour market is slowing the household spending recovery, though the housing market continues to strengthen. Against this backdrop, we expect a gradual recovery, with real GDP expanding by 2.4% this year, followed by an average gain of 2¾% in 2014-15.

NEW ZEALAND - New Zealand's economic growth prospects continue to improve. The Reserve Bank of New Zealand (RBNZ) estimates that real GDP increased by around 3% y/y in the third quarter of 2013, a marked pick-up from the average growth of 2.4% in the first half of the year. Sound consumer confidence (currently near the highest level in four years) and improving labour market conditions (at 6.2%, the jobless rate is significantly below the 2012 average of 6.9%) are supporting household spending gains, while construction activity is picking up across the country. We expect the economy to expand by 2½% this year, followed by an average gain of 3% in 2014-15. Strong housing market momentum continues to cause discomfort for the country's policymakers, prompting them to focus on ensuring that persistently high house price inflation does not compromise financial or price stability more generally. At the RBNZ's most recent monetary policy meeting at end-October, policymakers noted that the benchmark rate, at 2.50% since early 2011, will likely need to be raised next year. Nevertheless, they assess that the disinflationary impact of the strong New Zealand dollar gives the authorities some elbow room in terms of the timing and the magnitude of future monetary tightening. We expect the cash rate to be raised to 3.0% by the end of 2014. Inflation picked up in the third quarter to 1.4% y/y (from 0.7% in the second quarter), thereby returning to the RBNZ's 1-3% target range. We expect inflation to close the year near the 2% mark.

DEVELOPING ASIA

Currency Outlook

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INDIA - The rupee has been a moderate performer over the past month relative to Asia, helped significantly by the RBI's concessionary swap window. This window is now set to close at the end of November, exposing the INR to downside risk during periods of significant market upset. The nation's current account has been showing nascent improvement on the government's gold import restrictions, however fundamental non-gold trade improvement is still absent. We target 62.50 in USDINR by the end of the year.

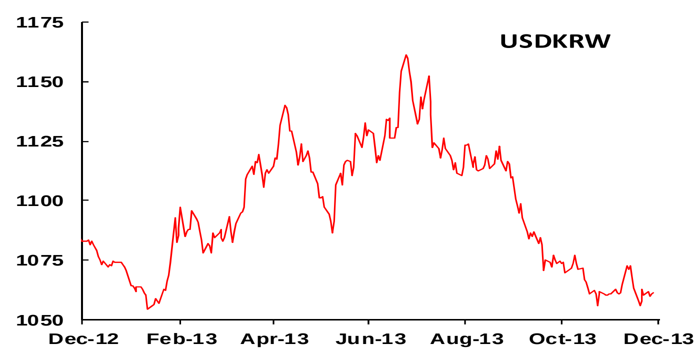
KOREA - Korea's current account performance remains on record-setting pace, and continues to insulate the currency from portfolio outflow risk, as October brought a new record monthly surplus. The ability of the KRW to act as a "safe haven" during times of stress remains, though equity inflows have fallen from the heights of September and October and are tending to reverse to some degree. We continue to see the KRW holding at reasonably strong levels but look for some moderation from October's levels of strength in the near term. We target USDKRW at 1070 by end of year.

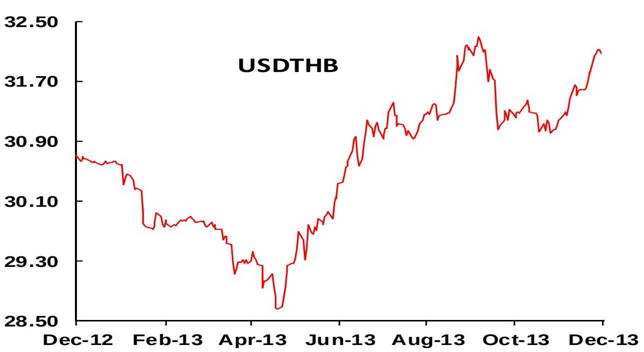
THAILAND - Political unrest has not only engendered an interest rate cut from the central bank, but also a liquidation of Thai assets by foreigners, as equity outflows have begun to reach levels last seen during the August Fed tapering fear. The failure of protesters to back away from demands against the government doesn't bode well for the THB nor portfolio flow support. With the central bank concerned about growth dynamics and the impact of political risk, a dovish tone may remain present. We target 32.50 for USDTHB for end of year.

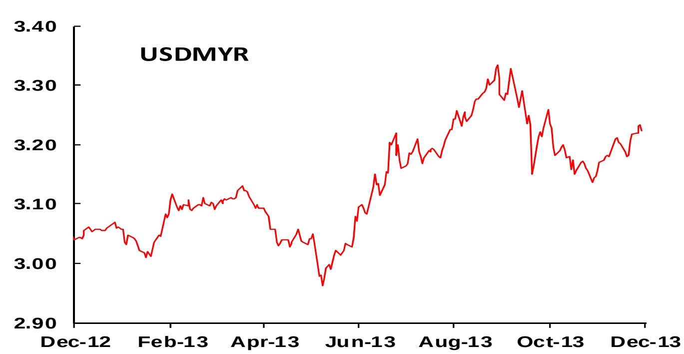
MALAYSIA - The ringgit has underperformed to some degree in November as the currency has generally succumbed to a stronger USD. Bond yields on government debt also rose significantly, a key correlative factor for USDMYR direction. This is indicative of a building risk premium in the MYR moving into the end of the year, a direction we concur with in our longer term forecasts. Near-term trade dynamics appear to be improving for Malaysia, thanks to a weaker MYR. We target USDMYR at 3.22 by end of year.

Currency Trends

FX Rate	Spot 29-Nov	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDINR	62.4	54.3	59.4	62.6	62.5	61.0	62.0	63.5	64.5
USDKRW	1058	1111	1142	1075	1070	1070	1060	1050	1040
USDTHB	32.08	29.3	31.1	31.2	32.5	32.6	32.8	32.9	33.0
USDMYR	3.22	3.09	3.16	3.26	3.22	3.24	3.26	3.28	3.30







DEVELOPING ASIA
Fundamental Commentary

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INDIA - India's monetary policy environment is challenging as accelerating inflation is combined with sluggish economic growth. The Reserve Bank of India (RBI) increased the benchmark repo rate by 25 basis points to 7.75% at end-October in order to curb mounting inflationary pressures that reflect rupee depreciation and higher food and energy costs. To counterbalance the impact of the higher repo rate on growth, the RBI simultaneously took other measures to ease liquidity conditions in the banking system. The current monetary tightening cycle began in September, and we expect a further small hike to 8.0% to take place at the December 18th meeting. Inflation—measured by the wholesale price index—continues to accelerate, reaching 7.0% y/y in October, up from 6.5% the month before and 4.6% in May. At 10.1% y/y in October, consumer price inflation has returned to double-digits. India's real GDP grew by 4.8% y/y in the third quarter, up from 4.4% in the prior three months. We expect expansion to average 4½% in 2013, with low confidence and tighter monetary policy adversely impacting household spending and investment. The outlook should improve in the near term as authorities are forced to press ahead with structural reforms, project approvals, and as the export sector picks up on improving global demand. India's economic gains will likely average 5½% in 2014-15. Shifts in investor sentiment will continue to be reflected in the value of the Indian rupee, given the country's large current account deficit, a negative sovereign credit rating outlook, poor government finances, and political instability.

KOREA - Inflationary pressures in South Korea remain low. Consumer price inflation was 0.7% y/y in October, marking a significant deceleration from the 1½% pace in early 2013. Persistent deflationary pressures further up the distribution chain together with a relatively stable energy price outlook indicate that significant upside pressure on consumer prices will remain absent in the medium term. We expect headline inflation to close the year at around 1% y/y, followed by a gradual pick-up to 2½% by end-2015 along with a strengthening of the South Korean economy. A negative output gap plays a key role in the inflation outlook: the Bank of Korea's authorities assess that while the gap is narrowing, it will be maintained in the domestic economy "for a considerable time going forward". Accordingly, we expect the central bank's monetary policy stance to remain accommodative in the coming quarters, with the benchmark rate set at 2.50%. South Korea's economy is performing well, responding to successfully implemented fiscal and monetary stimulus measures. We expect that the nation's real GDP will expand by around 2¾% this year, followed by an average gain of 3.4% in 2014-15. Third quarter output growth of 1.1% q/q was supported by solid advances in household spending and investment. Export recovery will likely become more evident in the near term. The Korean won has emerged as a regional outperformer on the back of a relatively healthy macroeconomic context. Indeed, the currency is supported by a solid current account surplus that will average 3.8% of GDP through 2015.

THAILAND - The Bank of Thailand (BoT) has provided further monetary stimulus to the economy by reducing the benchmark interest rate by 25 basis points (bps) to 2.25% on November 27th. Monetary authorities highlight that the economy is expanding at a slower pace than previously assessed, and that downside risks to the outlook have increased. A subdued inflation outlook together with moderating household credit growth justify an injection of further monetary stimulus into the economy. The Thai economy will continue to stabilize in the coming months. Real GDP growth returned to positive territory in the third quarter (increasing by 1.3% q/q) following two quarters of contractions. While consumer confidence has weakened recently, rising incomes (reflecting tight labour market conditions) combined with accommodative monetary policy offer a supportive outlook for domestic demand. The BoT assesses that key downside risks to economic growth stem from a delay in fiscal disbursements (especially for infrastructure projects) as well as from fragile private confidence and political uncertainty. We expect the export sector to recover in the near term as demand conditions in advanced economies recuperate. Thai output will likely expand by 3½% this year, followed by an average gain of 4¼% in 2014-15. Concerns regarding a weaker external position are weighing on the Thai baht. Nevertheless, a rebound to a small current account surplus is in sight in 2014-15 on the back of gradually improving exports of goods and services.

MALAYSIA - Malaysia's economic performance remains relatively healthy. Output increased by 5.0% y/y in the third quarter—recording an acceleration from the 4.4% gain in the April-June period—but growth remains slower than the 5.6% advance in 2012 overall. We expect the Malaysian economy to grow by around 4½% this year and 5% in 2014-15. Activity continues to be driven by domestic demand, particularly household spending and investment that counterbalance muted export sector performance stemming from weak, albeit improving, growth conditions in advanced economies. Inflationary pressures will remain manageable in the coming quarters, though price gains have picked up as of late. Consumer price inflation accelerated from 1.5% y/y in early 2013 to 2.8% in October, partly reflecting a recent cut in fuel subsidies. We expect the headline rate to close the year around 3%. Given the administration's decision in October to delay the planned implementation of a goods and services tax until April 2015, inflation will remain relatively stable through 2014 until it picks up temporarily in the following year. We expect the Malaysian central bank to maintain the overnight policy rate unchanged at the current level of 3.0% in the coming months. The narrowing of the country's current account surplus (reflecting weak exports and strong imports) continues to weigh on the value of the Malaysian ringgit. Regardless, Malaysia will enjoy a solid external position with current account surpluses averaging 3⅔% of GDP in 2013-15.

DEVELOPING AMERICAS

Currency Outlook

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BRAZIL - We believe the SELIC rate-hiking cycle is likely fully priced-in (possibly excessively), and the central bank's intervention through swaps has left around US$60 billion outstanding. Despite those supportive factors, and the 275bps of hikes delivered, the BRL remains the second worst-performing LATAM currency over the past month. In our view, this is a reflection of the negative sentiment triggered by concerns over the economy's lack of growth drivers, and the deterioration of public finances. Going forward, we look for USDBRL to struggle to break 2.20, even with a rebound in risk appetite.

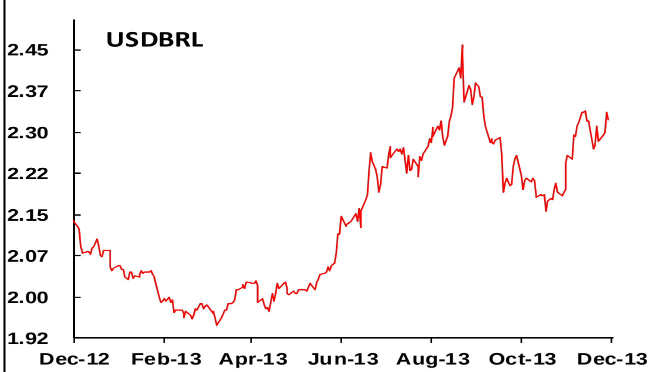
MEXICO - The positive momentum on the reform front has been a major support for Mexican assets, and with the energy bill seemingly set to show improvements over the initial plan sent by the Executive, we look for the MXN to benefit from increased investment flows and improved sentiment. In particular, although shale and to some degree oil look like longer-term plays, power generation and gas pipelines look set to drive investment in the short term. Sentiment could also benefit from potential credit ratings upgrades (we see Moody's and S&P as most likely).

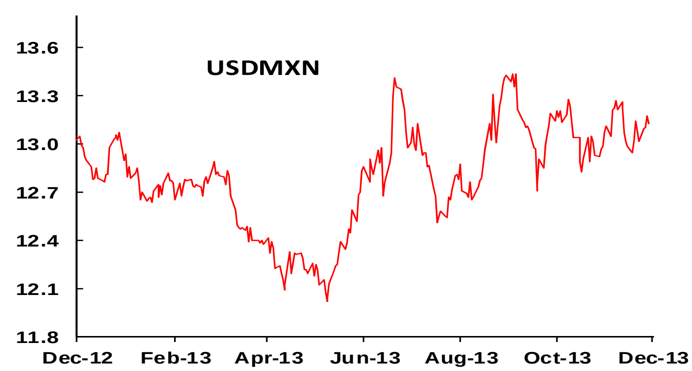
CHILE - Local rates have risen 15bps since governor Vergara stated that the current monetary policy bias is neutral, and signaled a data dependence mode. However, given the low degree of foreign participation in local fixed-income markets, the impact of the comments has not been as strong in the CLP. Going forward, rates could be less of a drag on the peso, but the strengthening dollar trend, and the stated objective of rebalancing Chinese growth are both headwinds for the CLP.

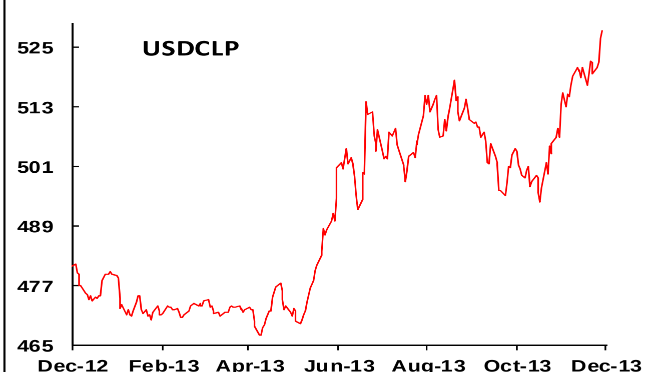
COLOMBIA - The government has hinted that its degree of comfort rises when USDCOP is trading above 1900, while intervention talk has died down over recent weeks, as the debate over the Fed's tapering has provided relief on the currency appreciation front. Our commodities team sees oil prices softening moderately in 2014, which should keep the trend in place. On the rates front, the market appears split between looking for an easing bias, or a prolonged pause, but if anything, the skew of risks from monetary policy seem biased towards a weaker COP over the coming month.

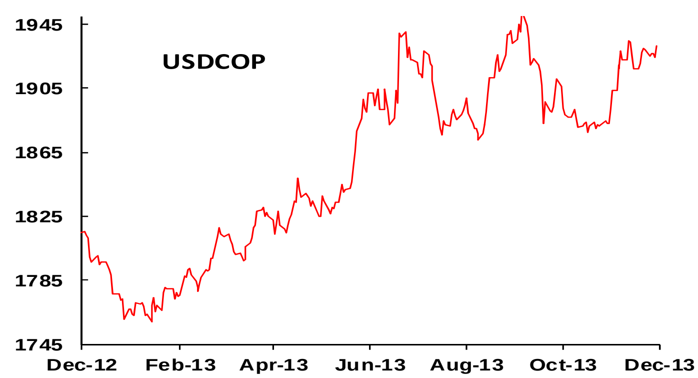
Currency Trends

FX Rate	Spot 29-Nov	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDBRL	2.33	2.02	2.23	2.22	2.25	2.25	2.28	2.29	2.30
USDMXN	13.1	12.3	12.9	13.1	13.2	13.2	13.1	13.2	13.4
USDCLP	530	472	508	505	508	510	515	515	520
USDCOP	1932	1825	1923	1906	1900	1900	1900	1910	1920









DEVELOPING AMERICAS

Fundamental Commentary

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BRAZIL - The performance of the Brazilian economy remains mixed. The activity index contracted once again in monthly terms in September taking the quarterly average rate to -0.1% m/m, while industrial output expanded by a mild 0.8% y/y in the July-September period. In light of these numbers, we do not anticipate a significant rebound in the third-quarter real GDP growth rate to be released in the first week of December. We are of the view that economic activity remains subdued and the pick-up will likely be slower than initially anticipated, putting more pressure on policy-makers. The central bank of Brazil (BCB) recently hiked the reference rate by 50 basis points (bps) to 10%, the first time in almost two years that it has measured in double digits (a total increase of 250 bps in 2013). The BCB's statement (the last one from 2013) was less "hawkish", which could signal a slowdown in the pace of rate increases and that the end of the easing cycle could be approaching. However, headline inflation remains persistently close to the 6.0% y/y mark (5.8% y/y in October). The Brazilian real (BRL) continues to underperform the rest of the major currencies in the region, depreciating close to 11% vis-à-vis the US dollar year-to-date. The authorities have been addressing the negative impact of a strong currency on exports, increasing its presence in the foreign exchange market throughout the year. Government finances, ahead of the electoral year, have worsened which has weighed on investor confidence and raised the possibility of sovereign credit rating downgrades.

MEXICO - Shifting expectations regarding US monetary policy, a less negative local economic performance with monetary policy stabilizing and the continued anticipation of energy reform approval will continue to shape the Mexican peso's (MXN) value in the medium term. Mexican real GDP expanded by 1.3% y/y in the third quarter, slightly below the 1.6% rate registered in the April-June period; however, after contracting by 0.6% q/q in the previous quarter, output increased by 0.8%. This has dissipated some concerns over the possibility of a deeper and more prolonged economic stagnation in Mexico. We maintain our view that the economy will likely expand by 1.2% in 2013 followed by an increase of 3.3% in 2014. Nonetheless, industrial activity, particularly construction, will continue to lag the recovery. The central bank cut the reference rate for the second consecutive time in November, accumulating a 50 basis points reduction. As clearly stated by the authorities, the easing cycle has come to an end, which will leave the reference rate at 3.50% for the foreseeable future. Headline inflation remains close to, but below, the 3.5% y/y mark; however, core inflation continues to linger around the 2.5% y/y level, giving the central bank space to maneuver. With the fiscal reform already approved by Congress, consumer prices inflation will likely increase in 2014; nonetheless, the impact will prove to be temporary. The new fiscal measures contemplate an increase of around 1% of GDP in government revenue. The energy reform proposal continues to be discussed in the Congress and could be ratified in the coming months.

CHILE - The Chilean economy expanded by 4.7% y/y in the third quarter of the year, significantly faster than the 4.4% y/y observed in the first half of the year. Export growth was strong while consumption and investment continued to moderate. We estimate that real GDP will expand by 4.4% in 2013; however, output growth remains below the 2012 pace. The central has reduced the reference rate twice in the last two months by a total of 50 basis points to 4.50%. The bank has also moderated its monetary policy bias, maintaining a more "neutral" tone. Accordingly, we do not anticipate that the authorities will undertake an aggressive easing cycle; however, if inflation remains persistently below the lower limit of the official range of 2-4%, a further rate reduction is possible in the coming quarters. Headline inflation decelerated to 1.5% y/y in October from 2.0% in September. The currency has weakened close to 10% year-to-date, responding to both local and international factors coupled with weaker copper prices. Local presidential elections took place on November 17th, with the former President Michelle Bachelet winning close to, but below, the 50% voting share required to avoid a run-off vote in December. The second ballot is scheduled for mid-December, with Evelyn Matthei (from the ruling party of President Piñera) as the opposition candidate. In congress, Mrs. Bachelet's party will enjoy a simple majority, supporting her reform agenda; however, her party does not have the large majority needed to allow changes to the constitution.

COLOMBIA - The Colombian economy continues to show signs of recovery, although it remains uneven across sectors. Household consumption seems to be picking up, with retail sales maintaining its upward trend in the third quarter, while industrial activity continues to decelerate. Additionally, the construction sector (one of the main contributors to the poor economic performance at the beginning of the year) has been boosted by government outlays, pointing towards a positive rebound in the third quarter. We expect the Colombian economy to expand by 4.2% in 2013 as a whole. The central bank remains the only central bank among the major economies in the region to have maintained its reference rate unchanged over the last six months. After easing monetary conditions at the beginning of the year, the benchmark interest rate has remained at 3.25%. We maintain our view that Colombian central bank will maintain its loose monetary policy stance in the coming quarters. Inflation recently decelerated significantly to 1.8% y/y in October from 2.3% in September, mainly caused by a contraction in food prices; however, we expect consumer price inflation to return to within the central bank's target range in the coming months. The exchange rate has been mainly driven by external factors, risk appetite in emerging assets and the local central bank program to purchase US dollars. President Santos announced that he will be running for the 2014 presidential election, with the peace negotiations with the armed group (FARC) forming the focal point of his campaign.

DEVELOPING EUROPE & AFRICA

Currency Outlook

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RUSSIA - The Russian ruble (RUB) weakened off again versus the US dollar (USD) over the past several weeks, losing 3.5% since late October. An increasingly sluggish growth profile, combined with high inflation, simmering tensions with advanced economy governments and capital outflows continue to weigh on the currency. In response to heightened volatility, the central bank has in recent months frequently raised the RUB's floating trading corridor. Our year-end forecast for the USDRUB rate is 33.0 and we anticipate continued downside pressure over the next year.

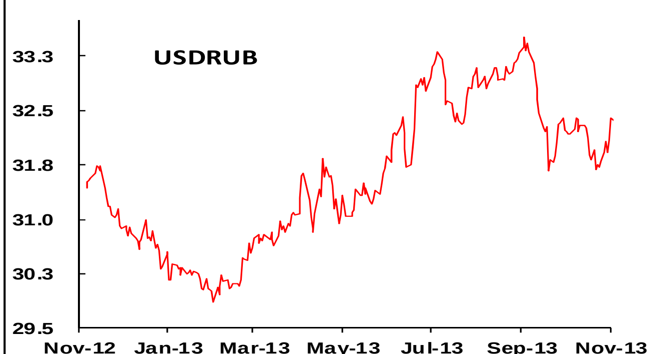
TURKEY - The Turkish lira (TRY) continues to face weakening forces and remains near its September all-time low versus the USD. Over the near term, foreign investors will be alert to upcoming elections in Turkey, as well as the country's persistently large current account deficit and vulnerability to swings in international capital flows. We expect the USDTRY rate to close 2013 around 2.02. A gradual appreciation trend will likely be initiated once the effects of US Fed tapering and forthcoming global liquidity tightening have been digested by financial markets.

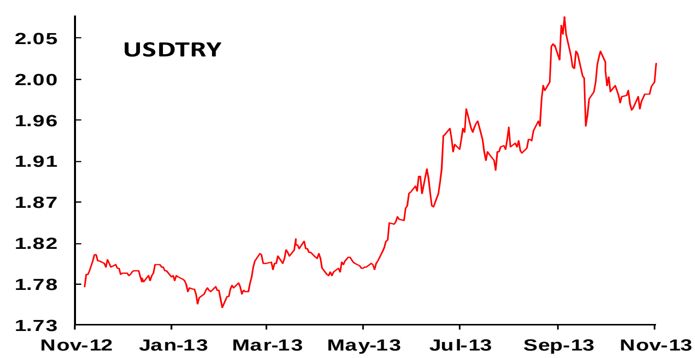
POLAND - The Polish zloty (PLN) has been relatively stable in November, hovering just under the 4.2 per euro (EUR) mark (our end-2013 forecast). The PLN has recovered 3.5% from its late-June low. Evidence of gradually strengthening economic activity is providing support to the PLN, offset by outstanding uncertainties regarding external monetary policy. We anticipate that the PLN will resume a strengthening trend in 2014, amplified once the central bank begins to tighten policy, likely around the middle of the year.

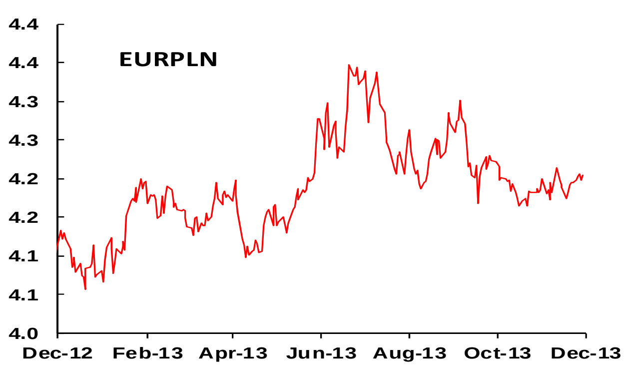
SOUTH AFRICA - The South African rand (ZAR) will remain subject to heightened volatility over the coming months in view of the uncertainty surrounding the timing and extent of the impending withdrawal of US monetary stimulus, combined with local economic headwinds, structural imbalances and political developments ahead of the next general election in April. We anticipate that depreciating pressures will persist through the first half of 2014, after which the currency should gradually recover against the US dollar. We target an end-2013 USDZAR rate of 10.10.

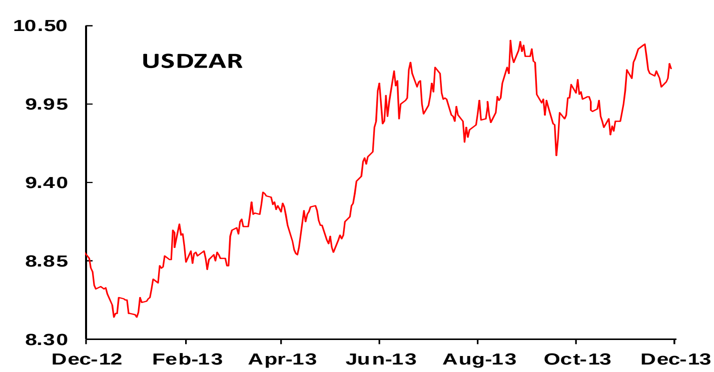
Currency Trends

FX Rate	Spot 29-Nov	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDRUB	33.2	31.1	32.8	32.4	33.0	33.0	32.8	32.7	32.7
USDTRY	2.02	1.81	1.93	2.02	2.02	2.02	2.01	2.01	2.00
EURPLN	4.20	4.18	4.32	4.22	4.20	4.18	4.15	4.07	4.00
USDZAR	10.17	9.24	9.88	10.03	10.10	10.20	10.30	10.15	10.00









DEVELOPING EUROPE & AFRICA

Fundamental Commentary

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RUSSIA - The Russian economy has once again proved weaker than expected, with GDP growth measuring only 1.2% y/y in the third quarter, the same pace as during the prior three months. This brings the average annual pace for the year to date to 1.3%. Although a modest acceleration is likely (indeed, the Ministry of Economic Development estimates that output expanded by 1.8% y/y in October), available data for the fourth quarter preclude a swift rebound in the growth rate. Industrial production and capital investment declined by 0.1% y/y and 1.9%, respectively, in October, while retail sales remained subdued and the unemployment rate ticked up (though it remains relatively low at 5.5%). We have lowered slightly our growth forecasts to 1.4% for 2013 and 2.8% for 2014. Inflation rose unexpectedly for the first time in five months in October, picking up to 6.3% y/y from 6.1%, while the core rate remained within the 5-6% target range at 5.5%. This acceleration will likely keep the central bank on hold for the time being. Capital continues to leave the economy amid unsatisfactory progress on structural reforms and perceptions of shoddy governance; net private sector outflows measured US$48.1 billion through the first nine months of the year and the central bank estimates a figure of $55 billion (2.6% of GDP) for the year as a whole, matching last year's outflow. Relations with the EU have recently degenerated after the Ukrainian government decided to halt negotiations on an association agreement with the bloc in favour of closer ties with Russia; the Putin administration is seeking to develop a Eurasian economic union.

TURKEY - Although the delay of bond purchase tapering by the US Federal Reserve permitted a partial easing of capital outflows and associated lira weakening, the inevitability of monetary stimulus withdrawal in major economies implies that the currency is unlikely to return to year-ago levels in the foreseeable future. The lira's inability to recover earlier losses to the same extent as other emerging markets currencies (such as the Polish zloty) reflects the structural weaknesses of the Turkish economy – most visibly, its large external imbalances and foreign financing needs. Nevertheless, once the unwinding of the Fed's bond purchase program is complete and the Turkish central bank begins its own process of policy normalization, the lira should embark on a trend of gradual appreciation. Inflation is slowly declining, with the headline rate easing to 7.7% y/y in October; however, inflation will likely remain above target for a prolonged period. The external adjustment process continues to be hampered by the external environment and high domestic credit growth. The current account deficit will average around 7% of GDP through 2015. Monetary authorities have rejected calls to raise the benchmark interest rate on the basis of lackluster economic conditions, effectively leaving short-term real interest rates in negative territory. The central bank has also stopped raising the overnight lending rate, but did announce a termination of the one-month repo auction at its latest policy-setting meeting. This move is intended to reduce volatility in short-term money market rates, thereby containing inflationary pressures.

POLAND - The economic recovery in Poland is underway, with solid exports to be complemented by gradually recuperating domestic demand over the next year. Public investment is set to receive a considerable boost in 2014 as funds from the 2014-2020 EU Cohesion Policy budget – to the tune of €72.5 billion over the next seven years – are employed for various development projects, though private sector investment may remain constrained by weak lending conditions. Real GDP expanded by 0.6% q/q in the third quarter of 2013, boosting the yearly growth pace from 0.8% up to 1.9% (the fastest expansion rate since the second quarter of 2012). The stronger performance is evident in the industrial sector, where output rose 4.9% y/y in the third quarter, and picked up another 4.4% in October on the back of robust manufacturing activity. Although it has stopped easing monetary policy (leaving the benchmark interest rate at a record-low 2.5% since July), the Polish central bank continues to flag the lack of inflationary pressures in the economy. The headline inflation rate dipped to 0.8% y/y in October, its lowest level in four months but still well off the June low of 0.2%, and will likely remain below the 2.5% target until 2015. Accordingly, in the latest policy statement the bank indicated that interest rates are to be kept at current levels until at least mid-2014. The fiscal adjustment process has been set back by the economic slowdown in the beginning of the year; lower tax revenue will likely cause the 2013 government deficit to rise to around 4¾% of GDP.

SOUTH AFRICA - South African monetary authorities remain concerned about the outlook for inflation, as potential further currency depreciation and the related pass-through to consumer prices pose upside risks to the already high inflation trajectory. The headline inflation rate eased unexpectedly from 6.0% y/y to 5.5% in October, but the South African Reserve Bank expects it to remain "uncomfortably close" to the upper boundary of the 3-6% target range through 2014. Aside from rand weakness, one the main contributors to the elevated inflation environment is strong collective bargaining wage gains; according to Andrew Levy Employment, the average wage settlement rate in bargaining agreements was nearly 8% through the first nine months of 2013. At the same time, economic data continue to show weakness on the back of frequent supply disruptions (due to labour unrest and power outages), deteriorated consumer and business confidence and slowing credit growth, particularly to households. A sharp deceleration in real GDP growth in the third quarter to 0.7% q/q (annualized) from 3.2% in the second quarter is attributable to a large contraction in manufacturing output – a massive four-week strike led to a 28% q/q drop in automotive sector production. On a positive note, mining production rebounded by 2.7% q/q in the period, and the unemployment rate posted a surprise decline to 24.7% (its lowest level since the fourth quarter of 2011). We expect an overall output gain of 2% in 2013 to be followed by an acceleration to around 3% in 2014-15.

GLOBAL CURRENCY FORECAST (end of period)

		2012	2013f	2014f	2015f	2013f				2014f				2015f			
						Q1a	Q2a	Q3a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
MAJOR CURRENCIES																	
Japan	USDJPY	87	101	109	113	94	99	98	101	102	104	107	109	110	111	112	113
Euro zone	EURUSD	1.32	1.31	1.25	1.23	1.28	1.30	1.35	1.31	1.30	1.29	1.27	1.25	1.25	1.24	1.24	1.23
	EURJPY	114	132	136	139	121	129	133	132	133	134	136	136	138	138	139	139
UK	GBPUSD	1.63	1.60	1.57	1.52	1.52	1.52	1.62	1.60	1.60	1.59	1.58	1.57	1.55	1.54	1.53	1.52
	EURGBP	0.81	0.82	0.80	0.81	0.84	0.86	0.84	0.82	0.81	0.81	0.80	0.80	0.81	0.81	0.81	0.81
Switzerland	USDCHF	0.92	0.93	1.00	1.03	0.95	0.95	0.90	0.93	0.95	0.96	0.98	1.00	1.00	1.02	1.02	1.03
	EURCHF	1.21	1.22	1.25	1.27	1.22	1.23	1.22	1.22	1.23	1.24	1.25	1.25	1.25	1.26	1.26	1.27
AMERICAS																	
North																	
Canada	USDCAD	0.99	1.06	1.06	1.03	1.02	1.05	1.03	1.06	1.07	1.08	1.07	1.06	1.06	1.05	1.04	1.03
	CADUSD	1.01	0.94	0.94	0.97	0.98	0.95	0.97	0.94	0.93	0.93	0.93	0.94	0.94	0.95	0.96	0.97
Mexico	USDMXN	12.85	13.15	13.39	13.52	12.33	12.93	13.09	13.15	13.23	13.13	13.21	13.39	13.40	13.40	13.50	13.52
	CADMXN	12.96	12.41	12.63	13.13	12.10	12.31	12.70	12.41	12.37	12.15	12.35	12.63	12.64	12.76	12.98	13.13
South																	
Argentina	USDARS	4.92	6.00	7.00	8.00	5.12	5.39	5.79	6.00	6.25	6.50	6.75	7.00	7.25	7.50	7.75	8.00
Brazil	USDBRL	2.05	2.25	2.30	2.20	2.02	2.23	2.22	2.25	2.25	2.28	2.29	2.30	2.28	2.25	2.23	2.20
Chile	USDCLP	479	508	520	490	472	508	505	508	510	515	515	520	520	510	500	490
Colombia	USDCOP	1767	1900	1920	1890	1825	1923	1906	1900	1900	1900	1910	1920	1920	1910	1900	1890
Peru	USDPEN	2.55	2.76	2.70	2.60	2.59	2.78	2.79	2.76	2.75	2.73	2.73	2.70	2.68	2.65	2.65	2.60
Venezuela	USDVEF	4.30	6.30	7.90	9.50	6.30	6.30	6.30	6.30	7.90	7.90	7.90	7.90	9.50	9.50	9.50	9.50
ASIA / PACIFIC																	
Australia	AUDUSD	1.04	0.89	0.93	0.95	1.04	0.91	0.93	0.89	0.87	0.90	0.90	0.93	0.93	0.94	0.94	0.95
China	USDCNY	6.23	6.08	5.98	5.86	6.21	6.14	6.12	6.08	6.08	6.07	6.05	5.98	5.94	5.90	5.86	5.86
Hong Kong	USDHKD	7.75	7.75	7.75	7.75	7.76	7.76	7.76	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
India	USDINR	55.0	62.5	64.5	66.0	54.3	59.4	62.6	62.5	61.0	62.0	63.5	64.5	65.0	65.3	65.5	66.0
Indonesia	USDIDR	9793	11800	12200	11900	9735	10004	11406	11800	11900	12000	12100	12200	12125	12050	11975	11900
Malaysia	USDMYR	3.06	3.22	3.30	3.40	3.09	3.16	3.26	3.22	3.24	3.26	3.28	3.30	3.33	3.35	3.38	3.40
New Zealand	NZDUSD	0.83	0.82	0.86	0.87	0.84	0.77	0.83	0.82	0.84	0.85	0.86	0.86	0.86	0.86	0.87	0.87
Philippines	USDPHP	41.0	43.0	42.6	42.2	40.8	43.1	43.5	43.0	42.9	42.8	42.7	42.6	42.5	42.4	42.3	42.2
Singapore	USDSGD	1.22	1.24	1.27	1.27	1.24	1.27	1.26	1.24	1.24	1.25	1.25	1.27	1.27	1.27	1.27	1.27
South Korea	USDKRW	1064	1070	1040	1020	1111	1142	1075	1070	1070	1060	1050	1040	1030	1025	1020	1020
Taiwan	USDTWD	29.0	29.4	29.2	29.0	29.8	30.0	29.6	29.4	29.3	29.3	29.3	29.2	29.1	29.0	29.0	29.0
Thailand	USDTHB	30.6	32.5	33.0	34.0	29.3	31.1	31.2	32.5	32.6	32.8	32.9	33.0	33.3	33.5	33.8	34.0
EUROPE / AFRICA																	
Czech Rep.	EURCZK	25.1	27.2	26.7	25.5	25.7	26.0	25.7	27.2	27.0	27.0	26.9	26.7	26.4	26.1	25.8	25.5
Iceland	USDISK	128	122	120	118	124	124	120	122	122	121	121	120	122	121	121	118
Hungary	EURHUF	291	297	290	286	304	295	297	297	296	294	292	290	289	288	287	286
Norway	USDNOK	5.56	5.90	5.75	5.60	5.85	6.07	6.01	5.90	5.85	5.80	5.80	5.75	5.70	5.65	5.65	5.60
Poland	EURPLN	4.08	4.20	4.00	3.92	4.18	4.32	4.22	4.20	4.18	4.15	4.07	4.00	3.98	3.96	3.94	3.92
Russia	USDRUB	30.5	33.0	32.7	32.9	31.1	32.8	32.4	33.0	33.0	32.8	32.7	32.7	32.8	32.8	32.9	32.9
South Africa	USDZAR	8.47	10.10	10.00	9.50	9.24	9.88	10.03	10.10	10.20	10.30	10.15	10.00	9.80	9.70	9.60	9.50
Sweden	EURSEK	8.58	8.75	8.50	8.25	8.37	8.72	8.70	8.75	8.65	8.60	8.55	8.50	8.45	8.40	8.30	8.25
Turkey	USDTRY	1.78	2.02	2.00	1.96	1.81	1.93	2.02	2.02	2.02	2.01	2.01	2.00	1.99	1.98	1.97	1.96

f: forecast a: actual

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