Foreign Exchange Outlook

The USD will continue to appreciate vs. core advanced and emerging-market currencies throughout the second half of the year. The CAD will be affected by a move towards the USD. Re-dollarization and repatriation dynamics fueled by Fed policy shifts and commodity price softness will keep floating Latin American currencies on the defensive.

The EUR will be immersed in a gradual depreciation phase as a result of poor growth dynamics and relative monetary policy. GBP gains will be short-lived while the CHF remains subject to a quasi-fixed regime. The RUB, TRY and ZAR will continue to test low levels.

The Asian currency outlook will be mixed with fierce central bank intervention in Japan and China and persistently weak INR sentiment. Further CNY appreciation will be limited. The risk of regional competitive alignments are resurfacing. The AUD will remain in correction mode through the end of the year.

Forecast Highlights

Americas	USD	USD is poised to strengthen broadly into year-end.
	CAD	Near term weakness is likely to persist, stabilizing into year-end.
	MXN	MXN likely to strengthen modestly from current levels by year-end.
Asia / Pacific	CNY	Further gains from here are limited; particularly with Shibor elevated.
	JPY	BoJ policy to weigh on yen; expect a year-end close of 105.
Europe	EUR	Poised for weakness as flows weaken and USD is strong.
	GBP	Expected to come under downside pressure on growth, a strong USD & the BoE.
	CHF	SNB expected to adhere to the EURCHF 1.20 floor.

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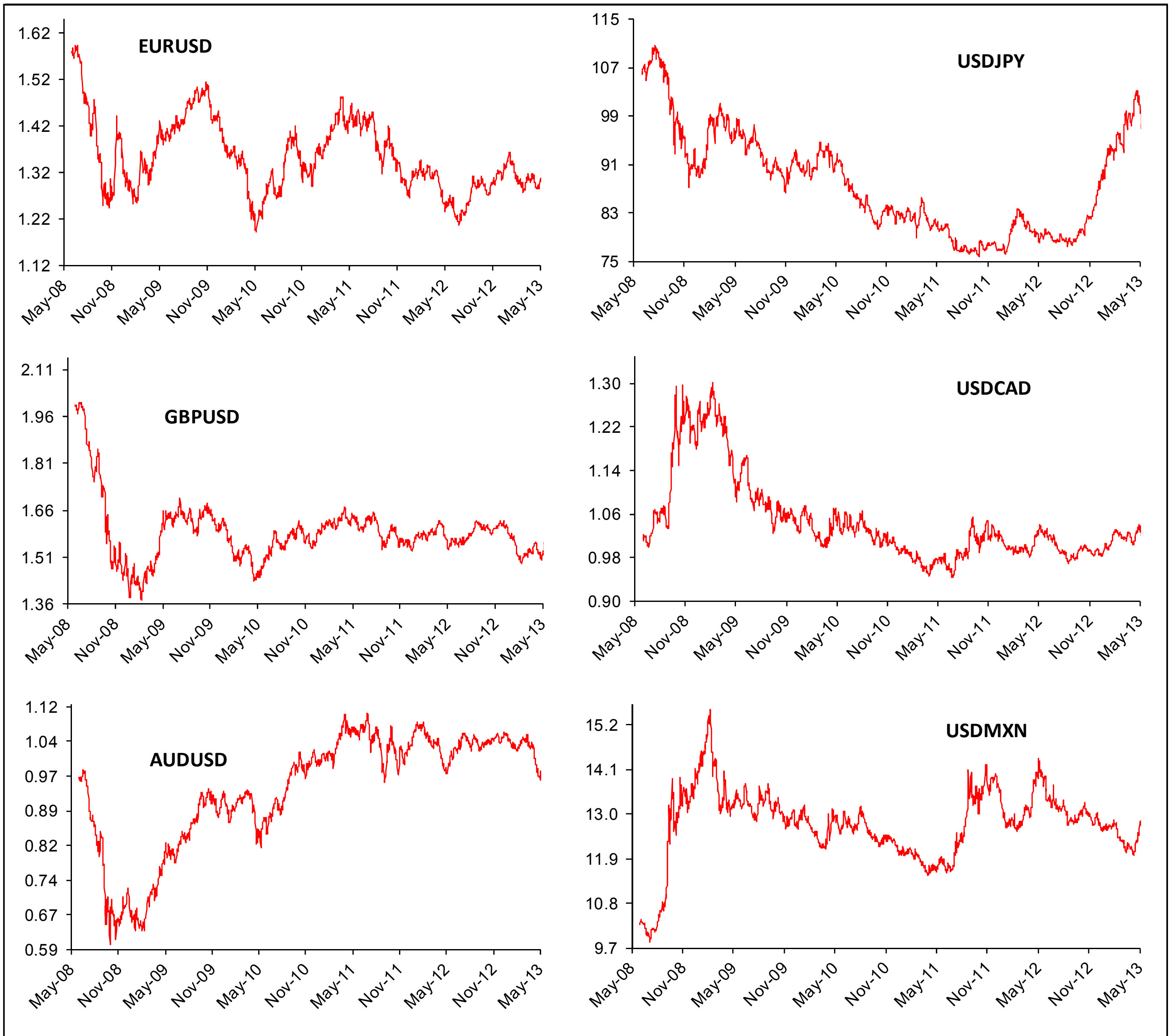
CORE EXCHANGE RATES

Global Foreign Exchange Outlook

June 27, 2013		Spot	Q1a 13	Q2e 13	Q3f 13	Q4f 13	Q1f 14	Q2f 14	Q3f 14	Q4f 14
EURUSD	Scotiabank	1.30	1.28	1.30	1.26	1.25	1.25	1.24	1.24	1.23
	Consensus*			1.31	1.28	1.28	1.26	1.26	1.26	1.26
USDJPY	Scotiabank	98.4	94	98	104	105	106	107	109	110
	Consensus*			100	103	103	104	105	105	105
GBPUSD	Scotiabank	1.52	1.52	1.52	1.47	1.45	1.45	1.45	1.44	1.44
	Consensus*			1.54	1.49	1.49	1.49	1.49	1.49	1.50
USDCAD	Scotiabank	1.05	1.02	1.05	1.07	1.06	1.05	1.04	1.02	1.01
	Consensus*			1.02	1.02	1.02	1.02	1.03	1.03	1.03
AUDUSD	Scotiabank	0.93	1.04	0.93	0.92	0.90	0.90	0.91	0.92	0.93
	Consensus*			0.95	0.97	0.96	0.95	0.94	0.94	0.93
USDMXN	Scotiabank	13.05	12.33	13.05	12.61	12.61	12.67	12.54	12.60	12.76
	Consensus*			12.68	12.20	12.16	12.12	12.08	12.13	12.19



(*) Source: Consensus Economics Inc. June 2013

f: forecast a: actual e: estimate of actual

Market Tone & Fundamental Focus

Pablo F.G. Bréard +1 416 862-3876 Camilla Sutton +1 416 866-5470

A period of heightened volatility has returned to global foreign exchange markets. The US dollar (USD) is in high demand, triggered by the combined effect of rising long-term interest rates and widening economic growth differentials favouring USD-denominated financial assets. The US Federal Reserve's (Fed) shifts are at the core of such clear directional changes in market sentiment. Emerging-market assets are subject to severe stress and correction waves, prompting official intervention in the core group of most developing countries. Moreover, selective commodity price adjustments also anticipate a period of lower global demand from the traditional growth engines in the developing world. On a positive note, the sharp moves in currency markets have not been accompanied by evidence of systemic stress in the global financial sector, suggesting a shift in cyclical economic conditions rather than a nascent phase of banking sector instability.

The USD has once again become a favourite against most core currencies in high-income and developing-market economies. The trade-weighted US currency, as measured by the DXY and Fed's indices, has appreciated by over 5% since the beginning of the year. The US economic outlook remains promising as shown by trends in housing markets, industrial production and employment indicators. Nevertheless, the fiscal restraint has been more severe than originally discounted, prompting a modest downward adjustment to our estimated GDP growth for the US economy in 2013 (to be followed by a sharp rebound in 2014). The NAFTA zone as a whole will benefit from relatively stronger growth fundamentals over the next 18 months; however, clear market preference for US securities has ignited a weakening phase in both non-USD NAFTA currencies. The depreciation of the Mexican peso (MXN) has been more pronounced as a result of higher US rates (the 10-year UST bond yield edged 2.6% at the end of June). The Canadian dollar (CAD) has also been subject to temporary sell-off momentum, yet more modest as compared to the MXN. The CAD's outlook has weakened as policy dynamics and the relative growth outlook have shifted against it. We expect CAD to weaken against the USD in the near-term but retrace some of these losses in 2014 as we move closer to a period of higher rates in Canada and the domestic fundamentals improve. However, CAD is expected to outperform EUR, GBP and JPY.

The Latin American (excluding MXN) currency context is also experiencing a fragile trading environment as the USD regains prominence. The Brazilian real (BRL) has been subject to sharp depreciation (somewhat moderated by hefty central bank intervention) in line with other core currencies (excluding CNY) within the extended BRICS group. Commodity price adjustments (primarily in metal markets) have also weighed on the values of the Chilean (CLP) and Peruvian (PEN) currencies, whereas the Colombian peso (COP) remains in weakening mode aided by explicit central bank policy intervention. Despite this synchronized currency weakness and risk repricing activity, several countries in Latin America (Peru, Chile, Colombia and Mexico) remain in high-growth gear, increasing the chances of value recovery once the latest wave of emerging-market correction subside.

The EUR enters a defensive phase in line with still weak economic fundamentals as well as unattractive interest rate differentials. We retain our view that the single European currency should depreciate further reflecting poor growth prospects and still lingering financial systemic vulnerabilities, especially as the ECB introduces a more dovish bias. In addition, the market is likely to have only a limited tolerance of the slow progress on reforms and the banking union. We have maintained our bearish EUR forecast, calling for year-end rates of 1.25 and 1.23, respectively. The British Pound (GBP) has been in range-trading mode subject to movements in both Europe and the US. More recently, Sterling has suffered some losses as rising US Treasury (UST) bond yields have increased the attractiveness of the USD. We expect GBP to weaken into year-end as relative growth, a dovish central bank and negative sentiment weigh on the British currency. There has been a shift away from emerging markets and towards well-established developed markets, temporarily supporting EUR and GBP; however we ultimately expect both of these currencies to weaken. Finally, EURCHF continues to trade above the intervention floor set by the Swiss authorities, with a bias towards modest weakness. Within the regional emerging-market currencies, the Turkish lira (TRY) has suffered acute sell-off pressure aggravated by heightened socio-political instability.

The Asian currency outlook continues to be influenced by the exchange rate direction of both the Japanese yen (JPY) and the Chinese renminbi (CNY). Explicit government intervention remains the norm in both countries. Significant depreciation of the JPY versus the USD has triggered regional competitive alignments in currencies such as the South Korean won (KRW) and the Taiwanese dollar (TWD), yet the Thai baht (THB) has become more resilient to regional currency swings on the grounds of a robust macroeconomic growth environment. The Indian rupee (INR) has been a major casualty during the recent phase of global risk aversion and asset allocation shifts away from emerging markets. India's twin deficit position, deteriorating sovereign credit fundamentals, high inflationary environment, decelerating economic activity and counter-cyclical monetary policy moves have weighed heavily on the INR, which has lost 8.4% against the USD over the last month. Finally, the outlook for Australia has deteriorated, in part due to a lower growth profile for China, but also due to a dovish central bank who appears increasingly focused on exchange rate competitiveness.

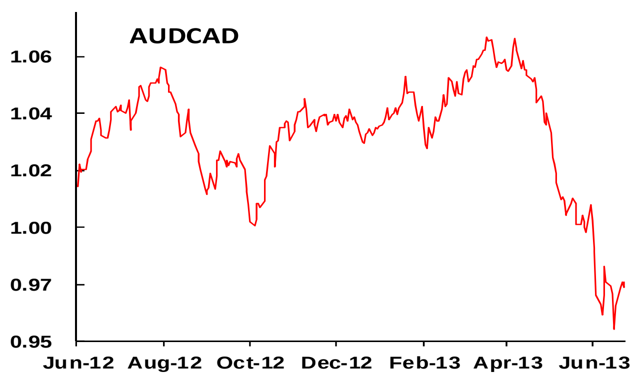
CANADA
Currency Outlook

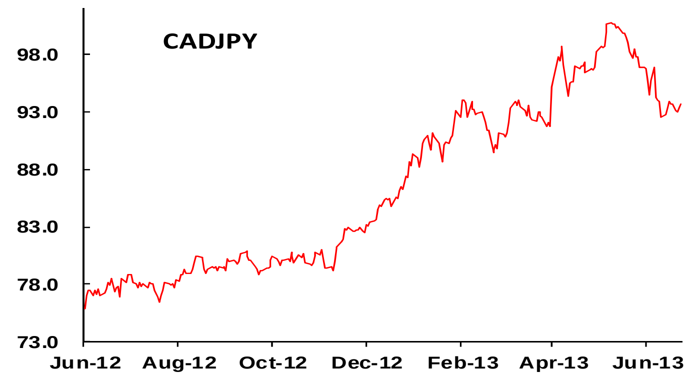
Camilla Sutton +1 416 866-5470

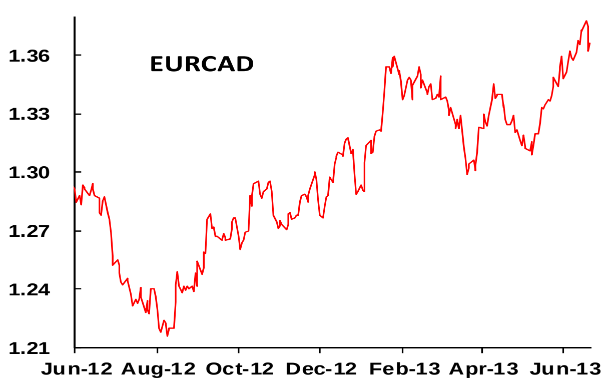
In an environment of broad based USD strength, CAD has weakened. Entering July, it is down 5% on a year-to-date basis, underperforming EUR and MXN, but outperforming AUD and JPY. We expect further near-term weakness for CAD against the USD, but that it bottoms in Q3, retracing some of its losses against the USD, EUR, GBP and JPY into year-end. The broad USD rally during the first half of the year has been multi-fold. As the US economic outlook improved it led to USD gains on the relative growth outlook, but also pulled forward the expected date that the Fed would begin to slow bond purchases (QE tapering). In addition, global deleveraging of emerging market and carry trade exposures on the back of a shifting Fed outlook increased the flows back into the USD. For CAD, this process has been complicated as growth dynamics diverged, with Canada underperforming the US; with a new Bank of Canada governor, Stephen Poloz, who is widely expected to strike a more balanced tone; and with a vulnerable housing and oil sector. Accordingly market sentiment has been negative CAD, with the CFTC reporting a net short CAD position of -$3 billion as of June 18th. Looking out to year-end, CAD is expected to weaken further in the near-term in part as broad based USD strength continues. However, after bottoming in the third quarter, we expect CAD to hold its own against the USD into year-end. Ultimately, what is good for the US economy is also positive for Canada's fundamental backdrop. In addition, Canadian GDP growth of 1.6 in 2013 is expected to outperform the Euro-zone and UK. With regards to the central bank, we expect the Bank of Canada to prove slow to hike rates but that the tightening cycle in Canada begins before the US, particularly as several Fed members begin to hint that the 6.5% unemployment threshold for higher interest rates in the US should be lowered. Finally, two significant risks for the Canadian backdrop, housing and oil markets should prove less dramatic than some expect. We have factored in a moderation and negative contribution to GDP from the housing sector; but not a collapse. While for oil, we expect Canadian oil production and exports to grow in tandem with rising US domestic production and that oil pricing normalizes. Accordingly, combined with a US recovery, the Canadian outlook should support a stabilizing currency. We hold a year-end CADUSD forecast of 0.94 (or in USDCAD terms 1.06).

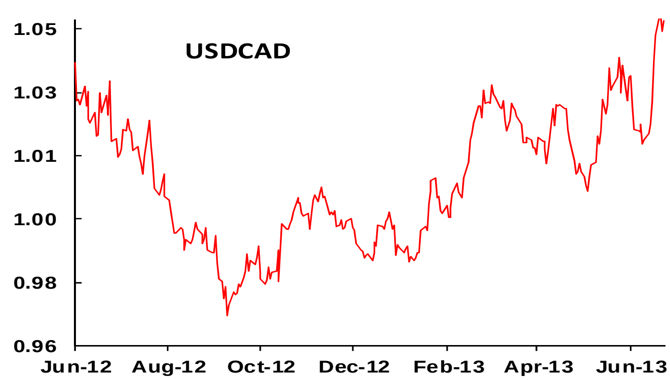
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 27-Jun	13Q1a	13Q2e	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
AUDCAD	0.97	1.06	0.97	0.98	0.95	0.95	0.95	0.94	0.94
CADJPY	93.7	92.6	93.7	97.2	99.1	101.0	102.9	106.9	108.9
EURCAD	1.37	1.30	1.37	1.35	1.33	1.31	1.29	1.26	1.24
USDCAD	1.05	1.02	1.05	1.07	1.06	1.05	1.04	1.02	1.01









Canada and United States

Fundamental Commentary

Erika Cain +1 416 866-4205

UNITED STATES - Incoming economic data suggest a continuing but uneven U.S. economic recovery. Real GDP growth is expected to moderate to roughly 2.0% q/q SAAR in Q2. The short-term outlook is dampened by relatively weak global economic activity, financial market volatility and ongoing fiscal restraint. Following the highest level of housing starts in almost five years during Q1, starts have moderated in April and May. Nevertheless, new and existing home sales, home prices and permit data in May remain strong, while homebuilders' confidence rose to the highest level since mid-2006, suggesting the pullback will be short lived. Industrial production also started the first two months of the quarter on a softer footing, dragged down by lower utilities output and reduced manufacturing of defense equipment – the latter likely the result of sequester-related restraint. Meanwhile, capacity utilization has fallen to 75.8% – well below the long-term average – and the ISM manufacturing index continued to decline, slipping into contraction territory in May. Nevertheless, motor vehicle production increased in May, bringing total assemblies of cars and light trucks to a post-recession high. Durable goods orders in May beat expectations and inventories remained flat, signalling a pickup in manufacturing activity in the coming months. Notwithstanding some near term weakness, improving household finances and gradually strengthening labour markets continue to support consumer confidence and private sector demand. These factors, combined with lower fuel and food prices, have alleviated much the drag from higher payroll taxes and continue to bolster retail sales, which surged 0.6% m/m in May. Looking ahead to the second half of this year and 2014, with consumers more optimistic about the future, household spending will likely drive growth and reinforce gains in employment and new residential construction. Inflation and wage pressures will remain well anchored, due to excess labour and industrial capacity.

CANADA - Canadian Real GDP will likely advance around 1½% q/q SAAR in the second quarter of 2013, with gains driven by net exports and consumer spending. Export volumes continued to gain traction in April and building upon a 1.4 ppt contribution to Q1 real GDP, net exports should continue to add mildly to output in Q2. Rising retail sales volumes should also contribute to second quarter growth, especially since new motor vehicle sales have been bolstered by enhanced incentives. The Canadian labour market has also gained some momentum, creating a stunning 95k jobs in May. Notwithstanding some encouraging progress, growth will continue to be held back in Q2 by the sub-par external backdrop and ongoing household deleveraging. Despite recent gains, the year-to-date growth trend in employment remains moderate and consumer spending is still relatively sluggish. In April, the decline in manufacturing sales was fairly widespread – led by primary metals, petroleum and coal manufacturing – with shipments posting the largest drop since August 2009 and inventories reaching a record high. The housing market appears to be experiencing a soft landing, with relatively stable sales and prices. Housing starts jumped sharply in May to 200k units; however, this pace of homebuilding is unlikely to be sustained, tempered by deteriorating affordability. In an environment of softer domestic demand and cautious business capital expenditures, Canada's transition to export-led growth will be uneven over the near term, dampened by U.S. fiscal restraint, lacklustre global demand and commodity price volatility. Nevertheless, export and overall economic activity is forecast to gain modest momentum later this year and into 2014, as it piggybacks off ongoing improvements in U.S. private-sector demand, residential construction and business investment. Inflationary pressures will remain subdued by fierce retail competition and modest wage growth .

Monetary Policy Commentary

Derek Holt +1 416 863-7707 Dov Zigler +1 416 862-3080

UNITED STATES - With US 10's trading near 2.6% as we go to print and US 30-year fixed-rate mortgage rates at their highest level since the summer of 2011 in the wake of the FOMC's June 19 statement, we think that the market outcome of the last meeting might paradoxically extend the amount of time during which the Fed is active in markets. We think that markets are under-appreciating the extent to which the reduction in the US budget deficit could be supportive of the US bond complex. Scotiabank is forecasting a drop in net issuance of bonds by the US Treasury to the US$700-900 billion range for FY2013 (the U.S.G.'s fiscal year starts on Oct. 1) compared to US$1.1 trillion in the FY2012, a decrease whose implications for monthly issuance are roughly analogous to the drop in the monthly pace of Fed bond purchases that we expect over the next 12 months.

CANADA - The new Bank of Canada (BoC) Governor Poloz has tended to emphasize that the BoC is 'undershooting' its inflation target (a band between 1-3%) and that this undershooting is as material of a failure as an overshooting of the inflation target would be. The implication, as we see it, is a BoC that is marginally more dovish than it was under its previous Governor. What does that mean for monetary policy? Not a whole lot. We do not expect either rate cuts or hikes from the BoC over our forecast horizon (a cooling housing sector ensures that the BoC won't need to use interest rates to control developments there). Our outlook for inflation is for the year-on-year CPI to remain soft over the course of the year, edging higher and flirting with the bottom of the BoC's target band from month to month – but not getting anywhere near the desired 2% inflation mid-point.

EUROPE
Currency Outlook

Camilla Sutton +1 416 866-5470
Eric Theoret +1 416 863-7030

EURO ZONE - Flows away from the emerging markets and carry trades have proved temporarily supportive of EUR. However moving into the summer months, EUR is likely to weaken. Our base case includes the following assumptions: EUR positive flows subside, higher bond yields weigh on growth, the ECB maintains a notably dovish tone and the EU makes limited progress on the details surrounding the banking union. Accordingly, we hold a Q313 target of 1.26.

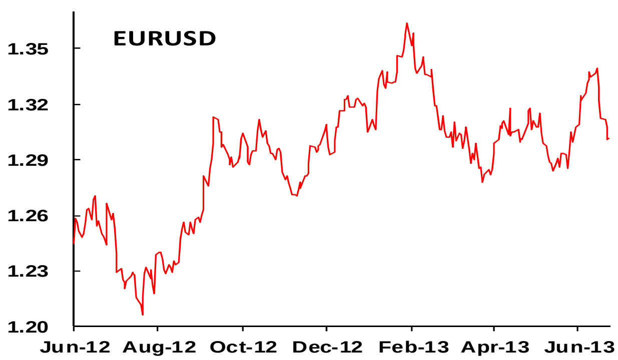
UNITED KINGDOM - Similar to EUR, sterling was supported in early June by flows fleeing emerging markets and moving into the more liquid majors. However, the fundamental outlook is challenged; technicals are shifting into sell territory and we would expect short positions to build – the CFTC reported only a small $2bn GBP short as of June 18th. We hold a Q313 target of 1.47.

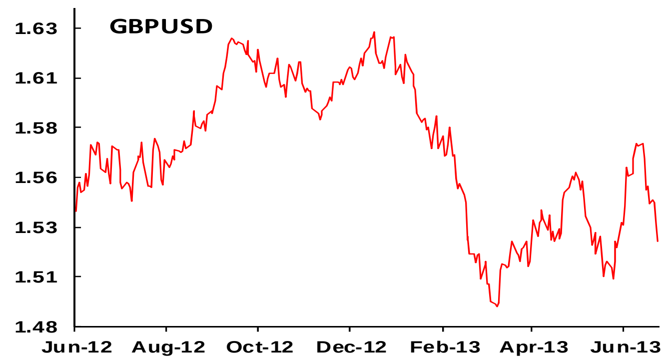
SWITZERLAND - The SNB reiterated again in June that it is committed to the EURCHF 1.20 floor and we expect it to remain in place throughout 2013. Accordingly the rolling 30-day correlation between EURCHF and USDCHF is notably strong, 0.97, leaving USDCHF a reflection of EURUSD. Having forecasted a weakening EURUSD profile, we hold a USDCHF Q313 target of 0.96.

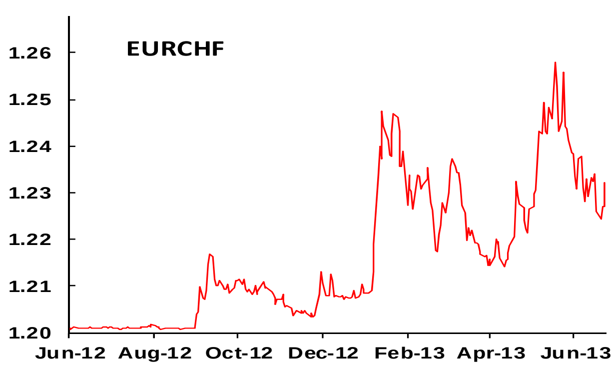
SWEDEN - SEK came under extreme pressure in mid-June, weakening 6.6% against the USD over a four session collapse. Pressure from a broadly stronger USD is likely to continue to weigh on SEK in the near term; however FX markets tend to overshoot and looking out to quarter end the risk is likely some retracement. We hold a Q313 EURSEK forecast of 8.60.

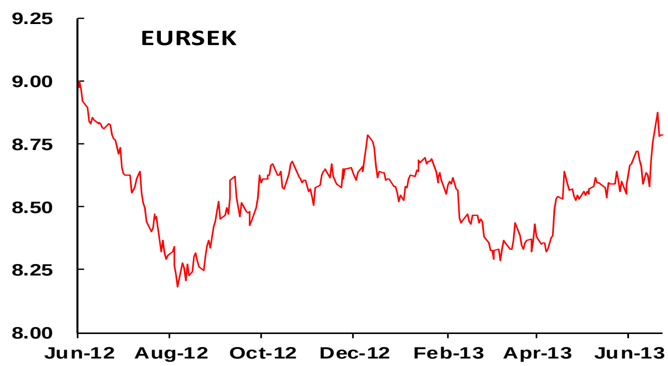
Currency Trends

FX Rate	Spot 27-Jun	13Q1a	13Q2e	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
EURUSD	1.30	1.28	1.30	1.26	1.25	1.25	1.24	1.24	1.23
GBPUSD	1.52	1.52	1.52	1.47	1.45	1.45	1.45	1.44	1.44
EURCHF	1.23	1.22	1.23	1.21	1.22	1.23	1.24	1.25	1.25
EURSEK	8.79	8.37	8.79	8.60	8.50	8.40	8.30	8.30	8.20









EUROPE
Fundamental Commentary Sarah Howcroft +1 416 862-3174

EURO ZONE - Downside growth risks remain elevated, particularly in light of the latest bout of financial market volatility brought on by shifting US monetary policy expectations and the associated bond sell-off, which saw euro area peripheral yields surge by 90 basis points (in Spain, Italy and Ireland) to 325 bps (Greece) after May 22nd. Survey and hard data continued to show modest improvement in the region this month. The composite PMI touched a 15-month high in June (though still below 50), while industrial production posted a third straight monthly gain in April, bringing the year-over-year pace (still negative) to its best since November 2011. The exception remains the unemployment rate, which picked up to 12.2% in April. The longer-term outlook has been further clouded by the uncertain recovery in global growth (specifically Asia, which accounts for over 18% of the EU's external shipments). We have lowered our 2014 growth expectation from 0.7% to 0.5%. Recent flooding in Germany will dent economic activity temporarily, though as it brought relatively limited infrastructure damage, the boost from reconstruction should be swift. With inflation set to remain below the European Central Bank's target throughout the forecast horizon, monetary authorities have assured that policy will stay accommodative for the foreseeable future and that they are open-minded to additional standard and non-standard measures. In addition to loose monetary conditions, Europe's eventual recovery is dependent on a more relaxed austerity drive, progress on the banking union and a pick-up in external demand.

UNITED KINGDOM - Economic prospects have brightened somewhat in the UK; a slew of better-than-expected data over the last month indicates that the yearly growth pace picked up smartly in the second quarter. Of note, the May labour market report was quite upbeat – both with respect to employment and wages – which bodes better than feared for household incomes and spending, and has already been reflected in strong retail sales figures for the month (sales were up 2.1% m/m, more than offsetting the 1.1% decline in April). Also exceeding expectations were the May purchasing managers' indexes (especially for services), housing loan data and April trade figures. Accordingly, we have raised our 2013 GDP forecast slightly from 0.6% to 0.8%. Inflation bounced back to 2.7% y/y in May from a 7-month low in April, due largely to a swing in airfares around the early Easter holiday. The headline rate is expected to edge slightly higher in the coming months due to base effects, before decelerating to around 2.5% y/y by year-end. The June meeting of the Bank of England marked the end of Mervyn King's tenure as governor, with Mark Carney set to take up the post on July 1st. King's final days left the door open to further quantitative easing – he stressed at his last appearance before the Treasury Select Committee that the economy, and thus interest rates, are still far from returning to normal conditions. After touching above 1.57 in USD terms around mid-month, the GBP has come down to the level where it started June. The currency will remain sensitive to shifts in monetary policy expectations.

SWITZERLAND - The Swiss National Bank's (SNB) minimum exchange rate policy (set at 1.20 francs per euro) is expected to remain in place for the foreseeable future. The tool has helped to cushion the economy against external weakness - GDP growth was relatively robust at 0.6% q/q in the first quarter, following an upwardly-revised 0.3% in the prior three months. The comparatively strong performance (amid widespread weakness in Europe and a slowdown globally) was underpinned by robust household consumption and residential investment. The SNB expects a slight moderation in the pace of growth in the second quarter, with the labour market softening (in May the unemployment rate ticked up to 3.2% after four months of flat readings) and exports still volatile (a 1.7% m/m gain in May followed a sharp 7.3% contraction in the prior month). Nonetheless, the authorities maintain a growth projection of 1-1.5% for 2013 as a whole. Prices continue to fall; a 0.5% y/y drop in the CPI marked the 19th straight month of deflation in May. The franc has strengthened somewhat in recent weeks after touching a two-year low of 1.258 against the euro, as liquid Swiss assets have attracted safe haven flows during the latest period of financial market volatility. This has necessitated continued foreign exchange purchases by the central bank, with CHF5.3 billion worth purchased in May (bringing the total stock of reserves to CHF441.4 billion, over 70% of GDP). The expansion of the money supply slowed in May after reaching a record-high 10.3% y/y in April.

SWEDEN - Recent losses in the Swedish krona (SEK) were primarily due to global financial market repositioning in light of changing expectations regarding major central banks. The SEK dove by over 3% against the euro over a period of three days in late June, though it has already retraced some of those losses. With global volatility expected to moderate over the coming weeks and months, the SEK should recover a modest appreciating trend through year-end. Economic data remains mixed, but the prospect for further monetary easing by the Riksbank has diminished as upward pressure on the krona and deflationary pressures ease (the CPI contracted 0.2% y/y in May following a 0.5% decline in April). Nevertheless, there remain two dissenters on the central bank's executive board who continue to press for rate cuts. The first-quarter GDP report was slightly better than anticipated, with the economy expanding 0.6% q/q (1.7% y/y) following an upwardly revised gain of 0.1% in the prior three months. The result was driven by strong household consumption (up 1.0% q/q) and an accumulation of inventories, while investment and exports detracted from growth. Looking to the second quarter, the unemployment rate fell by half a percentage point to 7.9% in May, its lowest level since last July, and in April the trade balance posted its largest surplus in 10 months. Yearly industrial production, however, fell again in April for the eighth straight month. Output is expected to advance by 1¼-1½% this year, before accelerating to around 2½% in 2014.

ASIA / PACIFIC
Currency Outlook

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

JAPAN - JPY was the best performing currency during the month of June (mtd to June 27, our publishing date), driven higher by flows into the majors and away from the more vulnerable emerging market and carry trade currencies. The weak JPY fundamentals have not changed, as the BoJ aggressively pursues a doubling in its monetary base. Accordingly, we have made no change to our Q313 target of 104.

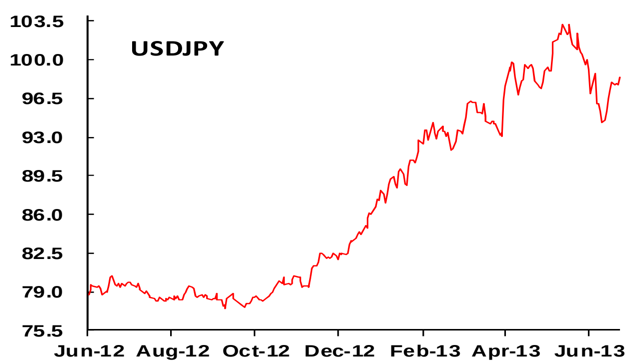
CHINA - Liquidity and funding stresses pressured Shibor violently in June, by month's end there had been some relief but markets had failed to return to normal. CNY's end of June pattern, suggests that policy makers were moving away from the appreciating fixing trend. This likely reflects a more balanced onshore market, as CNY traded away from the strong side of its permitted daily trading band through the month. External accounts remain CNY-supportive, though pressure from certain non-current account inflows is now likely to subside considering the shift in the market's positioning in EM Asia. WE hold a Q313 USDCNY target of 6.12.

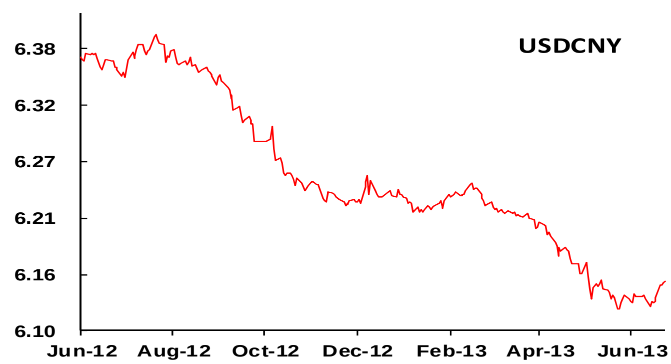
AUSTRALIA - Between April 11, 2013 and June 24, 2013, AUD collapsed 14% as the market unwound AUD long positions and carry trades on the back of deterioration in China's outlook and shifting Fed expectations. Even after the drop, AUD had not reached oversold levels; however, at the end of June, AUD was showing some early signs of stabilizing. As of June 18th, the CFTC was reporting AUD as the second largest net short held against the USD (at -$6bn), but considering interest rate differentials, AUD will prove an expensive currency to hold short once spot stabilizes, leaving AUD at risk of short covering later this year. We hold a Q313 AUDUSD forecast of 0.90.

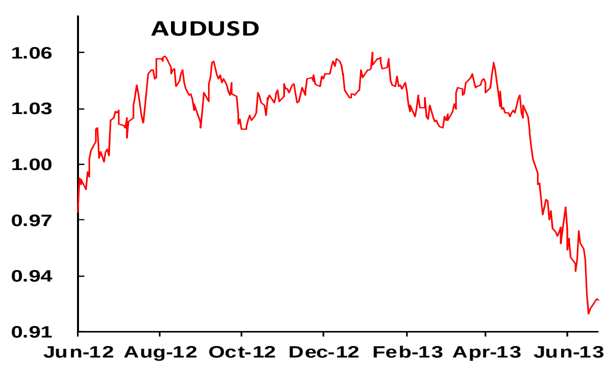
NEW ZEALAND - In tandem with AUD, NZD lost 11% between April 11th and June 24th, but was showing some small signs of stabilization at the end of June. NZD liquidity makes it a more challenging position than AUD and accordingly flows have been subdued, with the CFTC reporting a flat position as of June 18th. Technically, the downward trend is in line with other periods of volatility. We have revised down our NZDUSD forecast; now targeting 0.76 by the end of Q313.

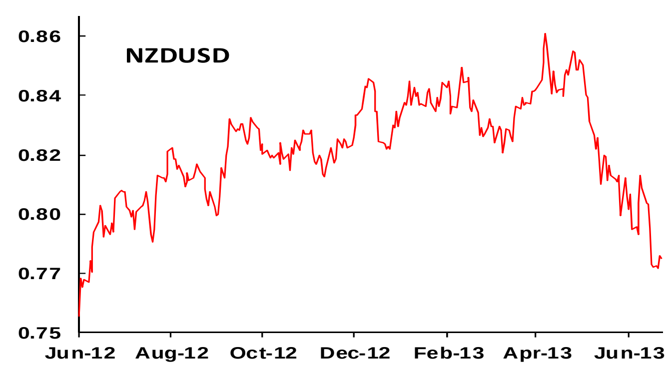
Currency Trends

FX Rate	Spot 27-Jun	13Q1a	13Q2e	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDJPY	98.4	94.2	98.4	104.0	105.0	106.0	107.0	109.0	110.0
USDCNY	6.15	6.21	6.15	6.12	6.10	6.09	6.07	6.06	6.04
AUDUSD	0.93	1.04	0.93	0.92	0.90	0.90	0.91	0.92	0.93
NZDUSD	0.78	0.84	0.78	0.76	0.75	0.75	0.77	0.80	0.82









ASIA / PACIFIC

Fundamental Commentary

Tuuli McCully +1 416 863-2859

JAPAN - In June, Prime Minister Shinzo Abe unveiled the third and final "arrow" of his economic revival plan that will complement the already announced fiscal and monetary measures. The third part, the growth strategy, focuses on long-term structural reforms to allow the shorter-term stimulus efforts to translate into sustainable economic revival. While lacking details, Prime Minister Abe's strategy for growth focuses on opening up the country and its markets to the world, reorganizing the electricity sector, encouraging investment and innovation by reforming the tax system and university education and encouraging women to participate in the workforce. More details about the reform agenda will be announced in the fall. There is increasing evidence that the economy is returning to positive growth trajectory, with both industry and consumer–related indicators showing clear improvements. Nevertheless, for the revival to be more than a short-term phenomenon, strong political will is required to deliver the promised structural reforms. The upper house of parliament will likely have an election for half of its 242 seats on July 21st; given the popularity of Prime Minister Abe, the Liberal Democratic Party will likely score well in the ballot. While the policymakers remain determined to end deflation, inflation remains in negative territory for the time being (consumer prices declined by 0.7% y/y in April). We assess that the period of deflation will come to an end around mid-year, with inflation creeping gradually higher towards 1.2% y/y by the end of 2014.

CHINA - China's economic growth momentum is gathering speed rather slowly with economic activity indicators sending mixed signals. While purchasing managers' surveys show lackluster performance, output in the industrial sector is maintaining the impetus of recent months. Meanwhile, the retail and housing sectors are performing reasonably well. We expect to see some modest improvements in the economy in the second half of the year as the impact of rapidly flowing credit is felt in the real economy along with a pickup in global demand. China's real GDP is expected to grow by 7.8% y/y in 2013-14. Investment continues to be a key driver of economic growth, though the economic contribution of household spending is increasing. The inflation outlook is manageable. The consumer price index recorded a 2.1% y/y gain in May. Price pressures will likely build up moderately over the forecast period, reaching 3⅓% y/y by the end of 2013 and around 4% by end-2014. Nevertheless, deflationary pressures further up the distribution chain persist with producer prices declining by 2.9% y/y in May, thereby alleviating any concerns regarding significant upside price pressures in the near future. We do not foresee any changes to the People's Bank of China's monetary policy stance in the coming months; the benchmark 1-year lending rate has been maintained at 6.0% since July 2012. The recent liquidity squeeze prompted a significant jump in Chinese money market rates, as authorities look to control the rapid expansion of credit; however, officials have stated that they will ensure financial sector stability, easing market pressures.

AUSTRALIA - The Australian economy maintains a steady growth momentum. In the first quarter of the year, real GDP expanded by 0.6% q/q (non-annualized) in line with the gain in the final quarter of 2012. We expect output to increase by 2½% in 2013 as a whole, followed by a 3% gain in 2014. Household spending and net exports are performing well, reflecting improved sentiment and increased mining capacity. Nevertheless, as the Reserve Bank of Australia's policymakers assess that the non-mining business sector remains subdued, further monetary measures to support economic activity may be warranted. Indeed, according to the minutes of the most recent policy meeting on June 4th, the authorities see that there is "some scope for further easing" if needed. Additionally, they consider the Australian dollar exchange rate to remain "at a high level". Accordingly, we are now anticipating an additional 25 basis point reduction in the cash rate to 2.50% in the third quarter of the year before the easing cycle reaches its bottom. The inflation outlook is favourable with the consumer price index increasing by 2.5% y/y in the first quarter of the year; the inflation rate will likely remain near the current level through 2013 before picking up to 3% by end-2014. The next parliamentary election will take place on September 14th, 2013. Although Julia Gillard was replaced as Prime Minister and leader of the Labor Party by her predecessor Kevin Rudd on June 26th, it is still likely that the opposition Liberal-National Coalition, led by Tony Abbot, will form the next government.

NEW ZEALAND - New Zealand's monetary conditions are set to remain unchanged in the coming months on the back of muted inflationary pressures (the CPI increased by 0.9% y/y in the first quarter of the year, below the central bank's 1-3% target range) and stable real GDP growth outlook. Following the Reserve Bank of New Zealand's policy meeting on June 13th, 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. The country's real GDP increased by 0.3% q/q (2.9% y/y) following a strong 1.3% (3.6% y/y) gain in the final quarter of 2012. We expect the economy to grow by around 2¾% in 2013-14. Domestic demand continues to be the main economic motor, driven by earthquake-related reconstruction investment. Household spending was supported by developments in the labour and housing markets with improving momentum carrying into the second quarter, as evidenced by recent consumer confidence gains. The unemployment rate dropped to 6.2% in the first quarter of 2013 from 6.8% in the final three months of 2012. Meanwhile, house price gains have accelerated to 7.1% y/y in April-May compared with an average gain of 6.3% in the first quarter, while increases in residential sales have averaged 16.4% y/y in the April-May period following a 13.2% advance in the first quarter of the year. Accordingly, the monetary authorities have expressed increasing concerns regarding developments in private sector credit and the housing market.

DEVELOPING ASIA

Currency Outlook

Sacha Tihanyi + 852-2861-4770

INDIA - INR has suffered significantly from Fed tapering implications, trading to a new record low against the USD toward the end of June. The sharp depreciation has also shaken fixed income and equity markets, key financing avenues for the country's current account deficit. While inflows will remain strained in the near term, a more attractive real INR valuation, lower gold prices and sluggish domestic demand may serve to eventually benefit the rupee via lower imports and higher exports. Once Fed policy-driven external funding strains subside and the current account begins to show sustained improvement, market sentiment may improve significantly. We target 56.50 by Q4.

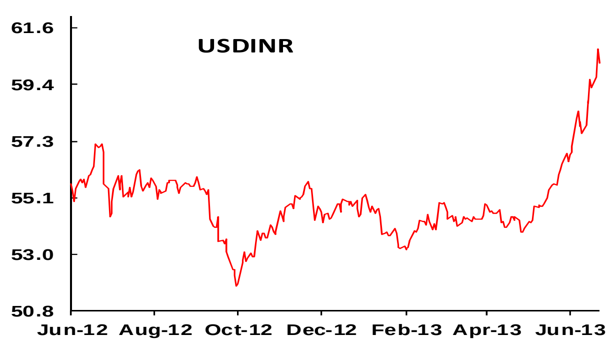
KOREA - Despite Korea's volatile capital account flows, which have undermined KRW over the course of June, the trend in trade flows continues to provide a positive offset. Record trade surpluses have boosted the current account, while relative equity valuations may eventually prove enough to attract inflows once outflows (which have reached two-year highs) stabilize. With the currency reasonably valued from a real effective basis, and domestic demand soft, we expect the current account to remain a key support for KRW. We target 1100 by Q4.

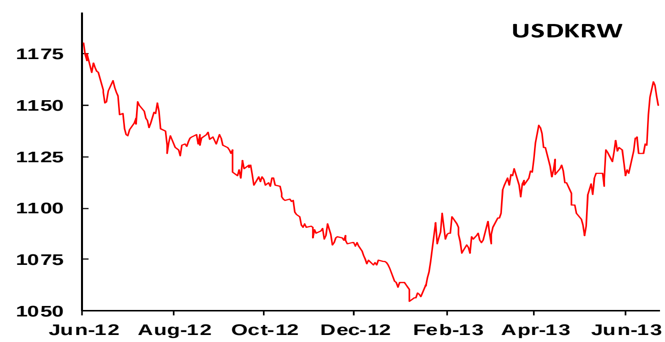
THAILAND - THB has been a regional underperformer over June, driven by the Fed-sparked exodus from Asian risk assets. Current levels are likely to be less of a concern for the government, and thus unlikely to bring about measures aimed at taming inflows into the country's financial markets. However, the long term deterioration in Thailand's trade accounts will remain a constraint to THB strength, particularly given the sustained strength in domestic demand. We are reviewing our forecast, but believe that the recent weakness should begin to stabilize. We target 30.25 by Q4.

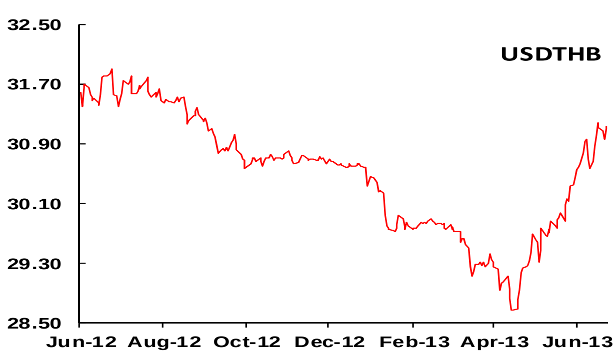
INDONESIA - Intraday volatility spiked significantly in June as Fed tapering implications strained the perpetually challenged onshore liquidity conditions. IDR is likely to continue to follow a gradual depreciatory path in the context of the need to rebalance external accounts. The challenge of higher inflation in the coming months will provide an additional and unwelcomed upward pressure on IDR's real valuation, which will be unhelpful for the external accounts. Higher rates may provide offset to Fed-generated strains, but without improvement in the external accounts, IDR will remain under pressure. We target 10,100 by Q4.

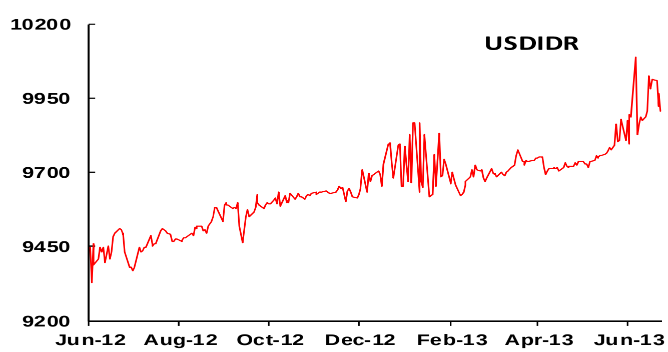
Currency Trends

FX Rate	Spot 27-Jun	13Q1a	13Q2e	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDINR	60.2	54.3	60.2	58.6	58.5	58.0	57.5	57.0	56.5
USDKRW	1150	1111	1150	1125	1120	1115	1110	1105	1100
USDTHB	31.14	29.26	31.14	30.20	30.30	30.10	30.00	29.90	29.80
USDIDR	9908	9735	9908	10050	10100	10125	10150	10175	10200









DEVELOPING ASIA

Fundamental Commentary

Tuuli McCully +1 416 863-2859

INDIA - The Reserve Bank of India (RBI) is taking a temporary break from monetary easing. Following the June 17th meeting, the central bank opted to keep the benchmark repo rate unchanged at 7.25% after reducing it by 75 basis points since January. Reflecting the recent substantial depreciation of the Indian rupee, the authorities expressed concerns regarding the country's large current account deficit (equivalent to around 5% of GDP in 2013) and the sudden shifts in investors' risk perceptions and their impact on capital flows. We assess that the RBI may cut rates once more in the third quarter of the year should global risk aversion not deteriorate markedly. Inflationary pressures have continued to ease, with wholesale price inflation reaching 4.7% y/y in May compared with 7.3% at the beginning of the year. Meanwhile, consumer price inflation remains high at 9.3% y/y. We expect annual WPI inflation to close 2013 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. Output expanded by 4.8% y/y in the first quarter compared with a 4.7% gain in the October-December period. Investment is key to an improving growth profile, though it is restrained by structural limitations, such as poor infrastructure, power generation issues, and a complex regulatory environment. We expect India's real GDP to advance by 5½% this year overall, followed by a modest pick-up to 6% in 2014, yet the risks to growth remain to the downside.

KOREA - South Korean monetary conditions will likely remain unchanged in coming months as the country's authorities will allow previous actions to filter through the economy: in May, the government's supplementary stimulus budget (equivalent to 1.3% of GDP) was approved while the Bank of Korea lowered the benchmark interest rate by 25 basis points to 2.50%. Consumer price inflation eased to 1.0% y/y in May from 1.2% in the previous month, remaining below the central bank's 2-4% target range. Inflation will likely accelerate gradually in the coming months, reaching the 2% y/y mark by the end of 2013, and remaining under 3% through 2014. Despite a recent weakening bias in the Korean won, the country's policymakers remain concerned about the substantial depreciation of the Japanese yen and its impact on South Korean exporters, since both countries' manufacturers are major competitors in many export categories. Indeed, external sector prospects are highly significant for South Korea as exports of goods and services are equivalent to over 50% of GDP. The nation's first quarter real GDP growth was revised down slightly with output expanding by 0.8% q/q. The country's monetary policymakers maintain their view that a negative output gap will persist for an extended period of time. We expect the economy to advance by 2.4% this year (with the potential for higher growth rates) before picking up to 3⅓% in 2014 as the global recovery strengthens, private consumption improves, and the policymakers' monetary and fiscal stimulus efforts are felt more broadly.

THAILAND - Thailand's growth and inflation outlooks remain favourable, with consumer prices increasing by 2.3% y/y in May. We expect the headline inflation rate to close the year slightly below the 3% y/y mark before picking up to above that level by the end of 2014. Core inflation, at 0.9% y/y in May, remains comfortably within the central bank's 0.5-3.0% target range. We do not foresee any additional monetary policy easing in the coming months following the policy rate reduction of 25 basis points to 2.50% at the end of May that was prompted by lower-than-expected economic growth and a manageable inflation outlook. Government officials continue to prefer a looser monetary policy stance than what is considered justified by the central bank. Thailand's economic outlook continues to be solid; we expect real GDP to increase by 4½% this year as a whole, followed by a 4.2% gain in 2014. Economic strength 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, government fiscal stimulus measures, supportive labour market conditions, and an accommodative monetary policy stance bode well for the domestic economic outlook. Bouts of investor risk aversion will continue to be reflected in the value of the Thai baht; the monetary authorities are prepared to continue intervening in the foreign exchange market to limit excessive volatility.

INDONESIA - Indonesia has embarked on a monetary tightening course amidst robust economic growth. Following the June 13th policy meeting, the country's monetary authorities opted to raise the benchmark interest rate to 6.0% from 5.75% where it had remained since February 2012. According to Bank Indonesia, the hike represents a pre-emptive response to rising inflation expectations, and is aimed at maintaining macroeconomic and financial system stability during the period of heightened global market volatility. Indeed, the Indonesian rupiah has faced persistent weakening pressures in recent months reflecting the country's large current account financing needs (equivalent to around 2½% of GDP in 2013). In mid-June, the parliament approved substantial increases to the administered prices of petrol and diesel as high fuel subsidies had proven unsustainable for government finances. In that context, we have revised our Indonesian inflation forecasts upwards, and now estimate that consumer price gains will trend from the May level of 5.5% y/y towards 7⅓% by the end of the year to then exceed the 8% mark in 2014, significantly surpassing the central bank's 3½-5½% target range. Therefore, Bank Indonesia will likely continue to raise interest rates gradually in the coming months, with the next policy rate likely taking place in the third quarter of the year. We expect that the reference rate will reach 7.0% in the second quarter of 2014. Driven by robust domestic demand, Indonesia's economic growth will remain strong through 2014, averaging 6.2%.

DEVELOPING AMERICAS

Currency Outlook

Eduardo Suárez +1 416 945-4538

BRAZIL - The Brazilian real is the fourth worst performing major currency since the start of May (-8.94%, fourth worst out of a list of 31 currencies), weighed down by a combination of weak country specific sentiment, a widening current account deficit (the BCB recently revised its year-end deficit estimates to US$75bn from US$67bn) and broad based USD strength. In addition, recent warnings about the outlook of the country's credit ratings by Moody's and S&Ps served to re-inforce concerns over a deterioration of the country's fiscal stance, which could be fuelled by the spending demands of ongoing protests in the country.

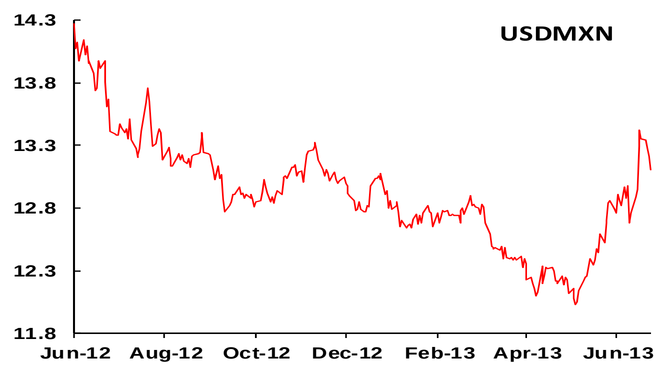
MEXICO - After a strong start of the year (+7.4% in the January 1 – May 9th period) the peso has taken a sharp decline that has more than erased these gains, which we believe was partly the result of investors using MXN to hedge their exposure to local products (i.e. bonds), as well as to proxy-hedge other less liquid regional markets. One side effect of the peso's weakening has been to reduce the market's perception about the likelihood that Banxico could further cut its reference rate. Going forward, despite a positive fundamental story, the peso could face appreciation headwinds until foreign positioning in local markets (i.e m-bonos / cetes / equities) is adjusted to levels consistent with the "Fed policy shift".

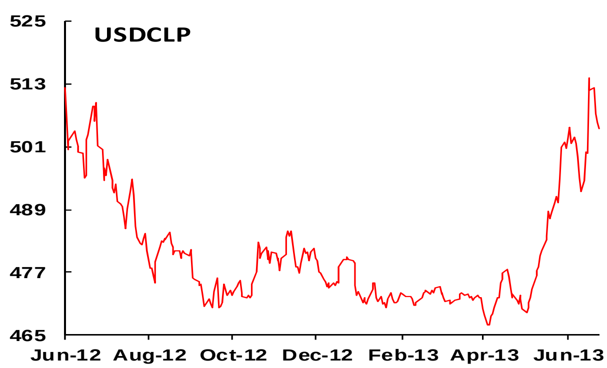
CHILE - The Chilean fixed income has been mostly immune to the UST sell-off over the past month (9yr domestic government bond yields are up 20bps vs.10yr UST yields up close to 100bps). While regional peers have suffered severe losses, Chilean peso (CLP) has been sensitive to rising uncertainty over Fed policy direction. In our view, the CLP's weakness could result from a combination of the broader USD move and Chile's widening current account/trade deficit.

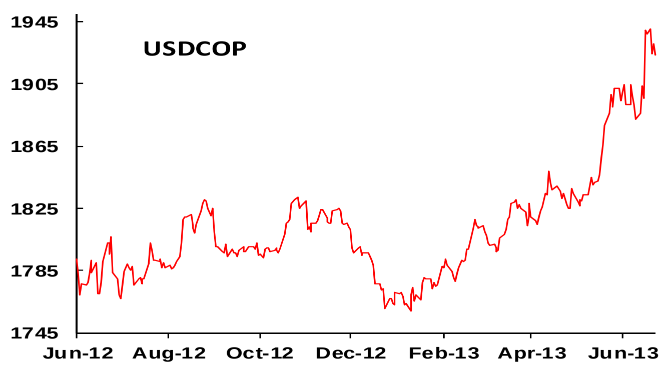
COLOMBIA - The Colombian peso has been a "mid-tier" performer since concerns over the start of the Fed policy shift began (-4.9% since the start of May), which we partly attribute to the peso already having adjusted earlier in the year, on the back of authorities' FX intervention and the central bank's 200 bps target rate cutting cycle. Central bank's decision regarding the USD purchase program (currently scheduled to run until September) will be key to watch, as if extended, it could further weaken COP during a period where inflows are likely to be less supportive for Latin American currencies.

Currency Trends

FX Rate	Spot 27-Jun	13Q1a	13Q2e	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDBRL	2.19	2.02	2.19	2.15	2.10	2.10	2.10	2.15	2.15
USDMXN	13.05	12.33	13.05	12.61	12.61	12.67	12.54	12.60	12.76
USDCLP	504	472	504	510	505	500	500	505	510
USDCOP	1923	1825	1923	1920	1910	1900	1900	1900	1910







DEVELOPING AMERICAS

Fundamental Commentary

Daniela Blancas +1 416 862-3908

BRAZIL - Recent US dollar (USD) strength due to the change in Federal Reserve monetary expectations, coupled with an already weak Brazilian real (BRL) and slow economic recovery, have pushed the currency to underperform the rest of the emerging-market currencies, losing around 7% in the last month. High frequency indicators suggest that the country entered the second quarter on a stronger footing, as both the government measures and monetary policy easing are starting to filter through the economy-albeit slowly. Additionally, creditworthiness in Brazil has recently deteriorated with S&P revising its long-term sovereign credit outlook from "neutral" to "negative", stating that the poor economic profile and weaker fiscal position could threaten the "BBB" rating. Credit market metrics support this bearish tone. Furthermore, recent demonstrations suggest that the government is still facing strong public discontent and unsolved social conflicts ahead of next year's general elections, putting more pressure on the Rousseff administration. Headline inflation has resumed its upward trend, reaching 6.7% y/y in June, surpassing again the central bank's tolerance range (4.5-6.5%). In response, the authorities hiked the reference rate by 75 basis points (bps) in the last thee months. We maintain our view that the authorities will increase the rate by an additional 75 bps by the third quarter of the year. In addition, we anticipate that the central bank will keep their interventionist bias in the currency market, leaving little room for further BRL gains. Accordingly, we are revising our year-end USDBRL rate to 2.10.

MEXICO - Mexican financial markets have proven highly sensitive to the recent shift in US monetary policy, US dollar (USD) strength and the steepening of the long-term yield curve. The Mexican peso (MXN) has lost more than 10% against the USD since its strongest level below the 12 mark, reached in mid-May, erasing all of its year-to-date gains. Consistently, the 10-year bond yield increased from 4.7% in May to 6.16% by the end of June, a similar reaction found in other Latin American markets. Consequently, we are revising our USDMXN 2013 year-end forecast from 12.20 to 12.60. On the economic front, monthly indicators suggest that after a disappointing first-quarter real GDP report, the country's growth pace accelerated in the second quarter; nonetheless, we anticipate that a faster recovery will not be confirmed until the second half of the year. Headline inflation remained above the central bank's tolerance range (2-4%) for the third consecutive month in May; however, the increase has fallen short of our initial expectation; therefore, we are revising slightly our year-end inflation forecast to 4.1% y/y. The central bank maintains a neutral monetary policy stance, and although some market players anticipate that the reference rate could be lowered in the coming months, we maintain our view that the rate will remain unchanged at 4.0% for the remainder of the year. However, we now expect that the central bank will start raising the reference rate by the third-quarter of 2014, mirroring the Fed's stimulus withdrawal.

CHILE - After decelerating for two consecutive months, economic activity in Chile regained strength in April, expanding by 4.4% y/y. The service sector continues to drive growth, while construction remains in a soft patch. We maintain our view that the Chilean economy will expand by close to 5% in the 2013-14 period, with risks to the downside due to global economic moderation, particularly in China (recovery in Japan may somewhat offset this negative effect). Headline inflation remains below the authorities' target range of 2 -4% (0.9% y/y in May); however; as a result of recent depreciation in the currency and the pass-through effect that has proven to be faster in Chile, we expect price pressures to start picking up in the coming months. The central bank has left the reference rate unchanged at 5.0% for almost 18 months. Although some market players shifted their monetary policy expectations to a looser stance, we do not anticipate any policy adjustment in the months ahead as the central bank rhetoric remains neutral and recent depreciation of the Chilean peso (CLP) may boost inflation expectations. In line with the recent strength of the US dollar (USD) and the drop in copper prices (-8.3% in June), the Chilean peso lost close to 5.0% vis-à-vis the USD over the last month, surpassing the 500 mark for the first time in almost one year. On the political front, primary elections will take place on June 30th (the Presidential ballot will be held in November); nevertheless, we do not anticipate any further volatility in financial variables stemming from political developments.

COLOMBIA - The Colombian economy expanded by 2.8% y/y in the first quarter of the year, with the construction sector leading the recovery while manufacturing continued to lag - particularly the oil and mining industry. On the demand side, gross fixed investment and domestic demand reflected relatively solid rates of growth. Although the real GDP performance was slightly below our expectation, the economic recovery is underway, with high frequency indicators such as industrial production and retail sales bouncing back in the second quarter of the year. We expect the Colombian economy to expand by 4.2% in 2013, with government stimulus and the central bank's loose monetary policy to contribute significantly in the second half of the year (recently, the government cut their growth forecast for this year from 4.8% to 4.5%). The Colombian central bank has maintained a loose monetary policy, with the reference rate at 3.25% since April, its lowest level in two years. Inflation has slowly returned to within the central bank's target range (2-4%) but remains close to the lower limit, putting low pressure on the central bank's rhetoric. Recent US dollar (USD) strength has weighed further on the already-weak currency, taking the USDCOP cross down 8% year-to-date, one of the weakest currency among its Latin American peers so far this year. In line with this, the long-term part of the yield curve has been steepening, with the 10-year bond yield rising by 200 basis points since mid-May.

DEVELOPING EUROPE & AFRICA

Currency Outlook

Sarah Howcroft +1 416 862-3174

RUSSIA - With Russia's foreign relations strained over the conflict in Syria, larger-than-expected capital outflows on account of global and domestic uncertainties, and an incoming central bank chief expected to initiate an easier monetary stance over the coming months, the ruble (RUB) will remain under pressure in the near term. The RUB is currently down nearly 7% year-to-date versus the US dollar; and will likely close the year around the 32 per USD mark.

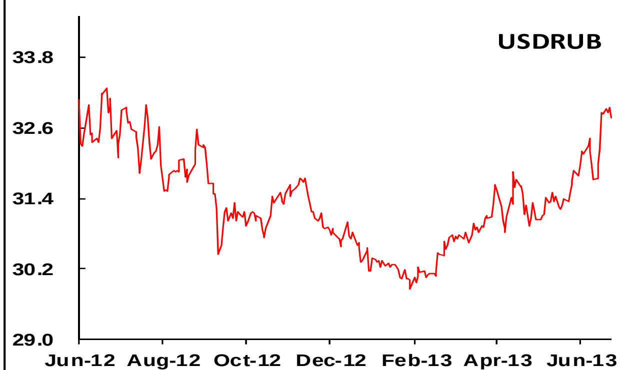
TURKEY - The Turkish lira (TRY) continued to depreciate sharply in June, accumulating a 7.9% loss against the US dollar between the beginning of May and June 24th. The central bank has already intervened through foreign exchange auctions and will continue to act to contain the currency in the face of US-driven global re-pricing and domestic political turmoil. We expect a partial correction in the coming months, with an end-year USDTRY target of 1.85.

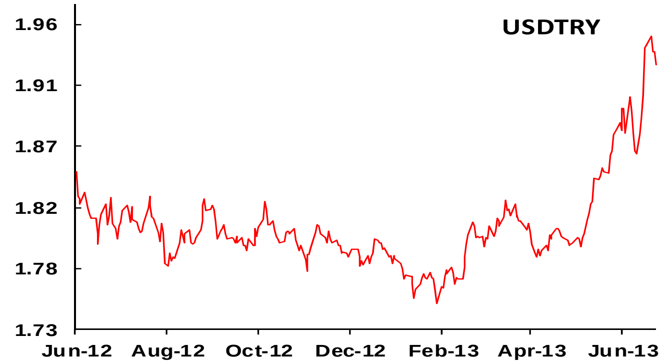
CZECH REPUBLIC - Counter to the trend in the emerging-market universe, the Czech koruna (CZK) actually strengthened modestly through much of June, recovering some of its earlier losses. Nevertheless, the CZK remains down 3.6% year-to-date versus the euro as marked political instability, weak growth prospects and euro-related risks have created an adverse environment for the CZK. We expect a year-end EURCZK rate of 25.8.

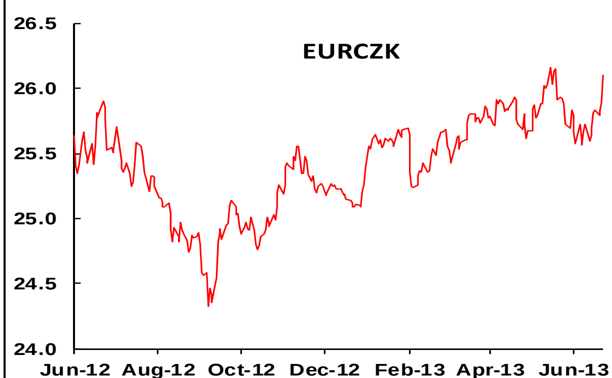
SOUTH AFRICA - The broad sell-off across riskier assets triggered by US Fed developments, combined with ongoing domestic labour strife and the decline in metals prices, weighed further on the South African rand (ZAR) in June. The rand has been the worst-performing emerging-market currency in 2013, reaching a four-year low of 10.243 per US dollar on June 20th and registering losses of 15% since the beginning of the year. We now expect the ZAR to close the year around 9.80 per US dollar.

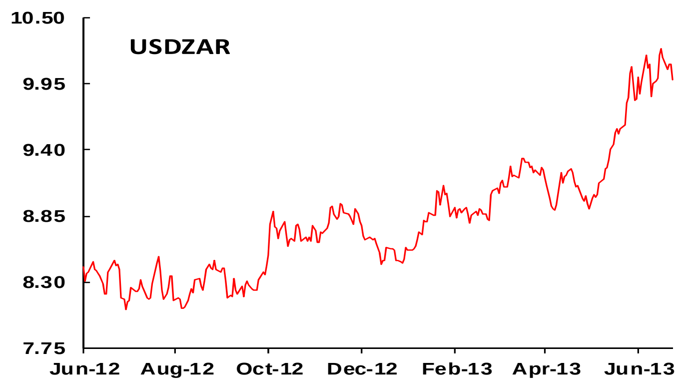
Currency Trends

FX Rate	Spot 27-Jun	13Q1a	13Q2e	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDRUB	32.8	31.1	32.8	32.6	32.0	32.4	32.6	32.8	33.0
USDTRY	1.93	1.81	1.93	1.88	1.85	1.86	1.88	1.89	1.90
EURCZK	26.1	25.7	26.1	25.9	25.8	25.6	25.4	25.2	25.0
USDZAR	9.98	9.24	9.98	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 monetary policy bias in Russia is set to become more accommodative now that Elvira Nabiullina, a former top economic advisor to President Putin, has taken over the post as central bank chairperson. The benchmark refinancing rate has been held at 8.25% since last September on account of high inflation. The headline rate ticked up again in May from to 7.4% y/y, a 21-month high, on the back of food cost pressures and regulated prices and tariffs. The central bank's projections show inflation returning to the target range (5-6%) in the second half of the year, in the absence of any food-related shocks. If and when this situation materializes, modest rate cuts will likely follow. Economic conditions remain subdued; output growth decelerated to just 1.6% y/y in the first quarter (slowest since 2009 recession, although this was slightly better than initial government estimates), and there is a risk for further slowing in the second quarter in light of lackluster external demand as well as high domestic interest rates which are inhibiting corporate borrowing and investment activity. Industrial production fell unexpectedly for the third time this year, dropping 1.4% y/y in May, while retail sales slipped to its slowest pace since February 2010. We have lowered our 2013 GDP growth estimate from 3.0% to 2.8% (implying that Russian growth will lag the global pace), while we continue to expect an acceleration to the 3.5-4.0% range in 2014. Looking to boost domestic activity amid slumping global demand, Putin recently unveiled details of a US$13.6 billion infrastructure spending plan.

TURKEY - Due to concurrent domestic civil unrest, Turkish financial markets have been hit especially hard in the wake of the recent worldwide volatility brought on by indications of an impending end to the US Fed's bond buying program. At the time of writing, widespread anti-government protests had been largely contained by overwhelming police tactics. The instability, and the prime minister's insinuation that international agitators are to blame, have strained foreign investor confidence in the economy, leading to capital outflows of US$1.35 billion since demonstrations began. The lira (TRY) reached a record low of nearly 1.95 per US dollar in late June, despite foreign currency sales of more than US$650 million by the central bank. Equity and fixed income markets also came under pressure, with the benchmark stock index (the Borsa Istanbul National 100) sinking by nearly 25% between May 22nd and June 24th and the 10-year government bond yield picking up from 3.1% to 5.6% over the same period. Looking ahead, the unrest will have an effect on the economy's performance through disruptions to local activity as well as tourism. Nevertheless, the growth rate of GDP should pick up in the latter half of the year (after a decent 3.0% y/y print in the first quarter driven by government consumption and investment) on the back of base effects and recuperating domestic demand. We expect growth of around 3.8% for the year as a whole. The large current account deficit remains a chief concern; after bottoming out last fall, the monthly shortfall in April reached its highest level in over two years.

CZECH REPUBLIC - Notwithstanding a contraction output in the first three months of the year, the Czech economy has begun to show signs of improvement. The koruna (CZK) was the second top-performing emerging-market currency against the US dollar and the euro over the last month, though it has seen renewed weakness since the resignation of the prime minister on June 17th amid a vast corruption scandal. With the ongoing political crisis continuing to weigh on sentiment and increased volatility driving investors worldwide back to the USD, the CZK is not expected to improve much from its current level over the remainder of the year. Real GDP fell 1.1% q/q in the first quarter (downwardly revised from the initial estimate of -0.8%), bringing the annual rate to -2.2% y/y, the lowest since the fourth quarter of 2009. On a positive note, household spending (+1.6% q/q) and exports (+0.4%) both increased in the quarter. The headline print was the result of a sharp decline in inventories, suggesting room for substantial improvement in the second quarter, particularly as activity in Germany looks to be picking up. Evidence of this is found in the April industrial output figure, which showed a 0.5% y/y gain, the first positive reading since October. Inflation measured just 1.3% y/y in May, its slowest pace since June 2010. The central bank sees inflation staying below the 2% target throughout 2013, with risks tilted to the downside. The authorities may intervene should the currency experience a protracted strengthening.

SOUTH AFRICA - The downward trend in the South African rand – ongoing since early 2012 – has intensified over the last two months under the combined influence of a handful of global and local factors upsetting investor sentiment. Falling precious metals prices (stemming from liquidity concerns in China and shifting Fed policy expectations), continued unrest in the mining sector, export demand softness, and the general withdrawal from emerging-markets in favour of the USD are the most important factors affecting the currency. While some of the external volatility should settle in the near term, the risk for increased social unrest, political instability, electricity outages and labour disruptions will likely remain elevated, keeping the ZAR under pressure. As a result, inflationary pressures will persist (with the headline rate expected to stay near the upper end of the central bank's 3-6% target range), which will keep the central bank from easing monetary conditions to support the economy. The next policy-setting meeting is on July 18th. GDP growth slowed perceptibly in the first quarter, from 2.5% y/y to 1.9%, attributable to a 0.4% contraction in manufacturing output (the first drop since 2009) and a slowdown in the services sector. We anticipate an overall advance of around 2.4% in 2013. The shortfall in the current account remained wide in the first quarter, measuring 5.8% of GDP. The deficit is expected to average nearly 6% in 2013-14, and given that domestic savings and foreign portfolio inflows have suffered in recent years, financing this gap may prove challenging.

GLOBAL CURRENCY FORECAST (end of period)

		2011	2012	2013f	2014f	2013f Q1a	2013f Q2e	2013f Q3	2013f Q4	2014f Q1	2014f Q2	2014f Q3	2014f Q4
MAJOR CURRENCIES													
Japan	USDJPY	77	87	105	110	94	98	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	128	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	0.85	0.86	0.86	0.86	0.86	0.86	0.85
Switzerland	USDCHF	0.94	0.92	0.98	1.02	0.95	0.95	0.96	0.98	0.98	1.00	1.01	1.02
	EURCHF	1.22	1.21	1.22	1.25	1.22	1.23	1.21	1.22	1.23	1.24	1.25	1.25
AMERICAS													
North													
Canada	USDCAD	1.02	0.99	1.06	1.01	1.02	1.05	1.07	1.06	1.05	1.04	1.02	1.01
	CADUSD	0.98	1.01	0.94	0.99	0.98	0.95	0.93	0.94	0.95	0.96	0.98	0.99
Mexico	USDMXN	13.94	12.85	12.61	12.76	12.33	13.05	12.61	12.61	12.67	12.54	12.60	12.76
	CADMXN	13.65	12.96	11.90	12.63	12.10	12.43	11.78	11.90	12.07	12.05	12.35	12.63
South													
Argentina	USDARS	4.30	4.92	5.80	7.00	5.12	5.38	5.51	5.80	6.10	6.40	6.70	7.00
Brazil	USDBRL	1.87	2.05	2.10	2.15	2.02	2.19	2.15	2.10	2.10	2.10	2.15	2.15
Chile	USDCLP	520	479	505	510	472	504	510	505	500	500	505	510
Colombia	USDCOP	1939	1767	1910	1910	1825	1923	1920	1910	1900	1900	1900	1910
Peru	USDPEN	2.70	2.55	2.65	2.60	2.59	2.78	2.70	2.65	2.60	2.60	2.60	2.60
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	0.93	0.92	0.90	0.90	0.91	0.92	0.93
China	USDCNY	6.30	6.23	6.10	6.04	6.21	6.15	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	58.5	56.5	54.3	60.2	58.6	58.5	58.0	57.5	57.0	56.5
Indonesia	USDIDR	9069	9793	10100	10200	9735	9908	10050	10100	10125	10150	10175	10200
Malaysia	USDMYR	3.17	3.06	3.15	3.17	3.09	3.17	3.15	3.15	3.16	3.16	3.17	3.17
New Zealand	NZDUSD	0.78	0.83	0.75	0.82	0.84	0.78	0.76	0.75	0.75	0.77	0.80	0.82
Philippines	USDPHP	43.8	41.0	43.0	42.0	40.8	43.4	43.0	43.0	42.8	42.5	42.3	42.0
Singapore	USDSGD	1.30	1.22	1.27	1.25	1.24	1.27	1.27	1.27	1.26	1.26	1.25	1.25
South Korea	USDKRW	1152	1064	1120	1100	1111	1150	1125	1120	1115	1110	1105	1100
Taiwan	USDTWD	30.3	29.0	30.5	31.0	29.8	30.0	30.3	30.5	30.6	30.8	30.9	31.0
Thailand	USDTHB	31.6	30.6	30.3	29.8	29.3	31.1	30.2	30.3	30.1	30.0	29.9	29.8
EUROPE / AFRICA													
Czech Rep.	EURCZK	25.6	25.1	25.8	25.0	25.7	26.1	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	296	297	300	298	295	293	290
Norway	USDNOK	5.98	5.56	5.75	5.40	5.85	6.06	5.80	5.75	5.70	5.60	5.50	5.40
Poland	EURPLN	4.47	4.08	4.20	4.00	4.18	4.34	4.25	4.20	4.15	4.10	4.05	4.00
Russia	USDRUB	32.1	30.5	32.0	33.0	31.1	32.8	32.6	32.0	32.4	32.6	32.8	33.0
South Africa	USDZAR	8.09	8.47	9.80	10.00	9.24	9.98	9.90	9.80	9.90	9.90	10.00	10.00
Sweden	EURSEK	8.92	8.58	8.50	8.20	8.37	8.79	8.60	8.50	8.40	8.30	8.30	8.20
Turkey	USDTRY	1.89	1.78	1.85	1.90	1.81	1.93	1.88	1.85	1.86	1.88	1.89	1.90

f: forecast a: actual e: estimate of 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

Adrienne Warren
adrienne.warren@scotiabank.com

Dov Zigler
dov.zigler@scotiabank.com

Foreign Exchange Strategy

Eduardo Suárez
eduardo.suarez@scotiabank.com

Camilla Sutton
camilla.sutton@scotiabank.com

Eric Theoret
eric.theoret@scotiabank.com

Sacha Tihanyi
sacha.tihanyi@scotiabank.com

Scotiabank Economics

Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: (416) 866-6253 Fax: (416) 866-2829
Email: scotia.economics@scotiabank.com