Foreign Exchange Outlook

Prolonged EUR resilience, heightened US-centered political uncertainties, monetary policy divergence amongst core central banks, renewed investor appetite for riskier financial assets and persistent official intervention in sovereign debt markets are the primary factors shaping foreign exchange market flows.

A more balanced global economic recovery should crystallize in 2014, with the USD regaining its appeal amongst investors. Core European currencies (EUR, GBP) are expected to adopt a gradual softening tone as investor-sensitive policy developments in the US dissipate throughout the first quarter of 2014. After an initial period of weakness, the CAD is likely to stabilize into the second half of next year. The JPY should soften as stimulus measures continue whereas China's guided CNY appreciation remains intact.

Rigorous risk differentiation will intensify within the emerging-market FX world. Despite the current recovery in the non-China BRIC group, the INR and the BRL should maintain a fragile tone into the new year, triggering defensive central bank actions. The KRW has emerged as a shining star within Asia/Pacific while the MXN remains sensitive to shifting policies in the NAFTA zone.

Forecast Highlights

Americas	USD	Central bank policy, growth and politics are the key drivers.
	CAD	Near-term weakness followed by stabilization in 2014.
	MXN	Set to weaken slightly by year-end.
Asia / Pacific	CNY	Expected to maintain a slow and measured pace of appreciation.
	JPY	Vulnerable to weakness on relative central bank policy & consumption tax.
	INR	Remains vulnerable to further downside on relative fundamentals.
	KRW	Is our top emerging Asian pick for 2013 based on relatively strong fundamentals.
	NZD	The RBNZ is expected to hike interest rates, in turn supporting NZD.
Europe / Africa	EUR	A dovish turn from the ECB and a large long position leave EUR vulnerable to weakness.
	GBP	Position to outperform EUR, but weaken vs. USD.
	ZAR	Twin deficits and domestic labour unrest continue to weigh on the ZAR.

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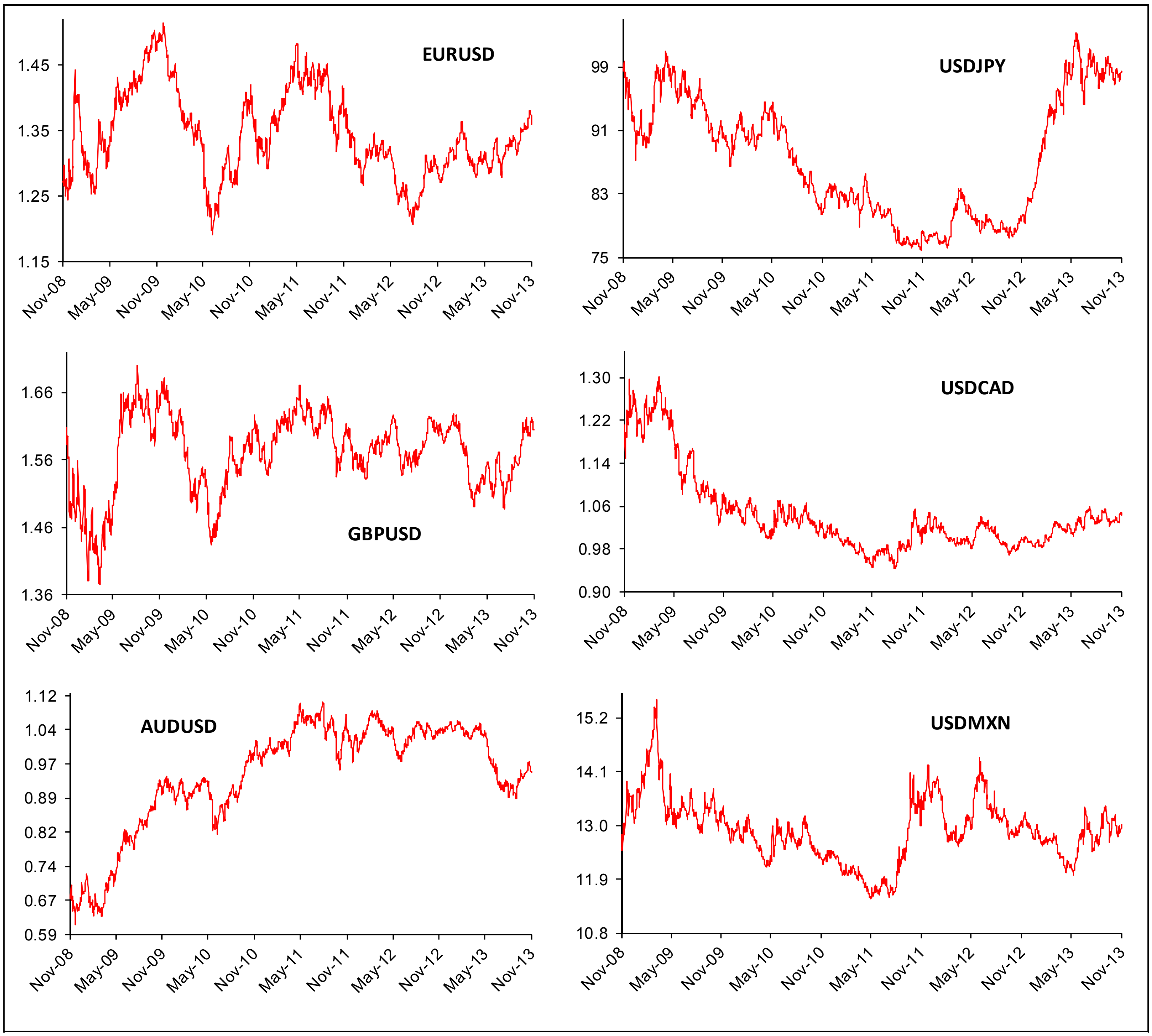
CORE EXCHANGE RATES

Global Foreign Exchange Outlook

October 31, 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*					1.32	1.31	1.30	1.28	1.28
USDJPY	Scotiabank	98.3	94	99	98	101	102	104	107	109
	Consensus*					100	102	103	104	105
GBPUSD	Scotiabank	1.60	1.52	1.52	1.62	1.59	1.58	1.57	1.56	1.55
	Consensus*					1.58	1.57	1.56	1.55	1.54
USDCAD	Scotiabank	1.04	1.02	1.05	1.03	1.06	1.07	1.08	1.07	1.06
	Consensus*					1.03	1.03	1.04	1.04	1.04
AUDUSD	Scotiabank	0.95	1.04	0.91	0.93	0.93	0.90	0.91	0.92	0.93
	Consensus*					0.92	0.90	0.89	0.88	0.87
USDMXN	Scotiabank	13.02	12.33	12.93	13.09	13.15	13.23	13.13	13.21	13.39
	Consensus*					12.82	12.63	12.51	12.40	12.33



(*) Source: Consensus Economics Inc. October 2013

MARKET TONE & FUNDAMENTAL FOCUS

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Global growth dynamics, central bank policy in major economies and domestic politics continue to be the most important market drivers of capital flows in foreign exchange markets. The world economy is gearing into an accelerating growth phase despite distracting media-sensitive events surrounding domestic political issues in the United States. Capital flow metrics indicate a renewed appetite for riskier assets both in well-established and developing markets. The resilience of the euro (EUR) and the structural shifts (painful for the young unemployed generation) taking place in Europe continue to be a topic of debate and dissent amongst market participants and global financial planners. Justified or not, the "tapering" rhetoric (i.e., gradual unwinding of the aggressive and unconventional US central bank intervention in US sovereign and MBS debt markets) continues to guide temporary investor sentiment. Nevertheless, the announcement of Janet Yellen as Federal Reserve (Fed) Chair has removed some uncertainty.

The NAFTA zone offers a promising outlook. Improving economic conditions in the United States are at the centre of this positive near-term outlook, yet the so-far largest world economy is not free of challenges regarding the steady recovery of the housing market and a lasting fiscal consolidation plan. We estimate a gradual improving of the US fiscal burden, accelerating housing market activity, stronger domestic demand and lower jobless rates through the end of 2015. We are of the view that the US dollar (USD) will strengthen broadly in 2014 as the Fed moves to first slow and eventually conclude its quantitative bond buying program.

Structural interdependence with the US will remain in place in Canada and will deepen in Mexico. Both economies should benefit from a better US macroeconomic outlook and a more dynamic regional trade and investment activity within the NAFTA zone. Looking ahead, however, we anticipate a modest adjustment in the Canadian dollar (CAD) and Mexican peso (MXN) nominal exchange rate vis-à-vis the US dollar (USD). For the CAD, the Bank of Canada's decision to remove its hawkish bias is an important one, particularly when juxtaposed against Fed policy. In addition, a growth outlook that is expected to underperform the US trajectory and sentiment should see the CAD weaken next year. We maintain an appreciating view for the USD against its major-peer and regional-peer groups. In Mexico's case, the MXN will remain sensitive to US monetary policy shifts and progress in advancing investor-sensitive reforms to fiscal and energy sector structures.

The European currency landscape continues to be shaped by the persistent strength of the EUR versus the USD, as well as against the Japanese yen (JPY), the Chinese yuan (CNY) and, more recently, the British pound (GBP). Global market participants are becoming more optimistic about a positive shift in European growth prospects as well as a steady improvement in systemic (bank and debt) risk indicators. Indeed, benchmark European equity market indices have shown a remarkable upside momentum since late June. The sustained rally in Spanish equity securities in all sectors since late June is worth mentioning, as it implies a remarkable improvement of investor's perception of financial sector risk in this country. The resilience of the EUR in 2013 was caused by a surprising improvement in the euro zone's growth outlook and rising confidence; while the European Central Bank failed to turn more dovish as the Fed pushed out tapering. Looking out to 2014, the EUR 's path is expected to soften. The combination of difficult banking union negotiations, a more dovish ECB, who is expected to warn over the disinflationary impact of a strong EUR, and a broadly stronger USD should weigh on the EUR. The path for the GBP is more optimistic than the EUR; but the GBP is also expected to lose ground against the USD as relative growth and monetary dynamic turn less favourable for the GBP. We expect the Swiss National Bank to maintain its EURCHF 1.20 floor.

The Asia/Pacific currency environment presents a clear divergence between the policy-guided gradual appreciation of the CNY and the softening potential of the JPY in the near term. We estimate that the positive domestic (combined fiscal and monetary stimuli) and external factors driving yen strength over the past few months will be reversed and that the Japanese currency will regain a weakening trajectory towards the 109 per USD rate by the end of 2014 as growth dynamics lose momentum and the Bank of Japan struggles in meeting its 2% inflation target. Meanwhile, the Chinese authorities will maintain a moderate currency alignment path. Looking ahead, rigorous intra-regional credit risk differentiation will continue into 2014; indeed, the South Korean Won (KRW) has steadily become the shining star in the region, with sharp currency gains since late June, firmly supported by a low-inflation accelerating growth path in the context of steady twin surplus (fiscal and current account) conditions.

The core group of emerging-market currencies are once again in demand, following the temporary abatement of financial market stress associated with uncertainties regarding the US debt-ceiling adjustments, leadership transition at the Federal Reserve (Fed) and the timing of the Fed's reduction in its holdings of US treasury debt assets. Within the non-China BRIC group, the Brazilian real (BRL), the Indian rupee (INR) and the Russian Ruble (RUB), have all recovered some of the lost value, yet they remain sensitive to sudden asset allocation shifts in capital flows in favour of established debt and equity securities markets.

CANADA
Currency Outlook

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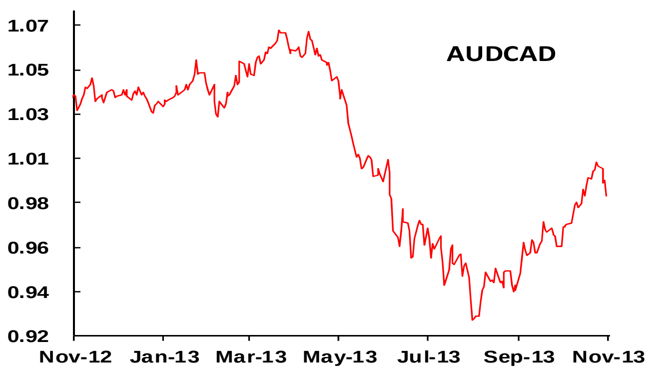
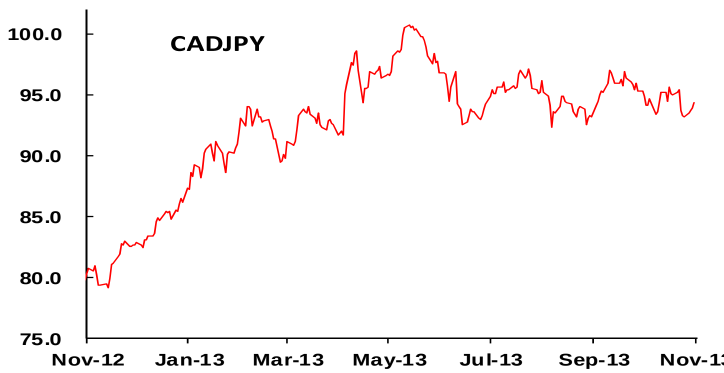
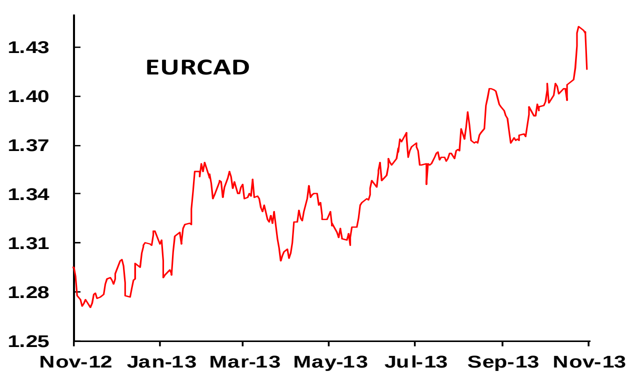
Entering November, the Canadian dollar (CAD) had lost 5% year-to-date, having fallen victim to a disappointing domestic backdrop, an increasingly dovish central bank and unfavourable market sentiment. In terms of central bank policy, the Bank of Canada has dropped its hawkish bias in favour of a neutral tone. In so doing has shifted the focus from financial stability risk (low interest rates, elevated household debt and elevated housing prices) to concerns that inflationary pressures are easing and pose a growing future risk. A strong currency would exacerbate this risk, but we do not expect Governor Poloz to face this dilemma. Instead 2014 is likely to be marked by a broadly stronger USD based on an eventual political agreement on both the US budget and debt ceiling, combined with Fed policy that eventually turns more hawkish and a relatively stronger US growth profile. This should weigh on the CAD leg of CADUSD. Domestically, the focus will remain on Canada's low productivity and lack of business investment as the economy struggles to meet official estimates of resurgence in both investment and exports. However, this story should shift in 2014 as both outlooks improve on the back of a strengthening US economy that is no longer failing victim to political gridlock. The outlook for China is also a key input for the CAD; in late October, concerns that the central bank had begun a measured tightening were met with an uneasy calm. Nonetheless, Scotiabank expects China to grow at 7.3% in 2014, as it makes slow progress towards a new and more sustainable growth model, which should continue to support commodity prices and pro-cyclical currencies, like the CAD. However, for now, oil pricing in Canada has turned less favourable. In late October, the Canadian priced Western Canadian Select (WCS) had dropped to a nine-month low, in turn widening the WTI-WCS spread to an eight-month high; a net negative for the Canadian economic backdrop. In terms of sentiment, the outlook for the CAD is relatively neutral. The CFTC reports a small net short position of -$0.8 billion as of October 8th, while risk reversals (option pricing) were not warning of any significant need to protect against a CAD surge in either direction. Accordingly, the CAD is expected to weaken in early 2014 and then stabilize, outperforming currencies such as the EUR and the GBP but underperforming the USD. The most significant near-term risk is broad based USD weakness on shifting growth and Fed outlooks combined with disinflation and falling sentiment. However, this would likely stabilize by 2014.

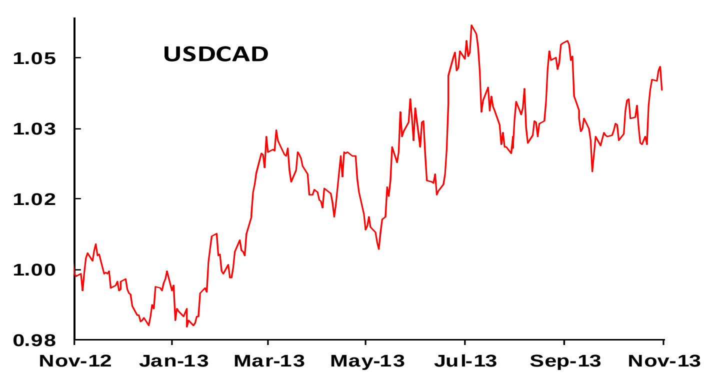
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 31-Oct	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
AUDCAD	0.99	1.06	0.96	0.96	0.99	0.96	0.98	0.99	0.99
CADJPY	94.4	92.6	94.2	95.3	95.3	95.3	96.3	100.0	102.8
EURCAD	1.42	1.30	1.37	1.39	1.39	1.39	1.39	1.36	1.33
USDCAD	1.04	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 - US real GDP lost momentum in the third quarter, with expected growth of under 2.0% from a 2½% increase in Q2. Despite the ongoing improvements in household balance sheets and wealth gains from rising home and equity prices, Q3 economic growth will likely be held back by softer consumer spending, dampened by moderating employment growth and consumer confidence as well as higher personal income and payroll taxes implemented earlier this year. Meanwhile, growth in business capital investment eased in response to renewed US fiscal uncertainty surrounding the government funding and debt ceiling negotiations. The housing recovery also slowed, alongside a roughly 100-basis point rise in mortgage interest rates, which promoted a sharp drop in mortgage application purchases and refinancing activity. Following July's strong performance – driven by homebuyers rushing to lock-in lower mortgage rates – existing home sales contracted through September and growth in existing home prices decelerated. Activity is expected to remain tempered over the near-term, amid declining pending home sales and rising new supply. Inflationary pressures continue to remain subdued by excess labour and production capacity, and should remain below target through 2014. This notwithstanding, US manufacturing activity and industrial production remains reasonably firm – the latter led by gains in auto, business equipment and energy production. Meanwhile, the improvement in US net exports should contribute to third-quarter GDP, largely owing to the narrowing petroleum products trade deficit, which sits at a two decade low. Going forward, US economic growth is expected to gain momentum, rising roughly 2½% in 2014, as the global economy gains traction, US fiscal restraint subsides, credit conditions loosen and American consumers continue to unleash pent-up demand for housing and consumer durables. Energy-related infrastructure spending will also be supportive, while business investment should benefit from stronger demand and solid corporate balance sheets.

CANADA - The Canadian economy continues to post moderate growth averaging slightly below a 2% trend. Consumers have become more cautious borrowers and spenders, constrained by moderate income gains and slowing job growth. Monthly employment gains have averaged 13,000 through September, 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 cool later this year and into 2014 as the recent upward drift in fixed mortgage rates pressures affordability. Limited pent-up demand and rising 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 August 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 just 1.6% this year, before picking up to 2.2% in 2014. Retail discounting and muted wage gains have capped price pressures, with both core and headline inflation tracking at the low end of the Bank of Canada's 1-3% target range.

Monetary Policy Commentary

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UNITED STATES - We expect the Fed to continue its US$85 billion/month asset purchase program until the March 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?). The Fed is waiting a) to see how the three stages of fiscal policy deadlines evolve (December, January, and February), b) to observe how the lagged effects of higher interest rates and the Washington-induced confidence shock work through the economy, and c) to see how lagging data will evolve. The FOMC takes a break in November, and can reassess the situation in December by which point we'll know more about whether another fiscal fight is evolving and more about how the economy is tracking.

CANADA - The Bank of Canada became substantially more dovish at its October meeting: a) it removed its nominal bias towards rate hikes from its statement (albeit a bias that had been watered down to the point that the hikes looked very far-off and highly contingent – rate hikes that we did not and still do not forecast happening until late 2015 or even beyond), and b) it pushed out the date at which it expects the output gap to close to late 2015 (vs. mid-2015 beforehand). To what extent is the BoC worried about inflation undershooting? What is the threshold in terms of weak CPI that will cause the BoC to try to address soft inflation? The manner in which the BoC communicates about these questions will determine the extent to which financial markets test its current guidance on the path of monetary policy.

EUROPE

Currency Outlook Camilla Sutton +1 416 866-5470

EURO ZONE - The EUR rallied to a two-year-high of 1.3832 in October as a dovish Fed combined with improving European fundamentals supported the currency. Looking out to year-end, the combination of an increasingly dovish ECB on the back of a disinflationary environment and soft fundamentals is likely to see the excessive EUR long position sold off, CFTC reported it US$10.2 billion on October 8th, putting downside pressure on the EUR into year-end and 2014. We hold a Q413 forecast of 1.31.

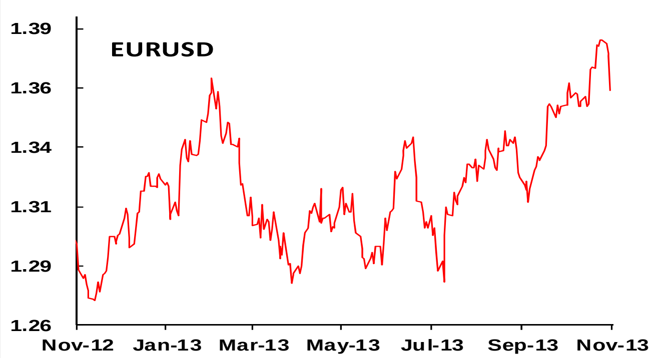
UNITED KINGDOM - The GBP failed to reach a new high in October and is entering November having lost -1.3% year-to-date. Trading above 1.60, there is a lot of good news priced in and this is also reflected in the building long position, which the CFTC reported at US$1.3 billion as of October 8th. Technically, the pattern was in the midst of turning bearish at the end of October. We expect the GBP to be somewhat range bound in November and to close the year at 1.59.

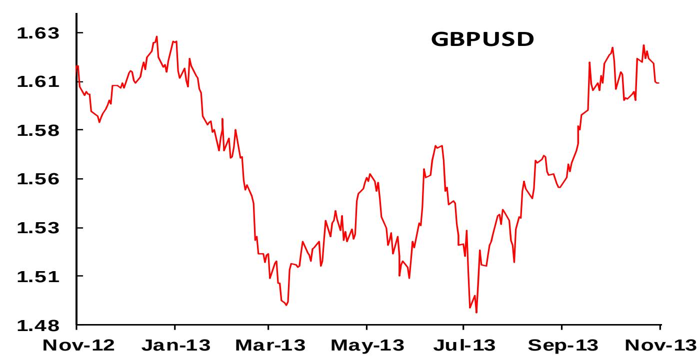
SWITZERLAND - USDCHF dropped to a new two-year low in October while EURCHF traded within a narrow range centered on 1.23. We expect the SNB to maintain its EURCHF 1.20 floor well into 2014 tying CHF to the EUR. We hold a year-end EURCHF target of 1.22 and a USDCHF target of 0.93.

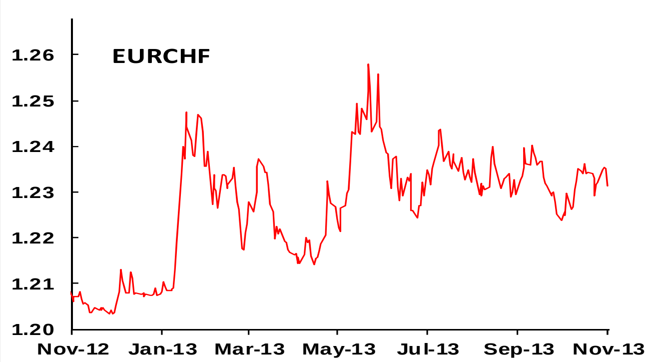
SWEDEN - In October, the SEK attempted but failed to take out its September high. A period of weakness is likely to follow on the back of broad USD strength and domestic dynamics. Inflation at just 0.1%y/y is flirting with deflation, leaving the central bank torn between financial stability risk and its desired 2% inflation level. However, Sweden is likely to begin its hiking cycle in late 2014, providing support to the currency. We hold a 2013 year end USDSEK target of 6.62 and a EURSEK target of 8.67.

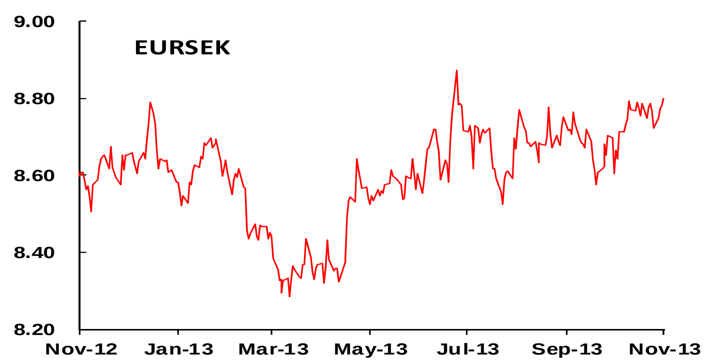
Currency Trends

FX Rate	Spot 31-Oct	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	1.60	1.52	1.52	1.62	1.59	1.58	1.57	1.56	1.55
EURCHF	1.23	1.22	1.23	1.22	1.22	1.23	1.24	1.25	1.25
EURSEK	8.80	8.37	8.72	8.70	8.67	8.60	8.40	8.20	8.00









EUROPE

Fundamental Commentary Sarah Howcroft +1 416 862-3174

EURO ZONE - The dampening effect of persistent euro strength – the euro is over 5% stronger versus the US dollar in the last 12 months – on inflationary pressures in the currency union has become particularly evident. According to the flash estimate, headline inflation dropped from 1.1% to 0.7% y/y in October (core to 0.8% from 1.0%), the lowest level since November 2009. We have lowered our end-year inflation forecasts for the euro area to 0.9% y/y for 2013 and 1.5% for 2014 (from 1.2% and 1.6%, respectively). The slower pace of consumer price growth – inflation is set to remain below target through 2015 – is likely causing concern for monetary authorities at the European Central Bank (ECB) given the fragility of the emerging economic recovery, increasing the potential for an interest rate cut or other forms of policy reinforcement in the near term. Accordingly, we have lowered the projected interest rate profile, with an anticipated 25 basis point reduction bringing the main refinancing rate to 0.25% by end-2013, where it will stay through 2015. The continued uptick in the region-wide unemployment rate and recent setback in certain sentiment indicators also support renewed support by the ECB. An upward revision to labour data for the last few months indicated that the euro area jobless rate reached a record-high 12.2% in August-September. On a positive note, Spain's advance real GDP estimate showed that the economy grew (by 0.1% q/q) for the first time in ten quarters in the July-September period. Euro area output overall will likely contract 0.5% in 2013.

UNITED KINGDOM - Economic conditions in the UK continue to improve; real GDP expanded by 0.8% q/q in the third quarter according to the advance estimate. Though the quarterly pace will likely remain unchanged in the fourth quarter, an acceleration in the yearly rate due to base effects will take the overall expansion to 1.5% for 2013. We expect average growth of 1¾% in 2014-15. Inflation is moderating (at 2.7% y/y in September), and will likely average slightly under the 2½% y/y mark over the forecast horizon. The Bank of England's (BoE) next Inflation Report (due out on November 13th) will likely come with downward revisions to the medium-term inflation trajectory. This will bolster the case for the central bank to leave the policy rate unchanged at 0.50% for the next two years, notwithstanding the fact that the unemployment rate will likely reach 7% (the BoE's threshold for potential policy tightening) earlier than 2016 as initially assumed (the rate is currently 7.7%). October saw another solid labour report, with a chunky employment gain of 155,000 in the three months to August, the biggest increase since last December. The ongoing momentum in growth and employment has boosted tax revenues, leading to a faster than expected improvement in the nation's public finances. The government should meet or better its deficit target of 7.5% of GDP for 2013 (excluding Royal Mail and BoE transfers). A recent speech by Governor Mark Carney suggested a pro-financial sector shift at the BoE, with lower lending costs and easier collateral rules for banks borrowing from the central bank.

SWITZERLAND - The Swiss economy retains a relatively robust growth outlook; real GDP is expected to expand by approximately 1¾% this year, one of the highest rates among developed economies. The outperformance can be partly attributed to the success of the minimum exchange rate as the primary policy tool of the Swiss National Bank (SNB). The exchange rate floor - set at EURCHF 1.20 since its implementation in September 2011 - is highly credible and has supported domestic sentiment and exports amid sluggish external demand over the last two years. Exports grew 0.3% q/q in the third quarter of this year following a 1.7% contraction in the prior three months as demand from the US and China picked up. Set against a 1.2% q/q drop in imports in the same period, the result will be a positive contribution from net exports to growth in the third quarter. We expect the economy to maintain an output expansion pace of close to 2% through 2015, backed by low unemployment, accelerating global growth and recuperating investment activity. The level of foreign exchange reserves was roughly unchanged between June and September (at an average of CHF434 billion), meaning that the SNB was not required to aggressively defend the currency floor against safe-haven forces pressuring the CHF upward. In fact, the currency weakened off against the EUR through most of October, though it continued to strengthen gradually against the US dollar as expectations of asset purchase tapering by the US Fed were pushed out after the government shutdown.

SWEDEN - The Swedish government has unveiled an expansionary draft budget for 2014 that includes income tax cuts and job creation measures. The stimulus plan - worth US$4 billion (0.7% of GDP) - is partly an attempt to bolster support for the ruling centre-right coalition, which faces a tough battle against the centre-left opposition in next September's general election. Though the plans would add to Sweden's deficit and debt levels, the nation's public finances will remain favourable by European standards (with gross debt around 42% of GDP in 2013). The Riksbank assesses that the labour market has begun to improve alongside rising sentiment and still low inflation and interest rates, which should translate to an acceleration in domestic demand next year. Consumer confidence surpassed its long-term average in October with its highest reading since June 2011, while the September manufacturing PMI posted a 28-month high. Nevertheless, the central bank lowered its GDP growth projections for 2013-15, with an expected output expansion of just 0.7% this year due to weak industrial activity and exports. Moreover, notwithstanding the expected boost from fiscal policy, the government does not expect the unemployment rate to fall below 8% before 2015 given new labour force entrants. Inflation remains very low, at 0.1% y/y in September for the third straight month. The Riksbank's latest policy statement indicated that the timeline for interest rate normalization has been pushed out somewhat; the first rate hike will likely take place toward the end of 2014.

ASIA / PACIFIC
Currency Outlook

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JAPAN - The JPY has remained bound within an ever-tightened range as we enter November; however, it appears to be approaching the apex of its symmetrical triangle consolidation, a pattern that would suggest further weakness in the event of a breakout. Recently, US fiscal negotiations drove investor flows into non-USD reserve currencies, shifting the focus from relative central bank policy. Although CFTC sentiment data have been delayed, they show some paring back in bearish JPY positioning as of early October. We expect upside in USDJPY and hold a Q1 2014 forecast of 102.

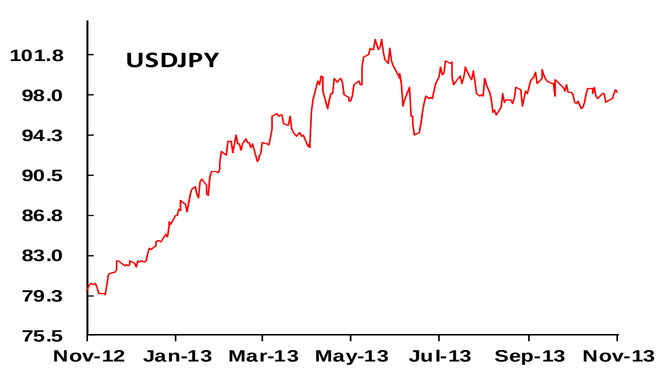
CHINA - The appreciatory fixing trend in the CNY remains in play while October saw new record highs in the renminbi against the USD. External surpluses have been sustained while the record level in FX reserves indicates appreciatory pressures remain on the CNY, helped by a resurgence in growth momentum and positive credit dynamics. There are ongoing risks of further CNY reforms, with a band-widening possible before year-end. We target USDCNY at 6.08 by Q4 2013 and 5.98 by Q4 2014.

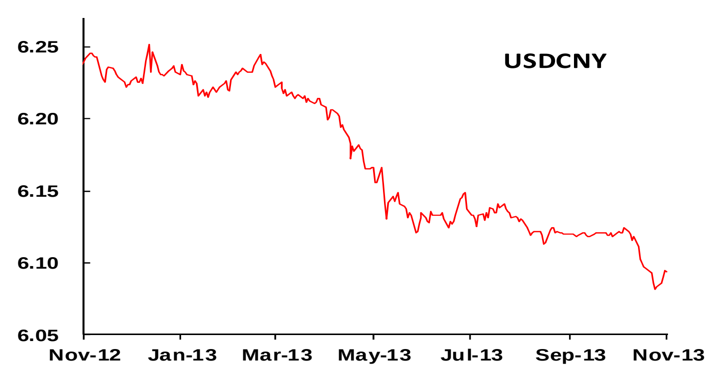
AUSTRALIA - The AUD has begun to weaken into November, amid the emergence of concerns about tightened financial conditions in China and RBA comments on the exchange rate. These developments coincided with the AUD reaching important levels of resistance above 0.9700, a level that includes the 50% Fibo retracement level of the April-August 2013 decline and the 200 day MA. Near term risks for the AUD lie with the early November RBA meeting and China's leadership gathering. We expect some moderate weakness in the AUD and hold a Q1 2014 forecast of 0.90.

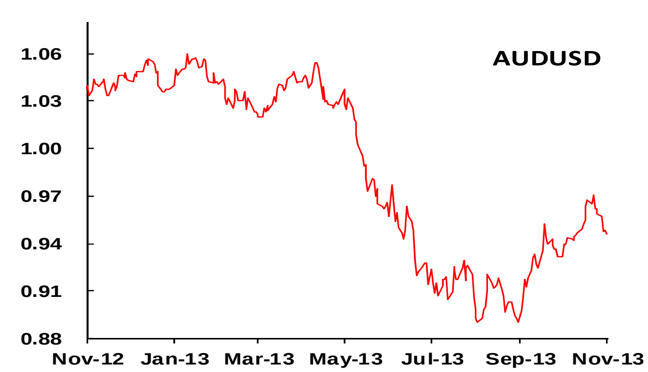
NEW ZEALAND - The NZD ended the month flat following the reversal of a mid-October rally that was checked by RBNZ Governor Wheeler's comments raising the spectre of intervention. The NZD is vulnerable to RBNZ comments, as the hawkish tone appears to be primarily driven by concerns relating to financial stability, and as the exchange rate appears to have taken on increased importance in its impact on policy. We expect the NZD to remain close to current levels into the end of Q1 2014 and we hold a forecast of 0.84.

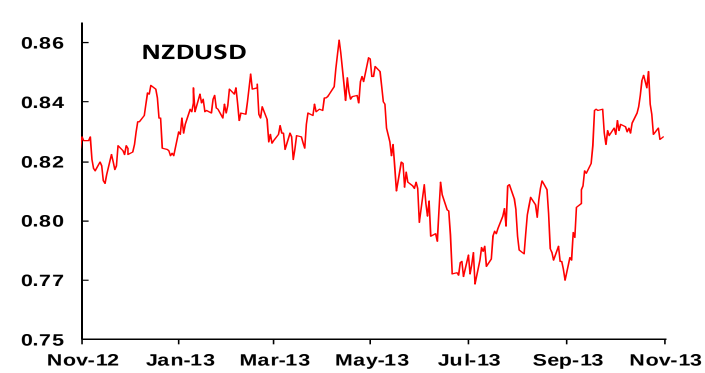
Currency Trends

FX Rate	Spot 31-Oct	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDJPY	98.3	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	0.95	1.04	0.91	0.93	0.93	0.90	0.91	0.92	0.93
NZDUSD	0.83	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 prices continue to move away from deflationary territory, with consumer price inflation at 1.0% y/y in September. While the inflationary trend seems promising on the surface, gradually approaching the Japanese policymakers' 2% target, inflation is not demand driven – i.e. a result of higher wages and stronger spending – but instead primarily reflects higher energy costs. The September consumer price index excluding food and energy costs was unchanged from a year ago, and has not yet recorded a positive year-over-year reading since the end of 2008. We expect the headline rate to close the year near the current level. Economic activity in Japan is picking up with industry and consumer–related indicators recuperating. Nevertheless, the sustainability of the ongoing recovery is still debatable as the administration of Prime Minister Shinzo Abe has yet to unveil details of the third arrow of his economic revival plan which focuses on long-term structural reforms to complement the already announced fiscal and monetary measures. We expect the country's real GDP to expand by 2.0% this year, driven by aggressive stimulus, followed by an average 1½% expansion in 2014-15. Policymakers at the Bank of Japan will likely remain in wait-and-see mode in the coming months in order to continue to assess the effectiveness of the measures implemented earlier this year. In our view, there is potential for further monetary easing in the first half of 2014 if the forthcoming sales tax increase in April 2014 leads to a stalling of the economic recovery.

CHINA - The Chinese economy expanded by 7.8% y/y in the third quarter of the year following a 7.5% gain in the April-July period. The improved performance was broadly based across the agricultural, services and industrial sectors. Recuperating purchasing managers' indices, industrial production, and commodity imports indicate sustained industrial sector activity, while a moderate pick-up in retail and vehicle sales points to solid private spending momentum. China's administration is unwilling to tolerate excessive credit growth, particularly in the shadow banking sector. Monetary authorities have recently tightened liquidity conditions in the banking system and will continue their efforts to limit lending expansion in pursuit of reaching a more structurally balanced financial environment and bringing the economy to a sustainable growth trajectory. Therefore, we will likely see a slowdown in investment gains in the coming quarters, causing China's economic pace to decelerate. We expect real GDP to increase by 7.7% this year, followed by a 7⅓% gain next year and 7.0% in 2015. The consumer price index recorded a 3.1% y/y gain in September, up from 2.6% the month before; we expect inflation to close the year near the current level. Producer price inflation remains in deflationary territory due to industrial overcapacity. Economic reforms will be discussed in November at the Communist Party's Third Plenary Session. We assess that a further step in the interest rate liberalization process may be in the cards, particularly in terms of an eventual removal of the ceiling on deposit rates.

AUSTRALIA - Australian monetary conditions are set to remain accommodative in the coming quarters. Following the October 1st policy meeting, the Reserve Bank of Australia highlighted that it would "neither close off the possibility of reducing rates further nor signal an imminent intention to reduce them". The benchmark cash rate was cut by 25 basis points to 2.50% 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 prices increasing by 2.2% y/y in the third quarter, thereby remaining within the central bank's 2-3% target range. We expect inflation to close the year at 2.5% y/y. While consumer confidence has improved recently, household spending growth will remain muted due to a soft labour market; the jobless rate remained high at 5.6% in September. Better business sentiment will still need to translate into payroll gains and investment, while lower mining sector activity will be reflected in muted investment growth. The external sector is the economy's bright spot, with exports recording solid growth, reflecting increasing mining capacity following project completions. We expect real GDP to advance by 2.4% this year before picking up to 2¾% in 2014 on the back of improving consumer spending and strengthening global demand for Australian exports. Cancelling the controversial carbon tax will be a top priority for the ruling Liberal-National coalition as parliament begins its session on November 12th.

NEW ZEALAND - Strong housing market momentum in New Zealand continues to cause discomfort for the country's policymakers. Residential house prices continued to increase by close to 10% y/y in September, mainly due to a shortage of housing supply, low interest rates and easier bank credit. The authorities assess that the sector's imbalances present risks for both financial stability and price stability. Recently implemented loan-to-value restrictions on mortgage lending should to some extent reduce the need for higher interest rates in the near term, with monetary policy remaining growth supportive. At the Reserve Bank of New Zealand's (RBNZ) monetary policy meeting on October 31st, policymakers noted that the benchmark rate, at 2.50% since early 2011, will likely need to be raised next year. The authorities will continue to monitor potential demand and inflationary pressures stemming from the housing market momentum and construction sector activity. Inflation picked up in the third quarter to 1.4% y/y from 0.7% in the April-June period, thereby returning to the RBNZ's 1-3% target range. We expect inflation to close the year near the 2% mark. New Zealand's economic growth prospects will continue to improve gradually as stronger consumer confidence supports household spending gains, while recuperating global demand will translate into a pick-up in the nation's external sector performance. We estimate that New Zealand's real GDP will expand by around 2½% this year followed by a 3% gain in 2014.

DEVELOPING ASIA

Currency Outlook

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INDIA - The INR has stabilized following substantial inflows under the RBI's concessionary swap facilities, as well as solid equity inflows. We view the rebound in the post-August and September INR selloff as having played out. While trade dynamics have improved, it is unlikely to be enough to reduce the current account deficit anywhere close to the 2.5% of GDP level considered sustainable by the RBI. The INR is likely to remain challenged, and indeed further real depreciation is necessary to ameliorate external balances. We target USDINR at 64.50 in Q4 2014.

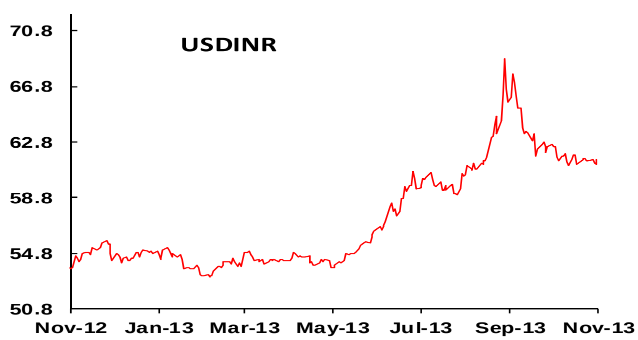
KOREA - The KRW outperformed most of the region in October, supported by strong demand from exporters and foreign investors. Korea's current account surplus is likely to moderate going forward, though the safe-haven status of the won is likely to continue to bolster the KRW under an eventual Fed taper. The near term strength of the KRW is causing some degree of concern for policymakers; however, only the rapidity of movement rather than the direction will remain the key concern. We target USDKRW at 1040 in Q4 2014.

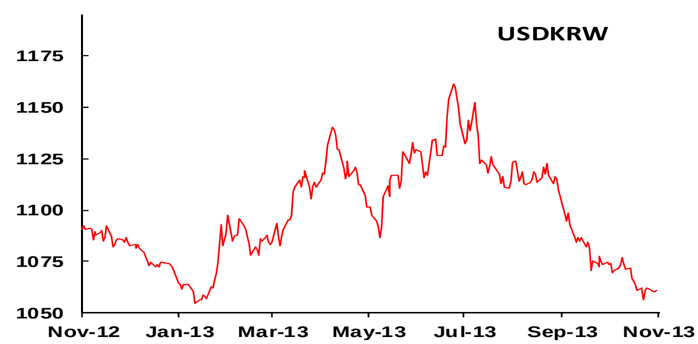
THAILAND - The THB will remain challenged by a deteriorated current account balance, as Thai assets remain vulnerable to external shocks, with an eventual Fed taper still a key future risk. Until a sustained turn in net trade is realized, the THB will remain vulnerable. In the interim sentiment has stabilized, which has brought THB-supportive foreign inflows. Inflation remains rather low, negating the possibility of interest rate support in the near term, potentially hanging on the THB in the face of rising US rates. We target USDTHB at 32.0 by Q4 2014.

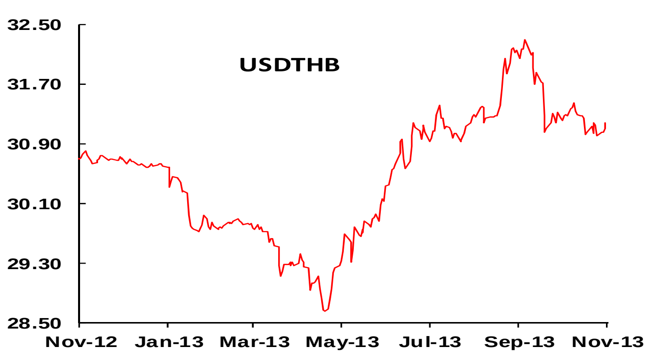
SINGAPORE - The MAS decision to keep policy unchanged and orient towards a gradual appreciatory path helped to support a bullish stance in the SGD against the USD, leading it to outperform in October. The appreciatory stance is likely to be less pronounced going forward vis-à-vis October, given the more moderate inflation environment and stabilization in short term US yields. An eventual Fed taper is likely to lead to lower SGD levels as many of Singapore's key trading partners see currency softness against the USD in 2014. We target USDSGD at 1.2650 in Q4 2014.

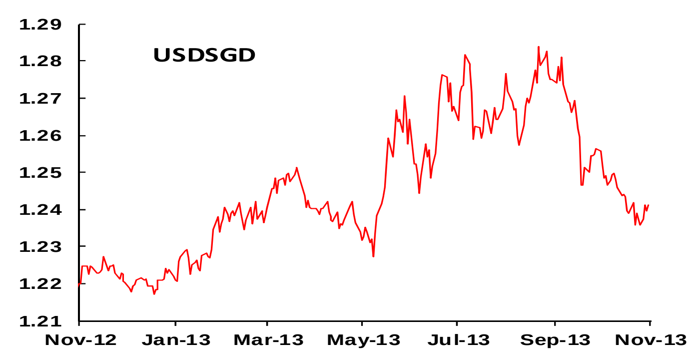
Currency Trends

FX Rate	Spot 31-Oct	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDINR	61.5	54.3	59.4	62.6	62.0	61.0	62.0	63.5	64.5
USDKRW	1061	1111	1142	1075	1070	1070	1060	1050	1040
USDTHB	31.19	30.59	29.27	31.05	31.24	31.25	31.50	31.50	31.75
USDSGD	1.24	1.24	1.27	1.26	1.24	1.24	1.25	1.25	1.27









DEVELOPING ASIA

Fundamental Commentary

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INDIA - Difficult economic conditions prevail in India with inflation accelerating and economic activity remaining sluggish. Following the October 29th monetary policy meeting of the Reserve Bank of India (RBI), the repo rate was raised by 25 basis points (bps) to 7.75%. The move was the next step in the monetary tightening phase that begun in September aimed at curbing mounting inflationary pressures. Given the recent stabilization of the Indian rupee, the RBI simultaneously continued to withdraw the exceptional measures implemented in July to stem the depreciation of the currency, and eased liquidity conditions in the banking system by lowering the Marginal Standing Facility rate by 25 bps to 8.75%. Following a favourable trend in the first half of the year, inflation—measured by the wholesale price index—has started to re-accelerate, reaching 6.5% y/y in September (up from 4.6% in May) on the back of rupee depreciation and higher food and energy costs. We estimate that inflation will close the year at 6¾% y/y. The country's economic outlook remains relatively weak with low consumer and business confidence adversely impacting household spending and investment, while public outlays are restrained by weak government finances. Accordingly, we expect the economy's output to increase by 4½% this year. Despite the multitude of challenges, the outlook should improve in the coming quarters as authorities are forced to press ahead with structural reforms and as the export sector picks up on improving global demand. India's economic growth will likely average 5½% in 2014-15.

KOREA - South Korea's economy is performing well, responding to successfully implemented fiscal and monetary stimulus measures. Real GDP growth was maintained at a strong level of 1.1% q/q in the third quarter of the year, taking the year-over-year expansion rate to 3.3% (up from 2.3% in the second quarter). Recuperating consumer confidence is underpinning household spending, while improving forward-looking business indicators are translating into a pickup in investment activity. External sector prospects are highly significant for South Korea as exports of goods and services are equivalent to over 50% of GDP; while net exports are contributing to growth, export performance remains relatively subdued for the time being. Nevertheless, stronger demand for South Korean goods will likely become more evident in 2014 as conditions in advanced economies improve. Reflecting the solid third quarter performance, we have revised the country's real GDP growth forecast, and now expect output to increase by 2.7% this year (2½% previously) and to pick up to 3⅓-3½% in 2014-15 on the back of a strengthening of private consumption and global demand. The Bank of Korea's authorities assess that the negative output gap will be maintained in the domestic economy "for a considerable time going forward"; therefore, we do not expect any changes to the current monetary policy stance in the near term, with the benchmark rate set to remain at 2.50%. Inflation is low in South Korea (with the headline rate around 1% y/y), remaining below the central bank's 2½-3½% target range.

THAILAND - The Thai economy will continue to stabilize in the coming months, with economic activity driven by modest improvements in exports and private consumption. While consumer confidence has weakened in recent months, rising incomes (resulting from tight domestic labour market conditions) combined with an accommodative monetary policy stance offer a relatively sound outlook for domestic demand. The Bank of Thailand (BoT) assesses that key downside risks to economic growth stem from a delay in fiscal disbursement especially for infrastructure projects, as well as from uncertain global recovery prospects. We expect the country's real GDP to expand by 3.7% this year, followed by an average gain of 4¼% in 2014-15. Inflationary pressures remain low, with the headline inflation rate hovering around 1½% y/y, the slowest pace in almost four years. We expect consumer price inflation to close the year around 1¾% y/y before picking up to around 3% by the end of 2014, partly reflecting the impact of a weaker currency and higher domestic energy prices. Core inflation (at 0.6% y/y in September) remains within the BoT's 0.5-3.0% target range. The central bank's monetary policy stance will likely remain unchanged in the coming months, with the benchmark interest rate set at 2.50%. Remaining vigilant about the pace of household credit growth and debt accumulation, the monetary authorities assess that the current policy stance contributes to ongoing adjustments in credit growth towards a more sustainable level.

SINGAPORE - The Singaporean economic outlook is favourable. According to advance estimates, real GDP increased by 5.1% y/y in the third quarter of the year following a 4.2% expansion in the April-July period. All key sectors—manufacturing, construction and services—recorded solid growth; accordingly, we now expect the country's output to advance by 3⅓% this year, followed by around 3⅔% gain in 2014-15. Economic expansion has lately been driven by domestic demand, though signs are emerging that the external sector is contributing to growth as well. Household spending continues to be supported by wage gains that reflect tight labour market conditions, while investment will remain underpinned by public sector infrastructure development. As an exceptionally open economy, Singapore relies directly on its exchange rate rather than interest rates to manage inflation prospects. Following the policy meeting in October, the Monetary Authority of Singapore maintained its policy stance of a modest, gradual appreciation of the (not published) nominal effective exchange rate band, assessing it to be appropriate for balancing the risk of external demand uncertainties and containing price pressures. The next policy meeting will be held in April 2014. Inflation will remain manageable through 2014, though tightness in the labour market will continue to underpin modest inflationary pressures. Prices increased by 1.6% y/y in September; inflation will likely close the year at 2.0% before accelerating slightly to 2½% by end-2014.

DEVELOPING AMERICAS
Currency Outlook

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BRAZIL - Given its high carry (9.1% implied by 3month NDFs), the BRL is a very expensive short, which should be somewhat of an offset towards what is generally a strong set of arguments for BRL depreciation. These include: the widest primary deficit on record for the month of September was just released, which could be the trigger to potential downwards adjustments to the country's credit ratings (which have already been flagged by ratings agencies), the fact that the BCB independence bill appears to have been dismissed by the government, and growth expectations for 2014, which continue to be revised downwards.

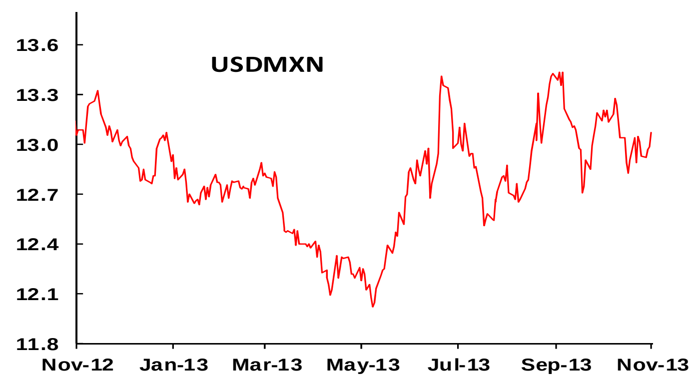
MEXICO - Although our sense is that foreign investors remain constructive on the "Mexico story", the MXN remains vulnerable to global "beta risk", given its liquidity offers a "cheap hedge" for both domestic and other regional assets, making the peso subject to underperform other regional currencies in periods of risk aversion. In terms of flows, if the energy reform gets approved, the power / oil sectors could become important FDI magnets.

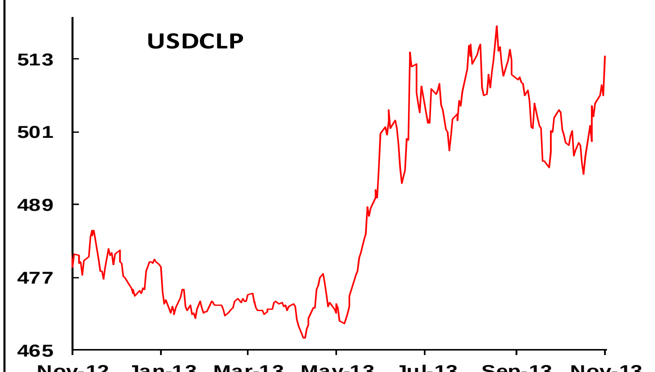
CHILE - The Chilean peso could be the most vulnerable currency to a strengthening USD from a pure "terms of trade perspective", given that: a) it is the most commodity-export-dependent of the LATAM FX5, b) it had the strongest terms of trade gains of the past 10 years, and c) of the highly commodity dependent economies, it is the most open. However, Chile's rare status of not having a net debtor private sector should keep the adjustment orderly .

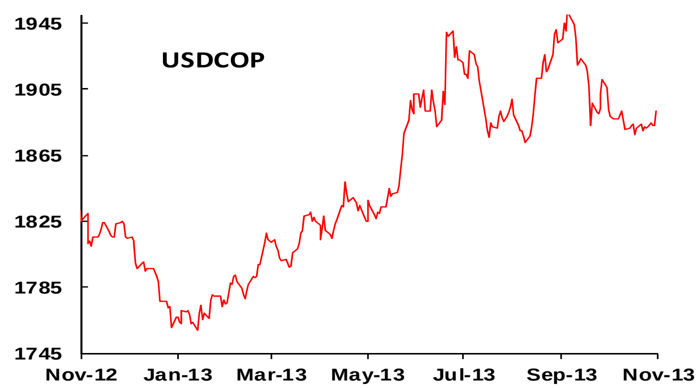
COLOMBIA - BanRep board member Vallejo said the central bank does not need to accumulate more FX reserves, as current levels are "sufficient", signaling the USD program will likely not be extended (it was scaled back in BanRep's September meeting). Vallejo said he believes the "equilibrium" level for USDCOP is somewhere in the 1900-1920 range, while we believe USDCOP will mostly trade sideways as we head into year-end, with key technicals being support at 1868, and resistance at 1924.

Currency Trends

FX Rate	Spot 31-Oct	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDBRL	2.24	2.02	2.23	2.22	2.20	2.15	2.20	2.25	2.30
USDMXN	13.0	12.3	12.9	13.1	13.2	13.2	13.1	13.2	13.4
USDCLP	514	479	472	508	505	500	500	500	505
USDCOP	1892	1767	1825	1923	1906	1900	1900	1900	1910







DEVELOPING AMERICAS

Fundamental Commentary

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BRAZIL - Electoral dynamics and the FIFA World Cup will influence business and investor sentiment in the next 12 months. Presidential elections, scheduled to take place in October 2014, will trigger a higher dose of fiscal stimulus by the ruling administration of President Dilma Rousseff in a clear attempt to seek re-election, leading to a mild deterioration in fiscal and debt metrics in the near term. Rating agencies maintain a divergent view as to recent trends in the country's creditworthiness: while Moody's affirmed its "stable" outlook on the country's Baa2 rating, Standard & Poor's revised Brazil's outlook to "negative" last June. We are of the view that Brazil is well positioned, through pre-emptive monetary tightening (225 bps increase in its monetary policy rate to 9.50% over the past 6 months) and major delays in the government capital expenditures program, to offer a faster growth trajectory over the next 24 months to satisfy persistent pent-up demand and meet major infrastructure-development needs. We estimate that real GDP will expand by 3.1% on average over the 2014-15 period in the context of a relatively stable exchange rate environment. The Brazilian authorities will intervene in as many ways as possible to ensure that the volatility of the BRL is contained to avoid political manipulation ahead of the presidential elections. Pre-emptive monetary tightening is a positive factor for Brazil as it will cushion the country against an abrupt and/or disorderly market adjustment once the US Fed executes its long-awaited exit strategies.

MEXICO - The US debt ceiling debate, weak domestic economic activity, discussion of structural reforms and loose monetary conditions locally impacted the Mexican peso in the last two months. The currency has gained some ground against the US dollar (2.1% in October), but remains sensitive to adverse risk aversion resurgence in international markets. Mexican economic activity remains subdued, with the retail sector and the industrial output struggling to recover, while the monthly activity indicator expanded by only 1.4% y/y on average in July and August, suggesting a mild recovery in the third quarter of the year. As a result, we now expect Mexican output to expand by 1.1% y/y in the third quarter. Accordingly, we are revising our real GDP growth forecast from 1.9% to 1.2% in 2013 and from 3.7% to 3.3% in 2014. Headline inflation continues to decelerate (3.4% y/y in September), slowly approaching the mid-point of the central bank's official target of 2-4%. However, core inflation remains close to the record-low level of 2.5% y/y, indicating no significant price pressures building up. After an unexpected cut in September, the central bank reduced the reference rate by another 25 basis points to 3.50% in October; however, the statement indicated that the easing cycle is over. Authorities remain on alert to any effect on inflation caused by the fiscal reform currently being discussed in Congress; however, tax increases tend to have only a temporary effect on inflation. Investors will remain focused on any development on the structural reforms agenda, particularly with respect to the energy and fiscal proposals.

CHILE - The Chilean currency environment will be sensitive to the approaching elections scheduled for November 17th (1st round) and December 15th (runoff vote). Michelle Bachelet is positioned to win the first round, yet surveys indicate that it will not be enough to avoid a second round. Meanwhile, the Chilean peso (CLP) has also been sensitive to four major factors: the direction of copper prices, evidence of modest economic softness, unexpected monetary policy actions and changes to the US Fed's policy of market intervention in the US Treasury bond market. Copper prices retained a stable pattern over the past six months averaging US$3.28 per pound; Scotiabank estimates that copper prices will enter a gradual decline over the coming 24 months averaging around US$3.1 per pound in 2014 while average oil prices trade a bit higher than current prices. As for the monetary policy direction, the central bank surprisingly reduced its monetary policy rate by 25 basis points to 4.75% on October 17th. We anticipate that the central bank could cut the reference rate one more time in the next three months; however, we do not foresee an aggressive easing cycle. The central bank does not expect the build-up of inflationary pressures, but it has stressed that the country's terms of trade have deteriorated and that domestic demand is projected to weaken further. Following an expansion of 4.1% y/y in the second quarter and the recent moderation in economic indicators, we are lowering our 2013 real GDP growth forecast to 4.4% from 4.6%.

COLOMBIA - Accelerating economic activity and stable monetary policy in the context of low inflation, coupled with a more generalized optimism in emerging economies after the US fiscal ceiling was raised, have set a positive tone for Colombian assets. After reaching its weakest level in almost two years in September, the Colombian peso (COP) regained strength, stabilizing around the 1,880 mark. Despite the solid second quarter economic performance, activity is still uneven across sectors, with construction – particularly from government spending – leading the recovery while the agricultural sector continues to face significant difficulties. Inflation has bounced back gradually to 2.3% y/y in September from its lowest level in February (1.8%), returning to within the central bank's target range. Under this scenario, monetary authorities left the reference interest rate unchanged at 3.25% for the seventh consecutive month in October. With this, Colombia remains as the only country among major economies in the region to maintain a stable monetary policy stance, since Peru, Chile and Mexico have eased monetary conditions. However, we do not anticipate that the COP will benefit significantly from monetary policy divergence, as interest rates have remained at low levels since the easing cycle undertaken between the end of 2012 and the beginning of this year. Authorities have highlighted that the economic recovery is underway, forecasting a GDP growth rate of 3.5-4.5% this year. We anticipate that the economy will expand by 4.2% in 2013 and by 4.5% in 2014.

Developing Europe & Africa

Currency Outlook

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RUSSIA - The ruble (RUB) has witnessed a modest correction in recent weeks, recovering over 4% versus the US dollar (USD) since its early-September low point. This is largely attributable to market expectations for a postponement of monetary stimulus withdrawal in the US. We anticipate a mild depreciation trend for the RUB over the coming year, in view of ongoing tensions in the Middle East, a relatively subdued growth outlook, increased flexibility in the RUB's official trading band and deteriorating fiscal and current account dynamics. Our year-end forecast for the USDRUB rate is 32.6.

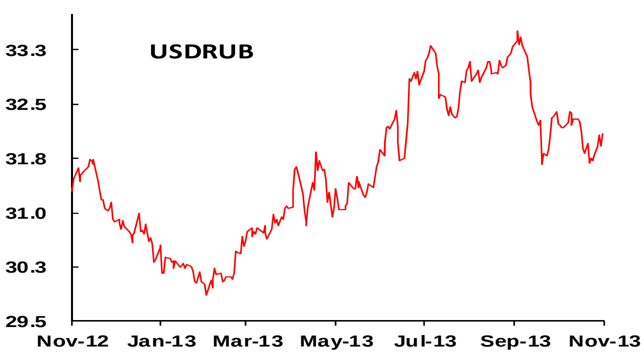
TURKEY - The Turkish lira (TRY) will remain subject to bouts of heightened volatility over the next 12 months as the US Fed moves toward monetary policy normalization. The currency has recovered 4% versus the USD from its record low in early September, aided by FX intervention by the Turkish central bank and indications from other major central banks that interest rate increases are still a long way off. Nevertheless, investors remain attuned to Turkey's large current account imbalance and external financing needs. We expect the USDTRY rate to close 2013 at 2.02 and 2014 at 2.00.

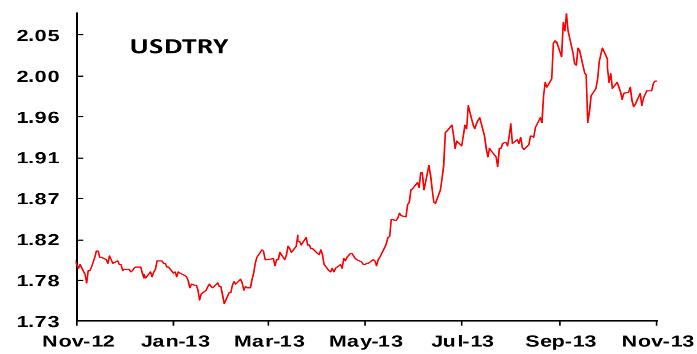
HUNGARY - The Hungarian forint (HUF) has remained relatively contained throughout the period of emerging market risk re-pricing and US-related volatility since May thanks to the buffer provided by the economy's current account surplus. Nevertheless, the currency remains at risk of a reversal in capital flows, given high external debt, fragile growth prospects and investor perceptions of an often unpredictable fiscal and monetary policy framework. We hold an end-2013 EURHUF forecast of 297 and project a rate of 290 by the end of 2014.

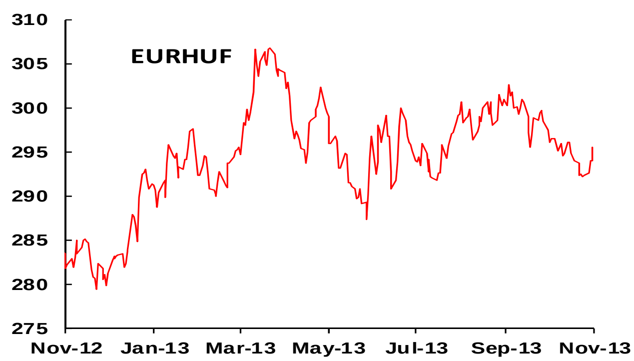
SOUTH AFRICA - The South African rand (ZAR) remains as one of the worst performers among major and emerging-market currencies against the USD in 2013 (down almost 16% year-to-date). Among the key sources of financial fragility are South Africa's large external imbalances, ongoing domestic labour strife and high exposure to softer global growth conditions and commodity prices. Rand volatility will likely remain heightened over the coming quarters, with the currency set to remain around the 10-mark per USD over the next year.

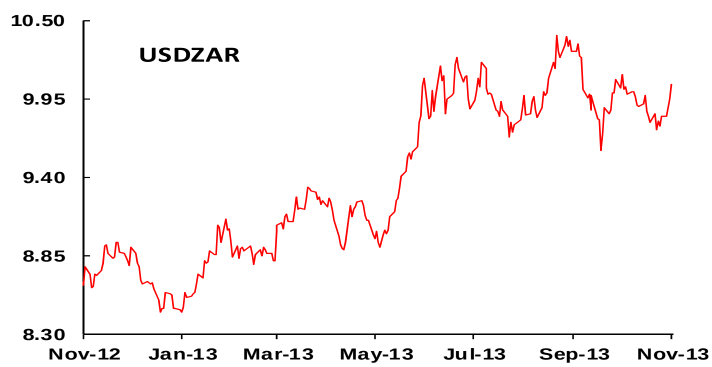
Currency Trends

FX Rate	Spot 31-Oct	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDRUB	32.1	31.1	32.8	32.4	32.6	32.6	32.6	32.7	32.7
USDTRY	1.99	1.81	1.93	2.02	2.02	2.02	2.01	2.01	2.00
EURHUF	296	304	295	297	297	296	294	292	290
USDZAR	10.05	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 is transitioning to a lower growth trajectory; the medium-term trend growth rate is now estimated at 3%, which is roughly a percentage point lower than the average pace registered in 2010-12. We expect real GDP to expand by around 1½% in 2013, as economic activity was much weaker than expected in the first half of the year due to soft external demand for commodities and sluggish domestic investment. Industrial production declined by 0.1% y/y on average in July-September, while capital investment contracted by a sharper 1.0%. Meanwhile, the current account surplus shrunk to its lowest level since 1998 in the third quarter, while the result for the prior three months was also revised down. Output growth will accelerate in the coming quarters on the back of favourable base effects and a temporary boost from infrastructure spending ahead of the Sochi Winter Olympics, leading to an expansion of close to 3% in 2014. The outlook for price stability is gradually improving; the headline inflation rate has drifted down from a peak of 7.4% y/y in May to 6.1% in September. A good grain harvest this year and softer demand-side pressures will support the disinflation trend going forward, offset partially by a weaker ruble and household tariff hikes next year. We expect the CPI to average around 6% y/y through end-2014 (the official target for 2014 is 5%). The central bank is now using the one-week auction rate, currently set at 5.50%, as the benchmark interest rate; we do not anticipate any changes to this rate over the near term.

TURKEY - The Turkish economy will register a relatively robust economic performance in 2013-14 on the back of recuperating domestic demand and strong pre-election government spending, which have offset the drag from deteriorated net exports. We foresee real GDP growth of 3⅔% in 2013-14, up from 2.2% in 2012. Subsequently, the economy will likely assume a more balanced growth trajectory in the range of 4-4.5% annually (compared to the 7% average rates seen in the pre– and post-global crisis years). Inflationary pressures are moderating, albeit slowly; the headline inflation rate eased to 7.9% y/y in September and it is expected to fall further in the coming months (though remain above the central bank's 5% target over the forecast horizon). Although the IMF has urged monetary authorities to raise the benchmark interest rate in their latest country assessment in view of above-target inflation, high credit growth and wide external imbalances, the central bank remains reluctant to tighten conditions given the still uncertain economic growth environment. Although the monthly current account deficit narrowed to a 10-month low in August, the rolling 12-month sum continued to widen. The deficit will likely measure above 7% of GDP in 2013 (up from 6.1% in 2012). The country has entered campaign mode, with local, presidential and parliamentary elections scheduled in the next two years. Prime Minister Recep Tayyip Edrogan of the ruling Justice and Development Party (AKP) is widely expected to run for, and win, the presidential ballot in mid-2014. EU accession negotiations are set to resume in November.

HUNGARY - Though domestic demand (particularly investment) remains weak, the economic outlook for Hungary has improved in recent months thanks to unanticipated external demand resilience and fiscal and monetary policy accommodation. Output expanded in year-over-year terms in the second quarter (by 0.5%) for the first time in six quarters. Looking ahead, the ongoing improvement in sentiment indicators suggests that economic activity will continue to strengthen in the third and fourth quarters; consumer and business confidence have returned to levels not seen since early 2011. We expect GDP to advance by ¼% in 2013 overall. In support of the developing recovery, in September the central bank expanded its Funding for Growth program by nearly US$9 billion (7% of GDP) through the end of 2014. Meanwhile, the budget is on track to record a deficit of slightly under 3% of GDP this year; though this represents a deterioration relative to the previous two years, which were distorted by pension reforms and new banking sector taxes, the government is no longer subject to the EU's excessive deficit procedure and plans to keep the deficit below the 3% threshold. With inflation still subdued, at 1.4% y/y in September, and the currency avoiding any significant downward pressure, the central bank will continue its monetary easing campaign in the coming months. Parliamentary elections are approaching in the first half of 2014; the ruling Fidesz-Hungarian Civic Union party retains a decent lead in the polls and is expected to remain in office.

SOUTH AFRICA - South Africa's investment-grade sovereign credit rating remains at risk of a downgrade in light of the nation's problematic twin deficit position, high unemployment and inflation, recurrent labour unrest and weak investment prospects. These factors have weighed heavily on the rand (ZAR) this year and the currency will remain under pressure as the current account deficit (estimated at 6.8% of GDP in 2013) and budget shortfall (close to 5% of GDP) are likely to narrow only gradually over the forecast horizon, restrained by a relatively subdued growth profile. The August merchandise trade balance posted its widest deficit in seven months (and likely worsened in September), with commodity exports dampened by strikes while oil imports jumped. The Medium Term Budget Policy Statement unveiled in late October foresees a lower output growth trajectory coupled with a slower pace of fiscal tightening. Nonetheless, the government did not announce any new spending plans and expects to beat the initial fiscal deficit target of 4.6% of GDP for this fiscal year thanks to resilient tax revenue and a change in budget calculations (bringing the methodology in line with international standards). At 6.0% y/y in September, inflation is set to remain close to the upper bound of the central bank's 3-6% target range over the forecast horizon. In its latest country assessment, the IMF underscored the importance of progress on structural reforms and increasing foreign exchange reserves to reduce vulnerability to swings in capital flows.

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	1.59	1.55	1.52	1.52	1.52	1.62	1.59	1.58	1.57	1.56	1.55	1.55	1.54	1.53	1.52
	EURGBP	0.81	0.82	0.81	0.81	0.84	0.86	0.84	0.82	0.82	0.82	0.81	0.81	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	2.20	2.30	2.20	2.02	2.23	2.22	2.20	2.15	2.20	2.25	2.30	2.28	2.25	2.23	2.20
Chile	USDCLP	479	500	510	490	472	508	505	500	500	500	505	510	506	500	495	490
Colombia	USDCOP	1767	1900	1920	1890	1825	1923	1906	1900	1900	1900	1910	1920	1920	1910	1900	1890
Peru	USDPEN	2.55	2.70	2.65	2.60	2.59	2.78	2.79	2.70	2.70	2.68	2.66	2.65	2.64	2.63	2.60	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	9.48	9.50	9.50	9.50
ASIA / PACIFIC																	
Australia	AUDUSD	1.04	0.93	0.93	0.95	1.04	0.91	0.93	0.93	0.90	0.91	0.92	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	62.0	64.5	66.0	54.3	59.4	62.6	62.0	61.0	62.0	63.5	64.5	65.0	65.3	65.5	66.0
Indonesia	USDIDR	9793	11400	11600	11400	9735	10004	11406	11400	11400	11450	11500	11600	11500	11450	11450	11400
Malaysia	USDMYR	3.06	3.15	3.25	3.33	3.09	3.16	3.26	3.15	3.15	3.20	3.23	3.25	3.26	3.28	3.30	3.33
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	31.3	32.0	32.5	29.3	31.1	31.2	31.3	31.5	31.5	31.8	32.0	32.3	32.5	32.5	32.5
EUROPE / AFRICA																	
Czech Rep.	EURCZK	25.1	25.8	25.0	24.5	25.7	26.0	25.7	25.8	25.6	25.4	25.2	25.0	24.8	24.7	24.6	24.5
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	5.60	5.50	5.85	6.07	6.01	5.90	5.80	5.70	5.65	5.60	5.60	5.55	5.55	5.50
Poland	EURPLN	4.08	4.20	4.00	3.92	4.18	4.32	4.22	4.20	4.15	4.10	4.05	4.00	3.98	3.96	3.94	3.92
Russia	USDRUB	30.5	32.6	32.7	32.9	31.1	32.8	32.4	32.6	32.6	32.6	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	8.67	8.00	7.60	8.37	8.72	8.70	8.67	8.60	8.40	8.20	8.00	7.90	7.80	7.70	7.60
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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