Foreign Exchange Outlook

A US government shutdown, the Fed's decision to delay tapering, a looming debt ceiling debate, a temporary easing in Syria-centred geopolitical risk, an improvement in the global growth outlook, an appreciating euro and a stable Chinese renminbi are the themes driving investor sentiment into the final quarter of the year.

We expect the USD to strengthen into year-end, with almost all the primary currencies falling victim to the shifting Fed stance while at the same time domestic central banks begin to tire of strong currencies. In addition, an improving US growth outlook helps to support the USD, though we recognize the multi-faceted risk of US political gridlock.

Emerging markets flows are likely to be driven by the same broad themes; however, there are several countries where domestic issues will prove important FX market drivers. The INR, TRY and BRL remain vulnerable, while the outlook for the MXN is relatively stable.

Forecast Highlights

Americas	USD	Central bank policy, global growth and politics continue to be the core FX themes.
	CAD	Near-term weakness followed by stabilization in 2014.
	MXN	Counterbalancing forces may lead to range-trading dynamics by year-end.
Asia / Pacific	CNY	Expected to remain stable; appreciating only 0.3% vs. the USD into year-end.
	JPY	Vulnerable to weakness on relative central bank policy & consumption tax.
	NZD	The RBNZ is expected to be the first central bank to hike, in turn supporting NZD.
Europe / Africa	GBP	Strong but set to weaken on relative monetary policy.
	EUR	Entering October at a 9-month high, leaves it vulnerable to fourth quarter weakness.
	CHF	SNB to maintain EURCHF floor throughout 2013; but begin to evaluate removal in 2014.
	TRY	Weakness to persist on account of macroeconomic vulnerabilities and political strains.

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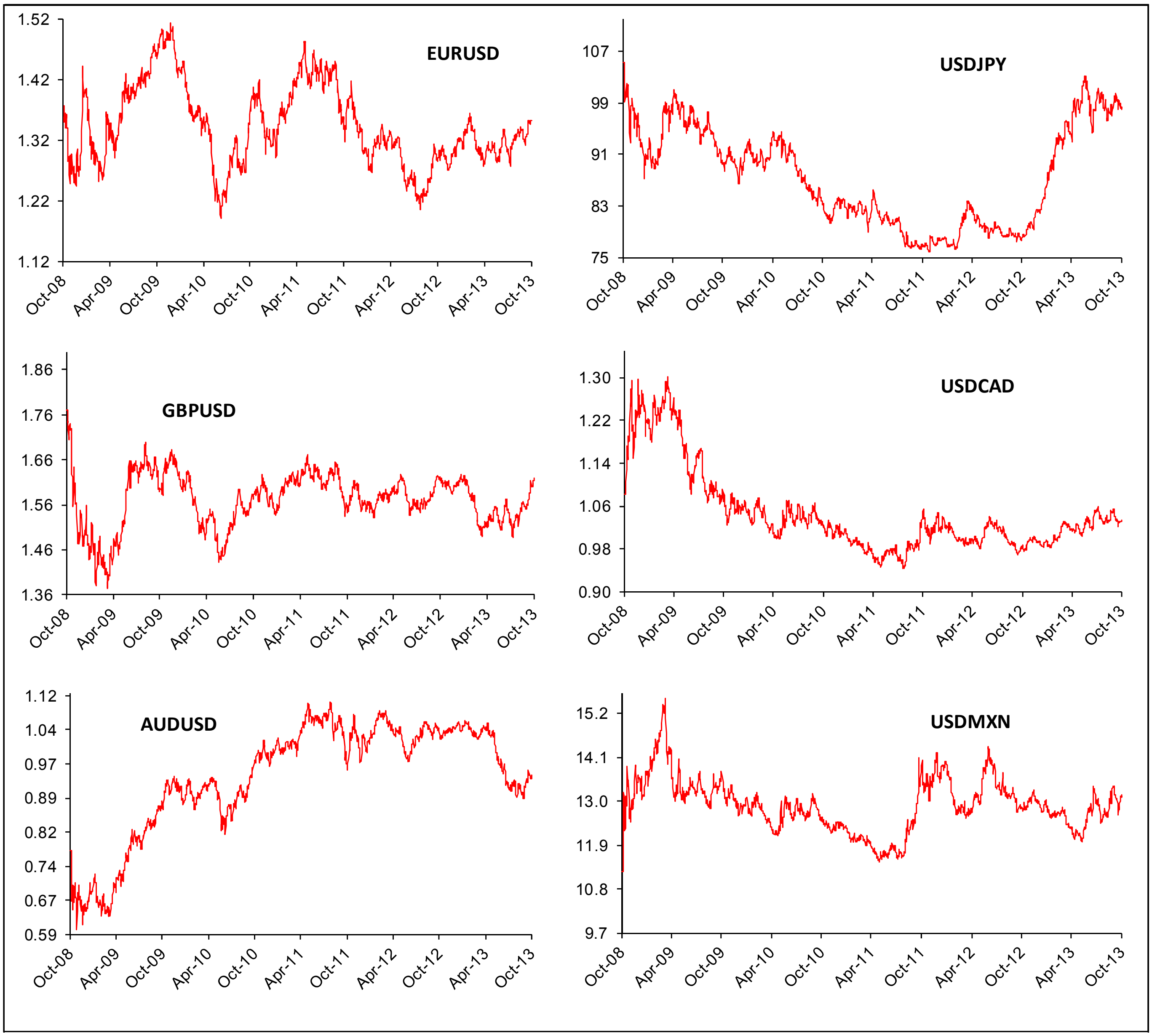
CORE EXCHANGE RATES

Global Foreign Exchange Outlook

October 1, 2013		Spot	Q1a 13	Q2a 13	Q3a 13	Q4f 13	Q1f 14	Q2f 14	Q3f 14	Q4f 14
EURUSD	Scotiabank	1.35	1.28	1.30	1.35	1.31	1.29	1.27	1.25	1.23
	Consensus*					1.29	1.28	1.27	1.27	1.27
USDJPY	Scotiabank	98.0	94	99	98	103	105	107	109	110
	Consensus*					102	103	104	106	106
GBPUSD	Scotiabank	1.62	1.52	1.52	1.62	1.55	1.53	1.51	1.50	1.50
	Consensus*					1.51	1.50	1.50	1.50	1.50
USDCAD	Scotiabank	1.03	1.02	1.05	1.03	1.06	1.07	1.07	1.06	1.06
	Consensus*					1.05	1.05	1.05	1.05	1.05
AUDUSD	Scotiabank	0.94	1.04	0.91	0.93	0.90	0.90	0.91	0.92	0.92
	Consensus*					0.89	0.88	0.87	0.87	0.87
USDMXN	Scotiabank	13.16	12.33	12.93	13.09	13.08	13.04	12.85	12.78	12.82
	Consensus*					12.78	12.67	12.56	12.44	12.38



(*) Source: Consensus Economics Inc. September 2013

Market Tone & Fundamental Focus

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We expect some modest USD strength into the final months of the year and into 2014, with FX markets being driven by three core themes: 1) relative central bank policy; 2) the global growth outlook and 3) politics, including US government gridlock. On a year-to-date basis, the USD has been notably strong against most of the emerging market currencies, with the exception of the Chinese yuan (CNY); meanwhile, its performance against the currencies of the advanced economies has been mixed; most notable has been the resilience of the euro (EUR).

The most important FX driver is relative central bank policy. The US Federal Reserve (Fed) has yet to slow its bond buying quantitative easing (QE) program and continues to add significant stimulus to the US economy. By 2014 the Fed is likely to be slowing additional stimulus but is still a long way from tightening policy; not typically a currency positive environment. However, markets are forward looking and judged against the other G4 policies of the European Central Bank (ECB), Bank of England (BoE) and Bank of Japan, the Fed is likely to be the first to enter its hiking cycle. It is this piece that should support both yields and the USD. Outside of the G4, several small open economies maintain a slight hawkish bias, mainly on the back of financial stability risks. In the developing economies domestic policy has taken several paths with some hiking rates to fight inflation and attract capital while others cutting rates to stimulate growth, but several turning increasingly to intervention.

In terms of growth, the outlook for the advanced economies is improving. The US economy is expected to outperform in 2014 (supporting the USD); in addition, it along with Germany, the UK, Canada and a few others are all expected to achieve at or above trend growth for the first time in several years. In an improving global growth environment the USD should outperform, while the growth sensitive currencies like the CAD, holding their own. The outlook for Asia and Latam is more mixed, but with most countries still struggling to grow back at trend rates. Politics are far more difficult to forecast; however, the combination of recurring gridlock in the US, geopolitical risks and upcoming elections in 2014 leaves politics as an important FX risk.

In the above environment, we foresee the NAFTA zone trading as a block. Central bank policy and growth should help support the USD globally, but so too will a narrowing current account balance, an improved fiscal outlook and building bullish sentiment. Canada is likely to underperform the US in terms of growth but benefit from an improving global growth environment; the Bank of Canada is expected to enter its hiking cycle in tandem with the US. This should create a fairly neutral environment for the Canadian dollar (CAD), with the currency weakening into year end and then holding stable in 2014. Mexico will also benefit from an improving US economy; but with the central bank having cut rates and the currency vulnerable to capital flows, the peso is at risk of sporadic volatility.

In Europe, both the ECB and BoE have introduced forward guidance strategies; but the markets are failing to cooperate, instead pricing the trajectory for interest rates on its own outlook. Even in this context the ECB and BoE are likely to remain dovish far longer than the Fed, proving slow to enter a hiking cycle, which in turn is likely to weigh on the British pound (GBP) and euro (EUR). In addition, though growth in Germany and the UK is expected to shift above trend in 2014, the overall European backdrop is still recovering from a difficult recession. Finally, the flows that have supported the EUR this year are likely to fade, leaving both the EUR and GBP vulnerable to downside risks. The Swiss National Bank is expected to maintain its credible EURCHF floor; while the NOK and the SEK could ultimately be supported by improving growth outlooks and central banks who turn hawkish ahead of the G4.

With the exception of the CNY, which leading into the fourth quarter had gained almost 2% year-to-date, the Asian currencies have depreciated materially in 2013. The Indonesian rupiah, Indian rupee and Japanese yen have been the hardest hit, all down more than 10% year-to-date. It is the domestic landscape that has driven their FX performance. In Japan, Prime Minister Abe's policies combined with an aggressive Bank of Japan have forced a revaluation of the currency. We expect the yen to underperform throughout 2014. In India and Indonesia, structural issues and capital outflows have been the main culprit, but the majority of the market-induced adjustment has been completed. The Thai baht, Malaysian ringgit and Philippine peso do not suffer from the same structural issues as India and Indonesia but have been and are likely to continue to be exposed to near term capital outflows. Finally, as China continues to make slow and steady progress towards a more flexible currency regime, we maintain our outlook for a slow and measured pace of CNY appreciation interrupted by periods of complete stability.

In Australia, the central bank has proven itself highly sensitive to Australian dollar (AUD) strength. Accordingly, any currency appreciation is likely to be capped by potential policy action. Much like the CAD, we expect the AUD to weaken into year-end but then stabilize in 2014. We have a more favourable outlook for the New Zealand dollar, mainly as the central bank has introduced a hawkish tone and is widely anticipated to be the first central bank of the advanced economies to enter its hiking cycle.

CANADA
Currency Outlook

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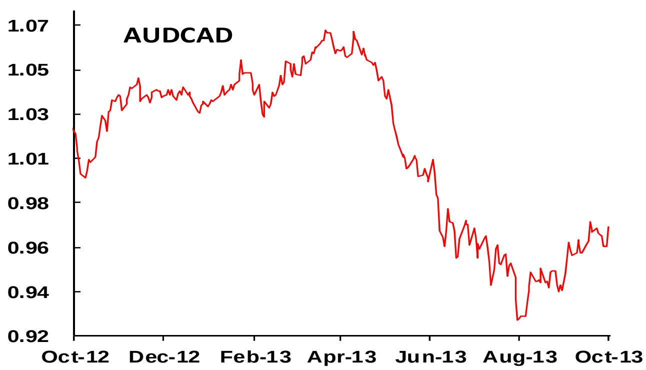
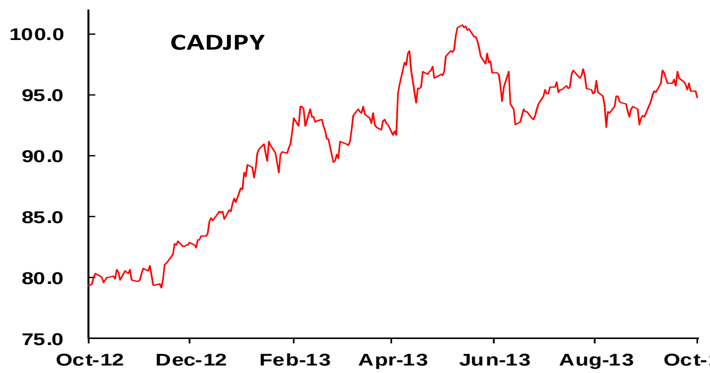
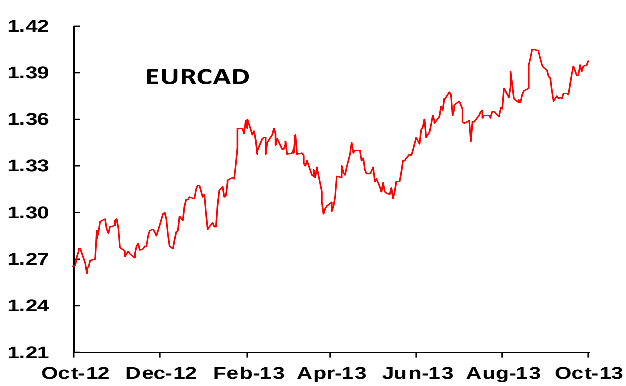
As the Canadian dollar (CAD) is entering the final quarter of the year, having lost 4% year-to-date, it is forecast to depreciate further into year-end before stabilizing in 2014. From a longer-term perspective, many of the CAD fundamentals have deteriorated. No longer can Canada proudly boast about a twin current account and budget surplus, strong fundamental growth and positive sentiment. Instead, both the current account and budget deficits sit close to 3% of GDP and are expected to narrow only modestly in 2014. According to purchasing power parity, the CAD, like all the primary currencies, is overvalued. However, a more medium term outlook suggests that the CAD has several conflicting drivers that are likely to see the currency stabilize in 2014. In terms of growth, Canada is expected to underperform the US, which would typically drive some currency weakness. Nevertheless, for markets it is central bank policy that has become an obsession. The Federal Reserve's (FED) failure to reduce monthly bond purchases in September led to a temporary strengthening of the CAD; but this should fade as the Fed inches closer to an environment where it will be able to ease back on its bond buying. The central banks are expected to enter hiking cycles in tandem, which should prove fairly neutral for the CAD. However, one of the surprises this year has been the stance of the Bank under Governor Poloz. Many had anticipated a policy tone that would be focused on the CAD; regardless, unlike the Reserve Bank of Australia, the Bank of Canada has instead removed almost all references to currency, noting at one point that it is the markets who set the level of the CAD. Accordingly from a central bank perspective there is likely to be some FX movement on the back of shifting policies but in broad terms we expect relative policy to prove fairly neutral for CAD next year. In the oil sector, a drop in the third quarter of the number of oil shipments on rail as well as ongoing uncertainty over the approval of new pipeline capacity has led to a widening of the West Texas Inter (WTI) and Western Canadian Select (WCS) a weight for the Canadian economy. However, oil prices are elevated and this helps to offset balance the impact. Finally, flows into Canada and positive sentiment have moderated over the last year for several reasons. FX reserve managers still seem to be using the CAD as one their core currencies; though financial market underperformance and an uncertain domestic landscape have led to a decrease in bond and equity flows. In summary, the CAD is expected to weaken into year-end but stabilize in 2014.

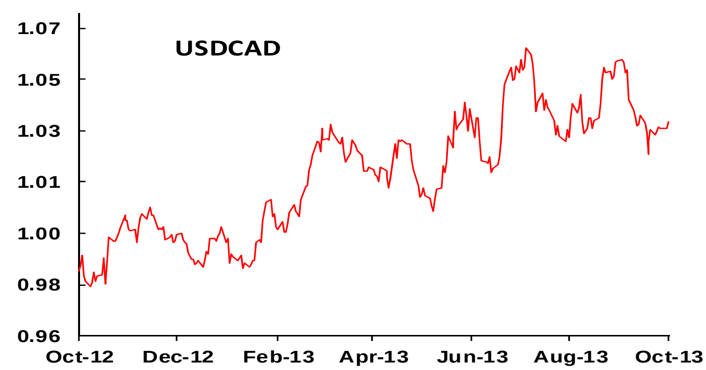
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 1-Oct	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
AUDCAD	0.97	1.06	0.96	0.96	0.95	0.96	0.97	0.98	0.98
CADJPY	94.8	92.6	94.2	95.3	97.2	98.1	100.0	102.8	103.8
EURCAD	1.40	1.30	1.37	1.39	1.39	1.38	1.36	1.33	1.30
USDCAD	1.03	1.02	1.05	1.03	1.06	1.07	1.07	1.06	1.06









Canada and United States

Fundamental Commentary

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UNITED STATES - The US economy has lost some momentum in recent months. The rise in long-term borrowing costs – the US 30-year fixed mortgage rate has increased roughly a percentage point since May – has slowed the recovery in home sales and residential construction. A sharp falloff in refinancing activity combined with earlier tax increases have contributed to a slower trend in retail sales, notwithstanding strengthened household balance sheets and wealth gains from rising home and equity prices. Consumer confidence remains elevated, but has edged lower since hitting a 5½-year high in June. Global economic uncertainty and renewed US fiscal concerns surrounding the government's funding and debt ceiling negotiations also have tempered business capital investment and hiring plans. Private sector job gains averaged just 140,000 in July and August, down from an average of 201,000 over the first half of the year. At the same time, manufacturing and export activity remain reasonably firm – a reflection of the improved competitiveness of US producers and a well-diversified export base. The pickup in industrial activity is being led by gains in auto, business equipment and energy production. The latter is contributing to a notable improvement in US external trade accounts. Rising oil exports alongside reduced imports have shrunk the real trade deficit in petroleum products to its lowest level in two decades. Inflation pressures remain minimal, with excess labour and production capacity holding headline and core CPI below a 2% y/y trend. We anticipate a stronger US economic recovery will take hold next year as fiscal restraint subsides and global momentum gains traction. There remains considerable pent-up demand for housing and consumer durables. Corporate balance sheets are in good shape, and credit conditions are being loosened. Energy-related infrastructure spending will remain a source of support. For 2014 as a whole, US GDP growth is expected to increase 2.6%, a full percentage point above this year's 1.6% estimated advance.

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 August, 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 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 at mid-year 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 2.3% 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 - In line with Scotiabank's expectations, the FOMC elected to continue with its Large Scale Asset Purchase program at an unchanged rate of USD85bn/month at its September meeting. We now expect the FOMC to begin to reduce the size of its purchases at its January meeting (vs. December previously). Our view is premised on the Fed's guidance that it does not intend to curtail its purchases during a period when U.S. fiscal policy is still very much up in the air (meaning that our view can easily change as there is more clarity on the path of U.S. fiscal policy). A surprising risk attendant to the FOMC's 'data dependency' has materialized in the form of the U.S. government's shutdown – which has paused the release of economic data indefinitely.

CANADA - The BoC's most recent Monetary Policy Report guided markets to expect a long policy pause into mid-2015 by indicating that the BoC expects the economy to function below capacity until then. We're not really expecting this to change moving forward. Our view is driven by a few factors: a) the household sector's contribution to growth will likely be subdued, b) much like in Australia, the peak for investment in Canadian natural resources is probably imminent if not passed, and c) we anticipate a lag as the economy tries to shift investment into the export-oriented manufacturing sector from housing and natural resources. Add up these factors, and it makes sense that BoC is mirroring the Fed and projecting a pause in the path of interest rates until mid-2015.

EUROPE
Currency Outlook

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EURO ZONE - Entering October the EUR is near its 2013 highs and is the best performing major currency year-to-date. Supporting the EUR has been relative monetary policy – the ECB's shrinking balance sheet juxtaposed against the Fed's who is hesitant to taper; combined with improving sentiment as the euro zone exits recession. We see risk in the EUR and expect that the combination of a Fed that ultimately tapers and a lack of progress on the banking union as key risks to the EUR. Mitigating these risks is a year-long upward trend coupled with bullish sentiment. We hold a year-end forecast of 1.31.

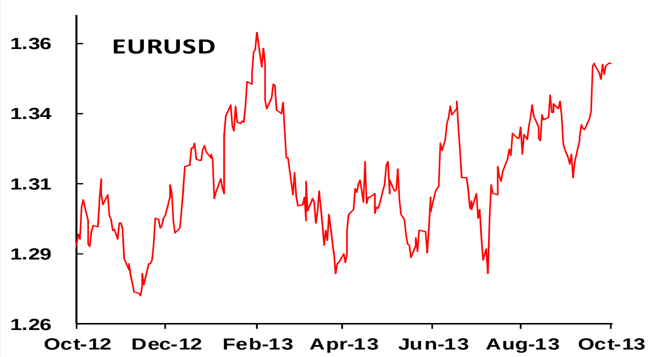
UNITED KINGDOM - Sterling rallied through the summer and early fall as the fundamental economic backdrop improved and the market put less weight on the Bank of England's forward rate guidance and more on the stream of improving data prints. Shorts were quick to cover, accelerating upside pressure. Looking out to October the market is more balanced - as of September 24th the CFTC reported a flat sterling position. However, markets have priced in an optimistic scenario, opening up the risk of depreciation as the Fed turns to tapering and the BoE reiterates its dovish stance. We hold a year-end forecast of 1.55.

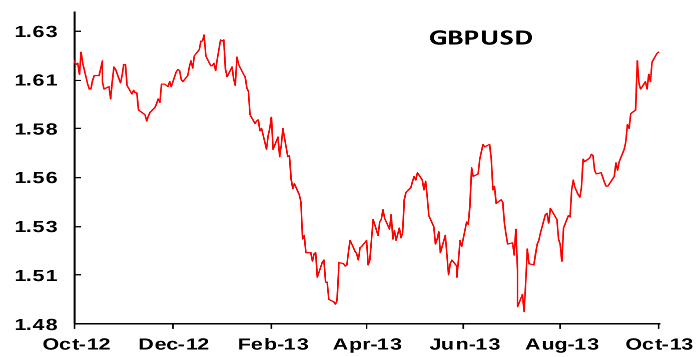
SWITZERLAND - On October 1st, the Swiss franc (CHF) rose to a fresh 19-month high against the USD, as the CHF's safe haven qualities were sought leading into the US government shutdown. Technically, this is bullish; as is the rising net long CHF position (reported at 0.7bn by the CFTC on September 24th). We expect the SNB to maintain the EURCHF 1.20 floor throughout 2013, but to begin evaluating its removal in 2014. We hold a year-end EURCHF target of 1.22.

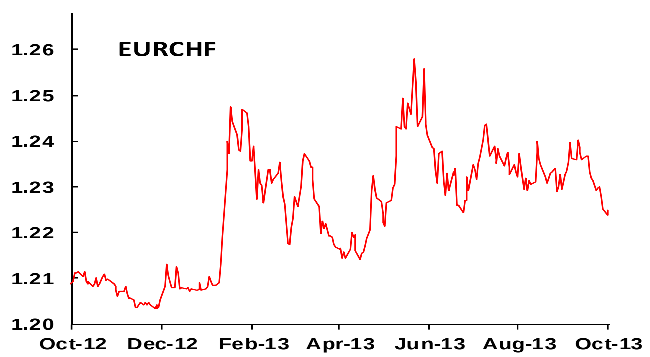
NORWAY - The Norwegian krone trended lower in the first three quarters of 2013, with most technicals warning of further weakness into the fourth quarter. The Norges Bank is likely to hike rates in the second half of 2014, making it one of the first to enter a tightening cycle. We expect relative interest rates, the Norwegian economic backdrop and investor sentiment to prove favourable for the krone and accordingly hold a year-end target of 6.10.

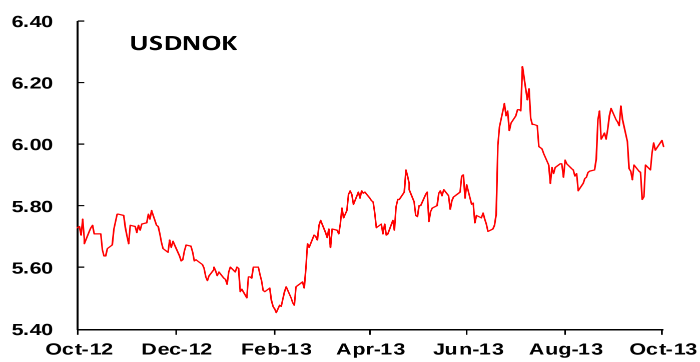
Currency Trends

FX Rate	Spot 1-Oct	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
EURUSD	1.35	1.28	1.30	1.35	1.31	1.29	1.27	1.25	1.23
GBPUSD	1.62	1.52	1.52	1.62	1.55	1.53	1.51	1.50	1.50
EURCHF	1.22	1.22	1.23	1.22	1.22	1.23	1.24	1.25	1.25
USDNOK	5.99	5.85	6.07	6.01	6.10	5.80	5.70	5.60	5.50









EUROPE

Fundamental Commentary

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EURO ZONE - Sentiment continues to recover in the euro area, with forward-looking indicators depicting gradually building economic momentum globally and in the region. The composite PMI is at a 27-month high and the aggregate unemployment rate appears to have peaked. Although a proposed change to the calculation of member states' structural fiscal deficits was scrapped, we anticipate some moderation in the pace of fiscal tightening next year relative to earlier expectations. Nevertheless, the European Central Bank (ECB) continues to highlight the fragility of the economic recovery, stressing that regardless of US Federal Reserve policy, interest rates will be kept low for an extended period. Data for the real economy suggest that the quarterly growth pace likely moderated in the third quarter and persistent currency strength represents a threat for the recovery going forward in addition to political risks. Given that credit conditions remain poor and in view of the financial market risk surrounding the upcoming Asset Quality Review of euro area banks, the ECB will likely leave the option of another long-term refinancing operation (LTRO) on the table in the near term. The long-delayed establishment of the EU-wide banking union hit another obstacle in September as the UK (which won't actually participate in the union but as an EU member state is required to formally approve the legislation) refused to sign off on the proposed Single Supervisory Mechanism before reviewing some last-minute adjustments. The ECB is expected to officially assume supervision of euro zone banks in late 2014.

UNITED KINGDOM - The UK continues to show signs of a domestic-led recovery, with household spending and construction activity supported by the government's 'Help to Buy' scheme and accommodative monetary conditions. Though this impetus will fade in 2014, the carry-over from this year will likely be enough to lift the growth rate above 2%, from around 1.5% in 2013. The annual growth figures mask the underlying trend in the quarterly pace; although the PMIs have shown great improvement over the last few months, the recent appreciation in the GBP and rise in bond yields points to less accommodative financial conditions and less elevated growth rates during 2014. The improving growth outlook over the last few months has lent considerable support to the pound sterling (GBP), particularly as financial markets grew unsettled with the prospect of a US government shutdown. The GBP has gained roughly 9% from a low in early July and now sits at its highest level vis-à-vis the US dollar since the start of the year. The labour market remains resilient; the most recent employment report surprised on the upside, showing a decline in the ILO jobless rate in the three months to July from 7.8% to 7.7%. This is important for monetary policy, as the Bank of England (BoE) has pledged to keep interest rates unchanged until this metric falls to 7%, which the central bank does not expect to happen before 2016 but which markets have priced in much earlier. Ultimately, however, we expect the BoE to lag the US Fed in tightening policy, and this will weigh on the GBP over the medium term.

SWITZERLAND - Safe haven flows into the Swiss franc (CHF) have pushed the currency to multi-month highs against the euro and US dollar. Since the disappointing US non-farm payrolls report on September 6th which sharply reduced the likelihood of asset purchase tapering by the Fed, the CHF has climbed to its strongest level since April 2012 versus the USD. The franc's attractiveness is underpinned by Switzerland's relative political stability (as opposed to ongoing structural issues in the euro zone and a government shutdown in the US), triple-A rating status, and improving growth prospects. Leading Swiss economic forecasters, including the Swiss National Bank (SNB) and KOF institute, have recently revised upward their 2013 growth expectations on the back of the stronger-than-anticipated performance in the second quarter. Real GDP expanded 0.5% q/q, bringing the yearly pace to 2.5% from 1.2% in January-March. The SNB's regional network survey for the third quarter suggests that growth remained robust in the period while becoming more broad-based. We expect output growth to average slightly less than 2% over the next two years. The central bank also raised its inflation forecasts, though only marginally, to reflect slightly higher oil prices. The CPI was flat in year-over-year terms for a second consecutive month in August (after almost two years of deflation). Financial stability risks in the mortgage and real estate market have eased, with slowing price growth in some property segments.

NORWAY - Although the Norwegian economy has fallen short of growth expectations so far this year, the central bank will refrain from policy easing and will likely be one of the first among its peers to begin to raise interest rates, around mid-2014. Real GDP expanded by 0.8% q/q in the second quarter, representing a rebound from the 0.1% contraction in the prior three months and the largest quarterly advance since the first quarter of 2012. Mainland GDP growth (excluding oil, gas and shipping) was just 0.2% q/q, however, much lower than was expected by monetary authorities due to weakness in the services and construction sectors. The labour market has also proved less robust than anticipated (though the unemployment rate remains low at 3.6%). Nevertheless, the Norges Bank maintains that capacity utilization is still around normal levels. Inflation has picked up considerably in recent months, with the headline index rising from 1.0% y/y in February to 3.2% y/y as of August (highest since April 2010) while the underlying measure reached 2.5% (highest since July 2009). Furthermore, the weaker-than-anticipated trajectory of the krone in 2013 (down 7.5% year-to-date versus the US dollar) portends continued price pressures in the near term. A general election on September 9th produced significant changes in parliament, with the governing centre-left coalition losing 14 seats and the Conservatives gaining 18 seats. A new centre-right coalition government is expected to be formed in the coming weeks, though no major policy shifts are envisioned.

ASIA / PACIFIC
Currency Outlook

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JAPAN - The JPY continues to consolidate, trading at the mid-point of its six-month range as of late September. Leading into October, offsetting drivers were limiting JPY movement as the moderation in geopolitically-driven risk aversion was offset by a focus on fiscal reform. Sentiment toward the JPY is overwhelmingly bearish, and CFTC data show that investors hold a net short US$11.8 billion position as of September 20th. The yen should continue to weaken on the back of relative central bank policy, and we hold a year-end USDJPY forecast of 103.

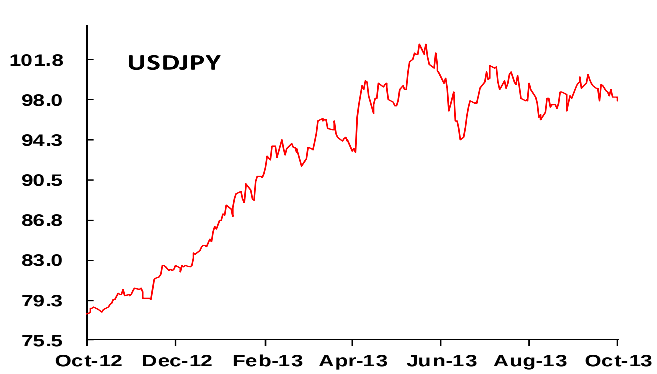
CHINA - USDCNY spot trading was kept very stable over the month of September, while the fixing was guided significantly lower, creating considerable space in the trading band. This may presage a band widening in the not too distant future, though the timing of which is purely speculative. Nevertheless, China's external surpluses and resurgent growth momentum have benefitted the renminbi. We target 6.10 by the end of Q4 2013.

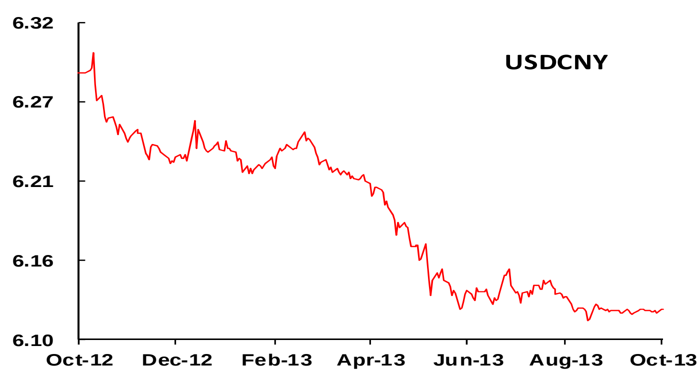
AUSTRALIA - The AUD rose nearly 5.0% in September, its first monthly gain since March, as risk appetite, stabilization in China, and relative central bank policy provide support. However, the Reserve Bank of Australia's focus on the exchange rate leaves the AUD vulnerable, and external factors are likely to drive uncertainty ahead of expected reforms in China. CFTC data suggest that investors remain bearish AUD. We expect the AUDUSD to decline modestly from its late-September levels and hold a year-end forecast of 0.90.

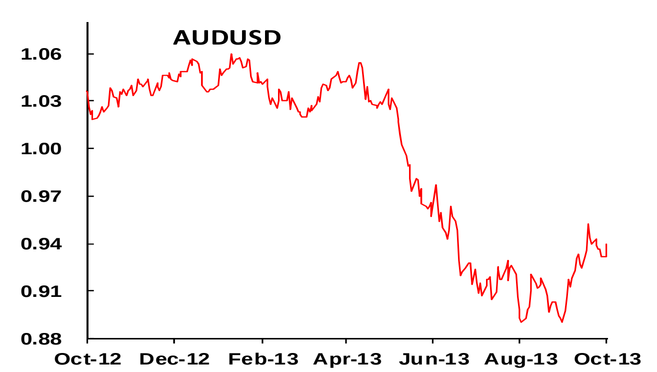
NEW ZEALAND - The NZD had moved back to the upper end of its year-to-date range as of late September, outperforming all of the majors with a rise of nearly 7.0% from its August low at 0.7721. The Reserve Bank of New Zealand's hawkish turn has been predicated on financial stability, overriding expressed concerns about the elevated exchange rate. Investor sentiment toward the NZD is neutral, however the high-beta nature of the currency leaves it vulnerable to external developments. We expect relative interest rates to support NZD and hold a year-end target of 0.82.

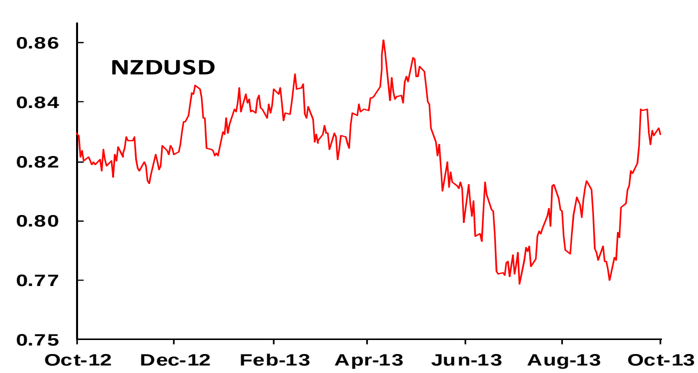
Currency Trends

FX Rate	Spot 1-Oct	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDJPY	98.0	94.2	99.1	98.3	103.0	105.0	107.0	109.0	110.0
USDCNY	6.12	6.21	6.14	6.12	6.10	6.09	6.07	6.06	6.04
AUDUSD	0.94	1.04	0.91	0.93	0.90	0.90	0.91	0.92	0.92
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 - On October 1st, Japan's Prime Minister Shinzo Abe announced his decision to implement a sales tax increase in April 2014, raising it from 5% to 8%. While the sustainability of the ongoing economic recovery is still debatable, given the nation's weak public finances a failure to signal commitment to long-term fiscal discipline would have put pressure on Japan's sovereign credit ratings. To offset the adverse impact on consumption, Mr. Abe announced a fiscal stimulus package that will include tax breaks for companies to promote job creation and wage increases; details of the package will be unveiled by December. According to revised real GDP growth data, output grew by 0.9% q/q (1.3% y/y) in the second quarter. The most significant change was to investment activity, which increased by 1.5% q/q; this, if sustained, may indicate that companies are changing their inflation expectations and are no longer postponing investment spending in anticipation of lower prices. Given the data revisions, we now expect Japan's real GDP to advance by 2.0% this year followed by a 1.8% gain in 2014. Consumer prices increased by 0.9% y/y in August. Nevertheless, recent inflation has not been demand driven, highlighting policymakers' challenges in stimulating economic growth in a sustainable fashion and achieving the Bank of Japan's 2% inflation target. Inflation has primarily reflected higher energy costs while other categories remain in deflationary territory. Yen depreciation, the tax hike, and ongoing monetary stimulus efforts should take inflation to around 1½% y/y by the end of 2014.

CHINA - China's administration remains committed to a process of economic reform, particularly in terms of the exchange and interest rates. While we do not expect material structural changes to the currency regime at present, the official policy is geared towards increased currency flexibility. Indeed, as the fixing of the Chinese yuan (CNY) is converging with the currency's spot rate, the CNY's trading band may be subject to a widening in the near term. In addition, 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. Interest rate reform is a prerequisite for capital account liberalization because a functional market-determined financial system is required to prevent significant outflows once capital controls are removed. Economic reforms will be discussed in November at the Communist Party's Third Plenary Session. China's manufacturing sector is showing signs of improvement with purchasing managers' indices and industrial production recuperating. A moderate pick-up in retail and vehicle sales indicates solid private spending activity. As the Chinese leadership continues its efforts to rebalance the economy towards a more consumer-based structure, we expect the nation's GDP growth to average 7⅓% in the medium term. The inflation outlook remains manageable. The consumer price index recorded a 2.6% y/y gain in August; we expect inflation to close the year near the 3% y/y mark. Producer price inflation remains in deflationary territory due to industrial overcapacity.

AUSTRALIA - Australia has a new government, yet we do not anticipate major changes to policy direction. Following general elections on September 7th, the opposition Liberal-National coalition led by Tony Abbot won a majority in the lower house thereby leaving the Labour Party in opposition. However, without a majority in the upper house the Liberal-National coalition will have to rely on the support of smaller parties to be able to implement its agenda. Cancelling the controversial carbon tax will be a top priority for the new administration. Real GDP grew by 0.6% q/q in the second quarter following a 0.5% gain in the January-March period. Household spending growth remained muted due to a soft labour market, while investment decreased owing to lower mining sector activity. However, commodity exports (representing ⅔ of total exports) are performing well, reflecting increasing mining capacity following project completions. Accordingly, net exports will remain an important contributor to growth. Output will likely advance by 2.4% this year, followed by a 2¾% gain in 2014 that reflects improving consumer spending and strengthening global demand for Australian exports. Any changes to the country's monetary policy stance are unlikely in the near term, as authorities assess that the full effects of recent monetary easing measures "are still coming through, and will be for a while yet". The benchmark rate was lowered to 2.50% in August. Barring a significant deterioration in domestic conditions, we assess that the easing cycle has now reached its bottom.

NEW ZEALAND - New Zealand's second quarter real GDP growth was adversely impacted by a temporary – though severe – draught that impaired the country's vital agricultural exports. Output grew by 0.1% q/q (2.2% y/y) compared with a 0.3% (2.5% y/y) gain in the January-March period. Excluding the poor external sector performance, economic conditions remained solid, with household spending and investment recording respectful gains. Against this backdrop, we expect the economy to perform substantially better in the second half of the year, with growth averaging 2½% in 2013 as a whole, followed by a pick-up to close to 3% in 2014. Real estate momentum will continue to underpin consumer sentiment and spending. Nevertheless, rapid house price gains have prompted discomfort among monetary authorities. In order to promote financial stability in the context of higher banking sector risks arising from "excessive house price and credit growth", the central bank will implement loan-to-value restrictions on mortgage lending as of October 1st. Such measures will allow monetary policy to remain growth-supportive in the coming months. At the Reserve Bank of New Zealand's (RBNZ) September meeting, policymakers noted that the benchmark rate, currently 2.50%, will likely need to be raised next year. At 0.7% y/y in the second quarter, inflation remains below the RBNZ's 1-3% target range. It will likely begin to creep higher through the latter part of the year, reaching 2% y/y in early 2014, and remaining near that level throughout the year .

DEVELOPING ASIA
Currency Outlook

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INDIA - The Reserve Bank of India's (RBI) short-term concessionary measures aimed at shoring up the INR have proven successful as the rupee has stabilized away from August lows. The RBI removed extreme downside market risk from the INR, improving sentiment which has allowed for a rebound in equity inflows. However, fixed income investors remain net sellers and economic confidence is strained. The RBI has done what it can but the longer term picture is still highly challenging as we expect external pressure to reassert itself towards the end of the year. We target USDINR at 68.00 by Q4 2013.

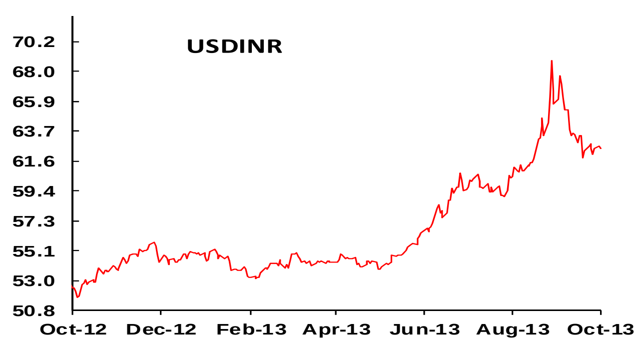
KOREA - Korea's current account has provided an excellent offset to portfolio outflows in recent months, marking the KRW as a regional "safe haven" currency during a period of challenge for Asian currencies. Trend equity inflows on the back of this perception have been pushed to levels not seen since early 2012, but as a by-product have also led the KRW to trade relatively dearly in our view. Policymakers may become uncomfortable with strong levels, particularly if JPY weakens off towards the end of the year (as Scotia forecasts). As such we target USDKRW at 1120 by Q4 2013.

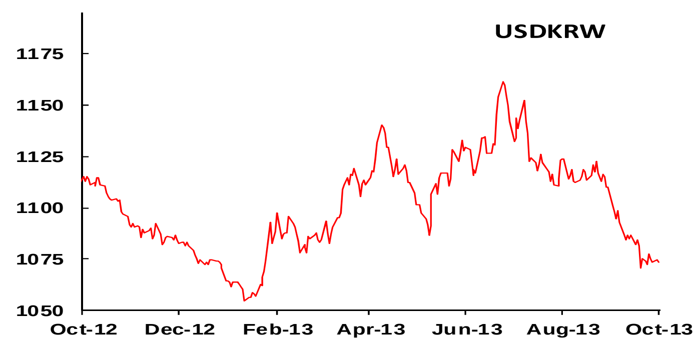
THAILAND - The THB rebounded following the easing in external financial market conditions post-FOMC, as a September surge in portfolio inflows bolstered the currency. As markets have calmed down, THB downside pressure has reasserted itself. The evaporation of Thailand's current account surplus has exposed its balance of payments to financial outflows, with August seeing the largest overall balance of payments deficit in over 5 years. On this note, the baht should remain back footed into the end of the year as a Fed taper ensues. We target 34.00 in USDTHB by the end of Q4 2013.

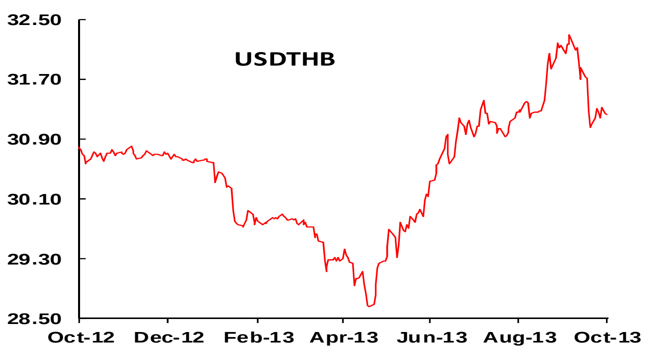
INDONESIA - Despite the easing in financial strains on EM Asia, the IDR has continued to struggle with adjust to levels more consistent with its external economic imbalances. This is a longer-term process and unlikely to come to a resolution at any point in the near future as the current account deficit has yet to show significant improvement. Indeed, strain on the IDR can be expected after the Fed taper begins, and further monetary tightening may be required to bolster the IDR. We target 11500 in USDIDR by Q4 2013.

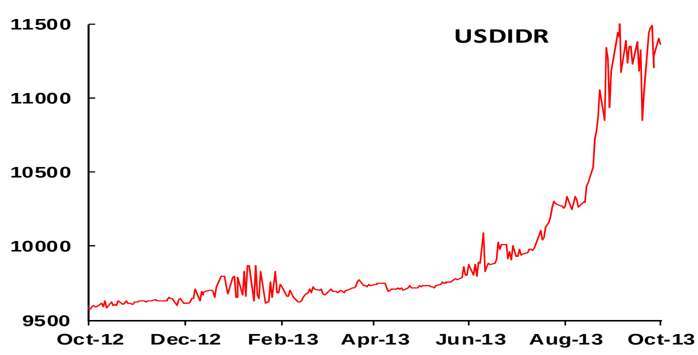
Currency Trends

FX Rate	Spot 1-Oct	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDINR	62.5	54.3	59.4	62.6	68.0	67.3	66.5	65.8	65.0
USDKRW	1074	1111	1142	1075	1120	1115	1110	1105	1100
USDTHB	31.23	29.27	31.05	31.24	34.00	33.63	33.25	32.88	32.50
USDIDR	11360.00	9735.00	10004.00	11406.00	11500.00	11450.00	11400.00	11350.00	11300.00









Developing Asia

Fundamental Commentary

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INDIA - A challenging economic environment prevails in India. On September 20th, the Reserve Bank of India (RBI), headed by the new governor Raghuram Rajan, raised the benchmark repo rate by 25 basis points (bps) to 7.50% in response to accelerating inflation. The rate had been lowered by 75 bps between January and May. Given the recent stabilization of the India rupee, the RBI simultaneously took steps to ease liquidity conditions in the banking system, thereby beginning to withdraw the exceptional measures implemented in July to stem the depreciation of the currency. Following a favourable trend in the first half of the year, inflation—measured by the wholesale price index—has started to re-accelerate, reaching 6.1% y/y in August. We expect inflation to close the year near the current level before picking up to 6½% y/y by end-2014 on the back of currency depreciation. Meanwhile, consumer price inflation remains elevated, at 9.5% y/y in August. India's economic growth slowed drastically in the second quarter with real GDP increasing by 4.4% y/y—the lowest pace of expansion in four years—compared with a 4.8% advance in the January-March period. Investment and net exports contracted, and household spending slowed significantly. Meanwhile, public spending jumped drastically, highlighting the unsustainable foundation of the economy at present. Despite the multitude of challenges, we expect the country's outlook to gradually improve in the coming quarters as authorities are forced to press ahead with structural reforms. India's economic growth will likely average 5.4% in 2013-2014.

KOREA - The safe-haven status of the Korean won (KRW) in the wake of heightened foreign exchange market volatility in the Asia/Pacific region is not stalling the South Korean economy's export-led recovery. We expect the country's real GDP to expand by 2½% this year, followed by a 3.2% gain in 2014 as global momentum picks up. The growth-supportive fiscal stance is set to remain in place as indicated by a draft budget for 2014 – unveiled at the end of September – that envisages a 2.5% increase in government expenditure next year. The budget plan includes increased spending on social welfare, employment, and health care. Monetary conditions will likely remain unchanged in the coming months as the Bank of Korea's authorities will allow previous monetary and fiscal stimulus measures to filter through the economy. The most recent benchmark interest rate cut took place in May, taking the policy rate to 2.50%. Authorities assess that a negative output gap will be maintained in the domestic economy "for a considerable time going forward"; therefore, we do not expect any tightening in monetary conditions before the second half of 2014. Inflation pressures remain low in South Korea, with the headline consumer price index increasing by 0.8% y/y in September, compared with a 1.3% gain in the previous month, remaining below the central bank's 2½-3½% target range. South Korean price pressures will likely intensify somewhat in the coming months due to a pick-up in energy prices; the inflation rate will likely close the year around 1½ % y/y, and remain under 3% at the end of 2014.

THAILAND - The Thai economy is showing tentative signs of stabilization; we assess that the nation emerged from the technical two-quarter recession in the July-September period. Growth in goods exports returned to positive territory in August, providing support to the manufacturing sector. Meanwhile, the tourism industry continues to perform strongly, with visitor arrivals up by 28% y/y. While consumer confidence has been eroded in recent months, rising incomes (resulting from tight domestic labour market conditions) combined with an accommodative monetary policy stance offer a relatively solid outlook for domestic demand. We expect the country's real GDP to expand by 3.7% this year, followed by a 4% gain in 2014. Inflation pressures remain low, with the headline inflation rate easing to 1.4% y/y in September, which is the slowest pace of gains 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. Core inflation, at 0.6% y/y in September, remains within the Bank of Thailand's 0.5-3.0% target range. The central bank's monetary policy stance will likely remain unchanged in the coming months (the benchmark interest rate was lowered to 2.50% in May) given policymakers' concerns regarding a rising household debt burden. Moreover, the authorities assess that given ongoing elevated financial market volatility, further monetary easing could have a destabilizing impact on markets.

INDONESIA - Monetary conditions continue to tighten in Indonesia. The Indonesian central bank raised the benchmark interest rate by 25 basis points to 7.25% on September 12th. The previous rate increase (of 50 basis points) was implemented at an additional policy meeting on August 29th, which was held in response to mounting pressures on the Indonesian rupiah that reflected increasing global economic uncertainty, higher inflation expectations, and weaker perceptions on the country's current account sustainability. Monetary tightening is necessary for guiding annual inflation back towards its target range of 3½-5½%. Consumer price inflation remains elevated at 8.4% y/y in September compared with around 5.5% in the first half of the year, reflecting the administration's decision in June to cut fuel subsidies. We expect inflation to close the year around 9⅓% y/y before subsiding to around 8⅓% in 2014. Moreover, tighter monetary policy will help limit capital outflows, and stabilize the country's current account deficit and the rupiah, which has lost over 13% vis-à-vis the US dollar since May. Therefore, the central bank will likely raise interest rates further in the near term. Tighter monetary conditions will adversely impact private consumption and investment growth, which are the country's main engines of economic expansion as the external sector continues to suffer from weak global demand conditions. We expect the country's output growth to average 5¾% in 2013-14. General elections will be held in April 2014, followed by a presidential vote mid-year .

DEVELOPING AMERICAS
Currency Outlook

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BRAZIL - Tighter monetary conditions, constant intervention in the foreign exchange market, mixed signs of economic recovery and the international risk-on environment after the Fed's announcement supported the Brazilian real in September. The USDBRL posted the biggest gains against other major currencies in the region; however, we anticipate that the currency's gains will be limited. We forecast that the USDBRL will close the year at 2.30.

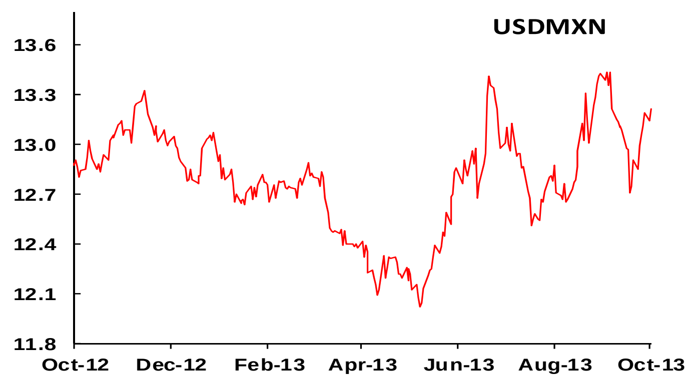
MEXICO - A weaker domestic economic profile, less optimism regarding structural reform proposals and loose monetary conditions limited the Mexican peso's (MXN) gains after the Federal Reserve announcement in September. The currency gained only 1.6% against the US dollar in the month, a mild recovery compared with other emerging market currency peers. The USDMXN will remain dependent on economic data (locally and in the US) that will set the direction of monetary policy.

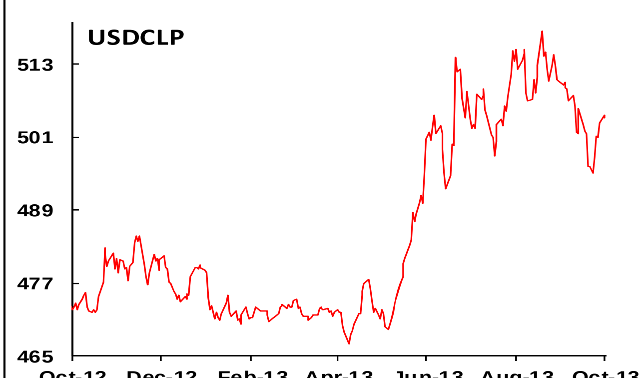
CHILE - The Chilean peso's (CLP) gains against the US dollar have been limited in the last month and although the initial reaction to the US Fed announcement was positive, the currency continues to trade close to the 500 mark. Local presidential elections in November coupled with the central bank's monetary policy rhetoric will remain key factors for the currency's performance in the coming months.

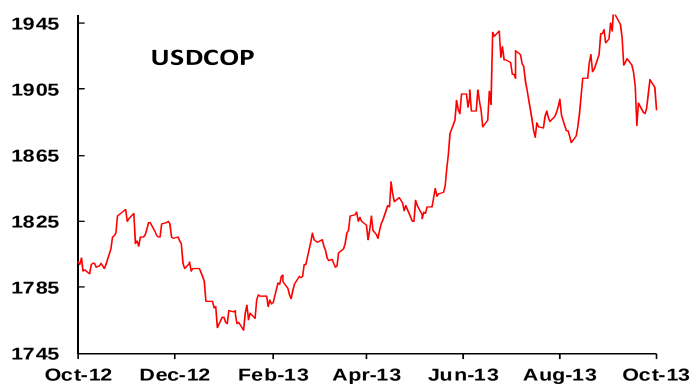
COLOMBIA - A more optimistic outlook for the Colombian economy, coupled with the Fed's announcement, supported the Colombian peso (COP) in the last month. Nevertheless, the currency remains subject to swings in risk aversion in international financial markets and local central bank intervention. We maintain our view that the peso will remain close to the 1,900 mark by the end of the year.

Currency Trends

FX Rate	Spot 1-Oct	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDBRL	2.23	2.02	2.23	2.22	2.30	2.32	2.35	2.38	2.40
USDMXN	13.2	12.3	12.9	13.1	13.1	13.0	12.9	12.8	12.8
USDCLP	504	472	508	505	500	500	500	505	510
USDCOP	1893	1825	1923	1906	1900	1900	1900	1910	1920







Developing Americas

Fundamental Commentary

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BRAZIL - Despite the solid rebound (1.5% q/q) in Brazilian real GDP in the second quarter (3.3% y/y in Q2 vs. 1.9% in Q1), evidence that the recovery extended through the third quarter is still unclear. Monthly indicators are mixed. Although retail sales increased by 1.9% m/m in July and consumer confidence continued to rise, the central bank's economic index decreased by 0.3% m/m and industrial output weakened in seasonally adjusted terms in the same period. Inflation remains stubbornly high (though it decelerated somewhat to 6.1% y/y in August) and only slightly below the upper limit of the official target range (4.5-6.5%). Accordingly, the central bank maintains a tight monetary policy stance, raising the reference rate by 175 basis points (bps) to 9.0% in the last five months. We expect the central bank to hike the rate by another 50 bps in October and by 25 bps in November to end the cycle. The central bank revised its 2013 inflation forecast from 6.0% y/y to 5.8% (but raised the 2014 figure to 5.7% y/y) and cut the GDP expectation from 2.7% to 2.5%. We maintain our view that the Brazilian economy will expand by a mild 2⅓% in 2013. The authorities maintain an intervention policy in the foreign exchange market and have stated that the US$60 billion program of currency swaps will remain in place for the foreseeable future. The Brazilian real gained around 5% vis-à-vis the US dollar in the last month, responding to the Fed's announcement; however, the currency is still underperforming its regional peers, weakening 7.5% in the January-September period.

MEXICO - The Mexican economy remains on a soft patch, with high frequency data suggesting that activity has picked up – albeit moderately – in the third quarter of the year. We maintain our view that the Mexican economy will expand by 1.9% y/y in 2013 followed by an expansion of 3¾% in 2014. Surprisingly, the central bank cut its reference rate by 25 basis points (bps) to 3.75% in September, responding to a weak economic performance and well contained inflationary pressures. Headline inflation remains around 3.5% y/y, while the core component is close to its record low at 2.4% y/y. The central bank's rhetoric has turned more "dovish" and authorities are clearly worried about economic activity. Accordingly, we anticipate at least one more 25 bps cut in the reference rate before year-end. The Mexican peso recovered some ground after the Federal Reserve left monetary conditions unchanged; however, the positive performance was restrained by a less optimistic economic outlook, looser monetary conditions locally and no significant advances on the structural reforms. Recently, the government sent a fiscal reform proposal to Congress which aims to increase tax collection to close to 1.4% of GDP in 2014. Under this proposal, the fiscal deficit (excluding PEMEX investment, the state-owned oil and gas producer) is expected to increase from 0.4% of GDP in 2013 to 1.5% next year. Although the shortfall remains at manageable levels and does not represent a risk for fiscal stability, investors were expecting a stronger proposal that could boost Mexican potential growth.

CHILE - Economic activity in Chile remains solid. Tight labour market conditions and low inflation continue to underpin local consumption while industrial activity has moderated (August's slowdown in industrial production responded to a calendar effect, with one less working day than last year). Investment –particularly in the mining sector– continues to decelerate, responding to higher extraction costs and the maturation of the investment cycle. We maintain our view that domestic demand will continue to support economic activity, bringing the average expansion rate to 4½% in the 2013-14 period. This pace of growth is below the average of the last three years (5.7%) but close to the 10-year trend (4.7%). The central bank revised their 2013 GDP forecast from 4-5% in June to 4-4.5% in September. Inflation remains well contained, leaving the central bank ample room to maneuver. Headline inflation finally returned to the central bank's target range of 2-4%; however, it remains close to the lower limit, while the core component is still below the 2% mark. Monetary authorities have maintained a more dovish rhetoric; nevertheless, they have kept the reference rate unchanged at 5.0% since January 2012). We do not anticipate any monetary policy adjustments this year. Following the US Fed announcement, the Chilean peso gained some ground against the US dollar, reaching its strongest level in three months. On the political front, the presidential elections are approaching (November 17th), which may inject some temporary volatility into the CLP.

COLOMBIA - Colombian second-quarter real GDP expanded by 4.2% y/y, its strongest pace in the last three quarters, bringing real GDP growth in the first-half of 2013 to 3.4% y/y. Although economic activity remains weaker than in previous years, the stimulus measures undertaken by the central bank and the government since the end of 2012 are filtering through the real economy. Investment, private and public consumption together with export growth accelerating above the imports pace, have underpinned the economy's momentum. Although the industrial sector is recovering, stoppages and labour conflicts in the mining sector could dampen the sector in the third quarter. We maintain our view that the Colombian economy will expand by 4.2% this year followed by mild acceleration to 4½% in 2014. The central bank maintains a neutral monetary policy stance, with the reference rate unchanged at 3.25% for the sixth consecutive month in September; however, the last announcement was slightly more optimistic regarding economic outlook. Accordingly, we do not expect any monetary policy adjustment for the remainder of the year. Inflation remains relatively close to the lower limit of the central bank's tolerance range (2.3% y/y in August), and although it has been gradually increasing in the last six months, it remains well contained. The local economic recovery coupled with the preservation of the Fed's bond purchasing program supported the currency, which gained around 1.5% vis-à-vis the US dollar in September.

DEVELOPING EUROPE & AFRICA

Currency Outlook

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RUSSIA - Financial markets have differentiated emerging-market currencies on the basis of economic fundamentals. As a consequence of Russia's external account surpluses, vast stock of foreign reserves and low public debt, the ruble (RUB) outperformed most of its peers as speculation of imminent US monetary stimulus withdrawal faded in September. Nevertheless, the currency is unlikely to strengthen materially over the near term given ongoing Middle-East tensions and Russia's subdued growth outlook. We hold a year-end target for the RUB of 32.8 per US dollar.

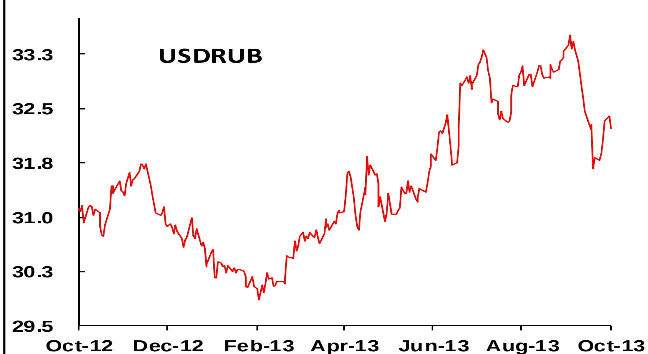
TURKEY - The Turkish lira (TRY) will remain subject to sell-off pressure into 2014. A very short-lived rally following the disappointing US nonfarm payrolls print and the Fed's decision not to taper asset purchases was quickly reversed as investors honed in on Turkey's macroeconomic and political vulnerabilities, including a large current account deficit, dependence on volatile capital inflows and ongoing hostility between various domestic factions. The central bank aims to contain lira volatility without raising the benchmark policy rate. We expect the USDTRY rate to close 2013 at 2.04.

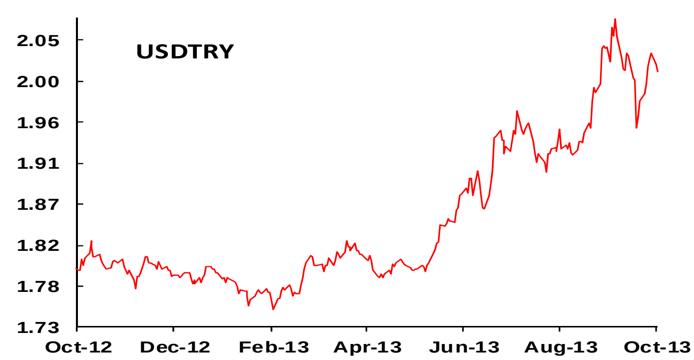
CZECH REPUBLIC - The Czech koruna (CZK) has remained relatively intact throughout the period of heightened volatility and emerging-market asset repricing since May. This resilience is largely thanks to the economy's low inflation and interest rates, profitable banking sector and improving external balances. However, the currency is still considered slightly overvalued by the central bank, and continued market anticipation of possible FX intervention to weaken the CZK will preclude any significant strengthening in the coming months. We expect the CZK to end the year at 25.8 per euro.

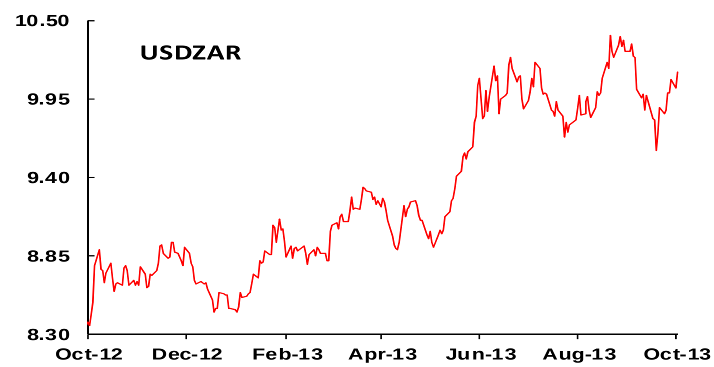
SOUTH AFRICA - Mirroring the movements in other capital flow-sensitive emerging-market currencies – particularly those with similar external imbalances and economic growth concerns – the South African rand (ZAR) experienced a temporary recovery after the US Fed decided not to begin withdrawing monetary stimulus in September before weakening off again. Rand volatility will likely remain heightened over the coming quarters, with the currency set to remain around the 10-mark per US dollar over the next year.

Currency Trends

FX Rate	Spot 1-Oct	13Q1a	13Q2a	13Q3a	13Q4f	14Q1f	14Q2f	14Q3f	14Q4f
USDRUB	32.2	31.1	32.8	32.4	32.8	32.6	32.6	32.7	32.7
USDTRY	2.01	1.81	1.93	2.02	2.04	2.03	2.02	2.01	2.00
EURCZK	25.63	25.74	26.01	25.69	25.80	25.60	25.40	25.20	25.00
USDZAR	10.13	9.24	9.88	10.03	10.30	10.30	10.40	10.30	10.20







Developing Europe & Africa

Fundamental Commentary

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RUSSIA - Prospects for policy easing by the Russia monetary authorities have diminished in recent weeks. Inflation remains elevated, at 6.5% y/y in August (the official target for 2013 is 5-6%), and recently announced household tariff hikes scheduled for next year will add to price pressures. In fact, the central bank has raised its inflation target for 2014 to 5% from 4.5%, stating that the planned tariff increases would have necessitated monetary tightening under the previous scenario, with negative implications for the already sluggish economy. In the context of subdued external demand and private sector investment, we now expect real GDP growth of 1⅔% in 2013 and 3% in 2014. Although there remains some capacity for fiscal and monetary stimulus should economic conditions deteriorate further, the IMF has cautioned against increased government spending and interest rate cuts which could fuel inflationary pressures. The organization has recommended that infrastructure outlays be offset by reductions in non-essential spending areas given that the general government fiscal balance is set to fall back into a deficit position in 2013-14 (to the tune of around 0.7% of GDP) and the oil reserve fund remains below the 7% of GDP target. The currency will remain vulnerable to downside pressure over the coming year as global financial market participants continue to reposition in anticipation of the eventual reduction in US monetary stimulus. Ruble volatility will also stem from energy price movements and political/military developments in the Middle East. The current account surplus will continue to narrow in 2013-14.

TURKEY - Turkey's strong growth performance in the second quarter contrasts sharply to the downward course of the currency since May. Real GDP growth accelerated to 4.4% y/y in the second quarter from 2.9% in the prior three months, marking the fastest pace since the final quarter of 2011. However, the recovery may have already lost momentum; according to the central bank, the unexpectedly strong quarterly gain (2.1% q/q) was largely driven by a build-up in inventories, while domestic demand was flat and exports slowed. Looking ahead, net trade will continue to be weighed down by still soft external demand, while investment will be impeded by weak confidence and political uncertainty (as well as heightened hostility directed at protestors and certain industrial and financial corporations by government officials). Meanwhile, public spending will remain robust ahead of next year's triple elections (local, parliamentary and presidential). Also keeping investors on high alert are outstanding tensions in the Middle East and ongoing domestic social unrest. The central bank assesses that headline inflation, at 8.2% y/y in August, will fall over the coming months, while core price indicators will remain elevated on the back of currency depreciation. Monetary authorities are aiming to increase the predictability of lira liquidity policy in order to weaken the link between external financial market/monetary policy developments and the domestic economy. Prime Minister Erdogan recently announced a package of democratic reforms largely aimed at moving along the long-stalled Kurdish peace process.

CZECH REPUBLIC - The Czech economy exited recession in the second quarter, expanding by 0.6% q/q after seven quarters without growth. The turnaround is attributed to stronger net exports and an acceleration in government spending, while investment and household spending remained weak. Available data signal a continued recovery in Q3; construction output registered its first gain (0.2% y/y) in July since December 2011, while industrial output expanded by 2.1%. Despite the ongoing improvement, however, the economy will register a GDP contraction of around 1% in 2013 as a whole before rebounding to around +1¾% next year, as conditions in Germany continue to recuperate. Headline inflation eased to 1.3% y/y in August – close to the bottom of the central bank's 1-3% tolerance range. Meanwhile, the monetary policy-relevant inflation measure fell to 0.5% y/y. Accordingly, with the benchmark interest rate already at technical zero, the central bank continues to contemplate the use of non-standard policy tools to stimulate prices, namely, intervention in the foreign exchange market. Such a move, which is strongly advocated by the central bank governor, could see the koruna weaken off in the coming months. Political instability also poses a risk for the currency. The government was dissolved in August and early elections are scheduled for October 25-26th. The leading centre-left opposition party, which favours tax increases for high-income earners and certain corporate sectors, is likely to form the bulk of the next administration.

SOUTH AFRICA - With a widening current account deficit, expanding output gap, lackluster job creation and continuing domestic labour strife, the South African rand (ZAR) is set to remain as one of the worst-performing emerging-market currencies in 2013. The current account deficit recorded a sharper-than-expected increase in the second quarter, from 5.8% of GDP to 6.5%. Available data for the third quarter suggest that the deficit will remain wide; the merchandise trade balance slipped further into negative territory in July-August as declining terms of trade and industrial strikes weighed on export earnings while imports remained steady. The depreciation of the rand should eventually work to boost export volumes, though this effect may not be noticeable until the global recovery gains traction. The consensus GDP forecast for 2013 has been downgraded to around 2.2%, from almost 3% six months ago. The manufacturing sector has shown some improvement; production rebounded by 5% m/m in July after two months of declines, while the forward-looking Kagiso PMI reached its highest level in six years in August (though it fell back sharply in September). Inflation remains above the South African Reserve Bank's 3-6% target range, at 6.4% y/y in August. Although the bank still expects the breach to temporary, there is some discomfort with the level of the longer-term forecasts. In addition to rand weakness and oil prices, negotiated wage contracts in excess of headline inflation, risk further upside price pressure.

GLOBAL CURRENCY FORECAST (end of period)

			2011	2012	2013f	2014f	2013f Q1a	2013f Q2a	2013f Q3a	2013f Q4	2014f Q1	2014f Q2	2014f Q3	2014f Q4
MAJOR CURRENCIES														
	Japan	USDJPY	77	87	103	110	94	99	98	103	105	107	109	110
	Euro zone	EURUSD	1.30	1.32	1.31	1.23	1.28	1.30	1.35	1.31	1.29	1.27	1.25	1.23
		EURJPY	100	114	135	135	121	129	133	135	135	136	136	135
	UK	GBPUSD	1.55	1.63	1.55	1.50	1.52	1.52	1.62	1.55	1.53	1.51	1.50	1.50
		EURGBP	0.83	0.81	0.85	0.82	0.84	0.86	0.84	0.85	0.84	0.84	0.83	0.82
	Switzerland	USDCHF	0.94	0.92	0.93	1.02	0.95	0.95	0.90	0.93	0.95	0.98	1.00	1.02
		EURCHF	1.22	1.21	1.22	1.25	1.22	1.23	1.22	1.22	1.23	1.24	1.25	1.25
AMERICAS														
North	**Canada**	USDCAD	1.02	0.99	1.06	1.06	1.02	1.05	1.03	1.06	1.07	1.07	1.06	1.06
North		CADUSD	0.98	1.01	0.94	0.94	0.98	0.95	0.97	0.94	0.93	0.93	0.94	0.94
North	**Mexico**	USDMXN	13.94	12.85	13.08	12.82	12.33	12.93	13.09	13.08	13.04	12.85	12.78	12.82
North		CADMXN	13.65	12.96	12.34	12.09	12.10	12.31	12.70	12.34	12.19	12.01	12.06	12.09
South	**Argentina**	USDARS	4.30	4.92	6.00	7.00	5.12	5.39	5.79	6.00	6.25	6.50	6.75	7.00
South	**Brazil**	USDBRL	1.87	2.05	2.30	2.40	2.02	2.23	2.22	2.30	2.32	2.35	2.38	2.40
South	**Chile**	USDCLP	520	479	500	510	472	508	505	500	500	500	505	510
South	**Colombia**	USDCOP	1939	1767	1900	1920	1825	1923	1906	1900	1900	1900	1910	1920
South	**Peru**	USDPEN	2.70	2.55	2.69	2.65	2.59	2.78	2.79	2.69	2.69	2.65	2.65	2.65
South	**Venezuela**	USDVEF	4.30	4.30	6.30	7.90	6.30	6.30	6.30	6.30	7.90	7.90	7.90	7.90
ASIA / PACIFIC														
	Australia	AUDUSD	1.02	1.04	0.90	0.92	1.04	0.91	0.93	0.90	0.90	0.91	0.92	0.92
	China	USDCNY	6.30	6.23	6.10	6.04	6.21	6.14	6.12	6.10	6.09	6.07	6.06	6.04
	Hong Kong	USDHKD	7.77	7.75	7.80	7.80	7.76	7.76	7.76	7.80	7.80	7.80	7.80	7.80
	India	USDINR	53.1	55.0	68.0	65.0	54.3	59.4	62.6	68.0	67.3	66.5	65.8	65.0
	Indonesia	USDIDR	9069	9793	11500	11300	9735	10004	11406	11500	11450	11400	11350	11300
	Malaysia	USDMYR	3.17	3.06	3.40	3.35	3.09	3.16	3.26	3.40	3.39	3.38	3.36	3.35
	New Zealand	NZDUSD	0.78	0.83	0.82	0.86	0.84	0.77	0.83	0.82	0.84	0.85	0.86	0.86
	Philippines	USDPHP	43.8	41.0	46.0	44.0	40.8	43.1	43.5	46.0	45.5	45.0	44.5	44.0
	Singapore	USDSGD	1.30	1.22	1.27	1.26	1.24	1.27	1.26	1.27	1.27	1.27	1.26	1.26
	South Korea	USDKRW	1152	1064	1120	1100	1111	1142	1075	1120	1115	1110	1105	1100
	Taiwan	USDTWD	30.3	29.0	30.3	30.5	29.8	30.0	29.6	30.3	30.3	30.4	30.4	30.5
	Thailand	USDTHB	31.6	30.6	34.0	32.5	29.3	31.1	31.2	34.0	33.6	33.3	32.9	32.5
EUROPE / AFRICA														
	Czech Rep.	EURCZK	25.6	25.1	25.8	25.0	25.7	26.0	25.7	25.8	25.6	25.4	25.2	25.0
	Iceland	USDISK	123	128	122	120	124	124	120	122	122	121	121	120
	Hungary	EURHUF	315	291	300	290	304	295	297	300	298	295	293	290
	Norway	USDNOK	5.98	5.56	6.10	5.50	5.85	6.07	6.01	6.10	5.80	5.70	5.60	5.50
	Poland	EURPLN	4.47	4.08	4.20	4.00	4.18	4.32	4.22	4.20	4.15	4.10	4.05	4.00
	Russia	USDRUB	32.1	30.5	32.8	32.7	31.1	32.8	32.4	32.8	32.6	32.6	32.7	32.7
	South Africa	USDZAR	8.09	8.47	10.30	10.20	9.24	9.88	10.03	10.30	10.30	10.40	10.30	10.20
	Sweden	EURSEK	8.92	8.58	8.67	8.20	8.37	8.72	8.70	8.67	8.77	8.51	8.36	8.20
	Turkey	USDTRY	1.89	1.78	2.04	2.00	1.81	1.93	2.02	2.04	2.03	2.02	2.01	2.00

f: forecast a: actual

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