

Foreign Exchange Outlook

AMERICAS

In the Americas, with the exception of BRL, the USD is the outperformer on a year-to-date basis; a trend which reflects a strengthening US economy and expectations of the first Fed interest rate hike in the second quarter of 2015. CAD is contained by strengthening domestic data but a central bank that is likely to lag the Fed in interest rate hikes. The MXN was flat in April and is expected to face only slight depreciation from current levels.

EUROPE

Geopolitical developments centered in Russia is an important market stress, particularly for the more vulnerable currencies in the region. Strong capital flows into core Europe have helped to maintain the EUR's resiliency, while the GBP traded to a 4.5-year high on a strong fundamental backdrop and hawkish central bank. The GBP is expected to outperform the EUR into year-end.

ASIA / PACIFIC

The sudden, engineered and consistent depreciation in the CNY has taken many market participants by surprise, particularly when juxtaposed against rallies in the IDR, KRW, JPY and INR. We have adjusted our forecast for USDCNY, not on a fundamental shift, but the technical nature of current market developments.

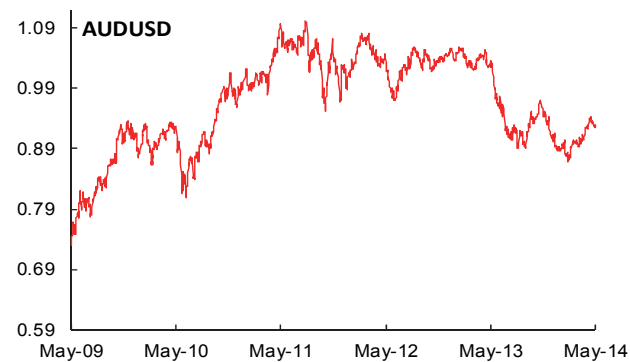
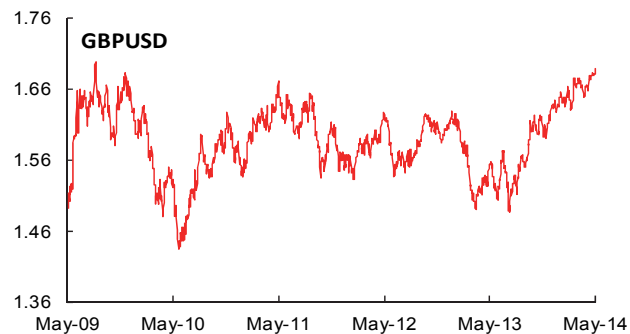
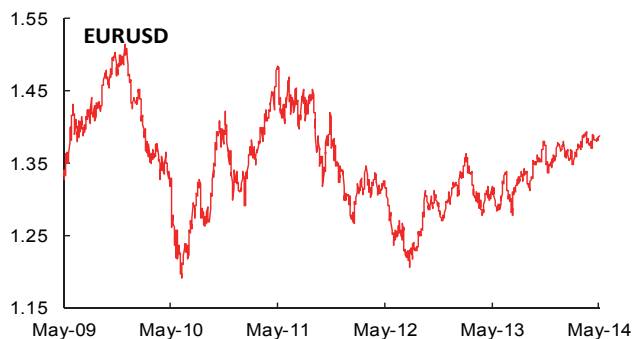
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Core Exchange Rates

Global Foreign Exchange Outlook

May 1, 2014		Spot	2014f				2015f			
			Q1a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EURUSD	Scotiabank	1.39	1.38	1.37	1.33	1.30	1.28	1.26	1.25	1.24
	Consensus*		0.00	1.36	1.34	1.32	1.30	1.30	1.29	1.29
USDJPY	Scotiabank	102.3	103	104	107	109	110	111	112	113
	Consensus*		0	104	106	107	108	108	108	108
GBPUSD	Scotiabank	1.69	1.67	1.70	1.68	1.67	1.65	1.63	1.61	1.59
	Consensus*		0.00	1.64	1.63	1.62	1.61	1.61	1.60	1.60
USDCAD	Scotiabank	1.10	1.11	1.10	1.11	1.12	1.14	1.14	1.12	1.11
	Consensus*		0.00	1.11	1.12	1.12	1.12	1.12	1.11	1.11
AUDUSD	Scotiabank	0.93	0.93	0.93	0.94	0.92	0.89	0.89	0.89	0.89
	Consensus*		0.00	0.90	0.88	0.87	0.87	0.86	0.85	0.85
USDMXN	Scotiabank	13.09	13.06	13.10	13.20	13.35	13.45	13.45	13.50	13.52
	Consensus*		0.00	13.23	13.12	13.07	13.01	12.95	12.88	12.81



(*) Source: Consensus Economics Inc. April 2014

Market Tone & Fundamental Focus

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The US dollar (USD), which has failed to rally broadly so far in 2014, seems to be disconnected from the improving fundamental momentum shaping the US economy. On a trade-weighted basis the US currency has encountered strong resistance to adopt a steady appreciating trend against its major currency peers, despite isolated bilateral gains versus select currencies. Official rhetoric by the US Federal Reserve (Fed) reaffirmed the authorities' commitment to a gradual unwinding of monetary stimulus through its paced reduction of large-scale asset purchases, stressing ongoing economic momentum. We do expect that US monetary policy will remain widely accommodating even after the Fed interrupts its unconventional asset-purchase programme. Nevertheless, economic activity data for the first quarter of the year showed significant weakness caused by extreme weather conditions. Following the meagre 0.1% q/q expansion in the first quarter on an annualized basis, we have adjusted our 2014 growth forecast to 2.6%. The strengthening of the S&P 500 equity index contrasts vividly with a stable, if not weakening, USD; indeed, market participants seem to favour the cyclically driven momentum supporting the US economy.

The Canadian dollar (CAD) is faced with improving data, but the recovery is still uneven and the central bank is likely to lag the US Federal Reserve with interest rate hikes, leaving the balance of risks still tilted towards CAD downside. It is worth highlighting that the Chilean peso (CLP) has behaved in similar fashion as the CAD, implying a growing alignment to North-American commodity-linked currencies. At the other extreme, the Brazilian real (BRL) has been trading with a positive tone since the beginning of the year, in defiance to those who advocate a prolonged bearish view for the Brazilian economy. We are of the view that, once the election-related uncertainties dissipate, the Brazilian economy will introduce the needed policy adjustments to regain a steady path of growth in the second half of the year. However, both the BRL and the Mexican peso will remain sensitive to supportive and/or disruptive developments in both the US and China.

The Ukraine-Russian conflict has taken centre stage in Europe. The Russian ruble (RUB) has been subject to a steady weakening phase over the past six months somewhat exacerbated by softening momentum in other core emerging-market assets in China and Brazil. Following a sharp move from 32 to 36 per USD, the RUB has found some relative stability of late, perhaps aided by a major deployment of reserve assets to mitigate a depreciating trend. Russian FX reserves have declined by US\$40 billion over the past five months. The Ukraine-centered geopolitical uncertainties will not dissipate any time soon; however, Russia's current account surplus, still sizable FX reserves (US\$485 billion), vast energy resources and interconnectedness with core European markets may help instill a sense of relative (perhaps temporary) stability up until elections in Ukraine are conducted on May 25th. The euro (EUR) remains remarkably strong (versus the USD), shrugging off the escalating geo-political tensions linked to Russia's annexation of the Crimean peninsula. EURUSD, which approached the 1.40 mark in mid-March, remains highly resilient to geo-political concerns, and defiant of the unfavourable growth and interest rate differentials as compared with the US outlook. The British pound (GBP) traded to 4½ year highs in April, supported by a relatively strong fundamental backdrop, the outlook for Bank of England policy and supportive capital inflows. At current levels, the GBP is priced to perfection.

China continues to dominate market sentiment in Asian (and to a large degree, core emerging-market) currencies. The acute and directional shift in the value of the Chinese yuan (CNY) has prompted international analysts and global market participants to take a deeper look at China's exchange rate policy and outlook for the CNY. A unidirectional appreciating bias (against the USD) is no longer taken for granted, following the authorities' decision to allow its currency to trade within a wider intervention band. We continue to believe that, with almost US\$4 trillion in international reserve assets, the Chinese government can target the USDCNY at leisure; however, it seems that the market test currently under implementation suggests that investors prefer a weaker yuan in the near term: the CNY has depreciated by 3.5% against the USD during the first four months of the year. Moreover, renewed CNY weakness is occurring amidst ongoing fragility in Chinese equity markets, as indicated by the 14% loss in the CSI300 index over the past five months. Therefore, we have adjusted our USDCNY accordingly, with potential downside risks in the months ahead. The Japanese yen (JPY) has maintained a stable trading range over the past few months, responding to typical safe-haven trading patterns in times of uncertainty. We expect the Bank of Japan to eventually turn towards further stimulus, driving USDJPY to 109 by year-end. Elsewhere in the emerging-market landscape, both the Indian rupee (INR) and the South Korean won (KRW) have maintained a steady recovery and appreciating trend, regaining investor-favourite status.

Canada
Currency Outlook

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The Canadian dollar (CAD) is entering May having lost 3% year-to-date; however all of the losses were sustained in January; with flat or small gains for CAD in February, March and April. Accordingly, aggressive CAD depreciation has passed and the currency has proven relatively stable over the last several months; trading either side of 0.90.

The Canadian domestic outlook has improved, with higher frequency monthly domestic data outpacing a weather disrupted growth trend in the US; while April data releases delivered an encouraging trend in employment, rising inflation pressures, stronger manufacturing sales and elevated fixed income and equity flows into Canada. However exports have been slow to recover and business investment continues to lag. Accordingly the Bank of Canada maintains a neutral stance, but Governor Poloz appears to lean towards the dovish side of neutral. His comments focus on the importance of exports in the domestic outlook and the sensitivity of exports to the level of CAD; essentially hinting that any sustained strength in CAD will be met with a more dovish tone, thereby limiting CAD strength. Accordingly, as the Fed is likely to enter its hiking cycle in the second quarter of 2015, the Bank of Canada is expected to lag, keeping some downside pressure on CAD.

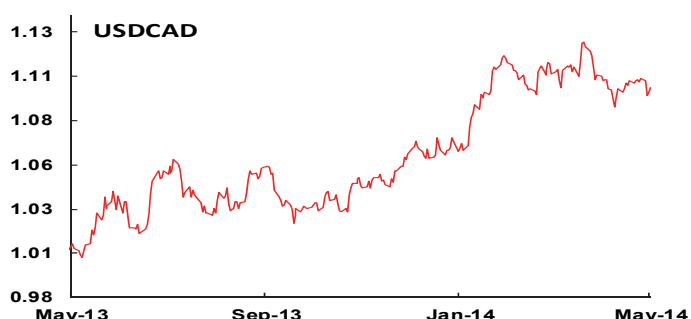
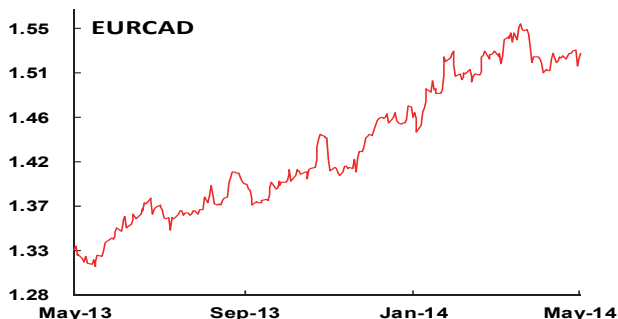
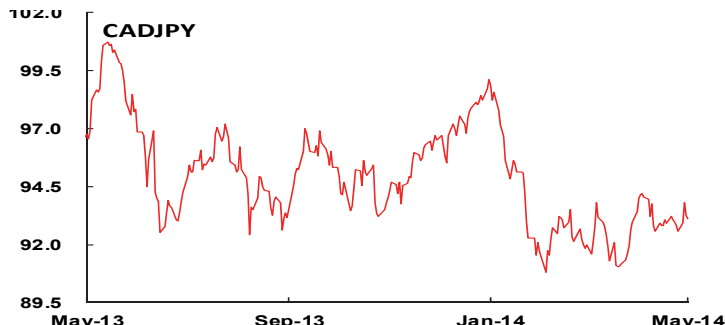
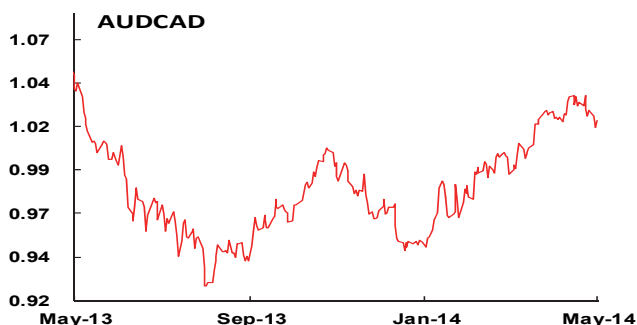
There are two sides of the impact of oil. The more positive side is that geopolitical risks and an improving global outlook have supported commodity prices, including WTI oil. In addition the spread between Brent oil and Western Canadian Select has narrowed in CAD's favour, averaging US\$25 in April, well below the 1-year average of \$31. Finally, professional forecasters continue to expect rising Canadian crude exports into the US even as production in the US rises. However, uncertainty over the building of pipelines into the US and abroad is complicating the oil outlook.

Late-2013 and January 2014 were marked by aggressive shorting of the Canadian dollar, since then these flows have subsided; the net short CAD position has been cut in half, dealer side research has a more balanced outlook for CAD and an outperforming equity market has attracted international flows. Accordingly, bearish sentiment has faded.

Taken together, the outlook for CAD is mixed; it is weighed down by Canada's expected relative underperformance versus the US as well as diverging monetary policy; but supported by improving domestic and international developments. We expect CAD to close this quarter at 0.91 and the year at 0.89.

Canadian Dollar Cross-Currency Trends

FX Rate	Spot 1-May	14Q1a	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
AUDCAD	1.02	1.02	1.02	1.04	1.03	1.01	1.01	1.00	0.99
CADJPY	93.1	93.4	94.5	96.4	97.3	96.5	97.4	100.0	101.8
EURCAD	1.52	1.52	1.51	1.48	1.46	1.46	1.44	1.40	1.38
USDCAD	1.10	1.11	1.10	1.11	1.12	1.14	1.14	1.12	1.11



United States and Canada Fundamental Commentary

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UNITED STATES — Recent indicators point to a broad-based strengthening in US economic activity following weather-related disruptions over the winter that led to a stalling out in output growth in Q1. Retailers reported strong sales gains in February and March, with consumer confidence buoyed by a firming in labour market conditions. Following average payroll gains of just under 200,000 over the past two months, the US economy has nearly recouped the 9 million jobs lost during the recession. Wealth gains from rising home and equity prices and the unleashing of pent-up demand for motor vehicles and other consumer durables are expected to drive strong consumer spending growth over the coming year. The US housing sector has been slower to regain momentum. Home sales and construction are grinding higher, but remain well below normal levels, with affordability pressured by rising home prices, higher mortgage rates – the 30-year fixed rate has increased close to a percentage point over the past year – and still tight credit conditions. Industrial activity also has recovered from its winter slump, with a solid rebound in both manufacturing and mining output. US producers are benefitting from rising domestic and foreign sales, improved cost competitiveness and a well-diversified export base. Production gains are being led by motor vehicles and energy products. The ramping up in US oil and gas production in recent years has steadily trimmed oil imports and contributed to a notable improvement in US external accounts. Meanwhile, strong capital goods orders in March, alongside healthy corporate balance sheets and reduced political uncertainty, point to an acceleration in business investment in the coming months. The recovery in 2014-15 will also get a boost from reduced fiscal drag. While higher food and housing costs have lifted overall inflation off its recent lows, excess capacity and modest wage growth are keeping core price trends firmly in check.

CANADA — Canada's economic performance remains mixed, with output growth in early 2014 tracking around 2¼% y/y. Consumer spending and confidence remain reasonably buoyant, though limited pent-up demand, increased household debt aversion and moderate job and wage gains suggest that Canadian consumers will remain relatively cautious borrowers and spenders in the year ahead. Employment growth has slowed alongside a reduced pace of private and public sector hiring, while the unemployment rate is holding steady around 7%. Residential home sales and construction, while supported by historically low borrowing costs, have cooled as high home prices and tighter credit conditions pressure affordability. Recent surveys point to improving business sentiment, though excess capacity and sluggish sales growth continue to weigh on hiring and capital spending plans. Business investment should gradually firm up over the coming year as strengthening global demand boosts commodity and non-commodity exports. Exports have lagged prior recovery cycles, held back by the slow pace of global growth and domestic competitiveness challenges. Even so, manufacturing shipments are beginning to pick up, with producers of motor vehicles and building materials benefitting from strengthening US auto sales and residential construction. Exporters should get a further lift from the recent depreciation in the Canadian dollar. Meanwhile, higher energy prices are supporting a modest improvement in Canada's merchandise trade balance. Resource-related activity has moderated, reflecting less buoyant commodity prices as well as temporary production disruptions and supply bottlenecks, but remains a source of ongoing support. Higher energy costs and a weaker Canadian dollar have nudged inflation higher in recent months, though both headline and core price trends remain near the lower bound of the Bank of Canada's 1-3% target range. Downside inflation risks appear to have diminished, but persistent excess capacity, ongoing retail competition and soft wage gains will continue to cap price pressures.

Monetary Policy Commentary

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UNITED STATES — Fully in line with our expectations, the Federal Reserve hinted at more optimism while setting aside the Q1 GDP print as a weather report and otherwise stuck to script in a recent maintenance statement. We continue to forecast the bond purchase program to end by October or earlier, and for the first hike in the fed funds target to arrive by 2015Q2. Markets are likely to more aggressively pressure Fed guidance in a more bullish growth environment over the rest of the year and we continue to forecast a bear flattener in the US Treasury curve as rate hikes draw nearer through the passage of time. Scotiabank Economics forecasts annualized growth of 4% in 2014Q2 followed by 3.5% in Q3 and 3% in Q4.

CANADA — Do you call a central bank neutral if it says it doesn't know whether rates are going higher or lower by some marginal amount next, or do you call it dovish because it is strongly signalling no pressure to begin hiking interest rates for a very extended period of time? We continue to lean toward the latter interpretation and the Bank of Canada's (BoC) latest statement and Monetary Policy Report (MPR) reinforce that dovish view. Nevertheless, the BoC may have to drop its reference to inflation downside risks and rate cut possibilities by the July or perhaps October MPR. The challenge at that point for the BoC will be to increasingly emphasize longer-run dovish rate guidance in order to avert a rise in CAD and higher short-term interest rates that would be counter-productive to BoC policy goals.

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Europe
Currency Outlook

EURO ZONE — By the end of April EUR was up 1% year-to-date, supported mainly by flows. The resiliency of EUR continues to be a focus of market participants, with most traders, tired of losing short positions, relegated to the sidelines. CFTC traders are net long US\$4.8 billion, having cut their positions in half over the last two months as the multi-year EUR uptrend slows. Forecasters, including ourselves, continue to look for EUR to depreciate by year-end, watching closely for a turn in sentiment and flows that would likely foreshadow such a drop. We hold a Q214 target of 1.37.

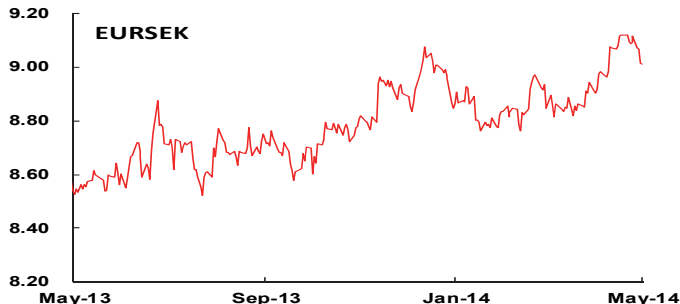
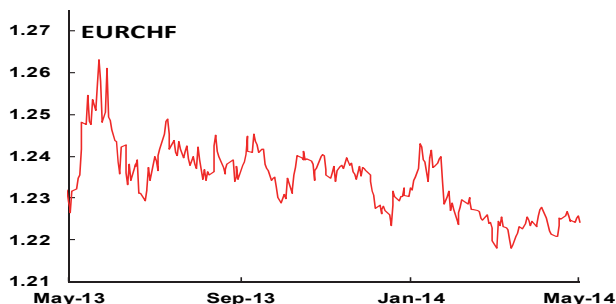
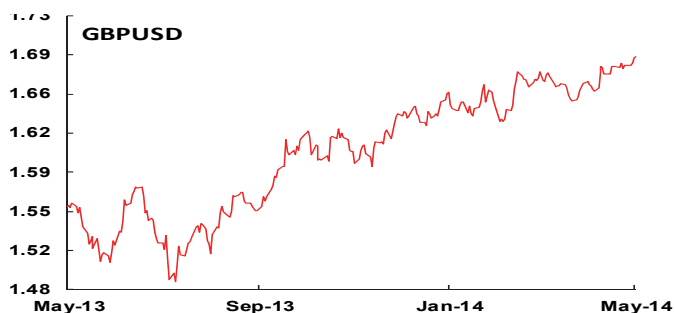
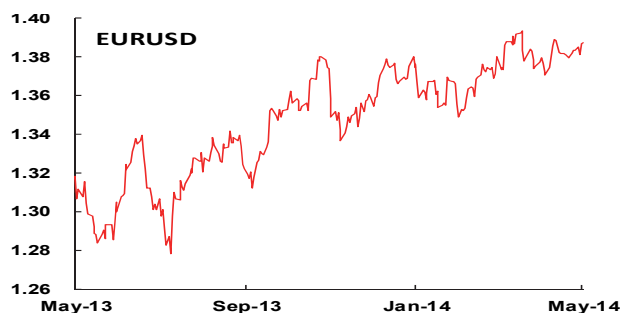
UNITED KINGDOM — GBP rallied to 4.5 year highs in April, driven by a relatively strong fundamental backdrop, a building net long position and strong technical upward trends. Priced to perfection, GBP is vulnerable to topping out; pre-cursors to this would include a shift in the technical trend or a collapse in the net long position; until then the risk is further upside. We hold a Q2 2014 target of 1.70.

SWITZERLAND — EURCHF has been contained by the 1.20 Swiss National Bank's (SNB) floor; leaving EURCHF ranging between 1.21 and 1.23 since mid-January. We expect the SNB to maintain the floor throughout 2014; which leaves CHF as a play on EUR. Accordingly for Q2 2014, we hold a EURCHF 1.24 target and for USDCHF it is 0.91.

SWEDEN — A dovish central bank concerned with soft fundamentals and low inflation have weighed on SEK since mid-March; however the fundamentals are beginning to improve and the Risksbank is expected to enter its hiking cycle in 2015. This should help stabilize the currency and with a lot of bad news priced in we would expect USDSEK to close Q2 2014 at 6.40.

Currency Trends

FX Rate	Spot 1-May	14Q1a	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
EURUSD	1.39	1.38	1.37	1.33	1.30	1.28	1.26	1.25	1.24
GBPUSD	1.69	1.67	1.70	1.68	1.67	1.65	1.63	1.61	1.59
EURCHF	1.22	1.22	1.24	1.25	1.25	1.25	1.26	1.26	1.27
EURSEK	9.01	8.91	8.85	8.70	8.50	8.45	8.40	8.30	8.25



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Europe

Fundamental Commentary

EURO ZONE — The euro area economic recovery is firming and we have revised our growth forecasts slightly for this year and next to 1.1% and 1.4%, respectively, from 1.0% and 1.3%. Retail sales (including autos) are on track for the strongest quarter since 2010, up 0.8% y/y in January-February. Mild winter weather conditions adversely affected energy production in the beginning of the year, while at the same time encouraging construction activity. Consumer confidence continues to improve, reaching its highest level in April since September 2007, in part reflecting the probability that the unemployment rate is now past its peak (the jobless rate has been steady at 11.9% for the last half-year). The risk of protracted low inflation endures, however; the uptick in the headline rate to 0.7% y/y in April from the March low of 0.5% was smaller than expected, with downward pressure stemming largely from food prices while core prices rebounded as predicted. Given the recent impact of food and energy price base effects, the European Central Bank (ECB) will likely revise down once more its inflation forecast for 2014 in June from 1.0% y/y on average to around 0.8%. Though our base case remains for unchanged interest rates through the remainder of the year, we note the considerable possibility of a rate cut should the euro strengthen from current levels (we see EURUSD 1.40 as a pressure point). A new targeted long-term refinancing operation is also a viable option later in the year if credit conditions do not improve.

UNITED KINGDOM — The UK's domestic demand-driven recovery maintained a solid footing through the start of 2014. Real GDP expanded by 0.8% q/q (3.1% y/y) in January-March, just shy of the consensus expectation but slightly greater than the previous quarter's 0.7% gain. The sharp decline in construction output in February due to heavy rain and flooding held back the sector's contribution to overall growth; however, pent-up demand (already considerable following the brick shortage last November) will likely play out in the second quarter with a bounce-back in building activity. Nevertheless, we continue to anticipate a gradual deceleration in the pace of GDP growth through year-end, as reflected in the PMI surveys over the last few months. We expect an expansion of 2.8% this year — which would mark the best performance among advanced economies — followed by a more moderate 2.1% in 2015. Consumer price inflation ticked lower again in March, coming in at 1.6% y/y (down from 2.9% last June), and has now likely reached its cyclical bottom. The disinflationary impact of slowing food and energy prices is now largely exhausted. Meanwhile, core inflation should begin to gain traction towards the end of the year as spare capacity becomes eroded. We expect the Bank of England to deliver the first interest rate increase during the first quarter of 2015, followed by a gradual profile of rate hikes (25 basis points every three months), though there are risks on either side of this timetable related to GBP strength, the housing market and employment growth.

SWITZERLAND — Economic conditions in Switzerland remain stable, underpinned by the Swiss National Bank's (SNB) minimum exchange rate policy (1.20 francs per euro) in place since September 2011. With a rebound in net exports in the first quarter complementing still robust domestic demand, the first quarter will likely see a pick-up in real GDP growth from the 0.2% q/q pace recorded in the fourth quarter of 2013. Real exports grew 1.9% q/q in the January-February period (notwithstanding straight month-over-month drops in February and March), while imports fell 3.2%. We expect output growth of 2.1% in 2014, followed by a slightly higher 2.3% gain in 2015. Survey and leading indicators have been mixed of late; the KOF and ZEW indices both dipped to their lowest levels since mid-2013 in April, while the UBS consumption indicator reached its highest in almost three years in March. There is some evidence that the housing market may be starting to lose steam, as the SNB's residential property price index posted a modest decline in the first quarter, its first in seven quarters. This may be welcome news for monetary authorities who requested an increase in the countercyclical capital buffer applied to banks' mortgage loans from 1% to 2% on concerns about overheating in the real estate market and the risk of a sudden correction. The inflation rate ticked up in March from -0.1% y/y to 0%; price gains will likely average less than 0.5% in 2014-15.

SWEDEN — Intensified deflationary pressures in Sweden are leading the Riksbank closer to another interest rate reduction, notwithstanding the brightening growth outlook and persistent concerns about rising household debt. This has weighed on the SEK in recent weeks, causing the currency to reach a nearly two-year low versus the EUR on April 21st. At the last policy-setting meeting, in addition to the two regular dissenters on the central bank's Executive Board, a third member suggested that he was seriously considering a rate cut given the downward adjustment to the inflation profile and the fact that inflation has been below target for a prolonged period already. In March the CPI contracted 0.6% y/y, a sharper decline than anticipated by the monetary authorities and market participants. The headline index has now declined in seven of the last 12 months. Moreover, core inflation dropped to 0% y/y, matching the last low-point recorded in 1998. The Riksbank's decisions in the coming months will largely hinge on inflation outcomes. Our base case remains that the Riksbank will leave interest rates unchanged at 0.75% this year, though we now anticipate a later start to the tightening cycle (second half of 2015). The better-than-anticipated real GDP outcome in the fourth quarter of 2013 (1.7% q/q versus projections of around 0.6%) will carry over into 2014 and we have revised our growth expectation to 2¼%. Recent solid readings in industrial production, services and retail sales bode well for the first quarter, while the sluggish improvement in the labour market will likely temper the outcome.

Asia / Pacific
Currency Outlook

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JAPAN — The Japanese yen has traded in a broad range (USDJPY between 100.76 and 104.13) since January, contained between geopolitical risks and a deteriorating fundamental outlook. This type of range trading behaviour leaves no clear technical trend in place, while sentiment continues to be broadly negative on both a short and long-term basis. We expect the central bank (BoJ) to eventually turn towards further stimulus, driving USDJPY to 109 by year-end.

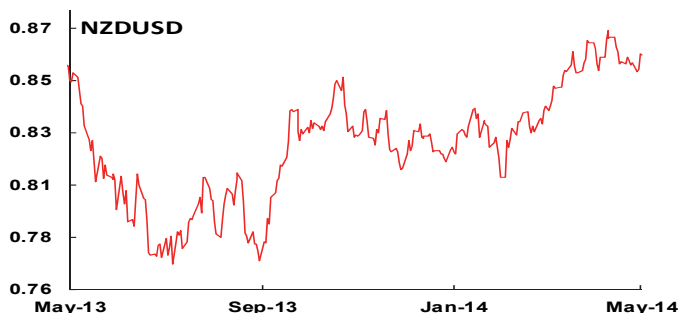
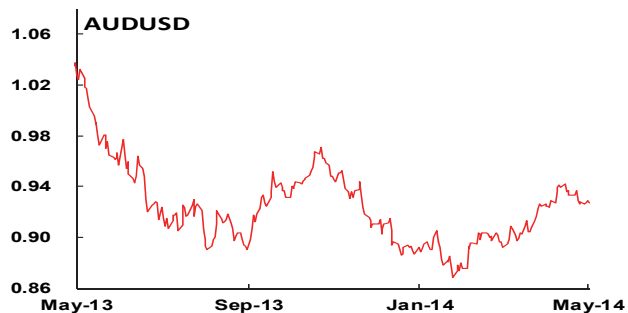
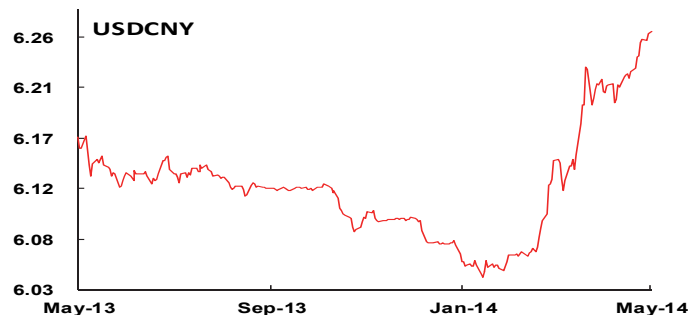
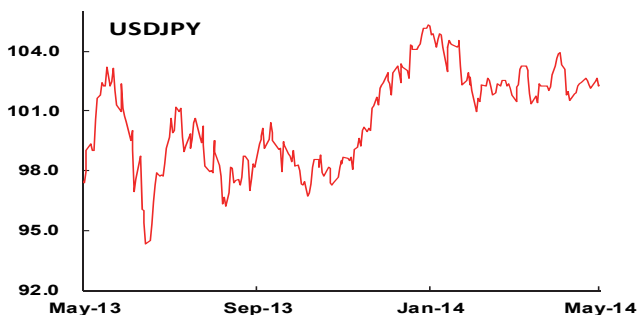
CHINA — The CNY weakened through April, in line with other Asian currencies vs. the USD. Q1 balance of payments data assuaged fears of capital outflow following the initial sharp, but measured, decline in the CNY through the second half of the quarter, as the capital account data showed the largest surplus (% of GDP) since Q211. Relative to the record high CNY fix in January, policymakers have only modestly edged the fixing 1% lower, which should keep hot money outflow risk minimized. We target USDCNY at 6.10 in Q4.

AUSTRALIA — Building inflationary pressures and a neutral central bank (RBA) who has softened its tone regarding the level of the AUD has helped to support a 4% year-to-date AUD rally. After fighting a rising AUD all year, sentiment has finally shifted to a more bullish stance. The CFTC reported a shift from net short to net long in early April, a position which continued to be built throughout April. Technically, there is no clearly defined AUD trend and longer-term forecasters target a significant depreciation before year-end. We are more optimistic, targeting a Q214 close of 0.93.

NEW ZEALAND — An improving domestic outlook, rising interest rates and bullish sentiment have supported the 5% year-to-date appreciation in the NZD. The central bank appears increasingly concerned with the rising currency, helping to bring it off its early April highs. CFTC reports a rising net long position and technicals continue to warn of upside risk. However, much like the CAD, we would expect the NZD to settle into a range, and expect it to close the quarter at 0.86.

Currency Trends

FX Rate	Spot 1-May	14Q1a	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDJPY	102	103	104	107	109	110	111	112	113
USDCNY	6.26	6.22	6.22	6.16	6.10	6.06	6.01	5.97	5.92
AUDUSD	0.93	0.93	0.93	0.94	0.92	0.89	0.89	0.89	0.89
NZDUSD	0.86	0.87	0.86	0.85	0.85	0.86	0.86	0.87	0.87



Asia / Pacific Fundamental Commentary

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JAPAN — The Japanese consumption tax rate was increased from 5% to 8% on April 1st, reflecting the government's pledge to preserve fiscal discipline in the medium term amidst continuing fiscal and monetary stimulus. In anticipation of the tax rate hike, the first quarter experienced higher consumer expenditure; the retail sales indicator jumped 6.3% in the month of March (11.0% y/y), while nationwide department store sales soared over 25% y/y. Nevertheless, the tax change will likely have an adverse impact on household spending in the second quarter of the year, which the government aims to offset by supplementary public infrastructure spending. We assess that the Bank of Japan (BoJ) will likely provide additional monetary stimulus in the coming months if the tax hike leads to a stalling of ongoing economic momentum. For the time being, Japanese monetary policymakers unanimously agree to maintain the current policy stance of expanding the nation's monetary base by ¥60-70 trillion annually (by 30-35% in 2014 as a whole). Inflation is approaching the BoJ's 2% inflation target, yet price gains fail to be demand-driven. The consumer price index will experience a large jump in April due to the tax rate increase. Inflation will likely temporarily exceed the 3% y/y mark (the all-items-CPI climbed by 1.6% y/y in March), before close the year around 2½% y/y.

CHINA — The Chinese economy expanded by 7.4% y/y in the first quarter of the year, following a 7.7% gain in the final three months of 2013. The services sector continues to increase in importance as a growth motor; it has exceeded the industrial sector in size, accounting for 49% of the economy in the first quarter (compared with the industrial and agriculture sectors' shares of 45% and 6%, respectively). Furthermore, services growth continued to outpace that of the industrial sector (7.8% y/y vis-à-vis 7.3%). The government has the means to provide stimulus to the economy if output gains slow more than the authorities envision; in fact, in early April the administration responded to recent mixed signals regarding the strength of activity by unveiling additional fiscal spending on railways and social housing. We maintain our view that China's real GDP will likely expand by 7½% this year — slightly less than the official growth target of 7½% — and gradually decelerate toward the 7% mark thereafter due to the country's transition to a new stage of economic development that relies more on productivity improvements than investment growth. The inflation outlook is manageable, with consumer prices increasing by 2.4% y/y in March. We expect headline inflation to remain below the 3½% mark through 2015 as persistent producer price deflation — that reflects industrial overcapacity — alleviates cost pressures. Following the widening of the Chinese yuan's (CNY) trading band in March, the currency has experienced higher volatility. We expect the CNY to resume a gradual appreciating bias in the near term, supported by the economy's sound fundamentals.

AUSTRALIA — Solid economic momentum in Australia is underpinned by rising exports that reflect increased mining capacity following investment project completions. Indeed, exports rose by 18.9% y/y (in Australian dollar terms) in the first two months of the year. Simultaneously, however, mining investment has surpassed its peak while public spending remains muted. An improving housing market (house prices were up by 10.5% y/y in March) has translated into a pick-up in dwelling investment; furthermore, it is favourably reflected in consumer confidence and household spending. Meanwhile, however, still-soft labour market conditions continue to restrain consumer spending growth; the unemployment rate remains high despite a drop to 5.8% in March from 6.0% a month earlier. We expect Australian real GDP to advance by 2.7% this year, followed by a modest acceleration to 2.9% in 2015; output increased by 2.4% last year. Consumer price inflation continues to pick up, reaching 2.9% y/y in the first quarter of 2014 compared with a 2.7% gain at the end of 2013. We estimate that the annual rate will increase slightly in the near term before returning towards the current level by the end of the year. The Reserve Bank of Australia considers the current accommodative monetary policy stance to be appropriate for maintaining price stability (the official inflation target is 2-3%) and fostering sustainable economic growth. The benchmark cash rate will likely remain at 2.50% in the coming months; the policy rate was cut by 225 basis points between November 2011 and August 2013.

NEW ZEALAND — Monetary conditions continue to tighten in New Zealand. Policymakers at the Reserve Bank of New Zealand (RBNZ) decided to raise the official cash rate for a second consecutive time by 25 basis points to 3.0% following the monetary policy meeting on April 24th. The New Zealand economy has considerable momentum, with the RBNZ estimating that real GDP expanded by around 3.5% y/y in the first quarter of the year, compared with an average gain of 2.7% in 2013 as a whole. The economy is underpinned by robust household spending growth. Buoyant consumer confidence — hovering at multi-year highs — and improving labour market conditions indicate sustained domestic demand momentum in the coming quarters. Moreover, the nation continues to enjoy favourable terms of trade; accordingly, it will benefit greatly from the expected upturn in the global growth and trade cycles. Meanwhile, the central bank estimates that inflationary pressures will continue to intensify gradually over the next two years. Consumer prices increased by 1.5% y/y in the first quarter of the year; we expect inflation to pick up to slightly above 2% (the RBNZ's target mid-point) by the end of the year. Further monetary tightening is in store, though the disinflationary impact of the strong currency will allow the policy adjustment to be gradual; we anticipate that the benchmark cash rate will reach 3.75% by the end of the year. The RBNZ maintains its view that the current level of the exchange rate is not sustainable in the longer term.

Developing Asia
Currency Outlook

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INDIA — High carry and electoral optimism support the INR, allowing for Q1 strength generally at odds with weaker currency fundamentals that have been temporarily offset by gold import restrictions. With the general election underway and moving towards a mid-May resolution, inflows have paused on equities while debt investors have pulled back in order to wait for the official result. There is a good deal of optimism priced-in, and any sign of a weak BJP showing that would imply a less cohesive governing coalition would result in the INR suffering on consequent financial outflows. We target USDINR at 63.00 in Q4.

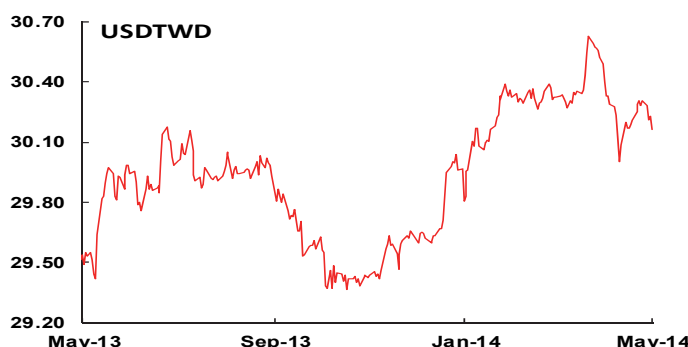
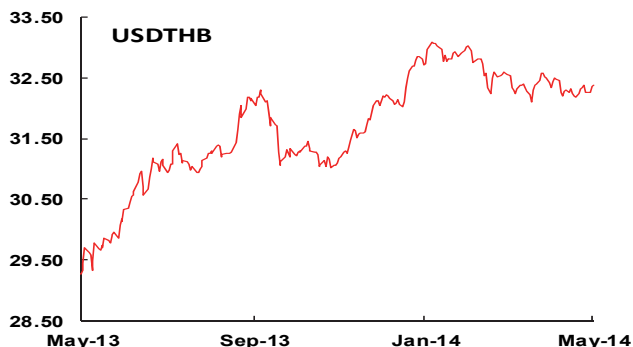
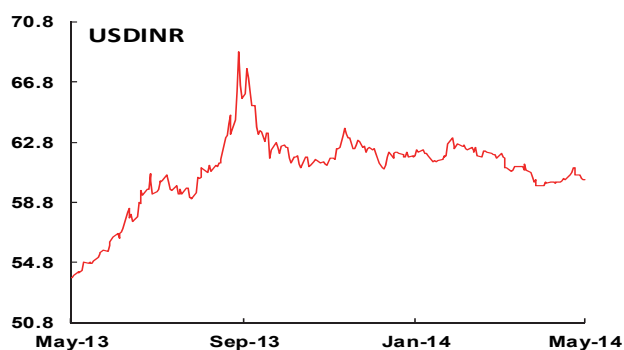
KOREA — Korea’s strong trade performance continues unabated as net exports bolster the balance of payments and help to support KRW gains to post-financial crisis highs against the USD. This dynamic has also made the KRW the top performing Asian currency during the month of April. So long as domestic demand remains relatively restrained and global growth continues to hold, the won will see little reason to sustainably weaken, despite the drag on the KRW across the capital account. We target USDKRW at 1040 in Q4.

THAILAND — Thailand’s politically-driven domestic demand drag has managed to support the THB as portfolio flows have suffered significantly, though listlessness in exports may hamper trade surplus buoyancy. The recent announcement of a July 20 vote aimed at addressing Thailand’s political deadlock is welcomed, but investors should remain tentative until it becomes clear the fate of embattled Thai PM Shinawatra and the stance of the opposition vis-à-vis the new vote. We target USDTHB at 33.50 in Q4.

TAIWAN — The TWD has been relatively more volatile in April, though outperforming most other Asian currencies. Continued gains in FX reserves in Q1 show a degree of policymaker preference to resist broad USD weakness evident since February. The TWD’s strengthening towards the latter part of April showed a significant divergence with the CNY’s performance, a trend unlikely to persist should the CNY continue to weaken in the short term. We target USDTWD at 30.60 in Q4.

Currency Trends

FX Rate	Spot 1-May	14Q1a	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDINR	60.34	59.89	61.10	62.00	63.00	63.25	63.50	63.75	64.00
USDKRW	1033	1065	1035	1038	1040	1038	1035	1033	1030
USDTHB	32.38	32.42	32.50	33.00	33.50	33.63	33.75	33.88	34.00
USDTWD	30.17	30.49	30.30	30.45	30.60	30.50	30.40	30.30	30.20



Developing Asia Fundamental Commentary

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INDIA — India is in election mode. General elections commenced on April 7th, and will continue until May 12th, with results to be announced on May 16th. Another coalition government is the most likely outcome; there is renewed optimism that the new government — regardless of the election outcome — will take steps to place India back onto a fast-growth trajectory. We expect the economy to start recovering in the coming quarters, with real GDP growth reaching 5.2% this year and 5.7% in 2015 on the back of a recuperating export sector, and a pick-up in investment that reflects the authorities' efforts to clear structural bottlenecks delaying large industrial projects. Monetary policy conditions will likely remain unchanged in the near term, as the authorities of the Reserve Bank of India unanimously agree on maintaining a status quo and keeping the benchmark repo rate at 8.0%. The policy rate was increased by 75 basis points between September 2013 and January 2014 as the central bank is increasingly focusing on inflation containment as the primary goal of monetary policy. The whole-sale price index (WPI) recorded an increase of 5.7% y/y in March compared with a 4.7% gain a month before; nevertheless, inflation remains significantly lower than the recent peak of 7.5% in November. We expect WPI inflation to close the year at 5½% y/y. Consumer price inflation has been experiencing a similar trend, though it remains at a higher level of 8.3% y/y in March.

KOREA — South Korea's economy is performing well with momentum remaining relatively broadly-based; real GDP grew by 4.0% y/y (0.9% q/q) in the first quarter of the year following a 3.6% gain (0.9% q/q) in the final three months of 2013. Accordingly, we have revised our growth forecast for South Korea upwards and now expect the economy to expand by 3.6% and 3.2% in 2014 and 2015, respectively, compared with our earlier forecasts of 3.1% and 2.9%. Activity and currency performance will be underpinned by stronger global demand conditions, while sound consumer confidence — currently near the highest level in three years — will support household spending. Moreover, gradually improving labour market conditions should bolster sentiment further; in March, the unemployment rate dropped to 3.5% from 3.9% in the prior month. South Korean inflation remains low with consumer prices increasing by 1.3% y/y in March, recording a modest pick-up from the 1.0% gain a month earlier. A negative output gap plays a key role in the inflation outlook: the Bank of Korea's policymakers assess that while the gap is narrowing, it will be maintained "for the time being". We expect prices to climb gradually in the coming months, with inflation closing the year slightly above 2% y/y. The central bank's monetary policy stance will likely remain accommodative in the near term, with the benchmark rate set at 2.50%; we anticipate a gradual normalization of monetary conditions to begin in the final months of 2014.

THAILAND — Thailand will hold another general election on July 20th, triggered by the Constitutional Court's decision at the end of March to reverse its earlier ruling and declare the February 2nd ballot unconstitutional. Nevertheless, it remains unclear whether the opposition will once again boycott the election, thereby extending the political turmoil. Moreover, allegations of Prime Minister Yingluck Shinawatra mishandling the country's rice subsidy scheme may lead to her removal from office before the July vote. Thailand's economic outlook has continued to weaken given the persisting social and political unrest that has eroded consumer and business confidence, adversely affected the vital tourism industry, and delayed investment decisions. Accordingly, we are revising our real GDP growth forecasts downwards, and now expect the Thai economy to expand by 2.5% this year (compared with the earlier forecast of 3.5%). Reflecting a pick-up in global demand, the economy will likely advance by 4.0% in 2015, somewhat less than our prior forecast of 4.5%. The inflation outlook is relatively stable, with consumer price gains likely to hover near 2½% y/y at the end of the year; in March, inflation picked up to 2.4% y/y from 2.1% the month before. The Bank of Thailand left monetary conditions unchanged in April after providing further monetary stimulus in March, when it opted to cut the benchmark interest rate by 25 basis points to 2.0%. We do not foresee any further rate reductions in the coming months, barring a major escalation in the political situation.

TAIWAN — The trade-intensive Taiwanese economy is recovering, with real GDP growth picking up to 3.0% y/y in the first quarter of the year from an average gain of 2.1% in 2013. We expect the growth rate to hover near the current level throughout the year, followed by a modest acceleration to 3½% in 2015, reflecting a rebound in global demand. Indeed, the external sector remains highly relevant for Taiwan's outlook, with exports of goods and services equivalent to around 75% of GDP. Recuperating external prospects will underpin sentiment and investment activity, while rising employment will buttress household spending. Inflationary pressures will remain manageable in the coming quarters as a relatively stable energy price outlook combined with a negative output gap domestically will keep inflation at bay. Consumer prices increased by 1.6% y/y in March; we expect annual inflation to remain below the 2% mark though 2015. Monetary conditions will likely remain unchanged in the coming months as authorities consider the current policy stance to be appropriate for maintaining price and financial stability and promoting economic growth. The benchmark discount rate has been held steady at 1.875% since September 2011. Policymakers are prepared to intervene in the foreign exchange market if they assess that the market is unduly disrupted by seasonal or irregular factors, such as sizable inflows or outflows of short-term capital. Taiwan's external position remains very strong. With the export sector in modest recovery mode, the trade balance will remain in substantial surplus. This, combined with sizable offshore earnings, will allow the current account surplus to hover around 11% of GDP through 2015.

Developing Americas

Currency Outlook

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BRAZIL — The real has been trading sideways since early April as authorities have signaled greater discomfort with current valuations. We sense that consensus sees the BRL as overvalued given bearish growth prospects. In a low volatility environment, the carry-trade is too compelling to ignore, and investors increasingly view it as sufficient compensation. Our view is that investors with relatively high pain thresholds believe that the >12% yields offered by local bonds are attractive enough to offset the risk of decline in the real.

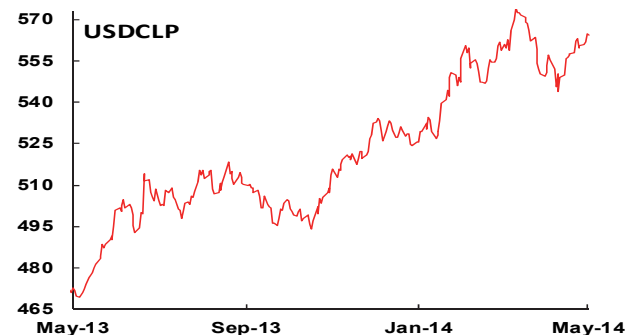
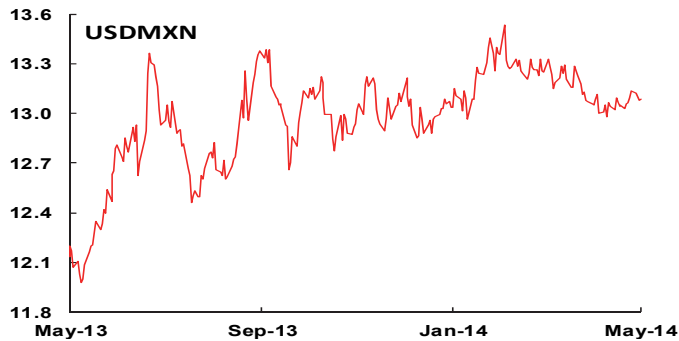
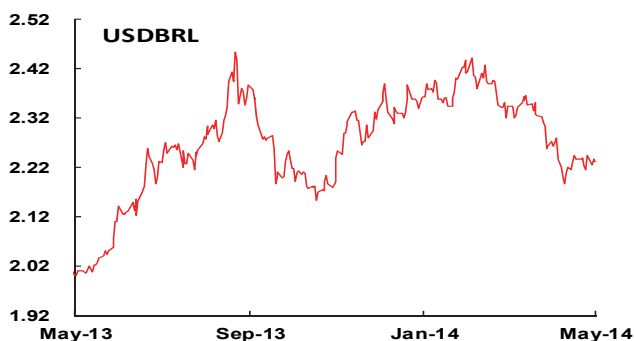
MEXICO — The long awaited secondary legislation for the energy reform was presented on April 31, and our sense is that it is a huge positive step that should trigger substantial amounts of investment. The focus now turns to the major global players and their reactions to conditions. Comments from the rating agencies could lead to inflows from US mutual funds, as an upgrade from Fitch or S&P would provide a second 'A' rating. We remain constructive on MXN, but would avoid crossing it vs. USD, and would rather use CLP as a funding currency.

CHILE — Concern over Chile's growth potential is feeding into expectations of further rate cuts, weighing against the existing strength of its balance sheet that is evidenced by relatively tight CDS spreads. Additionally, uncertainty over the economic impact of the country's reshaped tax structure and rising costs in the mining sector have resulted in a less constructive outlook for FDI, which have also put further pressure on the peso. We favour CLP as a funding currency for MXN or BRL long positions.

COLOMBIA — BanRep once again surprised markets by hiking rates 25 bps as the vast majority of analysts expected a continued pause given low, anchored inflation. Authorities had expected that 2014 growth would be non-inflationary and had signalled concerns over COP's rally, which added to the view that the central bank would likely remain on hold. COP's supportive factors are the expected US\$6-10 billion in inflows triggered by the country's GBI-EM re-weighting, and speculation that the government could reduce taxes on TES towards the end of the year. Conversely, the threat of a more active BanRep on the FX front serves as a modest headwind. For now we see COP trading sideways.

Currency Trends

FX Rate	Spot 1-May	14Q1a	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDBRL	2.23	2.27	2.38	2.40	2.45	2.48	2.48	2.50	2.52
USDMXN	13.1	13.1	13.1	13.2	13.4	13.5	13.5	13.5	13.5
USDCLP	565	549	550	555	565	570	575	575	580
USDCOP	1936	1971	1960	1970	1975	1990	2000	2000	2010



Developing Americas Fundamental Commentary

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BRAZIL — A cyclical economic downturn, policy uncertainties regarding the outcome of the presidential elections, equity and credit market conditions in China, investors' views on the direction of US monetary policy and, to a lesser degree, developments in the Russia-Ukraine conflict, are at the core of market sentiment influencing the value of the Brazilian real (BRL). Presidential elections will take place on October 5, 2014. At present, President Dilma Rousseff continues to lead in the surveys of voting intentions; however, Aécio Neves from the opposition PSDB party is narrowing the gap with the frontrunner. Growing discontent with public policies related to improving price stability, health, security and public transport infrastructure is eroding the President's chances to secure a re-election bid. Public and private sector investment decisions are being delayed until election and policy uncertainties are dissipated. According to the latest survey conducted by the central bank, the Brazilian economy will grow by 1.7% this year before accelerating to 2% in 2015, while 12-month inflation expectations are set at 6%. Escalating public discontent is happening at a time when the rate of unemployment is at a record low 5% and real wages have been adjusting steadily as part of the pro-consumption government policies. The BRL has been gradually recovering from a steep adjustment in the last quarter of 2013, yet it remains subject to broad-based sentiment affecting the emerging market asset class at large.

MEXICO — Legislative approval of key structural reforms, economic and monetary developments in the US, investors' appetite for emerging-market assets, still attractive interest rate differentials and the poor local economic performance are the major factors shaping the value of the Mexican peso (MXN) in the near term. Market participants have placed a heavy weight on the energy sector reform that will open the gates for massive foreign investment in the country's upstream oil sector; however, ongoing delays in the approval of secondary legislation are fuelling a more cautious market tone. We are of the view that the real economic value of the reform process under way does not rest in just one piece of legislation; in fact, the government's drive to introduce more competition in multiple sectors of the economy traditionally controlled by monopolistic structures is at the core of the attractive growth potential for Mexico through the remainder of the decade. On a relative value and technical basis, the MXN has ample room to appreciate against the USD as it has not fully recovered the value lost from the 2008/09 global financial shock. Structural reforms in the energy, utility and telecommunication sectors would trigger large-scale foreign direct investment inflows; the USDMXN will react accordingly. Meanwhile the central bank continues to accumulate international reserves at a fast pace; in fact, FX reserves reached US\$184 billion that is a 150% increase since August 2009.

CHILE — The Chilean peso (CLP) continues to be primarily influenced by the direction of copper prices as well as by economic developments in both China and the US. The central bank seems inclined to pursue a pro-growth monetary policy with potential rate cuts in sight. The economic authorities have been consistently voicing concerns regarding declining growth prospects and we have adjusted our forecast accordingly. We now expect the Chilean economy to expand by just 3.6% this year before accelerating to 4.3% in 2015. It is worth highlighting that inflation has been trending higher amidst a softening growth environment; we estimate that consumer price inflation will close the year at 3.5% y/y before converging towards the 3% rate by the end of next year as demand-driven pressures subside. The CLP has been aligning to the trend in place in top-tier commodity-linked currencies such as the Canadian dollar. Undoubtedly, the downward direction of metal prices has a negative effect on the Chilean terms of trade. Moreover, upward pressure on energy prices triggered by heightened geo-political tensions in Eastern Europe has also instilled a negative tone into Chilean currency markets. The current account deficit is widening as trade conditions do not remain as supportive, an issue that investors may begin to focus on in the months ahead. Finally, tax reform implemented by the incoming administration may also have a negative impact on short-term business investment.

COLOMBIA — Elections, US monetary policy shifts, the re-weighting of Colombia's share in emerging-market indices, crude oil prices and broad market sentiment towards high-yielding emerging-market assets are the key factors affecting the value of the Colombian peso (COP). The COP has sharply recovered over the past few months (from a peak of 2,055 in late February) on the grounds of accelerating economic growth and widespread expectations of policy continuity following the May/June electoral rounds. Presidential elections will take place on May 25th (with a second round planned for June 15th if need be). President Juan Manuel Santos will face Oscar-Ivan Zuluaga in the polls. The ongoing recovery dynamics prompted the central bank to act recently and adjust policy accordingly, surprising market participants with a 25 basis point interest rate hike to 3.5% on April 25th, stressing that a policy adjustment was a pre-emptive move to show commitment to the country's inflation target of 3%. The headline consumer inflation rate has been increasing since last November reaching 2.5% y/y in March. We are of the view that broad-based financial integration and convergence is increasingly becoming a key factor of currency moves. Colombia's main trading partner is the US (neither Brazil nor Mexico), so monetary and economic developments in the world's largest economy will continue to be a determining factor for capital flows into the country's assets.

Developing Europe & Africa

Currency Outlook

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RUSSIA — The Russian ruble (RUB) resumed a depreciating trend at the start of April after rebounding briefly by 4.4% off its mid-March low versus the US dollar (USD) following the Crimean secession referendum. Increasing military friction elsewhere in eastern Ukraine prompted renewed currency weakness and an unexpected interest rate hike by the central bank on April 25th. Continued outflows of capital will keep the RUB in weakening mode against the USD over the near term, with a risk of a sharper correction should more material sanctions be applied to Russia by the EU/US. We hold a year-end USDRUB target of 36.5.

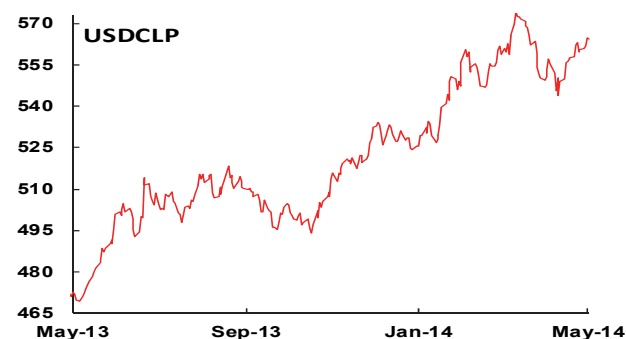
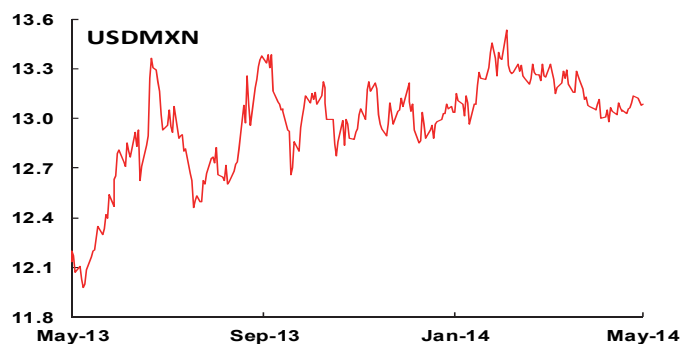
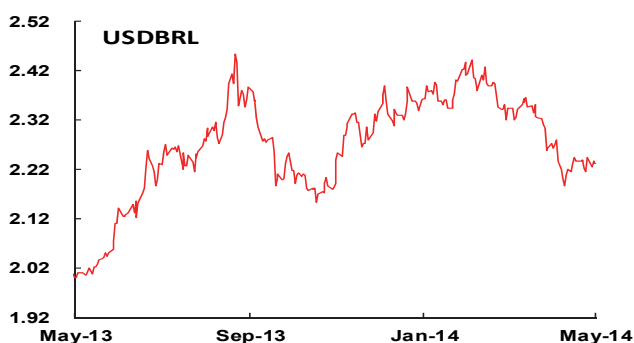
TURKEY — Thanks to a sharp increase in policy rates in January, investor perceptions of increased domestic political stability following a decisive victory by the ruling AKP party in recent local elections, and generally improved global sentiment toward emerging markets, the lira (TRY) has reversed course over the last few months. The TRY has strengthened 10% since its late-January low versus the US dollar (USD). The currency's trajectory will nevertheless remain exposed to global risk aversion shifts as well as domestic instability surrounding the presidential election in August. We target a year-end USDTRY rate of 2.25.

POLAND — The Polish zloty (PLN) has remained fairly stable throughout the ongoing conflict between Russia and Ukraine, notwithstanding the relevance of both countries for trade. Although the central bank has pushed out its guidance for the start of interest rate hikes (due to still weak inflation), the PLN will likely remain supported by the economy's strengthening growth dynamics, positive investor sentiment and institutional/banking sector stability. We expect the PLN to appreciate gradually toward 4.00 per euro by end-2014.

SOUTH AFRICA — The South African rand (ZAR) continued to recover through the beginning of April – reaching its strongest year-to-date level against the USD – before retracing some earlier losses on the back of a string of positive US data and mounting tensions in Ukraine. The ongoing platinum mine strike is also weighing on the currency, though a likely interest rate hike in the coming months should offset this factor to some degree. Given its wide external imbalances, the ZAR will remain vulnerable to another potential bout of Fed-related volatility. We expect the USDZAR rate to close the year at 10.90.

Currency Trends

FX Rate	Spot 1-May	14Q1a	14Q2f	14Q3f	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDBRL	2.23	2.27	2.38	2.40	2.45	2.48	2.48	2.50	2.52
USDMXN	13.1	13.1	13.1	13.2	13.4	13.5	13.5	13.5	13.5
USDCLP	565	549	550	555	565	570	575	575	580
USDCOP	1936	1971	1960	1970	1975	1990	2000	2000	2010



Developing Europe & Africa

Fundamental Commentary

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RUSSIA — Geopolitical tensions with Ukraine continue to weigh on the ruble (RUB), and in turn, Russia's economic growth and inflation outlooks and sovereign credit profile. According to government estimates, output contracted by 0.5% q/q (+0.8% y/y) in the first quarter on the back of a massive capital withdrawal and collapse in investment. The yearly growth pace will slow further over the coming quarters and should the international situation deteriorate, it is possible that the economy will fall into recession. Assuming that a diplomatic solution is ultimately reached, we foresee a minimal real GDP expansion of roughly 2/3% in 2014. There is some capacity for fiscal stimulus, given the still relatively favourable shape of Russia's public finances, but any extra spending (including defense spending) would likely imply a violation of the recently imposed fiscal rule tying expenditures to long-term oil prices. In late April, Standard & Poor's (S&P) lowered the country's sovereign credit rating by one notch to "BBB-", keeping a "negative" outlook, in view of the risk to external financing and medium-term growth prospects from the recent surge in capital outflows. According to the central bank, outflows measured US\$64 billion in the first quarter (adjusted for foreign currency transactions between banks and the central bank). On the same day as the S&P decision, the central bank unexpectedly raised the policy interest rate by 50 basis points to 7.50% citing higher inflation risks. The headline rate is currently running above 7% y/y and will likely exceed the bank's end-year 5% target by at least one percentage point.

TURKEY — After falling 25% against the US dollar in the year through January 24th, The Turkish lira (TRY) has since recovered close to half its losses. Year-to-date, the TRY is now among the top-performers in the emerging-market universe (up 1.6%), along with a number of the other hardest-hit currencies in the early stages of the US Fed-induced global portfolio shift in 2013. At this point we think that the TRY is unlikely to exhibit further material strengthening, and in the months ahead it will continue to face bouts of volatility related to external monetary policy uncertainty as well as domestic political and economic developments. Economic growth is expected to moderate this year to around 2½% from 4% in 2013. Higher interest rates and tighter credit conditions will cause domestic demand to decelerate, while net exports should return as a contributor to growth on the heels of the euro area recovery. Following his party's victory in the March local election (with a majority of the voters unfazed by government corruption allegations and heightened friction between the AKP and the Gulen movement), Prime Minister Erdogan called for interest rate cuts to support economic activity. However, the central bank has indicated that any easing would come in "measured steps" and not until there was a meaningful slowdown in inflation (the headline rate rose by half a percentage point to 8.4% y/y in March). The bank has already begun easing policy informally by boosting liquidity through its regular repo auctions.

POLAND — Economic conditions continue to improve in Poland, notwithstanding the downside external risks related to the Russia/Ukraine conflict. Although export prospects remain heavily linked to the euro area (particularly Germany), Russia and Ukraine are somewhat important trade partners for Poland, together accounting for over 8% of total merchandise shipments. Despite still significant economic ties, Poland supports stronger economic sanctions on Russia by the EU. The country is seeking to reduce its reliance on Russian energy supplies – nearly 60% of natural gas consumed in 2012 was imported from Russia – by securing new import routes (including a section of pipeline from eastern Germany) and pursuing domestic shale gas opportunities. In its latest policy assessment, the central bank highlighted accelerating domestic industrial output and retail sales (both up 5% y/y on average in the first quarter), a pick-up in construction activity and solid business sentiment indicators. Unemployment has also begun to decline, falling roughly one percentage point since last year, but remains elevated at 13.5% according to the national measure (the rate is 9.7% on an EU harmonized basis). We expect real GDP expansions of 3% and 3½% in 2014 and 2015, respectively – robust by European standards but below the recent historical average. Inflation remains quite subdued, averaging 0.7% y/y over the last six months, prompting the central bank to push out its expected timetable for interest rate normalization. The policy rate will likely be left unchanged until the end of 2014.

SOUTH AFRICA — South African monetary authorities continue to face a policy dilemma, with inflation set to breach the upper limit of the official target range while growth conditions remain tepid. Growth will likely under-perform the economy's potential rate again this year (at around 2.4% versus potential of 3-3.5%), in view of protracted labour unrest, electricity supply shortages and weak credit dynamics. Meanwhile, inflation hit the top end of the 3-6% tolerance range in March and core inflation picked up to 5.5% y/y, its highest since January 2010. In the absence of demand-side pressures, the upward price pressure is attributable to lagged exchange rate pass-through, which has been relatively modest to date. In its latest policy assessment, the South African Reserve Bank reiterated that its focus is on inflation and keeping expectations anchored, and we thus expect another rate hike of approximately 50 basis points in the next few months. The protracted platinum strike, now in its third month, is affecting mining output and exports; a 7% m/m collapse in mining production in February pushed the yearly growth rate back into negative territory after seven months of increases. The net outflow of foreign capital seen in October-January was partly reversed in February-March as global risk aversion eased. However, uncertainty over the pace and timing of policy normalization by the major central banks will imply additional rebalancing and probable rand volatility in the months ahead. General elections will be held on May 7th; the ruling African National Congress party is widely expected to win.

Global Currency Forecast (end of period)

		2012	2013	2014f	2015f	2014f				2015f			
Major Currencies						Q1a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	87	105	109	113	103	104	107	109	110	111	112	113
Euro zone	EURUSD	1.32	1.37	1.30	1.24	1.38	1.37	1.33	1.30	1.28	1.26	1.25	1.24
	EURJPY	114	145	142	140	142	142	142	142	141	140	140	140
UK	GBPUSD	1.63	1.66	1.67	1.59	1.67	1.70	1.68	1.67	1.65	1.63	1.61	1.59
	EURGBP	0.81	0.83	0.78	0.78	0.83	0.81	0.79	0.78	0.78	0.77	0.78	0.78
Switzerland	USDCHF	0.92	0.89	0.96	1.02	0.88	0.91	0.94	0.96	0.98	1.00	1.01	1.02
	EURCHF	1.21	1.23	1.25	1.27	1.22	1.24	1.25	1.25	1.25	1.26	1.26	1.27
Americas													
Canada	USDCAD	0.99	1.06	1.12	1.11	1.11	1.10	1.11	1.12	1.14	1.14	1.12	1.11
	CADUSD	1.01	0.94	0.89	0.90	0.91	0.91	0.90	0.89	0.88	0.88	0.89	0.90
Mexico	USDMXN	12.85	13.04	13.35	13.52	13.06	13.10	13.20	13.35	13.45	13.45	13.50	13.52
	CADMXN	12.96	12.27	11.92	12.18	11.82	11.91	11.89	11.92	11.80	11.80	12.05	12.18
Argentina	USDARS	4.92	6.52	12.00	14.50	8.00	8.90	9.50	12.00	13.00	13.50	14.00	14.50
Brazil	USDBRL	2.05	2.36	2.45	2.52	2.27	2.38	2.40	2.45	2.48	2.48	2.50	2.52
Chile	USDCLP	479	525	565	580	549	550	555	565	570	575	575	580
Colombia	USDCOP	1767	1930	1975	2010	1971	1960	1970	1975	1990	2000	2000	2010
Peru	USDPEN	2.55	2.80	2.76	2.80	2.81	2.81	2.78	2.76	2.78	2.79	2.80	2.80
Venezuela	USDVEF	4.30	6.30	8.50	11.10	6.30	8.50	8.50	8.50	9.50	11.10	11.10	11.10
Asia / Pacific													
Australia	AUDUSD	1.04	0.89	0.92	0.89	0.93	0.93	0.94	0.92	0.89	0.89	0.89	0.89
China	USDCNY	6.23	6.05	6.10	5.92	6.22	6.22	6.16	6.10	6.06	6.01	5.97	5.92
Hong Kong	USDHKD	7.75	7.75	7.78	7.78	7.76	7.76	7.77	7.78	7.78	7.78	7.78	7.78
India	USDINR	55.0	61.8	63.0	64.0	59.9	61.1	62.0	63.0	63.3	63.5	63.8	64.0
Indonesia	USDIDR	9793	12171	12000	11600	11361	11680	11850	12000	11900	11800	11700	11600
Malaysia	USDMYR	3.06	3.28	3.30	3.20	3.26	3.27	3.29	3.30	3.28	3.25	3.23	3.20
New Zealand	NZDUSD	0.83	0.82	0.85	0.87	0.87	0.86	0.85	0.85	0.86	0.86	0.87	0.87
Philippines	USDPHP	41.0	44.4	44.5	43.0	44.8	44.5	44.5	44.5	44.1	43.8	43.4	43.0
Singapore	USDSGD	1.22	1.26	1.28	1.29	1.26	1.26	1.27	1.28	1.28	1.29	1.29	1.29
South Korea	USDKRW	1064	1050	1040	1030	1065	1035	1038	1040	1038	1035	1033	1030
Taiwan	USDTWD	29.0	29.8	30.6	30.2	30.5	30.3	30.5	30.6	30.5	30.4	30.3	30.2
Thailand	USDTHB	30.6	32.7	33.5	34.0	32.4	32.5	33.0	33.5	33.6	33.8	33.9	34.0
Europe / Africa													
Czech Rep.	EURCZK	25.1	27.3	27.0	25.8	27.5	27.4	27.2	27.0	26.6	26.3	26.0	25.8
Iceland	USDISK	128	115	115	118	113	112	113	115	116	117	117	118
Hungary	EURHUF	291	297	303	296	307	310	306	303	301	299	297	296
Norway	USDNOK	5.56	6.07	5.80	5.60	5.99	5.90	5.80	5.80	5.70	5.65	5.65	5.60
Poland	EURPLN	4.08	4.15	4.00	3.90	4.17	4.14	4.07	4.00	4.00	3.96	3.93	3.90
Russia	USDRUB	30.5	32.9	36.5	37.4	35.2	36.0	36.3	36.5	36.7	37.0	37.2	37.4
South Africa	USDZAR	8.47	10.49	10.90	10.70	10.53	10.70	10.80	10.90	10.85	10.80	10.75	10.70
Sweden	EURSEK	8.58	8.85	8.50	8.25	8.91	8.85	8.70	8.50	8.45	8.40	8.30	8.25
Turkey	USDTRY	1.78	2.15	2.25	2.25	2.14	2.17	2.22	2.25	2.21	2.23	2.24	2.25

f: forecast a: actual

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