Foreign Exchange Outlook

AMERICAS

The USD remains in demand. Widening growth and interest rate differentials between the US, European, and Japanese economies reinforce the USD appreciating bias. The sharp collapse in crude oil prices, not mimicked in all commodity markets, sent disruptive shocks to currencies such as the CAD, MXN, and COP. Substantial policy adjustments weigh on the BRL in the near term.

EUROPE

The EUR will likely regain a depreciating trend. A fragile economic recovery remains the norm in the euro zone. The GBP, which steadily weakened on the back of broad-based USD strength and delays in the tightening cycle, may enter a stability phase in the near term. The RUB continues to be affected by the oil price shock, escalating capital outflows, and damaging economic sanctions.

ASIA/PACIFIC

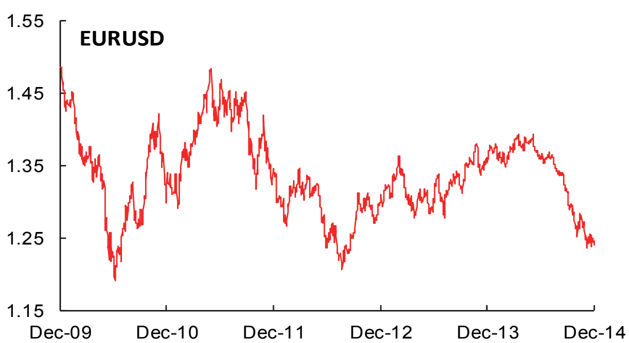
The JPY is likely to extend its existing depreciating trend. Japan's economic and currency weakness may risk triggering competitive currency realignments in the Asia/Pacific region. The CNY is on a temporary weakening phase. China's surprise interest-rate cut coupled with concerns about the increase in corporate indebtedness fuelled a less bullish tone in the country's growth outlook.

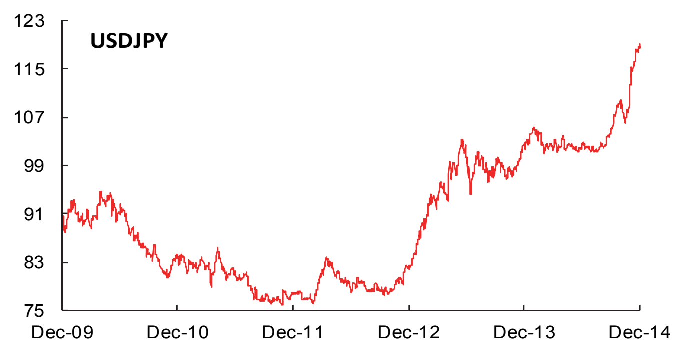
Contents

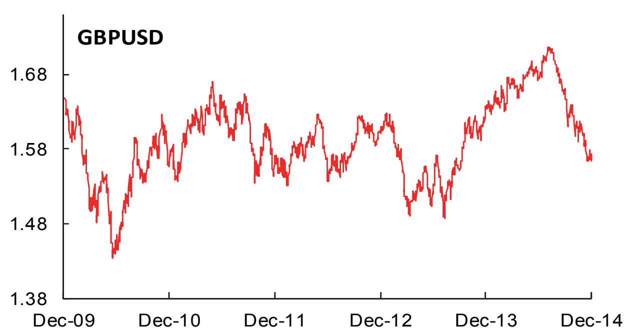
Core Exchange Rates

Global Foreign Exchange Outlook

December 2, 2014		Spot	2014f Q1a	Q2a	Q3a	Q4	2015f Q1	Q2	Q3	Q4
EURUSD	Scotiabank	1.24	1.38	1.37	1.26	1.25	1.23	1.21	1.20	1.18
	Consensus*					1.25	1.23	1.22	1.21	1.20
USDJPY	Scotiabank	119.2	103	101	110	120	122	124	125	126
	Consensus*					111	113	114	115	115
GBPUSD	Scotiabank	1.56	1.67	1.71	1.62	1.56	1.56	1.55	1.55	1.54
	Consensus*					1.61	1.60	1.59	1.58	1.58
USDCAD	Scotiabank	1.14	1.11	1.07	1.12	1.15	1.16	1.16	1.17	1.17
	Consensus*					1.12	1.13	1.14	1.14	1.14
AUDUSD	Scotiabank	0.84	0.93	0.94	0.87	0.85	0.85	0.84	0.83	0.82
	Consensus*					0.87	0.86	0.85	0.84	0.84
USDMXN	Scotiabank	14.04	13.06	12.97	13.43	14.01	13.79	13.53	13.89	14.10
	Consensus*					13.32	13.32	13.27	13.22	13.19







(*) Source: Consensus Economics Inc. November 2014

Market Tone & Fundamental Focus

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Volatility in global foreign exchange markets continues to escalate, fuelled by intensifying price wars amongst global oil producers. Ongoing evidence of softening activity in systemically relevant high-income economies (Japan and Europe) and developing countries (Russia and Brazil) instils a renewed sense of caution into investment decisions. The sharp collapse in crude oil prices, falling 35% from its June high to the end of November, was mainly supply driven and therefore not mimicked across commodity markets; yet it sends disruptive shock waves to commodity-sensitive currencies. Recent economic and financial market developments have prompted market participants to review their expectations about the beginning of the tightening cycle in top-tier central banks in the US and the UK.

The US dollar (USD) is widely expected to appreciate in 2015. Third quarter US real GDP growth came in at 3.9% q/q annualized, outpacing the bulk of the advanced economies and marking the second quarter of robust gains; this supports our expectation that the Federal Reserve (Fed) will hike interest rates in the second quarter of 2015. In addition, strong US equity markets coupled with low global bond yields have supported investment inflows into the US. This fundamental backdrop coupled with positive sentiment support ongoing strength in the USD.

Within the Americas, the Canadian dollar (CAD) is vulnerable to a broadly stronger USD and lower crude oil prices. Accordingly, we have revised our forecast, expecting the currency to trend lower in 2015 and 2016. From its lows, the CAD may recover some of the value lost as the Canadian economy will benefit from the structural dependence on the growing US economy. A similar trading pattern may occur with the Mexican peso (MXN), with an upside potential from sizable capital inflows associated with the process of structural reforms in CAPEX-sensitive economic sectors.

Post-election policy action in Brazil will dominate near-term investor attention in the universe of floating currencies in Latin America. As Brazil unveils a new economic team in anticipation of major adjustments to revive business confidence and restore fiscal discipline, the Brazilian real (BRL) may regain a weakening bias. We expect a higher interest rate environment in Brazil in response to a central bank more concerned about the inflationary impact of potential capital outflows and normalization of administered prices. Energy-sensitive currencies in Latin America, the MXN and the Colombian peso (COP), may begin to feel the negative economic impact of declining oil-related fiscal revenue, to be somewhat compounded by the beginning of Fed tightening in 2015. Both the Peruvian (PEN) and Chilean (CLP) currencies will be impacted by global metal prices and US dollarization dynamics in the Americas.

The euro (EUR) will maintain a depreciating trend over the next six months. A slow and vulnerable economic recovery combined with disinflationary pressures is expected to see the the European Central Bank (ECB) maintain an accommodative policy stance. Fragile economic recovery remains the norm in the euro zone, to be exacerbated by data confirming extreme weakness in Italy and near-zero growth in France. The British pound (GBP), which steadily weakened on the back of broad-based USD strength and delays in the tightening cycle, may enter a stability phase in the near term. Meanwhile, Russia remains in defiance, fuelling further diplomatic stress with the US and selective Western European nations. The Russian ruble (RUB) continues to weaken accordingly, adversely affected by escalating capital outflows which are estimated to reach US$130 billion in 2014. Deteriorating political, financial and economic conditions in Russia, despite ongoing efforts to liberalize exchange rate policies, may weigh on other top-tier emerging-market currencies in Latin America and Asia.

The Asian currency environment also reflects a less benign global economic and financial market context. The Japanese yen (JPY) is poised to extend its existing depreciating trend, injecting a competitive boost to its ailing economy. Japan's real GDP contracted by 1.6% q/q on an annualized basis in the third quarter following a revised 7.3% q/q decline in the second quarter. However, JPY depreciation risks triggering competitive currency re-alignments in the Asia/Pacific region, particularly affecting our view on the South Korean won (KRW) and the Taiwanese dollar (TWD). Recent action by the Bank of Japan, combined with Prime Minister Abe's call for a snap election has forced a downward revision to our forecast. The Chinese yuan (CNY), which gained 2.4% versus the USD in the five months ending in October, entered a temporary weakening phase in November. China's surprise interest-rate cut, pressure from depreciation in the EUR and JPY, coupled with persistent concerns regarding the level of indebtedness have triggered a more bearish tone regarding the country's growth prospects. Finally, the Australian dollar (AUD), which regained a downward trend as a result of commodity price weakness and concerns about Chinese growth prospects, may also reach a stabilization plateau in the months to come.

Canada

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Currency Outlook

The outlook for the Canadian dollar (CAD) has deteriorated. Over the next 12-months CAD is expected to underperform the USD and outperform EUR and JPY; while its performance against several other major currencies is likely to be more range bound, however by year-end CAD is likely to have accumulated modest gains against AUD, GBP, SEK and NZD.

The domestic economy has shown progress. The spillover impact of US economic growth has helped to support exports and there is early evidence of subsequent investment. The Canadian economy is expected to post real GDP growth of 2.3% and 2.0% in 2015 and 2016, respectively; encouraging, however well below the equivalent US growth rates of 3.3% and 3.1%. Inflationary pressures have proven stronger than the BoC expected; however to date the BoC has indicated that inflationary pressures will prove temporary and accordingly it is content to look through them.

The dramatic drop in oil prices will negatively impact Canada from the perspectives of trade, investment, growth, fiscal and sentiment. The uptick it provides to the US economy should mitigate some of the downside; but WTI oil prices at US$70 (Scotiabank's forecast for the average level of WTI in 2015) are a net negative to the domestic backdrop; weighing on both inflation and growth. This has been the most significant development that has forced a revaluation of the CAD outlook.

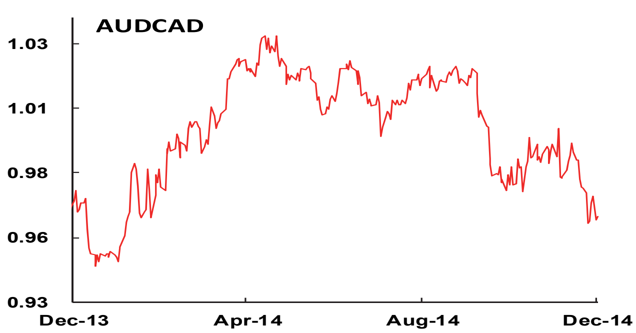
In terms of the USD, as the US economy outperforms and the Fed turns towards tighter monetary policy, the outlook for the USD has strengthened. Consensus is unified in looking for a stronger USD, with the differentiation between outlooks measured in degrees of strength as oppose to direction. Globally, growth is uneven and diverging. The US is strong, Europe and Japan are weak and China is vulnerable; this maintains a high degree of risk embedded in the global economy.

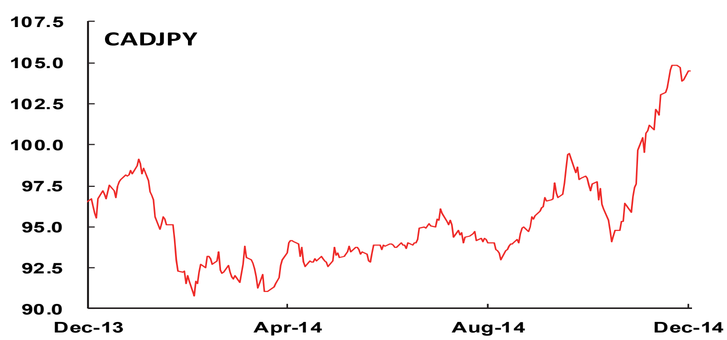
For CAD, sentiment indicators are bearish; at the end of November, the CFTC was reporting a net short position, the option market was protecting against USD upside risk, consensus was calling for a weaker CAD and technical studies warned of the same.

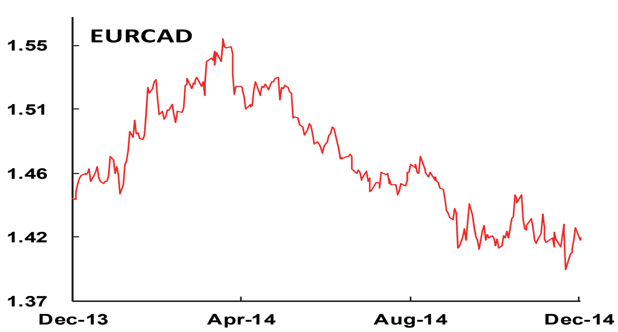
Accordingly the outlook for CAD has deteriorated on the back of falling oil prices, diverging growth and monetary paths between the US and Canada as well as bearish sentiment. We expect CAD to close 2015 at 0.85 (or in USDCAD terms at 1.17).

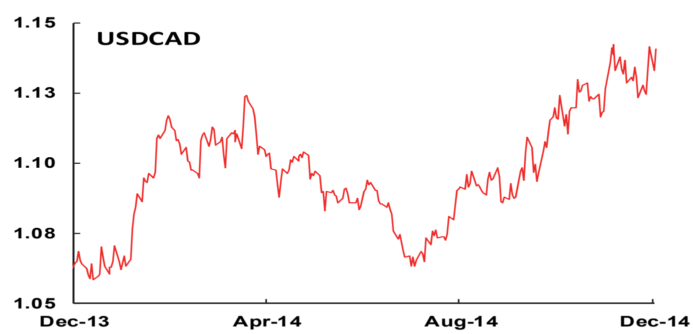
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 2-Dec	14Q1a	14Q2a	14Q3a	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
AUDCAD	0.96	1.02	1.01	0.98	0.98	0.99	0.97	0.97	0.96
CADJPY	104.5	93.4	95.0	97.9	104.3	105.2	106.9	106.8	107.7
EURCAD	1.42	1.52	1.46	1.41	1.44	1.43	1.40	1.40	1.38
USDCAD	1.14	1.11	1.07	1.12	1.15	1.16	1.16	1.17	1.17









United States and Canada

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Fundamental Commentary

UNITED STATES — The US recovery remains on track, with underlying growth trending around 2½%. Notwithstanding a few disappointing data reports, most recent indicators continue to point to a broadly based sustainable expansion. Industrial production has ramped up, led by motor vehicles & parts, business equipment and energy products. US producers are benefitting from solid domestic sales and a well-diversified export base, though a stronger US dollar and more moderate global growth could temper output gains in the coming months. Rising capacity utilization alongside healthy corporate balance sheets is fuelling strong growth in capital equipment investment and non-residential construction. Meanwhile, the surge in US oil and gas production in recent years has steadily trimmed oil imports and contributed to a notable improvement in US external accounts. Strong employment growth, improved household balance sheets and the unleashing of pent-up demand for motor vehicles and other consumer durables are underpinning consumer confidence and spending. Monthly job gains this year have averaged 229,000, helping to drive the unemployment rate toward a six-year low of 5.8% in October. Broader measures of unemployment also have improved, though alongside still weak wage gains averaging about 2% y/y are consistent with continued labour market slack. Household spending power is also getting a meaningful boost from sharply lower pump prices. The US housing sector is showing signs of renewed momentum, supported by lower borrowing costs, some easing in lending conditions, strengthening labour markets and good affordability. Existing home sales have trended steadily higher this year, and housing starts have moved back above the 1 million mark. The US recovery is also getting a lift from a pickup in local and state government spending, and a reduced pace of federal fiscal restraint. Headline and core inflation trends remain restrained below 2% y/y, reflecting ongoing excess capacity, still modest wage growth and the recent easing in gasoline prices.

CANADA — The Canadian economy continues to post moderate growth with real GDP tracking around 2½% y/y. Consumer spending remains reasonably buoyant. Vehicle sales remain one of the strongest retail sectors, and have continued to set record highs in 2014. Housing activity remains robust, with low mortgage rates maintaining affordability despite record high prices. However, softening in consumer confidence – the Conference Board's index has declined three consecutive months and six of the last seven – could temper sales. Sluggish employment and wage growth has dampened confidence, though the pickup in hiring in September and October is encouraging. Combined with limited pent-up demand (car sales and homeownership rates are at record levels), consumers are expected to be relatively cautious spenders in the year ahead. Manufacturing and exports remain strong with producers benefitting from strengthening US auto sales, residential construction and a more competitive currency. The pickup in exports has been broad-based, with solid increases in both energy and non-energy goods. Business investment has been a weak spot in the economy as excess capacity combined with moderate sales growth continue to weigh on capital spending plans, despite improving business sentiment, healthy corporate finances and favourable financing costs. The investment outlook should gradually firm up over the coming year as strengthening US demand underpins a stronger export recovery. However, if commodity price weakness persists, business spending may be hampered by limited investment in the resource sector. Headline and core inflation has picked up to around 2% y/y, reflecting rising food costs, earlier energy price increases, and the passthrough of a weaker Canadian dollar to a range of imported goods. Persistent excess capacity, ongoing retail competition and soft wage gains are expected to contain core inflation around the mid-point of the Bank of Canada's 1-3% target range into next year, while headline inflation is likely to reduce alongside falling gasoline prices.

Monetary Policy Commentary

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UNITED STATES — We continue to believe that the Fed will raise its policy rate in Q2 2015. The minutes from the FOMC's October meeting support its October policy statement and re-affirm that the Fed a) is optimistic about the labor market b) has muted the significance of its 'considerable time' guidance by adding caveats, c) is not overly concerned about deteriorating global growth or a strong USD, d) views falling oil prices as a net positive and e) believes inflation will move towards the 2% goal over the coming years, despite near-term downward pressures created by energy prices and other factors. The FOMC's hawkish dissenters are now voting in favour of the statement while one member is now dissenting on dovish concerns, suggesting a shift in the consensus FOMC thinking.

CANADA — Last month we shifted our expectation of Bank of Canada (BoC) hike from Q4 2015 to Q1 2016 as the BoC seeks to support economic activity and the closing of the output gap. In our view, the reorientation of the economy towards growth that is driven by investment in, and the exports of, non-commodity goods will be gradual, while investment in commodity-related activity will slow, particularly as energy prices continue to dive lower. Household finances remain stretched which encourages accommodative policy to allow for gradual deleveraging but remains a vulnerable segment of the economy should rate hikes come sooner than anticipated. That said, as headline and core inflationary pressures continue to climb higher than current BoC forecasts, the central bank will need to more aggressively defend its position that prices pressures are only temporary and do not necessitate earlier hikes.

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Europe
Currency Outlook

EURO ZONE — During November EUR traded comfortably within a relatively tight 242-point range of 1.2358 to 1.2600, suggesting there was no catalyst strong enough to provide direction. The fundamentals for EUR are negative. Sentiment is also bearish. At the end of November, the CFTC was reporting a large net short EUR position, the option market continued to protect against USD upside risk and the year-end consensus forecast had fallen to 1.20. Technicals warn of downside, with the next major level of support at 1.2043 (the July 2012 low). The market is one sided in its views for EUR downside; however as long fundamentals support EUR depreciation we expect the currency to trend lower. We expect EUR to close 2015 at 1.18.

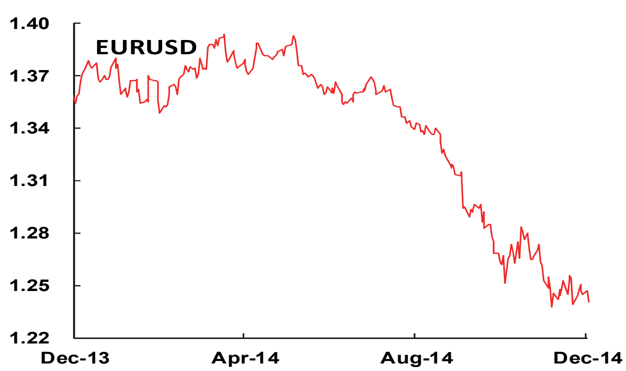
UNITED KINGDOM — GBP lost 5% during the first 11-months of the year. Some softening in the fundamentals combined with building disinflationary pressures forced a pushing out of expectations over the first BoE interest rate hike and weighed heavily on the currency. Sentiment has deteriorated and technicals warn of ongoing weakness; accordingly we have revised our forecasts lower, expecting GBPUSD to close 2015 at 1.54.

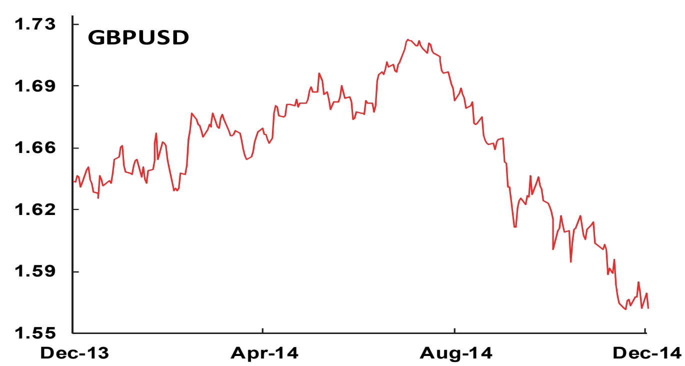
SWITZERLAND — During November, EURCHF tested its 1.20 floor marking a low of 1.2009 mid-month. The November 30 referendum saw voters reject the proposal that the SNB hold 20% of reserves in gold, leaving the current reserve management structure intact. The SNB is likely to defend the EURCHF floor and accordingly we expect EURCHF to close 2015 at an uneventful 1.23.

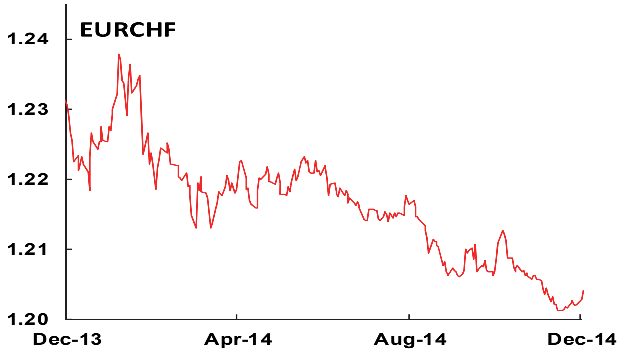
SWEDEN — By the first of December, SEK had lost 13% against the USD and was the worst performing primary currency in 2014. The fundamentals are weak, with the economy still flirting with deflation, disappointing growth and a relatively dovish central bank. Sentiment has shifted to an increasingly bearish outlook, in tandem with sentiment towards EUR. SEK is trending lower, with most medium term technical studies warning of further downside. Accordingly we are bearish SEK. We expect USDSEK to close 2015 at 7.60.

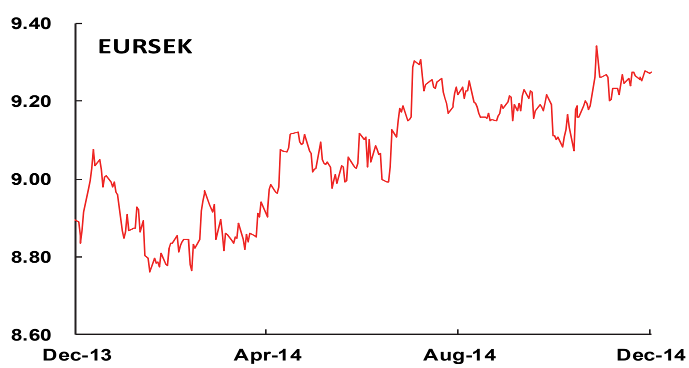
Currency Trends

FX Rate	Spot 2-Dec	14Q1a	14Q2a	14Q3a	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
EURUSD	1.24	1.38	1.37	1.26	1.25	1.23	1.21	1.20	1.18
GBPUSD	1.56	1.67	1.71	1.62	1.56	1.56	1.55	1.55	1.54
EURCHF	1.20	1.22	1.21	1.21	1.21	1.21	1.22	1.22	1.23
EURSEK	9.28	8.91	9.15	9.11	9.30	9.15	9.08	9.06	8.97









Europe
Fundamental Commentary

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EURO ZONE — Incoming economic data for the euro zone continue to disappoint and fuel speculation that the European Central Bank (ECB) will embark on a full-scale quantitative easing program to aid growth and inflation. The region's latest composite PMI fell to a 16-month low in November on the back of service sector weakness. The survey results also highlighted that consumer confidence remains anemic in Italy and France, and German manufacturing activity is being dampened by softer demand. Meanwhile, businesses continued to slash prices, a worrying trend with inflation already tracking well below the ECB's target of close to, but below, 2% and edging lower in November to 0.3% y/y from 0.4% y/y in October. The ECB President, Mario Draghi, and Vice-President, Vitor Constâncio, have both hinted that the governing council is considering a program of sovereign debt purchases in the first three months of 2015 if current measures prove insufficient. In this context, government bond yields across the region have fallen to new record lows. However, ECB officials continue to reiterate that monetary policy is no cure-all and must act in tandem with fiscal policy, urging France and Italy to implement necessary structural reforms and for Germany to use fiscal space available for investment. Draghi also stepped up his push for economic union, alluding that the currency bloc's fiscal ties must go beyond the existing budget rules, under the EU's stability and growth pact, to prevent actions taken at the national level from undermining regional growth. The ECB could opt to purchase corporate bonds or European Investment Bank bonds (which would be ideal given the EU Commission €300bn investment plan) in tandem or as an alternative to a sovereign bond buying program. We expect euro zone real GDP to advance 0.8% this year, 1.0% in 2015 and 1.3% in 2016, with year-end annual inflation at 0.4%, 0.9% and 1.2%, respectively.

UNITED KINGDOM — Signs of slowing UK activity have become more widespread, but we think it would be wrong to extrapolate that trend too far. In particular, the loosening in conditions implied by lower oil prices and lower bond yields point to a boost to growth over the 6-12 month ahead horizon. We continue to expect real GDP growth to decelerate from around 3% y/y during 2014 to 2.5% in 2015 and 2% in 2016. That is a gradual loss of momentum and nothing particularly sinister. Recent months have started to see a little more traction in wage inflation, which should help maintain disposable income growth. This, coupled with the reduced burden of inflation, should mean that gains in consumption — the main engine of growth thus far — can be maintained through next year. Yet again, the latest month has been marked by further downside news on inflation — particularly the slump in oil prices. It is looking increasingly likely that CPI inflation will fall below the crucial 1% y/y threshold in December. That is likely to keep the market convinced that the first rate hike is now further away. However, we would challenge that view – is it really appropriate to have a looser policy stance in response to lower energy prices, which implies a boost to household incomes? While we acknowledge the risk that the first rate hike arrives later rather than sooner, we continue to expect the first rate hike to arrive in May, particularly if the recent pickup in wage inflation continues.

SWITZERLAND — The Swiss economy has struggled amid weaker euro zone growth prospects and heightened geopolitical uncertainty. Following growth of 0.2% q/q in the second-quarter, real GDP growth for the third quarter will be released on December 3rd and is expected to edge higher but remain soft at 0.3% q/q. Forward-looking indicators and survey data point to an ongoing acceleration in economic activity in the final quarter of 2014. In October, Switzerland's latest manufacturing PMI surged firmly back into growth territory on the back of gains in production, new orders and employment, while the stock of finished goods declined rapidly. Further improvements were seen in the Swiss KOF economic barometer, while its trade surplus widened significantly on stronger export demand from North America. Meanwhile, risks leading up to the November 30th referendum on gold reserves have abated, with voters overwhelming rejecting the initiative. The Swiss National Bank remains committed to enforcing its minimum exchange rate of CHF1.20 per euro. Nevertheless, deflationary risks persist, with annual growth in consumer prices forecast to remain near zero in November. We continue to expected Swiss real GDP growth of 1½% this year and 1.8% in 2015. Inflation will remain weak and only marginally positive in 2014-15 on the back of lower import and oil prices due to franc strength and weak euro zone growth. The current-account surplus is expected to remain high, but narrow from 15% of GDP in 2013 to 12% in 2015, alongside lower trade and primary income surpluses.

SWEDEN — During the third-quarter, economic growth beat expectations, but slowed to 0.3% q/q from 0.5% in the prior quarter. Nevertheless, Sweden continues to be a regional outperformer supported by healthy business investment, household spending, and public finances. However, the country is not without its challenges, with the Swedish Riksbank grappling with very low inflation, exporters struggling with stagnant demand in Europe, and households faced with high debt loads. In this context, the Riksbank has unleashed unprecedented monetary accommodation, bringing its key repurchase rate to zero in an attempt to ward off deflation and support growth. Following September's 0.4% y/y decline in consumer prices, the pace of deflation has eased to -0.1% y/y in October; however, the Riksbank has highlighted that monetary policy needs to be even more expansionary to help spur inflation towards its 2% target. Looking ahead, real GDP growth is forecast to accelerate from 2% this year to 2½% in 2015. This year's depreciation in the krona should lead to higher import prices and support an acceleration in annual inflation from -0.1% this year to 1% in 2015. Sweden is expected to run a large current-account surplus of around 5½% of GDP over our forecast horizon, while monetary tightening is unlikely until mid-2016.

Asia / Pacific
Currency Outlook

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JAPAN — Entering December, the JPY has lost 11% year-to-date on the back of a deterioration in the fundamental currency drivers. Uncertainty over the fiscal, economic and political outlooks have added to downward pressure on the JPY. Sentiment is negative, with the CFTC reporting a large $10bn net short position at the end of November and professional forecasters calling for ongoing JPY weakness. Technical studies warn of further decline. With fundamentals, sentiment, flows and technicals all working in tandem against the JPY, we hold a year-end 2015 USDJPY forecast of 126.

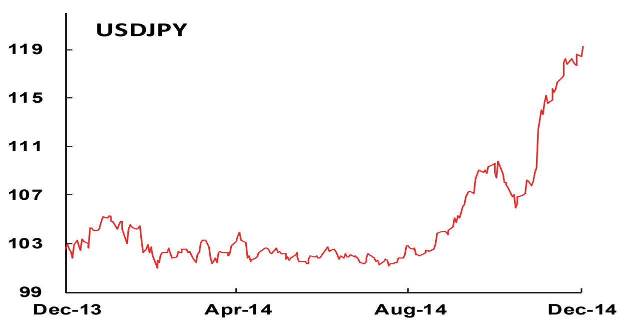
CHINA — Despite a higher aggregate net fixing for the CNY during November, spot CNY experienced its first monthly depreciation since April on the back of a broadly stronger USD. Economic data remain vulnerable; however, the record trade surplus is providing support for the CNY via the current account. Weakness in the currencies of key Asian trade partners may moderate the trend pace of renminbi appreciation into 2015. We expect USDCNY to close 2015 at 5.98, suggesting modest renminbi appreciation from current levels.

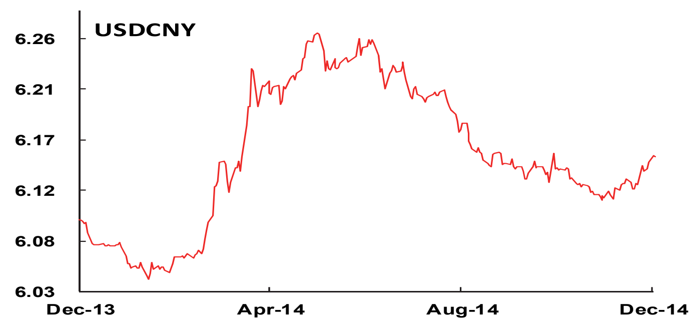
AUSTRALIA — The AUD entered December at fresh multi-year lows, having lost almost 5% in the first 11-months of 2014. The decline has been fundamentally driven on the back of falling iron ore prices, concerns over China's economic outlook, and deceleration in several domestic drivers. Sentiment is bearish, with the option market protecting against USD upside risk, the CFTC reporting a -$3bn net short position and consensus forecasts having been revised lower. Technicals warn of ongoing downside risk. Accordingly, we expect ongoing modest AUD depreciation, holding a 2015 year-end target of 0.82.

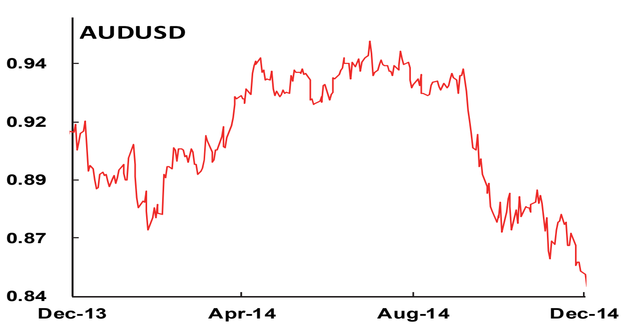
NEW ZEALAND — The NZD rose 1.0% in November, notably outperforming all major and primary currencies in a sign of resilience through a period of renewed broad-based USD strength. However, the early November decline to fresh two-year lows hints to ongoing vulnerability, as NZD-supportive yield spreads continue to narrow. Technicals are mixed as we note the recent formation of several weekly doji candles (warning of trader indecision) and the supportive positive divergence of momentum indicators. We hold a 2015 year-end target of 0.77.

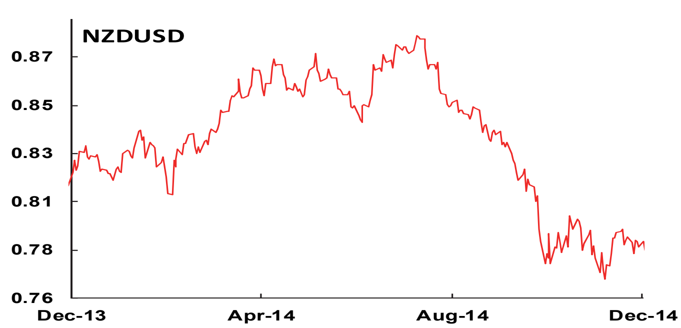
Currency Trends

FX Rate	Spot 2-Dec	14Q1a	14Q2a	14Q3a	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDJPY	119	103	101	110	120	122	124	125	126
USDCNY	6.15	6.22	6.20	6.14	6.10	6.07	6.04	6.01	5.98
AUDUSD	0.84	0.93	0.94	0.87	0.85	0.85	0.84	0.83	0.82
NZDUSD	0.78	0.87	0.88	0.78	0.78	0.80	0.79	0.78	0.77









Asia / Pacific
Fundamental Commentary

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JAPAN — Japan's economic outlook remains challenging. Third quarter GDP data revealed that the economy is in recession with output declining by 0.4% q/q (-1.1% y/y) following a 1.9% q/q (-0.1% y/y) contraction in the April-June period. While net exports contributed to growth, household spending and investment remained weak. Accordingly, we now expect the Japanese economy to expand by only 0.5% (instead of 1.3%) in 2014 as a whole. The weak performance prompted Prime Minister Shinzo Abe to dissolve parliament and to call an election for December 14th. Prime Minister Abe aims to renew his mandate from voters in order to postpone the second hike in the consumption tax rate (from 8% to 10%) scheduled for October 2015. The first increase in the tax rate from 5% to 8% took place in April, and is considered to be the main culprit for the renewed economic woes. On October 31st, the Bank of Japan (BoJ) decided to add further monetary stimulus to the economy through its asset purchase program. It will expand the nation's monetary base at an annual pace of ¥80 trillion (instead of ¥60-70 trillion) while extending the average remaining maturity of the central bank's government bond purchases. It will also increase the pace of purchases of exchange-traded funds and Japan real-estate investment trusts. The authorities assessed that lower global oil prices combined with weak domestic demand developments raise the likelihood that Japanese consumers' "deflationary mindset" would persist for longer than previously anticipated. Accordingly, additional stimulus was considered to be necessary to keep inflationary expectations on a rising trajectory and to reaffirm the BoJ's commitment to the 2% annual inflation target.

CHINA — The People's Bank of China (PBoC) is taking further steps to respond to the country's slowing economic growth trajectory and authorities' structural reform efforts. On November 21st, the central bank lowered the benchmark lending and deposit rates by 40 and 25 basis points, respectively, to 5.6% and 2.75%. The lower lending rate should provide support to the economy; indeed, the country's authorities have emphasized that a favourable economic environment is required to successfully implement the nation's complex structural reform agenda. Simultaneously, the ceiling on deposit rates was increased to 120% of the benchmark rate from the previous 110%; this is an important step in the interest rate liberalization process as a higher ceiling promotes competition for deposits among Chinese banks. This, combined with a narrower margin between lending and deposit rates directs banks to focus more on risk management and efficiency improvements, thereby preparing them for a market-determined interest rate environment. We expect further targeted monetary easing to take place in the coming months to complement other recently implemented measures such as specific reserve requirement cuts, interest rate reductions on interbank repurchase agreements, and liquidity injections. Chinese output growth remains on a path of gradual deceleration as investment gains slow and the economy transitions toward a more consumer-based system. We expect real GDP growth to slow from 7.4% this year to 7.2% and 6.8% in 2015 and 2016, respectively.

AUSTRALIA — The Reserve Bank of Australia (RBA) considers the economy's prevailing monetary policy stance to be appropriate for supporting domestic demand. Accordingly, monetary conditions will remain accommodative in the coming quarters with the benchmark cash target rate likely to be kept at 2.50%. We expect cautious monetary normalization to begin in the second half of 2015. Consumer price inflation will likely remain consistent with the RBA's 2-3% target; the headline rate is set to close 2014 at around 2⅓% y/y, in line with the rate recorded in Q3, before approaching the 3% mark in 2015 as recent currency depreciation feeds through to prices. Australia's real GDP increased by 3.2% y/y in the first half of the year; we expect output expansion to hover at 3% this year, followed by a slight moderation to an average annual rate of 2.8% in 2015-16. The economy's performance is underpinned by rising resource exports that reflect increased mining capacity. However, momentum will be dampened by weakening mining investment activity and the government's fiscal consolidation efforts. Nevertheless, the combined effect of strong house price gains (residential property prices rose by 9.1% y/y in Q3) and accommodative monetary policy should continue to support consumer confidence and household spending, thereby offsetting lower investment growth. The Australian dollar remains vulnerable to external shocks and capital outflows due to the country's current account deficit as well as dependence on commodity prices and export demand.

NEW ZEALAND — New Zealand will continue to enjoy relatively solid economic growth momentum. Following an expansion of 3.3% in the second quarter of 2014, the country's real GDP growth will likely be sustained in the second half of the year, averaging 3.5% in 2014 as a whole. Activity will continue to be supported by net immigration, accommodative monetary policy, and solid demand for the country's exports. The export sector will likely be largely unaffected by China's gradual growth deceleration – the largest export market for New Zealand – on the back of solid demand from China's growing middle class for New Zealand's goods, such as dairy products. Relatively strong economic growth recorded in the first half of the year attributed largely to a boost in the construction sector, prompted the Reserve Bank of New Zealand to tighten monetary conditions, with the benchmark interest rate raised by 100 basis points between March and July to the current level of 3.25%. We do not foresee any further tightening in the near term. Price stabilizing effects from these policy measures have materialized; house price gains have eased and consumer price inflation decelerated to 1.0% y/y in the third quarter of 2014 from 1.6% in the April-June period. House prices rose 5.5% y/y in October, down from a monthly average gain of 8.7% in the prior 12 months. We expect economic growth to moderate somewhat going forward, likely averaging 2¾% y/y in 2015-16.

Developing Asia

Currency Outlook

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INDIA — Disinflation, lower global energy prices and reform of the subsidy regime for fuel prices in India have been constructive for fixed income investors who are looking for an RBI rate cut in the not too distant future. This in turn has favoured a continued increment in bond buying on the part of foreigners. USDINR continued to drift higher in November, due to the broadly stronger USD and likely deterioration in the trade balance. We continue to see the INR adjusting towards our end of year target of 62.50.

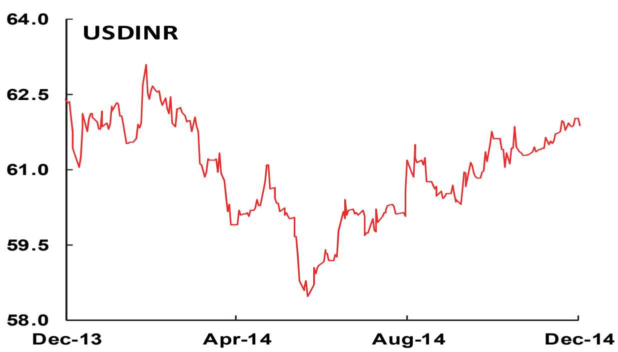
KOREA — The KRW has fallen victim to the weak yen, with Korean policymakers now voicing greater focus on won trade competitiveness, and pledging to manage the KRW more readily in line with yen developments. Fundamental support remains in play as Korea's current account surplus is on track for another record year which provides support for the won during periods of market volatility. Nevertheless, the monetary authority has shown a desire to favour less dear values in the KRW as trade competitiveness concerns dominate. We target USDKRW at 1120 at year end.

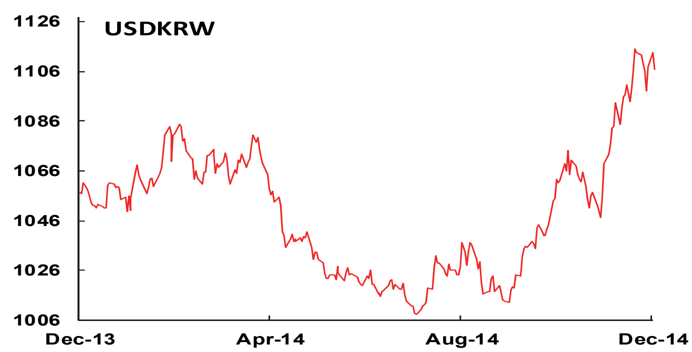
THAILAND — Thailand's disappointing economic recovery has been beneficial for the external accounts, as the current account balance remains elevated despite sluggish export growth, thanks to repressed imports. USDTHB experienced consolidation in November, thanks to relatively strong equity and bond inflows which offset the impact of broad USD strength. We continue to see depreciatory risk for THB thanks to a generally bullish USD outlook, and the risk to a shift in economic growth momentum that would erode Thailand's external surplus. We target 33.00 in USDTHB at end of year.

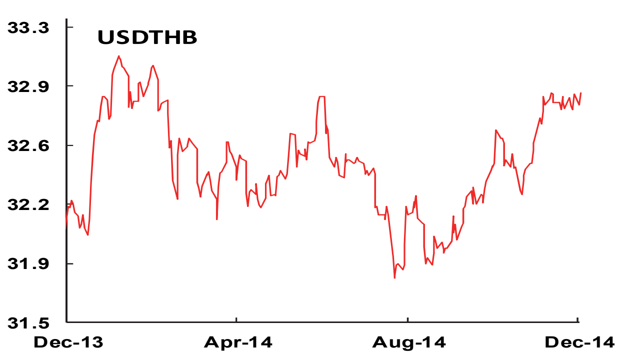
INDONESIA — Indonesia's recent energy subsidy reduction and interest rate hike is constructive in the near term for the IDR; however, the structural picture continues to remain concerning as the trade balance trend has failed to show significant improvement. Portfolio flow support has been entirely from fixed income investors betting on economic reform; nevertheless, we expect the IDR to continue to favour the weak side in order to achieve external rebalancing. We target USDIDR at 12500 at the end of the year.

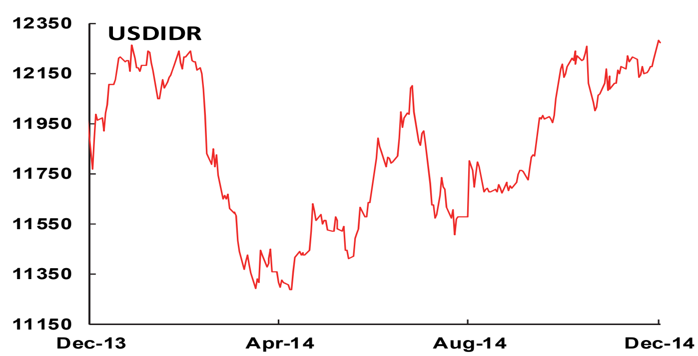
Currency Trends

FX Rate	Spot 2-Dec	14Q1a	14Q2a	14Q3a	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDINR	61.9	59.9	60.2	61.8	62.5	62.8	63.0	63.3	63.5
USDKRW	1107	1065	1012	1055	1120	1133	1145	1158	1170
USDTHB	32.9	32.4	32.4	32.4	33.0	33.3	33.5	33.8	34.0
USDIDR	12271	11361	11875	12188	12500	12575	12650	12725	12800









Developing Asia

Fundamental Commentary

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INDIA — Parliament's winter session in India started on November 24th and will last until December 23rd. Prime Minister Narendra Modi's majority government aims to introduce close to 40 bills, including that of the goods and services tax. The administration is focused on improving the country's business environment and growth potential through the implementation of various structural reforms. The Indian economy grew by 5.3% y/y in the third quarter of 2014, following an average expansion of 5.2% y/y in the first half of the year. The country's agricultural output was hampered by the delayed southwest monsoon. Moreover, performance of the manufacturing sector remained weak as structural bottlenecks - such as poor infrastructure and excessive red tape - have not yet been adequately addressed by the Modi government. Nevertheless, we expect the country's economic momentum to pick up in the near term on the back of the administration's reform agenda, taking real GDP growth from an estimated 5½% expansion in 2014 to 6% over the next two years. Disinflation dynamics combined with still-weak economic activity will likely prompt the Reserve Bank of India to ease monetary conditions in early 2015. Consumer price inflation eased to 5.5% y/y in October from 9.9% at end-2013. The benchmark repo rate was raised by 75 basis points to 8.0% between September 2013 and January 2014 in order to set the economy on a disinflationary path.

KOREA — South Korean monetary authorities will continue to monitor external risks, particularly the impact of Japanese monetary policy on the value of the Japanese yen. With Japanese manufacturers competing in the same product segments as their Korean counterparts, monetary authorities — together with exporters — in South Korea have become increasingly concerned about the JPY depreciation that makes Japanese products comparatively cheaper in world markets. Nevertheless, the co-movement of the won (it has weakened by close to 9% against the US dollar since the end of August compared with roughly a 13% depreciation of the JPY vis-à-vis the USD) has partially offset the adverse impact. Accordingly, we maintain our view that the Bank of Korea (BoK) will refrain from easing monetary policy further in the coming months, keeping the benchmark interest rate at the current level of 2.0% due to relatively high household debt. The BoK has lowered the key rate by 50 basis points since August in an attempt to support the economy. Inflationary pressures in South Korea remain mild with the consumer price index rising by 1.0% y/y in November – well below the BoK's target corridor of 2½-3½%. Nevertheless, the policymakers assess that inflation will gradually rise next year. We expect the country's real GDP growth to reach 3.5% this year as a whole, followed by a mild acceleration to an average annual gain of 3.6% in 2015-16.

THAILAND — Thailand's economy failed to gather substantial momentum in the third quarter of 2014. Real GDP expanded by 0.6% y/y compared to the 0.4% y/y advance in the April-June period. While private spending and investment rebounded, the export sector continued to struggle on the back of weak performance in the manufacturing and tourism sectors. Indeed, manufacturing production declined by 3.8% in the third quarter, while tourist arrivals dropped by 11.9% y/y; nevertheless, October indicators have proven more promising. Accordingly, real GDP growth will likely recover strongly in the final three months of the year, partly reflecting the base effect from the beginning of the political crisis at the end of last year. We have revised our real GDP growth projection for Thailand, and now expect output to increase by 1% in 2014 as a whole. Growth momentum will accelerate in the coming months, with real GDP gains averaging close to 4% y/y in 2015-16. The recovery will be driven by public outlays aimed at large scale infrastructure projects. Improving private sector confidence bodes well for consumption and investment prospects that are further underpinned by the government's recent decision to extend corporate and personal income tax rate reductions. Inflation continues to ease, with the consumer price index increasing by 1.5% y/y in October compared with a 2.2% average gain over the prior six months. The recent oil price decline will further dampen inflationary dynamics. Nevertheless, the Bank of Thailand will likely keep the benchmark interest rate unchanged at 2% in the coming quarters, assessing that the policy stance is already accommodative enough in an environment of high household debt.

INDONESIA — Indonesia's new president, Joko Widodo, is moving ahead with his economic reform agenda. On November 17th, a fuel subsidy reduction was announced, which increased the average price of fuel by 33%. The action will ease the burden on government finances while reducing the country's oil import bill, which will be reflected in a lower current account deficit. Simultaneously, however, inflationary pressures will intensify. In order to anchor inflation expectations and to ensure that consumer price gains will be within the official target of 4% ±1% in 2015, Bank Indonesia tightened monetary conditions following an unscheduled policy meeting on November 18th. The benchmark interest rate was raised by 25 basis points to 7.75%. Given the already-tight monetary policy stance, we do not anticipate any further interest rate hikes in the near term barring deterioration in global investor sentiment that would require intervention by the central bank. Inflation accelerated to 6.2% y/y in November from 4.8% in October due to the fuel price increase. Further modest upside pressure on prices is likely in the coming months. Indonesian real GDP growth slowed slightly to 5.0% y/y in the third quarter from 5.1% in the April-June period. The country's export sector is adversely affected by lower global commodity prices as well as the partial ban on the country's mineral ore exports. We expect that Indonesia's output will expand by 5.7% y/y in 2015-16 following a 5.2% gain this year.

Developing Americas
Currency Outlook

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BRAZIL — The Brazilian real (BRL) will maintain a weakening bias over the next six months, as the newly appointed economic team addresses serious macroeconomic imbalances in a concerted effort to revive business/investor confidence and avert multiple credit rating downgrade revisions. Inflation remains an issue of utmost concern, prompting us to review our view on a more aggressive monetary tightening cycle. USDBRL will likely enter a 2.60-2.70 trading range over the next 12 months.

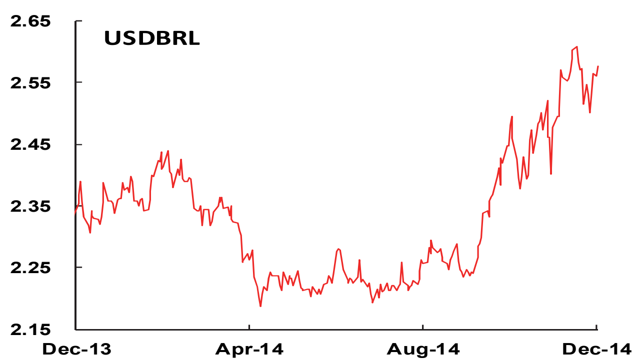
MEXICO — The Mexican peso (MXN) remains supported by the dual positive effect of a thriving US economic outlook and the broad-based expectation of sizable foreign capital inflows associated with the process of structural reforms adopted by the administration of Enrique Peña Nieto. Nevertheless, the MXN has been battered by the end-of-year attack against oil-linked currencies as a result of a sharp collapse in crude oil prices in the second half of the year.

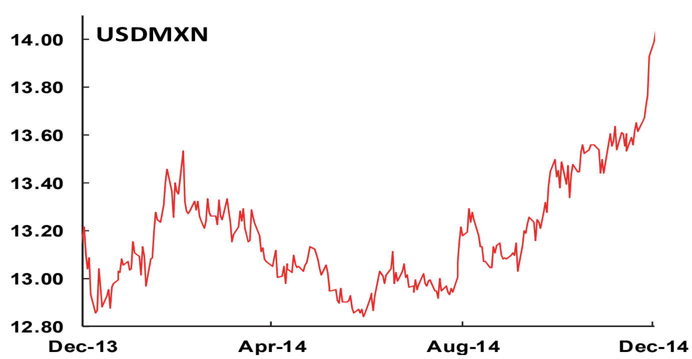
CHILE — The Chilean peso (CLP), which was subject to a steady phase of currency weakness as a result of declining metal prices and a sharp contraction in domestic economic activity, may enter a phase of consolidation in the coming months as the non-energy commodity markets complete the adjustment to a less benign global economic environment. We estimate that USDCLP may be edging the 600 mark in the near term, somewhat influenced by dollarization dynamics present in the region.

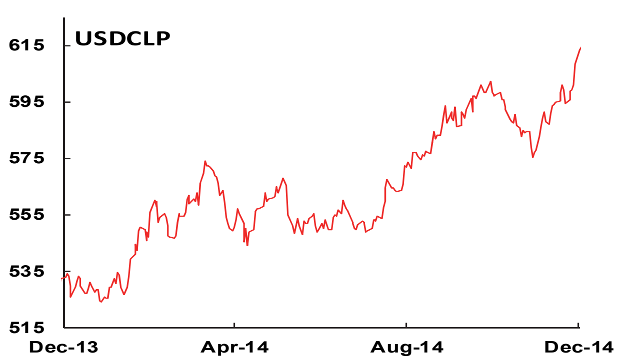
COLOMBIA — The Colombian peso (COP) has been, and will remain, one of the most adversely affected currencies by declining oil prices. While the economy is one of the best performing in the region (estimated to expand by 5% in 2014), Colombian local securities and foreign trade mix are quite dominated by energy investments. In addition, monetary authorities have hinted an implied sense of comfort with a more devalued currency to support non-energy tradable sectors.

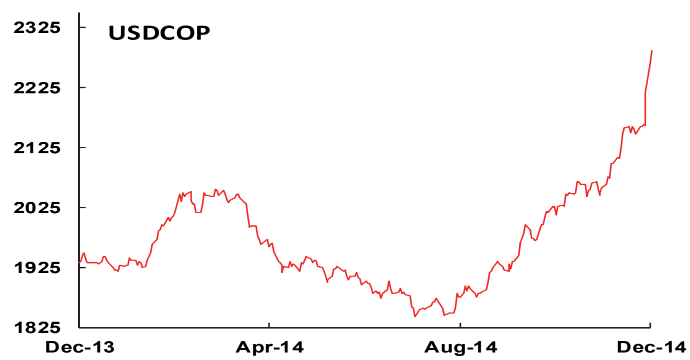
Currency Trends

FX Rate	Spot 2-Dec	14Q1a	14Q2a	14Q3a	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDBRL	2.58	2.27	2.21	2.45	2.55	2.60	2.65	2.65	2.70
USDMXN	14.04	13.06	12.97	13.43	14.01	13.79	13.53	13.89	14.10
USDCLP	614	549	553	598	600	585	586	590	605
USDCOP	2291	1971	1877	2025	2250	2275	2300	2325	2350









Developing Americas
Fundamental Commentary

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BRAZIL — The Brazilian real (BRL) faces a volatile period. A phase characterized by intensifying inflationary pressures will dominate the Brazilian macroeconomic landscape in the first half of 2015. A newly appointed finance team will initiate a process of macroeconomic adjustment to restore fiscal discipline, recover business confidence to boost long-term investment prospects, and normalize administered prices in the economy. Joaquim Levy was appointed as the new Minister of Finance. In response to a potential increase in price pressures, the central bank will opt to tighten monetary conditions by increasing the policy-setting rate above the 12% mark in the coming months. The year 2015 will be marked by a period of necessary adjustments, which in combination with a broad-based trend in favour of the US dollar (USD), will likely exert depreciating pressures into the BRL. At the core of the needed adjustments is the reversal of the widening fiscal deficit, which reached 5% of GDP by the end of November 2014. The steady reduction of the primary surplus (to 0.56% of GDP) as a result of rampant government spending is the major driver of such consolidated fiscal imbalance. Official rhetoric by the central bank highlights that the monetary authorities will do whatever it takes to combat inflationary expectations. Finally, Brazil is well positioned to withstand the heightened volatility affecting global energy markets; net energy trade is not a major factor shaping currency market swings.

MEXICO — The Mexican peso (MXN) has been weakening against the US dollar (USD) since early June. A broad-based preference for the USD fuelled by attractive US growth and interest rate differentials and corrective forces in emerging markets, has placed the peso on the defensive. Banco de México has US$190 billion in international reserves to counteract currency weakness triggered by disorderly repatriation of US-based portfolio flows. Real GDP will expand by 2% in 2014 and accelerate to 3-3.5% in 2015. The key factors leading to the near-term recovery will be: 1) strengthening domestic demand, 2) declining fiscal drag; 3) growing investment in reform sectors: the construction sector is showing signs of renewed recovery following six weak quarters, and 4) the US economy, estimated to expand by 3.3% in 2015, remains a major driver of export sector revenue (the US receives 80% of Mexican exports), particularly in the auto sector. Faster growth and reform-driven foreign capital inflows will enhance Mexico's credit risk in 2015-16. Due to persistent inflation and accelerating growth, the central bank will likely normalize monetary conditions in line with the Fed moves in late 2015. The government will continue to implement an ambitious structural reform agenda in key sectors of the economy. However, recent developments involving government procurement irregularities as well as heightened insecurity in the interior which reached global media headlines, may somewhat impair business confidence in the near term.

CHILE — The Chilean peso (CLP) will maintain a weakening bias, driven by ongoing adjustment in relevant commodity markets, global economic deceleration, improving USD prospects and asset reallocation shifts away from emerging-market assets. The external sector has taken centre stage during the recent weak economic phase. Declining copper prices, linked to supply and demand adjustments in the global mining sector, has limited the export sector's contribution to growth. On a positive note, the sharp crude oil price decline will have a positive impact on the Chilean economy. The central bank will maintain a pro-growth policy stance in response to a weak economic context; inflation will remain at or slightly above 5% in the near term, distanced from the 3% ± 1% official target, before converging to 3% by the end of 2015. The global perception of Chile's creditworthiness remains sound and relatively unaffected by a phase of soft economic performance and declining commodity prices. Financial market metrics and sovereign debt ratings indicate that Chile's credit profile retains the highest quality within the developing Americas. Nevertheless, the Chilean economy continues to portray persistent weakness. We estimate that real GDP growth may average 2% y/y this year before accelerating to 3% and 4% in 2015 and 2016, respectively. The tradable sectors of the economy will benefit from a weaker real exchange rate, yet they will remain sensitive to economic demand from China and other key Asia/Pacific markets.

COLOMBIA — In the near term, the Colombian peso (COP) will face headwinds influenced by persistent USD demand associated with US growth prospects, the likelihood of increasing Fed funds rate in 2015, and the sharp contraction in oil prices. Through intervention in currency markets and/or interest rate adjustments, Colombia will seek to mitigate heightened volatility in financial markets. Colombia will be the fastest growing economy within the Pacific Alliance, expanding by 5% in 2014. For 2015-16, the growth rate will be around 4.5%. Gross capital formation increased by 13% y/y during the first half of the year. Increasing household spending due to structural labour market gains (unemployment rate at 8.3%) and public sector infrastructure investments will be core growth drivers offsetting the negative contribution from net trade in the near term. Colombia remains a favourite destination of foreign direct investment flows, particularly in the energy and infrastructure sectors in 2015-16. Nevertheless, the current account deficit of 4% of GDP reflects a weakening external sector driven by declining terms of trade and decelerating growth dynamics in selected export markets. The Colombian financial sector is systemically sound to withstand market shocks caused by a steep oil price decline and capital outflows. Negotiations between the government and insurgent groups to end a five-decade armed conflict remain at the core of the foreign policy agenda. Deeper integration within the Pacific Alliance bloc is growth supportive.

Developing Europe & Africa
Currency Outlook

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RUSSIA — The Russian ruble (RUB) continued to extend its losses and suffered its largest one-day decline on Dec 1st against the US dollar (USD) — less than a month after allowing the RUB to float freely. The RUB's slide reflects the fact that Russia is among the most exposed to falling oil prices and is particularly vulnerable to OPEC's recent decision to maintain its supply target of 30-million-barrels per day. This combined with the adverse impact of Western sanctions has contributed to the RUB's nearly 40% depreciation vis-à-vis the USD since the start of 2014. In this context, the Russian Central Bank will likely hike interest rates at its next meeting on December 11th. RUB is forecast to close the year at around 53.2 in 2014 and 50.9 in 2015.

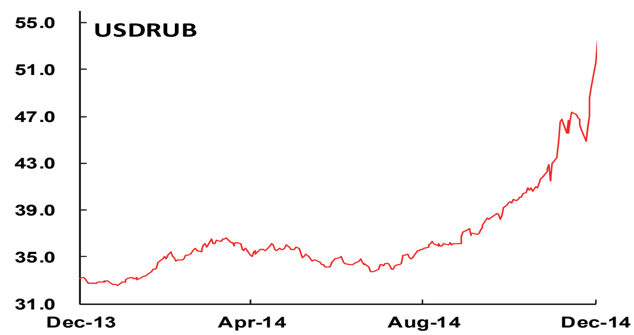
TURKEY — In November, the lira (TRY) has gained value against the world's major currencies as lower oil prices bode well for an improvement in Turkey's large current account deficit and elevated inflationary pressures. Looking ahead, however, the outlook for the TRY remains bearish, tempered by prospects for monetary tightening in the US and UK, as well as ongoing domestic challenges and a dovish central bank. We expect the TRY to end the year at 2.25 in 2014 and 2.33 in 2015.

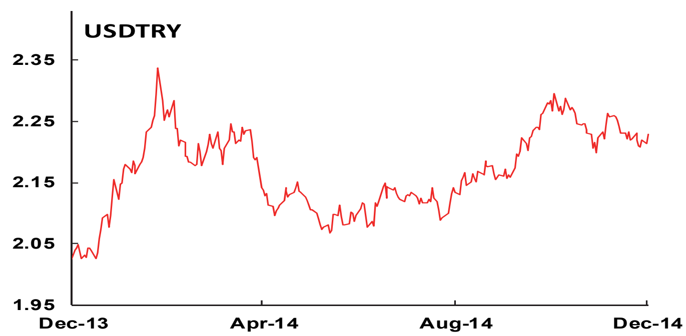
HUNGARY — The Hungarian forint (HUF) rallied to a five-month low against the euro (EUR) on November 21st, driven in part by its better-than-expected economic data and expectations of more monetary stimulus by the ECB. However, the HUF started to retrace earlier gains as monetary easing in other parts of central Europe and the impact of lower oil prices on its already negative inflation heightened expectations for further monetary easing. However, with the government in favour of a strong forint at end-2014, we continue to expect the HUF will close the year at 309 per EUR in 2014 and 314 in 2015.

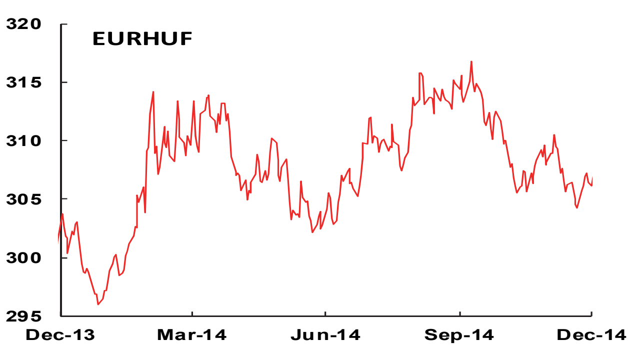
SOUTH AFRICA — The South African rand (ZAR) will likely face a mild depreciating bias through 2015 amidst a backdrop of elevated inflation and weak economic fundamentals. We believe that South African monetary authorities will begin normalizing the benchmark repurchase rate in the first quarter of 2015 in an attempt to combat inflation, offsetting some of the depreciating pressures that weak economic fundamentals place on the currency. We expect the ZAR to close the year at roughly 11.10 against the USD before weakening further to 11.25 in 2015.

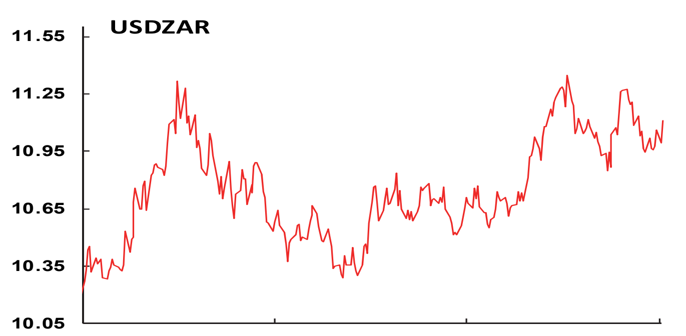
Currency Trends

FX Rate	Spot 2-Dec	14Q1a	14Q2a	14Q3a	14Q4f	15Q1f	15Q2f	15Q3f	15Q4f
USDRUB	53.4	35.2	34.0	39.6	53.2	52.7	52.1	51.5	50.9
USDTRY	2.23	2.14	2.12	2.28	2.25	2.28	2.30	2.35	2.33
EURHUF	307	307	310	311	309	311	313	314	314
USDZAR	11.11	10.53	10.64	11.29	11.10	11.07	11.15	11.20	11.25









Developing Europe & Africa
Fundamental Commentary

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RUSSIA — Heightened geopolitical tension and Western sanctions continue to weigh heavily on economic activity and sentiment in Russia, while rapid capital flight and declining oil prices have also put pressure on external accounts and the ruble. This, combined with rising food prices, has been responsible for the acceleration in consumer price inflation to a three-year high of 8.3% y/y in October, up from 8% in September and well above the Russian central bank's 5% target for end-2014. In an attempt to ease inflationary pressures, the central bank unexpectedly increased interest rates by 150 basis points at its meeting in October, bringing its key rate to 9.5%. Amid monetary tightening and modest real wage growth, consumer spending has slumped, while business confidence and investment have been hit hard by the sharp rise in financing costs and the threat of harsher international sanctions. In this context, the sharp decline in oil prices has exacerbated the likelihood that the Russian economy will fall into recession over the next year at a time when government finances are strained by less revenue from oil and gas taxes, rising defence expenditure, and growing pension liabilities. The weak ruble, however, continues to lend support to exports, while a temporary agreement between Russia and the Ukraine to end its long-standing gas dispute has been reached. Nevertheless, unsolved issues will resurface in March 2015, while weaker oil prices and sanctions will likely remain in place for the foreseeable future. As a result, we have lowered our real GDP growth forecast to 0.2% in 2014 and 0.1% in 2015, and estimate year-end inflation rate of 8% y/y in 2014 before edging lower to 6.5% in 2015. Russia's current account surplus is expected to narrow from 3% of GDP in 2014 to an average of 2½% in the 2015-16 period.

TURKEY — Economic growth in Turkey is expected to moderate this year on the back of weaker domestic demand. Private consumption has been dampened by high interest rates and elevated inflation, while geopolitical uncertainty — conflict in Iraq and the Russia-Ukraine crisis — has weighed on business investment. However, net exports and growth in government spending should provide some offset. Despite these challenges, the central bank of Turkey will likely keep its key interest rate unchanged at 8.75%, as the weaker lira and elevated inflation at nearly 9% y/y in October support a tighter monetary policy stance. The bank's Monetary Policy Committee has warned that higher food prices has delayed the expected deceleration in inflation; however, weaker global commodity prices should limit upward risks. Nevertheless, the country's large external deficit leaves it vulnerable to shifts in international capital flow dynamics, particularly monetary normalization by the US Fed and the BoE, and to changes in Turkey's perceived risk premium on the back of weaker Europe growth prospects, the surrounding geopolitical risks and concerns of central bank independence. We believe consumer price inflation will remain elevated at a year-end rate of roughly 8½% y/y (well above the central bank's target of 5%) before decelerating to 7% in 2015. As a result, we expect the Turkish central bank to keep its one-week repurchase rate unchanged through the end of 2014, before gradually easing rates as inflation subsides in 2015. Real GDP is forecast to advance 3% in 2014, 3.5% in 2015 and 4% in 2016. Turkey's current-account deficit is expected to remain near 6% of GDP over our forecast horizon.

HUNGARY — Economic conditions in Hungary continue to show signs of improvement, with third-quarter real GDP beating expectations by advancing 3.2% y/y alongside improvements in the manufacturing and agriculture sectors. Hungary's economic momentum has also been driven by stronger investment growth on the back of EU-funded public infrastructure projects. Net exports have also been supportive, yet are being increasingly squeezed by stronger import growth as household consumption has moderately improved. Nevertheless, deflationary pressures persist, with consumer prices contracting 0.4% y/y in October due to subdued international food and energy prices, and the 10% cut last November in regulated energy prices. The National Bank of Hungary (NBH) ended its aggressive two-year easing cycle in July and plans to keep policy rates on hold until at least end-2015. We expect the NBH will stick to its pledge at least in the short-term, with annual inflation forecast to gradually rise to a year-end rate of 0.1% y/y in 2014 and just below the NBH's 3% target in 2015, supported by base effects, improving consumer demand and a weaker forint. Real GDP growth is expected to accelerate from 1.1% in 2013 to 3% in 2014, before moderating to 2½% in 2015 as slower growth in Europe and reduced EU funds weigh on exports and investment. As a result, Hungary's current-account surplus is expected to narrow from 3% of GDP in 2014 to 2% in 2015.

SOUTH AFRICA — South Africa's economic environment remains strained by lackluster job creation, a waning fiscal outlook and a persistent current-account deficit. Successive waves of labour unrest and strikes as well as electricity outages have also dragged down growth in the mining, manufacturing and utilities sectors. Meanwhile, debt-burdened consumers are squeezed by high interest rates, elevated unemployment rate at roughly 25% and rising food and fuel prices. Inflationary pressures persist, with price levels rising 5.9% y/y in October, near the top end of the South African Reserve Bank's (SARB) 3% to 6% target. However, food price inflation continued to ease to 7.8% y/y in October down from 9.4% in August. Despite the hawkish comments by Lesetja Kganyago prior to becoming the governor of the SARB, authorities decided to keep its benchmark repo rate unchanged at 5.75%. Real GDP growth is forecast to advance 1½% in 2014 and 2½% in 2015, while inflation should ease from a year end rate of roughly 6% y/y in 2014 to 5½% in 2015, underpinned by weaker oil prices, moderating food prices and subdued consumer spending. However, rising real wages and electricity tariffs will likely be a source of pressure; therefore, the SARB maintains the view that interest rates will have to normalize over time. Several rate hikes are expected in 2015.

Global Currency Forecast (end of period)

		2013	2014f	2015f	2016f	2014f	2015f				2016f			
Major Currencies						Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	105	120	126	131	120	122	124	125	126	128	129	130	131
Euro zone	EURUSD	1.37	1.25	1.18	1.14	1.25	1.23	1.21	1.20	1.18	1.17	1.16	1.15	1.14
	EURJPY	145	150	149	149	150	150	150	150	149	150	150	150	149
UK	GBPUSD	1.66	1.56	1.54	1.53	1.56	1.56	1.55	1.55	1.54	1.54	1.54	1.53	1.53
	EURGBP	0.83	0.80	0.77	0.75	0.80	0.79	0.78	0.77	0.77	0.76	0.75	0.75	0.75
Switzerland	USDCHF	0.89	0.97	1.04	1.08	0.97	0.98	1.01	1.02	1.04	1.05	1.06	1.07	1.08
	EURCHF	1.23	1.21	1.23	1.23	1.21	1.21	1.22	1.22	1.23	1.23	1.23	1.23	1.23
Americas														
Canada	USDCAD	1.06	1.15	1.17	1.19	1.15	1.16	1.16	1.17	1.17	1.18	1.19	1.19	1.19
	CADUSD	0.94	0.87	0.85	0.84	0.87	0.86	0.86	0.85	0.85	0.85	0.84	0.84	0.84
Mexico	USDMXN	13.04	14.01	14.10	14.41	14.01	13.79	13.53	13.89	14.10	14.23	14.10	14.18	14.41
	CADMXN	12.27	12.18	12.05	12.11	12.18	11.88	11.66	11.87	12.05	12.06	11.85	11.91	12.11
Brazil	USDBRL	2.36	2.55	2.70	2.80	2.55	2.60	2.65	2.65	2.70	2.70	2.70	2.80	2.80
Chile	USDCLP	525	600	605	600	600	585	586	590	605	600	600	600	600
Colombia	USDCOP	1930	2250	2350	2400	2250	2275	2300	2325	2350	2350	2375	2375	2400
Peru	USDPEN	2.80	2.92	2.95	2.95	2.92	2.95	3.00	2.97	2.95	2.95	2.95	2.95	2.95
Uruguay	USDUYU	21.50	24.50	26.50	28.00	24.50	25.00	25.50	26.00	26.50	26.88	27.25	27.63	28.00
Asia / Pacific														
Australia	AUDUSD	0.89	0.85	0.82	0.80	0.85	0.85	0.84	0.83	0.82	0.82	0.81	0.81	0.80
China	USDCNY	6.05	6.10	5.98	5.90	6.10	6.07	6.04	6.01	5.98	5.96	5.94	5.92	5.90
Hong Kong	USDHKD	7.75	7.78	7.78	7.78	7.78	7.78	7.78	7.78	7.78	7.78	7.78	7.78	7.78
India	USDINR	61.8	62.5	63.5	63.0	62.5	62.8	63.0	63.3	63.5	63.4	63.3	63.1	63.0
Indonesia	USDIDR	12171	12500	12800	12500	12500	12575	12650	12725	12800	12725	12650	12575	12500
Malaysia	USDMYR	3.28	3.40	3.48	3.50	3.40	3.42	3.44	3.46	3.48	3.49	3.49	3.50	3.50
New Zealand	NZDUSD	0.82	0.78	0.77	0.77	0.78	0.80	0.79	0.78	0.77	0.77	0.77	0.77	0.77
Philippines	USDPHP	44.4	45.0	46.0	46.3	45.0	45.3	45.5	45.8	46.0	46.1	46.1	46.2	46.3
Singapore	USDSGD	1.26	1.30	1.33	1.35	1.30	1.31	1.32	1.32	1.33	1.34	1.34	1.35	1.35
South Korea	USDKRW	1050	1120	1170	1150	1120	1133	1145	1158	1170	1165	1160	1155	1150
Taiwan	USDTWD	29.8	31.0	31.8	32.3	31.0	31.2	31.4	31.6	31.8	31.9	32.0	32.1	32.3
Thailand	USDTHB	32.7	33.0	34.0	33.5	33.0	33.3	33.5	33.8	34.0	33.9	33.8	33.6	33.5
Europe / Africa														
Czech Rep.	EURCZK	27.3	27.4	27.0	26.4	27.4	27.3	27.3	27.2	27.0	26.9	26.6	26.5	26.4
Hungary	EURHUF	297	309	314	317	309	311	313	314	314	315	316	316	317
Norway	USDNOK	6.07	6.90	6.85	6.75	6.90	6.90	6.90	6.85	6.85	6.80	6.80	6.75	6.75
Poland	EURPLN	4.15	4.16	4.08	3.95	4.16	4.15	4.13	4.11	4.08	4.05	4.02	4.00	3.95
Russia	USDRUB	32.9	53.2	50.9	47.0	53.2	52.7	52.1	51.5	50.9	50.0	49.0	48.0	47.0
South Africa	USDZAR	10.49	11.10	11.25	11.30	11.10	11.07	11.15	11.20	11.25	10.80	10.90	11.00	11.30
Sweden	EURSEK	8.85	9.30	8.97	8.95	9.30	9.15	9.08	9.06	8.97	8.95	8.99	8.97	8.95
Turkey	USDTRY	2.15	2.25	2.33	2.40	2.25	2.28	2.30	2.35	2.33	2.40	2.40	2.40	2.40

f: forecast a: actual

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