



EUROPEAN MONETARY UNION IN CRISIS

When **insight** matters.™

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CONFERENCE CALL COMMANDS

Press 1 – Skip backward 5 seconds; Press 3 – Skip forward 5 seconds

Press 4 – Skip backward 5 minutes; Press 6 – Skip forward 5 minutes

Press 5 – Pause the playback

SCOTIABANK'S FORECAST

FX - USD performance is mixed

	2010	2011	2012f	2013f
USDCAD	1.00	1.02	0.98	0.96
CADUSD	1.00	0.98	1.02	1.04
AUDUSD	1.02	1.02	1.09	1.11
EURUSD	1.34	1.30	1.25	1.29
GBPUSD	1.56	1.55	1.63	1.68
USDJPY	81	77	85	87
USDCNY	6.61	6.30	6.18	6.05

REAL GDP - A softened growth profile

	00-10	2011	2012f	2013f
US	1.8	1.7	2.3	2.4
Canada	2.2	2.5	2.1	2.2
Mexico	2.1	3.9	3.6	3.7
Euro Zone	1.4	1.5	(0.5)	0.9
UK	2.0	0.7	0.5	1.8
Japan	0.9	(0.7)	2.0	1.7
China	9.5	9.3	8.4	8.9

INFLATION - Expected to remain contained

US	3.3	2.4	2.2
Canada	2.7	2.2	2.1

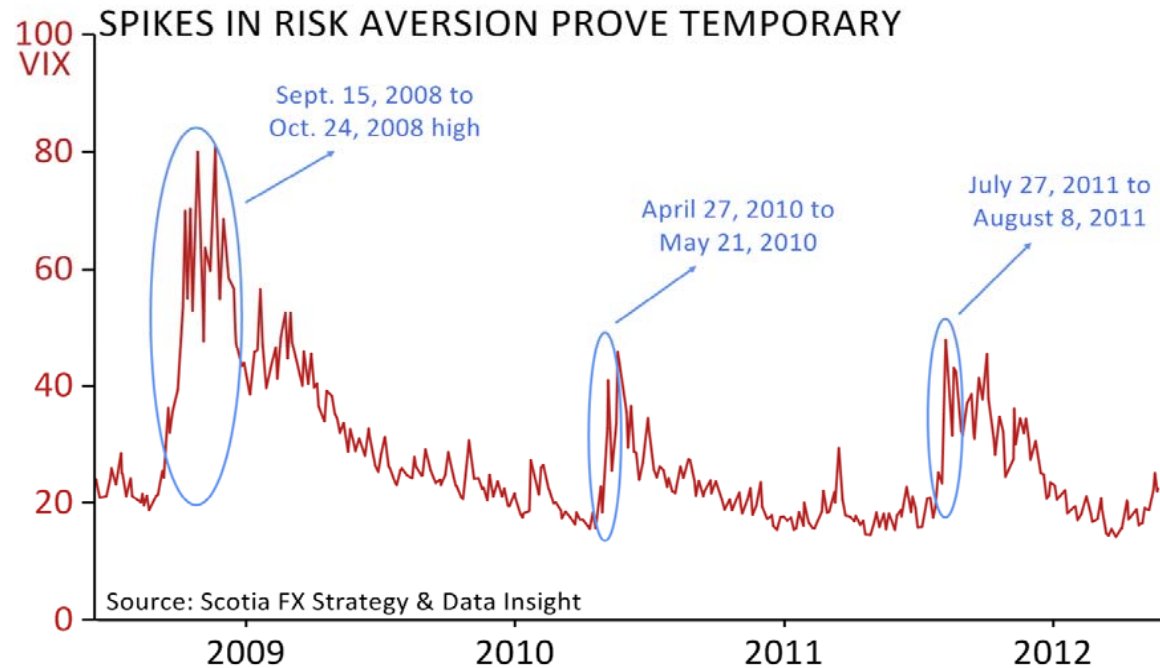
COMMODITIES - Yearly averages

Oil (WTI)	95	105	105
Gold	1,569	1,650	1,600

INTEREST RATES - Remain accomodative

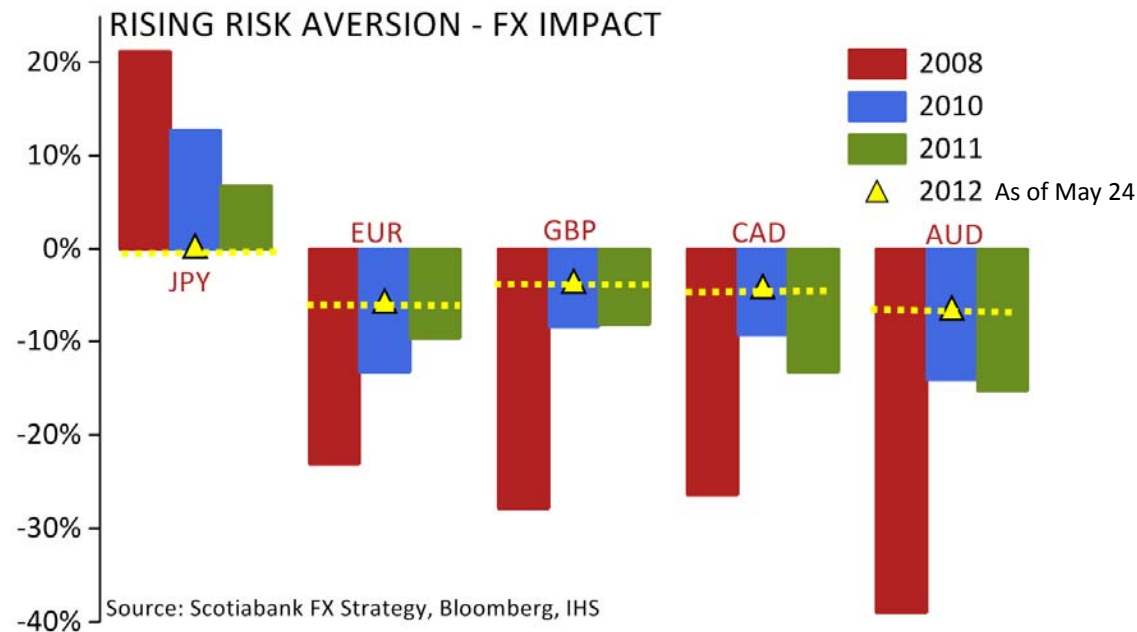
	Q411	Q412	Q413
FED	0.25	0.25	0.25
BoC	1.00	1.00	1.75
ECB	1.00	0.75	0.75
BoE	0.50	0.50	0.50
BoJ	0.10	0.10	0.10
RBA	4.25	3.75	4.00

RISK AVERSION SPIKES ARE TEMPORARY BUT VIOLENT



- Risk aversion is temporary
- Since 2008, spikes have been between 2 and 5 weeks (we are in week two).
- Takes substantial time to retrace

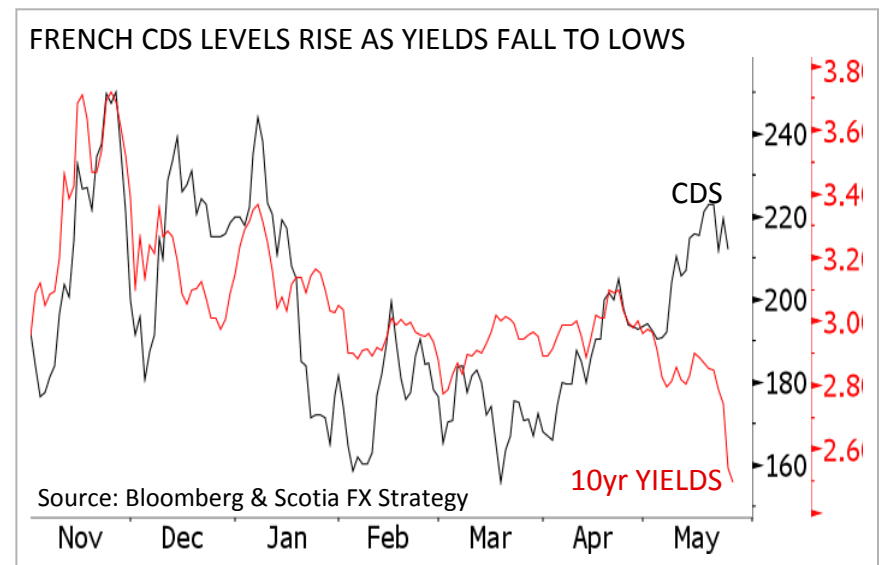
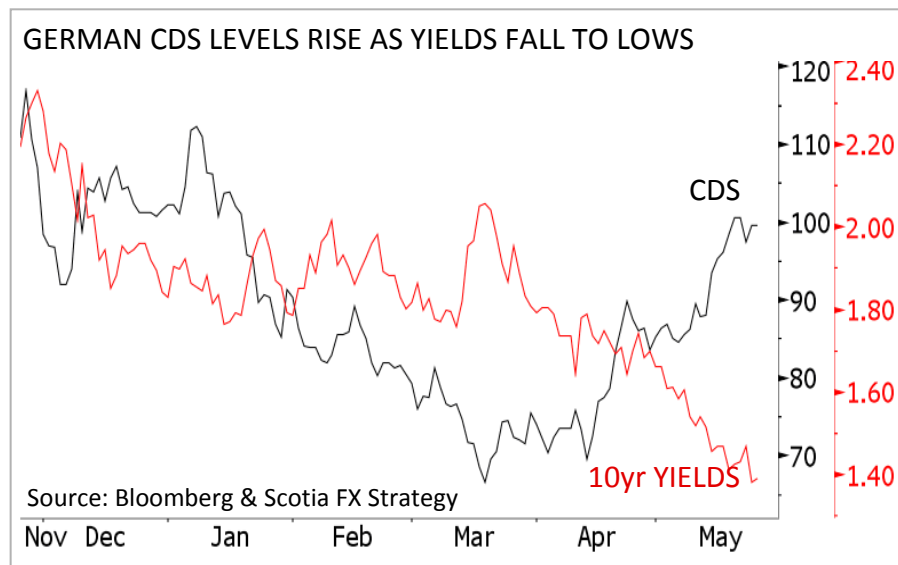
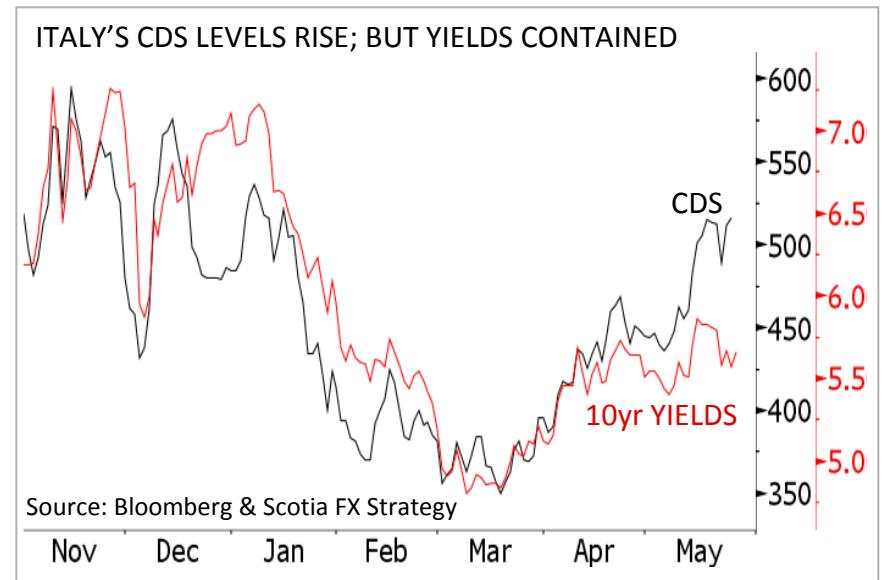
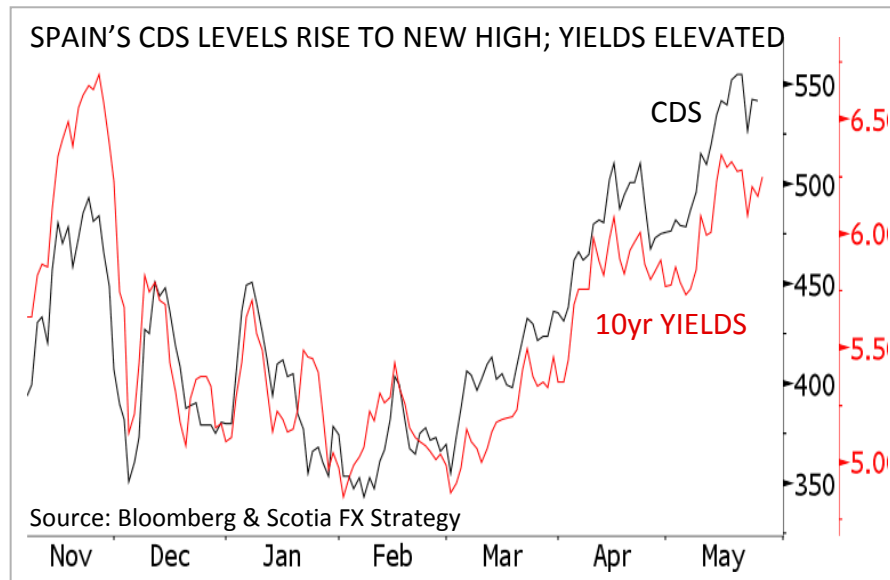
RISK AVERSION & FX LOSSES – ARE WE THERE YET?



History might not repeat but provides a guide of potential impact

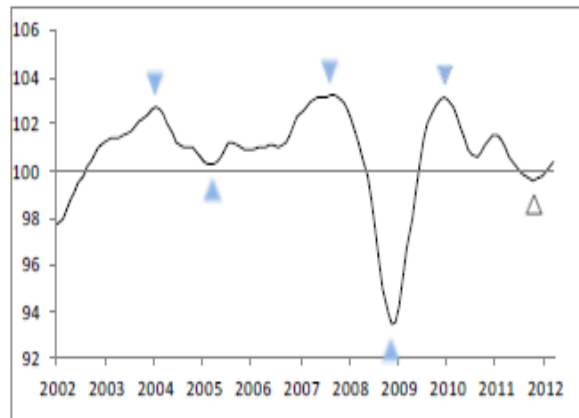
- Nothing compares to the fall of 2008
- Epicenter of crisis doesn't matter.
- AUD always higher beta and larger losses.
- Compared to either 2010 or 2011 it looks like we are 1/2 to 2/3 of the way there.

EUROPEAN BOND AND CDS MARKETS

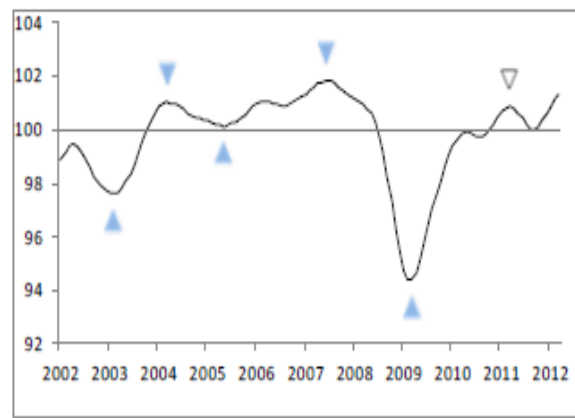


TWO THEMES THIS YEAR – GLOBAL GROWTH AND CENTRAL BANK POLICY CHANGING

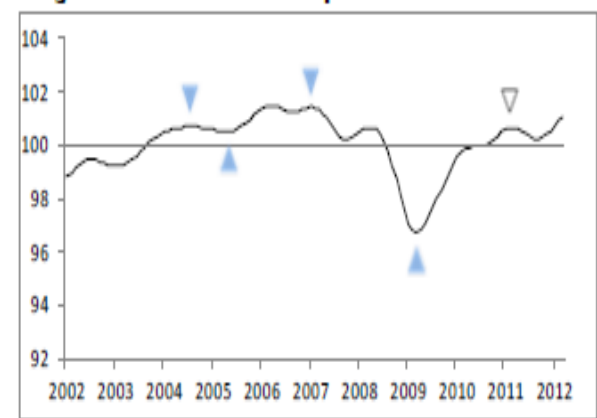
Regained momentum in China



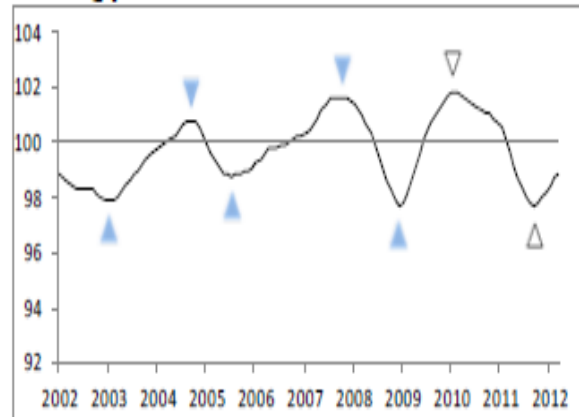
Regained momentum in the United States



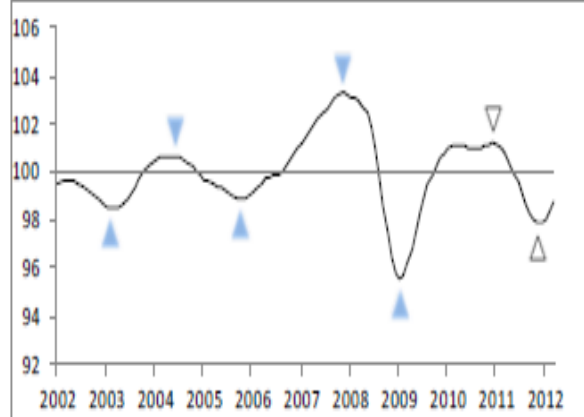
Regained momentum in Japan



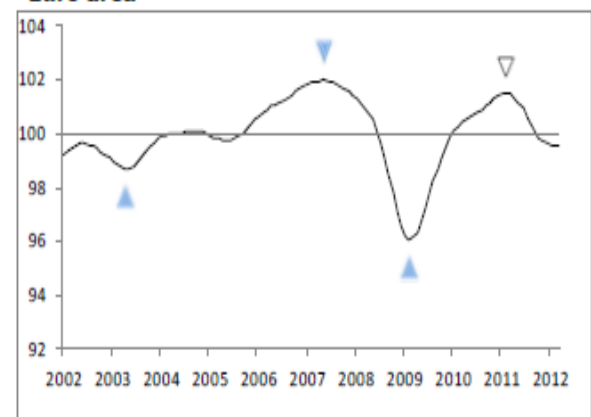
Turning point in India



Turning point in Brazil



Economic activity below long-term trend in the Euro area

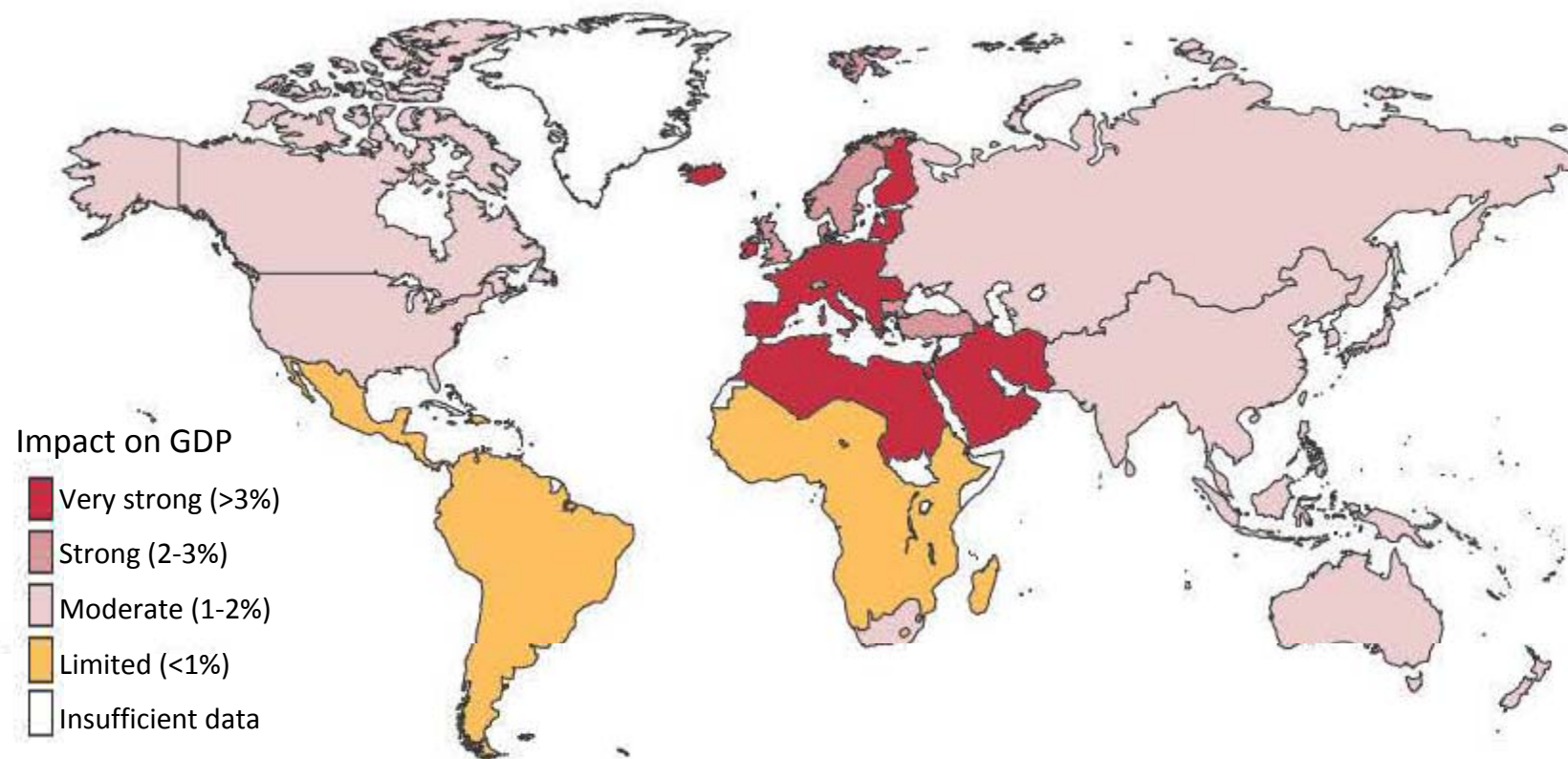


Source for all charts: OECD

- Slowing global growth is being priced into markets
- Risk of Fed QE3, ECB action has increased; but not there yet
- OECD leading indicators (May 10) more bullish than market perception

EUROPE HAS A GLOBAL IMPACT

IMPACT OF AN INTENSIFIED EURO AREA CRISIS ON THE WORLD



Source: IMF WEO, April 2012

EURUSD – HISTORICAL TRADING PATTERNS



EUR key levels:

1.21: Average since inception

1.6038: All time high - July 2008

0.8230: All time low - October 2000



EUR key levels:

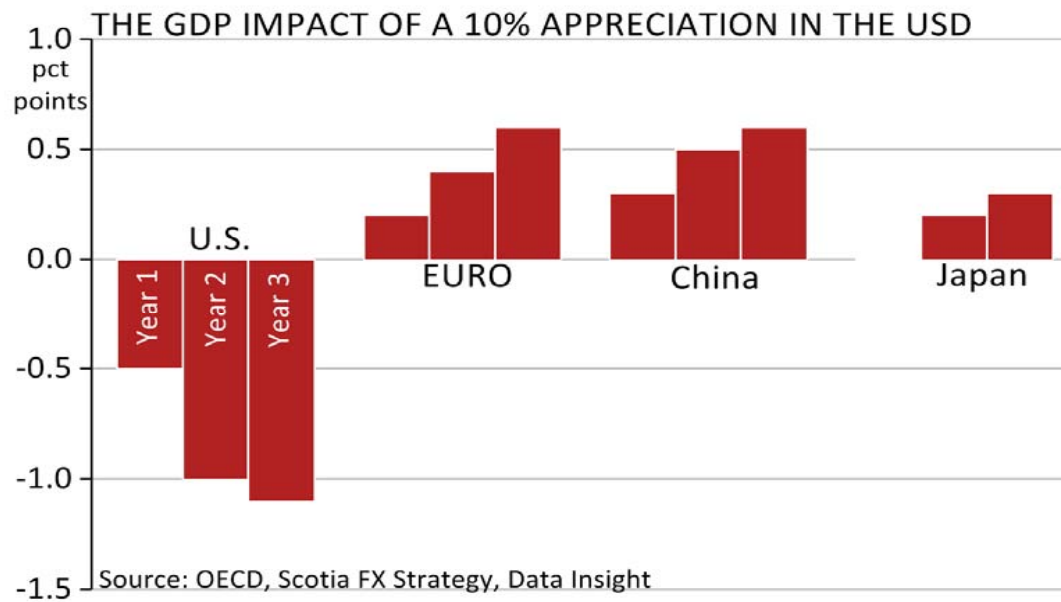
1.2588: Historical support/resistance

1.2500: Psychological (broken intraday)

1.2152: Next major support

1.1877: Major support from 2010 low

EURUSD – WHAT PROTECTS EUR FROM COLLAPSE



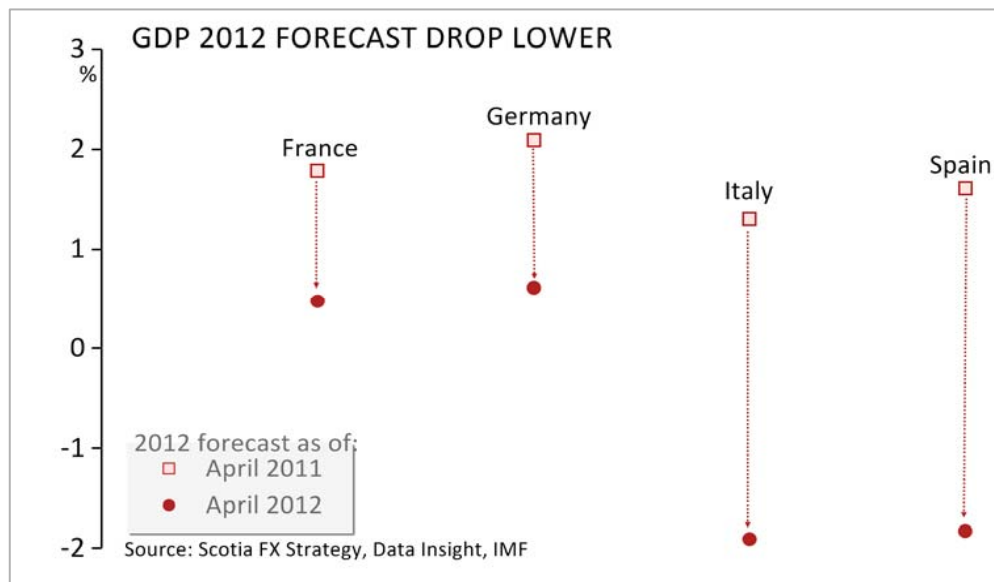
Themes that support EUR:

- US economy needs a weak USD; just like Eurozone needs weak EUR.
- US fiscal problems loom – ‘current law’ suggests fiscal drag of 3.9% in 2013; BoC estimates it at 2%.
- Relative monetary policy – ECB not moving towards QE; Fed has door open to QE3.
- Germany - has value whether you believe in EMU or not.

Repatriation – IMF - deleveraging will total \$2.6trn

- with 75% of this expected to come from sales of subsidiaries, noncore assets and securities

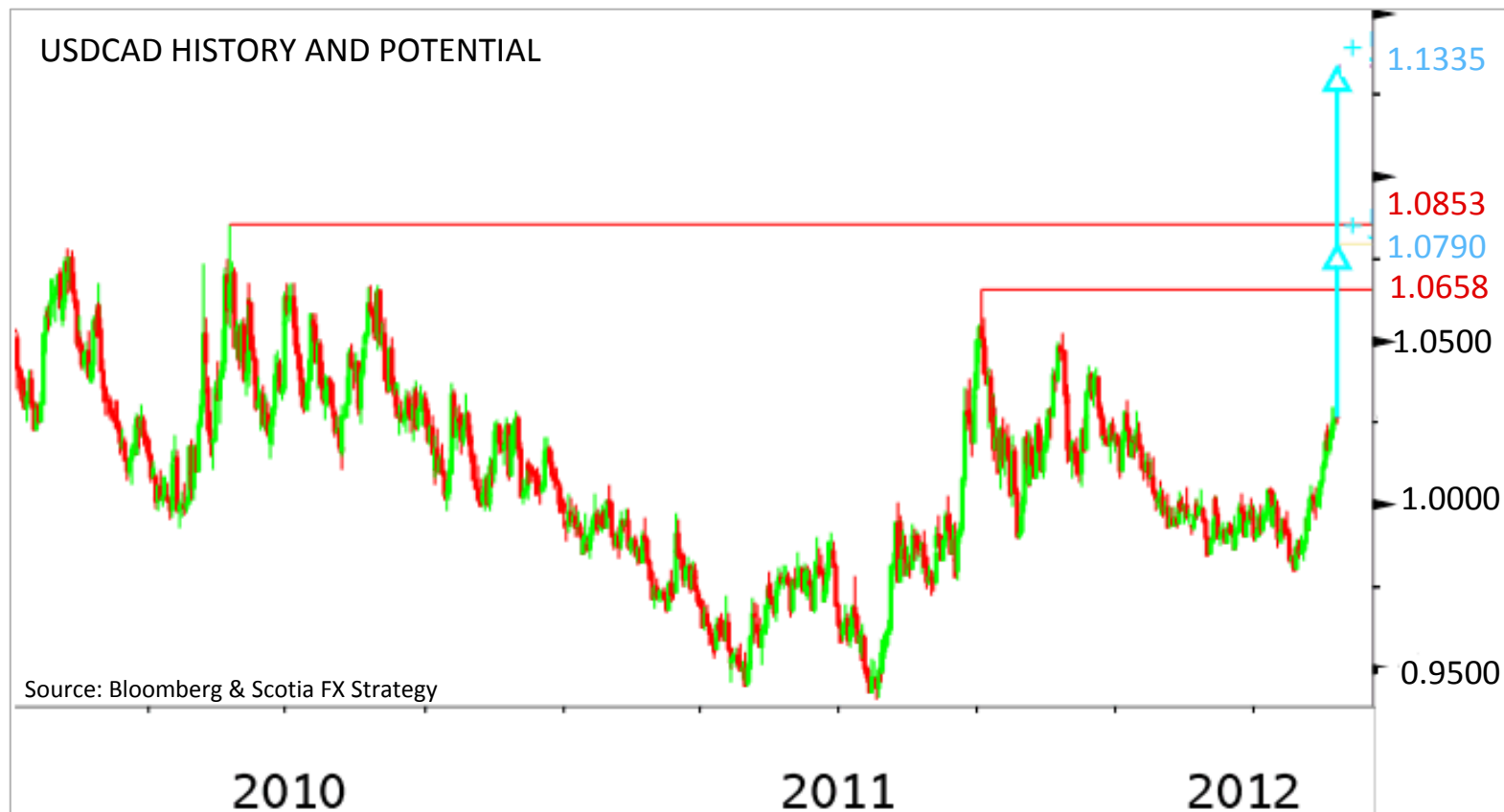
EURUSD – WHY THE CURRENCY SHOULD STRUGGLE



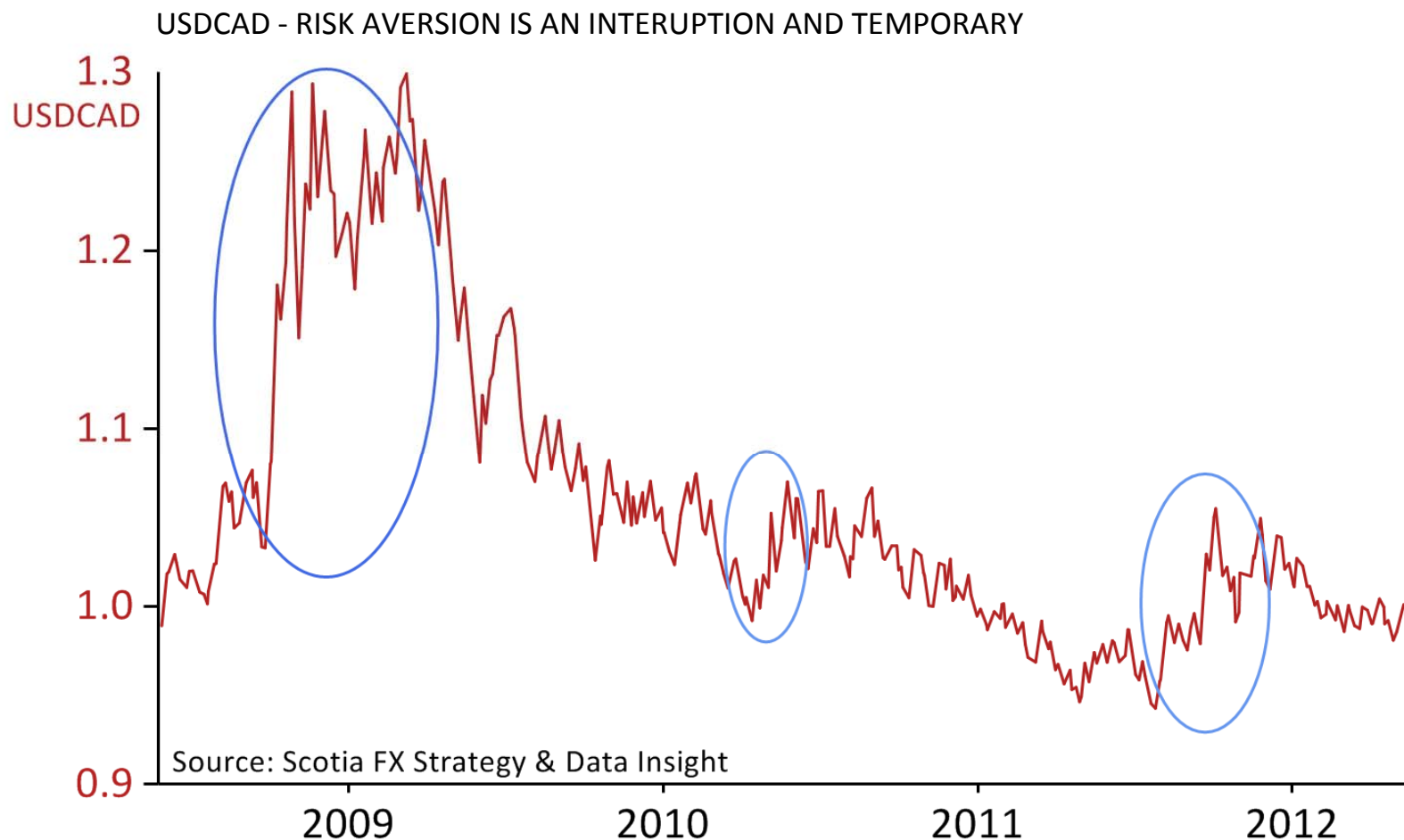
EUR trends lower in 2012, closing at 1.25 but does not collapse as:

- Funding currency: EUR becomes carry funding potential.
- Sentiment is bearish: even if shorts are frustrated and tired.
- Central bank policy: supports EUR in near-term but ECB to stay dovish longer than FED.
- Politics: lack of will to move towards closer fiscal ties; but few other choices.
- Growth outlook: still falling – austerity/growth balance.
- Risk aversion - repeated spikes as confusion reigns for Europe.
- Uncertainty: membership, politics, future, contagion potential.

USDCAD – WHAT RISK COULD MEAN FOR USDCAD TEMPORARILY



USDCAD – RISK AVERSION INTERRUPTS BUT DOESN'T CHANGE A TREND

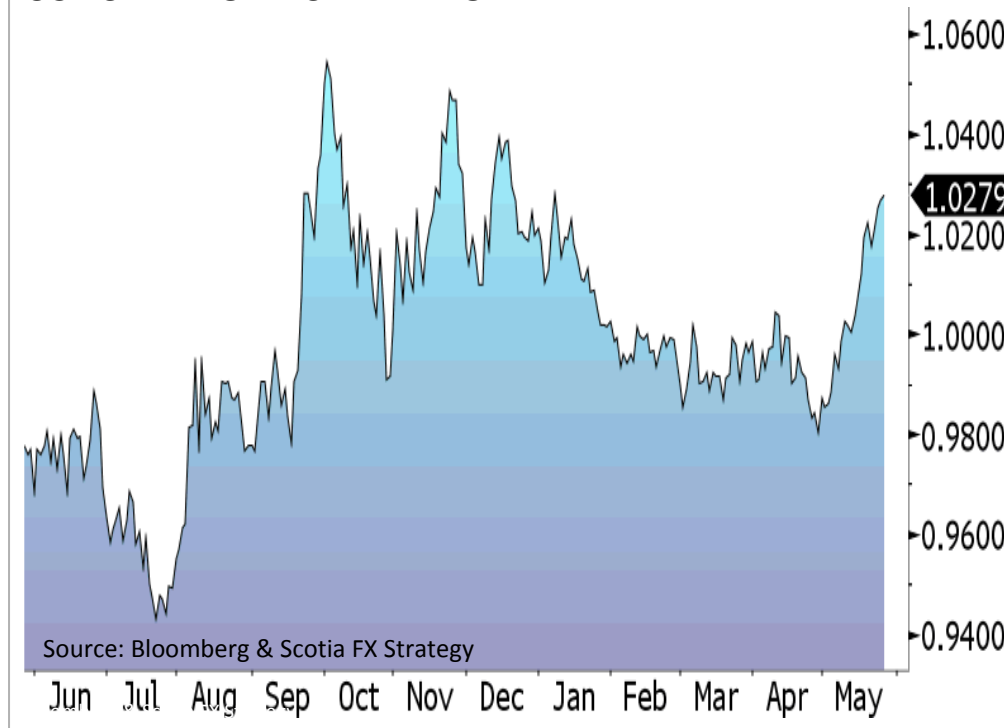


CAD DRIVERS & OUTLOOK

DRIVERS OF CAD

- USD vs CAD relative picture
- Global growth outlook (US & China)
- Europe
- Domestic fundamentals
- Bank of Canada policy vs Fed policy
- Oil and commodities
- Flow
 - Triple A status
 - Risk aversion
 - Sentiment
- Technicals

USDCAD MOVE UP TEMPORARY



Outlook – CAD maintains its appreciating trend

USDCAD closes 2012 at 0.98 (stronger CAD than the end of 2011)

USDCAD closes 2013 at 0.96 (stronger CAD than the end of 2012)

SCOTIABANK'S GLOBAL FORECAST AND OUTLOOK

FX Outlook

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MEDIUM-TERM OUTLOOK INTO YEAR-END 2012

Bullish CAD: Benefits from BoC vs Fed (and global) policy, sentiment, risk on, weak USD, relatively strong Canadian economic and sovereign fundamentals; risk is global growth outlook.

Bearish EUR: Confusion, uncertainty, no political will for solution, funding side of carry all weigh on EUR; but each leg lower is followed by period of retracement. USD cannot strengthen forever.

Bearish JPY: Drivers that support JPY are spikes in risk aversion and alternatives to USD; but fundamentals, sentiment and monetary policy no longer support a strong currency.

Bullish GBP: Increasingly seen as an alternative to USD and EUR; medium term problems still a weight.

Bullish CNY: Authorities allow measured pace of appreciation; but slower than previously thought.

Bullish AUD: Supported by ties to Asia, carry trade, interest rates, investor sentiment & USD weakness.

SCOTIABANK - FX STRATEGY

FX STRATEGY – SUMMARY OF DOCUMENTS

Daily FX Update – Published at 7:45am (EST)

Daily LatAM Update – Published at 7:45am (EST)

Daily Asian Update – Published at 10:00pm (EST)

Currency Sentiment CFTC Report – Published every Friday

Special Reports – Active trade strategies; intraday market moving events; monetary policy, etc.

FX STRATEGY JOINT PUBLICATIONS WITH ECONOMICS

Global Views – Weekly update across asset classes

FX Monthly – Review of global currencies and forecasts

FX OUTLOOK CONFERENCE CALL

Twenty minute update on FX strategy (USDCAD outlook)

FX STRATEGY - GLOBAL COVERAGE

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