Global Economic Research

July 2011

Foreign Exchange Outlook

USD weakness, intensifying systemic and contagion risk in the European periphery, volatile commodity price shifts, uneven monetary policy normalization in advanced economies, and growth/interest rate differentials in favour of emerging-market assets are key drivers of capital flows in global foreign exchange markets.

The USD remains on the defensive given prolonged monetary stimulus, fiscal sustainability issues, and persistent fragility in labour and real estate markets. The CAD and MXN continue to be currency favourites driven by supporting energy prices, relative financial sector strength and currency diversification dynamics.

The EUR is on the rebound despite deteriorating sovereign debt fundamentals in the periphery. Growth dynamics in core European countries coupled with attractive interest rates support the EUR against the USD and the GBP. The CHF remains a key safe-haven currency.

The Asian floating-currency outlook remains broadly positive. Asset diversification is a major driver of JPY strength. The CNY is poised to speed up its appreciation versus the USD once global financial market conditions stabilize. Meanwhile, policy uncertainties have adversely affected the value of the THB.

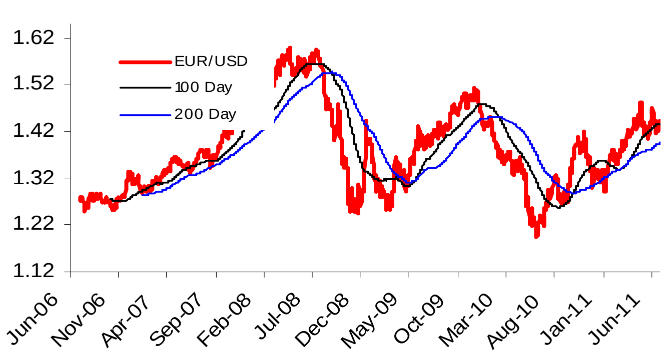
Index

Global Foreign Exchange Outlook

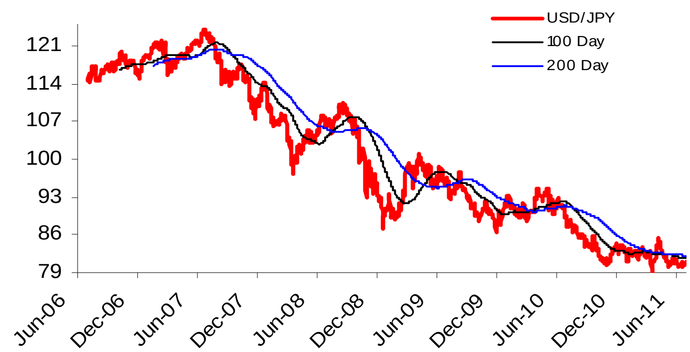
June 29, 2011		Actual	Q1a 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12
Euro	EURUSD	1.44	1.42	1.44	1.45	1.50	1.48	1.46	1.43	1.40
	Consensus*			1.44	1.43	1.42	1.41	1.41	1.39	1.38
Yen	USDJPY	80.9	83	81	79	80	82	83	84	85
	Consensus*			81	83	85	86	88	89	89
Sterling	GBPUSD	1.61	1.60	1.61	1.61	1.63	1.65	1.67	1.69	1.70
	Consensus*			1.63	1.63	1.64	1.65	1.66	1.66	1.66
Canadian Dollar	USDCAD	0.97	0.97	0.97	0.96	0.96	0.95	0.95	0.94	0.94
	Consensus*			0.97	0.97	0.97	0.98	0.99	0.99	1.00
Australian Dollar	AUDUSD	1.07	1.03	1.07	1.08	1.09	1.09	1.10	1.10	1.11
	Consensus*			1.06	1.04	1.02	1.01	0.99	0.98	0.96
Mexican Peso	USDMXN	11.76	11.90	11.75	11.92	12.03	12.13	12.08	12.17	12.34
	Consensus*			11.79	11.82	11.87	11.93	11.98	12.09	12.21

Spot Price vs. 100 Day Moving Average vs. 200 Day Moving Average - (5yr Trend)

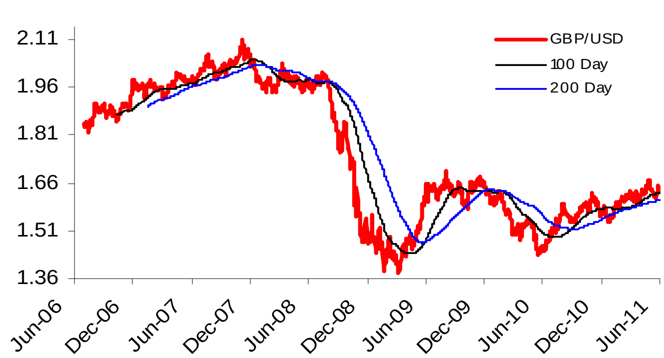
EURUSD



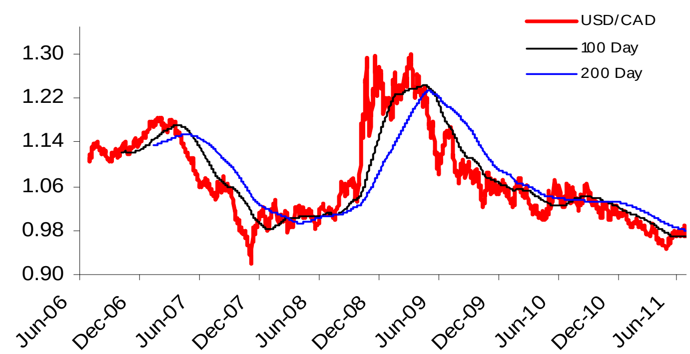
USDJPY



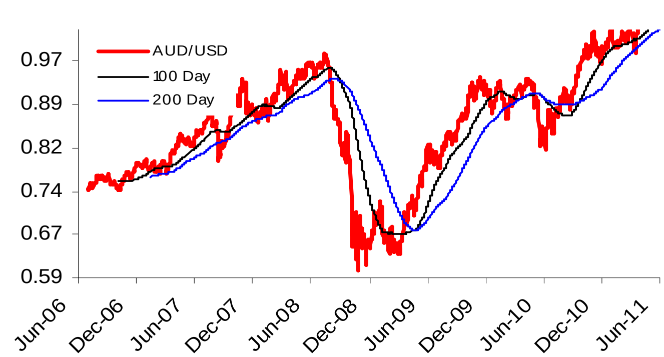
GBPUSD



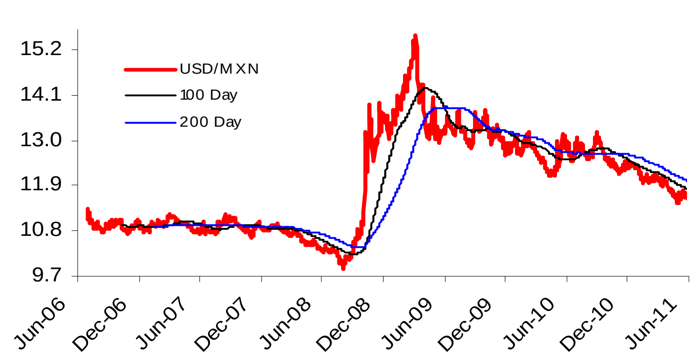
USDCAD



AUDUSD



USDMXN



(*) Source: Consensus Economics Inc. June 2011

Market Tone & Fundamental Focus

Pablo F.G. Bréard +1 416 862-3876
Camilla Sutton +1 416 866-5470

Heightened stress in European sovereign debt markets, a softening tone in the USD, ongoing consolidation of commodity price adjustments, monetary status quo in the United States, persistent demand for high-yielding emerging-market assets, asset-allocation shifts in favour of safe-haven currencies (such as the Swiss franc) and lingering effects from Japan's natural disasters remain key factors shaping global currency markets.

The non-USD NAFTA zone currencies continue to struggle. A deteriorating US economic outlook combined with a broadly stronger USD in June has not helped support the Canadian dollar (CAD) or the Mexican peso (MXN). However, the outlook for the CAD is still encouraging: widening interest rate differentials, a fairly strong fiscal position and relatively solid domestic fundamentals should all work in the currency's favour. However, we have made a slight downward adjustment to our year-end forecast, now looking for 1.04 (USDCAD at 0.96) to reflect the re-pricing of global growth, the softer commodity market and a deferral of Bank of Canada interest rate hikes. For the MXN, currency-positive flow, improving sovereign debt positions and a solid growth trajectory are somewhat offset by increasing global risk aversion and a central bank that looks increasingly unlikely to hike interest rates in the near future.

The Latin American currency outlook remains promising, reinforced by persistently strong (yet somewhat softening) growth prospects, attractive yield differentials (as local capital markets develop), still-high commodity prices and systemically robust domestic financial sectors. The Brazilian real (BRL) has consolidated its position as the bellweather currency within the developing Americas; deepening government intervention in response to currency and credit strength is likely. We expect the monetary policy committee to increase its reference rate to 12.50% on July 20th, crowning Brazil with the highest interest rates within the G10 group of nations. Post-election volatility has dissipated in Peru as the new president-elect seems to favour the continuity of pro-growth and investment government policies from August onwards; as a result, the Peruvian sol (PEN) regained a strengthening bias. Elsewhere in South America, both the Chilean (CLP) and Colombian (COP) pesos have resumed an appreciating tone, while the Argentine peso (ARS) continues to depreciate because of hyperinflationary pressures and heightened political risk factors.

Interest rate differentials (versus the US) and investors' response to debt-restructuring initiatives in Greece continue to be key drivers of market shifts in European currency markets. The Swiss franc (CHF) has rallied to new highs against the EUR and USD on the back of global risk aversion and intra-European diversification flows. The strong trend is challenging to fight, however by year-end we expect that it will have stabilized. Uncertainty over the path ahead for Europe is a significant weight on the euro (EUR); while market metrics indicate that there is a visible differentiation between the perceived sovereign credit risk of Greece and Spain, attention to developments affecting the debt profile and servicing ability of both Portugal and Ireland are issues of investor concern. Unsustainable fiscal burdens, the path for Greece's debt restructuring and the potential for contagion loom over the monetary union. However, our base case for 2011 remains that European authorities are still committed to support the union and that this will, in turn, support the EUR into year-end.

The ECB will continue to normalize monetary policy, widening the interest rate differential with the US, and prompting investors to still favour long EUR positions over short. ECB rhetoric continues to be centered on the need to anchor inflationary expectations, yet European authorities will remain sensitive to sovereign debt market dynamics in the periphery. Accordingly, we are reaffirming our year-end 1.50 target for EURUSD, even as we recognize that the risks are significant. The outlook for the pound sterling (GBP) has deteriorated further as austerity is weighing on the consumer, laying the foundations for disappointedly low growth, while inflation remains elevated and the BoE's interest rate path is uncertain. Accordingly, a significant GBP rally is unlikely, even as the currency might be supported against the USD into year-end.

The foreign exchange market environment continues to be promising in most of the Asian region. The Japanese yen (JPY) remains in high demand as a key diversification vehicle despite the country's deteriorating fundamental backdrop that has seen all three credit rating agencies shift to negative watch. Positive yen momentum on the back of falling US-Japanese interest rate differentials and USD diversification flows is leaving USDJPY trading close to 80 as we enter the second half of 2011. The Thai baht (THB), which is the region's underperformer, has been subject to prolonged softness due to leadership succession and policy-related uncertainties as the country renews its political leadership. The Chinese renminbi (CNY) continues to be the focus of global markets. Rumours of a wider trading band and higher interest rates continue to swirl and, at some point, will likely materialize. We anticipate CNY appreciation of 5.4% y/y in 2011. The rest of the Asian currencies looks attractive against the USD. Positive flows, central bank interest rate hikes and generally strong growth momentum should support the Malaysian ringgit (MYR), the Singapore dollar (SGD), the South Korean won (KRW) and the Philippine peso (PHP) into year-end.

CANADA

Camilla Sutton +1 416 866-5470
Eric Theoret +1 416 863-7030

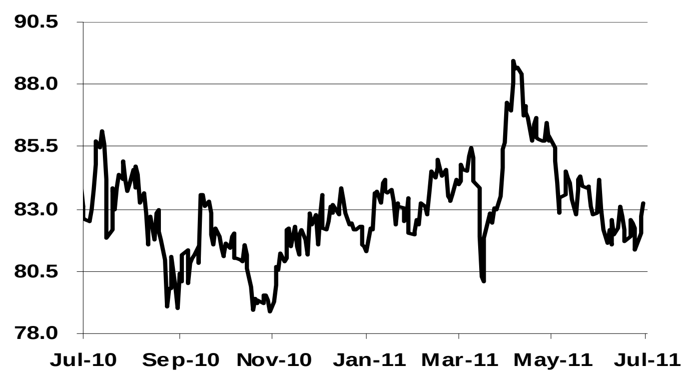
As June comes to a close we have seen the CAD fall 2% in value vis-à-vis the USD. The underperformance that began in May continued through June, as risk aversion stemming from EU debt concerns drove safe haven flows into the USD. The CAD's relative resilience remained a defining performance trait given that both the AUD and the NZD fell further, where closer ties to the US economy provided some protection from broader market volatility. The recent fall in oil prices, from US$100 in early June to current levels near US$90, has been CAD negative as demand destruction and IEA supply releases combined to drive prices lower. Additionally, the bullish case for oil has been called into question given the discord seen at the most recent OPEC talks, where concerns over global growth are complicated by the near- and longer-term impacts of the March natural disasters in Japan. In terms of commodities, Scotia Economics forecasts oil prices to average US$95 in 2011. Finally, we have been presented with dovish rhetoric from BoC Governor Carney, who has noted that the economy may require a lower 'neutral' policy rate given the above-mentioned headwinds. The capacity of Canadian households to maintain consumption, while also servicing their debts with higher interest rates, would be expected to mute any inflationary pressure, the main focus of the BoC. Market participants have thus pushed back expectations of policy tightening in the near-term. The aforementioned factors have caused traders to pare their net long CAD positions, to nearly flat, from US$2.7 billion on May 31 and nearly US$8.0 billion in early March. Despite this, we remain medium-term CAD bulls and expect appreciation vs the USD by year end. Our outlook remains supported by fundamentals that include Canada's strong fiscal position, the government's commitment to deficit reduction, continued official and private investment flows into Canadian financial and physical assets, and a central bank that is still expected to tighten monetary policy ahead of the Fed. Resolution of the debt crisis in Greece will play a key role in removing risk aversion from the markets and developments continue to move in this direction. We expect any weakness to be short-lived and hold a year-end forecast of 1.04 (USDCAD at 0.96).

Currency Trends

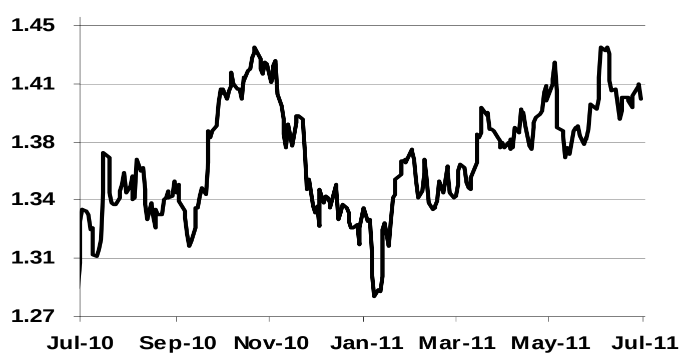
FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	29-Jun	3 m	6 m	12 m	
AUDCAD	0.895	1.021	1.003	1.036	1.037	1.046	1.045	AUDCAD
CADJPY	83.12	81.28	85.65	83.21	82.29	83.33	87.37	CADJPY
EURCAD	1.302	1.336	1.374	1.401	1.392	1.440	1.387	EURCAD
USDCAD	1.064	0.998	0.971	0.971	0.960	0.960	0.950	USDCAD

AUDCAD

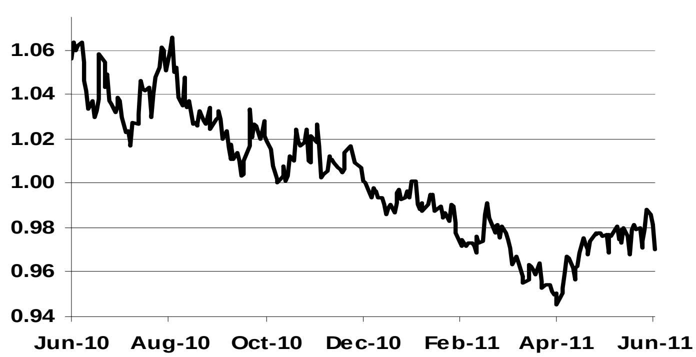
CADJPY



EURCAD



USDCAD



Canada and United States
Fundamental Commentary

Adrienne Warren +1 416 866-4315

UNITED STATES - Last year's relatively robust US expansion has given way to a period of more subdued growth. Real GDP likely increased around a 2% q/q annualized rate in Q2, in line with the muted Q1 advance. Consumers remain cautious spenders, not surprisingly given continued weak job and income growth. Firms increased hiring by a paltry 54,000 net new positions in May, while the unemployment rate edged up to a five-month high of 9.1%. High joblessness also continues to depress housing demand. Home sales have picked up only modestly this year, mainly of investor-driven foreclosed properties which have added further downward pressure on prices. New construction remains depressed. Nonetheless, we anticipate a modest pickup in overall activity in the second half of the year. Poor weather conditions that dampened consumer spending and agricultural plantings in the spring have improved. Japan's supply chain disruptions are unwinding, and will lead to a significant rebound in auto assemblies in Q3. The easing back in gas prices from their early-May highs is providing a boost to household purchasing power, though a substantial strengthening in consumer spending is predicated on a more meaningful pickup in hiring. In contrast to the more reticent consumer, businesses are taking advantage of low borrowing costs and good cash flow positions to invest in new capital equipment, especially information technology. Export prospects also remain positive, despite the recent moderation in global industrial activity, supported by strong emerging market demand, a competitive product mix and a lower US dollar. Broad-based gains in durable goods orders and shipments in May signal continued strength in both business capital investment and exports.

CANADA - The Canadian economy has lost momentum in recent months. After expanding at close to a 4% annual rate in Q1, we expect output growth moderated to around 1% in Q2. The slowdown in part reflects production disruptions caused by Japan's early year disaster, most notably in the large motor vehicle and parts sector, which should be recouped in the latter half of the year. Yet the economy faces a number of challenges that will likely keep growth on a relatively modest upward track through 2012. High household debt levels, high food and gas prices and a cooling housing market have begun to moderate consumer spending. Discretionary retail sales (i.e. total outlays excluding food, gasoline and health & personal care items) through April were up only modestly from a year-ago. Despite still healthy job growth, consumer sentiment surveys are showing a growing pessimism over the state of household finances and a reluctance to make a major purchase. Meanwhile, government stimulus spending is winding down, and will likely act as a drag on growth in 2012 as fiscal shortfalls are addressed. In this environment, business investment and exports will need to drive growth. Encouragingly, firms have been steadily ramping up outlays on machinery & equipment as well as resource-related exploration, supported by a strong currency, healthy corporate balance sheets and firm commodity prices. We expect business investment will add over a percentage point to growth both this year and next. The performance and outlook for exports is more mixed. While benefitting from high commodity prices and strong emerging market demand for Canadian resources, producers are being challenged by the strength of the Canadian dollar and weaker US industrial activity.

Monetary Policy Commentary

Derek Holt +1 416 863-7707 Karen Cordes Woods +1 416 862-3080

UNITED STATES - The Federal Reserve is now expected to start raising its fed funds target rate in Q3 2012, one quarter after the Bank of Canada, as the speed of the US recovery continues to disappoint while global economic growth starts to slow. In addition, continued financial market instability in the face of ever changing sovereign debt problems in Europe leaves the pace of future growth more uncertain. US Q1 real GDP came in weaker than expected, and Q2 economic growth could follow suit, especially if US consumer spending does not pick up in the last month of the quarter; thus far, real consumer spending will not provide any support to Q2 GDP growth and may actually end up being a drag. In addition, inflation should moderate as commodity prices reverse course while businesses' pricing power remains strapped via weak consumer spending. On the unconventional policy front, we do not expect the Fed to introduce another quantitative easing program now that the current one has ended. Although the Fed remains committed to reinvesting principal payments from its securities holdings, the first signal toward tightening will be when this practice is ceased.

CANADA - We have pushed out our expectation for the first rate hike by the Bank of Canada (BoC) to Q2 2012 as the BoC takes a more dovish stance as it continues to face multiple headwinds. These headwinds include fiscal retrenchment, continued strength in the Canadian dollar, higher capital requirements, still elevated commodity prices that are crowding out wage growth, tighter mortgage lending rules, rolling global fiscal shocks that create a back drop of instability in financial markets, and increased risks facing fixed term borrowing costs over 2012-13. In addition, underlying economic fundamentals continue to worsen on many accounts with the country's global trade position falling deeper into a deficit position while the domestic household sector is operating at cycle peaks that risk sharp correction should rates rise significantly. Lastly, while the BoC expects the output gap to close by 2012 Q2 (with the risk of being delayed a quarter), it is the BoC's guidance thereafter that is more important with an expectation that the output gap will remain flat into 2013 as actual GDP growth equals potential GDP growth.

EUROPE
Currency Outlook

Camilla Sutton +1 416 866-5470
Eric Theoret +1 416 863-7030

EURO ZONE - Investor confidence in the EUR remains solid, despite considerable headwinds, as investors maintain net long positions vs the USD. Technically, support lies at 1.3903, the 50% Fibonacci retracement of the January to May rally. We would not be surprised to see a temporary test of this level. However, over the medium term, our base case is unchanged and includes an ongoing commitment by European authorities that should help keep the EUR well above its 10-year average of 1.25. We have made no change to our year-end EUR forecast of 1.50.

UNITED KINGDOM - GBP weakness seen in June is expected to continue into July as investors remain net short, though the position remains a fraction the levels seen in 2010. An accommodative central bank, low growth, and strict austerity remain near-term headwinds; however, a weaker USD should help support the currency into year-end. We hold a December 2011 forecast of 1.63.

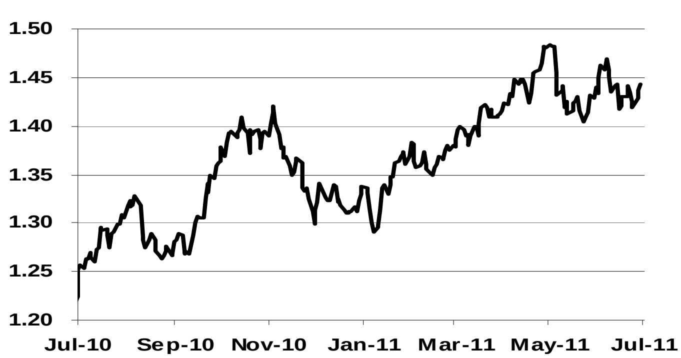
SWITZERLAND - The strength in the CHF has dramatically outpaced that of other major currencies. Positive CHF flows have pushed EURCHF and USDCHF to record lows. The currency is seen as an intra-Europe diversification tool that allows investors to access a strong sovereign with a reasonable fundamental backdrop and a safe haven vehicle. The net long CHF position, as reported by the CFTC, stands at $1.8bn. We hold a year-end USDCHF forecast of 0.83.

SWEDEN - On the back of risk aversion, the high beta SEK has weakened in June. Technicals suggest this trend could remain in place in the early part of July; however, as support comes through for the EUR and risk aversion subsides, the SEK should retrace some of its recent loses. We hold a year-end EURSEK forecast of 8.80.

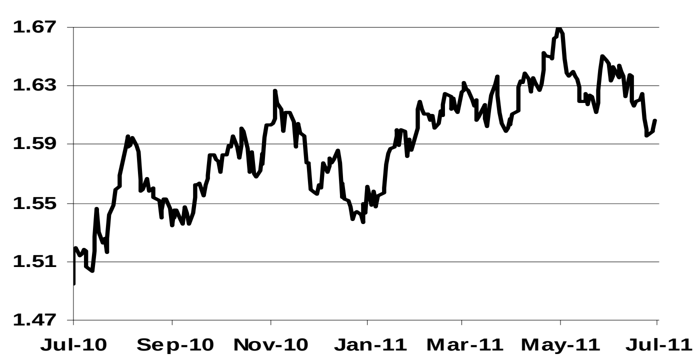
Currency Trends

FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	29-Jun	3 m	6 m	12 m	
EURUSD	1.22	1.34	1.42	1.44	1.45	1.50	1.46	EURUSD
GBPUSD	1.49	1.56	1.60	1.61	1.61	1.63	1.67	GBPUSD
EURCHF	1.32	1.25	1.30	1.20	1.20	1.25	1.23	EURCHF
EURSEK	9.54	8.99	8.95	9.16	8.98	8.80	8.70	EURSEK

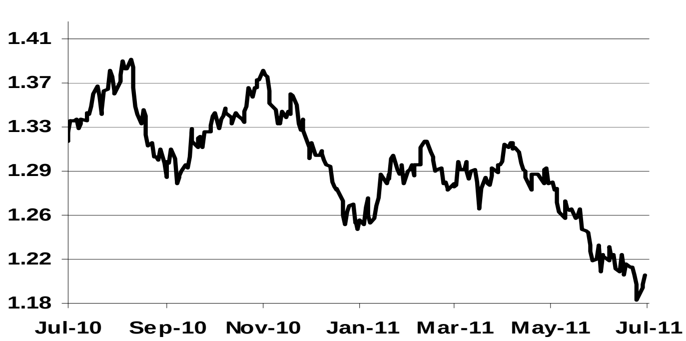
EURUSD



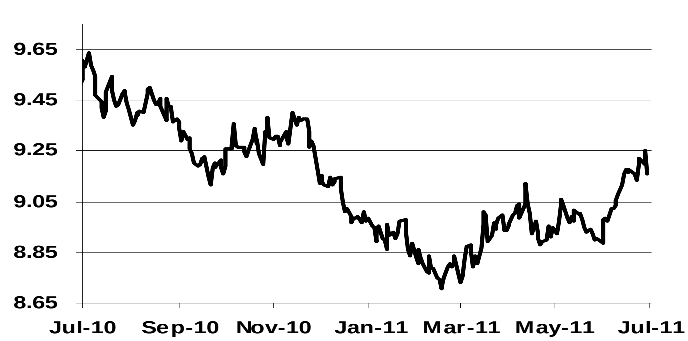
GBPUSD



EURCHF



EURSEK



EUROPE

Fundamental Commentary

Tuuli McCully +1 416 863-2859

EURO ZONE - The turmoil surrounding Greece continues, as concerns mount regarding enormous policy challenges facing the country. At the end of June, the Greek parliament passed an additional austerity package, which will likely allow another loan disbursement from the European Union and the International Monetary Fund. While this would give Greece some near-term breathing room, strong political willingness is required for an extended period of time to bring public finances to a more sustainable path. The possibility of a distressed sovereign debt restructuring in Greece is increasing. While we expect the euro zone real GDP to expand by 1.8% this year and by 1.7% in 2012, major differences in economic performance will persist between the core economies and the periphery, which continues to suffer from debt sustainability issues. As indicated by the European Central Bank's President Jean-Claude Trichet, euro zone policymakers will likely continue the gradual process of monetary policy normalization following the Governing Council meeting on July 7th, taking the main refinancing rate from the current level of 1.25% to 1.50%. We expect further modest rate increases in the coming quarters, bringing the benchmark interest rate to 1.75% by the end of the year and further to 2.50% by end-2012. While headline inflation eased to 2.7% y/y in May from 2.8% the month before, inflationary pressures will likely continue upwards, taking the inflation rate to around 3¼% in coming months before easing to 2.8% by year-end.

UNITED KINGDOM - The economic outlook of the UK through 2012 continues to be challenging. Industrial and manufacturing production indicators point to subdued performance in the second quarter of the year; in fact, we assess that there is a significant risk that GDP growth was flat again during Q2. While a rebound is likely in the third quarter, we expect that aggressive fiscal consolidation and slower export sector momentum through the rest of the year will limit the nation's economic growth to 1.2% in 2011 as the UK continues to underperform the euro zone. Output expansion should pick up to 1.5% in 2012, as the domestic recovery becomes more broadly-based. Elevated inflationary pressures persist, with the consumer price index remaining at 4.5% y/y in May. While we expect the inflation rate to exceed the 5.0% mark in the coming months, price pressures should start to ease towards the end of the year. We expect headline inflation to close the year at around 4¾% y/y and to drop to 2.0% by the end of 2012. In the context of the uncertain economic growth outlook combined with the assessment that inflationary pressures will likely ease significantly next year, we have revised our forecast for the beginning of the Bank of England's monetary policy tightening cycle, and now expect that policymakers will begin a gradual process of normalization in the second quarter of 2012, taking the Bank Rate – currently at 0.5% – to 1.25% by end-2012.

SWITZERLAND - Swiss monetary authorities continue to maintain an expansionary policy stance. Following a quarterly policy meeting on June 16th the three-month Libor target rate was kept unchanged at 0.25%. Debt sustainability concerns in the euro zone periphery continue to highlight the Swiss franc's (CHF) role as a safe-haven currency, resulting in persistent appreciation vis-à-vis the euro. On the back of the strong CHF, inflationary pressures remain virtually absent: the harmonized consumer price index increased by 0.3% y/y in May. Nevertheless, monetary policymakers assess that inflationary pressures might pick up briskly in 2013, necessitating gradual monetary policy normalization. Accordingly, we expect the Swiss National Bank to begin raising the benchmark interest rate cautiously in the final quarter of 2011, taking it to 1.0% by the end of 2012. The Swiss economy continues to perform robustly, with real GDP expansion likely to reach around 2.0% through 2012. Household spending continues to be supported by accommodative monetary policy and relatively healthy labour market conditions (the unemployment rate decreased to 2.9% in May). While exports continue to record solid performance despite currency strength, momentum will likely decelerate in the coming quarters reflecting a general slowdown in activity in the rest of Europe. The political outlook for Switzerland is dominated by the approaching general elections, scheduled for October 23rd; nevertheless, the country continues to enjoy a high degree of political stability.

SWEDEN - Swedish economic fundamentals are strong, with the economy remaining in robust growth territory, though some signs of deceleration are emerging. Output expansion is broadly-based across the external sector, investment and private consumption. The economy will likely grow by around 4% this year, followed by an expansion of close to 3½% in 2012. Public finances are solid, with Swedish gross government debt – below 40% of GDP in 2011 – comparing favourably with the European Union average of around 80% of GDP. Moreover, the government's fiscal account is once again set to close the year 2011 in a balanced position. Reflecting robust economic growth and high commodity prices, inflationary pressures remain elevated, with the consumer price index increasing by 3.3% y/y in May. Inflation will likely remain relatively high in the coming quarters due to an expected acceleration in wage increases and a declining spare capacity in the economy. In order to stabilize inflation close to the central bank's 2% target and to avoid resource utilization being too high, monetary authorities will likely continue the process of interest rate normalization in the near future. The benchmark repo rate has been increased by 150 basis points since mid-2010 to the current level of 1.75%. The policymakers have earlier indicated that the key rate will be increased to 2.5% by the first quarter of 2012, and further to 3.2% by early 2013; a new forecast for the interest rate path will be published following the next policy meeting on July 5th.

ASIA/OCEANIA
Currency Outlook

Camilla Sutton +1 416 866-5470
Eric Theoret +1 416 863-7030

JAPAN - Ongoing risk aversion has helped the JPY remain stable in spite of political turmoil and long-term fiscal challenges. Support for the JPY is reflected in the net long position, currently at US$5 billion, from a net short near US$10 billion in early Q2 2011 (CFTC). USDJPY remains range-bound, between 80.00 and 82.00 and we hold a year end forecast of 80.00.

CHINA - Rumours of a widened trading band failed to materialize in June, despite expectations that the policy change would occur around the one-year anniversary of China's June 2010 decision to resume CNY appreciation. The yuan has appreciated just over 2% YTD, and maintains a consistent pace as we move into the second half of 2011. We hold a year end USDCNY forecast of 6.25.

AUSTRALIA - The AUD remains in favor among investors as the largest net long position held vs the USD, currently at US$5.8 billion. Despite recent weakness, the AUD has found support at the 100-day moving average (1.0431) and we would expect this to hold given the historical trading pattern. We remain AUD bulls with a year end forecast of 1.09.

NEW ZEALAND - The NZD had a relatively strong June but technicals are warning of a near-term downside. Our base case is that investors have gotten ahead of the fundamentals and the NZD will struggle to rally from here. Investors continue to favour playing the NZD from the long side, with the CFTC reporting a net long NZD position of US$1.5 billion.

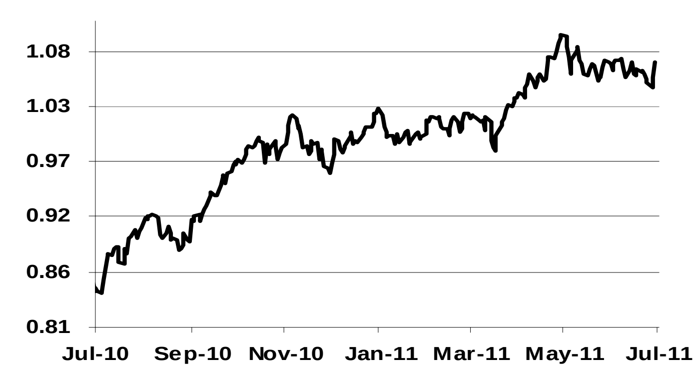
Currency Trends

FX Rate	Going Back 12 m	Going Back 6 m	Going Back 3 m	Spot 29-Jun	Outlook 3 m	Outlook 6 m	Outlook 12 m	FX Rate
USDJPY	88.4	81.1	83.1	80.9	79.0	80.0	83.0	USDJPY
USDCNY	6.78	6.61	6.55	6.46	6.36	6.25	6.06	USDCNY
AUDUSD	0.84	1.02	1.03	1.07	1.08	1.09	1.10	AUDUSD
NZDUSD	0.68	0.78	0.76	0.82	0.80	0.78	0.79	NZDUSD

USDJPY

USDCNY

AUDUSD



NZDUSD

ASIA/OCEANIA
Fundamental Commentary

Oscar Sánchez +1 416 862-3174

JAPAN - Safe haven moves will remain supportive of the Japanese yen (JPY), while excessive strengthening forces will be countered by the Bank of Japan (BoJ) leaning against extreme appreciation. Intra-regional trade evidence points to diminished effects from supply-chain disruptions, with a modest pickup in Japanese exports during May featuring prominently. Continued improvement is expected in the coming months as business surveys point a faster-than-anticipated response by companies to the adverse effects of parts scarcity. The possibility of a swift recovery in output continues to hinge on the prevalence of a trade-competitive JPY, with further government intervention a latent risk in the case of a resumption in appreciation. GDP is expected to fall once more in the second quarter, after the contraction in the first, with the reconstruction effort gathering momentum during the remainder of 2011 and through 2012. We expect GDP to expand by a meager 0.3% this year, to follow the extraordinary 4.0% y/y gain of 2010, with a 3.5% rebound anticipated for 2012. While dependence on imported fuel, and a higher energy tally, will bring back supply-side price pressures, the Bank of Japan will retain a loose monetary policy stance throughout the recovery, with unsterilized interventions preventing excessive JPY appreciation. We expect continued expansion of the BoJ's balance sheet through the turn of the year, and an initial monetary policy tightening move delayed to 2013.

CHINA - The Chinese renminbi (CNY) will continue to strengthen gradually. CNY appreciation fulfills both a short-term objective of monetary tightening, and the medium-term goal of domestic market development. Inflationary pressures remain of concern as cost increases continue unabated, with the advance in food prices remaining at a double-digit annual rate, while non-food items advance at a much milder 3% y/y pace although cost contamination seems evident. While Chinese authorities have persisted in credit tightening – with the reserve requirement ratio on large banks lifted by 600 basis points (bps) to 21.5% since early 2010, and the benchmark interest rate 100 bps to 6.31% – a significant slowdown in domestic spending has yet to become evident, with investment and retail sales outlays continuing to portray well supported demand conditions. Notwithstanding signs of a "soft patch" in global demand, Chinese exports growth has averaged 25% y/y so far in 2011, with imports advancing at a faster 30% yearly pace, implying a secular reduction of the trade surplus that is consistent with CNY appreciation and a policy that prioritizes local market development. After the 10.4% y/y GDP expansion last year, we expect a 9.3% y/y output gain in 2011, to be followed by a 9.5% increase in 2012. As elevated lending by state controlled banks underpins the double-digit yearly pace of growth in investment spending, we expect at least three more adjustments that will drive the benchmark interest rate to over 7% by the end of 2011.

AUSTRALIA - The Australian dollar (AUD) will remain supported by solid fundamentals leveraged by commodity exports and Asian economic growth. The eventual resumption of monetary tightening by the Reserve Bank of Australia (RBA) will further support the AUD towards the end of 2011. The economy's first quarter output was adversely affected by weather-related disruptions and the Japanese catastrophe, with the already evident rebound in mining production adding significantly to GDP growth in the second quarter, as coal and iron ore exports return to normal levels. Rising investment and cautious consumer spending – the latter underpinned by falling unemployment – underpin domestic demand steadiness, while moderate bank credit expansion and somewhat softer asset prices provide the background for cautious household spending and borrowing behaviour. Australia's output growth will average 3.2% y/y in 2011-12, with fiscal policy expected to be a drag on growth as the government aims for a fiscal surplus by 2012-13. Inflation will continue to challenge the RBA's 2-3% target range as global raw material costs add to local supply-side pressures resulting indirectly from the mining boom. Annual inflation picked up to 3.3% y/y during the first quarter, with underlying pressures accentuating as services costs underpinned a rise in core inflation with goods price gains falling on the back of AUD strength. After maintaining the status quo for five straight meetings, we expect the RBA to resume monetary tightening sometime in 2011Q3.

NEW ZEALAND - The New Zealand dollar's (NZD) stellar performance has been underpinned by terms of trade improvements and an output rebound in the aftermath of the February Christchurch earthquake. A rebound in household spending on the back of improving employment conditions has supplanted the initial adverse shock to confidence as a result of the earthquake. Business activity has retained a solid upward trend with investment increasing on the back of lower borrowing costs and external account improvements. New Zealand exports of agricultural goods have benefitted from the adverse shocks that hit the Asian region at the start of 2011, with exports to Japan and South Korea rising opportunistically. While output disruptions during the first quarter are likely to have an effect on growth, we anticipate a second quarter rebound as retail sales and capital stock improvements signal domestic demand strength. Annual inflation at 4.5% remains well above the Reserve Bank of New Zealand's (RBNZ) 1-3% comfort zone, with non-tradable goods prices advancing ahead of the headline pace indicative of rising services costs and a somewhat tighter labour market. The RBNZ remains sanguine about accelerating price pressures as it attempts to support the economic rebound, having left the benchmark official cash rate unchanged at 2.5% after the 50 basis point reduction announced in March. As monthly food price indicators continue to pick up, we expect the RBNZ to resume monetary tightening sometime in 2011Q4.

DEVELOPING ASIA
Currency Outlook

Sacha Tihanyi +1 416 862-3154

INDIA - The trend in short term external financial flows, a key factor for the INR considering sizable current account deficit financing needs, has again turned negative and undermined the rupee's ability to weather June's global market volatility. The risk remains that the well established USDINR uptrend (off of the April low of 43.97) forces a break of the longer standing downtrend off the May 2010 high, which would be a potentially worrying medium term signal. We forecast USDINR at 44.80 by Q4'11.

KOREA - USDKRW spent most of June in an approximate 1073.50 to 1091.50 range, highly subject to the wax and wane of risk aversion. Monetary fundamentals remained KRW-supportive, with rapidly increasing core inflation met by a proactive 25 basis point policy rate increase from the Bank of Korea. The scope for won appreciation remains one of the most prominent amongst the currencies of Asia on a real effective basis, supporting our KRW-bullish view from a valuation perspective. We forecast USDKRW at 1060 by Q4'11.

THAILAND - Political risk has significantly undermined the baht as net foreign selling of domestic equities reached its highest level since the May 2010 period of unrest. FX reserve data also indicate that the Bank of Thailand may be less active in containing THB weakness than during the spring of 2010. While political uncertainty persists, the THB will struggle to rally. However, we expect a hawkish monetary stance and a robust current account to partially offset weakness in the capital account. We forecast USDTHB at 29.00 by Q4'11.

HONG KONG - The HKD recovered against the USD moving into the end of June as risk aversion eased off of 3 month highs. A continued easing in risk aversion favours a grind lower in USDHKD towards the sub-7.78 region. We continue to see no signal that Hong Kong is edging any closer to adopting a renminbi peg. Renminbi deposits in Hong Kong are just under 511bn RMB, or around 8.5% of Hong Kong's deposit base.

Currency Trends

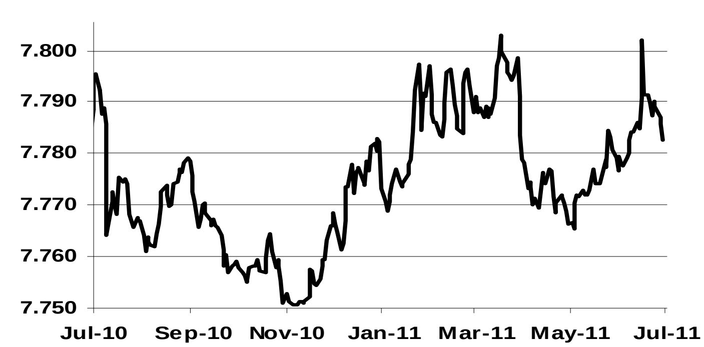
FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	29-Jun	3 m	6 m	12 m	
USDINR	46.45	44.71	44.59	44.87	44.83	44.80	44.15	USDINR
USDKRW	1222	1126	1097	1077	1068	1060	1030	USDKRW
USDTHB	32.45	30.06	30.28	30.79	29.89	29.00	28.50	USDTHB
USDHKD	7.79	7.77	7.78	7.78	7.77	7.75	7.75	USDHKD

USDINR

USDKRW

USDTHB

USDHKD



Developing Asia
Fundamental Commentary

Oscar Sánchez +1 416 862-3174

INDIA - The Indian rupee (INR) will remain supported by favourable interest rate and growth differentials. As annual price gains continue to top Asian economies, prospects for further monetary tightening hinge on the country's performance on the inflationary front. Mounting inflationary expectations remain the main concern for the Reserve Bank of India (RBI), leaving it compelled to continue to raise interest rates. A slowdown in the pace of monetary tightening is anticipated for the second half of the year as evidence of price stabilization mounts. Wholesale price inflation sits currently at 9.1% y/y, below the recent 9.7% March peak. Downtrending inflation has been compensated by accelerating fuel and energy price gains, with the latter having become more dependent on international price fluctuations as a result of the withdrawal of official subsidies. Annual inflation is expected to continue on a downward trend, with prospects for the third quarter harvest output key to determining the extent of food disinflation. We expect one or two more 25 basis point hikes in the benchmark repo rate , which should close 2011 at 7.5-7.75%. India's GDP expanded at a 7.8% y/y pace in Q1 reaching an 8.6% yearly advance for the 2010-11 fiscal year. We expect growth to average 8.3% in FY2011, as a downtrend in government outlays is compensated by rising discretionary consumer spending and net exports. Foreign sales averaged gains of 40% y/y so far in 2011, well over the 17% rise in imports, leading to an improved external balance in support of the INR.

KOREA - The Korean won (KRW) will retain a strengthening tone at least through 2011-12 as sustained economic growth combines with monetary policy skewed towards interest rate normalization. While the Bank of Korea (BoK) remains in inflation containment mode, a slowdown in the pace of monetary tightening is envisaged as the economy converges towards medium-term speed. Persistent net export gains underpinned a solid GDP advance of 5.5% (quarterly annualized rate) during the first three months of the year, following the 6.2% y/y gain in 2010. Foreign shipments have grown steadily at an average 28% y/y pace through the first five months of 2011, just above the 26% pickup in imports, which in value terms remains conditioned on relatively elevated global oil costs. Although exports have exhibited persistent momentum, outperformance is not foreseen in the rest of the year. We expect the economy to expand at an average 5.4% y/y rate in 2011-12. Headline inflation has surpassed the BoK's 3% ±1% target each month so far this year, with core inflation on a persistent uptrend, reaching 3.5% y/y in May. The BoK has announced two 25 basis point benchmark interest rate increases to 3.25% so far this year, coming on the back of two similar hikes during the second half of 2010. We expect at least one more monetary tightening move before the end of the year. Notwithstanding the slowdown in credit so far in 2011, economic conditions remain solid as the unemployment rate continues to fall, having reached 3.2% in May.

THAILAND - The Thai baht (THB) will resume an appreciation trend after the political uncertainty of the July 3rd elections is settled. Persistent THB strength against the US dollar in the first three months of 2011 was followed by a weakening phase in early May as a result of intensifying political turmoil. In the midst of the politically-charged environment central bank intervention has been prominent in the foreign exchange market, with the international reserve stock having fallen by an estimated US$4.3 billion to a still sizable US$178 billion (54% of GDP). Thailand's economy will continue to reap the benefits of a privileged location within Southeast Asia, with activity supported by the balanced growth of local demand running alongside solid foreign sales. Up-trending credit growth has supported a solid rebound in investment back up over 20% as a share of GDP in the aftermath of the global crisis slump. GDP expanded at a robust 2% quarterly (non-annualized) rate during the first three months of 2011, after last year's stellar 7.9% gain. A retrenchment in manufacturing evident during the second quarter will lead to a recovery in the third, with the latest data pointing to an earlier than estimated rebound. While inflation has risen as a result of the advance in local activity, underlying price pressures remain well within the Bank of Thailand's (BoT) 0.5-3% target range, with core inflation at 1.6% y/y. A resumption of the BoT's monetary policy normalization stance is expected after the elections, taking the benchmark interest rate to 3.5% by the end of 2011.

HONG KONG - The Hong-Kong dollar's (HKD) peg to the US dollar is expected to remain for the foreseeable future. Capital account convertibility and the development of a deep offshore Chinese renminbi market are necessary conditions for a shift towards establishing the CNY as the main currency. Loose monetary conditions imported from the US and a somewhat expansionary fiscal stance have been supporting an economy that accelerated to a 2.8% q/q (non-annualized) rate in the first quarter of 2011. Notwithstanding the severe contraction in exports registered during April, foreign shipments have averaged a 20% y/y rate so far in 2011, with net exports enhancing the growth picture as imports expand at a lower 17% rate. Labour market conditions remain tight with the jobless rate still hovering at a historical 3.5% low, underpinning Hong Kong's solid domestic profile. Local spending has received an additional boost from negative real interest rates, the backbone for asset price gains. Headline price pressures continue to trend upward, reaching 5.3% y/y in May, as rising inflation in the mainland, HKD weakness and elevated import costs feed local costs. The uptick in fuel and food inflation is being exacerbated by rising local rental costs, with the uplift of minimum wages adding to the pressures. Bank credit growth at close to 20% y/y should be nearing a peak as it has been driven by strong demand for property related investment, with mortgage loans already slowing as a result of last year's prudential measures to cool the housing market.

DEVELOPING AMERICAS
Currency Outlook

Pablo F.G. Bréard +1 416 862-3876

BRAZIL - The Brazilian real (BRL) is in appreciating mode. The combined effect of attractive interest rates, sustained broad-based economic growth, massive foreign direct (equity) investments, favourable terms of trade - as a result of the commodity market boom underway - and large basic infrastructure development needs ahead of the football World Cup and the Olympic games, is exerting a strengthening bias on the BRL. We expect the USDBRL to close the year at 1.60.

MEXICO - The Mexican peso (MXN) is recovering a pattern of consolidation following the adjustment triggered by heightened tension in European sovereign markets, corrective forces in oil prices, and economic developments in the US. The pursuit of yield in favour of emerging-market assets reinforces a bullish bias for the MXN. In the near term, monetary policy continues to be guided by investors' expectations of shifts in the US monetary environment.

CHILE - The Chilean peso (CLP) is consolidating a trading range after a period of strength during the second quarter of the year. The CLP remains highly sensitive to global trade dynamics, primarily influenced by Asian demand as well as commodity price shifts in response to adjustments in global growth patterns and top-tier currencies. Increasingly, Brazil is an influencing factor driving currency market patterns in South America. We expect USDCLP to close the year at 480.

PERU - The exchange rate environment stabilized after the elections. The Peruvian sol (PEN) is closing the month stronger than the period before the elections. On Sunday June 5th, the second round of presidential elections took place in Peru. President-elect Ollanta Humala will take office on July 28th. The monetary regime will suffer no major alterations; the current inflation-targeting policy will remain in place. We have revised our year-end forecast to 2.76 from 2.72.

Currency Trends

FX Rate	Going Back 12 m	Going Back 6 m	Going Back 3 m	Spot 29-Jun	Outlook 3 m	Outlook 6 m	Outlook 12 m	FX Rate
USDBRL	1.80	1.66	1.63	1.57	1.58	1.60	1.65	USDBRL
USDMXN	12.94	12.34	11.90	11.76	11.92	12.03	12.08	USDMXN
USDCLP	546	468	477	470	475	480	485	USDCLP
USDPEN	2.83	2.81	2.80	2.75	2.79	2.76	2.73	USDPEN

USDBRL

USDMXN

USDCLP

USDPEN

Developing Americas

Fundamental Commentary

Pablo F.G. Bréard +1 416 862-3876

BRAZIL - Brazil continues to consolidate its position as the most systemically relevant economy within the developing Americas. Its macroeconomic fundamental strength led international credit agencies to upgrade both the ratings and outlook of Brazilian sovereign debt obligations. At present, both Standard & Poor's and Moody's assign a "positive" outlook to Brazil's sovereign credit ratings. A favourable external financial and monetary context, sustainable (yet at a decelerated pace) economic growth, inflationary build-up and a bias towards local-currency strength are clear features of Brazil's macroeconomic landscape. There is broad-based consensus that the economy will decelerate from the high rate of growth enjoyed last year to a more sustainable 4-4.5% expansion over the next 18-24 months. The government has adopted a decisive stance in containing potential overheating risks by combining fiscal consolidation measures with monetary tightening; the administration of President Dilma Rousseff announced a reduction of public spending while Banco Central do Brasil has been tightening monetary conditions since April 2010, taking the market-reference SELIC rate from 8.75% to 12.25% today. In the context of ample global liquidity, Brazil is benefitting from the near-zero interest rate environment in the US and the constant search for high-yielding investment options. Brazil, the world's seventh largest economy (in PPP terms) presents today the highest and the most attractive interest rate environment among the G10 member countries.

MEXICO - Capital flows, relative-value adjustments and macroeconomic considerations continue to render Mexico an attractive investment opportunity for the near term. Heightened investor tension in connection with European sovereign debt sustainability, increased volatility in major-currency markets, slow recovery from the overshooting of late 2008 and declining energy prices are all issues affecting Mexican currency market shifts. The MXN tested the 12 per USD mark in mid-June after bouncing back from an 11.54 technical resistance point on June 1st. Despite the external factors shaping investor sentiment in core emerging-market currencies, we do believe that interest rate differentials continue to be a dominant factor supporting the Mexican peso. In fact, the Mexico-US yield spread at 400 basis points (10-year segment of the government bond yield curve) still offers an attractive investment option to global fixed-income investment portfolios. Macroeconomic fundamentals continue to improve; indeed, real GDP will expand by an average of 4% over the next two years, whereas headline consumer price inflation shows signs of containment and convergence towards the official 3% target rate despite global commodity price shifts. A steady improvement in inflation has reinforced market participants' view that Banco de Mexico is in no hurry to adjust its administered overnight interest rate, currently set at 4.5%. Overall, the currency outlook remains stable following recent adjustments; we expect USDMXN to close the year at 12.

CHILE - Chile continues to offer a promising macroeconomic environment, and the CLP is a reflection of the country's fundamental strength. The economy is well positioned to expand by around 6% in 2011/12 despite modest signs of global economic deceleration. Inflationary pressures and currency strength remain priority issues for policymakers; indeed, the central bank continues to accumulate US dollars as part of the preannounced purchase programme, and further monetary tightening is in sight. The central bank's international reserves reached US$32.8 billion in May, that is, 32% higher than 12 months ago. The next monetary policy decision will be announced on July 14th; at present, the administered monetary policy rate is set at 5.25% with a 12-month consumer price inflation rate at 3.3% (May 2011). Recent shifts in commodity prices, particularly in the copper price -a CLP driver- have caused temporary adjustments. However, the Chilean currency remains in appreciating mode in real terms. Following a wave of downward adjustments, copper prices seem to have stabilized over the past few weeks, injecting a sense of stability into the Chilean and other commodity-linked currencies. Chile is not completely immune to contagion risk/ gains from developments in other economies (i.e., distressed debt situation in Greece, political uncertainties in Peru, monetary policy shifts in Brazil, etc), yet it seems to be better prepared to weather the volatility that may be present in local currency markets.

PERU - Mr. Ollanta Humala (Gana Perú - GP) received 51.5% of the votes (7.9 million) in the recent presidential election, while Ms. Keiko Fujimori (Fuerza 2011) received 48.5% of the votes (7.4 million). Financial markets, which reacted negatively to the news the day after the vote, recovered consistently by the end of the week. Sovereign debt market metrics imply an improved perception of risk; indeed, all three major rating agencies hold a "positive" outlook on Peru's sovereign credit ratings. It is premature to assess the impact of Ollanta Humala's victory, despite ideological statements made during the campaign period. In initial public statements, President-elect Humala stressed that he will seek to lead a coalition government to deepen integration within Latin America. He also said that he will maintain what is working well and fight corruption by all means. The Humala government will inherit Peru's strong macroeconomic fundamentals, and has signaled its intention to protect this legacy and in general terms to stay the pro-market policy course. Real GDP expanded by 8.8% in 2010 (and also by 8.8% y/y in Q1 2011). The government estimates that the Peruvian economy will expand by 6.5% this year. Consumer prices increased by 3.1% y/y in May, a deceleration from 3.4% in April, but a steady increase from the 0.7% rate recorded in April 2010. The central bank policy rate is currently set at 4.25%, representing a cumulative 300 bps hike since April 2010.

DEVELOPING EUROPE/AFRICA
Currency Outlook **Tuuli McCully +1 416 863-2859**

RUSSIA - Elevated energy prices will continue to provide the Russian ruble (RUB); nevertheless, approaching parliamentary and presidential elections – together with a delayed nomination of the ruling party's official candidate for presidency – will likely introduce periods of currency volatility. We expect USDRUB to close the year at 28.

TURKEY - The Turkish lira (TRY) remains vulnerable to further downside risks. Potential negative contagion from the European debt crisis is adversely affecting investor sentiment on highly leveraged emerging-market economies. Moreover, a deteriorating current account deficit and increasing signs of overheating are emerging in the Turkish economy, placing global market participants on alert. We expect USDTRY to close the year at 1.60.

POLAND - The Polish zloty (PLN) will be supported by monetary policy tightening and expectations for relatively strong economic performance through 2012. Nevertheless, a wide fiscal deficit together with a current account shortfall will likely limit currency appreciation. We expect the PLN to close the year at 3.95 per euro.

SOUTH AFRICA - The South African rand (ZAR) is in the process of consolidating a trading range following a steady, yet volatile, appreciating phase against the USD. A widening current account gap, increasing signs of economic overheating and technical currency overvaluation may lead to a bearish phase for the ZAR. We expect the USDZAR rate to close the year at 7.0

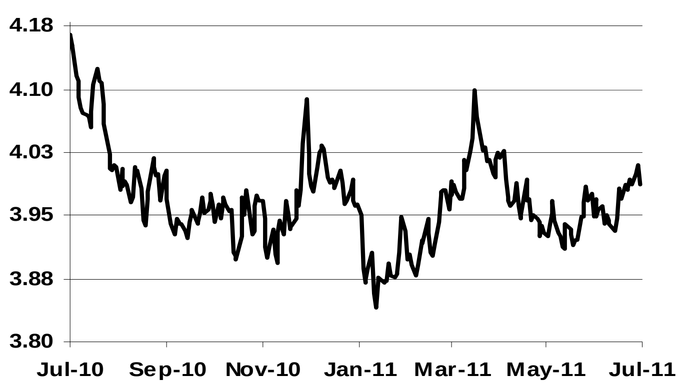
Currency Trends

FX Rate	Going Back			Spot	Outlook			FX Rate
	12 m	6 m	3 m	29-Jun	3 m	6 m	12 m	
USDRUB	31.2	30.5	28.4	27.9	28.0	28.0	28.5	USDRUB
USDTRY	1.58	1.54	1.55	1.62	1.61	1.60	1.58	USDTRY
EURPLN	4	4	4	4	4	4	4	EURPLN
USDZAR	7.67	6.63	6.77	6.82	6.90	7.00	7.15	USDZAR

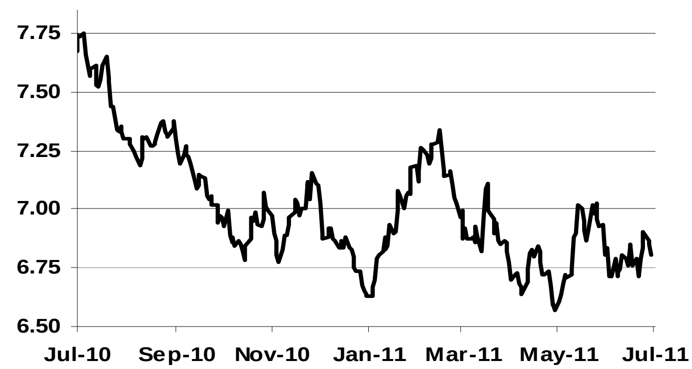
USDRUB

USDTRY

EURPLN



USDZAR



DEVELOPING EUROPE/AFRICA

Fundamental Commentary

Tuuli McCully +1 416 863-2859

RUSSIA - The Russian economic outlook remains dependent on energy prices and the corresponding export sector performance. While shipments abroad remain strong, some cooling can be expected in the near term. The economic recovery is becoming more broadly-based, with recent retail sales and investment spending data indicating a pickup in domestic demand. Labour market conditions are gradually improving – providing support to household spending – with the unemployment rate dropping from 7.8% in January to 6.4% in May. We expect the country's output growth to average 4¼% through 2012. Inflation remains elevated, with the CPI increasing by 9.6% y/y in May. The Russian central bank tightened monetary conditions on May 30th by raising the overnight deposit rate by 25 basis points to 3.5% while keeping the benchmark refinancing rate unchanged at 8.25%. The refinancing rate was raised by 50 basis points between February and April. We expect Russian policymakers to take a break from further monetary tightening in the near term in order to assess the impact of recent measures. The next policy meeting is scheduled for June 30th. Domestic politics will remain the centre of investor attention in the next nine months as parliamentary elections are scheduled for December, followed by a presidential ballot in March 2012. Both President Medvedev and Prime Minister Putin are considering running for the presidency; however, an official decision regarding who will be the ruling United Russia party's candidate has not yet been made.

TURKEY - Election-related political risk factors have been dissipating since Prime Minister Recep Tayyip Erdogan was re-elected in national elections in June. Nevertheless, an aggressive pro-growth public sector spending increase over the past 12 months has markedly widened the current account imbalance (totaling US$64 billion in April y/y), exerting depreciating pressures on the Turkish lira which has been in weakening mode (versus the USD) since early April. In fact, USD/TRY approached the 1.65 mark on June 28th from 1.56 at the beginning of the month. The distressed debt situation in Greece and, to a lesser extent, Portugal and Ireland, has also fuelled negative market sentiment in Turkish local-currency markets with market metrics reflecting a widening of bond yield spreads since early April. The sharp increase in local credit growth (at an annual rate of 35%) is another area of intensifying investor nervousness, prompting the central bank to intervene by increasing reserve requirements on banks deposits to 16% from 6% (December). At the same time, the central bank maintained its policy of international reserves accumulation, which approached a record US$93 billion in June 2011. Despite government intervention measures to cool economic activity, the rate of GDP expansion may approach the 10% mark in the first quarter of the year. Derivatives markets are discounting only modest depreciation from current spot levels, though we remain slightly more cautious than current market metrics.

POLAND - The Polish economic outlook is promising. In addition to benefiting from its close ties with Germany, Poland's robust domestic demand conditions are pointing towards broadly-based economic momentum through 2012. Compared with its regional peers, the country is less dependent on its export sector as the engine of growth, making it less vulnerable to fluctuations in global demand. Indeed, solid private consumption and investment supported Poland's real GDP growth in the first quarter of 2011, with output advancing by 1.0% q/q, compared to the 0.8% rate recorded in the final quarter of 2010. We expect Poland's output to expand by 4¼% in 2011 and 2012. Inflationary pressures are building; consumer price inflation jumped to 5.0% y/y in May from 4.5% in April, and continues to exceed the central bank's 2.5% target by a wide margin. While global energy prices are partly responsible for the persistent inflationary pressures, prices at the core level are intensifying as well. We expect inflation to close the year at 3¾%, and to continue to subside to 3% by the end of 2012. In the context of a robust economic outlook, elevated inflation, and significant growth in employment that may raise the risk of intensifying wage pressures, policymakers again tightened monetary conditions in June. The reference rate was increased by 25 basis points to 4.50%, marking the third hike since the beginning of the year. We expect that the central bank will refrain from further tightening in the coming months.

SOUTH AFRICA - External market conditions remain quite supportive of high-yielding emerging-market currencies such as the ZAR. Prolonged monetary stimulus in the US is a major exogenous factor in favour of emerging markets. In addition, persistently high gold prices resulting from safe-haven trading behaviour, provide further support to the commodity-linked South African currency. Looking ahead, a widening current account deficit (equivalent to 3%+ of GDP in the first quarter of the year), coupled with sustained economic growth and narrowing interest rate differentials may gradually trigger downward pressures on the ZAR. In light of an improved inflation landscape the Reserve Bank of South Africa has conducted an aggressive policy of interest rate reductions, taking the reference repo rate to the current level of 5.5% from 12% in 2009. The ZAR may also be subject to heightened investor concerns regarding an overheating of the economy and/or potential changes to the foreign investor business climate in the country's mining industry. The South African economy increased by almost 5% during the first quarter of the year, strongly aided by a record low interest rate environment. There is a rising market awareness of potential currency overvaluation following a sharp rise in the ZAR vs. the USD since March 2009. In fact, there are growing demands for government-induced currency adjustments to address the lack of export sector competitiveness and to tackle investor's concerns on the deteriorating current account gap.

GLOBAL CURRENCY FORECAST (end of period)

			2009	2010	2011f	2012f	2011f				2012f			
							Q1a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
MAJOR CURRENCIES														
	Japan	USDJPY	93	81	80	85	83	81	79	80	82	83	84	85
	Euro zone	EURUSD	1.43	1.34	1.50	1.40	1.42	1.44	1.45	1.50	1.48	1.46	1.43	1.40
		EURJPY	133	109	120	119	118	117	115	120	121	121	120	119
	UK	GBPUSD	1.62	1.56	1.63	1.70	1.60	1.61	1.61	1.63	1.65	1.67	1.69	1.70
		EURGBP	0.89	0.86	0.92	0.82	0.88	0.90	0.90	0.92	0.90	0.87	0.85	0.82
	Switzerland	USDCHF	1.04	0.93	0.83	0.84	0.92	0.83	0.83	0.83	0.85	0.84	0.84	0.84
		EURCHF	1.48	1.25	1.25	1.18	1.30	1.20	1.20	1.25	1.26	1.23	1.20	1.18
AMERICAS														
North	**Canada**	USDCAD	1.05	1.00	0.96	0.94	0.97	0.97	0.96	0.96	0.95	0.95	0.94	0.94
North		CADUSD	0.95	1.00	1.04	1.06	1.03	1.03	1.04	1.04	1.05	1.05	1.06	1.06
North	**Mexico**	USDMXN	13.1	12.3	12.0	12.3	11.9	11.8	11.9	12.0	12.1	12.1	12.2	12.3
North		CADMXN	12.4	12.4	12.5	13.1	12.3	12.1	12.4	12.5	12.8	12.7	12.9	13.1
South	**Argentina**	USDARS	3.80	3.98	4.40	5.00	4.05	4.11	4.25	4.40	4.54	4.69	4.84	5.00
South	**Brazil**	USDBRL	1.74	1.66	1.60	1.70	1.63	1.57	1.58	1.60	1.62	1.65	1.67	1.70
South	**Chile**	USDCLP	507	468	480	490	477	470	475	480	482	485	487	490
South	**Colombia**	USDCOP	2044	1908	1800	1880	1871	1780	1790	1800	1820	1840	1860	1880
South	**Peru**	USDPEN	2.89	2.81	2.76	2.70	2.80	2.75	2.79	2.76	2.74	2.73	2.71	2.70
South	**Venezuela 1/**	USDVEB	2.15	4.29	4.30	5.15	4.29	4.29	4.29	4.30	4.50	4.70	4.92	5.15
ASIA / OCEANIA														
	Australia	AUDUSD	0.90	1.02	1.09	1.11	1.03	1.07	1.08	1.09	1.09	1.10	1.10	1.11
	China	USDCNY	6.83	6.61	6.25	5.88	6.55	6.46	6.36	6.25	6.16	6.06	5.97	5.88
	Hong Kong	USDHKD	7.75	7.77	7.75	7.75	7.78	7.78	7.77	7.75	7.75	7.75	7.75	7.75
	India	USDINR	46.5	44.7	44.8	43.5	44.6	44.9	44.8	44.8	44.5	44.1	43.8	43.5
	Indonesia 2/	USDIDR	9.40	9.00	8.54	8.40	8.71	8.61	8.57	8.54	8.50	8.47	8.43	8.40
	Malaysia	USDMYR	3.43	3.06	2.89	2.78	3.03	3.04	2.96	2.89	2.86	2.83	2.81	2.78
	New Zealand	NZDUSD	0.72	0.78	0.78	0.80	0.76	0.83	0.80	0.78	0.78	0.79	0.79	0.80
	Philippines	USDPHP	46.2	43.8	42.0	40.0	43.4	43.4	42.7	42.0	41.5	41.0	40.5	40.0
	Singapore	USDSGD	1.40	1.28	1.21	1.20	1.26	1.23	1.22	1.21	1.21	1.21	1.20	1.20
	South Korea	USDKRW	1164	1126	1060	1000	1097	1077	1068	1060	1045	1030	1015	1000
	Thailand	USDTHB	33.4	30.1	29.0	28.0	30.3	30.8	29.9	29.0	28.7	28.5	28.2	28.0
	Taiwan	USDTWD	32.0	29.3	27.8	26.5	29.4	28.9	28.3	27.8	27.5	27.1	26.8	26.5
EUROPE / AFRICA														
	Czech Rep.	EURCZK	26.4	25.0	24.0	24.0	24.5	24.3	24.1	24.0	24.0	24.0	24.0	24.0
	Iceland	USDISK	126	115	115	110	114	115	115	115	114	112	111	110
	Hungary	EURHUF	270	279	270	265	266	266	268	270	269	267	266	265
	Norway	USDNOK	5.79	5.82	5.25	5.15	5.54	5.38	5.32	5.25	5.23	5.20	5.18	5.15
	Poland	EURPLN	4.10	3.96	3.95	3.90	4.02	3.99	3.97	3.95	3.94	3.92	3.91	3.90
	Russia	USDRUB	30.0	30.5	28.0	29.0	28.4	27.9	28.0	28.0	28.2	28.5	28.7	29.0
	South Africa	USDZAR	7.40	6.63	7.00	7.30	6.77	6.80	6.90	7.00	7.07	7.15	7.22	7.30
	Sweden	EURSEK	10.25	8.99	8.80	8.60	8.95	9.16	8.98	8.80	8.75	8.70	8.65	8.60
	Turkey	USDTRY	1.50	1.54	1.60	1.57	1.55	1.62	1.61	1.60	1.59	1.58	1.58	1.57

f: forecast; 1/ a new "strong bolivar" was announced on January 1st, 2008, equivalent to 1000 bolivars; 2/ in thousands

INTERNATIONAL RESEARCH GROUP

Pablo F.G. Bréard, Head
pablo_breard@scotiacapital.com

Daniela Blancas
daniela_blancas@scotiacapital.com

Tuuli McCully
tuuli_mccully@scotiacapital.com

Estela Ramírez
estela_ramirez@scotiacapital.com

Oscar Sánchez
oscar_sanchez@scotiacapital.com

CANADIAN & U.S. ECONOMIC RESEARCH

Karen Cordes Woods
karen_woods@scotiacapital.com

Gorica Djeric
gorica_djeric@scotiacapital.com

Derek Holt
derek_holt@scotiacapital.com

Adrienne Warren
adrienne_warren@scotiacapital.com

FOREIGN EXCHANGE RESEARCH

Camilla Sutton
camilla_sutton@scotiacapital.com

Eric Theoret
eric_theoret@scotiacapital.com

Sacha Tihanyi
sacha_tihanyi@scotiacapital.com

Scotia Economics
Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: (416) 866-6253 Fax: (416) 866-2829
Email: scotia_economics@scotiacapital.com