Foreign Exchange Outlook

AMERICAS

The USD is expected to regain a broad-based appreciating bias following a brief consolidation phase. The CAD is vulnerable to ongoing weakness on the back of a strong USD, low oil prices, relative economic and monetary performance and investor sentiment. The MXN and BRL retain a defensive bias.

EUROPE

The EUR is expected to trend lower, but at a more modest pace than the first quarter. The GBP is vulnerable to near-term downside as the likely deferral of monetary tightening combined with uncertainty over the May election looms. The RUB remains in recovery mode despite further damage from economic sanctions.

ASIA/PACIFIC

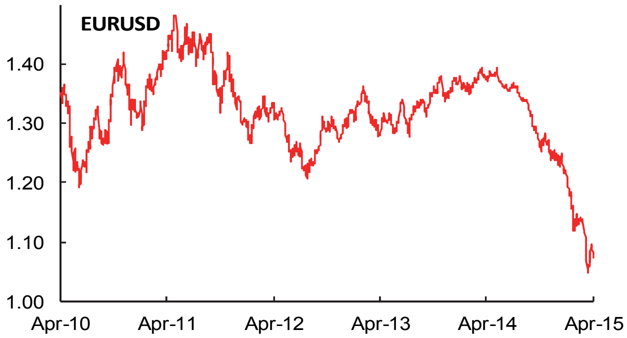
The JPY is expected to trend lower, interrupted by brief periods of risk aversion. The CNY, KRW and THB have resumed a gradual strengthening trend. The AUD will likely maintain a soft trading path. The Asian currency outlook remains susceptible to another round of USD strengthening in the months ahead.

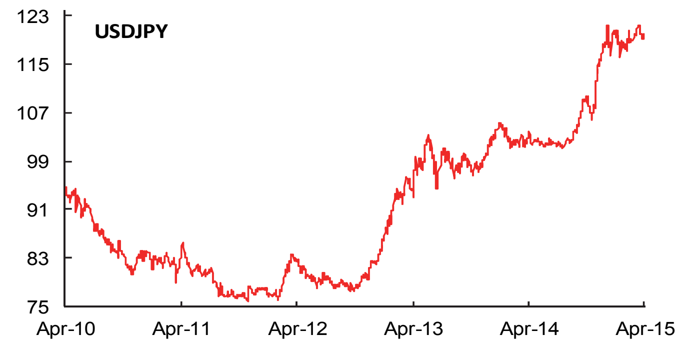
Contents

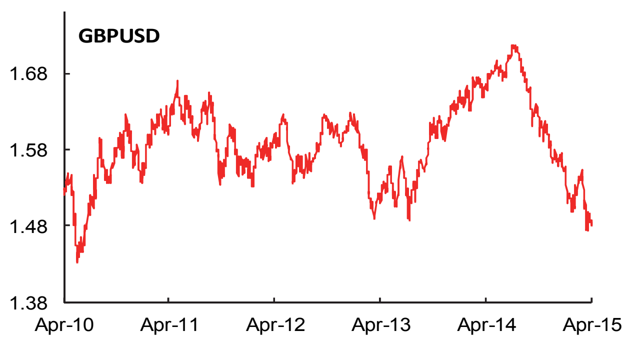
Core Exchange Rates

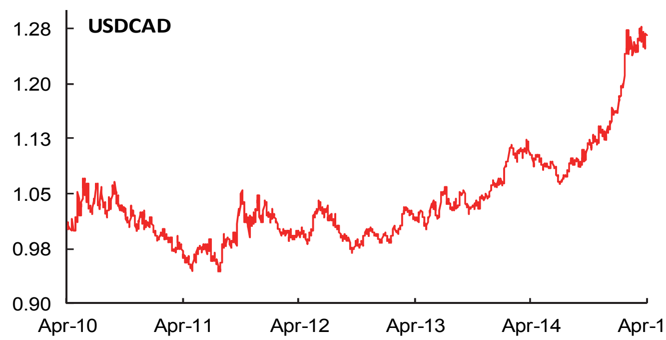
Global Foreign Exchange Outlook

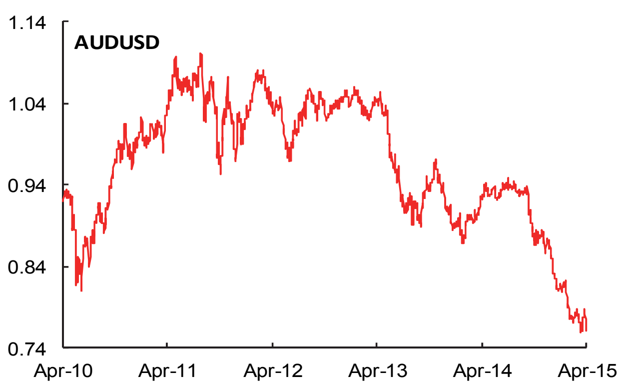
March 31, 2015	Spot	2015f Q1a	2015f Q2	2015f Q3	2015f Q4	2016f Q1	2016f Q2	2016f Q3	2016f Q4
EURUSD	1.07	1.07	1.10	1.08	1.05	1.05	1.04	1.02	1.00
USDJPY	119.9	120	120	123	125	128	129	130	131
GBPUSD	1.48	1.48	1.48	1.50	1.51	1.51	1.51	1.52	1.52
USDCAD	1.27	1.27	1.31	1.32	1.33	1.33	1.32	1.31	1.30
AUDUSD	0.76	0.76	0.75	0.73	0.73	0.73	0.74	0.75	0.75
USDMXN	15.25	15.25	15.27	15.24	15.20	15.15	14.88	14.81	14.89











Market Tone & Fundamental Focus

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The fundamental outlook shaping the trading patterns of major currencies remains unchanged. The current consolidation phase will likely be challenged in the near term and the strengthening of the US dollar (USD) will resume despite temporary pullback dynamics.

The USD is expected to return to its strengthening trend, but the pace of appreciation will be slower than recently witnessed. Higher short-term interest rates remain our base case scenario, yet the timing of the first move by the Federal Reserve (Fed) has been reassessed. We anticipate that the US economy will regain its accelerating pace in the second quarter of the year on the back of solid employment and persistently accommodative monetary conditions. The USD entered a range bound environment in mid-March, as market participants digested a later start to the Fed interest rate hiking cycle and an improving economic profile for Europe.

Oil prices remain vulnerable to geopolitical developments and rising US inventories, but rig counts have fallen dramatically and US production is showing early signs of stabilizing. The escalation of military tension in the Middle East combined with uncertainties regarding the longevity of economic and financial sanctions against Iran may instil another dose of volatility in energy markets. Crude oil prices, measured by the light-crude WTI benchmark have averaged US$48¾ per barrel over the past three months, exerting downward pressure on oil-linked economies and their currencies.

Overall investor sentiment implies persistent weakness in the Canadian dollar (CAD). Growth and interest rate differentials will weigh on the value of the CAD, which continues to be influenced by the aftershock effects from the oil price collapse compounded by still weak recovery in non-oil commodity prices. The Mexican peso (MXN) continues to be primarily influenced by exogenous factors connected with the US business and monetary cycles, investor sentiment towards high-yield fixed-income markets, and direction of crude oil prices. Improving domestic demand conditions and attractive long-term interest rate differentials offer a shield against speculative MXN pressures.

The euro (EUR) retains a defensive tone and further weakness is in sight. Europe remains fragile, and there is no evidence of material shifts in a bearish fundamental picture in the European landscape. An uptick in inflation and high-frequency data releases suggest that Europe is stabilizing, benefitting from the combination of stimulus provided by EUR depreciation, low oil prices, and low bond yields. However, the divergence in monetary policy and growth will likely keep the EUR trending lower.

The British pound (GBP), which has been steadily underperforming versus the USD since July 2014, is vulnerable to extend its declining trend. The GBP will be influenced by the combination of disinflationary dynamics, a well-entrenched global investor preference for the USD and to a lesser extent policy uncertainties linked to the approaching general elections scheduled for May 7th, 2015. The Bank of England will remain data-sensitive in the near term, as it faces a disinflationary environment, with the most recent consumer prices print at 0.0% y/y; we have pushed out our rate hike expectations to the first quarter of 2016, lagging the Fed by two quarters. The Norwegian krone (NOK), like the CAD, is vulnerable to the economic impact of lower oil prices, but the bulk of the depreciation has likely already occurred.

The Japanese yen (JPY) remains on the defensive. Japan's fundamental backdrop has deteriorated and the Bank of Japan (BoJ) is expected to struggle towards its 2% inflation goal without further stimulus. The Chinese renminbi (CNY) rebounded in March on the back of better support for Asian currencies against the USD, and stronger than expected fixings from the central bank. The yuan's fundamentals are relatively strong and this combined with ongoing currency policy liberalization should support modest gains from here. The Australian dollar (AUD) is expected to reach fresh multi-year lows in Q3 based on a soft domestic backdrop, disappointing Chinese growth, and the Reserve Bank of Australia's interest rate path and desire for a lower currency. The South Korean won (KRW) has regained an appreciating tone in line, somewhat decoupling from the competitive realignment to JPY.

Emerging-market currencies beyond China will remain sensitive to the combined triple effect of shifting monetary policy conditions in the United States, decelerating growth dynamics in China, and volatile price gyrations in commodity markets. The ultimate shape of the US Treasury bond yield curve, rather than the initial hike in the short-term Fed funds rate, will shape market sentiment in Latin American currency markets. The Brazilian real (BRL) emerged as a major casualty of global risk aversion dynamics compounded by a sharp erosion in domestic macroeconomic conditions, which combines a spike in inflation and prolonged recession. The Indian rupee (INR) has adopted a volatile and somewhat weakening trend versus the USD over the past six months, a situation that may be offset by improving investment conditions in the months ahead as a result of the structural adjustment phase under way. The Russian ruble (RUB) maintained a recovery during the first quarter of the year despite the adverse economic impact from deep financial sanctions and unsupportive energy prices.

Canada

Currency Outlook

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At the close of the first quarter of 2015, the Canadian dollar (CAD) had weakened 8% against the USD, outperforming only a handful of currencies. The weakness reflects three major themes: the economic consequences for Canada of the oil price collapse, Bank of Canada policy, and broad-based USD strength on the back of diverging global monetary policy and growth outlooks. From here the pace of CAD weakness is likely to slow, but the currency is expected to reach fresh lows in 2015.

Due to lower oil prices, high Canadian household debt, and an extended housing sector, Canada's real GDP gain is expected to underperform US growth in both 2015 and 2016. Oil prices are vulnerable to geopolitical developments, which are difficult to predict, while the North American fundamental outlook is weighed down by large inventories and only early signs of slowing production. For the CAD, its near-term outlook is closely tied to oil prices. Over the medium term Scotiabank expects oil prices to retrace some of the recent losses.

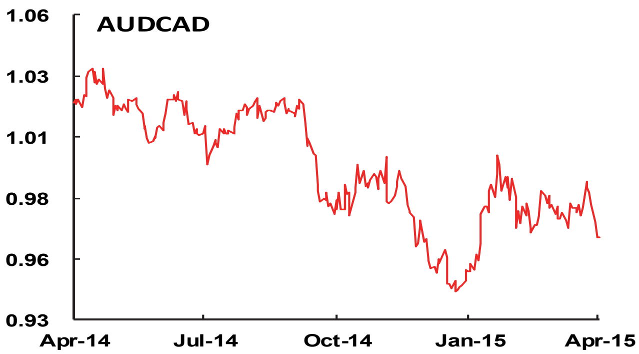
In January, the Bank of Canada (BoC) surprised markets by cutting interest rates on the uncertainty around oil prices and risks to financial stability. Since then, the BoC has maintained a dovish tone, noting large unemployment and output gaps, low inflationary pressures, and ongoing uncertainty. We expect Canada to lag the first Fed interest rate hike by several quarters and expect this to weigh on the CAD in the near-term; however, once the BoC does turn towards higher interest rates, we expect the shift to be awkward for markets.

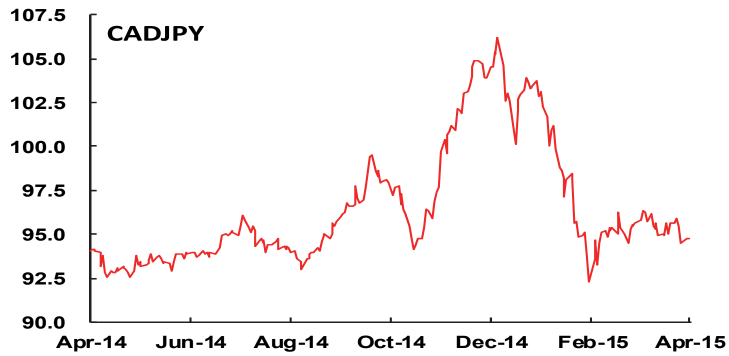
The USD is expected to strengthen broadly on the back of its relative growth outlook and monetary policy cycle. The expected divergence has already driven strong gains in the USD across most currencies, a trend that is expected to continue but at a more moderate pace. Sentiment for the USD is strong (with the CFTC reporting net long USD positions against all currencies) and technicals continue to support a strong USD outlook.

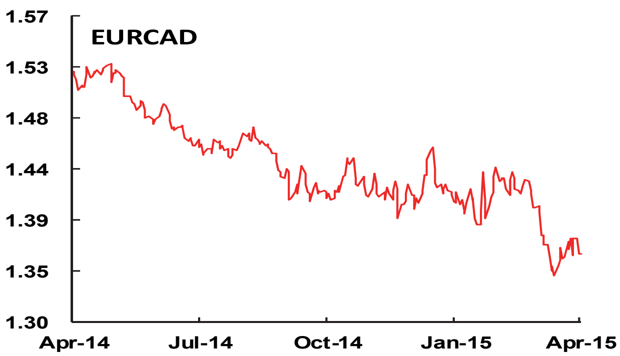
Accordingly, the CAD is expected to reach fresh lows in 2015, closing the year at 0.75 (USDCAD at 1.33) but then stabilize in 2016, averaging 0.76 (USDCAD 1.32).

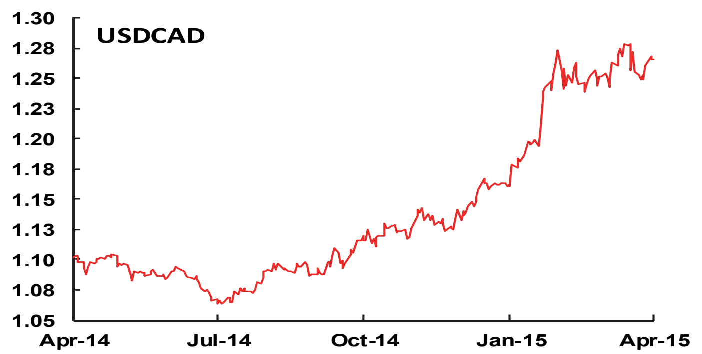
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 31-Mar	15Q1a	15Q2f	15Q3f	15Q4f	16Q1f	16Q2f	16Q3f	16Q4f
AUDCAD	0.96	0.96	0.98	0.96	0.97	0.97	0.98	0.98	0.98
CADJPY	94.7	94.7	91.6	93.2	94.0	96.2	97.7	99.2	100.8
EURCAD	1.36	1.36	1.44	1.43	1.40	1.40	1.37	1.34	1.30
USDCAD	1.27	1.27	1.31	1.32	1.33	1.33	1.32	1.31	1.30









United States and Canada

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Fundamental Commentary

UNITED STATES — The US economy slowed in early 2015, with growth dampened by lower energy-related capital expenditures and US dollar strength. The early-year weakness has been exacerbated by a number of temporary production disruptions, including a West Coast port strike (now resolved), severe winter weather in parts of the country, and auto sector retooling. Activity is expected to bounce back solidly in the spring as the impact of these temporary factors fades. Consumer confidence and spending are benefitting from lower gasoline prices, rising household net worth and a significant improvement in labour market conditions. The strongest pace of job growth in over a decade has pushed the unemployment rate to a near seven-year low of 5.5%. Broader measures of unemployment also have improved, though still soft wage gains averaging around 2% y/y suggest some continued labour market slack. Vehicle sales and buying intentions remain elevated. However, the recovery in the US housing market remains disappointing. Housing starts are edging higher, but remain at least 20% below historical levels. Notwithstanding good housing affordability, still tight lending conditions, high student debt loads, weak income gains and a limited inventory of lower-priced homes are restraining first-time buyer activity, while less favourable valuations have cooled investor demand. The overall momentum in industrial activity and business spending has slowed in recent months alongside a sharp retrenchment in oil & gas drilling and sluggish export sales. US dollar strength and moderate global growth are expected to weigh on export activity this year, though solid domestic sales should maintain expanding manufacturing production. At the same time, the US economy is getting a lift from a pickup in local and state government spending, and a reduced pace of federal fiscal restraint. Headline US inflation dropped to 0.0% y/y in February on lower energy prices. However, core inflation is holding steady around 1.7%, with lower import costs tempered by firmer services price trends.

CANADA — The first quarter of 2015 has revealed softer-than-expected economic data, with persistent commodity price weakness dragging on growth. GDP is likely to advance less than 2% this year, following 2½% growth in 2014. Employment grew just above ½% in 2014, the lowest in five years, with sluggish wage growth continuing into the first few months of this year. We expect the labour market to add roughly 10,000 jobs per month this year, a similar pace to 2014, with positive momentum in the manufacturing sector offsetting restructuring in the oil patch. Vehicle sales remain one of the strongest retail sectors, and are likely to edge up to record highs in 2015. However, consumers are expected to be relatively cautious spenders in the year ahead as pent-up demand is limited, and homeownership rates remain at record levels. Manufacturing and exports remain strong with producers benefitting from rising auto sales and residential construction in the US, and a more competitive currency. Manufacturing exports to the US will be the main growth driver in the coming year, more than offsetting weaker energy receipts. Business investment remains weak as excess capacity combined with moderate sales growth continues to weigh on capital spending plans, despite healthy corporate finances and favourable financing costs. Capital investment plans among manufacturers and other non-energy producers should gradually firm up over the coming year as improving US demand underpins a stronger export recovery, although weak commodity prices will limit investment in the resource sector. Headline and core inflation picked up to around 2% y/y in 2014, reflecting rising food costs and the pass-through of a weaker Canadian dollar to a broad range of imported goods. While headline inflation has receded alongside falling gasoline prices and soft wage gains, the sharp decline in the Canadian dollar in recent months will contain core inflation around the mid-point of the Bank of Canada's 1-3% target range in 2015.

Monetary Policy Commentary

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UNITED STATES — We see the Federal Reserve (Fed) on a path to hike interest rates in Q3. The March FOMC statement and ensuing press conference downgraded the Fed's assessment of the economy and its expected pace and path of policy firming. Subsequent remarks from Fed Chair Yellen further implied that the Fed intends to be cautious in its normalization of rates, and that it distinguishes between lifting rates off of zero and raising rates to its view of the medium-run neutral rate. We think that the Fed wants to commence a hike cycle before year end but that it doesn't want markets to immediately pull forward a whole cycle's worth of hikes in such fashion as to cause term yields to rise and potentially short circuit the recovery. The scope for surprise nevertheless still exists as greater economic progress than the Fed is currently banking on could potentially cause faster rate hikes than what the present 'dot plot' conveys.

CANADA — The Bank of Canada (BoC) continues to guide that the 25 bps rate cut in January 'bought time', i.e. further rate cuts may not be needed. Our read is that the BoC will not cut rates again until Q3 2015 if at all. The argument is: a) oil prices have rebounded somewhat since January, and b) that a lower Canadian interest rate term structure and a weaker CAD may have the BoC feeling that financial conditions are now adequately accommodative so as not to necessitate imminent rate cuts to cushion the blow from low oil prices. There is a paradox here: without further cuts in administered rates, market interest rates will rise along with the C$. Assuming oil prices remain subdued, this could have the BoC cutting rates further, but the argument isn't extraordinarily compelling to the extent that the BoC is focused on subdued term yields (which are low globally, after all). We would highlight that rate cut odds are fairly balanced.

Europe

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Currency Outlook

EURO ZONE — The EUR dropped 11% in the first quarter and is vulnerable to further downside but at a more moderate pace. Fundamentals have stabilized but continue to point to modest growth, low inflation and the need for monetary stimulus for an extended period. In late March, the net short EUR position had grown to $30 billion (CFTC) reflecting building bearish sentiment. Flows out of Europe are strong, as negative interest rates combined with a difficult fundamental backdrop are a concern. Technicals warn of a bearish trend. We hold a EURUSD year-end target of 1.05.

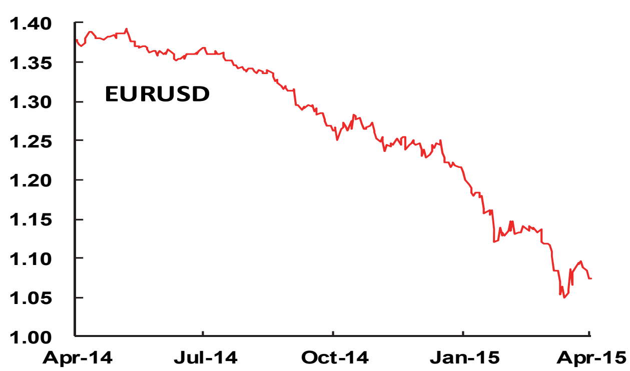
UNITED KINGDOM — Political uncertainty leading into the May 7th election is a near-term weight against the GBP. The Bank of England faces low inflation (the February print fell to 0%) and vulnerabilities to the euro zone; accordingly, it is unlikely to enter its hiking cycle until early 2016. Sentiment is bearish; in March, the CFTC reported a relatively stable -$3 billion short position. However, we'd expect the GBP to stabilize later in the year as flows turn positive based on the UK's relative growth and central bank profiles combined with a positive interest rate. We hold a GBPUSD year-end target of 1.51.

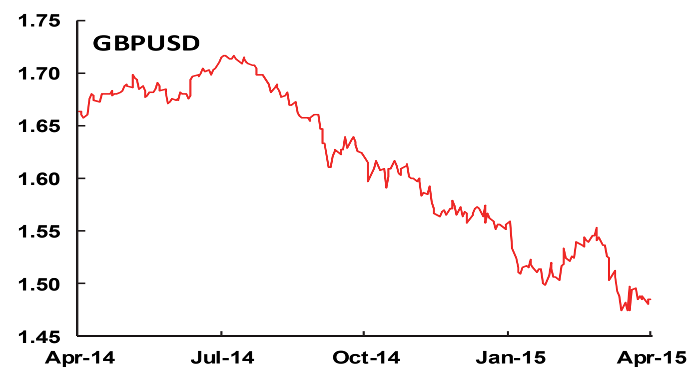
SWITZERLAND — The Swiss National Bank (SNB) faces an improvement in economic growth but a deflationary environment (to be exacerbated by CHF strength) and a currency that is vulnerable to risk aversion. Interest rates are negative encouraging outflows, while EURCHF has stabilized close to 1.05; we expect the SNB to be more comfortable with a slow trend towards 1.10. We hold a year-end EURCHF target of 1.05.

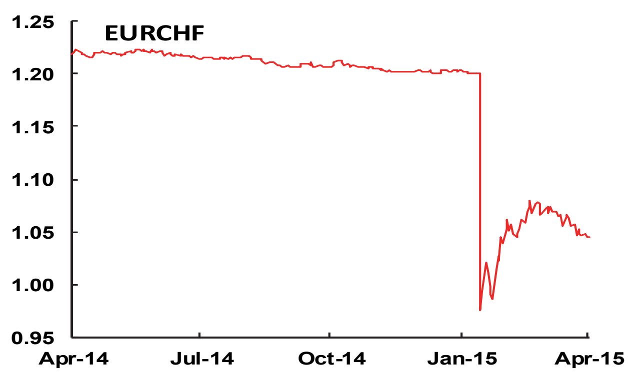
SWEDEN — Negative interest rates and a dovish Riksbank weighed on the SEK during the first quarter of 2015. These trends are likely to continue in the near-term, but fade by year-end. The fundamental backdrop appears to be stabilizing; however, like many small open economies, the central bank is alert to currency risk, particularly relative to the EUR. Technically, USDSEK is trending higher, but the trend has moderated in 2015. We hold a year-end USDSEK target of 8.50 and EURSEK of 8.93.

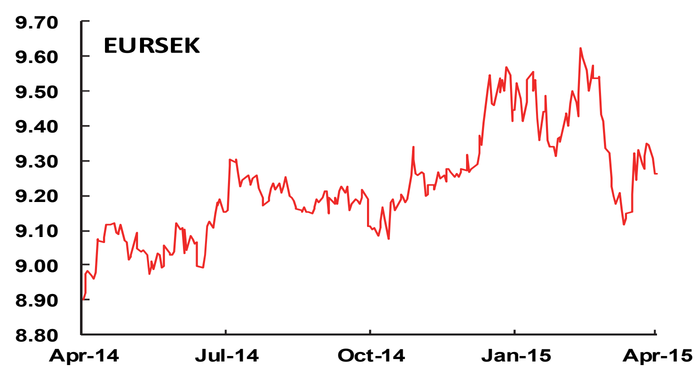
Currency Trends

FX Rate	Spot 31-Mar	15Q1a	15Q2f	15Q3f	15Q4f	16Q1f	16Q2f	16Q3f	16Q4f
EURUSD	1.07	1.07	1.10	1.08	1.05	1.05	1.04	1.02	1.00
GBPUSD	1.48	1.48	1.48	1.50	1.51	1.51	1.51	1.52	1.52
EURCHF	1.04	1.04	1.08	1.09	1.10	1.10	1.10	1.10	1.10
EURSEK	9.26	9.26	9.24	9.13	8.93	8.93	8.84	8.67	8.50









Europe

Fundamental Commentary

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EURO ZONE — The euro zone economy continues to gain momentum. Leading indicators, such as PMIs, industrial production, as well as business and consumer confidence, continue to improve, buoyed by lower energy prices, the weaker euro, and highly accommodative monetary policy by the European Central Bank (ECB). Employment and retail sales growth have also continued to perform well. As such, we have edged up our euro zone real GDP growth forecast to 1.5% in 2015 and 1.7% in 2016. This largely reflects solid economic performance in Germany and Spain. However, the outlook in France and Italy may also be turning a corner with both governments in the process of pushing through much needed structural reforms, while the boost from lower energy prices and deflation has lent support to consumer spending. Headline deflationary pressures have eased from a -0.6% y/y print in January to the most recent release of -0.1% y/y in March; however core CPI remains at a record low 0.6% y/y. The ECB began its quantitative easing (QE) program worth €60 billion per month on March 9th, which will run through September 2016 or longer, depending on if a “sustainable rise of inflation towards price stability” is achieved. This will maintain the depreciatory bias on the euro, which in turn should support medium-term price stability by increasing import costs and economic growth through stronger export sector performance. We expect that euro zone inflation will end the year at 0.6% y/y in 2015 and 1.3% in 2016, and will be in line with the ECB’s target of close to — but below — 2% inflation by 2017, which leads us to believe that QE will likely be terminated on schedule next September.

UNITED KINGDOM — While economic momentum has waned recently, UK growth should continue to accelerate over the course of 2015. The boost to household real income from lower inflation, coupled with solid employment gains and rising wages should help private consumption drive overall growth higher. Business investment should also perform well, though held back to some extent by cutbacks in the oil & gas sector. Meanwhile, lower energy costs bode well for a modest improvement in industrial output and exports should benefit from strengthening economic fundamentals in the US and Europe. However, the contribution from the external sector will likely be tempered by the appreciation in the GBP vis-à-vis other European currencies. UK real GDP is forecast to advance 2.7% in 2015 and 2.3% in 2016. Inflation pressures continue to ease, with the headline CPI print at 0% y/y in February and likely to turn mildly negative over the coming months. Looking ahead to later this year, second round effects associated with the fall in food and energy prices should push core inflation higher, while powerful base effects from petrol prices should add close to 1% to the headline rate. Against this backdrop, it is not unreasonable to expect inflation to approach the Bank of England’s (BoE) 2% y/y target by mid-to-late 2016. Despite recent speculation and policy easing by other central banks, we do not expect the BoE to loosen monetary policy further. However, weak underlying inflation dynamics will likely make policy tightening a tough sell this year. As such, we now expect the BoE’s first interest rate hike to arrive in Q1 2016.

SWITZERLAND — Incoming economic data remain mixed. Following the Swiss National Bank’s (SNB) decision to abandon its long-held currency ceiling against the euro, Switzerland's manufacturing PMI has declined sharply into contractionary territory, while domestic confidence has weakened. The sharp rise in the Swiss franc has also exacerbated deflationary pressures, with the annual change in the CPI plunging from -0.1% in November to -0.8% in January — its lowest level since June 2012. Nevertheless, key leading indicators such as the ZEW economic sentiment index and the KOF economic barometer have experienced a modest rebound, underpinned by resilient consumer spending as well as improving industrial output and exports. While monetary authorities decided to leave the target range for the three-month Swiss Libor unchanged between -1.25% and -0.25% in the latest quarterly assessment in March, the SNB clearly suggested that the exchange rate is a key policy parameter. The SNB highlighted that it would "remain active in the foreign-exchange market, as necessary," and stressed that it believes the franc is "significantly overvalued" and would like it "to weaken over time." Over the coming months, we expect the appreciation of the franc will push consumer price growth further into negative territory and drag on overall economic activity through various channels, particularly exports, investment, and tourism. We expect Swiss real GDP growth will decelerate from 1.6% in 2014 to 0.7% in 2015 and 1.2% in 2016, with inflation easing from 0% to -1.5% and -0.2%, respectively.

SWEDEN — Sweden is one of Europe’s top economic performers, with real GDP advancing 2.1% in 2014. We expect Swedish growth to continue to accelerate and become more broad-based in 2015. Private consumption is forecast to remain strong amid ongoing improvements in labour market conditions, while real disposable income gets a boost from muted inflation. Further support will come from low borrowing cost, with the Riksbank cutting its benchmark repo rate to -0.25% and announcing a modest quantitative easing (QE) program. This, combined with improving growth prospects domestically as well as in the euro zone should also sustain strong growth in business investment. Industrial production and new orders data are already showing signs of improvement and the depreciation in the krona should bode well for exports. In fact, the Riksbank is willing to expand its QE program to support exports and weigh on the krona. Swedish consumer prices rose 0.1% y/y in February, up from -0.2% in January. Monetary policymakers continue to reiterate their preference for overshooting the 2% inflation target rather than letting deflation become entrenched. As such, the Riksbank could choose to further loosen monetary policy at its next meeting in April. We expect Swedish real GDP growth will accelerate to 2.7% in 2015. Accommodative monetary policy and healthy domestic demand should drive a modest revival in inflation to an average rate of 0.7% in 2015 and 1½% in 2016.

Europe & Africa
Currency Outlook

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NORWAY — Fundamentals have weakened dramatically in tandem with the fall in oil prices. In March, the Norges Bank detailed a neutral policy stance, expecting rates to remain at 1%. Traders have linked the NOK to Brent oil prices and, accordingly, the NOK's largest driver in the near term will be oil. Technicals warn of an upward trend in USDNOK, but this moderated in March. Should oil stabilize and retrace some of its recent lows, USDNOK should close the year at 7.90.

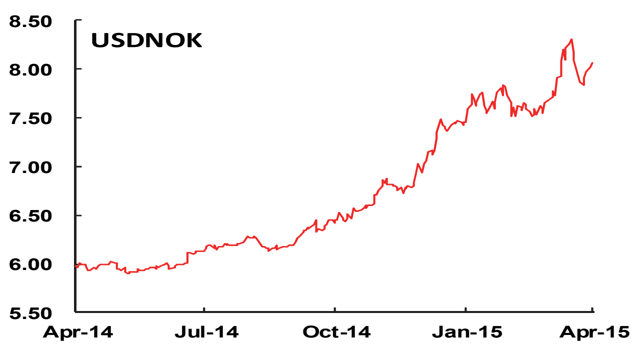
RUSSIA — Trading at 57.8 against the US dollar (USD) at the time of writing, the Russian ruble (RUB) registered another double-digit appreciation vis-à-vis the USD in March. Weak economic fundamentals, geopolitical risks, lower oil prices, and further monetary easing by the Central Bank of Russia, however, will continue to weigh on the RUB. USDRUB is forecast to end 2015 at 60.0, before appreciating modestly to 55.0 by end-2016.

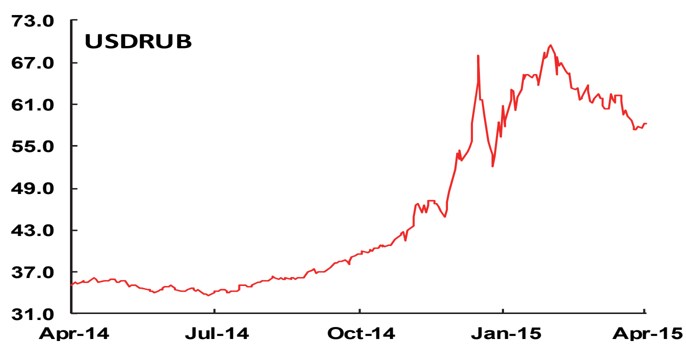
TURKEY — Despite firming slightly mid-March after the Central Bank of the Republic of Turkey (CBRT) kept interest rates unchanged and the US Federal Reserve indicated a less hawkish tone, the Turkish lira (TRY) continued to extend losses against the US dollar (USD) over the past month. At 2.61 at the time of writing, USDTRY remains near a record low, due to Turkey's challenging economic backdrop, dovish CBRT and inflationary pressures. The TRY is forecast to end 2015 at 2.60 against the USD. Improving fundamentals will lead to a modest appreciation in USDTRY through the end of 2016 to 2.55.

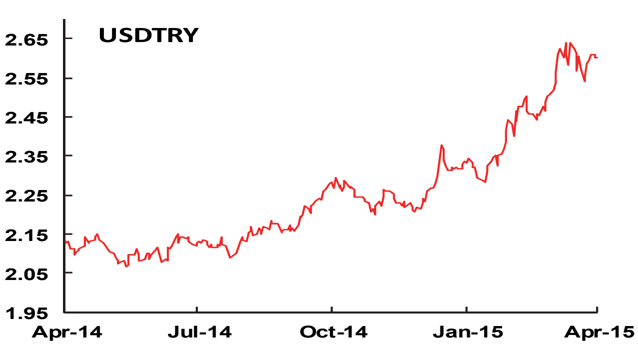
SOUTH AFRICA — The South African rand (ZAR) has depreciated 7.9% against the US dollar (USD) over the past month reflecting global investor portfolio reallocation moves out of high-yielding financial systems and into the US. The ZAR, trading at 12.14 (at the time of writing) against the USD, has depreciated by 7.5% year-to-date. Despite lower inflationary pressures, we maintain our view that the central bank will likely hold the benchmark repurchase rate steady over the medium term to limit depreciation of the currency vis-à-vis the USD. We expect the USDZAR to average roughly 12.2 in 2015-16.

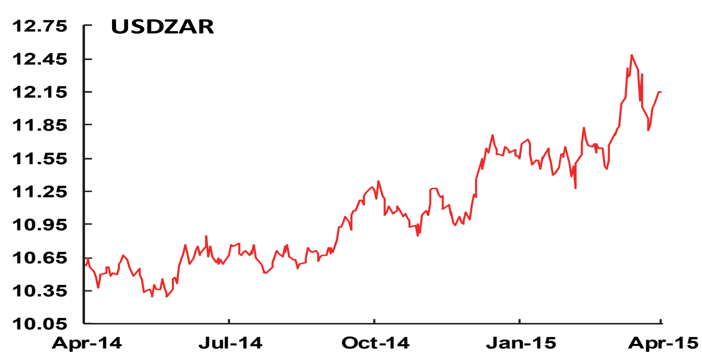
Currency Trends

FX Rate	Spot 31-Mar	15Q1a	15Q2f	15Q3f	15Q4f	16Q1f	16Q2f	16Q3f	16Q4f
USDNOK	8.06	8.06	7.87	7.90	7.90	7.90	7.85	7.75	7.70
USDRUB	58.20	58.2	59.0	61.5	60.0	58.5	57.0	56.0	55.0
USDTRY	2.60	2.60	2.58	2.59	2.60	2.59	2.57	2.56	2.55
USDZAR	12.15	12.15	12.17	12.21	12.23	12.25	12.17	12.12	12.05









Europe & Africa

Fundamental Commentary

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NORWAY — The oil price collapse has been a negative development for the Norwegian economy; the oil industry makes up roughly one-fifth of GDP and half of export earnings. However, Norway is entering into the oil glut with strong economic fundamentals. The Norwegian economy grew by a seasonally adjusted 3% y/y in the fourth quarter of 2014, significantly outpacing its regional peers, while its unemployment rate remains exceptionally low at 3%. Inflation stood at 1.9% y/y in February, slightly below the 2014 average, with currency depreciation partially offsetting the decline in oil prices. The central bank eased its policy rate by 25 basis points in December to 1.25% (the rate had been unchanged at 1.50% since early 2012), and central bank governor Olsen has indicated that another cut may be justified to soften the blow of lower oil prices. Norway has long discussed the need to diversify its economy away from a dependence on oil-related receipts, but little progress was made before the global oil price shock. Oil production has fallen by 45% since its mid-2001 peak, but recent discoveries should allow the country to maintain output around current levels over the next decade; domestic oil investment is expected to decrease by almost 20% as companies trim exploration funding in light of the price decline and tens of thousands of domestic oil sector jobs are on the line, placing upside risk on Norway's enviable unemployment rate. Norway is entering this tumultuous period with solid financials, and the country's sovereign wealth fund holds almost US$900 billion in assets; the government plans to draw 3% out of the fund this year (below the statutory limit, but a record in krone-terms) to help balance its budget.

RUSSIA — Incoming economic data continue to suggest that Russia is moving further into recession, dragged down by lower global oil prices, and economic stress from US-led sanctions. Geopolitical tension has shown no major sign of abating, therefore, we expect private consumption will be depressed this year by the steep decline in real wages and consumer confidence. Meanwhile, business investment is forecast to contract sharply on the back of restrictive financial conditions, declining corporate profits, and heightened economic and political uncertainty. Growth in consumer prices also remains alarmingly high at 16.7% y/y in February, up from 6.2% a year earlier. Although, we expect the Central Bank of Russia (CBR) will continue to cut interest rates over the coming months, with the CBR already lowering its benchmark one week auction rate by 300 basis points so far this year to 14%. The recession and lower oil prices is expected to result in a 17% drop in government revenue this year. Moscow now targets a fiscal deficit of 3.8% of GDP in 2015, up from a shortfall of 0.5% in 2014. Russia aims to rein in its budgetary shortfall over the coming years; nevertheless, rising defence spending and pension liabilities present significant challenges to Russia's longer-term fiscal outlook. The weaker ruble, however, should lend some support to exports. We expect Russian real GDP to contract -5% in 2015 and grow 0.5% in 2016, with annual inflation at a year-end rate of 12.5% and 7.9%, respectively.

TURKEY — Economic activity in Turkey remains constrained by domestic policy uncertainty and geopolitical risks from the Russian-Ukraine crisis and the conflict in Iraq and Syria. These challenges, combined with elevated unemployment, inflation and interest rates will continue to drag on household spending over the coming months. Meanwhile, weakness in the country's manufacturing PMI, industrial production, business confidence, and capacity utilization point to limited signs of a near-term rebound in business investment. Consumer prices also continue to edge higher due to the depreciation in the Turkish lira since the turn of the year, with headline inflation rising to 7.5% y/y in February from 7.2% in January — well above the Central Bank of the Republic of Turkey's (CBRT) medium-term target of 5%. The current account deficit-to-GDP ratio also remains high at 5.8% in 2014. Looking ahead, we expect muted domestic demand and lower oil prices will help reduce external imbalances. Exports should also benefit from stronger growth in Europe and the weaker lira amid further monetary easing by the CBRT, which has cut interest rates by 75 basis points already this year, bringing its benchmark one-week repo rate to 7.5%. Robust government spending ahead of the June general election will also be supportive of growth. Real GDP growth is forecast to accelerate from 3% in 2014 to 3.2% in 2015 and 3.9% in 2016. Inflationary pressures should ease from a year-end rate of 8.2% y/y in 2014 to 6.5% in 2015 and 6% in 2016, while the current account deficit will likely narrow to 4.6% of GDP this year.

SOUTH AFRICA — Following a year plagued by successive waves of labour unrest and strikes, economic momentum is expected to start showing signs of improvement. Nevertheless, economic conditions are challenging; real GDP growth slowed to 1.3% y/y in the fourth quarter of 2014 from 1.6% in the prior three quarters. As a whole, the economy expanded by 1.5% y/y in 2014; the slowest pace of annual growth recorded since 2009. As the economy recovers, positive base effects will play a large role in shaping the outlook through much of 2015, placing an upward bias on quarterly growth figures. Accordingly, we expect real GDP growth to accelerate to an average annual growth of 2.3% y/y in 2015-16. Lower oil prices have aided the country's inflation outlook, with inflationary pressures easing from an average monthly gain of 6.0% y/y in 2014 — the top end of the central bank's 3-6% target — to 3.9% in February. Monetary authorities have indicated that the lower inflation path has provided room to pause the interest rate normalization process that began last year when the benchmark repurchase rate was raised by 75 basis points. Governor Lesetija Kganyago has indicated that a sustained decline in the inflation rate is required for monetary easing to transpire. Although we expect inflation to remain low through much of this year with the possibility of breaching the lower bound of the central bank's target range, we do not expect any changes to the key rate will be made in the coming months.

Asia / Pacific
Currency Outlook

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JAPAN — The Japanese yen (JPY) closed the first quarter flat to where it began, reflecting offsetting forces that are constraining movement in the JPY. Fundamentals are soft, and the BoJ is likely to struggle to achieve its 2% inflation goal, while the US side of the equation is strong. However, the range bound trading environment diminishes the use of technical, while the net short JPY position as reported by the CFTC has been cut in half since the beginning of the year. We expect the fundamental outlook to deteriorate, leaving the JPY trending lower, interrupted by brief periods of risk induced strength. We hold a year-end USDJPY target of 125.00.

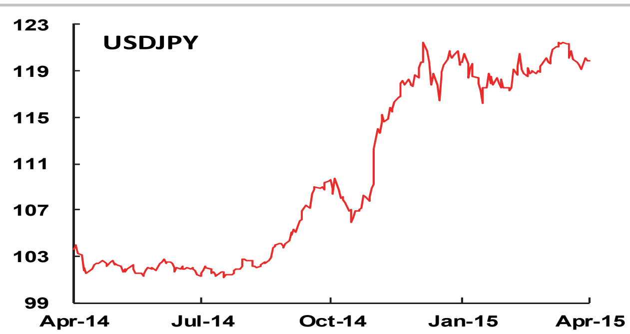
CHINA — The CNY rebounded in March on the back of better support for Asian currencies and stronger than expected fixings from the central bank. This has helped to neutralize bearish short term sentiment towards the CNY and ease market positioning that had dragged the currency weaker in the earlier parts of this year. Currency fundamentals remain strong and exchange rate liberalization continues to favour renminbi demand. We target USDCNY at 6.10 by year-end.

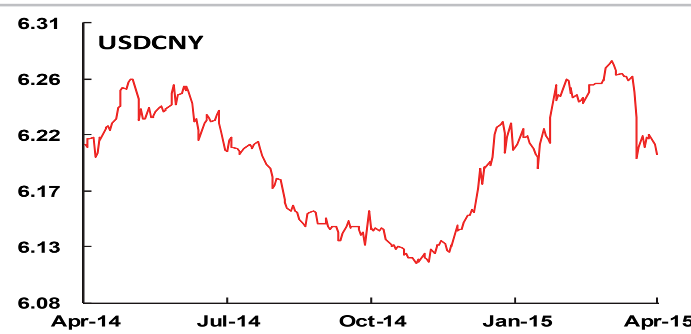
AUSTRALIA — The Australian dollar (AUD) reached a fresh low in March, driven lower by diverging US and Australian growth and monetary policy outlooks, sentiment and flows. According to CFTC data, there was a sudden surge in gross long AUD positions late in March; however, the net position remains bearish. We expect that fundamentals, including a delayed RBA hiking cycle, and flows will drive the AUD to fresh lows in 2015, and accordingly hold a year-end AUDUSD target of 0.73.

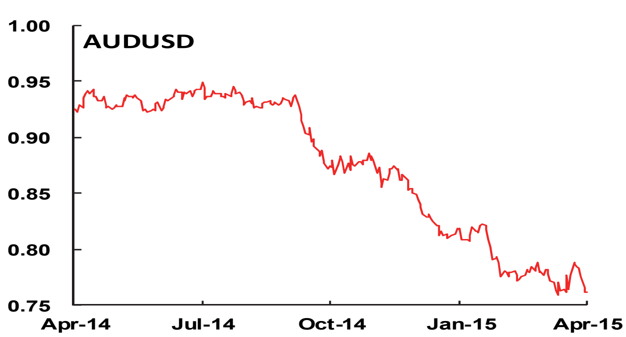
NEW ZEALAND — The New Zealand dollar (NZD) is expected to be contained within a range. The Reserve Bank of New Zealand has shifted to a more neutral stance, as it faces strong growth that is vulnerable to drought and falling inflation expectations, juxtaposed against a more aggressive US Fed. There is almost no speculative positioning on the NZD, while technicals are biased towards downside. We hold a modest year-end NZDUSD target of 0.74.

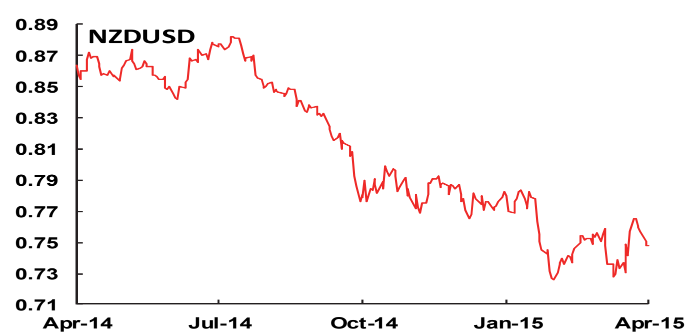
Currency Trends

FX Rate	Spot 31-Mar	15Q1a	15Q2f	15Q3f	15Q4f	16Q1f	16Q2f	16Q3f	16Q4f
USDJPY	120	120	120	123	125	128	129	130	131
USDCNY	6.20	6.20	6.17	6.13	6.10	6.08	6.05	6.03	6.00
AUDUSD	0.76	0.76	0.75	0.73	0.73	0.73	0.74	0.75	0.75
NZDUSD	0.75	0.75	0.73	0.74	0.74	0.75	0.75	0.75	0.75









Asia / Pacific

Fundamental Commentary

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JAPAN — Japan's economic performance remains muted. Revised GDP data for the fourth quarter of 2014 show that output contracted by 0.1% in 2014 as a whole. Given the strong growth a year ago ahead of the consumption tax increase in April 2014, expansion in the first three months of this year will remain in contractionary territory in year-over-year terms. We expect the country's economy to record a 0.6% advance in 2015, followed by an acceleration to 1.2% in 2016. The somewhat stronger momentum will likely reflect improving export sector performance, a pickup in private sector investment given rising corporate profits, as well as increasing purchasing power of Japanese consumers due to lower international oil prices. Headline consumer price inflation eased to 2.2% y/y in February from 2.4% the month earlier. The inflation rate will remain elevated until the April 2014 consumption tax rate hike falls out of the index. The Bank of Japan (BoJ) closely monitors core inflation that excludes fresh food and the impact of the tax increase; the central bank estimates that core inflation is currently hovering around 0.5% y/y, falling significantly short of the BoJ's 2% target. While Japanese monetary authorities judge that inflation expectations are rising moderately, we note that the achievement of the target remains at risk for an extended period of time given low global energy prices and the Japanese economy's lacklustre performance. The BoJ's policy stance is set to remain ultra-accommodative in the foreseeable future, with the monetary base continuing to increase substantially, by around 35-40% y/y, on the back of asset purchases by the central bank.

CHINA — A monetary easing bias remains in place in China on the back of rising deflationary risk and the ongoing housing market correction. The benchmark 1-year lending rate was reduced by 25 basis points to 5.35% at end-February, marking a second cut within four months. Simultaneously, the deposit rate was lowered to 2.50%. Inflation remains muted, with consumer prices increasing by 1.4% y/y in February, dampened by low international oil prices and persistent producer price deflation due to domestic industrial overcapacity. Meanwhile, real estate prices continue to record month-to-month declines in most cities (66 out of 70 cities tracked) and a housing market correction continues to pose the largest downside risk to Chinese economic momentum. Against this economic context, the People's Bank of China Governor Zhou Xiachuan has commented that the administration has policy space for implementing further monetary stimulus to bolster the economy. Furthermore, Governor Zhou recently confirmed our view that interest rate liberalization will proceed in the near term; the eventual removal of the ceiling on deposit rates will represent a key step in the Chinese financial system's transition toward a market-oriented framework. While recent high-frequency indicators point to rather lackluster economic performance of late, we maintain our view that the economy will expand by 7.0% this year, underpinned by government policies.

AUSTRALIA — We expect the Australian economy to be adversely impacted by lower global commodity prices this year. Real GDP increased by 2.5% y/y in the fourth quarter of 2014, following a 2.7% gain in the July-September period. The economy's performance remains underpinned by a higher volume of resource exports that reflect increased mining capacity following several project completions. However, economic momentum will be dampened by weakening mining investment activity and the government's fiscal consolidation efforts going forward. Furthermore, the Australian labour market remains subdued, with the unemployment rate nearing the 12-year high of 6.3% in February. Nevertheless, the combined effect of strong house price gains (residential property prices rose by 7% in the fourth quarter of 2014) and accommodative monetary policy has continued to support household spending, thereby offsetting some of the effects of lower investment growth. We estimate that real GDP will average 2.6% y/y through 2016. The Reserve Bank of Australia (RBA) has indicated that further easing may be appropriate to keep inflation consistent with the RBA's 2-3% target; price levels rose by 1.7% y/y in December. After holding the key rate at 2.25% following the RBA's monetary policy meeting in March, we believe that monetary authorities will likely cut the key rate by 25 basis points in the second quarter to boost non-mining business investment and spur overall growth. We expect inflation to close 2015 at 2.1% y/y before picking up to 2.5% in 2016.

NEW ZEALAND — Economic momentum in New Zealand remains supported by strong domestic growth dynamics. Net immigration, which has resulted in the strongest annual population growth rate in more than 10 years, will continue to place upward pressure on housing prices and increase already high levels of construction activity. Indeed, residential housing prices continue to face strong gains, rising by 6.4% y/y in February compared with an average monthly rise of 5.2% over the prior three months. Real GDP increased by 3.7% in the fourth quarter of 2014, following a 2.8% gain the July-September period; the advance was largely attributed to an increase in spending on retail and accommodation largely driven by a surge in tourist arrivals. Additional inflow of tourists attending the cricket world cup will continue to result in strong growth in the first quarter of 2015. We expect real GDP to expand by 3.1% y/y in 2015 before moderating to 2.6% in 2016. Monetary authorities kept the benchmark overnight cash rate on hold at 3.5% following last month's monetary policy meeting. Nevertheless, the central bank has set the stage for monetary stimulus by repeatedly deeming the New Zealand dollar as "unjustifiably" strong. Given that the central bank estimates that inflation has fallen to around zero in the first quarter of 2015 and its mandate to keep inflation within the 1-3% target range, we expect authorities to cut the key rate during the second quarter of 2015. We estimate inflation will remain low through 2015, closing the year at 0.2% y/y.

Asia

Currency Outlook

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INDIA — The INR remains well supported by foreign inflows as debt purchases, bolstered by the Reserve Bank of India's (RBI) easing cycle, are on record pace in 2015. Equity inflows have kept pace with debt, while the RBI has used inflows to bolster FX reserves. With easing expectations still holding, portfolio channel support should remain solid as long as macro performance keeps up. The RBI has shown its willingness to allow the INR to weaken with USD pressure, which we think will intensify as the Fed hikes later this year, pushing USDINR to 63.80 by year end.

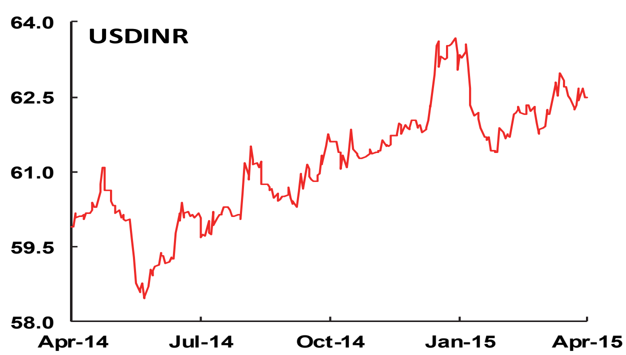
SOUTH KOREA — There has been a very significant pickup in Korea's trade surplus over the past half year which is adding fundamental demand for the won, capping weakness in line with broad moves higher in the USD vis-à-vis Asian currencies on the back of US monetary policy expectations. Bank of Korea rate cuts further expose the KRW to rising US yields, though they have been generally positive for portfolio inflows in the near term. We expect USDKRW to remain volatile, but continue to trend higher to our year-end target of 1170.

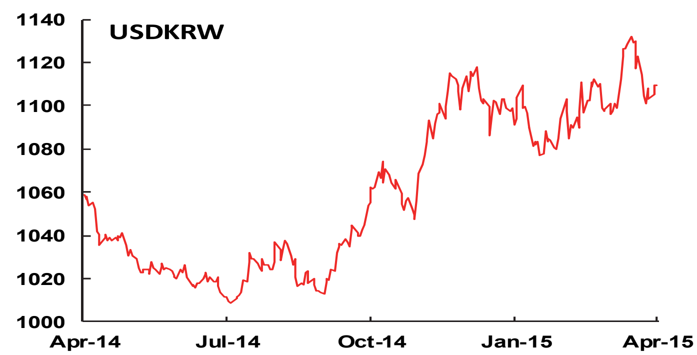
THAILAND — Thailand's domestic economy may be showing signs of life as production growth has turned, potentially restarting import growth in the coming months. This should serve to reverse the trend expansion in the trade surplus and allow for less support across the external accounts for the THB. Foreign portfolio inflows were less enthusiastic in March, which will negatively impact the THB should the trade surplus deteriorate as we expect. We target USDTHB at 34.0 by year end.

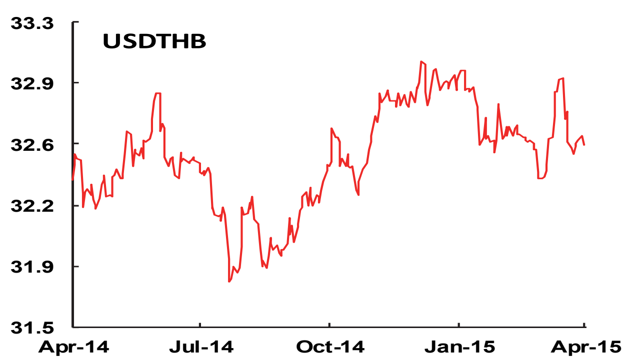
INDONESIA — The IDR has continued to follow trend depreciation, in line with central bank efforts to manage the appreciation in the real effective exchange rate and ensure it doesn't pressure Indonesia's current account deficit. We expect the IDR to be most exposed to monetary normalization by the Fed, and the pace of trend depreciation to continue to pressure USDIDR to an end of year target of 13,700.

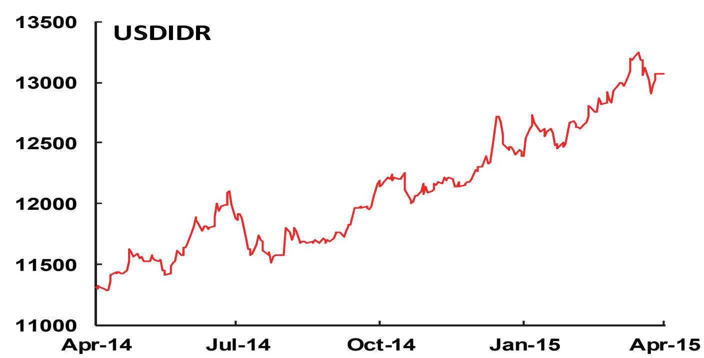
Currency Trends

FX Rate	Spot 31-Mar	15Q1a	15Q2f	15Q3f	15Q4f	16Q1f	16Q2f	16Q3f	16Q4f
USDINR	62.5	62.5	62.9	63.3	63.8	63.8	63.9	63.9	64.0
USDKRW	1110	1110	1130	1150	1170	1165	1160	1155	1150
USDTHB	32.5	32.5	33.1	33.6	34.0	33.9	33.8	33.6	33.5
USDIDR	13074	13074	13300	13500	13700	13650	13600	13550	13500









Asia

Fundamental Commentary

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INDIA — Monetary conditions are easing in India. On March 4th, the Reserve Bank of India (RBI) reduced the policy repo rate by 25 basis points to 7.50% following an unscheduled monetary policy meeting; the previous cut took place in January. We expect the RBI to maintain a monetary easing bias over the next two quarters, taking the benchmark interest rate to 7.0%. India has now formally adopted inflation targeting monetary policy, announced with the budget for fiscal year 2015/16 (April-March). The RBI and the central government have agreed that the central bank will aim to keep annual consumer price inflation around 4%, with a band of ±2 percentage points. This target will be effective from fiscal year 2016/17 onwards and will enhance India's policy credibility, as well as help anchor inflation expectations and create a more attractive environment for investment. The budget for fiscal year 2015/16 prioritizes economic revival and therefore slightly pushes back fiscal consolidation; the central government deficit is expected to narrow to 3.9% of GDP in FY2015/16 from 4.1% in 2014/15. India's economic outlook is favourable, with growth momentum supported by looser monetary conditions, low international oil prices, relative political stability, increasing infrastructure outlays, and improving business environment. The country's statistical office recently unveiled a revised GDP series with a new base year and methodology that is more in line with international standards. As a consequence, historical economic growth rates have been revised significantly with the country's real GDP expanding by 6.9% in 2014 as a whole; we expect output to advance 7.5% this year followed by a 7.7% gain in 2016.

SOUTH KOREA — Lower inflationary pressures have allowed South Korean monetary authorities to loosen monetary conditions; the Bank of Korea (BoK) reduced the benchmark interest rate by 25 basis points to 1.75% on March 12th, aiming to bolster the country's economic recovery. The move follows two equivalent cuts in the second half of 2014. We do not anticipate any further monetary easing on the back of the already high level of household debt (equivalent to close to 160% of average disposable income) as well as a gradually rising inflation trajectory. Consumer price inflation is currently hovering around 0.5% y/y — well below the BoK's target corridor of 2½-3½%. Due to negative producer price inflation together with low international oil prices, headline inflation will remain below the central bank's target range for an extended period of time. We expect price gains to begin picking up gradually in the second half of 2015, approaching 2½% y/y by the end of 2016 as the economy's output gap diminishes. The South Korean economy will continue to grow at a modest pace through 2016. Some deceleration in momentum was evident in the final quarter of 2014 when real GDP growth slowed to 2.7% y/y. Output expanded by 3.3% in 2014 as a whole. We expect annual gains to average 3½% in 2015-16, supported by monetary stimulus and a resulting pick-up in domestic demand.

THAILAND — The Bank of Thailand (BoT) has joined the global monetary easing trend and reduced the benchmark interest rate by 25 bps to 1.75% on March 11th. The move reflects monetary policymakers' persisting concerns regarding the country's lackluster economic performance and deflationary headwinds. The decision was not unanimous, however, and three out of seven policymakers voted in favour of keeping the benchmark rate unchanged at 2.0%. The dissenting opinion argued that the BoT's monetary policy stance was already accommodative enough and that room to cut rates should be saved for more critical circumstances. The cut follows a similar move exactly a year ago that took place in the midst of the political turmoil. We assess that the rate reduction will not be repeated in the near future as a high level of household debt (equivalent to 85% of GDP) prevents any aggressive monetary easing, and the military administration uses fiscal stimulus as a means to boost the economy. Low global oil prices have taken inflation to negative territory, with the consumer prices currently around 0.5% below year earlier levels. We expect inflation to begin accelerating in the second half of 2015 along with recuperating domestic demand, yet it will likely remain below 2½% y/y through 2016. A first draft of the new constitution that the military government is currently working towards is due to be sent to parliament by April 17th.

INDONESIA — Indonesia will record solid real GDP growth by regional standards through 2016, continuing to increase its importance in the world economy. The nation's output will likely expand on average by 5½% y/y in 2015-16, compared with a 5.0% advance in 2014. Real GDP increased by 5.0% y/y in the final quarter of 2014, adversely impacted by weaker export sector performance that reflected lower global commodity prices; roughly two-thirds of the country's shipments abroad are commodities, such as palm oil and coal. The Asian Development Bank has recommended developing the export-oriented manufacturing sector to reduce the country's dependence on commodity exports. A successful implementation of the government's reform agenda should translate to increased private sector investment while a lower fuel subsidy bill will allow the government to increase infrastructure outlays. Disposable income gains are supporting consumer confidence; accordingly, economic momentum continues to be driven by household spending for now. Inflationary pressures have eased to 6.3% y/y in February compared with the 8.4% increase in December when fuel subsidies were reduced. Bank Indonesia held the benchmark interest rate steady at 7.50% in March after lowering the key rate by 25 bps in February, thereby reversing the rate increase implemented in November 2014. We do not expect further rate cuts in the immediate future in order to assure currency stability in the environment of changing investor sentiment and to firmly anchor inflation expectations. We expect inflation to continue to decelerate in the coming months, closing the year at around 4% y/y, in line with the official target of 4%±1%.

Developing Americas

Currency Outlook

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BRAZIL — USDBRL has stabilized somewhat over recent sessions, but a high degree of uncertainty about the outcome of the Petrobras scandal remains an important source of risk. However, we are also starting to see growing interest in high local yields, which provide some cushion for currency-related losses. It is worth bearing in mind that the BRL's potential for a rally is likely capped by the BCB's swaps program, where we expect a gradual unwind of the roughly US$100 billion notional position to cap the real's rebound prospects.

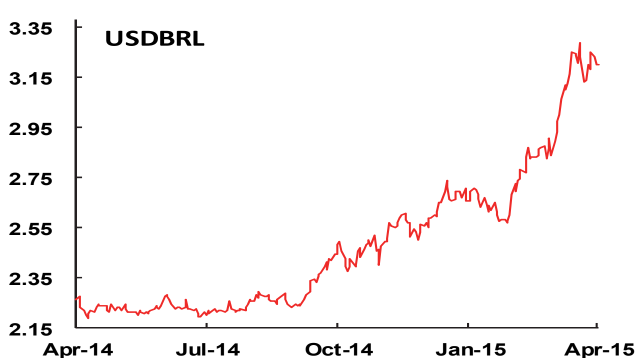
MEXICO — Despite broad based USD strength, the MXN has held up relatively firmly, outperforming most major FX outside of the CHF, CNY and JPY in the first quarter of the year. Behind the peso's relatively robust performance are the Mexican economy's links to the US, Banxico's signal that domestic monetary policy will be tied to the Fed's to protect the currency, as well as the central bank's USD auctions (although even with them it remains a net USD buyer). As we approach mid-year, an important driver for the MXN could be the progress / results on the Round 1 oil block auctions.

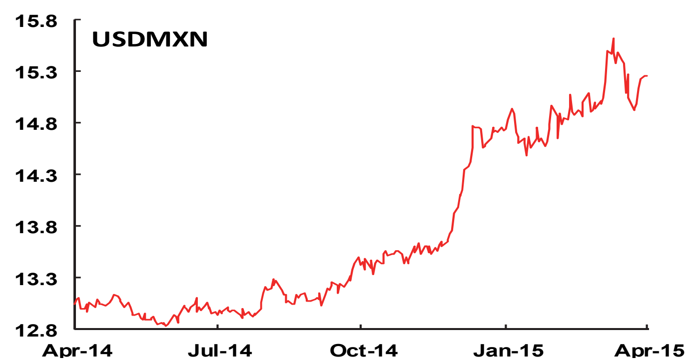
CHILE — The latest version of the BCCh's Monetary Policy Report, the tone turned decidedly more hawkish, highlighting that economists' expectations look for lower rates than the board's "base case" and that FX-inflation pass-through is expected to be relatively high. The CLP has now posted its longest slide in over a decade, but we could start seeing it get some relative support from a more hawkish central bank tone, as well as recent signs that the economy is stabilizing.

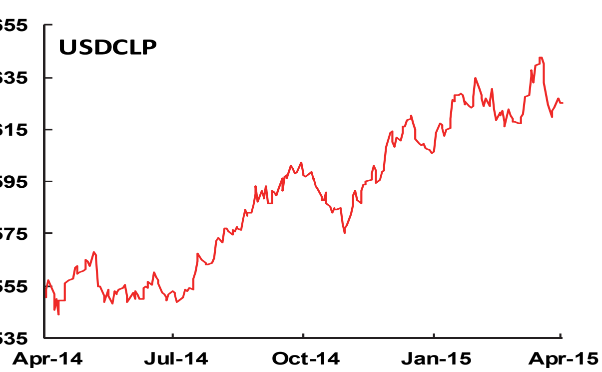
COLOMBIA — The latest comments from Finance Minister Cardenas suggest intervention to prop-up the peso is not in the cards, as in the government's view, the softening of the currency is justified by the decline in oil prices. Our sense is that as long as inflation expectations are anchored, and we don't see signs of stress due to the COP's decline, there are two important reasons why a weaker currency is seen as positive: 1) a weaker COP buffers the negative impact of lower oil prices in public finances, 2) hopes that a weaker currency will help the manufacturing sector.

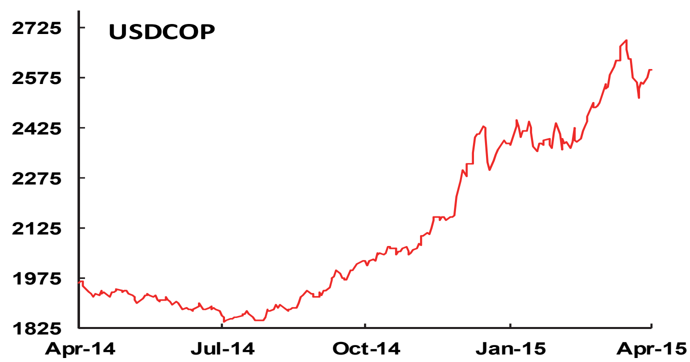
Currency Trends

FX Rate	Spot 31-Mar	15Q1a	15Q2f	15Q3f	15Q4f	16Q1f	16Q2f	16Q3f	16Q4f
USDBRL	3.20	3.20	3.40	3.20	3.10	3.10	3.10	3.15	3.20
USDMXN	15.25	15.25	15.27	15.24	15.20	15.15	14.88	14.81	14.89
USDCLP	625	625	627	626	625	624	624	623	622
USDCOP	2600	2600	2800	2750	2750	2750	2750	2775	2775









Developing Americas

Fundamental Commentary

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BRAZIL — The Brazilian real (BRL) is entering the second quarter on a weak note, following a six-month 26% depreciation versus the USD. The fight against inflation and the fiscal adjustment under way have deepened the high-inflation recessionary context over the past few months. The monetary response through an aggressive tightening cycle that placed the policy-setting reference rate to 12¾% masks an informal exchange rate targeting approach. The currency devaluation pass-through, irrespective of absent demand-side pressures, have escalated consumer price inflation to 7.7% y/y in February, well above the 4.5% ± 2.0% official target range. The latest monetary policy committee report stressed that administered prices increased by 9.7% y/y during the period. Even without taking into account the adverse economic impact from a severe drought in Southern Brazil, the central bank estimates that the economy will contract in 2015 for a second consecutive year before staging a modest recovery in 2016. We are of the view that the risk of multiple credit rating downgrade revisions remains high, as reflected in credit spread widening dynamics between Brazil and US bond yields and decoupling from regional trends in Latin American credit markets. We project that the Brazilian economy will contract by 0.8% this year before recovering by 1.2% in 2016. A major decline in investment in construction will be at the heart of such poor performance while the fiscal consolidation efforts run their course.

MEXICO — The Mexican peso (MXN) continues to be primarily influenced by exogenous factors connected with the US business and monetary cycles, investor sentiment towards high-yield fixed-income markets, and direction of crude oil prices. On the domestic front, Mexico's inflation remains at (or close to) the officially established target of 3%, yet it remains sensitive to potential delays in the pass-through effect from exchange rate weakness; indeed, the MXN depreciated by 13% against the USD over the past six months. Mexico's central bank continues to monitor volatile currency market shifts as well as guidance from the US Federal Reserve. Our view on Mexican monetary policy rates has been adjusted to reflect a US policy move in the third quarter of the year. We believe that Mexico will not be immune to sudden shifts of investor sentiment as a result of higher long-term US interest rates; however, we also stress our view that the country is aptly prepared to manage the potential escalation of financial market volatility thanks to the structural development of a deeper local-currency bond market as well as the still attractive interest rate differentials between Mexican and US bond yields. On a positive note, the Mexican economy is estimated to expand by 2.8% in 2015 and will continue to benefit from the underlying strength of the US economy, particularly in sectors connected with export markets such as automotive, electronics and aerospace.

CHILE — The Chilean peso (CLP) has regained some of the ground lost after trading as weak as 643 per USD in mid-March. Nevertheless, we are of the view that the underlying weakness of commodity-linked currencies will re-instill a bearish trend into the CLP in the months ahead. On a positive note, however, a gradual recovery in copper prices after bottoming out at US$2.4 per pound in late January may alleviate the sell-off pressure embedded in most Latin American currencies at present. We estimate that the CLP may receive the benefits of slightly higher copper prices in the months ahead as we project an average price of US$2.75 per pound for the year as a whole. The Chilean economy received an adverse shock from nature as severe flooding affected mining activity in the Northern region, forcing thousands of people to seek refuge in shelters in the Atacama and Antofagasta areas. The government declared a state of emergency in the affected zones. On the monetary front, we do not project any change in monetary policy rate (currently set at 3%) in the near term at a time when the central bank cautiously monitor the depreciation-induced spike in inflation which reached 4.4% y/y in February. Non-deliverable forward (NDF) markets discount a USDCLP 640 rate by the end of the year, slightly higher than the 630 rate reported in the most recent financial traders' survey.

COLOMBIA — The Colombian peso (COP) has been amongst the international currencies most affected by the oil price crash, depreciating by 32% against the USD over the past eight months. The sharp weakness in the Colombian currency has injected an upward trend in inflation, taking the headline rate to 4.4% y/y in February. The central bank will be soon facing the dilemma of aligning to the Fed-induced tightening of monetary policy (which will limit further capital outflows) or stimulating domestic economic activity through relatively lower cost of funds. Overall, we estimate that the risks to growth have escalated as a large portion of energy-linked investments have been delayed if not cancelled altogether. As the expiry date of the flexible credit line with the International Monetary Fund approaches, we believe that authorities may use the likely renewal of the Fund's facility as a confidence booster. The COP traded as weak as 2,700 per USD in mid-March before reaching technical support; looking ahead, investor sentiment towards Colombia will be centred on oil price gyrations and domestic economic data to assess the degree of deceleration under way. We estimate that the Colombian economy will expand by 3.5% in 2015, in line with the revised official projection of 2-4% recently unveiled by the central bank. The authorities stressed that the wide range implies a high degree of uncertainty, with a bias towards weaker growth.

Global Currency Forecast (end of period)

		2014	2015f	2016f	2015f				2016f			
Major Currencies					Q1a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	120	125	131	120	120	123	125	128	129	130	131
Euro zone	EURUSD	1.21	1.05	1.00	1.07	1.10	1.08	1.05	1.05	1.04	1.02	1.00
	EURJPY	145	131	131	129	132	133	131	134	134	133	131
UK	GBPUSD	1.56	1.51	1.52	1.48	1.48	1.50	1.51	1.51	1.51	1.52	1.52
	EURGBP	0.78	0.70	0.66	0.72	0.74	0.72	0.70	0.70	0.69	0.67	0.66
Switzerland	USDCHF	0.99	1.05	1.10	0.97	0.98	1.01	1.05	1.05	1.06	1.08	1.10
	EURCHF	1.20	1.10	1.10	1.04	1.08	1.09	1.10	1.10	1.10	1.10	1.10
Americas												
Canada	USDCAD	1.16	1.33	1.30	1.27	1.31	1.32	1.33	1.33	1.32	1.31	1.30
	CADUSD	0.86	0.75	0.77	0.79	0.76	0.76	0.75	0.75	0.76	0.76	0.77
Mexico	USDMXN	14.75	15.20	14.89	15.25	15.27	15.24	15.20	15.15	14.88	14.81	14.89
	CADMXN	12.69	11.43	11.46	12.05	11.66	11.55	11.43	11.39	11.27	11.31	11.46
Brazil	USDBRL	2.66	3.10	3.20	3.20	3.40	3.20	3.10	3.10	3.10	3.15	3.20
Chile	USDCLP	606	625	622	625	627	626	625	624	624	623	622
Colombia	USDCOP	2377	2750	2775	2600	2800	2750	2750	2750	2750	2775	2775
Peru	USDPEN	2.98	3.20	3.25	3.10	3.24	3.13	3.20	3.30	3.29	3.28	3.25
Uruguay	USDUYU	24.32	27.00	29.00	25.67	26.11	26.56	27.00	27.50	28.00	28.50	29.00
Asia / Pacific												
Australia	AUDUSD	0.82	0.73	0.75	0.76	0.75	0.73	0.73	0.73	0.74	0.75	0.75
China	USDCNY	6.21	6.10	6.00	6.20	6.17	6.13	6.10	6.08	6.05	6.03	6.00
Hong Kong	USDHKD	7.76	7.78	7.78	7.75	7.78	7.78	7.78	7.78	7.78	7.78	7.78
India	USDINR	63.0	63.8	64.0	62.5	62.9	63.3	63.8	63.8	63.9	63.9	64.0
Indonesia	USDIDR	12388	13700	13500	13074	13300	13500	13700	13650	13600	13550	13500
Malaysia	USDMYR	3.50	3.76	3.68	3.70	3.72	3.74	3.76	3.74	3.72	3.70	3.68
New Zealand	NZDUSD	0.78	0.74	0.75	0.75	0.73	0.74	0.74	0.75	0.75	0.75	0.75
Philippines	USDPHP	44.7	46.0	45.8	44.7	45.2	45.6	46.0	45.9	45.9	45.8	45.8
Singapore	USDSGD	1.33	1.40	1.39	1.37	1.38	1.39	1.40	1.40	1.40	1.39	1.39
South Korea	USDKRW	1091	1170	1150	1110	1130	1150	1170	1165	1160	1155	1150
Taiwan	USDTWD	31.7	32.7	32.3	31.3	31.8	32.2	32.7	32.6	32.5	32.4	32.3
Thailand	USDTHB	32.9	34.0	33.5	32.5	33.1	33.6	34.0	33.9	33.8	33.6	33.5
Europe / Africa												
Norway	USDNOK	7.45	7.90	7.70	8.06	7.87	7.90	7.90	7.90	7.85	7.75	7.70
Russia	USDRUB	60.7	60.0	55.0	58.2	59.0	61.5	60.0	58.5	57.0	56.0	55.0
South Africa	USDZAR	11.57	12.23	12.05	12.15	12.17	12.21	12.23	12.25	12.17	12.12	12.05
Sweden	EURSEK	9.44	8.93	8.50	9.26	9.24	9.13	8.93	8.93	8.84	8.67	8.50
Turkey	USDTRY	2.34	2.60	2.55	2.60	2.58	2.59	2.60	2.59	2.57	2.56	2.55

f: forecast a: actual

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