May 3, 2018

AMERICAS

USD extends rally as higher US yields squeeze shorts. Structural challenges and longer-term secular trends remain bearish. Rising commodity prices remain supportive for CAD, as MXN faces volatility into July election. A successful NAFTA conclusion should provide a lift to both currencies. Latam FX remains well supported by rising commodity prices. Monetary policy risks for COP and PEN are tilted to the downside.

EUROPE

EUR succumbs to positioning adjustment as market participants await clarity on the ECB's policy normalization path. GBP's outlook darkens on evaporating expectations for near-term BoE tightening. Brexit risks remain a threat.

ASIA-PACIFIC

Regional Asian FX to benefit from easing geopolitical risks as CNY maintains upward momentum.

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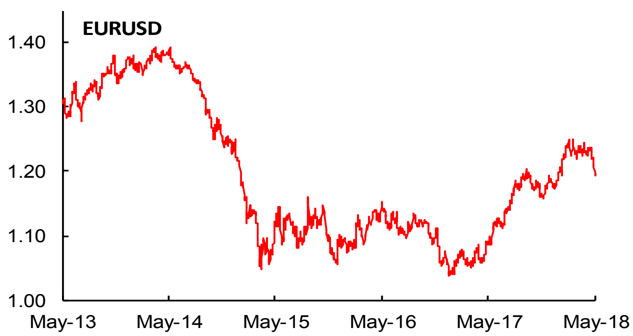
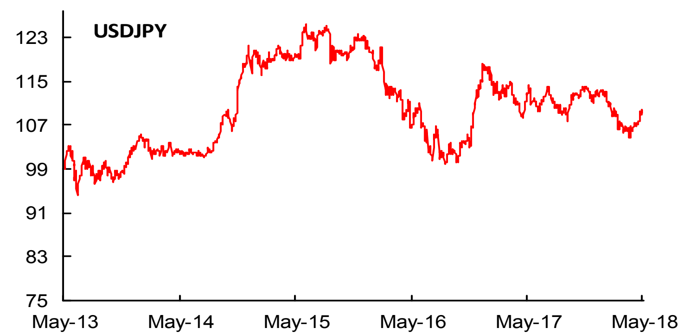
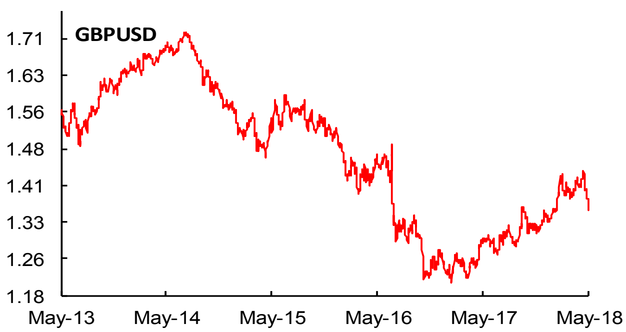
Core Exchange Rates

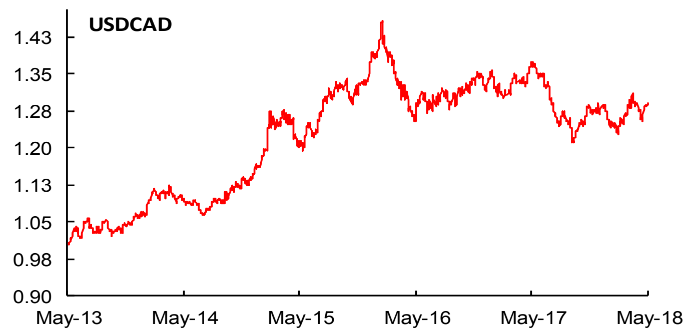
Global Foreign Exchange Outlook

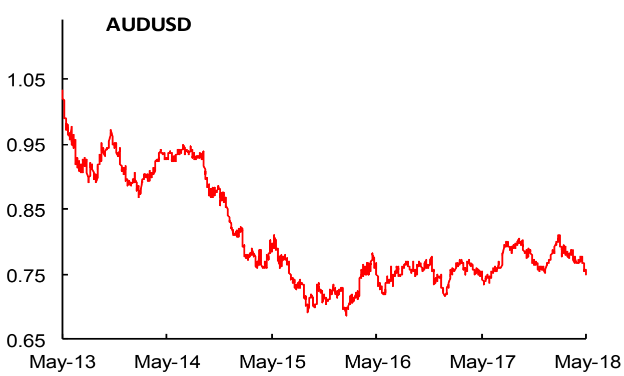
May 3, 2018	Spot	2018f Q1a	2018f Q2	2018f Q3	2018f Q4	2019f Q1	2019f Q2	2019f Q3	2019f Q4
EURUSD	1.20	1.23	1.25	1.28	1.30	1.30	1.33	1.35	1.35
USDJPY	109	106	108	110	110	110	110	108	105
GBPUSD	1.36	1.40	1.40	1.42	1.47	1.48	1.48	1.50	1.50
USDCAD	1.29	1.29	1.27	1.26	1.25	1.25	1.22	1.22	1.25
AUDUSD	0.75	0.77	0.79	0.80	0.80	0.81	0.81	0.82	0.82
USDMXN	19.16	18.18	19.07	19.17	19.48	19.59	19.42	19.47	19.75











Market Tone & Fundamental Focus

Shaun Osborne, 1.416.945.4538
Foreign Exchange Strategy
shaun.osborne@scotiabank.com

The US dollar (USD) has improved broadly over the past few weeks. The rebound contrasts with our still bearish view of risks and prospects for the currency in the longer term and, in the absence of any significant improvements in the underlying fundamental situation in the US, we see these gains as corrective in nature rather than a reappraisal of the outlook for the currency. We downgraded our forecasts for some of the major currencies in the recent *Global Outlook report* and our view remains that a weaker USD is more likely over the balance of the year.

US yields have risen, helping support the USD even though it has not had a strong relationship with relatively higher domestic interest rates in the past few months. Nevertheless, higher rates have made financing short USD positions a very expensive endeavor for investors. And without a favourable move in the underlying position, the rising cost of carrying USD short positions forced a large portion of speculators to cover. Further position adjustment is possible in the near-term but we still view the USD as vulnerable in an environment of improving global growth (which make other currencies relatively more attractive), structural challenges (wider US fiscal imbalances) and long-term secular pressures (reversal in the long run USD bull trend in 2017). Renewed focus on trade and tariffs may undercut the USD rebound again in the coming weeks and we suspect that a somewhat stronger USD may not entirely fit with the US administration's over-arching trade ambitions.

We remain constructive on the CAD, which continues to perform more or less in accordance with expectations. Our colleagues at Scotiabank Economics have revised up the outlook for commodities amid resilient global economic growth. Increasing demand for raw materials has coincided with deteriorating supply, which is producing a positive environment for crude oil and other raw materials. Canadian growth slowed after the robust expansion seen in H2 last year but the economy is picking up momentum again and we expect above potential growth to support the case for a moderate tightening in Bank of Canada monetary policy over the course of the year. Higher rates and somewhat firmer crude oil prices will drive USDCAD to 1.25 by year end.

Meanwhile, the Mexican peso (MXN) is forecast to end the current year little changed from prevailing levels. The economy is improving and we anticipate one more Banxico rate tightening in the next few months. Firmer crude oil prices will be supportive for the MXN. Volatility may pick up around the July presidential election, however, given some of the positions taken by Andrés Manuel López Obrador, the leading candidate in the polls. And both CAD and MXN sentiment will reflect developments in the NAFTA renegotiation process in the coming weeks. A deal before the end of May—floated as a possibility by US negotiators—would provide a significant, if possibly temporary, lift to both currencies.

Among the other majors, we are bullish on the euro despite its recent weakness. Losses do not appear to reflect any significant changes on the fundamental front. Certainly Eurozone-US short term rate spreads have widened in the USD's favour but the exchange rate has not been sensitive to rate differentials in recent months and this development is hardly a new factor for markets. Eurozone growth has moderated somewhat but overall growth trends are still very constructive. The European Central Bank remains cautious on the policy outlook but a move away from asset purchases remains highly probable later this year ahead of a minor tightening in monetary policy in 2019.

We are a little more concerned about the outlook for the pound (GBP), having recently upgraded our forecast. UK economic activity data has softened and expectations of a May rate tightening by the Bank of England have suddenly evaporated. Brexit/political risks remain a threat for the GBP, meanwhile, as the UK government struggles to formulate a plan that is acceptable to internal stakeholders as well as its European partners. Recent losses for GBPUSD look poised to extend.

Prospects for the major Latin American currencies are mostly supportive amid rising commodity prices and it is notable that the Colombian peso (COP), Peruvian sol (PEN) and Chilean peso (CLP) have all out-performed the MXN in the past month. Domestic political risks remain (COP) and monetary policy risks are tilted to the downside selectively (COP, PEN) while the PEN should find support from robust growth prospects and positive external surpluses. Primary risks for the regional currencies revolve around disruptions to global trade or a jump in market risk aversion.

We expect the JPY to under-perform broadly in 2018, although we have reduced our USDJPY forecast somewhat (JPY110 for end 2018). We expect Japanese inflation to remain well below the Bank of Japan's 2% inflation target this year which means central bank policy will remain a very accommodative while other major central banks move towards normalization, keeping the JPY soft. We anticipate modest upward momentum for the Chinese yuan (CNY), with the currency essentially tracking movements in the major currencies versus the USD. Regional Asian FX has responded in muted fashion to Korean détente so far (the Korean won is essentially flat over the past month) but a clear and obvious reduction in geo-political risks would be a positive for the region.

Canada

Currency Outlook

Shaun Osborne, 1.416.945.4538
Foreign Exchange Strategy
shaun.osborne@scotiabank.com

The CAD was a significant under-achiever in Q1, losing ground against all of its G-10 counterparts, but the currency has steadied over the past month and, through April, managed to squeeze out a marginal gain against a USD that strengthened against all the other major currencies.

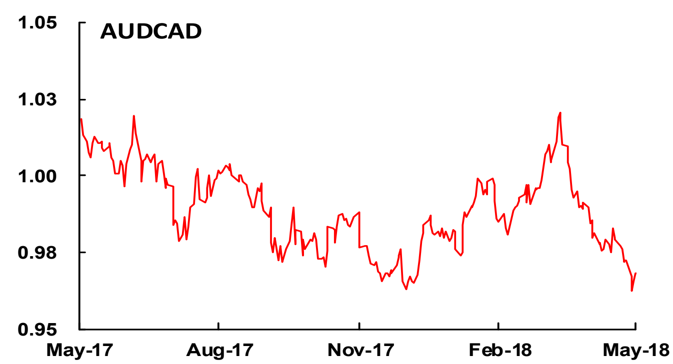
Stronger commodity prices are providing the CAD with some protection from the USD's overall advance, with WTI crude oil rising towards $70/bbl and—crucially—the discount for Canadian heavy crude relative to WTI narrowing substantially. Meanwhile, lumber prices are at record highs (reaching a little above $600 at writing) and metals prices are firm, if below the early April peaks. These developments are driving a significant improvement in Canada's terms of trade (by some measures, the strongest since 2014) which is an important positive for the currency.

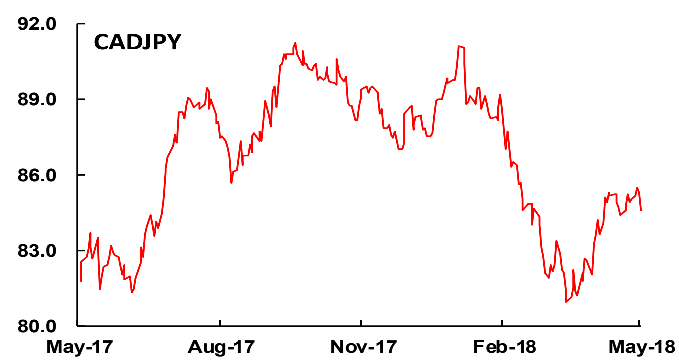
Rising US yields have driven US-Canada rate differentials wider in the USD's favour and are perhaps putting CAD-supportive commodity price gains in the shade. But we think spreads are stretched and may not widen much more. The Fed is not signaling that the pace of rate hikes is poised to pick up and we continue to look for a moderate tightening in BoC policy this year.

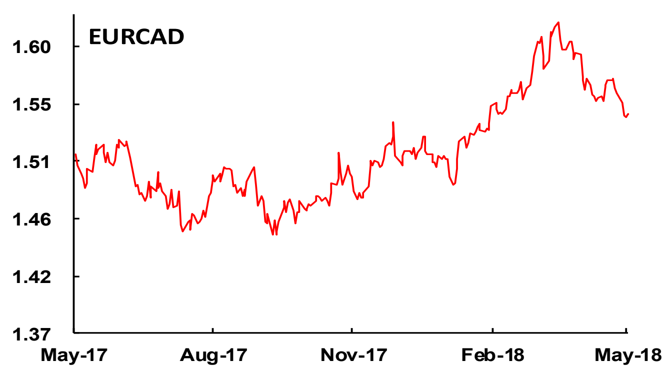
NAFTA represents the biggest uncertainty for the CAD in the near-term, with the US pushing for a progress in the next few weeks. But risks cut both ways for the currency; a positive outcome to the discussions would clearly lift the CAD, for example. We remain constructive on the longer run outlook for the CAD and anticipate USDCAD ending 2018 at 1.25.

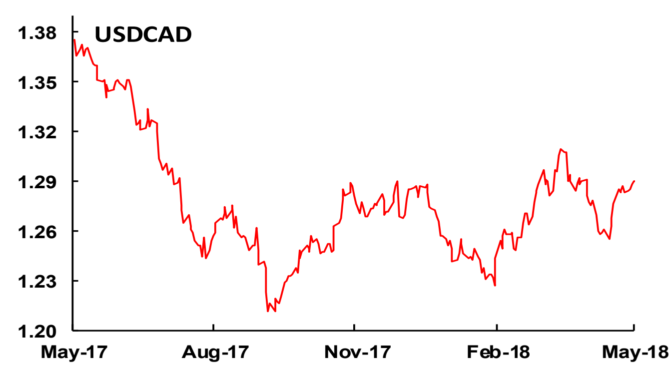
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 3-May	18Q1a	18Q2f	18Q3f	18Q4f	19Q1f	19Q2f	19Q3f	19Q4f
AUDCAD	0.97	0.99	1.00	1.01	1.00	1.01	0.99	1.00	1.03
CADJPY	84.6	82.4	85.0	87.3	88.0	88.0	90.2	88.5	84.0
EURCAD	1.54	1.59	1.59	1.61	1.63	1.63	1.62	1.65	1.69
USDCAD	1.29	1.29	1.27	1.26	1.25	1.25	1.22	1.22	1.25









United States and Canada

Fundamental Commentary

Brett House, 1.416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Adrienne Warren, 1.416.866.4315
Scotiabank Economics
adrienne.warren@scotiabank.com

UNITED STATES — US GDP growth slowed to a still solid and above potential 2.3% annualized rate in Q1, down from an average 3.0% advance over the prior three quarters, as solid momentum in business investment and exports was offset by a pullback in household spending. Growth is expected to average around 2.5% over the remainder of the year, with solid support from households, industrial sectors, and services. The early-year pause by consumers, possibly weather induced, will likely prove short-lived given a robust job market, firming wage gains, and tax cuts that began to rollout in early February. Steady hiring gains have pushed the unemployment rate to a 17-year low of 4.1%, while broader measures of labour market slack are at cycle lows. Consumer confidence is trending near a 17-year high, and major purchase plans remain elevated. Industrial production rose 4.4% in the twelve months to March, its strongest annual advance since 2010, fuelled by broad strength in manufacturing and rising oil production. Tightening capacity constraints and corporate tax reforms are driving increased business investment in machinery and equipment and structures. Export growth also has picked up on the back of firmer global demand and a 5% slide in the trade-weighted US dollar over the past year. Service-sector activity is rising at its fastest pace since 2005, led by transportation and warehousing, and professional and business services. Fiscal stimulus is expected to provide a sizeable boost to GDP growth, with an average contribution of about half a percentage point this year and next. Inflation pressures are trending higher alongside the tightening in labour and production capacity: the core PCE deflator increased 1.9% y/y in March, up from a low of 1.3% last August.

CANADA — Canadian economic growth is moderating. Real GDP is expected to have advanced at less than a 2% annualized rate for a third consecutive quarter in Q1-2018. Several temporary factors, including transportation bottlenecks and maintenance shutdowns, have weighed on overall activity. Growth is expected to rebound to around a 2.5% annualized rate over the remainder of the year, above the economy's estimated potential of 1.7%. Consumers are showing early signs of moderating their spending and borrowing, though ongoing labour market strength and firming wages remain supportive to household finances. The unemployment rate has fallen to a 43-year low of 5.8%, while average hourly earnings growth has more than doubled over the past year to 3.3% y/y. Stricter mortgage underwriting guidelines and higher interest rates have begun to slow home sales, though residential construction remains elevated. Service sector activity remains brisk, with the 12 of the 15 major subsectors posting healthy expansions over the past year, led by arts and entertainment, wholesale trade, and transportation and warehousing. Business capital investment is picking up amid strong corporate earnings and near-record capacity utilization, though ongoing trade-related uncertainties and competitiveness challenges are curtailing major expansion plans. Non-energy export volumes continue to disappoint, having shown little forward momentum over the past year, but should benefit from strengthening US and global demand. Federal and provincial fiscal stimulus remains highly pro-cyclical. Inflation pressures are building with the economy operating close to capacity. Headline inflation rose to a 3½-year high of 2.3% in March, while the average of the Bank of Canada's preferred measures of core inflation rose to 2.0% y/y, up from a low of 1.3% in May.

Monetary Policy Commentary

Derek Holt, 1.416.863.7707
Scotiabank Economics
derek.holt@scotiabank.com

UNITED STATES — The next Fed hike is expected in June followed by one more this year in September for an unchanged overall pace. This modestly pulls forward our expectations without materially altering end points or curve forecasts. The FOMC consensus is not signalling any greater urgency to raise borrowing costs at a quickened pace compared to the March 'dot plot'. That may change, but at present we think the FOMC is mindful toward evolving uncertainties including geopolitical risks. The FOMC appears to be as comfortable with allowing a modest overshoot of inflation risk as it was comfortable with transitory inflation downsides last year in a symmetrical inflation targeting framework. This approach affords considerable near term policy flexibility in the face of many risks to a constructive baseline fundamentals forecast.

CANADA — The probability of a Bank of Canada rate hike on May 30th has significantly increased. At this point, we are reticent to change our official forecast to a sooner hike while retaining two hikes for the year but we have raised our projected near term market yields from 90 day bills through the belly of the curve in order to account for the greater risk of a sooner hike. We will reassess as incoming data evolves, event risk unfolds and BoC communications unfold over coming weeks. Evidence of stronger growth, at-target inflation, little spare capacity, firmer wage pressures and efforts to mitigate stability risks all merit earlier hikes. Risks into the Spring housing market, NAFTA developments, geopolitical risks and data dependency all require heightened monitoring.

G10

Currency Outlook

Eric Theoret, 1.416.863.7030
Foreign Exchange Strategy
eric.theoret@scotiabank.com

EUROZONE — EUR has resolved its Q1 consolidation in a bearish manner and has carried into May with a defensive posture. Positioning adjustments have characterized much of the recent weakness in EUR, forcing a liquidation of near-record speculative longs that had accumulated over the past year. The move appears technically oversold, suggesting limited scope for additional weakness. We remain long-term EUR bulls and hold a Q4 2018 forecast of 1.30 and a Q4 2019 target of 1.35.

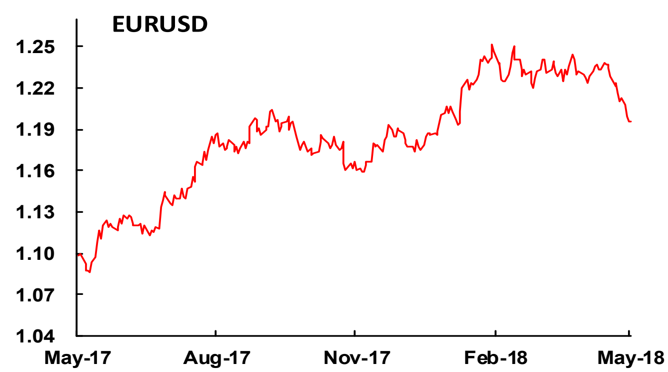
UNITED KINGDOM — GBP has suffered a violent bearish reversal as a result of the recent deterioration in Bank of England rate expectations. OIS are pricing less than one full 25bpt hike for 2018 and GBP has entered May more than 5% below its multi-year high from mid-April. The bear move is now technically oversold, signaling potential exhaustion around current levels. We are long-term GBP bulls and hold a Q4 2018 forecast of 1.47 and a Q4 2019 target of 1.50.

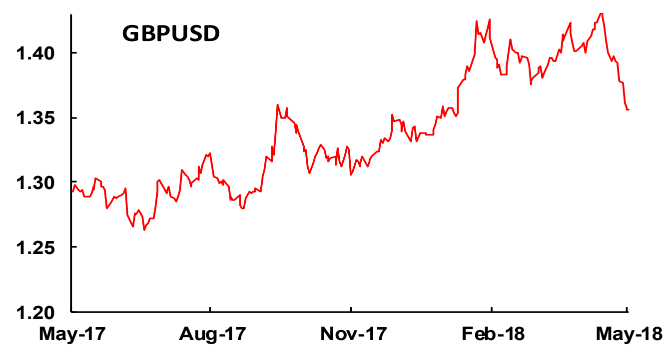
JAPAN — JPY has staged an impressive bear run from the multi-year high seen in late March. The move reflects a return to fundamentals following a violent short-squeeze from late 2017 through Q1. The scope for additional JPY weakness may be limited as USDJPY has already reached our Q4 2018 forecast of 110. The outlook for relative central bank policy should offer JPY support in 2019 and we hold a Q4 2019 target of 105.

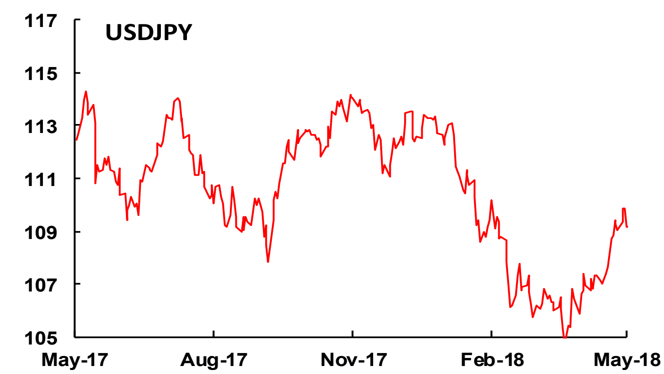
AUSTRALIA — AUD has been one of the worst performing G10 currencies year-to-date, weakening 3.5% vs. the USD. As with most G10 currencies, the bear run in AUD appears technically overdone and the medium-term balance of risk appears set to favor stabilization and a potential recovery. We are modestly bullish AUD and hold a Q4 2018 forecast of 0.80 and a Q4 2019 target of 0.82.

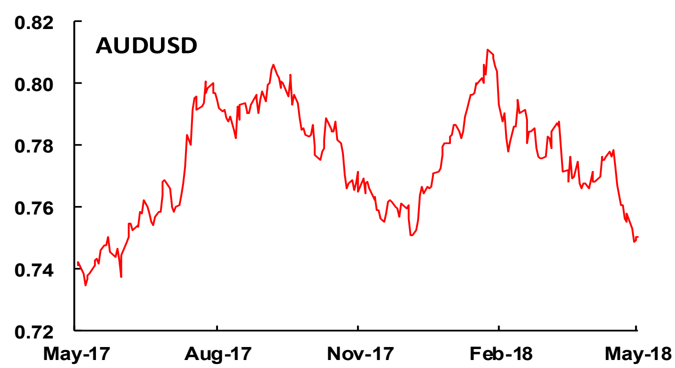
Currency Trends

FX Rate	Spot 3-May	18Q1a	18Q2f	18Q3f	18Q4f	19Q1f	19Q2f	19Q3f	19Q4f
EURUSD	1.20	1.23	1.25	1.28	1.30	1.30	1.33	1.35	1.35
GBPUSD	1.36	1.40	1.40	1.42	1.47	1.48	1.48	1.50	1.50
USDJPY	109	106	108	110	110	110	110	108	105
AUDUSD	0.70	0.77	0.79	0.80	0.80	0.81	0.81	0.82	0.82









G10

Fundamental Commentary

Alan Clarke, 44.207.826.5986
Fixed Income Strategy
alan.clarke@scotiabank.com

Tuuli McCully, 65.6305.8313
Scotiabank Economics
tuuli.mccully@scotiabank.com

EUROZONE — Survey data have come off the boil and there have been a number of media reports warning about the possibility of a eurozone recession in the not too distant future. We believe that this is an over-reaction. Admittedly survey indicators have lost ground. However, these have come down from multi-decade highs and merely point to more moderate growth—nothing close to a contraction. Having slowed over the past six months or so (largely due to base effects), headline HICP inflation has bottomed out and should regain altitude over the remainder of the year (again helped by base effects, but also higher oil prices). Indeed, we expect headline HICP to approach 2% early in H2. The flipside is that core inflation is only grudgingly gaining ground and is barely hitting 1% y/y. We only expect underlying inflation to accelerate a fraction over the remainder of the year; hence residing well below the ECB's definition of price stability. Against that backdrop, there is still potential for the ECB to wind down its QE programme with one final (albeit, downsized) instalment of asset purchases after the current phase is completed in September. However, on balance we judge that the headline inflation and solid GDP growth should convince the ECB to refrain from further asset purchases from September onwards.

UNITED KINGDOM — The Bank of England outlook has changed dramatically in the past couple of weeks. The combination of lower than expected CPI and Q1 GDP data have severely reduced the likelihood of a rate hike at the May MPC meeting. A hike could yet happen, but on balance we think it is more likely that the MPC will delay the next rate move until August. GDP growth was much weaker than expected during Q1, showing just a 0.1% q/q growth rate. To make matters worse, the Office for National Statistics suggested that the weakness had little to do with the adverse weather. Either way, the poor start to the year has trimmed back the outlook for full year GDP growth. We now expected annual average GDP growth of 1¼ to 1½% y/y—down from 1½ to 1¾% y/y previously. We retain the view that GDP growth will be on an upwards trajectory this year. Indeed, we view the Q1 disappointment as a legacy of last year's weakness; when inflation was running faster than wage growth, which held back consumer demand. That situation should reverse this year, helping to propel growth higher. Inflation is evolving largely as we forecast so far this year – i.e. it is falling more abruptly than the market expected. We believe that there is plenty more downside to come, with CPI inflation likely to slow to below 2% y/y by the end of 2018. Presentationally, that could mean that if the MPC does not raise interest rates soon, it may struggle to hike rates at all this year.

JAPAN — The Bank of Japan (BoJ) will likely continue its "Quantitative and Qualitative Monetary Easing with Yield Curve Control" through 2019 given its firm commitment to reaching the 2% y/y inflation target. Governor Kuroda had noted that the BoJ may start talking about policy exit in FY2019 (April 2019–March 2020). However, we note that a discussion regarding an exit may not result in actual policy tightening. Two factors underpin our view: 1) the consumption tax rate hike (from 8% to 10%) is planned for late-2019 and it will be the key reason for inflation reaching the BoJ's 2% target—instead of stronger demand-driven price pressures; and 2) consumption will likely be severely hit by the tax rate hike, in line with developments in 2014 when the tax rate was raised from 5% to 8% and the country's real GDP contracted as a result. Recessionary conditions do not form an environment where the BoJ would be tightening monetary policy. Japanese headline inflation eased in March to 1.1% y/y from 1.5% a month earlier. The CPI excluding fresh food—the BoJ's preferred measure—is currently at 0.9% y/y while the measure that leaves out both food and fuel remains low at 0.5% y/y, highlighting the absence of demand-driven inflation. We estimate that headline inflation will hover near the current level over the coming months. The recent strength of the Japanese yen is creating further headwinds for the inflation outlook.

AUSTRALIA — Australian monetary conditions are expected to remain growth-supportive over the coming quarters. Following the Reserve Bank of Australia's (RBA) May 1 monetary policy meeting, the Cash Rate Target was left at 1.50%. We maintain our forecast that the RBA will likely begin a cautious monetary normalization phase in Q4 2018 on the back of an expected modest pickup in wage pressures that will feed demand-driven inflation. The RBA's policymakers expect headline inflation to accelerate gradually over the course of 2018 to slightly above 2% y/y; inflation remained unchanged at 1.9% y/y in Q1 2018. The inflation rate will likely hover below the mid-point of the RBA's 2–3% target range through 2018. Price gains will likely strengthen in 2019, reaching 2⅔% y/y by the end of the year. We continue to monitor Australia's employment developments—and their impact on wages—closely over the coming months. We assess that the Australian labour market is showing notable signs of strength, despite the fact that the employment change was rather modest—4,900 jobs—in March. Full-time job gains over the February 2017–March 2018 period have averaged 19,000 jobs per month. Surveys on companies' hiring intentions and job advertisements point to further solid employment gains over the coming months, which should feed modest wage pressures in the economy. We expect Australia's real GDP growth to average 2.6% y/y over the next two years, roughly in line with the nation's potential.

China, India, Brazil

Currency Outlook

Qi Gao, 65.6305.8396
Foreign Exchange Strategy
qi.gao@scotiabank.com

Eduardo Suárez, 52.55.9179.5174
Scotiabank Economics
eduardo.suarez@scotiabank.com

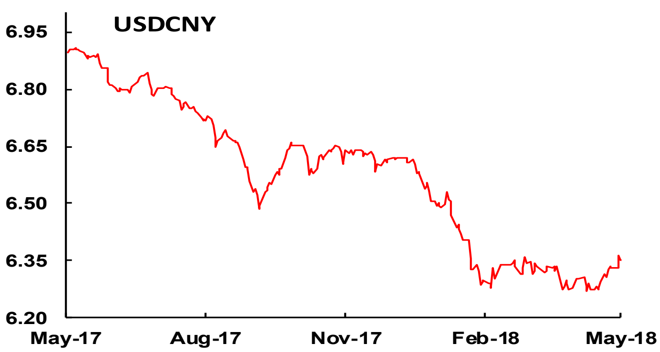
CHINA — Chinese regulators have decided to defer the deadline regulating the nation's massive asset management industry to the end of 2020, which will reduce its impact on mainland capital markets. It would boost risk sentiment should the US and China come to an agreement after the high-stakes meeting starting May 3. The yuan is expected to outperform a basket of currencies amid risk aversion, and vice versa. We expect the CNY to keep running a tight correlation with the EUR and to fluctuate in a range of 6.25-6.40 in May.

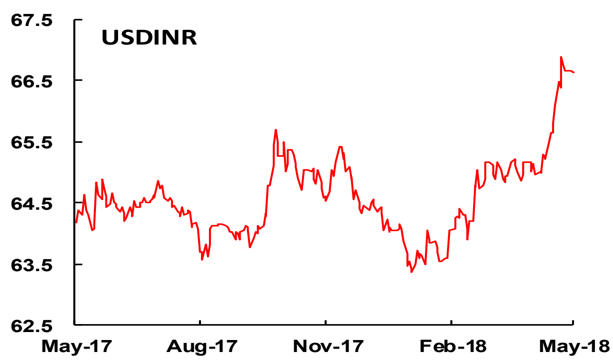
INDIA — The INR tumbled amid portfolio outflows in April. Rising UST yields, bouncing oil prices and the RBI's hawkish tone on concern over elevated core inflation are expected to continue weighing on Indian bonds and the INR, although the central bank's news rules for FPI bond investment provide a brief relief. Higher oil prices have raised market concern over India's current account deficit as well. The nation's foreign reserves are likely to decline to stabilize the INR. USDINR is likely to trade between 66.0 and 67.5 in May.

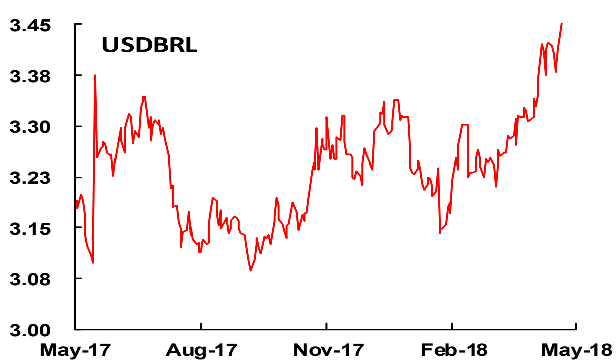
BRAZIL — The BRL has been the worst performing LATAM FX the past month (-6.9%), outside of VEF and ARS. Behind the drop is rising political uncertainty, disappointment on the fiscal and reform fronts, as well as mixed news on growth and inflation (CPI continues to drop, but PPI is surging, while some growth indicators have stalled). We have the BRL still weakening somewhat as we head into a period of election-related political uncertainty.

Currency Trends

FX Rate	Spot 3-May	18Q1a	18Q2f	18Q3f	18Q4f	19Q1f	19Q2f	19Q3f	19Q4f
USDCNY	6.35	6.28	6.30	6.30	6.30	6.20	6.20	6.10	6.10
USDINR	66.6	65.2	65.5	65.0	65.0	64.5	64.5	64.0	64.0
USDBRL	3.56	3.31	3.60	3.65	3.70	3.70	3.65	3.64	3.63







China, India, Brazil
Fundamental Commentary

Tuuli McCully, 65.6305.8313
Scotiabank Economics
tuuli.mccully@scotiabank.com

Eduardo Suárez, 52.55.9179.5174
Scotiabank Economics
eduardo.suarez@scotiabank.com

CHINA — China's economic outlook continues to be rather favourable. While output growth will decelerate gradually in 2018–19, we expect to see higher-quality and more sustainable rates of expansion. The key forces behind China's growth deceleration will be less fiscal stimulus and weaker credit-fueled investment momentum. Meanwhile, household spending growth will likely remain robust. The economy is expected to meet the official growth target of 6.5% in 2018. In the first quarter of 2018, Chinese real GDP advanced by 6.8% y/y, in line with the pace recorded in the fourth quarter of 2017. China's consumer price inflation jumped in early 2018 reflecting the changing timing of the Chinese New Year, but eased to 2.1% y/y in March. We expect inflation to close the year at 2⅓% y/y. The People's Bank of China (PBoC) is expected to leave the official benchmark one-year loan and deposit rates unchanged in 2018 (at 4.35% and 1.50%, respectively), though the central bank will likely continue to raise the 7-day reverse repo rate—the PBoC's de-facto policy rate—cautiously over the coming months. The most recent hike of 5 basis points (bps) to 2.55% took place on March 23 following the US Federal Reserve's policy rate increase. On April 17, the PBoC announced a 100 bps reduction in the reserve-requirement ratio for certain banks in order to reduce their funding costs. The PBoC's new Governor Yi is known as a proponent of the central bank's efforts to reduce financial risks; accordingly, monetary policy continuity and sustained deleveraging efforts can be expected. Since taking office, Governor Yi has re-emphasized that the central bank's monetary policy stance will remain "prudent and neutral". We assess that the PBoC will avoid any sudden changes in monetary conditions, intending to maintain a favourable and stable financial environment that will allow Chinese authorities to push ahead with structural reforms.

INDIA — The Reserve Bank of India's (RBI) monetary policy stance will remain growth-supportive over the coming quarters; we expect the benchmark repurchase rate to be left unchanged at 6.0% through 2018. Given that the RBI's policymakers have recently turned slightly more hawkish, we estimate that a cautious tightening cycle will begin in the first quarter of 2019. The next monetary policy meeting is scheduled for June 6. India's headline inflation was at 4.3% y/y in March, while core inflation is stronger at slightly above 5% y/y. We estimate that headline inflation will pick up over the coming months before easing to 4.6% y/y by year-end. The RBI's Monetary Policy Committee has highlighted various upside risks to inflation. While we acknowledge such risks—e.g. price pressures resulting from fiscal slippage or potentially higher food costs should rainfall during the approaching southwest monsoon (June–September) be below normal—we forecast India's headline inflation to remain within the RBI's medium-term target of 4% ±2% y/y through our forecast horizon. The India Meteorological Department forecasts that rainfall during the monsoon will be within the limits considered normal, at 97% of the long period average. Such an outcome would be positive for to the country's agricultural sector output and rural incomes and would keep food inflation in check. Higher international oil prices are widening India's trade deficit; accordingly, the Indian rupee will likely face depreciating pressure in the near term. Nevertheless, robust economic growth prospects and contained inflation will offer some counterbalance. The US Treasury department added India into its "monitoring list of major trading partners that merit close attention to their currency practices and macroeconomic policies", given that India met two of the three criteria; India has a "significant bilateral goods trade surplus with the US" and it has "engaged in persistent one-sided intervention in the foreign exchange market". India does not meet the third criterion of a "material current account surplus".

BRAZIL — Although we have not yet seen evidence of contamination of IPCA inflation (+2.8% y/y at mid-April), we are concerned that rising PPI (+5.7% y/y in March), combined with the BRL's drop (7% over the past month) could prove problematic for the BCB, given Brazil has relatively high FX-inflation pass-through (in the 20%-30% range). News on the growth front have been mixed, with February economic activity printing at a mediocre +0.7% y/y, while retail sales weakened to +1.3% y/y (from 3.1% y/y the previous month), and industrial production also lost momentum (down to +1.3% y/y in March, from +2.4% y/y in February). Overall, macro news have deteriorated.

Guillermo Arbe
511.211.6052
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683
Scotiabank Mexico
mcorrea@scotiacb.com.mx

Benjamin Sierra
56.2.2619.4974
Scotiabank Chile
benjamin.sierra@scotiabank.cl

Eduardo Suárez
52.55.9179.5174
Scotiabank Economics
eduardo.suarez@scotiabank.com

Pacific Alliance

Currency Outlook

MEXICO — Mexican peso has shown a high volatility that could be associated mainly to the swings in NAFTA expectations, getting stronger as the markets become more optimistic about a possible conclusion, and then depreciating when markets get discouraged, although changes in US interest rate expectations could also be credited. Our basic forecast has not changed significantly, and we are still expecting high volatility as a result of high uncertainty coming from global factors and from the ongoing electoral process.

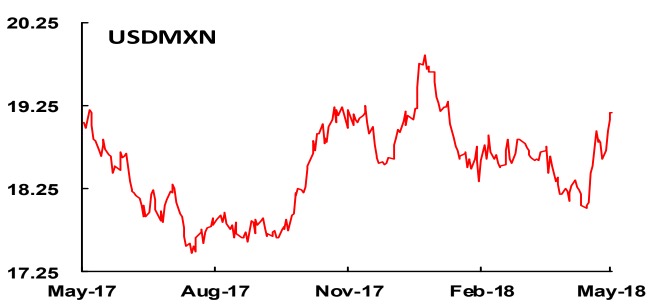
COLOMBIA — COP has reaffirmed its correlation with oil (currently about 40%), after it materially weakened in the first two months of the year. From a volatility perspective, COP has seen a large increase over the past month (at 14.4% only lower than ARS and VEF), with oil prices, and the surge in the greenback contributing to its shifts. We expect COP to weaken further, but modestly so.

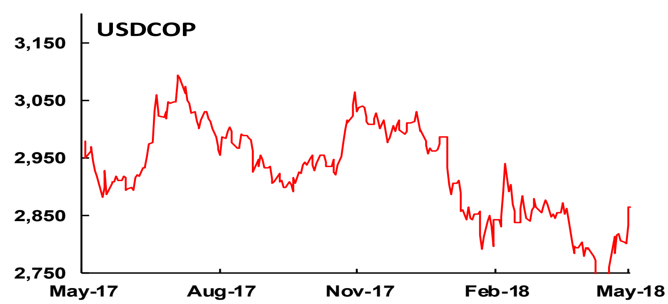
CHILE — As in other economies in the region and commodity exporters, the Chilean currency has been under pressure last few weeks. Most of it comes from the renewed risk of faster-than-expected inflation in the US, which directly hit the international value of the USD and the expectation for interest rate differential. We think this is a transitory correction, which fits well with our view of a wide trading range in the current year, but our forecast for year-end remains close to USDCLP595. However, the risk of a downward correction of the exchange rate (though it is not our base case) at midyear, or shortly, later is still high, despite recent developments.

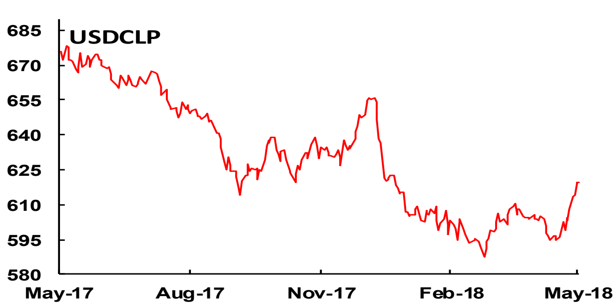
PERU — Peru's PEN was volatile during March and early April, due to domestic political turbulence linked to the impeachment of Presidente Kuczynski. The volatility was confined to a 3.23-3.28 range, which isn't great, as signals of intervention by the Central Bank, coupled with dollar sales by mining companies during the income tax payment period, kept the PEN from rising too much. Once the change in government took place, the PEN was once again overtaken by market fundamentals and settled back into its 3.21-3.24 range. More recently, the PEN has once again depreciated to 3.24-3.27, with more weakening possible, in line with a stronger USD. We maintain our forecasts of 3.18 for year-end 2018, but this will depend on the USD not continuing to strengthen throughout the year.

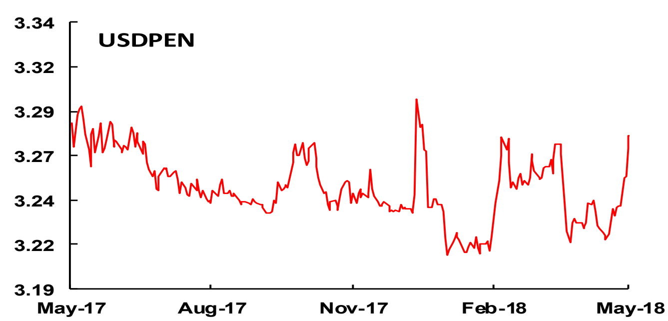
Currency Trends

FX Rate	Spot 3-May	18Q1a	18Q2f	18Q3f	18Q4f	19Q1f	19Q2f	19Q3f	19Q4f
USDMXN	19.16	18.18	19.07	19.17	19.48	19.59	19.42	19.47	19.75
USDCOP	2864	2794	2900	2900	2950	2950	3000	3000	3050
USDCLP	620	604	608	602	595	592	589	587	584
USDPEN	3.28	3.23	3.19	3.20	3.18	3.18	3.14	3.15	3.12









Pacific Alliance
Fundamental Commentary

Guillermo Arbe
511.211.6052
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683
Scotiabank Mexico
mcorrea@scotiacb.com.mx

Benjamin Sierra
56.2.2619.4974
Scotiabank Chile
benjamin.sierra@scotiabank.cl

Eduardo Suárez
52.55.9179.5174
Scotiabank Economics
eduardo.suarez@scotiabank.com

MEXICO — We are approaching moments of deep definitions in the global outlook for Mexico. In the coming weeks, we will see if an agreement on the NAFTA renegotiation will be achieved, just in time for the US Congress to process it into law, or if negotiations will be postponed until next year. Our current economic outlook assumes the second possibility, but if the first one proves to be the actual, then our macroeconomic framework will need to be adjusted for the better. Later on, we will have the most important election of recent times in Mexico, where many public officials will be elected. The leading candidate in the intention of vote polls is Andrés Manuel López Obrador, which has made some controversial statements and it is perceived that he will produce significant changes in the economic policy, even though there is no clarity on the things we will actually do. If there is a significant change in the economic policy, our macroeconomic framework will also need to be adjusted. For the time being, recent economic indicators have been basically in line with our macroeconomic scenario. The main changes to our forecasts are modest, mainly in a lower inflation for 2018 and in the monetary policy interest rate, which is now expected to be hiked once more in the last quarter of the year.

COLOMBIA — With elections scheduled to take place at the end of May (1st round) and mid-June (second round), we expect markets to be focused on politics. Of the two front runners, Duque is seen as the "status quo", while Petro proposes some more drastic policy shifts (including in the resource industry and financial services worlds). Outside of politics, inflation and growth are both worth monitoring, as members of BanRep's board have indicated they want further easing, and given the continued downturn in inflation (last print at 3.1%) and continued sluggish growth (+2.4% y/y growth in February), this looks possible.

CHILE — As anticipated, yearly change in critical variables of the Chilean economy in the first four months of the year are closely related with basis of comparison: last year's kick off was extremely weak and current data look stronger already. Accordingly, though we expect the performance of growth will increase over the year, the profile for the whole year will not be extremely steepening. Business confidence peaked in January, after December's presidential election, and following results have been mainly weaker, though still strong enough to shore up a very optimistic forecast for the following quarters. Popularity of the new President (took office on March 11th) has remained relatively high, while opposition continues confused and divided. That is positive for the changes the Government expects to accomplish in coming months, which will require support from some sectors out of the ruling coalition to be approved (though the Government wants to reach wider agreements than just to get the minimum necessary, in order to give sustainability beyond the current term). One critical key point is related with the ability of the new authority to unleash pent-up investment. Secondly, there are specific and complementary changes related with both tax and labour reform that have to be fixed. We think these changes by themselves would increase the potential growth of the economy (now estimated at 3%-3.5% range). With this backdrop we keep almost all the forecasts published last month, with growth for the current year of 3.6% (upward bias risk) and 3.9% for next. On the demand side, the recovery should be led by investment, to be followed by consumption next year, and fiscal spending should not be very supportive. The inflation expectation for the current year was trimmed to 2.7% due to recent data, as we expect the exchange rate upside is limited and transitory. If we see more certain recovery in the months following to April, there is a relatively high probability the Central Bank will start a mild monetary normalization in September (two 25bp hikes in 2018 and two in 2019).

PERU — GDP rose 2.9% y/y, in February, in line with expectations. Construction led, up 7.9%, with agriculture (+4.7%) also contributing off a low base given last year's El Niño. The main surprise was Non-Resource Manufacturing, up 2.4%, the first month of positive growth since October 2017. Growth YTD (January-February) is 2.8%, in line with our full-year forecast of 3.3%. However, we now see upside to this figure, as recent information suggests that the private sector is rebounding faster than expected. We continue to see a lag in government spending, and a lack of clarity as to when it will be put back on track. However, business loans growth is coming in much better than expected, with corporate loans growth rising 11.6% y/y, in March returning to a double-digit figure for the first time since mid-2016. Yearly inflation to April came in at 0.5%, well below the Central Bank (CB) target range. Core inflation was almost nil, at 0.01%, the lowest figure since 2009. This could give the CB reason enough to lower the reference rate yet again in May. However, CB president, Julio Velarde, appears to be sending a different message, suggesting that April's inflation was due to temporary factors, and would not influence monetary policy. The CB last cut the rate, to 2.75%, in March, and has been consistently lowering the rate by 25bps every two months, but with the economy rebounding and the Fed raising rates, the CB seems to be less comfortable about continuing this policy further. The fiscal deficit over the past 12 months to March was 3.1% of GDP. This represents a seasonal decline from the 3.3% deficit at the end of 2017, as March is part of the income tax collection period. Overall, fiscal figures for March have been positive. We maintain our forecast for a 3.5% fiscal deficit in 2018. In a presentation before Congress, the Villanueva cabinet stated that it would focus on 1. Fighting corruption; 2. Reconstruction; 3. Crime & Safety; and 4. The cabinet will request special powers to legislate on these matters, as well as on the tax regime.

Asia

Currency Outlook

Qi Gao, 65.6305.8396
Foreign Exchange Strategy
qi.gao@scotiabank.com

SOUTH KOREA — The positive outcome of the historic South-North summit held on April 27 will further ease geopolitical situation on the Korean Peninsula and set the stage for a planned US-North Korea meeting. Meanwhile, rising UST yields will likely dampen market sentiment intermittently. USDKRW is anticipated to trade in a broader range of 1,050-1,090 in the month of May.

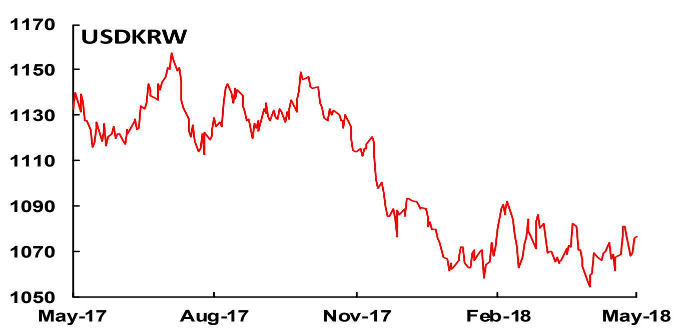
THAILAND — The BoT will increase the issuance of 3-month and 6-month central bank bills in May after reducing the amount since last April. The move will help tighten Thai onshore liquidity conditions with the aim of preemptively alleviating potential depreciation pressure on the THB. Thai finance ministry sees USDTHB averaging at 31.50 in 2018 compared to the previous forecast of 32.25. USDTHB is likely to consolidate around the 31.5 mark in May.

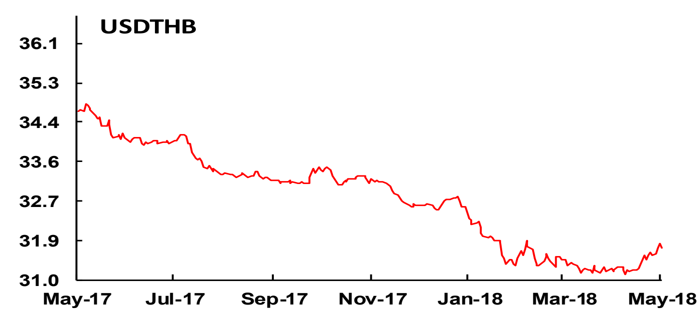
TAIWAN — The TWD weakened modestly amidst equity outflows in April. USDTWD NDF had rallied and is now trading close to USDTWD DF with the same tenor, indicating a less bullish stance on the TWD exchange rate. CBC Governor Yang Chin-long testified to the legislature on April 25, saying that the monetary authority isn’t likely to raise rates in the near term as Taiwan’s CPI inflation remains manageable. USDTWD is expected to fluctuate between 29.2 and 29.8 in May.

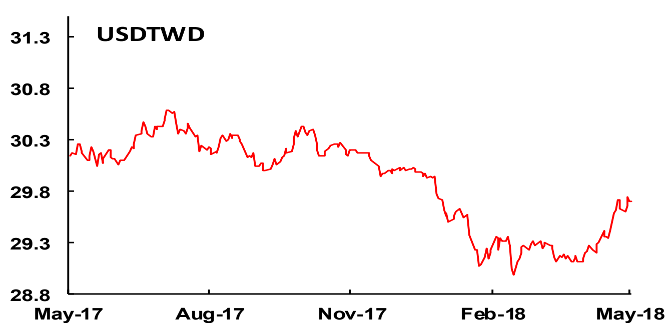
SINGAPORE — The S$NEER slope has been likely raised to 1% per year only compared to the typical 2% annual appreciation in the S$NEER, allowing the MAS to retain the flexibility to adjust its S$NEER policy band in response to evolving economic conditions going forward. We remain bullish on the SGD in the medium term on hopes for the ECB tapering. However, at the moment, the SGD is likely to trade with a weakening bias should the 10Y UST yield rebound and climb further.

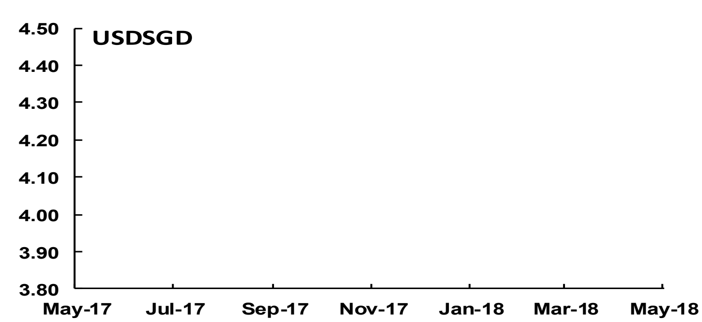
Currency Trends

FX Rate	Spot 3-May	18Q1a	18Q2f	18Q3f	18Q4f	19Q1f	19Q2f	19Q3f	19Q4f
USDKRW	1076	1064	1060	1040	1040	1030	1030	1020	1020
USDTHB	31.7	31.2	31.0	31.0	31.0	30.5	30.5	30.0	30.0
USDTWD	29.7	29.1	29.2	29.2	29.2	29.1	29.1	29.0	29.0
USDSGD	1.33	1.31	1.30	1.30	1.30	1.29	1.29	1.28	1.28









Asia

Fundamental Commentary

Tuuli McCully, 65.6305.8313
Scotiabank Economics
tuuli.mccully@scotiabank.com

SOUTH KOREA — South Korean business confidence indicators are showing early signs of softness on the back of elevated global trade-related risks. Nevertheless, the economy is performing well with activity driven by domestic demand—consumer spending, fixed investment, and public spending. Real GDP grew by 2.8% y/y in the first quarter of 2018, in line with the pace recorded in the final quarter of last year. We expect the nation's output to rise by around 2¾% y/y in 2018–19 following a 3.1% expansion in 2017. Monetary authorities of the Bank of Korea (BoK) held a policy meeting on April 12 and opted to leave the benchmark interest rate unchanged. The policy rate was raised by 25 basis points (bps) to 1.50% in November 2017, the first hike in over six years. However, with domestic demand showing signs of strength, the economy's output gap having turned positive and inflationary pressures building, further gradual monetary tightening is in store. South Korea's headline inflation climbed to 1.6% y/y in April from the March level of 1.3%. We expect it to reach the BoK's 2% inflation target in the second half of 2018. The rising inflation trajectory combined with the fact that BoK Governor Lee has been reappointed for a second term—which implies continuity of a cautious policy tightening bias—will likely prompt the BoK to raise the benchmark rate by 25 bps to 1.75% relatively soon, most likely in the third quarter of 2018.

THAILAND — The Bank of Thailand's (BoT) monetary policy stance is set to remain accommodative over the coming months in order to stimulate domestic demand. The central bank held a monetary policy meeting on March 28; the Monetary Policy Committee voted six to one to leave the key interest rate unchanged at 1.50%. One member voted for a 25 basis point increase in the policy rate. The BoT's authorities noted that monetary policy should remain accommodative, which will foster the return of headline inflation to target. The next policy meeting is scheduled for May 16. We anticipate that a cautious monetary normalization phase will commence in the final months of 2018. Inflationary pressures have intensified slightly in recent months with prices at the headline level rising 1.1% y/y in April, compared with a 0.4% y/y reading two months earlier. We expect the headline inflation rate to close the year at the lower boundary of the BoT's medium-term inflation target of 2.5% y/y ±1.5%, followed by a pickup to 2% in 2019. The Thai economy is performing well. The external sector—particularly merchandise exports and tourism—continues to be the driver of economic activity while domestic demand growth remains moderate. We expect output gains to average 3.5% y/y in 2018–2019.

TAIWAN — Taiwan's economic outlook is favourable, yet some deceleration in growth momentum is expected in 2018. The Taiwanese central bank forecasts the economy to advance by 2.6% this year, slightly slower than the 2.9% pace recorded in 2017. In the first quarter of 2018, real GDP advanced by 3.0% y/y following a 3.3% gain in the final three months of 2017. High frequency data show that Taiwanese business confidence in the manufacturing sector remains solid and that the nation's exports continue to grow strongly. The Taiwanese central bank held a quarterly monetary policy meeting on March 22; the benchmark interest rate was left unchanged at 1.375%. The central bank has a new governor, Mr. Yang Chin-long, who will serve a five-year term. We do not expect the leadership change to affect the central bank's policy biases. Following the March policy meeting, monetary authorities highlighted that Taiwan's output gap remains negative and inflation expectations are mild. Accordingly, the central bank will likely maintain the status quo until the third quarter of 2018 when we expect it to raise the policy rate by 12.5 basis points to 1.50%. Taiwan's headline inflation eased to 1.6% y/y in March from 2.2% y/y a month earlier, reflecting the changing timing of the Chinese New Year. We expect a modest acceleration in inflation over the coming months on the back of stronger demand-driven price pressures that partially reflect minimum wage hikes, higher public sector wages, and potential private sector wage increases.

SINGAPORE — The Monetary Authority of Singapore (MAS) joined global central banks' monetary tightening club following its semi-annual monetary policy meeting on April 12. The MAS increased the slope of the Singapore dollar nominal effective exchange rate policy band from 0% in order to keep inflationary pressures in check. The width of the policy band and the level at which it is centered were left unchanged. We expect the MAS to adjust monetary policy further following the next meeting in October 2018. The central bank forecasts that the Singaporean economy will remain on a steady growth path this year, with real GDP advancing by 2½% y/y. The central bank expects core inflation to rise over the coming quarters on the back of an improving labour market. In March, core inflation eased slightly to 1.5% y/y from 1.7% a month earlier. Headline inflation is lower, at 0.2% y/y in March, reflecting adjustments to private transportation and accommodation costs. Base effects will likely take headline inflation higher in the second half of 2018, with the rate closing the year at around 1⅓% y/y. Advance estimates for first quarter real GDP growth showed that the economy's momentum is solid, with output increasing by 4.3% y/y, up from 3.6% in the fourth quarter of 2017. The pickup reflected maintained strong manufacturing sector growth and acceleration in the services sector expansion.

Global Currency Forecast (end of period)

		2018f	2019f	2018f				2019f			
Major Currencies				Q1a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	110	105	106	108	110	110	110	110	108	105
Euro zone	EURUSD	1.30	1.35	1.23	1.25	1.28	1.30	1.30	1.33	1.35	1.35
	EURJPY	143	142	131	135	141	143	143	146	146	142
UK	GBPUSD	1.47	1.50	1.40	1.40	1.42	1.47	1.48	1.48	1.50	1.50
	EURGBP	0.88	0.90	0.88	0.89	0.90	0.88	0.88	0.90	0.90	0.90
Switzerland	USDCHF	0.91	0.89	0.95	0.93	0.92	0.91	0.92	0.90	0.89	0.89
	EURCHF	1.18	1.20	1.18	1.16	1.18	1.18	1.20	1.20	1.20	1.20
Americas											
Canada	USDCAD	1.25	1.25	1.29	1.27	1.26	1.25	1.25	1.22	1.22	1.25
	CADUSD	0.80	0.80	0.78	0.79	0.79	0.80	0.80	0.82	0.82	0.80
Mexico	USDMXN	19.48	19.75	18.18	19.07	19.17	19.48	19.59	19.42	19.47	19.75
	CADMXN	15.59	15.80	14.11	15.01	15.21	15.59	15.67	15.92	15.96	15.80
Brazil	USDBRL	3.70	3.63	3.31	3.60	3.65	3.70	3.70	3.65	3.64	3.63
Chile	USDCLP	595	584	604	608	602	595	592	589	587	584
Colombia	USDCOP	2950	3050	2794	2900	2900	2950	2950	3000	3000	3050
Peru	USDPEN	3.18	3.12	3.23	3.19	3.20	3.18	3.18	3.14	3.15	3.12
Asia-Pacific											
Australia	AUDUSD	0.80	0.82	0.77	0.79	0.80	0.80	0.81	0.81	0.82	0.82
China	USDCNY	6.30	6.10	6.28	6.30	6.30	6.30	6.20	6.20	6.10	6.10
Hong Kong	USDHKD	7.85	7.82	7.85	7.85	7.85	7.85	7.84	7.84	7.82	7.82
India	USDINR	65.0	64.0	65.2	65.5	65.0	65.0	64.5	64.5	64.0	64.0
Indonesia	USDIDR	13600	13400	13728	13700	13600	13600	13500	13500	13400	13400
Malaysia	USDMYR	3.80	3.60	3.86	3.85	3.80	3.80	3.70	3.70	3.60	3.60
New Zealand	NZDUSD	0.74	0.76	0.72	0.73	0.74	0.74	0.75	0.75	0.76	0.76
Philippines	USDPHP	51.0	49.5	52.2	52.0	51.0	51.0	50.0	50.0	49.5	49.5
Singapore	USDSGD	1.30	1.28	1.31	1.30	1.30	1.30	1.29	1.29	1.28	1.28
South Korea	USDKRW	1040	1020	1064	1060	1040	1040	1030	1030	1020	1020
Taiwan	USDTWD	29.2	29.0	29.1	29.2	29.2	29.2	29.1	29.1	29.0	29.0
Thailand	USDTHB	31.0	30.0	31.2	31.0	31.0	31.0	30.5	30.5	30.0	30.0

f: forecast a: actual

SCOTIABANK ECONOMICS

Brett House
brett.house@scotiabank.com

Derek Holt
derek.holt@scotiabank.com

Eduardo Suárez
eduardo.suarez@scotiabank.com

Tuuli McCully
tuuli.mccully@scotiabank.com

Adrienne Warren
adrienne.warren@scotiabank.com

Guillermo Arbe
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
Scotiabank Mexico
mcorrea@scotiacb.com.mx

Benjamin Sierra
Scotiabank Chile
benjamin.sierra@scotiabank.cl

FOREIGN EXCHANGE STRATEGY

Shaun Osborne
shaun.osborne@scotiabank.com

Qi Gao
qi.gao@scotiabank.com

Eric Theoret
eric.theoret@scotiabank.com