AMERICAS

The USD will strengthen as US monetary policy is tightened in the coming months. Trade tensions may add to negative CAD momentum and check the MXN's recent stabilization. Soft commodity prices are a risk for the CAD and MXN as well as the CLP and COP.

EUROPE

Domestic political developments provide relief rallies for the EUR and GBP but downside risks remain for both.

ASIA-PACIFIC

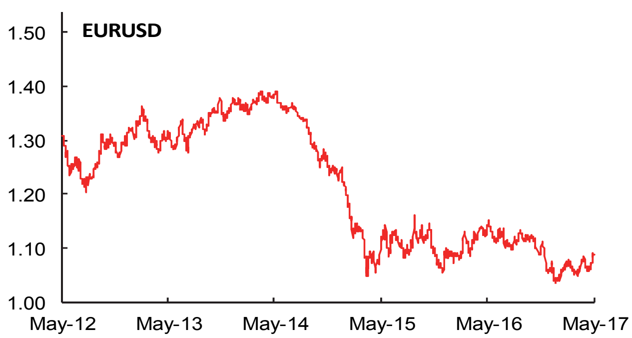
Geo-political tensions have weakened the KRW but served to support the "safe haven" JPY.

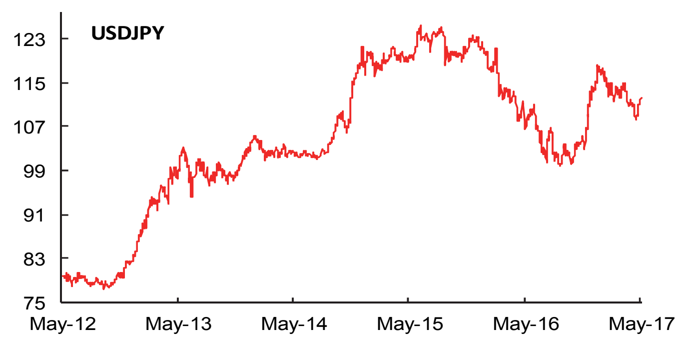
CONTENTS

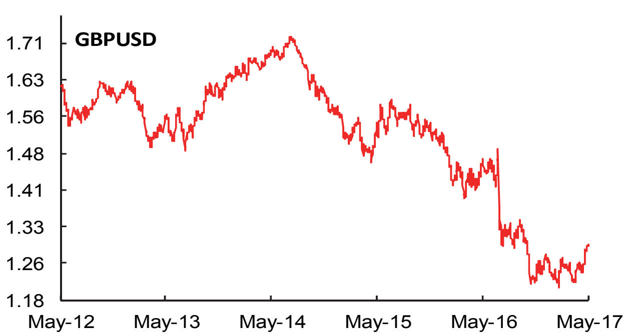
Core Exchange Rates

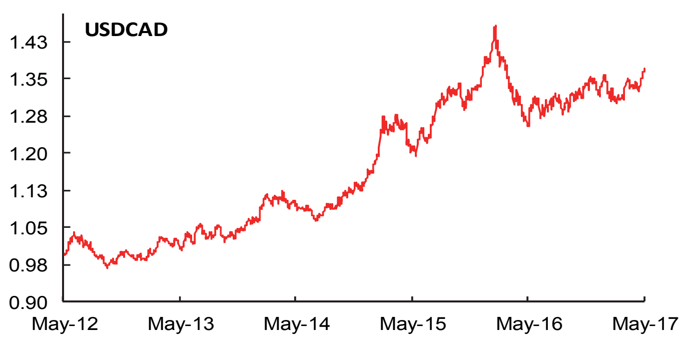
Global Foreign Exchange Outlook

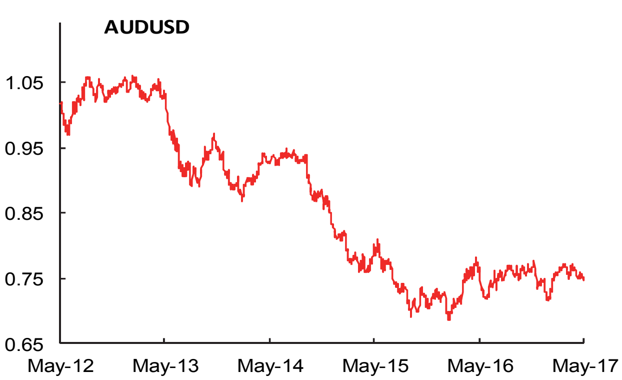
May 2, 2017	Spot	2017f Q1a	2017f Q2	2017f Q3	2017f Q4	2018f Q1	2018f Q2	2018f Q3	2018f Q4
EURUSD	1.09	1.07	1.02	1.05	1.10	1.12	1.12	1.15	1.15
USDJPY	112.2	111	115	117	117	121	121	122	122
GBPUSD	1.29	1.26	1.20	1.25	1.25	1.30	1.30	1.35	1.35
USDCAD	1.37	1.33	1.40	1.38	1.36	1.36	1.34	1.32	1.30
AUDUSD	0.75	0.76	0.76	0.75	0.75	0.75	0.75	0.78	0.78
USDMXN	18.79	18.72	19.27	19.86	20.39	20.60	20.45	20.51	20.79











Market Tone & Fundamental Focus

Pablo Bréard, 1.416.862.3876
Scotiabank Economics
pablo.breard@scotiabank.com

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

We expect the US dollar (USD) to pick up more support in May. The USD retained a soft undertone in April as it struggled to rekindle the sort of form that saw it rally broadly, and strongly, in the immediate aftermath of the US presidential election last year. The Trump administration's early policy setbacks, which investors fear will slow the broader drive for tax reform, deregulation and fiscal stimulus, account for some of the USD's underwhelming performance last month. Geopolitical concerns (Asia) and political developments (Europe) have also undercut the USD more recently. Finally, the US economy appears to have stumbled out of the starting blocks this year again, which weakened the market's confidence in the Federal Reserve's (Fed) ability to tighten monetary policy over the balance of the year.

We think the market is underpricing Fed June rate hike risks and expect higher rates to provide support for the USD in the coming weeks. US growth disappointments in Q1 have been common since the recovery got underway in 2009 but the economy has consistently regained near trend rates of growth (on average) in the following three quarters. Moreover, Fed officials are stressing that two further rate increases this year remain a good "base case", despite some disappointing activity data, suggesting policy makers are less data dependent and are less sensitive to external constraints and uncertainties than in the past.

We expect the Canadian dollar (CAD) to lose more ground in the next few months after becoming the only G-10 currency to register a decline against the USD since the start of the year. The CAD has ignored relatively strong domestic growth (the Canadian economy may be one of the fastest growing of the large, developed economies in Q1), as US-Canada trade relations have deteriorated, commodity prices have faltered and Bank of Canada (BoC) policy makers have focused on continued slack in the economy. Underlying inflation measures suggest price trends remain very subdued which will keep the BoC sidelined while the Fed proceeds to tighten monetary policy gradually. We continue to expect USDCAD to reach 1.40 through mid-year.

Prospects for the Euro (EUR) remain negative. ECB-Fed policy divergence will resume in the coming months and wider interest rate differentials between the EUR and the USD will support the US currency. We expect EURUSD to reach 1.02 around mid-year. Despite the squeeze higher in the exchange rate in response to the first round of the French presidential election; Macron is expected to win the run-off vote against the far-right's Le Pen. The result eases "Frexit" fears though we do not think this was a serious risk before the election. In essence, little has changed as a result of the election. As such, we expect the European Central Bank (ECB) to continue pursuing a highly accommodative monetary policy as, despite a rebound in domestic activity, price trends remain subdued and officials have stressed that it is too early to end its asset purchase programme.

Sterling (GBP) has shaken off Brexit concerns, for the moment, following UK Prime Minister May's call for a snap general election. The June 8th vote is aimed at strengthening her hand in Brexit negotiations but may also serve to subdue the Labour opposition, which is expected to lose heavily in the poll. We do not think the election will alter the UK government's negotiating position significantly, however, which may disappoint investors hoping for a softer "Brexit" approach. We continue to expect sluggish growth and Brexit concerns to limit GBPUSD gains through mid-year but concede that our forecast of USD 1.20 for Q2 may look ambitious. Moreover, we remain more constructive on the longer-run outlook for the GBP with major political risk factors (Brexit) looking more fully factored in and the GBP looking "cheap" relative to longer run valuation metrics.

Heightened military and geo-political tensions in Asia coupled with softer equity market trends since late February have served to support the Japanese yen (JPY) via safe-haven demand (the JPY being supported by Japan's strong external balances and large net international investment position which makes it less vulnerable to capital outflows in times of uncertainty). The Korean won has, however, been one of the weaker major currencies over the same period. The Australian dollar and New Zealand dollars have both softened modestly in the past month, reflecting the soft trend in broader commodity prices. The Thomson/Reuters CRB index is some 8% lower from the high point seen in January.

The core group of emerging-market currencies continues to receive the broad-based support from persistent global risk appetite and still ultra-low interest rates in the developed world. In the Asia-Pacific region, developments in China affecting the pace of Renminbi (CNH and CNY) adjustments remain a factor worth monitoring. The Mexican peso (MXN) recovered nearly all of the losses registered following the US Presidential election as tighter Banxico monetary policy (350 bps in 16 months) together with risk repricing (i.e., higher UMS bond yield spreads) has helped drive bargain hunting in the MXN currency amid some détente in NAFTA trade tensions ahead of the sensitive vote in the state of Mexico on June 4th. We do not think that NAFTA-revamping risks have fully disappeared, and we expect the White House to maintain an aggressive trade stance in the coming months. High real interest rates continue to support the Brazilian real and correct overshooting forces, although we expect the yield cushion to soften in the coming months. The Peruvian sol remains stable despite weaker growth related to the recent flooding and investment delays while softer copper and crude oil prices have weighed on the Chilean and Colombian pesos respectively over the past month.

Canada

Currency Outlook

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

The CAD remains one of the weakest-performing major currencies so far this year after sliding by some 2.5% against the USD over the past month. We expect the CAD to weaken and forecast the USD gaining an additional 2.5% or so through mid-year (our end Q2 target remains CAD1.40 or 71USc).

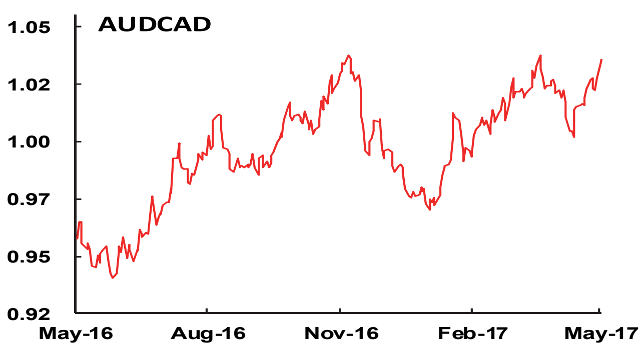
The CAD has largely ignored strong, but unsustainable, domestic growth and an exceptional run of job creation seen through the early part of the year despite sluggish US growth performance in Q1. This reflects our view that the Fed is likely to continue nudging monetary policy a little tighter in the coming months while the BoC will remain on the monetary policy sidelines while domestic inflation remains low. Interest rate differentials – already significant at the short-end of the yield curve – will therefore continue to move against the CAD and in support of the USD. Higher US interest rates are depressing commodities broadly to further weigh on CAD sentiment.

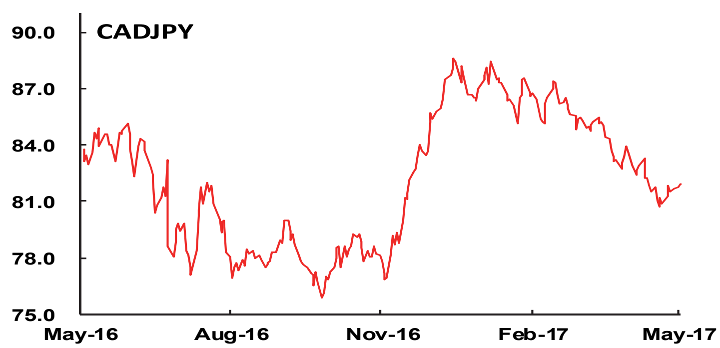
More recently, US-Canada trade relations appear to have taken a turn for the worse, with President Trump imposing tariffs on Canadian softwood lumber, threatening Canada’s dairy trade and suggesting a willingness to walk away from NAFTA. These developments and uncertainties have added to the headwinds facing the Canadian economic outlook and weighed more obviously on CAD sentiment at a time where investors are also becoming increasingly sensitive to developments in the Canadian housing sector following Ontario’s decision to impose a foreign buyers’ tax on property purchases.

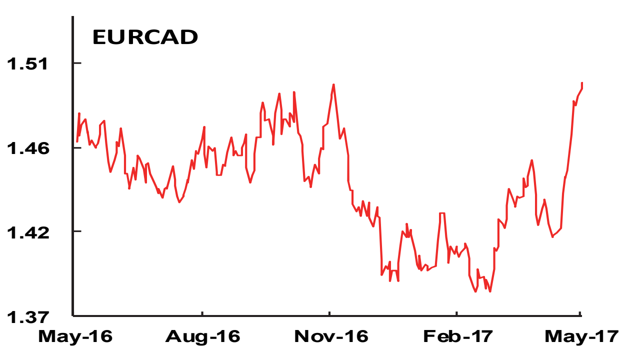
USDCAD tested and rebounded strongly from the 200-day MA in mid-April, setting the USD up for additional gains on the charts, we think. Subsequent gains in the USD support our call for fundamentally-driven USD gains towards 1.40 in the next few months.

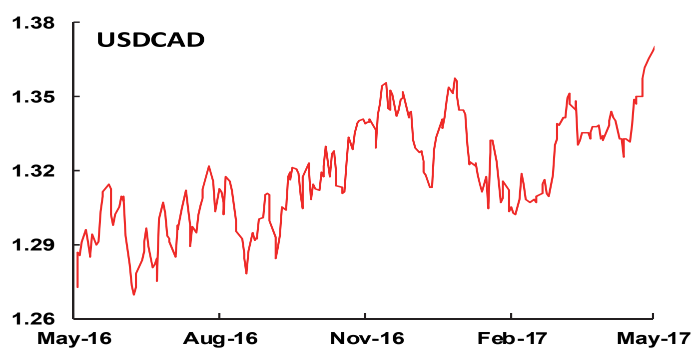
Canadian Dollar Cross-Currency Trends

FX Rate	Spot 2-May	17Q1a	17Q2f	17Q3f	17Q4f	18Q1f	18Q2f	18Q3f	18Q4f
AUDCAD	1.03	1.02	1.06	1.04	1.02	1.02	1.01	1.03	1.01
CADJPY	81.9	83.6	82.1	84.8	86.0	89.0	90.3	92.4	93.8
EURCAD	1.49	1.42	1.43	1.45	1.50	1.52	1.50	1.52	1.50
USDCAD	1.37	1.33	1.40	1.38	1.36	1.36	1.34	1.32	1.30









United States and Canada

Fundamental Commentary

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

UNITED STATES — The US economy stumbled in early 2017, with real GDP growth advancing at an annual rate of just 0.7% in Q1. The slowdown was primarily attributable to a sharp pullback in consumer spending which is likely to be short-lived. Consumer fundamentals—a robust job market, rising incomes and improved household balance sheets—remain favourable. Labour market conditions continue to tighten, with the unemployment rate at a decade low 4.5%. Consumer confidence is near its highest level in over a decade and a half, while major purchase intentions are near all-time highs. Home sales and starts are still trending higher, and could get a temporary boost from the recent decline in mortgage rates. Meanwhile, non-residential construction is being bolstered by strengthening commercial projects. Services activity is expanding across a range of industries, led by financial and professional services. Recent data, while somewhat mixed, continue to point to a broad recovery in industrial production and business investment. Infrastructure spending and personal and corporate tax cuts are expected to provide a modest boost to growth later this year, though the timing and extent of government stimulus is uncertain at this point. Net trade should remain a drag on growth amid rising import demand and a strong US dollar. Price pressures remain muted, with a strong US dollar continuing to suppress goods inflation. Core inflation slowed to a 16-month low of just 2.0% y/y in March.

CANADA — The Canadian economy is expected to register solid growth of over 3% in Q1, though momentum was front-end loaded to the turn of the year. Output gains continue to be driven by the consumer and housing sectors. Home and auto sales through March were tracking record levels. Household spending and confidence are being supported by low interest rates, increased government transfers and strengthening job growth. Monthly job gains have averaged 34,000 since last August, the strongest eight-month tally in over a decade. Even so, weak wage gains and elevated household debt are expected to moderate consumption growth this year, while affordability pressures and new regulations should cool housing activity. Service sector activity remains brisk, with notable gains in financial, professional and hospitality sectors. Public infrastructure spending, though proceeding slower than planned, remains supportive of growth. Investment in the oil & gas sector is gradually resuming alongside firmer oil prices (notwithstanding the recent retreat in WTI). However, a broader investment recovery has yet to take hold, held back in part by ongoing uncertainty over US policy measures. Exports also have continued to disappoint despite a weaker Canadian dollar and signs of improving global activity. Non-energy export volumes in the first two months of 2017 were 5% below year-ago levels. Core inflation remains on a downward trajectory, with the average of the BoC's new preferred measures slowing to just 1.5% y/y in March.

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

Monetary Policy Commentary

UNITED STATES — The next forecast rate hike is expected to occur at the June 14th FOMC meeting. Markets are pricing roughly two-thirds odds of this outcome. One more hike is forecast this year. The FOMC statement is likely to begin stating that reinvestment will be reduced "later this year" in keeping with other guidance to date. This is important to the bond market especially given Fed vacancies and uncertainty over deficit issuance of Treasuries. Markets would then be on formal notice to watch for this implied time frame to be tightened up before acting. We forecast the announcement and commencement of reduced reinvestment at the December meeting. The Fed still needs to provide guidance on how it will reduce reinvestment in terms of dollar or percentage amounts and over what time frame.

CANADA — No rate change is expected this year with the overnight lending rate ending 2016 at 0.5%. A pair of rate hikes is expected next year starting in summer. Recent growth has been strong, but not without question marks. This has helped to reduce spare capacity and thus improve the chances of sustainably returning to the 2% inflation target, anticipation of which could motivate policy tightening. What counsels continued caution is trade policy uncertainty, a continued decline in average core inflation measures and weakened connection with output gaps, and weak evidence that growth is rotating in favour of exports and business investment and away from households. A well telegraphed emphasis upon risk management may have Governor Poloz maintaining present accommodation well after the traditional measure of spare capacity closes.

G10

Currency Outlook

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

EUROZONE — EUR has entered May at the upper end of its multi-month range around 1.09 with recent gains driven by market participants' assessment of shifting political risk in France following the first round of the presidential election. We remain bearish on the basis of fundamentals and the outlook for policy divergence between an accommodative ECB and a tightening Fed. CFTC positioning in EUR is relatively neutral, however details show gross longs near record levels. Options markets appear sanguine, pricing a relatively low premium for protection against EUR weakness. We remain short-term EUR bears with a Q2 target at 1.02. We are more constructive toward year end with a 1.10 Q4 forecast.

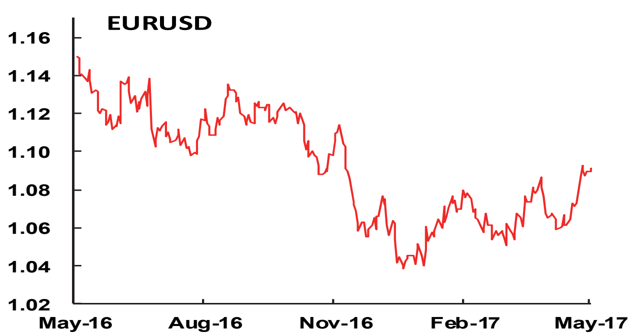
UNITED KINGDOM — GBP outperformed in April with a 3.2% rally as investors responded to PM May's election call for June. GBP had been, and remains vulnerable on the basis sentiment and near-record net short CFTC positioning. Options markets have fully eliminated the premium for protection against short-term GBP weakness and longer time horizons hint to an ongoing erosion. Brexit negotiations are a major ongoing risk, and we hold a Q4 target of 1.25.

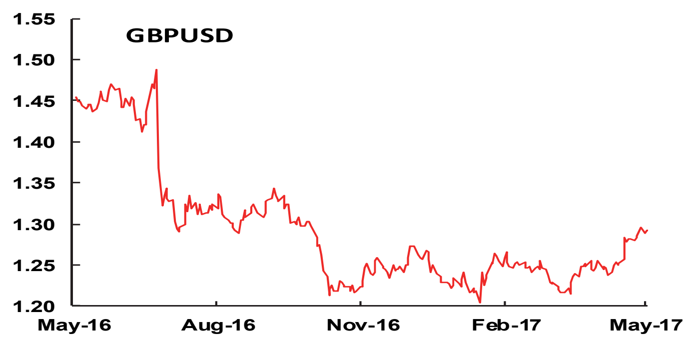
JAPAN — JPY is entering May at a one month low following the completion of a bearish shooting star on the monthly candle chart (USDJPY bullish hammer). The broader tone remains crucial for JPY as market participants assess the outlook for the reflation trade in light of U.S. president Trump's shifting policy priorities. JPY's risk profile leaves it vulnerable to changes in the broader tone, and risks surrounding Korea remain elevated. We maintain a fundamentally-driven bearish JPY forecast, with a Q2 USDJPY forecast of 115.

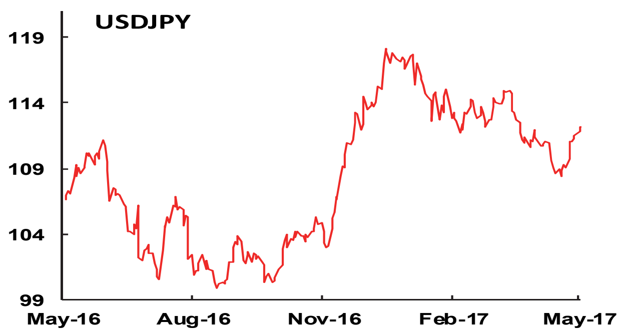
AUSTRALIA — AUD underperformed in April, weakening in tandem with its growth-sensitive commodity peers CAD and NZD. The broader technical trend is moderately bearish, with a sequence of lower highs and lower lows from the March high. Iron ore remains the core focus and interest rate differentials have narrowed to multi-decade lows. AUD appears vulnerable on the basis of positioning, with an elevated net long CFTC position. We are neutral AUD, with a Q4 target of 0.75.

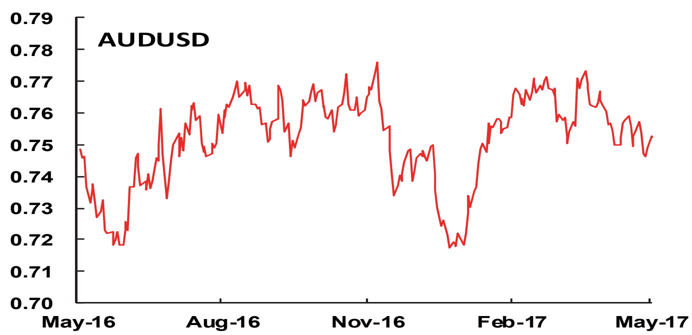
Currency Trends

FX Rate	Spot 2-May	17Q1a	17Q2f	17Q3f	17Q4f	18Q1f	18Q2f	18Q3f	18Q4f
EURUSD	1.09	1.07	1.02	1.05	1.10	1.12	1.12	1.15	1.15
GBPUSD	1.29	1.26	1.20	1.25	1.25	1.30	1.30	1.35	1.35
USDJPY	112	111	115	117	117	121	121	122	122
AUDUSD	0.69	0.76	0.76	0.75	0.75	0.75	0.75	0.78	0.78









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

Frédéric Prêtet, 33.1.703.77705
Fixed Income Strategy
frederic.pretet@scotiabank.com

EUROZONE — The Eurozone recovery is strengthening with business surveys reaching their highest level since 2011. While improving global demand suggests that Germany could outperform, there are also growing signs that the recovery is broadening across the bloc and becoming more sustainable. Furthermore, political risks appear to be reducing as populist parties in both the Dutch and French elections have been unable to get a majority. After a 0.5% q/q rise in Q4 2016, Eurozone real GDP growth could continue to rise at the same pace or even stronger in H1 2017, which is well above estimated potential growth at around 0.3% q/q. As a result, the labour market situation is improving, with the unemployment rate down to 9.5% in March – its lowest level since early 2009. This should help wage growth start to pick up, a key factor for higher inflation over the medium term. Indeed, while the ECB is turning more optimistic on growth, the outlook on inflation remains key for the management of its monetary policy. After reaching a peak at 2.0% y/y in February, we expect headline inflation to remain in a range between 1.6% y/y and 1.8% y/y over the coming months. However, core inflation has remained low and erratic in the 0.7%/1.2% y/y area. We expect a slight and gradual improvement over the coming months, which would embolden the debate surrounding tapering within the ECB board.

UNITED KINGDOM — It's official: the UK economy is now slowing in the aftermath of the Brexit vote. Indeed, the pace of real GDP growth has decelerated to 0.3% q/q during Q1-2017 from 0.7% at the end of 2016. We expect further downside from here, with sharply higher inflation forecast to erode household real purchasing power and cause consumer spending growth to decelerate. On a more positive note, the sectors of the economy that are sensitive to the exchange rate have seen an improvement in their fortunes, with accelerating manufacturing production growth and improving net trade. So while we doubt that these sectors will fully offset the downside from weaker consumer spending, they do represent a cushion that will prevent too much weakening in GDP growth. CPI inflation is now above the Bank of England's 2% inflation target for the first time since late-2013 and up from negative territory in late-2015. We expect further upside in the coming months, with headline inflation reaching a peak of 3¼% in the autumn. Recent CPI data have shown clear evidence of upward pressure from the weaker pound, while domestic energy bills, higher food price inflation, airfares, package holidays, and taxes on alcohol and tobacco should all ensure that headline inflation rises to above the 3% upper boundary of the BoE's target range. Crucially, services sector inflation has remained muted in the past two years and we expect more of the same during 2017. This is one of a number of reasons why we expect the BoE to remain on hold this year. Looking further ahead, the mild re-appreciation in the GBP exchange rate in recent weeks should help headline inflation to gravitate back towards the 2% target during 2018-19.

JAPAN — Stimulative fiscal and monetary policies will continue to support the Japanese economy through 2018, with real GDP gains exceeding the country's low potential growth of less than ½% y/y. We expect Japan's output to grow by 1.1% in 2017 and 0.7% in 2018 following a 1.0% gain in 2016. Nevertheless, we assess that the current growth momentum is not sustainable in the medium-to-long term without decisive implementation of structural reforms that would raise Japan's productivity, labour supply, and potential output growth. Japan's fiscal profile remains structurally weak, yet any fiscal consolidation will be slow as economic revival takes priority. The country's budget deficit will average 3.6% of GDP in 2017–18, according to the International Monetary Fund. The period of deflation appears to be over in Japan, yet price gains remain minimal with the headline inflation rate at 0.2% y/y in March. We do not anticipate the Bank of Japan's (BoJ) 2% y/y inflation target to be met in the foreseeable future given subdued wage growth (real wage growth remained at 0.0% y/y in February). The headline inflation rate will likely rise to 0.8% y/y by the end of 2017. The BoJ left its monetary policy stance unchanged following the April 27 meeting. We expect that the short-term policy rate and the 10-year yield target will be kept at -0.1% and 0%, respectively, over the coming months.

AUSTRALIA — The Reserve Bank of Australia (RBA) will likely leave the benchmark cash rate unchanged at 1.5% over the coming quarters in order to support domestic demand. A cautious monetary tightening phase will likely commence in the second half of 2018. Australian monetary authorities will carefully monitor developments in the labour and property markets; employment metrics continue to show mixed signals while the real estate market remains heated in certain Australian cities, particularly in Sydney and Melbourne. Australia's headline inflation rate climbed to 2.1% y/y in the first quarter from 1.5% at end-2016, pushing inflation into the RBA's inflation target range of 2-3%. Nevertheless, the acceleration was not a result of strong demand-driven price pressures but reflected the base effect stemming from very low commodity prices a year ago. We assess that slack in the Australian labour market will continue to keep wage increases and core inflation low. Accordingly, we forecast that headline inflation will close the year at 2.0% y/y. Australia's near-term economic growth prospects are favourable, yet momentum is partially supported by transitory factors in the external sector, such as higher export volumes that reflect mining investment project completions. We estimate that Australia's real GDP will continue to grow in line with its potential growth rate of around 2½% y/y in 2017–18 following a similar advance in 2016.

BRIC
Currency Outlook

Erika Cain, 1.416.866.4205
Scotiabank Economics
erika.cain@scotiabank.com

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

Eduardo Suárez, 5255.9179.5174
Foreign Exchange Strategy
eduardo.suarez@scotiabank.com

BRAZIL — The BRL had a rough month in April, as new political scandals related to the Lava Jato added uncertainty to the reform process, at the same time as global markets came under pressure due to added uncertainty over the outlook for US tax policy. Accordingly, BRL was the second weakest LATAM FX in the month, losing about 2% of its value vs. the USD. Looking ahead, President Temer's reform agenda faces mixed signs. On one hand we had good news on labor reform, but the pension bill—arguably the most important—still faces a lot of uncertainty. The BRL should remain volatile.

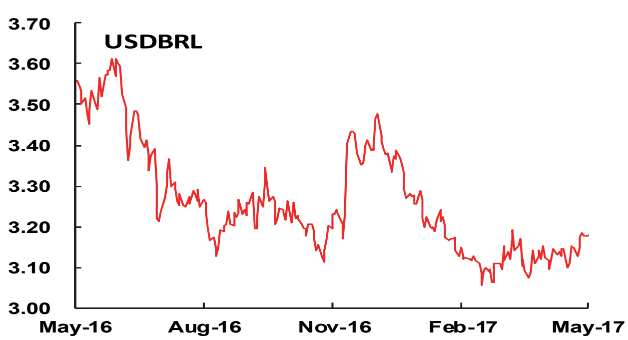
RUSSIA — The RUB has continued to show signs of improvement against the USD over the past month and remained relatively stable following the Central Bank of Russia's greater than expect interest rate cut. We expect the RUB to continue to benefit from stronger fundamentals, which include higher oil prices, cautious monetary policy easing, improving economic conditions and supportive EM flows. USDRUB is forecast to end 2017 at 58.3.

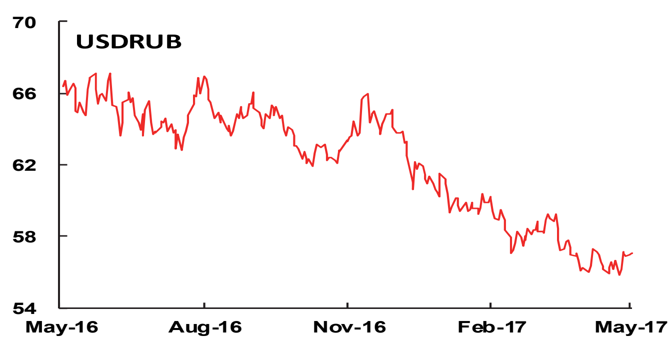
INDIA — The Reserve Bank of India is turning increasingly hawkish after unexpectedly raising its reverse repo rate on 6 April. We remain bullish on the INR in the medium-term given the nation's strong fundamentals and market hopes for more reforms. The BJP won the Municipal Corporation of Delhi (MCD) elections with 181 out of 270 seats on the back of overwhelming public support. In the run-up to June FOMC meeting, USDINR is likely to rise modestly. The pair is likely to trade in a range of 64.0 to 66.0 in May.

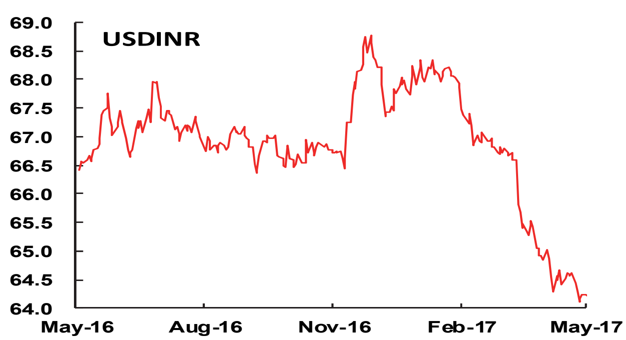
CHINA — China's top policymaker, the Politburo, reiterated on 25 April that the nation will stick to the basic tone of "seeking progress while maintaining stability" this year. The yuan is expected to remain relatively steady in the months ahead after the US Treasury Department declined to brand China a currency manipulator in its semiannual FX report on 14 April. The PBoC has persistently set USDCNY fixing with a downward bias in the past weeks. USDCNY is forecasted to trade between 6.85 and 6.95 in May.

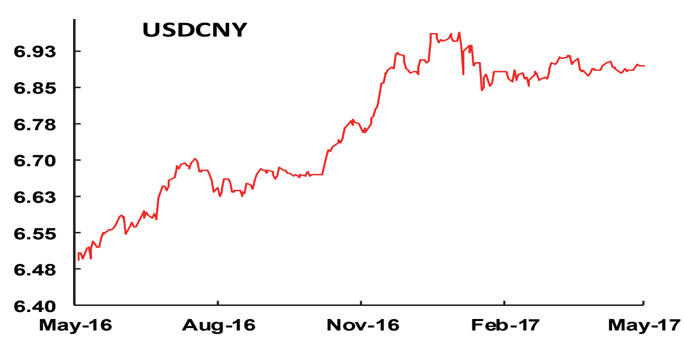
Currency Trends

FX Rate	Spot 2-May	17Q1a	17Q2f	17Q3f	17Q4f	18Q1f	18Q2f	18Q3f	18Q4f
USDBRL	3.18	3.12	3.25	3.30	3.35	3.45	3.45	3.50	3.45
USDRUB	57	56	58	58	58	59	59	59	59
USDINR	64	65	66	67	68	68	67	67	67
USDCNY	6.90	6.89	6.90	7.00	7.10	7.05	7.00	7.00	6.95









BRIC

Fundamental Commentary

Pablo Bréard, 1.416.862.3876
Scotiabank Economics
pablo.breard@scotiabank.com

Erika Cain, 1.416.866.4205
Scotiabank Economics
erika.cain@scotiabank.com

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

BRAZIL — The Brazilian real (BRL) remains the best performing currency in the American continent. The primary factors leading to such exchange rate strength are the following: 1) steady improvement in the country's terms of trade (booming iron ore prices in focus), 2) Excess global liquidity (courtesy of ultra-low interest rates in the developed world) seeking high yielding investing assets, 3) market reversal of overshooting forces exacerbated by a recessionary environment and, 4) swift return to primary and secondary global fixed-income markets (pulling Argentina alongside) causing active rebalancing of emerging-market portfolios. The global perception of Brazilian sovereign credit risk is steadily improving. Financial market metrics implied in credit default swaps (CDS) have shown a strong investor preference for Brazilian government debt assets. The economy is showing increasing evidence of gradual recovery. Confidence indicators are improving in line with advances in price stabilization and formal employment has reversed a negative growth trajectory. Foreign capital investment inflows are accelerating as the government advances the process of structural (fiscal and pension) reforms. The process of disinflation is advancing successfully. After peaking at 10.7% y/y in Jan-2016, consumer price inflation (measured by the market-sensitive IPCA index) declined to 4.6% y/y in Mar-2017. In this regard, the monetary policy committee reduced its benchmark (SELIC) policy rate by 100 bps to 11.25% in its April meeting. Investors are positioned for further rate cuts pushing the SELIC rate to 8.5% by year end.

RUSSIA — The Russian economy continues to recover from the crisis brought on by low oil prices and Western sanctions that closed access to international capital markets in 2015. Indeed, incoming macro data continue to demonstrate positive dynamics, with growth in manufacturing and services activity at a multi-year high and real disposable income finally registering positive gains. Inflationary pressures also continue to decelerate, with the headline CPI inflation print easing to 4.3% y/y in March down from 4.6% in the prior month. Looking ahead, Russian real GDP is set to return to growth of around 1% this year underpinned by a recovery in consumer spending and business investment. Government authorities are also embarking on an ambitious three-year fiscal consolidation program to reduce policy uncertainty and reinforce the fiscal adjustment, while the Central Bank of Russia (CBR) should continue to gradually loosen monetary policy. After months of refraining from further easing amid adverse internal and external developments, the CBR cut its one-week repo rate by 25 basis points in March and announced a further 50 basis point reduction in April, bringing the benchmark rate to 9.25%. The CBR Board of Directors credited this to the ongoing deceleration in consumer prices, declining inflation expectations, and improving economic conditions. With Russian inflation forecast to reach the CBR's 4% target before the end of 2017 and remain near this level through 2018, monetary policymakers have signaled the potential for further cuts in the second half of 2017. We expect the CBR's benchmark one-week repo rate to end-2017 at 8.5%.

INDIA — High-frequency indicators imply that India's outlook is improving as the economy recovers from the temporary cash shortage that followed the government's currency exchange initiative at the end of 2016. According to the Reserve Bank of India (RBI), remonetisation is virtually complete and activity in cash-intensive retail trade, hotels, restaurants, transportation, and unorganized segments has largely been restored. We expect India's real GDP growth to average 7¾% y/y in 2017–18 following a 7.6% advance in 2016. The RBI held a monetary policy meeting on April 5-6; the central bank left the benchmark repo rate unchanged at 6.25% but raised the reverse repo rate by 25 basis points to 6.0%. Narrowing the policy rate corridor will help the RBI to control excess liquidity in the banking system. The RBI highlighted that its monetary policy stance remains neutral. The next monetary policy meeting will be held on June 5-6. We do not expect any changes to the benchmark rates over the coming quarters. India's inflationary pressures are set to remain contained, despite an expected modest pick-up in the headline rate from the March level of 3.8% y/y. We expect price gains to remain within the RBI's inflation target of 4% ± 2% y/y through 2018. The India Meteorological Department forecasts that the southwest monsoon's (June-September) rainfall will be within the "normal" category, which will support India's agricultural sector and limit food price inflation.

CHINA — The Chinese economy has started the year with solid momentum. Real GDP grew by 6.9% y/y in the first quarter of 2017, representing a slight pick-up from the 6.8% pace recorded in the final quarter of 2016. The rebound reflected government infrastructure spending and strong activity in the real estate sector. We expect that growth will slow somewhat over the rest of the year as administrative measures to cool the property market start having an impact. Nevertheless, the economy is set to meet its output growth target of around 6½% this year given that the government will maintain sizable infrastructure outlays in place. The People's Bank of China (PBoC) has pledged to maintain a "prudent" monetary policy stance in 2017, continuing to fine-tune monetary conditions with targeted policy measures. We expect the PBoC to tighten monetary conditions slightly over the course of 2017 by raising interest rates on its open-market operations. The 7-day reverse repo rate, which can be interpreted as the PBoC's de-facto policy rate, is now 2.45% following 10 basis points hikes in February and March. Nevertheless, we do not anticipate any changes to the official benchmark rates; the one-year loan and deposit rates have been kept at 4.35% and 1.50%, respectively, since October 2015. China's consumer price inflation remains low; the CPI increased by 0.9% y/y in March. We expect price gains to accelerate gradually over the coming months, with inflation closing 2017 at 2.2% y/y.

Pacific Alliance

Currency Outlook

Eduardo Suárez, 5255.9179.5174
Foreign Exchange Strategy
eduardo.suarez@scotiabank.com

MEXICO — After a very strong start of the year (+8.35% YTD), the peso lost momentum over the past few days (-1.5% MTD) as uncertainty over US tax reform & NAFTA seemed to hit the peso. In addition, with State of Mexico elections scheduled for June 4th, we don't expect a particularly strong month for the peso in May. The State of Mexico is the most populous and second largest economy, so a victory by Morena (which has questioned energy reform) could spook some market players thinking about 2018 presidential elections.

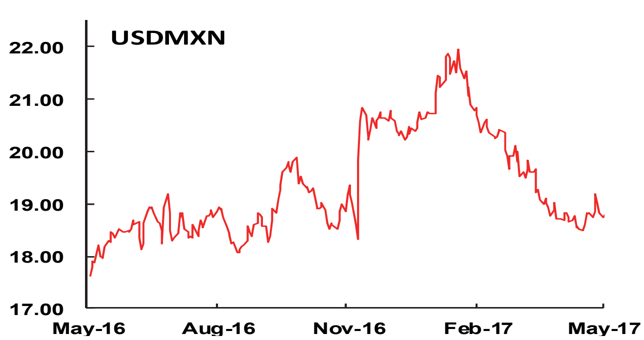
COLOMBIA — The Colombian peso leads the loses seen so far in April among LATAM FX, with COP's value relative to the greenback dropping by about 2%. Behind the losses are softer oil prices (about a 45% correlation), as well as soft local data, and added political uncertainty related to Brazil's export of the Lava Jato to the country, which could add headwinds to investment. Neither data (growth remains weak), nor the political landscape look particularly supportive for COP.

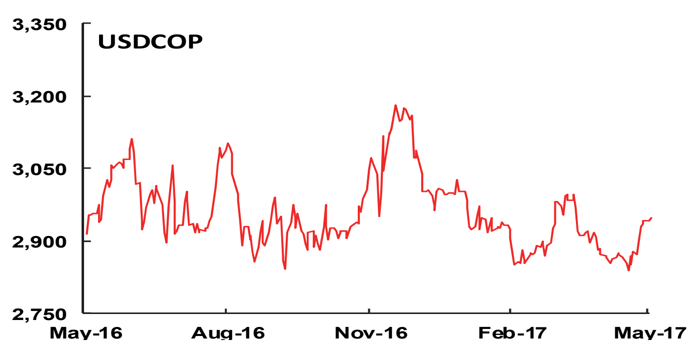
CHILE — Although the Chilean Presidential elections are still a few months away (November 19th), polls so far look supportive to Chilean assets. Former President Piñera, a pro-market candidate, is ahead in the latest polls, holding about 3-5 percentage point lead ahead of #2, which is also a relative centrist. With electoral risk muted and copper prices trading laterally, the peso looks set to trade sideways. However, it's worth noting that copper-CLP correlations have recently been quite weak, at around 10%.

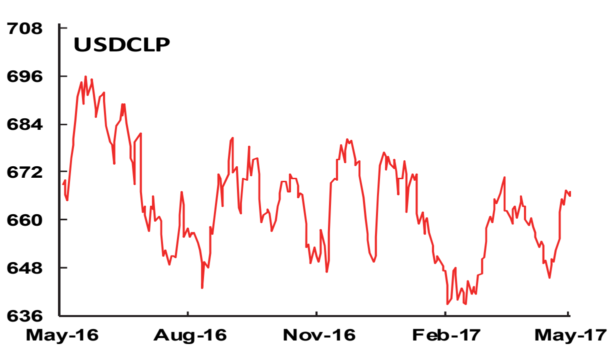
PERU — After a sharp appreciation in January, the sol has mostly been trading sideways, outside of a volatile spat at the start of March, when markets got jittery over the macro impact of the tragic storms that hit the country. In April, the sol moved in a very narrow 3.24 – 3.26 range, which we think is just where the BCRP wants it. We expect PEN to outperform the rest of LATAM FX on risk off periods, but underperform rallies. The PPK glow remains a positive, as does a rock solid macro-environment with low debt, and robust growth.

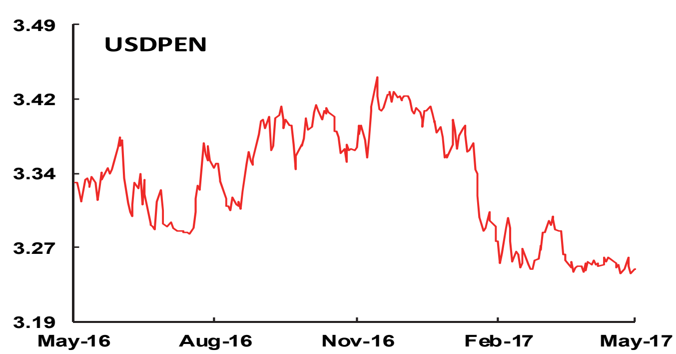
Currency Trends

FX Rate	Spot 2-May	17Q1a	17Q2f	17Q3f	17Q4f	18Q1f	18Q2f	18Q3f	18Q4f
USDMXN	18.79	18.72	19.27	19.86	20.39	20.60	20.45	20.51	20.79
USDCOP	2948	2874	3100	3125	3100	3125	3150	3100	3125
USDCLP	667	660	649	653	658	655	652	649	647
USDPEN	3.24	3.25	3.27	3.26	3.25	3.26	3.22	3.23	3.20









Pacific Alliance

Fundamental Commentary

Pablo Bréard, 1.416.862.3876
Scotiabank Economics
pablo.breard@scotiabank.com

MEXICO — Mexico counts on the most developed local-currency bond market amongst core emerging-market economies. As such, the Mexican peso (MXN) remains strongly influenced by the degree of global risk aversion/appetite, which at present seems to favour high-yielding assets. The envisaged path of monetary policy normalization in the USA does not present an imminent threat to holders of Mexican debt securities. At a yield spread of 490 basis points (bps) versus US treasury (UST) bonds and 565 bps over Canadian bonds, peso-denominated Mexican government bonds remain an irresistible high-yield investment option. Beyond the critical "interest rate differential", other external factors shaping the value of the MXN include the trade-weighted USD (captured in the DXY index) and crude oil prices. The DXY has been erratically declining since the beginning of the year in the context of low global risk aversion (as portrayed in the VIX index), supporting the MXN. So far, disrupting shifts in US policies towards Mexico (particularly on the trade and immigration areas) have not materialized. On the monetary front, heightened inflationary pressures (despite subdued domestic demand) and elevated FX market volatility forced the central bank to increase its policy rate by 350 bps to 6.50% over the past 16 months. Meanwhile, in the near term, domestic political events will gradually escalate in the country risk equation; indeed, the June 4th election in the state of Mexico has become a market-sensitive issue linked to the July 2018 presidential elections.

COLOMBIA — The Colombian economy remains in a process of gradual economic recovery. Real GDP is estimated to grow by 2% this year and accelerate to 3% in 2018 (increasingly supported by a more benign global economic environment). The combined effect of terms of trade gains and stronger external demand will help the export sector reverse a weakening phase (total external sales declined by 13% in 2016). The Colombian peso (COP) will retain a modest depreciation bias in nominal terms through the remainder of the year. The COP will be influenced by the direction of crude oil prices, the trade-weighted value of the US dollar (USD) versus its major peer and the relative-value positioning of Colombian debt assets vis-à-vis other emerging-market peers. The fiscal reform approved by congress, with temporary effects in the pace of economic recovery, has also been positively received by market participants and credit agencies. The monetary authorities have steadily advanced in guiding the disinflation process. In fact, 12-month consumer prices declined to 4.7% y/y in March (from a peak of 9% y/y in July 2016). The central bank surprised market participants by reducing the administered policy rate by 50 bps to 6.5% at the end of April. The electoral cycle will be the dominant issue shaping the domestic political environment in the next 12 months. Congressional elections, scheduled for March 2018, will be followed by presidential elections two months later.

CHILE — The Chilean peso (CLP) received a positive impulse from improving terms of trade and persistently benign external financial market conditions. A sharp reduction in global risk aversion in the context of recovering copper prices and slight USD depreciation, contributed to stabilize exchange rate market conditions in Chile. Looking ahead, the direction of copper prices, policy shifts to be adopted by the US Federal Reserve, financial market conditions in China and the degree of global risk appetite will remain the core factors shaping the value of the CLP. The inflation outlook has materially improved. The stabilization of the nominal exchange rate in the context of relatively subdued economic activity remains a primary driver of such disinflation dynamics. Indeed, consumer price inflation reclined from 4.8% y/y (Jan-2016) to 2.7% y/y (Mar-2017) in line with the inflation target of 2% ± 1%. Monetary policy conditions remain in expansionary territory; indeed, the central bank opted to reduce its administered interest rate by 25 bps to 2.75% in mid-April, a third decline since Jan-2017. We do not rule out the likelihood of a further rate cut before the end of the year. Chile remains in active campaign mode ahead of the presidential elections later in the year. The first round is scheduled for November 19th,2017. The trade-intensive Chilean economy will be strongly affected by sharp swings in global trade activity in general and by China's economic developments in particular.

PERU — The Peruvian sol (PEN) enjoys remarkable exchange rate stability following a sharp appreciation phase materialized in the latter part of 2016. A more favourable external market environment coupled with improved terms of trade (following recovery in metal prices) contributed to sustain trade surpluses with positive effects on the value of the Sol. In fact, the central bank increased its activity by accumulating foreign exchange reserves to avoid ill-conceived currency appreciation. Over the past three months, the PEN/USD rate has averaged 3.35, trading roughly between 3.25 and 3.50. Economic conditions in Peru have recently deteriorated as a result of the unforeseen damage caused by the El Niño Southern Oscillation (ENSO) weather event. It is estimated that the economic impact of the ENSO shock may reduce GDP growth by 1% this year, to be somewhat compensated by the fiscal injection linked to reconstruction efforts. The combined effect of persistent delays in the execution of approved public sector investment project and the ENSO shock will likely reduce the GDP growth rate to 2.5% this year while the fiscal imbalance will close at 3.2% of GDP. Irrespective of the adverse economic situation, the global perception of Peruvian sovereign credit risk (as expressed in credit default swaps and sovereign debt premia) remains as robust as ever. Low public sector debt ratios, vast foreign exchange reserves (30% of GDP) and a sizable stabilization fund are all credit-supporting factors.

Developing Economies
Currency Outlook

Erika Cain, 1.416.866.4205
Scotiabank Economics
erika.cain@scotiabank.com

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

SOUTH KOREA — As South Korea was kept on US currency monitoring list, the Bank of Korea will refrain from resisting the appreciation in the KRW if the USD weakens broadly. The KRW will remain susceptible to geopolitical tensions, while benefiting from ample external liquidity and improved global demand. In addition, US President Donald Trump threatens US-South Korea FTA termination, which could weigh on the KRW. USDKRW is expected to advance modestly between May and June FOMC meeting, trading in a range of in 1,110-1,160 in May.

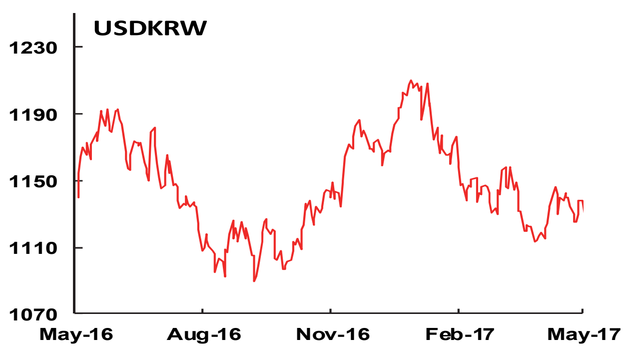
THAILAND — The Bank of Thailand has cut its new weekly issuance of three-month and six-month bills by THB 10bn each in April to dampen excess capital inflows and curb currency speculation. The THB will continue to follow a broader market tone with a buffer provided by the nation's soaring current account surplus. Thai finance ministry on 27 April predicted USDTHB will average 35.50 this year, down from an earlier forecast of 35.75. The pair is expected to trade in a range of 34.2-35.4 in May.

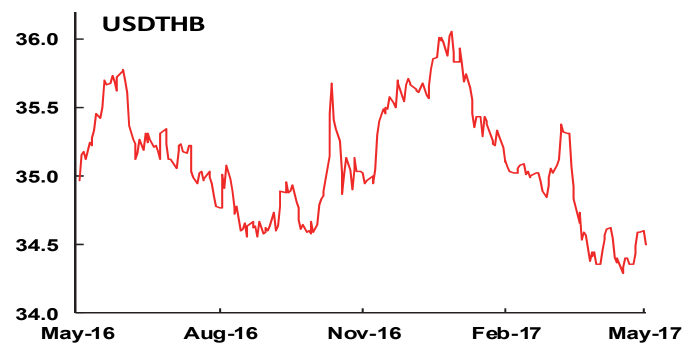
TAIWAN — Large equity inflows have boosted the TWD year-to-date, although cross-strait relations remain in a cold situation. In addition, material current account surplus merited Taiwan to stay on US currency monitoring list. As the DXY Index typically advances in May followed by a retreatment in June, USDTWD is anticipated to rally modestly and trade between 30.0 and 31.0 in the month. We stay with our short TWDINR cross position for a higher carry return.

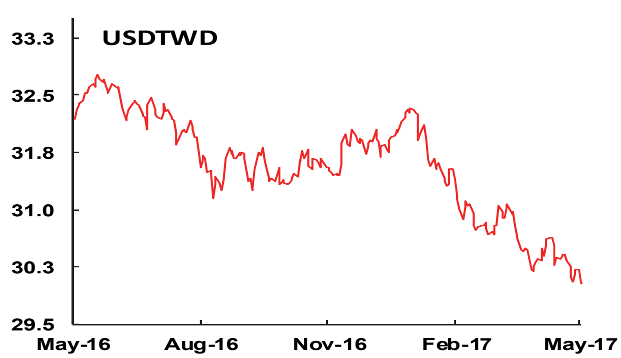
TURKEY — Despite ongoing politic risks, the TRY has rallied to its highest level against the US dollar this year thanks to the Central Bank of the Republic of Turkey's (CBRT) surprise decision to tighten monetary policy by raising its liquidity lending rate. The TRY has received further support from the CBRT's promise to keep monetary policy tight until consumer prices inflation and inflation expectations improve. We expect USDTRY to end 2017 at 3.80

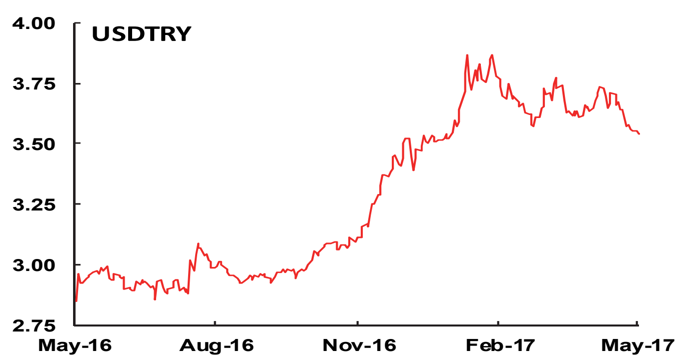
Currency Trends

FX Rate	Spot 2-May	17Q1a	17Q2f	17Q3f	17Q4f	18Q1f	18Q2f	18Q3f	18Q4f
USDKRW	1131	1118	1160	1160	1200	1180	1170	1170	1160
USDTHB	34.5	34.4	35.2	35.2	36.0	35.8	35.4	35.4	35.0
USDTWD	30.0	30.3	31.0	31.4	32.4	32.0	31.8	31.8	31.6
USDTRY	3.54	3.64	3.70	2.73	3.80	3.82	3.85	3.87	3.90









Developing Economies

Fundamental Commentary

Erika Cain, 1.416.866.4205
Scotiabank Economics
erika.cain@scotiabank.com

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

SOUTH KOREA — Politics and geopolitics will keep South Korea at the centre of investor attention globally. In addition to the ongoing concerns regarding developments north of the border, South Korea will hold presidential elections on May 9. Following the April 13 monetary policy meeting, the Bank of Korea (BoK) left the benchmark interest rate unchanged at 1.25%. The BoK appeared somewhat more optimistic about the economy's growth outlook, pointing at improving exports and investment activity. Nevertheless, it highlighted that consumption remains low. We do not expect any changes to the monetary policy stance over the coming months on the back of contained core inflation and elevated geopolitical risks. The next policy meeting is scheduled for May 25. South Korea's headline inflation decelerated to 1.9% y/y in April from 2.2% y/y. Core inflations remained contained at 1.3% y/y in April. We expect the headline inflation rate to pick-up in the third quarter of 2017 due to base effects, yet the rate will likely return toward the BoK's 2% inflation target by year-end. South Korea's real GDP grew by 2.7% y/y in the first quarter following a 2.4% gain in the final quarter of 2016. Activity was driven by domestic demand with growth in investment being particularly strong. Meanwhile, the external sector was a drag on growth due to imports increasing faster than exports. We expect the nation's real GDP to advance by 2.7% y/y in 2017–18.

THAILAND — The Bank of Thailand's (BoT) monetary policy stance is set to remain accommodative for an extended period of time. The BoT's benchmark interest rate has remained unchanged at 1.50% since April 2015; we expect the policy rate to remain at the current level until the second quarter of 2018 when a cautious monetary tightening cycle will likely commence. Following the most recent monetary policy meeting on March 29th, the BoT's policymakers assessed that Thailand's economic growth outlook has improved on the back of the export sector's recovery. Indeed, business sentiment is recuperating; the purchasing managers' index for the manufacturing sector has remained in expansionary territory over the past four months. Simultaneously, tourism and public infrastructure outlays remain key engines of output growth. On the back of strengthening momentum, the BoT upgraded Thailand's 2017 real GDP growth forecast to 3.4% from the prior projection of 3.2%. We remain somewhat more cautious and expect the country's output to advance by 3.2% this year. Inflationary pressures remain muted with prices at the headline level rising by 0.4% y/y in April, below the BoT's medium-term inflation target of 2.5% y/y ±1.5%-point. Nevertheless, we expect inflation to accelerate gradually over the course of 2017, reaching 1⅓% y/y by the end of the year. The BoT forecasts headline inflation to average 1.2% y/y and 1.9% y/y in 2017 and 2018, respectively.

TAIWAN — The Taiwanese economy has had a solid start to the year; according to preliminary estimates, real GDP expanded by 2.6% y/y in the first quarter of 2017. While momentum eased slightly from the fourth quarter gain of 2.9% y/y, the current pace of growth marks a significant improvement from the 2016 average expansion of 1.5%. Taiwanese exports have been recovering over the past six months and increasing new orders point to further improvements ahead. Industrial output continues to increase, which is reflected in strong business sentiment in the manufacturing sector. Meanwhile, low unemployment (3.8% in March) will continue to support household spending. Taiwan's monetary conditions are set to remain accommodative over the coming quarters; following its quarterly monetary policy meeting on March 23rd, the Taiwanese central bank left the benchmark interest rate unchanged at 1.375%. We do not expect any changes to Taiwan's monetary conditions over the coming months. The consumer price index rose by 0.2% y/y in March compared with a -0.1% y/y reading in February (the dip to negative territory reflected the changing timing of the Lunar New Year). We expect prices to rise gradually over the coming months with the headline inflation rate approaching 1.0% y/y by the end of the year.

TURKEY — President Recep Tayyip Erdoğan's constitutional reform, which basically abolish the prime minister's post and hand sweeping executive powers to the president, was voted through in the April 16th referendum by slim majority of 51½% in favour. This effectively grants the president with major executive and legislative powers after the next general election in 2019. However, the 'Yes' campaign's narrow victory illustrates Turkey's deeply divided electorate and elevated skepticism over the merits of an executive presidency. The contested results and post-referendum rhetoric suggests that the much needed easing of populist and nationalist sentiment is unlikely to abate anytime soon. Meanwhile, this will likely pose challenges to the implementation of the government's structural reform agenda, which in turn, is expected to limit the much needed boost to Turkey's lackluster growth prospects and business environment. In late April, the governor of the Central Bank of the Republic of Turkey (CBRT), Murat Cetinkaya, indicated that the bank "will continue to use all available instruments in pursuit of the price stability objective. Factors affecting the inflation outlook will be closely monitored and, if needed, further monetary tightening will be delivered". Indeed, the CBRT has tightened monetary policy three times this year in order to tame the sharp acceleration in Turkish inflation, which has surged to 11.3% y/y in March – more than double the 5% target. Policymakers have raised their inflation forecast to 8.5% in 2017, from a prior estimate of 8%, and 6.4% in 2018 from 6%, respectively.

Global Currency Forecast (end of period)

		2017f	2018f	2017f				2018f			
Major Currencies				Q1a	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	117	122	111	115	117	117	121	121	122	122
Euro zone	EURUSD	1.10	1.15	1.07	1.02	1.05	1.10	1.12	1.12	1.15	1.15
	EURJPY	129	140	119	117	123	129	136	136	140	140
UK	GBPUSD	1.25	1.35	1.26	1.20	1.25	1.25	1.30	1.30	1.35	1.35
	EURGBP	0.88	0.85	0.85	0.85	0.84	0.88	0.86	0.86	0.85	0.85
Switzerland	USDCHF	1.02	0.98	1.00	1.09	1.07	1.02	1.00	1.00	0.97	0.98
	EURCHF	1.12	1.13	1.07	1.11	1.12	1.12	1.12	1.12	1.12	1.13
Americas											
Canada	USDCAD	1.36	1.30	1.33	1.40	1.38	1.36	1.36	1.34	1.32	1.30
	CADUSD	0.74	0.77	0.75	0.71	0.72	0.74	0.74	0.75	0.76	0.77
Mexico	USDMXN	20.39	20.79	18.72	19.27	19.86	20.39	20.60	20.45	20.51	20.79
	CADMXN	14.99	15.99	14.06	13.76	14.39	14.99	15.15	15.26	15.54	15.99
Brazil	USDBRL	3.35	3.45	3.12	3.25	3.30	3.35	3.45	3.45	3.50	3.45
Chile	USDCLP	658	647	660	649	653	658	655	652	649	647
Colombia	USDCOP	3100	3125	2874	3100	3125	3100	3125	3150	3100	3125
Peru	USDPEN	3.25	3.20	3.25	3.27	3.26	3.25	3.26	3.22	3.23	3.20
Uruguay	USDUYU	31.0	33.5	28.6	29.0	30.0	31.0	31.5	32.0	33.0	33.5
Asia-Pacific											
Australia	AUDUSD	0.75	0.78	0.76	0.76	0.75	0.75	0.75	0.75	0.78	0.78
China	USDCNY	7.10	6.95	6.89	6.90	7.00	7.10	7.05	7.00	7.00	6.95
Hong Kong	USDHKD	7.77	7.76	7.77	7.77	7.77	7.77	7.76	7.76	7.76	7.76
India	USDINR	68.0	66.5	64.9	66.0	67.0	68.0	67.5	67.0	67.0	66.5
Indonesia	USDIDR	13600	13300	13322	13500	13500	13600	13500	13400	13400	13300
Malaysia	USDMYR	4.48	4.40	4.43	4.40	4.46	4.48	4.46	4.42	4.42	4.40
New Zealand	NZDUSD	0.70	0.73	0.70	0.71	0.70	0.70	0.70	0.70	0.73	0.73
Philippines	USDPHP	51.0	49.5	50.2	50.5	50.5	51.0	50.5	50.0	50.0	49.5
Singapore	USDSGD	1.44	1.40	1.40	1.42	1.42	1.44	1.42	1.41	1.41	1.40
South Korea	USDKRW	1200	1160	1118	1160	1160	1200	1180	1170	1170	1160
Taiwan	USDTWD	32.4	31.6	30.3	31.0	31.4	32.4	32.0	31.8	31.8	31.6
Thailand	USDTHB	36.0	35.0	34.4	35.2	35.2	36.0	35.8	35.4	35.4	35.0
Europe / Africa											
Czech Rep.	EURCZK	26.8	27.6	27.0	26.0	26.3	26.8	27.2	27.2	27.9	27.6
Hungary	EURHUF	325	316	309	310	316	325	325	319	322	316
Norway	USDNOK	8.00	7.20	8.60	8.20	8.00	8.00	7.80	7.60	7.40	7.20
Poland	EURPLN	4.45	4.47	4.23	4.32	4.40	4.45	4.50	4.49	4.48	4.47
Russia	USDRUB	58.3	59.3	56.2	57.5	58.0	58.3	58.7	59.0	59.2	59.3
South Africa	USDZAR	13.90	14.40	13.41	13.51	13.71	13.90	14.03	14.15	14.28	14.40
Sweden	EURSEK	9.40	9.30	9.56	9.50	9.45	9.40	9.38	9.35	9.33	9.30
Turkey	USDTRY	3.80	3.90	3.64	3.70	3.73	3.80	3.82	3.85	3.87	3.90

f: forecast a: actual

INTERNATIONAL ECONOMICS GROUP

Pablo F.G. Bréard, Head
pablo.breard@scotiabank.com

Erika Cain
erika.cain@scotiabank.com

Tuuli McCully
tuuli.mccully@scotiabank.com

Estela Molina
estela.molina@scotiabank.com

CANADIAN & U.S. ECONOMICS

Derek Holt
derek.holt@scotiabank.com

Neil Tisdall
neil.tisdall@scotiabank.com

Adrienne Warren
adrienne.warren@scotiabank.com

FOREIGN EXCHANGE STRATEGY

Shaun Osborne
shaun.osborne@scotiabank.com

Eduardo Suárez
eduardo.suarez@scotiabank.com

Eric Theoret
eric.theoret@scotiabank.com

Qi Gao
qi.gao@scotiabank.com

Foreign Exchange Strategy