

NOT ALL CURRENCIES CAN WEAKEN

CAMILLA SUTTON | CHIEF CURRENCY STRATEGIST | 416-866-5470 | CAMILLA_SUTTON@SCOTIACAPITAL.COM

When *insight matters.*TM

DIAL IN: 905-694-9451 (local to Toronto)

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CONFERENCE CALL COMMANDS

Press 1 – Skip backward 5 seconds

Press 3 – Skip forward 5

Press 4 – Skip backward 5 minutes

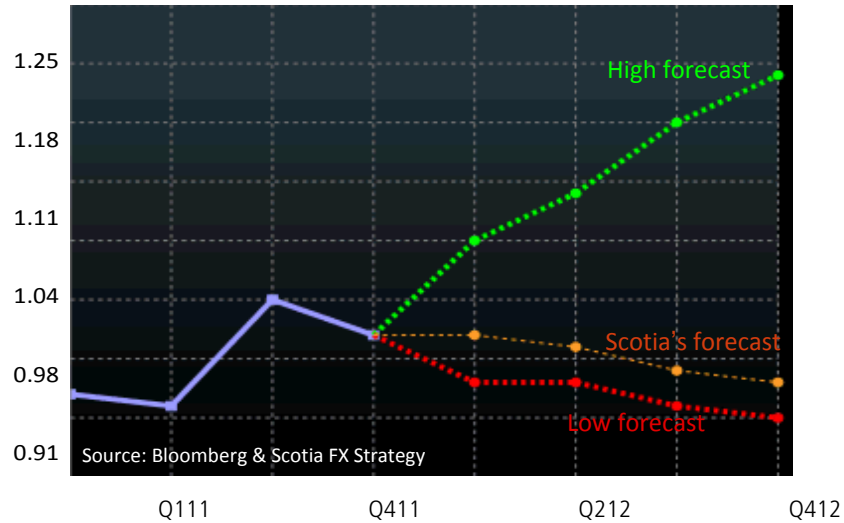
Press 6 – Skip forward 5 minutes

Press 5 – Pause the playback

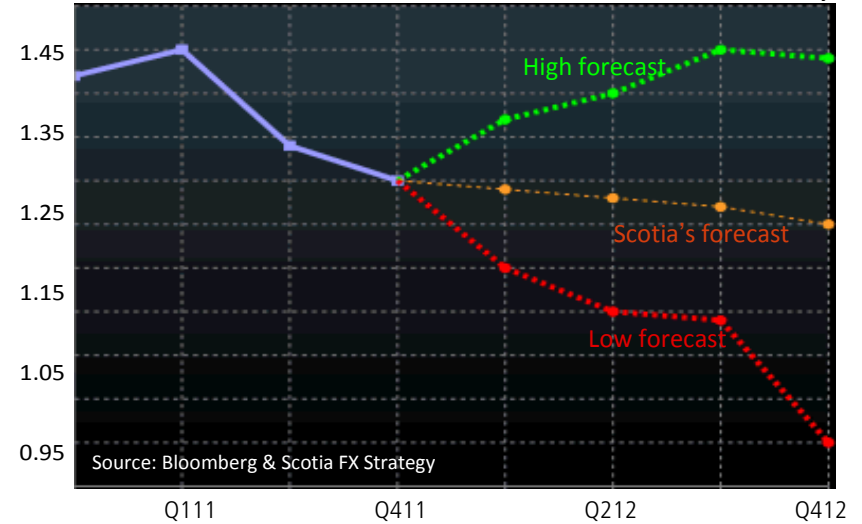
PRIVATE AND CONFIDENTIAL

FORECAST – SCOTIA VERSUS CONSENSUS HIGH AND LOW

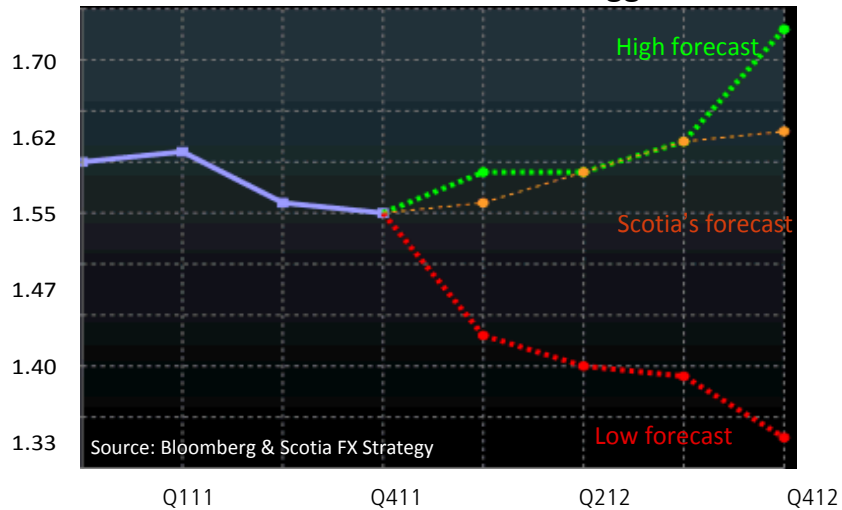
USDCAD – Scotia's forecast more aggressive



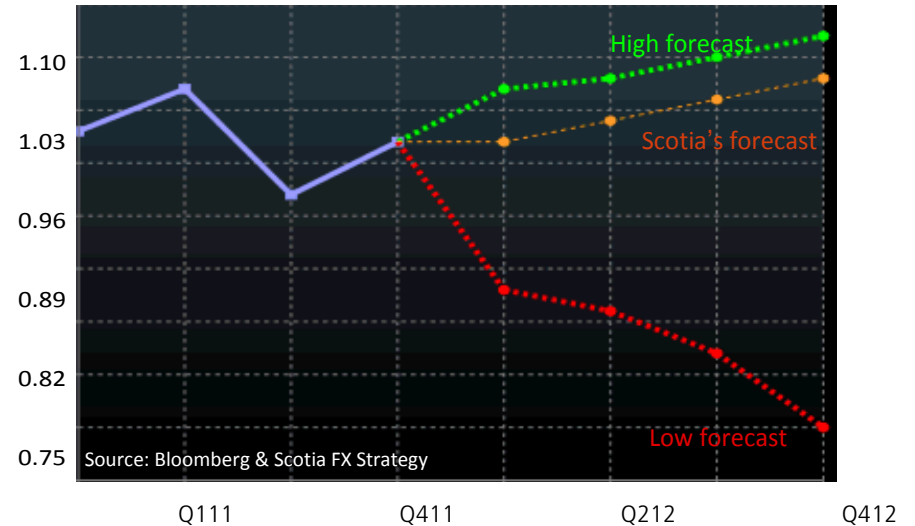
EUR – Scotia's forecast more moderate than many



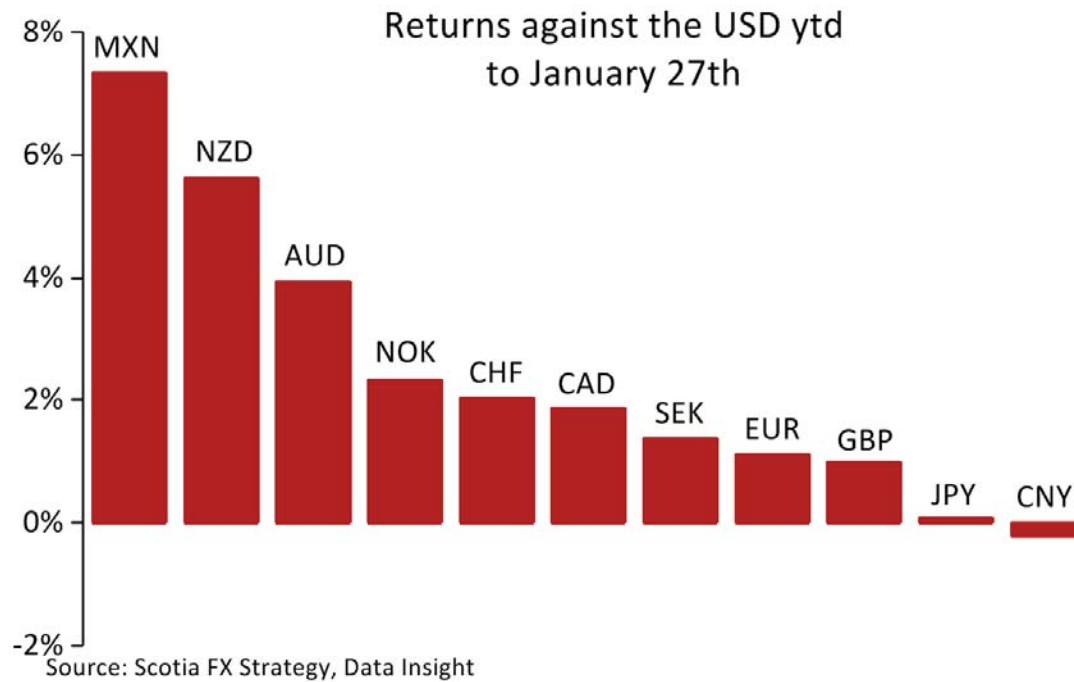
GBPUSD – Scotia's forecast more aggressive



AUDUSD – Scotia's forecast more aggressive



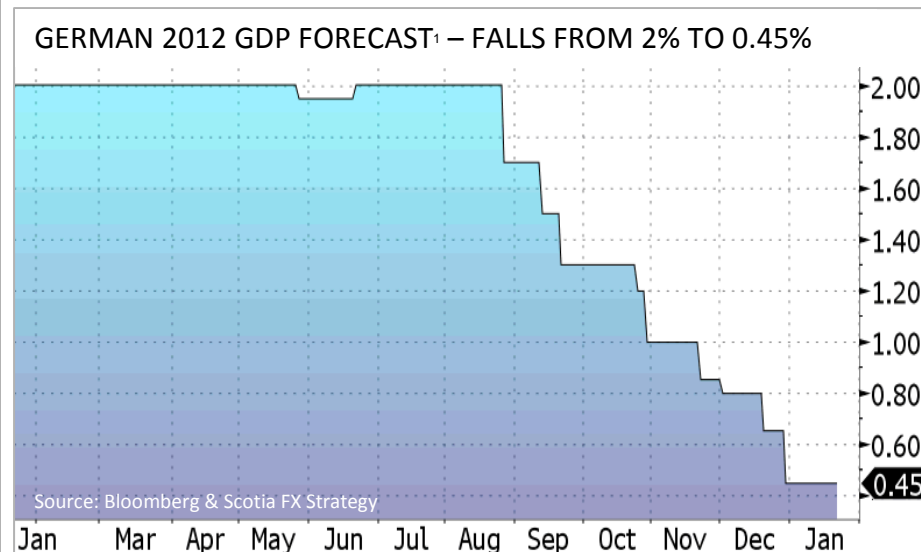
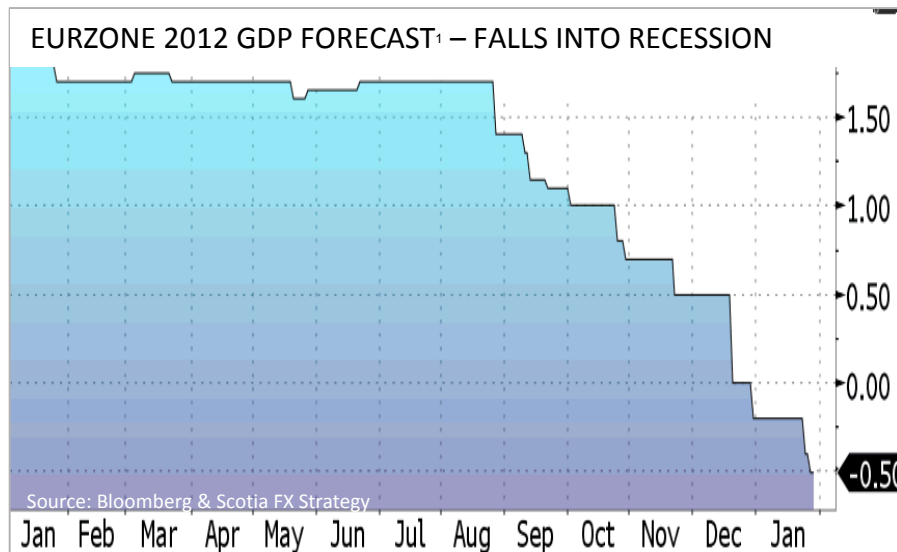
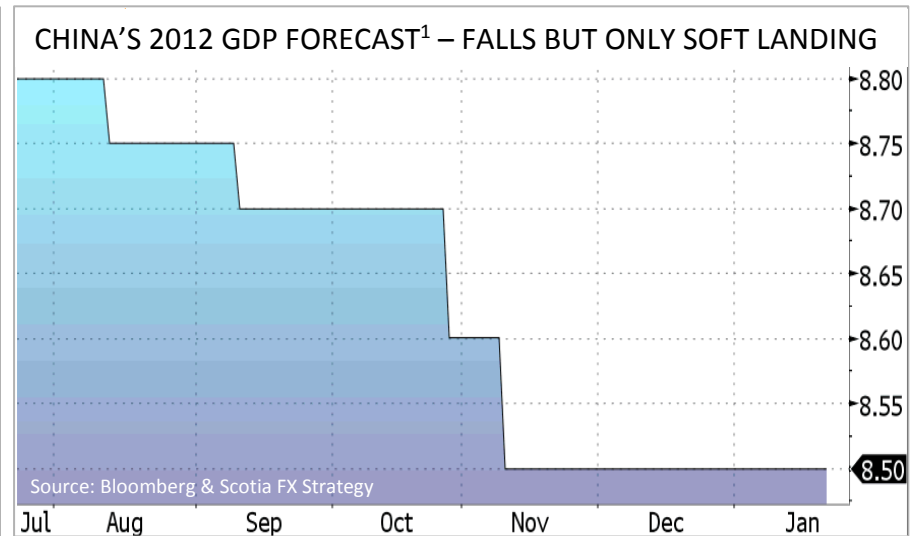
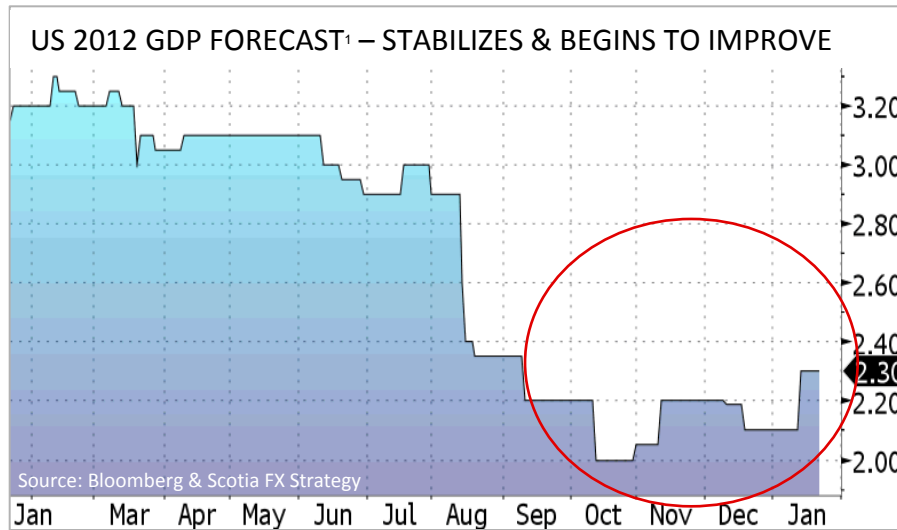
FX THEMES – HIGH BETA, LONG RISK OUTPERFORMS



Early 2012 themes:

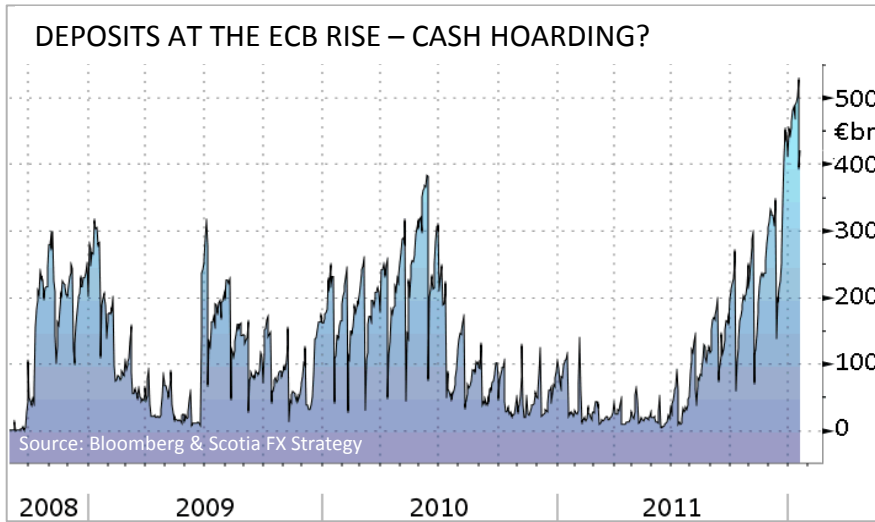
1. Risk rally
2. Policy response
3. Europe
4. Economic backdrop

WHAT HAS CHANGED SINCE DECEMBER 1st – GLOBAL GROWTH OUTLOOK

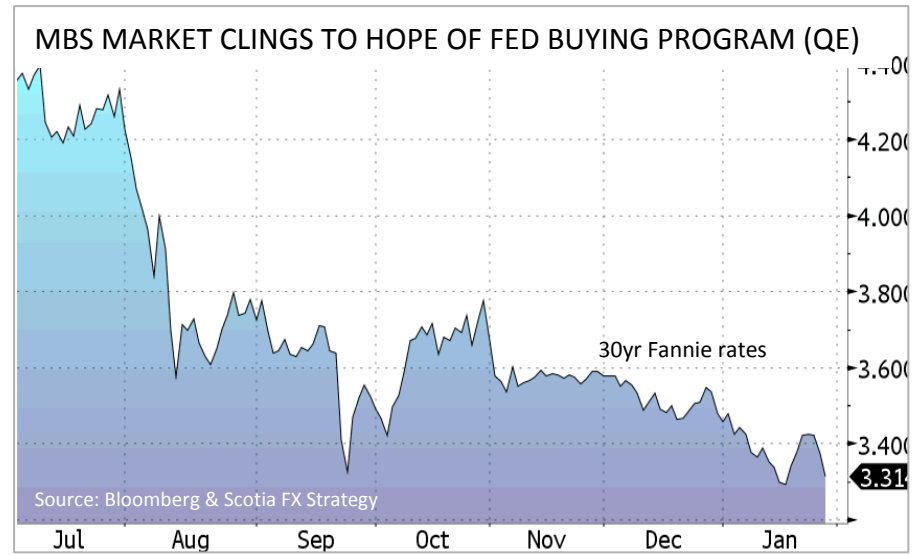
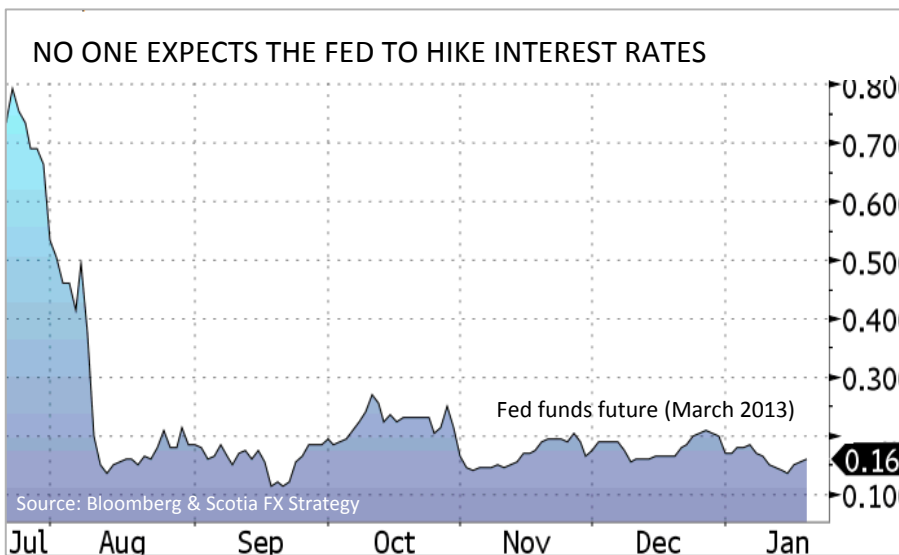
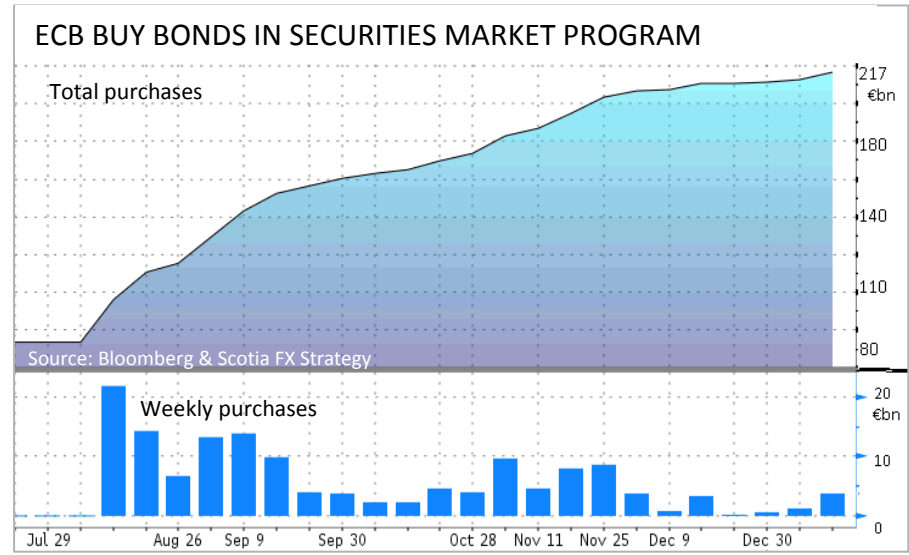


1. Forecast is consensus estimate provided by Bloomberg

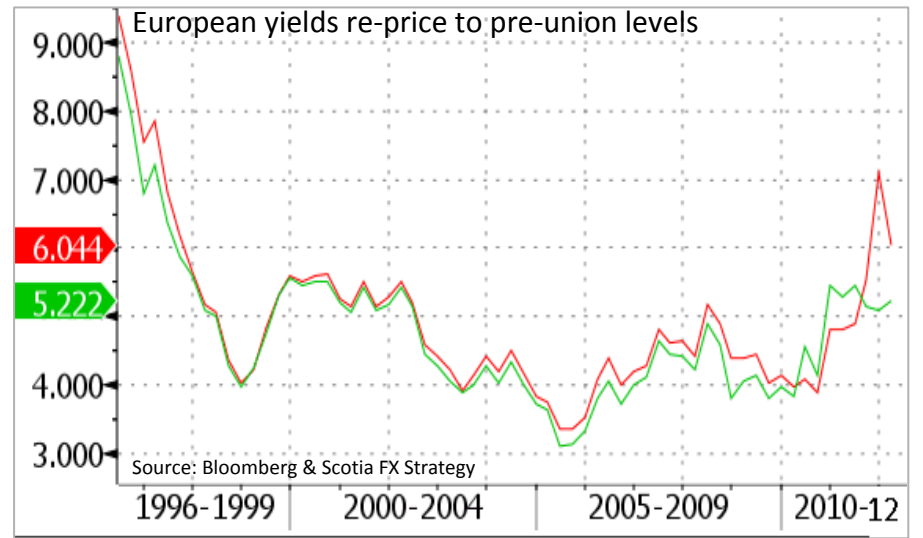
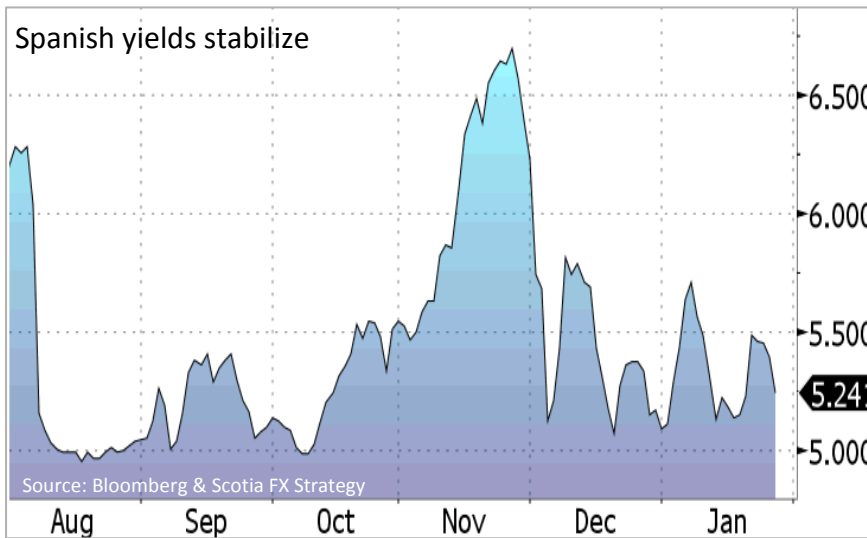
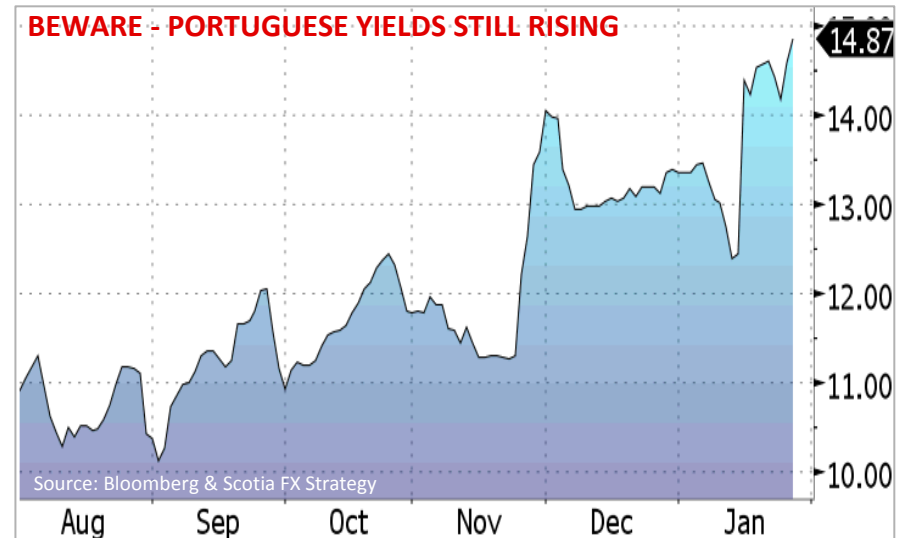
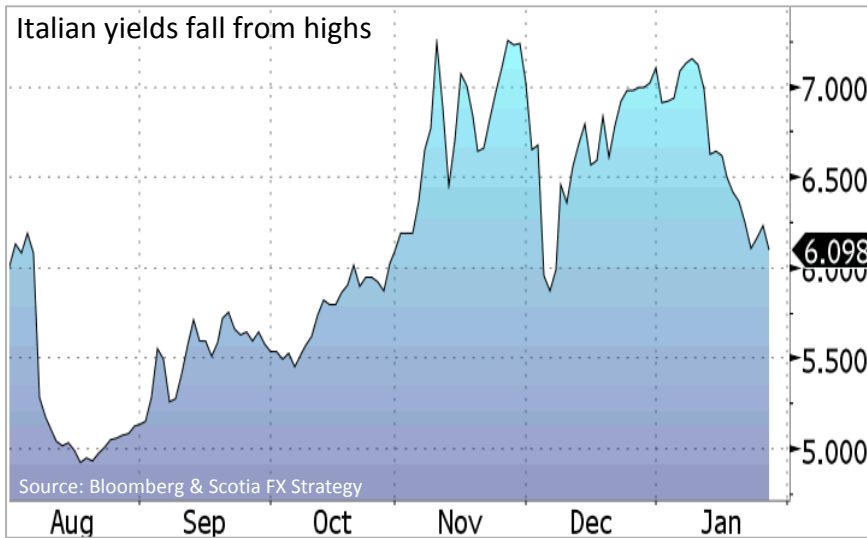
WHAT HAS CHANGED SINCE DECEMBER – CENTRAL BANK POLICY



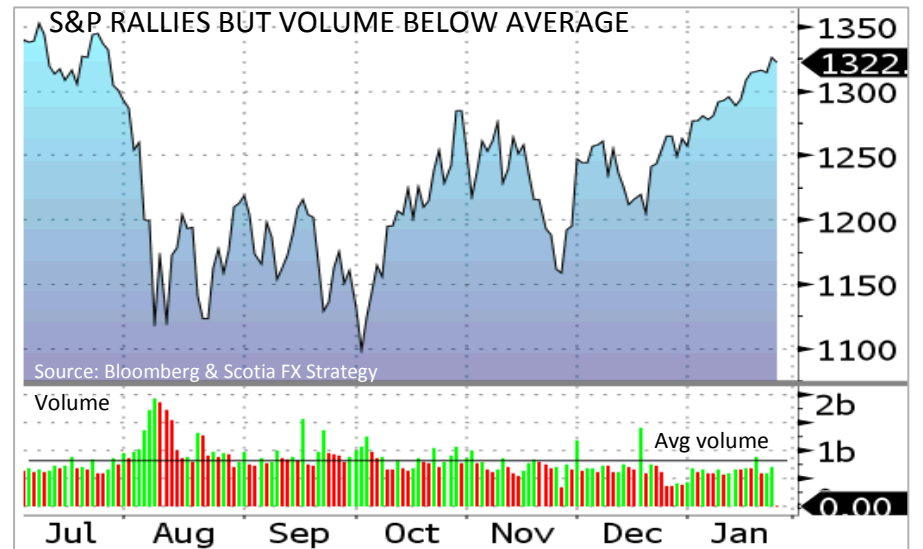
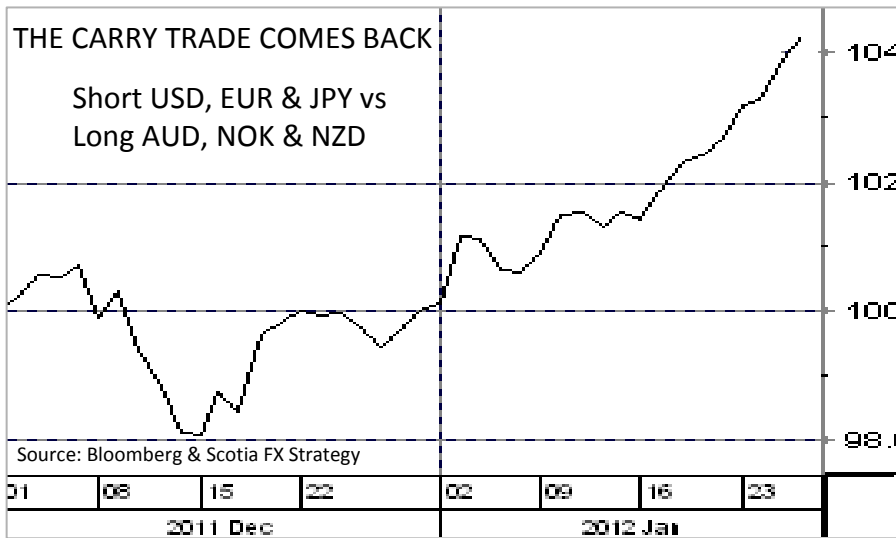
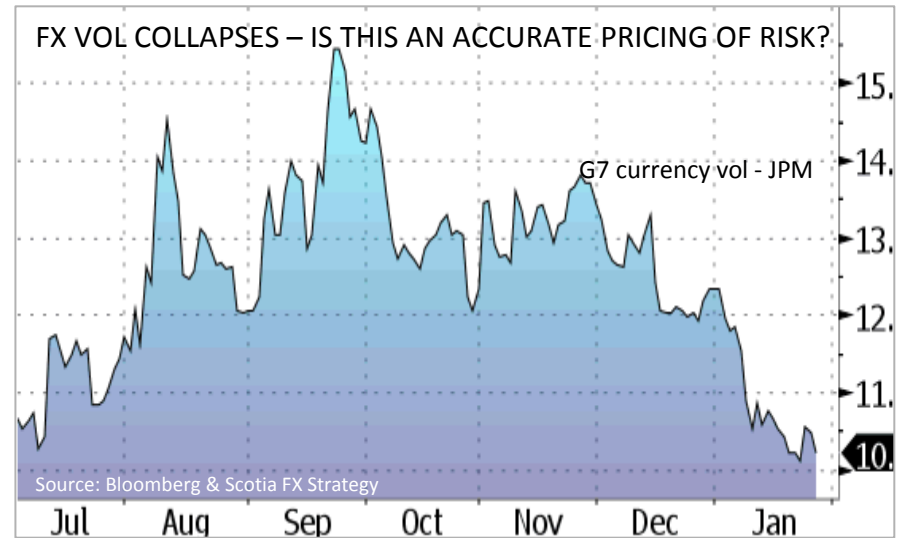
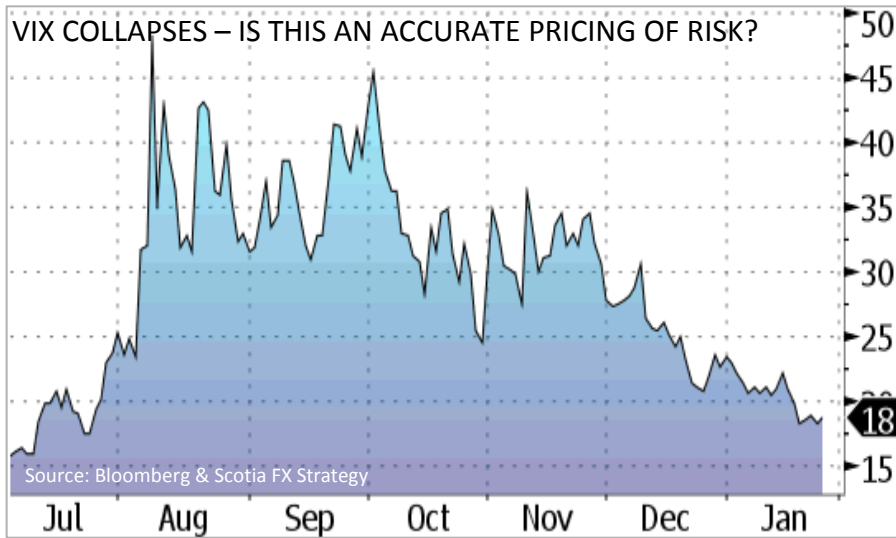
Just as the ECB announces a 3year LTRO



WHAT HAS CHANGED SINCE DECEMBER 1st – EUROPEAN BOND MARKETS



WHAT HAS CHANGED SINCE DECEMBER 1st – PRICING OF RISK & CARRY



EURUSD – THE GOOD AND THE BAD

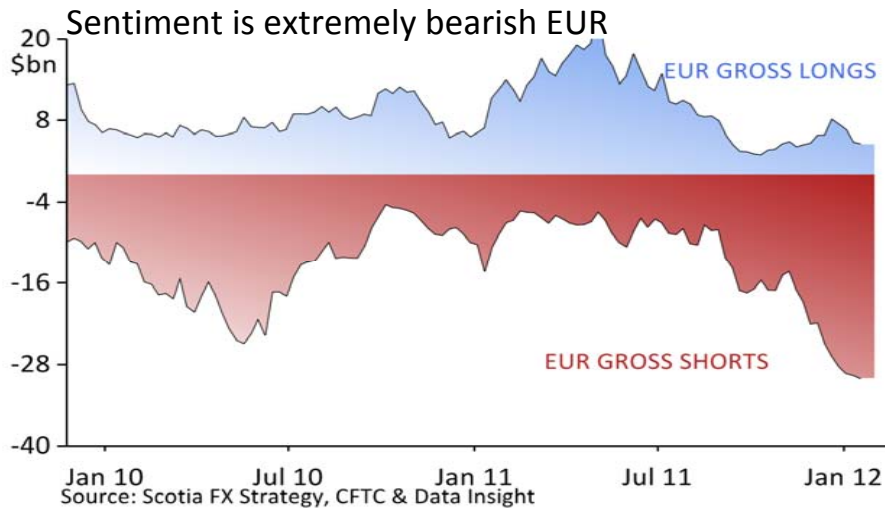


EUR trends lower in 2012, closing at 1.25

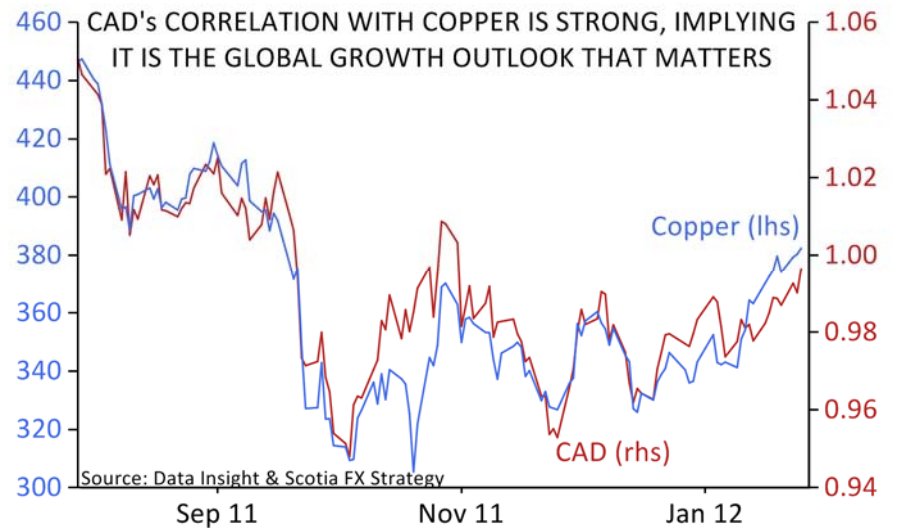
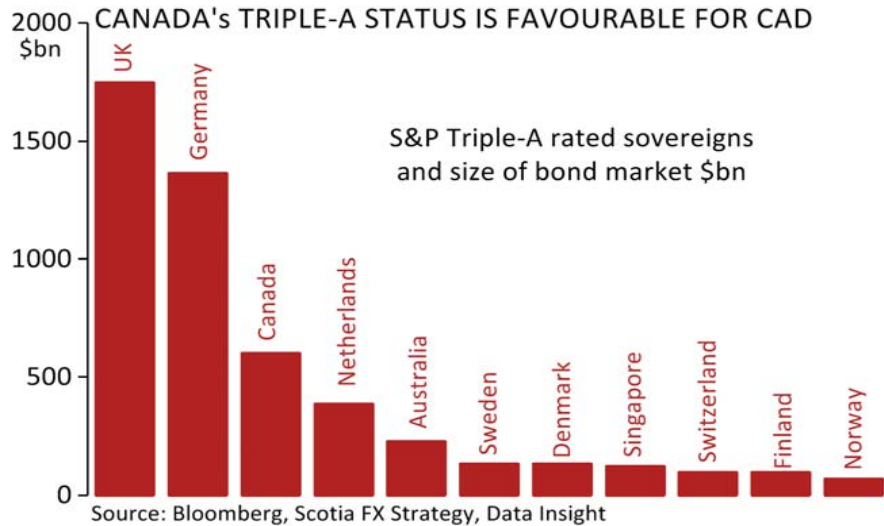
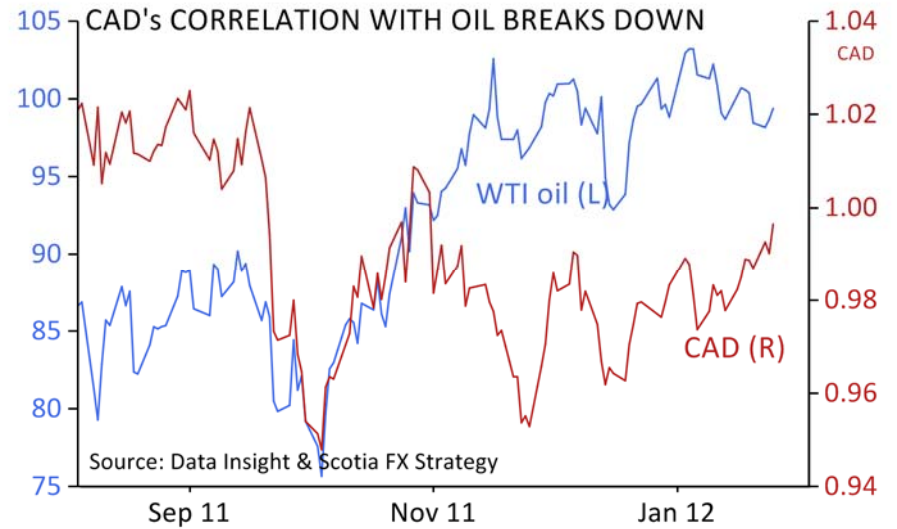
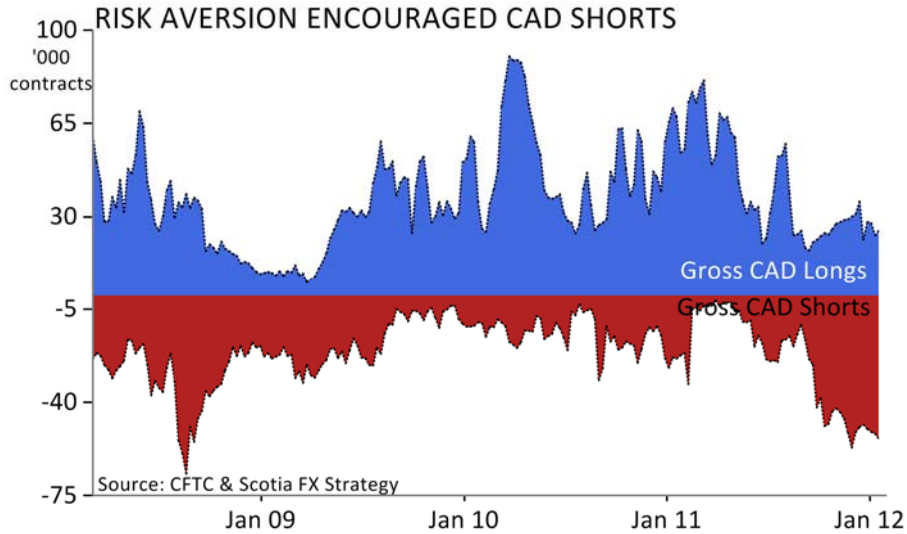
- Growth is key risk and likely bearish
- Sentiment is bearish (but extreme)
- Carry trade beginning to weigh on EUR (funding)
- Uncertainty significant negative
- Politics are a weight with no ability to agree on fiscal ties

EUR does not collapse as:

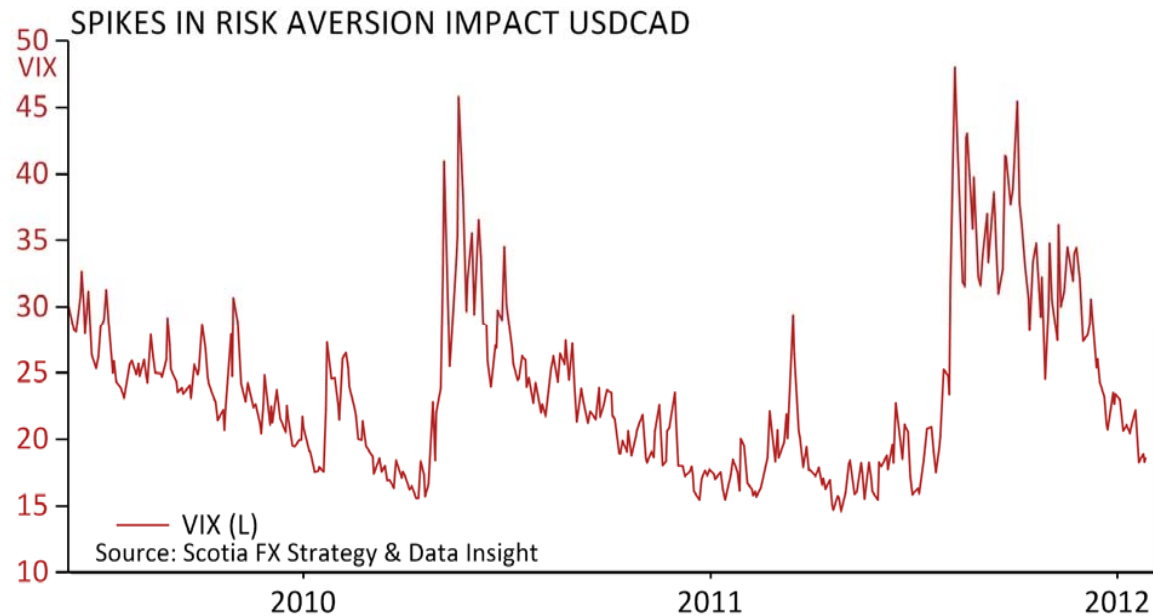
- USD cannot sustainably strengthen with weak backdrop
- ECB not moving towards QE; using LTRO has been positive
- Last minute attempts provide relief



CAD – MEDIUM TERM OUTLOOK STILL STRONG



OUTLOOK - RISKS



- 1) Risk aversion – spikes in risk aversion cause USD strength.
- 2) Escalation of European crisis.
- 3) Further downside pressure in global or US growth.
- 4) A hard landing in Asia.
- 5) Black swan – cannot forecast

SCOTIA'S GLOBAL FORECAST AND OUTLOOK

FX Outlook

	2010	2011	2012f	2013f
USDCAD	1.00	1.04	0.98	0.96
CADUSD	1.00	0.96	1.02	1.04
EURUSD	1.34	1.30	1.25	1.29
GBPUSD	1.56	1.55	1.63	1.68
AUDUSD	1.02	1.00	1.08	1.10
USDJPY	81	78	82	84

MEDIUM-TERM OUTLOOK INTO YEAR-END 2012

Bullish CAD: Benefits from weak USD, relatively strong Canadian economic and sovereign fundamentals and investor sentiment; risk is global growth outlook.

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

Neutral JPY: Benefitting JPY are spikes in risk aversion and alternatives to USD; but fundamentals (and government policy) no longer support a strong currency.

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

Bullish CNY: Authorities allow measured pace of appreciation.

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

SCOTIA FX RESEARCH SUMMARY

Written Research Provided by FX Strategy

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

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

Daily Asian Update – Published at 9:30pm (EST)

Currency Sentiment CFTC Report – Published Fridays

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

Written Research Provided Jointly with Scotia Economics

Global Views – Weekly update across asset classes

FX Monthly – Review of global currencies and forecasts

Monthly Conference Call

Twenty minute update on FX strategy with emphasis on USDCAD outlook and forecast

FX Strategy

Camilla Sutton, CFA

Chief Currency Strategist

(416)866-5470

Camilla.Sutton@scotiabank.com

Eric Theoret

Currency Strategist

(416)863-7030

Eric.theoret@scotiabank.com

Sacha Tihanyi - Asia

Senior Currency Strategist

Sacha.Tihanyi@scotiabank.com

Eduardo Suarez - LatAM

Senior Currency Strategist

Eduardo.Suarez@scotiabank.com

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