Scotiabank

GLOBAL ECONOMICS & FX STRATEGY

FOREIGN EXCHANGE OUTLOOK

December 16, 2021

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Market Tone

Monetary policy divergence is set to remain the dominant theme and driver of currency markets as we move into 2022. Tighter monetary policy is coming to North America in the not-too-distant future. Our colleagues at Scotia Economics have advanced the timing of rate lift off in Canada (to April, from July) and the US (to June, from December) versus our previous forecast. As a result, we expect US dollar (USD) gains to extend further next year against most of its G10 peers and look for the Canadian dollar (CAD) to remain strong over that time frame. If inflation is the primary concern for North American central bankers, growth remains a priority for others; this likely means a long wait for rate hikes in the Eurozone and Japan and perhaps relatively restrained rate hikes in the UK and elsewhere compared with the US and Canada.

Continued on next page...

FX Forecasts

		2020	2021f	2022f	2023f	2021f				2022f				2023f			
Major Currencies						Q1a	Q2a	Q3a	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Japan	USDJPY	103	113	118	120	111	111	111	113	113	115	116	118	118	118	120	120
Euro zone	EURUSD	1.22	1.13	1.08	1.10	1.17	1.19	1.16	1.13	1.12	1.10	1.09	1.08	1.08	1.09	1.09	1.10
	EURJPY	126	128	127	132	130	132	129	128	127	127	126	127	127	129	131	132
UK	GBPUSD	1.37	1.32	1.38	1.40	1.38	1.38	1.35	1.32	1.33	1.34	1.36	1.38	1.38	1.38	1.40	1.40
	EURGBP	0.89	0.86	0.78	0.79	0.85	0.86	0.86	0.86	0.84	0.82	0.80	0.78	0.78	0.79	0.78	0.79
Switzerland	USDCHF	0.89	0.92	0.98	0.98	0.94	0.93	0.93	0.92	0.93	0.95	0.97	0.98	0.98	0.97	0.99	0.98
	EURCHF	1.08	1.04	1.06	1.08	1.11	1.10	1.08	1.04	1.04	1.04	1.06	1.06	1.06	1.06	1.08	1.08
Americas																	
Canada	USDCAD	1.27	1.25	1.20	1.23	1.26	1.24	1.27	1.25	1.22	1.21	1.20	1.20	1.22	1.22	1.23	1.23
	CADUSD	0.79	0.80	0.83	0.81	0.80	0.81	0.79	0.80	0.82	0.83	0.83	0.83	0.82	0.82	0.81	0.81
Mexico	USDMXN	19.91	20.54	21.45	21.78	20.43	19.94	20.64	20.54	20.76	21.03	21.27	21.45	21.38	21.51	21.62	21.78
	CADMXN	15.63	16.43	17.88	17.71	16.28	16.08	16.28	16.43	17.02	17.38	17.73	17.88	17.52	17.63	17.58	17.71
Brazil	USDBRL	5.19	4.88	4.92	4.63	5.63	4.97	5.44	4.88	4.85	4.81	4.85	4.92	4.85	4.77	4.70	4.63
Chile	USDCLP	711	800	750	730	719	734	810	800	780	780	780	750	740	730	730	730
Colombia	USDCOP	3,428	3,760	3,655	3,712	3,663	3,755	3,809	3,760	3,804	3,683	3,670	3,655	3,698	3,712	3,712	3,712
Peru	USDPEN	3.62	4.15	4.25	4.25	3.74	3.87	4.13	4.15	4.15	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Argentina	USDARS	84.1	102.6	140.1	131.0	92.0	95.7	98.7	102.6	114.8	125.9	143.5	140.1	138.0	135.0	132.0	131.0
Asia-Pacific																	
Australia	AUDUSD	0.77	0.70	0.72	0.74	0.76	0.75	0.72	0.70	0.70	0.70	0.72	0.72	0.72	0.72	0.74	0.74
China	USDCNY	6.53	6.40	6.30	6.10	6.55	6.46	6.44	6.40	6.30	6.40	6.50	6.30	6.20	6.20	6.10	6.10
Hong Kong	USDHKD	7.75	7.77	7.76	7.75	7.77	7.77	7.79	7.77	7.76	7.77	7.78	7.76	7.75	7.75	7.75	7.75
India	USDINR	73.1	74.0	72.0	68.0	73.1	74.3	74.2	74.0	72.0	74.0	76.0	72.0	70.0	70.0	68.0	68.0
Indonesia	USDIDR	14,050	14,200	14,000	13,600	14,525	14,500	14,313	14,200	14,000	14,200	14,400	14,000	13,800	13,800	13,600	13,600
Malaysia	USDMYR	4.02	4.15	4.10	4.00	4.15	4.15	4.19	4.15	4.10	4.15	4.20	4.10	4.05	4.05	4.00	4.00
New Zealand	NZDUSD	0.72	0.68	0.71	0.70	0.70	0.70	0.69	0.68	0.70	0.70	0.71	0.71	0.71	0.71	0.70	0.70
Philippines	USDPHP	48.0	50.0	49.0	47.0	48.5	48.8	51.0	50.0	49.0	50.0	51.0	49.0	48.0	48.0	47.0	47.0
Singapore	USDSGD	1.32	1.34	1.32	1.28	1.34	1.35	1.36	1.34	1.32	1.34	1.36	1.32	1.30	1.30	1.28	1.28
South Korea	USDKRW	1,087	1,160	1,140	1,100	1,132	1,126	1,184	1,160	1,140	1,160	1,180	1,140	1,120	1,120	1,100	1,100
Taiwan	USDTWD	28.1	28.0	27.8	27.4	28.5	27.9	27.8	28.0	27.8	28.0	28.2	27.8	27.6	27.6	27.4	27.4
Thailand	USDTHB	30.0	33.0	31.5	28.5	31.2	32.0	33.7	33.0	31.5	33.0	34.5	31.5	30.0	30.0	28.5	28.5

f: forecast a: actual

CAD FX Forecasts

Canadian Dollar Cross-Currency Trends

FX Rate	Spot 16-Dec	21Q1a	21Q2a	21Q3a	21Q4f	22Q1f	22Q2f	22Q3f	22Q4f
AUDCAD	0.92	0.95	0.93	0.92	0.88	0.85	0.85	0.86	0.86
CADJPY	89.0	88.1	89.6	87.8	90.4	92.6	95.0	96.7	98.3
EURCAD	1.45	1.47	1.47	1.47	1.41	1.37	1.33	1.31	1.30
USDCAD	1.28	1.26	1.24	1.27	1.25	1.22	1.21	1.20	1.20

The outlook for the USD remains broadly bullish in our opinion. Relatively strong growth momentum—even if trends are slowing from the initial recovery bounce—will be bolstered by a significant fiscal tailwind. Policy makers have indicated a desire to wind up asset purchases sooner than they had previously expected (perhaps by the spring) ahead of rate hikes which we see starting mid-year. To be sure, markets have already priced in a fair degree of Fed tightening into the curve and the USD but, unless there are clear reasons for avoiding the USD next year, we think the USD's steady rebound will extend. Beyond rate hikes, we think the USD will also benefit from the reduction in the broader USD liquidity overhang that has been a consequence of the Fed's QE process in the past. We recall that the USD performed strongly in 2014/2015 in the early stages of the Fed's last policy normalization process although this period also reflected some significant equity market volatility around the time the Fed achieved lift-off. Heightened or more persistent market volatility may be one risk that FX markets will have to reckon with as the broader central bank policy normalization process gets underway.

We remain bullish on the outlook for the CAD. Recovery momentum remains strong and the economy has made sufficient ground in terms of job gains and a rebound in total hours worked across the economy for the Bank of Canada to shift towards raising interest rates in April next year we now think, having already wrapped up their asset purchase programme. The CAD has not performed as strongly as we expected in the latter part of this year, with the sharp fall in energy prices and heightened market volatility weighing on the CAD's performance. These remain key risks for the CAD in the medium term but we expect a supportive yield backdrop—short-term Canadian rates will retain a healthy premium over US yields—and relatively firm commodity prices overall to provide a solid backstop for the CAD. Like the USD, CAD gains should be more pronounced against those currencies whose central banks will lag the policy normalization process.

In Europe and Japan, there is less—in some cases much less—urgency to adjust monetary policy settings. Among the rest of the G10 currencies, we assess some modest upside potential for the British pound (GBP), with the Bank of England poised to tighten interest rates modestly over the coming year whereas the euro (EUR) and yen (JPY) are liable to underperform as the European Central Bank and Bank of Japan are likely to keep monetary policy relatively loose in 2022 (and well beyond that, in the case of Japan). Slow growth and regional risks (the French presidential election in April, simmering tensions around Russia/Ukraine, uncertainty regarding energy supply) may act as additional headwinds for the EUR. On the plus side, some investors do see European assets as being undervalued still which may drive greater allocations to European stocks. However, data suggests a stronger propensity for investors to hedge FX risk now relative to 2020 so the EUR may not feel any significant benefit. We expect little opportunity for the JPY to strengthen on its own, fundamental merits (such as strong external accounts) in the medium term but do not exclude the risk of episodic bouts of strength in connection with periods of heightened market volatility.

We forecast some modest strengthening in the Australian (AUD) and New Zealand (NZD) dollars in the coming year; the Reserve Bank of New Zealand is expected to introduce further, modest interest rate increases over the next 12 months, having been among the first of the major central banks to raise rates. But the outlook for Reserve Bank of Australia policy is less certain. We expect the NZD to outperform the AUD next year, potentially testing parity on rate differentials and (possibly) relative terms of trade improvements. Regional growth trends, especially in China where growth has slowed in response to a range of regulatory measures introduced by the government to rein back property, technology, education etc. sectors, will also help shape the AUD and NZD performance in the coming year.

Across the rest of Asia, we anticipate near-term range trade for the yuan (CNY) as the authorities look to support the domestic economy via monetary easing and prevent sharp moves—either way—in the USDCNY exchange rate. The recovery in global trade flows will be supportive of the Korean won (KRW) and Taiwan dollar (TWD), though the latter may be susceptible to regional geo-political tensions, while the Thai baht (THB) should benefit from a rebound in tourism. Rising inflationary pressures will keep the Singapore dollar (SGD) firm, with the exchange rate lever the prime monetary policy tool for policy makers.

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December 16, 2021

Federal Reserve and Bank of Canada Monetary Policy Outlook

Federal Reserve—Still Adding Stimulus, But Soon Tightening

The Federal Reserve is pivoting toward tightening monetary policy in 2022. It will continue to add stimulus until March when its bond purchase program is expected to end. When bond purchases end, the debate over timing rate hikes takes over. See here for further takeaways from fresh Fed guidance.

Our forecast for 100 bps of fed funds hikes in 2022 is somewhat above fed funds futures pricing and the FOMC's current dot plot that has signalled three rate hikes in 2022. For 2023 we have tentatively only added one further hike to 1.5% but this is more of a sign of forecast confidence at this point into 2022 uncertainties and given our already above-consensus expectation for the coming year. We may wind up adding to 2023 hikes in subsequent forecasts. The FOMC's median projection would end 2023 below the FOMC's estimated 2.5% neutral rate. Against tightening fears, the implication is that US monetary policy may remain inappropriately too easy throughout 2022-23.

Timing the first interest rate hike of the pandemic depends upon further progress toward the Fed's full employment mandate, pandemic developments including the effects of new variants and additional evidence on inflation. At present, we forecast lift-off to commence in June 2022. A hike in March is possible but if the FOMC sticks to signalling just three hikes in 2022 then that would imply an erratic pattern with just two hikes spread over the remaining six meetings of the year.

Bank of Canada—Rate Hikes Coming Soon

The Bank of Canada's overnight rate is forecast to rise to 1.25% by the end of 2022 and 2.25% by the end of 2023 from 0.25% at present. The first rate hike is projected to occur in April 2022, but January is an underpriced risk. By the end of 2023, our forecast would put the policy rate well into the Bank of Canada's estimated 1.75–2.75% neutral rate range.

Governor Macklem has recently sounded as if he is suddenly in much more of a rush to tighten policy (see here). Macklem recently stated rather bluntly that "We are not comfortable with where we are on inflation." On rate hikes, he stated "Clearly that time is getting closer," and also noted that "slack that we did have is substantially diminished," that "there is no question that slack in the labour market has been absorbed" and "we will be watching incoming data very closely" into the January 26th decisions.

Also bear in mind that official Canadian CPI understates true CPI in no small part because it omits used vehicle prices unlike the treatment in the US and UK. You could argue the BoC would look through one source of inflation like that, but that's a slippery slope toward eliminating multiple parts of the basket!

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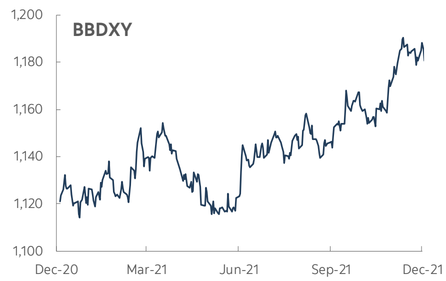
North America

USD

USD Supported by Rate Outlook **Current spot 95.96**



Source: Bloomberg.

USD—The USD is heading into year end having accumulated a gain of roughly 6% (so far) against the major currencies since January as investors price in an earlier shift away from Fed policy accommodation. Rising yields will lift the USD against those currencies—the vast majority among the majors—whose central banks will lag the North American policy normalization process. Higher yields plus a firm growth advantage as classic ingredients for USD strength. Market positioning suggests there is a fair degree of investor "buy in" to the broader USD outlook, with USD longs concentrated mainly against the low-yielding EUR and JPY now. However, positioning is far from excessive and has room to build and develop through H1 next year.

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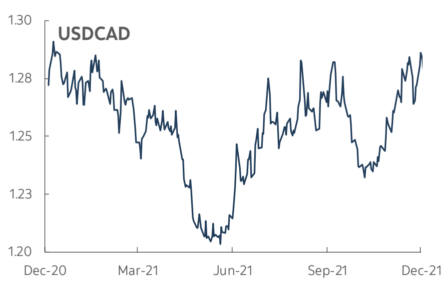
USDCAD

CAD to Recover on BoC Tightening **Current spot 1.2790**



Source: Bloomberg.

USDCAD—The CAD is ending the year on the defensive and a fair bit weaker than we had anticipated in recent months due mainly to external factors (weaker risk appetite and the decline in crude oil prices). We remain bullish on the CAD's longer run outlook. This is primarily because high, well-above target inflation along with solid growth momentum and a tighter labour market mean that rate lift off in Canada will occur ahead of the Fed, which is also expected to reach its neutral rate sooner. We forecast the overnight rate reaching 2.25% two years hence (versus the US benchmark rate reaching only 1.50% over the same period). Short-term US-Canada yield spreads will therefore remain broadly CAD-supportive over the medium to long term.

Scotia Forecasts	Q3-21	1.27	Q4-21	1.25	Q1-22	1.22	Q2-22	1.21

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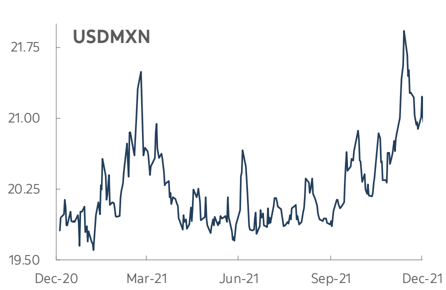
USDMXN

MXN Outlook Balanced **Current spot 20.96**



Source: Bloomberg.

USDMXN—The Mexican peso (MXN) has been a mid-tier performer since the start of November (-1.7% vs the USD), weighed down by a much less supportive trade balance, a more hawkish Fed, and concerns over the proposed power sector reform. However, remittances look set to top USD 55 bn in 2021 (and remain strong into year-end), and tourism is likely to continue to recover as 2022 kicks in. Our house view is closely aligned with levels implied with the FX swaps market, with a forecast at end-2021 of 21.32 and at end-2022 of 22.34 (vs FX swaps implied levels of 21.30 and 22.7 respectively).

Scotia Forecasts	Q3-21	20.64	Q4-21	20.54	Q1-22	20.76	Q2-22	21.03

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Major Currencies

EURUSD

EUR Forecast Downgraded — **Current spot 1.1328**

Source: Bloomberg.

EURUSD—We've revised our EUR forecast lower across our projection horizon as the ECB is now expected to lag the Fed's tightening cycle even further. The Fed's first hike is now penciled in for Q2 2022 while we do not expect the ECB to tighten before late-2023. The ECB is also expected to enhance its APP once the PEPP expires in March. As the Fed begins to hike and reduce the size of its balance sheet, the ECB will still be carrying out a large amount of weekly bond purchases to keep Eurozone yields depressed. The latest wave of contagions in the Eurozone and related restrictions as well as continuously elevated energy prices are set to depress the bloc's economy through early-2022, widening the EUR's economic disadvantage to the USD.

Scotia Forecasts	**Q3-21**	1.16	**Q4-21**	1.13	**Q1-22**	1.12	**Q2-22**	1.10

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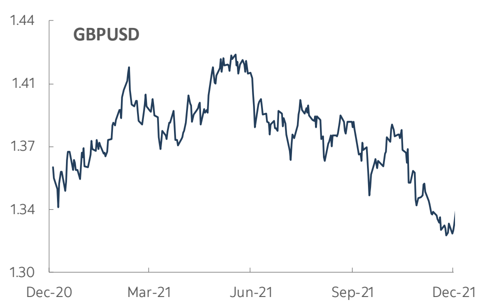
GBPUSD

GBP Weighed by Delayed BoE Hike — **Current spot 1.3338**



Source: Bloomberg.

GBPUSD—The BoE's disappointing hold in early-November triggered steady GBP losses to a cross of 1.32. After hawkish comments from Bailey and other BoE officials in October, markets were expecting the bank rate to close 2021 near 0.50% (about 40 bps in hikes) while pricing in close to a 0.75% rate in February. Now, after a cooling of forward guidance by Bailey and amid the risks posed by Omicron, the BoE will likely wait until February for a first 15 bps hike. We had expected year-end hikes and a decent head start on the Fed to support the GBP toward a possible re-test of 1.40 in the short-run. However, after the delay in BoE hikes (also likely limited to 90 bps in total) and an earlier Fed hike, our forecast now suggests the GBP will struggle to reach that point.

Scotia Forecasts	**Q3-21**	1.35	**Q4-21**	1.32	**Q1-22**	1.33	**Q2-22**	1.34

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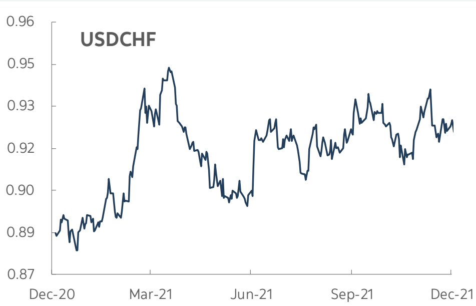
USDCHF

SNB Ready to Curb CHF Strength Versus EUR — **Current spot 0.9213**



Source: Bloomberg.

USDCHF—Hawkish Fed momentum and easing Omicron fears have weakened the CHF from a six-year-plus high against the EUR in recent trading. Given the Swissie's broad-based strength, inflation in Switzerland has been significantly more modest (1.5% in Nov) than in most G10 countries and the SNB is set to keep ultra-accommodative policies for longer—to support price gains and prevent further CHF strength. However, mon-pol disparities will mainly weigh on the CHF against the USD and not against the EUR given the ECB's similarly dovish stance. Markets are pricing in ~ 50 bps in SNB hikes by end-2023 versus ~25 bps from the ECB. The SNB has not materially intervened in markets but we think it stands at the ready as the EUR and CHF near parity.

Scotia Forecasts	**Q3-21**	0.93	**Q4-21**	0.92	**Q1-22**	0.93	**Q2-22**	0.95

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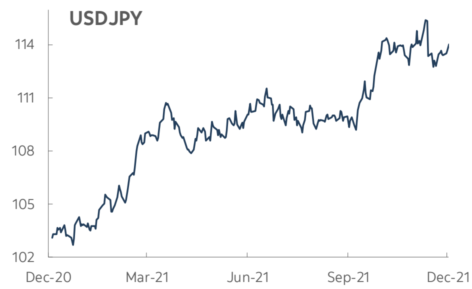
Major Currencies Continued...

USDJPY

BoJ/Fed Policy Divergence Pressures JPY Outlook **Current spot 113.74**



Source: Bloomberg.

USDJPY—Risk-off sentiment over rising Covid contagions globally that depressed US yields and increased haven demand prevented a continued weakening in the JPY past 115. We expect JPY losses to resume soon on the stark BoJ/Fed divergence as the Fed accelerates its tapering pace and hikes next year while the BoJ is not expected to materially alter policy before 2024. We now forecast USDJPY reaching 118 in late 2022. The BoJ may soon reduce some asset purchases and possibly tweak its policy from emergency settings but its stance will remain extremely dovish in the years ahead with inflation not expected to reach the 2% target any time soon. An improvement in Japan's terms of trade in upcoming quarters should offset mon-pol related weakness.

Scotia Forecasts	Q3-21	111	Q4-21	113	Q1-22	113	Q2-22	115

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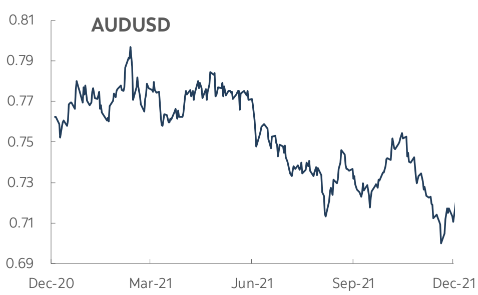
AUDUSD

Chinese Growth, RBA Policy Suggest Limited AUD Upside **Current spot 0.7198**



Source: Bloomberg.

AUDUSD—In November, the AUD saw its steepest monthly loss since the March 2020 pandemic shock amid domestic lockdowns, global virus anxiety, Chinese economic worries, and a broadly stronger dollar. The AUD has rebounded from a minor and short-lived break under 0.70 as sentiment normalises and markets accumulate bets on RBA hikes in 2022. Given solid wages and inflation prints, we have brought forward our forecast for the first RBA hike by two quarters to Q1-23. Since we have also revised our Fed hikes outlook by two quarters, this results in only marginal revisions to our AUD forecast. We think the AUD will struggle to improve in the months ahead amid depressed activity in China and overextended RBA hike expectations in markets (75 bps in 2022).

Scotia Forecasts	Q3-21	0.72	Q4-21	0.70	Q1-22	0.70	Q2-22	0.70

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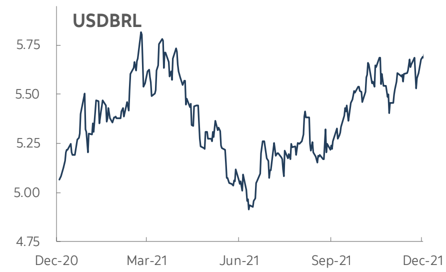
Latin America

USDBRL

BRL Steadies on Aggressive Policy Tightening **Current spot 5.7119**



Source: Bloomberg.

USDBRL—BRL has stabilized since the start of November, being the 4th most resilient currency out of the 31 most liquid vs the US dollar (-0.1%). An increasingly hawkish BCB has propped up the BRL, despite lingering uncertainty on the fiscal front. With presidential elections coming in 2022 (October 2 & 30), we expect politics will play an important role in driving price action. Election results will be key for fiscal adjustments and dynamics. It's still too early to have a read on election outcomes, but with both front-runners (Lula & Bolsonaro) being know quantities, both upside and downside looks somewhat curtailed.

Scotia Forecasts	Q3-21	5.44	Q4-21	4.88	Q1-22	4.85	Q2-22	4.81

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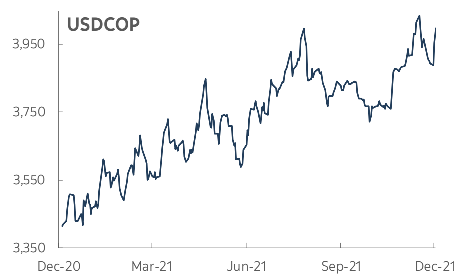
USDCOP

External Factors, Risk Appetite Pressure COP **Current spot 3,996.82**



Source: Bloomberg.

USDCOP—The COP continues to be affected by external volatility due to rising global inflation and a deceleration in economic activity that has triggered risk aversion, weakening the COP. Additionally, regional geopolitical tensions and lower liquidity due to seasonal effects are further increasing volatility and weakening the COP. Although we still see government monetization easing some pressure off the COP to a minor appreciation into 2022, higher international risk aversion should keep COP under pressure under an abnormally wide trading band between USDCOP 3,760 and 4,050.

Scotia Forecasts	Q3-21	3,809	Q4-21	3,760	Q1-22	3,804	Q2-22	3,683

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USDCLP

CLP Underperforms on Local Politics **Current spot 851.11**

Source: Bloomberg.

USDCLP—The CLP has been the worst performing Latam currency since the first round of presidential elections. Political uncertainty continues to be main driver of the CLP, which has depreciated around 5% over the last month; with a 3% drop in copper prices and a generally stronger dollar also weighing. The short-term evolution of the CLP will depend on who the next president is. The CLP's recent multilateral depreciation reflects a scenario where Boric is more likely to lead the country. The moderation of Boric and Kast's economic programs as well as a split Congress points to increased volatility after the Dec 19 runoff election, but we expect additional limited depreciation if Boric wins. In the case of Kast, we would observe a significant appreciation of the CLP.

Scotia Forecasts	Q3-21	810	Q4-21	800	Q1-22	780	Q2-22	780

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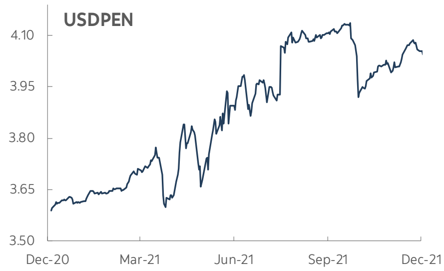
Latin America Continued...

USDPEN

Moderate Weakness Ahead for the PEN **Current spot 4.0431**



Source: Bloomberg.

USDPEN—The PEN's weakening has been less pronounced, as we had expected. Persistent political uncertainty makes a directional change unlikely, but the BCRP's intervention will limit sharp movements to the upside in the cross. We see technical support between 4.02 and 4.05, in a context a broadly stronger dollar. Demand for dollars has softened as expectations have adjusted but it could find a new driver through increasing inflationary concerns. The supply of dollars comes from foreign investors, mining companies and BCRP activity. External fundamentals remain positive thanks to the trade surplus, favourable terms of trade, and a high level of FX reserves. We maintain our expectation that PEN weakening will be less pronounced than in the past.

Scotia Forecasts	Q3-21	4.13	Q4-21	4.15	Q1-22	4.15	Q2-22	4.20

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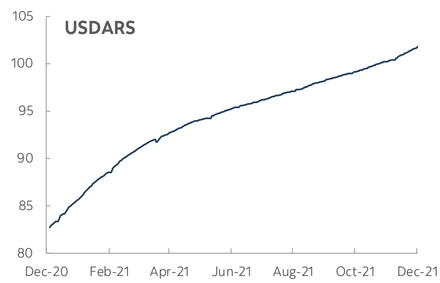
USDARS

ARS Depreciation Expected to Extend **Current spot 101.89**



Source: Bloomberg.

USDARS—The official peso continues to depreciate consistently in line with our expectations and looks set to hit nearly USDARS 103 by end-2021. Although our forecasts assume that agreement on a new IMF-supported arrangement is reached early in 2022 on the back of a refreshed policy framework from Pres. Fernandez, the country's macroeconomic fundamentals are not expected to begin turning around until the second half of next year. Higher benchmark policy rates from the BCRA and a gradual cutback in public spending should help bring headline inflation down from around 51% y/y at end-2021 to about 36% y/y by end-2022, but also cut growth from a forecast 7.6% y/y in 2021 to just 1.8% y/y in 2022.

Scotia Forecasts	Q3-21	98.7	Q4-21	102.6	Q1-22	114.8	Q2-22	125.9

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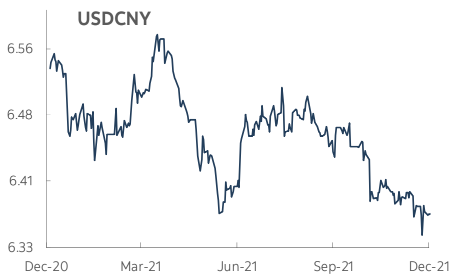
Asia

USDCNY

CNY to Hold in Narrow Range **Current spot 6.3683**



Source: Bloomberg.

USDCNY—China's top leadership wrapped up the three-day Central Economic Work Conference on December 10, pledging to keep the economic activity within a reasonable range and maintain social stability. In addition, the PBoC is expected to roll out more monetary easing measures after delivering a 50 bps RRR cut that is set to release about CNY 1.2 tn of long-term funds into the system with effect from December 15. USDCNH will likely trade between 6.35 and 6.40 in the near term but retain some downside potential. Meanwhile, China's central bank will keep setting the USDCNY fix with an upward bias, or use other tools, if it feels speculative pressure on the yuan is too one-sided.

Scotia Forecasts	Q3-21	6.44	Q4-21	6.40	Q1-22	6.30	Q2-22	6.40

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USDINR

INR Weighed by Steady Local Policy **Current spot 76.09**

Source: Bloomberg.

USDINR—The RBI held its policy rate steady at 4.00% on December 8 amid concerns over the fallout of the new Omicron variant of coronavirus, while stressing that it would retain its accommodative policy stance for as long as necessary to boost growth. India's CPI inflation increased to 4.91% y/y in November from 4.48% the month before, softer than market expectations. Faster tapering and earlier rate hikes by the Fed could prevent foreign investors from chasing the rupee-denominated assets aggressively in the near term. Meanwhile, resilient oil prices keep weighing on the INR. USDINR will likely advance further towards 76 going forward, with the 77 level remaining a key resistance.

Scotia Forecasts	Q3-21	74.2	Q4-21	74.0	Q1-22	72.0	Q2-22	74.0

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USDKRW

Improving Trade, Rate Outlook Supports KRW **Current spot 1,183.88**

Source: Bloomberg.

USDKRW—South Korea's export-driven economy will keep expanding amid an improving global trade outlook in 2022, with overseas shipments rising 20.4% y/y in the first 10 days of December. The nation's CPI inflation accelerated to 3.7% y/y in November from 3.2% a month, indicating more BoK tightening will be needed next year. Historical trends suggest the KRW tends to advance in the month of December if the market is not worried about the Fed's monetary tightening. Nearer month end, USDKRW is likely to slide towards 1,160 after consolidating around the 1,180 level.

Scotia Forecasts	Q3-21	1,184	Q4-21	1,160	Q1-22	1,140	Q2-22	1,160

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Asia Continued...

USDTHB

Improving Current Account Trend Supports THB **Current spot 33.41**

Source: Bloomberg.

USDTHB—BoT Governor Sethaput Suthiwartnarueput said on December 13 that the Omicron variant is unlikely to impact estimated tourist arrivals next year, easing worries—to some extent—that the revival in the tourism industry could be derailed. The reopening will further improve Thailand's external balance and prop up the THB, with current account balance likely to swing back into a surplus in early 2022. As we know, the nation's current account deficit narrowed further to USD 1.06 bn in October from USD 1.28 bn in September, compared to a market estimate of a shortfall of USD 1.70 bn. USDTHB is likely to slide towards the 32.5 level in the weeks ahead.

Scotia Forecasts	Q3-21	33.7	Q4-21	33.0	Q1-22	31.5	Q2-22	33.0

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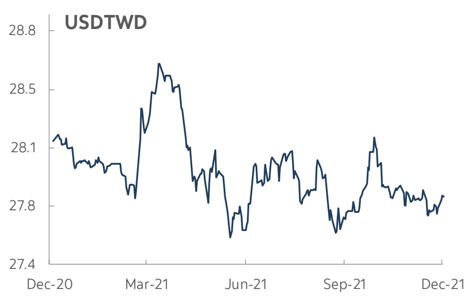
USDTWD

Solid Export Trends Help Steady TWD **Current spot 27.80**



Source: Bloomberg.

USDTWD—Taiwan's exports and export orders continue their double-digit growth on improving global demand, providing a fundamental support to the TWD. The so-called metaverse boom will likely sustain robust demand for semiconductor products. The island's CPI inflation increased to 2.84% y/y in November and will remain elevated in December due to base effects. However, the CBC is in no hurry to raise the benchmark interest rate before the Fed starts to deliver its first rate hike next year. USDTWD will likely fluctuate around the 27.8 level for now, but retain a downside bias. In the medium to long term, intensifying cross-strait tensions will weigh on the currency.

Scotia Forecasts	Q3-21	27.8	Q4-21	28.0	Q1-22	27.8	Q2-22	28.0

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USDSGD

Firm SGD to Help Curb Inflation Pressure **Current spot 1.3643**

Source: Bloomberg.

USDSGD—The MAS said in its quarterly survey of professional forecasters released December 8 that Singapore's core inflation is seen rising to 1.8% next year from the September estimate of 1.3% and 0.9% this year. Another rise in the S$NEER slope, therefore, is likely to be delivered next April by the city-state's monetary authority that manages the exchange rate as its main monetary tool. Meanwhile, the SGD will find support from further CNH advances in response to China's fresh stimulus measures, considering a tight correlation between two currencies. USDSGD will likely consolidate between 1.36 and 1.38 before trading lower as risk sentiment improves across the markets.

Scotia Forecasts	Q3-21	1.36	Q4-21	1.34	Q1-22	1.32	Q2-22	1.34

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FOREIGN EXCHANGE STRATEGY

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