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Global Views

Weekly commentary on economic and financial market developments

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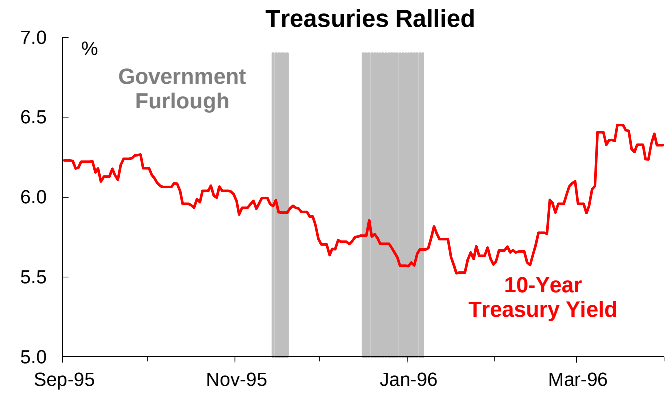
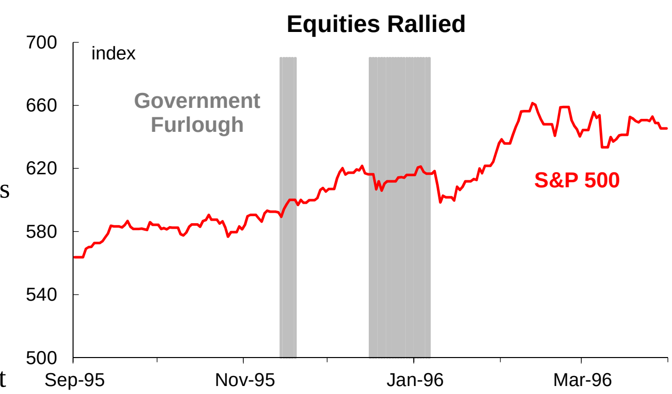
Central Bank Decisions & Sequester Reactions In The Spotlight

- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A9.**

Will **US** markets move to heightened alarm in anticipation of a government shutdown and rising fiscal policy risks now that it appears evident that — at least temporarily — the $85 billion in sequester cuts are being triggered? That's not clear to us. The three accompanying charts show what happened to markets when the Clinton-era partial government shutdown occurred in late 1995-96. Treasuries gently rallied, but not by much and the room for rallying off higher yields was much greater than today. Equities and equity volatility shook it off. Today's sequester cuts will shave around a half percentage point off of US GDP between now and September if they are not replaced with an alternative agreement at some point. Developments on Friday were not constructive in the sense that the GOP is sticking to its hard line on no revenue increases while the White House prefers a mixture of tax increases and spending cuts. Whether the market response this time will be greater than it was during the Clinton shutdown is not clear. So far, a fairly muted market response would be consistent with the '95-'96 experience particularly upon considering how difficult it is to disentangle the effects of simultaneous developments such as softening in China's economy, and disappointing Eurozone growth and political developments. Then again, today's debt burden is greater, a budget has not been passed in years, the US economy's backdrop is very different than in the mid-1990s, the GOP is more splintered today, and President Obama is striking a less collaborative tone than President Clinton did at the time.



Source: Bloomberg, Scotiabank Economics.



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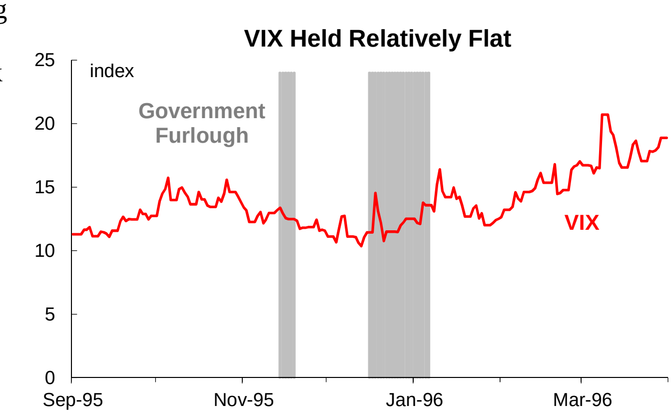

Source: Bloomberg, Scotiabank Economics.

Second to evaluating fiscal policy risks will be elevated US data risk for a second week. Consensus expects a still-muted pace of growth in nonfarm payrolls around the 160k mark, and a similar increase in ADP private payrolls. Factory orders will follow headline durable goods lower due to the steep drop in aircraft orders that masked other aspects of underlying strength. The US trade deficit is expected to widen and reverse much of the prior month's improvement, but the ISM-services reading is expected to continue to point to resilience. On Thursday, the Federal Reserve releases Dodd-Frank stress test results of the largest banks under baseline, adverse and severely adverse scenarios. The day before, the Fed releases its Beige Book of regional anecdotes. Fed speak also returns as markets may start off the week digesting Chairman Bernanke's Friday evening remarks on long-term yields that may be pertinent to the Treasury market. Vice Chairman Janet Yellen will discuss "A View From The Fed" and will take audience questions, but we expect her to back-up Bernanke's dovish semi-annual testimony to Congress this past week.

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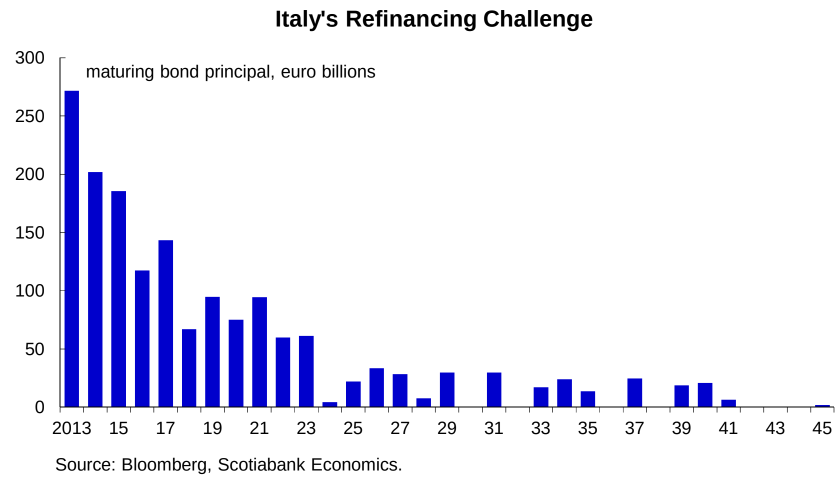
Three nonvoting hawks will also take to the podium next week (Fisher, Plosser and Lacker) and they will probably remind markets that the relatively hawkish-sounding comments in the recent FOMC minutes were coming from them.

European markets will be principally focused upon policy announcements by the ECB and BoE on Thursday. Only three out of fifty-seven within the Bloomberg consensus expect a rate cut to result from the ECB's policy announcement and ensuing press conference. Odds of a policy move are greater for the Bank of England. While a fair majority expect no change, eleven out of thirty-nine forecasters expect the BoE to increase its asset purchase target. Of that eleven, nine expect a £25 billion increase, one expects £50 billion and a third is forecasting an increase of £75 billion. Governor King was already in the relative minority of voices calling for greater stimulus at the February 7th policy meeting, and it's possible he will have more supporters in the wake of recent data. European data risk will be relatively moderate in nature. The potentially most significant releases will be German factory orders and industrial production toward the end of the week and consensus is expecting constructive readings for both. Service sector PMIs across Europe will be watched, particularly for the UK in the wake of the shift toward renewed contraction in the manufacturing sector and in advance of the BoE announcement later in the week. EC add-ups for retail sales and GDP, and French trade round out the releases. Auction risk returns again in the form of auctions in the UK, Germany, Spain and France. Following inconclusive elections, Italy will return to the market again the week after and the country faces sizeable financing requirements over the remainder of the year (see chart). Finally, EU finance ministers meet on Monday to discuss bailing out Cyprus, Greece, Spain, Ireland, and ESM bank recapitalization.



Canadian markets will face plenty of domestic action as the BoC issues a rate statement and key data lands. The BoC is expected to leave its 1% overnight target unchanged, but there is scope for another incremental step toward a more dovish stance. It's possible that the BoC further waters down its loosely hawkish rate guidance, but it is already so vague and markets are already looking straight through it. We do not expect the BoC to remove its guidance entirely, and for the most part, this BoC statement should be about buying time between Monetary Policy Reports with the next one due out on April 17th. If the BoC is contemplating further significant shifts in its view, it is likely to wait until at least that point at which it can present its full story and forecast details in Governor Carney's last MPR at the helm of the BoC. In the meantime, we'll be looking for a softening to references on how "growth in China is improving", acknowledgement of increased US fiscal policy risks as sequester cuts are being triggered in advance of the end-of-month expiration of the continuing resolution, and a reference to greater risks through political and economic instability in Europe partly due to soft data and partly in the wake of the inconclusive Italian elections. The BoC may flag how 2012Q4 GDP growth was better in the details than the headline print suggested, but the trade-off here is the possibility of flagging weakness in higher frequency readings such as housing starts, retail sales, jobs, and monthly GDP. Next week's releases for housing starts, trade and jobs will be further instructive in this manner as markets evaluate whether recent weakness in all three readings was overstated against the trend or signaled a sudden weakening in economy-wide growth prospects. Finally, our employer rounds out bank earnings reports with FY2013Q1 earnings on Monday.

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Central banks will be at the forefront in **Asia**, with the BoJ, Bank Indonesia, Bank Negara Malaysia, and the RBA all due to make interest rate decisions in the week ahead. The BoJ statement will be Gov. Shirakawa's swan song, as BoJ Governor-designate Kuroda is due to be in charge prior to the April 4 decision, so no new policies are expected from the BoJ (and indeed consensus expects all four central banks to remain on hold). The RBA, however, could easily espouse a more dovish tone in its statement, particularly as economic data including home loans, motor vehicle sales, and private sector capex reflected weakness lately. Australian retail sales (Mon.) and trade (Tues.) for January, and Q4 2012 GDP (Wed.) will obviously have a role to play here too.

We'll also get an update on the pace of economic growth in China as export data for February are due out on Friday morning along with CPI numbers to follow at 8:30pmET on the 8th. The key question here is whether or not strong domestic credit growth in H2 2012 is fueling the export-oriented trade economy. It may be somewhat hard to tell, alas, as the Lunar New Year celebrations make it difficult to compare January/February numbers to the previous year's. We suggest lumping together January through March numbers to smooth out some aspects of the seasonality, but still err on the side of the debate that says China is likely exhibiting cooler growth than just a few months ago as it tightens housing finance policies, the central bank tightens market liquidity, and the country's trade account has not finished adjusted to ongoing appreciation in the real effective exchange rate. China's services PMI will come out on Saturday ahead of the week's trading, while South Korea will put out inflation data ahead of the Monday open. Philippines CPI and GDP numbers will land on Monday.

Latam markets will be focused upon policy meetings of central banks in Brazil, Mexico and Peru that are not expected to yield any changes in key reference rates.

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Later Expectations

Expect Slow Global Growth Now ...

Output gains remain sub-par throughout much of the world. The performance reflects the restraint imposed by fiscal consolidation, household deleveraging and cautious business spending in most advanced nations, still sluggish global trade, as well as the structural adjustments required to boost competitiveness internationally. The U.S., China and a handful of nations in the Asia-Pacific and Latin America regions are rebuilding gradual momentum, although a stronger and broader global recovery should become more apparent later this year and through 2014.

The euro zone remains in the grip of its austerity-led recession, though in some of the hardest-hit peripheral countries progress is being made on budgets and labour competitiveness. Nevertheless, progress towards rebooting growth is hindered by exceptionally high unemployment throughout the southern peripheral nations, in addition to evolving political issues surrounding elections, as well as economic adjustment and debt management policies. While Germany's export- and manufacturing-sensitive economy is expected to gear up alongside the revival in activity in the emerging market economies and the U.S., the recent strengthening trend in the euro will create additional drag. France faces a year of increasing fiscal restraint and corporate restructuring that will undercut growth. The U.K. economy continues to languish in response to reduced cross-Channel trade and ongoing budgetary restraint, despite moderate job gains and some resumption in industrial activity. Nevertheless, developing regional economies such as Poland and the Czech Republic are performing better.

The Japanese economy has stagnated again, weighed down by the recent softening in global trade that has been exacerbated by increasing political friction with China, and a fall-off in reconstruction-related activity. However, the new government has introduced more stimulative fiscal measures and advocated a more accommodative monetary policy in support of stronger growth and an end to deflation. The sharply weaker yen of the past half year will help revive export earnings and output growth, as reflected in the buoyancy of Japan's equity markets.

The North American economies are posting moderate growth, though the pace of activity around the turn of the year has been weak and uneven. In the U.S., increased taxes and additional spending restraint, alongside rising gasoline pump prices, are reinforcing consumer and business spending caution. These factors have partially offset the positive momentum generated by the upturn in housing activity, the revival in manufacturing and oil & gas output, and the improving trend in job creation. Rising capital goods orders point to improving industrial activity, notwithstanding the dampening in shipments caused by the temporary production delays in the aerospace sector. The competitiveness of U.S. industry is being boosted by comparatively low wage costs, solid productivity gains, and a U.S. dollar still supportive of expanded exports.

Canadian growth has continued to slow, with output gains now consistently below U.S. trends. The persistent softening in export volumes, as well as the fall-off in earnings largely attributable to the deep oil price discount on Western Canadian Select heavy oil, are dragging on growth with imports still running at a faster rate. Moreover, domestic spending has also decelerated alongside the softening in house sales and residential construction, ongoing public sector restraint, and reduced consumer purchases as households increasingly focus on lowering their high debt levels. Expectations for a renewed strengthening in U.S. growth later this year and next should continue to buoy manufacturing and export prospects, particularly for lumber, minerals, energy, petrochemical and transportation-related products. Export earnings will get a slight boost from the Canadian dollar which is now trading slightly below parity with the U.S. currency. Nonetheless, Canadian output growth will likely lag developments in the U.S. by about half a percentage point both this year and next.

In contrast, Mexico remains a relative outperformer because of its expanding trade, both to its NAFTA partners, and increasing ties with the faster growing economies in Latin America. The country continues to build upon its competitive strengths — sizeable and highly efficient manufacturing investments, lower labour and other production costs, and geographic proximity to the U.S. — to bolster shipments and exports. Economic reforms, particularly on the tax and energy fronts, under the new government should help support this advantage, as will expanded upgrades to its oil-generating capabilities over the medium term.

Chile, Peru and Colombia are posting solid economic gains, bolstered by expanded activity and investments in the mining and energy sectors. Brazil continues to underperform, with consumer and business spending remaining modest, though rising infrastructure investments in advance of the World Cup and the Olympics will provide a much-needed lift to growth going forward.

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China's economy is also generating increased momentum, with rising domestic spending — reflecting the focus of the country's new leadership — leading the way. Households are increasing expenditures on consumer products, in addition to autos and homes, with incomes supported by rising wage gains. Purchasing managers report that industrial and service output continue to advance, bolstered by a strengthening in building activity and renewed trade-related gains. Chinese equity and currency markets imply a renewed sense of optimism by investors over medium-term prospects.

Thailand's output has revved up on the back of expanded motor vehicle production to meet growing export orders, while South Korea continues to benefit from its expanding, albeit slower paced exports of auto and technology products. India's growth profile is stuck in comparatively low gear, bogged down by an inadequate infrastructure in need of significant upgrading, and its twin deficit position. Structural economic adjustments will also help to support improved domestic-led growth, though the pace of change is still relatively slow.

... And Faster Global Growth Later.

Many countries and regions redressing their significant deficits and debt burdens, especially among the advanced nations, have relied on multi-year spending restraint to help rein in their imbalances. In the hardest-hit nations, deep expenditure cuts have become the norm. But progress has been slow, in part because economic activity has been unable to generate the added revenue growth that could fast-track the restructuring process, and help support the structural changes required to address debt sustainability challenges. Nor are revenues sufficient to meet the challenges of the longer-term unemployed, rising health, education and social assistance costs, increasing unfunded pension liabilities, and advancing infrastructure and environmental requirements.

The need for stronger global growth will only intensify in this environment, especially if 'austerity-fatigue' continues to re-shape the voting public among the more advanced nations. At present, policymakers are relying more on increased monetary accommodation to stabilize conditions and promote stronger growth, though they may well have to refocus their priorities on implementing tax reform and other incentives to encourage business investment and spending.

In many nations, historically low short-term borrowing costs are being supplemented by non-conventional monetary measures to induce borrowing to buy and refinancing activity to bolster cash flows. This has been led by the U.S. and Japan, and closely followed by the U.K., with the amount and duration of quantitative easing (that is, the large-scale asset purchases by major central banks) steadily increased, and no end is in sight. For the time being, the euro zone's bond-buying plan has yet to be tapped.

More recently, Japan has announced that it will ramp up its asset purchases in a bid to escape from its chronic underperformance. The more stimulative thrust of public policy has already led to a sharp weakening in the yen, a development that should go a long way towards reviving export earnings and resuscitating business spending. Other countries may well follow suit, implementing more accommodative policies that indirectly lead to weaker exchange rates, and a temporary boost to domestic competitiveness.

Reflationary efforts internationally should produce some renewed economic traction as the year progresses, notwithstanding the challenges presented by ongoing deleveraging and restructuring in debt-heavy countries and regions, and ever-present geopolitical risks. Pressure will continue to mount on the larger and mainly Asian emerging market economies to promote stronger domestic-led growth in a bid to further rebalance international trade and economic activity through both monetary and fiscal initiatives. Latin America is more advanced on this front.

Both Canada and the U.S. are pursuing expanded trade relationships with the EU and through the Trans-Pacific Partnership to boost their longer-term prospects, as much larger and more diversified markets are essential to maximize export earnings. Growth in the volume of world trade in goods and services has consistently outpaced real output gains over the past thirty years, a reflection of the succession of trade-liberalizing agreements and the development of the emerging market powerhouses.

World trade volumes progressively slowed in 2011 and 2012 after the sharp post-recession recovery in 2010, moving lower in conjunction with the moderation in global output growth. However, more stimulative policy in both the advanced and emerging market economies — easier monetary conditions and an increasing focus in infrastructure investments — should reinforce a further gradual strengthening in the pace of economic growth and world trade.

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The USD Is Expected To Bear The Brunt Of Currency Appreciation

Global growth dynamics remain a key driver of capital flows in currency markets; indeed, signs of more broad-based global economic recovery will likely become more evident in the second half of the year. Meanwhile, Italian country risk has resurfaced on the back of fragile governance issues and debt-sustainability concerns. North America is, once again, the center of attention amongst global market participants. The US dollar (USD) has regained strength as the euro (EUR) resumes a weakening trend, the Japanese yen (JPY) continues on an officially guided depreciation path and the British pound (GBP) reflects a renewed softening of macroeconomic fundamentals. Central bank intervention through large-scale asset purchases or outright trading in local currency markets remains as active as ever. The relentless pursuit of high yielding investment options remains a constant, yet not every emerging-market currency enjoys a bright outlook.

The USD is in demand. Improved US economic conditions, coupled with a bullish trend in equity markets amidst prolonged weakness in the Eurozone, is a major driver of flows to the USD. Government-related fiscal retrenchment will weigh on growth prospects moderately throughout the year, yet improving housing market conditions and auto industry activity will partly offset some of this restraint, pushing economic growth higher from the later part of the year well into 2014. Improving industrial production prospects coupled with a competitive exchange rate will also reinforce this US recovery phase. The US still needs to address serious structural fiscal issues, yet on a relative basis, the Federal Reserve (Fed) is likely to lead both the Japanese and UK central banks in the next tightening cycle. This, combined with a shifting trade balance and sentiment, should spur USD gains in 2013.

The Canadian dollar (CAD) adopted a defensive stance of late, particularly influenced by investor attention on the housing market, softness in sales data and adjustments to energy prices and bilateral trade prospects. In addition, the Bank of Canada has softened its hawkish stance. Together this has forced a downward re-pricing of CAD. We expect a moderate deceleration in the housing market, which will weigh on growth; however we do expect pricing in North American oil to turn more favourable for Canada. In addition, an improving US growth profile is encouraging. Still we are introducing a lower CAD profile into our forecast, reflecting deterioration in the overall fundamentals.

As for the Mexican peso (MXN), the more substantial recent development is the widespread belief that the central bank is ready to execute a one-off downward adjustment to its monetary policy rate from the current level of 4.50% by the end of the second quarter of the year. While this move is somewhat discounted by investors, the MXN may temporarily receive a higher dose of volatility until investors' expectations of further policy shifts are stabilized.

Italy's February election, which clouded the austerity-led reform agenda, suggests that Europe is entering a more volatile period, which will complicate the recovery and the trading of EUR. In addition, deterioration in the outlook for France is a concern to rating agencies and market participants. The combination of politics, uncertainty and sentiment are likely to weigh on EUR in 2013, pushing the currency off its highs. In the UK, GBP has taken over leadership of year-to-date losses, outpacing even JPY, as Bank of England policy enters a new phase, tolerating above-target inflation for longer and entertaining increasingly aggressive measures. We have are now bearish on the outlook for sterling. The UK credit outlook maintains a weakening tone as reflected by Moody's recent downgrade of the country's rating by one notch to "Aa1" on February 22nd. Moreover, both Standard and Poor's and Fitch maintain a "negative" outlook on UK's long-term foreign-currency credit ratings.

The JPY remains on the defensive. Japanese economic recovery prospects will be influenced by persistence of tensions in bilateral relations with China, a swift policy shift to generate inflation and a competitiveness boost from a prolonged phase of currency weakness. Aggressive pro-growth fiscal and monetary stimulus from the Japanese authorities will inject a dose of mild inflation and faster growth by the end of the year. As

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market participants await the beginning of Bank of Japan's new leadership, USDJPY has entered a period of rest; however, we expect USDJPY to trade higher into year-end. As for the Chinese Renminbi (CNY), we maintain a positive view for Chinese growth prospects which will translate into sustainable capital flows to be partly offset by a moderate pace of currency appreciation resulting from heavy central bank intervention. Thailand offers a promising growth outlook on the back of a surprisingly strong rebound in economic activity during the last months of 2012. We estimate that the easing cycle in Australia has been completed, while GDP growth in China is expected to reach 8.1% in 2013, in turn supporting Australian exports and the Australian dollar (AUD).

The emerging-market universe presents a mixed outlook. Both China and Brazil are committed to *high pro-growth* policies which will have a positive impact on the currency value. Commodity market strength and attractive high yields are no longer a guarantee of currency performance, as demonstrated by the recent weakness affecting the South African rand (ZAR) and the Turkish lira (TRY). Nevertheless, financially integrated economies with manageable countrywide leverage positions and balanced growth policies continue to benefit from the unprecedented longevity of extremely low global interest rates and stable currency trends. In this category are: the Chilean (CLP) peso, the Peruvian Sol (PEN) and the Brazilian real (BRL) in the Americas; and, for the time being, the Russian ruble (RUB) in Europe.

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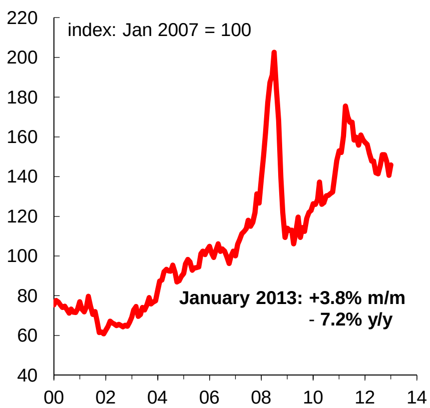
The Keystone XL Pipeline

- **Strong arguments favour U.S. approval.**

U.S. Presidential approval of the long-delayed 'Keystone XL Pipeline' between Hardisty, Alberta and Steele City, Nebraska — first proposed in 2008 — would help to narrow currently wide discounts on Western Canadian Select heavy oil. The WCS discount off WTI (TMX/Shorcan Energy Brokers data) — at a staggering US$36.94 per barrel in February — will remain high at US$26.23 in March and will likely average more than US$25 through 2013 (well above the US$21 of 2012 and US$18 average since 2005).

Scotiabank Commodity Price Index



A trade-weighted U.S. dollar-based index of key Canadian exports: Oil & Gas, Metals & Minerals, Forest Products and Agricultural prices.

The Keystone XL Pipeline would allow greater volumes of oil from Western Canada to reach the largest refining centre in the United States in Houston & Port Arthur, Texas (via Cushing, Oklahoma and TransCanada's Gulf Coast Project), where 'world' prices for both heavy and light oil currently prevail. WCS heavy oil should be priced close to similar-quality Mayan crude from Mexico — at US$101 per barrel in mid-January (FOB Mexico) instead of US$62 in Alberta (not adjusting for transportation differentials).

In my view, the arguments in favour of Keystone XL approval are compelling: 1) the long-standing free-trade relationship between Canada and the United States, especially on energy; 2) the 'security-of-supply' offered by Canadian oil, expected to displace crude from politically more volatile regions of the world; and 3) critically needed transportation infrastructure for new U.S. sources of 'light', tight oil from the North Dakota Bakken and northern Texas. One-third of Keystone XL Pipeline capacity will actually be available for U.S. producers, whose prices are also discounted. With construction expected to take 18-24 months after approval, Keystone XL could be in service by late 2014 at the earliest.

Notwithstanding the benefits of TransCanada's Keystone XL and potential expansion of Enbridge's Alberta Clipper line between Canada and the U.S. Midwest, the development of additional market outlets — both in the faster-growing Asia/Pacific market and in Central & Atlantic Canada — remains vital for Canada's oil industry. Growing supplies of light oil on the U.S. Gulf Coast, as the Cushing, Oklahoma hub is debottlenecked in 2014:H2, are likely to eventually push down prices relative to international levels in that market (particularly for light crude).

Keystone XL Pipeline (proposed) -- Profile

Route:	Hardisty, Alberta to Steele City, Nebraska connecting to Cushing, Oklahoma and Gulf Coast Project to Nederland/Port Arthur, Texas, also connecting to Houston.
Capacity:	830,000 b/d Light & Heavy Oil batched. One-third of capacity available for U.S. oil producers.
Crude Oil Delivery Points:	Hardisty, Alberta Baker, Montana (100,000 b/d of U.S. Bakken crude) Cushing, Oklahoma (150,000 b/d of Permian & other crudes)
Construction Time:	18-24 months after approval Gulf Coast Project: Started Aug. 2012, completion around late 2013.

Source: TransCanada Corp.

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India Unveils A Temperate Budget For Fiscal Year 2013-2014

- **The Budget 2013-2014 aims to bring public finances onto a more sustainable path while promoting economic growth.**

India's Minister of Finance, Palaniappan Chidambaram, unveiled the Budget 2013-2014 (April-March) on Thursday, February 28th. Persistent investor concerns regarding the health of India's government finances in the context of challenging economic growth prospects and impending elections were alleviated somewhat; nevertheless, the credibility of India's commitment to bringing the fiscal deficit to 3% of GDP by 2016-17 will remain at the centre of investors' attention.

India's Budget 2013-2014 targets a fiscal deficit of 4.8% of GDP, down from an estimated 5.2% of GDP in the current fiscal year ending on March 31st. While the budget aims to improve government finances to some extent, it can simultaneously be classified as a pro-growth budget. Nevertheless, it is fairly prudent considering the fact that general elections are due by May 2014. Expenditure will remain elevated in order to provide support to the economy, with measures implemented to promote investment, particularly infrastructure, and entrepreneurship. In fact, total nominal spending will increase by over 16% from FY2012-2013. In this context, modest fiscal consolidation is achieved by reaching higher revenue growth; the budget assumes revenue receipts to increase by 21% (compared with +16% in the current fiscal year), partly reflecting an acceleration of the privatization process. While the nominal figures seem rather high, it is worth noting that headline inflation in India remains elevated at around 10% y/y.

In general, the budget maintained relative stability in tax policies, acknowledging that given the constrained economy, there is little room to either lower taxes or raise them. The budget's key tax measures were benefits for the lowest tax bracket, temporary one-year tax increases on personal incomes of very wealthy individuals, and corporate tax raises for companies whose annual taxable income is over 100 million rupees. Additionally, indirect tax changes were implemented to either protect domestic industries or support them through tax relief. Finance Minister Chidambaram highlighted that the Goods and Services tax proposal is expected to be taken forward in the near future.

India remains at risk of losing its investment grade rating. Standard & Poor's (S&P) and Fitch affirmed on Thursday that the Budget 2013-2014 will not have a direct impact on the country's "BBB-" ratings with a "negative" outlook. S&P assesses that India's rating is restrained by the limited progress on fiscal consolidation so far, the risk of erosion in the country's external liquidity, and a weak outlook for its growth potential that reflects lagging advancements on the structural reforms required for creating a more positive operational environment for business and private investment. In this context, the economic reform program that is being continued outside the budget plays a key role in supporting India's long-term growth prospects and improving investor perceptions of India.

Budget calculations are based on real GDP growth forecast of 6.1-6.7% in 2013-14, slightly higher than Scotiabank's 6.0% expectation. India's economic performance remains subdued, challenged by tight monetary policy, constrained fiscal room and subdued global demand conditions. Real GDP expanded by 4.5% y/y in the final quarter of 2012 compared with a 5.3% gain in the July-September period, limiting overall economic expansion to 5.1% in 2012. Growth was mainly supported by private consumption and investment, while net exports continued to be a drag on growth. Nevertheless, consumer spending growth remains muted relative to historical standards due to weak confidence, while investment is limited by structural bottlenecks, such as poor infrastructure and a complex regulatory environment.

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Argentina: Guide To The Arguments

The following article was published on February 26, 2013.

Dozens of legal briefs were filed in anticipation of the Appeals Court hearing tomorrow. We review the key issues and arguments to be heard by the Court.

A couple of dozen briefs were filed in anticipation of the appellate hearing scheduled for this Wednesday afternoon. Briefs were written not only by the plaintiffs and defendant, but also by various third-parties indirectly affected by the decision, including holders of different Argentine securities, legal experts, and various trade associations. While the positions that most of these parties take are easily predictable, their arguments are creative and interesting. Scheduled to speak tomorrow are representatives for the hedge funds, for Argentina, for The Bank of New York, and for the exchange bondholders. We summarize below the key issues:

Exclusion of securities. There are two classes of securities that some investors have requested be excluded from the injunction prohibiting payment. The strongest case, in our opinion, is for the GDP warrants, since these are not "debt" and therefore are not covered by the language of the *pari passu* clause. A reasonable case has also been made to exclude Euro-denominated bonds, because payments for these bonds do not pass through New York. These Euro-denominated bonds are covered by English law, not NY law, and it is unlikely that a British court would endorse the broad definition of *pari passu* that US courts have devised. Similarly, Belgian law and Luxembourgian law prohibit the enforcement of injunctions against clearing systems. US courts should be deferential to laws in other countries when their injunctions have such a broad reach. Otherwise, foreign banks and financial institutions could find that they are forced to choose between violating a US court order and violating their own country's laws.

Injunctions against intermediaries. This key issue attracted a substantial number of briefs from both sides. First, they address the compatibility of the injunction with laws intended to protect the financial system from burdensome court actions. According to NY law (which was taken from the model Uniform Commercial Code), court orders cannot be directed at intermediary banks. A creditor who is owed money by the originator of an electronic funds transfer may seek an attachment only at the originator's bank. A creditor owed money by the beneficiary of a funds transfer may only target the beneficiary's bank. Holdouts have secured an injunction against The Bank of New York Mellon (BNY), which holds funds as a trustee on behalf of the bondholders; the problem is that it is Argentina, and not the bondholders, that owe money to the holdouts. Holdouts respond that they are seeking an injunction, rather than an attachment, and argue that the law treats these differently. While injunctions also cannot be directed at intermediary banks, creditors of the originator might be able to direct them at the beneficiary's bank—BNY. Written arguments provide less clarity on how injunctions affecting DTC and Euroclear could be allowed under the law.

Second, injunctions can only be issued against third parties that are "in active concert or participation" with Argentina — those that are "aiding and abetting" Argentina. That wording has generated substantial discussion of what qualifies as aiding and abetting. BNY maintains that it is merely performing its contractual duties as specified in the indenture, duties that it has performed for a long time in which it has no discretion. BNY is hardly a confederate in a crime in this sense. Holders of defaulted debt, in turn, propose a broader definition encompassing assisting or helping to bring about. They argue that, if BNY forwards payments to beneficiaries, then BNY is helping Argentina violate the court's injunction prohibiting payments to bondholders without corresponding payments to holdouts.

Exchange bondholders. Various institutional investors holding restructured bonds have cried foul at the recent judicial decision because it links their performing debt to that of the holdouts. Similarly, Argentina argues that injunctive relief that only works if it coerces or injures third parties is profoundly inequitable. The

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Exchange Bondholder Group (EBG) claims violation of its due process rights because it was not included in the previous court proceedings. In addition, investors claim they have been deprived of property by the government in violation of the Fifth Amendment. These indirect effects of the injunction on exchange bondholders were already considered by Judge Griesa, but perhaps have not been aired sufficiently at the appeals level.

One strong response to these complaints comes from the Washington Legal Foundation, which argues that EBG ignored the proceedings for a long time and declined to participate when it had the chance. The injunction didn't cover EBG so the court didn't have to include it in the proceedings. Even if EBG should have been included in the court case, the remedy to this omission now would be to release it from the injunction which doesn't cover it anyway. Moreover, investor property rights weren't violated—they still have the same legal rights to get paid; the resulting decrease in the secondary market prices of their performing bonds is an indirect effect that isn't covered by the 5th amendment. In general, while A collecting money from C may hurt B's chances of collecting from C, A isn't violating B's property rights by enforcing his own rights. Judgements against C routinely affect everyone who has a relationship with C, and there's nothing wrong with that. Finally, a new regulation is not a "taking" because it does not permanently deprive a property owner of all economically beneficial uses of that property.

Ratable payment formula. The Appeals court had asked the District Court to devise a specific formula for determining whether creditors are paid ratably, and promised to review that formula. Argentina and other parties find Judge Griesa's formula to be grossly unfair. Griesa's formula is based on a direct reading of the clause which says that the holdout debt ranks *pari passu* with future indebtedness such as the new restructured bonds. The implications of this formula, however, are that holdout bondholders are paid in full immediately while exchange bondholders, after accepting a substantial haircut, must wait many years before getting their principal paid. Full payment to the plaintiffs would also mean that they are treated more favorably than other holdouts who are not involved in the current lawsuit.

Argentina and exchange bondholders do not propose a different formula, however. The only alternative offered by Argentina to ensure compliance with *pari passu* is to reopen the exchange. Argentina would give holdouts the same terms which were offered earlier to exchange bondholders and have been rejected several times by those holdouts.

Outside the scope of the rehearing

Following its ruling in October, the Appeals Court asked the District court to consider which parties should be covered by the injunction and also what the proper formula should be for determining ratable payment. It said it would then automatically review those two issues, and that is the purpose of the current hearing. Nevertheless, many briefs addressed issues beyond these two, many of which the Appeals court had already decided:

Definition of Pari Passu. Representatives for United States Justice, State and Treasury Departments requested a rehearing on the definition of *pari passu* before a larger panel of judges. The US argues that the broad definition of *pari passu* is incorrect and inconsistent with the understanding of this clause in government, academic, and market circles.

Collective action clauses. An important consideration in defining *pari passu* is how it will affect future sovereign restructurings. The worry is that holdout creditors would subvert the restructuring process. In its October decision, the Appeals Court rejected this concern because 99% of NY-law bonds issued since 2005 have collective action clauses (CACs); as a result, if a restructuring receives the support of at least 75% of bondholders, the new terms can be imposed on any holdouts. Briefs in support of Argentina argue that $46bn of debt issued prior to 2005 do not have CACs.

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Some experts, including Anne Krueger, a former top official at the IMF, argue that CACs are insufficient because they are a new and unproven method for carrying out a restructuring. Moreover, most bonds don't have an aggregation clause in its CAC. An aggregation clause allows the imposition of restructuring terms on a particular series of bonds in which a holdout investor maintains a blocking share if a supermajority of all outstanding debt holders across all series approves the restructuring. Kenneth Dam, a former US Treasury official, disagrees, citing the successful use of CACs in the Greek restructuring, and argues that aggregation clauses do not make much of a difference.

Foreign Sovereign Immunities Act. Argentina argues that the District Court orders violate the FSIA because they tell a sovereign country how it can use funds currently located within Argentina; the FSIA only permits judicial action on commercially used property located within the US. Argentina calls these orders "the invasion of the Treasury of a foreign state." Plaintiffs respond that the court is not taking any sovereign property but rather directing how it can be used if Argentina decides to bring it into the country. More importantly, they remind that court that this issue has already been decided.

New York as financial center. Many parties worry that the recent appellate court decision is endangering the role of New York as a global financial center, an issue of obvious importance to a variety of financial intermediaries. We find some of these concerns to be exaggerated. Several authors remind us that, to ensure New York's future role, it is just as important for the courts to enforce commercial obligations like Argentina's debt to holdouts, as it is for courts to avoid placing too many burdens on financial intermediaries.

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Argentina Appeals Hearing Commentary

The following article was published on February 27, 2013.

I chose to watch the hearing from the overflow room at the courthouse today after seeing the large number of journalists, investors, lawyers, and other observers who had showed up early in the morning to fight for one of the limited spaces inside the actual courtroom. To give a sense of the popularity of the event, it was standing room only in the overflow room, and one American reporter mentioned to me that, on his way in, he was interviewed by a Japanese film crew

The only substantive decision reached today was that the judges denied a motion proposed by Argentina and endorsed by the United States government for a panel rehearing on the definition of *pari passu.* While there was some confusion about what the judges meant during the session, it seems an *en banc* rehearing (a rehearing by all the appellate judges of the Second Circuit rather than a small group of them) is still possible. Such rehearings are rarely granted, however. That means that the broad definition endorsed by the appellate court back in October will likely stand, unless the Supreme Court decides to hear the case. The Supreme Court is unlikely to hear the case because it does not pose a Constitutional question and because there is no disagreement among different appellate courts on this issue. The only reason they would hear the case is because the US government has an interest in it, but most observers think that is insufficient.

No other decision was reached and we may have to wait weeks or months to get one. The Appellate court took about three months for its previous decision in this case. The tone of all the judges' questions and the back-and-forth with attorneys suggests a decidedly anti-Argentina stance, similar to the appellate hearing last summer. Oral arguments are not critical and the judges ultimately take decisions that are within the law after considering the arguments in the briefs. Nevertheless, we sense that the judges are frustrated by Argentina's refusal to pay anything to the holdouts over the past eleven years, and they are irked by recent pronouncements by Argentine government officials that they will not abide by any judgements from US courts. They also did not like the fact that Argentina was threatening the Court with a massive default on all its debt if they did not agree with whatever formula the Court endorsed for ratable payment.

In a session that lasted much longer than expected, the judges heard lengthy arguments from all four parties present. By the end, however, they seemed to be searching for ways to rule against Argentina by going through all the arguments made by Argentina, Bank of New York (BNY), and the Exchange Bond Holders (EBG), and trying to find problems with those arguments. Below we briefly review the key issues:

Payment Formula. So far, only the hedge funds have proposed a formula for computing ratable payment obligations, one which would mandate full payment of principal and past due interest to them immediately. The judges criticized Argentina for not proposing an alternate formula, and Argentina's only defense was that they didn't have enough time. Eventually, the lawyer for Argentina suggested his client might be willing to accept a formula where holdouts received, going forward, any amounts they would have received if they had participated in the exchange. Judges thought that was hardly fair, since holdouts have not been paid in 11 years, and Argentina was not even offering to make any back payments.

Appropriateness of Injunction. The lawyer for BNY insisted that injunctions cannot be issued against them because they are not trying to help Argentina commit a crime, but rather are just fulfilling their obligations according to the indenture. Judges did not understand why, and even looked up the actual law with regards to injunctions in a book while the lawyer was speaking.

EBG's rights. Bondholders claim it is unfair that their payments are linked with that of the holdouts. NML reminded the Court that the prospectus for the exchange bonds clearly warned bondholders of the risks related to litigation by holdouts. Judges said there is nothing unusual about a debtor having many creditors and for the courts to enforce priority of payment laws to those creditors. In addition, NML reminded the court

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that exchange bondholders supported the adoption of the Lock Law that has made it illegal for Argentina to reopen the exchange to the holdouts.

BNY's role as trustee. Another interesting argument made by EBG is that the Trustee represents them and in effect should be treated by the Court like a bondholder would be. Since the Court is not issuing an injunction against the bondholders, and even NML agrees that the bondholders would not violate any laws if they received payment outside of New York, then the Court also cannot issue an injunction aimed at the bondholders' trustee. Judge Raggi cleverly asked how the Trustee is paid. It turns out that the trustee is paid out of additional funds provided for that purpose by Argentina. She interpreted that as evidence that the Trustee is an agent of Argentina and therefore not legally identical to the bondholders.

Despite their frustration with Argentina and their desire to force Argentina to pay up and honor its obligations, judges still have to abide by the law, and it hard to know how they will decide or even when they will decide. Still, we think market prices should fall somewhat tomorrow considering the denial of the rehearing and the tone of the Judges' questions.

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BoE Meeting Preview

QE likely to be expanded in March

The appearance of various Bank of England MPC members in front of the Treasury Select Committee this week has fuelled speculation about the potential for more quantitative easing and interest rate cuts of some sort. We believe that the former is more likely than the latter.

Possibility of negative interest rates…

The February MPC minutes revealed that it had reviewed a range of policy tools including:

> *"...a reduction in Bank Rate; and changing the marginal rate of remuneration on banks' reserves at the Bank of England. The Committee had noted drawbacks with each of these options in the past; those drawbacks remained".*

This should have reassured that while the Bank continues to consider all options (as it should do) the situation has not changed and the downsides of a rate cut of any sort outweigh the upsides. However, speculation of rate cuts (potentially into negative territory) was reignited this week by comments from Deputy Governor, Paul Tucker. He revealed that the Bank had discussed the possibility of negative interest rates at the latest meeting.

Our view is that it is one thing to consider a small cut in Bank Rate or the remuneration of reserves towards zero. It is a whole different extreme to consider cutting interest rates into negative territory. Any cut in rates would hurt banks and building societies and could lead to undesirable consequences (such as reduced new lending or higher SVR rates on legacy mortgages). Hence such a move could backfire badly.

The issue here is that lenders are obliged to hold a Liquidity Asset Buffer as a safeguard in times of financial stress. With gilt yields so incredibly low and a very restricted list of assets that qualify as buffer assets, the only game in town has been to hold cash in the reserve account at the Bank of England – earning 50bp. One school of thought is that these billions of pounds sitting on deposit at the Bank of England should be put to better use to help support a recovery. By reducing the remuneration rate paid on reserves, some think that lenders will fall over themselves to extend new loans to households and businesses. But that is not the point. These lenders are forced by regulators to hold a liquidity buffer. At the margins the lenders might opt to hold gilts instead of reserves at the BoE — perhaps sparing the BoE the bother of another round of QE and helping the government's new issuance of gilts to be absorbed. But that is hardly a game changer. A game changer would be if such a move provoked higher SVR mortgage rates on existing borrowers, which would harm household real disposable incomes and be a drag on growth.

We also struggle to see how the BoE could introduce a blanket reduction in the remuneration of reserves without cutting Bank Rate. The latter would be the worse of two evils. Banks and building societies would see reduced inflows on mortgages that are pegged to Bank Rate. Yet there is virtually no room to cut interest paid on savings, because these are pretty much as low as they can go. Hence this would be a double whammy (a reduction on remuneration of reserves and a squeeze on profits from legacy mortgages).

…But not 'immediately'

Deputy Governor Charlie Bean (partially) cooled speculation by noting that:

> *"Any suggestion that we have a plan to introduce negative interest rates immediately, I should make absolutely clear, is not the case"*

However, we are slightly cautious given Bean's use of the word 'immediately'. Bean is very experienced and this use of the word 'immediate' feels deliberate. It means that the Bank is keeping its options open. A cut in interest rates may not be imminent, but it can't be ruled out.

The bottom line is that forcing lenders to hold a liquidity buffer and then penalising them for doing so is messy. One possibility is that the regulator expands the list of eligible assets that lenders can invest in as part of the

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liability buffer requirements. The BoE may also return to some form of reserve targeting, where 'excess' reserves are penalised rather than the bulk of these deposits that are on reserve at the BoE.

The case for more QE

The UK economy is no stranger to surprises. Recent examples include the CPAC option 1 decision and Mark Carney's appointment as the next BoE Governor. The BoE also has a track record of using surprise to its advantage — not least the November 2008 150bp rate cut and the October 2011 QE expansion. The lesson of recent years in the UK has been to expect the unexpected. The Bank would get more bang for its buck delivering more QE in March or April — which is earlier than most expect. The probability of a March expansion has been rising in the Reuters poll of economists — up to 40% as of this week, from 35% immediately after the MPC minutes and 20% a month ago.

The main reasons that might be put forward for an imminent QE expansion are:

- What is the harm? We know that there are downsides to rate cuts, the downsides of more QE are rather less tangible. It might not work. It might lead to inflation down the road — but not imminently. Too much growth is not something that the UK is suffering from right now.
- King has clearly stated that stronger overseas demand is one of two key ways to boost growth. In turn, weakening the GBP is one way to achieve that. With the Fed backing away from QE, a further BoE expansion might help to continue to weaken the GBP exchange rate and reinforce the likelihood of stronger overseas demand.
- The three MPC members that voted for QE in February will not change their vote for at least the next few months. That means that the minimum probability of further QE in March is 33.3%. There must be at least a 50% chance that at least 2 of the remaining 6 members choose to join the dissenters (Bean and Tucker both highlighted that they were open to the idea). On the basis of that, a simple back of the envelope calculation would put the probability of more QE at around 45%. In fact, with the governor already voting for more QE, the hurdle for others moving into line is low so the probability is closer to 50%, if not above.
- Recent expansions in BoE QE have tended to coincide with tensions in the eurozone flaring up. It is very early days but the fallout from the Italian Election could be the excuse that some members need to fall into line with King.
- Muted use of the Funding For Lending scheme (FLS). New figures on the use of the scheme up until end-2012 will be published early next week. We suspect that the take-up will be muted. Firstly, many lenders already had funding plans in place meaning that there will be some inertia in tapping the FLS scheme. Secondly, we believe that there is a tendency among lenders to maintain wholesale financing. The latter has cheapened (partly thanks to the FLS) meaning that appetite for using the FLS is dampened. Last but not least, after taking account of haircuts, the FLS is not as attractive as first thought. The bottom line is that with the FLS only providing a moderate boost to growth, the MPC may be inclined to revert to Plan-A and expand QE.

Clearly, the 6-3 vote in February's minutes may prove to have been King's Maradona theory at work — getting the market to price in the risk of more QE — holding gilt yields down and weakening the GBP. But, this strategy could become a victim of its own success. There has been so much speculation of more action that to do nothing at this meeting would now be a disappointment.

We have our doubts that a further instalment would make much difference to the growth outlook. However, there is no smoke without fire. The recent noises from MPC members suggest that the MPC want to do something, but it is not yet clear what. The default policy tool has tended to be more QE and a GBP25bn expansion at next week's meeting seems to be the most likely outcome.

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ECB To Keep A Dovish Stance

"...the exchange rate is not a policy target, but it is important for growth and price stability, and we will certainly want to see whether the appreciation is sustained and will alter our risk assessment as far as price stability is concerned. In any event, next month we will have the new projections." Mario Draghi, ECB press conference, 07/02/13.

- Last month, the ECB president gave a strong rendezvous to the market, suggesting that any significant revision to the macroeconomic scenario linked to the rise of the euro at the turn of the year could trigger additional monetary easing through possible rate cuts.
- We think that, at this stage, these revisions will be limited and the ECB president is likely to mention that the recovery scenario remains on track
- As a consequence, the ECB will once again preserve the status quo and keep its ammunition, especially at a time when there is no visibility on the impact of the Italian election.
- However, like last month, the tone of the press conference is likely to remain very dovish, keeping alive expectations that the bias on the monetary policy remains very much on the easing side.

ECB to revise only slightly down its growth and inflation forecasts…

- It is true that both the economic and inflation outlooks have already been significantly downgraded in December to mid-point of -0.3% for 2012 and 1.2% for 2013 in terms of GDP growth and 1.6% for 2012 and 1.4% for 2013 in terms of inflation. So, any significant new downward shift could easily be brought forward to justify a rate cut. As suggested by M. Draghi last month, this could be especially the case for inflation as the 1.4% forecast for next year could be seen as already in the low range of the ECB's price stability definition of "below but close to 2%". So any new downgrade to a figure closer to 1% would be significant as, hearing from numerous speeches from ECB members in the past years, it marks the line with a scenario of "heightening risk of deflation".
- In this context, the impact of the rise of the euro on the forecast is worth analysing. While last month's dovish comments from the ECB president have already helped to cap the rise of the euro, in the period between mid-November (when the ECB December macroeconomic forecasts were made) and mid-February, the euro nominal effective exchange rate rose around 3%. Looking to some studies made by the ECB, this could in theory lower EMU growth by 0.3 percentage points after one year and 0.4% over a two year horizon. Regarding prices, the impact is to lower inflation by 0.2% after one year and also by around 0.4% after two years, compared to the December forecast.

Impact of a 10% rise in the euro nominal effective exchange rate

	Q1	Q4	Q8
GDP	-0.2	-1.1	-1.4
HICP	-0.3	-0.7	-1.4

source: ECB working paper N°796, August 2007

- Starting with the inflation forecast, the tone of the last press conference already showed that the slowdown of EMU inflation to 2.0% yoy in January have strengthened the ECB's confidence in seeing the pace of price gains coming back to its target. So, the impact of the rise of the euro should add further fuel to this.

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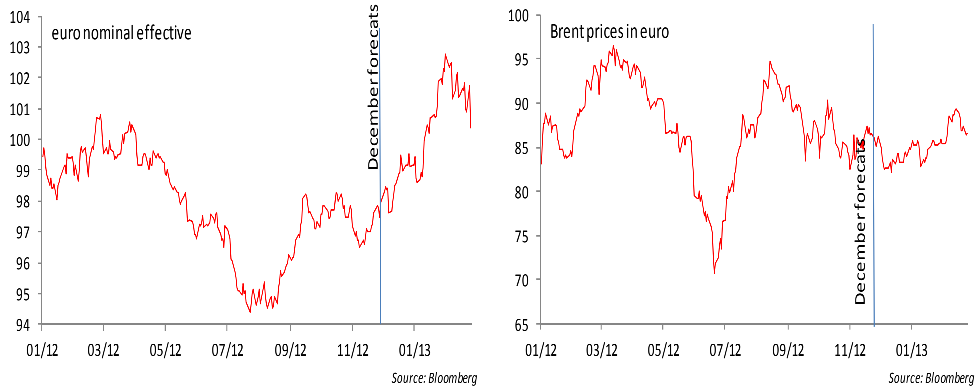
Chart 1 : The rise of the euro partly offset by the lack of impact in oil prices



- We nonetheless estimate that the ECB inflation forecasts are a bit on the optimistic side regarding the slowdown of inflation over the coming two years. It is worth noticing that over recent years, there has been a tendency by the central bank to publish inflation forecasts moving quickly back in line with price stability before adjusting it gradually higher. It could be the same this time, a factor which would limit the downside revision on inflation linked to the recent rise of the euro.
- Furthermore, the ECB's study suggests that more than 50% of the pass-through from a stronger euro to inflation is made through the energy sector in particular. Over the past few months, it is worth noticing that the surge in Brent oil prices offset the rise of the euro in this sector. Indeed, in euro terms, Brent prices are roughly stable or even slightly up. In the meantime, details of the January EMU inflation report showed an ongoing stable and sticky trend in food prices at around 3.0% yoy. So, these factors could limit significantly the impact of the rise of the euro on the inflation forecast.
- All in all, on the back of the rise of the euro, we would look for a maximum impact on the ECB's inflation forecast of 0.1% for this year and 0.2% for next year to respectively put the mid-points at around 1.5% and 1.2%. This would nonetheless be not far from the 1% line we mentioned and adds fuel to the dovish stance with respect to the management of the monetary policy.
- Regarding growth, we already expressed the view that part of the rise of the euro since November also reflects the positive turnaround on the euro area situation and its capacity to provide a more stable macroeconomic environment for both businesses and households. At this stage, easing financial conditions and stronger global demand more than compensate for the theoretical negative impact of the re-strengthening of the euro on business sentiment. Recent surveys pointed to this direction. While the February PMI manufacturing data proved to be disappointing (remaining roughly stable), national surveys like the German Ifo and the French INSEE index as well as the EMU economic sentiment survey continued to validate the recovery scenario. On the demand side also, consumer confidence seems to have turned the corner at the end of last year.
- Following a -0.6% q/q contraction in Q4, the negative carry entering into 2013 involves a quarterly growth profile of around +0.1% q/q on average in each of the quarters of 2013 to meet the ECB's forecast of a -0.3% contraction this year. In view of the turnaround in both business and consumer confidence, this scenario does not seem unrealistic. So, at this stage, we think that if there is any downward revision to the GDP growth profile, it should be only a minor one and mainly explained by negative carry from 2012 Q4.

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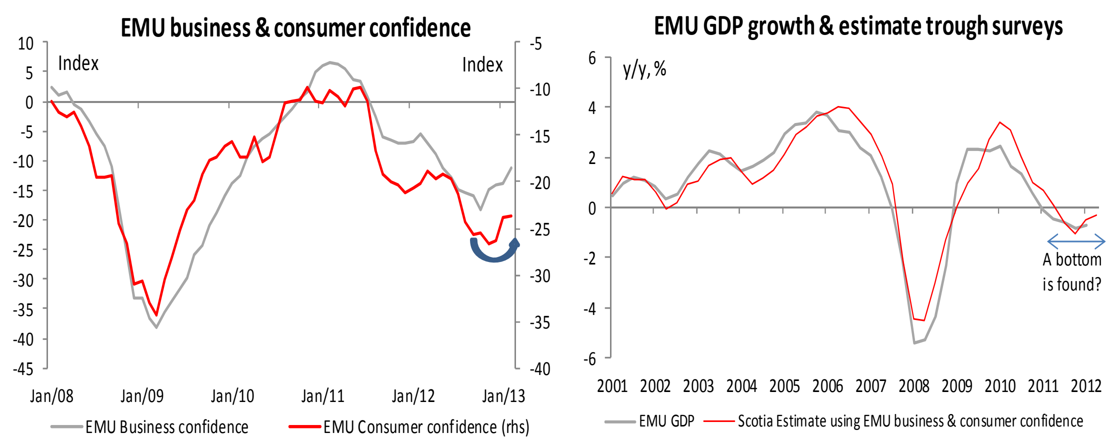
Chart 2 : The rise of the euro has not yet derailed the recovery scenario

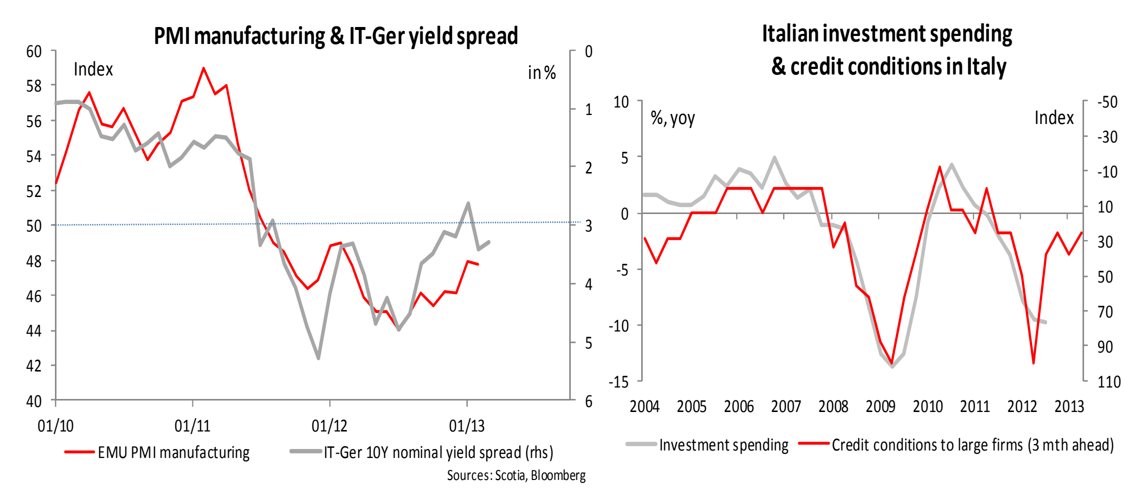


… but renewing financial stress could be a major risk

- However, beyond the impact of recent euro strength on either growth or inflation, more important now could be spill-overs of the political turmoil in Italy and the risk that it could derail the EMU recovery process. One way of possible contamination will be through the trend in financial markets. As we mentioned previously, over the most recent period, easing financial conditions through higher equity markets and falling yields in peripheral countries has been among the key elements driving up business confidence in recent months. The ECB president himself has systematically pointed to this element to strengthen his confidence regarding the gradual recovery scenario.

- However, during the past month, European equity markets fell between 4% and 5% and Italian yields gained around 60 bps. For a country like Italy which over the past years showed a strong correlation between the trend in investment spending and credit conditions, the significant easing in financial conditions in the second half of last year sent an encouraging signal for 2013. So, any significant re-widening in the Italian-Germany yield spread will put at risk this scenario.

Chart 3 : Financial stress puts at risk the recent improvement in business surveys



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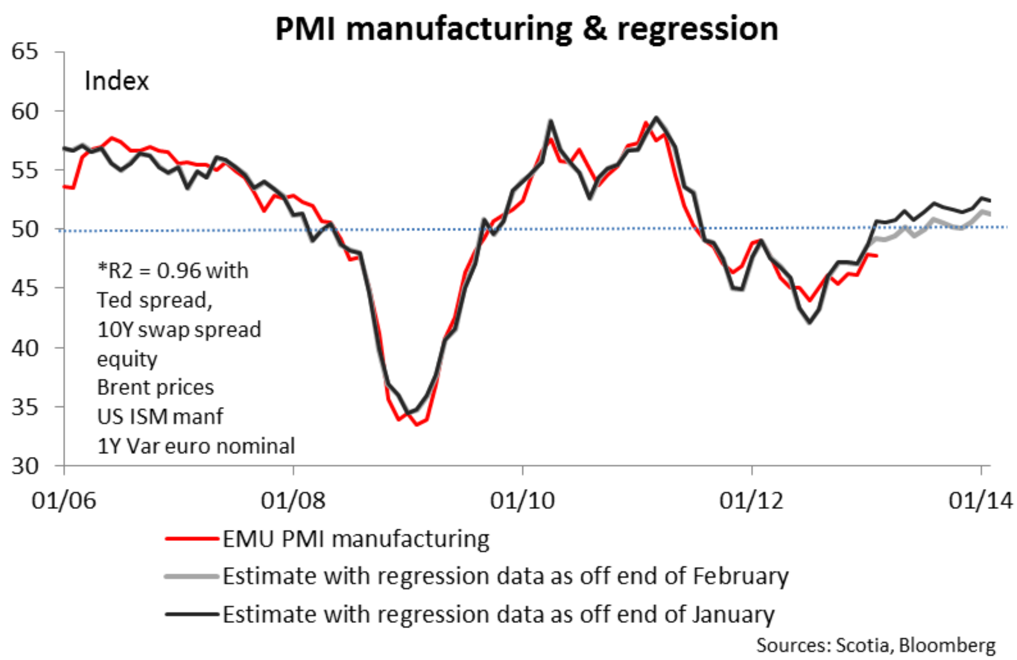
- It is worth noting, however, that these upward pressures on Italian yields have not yet diffused to the other peripheral countries, limiting the contagion process. However, there is no doubt that the uncertainty on the EMU recovery process has once again increased. In view of historical elasticity, despite the drop of the euro over the past month, less favourable financial conditions already suggest a lower dynamic in the recovery in business sentiment.

Chart 4 : The supports behind the upward dynamic are softening



- So, all in all, in view of the ECB, the future trend in financial conditions has a bigger weight than the euro in its decision-making process. For now, we think that the ECB president is likely to repeat that, despite the recent rise of the euro, the gradual recovery scenario remains on track. Also, with no clear visibility regarding the outcome of the Italian election and its spill over into the rest of the area, he is likely to prefer to keep ammunition for the time being, and rather warn that "all options remain on the table" through a possible rate cut or further liquidity injection. It is clear that, beyond the coming financial developments, the next business surveys will be closely watched by the ECB to assess how likely weaker sentiment in Italy is impacting the rest of the area.

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'Old-School' Rules Of Portfolio Construction Need A Re-think

- **There may be dangers to long-only "60/40" buy-and-hold strategies.**

I have written extensively about what I believe is looming trouble in the global financial markets as a result of extraordinary interference with 'free markets'. Government officials, central banks, and regulators are simultaneously implementing extreme measures, but they are doing so with limited coordination amongst themselves, or among the respective entities in other countries. Lack of coordination leads to market stresses, added price distortions, deteriorating liquidity, and cross-border arbitrage. Unilateral domestic policies can lead to accusations of "currency wars" and protectionism. The aim of policy action is often to stabilize financial markets, but unconventional actions (let alone extreme actions) frequently have unintended consequences and adverse long-term effects. The full impact of QE policies, and of the erosion of financial intermediation from the Dodd-Frank legislation, the Volcker Rule, the Vickers Report and Basel 2.5 criteria, has yet to be felt. My *"2013 Outlook"* (January 4, 2013) paper begins with the sentence, "World finance is under attack" for good reason.

On the surface, rallying equity markets and tightening credit spreads seem to suggest 'all is well', or that global economic conditions are improving. However, it is not a stretch to make the argument that improving markets are primarily the result of massive QE liquidity. Buying risk assets and implementing the "carry trade" is lucrative, when central banks — with enormous fire power — provide the 'protective put' guarding downside risks. However, investors need to recognize that there is a limit to how far financial asset prices can rally when they diverge from underlying economic fundamentals.

Many investors have replaced the basics of investing — the fundamentals determining a security's risk / reward characteristics — and replaced it with a simple motto of "do not fight the Fed". An entire class of investors has placed its faith in bailouts and money printing providing the foundation from which financial assets are lifted to ever-higher prices. Downside risks grow ever-greater when investors continually get lulled into deeper and more dangerous states of complacency, especially when central bank actions have become increasingly less effective and fiscal policy is in a crunch.

Central banks have provided over US$9 trillion of liquidity over the past 5 years. This money has found a home in financial assets (not into bank loans). The Federal Reserve, Bank of England, Bank of Japan, and Swiss National Bank are the most aggressive central banks using a QE strategy. The main stock markets in those countries were up in early 2013 around 8%, 9%, 11% and 13%, respectively. Since 2008, the Dow Jones Industrial Average has risen from 6,444 to over 14,000 today (+117%). QE policies have clearly benefited risk assets, but their success at stimulating aggregate demand has been more limited and has had diminishing sway. Economic growth in all of these countries has either been negative, or sluggish; therefore, the costs of QE may be starting to outweigh the benefits. The FOMC minutes revealed this concern and will be an on-going debate within the FOMC.

At the onset of this crisis, central bankers felt that it is essential to maintain asset price levels, because so many of those assets back loans. There may be wealth effects, but higher asset prices always assist in the ability to service debts. Elevating asset prices may also be the best way for the Federal Reserve to help the 25% of mortgages that are still 'underwater'; and printing money does not need congressional approval. FOMC members also reason, whether they explicitly admit it or not, that allowing inflation to rise allows the government and populace to pay off debt with less valuable dollars.

Obviously, the Federal Reserve has needed to be aggressive to protect the nascent economic recovery, because the fiscal ledger has been in a crunch and lawmakers have not been able to agree on needed actions. However, there are limits to what monetary policy can achieve and its extreme actions may be reaching a tipping point. The situation is growing more precarious, because the Fed might be running out of bullets. Treasury purchases have artificially lowered interest rates, so if bond purchases cease, interest rates should

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rise. Since the US has high debt levels, a large deficit, and chronic current-account deficits, higher debt servicing costs from higher interest rates will subject the US to rapidly accelerating fiscal deterioration; a negative feedback loop.

At some point, the G-5 central banks will have to activate an 'exit strategy' from the $9 trillion of liquidity that they have provided. The unwind process could have devastating consequences for financial markets, because investors and central banks will be looking to pare risk at the same time. Market liquidity in a falling market will be dramatically different than it has been during the rising market of the past four years. It will be impaired, particularly because there are fewer and less active market-makers, due to increased regulations and attacks on financial intermediators.

I would be remiss if I did not mention how I believe the potential crisis I foretell can be avoided. A macro-prudential solution in the image of a new Bretton Woods would be necessary. Global capital markets require consistent and explicit rules of engagement. Cross-border arbitrage opportunities on taxes, regulations, trade, or accounting must be eliminated. It is essential to advance globalization and arrest the recent drift toward protectionism. Countries will need to solve the enormous imbalance together or they risk turning inward and unraveling the prolific interconnectedness of the global economy.

A new Bretton Woods is probably much too much to expect. It is wishful thinking to believe that the QE liquidity can be withdrawn without any financial market consequences, even after the economy is thought to be strong enough to stand on its own. Yet, pinpointing the timing or catalyst for the financial asset selloff is just about impossible; therefore, other adjustments need to be made to portfolio risk exposures.

Too many 'old school' long-term investors and portfolios are overly-exposed to stocks and bonds in the belief that a basket of each offers adequate diversification to protect a portfolio under various economic paradigms. Currently, this is a dangerous belief. The time has arrived when the multi-decade thinking of long-only "buy and hold" needs a radical face-lift. It is essential for investors to begin to protect portfolios with creative non-correlated "Alternatives". This is essential, because the key to long-term wealth accumulation is not to lose it; i.e., the key is the avoidance of significant losses during crisis periods.

People often ask, "Where should I put my money"? I will take a stab at the answer and recommend that it is best to make these adjustments while market liquidity is still cooperating. I believe that the assets which should outperform long-only financial assets over the next few years that are worth consideration are: MLPs, Oil and Gas Partnerships, Infrastructure projects (public-private partnerships), Real Estate, Timberland, Water Resources, Production Farms, Specialty Finance, Black Swan funds, Cash, Venture Capital, Distressed securities, Targeted ETF's, Commodities, Frontier Economies, and various 'Real Assets'. The old rules of portfolio construction have changed dramatically; partially due to the sophistication of new securities and ease of obtaining targeted exposures, but primarily because of price distortions in financial assets as the result of printing $9 trillion worth of currency. Now is the time to properly adapt to extraordinary imbalances and drastically change long-standing portfolio risk profiles.

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Key Data Preview

CANADA

Jobs data turned south during January after a red-hot streak to close 2012, when 183.9k jobs were added during the final 5 months of the year (or an average of 36.8k jobs per month — roughly double the long-run monthly average). The job gains were significantly stronger than what the underlying pace of economic growth would have implied. We expect that the lagged effects of soft economic outcomes during December will lead to a muted jobs number in February. Our forecast is for a soft 5k jobs gain that leaves the unemployment rate a tick higher at 7.1% due to re-entries to the work force. (The labour force declined sharply (-57k) in January causing the unemployment rate to drop even as employment fell by 22k). One risk is that the ranks of the self-employed swelled by 23.9k even as the employees category dropped by a steep 45.8k in January, so there is a chance for some pay-back in this category.

Canada's **trade data** were very weak through the final three quarters of 2012, with the country racking up a deficit of -C$12bn over the course of the full year compared to a small surplus of C$910m during 2011. We do not expect that trend to improve in 2013 and are forecasting a deficit of -C$550m for January, a slight improvement from December's -C$900m deficit but still no great shakes. We expect a slight narrowing of the deficit due to higher prices for Canadian crude distillates and some strength in new orders that could translate into better machinery shipments. December was a difficult month for most Canadian export sectors and we're looking for a slight bounce-back in autos and other key industries. One risk here is that CAD started to weaken in January, and the country — currently running trade deficits — will start to pay the higher import bill sooner or later.

Housing starts for February (March 8) will be of significant interest after the annualized pace of residential construction plummeted in January, falling to 160k — the lowest level since the recession. Before you try and draw conclusions to the effect that this is evidence that a major housing correction has started, a word of caution is appropriate: housing starts fell to comparable levels in early 2011 — and the housing sector then proceeded to boom for two years. This time is different in the sense that existing home sales have been losing momentum for months, home prices have flattened out in many cities and are falling in others, and a variety of fundamental metrics that we track are looking quite dire in the condo space (which has fuelled overall home building). Moreover, in 2011, mortgage interest rates still had a ways to fall while, this time around, the decrease in housing activity was preceded by a major change in mortgage rules that effectively raised monthly mortgage payment costs. Those reasons cumulatively explain why we expect a soft 165 print in a rough repeat of January's weakness.

UNITED STATES

The main event will be U.S. **jobs** numbers for February. We're expecting a decently strong 175k print on non-farm payrolls as initial jobless claims averaged a fairly low 350k during the three weeks corresponding with the establishment survey reference period, implying that firing shouldn't detract too heavily from total employment. The challenge here — and the big question mark — is to what extent U.S. employers were cautious in their hiring as they confronted uncertainty over the effects of a) tax changes on consumer spending, and b) federal government budget cuts on government procurement and outlays. Note that revisions substantially upgraded the momentum of the U.S. jobs economy during Q4 2012, adding 150k jobs to the rolls and bringing the Q4 average job gain to 201k, which in our view corresponds with the rate that the Fed would likely define as 'progress'. The challenge will now be for the economy to maintain that rate of job gains for the further 16 months that would be required for that progress to be 'substantial.'

U.S. **trade** data will be of significant interest mainly due to the evolving status of the U.S. crude oil trade balance and overall energy trade balance. We're looking for the trade balance to come in at -US$41.5bn in January, slightly weaker than December's number in light of higher Brent crude prices in the context of a flat DXY and weak capital good shipments. The big picture is that the U.S. crude oil trade balance is showing increasingly more muted responsiveness to changes in Brent crude prices due to increasing domestic crude oil production.

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EUROPE

German industrial production (IP) and factory orders for the month of January will be reported next week. December saw positive month-over-month prints in both series (the first since July for IP), and we expect further gains in January in view of the recent improving trends in most German sentiment indicators (including ZEW and Ifo expectations and the manufacturing PMI, which in February posted its first above-50 reading in a year). We anticipate gains of 2.5% m/m and 2.0% in IP and factory orders, respectively. A divergence in euro area growth trends is emerging in the beginning of 2013, with Germany likely to show an earlier and stronger recovery, while France, Italy and Spain remain in recession, challenged by high unemployment and fiscal uncertainties.

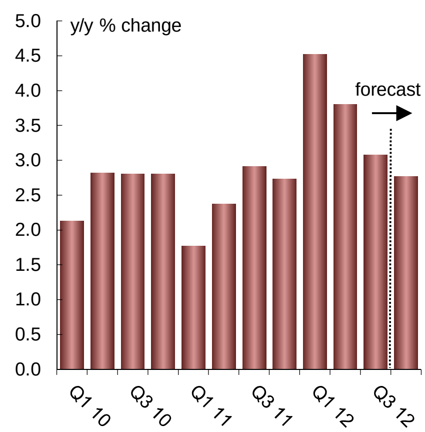
LATIN AMERICA

February's inflation estimates for Mexico, Colombia, Brazil and Chile will be released next week. Consumer price dynamics continue to be uneven across the major economies in Latin America; however, current levels remain within the respective central banks' official targets. In Brazil, prices accelerated to 6.2% y/y in January from 5.8% in December. Although inflation remains within the official tolerance range of 2.5-6.5% (the widest among its Latin American peers), the pace has been increasing in recent months, raising concerns about price stability amid a sluggish economic recovery. Nevertheless, we do not anticipate any changes on the monetary policy stance in the coming months. In Mexico, after a strong deceleration by the end of last year, consumer prices remain close to the 3% mid-point mark, allowing Banco de Mexico to follow a dovish rhetoric, suggesting possible rate cuts by the second or third quarter of the year. In Colombia and Chile, inflation remains at the lower limit of the respective tolerance bands, 2-4% in both countries. We anticipate that inflation will resume its upward trend through 2013 in both economies .

ASIA/PACIFIC

Australia will release Q4 2012 real GDP data on March 5th. We estimate that the economy expanded by 0.4% q/q (seasonally adjusted, non-annualized), and by 2.8% y/y, taking output gains to 3.5% in 2012 overall. Resource exports are performing well, reflecting the gradual revival of the Chinese economy, which is Australia's largest export destination, purchasing almost 30% of all Australian shipments abroad. Household spending is limited by a still-soft labour market; nevertheless, as consumer confidence continues to improve and recent substantial monetary stimulus measures filter through the economy, household spending growth should gradually pick up. Despite the fact that the approaching peak in resource investment will slow Australian economic growth prospects, the nation will maintain a relatively fast rate of economic expansion in comparison to many other advanced economies, growing on average by close to 3% through 2014.

Real GDP Growth - Australia



Source: Bloomberg, Scotiabank Economics.

Australian monetary policy is set to remain accommodative in the coming quarters as evidence of an economic pick-up in the non-mining sector remains muted. The next monetary policy meeting is scheduled for March 4th. The authorities have highlighted that previous interest rate reductions (the benchmark interest rate was cut by 175 basis points between October 2011 and December 2012 to the current level of 3.0%) will continue to work their way through the economy. Therefore, we maintain our view that the monetary easing cycle has now reached its bottom. In addition, inflation will likely continue to climb moderately higher in the near future from the end-2012 level of 2.2% y/y. Nonetheless, with the policy rate being the highest among major advanced economies, monetary policy space continues to represent a tool for the Australian authorities to address any persistence in economic underperformance.

Key Indicators for the week of March 4 - 8

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	03/05	10:00	ISM Non-Manufacturing Composite	Feb	55.0	55.0	55.2
US	03/06	07:00	MBA Mortgage Applications (w/w)	Mar 1	--	--	-3.8
US	03/06	08:15	ADP Employment Report (000s m/m)	Feb	175.0	168.0	192.0
CA	03/06	10:00	**BoC Interest Rate Announcement (%)**	**Mar 6**	**1.00**	**1.00**	**1.00**
US	03/06	10:00	Factory Orders (m/m)	Jan	-2.2	-2.2	1.8
CA	03/07	08:30	Building Permits (m/m)	Jan	--	5.5	-11.2
CA	03/07	08:30	Merchandise Trade Balance (C$ bn)	Jan	-0.6	-0.6	-0.9
US	03/07	08:30	Initial Jobless Claims (000s)	Mar 2	355	355	344
US	03/07	08:30	Continuing Claims (000s)	Feb 23	3050	3110	3074
US	03/07	08:30	Productivity (q/q a.r.)	4Q F	--	-1.5	-2.0
US	03/07	08:30	Trade Balance (US$ bn)	Jan	-41.5	-43.0	-38.5
US	03/07	08:30	Unit Labor Costs (q/q a.r.)	4Q F	--	4.3	4.5
MX	03/07	09:00	Consumer Prices (m/m)	Feb	0.4	0.5	0.4
MX	03/07	09:00	Consumer Prices (y/y)	Feb	3.5	3.6	3.3
MX	03/07	09:00	Consumer Prices Core (m/m)	Feb	0.4	0.5	0.4
US	03/07	15:00	Consumer Credit (US$ bn m/m)	Jan	--	14.5	14.6
CA	03/08	08:15	Housing Starts (000s a.r.)	Feb	165	175.0	160.6
CA	03/08	08:30	Employment (000s m/m)	Feb	5	7.5	-21.9
CA	03/08	08:30	Unemployment Rate (%)	Feb	7.1	7.1	7.0
US	03/08	08:30	Nonfarm Employment Report (000s m/m)	Feb	175.0	155.0	157.0
US	03/08	08:30	Unemployment Rate (%)	Feb	7.9	7.9	7.9
MX	03/08	10:00	**Overnight Rate (%)**	**Mar 8**	**4.50**	**4.50**	**4.50**
US	03/08	10:00	Wholesale Inventories (m/m)	Jan	--	0.3	-0.1

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
UK	03/04	04:30	PMI Construction	Feb	--	49.0	48.7
EC	03/04	05:00	PPI (m/m)	Jan	--	0.5	-0.2
UK	03/04	07:59	Halifax House Price (3 month, y/y)	Feb	1.7	1.7	1.3
IT	03/05	03:45	Services PMI	Feb	--	43.5	43.9
FR	03/05	03:50	Services PMI	Feb F	--	42.7	42.7
GE	03/05	03:55	Services PMI	Feb F	--	54.1	54.1
EC	03/05	04:00	Composite PMI	Feb F	47.4	47.3	47.3
EC	03/05	04:00	Services PMI	Feb F	47.3	47.3	47.3
UK	03/05	04:30	Official Reserves (£ bn)	Feb	--	--	565.0
UK	03/05	04:30	Services PMI	Feb	52.0	51.0	51.5
EC	03/05	05:00	Retail Trade (m/m)	Jan	--	0.3	-0.9
EC	03/06	05:00	GDP (q/q)	4Q P	-0.6	-0.6	-0.6
SP	03/06	06:59	Budget Balance YTD (€ mn)	Dec	--	--	-40310.0
FR	03/07	02:45	Trade Balance (€ mn)	Jan	--	-4700.0	-5349.0
GE	03/07	06:00	Factory Orders (m/m)	Jan	2.0	0.6	0.8
UK	03/07	07:00	BoE Asset Purchase Target (£ bn)	Mar	400.0	375.0	375.0
UK	03/07	7:00	**BoE Policy Announcement (%)**	**Mar 7**	**0.50**	**0.50**	**0.50**
EC	03/07	07:45	**ECB Announces Interest Rates (%)**	**Mar 7**	**0.75**	**0.75**	**0.75**
FR	03/08	02:45	Central Government Balance (€ bn)	Jan	--	--	-87.2
HU	03/08	03:00	GDP (y/y)	4Q F	-2.7	--	-2.7
SP	03/08	03:00	Industrial Output NSA (y/y)	Jan	--	--	-8.5
GE	03/08	06:00	Industrial Production (m/m)	Jan	2.5	0.4	0.3

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of March 4 - 8

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CH	03/02	20:00	Non-manufacturing PMI	Feb	--	--	56.2
SK	03/03	18:00	CPI (m/m)	Feb	0.5	0.5	0.6
SK	03/03	18:00	CPI (y/y)	Feb	1.6	1.6	1.5
SK	03/03	18:00	Core CPI (y/y)	Feb	--	--	1.2
JN	03/03	18:50	Monetary Base (y/y)	Feb	--	--	10.9
AU	03/03	19:30	Building Approvals (m/m)	Jan	--	2.8	-4.4
AU	03/03	19:30	ANZ Job Advertisements (m/m)	Feb	--	--	-0.9
HK	03/04	03:30	Retail Sales - Value (y/y)	Jan	--	8.6	8.8
HK	03/04	03:30	Retail Sales - Volume (y/y)	Jan	--	7.8	8.1
SI	03/04	06:59	Foreign Reserves (US$ mn)	Feb	--	--	258844.0
SI	03/04	08:30	Purchasing Managers Index	Feb	--	49.9	50.2
AU	03/04	19:30	Current Account (AUD mn)	4Q	--	-15300.0	-14900.0
AU	03/04	19:30	Retail Sales (m/m)	Jan	--	0.4	-0.2
AU	03/04	19:30	Australia Net Exports of GDP	4Q	--	0.5	0.1
TA	03/04	19:30	CPI (y/y)	Feb	2.5	2.7	1.2
PH	03/04	20:00	CPI (y/y)	Feb	3.4	3.3	3.0
PH	03/04	20:00	Core CPI (y/y)	Feb	--	--	3.6
PH	03/04	20:00	GDP (m/m)	Feb	--	0.2	0.5
CH	03/04	20:45	HSBC Services PMI	Feb	--	--	54.0
HK	03/04	21:30	Purchasing Managers Index	Feb	--	--	52.5
AU	03/04	22:30	**RBA Cash Target Rate (%)**	**Mar 5**	**3.00**	**3.00**	**3.00**
PH	03/05	06:59	Budget Deficit/Surplus	Dec	--	--	-11.6
AU	03/05	19:30	GDP (q/q)	4Q	0.4	0.6	0.5
AU	03/05	19:30	GDP (y/y)	4Q	2.8	3.0	3.1
NZ	03/06	18:00	QV House Prices (y/y)	Feb	--	--	6.2
AU	03/06	19:30	Trade Balance (AUD mn)	Jan	--	-500.0	-427.0
TH	03/06	22:30	Consumer Confidence Economic	Feb	--	--	72.1
JN	03/07	00:00	Coincident Index CI	Jan P	--	92.8	92.6
JN	03/07	00:00	Leading Index CI	Jan P	--	96.1	93.4
JN	03/07	00:00	New Composite Leading Economic Index	Jan P	--	96.1	93.4
AU	03/07	00:30	Foreign Reserves (AUD bn)	Feb	--	--	46.5
TA	03/07	03:00	Exports (y/y)	Feb	--	-8.1	21.8
TA	03/07	03:00	Imports (y/y)	Feb	--	-7.5	22.3
TA	03/07	03:00	Trade Balance (US$ bn)	Feb	--	1.0	0.5
MA	03/07	04:00	Foreign Reserves (US$ bn)	Feb 28	--	--	140.3
MA	03/07	05:00	**Overnight Rate (%)**	**Mar 7**	**3.00**	**3.00**	**3.00**
ID	03/07	06:59	**BI Reference Interest Rate (%)**	**Mar 7**	**5.75**	**--**	**5.75**
JN	03/07	07:59	**BoJ Target Rate (%)**	**Mar 7**	**0.10**	**0.10**	**0.10**
JN	03/07	18:50	Bank Lending (y/y)	Feb	--	--	1.3
JN	03/07	18:50	Current Account (¥ bn)	Jan	--	-626.0	-264.1
JN	03/07	18:50	GDP (q/q)	4Q F	-0.10	--	-0.1
JN	03/07	18:50	GDP Deflator (y/y)	4Q F	-0.60	--	-0.6
JN	03/07	18:50	Trade Balance - BOP Basis (¥ bn)	Jan	--	-1512.3	-567.6
CH	03/08	06:59	Exports (y/y)	Feb	--	7.6	25.0
CH	03/08	06:59	Imports (y/y)	Feb	--	-8.2	28.8
CH	03/08	06:59	Trade Balance (USD bn)	Feb	--	-8.9	29.2
JN	03/08	07:59	Eco Watchers Survey (current)	Feb	--	--	49.5
JN	03/08	07:59	Eco Watchers Survey (outlook)	Feb	--	--	56.5
CH	03/08	20:30	CPI (y/y)	Feb	2.7	3.0	2.0
CH	03/08	20:30	PPI (y/y)	Feb	-1.5	-1.5	-1.6

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of March 4 - 8

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CL	03/05	06:30	Economic Activity Index SA (m/m)	Jan	--	0.2	1.2
CL	03/05	06:30	Economic Activity Index NSA (y/y)	Jan	--	6.6	4.7
CO	03/05	19:00	Consumer Price Index (m/m)	Feb	--	0.5	0.3
CO	03/05	19:00	Consumer Price Index (y/y)	Feb	--	1.9	2.0
BZ	03/06	07:59	**SELIC Target Rate (%)**	**Mar 6**	**7.25**	**7.25**	**7.25**
BZ	03/07	07:00	Industrial Production SA (m/m)	Jan	--	1.4	-0.1
BZ	03/07	07:00	Industrial Production (y/y)	Jan	--	3.2	-3.6
PE	03/07	18:00	**Reference Rate (%)**	**Mar**	**4.25**	**4.25**	**4.25**
CL	03/08	06:00	CPI (m/m)	Feb	--	0.2	0.2
CL	03/08	06:00	CPI (y/y)	Feb	--	1.4	1.6
BZ	03/08	07:00	IBGE Inflation IPCA (m/m)	Feb	--	0.5	0.9
BZ	03/08	07:00	IBGE Inflation IPCA (y/y)	Feb	--	6.2	6.2

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Global Auctions for the week of March 4 - 8

North America

Country	Date	Time	Event
US	03/04	11:30	U.S. to Sell USD35 Bln 3-Month Bills
US	03/04	11:30	U.S. to Sell USD30 Bln 6-Month Bills
US	03/05	11:30	U.S. to Sell USD25 Bln 52-Week Bills
US	03/05	11:30	U.S. to Sell 4-Week Bills

Europe

Country	Date	Time	Event
NE	03/04	05:30	Netherlands to Sell Up to EUR2 Bln 208-Day Bills
NE	03/04	05:30	Netherlands to Sell Up to EUR2 Bln 86-Day Bills
FR	03/04	08:50	France to Sell Bills (BTF)
DE	03/05	04:30	Denmark to Sell 2.5% Bonds Due 2016
DE	03/05	04:30	Denmark to Sell 1.5% Bonds Due 2023
AS	03/05	05:00	Austria to Sell 3.15% 2044 Bonds
NO	03/05	05:00	Norway to Sell NOK3 Bln 3.75% 2021 Bonds
AS	03/05	05:00	Austria to Sell 3.4% 2022 Bonds
UK	03/05	05:30	U.K. to Sell GBP4 Bln 1.25% 2018 Bonds
BE	03/05	05:30	Belgium to Sell Bills
SZ	03/05	05:30	Switzerland to Sell 3-Month Bills
SW	03/06	05:03	Sweden to Sell SEK3.5 Bln 1.5% 2023 Bonds
GE	03/06	05:30	Germany to Sell Add'l EU4 Bln 5-Year Notes
SP	03/07	04:30	Spain to Sell Bonds
FR	03/07	04:50	France to Sell Bonds (OAT)
BE	03/08	06:00	Belgium to Sell Bonds (OLO ORI)
IC	03/08	06:00	Iceland to Sell Bonds
UK	03/08	06:10	UK to Sell Bills

Asia Pacific

Country	Date	Time	Event
JN	03/04	22:35	Japan to Sell 6-Month Bills
JN	03/04	22:45	Japan to Sell 10-Year Bonds
CH	03/05	22:00	China to Sell 5-Year Bonds
JN	03/05	22:35	Japan to Sell 3-Month Bills
NZ	03/06	20:05	New Zealand Plans to Sell Inflation Bonds
JN	03/07	22:45	Japan to Sell 30-Year Bonds

Source: Bloomberg, Scotiabank Economics.

Events for the week of March 4 - 8

North America

Country	Date	Time	Event
US	FEB 24-MAR 6		U.S. Secretary of State Kerry Visits Europe and Middle East
EC	03/02	11:00	EU's De Gucht Speaks at Harvard Conference
EC	03/02	14:00	ECB's Coeure Speaks in Cambridge, MA
US	03/04	08:00	Fed's Yellen Speaks in Washington
US	03/04	11:45	Former Fed Chairman Volcker Speaks in Washington
US	04-13 MAR		USTR Office Holds Trans Pacific Partnership Negotiations
US	03/05	14:00	Fed's Lacker Speaks on Monetary Policy in Washington
US	03/06	08:15	Fed's Plosser Speaks on Economic Outlook in Lancaster, PA
CA	03/06	10:00	**Bank of Canada Rate**
US	03/06	14:00	U.S. Federal Reserve Releases Beige Book
US	03/06	20:30	Fed's Fisher Speaks in San Antonio
US	03/07	16:30	Fed Releases Results of Supervisory Stress Test
MX	03/08	10:00	**Overnight Rate**
US	03/08		S&P Dow Jones Index Quarterly Review Final Announcement

Europe

Country	Date	Time	Event
EC	03/02	11:00	EU's De Gucht Speaks at Harvard Conference
EC	03/02	14:00	ECB's Coeure Speaks in Cambridge, MA
EC	03/04	05:00	EU, ECB Officials, Dijsselbloem Meet Labor, Employer Leaders
EC	03/04	09:00	Euro-Area Finance Ministers Meet in Brussels
EC	03/05	03:00	EU-27 Finance Ministers Meet in Brussels
UK	03/05	04:35	BOE Executive Director Bailey Speaks at Bond Congress
PO	03/05	07:00	EC, ECB, IMF Officials Meet Parliament Members
UK	03/06	01:45	BOE's King, Bailey Testify to U.K. Parliament Banking Panel
EC	03/06	02:00	ECB's Liikanen Speaks at EPC in Brussels
UK	03/06	04:45	BOE's Mervyn King and Andrew Bailey Speak in Parliament
EC	03/06	09:00	Trichet Speaks at European Investment Bank in Luxembourg
PO	03/06	10:00	Portuguese Prime Minister Attends Debate in Parliament
UK	03/06		FTSE Index Quarterly Release
SZ	03/07	01:30	SNB Final Result for 2012
EC	03/07	03:30	France's Moscovici, OECD's Padoan, EU's Buti Speak in Brussels
SZ	03/07	04:00	SNB President Jordan Discusses 2012 Annual Result
IT	03/07	05:00	Bank of Italy to Release Reserves and Balance-Sheet for Feb.
EC	03/07	05:30	EU's Barroso Speaks at Lisbon Council in Brussels
EC	03/07	05:30	EU's Barroso, Ireland's Kenny Speak at Think Tank
EC	03/07	06:15	Ireland's Kenny Speaks at Lisbon Council in Brussels
UK	03/07	07:00	Bank of England Monetary Policy Committee Decision
UK	03/07	07:00	**BOE ANNOUNCES RATES**
UK	03/07	07:00	BOE Asset Purchase Target
EC	03/07	07:45	**ECB Announces Interest Rates**
EC	03/07	07:45	ECB Deposit Facility Rate
EC	03/07	08:30	ECB'S Draghi Holds Press Conference After Rate Decision
IT	03/07		Berlusconi Wiretapping Case Sentencing
EC	03/07		STOXX Dividend Annual Review and Style Quarterly Review
EC	03/08	03:00	EU's Almunia Speaks at German Law Conference in Brussels
NO	03/08	04:00	Norwegian Sovereign Wealth Fund Releases Returns
GE	03/08	05:00	Merkel Attends German Skilled Trades Congress in Munich
EC	03/08	06:00	ECB Announces 3-Year LTRO Repayment
EC	03/08	06:00	ECB's Praet, Coene Speak at Conference in Brussels

Source: Bloomberg, Scotiabank Economics.

Events for the week of March 4 - 8

Asia Pacific

Country	Date	Time	Event
CH	01-02 MAR		Chinese People's Political Conference Spokesperson Briefing
CH	02-03 MAR		Chinese People's Political Consultative Conference Meeting
TH	02-14 MAR		Thailand Hosts CITES Conference of the Parties
NZ	03/03	20:00	Treasury Publishes Monthly Economic Indicators
AU	03/04	22:30	**RBA CASH TARGET**
CH	04-05 MAR		China's National People's Congress Plennary Session Begins
JN	06-07 MAR		**BOJ Target Rate**
ID	06-07 MAR		**Bank Indonesia Reference Rate**
MA	03/07	05:00	**Overnight Rate**
NZ	03/07	16:00	Government Financial Statements

Latin America

Country	Date	Time	Event
BZ	03/06	07:59	**SELIC Target Rate (%)**
PE	03/07	18:00	**Reference Rate (%)**

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	March 6, 2013	1.00	1.00
Federal Reserve – Federal Funds Target Rate	0.25	March 20, 2013	0.25	--
Banco de México – Overnight Rate	4.50	March 8, 2013	4.50	4.50

BoC: Scotiabank expects the BoC's March 6 statement to continue to soften the BoC's tightening bias while still maintaining its guidance that the next BoC interest rate change will be a tightening of policy – irrespective of how much less 'imminent' those changes may be. We expect the BoC to highlight greater external risks to the domestic economy (European & Asian growth, U.S. fiscal policy, etc.) and to note a weaker tone in December economic data. We suggest that a more significant change in tone – should it be appropriate – will come in the April 17th statement and MPR.
Banxico: The monetary policy situation in Mexico has significantly changed since the end of last year. Authorities have signalled that a rate cut could come in response to the lower inflation risk premia and slower economic growth under a price stability environment. We do not anticipate any move at the next policy meeting, scheduled for March 8th; however, in our view, the statement will signal the timing of a possible cut. We expect a 50-basis point adjustment by mid-year.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.75	March 7, 2013	0.75	0.75
Bank of England – Bank Rate	0.50	March 7, 2013	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	March 14, 2013	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	March 15, 2013	8.25	--
Hungarian National Bank – Base Rate	5.25	March 26, 2013	5.25	--
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.50	March 26, 2013	5.50	--
Sweden Riksbank – Repo Rate	1.00	April 17, 2013	1.00	--
Norges Bank – Deposit Rate	1.50	March 14, 2013	1.50	--

We do not anticipate any policy changes from the European Central Bank (ECB) next Thursday. Monetary authorities had voiced some concern about euro strength at the beginning of the year and its potential to slow inflation and delay the recovery process, but this pressure eased significantly in February. The ECB's updated macroeconomic projections will also be presented next week and we anticipate only minor revisions. Further intervention is expected from the Bank of England (BoE) next week; the asset purchase program will likely be expanded by GBP 25 billion, bringing the total amount to 400 billion since 2008. For a full preview of the upcoming ECB and BoE meetings, please see "ECB to Keep a Dovish Stance" by Frédéric Prêtet and "BoE Meeting Preview" by Alan Clarke, earlier in this publication.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	March 7, 2013	0.10	0.10
Reserve Bank of Australia – Cash Target Rate	3.00	March 4, 2013	3.00	3.00
Reserve Bank of New Zealand – Cash Rate	2.50	March 13, 2013	2.50	2.50
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	7.75	March 19, 2013	7.50	--
Bank of Korea – Bank Rate	2.75	March 13, 2013	2.75	--
Bank of Thailand – Repo Rate	2.75	April 3, 2013	2.75	--
Bank Indonesia – Reference Interest Rate	5.75	March 7, 2013	5.75	--

The next monetary policy decision by the Bank of Japan (BoJ) will be announced on March 7th. The central bank is in the midst of a leadership transition process; we believe that no new monetary measures will be introduced before the new policymakers who concur with Prime Minister Shinzo Abe's growth-enhancing economic views have taken office in the latter part of March. Indonesian monetary authorities will meet on March 7th, and will likely keep monetary conditions unchanged; in the context of a substantial weakening bias of the Indonesian rupiah, we assess that the monetary easing cycle has reached a bottom, and expect the central bank to start normalizing conditions in the third quarter of the year as inflationary pressures emerge. For insights into the Reserve Bank of Australia's monetary policy meeting on March 4th, please refer to Asia/Pacific Key Data Preview on page A2.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	7.25	March 6, 2013	7.25	7.25
Banco Central de Chile – Overnight Rate	5.00	March 14, 2013	5.00	5.00
Banco de la República de Colombia – Lending Rate	3.75	March 22, 2013	3.75	3.75
Banco Central de Reserva del Perú – Reference Rate	4.25	March 7, 2013	4.25	4.25

We maintain our view that the central bank of Brazil will maintain its monetary policy unchanged, leaving the reference rate at 7.25%. Headline inflation has been accelerating from 5.8% y/y in December to 6.2% in January, getting closer to the upper limit of the wide target range (2.5-6.5%). However, the economic recovery has been modest with mixed signs in the industrial sector and household consumption, despite the government's stimulus measures. We do not anticipate any changes on the monetary policy front in the first half of the year.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.00	March 20, 2013	5.00	--

Forecasts at time of publication.
Source: Bloomberg, Scotiabank Economics.

Forecasts as at February 28, 2013*	2000-11	2012e	2013f	2014f	2000-11	2012e	2013f	2014f
Output and Inflation (annual % change)	Real GDP				Consumer Prices[2]			
World[1]	3.7	3.1	3.2	3.8				
Canada	2.2	1.8	1.7	2.4	2.1	1.5	1.1	2.0
United States	1.8	2.2	2.0	2.7	2.5	2.1	1.9	2.1
Mexico	2.2	4.0	3.6	3.9	4.8	3.6	3.8	3.8
United Kingdom	1.9	0.2	0.9	1.4	2.3	2.7	2.9	2.4
Euro Zone	1.4	-0.5	-0.3	1.0	2.1	2.2	1.7	1.7
Japan	0.8	1.9	0.8	1.4	-0.3	-0.1	0.7	0.9
Australia	3.0	3.5	2.6	3.1	3.1	2.2	2.8	3.0
China	9.4	7.8	8.1	8.3	2.4	2.5	3.3	3.9
India	7.4	5.1	6.0	6.5	6.6	7.2	7.0	6.1
South Korea	4.5	2.0	2.8	3.5	3.2	1.4	2.7	3.0
Thailand	4.0	6.5	4.5	4.2	2.6	3.6	3.1	3.3
Brazil	3.6	1.0	3.3	4.0	6.6	5.8	5.8	5.5
Chile	4.8	5.6	5.0	5.5	3.4	1.5	3.1	3.3
Peru	5.6	6.3	6.0	5.5	2.6	2.6	3.0	3.0
Central Bank Rates (%, end of period)	12Q4	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.00	3.00	3.00	3.00	3.25	3.25	3.50	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.99	1.04	1.04	1.02	1.01	1.01	1.00	1.00
Canadian Dollar (CADUSD)	1.01	0.96	0.96	0.98	0.99	0.99	1.00	1.00
Euro (EURUSD)	1.32	1.30	1.29	1.28	1.27	1.26	1.26	1.25
Sterling (GBPUSD)	1.63	1.51	1.49	1.47	1.45	1.45	1.45	1.44
Yen (USDJPY)	87	92	93	94	95	95	96	97
Australian Dollar (AUDUSD)	1.04	1.02	1.02	1.04	1.04	1.06	1.06	1.08
Chinese Yuan (USDCNY)	6.2	6.2	6.2	6.2	6.1	6.1	6.1	6.1
Mexican Peso (USDMXN)	12.9	12.9	12.7	12.8	12.9	13.0	12.9	12.9
Brazilian Real (USDBRL)	2.05	1.96	1.98	2.01	2.00	2.00	1.98	1.98

Commodities (annual average)	2000-11	2012	2013f	2014f
WTI Oil (US$/bbl)	57	94	94	96
Brent Oil (US$/bbl)	58	112	112	112
Nymex Natural Gas (US$/mmbtu)	5.67	2.83	3.75	4.00
Copper (US$/lb)	2.10	3.61	3.54	3.15
Zinc (US$/lb)	0.77	0.88	1.00	1.15
Nickel (US$/lb)	7.62	7.95	8.25	8.50
Gold, London PM Fix (US$/oz)	668	1,670	1,690	1,650
Pulp (US$/tonne)	718	872	910	950
Newsprint (US$/tonne)	581	640	625	660
Lumber (US$/mfbm)	272	298	360	400

[1] World GDP for 2000-11 are IMF PPP estimates; 2012-14f are Scotiabank Economics' estimates based on a 2011 PPP-weighted sample of 38 countries.

[2] CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

* See Scotiabank Economics 'Global Forecast Update' (http://www.gbm.scotiabank.com/English/bns_econ/forecast.pdf) for additional forecasts & commentary.

North America

Canada	2012	12Q3	12Q4	Latest
Real GDP (annual rates)	1.8	0.7	0.6	
Current Acc. Bal. (C$B, ar)	-66.9	-72.2	-69.0	
Merch. Trade Bal. (C$B, ar)	-12.0	-20.7	-11.9	-10.8 (Dec)
Industrial Production	1.2	0.5	-0.4	-1.5 (Dec)
Housing Starts (000s)	215	222	202	161 (Jan)
Employment	1.2	1.0	1.6	1.8 (Jan)
Unemployment Rate (%)	7.3	7.3	7.2	7.0 (Jan)
Retail Sales	2.5	2.5	0.7	-0.7 (Dec)
Auto Sales (000s)	1670	1654	1660	1567 (Dec)
CPI	1.5	1.2	0.9	0.5 (Jan)
IPPI	0.6	0.0	-0.1	0.2 (Jan)
Pre-tax Corp. Profits	-2.7	-3.6	-9.1	

Mexico	2012	12Q3	12Q4	Latest
Real GDP	3.9	3.2	3.2	
Current Acc. Bal. (US$B, ar)	-9.2	-3.8	-26.0	
Merch. Trade Bal. (US$B, ar)	0.2	-4.7	-7.8	-34.5 (Jan)
Industrial Production	3.6	3.6	1.8	-1.1 (Dec)
CPI	4.1	4.6	4.1	3.3 (Jan)

United States	2012	12Q3	12Q4	Latest
Real GDP (annual rates)	2.2	3.1	0.1	
Current Acc. Bal. (US$B, ar)		-430		
Merch. Trade Bal. (US$B, ar)	-736	-697	-724	-674 (Dec)
Industrial Production	3.7	3.5	2.6	2.4 (Jan)
Housing Starts (millions)	0.78	0.77	0.90	0.89 (Jan)
Employment	1.7	1.7	1.6	1.6 (Jan)
Unemployment Rate (%)	8.1	8.0	7.8	7.9 (Jan)
Retail Sales	4.8	4.6	4.0	4.1 (Jan)
Auto Sales (millions)	14.4	14.5	15.0	15.2 (Jan)
CPI	2.1	1.7	1.9	1.6 (Jan)
PPI	1.9	1.5	1.7	1.4 (Jan)
Pre-tax Corp. Profits		19.3		

Europe

Euro Zone	2012	12Q3	12Q4	Latest
Real GDP	-0.5	-0.6	-0.9	
Current Acc. Bal. (US$B, ar)	142	205	309	426 (Dec)
Merch. Trade Bal. (US$B, ar)	133.9	152.9	219.0	205.0 (Dec)
Industrial Production	-2.3	-2.4	-3.2	-2.3 (Dec)
Unemployment Rate (%)	11.3	11.4	11.7	11.9 (Jan)
CPI	2.5	2.5	2.3	2.0 (Jan)

Germany	2012	12Q3	12Q4	Latest
Real GDP	0.9	0.9	0.4	
Current Acc. Bal. (US$B, ar)	214.8	208.7	242.5	273.0 (Dec)
Merch. Trade Bal. (US$B, ar)	243.2	255.4	245.5	267.6 (Dec)
Industrial Production	-0.8	-1.1	-2.5	-1.1 (Dec)
Unemployment Rate (%)	6.8	6.8	6.9	6.9 (Feb)
CPI	2.0	2.0	2.0	1.5 (Feb)

France	2012	12Q3	12Q4	Latest
Real GDP	0.0	0.0	-0.3	
Current Acc. Bal. (US$B, ar)	-63.0	-40.0	-70.7	-41.7 (Dec)
Merch. Trade Bal. (US$B, ar)	-52.1	-50.7	-45.0	-48.9 (Dec)
Industrial Production	-2.2	-2.0	-3.1	-2.1 (Dec)
Unemployment Rate (%)	10.2	10.3	10.4	10.6 (Jan)
CPI	2.0	2.0	1.5	1.2 (Jan)

United Kingdom	2012	12Q3	12Q4	Latest
Real GDP	0.2	0.2	0.3	
Current Acc. Bal. (US$B, ar)		-100.9		
Merch. Trade Bal. (US$B, ar)	-169.1	-164.8	-175.4	-172.4 (Dec)
Industrial Production	-2.4	-1.7	-2.3	-1.7 (Dec)
Unemployment Rate (%)		7.8		7.8 (Nov)
CPI	2.8	2.4	2.7	2.7 (Jan)

Italy	2012	12Q3	12Q4	Latest
Real GDP	-2.2	-2.4	-2.7	
Current Acc. Bal. (US$B, ar)	-12.6	4.3	17.1	37.2 (Dec)
Merch. Trade Bal. (US$B, ar)	13.9	23.0	36.0	34.0 (Dec)
Industrial Production	-6.5	-6.3	-6.7	-7.0 (Dec)
CPI	3.1	3.2	2.5	2.2 (Jan)

Russia	2012	12Q3	12Q4	Latest
Real GDP		2.9		
Current Acc. Bal. (US$B, ar)	81.2	6.7	17.3	
Merch. Trade Bal. (US$B, ar)	16.2	12.8	15.7	17.1 (Dec)
Industrial Production	-5.3	2.5	1.7	-0.8 (Jan)
CPI	5.1	6.0	6.5	7.1 (Jan)

All data expressed as year-over-year % change unless otherwise noted.

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2012	12Q3	12Q4	Latest
Real GDP		3.1		
Current Acc. Bal. (US$B, ar)		-66.1		
Merch. Trade Bal. (US$B, ar)	6.5	1.9	-5.3	47.2 (Dec)
Industrial Production		4.3		
Unemployment Rate (%)	5.2	5.3	5.3	5.4 (Jan)
CPI	1.8	2.0	2.2	

Japan	2012	12Q3	12Q4	Latest
Real GDP	1.9	0.4	0.1	
Current Acc. Bal. (US$B, ar)	58.9	82.4	-4.5	-37.9 (Dec)
Merch. Trade Bal. (US$B, ar)	-86.1	-97.0	-112.0	-91.4 (Jan)
Industrial Production	-1.0	-4.6	-6.7	-6.5 (Jan)
Unemployment Rate (%)	4.4	4.3	4.2	4.2 (Jan)
CPI	0.0	-0.4	-0.2	-0.3 (Jan)

South Korea	2012	12Q3	12Q4	Latest
Real GDP	2.0	1.5	1.5	
Current Acc. Bal. (US$B, ar)	43.1	58.2	59.3	27.0 (Jan)
Merch. Trade Bal. (US$B, ar)	28.3	29.9	39.8	5.7 (Jan)
Industrial Production	1.2	-1.6	1.9	0.3 (Jan)
CPI	2.2	1.6	1.7	1.5 (Jan)

China	2012	12Q3	12Q4	Latest
Real GDP	10.4	7.4	7.9	
Current Acc. Bal. (US$B, ar)	290.0			
Merch. Trade Bal. (US$B, ar)	230.7	316.5	332.0	349.8 (Jan)
Industrial Production	10.3	9.2	10.3	10.3 (Dec)
CPI	2.5	1.9	2.5	2.0 (Jan)

Thailand	2012	12Q3	12Q4	Latest
Real GDP	6.4	3.1	18.9	
Current Acc. Bal. (US$B, ar)	2.7	2.7	0.9	
Merch. Trade Bal. (US$B, ar)	0.7	1.7	0.3	-2.8 (Jan)
Industrial Production	2.3	-9.9	42.7	9.0 (Jan)
CPI	3.0	2.9	3.2	3.2 (Feb)

India	2012	12Q3	12Q4	Latest
Real GDP	5.1	5.3	4.5	
Current Acc. Bal. (US$B, ar)		-22.3		
Merch. Trade Bal. (US$B, ar)	-16.5	-16.9	-19.6	-20.0 (Jan)
Industrial Production	0.7	0.4	2.1	-0.6 (Dec)
WPI	7.5	7.9	7.3	6.6 (Jan)

Indonesia	2012	12Q3	12Q4	Latest
Real GDP	6.2	6.2	6.1	
Current Acc. Bal. (US$B, ar)	-24.2	-5.3	-7.8	
Merch. Trade Bal. (US$B, ar)	-0.1	0.2	-0.9	-0.2 (Jan)
Industrial Production	4.1	-0.4	11.0	11.0 (Dec)
CPI	4.3	4.5	4.4	5.3 (Feb)

Latin America

Brazil	2012	12Q3	12Q4	Latest
Real GDP	0.8	0.8	1.1	
Current Acc. Bal. (US$B, ar)	-54.2	-35.6	-80.4	
Merch. Trade Bal. (US$B, ar)	19.5	34.6	14.9	-48.4 (Jan)
Industrial Production	-2.8	-2.3	-1.0	-2.1 (Dec)
CPI	5.4	5.2	5.6	6.2 (Jan)

Chile	2012	12Q3	12Q4	Latest
Real GDP		5.7		
Current Acc. Bal. (US$B, ar)		-19.1		
Merch. Trade Bal. (US$B, ar)	12.7	-7.1	6.6	2.9 (Jan)
Industrial Production	3.6	1.5	4.1	4.3 (Jan)
CPI	3.0	2.6	2.2	1.6 (Jan)

Peru	2012	12Q3	12Q4	Latest
Real GDP		6.5		
Current Acc. Bal. (US$B, ar)		-2.8		
Merch. Trade Bal. (US$B, ar)	0.4	0.3	0.4	0.7 (Dec)
Unemployment Rate (%)	7.0	6.5	5.9	6.1 (Jan)
CPI	3.7	3.5	2.8	2.5 (Feb)

Colombia	2012	12Q3	12Q4	Latest
Real GDP		2.1		
Current Acc. Bal. (US$B, ar)		-3.6		
Merch. Trade Bal. (US$B, ar)	0.2	0.0	0.2	0.7 (Dec)
Industrial Production		-0.4		-3.0 (Dec)
CPI	3.2	3.1	2.8	2.0 (Jan)

All data expressed as year-over-year % change unless otherwise noted.

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	12Q3	12Q4	Feb/22	Mar/01*	United States	12Q3	12Q4	Feb/22	Mar/01*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.98	0.93	0.95	0.95	3-mo. T-bill	0.09	0.04	0.12	0.10
10-yr Gov't Bond	1.73	1.80	1.94	1.81	10-yr Gov't Bond	1.63	1.76	1.96	1.85
30-yr Gov't Bond	2.32	2.37	2.59	2.50	30-yr Gov't Bond	2.82	2.95	3.15	3.06
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	67.9	68.4	68.7	(Jan)	FX Reserves (US$B)	142.0	139.1	140.9	(Jan)
Germany					**France**				
3-mo. Interbank	0.11	0.10	0.15	0.13	3-mo. T-bill	0.00	-0.01	0.01	0.02
10-yr Gov't Bond	1.44	1.32	1.57	1.41	10-yr Gov't Bond	2.18	2.00	2.23	2.11
FX Reserves (US$B)	68.5	67.4	68.0	(Jan)	FX Reserves (US$B)	50.9	54.2	58.0	(Jan)
Euro Zone					**United Kingdom**				
Refinancing Rate	0.75	0.75	0.75	0.75	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.11	0.13	0.07	0.07	3-mo. T-bill	0.35	0.36	0.39	0.38
FX Reserves (US$B)	332.8	332.5	337.6	(Jan)	10-yr Gov't Bond	1.73	1.83	2.11	1.87
					FX Reserves (US$B)	87.9	88.6	90.1	(Jan)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	3.50	3.00	3.00	3.00
3-mo. Libor	0.13	0.11	0.10	0.10	10-yr Gov't Bond	2.99	3.27	3.54	3.34
10-yr Gov't Bond	0.78	0.79	0.73	0.66	FX Reserves (US$B)	42.4	44.9	44.0	(Jan)
FX Reserves (US$B)	1233.3	1227.2	1226.3	(Jan)					

Exchange Rates (end of period)

USDCAD	0.98	0.99	1.02	1.03	¥/US$	77.96	86.75	93.42	93.33
CADUSD	1.02	1.01	0.98	0.97	US¢/Australian$	1.04	1.04	1.03	1.02
GBPUSD	1.617	1.626	1.516	1.503	Chinese Yuan/US$	6.28	6.23	6.24	6.22
EURUSD	1.286	1.319	1.319	1.300	South Korean Won/US$	1111	1064	1085	1085
JPYEUR	1.00	0.87	0.81	0.82	Mexican Peso/US$	12.859	12.853	12.704	12.779
USDCHF	0.94	0.92	0.93	0.94	Brazilian Real/US$	2.026	2.052	1.973	1.982

Equity Markets (index, end of period)

United States (DJIA)	13437	13104	14001	14069	U.K. (FT100)	5742	5898	6336	6379
United States (S&P500)	1441	1426	1516	1511	Germany (Dax)	7216	7612	7662	7708
Canada (S&P/TSX)	12317	12434	12702	12754	France (CAC40)	3355	3641	3706	3700
Mexico (IPC)	40867	43706	43876	43858	Japan (Nikkei)	8870	10395	11386	11606
Brazil (Bovespa)	59176	60952	56697	56690	Hong Kong (Hang Seng)	20840	22657	22782	22880
Italy (BCI)	825	873	876	860	South Korea (Composite)	1996	1997	2019	2026

Commodity Prices (end of period)

Pulp (US$/tonne)	830	870	890	890	Copper (US$/lb)	3.75	3.59	3.55	3.46
Newsprint (US$/tonne)	640	640	625	625	Zinc (US$/lb)	0.95	0.92	0.95	0.91
Lumber (US$/mfbm)	300	388	390	390	Gold (US$/oz)	1776.00	1657.50	1576.50	1582.25
WTI Oil (US$/bbl)	92.19	91.82	93.13	90.61	Silver (US$/oz)	34.65	29.95	28.79	28.01
Natural Gas (US$/mmbtu)	3.32	3.35	3.29	3.48	CRB (index)	309.30	295.01	293.52	290.34

** Latest observation taken at time of writing.*
Source: Bloomberg, Scotiabank Economics.

Emerging Markets Strategy

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