Global Views

Weekly commentary on economic and financial market developments

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Spotlight Shifts To China, BoJ QE Debate Amid Lingering ECB & Fed After-Effects

- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A7.**

Much of the week's focus will have the spotlight turned back upon **Asian** markets and particularly **China**. CPI inflation is expected to have dropped to 1.7% y/y in China in July, down a half point from the prior month and back to the lowest reading since late 2009 and early 2010. This would support a further easing bias by the PBoC which will also have a keen eye on further signs of cooling growth when industrial production, retail sales, investment, and export figures are also released next week. The Bank of Japan is a risk in terms of the debate over a large foreign bond-buying program that could eclipse the size of any ECB or Fed programs. Several regional central banks make policy announcements but only the Bank of Korea is expected to cut its policy rate after having done so in July. The RBA is expected to stand pat by all but four economists within the Bloomberg consensus of 24 forecasts. Another negative surprise in the July jobs data next week could raise the odds of an RBA cut in the wake of the June disappointment. Central banks in Indonesia and Pakistan are unlikely to make policy moves. Trade figures will be released for several Asian economies.

European markets will be principally focused upon extending their interpretation of the ECB's recent policy guidance, key factory and trade data, and some bond auctions. Three bond auctions in Germany, Belgium and the UK will test the European appetite for safe havens versus peripheral debt in the wake of the ECB meeting. Germany and the UK could well see higher funding costs out of these auctions as safe haven appeal diminishes somewhat. ECB President Mario Draghi took a calculated risk by signaling further unconventional policy measures — perhaps including bond buying — essentially if beleaguered states first submit to the EFSF/ESM apparatus for financial assistance and Brussels for grander oversight. This may be a positive development, but key risks remain. One is the German constitutional court ruling on the ESM in September. Another is the willingness of Spain and Italy to subject themselves to oversight from Brussels and Germany. Third is the ability of Spain and Italy to actually achieve progress on fiscal targets given a checkered pattern in Greece, Portugal, Spain and Italy thus far throughout the crisis. Fourth is that ECB bond buying could ease up on the pressures on politicians and make for less likelihood of fiscal targets being achieved which would then put both the ECB and the Troika in the awkward spot of deciding what to do to enforce the need to hit fiscal targets or else suspend payments and bond buying. Also, the ECB's guidance that it would focus bond buying on the front end of the curves signals a policy desire to push out the problem and thus perhaps give banks further time to repair their capital positions. Data risk will be relatively sparse and principally focused upon three areas. One is the Bank of England's quarterly inflation report that will help shape expectations for any further policy measures, but on the heels of having increased its asset purchase target and introduced its funding for lending program — both two meetings ago — it's unlikely that the BoE will signal any further measures just yet. Second is a trio of releases that speak to the resilience — or lack thereof — of German manufacturers and exporters with consensus expecting disappointment for each of factory orders, industrial production and export growth. Third is Q2 Italian GDP for Q2 which is likely to contract for a fourth consecutive quarter. Each of France, Italy and the UK also release factory and trade figures.

Canadian markets face a handful of key risks next week after starting off slow with markets shut on Monday for the August Civic Holiday. Bank of Canada Governor Mark Carney speaks on Wednesday at a conference in London sponsored by the Financial Times and the Government of Canada on "Doing Business With Canada." Against a moose and maple syrup back drop, his topic is the "Economic Outlook: Finding Opportunity In Today's Changing Economic Environment." This will be the Governor's first set of formal comments delivered to markets since the July rate statement and Monetary Policy Report on July 17th and 18th respectively. As such, his views in the wake of a soft GDP report, very weak housing data in the form of sharp declines in Toronto's condo market and Vancouver's resale market, and an easing bias at the Fed and ECB may provide useful updates of his perspectives on domestic monetary policy. As we write on page 6, we view the BoC as on-hold for an extended period of time into at least early 2014 and with the fatter tail risk skewed toward later yet. Second on the list of next week's market risks will be the Friday jobs report for July. After massive job growth in March and April, Canadian job growth has disappointed. Tail risk is always very high on this report because of relatively large sampling error and a paucity of advance labour market readings of any use in Canada. As we note on page 9, volatility in education sector jobs poses risks that are skewed to the downside on the headline jobs tally. That said, notwithstanding that the Canadian economy has recuperated all of the jobs lost in the downturn and then some, the main point on job markets is that there remains labour

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market slack characterized by an unemployment rate that remains about 1.3 percentage points higher than it was pre-crisis, and a labour force participation rate that is still about 1.1 percentage points lower than where it peaked in early 2008. Add to that part-time workers who would rather be working full-time, and sustained cost -push inflationary pressures are likely to be fairly modest particularly with public sector restraint coming down the pipeline. Third on the list of risks is housing data as more regional resale reports flow in, and home construction data arrives. Housing starts for July follow what was a spectacular performance over 2012H1 as starts rose to 223,000 at an annualized rate in 2012Q2 and thus restoring home construction to close to the peaks that existed from late 2003 through to 2008. That's up from the 2009Q2 low of 143k. Even in a best case scenario whereby housing starts hang in at elevated pre-crisis levels, it's unlikely that housing will grow in such a manner as to continue contributing toward GDP growth going forward. Similar arguments also apply to record high levels of real consumer spending and real renovation spending such that the three quarters of the economy that is represented by housing investment and consumption face flat-lining risks going forward. If Europe truly is finding a solution to its woes, then the risks to Canadian housing are even greater via a potential unwinding of the safe haven bid to Canadian bonds that would flow through to higher fixed term mortgage rates. In fact housing starts probably face substantial downward pressure over 2012H2 through the combined forces of coming off 2012H1 over-shooting of construction volumes in the Toronto condominium marketplace and the further incremental impact of regulatory tightening. Trade figures for the month of June will also be worth considering even if there is no market impact as they will contribute to our understanding of Q2 GDP growth. We think net trade detracted from growth not only in the known Q1 figures but also in Q2 amidst a further deterioration in the inflation adjusted trade balance. In nominal terms, Canada has been running the largest trade deficits at least since the early 1970s and at the same time as it has ramped up fiscal deficits across all levels of government combined. While measures of external finances like external debt and FX reserves are relatively healthy, this deterioration in the twin deficits is clearly a challenge from a macro stylized facts standpoint. Finally, the earnings calendar will be active with 440 companies releasing earnings throughout the week, of which 95 are on the TSX. The earnings calendar builds to a crescendo in the back half of the week.

US markets should have exceptionally little to chew on new week. Even as the black-out period for Fed talk lifts, there is only one planned speech and while it will be delivered by Chairman Bernanke, the topic of personal finance education in speaking to teachers won't inspire markets. There is, however, audience Q&A and media and that's where the risk lies with respect to how the Chairman views the better than expected July nonfarm jobs print and European developments in the context of implications for Fed policy. Whether or not the Fed truly did very modestly strengthen its easing guidance in the August 1st FOMC statement may be somewhat clarified. The only two bits of macro data will both land on Thursday. A Labor Department spokesperson recently commented that initial jobless claims would begin to be free of auto sector distortions in this upcoming print. Recall that the issue is that fewer and shorter than normal auto plant shut downs for seasonal retooling distorted the seasonal adjustments to raw claims data and created unreliable volatility in the data throughout July. Thus, we might get a cleaner picture of what's happening to U.S. job markets to supplement the July nonfarm payrolls print that came in stronger than expected but still not good enough. Next week's international trade figures will be of interest on two counts: it will start the round of Q2 GDP revisions for better or for worse; and the sharp drop in average oil prices in June compared to May could motivate an improvement in the nominal trade deficit. The U.S. earnings calendar lightens up next week with 1207 companies (46 on the S&P500) on tap. Of note in the global earnings season thus far is that it is only the US that is posting a substantial beat ratio over analyst expectations whereby most other countries have beat ratios that are closer to the 50-50 fair coin toss they should be given the difficulty in persistently outperforming or underperforming expectations. This speaks to something unique about US analysts, and as we've argued previously, we think that uniqueness speaks to the unintended consequences of Title V in the 2002 Sarbanes Oxley Act. The US also auctions 3s, 10s and 30s next week.

Mexican inflation figures will garner much of the attention across **Latam** markets next week. The country's inflation rate has been on a volatile upward trend since toward the end of last year and pressures are likely to remain for some time yet. Bank of Mexico Governor Agustin Carstens has recently commented that he anticipates inflation to moderate into year-end as the effects of higher food prices are expected to be temporary and isolated. An odd medley of temporary influences are at play, including bird flu that has sharply impacted poultry and egg prices, and the effects of a drought on key food items like corn tortillas.

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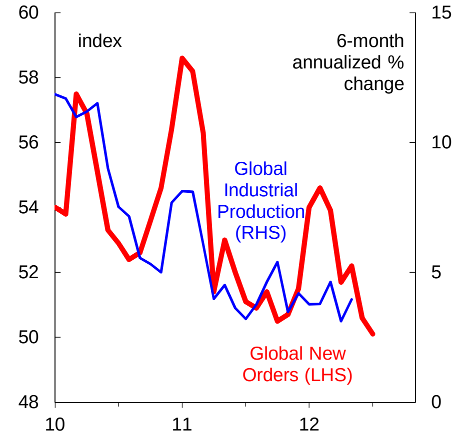
The Growth Olympics

Global Slowdown



Source: JP Morgan, CPB, Scotia Economics.

China should earn the gold medal for output growth in 2012 by posting an average advance of 7.8%, led by continuing albeit slower gains in investment and construction, and adding to its already impressive sports tally in London. Indonesia and Peru are expected to take silver, with output growth likely to clock in at an average rate of 6.3%, powered by their respective manufacturing and commodity sectors. The bronze medal for real GDP growth should go to India with an expected increase of 6.0%, a slower-than-expected performance that reflects the reduced pace of international growth, prior domestic tightening initiatives, and the massive power outages that will further restrain activity, albeit temporarily.

Beyond the medals podium are countries such as Chile, Colombia and Thailand with output growth expected to clock in around 5%. Mexico, Russia, Australia and South Korea are likely to register advances in the 3-4% range, followed by the United States and Canada with output gains averaging around a sub-par 2%. Trailing the pack is Germany, which will have a hard time posting a meagre 0.5% output gain this year, even with its stronger domestic fundamentals. Many of its European neighbours are experiencing intensifying recessions which have forced them to drop out of the race. Also failing to finish because of its recession is the host country, the United Kingdom.

There will be no record-setting Olympic growth performances this year. All the participants are posting slower growth rates, notwithstanding a relatively fast track supported by historically low short- and long-term borrowing costs, and large government deficits. One explanation is the ramped-up fiscal restraint that most economies have been implementing. In the case of many of the emerging economies, the restraint was required to rein in the prior recession-induced stimulus that was supporting credit-induced overbuilding and price pressures. For most developed economies, there has been an increasing urgency to regain control of deteriorating budgetary finances to stabilize and eventually reverse the rising debt burdens that have been helping to smother growth.

Around the world, the disappointing economic results this year, along with reduced expectations for next year, reinforces the belief that sub-par performances among the developed nations has become the rule rather than the exception. Most developing countries will be hard pressed to regain the buoyancy experienced prior to the great recession. And while some developed nations are already back in recession, others are labouring under massive public and private sector debt burdens that are being exacerbated by a volatile and uncertain economic environment. Without some resolution to its own longer-term fiscal issues, even the United States could be at risk of stalling out.

The weakness in financial markets points to a bumpy ride ahead for most participants in the growth Olympics. Outside of the renewed and destabilizing run-up in the longer-term borrowing costs of the euro zone countries at the centre of the sovereign debt crisis, bond yields around the globe have moved consistently to record-lows, while equity returns have been substantially reduced. The euro and sterling have weakened, while some softening in the yuan has accompanied the moderation in China's economic performance. For the time being, the U.S. dollar's liquidity premium has enabled it to become the biggest beneficiary of the heightened global uncertainty.

Even so, there has been some reversal of these market trends in recent days. There is increased speculation that the ECB, the Bank of England and the Fed will expand their asset purchase programs in a bid to stabilize financial markets, help recapitalize banks in the euro zone, provide another boost to growth by supporting low, or even lower borrowing costs, and facilitate expanded refinancing activity to free up cash flows for consumers, businesses and governments alike. However, the economic problems are more structural than

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cyclical. They require longer-term initiatives such as workplace adjustments and tax reform aimed at boosting private sector competitiveness, while governments must focus on reducing large budget deficits while improving the efficiency and deliverability of services.

In the less affected countries and regions, policymakers will continue to focus on promoting a stable growth environment. Expect many emerging market economies with policy flexibility to push on their monetary and fiscal accelerators, while the Bank of Canada will likely defer raising interest rates until 2014 at the earliest.

Complicating the outlook is the resilience of inflation during a period of increasing economic and wage underperformance. The run-up in commodity prices in recent years, especially for oil products and gasoline in particular, has enabled price pressures to be diffused across most goods and services, providing an offset to the inflation smothering conditions attributable to slower growth and increasing unused capacity. More recently, the renewed rise in key agricultural prices caused by major droughts in the United States and Russia, for example, have pushed the prices of corn and oilseed products to record levels. These price pressures will increasingly show up in final prices by the end of the year, effectively offsetting some of the deflationary pulses from slower worldwide growth. Household spending caution will be further reinforced if they are unable to compensate for the erosion in purchasing power.

The challenges to businesses are increasing as operating conditions have changed considerably. Revenues and profitability have been coming under intensifying pressure in virtually every region of the globe. The inability of the global economy to sustain a stronger growth trajectory has clearly undermined confidence and reinforced business caution, with spending, hiring and investments being adjusted lower in line with the squeeze on margins and bottom-line performances.

With the recession on the continent and in the U.K. deepening, European firms are experiencing a much greater compression of revenues and profits across many goods– and service-producing sectors. The fallout from Europe's economic distress has cascaded into the emerging markets through reduced trade and capital flows, compounding prior domestic efforts to slow down excess investment and inflation. In China, slower sales have triggered profit warnings in the construction, steel, real estate, petrochemical and retail sectors.

From a North American perspective, the corporate profit share of income is declining from record high levels, but remains well above its ten-year average. In the United States, revenue streams attributable to slower paced exports are being compounded by the renewed strengthening in the U.S. dollar. Alongside softening domestic sales outside of the auto market, order books are being trimmed to keep inventories manageable in the lead-up to the year-end deadline to implement tax and spending compromises needed to push back from the 'fiscal cliff'.

The earnings performance of Canadian firms has been constrained by the double-whammy of reduced external demand coupled with the softening in the prices of many key commodities. Sales and earnings are being pressured in the energy and mining sectors, while the technology sector is undergoing more serious retrenchment. Companies in Mexico will eventually be affected by the spillover from their northerly neighbours, but for the time being are benefitting from their stronger competitive positions and broader trade linkages to emerging market economies.

Looking ahead, North American businesses are in reasonably good financial shape to ride out another period of sub-par growth. Cash reserves are strong, and debt levels have been reduced, abetted by even lower borrowing costs. Energy costs on average are lower than a year ago. Firms are generally much more efficient after a multi-year period of investment in productivity-enhancing machinery & equipment. In an increasingly uncertain outlook, we look for corporate profits in Canada to expand roughly 1% this year and 5% next year, with gains in the United States pegged at 4% and 6% respectively.

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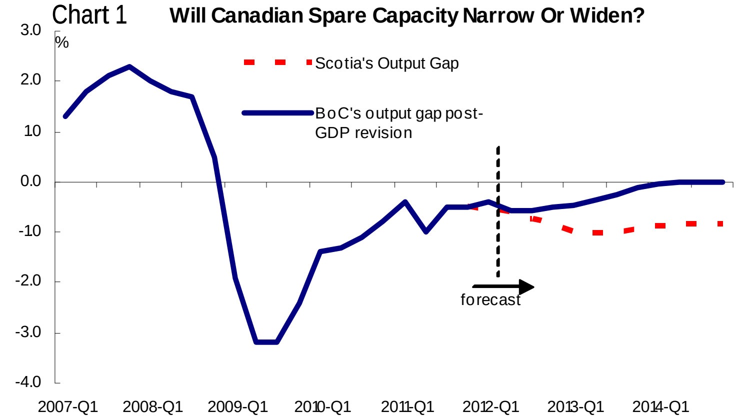
BoC On Hold For A Long Time Yet, As Spare Capacity Grows

- **We think the Canadian economy will remain soft enough such that it underperforms the speed limit to growth and builds more spare capacity over time. That should remain broadly disinflationary in support of a potentially very long pause on policy rates.**

We have revised our Bank of Canada forecast and now anticipate that the BoC will be on hold until 2014 compared to our earlier 2013Q3 view. At this point a policy hold until early 2014 is our best guess, but while the two tail risks are significant, we think there remains a fatter-tail case to be made for what is possibly a considerably longer hold even after our forecast change. This keeps us at odds with the consensus of Canadian economists.

While geopolitical risks are likely to remain a key factor for a long time yet, the heart of the matter concerns a variable drawn from the domestic economy: the output gap. Of all major global central banks, the BoC is among the most likely to explain much of what it does within the output gap framework and how it relates to its 2% inflation target. It is for this reason that differences between our growth forecasts for the Canadian economy and the BoC's are important insofar as they translate into very different outcomes for the balance of supply and demand conditions in the Canadian economy.

Chart 1 **Will Canadian Spare Capacity Narrow Or Widen?**

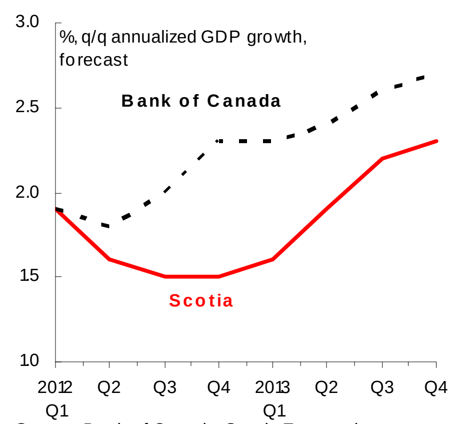


Source: Bank of Canada, Statistics Canada, Scotia Economics.

The difference of opinion is showcased in chart 1. Whereas the BoC argues that spare capacity will be fully eliminated by the end of 2013, we argue that spare capacity will keep growing straight through until at least the end of 2013 and then persist at relatively high levels into 2014.

Chart 2 explains why we differ on the output gap with most of the difference to be pegged upon forecast differences in 2012-13. We haven't quibbled with the BoC's forecast for potential growth that they have pegged at 2% or slightly higher in each of 2012-14. Our difference of opinion lies in actual GDP growth forecasts. Scotia Economics is materially lower than the BoC's growth forecast for every quarter throughout 2012-13 by between a half and three quarters of a percentage point in each quarter, and then compounded quarterly. There are clearly risks to both our forecasts and the BoC's and only time will tell which one turns out to be closest to the mark (or neither), but our more subdued growth outlook translates into more spare capacity for a longer period of time than the BoC anticipates.

Chart 2
BoC More Optimistic Than Scotia



Source: Bank of Canada, Scotia Economics.

More slack for longer than the BoC forecasts would imply that the BoC will not exceed — and may persistently fall short of — its forecast for headline and core inflation to return to the 2% target by 2013H2. What's more, the BoC's forecast return to the inflation target assumes "…a gradual reduction in monetary stimulus over the projection horizon, consistent with achieving the inflation target." What we are saying is that the BoC's inflation target will not be sustainably challenged *even in the absence of monetary tightening.*

Additional considerations clearly must include the likelihood that the BoC is restrained from policy tightening by the Federal Reserve's prolonged rate hold and the likelihood of a persistent easing bias via the impact that a further overnight spread widening would have upon the Canadian dollar and hence the country's export competitiveness. We also anticipate that the broad tone of geopolitical and economic developments will continue to face downside risks throughout our forecast horizon.

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Foreign Exchange Outlook: An Update On Drivers In The Current Environment

Expectations of further official intervention by major central banks, ongoing evidence of a global economic deceleration, persistent financial market strains in Europe, ambivalent Chinese currency and equity market direction, and ongoing volatility in commodity markets are some of the primary factors shaping capital flows in global foreign exchange markets.

The value of the US dollar (USD), as measured by the trade-weighted DXY index continues to trend lower. The outlook for the USD is mixed; we are of the view that it will strengthen against the euro (EUR) and the Japanese yen (JPY), but that it will weaken versus the Canadian dollar (CAD) and the British Pound (GBP).

The likelihood of intensified intervention by the US Federal Reserve (Fed) in boosting its holdings of US Treasury (UST) debt securities to cement a period of protracted low interest rates is increasing. At present, official statistics indicate that the Fed has US$2.6 trillion in securities holdings on its books. Looking ahead, a renewed softening in economic data (weakening consumer spending, for example) combined with persistently low inflation (the headline rate was 1.7% y/y in June) and persistent employment challenges has opened the door for a further loosening in the Fed's policy. Quantitative easing has contributed to keeping the long-term cost of funds at low levels; indeed, the 10-year UST bond yield traded as low as 1.38% at the end of July.

The market tone in the non-USD North American currencies remains positive. Both the Canadian dollar (CAD) and the Mexican peso (MXN) remain highly sensitive to risk aversion fluctuations; however, as both domestic economies remain relatively resilient, investors see them as favorite choices. For CAD, a hawkish central bank policy, a narrowing spread between Brent and WTI oil prices, supportive investor flows and sentiment are all factors suggesting that it could further strengthen into year-end. The MXN offers a promising outlook on the back of perceived undervaluation, completion of the election cycle, attractive interest rate differentials and an optimistic view on potential structural reforms. The South American currencies also remain in appreciating mode save for the Brazilian real (BRL) which remains in range-trading mode sensitive to decelerating growth prospects and corrective forces in the BRIC economies.

In Europe, sovereign debt sustainability and banking sector systemic risk continue to place the EUR on the defensive. The euro zone growth outlook continues to deteriorate, the European Central Bank (ECB) response has so far proved to be inadequate, and the currency union itself is struggling. We do not foresee an imminent EUR collapse, yet we expect EURUSD to trend gradually lower. Meanwhile, it is highly probable that the ECB will resume a more active bond purchase programme in line with practices observed both in the US and the UK. As for the GBP, the fundamental backdrop has deteriorated with slower growth dynamics and aggressive central bank policy; therefore, GBPUSD has dampened, but we expect the GBP to outperform the EUR. As for the Swiss franc (CHF), we continue to expect the EURCHF 1.20 floor to remain in place. Finally, the outlook for the triple-A rated free-floating European currencies, including the Norwegian krone (NOK) and the Swedish Krone (SEK), is favourable as investors search out intra-European investment alternatives.

The Asian currency outlook is strongly shaped by the value of both the JPY and the Chinese renminbi (CNY). It is worth noting that, despite the still large foreign capital inflows eyeing the Chinese economy and its securities markets, the central bank with its massive international reserves in excess of US$3 trillion can dictate the USDCNY rate. In fact, the CNY has been depreciating versus the USD since early May, in stark contrast to the appreciating tone enjoyed by the JPY. The degree of economic deceleration in China is a key factor swaying financial market sentiment the world over. The authorities have not hesitated to change the course of the CNY to inject currency-linked export competitiveness. The Indian rupee (INR) remains one of the world's worst performing currencies: India's twin-deficit position in the context of still high inflation continues to weigh on the economic and currency outlook. Meanwhile the JPY and other regional higher-yield currencies such as the Australian dollar (AUD) have benefitted considerably from investor appetite over the past few months.

Looking ahead, we are of the view that the JPY will enter a period of consolidation (if not mild retrenchment), that the AUD will maintain a strengthening trend, and that the CNY will resume a gradual, yet softer, appreciating phase. The combination of a narrowing current account surplus in China, a dampening growth outlook, and an escalation of the European sovereign debt crisis have tempered expectations for CNY strength in the near term. The rest of the Asian currencies present a mixed outlook: while the Korean won (KRW) has shown a positive performance, both the Thai baht (THB) and the Taiwanese dollar (TWD) remain strongly influenced by developments in the core Asian currencies such as the CNY and the JPY.

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Can Canada Count On Consumers?

Continuing, albeit slower employment and income gains should underpin moderate consumer spending in Canada during this period of sub-par growth internationally. During the global financial crisis, Canada benefited from more supportive employment conditions and income growth in comparison to the United States, which helped sustain consumer spending. Since then, Canada has recovered all of the jobs lost over the recession and then some, but consumers face headwinds from a property market that is beginning to cool, against a backdrop of high household debt.

Cross Border Comparison

	'00-'07	2011	2012f
Canada			
Real GDP	2.8%	2.4%	1.9%
Employment	1.9%	1.5%	1.6%
Real Disposable Income	3.5%	1.2%	1.5%
United States			
Real GDP	2.6%	1.8%	2.1%
Employment	0.8%	1.2%	1.1%
Real Disposable Income	3.0%	1.3%	1.4%

Source: Statistics Canada, U.S. Labor Department, Scotia Economics

Employment losses over 2008-09 were recovered more quickly in Canada than in the United States, mainly because the economic contraction was milder north of the border, and was not accompanied by a large correction in the housing market and the significant financial fallout in the banking sector. The U.S. job market began to collapse in January of 2008, while the Canadian job market remained buoyant for another nine months. The peak-to-trough decline in employment was 6.2% in the U.S., nearly triple the 2.3% slide in Canada. Employment in Canada recovered to pre-crisis levels by August of 2010 and has moved 2.9% above its previous peak, whereas in the U.S., job losses have not been recuperated and employment remains 3.5% below pre-crisis levels. Currently the unemployment rate in Canada is 7.2% and in the U.S. is 8.3%.

Canadian incomes have tended to outpace U.S. trends as well. From 2000 to 2007, real disposable income in Canada rose by an average of 3.5% per annum, in comparison to an increase of 3.0% in the U.S. over the same period. The outperformance in Canada is due to a combination of higher wage growth and greater job creation, on the back of the commodity boom and the growing energy sector. Real disposable income gains for 2011-12 are more on par across the two countries, all in the 1-1.5% range.

More buoyant labour market conditions and income growth have provided solid support for the Canadian economy, helping to spur growth rates of 3.2% in 2010 and 2.4% in 2011. Over the past four years, consumption in Canada advanced an average of 2.3% per annum, while in the U.S. the gain was limited to 0.5%. Strong household spending supported activity in retail, housing, manufacturing and services. In contrast, many American consumers continue to deleverage at a record-setting pace, and with credit conditions remaining tight and unemployment high, the consumer-driven economy in the U.S. will be constrained.

Going forward, Canadian consumers will be challenged by a number of factors. First, job growth is slowing because of increasing fiscal restraint and soft conditions globally. Second, rising food and energy costs are cutting into disposable incomes. Third, softer home price appreciation and the potential for some price declines will have a negative wealth effect on households. These trends point to a moderate slowdown in consumer spending; however, there will continue to be regional performance differentials with the commodity producing regions in the west faring better, with job growth stronger and unemployment below 5% in Alberta and Saskatchewan.

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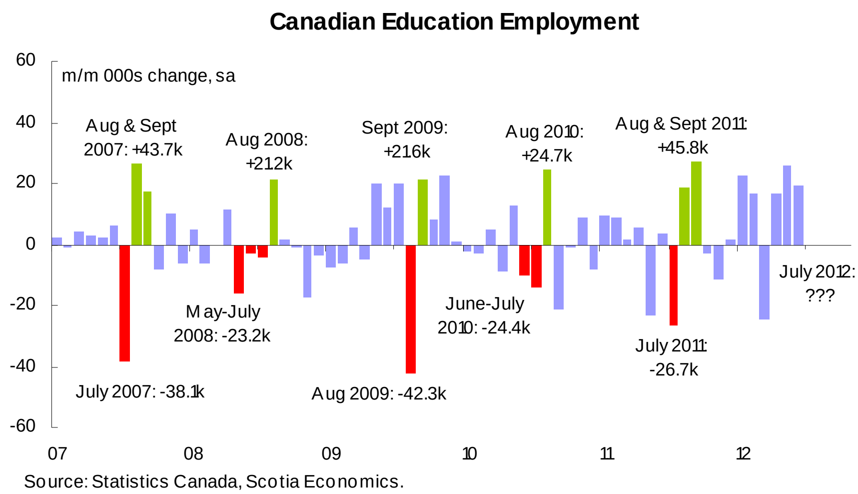
Beware Teacher Distortions To Canadian Jobs

Many of us in have fond memories of the month of July, when school lets out and students transform into summer campers, cottagers, first-time jobbers, or even plain old relaxing loafing kids.

For their parts, teachers start their two month vacation with some continuing education responsibilities. In recent years, however, teachers have increasingly been employed using different hiring conventions than in the past, introducing variability to the employment numbers over the summer months. That's why we wrote in our column "Canada Heading into Another Summer of Volatile Job Figures" (Global Views, May 4, 2012) that all else being equal, Canada may be poised for a bigger-than-average monthly job loss in early summer, followed by a higher-than-average monthly job gain in August and/or September. In what follows we again present our view that volatility in the education segment of Canada's Labor Force Survey is likely starting with next week's Canadian jobs report on August 10.

New Teacher Contract Paradigm

The heart of the matter is that education sector contracts have changed materially, and in two ways. One is greater use of temporary contracts that have gained as a share of overall employment in the education sector. Two is a push toward shorter contracts than the past use of twelve-month agreements that get renewed each September. These two factors mean that education sector jobs are wildly distorted especially during the summer school break since, in response to the Labour Force Survey, one technically has to respond that s/he is not presently employed during the period in which no contract is available regardless of prospects for its renewal at the start of each new school year. Perhaps this effect moved into postsecondary educational institutions recently and did so more in keeping with their shorter academic year.



The result is gyrations in education sector employment since this process began in 2007 causing teachers and related jobs to appear to have artificially become as volatile as Wall Street jobs. The data is seasonally adjusted, but since 2007, education sector jobs have been very volatile over the summer months. The reason why the seasonal adjustment can't smooth the volatility is that the exact months in which the hiring and firing distortions occur are unstable from one year to the next but are regularly observed in stand-out fashion over recent summers. We know of no other good explanation for the wicked volatility in education sector jobs over the summer months.

In total fairness to Statistics Canada, it is not simple to control for such distortions. Seasonal adjustment factors have become unstable during this period. Further, the large number of school boards within the provincial area of jurisdiction over education policy may all be taking somewhat different approaches to contracts, and that only compounds the problem in adjusting for the distortions.

Conclusion

The bottom line is that there is a decent likelihood that we'll see variability in the August 10th jobs report as a result of the teachers phenomenon. Combine that with our view that the pace of Canadian job growth is likely in line with the muted pace of GDP growth is likely, and the result is that the risks are skewed towards the downside for the July jobs print.

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Bank Of England August Meeting

Missed Opportunity

- The August Bank of England MPC decision resulted in no change in either the scale of asset purchases or Bank Rate. That was in line with consensus expectations, though contrary to our view that this would be a great opportunity for the Bank to get ahead of the curve and expand its asset purchases.
- The consensus expectation was that QE will be expanded in November. Ours was — why wait? Why wait when next week's *Inflation Report* projections are likely to provide a compelling case for further policy ease?
- We suspect that the hurdles that got in the way this month were:
  - The MPC was reluctant to respond to an early estimate of Q2 GDP that is more susceptible than normal to revisions and heavily influenced by the weather and lost working day;
  - The MPC preferred not to respond to the recent CPI surprises which may have been dampened by poor weather (particularly clothing);
  - With GBP50bn of asset purchases already underway, there may have been a preference to hold some ammunition back so that the Bank still has something to play with at future meetings; and
  - A desire to await developments in the Funding for Lending Scheme (FLS) to let that policy have a chance to take effect.

What next

- Speculation has been building that the MPC may cut Bank Rate at some point in order to maximise the impact of the QE that has already been delivered. The rationale is that there are billions of pounds parked at the Bank of England in reserves. Some argue that if the remuneration on these reserves is cut, then it will motivate the holders of these reserves to extend new loans or put the cash to work by purchasing riskier / higher yielding assets.
- We disagree and judge that this policy could backfire. In particular, we believe that this would hurt the very institutions that the Bank is relying on to extend new loans under its Funding for Lending Scheme (FLS). The funds held in the reserve account at the Bank of England represent part of the liquidity buffer imposed on the lenders by the regulator. Cutting Bank Rate will reduce the interest earned by these lenders. In addition, the margins between interest earned on tracker mortgages versus interest paid to savers would also be squeezed. The net result is that this would reduce profitability at lenders and also the likelihood that mortgage providers will extend new loans.
- More likely in our view is that QE will be extended at the November MPC meeting. At that point the Bank will have better information on whether Q2 GDP was a freak event. Moreover, the Q3 GDP data will tell the Bank how much the economy bounced back during Q3 and whether the Olympics provided the boost to growth that many have hoped for.
- The upcoming MPC minutes will give us better colour on all of the above. Given that the MPC did debate a bigger expansion of QE in July, we suspect that at least one MPC member dissented in favour of a further expansion in QE at this meeting.

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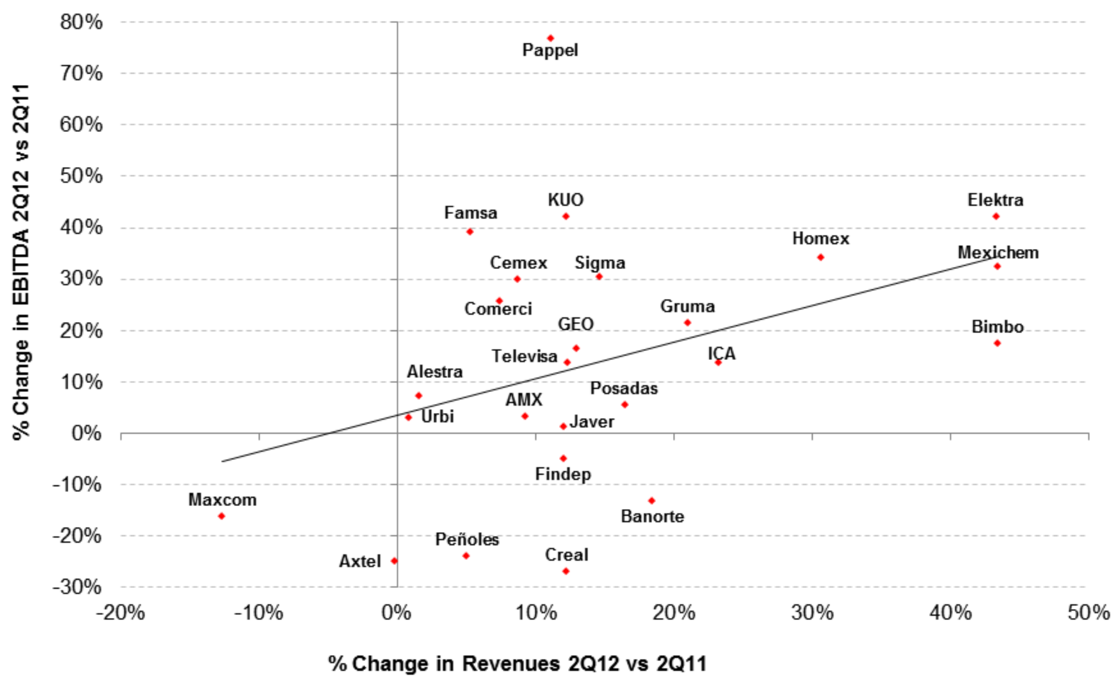
Mexican Corporates 2Q12 Wrap-Up

Most Mexican corporates posted significant increases in both revenues and earnings in the second quarter relative to the previous year, though there is evidence of some deceleration relative to the previous quarter. Spreads for investment grade corporates have not changed in recent months even as spreads on high-yield names widened moderately. We review the second quarter earnings results of 26 Mexican issuers of global bonds which recently held conference calls for investors.

Although optimism was replaced by uncertainty and volatility in the second quarter of this year, the majority of the Mexican corporates we follow defended themselves and posted positive growth rates in revenues and earnings relative to the same quarter of the prior year (Figure 1). In some cases, 2Q12 was not better than 1Q12, since companies began to feel a certain slowdown in some of their markets. Those with business in European countries and in Brazil had to offset the economic weakness there by improving efficiencies or by expanding in stronger countries.

Figure 1. Results 2Q12 vs. 2Q11



Source: Company reports; Scotiabank. Results expressed in Pesos. For financial firms, we use interest income and financial margin after provisions instead of revenues and Ebitda. Margin for Credito Real fell due to an accounting change regarding loan loss provisions.

The bond market maintained its confidence in investment grade corporates, where spreads changed little relative to the close of the first quarter of this year (Figure 2). In contrast, HY corporates, especially those with lower ratings, saw investors' fears reflected in significant increases in their spreads.

During the second quarter, just like in the previous quarter, some Mexican corporates that enjoy liquidity and access to markets in times of uncertainty took advantage of opportunities to make acquisitions outside of Mexico and to expand geographically. For América Móvil and Mexichem, these acquisitions generated an increase in leverage, which led to concerns about credit ratings. Both companies have self-imposed limits for leverage, which they have discussed with the rating agencies, arguing that they will soon return to the historically lower levels of leverage to which they are accustomed.

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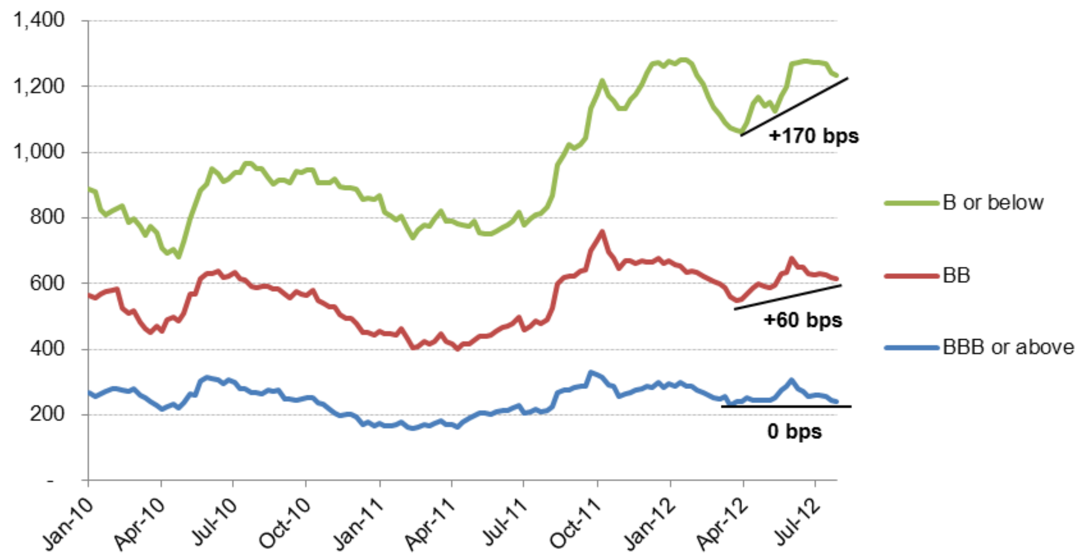
Figure 2. Mexican corporate spreads by rating



Source: Bloomberg; Scotiabank

On the other hand, Posadas and Comercial Mexicana, whose balance sheets were severely affected by the 2008 crisis, announced considerable asset sales in recent weeks, which will allow them to face new challenges. Each of these companies will use the proceeds from these transactions to pay down part of their debt. Comerci will seek to restructure the remainder of its debt, so as to put an end to a long period when it was unable to expand even as competitors grew at a considerable pace. In the case of Posadas, although the problem has not been completely resolved, the hotel group now has some room to maneuver. Grupo Famsa, for its part, is complying with its agreement to divest part of its holdings in the United States, where its stores in Texas are proving to be more profitable than in the western region of the country. As a result, GFamsa posted an increase in Ebitda of almost 40% in 2Q12 vs. 2Q11.

For some time now, critics have noted a lack of competition in the telecommunications sector. Regulators' tougher stance against market dominance, while beneficial to consumers, has created a more aggressive market that far from favoring small companies may actually put their existence at risk, as the reduction in prices for some services squeezed their margins. This situation was especially grave for Axtel and Maxcom, which were already facing serious liquidity problems. Both companies have troublesome leverage levels, restrictive covenants, and foreseeable difficulties in meeting debt-service payments. A consolidation in the sector, leaving only the strongest companies, seems to be the likely outcome. During the first six months of 2012, in an environment of financial uncertainty, investment grade corporates in this sector have remained a haven, registering decreases in their spreads. Alestra, one of the small companies without an investment grade rating, despite having faced the same competition, has been able to maintain a healthy financial profile and find its place in the industry; that strength is evident in the significant decrease of its bond spread.

The micro-financing firms continue to grow, but at a slower rate. Although the sector they serve has little bank penetration, the rise in the number of other competitors, plus the lack of regulations requiring them to report to a credit bureau, has led to some over-indebtedness of their clients. Therefore, it is becoming more difficult for these firms to maintain the quality of their assets. In a sector with high operating costs, the

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greater competition will likely provoke the exit of many small competitors, especially those with poor collection procedures. To continue to grow while maintaining a healthy portfolio is challenging, especially so for those firms, such as Financiera Independencia, whose customers' payments are not automatically discounted from their paychecks.

Traditional banks are also growing. While Banorte's growth strategy in 2Q12 was to expand via portfolio purchases, achieving inter-annual growth rates of close to 40%, Bancomer's strategy was to grow organically, posting annual increases of 10% in its credit portfolio. Capitalization levels in both banks are close to 15%, even though Bancomer paid a 40% greater amount in dividends to its holding company in Spain than it did last year. We believe that Bancomer, given its considerable use of liquid funds in 2Q12, will have to resort to issuing more bonds in order to continue to grow its loan portfolio.

Perhaps the most impactful results in the second quarter were those of homebuilder Urbi, where terrible cash flow results caused not only a 100bp widening of the firm's yields but had spillover effects to other homebuilders which had reported good results, but widened 50bp in sympathy. Urbi's continued increase in the ratio of land reserves to sales suggests that land previously purchased is no longer useful to satisfy the government's changing geographical priorities for housing and that the land's resale value may be less than that indicated by the company's balance sheet. Some investors are wondering whether other homebuilders will ultimately face the same difficulties.

See the standalone version of this report for more detailed discussions of firm earnings for 26 Mexican bond issuers, most of which held conference calls in recent weeks.

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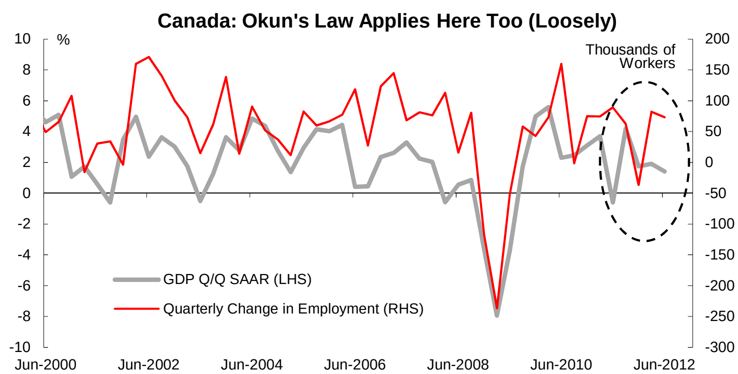
Key Data Preview

CANADA

Canada's **labour force survey** for July is due out on August 10, and Scotia is anticipating a muted gain of 10k jobs following June's weak +7.3k net gain. We expect the unemployment rate to remain stable at 7.2%. Our call is premised on the view that Canadian job growth is due to revert to levels consistent with GDP growth after very strong results in March and April while the economy was fairly flat. Job trends in the medium term follow the relationship between employment growth and overall GDP growth known as Okun's law (see chart). Full-time private sector jobs growth already started to cool in June (-26k) with all of the overall +7.3k job gains attributable to a surge in public sector hiring (+38.9k) without which the overall payrolls number would have been negative. Generally speaking, Canadian jobs numbers tend to get wonky during the summer months due to the fact that there does not seem to be a predictable monthly seasonality to the mass hiring and firing of private-contract education workers during the summer (i.e. the hiring and firing is lumpy and shifts from month to month in different years). We therefore see a risk that the employment numbers may swing more erratically than our general forecast predicts.



Source: Scotia Economics, Statscan

July **housing starts** numbers on August 9 should be fairly interesting as bottom-up data from the hitherto red-hot Toronto housing market indicated that demand for condos started grinding slower towards the end of Q2. The implication is that housing starts numbers are likely to nose-dive at some point during H2 2012 as the large numbers of Toronto condo starts have been driving the national starts numbers. While there are a large amount of building permits still in the pipeline indicating that housing starts outcomes of 200k+ could continue for some time, there will eventually come a month when developers decide not to make good on their building permits and delay breaking ground on high unit-count condo developments. We see this turn likely coming later in the year, however we are already starting to consider the possibility that the slow-down is due as evinced by Scotia's below consensus expectation of 200k housing starts (less than our building-permits fuelled model would suggest). Note that the building permits numbers for June will not be released until August 7, so we may revise our call as further data comes in.

International trade numbers for June will be released on August 9, and Scotia anticipates a merchandise trade deficit of –C$200m, a third consecutive contraction in the trade balance albeit a less negative one than had been seen in previous months (May: -C$793m, April: -6C$23m). Significant headwinds confronted Canadian trade in June: Western Canada Select crude prices fell by 25%, implying weaker pricing on Canadian fuel exports; new orders of machinery had been slow in the preceding months, implying weaker manufacturing exports; economic activity seems to have cooled globally according to PMI surveys… in short, it is a difficult situation for an open economy focused on trade. Bright spots are that a lower CAD may have helped realized export values and lower Brent crude prices should mitigate the fall in WCS somewhat. The bigger issue, however, is that volumes of Canadian crude exports fell in the previous month due to one-off factors, so a rebound there, coupled with weaker domestic demand and the weaker C$, should cause improvement in the overall balance.

UNITED STATES

US **international trade** on August 9 will be the only major economic data release in the US next week. We expect an improved trade balance of –US$47bn on the basis of the significant drop in Brent crude prices: -13% m/m. The stronger USD, up by 1.6% on a trade-weighted basis, should reduce realized import costs too. We're not expecting the improved trade balance to result from particularly strong fundamental trade data: we see imports falling and exports holding fairly flat (largely as a result of higher world agricultural prices and what looks to have been a solid gain in capital goods shipments — these should mitigate lower auto exports and weakness in global demand for US-manufactured consumer goods).

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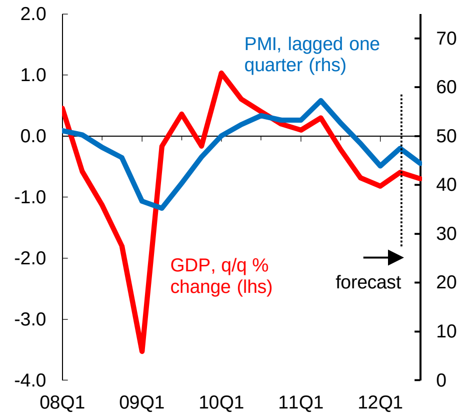
EUROPE

Italian Manufacturing PMI and GDP



Source: Bloomberg, Scotia Economics.

The preliminary estimate of Italian GDP growth in the second quarter will be released next week (Tuesday). We expect a quarter-on-quarter loss of 0.6%, slightly milder than both the first-quarter drop of 0.8% and the current consensus expectation for a 0.7% dip. This quarter will mark one full year into the double-dip recession in Italy. Our estimate implies a yearly fall of roughly 2.3%, an acceleration from the -1.4% pace of the first three months of the year, and we expect this rate to further intensify in the third quarter. For the year overall, we expect GDP to contract by 2.2%. By most major economic indicators, Italy has seen a consistent decline in activity through the April-June period. Retail sales posted a multi-year low in April (-1.7% m/m, -6.8% y/y), while industrial production contracted by over 8% y/y on average in the first two months of the quarter. The aggregate unemployment rate reached a record-high 10.8% in June, and although it has moderated somewhat for the under-25 cohort, it remains worryingly high at 34.4%. The technocratic government led by Mario Monti has struggled to implement much needed reforms in the antiquated Italian labour market, which does not bode well for the nation's medium-term prospects. Finally, both the services and manufacturing PMIs — the latter of which has proved a decent leading indicator for GDP over the last several quarters (see chart) — remain stuck in contractionary territory, reflecting depressed business sentiment and implying further weakness in the private sector in the second half of the year.

LATIN AMERICA

In June, Mexican headline inflation surpassed the central bank's tolerance range for the first time since the end of 2010 (with the exception of December's peak), reaching an annual rate of 4.3% y/y. The acceleration was caused by higher fruits and vegetables prices, which tend to have a temporary effect on inflation. July's inflation will be released on August 9th and we expect consumer prices to increase by 5% y/y. We do not expect the central bank to change its monetary policy stance, despite the rise in inflation, as core inflation remains within the tolerance range and economic activity has been resilient in the face of the global deceleration.

ASIA

The process of gradual economic deceleration taking place in China has led to reduced inflationary pressures. As a result, consumer price inflation has been declining since July 2011, with a 2.2% y/y rate registered in June. Ongoing softness in the services sector, manufacturing (more visible through recent data on purchasing manufacturing activity) and foreign trade flows, coupled with more benign commodity prices (quite visible in metal and food prices), indicate that the declining trend will continue in August with an estimated headline inflation rate of 1.8% y/y. The decline in food-related inflation (3.8% y/y rate in June 2012 versus 15% y/y a year ago) is at the core of such a rapid improvement in the headline data. A more favourable inflation context has also permitted the Chinese monetary authorities to deepen monetary stimulus initiatives through reductions in bank deposit reserve requirements (three times since November) and cuts in the administered short-term interest rate (twice in one month). This also adds to the renewed efforts on the fiscal front to focus on regaining economic strength so as to abandon this period of soft-landing. Looking ahead, mild recovery dynamics from stimulus artillery may add to price pressures, which will average 2.5-2.8% through the end of 2013.

Key Indicators for the week of August 6 - 10

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	08/07	08:30	Building Permits (m/m)	Jun	--	-3.9	7.4
US	08/07	15:00	Consumer Credit ($ bn m/m)	Jun	--	10.5	17.1
US	08/08	07:00	MBA Mortgage Applications (w/w)	AUG 3	--	--	0.2
US	08/08	08:30	Productivity (q/q a.r.)	2Q P	--	1.4	-0.9
US	08/08	08:30	Unit Labor Costs (q/q a.r.)	2Q P	--	0.4	1.3
CA	08/09	08:15	Housing Starts (000s a.r.)	Jul	200.0	211.8	222.7
CA	08/09	08:30	Merchandise Trade Balance (C$ bn)	Jun	-0.20	-1.00	-0.79
CA	08/09	08:30	New Housing Price Index (m/m)	Jun	--	0.2	0.3
US	08/09	08:30	Continuing Claims (000s)	JUL 28	3280	3273	3272
US	08/09	08:30	Initial Jobless Claims (000s)	AUG 4	375	370	365
US	08/09	08:30	Trade Balance ($ bn)	Jun	-47.0	-47.6	-48.7
MX	08/09	09:00	Bi-Weekly Core CPI (% change)	Jul 31	--	--	0.2
MX	08/09	09:00	Bi-Weekly CPI (% change)	Jul 31	--	--	0.4
MX	08/09	09:00	Consumer Prices (m/m)	Jul	--	0.6	0.5
MX	08/09	09:00	Consumer Prices (y/y)	Jul	5.0	4.1	4.3
MX	08/09	09:00	Consumer Prices Core (m/m)	Jul	--	0.3	0.2
MX	08/09	09:00	Trade Balance (US$ mn)	Jun F	--	--	601.6
US	08/09	10:00	Wholesale Inventories (m/m)	Jun	--	0.3	0.3
CA	08/10	08:30	Employment (000s m/m)	Jul	10.0	9.5	7.3
CA	08/10	08:30	Unemployment Rate (%)	Jul	7.2	7.2	7.2
US	08/10	08:30	Export Prices (m/m)	Jul	--	0.0	-2.7
US	08/10	08:30	Import Prices (m/m)	Jul	--	0.0	-2.7
US	08/10	14:00	Treasury Budget ($ bn)	Jul	--	-103.0	-59.7

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IT	08/07	04:00	Industrial Production (y/y)	Jun	--	-6.5	-6.9
UK	08/07	04:30	Industrial Production (m/m)	Jun	--	-3.5	1.0
UK	08/07	04:30	Manufacturing Production (m/m)	Jun	--	-4.3	1.2
IT	08/07	05:00	GDP (y/y)	2Q P	-2.3	-2.5	-1.4
GE	08/07	06:00	Factory Orders (m/m)	Jun	-0.9	-0.8	0.6
GE	08/08	02:00	Current Account (€ bn)	Jun	--	11.9	9.0
GE	08/08	02:00	Trade Balance (€ bn)	Jun	--	14.6	15.3
FR	08/08	02:45	Trade Balance (€ mn)	Jun	--	-5000.0	-5325.0
SP	08/08	03:00	Industrial Output NSA (y/y)	Jun	--	--	-5.4
GE	08/08	06:00	Industrial Production (m/m)	Jun	-0.7	-0.8	1.6
UK	08/09	04:30	Visible Trade Balance (£ mn)	Jun	--	-8725.0	-8363.0
GE	08/10	02:00	CPI (y/y)	Jul F	1.7	1.7	1.7
GE	08/10	02:00	CPI - EU Harmonized (m/m)	Jul F	0.4	0.4	0.4
GE	08/10	02:00	CPI - EU Harmonized (y/y)	Jul F	2.0	2.0	2.0
FR	08/10	02:45	Central Government Balance (€ bn)	Jun	--	-62.9	-69.6
FR	08/10	02:45	Industrial Production (m/m)	Jun	-0.2	0.1	-1.9
FR	08/10	02:45	Manufacturing Production (m/m)	Jun	-0.2	0.0	-1.0
UK	08/10	04:30	PPI Input (m/m)	Jul	--	1.3	-2.2
UK	08/10	04:30	PPI Output (m/m)	Jul	--	0.0	-0.4

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

Key Indicators for the week of August 6 - 10

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
JN	08/06	01:00	Coincident Index CI	Jun P	--	93.9	95.8
JN	08/06	01:00	Leading Index CI	Jun P	--	92.9	95.2
JN	08/06	01:00	New Composite Leading Economic Index	Jun P	--	92.9	95.2
AU	08/07	00:30	**RBA Cash Target Rate (%)**		**3.50**	**3.50**	**3.50**
TA	08/07	04:00	Trade Balance (US$ bn)	Jul	--	2.8	2.6
JN	08/07	19:50	Bank Lending (y/y)	Jul	--	--	0.7
JN	08/07	19:50	Current Account (¥ bn)	Jun	--	415.2	215.1
JN	08/07	19:50	Trade Balance - BOP Basis (¥ bn)	Jun	--	120.0	-848.2
AU	08/07	21:30	Home Loans (%)	Jun	--	2.0	-1.2
MA	08/08	00:01	Trade Balance (MYR bn)	Jun	--	5.8	4.6
JN	08/08	01:00	Eco Watchers Survey (current)	Jul	--	--	43.8
JN	08/08	01:00	Eco Watchers Survey (outlook)	Jul	--	--	45.7
JN	08/08	19:50	Machine Orders (m/m)	Jun	--	11.0	-14.8
SK	08/08	21:00	**BoK Base Rate (%)**		**2.75**	**2.75**	**3.00**
AU	08/08	21:30	Employment (000s)	Jul	--	10.0	-27.0
AU	08/08	21:30	Unemployment Rate (%)	Jul	--	5.3	5.2
CH	08/08	21:30	CPI (y/y)	Jul	--	1.7	2.2
CH	08/08	21:30	PPI (y/y)	Jul	--	-2.6	-2.1
JN	08/09	01:00	Consumer Confidence	Jul	--	--	40.4
CH	08/09	01:30	Fixed Asset Investment YTD (y/y)	Jul	--	20.6	20.4
CH	08/09	01:30	Industrial Production (y/y)	Jul	--	9.7	9.5
CH	08/09	01:30	Retail Sales (%)	Jul	--	13.6	13.7
JN	08/09	02:00	Machine Tool Orders (y/y)	Jul	--	--	-15.5
JN	08/09	06:59	**BoJ Target Rate (%)**		**0.10**	**0.10**	**0.10**
ID	08/09	07:59	**BI Reference Interest Rate (%)**		**5.75**	**5.75**	**5.75**
PH	08/09	21:00	Exports (y/y)	Jun	--	11.3	19.7
JN	08/10	00:30	Capacity Utilization (m/m)	Jun F	--	--	-2.2
JN	08/10	00:30	Industrial Production (m/m)	Jun F	--	--	-0.1
CH	08/10	06:59	Trade Balance (US$ bn)	Jul	--	35.1	31.7

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CO	08/04	13:00	Consumer Price Index (m/m)	Jul	--	0.1	0.1
CO	08/04	13:00	Consumer Price Index (y/y)	Jul	--	3.1	3.2
CL	08/05	08:30	Economic Activity Index NSA (y/y)	Jun	--	5.3	5.3
CL	08/06	08:30	Economic Activity Index SA (m/m)	Jun	--	-0.1	0.4
BZ	08/08	07:59	Economic Activity Index SA (m/m)	Jun	--	0.9	0.0
BZ	08/08	07:59	Economic Activity Index NSA (y/y)	Jun	--	1.3	1.1
BZ	08/08	08:00	IBGE Inflation IPCA (m/m)	Jul	--	0.4	0.1
BZ	08/08	08:00	IBGE Inflation IPCA (y/y)	Jul	--	5.2	4.9
CL	08/08	08:00	CPI (m/m)	Jul	--	-0.1	-0.3
CL	08/08	08:00	CPI (y/y)	Jul	--	2.4	2.7
PE	08/09	19:00	**Reference Rate (%)**		**4.25**	**4.25**	**4.25**
PE	08/10	06:59	Trade Balance (PEN mn)	Jun	--	-30.0	-106.4

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

Global Auctions for the week of August 6 - 10

North America

Country	Date	Time	Event
US	08/06	11:30	U.S. to Sell 3-Month Bills
US	08/06	11:30	U.S. to Sell 6-Month Bills
US	08/07	11:30	U.S. to Sell 4-Week Bills
US	08/07	13:00	U.S. to Sell 3-Year Notes
US	08/08	13:00	U.S. to Sell 10-Year Notes
US	08/09	13:00	U.S. to Sell 30-Year Bonds

Europe

Country	Date	Time	Event
NE	08/06	05:30	3M Bill Bid/Cover Ratio
NE	08/06	05:30	6M Bill Bid/Cover Ratio
FR	08/06	09:00	France to Sell Bills
GE	08/08	05:30	Germany to Sell Add'l EU4 Bln 10-Year Notes
UK	08/09	04:30	U.K. to Sell GBP1.5 Bln 5% 2014 Bonds
UK	08/09	05:30	U.K. to Sell Gilt (Mini Tender)
BE	08/10	06:00	Belgium to Sell Bonds
UK	08/10	06:10	U.K. to Sell Bills

Asia Pacific

Country	Date	Time	Event
JN	08/06	23:35	Japan to Sell 6-Month Bills
JN	08/06	23:45	Japan to Sell 40-Year Bonds
CH	08/07	23:00	China to Sell 7-Year Bonds
JN	08/07	23:35	Japan to Sell 3-Month Bills
NZ	08/08	22:30	New Zealand Plans to Sell Bonds
JN	08/10	04:00	Japan Auction for Enhanced-Liquidity

Latin America

Country	Date	Time	Event
BZ	08/09	10:00	Brazil to Sell Bills due 4/1/2013
BZ	08/09	10:00	Brazil to Sell Bills due 7/1/2014
BZ	08/09	10:00	Brazil to Sell Bills due 1/1/2016
BZ	08/09	10:00	Brazil to Sell Fixed-rate bonds due 1/1/2018
BZ	08/09	10:00	Brazil to Sell Fixed-rate bonds due 1/1/2023

Source: Bloomberg, Scotia Economics.

Events for the week of August 6 - 10

North America

Country	Date	Time	Event
US	08/07	14:30	Fed's Bernanke Speaks on Financial Education in Washington
CA	08/08		Bank of Canada's and FSB's Carney Speaks in the U.K.
CA	08/10	12:30	David Dodge Speaks at Couchiching Conference

Europe

Country	Date	Time	Event
PO	08/06		Bank of Portugal Releases Data on Banks
IT	08/07	05:00	Bank of Italy to Release Balance-Sheet Aggregates for July
UK	08/08	05:30	Bank of England Releases Quarterly Inflation Report
EC	08/09	04:00	ECB Publishes Aug. Monthly Report

Asia Pacific

Country	Date	Time	Event
NZ	08/05	22:00	Treasury Publishes Monthly Economic Indicators
AU	08/07	00:30	**RBA CASH TARGET**
NZ	08/08	18:45	Statistics New Zealand on Jobless, Employment
SK	08/08	21:00	**BoK Base Rate (%)**
JN	AUG 8-9		**BOJ Target Rate**
ID	AUG 8-9		**Bank Indonesia Reference Rate**
AU	08/09	21:30	Reserve Bank Board - Statement on Monetary Policy

Latin America

Country	Date	Time	Event
CL	08/08	08:30	Central Bank's Traders Survey
PE	08/09	19:00	**Reference Rate**
CL	08/10	08:30	Central Bank Economist Survey

Source: Bloomberg, Scotia 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	September 5, 2012	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	September 13, 2012	0.25	--
Banco de México – Overnight Rate	4.50	September 7, 2012	4.50	--

Fed: The FOMC put off deciding on whether or not to add to its quantitative easing until its September meeting. We see a 65% chance of QE in September, with the program taking the form of outright purchases of a mix of treasury securities and mortgage backed securities. Fed Chairman Bernanke will speak on the topic of personal finance education with audience Q&A and media. The risk is that he will clarify whether or not the Fed truly did very modestly strengthen its easing guidance in the August 1st FOMC statement. BoC: Governor Carney speaks on Wednesday at a conference in London on the "Economic Outlook: Finding Opportunity In Today's Changing Economic Environment." This will be the Governor's first set of formal comments since the July rate statement and MPR. Banxico: Mexican inflation figures will garner attention as an odd medley of temporary influences including bird flu that has impacted poultry and egg prices, and drought that fed high corn tortilla costs have caused Banxico Gov. Carstens to comment that he anticipates current increases in inflation to be temporary and isolated.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.75	September 6, 2012	0.50	--
Bank of England – Bank Rate	0.50	September 6, 2012	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	September 13, 2012	0.00	--
Central Bank of Russia – Refinancing Rate	8.00	August 10, 2012	8.00	8.00
Hungarian National Bank – Base Rate	7.00	August 28, 2012	7.00	7.00
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.75	August 16, 2012	5.75	--
Sweden Riksbank – Repo Rate	1.50	September 6, 2012	1.50	--
Norges Bank – Deposit Rate	1.50	August 29, 2012	1.50	--

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	August 9, 2012	0.10	0.10
Reserve Bank of Australia – Cash Target Rate	3.50	August 7, 2012	3.50	3.50
Reserve Bank of New Zealand – Cash Rate	2.50	September 12, 2012	2.50	--
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	September 17, 2012	8.00	--
Bank of Korea – Bank Rate	3.00	August 8, 2012	2.75	2.75
Bank of Thailand – Repo Rate	3.00	September 5, 2012	3.00	--
Bank Indonesia – Reference Interest Rate	5.75	August 9, 2012	5.75	5.75

Upward pressure on the yen amid continued uncertainty related to the global economy and the European debt crisis is keeping the Bank of Japan (BoJ) on alert. The national inflation rate fell back into negative territory in June (-0.2% y/y) for the first time since December, while the core measure posted a second straight loss. While we do not anticipate that any additional monetary stimulus will be announced on August 9th, it is likely that expanded domestic (and possibly, foreign) bond purchases and/or outright currency interventions are forthcoming in the months ahead. The Reserve Bank of Australia (RBA) will likely leave the benchmark cash rate unchanged at 3.50% on August 7th, despite the sharp slowdown in inflation witnessed through the first half of 2012 (inflation dropped to a 13-year low of 1.2% y/y in the second quarter). The economy appears so far relatively resilient to many of the headwinds affecting other mature economies, with building activity, retail sales, and trade figures surprising on the upside in recent months. In addition, RBA authorities have recently voiced a greater optimism about the outlook. We now anticipate only one more quarter-point rate cut before year-end. We expect Bank Indonesia to maintain the reference rate at its current level of 5.75% when it meets next Thursday. Inflation appears to be well-contained within the central bank's target range of 3.5-5.5%, while the level of the rupiah has also been relatively stable, albeit at a low level, over the past several weeks. Evidence of a more pronounced economic slowing may incite an interest rate cut before year-end. Monetary conditions will likely be eased in South Korea when the central bank meets on August 8th. The economy has been adversely affected by the euro zone crisis and ensuing global deceleration and the authorities have revised down their GDP growth projection through 2013. Moroever, inflationary pressures have receded due to softer demand and declining commodity prices. We expect the bank rate to be reduced by 25 basis points to 2.75%.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	8.00	August 29, 2012	8.00	--
Banco Central de Chile – Overnight Rate	5.00	August 16, 2012	5.00	5.00
Banco de la República de Colombia – Lending Rate	5.00	August 24, 2012	5.25	--
Banco Central de Reserva del Perú – Reference Rate	4.25	August 9, 2012	4.25	4.25

With one of the strongest GDP projections for this year in Latin America and inflation finally easing closer to the central bank's tolerance 1-3% range (3.28% recorded y/y in June), we expect the central bank of Peru to maintain the reference rate unchanged at 4.25% at its next monetary meeting.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.00	September 20, 2012	5.00	--

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

Forecasts as at August 1, 2012*	2000-10	2011	2012f	2013f	2000-10	2011	2012f	2013f
Output and Inflation (annual % change)	**Real GDP**				**Consumer Prices[2]**			
World[1]	3.7	4.0	3.1	3.4				
Canada	2.2	2.4	1.9	1.8	2.1	2.9	1.8	2.1
United States	1.8	1.8	2.1	1.9	2.5	3.1	2.1	2.2
Mexico	2.1	4.2	3.7	3.6	4.9	3.8	4.2	4.0
United Kingdom	2.0	0.7	-0.4	1.2	2.1	4.2	1.8	3.0
Euro Zone	1.4	1.5	-0.7	0.3	2.1	2.7	1.7	1.9
Japan	0.9	-0.7	2.3	1.5	-0.3	-0.2	0.1	0.3
Australia	3.1	2.1	3.2	3.3	3.1	3.1	2.3	2.8
China	9.4	9.3	7.8	8.2	2.3	4.1	4.0	4.4
India	7.6	10.0	6.0	6.3	6.4	7.7	6.5	6.8
South Korea	4.6	3.6	3.0	3.8	3.1	4.8	3.3	3.0
Thailand	4.4	0.1	5.0	4.0	2.7	3.5	3.0	2.8
Brazil	3.7	2.7	2.0	4.0	6.6	6.5	5.0	5.5
Chile	4.6	6.1	5.1	5.7	3.4	4.4	2.2	3.2
Peru	5.5	7.0	6.3	6.2	2.4	4.7	3.0	3.0

Central Bank Rates (%, end of period)	12Q1	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f
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	1.00	1.00	0.50	0.50	0.50	0.50	0.50	0.50
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	3.75	3.50	3.25	3.25	3.25	3.25	3.50	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.00	1.02	1.02	0.99	0.98	0.97	0.97	0.97
Canadian Dollar (CADUSD)	1.00	0.98	0.98	1.01	1.02	1.03	1.03	1.03
Euro (EURUSD)	1.33	1.27	1.20	1.23	1.22	1.22	1.21	1.21
Sterling (GBPUSD)	1.60	1.57	1.55	1.59	1.62	1.63	1.64	1.64
Yen (USDJPY)	83	80	78	78	84	85	86	87
Australian Dollar (AUDUSD)	1.03	1.02	1.02	1.02	1.04	1.04	1.05	1.05
Chinese Yuan (USDCNY)	6.3	6.4	6.3	6.3	6.3	6.2	6.2	6.1
Mexican Peso (USDMXN)	12.8	13.4	13.3	13.1	13.2	13.1	13.1	13.3
Brazilian Real (USDBRL)	1.83	2.01	1.96	1.95	1.92	1.87	1.88	1.90

Commodities (annual average)	2000-10	2011	2012f	2013f
WTI Oil (US$/bbl)	54	95	90	95
Brent Oil (US$/bbl)	52	112	104	104
Nymex Natural Gas (US$/mmbtu)	5.81	4.03	2.75	3.00
Copper (US$/lb)	1.93	4.00	3.65	3.45
Zinc (US$/lb)	0.75	0.99	0.89	1.02
Nickel (US$/lb)	7.36	10.38	8.00	7.80
Gold, London PM Fix (US$/oz)	586	1,569	1,665	1,650
Pulp (US$/tonne)	694	977	880	900
Newsprint (US$/tonne)	575	640	640	660
Lumber (US$/mfbm)	273	255	280	310

[1] World GDP for 2000-10 are IMF PPP estimates; 2011-13f are Scotia Economics' estimates based on a 2010 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 Scotia Economics 'Global Forecast Update' (http://www.gbm.scotiabank.com/English/bns_econ/forecast.pdf) for additional forecasts & commentary.

North America

Canada	2011	11Q4	12Q1	Latest	
Real GDP (annual rates)	2.4	1.9	1.9		
Current Acc. Bal. (C$B, ar)	-48.4	-38.7	-41.1		
Merch. Trade Bal. (C$B, ar)	2.3	14.9	8.9	-9.5	(May)
Industrial Production	3.5	3.0	1.0	4.0	(May)
Housing Starts (000s)	193	199	206	223	(Jun)
Employment	1.6	1.2	0.9	1.0	(Jun)
Unemployment Rate (%)	7.5	7.5	7.4	7.2	(Jun)
Retail Sales	4.1	4.2	4.3	7.6	(May)
Auto Sales (000s)	1588	1603	1701	1719	(May)
CPI	2.9	2.7	2.3	1.5	(Jun)
IPPI	4.6	3.9	1.8	-0.4	(Jun)
Pre-tax Corp. Profits	15.4	13.7	5.4		

United States	2011	11Q4	12Q1	Latest	
Real GDP (annual rates)	1.8	4.1	2.0	1.5	(Q2)
Current Acc. Bal. (US$B, ar)	-466	-475	-549		
Merch. Trade Bal. (US$B, ar)	-738	-757	-778	-762	(May)
Industrial Production	4.1	4.0	4.0	4.8	(Jun)
Housing Starts (millions)	0.61	0.68	0.71	0.76	(Jun)
Employment	1.1	1.3	1.6	1.4	(Jul)
Unemployment Rate (%)	9.0	8.7	8.3	8.3	(Jul)
Retail Sales	8.2	7.5	6.4	3.5	(Jun)
Auto Sales (millions)	12.7	13.5	14.1	14.0	(Jul)
CPI	3.2	3.3	2.8	1.7	(Jun)
PPI	6.0	5.4	3.4	0.7	(Jun)
Pre-tax Corp. Profits	2.1	3.3	18.0		

Mexico	2011	11Q4	12Q1	Latest	
Real GDP	3.9	3.9	4.6		
Current Acc. Bal. (US$B, ar)	-9.0	-7.5	-0.2		
Merch. Trade Bal. (US$B, ar)	-1.5	-2.9	7.1	7.2	(Jun)
Industrial Production	4.0	3.5	4.4	7.4	(May)
CPI	3.4	3.5	3.9	4.3	(Jun)

Europe

Euro Zone	2011	11Q4	12Q1	Latest	
Real GDP	1.5	0.7	-0.1		
Current Acc. Bal. (US$B, ar)	-3	188	-32	-39	(May)
Merch. Trade Bal. (US$B, ar)	6.9	78.5	28.0	95.9	(May)
Industrial Production	3.6	-0.1	-1.5	1.4	(May)
Unemployment Rate (%)	10.1	10.5	10.8	11.2	(Jun)
CPI	2.7	2.9	2.7	2.4	(Jun)

Germany	2011	11Q4	12Q1	Latest	
Real GDP	3.1	2.0	1.2		
Current Acc. Bal. (US$B, ar)	202.6	254.4	215.8	137.6	(May)
Merch. Trade Bal. (US$B, ar)	216.2	224.1	223.3	235.1	(May)
Industrial Production	8.0	3.4	1.0	8.0	(May)
Unemployment Rate (%)	7.1	6.9	6.8	6.8	(Jul)
CPI	2.3	2.3	2.2	1.7	(Jul)

France	2011	11Q4	12Q1	Latest	
Real GDP	1.7	1.2	0.3		
Current Acc. Bal. (US$B, ar)	-54.5	-43.9	-50.6	-113.2	(May)
Merch. Trade Bal. (US$B, ar)	-51.1	-46.2	-53.0	-50.0	(May)
Industrial Production	2.4	0.3	-1.5	0.4	(May)
Unemployment Rate (%)	9.6	9.8	10.0	10.1	(Jun)
CPI	2.1	2.4	2.3	1.9	(Jun)

United Kingdom	2011	11Q4	12Q1	Latest	
Real GDP	0.8	0.6	-0.2		
Current Acc. Bal. (US$B, ar)	-46.5	-40.7	-76.4		
Merch. Trade Bal. (US$B, ar)	-160.9	-155.6	-157.5	-159.7	(May)
Industrial Production	-0.7	-2.7	-3.1	-1.9	(May)
Unemployment Rate (%)	8.1	8.4	8.2	8.1	(Apr)
CPI	4.5	4.7	3.5	2.4	(Jun)

Italy	2011	11Q4	12Q1	Latest	
Real GDP	0.5	-0.5	-1.4		
Current Acc. Bal. (US$B, ar)	-0.07	-0.03	-0.07	-0.02	(May)
Merch. Trade Bal. (US$B, ar)	-34.2	-8.3	-17.5	15.5	(May)
Industrial Production	0.3	-3.1	-5.3	-5.8	(May)
CPI	2.8	3.3	3.4	3.3	(Jun)

Russia	2011	11Q4	12Q1	Latest	
Real GDP	4.3	4.8	4.9		
Current Acc. Bal. (US$B, ar)	98.8	28.3	39.3		
Merch. Trade Bal. (US$B, ar)	16.5	18.1	19.7	17.4	(May)
Industrial Production	4.8	3.3	4.1	1.9	(Jun)
CPI	8.4	6.7	3.9	5.6	(Jul)

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

Source: Bloomberg, Global Insight, Scotia Economics.

Asia Pacific

Australia	2011	11Q4	12Q1	Latest	
Real GDP	2.1	2.5	4.3		
Current Acc. Bal. (US$B, ar)	-33.1	-39.4	-66.0		
Merch. Trade Bal. (US$B, ar)	35.7	28.8	1.5	34.1	(Jun)
Industrial Production	-1.1	1.3	4.7		
Unemployment Rate (%)	5.1	5.2	5.2	5.2	(Jun)
CPI	3.4	3.1	1.6		

Japan	2011	11Q4	12Q1	Latest	
Real GDP	-0.7	-0.5	2.7		
Current Acc. Bal. (US$B, ar)	119.2	48.0	101.1	32.4	(May)
Merch. Trade Bal. (US$B, ar)	-33.5	-75.9	-72.2	-45.5	(Jun)
Industrial Production	-2.3	0.0	2.7	-0.8	(Jun)
Unemployment Rate (%)	4.6	4.5	4.5	4.3	(Jun)
CPI	-0.3	-0.3	0.3	-0.1	(Jun)

South Korea	2011	11Q4	12Q1	Latest	
Real GDP	3.6	3.3	2.8		
Current Acc. Bal. (US$B, ar)	26.5	46.0	10.2	70.0	(Jun)
Merch. Trade Bal. (US$B, ar)	30.8	36.6	5.8	33.0	(Jul)
Industrial Production	6.9	5.2	2.9	1.5	(Jun)
CPI	4.0	4.0	3.0	1.5	(Jul)

China	2011	11Q4	12Q1	Latest	
Real GDP	10.4	8.9	8.1		
Current Acc. Bal. (US$B, ar)	201.7				
Merch. Trade Bal. (US$B, ar)	155.0	193.0	2.2	380.7	(Jun)
Industrial Production	12.8	12.8	9.3	9.5	(Jun)
CPI	4.1	4.1	3.6	2.2	(Jun)

Thailand	2011	11Q4	12Q1	Latest	
Real GDP	0.1	-8.9	0.3		
Current Acc. Bal. (US$B, ar)	11.9	1.8	0.6		
Merch. Trade Bal. (US$B, ar)	2.0	0.3	0.4	1.6	(Jun)
Industrial Production	-9.4	-34.1	-7.1	-9.9	(Jun)
CPI	3.8	4.0	3.4	2.7	(Jul)

India	2011	11Q4	12Q1	Latest	
Real GDP	7.5	6.1	5.3		
Current Acc. Bal. (US$B, ar)	-62.8	-20.2	-21.7		
Merch. Trade Bal. (US$B, ar)	-13.4	-16.5	-15.9	-10.3	(Jun)
Industrial Production	4.8	1.2	0.5	2.4	(May)
WPI	9.5	9.0	7.3	7.3	(Jun)

Indonesia	2011	11Q4	12Q1	Latest	
Real GDP	6.5	6.5	6.3		
Current Acc. Bal. (US$B, ar)	1.7	-1.6	-2.9		
Merch. Trade Bal. (US$B, ar)	2.2	1.3	0.9	-1.3	(Jun)
Industrial Production	4.1	3.7	5.4	3.0	(May)
CPI	5.4	4.1	3.7	4.6	(Jul)

Latin America

Brazil	2011	11Q4	12Q1	Latest	
Real GDP	2.5	1.2	0.6		
Current Acc. Bal. (US$B, ar)	-52.5	-63.2	-48.3		
Merch. Trade Bal. (US$B, ar)	29.8	27.0	9.8	34.5	(Jul)
Industrial Production	0.4	-1.7	-3.5	-4.3	(Jun)
CPI	6.8	6.7		6.6	(Jan)

Chile	2011	11Q4	12Q1	Latest	
Real GDP	6.0	4.5	5.6		
Current Acc. Bal. (US$B, ar)	0.0	-5.1	-1.4		
Merch. Trade Bal. (US$B, ar)	10.0	9.4	11.1	12.4	(Jun)
Industrial Production	6.9	2.1	3.9	1.1	(Jun)
CPI	3.3	4.0	4.1	2.6	(Jun)

Peru	2011	11Q4	12Q1	Latest	
Real GDP	6.9	5.5	6.0		
Current Acc. Bal. (US$B, ar)	-3.3	-0.8	-1.0		
Merch. Trade Bal. (US$B, ar)	0.9	0.7	0.8	-0.1	(May)
Unemployment Rate (%)	7.7	7.1	8.3	6.3	(Jun)
CPI	3.4	4.5	4.2	3.3	(Jul)

Colombia	2011	11Q4	12Q1	Latest	
Real GDP	5.9	6.1	4.7		
Current Acc. Bal. (US$B, ar)	-10.0	-3.2	-1.8		
Merch. Trade Bal. (US$B, ar)	0.4	0.5	0.7	0.0	(May)
Industrial Production	5.0	4.5	1.9	-1.6	(Apr)
CPI	3.4	3.9	3.5	3.2	(Jun)

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

Source: Bloomberg, Global Insight, Scotia Economics.

Interest Rates (%, end of period)

Canada	12Q1	12Q2	Jul/27	Aug/03*	United States	12Q1	12Q2	Jul/27	Aug/03*
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	0.91	0.88	0.94	0.98	3-mo. T-bill	0.07	0.08	0.10	0.08
10-yr Gov't Bond	2.11	1.74	1.75	1.76	10-yr Gov't Bond	2.21	1.64	1.55	1.58
30-yr Gov't Bond	2.66	2.33	2.33	2.31	30-yr Gov't Bond	3.34	2.75	2.63	2.67
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	69.2	66.0	66.0	(Jun)	FX Reserves (US$B)	138.0	138.8	138.8	(Jun)
Germany					**France**				
3-mo. Interbank	0.71	0.53	0.28	0.15	3-mo. T-bill	0.07	0.04	-0.02	-0.02
10-yr Gov't Bond	1.79	1.58	1.40	1.41	10-yr Gov't Bond	2.89	2.69	2.22	2.11
FX Reserves (US$B)	67.9	68.2	68.2	(Jun)	FX Reserves (US$B)	49.2	49.6	49.6	(Jun)
Euro Zone					**United Kingdom**				
Refinancing Rate	1.00	1.00	0.75	0.75	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.39	0.38	0.11	0.11	3-mo. T-bill	0.37	0.37	0.34	0.34
FX Reserves (US$B)	319.8	328.7	328.7	(Jun)	10-yr Gov't Bond	2.20	1.73	1.54	1.55
					FX Reserves (US$B)	82.4	84.4	84.4	(Jun)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.25	3.50	3.50	3.50
3-mo. Libor	0.13	0.13	0.13	0.13	10-yr Gov't Bond	3.98	3.04	3.01	3.12
10-yr Gov't Bond	0.99	0.84	0.75	0.74	FX Reserves (US$B)	47.7	44.1	44.1	(Jun)
FX Reserves (US$B)	1247.8	1231.2	1231.2	(Jun)					

Exchange Rates (end of period)

USDCAD	1.00	1.02	1.00	1.00	¥/US$	82.87	79.79	78.46	78.57
CADUSD	1.00	0.98	1.00	1.00	US¢/Australian$	1.03	1.02	1.05	1.06
GBPUSD	1.601	1.571	1.575	1.563	Chinese Yuan/US$	6.29	6.36	6.38	6.37
EURUSD	1.334	1.267	1.232	1.237	South Korean Won/US$	1132	1141	1138	1133
JPYEUR	0.91	0.99	1.03	1.03	Mexican Peso/US$	12.811	13.363	13.238	13.115
USDCHF	0.90	0.95	0.97	0.97	Brazilian Real/US$	1.827	2.012	2.025	2.026

Equity Markets (index, end of period)

United States (DJIA)	13212	12880	13076	13117	U.K. (FT100)	5768	5571	5627	5788
United States (S&P500)	1408	1362	1386	1392	Germany (Dax)	6947	6416	6689	6869
Canada (S&P/TSX)	12392	11597	11766	11670	France (CAC40)	3424	3197	3280	3364
Mexico (IPC)	39521	40200	41476	41014	Japan (Nikkei)	10084	9007	8567	8555
Brazil (Bovespa)	64511	54355	56553	57148	Hong Kong (Hang Seng)	20556	19441	19275	19666
Italy (BCI)	859	761	738	753	South Korea (Composite)	2014	1854	1829	1849

Commodity Prices (end of period)

Pulp (US$/tonne)	870	900	900	900	Copper (US$/lb)	3.85	3.45	3.43	3.32
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	0.91	0.84	0.83	0.82
Lumber (US$/mfbm)	279	283	300	303	Gold (US$/oz)	1662.50	1598.50	1618.25	1602.00
WTI Oil (US$/bbl)	103.02	84.96	90.13	90.99	Silver (US$/oz)	32.43	27.08	27.73	27.25
Natural Gas (US$/mmbtu)	2.13	2.82	3.01	2.94	CRB (index)	308.46	284.19	299.60	300.17

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

Emerging Markets Strategy

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