Global Views

Weekly commentary on economic and financial market developments

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Global Views is available on: www.scotiabank.com, Bloomberg at SCOE and Reuters at SM1C

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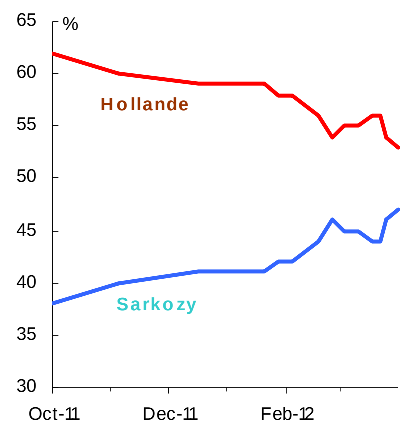
Chinese CPI, French Election, Germany & The BoE Top Next Week's Drivers

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

Asia could quite easily influence the global market tone principally through Chinese inflation figures that land on Thursday night (ET). The March figures caught markets off-guard by ticking higher to 3.6% y/y in such a fashion as to potentially halt what had been a downdraft in inflationary pressures since last summer's peak of 6.5% CPI inflation. Downward pressure may well resume in the April report, however, as we know that average monthly WTI oil prices were about 6% lower in April of this year than during the higher crest that occurred in April 2011. Given our ability to track high-frequency and up-to-date food prices across most of the major cities using figures from China's National Bureau of Statistics, a number of key food price categories were also soft in April . Furthermore, also note that house prices continue to decline and across a broadening array of Chinese cities. If CPI inflation does indeed decline again, then that could buoy markets with respect to prospects for additional policy easing. A risk to this view remains that the year-ago base effects for energy prices could well start to push inflation higher again if oil prices hang in around current levels since last summer brought a significant downdraft in oil prices. New loan growth data for China due out during the week have moved markets in the past as it is one of the few windows into the extent to which the government is encouraging the banking sector to fuel the economy. China also releases key export growth figures that could further play into the policy easing debate, and rounds out the week with updates on retail sales, factory production, and fixed asset investment. Australian retail sales, jobs and trade also have the potential to swing RBA pricing in the wake of the central bank's greater-than-expected 50bps cut in the cash target rate. Rate decisions are also on tap for each of the Bank of Korea, Bank Indonesia and Bank Negara Malaysia.

The two prime risks out of **European** markets next week will be the outcome of several elections, particularly the French Presidential election on Sunday May 6th that could start the European trading week with a bang, and the Bank of England policy meeting on Thursday. All of the recent polls are predicting that Francois Hollande will win and thus deliver a blow to the incumbent Nicolas Sarkozy. That said, Hollande's lead over Sarkozy in polls that have positioned them against each other in the final run-off since last November have shown Hollande's lead slipping with Sarkozy gaining some momentum since March. The current opinion poll gap now favours Hollande by the narrowest margin over this stretch (see chart) such that Sarkozy could well pull off a victory yet. The leader of the far right opposition National Front party has stated her intention to spoil her ballot which one might think would be a travesty of electoral justice within any democracy, but that may influence the voter turn-out perhaps in Sarkozy's favour if centre right voters are more likely to vote than younger elements of the population that are more likely to embrace a socialist candidate. Given Hollande's opposition to fiscal austerity and the recently struck fiscal pact, however, his possible victory could well position European sovereign debt markets to cycle flows into German bunds and away from a number of other eurozone economies. Greece also holds elections and this may add uncertainty to the path toward a fresh budget and its implementation that could rattle markets. Finally, regional elections will be held in Germany and Italy that will be in part a judgement on the eurozone crisis.

French Election Polls



Source: IPSOS-Logica Business Consulting.

As for the Bank of England, the fact that the UK economy slipped marginally back into a double dip recession in Q1 will make next Thursday's Bank of England decision a risk factor for either a further increase in its asset purchase target or a shift toward such a possibility on the bias. The BoE will have the last-minute benefit of trade and manufacturing readings to be released to markets on the same day as the BoE decision. The UK also auctions 2042 bonds the day before the big day.

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Other European risks will be posed by key German releases for factory orders, industrial production and export growth that will strike to the heart of the outlook for the German economy. French industrial production and trade are also due out. All of these reports land just before the European Union is scheduled to release its Spring economic forecasts on Friday.

Source: Deutsche Bundesbank, Scotia Economics.

Canadian markets face one key report that could sway market pricing on Friday, but most of the rest of the week should be largely determined by the course of global events. The March 82,300 job creation tally was one of only fourteen months since 1980 in which monthly job growth has topped 70,000. On average, the month following such gains saw job growth slow by 75k compared to the prior out-sized month. Jobs declined in absolute terms on five occasions following such a surge and posted further increases in the remaining majority. Among the few occasions when jobs fell the month after, the stand-outs were April 1986 (-31k) and November 2009 (-34k). In short, there is at best mixed evidence that historical patterns would be of much use in evaluating the job risk during April. While we thought the March gain stood up to scrutiny, what we don't know is exactly how the warmest month of March on record influenced the job tally including perhaps through fewer workers who were unable to get to work due to bad weather than may have been the seasonal norm. Instead, we offer our thoughts on job markets on pages 8-10 including a look beyond the upcoming April numbers to what we think will be a repeat of the enormous volatility in summertime job tallies that Canada has become accustomed to in recent years and which traces itself to the education sector. As for the rest of the week, Thursday's trade report will help us begin to firm up Q1 GDP growth estimates. As it stands right now, Scotia Economics is assuming that net exports will detract a half percentage point from GDP growth in Q1. Tuesday's housing starts could well soften in lagged reaction to a significant decline in building permits for residential dwellings so far this year, and would thus suggest that housing has at least temporarily turned toward becoming a drag on GDP growth. Bank of Canada Deputy Governor John Murray speaks to mortgage brokers in BC on Monday evening (ET) so expect some housing chatter. Canada also auctions five year notes on Wednesday.

US markets will be relatively quiet in the week ahead compared to the marquee releases of the past week. Fed speak will top the agenda as five Fed speakers take to the circuit. That said, only two of them get a policy vote this year including Richmond Fed President Jeffrey Lacker who speaks on unemployment, and Cleveland Fed President Sandra Pianalto whose topic and comments are unlikely to elicit a market response. The rest of the speakers tend to the mildly hawkish (Kocherlakota) to perennially hawkish (Fisher, Plosser). The US auctions 3s, 10s and 30s next week. Key releases are back-end loaded to the end of the week. They include the monthly trade deficit that is expected to widen as a sour end to Q1, and the UofM consumer sentiment survey that may come under flattening or downward pressure as job markets soften, equity markets have been volatile, and gasoline prices remain high. Producer prices for April are expected to post another flat print. In fact, there really is very little producer pipeline price pressure over the past couple of months as prices for crude, intermediate, and finished products have been relatively tame.

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Global Outlook — The Long And The Short Of It

Little Spring In The Global Economy

Global growth remains sub-par because the developed nations are unable to generate any sustained momentum. The U.K. and the euro zone outside of Germany and some of its northern neighbours have been enveloped by recession again, with many of the highly indebted countries being pressured by intensifying fiscal austerity and sharply higher joblessness, particularly for young workers. The disruptions to international trade and bank credit caused by the slump in European demand and the consolidation of many of its financial institutions are now rippling through the global economy.

The U.S. economy has regained some traction, but the pace of activity is very uneven. Increasing employment has helped reinforce consumer confidence and spending, and enhanced competitiveness has underpinned a revival in industrial output, especially on motor vehicles. Even so, the recent softening in hiring and decline in savings is again raising concerns over the durability of the improved performance. Canada continues to report moderate economic gains, led by buoyant resource activity, transportation-led gains in manufacturing, and ongoing service sector advances. However, net trade remains a soft spot. Japan is continuing its rebuilding efforts, but domestic growth is languishing alongside its aging and debt-averse population.

Most of the large developing nations have lost some of their earlier momentum as prior fiscal stimulus was unwound, monetary restraint to reduce excessive credit growth and inflationary pressures was increased, and more recently, the downturn in the euro zone resulted in reduced trade flows. The slowdown also reflects the ongoing implementation of important industry and labour market adjustments, in addition to the ongoing efforts to improve economic efficiencies through legislative, financial sector and currency reforms.

Nevertheless, the moderation in growth in some of the larger developing economies appears to be levelling off. Governments are focussed on rebalancing growth towards more domestically generated activity. Massive homebuilding activity in China and infrastructure upgrades in Brazil are helping to buoy job markets and support consumer spending. And in an increasing number of countries, including Brazil and India, officials have begun to lower interest rates with inflation pressures cresting.

Recent manufacturing data highlight the unevenness of recovery. The April purchasing managers' indices (PMIs) rose in the U.S. and China, with increases also being recorded in Canada, India, Russia, South Korea and Taiwan. However, production declines were evident in the countries experiencing more pronounced budgetary belt-tightening — the U.K. and throughout much of the euro zone, including Germany and France. The differential in the manufacturing PMIs between the expanding U.S. economy and the contracting euro zone is almost 9 points — the widest since the data were compiled in 1997.

The global economy has been unable to generate stronger and more importantly, sustainable growth, because the developed countries are experiencing their weakest recovery since the end of WWII. Deleveraging in most of the developed countries, along with the implementation of structural reforms in many of the developing nations, are keeping worldwide economic activity in the slow lane. Additional factors, including relatively high crude oil prices and recurring geopolitical strains, are adding to the uncertainty and weighing risks to the downside.

The factors that exacerbated the downturn and restrained the recovery are structural and not cyclical, with most developed countries undergoing the simultaneous deleveraging of households, financial institutions, and governments — an unprecedented occurrence since the Great Depression. Global growth is projected to average around 4% in 2013-15, slightly better than the roughly 3¾% average advance expected in 2011 and 2012. The pace of worldwide activity is likely to start slow and gradually build momentum as the restraint from fiscal drag, household deleveraging, and chronic unemployment eventually lessens.

Progress is being made, with households, particularly in the U.S. and the U.K., reducing overextended balance sheets. Financial institutions are restructuring to boost profitability, though regulatory changes internationally will

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force them to beef up capital buffers that will impact lending activity. And governments, especially in the euro zone, are implementing meaningful fiscal cuts, with the increasing restraint reinforcing a lengthy period of sub-par economic growth that will probably extend beyond mid-decade.

The steady advance in global activity should be sustained by business investment, expanded production, and exports destined for the faster-paced growth regions. In many countries, meaningful corporate profit gains are helping to sustain capital spending, while new orders, industrial output and construction will continue to benefit from the massive infrastructure projects underway. Rising imports in most emerging and developing countries will be supported by local currency strength against most major currencies.

U.S. output growth should gradually improve by mid-decade. Renewed private sector demand will be led by consumer and business spending, and followed by a more pronounced rebound in residential activity in 2014 and 2015. Expanded energy investments will add to near-term activity and exports beyond mid-decade, while improving conditions internationally should help buoy U.S. net exports. Even so, the U.S. faces increasing fiscal restraint which will further drag on the pace of output growth.

Canada's economy should marginally outperform the U.S. over the medium term. Output growth will benefit from the rapid expansion and increased export capabilities of the nation's large commodity sector, though manufacturing and non-resource exports will be challenged by a strong currency expected to remain above parity with the greenback through mid-decade. However, consumer spending is likely to moderate as Canadians focus on reducing high household debt. Increasing fiscal restraint early in the forecast period will also contribute to keeping Canadian growth below that in the U.S. in 2013 and 2014. Thereafter, the pace of domestic activity will move back above the U.S., as fiscal restraint in America continues to address the federal deficit and debt burden.

Output in the major developing economies will continue to lead growth internationally. However, the pace of activity will be slower and not as uniform across regions as was the case in the prior decade, reflecting the reduced trade potential with the slower-paced developed nations, and the structural adjustments being implemented by many developing countries. In the Asia-Pacific region, fiscal fundamentals should remain supportive of growth, with large savings in most countries assisting the transition towards more domestically-driven activity. Favourable demographic trends also should continue to bolster domestic consumer markets, in addition to underpinning the export competitiveness of local producers. Most developing nations will continue to focus on the expanding infrastructure requirements, a strategy that should continue to underpin the demand for commodities, as well as for manufactured goods and services from abroad.

Latin American economies in the medium term are expected to receive support from elevated commodity prices, high foreign exchange reserves, and increased exchange rate flexibility. The countries should also benefit from strong investor demand for high-yield assets, as well as new investment opportunities in countries with comparatively stronger balance sheets, solid domestic savings, and more favourable demographic and earnings trends. The focus on politics will increase in the region with elections slated for Mexico and Venezuela this year, Chile in 2013, and Colombia and Brazil in 2014. Yet, government policies are encouraging macroeconomic stability and growth through initiatives that will help countries diversify from their commodity dependence, broaden their domestic capital markets, and expand their banking and credit capabilities.

With fiscal restraint dominating the policy agenda in most developed countries, monetary policy must remain broadly accommodative and supportive of growth. Central banks are expected to keep interest rates near ultra-low levels this year, with the potential for additional bond buying in some countries. In the absence of any material change to the Canadian outlook, the Bank of Canada is expected to become the first central bank among the developed nations to tighten policy, beginning in the second quarter of 2013. Slower growth and reduced price pressures have enabled central banks in a number of developing countries to ease credit conditions, though policymakers are expected to favour a gradual firming in interest rates — beginning in 2013 at the earliest — and currencies to restrain potential price pressures.

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Monthly Foreign Exchange Outlook

- **Rising global uncertainty will provide support to the USD, and CAD is expected to maintain a strengthening profile.**

The US dollar (USD) has shown remarkable resilience since the beginning of the year. Meanwhile, the steady bullish tone enjoyed by US equity securities since November 2011 implies a gradual US economic improvement; indeed, the S&P500 index gained 21% in the last five months. Both consumer confidence and corporate profits show signs of gradual improvement and the US economy expanded by 2.2% on an annualized quarter-on-quarter basis during the first three months of the year. Positive momentum in riskier US assets was also apparent, as reflected in the VIX volatility indicator, with positive spillovers into emerging-market assets. Finally, the ongoing stimulus provided by the US Federal Reserve (Fed) continues to discourage capital outflows from high yielding emerging-market countries; the benchmark 10-year US Treasury (UST) bond yield remains below the 2% mark.

Ongoing concerns regarding debt sustainability in Europe (now focused on Iberian sovereign credits) is also adding further value to UST securities and, as a result, providing USD stability. Following the sizable large-scale asset purchase program, the Fed now holds roughly US$1.8 trillion in UST debt securities — purchases that have helped bring the cost of long-term borrowing to historically low levels. Energy prices and the US economic outlook are supportive of the priced-in growth profiles in Canada and Mexico. In this environment, the Canadian dollar (CAD) on the back of its Triple-A rating, hawkish central bank and rising Canadian oil prices, is expected to outperform both the USD and the Mexican peso (MXN); while MXN is expected to slightly underperform both into year-end.

Europe is back on global investors' radar screens: Spain is the focus. Spain's sovereign credit rating suffered another downgrade action by Standard & Poor's to "BBB+" in late April. All rating agencies assign a "negative outlook" to Spain at a time when the country's unemployment rate is approaching 25%. The euro (EUR) is remarkably stable against the USD, yet it shows a divergent trading pattern versus the British pound (GBP) and the Japanese yen (JPY). While EURUSD has been range trading so far this year, the GBP has shown value appreciation versus both the USD and the EUR on the back of asset diversification shifts in favour of non-euro European currencies, its Triple-A rating and improving investor sentiment. Additionally, the GBP received a boost from the Swiss authorities' firm commitment to fight the appreciation of the Swiss franc (CHF) and defend the EURCHF1.20 ceiling.

Portugal and increasingly Spain continue to attract the attention of sovereign debt investors. Credit default swap (CDS) metrics continue to portray a highly distressed valuation in Portugal. This is all happening amidst election uncertainties in France, a critical piece in the European debt puzzle. Without a visible and prompt commitment to address structural inefficiencies through pension and labour reforms as well as the adequate recapitalization of the banking sector, it is highly unlikely that employment growth in the debt-distressed nations in the euro zone will materialize any time soon. We are of the view that the euro area will close the year with negative growth. The European Central Bank (ECB) remains committed to inject as much stimulus as possible; currently the short-term refinancing policy rate is set at 1%. We do foresee further weakness in the EUR against the USD and the GBP, estimating an end-year rate of EURUSD1.25. The Norwegian krone (NOK) will remain strong as fundamental data improve, oil prices remain elevated and investor sentiment is strong.

The currency environment in Asia/Oceania offers a mixed outlook. Japan remains ready to intervene to moderate the appreciating winds in favour of the JPY as an established safe-haven asset and a target for portfolio diversification. In addition, the Bank of Japan is increasing its asset-purchase programme. However, the risk remains that a second round of distressed debt developments in Europe will surely inject a strong

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buying bias into the Japanese currency. Meanwhile, the Chinese renminbi (CNY) will not likely alter its stable trading-range pattern, as China remains a factor of global financial stabilization. The recent measures introduced by the Chinese authorities to widen the trading band represent a positive step towards exchange rate liberalization, yet it should not be interpreted as an inclination to let the yuan appreciate at market leisure: with US$3.3 trillion in reported foreign exchange reserves, the Chinese government can easily engineer its desired exchange rate direction at will.

The Australian dollar (AUD) is in range-trading mode despite the Reserve Bank of Australia's unexpected decision to lower its benchmark policy rate by 50 basis points to 3.75%. We forecast AUDUSD to regain an appreciating bias and close the year at 1.09 on the grounds of still supportive interest rate and growth differentials and a high-yield target for portfolio diversification. The core group of floating Asian currencies, such as the South Korean won (KRW), the Taiwanese dollar (TWD) and the Thai baht (THB) are also poised to resume an appreciating tone. We have revised our Chinese yuan forecast, still expecting strength into year-end (closing at 6.18) to a more moderate extent than under our previous forecast. We have also adjusted some of our other Asian FX outlooks. Most significantly, we now project a depreciation in the Indian rupee (INR) and a more pronounced appreciation in the Singaporean dollar (SGD).

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Canada Heading Into Another Summer Of Volatile Job Figures

- **Distortions introduced to summertime job tallies in the education sector have become an annual rite of passage in Canadian job markets.**

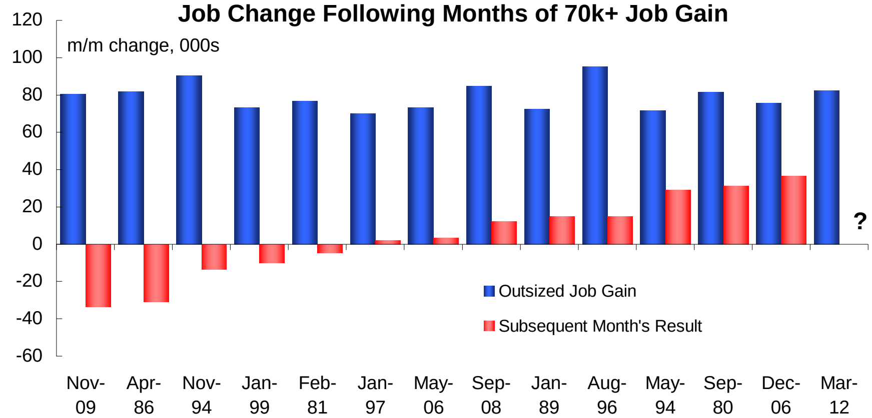
Expect A Volatile Summer For Canadian Jobs

Canada is heading into what may well be a six month stretch of substantial volatility in monthly job growth due to three factors. One relates to the potential weakness in next Friday's April jobs report following March's massive gain. The bigger issue relates to the return of summertime distortions to monthly employment levels due to contract shifts over recent years in the education sector. That sector's volatility may create the false impression that the country lost jobs early in the summer, and then gained back a large number of jobs later in the summer. A third issue we address concerns competing theories for the recent trend in monthly job growth and what they may mean going forward.

1. April's Job Tally Faces Downside Risks

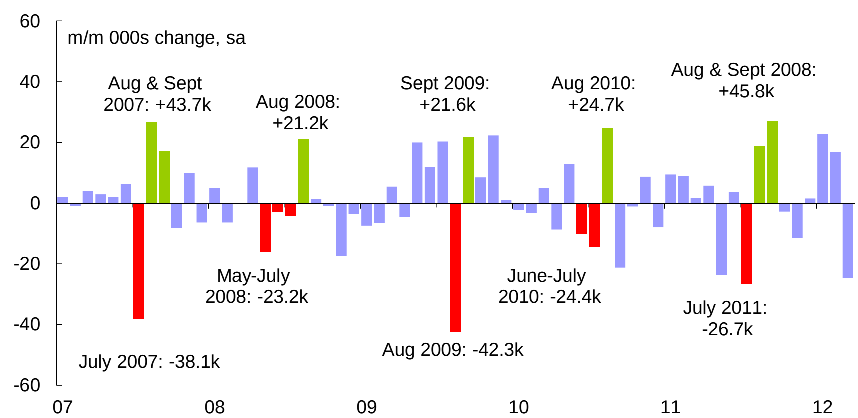
Because of the out-sized amount of job growth that was registered in March, the May 11th release of figures for April may well face substantial downside risk. March's 82,300 job creation tally was one of only fourteen months since 1980 in which monthly job growth has topped 70,000. On average, the month following such gains saw job growth slow by 75k compared to the prior out-sized month (chart 1). That would mean a largely flat print for next week. Jobs declined in absolute terms on five occasions following such a surge and posted further increases in the remaining majority. Among the relatively few occasions when jobs fell the month after, the stand-outs were April 1986 (-31k) and November 2009 (-34k). In short, there is at best mixed evidence that historical patterns would be of much use in evaluating the job risk during April — but the balance of that evidence points toward a much softer report.

Expect a subdued April jobs Print - Job Change Following Months of 70k+ Job Gain



Source: Statistics Canada, Scotia Economics.

Canadian Education Employment



Source: Statistics Canada, Scotia Economics.

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While we thought the March gain stood up to scrutiny, what we don't know is exactly how the warmest month of March on record influenced the job tally including perhaps through fewer workers who were unable to get to work due to bad weather than may have been the seasonal norm. That could have created the false impression that so many people suddenly gained employment.

One final comment on the April report is to repeat that it could not be dismissed as a function of sampling error within the Labour Force Survey. The LFS surveys 56,000 households and so this modest sample size leads naturally to sampling errors when using this sample to infer developments in the overall labour market. Statistics Canada notes that the standard error on the LFS is 27.2k (page 56 in: http://www.statcan.gc.ca/pub/71-001-x/71-001-x2012003-eng.pdf). That means a 90% confidence interval runs from +/- 1.6 standard deviations (which is +/- 43.5k). A 95% confidence interval covers two standard deviations on either side of the monthly job print, or +/-54k in March's case. Even the lower bound of the 95% confidence interval portrays Canada as having grown about 28k jobs which still would have made a solid report. In other words, one can probably say to a fairly high degree of statistical confidence that the gain in March was not an illusion owing to sampling error within the survey even if it may have been distorted by warm weather.

2. Summertime Job Reports Will Be Whipsawed By The Education Sector Again

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. Given market tendencies to react to headlines without delving further, there is the risk that the front end of the Canada curve could be accordingly whipsawed around each jobs report.

As chart 2 shows, the culprit lies in mythical gyrations in education sector employment that began in 2007. Teacher and related jobs 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 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.

Why are such distortions occurring? 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.

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.

3. Different Theories On Canadian Job Growth

More importantly, one single strong March jobs report does not suddenly alter trend job weakness in Canada dating back to last fall. To that effect, there are at least five competing debates influencing the argument over what explains trend weakness and only more data will settle it.

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One is that jobs may have been biased lower due to a hike in Quebec's provincial sales tax that hit retailers in the new year, and the release of workers who were previously hired to scramble in meeting the push away from GAAP accounting principles toward new international standards. This is the argument put forth by Philip Cross of the C.D. Howe Institute.

Alternatively, if Okun's 'Law' argues that GDP growth and job growth should be reasonably connected over time, then job weakness prior to the March report isn't a surprise given a weak economy over recent months particularly since Q1 GDP growth is tracking at about 1.2% q/q annualized.

A third argument is that Canada may have similar distortions to its jobs data due to an abnormally mild winter in many parts of the country. That may have meant that some sectors like construction had unusually elevated levels of output and also jobs through winter, and this argument would suggest that the jobs figures including straight up to March's out-sized gain could have been even weaker without this distortion. If so, then there may be some payback to the downside in future months.

Going forward, however, a fourth factor is that as public sector payrolls come off this will reverse a major source of job growth over time.

Finally, it's also important to recall that Canada front-loaded its job gains early in the recovery in contrast to the US which is back-end loading them. Whether Canadian jobs grew early on and now are at risk of correcting as employers focus more on productivity is the last of the key debates affecting the jobs outlook.

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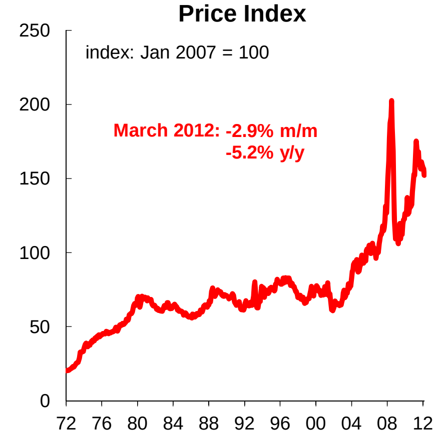
Scotiabank Commodity Price Index Eases In Recent Months

- **Pulled lower by widening price discounts for Western Canadian oil, though these discounts are narrowing again with the Seaway Pipeline reversal.**
- **World-class iron ore producing region develops in Nunavut/Labrador trough.**

Scotiabank's Commodity Price Index has retreated in recent months. While international benchmark oil prices — Brent and WTI oil — strengthened markedly in March to US$124 and US$106 per barrel respectively, both Edmonton light sweet and Western Canadian Select heavy oil prices fell. WCS normally trades at a price discount to WTI oil (averaging US$17.79 per barrel from 2005-11). However, the discount widened to more than US$30 in recent months. Unusually high differentials reflect over reliance on one key export market — the U.S. Midwest — and inadequate export pipeline capacity, especially to tap the faster growing markets of Asia-Pacific. In my view, there is an urgent need to build additional export pipeline capacity to the B.C. Coast for onward shipment to China and other Asian markets.

Scotiabank Commodity Price Index



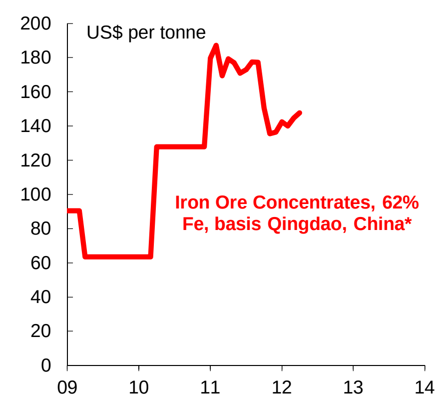
Source: Scotiabank Commodity Price Index.

On a more positive note, the discount on WCS oil is narrowing again — likely due to the end of seasonal maintenance at U.S. Midwest refineries and the scheduled reversal of the Seaway Pipeline in the second half of May. Seaway (150,000 b/d) — owned by Enbridge & Enterprise Products Partners — will link the Cushing, Oklahoma oil hub to refining centres in the Houston area (with substantial coking capacity to upgrade heavy bitumen from Alberta), where international oil prices generally prevail. This development will contribute to a stronger Canadian merchandise trade performance in May and June. While a positive development, the 'commercial risks' of relying mainly on one export market (the United States) will remain — particularly in light of much stronger underlying petroleum demand expected in the Asia/Pacific region.

Turning to international oil markets, prices for Brent and WTI oil receded today to US$112.50 and US$100.64 respectively (late morning). Softer-than-expected U.S. employment gains in April and domestic political uncertainty in Europe have riled markets. In addition, Saudi Arabia has been deliberately producing above the 'call' for OPEC crude in recent months to calm oil markets and prevent high prices from derailing still fragile global growth. Scheduled talks on May 23 between Iran and the five permanent members of the U.N. Security Council plus Germany on Iran's uranium enrichment have temporarily defused some concern over 'geopolitical supply risks'. Nevertheless, with the EU embargo on all Iranian oil looming on July 1, we expect relatively high oil prices to continue.

Spot iron ore prices delivered to Qingdao, China have edged up from a low of US$135 in November to almost US$148 per tonne in April, though prices have lost ground again late month, with an incomplete recovery in China's steel production (47% of world output). This price is included in the Scotiabank Commodity Price Index, following the recent redesign (using Canada's 2010 net export weights). Shipments of iron ore on a spot basis from the Labrador Trough (Sept-Iles) to China began last year, reflecting a large number of new mining projects in northern Quebec and Labrador. China's third-largest steel producer has equity interests in several projects. The Mary's River project on northern Baffin Island may also get underway in coming years. By 2021, Canada will move into 8th position on the world iron ore stage, with iron ore output rising from 41 to 72 mt (+76%).

Iron Ore Prices Edge Up In China



* April 2012: US$147.65 per tonne.
Source: Scotiabank Commodity Price Index.

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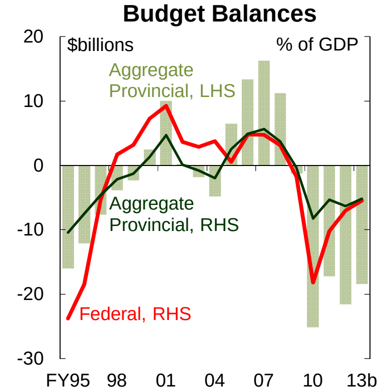
The Spring Budgets Advance Canada's Fiscal Repair

- **Further expenditure restraint details underpin forecasts of narrower budget balances for Canadian governments going forward.**

The IMF's April *Fiscal Monitor* pushed out balanced books for Canada's governments from 2015 to 2017, at the earliest. Ottawa's second expenditure review, however, outlines greater savings beginning in fiscal 2012-13 (FY13) than the threshold amounts referenced last year. This restraint will build on an improved FY12 deficit that Scotia Economics estimates will be $7.5 billion narrower than the federal estimate last November *(table below and chart)*. The Provinces now forecast a $21.6 billion aggregate deficit for FY12, $2.2 billion narrower than their mid-year estimates, with further improvement possible when the audited FY12 results are released for this summer and fall. For FY13, the Provinces project an $18.4 billion aggregate deficit, contracting to a $12½ billion shortfall in FY14 (0.7% of GDP), if their fiscal repair objectives remain intact.

In FY13, only Saskatchewan, for both its core government and consolidated reports, anticipates a surplus; but for FY14, British Columbia, Alberta, Quebec and Nova Scotia have confirmed their deficit elimination plans. Newfoundland and Labrador, after robust positive *Budget* balances in FY11 and FY12, expects a return to black ink in FY15. Also in FY15, Manitoba, New Brunswick and Prince Edward Island are aiming for balanced books, followed by Ontario in FY18. Significant risks, of course, persist for the provincial projections, such as the recent drop in natural gas prices. Yet for FY13, gas royalty forecasts by British Columbia, Alberta, Saskatchewan and Nova Scotia already were constrained to a total of just $1.66 billion, less than a quarter of the FY09 level. Forecast reserves continue to be incorporated by Ontario, British Columbia and Quebec. Debt service savings from extended low interest rates are benefitting current as well as future forecasts. Reassuring in this year's *Budgets* was the greater detail laid out for restructuring and prioritizing expenditures, and the willingness to address sensitive issues, such as curtailing public-sector pension plan benefits. The Provinces now face the challenge of delivering increased, and sustainable, efficiencies.

Canadian Government Budget Balances



Source: Federal and provincial *Budget* documents; Statistics Canada; federal government and nominal GDP forecasts: Scotia Economics.

The Provinces' Budget Balances*

$ millions unless otherwise noted

	FY10			FY11			FY12r			FY13f	% of GDP			
	2010 Bud. Rev.	Final	Ch.	2011 Bud. Rev.	Final	Ch.	2011 Bud. Est.	2012 Bud. Rev.	Ch.	2012 Bud. Est.	FY10	FY11	Rev. FY12r	Bud. FY13b
NL	-295	-33	262	485	598	113	59	776	717	-258	-0.1	2.1	2.5	-0.8
PE	-84	-74	10	-54	-52	2	-42	-79	-37	-75	-1.5	-1.0	-1.5	-1.4
NS	-488	-269	219	447	569	122	-390	-261	129	-211	-0.8	1.6	-0.7	-0.5
NB	-743	-722	21	-740	-633	107	-449	-471	-22	-183	-2.6	-2.1	-1.6	-0.6
QC**	-4,257	-3,174	1,083	-4,200	-3,150	1,050	-3,800	-3,300	500	-1,500	-1.0	-1.0	-1.0	-0.4
ON	-21,330	-19,262	2,068	-16,686	-14,011	2,675	-16,315	-15,000	1,315	-14,800	-3.3	-2.3	-2.3	-2.2
MB	-555	-200	355	-467	-298	169	-438	-1,120	-682	-460	-0.4	-0.5	-2.0	-0.8
SK**	425	425	0	20	48	28	383	353	-30	47	0.7	0.1	0.5	0.1
AB**	0	0	0	0	0	0	0	0	0	0	0	0	0	0
BC	-2,775	-1,864	911	-1,265	-309	956	-925	-2,497	-1,572	-968	-1.0	-0.2	-1.2	-0.4
All Provinces	**-30,102**	**-25,173**	**4,929**	**-22,460**	**-17,239**	**5,221**	**-21,917**	**-21,598**	**319**	**-18,408**	**-1.7**	**-1.1**	**-1.3**	**-1.0**
****Budget Balances Before Transfers From Reserves**														
QC	-4,690	-3,607	1,083	-	-	-	-	-	-	-	-1.2	-	-	-
SK	-86	168	254	40	95	55	115	56	-59	95	0.3	0.1	0.1	0.1
AB	-3,624	-1,032	2,592	-4,821	-3,410	1,411	-3,394	-1,318	2,076	-886	-0.4	-1.3	-0.5	-0.3
All Prov. Pre-Transfer	**-34,670**	**-26,895**	**7,775**	**-27,261**	**-20,601**	**6,660**	**-25,578**	**-23,213**	**2,365**	**-19,246**	**-1.8**	**-1.3**	**-1.4**	**-1.1**
Federal	-53,800	-55,598	-1,798	-36,200	-33,372	2,828	-32,300	-23,500	8,800	-20,000	-3.6	-2.1	-1.4	-1.1

* As forecast / revised by governments. Ontario post-*Budget* adjustments in late April included. Source: *Budget* documents, Statistics Canada; federal government and nominal GDP forecasts: Scotia Economics.

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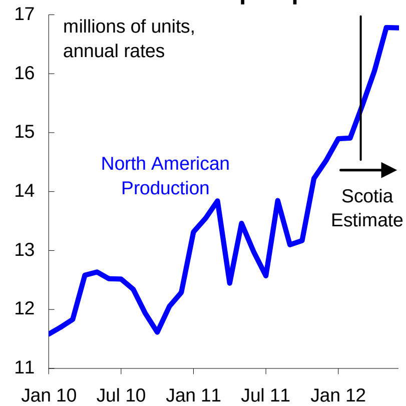
Global Car Sales Continue To Drive Forward, But At A Slower Pace

- **North American vehicle production to ramp up to six-year high in the second quarter.**

Gains in global car sales moderated significantly in April. Based on the data available so far, which normally account for roughly 60% of global volumes, we estimate purchases edged up 1% last month, compared with a 6% increase in March and a 5% during the first quarter.

North American Vehicle Production Ramps Up Further



Source: Scotia Economics.

Asia continues to post the strongest growth, with activity buoyed by replacement demand in Japan, in the aftermath of last year's earthquake and tsunami. Car sales in Japan surged 92% above a year earlier in April, with the increase inflated by a low level of activity last year following the March 11 earthquake. Despite the large year-over-year increase, purchases failed to match pre-quake levels. Sales also improved in India last month, and will benefit going forward by the recent 50 bp cut by the central bank, which will bring down the cost of vehicle financing. However, in its latest budget, the government increased excise duties on new cars by 2-5%, and gasoline prices are likely to rise in response to high international oil prices and mounting losses by refiners, who import 80% of their crude oil supplies.

Purchases continued to advance in North America, but the gains moderated to a low single-digit increase from a 13% gain in the first quarter. Sales remained strong in the United States last month averaging an annualized 14.4 million units, only marginally below the stronger-than-expected 14.6 million in the first-quarter. European automakers accounted for most of the strength in April, with volumes surging 22% above a year earlier. In particular, Volkswagen posted a 32% y/y gain and confirmed that its Audi luxury unit will build a new greenfield plant in Mexico to assemble sport utility vehicles. Production is scheduled to begin in 2016.

Hyundai's U.S. sales only edged up marginally last month, held back by a shortage of some fuel-efficient models. As a result, the company announced the addition of a third shift at its plant in Montgomery, Alabama. The plant produces the fuel-efficient Elantra and Sonata. Meanwhile, sales at Chrysler soared 20% above a year earlier, prompting the company to add 27,500 units to its second-quarter North American production schedule. We estimate that this increase will lift North American assemblies to an annualized 16.5 million units in the second quarter, up from 15.1 million in the first quarter and the highest level since mid-2006. The automaker also announced that several of its plants will remain open through the usual summer shutdown period to meet robust demand.

In Canada, ongoing strength in fuel-efficient models continued to lift car sales. However, light truck purchases declined 3% y/y last month, reducing overall volumes 1.4% below a year earlier. Despite the decline, sales remained solid at an annualized 1.65 million units, down marginally from a strong first-quarter average of 1.70 million units.

In contrast, volumes continue to weaken in Western Europe alongside ongoing sharp double-digit declines in the heavily-indebted Mediterranean nations. In April, sales in Italy and Spain plunged 17% below a year earlier. Purchases have also softened in South America. In Brazil, car sales declined 14% y/y last month to an annualized 2.2 million units — the lowest level since mid-2009, when the global economy was beginning to stabilize from the sharp global economic downturn.

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UK Inflation — The Known Unknowns

- **The outlook for UK inflation is a tug of war between pre-programmed price hikes (alcohol, tobacco, tuition fees etc), versus the likely drag from excess capacity and the effects of a non-existent recovery. This note examines 3 ways of examining these known unknowns.**

Gauging the Known Unknowns

The macroeconomic environment facing the UK suggests that inflation *should* be very low or at least slowing fast. Between 2008 and 2009, the UK went through the deepest recession since the great depression. The recovery since then has been virtually non-existent, with output still 4.3% below the pre-recession peak. Last but not least, the unemployment rate is almost 2 points above the Non-Accelerating Inflation Rate of Unemployment (NAIRU) — the level typically consistent with stable inflation.

Clearly there have been some major influences on headline inflation in recent years such as the changes in VAT and swings in the exchange rate and energy prices. Hence in order to gauge the likely impact of spare capacity on inflation we have focused on core inflation over the period prior to mid-2008. We took 3 approaches

1.) Output Gap

If output is running beyond the economy's potential, then inflation should accelerate and vice versa. There are various ways of estimating the output gap. At present, three measures of gauging the UK output gap agree that output is below potential:

- The Office for Budget Responsibility judges that there is currently an output gap of around 2.7% (i.e. output below potential);
- the OECD measure suggests that the gap is close to 4%; and
- an Hodrick Prescott method (i.e. statistical smoothing of the GDP data) would suggest that the gap is around 1%.

Chart 1: Output Gap vs Change in Core Inflation

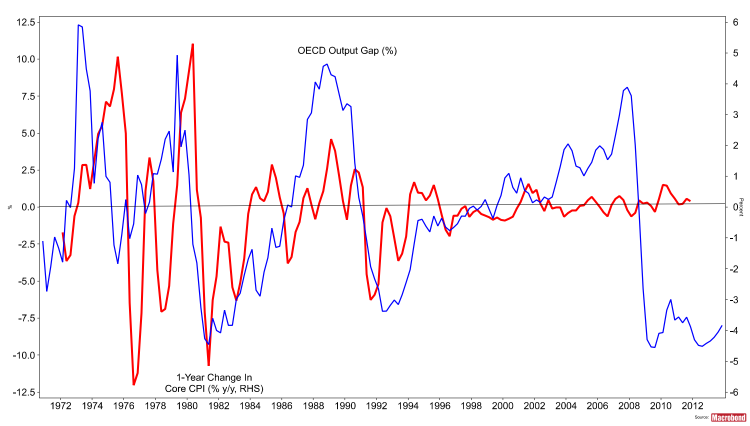

Chart 1 shows the relationship between the level of the output gap and change in core inflation (i.e. whether inflation is accelerating or decelerating — not the level of inflation). Over the period from 1970 until 2007, the correlation coefficient between the two series is close to 50%, with the output gap leading by around 6 months. However, the relationship began to unravel from the mid-2000s onwards.

The relationship suggests that a 1% output gap would typically be associated with a near 2% slowdown in core inflation. Given that core inflation accounts for around 2/3 of RPI inflation (3/4 of CPI inflation), that would imply a drag on headline RPI of around 1¼% points. That would exactly match the addition to inflation from the pre-programmed price hikes — pointing to broadly stable inflation.

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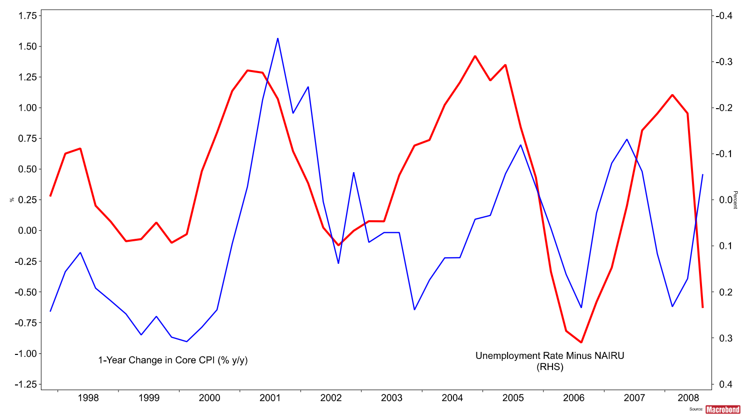
At the other extreme, if the output gap is 4% as suggested by the OECD, then one should expect to see core inflation slumping by around 8 percentage points over the coming year. That seems highly unlikely. More likely is the output gap is nowhere near 4% or the sensitivity to the output gap is less than it used to be. The bottom line is, the output gap used to be a reliable guide to the future trend in inflation. In theory the degree of spare capacity, whatever it might be, *should* bear down on core inflation, but it is by no means guaranteed.

2.) Sacrifice Ratio

The sacrifice ratio describes how much output has to be given up (or sacrificed) in order to reduce inflation by a full percentage point. There are various different approaches to this. The one that we have taken is to look at how far above the NAIRU the unemployment rate needs to be (i.e. excess unemployment) to reduce core inflation by one percentage point.

Chart 2 shows the relationship between excess unemployment and the change in core inflation. As with the output gap, the relationship collapsed after mid-2008. Nonetheless, prior to that the correlation coefficient between the two series was a decent 55%. The relationship in the chart suggests a 3:1 trade-off. In other words if the unemployment rate is 1 point above the NAIRU then core inflation should be expected to slow by around 3% points. According to the OECD the UK NAIRU is just below 7%, while the latest print was 8.3%.

Chart 2: Unemployment Minus NAIRU vs Change in Core Inflation



That trade-off sounds rather high in our opinion. In particular, with unemployment 1½ points above the NAIRU currently, this would suggest a 4.5% point slowdown in core inflation (or 3 off headline RPI).

The sacrifice ratio relationship has not been reliable for the last 3 years. If this is temporary because of other outside influences (e.g. the VAT hike or exchange rate movements) then there is a danger that its influence snaps back over the next year or so. However, we would be loath to base our inflation forecast on what has been an unreliable relationship of late.

3.) Core-Non-Core trade-off

As discussed above, gyrations in the exchange rate and commodity prices (especially food and energy) may have interfered with the influence of the output gap or excess unemployment. Although the effective GBP exchange rate has appreciated of late (up by around 4% since late-2011), the level of the exchange rate remains well down on the pre-2008 peak (around 20% lower). This would typically drag around 0.4% points from headline inflation.

Concerning the core vs non-core relationship, there are two possibilities. One is that higher non-core (i.e. food and energy prices) represents an increase in upstream costs to firms, which are ultimately translated into higher core inflation further down the road. The alternative is that higher energy prices squeeze profit margins and household disposable income, making it hard for core inflation to accelerate.

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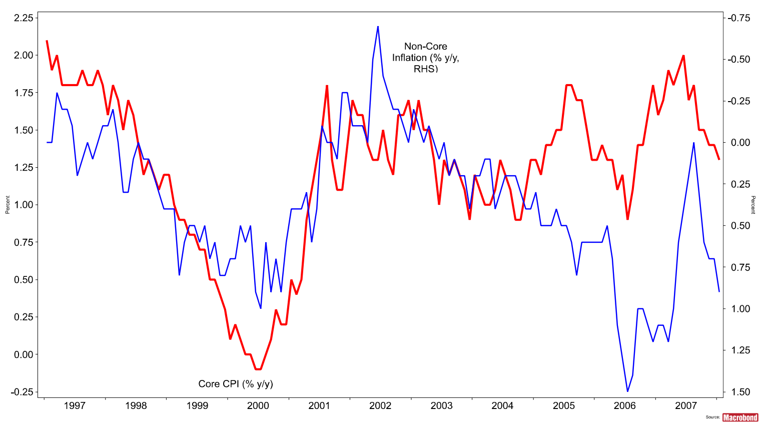
Chart 3 suggests that over the period from 1997 to 2007, it was the latter relationship that dominated. The relationship weakens a little towards the end, but the correlation up until 2004 was around -80%.

Chart 3: Non-Core vs Core Inflation



Where does that leave us now? Despite the bounce in the price of oil at the start of 2012, energy price inflation is slowing (down from a peak of 18% y/y to just below 10% y/y). There has also been some slowdown in food price inflation with more likely in the months ahead. Given these, the squeeze on household disposable income and corporate profit margins will be easing, making it easier for retailers to pass on higher underlying inflation. Given this, core inflation could be more buoyant than implied by the output gap or sacrifice ratio relationships.

Conclusion

The basis of our inflation forecast has been to rely more heavily on the things we know most about (i.e. the pre-announced price hikes) and less on the more tentative evidence such as the output gap and sacrifice ratio. Nonetheless, it would be foolish to abandon these known unknowns altogether. Our analysis above shows that if the relationships do re-establish themselves (having broken down over the last year or two) they could subtract significantly from underlying inflation. Hence these warrant some caution, though we are loath to let these dominate our inflation outlook.

Perhaps the most important known unknown of all is what happens to energy and food prices. These have been the biggest influence on headline inflation in recent years. But they also appear to have a reasonable inverse relationship with core inflation given the squeeze that energy costs have on disposable income and corporate profits. The current slowing path of non-core inflation argues for some stickiness in core inflation during 2012.

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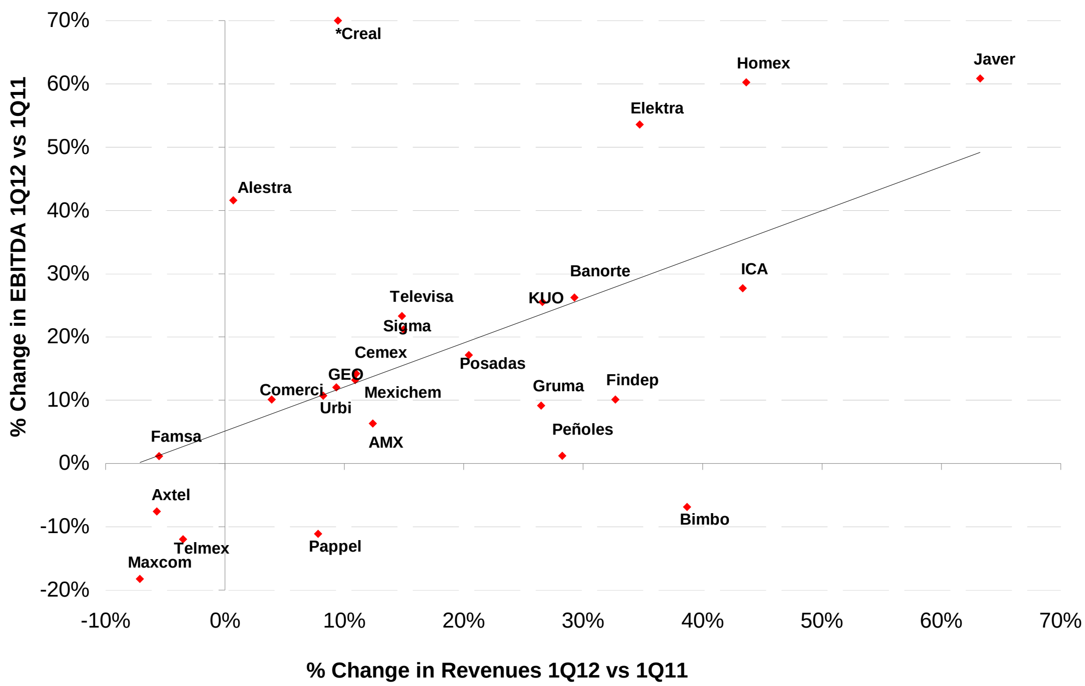
Mexican Corporates 1Q12 Wrapup

Most Mexican corporates whose global bonds we follow reported good first quarter results over the past few weeks, with a few sectors performing particularly well. Many high-yielding names have still not recovered in line with higher grade Mexican credits. While a deterioration in fundamentals explains the most extreme cases, we see opportunities in some high-yielding names where fundamentals are unchanged or have actually improved.

Performance of companies in 1Q12

Practically all the Mexican companies that we cover performed well in the quarter, with increases in both sales and Ebitda. Out of the 26 companies shown in Figure 1, 16 reported double-digit growth in sales and 17 reported double-digit growth in Ebitda.

Figure 1. Change in Revenues and EBITDA 1Q12 vs. 1Q11



Source: Company reports; Scotiabank
% change in peso terms; for Banorte, Findep and Creal, interest income and financial margin after provisions are shown
*Financial margin after provisions growth for Creal exceeds the scale, therefore we show it at the top

The only 3 companies posting declines in sales as well as in Ebitda were all in telecommunications. Here, the sector's trend toward mobile telephony, the bundling of services, fierce competition, and the presence of significant economies of scale have played against some companies. Axtel and Maxcom, two relatively small companies, are unable to compete effectively against dominant players America Movil and Televisa, especially as the industry requires considerable capital investments that these players do not have the cash flow to support. Despite Telmex’s decline due to its focus on land-line telephony, its parent America Movil is doing well, explaining the shift towards bond issuance by the parent.

On the other extreme of earnings performance are companies that are taking advantage of the scant availability of credit in Mexico, especially for the lower-income sectors. Department store Elektra has posted

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record growth rates for various quarters thanks to the growth of its lending business, and Crédito Real has greatly expanded its loan portfolio while at the same time seeing its NPL ratios fall. Another good sector is government contracting, with infrastructure company ICA showing large gains in earnings and revenues. Homebuilder Homex's growth was due not to its traditional housing business, which actually declined, but rather to its large penitentiary construction project. After the construction is completed, the company will receive a constant income stream for operating these facilities.

The other homebuilders, for their part, also had good results, with Javer standing out. Javer attributes its good results to the availability of subsidies; nevertheless, the company's sales have been very volatile quarter to quarter, and the fact that it has already used up a large part of its subsidies will complicate its performance in the rest of the year. Although the homebuilders, with the exception of Geo, had positive cash flow this quarter, cash flow remains a concern in the long-term since none of builders have announced credible changes in strategy that would cause annual cash flow to be different from previous years.

In the middle of the graph are consumer-goods companies Gruma, Sigma and Bimbo who have weathered relatively well the increase in prices of imported inputs, such as grain, milk and meat, an increase which is expected to continue for the rest of the year. The depreciation of the peso has contributed to this increase in costs. Since these companies are the leaders in their respective markets, they have been mostly able to pass on these higher costs to their product prices without sacrificing volumes. In the specific case of Bimbo, it was not a good quarter in terms of Ebitda because of the costs incurred for its acquisition of Sara Lee. Sara Lee's margins are lower, and it will take the rest of the year at least for synergies to be realized, according to management. Similarly, industrial companies Mexichem and especially Kuo again demonstrated their ability to pass on increasing input prices to customers, showing stable margins, and, in some products, an increase in volumes.

The process of integrating acquired companies affected the fundamentals of certain companies, such as Banorte, Bimbo and Findep. Another factor that may affect the comparability of results going back farther than 2011 is the change in accounting standards. As of the first quarter of 2012, companies are required to report their results for that quarter and for a comparative period in the prior year according to IFRS, although some companies got a head start and have been presenting their figures according to these reporting standards since 2011.

There are still opportunities in HY companies

World markets have mostly recovered from the volatility of last year, and along with that recovery, many of the better rated corporates have returned to the spreads we saw last summer. In contrast, figure 2 shows that many HY corporates are still trading at levels of more than 100bp over their June 2011 levels, suggesting some opportunities may exist.

Now, there is good reason for the increase in spreads in some of the names since fundamentals have deteriorated over the past year, especially in the firms showing some of the largest increases in spreads, namely Axtel, Posadas, Pappel, and Maxcom (not shown on the graph because it is off the scale). Axtel has not performed well in recent quarters, and moreover, rating agencies expressed their concerns at the end of 2011 regarding covenant compliance. Even though Maxcom and Axtel do not have immediate amortizations coming, the refinancing of their bonds in the medium-term will be complicated. While Posadas reported growth in both sales and Ebitda in the first quarter of 2012 and successfully placed a subordinated bond in order to meet its short-term debt obligations (which led to a reduction in spreads in recent months), its amortizations in 2013 and 2015 are now even closer.

In contrast, fundamentals are unchanged or have improved in some HY companies showing spread increases. The story on the homebuilders is mostly the same as it has been for years, with growth in revenues and

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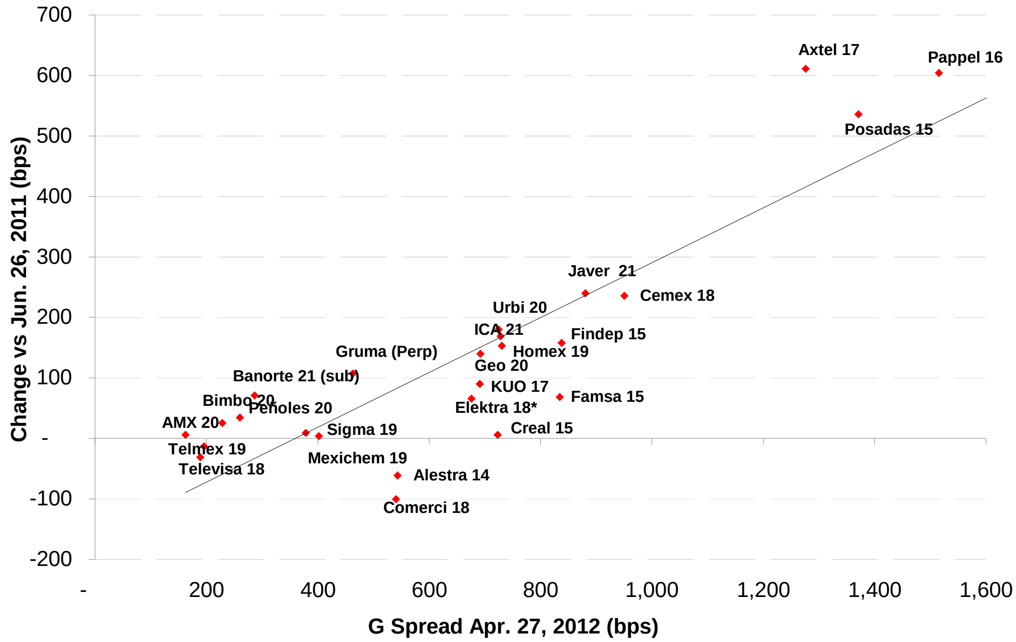
earnings, but poor cash flow. Cemex recorded sales growth and Ebitda growth, which allowed it to slowly decrease leverage levels and meet increasingly restrictive covenant requirements. ICA is performing well thanks to the government's long-term focus on infrastructure with an additional boost in the first half due to upcoming elections. The company recorded double-digit growth in adjusted Ebitda with almost no change in net debt levels.

Figure 2. Change in Spreads April 2012 vs. June 2011



Source: Bloomberg; Scotiabank. Maxcom is not included in the graph because its spread is outside of the scale.

Please see the standalone version of this article for a detailed discussion of each firm's quarterly results.

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Key Data Preview

CANADA

Canada's April jobs data (May 11) pose an interesting form of data risk. The issue is that Canadian jobs growth accelerated substantially in March, with the Labour Force Survey showing growth of 82.3k jobs — one of the larger gains on record. Our concern is that the typical behavior of the labour market in months following outsized job gains is… anything but encouraging. Canadian jobs have expanded by 70k+ 13 times since 1980 (excluding March 2012). Following these outsized job gains, the subsequent month's jobs print has been 75k smaller on average. In terms of the distribution of outcomes, the subsequent month's jobs number has been lower by 50k or more 11/13 times (84.5%) and has declined in absolute terms 5 times — i.e. a negative number is posted 38% of the time (about double the overall rate). For these reasons alone, it is hard for us to get particularly enthusiastic about the jobs market in April. In terms of main trends, over the medium term, the erratic LFS has followed the same smooth trend as the slower-and-steadier SEPH payrolls survey. We do not see any reason for the main trend to have changed, however last month's outsized gain implies that the LFS should post a more normal job gain of 5k after last month's elevated print.

Weak Jobs Numbers Typically Follow Strong Months in Canada

Month of Outsized Job Gain	Outsized Job Gain	*Subsequent Month Result*
Nov 2009	80.4	*-33.7*
Apr. 1986	81.8	*-30.9*
Nov. 1994	90.4	*-13.4*
Jan. 1999	73.3	*-10*
Feb. 1981	76.8	*-4.6*
Jan. 1997	70.2	*2.2*
May 2006	73.4	*3.6*
Sept 2008	84.8	*12.3*
Jan. 1989	72.6	*14.8*
Aug. 1996	95.1	*15*
May 1994	71.7	*29.1*
Sept. 1980	81.6	*31.2*
Dec. 2006	75.8	*36.8*
March 2012	82.3	*?*

International trade (May 10) will offer a look at one of the more interesting divergences in the Canadian economy. Both the BoC and Scotia's Patricia Mohr have noted that the crude oil exported by Canada has been selling at a discount to the hypothetical 'world prices' that Canada does indeed pay for most its crude and refined oil imports (according to the BoC, the gulf is as much as US$40/barrel). The result is that Canada has not realized the type of trade balance benefits from elevated oil prices that one might expect. The importance of realized crude export prices to the Canadian economy is hard to understate: exports of crude petroleum generally account for 18-19% of Canada's exports. An 10% increase in the value of crude exported by Canada would amount to close to a 2% increase in the value of Canadian exports. We're anticipating a deterioration in the trade balance during March to -C$250 million as the price gap between generally used world benchmark oil prices (brent crude, WTI) and the more unique Canadian ones didn't close meaningfully. Our autos economics group also expects that car and car-part shipments for export slid slightly in March.

Scotia is expecting a slight cooling of **housing starts** in April (May 08). Housing starts have been at elevated levels through 2012 almost entirely on the strength of condominium supply in Toronto. As a matter of fact, a record 3,084 new condo units were started in Toronto during March. An unusual amount of building permits for multiple unit projects were delivered in December (19,115 vs. a norm in the 17,500 range over the past year) and we expect those permits to have largely turned into starts already.

UNITED STATES

The **US trade deficit** for March will be released on May 10, and as Q1 GDP has already been released, this report can at most prompt marginal revisions. As trade was flat during Q1 (although rather negative in nominal terms) one might interpolate that the trade deficit widened marginally. Scotia is expecting a meaningful deterioration to the -US$52 billion level on oil import costs and fluctuations in the DXY among other factors. Note that interpolating the nominal trade deficit out of the nominal GDP data would imply an even steeper decline.

In what will be a quiet week in terms of US economic data releases, **initial jobless claims** (May 10), which will offer a look at developments during the first week of the new month, should make the biggest splash.

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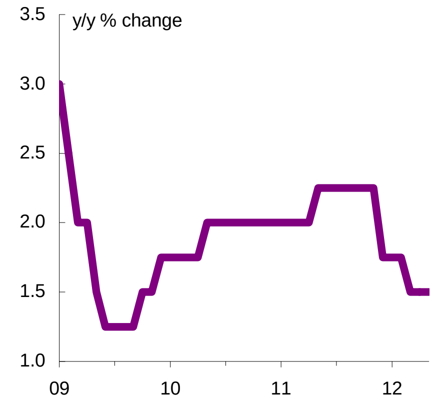
EUROPE

Norwegian Deposit Rate

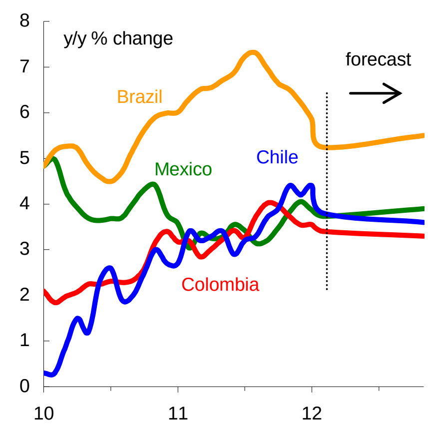


Source: Thomson Reuters.

The next monetary policy meeting of the Norges Bank will be on Thursday, May 10th. In our view, Norway's central bank will leave the benchmark sight deposit rate at 1.50%, after lowering the rate by 25 basis points at each of its last two meetings. Annual inflation slowed in March from 1.2% y/y to 0.8%, with the CPI contracting slightly in month-over-month terms. Given that the underlying pace of core prices actually picked up, from 1.3% y/y to 1.5%, the deceleration in the headline rate should not be overly concerning for monetary authorities at this point. Recent indicators paint a mixed picture on the economic growth front. Unemployment is low (at 3.2% in January) and retail sales remain strong (at 9.6% y/y in March). Moreover, the trade surplus in March surpassed the record high of the previous month by 2.5% to reach NOK 46.4 billion. Higher oil prices in the early part of 2012 underpinned a 40% gain in the cumulative first-quarter trade surplus over the same period last year. On the other hand, the manufacturing PMI slumped in April following a strong first quarter, dropping from 59.3 to 53.7, while industrial production fell 0.6% m/m in February on a decline in oil and gas extraction output. One key factor for the Norges Bank will be the outlook for the krone (NOK). The NOK has remained relatively stable versus the US dollar in a range around 5.7-5.8 since the bank's last meeting in mid-March. Nevertheless, we anticipate a gradual strengthening of the currency through 2013, which may put downward pressure on the outlook for prices, and thus could prompt additional monetary easing sometime in the months ahead. Lastly, household debt remains worryingly high in Norway, acting to dissuade the central bank from loosening rates, which could stimulate even higher indebtedness.

LATIN AMERICA

Inflation in Latin America



Source: Bloomberg, Scotia Economics.

Monetary policy stance in Latin America has remained unchanged in the last few months. Brazil continues to preserve a dovish tone, while Chile, Colombia, Peru and Mexico maintain a more neutral one. Inflation data for Colombia, Mexico, Chile and Brazil will be released during the coming week (May 7-11th). In all of these countries, annual inflation has decelerated. In Brazil, consumer prices showed the most aggressive contraction among its Latin American peers, decelerating from 6.5% y/y in December to 5.24% in March. In Mexico, consumer price index decreased from 3.82% y/y to 3.73%, in Colombia from 3.73% y/y to 3.43% and in Chile from 4.4% y/y to 3.8%, during the same period. The authorities have highlighted concerns over a second round of inflationary pressures deriving from high oil and food prices. We expect inflation to remain close to current levels by year-end.

Key Indicators for the week of May 7 - 11

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	05/07	08:30	Building Permits (m/m)	MAR	--	-2.0	7.5
US	05/07	15:00	Consumer Credit ($ bn m/m)	MAR	--	9.8	8.7
CA	05/08	08:15	Housing Starts (000s a.r.)	APR	200.0	203.0	215.2
MX	05/09	09:00	Consumer Prices (m/m)	APR	0.06	-0.36	0.06
MX	05/09	09:00	Consumer Prices (y/y)	APR	3.8	3.4	3.7
MX	05/09	09:00	Consumer Prices Core (m/m)	APR	0.27	0.12	0.24
MX	05/09	09:00	Trade Balance (US$ mn)	MAR F	--	--	1574.8
US	05/09	10:00	Wholesale Inventories (m/m)	MAR	--	0.6	0.9
CA	05/10	08:30	Merchandise Trade Balance (C$ bn)	MAR	-0.25	0.50	0.29
CA	05/10	08:30	New Housing Price Index (m/m)	MAR	--	0.2	0.3
US	05/10	08:30	Continuing Claims (000s)	APR 28	3315	3280	3276
US	05/10	08:30	Initial Jobless Claims (000s)	MAY 5	380	370	365
US	05/10	08:30	Trade Balance ($ bn)	MAR	-52.0	-50.0	-46.0
US	05/10	14:00	Treasury Budget ($ bn)	APR	--	30.0	-198.2
CA	05/11	08:30	Employment (000s m/m)	APR	5.0	5.0	82.3
CA	05/11	08:30	Unemployment Rate (%)	APR	7.3	7.3	7.2
US	05/11	08:30	PPI (m/m)	APR	--	0.0	0.0
US	05/11	09:55	U. of Michigan Consumer Sentiment	MAY P	76.0	76.4	76.4

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SP	05/07	03:00	Industrial Output NSA (y/y)	MAR	--	--	-3.0
GE	05/07	06:00	Factory Orders (m/m)	MAR	1.3	0.5	0.3
GE	05/08	06:00	Industrial Production (m/m)	MAR	0.9	0.8	-1.3
GE	05/09	02:00	Current Account (€ bn)	MAR	--	18.0	11.1
GE	05/09	02:00	Trade Balance (€ bn)	MAR	--	14.3	14.7
FR	05/09	02:45	Trade Balance (€ bn)	MAR	--	-6000	-6398
FR	05/10	02:45	Central Government Balance (€ bn)	MAR	--	--	-24.2
FR	05/10	02:45	Industrial Production (m/m)	MAR	0.5	-0.6	0.3
IT	05/10	04:00	Industrial Production (y/y)	MAR	--	-6.2	-6.8
UK	05/10	04:30	Industrial Production (m/m)	MAR	-0.6	-0.3	0.4
UK	05/10	04:30	Manufacturing Production (m/m)	MAR	0.6	0.5	-1.0
UK	05/10	07:00	BoE Asset Purchase Target (£ bn)	MAY	325	325	325
UK	05/10	07:00	**BoE Policy Announcement (%)**	MAY 10	**0.50**	**0.50**	**0.50**
NO	05/10	08:00	**Norwegian Deposit Rates (%)**	MAY 10	**--**	**1.50**	**1.50**
GE	05/11	02:00	CPI (m/m)	APR F	0.1	0.1	0.1
GE	05/11	02:00	CPI (y/y)	APR F	2.0	2.0	2.0
GE	05/11	02:00	CPI - EU Harmonized (m/m)	APR F	0.2	0.2	0.2
GE	05/11	02:00	CPI - EU Harmonized (y/y)	APR F	2.2	2.2	2.2
SP	05/11	03:00	CPI (y/y)	APR F	2.0	2.0	2.0
SP	05/11	03:00	CPI - EU Harmonized (m/m)	APR	1.1	1.1	2.2
SP	05/11	03:00	CPI - EU Harmonized (y/y)	APR F	2.0	2.0	2.0
UK	05/11	04:30	PPI Input (m/m)	APR	0.3	-0.9	1.9
UK	05/11	04:30	PPI Output (m/m)	APR	0.4	0.4	0.6

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

Key Indicators for the week of May 7 - 11

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
AU	05/06	21:30	Building Approvals (m/m)	MAR	--	3.0	-7.8
AU	05/06	21:30	Retail Sales (m/m)	MAR	--	0.2	0.2
TA	05/07	04:00	Trade Balance (US$ bn)	APR	--	2.7	2.4
AU	05/07	21:30	Trade Balance (AUD bn)	MAR	--	-1400	-480
JN	05/08	19:50	Foreign Reserves (US$ bn)	APR	--	--	1288.7
JN	05/08	19:50	Official Reserve Assets (US$ bn)	APR	--	--	1288.7
MA	05/09	00:01	Trade Balance (MYR bn)	MAR	--	10.2	10.6
JN	05/09	01:00	Coincident Index CI	MAR P	--	96.2	95.0
JN	05/09	01:00	Leading Index CI	MAR P	--	96.9	96.3
JN	05/09	01:00	New Composite Leading Economic Index	MAR P	--	96.9	96.3
JN	05/09	19:50	Bank Lending (y/y)	APR	--	--	0.8
JN	05/09	19:50	Current Account (¥ bn)	MAR	--	1449.0	1177.8
JN	05/09	19:50	Trade Balance (¥ bn)	MAR	--	-42.8	102.1
PH	05/09	21:00	Exports (y/y)	MAR	--	11.0	14.6
SK	05/09	21:00	**BoK Base Rate (%)**	MAY 10	**3.25**	**3.25**	**3.25**
AU	05/09	21:30	Employment (000s)	APR	--	-5.0	44.0
AU	05/09	21:30	Unemployment Rate (%)	APR	--	5.3	5.2
CH	05/10	06:59	Trade Balance (US$ bn)	APR	--	9.8	5.4
ID	05/10	07:59	**BI Reference Interest Rate (%)**	MAY 10	**--**	**5.75**	**5.75**
CH	05/10	21:30	CPI (%)	APR	--	3.4	3.6
CH	05/10	21:30	CPI (y/y)	APR	--	3.4	3.6
CH	05/10	21:30	PPI (y/y)	APR	--	-0.5	-0.3
CH	05/11	01:30	Industrial Production (%)	APR	--	12.1	11.9
CH	05/11	01:30	Industrial Production (y/y)	APR	--	12.1	11.9
CH	05/11	01:30	Retail Sales (%)	APR	--	15.1	15.2
NZ	05/11	07:59	REINZ Housing Price Index (m/m)	APR	--	--	1.9

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CO	05/05	20:00	Consumer Price Index (m/m)	APR	--	0.2	0.1
CO	05/05	20:00	Consumer Price Index (y/y)	APR	--	3.5	3.4
CL	05/07	08:30	Economic Activity Index SA (m/m)	MAR	--	0.5	0.1
CL	05/07	08:30	Economic Activity Index NSA (y/y)	MAR	--	4.5	6.1
CL	05/08	08:00	CPI (m/m)	APR	--	0.2	0.2
CL	05/08	08:00	CPI (y/y)	APR	--	3.7	3.8
BZ	05/09	07:59	Economic Activity Index SA (m/m)	MAR	--	0.4	-0.2
BZ	05/09	07:59	Economic Activity Index NSA (y/y)	MAR	--	2.2	0.9
BZ	05/09	08:00	IBGE Inflation IPCA (m/m)	APR	--	0.6	0.2
BZ	05/09	08:00	IBGE Inflation IPCA (y/y)	APR	--	5.0	5.2
PE	05/10	19:00	**Reference Rate (%)**	MAY	**4.25**	**4.25**	**4.25**
PE	05/11	06:59	Trade Balance (PEN mn)	MAR	--	--	879

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

Global Auctions for the week of May 7 - 11

North America

Country	Date	Time	Event
US	05/07	11:30	U.S. to Sell USD30 Bln 3-Month Bills
US	05/07	11:30	U.S. to Sell USD28 Bln 6-Month Bills
CA	05/08	10:30	Canada to Sell CAD8.9 Bln 98-Day Bills
CA	05/08	10:30	Canada to Sell CAD3.3 Bln 182-Day Bills
CA	05/08	10:30	Canada to Sell CAD3.3 Bln 364-Day Bills
US	05/08	11:30	U.S. to Sell 4-Week Bills
US	05/08	13:00	U.S. to Sell USD32 Bln 3-Year Notes
CA	05/09	12:00	Canada to Sell 5-Year Notes
US	05/09	13:00	U.S. to Sell USD24 Bln 10-Year Notes
US	05/10	13:00	U.S. to Sell USD16 Bln 30-Year Bonds
US	05/11	11:00	U.S. Fed to Purchase USD1.5-2 Bln Notes

Europe

Country	Date	Time	Event
NE	05/08	04:00	Netherlands to Sell Up to EUR3 Bln 2.25% 2022 Bonds on May 8
AS	05/08	05:00	Austria to Sell 3.4% 2022 Bonds on May 8
GR	05/08	05:00	Greece to Sell Bills
AS	05/08	05:00	Austria to Sell 3.2% 2017 Bonds on May 8
SZ	05/09	05:30	Switzerland to Sell Bonds
UK	05/09	05:30	U.K. to Sell GBP2 Bln 4.5% 2042 Bonds
GE	05/09	05:30	Germany to Sell EU5 Bln 5-Year Notes
IT	05/11	05:00	Italy to Sell Bills
BE	05/11	06:00	Belgium to Sell Bonds (OLO ORI)

Asia Pacific

Country	Date	Time	Event
CH	05/07	23:00	China Development Bank to Sell CNY6 Bln Bonds (1218)
CH	05/07	23:00	China Development Bank to Sell CNY6 Bln Bonds (1219)
CH	05/07	23:00	China Development Bank to Sell CNY6 Bln Bonds (1220)
CH	05/07	23:00	China Development Bank to Sell CNY6 Bln Bonds (1221)
CH	05/07	23:00	China Development Bank to Sell CNY6 Bln Bonds (1222)
JN	05/07	23:45	Japan to Sell 10-Year Bonds
CH	05/08	23:00	China to Sell CNY30 Bln 7-Year Bonds (1205)
JN	05/10	04:00	Japan Auction for Enhanced-Liquidity

Latin America

Country	Date	Time	Event
BZ	05/08	11:00	Brazil to Sell I/L Bonds due 8/15/2016 - NTN-B
BZ	05/08	11:00	Brazil to Sell I/L Bonds due 8/15/2018 - NTN-B
BZ	05/08	11:00	Brazil to Sell I/L Bonds due 8/15/2022 - NTN-B
BZ	05/08	11:00	Brazil to Sell I/L Bonds due 8/15/2030 - NTN-B
BZ	05/08	11:00	Brazil to Sell I/L Bonds due 8/15/2040 - NTN-B
BZ	05/08	11:00	Brazil to Sell I/L Bonds due 8/15/2050 - NTN-B
BZ	05/10	11:00	Brazil to Sell Bills due 10/1/2012 - LTN
BZ	05/10	11:00	Brazil to Sell Bills due 7/1/2014 - LTN
BZ	05/10	11:00	Brazil to Sell Bills due 1/1/2016 - LTN

Source: Bloomberg, Scotia Economics.

Events for the week of May 7 - 11

North America

Country	Date	Time	Event
CA	MAY 3-5		Canada-U.S. Leaders Forum
CA	05/07	17:30	Bank of Canada's Murray Speaks to B.C. Mortgage Brokers
US	05/07	19:15	Fed's Lacker Speaks in Greensboro, North Carolina
US	05/08	09:45	Richmond Fed Leaders Meet With Community College Students, NC
US	05/08	09:45	Fed's Lacker Meets with Greensboro Community College Students
US	05/08	12:45	Fed's Fisher Speaks on panel in Dallas
US	05/09	10:00	Fed's Kocherlakota Speaks on Monetary Policy in Minneapolis
US	05/09	10:45	Fed's Pianalto Speaks on Leadership in Lexington, KY
US	05/09	12:00	Fed's Plosser to Talk in Philadelphia on Community Development
US	05/10	09:30	Fed's Bernanke to Speak on Bank Capital in Chicago
US	05/10	12:15	Outgoing World Bank President Zoellick Speaks in New York
US	05/10	13:20	Fed's Kocherlakota Speaks on Monetary Policy in Minneapolis

Europe

Country	Date	Time	Event
EC	05/06	18:00	BIS Holds Global Central Bank Meeting
GE	05/06		German State Election in Schleswig-Holstein
FR	05/06		France to Hold Presidential Election
GE	05/07	04:00	Parliamentary Public Hearing on ESM Euro Rescue Fund: Berlin
GE	05/07	04:00	EFSF's Regling at 1st Open Hearing of Parliament on Crisis
SZ	05/07	12:15	IMF's Lagarde Speaks in Zurich
SW	MAY 7-8		IMF conference on fiscal and budget issues in Stockholm
EC	05/08	08:30	ECB's Draghi and Praet Speak on Eurosystem and CSDs: Frankfurt
EC	05/09	03:30	ECB's Constancio Speaks on Euro Area at a Conference: Florence
EC	05/09	04:15	Schaeuble, Van Rompuy, Barroso Speak at Brussels Conference
GE	05/09	07:00	EFSF's Regling at 2nd Open Hearing of Parliament on Crisis
EC	05/09	08:15	Bundesbank's Weidman Speaks on Eurocrisis in Dresden
UK	05/09		Queen's Speech Setting Out Government Program
EC	05/10	04:00	ECB's Peter Praet Speaks on Euro Area: Vienna
EC	05/10	06:00	Bundesbank's Dombret Debates on Financial Crisis Resolution
UK	05/10	07:00	Bank of England Monetary Policy Committee Decision
EC	05/11	05:00	EU Publishes Spring Economic Forecasts

Asia Pacific

Country	Date	Time	Event
CH	MAY 6-10		7th China International Steel Congress
HK	MAY 7-8		10th Asia Pacific Trading Summit 2012
ID	MAY 9-10		Bank Indonesia Reference Rate

Latin America

Country	Date	Time	Event
CL	05/09	08:30	Central Bank's Traders Survey
UK	05/10	07:45	III BRAZIL-UK Oil & Gas Meeting
CL	05/10	08:30	Central Bank Economist Survey
PE	05/10	19:00	Reference Rate

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	June 5, 2012	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	June 20, 2012	0.25	--
Banco de México – Overnight Rate	4.50	June 8, 2012	4.50	--

Fed: A deterioration in labour markets in March and April should reduce hopes for rapid improvement in the unemployment rate implied by January and February data. Similarly, Q1 GDP data implied ex-inventory trend GDP growth of 1.5-1.6% for a second consecutive quarter. Both of these developments suggest economic trends that are weaker than the Fed's updated staff economic projections, which marginally upgraded the outlook for the US economy in 2012. We do not anticipate any change to the Fed Funds Rate until Q4 2014. BoC: The Bank of Canada revised its guidance for the path of its benchmark interest rate at its April 17 meeting, noting "in light of the reduced slack in the economy and firmer underlying inflation, some modest withdrawal of the present considerable monetary policy stimulus may become appropriate." Weak GDP data since then have dispelled some of the expectations for BoC rate hikes.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	1.00	June 6, 2012	1.00	--
Bank of England – Bank Rate	0.50	May 10, 2012	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	June 14, 2012	0.00	--
Central Bank of Russia – Refinancing Rate	8.00	May 7, 2012	8.00	8.00
Hungarian National Bank – Base Rate	7.00	May 29, 2012	7.00	7.00
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.75	May 29, 2012	5.75	--
Sweden Riksbank – Repo Rate	1.50	July 4, 2012	1.50	--

We do not anticipate any monetary policy changes from the Bank of England (BoE) at its May 10th meeting. The Monetary Policy Committee voted 8-1 in favour of no additional quantitative easing at its last meeting, a slight shift to the hawkish side relative to March when the vote was 7-2. Over the last month, it has been revealed that on the one hand inflation accelerated for the first time in five months (to 3.5% y/y in March), and on the other that the economy contracted 0.2% q/q in the first quarter, implying a technical recession between October and March. These two offsetting factors – lower growth and higher inflation – will likely keep the BoE on neutral ground for the time being.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	May 23, 2012	0.10	--
Reserve Bank of Australia – Cash Target Rate	4.25	June 5, 2012	4.00	3.75
Reserve Bank of New Zealand – Cash Rate	2.50	June 13, 2012	2.50	2.50
People's Bank of China – Lending Rate	6.56	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	June 18, 2012	8.00	--
Bank of Korea – Bank Rate	3.25	May 9, 2012	3.25	3.25
Bank of Thailand – Repo Rate	3.00	June 13, 2012	3.00	--
Bank Indonesia – Reference Interest Rate	5.75	May 10, 2012	5.75	5.75

Bank Indonesia will likely leave the policy rate at 5.75% on May 10th. The reference interest rate was lowered by 25 basis points in February on global growth concerns, but has since been left unchanged. Inflation picked up to 4.50% y/y in April from 3.97% in the prior month. The IDR has remained on a downward trend since late January, potentially fueling inflationary pressures, while domestic output growth likely maintained a healthy pace of growth in the first quarter, near the average 6.5% pace of 2011.
We expect the central bank of Korea to maintain its reference rate at 3.25%. Inflation has decelerated in recent months, decreasing from 3.1% y/y in February to 2.5% y/y in April; however, the central bank has stated concerns over high oil prices.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	9.00	May 30, 2012	9.00	--
Banco Central de Chile – Overnight Rate	5.00	May 17, 2012	5.00	--
Banco de la República de Colombia – Lending Rate	5.25	May 25, 2012	5.25	--
Banco Central de Reserva del Perú – Reference Rate	4.25	May 10, 2012	4.25	4.25

We anticipate that the central bank of Peru will maintain its monetary policy rate unchanged at 4.25%. Although inflation decelerated somewhat in April, it remained slightly above the 4.0% y/y mark, which represents more than a percentage point above the central bank's tolerance range. Food prices have been under pressure as a result of negative weather conditions, including heavy rains and floods. We are of the view, that the Peruvian monetary policy stance will likely remain "neutral" for the remainder of the year.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	May 24, 2012	5.50	--

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

Forecasts as at May 4, 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	3.4	3.9				
Canada	2.2	2.5	2.1	2.2	2.1	2.9	2.1	2.1
United States	1.8	1.7	2.3	2.4	2.5	3.1	2.6	2.2
Mexico	2.1	3.9	3.6	3.7	4.9	3.8	3.9	4.0
United Kingdom	2.0	0.7	0.5	1.8	2.1	4.2	2.8	2.7
Euro zone	1.4	1.5	-0.5	0.9	2.1	2.7	2.2	1.9
Japan	0.9	-0.7	2.0	1.7	-0.3	-0.2	0.1	0.3
Australia	3.1	2.0	3.3	3.4	3.1	3.1	2.5	2.8
China	9.5	9.3	8.4	8.9	2.3	4.1	4.0	4.4
India	7.6	10.0	7.0	7.4	6.4	7.7	6.5	6.8
Korea	4.6	3.6	3.4	4.2	3.1	4.8	3.3	3.0
Thailand	4.4	5.7	5.0	4.5	2.7	3.5	3.0	2.8
Brazil	3.7	2.7	3.5	4.5	6.6	6.5	5.5	5.0
Chile	4.6	6.1	5.0	5.9	3.4	4.4	3.6	3.2
Peru	5.5	6.8	5.5	5.6	2.4	4.7	3.0	2.5
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	1.25	1.50	1.75
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	1.00	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	3.75	3.75	3.75	3.75	3.75	3.75	4.00	4.00
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.00	1.00	0.99	0.98	0.97	0.97	0.97	0.96
Canadian Dollar (CADUSD)	1.00	1.00	1.01	1.02	1.03	1.03	1.03	1.04
Euro (EURUSD)	1.33	1.29	1.27	1.25	1.25	1.26	1.28	1.29
Sterling (GBPUSD)	1.60	1.60	1.62	1.63	1.65	1.66	1.67	1.68
Yen (USDJPY)	83	82	83	85	86	86	87	87
Australian Dollar (AUDUSD)	1.03	1.07	1.08	1.09	1.10	1.10	1.11	1.11
Chinese Yuan (USDCNY)	6.3	6.3	6.2	6.2	6.2	6.1	6.1	6.1
Mexican Peso (USDMXN)	12.8	12.8	13.0	13.1	13.2	13.1	13.1	13.3
Brazilian Real (USDBRL)	1.83	1.80	1.83	1.85	1.83	1.85	1.86	1.90
Commodities (annual average)	**2000-10**	**2011**	**2012f**	**2013f**				
WTI Oil (US$/bbl)	54	95	105	105				
Brent Oil (US$/bbl)	52	111	120	120				
Nymex Natural Gas (US$/mmbtu)	5.81	4.03	2.50	2.75				
Copper (US$/lb)	1.93	4.00	3.85	3.70				
Zinc (US$/lb)	0.75	0.99	0.94	1.10				
Nickel (US$/lb)	7.36	10.38	8.50	8.00				
Gold, London PM Fix (US$/oz)	586	1,569	1,650	1,600				
Pulp (US$/tonne)	694	977	875	915				
Newsprint (US$/tonne)	575	640	650	670				
Lumber (US$/mfbm)	273	255	265	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.

Canada	2011	11Q3	11Q4	Latest
Real GDP (annual rates)	2.5	4.2	1.8	
Current Acc. Bal. (C$B, ar)	-48.3	-49.3	-41.3	
Merch. Trade Bal. (C$B, ar)	1.7	2.6	12.5	3.5 (Feb)
Industrial Production	3.5	3.3	3.0	1.3 (Feb)
Housing Starts (000s)	193	205	199	215 (Mar)
Employment	1.6	1.5	1.2	1.3 (Mar)
Unemployment Rate (%)	7.5	7.3	7.5	7.2 (Mar)
Retail Sales	4.1	4.6	4.2	4.1 (Feb)
Auto Sales (000s)	1588	1604	1603	1711 (Jan)
CPI	2.9	3.0	2.7	1.9 (Mar)
IPPI	4.6	5.4	3.9	-0.9 (Mar)
Pre-tax Corp. Profits	15.0	18.0	13.3	

United States	2011	11Q3	11Q4	Latest
Real GDP (annual rates)	1.7	1.8	3.0	2.2 (Q1-A)
Current Acc. Bal. (US$B, ar)	-473	-431	-496	
Merch. Trade Bal. (US$B, ar)	-738	-723	-745	-737 (Feb)
Industrial Production	4.1	3.4	4.0	3.6 (Mar)
Housing Starts (millions)	0.61	0.62	0.67	0.65 (Mar)
Employment	1.1	1.2	1.3	1.3 (Apr)
Unemployment Rate (%)	9.0	9.1	8.7	8.1 (Apr)
Retail Sales	8.2	8.8	7.5	6.8 (Mar)
Auto Sales (millions)	12.7	12.4	13.4	14.4 (Apr)
CPI	3.2	3.8	3.3	2.7 (Mar)
PPI	6.0	6.9	5.4	2.8 (Mar)
Pre-tax Corp. Profits	4.2	3.7	9.3	

Mexico	2011	11Q3	11Q4	Latest
Real GDP	3.9	4.5	3.7	
Current Acc. Bal. (US$B, ar)	-8.8	-13.7	-14.0	
Merch. Trade Bal. (US$B, ar)	-1.2	-15.3	-2.8	18.9 (Mar)
Industrial Production	3.8	3.5	3.2	5.9 (Feb)
CPI	3.4	3.4	3.5	3.7 (Mar)

Brazil	2011	11Q3	11Q4	Latest
Real GDP	2.5	2.0	1.2	
Current Acc. Bal. (US$B, ar)	-52.5	-42.6	-63.2	
Merch. Trade Bal. (US$B, ar)	29.8	40.4	27.0	10.6 (Apr)
Industrial Production	0.3	0.2	-1.9	-3.9 (Mar)
CPI	6.8	7.1	6.7	6.6 (Jan)

Chile	2011	11Q3	11Q4	Latest
Real GDP	6.0	3.7	4.5	
Current Acc. Bal. (US$B, ar)	0.0	-12.0	-5.1	
Merch. Trade Bal. (US$B, ar)	10.0	1.2	9.4	10.9 (Mar)
Industrial Production	6.9	4.4	2.0	4.8 (Feb)
CPI	3.3	3.1	4.0	3.8 (Mar)

Italy	2011	11Q3	11Q4	Latest
Real GDP	0.5	0.4	-0.4	
Current Acc. Bal. (US$B, ar)	-0.07	-0.05	-0.03	-0.08 (Feb)
Merch. Trade Bal. (US$B, ar)	-34.2	-18.3	-8.3	-17.7 (Feb)
Industrial Production	0.3	-0.3	-3.0	-6.1 (Feb)
CPI	2.8	2.9	3.3	3.4 (Mar)

Germany	2011	11Q3	11Q4	Latest
Real GDP	3.1	2.7	2.0	
Current Acc. Bal. (US$B, ar)	204.1	188.1	256.2	176.9 (Feb)
Merch. Trade Bal. (US$B, ar)	216.1	223.8	220.7	218.5 (Feb)
Industrial Production	8.0	8.1	3.5	-0.9 (Feb)
Unemployment Rate (%)	7.0	7.0	6.9	6.8 (Apr)
CPI	2.3	2.5	2.3	2.0 (Apr)

France	2011	11Q3	11Q4	Latest
Real GDP	1.7	1.6	1.3	
Current Acc. Bal. (US$B, ar)	-60.1	-48.7	-58.2	-92.4 (Feb)
Merch. Trade Bal. (US$B, ar)	-50.8	-49.2	-46.3	-58.1 (Feb)
Industrial Production	2.5	2.8	0.5	-1.9 (Feb)
Unemployment Rate (%)	9.7	9.7	9.8	10.0 (Mar)
CPI	2.1	2.1	2.4	2.3 (Mar)

Euro Zone	2011	11Q3	11Q4	Latest
Real GDP	1.5	1.3	0.7	
Current Acc. Bal. (US$B, ar)	-4	15	183	-93 (Feb)
Merch. Trade Bal. (US$B, ar)	6.4	16.0	76.9	38.6 (Feb)
Industrial Production	3.6	3.8	-0.1	-1.8 (Feb)
Unemployment Rate (%)	10.1	10.2	10.5	10.9 (Mar)
CPI	2.7	2.7	2.9	2.7 (Mar)

United Kingdom	2011	11Q3	11Q4	Latest
Real GDP	0.7	0.3	0.5	
Current Acc. Bal. (US$B, ar)	-46.4	-83.1	-45.4	
Merch. Trade Bal. (US$B, ar)	-159.8	-177.6	-152.5	-166.3 (Feb)
Industrial Production	-1.2	-1.6	-3.0	-2.3 (Feb)
Unemployment Rate (%)	8.1	8.2	8.4	8.3 (Jan)
CPI	4.5	4.7	4.7	3.5 (Mar)

Japan	2011	11Q3	11Q4	Latest
Real GDP	-0.7	-0.5	-0.6	
Current Acc. Bal. (US$B, ar)	119.2	159.5	48.0	180.2 (Feb)
Merch. Trade Bal. (US$B, ar)	-33.7	-20.6	-76.8	-90.4 (Mar)
Industrial Production	-2.3	-0.6	0.0	15.5 (Mar)
Unemployment Rate (%)	4.6	4.4	4.5	4.5 (Mar)
CPI	-0.3	0.1	-0.3	0.5 (Mar)

Australia	2011	11Q3	11Q4	Latest
Real GDP	2.0	2.6	2.3	
Current Acc. Bal. (US$B, ar)	-33.0	-34.0	-38.0	
Merch. Trade Bal. (US$B, ar)	36.0	42.7	29.9	18.0 (Feb)
Industrial Production	-0.1	0.9	2.1	
Unemployment Rate (%)	5.1	5.2	5.2	5.2 (Mar)
CPI	3.4	3.5	3.1	

China	2011	11Q3	11Q4	Latest
Real GDP	10.4	9.1	8.9	
Current Acc. Bal. (US$B, ar)	290.0			
Merch. Trade Bal. (US$B, ar)	155.1	250.3	193.3	64.2 (Mar)
Industrial Production	12.8	13.8	12.8	11.9 (Mar)
CPI	4.1	6.1	4.1	3.6 (Mar)

South Korea	2011	11Q3	11Q4	Latest
Real GDP	3.6	3.6	3.3	
Current Acc. Bal. (US$B, ar)	26.5	27.6	46.0	36.5 (Mar)
Merch. Trade Bal. (US$B, ar)	30.8	25.2	36.6	25.8 (Apr)
Industrial Production	6.9	5.3	5.2	0.3 (Mar)
CPI	4.0	4.3	4.0	2.5 (Apr)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (%, end of period)

Canada	11Q4	12Q1	Apr/27	May/04*	United States	11Q4	12Q1	Apr/27	May/04*
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	0.84	0.92	1.05	1.06	3-mo. T-bill	0.01	0.07	0.09	0.07
10-yr Gov't Bond	1.94	2.11	2.09	2.04	10-yr Gov't Bond	1.88	2.21	1.93	1.89
30-yr Gov't Bond	2.49	2.66	2.63	2.55	30-yr Gov't Bond	2.89	3.34	3.12	3.09
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	65.7	69.2	69.2	(Mar)	FX Reserves (US$B)	136.9	138.0	138.0	(Mar)
Germany					**France**				
3-mo. Interbank	1.35	0.71	0.64	0.59	3-mo. T-bill	-0.06	0.07	0.07	0.09
10-yr Gov't Bond	1.83	1.79	1.70	1.59	10-yr Gov't Bond	3.15	2.89	3.00	2.85
FX Reserves (US$B)	66.9	67.9	67.9	(Mar)	FX Reserves (US$B)	48.6	49.2	49.2	(Mar)
Euro-Zone					**United Kingdom**				
Refinancing Rate	1.00	1.00	1.00	1.00	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.63	0.39	0.34	0.34	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US$B)	316.7	319.8	319.8	(Mar)	10-yr Gov't Bond	1.98	2.20	2.13	2.00
					FX Reserves (US$B)	79.3	82.4	82.4	(Mar)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.25	4.25	4.25	3.75
3-mo. Libor	0.13	0.13	0.13	0.13	10-yr Gov't Bond	3.67	3.98	3.65	3.56
10-yr Gov't Bond	0.99	0.99	0.90	0.89	FX Reserves (US$B)	42.8	47.7	47.7	(Mar)
FX Reserves (US$B)	1258.2	1247.8	1247.8	(Mar)					

Exchange Rates (end of period)

USDCAD	1.02	1.00	0.98	0.99	¥/US$	76.91	82.87	80.27	79.92
CADUSD	0.98	1.00	1.02	1.01	US¢/Australian$	102.09	103.46	104.71	101.90
GBPUSD	1.554	1.601	1.627	1.615	Chinese Yuan/US$	6.30	6.30	6.31	6.31
EURUSD	1.296	1.334	1.326	1.311	South Korean Won/US$	1152	1133	1135	1132
JPYEUR	1.00	0.90	0.94	0.95	Mexican Peso/US$	13.936	12.811	12.968	13.106
USDCHF	0.94	0.90	0.91	0.92	Brazilian Real/US$	1.867	1.827	1.888	1.922

Equity Markets (index, end of period)

United States (DJIA)	12218	13212	13228	13093	U.K. (FT100)	5572	5768	5777	5648
United States (S&P500)	1258	1408	1403	1377	Germany (Dax)	5898	6947	6740	6566
Canada (S&P/TSX)	11955	12392	12238	11850	France (CAC40)	3160	3424	3229	3161
Mexico (Bolsa)	37078	39521	39212	39398	Japan (Nikkei)	8455	10084	9468	9380
Brazil (Bovespa)	56754	64511	62198	61539	Hong Kong (Hang Seng)	18434	20556	20810	21086
Italy (BCI)	806	859	794	786	South Korea (Composite)	1826	2014	1964	1989

Commodity Prices (end of period)

Pulp (US$/tonne)	890	870	870	870	Copper (US$/lb)	3.43	3.85	3.83	3.76
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	0.83	0.91	0.92	0.91
Lumber (US$/mfbm)	261	266	289	301	Gold (US$/oz)	1531.00	1662.50	1663.50	1643.75
WTI Oil (US$/bbl)	98.83	103.02	104.93	98.19	Silver (US$/oz)	28.18	32.43	31.14	29.90
Natural Gas (US$/mmbtu)	2.99	2.13	2.19	2.28	CRB (index)	305.30	308.46	305.51	296.39

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

Emerging Markets Strategy

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