Global Views

Weekly commentary on economic and financial market developments

July 6, 2012

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

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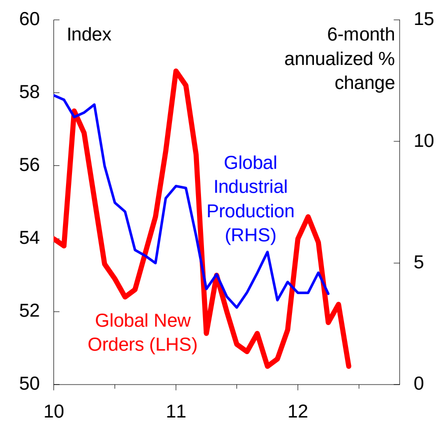
Not So Happy Anniversary

Global Slowdown



Source: JP Morgan, CPB, Scotia Economics.

The global recovery that has followed the worst economic and financial crisis since the Depression is three years old. However, the celebration will be muted. Not only has the recovery been historically moderate, but the pace of economic activity around the world has been steadily losing momentum, highlighted by the renewed slump in the purchasing managers' reports for June. The primary culprit remains the significant debt strains and balance sheet adjustments affecting many governments, households and financial institutions throughout much of the developed economies, though many of the high-growth emerging nations have also moved to a slower growth trajectory.

A subdued expansion had been expected for most of the developed world, since balance sheet recessions force stakeholders to redress their debt problems through spending restraint, increased saving, and the rebuilding of capital. However, the economic underperformance internationally is increasing, notwithstanding the unprecedented low level of borrowing costs, repeated doses of central bank asset purchases, as well as the considerable pent-up demand and excess capacity that had quickly built up during the relatively short but severe recession and subdued recovery.

Scotia Economics has modestly lowered its global real GDP estimate again, reflecting the intensifying debt strains in Europe, and the spillover effects internationally that have reduced industrial activity in more countries. Global growth is forecast to expand 3.1% this year and 3.6% in 2013, down fractionally from last month's assessment and still below consensus.

While a number of countries are continuing to outperform in this increasingly uncertain and highly volatile economic and financial market environment — Poland and Turkey in Eastern Europe, Colombia, Peru and Chile in South America, and South Korea, Singapore, Indonesia and Malaysia in Asia-Pacific, for example — the important regional economic locomotives of Germany, the United States, China and Brazil, have all lost some momentum to varying degrees. The sharp increase in financial market volatility and slide in equity valuations in recent months have further dampened consumer confidence already weakened by a slower pace of job and income gains.

The deepening recession in the euro zone remains the focal point of the global slowdown. Despite the imposition of significant spending cuts and tax hikes, the budget deficits in many countries, primarily in the more heavily-indebted nations in the south, are continuing to expand. Additional austerity measures are aggravating joblessness and further undermining the economies' already weakened performances. Unlike the balance sheet adjustments that affected other countries in the post-war era, the single-currency euro zone nations do not have the exchange rate flexibility to effect the much needed and quicker competitive realignment. Structural wage and productivity adjustments take much longer to implement and produce results, leaving these economies increasingly vulnerable to recurring debt-related strains and recessionary conditions.

Building upon prior bailout packages, the June 28-29th EU Summit produced an important agreement in principle to backstop and supervise beleaguered euro zone financial institutions. It will also provide reserves to support sovereign bond markets, and beef up infrastructure-related investments to support growth. Financial and currency markets have rebounded positively, as they did temporarily at the turn-of-the-year when the ECB provided the region's banks with massive low-cost funding to avert a growing squeeze on banking sector liquidity. Sentiment received a further boost after the ECB reduced its main refinancing and deposit rates this week to bolster its accommodative stance.

Nevertheless, there is no guarantee that the improving tone in financial markets can be sustained. The implementation period for many of the reforms may take months to finalize, and require broader EU-member

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approval notwithstanding Germany's support. Moreover, the funds earmarked for emergency assistance may not be sufficient to cover the broader liabilities. There is an urgency to resolve these issues, since the debt dynamics in many of the higher-risk countries are inherently unstable — debt burdens continue to rise as growth contracts and borrowing costs move even higher relative to modest inflation. Increasing uncertainty surrounding the viability of the monetary union has witnessed an accelerating shift of deposits to 'safe-haven' countries — as evidenced by Swiss and German 10-year bond yields declining to around 0.5% and 1.3% respectively, while long-term rates in Italy, Spain and Portugal have jumped to 6.0%, 6.9% and 9.8% respectively.

The distortions triggered by the recurring debt strains on the Continent have already helped to moderate the economic performances in North America and Asia-Pacific, a reflection of the close interdependency of global trade and financial markets. Reduced exports to Europe have contributed to slower domestic activity, and to a softening in commodity prices. This negative feedback loop, in China and other large emerging economies such as India and Brazil, has been reinforced by prior domestic efforts to curb inflation and excesses in housing and consumer markets. While the slowdowns underway have the potential to reduce future growth performances somewhat more, most of these countries have the financial capabilities to promote stronger growth. China, India and Brazil are reversing prior interest rate hikes, with China cutting rates for the second time over the past month. Both China and Brazil have already announced new fiscal initiatives aimed at kick-starting growth.

Among the developed economies outside of Japan whose growth is being boosted temporarily by rebuilding efforts, the United States has the potential to remain a relative outperformer. American consumers have made considerable strides in paying down debt and, more recently, have taken advantage of low prices, low interest rates and lower unemployment to unlock their considerable pent-up demand, especially for autos but increasingly for housing as well. A competitive realignment has increased the attractiveness of the United States as a manufacturing venue. But the pace of U.S. activity and job creation has slowed, highlighting the extent to which household and business confidence also has been undermined by the renewed political wrangling surrounding the year-end raising of the debt ceiling limit, and the urgency to amend legislation to prevent significant tax hikes and spending cuts from being implemented. Like Germany and Switzerland, U.S. bond yields have benefitted from the global capital flight to 'safe-havens' (the 10-year treasury bond yields around 1.5%), though this downward bias and the strong greenback could be tested later in the year if Congress is unable to reach a political compromise.

Canada's economic prospects are also being challenged by both international and domestic factors. The softening in the demand and prices for key commodities is restraining export earnings and, if sustained, would have a more discernible impact on longer-term investments, though the pipeline for resource-related infrastructure projects remains quite full. Until there is a greater diversification in exports to the developing regions of the world, the country's growth potential remains constrained by the tepid U.S. performance and recession in Europe. Domestic fortunes are still relatively good, bolstered by continuing job gains. Looking ahead, however, the combination of ongoing federal and provincial fiscal restraint alongside Ottawa's additional measures to regulate mortgage lending and slow the pace of household indebtedness will gradually constrain residential activity and consumer spending.

Despite the latest policy responses by regions and countries to the renewed slowdown, redressing the chronic fiscal problems should keep the global economy in the slow lane of growth. Even so, the risks to the outlook are still on the downside. Borrowing costs should remain historically low, with the U.S. dollar retaining its 'safe-haven' status for the time being. Governments will continue to struggle to balance the short-term need to reduce deficits and debt burdens and promote growth, while dealing with the long-term requirements to address long-standing competitive, demographic, pension and environmental issues. Financial institutions must deal with tighter capital and regulatory guidelines. Nations with surplus savings must continue to rebalance toward domestic activity to promote stronger growth internationally. And businesses, whose earning capabilities and balance sheets are generally in much better shape than households and governments, must continue to support activity through strategic investments aimed at boosting productivity and accessing new markets.

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The FX Outlook From A Global Perspective

A welcomed partial easing in financial market stress is the core theme driving foreign exchange markets into the summer. This has come on the back of three important themes: the first is progress in Europe that has dissipated the immediate threat of a partial currency union break-up. The second is the completion of the re-pricing of a lower global growth trajectory. Finally, and potentially most important, has been the ongoing central bank commitment to collectively ease strains and protect financial market stability. Risk appetite has improved, opening the door for a partial retracement of the spring US dollar (USD) rally. The most significant risk to the FX outlook is also embedded in the above noted themes: an escalation in the European crisis, a downward revision to global growth and inadequate central bank policy responses.

As foreign exchange markets move away from European induced risk aversion, fundamental analyses are proving the most valuable tool for valuation. The US recovery is moderate and fragile, with economic data somewhat uneven. From the viewpoint of the US Federal Reserve, the labour market and the housing sector remain weak and inflationary pressures have eased. Combined with developments on the global front, the door has been left open to another round of asset purchases (QE3). On the fiscal side, uncertainties as to the magnitude of the post-election ‘fiscal cliff’, combined with the lack of a credible long-term deficit resolution plan remain a significant concern. Accordingly, the combined monetary and fiscal dynamics in the US will limit the ability of the USD to sustain a rally, absent another spike in risk aversion. However, the path of the USD is far from uniform and the currency is likely to rally against some, including the euro (EUR) and Japanese yen (JPY), but weaken against others.

The non-USD NAFTA zone currencies have retraced more than 50% of their spring losses, which for USDMXN has meant a drop from 14.60 to 13.35, an impressive 9% move. The impact on the Canadian dollar (CAD) has been less dramatic. With subsiding risk aversion, both CAD and MXN will be driven by macroeconomic fundamentals, including US economic developments, global growth deceleration, central bank policy and risk appetite. These measures suggest the road ahead for both CAD and MXN will prove bumpy but should extend recent gains into year-end. For CAD, its triple-A sovereign rating status should prove an added benefit that drives the currency back through parity, though its longer-term prospects should be affected by the softer outlook for commodity prices and export earnings. Within Latin America, the Brazilian real (BRL) appears to have stabilized close to 2.0 per USD. However, with a weakened growth outlook and an ongoing central bank easing cycle, its outlook pales in comparison to the other regional options like the Chilean peso (CLP) and the Peruvian sol (PEN).

The euro (EUR) failed to rally in June, instead trading within a relatively tight range, as authorities continued to make progress. However, hurdles on both the European growth and structural fronts remain and repeated bouts of market uncertainty are likely to recur into 2013. This will drive EUR towards 1.23 by end-2012, closing 2013 at 1.21. For the Swiss franc (CHF), the EURCHF 1.20 floor is viewed as credible and we do not expect markets to test it. The EURSEK has been pushed to multi year lows (and through our year-end 8.80 forecast) as the relative economic, monetary and fiscal valuations have shifted against EUR. The fundamentals for the United Kingdom are typically associated with a weakening currency; however, the combination of the country’s triple-A status, well-defined fiscal plan and its role as an inter-European diversification investment compensate for some of the negatives, thus improving the GBP outlook. The largest threat to the European complex of currencies is further disappointment on global growth, particularly European.

The Asian currencies offer a mixed outlook. As risk aversion has (at least for now) faded, the Japanese yen (JPY) has returned to a more stable trading pattern. We maintain our view that deterioration in sovereign debt and fiscal conditions, combined with loose monetary policy and a fragile economic backdrop, will weigh on the currency in the medium term. The Indian rupee (INR) will continue to underperform the rest of the emerging-Asian block on the back of weak economic and monetary conditions. The Chinese Yuan (CNY), as USD strength has abated, has retraced some of its recent losses, a trend we expect to continue into year-end.

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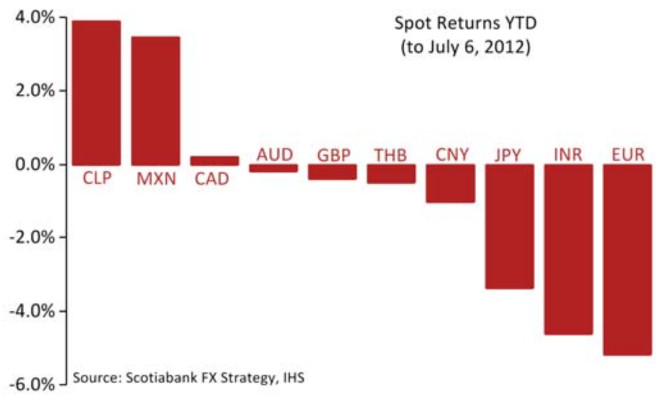
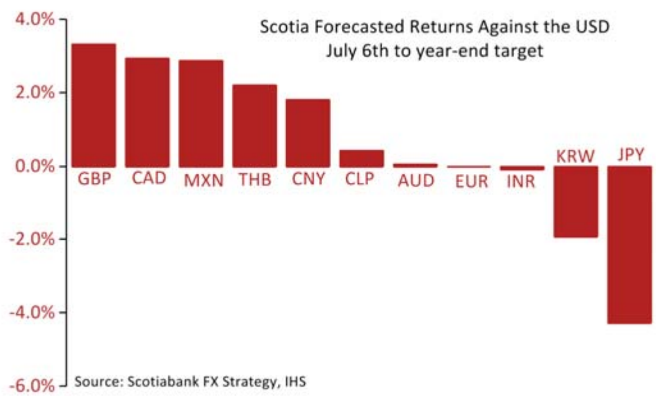
The appetite for aggressive CNY strength has faded in tandem with a more moderate growth profile. We hold a year-end USDCNY forecast of 6.25. A downshift in China's expected 2012 growth is likely to dampen the appreciating trend of many of the other Asian currencies; however, with relatively stronger fundamentals, the South Korean won (KRW), Taiwanese dollar (TWD) and Thai baht (THB) are all expected to move higher over the quarter. For Australia, with some evidence of stabilization in growth and a less aggressive RBA stance, the outlook for AUDUSD has brightened; however, it remains vulnerable to periods of weakness driven by risk aversion or further pressure on global growth.





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U.S. Health Insurance Exchanges — Moving Forward

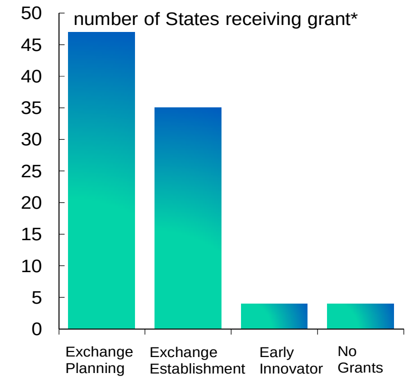
- **Timeline for exchange implementation supports planning and investment.**

With the U.S. Supreme Court decision to uphold the 'individual mandate' of the President's signature health reform that requires all individuals to purchase health insurance or pay a penalty, investment will continue on State health insurance exchanges. Yet political uncertainty persists given the Republicans' commitment to overturn the health reform legislation. Of the numerous changes proceeding under the *Affordable Care Act (ACA)*, the health insurance exchanges stand out for their central role in the Administration's health reform and the extensive planning and investment necessary for the exchanges to be fully functional by January 1, 2014 *(see timeline below)*. The web-based exchanges are expected to provide one-stop shopping for small business or Americans without an employer-based health plan, presenting, on a more transparent, comparable basis, a range of health insurance plans vetted to meet minimum federal standards. For individuals and families with incomes up to 400% of the federal poverty level, the exchange will determine for each family member eligibility for programs such as Medicaid or the Children's Health Insurance Program or premium assistance, with greater assistance for the elderly or individuals with pre-existing health conditions. The objective of seamless delivery will include streamlined enrolment through the exchange for any subsidy.

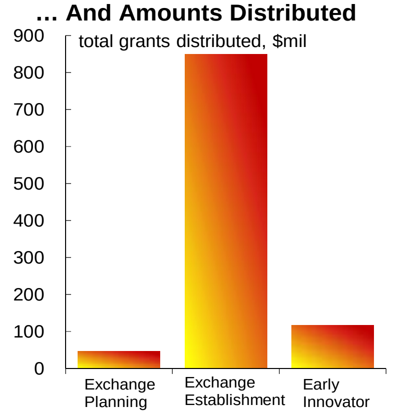
To better meet each State's specific needs, the ACA permits considerable flexibility on exchange design. The three options for exchange organization, including federal governance, are detailed on the following page, and the States' takedown of federal grants to help finance the research, planning and implementation for their exchanges is summarized in the side charts. Planning decisions for each State extend to the exchange's financing, characteristics of an essential health benefits package and potential supplementary benefits, plan carrier requirements and information technology systems. Also substantial are the private sector's required exchange investments. With projections that premium revenues in 2014 through the exchanges could top US$50 billion, insurance companies must decide which State exchanges to participate in, the features of their proposed plans, technology integration with each exchange and the details of managing new risk parameters. Even if the ACA remains intact, adjustments are inevitable, given the experience of nations such as the Netherlands and Switzerland that offer universal coverage through private insurance with regulated market competition. An interesting side note as the health care debate intensifies with the November elections approaching, are the discussions in some States and insurers to sustain some of the reforms, such as the exchanges, regardless of the political outcome.

U.S. Federal Grants for Health Insurance Exchanges:

Participating States …



… And Amounts Distributed



***Exchange Planning Grants:** up to $1 million/State for research and planning towards an exchange.
Exchange Establishment Grants: up to one year of funding for States that have made some progress under the Exchange planning grant. May apply for more grants if met certain criteria with first grant.
Early Innovator Grants: awarded to States that demonstrate leadership in developing cutting-edge, cost-effective exchange plans.
Source: Henry J. Kaiser Family Foundation, *State Health Facts.*

Timeline for U.S. Health Insurance Exchanges

June 28, 2012:
Supreme Court Decision

November 6, 2012:
Elections

Nov 16, 2012:
Deadline for Submission of Blueprint to Run State-based or State-Partnership Exchange

January 1, 2013:
Approval Date for State-Based and State-Partnership Exchanges

October 1, 2013:
Initial Enrollment Period Begins

January 1, 2014:
Exchanges Become Fully Operational

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Options for Organization of State Health Insurance Exchanges

State-Based: The State operates all exchange activities, but may use federal services for functions such as: premium tax credit and cost-sharing reduction determination, exemptions, risk adjustment programs and reinsurance.

State-Partnership: The State operates plan management and/or consumer assistance, and may elect to provide: reinsurance program and Medicaid and CHIP (Children's Health Insurance Program) eligibility assessment, or have these provided by federal services.

Federally-Facilitated Exchange (FFE): The federal department of Health and Human Services (HHS) operates the exchange, however, the State may elect to perform reinsurance program or Medicaid and CHIP eligibility assessment.

Premium Tax Credits

Individuals and families with incomes from 100-400% of the federal poverty level will be eligible for tax credits, with the credit amount being linked to the amount of the premium, allowing the elderly and those with pre-existing conditions who face higher premiums to receive larger tax credits. The credit amount is the difference between the premium for the "benchmark plan" and the taxpayer's expected contribution, with the expected contribution ranging from 2% of taxpayer's household income for families at 100% of the federal poverty level to 9.5% for families at 400% of the FPL. These credits are estimated to assist 18 million people in purchasing private insurance.

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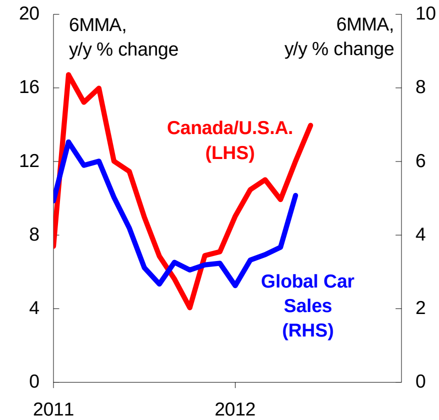
Vehicle Sales Accelerate In North America

- **Enhanced incentives and solid U.S. replacement demand drive gains despite a slowing labour market and intensifying global headwinds.**

While global economic growth has downshifted in recent months, passenger vehicle sales in North America remain in the fast lane, advancing 20% y/y in June — a noticeable acceleration from a 12% y/y increase during the previous five months. Purchases were especially robust in the United States, climbing a stronger-than-expected 22% y/y to an annualized 14.1 million units, up from 13.8 million in May. The improvement was broad-based and highlights the sizeable potential for vehicle replacement in the United States, especially since the pick-up occurred against the backdrop of a softening labour market and waning consumer confidence.

Vehicle Sales Accelerate



Source: Scotia Economics

The gain was more subdued in Canada, with purchases advancing 3% y/y last month. However, the comparison is distorted by the fact that last June was the highest selling rate of any month in 2011. In fact, we estimate that sales climbed back above an annualized 1.70 million units in June, up from an average of 1.67 million in the March to May period. Last month's robust performance partly reflects increased discounting, as several automakers re-introduced "employee pricing" in June. Even prior to the latest inducements, Statistics Canada estimates that new vehicle prices had declined by nearly 1% in May. Given the response to these initiatives by both households and fleets, we have increased our 2012 Canadian passenger vehicle sales forecast to 1.68 million units, up from 1.64 million. Western Canada accounts for most of the strength, with volumes in the region advancing 12% in the first half of 2012 — double the increase in the rest of the country.

The latest improvement in vehicle sales in both Canada and the United States is a relief for the industry, since it occurred against the backdrop of the intensifying euro zone debt crisis and slowing global economic growth. There is still a risk that the recent softening in the U.S. labour market could dampen confidence and reduce sales. However, even prior to last month's robust results, global car sales had been immune to the ongoing problems in Western Europe and the moderation in global economic growth. In fact, global volumes accelerated to an 11% y/y increase in May — the strongest gain in more than two years and double the increase from January through April. Global purchases are being buoyed by solid gains in Japan, North America and Eastern Europe, as well as the recent quickening of the sales pace in China following the introduction of stimulus measures by the government in May. Strength in these regions is overwhelming the ongoing deterioration in Western Europe and the recent slowdown in Brazil.

Japanese automakers led last month's gain in both Canada and the United States, lifting their market share in both countries by roughly five percentage points — the largest increase in four years. The improvement reflects a normalization of their dealer inventories following last year's tsunami-related depletion, as well as the introduction of popular new models, such as the Toyota Camry — the best-selling car in the United States this year. The Detroit Three also posted a double-digit sales increase in the United States last month, but reported a 9% y/y decline in Canada, due to lower truck sales. In particular, pickup truck sales for each of the Detroit Three declined in June — a sharp reversal from more than a 25% y/y increase through May. The decline in pickup truck sales possibly reflects some moderation in the Canadian housing market, as residential contractors are normally big buyers of pickup trucks.

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Belize Budget Provides Little Clarity

The following article was published on July 3, 2012.

We review the implications of the recently released Belize budget as well as the economic report published two weeks ago for holders of Belize government bonds.

Belize finally released its proposed budget for fiscal year 2012/2013 last Friday. The delay in releasing the budget back in April had coincided with the government's reassessment of its liabilities, creating expectations that the government would take some action on the debt or at least reveal what type of restructuring it wants by the time the budget was ready. In this respect, creditors could be disappointed since the budget envisions full payment of bond coupons for the year while at the same time expounding on the need for a restructuring.

In general, this year's budget is not that different from previous budgets. Relative to the realized budget for the previous year, we see increases in primary expenditures and capital expenditures totaling about 1% of GDP. An additional 1% of GDP comes from increases in interest on the debt, mostly the step-up in the coupon on the Global bond. On the revenue side, there are almost no new taxes. Instead, the government expects an increase in financing from multilateral and bilateral development funds. The government forecasts an overall deficit of 2.5% of GDP, which is worse than the 1% deficit achieved last year but still fairly conservative, especially considering the current global environment.

The fiscal update issued on June 20th addresses the government's position with regards to its debt more directly. That report delves in significant detail into the economic and fiscal problems the country will face through 2015 stemming from global economic problems, a decline in oil production, and a deteriorating infrastructure. Nevertheless, the core of the report's conclusions that the government needs a restructuring result not from those economic problems but rather from an approximately 80% expected increase in debt service (interest and amortizations) arising mostly from compensation claims related to the current administration's nationalizations of the country's telecommunications and electric utilities. While that report's projection of paying compensation claims over a five-year period at the mid-point between the government's fair value assessment and the former shareholder's asking price could provide some comfort to those former shareholders, it is unlikely to convince bondholders. Why should those bondholders accept a lower coupon or a maturity extension so that newer creditors could be repaid in full right away?

We doubt the government has enough time to complete a voluntary restructuring prior to the August 20th due date of the next coupon payment. Recent government statements and actions suggest the government will first pursue a voluntary restructuring before resorting to an Ecuador style default, but much uncertainty remains.

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Beat The Street — Q2/12 Earnings Preview

The following article was published on July 4, 2012.

- **The "official" Q2 earnings season will kick off next week in the U.S., with Alcoa reporting on Monday. In Canada, the earnings season will really get underway in late July. We expect Q2 earnings to miss consensus in both Canada and the U.S.**

S&P/TSX Q2/12 Preview

Q2 earnings expectations are too high. The TSX Q2 earnings season could prove quite challenging as lower commodity prices, weak equity markets, and falling bond yields should negatively impact earnings. Despite negative revisions, Q2 EPS forecasts still appear relatively optmistic, in our view. We expect TSX's most important sectors (Energy, Materials, and Financials) to report lower than expected earnings. These three sectors should generate 78% of TSX total earnings in Q2.

Beat or miss. Based on our regression models, we expect TSX Energy, Gold, Mining, and Financials sectors to post Q2 EPS below Street expectations. The TSX beat ratio has hovered below 50% since Q4/10.

TSX Q2 EPS is expected to hit $216 based on bottom-up consensus figures, implying an EPS run rate of $864. Q2 earnings should be down 5% YOY, marking the first negative print since Q2/10. Sector-wise, earnings for the big three (Financials, Energy, and Materials) are expected to be a mixed bag. Financials EPS should expand 4% YOY, while Energy (-16%) and Materials (-10%) earnings should suffer double-digit declines.

Exhibit 1 — S&P/TSX: Q2/12 Consensus Estimates

	Q2/12 E			Contribution	Sector	Top-line	Profit
	$	QOQ	YOY	to Earnings	Weighting	(YOY%)	Margin (%)
S&P/TSX	**216**	**-2%**	**-5%**	**100%**	**100%**	**-4%**	**12%**
Energy	**36**	**-13%**	**-16%**	20%	25%	6%	10%
Materials	**57**	**28%**	**-10%**	21%	19%	9%	19%
Divers. M/Mining	*132*	*-3%*	*-15%*	*3%*	*3%*	*14%*	*15%*
Gold	*42*	*7%*	*-4%*	*10%*	*11%*	*16%*	*23%*
Industrials	**22**	**13%**	**7%**	5%	6%	-15%	9%
Discretionary	**22**	**27%**	**14%**	5%	5%	6%	7%
Staples	**34**	**25%**	**-2%**	3%	3%	14%	3%
Health Care	**14**	**5%**	**52%**	2%	2%	55%	13%
Financials	**35**	**-8%**	**4%**	37%	32%	-18%	16%
Banks	*46*	*-1%*	*7%*	*26%*	*21%*	*-16%*	*25%*
Insurance	*17*	*-39%*	*-11%*	*6%*	*5%*	*-10%*	*6%*
Technology	**1**	**-64%**	**-74%**	1%	1%	-20%	4%
Telecom	**20**	**6%**	**0%**	6%	5%	6%	13%
Utilities	**17**	**-48%**	**-2%**	1%	2%	34%	5%
TSX 60	14	-1%	-2%	80%	n/a	n/a	14%
TSX Completion	11	-1%	-17%	20%	n/a	n/a	7%

Source: Scotiabank GBM estimates; CPMS; Bloomberg

Commodity prices and earnings risk

Exacerbated by the intensifying debt concerns in Europe and a slower pace of economic growth in China and the United States, commodity prices have weakened further in the past few weeks. The CRB index has recently declined to its lowest level since September 2010. From its post-financial crisis peak (April 2011), the CRB index has retreated over 25%.

Earnings expectations for the TSX index have come down, but bottom-up forecasts still remain too optimistic, in our view. Expectations are calling for EPS of $232 and $245 for Q3 and Q4, respectively. These forecasts are suggesting a 7% and 13% bounce from Q2 levels, which is optimistic given the current macro backdrop. Moreover, TSX quarterly earnings have not exceeded the $228 level since Q1/11. Hence, to produce quarterly earnings well in excess of $230 would require a sharp turnaround in commodity prices and global macro indicators.

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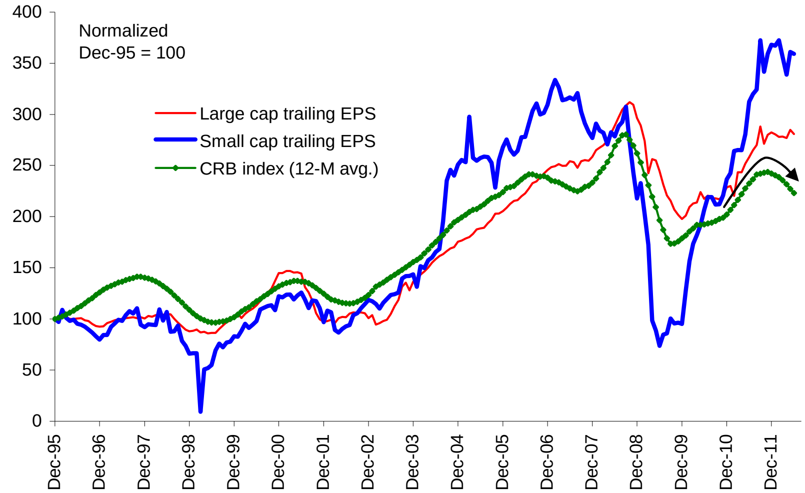
Exhibit 2 highlights the relationship between the CRB and trailing earnings of Canadian small and large caps. As shown on the chart, downtrends in the CRB have usually led to lower earnings in Canada. Since the CRB has started to rollover, Canadian earnings have faced stronger headwinds. Large cap earnings have been range bound, while small cap trailing earnings have come down slightly. If the downtrend in the CRB extends in the coming months, it could fuel further negative revisions, and possibly, lead to an outright contraction in earnings in Canada.

Exhibit 2 — CRB index vs. Canadian Large Caps and Small Caps Earnings



Source: Scotiabank, Thomson Financial, Bloomberg

S&P 500 Q2/12 Preview

In the United States, we expect the Q2 earnings season to also negatively surprise. Following a relatively good Q1 earnings season, with S&P 500 EPS exceeding consensus by 2%, we are less upbeat for Q2. Amongst potential headwinds, we note: 1) a softer pace of global economic growth; 2) a rising U.S. dollar; 3) U.S bellwethers providing lower guidance, 4) a weak preliminary beat ratio, and 5) optimistic expectations for Q2 EPS.

S&P 500 Q2 EPS is expected to come in at US$25.34 based on bottom-up consensus figures, which would set a new record high. Q2 EPS is expected to increase 5% sequentially and expand 1.9% year-over-year. Earnings growth has been decelerating rapidly in the past few quarters, going from 17% YOY in Q3/11 to less than 2% currently. S&P 500 revenues are expected to expand 3.6% YOY in Q2, which is about half the pace observed in the past two quarters.

Exhibit 3 — S&P 500 EPS: Q2/12 Consensus Estimates

	Q2/12 E			Contribution	Sector
	$	**QOQ**	**YOY**	**to Earnings**	**Weighting**
S&P 500	**25.34**	**5%**	**1.9%**	**100%**	**100%**
Energy	12.17	6%	-6%	14%	11%
Materials	4.68	11%	-14%	4%	3%
Industrials	5.98	9%	8%	11%	10%
Discretionary	5.26	7%	-2%	10%	11%
Staples	5.48	8%	2%	9%	11%
Health Care	8.51	2%	3%	13%	14%
Financials	4.05	3%	3%	16%	12%
Technology	8.59	4%	12%	19%	20%
Telecom	1.89	-1%	6%	2%	3%
Utilities	2.61	-12%	-9%	3%	4%
S&P 600	**5.94**	**13%**	**11%**	n/a	n/a

Source: S&P, Thomson Financial

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Strategic Edge Quarterly — 2012 Summer Outlook

Full- length report, detailed model portfolio and sector strategy changes will be available early next week.

Balanced risk-reward outlook, looking to raise cyclical exposure in 2H12

We shifted to a more conservative stance in our Spring Strategy update and are leaving our recommended asset mix unchanged for now. We are carrying an overweight cash/neutral equity stance along with a DM over EM preference. Although our asset mix call remains unchanged, we are shifting our equity sector strategy away from a very defensive stance in Q2/12. See model portfolio changes. Our strategy message for Q3 is one of slow transition away from the defensive/low beta stance recommended in 1H12. Our tactical asset mix model is not flashing green on equities yet and we believe the opportunity to significantly add beta (asset mix and sector strategy) will present itself later in Q3 when PMI/ISM indices bottom and negative earnings revisions stabilize.

U.S. 10-Yr Treasury yields declined 56 bp in Q2 with the MSCI World AC Index pulling back 6% and the CRB correcting 8%. We believe Q2's de-risking has balanced equities' risk-reward outlook as downside risks (weaker GDP, negative earnings revisions, fiscal cliff) are somewhat offset by compelling relative valuations and a growing chorus of pro-growth measures. We do not rule out recession risks, but view improving U.S. housing figures and China's broader easing bias as reducing odds of a global hard landing scenario.

No "Risk-On" without positive earnings revisions. In our opinion, risk-appetite could still be challenged as a potentially disappointing earnings season triggers more negative revisions. We are lowering our 2012 and 2013 TSX earnings estimates to $850 and $900, respectively. Our TSX price target moves down to 12,400 (from 12,600). Our S&P500 earnings forecasts stand at US$100 for 2012 (from US$102) and US$105 for 2013. Our target remains unchanged at 1,425.

Bonds pricing a lot of bad news. Slowing macro momentum through Q3 and easing hopes should keep U.S. and Canadian long term yields hovering near their 2012 lows, but our view is that North American sovereign bond yields are already positioned for lacklustre growth. Scotia Economics expects 10-Yr Canadian and U.S. government yields to increase north of 100 bp over the next 12-18 months, pointing to mid-single digit negative total returns for bonds.

Central Banks Strike Back. Risk assets have attempted to rally since the last Euro Council meeting and early July's easing from the ECB, the BoE, and the PBoC could help risk appetite. Pervasive evidence of recessionary data in Europe and muted growth in China has been largely dismissed by investors recently as easing hopes offset these disappointments. In the U.S., even the staggering ISM miss was greeted with cheers on Wall Street.

Exhibit 1 — Scotiabank GBM Recommended Asset Mix - Summer 2012

	Asset Mix		Change from	Expected Total Return
	Benchmark	Recommended	Spring 12	Next 12-M
Equities	**60%**	**60%**		**5%**
Canada (TSX)	*5%*	*5%*	*+1%*	**5%**
U.S. (S&P 500)	*20%*	*21%*	*-1%*	**6%**
Int'l (Europe, Japan)	*18%*	*19%*		**6%**
EM-Asia	*10%*	*8%*		**4%**
EM-LatAm	*7%*	*7%*		**4%**
Bonds	**40%**	**36%**		**-4%**
Government	*30%*	*22%*		*-5%*
Corporate	*10%*	*14%*		*0%*
Cash (91-D Tbills)	**0%**	**4%**		**1%**

Source: Scotiabank GBM estimates

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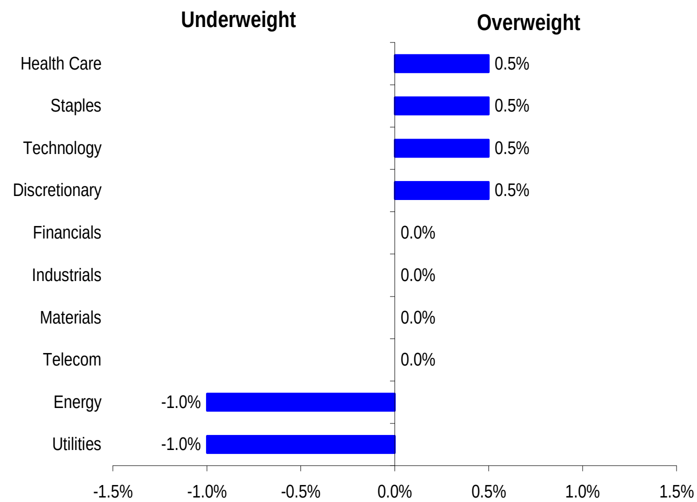
Admittedly, markets had been pricing in an abundance of bad news throughout Q2. Global easing and stronger U.S. auto/housing data may have dispelled fears of overly pessimistic scenarios. However, cheering worsening data will be hard to sustain, in our view. Easing is good, but it is much better once PMI/ISM indices have bottomed.

Raising Canada (TSX) to Neutral

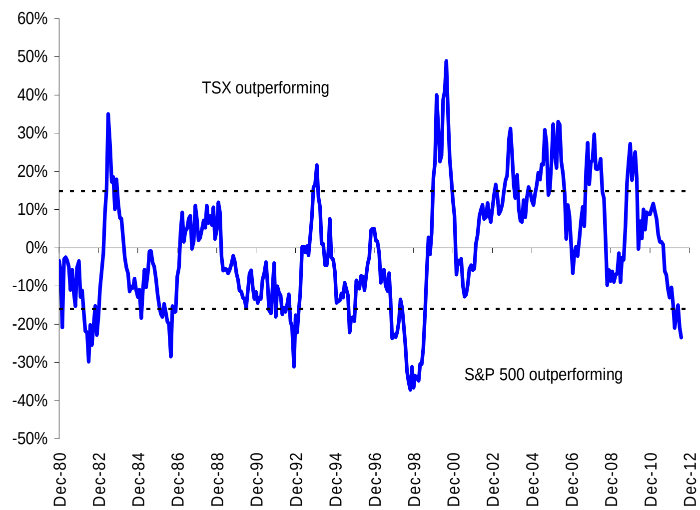
Canada's TSX index has trailed the S&P500 by over 20% since January 2011, one of its longest stretches of underperformance in decades. Many of the factors behind the 2011-2012 TSX underperformance have either reversed or diminished. Premium valuations have disappeared and Chinese policy has shifted to easing. Although Chinese growth could disappoint and housing represents a risk, sustaining this level of TSX underperformance appears unlikely. We are raising Canada to neutral (+1%) and reducing our U.S. overweight stance by 1%. We are still overweight the S&P500. Limited policy options and weaker macro data could post-pone a sustained recovery in commodity-sensitive areas, hence our neutral stance on Canada and EM underweight. Catalysts needed to raise the TSX (and EM) to overweight include a lower relative P/E vs. the S&P 500 (back to its historical 5% discount) and improving global PMI trends. In our view, a narrowing ISM-China PMI spread and broader easing measures in China could challenge the 18-month S&P 500 outperformance (+27% versus the MSCI EM).

Exhibit 2 — S&P 500 Sector Allocation – Summer 2012



Source: Scotiabank GBM estimates.

Exhibit 3 — S&P/TSX (USD) relative to S&P 500 -- 1-Year Rolling Return



Source: Scotiabank GBM, Bloomberg.

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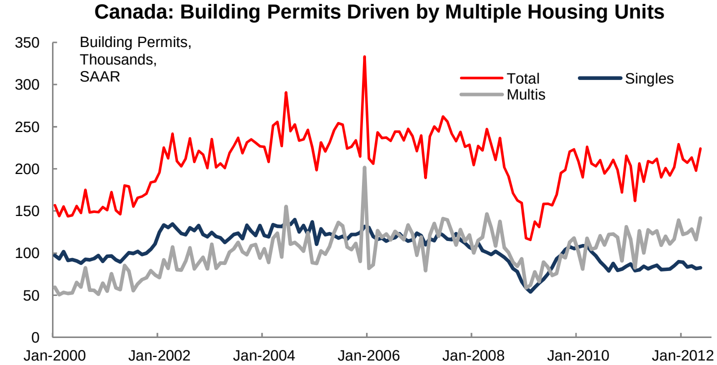
Key Data Preview

CANADA

No aspect of the Canadian economy has received more press in 2012 than the housing sector, so Canadian **housing starts** data for June are likely to receive a fair bit of attention when they're released on July 10. Scotia anticipates that the level of starts will remain fairly high: 210k in June after registering 211k in May. Our forecast is based on the still elevated level of building permits being issued: 224k in May, 197k in April, 213k in March. Even if new regulations are likely to dampen activity in the housing sector eventually, in the interim there are still elevated levels of permits for construction that are yet to turn into housing starts. The high level of permits is attributable to condos: of the 229k building permits issued in December 2011, 139k were for multi-unit construction; 141k of the May 2012 permits were for multis as were 128k of the permits issued in March. Those are respectively the fourth, third and thirteenth highest amounts of construction permits issued for multis on record for Canada. Four of the past six months registered levels of multi-unit housing construction permit issuance in the top 25 of all time. That's not because the levels of permits being issued or housing starts being undertaken are particularly high (they're not, see chart) but rather because of the extent of activity in the condo space with a focus on Ontario. While data that we track imply that there are a decent amount of condo projects in the pipeline yet, what looks to be a slowing-down in planned construction in Toronto during the second half of the year should temper housing starts numbers at some point — although there could well be a final spurt of building first.

Canada: Building Permits Driven by Multiple Housing Units



Source: Scotia Economics, Statscan

Canada will also release **merchandise trade** data for May on July 11. Scotia is expecting a fairly modest retrenchment in the trade balance, from C$-0.37B in April to a lower C$-0.5B. The main catalyst should be falling prices for some of the principal crude distillates that Canada exports. The price of Western Canada Select crude fell by 6.7% m/m during May according to Bloomberg, which ought to negatively impact Canada's exports. Some of this will be mitigated by a greater fall in the price of the crude that Canada imports (Brent crude fell by 8.2% m/m), however as Canada exports more crude than it imports, the net of the price effect ought to knock down Canada's trade balance. New orders of machinery were lower in April as well, implying that we should see some weakness in machinery and equipment shipments for export in May. The broader story with respect to Canadian trade is that Canada ran a merchandise trade surplus during Q1, but Q2 is shaping up more weakly. A modestly negative Q2 trade balance of the type that we're forecasting would chip away at the Q1 trade surplus without negating it.

UNITED STATES

The US will release its **international trade** balance data for May on July 11, and Scotia expects the number to come in at US$-48bn, an improvement from the US$-50.1bn trade balance during April. There have been major changes in oil prices over the past number of months, but particularly during May and June. The falling crude prices ought to meaningfully benefit the US trade balance. While the US carries a fairly wide trade deficit of +/- US$50bn per month before adjustments (US$-574bn in 2011 or 3.7% of GDP), if crude and petroleum are taken out of the picture then the deficit is significantly smaller (US$-447bn in 2011, or 2.9% of GDP). The falling crude prices won't eliminate the petroleum deficit, however they go some ways towards making it less of a factor. If the trade deficit narrows, then net trade could start to post positive contributions to GDP over the next couple of quarters merely by virtue of being less negative. The stronger USD during May and June also ought to help out, as the US imports more than it exports and therefore cheaper imports matter more than the hit to US exports.

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EUROPE

French industrial production surprised on the upside in April, rising a strong 1.5% m/m. However, this increase had more to do with the impact of cold temperatures, which boosted output in the energy sector (+16.6% m/m), than any underlying strength. Indeed, manufacturing growth, the core of the report, actually dropped 0.7% m/m and has been negative for four of the past five months. Further weakness in May would strengthen the feeling that the French economy — which so far has been able to avoid a quarterly GDP contraction — is flirting with recessionary conditions in the second quarter. A deep fall in the latest INSEE general production component is worrying. Also, as in April, there is a risk of unfavourable working days dampening activity. On the positive side, the slight rise in exports over the past two months suggests that external demand could still offer some support. Overall, we look for industrial production to fall 0.5% m/m, although manufacturing should recover by around 0.3% m/m. Inflation data for June will also be released in France next week. We look for an almost stable month-on-month reading, with the yearly rate easing to 1.9% y/y from 2.0%. Conflicting factors will likely be apparent in the June CPI report. On the softer side will be the ongoing effect of lower energy prices. Looking to the weekly trend in gasoline prices, we expect energy prices to drop between 2.0% and 2.5% m/m. On the upside will be the possible impact of higher food prices; we expect around a +0.5% m/m rise, which would imply a reacceleration on a yearly basis to 3.1% y/y from 2.9% in May. Another upside factor could come from core inflation as the sale period this year started roughly one week later than last year. As a consequence, we could see higher annual core inflation as the impact of discounting clothing prices in particular will fully play in to the July report, though not much in June like last year.

LATIN AMERICA

Mexican industrial production (IP) for May will be released next Thursday, July 12th. We continue to expect a positive performance in the Mexican industry sector, a main component of the country's solid economic outlook. In April, IP grew by 3.6% y/y, supported by a 4.8% y/y expansion in construction and a 4.6% advance in manufacturing; mining on the other hand, contracted by almost 1.0% for the third consecutive month. On a monthly basis, IP continued its positive trend, advancing by 0.65% m/m. We expect IP to grow by 4.0% y/y in May.

Mexican Industrial Production

Source: Bloomberg.

ASIA

Next Thursday, July 12th, China will release an estimate of GDP growth in the three months to June. The economy lost momentum in the second quarter, likely slowing from 8.1% y/y in the first quarter to around 7.8% (this will be the slowest pace since the first quarter of 2009). We retain our view that a soft landing is materializing and that the world's second biggest economy will expand at, or slightly below, the 8% mark on average this year, before advancing a bit faster in 2013. Nevertheless, there are notable downside risks in our forecast, primarily connected to a potential erosion of growth dynamics in both the United States and Europe. In March the government lowered the official forecast to 7.5%, and the People's Bank of China (PBoC) has since lowered the benchmark lending rate to 6.00% and the deposit rate to 3.00% so as to protect the economy against external financial market volatility and to encourage domestic bank lending in particular.

Key Indicators for the week of July 9 - 13

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
MX	07/09	09:00	Consumer Prices (m/m)	JUN	0.39	0.4	-0.3
MX	07/09	09:00	Consumer Prices (y/y)	JUN	4.27	4.3	3.9
MX	07/09	09:00	Consumer Prices Core (m/m)	JUN	0.2	0.2	0.3
CA	07/09	10:30	BoC Senior Loan Officer Survey	2Q	--	--	-16.9
CA	07/09	10:30	Business Outlook Future Sales	2Q	--	--	35.0
US	07/09	15:00	Consumer Credit ($ bn m/m)	MAY	--	8.5	6.5
CA	07/10	08:15	Housing Starts (000s a.r.)	JUN	210	200	211
CA	07/11	08:30	Merchandise Trade Balance (C$ bn)	MAY	-0.5	-0.6	-0.4
US	07/11	08:30	Trade Balance ($ bn)	MAY	-48.0	-48.4	-50.1
MX	07/11	09:00	Trade Balance (US$ mn)	MAY F	--	--	362.7
US	07/11	10:00	Wholesale Inventories (m/m)	MAY	--	0.3	0.6
US	07/12	07:00	MBA Mortgage Applications (w/w)	JUL 7	--	--	-6.7
CA	07/12	08:30	New Housing Price Index (m/m)	MAY	--	0.2	0.2
US	07/12	08:30	Initial Jobless Claims (000s)	JUL 7	390	374	374
US	07/12	08:30	Continuing Claims (000s)	JUN 30	3300	374	3306
US	07/12	08:30	Export Prices (m/m)	JUN	--	-1.6	-1.0
US	07/12	08:30	Import Prices (m/m)	JUN	--	-1.6	-1.0
MX	07/12	09:00	Industrial Production (m/m)	MAY	--	0.2	0.7
MX	07/12	09:00	Industrial Production (y/y)	MAY	4.0	3.6	3.6
US	07/12	14:00	Treasury Budget ($ bn)	JUN	--	--	-124.6
US	07/13	08:30	PPI (m/m)	JUN	-0.5	-0.6	-1.0
US	07/13	08:30	PPI ex. Food & Energy (m/m)	JUN	0.2	0.2	0.2
US	07/13	09:55	U. of Michigan Consumer Sentiment	JUL P	73.5	73.5	73.2

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
GE	07/09	02:00	Current Account (€ bn)	MAY	--	10.1	11.2
GE	07/09	02:00	Trade Balance (€ bn)	MAY	--	14.0	14.4
FR	07/10	02:45	Industrial Production (m/m)	MAY	-0.5	-0.8	1.5
FR	07/10	02:45	Manufacturing Production (m/m)	MAY	0.3	-0.3	-0.7
IT	07/10	04:00	Industrial Production (y/y)	MAY	--	-9.0	-9.2
UK	07/10	04:30	Industrial Production (m/m)	MAY	--	-0.2	0.0
UK	07/10	04:30	Manufacturing Production (m/m)	MAY	--	-0.1	-0.7
UK	07/10	04:30	Visible Trade Balance (£ mn)	MAY	--	-9100	-10103
GE	07/11	02:00	CPI (y/y)	JUN F	1.7	1.7	1.7
GE	07/11	02:00	CPI - EU Harmonized (y/y)	JUN F	2.0	2.0	2.0
FR	07/11	02:45	Current Account (€ bn)	MAY	--	-3.5	-4.2
FR	07/12	01:30	CPI (m/m)	JUN	0.0	0.0	-0.1
FR	07/12	01:30	CPI (y/y)	JUN	1.9	1.9	2.0
FR	07/12	01:30	CPI - EU Harmonized (m/m)	JUN	0.0	0.0	-0.1
FR	07/12	01:30	CPI - EU Harmonized (y/y)	JUN	2.2	2.1	2.3
EC	07/12	05:00	Industrial Production (m/m)	MAY	--	0.0	-1.1
SP	07/13	03:00	CPI (y/y)	JUN F	1.9	1.9	1.9
SP	07/13	03:00	CPI - EU Harmonized (y/y)	JUN F	1.8	1.8	1.8
IT	07/13	04:00	CPI (y/y)	JUN F	3.3	3.3	3.3
IT	07/13	04:00	CPI - EU Harmonized (y/y)	JUN F	3.6	3.6	3.6

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

Key Indicators for the week of July 9 - 13

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
JN	07/08	19:50	Bank Lending (y/y)	JUN	--	--	0.3
JN	07/08	19:50	Current Account (¥ bn)	MAY	--	493.1	333.8
JN	07/08	19:50	Machine Orders (m/m)	MAY	--	-2.6	5.7
JN	07/08	19:50	Trade Balance (¥ bn)	MAY	--	-836.8	-463.9
CH	07/08	21:30	CPI (y/y)	JUN	--	2.3	3.0
CH	07/08	21:30	PPI (y/y)	JUN	--	-2.0	-1.4
JN	07/09	01:00	Eco Watchers Survey (current)	JUN	--	47.5	47.2
TA	07/09	04:00	Trade Balance (US$ bn)	JUN	--	2.3	2.3
PH	07/09	21:00	Exports (y/y)	MAY	--	6.8	7.6
JN	07/10	01:00	Consumer Confidence	JUN	--	40.7	40.7
CH	07/10	06:59	Trade Balance (US$ bn)	JUN	--	24.0	18.7
JN	07/10	19:50	Tertiary Industry Index (m/m)	MAY	--	0.2	-0.3
AU	07/10	21:30	Home Loans (%)	MAY	--	0.8	0.2
JN	07/11	02:00	Machine Tool Orders (y/y)	JUN P	--	--	-3.0
CH	07/11	07:59	Foreign Reserves (US$ bn)	JUN	--	3359.0	3305.0
CH	07/11	07:59	New Yuan Loans (bn)	JUN	--	880.0	793.2
NZ	07/11	07:59	REINZ Housing Price Index (m/m)	JUN	--	--	1.7
SK	07/11	21:00	**BoK Base Rate (%)**	JUL 12	**3.25**	**3.25**	**3.25**
AU	07/11	21:30	Employment (000s)	JUN	--	0.0	38.9
AU	07/11	21:30	Unemployment Rate (%)	JUN	--	5.2	5.1
JN	07/12	06:59	**BoJ Target Rate (%)**	JUL 12	**0.10**	--	**0.10**
ID	07/12	07:59	**BI Reference Interest Rate (%)**	JUL 12	**5.75**	**5.75**	**5.75**
CH	07/12	22:00	Fixed Asset Investment YTD (y/y)	JUN	--	20.0	20.1
CH	07/12	22:00	Industrial Production (y/y)	JUN	--	9.8	9.6
CH	07/12	22:00	Real GDP (y/y)	2Q	7.8	7.7	8.1
CH	07/12	22:00	Retail Sales (%)	JUN	--	13.5	13.8
JN	07/13	00:30	Capacity Utilization (m/m)	MAY F	--	--	-0.7
JN	07/13	00:30	Industrial Production (m/m)	MAY F	--	--	-3.1
IN	07/13	02:30	Monthly Wholesale Prices (y/y)	JUN	--	--	7.6

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	07/10	06:59	Trade Balance (PEN mn)	MAY	--	--	-84.4
BZ	07/11	07:59	Economic Activity Index SA (m/m)	MAY	--	-0.2	0.2
BZ	07/11	07:59	Economic Activity Index NSA (y/y)	MAY	--	0.4	0.0
BZ	07/11	07:59	**SELIC Target Rate (%)**	JUL 11	**8.00**	**8.00**	**8.50**
BZ	07/11	08:00	Retail Sales (m/m)	MAY	--	0.5	0.8
BZ	07/11	08:00	Retail Sales (y/y)	MAY	--	10.5	6.0
CL	07/12	18:00	**Nominal Overnight Rate Target (%)**	JUL 12	**5.00**	**5.00**	**5.00**
PE	07/12	19:00	**Reference Rate (%)**	JUL	**4.25**	**4.25**	**4.25**

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

Global Auctions for the week of July 9 - 13

North America

Country	Date	Time	Event
US	07/09	11:30	U.S. to Sell 3-Month Bills
US	07/09	11:30	U.S. to Sell 6-Month Bills
US	07/10	11:30	U.S. to Sell 4-Week Bills
US	07/10	13:00	U.S. to Sell 3-Year Notes
US	07/11	13:00	U.S. to Sell 10-Year Notes Reopening
US	07/12	13:00	U.S. to Sell 30-Year Bonds Reopening

Europe

Country	Date	Time	Event
GE	07/09	05:30	Germany to Sell EU4 Bln 6-Mth Bills
FR	07/09	09:00	France to Sell Bills (BTF)
NE	07/10	04:00	3Y Bond Amount Sold
GR	07/10	05:10	6M T-Bill Average Yield
GR	07/10	05:10	6M T-Bill Bid/Cover Ratio
SZ	07/10	05:30	Switzerland to Sell 12-Month Bills
UK	07/10	05:30	U.K. to Sell GBP900 Mln 0.5% I/L 2050 Bonds
SZ	07/11	05:30	Switzerland to Sell Bonds
GE	07/11	05:30	Germany to Sell Add'l EU5 Bln 10-Year Notes
IT	07/12	05:00	Italy to Sell Bills
UK	07/12	05:30	U.K. to Sell GBP3.5 Bln 1.75% 2022 Bonds
IT	07/13	05:00	Italy to Sell Bonds/Floating/Zero Coupon
BE	07/13	06:00	Belgium to Sell Bonds
UK	07/13	06:10	U.K. to Sell Bills

Asia Pacific

Country	Date	Time	Event
CH	07/08	21:50	China Muni to Sell CNY23.9 Bln 3-Year Bonds (1203)
JN	07/09	23:45	Japan to Sell 30-Year Bonds
CH	07/10	23:00	China to Sell 7-Year Bonds
JN	07/10	23:35	Japan to Sell 3-Month Bills
NZ	07/11	22:30	New Zealand Plans to Sell Bonds
CH	07/12	23:00	China to Sell 6-Month Bill

Latin America

Country	Date	Time	Event
BZ	07/10	11:00	Brazil to Sell I/L Bonds due 8/15/2016
BZ	07/10	11:00	Brazil to Sell I/L Bonds due 8/15/2050
BZ	07/10	11:00	Brazil to Sell I/L Bonds due 8/15/2018
BZ	07/10	11:00	Brazil to Sell I/L Bonds due 8/15/2022
BZ	07/10	11:00	Brazil to Sell I/L Bonds due 8/15/2030
BZ	07/10	11:00	Brazil to Sell I/L Bonds due 8/15/2040
BZ	07/12	10:00	Brazil to Sell Bills due 4/1/2013
BZ	07/12	10:00	Brazil to Sell Bills due 7/1/2014
BZ	07/12	10:00	Brazil to Sell Bills due 1/1/2016
BZ	07/12	10:00	Brazil to Sell Floating-rate Notes due 3/1/2018

Source: Bloomberg, Scotia Economics.

Events for the week of July 9 - 13

North America

Country	Date	Time	Event
US	07/09		Fed's Evans Speaks in Thailand
US	07/09		Fed's President Speaks on Banking, Financial Crises in Bangkok
US	07/09	11:55	Fed's Williams Speaks in Couer d'Alene, Idaho
US	07/10	06:05	Fed's Bullard Speaks on the Eurozone in London
US	07/11	14:00	Fed Releases Minutes from June 19-20 FOMC Meeting
US	07/12	15:40	Fed's Williams Speaks in Portland, Oregon
US	07/13	13:20	Fed's Lockhart Speaks on Economy in Jackson, MS

Europe

Country	Date	Time	Event
EC	07/08	02:45	ECB's Draghi Speaks in Aix
GE	07/08	04:30	Hollande, Merkel Commemorate 50 Years of German-French Ties
FR	07/09	04:00	Hollande to Hold Conference on Social, Labor Issues
EC	07/09	08:30	ECB's Draghi Speaks to European Parliament in Brussels
EC	07/09	11:00	Euro-Area Finance Ministers Meet in Brussels
EC	07/09	13:00	ECB's Nowotny Speaks in Brussels
EC	07/10	03:00	EU-27 Finance Ministers Meet in Brussels
GE	07/10	04:00	German Constitutional Court Discusses Motions to Stop ESM
IT	07/10	09:00	Bini Smaghi, Padoan, Patuano Speak at Conference in Milan
FR	07/10		Hollande to Visit UK PM Cameron in London
EC	07/12	04:00	ECB Publishes July Monthly Report

Asia Pacific

Country	Date	Time	Event
AU	07/10	19:00	RBA's Lowe Gives Speech to Economists' Conference in Melbourne
AU	07/11	20:00	RBA Deputy Governor Lowe Speaks at Conference in Sydney
SK	07/11	21:00	**BoK Base Rate**
JN	JUL 11-12		**BOJ Target Rate**
ID	JUL 11-12		**Bank Indonesia Reference Rate**

Latin America

Country	Date	Time	Event
CL	07/07		Chile Central Bank President Vergara Speaks in Colombia
CL	07/10	08:30	Central Bank Economist Survey
CL	07/11	08:30	Central Bank's Traders Survey
BZ	07/11		**SELIC Target - Central Bank**
CL	07/12	18:00	**Nominal Overnight Rate Target**
PE	07/12	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	July 17, 2012	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	August 1, 2012	0.25	--
Banco de México – Overnight Rate	4.50	July 20, 2012	4.50	4.50

Fed: US jobs data continues to disappoint (+80k nonfarm payrolls in June, +77k in May, +68k in April), implying that the full employment aspect of the Fed's mandate is challenged. The Fed extended its duration maturity program ('Operation Twist') during June, and there is a risk that it will add to its outright asset purchases during H2 contingent on a) global developments, and b) the performance of the economy and particularly the jobs market. BoC: Canada's economic situation has deteriorated since the April Monetary Policy Report was released. Markets are now pricing very slight odds of BoC easing this summer, which we think is rather unlikely barring a global liquidity and funding crisis – a risk that has abated somewhat since the European Summit in late June and by no means our base case. We expect the BoC to revise its growth projections lower in the July MPR (due out on July 18) and to remain on hold at least until mid-2013 with the risks tilted towards a longer hold period as recent changes to housing regulations have provided effective tightening targeting the housing sector.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.75	August 2, 2012	0.75	--
Bank of England – Bank Rate	0.50	August 2, 2012	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	September 13, 2012	0.00	--
Central Bank of Russia – Refinancing Rate	8.00	July 13, 2012	8.00	--
Hungarian National Bank – Base Rate	7.00	July 24, 2012	7.00	7.00
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.75	July 19, 2012	5.75	--
Sweden Riksbank – Repo Rate	1.50	September 6, 2012	1.50	--
Norges Bank – Deposit Rate	1.50	August 29, 2012	1.50	--

Russia's central bank will likely leave the benchmark refinancing rate at 8.00% after the next monetary policy meeting on July 13th. Inflation accelerated in June, from 3.6% y/y to 4.3% (still below the 5%-6% target), on the back of higher food costs and recent ruble depreciation. However, the bank likely won't risk choking off the domestic economy by raising interest rates at this time, in the face of continued uncertainty over oil prices and global demand. Unless more evidence emerges of an economic overheating, we do not anticipate any monetary tightening until early 2013.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	July 12, 2012	0.10	--
Reserve Bank of Australia – Cash Target Rate	3.50	August 7, 2012	3.50	3.25
Reserve Bank of New Zealand – Cash Rate	2.50	July 25, 2012	2.50	--
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	July 31, 2012	7.75	--
Bank of Korea – Bank Rate	3.25	July 11, 2012	3.25	3.25
Bank of Thailand – Repo Rate	3.00	July 25, 2012	3.00	--
Bank Indonesia – Reference Interest Rate	5.75	July 12, 2012	5.75	5.75

Improving economic data in recent weeks indicate that the recovery in Japan has taken hold. Notably, consumer and business sentiment are on the mend and private consumption has gained momentum. However, the Bank of Japan (BoJ) still considers the yen overvalued, and the risk of deflation remains prevalent (the annual inflation rate dropped to 0.2% y/y from 0.4% in May, while the core measure fell 0.1%). We thus consider additional monetary easing by the BoJ likely in the near term, with an augmentation of the asset purchase program to be announced as early as next week. The central bank of Indonesia is expected to maintain the benchmark interest rate at 5.75% next week. Though a jump in food prices pushed the headline inflation rate higher in June (to 4.53% y/y from 4.45%), the central bank sees inflation staying within the target range (3.5%-5.5%) over the medium term, and is currently more concerned with the stability of the rupiah. Bank Indonesia will continue to intervene in the foreign exchange market in order to shield the domestic economy from currency volatility.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	8.50	July 11, 2012	8.00	8.00
Banco Central de Chile – Overnight Rate	5.00	July 12, 2012	5.00	5.00
Banco de la República de Colombia – Lending Rate	5.25	July 27, 2012	5.25	--
Banco Central de Reserva del Perú – Reference Rate	4.25	July 12, 2012	4.25	4.25

With a sluggish economic performance and the continued protective tone of the authorities, we expect the central bank of Brazil to maintain its loose monetary policy stance and cut the reference rate by 50 basis points to a new record low of 8.0% at the next meeting on July 11. We maintain our view that both the central bank of Peru and the monetary authorities in Chile will leave their reference rates unchanged at 4.25% and 5.0%, respectively. In Peru, inflation continues to hold above the 4.0% y/y mark while economic activity has shown some moderation. In Chile, inflation is trending down but also economic activity has decelerated somewhat. Both central banks have highlighted that lower metal prices, slowing growth in Asian trade partners and European debt concerns remain the main risks to their economies.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	July 19, 2012	5.50	--

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

Forecasts as at July 6, 2012*	2000-10	2011	2012f	2013f	2000-10	2011	2012f	2013f
Output and Inflation (annual % change)		Real GDP				Consumer Prices[2]		
World[1]	3.7	4.0	3.1	3.6				
Canada	2.2	2.4	2.0	1.9	2.1	2.9	2.0	2.0
United States	1.8	1.7	2.0	2.1	2.5	3.1	2.0	2.0
Mexico	2.1	4.2	3.7	3.6	4.9	3.8	3.9	4.1
United Kingdom	2.0	0.7	0.2	1.5	2.1	4.2	2.2	3.0
Euro Zone	1.4	1.5	-0.7	0.5	2.1	2.7	1.6	1.9
Japan	0.9	-0.7	2.3	1.5	-0.3	-0.2	0.1	0.3
Australia	3.1	2.1	3.1	3.3	3.1	3.1	2.5	2.8
China	9.4	9.3	7.8	8.4	2.3	4.1	4.0	4.4
India	7.6	10.0	6.0	6.5	6.4	7.7	6.5	6.8
South 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	2.4	4.0	6.6	6.5	5.0	5.5
Chile	4.6	6.1	5.1	5.6	3.4	4.4	3.2	3.1
Peru	5.5	7.0	6.3	6.2	2.4	4.7	3.0	3.0

Central Bank Rates (%, end of period)	12Q1	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.50
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	1.00	1.00	0.75	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	3.50	3.25	3.00	3.00	3.00	3.25	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.00	1.02	1.02	0.99	0.98	0.97	0.97	0.97
Canadian Dollar (CADUSD)	1.00	0.98	0.98	1.01	1.02	1.03	1.03	1.03
Euro (EURUSD)	1.33	1.27	1.23	1.23	1.22	1.22	1.21	1.21
Sterling (GBPUSD)	1.60	1.57	1.59	1.60	1.62	1.63	1.64	1.64
Yen (USDJPY)	83	80	81	83	84	85	86	87
Australian Dollar (AUDUSD)	1.03	1.02	0.99	1.02	1.04	1.04	1.05	1.05
Chinese Yuan (USDCNY)	6.3	6.4	6.3	6.3	6.3	6.2	6.2	6.1
Mexican Peso (USDMXN)	12.8	13.4	13.3	13.1	13.2	13.1	13.1	13.3
Brazilian Real (USDBRL)	1.83	2.01	1.96	1.95	1.92	1.87	1.88	1.90

Commodities (annual average)	2000-10	2011	2012f	2013f
WTI Oil (US$/bbl)	54	95	90	95
Brent Oil (US$/bbl)	52	111	104	104
Nymex Natural Gas (US$/mmbtu)	5.81	4.03	2.75	3.00
Copper (US$/lb)	1.93	4.00	3.65	3.45
Zinc (US$/lb)	0.75	0.99	0.89	1.02
Nickel (US$/lb)	7.36	10.38	8.00	7.80
Gold, London PM Fix (US$/oz)	586	1,569	1,665	1,650
Pulp (US$/tonne)	694	977	880	955
Newsprint (US$/tonne)	575	640	640	670
Lumber (US$/mfbm)	273	255	280	310

[1] World GDP for 2000-10 are IMF PPP estimates; 2011-13f are Scotia Economics' estimates based on a 2010 PPP-weighted sample of 38 countries.
[2] CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

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

Canada	2011	11Q4	12Q1	Latest	
Real GDP (annual rates)	2.4	1.9	1.9		
Current Acc. Bal. (C$B, ar)	-48.4	-38.7	-41.1		
Merch. Trade Bal. (C$B, ar)	2.3	14.9	7.9	-4.4	(Apr)
Industrial Production	3.5	3.0	1.1	1.4	(Apr)
Housing Starts (000s)	193	199	206	211	(May)
Employment	1.6	1.2	0.9	1.0	(Jun)
Unemployment Rate (%)	7.5	7.5	7.4	7.2	(Jun)
Retail Sales	4.1	4.2	4.3	3.4	(Apr)
Auto Sales (000s)	1588	1603	1701	1603	(Apr)
CPI	2.9	2.7	2.3	5.1	(May)
IPPI	4.6	3.9	1.7	-6.3	(May)
Pre-tax Corp. Profits	15.4	13.7	5.4		

United States	2011	11Q4	12Q1	Latest	
Real GDP (annual rates)	1.7	3.0	1.9		
Current Acc. Bal. (US$B, ar)	-466	-475	-549		
Merch. Trade Bal. (US$B, ar)	-738	-757	-778	-778	(Apr)
Industrial Production	4.1	4.0	4.0	4.9	(May)
Housing Starts (millions)	0.61	0.68	0.71	0.71	(May)
Employment	1.1	1.3	1.6	1.3	(Jun)
Unemployment Rate (%)	9.0	8.7	8.3	8.2	(Jun)
Retail Sales	8.2	7.5	6.4	14.3	(May)
Auto Sales (millions)	12.7	13.4	14.5	14.0	(Jun)
CPI	3.2	3.3	2.8	5.4	(May)
PPI	6.0	5.4	3.4	8.3	(May)
Pre-tax Corp. Profits	4.2	9.3	13.9		

Mexico	2011	11Q4	12Q1	Latest	
Real GDP	3.9	3.9	4.6		
Current Acc. Bal. (US$B, ar)	-9.0	-7.5	-0.2		
Merch. Trade Bal. (US$B, ar)	-1.5	-2.9	7.1	4.4	(May)
Industrial Production	4.0	3.5	4.4	3.6	(Apr)
CPI	3.4	3.5	3.9	7.3	(May)

Brazil	2011	11Q4	12Q1	Latest	
Real GDP	2.5	1.2	0.6		
Current Acc. Bal. (US$B, ar)	-52.5	-63.2	-48.3		
Merch. Trade Bal. (US$B, ar)	29.8	27.0	9.8	9.7	(Jun)
Industrial Production	0.4	-1.8	-3.5	-3.4	(May)
CPI	6.8	6.7		6.6	(Jan)

Chile	2011	11Q4	12Q1	Latest	
Real GDP	6.0	4.5	5.6		
Current Acc. Bal. (US$B, ar)	0.0	-5.1	-1.4		
Merch. Trade Bal. (US$B, ar)	10.0	9.4	11.1	-1.8	(May)
Industrial Production	6.9	2.1	3.9	2.8	(May)
CPI	3.3	4.0	4.1	2.6	(Jun)

Italy	2011	11Q4	12Q1	Latest	
Real GDP	0.5	-0.5	-1.4		
Current Acc. Bal. (US$B, ar)	-0.07	-0.03	-0.07	-0.02	(Apr)
Merch. Trade Bal. (US$B, ar)	-34.2	-8.3	-17.5	-3.2	(Apr)
Industrial Production	0.2	-3.2	-5.4	-8.8	(Apr)
CPI	2.8	3.3	3.4	6.0	(May)

Germany	2011	11Q4	12Q1	Latest	
Real GDP	3.1	2.0	1.2		
Current Acc. Bal. (US$B, ar)	204.1	256.1	215.8	176.7	(Apr)
Merch. Trade Bal. (US$B, ar)	216.2	224.1	223.3	255.4	(Apr)
Industrial Production	8.0	3.4	1.0	8.0	(May)
Unemployment Rate (%)	7.1	6.9	6.8	6.8	(Jun)
CPI	2.3	2.3	2.2	1.7	(Jun)

France	2011	11Q4	12Q1	Latest	
Real GDP	1.7	1.2	0.3		
Current Acc. Bal. (US$B, ar)	-60.1	-58.2	-53.2	-66.2	(Apr)
Merch. Trade Bal. (US$B, ar)	-51.1	-46.2	-53.0	-50.0	(May)
Industrial Production	2.4	0.4	-1.5	0.9	(Apr)
Unemployment Rate (%)	9.7	9.8	10.0	10.1	(May)
CPI	2.1	2.4	2.3	4.1	(May)

Euro Zone	2011	11Q4	12Q1	Latest	
Real GDP	1.5	0.7	-0.1		
Current Acc. Bal. (US$B, ar)	-4	183	-37	26	(Apr)
Merch. Trade Bal. (US$B, ar)	6.4	76.9	10.1	94.2	(Apr)
Industrial Production	3.6	-0.1	-1.5	-2.4	(Apr)
Unemployment Rate (%)	10.1	10.5	10.8	11.0	(May)
CPI	2.7	2.9	2.7	5.2	(May)

United Kingdom	2011	11Q4	12Q1	Latest	
Real GDP	0.8	0.6	-0.2		
Current Acc. Bal. (US$B, ar)	-46.5	-40.7	-76.4		
Merch. Trade Bal. (US$B, ar)	-159.8	-152.5	-160.3	-194.1	(Apr)
Industrial Production	-1.2	-3.0	-3.0	-1.0	(Apr)
Unemployment Rate (%)	8.1	8.4	8.2	8.2	(Mar)
CPI	4.5	4.7	3.5	7.2	(May)

Japan	2011	11Q4	12Q1	Latest	
Real GDP	-0.7	-0.5	2.7		
Current Acc. Bal. (US$B, ar)	119.2	48.0	114.5	49.2	(Apr)
Merch. Trade Bal. (US$B, ar)	-33.4	-75.3	-73.5	-98.9	(May)
Industrial Production	-2.3	0.0	2.7	-2.0	(May)
Unemployment Rate (%)	4.6	4.5	4.5	4.4	(May)
CPI	-0.3	-0.3	0.3	0.0	(May)

Australia	2011	11Q4	12Q1	Latest	
Real GDP	2.1	2.5	4.3		
Current Acc. Bal. (US$B, ar)	-33.1	-39.4	-66.0		
Merch. Trade Bal. (US$B, ar)	35.7	28.9	1.8	26.9	(May)
Industrial Production	-1.1	1.3	4.7		
Unemployment Rate (%)	5.1	5.2	5.2	5.1	(May)
CPI	3.4	3.1	1.6		

China	2011	11Q4	12Q1	Latest	
Real GDP	10.4	8.9			
Current Acc. Bal. (US$B, ar)	201.7				
Merch. Trade Bal. (US$B, ar)	155.0	193.0	3.0	224.4	(May)
Industrial Production	12.8	12.8	9.3	9.6	(May)
CPI	4.1	4.1	3.6	3.0	(May)

South Korea	2011	11Q4	12Q1	Latest	
Real GDP	3.6	3.3	2.8		
Current Acc. Bal. (US$B, ar)	26.5	46.0	10.2	43.3	(May)
Merch. Trade Bal. (US$B, ar)	30.8	36.6	5.8	59.5	(Jun)
Industrial Production	6.9	5.2	2.9	7.8	(May)
CPI	4.0	4.0	3.0	2.2	(Jun)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (%, end of period)

Canada	12Q1	12Q2	Jun/29	Jul/06*	United States	12Q1	12Q2	Jun/29	Jul/06*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.91	0.88	0.88	0.86	3-mo. T-bill	0.07	0.08	0.08	0.07
10-yr Gov't Bond	2.11	1.74	1.74	1.68	10-yr Gov't Bond	2.21	1.64	1.64	1.54
30-yr Gov't Bond	2.66	2.33	2.33	2.29	30-yr Gov't Bond	3.34	2.75	2.75	2.66
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	69.2		68.5	(May)	FX Reserves (US$B)	138.0		137.8	(May)
Germany					**France**				
3-mo. Interbank	0.71	0.53	0.53	0.33	3-mo. T-bill	0.07	0.04	0.04	0.02
10-yr Gov't Bond	1.79	1.58	1.58	1.33	10-yr Gov't Bond	2.89	2.69	2.69	2.38
FX Reserves (US$B)	67.9		68.3	(May)	FX Reserves (US$B)	49.2		49.6	(May)
Euro Zone					**United Kingdom**				
Refinancing Rate	1.00	1.00	1.00	0.75	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.39	0.38	0.38	0.33	3-mo. T-bill	0.37	0.37	0.37	0.37
FX Reserves (US$B)	319.9		322.6	(May)	10-yr Gov't Bond	2.20	1.73	1.73	1.60
					FX Reserves (US$B)	82.4		84.6	(May)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.25	3.50	3.50	3.50
3-mo. Libor	0.13	0.13	0.13	0.13	10-yr Gov't Bond	3.98	3.04	3.04	3.09
10-yr Gov't Bond	0.99	0.84	0.84	0.80	FX Reserves (US$B)	47.7		47.8	(May)
FX Reserves (US$B)	1247.8		1239.4	(May)					

Exchange Rates (end of period)

USDCAD	1.00	1.02	1.02	1.02	¥/US$	82.87	79.79	79.79	79.58
CADUSD	1.00	0.98	0.98	0.98	US¢/Australian$	1.03	1.02	1.02	1.02
GBPUSD	1.601	1.571	1.571	1.549	Chinese Yuan/US$	6.30	6.35	6.35	6.36
EURUSD	1.334	1.267	1.267	1.230	South Korean Won/US$	1133	1145	1145	1138
JPYEUR	0.90	0.99	0.99	1.02	Mexican Peso/US$	12.811	13.361	13.361	13.496
USDCHF	0.90	0.95	0.95	0.98	Brazilian Real/US$	1.827	2.009	2.009	2.039

Equity Markets (index, end of period)

United States (DJIA)	13212	12880	12880	12720	U.K. (FT100)	5768	5571	5571	5662
United States (S&P500)	1408	1362	1362	1353	Germany (Dax)	6947	6416	6416	6431
Canada (S&P/TSX)	12392	11597	11597	11673	France (CAC40)	3424	3197	3197	3181
Mexico (Bolsa)	39521	40200	40200	39954	Japan (Nikkei)	10084	9007	9007	9021
Brazil (Bovespa)	64511	54355	54355	55353	Hong Kong (Hang Seng)	20556	19441	19441	19801
Italy (BCI)	859	761	761	774	South Korea (Composite)	2014	1854	1854	1858

Commodity Prices (end of period)

Pulp (US$/tonne)	890	870	900	900	Copper (US$/lb)	3.85	3.45	3.45	3.45
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	0.91	0.84	0.84	0.84
Lumber (US$/mfbm)	261	266	283	288	Gold (US$/oz)	1662.50	1598.50	1598.50	1587.00
WTI Oil (US$/bbl)	103.02	84.96	84.96	84.60	Silver (US$/oz)	32.43	27.08	27.08	27.32
Natural Gas (US$/mmbtu)	2.13	2.82	2.82	2.88	CRB (index)	308.46	284.19	284.19	288.24

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

Emerging Markets Strategy

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Portfolio Strategy

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