Scotiabank™

Global Views

Weekly commentary on economic and financial market developments

December 7, 2012

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

Derek Holt (416) 863-7707
derek.holt@scotiabank.com

Fed, US Budget Talks And China Will Make For A Very Active Week

- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A8.**

US markets will probably lead the global tone through the effects of the FOMC meeting and ongoing budget negotiations. We expect the Federal Reserve to introduce unsterilized Treasury buying next Wednesday in what might be labeled QE4 and serve as a pre-emptive move against potential consequences to the expiration of the twist, as well as serving the Fed's focus of leaning on stimulus until material job market improvement occurs. Please see our piece "QE4 Prospects and Market Effects," November 23rd for more. We're playing it more conservatively on the amount of Treasury buying that will be targeted with our $20 billion per month figure compared to the consensus $45 billion target for five reasons. We have more conviction in the view that the Fed comes in under $45 billion than in the precise amount, and in fact, we may well be erring too far on the low side. For one reason as to why a sub-$45 billion figure might result, as St. Louis Fed President James Bullard recently noted, we think that the Fed does not have to replace the full $45 billion monthly purchase of longer dated Treasuries funded through selling of shorter dated securities under 'operation twist' since unsterilized QE is likely to be a somewhat greater form of stimulus than the sterilized twist. Thus, the value of longer dated securities purchases may not have to be as great. Second, the minutes to the last FOMC meeting spoke of 'a number' of participants advocating Treasury purchases which was weaker than the 'many' signal the Fed has previously used, and so the Fed might start off at a slower pace of purchases. Third, the 'fiscal cliff' will not be resolved before the meeting and the Fed may wish to keep some of its powder dry as it awaits the outcome. I don't think an agreement will be reached in time, but on the off chance that an agreement is reached, the Fed may not want to come out guns blazing right off the bat. Fourth, Treasury yields are already very low so it's not clear how much lower they can be pushed under current conditions which may suggest starting slowly. Fifth, evidence of deflation risk — the QE2 rationale — is weaker this time as evidenced in the TIPS break evens curve and the Fed's preferred 5 year forward breakeven rate. Finally, the November payrolls report changes nothing as net of revisions the US only grew jobs by 97,000 such that the Fed will likely express continued dissatisfaction over the pace of progress in job markets. Also note that this meeting will include revised staff economic projections and the Summary of Economic Projections including forecasts for growth and the fed funds target from the FOMC members. Chairman Bernanke will host a full press conference that will follow the statement. The fact that there is a full press conference and projections at this meeting with the next such offerings not coming until March also makes it likelier the Fed would choose to add stimulus now, while also changing communications around the Fed funds target. We think this will focus more upon qualitative thresholds than specific quantitative metrics like a precise unemployment rate target, and would extend the already existing qualitative guidance that the Fed currently provides. If the Fed provides dual inflation and unemployment rate targets then I believe it will be going down a slippery slope given an imprecise — to say the least — expectations augmented Philips curve over finite time horizons.

Fiscal cliff negotiations will also intensify now that the White House and GOP have presented offers. The risk of going over the 'fiscal cliff' and sparking a further rally in Treasuries and the USD among other safe havens into 2013 went up when the GOP presented a set of budgetary proposals that are as unlikely to pass as what the White House presented through Treasury Secretary Tim Geithner. Republicans offered a $2.2 trillion package focused mainly upon three things. One includes $800 billion in tax revenue over the next decade which is half of the White House's proposal and thus unlikely to meet Obama's demands. This would be achieved through "pro-growth tax reform that closes special-interest loopholes and deductions while lowering rates." A hard cap on deductions is at the center of the proposal, and I think this won't work. 90% of all deductions include mortgage interest, state and local taxes, and charitable contributions. Thus, a hard cap is likely, as Peter Orszag has argued, to result in a sharp and politically explosive decline in charitable contributions given no appetite for changing mortgage interest deductibility while Washington is leaning on supporting housing and an inability to do anything over state/local tax deductions. Extending lower marginal tax rates particularly for the relatively upper income earners also won't pass the White House, and there were no details on the tax breaks the GOP would change. Second, entitlement programs would be reduced by

Derek Holt (416) 863-7707
derek.holt@scotiabank.com

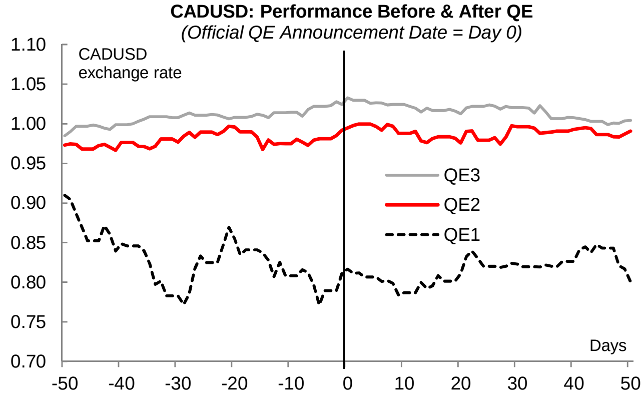
… continued from previous page

$900 billion in the GOP proposal. This would be achieved by raising the Medicare eligibility age (which Democrats oppose), a chained CPI approach would rein in cost of living adjustments for government pensions, social security benefits and tax brackets. Third, discretionary spending would be cut by $300 billion which also conflicts with the White House's proposal to increase spending through a proposed $50 billion infrastructure program. Neither side is demonstrating any willingness to toss the other a bone, as the debate has become very polarized on the headlines and the individual details. You say black, I'll say white is the approach currently being taken. The tails of the debate are split between striking a more conciliatory tone, versus some Democrats and Republicans advocating going over the cliff. The message here is one whereby the GOP and White House are as diametrically opposed to one another on the size, scope and details of budgetary proposals as possible. There isn't even a hint of compromise in what they have presented to one another, and the White House's desire to abolish the debt ceiling that is the GOP's big stick in the debate isn't helpful in the current context. The GOP itself faces criticism from within over the proposals, as its more conservative members have openly lambasted any focus upon revenue generation. This aspect of the debate is reminiscent of the split GOP during the debt ceiling debate of 2011 even if the Tea Party is a less powerful post-election influence. I would think that astute investors would be raising the odds of going right over the fiscal cliff to a base case scenario and loading up on the USD and Treasuries in this environment. Forget the Fed, the USD debasement story is plain wrong both theoretically and empirically, and focus upon the cliff's implications for risk appetite just as Europe re-enters recession. Given that the debt ceiling will become binding at some point over February through April after exceptional steps to extend it are taken before government services must begin to shut down and markets get uneasy about default risk, it may not be at all likely that agreement will spare Q1 GDP growth or the risk trade until well into Spring. In that sense, the US could go over the cliff in either a de factor or de jure sense. I should stress that this is not the base case in our print forecasts that assume a compromise with a net fiscal drag of around 1½%, nor is it anyone's base case in print forecasts that I'm aware of, but the lack of any progress whatsoever on the scale, scope and details at this increasingly late stage in negotiations has many forecasters guiding their numbers with at best very shaky pencils.

U.S. data risk will be mostly focused upon November's retail sales print that is expected to post a small rise largely through higher auto sales while core sales remain weaker. The trade balance is expected to widen, and CPI inflation should remain at around 2% y/y. Industrial production is also expected to post a small rise. The US auctions 3s, 10s and 30s next week.

Canadian markets may be impacted more by developments abroad — particularly the US through the fiscal cliff debate — than anything on the domestic front. If the Fed applies QE4 as we argued above, then I don't personally expect a sustained CAD reaction on debasement fears even if we turn out to be light in our call for the volume of Treasury purchases. As we've argued for years on both theoretical and empirical grounds, the view that the Fed is debasing the USD through successive rounds of quantitative easing makes little theoretical sense, and is not supported through the trade-weighted DXY measure of the US exchange rate. What about against a currency, like CAD, that has not experienced domestic QE policies? As the accompanying chart demonstrates, there is again no clear, consistent reaction in CADUS going into or following rounds of QE from the Fed. CAD is volatile over the one to two months before formal QE announcements but directionless and there is no sustained or consistent effect thereafter. Data risk

CADUSD: Performance Before & After QE
(Official QE Announcement Date = Day 0)



Source: Bloomberg, Scotiabank Economics

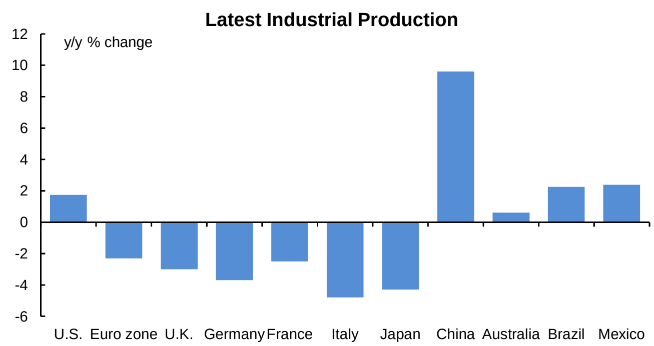
Derek Holt (416) 863-7707
derek.holt@scotiabank.com

… continued from previous page

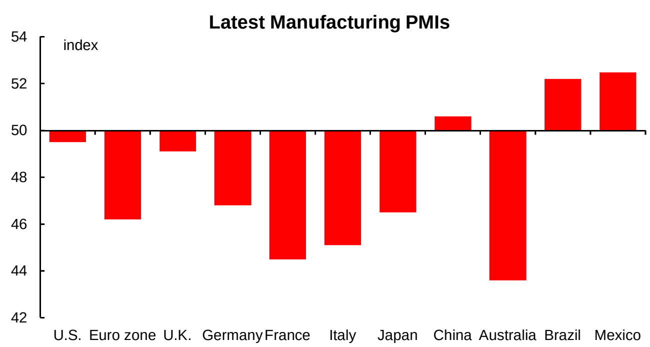
will be relatively light next week. Housing starts for November face the risk of further moderation as due to weakening multiples that reflect a trend toward sharply lower new condo sales, but most of this effect will unfold over the next 6-12 months. Witness the steep drop in new condo sales over 2012H2 as projects get suspended and this will result in lagged downward effects upon starts. This follows weak resales data for November from local real estate boards in Toronto and Vancouver, while Calgary held up well while we await the national totals the following week. Canada's trade account will be examined for evidence that temporary disruptions in the energy patch are waning or persistent, but the grander issue may be that Canada is losing energy export share in the US to a sharp rise in domestic US energy production. Manufacturing shipments will close the week out. The move by BoC Governor Carney to the role of Governor of the Bank of England next July will return to the headlines as Carney speaks before the Toronto CFA Society and King speaks in New York. Canada auctions 3s next week.

Asian markets could share the global spotlight principally through China's monthly data dump. CPI inflation is expected to have risen back up to about the 2% mark partly off of year-ago base effects while consensus expects unchanged rates of expansion in retail sales and industrial production on year-ago levels. Export growth, however, is expected to slow partly in keeping with official guidance. New yuan loans will provide a further look at Chinese monetary policy, but it remains a very narrow credit aggregate that merits paying closer heed to aggregate financing patterns that have been solid for the year-to-date and that also include acceptances, FX loans, and bond issuance. We'll also have an eye on the private sector's advance or 'flash' PMI reading for the manufacturing sector. A wave of Asian trade data from Japan, India, and the Philippines in addition to China will complement industrial production figures from China, India, Hong Kong, Malaysia, and New Zealand. Three regional central banks are expected to keep policy on hold, including the Bank of Korea, Bank Indonesia and Bangko Sentral ng Pilipinas. Asian data risk is rounded out with Japan's Q4 Tankan survey of manufacturing conditions, Q3 Japanese GDP revisions, and India's latest CPI print in light of a stubbornly high trend throughout 2012 with current readings only moderately lower than they were during the April/May peak.

European markets should spend much of the week largely in observer mode on developments in the US and Asia. Eurozone challenges affecting Greece and Cyprus will be among the focal points in a meeting of Eurozone finance ministers next Friday. The IMF and ECB will host a joint conference on "reforming EU fiscal governance" on Thursday and Friday. Also, EU Finance Ministers meet on the topic of banking supervision on Wednesday. Data risk should be principally focused upon the German economy through key updates on export growth in October, the country's manufacturing PMI, and the ZEW investor confidence survey — all as Germany re-enters recession in Q4. Industrial production figures for France and Italy will arrive and freshen up a fairly sour take on global factories provided in the accompanying two charts and in the wake of very weak German and UK figures. Auction risk should be fairly light and focused upon the UK and Spain. EC data will also include the pan-European ZEW investor confidence survey, industrial production, manufacturing PMIs and Q3 employment growth. French CPI, UK jobs, and Italian Q3 GDP revisions round out the hits.



Source: Bloomberg, Scotiabank Economics.



Source: Bloomberg, Scotiabank Economics.

Aron Gampel (416) 866-6259
aron.gampel@scotiabank.com

New Year, Old Problems

The pace of global growth is expected to pick up gradually, with real GDP forecasted to advance by an average 3.2% in 2013 and 3.8% in 2014. These projections are essentially the flip side of the deceleration witnessed over the past two years when global growth posted gains of 3.8% in 2011 and an estimated increase of 3.1% in 2012, and well short of the comparatively robust 5.1% output growth recorded in the recovery's first full year in 2010.

Output growth in Asia-Pacific and Latin America is expected to strengthen in the year ahead. Many of the countries in these regions have the fiscal and monetary flexibility, and the accumulated savings to promote stronger domestically generated growth. China, India and Brazil have already undertaken expansionary policy actions to bolster consumer and business spending, as well as infrastructure. Increased trade ties among the regions will also help underpin the improving momentum, with Mexico benefitting from its enhanced manufacturing competitiveness. Strengthening conditions also will help support international demand for goods & services, as well as commodities.

In contrast, many countries in Europe, as well as Japan, are in recession or recording negligible growth. Intensifying austerity programs to remedy chronic sovereign debt problems in the southern peripheral nations of the euro zone have deepened recessions, increased unemployment, and reduced trade flows both regionally and globally. While progress has been made to restore primary budgetary surpluses in some countries and lift labour competitiveness through lower wages and higher productivity, the ongoing restructuring of public finances and recapitalization of financial institutions will keep the region, as well as the U.K., in a lengthy period of underperformance. Japan's post-tsunami reconstruction boom has slowed, with the economy reverting back to a demographic-led minimal growth profile compounded by recent trade disruptions with China.

Another year of moderate and sustainable growth is expected in North America in 2013, notwithstanding the volatile pattern of activity in recent quarters on both sides of the border. Gradually improving prospects in the U.S. and around the world depend upon Washington's adopting legislation to avoid the 'fiscal cliff'. Although Canada has a head start in reducing federal budget deficits, both countries will continue to face fiscal headwinds that will keep output growth on an historically sub-par growth trajectory.

Our forecast projects U.S. real GDP growth to average 2.0% in 2013, with Canada’s output expected to increase by only 1.7%. U.S. households are beginning to unlock their pocketbooks after a lengthy period of deleveraging that has lifted pent-up demand. The year ahead should see continuing gains in auto and home sales and residential construction, reinforced by another year of ultra-low borrowing costs and a gradual improvement in hiring. In contrast, Canadians are expected to become more cautious shoppers after a multi-year home-buying spree that has pushed up household indebtedness to a record level against a backdrop of slower employment gains. The performance gap between the two countries should also be reinforced by the United States’ more competitive and geographically diversified export sector.

Nevertheless, U.S. businesses have become progressively more cautious, reducing expenditures in investment until there is more certainty regarding prospective changes to taxes, programs and regulations. In Canada, investment intentions, especially in the stronger resource sectors, have been undermined by the softening in export volumes and commodity prices associated with the downshifting in global growth, and North America’s evolving energy profile. Even so, Canada's ongoing development of its large and diverse resource sector — energy, minerals, forestry and agriculture — will continue to provide solid growth support to all regions, and remain a magnet for foreign investment and immigration. Canada also has a large and resilient service sector that increasingly has been targeting foreign export markets.

Focus On Canada

The Canadian economy faces a number of challenges, most notably the drag from an increasing merchandise trade deficit. The growth in export volumes has stalled in response to slowing international demand, while the prices received for Western Canadian oil has declined. Canada’s export dependence on the U.S. for its oil and

Aron Gampel (416) 866-6259
aron.gampel@scotiabank.com

… continued from previous page

natural gas has been compromised by the lack of adequate pipeline capacity in the U.S. south that has resulted in a significant price discount for domestic crude, in addition to sharply higher U.S. gas production. The slumping value of Canadian exports has aggravated the merchandise trade imbalance and, combined with the ongoing deterioration in net tourism flows, has pushed the country's current account into deficit of about $70 billion, or a 19-year high of almost 4% of nominal GDP.

Domestic conditions also have been affected by a number of factors. Governments are continuing to trim expenditure growth, and in the case of some provinces, raise taxes to reduce budget deficits. Many businesses also have slowed their investments with profitability being pressured, and increasing uncertainty surrounding much higher commodity prices has led to some pullback in longer-term expansion plans in the oil sands. Maintenance shutdowns temporarily will depress offshore oil production on the east coast.

Commercial construction continues to benefit from the relatively buoyant conditions in the higher-growth resource-intensive regions in the west and the east and the service-centric regions in southern Ontario. However, moderating home sales are expected to slow the pace of residential building, particularly in the overbuilt condo markets in Vancouver and Toronto. Manufacturers are putting in mixed performances. The transportation sector is benefitting from improving sales both at home and in the U.S., while technology and other equipment producers are being squeezed by the slowdown abroad and a persistently strong loonie. Lumber and other housing-related products are expected to piggyback on the improving trend in U.S. home buying and new construction. Agriculture should gather momentum from the increased plantings and sharply higher prices of corn, soybeans, and canola triggered by the recent drought, and expanded food processing and exports that reflect the rise in international demand.

Household spending will continue to slow in response to the reduced pace of employment, and the sharp rise in household indebtedness associated with the multi-year housing boom. Affordability strains, in addition to tighter mortgage eligibility rules and regulatory guidelines for lending, have already dampened mortgage borrowing. These developments will help to moderate the run-up in the bellwether debt-to-disposable income ratio that had ratcheted up to record highs by mid-year.

In an outlook clouded by volatility and uncertainty around the world, Canadian real GDP will be hard-pressed to generate consistently stronger growth momentum. There are a number of downside risks to growth. Persistent skills shortages in a variety of sectors around the country remain a constraint, particularly in the west. A much greater-than-expected housing market correction could ensue if an external shock triggers sharp employment losses in Canada. Even if just a couple of the wheels on the U.S. economy go over the edge of the 'fiscal cliff', the temporary dislocations associated with reduced American purchases and enhanced financial market volatility would negatively impact Canada.

Implementing a credible medium-term deficit-reduction plan south of the border would help reinforce a more supportive tone to markets, though increasing fiscal drag would limit the extent to how fast the U.S. economy could expand. There is also the issue of increasing regulatory oversight on financial institutions internationally which could continue to restrain lending activity and growth in the short-run.

Nevertheless, there could be potential upside surprises to Canadian growth prospects as well. The tailwind provided by exceptionally accommodative U.S. monetary policy could provide the impetus for much stronger consumer and business spending and propel U.S. output back to a 3% growth path. Renewed stimulus in China, India and Brazil could induce a stronger-than-expected rebound in domestic spending which would increase import demand and bolster commodity prices — developments that would bolster Canadian export earnings. A soft landing in the Canadian housing market would help underpin household confidence and spending power.

Pablo Bréard (416) 862-3876
pablo.breard@scotiabank.com

Camilla Sutton (416) 866-5470
camilla.sutton@scotiabank.com

Central Banks And Politics Should Outshine Europe Concerns In 2013

The outlook for global economic growth, developments in Europe to restore debt sustainability, uneven shifts in central bank policy, fiscal policy adjustments, leadership change in systemically relevant economies, and decade low volatility are the key themes driving investor sentiment in foreign exchange markets into 2013. We expect the significance of European developments to decrease, provided ongoing progress is maintained. Central bank policy continues to be the primary driver of capital flows, while geopolitical risk will increase in importance with slated elections in Japan, Italy, Iran and Germany. FX markets in November were marked by narrow ranges, low volatility and limited returns. Accordingly, even as global currency markets feel risky, traders are not pricing them as such.

In the US, strengthening housing and export sectors are encouraging. Negotiations to address the 'fiscal cliff' will become the most important driver of economic growth in 2013. Fiscal drag is likely to prove a challenging force, but monetary policy, through Federal Reserve (Fed) balance sheet expansion, is expected to ease some of the financing cost burden. Fed rhetoric notes that a US economy gaining momentum does not equate to an imminent hike in policy interest rates, as there is a difference between how long the economy will be weak and how long monetary policy needs to be accommodative. As long as the Fed is engaging in asset purchases, the US dollar (USD) is expected to weaken against currencies like the Canadian and Australian dollars (CAD and AUD), whose central banks have failed to adopt aggressive alternative policy.

As for Canada, a strong triple-A rating, an established fiscal plan, strong external inflows, commodity abundance and strong trade ties with the US should all be factors supporting the currency in 2013. Dampening these positive drivers are recurring spikes in risk aversion and the domestic growth trajectory, which is likely to be lower than that in the US. The near-term outlook for the Mexican peso (MXN) is less encouraging and remains subject to significant uncertainty due to its high beta status, although the prospects of structural reforms may inject longer-term stability in 2013.Beyond Mexico, the universe of floating currencies in the developing Americas has been quite active, with the Brazilian central bank stepping into markets to support the Brazilian real (BRL), leaving the impression that going forward the currency will trade within a relatively narrow band. Brazil has sharply disappointed in reviving a weak industrial sector, refueling inner political pressures to weaken the BRL by traditionally protectionist industry groups. The Colombian growth outlook has been challenged by soft industrial production and weak exports, which factored into the central bank's decision to cut rates. The Peruvian sol (PEN) is expected to make just modest gains into 2013, while the Chilean peso (CLP) is expected to weaken.

There has been mild progress in Europe, yet long-term investor sentiment remains fragile. Plans for a banking union combined with the European Central Bank's (ECB) bond buying program have decreased tail risk. This, combined with the Fed's monetary expansion, has eased downward pressure on the euro (EUR). Moving into December, EUR is flat to where it closed 2011, quite an accomplishment, especially during a month where France fell victim to credit rating downgrades. We anticipate that low growth, uncertainty and negative sentiment will begin to weigh more heavily on the EUR, expecting it to weaken into 2013. The British pound (GBP) is expected to continue retracing losses sustained in 2008, supported by its triple-A rating, established fiscal plan and monetary policy, with the Bank of England likely to cease balance sheet expansion ahead of the Fed. The outlook for the Scandies is bright, particularly as their central banks are unlikely to move towards alternative policies. The Swiss central bank is expected to maintain the 1.20 EURCHF floor throughout 2013.

The Asian block of currencies has underperformed the majors, as official intervention continues and growth dynamics prove uneven. The outlook for the Japanese yen (JPY) has deteriorated as political uncertainty, a high debt burden and expectations of an increasingly aggressive Bank of Japan weigh on the outlook. The Chinese yuan (CNY) continues to appreciate; however, with a narrower current account surplus and slower pace of international reserve accumulation we expect only moderate strength in 2013. The Reserve Bank of Australia has cut rates to record lows, as investors raise concerns over the economic impact of slowing investments on the mining front. This has dampened gains made by the AUD in 2012; however, with China poised for a gradual and the US Fed still undertaking balance sheet expansion, the outlook for the AUD in 2013 remains strong.

Erika Cain (416) 866-4205
erika.cain@scotiabank.com

Canada's Large Current Account Deficit Will Be Slow To Unwind

- **Growing trade imbalance compounds deficits in services and investment income.**

Following a moderate improvement in 2011, the sharp widening in Canada's current account deficit in the second and third quarter pushed Canada's imbalance to a record annualized rate of $71.1 billion so far in 2012 *(top chart)*, marking the fourth consecutive year it has been in deficit. Since 2008, Canada's current account has swung by $73 billion — 75% of which reflects the sharp deterioration in goods trade, and 12.5% in both services and investment income. Canada's Q3 results highlight the emerging trend in Canada's goods trade since the 2008-09 global recession — to large deficits after three decades of surpluses, which helped offset the persistent imbalances in services and investment income.

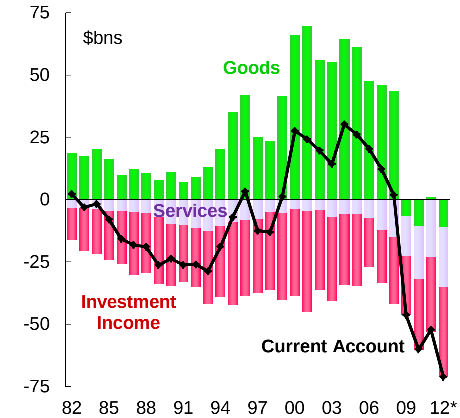
Canada's trade deficit widened to $4.8 billion in Q3, driven by a $3.7 billion contraction in exports led by energy, industrial chemicals and consumer goods. This widening in the deficit reflects a softer global economy and weaker commodity prices, as well as temporary disruptions in the energy sector. Imports also fell, down $2.5 billion, with automotive and energy imports accounting for roughly 50% of the losses. Canada's service trade deficit also expanded in Q3, posting a record high $6.3 billion deficit. This was largely due to a rising transportation services deficit. While Canada's investment income deficit continued to narrow off a decade high in Q1, as net income on foreign direct investment (FDI) improved.

The deterioration in Canada's current account since 2008 reflects the following factors:

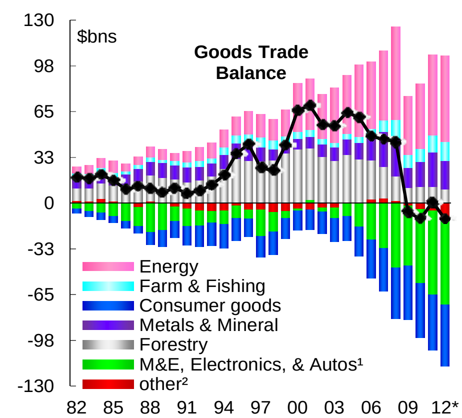
1) Canada's once-large goods surplus has entirely disappeared alongside sharply reduced export volumes and a continuing rise in imports *(middle chart)*. Since 2008, Canada's trade balance on goods has plummeted by $54.7 billion to date, exacerbated by a 4.8% contraction in goods receipts and a 7.1% advance in goods payments abroad, with broad-based weakness across most goods-producing industries. Canadian goods producers of electrical equipment, chemicals, plastics, rubber, consumer goods, forestry products, industrial machinery and equipment, and automotive products experienced the sharpest deterioration in their trade balances. Alleviating a large portion of the shortfall, are the trade surpluses in energy, and metals and minerals. Nevertheless, their surpluses remain well below their pre-recession peak, mainly due to a steeper falloff in exports.

2) Canada's services trade continues to fall deeper into the red, reaching a record high of $24.1 billion annualized through Q3 2012 *(bottom chart)*. Since 2008, the services deficit has risen by 58.7%, two-thirds of which reflects the rising personal travel deficit, as the appreciation in the Canadian dollar strengthened international purchasing power and encouraged travel-related spending aboard, especially to the United States. In addition, the commercial services surplus has been cut in half,

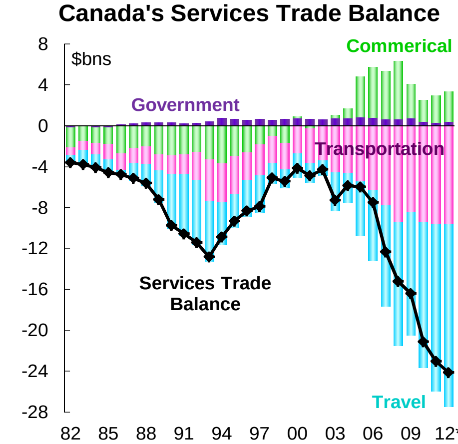
Canada's Current Account Balance



Canada's Goods Trade Balance



Canada's Services Trade Balance

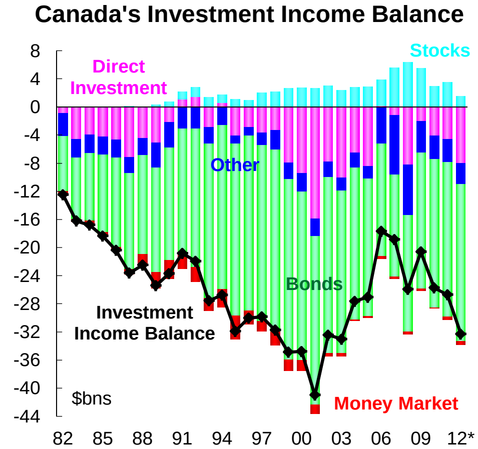


* Plotted to Q3 2012 annualized. [1] Includes industrial M&E, motor vehicles & parts, aircraft and other transportation equipment, [2] industrial materials, special transactions, and other items. Source: Statistics Canada, Scotiabank Economics.

Erika Cain (416) 866-4205
erika.cain@scotiabank.com

… continued from previous page

driven by a falloff in charges of intellectual property use, professional and management consulting, and insurance services.



3) Canada's recurring deficit in investment income has been pulled down by the rising interest burden on foreign owned Canadian government and corporate debt (*top chart)*. After peaking in 2001, Canada's investment income deficit narrowed through to 2006, shrinking by over 50%. Since 2007, Canada's investment income deficit is once again on a deteriorating path, widening on average by over 10% annually through 2012. Canada's expanding investment income deficit has been largely fuelled by net outflows on foreign owned portfolio investment income on Canadian bonds and equities, and direct investment income from Canadian profits.

Canada's current account is on track to post a record high deficit of around $70 billion in 2012. We expect it to moderately improve in 2013 and 2014, but remain elevated in nominal terms and as a percentage of GDP, undermined by cyclical and structural setbacks. The cyclical improvement has been compromised by the slow global recovery after the recession in 2008-09, which has restrained export volumes and dampened resource prices. An improving current account requires stronger global economic growth, increased export shipments and higher Canadian export prices. Stronger U.S. growth will also help, since it will support growth in Canadian wood, automotive, and machinery and equipment exports.

The appreciation of the Canadian dollar also continues to cast a dark cloud over exports, with lower competitiveness a major factor undermining many export-sensitive manufacturing sectors. Canada continues to run a sizeable merchandise trade surplus in resource goods averaging an annualized $90 billion, but it is running a growing deficit in non-resources goods approaching $100 billion. The strength of the Canadian dollar is not expected to ease up anytime soon, since it will continue to benefit from robust capital inflows into its dominant resource sector, in addition to more favourable domestic fundamentals that remain attractive to foreign investment and immigration.

Structural issues have also played a major role in the rising current account deficit. Canada's record high services deficit is roughly six times larger than the near-term low recorded in 2000. The rising personal travel deficit accounted for most of the weakness, further constrained by the twice as large transportation deficit. Nevertheless, Canada's shift towards a more services-oriented economy has pulled its long-standing commercial services deficit out of the red since 2002, on the back of higher exports of consulting, technical, trade-related, financial, telecommunications, computer, and information services.

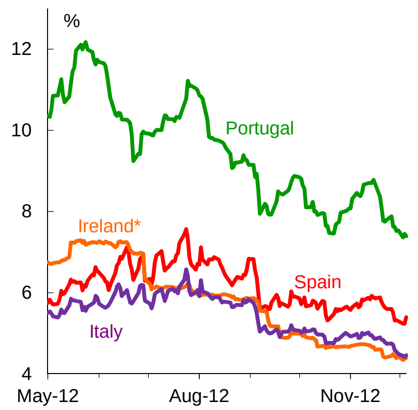
Canada's larger current account deficit will likely persist over the next few years, reinforced by soft exports, a persistently strong Canadian dollar, modest gains in commodity prices, a shortage of pipeline infrastructure capacity, and competitive challenges that Canadian manufacturers face in international markets. A stronger global recovery and increased infrastructure development in Canada, should go a long way to bolstering exports and reducing the current account deficit substantially beyond mid-decade.

Sarah Howcroft (416) 862-3174
sarah.howcroft@scotiabank.com

Political Risks Could Jeopardize Euro Area Prospects In 2013

- **With our base case calling for a gradual economic recovery beginning in mid-2013, political developments will be of critical importance.**

10-yr Government Bond Yields



* Irish yield is for 9-yr note. Source: Bloomberg.

The euro area has recently been cruising through a period of relative financial market calm. Peripheral bond yields and credit default swap (CDS) rates trended down in the last few months, and are now generally lower than at any other point in 2012 (with the exception of Spanish yields and Portuguese CDS). This risk relaxation has supported a recovery in equities, with the benchmark blue-chip Euro Stoxx 50 index currently near its year-to-date high, having climbed 3.2% over the last three months (versus a 1.8% decline for the Dow Jones at the time of writing). Notably, even Spain's IBEX, one of the worst-performing indexes globally this year, has gained ground since the summer. Finally, while the region's PMIs remain firmly anchored below the 50-mark (indicating contracting output), the November survey showed a widespread improvement (except in Italy, where the PMIs fell back after an earlier upturn).

Against this backdrop, it is important to note that the euro zone remains in recession (a 0.1% q/q contraction in the third quarter is likely to be followed by a sharper drop in Q4 of nearly ½%), and though we anticipate that a mild recovery will take hold toward the end of 2013, the risks remain heavily weighted to the downside. In fact, the December macroeconomic projections from the European Central Bank (ECB) showed a downgrading of growth expectations, with the bank now expecting a second year of recession in 2013 (the mid-point of the forecast range was reduced to –0.3% from +0.5% in September). There are a number of external uncertainties threatening the euro area's recovery prospects, including the US fiscal situation, heightened geopolitical tensions in the Middle East, and growth momentum in key emerging market economies. These uncertainties complicate the region-wide challenge of enacting financial and fiscal integration at a time when national growth speeds vary widely (though all are below trend). Adding to the pressure, we highlight the considerable national-level political risks present in the currency union going into 2013.

General elections will take place next year in Italy (scheduled for April) and Germany (September). In **Germany**, the most likely scenario at this point is a third term for the current chancellor, Angela Merkel, and a governing coalition led by her party, the Christian Democratic Union. Ms. Merkel enjoys an approval rating of 66% (and a decent lead over her chief rival, Peer Steinbrück, of the opposition Social Democratic Party). However, she continues to face criticism over her handling of the euro crisis, particularly with respect to the sovereign transfers funded in part by German taxpayers. And although she has been able to obtain parliament support on several contentious issues (including the most recent Greek deal), the German populace continues to voice opposition to providing Greece with additional financial aid, and there is a possibility that anti-bailout sentiment could escalate in the months ahead of the election. While not part of our base case view, this could force Ms. Merkel to change tactic, adopt a firmer line on euro area integration and risk destabilizing regional economic and financial market activity. As the election approaches, there is also a risk of a freezing of German participation on euro crisis resolution, with Merkel's focus turning instead inward to domestic issues. This could pose an obstacle if the region faces any new shocks necessitating swift and decisive decision-making by euro area institutions in conjunction with national heads of state.

In **Italy**, the situation has greater potential to undermine the "muddle-through" scenario — and could even flare up sooner rather than later. The leading candidate for Italy's next prime minister — to replace the current technocratic leader, Mario Monti — is Pier Luigi Bersani of the centre-left Democratic Party. Meanwhile, the centre-right is frantic, waiting on the former prime minister Silvio Berlusconi to make up his mind on whether or not he'll take another run at the job. In an obscure move, Mr. Berlusconi's People of

Sarah Howcroft (416) 862-3174
sarah.howcroft@scotiabank.com

… continued from previous page

Freedom party just abandoned its backing of the Monti administration, sending bond yields back higher. This risks splintering the centre-right and in effect handing a win to Mr. Bersani in a snap election. Bersani needs the support from all factions on the left (including those who reject Monti's fiscal consolidation plans), and his campaign has so far focused on promoting growth and protecting jobs (albeit while still adhering to a course of fiscal discipline). As such, there is a chance that progress on the repair of public finances and, more importantly, much needed structural reforms to boost competitiveness and productivity could be delayed or even reversed should he succeed. Another potential wild card is the anti-establishment Five Star Movement led by comedian Beppe Grillo. With the old guard in Italian politics — on both sides of the spectrum — increasingly viewed as scandalous and corrupt, Mr. Grillo's movement continues to garner popularity. With enough support at the next election, this could preclude a clear victory by either of the traditional groups, a development which would also see reform implementation postponed, and could even return Mr. Monti to the leadership office.

Though there is no scheduled election in **Greece** next year, it is possible that the current coalition government (elected in June of this year and led by Antonis Samaras of the New Democracy party) falls and an early election is called. In the face of severe hardship in a nation which has lost a fifth of its economic output over the last five years and seen unemployment climb from 8% to over 25%, support for Alex Tsipras and his anti-austerity Syriza party has regained momentum. According to two late-November opinion polls (following the passing in parliament of a new package of austerity measures worth 6.5% of GDP over 2013-14 amid massive and sometimes violent protests), Syriza now has a slight lead over New Democracy. The release of crucial Eurogroup funding next year (approximately €10 billion is to be delivered in the first quarter following a €34 billion tranche later this month) is conditional on the implementation of agreed reforms, including the commitments outlined in the previous bailouts as well as the most recently approved measures. This puts the current administration in a difficult position; if they don't move ahead on fiscal and structural reform, then they won't receive badly needed aid, but if they do, they risk fuelling social unrest. Should discontent with the current administration intensify to the point where the government falls and is replaced by a Syriza-led coalition, the outcome could entail a messy default situation, isolation of Greece and contagion to other parts of the euro area.

The anti-austerity movement is also building in **Spain**, though here the risk of an early election is low given the healthy majority enjoyed by Prime Minister Mariano Rajoy and the Popular Party in the Congress of Deputies. Moreover, rising separatist sentiment in Catalonia and the Basque Country pose additional risks for the implementation of the federal government's fiscal agenda. Should the autonomous regions fail to clean up their own fiscal accounts as required, the federal government could be forced into regional transfers it cannot presently afford.

Finally, in **France**, President François Hollande's 2013 budget targets — including a fiscal deficit of 3% of GDP, down from an estimated 4.5% in 2012 — could easily be missed if growth is less than official projections. The government currently foresees growth of 0.3% and 0.8% in 2012 and 2013, respectively, compared to a consensus view of around 0.1% and 0.2%. If the administration maintains its commitment to the 3% deficit, additional fiscal tightening may have to be enacted, which could trigger public resistance. Already after just six months in power, the popularity of President Hollande and his regime has declined significantly. However, if the government abandons its pledge, it would risk losing faith among businesses, investors, and credit rating agencies.

Frédéric Prêtet (00 33) 17037-7705
frederic.pretet@scotiabank.com

ECB Meeting: EMU Growth Recovery Postponed!

- **As expected, the ECB kept rates unchanged at the final meeting of the year.**
- **However, the tone of the statement proved to be more dovish than expected.**
- **The new macroeconomic forecasts, both on growth and inflation were much lower than anticipated.**
- **In particular, the expectation that the Euro area will be in recession for a second year in a row in 2013 came as a surprise.**
- **As a result, the ECB president recognised a "wide" discussion about cutting rates.**

New forecasts are much lower than expected…

The updated ECB macroeconomic forecasts for both growth and inflation surprised on the downside. The ECB expects a 0.5% y/y contraction on average for this year, which is broadly in line with consensus and only fractionally down from 3 months ago.

Meanwhile, the ECB slashed is growth projection for 2013. The mid-point of the forecast range for next year was pushed down to -0.3% y/y from +0.5% y/y previously. Mr Draghi highlighted in the press conference that economic weakness will extend into next year and a recovery will be taking place during the second half of next year. The improving trajectory for growth is reflected in the ECB's forecast for 2014 growth which assumes an expansion of a 1.2% y/y.

Having contracted by 0.1% q/q during Q3, the updated projection implies that the ECB expects GDP to post a 0.5% q/q contraction during Q4 12. For 2013, it would also mean another slight contraction in Q1 (around -0.1% q/q) before some recovery in Q2/Q3 and a sharp acceleration of 0.3%/0.4% q/q in 2014. By 2014, euro zone GDP growth is expected to return to around its potential growth rate on a quarterly basis. These new projections mean that the central bank is now more pessimistic for 2013 than the consensus and ourselves (at 0%) as well as institutions such as the OECD (-0.1%) and the IMF (+0.2%)

Regarding inflation, the downward revision was also significant and comes as a surprise. Indeed, after 2.5% y/y this year, inflation is expected to slow down to 1.6% on average next year, revised down from a 1.9% figure announced in September. While it is true that November EMU flash inflation surprised on the downside, easing from 2.5% to 2.2% y/y, we rather thought that the risk was for a slight upward revision to 2.0%. Our own forecast is for a figure of around 2.0%! For 2014, inflation is now expected to be at 1.4% y/y. We were expecting to see a figure in the 1.5%-1.8% range. The ECB's projection is right at the low end of the ECB's definition of "price stability".

ECB Macroeconomic Projections

	2012			2013			2014			2012 mid	2013 mid	2014 mid	Scotia 2012	Scotia 2013	Scotia 2014
December forecast															
HICP	2.4	to	2.6	1.1	to	2.1	0.6	to	2.2	2.5	1.6	1.4	2.4	2.0	1.7
GDP	-0.6	to	-0.4	-0.9	to	0.3	0.2	to	2.2	-0.5	-0.3	1.2	-0.5	0.0	1.0
September forecast															
HICP	2.4	to	2.6	1.3	to	2.5				2.5	1.9				
GDP	-0.6	to	-0.2	-0.4	to	1.4				-0.4	0.5				

…refuelling expectations of rate cut. But is there a risk of stickier inflation than expected?

Given the backdrop of these updated projections, the ECB president recognised that there was "wide" discussion inside the board about cutting the main refinancing rate. This in turn refuelled expectations that rates could be once again cut at some point next year.

Frédéric Prêtet (00 33) 17037-7705
frederic.pretet@scotiabank.com

… continued from previous page

Why then didn't the ECB cut rates? Draghi indicated that the accommodative stance of the current monetary policy, the significant improvement in financial markets through both a sharp reduction in interest rates and rising equity markets as well as signs of positive turn around in recent business surveys justified the status quo at this meeting. Nonetheless, we would assert that all these signals could very easily change. The fact that GDP is expected to contract on average during next year has clearly increased the probability of a rate cut.

However, another key element behind today's status quo is that the indications by Mr Draghi that the outlook on inflation has not clearly changed for the ECB, which still sees risks as "broadly balanced". Our forecast assumes that inflation will be stickier than the ECB expects. Indeed, while it could be said that part of the downward revision on inflation for 2013 to 1.6% from 1.9% in September came from lower oil prices- now expected to be around $105 on average for next year vs. $107.3 assumed in September, the difference is rather minimal. This suggests that the impact of a deeper negative output gap (with growth revised lower) will be a major factor for the ECB.

However, recent years have seen inflation stickiness at the same time as weak growth, and there is a risk that this could continue. Indeed, higher indirect taxes are still in the pipeline (VAT rate hike in Italy and France in 2013 and 2014, respectively) and the lagging impact of the weakness of the euro (down more than 10% over the past two years against all currencies) could still favour higher import price pressures, especially on the commodity side (oil, food).

Alan Clarke (44 207) 826-5986
alan.clarke@scotiabank.com

UK Autumn Budget Statement

The Chancellor's Autumn Budget Statement went largely to plan, with a few surprises here and there. The following is a summary of what we thought were the key points:

- **GDP revised down** by just under a percentage point each year for most of the horizon. The forecast for this year (-0.1% y/y) and next (1.2% y/y) are broadly in line with consensus and very sensible in our view.

  As we have highlighted previously, the contributions to growth from domestic demand have actually been improving. However, the drag from net exports has been intensifying. Osborne was keen to point out that given this, the disappointing performance of growth was not the fault of domestic policy — rather the catalyst was the eurozone fiscal crisis.

GDP % y/y						
	2011	**2012**	**2013**	**2014**	**2015**	**2016**
OBR (Dec-12)	0.9	-0.1	1.2	2.0	2.3	2.7
OBR (Mar-12)	0.8	0.8	2.0	2.7	3.0	3.0
Change	*0.1*	*-0.9*	*-0.8*	*-0.7*	*-0.7*	*-0.3*
Scotia		0	1.2	1.6		
Consensus		-0.1	1.3			

- **Much lower than expected PSNBx (ex-Royal Mail) for this year.** The headline borrowing figure for 2012-13 was pushed down not up! Borrowing was pushed down from GBP120bn to GBP108bn — contrary to consensus and our own view that borrowing would be pushed up to around GBP130bn.

PSNBx xRMPP GBP bn							
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
OBR (Dec-12)	-121	-109	-99	-88	-73	-49	-31
OBR (Mar-12)	-126	-120	-97	-75	-52	-22	
Change	*4.6*	*11.4*	*-2.3*	*-13*	*-21.3*	*-27.1*	

- While the near term borrowing figure was revised lower, future years were somewhat higher. In fact, over the full horizon, government borrowing is almost GBP50bn higher than assumed 6 months ago!

- **The DMO financing requirement** was lower than even our sub-consensus forecast — pushed down from GBP164.4bn to GBP147bn. That was around GBP10bn lower than the consensus forecast. However, the level of gilt issuance was virtually unchanged. All of the reduction was reflected in lower planned T-bill issuance.

- **The thrust of fiscal policy** remains the same. The structural deficit is projected to narrow by an average of 1.0% of GDP per year versus 1.1% of GDP previously. Assuming a fiscal multiplier of ½ — that means a drag on growth of around ½% per year. At the margins, the 2013-14 pace of fiscal tightening is less severe than previously projected. This *should* in theory mean that the headwinds facing the economy next year are less than previously thought — worth around 0.3% points of additional growth.

1-y Change in Cyc Adj PSNBx xRMPP % of GDP							
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	***2016-17***	**Average**
OBR (Dec-12)	1.1	1.1	1.1	0.9	0.9	1.2	1.0
OBR (Mar-12)	0.8	0.5	1.7	1.3	1.0	1.1	1.1
Change	*0.3*	*0.6*	*-0.6*	*-0.4*	*-0.1*	*0.1*	

Alan Clarke (44 207) 826-5986
alan.clarke@scotiabank.com

… continued from previous page

- **The output gap** is projected to widen by around 2 percentage points over the forecast horizon. This means that the structural deficit does not widen by as much as it otherwise would have done.

Fiscal rules:

- There are two fiscal targets. Firstly, the cyclically adjusted current budget should be expected to close over a rolling five year window. This is indeed expected to be the case thus the OBR judged that there is an above 50% probability that this rule will be met.

- The second fiscal rule is that the debt to GDP ratio should begin to fall by 2015-16. According to the new projections, the debt to GDP ratio begins to fall in 2016-17 — a year later than originally thought and breaking the second rule. There are mitigating circumstances however. Had Brandford and Bingley and Northern Rock not been transferred back onto the government balance sheet (adding GBP77bn to national debt, the ratio would have been flat in 2015-16.

Fiscally neutral discretionary policy measures

Perhaps the biggest surprise in the Autumn Statement was that the PSNBx measure of borrowing for the current fiscal year was revised lower — not higher. Given the poor start to the fiscal year, this was a significant surprise. In turn, the biggest discretionary measure that contributed to this was the GBP3.5bn increase in receipts from the sale of 4G mobile phone network licences. In addition to this, there was a near GBP5½bn reduction in investment. The latter represented a shifting in timing, with investment lower for this year, but higher in future years.

Taken together, the discretionary policy measures were fiscally neutral. The following is a list of the 10 most significant discretionary policy measures:

i. **4G Spectrum** sale yields GBP3.5bn this year;
ii. Further increase in the **income tax personal allowance** to GBP9,444 at a cost of around GBP1bn per year from next year onwards;
iii. Further reduction in the **corporation tax** rate by 1% point to 21% at a cost of GBP0.5bn to GBP0.75bn per year from next year;
iv. **Departmental spending** cut by GBP2½bn per year from 2014 onwards and saving GBP1bn next year;
v. **Cancelled the 3p per litre petrol tax hike** originally scheduled for January;
vi. **Increased capital spending** during 2013-14 and 2014-15 by GBP2½bn and GBP3bn per year respectively;
vii. **Unemployment benefits** only uprated by 1% per year from 2013-14 onwards;
viii. **Limit for pension tax relief** reduced from GBP50k per year to GBP40k per year;
ix. **Anti-avoidance** measures raise around GBP0.3bn per year
x. **Tax repatriation from Switzerland** raised as much as GBP3bn next year.

Other issues

Pension regulations

The biggest market mover of the day was the announcement that the government will consult on whether to relax the regulations regarding defined benefit pension fund deficits. The issue here is that the prolonged spell of sub-par growth and quantitative easing has depressed the level of long term bond yields. These are used to calculate the present value of future liabilities and the lower the interest rate, the higher the future liability. The proposal has been to make an adjustment for the extraordinarily low level of bond yields — helping to reduce pension fund deficits. If that is confirmed it will reduce demand at the longer end of the yield curve. As such there has been a massive steepening in the 10s30s sector of the curve today — back close to record highs. Today's Autumn Statement carried the following guidance:

Alan Clarke (44 207) 826-5986
alan.clarke@scotiabank.com

… continued from previous page

1.137 *The Government is determined to ensure that defined benefit pensions regulation does not act as a brake on investment and growth.* ***The Department for Work and Pensions (DWP) will consult on providing the Pensions Regulator with a new statutory objective to consider the long-term affordability of deficit recovery plans to sponsoring employers.*** *The Government also recognises that volatility in measures of pension scheme deficits can make it hard for companies to manage their investment plans and attract external funding.* ***DWP will also consult on whether to allow companies undergoing valuation in 2013 or later to smooth asset and liability values.***

The point here is that companies with big pension fund deficits have been having to channel money into addressing pension fund deficits rather than investing in their day to day business activities and hiring. If this consultation concludes that the rules will be relaxed this could be supportive for growth, and bearish for longer maturity gilts.

Issuance Revision

The reduction in the financing requirement was almost entirely reflected in the reduction in T-bills. This was probably reasonable on two fronts. Given the very low interest on these bills, appetite has been minimal. Secondly, it may have been a tactical decision related to the repayment of coupons from the QE programme to the government.

It is possible in the coming years that the BoE will make losses on its QE assets, requiring the government to transfer money back to the Bank of England. At that time, the BoE may very well be in the process of selling some of its holdings of gilts. It would potentially exacerbate the glut of issuance coming to the market if the government has to issue even more gilts to cover the losses on the BoE's QE portfolio. It could even become a downward spiral — more issuance to cover the losses would push yields higher — provoking even more losses on the Bank's portfolio of gilts and so on. Some have suggested that this could compromise the Bank's independence. Instead, it seems that by reducing T-bill issuance now, those losses in future years could be covered by greater T-bill issuance — avoiding some of these potential pitfalls.

Overall

With precious little leeway on the public finances, the Chancellor had to rely on micromanagement rather than making any fundamental change to the thrust of fiscal policy. The near term borrowing figures miraculously look much better than expected, but further ahead the fiscal arithmetic looks much worse. Ultimately, weaker than expected overseas growth has been largely to blame for this latest upward revision to borrowing on this occasion. The risk of the economy slipping back into recession around the turn of the year should mean that the fiscal consolidation programme remains challenging over the coming year.

Vincent Delisle (514) 287-3628
vincent.delisle@scotiabank.com

Global Portfolio Strategy Outlook — 2013

Macro View, Targets & Game Plan

- Our 2013 "Big Picture" scenario is that World GDP growth will exceed 2012 (+3.3%). However, the pace is unlikely to be strong enough to significantly lift commodities prices. The global economy is heading into 2013 with positive momentum, mainly in the U.S. and China, but Europe continues to weigh on global activity. Japan has been a drag on global growth for years, but a policy shift could take the yen lower and revive exports.
- A sustained U.S. housing and employment recovery could lift U.S. 10-yr bond yields towards 2% (now at 1.6%), but the pick-up in yields could be more modest in Canada, as challenging housing conditions take their toll. We expect equities to outperform bonds in 2013 as long-term yields rise towards 2%, corporate profits grow 5%-7%, and P/Es modestly expand.
- Purchasing manager surveys (PMI and ISM) bottomed early in Q3/12 and we expect the recovery to continue in 1H/13. November U.S. data has been influenced by Superstorm Sandy's effects and we expect improvements to continue early in the New Year. As PMI/ISM indices improve towards the 53-55 level (48.4 in Q3/12; 49.2 in Q4/12), forward earnings estimates should also benefit and support risk appetite early in Q1/13.
- Valuations could provide support again in 2013, as systemic risk slowly moderates. The MSCI World is currently trading at 11.8x forward earnings and P/Es range from 9.9x in Brazil, 12.6x for the S&P 500, 13.0x for the TSX to 16.6x for in Mexico.
- We are raising our index targets to 12,800 for the TSX and 1,550 for the S&P 500. Within LatAm, our Bolsa target is raised to 46,000 and the Bovespa moves up to 68,000. See Exhibit 1.

Exhibit 1 - Scotiabank Strategy Financial Forecasts

Forecasts	2010	2011	Dec. 2012	2013E	2014E
		Equity			
S&P/TSX	13,443	11,955	**12,170**	**12,800**	
EPS	673	833	**816**	**875**	**950**
S&P 500	1,258	1,258	**1,410**	**1,550**	
EPS	84	96	**98**	**105**	**112**
Bolsa	38,551	37,078	**42,323**	**46,000**	
Bovespa	69,305	56,754	**58,202**	**68,000**	

Source: Scotiabank GBM estimates, Bloomberg, CPMS.

- Our game plan for 2013 is to be positioned for pro-growth conditions (equities over bonds; cyclicals over defensives) in the first half. However, we will remain heavily focussed on our tactical indicators as we believe range-bound market conditions will linger on. We plan to stay constructive on the S&P 500 as long as housing and employment improvements continue, but will also look to adjust cyclical exposure based on our Risk-On/Risk-Off indicator, our U.S. economic surprise index, and the ISM new orders-to-inventory spreads.
- The TSX could modestly outperform the S&P 500 initially in 2013, but a supportive housing trend and tepid commodity gains are likely to keep the S&P 500 ahead of the MSCI World AC index again in 2013. Following a lengthy winning streak from 2002 to 2010, the TSX has underperformed the S&P 500 in 2011 (-13%), and 2012 (-8% YTD). The S&P 500 upper range could move closer to its historical high of 1,565, but 12,800 could be hard to breach for the TSX. Premium valuations will challenge Bolsa leadership next year and recovering risk appetite should trigger Bovespa leadership.

Vincent Delisle (514) 287-3628
vincent.delisle@scotiabank.com

… continued from previous page

- Our DM over EM from 2011 and 2012 is extended to 2013 for now. From a sector standpoint, we maintain a preference for cyclical over defensive sectors but the magnitude is lower than it was in Q3. Our TSX-Strategy focus is in Insurance, Industrials, Mining, Forest Products, and Energy.

Exhibit 2 - Scotiabank GBM Asset Mix - Q1/13 Update

	Asset Mix		Expected Total Return
	Benchmark	Recommended	Next 12-M
Equities	**60%**	**62%**	**10%**
Canada (TSX)	*5%*	*7%*	
U.S. (S&P 500)	*22%*	*22%*	
Europe (U.K./Germany)	*12%*	*13%*	
Japan	*6%*	*4%*	
Far East ex-Japan	*10%*	*10%*	
LatAm	*5%*	*6%*	
Bonds	**40%**	**36%**	**-2%**
Government	*30%*	*22%*	*-2%*
Corporate	*10%*	*14%*	*0%*
Cash (91-D Tbills)	**0%**	**2%**	**1%**

Source: Scotiabank GBM estimates.

Exhibit 3 - TSX Sector Strategy - Q1/13 Update

Sectors	Recommendation
Energy (Producers over Integrated)	Overweight
Materials (Fertilizers/Forest/Mining OW)	Overweight
Industrials (Capital Goods over Transport)	Overweight
Discretionary	Underweight
Staples	Marketweight
Healthcare	Marketweight
Financials (Insurance Over Banks)	Underweight
Technology	Marketweight
Telecoms (Telco over Cables)	Underweight
Utilities	Underweight

Source: Scotiabank GBM estimates.

10 Themes for 2013

1. **Jobless claims as guide.** This has been a constant theme of ours since 2009, and we are sticking to it. In our opinion, monitoring the trend in weekly jobless claims helps filter the background noise. As long as U.S. employment conditions improve, we will maintain a constructive S&P 500 bias and stand ready to buy the dips.
2. **U.S. housing will dictate sentiment.** Attractive affordability and low inventories point to a sustained recovery in U.S. housing activity in 2013, a development that could solidify "Main Street" confidence. A pick-up in housing data (starts, sales, prices) could represent the biggest threat to the bond bull market. Homebuilders and lumber companies should perform well.
3. **Canada housing sector is going the wrong way.** In contrast to the U.S. situation, Canada's domestic economy will be challenged by weaker housing activity in 2013. Although a U.S.-style downturn remains a low probability scenario in our opinion, the threat to wealth effect and consumer spending will weigh on growth. Canada 2013 GDP growth should lag the U.S. for the second consecutive year.

Vincent Delisle (514) 287-3628
vincent.delisle@scotiabank.com

… continued from previous page

4. **China growth picking up…modestly.** Following a disappointing 2012, China GDP should rebound towards 8.0% in 2013. Commodity-sensitive markets should be supported by stronger momentum in China, but modest easing and muted European demand are likely to keep Chinese GDP below the 9% threshold and restrain commodity price gains.
5. **Europe bottoms, but stays in the slow lane.** Fiscal consolidation, a heavy debt load, and political disagreements will restrict European growth at least through the middle of the decade. Southern Europe will remain in recession in 2013 with France struggling to grow. Germany and U.K GDP growth could hover near 1% next year.
6. **Correlations decline, slowly back to basics.** Sector correlations have steadily declined in recent months and 2012 has proven to be much more of a "stock-picker's" market. Company fundamentals and top-down signals should combine again to dictate market trends in 2013. Sporadic Risk-On/Risk-Off leadership should prevail with shorter duration and lower intensity than in 2008-2011.
7. **Valuations to increase from below-average levels.** P/E multiples increased in 2012 and we expect the trend to continue in 2013 as systematic risk moderates. Since 1960, S&P 500 P/E expansion/contraction cycles have occurred alongside improving housing and employment conditions. The MSCI AC World forward P/E stands at 11.8x, 25% below its long-term average (TSX at -9% discount vs. -17% for S&P 500). A 1x point P/E increase would provide roughly 8%-12% upside based on current fwd EPS levels.
8. **Challenges to TSX Energy and Financials leadership.** U.S. Energy (+2.0% in 2012) and U.S. Financials (+21%) outperformed their TSX counterparts by 440 bp and 824 bp in the last year, and 2013 is shaping up to be challenging. Increasing U.S. energy production combined with low export capacity in Canada is weighing on TSX Energy. Commodity sentiment could improve in 1H/13, as Chinese data recovers, and the TSX Energy sector should benefit. Still, the Western Canada Select discount to WTI will need to recover in order to support a period of sustained outperformance. A slowdown in Canadian housing is also likely to increase background noise for Canadian Financials and could limit valuation expansion in the sector.
9. **Play the yield theme but mind the premium.** The faith of the dividend theme is directly linked to the direction in long-term bonds yields, and since U.S. monetary policy is expected to remain accommodative until 2015, a low rate environment should support dividend stocks. Still, investors should mind the valuation gap as it also influences leadership. High-dividend TSX stocks are currently trading at a 13% premium (price/book) over the low dividend group (was 3% in December 2011). The yield theme has underperformed in 2H/12 after the premium hit 24%.
10. **Diet & Bundestag.** Political focus will shift to Japan and Germany in 2013. Japanese leadership change could trigger a more stimulative focus from the Bank of Japan through a lower yen (higher USD) and a higher inflation target. In Germany, voters will get a chance to voice their concerns on how their country has navigated the Eurozone crisis since 2010.

Daniela Blancas (416) 862-3908
daniela.blancas@scotiabank.com

Sarah Howcroft (416) 862-3174
sarah.howcroft@scotiabank.com

Tuuli McCully (416) 863-2859
tuuli.mccully@scotiabank.com

Key Data Preview

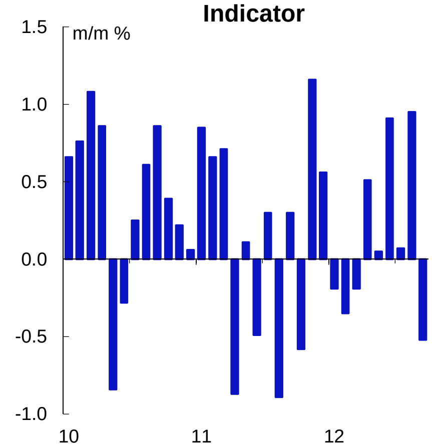
EUROPE

Turkish economic momentum has moderated in recent months; however, the medium-term growth outlook remains sound. We expect that the annual GDP growth pace slowed to 2.7% y/y in the three months to September, from 3.3% and 2.9% in the first and second quarters, respectively. Industrial production (IP) fell into negative territory in August for the first time since November 2009, dropping 1.5% y/y, with machinery and consumer durables especially hard hit. This brought the average IP pace to 2.6% y/y in the third quarter, down from 3.5% in the prior three months. Manufacturing output is being dampened by weak confidence and slowing domestic demand. The external sector continues to perform strongly, however, with exports up 13.4% y/y year-to-date, despite plummeting demand from Europe. Combined with a 22.9% contraction in imports in the year, the result has been a considerable narrowing of the current account deficit, as intended by the Turkish authorities. The government recently lowered its GDP forecast for 2012 from 4% to 3.2% (still above our own projection of around 2¾%), and conceded that fiscal targets for 2012-13 will be missed. We anticipate additional slowing in the fourth quarter, with exports likely to lose stem. The economy should regain momentum in 2013 on the back of improving global growth conditions, resulting in an expansion of around 4%.

LATIN AMERICA

After the disappointing third-quarter GDP growth report (+0.9% y/y and 0.8% q/q) which confirmed a slower-than-initially-anticipated recovery in Brazil, relevant data for the beginning of the fourth quarter will be released next week. The central bank's economic activity indicator for October is expected to return to growth following September's 0.52% m/m contraction; although, we anticipate a very sluggish recovery. In October, industrial production expanded by 2.3% y/y, the first positive year-over-year performance in 14 months. So far, signs point to a better economic outlook in the October-December period; however, as indicated by the third-quarter performances, the rebound will likely be moderate. Accordingly, we expect the government to continue to support the economy with further stimulus and a weak currency to boost export competitiveness.

Brazilian Economic Activity Indicator



Source: Thomson Reuters, Scotiabank Economics.

ASIA

India's wholesale price index for November will be released on December 14th. We estimate that the inflation rate will remain at the October level of 7.5% y/y, with prices increasing by 0.3% m/m. India suffers from persistently high inflation, reflecting a weakening currency and the adverse impact of a delayed monsoon on food prices. Inflation dynamics will be the cornerstone of the Reserve Bank of India's (RBA) monetary policy decisions in the coming months. High inflation combined with India's twin deficits has restricted the central bank's ability to implement considerable easing measures to counter subdued economic conditions. Nevertheless, with some promising economic reforms underway the authorities may be able to start loosening monetary conditions in early 2013, differentiating India's monetary policy cycle from other emerging market economies. The RBA's benchmark repo rate is currently at 8.0%. China's annual inflation will likely accelerate moderately in the coming months. We estimate that annual inflation in November (to be released on December 9th) reached 2.2% y/y from the October level of 1.9%. Nevertheless, persistent deflationary pressures further up the distribution chain alleviate any concerns regarding significant upside pressures on prices.

Key Indicators for the week of December 10 - 14

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	12/10	08:15	Housing Starts (000s a.r.)	Nov	198.0	200.0	204.1
MX	12/10	09:00	Trade Balance (US$ mn)	Oct F	--	-895.5	-1646.5
CA	12/11	08:30	Merchandise Trade Balance (C$ bn)	Oct	-1.5	-1.2	-0.8
US	12/11	08:30	Trade Balance ($ bn)	Oct	-43.0	-42.6	-41.5
US	12/11	10:00	Wholesale Inventories (m/m)	Oct	--	0.4	1.1
US	12/12	07:00	MBA Mortgage Applications (w/w)	DEC 7	--	--	4.5
MX	12/12	09:00	Industrial Production (y/y)	Oct	3.3	3.1	2.4
US	12/12	12:30	**FOMC Interest Rate Meeting (%)**	Dec 12	**0.25**	**0.25**	**0.25**
US	12/12	14:00	Treasury Budget ($ bn)	Nov	--	-145.0	-120.0
CA	12/13	08:30	Capacity Utilization (%)	3Q	--	80.5	81.0
CA	12/13	08:30	New Housing Price Index (m/m)	Oct	--	0.1	0.2
US	12/13	08:30	Initial Jobless Claims (000s)	DEC 8	380	370	370
US	12/13	08:30	Continuing Claims (000s)	DEC 1	3240	3215	3205
US	12/13	08:30	PPI (m/m)	Nov	-0.4	-0.5	-0.2
US	12/13	08:30	PPI ex. Food & Energy (m/m)	Nov	0.1	0.2	-0.2
US	12/13	08:30	Retail Sales (m/m)	Nov	0.2	0.4	-0.3
US	12/13	08:30	Retail Sales ex. Autos (m/m)	Nov	-0.2	0.0	0.0
US	12/13	10:00	Business Inventories (m/m)	Oct	--	0.3	0.7
CA	12/14	08:30	Manufacturing Shipments (m/m)	Oct	--	0.0	0.4
US	12/14	08:30	CPI (m/m)	Nov	-0.1	-0.2	0.1
US	12/14	08:30	CPI (y/y)	Nov	2.0	1.9	2.2
US	12/14	08:30	CPI ex. Food & Energy (m/m)	Nov	-0.2	0.2	0.2
US	12/14	08:30	CPI ex. Food & Energy (y/y)	Nov	2.0	2.0	2.0
US	12/14	09:15	Capacity Utilization (%)	Nov	77.8	78.0	77.8
US	12/14	09:15	Industrial Production (m/m)	Nov	-0.2	0.2	-0.4

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
GE	12/10	02:00	Current Account (€ bn)	Oct	--	13.5	16.3
GE	12/10	02:00	Trade Balance (€ bn)	Oct	--	15.5	16.9
FR	12/10	02:45	Industrial Production (m/m)	Oct	-0.8	0.2	-2.7
TU	12/10	03:00	Real GDP (y/y)	3Q	2.7	2.5	2.9
IT	12/10	04:00	Industrial Production (y/y)	Oct	--	-4.3	-4.8
IT	12/10	05:00	Real GDP (q/q)	3Q F	-0.2	-0.2	-0.2
RU	12/10	06:59	**Russia Refinancing Rate (%)**	Dec 10	**8.25**	**8.25**	**8.25**
RU	12/10	07:59	Real GDP (y/y)	3Q P	2.9	--	2.9
FR	12/11	01:30	Non-Farm Payrolls (q/q)	3Q F	--	-0.3	-0.3
GE	12/11	05:00	ZEW Survey (Economic Sentiment)	Dec	-9.0	-11.5	-15.7
GE	12/12	02:00	CPI (y/y)	Nov F	1.9	1.9	1.9
GE	12/12	02:00	CPI - EU Harmonized (m/m)	Nov F	-0.1	-0.1	-0.1
GE	12/12	02:00	CPI - EU Harmonized (y/y)	Nov F	2.0	2.0	2.0
FR	12/12	02:45	CPI (y/y)	Nov	1.6	1.6	1.9
FR	12/12	02:45	CPI - EU Harmonized (m/m)	Nov	0.1	0.0	0.2
FR	12/12	02:45	CPI - EU Harmonized (y/y)	Nov	1.9	1.8	2.1
FR	12/12	02:45	Current Account (€ bn)	Oct	--	--	-3.3
UK	12/12	04:30	Average Weekly Earnings (3-month, y/y)	Oct	1.9	1.9	1.8
UK	12/12	04:30	Employment Change (3M/3M, 000s)	Oct	6.0	45.0	100.0
UK	12/12	04:30	Jobless Claims Change (000s)	Nov	10.0	7.0	10.1
UK	12/12	04:30	ILO Unemployment Rate (%)	Oct	7.9	7.8	7.8
EC	12/12	05:00	Industrial Production (m/m)	Oct	-1.4	0.0	-2.5

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

Key Indicators for the week of December 10 - 14

Europe *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SP	12/13	03:00	CPI (y/y)	Nov F	2.9	2.9	2.9
SP	12/13	03:00	CPI - EU Harmonized (m/m)	Nov	-0.3	--	0.5
SP	12/13	03:00	CPI - EU Harmonized (y/y)	Nov F	3.0	3.0	3.0
SZ	12/13	03:30	**SNB Libor Target Rate (%)**	Dec 13	**0.00**	**0.00**	**0.00**
IT	12/13	04:00	CPI (y/y)	Nov F	2.5	2.5	2.5
IT	12/13	04:00	CPI - EU Harmonized (m/m)	Nov F	-0.3	-0.3	-0.3
IT	12/13	04:00	CPI - EU Harmonized (y/y)	Nov F	2.6	2.6	2.6
EC	12/13	05:00	Labour Costs (y/y)	3Q	--	--	1.6
GE	12/14	03:30	Manufacturing PMI	Dec A	--	47.3	46.8
EC	12/14	04:00	Manufacturing PMI	Dec A	46.7	46.6	46.2
EC	12/14	05:00	CPI (m/m)	Nov	-0.2	-0.2	-0.2
EC	12/14	05:00	CPI (y/y)	Nov	2.2	2.2	2.5
EC	12/14	05:00	Employment (q/q)	3Q	--	--	0.0

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CH	12/08	20:30	CPI (y/y)	Nov	2.2	2.1	1.7
CH	12/08	20:30	PPI (y/y)	Nov	-2.1	-2.0	-2.8
CH	12/09	00:30	Fixed Asset Investment YTD (y/y)	Nov	--	20.9	20.7
CH	12/09	00:30	Industrial Production (y/y)	Nov	9.9	9.8	9.6
CH	12/09	00:30	Retail Sales (y/y)	Nov	--	14.6	14.5
JN	12/09	18:50	Bank Lending (y/y)	Nov	--	--	0.9
JN	12/09	18:50	Current Account (¥ bn)	Oct	--	230.9	503.6
JN	12/09	18:50	GDP (q/q)	3Q F	-0.9	-0.8	-0.9
JN	12/09	18:50	GDP Deflator (y/y)	3Q F	--	-0.7	-0.7
JN	12/09	18:50	Trade Balance - BOP Basis (¥ bn)	Oct	--	-450.0	-471.3
AU	12/09	19:30	Home Loans (%)	Oct	--	3.0	0.9
JN	12/10	00:00	Consumer Confidence	Nov	--	--	39.7
JN	12/10	01:00	Eco Watchers Survey (current)	Nov	--	--	39.0
JN	12/10	01:00	Eco Watchers Survey (outlook)	Nov	--	--	41.7
CH	12/10	06:59	Exports (y/y)	Nov	--	9.0	11.6
CH	12/10	06:59	Imports (y/y)	Nov	--	2.0	2.4
CH	12/10	06:59	Trade Balance (US$ bn)	Nov	--	26.9	32.1
IN	12/10	06:59	Exports (y/y)	Nov	--	--	-1.6
IN	12/10	06:59	Imports (y/y)	Nov	--	--	7.4
CH	12/10	07:59	New Yuan Loans (bn)	Nov	--	550.0	505.2
PH	12/10	20:00	Exports (y/y)	Oct	--	--	22.8
MA	12/10	23:01	Industrial Production (y/y)	Oct	--	2.6	4.9
ID	12/11	07:59	**BI Reference Interest Rate (%)**	Dec 11	**5.75**	**5.75**	**5.75**
SK	12/11	18:00	Unemployment Rate (%)	Nov	--	3.1	3.0
JN	12/11	18:50	Machine Orders (m/m)	Oct	--	3.0	-4.3
JN	12/11	18:50	Tertiary Industry Index (m/m)	Oct	--	-0.4	0.3
IN	12/12	00:30	CPI (y/y)	Nov	--	--	9.8
IN	12/12	00:30	Industrial Production (y/y)	Oct	--	5.0	-0.4
AU	12/12	19:00	Consumer Inflation Expections (%)	Dec	--	--	2.2
AU	12/12	19:30	New Motor Vehicle Sales (m/m)	Nov	--	--	-2.8
SK	12/12	20:00	**BoK Base Rate (%)**	Dec 13	**2.75**	**2.75**	**2.75**

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

Key Indicators for the week of December 10 - 14

Asia Pacific *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PH	12/13	03:00	**Overnight Borrowing Rate (%)**	Dec 13	**--**	**3.50**	**3.50**
HK	12/13	03:30	Industrial Production (y/y)	3Q	--	--	-2.9
NZ	12/13	07:59	REINZ Housing Price Index (m/m)	Nov	--	--	1.5
JN	12/13	18:50	Tankan All Industries Index	4Q	--	--	6.4
JN	12/13	18:50	Tankan Manufacturing Index	4Q	--	--	-3.0
JN	12/13	18:50	Tankan Non-Manufacturing Index	4Q	--	--	8.0
CH	12/13	20:45	HSBC Flash China Manufacturing PMI	Dec	--	--	50.4
JN	12/13	23:30	Capacity Utilization (m/m)	Oct F	--	--	-5.5
JN	12/13	23:30	Industrial Production (m/m)	Oct F	--	--	1.8
JN	12/13	23:30	Industrial Production (y/y)	Oct F	--	--	-4.3
NZ	12/13		REINZ House Sales (y/y)	Nov	--	--	32.6
SI	12/14	00:00	Retail Sales (m/m)	Oct	--	--	-0.5
SI	12/14	00:00	Retail Sales (y/y)	Oct	--	--	2.5
IN	12/14	01:30	Monthly Wholesale Prices (y/y)	Nov	7.5	7.6	7.5
CH	12/14	07:59	Actual FDI (y/y)	Nov	--	-3.1	-0.2

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	12/11	06:59	Trade Balance (PEN mn)	Oct	--	--	460.9
BZ	12/12	07:59	Economic Activity Index SA (m/m)	Oct	--	--	-0.5
BZ	12/12	07:59	Economic Activity Index NSA (y/y)	Oct	--	--	0.4
CO	12/12	16:00	Trade Balance (US$ mn)	Oct	--	--	440.0
BZ	12/13	06:00	Retail Sales (m/m)	Oct	--	--	0.3
BZ	12/13	06:00	Retail Sales (y/y)	Oct	--	--	8.5
CL	12/13	16:00	**Nominal Overnight Rate Target (%)**	Dec 13	**5.00**	**5.00**	**5.00**

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

Global Auctions for the week of December 10 - 14

North America

Country	Date	Time	Event
US	12/10	11:30	U.S. to Sell USD32 Bln 3-Month Bills
US	12/10	11:30	U.S. to Sell USD28 Bln 6-Month Bills
US	12/11	11:30	U.S. to Sell USD25 Bln 52-Week Bills
US	12/11	11:30	U.S. to Sell 4-Week Bills
US	12/11	13:00	U.S. to Sell USD32 Bln 3-Year Notes
CA	12/12	12:00	Canada to Sell 3 Year Notes
US	12/12	13:00	U.S. to Sell USD21 Bln 10-Year Notes Reopening
US	12/13	13:00	U.S. to Sell USD13 Bln 30-Year Bonds Reopening
US	12/13	14:00	U.S. Fed to Sell USD7.00-8.00 Bln Notes

Europe

Country	Date	Time	Event
NE	12/10	05:00	Netherlands to Sell Up to EUR2 Bln 106-Day Bills
NE	12/10	05:00	Netherlands to Sell Up to EUR2 Bln 198-Day Bills
FR	12/10	09:00	France to Sell Bills (BTF)
SP	12/11	04:30	Spain to Sell 12-Month and 18-Month Bills
AS	12/11	05:00	Austria to Sell Bonds
GR	12/11	05:00	Greece to Sell 6-Month Bills
BE	12/11	05:30	Belgium to Sell Bills
UK	12/11	05:30	U.K. to Sell GBP3.25 Bln 1.75% 2022 Bonds
SZ	12/11	05:30	Switzerland to Sell 3-Month Bills
IT	12/12	05:00	Italy to Sell 3-Month and 12-Month Bills
SW	12/12	05:03	Sweden to Sell Bonds
SZ	12/12	05:30	Switzerland to Sell Bonds (Reserve date)
SP	12/13	04:30	Spain to Sell Bonds
IT	12/13	05:00	Italy to Sell 3-Year Bonds/Floating/Zero Coupon
UK	12/13	05:30	U.K. to Sell GBP1.1 Bln 0.125% I/L 2024 Bonds
IC	12/13	06:00	Iceland to sell Bills
BE	12/14	06:00	Belgium to Sell Bonds (OLO ORI)
IC	12/14	06:00	Iceland to sell Bonds

Asia Pacific

Country	Date	Time	Event
JN	12/11	03:00	Japan Auction for Enhanced-Liquidity
CH	12/11	11:00	China to Sell CNY28 Bln 10-Year Bonds
CH	12/11	22:00	China to Sell 10-Year Bonds
JN	12/11	22:35	Japan to Sell 2-Month Bills
JN	12/12	22:35	Japan to Sell 3-Month Bills
JN	12/12	22:45	Japan to Sell 5-Year Bonds

Latin America

Country	Date	Time	Event
BZ	12/11	09:00	Brazil to Sell I/L Bonds due on 8/15/2016 - NTN-B
BZ	12/11	09:00	Brazil to Sell I/L Bonds due on 8/15/2018 - NTN-B
BZ	12/11	09:00	Brazil to Sell I/L Bonds due on 8/15/2022 - NTN-B
BZ	12/11	09:00	Brazil to Sell I/L Bonds due on 8/15/2030 - NTN-B
BZ	12/11	09:00	Brazil to Sell I/L Bonds due on 8/15/2040 - NTN-B
BZ	12/11	09:00	Brazil to Sell I/L Bonds due on 8/15/2050 - NTN-B
BZ	12/13	08:00	Brazil to Sell Bills due on 04/01/2013 - LTN
BZ	12/13	08:00	Brazil to Sell Bills due on 04/01/2015 - LTN
BZ	12/13	08:00	Brazil to Sell Bills due on 07/01/2016 - LTN
BZ	12/13	08:00	Brazil to Sell Floating-rate Notes due on 3/1/2018 - LFT

Source: Bloomberg, Scotiabank Economics.

Events for the week of December 10 - 14

North America

Country	Date	Time	Event
US	12/10		U.S. President Obama Speaks about the fiscal cliff
US	12/10	12:15	BOE Governor King Speaks at Economic Club of New York
CA	12/11	12:00	Bank of Canada Governor Mark Carney Visits CFA Toronto Society
US	DEC 11-12		Federal Open Market Committee Meeting
US	12/12	14:15	Fed's Bernanke Holds Press Conference
US	12/12	15:00	TheTeaParty.net holds a news conference to present a petition demanding GOP oppose any tax increase

Europe

Country	Date	Time	Event
IT	12/08	08:15	Monti Speaks at World Policy Conference in Cannes
EC	12/08	09:30	ECB's Constancio Speaks In Santiago, Chile
GE	12/08	18:00	Germany's Main Opposition SPD Holds Federal Party Conference
GE	12/08	18:00	Greek Prime Minister Samaras in Munich to Meet Seehofter
EC	12/09	07:00	EU's Van Rompuy Speaks to Press in Oslo, Norway
PO	12/10	06:00	Portugal Reports New Industrial Orders
EC	12/10	06:30	EU Foreign Ministers Meet in Brussels
EC	12/10	07:00	EU's Van Rompuy Attends Nobel Prize Ceremony in Oslo, Norway
PO	12/10		Bank of Portugal Releases Data on Banks
RU	12/10		Russia Refinancing Rate
UK	12/10		Bank of England Governor King Speaks at Economic Club of NY
TU	12/11	03:00	Central Bank Governor Erdem Basci Speaks on Monetary Policy
EC	12/11	04:00	EU General Affairs Ministers Meet in Brussels
IT	12/12	04:00	Monti to Speak at Carmaker Event in Rome
IT	12/12	04:00	Anfia annual meeting with Monti and Tajani speaking
UK	12/12	05:45	BOE's Dale Speaks at Seminar in London
EC	12/12	08:30	EU Finance Ministers Meet on Banking Supervision
EC	12/12	11:00	ECB's Constancio Presents Financial Stability Review
FR	12/12		IEA Releases December Oil Market Report
IT	12/12		Berlusconi to Appear at Book Presentation in Rome
EC	12/12		Juncker Speaks at Luxembourg Parliament on State Finances
SZ	12/13	03:30	Swiss Central Bank Holds Monetary Policy Assessment
SZ	12/13	03:30	SNB 3-Month Libor Target Rate
EC	12/13	04:00	ECB Publishes Dec. Monthly Report
EC	12/13	04:00	Euro-Zone Finance Ministers Meet on Greece, Cyprus
EC	12/13	14:00	ECB's Praet Speaks in Frankfurt
EC	DEC 13-14		EU Leaders Hold Summit in Brussels
GE	DEC 13-14		IMF and ECB Hold Joint Conference on Fiscal Governance
IT	12/14	05:00	Bank of Italy Releases Oct. Public Finance Supplement

Source: Bloomberg, Scotiabank Economics.

Events for the week of December 10 - 14

Asia Pacific

Country	Date	Time	Event
US	DEC 3-12		15th Round of Trans-Pacific Partnership in New Zealand
NZ	12/09	16:45	Statistics New Zealand on Manufacturing Sales, Stocks
NZ	DEC 9-10		New Zealand Treasury Hosts "Affording Our Future" Conference
IN	12/10	05:30	Trade Secretary S.R. Rao will Address Business Conclave
ID	DEC 10-11		Bank Indonesia Reference Rate
CH	DEC 10-12		WTO's General Council Meets
ID	DEC 10-11		Central Bank of Indonesia Holds Board of Governors Meeting
HK	12/11	03:15	Chief Executive Leung and Financial Secretary Tsang Hold Forum
NZ	12/11	20:00	Local Government Funding Agency bond sale
AU	12/11	23:30	RBA's Stevens Speaks at Bank of Thailand in Bangkok
SK	12/12	20:00	South Korea 7-Day Repo Rate
FR	12/12		IEA Releases December Oil Market Report
IN	DEC 12-13		1st Phase of Legislative Assembly of Gujarat Election
PH	12/13	03:00	Overnight Borrowing Rate
HK	12/13	03:15	Chief Executive Leung and Financial Secretary Tsang Hold Forum
IN	12/14	23:30	Prime Minister Manmohan Singh at FICCI AGM

Latin America

Country	Date	Time	Event
CL	12/08	09:30	European, Latin America Central Bankers Meet in Santiago
CL	12/11	06:30	Central Bank Economist Survey
CL	12/11	09:00	UN Publishes Latin America Economic Growth Forecasts
CL	12/12	06:30	Central Bank's Traders Survey
CL	12/13	08:00	International Monetary Fund Director Lagarde Speaks in Chile
CL	12/13	16:00	Nominal Overnight Rate Target
CL	12/13	22:00	Latin American Finance Ministers Meet With IDB, IMF

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	January 23, 2013	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	December 12, 2012	0.25	0.25
Banco de México – Overnight Rate	4.50	January 18, 2013	4.50	--

There is a 30-40% chance the Fed will introduce numerical policy thresholds next week, but we feel they are more likely to strengthen qualitative guidance for future policy directions. What makes this much more difficult for the Fed than single-mandate central banks is that the Fed's dual mandate entails uncertain trade-offs. An expectations-augmented Philips curve is hardly precise enough over finite time intervals to make it credible to have specific numerical targets simultaneously for inflation and the unemployment rate. We also think the Fed will announce unsterilized Treasury purchases at a $20B/mth pace as the 'twist' expires. The Fed will dismiss the latest nonfarm jobs report. After revisions and taking account of statistical sampling errors that lead to a wide nonfarm confidence interval, job growth did not beat expectations in November. Instead, net of revisions, only 97,000 jobs were grown in the November report. The Fed will therefore continue to be dissatisfied over the pace of progress in job markets.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.75	January 10, 2013	0.75	--
Bank of England – Bank Rate	0.50	January 10, 2013	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	December 13, 2012	0.00	0.00
Central Bank of Russia – Refinancing Rate	8.25	December 10, 2012	8.25	8.25
Hungarian National Bank – Base Rate	6.00	December 18, 2012	6.00	5.75
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.75	December 18, 2012	5.50	--
Sweden Riksbank – Repo Rate	1.25	December 18, 2012	1.25	--
Norges Bank – Deposit Rate	1.50	December 19, 2012	1.50	--

The Swiss National Bank (SNB) is expected to leave the minimum exchange rate policy in place and unchanged at 1.20 per euro, while also maintaining the LIBOR rate at the zero lower bound when it meets on December 13th. The economy fared better than expected in the third quarter, with output growing 0.6% q/q, more than reversing a 0.1% contraction in the previous quarter. A 0.3% m/m drop in consumer prices in November caused the annual pace of deflation to quicken, from -0.2% y/y in October (the smallest decline in a year) to -0.4%. However, this deterioration was likely partially due to the transitory impact of lower imported energy costs, with the underlying trend being little changed. We expect no changes from the Russian central bank next week. On the one hand, inflation remains elevated above the central bank's 5-6% target (at 6.5% y/y in November), while on the other, the economic slowdown was confirmed by the third-quarter GDP estimate, which showed growth decelerating from 4.0% y/y to 2.9%.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	December 20, 2012	0.10	--
Reserve Bank of Australia – Cash Target Rate	3.00	February 4, 2013	3.00	3.00
Reserve Bank of New Zealand – Cash Rate	2.50	January 30, 2013	2.50	2.50
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	December 18, 2012	8.00	--
Bank of Korea – Bank Rate	2.75	December 12, 2012	2.75	2.75
Bank of Thailand – Repo Rate	2.75	January 9, 2013	2.75	--
Bank Indonesia – Reference Interest Rate	5.75	December 11, 2012	5.75	5.75

We are of the view that the monetary easing cycle in South Korea has reached its bottom following the most recent benchmark interest rate reduction to 2.75% in October; in November, the Monetary Policy Committee unanimously agreed to keep the rate unchanged, and the same will likely happen on December 12th. A gradual process of interest rate normalization will likely commence in the third quarter of 2013. South Korean inflationary pressures remain manageable; consumer price inflation decelerated to 1.6% y/y in November, dipping below the Bank of Korea's 2-4% target range.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	7.25	January 16, 2013	7.25	--
Banco Central de Chile – Overnight Rate	5.00	December 13, 2012	5.00	5.00
Banco de la República de Colombia – Lending Rate	4.50	December 21, 2012	4.50	4.50
Banco Central de Reserva del Perú – Reference Rate	4.25	TBA	4.25	4.25

We anticipate that the central bank of Chile will remain on the sidelines, leaving the reference rate unchanged at 5.0%, where it has been since last January. The latest central bank minutes show a neutral bias, highlighting that domestic momentum continues to outperform external demand. In addition, headline inflation remains close to the mid-point of the central bank's tolerance range, supporting the idea of a stable monetary policy stance in the coming months.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.00	January 24, 2013	5.00	--

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

Forecasts as at December 4, 2012*	2000-11	2012f	2013f	2014f	2000-11	2012f	2013f	2014f
Output and Inflation (annual % change)		Real GDP				Consumer Prices[2]		
World[1]	3.7	3.1	3.2	3.8				
Canada	2.2	2.0	1.7	2.3	2.1	1.6	1.9	2.2
United States	1.8	2.2	2.0	2.5	2.5	2.1	2.3	2.2
Mexico	2.2	4.0	3.6	4.0	4.8	4.2	4.0	3.8
United Kingdom	1.9	0.0	1.3	1.6	2.3	2.8	2.4	2.2
Euro Zone	1.4	-0.5	0.0	1.0	2.1	2.2	2.0	1.7
Japan	0.8	1.7	0.9	1.3	-0.3	0.0	0.3	0.6
Australia	3.0	3.4	2.7	3.1	3.1	2.5	2.8	3.0
China	9.4	7.7	8.0	8.3	2.4	2.4	3.4	4.0
India	7.3	5.5	6.0	6.5	6.6	7.5	7.0	6.1
South Korea	4.5	2.3	3.1	3.6	3.2	1.7	2.8	3.0
Thailand	4.0	5.5	4.0	4.2	2.7	3.2	3.1	3.3
Brazil	3.6	1.0	3.5	4.0	6.6	5.5	5.8	5.0
Chile	4.8	5.4	5.0	5.4	3.5	2.1	3.2	3.0
Peru	5.6	6.3	6.0	5.5	2.6	3.3	3.0	3.0

Central Bank Rates (%, end of period)	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f
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	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.00	3.00	3.00	3.00	3.25	3.25	3.50	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.97	0.97	0.97	0.96	0.96	0.95	0.95	0.94
Canadian Dollar (CADUSD)	1.03	1.03	1.03	1.04	1.04	1.05	1.05	1.06
Euro (EURUSD)	1.29	1.27	1.26	1.25	1.25	1.24	1.23	1.22
Sterling (GBPUSD)	1.62	1.62	1.63	1.64	1.64	1.65	1.65	1.66
Yen (USDJPY)	80	82	84	85	87	88	89	89
Australian Dollar (AUDUSD)	1.04	1.05	1.05	1.06	1.06	1.07	1.07	1.08
Chinese Yuan (USDCNY)	6.3	6.3	6.2	6.2	6.1	6.1	6.1	6.1
Mexican Peso (USDMXN)	12.8	12.9	12.8	12.9	13.2	13.2	13.1	13.1
Brazilian Real (USDBRL)	2.10	2.11	2.12	2.15	2.15	2.15	2.18	2.20

Commodities (annual average)	2000-11	2012f	2013f	2014f
WTI Oil (US$/bbl)	57	94	94	96
Brent Oil (US$/bbl)	58	112	112	112
Nymex Natural Gas (US$/mmbtu)	5.67	2.85	3.75	4.00
Copper (US$/lb)	2.10	3.60	3.50	3.30
Zinc (US$/lb)	0.77	0.89	1.02	1.20
Nickel (US$/lb)	7.62	7.90	8.10	8.00
Gold, London PM Fix (US$/oz)	668	1,672	1,800	1,700
Pulp (US$/tonne)	718	872	875	950
Newsprint (US$/tonne)	581	640	650	675
Lumber (US$/mfbm)	272	295	340	375

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

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

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

North America

Canada	2011	12Q1	12Q2	Latest	
Real GDP (annual rates)	2.6	1.7	1.7		
Current Acc. Bal. (C$B, ar)	-52.3	-64.4	-73.5		
Merch. Trade Bal. (C$B, ar)	0.9	0.6	-14.6	-9.9	(Sep)
Industrial Production	3.5	0.9	2.3	-1.5	(Sep)
Housing Starts (000s)	193	206	231	204	(Oct)
Employment	1.6	0.9	1.2	1.7	(Nov)
Unemployment Rate (%)	7.5	7.4	7.3	7.2	(Nov)
Retail Sales	4.1	4.3	2.6	1.8	(Sep)
Auto Sales (000s)	1589	1701	1670	1695	(Aug)
CPI	2.9	2.3	1.6	1.2	(Oct)
IPPI	4.6	1.8	0.7	0.2	(Oct)
Pre-tax Corp. Profits	15.4	4.2	0.4		

United States	2011	12Q1	12Q2	Latest	
Real GDP (annual rates)	1.8	2.0	1.3	2.0	(Q3-A)
Current Acc. Bal. (US$B, ar)	-466	-534	-470		
Merch. Trade Bal. (US$B, ar)	-738	-777	-743	-689	(Sep)
Industrial Production	4.1	4.0	4.9	2.0	(Oct)
Housing Starts (millions)	0.61	0.71	0.74	0.89	(Oct)
Employment	1.1	1.6	1.3	1.4	(Nov)
Unemployment Rate (%)	9.0	8.3	8.2	7.7	(Nov)
Retail Sales	8.3	6.4	4.3	3.8	(Oct)
Auto Sales (millions)	12.7	14.1	14.1	15.5	(Nov)
CPI	3.2	2.8	1.9	2.2	(Oct)
PPI	6.0	3.4	1.1	2.3	(Oct)
Pre-tax Corp. Profits	2.1	18.0	14.6		

Mexico	2011	12Q1	12Q2	Latest	
Real GDP	3.9	4.9	4.4		
Current Acc. Bal. (US$B, ar)	-9.2	0.7	3.6		
Merch. Trade Bal. (US$B, ar)	-1.5	7.1	6.1	-19.8	(Oct)
Industrial Production	4.0	4.8	4.1	2.4	(Sep)
CPI	3.4	3.9	3.9	4.2	(Nov)

Europe

Euro Zone	2011	12Q1	12Q2	Latest	
Real GDP	1.5	-0.1	-0.5		
Current Acc. Bal. (US$B, ar)	17	-24	84	54	(Sep)
Merch. Trade Bal. (US$B, ar)	12.8	33.0	131.6	93.8	(Sep)
Industrial Production	3.4	-1.6	-2.3	-2.9	(Sep)
Unemployment Rate (%)	10.1	10.9	11.2	11.7	(Oct)
CPI	2.7	2.7	2.5	2.5	(Oct)

Germany	2011	12Q1	12Q2	Latest	
Real GDP	3.1	1.2	1.0		
Current Acc. Bal. (US$B, ar)	203.6	215.8	192.2	251.4	(Sep)
Merch. Trade Bal. (US$B, ar)	217.0	222.9	245.1	263.2	(Sep)
Industrial Production	8.0	0.7	-0.2	-3.6	(Oct)
Unemployment Rate (%)	7.1	6.8	6.8	6.9	(Nov)
CPI	2.3	2.2	1.9	3.3	(Nov)

France	2011	12Q1	12Q2	Latest	
Real GDP	1.7	0.2	0.1		
Current Acc. Bal. (US$B, ar)	-54.5	-51.1	-81.3	-30.2	(Sep)
Merch. Trade Bal. (US$B, ar)	-53.0	-54.7	-57.5	-43.3	(Oct)
Industrial Production	1.8	-1.9	-2.0	-2.5	(Sep)
Unemployment Rate (%)	9.6	10.0	10.2	10.7	(Oct)
CPI	2.1	2.3	2.0	1.9	(Oct)

United Kingdom	2011	12Q1	12Q2	Latest	
Real GDP	0.9	-0.1	-0.5		
Current Acc. Bal. (US$B, ar)	-46.4	-100.3	-128.6		
Merch. Trade Bal. (US$B, ar)	-160.7	-160.5	-176.7	-184.1	(Oct)
Industrial Production	-0.7	-3.0	-2.7	-3.0	(Oct)
Unemployment Rate (%)	8.1	8.2	8.1	7.8	(Aug)
CPI	4.5	3.5	2.7	2.6	(Oct)

Italy	2011	12Q1	12Q2	Latest	
Real GDP	0.6	-1.4	-2.4		
Current Acc. Bal. (US$B, ar)	-0.07	-0.07	0.00	-0.04	(Sep)
Merch. Trade Bal. (US$B, ar)	-35.5	-20.5	17.0	6.3	(Sep)
Industrial Production	0.2	-5.3	-7.5	-4.9	(Sep)
CPI	2.8	3.4	3.3	2.7	(Oct)

Russia	2011	12Q1	12Q2	Latest	
Real GDP	4.3	4.9	4.0		
Current Acc. Bal. (US$B, ar)	98.8	40.4	21.2		
Merch. Trade Bal. (US$B, ar)	16.5	19.7	16.7	17.1	(Sep)
Industrial Production	4.8	4.1	2.3	1.8	(Oct)
CPI	8.4	3.9	3.8	6.5	(Nov)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2011	12Q1	12Q2	Latest
Real GDP	2.4	4.5	3.8	
Current Acc. Bal. (US$B, ar)	-33.9	-65.9	-34.5	
Merch. Trade Bal. (US$B, ar)	35.7	1.4	27.6	-15.4 (Oct)
Industrial Production	-0.8	5.6	2.7	
Unemployment Rate (%)	5.1	5.2	5.1	5.2 (Nov)
CPI	3.3	1.6	1.2	

Japan	2011	12Q1	12Q2	Latest
Real GDP	-0.7	2.7	3.4	
Current Acc. Bal. (US$B, ar)	119.2	101.1	56.8	77.3 (Sep)
Merch. Trade Bal. (US$B, ar)	-33.8	-69.2	-64.4	-94.9 (Oct)
Industrial Production	-2.3	2.7	5.1	-6.8 (Oct)
Unemployment Rate (%)	4.6	4.5	4.4	4.2 (Oct)
CPI	-0.3	0.3	0.2	-0.4 (Oct)

South Korea	2011	12Q1	12Q2	Latest
Real GDP	3.6	2.8	2.3	
Current Acc. Bal. (US$B, ar)	26.5	10.2	44.8	69.8 (Oct)
Merch. Trade Bal. (US$B, ar)	30.8	5.3	38.5	53.7 (Nov)
Industrial Production	6.9	2.9	2.4	0.5 (Oct)
CPI	4.0	3.0	2.4	5.4 (Nov)

China	2011	12Q1	12Q2	Latest
Real GDP	10.4	8.1	7.6	
Current Acc. Bal. (US$B, ar)	201.7			
Merch. Trade Bal. (US$B, ar)	155.0	1.1	274.2	384.6 (Oct)
Industrial Production	12.8	11.9	9.5	9.6 (Oct)
CPI	4.1	3.6	2.2	1.7 (Oct)

Thailand	2011	12Q1	12Q2	Latest
Real GDP	0.1	0.4	4.4	
Current Acc. Bal. (US$B, ar)	5.9	1.4	-2.3	
Merch. Trade Bal. (US$B, ar)	1.4	0.4	0.5	-0.1 (Oct)
Industrial Production	-9.3	-7.1	-1.6	36.4 (Oct)
CPI	3.8	3.4	2.5	2.7 (Nov)

India	2011	12Q1	12Q2	Latest
Real GDP	7.5	5.3	5.5	
Current Acc. Bal. (US$B, ar)	-62.8	-21.7	-16.4	
Merch. Trade Bal. (US$B, ar)	-13.4	-15.7	-13.7	-21.0 (Oct)
Industrial Production	4.8	0.6	-0.3	-0.4 (Sep)
WPI	9.5	7.3	7.5	7.5 (Oct)

Indonesia	2011	12Q1	12Q2	Latest
Real GDP	6.5	6.3	6.4	
Current Acc. Bal. (US$B, ar)	1.7	-3.1	-7.7	
Merch. Trade Bal. (US$B, ar)	2.2	0.9	-0.8	-1.5 (Oct)
Industrial Production	4.1	3.8	2.2	7.6 (Sep)
CPI	5.4	3.7	4.5	4.3 (Nov)

Latin America

Brazil	2011	12Q1	12Q2	Latest
Real GDP	2.5	0.6	0.4	
Current Acc. Bal. (US$B, ar)	-52.5	-48.2	-52.7	
Merch. Trade Bal. (US$B, ar)	29.8	9.7	18.5	-2.2 (Nov)
Industrial Production	0.4	-3.5	-4.4	0.3 (Oct)
CPI	6.6	5.8	5.0	11.8 (Nov)

Chile	2011	12Q1	12Q2	Latest
Real GDP	6.0	5.2	5.7	
Current Acc. Bal. (US$B, ar)	-0.3	0.6	-7.0	
Merch. Trade Bal. (US$B, ar)	10.0	10.6	6.7	6.7 (Nov)
Industrial Production	6.9	3.9	2.8	9.1 (Oct)
CPI	3.3	4.1	3.1	2.1 (Nov)

Peru	2011	12Q1	12Q2	Latest
Real GDP	6.9	6.1	6.1	
Current Acc. Bal. (US$B, ar)	-3.3	-0.9	-2.2	
Merch. Trade Bal. (US$B, ar)	0.9	0.8	0.2	0.5 (Sep)
Unemployment Rate (%)	7.7	8.3	7.2	6.2 (Oct)
CPI	3.4	4.2	4.1	2.7 (Nov)

Colombia	2011	12Q1	12Q2	Latest
Real GDP	5.9	4.7	4.9	
Current Acc. Bal. (US$B, ar)	-10.0	-1.6	-3.2	
Merch. Trade Bal. (US$B, ar)	0.4	0.7	0.2	0.4 (Sep)
Industrial Production	5.1	1.8	-0.2	-1.9 (Aug)
CPI	3.4	3.5	3.4	2.8 (Nov)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	**12Q2**	**12Q3**	**Nov/30**	**Dec/07***
BoC Overnight Rate	1.00	1.00	1.00	1.00
3-mo. T-bill	0.88	0.98	0.96	0.96
10-yr Gov't Bond	1.74	1.73	1.70	1.71
30-yr Gov't Bond	2.33	2.32	2.29	2.32
Prime	3.00	3.00	3.00	3.00
FX Reserves (US$B)	66.0	67.9	67.9	(Oct)
Germany				
3-mo. Interbank	0.53	0.11	0.10	0.10
10-yr Gov't Bond	1.58	1.44	1.39	1.30
FX Reserves (US$B)	68.2	68.5	68.5	(Oct)
Euro Zone				
Refinancing Rate	1.00	0.75	0.75	0.75
Overnight Rate	0.38	0.11	0.08	0.07
FX Reserves (US$B)	328.7	332.8	334.0	(Oct)
Japan				
Discount Rate	0.30	0.30	0.30	0.30
3-mo. Libor	0.13	0.13	0.12	0.12
10-yr Gov't Bond	0.84	0.78	0.72	0.71
FX Reserves (US$B)	1231.2	1233.3	1231.8	(Oct)

United States	**12Q2**	**12Q3**	**Nov/30**	**Dec/07***
Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.08	0.09	0.08	0.09
10-yr Gov't Bond	1.64	1.63	1.62	1.61
30-yr Gov't Bond	2.75	2.82	2.81	2.80
Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	138.8	142.0	141.2	(Oct)
France				
3-mo. T-bill	0.04	0.00	-0.03	-0.02
10-yr Gov't Bond	2.69	2.18	2.05	1.96
FX Reserves (US$B)	49.6	50.9	52.4	(Oct)
United Kingdom				
Repo Rate	0.50	0.50	0.50	0.50
3-mo. T-bill	0.37	0.35	0.34	0.35
10-yr Gov't Bond	1.73	1.73	1.78	1.75
FX Reserves (US$B)	84.4	87.9	89.5	(Oct)
Australia				
Cash Rate	3.50	3.50	3.25	3.00
10-yr Gov't Bond	3.04	2.99	3.16	3.12
FX Reserves (US$B)	44.1	42.4	46.9	(Oct)

Exchange Rates (end of period)

	12Q2	12Q3	Nov/30	Dec/07*
USDCAD	1.02	0.98	0.99	0.99
CADUSD	0.98	1.02	1.01	1.01
GBPUSD	1.571	1.617	1.601	1.602
EURUSD	1.267	1.286	1.299	1.293
JPYEUR	0.99	1.00	0.93	0.94
USDCHF	0.95	0.94	0.93	0.93
¥/US$	79.79	77.96	82.48	82.39
US¢/Australian$	1.02	1.04	1.04	1.05
Chinese Yuan/US$	6.35	6.28	6.23	6.22
South Korean Won/US$	1145	1111	1083	1082
Mexican Peso/US$	13.361	12.859	12.967	12.853
Brazilian Real/US$	2.009	2.026	2.136	2.081

Equity Markets (index, end of period)

	12Q2	12Q3	Nov/30	Dec/07*
United States (DJIA)	12880	13437	13026	13099
United States (S&P500)	1362	1441	1416	1414
Canada (S&P/TSX)	11597	12317	12239	12151
Mexico (IPC)	40200	40867	41834	42584
Brazil (Bovespa)	54355	59176	57475	58320
Italy (BCI)	761	825	850	847
U.K. (FT100)	5571	5742	5867	5902
Germany (Dax)	6416	7216	7406	7504
France (CAC40)	3197	3355	3557	3599
Japan (Nikkei)	9007	8870	9446	9527
Hong Kong (Hang Seng)	19441	20840	22030	22191
South Korea (Composite)	1854	1996	1933	1957

Commodity Prices (end of period)

	12Q2	12Q3	Nov/30	Dec/07*
Pulp (US$/tonne)	900	830	850	850
Newsprint (US$/tonne)	640	640	640	640
Lumber (US$/mfbm)	283	285	352	360
WTI Oil (US$/bbl)	84.96	92.19	88.91	86.36
Natural Gas (US$/mmbtu)	2.82	3.32	3.56	3.67
Copper (US$/lb)	3.45	3.75	3.61	3.61
Zinc (US$/lb)	0.84	0.95	0.92	0.90
Gold (US$/oz)	1598.50	1776.00	1726.00	1701.50
Silver (US$/oz)	27.08	34.65	34.28	32.85
CRB (index)	284.19	309.30	298.98	295.91

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

Fixed Income Strategy (London)

www.gbm.scotiabank.com

This material, its content, or any copy of it, may not be altered in any way, transmitted to, copied or distributed to any other party without the prior express written consent of Scotiabank™. This material has not been prepared by a member of the research department of Scotiabank, it is solely for the use of sophisticated institutional investors, and this material does not constitute investment advice or any personal recommendation to invest in a financial instrument or "investment research" as defined by the Financial Services Authority. This material is provided for information and discussion purposes only. An investment decision should not be made solely on the basis of the contents of this publication. It is not to be construed as a solicitation or an offer to buy or sell any financial instruments and has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It is not intended to provide legal, tax, accounting or other advice and recipients should obtain specific professional advice from their own legal, tax, accounting or other appropriate professional advisers before embarking on any course of action. The information in this material is based on publicly available information and although it has been compiled or obtained from sources believed to be reliable, such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. Information included in this material related to comparison performance (whether past or future) or simulated performance (whether past or future) is not a reliable indicator of future returns.

This presentation is not directed to or intended for use by any person resident or located in any country where the distribution of such information is contrary to the laws of such country. Scotiabank its directors, officers, employees or clients may currently or from time to time own or hold interests in long or short positions in any securities referred to herein, and may at any time make purchases or sales of these securities as principal or agent. Scotiabank may also have provided or may provide investment banking, capital markets or other services to the companies referred to in this communication.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc., Scotia Capital (USA) Inc., Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotia Capital (Europe) Limited; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank Group and authorized users of the mark. The Bank of Nova Scotia is incorporated in Canada with limited liability. Scotia Capital Inc. is a member of CIPF. Scotia Capital (USA) Inc. is a registered broker-dealer with the SEC and is a member of the NASD and SIPC. The Bank of Nova Scotia, Scotiabank Europe plc, Scotia Capital (Europe) Limited and Scotia Capital Inc. are each authorised and regulated by the Financial Services Authority (FSA) in the U.K. Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Fixed Income Strategy (Paris)

Disclaimer © 2011, The Bank of Nova Scotia This material, its content, or any copy of it, may not be altered in any way, transmitted to, copied or distributed to any other party without the prior express written consent of Scotiabank™. This material has not been prepared by a member of the research department of Scotiabank, it is solely for the use of sophisticated institutional investors, and this material does not constitute investment advice or any personal recommendation to invest in a financial instrument or "investment research" as defined by the Financial Services Authority. This material is provided for information and discussion purposes only. An investment decision should not be made solely on the basis of the contents of this publication. It is not to be construed as a solicitation or an offer to buy or sell any financial instruments and has no regard to the specific investment objectives, financial situation or particular needs of any recipient. It is not intended to provide legal, tax, accounting or other advice and recipients should obtain specific professional advice from their own legal, tax, accounting or other appropriate professional advisers before embarking on any course of action. The information in this material is based on publicly available information and although it has been compiled or obtained from sources believed to be reliable, such information has not been independently verified and no guarantee, representation or warranty, express or implied, is made as to its accuracy, completeness or correctness. Information included in this material related to comparison performance (whether past or future) or simulated performance (whether past or future) is not a reliable indicator of future returns. This presentation is not directed to or intended for use by any person resident or located in any country where the distribution of such information is contrary to the laws of such country. Scotiabank its directors, officers, employees or clients may currently or from time to time own or hold interests in long or short positions in any securities referred to herein, and may at any time make purchases or sales of these securities as principal or agent. Scotiabank may also have provided or may provide investment banking, capital markets or other services to the companies referred to in this communication.

Portfolio Strategy

The following analysts certify that (1) the views expressed in this report in connection with securities or issuers they analyze accurately reflect their personal views and (2) no part of their compensation was, is, or will be directly or indirectly, related to the specific recommendations or views expressed by them in this report: Hugo Ste-Marie, and Vincent Delisle

This research report was prepared by employees of Scotia Capital Inc. who have the title of Analyst.
All pricing of securities in reports is based on the closing price of the securities' principal marketplace on the night before the publication date, unless otherwise explicitly stated.

All Equity Research Analysts report to the Head of Equity Research. The Head of Equity Research reports to the Managing Director, Head of Institutional Equity Sales, Trading and Research, who is not and does not report to the Head of the Investment Banking Department. Scotiabank, Global Banking and Markets has policies that are reasonably designed to prevent or control the sharing of material non-public information across internal information barriers, such as between Investment Banking and Research.

The compensation of the research analyst who prepared this report is based on several factors, including but not limited to, the overall profitability of Scotiabank, Global Banking and Markets and the revenues generated from its various departments, including investment banking. Furthermore, the research analyst's compensation is charged as an expense to various Scotiabank, Global Banking and Markets departments, including investment banking. Research Analysts may not receive compensation from the companies they cover.

Non-U.S. analysts may not be associated persons of Scotia Capital (USA) Inc. and therefore may not be subject to NASD Rule 2711 restrictions on communications with subject company, public appearances and trading securities held by the analysts.

General Disclosures

This report has been prepared by analysts who are employed by the Research Department of Scotiabank, Global Banking and Markets. Scotiabank, together with "Global Banking and Markets", is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including Scotia Capital Inc. All other trademarks are acknowledged as belonging to their respective owners and the display of such trademarks is for informational use only. Scotiabank, Global Banking and Markets Research produces research reports under a single marketing identity referred to as "Globally-branded research" under U.S. rules. This research is produced on a single global research platform with one set of rules which meet the most stringent standards set by regulators in the various jurisdictions in which the research reports are produced. In addition, the analysts who produce the research reports, regardless of location, are subject to one set of policies designed to meet the most stringent rules established by regulators in the various jurisdictions where the research reports are produced. This report is provided to you for informational purposes only. This report is not, and is not to be construed as, an offer to sell or solicitation of an offer to buy any securities and/or commodity futures contracts. The securities mentioned in this report may neither be suitable for all investors nor eligible for sale in some jurisdictions where the report is distributed.

The information and opinions contained herein have been compiled or arrived at from sources believed reliable, however, Scotiabank, Global Banking and Markets makes no representation or warranty, express or implied, as to their accuracy or completeness. Scotiabank, Global Banking and Markets has policies designed to make best efforts to ensure that the information contained in this report is current as of the date of this report, unless otherwise specified. Any prices that are stated in this report are for informational purposes only. Scotiabank, Global Banking and Markets makes no representation that any transaction may be or could have been effected at those prices.

Any opinions expressed herein are those of the author(s) and are subject to change without notice and may differ or be contrary from the opinions expressed by other departments of Scotiabank, Global Banking and Markets or any of its affiliates.

Neither Scotiabank, Global Banking and Markets nor its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

Scotiabank Economics

Scotia Plaza 40 King Street West, 63rd Floor
Toronto, Ontario Canada M5H 1H1
Tel: (416) 866-6253 Fax: (416) 866-2829
Email: scotia.economics@scotiabank.com

For general and publication-related inquiries, contact us by telephone, email and/or fax.