Global Views

Weekly commentary on economic and financial market developments

February 8, 2013

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How Will You Spend Valentine's Day?

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

Europe will dominate the global risk tone over the course of the next week as key data combines with headline risk stemming from potentially significant meetings of world leaders. Key will be 2012Q4 GDP reports across the Eurozone on Valentine's Day. The Eurozone has been in recession since 2012Q2 as it posted contractions that quarter and the following one. The degree of growth bifurcation across regional markets is modest as even the core economies have been weak. Each of Germany and France may be slipping back into contraction following mildly positive third-quarter reports as Scotiabank's Sarah Howcroft anticipates German GDP to contract by 0.5% and France to slip by 0.2%. She anticipates Italy to decline by 0.8% and the Eurozone by 0.5% which would extend Italy's recession to six quarters duration and the Eurozone's to three.

It's then off to Russia with or without love as G20 finance ministers and central bank heads meet in Moscow on Thursday and Friday. Spain's Prime Minister Mariano Rajoy speaks at a Spain Summit hosted by The Economist on Tuesday. The leader's political troubles may continue to dominate concern over the country as he continues to fend off allegations that he accepted private undisclosed payments over about a decade. Political turmoil has been behind a 50bps backing-up in Spanish 10 year yields. Euro area finance ministers meet in Brussels on Monday, and then remain for the broader EU27 finance ministers meeting the next day.

It's a key week for the **UK** economy as the Bank of England's Quarterly Inflation Report lands on Wednesday at the same time as the latest CPI print. UK inflation has sharply ebbed from the September 2011 high of 5.2% as Governor King's bias that inflation would ebb into 2012 eventually came true and explanatory letters to the Chancellor of the Exchequer stopped flowing, but inflation appears to have bottomed around the 2½ % mark which makes a sharp expansion of monetary stimulus a tough sell at this juncture notwithstanding a weak economy. At the same time, inflation expectations are at risk of becoming unmoored in the wake of BoC Governor and BoE Governor-Designate Mark Carney's remarks that were taken as support for a further expansion of unconventional monetary policy perhaps including the adoption of nominal GDP targeting that is theoretically ambivalent toward inflation risk. UK retail sales on Friday will find it tough to impress markets as the volume of sales has fallen in four of the past six months and signals a weakening UK consumer handing off to an uncertain 2013.

Unmoored UK Inflation Expectations

Source: Bloomberg, Scotiabank Economics.

As sequester cuts sit three weeks away from the March 1st deadline, President Obama's State Of The Union address on Tuesday evening may be more closely watched by **US** markets than usual. The President is seeking a temporary delay in the US$85 billion in cuts — or $1.2 trillion spread over the next decade — in favour of a mini-deal that would buy more time. Republicans have thus far rejected the suggestion and are requiring a focus upon spending cuts versus the White House's desire to also raise additional tax revenues. The Congressional Budget Office has noted that if the sequestration cuts are allowed to proceed then the effect will be to shrink the deficit to $845 billion compared to four years of $1 trillion or more deficits. This is just the first of a series of key fiscal deadlines that will be followed by the March 27th expiration of the Continuing Resolution that has funded the US government in the absence of a budget; if it expires, then a Clinton-era style partial government shut-down could ensue. Thereafter, as a consequence to HR#325 which suspended the debt ceiling until May 19th, the House and the Senate must pass budgets by April 15th which would require a serious movement toward the White House presenting a budget along a March timeline.

US data risk will be high but concentrated on just two days. US retail sales for January arrive on Wednesday and the report will provide a first glimpse at how consumer spending performed just as taxes went up through the expiration of the 2% payroll tax cut and higher marginal rates on upper-income earners that probably combined

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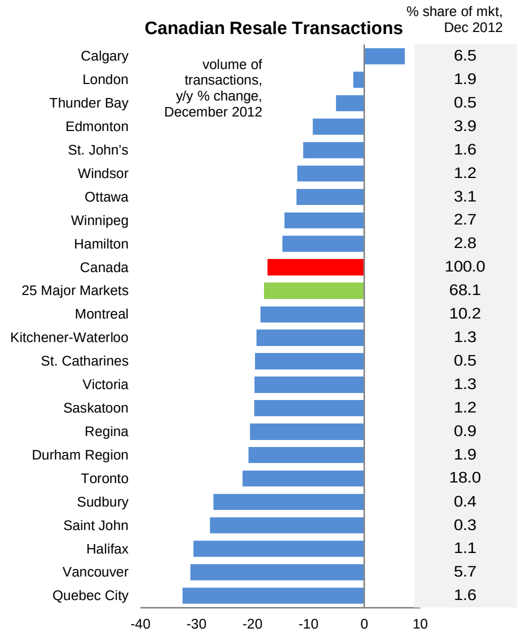
to put downward pressure upon disposable incomes. University of Michigan consumer sentiment follows that up on Friday and the reading will be watched for whether January's small rise or December's sharp plunge offered the truer trend depiction of confidence. Factory sector data also closes out the week. Consensus expects industrial production to build a three-month upward trend, and for the Empire gauge to suggest a diminished pace of contraction in New York's manufacturing sector.

The Fed and earnings dominate the rest of the week's US focus. Four Fed speakers hit the circuits next week, and two of them vote this year (KC's George and St. Louis' Bullard) while Philadelphia's Plosser votes next year and Richmond's Lacker doesn't vote until 2015. All four will speak on the economy and the economic outlook and of particular interest will be if George elaborates on why she dissented in the January 30th policy statement. Fifty-four companies on the S&P500 release earnings with major names including Loews, Avon, Coca-Cola, McGraw-Hill, Goodyear, Deere & Co., Cisco, MetLife, PepsiCo, CBS, Molson Coors, Campbell Soup Co. The US auctions 3s, 10s and 30s next week.



Source: CREA, Scotiabank Economics.

Canadian markets will probably follow the global tone for the most part next week. Neither manufacturing sales nor existing home sales are likely to have much bearing on the market's risk appetite. Having said that, the data risk is likely to be on the negative side of the ledger. The strong gain in November's manufacturing sales was significantly driven by tough-to-repeat gains in lumpy aerospace and automotive sales, so a pullback might be in the cards for the final print of 2012. On January's home resales, we already know the results from several of the major local real estate boards and, while numbers looked a little better in Toronto relative to the trend and Calgary's gains held up well, Vancouver's market continues to slide. That said, the month's particular numbers matter less than the broad trend. As illustrated in the accompanying chart, twenty cities across the country are experiencing double-digit percentage declines in year-over-year home resale volumes led by 30%+ drops in Quebec City, Vancouver and Halifax. Calgary remains the only major city that is up on year-ago sales volumes. The breadth of the decline defies some of the headlines which continue to focus upon the weakness in a handful of cities and notably Vancouver. This is consistent with our longstanding view that the pressures are nation-wide.

BoC Governor Mark Carney and his Senior Deputy Governor Tiff Macklem address the House of Commons Standing Committee on Finance on Tuesday. Carney will face a less gruelling question and answer session than during his recent testimony before the UK House of Commons' Treasury Select Committee. Canadian earnings season also intensifies with forty-four companies on tap including names like TransCanada, Talisman, Home Capital Group, Sun Life, CAE, Barrick Gold, Cott, Rogers, Brookfield, Enbridge, Telus, CI Financial. The Canadian banks determine much of the credit market tone, and begin to release fiscal Q1 earnings over the last week of February. Canada also auctions 2 year notes on Wednesday.

Asian markets are unlikely to upset the apple cart next week with the possible exception of developments in Japan. 2012Q4 GDP on Wednesday is expected to rise by a half point in a lukewarm rebound from the prior quarter's 3.5% annualized q/q contraction. If consensus is right, that could set the backdrop for further pressure on the Bank of Japan to apply additional stimulus. Governor Shirakawa will step down on March 19th and therefore has two meetings left to govern. The BoJ engineered a brilliant maneuver at its January 22nd meeting by announcing an expansion of its asset purchase program to keep the government happy but delayed its introduction by a year. It is unlikely that the BoJ will shift course over the remaining two meetings under Shirakawa's leadership before Prime Minister Abe appoints Shirakawa's successor.

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Equities As A Long-Run Inflation Hedge?

- **With rare exceptions, global equities have not adequately compensated for inflation risk since the 1990s.**

As the Dow has approached a new nominal (i.e., inflation-unadjusted) record high, headlines are replete with optimism. Those headlines are missing a potentially bigger point; while they have bounced back from crisis-lows, US equities have been a poor source of inflation protection for a long period of time. In fact, they are not alone among world equity markets in this regard.

We survey the inflation-adjusted long-run performance of a dozen of the world's equity markets across advanced and faster-growing economies. Charts 1-12 on the next two pages provide the results, and use the host country's CPI index to deflate the equity index as a rough proxy for an inflation adjustment.

In the US case, the average long-term investor only made money on the S&P500 if s/he was better than most at timing the market's lows and getting out at the highs and doing this repeatedly and not just on one of the big calls. The long-term patient retail buy-and-hold investor would not have fared as well. Against the popular view in equity-land that it's only the bottom-up that matters, timing the macro developments has been the bread winner for any cycle timer. This observation is true without adjusting for inflation, but it's truer yet after taking account of inflation. Indeed, the S&P500 is still almost 25% lower than its peak in early 2000 after taking account of inflation, and it has been volatile but with downward drift since, so be careful with the record-high optimism. As chart 1 demonstrates, the S&P500 took off in both inflation-adjusted and -unadjusted terms through the 1990s but has spent the post-2000 environment drifting within a wide, volatile and generally sideways (nominal) to down (inflation-adjusted) range. Chart 2 shows a worse performance for the Nasdaq that remains over 50% lower than its inflation-adjusted peak in 2000 during the dot-bomb period.

While Canada's TSX has put in a marginally better performance than the S&P500, the same conclusions nonetheless apply. In inflation-adjusted terms, the TSX is still about 21% below its May 2008 peak. The TSX also remains about 2% below its March 2000 level which had previously been the peak prior to 2008. Like the US, a perfect macro market timer who got in at the exact bottoms and out at the exact peaks and did so twice each since 2000 would have pocketed handsome profits. Most other mortals and particularly a buy-and-hold retail investor would be staring at a largely flat equity portfolio excluding dividend reinvestment over time. This suggests that a passive buy-and-hold approach over the long term has not been terribly successful, but an active portfolio management approach would have required a remarkably astute portfolio manager through almost two decades of market gyrations.

Across other markets shown in the accompanying charts, there is really only one country's equity market that has served as a useful inflation hedge and that is Mexico's IPC. Relatively high long-term inflation has eroded the value of the index over a long period of time, but in inflation-adjusted terms the market is currently at a slight record high. At the opposite end of the spectrum are the long-term equity laggards that have destroyed enormous shareholder value including the Nikkei, Paris's CAC40, and the previously mentioned Nasdaq.

As a potential consequence, shifting behavioural psychology may yield long-lived market consequences as the mindset of a whole generation of retail investors is perhaps being altered in favour of the bird-in-hand approach to paying down debt (witness weak household debt growth in Canada and the US) versus investing incremental cash flow into taking equity risk for such lackluster rewards. The choice may not be bonds versus equities for your average middle class household and instead may retain a deleveraging mindset.

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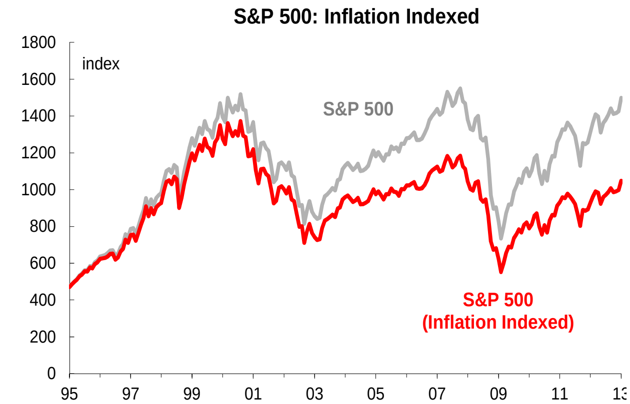
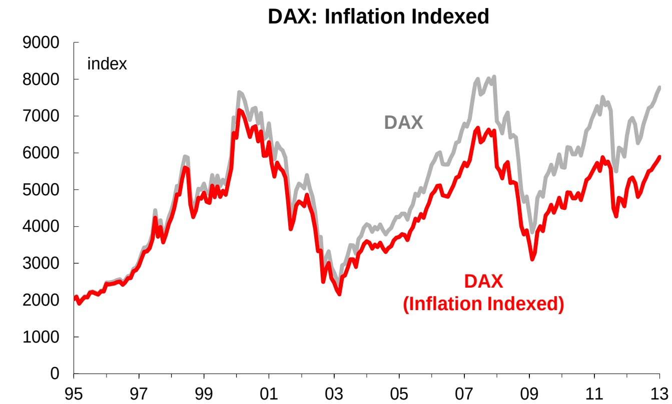
Chart 1



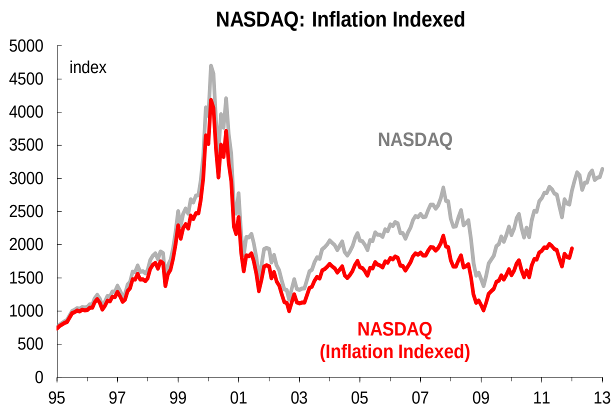
Source: Bloomberg, Scotiabank Economics.

Chart 2



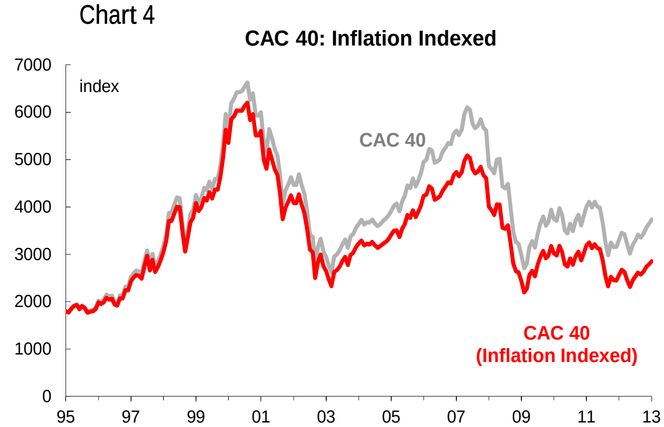
Source: Bloomberg, Scotiabank Economics.

Chart 3



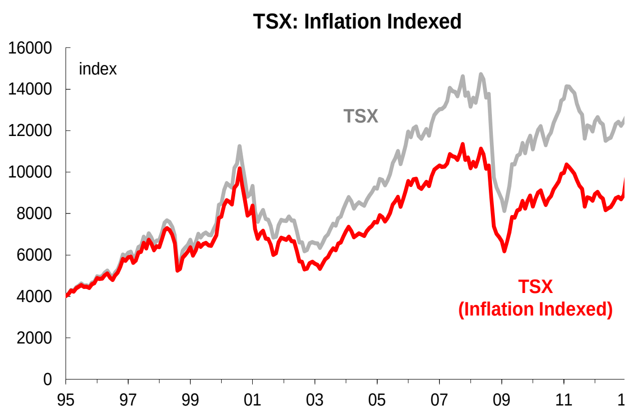
Source: Bloomberg, Scotiabank Economics.

Chart 4



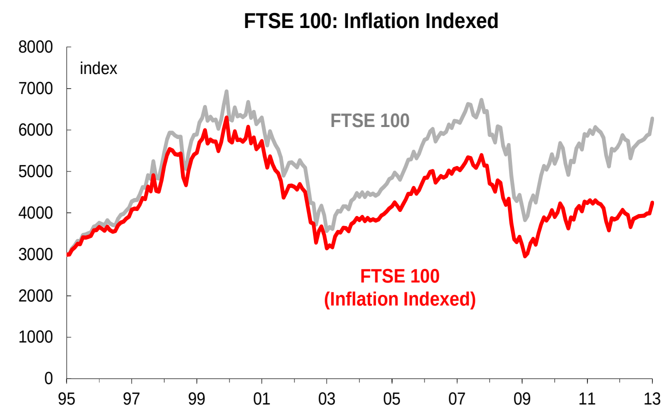
Source: Bloomberg, Scotiabank Economics.

Chart 5



Source: Bloomberg, Scotiabank Economics.

Chart 6



Source: Bloomberg, Scotiabank Economics.

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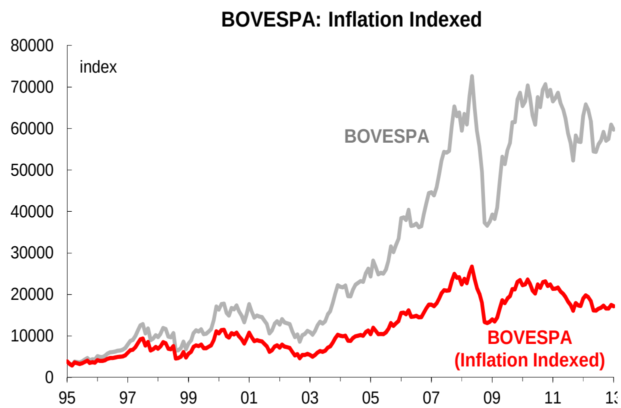
Chart 7

Source: Bloomberg, Scotiabank Economics.

Chart 8

Source: Bloomberg, Scotiabank Economics.

Chart 9

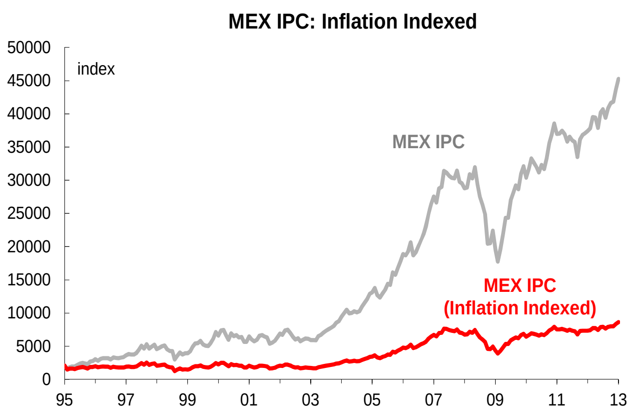


Source: Bloomberg, Scotiabank Economics.

Chart 10

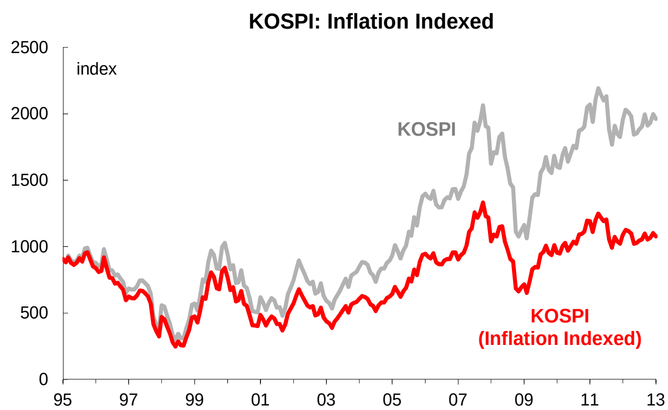
Source: Bloomberg, Scotiabank Economics.

Chart 11



Source: Bloomberg, Scotiabank Economics.

Chart 12



Source: Bloomberg, Scotiabank Economics.

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Canada's Home Improvement Market Is Gearing Down

- **Lower home sales and construction, softer home prices, tougher mortgage financing rules, and moderate job growth will dampen Canadian renovation spending in 2013.**

Canadians appear to be losing the renovation bug. Inflation-adjusted spending on home renovations, including outlays on additions, alterations, upgrades and equipment installation but excluding repairs and maintenance, increased just under 3% annually from 2008-2012. This is less than one-third the 9% average annual gain recorded from 2000-2007, at the height of the country's housing boom (chart 1).

The slowdown in spending mirrors a more moderate trend in home sales. Most new homebuyers undertake alterations and upgrades relatively soon after taking ownership. Nationally, home sales peaked in 2007, when a record 521,000 transactions were recorded through MLS (chart 2). Annual sales since have averaged around 450,000. In 2013, we expect sales to total around 425,000.

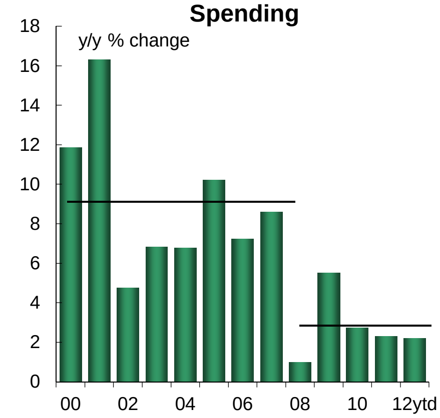
Indeed, renovation outlays in recent years have been higher than what would normally be expected given the overall level of home sales. The continuing drive to renovate has been supported by historically low interest rates and sustained house price gains which have facilitated household borrowing. Temporary government renovation tax credits introduced in the wake of the 2008 recession also fuelled spending, and likely brought forward some projects.

Many Canadian households will continue to take advantage of historically low borrowing costs to renovate their homes, whether updating their own living quarters or in preparation of selling in a more competitive market. Nonetheless, overall outlays will be dampened by a weaker housing market, a reluctance to add to high debt burdens, combined with tougher federal and OSFI mortgage guidelines introduced last summer. The latter includes lower maximum limits on loan to value ratios for mortgage refinancing (to 80%) and HELOCs (to 65%). While the majority of households draw on savings to finance renovations, mortgage refinancing and lines of credit are also popular, especially for major projects.

Overall, we expect real renovation expenditures will be largely flat in 2013. Spending should hold up better in regions with relatively stronger housing demand, including Alberta and Saskatchewan. In contrast, historically low home sales in B.C. could lead to a more pronounced pullback.

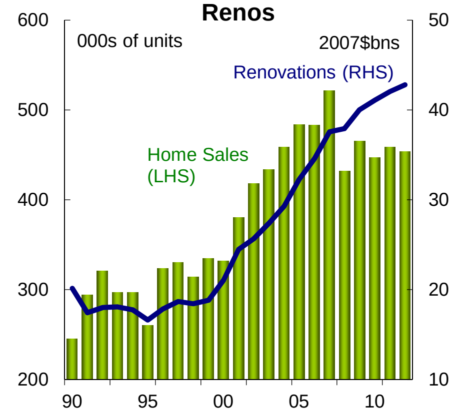
Any moderation in renovation activity will reinforce the slowdown underway in new construction, dampening trades employment, retail sales, especially for building materials and big-ticket household durables, as well as credit demand. The industry has a high domestic content, with labour and a large share of materials sourced locally. Canada's renovation market totalled an estimated $46 billion last year, approaching new construction in total dollar value (chart 3).

Chart 1 - Real Renovation Spending



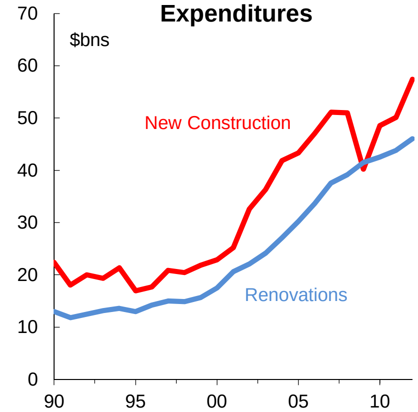
Source: Statistics Canada, Scotiabank Economics

Chart 2 - Home Sales and Renos



Source: Statistics Canada, CREA, Scotiabank Economics

Chart 3 - Residential Investment Expenditures



Source: Statistics Canada, Scotiabank Economics

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Trends In Canadian Exports By Product

Industry Canada produces companion data to Canada's merchandise trade performance broken down by product category. Annualizing the January-November 2012 data indicates that the largest 15 product export categories grew by roughly 2½% last year — a slower pace than in the first two years of the current economic recovery, but generally in line with the performance in the 2000-08 period.

Even with last year's slowdown, exports have posted a solid performance since the end of the global recession in 2009, advancing in excess of 8% per annum. Motor vehicles and commodities such as base and precious metals, fertilizers and oil seeds have led the way, posting double-digit increases. This reflects strengthening U.S. consumer demand, as well as the nascent housing market recovery south of the border. The outperformance of economic growth in the commodity-intensive emerging nations, where demand for higher-protein food products is growing is the key driver for rapid export gains by these Canadian products which account for nearly 15% of overall Canadian exports.

Gains for other manufactured products, such as machinery & equipment and plastics have been more moderate, due to the inconsistent pace of the current global economic recovery. In particular, the ongoing financial difficulties faced by many nations in Western Europe, have led to significant financial market volatility and economic uncertainty, dampening global demand and trade flows, and restraining business investment. Electronics and paper products have lagged. Weak electronics exports reflect a subpar global demand recovery for many key technology products, as well as a loss in market share by some Canadian brands. Meanwhile, paper exports are being held back by the shift to electronic newspaper subscriptions and other digital media and away from traditional printed products.

As growth in the U.S., Europe and emerging market economies gains momentum this year, so will Canadian merchandise exports, advancing at roughly 5.0% y/y. With the recovery in the U.S. housing market underway, Canadian wood exports are expected to post double-digit growth in 2013. Business investment will be a source of buoyancy for export growth, supported by low interest rates and healthy profit margins. We expect capital spending on machinery and equipment to be solid over our forecast horizon. In addition, we believe that foreign demand for aircraft and aerospace exports will pick up after an uneven recovery since 2009. Strengthening replacement demand south of the border will continue to boost Canadian autos and parts exports, though we do not expect growth in 2013 to match last year's performance. The price gap between Canadian oil and WTI, as well as capacity constraints will drag down growth in Canadian oil and gas exports. Finally, we expect the weakness in the demand for paper and electronic equipment to continue.

Canada's Merchandise Exports - Product Performance

	Compound Annual Growth Rates, %				% Share of 2012	
	2012*	2009-12	2008-09	2000-08	Exports	Outlook for 2013
Total Exports	**2.1**	**8.2**	**-25.6**	**2.3**	**100.0**	**5.0**
Oil & Gas	1.2	12.2	-38.5	13.6	25.4	Underperform
Motor Vehicles	18.0	17.2	-28.8	-6.6	13.5	Underperform
Machinery & Equipment	5.9	3.4	-17.8	0.3	7.2	Overperform
Precious Stones & Metals	-13.0	20.8	-6.8	14.8	5.0	Underperform
Electronic Equipment	-0.6	-2.2	-15.5	-6.8	3.3	Underperform
Plastics	0.3	5.6	-22.6	2.7	2.7	Underperform
Wood	10.6	10.4	-24.3	-9.6	2.2	Overperform
Aircrafts & Aerospace	2.9	-2.9	8.0	0.2	2.2	Overperform
Aluminum	-12.3	4.6	-35.6	5.8	1.9	Underperform
Paper	-12.4	-7.4	-18.1	-4.2	1.9	Underperform
Mining	-5.1	13.9	-14.6	14.8	1.9	Overperform
Oil Seeds	19.5	14.1	-8.2	16.7	1.8	Overperform
Fertilizers	-7.0	15.8	-38.9	13.7	1.6	Underperform
Cereals	6.2	1.5	-19.2	10.3	1.6	Overperform
Iron & Steel	-3.9	13.3	-43.3	13.1	1.6	Underperform
Sub-Total	**2.6**	**9.8**	**-27.9**	**2.5**	**73.9**	

Source: Industry Canada, Scotiabank Economics. * January - November 2012 annualized.

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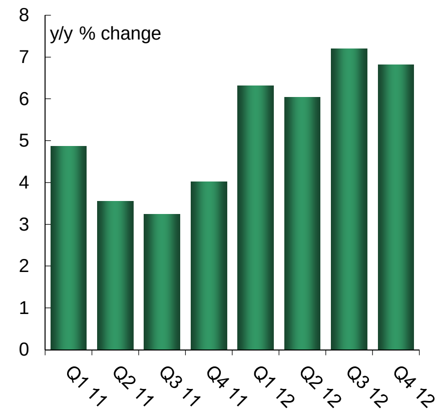
The Philippines — Economic Outlook 2013-14

- **Solid economic growth is supported by strong household spending; remittances remain a major source of income.**

The Philippine economic outlook remains favourable, with solid growth momentum likely to be maintained through 2014. We expect the country's real GDP expansion to average close to 6% in the next two years, following a 6.6% gain in 2012. Contrary to many of its export-dependent regional peers, Philippine domestic demand — particularly household consumption — will continue to be the main economic driver through the forecast horizon, underpinned by remittance inflows. Meanwhile, investment is fuelled by public spending and low interest rates. Demand for Philippine exports will likely continue to pick up alongside the improving growth momentum in China and the US, which together purchase 35% of the country's shipments abroad.

Chart 1 **Real GDP Growth**

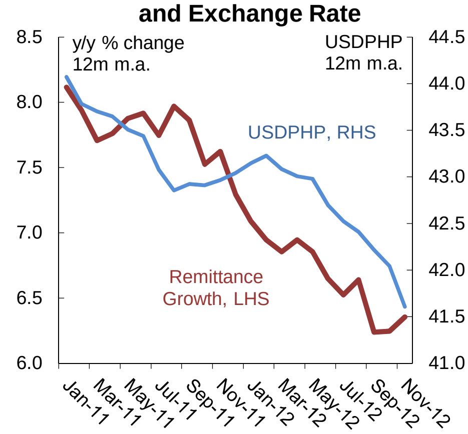


Source: Bloomberg.

The Philippines and its 96 million inhabitants form the world's third-largest recipient of remittances after China and India, when measured in nominal terms. An estimated 2.2 million Filipinos are working abroad, sending home nearly US$2 billion a month, thereby significantly influencing household spending, which accounts for 75% of the country's real GDP. These earnings inflows grew by 6% y/y in the first eleven months of 2012, totalling an estimated US$21 billion in 2012 (equivalent to 8½% of GDP).

The exchange rate is a major factor determining trends in remittance flows, as a strong home currency may discourage emigrants from sending money home until the exchange rate is more favourable. Meanwhile, a depreciated home currency may promote migrants to remit their savings, as making larger purchases such as land, house, or durable goods, is made more affordable upon exchange of the stronger foreign currency. This trend is depicted in chart 2, showing that the appreciating Philippine peso (PHP) has been accompanied by a slower remittance growth rate. The US is the main source of remittances to the Philippines, accounting for 43% of total money sent home by overseas Filipinos; therefore, the exchange rate of the PHP vis-à-vis the US dollar (USD) will be a significant factor impacting future remittance flows.

Chart 2 **Remittance Growth and Exchange Rate**



Source: Bloomberg, Scotiabank Economics.

A favourable economic outlook, improving sovereign creditworthiness, and strong capital inflows that have resulted in a solid external position (the Philippines' current account surplus will hover around 3½% of GDP through 2014) are providing support to the PHP. It was the second-best performing major Asian currency in 2012 (after the Korean won), appreciating by 7% vis-à-vis the USD. We expect the PHP to close the year near the current level, at 40.8 per USD. While we assess that more favourable global economic conditions will have a positive impact on the Philippines' remittance inflows, the country will likely see slower growth momentum in these inflows by historical standards due to the strong peso.

For a more detailed analysis on the Philippines' economic outlook, please refer to the *Executive Briefing* report, published on February 7th, 2013 at www.scotiabank.com/economics.

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Credit Headwinds And Tailwinds From The Canadian Oil Price Discount

A previous version of this article was published in the January 25, 2013 issue of Corporate Bond Weekly.

The headline topic du jour is the Canadian oil price discount to global prices, which has steepened, and is causing pain not only to producers, but to Canada's federal and, directly or indirectly, to provincial governments (not just Alberta). This differential, driven by pipeline capacity constraints, is in our view not merely a headache for the oil patch and the pipeline sector, but increasingly for the country as a whole. We outline why we think a fresh and dispassionate perspective ought to be applied to the need for increased export capacity in the public sphere, as it is a truly national priority. We think that there has been a recent disconnect between sharply narrowing producer bond spreads (for Canadian Natural, Husky, and Suncor) in the Canadian bond market, despite the widening of the heavy oil discount since autumn 2012. Hopefully, this disconnect will ease beginning later in 2013, as critical new pipeline capacity is due to come on-line later this year and early next year. For the big oil pipelines companies Enbridge and TransCanada, the imminent Keystone XL Presidential Permit decision (after March 31st), and facilities applications for Northern Gateway (perhaps late this year) and TMX (we guesstimate by early 2015) may largely determine the extent of future oil sands expansion, and how much economic benefit will accrue to Canada from this potentially huge industrial sector.

The Dollars of Magnitude

The problem, as succinctly put by Alberta's Minister of Finance in a speech in Calgary in January, is that "Alberta is landlocked … of the world's biggest oil-producing jurisdictions, Alberta is the only one with no direct access to the ocean."

In her December, 2012 Scotiabank Commodity Price Index monthly, Scotiabank's VP Patricia Mohr noted:

> "International oil prices remained strong in 2012… However, a price discount on Edmonton light oil emerged … with prices averaging US$87 (per barrel) compared with US$96 in 2011. The discount on `Western Canadian Select' heavy oil off WTI also widened to US$21 – up from US$17 in 2011—and will be very high at … US$32.84 in January. These price discounts reflect inadequate export pipeline capability to the United States and only limited capacity (65-75,000 bpd) to the B.C. Coast (via the Trans Mountain Pipeline to Burnaby and the Port of Vancouver) to access the faster-growing markets of China, Japan, South Korea and `emerging Asia'…
>
> "**The cost to the Canadian economy of wide oil price discounts is *enormous*** – on heavy oil alone about US$9 billion in 2012 from the WCS discount off WTI, taking into account a normal quality differential, plus another US$17.7 billion due to the WTI discount off `world' prices, as measured by Brent. **This highlights the `critical' need for timely government regulatory approvals & `public buy-in', permitting pipeline expansion to the United States … and to the B.C. Coast**."

These steep discounts are expected by the major Canadian producers to continue through 2013. Cenovus, for instance, is guiding for US$91 WTI in 2013, and US$63 WCS, a $28 discount. Suncor Energy is projecting a more modest but still very material $20 discount of WCS to WTI. Canadian Natural management said it is "bullish on heavy oil pricing in 2013", and still foresees a roughly 20% WCS to WTI discount. We expect the WCS discount to be a hot topic for the oil producers active in the Canadian bond market (Suncor, Canadian Natural Resources, and Husky Energy) in their upcoming Q4 earnings calls.

In his January speech in Calgary, Alberta's Minister of Finance said that lower oil prices are now costing the country $27 billion per year. The Canadian Energy Research Institute (CERI) has estimated that even the smaller discount prevailing as of mid-2012 would cost the Canadian economy $44 billion in tax revenue over the next 25 years, 70% of which would go to the federal government.

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Differentials This Year and Next: Up, then Down

We expect that a number of developments affecting supply, demand, and pipeline capacity this year will bring ups and downs in the heavy-light oil spread in North America.

The year is starting off with new, unexpected constraints in pipeline capacity from Canada to the Cushing, Oklahoma hub where the WTI price is set. On January 10th, emerging operational issues on the Enbridge Mainline system led to Enbridge announcing apportionment (total flow reductions to be borne pro-rata by shippers) of between 10% and 16% on several of the system's lines, for the near term. The cut in takeaway capacity immediately depressed WCS prices to as much as US$41.25 less than WTI for February delivery, even worse than the US$32 WCS to WTI discount for the month of January. We now expect a WCS to WTI discount of over US$36 in February, and an unusually wide discount to persist into March.

Even more recently, a temporary decrease in capacity on Enbridge's and Enterprises' Seaway pipeline to about 175,000 bpd, from 400,000 bpd, has locked in more oil at Cushing, and brought on another bout of weakness in the WTI price, leading to a spike in the WTI to Brent differential. (Seaway's expansion to 400,000 bpd only began operations on January 11th.) Oil in storage at Cushing has reached over 50 million barrels, nearly double the 28 million barrels held there this time last year.

In supply, the first stage of Imperial and ExxonMobil's Kearl oil sands plant is expected to start up within the next few weeks, initially producing about 110,000 bpd. This will help increase Alberta supply close to current takeaway capacity, which could lead to even more apportionment on some parts of the Enbridge Mainline system.

Marathon Petroleum's Detroit upgrade project was completed in November, 2012, and increased the refinery's heavy oil capacity from 20,000 to 100,000 bpd, specifically targeting "difficult to process" Canadian crudes for feedstock to capitalize on Canadian oil sands production. More significant will be BP's Whiting, Indiana refinery investment program, which is transforming the 405,000 bpd facility by equipping it to use Canadian heavy crudes as most of its feedstock. The Whiting modernization project remains on-track to start up in Q3 2013, though it will not reach full rates until 2014. The project includes transitional outages for significant portions of its total capacity, which in the meantime has been reducing PADD II demand and contributing to the upward pressure on differentials.

Various other U.S. refinery turnarounds in the spring 2013 season may result in painful differentials persisting through the first half, and perhaps well into the second half of the year. However, when BP's Whiting upgrades are finally ready for start-up, and as Marathon's upgraded Detroit refinery continues production, these two projects together should materially increase PADD II demand for Canadian heavy crude later in 2013 and in 2014, and begin to ease the WCS to WTI differential.

In early 2014, the expected availability of both the Seaway expansion from 400,000 bpd to 850,000 bpd (anticipated for "mid-2014"), and TransCanada's 700,000 bpd Keystone Gulf Coast project (which as of this week is still expected to come on-line "in late 2013"), should go a long way to draining the Cushing glut, and bringing WTI pricing closer to Brent. We expect that this may at the same time ease the WCS to WTI differential, since many Gulf Coast refineries can use Canadian heavy crudes as feedstock. For now, though, such an improvement seems like a long way off.

Economic Impacts of the Oil Sands- The Conference Board Study

In a recent study *Fuel for Thought: The Economic Benefits of Oil Sands Investment for Canada's Regions*, the Conference Board tallied $364 billion (inflation adjusted) of investment in oil sands development expected between 2012 and 2035. The `direct' and `supply chain' effect of this investment would generate

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$172 billion in wages and salaries. When spent, the `income effect' of these wages and salaries would generate an additional 880,000 person-years of employment. These figures exclude the economic impact of production, and capture only the effects of investment spending.

Additionally, the investment spending alone would generate an estimated $45.3 billion in federal tax revenue and $34.1 billion in provincial tax revenue over the same 2012 to 2035 period. Production would clearly also generate significant tax revenue. The Conference Board notes that, while the largest share of provincial tax revenue benefits would accrue to Alberta, the largest beneficiary of incremental tax revenue from the investment spending is the federal government. Hence, "all provinces would experience significant effects once their share of federal revenues is included." (Alberta would be a large beneficiary of royalty revenue from the resulting oil sands production.)

While acknowledging the critical importance of oil sands investment to Alberta, we believe that the Conference Board study underscores that this development is of truly national importance, both for national economic prospects, and for federal and provincial government revenues. We think this underpins the case for more policy support for facilitating oil sands development, including helping, or at least not impeding, finding the means to allow producers to access new markets beyond the U.S.

Public Policy Conundrum

In its World Energy Outlook 2012, the International Energy Agency projects that global demand for energy will rise by one-third by 2035, with oil use rising to 99 million bpd from 87.4 million bpd in 2011. China, India, and the Middle East are expected to account for 60% of the increase. Meanwhile, the OECD countries' energy demand "barely rises."

Closer to home, the IEA notes that technology advances that are unlocking tight oil and shale gas will turn the U.S. into the largest global oil producer by 2020, surpassing Saudi Arabia. Combined with an increasingly fuel efficient vehicle fleet, the U.S. could cease to be a net importer of oil by 2030. The IEA underlines that "this accelerates the switch in direction of international oil trade towards Asia…"

In other words, even if Keystone XL receives its Presidential Permit and begins shipping in early 2015, the need to create significant new export capacity for Alberta's growing oil sands production remains more urgent than ever. The public hearings on Enbridge's Northern Gateway project have been widely reported to have been stacked with project opponents. However, we believe the Canada Environmental Assessment Agency/National Energy Board Joint Review Panel conducting the hearings will also be made keenly aware by project proponents of the economic imperative for Canada to unlock this value, not merely for the benefit of the oil patch, but for the benefit of all Canadians, including the project's opponents.

In light of this huge economic risk, and the equally huge counterpoised economic opportunity that is easily within Canada's grasp, which would provide much-needed relief to persistent pressures on the public purse, we don't dismiss the chances of Northern Gateway winning approval from the Joint Review Panel on its merits. We think that safety regulations and risk mitigation measures can be crafted that will be credible to independent industry professionals and others capable of assessing these risks objectively, and that would thus be seen as reasonable by the public at large (acknowledging that many "activists" seem to believe that their role in policy formation is to never be satisfied). Given the growing national interest at stake, we think that a dispassionate assessment of the project's risks, with feasible comprehensive environmental risk mitigation, weighed against the national economic benefits, ought to lead to the project being viewed as a net benefit.

Likewise, Kinder Morgan's proposed TMX expansion of the Trans Mountain pipeline from 300,000 bpd to 890,000 bpd, which would bring Alberta oil to tidewater in the Port of Vancouver, is also driven by the needs

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of producers to access non-U.S. markets. To date, 13 shippers have signed long term commitments for 700,000 bpd of capacity. A facilities application to the NEB is expected later this year. If approved, TMX could be operational as early as 2017.

We see the committed support of producers for all three of Keystone XL, Northern Gateway, and TMX as evidence that there will be a serious takeaway capacity problem this decade if even one of these three projects doesn't proceed. Alternatives, such as bringing oil sands output to refineries in Eastern Canada (and ultimately access to global markets via the Atlantic Ocean) will become immediate priorities for producers, regulators, and policymakers, should one or more of the current three proposals end up being stymied. (For more perspective on a possible TransCanada Mainline conversion from natural gas to oil service, please refer to Scotiabank GBM equity analyst Matthew Akman's research on TransCanada dated Monday, January 7, 2013.)

We believe that the magnitude of economic activity and tax revenue at stake makes the oil sands export access dilemma a public policy question whose importance extends well beyond the oil patch. Hence, developments on the political front, as well as just within the industry and regulation, will be key to assessing how the story will evolve in the coming months and years.

Trading Recommendations — Producers

Suncor Energy Inc.'s (A(low)/ BBB+/ Baa1) bonds remain in our view a little expensive compared to some sector peers. Spreads in the sector haven't reacted negatively to the wider WCS to WTI differentials of the past several months, and have (surprisingly, in our view) tightened very materially in the past month. Nonetheless, Suncor's downstream refining lessens its overall exposure to the differential, which we view quite favourably. We would be buyers near-term of the Suncor 5.8% 2018s if spreads widen back to around 115 to 120 bps, typical of most of Q4 of last year. At current levels of 113 bps, we would be buyers after Keystone XL is approved, which we now expect in April. If Keystone XL is denied a Presidential Permit, we think a correction in the Canadian oil sector of 20 bps or more would be appropriate, but given the sector's scarcity premium and thin liquidity, we suspect that any such correction could be much smaller.

Canadian Natural Resources Ltd. (BBB(high)/ BBB+/ Baa1) management is "bullish" on Canadian heavy oil prices in 2013. We are more cautiously optimistic, as we see the improvements coming later in the year, as the Keystone Gulf Coast line is activated, and the big Seaway expansion of early 2014 seems more imminent. Medium-term, Keystone XL would unlock better pricing and more cash flow for CNQ. Longer-term, if Northern Gateway and TMX are approved, CNQ's expanding oil sands production should attract close to world prices, in our view, making current spreads of around 118 bps on the 3.05% 2019s seem like good value.

Husky Energy Inc. (A(low)/ BBB+/ Baa2) is the cheapest of the three oil producers available in the Canadian secondary bond market, and we think represents somewhat better value for now. We can make a value argument for Husky by comparing it to some higher-rated premium credits, like some of the top regulated electric utilities (which are beginning to face a number of regulatory headwinds that we think remain unresolved) and some much higher-rated transportation infrastructure credits like NavCanada and BC Ferries that are facing traffic weakness again this year. Buyers seeking to trade down the credit curve from these highly rated sectors to oil and gas, and extend term a bit, could buy the Husky 5.00% 2020s at about 131 bps versus either: NavCanada 5.304% 2019s at 82 bps; or Hydro One 4.4% 2020s at 89 bps; or BC Ferry 5.74% 2014s at 73 bps.

Trading Recommendations — Pipelines

We continue to see **Enbridge Inc.'s (A(low)/ A-/ Baa1)** richly diversified portfolio of low-risk assets and rapid but manageable greenfield growth as more than offsetting the holdco discount for its bonds versus most

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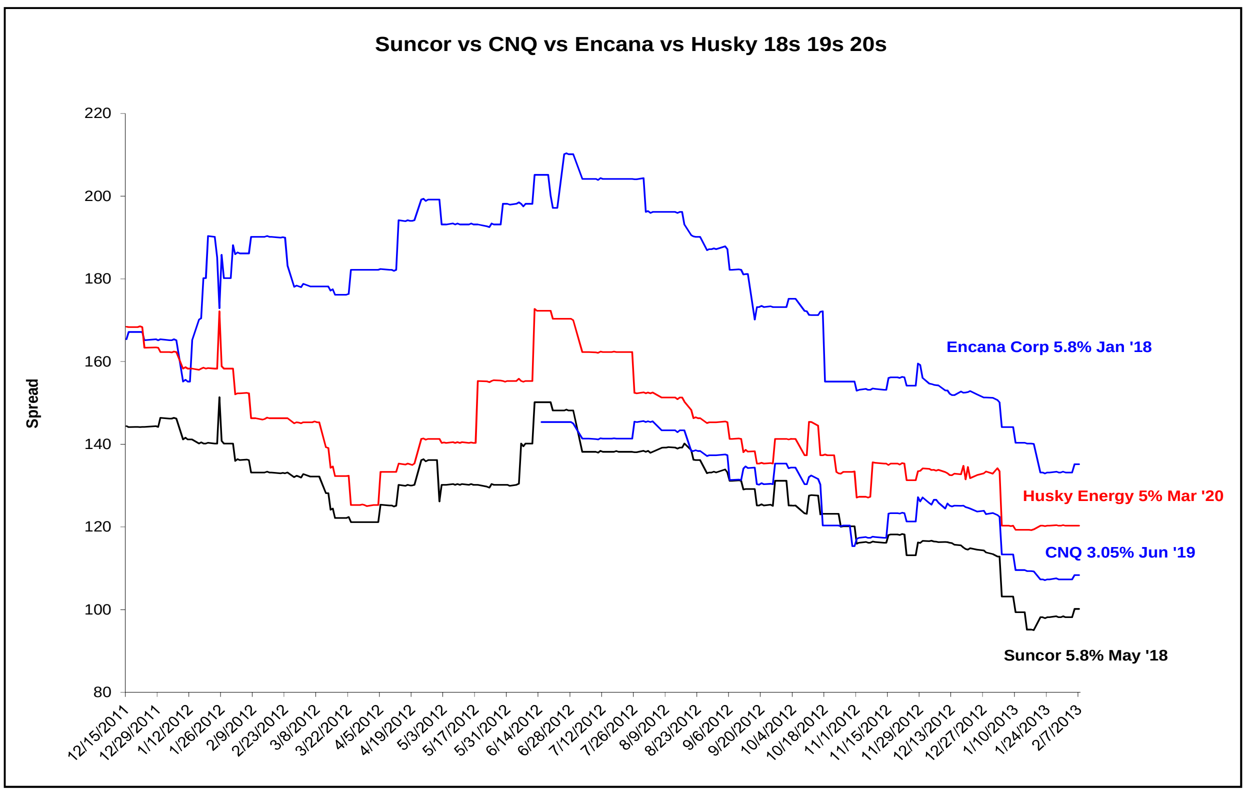
sector peers. We see the CTS benefitting earnings and cash flow for several years, even after Keystone XL is flowing oil, and thus we see the ratings as conservative and resilient, despite expected moderation of credit ratios from capex and issuance over the next year or more. We see the spreads of around 178 bps of the Enbridge 4.24% 2042s, for instance, as better value than the top-rated electric utilities, and better value right now than equivalent term TransCanada, which faces two hugely important regulatory decision announcements in the next few months.

We consider **TransCanada Pipelines Ltd. (A/ A-/ A3)**, with an excellent and growing asset portfolio and top-drawer management as the natural peer to Enbridge. But now, TransCanada secondary spreads remain significantly tighter than Enbridge Inc.(about 23 bps in the long end), even though we have yet to see the results of the Mainline toll restructuring application (which the NEB should announce by late Q1) and the State Dept. decision on a Presidential Permit (not expected until after March 31st). While we expect both decisions will likely be favourable, we think current spreads might be assuming zero risk of either of these decisions going against TransCanada. We would buy TransCanada bonds at current spreads as soon as the NEB ruling appears (assuming it will be favourable), and we would buy TransCanada bonds at spreads 15 bps to 20 bps inside equivalent term Enbridge Inc. (recognizing the ingrained holdco discount the market places on Enbridge Inc.) once Keystone XL receives its Presidential Permit (or sooner, if you are convinced it will be approved). While unlikely, we think either an NEB decision that does materially lower Mainline earnings, or failure to receive a Presidential Permit for Keystone XL, could be negative for spreads.

Kinder Morgan's TMX proposal is a very credible candidate for regulatory approval in our view, with 700,000 bpd of long-term commitments from shippers. Costs could rise over the initial $5.2 billion estimate when a formal facilities application is filed with the NEB later this year. This could mean supply of pipeline bonds in the Canadian market in the foreseeable future, though we wouldn't expect construction to commence until sometime 2015, and bond market borrowing sometime after then.



Source: PC Bond.

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Chile Local Yields Diverging From Latam

The following article was published on February 7, 2013.

Local markets in Latin America have generally followed the same trend for the past half a year. Mexican 10Y yields have fallen 20bp, Peruvian yields have fallen 80bp, and Colombian rates have fallen 160bp. The outperformance is even greater if we take into account the 50bp rise in US yields, which would have normally caused Latam rates to move in sympathy. The country that has deviated the most from this group is Chile, where yields rose 45bp in the same period.

One is tempted to explain this difference by macroeconomic developments and the subsequent effects on near-term monetary policy. While Colombia has already cut rates and recent statements from the Mexican Central Bank suggest a cut is possible, financial markets in Chile are increasingly pricing a rate hike. For example, one year swap rates have risen from 4.8% to 5.2%. The macroeconomic data are certainly there to support this move. Third-quarter growth was 5.7%, and recently released IMACEC data for December show a growth rate of 4.7%, marking a milder slowdown than was expected. Unemployment reached 5.2% in Santiago, the lowest rate since 1973. A rate hike is not assured, however, as inflation has not responded to the cycle so far. Inflation was only 1.5% in December, far short of the 3% target. The Central bank attributes the lag in response to either the strength in the exchange rate or the acceleration of productivity. There is more to this story than differences in macro performance, however.

In contrast to onshore bond yields, offshore yields as indicated by the CLP-denominated Chile 20 have actually done reasonably well, with a rally of about 30bp over the last 6 months, including a move of almost 100bp from peak to trough in that period. As a result, the spread differential between that offshore bond and a similar onshore bond is now nearly 200bp, the highest level we have seen since issuance. In other words, as far as foreign investors in offshore bonds are concerned, neither changes in the outlook for monetary policy nor fear of an FX intervention has made Chilean local yields less attractive.

The value proposition for the Chilean curve relative to its peers keeps getting stronger. Chile has the same inflation target, lower current inflation, and lower external default risk than both Mexico and Colombia, but a nominal yield on its local onshore bonds that is 70bp higher. Tax rates on coupons are actually lower in Chile than in the other two countries.

Thus, the explanation for recent movements must be that whether due to high onshore transaction costs, or simply lack of information about those costs, foreign investors have not entered into the local market as rapidly as they have in other Latam countries. While the timing is difficult to predict, we suspect that this will eventually change as banks facilitate access, the government eases regulations, and opportunities in other markets diminish.

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ETB Vs. Other Colombian Utilities

The following article was published on February 4, 2013.

ETB's issuance last month adds to the small list of Colombian utilities that have issued peso-denominated bonds in the global market. In this article, we explain the fundamental similarities and differences between ETB and the other utilities in order to help investors assess what the spread differential should be.

The telecom company ETB (Empresa de Telecomunicaciones de Bogotá) recently issued global bonds denominated in Colombian pesos, adding to the small list of Colombian utilities — namely Emgesa and EPM — which have provided foreign investors with a way to gain currency exposure with a significant yield pickup over the global sovereign curve. The bonds have performed extremely well in the past few weeks; while they were issued about 110bp wide to the other utilities, they subsequently outperformed those utilities by about 50bp. After accounting for the slope of the sovereign curve, we find that ETB bonds are now pricing about 50bp more risk than the other utilities; ETB was actually trading even tighter to those utilities last week before widening somewhat. Thus, the question investors should be asking themselves is where that spread differential should go from here. In order to help investors with that analysis, this article explains the fundamental similarities and differences between ETB and the other Colombian utilities.

Obvious similarities

The similarities between the utilities are easy to see. For example, the ownership structure is comparable in that EPM is owned by the municipality of Medellin while ETB is 87% owned by the District of Bogota. All three utilities have high margins and low leverage. ETB has an adjusted EBITDA margin of 47%, and prior to the recent issuance, net debt was actually negative. The three firms own substantial infrastructure, whether hydroelectric plants or telephone lines. These assets are expensive to install but relatively cheap to operate, allowing significant income and cash flow generation while also deterring new entrants by the large capital investments required to compete.

A few differences

Not all utilities are created equal, however. The technology for generating electricity is fairly stagnant with hydroelectric power still the production method with the lowest marginal cost. Emgesa's and EPM's power plants are unlikely to be replaced anytime soon. In contrast, telecommunications technology is changing rapidly. Notable trends include the growth of mobile at the expense of fixed-line service, the rise of data services as a revenue generator for the telecom industry (as opposed to voice services), and the convergence of various telecommunications and television technologies apparent in the spread of triple-play and quadruple-play packages. New technologies allow for increased competition, and, in many countries, put pressure on prices. In electric generation, capex has been largely used to expand in Colombia, or in the case of EPM, to expand abroad. In contrast, in telecom, capex may be necessary just to maintain market share rather than to grow market share. That is all to say that, in general, telecommunications is a more risky industry for bondholders than other utilities.

How does this difference relate to ETB's case in particular? Within the regional market of Bogota and Soacha, ETB has 71% of the fixed-line market and 43% of the broadband market. A dominant position in this industry can certainly be a source of competitive advantage going forwards. The Colombian market is growing, in particular in data services, and the penetration of all telecom services is lower in Colombia than some of its Latin American peers.

Nevertheless, we are not sure whether ETB will profit from that growth. For example, ETB's number of broadband subscribers has fallen by 6% even as the number of subscribers in the nation increased by 17% and the penetration rate of broadband in just Bogota increased from 13.8% to 15.4%, according to data from the Telecommunications Ministry. Mobile internet is growing even faster in the country at a rate of 22%, a sector in which ETB is weak. ETB has only 1% of the market directly, relative to 54% for Telefonica and

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21% for America Movil; ETB also owns one-fourth of Colombia Movil which is the third-place company with 19% of the market. (EPM also owns one-fourth of Colombia Movil).

The company's income statement is showing some deterioration. In the first 9 months of 2012, revenues fell 6%, adjusted Ebitda fell 16%, and net operating cash flow fell 29% relative to the previous year. Adjusted Ebitda margin has fallen from 53% to 47%, but of course that latter figure still represents a very profitable business. The company has considerable pension obligations representing about one-quarter of adjusted Ebitda. Those expenses are more than offset by miscellaneous income stemming from FX changes, provisions, and other sources. Operating cash flow is large; we expect over $300mn USD for 2012, which will be more than the amount of its global bonds outstanding. A significant portion of that cash flow is used for Capex and for mandatory dividends to the municipality.

A recent regulatory ruling may cause further changes in the industry. The regulator will impose asymmetric MTRs (mobile termination rates) on America Movil such that the out-of-network price must actually be the same or lower than the on-network price. That ruling was designed to help the some of the other cell companies compete with America Movil, presenting a potential opportunity for ETB. Nevertheless, these rulings could also lead to more price competition overall, which while helpful for consumers, could be bad for the industry.

Conclusion

We have noticed over time that the Global COP bond market largely ignores corporate fundamental news and developments in Emgesa and EPM. As a result, bonds of these companies are efficient instruments for gaining currency and local interest rate exposure with little additional risk. We suspect that ETB will trade in a similar way, but there is a greater chance that fundamental news could eventually have an effect on yields. Following quarterly earnings, cash flow, and capex, could be important in this case. In addition, we would also look out for new regulatory rulings, the evolution of market share, and the proposals and pronouncements from Bogota's mayor Gustavo Petro.

So far, local equity markets have focused on some of the competitive issues we have outlined, and the company's stock price has lost about 30% of its value over the past two years. In contrast, bond markets focus on ETB's large cash flow and low leverage. The utility EPM, in addition to supplying electricity and water, is also involved in the more risky telecommunications business, a factor for which bond markets have not punished it at all relative to Emgesa. It will be interesting to see how the Global COP market treats a pure telecom company.

Related articles:
"Emgesa: Is it better than Colombia?" February 24, 2011.
"Comparing Colombia's Emgesa and EPM," May 12, 2011.
"EPM and Emgesa report stable results for 1H12," September 7, 2012.

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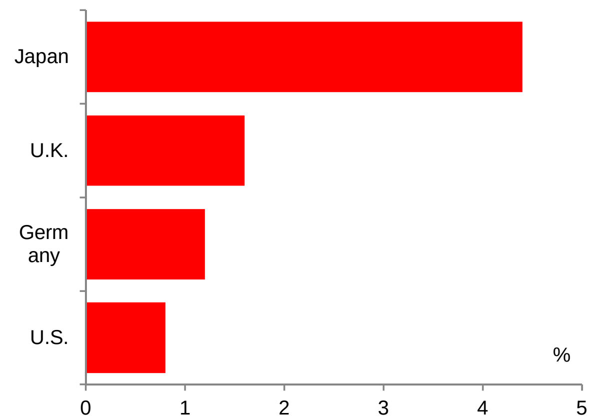
Key Data Preview

CANADA

Scotiabank is looking for a flat 0% m/m print on Canadian **manufacturing sales** for December (February 15) following on the strong 1.7% m/m gain in November. Manufacturing output seems to have picked up on a global basis heading into year-end, with strong manufacturing output numbers already having been released by Germany (+1.2% m/m), the U.K. (+1.6% m/m), and even Japan (+4.4% m/m). Canada's rebound seems to have started earlier, but the acceleration in new orders during November (+6.2% m/m) implies possible upside ahead. Still, in terms of December's release, industrial product prices were fairly flat on the month, with key categories such as fabricated metals (+1.2% m/m) and autos and trucks (+1.1%) rising but weakness in petroleum and coal prices (-0.9% m/m) and machinery and equipment (-0.4% m/m). The risk to flag here is that exports were quite soft (auto exports, -6.8% m/m; industrial machinery and equipment, -0.4% m/m) which implies limited torque from a key source of demand for Canadian manufactured goods.

Dec. Manufacturing Production



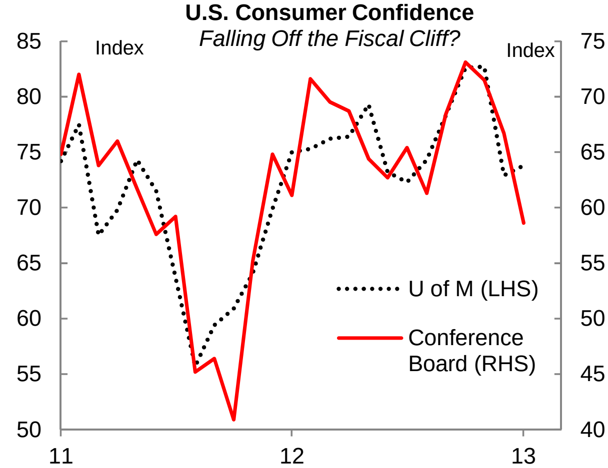
Source: Scotiabank Economics, Bloomberg

UNITED STATES

U.S. **retail sales** (February 13) were fairly strong in December (+0.5%) as consumers spent a record dividend payout ahead of an increase in U.S. taxes (wages were up 0.6% m/m; dividends were up 34.3% m/m). We're expecting a slow-down in January to 0.1% m/m. Our call is in part based on a macro view that consumption could lag as: a) incomes fall due to the payroll tax hike, and b) spending was likely brought forward along with incomes. Notwithstanding those over-arching views, the bottom-up micro data imply a fairly flat retail sales print. Consumer confidence was soft in January on both the Conference Board and U of M metrics. Car sales were fairly flat according to industry sources (15.3m at an annualized pace in Dec., 15.23m in Jan.). Gasoline prices were moderately lower according to Bloomberg's average pump price metric (-0.6% m/m). Chain store sales were somewhat weak on the ICSC survey. The preponderance of data point to soft retail spending.

U.S. Consumer Confidence

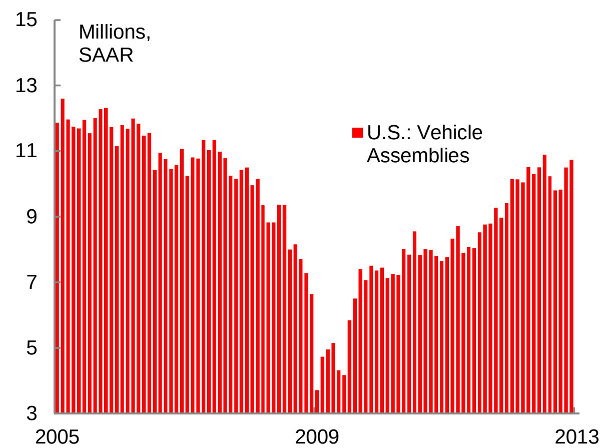
Falling Off the Fiscal Cliff?



Source: Bloomberg, Scotiabank Economics

Scotiabank is forecasting a slight increase in **industrial production** during January (February 15) with the gain led by an increase in automotive assemblies. Motor vehicle assemblies were one of the bright spots in the U.S. economy throughout 2012, spiking to 10.74m at an annualized pace in December and generally posting strong gains (notwithstanding a mid-summer lull — see chart). Production schedules were fairly strong, implying more torque here. The ISM manufacturing survey did pick up solidly during the month (53.1 vs. 50.2 for December) implying upside potential as well.

U.S.: Vehicle Assemblies



Source: Scotia Economics, Federal Reserve

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EUROPE

Next week is an important one in the European data calendar, with the release of fourth-quarter GDP estimates in the euro zone. For Germany we look for a substantial 0.5% q/q contraction in real GDP, largely attributable to a reversal of the abnormal inventory buildup in the third quarter (which artificially boosted growth to 0.2% q/q in that period). We expect that France fell back into negative growth territory in the period — with a 0.2% q/q drop in output, again chiefly due to a high base in the third quarter — and we expect this downward trend to persist into the first quarter of this year. Italy will probably see a larger decline in the range of 0.8% q/q, given more pronounced retrenchment on the fiscal and consumer fronts. Combined with the preliminary estimate of a 0.7% q/q contraction in Spain, these figures should yield an outcome of -0.5% for the euro area overall, marking the region's third quarter of recession, with at least one more likely in the pipeline.

LATIN AMERICA

In Mexico, industrial production growth moderated in the second half of 2012, stabilizing around the 3.0% y/y growth mark in the final months of the year. In November, industrial production expanded by 2.8% y/y, below our initial expectation of 3.5%, reflecting significant weakness in the construction sector. The manufacturing sector remains sound, expanding by 3.9% y/y in November and by 4.8% in the January-November period. We anticipate industrial activity to have expanded by 3.0% y/y in December and by 4.8% in 2012 overall.

ASIA

Japan will release fourth-quarter real GDP data on February 13th. The country's economy is performing weakly as the tsunami-related reconstruction boom is vanishing. We estimate that output growth remained in negative territory for the second consecutive quarter, decreasing by 0.1% q/q following a 0.9% q/q drop in the July-September period. On a year-over-year basis, this would translate into a 0.4% growth in the final quarter compared with a 0.5% gain in the third quarter. The export sector continues to suffer from the combined effect of recessionary conditions in Europe and diplomatic tensions between China and Japan over disputed territories; the euro zone and China together purchase around 28% of Japan's shipments abroad. Nevertheless, the weakness of the yen will likely bring some relief to exporters in the coming months. Domestic demand is being adversely impacted by an aging and shrinking population and labour force (25% of population will be older than 65 by 2014) as well as by persistent deflationary pressures that make borrowing unappealing and encourage consumers and companies to postpone spending. At the same time however, weak public finances are not preventing the government from taking steps to support the economy through additional fiscal stimulus measures. We expect the economy to expand by 0.8% this year following a 2% gain in 2012.

Japanese authorities have embarked on a decisive fight against deflation. Following the January policy meeting, the Bank of Japan (BoJ) took further steps to influence the cost of long-term funding and to inject liquidity into the economy by introducing an "open-ended asset purchasing method", effective January 2014. The BoJ committed to buying a certain amount of financial assets (around ¥13 trillion) every month without establishing a termination date for its pledge. The total size of the Asset Purchase Program for 2013 remained unchanged (at around ¥101 trillion), while it will be raised by around ¥10 trillion in 2014. In addition, the central bank increased its target for annual inflation from 1% to 2%, as forcefully advocated by Prime Minister Shinzo Abe. On February 5th the BoJ governor Masaaki Shirakawa announced his decision to step down on March 19th, a few weeks before schedule. Now, key central bank posts will be filled with policymakers assenting to Mr. Abe's economic views. We believe that no new monetary measures will be introduced before the new policymakers have taken office; therefore, the BoJ's February 14th meeting will likely prove uneventful.

Key Indicators for the week of February 11 - 15

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
MX	02/11	09:00	Industrial Production (m/m)	Dec	--	-0.1	0.9
MX	02/11	09:00	Industrial Production (y/y)	Dec	3.0	2.6	2.8
MX	02/11	09:00	Trade Balance (US$ mn)	Dec F	--	961.7	961.7
US	02/12	14:00	Treasury Budget (US$ bn)	Jan	--	-3.5	-0.3
US	02/13	07:00	MBA Mortgage Applications (w/w)	FEB 8	--	--	3.4
US	02/13	08:30	Export Prices (m/m)	Jan	--	0.8	-0.1
US	02/13	08:30	Import Prices (m/m)	Jan	--	0.8	-0.1
US	02/13	08:30	Retail Sales (m/m)	Jan	0.1	0.1	0.5
US	02/13	08:30	Retail Sales ex. Autos (m/m)	Jan	0.1	0.1	0.3
US	02/13	10:00	Business Inventories (m/m)	Dec	--	0.3	0.3
US	02/14	08:30	Initial Jobless Claims (000s)	FEB 9	365	360	366
US	02/14	08:30	Continuing Claims (000s)	FEB 2	3215	3210	3224
CA	02/15	08:30	Manufacturing Shipments (m/m)	Dec	0.0	-0.8	1.8
US	02/15	08:30	Empire State Manufacturing Index	Feb	-3.0	-2.0	-7.8
CA	02/15	09:00	Existing Home Sales (m/m)	Jan	--	--	-0.5
US	02/15	09:00	Total Net TIC Flows (US$ bn)	Dec	--	--	27.8
US	02/15	09:00	Net Long-term TIC Flows (US$ bn)	Dec	--	--	52.3
US	02/15	09:15	Capacity Utilization (%)	Jan	--	78.9	78.8
US	02/15	09:15	Industrial Production (m/m)	Jan	0.3	0.2	0.3
US	02/15	09:55	U. of Michigan Consumer Sentiment	Feb P	75.0	74.7	73.8

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
FR	02/11	02:45	Industrial Production (m/m)	Dec	--	-0.2	0.5
FR	02/11	02:45	Manufacturing Production (m/m)	Dec	--	-0.3	0.2
FR	02/12	02:45	Current Account (€ bn)	Dec	--	-3.5	-2.9
UK	02/12	04:30	CPI (m/m)	Jan	-0.3	-0.5	0.5
UK	02/12	04:30	CPI (y/y)	Jan	2.9	2.7	2.7
UK	02/12	04:30	PPI Input (m/m)	Jan	1.0	0.9	-0.2
UK	02/12	04:30	PPI Output (m/m)	Jan	--	0.2	-0.1
UK	02/12	04:30	RPI (m/m)	Jan	-0.3	-0.5	0.5
UK	02/12	04:30	RPI (y/y)	Jan	3.4	3.2	3.1
RU	02/12	06:59	**Russia Refinancing Rate (%)**	Feb 1	**8.25**	**8.25**	**8.25**
SW	02/13	03:30	**Riksbank Interest Rate (%)**	Feb 13	**1.00**	**1.00**	**1.00**
EC	02/13	05:00	Industrial Production (m/m)	Dec	--	0.2	-0.3
FR	02/14	01:30	GDP (q/q)	4Q P	-0.2	-0.2	0.1
GE	02/14	02:00	Real GDP (q/q)	4Q P	-0.5	-0.5	0.2
FR	02/14	02:45	Non-Farm Payrolls (q/q)	4Q P	--	-0.2	-0.3
HU	02/14	03:00	GDP (y/y)	4Q P	-2.1	-1.9	-1.5
IT	02/14	04:00	Real GDP (q/q)	4Q P	-0.8	-0.6	-0.2
EC	02/14	05:00	GDP (q/q)	4Q A	-0.5	-0.4	-0.1
PO	02/14	05:00	Real GDP (q/q)	4Q P	-0.7	-1.0	-0.9
GR	02/14	06:59	Real GDP NSA (y/y)	4Q A	--	--	-6.9
SP	02/15	03:00	CPI (y/y)	Jan F	2.6	2.6	2.6
SP	02/15	03:00	CPI - EU Harmonized (m/m)	Jan	-1.9	-1.9	0.0
SP	02/15	03:00	CPI - EU Harmonized (y/y)	Jan F	2.8	2.8	2.8
UK	02/15	04:30	Retail Sales ex. Auto Fuel (m/m)	Jan	0.5	0.5	-0.3
UK	02/15	04:30	Retail Sales with Auto Fuel (m/m)	Jan	0.5	0.5	-0.1
EC	02/15	05:00	Trade Balance (€ bn)	Dec	--	13.1	13.7
IT	02/15	05:00	Current Account (€ mn)	Dec	--	--	683.0

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

Key Indicators for the week of February 11 - 15

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
SI	02/10	06:59	Real GDP (y/y)	4Q F	1.1	--	1.1
NZ	02/10	18:00	QV House Prices (y/y)	Jan	--	--	5.7
AU	02/10	19:30	Home Loans (%)	Dec	--	0.0	-0.5
AU	02/10	19:30	Investment Lending (% change)	Dec	--	--	-3.3
IN	02/11	06:59	Exports (y/y)	Jan	--	--	-1.9
IN	02/11	06:59	Imports (y/y)	Jan	--	--	6.3
JN	02/11	18:50	Japan Money Stock M2 (y/y)	Jan	--	2.6	2.6
JN	02/11	18:50	Japan Money Stock M3 (y/y)	Jan	--	2.3	2.2
PH	02/11	20:00	Exports (y/y)	Dec	--	6.2	5.5
JN	02/12	00:00	Consumer Confidence	Jan	--	--	39.2
IN	02/12	00:30	Industrial Production (y/y)	Dec	--	1.1	-0.1
JN	02/12	01:00	Machine Tool Orders (y/y)	Jan P	--	--	-27.5
ID	02/12	06:59	**BI Reference Interest Rate (%)**	Feb 12	**5.75**	**5.75**	**5.75**
SK	02/12	18:00	Unemployment Rate (%)	Jan	3.0	3.0	3.0
JN	02/12	18:50	Tertiary Industry Index (m/m)	Dec	--	0.7	-0.3
ID	02/13	06:59	Current Account Balance (US$ mn)	4Q	--	-7500	-5336
PH	02/13	06:59	Bank Lending (y/y)	Dec	--	--	13.3
NZ	02/13	16:30	Business NZ PMI	Jan	--	--	50.1
JN	02/13	18:50	GDP (q/q)	4Q P	-0.1	0.1	-0.9
JN	02/13	18:50	GDP Deflator (y/y)	4Q P	--	-0.5	-0.8
AU	02/13	19:00	Consumer Inflation Expectation (%)	Feb	--	--	2.0
NZ	02/13	19:00	ANZ Consumer Confidence Index	Feb	--	--	118.3
SK	02/13	20:00	**BoK Base Rate (%)**	Feb 14	**2.75**	**2.75**	**2.75**
IN	02/14	01:30	Monthly Wholesale Prices (y/y)	Jan	7.0	7.0	7.2
CH	02/14	06:59	Actual FDI (y/y)	Jan	--	-4.2	-4.5
IN	02/14	06:59	CPI (y/y)	Jan	--	--	10.6
JN	02/14	07:59	**BoJ Target Rate (%)**	Feb 14	**0.10**	**--**	**0.10**
JN	02/14	23:30	Capacity Utilization (m/m)	Dec F	--	--	-0.2
JN	02/14	23:30	Industrial Production (m/m)	Dec F	2.5	--	2.5
JN	02/14	23:30	Industrial Production (y/y)	Dec F	-7.8	--	-7.8
SI	02/15	00:00	Retail Sales (m/m)	Dec	--	0.6	-0.8
SI	02/15	00:00	Retail Sales (y/y)	Dec	--	0.1	-1.1
PH	02/15	06:59	Overseas Remittances (y/y)	Dec	7.0	7.0	7.6

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	02/11	06:59	Trade Balance (PEN mn)	Dec	--	--	628.0
BZ	02/13	07:59	Economic Activity Index SA (m/m)	Dec	--	--	0.4
BZ	02/13	07:59	Economic Activity Index NSA (y/y)	Dec	--	--	2.8
CL	02/14	16:00	**Nominal Overnight Rate Target (%)**	Feb 14	**5.00**	**5.00**	**5.00**
PE	02/15	06:59	Economic Activity Index NSA (y/y)	Dec	6.0	6.0	6.8
PE	02/15	06:59	Unemployment Rate (%)	Jan	--	--	5.6

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

Global Auctions for the week of February 11 - 15

North America

Country	Date	Time	Event
US	02/11	11:00	U.S. Fed to Purchase USD1.25-1.75 Bln Notes
US	02/11	11:30	U.S. to Sell USD35 Bln 3-Month Bills
US	02/11	11:30	U.S. to Sell USD30 Bln 6-Month Bills
CA	02/12	10:30	Canada to Sell CAD8.6 Bln 98-Day Bills
CA	02/12	10:30	Canada to Sell CAD3.2 Bln 182-Day Bills
CA	02/12	10:30	Canada to Sell CAD3.2 Bln 364-Day Bills
US	02/12	11:00	U.S. Fed to Purchase USD2.75-3.50 Bln Notes
US	02/12	13:00	U.S. to Sell USD32 Bln 3-Year Notes
US	02/13	11:00	U.S. Fed to Purchase USD1.25-1.75 Bln Notes
CA	02/13	12:00	Canada to Sell CAD3.3 Bln 2 Year Notes
US	02/13	13:00	U.S. to Sells USD24 Bln 10-Year Notes
US	02/14	11:00	U.S. Fed to Purchase USD4.75-5.75 Bln Notes
US	02/14	13:00	U.S. to Sell USD16 Bln 30-Year Bonds

Europe

Country	Date	Time	Event
GE	02/11	05:30	Germany to Sell EU4 Bln 6-Mth Bills
FR	02/11	08:50	France to Sell Bills (BTF)
NE	02/12	04:00	Netherlands to Sell Up to EUR3 Bln 1.25% 2018 Bonds
SP	02/12	04:30	Spain to Sell 6-Month and 12-Month Bills
IT	02/12	05:00	Italy to Sell 3-Month and 12-Month Bills
BE	02/12	05:30	Belgium to Sell Bills
GE	02/12	05:30	Germany to Sell EUR1 Bln 0.75% 2018 I/L Bonds
NO	02/12	06:00	Norway to Sell NOK3 Bln 2% 2023 Bonds
IT	02/13	05:00	Italy to Sell Bonds
SW	02/13	05:03	Sweden to Sell Bonds/Sweden to Sell Bills
SZ	02/13	05:30	Switzerland to Sell Bonds
GE	02/13	05:30	Germany to Sell EU5 Bln 2-Year Notes
SW	02/14	05:03	Sweden to Sell Inflation-Linked Bonds
UK	02/14	05:30	U.K. to Sell GBP4 Bln 1.25% 2018 Bonds
UK	02/15	06:10	UK to Sell Bills

Asia Pacific

Country	Date	Time	Event
JN	02/12	22:35	Japan to Sell 3-Month Bills
JN	02/12	22:45	Japan to Sell 40-Year Bonds
NZ	02/13	20:05	New Zealand Plans to Sell Bonds

Latin America

Country	Date	Time	Event
BZ	02/13	21:00	Brazil to Sell Bills due 07/01/2016 - LTN
BZ	02/14	08:30	Brazil to Sell Bills due 10/1/2013 - LTN
BZ	02/14	08:30	Brazil to Sell Bills due 4/1/2015 - LTN
BZ	02/14	08:30	Brazil to Sell Fixed-rate bonds due 1/1/2019 - NTN-F
BZ	02/14	08:30	Brazil to Sell Fixed-rate bonds due 1/1/2023 - NTN-F

Source: Bloomberg, Scotiabank Economics.

Events for the week of February 11 - 15

North America

Country	Date	Time	Event
CA	FEB 9-10		Official Parti Conservateur du Quebec Debates
CA	02/11	16:00	Bank of Canada Deputy Governor Lane Speaks at Harvard
CA	02/11		Kathleen Wynne Sworn in as Ontario Premier
CA	02/12	08:45	Bank of Canada's Carney, Macklem at Finance Committee
US	02/12	09:30	Senate Armed Services Committee meeting on impacts of Defense Sequestration/Continuing Resolution Budget
US	02/12	11:30	Fed's George Speaks on the Economy in Omaha, Nebraska
US	02/12	13:30	Fed's Lockhart Speaks in Madrid, Spain
US	02/12	19:30	Fed's Plosser Speaks on Economic Outlook in Stanford, CA
US	02/12	19:30	Fed's Lacker Speaks on Economics in Lancaster, PA
US	02/12		U.S. President Obama Gives State of the Union Address
US	02/13	11:10	Fed's Bullard to Speak on Economy at Arkansas State University
CA	02/14	11:45	Ontario PC Party Leader Hudak Speaks at Economic Club
US	02/14	12:50	Fed's Bullard to Speak on Economy in Mississippi
SA	FEB 14-15		G20 Finance Ministers and Central Bank Governors Meeting
US	02/15	09:50	Fed's Pianalto Speaks on Economy in Ft. Myers, Florida

Europe

Country	Date	Time	Event
IT	02/09	04:00	Bank of Italy Governor Visco at Assiom Forex Conference
PO	02/11	06:00	Portugal Reports International Trade Figures for December
PO	02/11	06:00	Portugal Releases Services Sales, Employment Report
EC	02/11	08:30	Euro-Area Finance Ministers Meet in Brussels
FI	02/12	01:00	ECB's Liikanen, Constancio, Nordea's Clausen Speak in Helsinki
EC	02/12	03:00	EU-27 Finance Ministers Meet in Brussels
PO	02/12	05:00	Portugal Reports January Consumer Price Inflation
SZ	02/12	05:00	SNB President Thomas Jordan Speaks in Geneva
RU	02/12		**Russia Refinancing Rate**
RU	02/12		Overnight Deposit Rate
RU	02/12		Overnight Auction-Based Repo
SP	02/12		Rajoy Speaks at The Economist Spain Summit
SW	02/13	03:30	**Riksbank Interest Rate**
UK	02/13	05:30	Bank of England Releases Quarterly Inflation Report
GE	02/13	11:00	Merkel at CDU Ash Wednesday Event in Mecklenburg
PO	02/13		Bank of Portugal Releases Data on Banks
EC	02/14	06:00	EU to Propose Financial Transaction Tax for 11 States
UK	02/14		Last Day of Commons Session Before February Recess
SA	FEB 14-15		G20 Finance Ministers and Central Bank Governors Meeting
IT	02/15	04:30	Bank of Italy Releases Dec. Public Finance Supplement
EC	02/15	06:00	ECB Announces 3-Year LTRO Repayment

Source: Bloomberg, Scotiabank Economics.

Events for the week of February 11 - 15

Asia Pacific

Country	Date	Time	Event
IN	02/09	04:15	Indian Finance Minister Chidambaram Speaks at MCX-SX
PH	02/10	23:00	Aquino to Visit Muslim Rebel Camp in Maguindanao Province
NZ	02/11	16:00	ANZ Truckometer Index
PH	02/11	22:00	Credit Information Corp.-IFC Signing of Cooperation Agreement
ID	FEB 11-12		Bank Indonesia Reference Rate
PH	02/12	20:00	Philippine Government Economic Briefing
SK	02/13	20:00	South Korea 7-Day Repo Rate
IA	02/13		The International Atomic Energy Agency Meets with Iran
JN	FEB 13-14		BOJ Target Rate
SA	FEB 14-15		G20 Finance Ministers and Central Bank Governors Meeting
JN	02/15		Bank of Japan's Monthly Economic Report History

Latin America

Country	Date	Time	Event
CL	02/14	16:00	Nominal Overnight Rate Target
SA	FEB 14-15		G20 Finance Ministers and Central Bank Governors Meeting
CO	FEB 14-16		Public-Private Partnerships Regional Conference in Colombia

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

North America

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

BoC: Scotiabank expects the Bank of Canada to be on hold throughout our full forecast horizon spanning 2013 and 2014. The BoC's current guidance sees the economy returning to full capacity in H2 2014 and therefore implies that interest rate hikes are unlikely to be required until at least that point. We expect weaker economic outcomes than the BoC, more persistent softness in CPI, and finally, we think that loose monetary policy on a global basis will condition the BoC's flexibility. Soft housing and labour data for Jan. add to our case. Fed: We expect the Fed to continue with its current pace of asset purchases (US$85/bn per month) through 2013, and think that Minneapolis Fed President Kocherlakota's argument that FOMC policy needs to lag economic improvements will have more traction than St. Louis Fed President Bullard's view that recent upward revisions to nonfarm payrolls justify a slight reduction in the pace of asset purchases.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.75	March 7, 2013	0.75	--
Bank of England – Bank Rate	0.50	March 7, 2013	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	March 14, 2013	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	February 12, 2013	8.25	--
Hungarian National Bank – Base Rate	5.50	February 26, 2013	5.50	5.25
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.50	February 19, 2013	5.50	--
Sweden Riksbank – Repo Rate	1.00	February 13, 2013	1.00	1.00
Norges Bank – Deposit Rate	1.50	March 14, 2013	1.50	--

The central bank of Russia is faced with conflicting concerns: heightened inflationary pressures on one hand (the headline rate jumped to 7.1% y/y in January, up from 6.6% in the prior month, in spite of ruble appreciation), and on the other, a significant slowdown in industrial activity due to weaker global demand. Industrial production growth averaged just 1.7% y/y in the fourth quarter (the weakest pace since 2009 Q3), while capacity investment measured only 1.8% y/y. The monetary authorities will thus likely maintain the status quo in interest rates for now, waiting for signs of an economic turnaround (or, for a moderation in inflation in the case of continued economic weakness) before considering their next move. Sweden's Riksbank will also meet next week, and we expect the benchmark repo rate to be kept unchanged at 1.0%. The bank cut rates by 100 basis between December 2011 and December 2012. Although deflation remains a threat (December marked the second straight decline in year-over-year prices), we anticipate that the latest cut on December 18th marks the bottom of the current easing cycle, as rising household debt levels pose a risk for longer-term economic/financial stability, according to a majority of the Executive Board.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	February 14, 2013	0.10	--
Reserve Bank of Australia – Cash Target Rate	3.00	March 4, 2013	3.00	--
Reserve Bank of New Zealand – Cash Rate	2.50	March 13, 2013	2.50	--
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	7.75	March 19, 2013	7.50	--
Bank of Korea – Bank Rate	2.75	February 13, 2013	2.75	2.75
Bank of Thailand – Repo Rate	2.75	February 20, 2013	2.75	--
Bank Indonesia – Reference Interest Rate	5.75	February 12, 2013	5.75	5.75

Indonesian and South Korean monetary authorities will meet on February 12th and 13th, respectively, and both will likely keep monetary conditions unchanged; we assess that the easing cycle in these two economies has reached a bottom. The Bank of Korea and Bank Indonesia will likely begin to normalize monetary conditions in the third quarter of the year. For insights into the Bank of Japan's monetary policy decision on February 14th, please review the Asian key data preview on page A2.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	7.25	March 6, 2013	7.25	--
Banco Central de Chile – Overnight Rate	5.00	February 14, 2013	5.00	5.00
Banco de la República de Colombia – Lending Rate	4.00	February 22, 2013	4.00	--
Banco Central de Reserva del Perú – Reference Rate	4.25	March 7, 2013	4.25	4.25

Headline inflation in Chile remains close to its lowest level since mid-2010, accelerating slightly from 1.5% y/y in December to 1.6% y/y in January. Additionally, economic activity is still solid, with output growing on average by 5.7% y/y in the last six months. We maintain our view that the central bank will preserve its monetary policy stance, leaving the reference rate unchanged at 5% after the next week's meeting, where it has been for the last 13 months.

Africa

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

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

Forecasts as at January 31, 2013*	2000-11	2012e	2013f	2014f	2000-11	2012e	2013f	2014f
Output and Inflation (annual % change)	Real GDP				Consumer Prices[2]			
World[1]	3.7	3.1	3.2	3.8				
Canada	2.2	1.9	1.7	2.4	2.1	1.5	1.3	2.0
United States	1.8	2.2	1.9	2.7	2.5	2.1	2.0	2.1
Mexico	2.2	4.0	3.6	3.9	4.8	3.6	3.8	3.8
United Kingdom	1.9	0.0	0.9	1.4	2.3	2.7	2.8	2.4
Euro Zone	1.4	-0.5	-0.2	1.0	2.1	2.2	1.9	1.7
Japan	0.8	1.9	0.8	1.2	-0.3	-0.1	0.3	0.6
Australia	3.0	3.5	2.6	3.1	3.1	2.2	2.8	3.0
China	9.4	7.8	8.1	8.3	2.4	2.5	3.3	3.9
India	7.3	5.5	6.0	6.5	6.6	7.2	7.0	6.1
South Korea	4.5	2.0	2.8	3.5	3.2	1.4	2.7	3.0
Thailand	4.0	5.5	4.0	4.2	2.7	3.6	3.1	3.3
Brazil	3.6	1.0	3.3	4.0	6.6	5.8	5.8	5.5
Chile	4.8	5.6	5.0	5.5	3.5	1.5	3.1	3.3
Peru	5.6	6.3	6.0	5.5	2.6	2.6	3.0	3.0

Central Bank Rates (%, end of period)	12Q4	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.00	3.00	3.00	3.00	3.25	3.25	3.50	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.99	0.98	0.97	0.97	0.96	0.96	0.96	0.97
Canadian Dollar (CADUSD)	1.01	1.02	1.03	1.03	1.04	1.04	1.04	1.03
Euro (EURUSD)	1.32	1.34	1.30	1.28	1.27	1.26	1.26	1.25
Sterling (GBPUSD)	1.63	1.59	1.61	1.63	1.64	1.65	1.65	1.66
Yen (USDJPY)	87	92	93	94	95	95	96	97
Australian Dollar (AUDUSD)	1.04	1.05	1.06	1.07	1.08	1.08	1.09	1.09
Chinese Yuan (USDCNY)	6.2	6.2	6.2	6.2	6.1	6.1	6.1	6.1
Mexican Peso (USDMXN)	12.9	12.8	12.6	12.6	12.8	12.9	12.7	12.8
Brazilian Real (USDBRL)	2.05	1.96	1.98	2.01	2.00	2.00	1.98	1.98

Commodities (annual average)	2000-11	2012	2013f	2014f
WTI Oil (US$/bbl)	57	94	94	96
Brent Oil (US$/bbl)	58	112	112	112
Nymex Natural Gas (US$/mmbtu)	5.67	2.83	3.75	4.00
Copper (US$/lb)	2.10	3.61	3.50	3.30
Zinc (US$/lb)	0.77	0.88	1.00	1.15
Nickel (US$/lb)	7.62	7.95	8.25	8.50
Gold, London PM Fix (US$/oz)	668	1,669	1,725	1,700
Pulp (US$/tonne)	718	872	875	950
Newsprint (US$/tonne)	581	640	630	660
Lumber (US$/mfbm)	272	298	360	398

[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	12Q2	12Q3	Latest	
Real GDP (annual rates)	2.6	1.7	0.6		
Current Acc. Bal. (C$B, ar)	-52.3	-73.5	-75.6		
Merch. Trade Bal. (C$B, ar)	0.9	-14.9	-20.7	-10.8	(Dec)
Industrial Production	3.8	2.8	0.0	0.6	(Nov)
Housing Starts (000s)	193	231	222	161	(Jan)
Employment	1.6	1.2	1.0	1.8	(Jan)
Unemployment Rate (%)	7.5	7.3	7.3	7.0	(Jan)
Retail Sales	4.1	2.6	2.5	1.4	(Nov)
Auto Sales (000s)	1589	1671	1663	1725	(Nov)
CPI	2.9	1.6	1.2	0.8	(Dec)
IPPI	4.6	0.7	0.0	-0.2	(Dec)
Pre-tax Corp. Profits	15.2	0.9	-2.3		

United States	2011	12Q2	12Q3	Latest	
Real GDP (annual rates)	1.8	1.3	3.1	-0.1	(Q4-A)
Current Acc. Bal. (US$B, ar)	-466	-472	-430		
Merch. Trade Bal. (US$B, ar)	-738	-744	-697	-674	(Dec)
Industrial Production	4.1	4.9	3.4	1.8	(Dec)
Housing Starts (millions)	0.61	0.74	0.77	0.95	(Dec)
Employment	1.2	1.6	1.7	1.6	(Jan)
Unemployment Rate (%)	8.9	8.2	8.0	7.9	(Jan)
Retail Sales	8.3	4.3	4.6	4.4	(Dec)
Auto Sales (millions)	12.7	14.1	14.5	15.2	(Jan)
CPI	3.2	1.9	1.7	1.7	(Dec)
PPI	6.0	1.1	1.5	1.3	(Dec)
Pre-tax Corp. Profits	2.1	14.6	19.3		

Mexico	2011	12Q2	12Q3	Latest	
Real GDP	3.9	4.4	3.3		
Current Acc. Bal. (US$B, ar)	-9.2	3.6	-14.6		
Merch. Trade Bal. (US$B, ar)	-1.5	6.1	-4.7	11.5	(Dec)
Industrial Production	4.0	4.1	3.6	2.8	(Nov)
CPI	3.4	3.9	4.6	3.3	(Jan)

Europe

Euro Zone	2011	12Q2	12Q3	Latest	
Real GDP	1.5	-0.5	-0.6		
Current Acc. Bal. (US$B, ar)	17	77	205	305	(Nov)
Merch. Trade Bal. (US$B, ar)	12.8	129.1	152.9	250.6	(Nov)
Industrial Production	3.4	-2.2	-2.4	-4.1	(Nov)
Unemployment Rate (%)	10.1	11.2	11.4	11.7	(Dec)
CPI	2.7	2.5	2.5	2.2	(Dec)

Germany	2011	12Q2	12Q3	Latest	
Real GDP	3.1	1.0	0.9		
Current Acc. Bal. (US$B, ar)	203.6	192.1	208.7	272.4	(Dec)
Merch. Trade Bal. (US$B, ar)	217.2	246.3	255.5	265.1	(Dec)
Industrial Production	8.0	-0.2	-1.1	-1.1	(Dec)
Unemployment Rate (%)	7.1	6.8	6.8	6.8	(Jan)
CPI	2.3	1.9	1.9	1.7	(Jan)

France	2011	12Q2	12Q3	Latest	
Real GDP	1.7	0.1	0.0		
Current Acc. Bal. (US$B, ar)	-54.5	-90.2	-40.0	-65.6	(Nov)
Merch. Trade Bal. (US$B, ar)	-53.3	-57.5	-50.7	-48.9	(Dec)
Industrial Production	1.7	-1.9	-2.1	-3.9	(Nov)
Unemployment Rate (%)	9.6	10.2	10.3	10.6	(Dec)
CPI	2.1	2.0	2.0	1.3	(Dec)

United Kingdom	2011	12Q2	12Q3	Latest	
Real GDP	0.9	-0.3	0.0		
Current Acc. Bal. (US$B, ar)	-32.7	-106.3	-100.9		
Merch. Trade Bal. (US$B, ar)	-160.7	-175.0	-164.8	-172.4	(Dec)
Industrial Production	-0.7	-2.6	-1.7	-1.7	(Dec)
Unemployment Rate (%)	8.1	8.1	7.8	7.7	(Oct)
CPI	4.5	2.7	2.4	2.7	(Dec)

Italy	2011	12Q2	12Q3	Latest	
Real GDP	0.6	-2.3	-2.4		
Current Acc. Bal. (US$B, ar)	-67.4	-3.6	4.3	10.5	(Nov)
Merch. Trade Bal. (US$B, ar)	-35.5	17.0	23.0	36.4	(Nov)
Industrial Production	0.2	-7.5	-6.3	-7.0	(Dec)
CPI	2.8	3.3	3.2	2.4	(Dec)

Russia	2011	12Q2	12Q3	Latest	
Real GDP	4.3	4.0	2.9		
Current Acc. Bal. (US$B, ar)	98.8	21.2	6.7		
Merch. Trade Bal. (US$B, ar)	16.5	16.6	12.8	15.4	(Nov)
Industrial Production	4.8	2.3	2.5	1.4	(Dec)
CPI	8.4	3.8	6.0	7.1	(Jan)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2011	12Q2	12Q3	Latest	
Real GDP	2.4	3.8	3.1		
Current Acc. Bal. (US$B, ar)	-33.9	-34.5	-66.1		
Merch. Trade Bal. (US$B, ar)	35.7	27.5	1.9	46.9	(Dec)
Industrial Production	-0.8	2.7	4.3		
Unemployment Rate (%)	5.1	5.1	5.3	5.4	(Jan)
CPI	3.3	1.2	2.0		

Japan	2011	12Q2	12Q3	Latest	
Real GDP	-0.5	4.0	0.5		
Current Acc. Bal. (US$B, ar)	119.2	56.8	82.4	-37.9	(Dec)
Merch. Trade Bal. (US$B, ar)	-33.7	-64.2	-97.3	-114.9	(Dec)
Industrial Production	-2.3	5.1	-4.6	-6.4	(Dec)
Unemployment Rate (%)	4.6	4.4	4.2	4.2	(Dec)
CPI	-0.3	0.2	-0.4	-0.1	(Dec)

South Korea	2011	12Q2	12Q3	Latest	
Real GDP	3.6	2.3	1.5		
Current Acc. Bal. (US$B, ar)	26.1	44.8	58.2	27.0	(Dec)
Merch. Trade Bal. (US$B, ar)	30.8	38.9	30.1	10.5	(Jan)
Industrial Production	6.9	2.4	-0.1	5.1	(Dec)
CPI	4.0	2.4	1.6	1.5	(Jan)

China	2011	12Q2	12Q3	Latest	
Real GDP	10.4	7.6	7.4		
Current Acc. Bal. (US$B, ar)	201.7				
Merch. Trade Bal. (US$B, ar)	155.0	273.3	316.7	349.8	(Jan)
Industrial Production	12.8	9.5	9.2	10.3	(Dec)
CPI	4.1	2.2	1.9	2.5	(Dec)

Thailand	2011	12Q2	12Q3	Latest	
Real GDP	0.1	4.4	3.0		
Current Acc. Bal. (US$B, ar)	5.9	-2.3	2.7		
Merch. Trade Bal. (US$B, ar)	1.4	0.5	1.7	0.3	(Dec)
Industrial Production	-9.3	-1.7	-10.9	24.1	(Dec)
CPI	3.8	2.5	2.9	-7.7	(Jan)

India	2011	12Q2	12Q3	Latest	
Real GDP	7.5	5.5	5.3		
Current Acc. Bal. (US$B, ar)	-62.5	-16.4	-22.3		
Merch. Trade Bal. (US$B, ar)	-13.5	-13.7	-16.9	-17.7	(Dec)
Industrial Production	4.8	-0.3	0.4	-0.1	(Nov)
WPI	9.5	7.5	7.9	7.2	(Dec)

Indonesia	2011	12Q2	12Q3	Latest	
Real GDP	6.5	6.4	6.2		
Current Acc. Bal. (US$B, ar)	1.7	-7.7	-5.3		
Merch. Trade Bal. (US$B, ar)	2.2	-0.8	0.2	-0.2	(Dec)
Industrial Production	4.1	2.2	2.9	8.9	(Oct)
CPI	5.4	4.5	4.5	4.6	(Jan)

Latin America

Brazil	2011	12Q2	12Q3	Latest	
Real GDP	2.5	0.4	0.8		
Current Acc. Bal. (US$B, ar)	-52.5	-52.7	-35.6		
Merch. Trade Bal. (US$B, ar)	29.8	18.6	34.6	-48.4	(Jan)
Industrial Production	0.4	-4.4	-2.3	-2.1	(Dec)
CPI	6.6	5.0	5.2	6.2	(Jan)

Chile	2011	12Q2	12Q3	Latest	
Real GDP	6.0	5.7	5.7		
Current Acc. Bal. (US$B, ar)	-0.3	-7.0	-19.1		
Merch. Trade Bal. (US$B, ar)	10.0	6.7	-7.1	2.9	(Jan)
Industrial Production	6.9	4.1	1.5	-2.5	(Dec)
CPI	3.3	3.1	2.6	1.6	(Jan)

Peru	2011	12Q2	12Q3	Latest	
Real GDP	6.9	6.3	6.5		
Current Acc. Bal. (US$B, ar)	-3.3	-1.9	-2.8		
Merch. Trade Bal. (US$B, ar)	0.9	0.2	0.3	0.2	(Nov)
Unemployment Rate (%)	7.7	7.2	6.5	5.6	(Dec)
CPI	3.4	4.1	3.5	2.9	(Jan)

Colombia	2011	12Q2	12Q3	Latest	
Real GDP	5.9	4.9	2.1		
Current Acc. Bal. (US$B, ar)	-10.0	-3.3	-3.6		
Merch. Trade Bal. (US$B, ar)	0.4	0.2	0.0	-0.2	(Nov)
Industrial Production	4.8	0.2	-0.4	1.1	(Oct)
CPI	3.4	3.4	3.1	2.0	(Jan)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	12Q3	12Q4	Feb/01	Feb/08*	United States	12Q3	12Q4	Feb/01	Feb/08*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.98	0.93	0.93	0.93	3-mo. T-bill	0.09	0.04	0.07	0.07
10-yr Gov't Bond	1.73	1.80	2.04	1.98	10-yr Gov't Bond	1.63	1.76	2.01	1.97
30-yr Gov't Bond	2.32	2.37	2.63	2.58	30-yr Gov't Bond	2.82	2.95	3.22	3.18
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	67.9	68.4	68.4	(Dec)	FX Reserves (US$B)	142.0	139.1	139.1	(Dec)
Germany					**France**				
3-mo. Interbank	0.11	0.10	0.15	0.15	3-mo. T-bill	0.00	-0.01	0.02	0.02
10-yr Gov't Bond	1.44	1.32	1.67	1.62	10-yr Gov't Bond	2.18	2.00	2.25	2.24
FX Reserves (US$B)	68.5	67.4	67.4	(Dec)	FX Reserves (US$B)	50.9	54.2	54.2	(Dec)
Euro Zone					**United Kingdom**				
Refinancing Rate	0.75	0.75	0.75	0.75	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.11	0.13	0.08	0.07	3-mo. T-bill	0.35	0.36	0.37	0.37
FX Reserves (US$B)	332.8	332.4	332.4	(Dec)	10-yr Gov't Bond	1.73	1.83	2.10	2.11
					FX Reserves (US$B)	87.9	88.6	88.6	(Dec)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	3.50	3.00	3.00	3.00
3-mo. Libor	0.13	0.11	0.10	0.10	10-yr Gov't Bond	2.99	3.27	3.52	3.48
10-yr Gov't Bond	0.78	0.79	0.77	0.77	FX Reserves (US$B)	42.4	44.9	44.9	(Dec)
FX Reserves (US$B)	1233.3	1227.2	1227.2	(Dec)					

Exchange Rates (end of period)

USDCAD	0.98	0.99	1.00	1.00	¥/US$	77.96	86.75	92.77	92.71
CADUSD	1.02	1.01	1.00	1.00	US¢/Australian$	1.04	1.04	1.04	1.03
GBPUSD	1.617	1.626	1.569	1.583	Chinese Yuan/US$	6.28	6.23	6.23	6.24
EURUSD	1.286	1.319	1.364	1.339	South Korean Won/US$	1111	1064	1097	1096
JPYEUR	1.00	0.87	0.79	0.81	Mexican Peso/US$	12.859	12.853	12.606	12.728
USDCHF	0.94	0.92	0.91	0.92	Brazilian Real/US$	2.026	2.052	1.988	1.971

Equity Markets (index, end of period)

United States (DJIA)	13437	13104	14010	13994	U.K. (FT100)	5742	5898	6347	6269
United States (S&P500)	1441	1426	1513	1518	Germany (Dax)	7216	7612	7833	7646
Canada (S&P/TSX)	12317	12434	12769	12812	France (CAC40)	3355	3641	3774	3651
Mexico (IPC)	40867	43706	45768	45172	Japan (Nikkei)	8870	10395	11191	11153
Brazil (Bovespa)	59176	60952	60351	58053	Hong Kong (Hang Seng)	20840	22657	23722	23215
Italy (BCI)	825	873	925	889	South Korea (Composite)	1996	1997	1958	1951

Commodity Prices (end of period)

Pulp (US$/tonne)	830	870	870	870	Copper (US$/lb)	3.75	3.59	3.70	3.73
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	0.95	0.92	0.97	0.98
Lumber (US$/mfbm)	300	388	362	380	Gold (US$/oz)	1776.00	1657.50	1669.00	1668.25
WTI Oil (US$/bbl)	92.19	91.82	97.77	96.27	Silver (US$/oz)	34.65	29.95	31.43	31.52
Natural Gas (US$/mmbtu)	3.32	3.35	3.30	3.31	CRB (index)	309.30	295.01	305.07	302.43

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

Corporate Bond Research

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