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Global Views

Weekly commentary on economic and financial market developments

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Global Risks Are Building Into Year-End

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

Peace following world war will be remembered under various names like Veterans Day in the US or Remembrance Day in Canada, and so global markets may start the week under a potentially adverse combination of thin global trading and high event and data risk beginning this weekend.

Asian markets may be very active right at the opening bell into the Monday session as high event and data risk land over the weekend. China and Japan will dominate the attention and could easily combine to impact the global market tone. China's Communist Party Congress rolls out the new leadership and a number of key speeches will be delivered over coming days. Of particular interest to markets may be the leadership's speech on the economy on Saturday which will be oriented toward longer-term policy objectives and is likely to dash any remaining expectations for large -scale stimulus to be delivered. While perhaps nothing may come of carefully scripted words, I would think it to be imprudent to rule out the scope for meaningful market reaction to the guidance we will get from China's new leadership over coming days. Markets will also need to consider key Chinese data to be released on Saturday. China's yearly export growth figures may be carving out a bottom, while the trade surplus continues to narrow. I'm skeptical, however, that China's growth indicators truly are signalling a sustainable bottom. Growth in China's biggest export market — the eurozone — is stumbling again into the new year, while European PMI readings came in firmer in Q3 but have deteriorated into Q4. Further, the US is China's second-biggest export market and its growth prospects face serious risk of a near-term and longer-lived fiscal cliff setback. At the same time, China's real effective exchange rate continues to sharply appreciate and the associated massive erosion of trade competitiveness over the past half decade has contributed toward driving China's current account surplus down from a peak of 10% of GDP just before the last US Presidential election to about a quarter of that today and with further lagged adjustments likely to lie ahead as this measure of the exchange rate continues to deliver new highs. This should eat into export growth potential while stimulating imports in an encouraging step toward global rebalancing. Data on new yuan loans also lands Saturday. The prior month's figure disappointed markets, but should not have because companies simply diverted their borrowing relatively away from new yuan loans toward foreign currency loans, short-term paper and bonds. Aggregate company financing across all products has been very strong this year and this is the figure we will be watching much more closely as it has been released only over the past couple of years and yet markets are still overly wedded to new yuan loan figures that offer a narrow view on financing appetite. Japanese Q3 GDP will be released into the Monday Asian market open and consensus is expecting a sharp fall from the prior quarter. Somewhere along the way, markets have forgotten that not all of the attention should be placed upon China, as another still-prominent Asian economy and manufacturing powerhouse is experiencing renewed weakening at an alarming rate. Apart from the accelerated weakness in Japanese economic indicators is a rash of high profile cases of financial distress or market retrenchment across what were until recently virtually unquestioned leaders in their industries including Sharp, Panasonic, and Sony to name a few examples while other second- or third-tier Japanese firms in the auto industry retreat from foreign markets like the US.

Surely Europe will settle down and offer some relief though, right? Or not. Event headline and data risk will reach acute proportions next week and will keep us torn between longing for a return to past calmer periods versus the fact that markets are living through one of the more fascinating historical periods whether we slow down enough to realize it or not. Euro-area and EU-27 finance ministers meet on Monday and Tuesday respectively, and Spain and Greece will continue to dominate their attention ahead of the following week's EU leaders' summit. Greek Prime Minister Samaras will be featured at the meetings and may be on the hot seat in the wake of the outcome of Monday's budget vote in Greece — that nonetheless follows a successful vote on additional austerity measures — and implications for further aid from the troika (ECB, EC and IMF). Europe has already signalled its desire to delay a decision on further aid payments for several weeks, perhaps partly to await evidence that austerity measures will be successfully implemented, so we have low expectations for next week. Spanish headline risk will be focused upon twin addresses by the Budget Minister on Spain's fiscal pressures on Monday, and the Economy minister's address before the European Parliament that same day. Political fluffers may be attempting to stand in front of the scenes that may unfold across the global media as Spain experiences a threatened general strike on Tuesday, to be followed by Portuguese strikes on Wednesday. Uncle! you may cry, and we are tempted to join you, but data risk will then take over. At the top of the list is Q3 European GDP with each of Germany, France, Italy and the EC to be released on Thursday. Consensus expects a small negative again for EC GDP amid an ongoing recession, and flatness in

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Germany and France. We'll see how German investor confidence is holding up as equities weaken when the ZEW measure is released on Tuesday. Behind these dominant factors lie a wave of relatively less significant releases such as UK retail sales, French nonfarm payrolls, CPI for each of France, Italy, the UK and EC, UK jobs, and EC industrial production and trade. Against this full backdrop, auctions will be conducted in Italy, Germany, France, and the UK over Wednesday and Thursday.

Canadian markets should be relatively quiet next week, and will probably follow the broad global tone. Key will be that somewhat greater insight into how GDP growth ended the third quarter will be developed. While retail sales and wholesale trade won't arrive until the following week, manufacturing shipments will shed some perspective on how that sector is contributing to broader growth. We're not terribly upbeat on this factor. An unfortunate combination of weak external demand, deteriorating export competiveness, and production disruptions in the energy and mining sectors is putting downward pressure upon manufacturing sales and we think volumes will be largely flat to lower next week that will not assist GDP growth during the month. Other drivers of September GDP that we know so far are mixed: hours worked rose and may signal a gain in GDP unless productivity fell; housing starts fell, which signals potentially lower construction sector output; and export volumes were flat while import volumes grew which suggests net trade was a drag on GDP during the month. Be cautious, however, in drawing overly tight implications for GDP from the manufacturing print, in that shipments are a gross concept as opposed to the net value-added perspective upon which GDP is based. Also, markets don't trade off of short-term home resales data in Canada, they trade on the broad theme of housing over time and that risk is now becoming particularly elevated. The volume of homes sold is tumbling at a rapid year-on-year pace across multiple markets. While the value of total home sales is down only slightly on year-ago figures, that's because sticky prices temporarily insulate against further value erosions until the next round of effects kicks in by way of cuts to list prices and also reduced volumes of new home construction. The Bank of Canada will release its quarterly review on Friday. Canada also conducts a 2-year note auction on Wednesday.

Unscheduled but likely 'fiscal cliff' headline risk, an active data calendar and Fed speak combine to pose potentially sharp ramifications for US markets next week. The Federal Reserve rolls out the troops next week as each of San Francisco Fed President John Williams, Richmond Fed President Jeffrey Lacker, Dallas Fed President Richard Fisher, Philly Fed President Charles Plosser, NY Fed President William Dudley and Atlanta Fed President Dennis Lockhart all take to the monetary policy soap box with the economy front and centre in several of these speeches. Minutes to the October FOMC meeting land on Wednesday and will be parsed for evidence of two internal debates following what was a purely maintenance statement in the wake of QE3 measures that were introduced at the September FOMC meeting. First is whether the Fed is as close to adding unsterilized Treasury purchases when operation twist expires next month as the consensus of economists believes. Second is further insight into the debate over more explicit conditionality to forward rate guidance. I continue to think the Fed is unlikely to rock the boat on this issue and hence will avoid sparking uncertainty at the front end while it is attempting to aggressively lean on additional stimulus. Further, it has committed itself to an explicit inflation target of 2%. To add an explicit unemployment rate target would invoke a clearer understanding of the expectations-augmented Philips curve trade-off within coincidental time horizons that most economists subscribe to. Besides, the Fed already couches much of what it says in terms of conditional policy outcomes and it isn't clear that a rigid dual mandate and formulaic approach would yield further benefits. Data risk will be high and focused upon expectations for a soft retail sales print on Wednesday given we already know that vehicle sales fell in October, gasoline prices were somewhat softer on average, and chain store sales were soft. On Thursday, we'll get CPI for the same month, and that will help us to control for price effects on retail sales in determining what happened to retail volumes that flow into GDP. Manufacturing data will also be key as it begins to push into the superstorm Sandy period via the NY Empire and Philadelphia Fed manufacturing gauges for November. I would expect that between the sampling periods and the lagged effects on multiple manufacturing measures, one should expect these readings to post more of a business interruption effect in the next round a month from now. Industrial production for October will not yet reflect much of this influence, so again, markets are bound to discount it as dated before Sandy's influence begins to show up. Now jobless claims, on the other hand, are at risk of significant Sandy-induced distortions that will perhaps create difficulties in getting to state offices to file claims in the short term before they potentially spike higher afterward. Timing this given the magnitude of the storm's consequences is difficult, but be prepared to discount volatility in this measure over coming weeks.

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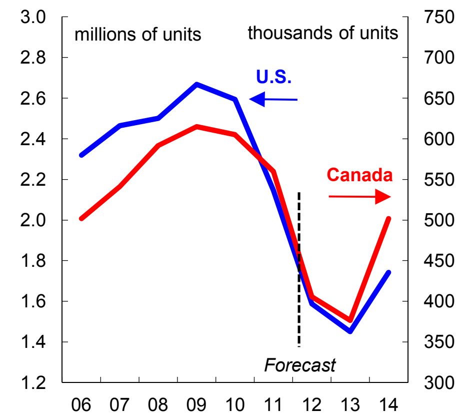
Reduced Supply Points To Accelerating Gains For Canadian Used Car Prices

Used car prices continue to move higher in Canada, despite a stronger-than-expected performance in the new vehicle market in 2012. The improvement reflects a 4% increase in purchases of pre-owned models so far this year, as well as the dwindling supply of these vehicles. Canadian used car prices have consistently gained momentum since bottoming in early 2009, just before the start of the global economic recovery. In contrast, new vehicle prices in Canada have been flat since 2010, as automakers have enhanced incentives over the past two years to spur sales. The net result is that Canadian used car prices are at record highs relative to the price of new models.

Off-Lease Volumes Will Decline Further



Source: Manheim Consulting, DesRosiers Automotive Consultants, Scotiabank Economics.

The Scotiabank Used Car Price Index advanced 4% y/y in October, alongside strengthening demand and a sharp reduction in the number of vehicles coming onto the resale market. The supply shortfall is the direct result of a plunge in fleet and leasing volumes since 2008. New vehicle leases in Canada slumped to only 180,000 units in 2009, and while they have edged higher in recent years, lease volumes still remain 40% below the average of the previous decade. In addition, fleet purchases of new cars & light trucks have averaged less than 200,000 units annually since 2009 — nearly 100,000 units below the average of the previous ten years.

The sharp reduction in fleet and lease volumes will intensify the shortfall in the resale market next year. The number of vehicles coming off-lease in Canada will drop to less than 400,000 units in 2013 — the lowest level in more than a decade — pointing accelerating gains for Canadian used car prices next year.

The ongoing recovery in new vehicle sales will eventually help loosen the supply constraint for pre-owned models. However, the typical length of vehicle ownership cycles suggests that new units do not begin to enter the used car market in meaningful numbers until four years after the original purchase — by 2014 in the current cycle.

The strength in pre-owned car prices is being led by the segment experiencing the greatest shortage — models that are at least three years old. So far this year, prices of these vehicles have posted a double-digit advance compared with less than a 7% gain for nearly-new models. In particular, price increases for one-year old cars have been pressured in recent months by enhanced incentives offered on new vehicles. We estimate that incentives on new cars & light trucks have jumped by nearly $2,000 since late 2011, reducing price gains for nearly-new models from a double-digit year-over-year increase this spring to less than a 5% advance in October. However, we expect price increases to regain momentum once the industry clears out the 2012 models and scales back incentives.

In the United States, the price of pre-owned vehicles — as measured by the Manheim Used Car Price Index — has also been strong since May 2009. However, in contrast to developments in Canada, U.S. prices have edged down year-over-year in recent months due to a double-digit increase in the number of vehicles coming from the rental market. This development will likely prove temporary, as the supply of used vehicles is also tight south of the border. In fact, in its quarterly filings, a major automaker indicated that despite the recent increase in the number of vehicles coming from the rental market, its overall lease returns slumped by 40% y/y to a record low in the third quarter. The decline was led by a plunge of more than 80% for vehicles with a lease period of 39 months or longer.

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U.S. Economic Offsets To The Projected Fiscal Drag

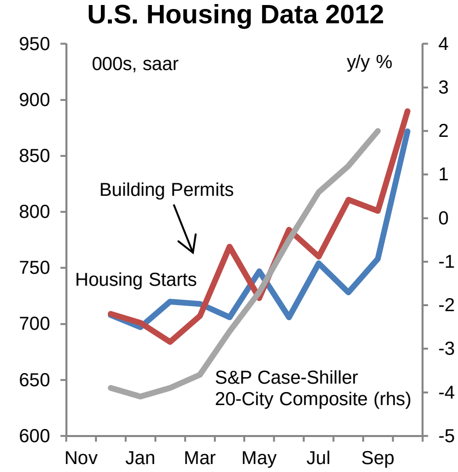
- **Consumption should gain momentum in 2013, helping to offset the fiscal drag and keeping the U.S. economy on a 2% growth trajectory.**

The U.S. economy has been experiencing fiscal drag since 2011. For government expenditure, *National Accounts* data indicate that a decline in outlays knocked 0.7 of a percentage point (pp) off GDP last year as the federal government trimmed spending, and state and local governments pushed through their own sizeable adjustments. For the federal government, the Congressional Budget Office estimates that if the U.S. economy goes over the 'fiscal cliff', it will go into recession in 2013 as net US$560bn is taken out of the economy by expiring tax relief and spending cuts. Our forecast assumes Congressional compromises resulting in significant, but diminished fiscal drag. However, other sectors of the economy, supported by the Fed's aggressively accommodative monetary policy, are expected to drive forward momentum in the economy.

Consumption, which makes up more than 70% of GDP, is beginning to gain traction as the housing and labour markets stabilize. Non-farm payrolls have averaged an increase of 171,000 jobs from July to October, in comparison to a monthly average of only 67,000 in Q2. Consumer confidence indices are reaching new highs for the year, retail sales have increased for the past three months, and auto sales continue to outperform. However, after large drops in net wealth and years of household balance sheet deleveraging, many consumers will be reluctant to take on large debt loads again, while income gains remain muted. A forceful rebound in consumption is unlikely, but we forecast that it will increase by 2% in 2013. This will help offset the fiscal drag, but without stronger consumption GDP will be constrained below trend.

The housing market remains a bright spot in the economy. Residential investment should grow by almost 12% in 2012, and remain a positive contributor to growth throughout 2013 and 2014. The housing market is supported by slowly recovering house prices, stepped-up affordability, dwindling home inventories, and the Fed's policy of purchasing MBS to lower mortgage rates. However, residential investment makes up less than 3% of GDP, so even with a growth rate above 10% per year, its contribution to GDP growth will remain limited.

U.S. Housing Data 2012



Source: Scotiabank Economics, U.S. Census Bureau, S&P Case-Shiller

For now business investment remains weak due to the uncertainty surrounding fiscal tightening, alongside soft global demand. Business investment contracted in Q3 by 1.3% q/q annualized, after increasing by an average of 8.4% over the last ten quarters. Once some clarity on fiscal policy is reached, business investment could begin to pick up sometime next year, as companies position themselves for stronger consumption and global demand.

Trade data show that exports increased by 3.1% in August across a broad range of goods and services, while the trade deficit narrowed to $41.5bn. This highlights the competiveness of U.S. exports — given USD trends and wage restraint — but is insufficient to confirm an improving trend, after net exports constituted a drag on growth in Q3. Furthermore, as consumption increases, the U.S. will absorb more imports. Increasing oil and gas production could support some export growth going forward, reducing the nation's net energy import position, though the pace of change is dependent on future energy policy.

The anticipated protracted uncertainty in the United States post-election — as Congress attempts to negotiate fiscal adjustment — will continue to cause investor nervousness underscoring general economic weakness. With the U.S. economy unable to fire on all cylinders and the fiscal drag inevitable, economic growth rates will be moderate with real GDP remaining on its 2% trajectory.

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Alberta Keeps Driving The Canadian Economy

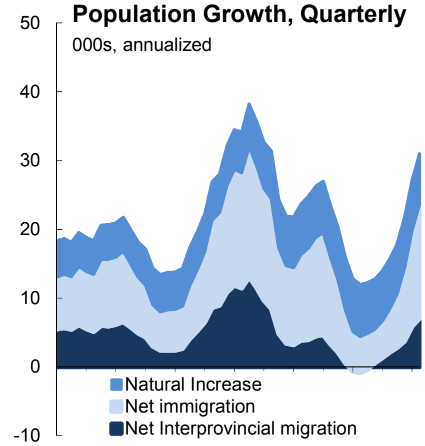
- **Strong consumer spending, business investment and exports drive growth.**

Alberta remains a key economic engine for Canada, with the highest provincial real GDP growth rate forecast for 2012 and 2013 at 3.4% and 3.0% respectively. The economy is growing strongly with contributions from consumer spending, business investment, particularly in the oil sands, and exports, which is encouraging given the strong Canadian dollar and soft global demand. Provincial government spending also will continue to support growth, albeit at a slower pace than over the decade prior to the recession.

Household spending moves from strength to strength

Consumer demand has been a driving force in Alberta's economy. Retail sales increased by 9% this year as of August, supported by weekly wage gains of 3.0% and the fastest provincial rate of year-to-date employment growth of 2.9% as of October.

With high employment growth and average weekly wages that exceed the national average by nearly 20%, Alberta has attracted workers and benefited from increased net interprovincial and international migration (top chart). Moreover, about two-fifths of all foreign workers brought in under the Temporary Foreign Worker Program work in Alberta, or more than 20,000 foreign workers in 2012-Q2. In the second quarter of 2012, Alberta had a year-over-year population growth rate of 2.5%, the highest in the country. The province's impressive employment growth has allowed it to absorb a growing labour force, while achieving the nation's lowest provincial unemployment rate of 4.5% in October. As a result of this robust labour demand, skilled-labour shortages have become an issue in selected areas and are expected to remain a challenge.



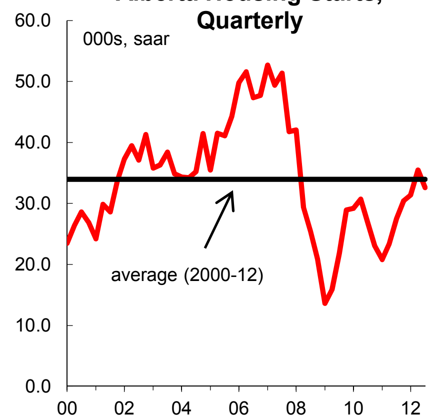
Calculated using a four-quarter moving average.
Source: Alberta Finance, Statistics Canada, Scotiabank Economics.

Impressive growth in housing starts

In contrast with the rest of the country — which experienced tepid 1% year-to-date growth in home sales through October — Alberta's housing market has been robust with home sales increasing by nearly 14% over that period. In particular, home sales are strong in Calgary — up 19% year-to-date — while sales advanced by 5% in Edmonton.

As of October, average house prices in Alberta have increased a mere 2% year-to-date, as supply has responded to strengthening demand. Urban housing starts are up a sizeable 33%, as housing starts have recovered from the steep declines of the 2008-2009 recession.

At this juncture, the federal government's recent tightening of mortgage and home equity financing standards appears to have had a limited impact on Alberta's housing market. It continues to be supported by strong employment growth, significant wage gains and ongoing resource development.



Source: CMHC, Scotiabank Economics.

Business investment moves forward

As with the housing market, business investment is recovering following steep declines during the 2008-2009 recession. Led by the petroleum sector and related businesses, business investment strength has helped to push the province's economy forward. Commercial construction is strong, increasing 17% year-to-date. The non-residential construction price indices for both Calgary and Edmonton have picked up and are in the 4% annual growth rate range as of the second quarter of this year, while remaining well below their pre-recession peak.

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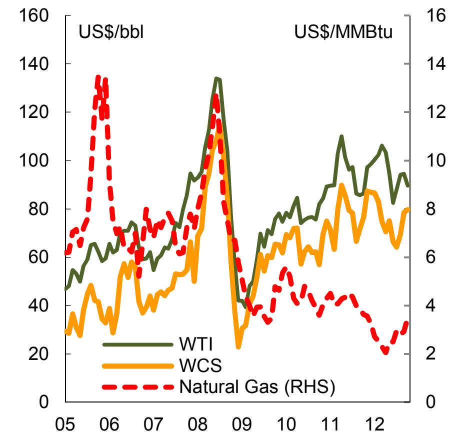
Fueled by the energy sector

A reduction in natural gas prices in 2012 from already-low levels has placed additional pressure on producers and has negatively affected output, which as of July, was 6% lower than the previous year. This year, Crown petroleum and natural gas land sales are down 69% as of October, while oil and gas drilling activity has declined by 8% as of September. Natural gas prices have recently edged up and we expect them to continue to edge higher. Nevertheless, they will remain at historically low levels.

Natural Gas and Crude Oil Prices



Source: Scotiabank Commodity Price Index.

Unlike natural gas production, the petroleum sector remains strong. Year-to-date growth of oil production has been impressive, up 16% as of August. In part, the profitability of oil industry is enhanced by low prevailing natural gas prices, as the oil sands industry uses natural gas to produce crude oil from bitumen. In 2011, heavy bitumen crude oil production represented 60% of the province's total oil production. The province estimates that longer-term $134 billion in oil sands investment will occur. Near-term, a number of oil producers have recently delayed or reduced their planned capital expenditures. Total oil production is still expected to increase by more than 20% by 2017.

At this time, the major concern for Alberta's oil producers is the discount at which Western Canadian Select heavy oil (WCS) trades relative to West Texas Intermediate (WTI) (top chart). While part of the discount is attributable to lower quality of heavy crude oil and greater required processing, the increased discount at which WCS trades relative to WTI in recent years is indicative of a lack of adequate pipeline capability to export markets. Until the pipeline capability issue is addressed, additional oil production from Alberta will keep the discount high.

Proposed value-added investments in the petrochemical sector

A number of petrochemical investments have been proposed in Alberta to take advantage of the relatively low, domestic natural gas price relative to petrochemical and liquid-fuel prices. For example, the proposed construction of a propane dehydrogenation facility that would convert propane into propylene. Similarly, the construction of facilities that could convert natural gas into diesel or other liquid fuels has also been proposed. Should low, domestic natural gas prices persist, other related petrochemical investments could be made in the province.

Government contributes, as well

Provincial government spending will continue to bolster Alberta's economy, though projected program spending increases over the next two years will be more moderate than the average annual gains witnessed over the decade prior to the recession of close to 10%. With respect to the Province's *Capital Plan*, projected outlays are expected to edge lower over the next two years, following outlays that were softer than initially projected over the past year.

Exports driven by energy and the emergence of China

With limited capability to ship oil directly to the West Coast, a disproportionately large share — 86% as of 2011 — of Alberta's total exports and virtually all of its oil and gas exports are directed to the United States. In 2011, oil and gas exports represented 68% of total exports. Another 6% of the province's exports are destined for China, Japan and South Korea. From a relatively low level, exports to China have increased significantly in recent years, with canola seed/oil exports representing an important segment.

In 2012, Alberta's exports grew, supported by the economic recovery in the United States and the ongoing, rapid — albeit slowing — economic development of China, already the province's second largest recipient of exports. As of August, total and U.S.-destined exports both increased by 6% year-to-date.

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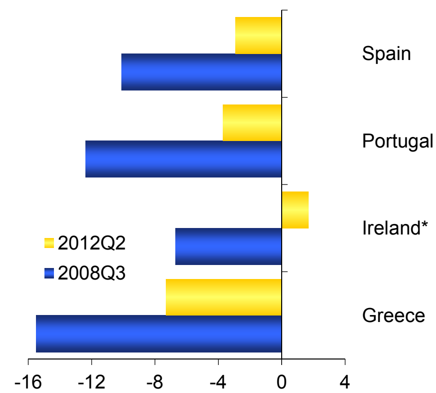
Euro Area Peripheral States — Where Are They Now?

- **Since the start of the euro area debt crisis, notable progress has been made in the periphery on fiscal consolidation, structural reforms, and economic rebalancing.**
- **Several challenges and uncertainties remain, however, which will complicate adjustment efforts in the short term, and amplify the legacy of the crisis over a longer period.**

In the years following the global recession, only a handful of countries in the euro zone, including Germany, France, Austria and Belgium, recovered their pre-crisis levels of GDP. For others, including Spain, Italy, and Portugal, output will contract again in 2012 for the third time in the last five years as the sovereign debt and banking crisis undercuts economic activity. The Irish economy will likely narrowly avoid negative growth this year, after shedding over 10% between the end of 2007 and the end of 2009. Greece is in its fifth year of recession, having lost roughly a fifth of its economic production, with two more years of decline in prospect. This environment makes the necessary task of restoring sustainability to the trajectory of public debt, as well as household and corporate balance sheets, extremely onerous.

Chart 1 Current Accounts (% of GDP)

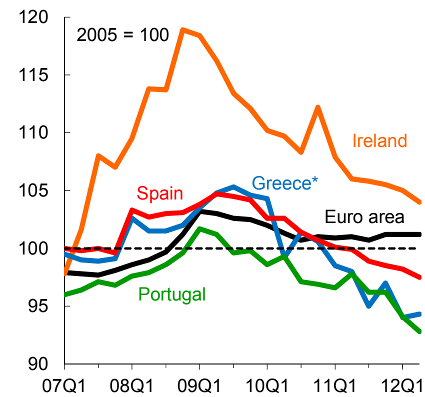


* Most recent figure for Ireland from 2012Q1.
Source: Bloomberg.

Progress...

Yet, despite this difficult backdrop, several euro area states (we focus on those with official assistance programs — Greece, Ireland and Portugal — as well as Spain) have already made considerable headway in unwinding the large fiscal and external imbalances that accumulated prior to and during the recession. Largely due to flagging imports with household incomes under pressure and business confidence plummeting, but also robust export growth (at least until the middle of this year), the trade and current account deficits in the periphery have improved dramatically since the peak of the crisis (see Chart 1). This rebalancing has been supported by the ongoing fall in labour costs, which has boosted external competitiveness. Real unit labour costs in the periphery have receded considerably from their peak levels of late 2008 / early 2009, when most were above the euro area average (Chart 2). The adjustment in Ireland has been especially pronounced (nearly -13% since 2008Q4 in real terms), though, given the magnitude of the rise during the property boom through 2008, costs there remain above the regional average. Though labour market reforms deserve some credit, the lower relative costs have come about largely as a consequence of continued declines in wages and employment since the global recession, masking the underlying deterioration in economic conditions in those countries.

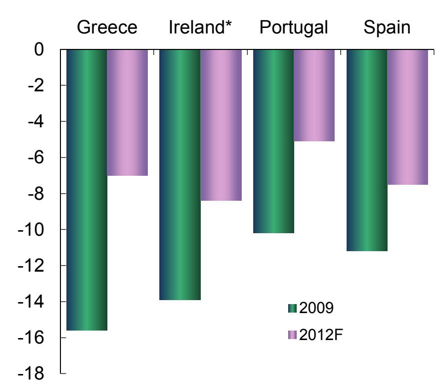
Chart 2 Real Unit Labour Costs



* Values for Greece estimated from 2011Q2.
Source: Eurostat, Scotiabank Economics.

On the fiscal front, progress has been less impressive, though still important (Chart 3). With the possible exception of Portugal, none of the program states will achieve a fiscal deficit under the EU-mandated threshold of 3% of GDP before 2015. Moreover, all but Ireland lag official fiscal targets set out by the EU and IMF, necessitating repeated recalibrations. Nevertheless, in light of the starting points for these countries, and the regional / bank recapitalizations and output losses witnessed since, the adjustments in governments' expenditures and revenues have been drastic.

Chart 3 Fiscal Deficits (% of GDP)



* Ireland's deficit peaked at -30.9% in 2010.
Source: Eurostat, Scotiabank Economics.

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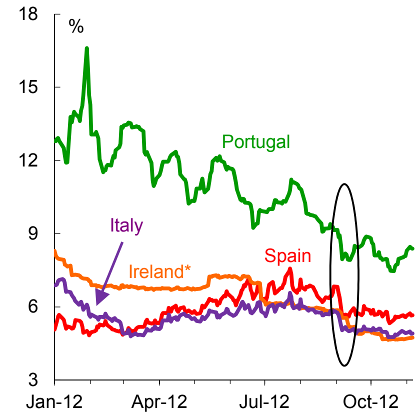
In recognition of the progress made on fiscal consolidation and structural reform measures in the distressed states of the periphery, but also reflecting recent European Central Bank (ECB) initiatives — particularly the assertion by ECB President Draghi to do "whatever it takes" to preserve the euro and the announcement of the Outright Monetary Transaction program (OMT) — financial markets conditions have shown some stability in recent months. The credit default swap rate in Spain dropped by more than 100 basis points in the days surrounding the OMT announcement in early September, and the trend was the same in Italy, Portugal and Ireland. The moderation in perceptions of credit risk has supported the generally improving trend in bond yields since the turbulent summer months (Chart 4), though the premiums charged on sovereign debt in the periphery remain elevated. Both Ireland and Portugal were recently able to return to international capital markets, with Ireland issuing longer-term bonds and Portugal engaging in a bond exchange and a private placement, though full market access may not be regained as initially scheduled in their respective EU-IMF programs.

But at what cost?

The ongoing rise in unemployment is of primary concern to European policymakers (Chart 5). Particularly in Ireland and Spain, where construction was the hardest hit, much of the increase in unemployment has been in labour-intensive, non-tradable sectors and thus likely structural in nature. The disproportionate job losses among younger cohorts in Europe is also very worrisome. The jobless rate among young people under age 25 is now well above 50% in Greece and Spain, and around 35% in Portugal, Ireland and Italy (versus 23% for the euro zone as a whole and just 8% in Germany). The dangers associated with high youth unemployment are manifold; among them are widespread social dislocation and unrest, a lack of skill development for future economic growth, and a more prolonged and difficult path to halting, and eventually reversing, the climb in public debt. Furthermore, the cycle of weak economic activity, fiscal restraint, high youth unemployment and social strife is quickly becoming a self-reinforcing phenomenon.

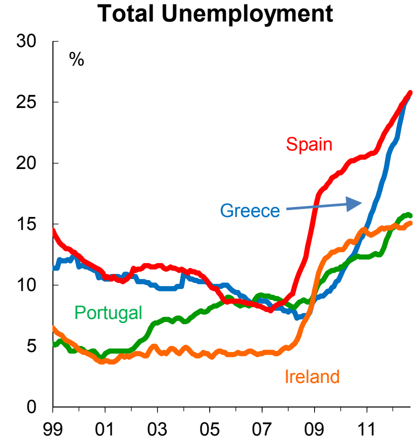
Governments in the periphery have struggled in their attempts to bolster revenues in order to correct public finances. Given the sharp losses in employment (and hours worked), and difficulties in confronting widespread tax evasion, revenue collections have often fallen short of budget projections. Adding to the challenge is the rising public opposition to service, wage and pension cuts, which makes expenditure restraint an increasingly unfeasible option. Public debt ratios will continue to climb in the much of the euro area periphery through 2014 (Chart 6). Not until the necessary labour and product market reforms are fully implemented, banking sectors are strengthened and growth is restored internationally and in the currency union will this trend gradually begin to reverse.

Chart 4
10-yr Government Bond Yields



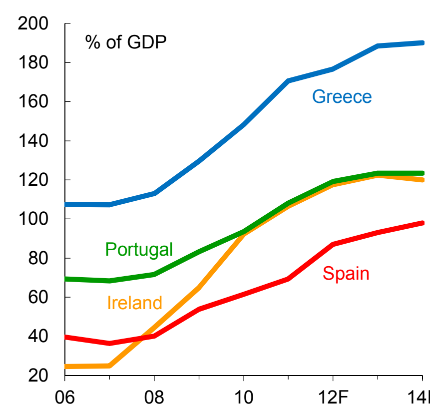
* Irish yield is for 9-yr note. Source: Bloomberg.

Chart 5
Total Unemployment



Source: Eurostat.

Chart 6
Gross General Government Debt



Source: Eurostat, Scotiabank Economics.

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Pricing Argentina's Court Ruling

This article was first published on Tuesday, November 6, 2012. This case continues to evolve with a court hearing scheduled for today (Friday, November 9).

The dramatic fall in the price of Discount bonds implies a one-in-three chance that the recent court-ruling will cause a default. In contrast, we argue that the chain of legal events leading to a default is long, and that the probability of a default as a direct result of the court ruling is lower. Along the same lines, we do not think that that "Rights Upon Future Offers" clause will prevent Argentina from settling with holdout investors. We also believe the market is differentiating too much between the legal impact on the Discount bonds and the Bodens, and the smaller fall in the Bodens is more in line with the actual legal risks.

Chain of events leading to a default is long

As we explained in our recent note (see Appendix), the Appellate Court decision has the potential to cause a default on all international bonds in the worst case scenario. Suppose that in such a scenario the market price of the Discount bonds falls to $30; then the recent drop in market prices since the appeals court ruling was announced implies that the market believes the probability of a default caused by the legal ruling is about one-in-three. While the legal risks are real, we do not think they are quite this high.

Consider the large chain of events that has to occur to reach a default: (1)The District Court devises an enforcement mechanism that is effective at intercepting payments on restructured debt. (2)The Appellate Court approves the mechanism devised by the District Court in the face of likely objections by US banks and the US Treasury Department. (3)The full panel of the Appellate Court declines to rehear the case, and the US Supreme Court rejects the case. (4)Argentina is unable to circumvent the enforcement mechanism by routing payments through different intermediaries, such as a trustee based in Panama instead of New York. (5) Holders of defaulted debt convince the District Court that ratable payments means that Argentina must pay it not just the current coupon but also the principal. (6)The decision is broadened to apply to all defaulted debt of around $6.5bn rather than just the $1.3bn in the current case.

Most of these conditions must hold before the court decision is sufficiently costly for Argentina to warrant reconsidering its position on debt service. For example, expected debt service on bonds for Argentina in 2013 is $10.3bn, of which 5.5bn is principal and 4.8bn is interest. Paying just the coupon on an additional $1.3bn of principal would not be a significant increase in debt service. In contrast, if Argentina were forced to immediately repay $11.2bn in holdout debt (6.5bn in principal plus 4.7bn in past interest), then its expected debt service would more than double, and Argentina would surely refuse to pay.

"Rights Upon Future Offers" clause doesn't matter

Some analysts are worried that the combination of the court ruling and the "Rights Upon Future Offers" clause puts Argentina in an impossible position. This clause, found in Argentina's restructured international bonds, mandates that if Argentina offers better restructuring terms to holdout investors, it must also retroactively offer those same terms to participants in the 2005 and 2010 restructurings. Paying the holdouts in full, as they demand, would require essentially reversing the debt reduction accomplished through the restructuring eight years ago.

We do not believe that this clause will constrain Argentina's actions. First, it deals with cases where Argentina "voluntarily makes an offer"; paying holdout investors as a result of a court order would probably not be considered voluntary. Second, as pointed out by academic Rodrigo Olivares-Caminal, the clause seems to intentionally omit the word "settlement." Thus, while a new "exchange offer" to holdouts would require that the same terms be offered to all bondholders, a "settlement" with hedge funds might not activate the same clause. Third, nothing happens if Argentina violates this clause. The only way that bondholders can

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enforce this clause against Argentina is by accelerating the bonds. Bondholders know that if they accelerate they will get nothing; thus, there are no incentives for bondholders to attempt to enforce this clause, and for this reason, we would never learn whether an involuntary settlement with bondholders even triggers this clause.

Bodens vs. Discounts

In the week following the court ruling, Discount bonds fell $16 while Boden 15s only declined $7. Making similar assumptions as above, we find that the market is pricing only a 12% additional chance of default as a result of the court ruling for the Bodens in contrast to the 32% for the Discounts.

There are two reasons to think that Bodens would be less affected by recent court rulings. First, Judge Griesa's order, which was recently upheld by the appellate court, covers only payments on external indebtedness. In other words, while a NY court could impede payment on the Discounts in order to satisfy debt owed to plaintiffs, it has neither the ability nor the intention of interfering with payments on local debt. Second, Bodens are generally held by Argentines while Discount bonds are held by foreign investors. Since countries generally care more about the effects of their policies on domestic financial institutions and on retail bond holders than on foreign holders, there is reason to think that Argentina could, under certain circumstances, continue to pay Bodens while defaulting on the Discounts. In fact, a default on the international bonds could actually free up resources for paying local bonds.

Despite these theoretical arguments, we think the market is differentiating too much between Discounts and Bodens. If the government decided to discriminate against foreigners as a result of recent court rulings, we think it would also stop paying foreign-held Bodens. The government has much more information about the holders of local bonds than of international bonds, and correspondingly a greater ability to discriminate against different types of holders in distributing coupon payments.

Additional Factors

Unfortunately, we expect little good news in the near-term. Since court cases take months or even years to be completed, a reversal is unlikely in the near-term. In fact, more bad news is possible. For example, the trustee for the international bonds could decide that legal risks are too great and resign, as it is allowed to do under the indenture. Meanwhile, we should not overlook Argentine politics and the potential for a visceral response from the government that is independent of the cost-benefit analysis.

The technical factors driving asset managers are also negative. With default now a seemingly less distant outcome than before and no foreseeable good news in the short-term, some investors who are unwilling to weather the upcoming volatility will seek to move out of their positions if they have not already done so. Meanwhile, distressed investors, who should be tempted by the 14% yields, may already have too much Argentine debt from the default 10 years ago. Thus, while we think the market has overreacted on a fundamental basis, we are not sure what will cause it to correct in the near-term.

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Appendix: Explanation of ruling

We published the commentary below on October 26, 2012.

The US appeals court today affirmed a ruling by the district court that is beneficial to holders of defaulted Argentine debt and could come at the expense of holders of the restructured debt.

Earlier this year, in a series of decisions, Judge Griesa ruled that Argentina violated the pari passu clause in its bonds by paying some bondholders — the ones who participated in the debt exchange — while not paying others — the ones who continue to hold the defaulted debt. Most legal practitioners believed that this interpretation of the pari passu clause was far broader than what the authors of bond indentures usually intend. Judge Griesa's ruling that Argentina also violated the pari passu clause through the "Lock law," legislation which prevented Argentina from reopening the exchange to holders of defaulted debt, is more consistent with the traditional interpretation of this clause under which the sovereign government cannot change the legal rank of some debt relative to other debt. Regardless of whether Argentina actually violated this provision, the enforcement mechanism that Judge Griesa had approved in February of this year was particularly radical. He ordered Argentina to make "equal" payments to all creditors, and more importantly, prohibited financial intermediaries from aiding Argentina in any transaction that violated this order.

Surprisingly, the appeals court sided with the plaintiffs, and against Argentina, on most of the issues. They found: (1)The pari passu clause is not meaningless in the context of sovereign debt as lawyers for Argentina had argued. (2)Argentina had indeed violated this clause through various local legislation that subordinated defaulted debt and prevented payment on that debt — we think that legislation was a strategic mistake on Argentina's part. (3)While the court has wide latitude in the proper remedy for a violation of the pari passu clause — it could for example order Argentina to pay damages to holdouts for the decrease in rank — the appeals court has recognized that most remedies are ineffective in Argentina's case, something that has frustrated Judge Griesa for years. The appeals court ruled today that an appropriate remedy is to force Argentina to pay all bondholders equally, even though that specific remedy was not found in the indenture.

The only part of Judge Griesa's ruling that drew concern from the appeals court was with regards to how to enforce this ruling. There would be no problem if Argentina had accounts in a bank in the US from which payments were made, but of course Argentina does not have such accounts as they would have been seized by plaintiffs a long time ago. Instead, Argentina has set up a system by which coupon payments are routed through a number of Argentine and foreign intermediaries before arriving in the accounts of US bondholders. If payments flow through intermediary banks that are not direct representatives of Argentina, there are public policy reasons for not interfering with those intermediary banks; intermediaries argue that any system designed to prevent specific payments would delay other payments unrelated to Argentina, with potential harm to the financial system. The appeals court asked Judge Griesa to reconsider this last issue.

Thus, the key question is whether the ruling is enforceable. Can the district court force Argentina to make ratable payments to all bondholders without creating an undue burden on US financial intermediaries? If it can, then Argentina would be forced to pay up. We don't know whether they would be forced to pay just current coupons on the defaulted debt, or potentially to pay principal and past due interest as well. We also don't know what percentage of remaining holdout debt (9% of the original amount) would be eligible for such a remedy. In the worst case scenario, where Argentina is forced to pay perhaps $10bn all at once, it may decide it is better off defaulting on all bonds including the current ones. If the district court cannot find an appropriate enforcement mechanism, however, then the decision could be irrelevant; it would be just another ruling that Argentina disregards. Moreover, whatever enforcement mechanism Judge Griesa comes up with, Argentina could create more complex payment systems in order to circumvent enforcement.

Today's decision could also have important implications for other sovereigns as well, since it gives bondholders leverage in US court. If bondholders know that they can sue for equitable treatment later, they are less likely to agree to a restructuring now. For example, the ruling could help Belize creditors in their current negotiations with the government. The fact that the appeals court is taking the side of plaintiffs has symbolic importance as well that goes beyond this particular decision.

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The View from Europe: QE, Growth, Austerity

The following is a summary of some questions that we were asked to present at a recent conference on the eurozone government bond market.

Does Europe Need a Policy of Quantitative Easing (QE) from the ECB?

- Yes. The economy is on the brink of recession and leading indicators point to a pace of contraction of at least -1.5% y/y over the next few quarters.
- Unemployment has surged to over 11½% — up 1½% in a little over a year. With growth sub-par and likely to continue to be, there is considerable further upside for unemployment in the months ahead — even in core economies.
- Ultimately, inflation is the ECB's mandate. While headline inflation may still be above the 'close to but below 2% target' — core inflation has been persistently below 2% for almost a decade. That is despite numerous VAT hikes of late.
- Headline inflation target overshoots should not get in the way of ECB QE — the governing council can't do anything about drought effects on food or gyrations in the price of energy.
- Last but not least — what is the harm? If the programme does lead to inflation, then we know how to fix that — reverse those purchases or raise the refi rate. Has QE provoked a disaster in the US or UK? OK, it's still early days, but it has had the desired effect of lowering government bond yields — which is exactly what is needed in the periphery.

Can the ECB's Outright Monetary Transactions (OMT) programme act as QE through the back door?

- No. Firstly, countries that do not have access to the market are not eligible for ECB purchases of their bonds.
- Secondly, by pledging 'unlimited purchases', the ECB has avoided having to commit to a definite amount of purchases. Even the BoE commented that it could in theory buy an unlimited amount of gilts or other assets.
- The difference was that by announcing a programme size and timescale the Bank (and the Fed) have relied on actual increase in demand, while thus far the ECB is only threatening to buy bonds. There are merits in that since it spares the ECB the bother of buying any bonds (and eventually unwinding the purchases). However, at some point the market may lose patience and test the ECB's resolve. It is much easier to unwind the fall in yields when it is not underpinned by actual purchases and so it is vulnerable to an abrupt setback.
- Furthermore, the theory behind QE is that one benefit is to expand the money supply to help lubricate the cogs of the financial system. In both the US and UK there have been signs of success on this front. However, the OMT is sterilised and thus far has not involved any purchases. This means that faster broad money growth will not result from the OMT.

How long will ECB rates have to remain nailed to the floor?

- Too much growth is not something that the eurozone is suffering from. The ECB does not need to apply the brakes any time soon. Output is around 2% below the pre-recession peak so there is still considerable spare capacity both in terms of output and labour.
- The first interest rate hike has tended to come when the composite of the two PMI surveys has been north of 55.0. PMIs are currently not far above 45.0. Looked at another way, a PMI reading that high is typically consistent with GDP growing by around ¾% q/q (or 3% annualised). Are we anywhere close to seeing that kind of growth? With austerity likely to continue for several years to come, we are years away from seeing the first rate hike.
- There is also the international context. If the Fed has pre-committed to keep its policy rate nailed to the floor at least through to mid-2015, it is doubtful that the ECB moves any sooner for fear of sparking an appreciation in the EUR exchange rate.

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Will Europe find its way back to growth?

- Yes. Contraction or sub-par growth is not a normal state of affairs. According to the OECD, potential GDP is:
    - Just above 1% in the eurozone…
    - …around 1½% in Germany and France…
    - …near zero in Italy and Portugal…
    - and just above -1% y/y in Greece.
- It is 'normal' to grow. So that would imply that whatever is causing growth to deviate from 'normal' is temporary. So what has gotten in the way?
    - Above-average inflation hurt household real incomes over the last year;
    - Overseas demand has waned — causing exports to slow to a third of the pace of growth recorded in late-2010 / early 2011 (down from 5% y/y to 1.5%);
    - The contribution from government spending has stalled — down from a pretty consistent ½% pre-2010.
- The UK economy, 'borrowed growth from the future' — we are in a lost decade — but it wasn't ours in the first place.
    - Government spending was faster than it *should* have been;
    - Consumer spending was persistently in excess of disposable income growth;
    - The same was not true of the eurozone as a whole.
- Current fiscal austerity programmes point to an average of 1-1.5% of GDP fiscal tightening per year for the next few years. If the fiscal multiplier is ½, then that means a drag of ¾% relative to trend. Other things equal, if trend is 1%, then growth of ¼% y/y is where we should aim. BUT the fiscal multiplier could be bigger — meaning zero may be more reasonable while austerity persists.
- Depending on whether your view is that monetary policy is loose or tight, we can then aim higher or lower from that starting point. If the view is that the monetary policy easing is merely there to offset the tightening in credit conditions, then there is no reason to aim any higher or lower. Alternatively, if we judge that monetary policy is genuinely loose — then we should aim higher.
- Our augmented version of a classic central bank Monetary Conditions Index would suggest that conditions are a bit accommodative, but not a lot.
- The bottom line is that there is a reasonable case for mildly positive growth to resume over the coming year, though normal trend-like growth is still years off.

Can Europe survive another downturn

- Yes — what is the counterfactual? The next downturn comes along and a 'softer' option is to break up? The situation is no different to how it is now — breaking up the eurozone would amplify the effects of the downturn and make matters worse.
- In a way, another downturn could help rebalancing within the eurozone. More specifically, if there is another global slowdown, then export-facing economies such as Germany suffer by more than most — just as they did in the 2008-09 recession. At the time that helped EUR/USD to dive from 1.60 down to 1.25 — though it was in some part related to the Lehman collapse and USD repatriation.
- If the eurozone were to 'not survive', the easiest way to do this is once normal growth has resumed. But that would be like turkeys voting for Christmas. Why opt for renewed turbulence and uncertainty once we have recovered?

Does the policy of austerity make sense in a downturn?

- Austerity makes sense in countries that have something to lose. The UK is a prime example of that. The UK had among the worst deficits in Europe. However, the coalition government's aggressive austerity

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measures won the approval of the market and the rating agents. In turn it has preserved record-low financing conditions. The UK has something to lose and so it makes sense to pursue austerity in that example.

- For other countries that have already lost the confidence of the market and rating agents (assuming that matters) — there is a less compelling case for austerity. One of the the main motivations for austerity in the fiscally challenged economies has been to appease the countries that have been providing bailouts.
- Clearly, there is a case from the creditor countries' perspective that if the debtor countries get their deficits down, then they won't need bailouts.
- The flipside is that the debtor countries didn't need bailouts before growth collapsed and market access vanished. Pursuing austerity targets that are too ambitious and unrealistic is making the situation worse by hurting growth by more. In turn, growth undershooting expectations means that deficit targets get missed, which makes matters worse because the bond market takes fright. The point is that austerity doesn't need to be a problem as long as it is the right kind of austerity and targets are not too ambitious. Furthermore, austerity being pursued simultaneously across several countries when interest rate ammunition is exhausted is making a bad situation worse.
- The recent Portuguese Budget strikes me as a great example of where austerity is well intended — i.e., to get the deficit as a percentage of GDP down. But with growth slumping, that target gets harder to hit. More specifically:
    - deficit reduction measures worth 3.2% of GDP…
    - …only reduce the deficit to GDP by ½% point next year…
    - …and GDP gets crushed — down by around 2-3% y/y.
- So the denominator gets smaller (i.e. GDP) at the same time as the numerator gets smaller. Ultimately the ratio improves because the denominator is a much bigger number than the numerator, but it nonetheless makes for slow progress.
- The alternative would be to take the foot off the break, foster some growth and inflation and get the denominator to rise — which is an altogether less painful way of getting the deficit-to-GDP ratio down. Ultimately the level of the deficit needs to be addressed — rather than window dressing. But if it gets to the same result more swiftly and less painfully — then what is the harm?

What will be the consequences for fiscal policy and debt dynamics?

- Coordinated fiscal policy ease is potentially the way forward. Coordinated monetary policy ease was pretty powerful and effective in the early stages of the rate cutting cycle, and it should be considered in terms of fiscal policy too.
- One of the symptoms of the crisis has been investor flows out of the fiscally challenged economies and into safer havens. If there were a coordinated policy response across all or most eurozone countries including the 'safe havens' — say 1-2% of GDP — then that should not necessarily provoke safe-haven flows. With Germany on the verge of recession, there is every reason for a fiscal policy response there.
- The danger comes when the one-off policy ease expires — is there a danger of a European 'fiscal cliff'?
- It could mean that the improvement in debt dynamics stalls or reverses temporarily. But at some stage, austerity fatigue and perma-recession could derail progress anyway.
- What is in it for the creditor countries? This is not a zero sum game, it is a case of win-win. Survey indicators and activity in Germany, the UK and even the US are deviating from domestic fundamentals. Surveys and output should be doing better than they actually are. The residual is explained by the eurozone crisis. If these jitters can be addressed such that peripheral spreads can narrow, then creditor countries should also benefit via stronger growth which better reflects domestic fundamentals.

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Four Themes Expected To Drive FX In 2013

- **The year to come, 2013, is likely to be marked by a mixed USD, depreciating against CAD, AUD, GBP, NOK and SEK, but appreciating against EUR and JPY. Central bank policy, global growth, Europe and politics will prove the main drivers.**

This year has been marked by three clear themes, Europe, global growth and the central banking response to both. Looking out to 2013, the FX market's focus is expected to shift and broaden. Central banks and growth are still expected to be play key roles; however tunnel vision on Europe is likely to fade, with global politics coming to the forefront. We expect 2013 to be a year marked by a strong CAD, AUD, GBP, NOK and SEK but a weak EUR and JPY. Below we detail the major themes expected to drive FX markets.

Theme 1: Global central bank policy — The Fed's exit strategy is not as USD positive as it might appear. We expect the Fed to expand QE3 to include Treasurys in December; however at some point the focus will shift from expansion to conclusion and this will be a significant market development. The Fed is unlikely to hike interest rates before 2015; however leading into the decision it will have to signal the end of QE, the end of reinvestment of both the MBS and Treasury portfolios, a balance sheet adjustment plan and finally higher rates. These shifts are likely to begin late in 2013 and throughout 2014. Judged in isolation a shift in the Fed's stance would be USD bullish; however on a relative basis, several central banks are expected to be entering hiking cycles in 2013 and early 2014; this includes Mexico, Brazil, Korea, Thailand, Australia, Norway and Canada. Accordingly Fed policy judged against these central banks is not USD bullish and more likely to prove USD bearish. The relative central bank policy of the Fed versus the ECB and Bank of England is more difficult and more likely to be neutral to USD positive while against Japan's BoJ, Fed policy is notably supportive of the USD.

Theme 2: Global growth — our base case is a soft landing in China, whose GDP is expected to reach 8.0% in 2013 and 8.3% in 2014. Scotiabank's China outlook is driven by the country's new leadership combined with room for both fiscal and monetary expansion, thereby supporting both commodities and the associated currencies like CAD and AUD. In the major advanced economies, the US is expected to outperform but not enough to drive significant USD strength. For Europe there is a sea change, most European economies are expected to show modest growth by the end of the year. Even though this is weak growth at best, it still suggests that psychologically the market's mindset will shift from talking about the deepening and widening of European recessions to the emergence into a shallow, albeit still vulnerable, recovery. This will be a significant change for FX markets.

Theme 3: Europe is expected to remain a core theme, but not to the extent that it captured the market's attention in 2012. Our base case is that Europe muddles through and that it is a long and slow process with tremendous uncertainty. However 2012 has been marked by substantial developments; the combination of the ECB's LTRO and OMT (bond buying program) as well as plans for a banking union has helped to decrease the tail risks associated with bank insolvency and a European EMU breakup. The need for structural change remains; however muddling along making slow progress is likely to be the theme in 2013.

Theme 4: Politics, including elections, uncertainty and negotiations are likely to be an important driver of FX next year. The combination of new leadership in China, the passing of the US election and upcoming elections in Germany and Japan combined with the political hurdles faced by of Europe & the US will provide plenty of opportunity for the market to shift course. We expect that the medium-term impact of this is USD weakness against currencies like CAD, as the US fails to establish a credible long-term fiscal plan as well as temporary spikes in risk aversion that should weigh on EUR as political uncertainty and apparent impasses slow progress.

The major risks to our views include: An unforeseen spike in inflation driven by current central bank alternative policy tools. A hard landing in China, which would weigh heavily on global growth, commodity prices and associated currencies. A major geopolitical event that drives a spike in oil prices and weighs heavily on the global economies. A political deadlock in Europe, which would drive uncertainty and push the crisis to a new level.

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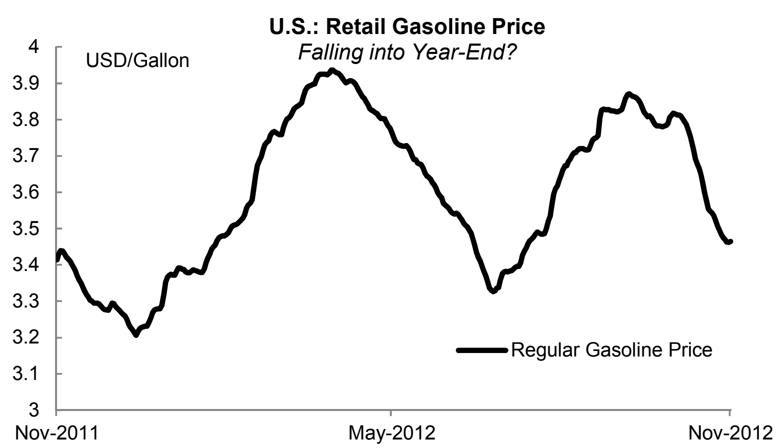
Key Data Preview

CANADA

Scotiabank is looking for a 0.3% m/m print when Canadian **manufacturing sales** numbers for September are released on November 15. While international merchandise trade numbers for September reflected a solid monthly increase in crude exports, there was volatility in the refined segment which has more bearing here. Machinery exports were higher in nominal terms too, but the automotive exports channel was weak, which could mitigate strength in the former area. One risk is that while overall new orders improved in August, they had declined sharply in July, so the multi-month cumulative order book — which maps better with actual output than the immediate trailing month — is less than stellar and is pointing to general weakness in the manufacturing sector. A second issue to flag is that the overall export volume numbers were mixed, showing strength in automotive and aircraft export volumes while consumer goods export volumes were negative.

UNITED STATES

Initial jobless claims (November 15) will be interesting as they cover the week of November 10 (i.e. the first full week following Hurricane Sandy). Initial jobless claims fell during the week of Hurricane Sandy to 355k from 365k the week before, probably because a) claimants had trouble filing claims due to weather-related disruptions, and b) Department of Labor offices had their workflow (and thus the claims filing process) disrupted. We're expecting a bounce-back in initial claims that exceeds the preceding week's improvement, with initial claims hitting 375k or higher. That type of outcome would be in line with outcomes in the wake of comparable major weather events. We also see ongoing risk of higher prints in the weeks ahead.



Source: Bloomberg, Scotiabank Economics

CPI numbers for October will be released on November 15, and inflation-linked markets could plausibly experience some sticker shock should the year-on-year CPI number print above 2% as we expect (we're forecasting a 2.1% y/y outcome). By way of scenario analysis, monthly not-seasonally-adjusted CPI needs to come in at -0.3% or lower in order for year-on-year CPI to hover below the Fed's 2% target. We don't think that type of decline is likely to happen as, even though gasoline prices were down by close to 5% m/m according to Bloomberg and the typical seasonal pattern points to softer CPI, we expect that slight increases in shelter costs and a surge in the natural gas price should suffice to keep CPI from entirely collapsing. The 0.1% m/m seasonally adjusted CPI print that we anticipate by no means reflects strong price growth; we're still looking at a soft underlying inflation environment, and we're expecting core CPI to be in-line with headline at 0.1% m/m. One theme to watch for this month will be the extent to which gasoline prices decline heading into year-end as prices have already corrected quite considerably (see chart).

Retail sales for October will be released on November 14 and we're looking for a weak -0.2% m/m print for two main reasons: a) new vehicle sales declined significantly in October after hitting a post-crisis high in September, and b) gasoline prices were down substantially. Note that the price effects at gasoline stations shouldn't match one-for-one with sales (gasoline stations don't just sell gasoline) just as the weak vehicle sales should be mitigated by services revenue at car dealers. The ICSC measure of chain store sales was lower on the month too so it's hard to summon a whole lot of optimism when it comes to the state of US consumers in October — especially in light of their heavy spending the month before (+1.1% m/m in September).

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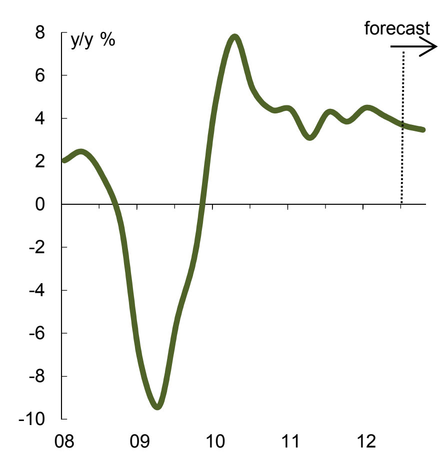
EUROPE

Topping the highlights of next week's European data calendar are the third-quarter GDP releases in the euro area on November 15th. Spain already reported a preliminary estimate of -0.3% q/q, though we suspect this may be revised lower in the final reading. Most euro zone economies actually held up better than earlier feared in the three months to September, and we recently adjusted our 2012 forecasts to reflect this. German output was likely flat in the third quarter, with exports and industrial production weakness weighing on growth (consensus looks for growth of 0.1% q/q). We expect that France contracted 0.1% relative to the April-June period, though we have been surprised by the resilience of this economy to date and it could conceivably avoid a negative print for a fourth consecutive quarter. Italian GDP probably fell by around 0.5% q/q, marking the fifth quarter of recession (though at a slightly better pace than the -0.8% rate registered in the prior two quarters). Finally, we expect the aggregate euro zone economy to show a loss of 0.2% q/q, confirming a technical recession for the region as a whole (after the 0.2% decline in the second quarter).

Also out next week is UK inflation and we expect the CPI to reaccelerate in October, up from 2.2% y/y to 2.4% y/y. The pickup is likely to reflect the combination of university tuition fee hikes (which should add between 0.1 and 0.2 percentage points to headline inflation) and the first of several utility bill increases (likely to add another 0.3 percentage points to inflation by December). There are two conflicting base effects this month — clothing should push down, while food will push up on inflation. More specifically, although food price inflation is still in the process of trending lower (as the agricultural commodity price shock of 2010-11 unwinds) there is a substantial base effect this month which will contribute towards pushing headline inflation higher. The other restraint on overall inflation this month is petrol prices, which have begun to fall, albeit gradually. Overall, we expect CPI inflation to continue to accelerate to around 2.5% y/y by year-end, before the effect of the US drought on food price inflation pushes inflation even higher in the early months of 2013.

LATIN AMERICA

Mexico's Real GDP



Source: Thomson Reuters and Scotiabank Economics.

Third-quarter real GDP growth will be reported next week in Mexico amid persistent concerns over the global growth outlook. Among its North American peers, Mexico has outperformed the US and Canada in recent years, while it has underachieved relative to the major South American countries (with the exception of Brazil in 2011-2012). In the first half of 2012, the Mexican economy was driven by a strong industrial sector, particularly the automotive division, improving local consumption and higher spending due to the electoral process. Mexico's real GDP expanded by 4.5% y/y and 4.1% in the first and second quarters of the year, respectively. This was almost 0.6 percentage points above the 2011 average in the first half of the year and more than one percentage point above the 2008 average in the same period (growth in 2009 and 2010 was distorted by the crisis). However, with a mild recovery in the US and the recent slowdown in industrial production, the sectors more closely related to external demand in Mexico have been moderating. Based on the central bank's quarterly inflation report, the Mexican economy slowed in the third quarter as foreign demand moderated, while local consumption remained solid. The monthly economic activity indicator expanded by 4.7% y/y in July and then decelerated to 3.5% in August. We anticipate that this moderation continued in September. Consequently, we anticipate that the Mexican economy expanded by 3.7% y/y in the third quarter of the year.

Key Indicators for the week of November 12 - 16

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
MX	11/12	09:00	Industrial Production (m/m)	Sep	--	0.3	-0.8
MX	11/12	09:00	Industrial Production (y/y)	Sep	3.3	3.6	3.6
US	11/13	14:00	Treasury Budget ($ bn)	Oct	--	-124.0	75.0
US	11/14	07:00	MBA Mortgage Applications (w/w)	NOV 9	--	--	-5.0
US	11/14	08:30	PPI (m/m)	Oct	0.2	0.2	1.1
US	11/14	08:30	PPI ex. Food & Energy (m/m)	Oct	0.1	0.1	0.0
US	11/14	08:30	Retail Sales (m/m)	Oct	-0.2	-0.2	1.1
US	11/14	08:30	Retail Sales ex. Autos (m/m)	Oct	0.0	0.3	1.1
US	11/14	10:00	Business Inventories (m/m)	Sep	--	0.4	0.6
CA	11/15	08:30	Manufacturing Shipments (m/m)	Sep	0.3	0.3	1.5
US	11/15	08:30	Continuing Claims (000s)	NOV 3	3275	--	3127
US	11/15	08:30	Initial Jobless Claims (000s)	NOV 10	375	370	355
US	11/15	08:30	CPI (m/m)	Oct	0.1	0.1	0.6
US	11/15	08:30	CPI (y/y)	Oct	2.1	2.1	2.0
US	11/15	08:30	CPI ex. Food & Energy (m/m)	Oct	0.1	0.1	0.1
US	11/15	08:30	CPI ex. Food & Energy (y/y)	Oct	2.0	2.0	2.0
US	11/15	08:30	Empire State Manufacturing Index	Nov	-9.0	-6.9	-6.2
CA	11/15	09:00	Existing Home Sales (m/m)	Oct	--	--	2.5
US	11/15	10:00	Philadelphia Fed Index	Nov	1.0	2.0	5.7
CA	11/16	08:30	International Securities Transactions (C$ bn)	Sep	--	--	6.9
MX	11/16	09:00	GDP (q/q)	3Q	--	--	0.9
MX	11/16	09:00	GDP (y/y)	3Q	3.7	3.5	4.1
MX	11/16	09:00	Global Economic Indicator IGAE (y/y)	Sep	3.0	3.3	3.5
US	11/16	09:00	Total Net TIC Flows ($ bn)	Sep	--	--	91.4
US	11/16	09:15	Capacity Utilization (%)	Oct	--	78.3	78.3
US	11/16	09:15	Industrial Production (m/m)	Oct	0.2	0.2	0.4

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
RU	11/13		GDP (y/y)	3Q A	--	2.8	4.0
FR	11/13	02:45	Current Account (€ bn)	Sep	--	--	-4.0
FR	11/13	02:45	Non-Farm Payrolls (q/q)	3Q P	--	-0.2	-0.1
SP	11/13	03:00	CPI (y/y)	Oct F	3.5	3.5	3.5
SP	11/13	03:00	CPI - EU Harmonized (m/m)	Oct	0.5	0.5	1.9
SP	11/13	03:00	CPI - EU Harmonized (y/y)	Oct F	3.5	3.5	3.5
IT	11/13	04:00	CPI (y/y)	Oct F	2.6	2.6	2.6
IT	11/13	04:00	CPI - EU Harmonized (m/m)	Oct F	0.3	0.3	0.3
IT	11/13	04:00	CPI - EU Harmonized (y/y)	Oct F	2.8	2.8	2.8
UK	11/13	04:30	CPI (m/m)	Oct	0.3	0.2	0.4
UK	11/13	04:30	CPI (y/y)	Oct	2.4	2.4	2.2
UK	11/13	04:30	PPI Input (m/m)	Oct	0.0	-0.2	-0.2
UK	11/13	04:30	PPI Output (m/m)	Oct	0.0	0.1	0.5
UK	11/13	04:30	RPI (y/y)	Oct	2.9	2.9	2.6
EC	11/13	05:00	ZEW Survey (Economic Sentiment)	Nov	--	--	-1.4
GE	11/13	05:00	ZEW Survey (Current Situation)	Nov	--	8.0	10.0
GE	11/13	05:00	ZEW Survey (Economic Sentiment)	Nov	--	-10.0	-11.5
FR	11/14	02:45	CPI (y/y)	Oct	--	1.9	1.9
FR	11/14	02:45	CPI - EU Harmonized (m/m)	Oct	0.2	0.2	-0.3
FR	11/14	02:45	CPI - EU Harmonized (y/y)	Oct	2.1	2.1	2.2
UK	11/14	04:30	Average Weekly Earnings (3-month, y/y)	Sep	2.1	1.9	1.7
UK	11/14	04:30	Employment Change (3M/3M, 000s)	Sep	140.0	135.0	212.0
UK	11/14	04:30	Jobless Claims Change (000s)	Oct	-5.0	0.0	-4.0
UK	11/14	04:30	ILO Unemployment Rate (%)	Sep	7.8	7.9	7.9
PO	11/14	05:00	GDP (q/q)	3Q P	--	-0.6	-1.2
EC	11/14	05:00	Industrial Production (y/y)	Sep	--	-2.2	-2.9
GR	11/14		GDP (y/y)	3Q A	--	--	-6.3

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

Key Indicators for the week of November 12 - 16

Europe *(continued from previous page)*

FR	11/15	01:30	GDP (q/q)	3Q P	-0.1	0.0	0.0
GE	11/15	02:00	GDP (q/q)	3Q P	0.0	0.1	0.3
SP	11/15	03:00	Real GDP (q/q)	3Q F	-0.4	-0.3	-0.3
IT	11/15	04:00	GDP (q/q)	3Q P	-0.5	-0.5	-0.8
UK	11/15	04:30	Retail Sales ex. Auto Fuel (m/m)	Oct	0.1	-0.1	0.6
UK	11/15	04:30	Retail Sales with Auto Fuel (m/m)	Oct	0.1	-0.1	0.6
EC	11/15	05:00	CPI (m/m)	Oct	0.2	0.2	0.2
EC	11/15	05:00	CPI (y/y)	Oct	2.5	2.5	2.6
EC	11/15	05:00	GDP (q/q)	3Q A	-0.2	-0.1	-0.2
IT	11/15	05:00	Current Account (€ mn)	Sep	--	--	-2528.0
EC	11/16	04:00	Current Account (€ bn)	Sep	--	--	8.8

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CH	11/10	06:59	Exports (y/y)	Oct	--	10.0	9.9
CH	11/10	06:59	Imports (y/y)	Oct	--	3.4	2.4
CH	11/10	06:59	Trade Balance (US$ bn)	Oct	--	27.3	27.7
CH	11/10	07:59	New Yuan Loans (bn)	Oct	--	590.0	623.2
JN	11/11	18:50	GDP (q/q)	3Q P	--	-0.9	0.2
JN	11/11	18:50	GDP Deflator (y/y)	3Q P	--	-0.7	-1.1
JN	11/11	18:50	Tertiary Industry Index (m/m)	Sep	--	-0.1	0.4
AU	11/11	19:30	Home Loans (%)	Sep	--	1.0	1.8
JN	11/12	01:00	Machine Tool Orders (y/y)	Oct P	--	--	-2.8
NZ	11/12	07:59	REINZ Housing Price Index (m/m)	Oct	--	--	1.5
PH	11/12	20:00	Exports (y/y)	Sep	--	9.0	-9.0
JN	11/12	23:30	Capacity Utilization (m/m)	Sep F	--	--	-2.6
JN	11/12	23:30	Industrial Production (m/m)	Sep F	--	--	-4.1
AU	11/13	19:30	Wage Cost Index (q/q)	3Q	--	0.8	1.0
IN	11/14	01:30	Monthly Wholesale Prices (y/y)	Oct	--	7.9	7.8
CH	11/14	07:59	Actual FDI (y/y)	Oct	--	1.0	-6.8
SI	11/15	19:30	Exports (y/y)	Oct	--	2.4	-3.4

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	11/12	06:59	Trade Balance (PEN mn)	Sep	--	--	48.0
BZ	11/13	06:00	Retail Sales (m/m)	Sep	--	0.2	0.2
BZ	11/13	06:00	Retail Sales (y/y)	Sep	--	8.5	10.1
CL	11/13	16:00	Nominal Overnight Rate Target (%)	Nov 13	**5.00**	**5.00**	**5.00**
BZ	11/14	07:59	Economic Activity Index SA (m/m)	Sep	--	-0.4	1.0
BZ	11/14	07:59	Economic Activity Index NSA (y/y)	Sep	--	1.2	2.7
PE	11/15	06:59	Economic Activity Index NSA (y/y)	Sep	--	--	6.3
PE	11/15	06:59	Unemployment Rate (%)	Oct	--	--	6.6
CO	11/16	16:00	Trade Balance (US$ mn)	Sep	--	--	-305.4

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

Global Auctions for the week of November 12 - 16

North America

Country	Date	Time	Event
US	11/13	11:00	U.S. Fed To Purchase USD4.25-5.25 Bln Notes
US	11/13	11:30	U.S. to Sell 3-Month Bills
US	11/13	11:30	U.S. to Sell 6-Month Bills
US	11/14	11:00	U.S. Fed To Sell USD7.00-8.00 Bln Notes
CA	11/14	12:00	Canada to Sell 2 Year Notes
US	11/15	11:00	U.S. Fed To Purchase USD1.75-2.25 Bln Notes
US	11/16	11:00	U.S. Fed To Purchase USD4.25-5.25 Bln Notes

Europe

Country	Date	Time	Event
GE	11/12	05:30	Germany to Sell EU4 Bln 6-Mth Bills
FR	11/12	09:00	France to Sell Bills (BTF)
NE	11/13	04:00	Netherlands to Sell Up to EUR3 Bln 2.25% 2022 Bonds
IT	11/13	05:00	Italy to Sell Bills
GR	11/13	05:00	Greece to Sell Bills
BE	11/13	05:30	Belgium to Sell Bills
SZ	11/13	05:30	Switzerland to Sell 3-Month Bills
IC	11/13	06:00	Iceland to sell Bills
IT	11/14	05:00	Italy to Sell 3-Year Bonds/Floating/Zero Coupon
SW	11/14	05:03	Sweden to Sell SEK3.5 Bln 3.5% 2022 Bonds on Nov. 14
SZ	11/14	05:30	SWitzerland to Sell Bonds (Reserve Date)
GE	11/14	05:30	Germany to Sell EU5 Bln 2-Year Notes
FR	11/15	05:00	France to Sell Bonds/Notes (OAT/BTAN)
UK	11/15	05:30	U.K. to Sell 3.75% 2052 Gilt
UK	11/15	05:30	U.K. to Sell GBP2 Bln 3.75% 2052 Bonds

Asia Pacific

Country	Date	Time	Event
JN	11/12	22:45	Japan to sell 5-Year Bonds
CH	11/13	20:30	China to Sell CNY26 Bln 50-Year Bonds
JN	11/14	22:35	Japan to Sell 3-Month Bills
JN	11/14	22:45	Japan to Sell 20-Year Bonds
JN	11/15	22:35	Japan to Sell 1-Year Bills

Latin America

Country	Date	Time	Event
BZ	11/14	08:00	Brazil to Sell Bills due 4/1/2013 - LTN
BZ	11/14	08:00	Brazil to Sell Bills due 4/1/2015 - LTN
BZ	11/14	08:00	Brazil to Sell Bills due 7/1/2016 - LTN
BZ	11/14	08:00	Brazil to Sell Fixed-rate bonds due 1/1/2018 - NTN-F
BZ	11/14	08:00	Brazil to Sell Fixed-rate bonds due 1/1/2023 - NTN-F

Source: Bloomberg, Scotiabank Economics.

Events for the week of November 12 - 16

North America

Country	Date	Time	Event
CA	03-11 NOV		Canadian Prime Minister Harper Visits Asia
US	11/12		U.S. House Republicans Leadership Elections
US	11/13	15:30	Fed's Yellen Speaks on Communications at Berkeley
CA	11/14	12:00	Bank of Canada Deputy Governor Cote in Rimouski, Quebec
US	11/14	14:00	Fed Releases Minutes from Oct 23-24 FOMC Meeting
US	11/14	20:45	Fed's Williams Speaks on the Economy in San Francisco
US	11/15	09:00	Fed's Lacker Speaks on Economic Outlook in Charleston, WV
CA	11/15	10:30	Bank of Canada Review
US	11/15	13:20	Bernanke Appearance at HOPE Summit
US	11/15	14:45	Fed's Fisher Speaks at Stanford University
US	11/15	16:30	Fed's Plosser Speaks at Cato Institute in Washington, DC
US	11/15	18:30	NY Fed President Dudley to Speak at NY Clearing House Event
CA	11/16	07:45	Minister of State Menzies Speaks at Financial Literacy Panel
US	11/16	15:45	Fed's Lockhart Speaks in Charlottesville, VA

Europe

Country	Date	Time	Event
IT	11/11	18:00	Italy's Monti at Milan Conference
PO	11/12	03:00	Sixth Review of Portugal's Financial Aid Program Begins
NE	11/12	03:00	ECB 's Knot to Speak in Amsterdam
SP	11/12	04:00	Budget Minister Cristobal Montoro Speaks in Madrid
PO	11/12	07:15	Bank of Portugal's Costa Speaks at Conference
IT	11/12	08:00	Italy Debt Agency Head Cannata Speaks in Rome
GE	11/12	08:45	Merkel to Visit Portugal for Talks With Prime Minister Coelho
SP	11/12	09:00	Spain's De Guindos Speaks at European Parliament
EC	11/12	11:00	Euro-Area Finance Ministers Meet in Brussels
IT	11/12	14:30	Sky TG24 Hosts First Debate of Center-Left Primary Candidates
GR	11/12	17:00	Greek PM Samaras in Brussels
PO	11/12		Germany's Merkel Visits Portugal, Attends Conference
IT	12-13 NOV		Italian, German Labor Ministers Attend Event in Naples
EC	11/13	03:00	EU-27 Finance Ministers Meet in Brussels
PO	11/13	04:00	Bank of Portugal Governor Carlos Costa to Speak at Event
GE	11/13	04:30	German BGA Exporters Group Presents Sector Outlook: Berlin
PO	11/13	05:00	Portugal Reports October Consumer Price Inflation
IT	11/13	05:00	Bank of Italy Releases Sept. Public Finance Supplement
GE	11/13	09:00	Merkel, Roesler at Government IT Event in Essen
EC	11/13	09:30	Greek Finance Minister Stournaras Speaks to EU Lawmakers
SP	11/13	18:00	Spanish Unions Hold General Strike
PO	11/13		Bank of Portugal Releases Autumn Economic Bulletin
SZ	11/14	03:00	Swiss Government Holds Regular Meeting
SP	11/14	04:00	Bank of Spain Publishes Banks' ECB Borrowing Data
PO	11/14	05:00	Portugal Reports Third-Quarter GDP Estimate
UK	11/14	05:30	Bank of England Releases Quarterly Inflation Report
EC	11/14	10:45	Asmussen speaks in Mainz
SP	11/14		Confederacion General de Trabajo's General Strike in Spain
SP	11/14		2012 Santander International Banking Conference
FR	11/14		OECD Releases 2012 Europe Health at a Glance
PO	11/14		Portugal's CGTP Holds Strike
IT	11/14		Monti Travels to Algeria for Summit meeting
GE	11/15	03:00	ECB's Asmussen Speaks at Event in Berlin
EC	11/15	04:00	ECB Publishes Nov. Monthly Report
PO	11/15	13:00	Portugal's Moedas Attends Conference on 2013 Budget
UK	11/15		United Kingdom Holds By-Elections in Corby, Manchester Central, Cardiff South and Penarth
PO	11/16	04:00	ECB's Costa, Harvard's Reinhart Speak at Conference in Lisbon
SZ	11/16	04:45	SNB's Thomas Jordan Speaks in Zurich

Source: Bloomberg, Scotiabank Economics.

Events for the week of November 12 - 16

Asia Pacific

Country	Date	Time	Event
CH	07-14 NOV		China to Unveil New Leadership at Communist Party Congress
CH	11/10	02:00	Briefing at China's 18th Party Congress on Economy
CH	11/11	02:00	Briefing at China 18th Party Congress on Cultural Reform
JN	11/11	21:30	BOJ Governor Shirakawa Speaks at Kisaragi-kai Meeting
CH	11/12	02:00	Briefing at China 18th Party Congress on Citizens' Livelihoods
IN	11/12	06:00	364 Day T-Bill Cutoff Yield
IN	11/12	06:00	91 Day T-Bill Cutoff Yield
NZ	11/12	16:00	ANZ Truckometer Index
NZ	11/12	16:45	Statistics New Zealand on Food Prices
AU	11/12	20:30	RBA's Kearns Gives Remarks to Australian Business Economists
NZ	11/12		NZ Government 2012-18 Tourism Forecasts
ID	12-13 NOV		Official Monetary and Financial Institutions Forum Conference
NZ	11/13	16:45	Statistics New Zealand on Retail Trade
NZ	11/13	21:00	Foreign Holdings of New Zealand Government Bonds
NZ	11/14	16:00	ANZ Job Advertisements
NZ	11/14	16:30	Business NZ Publishes Performance of Manufacturing Index
NZ	11/14	19:00	ANZ-Roy Morgan Consumer Confidence Survey
AU	11/14	19:30	RBA Foreign Exchange Transactn

Latin America

Country	Date	Time	Event
CL	11/12	06:30	Central Bank Economist Survey
CL	11/13	16:00	**Nominal Overnight Rate Target**
CL	11/14	06:30	Central Bank's Traders Survey

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	December 4, 2012	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	December 12, 2012	0.25	--
Banco de México – Overnight Rate	4.50	November 30, 2012	4.50	--

BoC: We continue to expect the BoC to remain on hold for an extended period and do not forecast rate hikes until 2014. Remarks from Governor Carney have reinforced our view that the BoC is fairly concerned about downside risks to the inflation outlook as a result of soft housing markets as indicated by the BoC's emphasis of the "two-sided" risks to growth from debt in the household sector. Fed: CPI due out on Thursday is expected to move back above the Fed's 2% inflation target. We do not expect that this will materially impact Fed policy or cause the Fed to curtail its Large Scale Asset Purchase program. Fed Chairman Bernanke, Vice Chair Yellen, and NY Fed President Dudley will all speak next week.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.75	December 6, 2012	0.75	--
Bank of England – Bank Rate	0.50	December 6, 2012	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	December 13, 2012	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	December 28, 2012	8.25	--
Hungarian National Bank – Base Rate	6.25	November 27, 2012	6.25	6.00
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.75	November 20, 2012	5.75	--
Sweden Riksbank – Repo Rate	1.25	December 18, 2012	1.25	--
Norges Bank – Deposit Rate	1.50	December 19, 2012	1.50	--

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	November 20, 2012	0.10	--
Reserve Bank of Australia – Cash Target Rate	3.25	December 3, 2012	3.25	3.25
Reserve Bank of New Zealand – Cash Rate	2.50	December 5, 2012	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	--
Bank of Thailand – Repo Rate	2.75	November 28, 2012	2.75	--
Bank Indonesia – Reference Interest Rate	5.75	December 11, 2012	5.75	--

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	7.25	November 28, 2012	7.25	--
Banco Central de Chile – Overnight Rate	5.00	November 13, 2012	5.00	5.00
Banco de la República de Colombia – Lending Rate	4.75	November 23, 2012	4.50	--
Banco Central de Reserva del Perú – Reference Rate	4.25	December 6, 2012	4.25	4.25

We anticipate that the central bank of Chile will remain on the sidelines next week, leaving the reference rate unchanged at 5.0%, where it has been since January. Headline inflation has been accelerating in recent months, increasing from 2.6% y/y in August to 2.9% in October; however, core inflation remained almost unchanged at 2.0% y/y, the lower end of the central bank's official target range. This supports our view that the central bank will maintain a neutral rhetoric and a stable monetary policy stance over the near term.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.00	November 22, 2012	5.00	5.00

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

Forecasts as at November 1, 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	3.3	3.8				
Canada	2.2	2.1	1.8	2.3	2.1	1.6	1.9	2.2
United States	1.8	2.1	1.9	2.5	2.5	2.1	2.3	2.2
Mexico	2.2	3.9	3.6	4.0	4.8	4.4	4.0	4.0
United Kingdom	1.9	0.0	1.4	1.6	2.3	2.4	3.0	2.2
Euro Zone	1.4	-0.6	0.1	1.0	2.1	2.5	1.8	1.7
Japan	0.8	2.2	1.0	1.2	-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	8.3	7.0	6.1
South Korea	4.5	2.3	3.1	3.6	3.2	2.4	2.8	3.0
Thailand	4.0	5.5	4.0	4.2	2.7	3.7	3.3	3.4
Brazil	3.6	1.7	3.8	4.0	6.6	5.0	5.5	5.5
Chile	4.8	5.2	5.0	4.8	3.5	2.2	3.1	3.0
Peru	5.6	6.3	5.7	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)	1.27	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	13.0	13.2	13.2	13.1	13.2
Brazilian Real (USDBRL)	1.99	1.98	1.95	1.90	1.86	1.86	1.85	1.84

Commodities (annual average)	2000-11	2012f	2013f	2014f
WTI Oil (US$/bbl)	57	95	98	100
Brent Oil (US$/bbl)	58	112	112	112
Nymex Natural Gas (US$/mmbtu)	5.67	2.80	3.25	3.75
Copper (US$/lb)	2.10	3.62	3.58	3.35
Zinc (US$/lb)	0.77	0.88	1.02	1.20
Nickel (US$/lb)	7.62	7.90	8.10	8.00
Gold, London PM Fix (US$/oz)	668	1,690	1,800	1,700
Pulp (US$/tonne)	718	868	875	950
Newsprint (US$/tonne)	581	640	660	675
Lumber (US$/mfbm)	272	285	315	350

[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	1.8	1.9		
Current Acc. Bal. (C$B, ar)	-52.3	-59.8	-73.5		
Merch. Trade Bal. (C$B, ar)	0.9	0.6	-14.6	-9.9	(Sep)
Industrial Production	3.5	0.9	2.5	-0.5	(Aug)
Housing Starts (000s)	193	206	231	204	(Oct)
Employment	1.6	0.9	1.2	1.3	(Oct)
Unemployment Rate (%)	7.5	7.4	7.3	7.4	(Oct)
Retail Sales	4.1	4.3	2.6	2.7	(Aug)
Auto Sales (000s)	1589	1702	1671	1690	(Aug)
CPI	2.9	2.3	1.6	1.2	(Sep)
IPPI	4.6	1.8	0.7	0.3	(Sep)
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	3.1	(Sep)
Housing Starts (millions)	0.61	0.71	0.74	0.87	(Sep)
Employment	1.1	1.6	1.3	1.4	(Oct)
Unemployment Rate (%)	9.0	8.3	8.2	7.9	(Oct)
Retail Sales	8.3	6.4	4.3	5.3	(Sep)
Auto Sales (millions)	12.7	14.1	14.1	14.2	(Oct)
CPI	3.2	2.8	1.9	2.0	(Sep)
PPI	6.0	3.4	1.1	2.1	(Sep)
Pre-tax Corp. Profits	2.1	18.0	14.6		

Mexico	2011	12Q1	12Q2	Latest	
Real GDP	3.9	4.5	4.1		
Current Acc. Bal. (US$B, ar)	-11.1	4.7	1.8		
Merch. Trade Bal. (US$B, ar)	-1.5	7.1	6.1	2.8	(Sep)
Industrial Production	4.0	4.4	3.7	3.6	(Aug)
CPI	3.4	3.9	3.9	4.6	(Oct)

Europe

Euro Zone	2011	12Q1	12Q2	Latest	
Real GDP	1.5	-0.1	-0.5		
Current Acc. Bal. (US$B, ar)	-3	-24	84	107	(Aug)
Merch. Trade Bal. (US$B, ar)	6.9	33.0	131.6	66.1	(Aug)
Industrial Production	3.5	-1.6	-2.2	-2.3	(Aug)
Unemployment Rate (%)	10.1	10.9	11.2	11.6	(Sep)
CPI	2.7	2.7	2.5	2.6	(Sep)

Germany	2011	12Q1	12Q2	Latest	
Real GDP	3.1	1.2	1.0		
Current Acc. Bal. (US$B, ar)	202.6	215.8	192.2	251.4	(Sep)
Merch. Trade Bal. (US$B, ar)	217.0	222.9	245.1	262.6	(Sep)
Industrial Production	8.0	0.7	-0.2	-1.1	(Sep)
Unemployment Rate (%)	7.1	6.8	6.8	6.9	(Oct)
CPI	2.3	2.2	1.9	2.0	(Oct)

France	2011	12Q1	12Q2	Latest	
Real GDP	1.7	0.4	0.3		
Current Acc. Bal. (US$B, ar)	-54.5	-51.1	-81.3	-56.1	(Aug)
Merch. Trade Bal. (US$B, ar)	-52.8	-54.4	-57.2	-47.0	(Sep)
Industrial Production	1.8	-1.9	-2.0	-2.5	(Sep)
Unemployment Rate (%)	9.6	10.0	10.3	10.8	(Sep)
CPI	2.1	2.3	2.0	1.9	(Sep)

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)	-160.3	-159.8	-177.6	-161.8	(Sep)
Industrial Production	-0.7	-2.8	-2.5	-2.6	(Sep)
Unemployment Rate (%)	8.1	8.2	8.1	7.9	(Jul)
CPI	4.5	3.5	2.7	2.2	(Sep)

Italy	2011	12Q1	12Q2	Latest	
Real GDP	0.6	-1.4	-2.6		
Current Acc. Bal. (US$B, ar)	-0.07	-0.07	0.00	-0.04	(Aug)
Merch. Trade Bal. (US$B, ar)	-34.2	-17.5	16.7	-8.9	(Aug)
Industrial Production	0.2	-5.3	-7.5	-4.9	(Sep)
CPI	2.8	3.4	3.3	3.2	(Sep)

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	2.0	(Sep)
CPI	8.4	3.9	3.8	6.5	(Oct)

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	2.1	4.4	3.7	
Current Acc. Bal. (US$B, ar)	-33.1	-61.6	-32.9	
Merch. Trade Bal. (US$B, ar)	35.7	1.4	27.7	7.2 (Sep)
Industrial Production	-1.2	3.9	0.5	
Unemployment Rate (%)	5.1	5.2	5.1	5.4 (Oct)
CPI	3.3	1.6	1.2	

Japan	2011	12Q1	12Q2	Latest
Real GDP	-0.7	2.8	3.3	
Current Acc. Bal. (US$B, ar)	119.2	101.1	56.8	77.3 (Sep)
Merch. Trade Bal. (US$B, ar)	-33.0	-71.6	-75.0	-150.5 (Sep)
Industrial Production	-2.3	2.7	5.1	-6.8 (Sep)
Unemployment Rate (%)	4.6	4.5	4.4	4.2 (Sep)
CPI	-0.3	0.3	0.2	-0.3 (Sep)

South Korea	2011	12Q1	12Q2	Latest
Real GDP	3.6	2.8	2.3	
Current Acc. Bal. (US$B, ar)	26.5	10.2	44.8	72.8 (Sep)
Merch. Trade Bal. (US$B, ar)	30.8	5.3	38.1	45.6 (Oct)
Industrial Production	6.9	2.9	2.4	-0.5 (Sep)
CPI	4.0	3.0	2.4	2.1 (Oct)

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	1.3	274.2	332.0 (Sep)
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	4.2	
Current Acc. Bal. (US$B, ar)	5.9	1.4	-2.4	
Merch. Trade Bal. (US$B, ar)	1.4	0.4	0.5	3.0 (Sep)
Industrial Production	-9.5	-7.2	-1.5	-13.4 (Sep)
CPI	3.8	3.4	2.5	3.3 (Oct)

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)	-13.5	-15.7	-13.7	-18.1 (Sep)
Industrial Production	4.8	0.6	-0.2	2.7 (Aug)
WPI	9.5	7.3	7.5	7.8 (Sep)

Indonesia	2011	12Q1	12Q2	Latest
Real GDP	6.5	6.3	6.4	
Current Acc. Bal. (US$B, ar)	1.7	-3.2	-6.9	
Merch. Trade Bal. (US$B, ar)	2.2	0.9	-0.8	0.6 (Sep)
Industrial Production	4.1	5.4	3.3	3.6 (Aug)
CPI	5.4	3.7	4.5	4.6 (Oct)

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	19.9 (Oct)
Industrial Production	0.4	-3.5	-4.4	-1.3 (Sep)
CPI	6.6	5.8	5.0	5.4 (Oct)

Chile	2011	12Q1	12Q2	Latest
Real GDP	6.0	5.3	5.5	
Current Acc. Bal. (US$B, ar)	-0.3	-0.5	-9.8	
Merch. Trade Bal. (US$B, ar)	10.0	10.2	5.1	0.8 (Oct)
Industrial Production	6.9	3.9	2.8	-5.6 (Sep)
CPI	3.3	4.1	3.1	2.9 (Oct)

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	0.0 (Aug)
Unemployment Rate (%)	7.7	8.3	7.2	6.6 (Sep)
CPI	3.4	4.2	4.1	3.2 (Oct)

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	-0.3 (Aug)
Industrial Production	5.1	1.8	-0.2	-1.9 (Aug)
CPI	3.4	3.5	3.4	3.1 (Oct)

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/02	Nov/09*
BoC Overnight Rate	1.00	1.00	1.00	1.00
3-mo. T-bill	0.88	0.98	0.99	0.98
10-yr Gov't Bond	1.74	1.73	1.77	1.71
30-yr Gov't Bond	2.33	2.32	2.36	2.31
Prime	3.00	3.00	3.00	3.00
FX Reserves (US$B)	66.0	67.9	67.9	(Sep)
Germany				
3-mo. Interbank	0.53	0.11	0.10	0.12
10-yr Gov't Bond	1.58	1.44	1.45	1.35
FX Reserves (US$B)	68.2	68.5	68.5	(Sep)
Euro Zone				
Refinancing Rate	1.00	0.75	0.75	0.75
Overnight Rate	0.38	0.11	0.09	0.09
FX Reserves (US$B)	328.7	332.8	332.8	(Sep)
Japan				
Discount Rate	0.30	0.30	0.30	0.30
3-mo. Libor	0.13	0.13	0.13	0.13
10-yr Gov't Bond	0.84	0.78	0.78	0.74
FX Reserves (US$B)	1231.2	1233.3	1233.3	(Sep)

United States	12Q2	12Q3	Nov/02	Nov/09*
Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.08	0.09	0.09	0.09
10-yr Gov't Bond	1.64	1.63	1.71	1.63
30-yr Gov't Bond	2.75	2.82	2.91	2.77
Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	138.8	142.0	142.0	(Sep)
France				
3-mo. T-bill	0.04	0.00	-0.02	-0.01
10-yr Gov't Bond	2.69	2.18	2.22	2.13
FX Reserves (US$B)	49.6	50.9	50.9	(Sep)
United Kingdom				
Repo Rate	0.50	0.50	0.50	0.50
3-mo. T-bill	0.37	0.35	0.34	0.34
10-yr Gov't Bond	1.73	1.73	1.86	1.73
FX Reserves (US$B)	84.4	87.9	87.9	(Sep)
Australia				
Cash Rate	3.50	3.50	3.25	3.25
10-yr Gov't Bond	3.04	2.99	3.18	3.11
FX Reserves (US$B)	44.1	42.4	42.4	(Sep)

Exchange Rates (end of period)

	12Q2	12Q3	Nov/02	Nov/09*
USDCAD	1.02	0.98	1.00	1.00
CADUSD	0.98	1.02	1.00	1.00
GBPUSD	1.571	1.617	1.602	1.591
EURUSD	1.267	1.286	1.284	1.271
JPYEUR	0.99	1.00	0.97	0.99
USDCHF	0.95	0.94	0.94	0.95
¥/US$	79.79	77.96	80.43	79.47
US¢/Australian$	1.02	1.04	1.03	1.04
Chinese Yuan/US$	6.35	6.28	6.24	6.24
South Korean Won/US$	1145	1111	1091	1088
Mexican Peso/US$	13.361	12.859	13.037	13.178
Brazilian Real/US$	2.009	2.026	2.031	2.050

Equity Markets (index, end of period)

	12Q2	12Q3	Nov/02	Nov/09*
United States (DJIA)	12880	13437	13093	12848
United States (S&P500)	1362	1441	1414	1386
Canada (S&P/TSX)	11597	12317	12380	12227
Mexico (IPC)	40200	40867	41762	40664
Brazil (Bovespa)	54355	59176	58383	57791
Italy (BCI)	761	825	846	820
U.K. (FT100)	5571	5742	5869	5770
Germany (Dax)	6416	7216	7364	7164
France (CAC40)	3197	3355	3492	3424
Japan (Nikkei)	9007	8870	9051	8758
Hong Kong (Hang Seng)	19441	20840	22111	21384
South Korea (Composite)	1854	1996	1919	1904

Commodity Prices (end of period)

	12Q2	12Q3	Nov/02	Nov/09*
Pulp (US$/tonne)	900	830	850	850
Newsprint (US$/tonne)	640	640	640	640
Lumber (US$/mfbm)	283	285	330	335
WTI Oil (US$/bbl)	84.96	92.19	84.86	85.75
Natural Gas (US$/mmbtu)	2.82	3.32	3.55	3.51
Copper (US$/lb)	3.45	3.75	3.52	3.42
Zinc (US$/lb)	0.84	0.95	0.84	0.84
Gold (US$/oz)	1598.50	1776.00	1685.00	1738.25
Silver (US$/oz)	27.08	34.65	31.92	32.16
CRB (index)	284.19	309.30	292.29	291.87

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

Emerging Markets Strategy

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