Global Views

Weekly commentary on economic and financial market developments

August 10, 2012

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Canada's Housing Outlook — Hot Markets Begin To Cool

- **The downside risks to Canada's housing market are increasing.**

Canada's housing market is cooling. Home sales in recent months have eased back toward the decade average of 460,000 annualized units and average prices have leveled out. Record prices combined with incremental regulatory tightening are reducing affordability and the housing market's earlier momentum, notwithstanding the lowest borrowing costs on record. Pent-up demand has been effectively exhausted after a decade-long housing boom, with Canadian home ownership at record levels.

Canada will likely avoid the sharp housing downturns witnessed in the United States and Europe. Yet the downside risks are increasing, and the full impact of the slowdown may not be visible until mid-decade.

Affordability will be increasingly strained for existing and potential homeowners when mortgage rates eventually drift up. The global outlook also has become much more challenging. Intensifying debt strains in Europe are aggravating the slowdowns in the United States and many of the larger emerging markets, with negative implications for Canadian job and income growth.

Canadian household balance sheets remain in reasonably good shape, with homeowners' equity in real estate assets averaging 67% compared with 41% in the United States. Canada's mortgage delinquency rates are currently low and falling. Nonetheless, high personal debt loads and balance sheets heavily skewed to real estate leave Canadians vulnerable to an adverse shock, including a sharp rise in unemployment and/or a sharp drop in home prices.

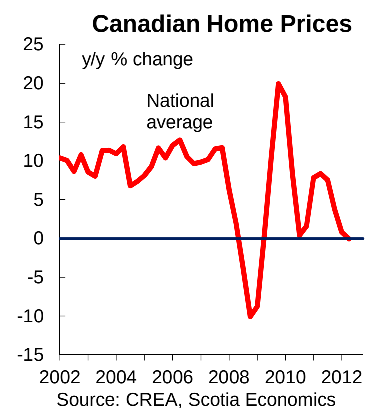
Meanwhile, federal policy relating to housing markets has become increasingly cautious. Regulatory standards for mortgage and home equity financing have been tightened, oversight provided by OSFI has been detailed, and the government's role in residential mortgage insurance has been capped. Longer-term, these changes should reinforce the solid foundations of Canada's mortgage market. However, unlike earlier rounds of regulatory tightening, the latest adjustments are occurring with flat to moderately higher mortgage rates.

In this environment, we expect average Canadian home prices will eventually decline a cumulative 10% over the next 2-3 years, as housing demand softens and buyers' market conditions re-emerge for the first time in over a decade. The correction will be concentrated in the Toronto and Vancouver markets, where supply risks and affordability pressures have the potential to trigger larger price adjustments. In contrast, we continue to anticipate relatively more favourable demand and pricing in many other regional markets facing more balanced conditions.

The combination of lower home prices and reduced sales volumes points to a further moderation in household credit growth. An extended, even if gradual, slowdown in the housing sector also entails large negative spillover effects to the broader economy, including consumer durables spending, renovation activity and employment. Canada's construction sector (residential and non-residential) has generated roughly 425,000 net new jobs over the past decade, or close to one in five new positions, more than double its share of total payrolls.

Even beyond mid-decade, Canada's housing sector faces the likelihood of a prolonged period of relatively modest sales and price gains. Historically, long cycles of rising home prices have been followed by extended periods of persistent softness, allowing affordability to be gradually restored and generating renewed pent-up demand. The downturns that followed Canada's major housing booms of the 1970s and 1980s — defined by having flat or negative real price growth — lasted 8 and 9 years, respectively.

Please click on this link to see the full report — **Special Report: Canada's Housing Outlook (August 8, 2012)**.



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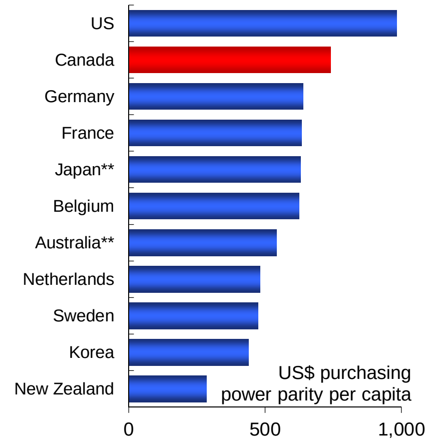
The Provinces' Ongoing Health Care Challenge

- **Increasing attention to other jurisdictions' reforms.**

South of the border, Massachusetts, after recent health expenditure increases of 6%-7% per year, introduced legislation limiting annual growth in its health spending to the State's pace of economic expansion through 2017, and for the following five years, to 0.5 percentage points less than its annual GDP gains. In contrast to Massachusetts' longer-term emphasis, a number of Provinces have set out relatively ambi1ious near-term health spending constraints, such as Ontario's target of 2.1% average annual gains from fiscal 2012-13(FY13) to FY15. Thus, in the first report of the Provinces' and Territories' Health Care Innovation Working Group in July, the provincial-territorial purchasing alliance established to consolidate public-sector procurement of common drugs, medical supplies and equipment, offers some scope for immediate action. Each jurisdiction will nominate three to five generic drugs, with a national competitive bidding process starting up this Fall and lower prices effective April 1, 2013. On a per capita basis, Canada's pharmaceutical spending was second only to the United States in 2010 *(top chart)* and over the decade to 2006, Canada's public-sector spending on prescribed drugs surged, averaging 11.2% annually. The rise in these outlays, however, has recently slowed, with the estimated annual rise for 2010 and 2011 estimated to cool to 2.3% *(middle chart)*. Generic drug pricing reforms are under way in a number of regions to help cool drug expenditures for government, private health insurance plans and the out-of-pocket outlays by consumers. As well, Health Canada, as reported by the Canadian Institute for Health Information, reports that in 2009, over one-third of wholesale prescription drug purchases by hospitals and drug stores in Canada was on drugs whose patents will expire from 2010 to 2014.

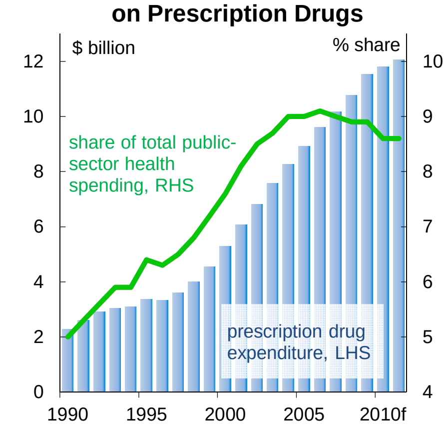
For strategic reforms in health service delivery that will be critical to achieving more sustainable health care, the discussion in the Working Group's first report on efforts such as team-based models and greater IT integration mirror ongoing projects for many governments. Hospitals, whose share of public-sector health spending has dropped from over 50% in the early 1980s to just over 37%, remain a key focus, having already undergone substantive change, such as day surgeries now well over 3½ times the number of in-patient surgeries *(bottom chart)*. What stands out in the Working Group's first report was the significant participation from the Provinces and the Territories and their attention to each other's initiatives. Quebec, for example, has established an expert panel to plan the expansion of activity-based funding which allocates budgets on the basis of cases treated. The Panel will review Ontario's selected applications, Alberta's use of this funding framework for long-term care and England's application for much of its acute care. Meanwhile, Saskatchewan, to address the expense of around-the-clock emergency care coverage in rural areas, is looking to Nova Scotia's model of "collaborative emergency centres".

Pharmaceutical Expenditures*, 2010



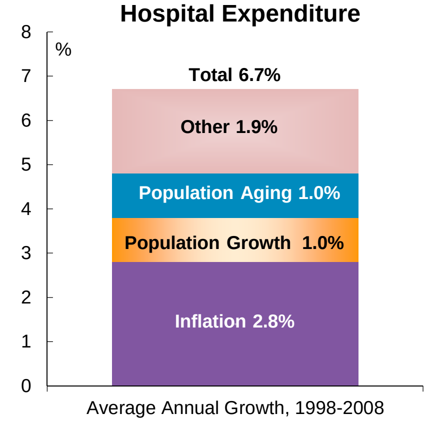
*Includes other medical non-durables, **2009
Source: OECD *Health Data 2012*

Canadian Public-Sector Expenditure on Prescription Drugs



Source: Canadian Institute for Health Information.

Canadian Public-Sector Hospital Expenditure



Source: Canadian Institute for Health Information.

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Italy Update: Recession & Funding Pressures Weigh On Creditworthiness

- **The enduring European crisis has placed Italy's credit profile under renewed stress.**

Italy's creditworthiness continues to deteriorate in the wake of the ongoing European sovereign debt and banking crises. Moody's Investors Service downgraded the nation's long-term foreign-currency credit rating to "Baa2" in July, citing a weakened growth outlook and an increased risk of losing market access due to waning confidence and adverse spillovers from the Spanish banking sector and a possible Greek exit from the currency union. Italy's credit rating has dropped six notches in the last year and is now just two steps away from speculative-grade status. All of the major rating agencies maintain a "negative" outlook on their ratings. Funding pressures have escalated in recent months — approaching late-2011 highs — as investors grow increasingly uncertain of Italy's ability to implement vital structural reforms and withstand financial shocks. The yield on the government's 2-year (3.4%) and 10-year (5.9%) bonds are now higher than their Irish counterparts, while the spread over the 10-year German bund currently measures 450 basis points (bps), and the credit default swap is valued at 457 bps.

The economy is four quarters in to a recession that will likely see output contract by around 3-3½% between mid-2011 and early 2013 (with a 2¼% loss expected for this year). A very gradual export-driven recovery will emerge next year, though on a year-over-year basis growth will remain negative, in the range of ½%. Domestic demand is exceptionally weak, hampered by fiscal consolidation, rising unemployment (at a record-high 10.8% in June, up from 8.1% a year ago), and restricted lending conditions (private sector credit growth slowed to 1.3% y/y in May from near 20% in early 2011).The general global deceleration and, in particular, the recession underway elsewhere in the currency union will also weigh growth, with 40% of Italy's exports destined for euro area partners. The International Monetary Fund projects that the output gap will remain negative for several years. However, labour and product market reforms, if implemented swiftly, could improve confidence, productivity and potential growth over the longer term.

Inflation remains elevated, measuring 3.7% y/y in July (above the euro area average of 2.4%), boosted by indirect and value-added tax increases as underlying wage and cost pressures are low. Continued demand softness and rising unemployment will cause inflation to ease, and we expect the headline rate to reach 2% y/y by year-end and remain in that range in 2013. The European Central Bank (ECB) is expected to resume purchases of Italian government securities, complemented by another quarter-point reduction in the policy rate, to 0.50%.

Italy's public debt will continue to rise through 2013 (reaching at least 126% of GDP), with substantial risks — related to the stability of the currency union and the domestic political commitment to fiscal rehabilitation and structural reform — clouding the outlook thereafter. Responding to market panic in the latter half of 2011, the government passed a series of consolidation and reform initiatives, with a bias toward revenue-increasing measures. Notwithstanding a notable primary surplus (excluding interest payments) expected to average 3½% of GDP in 2012-13, the overall fiscal balance will remain in modest deficit over the forecast horizon (averaging 2% in 2012-13). Thus, with interest rates currently hovering close to unsustainable levels, the overall debt profile is critically exposed to funding shocks. The non-resident investor base has been eroded by the sharp deterioration in confidence over the last year, with the share of government bonds held by foreigners falling from 52% in 2010 to around 35% in early 2012. Meanwhile, holdings at the ECB and Italian banks (supported by ECB liquidity provision measures) have risen. This increase in direct exposure of the banking system to the sovereign, combined with the deterioration in the domestic economy and subsequent rise in impaired loans, underpinned a recent wave of financial institution rating downgrades by Moody's and Standard & Poor's.

The technocratic government led by Mario Monti, initially widely accepted following the resignation of Silvio Berlusconi in November 2011, has suffered a loss of public and political support in recent months. Political parties across the spectrum are already gearing up for the next general election, which will take place by April 2013 and likely result in a left-of-centre coalition administration. Investors will be wary of the risk of social unrest and political reform fatigue over the medium term, which may also extend to any conditionality implied by official intervention (i.e., ECB bond-buying).

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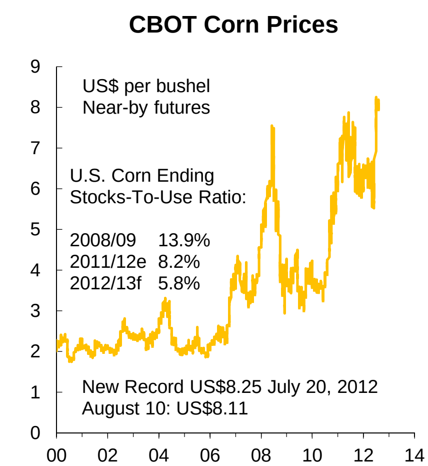
U.S. Corn Yields Cut Dramatically Amid U.S. Midwest Drought

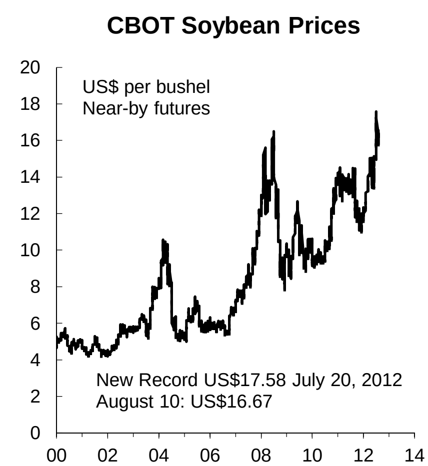
- **Triggering China's release of 'strategic' stocks of corn & rice, to contain food prices.**

In its first estimate of the impact of the U.S. Midwest drought, the U.S. Department of Agriculture today slashed its estimate of the U.S. corn yield to 123.4 bushels per acre for 2012-13 — down from 146 bushels last month and the lowest since 1995-96. CBOT corn futures for December initially shot up to a new record high of US$8.49 per bushel, though prices settled back to US$8.18 in reaction to a sharp projected decline in U.S. corn use for feed, ethanol and exports (-7.4%). While the USDA projects significant demand destruction from high prices (likely over-done in my view), lower U.S. supplies will continue to underpin exceptionally high prices for corn worldwide in 2012-13.

The average U.S. farm gate price forecast has been raised to US$8.20 from the previous US$6.00 per bushel. Margins for ethanol producers, cattle feedlot owners and hog producers will be squeezed, portending higher red meat prices at the grocery store within six months.

China will release state reserves of corn & rice to dampen the potential impact on domestic food prices ahead of the domestic harvest, which may be favourable this year. However, the size of the stock release (possibly 2 million tonnes) is small compared with China's 10-15 million tonnes of monthly consumption.





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Belize Offers Worst Restructuring Terms

The following article was published on August 8, 2012.

The indicative restructuring scenarios proposed by the Belize government today represent some of the worst terms offered to sovereign bondholders in recent history.

Belize today released “indicative scenarios” for a restructuring with bondholders. The three scenarios entail dramatic cuts in coupon and/or principal, as well as maturity extensions. Using an exit yield of 15%, we calculate the NPV of the bonds offered by the government at under $20 for all scenarios, making this proposal one of the worst restructurings for bondholders in recent EM history.

Consider some recent examples. Ecuador, which defaulted in 2009 and took what was then considered a very aggressive stance on its debt, paid $35 in the restructuring, and it paid that amount in cash rather than with a new and likely illiquid bond. Argentina’s restructuring, having reduced the value of the bonds to $30, was also widely criticized. Nevertheless, at least Argentina could justify the need for a restructuring by the severe currency devaluation and economic contraction that it faced. In contrast, Belize’s economic indicators are relatively stable, albeit with potential problems on the horizon.

Figure 1. Recovery Rates on Defaulted Sovereign Bond Issuers

Year of Default	Country	Average Trading Price	PV Ratio of Cash Flows
1998	Russia	18	50
1999	Pakistan	52	65
1999	Ecuador	44	60
2000	Ukraine	69	60
2000	Ivory Coast	18	NA
2001	Argentina	27	30
2002	Moldova	60	95
2003	Uruguay	66	85
2003	Nicaragua	NA	50
2004	Grenada	65	NA
2005	Dominican Republic	95	95
2006	Belize	76	NA
2008	Seychelles	30	NA
2008	Ecuador	28	NA
2010	Jamaica	90	80
2012	Greece	24	29
Issuer-Weighted Average Recovery Rate		**51**	**64**
Value-Weighted Average Recovery Rate		**25**	**31**

Source: Moody’s.
Average trading price method is the 30-day post-default trading price.
PV method is the present value of cash flows received in an exchange versus those initially promised, discounted using yield to maturity immediately prior to default.

For a broader sample, Moody’s has calculated recovery rates for the 16 sovereign defaults in its ratings universe, which we present in Figure 1. There are many different ways to calculate recovery rates and Moody’s provides just two of them; neither of these methods is directly comparable to the NPV of an initial restructuring offer from a sovereign debtor. Nevertheless, the typical recovery rates are so much higher than what Belize is offering that there should be no doubt as to the nature of the restructuring that Belize has in mind. Greece is one of the most severe restructurings on the Moody’s list, with a $24 recovery rate based on

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the trading price method; Greece is not a comparable case, however, since that country's fiscal problems are well known, while Belize had a primary surplus last year and an overall deficit of only 1%. The median recovery rate on the Moody's list is $52.

Overall, the government's strategy is puzzling. On one hand, they are going through the motions in consulting with bondholders and making their case for a restructuring. On the other hand, today's lowball offer will undoubtedly anger all bondholders, who would lose tremendously if they participated in such an exchange. Moreover, the specific scenarios in the government proposal completely ignore how portfolio investors value bonds. For example, in the last thirty years of scenario A (years 2033 to 2062), Belize will pay bondholders $112. Yet, with an exit yield of 15%, bondholders would assign a value of only $2 to all of those cash flows. It seems there is ample room for both the government and bondholders to gain from a more creative solution.

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Bank Of England Inflation Report — August-12

- **The BoE *Inflation Report* was less dovish than we expected. The Bank revised down its economic growth projections to around -0.2% y/y on average for 2012 — around 1% down on 3 months ago. However, the Bank's inflation projection was hardly moved — despite some very strong reasons to push it lower. As such, the door is open to further policy ease — but not as wide open as we thought it might have been. Furthermore, the Governor played down the likelihood of a reduction in Bank Rate.**

To summarise:

- The GDP growth projection was shunted lower (again). For 2012 the growth forecast was pushed down to around -0.2% y/y on average (from 0.7% y/y previously and 1¼% prior to that). For 2013 the projection was pushed down by 0.5% points to 1.6% y/y.
- The near term inflation projection was pushed down to slightly above 2% by end-year, while the crucial 2-year ahead inflation projection left largely unchanged at 1.6% y/y.

The latter was substantially higher than we expected. Given the downward surprises to near term inflation, the mild appreciation in the GBP exchange rate and the fall in the price of oil compared with 3 months ago, there was a case to project inflation much lower.

As such, it looks like the Bank of England has adjusted the way it projects inflation given the persistent run of upward surprises in recent quarters (with the exception of the latest one). The central inflation projection remains a reasonable margin below the 2% threshold suggesting that the door is half open to more QE, but not wide open as might have otherwise been the case.

That is not to say we disagree. For some time we have aimed higher than most on inflation. We think that influences such as the impact of drought on food prices along with other pre-announced price hikes (such as alcohol, tobacco and tuition fees) will keep inflation higher than the BoE expects. We are just a little surprised that the Bank now seems to be aiming a little higher than previously.

Taking account of the skew of risks around the central projection, the Bank's 'Ribbon' chart showed a slightly lower probability that inflation will be above target at the medium term horizon. (Chart 2). The chart suggests a 40% probability of a target overshoot compared to around 45% 3 months ago. Again, given the Bank's past forecast track record, it is a little surprising that the Bank didn't nudge this down even further.

Chart 1: BoE Inflation Projection (August)

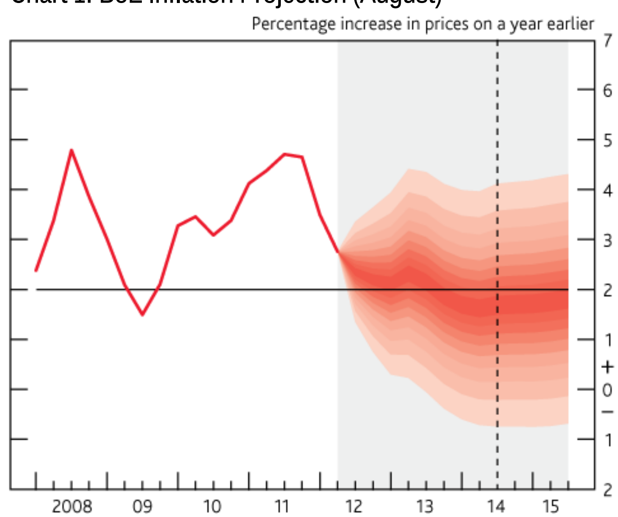
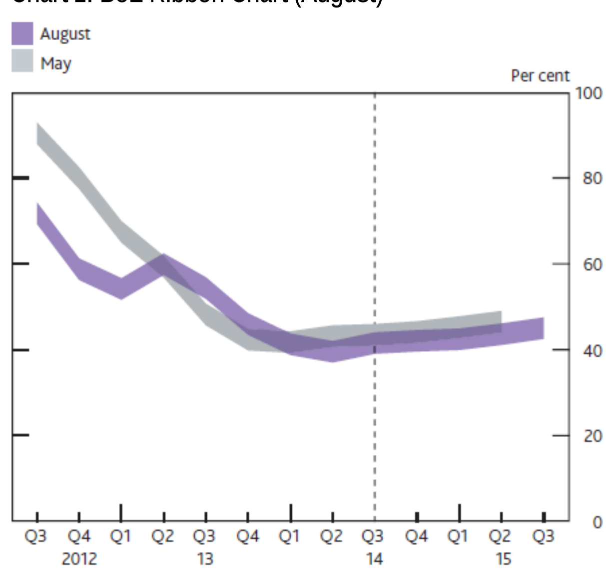


Chart 2: BoE Ribbon Chart (August)



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Old habits die hard

We believe that the Bank continues to aim a little too high on growth. 2% y/y GDP growth just over a year from now is a little optimistic in our view. To be fair, there are good reasons why UK GDP *should* be more robust. However, it is a risky call to suggest that this is the most likely outcome. More specifically, the plunge in inflation has boosted household real disposable income growth. In turn this should support consumer spending growth. The Olympics could add significantly to growth during Q3 — although disappointing retail data have cast some doubt on this.

Extreme policy ease suggests that domestic fundamentals are very accommodative according to our models. These suggest that in the absence of the fiscal jitters that have rippled over from continental Europe, activity in the UK should be substantially firmer. However, it is looking rather unlikely that these storm clouds will pass any time soon. Hence we wouldn't be surprised to see further downgrades to the Bank's growth projections.

Conclusion

The *Inflation Report* was dovish, but not as dovish as it might have been. Based on the inflation projections, the door is open to a further expansion of QE in November, but it is less of a done deal than we previously thought. Moreover, the Governor noted that if the Funding for Lending Scheme is successful it could make it less likely that QE would be expanded further.

Crucially, the Governor was asked whether reducing Bank Rate could be counterproductive — since it would hurt the very sector that it is relying on to extend new loans under the Funding for Lending scheme. He concurred and noted that this is why the Bank is not contemplating a cut in Bank Rate in the immediate future. This reinforces our belief that speculation in a rate cut around the turn of the year is misplaced.

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Asset Mix & Model Portfolios — August Update

Following is a summary of our monthly tactical asset mix and model portfolio update for August. *The Strategic Edge Portfolio (SEP) is our large cap equity portfolio and the U.S. sector portfolio reflects our pure play sector strategy views.* Overall, there is no change to our asset mix recommendation, but the sector strategy moves back to a slight cyclical overweight tilt in the model portfolios following a defensive commodity stance through 1H12.

Tactical Asset Mix: waiting for broader equity overweight signals. We remain neutral on equities (DM over EM), overweight cash, and underweight bonds. Admittedly, bonds appear vulnerable to abating systemic fears and a resilient U.S. macro situation (housing and employment remain supportive), but our tactical U.S. asset mix and sector strategy models are barely yielding a neutral view on equities and cyclical sectors. See exhibit 1 for recommended asset mix and exhibit 2 for tactical signals. *Our tactical asset mix models monitor trends in ISM/PMI indices, equity-to-bonds relative returns, earnings revisions ratios, the LEI, forward P/Es, and 200-day moving averages*.

Canadian asset mix signal still diverging from the U.S. As highlighted in exhibit 2, our U.S. and Canadian asset mix signals have been diverging for almost 12 months. Since the start of 2012, we have been getting an equity OW signal in the U.S. compared to an UW indication for Canadian equities. Although we believe this divergence could reverse in the latter part of 2012, the Canadian asset mix signal is still negative on equities. In the near term, bottoming ISM/LEI/earnings revisions would help the U.S. equity signal. For Canada, recovering European/China PMI indices and the TSX moving above its 200-day MA should trigger a positive shift for the Canadian asset mix signal.

Exhibit 1: Scotiabank — GBM Recommended Asset Mix - August 2012

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

Source: Scotiabank GBM estimates

Exhibit 2: Tactical Asset Mix Signals

	Now	Trend	Q2-12	Q1-12	Q4-11	Q3-11
Equity vs. Bonds (U.S.)	+1%		+7%	+7%	+4%	-2%
Equity vs. Bonds (Canada)	-7%		-3%	+2%	+3%	-10%
Sector Strategy (S&P 500)						
Cyclical vs. Defensive Sectors	0%		+2%	+5%	+7%	-7%
Global Equity						
Canada	MW	+	UW	UW	UW	UW
U.S.	OW	-	OW	OW	OW	OW
Europe	OW		OW	OW	OW	MW
Far East	UW	-	UW	MW	UW	MW
LatAm	UW	+	MW	OW	UW	UW

Source: Scotiabank GBM estimates

Monitoring Yields to assess sustained pick-up in risk-appetite. Positive cyclical sentiment appears to be intensifying so far in August following the release of stronger-than-expected U.S. employment figures and hopes of stronger ECB intervention. The S&P500 has traded above 1,400 again and the TSX is heading towards 12,000. In our opinion, the beat on U.S. payrolls was a wake-up call for premature hard landing scenarios and long term Treasury yields could back-up towards 1.75-2% (U.S. 10-Yr Yields back above the 50-day MA). An extended "risk-on" rally needs to be accompanied by rising bond yields. In terms of TSX sector strategy, rising U.S. long term yields should lead to outperformance from Resources, Industrials, and Lifecos (higher beta plays)

Strategic Edge Portfolio and Sector Strategy. The main takeaway from our Summer 2012 Strategy update (published in early July) was a slow transition away from the defensive/low beta sector strategy stance recommended throughout 1H/12. Following our August model portfolio update, we raised cyclical exposure a few more notches. More specifically, exposure to Lifecos (MFC, SLF, and MET up), Base Metals (LUN and FM

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up), and Energy (ECA, CNQ, TLM, SU, CVE up) was increased. Cash, Utilities, Telecom, and Staples weighting is reduced. The SEP beta moves up to 1.00 from 0.92 in July and a sub-0.90 average in Q2/12. Cyclical exposure has marginally increased as well in U.S. sector strategy list, in-line with our tactical indicators.

Exhibit 3

July 31, 2012		Weighting		July	
	Sector / Company	SE Portfolio	S&P/TSX	Performance	Recommendation
S&P/TSX (price-only)				**0.6%**	
Cash (XSB Short Term Bond ETF)		**2.0%**	**0.0%**	**-0.1%**	↓
Financials		**30.1%**	**31.3%**	**-0.3%**	**-1.2%** ↑
RY	ROYAL BANK OF CANADA	5.2%	5.3%	-1.5%	
TD	TD BANK	7.6%	5.1%	-1.0%	
CM	CIBC	2.9%	2.1%	2.4%	
BNS	BANK OF NOVA SCOTIA	4.7%	4.2%	-0.7%	
IFC	INTACT FINANCIAL	2.0%	0.6%	1.8%	
MFC	MANULIFE FINANCIAL	2.4%	1.4%	-2.9%	↑
SLF	SUN LIFE	2.0%	0.9%	-1.7%	↑
MET	METLIFE INC	1.7%	n/a	-0.3%	↑
AGF/B	AGF MANAGEMENT	0.8%	0.1%	5.7%	
BPO	BROOKFIELD PROPERTIES	0.8%	0.3%	-3.8%	↓
Staples		**4.6%**	**3.1%**	**1.9%**	**+1.4%** ↓
MRU/A	METRO	1.3%	0.4%	6.8%	↓
ATD/B	ALIMENTATION COUCHE TARD	1.7%	0.4%	6.8%	
SC	SHOPPERS DRUG MART	1.7%	0.6%	0.7%	↓
Telecom		**3.7%**	**5.4%**	**2.8%**	**-1.7%** ↓
QBR/B	QUEBECOR INC.	1.1%	0.1%	-3.7%	↓
T	TELUS CORPORATION	1.4%	0.1%	2.4%	↓
VZ-N	VERIZON	1.3%	n/a	1.6%	↓
Utilities & Pipelines		**4.5%**	**8.1%**	**1.2%**	**-3.6%** ↓
TRP	TRANSCANADA	2.1%	2.3%	7.0%	↓
IPL-u	INTER PIPELINE FUND	0.9%	0.4%	3.9%	
ENB	ENBRIDGE	1.5%	2.3%	0.9%	↓
Discretionary		**3.2%**	**4.6%**	**-0.3%**	**-1.4%**
RON	RONA	2.2%	0.1%	25.1%	
THI	TIM HORTONS	0.9%	0.6%	-0.6%	↓
Technology & Healthcare		**2.9%**	**2.9%**	**-4.7%**	**-0.0%**
CCT	CATAMARAN	1.0%	0.6%	-15.8%	
GIB/A	CGI GROUP	1.9%	0.4%	-3.4%	
Energy (Ex-Pipelines)		**20.4%**	**20.3%**	**4.3%**	**+0.1%** ↑
PGF	PENGROWTH ENERGY	0.7%	0.2%	-1.1%	
HSE	HUSKY ENERGY	1.5%	0.5%	-2.1%	
ECA	ENCANA	2.7%	1.1%	5.4%	↑
CNQ	CANADIAN NATURAL RESOURCES	3.9%	2.1%	0.1%	↑
TLM	TALISMAN ENERGY INC.	1.9%	1.0%	6.3%	↑
DVN	DEVON ENERGY	1.5%	0.0%	1.9%	
CPG	CRESCENT POINT	1.6%	0.9%	4.9%	
SU	SUNCOR	4.4%	3.4%	4.1%	↑
CVE	CENOVUS	2.2%	1.7%	-5.3%	↑
Materials		**20.4%**	**18.1%**	**-3.6%**	**+2.4%**
Gold & Precious Metals		***8.6%***	***11.3%***	***-5.4%***	
ABX	BARRICK GOLD	1.6%	2.4%	-13.9%	↓
AEM	AGNICO-EAGLE MINES	2.3%	0.5%	6.7%	
G	GOLDCORP	1.7%	2.1%	-5.6%	
ELD	ELDORADO GOLD	1.8%	0.5%	-13.5%	↑
IMG	IAMGOLD	1.2%	0.3%	-7.0%	↑
Materials (Mining, Fertilizers, & Forest)		***11.9%***	***6.8%***	***4.6%***	
LUN	LUNDIN MINING CORP	1.2%	0.2%	1.7%	↑
TCK/B	TECK RESOURCES	1.8%	0.9%	-10.8%	
FM	FIRST QUANTUM	1.7%	0.6%	1.2%	↑
WFT	WEST FRASER TIMBER	1.5%	0.1%	3.4%	
POT	POTASH CORP	3.6%	2.6%	-0.2%	
AGU	AGRIUM	2.0%	1.1%	5.7%	
Industrials		**8.2%**	**6.1%**	**2.4%**	**+2.1%**
CNR	CANADIAN NATIONAL RAILWAY	2.8%	2.7%	2.8%	↓
WJA	WESTJET AIRLINES	1.5%	0.2%	3.0%	
MG	MAGNA	2.2%	0.7%	0.0%	
BBD/B	BOMBARDIER	1.8%	0.4%	-10.2%	↑

Source: Scotiabank GBM, Bloomberg

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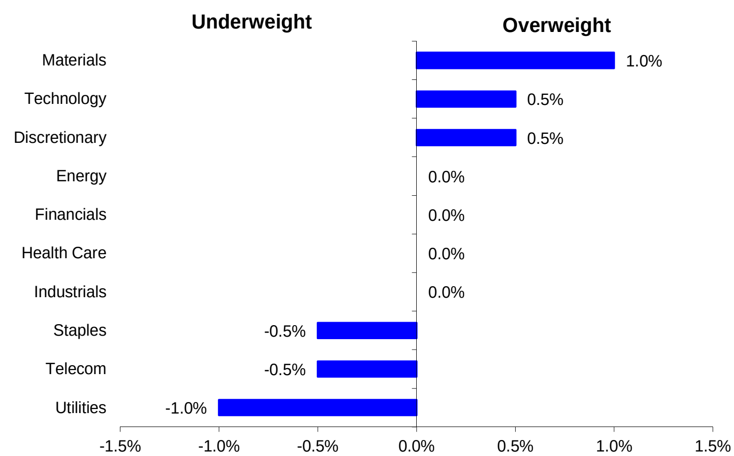
Range bound markets are very proving to be challenging and they can also be very boring. Although our current strategy stance (neutral equities; slight cyclical overweight) is at odds with the more sizeable positions we took from 2009 to Q1-12, they reflect the lack of compelling catalysts currently captured by our models.

Exhibit 4: August 2012 U.S. Sector Recommendation



Source: Scotiabank GBM.

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Key Data Preview

CANADA

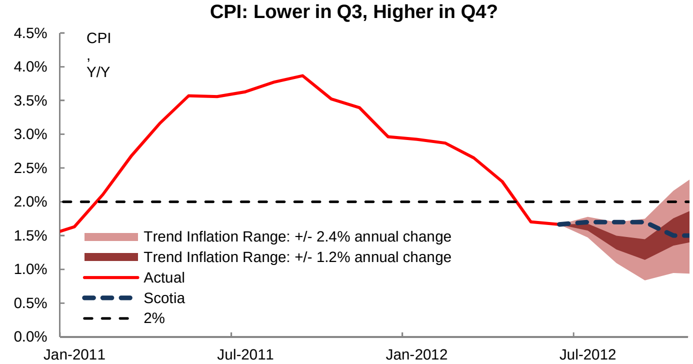
Scotia is anticipating that July **CPI** (August 17) will come in at a fairly muted 0.2% m/m translating into a 1.5% y/y change. CPI should get pulled in opposite directions by gasoline prices and food costs. On the one hand, the average tax-in pump price for regular gasoline fell from C$1.2514/liter in June to C$1.2236 in July (-2.2%) according to Bloomberg. On the other hand, global food prices as measured by the CRB food index were up by a robust 6.1% m/m. While the latter should not translate directly into retail food prices, the higher world commodity prices should impact retail food costs on the margin. Aside from commodities-driven volatility, Canada typically experiences seasonal swings in clothing prices and costs associated with recreation during July, both of which should be supportive of higher CPI. We expect core prices therefore to edge up by 0.2% m/m as well, leaving core CPI at 2% y/y. The bottom line is that inflation in Canada remains subdued and the path for headline inflation particularly so. That belies the Bank of Canada's hawkish rhetoric and implies that while segments of the Canadian economy may be humming along, underlying price pressure remains quite subdued.

The other major data release next week will be June **manufacturing sales** on August 16. Scotia anticipates a fairly muted 0.3% m/m print but this June looks to be a particularly difficult month to forecast. Trend momentum in new orders is light, with the order book having weakened from March to April and from April to May. In and of itself, that portends a soft manufacturing sales print. The caveat is that auto exports were up by a staggering 13.9% m/m even as exports of machinery (-1.3%) and energy (-3.5%) both contracted. The other factor is that a surge in aerospace deliveries in May (+65.8%) is unlikely to be repeated in June. That leaves us looking at a likely robust volume and value of auto sales and weakness in most other sectors.

UNITED STATES

Scotia anticipates a 0.2% m/m **CPI** print (seasonally adjusted) and a 1.8% y/y reading on the not-seasonally-adjusted number that markets will be watching. Much as in Canada, gasoline prices and food prices will play tug of war in the July US CPI numbers. In terms of our outlook for CPI, we're fairly dovish and think that it's important to emphasize how likely it is that CPI will continue to trend lower simply as a result of baked-in 'base effects' over the next number of months before climbing higher towards year end (see chart).

CPI: Lower in Q3, Higher in Q4?



Source: Scotia Economics, BLS

Retail sales for July will be released on August 14 and we'll be watching to see if US shoppers break out of their three-month funk that saw retail sales decline during every month in Q2 (-0.5% m/m in June, -0.2% in May, -0.5% in April). We expect an improvement — albeit a muted one — to 0.2% month-on-month on the basis of improving trend same-store-sales as measured by ICSC's index. That said, we know that gasoline prices were lower and that domestic auto sales were lower than in June, both of which should drag on what looked like a healthy recuperation in trend growth after a lackluster quarter.

Housing starts for July on August 16 will be a fairly important data print as momentum in the US housing sector has been one of the few bright spots in the economy during Q1 and to a lesser extent Q2. Building permits have remained at elevated levels in year-on-year terms leading us to expect a fairly strong (by recent years' standards) print of 765k starts at an annualized rate (compared to 760k in June). That said, we would emphasize that the level of housing construction activity is lower than what is a normal recession low of 1m annualized starts , i.e. there is still a long way to go before declaring a US housing recovery.

Industrial production numbers for July will be released on August 15, and we'll see if one of the warmest summers on record translates into unusually high utilities output, which many are counting on to boost overall industrial production. We're expecting 0.6% m/m growth overall.

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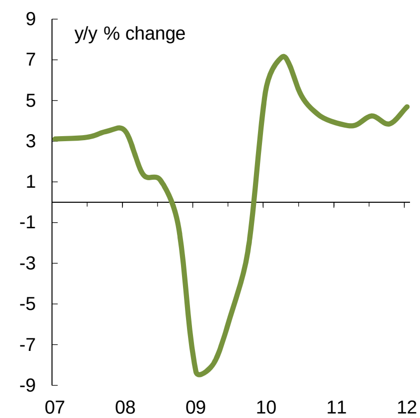
MEXICO

Mexican GDP for the second quarter will be released on August 16th. In the first two months of the quarter, economic activity, as measured by the IGAE, expanded by 4.5% y/y on average, slightly below the 4.7% pace registered in the first quarter. Seasonally adjusted data portray a slight deceleration in recent months; however, the economy continues to be on a solid path. Although the U.S. and other major economies have shown signs of moderation in recent months, the Mexican economy remains vibrant. Local demand and exports remain the key drivers behind the country's performance; however, we expect the economy to moderate by the end of the year in reaction to weaker global conditions. We expect an expansion rate of 3.9% y/y in the second quarter and 3.7% for 2012 as a whole.

Mexican GDP



Source: Thomson Reuters

EUROPE

Preliminary second-quarter GDP reports will top next week's European data calendar. Estimates for France, Germany, and the aggregate euro area will be released on Tuesday. We anticipate the French report to evidence widespread weakness in the economy, with an output contraction amounting to 0.2% q/q (+0.2% y/y), which will be the first negative print for that country since early 2009 (the first three months of this year saw no growth). Germany likely fared slightly better in the second quarter, narrowly avoiding a loss with a flat GDP print (+0.9% y/y) thanks to some support from net trade. This nonetheless implies a sharp slowdown from the surprisingly strong pace of 0.5% q/q of the prior three months, partly due to an expected downward inventory adjustment. For the euro zone as a whole, we foresee a contraction of 0.3% q/q (-0.5% y/y). With leading indicators (i.e., purchasing managers' indices) depicting continued weakness in recent months, the decline in activity will stretch into the third quarter (and likely the fourth), confirming a technical recession in the currency union. For the year as a whole, we expect a GDP loss of 0.1% in France. We anticipate that Germany will remain in positive growth territory (one of the few euro economies to do so), with an average pace of 0.5%, which will limit the overall contraction in the euro area to 0.7%.

ASIA

Japan is not immune to the process of economic deceleration taking place in Asia and Europe, though we continue to believe that real GDP growth will exceed the 2% mark this year. Despite the massive fiscal stimulus implemented by the government as part of the post-Tsunami-earthquake-nuclear shock reconstruction efforts, the trade-intensive Japanese economy has suffered from the combined effect of currency appreciation, reduced global demand for high-end Japanese products and, to some extent, still-high commodity prices. On an annualized quarter-on-quarter basis, the economy will experience a slowdown to around 0.6-0.8% in the second quarter of the year from a 1.2% level recorded in the first three months. The Bank of Japan has, so far, restrained itself from further boosting liquidity through traditional or unorthodox monetary means; however, the monetary authorities will not hesitate, as proven in many instances, to intervene directly in the local currency market to soften, if not alter, the direction of the Japanese exchange rate versus the currencies of its main trading partners. At present, Japan's central bank counts on US$1.2 trillion in international reserves at its disposal. On a year-over-year basis, the Japanese economy will likely grow by 2.5% y/y in the second quarter, down from the 4.7% y/y rate shown in the previous quarter.

Key Indicators for the week of August 13 - 17

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
MX	08/13	09:00	Industrial Production (m/m)	Jun	--	--	-0.9
MX	08/13	09:00	Industrial Production (y/y)	Jun	4.26	3.70	3.15
US	08/14	08:30	PPI (m/m)	Jul	0.1	0.2	0.1
US	08/14	08:30	PPI ex. Food & Energy (m/m)	Jul	0.1	0.2	0.2
US	08/14	08:30	Retail Sales (m/m)	Jul	0.2	0.3	-0.5
US	08/14	08:30	Retail Sales ex. Autos (m/m)	Jul	0.3	0.3	-0.4
US	08/14	10:00	Business Inventories (m/m)	Jun	--	0.2	0.3
US	08/15	07:00	MBA Mortgage Applications (w/w)	AUG 10	--	--	-1.8
US	08/15	08:30	CPI (m/m)	Jul	0.2	0.2	0.0
US	08/15	08:30	CPI (y/y)	Jul	1.8	1.6	1.7
US	08/15	08:30	CPI ex. Food & Energy (m/m)	Jul	0.2	0.2	0.2
US	08/15	08:30	CPI ex. Food & Energy (y/y)	Jul	2.2	2.2	2.2
US	08/15	08:30	Empire State Manufacturing Index	Aug	7.0	7.0	7.4
US	08/15	09:00	Total Net TIC Flows ($ bn)	Jun	--	--	101.7
US	08/15	09:15	Capacity Utilization (%)	Jul	--	79.2	78.9
US	08/15	09:15	Industrial Production (m/m)	Jul	0.6	0.5	0.4
CA	08/16	08:30	International Securities Transactions (C$ bn)	Jun	--	10.0	26.1
CA	08/16	08:30	Manufacturing Shipments (m/m)	Jun	0.2	0.3	-0.4
US	08/16	08:30	Building Permits (mn a.r.)	Jul	--	765	760
US	08/16	08:30	Housing Starts (000s a.r.)	Jul	765	758	760
US	08/16	08:30	Housing Starts (m/m)	Jul	0.7	-0.3	6.9
US	08/16	08:30	Initial Jobless Claims (000s)	AUG 11	365	364	361
US	08/16	08:30	Continuing Claims (000s)	AUG 4	3315	3310	3332
MX	08/16	09:00	GDP (q/q)	2Q	--	--	1.3
MX	08/16	09:00	GDP (y/y)	2Q	3.9	4.1	4.6
MX	08/16	09:00	Global Economic Indicator IGAE (y/y)	Jun	--	3.8	4.1
US	08/16	10:00	Philadelphia Fed Index	Aug	-7.5	-5.0	-12.9
CA	08/17	08:30	Core X8 CPI (m/m)	Jul	0.2	0.2	-0.4
CA	08/17	08:30	Core X8 CPI (y/y)	Jul	2.0	2.0	2.0
CA	08/17	08:30	CPI, All items (m/m)	Jul	0.2	0.2	-0.4
CA	08/17	08:30	CPI, All items (y/y)	Jul	1.5	1.6	1.5
CA	08/17	08:30	CPI SA, All items (m/m)	Jul	-0.1	0.1	-0.2
CA	08/17	08:30	Core CPI SA, All items (m/m)	Jul	0.0	0.2	0.1
US	08/17	09:55	U. of Michigan Consumer Sentiment	Aug P	72.0	72.3	72.3
US	08/17	10:00	Leading Indicators (m/m)	Jul	--	0.2	-0.3

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
FR	08/13	02:45	Current Account (€ bn)	Jun	--	-4.1	-4.1
FR	08/14	01:30	CPI (y/y)	Jul	1.9	2.0	1.9
FR	08/14	01:30	CPI - EU Harmonized (m/m)	Jul	-0.4	-0.5	0.1
FR	08/14	01:30	CPI - EU Harmonized (y/y)	Jul	2.4	2.3	2.3
FR	08/14	01:30	GDP (q/q)	2Q P	-0.2	-0.1	0.0
GE	08/14	02:00	GDP (q/q)	2Q P	0.0	0.2	0.5
FR	08/14	02:45	Non-Farm Payrolls (q/q)	2Q P	--	-0.1	0.1
SP	08/14	03:00	CPI (y/y)	Jul F	--	2.2	2.2
SP	08/14	03:00	CPI - EU Harmonized (m/m)	Jul	-0.8	-0.8	-0.2
SP	08/14	03:00	CPI - EU Harmonized (y/y)	Jul F	2.2	2.2	2.2

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

Key Indicators for the week of August 13 - 17

Europe *(continued from previous page)*

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
UK	08/14	04:30	CPI (m/m)	Jul	-0.1	-0.1	-0.4
UK	08/14	04:30	CPI (y/y)	Jul	2.3	2.3	2.4
UK	08/14	04:30	RPI (y/y)	Jul	2.9	2.8	2.8
EC	08/14	05:00	GDP (q/q)	2Q A	-0.3	-0.2	0.0
EC	08/14	05:00	Industrial Production (m/m)	Jun	--	-0.7	0.9
EC	08/14	05:00	ZEW Survey (Economic Sentiment)	Aug	--	--	-22.3
GE	08/14	05:00	ZEW Survey (Current Situation)	Aug	--	17.5	21.1
GE	08/14	05:00	ZEW Survey (Economic Sentiment)	Aug	-17.0	-19.3	-19.6
UK	08/15	04:30	Average Weekly Earnings (3-month, y/y)	Jun	1.8	1.7	1.5
UK	08/15	04:30	Jobless Claims Change (000s)	Jul	5.0	6.0	6.1
UK	08/15	04:30	ILO Unemployment Rate (%)	Jun	8.1	8.1	8.1
UK	08/16	04:30	Retail Sales ex. Auto Fuel (m/m)	Jul	0.2	-0.2	0.3
UK	08/16	04:30	Retail Sales with Auto Fuel (m/m)	Jul	0.3	-0.1	0.1
EC	08/16	05:00	CPI (m/m)	Jul	-0.6	-0.5	-0.1
EC	08/16	05:00	CPI (y/y)	Jul	2.4	2.4	2.4
TU	08/16	07:00	**Benchmark Repo Rate (%)**	Aug 16	**5.75**	**5.75**	**5.75**
GE	08/17	02:00	Producer Prices (m/m)	Jul	--	0.3	-0.4
EC	08/17	04:00	Current Account (€ bn)	Jun	--	--	10.9
EC	08/17	05:00	Trade Balance (€ bn)	Jun	--	9.5	6.9

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
JN	08/12	19:50	GDP (q/q)	2Q P	--	0.6	1.2
JN	08/12	19:50	GDP Deflator (y/y)	2Q P	--	-0.8	-1.3
JN	08/13	19:50	Tertiary Industry Index (m/m)	Jun	--	-0.3	0.7
IN	08/14	02:30	Monthly Wholesale Prices (y/y)	Jul	--	7.2	7.3
CH	08/14	07:59	Actual FDI (y/y)	Jul	--	-2.5	-6.9
AU	08/14	21:30	Wage Cost Index (q/q)	2Q	--	0.9	0.9
MA	08/15	05:00	CPI (y/y)	Jul	--	1.7	1.6
HK	08/16	04:30	Unemployment Rate (%)	Jul	--	--	3.2
SI	08/16	20:30	Exports (y/y)	Jul	--	5.0	6.8

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	08/15	06:59	Economic Activity Index NSA (y/y)	Jun	--	7.0	6.5
PE	08/15	06:59	Unemployment Rate (%)	Jul	--	--	6.3
BZ	08/16	08:00	Retail Sales (m/m)	Jun	--	-0.4	-0.8
BZ	08/16	08:00	Retail Sales (y/y)	Jun	--	6.4	8.2
CO	08/16	17:00	Trade Balance (US$ mn)	Jun	--	--	20.2
CL	08/16	18:00	**Nominal Overnight Rate Target (%)**	Aug 16	**5.00**	**5.00**	**5.00**

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

Global Auctions for the week of August 13 - 17

North America

Country	Date	Time	Event
US	08/13	11:00	U.S. Fed to Purchase USD1.50-2.00 Bln Notes
US	08/13	11:30	U.S. to Sell USD32 Bln 3-Month Bills
US	08/13	11:30	U.S. to Sell USD28 Bln 6-Month Bills
CA	08/14	10:30	Canada to Sell CAD9.5 Bln 98-Day Bills
CA	08/14	10:30	Canada to Sell CAD3.5 Bln 168-Day Bills
CA	08/14	10:30	Canada to Sell CAD3.5 Bln 350-Day Bills
US	08/14	11:00	U.S. Fed to Purchase USD4.50-5.50 Bln Notes
US	08/14	11:30	U.S. to Sell 4-Week Bills
US	08/14	11:30	U.S. to Sell USD25 Bln 15-Day Cash Management Bill
US	08/15	11:00	U.S. Fed to Sell USD7.00-8.00 Bln Notes
CA	08/15	12:00	Canada to Sell 5-Year Notes
US	08/16	11:00	U.S. Fed to Purchase USD1.50-2.00 Bln Notes

Europe

Country	Date	Time	Event
IT	08/13	05:00	Italy to Sell EUR8 Bln 364-Day Bills
GE	08/13	05:30	Germany to Sell EU4 Bln 6-Mth Bills
FR	08/13	09:00	France to Sell Bills (BTF)
IT	08/14	05:00	Italy Cancels Bonds/Floating/Zero Coupon Auction
GR	08/14	05:00	Greece to sell Bills
BE	08/14	05:30	Belgium to Sell Bills
SZ	08/14	05:30	Switzerland to Sell 3-Month Bills
UK	08/16	05:30	U.K. to Sell GBP1.5 Bln 4.5% 2034 Bonds
UK	08/17	06:10	U.K. to Sell Bills

Asia Pacific

Country	Date	Time	Event
JN	08/12	23:35	Japan to Sell 2-Month Bills
CH	08/14	23:00	China to Sell CNY30 Bln 5-Year Bonds
JN	08/14	23:35	Japan to Sell 1-Year Bills
NZ	08/15	22:30	New Zealand Plans to Sell Bonds
JN	08/15	23:35	Japan to Sell 3-Month Bills

Latin America

Country	Date	Time	Event
BZ	08/14	11:00	Brazil to Sell I/L Bonds
BZ	08/14	11:00	Brazil to Sell I/L Bonds due 8/15/2018 - NTN-B
BZ	08/14	11:00	Brazil to Sell I/L Bonds due 8/15/2022 - NTN-B
BZ	08/14	11:00	Brazil to Sell I/L Bonds due 8/15/2030 - NTN-B
BZ	08/14	11:00	Brazil to Sell I/L Bonds due 8/15/2040 - NTN-B
BZ	08/14	11:00	Brazil to Sell I/L Bonds due 8/15/2050 - NTN-B
BZ	08/16	10:00	Brazil to Sell Bills due 10/1/2013 - LTN
BZ	08/16	10:00	Brazil to Sell Bills due 7/1/2014 - LTN
BZ	08/16	10:00	Brazil to Sell Bills due 1/1/2016 - LTN
BZ	08/16	10:00	Brazil to Sell Floating-rate Notes due 3/1/2018 - LFT

Source: Bloomberg, Scotia Economics.

Events for the week of August 13 - 17

North America

Country	Date	Time	Event
US	08/15	20:00	Fed's Kocherlakota speaks on the Fed in Minot, ND
CA	08/16	10:30	Bank of Canada Publishes Review Collection of Academic Papers
US	08/16	20:00	Fed's Kocherlakota speaks on the Fed in Williston

Europe

Country	Date	Time	Event
IT	08/13	05:00	Bank of Italy Releases June Public Finance Supplement
EC	08/13		EBA, EIOPA and ESMA's Review-Financial Conglomerates...
PO	08/14	05:00	Portugal Reports Second-Quarter GDP Estimate
UK	08/15	04:30	Bank of England Releases Monetary Policy Committee Minutes
CA	AUG 15-16		German Chancellor Merkel Visits Canada
TU	08/16	07:00	Benchmark Repo Rate
PO	08/17	08:00	Bank of Portugal Releases Monthly Economic Indicators Report

Asia Pacific

Country	Date	Time	Event
JN	08/13	19:50	BOJ Releases Minutes of July Meeting
AU	08/15	21:30	RBA Foreign Exchange Transactn
AU	08/16	01:45	RBA's Debelle Speaks on Panel at Conference in Sydney
WW	08/16		Asian Development Bank publishes its Key Indicators' Report

Latin America

Country	Date	Time	Event
AR	08/16	17:30	Argentina's Central Bank Releases Capital Outflow Report
CL	08/16	18:00	Nominal Overnight Rate Target

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	September 5, 2012	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	September 13, 2012	0.25	--
Banco de México – Overnight Rate	4.50	September 7, 2012	4.50	--

Fed: All eyes are on the Fed in the run-up to its late-August Jackson Hole conference. Fed regional presidents have jockeyed in the press arguing for and against the provision of further monetary easing in the form of outright asset purchases. While no major speaking engagements are planned by FOMC voting members this week, further ad-hoc interviews etc. are a possibility. We expect CPI to remain at sub-2% y/y levels when monthly inflation numbers are release on Aug. 15. BoC: The BoC reminded markets that its bias is hawkish and indeed it has maintained the language in its statement which cautions that “some modest withdrawal of the present considerable monetary policy stimulus may become appropriate” even as the front end of the curve priced in cuts. Our view is that further action is unlikely for quite some time yet in light of a soft inflation and growth outlook coupled with very low interest rates globally.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.75	September 6, 2012	0.50	--
Bank of England – Bank Rate	0.50	September 6, 2012	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	September 13, 2012	0.00	--
Central Bank of Russia – Refinancing Rate	8.00	September 28, 2012	8.00	--
Hungarian National Bank – Base Rate	7.00	August 28, 2012	7.00	7.00
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.75	August 16, 2012	5.75	5.75
Sweden Riksbank – Repo Rate	1.50	September 6, 2012	1.50	--
Norges Bank – Deposit Rate	1.50	August 29, 2012	1.50	--

The Turkish central bank will likely leave its policy stance unchanged after its next meeting. The bank has left the benchmark one-week repo rate at a record-low 5.75% since last August, while adjusting monetary and foreign exchange conditions through unconventional measures. Inflation accelerated for a second consecutive month in July, rising to 9.07% y/y from 8.87% on higher energy costs. Meanwhile, the economy continues to slow (the PMI fell back below the neutral 50-mark last month), as the growth engine shifts from domestic to external demand.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	September 19, 2012	0.10	--
Reserve Bank of Australia – Cash Target Rate	3.50	September 4, 2012	3.50	3.50
Reserve Bank of New Zealand – Cash Rate	2.50	September 12, 2012	2.50	2.50
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	September 17, 2012	8.00	--
Bank of Korea – Bank Rate	3.00	September 12, 2012	2.75	--
Bank of Thailand – Repo Rate	3.00	September 5, 2012	3.00	--
Bank Indonesia – Reference Interest Rate	5.75	September 13, 2012	5.75	--

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	8.00	August 29, 2012	8.00	--
Banco Central de Chile – Overnight Rate	5.00	August 16, 2012	5.00	5.00
Banco de la República de Colombia – Lending Rate	5.00	August 24, 2012	5.25	4.75
Banco Central de Reserva del Perú – Reference Rate	4.25	September 6, 2012	4.25	--

The Chilean economy has shown signs of moderation, especially in the manufacturing sector, while inflation has eased in recent months, decelerating from 2.7% y/y in June to 2.5% in July. Nonetheless, domestic demand remains resilient to the international environment, supported by tight labour market conditions. We expect that under this scenario, the central bank will maintain the reference rate unchanged at 5.0% at their next meeting on August 16th.

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.00	September 20, 2012	5.00	--

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

Forecasts as at August 1, 2012*	2000-10	2011	2012f	2013f	2000-10	2011	2012f	2013f
Output and Inflation (annual % change)		**Real GDP**				**Consumer Prices[2]**		
World[1]	3.7	4.0	3.1	3.4				
Canada	2.2	2.4	1.9	1.8	2.1	2.9	1.8	2.1
United States	1.8	1.8	2.1	1.9	2.5	3.1	2.1	2.2
Mexico	2.1	4.2	3.7	3.6	4.9	3.8	4.2	4.0
United Kingdom	2.0	0.7	-0.4	1.2	2.1	4.2	1.8	3.0
Euro Zone	1.4	1.5	-0.7	0.3	2.1	2.7	1.7	1.9
Japan	0.9	-0.7	2.3	1.5	-0.3	-0.2	0.1	0.3
Australia	3.1	2.1	3.2	3.3	3.1	3.1	2.3	2.8
China	9.4	9.3	7.8	8.2	2.3	4.1	4.0	4.4
India	7.6	10.0	6.0	6.3	6.4	7.7	6.5	6.8
South Korea	4.6	3.6	3.0	3.8	3.1	4.8	3.3	3.0
Thailand	4.4	0.1	5.0	4.0	2.7	3.5	3.0	2.8
Brazil	3.7	2.7	2.0	4.0	6.6	6.5	5.0	5.5
Chile	4.6	6.1	5.1	5.7	3.4	4.4	2.2	3.2
Peru	5.5	7.0	6.3	6.2	2.4	4.7	3.0	3.0
Central Bank Rates (%, end of period)	**12Q1**	**12Q2f**	**12Q3f**	**12Q4f**	**13Q1f**	**13Q2f**	**13Q3f**	**13Q4f**
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	1.00	1.00	0.50	0.50	0.50	0.50	0.50	0.50
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.75	3.50	3.25	3.25	3.25	3.25	3.50	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.00	1.02	1.02	0.99	0.98	0.97	0.97	0.97
Canadian Dollar (CADUSD)	1.00	0.98	0.98	1.01	1.02	1.03	1.03	1.03
Euro (EURUSD)	1.33	1.27	1.20	1.23	1.22	1.22	1.21	1.21
Sterling (GBPUSD)	1.60	1.57	1.55	1.59	1.62	1.63	1.64	1.64
Yen (USDJPY)	83	80	78	78	84	85	86	87
Australian Dollar (AUDUSD)	1.03	1.02	1.02	1.02	1.04	1.04	1.05	1.05
Chinese Yuan (USDCNY)	6.3	6.4	6.3	6.3	6.3	6.2	6.2	6.1
Mexican Peso (USDMXN)	12.8	13.4	13.3	13.1	13.2	13.1	13.1	13.3
Brazilian Real (USDBRL)	1.83	2.01	1.96	1.95	1.92	1.87	1.88	1.90
Commodities (annual average)	**2000-10**	**2011**	**2012f**	**2013f**				
WTI Oil (US$/bbl)	54	95	90	95				
Brent Oil (US$/bbl)	52	112	104	104				
Nymex Natural Gas (US$/mmbtu)	5.81	4.03	2.75	3.00				
Copper (US$/lb)	1.93	4.00	3.65	3.45				
Zinc (US$/lb)	0.75	0.99	0.89	1.02				
Nickel (US$/lb)	7.36	10.38	8.00	7.80				
Gold, London PM Fix (US$/oz)	586	1,569	1,665	1,650				
Pulp (US$/tonne)	694	977	880	900				
Newsprint (US$/tonne)	575	640	640	660				
Lumber (US$/mfbm)	273	255	280	310				

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

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

North America

Canada	2011	11Q4	12Q1	Latest	
Real GDP (annual rates)	2.4	1.9	1.9		
Current Acc. Bal. (C$B, ar)	-48.4	-38.7	-41.1		
Merch. Trade Bal. (C$B, ar)	2.3	14.9	8.7	-21.7	(Jun)
Industrial Production	3.5	3.0	1.0	4.0	(May)
Housing Starts (000s)	193	199	206	209	(Jul)
Employment	1.6	1.2	0.9	0.8	(Jul)
Unemployment Rate (%)	7.5	7.5	7.4	7.3	(Jul)
Retail Sales	4.1	4.2	4.3	7.6	(May)
Auto Sales (000s)	1588	1603	1701	1719	(May)
CPI	2.9	2.7	2.3	1.5	(Jun)
IPPI	4.6	3.9	1.8	-0.4	(Jun)
Pre-tax Corp. Profits	15.4	13.7	5.4		

United States	2011	11Q4	12Q1	Latest	
Real GDP (annual rates)	1.8	4.1	2.0	1.5	(Q2)
Current Acc. Bal. (US$B, ar)	-466	-475	-549		
Merch. Trade Bal. (US$B, ar)	-738	-757	-778	-690	(Jun)
Industrial Production	4.1	4.0	4.0	4.8	(Jun)
Housing Starts (millions)	0.61	0.68	0.71	0.76	(Jun)
Employment	1.1	1.3	1.6	1.4	(Jul)
Unemployment Rate (%)	9.0	8.7	8.3	8.3	(Jul)
Retail Sales	8.2	7.5	6.4	3.5	(Jun)
Auto Sales (millions)	12.7	13.5	14.1	14.0	(Jul)
CPI	3.2	3.3	2.8	1.7	(Jun)
PPI	6.0	5.4	3.4	0.7	(Jun)
Pre-tax Corp. Profits	2.1	3.3	18.0		

Mexico	2011	11Q4	12Q1	Latest	
Real GDP	3.9	3.9	4.6		
Current Acc. Bal. (US$B, ar)	-9.0	-7.5	-0.2		
Merch. Trade Bal. (US$B, ar)	-1.5	-2.9	7.1	7.2	(Jun)
Industrial Production	4.0	3.5	4.4	7.4	(May)
CPI	3.4	3.5	3.9	4.4	(Jul)

Europe

Euro Zone	2011	11Q4	12Q1	Latest	
Real GDP	1.5	0.7	-0.1		
Current Acc. Bal. (US$B, ar)	-3	188	-32	-39	(May)
Merch. Trade Bal. (US$B, ar)	6.9	78.5	28.0	95.9	(May)
Industrial Production	3.5	-0.2	-1.6	1.3	(May)
Unemployment Rate (%)	10.1	10.5	10.8	11.2	(Jun)
CPI	2.7	2.9	2.7	2.4	(Jun)

Germany	2011	11Q4	12Q1	Latest	
Real GDP	3.1	2.0	1.2		
Current Acc. Bal. (US$B, ar)	202.6	254.4	215.8	247.7	(Jun)
Merch. Trade Bal. (US$B, ar)	216.2	224.1	223.3	243.8	(Jun)
Industrial Production	8.0	3.4	0.7	-0.2	(Jun)
Unemployment Rate (%)	7.1	6.9	6.8	6.8	(Jul)
CPI	2.3	2.3	2.2	1.7	(Jul)

France	2011	11Q4	12Q1	Latest	
Real GDP	1.7	1.2	0.3		
Current Acc. Bal. (US$B, ar)	-54.5	-43.9	-50.6	-113.2	(May)
Merch. Trade Bal. (US$B, ar)	-51.4	-46.6	-53.6	-57.4	(Jun)
Industrial Production	2.0	0.1	-1.7	-2.3	(Jun)
Unemployment Rate (%)	9.6	9.8	10.0	10.1	(Jun)
CPI	2.1	2.4	2.3	1.9	(Jun)

United Kingdom	2011	11Q4	12Q1	Latest	
Real GDP	0.8	0.6	-0.2		
Current Acc. Bal. (US$B, ar)	-46.5	-40.7	-76.4		
Merch. Trade Bal. (US$B, ar)	-160.9	-155.6	-157.5	-189.0	(Jun)
Industrial Production	-0.7	-2.7	-3.1	-4.3	(Jun)
Unemployment Rate (%)	8.1	8.4	8.2	8.1	(Apr)
CPI	4.5	4.7	3.5	2.4	(Jun)

Italy	2011	11Q4	12Q1	Latest	
Real GDP	0.5	-0.5	-1.4		
Current Acc. Bal. (US$B, ar)	-0.07	-0.03	-0.07	-0.02	(May)
Merch. Trade Bal. (US$B, ar)	-34.2	-8.3	-17.5	37.8	(Jun)
Industrial Production	0.2	-3.2	-5.5	-7.9	(Jun)
CPI	2.8	3.3	3.4	3.1	(Jul)

Russia	2011	11Q4	12Q1	Latest	
Real GDP	4.3	4.8	4.9		
Current Acc. Bal. (US$B, ar)	98.8	28.3	39.3		
Merch. Trade Bal. (US$B, ar)	16.5	18.1	19.7	14.0	(Jun)
Industrial Production	4.8	3.3	4.1	1.9	(Jun)
CPI	8.4	6.7	3.9	5.6	(Jul)

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

Source: Bloomberg, Global Insight, Scotia Economics.

Asia Pacific

Australia	2011	11Q4	12Q1	Latest
Real GDP	2.1	2.5	4.3	
Current Acc. Bal. (US$B, ar)	-33.1	-39.4	-66.0	
Merch. Trade Bal. (US$B, ar)	35.7	28.8	1.5	34.1 (Jun)
Industrial Production	-1.1	1.3	4.7	
Unemployment Rate (%)	5.1	5.2	5.2	5.2 (Jul)
CPI	3.4	3.1	1.6	

Japan	2011	11Q4	12Q1	Latest
Real GDP	-0.7	-0.5	2.7	
Current Acc. Bal. (US$B, ar)	119.2	48.0	101.1	65.6 (Jun)
Merch. Trade Bal. (US$B, ar)	-33.5	-75.9	-72.2	-45.5 (Jun)
Industrial Production	-2.3	0.0	2.7	-0.2 (Jun)
Unemployment Rate (%)	4.6	4.5	4.5	4.3 (Jun)
CPI	-0.3	-0.3	0.3	-0.1 (Jun)

South Korea	2011	11Q4	12Q1	Latest
Real GDP	3.6	3.3	2.8	
Current Acc. Bal. (US$B, ar)	26.5	46.0	10.2	70.0 (Jun)
Merch. Trade Bal. (US$B, ar)	30.8	36.6	5.8	33.0 (Jul)
Industrial Production	6.9	5.2	2.9	1.5 (Jun)
CPI	4.0	4.0	3.0	1.5 (Jul)

China	2011	11Q4	12Q1	Latest
Real GDP	10.4	8.9	8.1	
Current Acc. Bal. (US$B, ar)	201.7			
Merch. Trade Bal. (US$B, ar)	155.0	193.0	2.2	301.8 (Jul)
Industrial Production	12.8	12.8	9.3	9.2 (Jul)
CPI	4.1	4.1	3.6	2.2 (Jun)

Thailand	2011	11Q4	12Q1	Latest
Real GDP	0.1	-8.9	0.3	
Current Acc. Bal. (US$B, ar)	11.9	1.8	0.6	
Merch. Trade Bal. (US$B, ar)	2.0	0.3	0.4	1.6 (Jun)
Industrial Production	-9.4	-34.1	-7.1	-9.9 (Jun)
CPI	3.8	4.0	3.4	2.7 (Jul)

India	2011	11Q4	12Q1	Latest
Real GDP	7.5	6.1	5.3	
Current Acc. Bal. (US$B, ar)	-62.8	-20.2	-21.7	
Merch. Trade Bal. (US$B, ar)	-13.4	-16.5	-15.9	-10.3 (Jun)
Industrial Production	4.8	1.2	0.6	-1.8 (Jun)
WPI	9.5	9.0	7.3	7.3 (Jun)

Indonesia	2011	11Q4	12Q1	Latest
Real GDP	6.5	6.5	6.3	
Current Acc. Bal. (US$B, ar)	1.7	-1.6	-2.9	
Merch. Trade Bal. (US$B, ar)	2.2	1.3	0.9	-1.3 (Jun)
Industrial Production	4.1	3.7	5.4	3.0 (May)
CPI	5.4	4.1	3.7	4.6 (Jul)

Latin America

Brazil	2011	11Q4	12Q1	Latest
Real GDP	2.5	1.2	0.6	
Current Acc. Bal. (US$B, ar)	-52.5	-63.2	-48.3	
Merch. Trade Bal. (US$B, ar)	29.8	27.0	9.8	34.5 (Jul)
Industrial Production	0.4	-1.7	-3.5	-4.3 (Jun)
CPI	6.8	6.7		6.6 (Jan)

Chile	2011	11Q4	12Q1	Latest
Real GDP	6.0	4.5	5.6	
Current Acc. Bal. (US$B, ar)	0.0	-5.1	-1.4	
Merch. Trade Bal. (US$B, ar)	10.0	9.4	11.1	-1.1 (Jul)
Industrial Production	6.9	2.1	3.9	1.1 (Jun)
CPI	3.3	4.0	4.1	2.5 (Jul)

Peru	2011	11Q4	12Q1	Latest
Real GDP	6.9	5.5	6.0	
Current Acc. Bal. (US$B, ar)	-3.3	-0.8	-1.0	
Merch. Trade Bal. (US$B, ar)	0.9	0.7	0.8	0.4 (Jun)
Unemployment Rate (%)	7.7	7.1	8.3	6.3 (Jun)
CPI	3.4	4.5	4.2	3.3 (Jul)

Colombia	2011	11Q4	12Q1	Latest
Real GDP	5.9	6.1	4.7	
Current Acc. Bal. (US$B, ar)	-10.0	-3.2	-1.8	
Merch. Trade Bal. (US$B, ar)	0.4	0.5	0.7	0.0 (May)
Industrial Production	5.0	4.2	2.0	-0.3 (May)
CPI	3.4	3.9	3.5	3.0 (Jul)

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

Source: Bloomberg, Global Insight, Scotia Economics.

Interest Rates (%, end of period)

Canada	12Q1	12Q2	Aug/03	Aug/10*	United States	12Q1	12Q2	Aug/03	Aug/10*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.91	0.88	0.98	0.98	3-mo. T-bill	0.07	0.08	0.08	0.10
10-yr Gov't Bond	2.11	1.74	1.77	1.78	10-yr Gov't Bond	2.21	1.64	1.56	1.65
30-yr Gov't Bond	2.66	2.33	2.31	2.32	30-yr Gov't Bond	3.34	2.75	2.64	2.74
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	69.2	66.0	66.0	(Jun)	FX Reserves (US$B)	138.0	138.8	138.8	(Jun)
Germany					**France**				
3-mo. Interbank	0.71	0.53	0.15	0.12	3-mo. T-bill	0.07	0.04	0.00	0.00
10-yr Gov't Bond	1.79	1.58	1.42	1.38	10-yr Gov't Bond	2.89	2.69	2.11	2.07
FX Reserves (US$B)	67.9	68.2	68.2	(Jun)	FX Reserves (US$B)	49.2	49.6	49.6	(Jun)
Euro Zone					**United Kingdom**				
Refinancing Rate	1.00	1.00	0.75	0.75	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.39	0.38	0.11	0.12	3-mo. T-bill	0.37	0.37	0.34	0.35
FX Reserves (US$B)	319.8	328.7	328.7	(Jun)	10-yr Gov't Bond	2.20	1.73	1.56	1.54
					FX Reserves (US$B)	82.4	84.4	84.4	(Jun)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.25	3.50	3.50	3.50
3-mo. Libor	0.13	0.13	0.13	0.13	10-yr Gov't Bond	3.98	3.04	3.12	3.25
10-yr Gov't Bond	0.99	0.84	0.74	0.80	FX Reserves (US$B)	47.7	44.1	44.1	(Jun)
FX Reserves (US$B)	1247.8	1231.2	1231.2	(Jun)					

Exchange Rates (end of period)

USDCAD	1.00	1.02	1.00	0.99	¥/US$	82.87	79.79	78.47	78.22
CADUSD	1.00	0.98	1.00	1.01	US¢/Australian$	1.03	1.02	1.06	1.06
GBPUSD	1.601	1.571	1.564	1.569	Chinese Yuan/US$	6.30	6.35	6.37	6.36
EURUSD	1.334	1.267	1.239	1.229	South Korean Won/US$	1133	1145	1135	1130
JPYEUR	0.90	0.99	1.03	1.04	Mexican Peso/US$	12.811	13.361	13.135	13.108
USDCHF	0.90	0.95	0.97	0.98	Brazilian Real/US$	1.827	2.009	2.028	2.018

Equity Markets (index, end of period)

United States (DJIA)	13212	12880	13096	13133	U.K. (FT100)	5768	5571	5787	5837
United States (S&P500)	1408	1362	1391	1399	Germany (Dax)	6947	6416	6866	6938
Canada (S&P/TSX)	12392	11597	11663	11852	France (CAC40)	3424	3197	3374	3430
Mexico (IPC)	39521	40200	40998	40710	Japan (Nikkei)	10084	9007	8555	8891
Brazil (Bovespa)	64511	54355	57255	58748	Hong Kong (Hang Seng)	20556	19441	19666	20136
Italy (BCI)	859	761	760	797	South Korea (Composite)	2014	1854	1849	1946

Commodity Prices (end of period)

Pulp (US$/tonne)	870	900	900	900	Copper (US$/lb)	3.85	3.45	3.32	3.37
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	0.91	0.84	0.82	0.83
Lumber (US$/mfbm)	279	283	303	309	Gold (US$/oz)	1662.50	1598.50	1602.00	1618.50
WTI Oil (US$/bbl)	103.02	84.96	91.40	92.79	Silver (US$/oz)	32.43	27.08	27.25	27.88
Natural Gas (US$/mmbtu)	2.13	2.82	2.88	2.79	CRB (index)	308.46	284.19	300.69	302.75

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

Emerging Markets Strategy

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