Scotiabank™

Global Views

Weekly commentary on economic and financial market developments

January 11, 2013

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

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

U.S. And China Will Drive The Global Market Tone

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

Cliff talk, key data, earnings and Fed speak will dominate **US** market attention in addition to a fairly active global calendar. To paraphrase Mark Twain, reports of the death of the cliff have been exaggerated. This was the theme to our piece "U.S. Agreement Sets Up Another Cliff" that was first sent out on January 1st right after the House vote. US markets have had little new to consider since the revenue agreement was passed by the Senate and the House on January 1st, but developments could begin to heat up again next week. That's because the House Republicans are holding a strategy retreat toward the end of the week titled "2013 Congress of Tomorrow: House Conference Retreat" and that is focused upon attempting to develop a coherent stance in negotiations to address spending cuts that were deferred two months in the January 1st agreement as well as the requirement to raise the U.S. government's legislated borrowing ceiling by at least $1 trillion in order to meet funding requirements over the next year. We will be watching for formal comments or leaked views on what was discussed in the retreat, and this could well be the marquee event of the week.

A close competitor to cliff talk for US and global market attention may be Fed speak. Federal Reserve Chairman Ben Bernanke speaks on "Monetary policy, recovery from the global financial crisis and long-term challenges facing the economy" and holds audience Q&A such that anything is fair game. My bias is that he may rein in some of the talk of ending stimulus sooner than perhaps markets expect, as the minutes to the December 12th FOMC meeting prompted a recent sell-off in US Treasuries and additional equity volatility. If he does, then Treasuries could get a welcome lift following the recent sell-off. Weight what Bernanke says on the matter, along with views from Vice Chair Janet Yellen and NY Fed President William Dudley disproportionately greater as evidence of the power-weighted centre's thinking much more so than the views of others at the Fed. That said, there will also be a very active calendar for other Fed speakers including appearances by San Francisco Fed President John Williams (nonvoting), Chicago's Charles Evans (voting), Atlanta's Lockhart (nonvoting), Boston's Rosengren (voting), Minneapolis' Kocherlakota (nonvoting, who speaks 3 times), Philadelphia's Charles Plosser (alternate), and Dallas' Richard Fisher (alternate).

US data risk will also be elevated. Retail sales (Tuesday) are expected to be soft given a drop in gasoline prices and slightly lower auto sales in December. Wednesday's CPI figures may also be soft given lower gasoline prices and little broadly-based pricing power. The year-on-year CPI inflation rate sits below 2%. More important is that the Fed's preferred 2% target for the long-run price deflator on personal consumption expenditures that is biased lower than CPI currently sits at 1.4%. Industrial output, the Fed's Beige Book that carries anecdotes of regional economic conditions, a probable further rise in housing starts in the wake of still strong permit issuance, and continued growth in the Philly Fed as this metric heals in the wake of the Sandy-fed interruption.

Fourth, Q4 US earnings reports arrive fast and furiously next week with a particular focus upon the financials that usually lead the earnings season. Most of the action starts on Wednesday when names like Goldman, JP Morgan, US Bancorp and BoNY hit markets. Key nonfinancials are also due out including Intel and eBay. In all there will be forty firms on the S&P500 releasing next week. Of the twenty-seven that have already released, 22 have beaten analysts' expectations on earnings and 70% have beaten on revenue targets. It's very early, but preliminary readings are supportive of the view that earnings troughed in 2012Q3. What complicates matters are the combined tax and spending hits to the US economy that may negatively impact cyclicals into 2013H1.

While popular attention will likely be focused on **China's** Q4 2012 GDP print due out on Friday, the reality is that markets have already looked past the possibility that the outcome may remain in the 7.5-8% range and are more focused on the thesis that economic data picked up steam during the tail-end of the quarter after exports accelerated in December. With that in mind, pay extra attention to the December industrial

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

… continued from previous page

production and retail sales numbers as well as a property price update that will be released alongside GDP. Upside surprises on either of these would be more ammo in the 'China is re-accelerating' thesis clip.

While data risk will not be that high in Japan (the only major figures due out are industrial production and consumer confidence), the pace at which Prime Minister Abe has instituted his reforms has been nothing short of staggering thus far. He arrived in office promising large fiscal policy initiatives and strong-arm measures to push the BoJ to undertake easier monetary policy. He delivered last week on the former, and the debate he has now started as to whether the BoJ should have a more expansive monetary policy should continue to make headlines in the week ahead. In Australia, watch out for data on the labor market and mortgage lending, as the RBA's hypothesis in its easing cycle is that interest rate stimulus in order to spur mortgage growth should push job gains. New Zealand will release CPI numbers after the close on Thursday and India is due to release CPI numbers early in the week.

Canadian markets will be primarily buffeted by developments abroad over the course of the next week. While domestic market influences will be relatively light, Canada watchers will still have four things to mull over. First up will be a pair of surveys from the Bank of Canada that it uses as tools in assessing the appropriate stance of monetary policy. The BoC's Senior Loan Officer Survey has been fairly stable over recent quarters and signals an easing bias on behalf of Canadian lenders following the massive credit tightening in the depths of the crisis. The BoC's Business Outlook Survey is particularly watched for the sales growth expectations of Canadian businesses which came in disappointingly soft in the prior Q3 print. For Tuesday's existing home resales, there is no real consensus that is available, but we figure that seasonally adjusted sales fell by around 2-3% m/m in December after accounting for seasonally unadjusted sales results from the biggest available local real estate boards along with our seasonal adjustment factor. The Canadian earnings calendar generally lags the US, so next week will be quiet in this regard with only Cogeco Cable, Corus Entertainment and Canexus on tap. November's manufacturing shipments (Friday) are widely expected to come in fairly strongly partly due to the prior month's weak base effect but also because of firm auto production and gains signaled in the most relevant manufacturing-oriented categories in the already released trade figures. Canada also auctions 2s on Wednesday that have backed up by about 15bps from early December lows.

European markets will spend most of the week on the sidelines watching developments in the US and Asia. German Chancellor Angela Merkel will attend a number of election campaign stops in the lead up to the state election in Lower Saxony on Sunday January 20th which is viewed by many as a litmus test for her own election that must be held no later than October 27th particularly in terms of her weaker coalition partners that are faring poorly in the polls. European data risk will be focused upon EC add-ups for industrial production, trade, and CPI, as well as UK CPI and retail sales figures. UK inflation is expected to come in unchanged at about a 2.7% y/y rate that has drifted about a half point higher than the low set in September and which is a limiting step to any further BoE stimulus. Key auctions will include France, Spain, Germany and the UK.

Latam markets will digest four rate decisions and consensus only expects Colombia to cut by 25bps to a 4% overnight lending rate. Scotiabank is off consensus along with two other shops that are forecasting no change. The central banks in each of Mexico, Brazil and Chile are expected to remain on hold.

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

Carlos Gomes (416) 866-4735
carlos.gomes@scotiabank.com

Despite December's Improvement, Canada's Employment Growth Moderated In 2012

- **Job creation in goods-producing industries continues to outperform, as domestic and international headwinds soften gains in services-producing sectors.**

Following a relatively robust recovery after the global recession, Canada's employment gains moderated in 2012 to only 1.2% y/y (195,000 jobs) from an average of 1.5% in the prior two years (averaging 246,000 positions). The overall figures mask large industry divergences as employment growth of 1.8% y/y in goods-producing sectors continued to outpace the 1.0% y/y advance in services-producing industries. This represents the second consecutive year of deviation from nearly a decade-long trend in which services-related job gains consistently outperformed the goods-producing sectors.

Last year's slowdown in the pace of service sector hiring reflects the cooling in Canada's housing market and public sector restraint, which dragged down employment in real estate services, construction and public administration. Meanwhile, increased business and consumer caution translated into weaker employment in business services, most notably in wholesale trade, professional, scientific and technical services, retail trade, and transportation and warehousing. This weakness was partly offset by employment growth in educational services, other services, finance and insurance, and health care and social assistance.

Employment in goods-producing industries was driven in 2012 by robust growth in mining and oil & gas and a rebound in forestry, after nearly a double-digit decline in 2011. However, the largest share of the total gains, over 60%, came from durable goods manufacturing, which more than offset ongoing weakness in fishing and hunting and non-durable goods manufacturing employment.

Nevertheless, even with strong gains in the resource sector last year, the level of employment in goods-producing industries remains 3.5% below its pre-recession high in 2008, mainly due to losses in manufacturing. In contrast, even with the softening trend in employment growth since 2010, services sectors jobs are 4.3% higher than in 2008, driven by growth in health care, social assistance, education, and professional, scientific and technical services.

Going forward, the sub-par global economic recovery will hold back Canada's employment growth in the first half of 2013. The ongoing recession in the euro zone continues to impact growth in emerging markets, global supply chains and demand for commodities. The negative effects of a cooling housing market in Canada and fiscal consolidation in both the U.S. and Canada are providing further restraint.

Average Employment Change, %

Industry	Share of Jobs 2012	2009	2010	2011	2012	2008-12 % chg.
Total, all industries	**100.0**	**-1.6**	**1.4**	**1.6**	**1.2**	**2.4**
Goods-producing sector	**22.1**	**-7.2**	**0.4**	**1.7**	**1.8**	**-3.5**
Agriculture	1.8	-2.3	-4.9	1.6	1.2	-4.5
Forestry	0.3	-15.1	11.3	-9.5	11.5	-4.7
Fishing and hunting	0.1	-4.2	-0.5	-5.8	-5.0	-14.7
Mining and oil & gas	1.7	-6.5	2.5	5.4	10.1	11.3
Utilities	0.8	-2.6	0.5	-5.7	0.7	-7.1
Construction	7.2	-5.7	4.9	3.7	0.4	3.0
Durables goods manufacturing	6.2	-11.2	-1.7	2.3	3.9	-7.3
Non-durables goods manufacturing	4.0	-6.2	-2.7	-1.0	-2.1	-11.6
Services-producing sector	**77.9**	**0.1**	**1.6**	**1.5**	**1.0**	**4.3**
Wholesale trade	3.5	0.0	-0.5	0.6	-3.3	-3.2
Retail trade	11.6	-1.6	1.4	-0.6	-0.3	-1.0
Transportation and warehousing	4.9	-3.9	-1.3	4.7	0.7	0.1
Finance and insurance	4.5	-0.8	1.8	-3.3	3.3	0.9
Real estate and leasing	1.8	8.4	-3.1	4.2	-4.8	4.3
Professional, scientific and technical	7.4	0.2	6.3	3.4	-0.8	9.3
Business, building and other support	3.9	-4.4	2.6	0.7	2.0	0.8
Education	7.4	0.2	2.4	0.1	5.6	8.5
Health care and social assistance	12.2	3.0	4.2	3.0	1.7	12.4
Information, culture and recreation	4.5	1.5	-0.5	2.4	0.8	4.2
Accommodation and food	6.3	-2.2	0.2	3.3	0.8	2.0
Other	4.5	5.2	-4.3	0.7	4.8	6.3
Public administration	5.5	0.5	2.8	1.5	-1.6	3.3

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

Carlos Gomes (416) 866-4735
carlos.gomes@scotiabank.com

… continued from previous page

However, the recent improvement in global new order activity combined with some easing in financial market strains due to a gradual fading in event risks is supportive of some improvement in global economic growth, especially once there is a resolution on the U.S. debt ceiling in coming months. This will set the stage for some pick up in the pace of job creation in Canada during second half of the year, notably in goods-producing sectors. Prospects point to further acceleration in 2014.

The U.S. housing recovery and faster economic growth in China over the medium term will increase demand and prices for Canada's resources, supporting investment and healthy employment gains in forestry, mining and oil & gas. Since the resource sector is highly capital intensive and requires additional infrastructure to diversify its export markets, increased investment will spill over and boost employment in construction, machinery and equipment and business services, particularly architecture and engineering. Nevertheless, Canada's cooling housing market as well as fiscal restraint and completion of the economic stimulus plan will dampen prospects in these industries, and soften the employment outlook in real estate, financial services and public administration.

As the U.S. and global economies pick up steam in the second half of 2013, Canada's export performance will improve, providing a lift to the transportation sector, which employs nearly 800,000 Canadians. Manufacturing activity will also gradually strengthen led by durable goods, especially in transportation equipment. In particular, auto industry employment will continue to benefit as vehicle sales in the United States — the destination for more than 80% of Canadian vehicle assemblies — climb to the highest level in six years. Employment in the auto parts sector jumped 6.0% over the past year, approaching a four-year high.

Hiring will also gradually advance in the aerospace industry, as orders have picked up and aircraft production is experiencing a modest revival. However, manufacturing accounts for only one-tenth of overall employment in Canada, and the improvement in merchandise exports and hiring will be dampened by the competitive challenges Canadian manufacturers face in international markets, as the Canadian dollar continues to trade above par vis-à-vis the U.S. dollar, and will likely remain at a premium through mid-decade.

Services account for more than 80% of all hiring in Canada, with wholesale & retail trade the largest source of employment, representing 15% of all jobs. Prospects for this crucial sector will be supported by the ongoing influx of American retailers north of the border, though the pace of job creation will remain subdued until the balance sheets of many debt-strapped Canadian households improve. In addition, while demographics are supportive for health care employment — the second-largest source of hiring in Canada — government restraint will hold back gains. In fact, health care employment growth softened last year to the lowest level since 2005, despite the largest increase in the number of older Canadians — the age group typically requiring the greatest health care services — in several decades.

Finally, the lack of employment opportunities outside of skilled trades in the resource sector over the past four years made many youth reluctant to enter the labour force. This has encouraged them — as well as displaced workers — to pursue higher education. As a result, job gains in educational services have been robust and one of the only sectors, besides health care, to post consecutive year-over-year gains between 2009 and 2012. However, employment growth in educational services will likely moderate over the near term, as retiring baby boomers and stronger economic growth encourage youth to enter the labour force sooner.

The pace of employment growth is expected to gradually edge up over the next two years, with the Canadian economy creating more than 210,000 jobs per annum. During the previous two decades, Canadian employment growth averaged 1.5% — and nearly 2.0% per annum during periods of economic expansion — well above the 1.2% pace projected through 2014.

Neil Tisdall (416) 866-6252
neil.tisdall@scotiabank.com

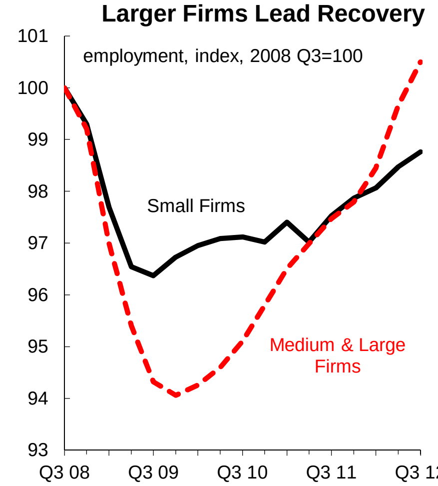
Adrienne Warren (416) 866-4315
adrienne.warren@scotiabank.com

Canadian Small Business Hiring Lagging Larger Firms

- **Structural and competitive factors are contributing to small businesses' declining share of Canadian employment.**

Both small and large firms have contributed to Canada's solid labour market recovery from the 2008-2009 recession. Small businesses cut their payrolls less sharply than medium or large firms during the downturn. At the same time, they have been slower to ramp up hiring again. As of the third quarter of 2012, total employment at small firms — those with fewer than 100 employees — had almost returned to its pre-recession peak, whereas among medium and large firms payrolls had reached new highs.

Employment By Firm Size: Larger Firms Lead Recovery



Source: Statistics Canada, Scotiabank Economics

Small firms are typically a stabilizing factor in labour market downturns and upturns. This reflects in part the less cyclical nature of their predominantly service-oriented business activities. High recruitment and training costs also may impose a larger restraining factor on small firm staffing decisions. However, hiring at small firms has also lagged its larger counterparts on a longer-term basis. Small business payrolls expanded an average of 0.6% annually from 2002 to 2012, roughly half the increase at medium/large firms.

The declining employment share of small business reflects in part the industrial mix of small business activities, and mirrors broad structural shifts in the Canadian economy. In particular, rising global commodity prices and resource demand have boosted the relative importance of mining and oil & gas activity, industries dominated by larger firms. Here, larger firms have strengthened their relative position, and now account for almost 80% of all employees in the sector, up from 73% a decade ago.

But small firms have also lost ground relative to larger firms across a wide range of industries, including important small business sectors such as construction and retail trade. The share of construction and retail workers employed by small firms fell 7 and 6 percentage points, respectively, from 2002-2012, to 72% and 43%. Industry consolidation and rationalization are reinforcing the growth of large businesses.

There are a few notable exceptions where small firms have outperformed. Small businesses have increased their relative share of manufacturing employment over the past decade, from 33% to 36%, even as overall factory payrolls have declined across firm sizes. In an increasingly competitive global marketplace, many smaller manufacturers have benefitted by focussing on specialized, high-value added products and niche markets, both domestically and internationally.

Despite a relatively subdued hiring outlook for 2013, many Canadian firms are expected to face persistent skill shortages, particularly in high-demand areas such as construction, manufacturing and information technology. Small businesses face unique staffing challenges relative to medium and large firms. In general, small firms do not have the same financial resources as larger corporations to offer above-market wage rates for workers with in-demand skills, or relocation costs for out-of-town applicants. They may lack a dedicated Human Resource department to assist in recruitment and training efforts.

Small and large firms should look to Canada's underemployed workforce, especially young workers and recent immigrants. Both groups have underperformed the labour market recovery, yet represent a highly educated, untapped labour supply. The unemployment rate of recent immigrants (i.e. those in the country for five years or less) is roughly twice that of the overall population. Similarly, the jobless rate for workers aged 20-24 is close to double that of those 25 and over.

For further analysis, please refer to the full report *Special Report: Canadian Small Business Hiring Lagging Larger Firms*, published on January 11, 2013, at http://www.gbm.scotiabank.com/English/bns_econ/spjan11.pdf.

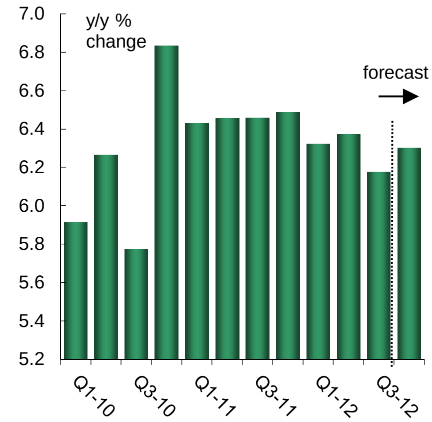
Tuuli McCully (416) 863-2859
tuuli.mccully@scotiabank.com

Indonesia — Economic Outlook 2013-14

- **Solid economic growth momentum, manageable inflationary pressures, potential for a sovereign credit rating upgrade, and healthy government finances support the outlook for Indonesia over the medium term.**
- **Governance issues, a weaker external position and a depreciating bias in the currency remain the country's main headwinds.**

Indonesia's economic growth should remain strong through 2014. We expect real GDP to expand by 6⅓% this year, followed by a 6½% gain in 2014. The US$900 billion Indonesian economy is the fifth-largest in Asia in purchasing power parity terms, and contains a domestic market that has remained relatively isolated from external headwinds, with commodity price dependence diminishing over the past five years. Output recorded a steady 6⅓% y/y advance through the first three quarters of 2012 on the back of solid growth in private spending and investment. Falling unemployment, rising real wages, and improving consumer confidence are likely to remain supportive of household consumption in Indonesia, with robust private investment also underpinning domestic demand strength.

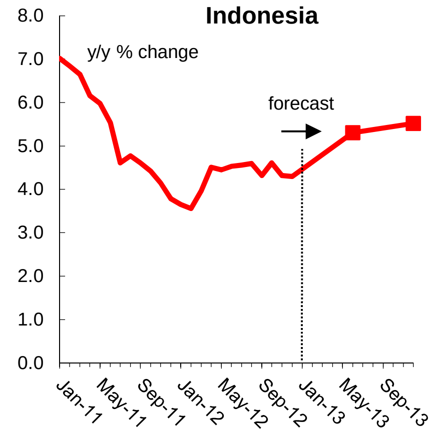
Real GDP Growth - Indonesia



Source: Bloomberg, Scotiabank Economics.

Reflecting sustained economic growth momentum, inflation will likely start picking up in the coming months following a period of moderate price pressures over the past 18 months. We expect consumer price inflation to accelerate from the end-2012 level of 4.3% y/y (comfortably within the central bank's 3½-5½% target range) to around 5½% by the end of this year and close to 6% by end-2014. Any increases in subsidized energy prices would significantly add to price pressures. Favourable inflationary developments in recent quarters and weak global growth conditions have allowed Bank Indonesia (BI) to maintain a loose monetary policy stance, with the bank keeping the reference interest rate at a record low level of 5.75% since February 2012. In the context of the substantial weakening bias of the Indonesian Rupiah (IDR) in 2012, we assess that the monetary easing cycle has reached a bottom, and expect the BI to start normalizing conditions in the third quarter of the year as inflationary pressures emerge, taking the benchmark interest rate to 7.0% by the end of 2014.

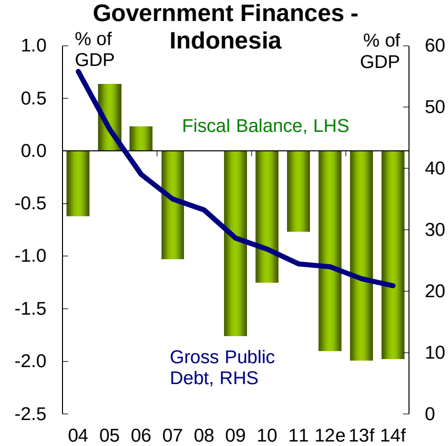
Consumer Price Inflation - Indonesia



Source: Bloomberg, Scotiabank Economics.

The IDR will remain vulnerable to sudden swings in investor sentiment in the near term, amplified by concerns on poor quality of governance and the country's weaker external position. Following 14 years of surpluses, the current account moved into a deficit position in 2012, as strong import growth and muted export sector performance virtually erased the trade surplus and the income deficit continued to widen. In fact, the IDR was the third-worst-performing-major Asian currency in 2012 (after the Japanese yen and the Indian rupee), depreciating by 8.3% vis-à-vis the US dollar (USD). We expect the currency to show more stability this year on the back of an approaching monetary tightening bias and solid economic growth momentum. The IDR will likely close 2013 at 9600 per USD, implying a 2% appreciation since the end of 2012.

Government Finances - Indonesia



Source: IMF, Scotiabank Economics.

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

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

German GDP Q4 — Risk Of A Dive

Did Economic Minister flag risk of -1% q/q?

- This morning's FT carried a story highlighting the risk of a dire Q4 GDP reading in Germany.
- The first estimate of German full-year GDP growth for 2012 (not seasonally adjusted) will be published on 15 January and the more conventional quarterly growth reading for the October-December period a month later.
- As yet there is no formal consensus for what the market is expecting. However, inferring from the latest Bloomberg quarterly poll, the median estimate is in the region of -0.2% q/q for Q4.
- This week the German Minister for the Economy, Philipp Rosler, highlighted the risk of a much bigger contraction — potentially as big as -1% q/q. Although he did not explicitly make this forecast, it can be inferred from what he said.

More specifically:

  - Rosler said that he expected full-year growth to be ¾% y/y.
  - Given that we have data for the first 3 quarters of the year, if Rosler is correct, then we can infer the implied % q/q growth rate for Q4.
  - In order for full-year GDP growth to have been ¾% y/y, the economy must have contracted by around 1% q/q during Q4 (0.0% y/y for Q4).

- A contraction in the German economy would not be a surprise to anybody. The Bundesbank warned of such an outcome several months ago and survey indicators had a bad run earlier in the fall (Charts 1-2).

Chart 1: Germany GDP vs Composite PMI

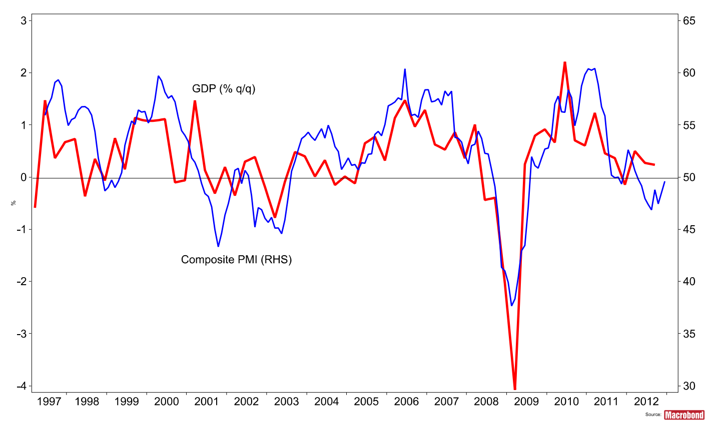
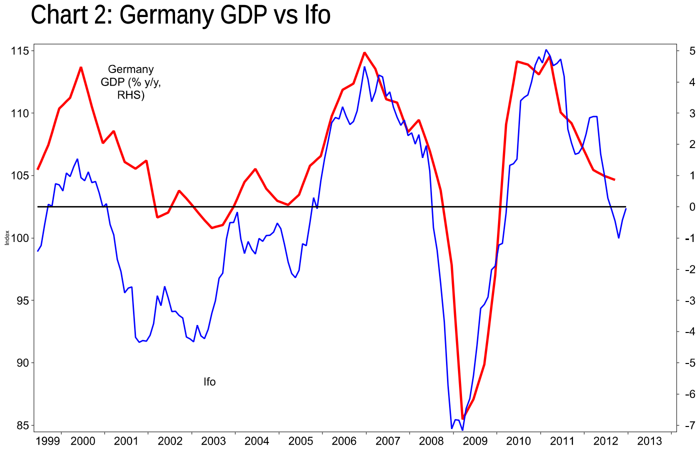


Chart 2: Germany GDP vs Ifo



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

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

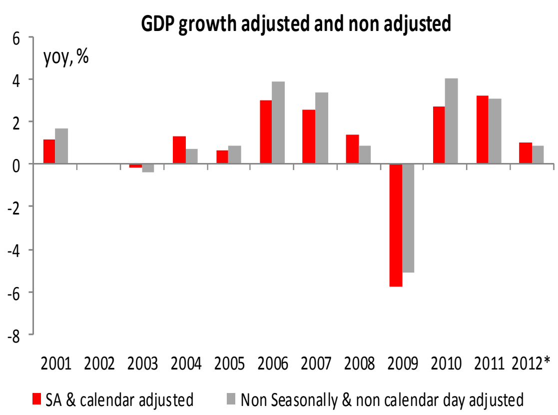
… continued from previous page

- Encouragingly, both the PMI and Ifo surveys have since bottomed out, suggesting that a contraction during Q4 is not the start of a prolonged downturn. Nonetheless, based on the relationship between the Ifo and GDP, a 0% y/y reading in Q4 — consistent with -1% q/q during Q4 — is perfectly plausible.

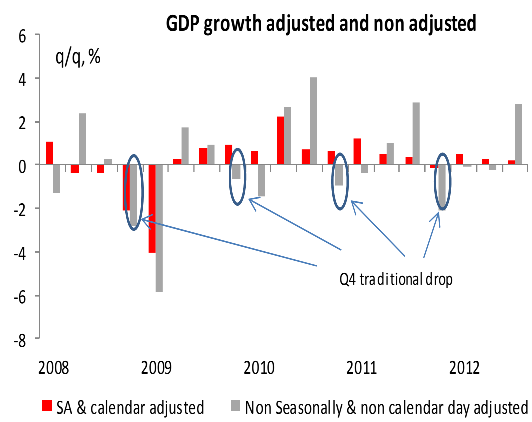
Playing with different measures of German GDP

- While the German Economic Minister was not explicit, we suspect that this forecast refers to GDP growth on a non-seasonal and calendar adjusted basis. This could make a difference to the implied pace of growth during Q4.
- Indeed, history shows that there could be a significant difference between these two measures. For example during 2010, German GDP increased by around 4% on a seasonally and calendar day adjusted basis, but by only 2.7% under the other measure.
- As of Q3 2012, German GDP growth was up by 1% on a seasonally and calendar days adjusted basis versus 0.85% in nsa terms (the first three quarters of 2012 vs. the same period of 2011).
- Reaching the 0.75% y/y rate mentioned by the Economic Minister would suggest a 2.0% q/q contraction in the non-seasonally and calendar adjusted GDP data. This forecast is perfectly plausible as the last quarter of the year usually experiences a sharp contraction under this GDP measure — the reverse of the sharp rise seen in Q3 (Chart 3).
- Given the typical relationship between the two series, we would judge that this 2.0% quarterly contraction would be consistent with an adjusted GDP growth rate of between -0.1% and -0.4% q/q, which makes the current consensus in the middle of this bracket.
- Nonetheless, based on the available monthly data, we believe that the risk is towards the low end of this range.

Chart 3: Germany GDP, adjusted vs. non adjusted



* up to Q3 (first three quarters of 2012 vs. first three quarters of 2011)



Monthly data in all sectors turned sharply down at the end of last year!

- Although this week's industrial production data for November moved up (+0.2% m/m), that followed deep falls in both September and October. As a result, assuming it will remain stable in December, industrial production will be down by a sharp 2.8% q/q on average for Q4. That would be the biggest contraction since the end of 2008/ beginning of 2009.
- On the demand side, after a 0.3 q/q rise in household consumption in Q3, retail sales excluding autos as well as the monthly vehicle sales series fell during the early portion of Q4 relative to the Q3 average.

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

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

… continued from previous page

- Finally, net trade could also be a drag. The external sector added consistently and strongly to GDP growth in the first three quarters of the year, with quarterly contributions of between 0.3% and 0.7%. In the final three months, however, exports are likely to have dropped sharply given the available monthly data (probably around 1.5% to 2.0% q/q) while imports could have remained roughly stable. This would suggest that net trade could have a negative contribution in the final quarter of the year of around -0.7% to -0.8% q/q.
- Based on a simple model taking into account the monthly data that we have for manufacturing production, construction output, retail sales and overseas trade, it would seem that there is a risk for a contraction in Q4 GDP growth of around 0.6% q/q.
- So while that is not as severe as the 1% drop which could be inferred from the Economic Minister's comments, it is nonetheless a substantial dive.
- This would then mean that German GDP on a seasonally and calendar adjusted basis increased by 0.9% overall in 2012.

Chart 4: Quarterly Germany GDP & Scotia estimate

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

CPAC — Much Ado About Nothing

- **The National Statistician chose Option 1 — no change in RPI methodology;**
- **The ONS will, however, produce a new adjusted measure of RPI inflation: RPIJ**
- **…this will show what RPI would have looked like under Option 4…**
- **…kind of a Jim Bowen "Look at what you could have won!"**
- **Given the on-going pilot study into the narrowing of classifications within the clothing component, the outcome could be seen as a diluted Option 2 by stealth….**
- **…this could subtract around 0.15% points from headline inflation — possibly more.**
- **Based on these announcements we expect RPI inflation to be 3.3% y/y on average between now and November 2015, meaning linker-16s are still a bargain.**

RPI Methodology Unchanged.

Seldom has a decision to do nothing been such a big deal. The National Statistician announced that despite the recommendations from some major statistical experts that the methodology of the RPI was flawed, it refrained from revising the methodology.

RPI inflation has been artificially boosted since 2010 owing to a troublesome averaging technique that has particularly affected the clothing component. Most commentators had expected the ONS to have, at the very least corrected, that component. This would have pushed RPI inflation down by 0.3% points forever. In fact the consensus had been for an even more aggressive solution — getting rid of this troublesome calculation throughout the entire RPI to ensure that this never happens again. That would have dragged inflation down by 0.9% y/y.

Turkeys don't vote for Christmas

The ONS conducted a public consultation on this issue. In the event there was overwhelming opposition for any change at all. Indeed there were 406 responses to the consultation, of which 332 indicated a preference for Option 1 — no change in the methodology. Of that group, the vast majority argued this on the basis of personal interest — because their incomes linked to inflation would leave them worse off. Only around ¼ actually expressed statistical based arguments of any substance.

Why does all this matter?

This issue was of huge significance to the UK inflation linked bond market since returns are linked to the RPI measure of inflation. If the RPI methodology had been revised to cause lower inflation, holders of gilt linkers (including pension funds) would have been worse off.

As an illustration, our forecast for RPI inflation between now and end-2015 is 3.3% y/y. Had the announcement been option 2, we would have been forecasting 3.05% y/y. And under the more drastic nuclear options, our forecast would have been 2.65% y/y. That difference in return compounded over a 10, 20 or even 30 year investment is a big deal.

More Measures of Inflation than House Price Indicators

Just to add to the confusion, the ONS will publish a new measure of inflation each month — RPIJ. The 'J' stands for Jevons (a posh word for geometric mean). This measure will essentially show what RPI inflation would have been if the decision had been Option 4 — to replace the arithmetic mean in the RPI with the geometric mean as used by the CPI.

The UK now has more 'headline' measures of inflation (CPI, CPIY, CPI-CT, CPIH, RPI, RPIX, RPIY, RPIJ, I could go on) than house price indicators — which is something of an achievement.

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

… continued from previous page

National Statistician Does a Bullseye!

For those not familiar with this 1980's TV gem (or who were watching songs of praise on the BBC); Bullseye was a TV quiz based around darts. When the contestants who got to the final of each show didn't win, presenter Jim Bowen would say "look at what you would have won". They would then be shown all the prizes they missed out on — typically a speedboat, a caravan, a holiday to Spain, a dish with cash on it etc.

That is exactly what the RPI and RPIJ measures will be re-enacting each month. The RPI in its current form will continue to be published. But in addition, the RPIJ will be published — showing what inflation would have been — or essentially what some parts of the population would have won.

Bowen would typically soften the disappointment to the losing contestants by given them their BFH — their Bus Fare Home. Fortunately this was not their TFH (Train Fare Home) because that will now be almost a percentage point higher than it would have been under a revised RPI methodology.

What would people have won?

1. Rail passengers would have seen their fares rise by around 1% less (since rail fares are linked to the RPI and the RPIJ would have been that much lower);
2. similarly drinkers and smokers would see prices of these goods rise by less for the same reason;
3. those with student loans would have seen their interest cost a percentage point lower since this burden is linked to RPI inflation; and
4. the UK tax payer will be around £3bn pounds per year worse off because the debt interest on burden will not fall as it otherwise would have.

It was not all bad news. It was super smashing great (Bowen's other catchphrase) for anyone with investment returns pegged to RPI inflation. That would include pension groups and insurance companies.

Reading between the lines

Our feeling is that the National Statistician wants the CPAC (Consumer Prices Advisory Committee) meetings to be boring again. Before April-2012 when Scotiabank was the first institution to highlight this issue aggressively, hardly anyone would have known what CPAC was. This issue has been a big concern for the linker market since then and a major market mover.

Reading between the lines, we suspect that the National Statistician wants to distance itself from such a situation. It does not want to be responsible for whether or not returns on inflation linked bonds are substantially higher or lower. It does not want to be responsible for what could be construed as a political strategy. And in particular, it does not want to be caught up in provoking potentially complicated litigation with regards to the payouts on corporate inflation linked bonds.

Essentially, the ONS is returning itself to a producer of the statistics. Our interpretation of what it is saying is:

> *"we will produce the statistics. We will show what inflation would be under the old measure. We will publish a new measure RPIJ to show what inflation would be under the alternative methodology. It is up to users of the statistics to decide which ones to use and how they use them".*

Option 2 by Stealth

When we first started highlighting the CPAC issue, we talked about the 'stepping stone option' as we called it. The blowout in clothes price inflation in the RPI has been caused by dispersion in the individual prices collected by the ONS. The more dispersion there is (particularly in the January base month) the higher the RPI measure of inflation will be relative to the CPI.

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

… continued from previous page

The stepping stone option is to narrow the classifications of the sub-categories. The classic example is women's dresses. This is a very broad category which includes both formal and casual dresses. If this group is sub-divided into 2 new categories 'formal dresses' and 'casual dresses' then there will be less dispersion and it will narrow the gap between RPI and CPI inflation.

This strategy is still being pursued by the ONS. Earlier investigations suggested that it could drag RPI inflation down by up to 0.15% point. Our inkling is that if this technique is applied to other categories apart from clothing (I am sure I have heard the ONS talk about doing this for coffee) then the effect could be similar to the 0.3% point drag that would have come from option 2. The main difference is this is a more subtle, gradual and stealthy way of addressing the RPI-CPI gap. The fact that this doesn't imply an abrupt falloff in the RPI would minimise the risk of litigation in corporate debt issues which might have resulted from options 2, 3 or 4.

CPI linked bonds back on the table?

Just over a year ago, the DMO consulted on whether or not to issue inflation linked gilts pegged to the CPI instead of the RPI. Given that the RPI looked on track to converge on the CPI measure, there was little point doing so. Now that is not happening, is this issue back on the table?

Our judgement is that the UK linker market has gone through so much turmoil of late, another consultation or period of uncertainty is the last thing that this market needs. It is not impossible, but probably not imminent.

RPI at risk of being relegated as a 'National Statistic'

The ONS attempted to put this issue well and truly to bed, which is wise. In particular, it noted that:

> *"the basic formulation of the RPI is accepted as currently defined and that any future changes should be limited to issues such as the annual update of the basket and weights, improvements to data validation and quality assurance etc."*

One risk was that Option 1 was adopted, but the market saw this as a delay rather than a finite decision. A delay would have caused unnecessary uncertainty and hurt market liquidity.

However, nothing is ever simple. The ONS has decided to reassess whether the RPI will retain its status as a 'National Statistic'. This has provoked questions whether inflation linked gilts can continue to be pegged to the RPI if this status is lost.

Our understanding is that the RPI would continue to be published as it has done even if this did happen. The monthly services output data were published as an experimental statistic in exactly the same way as any other indicator prior to it 'passing its driving test' and becoming a recognised national statistic.

More generally, the National Statistician did not want to rock the boat by choosing options 2-4 and influence the return on inflation linked gilts. Hence we doubt she would have the appetite to influence this via tinkering with the 'National Statistic' status of the RPI. Even if that did happen, the Treasury would then have to make a judgement on whether to change the reference measure of inflation. Both are possible, but a low probability in our view.

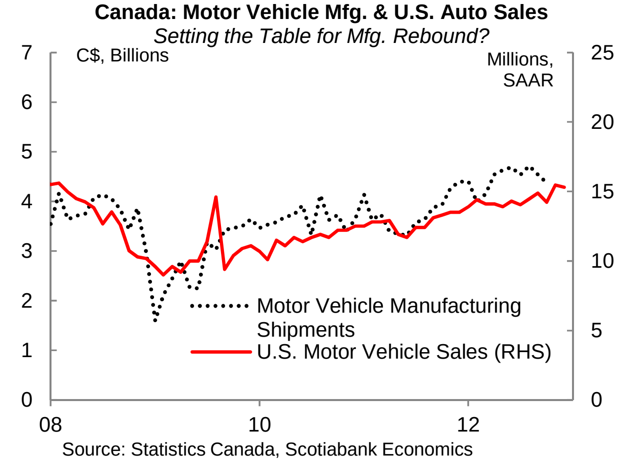
Derek Holt (416) 863-7707
derek.holt@scotiabank.com

Dov Zigler (416) 862-3080
dov.zigler@scotiabank.com

Key Data Preview

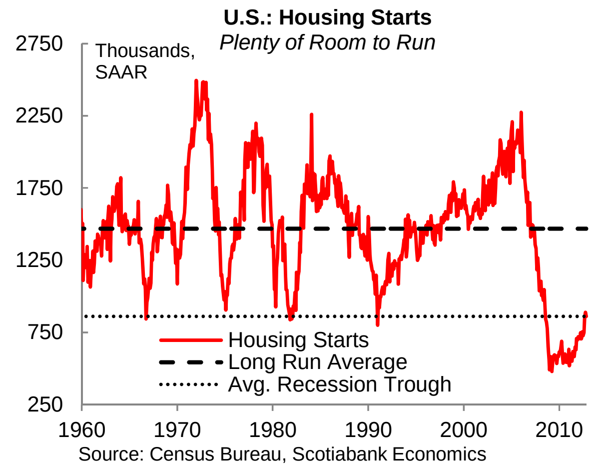
CANADA

Manufacturing sales numbers for November (Jan. 18) could pick up, as U.S. car-buying accelerated into year-end and could well have pulled Canadian car manufacturing with it (see chart). Auto export data seemed to confirm this thesis (+6.6% m/m). The overall new order book had grown by a decent amount over September and October, which is a plus, and the volatile aerospace sector could deliver some upside too after shipments fell by 25% m/m in October (again, exports bounced back in Nov.). We're looking for a +1% m/m print after October's soft -1.4% m/m print.

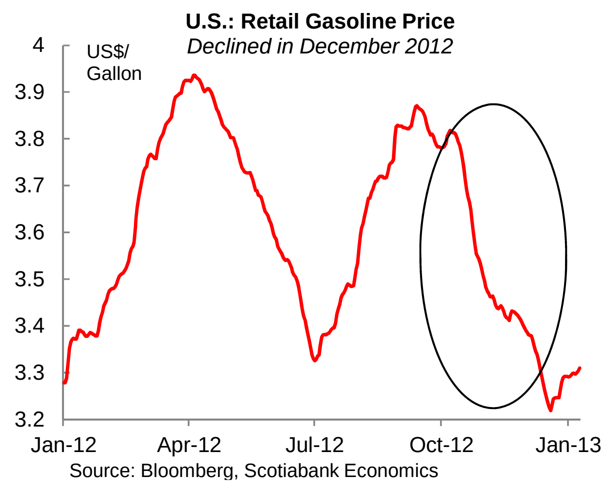


UNITED STATES

After **housing starts** data were moderately thrown off during the October/November period by Hurricane Sandy, Scotiabank is looking for an acceleration to 890k starts when December numbers are released on January 17. The forecast is driven by a pick-up in building permit issuance, which reached 900k in November. The recovery in housing starts has been the most unambiguous example of an improvement in the U.S. housing sector during 2012 (though uncertainty surrounding tax rates could weigh on Q1 2013). In spite of the improvement, to give readers a sense of the room that the housing economy has to run, even the very substantial move in 2012 leaves the annualized pace of housing starts at the bottom of the range normally seen at the trough of a recession (see chart).



Scotiabank is looking for **CPI** to come in fairly flat in December (January 16), forecasting a 0.1% m/m print (that number is seasonally adjusted) resulting in a 1.8% y/y outcome on the not-seasonally-adjusted index tied to TIPS. While energy prices are pointing to sluggish CPI (-5.4% m/m for natural gas, -4% m/m for gasoline — see chart), the surge in commodity foodstuff prices earlier this year started to translate into retail prices in November, and we expect that trend to continue. As well, the seasonal factor adds a decent amount back into US prices in December, which should buoy the overall index.



Retail sales in the U.S. confront two challenges in December: a) lower gasoline prices, and b) lower volumes of reported car sales. Positives include a stronger-than-expected ICSC chain store sales index and the possibility of a pop in sales at building materials stores as the post-hurricane reconstruction continued in the Northeast. Scotiabank is forecasting a flat print overall and a slightly higher 0.2% m/m gain after cars are taken out of the equation.

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

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

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

… continued from previous page

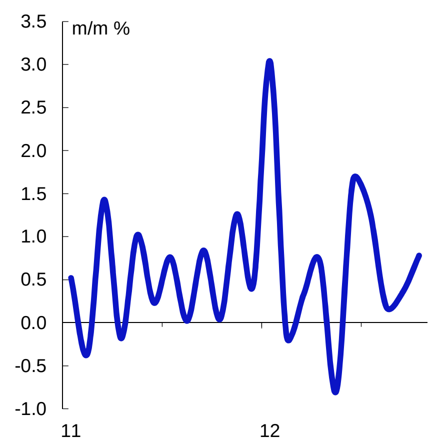
EUROPE

We expect that UK consumer price inflation rose moderately during December, from 2.7% y/y to 2.8% y/y. For RPI we expect a similar size acceleration up to 3.1% y/y. The key influences this month are likely to be utility bill hikes, lower petrol prices, pre-Christmas clothing discounts and further signs of a reacceleration in food prices. More specifically, all six of the major utility providers announced price hikes of 5-10% towards the end of last year. Four of these should be captured by this month's CPI — adding a combined 0.25 percentage points to headline inflation. Petrol prices fell by an average of 1.5% m/m during December. Although prices also fell last December, it was by a smaller margin. That should drag just under 0.05 points from the headline print. Clothes prices could provide a surprise in either direction. December typically sees clothes prices discounted by an average of around 2%. On the one hand, the extent of discounts has been getting a little more generous over the last two Decembers (prices fell by 1.8% m/m in December 2010 and by 2.8% during December 2011). So a crude extrapolation of that trend would suggest even more aggressive discounts this December. The flipside is that prices rose by a little less than normal during the price hike months (August to November), perhaps suggesting less room for discounting. Food is the other key uncertainty. Last month saw a reasonably chunky addition to overall inflation from the food component. This could have been due to the effects on food prices of the US drought (and the UK having the second-wettest year on record). The early clues for December's reading have been mixed. Germany posted a second consecutive month of strong food price increases. However, the UK BRC shop price index component for food showed a sharp increase in November (consistent with the rise in the CPI food component) but a muted reading for December.

LATIN AMERICA

Retail sales in Brazil have been showing signs of recovery, advancing in October for a fifth consecutive month (November's retail sales will be released on January 15th). Consumption has been responding to authorities' stimulus measures; however, this could be only a temporary effect, as the government has offered many tax cuts to spur local demand, which have not had a clear impact on local production or industrial output. Additionally, the authorities maintain a weak currency and low interest rates, in the context of accelerating — though controlled — consumer prices. We maintain our view that consumption as well as the economy overall will have a slow recovery in the coming months.

Brazilian Retail Sales

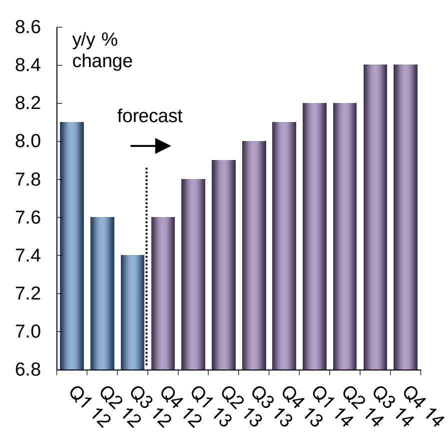


Source: Thomson Reuters, Scotiabank Economics.

ASIA

China will release Q4 2012 real GDP data on January 17th. We estimate that China's output growth accelerated to 7.6% y/y from the third quarter pace of 7.4%, taking the total 2012 growth to 7.7%. China's growth will likely continue to gain momentum in 2013-14 with the economy expanding by 8.0% this year and by 8⅓% in 2014. Investment continues to be a key driver of economic growth, though rising incomes, robust job creation, and low inflation are increasing the economic contribution of household spending. Solid domestic demand is supporting imports, and will likely cause net exports to be a drag on real GDP growth in 2013. Industrial production, retail sales, purchasing managers' indices, and exports also indicate that a revival, albeit modest, is imminent.

Real GDP Growth - China



Source: Bloomberg, Scotiabank Economics.

Key Indicators for the week of January 14 - 18

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	01/14	10:30	BoC Senior Loan Officer Survey	4Q	--	--	-15.8
CA	01/14	10:30	Business Outlook Future Sales	4Q	--	--	0.0
US	01/15	08:30	Empire State Manufacturing Index	Jan	0.0	0.0	-8.1
US	01/15	08:30	PPI (m/m)	Dec	-0.2	-0.1	-0.8
US	01/15	08:30	PPI ex. Food & Energy (m/m)	Dec	0.1	0.2	0.1
US	01/15	08:30	Retail Sales (m/m)	Dec	0.0	0.2	0.3
US	01/15	08:30	Retail Sales ex. Autos (m/m)	Dec	0.2	0.2	0.0
CA	01/15	09:00	Existing Home Sales (m/m)	Dec	-2.5	--	-1.7
US	01/15	10:00	Business Inventories (m/m)	Nov	0.3	0.3	0.4
US	01/16	07:00	MBA Mortgage Applications (w/w)	JAN 11	--	--	11.7
US	01/16	08:30	CPI (m/m)	Dec	0.1	0.0	-0.3
US	01/16	08:30	CPI (y/y)	Dec	1.8	1.8	1.8
US	01/16	08:30	CPI ex. Food & Energy (m/m)	Dec	0.2	0.1	0.1
US	01/16	08:30	CPI ex. Food & Energy (y/y)	Dec	2.0	1.9	1.9
US	01/16	09:00	Total Net TIC Flows ($ bn)	Nov	--	--	-56.7
US	01/16	09:15	Industrial Production (m/m)	Dec	0.3	0.2	1.1
US	01/16	10:00	NAHB Housing Market Index	Jan	49.0	48.0	47.0
CA	01/17	08:30	International Securities Transactions (C$ bn)	Nov	--	--	13.3
US	01/17	08:30	Building Permits (mn a.r.)	Dec	--	903	900
US	01/17	08:30	Initial Jobless Claims (000s)	JAN 12	370	370	371
US	01/17	08:30	Continuing Claims (000s)	JAN 5	3150	3220	3109
US	01/17	08:30	Housing Starts (000s a.r.)	Dec	890	890	861
US	01/17	08:30	Housing Starts (m/m)	Dec	3.3	3.4	-3.0
US	01/17	10:00	Philadelphia Fed Index	Jan	10.0	6.0	4.6
CA	01/18	08:30	Manufacturing Shipments (m/m)	Nov	1.0	1.1	-1.4
US	01/18	09:55	U. of Michigan Consumer Sentiment	Jan	75.0	75.0	72.9
MX	01/18	10:00	**Overnight Rate (%)**	Jan 18	**4.50**	**4.50**	**4.50**

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IT	01/14	04:00	Industrial Production (y/y)	Nov	--	-5.6	-6.2
EC	01/14	05:00	Industrial Production (m/m)	Nov	--	0.2	-1.4
EC	01/14	05:00	Industrial Production (y/y)	Nov	--	-3.1	-3.6
RU	01/15		**Russia Refinancing Rate**	Jan	**8.25**	**8.25**	**8.25**
GE	01/15	02:00	CPI (y/y)	Dec F	2.1	2.1	2.1
GE	01/15	02:00	CPI - EU Harmonized (y/y)	Dec F	2.1	2.1	2.1
FR	01/15	02:45	Central Government Balance (€ bn)	Nov	--	-92.5	-94.6
GE	01/15	03:00	Real GDP NSA (y/y)	2012	0.8	0.8	3.0
GE	01/15	03:00	Budget (Maastricht) (% of GDP)	2012	--	-0.1	-1.0
SP	01/15	03:00	CPI (y/y)	Dec F	2.9	2.9	2.9
SP	01/15	03:00	CPI - EU Harmonized (y/y)	Dec F	3.0	3.0	3.0
IT	01/15	04:00	CPI (y/y)	Dec F	2.4	2.4	2.4
IT	01/15	04:00	CPI - EU Harmonized (y/y)	Dec F	2.6	2.6	2.6
UK	01/15	04:30	CPI (m/m)	Dec	0.6	0.5	0.2
UK	01/15	04:30	CPI (y/y)	Dec	2.8	2.7	2.7
UK	01/15	04:30	DCLG House Prices (y/y)	Nov	--	1.6	1.5
UK	01/15	04:30	PPI Input (m/m)	Dec	--	0.0	0.1
UK	01/15	04:30	PPI Output (m/m)	Dec	--	0.0	-0.2
UK	01/15	04:30	RPI (y/y)	Dec	3.1	3.0	3.0
EC	01/15	05:00	Trade Balance (€ bn)	Nov	--	10.0	10.2
EC	01/16	05:00	CPI (m/m)	Dec	0.3	0.3	0.4
EC	01/16	05:00	CPI (y/y)	Dec	2.2	2.2	2.2
UK	01/18	04:30	Retail Sales ex. Auto Fuel (m/m)	Dec	--	0.1	0.1
UK	01/18	04:30	Retail Sales with Auto Fuel (m/m)	Dec	--	0.2	0.0

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

Key Indicators for the week of January 14 - 18

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
AU	01/13	19:30	Home Loans (%)	Nov	--	0.5	0.1
AU	01/13	19:30	Investment Lending (% change)	Nov	--	--	5.5
AU	01/13	19:30	ANZ Job Advertisements (m/m)	Nov	--	--	-2.9
CH	01/13		Business Climate Index	4Q	--	--	122.8
IN	01/14	01:30	Monthly Wholesale Prices (y/y)	Dec	7.3	7.4	7.2
CH	01/14	06:59	Actual FDI (y/y)	Dec	--	-2.0	-5.4
IN	01/14	06:59	CPI (y/y)	Dec	--	--	9.9
NZ	01/14	06:59	REINZ House Sales (y/y)	Dec	--	--	24.1
NZ	01/14	07:59	REINZ Housing Price Index (m/m)	Dec	--	--	1.4
JN	01/14	18:50	Japan Money Stock M2 (y/y)	Dec	--	2.1	2.1
JN	01/14	18:50	Japan Money Stock M3 (y/y)	Dec	--	1.9	1.9
SI	01/15	00:00	Retail Sales (m/m)	Nov	--	0.4	0.6
SI	01/15	00:00	Retail Sales (y/y)	Nov	--	-0.5	-1.0
JN	01/15	01:00	Machine Tool Orders (y/y)	Dec P	--	--	-21.3
PH	01/15	06:59	Overseas Remittances (y/y)	Nov	--	4.6	8.5
JN	01/15	18:50	Machine Orders (m/m)	Nov	--	0.3	2.6
AU	01/15	19:30	New Motor Vehicle Sales (m/m)	Dec	--	--	0.0
JN	01/16	00:00	Consumer Confidence	Dec	--	--	39.4
NZ	01/16	16:00	ANZ Job Ads (m/m)	Dec	--	--	-0.8
SK	01/16	16:00	PPI (y/y)	Dec	--	--	-0.2
JN	01/16	18:50	Tertiary Industry Index (m/m)	Nov	--	0.1	-0.1
AU	01/16	19:00	Consumer Inflation Expectation (%)	Jan	--	--	1.8
NZ	01/16	19:00	ANZ Consumer Confidence Index	Jan	--	--	114.7
AU	01/16	19:30	Employment (000s)	Dec	--	4.5	13.9
AU	01/16	19:30	Unemployment Rate (%)	Dec	5.2	5.4	5.2
SI	01/16	19:30	Exports (y/y)	Dec	--	-8.1	-2.5
HK	01/17	03:30	**Composite Interest Rate (%)**	**Dec**	**0.34**	**--**	**0.34**
HK	01/17	03:30	Unemployment Rate (%)	Dec	3.4	3.4	3.4
PH	01/17	06:59	Bank Lending (y/y)	Nov	--	--	14.2
SK	01/17	06:59	Discount Store Sales (y/y)	Dec	--	--	-1.7
SK	01/17	06:59	Department Store Sales (y/y)	Dec	--	--	9.1
NZ	01/17	16:45	Consumer Prices (q/q)	4Q	0.3	0.1	0.3
NZ	01/17	16:45	Consumer Prices (y/y)	4Q	1.4	1.2	0.8
CH	01/17	21:00	Fixed Asset Investment YTD (y/y)	Dec	--	20.7	20.7
CH	01/17	21:00	Industrial Production (y/y)	Dec	10.3	10.2	10.1
CH	01/17	21:00	Real GDP (y/y)	4Q	7.6	7.8	7.4
CH	01/17	21:00	Retail Sales (y/y)	Dec	15.2	15.0	14.9
JN	01/17	23:30	Capacity Utilization (m/m)	Nov F	--	--	1.6
JN	01/17	23:30	Industrial Production (m/m)	Nov F	-1.70	--	-1.70
JN	01/17	23:30	Industrial Production (y/y)	Nov F	-5.8	--	-5.8
PH	01/18	06:59	Balance of Payments (US$ mn)	Dec	--	--	2161.0

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CO	01/14	06:59	Trade Balance (US$ mn)	Nov	--	--	22.4
BZ	01/15	06:00	Retail Sales (m/m)	Nov	--	0.4	0.8
BZ	01/15	06:00	Retail Sales (y/y)	Nov	--	8.3	9.1
PE	01/15	06:59	Economic Activity Index NSA (y/y)	Nov	--	--	6.7
PE	01/15	06:59	Unemployment Rate (%)	Nov	--	6.1	5.9
BZ	01/16	07:59	**SELIC Target Rate (%)**	Jan 16	**7.25**	**7.25**	**7.25**
CO	01/17	06:59	Industrial Production (y/y)	Nov	--	-0.5	1.2
CO	01/17	06:59	Retail Sales (y/y)	Nov	--	0.6	-0.3
CL	01/17	16:00	**Nominal Overnight Rate Target (%)**	Jan 17	**5.00**	**5.00**	**5.00**
CO	01/18	06:59	**Overnight Lending Rate (%)**	Jan 18	**4.25**	**4.00**	**4.25**

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

Global Auctions for the week of January 14 - 18

North America

Country	Date	Time	Event
US	01/14	11:00	U.S. Fed To Purchase USD1.25-1.75 Bln Notes
US	01/14	11:30	U.S. to Sell 3-Month Bills
US	01/14	11:30	U.S. to Sell 6-Month Bills
US	01/15	11:00	U.S. Fed To Purchase USD0.75-1.00 Bln Notes
US	01/15	11:30	U.S. to Sell 4-Week Bills
US	01/16	11:00	U.S. Fed To Purchase USD1.25-1.75 Bln Notes
CA	01/16	12:00	Canada to Sell 2 Year Notes
CA	01/17	10:30	Canada to Sell CAD6.8 Bln 98-Day Bills
CA	01/17	10:30	Canada to Sell CAD2.6 Bln 182-Day Bills
CA	01/17	10:30	Canada to Sell CAD2.6 Bln 364-Day Bills
US	01/17	11:00	U.S. Fed To Purchase USD2.75-3.50 Bln Notes
US	01/18	11:00	U.S. Fed To Purchase USD1.25-1.75 Bln Notes

Europe

Country	Date	Time	Event
FR	01/14	08:50	France to Sell Bills (BTF)
SP	01/15	04:30	Spain to Sell 12-Month and 18-Month Bills
GR	01/15	05:00	Greece to Sell Bills
SZ	01/15	05:30	Switzerland to Sell 3-Month Bills
SW	01/16	05:03	Sweden to Sell Bonds/Sweden to Sell Bills
GE	01/16	05:30	Germany to Sell EU5 Bln 10-Year Notes
IR	01/17	04:00	Ireland to Sell Bill
SP	01/17	04:30	Spain to Sell Bonds
FR	01/17	04:50	France to Sell Bonds / Notes
UK	01/17	05:30	U.K. to Sell GBP1 Bln 0.125% I/L 2029 Bonds
UK	01/18	06:10	UK to Sell Bills

Asia Pacific

Country	Date	Time	Event
CH	01/14	20:30	China Development Bank to Sell CNY5 Bln 3-Year Floaters
CH	01/14	20:30	China Development Bank to Sell CNY5 Bln 5-Year Floaters
CH	01/14	20:30	China Development Bank to Sell CNY5 Bln 7-Year Floaters
CH	01/14	20:30	China Development Bank to Sell CNY5 Bln 10-Year Floaters
CH	01/15	22:00	China to Sell 1-Year Bonds
JN	01/15	22:35	Japan to Sell 1-Year Bills
JN	01/15	22:45	Japan to Sell 5-Year Bonds
NZ	01/16	20:30	New Zealand Plans to Sell Bonds
JN	01/16	22:35	Japan to Sell 3-Month Bills
JN	01/18	03:00	Japan Auction for Enhanced-Liquidity

Latin America

Country	Date	Time	Event
BZ	01/17	08:30	Brazil to Sell Bills due 10/01/2013 - LTN
BZ	01/17	08:30	Brazil to Sell Bills due 04/01/2015 - LTN
BZ	01/17	08:30	Brazil to Sell Bills due 07/01/2016 - LTN
BZ	01/17	08:30	Brazil to Sell Fixed-rate bonds due 01/01/2019 - NTN-F
BZ	01/17	08:30	Brazil to Sell Fixed-rate bonds due 01/01/2023 - NTN-F

Source: Bloomberg, Scotiabank Economics.

Events for the week of January 14 - 18

North America

Country	Date	Time	Event
US	01/13	20:20	Fed's Evans Speaks on Panel Discussion in Hong Kong
US	01/14	11:55	Fed's Williams Speaks in Half Moon Bay, California
US	01/14	12:40	Fed's Lockhart to Speak on U.S. Economy in Atlanta
US	01/14	16:00	Fed's Bernanke Speaks in Ann Arbor, Michigan
US	01/15	08:00	Fed's Rosengren Speaks on Economic Outlook in Providence, RI
US	01/15	08:50	Fed's Kocherlakota Speaks on Policy in Golden Valley, Minn.
US	01/15	12:30	Fed's Plosser Speaks on Economic Outlook in Rochester, NY
US	01/15		World Bank Releases Global Economic Prospects Report
US	01/15		U.S. House Holds a Vote for Hurricane Sandy Relief
US	01/16	08:00	Fed's Kocherlakota Speaks on Policy in Minneapolis
US	01/16	10:00	Fed's Kocherlakota Speaks on Policy in Eden Prairie, Minnesota
US	01/16	14:00	U.S. Federal Reserve Releases Beige Book
US	01/16	19:00	Fed's Fisher Speaks on Banks in Washington
US	01/17	12:05	Fed's Lockhart Speaks at Bloomberg Global Markets Summit
US	01/17	19:00	House Republican strategy retreat
MX	01/18	10:00	**Overnight Rate**

Europe

Country	Date	Time	Event
EC	01/12	10:00	EU's Barroso Speaks at Saturday Ceremony in Marseille, France
IT	01/13	18:00	Italian Caretaker PM Monti Attends Event in Turin
IT	01/14	05:00	Bank of Italy Releases Nov. Public Finance Supplement
GE	01/14	11:00	Merkel at Lower Saxony State Election Rally: Stadthagen
GE	01/14	13:00	Merkel at Lower Saxony State Election Rally: Hildesheim
EC	01/14	14:30	ECB's Praet Speaks at Conference in Brussels
PO	01/15		Bank of Portugal Releases Winter Economic Bulletin
RU	01/15		**Russia Refinancing Rate**
PO	15-16 JAN		Prime Minister Attends Conference on State Reform
AS	01/16	03:20	ECB's Nowotny speaks at Euromoney Conference in Vienna
GE	01/16	06:00	Economy Minister Roesler Presents New Economic Outlook: Berlin
GE	01/16	07:00	German Bundesbank holds press conference on gold reserves
EC	01/16	12:00	ECB's Asmussen speaks at Hohenheim University in Stuttgart
GE	01/16	13:30	Merkel at Lower Saxony Election Rally in Osnabrueck
IT	01/16	15:10	PD Leader Bersani Appears on Mediaset `Italian Domanda'
SZ	01/17	01:30	Swiss National Bank Preliminary Data for 2012 Annual Report
IT	01/17	04:00	Marchionne speaks at Milan event
EC	01/17	04:00	ECB releases its monthly bulletin
GE	01/17	11:00	Merkel Attends Lower Saxony Election Rally in Stade
GE	01/17	13:30	Merkel Speaks at Lower Saxony Election Rally in Oldenburg
PO	01/18	08:00	Bank of Portugal Releases Monthly Economic Indicators Report
IT	01/18	15:10	Former Prime Minister Silvio Berlusconi Appears on Canale 5 oi

Source: Bloomberg, Scotiabank Economics.

Events for the week of January 14 - 18

Asia Pacific

Country	Date	Time	Event
NZ	01/13	16:00	Westpac McDermott Miller Employment Confidence (TBC)
NZ	01/13	16:45	Statistics NZ on Electronic Card Transactions
JN	01/14	10:00	BOJ Branch Managers Meeting
NZ	01/14	16:00	NZIER Publishes Quarterly Survey of Business Opinion
NZ	01/15	16:00	ANZ Truckometer Index
NZ	01/15	21:00	Foreign Holdings of New Zealand Government Bonds
HK	JAN 15-16		Hong Kong Chief Executive Leung Gives Policy Address
NZ	01/16	16:00	ANZ Job Advertisements
NZ	01/16	19:00	ANZ-Roy Morgan Consumer Confidence Survey
AU	01/16	19:30	RBA Foreign Exchange Transactions
NZ	01/16	20:15	NZ Resumes Weekly Bond Auctions
IA	01/16		IAEA Completes Agreement to Access Nuclear Facilities
HK	01/17	03:30	**Composite Interest Rate**
NZ	01/17	16:45	Statistics New Zealand on Consumer Prices Index

Latin America

Country	Date	Time	Event
BZ	01/14	05:30	Central Bank Weekly Economists Survey
BZ	01/16		**SELIC Target - Central Bank**
CL	01/17	16:00	**Nominal Overnight Rate Target**
CO	01/18		**Overnight Lending Rate**

Source: Bloomberg, Scotiabank Economics.

Global Central Bank Watch

North America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Canada – Overnight Target Rate	1.00	January 23, 2013	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	January 30, 2013	0.25	--
Banco de México – Overnight Rate	4.50	January 18, 2013	4.50	4.50

Banxico: With inflation returning to the tolerance range in December, we anticipate that the central bank of Mexico will have more room to maneuver and will maintain the reference rate unchanged at 4.50% for a longer period of time. After six months of headline inflation surpassing the 4.0%y/y mark (and the upper limit of the official range), consumer price gains slowed to 3.6% y/y in December, as anticipated by monetary authorities. Additionally, core inflation decelerated to 2.9% y/y, the lowest level on record. Fed: A speech from Chairman Bernanke (*Monetary policy, recovery from the global financial crisis, and long-term challenges facing the U.S. economy*, Jan. 14) will be the main monetary policy event of the week. Watch to see if it clarifies the Chairman's stance on the necessary duration and amount of QE3. We expect the Fed to continue with its current pace of asset purchases (US$85/bn per month) through 2013, and view the Fed's employment and inflation thresholds as consistent with the Fed's earlier date-based guidance. While the FOMC has said that it will not follow the thresholds "mechanically," that does not stop markets from treating them that way. BoC: We continue to expect the BoC to remain on hold into 2014, with limited domestic capacity pressure, a widening output gap, and weak housing markets. We see risks of a longer pause contingent on the trajectory of the economy and global monetary policy conditions. We expect the BoC's leadership transition to be smooth, and that markets will continue to anticipate interest rate policy stability during the leadership change.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.75	February 7, 2013	0.75	--
Bank of England – Bank Rate	0.50	February 7, 2013	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	March 14, 2013	0.00	--
Central Bank of Russia – Refinancing Rate	8.25	January 15, 2013	8.25	8.25
Hungarian National Bank – Base Rate	5.75	January 29, 2013	5.75	5.50
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.50	January 22, 2013	5.50	--
Sweden Riksbank – Repo Rate	1.00	February 13, 2013	1.00	--
Norges Bank – Deposit Rate	1.50	March 14, 2013	1.50	--

We expect the Russian central bank to leave the benchmark refinancing rate unchanged at 8.25% after its next meeting scheduled for January 15th. Inflation ended 2012 at an elevated level of 6.6% y/y (above the bank's 5-6% target band), with the core index ticking up to 5.7% from 5.3% in November. Meanwhile, economic activity has moderated, with industrial production growth averaging just 1.9% y/y through the first two months of the fourth quarter (the weakest pace since Q3 2009), and the manufacturing PMI touching the neutral 50-mark in December (after 14 months indicating expansionary conditions).

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	January 22, 2013	0.10	--
Reserve Bank of Australia – Cash Target Rate	3.00	February 4, 2013	3.00	3.00
Reserve Bank of New Zealand – Cash Rate	2.50	January 30, 2013	2.50	2.50
People's Bank of China – Lending Rate	6.00	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	January 29, 2013	8.00	--
Bank of Korea – Bank Rate	2.75	February 13, 2013	2.75	--
Bank of Thailand – Repo Rate	2.75	February 20, 2013	2.75	--
Bank Indonesia – Reference Interest Rate	5.75	February 12, 2013	5.75	--

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	7.25	January 16, 2013	7.25	7.25
Banco Central de Chile – Overnight Rate	5.00	January 17, 2013	5.00	5.00
Banco de la República de Colombia – Lending Rate	4.25	January 18, 2013	4.25	4.00
Banco Central de Reserva del Perú – Reference Rate	4.25	February 7, 2013	4.25	4.25

With headline inflation falling from 2.1% y/y to 1.5% in December, we anticipate that the central bank of Chile will maintain its monetary policy stance, leaving the reference rate at 5.0%. December's inflation data surprised on the downside, with the core index reaching the lowest annual level since mid-2010, despite strong local demand. We maintain our view that the central bank of Brazil will leave the reference rate unchanged at 7.25% on January 16th for the third consecutive month since the easing cycle ended. Inflationary pressures are re-emerging in Brazil, with the headline index increasing by 5.5% y/y in December compared with 5.2% three months before. However, we anticipate that the central bank will tolerate price pressures as long as inflation stays within the official target range (4.5-6.5%), so as to encourage the economic recovery. The central bank of Colombia surprisingly cut the reference rate by 25 basis points to 4.25% in December, as a result of weaker economic activity, particularly a reduction in investment. December's inflation decelerated to its lowest level since 2010, giving more room for the central bank to ease monetary conditions; however, we expect the central bank to leave the reference rate unchanged at the next monetary policy announcement.

Africa

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

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

Forecasts as at December 20, 2012*	2000-11	2012f	2013f	2014f	2000-11	2012f	2013f	2014f
Output and Inflation (annual % change)	Real GDP				Consumer Prices[2]			
World[1]	3.7	3.1	3.2	3.8				
Canada	2.2	2.0	1.7	2.3	2.1	1.6	1.9	2.1
United States	1.8	2.2	2.0	2.5	2.5	2.1	2.2	2.2
Mexico	2.2	4.0	3.6	3.9	4.8	4.0	4.0	3.8
United Kingdom	1.9	0.0	1.3	1.5	2.3	2.8	2.6	2.5
Euro Zone	1.4	-0.5	-0.1	1.0	2.1	2.2	2.0	1.7
Japan	0.8	2.1	0.8	1.2	-0.3	0.0	0.3	0.6
Australia	3.0	3.5	2.6	3.1	3.1	2.5	2.8	3.0
China	9.4	7.7	8.0	8.3	2.4	2.2	3.3	3.9
India	7.3	5.5	6.0	6.5	6.6	7.3	7.0	6.1
South Korea	4.5	2.2	3.0	3.5	3.2	1.7	2.8	3.0
Thailand	4.0	5.5	4.0	4.2	2.7	3.2	3.1	3.3
Brazil	3.6	1.0	3.5	4.0	6.6	5.5	5.8	5.0
Chile	4.8	5.4	5.0	5.4	3.5	2.1	3.2	3.0
Peru	5.6	6.3	6.0	5.5	2.6	3.3	3.0	3.0

Central Bank Rates (%, end of period)	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f	14Q1f	14Q2f	14Q3f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.00	3.00	3.00	3.00	3.25	3.25	3.50	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	0.97	0.97	0.97	0.96	0.96	0.95	0.95	0.94
Canadian Dollar (CADUSD)	1.03	1.03	1.03	1.04	1.04	1.05	1.05	1.06
Euro (EURUSD)	1.33	1.30	1.29	1.28	1.27	1.26	1.26	1.25
Sterling (GBPUSD)	1.63	1.62	1.63	1.64	1.64	1.65	1.65	1.66
Yen (USDJPY)	84	85	87	89	90	90	91	91
Australian Dollar (AUDUSD)	1.05	1.05	1.06	1.07	1.08	1.08	1.09	1.09
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	13.0	12.8	12.9
Brazilian Real (USDBRL)	2.06	2.11	2.12	2.15	2.15	2.15	2.18	2.20

Commodities (annual average)	2000-11	2012f	2013f	2014f
WTI Oil (US$/bbl)	57	94	94	96
Brent Oil (US$/bbl)	58	112	112	112
Nymex Natural Gas (US$/mmbtu)	5.67	2.85	3.75	4.00
Copper (US$/lb)	2.10	3.62	3.50	3.30
Zinc (US$/lb)	0.77	0.88	1.01	1.20
Nickel (US$/lb)	7.62	7.95	8.10	8.00
Gold, London PM Fix (US$/oz)	668	1,670	1,750	1,700
Pulp (US$/tonne)	718	872	875	950
Newsprint (US$/tonne)	581	640	630	660
Lumber (US$/mfbm)	272	298	340	375

[1] World GDP for 2000-11 are IMF PPP estimates; 2012-14f are Scotiabank Economics' estimates based on a 2011 PPP-weighted sample of 38 countries.
[2] CPI for Canada and the United States are annual averages. For other countries, CPI are year-end rates.

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

North America

Canada	2011	12Q2	12Q3	Latest	
Real GDP (annual rates)	2.6	1.7	0.6		
Current Acc. Bal. (C$B, ar)	-52.3	-73.5	-75.6		
Merch. Trade Bal. (C$B, ar)	0.9	-14.4	-20.6	-23.5	(Nov)
Industrial Production	3.5	2.4	-0.2	-1.3	(Oct)
Housing Starts (000s)	193	231	222	198	(Dec)
Employment	1.6	1.2	1.0	1.8	(Dec)
Unemployment Rate (%)	7.5	7.3	7.3	7.1	(Dec)
Retail Sales	4.1	2.6	2.5	1.7	(Oct)
Auto Sales (000s)	1589	1670	1662	1722	(Oct)
CPI	2.9	1.6	1.2	0.8	(Nov)
IPPI	4.6	0.7	0.0	0.5	(Nov)
Pre-tax Corp. Profits	15.4	0.4			

United States	2011	12Q2	12Q3	Latest	
Real GDP (annual rates)	1.8	1.3	3.1		
Current Acc. Bal. (US$B, ar)	-466	-472	-430		
Merch. Trade Bal. (US$B, ar)	-738	-743	-696	-789	(Nov)
Industrial Production	4.1	4.9	3.4	2.4	(Nov)
Housing Starts (millions)	0.61	0.74	0.77	0.86	(Nov)
Employment	1.1	1.3	1.4	1.4	(Dec)
Unemployment Rate (%)	8.9	8.2	8.0	7.8	(Dec)
Retail Sales	8.3	4.3	4.6	3.4	(Nov)
Auto Sales (millions)	12.7	14.1	14.5	15.3	(Dec)
CPI	3.2	1.9	1.7	1.8	(Nov)
PPI	6.0	1.1	1.5	1.5	(Nov)
Pre-tax Corp. Profits	2.1	14.6	19.3		

Mexico					
Real GDP	3.9	4.4	3.3		
Current Acc. Bal. (US$B, ar)	-9.2	3.6	-14.6		
Merch. Trade Bal. (US$B, ar)	-1.5	6.1	-4.7	-15.2	(Nov)
Industrial Production	4.0	4.1	3.6	2.8	(Nov)
CPI	3.4	3.9	4.6	3.6	(Dec)

Europe

Euro Zone	2011	12Q2	12Q3	Latest	
Real GDP	1.5	-0.5	-0.6		
Current Acc. Bal. (US$B, ar)	17	84	138	113	(Oct)
Merch. Trade Bal. (US$B, ar)	12.8	131.6	108.6	128.4	(Oct)
Industrial Production	3.4	-2.3	-2.4	-3.9	(Oct)
Unemployment Rate (%)	10.1	11.2	11.5	11.7	(Nov)
CPI	2.7	2.5	2.5	4.7	(Nov)

Germany	2011	12Q2	12Q3	Latest	
Real GDP	3.1	1.0	0.9		
Current Acc. Bal. (US$B, ar)	203.6	192.1	208.7	235.5	(Nov)
Merch. Trade Bal. (US$B, ar)	217.1	247.4	259.1	224.3	(Nov)
Industrial Production	8.0	-0.2	-1.1	0.6	(Nov)
Unemployment Rate (%)	7.1	6.8	6.8	6.9	(Dec)
CPI	2.3	1.9	1.9	2.1	(Dec)

France					
Real GDP	1.7	0.1	0.0		
Current Acc. Bal. (US$B, ar)	-54.5	-90.2	-40.0	-65.6	(Nov)
Merch. Trade Bal. (US$B, ar)	-53.5	-57.6	-48.0	-40.5	(Nov)
Industrial Production	1.7	-1.9	-2.1	-3.9	(Nov)
Unemployment Rate (%)	9.6	10.2	10.3	10.5	(Nov)
CPI	2.1	2.0	2.0	1.3	(Dec)

United Kingdom					
Real GDP	0.9	-0.3	0.0		
Current Acc. Bal. (US$B, ar)	-32.7	-106.3	-100.9		
Merch. Trade Bal. (US$B, ar)	-160.7	-176.7	-162.1	-175.6	(Nov)
Industrial Production	-0.7	-2.7	-1.8	-5.4	(Nov)
Unemployment Rate (%)	8.1	8.1	7.8	7.8	(Sep)
CPI	4.5	2.7	2.4	6.5	(Nov)

Italy					
Real GDP	0.6	-2.3	-2.4		
Current Acc. Bal. (US$B, ar)	-67.4	-4.3	-8.8	-3.8	(Oct)
Merch. Trade Bal. (US$B, ar)	-35.5	17.0	23.0	38.2	(Oct)
Industrial Production	0.2	-7.5	-6.2	-5.9	(Oct)
CPI	2.8	3.3	3.2	5.5	(Nov)

Russia					
Real GDP	4.3	4.0	2.9		
Current Acc. Bal. (US$B, ar)	98.8	21.2	6.7		
Merch. Trade Bal. (US$B, ar)	16.5	16.6	12.8	14.5	(Oct)
Industrial Production	4.8	2.3	2.5	1.9	(Nov)
CPI	8.4	3.8	6.0	6.6	(Dec)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Asia Pacific

Australia	2011	12Q2	12Q3	Latest	
Real GDP	2.4	3.8	3.1		
Current Acc. Bal. (US$B, ar)	-33.9	-34.5	-66.1		
Merch. Trade Bal. (US$B, ar)	35.7	27.5	2.1	-32.0	(Nov)
Industrial Production	-0.8	2.7	4.3		
Unemployment Rate (%)	5.1	5.1	5.3	5.2	(Nov)
CPI	3.3	1.2	2.0		

Japan	2011	12Q2	12Q3	Latest	
Real GDP	-0.5	4.0	0.5		
Current Acc. Bal. (US$B, ar)	119.2	56.8	82.4	-33.0	(Nov)
Merch. Trade Bal. (US$B, ar)	-33.9	-63.3	-96.8	-128.9	(Nov)
Industrial Production	-2.3	5.1	-4.6	-10.2	(Nov)
Unemployment Rate (%)	4.6	4.4	4.2	4.1	(Nov)
CPI	-0.3	0.2	-0.4	-0.4	(Nov)

South Korea	2011	12Q2	12Q3	Latest	
Real GDP	3.6	2.3	1.5		
Current Acc. Bal. (US$B, ar)	26.1	44.8	58.2	82.5	(Nov)
Merch. Trade Bal. (US$B, ar)	30.8	38.9	30.2	24.3	(Dec)
Industrial Production	6.9	2.4	-0.1	3.0	(Nov)
CPI	4.0	2.4	1.6	1.4	(Dec)

China	2011	12Q2	12Q3	Latest	
Real GDP	10.4	7.6	7.4		
Current Acc. Bal. (US$B, ar)	201.7				
Merch. Trade Bal. (US$B, ar)	155.0	273.6	316.6	379.4	(Dec)
Industrial Production	12.8	9.5	9.2	10.1	(Nov)
CPI	4.1	2.2	1.9	2.0	(Nov)

Thailand	2011	12Q2	12Q3	Latest	
Real GDP	0.1	4.4	3.0		
Current Acc. Bal. (US$B, ar)	5.9	-2.3	2.7		
Merch. Trade Bal. (US$B, ar)	1.4	0.5	1.7	0.6	(Nov)
Industrial Production	-9.3	-1.6	-10.8	83.6	(Nov)
CPI	3.8	2.5	2.9	3.6	(Dec)

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

Indonesia	2011	12Q2	12Q3	Latest	
Real GDP	6.5	6.4	6.2		
Current Acc. Bal. (US$B, ar)	1.7	-7.7	-5.3		
Merch. Trade Bal. (US$B, ar)	2.2	-0.8	0.2	-0.5	(Nov)
Industrial Production	4.1	2.2	2.9	8.9	(Oct)
CPI	5.4	4.5	4.5	4.3	(Dec)

Latin America

Brazil	2011	12Q2	12Q3	Latest	
Real GDP	2.5	0.4	0.8		
Current Acc. Bal. (US$B, ar)	-52.5	-52.7	-35.5		
Merch. Trade Bal. (US$B, ar)	29.8	18.5	34.6	27.0	(Dec)
Industrial Production	0.4	-4.3	-2.3	-2.3	(Nov)
CPI	6.6	5.0	5.2	5.8	(Dec)

Chile	2011	12Q2	12Q3	Latest	
Real GDP	6.0	5.7	5.7		
Current Acc. Bal. (US$B, ar)	-0.3	-7.0	-19.1		
Merch. Trade Bal. (US$B, ar)	10.0	6.7	-7.1	18.1	(Dec)
Industrial Production	6.9	2.8	0.8	0.8	(Nov)
CPI	3.3	3.1	2.6	1.5	(Dec)

Peru	2011	12Q2	12Q3	Latest	
Real GDP	6.9	6.3	6.5		
Current Acc. Bal. (US$B, ar)	-3.3	-2.2			
Merch. Trade Bal. (US$B, ar)	0.9	0.2	0.3	0.2	(Nov)
Unemployment Rate (%)	7.7	7.2	6.5	0.0	(Nov)
CPI	3.4	4.1	3.5	2.6	(Dec)

Colombia	2011	12Q2	12Q3	Latest	
Real GDP	5.9	4.9	2.1		
Current Acc. Bal. (US$B, ar)	-10.0	-3.3	-3.6		
Merch. Trade Bal. (US$B, ar)	0.4	0.2	0.0	0.0	(Oct)
Industrial Production	5.1	0.3	-0.3	-1.3	(Sep)
CPI	3.4	3.4	3.1	2.4	(Dec)

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

Source: Bloomberg, Global Insight, Scotiabank Economics.

Interest Rates (%, end of period)

Canada	12Q3	12Q4	Jan/04	Jan/11*	United States	12Q3	12Q4	Jan/04	Jan/11*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.98	0.93	0.92	0.92	3-mo. T-bill	0.09	0.04	0.07	0.07
10-yr Gov't Bond	1.73	1.80	1.94	1.96	10-yr Gov't Bond	1.63	1.76	1.90	1.91
30-yr Gov't Bond	2.32	2.37	2.48	2.52	30-yr Gov't Bond	2.82	2.95	3.10	3.09
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	66.0	67.9	68.0	(Nov)	FX Reserves (US$B)	138.8	142.0	140.2	(Nov)
Germany					**France**				
3-mo. Interbank	0.11	0.10	0.13	0.12	3-mo. T-bill	0.00	-0.01	0.00	0.02
10-yr Gov't Bond	1.44	1.32	1.54	1.59	10-yr Gov't Bond	2.18	2.00	2.14	2.16
FX Reserves (US$B)	68.2	68.5	68.0	(Nov)	FX Reserves (US$B)	49.6	50.9	54.7	(Nov)
Euro Zone					**United Kingdom**				
Refinancing Rate	0.75	0.75	0.75	0.75	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.11	0.13	0.07	0.07	3-mo. T-bill	0.35	0.36	0.36	0.36
FX Reserves (US$B)	328.7	332.8	334.2	(Nov)	10-yr Gov't Bond	1.73	1.83	2.12	2.08
					FX Reserves (US$B)	84.4	87.9	89.3	(Nov)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	3.50	3.00	3.00	3.00
3-mo. Libor	0.13	0.11	0.11	0.11	10-yr Gov't Bond	2.99	3.27	3.44	3.47
10-yr Gov't Bond	0.78	0.79	0.83	0.82	FX Reserves (US$B)	44.1	42.4	43.8	(Nov)
FX Reserves (US$B)	1231.2	1233.3	1231.8	(Oct)					

Exchange Rates (end of period)

USDCAD	0.98	0.99	0.99	0.98	¥/US$	77.94	86.75	88.15	89.06
CADUSD	1.02	1.01	1.01	1.02	US¢/Australian$	1.04	1.04	1.05	1.06
GBPUSD	1.617	1.625	1.607	1.612	Chinese Yuan/US$	6.29	6.23	6.23	6.22
EURUSD	1.286	1.319	1.307	1.335	South Korean Won/US$	1113	1064	1063	1056
JPYEUR	1.00	0.87	0.87	0.84	Mexican Peso/US$	12.859	12.854	12.734	12.644
USDCHF	0.94	0.92	0.92	0.91	Brazilian Real/US$	2.028	2.052	2.035	2.037

Equity Markets (index, end of period)

United States (DJIA)	13437	13104	13435	13466	U.K. (FT100)	5742	5898	6090	6103
United States (S&P500)	1441	1426	1466	1468	Germany (Dax)	7216	7612	7776	7691
Canada (S&P/TSX)	12317	12434	12541	12553	France (CAC40)	3355	3641	3730	3686
Mexico (IPC)	40867	43706	44562	44863	Japan (Nikkei)	8870	10395	10688	10802
Brazil (Bovespa)	59176	60952	62523	61308	Hong Kong (Hang Seng)	20840	22657	23331	23264
Italy (BCI)	825	873	902	928	South Korea (Composite)	1996	1997	2012	1997

Commodity Prices (end of period)

Pulp (US$/tonne)	830	870	870	870	Copper (US$/lb)	3.75	3.59	3.64	3.66
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	0.95	0.92	0.92	0.91
Lumber (US$/mfbm)	300	388	388	388	Gold (US$/oz)	1776.00	1657.50	1648.00	1657.50
WTI Oil (US$/bbl)	92.19	91.82	93.09	92.89	Silver (US$/oz)	34.65	29.95	29.32	30.67
Natural Gas (US$/mmbtu)	3.32	3.35	3.29	3.27	CRB (index)	309.30	295.01	294.13	296.53

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

Fixed Income Strategy (London)

www.gbm.scotiabank.com

Fixed Income Strategy (Paris)

Scotiabank Economics

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

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