Global Views

Weekly commentary on economic and financial market developments

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

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Global Property Markets Remain Under Stress

- **Increased economic and financial market strains are reverberating through global real estate markets.**

Housing markets in an increasing number of countries have come under renewed downward pressure. Average home prices, adjusted for inflation, declined on a y/y basis in the first quarter of 2012 in the majority of international markets we track. The ongoing strains are most pronounced in Europe, particularly in the recession-plagued peripheral economies, as fiscal austerity, rising unemployment and tight credit conditions sideline potential buyers even as central banks maintain highly accommodative monetary policy settings.

Ireland's housing slump remains the deepest in our sample. Average inflation-adjusted house prices tumbled 19% y/y in Q1, bringing the cumulative decline in prices from their early 2007 peak to a staggering 50%. **Spain's** property bust also is showing no sign of letting up. Real house prices fell 9% y/y in Q1, bringing the cumulative drop over the past four years to almost 30%.

Strains were less severe in many other European markets, but prices for the most part softened. Real house prices in **Sweden** slumped 5% y/y, little changed from Q4. **U.K**. property prices stabilized in Q1, but were still down 4% y/y. Prices also dipped slightly below year-ago levels in **France** for the first time in two years. **Switzerland** is the only European market in our sample to report appreciating home prices in early 2012.

Housing conditions have also cooled in **Australia** and, to a lesser extent, Canada. Nevertheless, **Canada's** housing market remains an outperformer among developed nations. Adjusted for inflation, the national average house price fell 2% y/y in Q1. Encouragingly, the **U.S.** housing market has shown signs of stabilization in early 2012, though it will take more time to build renewed momentum.

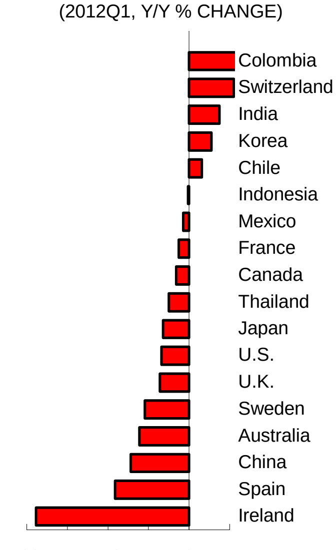
The temperature has also been turned down on housing activity in many developing nations in Asia and Latin America. This in part reflects successful efforts by authorities to rein in excessive property speculation through monetary restraint and/or regulatory measures. But it also mirrors an overall loss of economic momentum alongside the unwinding of earlier fiscal stimulus and reduced global trade flows.

China's housing market continues to deflate. Adjusted for inflation, the average price of second-hand homes in Beijing was down 7% y/y in Q1. Average house prices also fell modestly in **Thailand**, while stalling in **Indonesia**. Prices continue to rise in **India** and **South Korea**, though at a moderate 3-4% y/y rate.

Mexico's residential property market recovery has also lost momentum. Average real home prices dipped marginally below year-ago levels in Q1 for the first time in two years. In **Chile**, real home prices in the Greater Santiago area rose 2% y/y in Q1, a notable slowing from the 6-7% growth of recent quarters. Bucking the general softening trend, real house price growth in **Colombia** was steady at 6% y/y, topping the list of countries in our survey.

The intensifying euro zone debt crisis, increasing financial market strains and moderating global growth suggest there is more downside risk to property prices in the near term. Eventually, however, improved housing affordability and pent-up demand will put many of these markets on a firmer footing. The era of ultra-low borrowing costs in most developed economies is expected to persist for longer, while many developing economies are moving to reverse prior rate hikes.

REAL HOUSE PRICES
(2012Q1, Y/Y % CHANGE)



Source: Scotia Economics.

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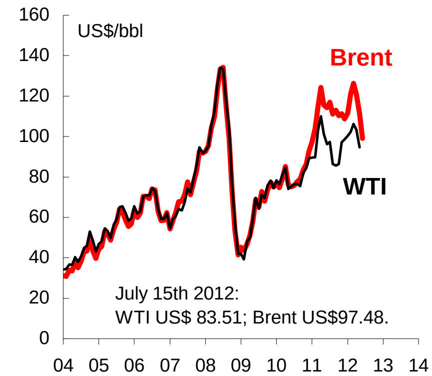
OPEC Meeting: Output Target Held Steady In View Of July 1st EU Sanctions On Iran

- **But Saudi Arabia needs to curb its over-production to steady oil prices.**

As widely expected, OPEC — meeting in Vienna on July 14 — agreed to maintain its 30 mb/d production target set last December — a target which reflected largely balanced world supply and demand conditions in 2011:Q4. However, actual output by the OPEC-12 (including Iraq) has exceeded the target by 1.6 mb/d. While members pledged to bring output down in the second half of 2012, most of the adjustment will rest with Saudi Arabia — the swing producer. Saudi Arabia has been deliberately over-producing crude to offset the loss of Iranian oil due to sanctions. The Kingdom stepped-up its output to a 30-year high of 10.1 mb/d in April to blunt skyrocketing oil prices, which threatened to derail an already fragile world economy. There is now a clear need for the Saudis to rein in supply to steady prices — a point made by many OPEC producers at the July 14th meeting.

Oil Prices



Crude oil & products generated more than a $55bn trade surplus for Canada ytd.
Source: Scotiabank Commodity Price Index, Bloomberg.

Brent oil prices — an international benchmark — have dropped from a near-term peak of US$128.10 per barrel on February 24 to a low of US$96.81 on June 13 — largely due to over-production and restocking by Saudi Arabia. The rejuvenation of U.S. domestic oil production from liquids-rich shales and 'tight' oil has also been a factor, as has the normal seasonal weakness in world oil demand in the second quarter and concern over Eurozone prospects and global growth. However, over-production by Saudi Arabia has been by far the largest contributor to lower world oil prices.

It is not surprising that recent comments by the Saudis on their policy have been ambivalent. Following the OPEC meeting, Saudi Arabia's energy minister continued to assure world markets that there would be no 'shortage' of oil due to the EU embargo on Iranian crude set for July 1 — prohibiting all purchases or handling of Iranian oil by EU-registered companies. U.S. pressure on other oil buyers — especially India, Japan and China — to curb purchases from Iran has also been intense. Estimates of the actual loss of Iranian oil to world markets is sketchy, with many buyers no longer reporting purchases.

There is considerable 'event risk' for oil prices in the coming weeks, including the Greek election on June 17 and the meeting between Iran and the five members of the United Nations Security Council plus Germany on June 18-19, in an attempt to cut Iran's 'uranium enrichment' from about 20% (unnecessary for commercial power reactors) to 5%. While financial markets appear to believe a diplomatic resolution is near, the outcome remains quite uncertain.

The net result, Saudi Arabia will likely quietly cut its production in coming months, as current output levels are unnecessary, posing a major risk of further oil price declines (oil is an asset subject to 'depletion'). Global demand will also pick up seasonally in the third and fourth quarters, with the 'call' for OPEC output rising from only 29.4 mb/d in the second quarter to 30.8 mb/d in the second half of 2012 — underpinning prices. While Brent edged up over US$97 on July 14, should Brent fall below the US$90 mark in coming weeks (with WTI at about US$75), OPEC would likely convene an 'emergency' meeting; many OPEC members such as Kuwait believe that US$100 is a 'reasonable and acceptable' price for oil.

The oil price outlook is obviously of huge importance for the Canadian economy; crude oil & refined petroleum products accounted for an enormous 28.5% of Canada's net exports of commodities and resource-based manufactured goods in 2010.

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Spain: A Bank Rescue And Another Sovereign Rating Downgrade

- **Moody's latest downgrade, prompted by the request for a €100 billion financial assistance package, brings Spain one step away from speculative-grade status.**

Spain will likely lose investment-grade status before the year is out. Following the official announcement over the weekend that Spain will seek a €100 billion financial assistance package from its euro zone partners in order to recapitalize the struggling banking sector, on June 13th Moody's downgraded the nation's sovereign credit rating by three notches to "Baa3", just one notch above junk. Moody's also placed the rating "on review", implying that another downgrade is likely within the next three months, depending on the results from the audit of the Spanish banking system and the ultimate details (i.e., size, conditionality, administration) of the loan package. Moody's decision is the latest in a string of downgrade revisions to Spain's long-term foreign currency rating by the major rating agencies this year, most recently following the three-notch downgrade by Fitch on June 7th (to "BBB" with a "negative" outlook). Standard & Poor's currently maintains a "BBB+" rating on Spanish debt, though this also carries a "negative" outlook.

The initial financial market reaction to the bailout announcement was positive. The excitement was short-lived, however, and most gains (in equities and the euro) were erased before the end of trading on Monday. Private sector borrowing is becoming increasingly unaffordable for the Spanish government, with the yield on 10-year bonds marching upward throughout the week and surpassing 6.9% on Thursday (a euro era high).

In the short term, access to official sector funds will minimize potential systemic shocks to Spain's financial sector in the aftermath of the Greek elections on June 17th. In addition, coordinated financial support for Spain — the size of the package exceeded many estimates — sends an important message that euro zone members are willing to collaborate in times of crisis. Over the longer term, however, this deal does little to address the myriad structural issues plaguing the nation, namely poor economic and employment growth, and several issues remain of specific concern to investors. Firstly, this aid could boost Spain's public debt-to-GDP ratio by as much as 10 percentage points this year. At 68.5% in 2011, the ratio was set to hit 80% this year even before the announcement. With this additional borrowing expanding the already strained balance sheet of the Spanish government, the debt burden will likely approach 90% of GDP. A deteriorated debt profile (peaking perhaps above 100% of GDP) and higher interest costs imply a longer period of adjustment for the nation's treasury.

Secondly, it is as yet unclear where the funds will come from — either the European Financial Stability Facility (EFSF) or its permanent successor, the European Stability Mechanism (ESM). If the aid is channeled through the ESM, existing bondholders may be subordinate to official lenders, which would likely further restrict Spain's market access and possibly trigger a credit event. Finally, while no formal conditionality (i.e., austerity) was attached to the plan, there is confusion as to the supervisory provisions inherent in the deal. The IMF has not (yet) been asked to contribute monetarily, though it is likely that it will participate in a monitoring / consulting capacity.

Already two quarters into recession, the Spanish economy faces a prolonged period of contraction which will last into next year. We currently project output losses of 2% this year and 0.7% in 2013. The nation is struggling with an arduous program of fiscal austerity amid falling property prices (accelerating real estate-related losses have pushed the non-performing loan ratio to 8.4%, its highest since 1994) and climbing unemployment (the jobless rate is 24.3% among the general population and over 50% for youth). Industrial production has been flat or falling on a year-over-year basis since last February, with an acceleration in the pace of decline witnessed in recent months (-8.3% y/y in April). Recovering a sustainable growth path will take many years, as structural labour and tax rigidities in particular require major reforms. Further complicating matters, this painstaking period of adjustment and deleveraging is not unique to Spain. This scene is currently playing out in several of Spain's euro area peers, while most countries in the rest of the world face their own growth and fiscal challenges. With virtually no prospect of a swift economic rebound to strengthen the government's fiscal position and return the nation to normal market access, the step down to speculative-grade status looks pretty small.

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U.S. State Governments Still Cautious

- **A gradual revenue recovery narrows budget gaps, but constraints remain.**

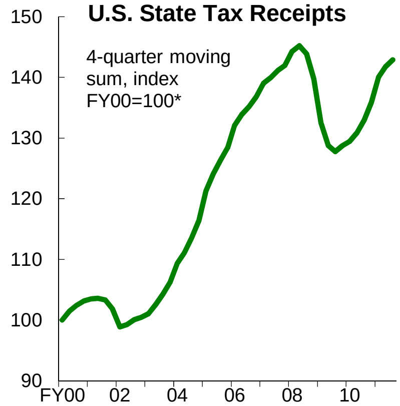
State *Budgets* for the upcoming fiscal year, FY13[1], confirm the improving trend in State revenues, but spending plans remain cautious, as reported in the March-April survey of the National Association of State Budget Officers (NASBO). With the exception of several resource-rich States, most States are witnessing a moderate, not robust economic expansion, with Scotia Economics expecting U.S. nominal GDP growth in calendar 2012 and 2013 to remain in the 4.0% range, reflecting annual output gains averaging just 2.2%. In FY12, State governments weathered a substantial decline in transfers with Washington's direct stimulus funding (primarily the State Fiscal Stabilization Fund and enhanced Medicaid contributions) largely exhausted by the end of FY11. Now the States face further tightening in federal non-defense discretionary spending. Even if compromises in Washington avoid the "fiscal cliff" by amending federal legislation to moderate the tax hikes and sequestration currently scheduled for January 2013, the uncertainty surrounding future federal restraint plans understandably leaves States cautious. With Medicaid a dominant 24% of State expenditures in FY11, a further complication is the clouded outlook for the President's health reforms. State government "rainy day" balances, excluding the outsized reserves of Texas and Alaska, are expected to edge up to 4.0% of expenditures by the end of FY13 from 3.8% a year earlier, well below the FY80-FY11 average of just less than 6.0%.

Yet shifting to positive y/y gains in tax revenues over the nine quarters to Q3 FY12 has facilitated budgeting in most States. For the first ten months of FY12, only eight States reported mid-year cutbacks, and the $1.7 billion total was a quarter of the FY11 mid-year restraint and a fraction of the major FY10 and FY09 mid-year adjustments. For FY13, the States' initial budget gap was less than half the gap reported for the prior four fiscal years. By mid-FY12, total State tax receipts were broaching the pre-recession peak (*top chart*), and for FY13, the NASBO survey indicates a projected 4.1% rise in general fund revenues, surpassing the FY08 level by $10 billion. In FY12, 31 States are reporting tax collections exceeding their *Budget* estimates. Proposed net revenue increases for FY13 total $6.7 billion *(middle chart)*, but much of this rise stems from tax increases in California, New York and Washington, with 15 States for FY13 proceeding with net decreases in revenue.

For the third consecutive year, State governments in FY13 plan to raise general fund spending, but the increase is a muted 2.2% *(bottom chart)*, translating into a minimal gain in real terms, after inflation. The FY13 rise in general fund outlays, however, reflects higher nominal expenditures across 39 States compared with enacted FY12 spending plans, limiting the fiscal drag from State governments over the next year.

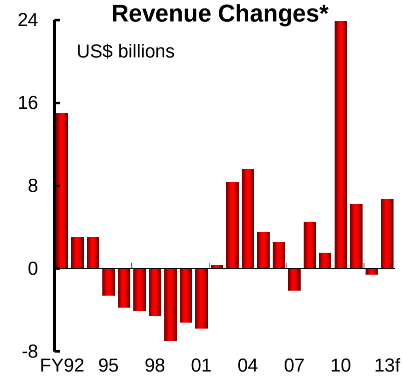
[1] Fiscal year-end is June 30th for 46 States. All financial data in US dollars.

The Gradual Recovery in U.S. State Tax Receipts



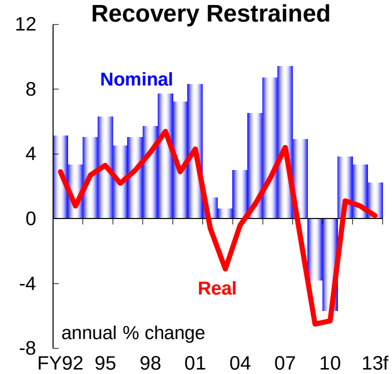
* Last data point: Q2 FY12. Source: U.S. Census Bureau.

U.S. Enacted State Revenue Changes*



* Positive data indicate a net tax and fee increase. Source: National Association of State Budget Officers.

U.S. State Spending* Recovery Restrained



* General fund. Real spending based on State & local government price deflator. Source: National Association of State Budget Officers, Scotia Economics.

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Takeaways On Mexican Elections

On Tuesday, we held a panel discussion entitled "Mexican Elections and Markets" in our offices, organized in collaboration with the U.S.-Mexico Chamber of Commerce. In this article, we summarize the conclusions from this event, focusing on three questions: where is the uncertainty around election results, what reforms might be implemented after elections, and which sectors and Mexican assets could outperform.

Our panel on Tuesday consisted of experts from a broad range of areas. These were: (1)Francisco Abundis, a well-known authority on elections and electoral behavior at Parametria, (2)Carlos Kretschmer, the Head of Capital Markets at Scotiabank Mexico with over 25 years of experience in financial markets, (3)Shannon O'Neil, an expert on US-Latin America Relations at the Council of Foreign Relations, and (4)Nick Panes, head of the Mexico and Colombia offices for Control Risks where he advises foreign companies on political risk and security issues. The panel was moderated by Joe Kogan, Head of Emerging Markets Strategy at Scotiabank.

We started with an assessment of the uncertainty remaining with just a couple of weeks left before the elections. All panelists were confident that Peña Nieto would win, and no one thought that Sunday's debate would have a large effect. The El Reforma poll that had spooked investors a few weeks ago by showing strong support for leftist Lopez-Obrador, though run by a reputable pollster, used a different methodology than all the other polls, which might explain the difference in results. Financial markets in recent years have become accustomed to pricing a mild rather than a radical leftist leader in some countries, and that trend should continue thanks in part to the strength of institutions in Mexico. Nevertheless, one panelist remarked that in the question of whether Left means Lula or Chavez, financial markets need the probability of a Chavez to be zero.

Given Peña Nieto´s continued large lead in polls, we looked to the election date to resolve a different set of uncertainties, including who will win second place, whether Peña Nieto will have a strong mandate as he enters his first year, and perhaps most importantly whether the PRI will have a majority in Congress. That last result is viewed by some as critical to avoiding political deadlock and facilitating a reform agenda. While there is a good chance for the PRI to attain this majority, there is no chance of winning the necessary two-thirds supermajority to implement constitutional changes required for some of the largest reforms. The election is important also because voters are choosing so many federal and local officials all at once.

We next considered what would happen after elections, especially since the political campaigns have been characterized by many promises but few specific proposals. Panelists agreed that the history of the PRI with regards to economic reform was mixed, with many important reforms adopted but executed poorly, leaving the party captive to unions and dominant businesses. In assessing the potential for reform in the future, the panel was critical of the idea of a "new PRI." Instead, there was some optimism around the idea that changes in society, as demonstrated for example by the student movement "Yo Soy 132" may force at least some changes in party behavior. Reforms are likely to be mild and slow, but in many cases that is all that is required. In fact, sometimes all that needs to be done is to enforce laws that are already on the books. Panelists agreed that the sector where reforms are most likely is energy, since both the PAN and the PRI believe that something needs to be done, since the benefits of reform to the country are tremendous, and since Peña Nieto has made reform a priority. As a result, we believe the market for Pemex bonds is underestimating the probability of reform. (For more on that, see our recent article, "Privatizing Pemex," May 18, 2012). In contrast, there was less optimism around changes in the security situation in the country.

We concluded the panel with some additional recommendations for investment. In general, there was optimism about industries benefitting from government support such as infrastructure and homebuilders, as well as those benefitting from the growth in the middle class, such as retail and consumer finance. Additionally, we should not forget the peso, where recent global and local uncertainties have caused significant movements.

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U.K.: Thinking Outside The Box

Plan A Max

Despite delivering GBP325bn of QE, mortgage rates are rising, the economy is in recession and confidence is slipping. There is also the small issue of the weekend election in Greece which threatens to dampen the UK outlook yet further.

We have had some hints of late, some more subtle than others, that the Bank of England would think outside the box and consider some alternative form of unconventional policy ease. Last night's mansion house speeches from Mervyn King and Chancellor George Osborne gave us the first glimpse of what is to come and there may yet be more. To summarise:

- Tweak the Financial Policy Committee's mandate such that it now has a secondary objective to promote growth;
- A new 'funding for lending' scheme worth an estimated GBP80bn. The scheme is designed to provide funding to banks for several years, at rates below current market rates in exchange for those banks "sustaining or expanding" loans to the non-financial sector;
- An Extended Collateral Term Repo Facility. The Bank will hold auctions of sterling liquidity (with 6 month maturity) in tranches of no less than GBP5bn per month.

Will it work?

On the plus side, it is timely. This comes at a crucial time ahead of the weekend elections in Greece. The Bank has hinted that it has contingency plans in the event of disaster, but has now started to flex its muscles and show that it means business. The tweaking in the FPC mandate is welcome. Not only will that committee be charged with taking away the punchbowl just as the party is getting going, it will also be on hand to provide pitchers of red bull and vodka if the revellers are failing to embrace the party animal spirit. The UK has had much higher Libor rates than elsewhere and the early market reaction has been to reverse that.

However, there are a number of potential weaknesses in the current plan:

1) Incentive structure: "sustaining or expanding" loans. More specifically, the Bank will provide funding to banks "at rates below current market rates and linked to the performance of banks in sustaining or expanding their lending to the non-financial sector…".

Past schemes have been conditional on banks increasing their loan books, but we have hardly seen a dramatic rebound in lending. We need to hope that the incentive structure is better designed in this scheme to put less emphasis on the "sustaining" and more on the "expanding" loans.

2) Targeting the flow rather than the stock of loans. The scheme appears to want to encourage the provision of new loans at more competitive rates of interest rather than alleviate the burden on existing borrowers. While it is admirable to want to help first-time buyers and new loans to businesses, this is a much smaller group than were the Bank to explicitly target reducing costs of existing loans. Targeting new loans:

a) Relies on there being sufficient appetite for new loans. Demand may be held back by risk aversion given the sluggish outlook for growth and storms in Europe, lack of deposit for a new home, etc.

b) An implicit assumption that the boost from new loans will work its way through the system and help kick-start hiring and investment and wider domestic demand further down the road.

Our point is, it is a little indirect. Our preference has been to reduce the gap between the average mortgage rate paid by existing borrowers relative to Bank rate. To do so would immediately give a

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boost to household real disposable income growth, which would boost consumer spending which represents 2/3 of GDP by expenditure. It affects a much larger group of people and behaves like an old-fashioned interest rate cut. At the moment, the gap is far too wide and about to widen, with several banks announcing mortgage rate hikes (Chart 1). If the fall in Libor rates that began this morning does contribute to lowering banks' funding costs, then this may contribute to lowering mortgage rates more generally. However, it is rather indirect and a leap of faith. As has been the case in the past, the emphasis on this policy has been increasing the volume of new lending, not reducing the cost of the existing stock.

Chart 1: Gap Between Mortgage Rates and Bank Rate

Leopard Doesn't Change its Spots

King has persistently resisted calls to buy private sector assets. Last night's speech continued to demonstrate this reluctance. King laid out 3 key reasons why the Bank should not do so:

- The bank has no democratic mandate to put taxpayers' money at risk;
- Buying risky assets outright has implications for future taxes; and
- Choosing the sectors or individuals to subsidise is a decision for government and not the Bank.

King's bottom line was it was essential for the Bank to preserve its independence.

Door to more QE still open

Last but not least, King highlighted that more QE is becoming more likely. This is a particularly smart move, whether or not the Bank does pull the trigger on more QE. This is because it tells the market that the new measures are not a substitute for QE. To do so would risk a sell-off in gilts – something that the market had already started to contemplate in the run-up to the Mansion House speech.

Conclusion

Clearly this is positive news. Quite how positive we will find out as the finer details of the measures emerge. Our hope is that it doesn't repeat the Eurozone-style announcement where initial euphoria is very quickly wiped out. In stark contrast to continental Europe, the UK government and central bank are acting in unison. Hence despite continued undertones of reluctance on Mervyn King's part, there must be a greater chance that this scheme succeeds where others have failed.

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Eurozone Risks Looms; But Market Risk Aversion Fades

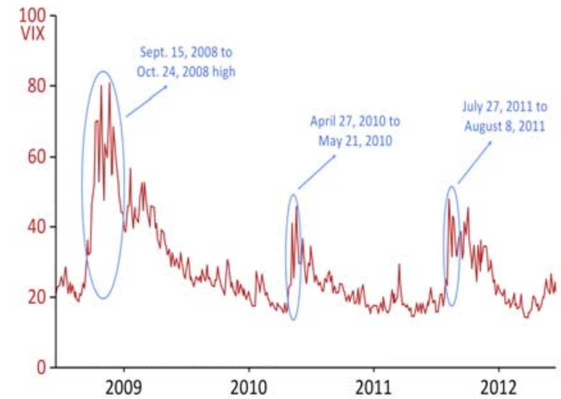
- **Market strains ease, even as Greek vote looms, increasing the potential for a temporary risk rally**

Previous spikes in risk aversion all have a similar pattern, they are violent and quick, tending to last anywhere from 2 to 5 weeks, even the major episode in 2008 lasted just over a month — see Chart 1. The current spike in risk aversion appears to be fading and has yet to come close to the 2011 experience (see chart 3). In addition, as binary risks fade, intra-market correlations are also beginning to fall from their highs (chart 2). This suggests that market panic is fading and this is good for risk assets.

The reason, is likely threefold and is not just about Europe. There have been three major FX themes in 2012 and it is these that continue to drive markets. The first is: Europe, the second is the global growth outlook and the third is the monetary policy response to themes 1 and 2. In late April and early May, these themes shifted: the European crisis escalated as it became increasingly evident that Spain would require outside bank funding and there was a rise in the possibility of a Greek exit from the EMU. There was a significant USD rally that ensued. However, markets appear to be stabilizing and this is encouraging. The European crisis has not gone away, however Spain has received funding, the ECB looks increasingly likely to add monetary support and a higher risk of a Greek exit has been priced in. On the global growth front, China's release of May data suggest stabilization, the PBoC cut interest rates for the first time since December 2008 and stimulus is being added to both the housing and banking sectors. Accordingly, from the perspective of markets, we have priced in a deteriorating in the outlook and developments since the beginning of June have been encouraging.

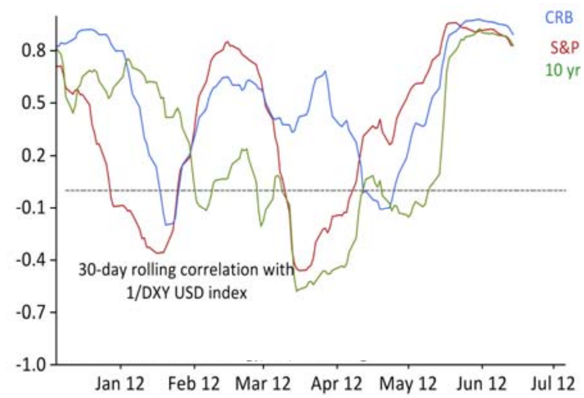
So why the relief when the market still feels risky? The reasons all go back to the FX themes we have seen all year: central bank reaction to Europe and the global growth outlook. Tail risk is fading as markets price in an increased probability that even a worse case scenario from Greece is likely to be met with central bank action. China is adding stimulus to its economy. The Fed is increasingly seen as likely to turn towards QE3. Global central banks are standing guard ready to act if the threat to stability rises. This in turn reduces tail risk and dampens demand for USD. Accordingly, risk aversion reasons to build USD long positions are easing, and with a record long position already built there is little on the horizon to tempt traders to build more in the near-term, opening the door to a short-term and temporary risk rally. However, another bout of risk aversion will emerge, in time, and EUR is likely to trend lower over the medium term.

Chart 1: Spikes In Risk Aversion Are Temporary



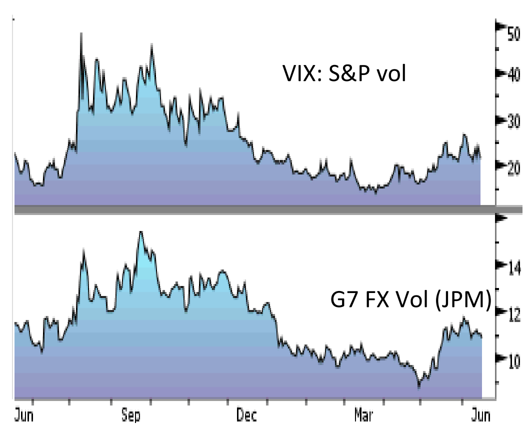
Source: Scotiabank FX Strategy & IHS

Chart 2: Correlations Begin To Break Down



Source: Scotiabank FX Strategy, IHS, Bloomberg

Chart 3: Volatility Measures Are Stabilizing



Source: Scotiabank FX Strategy and Bloomberg

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The Alianza del Pacifico = Large Potential For Cross-Country Flows

- **The economies of Chile, Colombia, Mexico and Peru continue to show progress towards forming the Alianza del Pacifico integration agreement.**
- **The Alianza del Pacifico economies are open, and have little trade between them, despite having a low degree of overlap in their major export products, resulting in potential trade-driven growth.**
- **The integration of the countries' stock markets could add to cross-country investment flows (and potentially from outside), which would also help drive the block's economic expansion.**

Chile, Colombia, Peru, Mexico and Panama signed an agreement to form the Pacific Alliance (AlPac), looking to form tighter links between the countries, with aims that include:

- Deeper trade and investment integration
- Ease the movement of people across the member countries
- Achieving interconnection of power grids
- Greater cooperation in security issues
- Deeper capital markets integrations, including moving towards an integrated stock exchange (MILA)

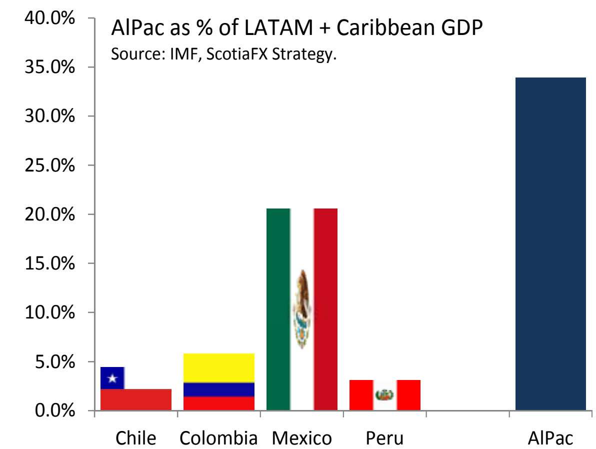
Chile, Colombia, Mexico and Peru already have free trade agreements with each other. To further cement the AlPac, the governments of Chile, Colombia, Mexico and Peru signed the Deep Integration Agreement (AIP), where each of the member countries will develop a plan for one of the objectives: Chile — trade, Colombia — customs and movement of goods, Peru — security, money laundering and technology, Mexico — migration and flow of people.

In terms of their economies, the AlPac block represents over 1/3 of LATAM's economy (Graph 1), but more importantly, the block includes some of the region's most open economies, which account for >50% of the region's exports (Graph 2). Interestingly, despite the AlPac countries' trade openness, trade with each other represents a small fraction of each of their exports (see Table 1).

The current relatively low levels of trade between the AlPac members leaves room for further integration, particularly now that all four members have signed trade agreements between them. In addition, most of the AlPac members are open economies (see Graph 3) with a low degree of overlap between their major exports increasing the scope for cross-border trade (see Graph 4).

Financial flows between the four countries are another potential source of integration. All four countries have moved towards the afp/afores pension model which is driving deepening and fast-growing domestic savings pools (graph 5). Likely looking to take advantage of potential cross-border investment, the AlPac members

Graph 1: AlPac represent roughly 1/3 of LATAM's GDP



Graph 2: AlPac accounts for >50% of LATAM's exports

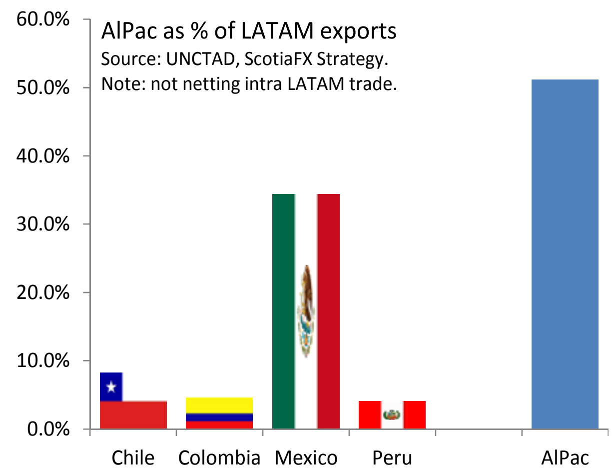


Table 1: Trade between AlPac members is still relatively low

AlPac as a % of each other's exports

Exporter	Chile	Colombia	Mexico	Peru
Chile		1.0%	2.6%	2.3%
Colombia	2.3%		1.6%	2.8%
Mexico	0.6%	1.3%		0.3%
Peru	3.9%	2.3%	0.8%	

Source: Unctad, ScotiaFX Strategy.

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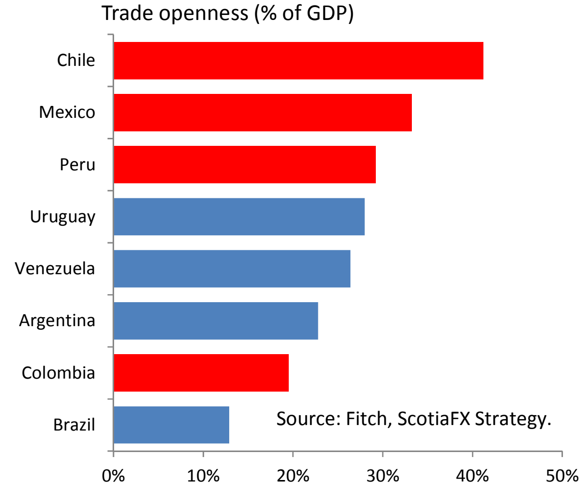
are moving towards integrating their stock markets into "MILA", which has already begun joint-operations of the stock markets of Chile, Colombia and Peru, and into which Mexico is evaluating entry.

Given relatively small overlap between the sectors comprising the stock markets of the AlPac members (Graph 6), the integration could benefit from cross investment by the afps/afores looking to diversify sector exposure. In addition, the MILA stock exchanges form a sector-diversified market with a market cap of over US$1tn, whose countries are fast-growing economies which should also help drive foreign portfolio investment flows into the region from the rest of the world (some rule changes could be necessary, potentially including establishing block-wide regulations similar to Brazil's Novo-Mercado).

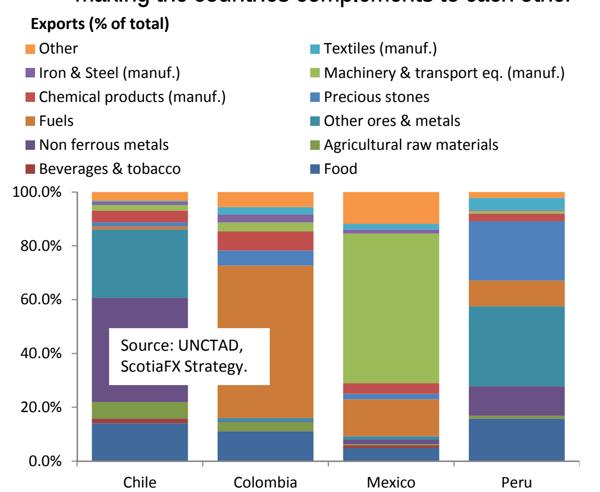
Graph 3: AlPac countries are generally more dependent on trade than Mercosur members



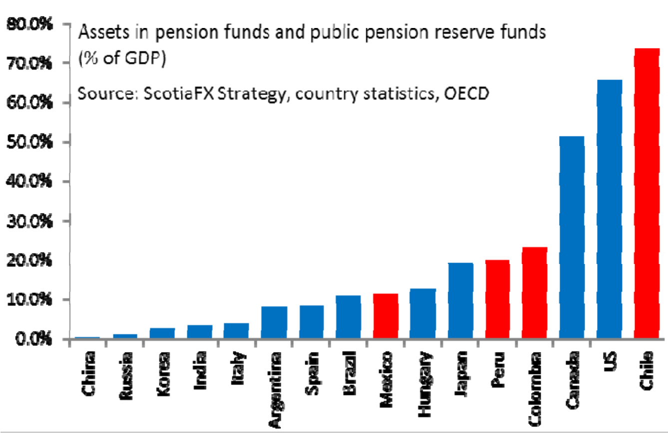
Bottom line:

Although net potential cross-flows are hard to predict (and hence the impact on individual currencies), overall we see the integration of economies that are mostly complementary to each other as positive, due to the potential impact on cross-country investment and trade growth. The scope for investment flows is further enhanced due to the pools of capital that the member countries' pension systems represent. In addition the integration of the countries' stock exchanges could further drive investment flows from outside the bloc by helping establish a large & diversified stock market. Accordingly, we view the creation of the block as a long term positive.

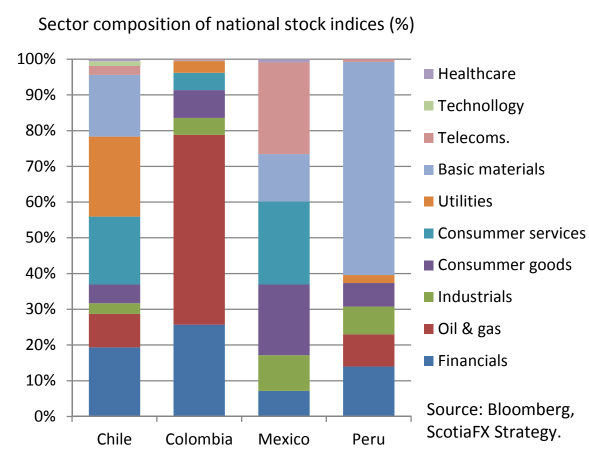
Graph 4: AlPac countries' exports have little overlap, making the countries complements to each other



Graph 5: The block's afores / afps represent a rapidly growing pool of savings, which could fuel cross-block investment



Graph 6: There is little overlap between the MILA stock exchanges in terms of "sector-distribution"



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Key Data Preview

CANADA

The consumer price index (June 22) is likely to show a marked decline in year-on-year terms in May. Scotia's forecast is that price growth will decline to 1.4% y/y from 2% y/y in April. CPI is likely to be fairly soft in month-on-month terms too (between 0 and 0.1% in our view — we'll get into the reasons why in a moment) however that does not explain the full extent of the drop-off in the annual number. Prices increased by a very high 0.66% in one month from April to May 2011 — and fell right back down by 0.66% from May to June of last year. The May and June CPI numbers for this year will get compared to the numbers from last year's late-spring CPI roller-coaster, making them extremely volatile. Our scenario analysis displayed in the table to the right shows that CPI could get as low as 1.1% y/y if prices decline moderately, and won't get higher than 2% y/y even if Canada posts astonishingly high month-on-month CPI growth of 0.7%.

Canada May CPI Scenarios

Annual CPI Will Track Lower

CPI M/M		CPI Y/Y
0.7%	→	2.0%
0.6%	→	1.9%
0.5%	→	1.8%
0.4%	→	1.7%
0.3%	→	1.6%
0.2%	→	1.5%
0.1%	→	1.4%
0.0%	→	1.3%
-0.2%	→	1.1%

Why do we expect monthly CPI to come in at a subdued 0-0.1%? The key is gasoline prices. Though it may not feel like it to Canadians filling up at the pump, gasoline prices fell on average during May (-3.7% according to the national pump-price average compiled by Bloomberg). As gasoline prices make up 5.8% of Canada's CPI basket, falling energy prices will weigh meaningfully on aggregate price growth. Scotia is also expecting a small contraction in food prices to show up in Canada's May CPI number, in line with global trends in agriculture prices during the month. The measures that Statscan uses to track housing costs are likely to have ticked up during May, but not by very much, and will not fully mitigate the contraction in gasoline prices.

The implication is that CPI could be a dash below the Bank of Canada's 2.1% y/y forecast for Q2 as CPI was 2% y/y in April and could fall quite low in May before bouncing back somewhat in June. It's important not to get too carried away with a single month's weak CPI print, however, because the extremity of the drop-off is likely to reverse itself next month, and ought to bounce back to the 2% region as we work through the Spring 2011 base-effect volatility. Still, on a quarterly average basis, that should leave CPI a couple tenths of a percentage point below Canada's inflation target of 2%.

The other major data release will be retail sales for April (June 21). Scotia is anticipating a 0.2% m/m increase. On the one hand, a variety of sectors could foreseeably show declines. Sales at building materials stores showed strong gains in March on warmer-than-expected weather, and could see some 'seasonal pay-back' in the April report (a story that played out in the UK and US this year as well). Similarly, clothing sales were strong in March and may well have smoothed out in April. Last but not least, sales at new car dealers could be down on weakness in new motor vehicle sales (although new cars are only a portion of sales at new car dealers — they sell parts and repair services as well). While the balance of data therefore looks soft, higher gasoline prices in April could mitigate much of this weakness as pump prices increased 3.5% m/m.

Wholesale sales will be released on June 19.

UNITED STATES

The Philly Fed index for June is due out on June 21, and Scotia is anticipating that it will increase somewhat to a reading of 0 after surprising sharply to the downside in May and hitting the -5.8 level.

A pair of data sets on the US housing market are the only other major economic data releases due out in the US next week. We'll see existing home sales and housing starts for May. Scotia expects starts to increase to 725k on strength in building permits during April, while existing home sales should fall to the 4.57m level on weakness in the pending home sales measure.

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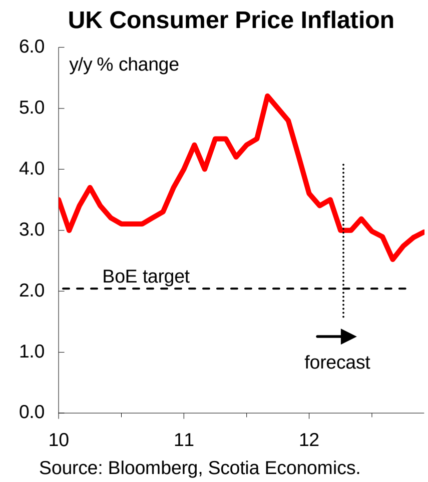
EUROPE

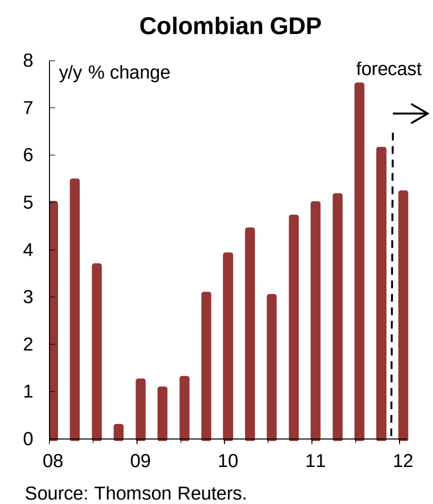
We expect UK CPI inflation to remain unchanged at 3.0% y/y in May and RPI inflation to tick fractionally from 3.5% y/y to 3.4% y/y. The key influences this month are likely to be food, alcohol, tobacco and petrol. Food price inflation is likely to fall sharply owing to favourable base effects as a sharp increase a year ago drops out of the y/y calculation. For alcohol, there was virtually no sign of the Budget-related 5.5% increase in taxes last month. We believe that is delayed rather than cancelled, as retailers were slow to adjust their prices and this will come through in the May data. It will be a similar story for tobacco where the residual impact of last month's 8.5% tax hike should spill over into the May data. As we have seen elsewhere, the sharp drop in oil prices has been reflected in lower energy components. We certainly expect to see this through a near 3% m/m drop in transport energy prices. However, in the UK housing energy prices are much slower to respond than in continental Europe. Any effect from this is months away, so UK energy prices are likely to fall by less than elsewhere.



Source: Bloomberg, Scotia Economics.

LATIN AMERICA

After growing by 5.9% in 2011 and by 6.2% y/y in the last quarter, we expect the Colombian economy to expand by 5.2% in the first quarter of 2012. We anticipate a moderate slowdown; however, the economy remains on a solid path. In the first months of the year, the Colombian economy continued to show strong domestic demand with imports increasing accordingly. Exports also grew; however in recent months (the beginning of the second quarter) external demand has slowed down somewhat. Beside the positive performance in consumption, imports and gross capital formation in the first quarter of the year, the manufacturing sector and industry in general decelerated, which could have moderated the final GDP growth rate and will likely affect expectations for the coming quarters.



Source: Thomson Reuters.

ASIA

First-quarter GDP will be reported in New Zealand next week (June 20th). The nation's economic performance in the first three months of the year will be shaped be many factors, including moderating regional and global growth dynamics, currency strength, weather effects, and the government's considerable reconstruction efforts in the aftermath of the natural disasters of the last two years. We anticipate a quarterly gain of 0.5% (1.5% in year-over-year terms), driven primarily by the manufacturing sector. Manufacturing volumes rose 0.7% q/q in the first quarter, with declines in meat and dairy products offset by strength in the metal products industry. Consumer spending and net exports likely detracted from growth in the quarter; retail sales dropped 1.5% q/q in the three months through March while the terms of trade index fell 2.3% q/q. The construction sector also showed weakness in the first quarter, with a contraction in residential construction bringing the value of total building activity down 0.4% q/q. Looking ahead to the rest of the year, we expect strong gross fixed investment to boost the average growth rate to around 2¼% (up from 1.4% in 2011). Net exports will remain subdued as growth decelerates in New Zealand's major Asian trading partners, causing the current account deficit to widen toward 4% of GDP.

Key Indicators for the week of June 18 - 22

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	06/18	08:30	International Securities Transactions (C$ bn)	APR	--	--	-2.1
US	06/18	10:00	NAHB Housing Market Index	JUN	--	28.0	29.0
CA	06/19	08:30	Wholesale Trade (m/m)	APR	--	0.2	0.4
US	06/19	08:30	Building Permits (mn a.r.)	MAY	--	730	723
US	06/19	08:30	Housing Starts (000s a.r.)	MAY	725	720	717
US	06/19	08:30	Housing Starts (m/m)	MAY	0.4	0.4	2.6
US	06/20	07:00	MBA Mortgage Applications (w/w)	JUN 15	--	--	18.0
MX	06/20	09:00	Retail Sales (INEGI) (y/y)	APR	5.7	--	4.3
US	06/20	12:30	**FOMC Interest Rate Meeting (%)**	JUN 20	**0.25**	**0.25**	**0.25**
CA	06/21	08:30	Retail Sales (m/m)	APR	0.2	0.2	0.4
CA	06/21	08:30	Retail Sales ex. Autos (m/m)	APR	0.4	0.3	0.1
US	06/21	08:30	Continuing Claims (000s)	JUN 9	3275.0	3285.0	3278.0
US	06/21	08:30	Initial Jobless Claims (000s)	JUN 16	380.0	383.0	386.0
US	06/21	10:00	Existing Home Sales (mn a.r.)	MAY	4.57	4.57	4.62
US	06/21	10:00	Existing Home Sales (m/m)	MAY	-1.0	-1.1	3.4
US	06/21	10:00	Leading Indicators (m/m)	MAY	--	0.1	-0.1
US	06/21	10:00	Philadelphia Fed Index	JUN	0.0	0.0	-5.8
CA	06/22	08:30	Core X8 CPI (m/m)	MAY	0.2	0.2	0.4
CA	06/22	08:30	Core X8 CPI (y/y)	MAY	1.8	1.9	2.1
CA	06/22	08:30	CPI, All items (m/m)	MAY	0.1	0.2	0.4
CA	06/22	08:30	CPI, All items (y/y)	MAY	1.4	1.5	2.0
CA	06/22	08:30	CPI SA, All items (m/m)	MAY	0.2	-0.2	0.2
CA	06/22	08:30	Core CPI SA, All items (m/m)	MAY	0.3	0.2	0.4
MX	06/22	09:00	Bi-Weekly Core CPI (% change)	JUN 15	--	--	0.1
MX	06/22	09:00	Bi-Weekly CPI (% change)	JUN 15	-0.01	--	0.18
MX	06/22	09:00	Unemployment Rate (%)	MAY	4.10	--	4.86

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
UK	06/19	04:30	CPI (m/m)	MAY	0.1	0.1	0.6
UK	06/19	04:30	CPI (y/y)	MAY	3.0	3.0	3.0
UK	06/19	04:30	DCLG House Prices (y/y)	APR	--	--	-0.4
UK	06/19	04:30	RPI (y/y)	MAY	3.4	3.3	3.5
EC	06/19	05:00	ZEW Survey (Economic Sentiment)	JUN	--	--	-2.4
GE	06/19	05:00	ZEW Survey (Current Situation)	JUN	--	39.0	44.1
GE	06/19	05:00	ZEW Survey (Economic Sentiment)	JUN	0.0	2.3	10.8
GE	06/20	02:00	Producer Prices (m/m)	MAY	--	-0.2	0.2
UK	06/20	04:30	Jobless Claims Chan(000s)	MAY	--	-4.0	-13.7
UK	06/20	04:30	Unemployment Rate (%)	APR	--	8.2	8.2
IT	06/20	05:00	Current Account (€ mn)	APR	--	--	-2384
NO	06/20	08:00	**Norwegian Deposit Rates (%)**	JUN 20	**1.50**	**1.50**	**1.50**
FR	06/21	03:00	Manufacturing PMI	JUN P	44.5	44.5	44.7
FR	06/21	03:00	Services PMI	JUN P	44.8	45.1	45.1
GE	06/21	03:30	Manufacturing PMI	JUN A	45.0	45.2	45.2
GE	06/21	03:30	Services PMI	JUN A	51.5	51.5	51.8
EC	06/21	04:00	Current Account (€ bn)	APR	--	--	9.1
UK	06/21	04:30	Retail Sales (m/m)	MAY	--	0.7	-1.0
TU	06/21	07:00	**Benchmark Repo Rate (%)**	JUN 21	**5.75**	**5.75**	**5.75**
EC	06/21	10:00	Consumer Confidence	JUN A	--	-20.0	-19.3
GE	06/22	04:00	IFO Business Climate Survey	JUN	--	105.6	106.9

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

Key Indicators for the week of June 18 - 22

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IN	06/18	01:30	**Repo Rate (%)**	JUN 18	**7.75**	**7.75**	**8.00**
IN	06/18	01:30	Reverse Repo Rate (%)	JUN 18	--	6.8	7.0
IN	06/18	01:30	Cash Reserve Ratio (%)	JUN 18	--	4.8	4.8
HK	06/18	04:30	Unemployment Rate (%)	MAY	--	3.3	3.3
JN	06/19	01:00	Coincident Index CI	APR F	--	--	96.5
JN	06/19	01:00	Leading Index CI	APR F	--	--	95.1
JN	06/19	01:00	New Composite Leading Economic Index	APR F	--	--	95.1
JN	06/20	00:30	All Industry Activity Index (m/m)	APR	--	0.1	-0.3
NZ	06/20	18:45	GDP (q/q)	1Q	0.5	0.4	0.3
MA	06/22	05:00	CPI (y/y)	MAY	--	1.8	1.9
CH	06/22	06:59	HSBC Flash China Manufacturing PMI	JUN	--	--	48.7

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CO	06/19	17:00	Trade Balance (US$ mn)	APR	--	500.0	1016.7
CO	06/20	17:00	Retail Sales (y/y)	APR	--	4.4	5.1
BZ	06/21	08:00	Unemployment Rate (%)	MAY	--	6.0	6.0
CO	06/21	12:00	GDP (y/y)	1Q	5.20	4.95	6.10
BZ	06/22	09:30	Current Account (US$ mn)	MAY	--	--	-5403

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

Global Auctions for the week of June 18 - 22

North America

Country	Date	Time	Event
US	06/18	11:00	U.S. Fed to Purchase USD1.50-2.25 Bln Notes
US	06/18	11:30	U.S. to Sell 3-Month Bills
US	06/18	11:30	U.S. to Sell 6-Month Bills
US	06/18	14:00	U.S. Fed to Sell US8.00-8.75 Bln Notes
CA	06/19	10:30	Canada to Sell CAD7.4 Bln 98-Day Bills
CA	06/19	10:30	Canada to Sell CAD2.8 Bln 168-Day Bills
CA	06/19	10:30	Canada to Sell CAD2.8 Bln 350-Day Bills
US	06/19	11:00	U.S. Fed to Purchase USD1.50-2.00 Bln Notes
CA	06/20	12:00	Canada to Sell 2-Year Notes
US	06/21	11:00	U.S. Fed to Purchase USD4.25-5.25 Bln Notes
US	06/21	13:00	U.S. to Sell 30-Year TIPS Reopening
US	06/22	11:00	U.S. Fed to Purchase USD1.50-2.25 Bln Notes

Europe

Country	Date	Time	Event
NE	06/18	05:00	Netherlands to Sell Up to EUR2 Bln 225-Day Bills
NE	06/18	05:00	Netherlands to Sell Up to EUR2 Bln 100-Day Bills
FR	06/18	09:00	France to Sell Bills (BTF)
SP	06/19	04:30	Spain to Sell 12-Month and 18-Month Bills
DE	06/19	04:30	Denmark to Sell Bonds
GR	06/19	05:00	Greece to Sell Bills
GE	06/20	05:30	Germany to Sell Add'l EU5 Bln 2-Year Notes
SP	06/21	04:30	Spain to Sell Bonds
FR	06/21	05:00	France to Sell Bonds/Notes (OAT/BTAN)
UK	06/21	05:30	U.K. to Sell GBP3.25 Bln 1.75% 2022 Bonds
IC	06/22	06:00	Iceland to Sell Bonds
UK	06/22	06:10	U.K. to Sell Bills

Asia Pacific

Country	Date	Time	Event
CH	06/18	22:00	Agricul Dev Bank China to Sell CNY20 Bln 10-Year Bonds
CH	06/19	21:30	China to Sell CNY 30 Bln 10-Year Bonds
CH	06/19	23:00	China to Sell 10-Year Bonds
JN	06/20	23:35	Japan to Sell 3-Month Bills
JN	06/21	04:00	Japan Auction for Enhanced-Liquidity

Latin America

Country	Date	Time	Event
BZ	06/21	11:00	Brazil to Sell Zero Coupon Fixed Rate Bill 10/01/2012
BZ	06/21	11:00	Brazil to Sell Zero Coupon Fixed Rate Bill 07/01/2014
BZ	06/21	11:00	Brazil to Sell Zero Coupon Fixed Rate Bill 01/01/2016
BZ	06/21	11:00	Brazil to Sell Plain Vanilla Fixed Rate Note 01/01/2018
BZ	06/21	11:00	Brazil to Sell Plain Vanilla Fixed Rate Note 01/01/2023

Source: Bloomberg, Scotia Economics.

Events for the week of June 18 - 22

North America

Country	Date	Time	Event
WW	JUN 18-19		G-20 Leaders Summit in Los Cabos, Mexico
US	06/20	12:30	FOMC Rate Decision
US	06/20	14:00	FOMC to Release Projections of Economy and Fed Funds Rate
US	06/20	14:15	Fed's Bernanke Holds Press Conference
CA	06/21	11:30	Bank of Canada's Carney Speaks in Halifax Nova Scotia

Europe

Country	Date	Time	Event
FR	06/17		France to Hold Legislative Election, Second Round
GE	06/18	08:00	Asmussen on Podium Addressing ECB's Role in Crisis: Berlin
EC	06/19	03:30	EU's De Gucht Speaks at Asean Event in Brussels
FI	06/19	07:00	Finnish Lawmakers May Vote on the European Stability Mechanism
EC	06/19	09:00	EU's Almunia Speaks at European Parliament Panel in Brussels
UK	06/20	04:30	Bank of England Releases Monetary Policy Committee Minutes
NE	06/20		Dutch PM Rutte to Meet German Chancellor Merkel
EC	06/21	08:00	EU's Almunia Speaks at Frankfurt Banking State-Aid Conference
EC	06/21	11:00	Euro-Area Finance Ministers Meet in Luxembourg
EC	06/21		ECB Meeting, Frankfurt
EC	06/22	03:00	EU-27 Finance Ministers Meet in Luxembourg
EC	06/22	04:30	EU's Almunia Speaks at London Competition Policy Conference
SP	06/22	06:30	EU's Almunia to Speak at Madrid Antitrust Conference
IT	06/22		PM Monti to Host Merkel, Hollande, and Rajoy in Rome

Asia Pacific

Country	Date	Time	Event
IN	06/16	02:30	Finance Minister Mukherjee at a Banking and Insurance Event
IN	06/18	01:30	RBI to Release Interest Rate Decision
AU	06/18	21:30	Reserve Bank Board June Minutes
AU	06/19	19:05	RBA's Richards Gives Speech in Sydney on Payments System
JN	06/19	19:50	BOJ to Publish Minutes of May 22-23 Board Meeting
JN	06/20	02:35	BOJ Governor Shirakawa Speech
JN	JUN 20-21		Bank of Japan Board Member Ishida Speaks in Kagoshima

Latin America

Country	Date	Time	Event
WW	JUN 15-18		RIO+20 Corporate Sustainability Forum
WW	JUN 20-22		UN Conference for Sustainable Future in Brazil

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	July 17, 2012	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	June 20, 2012	0.25	0.25
Banco de México – Overnight Rate	4.50	July 20, 2012	4.50	--

Fed: Markets are now increasingly expecting the Fed to engage in further monetary easing. We expect further easing in Q3 with a small possibility of easing being offered at the June 19-20 meeting (contingent on developments in Europe this weekend – our base case is for easing in Q3). There is a strong domestic fundamental case for Fed easing: Weak jobs data (69k in April, 77k in March), downward revisions to GDP (1.9% Q/Q SAAR in Q1), and weak CPI (1.7% y/y in May). Fed communications are increasingly emphasizing the possibility of easing as well. BoC: The BoC used its June 5 announcement to soften the hawkish tone in its April 17 statement. Markets are now pricing very slight odds of BoC easing this summer although the odds increase further out the OIS curve. We think that easing is rather unlikely barring a global liquidity and funding crisis – a risk that the BoC highlighted in its recent Financial Stability Report but by no means our base case (or the BoC's). We expect the BoC to revise its growth and CPI projections lower in the July MPR but to remain on hold at least until mid-2013.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	1.00	July 5, 2012	1.00	--
Bank of England – Bank Rate	0.50	July 5, 2012	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	TBA	0.00	--
Central Bank of Russia – Refinancing Rate	8.00	July 13, 2012	8.00	--
Hungarian National Bank – Base Rate	7.00	June 26, 2012	7.00	7.00
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.75	June 21, 2012	5.75	5.75
Sweden Riksbank – Repo Rate	1.50	July 4, 2012	1.50	--
Norges Bank – Deposit Rate	1.50	June 20, 2012	1.50	1.50

We expect the Norges Bank to hold the benchmark interest rate at 1.50% next Wednesday. Headline inflation picked up in Norway in May, from 0.3% y/y to 0.5%, on the back of currency weakness (the krone depreciated almost 7% versus the US dollar in May) as well as continued gains in wages and property prices. Meanwhile, domestic economic activity remains comparatively robust. Industrial production rebounded strongly in April after a slight dip in March and the manufacturing PMI for May illustrated a further improvement in conditions. Authorities have indicated that the central bank will not intervene in the foreign exchange market should global investors panic following the Greek election, as the krone is not typically a favoured safe haven asset in times of severe financial market distress.

The Turkish central bank continues to pursue a flexible, indirect monetary policy whereby it uses lira liquidity to tighten or loosen conditions as deemed appropriate while leaving the benchmark policy rate of 5.75% so as to avoid excessive currency weakness and inflation. We do not expect any major changes after the policy meeting next Thursday. The headline inflation rate dropped almost three percentage points to 8.28% y/y in May, its lowest level since October. The current account deficit continued to trend lower in May, falling from US$71.9 billion to $69.2 billion on a 12-month basis.

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	July 12, 2012	0.10	--
Reserve Bank of Australia – Cash Target Rate	3.50	July 3, 2012	3.75	--
Reserve Bank of New Zealand – Cash Rate	2.50	July 25, 2012	2.50	--
People's Bank of China – Lending Rate	6.31	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	June 18, 2012	7.75	7.75
Bank of Korea – Bank Rate	3.25	July 11, 2012	3.25	--
Bank of Thailand – Repo Rate	3.00	July 25, 2012	3.00	--
Bank Indonesia – Reference Interest Rate	5.75	July 12, 2012	5.75	--

India is experiencing an acute economic slowdown, forcing the government to adopt stimulus measures. Weakened industrial production, trade and retail sales have led to a sustained economic contraction phase (real GDP expanded by just 5.3% y/y in the first quarter of 2012). Further monetary easing is in prospect. Despite persistent price pressures, the Reserve Bank of India may opt for a pro-growth strategy and cut its administered repurchase rate (currently set at 8%) by 25 basis points on June 18th. Steady currency depreciation and lagged effects from commodity price hikes caused an increase in wholesale price inflation to 7.5% y/y in May. Widening fiscal and current account deficits might prompt a credit rating downgrade in the near term.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	8.50	July 11, 2012	8.00	--
Banco Central de Chile – Overnight Rate	5.00	July 12, 2012	5.00	--
Banco de la República de Colombia – Lending Rate	5.25	June 29, 2012	5.25	--
Banco Central de Reserva del Perú – Reference Rate	4.25	July 12, 2012	4.25	4.25

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	July 19, 2012	5.50	--

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

Forecasts as at June 6, 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	3.2	3.7				
Canada	2.2	2.4	2.0	2.1	2.1	2.9	2.1	2.1
United States	1.8	1.7	2.1	2.3	2.5	3.1	2.3	2.1
Mexico	2.1	4.2	3.7	3.6	4.9	3.8	3.9	4.1
United Kingdom	2.0	0.7	0.4	1.7	2.1	4.2	2.9	2.6
Euro Zone	1.4	1.5	-0.6	0.7	2.1	2.7	2.0	1.9
Japan	0.9	-0.7	2.1	1.7	-0.3	-0.2	0.1	0.3
Australia	3.1	2.0	3.1	3.4	3.1	3.1	2.5	2.8
China	9.4	9.3	8.0	8.5	2.3	4.1	4.0	4.4
India	7.6	10.0	6.0	6.5	6.4	7.7	6.5	6.8
South Korea	4.6	3.6	3.4	4.2	3.1	4.8	3.3	3.0
Thailand	4.4	5.7	5.0	4.5	2.7	3.5	3.0	2.8
Brazil	3.7	2.7	2.4	3.6	6.6	6.5	5.5	5.0
Chile	4.6	6.1	5.1	5.6	3.4	4.4	3.2	3.1
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	1.25	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	1.00	1.00	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	3.75	3.50	3.25	3.00	3.00	3.00	3.25	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.00	1.05	1.02	0.99	0.98	0.97	0.97	0.96
Canadian Dollar (CADUSD)	1.00	0.95	0.98	1.01	1.02	1.03	1.03	1.04
Euro (EURUSD)	1.33	1.22	1.23	1.23	1.22	1.22	1.21	1.21
Sterling (GBPUSD)	1.60	1.56	1.59	1.60	1.62	1.63	1.64	1.64
Yen (USDJPY)	83	79	81	83	84	85	86	87
Australian Dollar (AUDUSD)	1.03	0.96	0.99	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	13.8	13.3	13.1	13.2	13.1	13.1	13.3
Brazilian Real (USDBRL)	1.83	2.00	1.96	1.95	1.92	1.87	1.88	1.90
Commodities (annual average)	2000-10	2011	2012f	2013f				
WTI Oil (US$/bbl)	54	95	95	98				
Brent Oil (US$/bbl)	52	111	108	108				
Nymex Natural Gas (US$/mmbtu)	5.81	4.03	2.50	2.75				
Copper (US$/lb)	1.93	4.00	3.60	3.45				
Zinc (US$/lb)	0.75	0.99	0.89	1.10				
Nickel (US$/lb)	7.36	10.38	7.93	8.00				
Gold, London PM Fix (US$/oz)	586	1,569	1,650	1,600				
Pulp (US$/tonne)	694	977	875	915				
Newsprint (US$/tonne)	575	640	650	670				
Lumber (US$/mfbm)	273	255	265	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.

Canada

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	7.9	-4.4 (Apr)
Industrial Production	3.5	3.0	1.0	0.0 (Mar)
Housing Starts (000s)	193	199	206	211 (May)
Employment	1.6	1.2	0.9	1.3 (May)
Unemployment Rate (%)	7.5	7.5	7.4	7.3 (May)
Retail Sales	4.1	4.2	4.3	4.1 (Mar)
Auto Sales (000s)	1588	1603	1706	1700 (Mar)
CPI	2.9	2.7	2.3	2.0 (Apr)
IPPI	4.6	3.9	1.7	-0.4 (Apr)
Pre-tax Corp. Profits	15.4	13.7	5.4	

Mexico

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	6.7 (Apr)
Industrial Production	4.0	3.5	4.4	3.6 (Apr)
CPI	3.4	3.5	3.9	7.3 (May)

Chile

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	-1.8 (May)
Industrial Production	6.9	2.1	3.9	2.6 (Apr)
CPI	3.3	4.0	4.1	3.1 (May)

Germany

Germany	2011	11Q4	12Q1	Latest
Real GDP	3.1	2.0	1.2	
Current Acc. Bal. (US$B, ar)	204.1	256.1	215.8	176.7 (Apr)
Merch. Trade Bal. (US$B, ar)	216.2	224.1	223.3	254.3 (Apr)
Industrial Production	8.0	3.4	1.0	-0.7 (Apr)
Unemployment Rate (%)	7.1	6.9	6.8	6.7 (May)
CPI	2.3	2.3	2.2	4.2 (May)

Euro Zone

Euro Zone	2011	11Q4	12Q1	Latest
Real GDP	1.5	0.7	-0.1	
Current Acc. Bal. (US$B, ar)	-4	183	-43	119 (Mar)
Merch. Trade Bal. (US$B, ar)	6.4	76.9	9.7	138.5 (Mar)
Industrial Production	3.6	-0.1	-1.5	-2.1 (Apr)
Unemployment Rate (%)	10.1	10.5	10.8	11.0 (Apr)
CPI	2.7	2.9	2.7	5.2 (May)

Japan

Japan	2011	11Q4	12Q1	Latest
Real GDP	-0.7	-0.5	2.7	
Current Acc. Bal. (US$B, ar)	119.2	48.0	114.5	49.2 (Apr)
Merch. Trade Bal. (US$B, ar)	-33.6	-76.2	-71.2	-70.7 (Apr)
Industrial Production	-2.3	0.0	2.7	12.9 (Apr)
Unemployment Rate (%)	4.6	4.5	4.5	4.6 (Apr)
CPI	-0.3	-0.3	0.3	0.5 (Apr)

China

China	2011	11Q4	12Q1	Latest
Real GDP	10.4	8.9		
Current Acc. Bal. (US$B, ar)	201.7			
Merch. Trade Bal. (US$B, ar)	155.0	193.0	3.5	224.4 (May)
Industrial Production	12.8	12.8	9.3	9.6 (May)
CPI	4.1	4.1	3.6	3.4 (Apr)

United States

United States	2011	11Q4	12Q1	Latest
Real GDP (annual rates)	1.7	3.0	1.9	
Current Acc. Bal. (US$B, ar)	-466	-475	-549	
Merch. Trade Bal. (US$B, ar)	-738	-757	-778	-778 (Apr)
Industrial Production	4.1	4.0	4.0	4.9 (May)
Housing Starts (millions)	0.61	0.68	0.71	0.72 (Apr)
Employment	1.1	1.3	1.6	2.1 (May)
Unemployment Rate (%)	9.0	8.7	8.3	8.2 (May)
Retail Sales	8.2	7.5	6.4	14.3 (May)
Auto Sales (millions)	12.7	13.4	14.5	13.7 (May)
CPI	3.2	3.3	2.8	5.4 (May)
PPI	6.0	5.4	3.4	8.3 (May)
Pre-tax Corp. Profits	4.2	9.3	14.8	

Brazil

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	35.4 (May)
Industrial Production	0.4	-1.7	-3.2	-2.7 (Apr)
CPI	6.8	6.7		6.6 (Jan)

Italy

Italy	2011	11Q4	12Q1	Latest
Real GDP	0.5	-0.5	-1.4	
Current Acc. Bal. (US$B, ar)	-0.07	-0.03	-0.08	-0.04 (Mar)
Merch. Trade Bal. (US$B, ar)	-34.2	-8.3	-17.5	-3.2 (Apr)
Industrial Production	0.2	-3.2	-5.4	-8.8 (Apr)
CPI	2.8	3.3	3.4	6.0 (May)

France

France	2011	11Q4	12Q1	Latest
Real GDP	1.7	1.2	0.3	
Current Acc. Bal. (US$B, ar)	-60.1	-58.2	-53.2	-66.2 (Apr)
Merch. Trade Bal. (US$B, ar)	-50.9	-45.9	-53.0	-52.9 (Apr)
Industrial Production	2.4	0.4	-1.5	0.9 (Apr)
Unemployment Rate (%)	9.7	9.8	10.1	10.2 (Apr)
CPI	2.1	2.4	2.3	4.1 (May)

United Kingdom

United Kingdom	2011	11Q4	12Q1	Latest
Real GDP	0.7	0.5	-0.1	
Current Acc. Bal. (US$B, ar)	-46.4	-45.4		
Merch. Trade Bal. (US$B, ar)	-159.8	-152.5	-160.3	-194.1 (Apr)
Industrial Production	-1.2	-3.0	-3.0	-1.0 (Apr)
Unemployment Rate (%)	8.1	8.4		8.2 (Feb)
CPI	4.5	4.7	3.5	3.0 (Apr)

Australia

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	29.0	2.4	33.8 (Apr)
Industrial Production	-1.1	1.3	4.7	
Unemployment Rate (%)	5.1	5.2	5.2	5.1 (May)
CPI	3.4	3.1	1.6	

South Korea

South Korea	2011	11Q4	12Q1	Latest
Real GDP	3.6	3.3	2.8	
Current Acc. Bal. (US$B, ar)	26.5	46.0	10.2	21.3 (Apr)
Merch. Trade Bal. (US$B, ar)	30.8	36.6	6.0	28.8 (May)
Industrial Production	6.9	5.2	2.9	2.8 (Apr)
CPI	4.0	4.0	3.0	6.6 (May)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (%, end of period)

Canada	11Q4	12Q1	Jun/08	Jun/15*	United States	11Q4	12Q1	Jun/08	Jun/15*
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	0.80	0.91	0.90	0.89	3-mo. T-bill	0.01	0.07	0.08	0.09
10-yr Gov't Bond	1.94	2.11	1.81	1.74	10-yr Gov't Bond	1.88	2.21	1.64	1.57
30-yr Gov't Bond	2.49	2.66	2.36	2.34	30-yr Gov't Bond	2.89	3.34	2.75	2.68
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	65.7	69.2	69.4	(Apr)	FX Reserves (US$B)	136.9	138.0	141.4	(Apr)
Germany					**France**				
3-mo. Interbank	1.35	0.71	0.57	0.57	3-mo. T-bill	-0.06	0.07	0.05	0.08
10-yr Gov't Bond	1.83	1.79	1.33	1.45	10-yr Gov't Bond	3.15	2.89	2.51	2.61
FX Reserves (US$B)	66.9	67.9	68.9	(Apr)	FX Reserves (US$B)	48.6	49.2	50.2	(Apr)
Euro Zone					**United Kingdom**				
Refinancing Rate	1.00	1.00	1.00	1.00	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.63	0.39	0.33	0.33	3-mo. T-bill	0.37	0.37	0.38	0.38
FX Reserves (US$B)	316.7	319.9	325.5	(Apr)	10-yr Gov't Bond	1.98	2.20	1.63	1.66
					FX Reserves (US$B)	79.3	82.4	84.3	(Apr)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.25	4.25	3.50	3.50
3-mo. Libor	0.13	0.13	0.13	0.13	10-yr Gov't Bond	3.67	3.98	3.04	2.99
10-yr Gov't Bond	0.99	0.99	0.86	0.85	FX Reserves (US$B)	42.8	47.7	45.6	(Apr)
FX Reserves (US$B)	1258.2	1247.8	1248.9	(Apr)					

Exchange Rates (end of period)

USDCAD	1.02	1.00	1.03	1.02	¥/US$	76.91	82.87	79.49	78.72
CADUSD	0.98	1.00	0.97	0.98	US¢/Australian$	1.02	1.03	0.99	1.01
GBPUSD	1.554	1.601	1.547	1.564	Chinese Yuan/US$	6.30	6.30	6.37	6.37
EURUSD	1.296	1.334	1.252	1.263	South Korean Won/US$	1152	1133	1175	1166
JPYEUR	1.00	0.90	1.01	1.01	Mexican Peso/US$	13.936	12.811	13.921	13.919
USDCHF	0.94	0.90	0.96	0.95	Brazilian Real/US$	1.867	1.827	2.024	2.044

Equity Markets (index, end of period)

United States (DJIA)	12218	13212	12554	12714	U.K. (FT100)	5572	5768	5435	5485
United States (S&P500)	1258	1408	1326	1336	Germany (Dax)	5898	6947	6131	6232
Canada (S&P/TSX)	11955	12392	11501	11520	France (CAC40)	3160	3424	3052	3088
Mexico (Bolsa)	37078	39521	37324	37553	Japan (Nikkei)	8455	10084	8459	8569
Brazil (Bovespa)	56754	64511	54430	55348	Hong Kong (Hang Seng)	18434	20556	18502	19234
Italy (BCI)	806	859	734	711	South Korea (Composite)	1826	2014	1836	1858

Commodity Prices (end of period)

Pulp (US$/tonne)	890	870	900	900	Copper (US$/lb)	3.43	3.85	3.29	3.41
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	0.83	0.91	0.85	0.87
Lumber (US$/mfbm)	261	266	309	307	Gold (US$/oz)	1531.00	1662.50	1576.50	1613.50
WTI Oil (US$/bbl)	98.83	103.02	84.10	84.18	Silver (US$/oz)	28.18	32.43	28.17	28.66
Natural Gas (US$/mmbtu)	2.99	2.13	2.30	2.48	CRB (index)	305.30	308.46	272.88	273.24

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

Emerging Markets Strategy

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