Global Views

Weekly commentary on economic and financial market developments

August 17, 2012

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

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Fed Talk Dominates Until The End Of August

- **Please see our full indicator, central bank, auction and event calendars on pp. A3-A7.**

US markets won't face a terribly active calendar in terms of the number of entries to consider, but what is on tap could pack a hefty wallop. At the top of the list will be the FOMC minutes to the July 31st-August 1st meeting. Recall that at this meeting the Fed statement noted that "The Committee will closely monitor incoming information on economic and financial developments and will provide additional accommodation as needed." Markets will therefore be parsing the minutes in terms of what they say about the nature of the dialogue over applying additional stimulus, and whether they provide any hints as to the likelihood of measures including QE3. Fed speak will also include Atlanta Fed President Dennis Lockhart (voting) as he speaks on the US economic outlook and implications for Latin America on Tuesday. Among the five voting regional Fed Presidents, we already know that one (Williams) has an easing bias, another (Lacker) is hawkish, and that NY Fed President William Dudley will vote with the Chairman's decision. That leaves us waiting to hear updated perspectives from Lockhart and Cleveland Fed President Sandra Pianalto as the remaining voting regional presidents and the latter speaks the week after next and just days before Bernanke's much vaunted Jackson Hole speech on the 31st. Thus, the rest of the month will be dominated by Fed speculation including straight into September. Chicago Fed President Charles Evans also speaks next week but while he is among the most dovish, he has to wait until next year to get a vote. Data risk will take three forms. One is that a huge rise in airplane orders should lift durable goods orders on Friday, but core orders are likely to remain soft. Two and three include existing and new home sales reports on Wednesday and Thursday, respectively. Starts, resales and new home sales all lost their momentum into the new year after accelerating into the back half of 2011 such that we remain dubious that a true housing renaissance is underway. Next week's data will help in this regard, but the rise in S&P Case Shiller house prices does not bode well for trend strength in housing market activity by eating into affordability in the context of weak job markets. The US also conducts a 5 year TIPS reopening.

Canadian markets face two main forms of domestic risk next week. The most important may be when BoC Governor Carney takes to the stage on Wednesday before auto workers in Toronto, and then holds a press conference afterward. As we argue on pp. 11-12, a serious undershooting of the BoC's inflation target especially after considering the measurement bias in Canadian CPI combined with disappointingly soft economic growth are increasingly challenging the BoC's hawkish rhetoric. Governor Carney will speak following reports that round out impressions of Q2 GDP growth. Thus, the second main form of risk is that we'll get our last two pieces of the Q2 GDP puzzle when both retail sales and wholesale trade land for the month of June on Wednesday and Tuesday respectively. We think that retail sales were largely flat in June owing in part to lower auto sales and weakness in other components. This would weigh against only mildly better data elsewhere including a rise in housing starts that was entirely in lower value-added multiples, a tepid 0.1% monthly rise in inflation-adjusted manufacturing shipments, and a healthy 0.4% rise in total hours worked. This would round out a June GDP picture that may not provide an impressive end to what is otherwise shaping up to have been a soft quarter. With what we already know from monthly GDP figures for April and May combined with the Q1 hand-off, we're tracking GDP growth of about 1.4% q/q at an annualized pace in Q2. Finally, BoC Deputy Governor Agathe Côté will speak Tuesday on the topic of "modelling risks to the financial system."

European markets will have two main forms of risk to consider. One will be purchasing manager index readings in August for the eurozone and particularly Germany and France. The readings have not been kind into Q3 in such a manner as to suggest an even weaker quarter for GDP growth than the soft prints that were registered in Q2. Related to this point is that we'll get potentially upward revisions showing a slower pace of contraction than initially reported in UK Q2 GDP thanks to better construction and industrial production figures. We'll also deepen our understanding of the drivers of German GDP growth in Q2 given that Germany releases only the headline for GDP growth on first pass and then the details later. The second main form of risk next week will be a smattering of meetings that could pose risks to the euro. German Chancellor Angela Merkel meets with Greek Prime Minister Samaras on Thursday and Merkel has been clear in demanding tangible signs of fiscal progress. Italian Prime Minister Mario Monti speaks on economic growth this Sunday.

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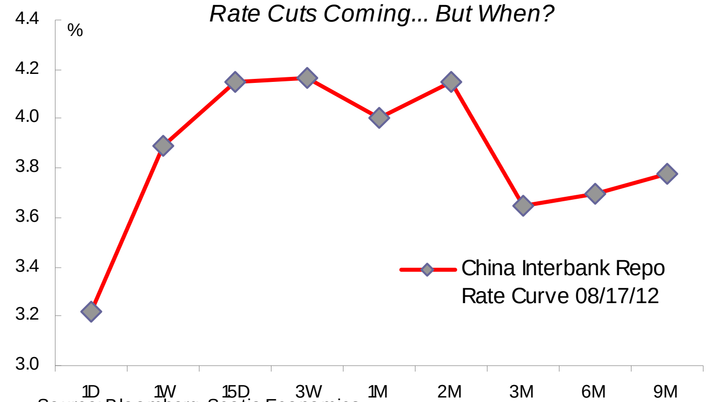
Finally, the Spanish cabinet holds another regular meeting on Friday including a news conference. In the past, this has garnered attention with respect to whether Spain will signal its willingness to formally seek aid from the rest of Europe; any signal in this regard could be positive for Spanish yields as this is a pre-condition for ECB action. Additional developments include EC August consumer confidence on Thursday and an auction of German two year notes.

After a generally sleepy week for **Asia**, things heat up a bit next week by way of potential global market ramifications. One is that there is the ever-present risk of rate cuts or cuts to the required reserve ratio in China given the lack of a formal schedule for such moves. China's Premiere Wen said this week that "growing room for monetary policy operations" gives his government room to step on the stimulus accelerator. Chinese funding markets agree, but they are not pricing interest rate cuts in the next two months (see chart), implying a bet that the first stimulus measures will be an easing of reserve ratio requirements — which Chinese officials tend to announce over weekends.

China: Repo Rate Curve

Rate Cuts Coming... But When?



Source: Bloomberg, Scotia Economics.

Second, how fast is the Chinese economy growing? Manufacturing PMIs have been shooting off mixed signals, with the state's official PMI indicating oscillation between growth and contraction while a prominent private sector manufacturing PMI has shown the manufacturing sector receding during the balance of the year so far. We'll get a look at the latter overnight on Wednesday in what is probably the main data release on the Asian economic ledger. It won't all be about China, however in that BoJ governor Shirakawa will take some of the limelight when he makes remarks following the release of Japan's cabinet office economic report while markets are sleeping in North America on Thursday (the report lands the day after Japan's trade numbers for July get released, so expect a political discussion of the ramifications of the strong JPY). Shirakawa won't be the only central banker in the news as minutes from the RBA's August meeting will be scrutinized for hints that Australia's rate hike cycle is winding down (Aug. 20). Lastly, will India's CPI continue to track above 10% y/y? North American markets will find out when they wake up on Tuesday morning. CPI data from Hong Kong (often looked at as an alternate source for information on price growth in major Chinese cities) will be released Monday night.

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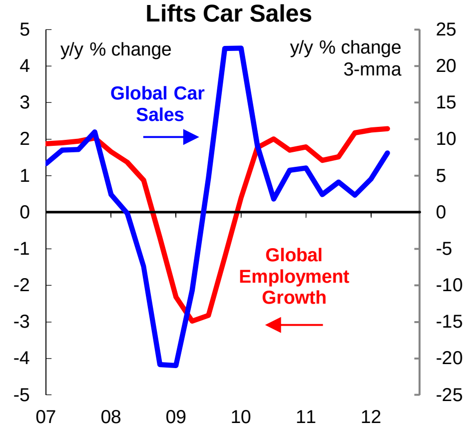
Record Global Car Sales In 2012

- **Loan growth acceleration and rising employment drive gains.**

Global car sales advanced 6% in the first half of 2012, despite the ongoing headwinds associated with the sovereign debt problems in Western Europe and some moderation in the pace of global economic activity. We expect continued gains in the second half supported by record-low short- and long-term interest rates in most nations, the recent acceleration in the pace of automotive lending across the globe and solid job creation in emerging markets. Employment in developing nations is advancing in excess of 4% y/y, lifting the pace of global job growth to 2.3% — one of the fastest of the past decade and a percentage point above the average during the economic expansion between 2002 and 2007. Consumer confidence could also improve in the second half of 2012, as central banks continue to take action to normalize economic and financial conditions in the aftermath of increased strains since mid-March.

Strengthening Global Job Market Lifts Car Sales



Source: Scotiabank Global Auto Report.

In fact, global auto sales have gained momentum in recent months, posting back-to-back double-digit gains alongside expanding automotive lending. The pace of loan growth is strongest in Russia, advancing in excess of 40% y/y, but has also recently picked up in Brazil and India. The buoyancy in auto sales stands in sharp contrast to the recent moderation in global economic activity and gains could be dampened if economic conditions worsen in Europe or other jurisdictions. Nevertheless, current economic fundamentals remain supportive of further sales gains.

Car sales are advancing in every region, with the exception of Western Europe. Japan and Russia are leading the way, with gains of 52% y/y and 29% respectively. North America is also posting a double-digit increase, lifting purchases to the highest level since 2007. The improvement in Japan reflects a bounce from last year's tsunami-induced slump which slashed purchases to the lowest level since 1986, as well as government incentives for eco-friendly vehicles. Sales of these models have surged by 60% this year. However, gains are expected to moderate in coming months as pent-up demand subsides and demographics undercut purchases. The number of potential car buyers in Japan is declining by almost 1% per annum — the worst demographic trend among the G7.

In contrast, sales in Russia this year are on target to surpass the pre-crisis peak of 2.9 million sold in 2008. In fact, volumes in Russia are expected to overtake Germany (3.2 million this year) by mid-decade, becoming the largest market in Europe. Gains are being supported by government policies to increase auto financing, a rising middle class, record-high oil prices (Brent) and below-average vehicle penetration. The government has set aside 3.3 trillion rubles for auto loans this year, up from 2.8 trillion in 2011. An additional 2.1 trillion rubles will be provided in 2013.

Sales in China and Brazil have accelerated to double-digit gains in recent months, bolstered by government stimulus. In China, the government created a RMB 6 billion (US$952bn) subsidy program for purchases of fuel-efficient cars with engines of less than 1.6 litres. Since the introduction of the program in May, car sales have advanced 14% y/y, from only a 1% increase through April. In Brazil, car sales have jumped 25% y/y since the government unveiled a new US$10bn stimulus package, including suspending an industrial tax and freeing up nearly US$8.8bn in bank deposit requirements for lenders to boost auto loans.

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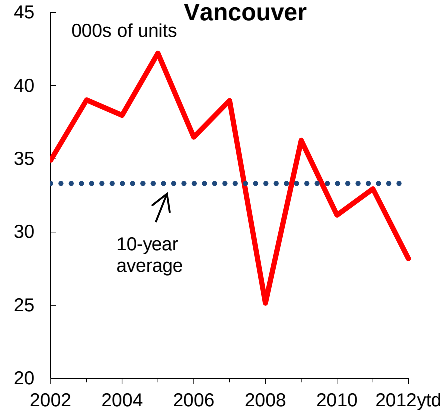
Vancouver's Continuing Housing Market Correction

- **Strained affordability, a continuing high level of new construction and rising unsold inventory suggest there are further downside risks to the Vancouver housing market, notwithstanding the notable cooling in both sales and pricing over the past year.**

The turnaround in Vancouver's housing market performance over the past year has been dramatic. Existing home sales over the first seven months of 2012 have fallen 20% from a year ago, to their lowest level in over a decade outside of the 2008-2009 recession (chart 1). Given a smaller decline in new listings relative to sales, overall market conditions have shifted modestly into buyers' territory (chart 2), in turn putting downward pressure on home prices. The benchmark resale price for both single-family homes and apartments has essentially levelled out over the past 12 months (chart 3).

Chart 1 - Existing Home Sales - Vancouver



Source: CREA, Scotia Economics

Growing affordability pressures are likely the main contributor to the slowdown, with the falloff in demand most pronounced at the high-end of market and/or for expensive detached homes. Vancouver is by far Canada's most expensive housing market, and has seen larger price increases over the past decade relative to the majority of major centres, including Toronto. Tighter mortgage rules and the eventual rise in interest rates will worsen affordability constraints over the next several years.

However, there appear additional factors behind the decline in sales, including reduced population inflows. Net interprovincial migration to the province has been negative for the past five consecutive quarters, reversing an almost decade-long trend of steady population inflows from other parts of the country. Meanwhile, international immigration, the primary source of the province's population growth, too has slowed sharply. While 'hard' data on investor and/or foreign purchases are limited, weakening sales may also be indicative of reduced interest from offshore buyers, including from China.

Despite softening resale market conditions, new homebuilding has yet to show any discernible sign of slowing. Housing starts have accelerated over the past year, led by new high-rise projects, and are currently tracking over 19,000 annualized units (chart 4). This compares to an estimated underlying annual demographic requirement of around 16,000-17,000. Completions remain relatively low at just over 15,000 annualized units in the first half of 2012, but will climb higher over the coming year based on the level of units under construction.

The Vancouver new home market is not significantly oversupplied. Over the 2006-2011 period, annual housing starts and completions averaged about 16,500 units, consistent with annual household formation trends. The total number of completed and unoccupied units has moved above its long-term average, but remains well below prior peaks of the mid- to late-1990s (chart 5). The increase is primarily in multi-unit developments, while the unsold inventory of single- and semi-detached homes remains low.

The current level of unsold inventory appears manageable. Relative affordability will continue to support demand for condominiums over single-family homes. Vancouver's rental market, which absorbs a large share of new condominium units, remains tight: the apartment vacancy rate was 2.6% in April 2012, down from 2.8% April 2011. The vacancy rate for rented condos was just 0.9% (as of October 2011). Just over 25% of condominium units in the Vancouver CMA are rented, among the highest share in Canada. However, the risk of a more difficult adjustment will increase if builders do not soon begin to slow the pace of new construction.

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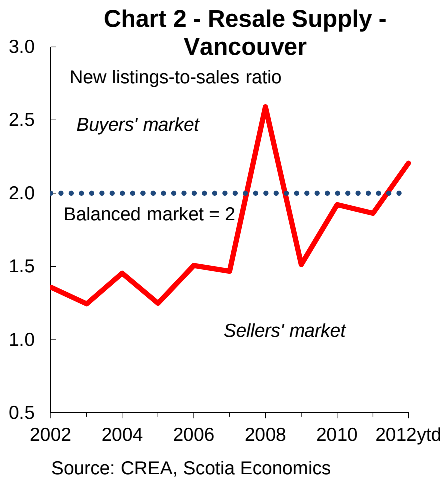

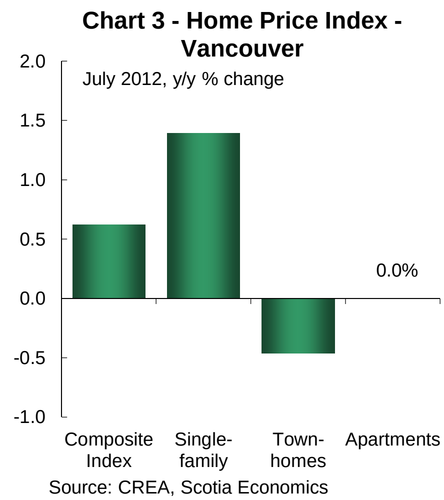

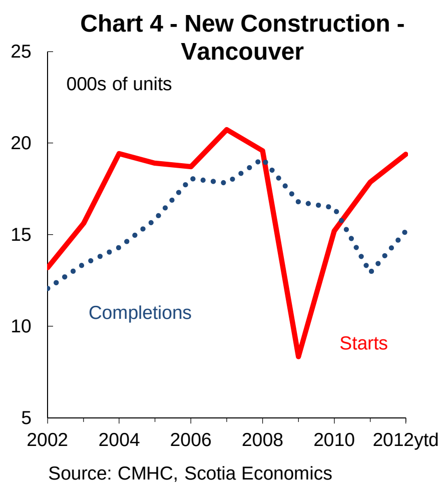

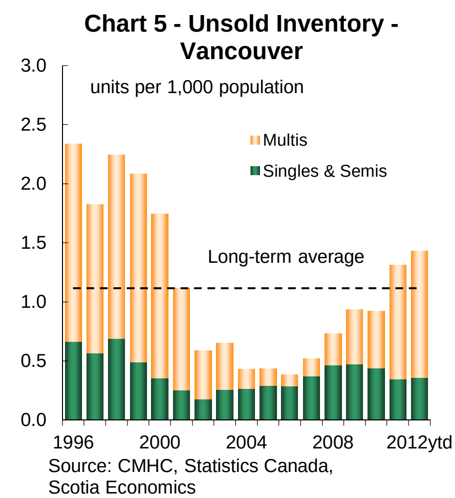

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Unusual Seasonal Adjustments Will Cause Further Volatility In US Retail Sales

- **Shifting seasonal adjustment factors to US retail sales prints through to year-end will play a bigger than usual role in distorting retail sales figures.**

A stronger-than-expected retail sales print for the month of July was significantly due to a shift in the seasonal adjustment factor but probably for a good reason. Further, this won't be the last month this year in which retail sales will be heavily distorted by unusual seasonal adjustment factors in a manner that makes the retail sales figures volatile and difficult to evaluate in terms of trend growth.

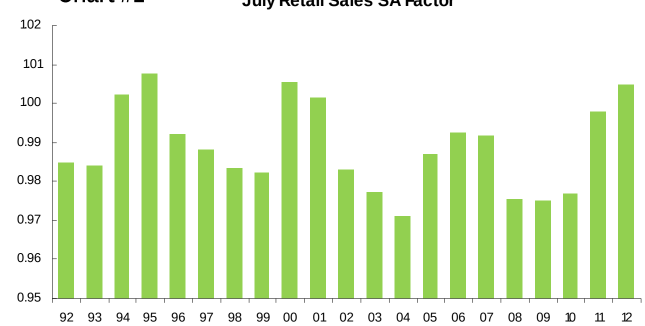
The July Effect

US retail sales posted a solid gain in July, but a widely circulated view was that the Census Bureau cooked the seasonal adjustment factors. Absent this phenomenon, seasonally adjusted retail sales would have actually plunged according to this theory. Is this true? If so, then clearly the market got it wrong and should reverse its thinking on the health of the consumer into Q3 after a very weak second quarter.

The theory suggests that for the first time in a decade, seasonal adjustments added to July retail sales instead of the usual pattern of subtracting from the seasonally unadjusted data. In other words, the seasonal adjustment factor (SA) went from being usually below one for July to above one this year such that when multiplied against the seasonally unadjusted figures it distorted the July sales print higher. Chart 1 shows the July SA factors back to 1992. The seasonally adjusted July print was up 0.8% m/m and the unadjusted print was down 0.9% so, the theory goes, if the SA factor hadn't been 'cooked' then this would have been a down report as a more typical seasonal subtraction from sales would have reinforced the weakness in unadjusted sales.

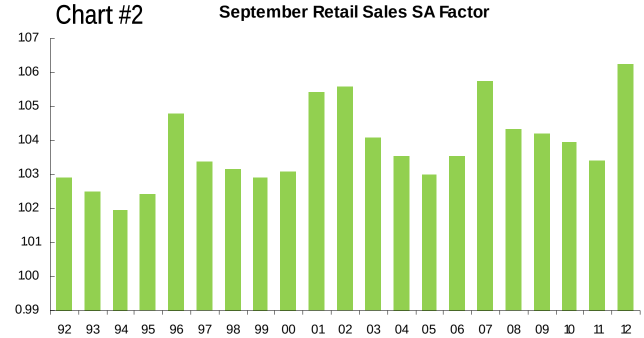
This view is nonsense in our opinion. The reason this July's SA factor added to sales rather than subtracted as is the more normal July pattern is that there was an unusually high number of days of low shopping intensity during the month (i.e., more Sundays through Tuesdays rather than Wednesdays onward). Therefore the fine minds at the Census Bureau compensate for this in order to neutralize differences in days of shopping intensity. We don't have much of a problem with doing that as one's judgement on monthly spending variations should not be sensitive to whether there were calendar

Chart #1



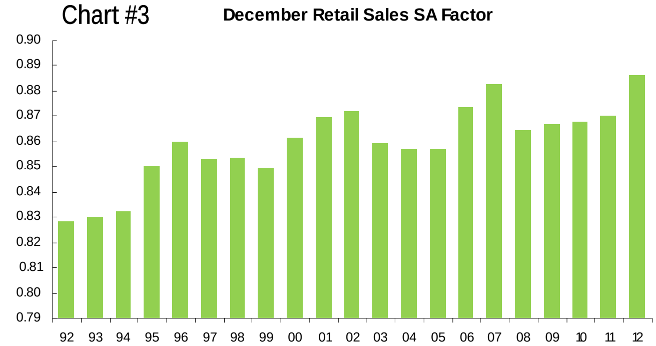
Source: Census Bureau, Scotia Economics.

Chart #2



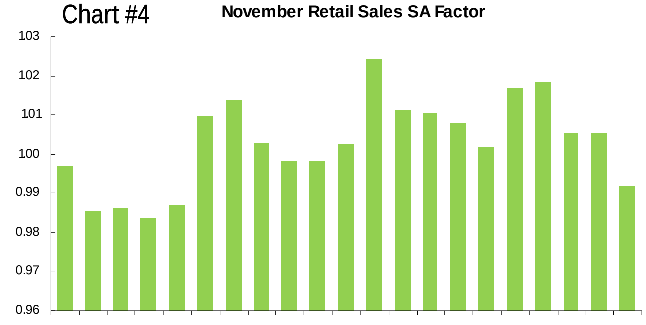
Source: Census Bureau, Scotia Economics.

Chart #3



Source: Census Bureau, Scotia Economics.

Chart #4



Source: Census Bureau, Scotia Economics.

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effects that artificially favoured one month over the other by packing in more days, or unusually timed holidays, or unusual concentrations toward days of high/low shopping intensity. The exact same thing happened back in each of 2001, 2000, 1995, and 1994 and it's simply a calendar fluke that has to be ironed out. Otherwise, the retail report would have been artificially distorted lower by not properly controlling for this calendar effect.

September, November and December Will Also Be Distorted

July will not be the last month this year to witness a large seasonal distortion due to a shift in the seasonal adjustment factor for retail sales. Each of September, November and December will also face hefty unusual seasonal adjustments. We can ascertain this because the Census Bureau publishes its seasonal adjustment factors for the next two years on its web site.

September's seasonal adjustment factor will add to retail sales more than for any other September in at least the past two decades (chart 2), and December's seasonal adjustment factor (chart 3) will subtract from seasonally unadjusted sales by the smallest degree of the past two decades. Just tuck this aside for now, but don't be surprised to see solid retail sales prints in each of September and December through this argument in isolation of other influences.

November, however, faces the opposite risk since the typical pattern is for the SA factor to add to unadjusted sales or maintain a neutral stance, whereas this year the SA factor is expected to detract and that could cough up a soft retail sales print for November (chart 4).

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Quelle Austérité?

- **Evidence of French austerity is hard to come by, and that may well play into German concerns about a lack of progress toward fiscal repair within the anti-austerity camp.**

Perhaps what was most interesting about the Q2 French GDP figures released this past week was the extent to which they may play into German hands as a retort against anti-austerity cries that have been partly led by France.

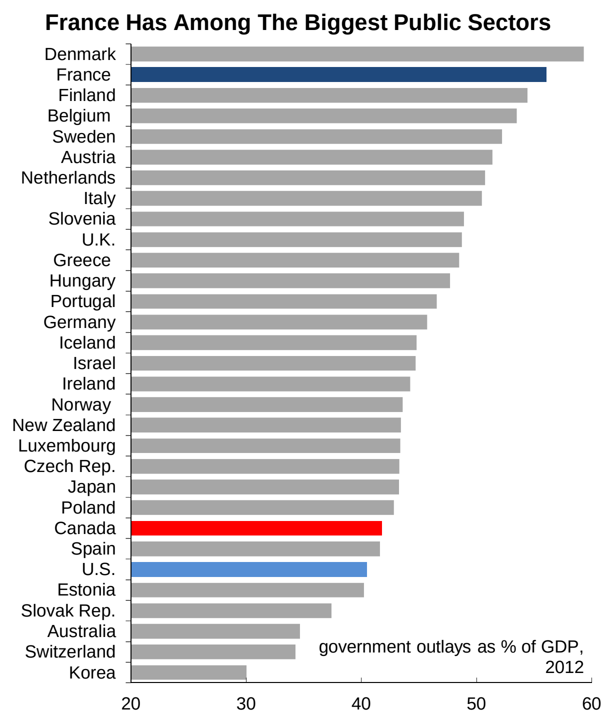
Recall that across the whole OECD France is estimated to have the biggest state relative to the size of the economy; general government outlays sit at 56.1% of GDP in 2012 and this puts France second only to Denmark and about 14 points higher than the OECD average (chart 1). It also places France about ten full points higher than Germany which has a slightly larger but falling state relative to the size of its economy than the OECD average.

Against that backdrop, the state in France continues to expand and is actually doing so at a quickening pace which may lie at odds with the anti-austerity fervor. Indeed, French public spending actually expanded for the fourth straight quarter in Q2 (chart 2). Not only did it expand, it did so at the fastest back-to-back quarterly pace since 2009. Some of this may be due to election spending and an earlier-than-expected use of funds designed to address unemployment challenges. Does that mean that following these influences government spending will revert lower? While quarterly government spending estimates can be somewhat volatile, in recent years, French public spending never really contracted as the weakest performance was in 2010Q4 through 2011Q2 when it was simply held flat.

Also note that public investment expanded at a 3.7% annualized pace in Q2 after being flat the prior quarter and rising by 4% in 2011Q4. Again, the macro stylized facts appear to confront the perception that fiscal austerity is exacting a heavy toll on the economy in isolation of other influences such as pressures on the banking system and broad eurozone confidence.

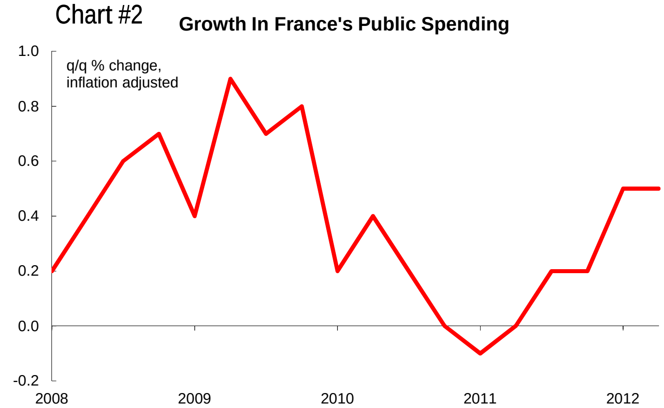
This is not to ignore the fact that significant steps are being taken by France to impose some austerity going forward. Examples of this include general expenditure reductions, a proposed freeze on much of state spending inflation-adjusted for 2013 and on the size of the public service, the withdrawal of troops from Afghanistan, and salary cuts for public ministers. A renewed increase in the retirement age to 60 is a further step, but it is still relatively low compared to many other countries. A hike in the minimum wage, however, drew the predictable controversy. All that said, however, even the OECD's 2013 forecast still sees public spending as equaling about 55% of GDP for a projected

Chart #1



Source: OECD, Scotia Economics.

Chart #2



Source: Bloomberg.

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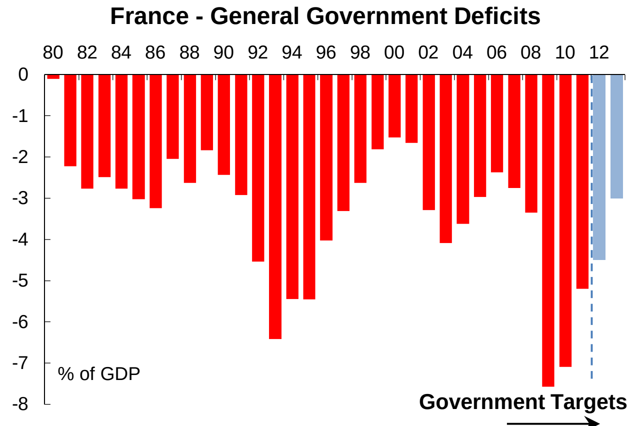
drop of only about a percentage point of GDP. Not only is that small, it will preserve France's status as having the second-biggest government across developed economies.

Whether cuts actually get delivered when the pattern to date has been soft is debatable. President Hollande has accepted the task of trimming France's general government deficit from 5.2% of GDP in 2011 to 4.5% this year and 3.0% in 2013, en route to balanced books by 2017. As chart 3 illustrates, France has not approached balanced books since 1980. A considerable portion of France's current budget shortfall remains structural. Wider-than-targetted deficits over the next few years risk France's gross debt (as defined by the IMF) rising significantly above 90% of GDP (the so-called Rogoff threshold) and interest costs climbing beyond 2½% of GDP. The 2012 supplementary budget relied heavily upon tax hikes to bridge the current budget gap, further limiting France's unused government revenue generating capacity going forward. The OECD estimates that France's general government revenue burden already is substantial, at an estimated 51½% of GDP this year. However, greater expenditure restraint over the next half decade, probably requiring some service restructuring, will complicate the government's promise of broad consultations with stakeholders such as the public-sector unions.

Chart #3



Source: IMF, Eurostat, European Commission.

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Canadian Inflation Is Softer Than It Appears

- **A CPI measurement bias also means that monetary policy may have been too tight on average over recent years.**

Have we hit bottom on Canadian CPI? This question lies in the wake of a downside surprise to Canadian inflation in July when the headline came in at only 1.3% which is the lowest reading since June 2010. There is a good case for thinking we have not yet bottomed especially upon considering that CPI overstates actual inflation.

First, if the trend of monthly CPI declines persists as it has for the past three months then, when this is combined with y/y base effects, even a small -0.1% m/m average monthly decline into year-end would cough up a zero print for y/y headline CPI by the November report when it comes out in mid-December. Gas/energy prices are an upside risk to this view since they've been rising off the trough over the past six weeks, but the weakness in CPI has been so broadly based that gas prices have not been the dominant driver to date. In fact, gasoline prices are only 1.3% lower on year-ago levels and with a modest 5.8% index weight in any event so there would have to be a considerably bigger gas price swing to begin to really impact headline y/y CPI. Downside risks to inflation include currency strength since June amid evidence of stronger pass-through effects in Canada than Europe or the US, and soft economic growth. Further, the 1% hike in Quebec's provincial sales tax that kicked in on January 1st of this year shakes out of the y/y base effects when the January 2013 CPI numbers land in mid-February. Some of this hike was absorbed in margins, but when it drops out it could add to downside y/y pressures.

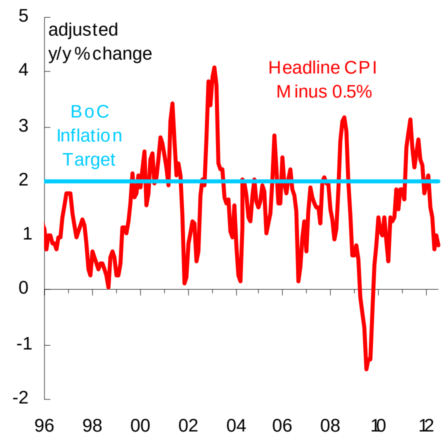
CPI Overstates Inflation

Further, CPI overstates inflation and this is where things begin to get much more interesting. For one thing, this means that the risks are even greater that Canada will witness an essentially zero print for actual inflation over coming months even if it doesn't show up in CPI.

One of the best survey pieces we've read on this issue was released by the BoC this past week and is worth at least a quick read by BoC watchers (go here: http://www.bankofcanada.ca/wp-content/uploads/2012/08/boc-review-summer12-sabourin.pdf).

Chart 1

CPI Persistently Undershoots

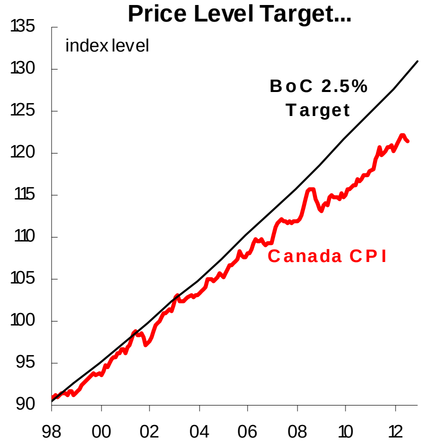


Source: Statistics Canada, Scotia Economics

The article argues that CPI overstated actual inflation by about 0.45% or as much as 0.6% per year throughout the 2005-11 period, and that this bias has been relatively constant over the past 15 years. If that's the case, then from a price level targeting perspective, it would mean that actual cumulative inflation over the past 15 years has been over-estimated by about 7%. It means that the BoC has fairly consistently under-shot its 2% inflation target over this fifteen-year period after adjusting y/y CPI inflation downward by about a half percentage point to compensate for this measurement bias (chart 1).

Chart 2

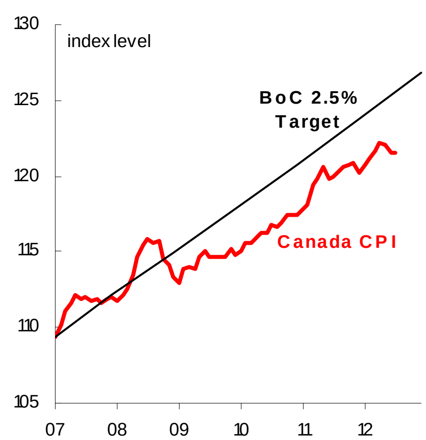
BoC Has UnderShot Its Imputed Price Level Target...



Source: Bloomberg, Scotia Economics.

Chart 3

...Especially Over The Crisis Period



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Has The BoC Long Undershot Its Implicit Price Level Target?

The implications from a price level targeting standpoint are worth exploring further if the aim of the BoC is to ensure longer-run price stability with prices rising at a steady 2% per year. Since the BoC says that the half-point measurement bias in CPI has been fairly consistent over the past fifteen years, we can start the analysis back then. Chart 2 is the result by plotting the CPI index level as reported, while comparing it to a straight line that starts with the CPI index level fifteen years ago and grows it by a constant 2.5% per year. This is a half point above the BoC's target in order to compensate for the measurement bias in CPI such that targeting 2.5% on CPI inflation would actually mean targeting about 2% on true inflation after subtracting the measurement bias. Alternatively, we can start the clock at just before the crisis, and this is shown in chart 3. The takeaway here is that if CPI is really over-estimated by about a half percentage point in every year, then the BoC may have persistently undershot its inflation target. Almost all of this undershooting in chart 2 began from about 2006 onward.

This raises a conundrum. Since inflation was on an adjusted price level target path until 2006, it might be surmised that the BoC pursued appropriate monetary policy up to that point. From that point forward it may be the case that the BoC has, on average, conducted overly tight monetary policy as evidenced by straying further and further away from its adjusted price level target path from 2006 onward but especially since the crisis unfolded. This may help to understand why broad real GDP growth has equaled an average annual rate of 1.8% per year from 2006 through to 2011 inclusive, even with a couple of solid years mixed into that period. While 2012 is only about half over, the full year's growth is unlikely to materially alter this long-run average growth rate. That said, other considerations also weigh into the debate including financial stability concerns associated with even easier monetary policy applied to household finances, consumption, and housing markets. If this was the aim to maintaining tighter monetary policy than price level targeting would have necessitated over recent years, then it implies that other sectors of the economy paid a price for household sector imbalances.

Causes of Measurement Bias In the CPI

The BoC's article (and other studies preceding it) reinforces the long-held understanding that much of this measurement bias is due to the fact that the weights within CPI do not shift rapidly enough as households alter their consumption preferences, and it explains four main forms of measurement bias that are related to this factor. One is that CPI inadequately captures product substitution effects away from, say, pricey beef tenderloin prices and toward cheaper ground beef. CPI also inadequately captures a different kind of substitution effect toward cheaper types of stores such as discounters. Third, because CPI weights and the composition of the basket are determined years ago, it can entirely exclude new products (such as tablets) when they emerge, and for prolonged periods of time. Finally, CPI may not do well at capturing quality changes in products with an example being the vast improvement in cell phone technology over time.

Why It All Matters

The BoC study's author ultimately notes that "In an inflation-targeting regime, measurement bias in the CPI can be accounted for by setting the target at a level that equals or exceeds the estimated bias to provide flexibility in insuring against deflation." In essence, if true inflation is so sharply undershooting the BoC's target then the implication supports our bias that the BoC is on hold for a very long period of time yet.

Second, true Canadian inflation is coming in materially beneath the article's implied estimate of a Canadian equivalent of the Fed's preferred measure for US inflation (the PCE price deflator which is essentially dynamically re-benchmarked). Weaker Canadian than US inflation was not supposed to happen.

Third, the paper's suggested solution is to shorten the time between CPI re-benchmarking exercises which Statistics Canada is planning on doing anyway by re-benchmarking every two years instead of every four. We suggest that another possible solution would be to introduce a new price series modeled after the Fed's preferred price deflator for personal consumption expenditures which dynamically adjusts weights in the consumer spending basket and avoids the problem altogether. That would carry the benefit of offering a better measure of inflation for conducting monetary policy, and a better measure for use in various contracts.

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France Update: Challenging Work Ahead For New Administration

- **Fiscal adjustment to prove difficult amid economic slowing, crisis conditions.**

France lost its long-held Triple-A status in January when Standard & Poor's downgraded the foreign-currency ratings of nine members of the euro zone. France's rating was lowered by one notch to "AA+". The decision was underpinned by the augmentation of the European financial crisis and the inadequacy of the political initiatives and institutional resources devoted to establishing sustainable long-term solutions. S&P assesses that France's creditworthiness is particularly at risk in light of the nation's relatively high tax and debt burdens and the lack of competitiveness in the labour market. Each of the major rating agencies holds a "negative" outlook on France's sovereign debt rating (though Moody's and Fitch currently maintain its Triple-A status). Despite the clear deterioration in the debt profile - the debt-to-GDP ratio was on an upward trajectory even before the global recession - France faces relatively low funding costs. The yield on the 10-year government bond has trended lower since late 2011, and now measures 2.1%, 65 basis points (bps) higher than the equivalent German yield.

The French economy has stalled, registering three consecutive quarters of flat growth between 2011Q4 and 2012Q2. We anticipate a shift into outright recession in the second half of 2012, resulting in a -0.1% reading for the year. Next year will see a lacklustre recovery, with expected growth of 0.5%. Domestic demand, supported by an expanding state, has been the mainstay of the economy. However, with public spending so strong through the first half of this year, it is likely that the eventual fiscal drag will be deeper than originally thought. Meanwhile, private consumption will decelerate as household incomes are squeezed by high unemployment (10%) and tax increases. France's exports are beginning to suffer from the recession-induced trade slump in Europe which, combined with the nation's heavy reliance on oil imports, implies a still wide trade deficit through 2013 and a roughly neutral contribution to growth (in contrast to some euro area peers, where net trade will provide an offset to domestic retrenchment). The investment impetus will also be challenged in the near term, as business confidence is depressed by euro-related uncertainties.

Inflationary pressures are receding as weak underlying economic conditions (negative output gap, low wage growth) and base effects (in energy prices) offset the upward impulse from tax and administered price increases implemented earlier this year. Headline inflation eased from 2.7% y/y in December to 2.2% in July, and is now below the euro area average of 2.4%. We expect the rate to reach 1.7% y/y by year-end. Seeking the stabilization of financial conditions and preservation of the euro, the European Central Bank will likely lower the policy rate by another 25 bps to 0.50% in the coming months.

France's fiscal outlook is subject to the risk of a disorderly adjustment in the euro area banking sector and/or the makeup of the currency union itself. The government's medium-term fiscal plan commits to reaching the EU-mandated deficit level of 3% of GDP in 2013 and balancing the budget by 2017. The program, which is tilted toward revenue increases (through greater taxation of high income individuals and corporations and the removal of tax credits), implies corrective measures worth 5% of GDP over the next five years, an unprecedented adjustment in France. Given the unrealistic official growth assumptions (0.3% in 2012, 1.2% in 2013, 2% in 2014-17), we do not anticipate that these fiscal objectives will be met without substantial additional expenditure restraint. We forecast a 2012 deficit around 4¾% of GDP (versus the 4.5% target). The gross debt will likely continue to rise through at least 2014, reaching above 92% of GDP (up from 64.2% in 2007), before stabilizing around 90%. On the current account, a drop in the surpluses on the services and income accounts is expected to offset a slight narrowing in the trade deficit, leading to an uptick in the overall current account deficit to a still manageable 2¼% of GDP this year. The deficit will then trend lower from 2013 on as export growth recovers.

François Hollande succeeded Nicolas Sarkozy as president in May 2012, becoming only the second socialist head of state in France. Hollande's Partis Socialiste then won a parliamentary majority in the general election in June, giving the administration a strong mandate to govern until 2017. The government currently enjoys broad support, though tensions may arise as the impact of fiscal austerity begins to filter through the economy and the general population. Relationships with euro zone leaders and officials will likely be tested in the coming months as President Hollande takes a different stance with respect to the crisis than his predecessor.

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UK Labour Market On Fire!

- **Labour data are flying!**

UK Labour data have been surprisingly robust in recent months and that continued in July.

- Employment surged by 201k over the last 3 months
- Unemployment was down by 46k in the last 3 months.
- Claimant count unemployment was down by almost 6k (after two months of increases – mainly related to a change in eligibility criteria).

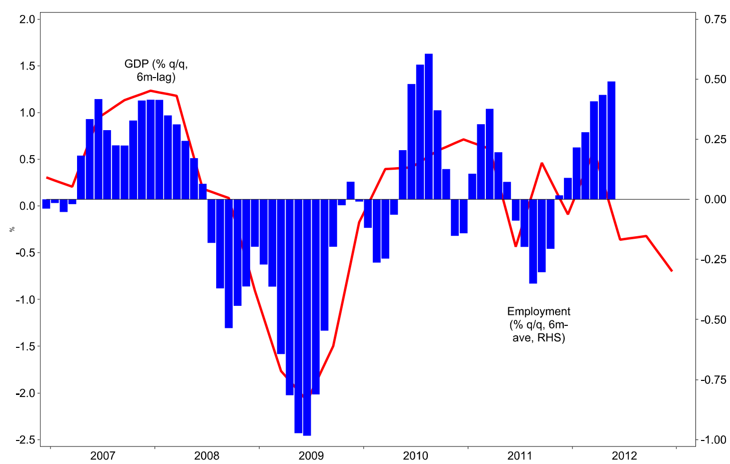
If the UK is in recession someone forgot to tell the firms that are hiring workers at a breakneck pace. Earlier this week the CIPD labour group suggested that firms are hoarding workers and if growth doesn't pick up, then the labour data will fall off a cliff. I'm not convinced hoarding workers is the right word – hoovering them up more likely!

To put these figures into context:

- Translating this into US non-farm payrolls, this is equivalent to an increase of over 500k per month!
- So far this year more than 335k jobs have been created. That is more than got created in an entire year when the economy was growing by a decent 3-4% y/y in the early 2000's.

Chart 1 below shows that given the recent performance of GDP, you would typically expect to see employment (the blue bars on the right hand scale) falling. The underlying GDP picture is probably far less downbeat than the headline growth rate suggests.

Chart 1: Employment Growth vs GDP



Clearly there have been a number of distortions that have been plaguing the GDP data. So what would GDP look like if none of these had happened?

- The latest MPC minutes estimated that the extra bank holiday associated with the Jubilee celebrations subtracted around ½% from % q/q GDP. That sounds reasonable to us.
- Since the preliminary Q2 GDP data were originally published, upward revisions to construction and industrial production data imply a 0.2% point upward revision to the original -0.7% q/q GDP print.
- The construction sector has been the problem child of the UK GDP data. It accounts for a pretty small share of overall GDP but is super-volatile. If we exclude this sector from the GDP calculations, you get an addition to % q/q GDP growth over the last 2 quarters of 0.35% points per quarter.
- It is reasonable to strip out the contribution of mining to overall GDP. This is because an outage caused by an explosion on a major North Sea gas platform (subtracting around 0.1% point from headline GDP) is hardly a reflection of underlying activity.

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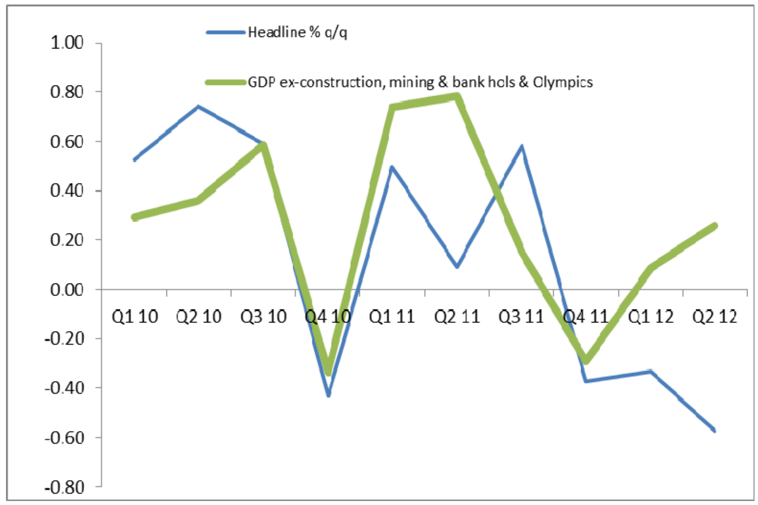
- You could probably even add a little bit extra on to take account of the impact of poor weather on the likes of manufacturing.

Clearly if you take all of the bad stuff out of the GDP data – of course it is more positive. But for what it is worth, our estimate of 'underlying' GDP growth during each of the first two quarters of the year would be around ¼% q/q (Chart 2).

The point is, a firm is unlikely to put off hiring someone just because of an extra bank holiday or a bit of rain. The super-volatile construction data account for around 0.35% points of recent GDP prints, yet it employs just 6% of total jobs in the UK.

Chart 2: GDP vs Scotia 'Underlying' GDP Proxy



Even with underlying GDP growth of ¼% q/q, it would be surprising to see employment growth at the pace we are currently seeing. But it does suggest that it would be wrong to read too much into the doom and gloom of the GDP data. Furthermore, if industrial production and construction data have both been revised up since the original GDP release – what is to say that services won't also be revised up? We will find out on 24 August.

Chicken or Egg?

Does weak GDP point to a falloff in employment in the months ahead? Or will surging employment lead to an acceleration in GDP growth? We hope that the latter will be true. More specifically:

- Accelerating employment…
- *plus* stable wage inflation…
- *subtract* sharply falling inflation…

…adds up to an acceleration in household real disposable income and, in turn, consumer spending. Originally we had expected a decent acceleration in consumption this year due to the fall in inflation. The latter has been even sharper than we originally expected – even better news for consumption than we originally thought. Furthermore, this has been augmented by the sharper-than-expected acceleration in employment growth. The point is that clearly it is puzzling that headline GDP has not been stronger over the last 6 months or so. But going forward, there is good reason to expect the trajectory of growth to be upwards thanks to the increasingly favourable fundamentals facing consumers.

There are two key risks. Firstly, even if household real disposable income growth does improve, it gets saved rather than spent. Secondly, the labour data are too good to be true and could still fall off a cliff. Reassuringly, hiring intentions do not support the latter. Even so, at some point there is likely to be some payback, but unlikely a bloodbath.

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Belize: What Happens Next?

The following article was published on August 16, 2012.

Recent announcements by the government of Belize suggest that they will seek aggressive cuts in debt service from creditors. We discuss the likely next steps by the government and the possible responses from bondholders.

Last week, Belize surprised the market with a set of highly aggressive restructuring scenarios. Consistent with those scenarios, Belize announced this week that it would not pay the upcoming coupon on the existing bonds. With much of the uncertainty regarding Belize's intentions resolved, we can now speculate on how the negotiations between the government and bondholders will play out. The successes achieved by debtors like Argentina and Ecuador in avoiding debt repayment so far provide a clear roadmap for Belize to follow. Meanwhile, bondholders should develop creative tactics to confront these plans in order to achieve a better result than what we have seen in some recent restructurings.

Government strategy

We think the government's strategy is fairly straightforward at this point. They will offer bondholders pennies on the dollar in the hopes that many bondholders would prefer to get that rather than to hold onto a defaulted bond that pays nothing. Belize bonds contain a collective action clause under which the consent of 75% of holders is sufficient to change the payment terms of the bonds, including the coupon, maturity date, or principal amount. Prior to seeking the consent of bondholders on such matters, Belize is required to provide a description of the economic circumstances necessitating the restructuring, which we imagine was part of the motivation for issuing the "Economic and Financial Update" in June. The government is also required to provide a description of the treatment of other creditors, such as former owners of expropriated companies. Here there exists considerable ambiguity; the latest update contained in "Indicative Restructuring Scenarios" is that other creditors will be treated on the same terms as bondholders without providing additional details.

How will Belize convince bondholders to accept its terms? We don't know if Belize held any assets in the US to start with, but if they did, they have surely removed them by now. Thus, they would like to create the impression that a creditor that wins a judgement against Belize in New York court would have no means to collect. That goal could be facilitated by threatening the use of exit consents. Since, the current bond also allows for the modification of non-reserve matters with the approval of only 50% of bondholders, Belize could threaten to make the terms of the original bonds less attractive for the remaining 50% of bondholders that do not agree to a potential exchange.

Bondholder strategy

The goal of bondholders in the near term should be to mobilize at least a majority of other like-minded creditors to resist an aggressive restructuring. In addition to countering the government strategies mentioned above, having broad support among bondholders serves several purposes. First, bondholders would prefer to have a larger base among which to spread legal costs. Second, liquidity of the old bonds would be better when more bonds are outstanding. Third, from a public relations perspective, the unfairness of a restructuring is more apparent when few bondholders are willing to consider it. We think the formation of the creditor committee in advance puts bondholders in a better position than they were in Ecuador, where the global financial crisis caused bondholders to focus on other issues. Similarly, Belize's inability to pay cash, as well as its intention to pay with a new illiquid bond instead, makes Belize's offer less enticing for bondholders.

Bondholders may soon accelerate the bonds, an action which requires a request to the Trustee from only 25% of bondholders. While the country is entitled to a 30-day grace period for failing to pay interest, a declaration of a general suspension of payments is grounds for an immediate acceleration. We are not sure if Tuesday's

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statement qualifies as such a suspension, but either way, we could see acceleration soon, which would serve as a precursor to suing the country for the full principal in NY court.

The medium-term goal of bondholders may be to show that default can be sufficiently costly to the country in order to force the country to improve its offer. It is here that creativity from lawyers enters the picture. Hedge funds suing Argentina invented some clever strategies, even though they were not always successful; most notable in our mind was seizing the foreign assets of Argentine pension funds right after the government nationalized the pension fund system. Alternatively, they could try to recruit outside help. For example, Vitro creditors were able to enlist the help of US Congressmen, and also found some support in US bankruptcy court in countering decisions issued by the Mexican courts. These are just a few examples, and we don't yet know which strategies bondholders may consider, and which could prove successful. In fact, bondholders could face a trade-off between keeping the details of their plans secret from the issuer until they are ready to execute them and demonstrating to other bondholders that they indeed have such plans in order to block an early exchange offers.

Implications for EM

We are concerned about the precedent that first Ecuador and now Belize may set for other small emerging market countries. These countries have decided that the costs of an aggressive default are limited to a diminished ability to access capital markets in the future. If they don't want or don't have such access anyway, these governments may believe there is no reason to pay. We discussed that idea back in 2008 in the context of the Ecuador default, arguing that the lack of a strong response from creditors could cause some other countries to incorrectly conclude that aggressive defaults do not have long-term economic consequences. (See our article, "Contagion from Ecuador – Repricing the cost of default," November 21, 2008, available for download on the EMTA website). In this sense, the EM bondholder community may have more at stake here than just their Belize bonds.

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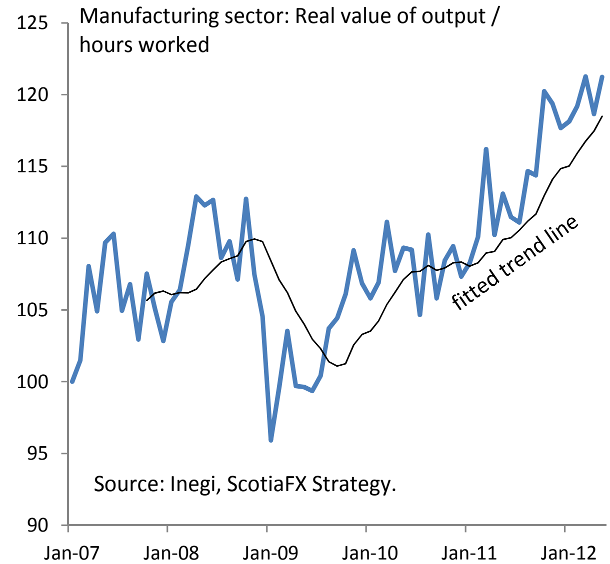
Mexico: Manufacturing Gold

Over the course of human history, alchemists spent a large number of man hours seeking to manufacture gold. From last week's victory in the final of Olympic soccer against Brazil, and the country's recent strength in manufacturing, even as the global economy slows, it would appear that Mexico's alchemists have finally found the philosopher's stone. Manufacturing sector exports have accounted for 80% of Mexico's exports over the past 10 years, highlighting the importance of the sector's competitiveness for the peso's performance.

- Moving up the value chain: The value of Mexican manufacturing output (in real terms) has been growing faster than the number of hours worked in the industry over recent years (see Graph 1), which appears consistent with reports that the country's manufacturing is moving up the "value added chain" in some industries, such as the automotive sector where Lincoln has started manufacturing the MKZ, while Audi is considering producing the Q5 in the country. In addition, although still much smaller than the auto sector, the aerospace industry is increasingly important.

Graph 1: Manufacturing output/labour unit trend is encouraging, as is the trend of the country's market share in US imports



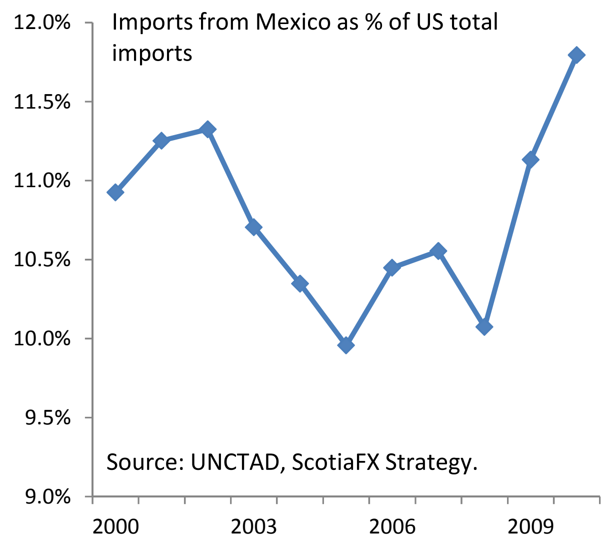


Table 1: Mexico is now the 4th largest auto-exporter globally

Major car exporters (# of units)

Rank	Country	Jan-Mar 12
1	Germany	1,267,654
2	Japan	1,264,332
3	Korea	855,354
4	**Mexico**	**589,581**
5	Canada	520,749
6	Spain	459,220
7	USA	448,809
8	France	398,629
9	UK	322,653
10	Czech Republic	294,480

Source: Economy Ministry, AMIA, Global Trade Atlas, ScotiaFX Strategy.

- Investment hot-spot: The success of the country's manufacturing/auto sector has made it the primary driver of FDI inflows, helping place Mexico in the TOP 10 of "FDI priority countries" according to a survey by UNCATAD. In addition, transportation equipment manufacturing has accounted for 7.4% of FDI inflows since 2000 (while overall manufacturing accounted for 44% in the same period).

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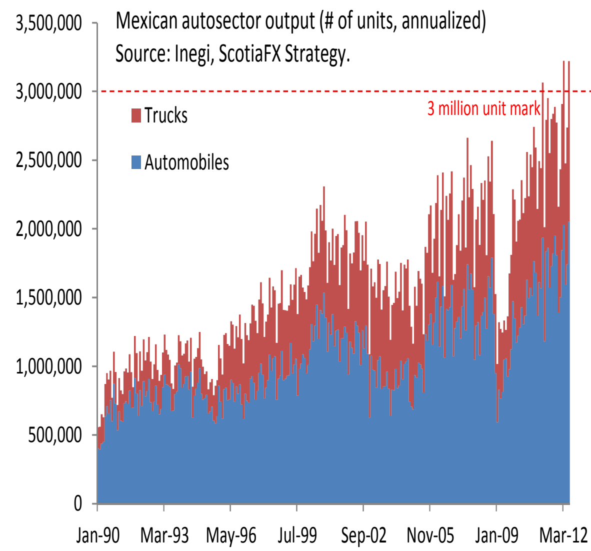
Table 2: Important auto-sector FDI plans have been announced

Auto sector investment announcements (US$mn)

Company	2007	2008	2009	2010	2011	2012 (Jan - Apr.)
Daimler Chrisler	871					
Ford		3,000				1,300
Chrysler				550	620	
Volkswagen			1,053	1,020		
GM				435	900	
Nissan				600		2,000
Mazda					500	
Honda					800	
Audi						2,000
Total	871	3,000	1,053	2,605	2,820	5,300

Source: Economy Ministry, ScotiaFX Strategy.

Graph 2: Mexico's auto-sector output has been rising steadily



- Location, location, location: in addition to other structural factors, Mexico's location is an important factor in companies' decisions to set up operations in NAFTA's southern partner, as proximity to the US market means important savings in time and shipping costs. However, besides shipping times to the US being among the lowest among major manufacturers, Mexico's shipping times to other major markets (such as Europe and Japan — see Table 3) compare favourably relative to other important manufacturing countries.

Table 3: Shipping times to major "end destinations"

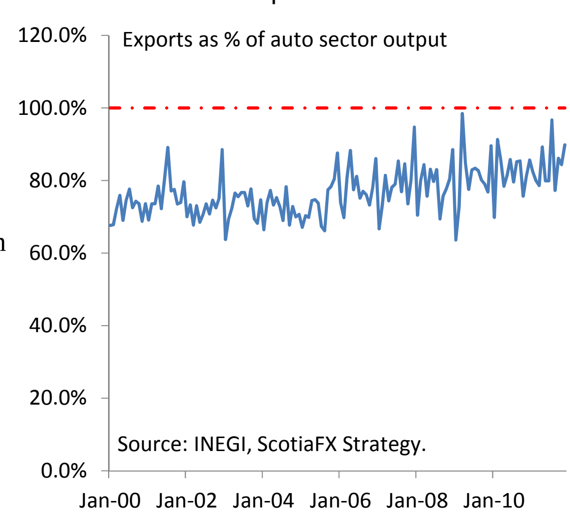
Days at sea required to reach major "end-destinations"

		From									
		Germany	Brazil	China	Colombia	Korea	USA	India	Mexico	Poland	Turkey
To	New York	11	15	32	6	21		25	5	12	16
	L.A.	25	23	18	10	17		31	4	26	28
	Rotterdam		17	32	15	33	11	20	16	1	10
	Yokohama	35	35	4	24	3	15	17	19	36	27

Source: Economy Ministry, Boston Consulting, ScotiaFX Strategy.

- Education is a mixed bag for productivity: Although we are not aware of any "quality-adjusted" ranking of engineering graduates, the sheer number produced by Mexico relative to the US reflects the importance of the manufacturing sector for the country (see Graph 5), and is likely one of the positive drivers of the sector's performance. However, to move to the next level, Mexico still likely needs to boost the quality of its education system given that, even if it ranks comparatively well within LATAM, its overall education performance clearly lags its OECD peers (see Graph 6). However, developing a stronger education system takes time, and should be seen as a longer term project, which highlights the importance of advancing in the rest of the structural reform agenda as a way of boosting the country's productivity / competitiveness. In the meantime, low labour costs (see Graph 6) & a flexible exchange rate should provide some room to manoeuver.

Graph 3: Majority of auto production is destined for exports



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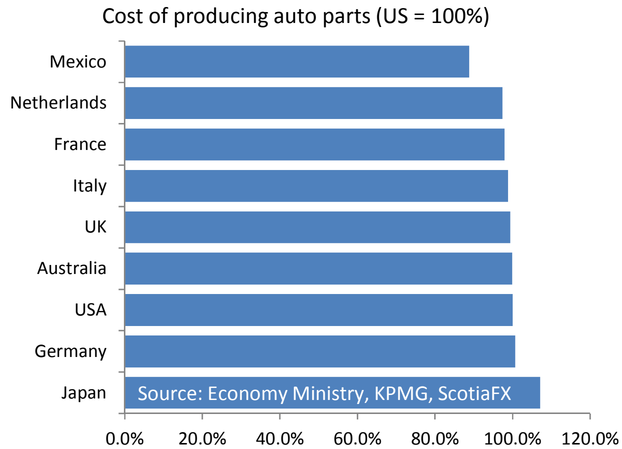
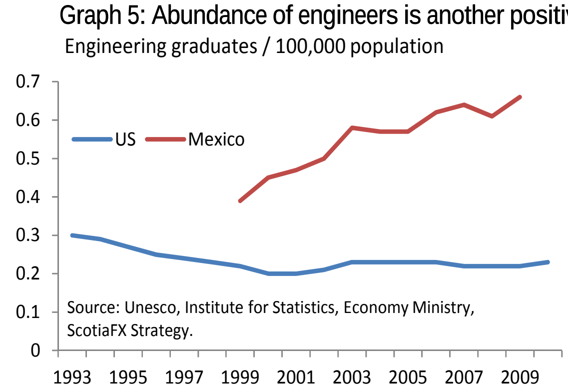
- Reforms are key, but it's hard to have enough conviction on their progress to hold our breath: Although the politics around structural reform approval / implementation are highly uncertain, both the PRI and the PAN have signaled a willingness to cooperate on that front, which could have a positive impact on the manufacturing sector. We believe that the labour (more flexibility), energy (infrastructure spending boost + potentially cheaper energy, at least on the natural gas side), and to a lesser extent the fiscal reform (potentially lower borrowing costs for Mexico as a whole, as well as efficiency gains, but the net impact is harder to estimate — and the form of the tax reform is still uncertain) could all be supportive. However, we also caution there are several factors that could complicate the reform negotiation process, including: a potentially divided PAN and a recent emphasis on political (as opposed to economic) reform from the PRI.

Bottom line: Mexico's soccer team has been claiming success at increasingly important competitions, first winning the gold at the U17s level, and now claiming gold in the Olympics (U23s). A similar pattern appears to be taking place in the country's auto sector, which is moving up the "valued added chain". We continue to see strong tailwinds for MXN from the country's auto-sector competitiveness, which should be supportive for both exports and FDI flows. In addition, the significant announcements of investment plans over recent years suggest the country's production will continue to rise going forward (see table 2).

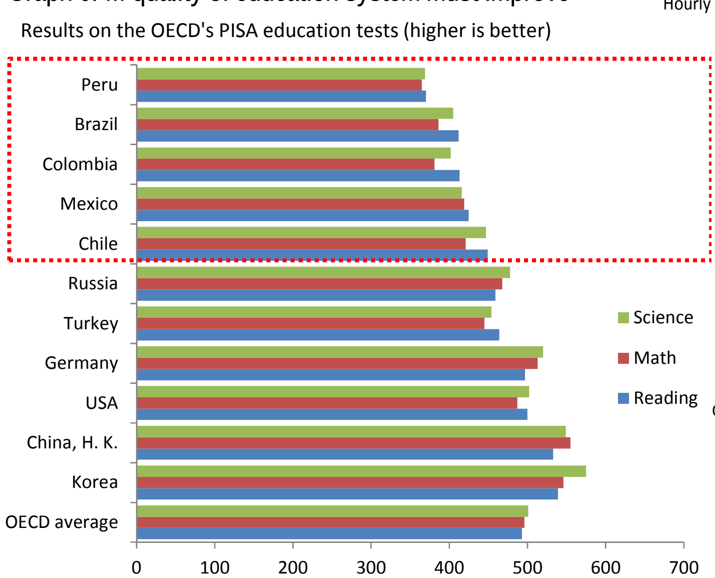
Graph 4: Mexico's auto-parts manufacturing costs are low



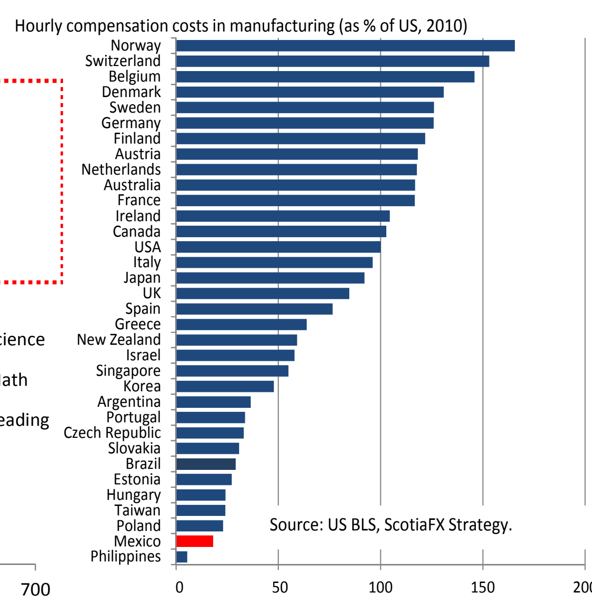
Graph 5: Abundance of engineers is another positive ...



Graph 6: ... quality of education system must improve



Graph 7: Low labour costs remain supportive



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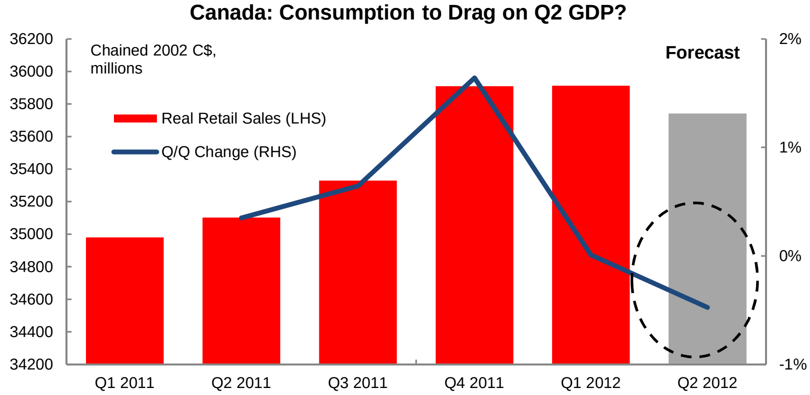
Key Data Preview

CANADA

Scotia anticipates that Canadian **retail sales** (August 22) will come in at a fairly muted -0.1% m/m for June. Gasoline prices at the pump were lower during June, as were consumer prices in general, both of which should weigh on the headline nominal number that attracts most media attention. The key will be sales of new passenger cars, which were lower both in dollar and volume terms according to data released by Statistics Canada. The note of caution here is that car sales only account for a portion of the 'sales at new vehicle dealers' category (service, maintenance, and repair sales dampen the influence of new vehicle sales on total sales at car dealers). The bigger picture is that real retail sales are tracking negatively on the quarter, with volumes of Q2 sales lower than Q1 sales by 1.9% at an annualized pace. Retail sales would need to expand by 1.4% in volume terms during June in order to get to Q1's absolute sales level and simply attain a flat quarter-on-quarter outcome. Anything short of a monster gain in retail sales volumes should cause consumption of goods to drag on GDP during Q2 in Canada — much as it did in the U.S.

Canada: Consumption to Drag on Q2 GDP?



Source: Scotia Economics, Statistics Canada, Bloomberg

The monthly (June) GDP number will be rounded out by **wholesale sales** data, which will be released on August 21.

UNITED STATES

Is a U.S. housing sector renaissance unfolding? Data on the US housing sector will feature prominently this week via two releases on sales activity: **existing home sales** will be released on August 22 and **new home sales** will be released on August 23. Scotia is anticipating fairly tepid growth for both, forecasting a half-percentage point rise for each during July. The interesting issue here is that even amidst widespread reports that housing market activity is accelerating, most of the leading indicators for home sales show activity as flat or negative. Pending home sales fell in June as did the average level of mortgage applications as registered by the Mortgage Bankers Association. The one bright spot in terms of leading indicators for housing sales is that aspects of the NAHB's housing market index perked up in July.

Durable goods orders are the other major U.S. data release due out (August 24). We're expecting a large 3% gain in headline orders due to a significant month-on-month pick-up in orders placed at Boeing — even as weakness elsewhere leads us to expect that orders ex-transportation should come in at a muted -0.2%. The story is that orders of jets from Boeing took off in July, growing to 260 vs. 24 in June as global airlines placed orders following the major airshows at Paris in June and Farnborough in July. When a comparably large order of aircraft was placed at Boeing in February 2012, the value of non-defense aircraft orders was US$17.4bn (237 planes were ordered); the value of non-defense aircraft and parts orders in June was US$10.9bn. Seasonal adjustment of the aircraft component of new orders typically *adds* to the value of orders during July, so there's significant room for aircraft to swing overall durable goods orders to the upside. The issue is that aside from aircraft, the remainder of the order book looks weak as the new orders components of the regional Fed and ISM manufacturing indices were soft in July on balance. Pay attention to the 'capital goods ex-defense shipments' category which figures into the investment component of U.S. GDP.

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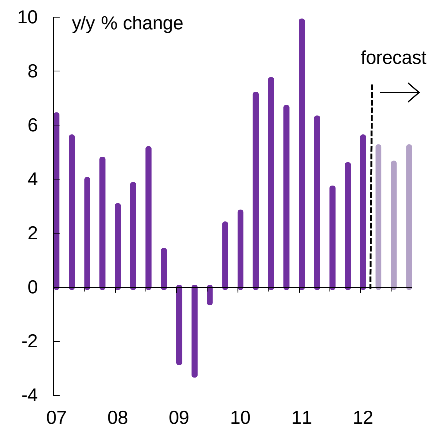
EUROPE

The first estimate of UK GDP for the April-June period was surprisingly weak — a 0.7% q/q contraction following the 0.3% loss of the first quarter. Subsequent monthly data that are built into the second-quarter reading point to an upward revision in the second estimate (to be reported on Friday). More specifically, the June industrial production and construction output data each imply a 0.1 percentage point upward revision to headline GDP. In addition, revisions to the June retail sales data point to a further 0.1 percentage point upward revision. The joker in the pack will be the remainder of the services sector, which accounts for around 70% of overall GDP. Our judgement is that given the stellar pace of employment growth (the jobless rate fell from 8.2% to 8.0% in the second quarter), the initial weakness of GDP was overstated. In sum, we expect a 0.4 percentage point upward revision to -0.3% q/q. If this reasoning proves accurate, our annual forecast will also likely see an upward adjustment (the projection is currently for a 0.4% decline this year).

LATIN AMERICA

To this point, economies such as Mexico, Chile, Colombia and Peru remain resilient to the slowdown in the developed economies. Chile will release its second quarter GDP report on August 20th and we anticipate an expansion rate of 5.2% y/y. The leading economic indicator suggests a rebound in the last month of the quarter, growing from 4.8% y/y in April to 6.2% y/y in June. The 3-month average suggests a quarterly rate of 5.4%, slightly below the first quarter average of 5.6%; however, Chile maintains a strong economic performance. We anticipate that the Chilean economy will continue to grow at a solid rate through the remainder of the year — yet at a more modest pace— expanding by 5.1% in 2012 as a whole.

Chilean GDP



Source: Thomson Reuters

ASIA

Thailand is not immune to the regional economic deceleration under way, as reflected in the overall decline in export sector receipts during the second quarter of the year. Nevertheless, domestic demand remains relatively robust on the back of a still solid employment environment, accelerating activity in the tourism industry and massive fiscal stimulus measures to aid recovery from the devastating effects of the end-2011 floods. Both private consumption and investment indices point towards a domestic economy in expansion mode. The Bank of Thailand in its recent assessment of economic conditions also stressed that price pressures remain well contained and that the inflation outlook does not present imminent adverse effects. We expect the central bank to maintain an accommodating monetary policy stance and keep its administered short-term rate unchanged at 3% for the time being. On August 19, economic activity statistics will be released: the economy is well positioned to register an increase of 3% on a year-over-year basis in the second quarter of the year (up 2% on an annualized quarter-to-quarter basis). We expect the Thai economy to expand by 4.5% y/y in 2012/13, yet the risks are to the downside, in line with ongoing evidence of further economic stress in European markets and selected core Asian economies.

Key Indicators for the week of August 20 - 24

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CA	08/21	08:30	Wholesale Trade (m/m)	Jun	--	0.3	0.9
US	08/22	07:00	MBA Mortgage Applications (w/w)	Aug 17	--	--	-4.5
CA	08/22	08:30	Retail Sales (m/m)	Jun	-0.1	0.1	0.3
CA	08/22	08:30	Retail Sales ex. Autos (m/m)	Jun	0.0	0.2	0.5
MX	08/22	09:00	Retail Sales (INEGI) (y/y)	Jul	5.6	4.0	5.2
US	08/22	10:00	Existing Home Sales (mn a.r.)	Jul	4.4	4.5	4.4
US	08/22	10:00	Existing Home Sales (m/m)	Jul	0.5	3.3	-5.4
US	08/23	08:30	Continuing Claims (000s)	Aug 11	3325	3300	3305
US	08/23	08:30	Initial Jobless Claims (000s)	Aug 18	365	365	366
MX	08/23	09:00	Bi-Weekly Core CPI (% change)	Aug 15	0.2	--	0.1
MX	08/23	09:00	Bi-Weekly CPI (% change)	Aug 15	--	--	0.1
US	08/23	10:00	New Home Sales (000s a.r.)	Jul	350.5	365.0	350.0
US	08/24	08:30	Durable Goods Orders (m/m)	Jul	3.0	2.5	1.3
US	08/24	08:30	Durable Goods Orders ex. Trans. (m/m)	Jul	-0.2	0.5	-1.4
MX	08/24	09:00	Trade Balance (US$ mn)	Jul P	--	--	601.6
MX	08/24	09:00	Unemployment Rate (%)	Jul	5.3	--	4.8

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
UK	08/21	04:30	PSNB ex. Interventions (£ bn)	Jul	6.3	-2.2	14.5
UK	08/21	04:30	Public Finances (PSNCR) (£ bn)	Jul	--	--	3.0
UK	08/21	04:30	Public Sector Net Borrowing (£ bn)	Jul	--	-3.2	12.1
FR	08/23	03:00	Manufacturing PMI	Aug P	45.0	43.7	43.4
FR	08/23	03:00	Services PMI	Aug P	52.5	50.0	50.0
GE	08/23	03:30	Manufacturing PMI	Aug A	45.0	43.4	43.0
GE	08/23	03:30	Services PMI	Aug A	52.5	50.1	50.3
EC	08/23	10:00	Consumer Confidence	Aug A	--	-22.0	-21.5
UK	08/24	04:30	Business Investment (q/q)	2Q P	--	0.3	1.9
UK	08/24	04:30	GDP (q/q)	2Q P	-0.3	-0.5	-0.7
UK	08/24	04:30	Index of Services (m/m)	Jun	-2.0	-1.8	0.9

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

Key Indicators for the week of August 20 - 24

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
TH	08/19	22:30	GDP (q/q)	2Q	--	2.0	11.0
TH	08/19	22:30	GDP (y/y)	2Q	--	3.1	0.3
JN	08/20	01:00	Coincident Index CI	Jun F	--	--	93.8
JN	08/20	01:00	Leading Index CI	Jun F	--	--	92.6
JN	08/20	01:00	New Composite Leading Economic Index	Jun F	--	--	92.6
JN	08/21	00:30	All Industry Activity Index (m/m)	Jun	--	0.2	-0.3
JN	08/21	19:50	Merchandise Trade Balance (¥ bn)	Jul	--	-270.0	60.3
CH	08/22	22:30	HSBC Flash China Manufacturing PMI	Aug	--	--	49.5
VN	08/24	06:59	Exports (y/y)	Aug	--	--	19.0
VN	08/24	06:59	Imports (y/y)	Aug	--	--	7.3

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CL	08/20	08:30	GDP (q/q)	2Q	--	1.6	1.4
CL	08/20	08:30	GDP (y/y)	2Q	5.2	5.4	5.6
CO	08/22	17:00	Retail Sales (y/y)	Jun	--	1.5	0.9
BZ	08/23	09:30	Current Account (US$ mn)	Jul	--	-3400.0	-4419.0
CO	08/24	07:59	**Overnight Lending Rate (%)**		**4.75**	**4.75**	**5.00**

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

Global Auctions for the week of August 20 - 24

North America

Country	Date	Time	Event
US	08/20	11:00	U.S. Fed to Purchase USD4.25-5.00 Bln Notes
US	08/20	11:30	U.S. to Sell 3-Month Bills
US	08/20	11:30	U.S. to Sell 6-Month Bills
US	08/21	11:00	U.S. Fed to Sell USD7.00-8.00 Bln Notes
US	08/21	11:30	U.S. to Sell 52-Week Bills
US	08/21	11:30	U.S. to Sell 4-Week Bills
US	08/22	11:00	U.S. Fed to Purchase USD1.50-2.00 Bln Notes
US	08/23	11:00	U.S. Fed to Purchase USD1.50-2.00 Bln Notes
US	08/23	13:00	U.S. to Sell 5-Year TIPS Reopening
US	08/24	11:00	U.S. Fed to Sell USD7.00-8.00 Bln Notes

Europe

Country	Date	Time	Event
FR	08/20	09:00	France to Sell Bills (BTF)
NE	08/20	05:00	Netherlands to Sell Bills
NO	08/20	05:10	Norway to Sell Bills
SP	08/21	04:30	Spain to Sell 12-Month and 18-Month Bills
SZ	08/21	05:30	Switzerland to Sell 6-Month Bills
UK	08/21	05:30	U.K. to Sell GBP1.25 Bln 0.125% I/L 2029 Bonds
GE	08/22	05:30	Germany to Sell EU5 Bln 2-Year Notes
IC	08/22	06:00	Iceland to sell Bonds
SW	08/22	05:10	Sweden to Sell Bonds
UK	08/23	05:30	U.K. to Sell GBP3.75 Bln 5% 2018 Bonds
UK	08/24	06:10	U.K. to Sell Bills

Asia Pacific

Country	Date	Time	Event
AU	08/20	21:00	Australia Plans to Sell Index Linked Bonds
JN	08/20	23:45	Japan to Sell 5-Year Bonds
CH	08/21	23:00	China to Sell 10-Year Bonds
JN	08/22	23:45	Japan to Sell 20-Year Bonds
JN	08/22	23:35	Japan to Sell 3-Month Bills
NZ	08/22	22:30	New Zealand Plans to Sell Bonds

Latin America

Country	Date	Time	Event
BZ	08/23	10:00	Brazil to Sell Bills due 1/1/2016 - LTN
BZ	08/23	10:00	Brazil to Sell Bills due 4/1/2013 - LTN
BZ	08/23	10:00	Brazil to Sell Bills due 7/1/2014 - LTN
BZ	08/23	10:00	Brazil to Sell Fixed-rate bonds due 1/1/2018 - NTN-F
BZ	08/23	10:00	Brazil to Sell Fixed-rate bonds due 1/1/2023 - NTN-F

Source: Bloomberg, Scotia Economics.

Events for the week of August 20 - 24

North America

Country	Date	Time	Event
CA	AUG 20-21		CABE Moneco-Econtro Conference 2012 in Canada
CA	08/21	13:00	Bank of Canada Deputy Governor Agathe Cote Speaks in Ontario
US	08/21	08:45	Fed's Lockhart Speaks in Atlanta
CA	08/22	11:00	Bank of Canada Governor Mark Carney to Speak
US	08/22	14:00	Fed Releases Minutes from August 1 FOMC Meeting
US	08/22	23:30	Fed's Evans holds press briefing in Beijing, China
CA	08/23	11:45	The Economic Club of Canada Presents Minister of State Menzies

Europe

Country	Date	Time	Event
GE	AUG 18-19		German Ministries Open Days; Schaeuble Attending
SW	08/18	07:00	Swedish Prime Minister to hold annual summer speech
IT	AUG 19-25		Rimini Meeting 2012
GE	08/19	18:00	Finance Ministry Press Fest: Berlin
GE	08/19	08:00	Merkel Tours Chancellery at Open Doors Day in Berlin
GE	08/20	02:00	German Finance Ministry Publishes Monthly Report for August
PO	08/20	06:00	Portugal Reports Monthly Economic Survey
PO	08/23	14:00	Portugal Year-to-Date Budget Report
SP	08/24	04:00	Spanish Cabinet Meets, Followed by News Conference

Asia Pacific

Country	Date	Time	Event
IN	08/18	14:30	RBI Deputy Governor Gokarn Addressing Event in Goa
NZ	08/20	23:00	New Zealand Survey of Inflation Expectations
AU	08/20	21:30	Reserve Bank Board - August Minutes
NZ	08/21	22:00	Local Government Funding Agency bond sale
AU	08/23	19:30	Stevens Testifies Before House Economics Committee in Canberra
JN	08/24	03:45	BOJ Governor Shirakawa to Hold Press Conference

Latin America

Country	Date	Time	Event
CL	08/22	08:30	Central Bank's Traders Survey
CO	08/24		**Overnight Lending Rate**

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

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

BoC: Scotia continues to expect a prolonged hold period for the Bank of Canada. With CPI tracking at very soft levels (1.3% y/y on headline, 1.7% on core) and the outlook muted, the likelihood of near-term BoC rate hikes is de minimis. We do not expect rate cuts in the absence of a global liquidity and funding crisis. Fed: With little on tap in terms of economic data or scheduled remarks by regional Fed presidents or Fed governors (two of the former are planned to speak this week), it should be quiet on the Fed front before things pick up month-end at the KC Fed's Jackson Hole monetary policy conference. Minutes from the Aug. 1 FOMC meeting will be released on Aug. 22… and scrutinized for hits in favor of or against quantitative easing.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	0.75	September 6, 2012	0.50	--
Bank of England – Bank Rate	0.50	September 6, 2012	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	September 13, 2012	0.00	--
Central Bank of Russia – Refinancing Rate	8.00	September 14, 2012	8.00	--
Hungarian National Bank – Base Rate	7.00	August 28, 2012	7.00	7.00
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.75	September 18, 2012	5.75	--
Sweden Riksbank – Repo Rate	1.50	September 6, 2012	1.50	--
Norges Bank – Deposit Rate	1.50	August 29, 2012	1.50	--

Asia Pacific

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

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	8.00	August 29, 2012	7.50	--
Banco Central de Chile – Overnight Rate	5.00	September 13, 2012	5.00	--
Banco de la República de Colombia – Lending Rate	5.00	August 24, 2012	4.75	4.75
Banco Central de Reserva del Perú – Reference Rate	4.25	September 6, 2012	4.25	4.25

We expect the central bank of Colombia to continue to ease monetary policy, supported by a moderation in economic activity and decelerating inflation, following the surprising rate cut in July. We anticipate another 25 basis points reduction at the next monetary policy meeting, bringing the rate to 4.75%, with another cut in the last quarter of the year.

Africa

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

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

Forecasts as at August 1, 2012*	2000-10	2011	2012f	2013f	2000-10	2011	2012f	2013f
Output and Inflation (annual % change)		Real GDP				Consumer Prices[2]		
World[1]	3.7	4.0	3.1	3.4				
Canada	2.2	2.4	1.9	1.8	2.1	2.9	1.8	2.1
United States	1.8	1.8	2.1	1.9	2.5	3.1	2.1	2.2
Mexico	2.1	4.2	3.7	3.6	4.9	3.8	4.2	4.0
United Kingdom	2.0	0.7	-0.4	1.2	2.1	4.2	1.8	3.0
Euro Zone	1.4	1.5	-0.7	0.3	2.1	2.7	1.7	1.9
Japan	0.9	-0.7	2.3	1.5	-0.3	-0.2	0.1	0.3
Australia	3.1	2.1	3.2	3.3	3.1	3.1	2.3	2.8
China	9.4	9.3	7.8	8.2	2.3	4.1	4.0	4.4
India	7.6	10.0	6.0	6.3	6.4	7.7	6.5	6.8
South Korea	4.6	3.6	3.0	3.8	3.1	4.8	3.3	3.0
Thailand	4.4	0.1	5.0	4.0	2.7	3.5	3.0	2.8
Brazil	3.7	2.7	2.0	4.0	6.6	6.5	5.0	5.5
Chile	4.6	6.1	5.1	5.7	3.4	4.4	2.2	3.2
Peru	5.5	7.0	6.3	6.2	2.4	4.7	3.0	3.0
Central Bank Rates (%, end of period)	12Q1	12Q2f	12Q3f	12Q4f	13Q1f	13Q2f	13Q3f	13Q4f
Bank of Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Federal Reserve	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
European Central Bank	1.00	1.00	0.50	0.50	0.50	0.50	0.50	0.50
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.75	3.50	3.25	3.25	3.25	3.25	3.50	3.50
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.00	1.02	1.02	0.99	0.98	0.97	0.97	0.97
Canadian Dollar (CADUSD)	1.00	0.98	0.98	1.01	1.02	1.03	1.03	1.03
Euro (EURUSD)	1.33	1.27	1.20	1.23	1.22	1.22	1.21	1.21
Sterling (GBPUSD)	1.60	1.57	1.55	1.59	1.62	1.63	1.64	1.64
Yen (USDJPY)	83	80	78	78	84	85	86	87
Australian Dollar (AUDUSD)	1.03	1.02	1.02	1.02	1.04	1.04	1.05	1.05
Chinese Yuan (USDCNY)	6.3	6.4	6.3	6.3	6.3	6.2	6.2	6.1
Mexican Peso (USDMXN)	12.8	13.4	13.3	13.1	13.2	13.1	13.1	13.3
Brazilian Real (USDBRL)	1.83	2.01	1.96	1.95	1.92	1.87	1.88	1.90

Commodities (annual average)	2000-10	2011	2012f	2013f
WTI Oil (US$/bbl)	54	95	90	95
Brent Oil (US$/bbl)	52	112	104	104
Nymex Natural Gas (US$/mmbtu)	5.81	4.03	2.75	3.00
Copper (US$/lb)	1.93	4.00	3.65	3.45
Zinc (US$/lb)	0.75	0.99	0.89	1.02
Nickel (US$/lb)	7.36	10.38	8.00	7.80
Gold, London PM Fix (US$/oz)	586	1,569	1,665	1,650
Pulp (US$/tonne)	694	977	880	900
Newsprint (US$/tonne)	575	640	640	660
Lumber (US$/mfbm)	273	255	280	310

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

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

North America

Canada	2011	11Q4	12Q1	Latest	
Real GDP (annual rates)	2.4	1.9	1.9		
Current Acc. Bal. (C$B, ar)	-48.4	-38.7	-41.1		
Merch. Trade Bal. (C$B, ar)	2.3	14.9	8.7	-21.7	(Jun)
Industrial Production	3.5	3.0	1.0	4.0	(May)
Housing Starts (000s)	193	199	206	209	(Jul)
Employment	1.6	1.2	0.9	0.8	(Jul)
Unemployment Rate (%)	7.5	7.5	7.4	7.3	(Jul)
Retail Sales	4.1	4.2	4.3	7.6	(May)
Auto Sales (000s)	1588	1603	1701	1719	(May)
CPI	2.9	2.7	2.3	1.3	(Jul)
IPPI	4.6	3.9	1.8	-0.4	(Jun)
Pre-tax Corp. Profits	15.4	13.7	5.4		

United States	2011	11Q4	12Q1	Latest	
Real GDP (annual rates)	1.8	4.1	2.0	1.5	(Q2)
Current Acc. Bal. (US$B, ar)	-466	-475	-549		
Merch. Trade Bal. (US$B, ar)	-738	-757	-778	-690	(Jun)
Industrial Production	4.1	4.0	4.0	4.1	(Jul)
Housing Starts (millions)	0.61	0.68	0.71	0.75	(Jul)
Employment	1.1	1.3	1.6	1.4	(Jul)
Unemployment Rate (%)	9.0	8.7	8.3	8.3	(Jul)
Retail Sales	8.3	7.5	6.4	3.7	(Jul)
Auto Sales (millions)	12.7	13.5	14.1	14.0	(Jul)
CPI	3.2	3.3	2.8	1.4	(Jul)
PPI	6.0	5.4	3.4	0.5	(Jul)
Pre-tax Corp. Profits	2.1	3.3	18.0		

Mexico					
Real GDP	3.9	3.9	4.5		
Current Acc. Bal. (US$B, ar)	-9.0	-7.5	-0.2		
Merch. Trade Bal. (US$B, ar)	-1.5	-2.9	7.1	7.2	(Jun)
Industrial Production	4.0	3.5	4.4	3.7	(Jun)
CPI	3.4	3.5	3.9	4.4	(Jul)

Europe

Euro Zone	2011	11Q4	12Q1	Latest	
Real GDP	1.5	0.7	-0.1		
Current Acc. Bal. (US$B, ar)	-3	188	-32	236	(Jun)
Merch. Trade Bal. (US$B, ar)	6.9	78.5	28.0	213.7	(Jun)
Industrial Production	3.5	-0.2	-1.6	-2.0	(Jun)
Unemployment Rate (%)	10.1	10.5	10.8	11.2	(Jun)
CPI	2.7	2.9	2.7	2.4	(Jul)

Germany	2011	11Q4	12Q1	Latest	
Real GDP	3.1	2.0	1.3		
Current Acc. Bal. (US$B, ar)	202.6	254.4	215.8	247.7	(Jun)
Merch. Trade Bal. (US$B, ar)	216.2	224.1	223.3	243.8	(Jun)
Industrial Production	8.0	3.4	0.7	-0.2	(Jun)
Unemployment Rate (%)	7.1	6.9	6.8	6.8	(Jul)
CPI	2.3	2.3	2.2	1.7	(Jul)

France					
Real GDP	1.7	1.2	0.3		
Current Acc. Bal. (US$B, ar)	-54.5	-43.9	-50.6	-51.5	(Jun)
Merch. Trade Bal. (US$B, ar)	-51.4	-46.6	-53.6	-57.4	(Jun)
Industrial Production	2.0	0.1	-1.7	-2.3	(Jun)
Unemployment Rate (%)	9.6	9.8	10.0	10.1	(Jun)
CPI	2.1	2.4	2.3	1.9	(Jul)

United Kingdom					
Real GDP	0.8	0.6	-0.2		
Current Acc. Bal. (US$B, ar)	-46.5	-40.7	-76.4		
Merch. Trade Bal. (US$B, ar)	-160.9	-155.6	-157.5	-189.0	(Jun)
Industrial Production	-0.7	-2.7	-3.1	-4.3	(Jun)
Unemployment Rate (%)	8.1	8.4	8.2	8.0	(May)
CPI	4.5	4.7	3.5	2.6	(Jul)

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

Russia					
Real GDP	4.3	4.8	4.9		
Current Acc. Bal. (US$B, ar)	98.8	28.3	39.3		
Merch. Trade Bal. (US$B, ar)	16.5	18.1	19.7	14.0	(Jun)
Industrial Production	4.8	3.3	4.1	3.4	(Jul)
CPI	8.4	6.7	3.9	5.6	(Jul)

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

Source: Bloomberg, Global Insight, Scotia Economics.

Asia Pacific

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

Japan	2011	11Q4	12Q1	Latest
Real GDP	-0.7	-0.6	2.8	
Current Acc. Bal. (US$B, ar)	119.2	48.0	101.1	65.6 (Jun)
Merch. Trade Bal. (US$B, ar)	-33.5	-75.9	-72.2	-45.5 (Jun)
Industrial Production	-2.3	0.0	2.7	-0.2 (Jun)
Unemployment Rate (%)	4.6	4.5	4.5	4.3 (Jun)
CPI	-0.3	-0.3	0.3	-0.1 (Jun)

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

China	2011	11Q4	12Q1	Latest
Real GDP	10.4	8.9	8.1	
Current Acc. Bal. (US$B, ar)	201.7			
Merch. Trade Bal. (US$B, ar)	155.0	193.0	2.2	301.8 (Jul)
Industrial Production	12.8	12.8	9.3	9.2 (Jul)
CPI	4.1	4.1	3.6	1.8 (Jul)

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

India	2011	11Q4	12Q1	Latest
Real GDP	7.5	6.1	5.3	
Current Acc. Bal. (US$B, ar)	-62.8	-20.2	-21.7	
Merch. Trade Bal. (US$B, ar)	-13.4	-16.5	-15.9	-10.3 (Jun)
Industrial Production	4.8	1.2	0.6	-1.8 (Jun)
WPI	9.5	9.0	7.3	6.9 (Jul)

Indonesia	2011	11Q4	12Q1	Latest
Real GDP	6.5	6.5	6.3	
Current Acc. Bal. (US$B, ar)	1.7	-2.2	-3.2	
Merch. Trade Bal. (US$B, ar)	2.2	1.3	0.9	-1.3 (Jun)
Industrial Production	4.1	3.7	5.4	3.0 (May)
CPI	5.4	4.1	3.7	4.6 (Jul)

Latin America

Brazil	2011	11Q4	12Q1	Latest
Real GDP	2.5	1.2	0.6	
Current Acc. Bal. (US$B, ar)	-52.5	-63.2	-48.3	
Merch. Trade Bal. (US$B, ar)	29.8	27.0	9.8	34.5 (Jul)
Industrial Production	0.4	-1.7	-3.5	-4.3 (Jun)
CPI	6.6	6.7	5.8	5.2 (Jul)

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

Peru	2011	11Q4	12Q1	Latest
Real GDP	6.9	5.5	6.0	
Current Acc. Bal. (US$B, ar)	-3.3	-0.8	-1.0	
Merch. Trade Bal. (US$B, ar)	0.9	0.7	0.8	0.4 (Jun)
Unemployment Rate (%)	7.7	7.1	8.3	6.2 (Jul)
CPI	3.4	4.5	4.2	3.3 (Jul)

Colombia	2011	11Q4	12Q1	Latest
Real GDP	5.9	6.1	4.7	
Current Acc. Bal. (US$B, ar)	-10.0	-3.2	-1.8	
Merch. Trade Bal. (US$B, ar)	0.4	0.5	0.7	-0.2 (Jun)
Industrial Production	5.0	4.2	2.0	-0.3 (May)
CPI	3.4	3.9	3.5	3.0 (Jul)

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

Source: Bloomberg, Global Insight, Scotia Economics.

Interest Rates (%, end of period)

Canada	12Q1	12Q2	Aug/10	Aug/17*	United States	12Q1	12Q2	Aug/10	Aug/17*
BoC Overnight Rate	1.00	1.00	1.00	1.00	Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.91	0.88	0.98	1.01	3-mo. T-bill	0.07	0.08	0.10	0.08
10-yr Gov't Bond	2.11	1.74	1.78	1.93	10-yr Gov't Bond	2.21	1.64	1.66	1.80
30-yr Gov't Bond	2.66	2.33	2.32	2.46	30-yr Gov't Bond	3.34	2.75	2.75	2.92
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	69.2	66.0	66.0	(Jun)	FX Reserves (US$B)	138.0	138.8	138.8	(Jun)
Germany					**France**				
3-mo. Interbank	0.71	0.53	0.12	0.12	3-mo. T-bill	0.07	0.04	0.00	-0.02
10-yr Gov't Bond	1.79	1.58	1.39	1.49	10-yr Gov't Bond	2.89	2.69	2.08	2.13
FX Reserves (US$B)	67.9	68.2	68.2	(Jun)	FX Reserves (US$B)	49.2	49.6	49.6	(Jun)
Euro Zone					**United Kingdom**				
Refinancing Rate	1.00	1.00	0.75	0.75	Repo Rate	0.50	0.50	0.50	0.50
Overnight Rate	0.39	0.38	0.12	0.11	3-mo. T-bill	0.37	0.37	0.35	0.35
FX Reserves (US$B)	319.8	328.7	328.7	(Jun)	10-yr Gov't Bond	2.20	1.73	1.54	1.67
					FX Reserves (US$B)	82.4	84.4	84.4	(Jun)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.25	3.50	3.50	3.50
3-mo. Libor	0.13	0.13	0.13	0.13	10-yr Gov't Bond	3.98	3.04	3.25	3.46
10-yr Gov't Bond	0.99	0.84	0.80	0.84	FX Reserves (US$B)	47.7	44.1	44.1	(Jun)
FX Reserves (US$B)	1247.8	1231.2	1231.2	(Jun)					

Exchange Rates (end of period)

USDCAD	1.00	1.02	0.99	0.99	¥/US$	82.87	79.79	78.28	79.55
CADUSD	1.00	0.98	1.01	1.01	US¢/Australian$	1.03	1.02	1.06	1.04
GBPUSD	1.601	1.571	1.569	1.569	Chinese Yuan/US$	6.30	6.35	6.36	6.36
EURUSD	1.334	1.267	1.229	1.231	South Korean Won/US$	1133	1145	1130	1134
JPYEUR	0.90	0.99	1.04	1.02	Mexican Peso/US$	12.811	13.361	13.083	13.190
USDCHF	0.90	0.95	0.98	0.98	Brazilian Real/US$	1.827	2.009	2.016	2.018

Equity Markets (index, end of period)

United States (DJIA)	13212	12880	13208	13266	U.K. (FT100)	5768	5571	5847	5848
United States (S&P500)	1408	1362	1406	1415	Germany (Dax)	6947	6416	6945	7035
Canada (S&P/TSX)	12392	11597	11891	12055	France (CAC40)	3424	3197	3436	3486
Mexico (IPC)	39521	40200	40850	40739	Japan (Nikkei)	10084	9007	8891	9163
Brazil (Bovespa)	64511	54355	59281	59169	Hong Kong (Hang Seng)	20556	19441	20136	20116
Italy (BCI)	859	761	793	804	South Korea (Composite)	2014	1854	1946	1947

Commodity Prices (end of period)

Pulp (US$/tonne)	870	900	880	880	Copper (US$/lb)	3.85	3.45	3.37	3.40
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	0.91	0.84	0.83	0.81
Lumber (US$/mfbm)	279	283	309	315	Gold (US$/oz)	1662.50	1598.50	1618.50	1614.75
WTI Oil (US$/bbl)	103.02	84.96	92.87	95.80	Silver (US$/oz)	32.43	27.08	27.88	28.20
Natural Gas (US$/mmbtu)	2.13	2.82	2.77	2.73	CRB (index)	308.46	284.19	301.81	303.41

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

Emerging Markets Strategy

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Foreign Exchange Strategy

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