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Global Views

Weekly commentary on economic and financial market developments

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All Eyes On "Merkollande"

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

While there are significant forms of data risk in **European** economies next week, the prime market risk will continue to be represented by Greek worries. To that effect, following this weekend's G8 meeting at Camp David, expect the risk of more detailed thoughts on how Germany and France ("Merkollande" as some are dubbing the replacement of "Merkozy") might stimulate growth agendas in Greece and perhaps at home. There is room for cautious optimism toward Greece should the Troika liberalize the terms of its aid package while Germany and France move toward funding growth initiatives in Greece that may provide Greek politicians with cover before the electorate next month. At this point, however, we have to admit that developments are not favourable to this view. The consensus of economists is expecting the UK to slip into technical recession when Q1 GDP is released on Thursday in one of the week's key releases that will collectively put the UK economy in the spotlight throughout the week. That is likely to be preceded by a weak retail sales report for April on Wednesday following the large gain the prior month. UK CPI figures on Tuesday should show moderating inflation with the year-over-year rate expected to drop to 3.3% and thus continue the descent from the 5.2% recent peak in September. Sandwiched in the middle of this will be further detail on the dialogue at the BoE over whether to further expand its asset purchase target when minutes to the May 10th BoE Monetary Policy Council meeting are released on Wednesday. There are also three sets of Euro zone releases that could sway markets. Of greatest significance are the manufacturing sector purchasing manager indices (PMIs) especially for Germany (Thursday). The May PMI is expected to continue to show a contracting manufacturing sector in Germany but this lies at odds with recent strength in German factory orders. German business confidence will help us determine whether the flattening in the IFO survey since February risks turning toward a negative confidence shock given the tone of developments into May.

US markets will be comparatively quiet. A light release calendar will be focused upon regional manufacturing surveys and housing data. After a solid print for the Empire manufacturing survey that was followed by a sharply disappointing Philly Fed print, the tone of next week's Chicago Fed, Richmond Fed, and Kansas City Fed surveys is very much up in the air on the march toward a regional perspective on the next ISM print. Durable goods orders for April will likely come in soft partly given a marked slowdown in airplane orders. Boeing orders sky rocketed to 237 in February and then fell to a still-respectable 53 in March before coming in at only 4 orders in April. To date in 2012, only two airlines have accounted for about 80% of Boeing's orders. That should put downside risk to total headline orders unless the sharp drop in total durable goods orders the prior month poses a soft enough base effect off of which to post growth in core orders excluding transportation.

Auto orders may, however, continue to rise as an offsetting upside risk. It's also a key week for housing data, with existing home sales expected to rise and thus follow pending home sales higher once the paperwork has been settled. New home sales might also face upside. What is very recently encouraging about US housing markets is that, whereas the rise in home building over the past year had been almost exclusively focused upon building for the multiple rental market, an improvement in home buyer confidence was reflected in the fact that the latest data showed a gain in single housing starts for the buy-to-own segment. It's just one month's data, but we were encouraged to see this development. Jobless claims will continue to be monitored as the data closes off the nonfarm reference period such that the trend in claims will be used to firm up perspectives on the next nonfarm call. Fed speak will be relatively thin, with Atlanta Fed President Dennis Lockhart (voting) speaking on the US economy, and NY Fed President William Dudley (voting) speaking about the regional economy in NY. The US auctions 2s, 5s and 7s next week and should have no problem attracting solid safe haven demand.

Canada faces a shortened week with markets closed due to the Victoria Day holiday on Monday. Bank earnings will dominate market attention in Canada over the rest of the week as each of BMO, RBC and TD release Q2 results. What goes for the banks often goes for the rest of the Canadian credit landscape. BNS

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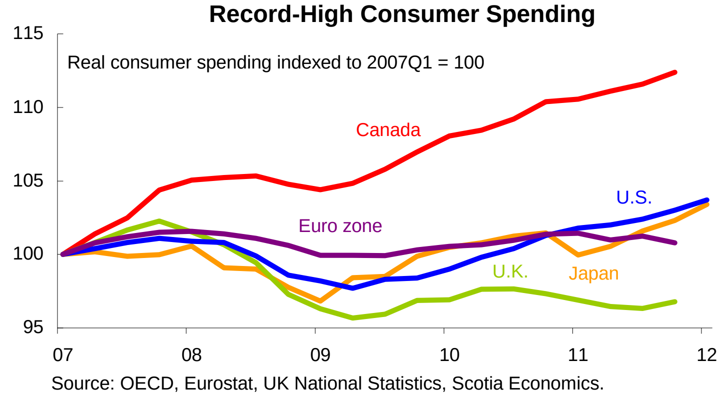

and CIBC report the following week. Curve and CAD watchers will be more focused upon retail sales results for the month of March that are due out on Wednesday. The consumer has stumbled thus far in 2012. With what we know so far by way of the Q4 hand-off and the first two months of Q1, inflation-adjusted retail sales were flat in the first quarter thanks to -0.6% and -0.1% m/m readings in February and January. If real (inflation-adjusted) sales come in flat in March then the entire quarter will remain flat. Retail sales represent about 40% of total consumer spending in Canada and while they fairly sample spending on goods, they under-represent spending on services that are usually more resilient. That's why Scotia Economics has an ever-so-modestly more positive take on Q1 consumer spending growth than the retail figures would imply. Still, however, our forecast is for only 1% q/q annualized Q1 consumption growth in inflation-adjusted terms which would be the softest quarter since the drop in 2009Q2. This might be reflective of cyclical factors such as no wage growth after inflation, as well as policy changes such as Quebec's higher provincial sales tax come January 1st, but it also likely reflects the likelihood that the Canadian consumer is getting exhausted following a tremendous run in relation to consumers elsewhere (see chart). To that effect, Q1 GDP is poised to disappoint BoC expectations by a wide margin while inflation is not threatening the BoC's 2% target, which should be pouring more cold water on market expectations for rate hikes that we don't believe will be delivered this year. Lastly, Canada auctions 30-year notes on Wednesday.

Asian markets will offer two possible influences upon the global market tone next week. One will be the release of the 'flash' preliminary private sector version of the manufacturing sector's purchasing managers' index. The prior month's reading still pointed toward contraction, but barely so and by a smaller degree. That stands in contrast to the state's manufacturing PMI gauge that has swung from a contractionary signal last November toward a mild expansion since then. In fact, the last state version of the PMI was part of a round of upbeat global manufacturing data in Europe (orders, not PMIs) and the US (ISM) that provided a healthier-than-expected look at global manufacturing conditions. Thus, the private sector China PMI indicator stands in contrast to the bulk of the global evidence on manufacturing prospects. Secondly, the Bank of Japan holds its policy meeting on Tuesday and Wednesday. At issue is whether additional monetary stimulus will be provided to counter fiscal drag. The country has prematurely engaged in fiscal belt tightening in the past, only to then encounter persistent economic weakness, and the BoJ risks being forced into providing more stimulus by the domestic debate over whether or not to raise a sales tax from 5% to 10%. A sales tax hike is intended to restrain the deterioration in Japanese public finances especially as it funds a 20 trillion yen reconstruction package oriented toward the Sendai region that was devastated by last year's earthquakes, tsunami and nuclear mishaps. The next day Japan releases CPI data that is flirting with deflation as the prior March report came in at 0.5% y/y on headline CPI and –0.5% on core CPI ex-food and energy. Thai GDP will be released into Monday's markets and is expected to post a strong post-flooding snap back with 10% annualized growth that would reverse all of the 10.7% decline in Q4. That would be a bullish sign about the Thai economy's temporary setback that, while unlikely to be repeated, would zero the clock in favour of ongoing growth later in the year.

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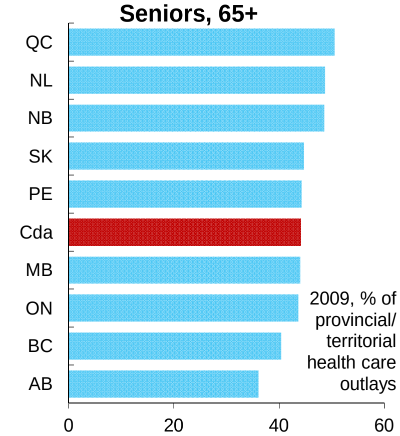
The Provinces — Seeking More Sustainable Health Care

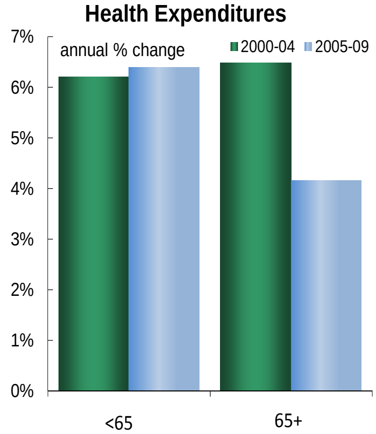
- **Meeting near-term health expenditure constraints as a path to longer-term sustainability.**

In the Provinces' spring *Budgets*, health care was a unanimous focus for attaining greater value for money, building on the reforms already accomplished, such as shorter surgical wait times, but within a sustainable framework that can care for Canada's aging population. In fact, the Provinces have eased the upward trend in their health spending with an estimated rise of just 3.2% in 2011, less than half the average annual increase of 6.8% over the prior five years. In a significant boost to transparency and accountability, the Canadian Institute for Health Information (CIHI) in April posted clinical and financial indicators from 2007-08 to 2010-11 for hospitals across Canada. Progress is evident for a range of indicators such as fewer patient re-admissions after a heart attack, a stroke or hip and knee surgeries, and a decrease in hospitals' administrative expenses relative to total costs. A critical issue remains the high cost of Seniors' health care, with the Provinces and Territories allocating a hefty 44% to an age group representing less than 14% of the population in 2009, the latest available year for this detailed data (*top right chart*). Yet the Provinces over the five years to 2009 were already curtailing their per capita health expenditure growth for Seniors compared with the 2000-04 period *(bottom left chart)*. By Province, British Columbia, Manitoba, Ontario, and Quebec all reported much more moderate rises in per capita health spending for Seniors from 2005 to 2009 *(bottom middle chart)*.

Measures in the spring *Budgets* will help to address the high per capita hospital expense for Seniors *(bottom right chart)*, expanding long-term care and particularly home care for Seniors if they no longer require the acute care facilities of hospitals. After trimming hospitals' share of total public-sector health outlays from 47½% in 1990 to 38½% by 1999, the hospitals' share has remained just over 37% since 2000. With respect to Seniors' per capita drug expenses, which were ten times the average amount for other patients in 2009, most Provinces are pursuing lower generic drug costs and improved collaboration on Seniors' care. Complementing the initiatives for Seniors are other health reforms, such as Ontario and Quebec moving forward with revised financing formulas for their larger hospitals that pay according to the services provided. As the Provinces look to each other's experience in accomplishing strategic improvements in this critical sector, the emphasis, correctly, is on developing a more sustainable health care framework.



Source: CIHI.



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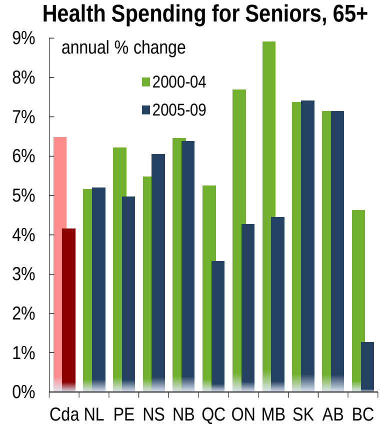

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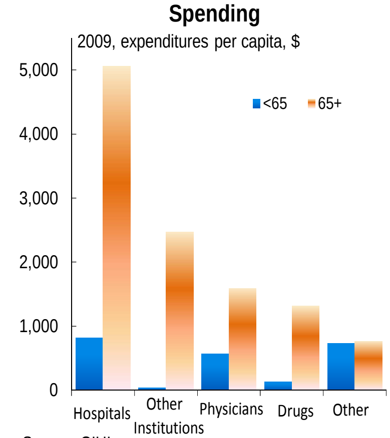

Source: CIHI.

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Uruguay: Favourable Outlook Amid Global Uncertainties

- **Improving creditworthiness, sustained economic growth and increasing relevance among Latin American peers underscore solid medium-term prospects.**

Uruguay's US$47 billion economy is gradually re-accelerating after a slowdown in the fourth quarter of 2011 driven by lower electricity production caused by drought conditions and an inactive state-owned oil refinery. After expanding by 8.9% in 2010 and 5.7% in 2011, real GDP growth will average 4% over the next 18 months. Uruguay has posted positive growth rates for nine consecutive years. Domestic demand is at the heart of this economic expansion: private consumption, aided by a sustained improvement in the labour market (the unemployment rate currently stands at 6%), remains the core driver of economic activity. The real estate sector is also contributing to private investment growth, yet at a slower pace than in previous years. Uruguay is gradually becoming a relevant player in South America's pulp and paper industry. Looking ahead, the construction and investment activity related to a large-scale investment project (Montes del Plata) will be a key factor of output growth.

Monetary conditions remain influenced by the degree of banking sector dollarization and persistent inflationary pressures. Consumer prices increased by 7.5% y/y in March, a slight improvement from the 8.6% rate recorded at the end of 2011. However, high energy prices, domestic growth dynamics, labour market tightness and intensifying wage-adjustment pressures prevent headline inflation from rapidly converging towards the official 5% +/- 1% target rate. We expect inflation to close the year at 7.5% y/y. Sensitive to persistent price pressures, the central bank's monetary policy committee has maintained its policy rate unchanged at 8.75% since last December.

The external sector is characterized by a growing current account deficit (expected to continue to widen from the 1.8% of GDP level recorded in 2011) and a negligible contribution of net exports to economic activity. Both exports and imports are expanding, yet import growth is outpacing the increase in external sales. The oil-linked component of total imports remains a growth-constraining factor due to Uruguay's net energy importer status. Nevertheless, sizeable foreign direct investment inflows (averaging US$2.5 billion per annum over the past two years) more than fully cover the annualized current account gap (US$875 million in 2011). On the fiscal front, the consolidated public sector deficit, which reached 1.3% of GDP in 2011, will remain in manageable territory, slightly above the 1% of GDP mark this year and next. Public sector indebtedness is also improving, as shown by the level of gross debt, which closed 2011 at 55% of GDP, a remarkable decline from the 100% level posted in 2003.

Uruguay has regained partial investment-grade status following S&P's upgrade revision to the country's long-term foreign-currency rating to "BBB-" in April 2012. The remaining rating agencies have upgraded the outlook on their ratings to "positive" during the first four months of the year. Common themes highlighted include the following: continued growth, economic diversification, improved external debt profile (including currency and maturity composition), proactive liability management, and sustained foreign investment flows. Market and public debt metrics amply reflect the improvement in Uruguay's creditworthiness. Gross external debt declined from 91% of GDP in 2003 to 30% in 2011.Through sustained economic growth and a well-executed debt management program, the authorities are succeeding in reducing the dollarization of external liabilities (foreign currency debt accounts now for 51% of non-financial public sector gross debt, down from 75% in 2005).

Devaluation forces in both Brazil and Argentina increasingly influence the local exchange rate environment. The Uruguayan peso (UYU), which has been trading in a relatively well-contained range between 19.30 and 20.30 per US dollar over the past nine months, may at times by subject to higher volatility due to energy price dynamics and eroding export sector competitiveness. Massive foreign capital inflows have allowed the central bank to accumulate foreign exchange reserves, which totaled US$11.7 billion at the end of April 2012. We expect the UYU to close the year at 20 per USD.

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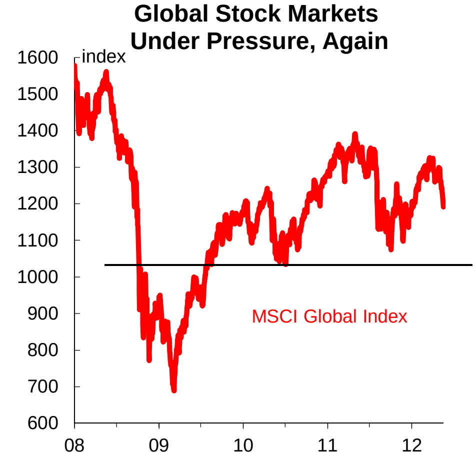
Diverging Stock Market Dynamics

- **Stock markets around the globe are finding it hard to keep their happy face on.**

Facebook's friends have rocketed the company's newly minted IPO into the stratosphere of stock market capitalization. Like Apple and Google, it will become another benchmark for the increasing global shift to technology- and internet-based activity that is helping to revolutionize how and what we do, while providing much needed support for a global economy whose performance is repeatedly flaming out and having a very difficult time in maintaining a faster growth trajectory.



Source: Morgan Stanley, Bloomberg.

Nevertheless, the broad stock market trends around the globe have lost considerable altitude, a reflection of the escalating uncertainty and eroding confidence in the ability of businesses to navigate through an increasingly challenging period of economic and political rough air. The turn-of-the-year run-up in equity markets followed by a dip is reminiscent of events of just a year ago. After bottoming in early October of 2011, the MSCI World stock market index climbed a bull-like 23% before cresting in mid-March and plunging 10%.

This year's slump has been triggered by virtually a replay of the factors that undercut sentiment in 2011. Renewed debt- and economic-related strains in the euro zone's southern peripheral nations have been exacerbated by the political gridlock in Greece, and the country's increasing banking sector problems as well as those in Spain. The U.S. economy has been unable to maintain its improving momentum, a reflection of some softening in international trade, increasing restraint on government spending, and more consumer caution with job growth and savings being pressured. And the pace of activity in China continues to drop out of overdrive, with more visible signs of reduced industrial activity and exports compounded by the slowing trend in imports.

In general, corporate profits have remained quite buoyant, a reflection of the ability of businesses around the world to generate comparatively solid earnings in a slower growth environment through reduced costs, including restrained wage growth, enhanced productivity, low borrowing costs, and in some countries, a reduced tax burden. But the outlook for increased business investment and expenditures appears to have dimmed somewhat, particularly with political problems now compounding fiscal resolutions, not only in the euro zone but in the United States as well, and intensifying banking strains on the Continent aggravating the balance sheet restructuring and increased regulatory oversight that is already having an impact on lending. Business caution will undoubtedly rise during this period of increasing uncertainty and almost chronic volatility.

Renewed risk aversion has seen bond yields in many countries benefit at the expense of global equities, most commodities including gold, and currencies. The yield on a German 10-yr bund has dropped to 1.42%, while the yield on a 10-yr U.S. T-bond has dipped to the record low of 1.72% established last year. The US$ has rallied in its safe-haven role, with the euro slipping to 1.273 vis-à-vis the greenback, and likely moving even lower.

Resolving the euro zone's immense sovereign debt strains are now complicated by the evolving political issues in Greece, and electoral changes in France and other countries. The time frame to adjust policies has been shortened, with the latest Greek election now set for June 17th. The deterioration in financial markets and the potential for more serious contagion, not only in the affected regions, but internationally as well, requires more effective policies to ring fence euro problems now, with the promise of more adjustments that can help ameliorate the economic compression underway in the hardest hit countries. The Europeans should accelerate their financial support, through the ECB and the European Financial Stability Facility, with the global community co-ordinating policies to assist in the rebalancing underway (the G8 are meeting this weekend).

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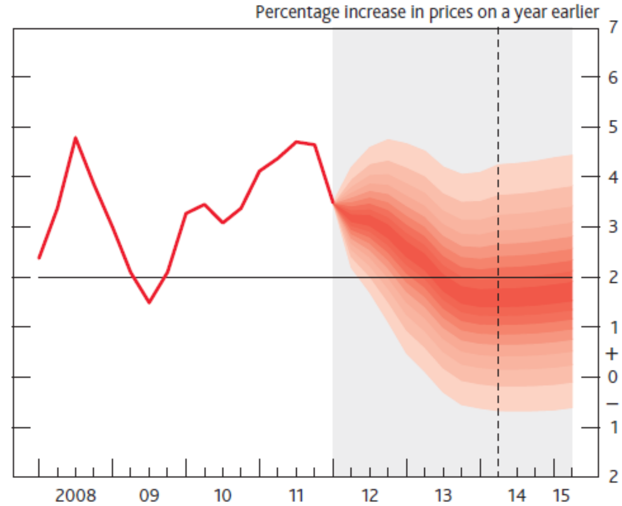
BoE Inflation Report Review

- **The BoE *Inflation Report* was more dovish than the market expected, but broadly in line with our forecast. The main takeaway point is that despite pausing QE last week, the door remains open to further policy ease should conditions warrant it.**

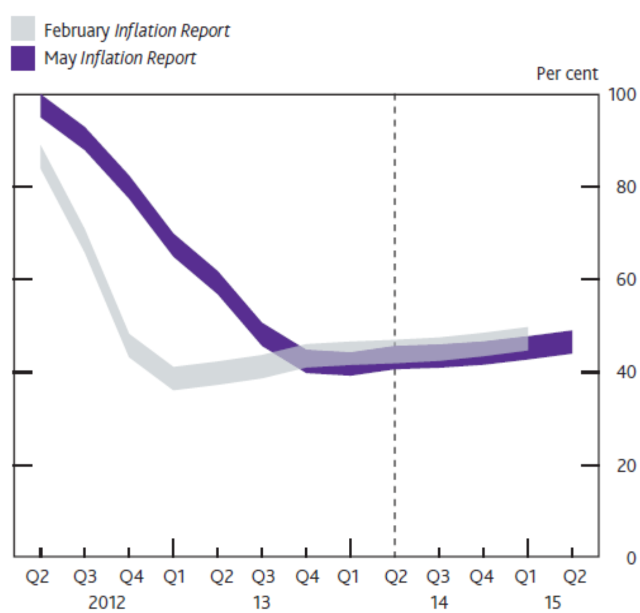
To summarise:

Chart 1: BoE Inflation Projection (May)



- The GDP growth was shunted lower. For 2012 the growth forecast was pushed down to 0.7% y/y on average (from 1¼% previously). For 2013 the projection was pushed down by two-thirds of a percentage point to 2.1% y/y.
- The near-term inflation projection was adjusted higher…
- …but the crucial 2-year ahead inflation projection was nudged lower — down to 1.6 - 1.7% y/y from 1.8% y/y previously.
- That was bang in line with our forecast, but 17 out of 18 forecasters polled by Bloomberg had expected that the projection would be pushed higher or sideways. This part of the profile provides the best signals for the next move on monetary policy.
- The central inflation projection remains clearly below the 2% threshold right through to 3 years from now. That compares to a forecast that was a whisker below 2% three months ago.
- Taking account of the skew of risks around the central projection, the Bank's 'Ribbon' chart was nudged ever so slightly lower (Chart 2).

Chart 2: BoE Ribbon Chart (May)



- Nonetheless, at around 45% — the chart is hardly screaming out that more QE is imminent. Our interpretation is that the Bank retains a dovish bias, but isn't exactly desperate to pull the trigger on more QE.
- The downward revision to the medium-term inflation projection has provoked the question "why didn't you do even more QE in May?" Our response would be that the Bank has exercised considerable discretion in the past. For example, throughout 2010, the Bank's 2-year-ahead inflation projection was no higher than 1.45% y/y all year. Yet the Bank did not expand QE at all that year. The obstruction through 2010 was elevated GDP growth and CPI inflation in the region of 3%. We suspect that elevated near-term inflation (and persistent upward revisions to the Bank's projections) is the obstruction now.

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Old habits die hard

We believe that the Bank continues to aim too high on growth and too low on inflation. With regards to growth, aiming too high now is a subtle, but nonetheless tactical weapon within the Bank's projections.

The debate on when the first interest rate hike will occur has already begun. That is not unreasonable given that the Bank's inflation projection is not that far below the 2% target — meaning it would not take much to push that above 2%. That would typically be a signal that monetary policy tightening is fairly imminent.

However, by aiming too high on the growth outlook, the Bank continues to afford itself some wiggle room to delay the timing of the first rate hike. In other words, if growth turns out weaker than the Bank's (overly optimistic) projection, it gives the Bank the excuse to refrain from pushing its medium- term inflation projection higher and so delaying the first rate hike.

Conclusion

The Governor was never going to declare the end of QE. Elevated inflation has got in the way of physical monetary policy loosening, but that didn't obstruct verbal intervention. While the red fan chart highlights a good chance of more QE, the ribbon chart shows a much more limited case. Clearly a lot rests on what happens in continental Europe. Our view is that inflation will continue to be higher than the Bank expects and growth will disappoint. Barring a disaster in Europe we doubt that QE purchases will resume.

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Privatizing Pemex

The two leading presidential candidates in Mexico have promised bold reforms in the energy sector that, if implemented, could cause the yield differential between Pemex bonds and sovereign bonds to compress. While we recognize that such campaign pledges are typical before elections, we also cannot completely disregard the attention that this issue is gaining locally. The bond market currently assigns zero probability to any reforms, providing upside to investors in the event of any positive surprises. The next administration will have many options beyond the most radical reform of selling Pemex shares to foreigners in raising new capital, improving efficiency, and gaining access to technology; some of these reforms may present an acceptable compromise between entrenched interests and economic efficiency.

As in previous elections, the topic of restructuring Pemex has again moved to the forefront with the two leading candidates promising some form of privatization or reform. In particular, leading Presidential candidate Peña Nieto, while shying away from a privatization, has promised to take action in his first year of office to open the firm to private investment, which could have positive ramifications for Pemex bonds. Yet, so far bond markets have ignored any potential for positive news, with Pemex continuing to trade about 100bp wide to Mexican sovereign bonds. Bond investors should be asking two questions. First, what is the probability that reforms would actually occur once the election campaigns are over? Second, what kind of reforms does Mexico actually need?

Political Will

Whether there is real political will to force change on entrenched interests remains highly uncertain. On one hand, we have an ideal situation where both the PRI and the PAN agree that something needs to be done and the presidents and presidential candidates of these parties have voiced these views in public. On the other hand, there is a history of missed opportunities to implement substantial reforms. Since the PRI did not privatize Pemex in seventy years, perhaps due to strong opposition from unionized labor, it is hard to understand why the PRI would do so now. Similarly, while President Calderon has spoken about the possibility of selling shares in Pemex, which would presumably require a Constitutional Amendment, his accomplishments have been more limited. The 2008 Energy Reform bill did allow for incentive contracts for foreign oil companies, which we think could still be helpful to attracting foreign investment. Nevertheless, the repeated delays in implementing these contracts for deep water exploration, and even the fact that these had to be renamed “production sharing contracts,” demonstrates the political difficulties in implementing even relatively moderate reforms.

Why should the next Presidential term be any different from previous terms that failed to deliver on promises of structural reform? Supporters of Peña Nieto might make any of the following arguments: First, they represent a new PRI with younger and more reform-minded members. We understand that argument to be only partly true, as the party has both new and older generations currently. Second, a potential majority in Congress, in addition to the momentum gained by a strong win in Presidential elections, could help a new government overcome resistance to reform in its first year. Comparisons are drawn to Obama’s momentum during the first year of his term. Third, Peña Nieto is a good leader and a good negotiator, and will prove himself more adept than Calderon in winning broad agreement for his agenda. Thus, some reform attempts are foreseeable, but it is too early to tell whether they will lead to substantive changes.

Economic objectives

A part of the difficulty in evaluating the probability of reform stems from the fact there is no clear indication of what reforms we are talking about. Mexican politicians like to talk about how they want Pemex to be more like Petrobras, but we are not sure even they know what they mean. No one would dispute the idea that Pemex should be more like Petrobras in its greater efficiency or noted expertise in deep water exploration.

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Yet, it is not clear how to get there. We have so far found no concrete proposal on Pemex reform, not from Presidential candidates, nor from the government, nor from any local thinks tanks. In our opinion, a reform of Pemex should have the following three objectives: an increase in investment, an improvement in efficiency, and an upgrade of technology. We consider each of these in turn.

First, some believe that the principal problem for Pemex is insufficient spending on new exploration necessary to replenish reserves. Pemex has already increased investment significantly, from $14bn in 2006 to $24bn in 2011 and to a projected $30bn by 2014. While a portion of that investment budget is for the development of existing fields, the part devoted to new exploration has risen from $1.3bn to $2.4bn over the same period. Some may argue that this is not enough, especially in light of today's high oil prices. While a partial privatization could quickly raise additional capital, we are not sure that is a cost-efficient source of capital for Pemex. Consider the following radical reform to illustrate this point. Pemex cannot be privatized now, because taxes that exceed 50% of its revenues ensure that the company is unprofitable. Suppose that Mexico abolished all taxes and duties on Pemex in order to make it profitable, and then subsequently sold 100% of the equity in the company. At the typical EV/Ebida ratios we see in the oil industry, proceeds from such a sale would be equivalent to only 5 years of the tax revenue that the government was earning from Pemex previously. Considering that the government can borrow at 4% and the company can borrow at 5% on international capital markets, issuing more bonds seems far cheaper. As this calculation shows, privatization would only bring significant gains to the government if it boosts earnings rather than simply redistributes it from the government to equity holders.

Second, Pemex may be spending its capex inefficiently. A recent academic study of Petrobras[1] found that the majority of the increase in productivity at the firm following reform came not from a change in control — there was none as the government retained majority voting rights — and not even from increased competition — Petrobras remains the dominant player in the country. Instead, the threat of competition created by the opening of the sector prompted management to make changes at the company. For example, Petrobras focused on drilling in areas where economies of scale could be achieved rather than drilling to maximize the geographical coverage of its activities as a way to spread new jobs across the country. This point matters because the most controversial reform would probably be to sell Pemex shares to foreigners, and we are not sure that radical reform is necessary.

Third, it is widely believed that Pemex does not have the technology necessary to exploit its deep water reserves. Without attractive terms for joint-ventures partners, terms that would violate the Constitution — the argument goes — they can never gain access to such technology. We are not sure to what extent this is true. For example, on a recent visit to an offshore drilling platform in Pemex's KMZ region, we were surprised that drilling was done by an American rig rented at a daily rate of about $100,000 per day that came complete with an American crew. That crew would set up the platform prior to drilling and repair its equipment as necessary, while Pemex employees were responsible for actually operating the drill. Similarly, during the BP Deepwater Horizon disaster, we were struck by the characterization of BP as a project manager that contracted out much of its work to independent companies. We do not have sufficient technical expertise to say which technologies needed by Pemex can be rented on the market and which cannot, but we wonder if there is some room for creative structures that would permit acquisition of additional technologies on terms that are not too abhorrent to public opinion. Obviously, the production sharing contracts that Pemex has developed is one move in this direction. In response to the view common among investors that no large foreign oil company would consider these production sharing contracts when they can invest on more attractive terms in other countries, Pemex likes to point out that its contracts for stage 1 (mature fields) garnered significant interest among multinationals and that one contract was won by Schlumberger Ltd., the world's largest oilfield-services provider.

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Conclusion

We are skeptical of recent campaign promises and our base case is that nothing happens. Nevertheless, the market is pricing zero probability of any reforms succeeding, which we think is too pessimistic. Pemex, in the right environment, could trade at a yield equivalent to that of the sovereign in contrast to its current yield differential of about 100bp over the sovereign. Moreover, since the government earns 30% of tax revenues from the oil sector, efficiency improvements at Pemex should also lower the yield on government bonds. For comparison, Petrobras used to trade at the same yield as the sovereign back in 2006 and 2007, though it has widened in recent years perhaps due to some of the "reverse privatizations" started under Lula. Thus, the potential for large gains exists on bonds that are normally quite stable, if the right series of reforms are announced. The probability of such reforms, while less than fifty percent, is greater than zero. Moreover, our discussion of the various types of reforms suggests that there is room for compromise between public opinion and economic necessity. Pemex needs a variety of reforms in order to raise capital, improve efficiency, and gain access to new technology. Just selling a minority interest in shares is neither sufficient nor paramount. We think there is more than one way to accomplish each objective, leaving the future administration room for creative solutions.

Endnotes:

[1] Benjamin Bridgman, Victor Gomes, and Arilton Teixeira, "Threatening to Increase Productivity: Evidence from Brazil's Oil Industry," *World Development*, Vol 39, No. 8, 2011.

Additional publications on Pemex:

"Stabilizing reserves at Pemex," Scotia Capital, December 16, 2011.

"Rocks for jocks: A Wall Street guide to Pemex," Scotia Capital, April 20, 2010.

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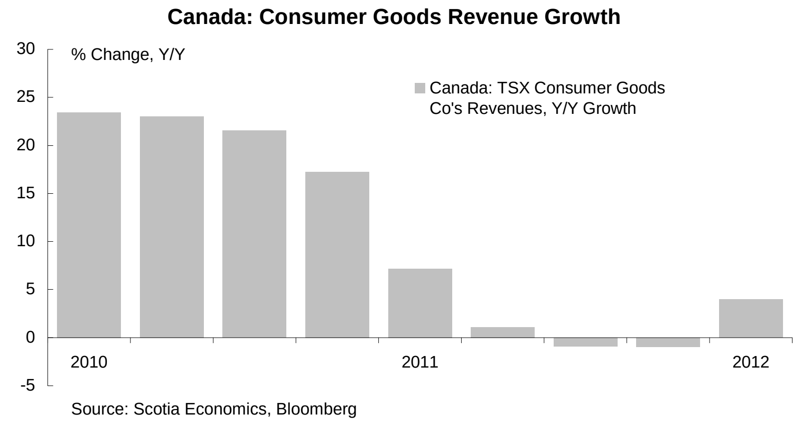
Key Data Preview

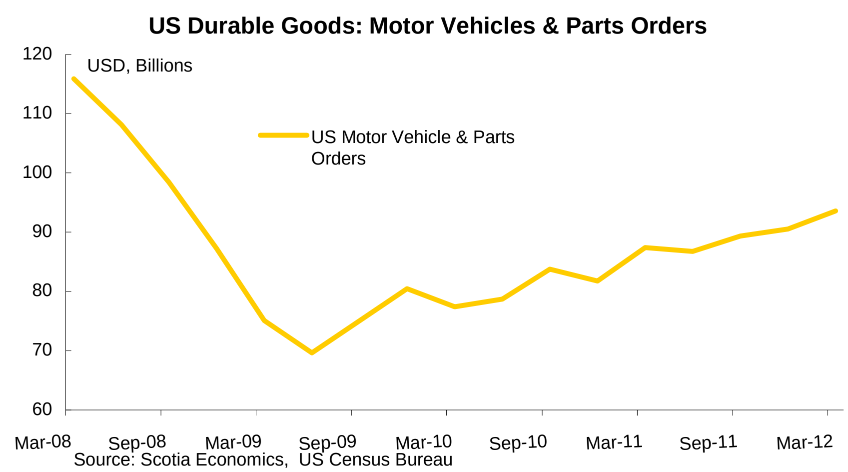
CANADA

Canadian retail sales for March will be released on May 23 and will help round out the picture for March GDP — and therefore Canada's GDP for Q1. This report will determine whether retail sales growth is positive or negative on the quarter. In inflation-adjusted or 'real' terms, retail sales have been down so far in 2012 after falling -0.6% m/m in February and -0.1% in January. In nominal terms they fell 0.2% m/m in February after rising 0.2% in January and are therefore entirely flat over the December reading. For the quarter as a whole compared to Q4, real sales are tracking flat (-0.1% q/q annualized) and the March report could swing the quarter mildly in either direction. We're expecting headline retail sales to come in positively at 0.2% partly due to a 4.4% rise in gasoline prices in the March CPI report. That shouldn't impact the inflation-adjusted number, but is consistent with mildly higher Q1 revenues within consumer firms listed on the TSX (+7.2% y/y).



UNITED STATES

This week's main US economic data release will be durable goods orders for April on May 24. The report will shed light on the extent of the autos rebound in the US — and whether it has sustained itself going into Q2. Economic activity surrounding cars was the saving grace for Q1 GDP, responsible for contributing +1.1% out of total ex-inventory growth of 1.6% (i.e. absent the uptick in economic activity surrounding motor vehicles, final domestic demand would have been much lower). This was not a one-off: motor vehicles added 0.5% to Q4 2011 GDP as well. The question here is whether or not the break-neck pace of automotive activity can continue. The arguments 'pro' are: a) the US vehicle fleet is aging, b) prior to the past two months, the jobs outlook had been improving, and c) new cars offer many technological advancements such as fuel efficiencies, etc. The argument 'con' is essentially that employment data — payrolls, wages, hours worked — have recently softened and are not strong enough to support a major consumption upswing. A non-macro argument would be that improved US cars are winning market share — even if overall industry sales might in the medium run remain flat. Either way, Scotia's Carlos Gomes thinks that production schedules are continuing to ramp up, so whether or not the stock of new vehicles will be absorbed or will translate into inventory shouldn't matter that much in this month's new orders report. We're expecting cars to make a solid contribution to durable goods orders along with overall strength signaled by the ISM index. The risk factor here is that new orders at Boeing plummeted to a mere four new planes. That represents an over 90% reduction from the previous month, and could undo all of the momentum from new car orders. Still, we're anticipating growth of 0.5% on balance.



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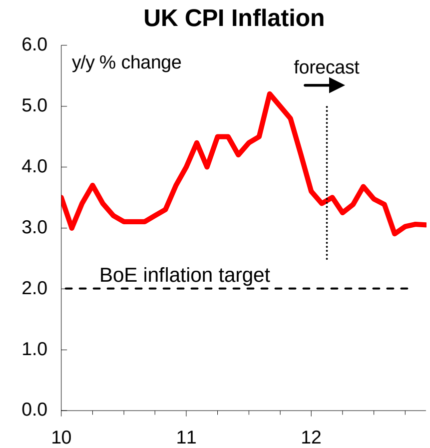
EUROPE

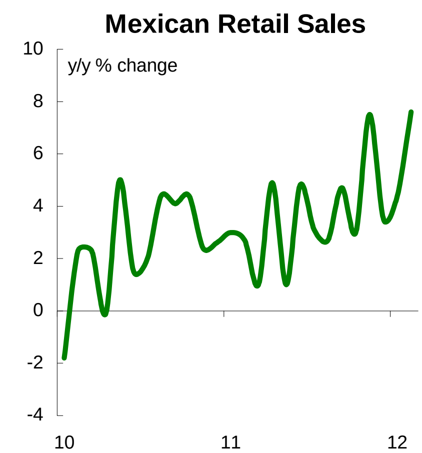
Among the highlights of next week's UK economic data calendar will be the release of CPI and RPI inflation for April. We expect CPI inflation to decelerate from 3.5% y/y to 3.3%, while RPI inflation is likely to hold steady at 3.6% y/y. Inflation had been on a fairly steep downward trajectory since September, however, that came to an abrupt end last month when the rate ticked back up. We see a moderate further deceleration into mid-year, but beyond that the downtrend is likely to lose momentum. The main drivers of price gains this month are likely to be alcohol, tobacco and transport prices, while a high base effect in air travel costs will provide a drag on the headline print. Overall, inflation is proving stickier than expected earlier in the year. Part of this is due to the jump in oil prices towards US$125/bbl until mid-March. Having said that, the drop to around US$110/bbl this week should take some of the heat out of petrol prices going forward. However, this development is unlikely to change the big picture by much. Our view is that CPI inflation will only very briefly dip just below 3% y/y this year. The array of pre-programmed price hikes such as university tuition fee hikes, sin taxes, mortgage rate increases, etc. should leave inflation persistently above the Bank of England's 2% target.



Source: Bloomberg, Scotia Economics.

LATIN AMERICA

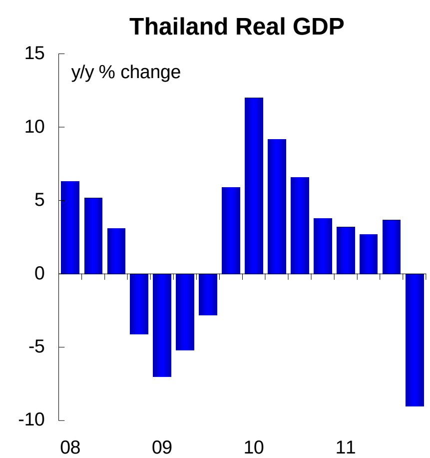
Mexican economic activity remains solid. In the first quarter of the year real GDP expanded by 4.6% y/y, the strongest rate since the third quarter of 2010, with both the industrial and the services sectors consolidating their firm performance in the first months of 2012. This reflects the fact that both external and domestic demand remain vigorous. On the local side, retail sales (to be released next week) have shown better-than-initially-anticipated growth. In February, retail sales grew by 7.6% y/y with apparel, department stores and auto sales as the major contributors. We expect the yearly rate to decrease to 4.1% y/y in March; however this still reflects a strong household consumption.



Source: Bloomberg.

ASIA

Thailand's economy remains on a recovery path with private consumption and exports supporting the rebound in the first quarter of the year. Reconstruction efforts and fiscal stimulus remain the key drivers to the Thai recovery after last year's floods. However, this improvement has been uneven across industrial sectors and while some of them have regained their pre-flood levels, others remain subdued. We anticipate that the Thai economy will grow 5.0% y/y in 2012; however, we expect a close-to-zero growth rate in the first quarter of the year after decreasing by 9.0% y/y in the last three months of 2011.



Source: Bloomberg.

Key Indicators for the week of May 21 - 25

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
MX	05/22	09:00	Retail Sales (INEGI) (y/y)	MAR	4.1	--	7.6
US	05/22	10:00	Existing Home Sales (mn a.r.)	APR	4.6	4.6	4.5
US	05/22	10:00	Richmond Fed Manufacturing Index	MAY	10.0	11.0	14.0
US	05/23	07:00	MBA Mortgage Applications (w/w)	MAY 18	--	--	9.2
CA	05/23	08:30	Leading Indicators (m/m)	APR	--	0.4	0.4
CA	05/23	08:30	Retail Sales (m/m)	MAR	0.2	0.3	-0.2
CA	05/23	08:30	Retail Sales ex. Autos (m/m)	MAR	0.4	0.5	0.5
US	05/23	10:00	New Home Sales (000s a.r.)	APR	345	335	328
US	05/24	08:30	Durable Goods Orders (m/m)	APR	0.5	0.5	-3.9
US	05/24	08:30	Durable Goods Orders ex. Trans. (m/m)	APR	0.9	0.8	-1.3
US	05/24	08:30	Initial Jobless Claims (000s)	MAY 19	370	370	370
US	05/24	08:30	Continuing Claims (000s)	MAY 12	3267	3250	3265
MX	05/24	09:00	Bi-Weekly Core CPI (% change)	MAY 15	--	--	0.1
MX	05/24	09:00	Bi-Weekly CPI (% change)	MAY 15	--	--	0.1
MX	05/25	09:00	Trade Balance (US$ mn)	APR P	--	--	1574.8
MX	05/25	09:00	Unemployment Rate (%)	APR	--	4.8	4.6
US	05/25	09:55	U. of Michigan Consumer Sentiment	MAY F	77.8	77.8	77.8

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
IT	05/21	05:00	Current Account (€ mn)	MAR	--	--	-5138.0
UK	05/22	04:30	CPI (m/m)	APR	0.8	0.6	0.3
UK	05/22	04:30	CPI (y/y)	APR	3.3	3.1	3.5
UK	05/22	04:30	DCLG House Prices (y/y)	MAR	--	--	0.3
UK	05/22	04:30	Public Finances (PSNCR) (£ bn)	APR	--	-6.0	16.5
UK	05/22	04:30	RPI (m/m)	APR	0.8	0.7	0.4
UK	05/22	04:30	RPI (y/y)	APR	3.6	3.4	3.6
EC	05/22	10:00	Consumer Confidence	MAY A	--	-20.5	-19.9
EC	05/23	04:00	Current Account (€ bn)	MAR	--	--	-1.3
UK	05/23	04:30	Retail Sales (m/m)	APR	-0.6	-0.7	1.5
FR	05/24	03:00	Manufacturing PMI	MAY P	46.3	47.0	46.9
FR	05/24	03:00	Services PMI	MAY P	44.7	45.8	45.2
GE	05/24	03:30	Manufacturing PMI	MAY A	46.2	47.0	46.2
GE	05/24	03:30	Services PMI	MAY A	51.8	52.0	52.2
GE	05/24	04:00	IFO Business Climate Survey	MAY	--	109.4	109.9
GE	05/24	04:00	IFO Current Assessment Survey	MAY	--	117.1	117.5
GE	05/24	04:00	IFO Expectations Survey	MAY	--	102.0	102.7
UK	05/24	04:30	Business Investment (q/q)	1Q P	--	-1.0	-3.3
UK	05/24	04:30	GDP (q/q)	1Q P	-0.2	-0.2	-0.2
UK	05/24	04:30	Index of Services (m/m)	MAR	0.3	0.3	-0.4

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

Key Indicators for the week of May 21 - 25

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
TH	05/20	22:30	GDP (q/q)	1Q	--	10.0	-10.7
TH	05/20	22:30	GDP (y/y)	1Q	--	-0.5	-9.0
JN	05/21	00:30	All Industry Activity Index (m/m)	MAR	--	-0.1	-0.1
JN	05/21	01:00	Coincident Index CI	MAR F	96.5	--	96.5
JN	05/21	01:00	Leading Index CI	MAR F	96.6	--	96.6
JN	05/21	01:00	New Composite Leading Economic Index	MAR F	96.6	--	96.6
CH	05/22	07:59	HSBC Flash China Manufacturing PMI	MAY	--	--	49.1
MA	05/23	05:00	CPI (y/y)	APR	--	2.1	2.1
JN	05/23	07:59	**BoJ Target Rate (%)**	MAY 23	**0.10**	**--**	**0.10**
HK	05/24	04:30	Exports (y/y)	APR	--	6.6	-6.8
HK	05/24	04:30	Imports (y/y)	APR	--	4.5	-4.7
HK	05/24	04:30	Trade Balance (HK$ bn)	APR	--	-41.2	-43.9
VN	05/24	06:59	Exports (y/y)	MAY	--	--	22.1
VN	05/24	06:59	Imports (y/y)	MAY	--	--	4.4
JN	05/24	19:30	National CPI (y/y)	APR	--	0.4	0.5
JN	05/24	19:30	Tokyo CPI (y/y)	MAY	--	-0.3	-0.3
PH	05/24	21:00	Imports (y/y)	MAR	--	--	4.9
PH	05/24	21:00	Trade Balance (US$ mn)	MAR	--	--	-562.0

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
BZ	05/24	08:00	Unemployment Rate (%)	APR	--	6.1	6.2
BZ	05/24	09:30	Current Account (US$ mn)	APR	--	--	-3319.8

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

Global Auctions for the week of May 21 - 25

North America

Country	Date	Time	Event
US	05/21	11:00	U.S. Fed to Purchase USD1.5-2 Bln Notes
US	05/21	11:30	U.S. to Sell 3-Month Bills
US	05/21	11:30	U.S. to Sell 6-Month Bills
CA	05/22	10:30	Canada to Sell CAD8.9 Bln 98-Day Bills
CA	05/22	10:30	Canada to Sell CAD3.3 Bln 168-Day Bills
CA	05/22	10:30	Canada to Sell CAD3.3 Bln 350-Day Bills
US	05/22	11:00	U.S. Fed to Sell USD8-8.75 Bln Notes
US	05/22	11:30	U.S. to Sell 4-Week Bills
US	05/22	13:00	U.S. to Sell 2-Year Notes
US	05/23	11:00	U.S. Fed to Purchase USD1.5-2 Bln Notes
CA	05/23	12:00	Canada to Sell 30-Year Notes
US	05/23	13:00	U.S. to Sell 5-Year Notes
US	05/23	14:00	U.S. Fed to Purchase USD4.25-5 Bln Notes
US	05/24	11:00	U.S. Fed to Purchase USD1.5-2 Bln Notes
US	05/24	13:00	U.S. to Sell 7-Year Notes

Europe

Country	Date	Time	Event
GE	05/21	05:30	Germany to Sell EU3 Bln 12-Mth Bills
BE	05/21	06:00	Belgium to Sell 3.5% 2017 Bonds
BE	05/21	06:00	Belgium to Sell 4.25% 2022 Bonds
BE	05/21	06:00	Belgium to Sell 4.5% 2026 Bonds
FR	05/21	09:00	France to Sell Bills (BTF)
NE	05/22	04:00	Netherlands to Sell Up to EUR3.5 Bln 2015 Bonds
GE	05/23	05:30	Germany to Sell EU5 Bln 2-Year Notes
UK	05/25	06:10	U.K. to Sell Bills

Asia Pacific

Country	Date	Time	Event
AU	05/21	21:00	Australia Plans to Sell Treasury Indexed Bonds due Sept. 2030
CH	05/22	23:00	China to Sell 10-Year Bonds
JN	05/23	23:45	Japan to Sell 20-Year Bonds

Latin America

Country	Date	Time	Event
BZ	05/22	11:00	Brazil to Sell I/L Bonds due 8/15/2016 - NTN-B
BZ	05/22	11:00	Brazil to Sell I/L Bonds due 8/15/2018 - NTN-B
BZ	05/22	11:00	Brazil to Sell I/L Bonds due 8/15/2022 - NTN-B
BZ	05/24	11:00	Brazil to Sell Bills due 10/1/2012 - LTN
BZ	05/24	11:00	Brazil to Sell Bills due 7/1/2014 - LTN
BZ	05/24	11:00	Brazil to Sell Bills due 1/1/2016 - LTN

Source: Bloomberg, Scotia Economics.

Events for the week of May 21 - 25

North America

Country	Date	Time	Event
CA	MAY 18-19		G-8 Summit, Camp David
US	MAY 20-21		NATO Summit of World Leaders
US	MAY 20-23		Intl Council of Shopping Centers convention
US	05/21	05:15	Fed's Lockhart Speaks on Monetary Policy in Tokyo
US	MAY 21-23		FINRA Annual Conference
US	05/22	06:15	Fed's Lockhart Speaks on Monetary Policy in Hong Kong
US	05/23	14:00	Fed's Kocherlakota Speaks in Rapid City, South Dakota
US	05/24	10:30	Fed's Dudley to Speak on Regional Economy in New York

Europe

Country	Date	Time	Event
EC	MAY 18-19		EU's Van Rompuy Attends G-8 Meeting in U.S.
EC	MAY 20-21		EU's Van Rompuy Attends NATO Summit in Chicago
UK	05/23	04:30	Bank of England Releases Monetary Policy Committee Minutes
EC	05/23	13:00	EU Leaders Hold Informal Dinner in Brussels
EC	05/23		EU Governments Negotiate Law on ECB Loan Rules
EC	05/24	08:30	ECB's Draghi, Bank of Italy's Visco Speak at Rome Conference
SZ	MAY 24-25		Basel Committee on Banking Supervision, CEPR, JFI, Workshop
EC	05/25	03:30	Barnier, Volcker, Vickers Speak on Regulation at EU Event

Asia Pacific

Country	Date	Time	Event
JN	MAY 22-23		BOJ Target Rate
NZ	05/23	22:00	New Zealand Budget
JN	05/24	01:00	Bank of Japan Monthly Economic Report
NZ	05/24	16:00	Finance Minister Post-Budget Speech

Latin America

Country	Date	Time	Event
CL	05/21	11:00	Chile President Pinera Gives Annual Address to Nation
CL	05/23	08:30	Central Bank's Traders Survey

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	June 5, 2012	1.00	--
Federal Reserve – Federal Funds Target Rate	0.25	June 20, 2012	0.25	--
Banco de México – Overnight Rate	4.50	June 8, 2012	4.50	--

Fed: The deterioration in labour markets in March and April has dashed the hope for very rapid improvement in the unemployment rate implied by January and February data. Similarly, Q1 GDP data implied ex-inventory trend GDP growth of 1.5-1.6% for a second consecutive quarter. Both of these developments suggest economic trends that are weaker than the Fed's updated staff economic projections, which marginally upgraded the outlook for the US economy in 2012. We do not anticipate any change to the Fed Funds Rate until 2014H2. BoC: The Bank of Canada revised its guidance for the path of its benchmark interest rate at its April 17 meeting, noting "in light of the reduced slack in the economy and firmer underlying inflation, some modest withdrawal of the present considerable monetary policy stimulus may become appropriate." While BoC rhetoric remains hawkish, disappointing domestic growth that is creating greater than estimated slack and a weaker global economic environment reduce the likelihood of BoC tightening in 2012.

Europe

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
European Central Bank – Refinancing Rate	1.00	June 6, 2012	1.00	--
Bank of England – Bank Rate	0.50	June 7, 2012	0.50	0.50
Swiss National Bank – Libor Target Rate	0.00	June 14, 2012	0.00	--
Central Bank of Russia – Refinancing Rate	8.00	June 1, 2012	8.00	--
Hungarian National Bank – Base Rate	7.00	May 29, 2012	7.00	7.00
Central Bank of the Republic of Turkey – 1 Wk Repo Rate	5.75	May 29, 2012	5.75	--
Sweden Riksbank – Repo Rate	1.50	July 4, 2012	1.50	--

Asia Pacific

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Bank of Japan – Target Rate	0.10	May 23, 2012	0.10	--
Reserve Bank of Australia – Cash Target Rate	3.75	June 5, 2012	3.75	3.75
Reserve Bank of New Zealand – Cash Rate	2.50	June 13, 2012	2.50	2.50
People's Bank of China – Lending Rate	6.56	TBA	--	--
Reserve Bank of India – Repo Rate	8.00	June 18, 2012	8.00	--
Bank of Korea – Bank Rate	3.25	June 7, 2012	3.25	--
Bank of Thailand – Repo Rate	3.00	June 13, 2012	3.00	--
Bank Indonesia – Reference Interest Rate	5.75	June 12, 2012	5.75	--

We do not anticipate any adjustments to interest rates or the asset purchase program when the Bank of Japan (BoJ) meets on May 23rd. The most recent GDP report portrayed a relatively strong performance on the back of reconstruction-related domestic demand in the first quarter, with output expanding by 1.0% over the previous three months. Monetary authorities will likely allow for some time to assess the impact of expanded asset purchases earlier in the year (February and April) before taking any additional measures. Nevertheless, with growing risks related to both the euro crisis and an economic deceleration in China, we do expect further monetary easing by the BoJ over the near term.

Latin America

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
Banco Central do Brasil – Selic Rate	9.00	May 30, 2012	9.00	--
Banco Central de Chile – Overnight Rate	5.00	June 14, 2012	5.00	5.00
Banco de la República de Colombia – Lending Rate	5.25	May 28, 2012	5.25	--
Banco Central de Reserva del Perú – Reference Rate	4.25	June 7, 2012	4.25	--

Africa

Rate	Current Rate	Next Meeting	Scotia's Forecasts	Consensus Forecasts
South African Reserve Bank – Repo Rate	5.50	May 24, 2012	5.50	--

The South African Reserve Bank (SARB) is expected to maintain the level of the benchmark repo rate at 5.50% after the next policy meeting on May 24th. Inflation eased to the upper limit of the central bank's 3-6% target range in March, while signals from real economic data have been mixed. The rand has depreciated sharply since the start of this month given the increase in euro-related tensions which have weighed negatively on commodities. This weakness, if sustained, could fuel price pressures going forward, providing the impetus for monetary tightening before year-end.

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

Forecasts as at May 4, 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	3.4	3.9				
Canada	2.2	2.5	2.1	2.2	2.1	2.9	2.1	2.1
United States	1.8	1.7	2.3	2.4	2.5	3.1	2.6	2.2
Mexico	2.1	3.9	3.6	3.7	4.9	3.8	3.9	4.0
United Kingdom	2.0	0.7	0.5	1.8	2.1	4.2	2.8	2.7
Euro zone	1.4	1.5	-0.5	0.9	2.1	2.7	2.2	1.9
Japan	0.9	-0.7	2.0	1.7	-0.3	-0.2	0.1	0.3
Australia	3.1	2.0	3.3	3.4	3.1	3.1	2.5	2.8
China	9.5	9.3	8.4	8.9	2.3	4.1	4.0	4.4
India	7.6	10.0	7.0	7.4	6.4	7.7	6.5	6.8
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	3.5	4.5	6.6	6.5	5.5	5.0
Chile	4.6	6.1	5.0	5.9	3.4	4.4	3.6	3.2
Peru	5.5	6.8	5.5	5.6	2.4	4.7	3.0	2.5
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	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Bank of England	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Swiss National Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Bank of Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Reserve Bank of Australia	3.75	3.75	3.75	3.75	3.75	3.75	4.00	4.00
Exchange Rates (end of period)								
Canadian Dollar (USDCAD)	1.00	1.00	0.99	0.98	0.97	0.97	0.97	0.96
Canadian Dollar (CADUSD)	1.00	1.00	1.01	1.02	1.03	1.03	1.03	1.04
Euro (EURUSD)	1.33	1.29	1.27	1.25	1.25	1.26	1.28	1.29
Sterling (GBPUSD)	1.60	1.60	1.62	1.63	1.65	1.66	1.67	1.68
Yen (USDJPY)	83	82	83	85	86	86	87	87
Australian Dollar (AUDUSD)	1.03	1.07	1.08	1.09	1.10	1.10	1.11	1.11
Chinese Yuan (USDCNY)	6.3	6.3	6.2	6.2	6.2	6.1	6.1	6.1
Mexican Peso (USDMXN)	12.8	12.8	13.0	13.1	13.2	13.1	13.1	13.3
Brazilian Real (USDBRL)	1.83	1.80	1.83	1.85	1.83	1.85	1.86	1.90
Commodities (annual average)	**2000-10**	**2011**	**2012f**	**2013f**				
WTI Oil (US$/bbl)	54	95	105	105				
Brent Oil (US$/bbl)	52	111	120	120				
Nymex Natural Gas (US$/mmbtu)	5.81	4.03	2.50	2.75				
Copper (US$/lb)	1.93	4.00	3.85	3.70				
Zinc (US$/lb)	0.75	0.99	0.94	1.10				
Nickel (US$/lb)	7.36	10.38	8.50	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	2011	11Q3	11Q4	Latest	
Real GDP (annual rates)	2.5	4.2	1.8		
Current Acc. Bal. (C$B, ar)	-48.3	-49.3	-41.3		
Merch. Trade Bal. (C$B, ar)	2.3	3.0	14.9	4.2	(Mar)
Industrial Production	3.5	3.3	3.0	1.3	(Feb)
Housing Starts (000s)	193	205	199	245	(Apr)
Employment	1.6	1.5	1.2	1.5	(Apr)
Unemployment Rate (%)	7.5	7.3	7.5	7.3	(Apr)
Retail Sales	4.1	4.6	4.2	4.1	(Feb)
Auto Sales (000s)	1588	1604	1603	1707	(Feb)
CPI	2.9	3.0	2.7	2.0	(Apr)
IPPI	4.6	5.4	3.9	-0.9	(Mar)
Pre-tax Corp. Profits	15.0	18.0	13.3		

United States	2011	11Q3	11Q4	Latest	
Real GDP (annual rates)	1.7	1.8	3.0	2.2	(Q1-A)
Current Acc. Bal. (US$B, ar)	-473	-431	-496		
Merch. Trade Bal. (US$B, ar)	-738	-723	-745	-811	(Mar)
Industrial Production	4.1	3.4	4.0	5.1	(Apr)
Housing Starts (millions)	0.61	0.61	0.68	0.72	(Apr)
Employment	1.1	1.2	1.3	1.3	(Apr)
Unemployment Rate (%)	9.0	9.1	8.7	8.1	(Apr)
Retail Sales	8.2	8.8	7.5	6.1	(Apr)
Auto Sales (millions)	12.7	12.4	13.4	14.4	(Apr)
CPI	3.2	3.8	3.3	2.3	(Apr)
PPI	6.0	6.9	5.4	1.9	(Apr)
Pre-tax Corp. Profits	4.2	3.7	9.3		

Mexico	2011	11Q3	11Q4	Latest	
Real GDP	3.9	4.3	3.9		
Current Acc. Bal. (US$B, ar)	-8.8	-13.7	-14.0		
Merch. Trade Bal. (US$B, ar)	-1.2	-15.3	-2.8	18.9	(Mar)
Industrial Production	4.0	3.5	3.5	3.1	(Mar)
CPI	3.4	3.4	3.5	3.4	(Apr)

Brazil	2011	11Q3	11Q4	Latest	
Real GDP	2.5	2.0	1.2		
Current Acc. Bal. (US$B, ar)	-52.5	-42.6	-63.2		
Merch. Trade Bal. (US$B, ar)	29.8	40.4	27.0	10.6	(Apr)
Industrial Production	0.3	0.2	-1.9	-3.9	(Mar)
CPI	6.8	7.1	6.7	6.6	(Jan)

Chile	2011	11Q3	11Q4	Latest	
Real GDP	6.0	3.7	4.5		
Current Acc. Bal. (US$B, ar)	0.0	-12.0	-5.1		
Merch. Trade Bal. (US$B, ar)	10.0	1.2	9.4	12.6	(Apr)
Industrial Production	6.9	4.4	2.0	0.2	(Mar)
CPI	3.3	3.1	4.0	3.5	(Apr)

Italy	2011	11Q3	11Q4	Latest	
Real GDP	0.5	0.4	-0.4		
Current Acc. Bal. (US$B, ar)	-0.07	-0.05	-0.03	-0.08	(Feb)
Merch. Trade Bal. (US$B, ar)	-34.2	-18.3	-8.3	32.7	(Mar)
Industrial Production	0.2	-0.3	-3.1	-5.5	(Mar)
CPI	2.8	2.9	3.3	3.4	(Apr)

Germany	2011	11Q3	11Q4	Latest	
Real GDP	3.1	2.7	2.0		
Current Acc. Bal. (US$B, ar)	204.1	188.1	256.1	312.9	(Mar)
Merch. Trade Bal. (US$B, ar)	216.1	223.8	220.7	217.5	(Mar)
Industrial Production	8.0	8.1	3.5	1.5	(Mar)
Unemployment Rate (%)	7.0	7.0	6.9	6.8	(Apr)
CPI	2.3	2.5	2.3	2.1	(Apr)

France	2011	11Q3	11Q4	Latest	
Real GDP	1.7	1.5	1.2		
Current Acc. Bal. (US$B, ar)	-60.1	-48.7	-58.2	-54.7	(Mar)
Merch. Trade Bal. (US$B, ar)	-51.0	-49.5	-45.9	-52.0	(Mar)
Industrial Production	2.5	2.9	0.5	-0.9	(Mar)
Unemployment Rate (%)	9.7	9.7	9.8	10.0	(Mar)
CPI	2.1	2.1	2.4	2.1	(Apr)

Euro Zone	2011	11Q3	11Q4	Latest	
Real GDP	1.5	1.3	0.7		
Current Acc. Bal. (US$B, ar)	-4	15	183	-93	(Feb)
Merch. Trade Bal. (US$B, ar)	6.4	16.0	76.9	38.6	(Feb)
Industrial Production	3.6	3.8	-0.1	-2.0	(Mar)
Unemployment Rate (%)	10.1	10.2	10.5	10.9	(Mar)
CPI	2.7	2.7	2.9	2.6	(Apr)

United Kingdom	2011	11Q3	11Q4	Latest	
Real GDP	0.7	0.3	0.5		
Current Acc. Bal. (US$B, ar)	-46.4	-83.1	-45.4		
Merch. Trade Bal. (US$B, ar)	-159.8	-177.6	-152.5	-162.5	(Mar)
Industrial Production	-1.2	-1.6	-3.0	-2.6	(Mar)
Unemployment Rate (%)	8.1	8.2	8.4	8.2	(Feb)
CPI	4.5	4.7	4.7	3.5	(Mar)

Japan	2011	11Q3	11Q4	Latest	
Real GDP	-0.7	-0.5	-0.5		
Current Acc. Bal. (US$B, ar)	119.2	159.5	48.0	231.4	(Mar)
Merch. Trade Bal. (US$B, ar)	-33.7	-20.6	-76.8	-90.4	(Mar)
Industrial Production	-2.3	-0.6	0.0	15.9	(Mar)
Unemployment Rate (%)	4.6	4.4	4.5	4.5	(Mar)
CPI	-0.3	0.1	-0.3	0.5	(Mar)

Australia	2011	11Q3	11Q4	Latest	
Real GDP	2.0	2.6	2.3		
Current Acc. Bal. (US$B, ar)	-33.0	-34.0	-38.0		
Merch. Trade Bal. (US$B, ar)	35.8	42.6	29.3	2.4	(Mar)
Industrial Production	-0.1	0.9	2.1		
Unemployment Rate (%)	5.1	5.2	5.2	4.9	(Apr)
CPI	3.4	3.5	3.1		

China	2011	11Q3	11Q4	Latest	
Real GDP	10.4	9.1	8.9		
Current Acc. Bal. (US$B, ar)	290.0				
Merch. Trade Bal. (US$B, ar)	155.1	250.3	193.3	221.1	(Apr)
Industrial Production	12.8	13.8	12.8	9.3	(Apr)
CPI	4.1	6.1	4.1	3.4	(Apr)

South Korea	2011	11Q3	11Q4	Latest	
Real GDP	3.6	3.6	3.3		
Current Acc. Bal. (US$B, ar)	26.5	27.6	46.0	36.5	(Mar)
Merch. Trade Bal. (US$B, ar)	30.8	25.2	36.6	25.8	(Apr)
Industrial Production	6.9	5.3	5.2	0.3	(Mar)
CPI	4.0	4.3	4.0	2.5	(Apr)

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

Source: Bloomberg, Scotia Economics.

Interest Rates (%, end of period)

Canada	11Q4	12Q1	May/11	May/18*	United States	11Q4	12Q1	May/11	May/18*
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	0.84	0.92	1.03	1.01	3-mo. T-bill	0.01	0.07	0.09	0.08
10-yr Gov't Bond	1.94	2.11	2.00	1.89	10-yr Gov't Bond	1.88	2.21	1.84	1.72
30-yr Gov't Bond	2.49	2.66	2.48	2.43	30-yr Gov't Bond	2.89	3.34	3.03	2.82
Prime	3.00	3.00	3.00	3.00	Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	65.7	69.2	69.2	(Mar)	FX Reserves (US$B)	136.9	138.0	138.0	(Mar)
Germany					**France**				
3-mo. Interbank	1.35	0.71	0.61	0.61	3-mo. T-bill	-0.06	0.07	0.09	0.04
10-yr Gov't Bond	1.83	1.79	1.52	1.43	10-yr Gov't Bond	3.15	2.89	2.80	2.82
FX Reserves (US$B)	66.9	67.9	67.9	(Mar)	FX Reserves (US$B)	48.6	49.2	49.2	(Mar)
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	0.35	0.32	3-mo. T-bill	4.85	4.85	4.85	4.85
FX Reserves (US$B)	316.7	319.8	319.8	(Mar)	10-yr Gov't Bond	1.98	2.20	1.96	1.83
					FX Reserves (US$B)	79.3	82.4	82.4	(Mar)
Japan					**Australia**				
Discount Rate	0.30	0.30	0.30	0.30	Cash Rate	4.25	4.25	3.75	3.75
3-mo. Libor	0.13	0.13	0.13	0.13	10-yr Gov't Bond	3.67	3.98	3.29	3.08
10-yr Gov't Bond	0.99	0.99	0.85	0.83	FX Reserves (US$B)	42.8	47.7	47.7	(Mar)
FX Reserves (US$B)	1258.2	1247.8	1247.8	(Mar)					

Exchange Rates (end of period)

USDCAD	1.02	1.00	1.00	0.98	¥/US$	76.91	82.87	79.87	79.13
CADUSD	0.98	1.00	1.00	1.02	US¢/Australian$	102.09	1.03	100.64	98.32
GBPUSD	1.554	1.601	1.608	1.580	Chinese Yuan/US$	6.30	6.30	6.31	6.33
EURUSD	1.296	1.334	1.294	1.273	South Korean Won/US$	1152	1133	1147	1173
JPYEUR	1.00	0.90	0.97	0.99	Mexican Peso/US$	13.936	12.81	13.490	13.807
USDCHF	0.94	0.90	0.93	0.94	Brazilian Real/US$	1.867	1.827	1.942	2.027

Equity Markets (index, end of period)

United States (DJIA)	12218	13212	12820	12438	U.K. (FT100)	5572	5768	5576	5268
United States (S&P500)	1258	1408	1354	1304	Germany (Dax)	5898	6947	6580	6271
Canada (S&P/TSX)	11955	12392	11695	11398	France (CAC40)	3160	3424	3130	3008
Mexico (Bolsa)	37078	39521	38889	37250	Japan (Nikkei)	8455	10084	8953	8611
Brazil (Bovespa)	56754	64511	59445	54652	Hong Kong (Hang Seng)	18434	20556	19965	18952
Italy (BCI)	806	859	769	729	South Korea (Composite)	1826	2014	1917	1782

Commodity Prices (end of period)

Pulp (US$/tonne)	890	870	900	900	Copper (US$/lb)	3.43	3.85	3.67	3.54
Newsprint (US$/tonne)	640	640	640	640	Zinc (US$/lb)	0.83	0.91	0.88	0.87
Lumber (US$/mfbm)	261	266	304	308	Gold (US$/oz)	1531.00	1662.50	1583.00	1589.00
WTI Oil (US$/bbl)	98.83	103.02	96.82	92.06	Silver (US$/oz)	28.18	32.43	28.60	28.50
Natural Gas (US$/mmbtu)	2.99	2.13	2.47	2.66	CRB (index)	305.30	308.46	291.80	291.11

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

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