Global Views

Weekly commentary on economic and financial market developments

August 24, 2012

2-12 Economics

2-3 • The Fed To Dominate Next Week's Action .... Derek Holt

4 • The Bank of Canada Cannot Afford To Adopt Price Level Targeting .... Derek Holt & Dov Zigler

5 • Net Exports May Add To U.S. Growth, But Marginally .... Devin Kinasz

6-7 • Elevated U.S. Youth Unemployment .... Erika Cain & Mary Webb

8 • Costa Rica's Weak Public Finances Cloud Economic Outlook .... Daniela Blancas

9-10 • Fed Signals Higher Odds Of QE3 .... Derek Holt & Dov Zigler

11-12 • Dog Days Of Summer .... Aron Gampel

13-15 Emerging Markets Strategy

• Spread Differential Of Fibria Vs. Competitors .... Joe Kogan & Leonor López

16-17 Fixed Income Strategy

• UK Public Finances — Poor Start .... Alan Clarke

A1-A11 Forecasts & Data

• Key Data Preview A1-A2
• Key Indicators A3-A4
• Global Auctions Calendar A5
• Events Calendar A6
• Global Central Bank Watch A7
• Forecasts A8
• Latest Economic Statistics A9-A10
• Latest Financial Statistics A11

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

The Fed To Dominate Next Week's Action

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

It's all about the Fed in **US** and global markets next week. Minutes to the last FOMC meeting upped the odds of QE3 being rolled out at the September 12th-13th Fed meeting. The key is whether the data tone has improved enough since the last meeting on July 31st-August 1st in order to give the Fed some comfort in either waiting it out or responding with a more limited form of stimulus. Recent opinions expressed by Fed officials have been mixed by way of determining the freshness of the perspective provided in the minutes, with two non-voting FOMC members exchanging diametrically opposed views that cancel each other out. Chicago Fed President Charles Evans bluntly stated that "I don't need to see any more data to know that I think we should have more accommodation," and St. Louis Fed President James Bullard remarked "I wouldn't do it right now. If it was just me and we just have the data up until today I wouldn't take a decision right now." Clearly the tone of the data matters to some Fed officials, and as we argue on pages 9-10, we don't believe that it has consistently changed enough to veer the Fed away from the message provided in the meeting minutes. The pressure, however, is on Fed Chairman Ben Bernanke as he takes to the stage at the annual central banking symposium at Jackson Hole, Wyoming next Friday. It was at this event in 2010 that Bernanke tipped off QE2, and it has become an event rivaling or surpassing the Chairman's semi-annual testimony on monetary policy before the politically charged Senate and House of Representatives. I believe that Bernanke will reinforce the messaging provided in the minutes but refrain from overtly signaling QE at the meeting less than two weeks later. Between Jackson Hole on August 31 and the next FOMC meeting on September 13, the Fed will probably assess key data due out such as jobs and evaluate the outcome of the ECB meeting on September 6th and the German constitutional court ruling on the ESM on September 12th.

Prior to Bernanke's speech will be a more important than usual speech by Cleveland Fed President Sandra Pianalto on Monday. Her topic will be the economic outlook and monetary policy. This could be a key speech because she votes (unlike Bullard and Evans), has not provided much clarity regarding her position on additional stimulus especially at this juncture, and her talk immediately follows the minutes as a bridge to Bernanke's speech just days later. Her talk will also help us to further understand the likely vote composition of the five regional Presidents if she does clarify her position. We currently know that Richmond Fed President Jeffery Lacker would dissent against additional stimulus, Atlanta Fed President Dennis Lockhart is a moderate who would likely support the Chairman with reservations, San Francisco Fed President John Williams supports open-ended QE, and NY Fed President William Dudley will vote with the Chairman. That leaves only Pianalto's voice to be clarified in what is so far a likely 3-1 vote in favour of additional stimulus. It is also highly likely that all of the Governors would vote with the Chairman. That would suggest a 10-1 vote for more stimulus if Bernanke is of that mindset with Pianalto's opinion yet to be heard. Thus, while Bernanke is a consensus builder, with what we know so far it appears evident that if he gives the green light to additional stimulus then the vote is a shoe-in. Chicago Fed President Charles Evans (alternate) also speaks again on Monday and may respond to some of Bullard's remarks that themselves represented the hawkish tail of opinion at the last FOMC meeting.

US data risk over the coming week will also be elevated and play into the QE3 debate. Key in this regard will be fresh consumer spending, income and inflation readings on Thursday—one day before Jackson Hole. The July print for spending could be the strongest gain in five months based upon what we already know in the retail report and thus largely discounted because it will contain little new information and will simply feed the uncertainty regarding sustainability. More important will be the price deflator for total personal consumer spending which the Fed prefers over CPI as an inflation gauge. That reading is likely to dip to around 1%, or perhaps the lowest since October 2009 as it follows the already-released July CPI figures lower and maintains its lower-than-CPI reading due to how CPI overstates inflation because of its fixed weights. Such a low reading on the Fed's preferred inflation gauge would be a dovish set-up for Jackson Hole if it transpires. One day before on Wednesday will offer likely modest upside revisions to Q2 GDP that are unlikely to be enough to materially alter the softness in that quarter. In that sense, it is telling of the times that markets have been diminished to hanging on tenths of basis points in GDP revisions when formulating

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

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policy expectations. Other data risk will be second tier to this but still important in assessing the broad picture and includes consumer confidence and the Richmond Fed's manufacturing gauge on Tuesday, pending home sales and the Beige Book on Wednesday, and factory orders on Friday. The US also auctions 2s, 5s and 7s.

One piece of macro and one piece of corporate risk will be the focal points for **Canadian** markets next week, but most of the domestic market tone is likely to be determined by external events. Canadian GDP may well get buried on Friday as it gets released just one and a half hours before Bernanke speaks, but BoC watchers will be following what is likely to be a soft reading. At about what we estimate to be 1.5% annualized GDP growth, the second quarter's deceleration from 1.9% growth in Q1 would remain at odds with hawkish BoC sentiments although we think the BoC is largely hedging big-time on the outlook by employing words of rate guidance such as 'may', 'to the extent' and 'over the medium term' that fixed income markets continue to look through with a dovish bias. Canadian bank earnings for fiscal Q3 hit the tapes on Tuesday (BNS, BMO) and Thursday (RBC, TD and CIBC). On the so-go-the-banks so-goes-the-market theory, this could well significantly impact the tone of the Canadian corporate bond and equity market. In his earnings season preview, Kevin Choquette (Scotia's equity analyst covering banks) noted he expects a 1% q/q rise in operating earnings and a 7% y/y gain with average ROE landing at 18.9%. Canada also auctions 3 year notes on Wednesday.

European markets, by contrast, should be relatively sleepy. German Chancellor Angela Merkel has made it clear that she awaits the report from the IMF, ECB and EC (the 'troika') sometime in September with the exact date unknown before commenting further on Greece's progress and the terms of its MoU. European markets also await the key ECB meeting on Setpember 6th. To this effect, ECB speak will get headlines with speeches by council members Asmussen (twice), Nowotny, and Coeure. Commenting on rumours regarding yield cap proposals may offer headline risk. Data risk will be relatively light but focused on Germany with CPI, business confidence, unemployment and retail sales all due out. Eurozone confidence readings and Italian retail sales round out the hits. We expect the Norges Bank to maintain a policy hold, and Italy conducts bond auctions.

Asian markets will spend most of the week following the global tone. There is key data, but not until Friday evening such that it will be the following Monday's Asian open that could be affected. That data will be the state's version of the purchasing managers' index for the manufacturing sector. We've already witnessed the disappointing 'flash' private sector reading that continues to signal a contracting manufacturing sector. That might overstate weakness, however, as it is more concentrated upon larger and more export-oriented firms than the state version which has remained at the dividing line between expansion and contraction for three months now. How Japan's economy is performing will also be a focal point as retail sales, jobs, household spending, industrial production, CPI, housing starts and vehicle production all get released. In the wake of weak trade figures, expectations are generally low, particularly with respect to another decline in retail sales and continued declines in CPI. Australian new home sales are expected to rise for the fourth consecutive month after going into free fall from mid-2010 until this past Spring. Finally, Philippines Q2 GDP growth is expected to drop to a one-handled pace that would run at half of the rate of growth in Q1.

Far and away next week's most significant development facing **Latam** markets after the Fed is an expected 50bps cut in the Bank of Brazil's Selic policy rate to 7.5% on which consensus is unanimous. That would translate into a cumulative 500bps worth of easing since last summer as economic concerns continue to mount.

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

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

The Bank of Canada Cannot Afford To Adopt Price Level Targeting

- **Strict adherence to price level targeting would mean the BoC could be on hold for many years to come, but the bygones-be-bygones approach of inflation targeting will heavily constrain the policy decision.**

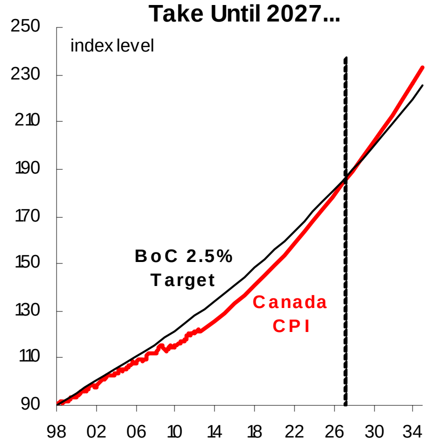
We do not believe that the Bank of Canada will ever really pursue price level targeting in a shift away from inflation targeting, but the case against it has only grown with the latest estimate by BoC staff that CPI overstates true inflation by about a half percentage point per year.

Why? As we noted in our article in last week's Global Views ("Canadian Inflation Is Softer Than It Appears") the CPI index is currently well below a trend line for the price level that would be derived from consistently growing the CPI benchmark by 2.5% per year. That growth rate takes the BoC's 2% CPI target and adds the half percentage point annual measurement bias by assuming that the BoC's 2% CPI target doesn't already factor in an over-estimation bias of a half point. If it did, then the BoC's true inflation target would be more like 1.5% per year and the point would be moot, but we don't believe this to be the case. The purpose of this note is to explore how long it would take the BoC to get back up to a linearly rising price level target at a sustained 2.5% per year.

The answer is: probably never. Even if headline CPI were to run at the upper bound of the BoC's 1-3% target for CPI excluding measurement bias, then it would take many years to get back on to the constantly rising price level trend at a 2.5% pace per year. Chart 1 shows that this would not happen until 2027 if we used 1998 as the starting point. We offer this starting point because, during the period since 1998, the BoC staff estimates that CPI has over-estimated actual inflation by a fairly steady 0.5% per year. If instead we started the math in 2007 just before the crisis period after which the BoC witnessed a substantial deviation from trend CPI, then it would take until 2021 for 3% annual CPI inflation to get the CPI index back on the price level target line (chart 2). A higher rate than 3% per year would obviously take less time, and a lower rate would perhaps never restore CPI to the previously set linear trend.

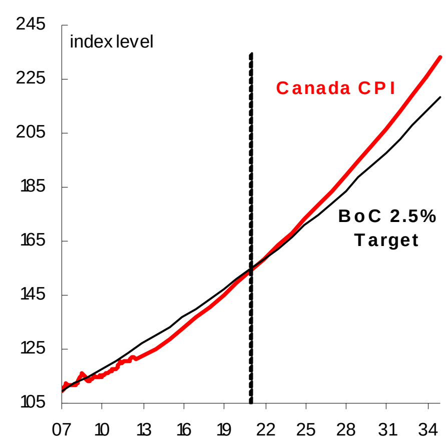
The bottom line is that if one believes price levels matter as a guide to future business investment and spending decisions, then restoring expectations along the steady linear trend would imply a policy hold for many years until some degree of inflation over-shooting brought CPI back on to the price level trend. That's highly unlikely as the BoC would more heavily weight the inflation-targeting policy bias to let bygones be bygones on past policy misses in an effort to prevent inflation expectations from becoming dislodged and perhaps dangerously so over time. The monetary policy focus in Canada is not upon righting past misses, but upon providing monetary policy stability in future. That said, the BoC cannot afford to totally ignore past misses such that disappointing growth and undershooting inflation leave the BoC on hold until 2014 in our present forecasts.

Getting Back to Target Could Take Until 2027...



Source: Bloomberg, Scotia Economics.

... Or 2021



Source: Bloomberg, Scotia Economics.

Devin Kinasz (416) 866-4214
devin.kinasz@scotiabank.com

Net Exports May Add To U.S. Growth, But Marginally

Source: U.S. Bureau of Economic Analysis

The U.S. trade deficit peaked in May of 2008 at $875bn annualized in the run-up to the global financial crisis, before correcting by 51% to a low of $428bn one year later. The improvement in net exports was a positive contribution to growth from 2007 to 2009, but since then has been less supportive as imports recovered. In 2012 exports have been performing well and have moved above pre-crisis levels. The June trade deficit was better than anticipated and lifted growth in the second quarter. However, positive developments in the trade balance may be only temporary because of decelerating global trade due to the ongoing eurozone crisis, and the renewed rise in the price of oil. The tension in the Middle East and speculation about further monetary easing by the Fed and other central banks has boosted prices.

June trade data from the U.S. show that imports fell by 1.5% from May, helping to reduce the trade deficit from $48bn in May to $42.9bn in June, alongside a rise in exports. The reduction in petroleum imports was a significant factor as the price of WTI weakened by 20% over May and June, while volumes also declined as U.S. shale gas production reduced the need for foreign crude. Other major import categories were also down, except for autos, parts and engines that reflects the recovery in the global auto industry. The broad-based decline was led by lower imports of industrial supplies and capital goods, implying a slowdown in business investment due to the uncertainty surrounding the ‘fiscal cliff’ and weak global growth conditions.

Exports performed well in June, up by 0.9% in the month and 5.9% ytd over the first six months of 2012. This is a solid performance considering the state of the global economy, with the recession in Europe and slowdown in China, and demonstrates that U.S. exports remain competitive. Exports increased across several sectors, particularly autos and consumer goods, but aircraft exports were down, as well as food and feed because of the drought in the Midwest.

The increase in U.S. exports can be attributed to more merchandise heading to Canada (up 6% ytd), Mexico (11%), Japan (7%) and Latam (12%), with growth in these countries generally robust in a global context. In contrast, exports to China have declined by 12% since the end of 2011, increasing the politically sensitive bi-lateral trade deficit as the Chinese economy slows. There has been a more moderate decline in exports to India and ASEAN countries. Exports to the EU were up in June and have increased by a mild 2.9% ytd, but weakness will persist well into 2013 as EU demand remains depressed.

Net exports should help boost growth rates in the United States at a time when residential investment is also strengthening, helping to offset ongoing consumer constraint and the softening of business investment. With trade data better than expected in June, the assumptions made by the Bureau of Economic Analysis will need to be adjusted. Net exports will make a positive contribution to second-quarter GDP, rather than the 0.3% drag which had been expected, a development that could help push up the overall GDP growth rate for 2012.

The increase in exports, and the positive contribution of net exports to growth, is a welcome development for the U.S. economy, but may not be sustainable. The ISM Manufacturing Index for July shows disappointing figures with the export series index down 1% to 46.5. Countries that have already released July trade figures have posted weaker numbers pointing to continued slowdown in global trade. Japan saw its trade surplus turn into a $6.5bn deficit in July, while in China exports grew at a meagre 1% in comparison to an average of 18% over the past seven years. Furthermore, the price of oil has strengthened, so any reduction in energy imports may be short-lived.

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

Mary Webb (416) 866-4202
mary.webb@scotiabank.com

Elevated U.S. Youth Unemployment

- **The labour market for U.S. youth is slowly improving, but it will remain a policy challenge.**

In contrast to the euro zone's rising youth unemployment rate — at 22.4% (sa) in June — and its declining employment for this age group, U.S. labour market conditions for individuals 16-24 years are gradually improving. Yet their gains are uneven and from a steeper setback vis-à-vis previous recessions *(chart 1).* The U.S. youth unemployment rate as of July was 16.4% (sa), down from 17.4% a year ago, and the April 2012 peak of 19.6%, a record surpassing the high in late 1982. Importantly, the drop in the U.S. youth unemployment rate over the past year reflects a 4.4%[3] y/y increase in jobs *(chart 2)* that outweighed the 3.2% y/y rise in the labour force as the youth participation rate edged above recent lows *(chart 3).*

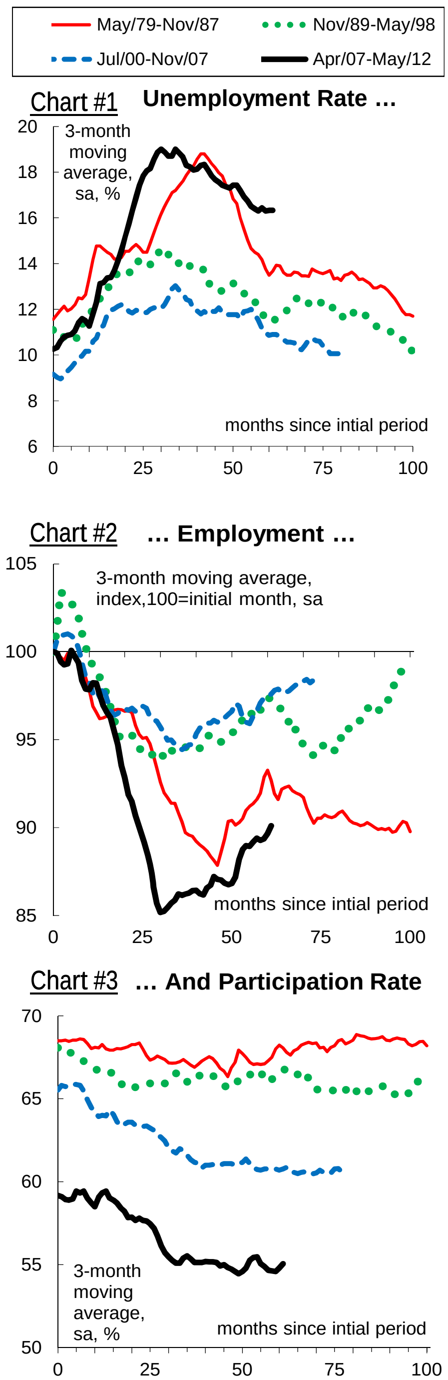
Nevertheless, the U.S. youth unemployment rate in July was still nearly 6 percentage points above the rate five years ago and remains 2.4 times greater than the 6.9% jobless rate for those 25 years and over. During the recent recession, youth employment plunged 17% from the December 2006 peak to the trough in October 2009. Since then only 30% of the positions lost have been recouped. In sharp contrast, individuals 25 years and older suffered a shorter, and far less severe payroll contraction of 4.5% and have now regained 54½% of the jobs lost.

The lesson of the three recessions prior to 2007 is that the recovery in youth employment has often been tenuous, interrupted by occasional periods of falling employment. This time around, U.S. youth face the additional challenge of recovering from a far steeper job loss, in both absolute and percentage terms.

Indeed employed youth 16-24, as a share of their population has been trending lower for more than two decades *(chart 4, p.2).* To mid-1989, the employment-to-population ratio for U.S. youth was rising, largely due to a 13.3% drop in the 16-24 population over the decade *(chart 5).* After mid-1989, youth employed as a share of their population fell from 62% to less than 45% by late 2009, recovering to just over 46% this past July *(chart 4).* Spurring this decline was the fall-off in the youth labour force participation rate *(chart 6).*

The youth participation rate, after dropping from roughly 69% in mid-1989 to 66% in 2000, subsequently plummeted to record lows of less than 55% in 2011 and early 2012. As youth participation rates headed lower, positive growth in the 16-24 population resumed in 1996 causing the labour force to edge higher, though the expansion was constrained by the continuing fall in the youth participation rate. Since the pre-recession peak in early 2007, if the renewed decline in the youth labour force had not occurred, the youth unemployment

U.S. Youth[1] Labor Market Over Four Recessions[2]



[1] Individuals 16-24 years, [2] Period plotted begins six months before start of recession; recessions defined by NBER. Source: U.S. Bureau of Labor Statistics, NBER, Scotia Economics.

[3] Relative to the household survey data referenced in this article, the U.S. payroll survey indicates a rise in employment for all age groups of 0.8% for the first seven months of 2012 versus the household survey's 1.0% estimate.

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

Mary Webb (416) 866-4202
mary.webb@scotiabank.com

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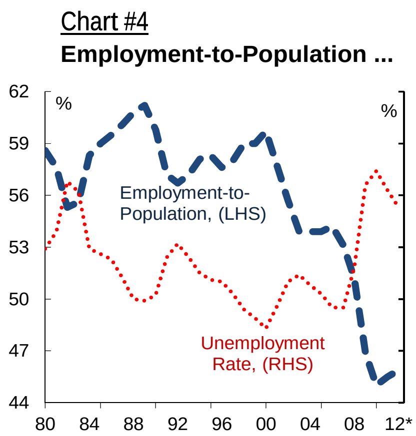
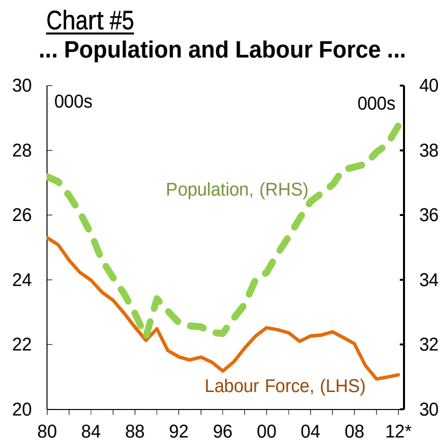
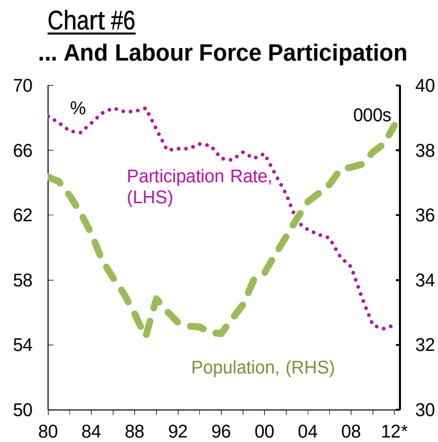
Further Detail on the U.S. Youth Labour Market







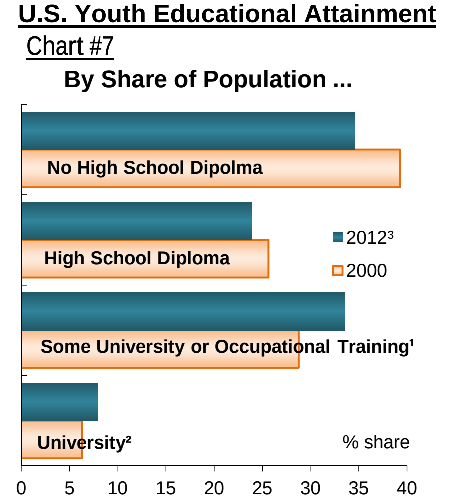
* January to July 2012. Source: U.S. Bureau of Labor Statistics, Scotia Economics.

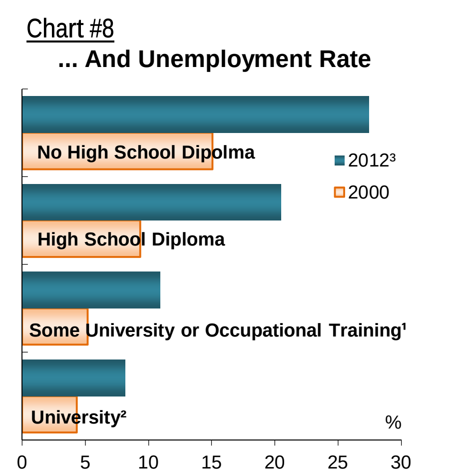
rate for July 2012 would have been over 4 percentage points higher at almost 21%.

After 2000, a higher percentage of youth opted to stay in school. As a result, the percentage of the population with a high school diploma or less has fallen from almost 65% in 2000 to 58½% for the four quarters ending Q2 2012 *(chart 7)*. For youth without postsecondary education, finding a permanent job has been difficult, and their unemployment rate over the past four quarters has averaged 27½% for those without a high school diploma and 20½% for those with a high school diploma. For youths who have not completed high school, a 'discouraged worker' effect is contributing to the fall in their labour force participation rate from 50% in 2000 to 31% over the four quarters ending Q2 2012, less than half the participation rate for this age group with postsecondary education. For youth with more education , the rise in unemployment rates since 2000 has been far less *(chart 8)*. For young adults with postsecondary education, employment has actually increased since 2000 compared with declines of 20% for youth with a high school diploma and 47½% for those without a diploma.

Assuming an effective compromise on the U.S. fiscal cliff that reinstates much of the expiring tax relief and adjusts legislated spending cuts for 2013, further improvement, albeit gradual, is anticipated in U.S. youth unemployment. Contributing to this progress will be the U.S. housing market regaining some traction over the next few years and some easing in the pace of household deleveraging. The trend towards greater post-secondary education among U.S. youth is encouraging, but the challenge remains of addressing structural labour market issues given the slow unwinding of the deep cyclical downturn in U.S. youth employment.

U.S. Youth Educational Attainment





[1] Also includes occupational and academic programs outside of university, [2] includes undergraduate and graduate degrees, [3] Q3 2011 to Q2 2012. Source: U.S. Bureau of Labour Statistics, Scotia Economics.

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

Costa Rica's Weak Public Finances Cloud Economic Outlook

- **Economic growth will remain close to the regional average.**

The Costa Rican economy continues to show a strong economic performance, though with signs of a modest deceleration in recent months, which we expect to continue through the second half of the year. The country's economic performance is closely linked to the US economic cycle and remains highly vulnerable to a weakening in external demand. Free trade agreements with Central America and Asia, an optimistic business climate, a dynamic high-tech sector and strong business services will offset sluggish government spending and slower external demand and tourism activity. The fiscal deficit continues to be one of the biggest challenges for Costa Rican authorities in the coming years, an issue which has pressured local interest rates to the upside, and offset private sector financing.

In the first half of the year, GDP grew by 5.5% y/y, strongly above the 3.5% growth rate registered in the first half of 2011. As a result of stronger domestic demand, fairly firm exports, higher investments in some key sectors and a stable inflation rate, we have revised our GDP forecast from 4.2% to 4.5% in 2012 and from 3.8% to 4.0% in 2013.

On the inflation side, the central bank remains committed to its 5% (+/- 1 percentage point) official inflation target range, as it moves towards a more flexible foreign exchange regime and an inflation-targeting policy. Headline inflation decelerated to 3.95% y/y in July, the lowest yearly rate since the end of 2009. We expect inflation to remain within the official target range; however, the recent spike in global food prices and any possible shock in oil and energy prices could easily filter through to local prices (as Costa Rica is a net commodity importer), pushing inflation closer to the upper limit of the tolerance range by the end of the year. The central bank's administrated interest rate has remained unchanged at 5.0% since the transition to an inflation-targeting regime in June 2011.

The current account is expected to widen in the coming years, as the deficit in merchandise trade increases more than the net services surplus. Costa Rica is a commodity and primary goods importer; nonetheless, has a service balance surplus due to business processing, information technology services and tourism revenues – which are expected to slowly recover in the coming years. We expect foreign direct investment to continue its positive trend (US$806 million inflows in the first half of the year and $2.2 billion expected by year-end), fully covering the current account deficit and allowing the central bank to continue its accumulation of foreign reserves.

The central bank is gradually moving away from a fixed-rate scheme (with intervention bands) to a managed-floating exchange rate regime. The Costa Rican colon (CRC) maintains a modest appreciation tone. In early June, the currency reached the lower limit of the central bank's band, prompting authorities to intervene in the market. Demand from local market participants for local-currency financial instruments is gradually rising as the economy transitions to a less-dollarized regime, and foreigners find in Costa Rican assets wider spreads. The CRC will be subject to global risk appetite (or aversion) and, possibly, Eurobond issuance.

The fiscal agenda remains of concern to both local and international investors. The central bank has forecast that the government deficit could reach 4.5% of GDP this year and 4.8% in 2013 in the absence of any fiscal reform. In addition, monetary authorities have openly stated that the country needs to bring public finances back onto a sustainable path. In late July, the Legislative Assembly approved, in a first debate, a government issuance of $4 billion in Eurobonds in international markets with a limit of $1 billion each year for 10 years. This measure aims to switch from domestic financing to external, taking some of the pressure off local markets in hopes of encouraging private investment. We anticipate that despite the approval of the fiscal reform plan, the government will have to implement other measures to bring down its deficit and consolidate its public finances in the remainder of the current administration.

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

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

Fed Signals Higher Odds Of QE3

- **We offer six key points drawn from the FOMC meeting minutes.**

The minutes to the July 31st-August 1st FOMC meeting offered what we thought were six key observations in the lead up to Chairman Bernanke's speech at Jackson Hole on August 31st and the FOMC meeting on September 12th-13th.

1. More FOMC Members Support Additional QE

First, key here is obviously that the language describing the balance of opinion on additional QE changed again as we migrate from "a few" to "several" and now "many members judged that additional monetary accommodation would likely be warranted fairly soon unless incoming information pointed to a substantial and sustainable strengthening in the pace of the economic recovery. Several members noted the benefits of accumulating further information that could help clarify the contours of the outlook for economic activity and inflation as well as the need for further policy action."

2. Has The Data Improved Enough Since That Meeting To Change Their Minds?

Second, and in light of the sentence from the minutes quoted above, clearly the key to the FOMC minutes is whether the "many" participants think the economy has improved enough from the August 1st meeting to justify changing to fewer being supportive of additional QE now. I don't believe so, and the accompanying table highlights the data received since the August 1st FOMC statement. The upsides have come through ADP, nonfarm, trade, retail sales, industrial production, the Philly Fed and home sales. That seems like an impressive list, but the pace of job growth is still disappointingly slow and so progress on the unemployment rate has stalled and that speaks directly to the full employment half of the dual mandate. Other improvements, like retail sales, may not be sustained as they have been exceptionally volatile and subject to trend softness. As for the Philly Fed, it improved but remained in contraction. Now the weaker variables are an almost equally impressive list and came through ISM, factory orders, housing starts, the unemployment rate, Empire, and CPI. The latter is key since the Fed is significantly failing the price stability part of its dual mandate and more so than was evident at the last FOMC meeting. Indeed, one day before Jackson Hole next week will probably cough up a PCE deflator (the Fed's preferred measure) that will come in as low as about 1% by following the already known 1.4% y/y CPI print lower and undershooting it given CPI's upside measurement bias. Thus, on net, I'm not convinced that the tone of the indicators has improved enough in the wake of a very soft Q2 GDP report that might get revised up a tick or two to still one-handled growth and that may give way to something in the 1.5-2% range for GDP growth into Q3 in order to lead the 'many' to rethink their positions into the September 13th FOMC.

Data Flow Since The Last FOMC Meeting

Positive:	Consensus	Latest	Prior
ADP	120K	163K	172K
Nonfarm Payrolls	100K	163K	64K
Trade Balance	-$47.5B	-$42.9B	-$48.0B
Retail Sales	0.3%	0.8%	-0.7%
Industrial Production	0.5%	0.6%	0.1%
Philly Fed.	-5.0	-7.1	-12.9
Existing Home Sales	4.51M	4.47M	4.37M
Negative:	**Consensus**	**Latest**	**Prior**
ISM Manufacturing	50.2	49.8	49.7
Factory Orders	0.5%	-0.5%	0.5%
Housing Starts	756K	746K	754K
Unemployment Rate	8.2%	8.3%	8.2%
Empire State Mfg.	7.00	-5.85	7.39
CPI	0.2%	0.0%	0.0%

3. It's Not Just About Near-Term Data

Third, let's cut through the near-term noise and look at what the members are saying further out: "Many members expected that at the end of 2014, the unemployment rate would still be well above their estimates of

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

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

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its longer-term normal rate and that inflation would be at or below the Committee’s longer-run objective of 2%.” That speaks to the FOMC members looking through near-term data volatility in favour of longer-run softness in need of support. This interpretation is supported by “A number of them indicated that additional accommodation could help foster a more rapid improvement in labour market conditions in an environment in which price pressures were likely to be subdued.” Thus the FOMC members are telling us they are less worried about near-term volatility and more concerned about the longer-term picture while retaining the bias that “Many participants expected that such a program could provide additional support for the economic recovery both by putting downward pressure on longer-term interest rates and by contributing to easier financial conditions more broadly.” Of note is that one could add the backing-up in Treasury yields over recent weeks to the list of negative developments since the last FOMC meeting.

4. QE As Cheap Insurance Against Downside Risks

Fourth, apart from near-term indicator volatility and the longer-run outlook, the Fed is also signalling concern about vulnerability to future shocks. “A number of members noted that if the recent modest rate of economic growth were to persist, the economy would be less able to weather a material adverse shock without slipping back into recession.” In other words, some FOMC members likely fear that today’s weak growth will turn into a recession if oil prices spike, China suffers a hard landing, the euro crisis exacerbates downside risks, the fiscal cliff materializes, etc.

5. A Nod To Open-Ended QE

Fifth, if the Fed were to pursue additional QE, how would it be done? A nod to open-ended QE is provided in the minutes: "Many participants indicated that any new purchase program should be sufficiently flexible to allow adjustments, as needed, in response to economic developments or to changes in the Committee's assessment of the efficacy and costs of the program." This is consistent with the notion we've been advancing that the Fed cease boxing itself into artificial expiration horizons or specific monthly purchase amounts. With greater transparency clearly goes less flexibility which I would think the Fed should avoid given the enormous degree of binary event risk that is clouding the outlook.

6. Other Policy Options Skewed Toward Embracing Only Extended Target Guidance

Sixth, what else might the Fed do? It’s almost a shoe-in that the FOMC will extend its forward interest rate guidance at the September meeting. “Many members” were in favor of extending the guidance but decided to hold off until the next meeting in order to “consider an adjustment in the context of participants’ individual economic projections.”

As far as other policy options are concerned, they appear to be well down the list of considerations. A “couple” favoured a reduction in the IOER which likely means it isn’t happening, at least not yet. The ECB’s experiment with a zero interest rate on reserves provides “an opportunity to learn more about the possible consequences for market functioning from such a move.” Also, a “couple” of participants expressed interest in a Fed version of the BoE’s Funding For Lending Scheme “although the importance of institutional differences between the two countries was noted.”

Aron Gampel (416) 866-6259
aron.gampel@scotiabank.com

Dog Days Of Summer

From a Toronto and southern Ontario view point, it has been a great summer weather-wise, with near-term forecasts expecting it to continue. The days have been hot and sunny with less than normal precipitation, and conducive to all types of business and social/family activities. But from a continental, as well as a global perspective, the heat and dryness has precipitated unsatisfactory conditions. This is especially true in the drought-stricken mid-America, and in monsoon-lite India, where sharp reductions in both the quality and quantity of the harvests have triggered a surge to record prices for corn and other agricultural products. Significantly higher food and processing costs around the world will add to inflation pressures, but more fundamentally, will take a further bite out of spending power at a time when more spending power is needed to bolster growth.

The London Olympic Games have come and gone, with its success at bringing together the global community in a common goal of competitive sportsmanship breeding high expectations for the Paralympic Games set to begin in the same venues on August 29th. However, the global community is also confronted by a number of issues that pose significant risks to economic and financial market stability. The Middle East remains front and centre on the geopolitical radar screen, with the intensifying battles in Syria posing an additional threat to the region's increasing insecurity over Iran's nuclear intentions. Nation-building in Iraq and Afghanistan is a slow and dangerous process. And in the Far East, there is a dispute brewing in the South China Sea between Japan and China over the ownership of small but strategic islands (and their offshore natural resources). All of these developments could potentially involve intervention that would add to market turbulence, put upward pressure on commodity prices and oil in particular, and further undermine confidence and global growth.

Despite the global slowdown that took hold in the first half of the year, output growth has exhibited some resiliency over our summer in the face of recurring problems. There have been signs that the rate of economic deceleration in the U.S., and the rate of contraction in the euro zone, have moderated. The preliminary August Markit data reported that the U.S. purchasing managers index remained in slow growth territory after increasing slightly to 51.9 from 51.4 in the prior month. The euro zone flash moved up to 45.3 from 44.0 in July, but manufacturing is still in recession. Globally, auto sales have remained quite buoyant, though activity is not uniformly strong across every country or region. U.S. home sales and construction continue to gather momentum, albeit gradually, while the pace of housing activity in Canada has throttled back, also at a gradual pace.

Stock markets have regained some altitude in anticipation of potentially better economic performances ahead. Policymakers with the fiscal flexibility to promote improved growth are beginning to dial up activity. Brazil announced a large package aimed at bolstering transportation-related infrastructure expenditures, and piggybacking on recently introduced incentives to assist consumer purchases of durable goods. These initiatives follow on the heels of substantial interest rate cuts which, along with currency weakness, should set the stage for stronger Brazilian and regional growth later this year and next. China has stepped on the monetary and fiscal accelerators again, though the extent of the stimulus to-date is quite modest compared to policies pursued during the great recession.

Expectations also are high that central banks, and the Fed and the ECB in particular, will become even more supportive through another round of asset purchases, and in the case of the euro zone, further interest rate cuts. The 'risk off' trade has also witnessed a trend rise in bond yields in the U.S. and Germany for example, a coincident decline in Spanish and Italian bond yields to still lofty levels, a softening in the US$, a strengthening in the euro, and a renewed rise in commodity prices.

Pro-active measures on the part of the monetary authorities may help for a time offset the increasing drag on confidence and spending caused by mounting austerity in the hardest-hit debtor countries of the southern euro

Aron Gampel (416) 866-6259
aron.gampel@scotiabank.com

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zone, and the impending fiscal contraction in the U.S. at the turn of the new year. And while both the Fed and the ECB may be leaning to provide the additional liquidity infusion, there remains considerable uncertainty surrounding the effectiveness and the durability of these additional injections when the underlying structural deficiencies that created and exacerbated the chronic debt problems on both sides of the Atlantic have yet to be addressed.

These actions are being contemplated, and in some cases implemented, because there are increasing concerns regarding the durability of the global recovery. Downside risks persist, as evidenced by today's hefty 3.4% decline in U.S. 'core' capital goods orders for July (excluding defense and aircraft), the fifth decline in the past seven months and down an annualized 13% from the peak in December. Even German manufacturing activity is being further pressured by the unfolding events in Europe and abroad.

Recent data indicate that China's relatively sharp deceleration in output growth over the past seven quarters has yet to abate, notwithstanding some reports suggesting that residential real estate has begun to rebound. (New home prices increased in the largest number of Chinese cities in July for the first time in over a year, bolstered in part by the successive reduction in borrowing costs and recently introduced incentives for first-time homebuyers.) The preliminary estimate for China's August purchasing manager index declined to 47.8, a decline of 1.5 points from the July estimate, and the tenth month in a row that the manufacturing-focussed index has been in the 'economic contraction' zone of below 50.

The continuing downturn in Chinese manufacturing activity highlights the ongoing and pervasive impact on production and trade triggered by the euro zone's sovereign debt crisis, and compounded by the associated reduction in lending by European financial institutions. China's exports slumped sharply in July, with shipments barely expanding 1% over the past year compared with a 12-month advance of around 11% in June. The downturn is already challenging domestic-oriented businesses, with accumulating inventories putting the squeeze on profitability and forcing adjustments to output. Industrial production posted a 9.2% year-over-year gain in July — the slowest pace in this cycle — and down from a 14.0% 12-month increase in the same month last year.

Back-to-school and back-from-holidays may well result in a renewed bout of financial market volatility if progress to resolve the outstanding issues is not forthcoming. Recessionary conditions in the euro zone are set to deepen as expenditure cuts and revenue-enhancing measures take a bigger bite out of spending power in the southern peripheral nations. Debt burdens in the affected countries are so high that even historically low borrowing costs are unable to provide any longer-term relief. With economic growth at a premium around the world, the focus will be on the September 6th ECB meeting for potential bond buying, the September 12th ruling by the German Constitutional Court on implementing the ESM, the September 12th national election in the Netherlands that may be viewed as a referendum on continuing support for the current German-led bailout programme, the September 13th FOMC meeting that could usher in QE3, and further efforts by Chinese authorities to reverse the economic deceleration underway.

Joe Kogan (212) 225-6541
joe.kogan@scotiabank.com

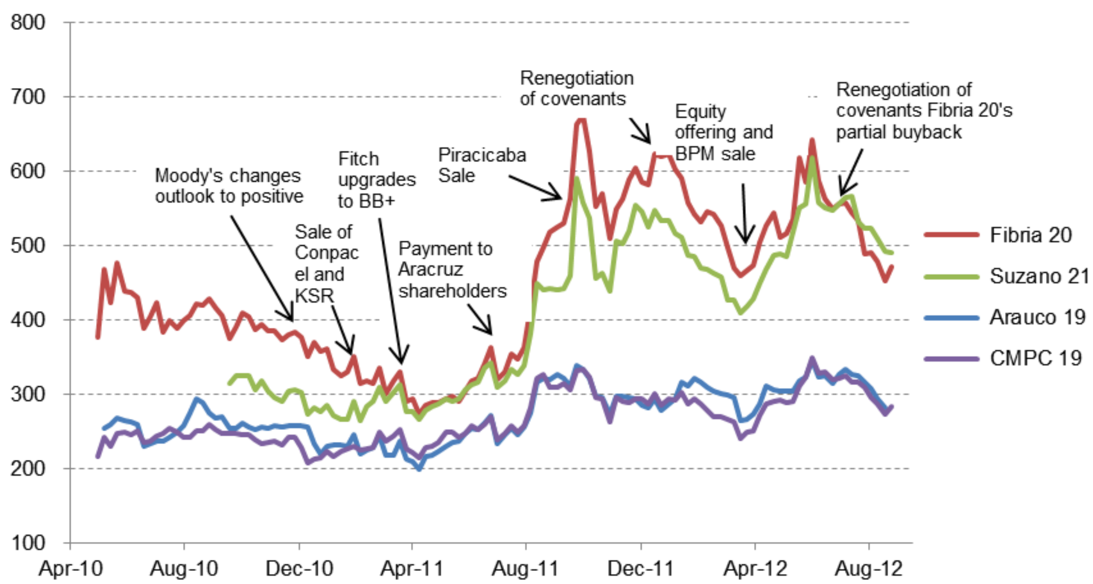
Leonor López (5255) 5229-2202
leonor.lopez@scotiabank.com

Spread Differential Of Fibria Vs. Competitors

Brazilian and Chilean pulp manufacturers use similar technologies to compete in the same global commodity market; yet, there is a 200bp difference in the yields on their bonds. We evaluate whether differences in fundamentals and financial structure can account for differences in market pricing.

The Brazilian pulp producer Fibria operates in the same global industry as its Chilean competitors, CMPC and Arauco. It is affected by the same commodity price dynamics and, just like the Chilean companies, it benefits from its low cost position in the industry (see "Arauco's cost advantage for bondholders," Scotiabank, March 23, 2012). If anything, Fibria has even lower costs than the Chilean firms, reporting a mill cost of $232 per ton, as opposed to $307 for Chilean firms and $400-$500 for North American and European firms. Why then do Fibria bonds trade at a differential of 200bp over the Chilean competitors? True, the Chilean firms are investment grade and Fibria is not, but we'd prefer to look for the underlying fundamental factors. We consider several possible explanations:

Figure 1. Spread history of Brazilian and Chilean firms



Source: Bloomberg, Scotiabank

(1) Home country

All things being equal, we would expect a company based in Chile to have lower credit risks. Consider for example Chile's longer history of macroeconomic stability and a credit rating of A+, significantly higher than Brazil's BBB. We also noticed that the Brazilian Real is more volatile than the Chilean Peso, with a volatility of 18% vs. 14%. Since pulp producers have most of their costs in local currency, but most of their sales in hard currency, exchange rate volatility leads to volatility in earnings.

Yet, the question is how much is this stability worth. Judging by the sovereign debt market, not very much, as the average spread differential between 10Y global bonds over the last year was only 27bp. Moreover, the Chilean firms do not only produce in Chile, but have been expanding throughout Latin America. For example, CMPC will be investing $3.5bn USD to expand a plant in Guaiba, Brazil over the next three years that it had earlier purchased from Fibria. In other words, while home country may still matter for certain parent company matters such as corporate governance and disclosure, it matters less for operational results.

Joe Kogan (212) 225-6541
joe.kogan@scotiabank.com

Leonor López (5255) 5229-2202
leonor.lopez@scotiabank.com

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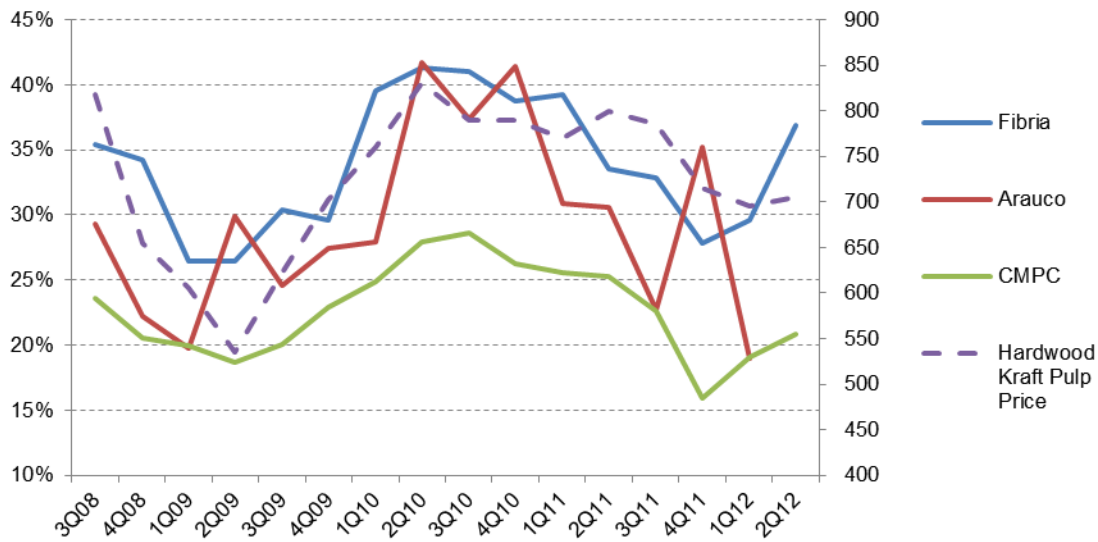
(2) Product Mix

Another notable difference is in product mix. Fibria focuses exclusively on producing pulp, while leaving the production of finished goods, mostly tissue, to its customers. In contrast, CMPC produces not only pulp but also finished products including tissue. Since pulp price changes are not immediately passed along to final prices, CMPC's product mix provides diversification benefits. Yet, those finished product businesses typically have lower margins and are also exposed to a different set of competitive threats. Arauco sells wood panels and sawn timber in addition to pulp. While those products are less commoditized than pulp, they also compete in a global marketplace and their prices move together with those of pulp. (See "Comparing CMPC and Arauco, Scotiabank, May 11, 2012).

In Figure 2, we compare the volatility of Ebitda margins for the three companies. Not surprisingly, global pulp prices are a key determinant of margins for all three companies. Fibria margins are more volatile than those of CMPC but are not more volatile than those of Arauco. In absolute terms, Fibria margins are higher overall than those of the other two firms. The fact that Arauco and CMPC generally trade at the same yields despite differences in margins suggests that the market does not assign that much weight to this factor.

Figure 2. Ebitda margins and pulp price by company



Source: Company Financial Reports, Bloomberg

(3) Financial structure

Lacking other explanations, the primary determinant of the differential in spreads must therefore come from differences in financial structure. Reckless currency hedging that increased from $1bn to $6bn in 2008 right before a currency depreciation caused massive problems for the company during the financial crisis, and those problems were compounded by the fall in pulp prices that occurred at the same time. Greater awareness of risks related to exotic hedging instruments and a much lower current rate of hedging by the company makes a repeat of such problems unlikely. (For those interested, Rodrigo Zeidan and Bruno Rodrigues at BNDES have analyzed the company's past hedging practices in detail.) Key differences remain, however. As shown in Figure 3, leverage ratios at Fibria are significantly higher than those of the Chilean firms, and we think that must be what bond markets are paying attention to.

Joe Kogan (212) 225-6541
joe.kogan@scotiabank.com

Leonor López (5255) 5229-2202
leonor.lopez@scotiabank.com

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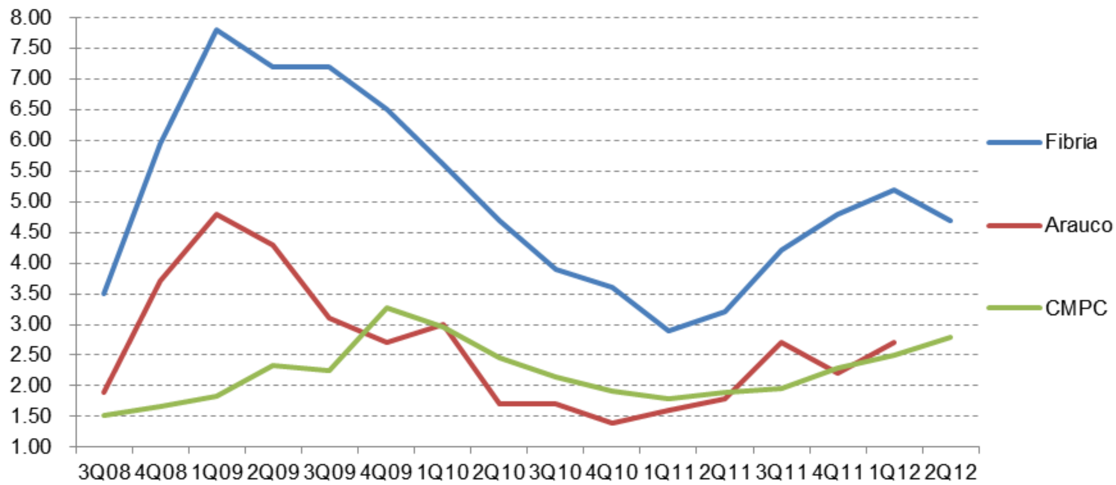
Figure 3. Comparison of leverage ratios across companies over time



Source: Company Financial Reports. Graph shows Net Debt/Ebitda. Fibria leverage shown in graph as calculated under the old methodology in BRL. As a result of recent covenant renegotiations announced on June 11th, Fibria will calculate leverage limits in dollars to reduce leverage ratio volatility caused by the mismatch between the average and closing exchange rates for each period.

We saw a dramatic increase in leverage at Fibria in 2011, driven primarily by the fall in world pulp prices, but made worse by costs and production disruptions related to plant maintenance. Leverage ratios at the Chilean firms increased by similar amounts in percentage terms, but because they started from a much lower base, those increases in leverage did not result in the covenant problems we saw at Fibria.

The corporate bond market generally penalizes high leverage companies quite heavily. We regularly track the relationship between leverage and spreads among a large sample of Mexican issuers. As we move along the leverage spectrum, we find the penalty for higher leverage to be significant, often much larger than the 200bp we see in the pulp industry. Nevertheless, usually those higher leverage firms are operating in weaker or more risky industries, while the companies we are comparing here all operate in the same industry. Considering Fibria's cost advantage, most scenarios of global pulp prices should allow the firm to generate enough cash to reduce leverage levels further. Fibria's recent asset sales, equity offerings, and debt buybacks suggest a path of leverage reduction that could allow the spread differential to compress.

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

UK Public Finances — Poor Start

- **The UK public finances have seen the second worst start to a fiscal year since the credit crunch began and probably on record. A combination of faster-than-expected government spending coupled with disappointing corporation tax receipts were responsible. Full-year government borrowing is likely to overshoot the latest Budget projections by a reasonable margin — suggesting an increase in gilt issuance of at least GBP10bn.**

Poor Start

- The headline measure of UK government borrowing — Public Sector Net Borrowing Excluding Financial Sector Interventions (PSNBx) — showed a GBP0.6bn deficit in July. That was much worse than the GBP2.2bn surplus that the consensus was expecting.
- That was only the third time in the last fifteen years that there has been a deficit during July. Corporation tax receipts typically lead to a surplus during July.
- Cumulatively, for the first 4 months of the fiscal year government borrowing is GBP9.3bn higher than the same period a year earlier (excluding the impact of the Royal Mail Pension Fund).
- Put another way, on average so far this fiscal year, borrowing is around GBP2.3bn per month higher than the same time a year earlier.
    - If that pace of deterioration is maintained, then full-year borrowing will be more than GBP30bn above the OBR's GBP120bn target;
    - If the deterioration stops right now, then full-year borrowing will be GBP14bn above the OBR's target;
    - In order to meet the OBR target for full-year borrowing then the monthly public finance readings need to show a GBP1.75bn fall in borrowing each month compared with the same time a year earlier.

Austerity — What Austerity?

- The knee-jerk reaction to the figures, in tandem with disappointing GDP data is that austerity is backfiring. However, the breakdown of the latest figures would disagree.
    - The borrowing overshoot so far this fiscal year has been in large part due to faster-than-expected government expenditure. So far this year government spending has risen by 3.5%. That compares to the expectations in the Budget of a full-year growth rate of just 3.1% y/y.
    - Within that figure, July's data showed that government investment spending is up by a massive 32.8% y/y. Spending on public services is up 7.9% y/y. Austerity – what austerity? Indeed, the breakdown of the Q2 GDP data by expenditure showed that government spending was up by 2.6% y/y — the fastest-growing component of GDP by expenditure. (Having said that, these data are prone to subsequent revision so this could change).
- Clearly government spending is only half the story. Tax receipts were also part of the reason for the surprise deterioration in borrowing. July is a big month for corporation tax receipts and these contributed to the disappointment. In turn, part of that was due to the outage at the Elgin gas platform which accounts for a huge share of UK extraction activities. That is hardly symptomatic of austerity gone wrong.

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

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- Nevertheless, the OBR acknowledged in its commentary that accompanied the latest data that this revenue stream is likely to continue to undershoot its earlier expectations on the basis of the worsening outlook for corporate profitability.
- In this regard, there is scope to blame austerity for the deterioration in the public finances. GDP growth has disappointed expectations once again, and that may be partly due to the drag from fiscal tightening. However, we would argue that is not the only story. In particular, the headwinds from the crisis in continental Europe and the impact that this has had on consumer and business sentiment are probably more to blame.

Plan A, Plan B…or both?

- With the autumn Budget Statement fast approaching, the Chancellor will be under pressure to do something to get the public finances back on track.
- The opposition Labour Party would argue that austerity is making a bad situation worse. If fiscal policy is loosened, then it might boost GDP growth and in turn boost the public finances. However, this is guaranteed to worsen the public finances in the short term. Meanwhile the associated improvement in growth and hence medium-term gains for the public finances is less than guaranteed.
- The flipside is to embrace austerity even further. Hiking taxes and cutting government spending further would be more likely to show an immediate improvement in the public finances. However, it would also worsen the headwinds facing the economy. From a political standpoint, when the coalition government's popularity is under serious pressure, this strategy could prove to be suicidal.
- Hence the Chancellor has precious little wiggle room to play with in the Autumn Statement. More likely is we see a package of micro-measures aimed to make the best out of a bad situation.

Where do we go from here?

- The usual rule of thumb when thinking about the public finances is that for every one percentage point undershoot in the GDP growth projection, borrowing is likely to be 0.5% of nominal GDP higher that year and 0.2% of nominal GDP higher the following year.
- Conveniently, it is looking like GDP growth will be exactly one percentage point of GDP weaker than the OBR's 0.8% y/y estimate from the Budget. On the basis of the usual trade-off, government borrowing *should* be around GBP7.5bn higher this year than projected in the Budget. Thus far, the borrowing overshoot has been more than GBP9bn. Based on the usual trade-off, it would be wrong to extrapolate the recent deteriorating trend.

To Conclude no growth, no progress on the public finances and headwinds from higher energy and food costs are in the pipeline. Our earlier optimism for the second half of the year is being challenged.

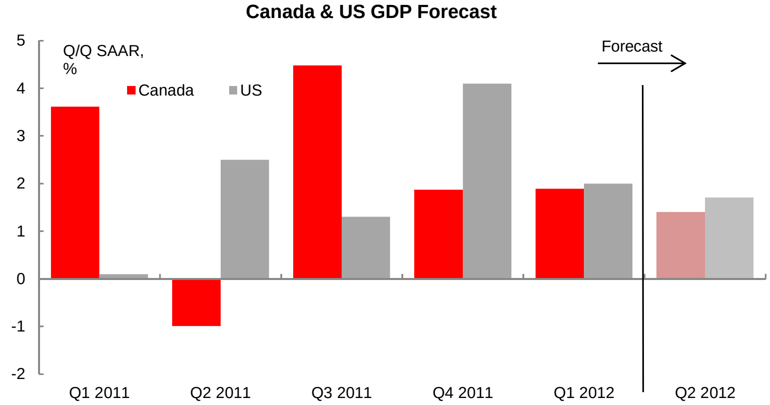
Derek Holt (416) 863-7707
derek.holt@scotiabank.com

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

Key Data Preview

CANADA

How has Canada weathered the global slump of mid-2012? **GDP for Q2** will be released on August 31 along with the monthly GDP data for June. Scotia is expecting a flat 0% m/m GDP outcome which would translate into a 1.4% q/q GDP print after accounting for fairly weak growth during April and May. It may come as a surprise, but even muted 1.4% GDP growth would put Canadian GDP on the high end of the range of global developed countries during Q2, better than major European economies but slightly below the U.S. (see chart). That's not to say that the economy is firing on all cylinders: We're expecting muted growth in consumption overall with a fairly strong likelihood that consumption of goods will drag on growth much as it did this quarter in the U.S. Residential construction was decently strong in Q2, with a surge in condo construction in particular likely to make up for some weakness elsewhere. Growth in import volumes outpaced export volumes, so there is a possibility of further weakness from the trade channel as well.

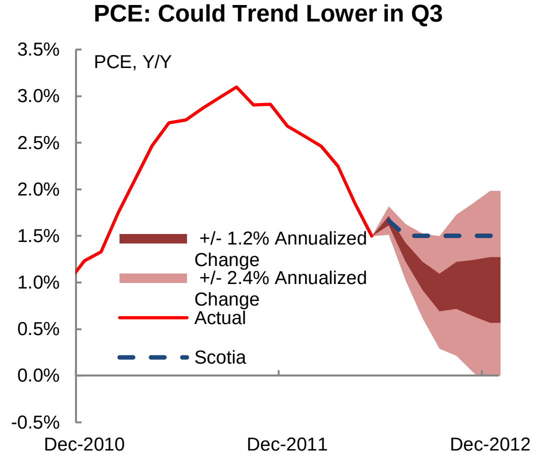


Source: Scotia Economics, Statistics Canada, Bloomberg

UNITED STATES

In a weird facsimile of the trajectory of the economy during 2011, U.S. GDP came in at an anemic 1.5% q/q in Q2 2012 when the initial data were released in late July. We think that there's a decent probability that the bleak headline number will be upgraded by between 0.2% and 0.3% when **GDP revisions** are released on August 29, moving GDP into a slightly higher 1.7-1.8% range. Our rationale is that the first pass at U.S. GDP normally excludes data covering the final month of the quarter with respect to: a) construction spending, and b) international trade. Of those, construction spending and international trade were both stronger — and by decent amounts at that. The risk here is that GDP gets marked up by even more than we expect due to changes in other categories. If an unforeseen swing in, say, inventories pushes GDP over the psychologically significant 2% q/q SAAR hump (by no means our base case but a possibility in light of the volatility in inventory measurement), that would allow many to characterize the economy as 'muddling through'.

Personal spending, consumption, and the **PCE deflator** will be released on August 30. The latter will be fairly important in our view as the PCE deflator is the Fed's preferred inflation measure — and the Fed is obviously on everyone's mind this week. The PCE deflator has been trending quite low throughout the year and is undershooting the Fed's 2% inflation target substantially. With CPI for July having come in at 0% m/m, we're anticipating a slightly softer print on PCE. The larger story for the Fed *should* be that baked-in base effects imply that PCE should trend quite low through the year (see chart). We think that the U.S. savings rate should deteriorate this month. Retail sales grew by 0.8% m/m during July leading us to expect personal spending to post a fairly similar surge of 0.7%. Unfortunately, wages were only up by 0.1% according to the BLS. The implication is that the personal savings rate — which ticked up to 4.4% in June from 3.4% at the end of 2011 — should start to fall again.



Source: Scotia Economics, BEA

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

Sarah Howcroft (416) 863-2859
sarah.howcroft@scotiabank.com

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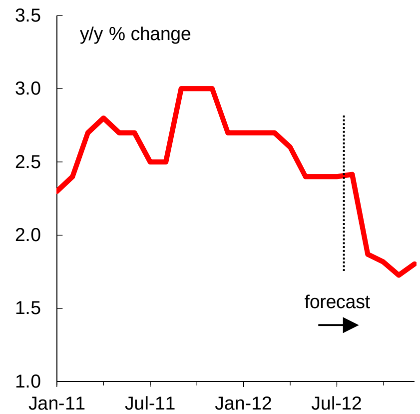
EUROPE

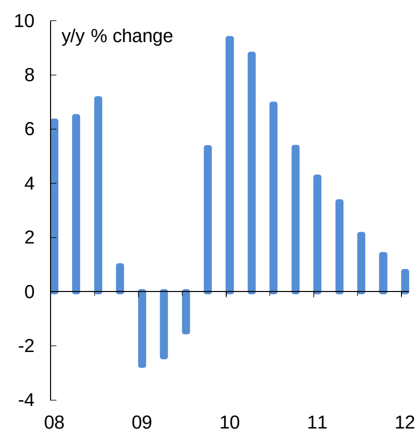
Preliminary August inflation figures for the euro zone will be released next week. Higher food and energy costs will counteract the downward pressure on the headline print from ongoing weakness in underlying wages and costs as the regional economy sinks into recession. A renewed upswing in oil has seen the price of Brent crude climb nearly 30% over the last two months, while major droughts in the United States and around the Black Sea and a weak monsoon in India have begun to lift global agricultural prices (particularly wheat, corn, soybeans) at a disconcerting pace. We expect inflation in Germany (due out Wednesday) to pick up to 2.0% y/y from 1.9% in July. The Spanish print (Thursday) will likely rise to 2.4% y/y from 2.2%, while the Italian figure eases slightly from 3.6% to 3.5%. For the euro area overall, consumer price inflation should remain flat at 2.4% y/y, marking the fourth consecutive month at this pace. Given the temporary (i.e., weather-related) nature of the current stickiness in prices, combined with the persistent and pronounced downside risks casting a shadow over the growth outlook, we continue to anticipate another 25 basis point reduction in the European Central Bank's main refinancing rate, possibly as early as at the next policy meeting in September.



Source: Bloomberg, Scotia Economics.

LATIN AMERICA

Brazil, the biggest economy in Latin America, will release its second-quarter GDP report on August 31st. We anticipate a sluggish expansion of 1.2% y/y; slightly above the rate of 0.8% registered in the first quarter. In June, the economic activity index showed the strongest monthly pace of recovery in more than a year; expanding by 0.8% against May. Retail sales also expanded in the same month, particularly in durable goods and car sales, which reflects government stimulus in the auto sector. This will not be enough to contribute significantly to second-quarter GDP growth; however, we anticipate the boost to be more evident in the third and fourth quarters of the year. The export sector remains weak, as exports to the European Union and Argentina continue to decelerate, offsetting the positive effect of higher trade with China and the US.



Source: Thomson Reuters

Key Indicators for the week of August 27 - 31

North America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
US	08/27	10:30	Dallas Fed. Manufacturing Activity	Aug	--	-7.0	-13.2
US	08/28	09:00	S&P/Case-Shiller Home Price Index (y/y)	Jun	--	-0.1	-0.7
US	08/28	10:00	Consumer Confidence Index	Aug	66.0	65.9	65.9
US	08/28	10:00	Richmond Fed Manufacturing Index	Aug	--	-11.0	-17.3
US	08/29	07:00	MBA Mortgage Applications (w/w)	AUG 24	--	--	-7.4
CA	08/29	08:30	IPPI (m/m)	Jul	--	0.2	-0.3
CA	08/29	08:30	Raw Materials Price Index (m/m)	Jul	--	2.5	-4.0
US	08/29	08:30	GDP (q/q a.r.)	2Q S	1.7	1.7	1.5
US	08/29	08:30	GDP Deflator (q/q a.r.)	2Q S	--	1.6	1.6
CA	08/29	09:00	Teranet - National Bank HPI (y/y)	Jul	--	--	5.4
US	08/29	10:00	Pending Home Sales (m/m)	Jul	--	1.0	-1.4
US	08/30	06:59	ICSC Chain Store Sales - Monthly (y/y)	Aug	--	--	1.9
CA	08/30	08:30	Current Account (C$ bn a.r.)	2Q	--	-15.0	-10.3
US	08/30	08:30	Initial Jobless Claims (000s)	AUG 25	370	370	372
US	08/30	08:30	Continuing Claims (000s)	AUG 18	3275	3306	3317
US	08/30	08:30	PCE Deflator (m/m)	Jul	0.0	0.1	0.1
US	08/30	08:30	PCE Deflator (y/y)	Jul	1.3	1.4	1.5
US	08/30	08:30	PCE ex. Food & Energy (m/m)	Jul	0.1	0.1	0.2
US	08/30	08:30	PCE ex. Food & Energy (y/y)	Jul	1.8	1.7	1.8
US	08/30	08:30	Personal Spending (m/m)	Jul	0.7	0.5	0.0
US	08/30	08:30	Personal Income (m/m)	Jul	0.1	0.3	0.5
CA	08/31	08:30	Real GDP (m/m)	Jun	0.0	0.1	0.1
CA	08/31	08:30	Real GDP (q/q a.r.)	2Q	1.4	1.6	1.9
US	08/31	09:45	Chicago PMI	Aug	53.3	53.5	53.7
US	08/31	09:55	U. of Michigan Consumer Sentiment	Aug F	73.6	73.6	73.6
US	08/31	10:00	Factory Orders (m/m)	Jul	1.8	1.5	-0.5

Europe

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
GE	08/27	04:00	IFO Business Climate Survey	Aug	--	102.7	103.3
GE	08/27	04:00	IFO Current Assessment Survey	Aug	--	110.8	111.6
GE	08/27	04:00	IFO Expectations Survey	Aug	--	95.0	95.6
SP	08/28	03:00	Real GDP (q/q)	2Q F	-0.4	-0.4	-0.4
UK	08/28	06:59	Nationwide House Prices (m/m)	Aug	--	0.1	-0.7
HU	08/28	08:00	**Base Rate (%)**	Aug 28	**7.00**	**7.00**	**7.00**
GE	08/29	08:00	CPI (y/y)	Aug P	--	1.9	1.7
GE	08/29	08:00	CPI - EU Harmonized (m/m)	Aug P	0.1	0.2	0.4
GE	08/29	08:00	CPI - EU Harmonized (y/y)	Aug P	2.0	2.1	1.9
NO	08/29	08:00	**Norwegian Deposit Rates (%)**	Aug 29	**1.50**	**1.50**	**1.50**
SP	08/30	03:00	CPI (y/y)	Aug P	--	2.3	2.2
SP	08/30	03:00	CPI - EU Harmonized (y/y)	Aug P	2.4	2.3	2.2
GE	08/30	03:55	Unemployment (000s)	Aug	--	7.0	7.0
GE	08/30	03:55	Unemployment Rate (%)	Aug	--	6.8	6.8
UK	08/30	04:30	Net Consumer Cred (£ bn)	Jul	--	0.5	0.6
EC	08/30	05:00	Economic Confidence	Aug	--	87.5	87.9
EC	08/30	05:00	Industrial Confidence	Aug	--	-15.5	-15.0
GE	08/30	06:59	Retail Sales (m/m)	Jul	--	0.2	-0.1
SP	08/31	03:00	Real Retail Sales (y/y)	Jul	--	--	-4.3
IT	08/31	04:00	Unemployment Rate (%)	2Q	--	10.7	9.8
EC	08/31	05:00	Euro zone CPI Estimate (y/y)	Aug	2.4	2.5	2.4
EC	08/31	05:00	Unemployment Rate (%)	Jul	11.3	11.3	11.2
IT	08/31	05:00	CPI (y/y)	Aug P	--	3.1	3.1
IT	08/31	05:00	CPI - EU Harmonized (m/m)	Aug P	0.2	0.3	-1.7
IT	08/31	05:00	CPI - EU Harmonized (y/y)	Aug P	3.5	3.6	3.6
SP	08/31	06:59	Budget Balance YTD (€ mn)	Jul	--	--	-43100
SP	08/31	06:59	Current Account (€ bn)	Jun	--	--	-0.8

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

Key Indicators for the week of August 27 - 31

Asia Pacific

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
CH	08/26	21:30	Industrial Profits YTD (y/y)	Jul	--	--	-2.2
JN	08/27	02:00	Machine Tool Orders (y/y)	Jul	--	--	-6.8
PH	08/27	21:00	Trade Balance (US$ mn)	Jun	--	--	-454
HK	08/28	04:30	Exports (y/y)	Jul	--	-3.3	-4.8
HK	08/28	04:30	Imports (y/y)	Jul	--	-1.1	-2.9
HK	08/28	04:30	Trade Balance (HK$ bn)	Jul	--	-40.9	-44.7
JN	08/29	19:50	Large Retailers' Sales (y/y)	Jul	--	-3.2	-2.6
JN	08/29	19:50	Retail Trade (m/m)	Jul	--	-0.5	-1.2
JN	08/29	19:50	Retail Trade (y/y)	Jul	--	-0.1	0.2
AU	08/29	21:30	Building Approvals (m/m)	Jul	--	-5.0	-2.5
JN	08/30	19:30	Household Spending (y/y)	Jul	--	1.2	1.6
JN	08/30	19:30	Jobless Rate (%)	Jul	--	4.3	4.3
JN	08/30	19:30	National CPI (y/y)	Jul	--	-0.3	-0.2
JN	08/30	19:30	Tokyo CPI (y/y)	Aug	--	-0.7	-0.8
JN	08/30	19:50	Industrial Production (m/m)	Jul P	--	1.7	0.4
JN	08/31	01:00	Housing Starts (y/y)	Jul	--	-10.3	-0.2
IN	08/31	01:30	Real GDP (y/y)	2Q	--	5.3	5.3
TH	08/31	03:30	Trade Balance (US$ mn)	Jul	--	--	1644
SK	08/31	20:00	Trade Balance (US$ mn)	Aug	--	--	2756
CH	08/31	21:00	Manufacturing PMI	Aug	--	49.8	50.1

Latin America

Country	Date	Time	Indicator	Period	BNS	Consensus	Latest
PE	08/29	06:59	GDP (y/y)	2Q	6.2	6.2	6.0
BZ	08/29	07:59	**SELIC Target Rate (%)**	Aug 29	**7.50**	**7.50**	**8.00**
CL	08/30	09:00	Industrial Production (y/y)	Jul	--	1.9	1.1
CL	08/30	09:00	Retail Sales (y/y)	Jul	--	8.7	9.0
BZ	08/31	08:00	GDP (IBGE) (q/q)	2Q	--	0.5	0.2
BZ	08/31	08:00	GDP (IBGE) (y/y)	2Q	1.2	0.7	0.8
CL	08/31	09:00	Unemployment Rate (%)	Jul	--	6.7	6.6
CO	08/31	12:00	Urban Unemployment Rate (%)	Jul	--	11.1	11.3

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

Global Auctions for the week of August 27 - 31

North America

Country	Date	Time	Event
US	08/27	11:00	U.S. Fed to Purchase USD1.50-2.00 Bln Notes
US	08/27	11:30	U.S. to Sell USD32 Bln 3-Month Bills
US	08/27	11:30	U.S. to Sell USD28 Bln 6-Month Bills
CA	08/28	10:30	Canada to Sell CAD10.4 Bln 98-Day Bills
CA	08/28	10:30	Canada to Sell CAD3.8 Bln 182-Day Bills
CA	08/28	10:30	Canada to Sell CAD3.8 Bln 364-Day Bills
US	08/28	11:00	U.S. Fed to Purchase USD4.50-5.50 Bln Notes
US	08/28	13:00	U.S. to Sell USD35 Bln 2-Year Notes
US	08/29	11:00	U.S. Fed to Purchase USD4.25-5.00 Bln Notes
CA	08/29	12:00	Canada to Sell 3-Year Notes
US	08/29	13:00	U.S. to Sell USD35 Bln 5-Year Notes
US	08/30	11:00	U.S. Fed to Purchase USD1.50-2.00 Bln Notes
US	08/30	13:00	U.S. to Sell USD29 Bln 7-Year Notes

Europe

Country	Date	Time	Event
GE	08/27	05:30	Germany to Sell EU3 Bln 12-Mth Bills
FR	08/27	09:00	France to Sell Bills (BTF)
SP	08/28	04:30	Spain to Sell 3-Month and 6-Month Bills
IT	08/28	05:00	Italy to Sell Zero coupon/BTP€i
SZ	08/28	05:30	Switzerland to Sell 3-Month Bills
DE	08/29	04:20	Denmark to Buy Back Bonds
IT	08/29	05:00	Italy to Sell Bills
SW	08/29	05:03	Sweden to Sell SEK10 Bln 82-Day Bills
DE	08/30	04:30	Denmark to Sell Bills
IT	08/30	05:00	Italy to Sell 5Y and 10Y Bonds/Floating/Zero Coupon
UK	08/31	06:10	U.K. to Sell Bills

Asia Pacific

Country	Date	Time	Event
CH	08/26	23:00	Agricul Dev Bank of China to Sell CNY15 Bln 7-Year Bonds
JN	08/28	04:00	Japan Auction for Enhanced-Liquidity
NZ	08/29	22:30	New Zealand Plans to Sell Bonds
JN	08/29	23:35	Japan to Sell 3-Month Bills
JN	08/29	23:45	Japan to Sell 2-Year Bonds

Latin America

Country	Date	Time	Event
BZ	08/28	11:00	Brazil to Sell I/L Bonds due 8/15/2016 - NTN-B
BZ	08/28	11:00	Brazil to Sell I/L Bonds due 8/15/2018 - NTN-B
BZ	08/28	11:00	Brazil to Sell I/L Bonds due 8/15/2022 - NTN-B
BZ	08/30	10:00	Brazil to Sell Bills due 10/1/2013 - LTN
BZ	08/30	10:00	Brazil to Sell Bills due 7/1/2014 - LTN
BZ	08/30	10:00	Brazil to Sell Bills due 1/1/2016 - LTN

Source: Bloomberg, Scotia Economics.

Events for the week of August 27 - 31

North America

Country	Date	Time	Event
US	08/27	06:00	Fed's Evans Speaks in Hong Kong
US	08/27	12:15	Fed's Pianalto Speaks on economy in Newark, Ohio
CA	08/28		Bank of Nova Scotia Releases Third-Quarter Results
US	08/29	14:00	Fed Releases Beige Book Economic Survey
US	08/31	10:00	Fed's Bernanke Speaks in Jackson Hole, Wyoming
US	08/31	14:30	IMF's Lagarde Speaks at Jackson Hole, Wyoming

Europe

Country	Date	Time	Event
FR	08/25		Greek PM Samaras to Meet French President Hollande
GE	08/26	12:30	Chancellor Angela Merkel Interviewed by ARD Television
GE	08/26	13:10	Roesler Gives Interview to ZDF Television
GE	08/27	07:00	CDU Deputy Floor Leader Meister Briefs on Euro Crisis: Berlin
EC	08/27	12:00	ECB's Asmussen Speaks in Hamburg
HU	08/28	08:00	Base Rate
PO	08/28		IMF-EU Review of Portugal's Aid Program
GE	08/29	04:00	German BGA Exporters Brief on Service Industry, Euro: Berlin
NO	08/29	08:00	Norwegian Deposit Rates
GE	08/30	05:00	German Lawmaker Flosbach Briefs on Finance, Tax Policies
EC	08/30	14:00	ECB's Asmussen Speaks in Potsdam
GE	AUG 30-31		Germany's Merkel Meets Chinese Leaders in Beijing
SP	08/31	04:00	Spanish Cabinet Meets, Followed by News Conference
EC	08/31	05:00	ECB's Coeure Speaks in Jouy-en-Josas
AS	08/31	06:00	ECB's Nowotny on Panel in Alpbach, Austria
AS	08/31	08:00	EFSF's Regling, EU's Wieser on Panel in Alpbach, Austria
UK	08/31		FSA Depository Rules - Effective Date
UK	08/31		FSA's Comment Request on a Joint Consultation Paper

Asia Pacific

Country	Date	Time	Event
JN	AUG 27-28		Cabinet Office Monthly Economic Report
IN	08/29	08:30	RBI Governor Subbarao Speaking at Asia Society Event, New York

Latin America

Country	Date	Time	Event
BZ	08/29		SELIC Target - Central Bank

Source: Bloomberg, Scotia Economics.

Global Central Bank Watch

North America

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

Fed: All eyes will be on Chairman Bernanke's speech at the Jackson Hole conference on Aug. 31 after minutes from the FOMC's August 1 meeting implied that QE3 is a distinct possibility and that extension of the Fed's 'forward guidance' beyond "late 2014" is likely. Cleveland Fed President Pianalto (voting) will speak on Aug. 27 on the "Economic Outlook & Monetary Policy." We continue to see strong odds of QE3 being announced at the Fed's September meeting in the form of rolling asset purchases targeting MBS & Treasuries. BoC: The BoC continues to signal a hawkish bias, however we do not expect monetary policy tightening within our forecast horizon.

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	1.50

The likelihood for additional monetary accommodation by the Norges Bank has increased in recent months on account of continued krone strength and inflation weakness. However, we do not yet anticipate a rate cut, as the central bank remains concerned about the overheating domestic property market. Inflation dipped lower in July, easing to 0.2% y/y from 0.5% in June (the central bank's target is 2.5%).Though the economy has remained so far quite resilient to the ongoing turmoil in the euro zone, the renewed climb in oil prices and persistent safe haven flows have boosted the krone higher, threatening the outlook for exports and inflation. The currency reached a nine-year high vis-à-vis the euro earlier this month. We do not expect any changes to the Hungarian National Bank's key policy rate (currently at 7.00%) at the next policy-setting meeting on Tuesday. Inflation accelerated again in July, rising to 5.8% y/y from 5.6%, despite continued strengthening in the currency since early June (the forint appreciated by roughly 10% against the euro over the last two months). However, with the economy now firmly in recession (second-quarter GDP fell 0.2% q/q following the 1.0% loss of the first quarter), we anticipate some monetary easing before year-end.

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	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	September 28, 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 Brazil to cut the reference rate by 50 basis points for the ninth consecutive time in one year to a new record low of 7.5%. We anticipate that the second-quarter GDP growth rate remained weak; however, recent economic indicators suggest that the economy could rebound in the third quarter. Additionally, inflation increased for the first time in ten months in July raising concerns over the impact of higher food prices and a looser monetary policy in the near future. We anticipate that the central bank could be reaching the end of its easing cycle.

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	12Q1	12Q2	Latest	
Real GDP (annual rates)	2.4	1.9			
Current Acc. Bal. (C$B, ar)	-48.4	-41.1			
Merch. Trade Bal. (C$B, ar)	2.3	8.7	-13.2	-21.7	(Jun)
Industrial Production	3.5	1.0		3.7	(May)
Housing Starts (000s)	193	206	230	209	(Jul)
Employment	1.6	0.9	1.2	0.8	(Jul)
Unemployment Rate (%)	7.5	7.4	7.3	7.3	(Jul)
Retail Sales	4.1	4.3	2.6	1.7	(Jun)
Auto Sales (000s)	1588	1701		1719	(May)
CPI	2.9	2.3	1.6	1.3	(Jul)
IPPI	4.6	1.8	0.6	-0.4	(Jun)
Pre-tax Corp. Profits	15.4	5.4			

United States	2011	12Q1	12Q2	Latest	
Real GDP (annual rates)	1.8	2.0	1.5		
Current Acc. Bal. (US$B, ar)	-466	-549			
Merch. Trade Bal. (US$B, ar)	-738	-778	-743	-690	(Jun)
Industrial Production	4.1	4.0	4.9	4.1	(Jul)
Housing Starts (millions)	0.61	0.71	0.74	0.75	(Jul)
Employment	1.1	1.6	1.3	1.4	(Jul)
Unemployment Rate (%)	9.0	8.3	8.2	8.3	(Jul)
Retail Sales	8.3	6.4	4.3	3.7	(Jul)
Auto Sales (millions)	12.7	14.1	14.1	14.0	(Jul)
CPI	3.2	2.8	1.9	1.4	(Jul)
PPI	6.0	3.4	1.1	0.5	(Jul)
Pre-tax Corp. Profits	2.1	18.0			

Mexico	2011	12Q1	12Q2	Latest	
Real GDP	3.9	4.5	4.1		
Current Acc. Bal. (US$B, ar)	-9.0	4.7	1.8		
Merch. Trade Bal. (US$B, ar)	-1.5	7.1	6.1	-5.1	(Jul)
Industrial Production	4.0	4.4	3.6	3.7	(Jun)
CPI	3.4	3.9	3.9	4.4	(Jul)

Europe

Euro Zone	2011	12Q1	12Q2	Latest	
Real GDP	1.5	-0.1	-0.4		
Current Acc. Bal. (US$B, ar)	-3	-32	71	236	(Jun)
Merch. Trade Bal. (US$B, ar)	6.9	28.0	128.8	213.7	(Jun)
Industrial Production	3.5	-1.6	-2.4	-2.0	(Jun)
Unemployment Rate (%)	10.1	10.8	11.1	11.2	(Jun)
CPI	2.7	2.7	2.5	2.4	(Jul)

Germany	2011	12Q1	12Q2	Latest	
Real GDP	3.1	1.2	1.0		
Current Acc. Bal. (US$B, ar)	202.6	215.8	182.0	247.7	(Jun)
Merch. Trade Bal. (US$B, ar)	216.2	223.3	245.2	245.2	(Jun)
Industrial Production	8.0	0.7	-0.5	-0.2	(Jun)
Unemployment Rate (%)	7.1	6.8	6.8	6.8	(Jul)
CPI	2.3	2.2	1.9	1.7	(Jul)

France	2011	12Q1	12Q2	Latest	
Real GDP	1.7	0.3	0.3		
Current Acc. Bal. (US$B, ar)	-54.5	-50.6	-77.0	-51.5	(Jun)
Merch. Trade Bal. (US$B, ar)	-51.4	-53.6	-54.2	-57.4	(Jun)
Industrial Production	2.0	-1.7	-1.9	-2.3	(Jun)
Unemployment Rate (%)	9.6	10.0	10.0	10.1	(Jun)
CPI	2.1	2.3	2.0	1.9	(Jul)

United Kingdom	2011	12Q1	12Q2	Latest	
Real GDP	0.8	-0.2	-0.5		
Current Acc. Bal. (US$B, ar)	-46.5	-76.4			
Merch. Trade Bal. (US$B, ar)	-160.9	-157.5	-179.1	-189.0	(Jun)
Industrial Production	-0.7	-3.1	-2.8	-4.3	(Jun)
Unemployment Rate (%)	8.1	8.2		8.0	(May)
CPI	4.5	3.5	2.7	2.6	(Jul)

Italy	2011	12Q1	12Q2	Latest	
Real GDP	0.5	-1.4	-2.5		
Current Acc. Bal. (US$B, ar)	-0.07	-0.07	-0.01	0.02	(Jun)
Merch. Trade Bal. (US$B, ar)	-34.2	-17.5	16.7	37.8	(Jun)
Industrial Production	0.2	-5.5	-7.9	-7.9	(Jun)
CPI	2.8	3.4	3.3	3.1	(Jul)

Russia	2011	12Q1	12Q2	Latest	
Real GDP	4.3	4.9	4.0		
Current Acc. Bal. (US$B, ar)	98.8	39.3	19.2		
Merch. Trade Bal. (US$B, ar)	16.5	19.7	16.7	14.0	(Jun)
Industrial Production	4.8	4.1	2.3	3.4	(Jul)
CPI	8.4	3.9	3.8	5.6	(Jul)

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

Source: Bloomberg, Global Insight, Scotia Economics.

Asia Pacific

Australia	2011	12Q1	12Q2	Latest	
Real GDP	2.1	4.3			
Current Acc. Bal. (US$B, ar)	-33.1	-66.0			
Merch. Trade Bal. (US$B, ar)	35.7	1.5	29.9	34.3	(Jun)
Industrial Production	-1.1	4.7			
Unemployment Rate (%)	5.1	5.2	5.1	5.2	(Jul)
CPI	3.4	1.6	1.2		

Japan	2011	12Q1	12Q2	Latest	
Real GDP	-0.7	2.8	3.6		
Current Acc. Bal. (US$B, ar)	119.2	101.1	49.0	65.6	(Jun)
Merch. Trade Bal. (US$B, ar)	-33.3	-72.6	-71.0	-49.5	(Jul)
Industrial Production	-2.3	2.7	5.1	-0.2	(Jun)
Unemployment Rate (%)	4.6	4.5	4.4	4.3	(Jun)
CPI	-0.3	0.3	0.2	-0.1	(Jun)

South Korea	2011	12Q1	12Q2	Latest	
Real GDP	3.6	2.8	2.4		
Current Acc. Bal. (US$B, ar)	26.5	10.2	44.6	70.0	(Jun)
Merch. Trade Bal. (US$B, ar)	30.8	5.7	37.4	33.1	(Jul)
Industrial Production	6.9	2.9	2.3	1.5	(Jun)
CPI	4.0	3.0	2.4	1.5	(Jul)

China	2011	12Q1	12Q2	Latest	
Real GDP	10.4	8.1	7.6		
Current Acc. Bal. (US$B, ar)	201.7				
Merch. Trade Bal. (US$B, ar)	155.0	1.7	274.1	301.8	(Jul)
Industrial Production	12.8	11.9	9.5	9.2	(Jul)
CPI	4.1	3.6	2.2	1.8	(Jul)

Thailand	2011	12Q1	12Q2	Latest	
Real GDP	0.1	0.4	4.2		
Current Acc. Bal. (US$B, ar)	11.9	0.6	-2.5		
Merch. Trade Bal. (US$B, ar)	2.0	0.4	0.5	1.6	(Jun)
Industrial Production	-9.4	-7.1	-1.6	-9.9	(Jun)
CPI	3.8	3.4	2.5	2.7	(Jul)

India	2011	12Q1	12Q2	Latest	
Real GDP	7.5	5.3			
Current Acc. Bal. (US$B, ar)	-62.8	-21.7			
Merch. Trade Bal. (US$B, ar)	-13.4	-15.9	-13.4	-10.3	(Jun)
Industrial Production	4.8	0.6	-0.1	-1.8	(Jun)
WPI	9.5	7.3	7.4	6.9	(Jul)

Indonesia	2011	12Q1	12Q2	Latest	
Real GDP	6.5	6.3	6.4		
Current Acc. Bal. (US$B, ar)	1.7	-3.2	-6.9		
Merch. Trade Bal. (US$B, ar)	2.2	0.9	-0.8	-1.3	(Jun)
Industrial Production	4.1	5.4		3.0	(May)
CPI	5.4	3.7	4.5	4.6	(Jul)

Latin America

Brazil	2011	12Q1	12Q2	Latest	
Real GDP	2.5	0.6			
Current Acc. Bal. (US$B, ar)	-52.5	-48.3	-53.1		
Merch. Trade Bal. (US$B, ar)	29.8	9.8	18.6	34.5	(Jul)
Industrial Production	0.4	-3.5	-4.5	-4.3	(Jun)
CPI	6.6	5.8	5.0	5.2	(Jul)

Chile	2011	12Q1	12Q2	Latest	
Real GDP	6.0	5.3	5.5		
Current Acc. Bal. (US$B, ar)	0.0	-0.5	-9.8		
Merch. Trade Bal. (US$B, ar)	10.0	10.2	5.1	-1.1	(Jul)
Industrial Production	6.9	3.9	2.7	1.1	(Jun)
CPI	3.3	4.1	3.1	2.5	(Jul)

Peru	2011	12Q1	12Q2	Latest	
Real GDP	6.9	6.0			
Current Acc. Bal. (US$B, ar)	-3.3	-1.0			
Merch. Trade Bal. (US$B, ar)	0.9	0.8	0.2	0.4	(Jun)
Unemployment Rate (%)	7.7	8.3	7.2	6.2	(Jul)
CPI	3.4	4.2	4.1	3.3	(Jul)

Colombia	2011	12Q1	12Q2	Latest	
Real GDP	5.9	4.7			
Current Acc. Bal. (US$B, ar)	-10.0	-1.8			
Merch. Trade Bal. (US$B, ar)	0.4	0.7	0.2	-0.2	(Jun)
Industrial Production	5.0	2.0		-0.3	(May)
CPI	3.4	3.5	3.4	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/17	Aug/24*
BoC Overnight Rate	1.00	1.00	1.00	1.00
3-mo. T-bill	0.91	0.88	1.00	1.01
10-yr Gov't Bond	2.11	1.74	1.95	1.83
30-yr Gov't Bond	2.66	2.33	2.48	2.41
Prime	3.00	3.00	3.00	3.00
FX Reserves (US$B)	69.2	66.0	66.0	(Jun)
Germany				
3-mo. Interbank	0.71	0.53	0.12	0.12
10-yr Gov't Bond	1.79	1.58	1.50	1.36
FX Reserves (US$B)	67.9	68.2	68.2	(Jun)
Euro Zone				
Refinancing Rate	1.00	1.00	0.75	0.75
Overnight Rate	0.39	0.38	0.11	0.11
FX Reserves (US$B)	319.8	328.7	328.7	(Jun)
Japan				
Discount Rate	0.30	0.30	0.30	0.30
3-mo. Libor	0.13	0.13	0.13	0.13
10-yr Gov't Bond	0.99	0.84	0.84	0.81
FX Reserves (US$B)	1247.8	1231.2	1231.2	(Jun)

United States	12Q1	12Q2	Aug/17	Aug/24*
Fed Funds Target Rate	0.25	0.25	0.25	0.25
3-mo. T-bill	0.07	0.08	0.07	0.10
10-yr Gov't Bond	2.21	1.64	1.81	1.67
30-yr Gov't Bond	3.34	2.75	2.93	2.79
Prime	3.25	3.25	3.25	3.25
FX Reserves (US$B)	138.0	138.8	138.8	(Jun)
France				
3-mo. T-bill	0.07	0.04	-0.02	-0.02
10-yr Gov't Bond	2.89	2.69	2.13	2.06
FX Reserves (US$B)	49.2	49.6	49.6	(Jun)
United Kingdom				
Repo Rate	0.50	0.50	0.50	0.50
3-mo. T-bill	0.37	0.37	0.35	0.34
10-yr Gov't Bond	2.20	1.73	1.67	1.53
FX Reserves (US$B)	82.4	84.4	84.4	(Jun)
Australia				
Cash Rate	4.25	3.50	3.50	3.50
10-yr Gov't Bond	3.98	3.04	3.46	3.24
FX Reserves (US$B)	47.7	44.1	44.1	(Jun)

Exchange Rates (end of period)

USDCAD	1.00	1.02	0.99	0.99
CADUSD	1.00	0.98	1.01	1.01
GBPUSD	1.601	1.571	1.570	1.583
EURUSD	1.334	1.267	1.234	1.255
JPYEUR	0.91	0.99	1.02	1.01
USDCHF	0.90	0.95	0.97	0.96
¥/US$	82.87	79.79	79.56	78.67
US¢/Australian$	1.03	1.02	1.04	1.04
Chinese Yuan/US$	6.29	6.36	6.36	6.36
South Korean Won/US$	1132	1141	1135	1133
Mexican Peso/US$	12.811	13.363	13.122	13.159
Brazilian Real/US$	1.827	2.012	2.016	2.022

Equity Markets (index, end of period)

United States (DJIA)	13212	12880	13275	13132
United States (S&P500)	1408	1362	1418	1409
Canada (S&P/TSX)	12392	11597	12090	12118
Mexico (IPC)	39521	40200	40547	40087
Brazil (Bovespa)	64511	54355	59082	58525
Italy (BCI)	859	761	819	816
U.K. (FT100)	5768	5571	5852	5782
Germany (Dax)	6947	6416	7041	6974
France (CAC40)	3424	3197	3488	3435
Japan (Nikkei)	10084	9007	9163	9071
Hong Kong (Hang Seng)	20556	19441	20116	19880
South Korea (Composite)	2014	1854	1947	1920

Commodity Prices (end of period)

Pulp (US$/tonne)	870	900	880	880
Newsprint (US$/tonne)	640	640	640	640
Lumber (US$/mfbm)	279	283	315	312
WTI Oil (US$/bbl)	103.02	84.96	96.01	96.75
Natural Gas (US$/mmbtu)	2.13	2.82	2.72	2.75
Copper (US$/lb)	3.85	3.45	3.40	3.45
Zinc (US$/lb)	0.91	0.84	0.81	0.83
Gold (US$/oz)	1662.50	1598.50	1614.75	1667.00
Silver (US$/oz)	32.43	27.08	28.20	30.37
CRB (index)	308.46	284.19	303.48	307.28

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

Emerging Markets Strategy

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Scotia Economics

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

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